

Montana: Budgeting and Policy in the Treasure State Update

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Abstract

Montana uses a biennium budget; there was not a legislative session in 2018. The 65th Montana Legislature ended its constitutionally mandated 90-day biennium session with a \$10.3 billion, two-year all funds budget in April 2017. The Republican-controlled legislature returned to its contentious tradition. There were several big issues, but due to budget shortfalls, and few policy issues were resolved. Infrastructure bills generally failed, although the first gas tax in decades passed to help with infrastructure needs. Montana's colleges and universities took significant cuts in their budgets and tuition increased roughly 13 percent. Except for K-12 programs, most state agencies' budgets were cut. Overall, it was a grim legislative session that produced very few results and resolved few problems. The balanced budget lasted less than two months when revenue projections turned out to be wrong and the governor had to use his authority to further cut expenses, which included layoffs and additional cuts to state agencies and services. It was a session marked by lack of funds and budget cuts across most agencies. As the fall season began, the state budget appeared to be in shambles only months after the session adjourned. A special session was called in November 2017 to address Montana's \$227 million budget shortfall, largely a result of the most expensive state fire season in Montana's history. Bills were passed to address the shortfall. Governor Steve Bullock allowed most of the bills to become law. Although some funding would later be partly restored after the special session for some agencies, most of the cuts remained.

Montana: Budgeting and Policy in the Treasure State Update

Introduction

The 65th Montana Legislature ended its biennium session with a \$10.3 billion, two-year all funds budget on April 28, 2017. The legislature adjourned on a sour note when lawmakers voted to end the session without passing an infrastructure package to pay for a growing queue of road, sewer, and building projects. There was a budget shortfall that led to significant cuts in many areas including higher education and human services. Bills were often used as bargaining chips and the session returned to its historic tendency to be contentious. Montana has a relatively small budget by most state standards and low energy prices were partly to blame for the cash shortfall. The legislature did end with a balanced budget, but one that underfunded many areas. Within a few months, the governor was required to make additional cuts to keep the budget in balance. An early fire season starting in June illustrated how poorly the budget was funded. By late July, the state had spent about \$15 million fighting fires and the state was struggling on how to pay for the underfunded firefighting budget. By September, the state was out of funds and FEMA provided its first grants. The fire season sent many tourists home early leaving much of the state covered in a fog of smoke. But by mid-September, rain and snow finally hit ending the state's worst fire season in modern times.

One of the most significant laws passed dealt with raising taxes in a state where raising taxes is not popular. The Republican-controlled legislature had to raise taxes to balance the budget while at the same time reduce spending. The state's financial condition was not left fiscally sound. The legislature passed a \$10.3 billion budget, the first increase of the state's fuel tax in 24 years, and policy bills ranging from healthcare to prison sentencing reforms. Though the infrastructure bill did not pass, the legislature did pass some bills that will pay for road, bridge, water, and wastewater projects in in the state. A total of 1,188 bills and resolutions were introduced by lawmakers in 2017. The Republican-controlled legislature left 260 bills for the governor as the legislature ended. The legislature failed at overriding the governor's numerous vetoes. By mid-September, some people advocated that a special session might be needed to fix the state budget as revenue projections were completely off target (Blevins, 2017). However, the governor continued to work with committees and review the budget agency by agency to try to balance the budget (Cates-Carney, 2017). This ultimately failed and a special session was called in November 2017.

Demographic Overview

Montana is a large, rural state with a population of slightly over one million as of 2018. The population has slowly increased over the past few decades, but the growth has not been spread evenly. The state had 799,000 residents in the 1990 Census and the population jumped to 905,000 residents in 2000. The state added enough people in the past decade for a growth rate of just below 10 percent. This is the lowest growth rate among the 13 western states. The western part of the state has experienced population and economic growth, while the eastern plains have remained relatively unchanged. According to data provided by moving companies, 54 percent of all moves are outgoing rather than incoming (State Data Lab, 2015). Furthermore, Montana's population is not very diverse. The largest two groups in Montana's population are whites and Native Americans.

**Table 1
Population Figures**

Population Race	Persons	Percent
American Indian and Alaska Native Population		6.5
Asian Population		0.8
Black Population		0.6
Hawaiian Native and Pacific Islander population		0.1
Hispanic Population		3.3
All Others		1.7
White Population		89.0
Total Population (2016 U.S. Census estimate)	1,046,000	

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 1,046,000 (2017). The population increased by 9.8 percent between 2000 and 2010; the lowest increase among western states.

Source: U.S. Census Bureau

Montana is a relatively poor state. Per capita income is \$41,809, which ranked the state at thirty-ninth in the nation in 2016. Montanans’ income is about 84 percent of the national average. The median household income is \$46,230. Montana ranks thirty-seventh nationally in per capita state expenditures. Unemployment was 3.8 percent in October 2018. About 14 percent of Montana’s population is categorized as “living in poverty.” The average Montanan is 40 years old. 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 28 percent of the population over 25 years of age has a bachelor’s degree. Montana’s gross state product was \$45 billion in 2016 (ranked 48th in the nation). The state receives roughly twice the amount of money back in federal funds than it sends to Washington in taxes.

Political Context

Montana is a partisan state with competitive political parties, but Montana ranks among the top states with the most influential interest groups (Bowman and Kearney, 2017). Interest groups tend to dominate the legislature and Montana politics. Political parties are competitive, but relatively weak since parties can provide little financial support its members. This is attributable to the mixed political culture of the state. Unlike some other states in the region like 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. Western Montana tends to vote for Democrats while Eastern Montana votes Republican (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. One of Montana’s most important political dynamics at the state level as been that for the past 14 years the governor has been a Democrat while the both houses of the legislature have been controlled by Republicans most of the time, oftentimes by wide margins. Republicans retained control of the legislature in the 2016 elections (59-41 in the House, 32-18 in the Senate) and incumbent governor, Democrat Steve Bullock, narrowly won reelection.

Montana’s legislature is large for a state with barely one million residents. The House has 100 members who represent very small districts with few people. The 50-seat Senate also represents a

relatively small number of people compared to most states. Retail politics reigns as many candidates knock on all doors in their districts, sometimes more than once. Coupled with intense partisan bickering, the fragmented, part-time legislature has inherent difficulties addressing the needs and issues of the state. Term limits, which went into effect in 1992, have caused the legislature to constantly lose those who have gained the expertise necessary to manage a smoother legislative process.

The state tends to vote Republican in presidential elections. Montana has not voted for a Democratic presidential candidate since Bill Clinton in 1992. Donald Trump won Montana in the 2016 general election by a large margin. As of 2016, Montana's three elected officials to Congress remain a partisan mix. Republican Greg Gianforte is Montana's only member of the U.S. House of Representatives. This seat required a special election when Ryan Zinke was confirmed as Secretary of the Interior in the Trump Administration. Montana's U.S. Senators are mixed with Republican Steve Daines and Democrat Jon Tester.

Economic Summary

The economy ranks as one of the smallest economies in the nation. The state's economy is dependent on agriculture, tourism, and natural resource extraction. Tourism is an important component of the state's economy with more than 11 million nonresident visitors coming to Montana each year. Nonresident tourists spend about \$4 billion annually and tourism supports about 13,000 jobs (Erickson, 2017; 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 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. Montana's economy typically rises and falls with the price of commodities. Montana continues to rank at or near the bottom in most economic indicators, with the notable exception of unemployment, which has remained low, including during the Great Recession, in part because Montana produces goods that continued to be used during the recession. Montana is a coal exporter, produces a modest amount of oil, and has three oil refineries. The decrease in oil prices slowed the state's economy. Economists often predict slow economic growth (Barkley, 2015). 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-Mart's, fast food, and hotels. Despite the professed optimism of some politicians, including governors, the long-term economic outlook remains flat and stagnant. The past two Democratic governors both pledged to bring high paying jobs to the state, but Montana has failed to attract high-tech industries partly due to its isolated location. Montana has been ranked fairly high in recent "friendliness toward business indices," but this is not reflected in the state's economic growth (Tax Foundation, 2017). 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 decreased from 9 percent to 7 percent of total revenue between the 2009 to the 2015 bienniums. The declining trend continued in the 2019 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 for either political party.

Higher education in the state remains aimed at liberal arts or agriculture. Thus, the state has had limited success in attracting high-tech industries despite efforts by both primary universities: The University of Montana and Montana State University. Moreover, Montana's commitment to higher

education has dropped dramatically since the early 1990s. In 2011, the state's portion of funding its college and universities had dropped to below 20 percent. In 2013 and 2015, the legislature appropriated enough funding to have tuition freezes. In the last legislative session, higher education funding was cut resulting in 13 percent tuition increases. Except for its one law school, Montana does not have many of the traditional professional schools such as medicine, dentistry, or even a veterinarian school. Overall, Montana's business climate is poor and economic development is difficult in a culture generally opposed to growth.

State Revenue Sources

Revenue was an issue for the 2017 legislative session, but the sources of revenue continue to be the same. Montana gets about 55 percent of its revenues from individual income taxes; 26 percent from various consumption taxes, fees, and other miscellaneous taxes; 11 percent from state property taxes; and roughly 7 percent from corporate taxes. The lack of a general sales tax creates an unbalanced tax structure, although the state does have some limited sales taxes. 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 voters by a 3 to 1 margin. Montana is one of the few states without a true revenue sharing system with its local governments. Montana has a state lottery, but, like most states with lotteries, it produces only a small portion of total state revenue. The lack of an adequate revenue system has caused the legislature to consider raising taxes on those making \$250,000 or more per year. The personal income tax brackets were lowered in 2003 and critics argued 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. Efforts to simplify the tax code in the 2013 legislature and widen the tax brackets in 2015 were vetoed by the governor. Due to the budget deficit in the last session, many proposals have been suggested to increase revenue such as increased taxes on tobacco, wine, gasoline, and increasing personal income tax (Woods, 2017). Governors have suggested a general sales tax numerous times, which has always been dismissed by the legislature.

The 2019 Biennium Budget

This section provides some details and comparisons of the Montana biennium budget. The Montana Constitution requires a balanced budget. At \$5 billion per year, Montana's budget is relatively small compared to most states. On the revenue side of the budget, the state receives most of its revenues from individual income taxes, a percentage that has been increasing relative to other sources, such as corporate taxes. Table 2 shows per capita spending for Montana and some states located nearby. Table 3 provides a comparison of the 2009 through the 2019 bienniums.

Table 2
Total Estimated spending for selected states (2016)

State	State Funds	Federal Funds	Total Spending	Population	Per capita Spending
Montana	\$4,014	\$2,370	\$6,384	1,042,520	\$6,124
Idaho	\$5,039	\$2,905	\$7,944	1,683,140	\$4,720
North Dakota	\$6,275	\$1,779	\$8,054	757,952	\$10,626

Table 3
Revenue Sources
(2009 through 2019 Bienniums)

	2009	2011	2013	2015	2017	2019
Individual Income Tax	44.9%	47.0%	44.9%	51.0%	54.7%	56.2%
Corporation Income Tax	8.9%	6.6%	7.0%	7.4%	6.6 %	6.3%
Vehicle Tax	6.5%	6.0%	6.0%	4.9%	4.5%	4.8%
Property Tax & Non-Levy	11.0%	12.8%	13.4%	12.0%	10.9%	11.9%
Insurance Tax	3.4%	3.3%	3.3%	2.5%	2.9%	3.1%
All Other Revenue	25.2%	26.2%	23.2%	22.2%	25.9%	17.7%

Note: Investment earnings and Natural Resource Taxes are included in All Other Revenue.
Information provided by the Legislative Fiscal Division

How does the current budget compare to the last budget on the expenditure side? Table 4 compares the 2015 and 2019 bienniums in major categories. The data is straightforward. Expenditures increased for some agencies and decreased significantly for other agencies. Total expenditures are not significantly different than the previous biennium. Table 5 shows the breakdown of the budget by major departments. 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. The legislature has funded K-12 public education during the last five sessions at a higher level than in the past. However, post-secondary education has not fared as well, as the Republican Party legislative majority has increasingly redefined post-secondary education to be more of a private good than a public good. 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; in 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 median 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 relied upon increased student tuition and fees over the years. The 2015 legislature provided some relief by giving higher education enough funding for another two-year tuition freeze, but in 2017 higher education was cut resulting in a 13 percent increase in tuition. Compared to all western states, Montana spends considerably less on higher education per student. Only South Dakota and Colorado spend less per student.

Table 4
2017 and 2019 Biennium Budgets Compared by Major Functional Areas
(in millions of dollars)

Functional Area	2017 Biennium Budget	Percent of Budget	2019 Biennium Budget	Percent of Budget
K-12 Education	\$1,932.8	19.1%	\$2,036.9	19.7%
Higher Education	628.4	6.2%	637.4	6.3%
Human Services	4,248.9	41.9%	4,045.2	42.0%
Transportation	1,343.1	13.2%	1,647.4	17.0%
All Other	1,982.9	19.5%	1934.5	18.8%
Total (in billions)	\$10.1		\$10.3	

Source: Legislative Fiscal Division.

Table 4 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 over 19 percent of the budget. Higher education uses only 6 percent of outlays and transportation consumes 17 percent of the budget. All other areas of state government combined account for about 19 percent of outlays.

Table 5 All Funds Agency Comparison
Comparison of 2017 Biennium Appropriation to 2019 Biennium Budget
(\$ Millions)

	FY 2016	FY 2017	2017 Biennium	FY 2018	FY 2019	2019 Biennium	Biennium % Change
Ongoing							
General Government							
Legislative Branch	\$15.393	\$15.210	\$30.603	\$15.944	\$15.432	\$31.376	2.5%
Consumer Counsel	1.457	1.483	2.940	1.481	1.484	2.965	0.9%
Governor's Office	6.626	6.706	13.332	6.551	6.514	13.065	-2.0%
Commissioner of Political Practices	0.681	0.691	1.372	0.771	0.762	1.534	11.8%
State Auditor's Office	8.881	8.601	17.481	8.343	8.312	16.654	-4.7%
Department of Revenue	58.337	59.827	118.163	59.201	59.213	118.414	0.2%
Department of Administration	19.904	18.474	38.378	19.525	18.198	37.723	-1.7%
Department of Commerce	29.266	29.428	58.694	27.532	27.490	55.022	-6.3%
Department of Labor and Industry	83.695	85.789	169.484	84.089	84.223	168.312	-0.7%
Department of Military Affairs	<u>49.186</u>	<u>49.600</u>	<u>98.786</u>	<u>49.431</u>	<u>49.475</u>	<u>98.906</u>	<u>0.1%</u>
Subtotal General Government	273.426	275.807	549.233	272.867	271.103	543.970	-1.0%
Health and Human Services							
Department of Public Health & Human Services	2,084.490	2,176.908	4,261.398	1,988.757	2,054.779	4,043.536	-5.1%
Subtotal Health and Human Services							
Natural Resources and Transportation							
Department of Fish, Wildlife, and Parks	81.630	83.036	164.667	90.744	90.904	181.648	10.3%
Department of Environmental Quality	61.952	62.973	124.924	64.668	65.505	130.174	4.2%
Department of Transportation	678.318	680.161	1,358.479	537.374	595.860	1,133.234	-16.6%
Department of Livestock	0.445	0.734	1.180	12.969	12.878	25.847	2090.9%
Department of Natural Resources & Conservation	67.246	68.033	135.280	66.953	67.050	134.003	-0.9%
Department of Agriculture	<u>17.667</u>	<u>17.868</u>	<u>35.535</u>	<u>17.853</u>	<u>17.837</u>	<u>35.690</u>	<u>0.4%</u>
Subtotal Natural Resources and Transportation	907.259	912.805	1,820.064	790.561	850.034	1,640.595	-9.9%
Judicial Branch, Law Enforcement, and Justice							
Judicial Branch	50.218	51.056	101.273	50.800	50.800	101.600	0.3%
Crime Control Division	13.134	8.187	21.321	14.667	14.675	29.342	37.6%
Department of Justice	98.524	101.227	199.751	92.995	94.333	187.328	-6.2%
Public Service Commission	4.034	4.095	8.128	4.700	4.228	8.928	9.8%
Office of the Public Defender	2.039	2.814	4.853	34.251	33.585	67.836	1297.9%
Department of Corrections	<u>205.235</u>	<u>205.410</u>	<u>410.646</u>	<u>209.486</u>	<u>209.790</u>	<u>419.276</u>	<u>2.1%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	373.184	372.788	745.972	406.899	407.411	814.310	9.2%
Education							
Office of Public Instruction	960.606	970.792	1,931.398	992.066	1,003.177	1,995.243	3.3%
Board of Public Education	0.335	0.328	0.663	0.346	0.331	0.677	2.2%
Office of the Commissioner of Higher Education	314.462	316.243	630.705	318.776	318.717	637.493	1.1%
School for the Deaf and Blind	7.304	7.506	14.810	7.368	7.348	14.717	-0.6%
Montana Arts Council	1.460	1.444	2.904	1.484	1.462	2.946	1.4%
Montana State Library	6.484	5.483	11.967	5.866	5.861	11.727	-2.0%
Montana Historical Society	<u>5.700</u>	<u>5.794</u>	<u>11.494</u>	<u>5.647</u>	<u>5.627</u>	<u>11.274</u>	<u>-1.9%</u>
Subtotal Education	1,296.351	1,307.590	2,603.941	1,331.553	1,342.524	2,674.077	2.7%
Subtotal Ongoing	4,934.710	5,045.898	9,980.608	4,790.638	4,925.851	9,716.489	-4.1%
One-Time*							
General Government	14.471	6.242	20.713	2.225	2.250	4.475	-78.4%
Health and Human Services	1.823	1.755	3.579	1.100	0.600	1.700	-52.5%
Natural Resources and Transportation	20.289	19.278	39.566	4.412	2.397	6.809	-82.8%
Judicial Branch, Law Enforcement, and Justice	34.772	32.883	67.655	0.281	0.273	0.554	-99.2%
Education	<u>18.285</u>	<u>3.075</u>	<u>21.360</u>	<u>0.091</u>	<u>0.139</u>	<u>0.230</u>	<u>-98.9%</u>
Subtotal One-time	89.640	63.233	152.873	8.109	5.659	13.768	-91.0%
Total Submitted	\$5,024.350	\$5,109.131	\$10,133.481	\$4,798.747	\$4,931.510	\$9,730.257	-4.0%
Moved to statutory appropriation				179.540	179.540	359.080	
Total *				4,978.287	5,111.050	10,089.337	-0.4%
<ul style="list-style-type: none"> The final budget, all funds after adjustments was \$10.3 billion. 							
Source: Legislative Fiscal Division, <i>Legislative Fiscal Report: State Expenditures, 2019 Biennium</i> , p. 29.							

The 2017 Special Session

Due to underestimating the revenue estimates and the worst fire season on record, Montana's balanced budget quickly faded. The state soon had a \$227 million deficit and despite the governor's best efforts, a special session was called. Twenty-four bills were introduced in the special session. Governor Bullock allowed about a dozen of the bills to become law. There were some controversial bills included placing a fee on Montana State Fund investments to raise roughly \$30 million over two years, the governor vetoed a bill that would have furloughed some state employees to allocate \$15 million to other uses, and a bill related to high-risk insurance pools, and a bill that would save \$30 million by extending contracts with a private prison. The legislature used cost shifting by temporarily suspending contributions to the judges' retirement system and to state employee health care plans.

State Agencies reduced their funding to satisfy the budget shortfall. The largest reductions were to Health and Human Services (\$110 million total reduction in funding). Reductions included case management services including addictive and mental disorders, Medicaid benefits, and senior and long term care benefits. The largest impact would be to the Prospective Payment System for both inpatient and outpatient Medicaid and Medicare hospital services. (AP, 2017; Office of the Governor, 2017).

Budget stabilization reserve funds were used. State income and expenses are a dynamic system always leaving some unknowns. If earnings turned out to be high enough to cover expenses, excess revenue may replace some of the cuts. This happened in limited cases where some of the cut funds were restored, but overall, Montana's agencies took big hits for the biennium.

Winners and Losers: What did the Legislature Do?

Each year *Governing* presents the major issues being dealt with by state legislatures. In 2017, with most state assemblies dominated by Republicans, *Governing* believed the big issues would include the fallout caused by repealing the Affordable Care Act, financial issues, immigration, infrastructure spending, policing issues, legalizing marijuana, opioids, clean energy, school choice, and higher education (Wogan, 2017). In the case of Montana, only a few of these turned out to be issues in the 2017 session. The dominant issues in Montana's legislative session were infrastructure needs and funding, financial issues due to the revenue shortage, campaign finance, and higher education.

There were 1,188 bills introduced in the 2017 legislative session and about one-third of the bills were signed into law. Like most legislative sessions, the majority of bills never left committee. Below are some of the policy areas that the legislature addressed in 2017. The 2017 legislative session was not a very productive session, mostly due to shortfalls in revenue. Much of the time was spent balancing the budget and making cuts throughout state government.

Infrastructure Funding

Legislators worked hard on infrastructure projects to fix Montana's ailing system of roads, bridges, sewer and water systems, and schools. The two-year budget sent to the governor authorized \$1.1 billion, including the Federal Government matching money, for spending on infrastructure. However, cash expenditures totaled only \$173 million. Despite much effort, the legislature failed to adequately address infrastructure. The House ultimately broke down along partisan lines and defeated two major bills that would have paid for rural water projects and another to build or renovate schools. Despite spending much of the session talking about infrastructure needs and legislation for those needs, infrastructure will largely

be passed on to the next session in 2019. It is noteworthy to mention that the session ended in a chaotic effort to secure bonding to fund infrastructure, but the efforts failed and the session adjourned.

Increase the State's Gas Tax

The legislature passed and the governor signed a bill that increases the state's gas tax. This is the first time the gas tax has been raised in many years and is part of the effort to address the state's infrastructure needs. The legislation passed after a proposed fuel tax increase was reduced from eight cents to 4 ½ cents per gallon. The amended version also raises vehicle registration fees by 3 percent. The money raised through the new law will be used exclusively to pay for upgrades and repairs to highways and bridges. The increase raises the state tax on gasoline to 31.5 cents per gallon, which is below the national average.

Medical Marijuana Reform

Medical marijuana has been controversial since it originally passed by initiative in 2004. It has gone through many reforms over the years. There is a general consensus that Montana's system of regulating medical marijuana was in need of still more reform. The legislature did not enact overly restrictive or permissive regulations that have plagued the medical marijuana industry since 2004. Largely following the recommendations offered by medical marijuana advocates themselves, the legislature created a system for collecting fees from medical marijuana dispensaries and issuing licenses to those that meet basic guidelines. They also required a tracking system to ensure the drug is being sold as intended. Legislation was introduced to tax medical marijuana at 6 percent on the sale price to help increase state revenue, but the legislation never made it out of the committee.

Jail Diversion

Steps were taken to help with jail diversion using a series of twelve specific recommendations offered by the state Commission on Sentencing Legislation. Criminal justice laws were revised to eliminate burdensome requirements while freeing courts and the Department of Corrections to take advantage of proven interventions. Revisions were also passed to revise county crisis intervention and jail diversion grant procedures.

Higher Education

In the last legislative session, the legislature provided the university system with enough money to freeze tuition for students for two years. This was not the case this session. The legislature cut funding to the Montana University System which resulted in a 13 percent increase in tuition at most schools. The MUS budget was cut by \$27 million for the biennium.

Faculty salaries have been an issue in the state for decades. Montana is ranked 50th 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. Some of the state's colleges have had declining student enrollments, including the University of Montana, which has seen its enrollments drop to 2007 levels. Some of the state's colleges have had to make deep cuts and offer fewer classes due to declining enrollments and budget shortfalls. The most notable exception within the Montana University System is Montana State University in Bozeman where enrollments have increased significantly and subsequently

budgets have increased in what is now a heavily tuition driven budget model for post-secondary public education.

The legislature and the Montana University System faced a crisis in the past two sessions. The state's historic flagship school, the University of Montana, has experienced constant drops in enrollment since 2008 and has faced an enduring budget crisis. Having lost more than 4,000 students and failing to make adequate adjustments, the president resigned in December 2016 and was replaced by interim President Sheila Stearns, a longtime member of Montana University System and former Commissioner of Higher Education. Stearns served as president while the University of Montana searched for a new president and attempted to fix a \$15 million annual budget shortfall. The University of Montana will have to make significant cuts and adjustments to downsize to its current enrollment of roughly 11,500 students, which continues to decline each year. Mr. Seth Bodnar, who has a military and corporate background, but no management experience in academia was hired. The student enrollment for Fall 2017 was a 1,400-student decrease (Szpaller, 2017). Enrollments declined again in Fall 2018 by 7.6 percent (Reilly, 2018). A new provost was hired and the new leadership together initiated a plan to reduce the instructional budget from 38 to 33 million dollars.

Education and K-12 Funding

The legislature provided an increase in state aid to K-12 schools. The funding provides inflationary adjustments for quality educator payments. K-12 was one of the few functional areas where spending increased (Montana Public Education Center, 2017). Charter schools are not allowed in Montana. It is one of seven states in the nation that has not passed charter school legislation. Efforts to increase school choice failed in the session as it has in the past. After negotiations with the governor, the legislature approved spending \$6 million to test ways to expand 4- and 5-year-old children's access to preschool in the state. The funding will last two years as a pilot project and be reassessed in the 2019 legislative session.

Clean Energy

Coal is controversial in Montana. Lawmakers passed a number of relatively minor bills related to clean energy including a bill requiring Colstrip powerplant owners to submit a remediation plan for the closure of the plant's two oldest coal-fired units scheduled by July 2022. However, they also approved a plan to allow Colstrip owners to borrow up to \$10 million a year from the state to keep the units running until that time. Another bill that would have required the owners to compensate property owners, governments, and workers for losses related to the closure failed to pass. However, no significant legislation was passed and signed into law.

Real ID

The Real ID federal law was passed in 2005. Montana did not make the state's drivers licenses compliant for 12 years. However, near the end of the session the legislature finally passed a measure to create two Montana driver's licenses – the current driver's license would not have been accepted as federal ID to fly on airlines as of January 1, 2018, but a new ID that costs more will be compliant with federal regulations for identification (Monares, 2017). Montana still failed to get the Real ID licenses out in time and was granted another extension.

Legislative Referendums and Initiatives

There were few legislative referenda and initiatives on the 2016 general election ballot and only two of the four were passed by voters: a constitutional initiative (CI) to ensure that the rights and interests of victims of crime are respected and protected by law and an initiative (I) to expand access to medical marijuana

Conclusion

The state budget is \$10.3 billion for 2018 and 2019 and was supposed to leave an estimated \$200 million in reserve; however, the budget went out of balance almost as soon as the session ended due to revenue projections being wrong. Most state agencies saw their budgets trimmed. The legislature also created a budget stabilization reserve fund with rules meant to allow the governor to respond more quickly to future revenue drops. Like many sessions in the past, the 2017 legislative session illustrated the dilemmas of relying on a part-time, amateur legislature 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 a budget that made only short-term fixes, but did little to make structural changes that would enhance the state's economy, provide a more stable revenue system, or make long term commitments to areas such as healthcare and higher education. The prospects for the next legislature do not look promising as it appears the next session will also focus on a revenue shortfall. The revenue shortfall that led to a special session was caused by not adequately adjusting spending while energy revenues from coal and natural gas were adversely affected by lower energy prices. It is fair to say that the 65th Legislative Session was not a success.

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