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The Montana 2013 Biennium Budget: Updated May 2012

Abstract: This report provides a brief update on Montana’s 2013 Biennium Budget. There was not a legislative session in 2012; Montana’s legislature meets once every other year and has a biennium budget. Despite the state of the economy and the condition of most state budgets, Montana managed to balance its budget and leave a surplus. This does not reflect the “best of economic times” for the state – Montana has a history of being frugal with its finances and both political parties tend to keep state and local government small. This is just part of the political culture of the state.

Keywords: budget; FY 2012–2013; governor; legislature; Montana.

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1 Update on 2013 Biennium Budget

Montana’s legislature, which meets once every other year and has a biennium budget, did not have a legislative session in 2012. Despite the state of the economy and the condition of most state budgets, Montana managed to balance its budget and leave a surplus. This does not reflect the “best of economic times” for the state – Montana has a history of being frugal with its finances and both political parties tend to keep state and local government small. This is just part of the political culture of the state.

There were a number of events in 2011 that could have helped the state’s economy. The Keystone Pipeline was supposed to run through Montana and help provide a much needed economic boost, but President Obama brought the project to an end; at least for now. This was a disappointment for both Democrats and Republicans in the state – both parties strongly supported the pipeline project while the state’s environmental groups considered President Obama’s decision to be a victory.

Yet another hope for the state is to develop its oil reserves. Eastern Montana has oil reserves similar to those currently being developed in North Dakota, which have created a boom for their economy. But parts of Montana are restricted and

the state continues to be engaged in getting clearance to drill for oil and natural gas – a resource that has long gone untouched. The state continues to develop alternative energy, such as massive windmill farms, yet the power generated by green energy remains an insignificant amount of all energy produced in Montana.

Despite the general economic circumstances of the nation and most states, Montana actually gave small raises to state employees as revenues exceeded predictions. Despite revenue growth, tuition costs continue to rise at the state's colleges. The state is currently fiscally sound, revenues continue to exceed expectations, and Montana's small state government requires less funding than most states in the region. Overall economic growth remains slow with only small signs of recovery in some sectors. The gross state product remains one of the smallest in the nation. Population growth has slowed, and Montana, with fewer than one million residents, was already one of the slowest growing states in the west.

Governor Schweitzer submitted his budget, which was roughly a 2% increase over the last biennium's budget. The governor claimed his goals were to boost funds for schools and universities, cut property taxes for homeowners, and eliminate equipment taxes for most businesses (Johnson 2010). Overall, Montana was in better fiscal shape than most states despite the fact that a budget shortfall of \$400 million was expected in the fall of 2010. This sounds like a small amount compared to large states like California, but for Montana it is significant (Dennison 2010; Johnson 2010; Walsh 2011). Montana does not have a reputation of overspending. But while the state has a reputation of making accurate revenue estimates, there is a long history of the legislature creating a "barebones budget" that inadequately funds state services.

This turned out to be a plus in light of the national economic crisis. Montana's economy had not performed as badly as the economies of many states, and by the time the session started revenue predictions had improved. Experts predicted a good year for the state's economy in 2011 (Cohen 2010; Barkley 2011a). But like so many legislatures in the past, the 2013 biennium budget would have to deal with revenue shortfalls and budget cuts.

Political fortunes had also changed. The legislature followed the national trend of the 2010 mid-term elections by giving Republicans control of both chambers. In his State of the State address in late January, the governor warned the Republican controlled legislature not to cut education and to aim instead at bringing the state high paying jobs (Dennison 2011b). The Republican-controlled legislature seemed postured to cut spending despite warnings from the governor that he would veto the budget if Republicans cut too much (Szpaller 2011).

The legislature quickly turned to a variety of policy issues including how to fix the state's medical marijuana law (passed via initiative by voters in 2004),

conducting elections by mail (similar to the system in Oregon), abolishing capital punishment, funding higher education, and fixing the state's very expensive workers' compensation system. But most of the policy areas were not fixed. The medical marijuana law was slightly improved, a bill to conduct elections by mail failed to pass the house, the state pension system remains underfunded, efforts to abolish capital punishment failed, the university system's budget was cut by \$14 million leaving the state's colleges to make up the difference through cuts and increases in tuition, and some revisions were made to Montana's expensive workers' compensation system.

Montana's Democratic governor vetoed many bills passed by the Republican legislature, but the state emerged with a balanced budget on May 12, 2011 (Dennison 2011a). The budget was \$8.9 billion, all funds for the next biennium and the state ended with a surplus. Like a number of recent legislative sessions, it was a contentious session with sharp divisions over spending and policy.

2 Demographic Overview

Montana is a geographically large, rural state with a small population of about 998,000. The population density of Montana is about 6.2 persons per square mile (the national average is 87.0 persons per square mile). The population has been steadily increasing over the past few decades, but the growth has not been spread evenly. The state had 799,000 residents in the 1990 Census, and that jumped to 905,316 in 2000 (Table 1). The state added enough people in the past decade for a growth rate of just below 10%, lowest among the 13 western states.

The western part of the state (the mountainous area) has experienced population and economic growth while the eastern plains have remained relatively unchanged. Montana's population is predominately White and split between urban and rural. Fifty-four percent of the population lives in urban areas or urban clusters, while 46% live in rural areas. Montana's population growth has brought people that are older, wealthier and more conservative than those that have left the state. Additionally, for every 100 Bachelor's degrees issued to in-state students at Montana's colleges and universities, roughly 75 state graduates leave the state to seek better employment (Jamison 2006).

Montana is a relatively poor state. Per capita income is \$35,317, about 84% of the national average, which ranked the state at 38 in 2010. Nine percent of all workers in Montana work multiple jobs (Jamison 2006). The per capita tax burden is \$7,300, and state and local taxes relative to personal income are about 10% (the national average is 10.2%). Montana ranks 37th nationally in per capita

Table 1: Population Figures.

Population Race	Persons	Percent
American Indian and Alaska Native Population		6.3
Asian Population		0.7
Black Population		0.6
Hawaiian Native and Pacific Islander population		0.1
Hispanic Population		2.8
All Others		1.7
White Population		87.8
Total Population (2011 US Census estimate)	998,199	

Note: The official population based on the 2000 Census was 902,000. Montana's population was 799,000 in 1990. The latest estimates show the population to be 974,989 (2009). The population increased by 9.8% between 2000 and 2010; the lowest increase among western states.

Source: US Census Bureau.

state expenditures. Unemployment was 6.2% in March of 2012. Fourteen percent of Montana's population is categorized as "living in poverty." Like much of the nation, the number of people below the poverty line grew in 2011 to 14%.

More than 16% of Montanans have no health insurance. Although the state ranks among the lowest in the nation for spending on education, education attainment is relatively good. Ninety percent of the population over 25 years of age has a high school diploma (the fourth best in the nation) and 27% of the population over 25 years of age has a Bachelor's degree. Montana's gross state product was \$36 billion in 2011 (ranked 46th in the nation). The state receives roughly twice the amount of money back in federal funds than it sends to Washington in taxes.

3 Political Context

Montana is a highly partisan state with very competitive political parties, but it ranks among the top states with the most influential interest groups (Bowman and Kearney 2010). This is attributable to the mixed political culture of the state. There are three distinct political cultures that blend to form a unique culture. The northern "highline" that borders Canada is very moralistic and regulatory. The region was settled by northern Europeans, who were and remain, religious and conservative and tend to vote Republican. Agricultural interests dominate the area, which includes the grain-rich Great Northern Plains. The western mountainous region has historically been individualistic and permissive. Today, this

area generally votes for Democrats. Mining, unions, and ranching dominate the central and southern areas of the state.

The political culture is a blend of the two other cultures. It includes pockets of labor-oriented individuals who vote Democratic and conservative ranchers and business owners who vote Republican. Unlike some other states in the region, such as Utah, Idaho, and Wyoming, no single political party dominates politics in Montana. It is fair to say that the political culture is more liberal than Idaho and Wyoming, but more conservative than Oregon or Washington, which are dominated by the Democratic Party.

Montana Republicans want government to do as little as possible, stay out of the lives of citizens, and stick to the basics on the economy – agriculture, ranching, timber, and mining. Democrats want government to do more. This includes utilizing the state's resources like wind to generate electricity, protecting the environment, and diversifying Montana's economy by attracting cleaner, high-tech industries. These two differing visions for the state have led to sharp divisions and competitive political elections (Greene and Lopach 2008).

The national media likes to call Montana a "red state," but Montana has been a swing state through most of its history. Voters tend to send conservatives to Helena and liberals to Washington. In the 1970s the Democratic Party dominated the state with Democratic governors for a 20-year period and a Democratic majority of both the national congressional delegation and the state legislature. In the late 1980s Montana elected a Republican governor and sent a Republican to the US Senate for the first time since the 1940s. The Republican Party dominated state government throughout the 1990s until 2004. Montanans elected their first Democratic governor in almost 20 years, farmer-rancher Brian Schweitzer. Democrats took every major state office except for Secretary of State in 2004. The Democrats took control of the Senate (27 Democrats; 23 Republicans) and almost gained control of Montana's 100-seat House (the chamber was evenly split: 50 Democrats; 50 Republicans).

Women have held roughly 25% of the 150 seats in the legislature in recent sessions. Political fortunes changed in the 2006 elections, which bucked national trends with Republicans taking control of the House (50–49–1) and the Senate evenly split until a Republican senator changed parties (26–24). Montana bucked national trends again in the 2008 General Election with Republicans taking control of the Senate and the House split 50–50. In the 2010 mid-term elections Republicans took control of both chambers with the House at 68 to 22 and the Senate at 27 to 22.

Redistricting is controversial in most states and Montana is no exception. Unlike most states, Montana handles redistricting with an independent commission. The legislature appoints two Republicans and two Democrats who cannot

be members of the legislature at the time. These four members must select a fifth person to chair the commission. If they fail to agree on a chair, they must go to the Montana Supreme Court who appoints a chair. The Supreme Court runs in nonpartisan elections but it is clear to anyone involved with the process the political affiliation of the Court. The current redistricting commission, like many in the past, ended up going to the Supreme Court to appoint a chair.

The Court, currently dominated by Democrats, selected a former Supreme Court justice who is a Democrat. Thus, it is expected that the redistricting will favor Democrats who are pushing to create “swing districts” as their basic model. Democrats have not done well under the current districts and argue that Montana is a purple state, thus their efforts are to create “swing districts.” After the commission redraws the district maps, the legislature must approve the commission’s work and has a right to offer suggestions. Like most states, the process is controversial and often leads to legal disputes. This process is constitutionally mandated and was intended to take partisanship out of the process, which it does not. It is expected the new districts will favor Democrats despite the fact that Republicans control the legislature (Goodman 2011; Dennison 2011a).

Montana’s term limits were enacted in 1992 and became effective during the November 2000 General Election. Elected officials cannot serve more than 8 consecutive years in a 16-year period. The legislature placed a measure on the 2004 ballot to alter term limits by allowing a person to serve 12 years in a 24-year period. Voters rejected the measure by a significant margin. Although term limits fit the general political culture of the state, they have proven to be problematic with Montana’s part-time, amateur legislature.

For many years the legislature has failed to address the state’s major problems and at times has exacerbated them. For example, in 2001 the legislature deregulated electric power and natural gas. The result was disastrous. Montana went from having abundant, inexpensive, and well-regulated power to being among the states with the most expensive utilities.

Montana’s legislature is very large, probably too large for a state with 998,000 people. The House has 100 members who represent small districts and few people. The 50-seat Senate also represents a relatively small number of people compared to most states. Coupled with intense partisan bickering, the fragmented, part-time, amateur legislature has inherent difficulties addressing the needs and issues of the state. Term limits have caused the legislature to lose those who have gained expertise to manage a smoother legislative process.

The outcome of national elections in the state is unpredictable. George Bush easily won Montana in the 2000 and 2004 presidential elections. John McCain easily won the state in the 2008 presidential election. As of 2011, Montana’s three elected officials to Congress remain a partisan mix. Dennis Rehberg, Montana’s

only member of the US House of Representatives, is a Republican. Republicans have held Montana's lone congressional seat since 1996. Rehberg easily won reelection in 2008. Montana lost one of its House seats after the 1990 census and following the 2010 census, the state will still have only one House seat; Montana's US House seat is the largest House district in the nation (Chaney 2010).

When Montana had two US House seats, Eastern Montana and the northern highline tended to elect Republicans. The western part of the state elected Democrats. The state's US Senators were split for many years until Democrat Jon Tester won the seat from incumbent Republican Conrad Burns in 2006 in a very close election. Dennis Rehberg will leave the US House to challenge Jon Tester for the US Senate seat in 2012. Max Baucus is a moderate Democrat who has served in the US Senate since 1978 and is chair of the powerful Senate Finance Committee.

4 Economic Summary and State Revenues

The state economy is highly dependent on agriculture, tourism, natural resource extraction, and mining, which sustain wholesale/retail trade and service sector jobs. Tourism has been very good to the state with more than 10.5 million non-resident visitors coming to Montana each year. Nonresident tourists spend more than \$2.8 billion annually, and tourism supports about 30,000 jobs (Cohen, 2010; Nickerson 2011, 2012).

Montana's geographic isolation from major markets, a small and widely dispersed population, and continued dependence on natural resources, limit the state's economic growth potential. Montana's economy is hampered by a volatile farm sector, decreased timber available from Montana's national forest lands, its aging industrial plants and infrastructure, and labor shortages. Due to the state's dependence on commodities, Montana's economy typically rises and falls with the price of commodities.

Montana continues to rank at or near the bottom in just about any economic statistic that one examines. For example, wages, earnings, and personal income remain near the bottom in state rankings. Most of Montana's growth has been in the private sector in areas with low-paying jobs. Montana has had lots of growth in the service and retail areas – Walmarts, fast food, and hotels. Despite the optimism of some politicians, including the governor, the long-term economic outlook remains bleak. As some economists put it, growth in Montana over the next few years will be modest, at best (Grannis 2008).

Montana ranks low in indices that measure “friendliness toward business.” Coupled with its isolated location, economic development in the state is an arduous

task. Montana was one of the first states in the nation to impose an income tax on businesses. Since 1917, the state has raised corporate net income taxes from 1% in 1917 to its current rate of 6.75%. Corporate income taxes accounted for about \$153 million in revenue (9%) in 2009. Corporate income taxes decreased from 9% to 7% of total revenue between the 2009 to the 2013 bienniums. Although the “big box stores” and service sector firms have made their way into the state, developing the economy has not been an easy task for either political party.

Higher education in the state remains aimed at liberal arts or agriculture and has had limited success in attracting high-tech industries. Montana’s commitment to higher education has dropped dramatically since the early 1990s. The state’s contribution dropped to 33% in 2007 but increased to 38% in 2008 to cover Governor Schweitzer’s tuition freeze. In 2011 the state’s portion had dropped to around 20%. Increasing tuition is expected over the next 2 years but the decision is ultimately left to the Montana University System (MUS). The legislature cut funding for the 2013 biennium for the university system based on the belief that tuition could be increased to cover costs. Except for one law school, Montana does not have any of the traditional professional schools such as medicine, dentistry, or even a veterinarian school, which seems odd considering that Montana is home to more than two million cattle. Overall, Montana’s business climate is poor and economic development is difficult in a culture generally opposed to growth.

Revenue was supposed to be an issue for the 2011 legislative session. In the end, revenues did not turn out to be an issue, although the legislature did make some significant cuts in the state budget. Montana gets 45% of its revenues from individual income taxes, 35% from various sales taxes, fees, and other miscellaneous taxes, 13% from state property taxes, and 7% from corporate taxes. The lack of a general sales tax (the state does have some limited sales taxes) creates an unbalanced tax structure and forces the state to rely on sources of revenue that are less stable and arduous to administer, such as state property taxes. Attempts in the past failed to produce an acceptable general sales tax bill, and the last time a general sales tax was placed on the ballot in 1993, it was defeated by a 3 to 1 margin.

Montana is one of the few states without a true revenue sharing system with its local governments largely due to the lack of a general sales tax. Montana has a state lottery but like most states, it produces only a small portion of total state revenues. The lack of an adequate revenue system caused the legislature to consider raising taxes on those making \$250,000 per year. The personal income tax brackets were lowered in 2003 and critics note that the tax cuts caused the state to lose \$100 million annually in revenue. At the time, the top bracket was 11%; the legislature considered creating a new bracket of 7.9% for those earning more than \$250,000 (Johnson 2009).

One study ranked the financial health of all 50 states based on a yearlong analysis by *Governing Magazine*. Montana was ranked near the bottom of the list, tied with Mississippi at 48th for having a revenue system that produces inadequate revenues and is less fair to taxpayers than the tax systems found in most states (Cauchon 2003). The overall rating was based on spending restraint, bond rating, and tax system. Montana ranked very low in all three categories. A similar ranking of the states placed Montana near the bottom in most categories (Governing 2008). Montana received grades of C+ in most categories. There have been no changes in the way the state operates. Despite the low rankings, Montana was among only a few states that emerged in 2011 in good fiscal condition, but this was accomplished by maintaining a minimalist state government.

5 The Budget Process

The budget process in Montana is similar to most states. After collecting information from state agencies, the process begins with recommendations by the governor via an executive budget, which is mandated by law. The Office of Budget and Program Planning (OBPP) prepares the executive budget. Prior to the legislative session, the Legislative Fiscal Division (LFD) analyzes these recommendations along with Montana's economic conditions, and other pertinent factors that affect the budget. The resulting document is provided to the legislature and used as the basic budget document throughout the session. The legislature convenes in January every other year (in odd years) and adjourns in 90 days (usually in April). Montana law allows calling special sessions as needed.

The main committees that handle the budget are the House Appropriations Committee and the Senate Finance Committee. During the first week of the legislative session, subcommittees from the Joint House Appropriations Committee and the Senate Finance Committee meet to establish the initial recommendations – a process that typically takes about 6 weeks. The formal title of the main expenditure bill is HB 2, which then goes through a committee review process similar to the processes found in most states. HB 2 is the state budget and with rare exception, remains a single document. The timetable and format of the budget are dictated by statute. Statutes also dictate the form of the budget and what must be included in it. All revenue bills must originate in the House and all appropriation bills must be ready by the 67th day of the session. Action is then taken on the bills. The governor has full line-item veto power.

Unlike many states and Congress, Montana has a joint subcommittee system that handles much of the work on appropriations. Most of these committees have

Table 2: Traditional Appropriations Schedule.

Legislative Days	Action Taken by the Legislature During Specified Time Periods Shown as legislative Days. By Law, the Session Lasts 90 Days.
1–6	<i>Feed Bill</i> - Prepared by the Legislative Services Division. There will be hearings in both the House Appropriations and Senate Finance committees. HB 1 is the initial bill that sets funding for the session and other housekeeping matters. <i>All revenue legislation must be initiated in the House.</i>
2–43	<i>Subcommittee Hearings on HB 2</i> - Subcommittees meet 3–4 hours, 5 days a week.
50–55	<i>Subcommittees Report HAC Action on HB 2.</i> On successive days, the five subcommittees present their reports to the House Appropriations Committee (HAC).
56–61	<i>Preparation of Bill and Narrative</i> - The Legislative Fiscal Division (LFD) staff takes the action of the full Appropriations Committee and incorporates it into the original draft. The HAC version of the bill is a clean second reading copy that is completely substituted for the bill entered originally. <i>The LFD staff also updates the subcommittee narrative so that it is consistent with the full committee actions.</i> The updated narrative, along with the bill, is distributed a day or two prior to the scheduled debate in the full House.
64–65	<i>Long-Range Planning Subcommittee</i> - HAC completed action and reports all long-range planning bills to the floor. <i>Appropriations Bill Second Reading</i> – The bill is debated in sections. Legislative Fiscal Division staff updates the narrative following House action.
65	<i>House Third Reading of Appropriations Bill.</i>
66–76	<i>Senate Finance HB 2</i> – On successive days, the committee takes action on HB 2, by section. Staff updates the narrative to reflect committee action.
79	<i>Senate floor debate on Appropriations Bill.</i>
80	<i>Senate Third Reading on Appropriations Bill.</i>
81–89	<i>Senate returns Appropriations Bill to the House.</i> <i>Free conference committee on long-range planning and major appropriations bills.</i>

Note: HB 2 is the Montana state budget and historically remains a single bill. Table 2 shows the normal budgetary process with HB 2 being the state budget.

Source: Taryn Purdy. *Understanding State Finances and the Budgeting Process: A Reference Manual for Legislators*. (Helena, MT: Legislative Fiscal Division, September 2002), p. 34.

seven members split in favor of the controlling party. Montana's legislature has one of the shortest sessions in the nation. It is the classic, part-time, citizen legislature. With a salary of \$82.64 per day and \$98.75 per diem for expenses, Montana

legislators are among the lowest paid in the nation. This amounts to about \$10 per hour while the legislature is in session. The governor and the state's permanent agencies in Helena largely control the budgetary process because legislators depend on them for information and technical support. Work on the budget begins when the legislature convenes and usually the budget is passed on or near the final day of the session. Table 2 provides an illustration of the traditional appropriation process.

5.1 The 2013 Biennium Budget

The Montana Constitution requires a balanced budget, and Montana's is relatively small compared to most states. The state receives most of its revenues from individual income taxes. Table 3 provides a comparison of the 2005, 2007, 2009, 2011 and 2013 biennia.

How does the current budget compare to the last budget on the expenditure side? Table 4 compares the 2011 and 2013 bienniums in major categories. The data is straightforward; expenditures increased for some agencies and decreased significantly for others. Table 4 shows the breakdown of the budget by major function areas. In the case of K-12 education, the Montana Supreme Court ruled that the legislature had to define the meaning of a "quality public education," which is a provision in the Montana State Constitution. Thus, the legislature funded public education during the last three sessions at a higher level than in the past. Corrections received a large increase in the last biennium, approximately \$9 million or a 4% increase. Montana has problems with its corrections system and growing prison population. It houses some prisoners in other states and has used private prisons.

Table 3: Revenue Sources (2005 Through 2013 Bienniums).

	2005	2007	2009	2011	2013
Individual Income Tax	45.6%	48.4%	44.9%	47.0%	44.9%
Corporation Income Tax	5.3%	5.5%	8.9%	6.6%	7.0%
Vehicle Tax	5.9%	5.6%	6.5%	6.0%	6.0%
Investment Earnings	4.2%	3.2%	2.8%	2.2%	2.2%
Natural Resource Taxes	2.0%	5.3%	6.5%	4.9%	6.8%
Property Tax & Non Levy	14.5%	12.3%	11.0%	12.8%	13.4%
Insurance Tax	4.5%	4.4%	3.4%	3.3%	3.3%
All Other Revenue	18.0%	15.3%	15.9%	17.2%	16.4%

Note: Information provided by the Legislative Fiscal Division.

Table 4: 2011 and 2013 Biennium All Funds Budgets Compared (in Millions of Dollars).

Division and Agency	2011 Biennium (Adjusted base)	2013 Biennium	Difference	% Change
General Government	479,557,541	502,038,041	22,480,500	4.7%
Legislative Branch	27,961,411	27,292,819	(668,592)	-2.4%
Consumer Council	2,161,514	3,278,092	1,116,578	51.7%
Governor's Office	11,960,478	11,514,565	(445,913)	-3.7%
Secretary of State's Office	0	550,000	550,000	0%
Commissioner of Political Practices	1,038,471	1,134,471	96,000	9.2%
State Auditor's Office	34,142,907	37,016,019	2,873,112	8.4%
Department of Revenue	105,070,453	101,386,648	(3,683,805)	-3.5%
Department of Administration	41,829,311	41,538,905	(290,406)	-0.7%
Department of Commerce	42,159,595	56,051,155	13,891,560	33.0%
Department of Labor & Industry	150,100,813	155,707,566	5,606,753	3.7%
Department of Military Affairs	63,132,588	66,567,801	3,435,213	5.4%
Health and Human Services	2,934,455,723	3,594,433,121	659,977,398	22.5%
Economic Security Services Branch	655,970,242	924,543,221	268,572,979	40.9%
Director's Office	8,255,032	7,879,178	(375,854)	-4.6%
Operations Service Branch	80,665,245	81,726,145	1,060,900	1.3%
Public Health	121,348,722	102,958,533	(18,390,189)	-15.2%
Medicaid and Health Services Branch	2,068,216,482	2,477,326,044	409,109,562	19.8%
Natural Resources and Transportation	1,408,490,419	1,826,890,507	418,400,088	29.7%
Department of Fish, Wildlife, and Parks	141,349,814	148,392,941	7,043,127	5.0%
Department of Environmental Quality	98,352,929	113,212,998	14,860,069	15.1%
Department of Transportation	1,014,920,614	1,399,308,725	384,388,111	37.9%
Department of Livestock	20,363,916	21,931,605	1,567,689	7.7%
Dept. of Natural Resources & Conservation	103,924,679	112,454,725	8,530,046	8.2%
Department of Agriculture	29,578,467	31,589,513	2,011,046	6.8%

(Table 4: Continued)

Division and Agency	2011 Biennium (Adjusted base)	2013 Biennium	Difference	% Change
Judicial Branch, Law Enforcement and Justice	625,883,314	655,878,447	29,995,134	4.8%
Judicial Branch	76,671,193	76,557,981	(92,212)	-0.1%
Crime Control Division	12,386,130	18,034,067	5,647,937	45.6%
Department of Justice	148,652,711	163,472,554	14,819,843	10.0%
Public Service Regulation	7,033,913	7,416,079	382,166	5.4%
Office of the Public Defender	41,284,302	41,884,302	600,000	1.5%
Department of Corrections	339,855,065	348,493,465	8,638,400	2.5%
Education	1,961,406,437	2,372,696,708	411,290,271	21.0%
Office of Public Instruction	1,445,031,389	1,826,864,831	381,833,442	26.4%
Board of Public Education	814,224	815,424	1,200	0.2%
Commissioner of Higher Education	482,146,135	510,366,272	28,220,137	5.9%
School for Deaf & Blind	12,770,478	12,600,830	(168,648)	-1.3%
Montana Arts Council	2,487,651	2,911,358	423,707	17.0%
Montana State Library	8,777,174	9,038,632	261,458	3.0%
Montana Historical Society	9,379,386	10,099,361	719,975	7.7%
Total	7,409,793,434	8,951,936,825	1,542,143,391	20.8%

Note: HB 2 is the main spending bill for the State of Montana and after modifications becomes the state budget. The 2011 budget was adjusted to reflect the actual base.

Table 5: 2011 and 2013 Biennium Budgets Compared by Major Functional Areas (in Millions of Dollars).

Functional Area	2011 Biennium Budget	Percent of Budget	2013 Biennium Budget	Percent of Budget
K-12 Education	\$1,637.1	20.6%	\$1,826.9	20.5%
Higher Education	528.4	6.6%	510.4	5.8%
Corrections	355.2	4.5%	348.5	3.8%
Human Services	3,112.3	39.1%	3,594.4	40.1%
All Other	2,318.9	29.2%	2,671.7	29.8%
Total	\$7,952.1		\$8,951.9	

Source: Legislative Fiscal Division. *Fiscal Report: 62nd Legislature*. (Helena, MT: Legislative Fiscal Division, June 2011). The figures for the 2011 biennium have not been adjusted and are slightly higher than those in Table 4.

Currently, the state subsidizes <20% of the cost of tuition for in-state students. Since 1992 the state's financial commitment to higher education has dropped significantly. In 1992 the state funded \$4,578 per in-state student; in 2006 the amount had dropped to \$3,142 in constant dollars. Between 1992 and 2002 tuition at the state's public, 4-year colleges increased 50% while medium family income increased by 1%. During this period the number of students receiving financial aid increased 370% (National Center for Public Policy and Higher Education 2003). As state funds make up a smaller share of total funding for higher education (a long-term trend likely to continue), the university system has increasingly relied on increased student tuition and fees. Compared to all western states, Montana spends considerably less on higher education per student. Only South Dakota and Colorado spend less. (Hamilton 2007).

Table 5 shows where the state spends the revenue by major functional area. The largest functional area is human services, which consume 40% of state resources. Secondary public education is the second largest specific area requiring almost 21% of the budget. Higher education uses only 5.8% of outlays and corrections, which has been a growing problem for the state, consumes 3.8% of the budget. All other areas of state government combined account for about 30% of total outlays.

6 What did the Legislature do in Policy Areas?

There were 1100 bills introduced in the 2011 legislative session and about one-third of them were signed into law. Like most legislative sessions, the majority

of bills never get out of committee. Below are some of the major policy areas that dominated the legislature in 2011.

6.1 Abortion

The legislature passed a bill requiring parents of girls under 16 to be notified of impending abortions, except in cases where a judge rules otherwise. A referendum putting the question to voters in 2012 passed the legislature. The governor vetoed a bill that would have banned insurers from covering abortions under any state health care exchanges established under the new federal health care law. The session's most emotional abortion debates erupted over unsuccessful bills that would have required women to undergo pre-abortion ultrasound examinations or be screened to ensure that they were not being coerced to end their pregnancies. The legislature rejected proposed constitutional ballot measures asking voters to specifically outlaw abortions and declare that life begins at conception.

6.2 Buildings

The legislature rejected a bonding bill that would have financed construction of nearly \$100 million in new state buildings and renovation projects, including expanding several college campuses, a new Montana Historical Society Museum in Helena, and a nursing home in Butte for veterans. Critics argued that now was not the time for the state to take on new debt. The legislature has not passed a bonding bill since 2005.

6.3 Business and Labor

A law was enacted to reduce the premiums Montana employers must pay for workers' compensation insurance; Montana businesses pay among the highest premiums for workers' compensation insurance in the nation. The compromise cuts costs by decreasing some of the benefits workers receive and reducing payments to medical providers. It also includes a new tax to help pay off the State Fund's previous liabilities. The governor did not sign the Republican backed legislation that would have cut the state's tax on business equipment for all Montana businesses by a third.

6.4 Drunken Driving

Montana has been criticized for not doing enough about drunken driving. Lawmakers promised to do more this session and passed several bills, including a measure that would require twice-daily testing of suspects charged with repeat offenses. They also passed bills that would stiffen penalties for drunken drivers carrying passengers under 16 years of age, create the crime of aggravated DUI for offenders with extremely high blood-alcohol concentrations, and allow police to request warrants for blood and breath tests for drivers who refuse to take them in the field. A measure that would give counties the power to pass ordinances holding adults responsible for hosting events where alcohol is served to underage drinkers failed.

6.5 Education Policy

A battle over dollars for public schools and colleges dominated the education debate, but lawmakers also tangled over sex education in public schools and the question of charter schools. Governor Schweitzer vetoed legislation requiring local school officials to notify parents in advance about human sexuality programs and allowed them to withdraw their children from sex education classes. A number of unsuccessful bills would have allowed tax credits for scholarships supporting students attending private schools. A plan to allow the creation of experimental charter schools within the public school system failed during final negotiations over K-12 funding.

6.6 Elections

Early in the session, Republicans rejected a bill to establish statewide mail-in elections to encourage voter participation. The bill was similar to Oregon's election system. The governor vetoed a Republican bill that would have ended Montana's practice of allowing voters to register on Election Day. The bill was drafted due to complaints about long lines and late voting in 2006 and 2008. Voter registration would have been cut off at 5 p.m. on the Friday before an election.

The legislature passed a referendum asking voters in 2012 whether candidates for Montana's Supreme Court should be elected by district. Currently, candidates run in statewide, nonpartisan elections, and a majority of members of

the Supreme Court come from the Helena area. The legal profession opposed the bill.

6.7 Eminent Domain

The legislature passed a bill affirming that utilities can seize private land for state-approved projects such as power lines. The measure stems from a district court ruling that stalled work on the 214-mile Montana-Alberta Tie transmission line that would serve wind farms in north central Montana. The bill became law without the governor's signature. Efforts are now underway to overturn the law using the initiative process to place the question on the ballot in the 2012 General Election (Person 2011). A lawsuit was filed challenging the new law in May 2011 (Johnson 2011).

6.8 Environment

Republicans began the session vowing to roll back environmental regulations blocking development of Montana's natural resources. The governor promised to veto legislation to expand gold and silver mining. The measure would have allowed a few mines to expand their treatment of low-grade gold and silver ore via the cyanide vat- or heap-leach process. Voters have twice rejected any expansion of such mining. The governor vetoed all bills aimed at relaxing the state's push to promote new renewable energy projects.

6.9 Higher Education Funding

The MUS will operate with roughly \$14 million less the next 2 years. The expectation was that Republicans would cut \$30 million from the budget, but legislative leaders struck a deal with the governor in the session's last week. The Board of Regents will decide how to divide the budget among schools. The Board of Regents has already approved tuition increases at some 2-year schools and a 5% increase per year for the next 2 years (10% total) at other campuses. Faculty salaries were settled with all collective bargaining units in the university system with the state offering a 1% raise plus \$500. Faculty salaries had not increased since 2006 in the Montana University System. Montana remains ranked 50th on overall compensation for faculty (salaries, benefits,

and retirement). Faculty at the state's two main campuses earn roughly 68% of the national average.

6.10 Immigration

The legislature approved a 2012 ballot measure asking voters to bar illegal aliens from receiving state-funded services such as jobless benefits, tuition assistance or employment with state agencies. Lawmakers rejected legislation that would have required businesses to use a federal database to verify a job applicant's legal status; the law would have made it a crime for businesses to hire undocumented immigrants.

6.11 K-12 Funding

Montana's K-12 schools received a slight increase in state support. After intense debate, lawmakers passed a school-funding bill that will mean less state money for public schools this year, and a small increase next year. The debate over how to fund public schools centered on how much oil-and-gas revenue should be taken from a handful of resource-rich eastern Montana school districts and redistributed statewide. The agreement on funding transfers about \$18 million oil-and-gas revenues to the state. Schools with oil-and-gas revenues can keep up to 130% of their total budget comprised of oil-and-gas revenue. Any amount over that goes to the state for redistribution. Montana ranks among the lowest western states in funding K-12 education.

6.12 Social Services

How the state takes care of the aged, ill, disabled, and poor was a centerpiece of the budget debate throughout the session. Republicans initially cut the governor's proposed spending but in the final negotiations restored most of the requested funding, which included the authority to accept millions in federal funds for a variety of programs. Republicans also allowed funding for personal assistants for the disabled and elderly who need help with basic tasks. However, the money for this service is a one-time expenditure, so lawmakers will have to revisit the issue in the next session. The legislature restored money to subsidize prescription drugs for the elderly and ended the session with a significant increase for social services.

6.13 State Sovereignty

Conservative lawmakers introduced a plethora of bills aimed at denying or restricting the federal government's power in Montana. Many of them died, some by the governor's hand. The governor vetoed legislation requiring that federal law enforcement officers notify local sheriffs before making arrests and a bill authorizing the state to seize federal land under Montana's eminent domain law. Legislators blocked bills giving state officials a role in saying how federal health care reform will play out in Montana. Most Republican bills aimed at nullifying federal health care reform never passed the legislature.

6.14 State Workers' Compensation

The legislature rejected a deal negotiated by the governor and key public employee unions that called for 1% and 3% raises over the next 2 years. Republicans argued that state workers should not receive raises when Montana's economy is still recovering from recession. With only a few exceptions, state workers' wages have been frozen since 2008.

7 Conclusion: Winners and Losers in the 2013 Biennium Budget

Like all budgetary processes in the states, there were winners and losers after the legislature adjourned. The session was dominated by a number of policy issues but despite the best efforts of both political parties, few were resolved. The same special interest groups that typically win in the legislative process won again – businesses, utilities, agriculture, and to some extent, school teachers unions. Each session businesses, unions, trade associations, government agencies and advocacy groups spend millions of dollars influencing legislators according to official reports filed by lobbyists. The biggest spenders typically are PPL Montana (a utility company), MEA-MFT (the largest union in the state), Benefits Healthcare, and the Montana Association of Realtors.

Little was done to help Montana's economy or address high energy prices for citizens. Little was done to enhance education or construct a tax system that is fair and provides the revenue to run state government over the long term. In short, those who went to Helena with highly concentrated interests and money

won again. This is true of most legislatures around the nation, especially in states with strong special interest groups.

8 Prospects for the Future: Revenue Uncertainties and the Economy

Economic uncertainties can undermine revenue-forecasting efforts, and contribute to an increased demand for government services in areas such as human services and corrections. As in any legislative session, there are many unknowns surrounding revenue forecasts. Capital gains income, corporate profitability, and oil and gas price and production could all fluctuate significantly. Assumptions used in the revenue forecasting process are based on the best information available, but assumptions can often be wrong and surpluses like those found in the 2005 and 2007 legislative sessions have historically not been the norm (LFD 2007).

Updated forecasts about Montana's economy over the next 2 years remain grim (Barkley 2011b). Some economists believe that Montana will not be as negatively impacted by a nationwide recession as many other states. Montana ranked forty-first in home foreclosures in 2008 mainly because the state is rural and the hardest hit areas nationwide are urban areas (Grannis 2008). Despite rising unemployment nationally and in Montana, the state's unemployment rate remains lower than the national average. The areas that impact the state the most are construction, agriculture, mining, and timber. Construction has been impacted since the housing bubble collapsed, but the other core industries continue to perform reasonably well (Grannis 2008).

Funding state government in the future will be problematic due to the state's volatile economy. Despite the efforts of the state, Montana has been unable to attract high paying high-tech jobs. Historically, the state has struggled to fund a "bare bones" state government. Montana is a state with very little fat to cut in the budget and even during years with unprecedented revenues, many critical areas like rising energy costs, skyrocketing college tuition, and economic development receive only token, short-term attention (LFD 2007, 2009, 2011).

Like many sessions in the past, the 2011 legislative session illustrated the dilemmas of relying on a part-time, citizen legislature with a short session that meets every other year to construct a budget and deal with significant policy issues. The lack of continuity of leadership exposed the problems of term limits, revealed the power of Montana's special interests, and the power of the governor in the budgetary process. The legislature passed an \$8.9 billion budget that made

a number of short-term fixes but did little to make structural changes that would enhance the state's economy, provide a stable revenue system, or make long-term commitments to health care and higher education.

Time will reveal whether the short-term fixes will prove to be more prudent than fully addressing the policy issues and structural problems that affect Montana. Considering the condition of the state's economy along with the national economic crisis, legislators in the 2011 legislative session probably did as well as could be expected. They balanced the budget and left the state's finances in better condition than most states.

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