

## **Montana's 2015 Biennium Budget Update**

Jeffrey Greene  
*University of Montana*

Orry Hatcher  
*University of Montana*

### **Introduction**

Newly elected Democratic Governor Steve Bullock presented his budget, which called for investing in Main Street, investing more in Montana's education system, creating health care solutions that improved access for Montanans, and bringing high paying jobs to the state. The governor's budget included increases in spending and \$110 million in tax cuts. When the legislature convened in January 2013, there was a projected surplus of about \$450 million. Montana's economy, while still slowly recovering, was generating tax revenue for the state. Growth in western Montana had been 1.4 percent, while growth in the central part of the state was growing at a rate of more than four percent annually. This allowed the Republican controlled legislature to have adequate funding, but typical of the two parties, disagreement would emerge over how to spend or save the money.

The Republicans intended to balance the budget while making significant cuts in many areas. The Montana Legislature ended its constitutionally mandated 90 day biannual session on April 27 with a nearly \$11 billion, two-year, all funds budget, which is about an 11 percent increase in spending. The 2013 session took 87 days and ended with roughly a \$150 million surplus. Aside from constructing a balanced budget the legislature attempted to resolve a number of long standing policy issues ranging from public pensions to bison management. In the end, Governor Bullock vetoed 71 bills, nearly matching former Governor Schweitzer's 78 bills after the 2011 legislative session.

### **Demographic Overview**

Montana is a geographically large, rural state with a small population of about one million. The population density is about 6.8 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. The state added enough people in the past decade for a growth rate of just below 10 percent, lowest among the 13 western states. The western part of the state (the

mountainous area) experienced population and economic growth while the eastern plains have remained relatively unchanged.

The oil boom in North Dakota is having an impact on the Montana-North Dakota border by creating infrastructure needs. 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 lives in rural areas. Montana's population growth has brought people that are older, wealthier, and more conservative than those who have left. 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, 2006).

Montana is a relatively poor state. Per capita income is \$35,317, which ranked the state at thirty-eighth in 2010. 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 5.4 percent in May of 2013. 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 2012 to 14 percent. More than sixteen percent 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 percent of the population over 25 years of age has a bachelor's degree. Montana's gross state product was \$36 billion in 2012 (ranked 49 in the nation). The state receives roughly twice the amount of money in federal funds than it sends to Washington in taxes.

## **Political Context**

Montana is a very partisan state with very competitive political parties, but it ranks among the top states with the most influential interest groups (Bowman and Kearney, 2013). This is attributable to its mixed political culture. Three distinct political cultures blend together to form a unique culture. The northern "highline" that borders Canada is moralistic and regulatory. This region was settled by northern Europeans who were and remain, religious and conservative and tend to vote Republican. This 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 Democratic. The central and southern areas of the state were dominated by mining, unions, and ranching, and the political culture is a blend of the 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.

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 the state's resources like wind to generate electricity, protecting the environment, and diversifying Montana's economy by attracting cleaner, high-tech

**Table 1. Population Figures**

<b>Population Race</b>	<b>Persons</b>	<b>Percent</b>
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 U.S. Census estimate)	<b>1,005,141</b>	

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 1,005,141 (2012). The population increased by 9.8 percent between 2000 and 2010; the lowest increase among western states.

Source: U.S. Census Bureau

industries. The two different visions for the state lead 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 throughout most of its history. Voters tended 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 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.

In 2012 Montanans elected another Democratic governor by a narrow margin, Steve Bullock (49 to 47 percent). This illustrates how competitive political parties are in Montana (Johnson, 2012). Democrats took every major state office except secretary of state in 2004, 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 held roughly 25 percent 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. Republicans maintained control of both chambers in the 2012 general election with the House at 61 to 39 and the Senate 29 to 21.

Redistricting is controversial in most states and Montana is no exception. Unlike most states, Montana redistricting is done by an independent commission. The legislature appoints two Republicans and two Democrats who cannot be members of the legislature at the time. These four members 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 the political affiliation of the court is clear to anyone involved with the process. The most recent 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, redistricting will favor Democrats who pushed to create swing districts as their basic model.

Democrats did not do well under the previous districts and argued that Montana is a purple state, thus their efforts were 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 do. It is expected that the new districts will favor Democrats despite the fact that Republicans control the state legislature (Dennison, 2011; Goodman, 2011).

Montana's term limits were enacted in 1992 and became effective during the November 2000 General Election. 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. Although term limits fit the general political culture of the state, they have proven to be problematic with Montana's part-time, citizen legislature. For many years the legislature has failed to address the state's major problems and at times has exacerbated them. In 2001 the legislature deregulated electric power and natural gas, and 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 barely one million residents. 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 compared to most states. Coupled with intense partisan bickering, the fragmented, part-time, citizen 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 for congressional races, but the state tends to vote Republican in presidential elections. George Bush easily won Montana in 2000 and 2004, and John McCain easily won the state in 2008 and Mitt Romney easily won in 2012. As of 2013, Montana's three elected officials to Congress remain a partisan mix. Ryan Zinke, Montana's only member of the U.S. House of Representatives is a Republican, and Republicans have held Montana's lone congressional seat since 1996. Montana lost one of its House seats after the 1990 census and following the 2010 census, the state continues to have only one House seat. Montana's U.S. House seat is the largest House district in the nation. 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 remain

split with Jon Tester (Democrat) and Steve Daines (Republican) holding the seats (Johnson, 2013a).

## **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 11 million nonresident visitors coming to Montana each year. Nonresident tourists spend more than \$3.6 billion annually, and tourism supports about 13,000 jobs (Nickerson, 2014).

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. The economy is hampered by a volatile farm sector, decreased timber available from national forest lands, aging industrial plants and infrastructure, and labor shortages. Dependent on commodities, Montana's economy rises and falls with the price of commodities. Montana continues to rank at or near the bottom in just about any economic statistic. 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. The past two Democratic governors have pledged to bring high paying jobs to the state but failed to attract high-tech industries partly due to Montana's remote location. Montana also 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, and, since 1917, the state has raised corporate income taxes from one percent in 1917 to its current rate of 6.75 percent (Johnson, 2009). Corporate income taxes accounted for about \$153 million in revenue in 2009, but decreased from nine percent to seven percent of total revenue between the 2009 to 2013 biennia. Although "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, which have had limited success in attracting high-tech industry, and Montana's commitment to higher education has dropped dramatically since the early 1990s. In 2011 the state's portion dropped below 20 percent and the legislature passed a two-year tuition freeze. In 2013, the legislature appropriated enough funding to have another two-year tuition freeze. Except for its one law school, Montana does not have any of the traditional professional schools such as medicine, dentistry, or even a veterinary school, which seems odd considering it 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 not an issue for the 2013 legislative session. Montana gets 51 percent of its revenues from individual income taxes, 30 percent from various consumption taxes, fees, and other miscellaneous taxes, 12 percent from state property taxes, and roughly seven 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 property taxes.

**Table 2. Bills versus Assets (in millions of dollars)**

---

<b>Assets</b>	\$13.55
Less: Capital Assets	\$5.23
Restricted Assets	\$2.99
Assets Available to Pay Bills	\$5.32
Less: Bills	\$6.04
Money Needed to Pay Bills	\$0.72
Taxpayer's Burden	\$2,200.00
<b>Bills Montana has Accumulated</b>	
State Bonds	\$1.36
Other Liabilities	\$2.92
Less: Debt Related to Capital Assets	\$0.53
Unfunded Pension Benefits	\$1.32
Unfunded Retirees' Health Care Benefits	\$0.97
Bills	\$6.04

---

Source: State Data Lab, accessed July 3, 2013. <[http://www.statedatalab.org/state\\_data\\_and\\_comparisons/SnapshotByTheNumbers?st=MT](http://www.statedatalab.org/state_data_and_comparisons/SnapshotByTheNumbers?st=MT)>  
Amounts in millions of dollars.

Past attempts to produce an acceptable general sales tax bill failed. The last general sales tax was placed on the ballot in 1993 and lost 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. Montana has a state lottery, but like most states it produces only a small portion of state revenues. The lack of an adequate revenue system caused the legislature to consider raising taxes on those making \$250,000 per year. Personal income tax brackets were lowered in 2003 and critics argued 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, 2009). The governor vetoed efforts to simplify the tax code in the 2013 legislature.

One study ranked the financial health of all 50 states based on a yearlong analysis by *Governing Magazine*. Montana ranked near the bottom of the list, 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; Governing, 2008). Despite low rankings Montana was one of the states that emerged in 2013 in good fiscal condition, but this was accomplished by maintaining a minimal state government. Montana's general fiscal condition is not particularly good according to the State Data Lab, which found that the state's bills exceeded its assets.

## **The Budget Process**

The budget process in Montana is similar to most states. After collecting information from state agencies, the process begins with the governor's recommendations in 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 pertinent factors that affect the budget. The resulting document provided to the legislature is 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 when they are needed.

The main budget committees 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 initial recommendations—a process that typically takes about six weeks. The main expenditure bill, HB 2, 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 statutes that 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 67<sup>th</sup> day of the session when action is taken on the bills. The governor has full 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 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, and legislators are paid among the lowest salaries in the nation. Their compensation is \$82.64 per day with \$98.75 per diem for expenses. This amounts to about \$10 per hour while the legislature is in session. The governor and the state permanent agencies are powerful in 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 3 provides an illustration of the traditional appropriation process.

## **The 2015 Biennium Budget**

The Montana Constitution requires a balanced budget, and Montana's budget is relatively small compared to most states. On the revenue side, the state gets most of its revenues from individual income taxes. Table 4 provides a comparison of the 2007 through the 2015 bienniums.

How does the current budget compare to the last budget on the expenditure side? Table 5 compares the 2013 and 2015 bienniums in major categories. The data is straightforward; expenditures increased for some agencies and decreased significantly for other agencies. Expenditures are not significantly different from the previous biennium. Table 5 shows the breakdown of the budget by major departments. In the case of K-12 education, about a decade ago 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 has funded public education during the last four sessions at a higher level than in the past. This session the legislature appropriated nearly \$1.8 billion to run the state's publics.

**Table 3. Traditional Appropriations Schedule**

<b>Legislative Days</b>	<b>Action taken by the legislature during specified time periods shown as legislative days. By law, the session lasts 90 days.</b>
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> <i>Senate returns Appropriations Bill to the House.</i>
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 3 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.

Currently, the state subsidizes less than 20 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; by 2006 the amount had dropped to \$3,142 in constant dollars. Between 1992 and 2002 tuition at the state’s public, four-year colleges increased by 50 percent while medium family income increased by only one percent. During this

**Table 4. Revenue Sources (2007 through 2015 Bienniums)**

	<b>2007</b>	<b>2009</b>	<b>2011</b>	<b>2013</b>	<b>2015</b>
Individual Income Tax	48.4%	44.9%	47.0%	44.9%	51.0%
Corporation Income Tax	5.5%	8.9%	6.6%	7.0%	7.4%
Vehicle Tax	5.6%	6.5%	6.0%	6.0%	4.9%
Investment Earnings	3.2%	2.8%	2.2%	2.2%	1.3%
Natural Resource Taxes	5.3%	6.5%	4.9%	6.8%	5.9%
Property Tax & Non Levy	12.3%	11.0%	12.8%	13.4%	12.0%
Insurance Tax	4.4%	3.4%	3.3%	3.3%	2.5%
All Other Revenue	15.3%	15.9%	17.2%	16.4%	15.0%

Information provided by the Legislative Fiscal Division

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 relied on increased student tuition and fees over the years. The 2013 legislature provided some relief by giving higher education enough funding to impose a two-year tuition freeze. 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 6 shows where the state spends the revenue by major functional area. The largest functional area is human services, which consumes 42 percent of the state's resources. Secondary public education is the second largest specific area requiring 19.4 percent of the budget. Higher education uses only six percent of outlays, and transportation consumes 14.4 percent. All other areas of state government combined account for about 18 percent of outlays.

### **What did the Legislature Do?**

There were more than 1,100 bills introduced in the 2013 legislative session, and about one-third of the bills were signed into law. In most legislative sessions, the majority of bills never get out of committee. Below are some of the policy areas that the legislature addressed in 2013 (Dennison and Johnson, 2013).

**Table 5. 2013 and 2015 Biennium All Funds Budgets Compared (in millions of dollars)**

Agency	2013 Biennium Budget	2015 Biennium Budget	Difference	Percent Change
Legislative Branch	27,034,071	28,477,643	1,443,572	5.34%
Consumer Council	2,487,536	3,282,640	795,104	31.96%
Judicial Branch	75,311,845	79,897,402	4,585,557	6.09%
Governor's Office	11,419,595	12,106,997	687,402	6.02%
Secretary of State's Office	0	256,000	256,000	100.0%
Comm. of Political Practices	1,046,633	1,144,533	97,900	9.35%
State Auditor's Office	36,250,337	38,546,371	2,296,034	6.33%
Office of Public Instruction	1,604,394,614	1,799,473,095	195,078,481	12.16%
Crime Control Division	23,389,987	17,091,171	(6,298,816)	-26.93%
Department of Justice	158,294,001	172,734,229	14,440,228	9.12%
Public Service Regulation	7,070,483	7,397,500	327,017	4.63%
Board of Public Education	806,204	738,245	(67,959)	-8.43%
Commissioner Of Higher Education	515,802,456	559,923,247	44,120,791	8.55%
School For The Deaf & Blind	12,597,671	13,334,565	736,894	5.85%
Montana Arts Council	2,911,623	2,870,691	(40,932)	-1.41%
Montana State Library	8,894,574	12,193,184	3,298,610	37.09%
Montana Historical Society	9,751,995	10,587,422	835,427	8.57%
Department of Fish, Wildlife &	143,027,246	151,321,615	8,294,369	5.80%
Department of Environmental	103,698,931	114,023,475	10,324,544	9.96%
Department of Transportation	1,368,125,476	1,340,981,504	(27,143,972)	-1.98%
Department of Livestock	20,378,308	21,080,130	701,822	3.44%
Dept of Natural Resources & Con-	102,942,159	117,631,715	14,689,556	14.27%
Department of Revenue	103,339,492	108,007,139	4,667,647	4.52%
Department of Administration	40,136,278	36,210,693	(3,925,585)	-9.78%
Office Of The Public Defender	44,542,052	52,946,198	8,404,146	18.87%
Department Of Agriculture	29,190,190	34,537,636	5,347,446	18.32%
Department Of Corrections	351,079,095	372,084,768	21,005,673	5.98%
Department Of Commerce	45,078,360	61,531,143	16,452,783	36.50%
Department Of Labor & Industry	152,079,393	155,533,699	3,454,306	2.27%
Department Of Military Affairs	64,788,302	86,985,411	22,197,109	34.26%
Economic Security Services Branch	957,914,260	889,242,614	(68,671,646)	-7.17%
Director's Office	9,057,949	7,550,504	(1,507,445)	-16.64%
Operations Services Branch	92,521,183	109,137,061	16,615,878	17.96%
Public Health	117,304,010	130,725,535	13,421,525	11.44%
Medicaid And Health Services Branch	2,479,832,037	2,779,370,934	299,538,897	12.08%
	<b>8,722,498,346</b>	<b>9,328,956,709</b>	<b>\$606,458,363</b>	<b>6.95%</b>

Note: HB 2 is the main spending bill for the State of Montana and after modifications becomes the state budget. The 2013 budget was adjusted to show actual expenditures. The all fund budget for the 2015 biennium was about \$11 billion due to a variety of special and one-time appropriations that are now shown in Tables 5 or 6.

**Table 6. 2013 and 2015 Biennium Budgets Compared by Major Functional Areas (in millions of dollars)**

<b>Functional Area</b>	<b>2013 Biennium Budget</b>	<b>Percent of Budget</b>	<b>2015 Biennium Budget</b>	<b>Percent of Budget</b>
K-12 Education	\$1,826.9	20.5%	\$1,813.5	19.4%
Higher Education	510.4	5.8%	559.6	6.0%
Human Services	3,594.4	40.1%	3,916.0	42.0%
Transportation	1,399.3	15.6%	1,341.0	14.4%
All Other	1,620.9	18.0%	1,698.5	18.2%
<b>Total</b>	<b>\$8,951.9</b>		<b>\$9,328.6</b>	

Source: Legislative Fiscal Division. *Fiscal Report: 64<sup>th</sup> Legislature*. (Helena, MT: Legislative Fiscal Division, June 2013).

## **Abortion**

The legislature passed a bill requiring anyone under age 18 to get parental permission for an abortion. It became law without the governor's signature. Once the bill became law, it removed the general election ballot legislative referendum on the issue. The legislature failed to approve a proposed constitutional amendment stating there is no right to abortion in the state and forbidding public funding for abortion. The amendment needed 100 votes from the legislature to get on the 2014 ballot and got only 83 votes.

## **Bison Policy**

Bison are not a normal policy area for most states, but they are an issue in Montana. Reacting to fears and concerns over relocation of wild buffalo to the Eastern Montana plains, ranchers and other landowners got behind a series of bills this session to rewrite bison policy. Although most of the bills did not get out of committee, some made it to the governor's desk. Governor Bullock signed HB 328, which permits state officials to identify "the actual physical location" of buffalo to hunters. He vetoed HB 396, which would have given county commissioners veto power over bison restoration plans within their counties, including tribal lands and federal public lands. The bill would have allowed bison to be sold by the state Department of Livestock to pay for capturing, testing, quarantining and vaccinating wild bison.

The governor also vetoed SB 256 and SB 305. SB 256 would have made Montana's Fish, Wildlife, and Parks Department liable for any damage to private property caused by wild bison. SB 305 proposed changing the definition of "wild bison" or "wild buffalo" to mean "a bison that has never been reduced to captivity and has never been owned by a person."

## **Buildings**

Governor Bullock proposed that the legislature authorize nearly \$100 million in bonds to build and renovate a number of university system and other buildings, which would have created 2,400 construction jobs. The legislature was unable to get the votes to authorize bonding but was able to scale down the projects and pay for them with cash. The projects include new buildings, additions to existing buildings, and renovations at Missoula College, Montana State University Billings, Montana Tech, and Great Falls College.

## **Education Policy**

A battle over dollars for public schools and colleges dominated the education debate, though lawmakers also debated sex education in public schools for the second session in a row. Governor Bullock vetoed a bill that would have required parental permission before students could attend sex-education classes in public schools.

## **Gun Rights**

The governor vetoed several firearms-related bills passed. One bill would have allowed all eligible firearm owners to carry a concealed weapon, and another would have prohibited state enforcement of any federal ban on semi-automatic firearms or large magazines. The governor also vetoed a bill that would have allowed students on college campuses to have guns in their dormitory rooms with their roommate's permission. The House rejected a bill that would have limited local government restrictions on where gun owners can carry concealed weapons. The governor vetoed a bill that would have allowed noise suppression (silencers) on guns while hunting. Though most gun legislation failed to become law, the legislature passed and the governor signed a bill that makes information on applications for a concealed-weapon permit confidential.

## **Higher Education**

The Legislature provided the university system with enough money to freeze tuition for students over the next two years. The Montana University System (MUS) 2015 biennium total funds budget is \$44.1 million higher than the 2013 biennium. Faculty salaries remain an issue as Montana is ranked 50<sup>th</sup> on overall compensation for faculty (salaries, benefits, and retirement). Faculty at the state's two main campuses earn roughly 68 percent of the national average. The state has seen declining student enrollments, particularly at the University of Montana where enrollment dropped to 2007 levels. Despite adequate funding from the legislature, many state colleges and universities have had to make deep cuts and offer fewer classes due to declining enrollments. For years tuition has increased to compensate for budget shortfalls. This was not possible for the 2013-14 academic year due to the tuition freeze.

## **K-12 Funding**

The legislature passed a series of bills that changed Montana's public school-funding system. The bills hold down local school property taxes while increasing state money for schools by \$75 million for the next two years. The school-funding overhaul increased payments to individual school districts and froze local school property taxes for the next two years.

## **Medicaid Expansion under the Affordable Care Act**

In the 2012 general election, voters approved a legislative referendum to prohibit state or federal government mandating the purchase of health insurance or imposing penalties for decisions related to purchasing health insurance. Despite voters signaling their distaste for the provisions of the ACA, Governor Steve Bullock pushed to expand Medicaid. Supporters of Medicaid expansion argued that expanding the state-federal program would have offered much-needed health insurance to 70,000 low-income Montanans and created thousands of new jobs. The plan was rejected by the Republican controlled legislature. Montana is officially one of the states that will not participate in Obamacare.

## **Attracting Higher Paying Jobs to Montana**

One of Governor Bullock's executive budget proposals was to attract higher paying jobs to the state. Montana has not done well in the area of economic development and the legislature did little to aid the governor's proposal.

## **Legislative Referendums**

The legislature passed two referendums for the 2014 ballot to stop "same-day voter registration" and alter the primary system by having a "jungle primary." Currently, voters must register 30 days prior to the election, but late registration is allowed up to the day of the election before polls close. A voter registering late must have been a resident of Montana for at least 30 days. The referendum still allows for late registration up to the Friday before an election. The idea of a "jungle primary" is new to Montana. Currently, parties have separate primaries. The referendum would change the law to what is generally termed a jungle primary where all names appear on a ballot and voters may select the candidates they want regardless of party. Those who advance are the candidates that receive the most votes, regardless of party affiliation.

## **State Pension Systems**

Unlike many states that have one state pension system, Montana maintains nine separate pension systems with a combined shortfall of more than \$4 billion. The legislature approved Governor Bullock's plan to fix the two largest pensions, Public Employees' Retirement System and Teachers' Retirement System. The bills will increase the contribution rates for both employers and employees and pump millions of dollars of natural resource revenues into the pension funds. The yearly cost-of-living pension raise will be reduced for both retirees and current workers. The pension systems have been underfunded for decades and past legislatures and governors have appropriated money to keep them afloat. The university system has its own system, which is basically a private 401k system similar to what is common in the private sector; the state's

contribution has been minimal in the 20+ years and the system has been operating, partly due to the state's inability to fund the other pensions (Fletcher, 2013; Walsh, 2011).

### **Oil-and-gas Impact Funds**

The legislature set up a new account to fund water, sewer and other infrastructure projects in Eastern Montana towns affected by the oil-and-gas boom along the North Dakota-Montana border. Most of the drilling is occurring in North Dakota but towns like Sidney, Glendive and Culbertson have seen a large influx of workers that has created a need for housing, road repairs and other services. Although the governor vetoed some of the related bills, he said the bills that he chose to sign would provide up to \$40 million for oil-and-gas impacted towns (Johnson, 2013c).

### **Taxes**

Despite the Republican-controlled legislatures intention to pass millions of dollars in tax cuts, only a few bills survived and most were vetoed by the governor. There were few tax increases. Bullock signed a bill to lower the property tax on business equipment, but vetoed a bill to exempt taxes on air and water pollution control equipment installed after Dec. 31, 2012. Another bill sought to simplify Montana's individual income taxes, lower corporate taxes and give favorable treatment to capital gains. It would have reduced the current seven tax rates to two (four percent and six percent) and paid for them by terminating a number of current credits, exemptions, and deductions. It will reduce income taxes by \$2.7 million over two years. The governor vetoed a bill that would provide a one-time, five percent income tax cut, totaling \$47 million. A tax rebate that was a key component of Bullock's executive budget failed in the legislature. The governor was disappointed the legislature failed to pass a bill that would have given a one-time \$400 rebate to every Montana homeowner.

The governor was criticized for the 71 vetoes he signed but noted that the legislature left him with 200 bills when they adjourned, leaving no room for negotiation or compromise. The bills failed to leave the \$300 million surplus the governor wanted at the end of the 2015 biennium (Johnson, 2013b; Johnson, 2013c).

## **Conclusion**

Updated forecasts about Montana's economy over the next two years remain grim (Barkley, 2011a; 2011b) although some economists believe Montana will not be as negatively impacted by a nationwide recession as many other states. Despite high unemployment nationally, the state's unemployment rate remains lower than the national average. The areas that most impact the state are construction, agriculture, mining, and timber. Construction has been impacted since the housing bubble collapsed, but other core industries continue to perform reasonably well. Funding state government in the future will be problematic due to the state's volatile economy.

Despite its best efforts, Montana has been unable to attract high-tech, higher paying 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 and economic development received token, short-term attention (LFD, 2013; LFD, 2007). The legislature did attempt to fix part of the state's pension dilemma and appropriated money for a two-year tuition freeze for state colleges and universities.

Like many sessions in the past, the 2013 legislative session illustrated the dilemmas of relying on a part-time, amateur 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. Partly due to term limits and competitive political parties, recent legislatures have been highly contentious. The legislature passed an \$11 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. Like many legislatures in the past, 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 national economy, the legislature and the governor did about as well as could be expected. They balanced the budget and left state finances in better condition than most states. A year after the budget was implemented, the state remains in fairly good fiscal condition.

## References

- Barkley, Patrick M. 2011a. "Paying for the Recession: Rebalancing Economic Growth." *Montana Business Quarterly* 49, no. 1 (Spring): 2–6.
- . 2011b. "National and State Outlook." *Montana Business Quarterly* 49, no. 1 (Spring): 6–10.
- Bowman, Ann, and Richard Kearney. 2013. *State and Local Government*, 9th edition. Belmont, CA: Cengage, Chapter 5.
- Cauchon, Dennis. 2003. "How the 50 States Rank in Taxing and Spending Wisely." *USA TODAY*, June 23. <<http://www.usatoday.com/news/2003-06-23-state-spending-chart.htm>> Accessed June 23, 2003.
- Dennison, Mike, and Charles Johnson. 2013. "2013 Legislature Ends with Balanced Budget and No Major Tax Increases." *Missoulian*, April 27. <[http://missoulian.com/news/state-and-regional/montana-legislature/legislature-ends-with-balanced-budget-and-no-major-tax-increases/article\\_da1a1f4e-afa0-11e2-a801-0019bb2963f4.html](http://missoulian.com/news/state-and-regional/montana-legislature/legislature-ends-with-balanced-budget-and-no-major-tax-increases/article_da1a1f4e-afa0-11e2-a801-0019bb2963f4.html)> Accessed July 16, 2013.
- Dennison, Mike. 2011. "Legislative Districts to Be Redrawn." *The Montana Standard online*, July 13. <<http://mtstandard.com>> Accessed July 13, 2013.
- Fletcher, Michael. 2013. "State Pensions Face Larger-Than-Usual Funding Gap, Moody's Report Says." *Washington Post*, June 27. <[http://articles.washingtonpost.com/2013-06-27/business/40233056\\_1\\_pension-liabilities-pension-promises-pension-fund](http://articles.washingtonpost.com/2013-06-27/business/40233056_1_pension-liabilities-pension-promises-pension-fund)> Accessed July 15, 2013.
- Governing: The Magazine for States and Localities*. 2008. "Measuring Performance." Washington: CQ Press, March, 67.
- Greene, Jeffrey, and James Lopach. 2008. "Montana." Included in *Political Encyclopedia of U.S. States and Regions*, ed. Donald P. Haider-Markel. Washington: CQ Press.
- Goodman, Josh. 2011. "States Hope to Win on New District Maps in Federal Court." *Stateline.org*, July 19. <<http://www.stateline.org/live/details/story?contentId=588329>> Accessed July 19, 2011.
- Hamilton, Lynn. 2007. "The Montana University System." A presentation to the Joint Appropriations Subcommittee of the 60th Montana State Legislature. Helena, MT: Board of Regents, Montana University System.
- Jamison, Michael. 2006. "Brainy Balance: Education Drain, Gain Offset Each Other – But Newcomers Are Older." *Missoulian*, May 21, D-1.
- Johnson, Charles. 2013a. "Schweitzer's Decision Launches Scramble for U.S. Senate Seat." *The Montana Standard*, July 14. <[http://mtstandard.com/schweitzer-s-decision-launches-scramble-for-u-s-senate-seat/article\\_b28b1e92-ec31-11e2-9408-0019bb2963f4.html](http://mtstandard.com/schweitzer-s-decision-launches-scramble-for-u-s-senate-seat/article_b28b1e92-ec31-11e2-9408-0019bb2963f4.html)> Accessed July 14, 2013.
- . 2013b. "GOP Legislators Criticize Montana Governor's Vetoes." *Missoulian*, May 7. <[http://missoulian.com/news/state-and-regional/gop-legislators-criticize-montana-governor-s-vetoes/article\\_532b6736-b789-11e2-b82b-001a4bcf887a.html](http://missoulian.com/news/state-and-regional/gop-legislators-criticize-montana-governor-s-vetoes/article_532b6736-b789-11e2-b82b-001a4bcf887a.html)> Accessed July 15, 2013.
- . 2013c. "Montana Legislators Sustain All of Bullock's Vetoes." *Billings Gazette*, June 10. <Montana legislators sustain all of Bullock's vetoes> Accessed July 16, 2013.
- . 2012. "Networks Declare Bullock Winner in Tight Race for Governor." *Billings Gazette*, November 6. <[http://billingsgazette.com/news/state-and-regional/montana/networks-declare-bullock-winner-in-tight-race-for-governor/article\\_6e665ae8-252f-11e2-b495-001a4bcf887a.html](http://billingsgazette.com/news/state-and-regional/montana/networks-declare-bullock-winner-in-tight-race-for-governor/article_6e665ae8-252f-11e2-b495-001a4bcf887a.html)> Accessed July 14, 2013.

- . 2009. “Legislator Suggest Tax Hike on Wealthy.” *Missoulian*, February 12, A-1.
- Legislative Fiscal Division. 2013. *Fiscal Report: 2015 Biennium*. Helena, MT: Legislative Fiscal Division, June. <<http://www.leg.mt.gov/fbp.asp>> Accessed July 15, 2015.
- . 2007. *What is the State Budget Outlook? A Report Prepared for the 60th Legislature*. Helena, MT: Legislative Fiscal Division, June.
- National Center for Public Policy and Higher Education. 2003. *Losing Ground*. Report is available from the NCPPHE at 152 North Third Street, Suite 705, San Jose, California 95112 or online at <[http://www.highereducation.org/reports/losing\\_ground/ar1.shtml](http://www.highereducation.org/reports/losing_ground/ar1.shtml)>
- Nickerson, Norma. 2013. “Nonresident Visitors to Montana Set Visitation, Spending Records.” The University of Montana’s Institute for Tourism and Recreation Research, Missoula, MT: University of Montana. April 14, p. 1. <<http://www.itrr.umt.edu/expendvisitation.htm>> Accessed April 14, 2013.
- Purdy, Taryn. 2002. *Understanding State Finances and the Budgeting Process: A Reference Manual for Legislators*. Helena, MT: Legislative Fiscal Division.
- Walsh, Mary Williams. 2011. “A Path Is Sought for States to Escape Their Debt Burdens.” *New York Times*, January 21, A-1.