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April 2009**

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Abstract

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Keywords: Montana state budget, state fiscal policy, tax policy

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Introduction

Montana's legislature meets once every two years and constructs a two-year budget. The legislature did not meet in 2010. This paper reflects changes and updates to the 2009 biennium budget, which includes many of the problems faced by the state caused by the economic recession. The most significant change was due to declining tax revenues. The state had to implement spending cuts and the fiscal situation for the next fiscal year, which begins July 1, 2010, looks even worse.

Montana's legislature was supposed to begin its 90-day biennium session in January 2009 with roughly a \$1.2 billion surplus. Despite the national economic conditions, Montana's economy had not been as adversely affected as most states and the state's overall finances were sound. But by November the surplus started to shrink due to the economic downturn, and by early December the \$1.2 billion was almost gone. The state had a surplus of under \$200 million—close to the planned amount the governor had recommended to use as a rainy day fund in light of the poor condition of the national economy.

Falling revenues led the governor to cut \$144 million out of his proposed budget in December. Like so many legislative sessions in the past, Montana would have to deal with budget cuts (Johnson, 2008c). Revenue projections over the two-year budget cycle are projected to fall but the \$880 million the state received from the federal stimulus package helped save the budget (Johnson, 2009b; Dennison, 2009a). The governor originally proposed a \$9.6 billion all funds budget (Schenk, 2009). The legislature completed its work on April 28 by passing an \$8 billion all funds, biennium budget (Dennison, 2009b; Johnson, 2009a). This amounted to a 2.3 increase (five percent increase if special one-time appropriations are included) in spending over the previous biennium. The governor cut \$4.6 million from the stimulus package using his line-item veto power, let numerous bills pass without his signature, including property tax relief, and signed the budget bill in May.

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After the session ended Governor Schweitzer gave the legislature a grade of aB for its willingness to compromise. This was a sharp contrast to the previous session that went down in history as one of the most contentious sessions in Montana's history (Moore, 2009). The fireworks that characterized the previous session were largely absent. The focus was almost entirely on the budget. There was little time for major policy debates in light of the state of the economy and the effort expended to balance the budget. Once the budget was passed, Montana joined a handful of states with their finances in order.

The General Election and a new administration in Washington brought few political changes within the state. Democratic Governor Brian Schweitzer easily won reelection but the legislature remained split and in gridlock. Newly elected President Obama's coattails were short in Montana. John McCain easily won Montana and the congressional delegation remained unchanged. Democrats retained most of the state elected offices and Denise Juneau became the first Native American to win a statewide elected office—superintendent of public education (Rave, 2009). Republicans bucked national trends to take control of the Senate from the Democrats and the House was split, 50-50. The previous session had been one of the most partisan in state history and ended without a budget. Although a special forum was convened in 2007 to discuss reforms to make the legislature less contentious, nothing of significance was resolved. The 2009 legislative session was pale compared to the previous session in 2007. There were few controversial bills that received serious attention and for the first time in many years there were no controversial ballot initiatives in the General Election (Dennison, 2008a; 2008b; Gouras, 2008).

Governor Schweitzer said his primary objective in his second term would be energy policy. In November 2008 the governor released his executive budget recommendations that included a 2.5 percent reduction in spending and no tax increases (Johnson, 2008b; GOBPP, 2009). The governor supported stricter standards for fuel efficiency based on the California model. But in his State of the State address, he proposed increasing the tax on oil and gas production to fund higher salaries for teachers breaking his commitment to not increase taxes (Dennison, 2009f). Unlike some governors in the nation who refused to accept money from the stimulus, the governor, an adamant supporter of Obama during the General Election, took any funds designated for Montana.

Demographic Overview

Montana is a geographically large, rural state with a relatively small population of about 967,500. The population density 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

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 (2008)	967,500	

Note: The official population based on the 2000 Census is 902,000. Montana’s population was 799,000 in 1990. The latest estimates show the population to be 967,500 (2008). The population increased by 7.2 percent between 2000 and 2008.

Source: U.S. Census Bureau

evenly. The population grew by 6.2 percent between 2000 and 2008. The western part of the state (the mountainous area) has experienced significant population and economic growth while the eastern plains have remained relatively unchanged. Montana’s population is predominately white and is split between urban and rural. Fifty-four percent of the population lives in urban areas or urban clusters, while 46 percent live in rural areas.

Montana’s growth has brought people who are older, wealthier and more conservative than those who have left the state. The states that have generated the most newcomers for Montana are Washington, California, Colorado, Oregon, and Idaho (Polzin, 2003). Additionally, for every 100 bachelor’s degrees issued to in-state students at Montana’s colleges and universities, roughly 75 leave the state to seek better employment (Jamison, 2006a).

Montana is a relatively poor state. Per capita income is \$32,400, among the lowest in the nation, and nine percent of all workers in Montana work multiple jobs (Jamison, 2006b). Montanans’ income is about 84 percent of the national average. The per capita tax burden is \$7,300 and state and local taxes relative to personal income are about 10 percent (the national average is 10.2 percent). Montana ranks thirty-seventh nationally in per capita state expenditures. Unemployment was 6.2 percent in 2009. Fourteen percent of Montana’s population is legally categorized as “living in poverty.” More than 40,000 families have incomes of less than \$10,000 (11 percent). Seventeen percent of Montanans have no health insurance.

Like many states, the population of Montana is growing older. The typical Montanan is 40 years old; about 700,000 people (75 percent) are over 18 years of age and nearly 14 percent of the population is over 65 years of age. The percent of Montanans 65 and older is expected to increase to 26 percent by 2030. 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 (fourth best in the nation) and 27 percent of the population over 25 years of age has a bachelor's degree. Montana's gross state product is \$34 billion and the state received about \$8 billion in federal funds in 2008 (not including the stimulus package). Only Vermont, North Dakota, and Wyoming have smaller gross state products than Montana.

Political Context

Montana is a very partisan state with very competitive political parties, but it ranks among the five states with the most influential interest groups (Bowman and Kearney, 2008). This is attributable to the mixed political culture of the state. Three distinct political cultures blend together to form a unique culture. The northern "highline" that borders Canada is very moralistic and regulatory. This region was settled by northern Europeans who were and remain, religious and conservative. They tend to vote Republican. The area, which includes the grain-rich Great Northern Plains, is dominated by agricultural interests. The western mountainous region has historically been individualistic and permissive and generally votes for Democrats. The central and southern areas of the state were dominated by mining, unions, and ranching. 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 of Montana is more liberal than Idaho and Wyoming but more conservative than Oregon or Washington, which are dominated by the Democratic Party. Montana's 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 many of the state's abundant resources like wind to generate electricity, protecting the environment, and diversifying Montana's economy by attracting cleaner industries. These different visions for the state lead to sharp divisions and competitive political elections (Greene and Lopach, 2008).

The national media like to call Montana a red state, but Montana has been a swing state throughout much of its history. Voters tend to send conservatives to

Helena and liberals to Washington. In the 1970s the state was dominated by the Democratic Party with Democratic governors for a 20-year period and a Democratic majority of both the national congressional delegation and in the state legislature. In the late 1980s Montana elected a Republican governor and sent a Republican to the U.S. 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). The 50/50 split was due to a controversial election that ended up being decided by the Montana Supreme Court.

Women have held roughly 25 percent of the seats in the legislature in recent sessions but in 2009 a record number of women also served in leadership roles (McKee, 2009). Political fortunes changed again 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) and gave control to the Democrats. Montana bucked national trends again in the 2008 General Election with Republicans taking control of the Senate and the House split 50-50. Closely divided chambers will likely remain part of Montana's political landscape due to competitive political parties and term limits. (Dennison, 2008a; 2008b).

Montana's term limits were enacted in 1992 and first became effective during the November 2000 elections. Elected officials cannot serve more than eight 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 twelve years in a 24-year period. Voters rejected the measure by a significant margin. Efforts to repeal term limits failed to gain support in the 2007 legislative session. Term limits are controversial in Montana. Although they 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 have 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 967,000 people. The House has 100 members who represent very small districts and few people. The 50-seat Senate also represents a relatively small number of people. 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 during the 2000 and 2004 presidential elections. John McCain easily won the state in the 2008 presidential election. As of 2009, Montana's three elected officials to Congress remain a partisan mix. Dennis Rehberg, Montana's only member of the U.S. House of Representatives, is a Republican. Republicans have held Montana's lone congressional seat since 1996. Rehberg easily won reelection in 2008. Prior to 1996, Pat Williams (a Democrat) served in the House for 18 years. Montana lost one of its House seats after the 1990 census. When Montana had two U.S. House seats, Eastern Montana and the northern highline tended to elect Republicans. The western part of the state elected Democrats. The state's U.S. Senators are no longer split. Conrad Burns, a three-term, conservative Republican was defeated in a very close race by Democrat Jon Tester in 2006. Max Baucus, a moderate Democrat, has served in the U.S. Senate since 1978 and is chair of the Senate Finance Committee.

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 million nonresident visitors coming to Montana each year. Nonresident tourists spent more than \$2 billion annually. Tourism supports roughly 30,000 jobs and generates more than \$550 million in income each year (Nickerson, 2005; Cohen, 2005).

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 one examines. For example, wages, earnings, and personal income remained near the bottom; Montana ranked 46th in the nation in per capita income in 2006. 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—Wal-Marts, fast food, and hotels. Despite the optimism of some politicians, including the governor, the long-term economic outlook remains bleak. As one economist put it, growth in Montana over the next few years will be modest, at best (Grannis, 2008; Struckman, 2005).

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 one percent in 1917 to its current rate of 6.75 percent. Corporate income taxes accounted for about \$153 million in revenue (9 percent) in 2009. Corporate income taxes are estimated to decrease to less than 7 percent of total revenue for the 2011 biennium. 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. Higher education in the state, aimed at liberal arts and agriculture, has had limited success in attracting high-tech industries.

Montana’s commitment to higher education has dropped dramatically since the early 1990s. The state contribution dropped to 33 percent in 2007 but increased to 38 percent in 2008 to cover Governor Schweitzer’s tuition freeze. Increasing tuition by six percent in each of the next two years was considered but ultimately left up to the Montana University System. The legislature cut funding for the 2011 biennium for the university system based on the belief that tuition could be increased to cover costs. Except for its 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 2 million cattle. Overall, Montana’s business climate is poor and economic development is difficult in a culture generally opposed to growth.

Revenue was not supposed to be an issue for the 2009 Legislative session. But what began as a \$1.2 billion surplus had completely dried up by the time the legislature convened in January 2009. The federal stimulus package (the American Recovery and Reinvestment Act) greatly aided the budget by providing \$880 million but projections suggest that revenues will continue to fall during the next biennium (Dennison, 2009d). By February 2010, the projection was a \$62.5 million shortfall by end of the 2011 as tax revenues continued to fall (Johnson, 2010b). In March 2010, the governor proposed over \$40 million in spending cuts to compensate for declining state revenue, which would still leave the state with a \$36 million shortfall. Montana allows the governor to cut spending within limits set by statute (Johnson, 2010a).

Montana gets 47 percent of its revenues from individual income taxes, 35 percent from various sales taxes, fees, and other miscellaneous taxes, 13 percent from state property taxes, and 7 percent from corporate taxes. The lack of a general sales tax (the state does have some limited sales taxes) creates an unbalanced tax structure. The state relies 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. The last time a general sales tax was placed on the ballot was 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 local governments largely due to the lack of a general sales tax. It 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 percent; the legislature considered creating a new bracket of 7.9 percent for those earning more than \$250,000 (Johnson, 2009b).

USA Today ranked the financial health of all 50 states based on a yearlong analysis by *Governing Magazine*. Montana ranked near the bottom, tied with Mississippi at forty-eighth for having a revenue system that produces inadequate revenues and is less fair to taxpayers than the tax systems 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; it ranked 37th in per capita state spending.

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 mandated by law and prepared by the Office of Budget and Program Planning (OBPP). Prior to the legislative session, the Legislative Fiscal Division (LFD) analyzes these recommendations along with Montana's economic conditions and other 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 special sessions when they are 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 six 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 line-item veto power.

Unlike many states and Congress, Montana has a unique joint subcommittee system that handles much of the work on appropriations. The composition of most of these committees is seven members split in proportion in favor of the controlling party. Montana's legislature has one of the shortest sessions in the nation. It is the classic, part-time, amateur assembly. Legislators are paid among the lowest salaries in the nation. Their compensation is \$98.75 per day with an \$82.64 per diem for expenses. This amounts to about \$10 per hour while the legislature is in session. Thus, the governor and the state's permanent agencies in Helena are powerful in the budgetary process since legislators depend on them for information and technical support. Work on the budget begins immediately 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 used by the legislature.

The 2011 Biennium Budget

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

How does the current budget compare to the last budget on the expenditure side? Table 4 compares the 2009 and 2011 biennia in major categories. The data is straightforward—expenditures increased for some agencies and decreased significantly for others.

Table 5 shows the breakdown of the budget by major functions. 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 two sessions at a higher level than in the past. Corrections received a large increase in the last biennium, approximately \$107 million or a 43 percent increase. The state provided a much smaller increase for the 2011 biennium. Montana has problems with its corrections system and growing prison population. It houses some prisoners in other states and has used private prisons.

Currently, the state subsidizes less than 30 percent 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 adjusted dollars. Between 1992 and 2002 tuition at the state's public, four-year colleges increased by 50 percent while me-

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 three to four hours, five 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. <i>Long-Range Planning Subcommittee</i> —HAC completed action and reports all long-range planning bills to the floor.
64–65	<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> Senate returns Appropriations Bill to the House.
81–89	<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, Mont.: Legislative Fiscal Division, September 2002), 34.

Table 3. General Fund Revenue

(By Major Components: 2005, 2007, 2009 and 2011 Biennia)

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

Information provided by the Legislative Fiscal Division (2011.)

dium family income increased by only one percent. During this period the number of students receiving financial aid increased by 370 percent (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 that is likely to continue), the university system has increasingly relied upon 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 per student (Hamilton, 2007).

Table 5 shows the reconciliation between two major budget bills that were needed to accommodate the economic stimulus money and other special, one-time appropriations. This money raised the authorized amount of the total all funds biennium budget to slightly over \$8 billion.

The final budget was only 2.3 percent larger than the 2009 biennium budget. The legislature and the governor ultimately were able to balance the budget with what might be thought of as a current services budget. That is, while there were many cuts general funding stayed comparable to the last biennium. There was little, if any, fat in the budget. Montana put its finances in order by eliminating raises over the next two years for most employees, maintaining roughly the same level of services, and was able to adequately fund health care for state employees.

The state's pension systems remain underfunded and the state's contribution to private pension plans is among the lowest in the nation. State pensions for faculty have slowly been phased out and all faculty hired during the past 20 years at the state's colleges and universities have been on private pension systems, like TIAA-CREF. All other state employees and school teachers remain on public pensions. Even during the "boom years" of the 1990s Montana was plagued with budget-

**Table 4. 2009 and 2011 Biennium All Funds Budgets Compared
(in millions of dollars)**

Agency	2009 Biennium (Adjusted)	2011 Biennium	Difference	% Change
Legislative Branch	24,958,869	28,219,959	3,261,090	13.1
Consumer Council	2,798,194	2,771,813	(26,381)	-0.9
Judicial Branch	71,644,981	74,812,921	74,812,921	4.4
Governor's Office	11,771,760	12,345,688	573,928	4.9
Secretary of State's Office	0	0		
Commissioner of Political Practices	814,260	885,048	70,788	8.7
State Auditor's Office	32,852,900	36,882,350	4,029,450	12.3
Office of Public Instruction	1,621,223,547	1,604,711,807	(16,511,740)	-1.0
Crime Control Division	39,433,920	17,645,656	(21,788,264)	-55.3
Department of Justice	134,922,634	152,016,907	17,094,273	12.7
Public Service Regulation	6,556,119	7,213,580	657,461	10.0
Board of Public Education	785,931	821,721	35,790	4.6
Commissioner of Higher Education	516,229,253	446,304,032	(69,925,221)	-13.5
School For The Deaf & Blind	12,151,672	12,722,399	570,727	4.7
Montana Arts Council	2,546,990	2,554,969	7,979	0.3
Montana State Library	9,496,339	9,388,866	(107,473)	-1.1
Montana Historical Society	8,764,222	9,033,765	269,543	3.1
Department of Fish, Wildlife & Parks	133,897,591	140,927,938	7,030,347	5.3
Department of Environmental Quality	99,033,310	114,722,809	15,635,350	15.8
Department of Transportation	1,072,890,974	1,126,846,609	53,955,635	5.0
Department of Livestock	19,597,825	21,420,195	1,822,370	9.3
Dept of Natural Res. & Conservation	97,033,310	102,373,871	5,339,871	5.5
Department of Revenue	102,578,180	106,905,210	4,327,030	4.2
Department of Administration	41,625,162	43,344,269	1,719,107	4.1
Mt Consensus Council	338,090	0	(338,090)	-100.00
Office of The Public Defender	38,922,076	39,926,638	1,004,562	2.6
Department of Agriculture	27,212,415	33,431,959	6,219,544	22.9
Department of Corrections	346,891,865	350,113,811	3,221,946	0.5
Department of Commerce	47,555,563	63,907,750	16,352,187	34.4
Department of Labor & Industry	143,758,568	143,951,054	192,486	0.1
Department of Military Affairs	55,301,822	81,208,266	25,906,444	46.8
Dept of Public Health & Human Services	2,947,240,483	3,063,202,180	115,961,697	3.9
Total	\$7,670,882,974	\$7,850,613,350	\$179,730,376	2.3

Note: HB 2 is the main spending bill for the State of Montana and after modifications essentially becomes the state budget. HB 2 normally excludes some functions, such as the Departments of Transportation (on most years) and the Secretary of State's Office, which are funded through special, earmarked taxes, federal funds, fees, or proprietary funds. If these agencies are included in total expenditures, the total spending is significantly higher than the figures shown in the table. The "all funds adjusted" budget for the 2009 biennium was \$7.6 billion and the 2011 biennium was \$8 billion.

Table 5. Adjustments made to the Budget

Area	HB 2	HB 645	Total	Percent of Total	Increase of 2009 Biennium
General Fund					
K-12 Education	\$1,284,266,378	\$2,467,528	\$1,286,733,906	42.4%	(\$22,076,960)
Higher Education	298,901,605	1,277,775	300,179,380	9.9%	(56,269,068)
Corrections	340,370,000	0	340,370,000	11.2%	1,681,622
Human Services	679,360,568	10,614,576	686,975,144	22.6%	(57,863,999)
Other Agencies	421,359,249	0	421,359,249	13.9%	19,739,644
Total	\$3,021,257,800	\$14,359,879	\$3,035,617,679		(\$114,788,761)
All Funds					
K-12 Education	\$1,604,711,807	\$42,860,704	\$1,647,572,511	20.4%	\$26,348,964
Higher Education	446,304,032	63,296,143	509,600,175	6.3%	(6,629,078)
Corrections	350,113,811	0	350,113,811	4.3%	3,221,946
Human Services	3,063,202,180	121,474,915	3,184,677,095	39.5%	237,436,612
Other Agencies	2,386,613,350	0	2,386,281,520	29.6%	146,983,694
Total	\$7,850,613,350	\$227,631,762	\$8,078,245,112		\$407,362,138

Source: Legislative Fiscal Division. *Budget Comparisons: A Report Prepared for the 61st Legislature, Overview of Expenditures*. (Helena, MT: Legislative Fiscal Division, July 2009), Figure 6, p. 5. HB 645 contained stimulus funds and one time, special appropriations.

ary problems. Although the state did well with investments, budget surpluses were small or nonexistent. For the 2005 and 2007 sessions, higher oil prices brought tax windfalls that provided additional and much needed revenue for the state (LFD, 2007). This was not the case in 2009 as the price of oil dropped significantly. Fortunately, the national economic collapse had less of an impact on Montana’s overall economy compared to most states.

Table 6 shows where the state spends the revenue by major functional area. The largest is public health and human services, which consumes nearly 40 percent of the states resources. Secondary public education is the second largest requiring almost 21 percent of the budget. Higher education uses only 5.6 percent of outlays and corrections, which has been a growing problem for the state, uses only 4.4 percent of the budget. All other areas of state government combined account for 30 percent of total outlays.

Table 6. 2009 and 2011 Biennium Budgets Compared by Major Functional Areas (in millions of dollars)

Functional Area	2009 Biennium Budget	% of Budget	2011 Biennium Budget	% of Budget
K-12 Education	\$1,637,121,549	20.6%	\$1,604,800	20.0%
Higher Education	528,418,158	6.6%	447,800,000	5.6%
Corrections	355,222,973	4.5%	350,400,000	4.4%
Public Health & Human Services	3,112,341,348	39.1%	3,189,900	39.8%
All Other	2,318,996,023	29.2%	2,430,900	30.2%
Total Funds	\$7,952,100,051		\$8,023,800,000	

Source: Legislative Fiscal Division. *Budget Comparisons: A Report Prepared for the 61st Legislature, Overview of Expenditures*. (Helena, MT: Legislative Fiscal Division, July 2009). The figures for the 2009 biennium have not been adjusted and are slightly higher than what is shown in Table 4. The figures shown in Table 6 include special, one-time appropriations. These figures are higher than what is shown in Table 4.

What Did the Legislature Do?

There were 1,316 bills introduced in the 2009 legislative session and 489 of the bills actually passed. Like most legislative sessions, the majority of bills never get out of committee. One of the most significant issues was consideration of abolishing capital punishment in the state. The bill passed the Senate but failed to make it out of committee in the House (Dennison, 2009c). The legislature dealt with many controversial bills ranging from guns to green energy but attention was very focused on balancing the budget, which *Governing Magazine* predicted would be the number one issue that state legislatures would have to contend with in 2009 (Goodman, 2009).

Conclusion: Winners and Losers in the 2011 Biennium Budget

Like all budgetary processes in the states, there were winners and losers after the legislature adjourned. The prominent policy issues that plague the state were largely unaddressed or inadequately addressed. The same special interest groups that typically win in the legislative process won again—businesses, utilities, ag-

riculture, and to some extent, school teachers unions. Businesses, unions, trade associations, government agencies and advocacy groups spent 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 better tax system that is fair and provides the revenue to run state government over the long term. Those who went to Helena with highly concentrated interests in getting legislation passed or defeated won again. This is true of most legislatures around the nation, especially in states with strong special interest groups.

Outlook for the Future: Revenue Uncertainties and State Spending

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 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 in 2010 remain grim and the legislature and some state court decisions have reduced the available taxable income and assets. 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 (Grannis, 2008). Despite rising unemployment nationally and in Montana, the state's unemployment rate remains low compared to 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. Historically, the state has struggled to fund a "bare bones" state government and state services. 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 received token, short-term attention (LFD, 2009; LFD, 2007).

Like many sessions in the past, the 2009 legislative session illustrated the dilemmas of relying on a part-time, amateur legislature with a short session that me-

ets 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 billion budget (the largest in the state's history). The legislature 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 and declining revenues, legislators in the 2009 legislative session probably did as well as could be expected. They balanced the budget and left state finances in better condition than most states, but they accomplished this by cutting services and using one-time, federal stimulus money.

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