

# The Montana 2009 Biennium Budget Update

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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 2007. This paper reflects changes and updates to the 2009 biennium budget, which includes two special sessions.

Controversy began long before many of Montana's legislators were even elected in the fall of 2006. Voters in Montana not only had a general election but a host of proposed Constitutional amendments. The most controversial proposal was CI-97—a Montana version of Colorado's famed Tabor Amendment. The amendment proposed to create a spending cap on appropriations based on the amount spent during the previous session adjusted for inflation and population growth. Proponents of CI-97 easily gathered enough signatures to place it on the November 2006 ballot but quickly ran into legal problems. Two separate legal challenges found that signature gathering broke state law (proponents had paid people who gathered signatures a per signature fee) and another court ruled that the measure itself was unconstitutional because it changed more than one aspect of the Montana Constitution (Dennison, 2006c). Ultimately, the Montana Supreme Court ruled that the amendment was unconstitutional just days before the November elections.

Democratic Governor Schweitzer started priming the legislative session months before the session and even before the general election. During his first two years in office the economy had improved, unemployment was the lowest in the history of the state, and he promised that he would work with the legislature to make Montana a more friendly state for business (LFD, 2006). The governor proposed his "square deal," which included a \$400 rebate for homeowners, a tuition freeze for the next two years at the state's colleges, repealing a fee for water-rights holders, a Military Family Relief Act, and \$10 million to expand fishing access sites and the state park system (Cooke, 2007a; Devlin, 2006, Dennison, 2006b, Byrd, 2006). The governor presented his \$7.7 billion budget months before the legislature would be in session, which called for numerous increases in spending.

The 2007 Legislative session turned out to be one of the most partisan sessions in Montana's history. After a 90-day session, which is required by the Montana Constitution, the Sixtieth Montana Legislature failed to pass the budget, which forced a special session (Johnson and Dennison, 2007b). After a five-day special session that cost taxpayers \$38,000 per day, the legislature finally passed a \$7.9 billion budget. Partisan bickering continued to the end and even included name-calling between the Republican House leader and the governor (Johnson and Dennison, 2007a). It seemed that the only thing both political parties and the governor agreed on was rejecting the Federal Real ID Act. This illustrates the populism found in Montana and often has negative consequences. The shortsightedness of legislators and the governor will force Montanans to have a passport to board airlines. Montana was the first state to refuse to participate in the Real ID program. Overall, there is little positive to say about the 2007

legislative session as many of Montana’s critical policy issues remained unaddressed. The special session ended with Republicans complaining that they had failed to be the stewards of the public’s money and had squandered away the \$1 billion budget surplus. Democrats praised their success in pushing through the governor’s “square deal” agenda and tax incentives for “green energy.” The 2007 Legislature will be remembered for its partisanship, gridlock, and inability to compromise (Cooke, 2007b; Dennison 2007a; Johnson, 2007b; 2008a).

## DEMOGRAPHIC OVERVIEW

Montana is a geographically large, rural state with a relatively small population of about 944,000. The population density of Montana is about 6.0 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’s population grew by 15.3 percent between 1990 and 2006. 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 population growth has brought people that are older, wealthier, and more conservative than those that 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, about 75 leave the state to seek better employment (Jamison, 2006a).

**Table 1**  
**Population Figures**

| <b>Population Race</b>                          | <b>Persons</b> | <b>Percent</b> |
|---|----------------|----------------|
| American Indian and Alaska Native Population    | 55,100         | 6.0%           |
| Asian Population                                | 5,500          | 0.6%           |
| Black Population                                | 4,100          | 0.4%           |
| Hawaiian Native and Pacific Islander population | 650            | --             |
| Hispanic Population                             | 20,200         | 2%             |
| All Others                                      | 20,600         | 2%             |
| White Population                                | 837,850        | 89%            |
| <b>Total Population (2006)</b>                  | <b>944,000</b> |                |

Note: The official population based on the 2000 Census is 902,000. The figures shown above are updated estimates from 2006. The figures have been rounded. Montana’s population was 799,000 in 1990.  
Source: U.S. Census Bureau

Montana is also a relatively poor state. The annual per capita personal income ranks 41<sup>st</sup> in the nation at \$30,800 and the median household income is \$40,000. The median family income is \$50,000. Average annual take home pay is \$30,500, which is among the lowest in the nation, and nine percent of all workers in Montana work multiple jobs (Jamison, 2006b). The per capita tax burden is \$7,100 and state and local taxes relative to personal income are about 10

percent (the national average is 10.2 percent). Unemployment is 3.6 percent, which is among the lowest in the nation. Thirteen 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 (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 is \$32 billion and the state receives about \$7 billion in federal grants each year. 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. There are three distinct political cultures that 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. Those from this area 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. Today, this area 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 that 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 two different visions for the state lead to sharp divisions and competitive political elections.

The national media likes to call Montana a "red state" but Montana has been a swing state throughout much 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 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. 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), which gave control to the Democrats. Closely divided chambers will likely remain. All of Montana's 100 House seats and half of the 50 Senate seats are up for reelection in 2008. Although most of the seats are in "safe districts," a handful of closely contested races will determine which party controls the next legislative session. Governor Brian Schweitzer is also up for reelection (Dennison, 2008a; 2008b).

Montana is a state with term limits, which were enacted in 1992 and first became effective during the November 2000 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. 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 944,000 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. As of 2007, 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 2006. 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 while 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. Max Baucus is a moderate Democrat who has served in the U.S. Senate since 1978.

## ECONOMIC SUMMARY AND STATE REVENUES

The state's 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 that one examines. For example, wages, earnings, and personal income remained near the bottom; Montana ranked 46<sup>th</sup> 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 despite the fact that the state's fiscal situation is healthy (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. In 2006 corporate income taxes accounted for about \$153 million in revenue (9 percent). 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 remains aimed at liberal arts or agriculture, which has had limited success in attracting high-tech industries. Moreover, Montana's commitment to higher education has dropped dramatically since the early 1990s. The state's contribution dropped to 33 percent in 2007 but will increase to 38 percent in 2008 to cover Governor Schweitzer's 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 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 a problem for the 2007 legislature due to a \$1 billion surplus. The surplus came despite the fact that Montanans paid \$100 million less in personal income taxes because of tax cuts that went into effect in 2005. It is noteworthy to mention that the Department of Revenue found that about half of the cuts went to fewer than 1,600 households with reported incomes of \$500,000 or more (Dennison, 2006a). The debate for legislators in the 2007 session was how to spend or not spend the surplus. Republicans wanted more tax cuts; Democrats wanted more spending. Montana gets 45 percent of its revenues from individual income taxes, 36

percent from various sales taxes, fees, and other miscellaneous taxes, 11 percent from state property taxes, and 9 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 and during the 2007 legislature 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 largely due to the lack of a general sales tax. Montana has a state lottery but like most states, it produces only a small portion of total state revenues.

*USA Today* ranked the financial health of all 50 states based on a yearlong analysis by *Governing* magazine. Montana was ranked near the bottom of the list. Montana was 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 found in many other 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*, 2005). Montana received grades of C+ in most categories; it ranked 45<sup>th</sup> in state spending but 22<sup>nd</sup> 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, which is mandated by law. The Office of Budget and Program Planning (OBPP) prepares the executive budget. Prior to the legislative session, the Legislative Fiscal Division (LFD) analyzes these recommendations along with Montana's economic conditions, and other pertinent factors that affect the budget. The resulting document is provided to the legislature and used as the basic budget document throughout the session. The legislature convenes in January every other year (in odd years) and adjourns in 90 days (usually in April). Montana law allows calling special sessions 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 67<sup>th</sup> day of the session. Action is then taken on the bills. The governor has full line-item veto power.

Unlike many states and Congress, Montana has a 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 \$76.80 per

day with an \$82.67 per diem for expenses. Thus, the governor and the state’s permanent agencies in Helena are powerful in budgetary process since legislators are dependent 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 used by the legislature.

**Table 2**  
**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 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. Republicans in the 2007 Legislature broke this tradition and split HB 2 into a series of bills. Table 2 shows the normal budgetary process with HB 2 being the state budget.

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

## **THE 2009 BIENNIUM BUDGET AND THE SPECIAL SESSIONS**

The Montana Constitution requires a balanced budget. The legislature was blessed with a \$1 billion surplus but how to spend it became very contentious. The governor had submitted a \$7.7 billion proposal to fund government but Republicans broke from tradition in the House and split the budget into a series of spending bills (Dennison, 2007e; 2007f). This broke a procedure known as House Bill 2 that leaves the budget as a single state spending bill and created tensions between the political parties. Splitting the bill also added confusion for many legislators. Republicans claimed that splitting up the budget added greater clarity. In the process of splitting HB 2 Republicans also made significant cuts to the budget. Once the budget was passed along to the Senate little time was wasted putting the eight bills created by Republicans in the House into four bills. All Democrats and most Republicans in the Senate voted to restore the budget to an amount close to its original size (Johnson, 2007d; 2007e). But partisan bickering erupted in the House and legislators were unable to pass a budget during the 90-day session. A special session was convened in May. The special session did not go well as partisan disagreements continued. Republicans wanted to return the surplus to citizens and include numerous tax cuts while Democrats wanted to spend more money to fund state government (Dennison, 2007c; 2007d; Johnson, 2007c). Unlike most states, Montana does not have a revenue sharing plan for local governments and efforts to examine a general sales tax were never seriously considered. Even the Democratic plan that sought to expand state government did not adequately fund services. For example, the state's self-funded health care system for state employees was partially funded. For the first time in decades, state employees who wanted traditional insurance rather than the HMO (that provides modest coverage at best) would have to pay out of their checks. After a five day special session, the legislature finally passed a budget and provided a variety of Republican-supported tax cuts. Montana remained a poorly funded state despite the fact that the state had a \$1 billion surplus and the legislature actually expanded some areas of state government. Ultimately, the legislature passed a \$7.9 billion budget and increased total spending over the previous biennium by almost 16 percent.

A second special session was called by the governor in September to increase spending for fighting forest fires—wildfires in 2007 were worse than anticipated. Consistent with the tone of the sharply divided legislature, Democrats and Republicans started blaming each other for the need to have another special session before the September session opened. Republicans announced that they were considering passing bills in the House and immediately adjourning to keep the Democratic controlled Senate from being able to consider the bills. They believed this would ensure that only the GOP-backed firefighting bills would end up on the governor's desk (McKee, 2007b). The governor proposed that the legislature appropriate \$55 million to fight Montana's wildfires. Although the governor proposed \$19 million in the original budget for firefighting, Republicans cut the money out of the budget. Montana's firefighting budget has averaged \$46 million per budget cycle since 2000 but neither political party proposed an adequate amount for the 2007 fire season (McKee, 2007c). The purpose of the second special session was clear – appropriate enough money to handle Montana's wildfires. A deal was struck on the first day of the session and the legislature approved \$82 million to cover the next two years. The special session ended collegially after little more than ten hours (McKee, 2007a).

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. Table 3 provides a comparison of the 2005, 2007 and 2009 bienniums. Since 2005 the amount collected from corporate income taxes has increased while the earnings off of investments have declined. Natural resources taxes have increased significantly since 2005 (2 percent to 6.5 percent).

**Table 3**  
**General Fund Revenue**  
*(By Major Components: 2005, 2007, and 2009 Bienniums)*

| Component               | Percent of Budget |       |       |
|-------------------------|-------------------|-------|-------|
|                         | 2005              | 2007  | 2009  |
| Individual Income Tax   | 45.6%             | 48.4% | 44.9% |
| Corporation Income Tax  | 5.3%              | 5.5%  | 8.9%  |
| Vehicle Tax             | 5.9%              | 5.6%  | 6.5%  |
| Investment Earnings     | 4.2%              | 3.2%  | 2.8%  |
| Natural Resource Taxes  | 2.0%              | 5.3%  | 6.5%  |
| Property Tax & Non Levy | 14.5%             | 12.3% | 11.0% |
| Insurance Tax           | 4.5%              | 4.4%  | 3.4%  |
| All Other Revenue       | 18.0%             | 15.3% | 15.9% |

*Information provided by the Legislative Fiscal Division (2007)*

How does the current budget compare to the last budget on the expenditure side? Table 4 compares the 2007 and 2009 bienniums in major categories. The data is straightforward—spending increased for most agencies and in some cases the increases were significant.

Table 5 shows the breakdown of the budget by major function areas. In the case of K-12 education, the Montana Supreme Court ruled that the legislature had to define the meaning of a “quality public education,” which is a provision in the Montana State Constitution. Thus, the legislature funded public education during the last two sessions at a higher level than in the past. Corrections received a large increase over the last biennium, approximately \$107 million or a 43 percent increase. Montana has problems with its corrections system and growing prison population. It houses some prisoners in other states and has used private prisons. There were fewer cuts for most agencies in 2007 than in the past. Currently, the state subsidizes less than 38 percent of the cost of tuition for in-state students and the governor has imposed a tuition freeze. Since 1992 the state’s financial commitment to higher education has dropped significantly. In 1992 the state funded \$4578 per in-state student; in 2006 the amount had dropped to \$4487 in unadjusted dollars. Between 1992 and 2002 tuition at the state’s public, four-year colleges increased by almost 50 percent while medium family income increase 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 general 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 fees. Compared to fifteen western states, Montana spends considerably less on higher education per student. Only South Dakota and Colorado spend less per student (Hamilton, 2007).

**Table 4**  
**2007 and 2009 Biennium All Funds Budgets Compared**  
(in millions of dollars)

| Agency                                   | 2007 Biennium          | 2009 Biennium          | Difference             | % Change     |
|--|------------------------|------------------------|------------------------|--------------|
| Legislative Branch                       | \$21,084,638           | \$25,377,765           | \$4,293,127            | 20.4%        |
| Consumer Council                         | 2,565,505              | 3,036,786              | 471,281                | 18.4%        |
| Judicial Branch                          | 69,202,057             | 73,694,764             | 4,492,707              | 6.5%         |
| Governor's Office                        | 10,789,009             | 12,553,936             | 1,764,927              | 16.7%        |
| Secretary of State's Office              | 0                      | 1,040,000              | 1,040,000              |              |
| Commissioner of Political Practices      | 668,416                | 1,196,367              | 527,951                | 78.9%        |
| State Auditor's Office                   | 22,441,691             | 34,473,768             | 12,032,037             | 53.6%        |
| Office of Public Instruction             | 1,444,663,630          | 1,637,121,923          | 192,457,626            | 13.3%        |
| Crime Control Division                   | 37,780,071             | 18,326,700             | (19,453,371)           | -51.9%       |
| Department of Justice                    | 114,339,010            | 142,201,068            | 27,862,058             | 24.8%        |
| Public Service Regulation                | 5,868,098              | 6,683,459              | 815,361                | 13.9%        |
| Board of Public Education                | 729,630                | 796,644                | 67,014                 | 9.2%         |
| Commissioner of Higher Education         | 426,577,125            | 528,418,158            | 101,841,158            | 23.9%        |
| School For The Deaf & Blind              | 10,283,928             | 12,402,153             | 2,118,225              | 20.6%        |
| Montana Arts Council                     | 2,419,682              | 2,636,773              | 217,091                | 8.9%         |
| Montana State Library                    | 7,566,828              | 9,397,517              | 1,830,689              | 24.2%        |
| Montana Historical Society               | 7,556,866              | 8,793,582              | 1,236,716              | 16.3%        |
| Department of Fish, Wildlife & Parks     | 117,929,330            | 137,568,507            | 19,639,177             | 16.6%        |
| Department of Environmental Quality      | 103,402,022            | 114,340,767            | 10,939,745             | 10.6%        |
| Department of Transportation             | 1,094,928,258          | 1,078,874,631          | (16,053,627)           | -1.5%        |
| Department of Livestock                  | 16,713,375             | 21,128,244             | 4,414,869              | 26.4%        |
| Dept of Natural Resources & Conservation | 77,500,479             | 107,227,954            | 29,727,475             | 38.4%        |
| Department of Revenue                    | 73,838,459             | 108,341,011            | 34,502,552             | 46.7%        |
| Department of Administration             | 34,422,378             | 45,272,269             | 10,849,891             | 31.5%        |
| Appellate Defender                       | 0                      | 0                      | 0                      |              |
| Mt Consensus Council                     | 482,117                | 400,710                | (81,407)               | -16.9%       |
| Office of The Public Defender            | 14,661,634             | 39,953,531             | 25,291,897             | 172.5%       |
| Department of Agriculture                | 25,947,844             | 29,322,140             | 3,374,296              | 13.0%        |
| Department of Corrections                | 247,536,048            | 355,222,973            | 107,686,925            | 43.5%        |
| Department of Commerce                   | 44,877,997             | 81,316,335             | 36,438,338             | 81.1%        |
| Department of Labor & Industry           | 133,175,074            | 145,244,758            | 12,069,684             | 9.1%         |
| Department of Military Affairs           | 36,187,989             | 57,393,924             | 21,205,935             | 58.6%        |
| Dept of Public Health & Human Services   | 2,659,756,179          | 3,112,341,348          | 452,585,169            | 17.0%        |
| <b>Total</b>                             | <b>\$6,865,985,660</b> | <b>\$7,952,100,051</b> | <b>\$1,086,204,391</b> | <b>15.8%</b> |

Note: HB 2 is the main spending bill for the State of Montana, although the bill was split into eight bills in the 2007 Legislative Session. HB 2 excludes some functions, such as the Departments of Transportation and the State Auditor'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. The "all funds adjusted" budget for the 2007 biennium was \$6.8 billion and the 2009 biennium was \$7.9 billion; an increase of \$1.1 billion.

The final legislative budget was over a billion dollars larger than the 2007 biennium budget (15.8 percent). Although the session was contentious, the legislature and the governor ultimately were able to provide more funding for state employees, human services, education, and most of the agencies of state government. With some notable exceptions, the legislature actually expanded some areas of state government despite the fact that it failed to adequately fund some critical areas such as health care for state employees. The legislature approved a pay raise of three percent for state employees, while inflation has been close to five percent in recent years. Budget problems and funding have historically been a way of life for Montana. Even during the “boom years” of the 1990s Montana was plagued with budgetary 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, 2007a).

Table 5 shows where the state spends the revenue by major functional area. The largest functional area is Public Health and Human Services, which consumes 39 percent of the states resources. Secondary public education is the second largest specific area requiring almost 21 percent of the budget. Higher Education uses only 6.6 percent of outlays and Corrections, which has been a growing problem for the state, uses only 4.5 percent of the budget. All other areas of state government combined account for 29 percent of total outlays. It should be noted that transportation is an “off-budget” area. For most states, the cost of maintaining highways is a significant cost. Montana spends more than a billion dollars to maintain its highways but the outlays are not reflected in the breakdown of the budget by functional areas.

**Table 5**  
**2007 and 2009 Biennium Budgets Compared by Major Functional Areas**  
(in millions of dollars)

| Functional Area                | 2007 Biennium Budget | Percent of Budget | 2009 Biennium Budget | Percent of Budget |
|--------------------------------|----------------------|-------------------|----------------------|-------------------|
| K-12 Education                 | \$1,144,663,923      | 21.0%             | \$1,637,121,549      | 20.6%             |
| Higher Education               | 426,577,125          | 6.2%              | 528,418,158          | 6.6%              |
| Corrections                    | 247,536,048          | 3.6%              | 355,222,973          | 4.5%              |
| Public Health & Human Services | 2,659,756,179        | 38.7%             | 3,112,341,348        | 39.1%             |
| All Other                      | 2,387,362,385        | 30.5%             | 2,318,996,023        | 29.2%             |
| Total Funds                    | \$6,865,895,660      |                   | \$7,952,100,051      |                   |

Source: Legislative Fiscal Division. *Budget Comparisons: A Report Prepared for the 60th Legislature*. (Helena, MT: Legislative Fiscal Division, July 2007). Note: \$82 million was added to the total budget during the second special session for firefighting over the next biennium.

## What did the Legislature Do?

More than 1,400 bills were introduced in the 2007 legislative session, but what did legislators actually pass? This brief section highlights some of the significant and “less significant” pieces of legislation that passed or failed in the 2007 Montana legislative session.

The legislature failed to pass:

- A general sales tax despite the fact that numerous bills were introduced.
- A diversity law that mandated that all sides, conservative and liberal views, be presented in the classrooms of college campuses. The bill included periodic audits and reports to ensure that colleges were implementing the law and was aimed at getting conservative viewpoints in classrooms. *This bill received a lot of attention but was easily defeated before mid-session in the Republican-controlled House.*
- A right-to-life amendment proposal for the Montana State Constitution. The bill was only four votes short of passing in the Republican-controlled House.
- A law that would have allowed local school districts, not just the state, to certify public school teachers.
- A law that would provide for publicly financed campaigns in the state.
- A variety of bills that would have undone much of Montana’s controversial 1997 utility deregulation law.
- A law abolishing the death penalty.

The legislature passed:

- A bill that allows police officers to stop motorists who are not wearing seat belts.
- A tax break for qualified renters in the state—those with incomes less than \$45,000.
- Several bills that aimed at undoing “part” of Montana’s 1997 utility deregulation laws.
- A bill that would allow greater access to streams running through private property in the state.
- \$350 million property tax breaks for Montanans over the next two years.
- A law that cracks down on sexual predators, known as “Jessica’s Law.”
- A law that allows citizens to brandish firearms if they feel threatened.
- A law that excludes a number of groups from the minimum wage increase passed via initiative by Montana voters in the 2006 election.
- A law rejecting the Federal Real ID Act; Montana became the first state to reject having national IDs.
- The necessary legislation needed for the governor’s “square deal” programs.
- Added \$82 million for the firefighting budget during the second special session called in September 2007.

The legislature had a variety of initiatives that it passed that include the following specific items. New proposals authorized over \$355 million in new initiatives.

**Human Services:** \$74 million, primarily for expanded Medicaid mental health services eligibility and provider rate increases.

**Corrections:** \$18 million to exempt some staff from vacancy savings, information technology, and sex offender incarceration.

**Higher Education:** \$68 million, primarily to provide sufficient state funding to cap tuition cost increases for the 2009 biennium. The legislature did not fully fund insurance but did increase its contribution by one percent to private retirement accounts of university faculty who are not covered by the traditional state retirement system.

**Public Schools:** \$147 million, including funding for full-day kindergarten, an increase in the quality educator payment, and property tax relief.

**Other Agencies** (general government, natural resources): \$49 million, including a significant increase for the Department of Revenue for increased compliance initiatives and reappraisal, litigation expenses, and various initiatives in the Judiciary and Department of Justice.

## **CONCLUSION: WINNERS AND LOSERS IN THE 2009 BUDGET**

Like all budgetary processes in the states, there were winners and losers after the legislature adjourned, but due to the highly partisan divisions among the parties, it can be argued that the people of Montana lost in this session. Education remains poorly funded; higher education, despite an increase in spending, remains inadequately funded; pensions remain underfunded and state health care and benefits for state employees were cut (or funded at a lower percent to be more precise). 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, agriculture, and to some extent, school teacher's unions. Businesses, unions, trade associations, government agencies and advocacy groups spent more than \$6 million dollars influencing legislators according to official reports filed by lobbyists. This figure may understate the actual amount spent since studies have shown that the reported amounts represent about one-third the money actually spent (Johnson, 2007a). The biggest spenders were PPL Montana (a utility company), MEA-MFT (a union group that represents school teachers and university faculty), 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, especially in states with strong special interest groups.

## Revenue Uncertainties and State Spending: Outlook for the Future

Economic uncertainties can undermine revenue-forecasting efforts, and contribute to an increased demand for government services in areas such as human services and corrections. As in any legislative session, there are many unknowns surrounding revenue forecasts. Capital gains income, corporate profitability, and oil and gas price and production could all fluctuate significantly. Assumptions used in the revenue forecasting process are based upon the best information available, but assumptions can often be wrong and surpluses like those found in the past two legislative sessions have historically not been the norm (LFD, 2007b). Updated forecasts about Montana's economy in 2008 remain relatively positive. Some economists believe that Montana will not be as negatively impacted by a nationwide recession as many other states. Montana ranks forty-first in home foreclosures mainly because the state is rural and the hardest hit areas nationwide are urban areas. Although Citigroup closed an office in Great Falls that eliminated 80 jobs, few financial sector businesses are located in the state. 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 are performing well (Grannis, 2008).

Funding state government in the future will be problematic due to the state's volatile economy. The state cannot assume that it will have a billion dollar surplus every year. 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 recent years with unprecedented revenues, many critical areas like rising energy costs, skyrocketing college tuition, and economic development received token, short-term attention. Tuition freezes and a one-time boost to higher education do not reverse 20 years of neglect. The cost of energy is higher in Montana than neighboring states yet Montana delivers gasoline to many of those states. Incomes in Montana are not keeping up with inflation and items such as a one time \$400 tax break for homeowners is perceived a political token rather than a long term solution to Montana's tax structure (LFD, 2007b). The 2007 legislative session was so contentious that a special two day conference was held in September 2007 to review and make recommendations that might make future legislative sessions more productive and ease some of the tensions in the legislative process. Since term limits went into effect, the legislative sessions have been marked by increased partisan bickering and overall have been less productive. The meeting produced an assortment of recommendations including having the legislature meet annually and amending term limits. Both annual sessions and efforts to repeal term limits have failed in the past. Montanan's rejected annual sessions several times and two-thirds of Montanans voted for term limits. Ballot measures to alter term limits have failed at the polls as recently as 2006 (Johnson, 2007f).

Like many sessions in the past, the 2007 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 and revealed the power of Montana's special interests. The legislature passed a \$7.9 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 issues that affect Montana.

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