

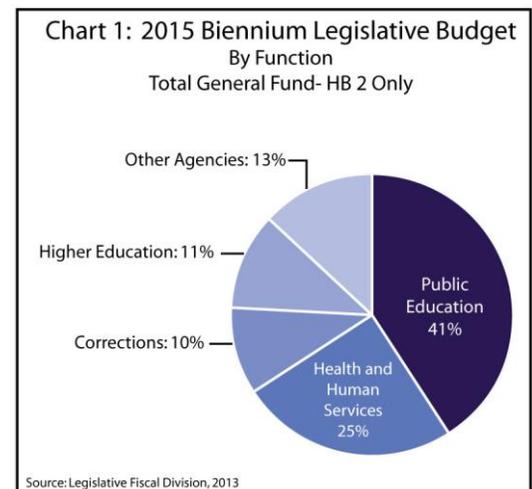
The quality of life we enjoy in our state is directly connected to the public systems and structures we have created over many decades. Our parks, schools, and roads are what make our communities good places to live and work. The state budget created during the 2013 legislative session will, for the most part, maintain the public systems we rely on every day. However, a few holes were left that will undermine our communities' well-being.

The 2013 legislative session was an incredible opportunity for Montana, an opportunity to reinvest in our state following a 2011 Legislature that proposed damaging and unnecessary budget cuts. It was a chance to wisely invest a \$435 million budget surplus in ways that help our families boost our economy.¹ In short, the 2015 budget could have represented a new, stronger direction for Montana.

The Big Picture

The budget is about more than numbers. It is a representation of our shared values and collective goals. With the proper investment, the state budget is a roadmap to prosperity for our state, our communities, and our families. The Legislature increased funding for public structures like schools, community health and safety by \$538 million compared to the last budget.² This is an increase of 14%.³

The majority of our state dollars is spent to provide education to Montanans (Chart 1).⁴ Next, we spend 25% of our state dollars on supporting the health of our communities. When federal dollars and other special revenue are added the picture of state spending shifts a bit (Chart 2).⁵ Health and Human Services increases and transportation become prominent. Because the federal government provides limited funding for Public Education, it becomes a smaller piece of the pie.



The public structures that underpin our communities – such as schools, roads, clinics, public safety, and health inspections – all depend on a system of budgets and taxes that supports them adequately now and into the future. Taxes are an essential part of the equation. How they are raised and the level of resources they provide determine our quality of life and community well-being. Chart 3 details how revenue is currently collected to support our public structures.⁶ Over half of general fund revenue comes from individual income taxes, while corporation and natural resource taxes constitute only 7% and 6%, respectively.

Many tax cut bills that would have undermined our quality of life were turned down during the Legislative session. However, one bill that will reduce taxes on business equipment was passed and one bill that would have required oil and gas companies to pay their fair share was quickly defeated.

The rest of this report will detail specific changes to our budget and tax structure that occurred during the 2013 Legislative Session that created the budget for the 2015 Biennium (July 2013-June 2015). A chart with more information about agency budgets is at the end of this document.

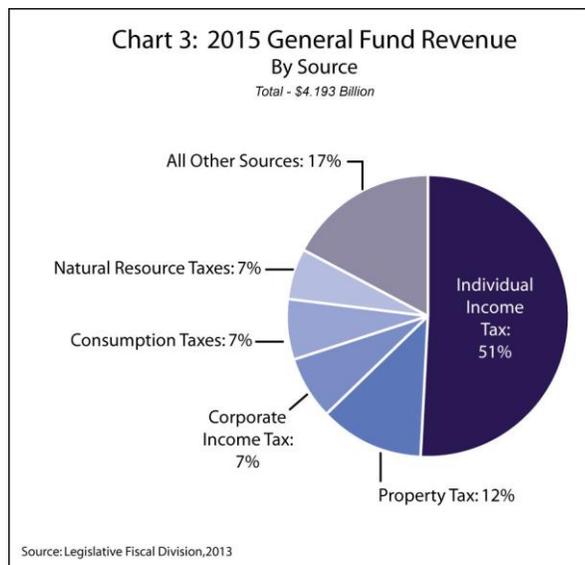
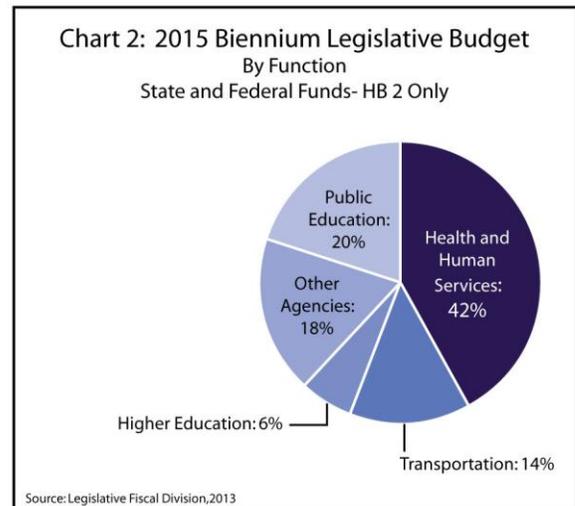
Creating Economic Opportunity for All - Education

Broadly available education and opportunity is fundamental to the future of our state. Education opens doors to better job opportunities, higher wages, and greater job security. Success in today's competitive, knowledge-based economy will require more than a basic education.

Higher Education

Higher education can be a vehicle to reduce economic inequality allowing everyone to achieve his or her greatest potential. However, a college degree has remained out of reach for many of our young adults. Tuition at public two-year colleges in Montana has increased by 20% in the last five years and at public four-year colleges tuition has increased by 12%.⁷ The 2015 budget contains funding to freeze tuition for the next two years at most Montana University System colleges.^{8,9}

In addition, the legislature has increased the number of American Indians who qualify for a tuition waiver at Montana University System colleges by expanding the criteria to include state recognized tribes in addition to federally recognized tribes.¹⁰ The waiver was also extended to those individuals who are enrolled members or those who have ¼ or more Indian blood quantum. Prior to this change, the tuition waiver was available only to those with ¼ or greater blood quantum. This change will increase in the number of American Indians who can afford to attend college in Montana.



K-12 Education

Investment in K-12 education serves two important purposes. Immediately, funding of K-12 education boosts local economies in every corner of the state by providing jobs for teachers, principals, bus drivers and many more professionals. In the long run, increased investments in education improve student achievement and thus the quality of Montana's workforce and our economy.

A major bill to change K-12 education funding was passed this session.^{11,12} Senate Bill 175 (SB175) will increase the funding to all school districts in the state. This bill also enables schools to begin addressing their backlog of maintenance needs. School districts affected by oil and gas development will have access

to more resources to address the problems that arise with unusual growth. In addition, data collection will improve families' and schools' abilities to evaluate student progress. This bill

replaces stable property tax funding with oil and gas tax revenue, which is subject to booms and busts. This new lack of stability may affect the property tax freezes in this bill in the future.

Another important education bill (SB 342) was passed that would establish tribal language programs in reservation schools and engage American Indian youth in saving their languages.¹³ Across the nation, the original languages of American Indians are vanishing at an alarming rate, taking with them a vital piece of the culture of our first people. However, the impact of these programs reaches well beyond just the preservation of language, for both our students and our state. Research indicates that when tribal language is included as part of regular curriculum, Native American students experience a better quality of life, including increased academic success and pursuit of higher education, increased self-esteem and self-worth, and a greater investment in positive social involvement.

In addition, the inclusion of tribal languages for American Indian students increases their sense of positive cultural identity and belonging to their school environment, which in turn leads to a host of other positive outcomes, such as improved academic performance, prevention of substance abuse, and increased self-esteem. See MBPC's Report - [SB 342: Preserving Montana's Tribal Language](#)

Supporting Workers Who Keep Montana Functioning

Public employees live and work in communities all across Montana, providing services that keep Montana functioning like teaching our children, keeping our neighborhoods safe, and ensuring our drinking water is clean. While the Legislature did approve funding for state employee pay raises, the funding was about 25% below what was needed to provide an increase of 5% each year for the next two years.¹⁴ The 5% increase was the amount negotiated by the public sector employees and Governor Schweitzer in part to address the stagnant wages in recent years for public employees. Public employees have not had a pay increase since 2009. In the 2011 Legislative session, the Legislature rejected a \$25 million pay plan for the public employees. The pay plan would have provided a modest 1% increase for public employees in 2012 and a 3% increase in 2013. Public employees had agreed to a pay freeze in 2010 and 2011.¹⁵

Public employees, who keep our communities safe, healthy, and educated all across the state, were promised certain retirement benefit. However, because of the fallout from the Great Recession, the amount held in the pension accounts was not sufficient to meet the obligations.¹⁶ The Legislature and public employees worked together to provide the financial boost the pensions needed to meet its obligations. When the legislators left town, they thought that the pension funds for teachers and public employees have been returned on the path to actuarial soundness with an increase in both employee and employer contributions.¹⁷ However, an error in the bill that was passed has put this fix in jeopardy.¹⁸

Missed Opportunities

Budget and tax decisions are the way we keep our communities functioning, now and in the future. We all benefit when we support public goods that keep our communities and our economy strong. We all have to carry our share of the load when it comes to paying taxes. By doing so we maintain the systems and structures that make our community a better place to live. However, the Legislature chose to reduce taxes on business equipment (SB96), despite the fact that businesses have been contributing less and less for years under this tax.^{19,20}

In addition, oil and gas companies have received a tax holiday where they do not pay taxes for a substantial portion of the extraction process. Meanwhile communities are suffering from the pains that the rapidly expanding drilling is causing. The legislature has refused to ask oil and gas

companies to contribute to the impacts they create in communities.²¹ Instead communities are unable to fund increased enrollment in schools and demands on public structures like roads, sewers and public safety. See MBPC's report - [Montana Communities Cannot Afford the Oil and Gas Tax Holiday](#).

A strong economy allows for the creation and retention of local jobs, the establishment and growth of businesses, and the ability to keep money in the local community. There, those dollars have multiplying effects that drive economic growth, especially in Indian Country. Since 2005, the Indian Country Economic Development (ICED) program has empowered Montana's tribes to take a hands-on approach to strengthening reservation economies. Indian Country Economic Development funding was funded at \$800,000 per year but with one time only money.²² Early in the session, the funding for ICED was cut in half, but later it was restored to the amount funded in the previous Biennium. Growth and economic development do not happen in the short term; instead they require long term planning and a long term commitment to growth. The funding for this program should be made on an ongoing basis to signify commitment and allow for planning. See MBPC's report - [Montana's Commitment to Economic Development in Indian Country](#)

In most bienniums the Legislature reduces agency budget to account for vacancy savings—that is, savings that occur during the normal staff changes as positions open up and the time it takes to fill them. A total of 6% vacancy savings will be imposed on state agencies (with a few exceptions).²³ This is larger than the typical vacancy savings for 4%. The Legislature additionally reduced FTE's for most agencies by 4%. The reduction in FTE's may reduce agencies flexibility to make adjustments as normal changes in staffing occur. In addition, it will reduce the number FTE's for the base in the 2017 Biennium Budget. This Legislative action resulted in the reduction of 437 FTE's across state government more than offsetting the 100 FTE's the Legislature acted to add throughout the budgeting process.²⁴ Table 1 shows the reductions by agency.

The most harmful Legislative act this session was the refusal to expand Medicaid. Medicaid serves a fundamental public purpose that benefits all Montanans. Public involvement and funding of health care for all strengthens our democracy and our economy and is worthy of public support. Expansion of Medicaid would have made our communities a better place for all of us. Seventy thousand uninsured Montanans were denied health coverage that would have saved lives, lowered health care costs for all of us, and protected rural hospitals struggling with uncompensated care. A billion dollars in federal funds that Montanans helped pay for- and over 12,000 jobs it would have created- were denied.²⁵ Legislative leadership ignored thousands of Montanans, rural hospitals, doctors, nurses, business leaders, chambers of commerce, health care experts, and economists.

Putting Montana on the Path to a Brighter Future

Montana's path to economic recovery and future prosperity is dependent upon the state budget. Our state budget is an essential tool for investing in smart choices that will uphold our values and put us on the right path. We know how to do this—we've done it before. Our state is a great place to live because people before us made deliberate and thoughtful decisions to invest in the future by building roads, school, and parks, making college affordable and creating safe strong communities. Returning to these investments will speed our economic recovery and help Montana remain a place where families, communities and businesses can thrive.

Table 1: FTE Changes by Agency

Section/Agency	Base FY 2012	Legislative Changes Made During 2013 Session	FTE Reductions Due to Vacancy Savings*****	2017 Base Level
SECTION A*				
Legislative Branch**	134.97	4.42	0	139.39
Consumer Counsel	5.54	0	0	5.54
Governor's Office	58.07	2	-1.19	58.88
Secretary of State*	0	0	0	0
Commissioner of Political Practices	6	1	0	7
State Auditor	85.8	2	-3.03	84.77
Revenue	659.28	16	-27.43	647.85
Administration*	151.63	-2.5	-6.22	142.91
Commerce*	52	-3	-2.13	46.87
Labor and Industry	756.58	-5	-31.44	720.14
Military Affairs	199.21	0	-8.26	190.95
SECTION B				
Public Health and Human Services	2,924.57	3	-121.68	2,805.89
SECTION C				
Fish, Wildlife, and Parks	693.6	6.68	-24.2	676.08
Environmental Quality	383.48	2	-15.96	369.52
Transportation	2,111.26	18	-87.93	2,041.33
Livestock	140.75	1.97	-5.79	136.93
Natural Resources and Conservation	544.78	1	-22.49	523.29
Agriculture	119.4	0.13	-4.89	114.64
SECTION D				
Judicial Branch	412.58	17.25	0	429.83
Board of Crime Control	17.5	0	0	17.5
Justice	754.85	18	-16.43	756.42
Public Service Commission	40	0	-1.29	38.71
Office of the Public Defender	209.5	8	-8.06	209.44
Corrections	1,279.89	2	-34.49	1,247.40
SECTION E				
Office of Public Instruction	163.5	2.5	-6.2	159.8
Board of Public Education	4	0	0	4
School for the Deaf and Blind	88.61	0	0	88.61
Commissioner of Higher Education***	93.88	0	-3.91	89.97
Arts Council	7	0	0	7
State Library	28.25	3.5	-1.18	30.57
Historical Society	59.83	1	-2.49	58.34
TOTALS	12,186.3	99.95	-436.69	11,849.57
Montana University System****	4,955.18	0		
*The Office of the Secretary of State and a significant number of Department of Administration and Department of Commerce staff are funded with proprietary funds not included in HB 2.				
**FY 2015 includes session staff.				
***Includes only staff within the Office of the Commissioner of Higher Education.				
****FY 2012 is budgeted FY 2012 level				
***** As calculated by Legislative Staff				
Source: Legislative Fiscal Division				

Table 1: FTE Changes by Agency**Section A- General Government**

	Vacancy Savings reduction of 80 FTE's
Secretary of State	Help America Vote funding was cut by \$256,000 because the costs of the program did not match prior appropriations. Funding for this Biennium and the previous Biennium were one-time only and federal funds.
Department of Revenue	Funding for positions were increased by \$2.7 million and FTE's were increased by 16.
Department of Commerce	Indian Country Economic Development received the same amount of funding as in the last Biennium (\$1.6 million), but it is again one-time only.
Section B – DPHHS	Vacancy savings reduction of 122 FTE's
	A 2% annual provider rate increase - \$47.6 million total funds, including \$16.9 million general fund
	Adoption of the Medicaid Community First Choice Option - \$17.1 million federal funds
	Additional rate increases for children's mental health case management, developmental disability services, and direct care worker wages - \$21.7 million total funds, \$7.0 million general fund
	Additional funds to counties for mental health crisis jail diversions were included by the Legislature but vetoed by the Governor.
	Increases in TANF and child care eligibility, TANF payment standards, benefits and support across TANF and early childhood programs - \$20.0 million total funds, \$2.7 million general fund
	Federal Funds for Title X Family planning were approved in the end after being cut for most of the session.
	\$246 million in Medicaid Enrollment and service utilization increases.
	Increases in funding for Healthy Montana Kids (HMK) services to the children from the highest eligible income families (\$52 million total funds, \$4 million General Fund).
	Best Beginning STARS to Quality programs received \$2 million in federal funds to begin grant programs
Section C	Vacancy Savings reduction of 161 FTE's
Section D -	Vacancy Savings reduction of 60 FTE's
	\$1.4 million for 5 highway patrol officers for energy development impacted areas.
	Funding for the public defenders office increased by \$8.4 million to address caseload growth, this funding included 8 FTE's.
	Corrections budget increased by \$21 million due to increases in costs to house offenders in secure care and community placements, inflationary increases in medical costs received outside state facilities and a provider rate increase for providers of secure, community and treatment beds.
Section E – Education	Vacancy Savings reduction of 14 FTE's
K-12 Education	K-12 total funding increased by \$213 million in the General Appropriations bill, this does not include the \$50.5 million increase that was in SB 175
	SB 175 increased funding to all school districts, including help addressing backlog maintenance needs and improved data collection.
	Inflationary increase will now be applied to special education and the at-risk payment to schools (\$2.1 million)
	A \$1.5 million increase to the Digital Academy
	\$1 million for school technology, one- time only
	\$1 million for Tribal Language Preservation Pilot
Higher Education	Montana University System (MUS) received an additional \$44 million in total funds for the 2015 Biennium
	\$34 million will be used to freeze tuition at most MUS schools.
	Restored \$5.2 million for the Student Assistance Program
	The number of WWAMI slots was expanded by 10
	\$0.4 million increase in the payments to Tribal Colleges for nonbeneficiary students
	Increase eligibility for American Indian tuition waiver

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- ¹ Legislative Fiscal Division, "General Fund Status Sheet #11 Final," June 27, 2013, <http://www.leg.mt.gov/content/Publications/fiscal/2013-Session/Status-Sheets/Status-11.pdf>.
 - ² Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Executive Summary, Volume 1, p. 12, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ³ Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Volume 1, p. 12, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ⁴ Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Volume 1, p. 43, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ⁵ Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Volume 1, p. 48, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ⁶ Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Volume 2, p. 11, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ⁷ Ma, Jennifer and Baum, Sandy, "Trends in Tuition and Fees, Enrollment, and State Appropriations for Higher Education by State," College Board Advocacy & Policy Center, July 2012, http://advocacy.collegeboard.org/sites/default/files/12b_5761_TrendsByState_AnalysisBrief_WEB_120719.pdf
 - ⁸ Murray, David, 2013, Regents Freeze College Tuition: Cap would be for Most Schools in University System, *Great Fall Tribune*, May 24, 2013.
 - ⁹ Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Volume 3, p. E-78, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ¹⁰ Allowing Board Of Regents To Waive Tuition And Fees For Certain Students, HB 286, Montana Legislature, 63rd Session. 2013, [http://laws.leg.mt.gov/legprd/LAW0210W\\$BSIV.ActionQuery?PBILLNO1=286&PBLTPBILLYPCD=HB&ZACTION=Find&PSESS=20131](http://laws.leg.mt.gov/legprd/LAW0210W$BSIV.ActionQuery?PBILLNO1=286&PBLTPBILLYPCD=HB&ZACTION=Find&PSESS=20131).
 - ¹¹ Generally Revise Public Education Funding, SB 175, Montana Legislature, 63rd Session. 2013, [http://laws.leg.mt.gov/legprd/LAW0210W\\$BSIV.ActionQuery?PBILLNO1=175&PBLTPBILLYPCD=SB&ZACTION=Find&PSESS=20131](http://laws.leg.mt.gov/legprd/LAW0210W$BSIV.ActionQuery?PBILLNO1=175&PBLTPBILLYPCD=SB&ZACTION=Find&PSESS=20131).
 - ¹² Gazette State Bureau, 2013, What's in SB 175, *Billings Gazette*, May 19, 2013.
 - ¹³ Establish Montana Indian Language Preservation Pilot Program, Sb 342, Montana Legislature, 63rd Session. 2013, [http://laws.leg.mt.gov/legprd/LAW0203W\\$BSRV.ActionQuery?P_SESS=20131&P_BLTP_BILL_TYP_CD=SB&P_BILL_NO=342&P_BILL_DFT_NO=&P_CHPT_NO=&Z_ACTION=Find&P_SBJT_SBJ_CD=RETR&P_ENTY_ID_SEQ=](http://laws.leg.mt.gov/legprd/LAW0203W$BSRV.ActionQuery?P_SESS=20131&P_BLTP_BILL_TYP_CD=SB&P_BILL_NO=342&P_BILL_DFT_NO=&P_CHPT_NO=&Z_ACTION=Find&P_SBJT_SBJ_CD=RETR&P_ENTY_ID_SEQ=)
 - ¹⁴ State Employee Pay Plan, HB 13, Montana Legislature, 63rd Session. 2013, <http://data.opi.mt.gov/bills/2013/sesslaws/ch0385.pdf>
 - ¹⁵ Montana Budget and Policy Center, "2013 Biennium Budget: Long-Term Prosperity Will Require Better Choices," July 1, 2011, <http://www.montanabudget.org/sites/default/files/reports/2013%20Biennium%20Budget%20Report%20Final.pdf>.
 - ¹⁶ Legislative Fiscal Division, "2015 Pension Funding and Finance," January 22, 2013, <http://leg.mt.gov/content/Publications/fiscal/2013-Session/2015-Pension-Overview.pdf>.
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Increase contributions and funding for TRS, revise GABA, HB 377, Montana Legislature, 63rd Session. 2013, [http://laws.leg.mt.gov/legprd/LAW0210W\\$BSIV.ActionQuery?PBILLNO1=377&PBLTPBILLYPCD=HB&ZACTION=Find&PSESS=20131](http://laws.leg.mt.gov/legprd/LAW0210W$BSIV.ActionQuery?PBILLNO1=377&PBLTPBILLYPCD=HB&ZACTION=Find&PSESS=20131).
 - ¹⁸ Legislative Pension Fix Faces Many Hurdles (2013, July 11, 2013). Independent Record. from http://helenair.com/news/state-and-regional/legislative-pension-fix-faces-many-hurdles/article_7f1fd040-fc74-567e-aa4a-f026f83c00da.html.
 - ¹⁹ Lower the Business and Equipment Tax, SB 96, Montana Legislature, 63rd Session. 2013, <http://data.opi.mt.gov/bills/2013/sesslaws/ch0396.pdf>
 - ²⁰ Montana Budget and Policy Center, "The Business Equipment Tax in Context," January 19, 2009, <http://www.montanabudget.org/sites/default/files/reports/Business%20Equipment%20Tax%20Policy%20Brief%20Final.pdf>.
 - ²¹ Two bills were proposed to lower or eliminate the oil and gas tax holiday, SB295 and SB 399.
 - ²² General Appropriations Act, HB 2, Montana Legislature, 63rd Session. 2013, <http://data.opi.mt.gov/bills/2013/billpdf/HB0002.pdf>
 - ²³ General Appropriations Act, HB 2, Montana Legislature, 63rd Session. 2013, <http://data.opi.mt.gov/bills/2013/billpdf/HB0002.pdf>
 - ²⁴ Legislative Fiscal Division, "Fiscal Report for the 2015 Biennium," June 2013, Appendix A, p. A-11, <http://www.leg.mt.gov/FR-fbp.asp>.
 - ²⁵ Davis, Gregg, "Estimating the Financial Impact of the Medicaid Expansion," Bureau of Business and Economic Research, University of Montana, November 28, 2012, <https://docs.google.com/viewer?url=http://www.montanahealthcareforum.org/wp-content/uploads/2012/12/CSI-Medicaid-Report-for-Health-ForumGreggDavis.pptx>.