

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By Chairman Bardanoue, on January 19, 1989, at 4:05 p.m.

ROLL CALL

Members Present: All members including ex-officio members
Speaker Vincent and Representative Harper.

Members Excused: None

Members Absent: None

Staff Present: Judy Rippingale, LFA

Announcements/Discussion: Chairman Bardanoue welcomed the Senate and said the purpose of the meeting was to hear the Governor's proposals on the budget and to hear the proposals for the income to balance it. He introduced Mr. Shackelford and Mr. Nordtvedt and said they would give the presentation.

HEARING ON GOVERNOR'S BUDGET 7 REVENUE PROPOSALS

List of Testifying Proponents:

Mr. Ray Shackelford, Budget Director, Office of Budget
and Program Planning (OBPP)
Mr. Ken Nordtvedt, Director, Department of Revenue (D of R)

Testimony:

Mr. Shackelford, said they have modified the states proposals without a tax increase. He said it has not been easy since 72% of the general fund budget fund modifications are for mandated programs in SRS. He said the previous Governor's budget did not provide money for an increase in the pay plan, an improved University System nor reasonable equalization of public school funding. He said that budget had over \$60 million of one time revenue in unrecognized cost, and we received the supplemental requests of \$2 million a month after the Executive budget was released. He said he would review the major budget issues and then ask Mr. Nordtvedt to review the revenue issues. He said with the exception of the items listed they were accepting the Schwinden's Executive budget, at least for the time being.

Mr. Shackelford said they advocate the pay plan in the Executive budget, outlined the proposals for Public School Funding,

University Funding, Personal Property Tax Reduction, and Revenue and Tax Reimbursement Adjustments as outlined in EXHIBIT 1, attached.

Mr. Nordtvedt (253) passed out EXHIBIT 2 which he read to the committee, which gave the recommendation from the Governor's office on the revenue to balance the budget. The main proposal was to cap the permanent Coal Trust principle and that additional revenues which would flow into that fund in the future be used in the general fund for maintaining the capital infrastructure of our state. In addition he proposed alternatives of capping the fund for this biennium only and changing the rules for making quarterly estimated tax payments for corporations and individuals that have sufficient income not subject to withholding.

Mr. Shackelford (538) addressed the Special Education funding which is proposed to increase \$12 million over the biennium. This, he said, would more adequately fund that system and provide some equalization effort. He said currently \$27 million is funded and schools are spending 30 to \$34 million for Special Education costs. He said they proposed to pay for Special Education salaries by paying for the average of Special Education salaries. He felt this would more equalize the salaries and provide adequate funding for it. See EXHIBIT 3.

Questions from the Committee:

Tape 1-A (618)

Representative Menahan asked, on page 2 you said you would recommend spending an additional \$767.7 million of ongoing revenue plus taxes already collected and held by the state of Montana. He asked if this ongoing revenue could be identified. Mr. Nordtvedt said this included about \$35 million of various funds we had appropriated that represent tax collections.

Representative Menahan asked if this included any earmarked funds and was told there were earmarked funds included, they had been appropriated for specific purposes but had recently been appropriated for general fund.

Representative Menahan asked if he could identify any of the earmarked funds, and Mr. Nordtvedt answered He said there was about \$35 million of various funds they would appropriate. Starting with the interest account of the Coal Tax Trust, which in the absence of Legislation, 85% would be available to the general fund, 15% would go back into the trust. We would recommend spending 100% of the Coal Trust on general fund sources, which is in excess of \$12 million and spending the rest of the money in the Education Trust for the, in excess of \$50 million, in the Foundation Program. He said there are a series of funds that come from the other half of the Coal Trust that have been cut up in pieces for

various programs and they are recommending spending several of those funds toward related projects these would support.

Representative Menahan asked, in regard to the state employees, was the 2.2 each year of the biennium or for the biennium and Mr. Shackelford said the pay increase is as follows: State employees will receive from a 1.7 to a 2.3% increase in total compensation from fy '89 to fy '90 and an additional 1.7 to 2.7 in total compensation in the fy '90 to '91.

Senator Van Valkenburg asked if they agreed in order to make this budget balance it would take a 3/4 vote of the Legislature to authorize spending of money that goes into the permanent Coal Tax Trust fund. Mr. Shackelford said he did understand and that the Legislature had been given other alternatives.

Representative Spaeth, referring to a statement that the previous budget was incomplete, asked if the Legislature would receive a new document, and if the 4 pages they had received had replaced the prior budget. He was told these pages replaced items in the former budget, the remainder was accepted by the present administration. He said their recommendations put \$16 million in the general fund for the pay plan, and said as subcommittees they were asking them to appropriate 4% vacancy savings rather than 2%. In answer to a question on how much this would raise above the level in the Executive budget, he was told raising vacancy savings from 2% to 4% would make \$4 million.

Senator Jacobson (999) asked about the \$13 million for the University System and the anticipation of raising additional revenue from tuition and fees. She asked if they were planning to use this for faculty salaries, and were they funding at 6 and 6 plus the pay plan. Mr. Shackelford said the \$13 million indicated in the proposal is a funding increase to the University System and the only thing specifically tied to it is that part of it is to be used for the increasing the funding rate of the indirect costs. The remaining is for Higher Education. Senator Jacobson then asked if they were telling her the subcommittee is to simply put in an additional \$13 million over and above the budget without any direction as to how to use it. She was told it was to be used by the Higher Education System.

Representative Peck asked if the \$13 million for the Higher Education System was for the 6 units only or did it include the Community Colleges and Vo-Techs. Mr. Shackelford (171) said they are included. Mr. Peck asked what made up the \$60 million and Mr. Shackelford said that is in addition of the funds required to

increase the Foundation Program, to equalize the Special Education, to increase Vocational Education funding and those are the major items we will fund with it. Representative Peck asked if they had figures to go with these items and was told the Foundation Program will take about \$45 million, the increase in Special Education \$12 million, the increase to the Vo-Techs \$2 million and the increase to the amount of money used in the Retirement System is \$2 million.

Representative Peck (Side B, Tape 1, 099) asked, for the Foundation Program schedule if they did not anticipate abandoning those schedules and going to a different program of equalization. Mr. Shackelford said the schedules will be adjusted to accommodate the retirement system, and the Special Education. Representative Peck asked what did they anticipate increasing those basic schedules in terms of percentages. Are you saying 2 and 2 or 3 and 3, or what? Mr. Shackelford answered that he was not sure at this time if he could give a percentage. He said the retirement was calculated on the A and B figure, the average retirement is roughly \$340 per student it is hard to transfer into some sort of percentage figure.

Representative Peck said he did not want to involve those, simply with budgeting for next year, what should those schools anticipate for a general fund increase exclusive of the Retirement, Special Education etc. He asked Mr. Nordtvedt if he would answer the question. Mr. Nordtvedt asked if the question asked was, after we make the one time increase in schedules to absorb the retirement benefits and increase the schedule to absorb loss of personal property tax base etc., other than those things we are proposing 0 and 0.

Senator Jergeson (160) asked in replacing the revenue loss to school districts, how much revenue is lost that is currently generated by the University 6 mill levy? Are the tuition and fee increases designed to replace that revenue loss? Mr. Nordtvedt answered that the amount budgeted this biennium to reimburse the amount of personal property tax lost in this biennium is about \$20 million. Three hundred mills is probably an average state levy. You are talking about 1/50 of \$20 million, or about \$400,000 would be the impact for the current year of the University 6 mill levy. Senator Jergeson asked, this would be an increase in student fees is then considered in excess of the 6 mill levy? Mr. Nordtvedt answered, particularly when you add in the \$13 million of general fund money.

Chairman Bardanouve (203) asked where they would be reducing the size of the government and Mr. Shackelford said an examination of this budget, the previous executive's

budget, that the agencies in the budget are accepted and at current level there is 145 FTE loss in this budget and \$10.3 million loss of revenue to the agencies. Rep. Bardanouve asked if he meant the ones already removed in the Appropriation process, and was told yes.

Chairman Bardanouve asked about the fee increase for the University System. Mr. Shackelford said the increase to the general fund to the University System is \$13 million. Mr. Nordtvedt asked if this is a reference to the fee increase the Board of Regents are proposing. He said he could not speak for the Board of Regents, but it was his understanding they were going to participate in the funding picture for the Universities by an increase in fees and tuition augmented by this Legislature to improve the funding for the Universities.

Chairman Bardanouve asked if they recognized equalizing the retirement system, one of the serious areas, did they really feel this is a relatively small part of the overall equalization. He asked if they felt it was sufficient to meet Judge Loble's decision. Mr. Shackelford answered they felt it was a legitimate step in the right direction. He said he felt the package and steps they are taking are significant in going in the right direction. Rep. Bardanouve said he was concerned that it would not be enough to satisfy the courts.

Chairman Bardanouve asked if he had understood correctly that there is a zero and zero in the Foundation Program. Mr. Shackelford said they have put in enough money up to zero and zero. Rep. Bardanouve said he believed the Schwinden budget recommended a 2 and 2%, this would be a 0 and 0%. There is quite a difference there. Mr. Shackelford said they have changed from the direction, they believe putting on a 2 and 2% is not an appropriate way to take care of equalization. They select to go in a different direction.

Senator Van Valkenburg (340) said, if the Legislature were to adopt the option of using monies that would otherwise revert to the Coal Tax Trust Fund to fund this budget this biennium, that would be a temporary solution. Mr. Nordtvedt said that would depend on whether the position was taken to cap the trust for this session or permanently. Sen. Valkenburg then asked if he agreed that if it were capped for this session it would be a temporary solution, and Mr. Nordtvedt answered yes. Senator Van Valkenburg said in order to make that a permanent solution it would be necessary for the voters of the state to pass a Constitutional amendment, and Mr. Nordtvedt said there

were two options. He said the voters could pass a Constitutional amendment or the Legislature every two years, could by 3/4 vote of each House vote to temporarily cap the trust.

Senator Van Valkenburg (378) asked if the budget just presented, using the option that was just discussed, reflect the reduced income that would flow into the general fund by virtue of using that coal trust money for ongoing general fund expenditures. Mr. Nordtvedt answered pretty close. Senator Van Valkenburg then asked when they could get closer and Mr. Nordtvedt said it could be calculated in just a few minutes.

Representative Bradley (432) said the 3rd option talked about the \$47.9 million coming from a one time acceleration of the quarterly tax payments. She said a bill had been passed to do this, but since it was a one time shot of money it was proposed for a business building at the U of M. It was killed by the committee because it was considered a bad bill in the anti-business climate of plan of Montana. She said she felt the whole brunt of the program of this administration has been anti-business climate, and she wondered if they had considered that aspect. Mr. Nordtvedt answered that they had not liked the option, but had offered it with very serious difficulty.

Senator Jacobson (484) said she was confused at how they had arrived at \$13 million. She asked if they had looked at the specific needs of the University System or simply added up and this was what was left over. Mr. Shackleford answered that this money was as much as they could allocate and still present a balanced budget. He said they used a percentage basis to determine the amount put in but did not establish a particular point of allocation. Senator Jacobson asked what was meant by a percentage point. Mr. Shackleford said, a percent of general fund money that we felt would be a reasonable allocation for the University System. He said they used roughly 5%. It did not reflect any hinge on salaries, but did provide additional funding for the University System.

Representative Kadas said it was mentioned that the Schwinden budget included \$60 million of one time transfers. Mr. Shackleford said the \$60 million included unfunded liability in addition to one time allocations. The one time allocations are roughly \$35 million. Rep. Kadas asked if the \$35 million in transfers he asked if they were maintaining that money in the Stephens budget and was told that was correct. He then said, you are adding another \$48 million of your own one time payments to balance the budget, and Mr. Shackleford said that is not accurate, that this is

not a one time, that is your decision. Rep. Kadas then asked, the only way that would not be a one time application by the Legislature is if we were able to get a Constitutional amendment on the ballot approving the long term transfer of coal revenue that would have gone into the trust? Mr. Shackelford said under the situation you stated he could follow the reasoning. Rep. Kadas said, when you add this up we are looking at about \$80 million to \$85 million of one time money in this budget. He said it seemed to him it was digging a monumental budget hole for the next Legislatures and the next Governor. Mr. Shackelford said they believe the actions taken are reasonable under the circumstances and have prepared a balanced budget with some options. It is up to you to make the best decision as to the best route to take.

Representative Kadas asked if it were correct to put this responsibility on the 52nd Legislature and Mr. Shackelford said the previous ones had put the responsibility on this one. Mr. Nordtvedt said they had tried to balance the budget without imposing further responsibilities on future Legislatures and he believed to have more taxes to handle the ongoing expenses would be counter productive to the economy of Montana.

Senator Regan said she was troubled by the Public School funding for equity issues the state has addressed and not addressed because the Loble decision gave us until October to come up with a comprehensive plan on how to bring about equalization to the whole school foundation program. She said the retirement fund is a very small portion to that whole budget. They are significant, but you have not really addressed the issue. The insurance is less than 1%, and to even include it is misleading. She said she had two problems, one is that there is no real long range plan as we would see if you were to look at the Council plan or the LFA study or the OPI, which at one time had a plan. She asked if they were going to have a plan presented, if not we would be back in before too long, since we want to do this, not have the court do it. Mr. Nordtvedt said he felt this probably represents 1/3 of the solution of the problem. He said they were in the ball park of 60% of the equalized funding of the issue. He said if you add up the equalization that they are doing through the personal property tax reductions, and moving equalized funding into unequalized funding, the retirement fund etc. it represents about 1/3. He said in regard to the Supreme Court decision, the judgement had been made not to jump out in front of the court to find a quick solution. He said the school funding represents over 50% of the public spending in the state.

Senator Regan asked if he were suggesting we wait until March to see what the court says and then hope they say we won't have to go all the way, or we can modify it and be off the hook. The time is short between March and adjournment. Mr. Nordtvedt said they might not make the ruling, and if they do make one they might modify the parameters set down. If they do make a ruling in March we are still in session and will respond. Senator Regan asked if they have, as policy, a long range plan now, and if you do, will we see that plan soon. She was told they will not have a complete plan until we understand the parameters of the Supreme Court.

Representative Quilici (002), asked about capping the permanent Coal Tax. \$47.9 million. What if we don't get the 3/4 vote to get this money he asked, we have the alternative of an individual income tax and corporate income tax quarterly payments. How will this work. You said no tax increase, but this \$26 million and \$21 million is coming from somewhere. How do we get this without putting added taxes on them. Mr. Nordtvedt said this is an accelerated tax collection, it is not an increased tax, and it's virtue is that it will self destruct.

Senator Van Valkenburg asked if they would go through the Foundation Program once more. On page 2, at the top (exhibit 1), he read from the second paragraph and said he had understood it was \$45 million into that program. Mr. Shackelford said the \$45 million is needed to take the place of loss of taxable evaluation that is reflected in the mill levy and other state equalization revenues. It is in the Foundation program. This would bring them up to current level, to fund the schedules at 0 and 0. Sen. Van Valkenburg asked if it were possible to provide more information in regard to the break down of the \$45 million, and was told yes.

Senator Van Valkenburg asked the analyst if she had sufficient information from what is being prepared for the Legislature on the amended Executive budget for the additional information she would need. Mrs. Ripplingale said this lays out broad parameters in nearly all areas. We will have to get with them in nearly all of the areas. They have told us they will be available and answer any questions we would need.

Speaker, John Vincent (236) addressed Mr. Shackelford, in regard to questions from the committee he had said, "that's your decision" in regard to the options presented. He asked if the Governor had made a decision on which one of the options he personally favors. Mr. Shackelford said the options are listed for the Legislature. The Governor had them prepare

those options so they could be decisions for the Legislature. They are options that lead to a balanced budget.

Speaker Vincent (Tape 2, side A, 000) said he would suggest they had not given the Legislature a picture, only suggestions and options, and were the positions reversed it might be viewed differently. He said he would interpret then that the Governor had not determined which specific revenue plan he favored. He asked Dr. Nordtvedt if he had interpreted correctly that in the school decision relative to the Supreme Court that the Stephens Administration is prepared to let the court act first before proceeding any further. Mr. Nordtvedt said they would be planning the most intelligent response they ought to make under all the possibilities. He said then they can give a response that takes into consideration the parameters in regard to time and scope, changes that will be a result of the decision. We did not want to act prematurely, and there will not be a full blown plan before the Supreme Court decision.

Speaker Vincent asked if the Supreme Court were to reach a decision by April 1, would we then anticipate dealing with the school funding issue in the remaining part of the regular session or would we be looking at a special session to look at the special proposals you will give us. Mr. Nordtvedt said that is hypothetical. He felt the answer lies in how the Legislature decides to solve the equalization question. He explained some of the reasons for their decisions. Speaker Vincent said he could understand, but the Governor had promised to address this issue during this Legislature, and he felt this was something they were still looking for.

Speaker Vincent asked if they realized the burden they had placed on the Legislature in giving them the alternatives they had. In regard to the 3/4 vote of the Legislature to either cap the permanent trust temporarily or permanently, he felt it was important that the Legislature had never even come close to doing that. He pointed out the result of an attempt in the last session to fund the supplemental bill with coal trust money, and the motion did not even receive 50 votes, and he did not feel the 3/4 vote was a politically viable alternative. Option 2, acceleration of income tax from corporations, they were asking their own party to turn around and vote for legislation they have opposed. He said the Legislature would consider the options, but felt they had been asked to consider options that were not politically viable.

Representative Spaeth said he had a few "tidy up" questions. He said he had trouble finding a lot of things he felt

should be in the recommendations. He asked about the funding of the Arts which was in the Governor's State of the State program. Mr. Shackelford said all of the budgets of the particular agencies will be found in the budget book. He said the programs contained in the Executive budget were accepted and there are no new initiatives in them at this time. The exceptions are the sheets you have before you that we have been discussing.

Representative Spaeth said in the State of State Governor Stephens had indicated an increase in Judicial salaries. Mr. Shackelford said the pay plan they are advocating is the same as contained in the Executive budget. Rep. Spaeth asked how could he find the 0 and 0 on the Foundation Program. Mr. Shackelford said it is in the document. Rep. Spaeth (333) asked about Federal Welfare Reform. Mr. Shackelford said the modification suggested and accepted contained those Welfare Reform Acts. They are accepted by the Stephens administration. He was asked about the Boulder River recertification and was told nothing specific.

Senator Van Valkenburg said there is a line under Disbursements on (exhibit 3) and estimated FY 90-91 says zero dollars for the recommended pay plan, and asked if that were correct. Mr. Shackelford said it was correct as you read it, but the disbursement adjustments -- there is \$45 million contained in that column. Sen. Van Valkenburg said they had indicated the net general fund increase for the pay plan was over \$12 million and \$4 million from vacancy savings, it was actually included in the \$45 million disbursement adjustments. He was told that was correct. Senator Van Valkenburg said he understood the House Appropriations committee had adopted a policy that the subcommittees are to use where 125 positions were eliminated from the Schwinden budget, and then they would apply a zero based funding. He asked if the proposal they are making today to now apply a 4% savings rate change the decision of that committee in respect to the vacant positions that were eliminated, or do we now apply a 4% vacancy savings rate on top of that? Mr. Shackelford said he was not prepared to answer that question specifically.

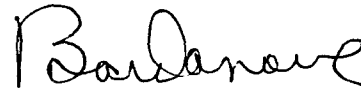
Representative Menahan asked Rep. Cobb's attachment 3 had a number of positions on it we needed but couldn't hire because of the salary. In view of the decertification at Boulder and the Civil Action at the hospital, he wondered if they would consider those positions as needed. Mr. Shackelford said they would certainly look at those and the 145 may or may not include them. He would have to look at it specifically. Representative Menahan then asked about the 2% pay plan, was it 2% for

everyone across the board from grade 18 down to step 5? Mr. Shackelford said the pay plan is spelled out specifically here and gives a higher amount to the lower grades. Rep. Menahan questioned the \$1 a day at some of the Institutions and Prison to accept that? Mr. Shackelford said he could not offer anything definite either way.

Chairman Bardanouve thanked Mr. Shackelford and Mr. Nordtvedt subjecting themselves to the questions, and told them their side of the aisle would be asking the same questions. The questions are very important to the Legislature, and he hoped they would not be taken as partisanship.

ADJOURNMENT

Adjournment At: 5:50 p.m.



REP. FRANCIS BARDANOUE, Chairman

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DAILY ROLL CALL

HOUSE APPROPRIATIONS

COMMITTEE

51st LEGISLATIVE SESSION -- 1989

Date

1/19/89

NAME	PRESENT	ABSENT	EXCUSED
REPRESENTATIVE BARDANOUVE	✓		
REPRESENTATIVE SPAETH	✓		
REPRESENTATIVE PECK	✓		
REPRESENTATIVE IVERSON	✓		
REPRESENTATIVE SWIFT	✓		
REPRESENTATIVE QUILICI	✓		
REPRESENTATIVE BRADLEY	✓		
REPRESENTATIVE PETERSON	✓		
REPRESENTATIVE MARKS	✓		
REPRESENTATIVE CONNELLY	✓		
REPRESENTATIVE MENAHAN	✓		
REPRESENTATIVE THOFT	✓		
REPRESENTATIVE KADAS	✓		
REPRESENTATIVE SWYSGOOD	✓		
REPRESENTATIVE KIMBERLEY	✓		
REPRESENTATIVE NISBET	✓		
REPRESENTATIVE COBB	✓		
REPRESENTATIVE GRINDE	✓		
REPRESENTATIVE CODY	✓		
REPRESENTATIVE GRADY		✓	

EXHIBIT 1

DATE 1/19/89

House Appropriations

Page 2

Pay Plan

The budget endorses the prior administration's pay plan. The major difference is that funds are budgeted to pay for the increase. The Schwinden budget did not provide that money. State employees will receive a 1.7 to 2.3 percent increase in total compensation from FY89 to FY90 and an additional 1.7 to 2.7 percent increase in total compensation from FY90 to FY91. The lower grades in statewide salary schedule receive the largest percent increases in total compensation. This increase in compensation will provide for additional in state contribution for group insurance.

Public School Funding

A budget modification of \$60.7 million is needed to take a major step in addressing the public school issue. The Legislative proposals to be part of a long range solution are currently being prepared. Specifically, the budget modification funds the current Foundation program, combines the retirement with the general fund, eliminates the retirement fund county levy, equalizes the retirement fund needs statewide, equalizes special education costs statewide, and reinstates the secondary vocational education funding. These items take steps toward more equity and recognize the importance of maintaining the quality of our public schools.

University Funding

A budget modification of \$13 million is requested to increase funding for our higher education system. This budget increase includes raising the level of indirect funds utilized by the universities to 100%. These funds can only be used in the area of research and relate to the original funding source. The funds are not to be used for general operation and maintenance. The higher education system will also be required to completely join the states uniform reporting system and place their payroll into the state system.

Personal Property Tax Reduction Program

A budget modification of \$20 million for this biennium is proposed to reduce personal property taxes. This is part of a four year reduction plan. The final phase of this program will result in a common personal property tax classification tax rate of 4 percent.

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Revenue loss of local governments will be replaced. The mechanism for schools will be through the Foundation Program and a Block Grant Program will be designed for reimbursing cities and counties.

Revenue and Tax Reimbursement Adjustments

Alternative revenue sources are proposed to balance this budget. Capping the permanent coal trust either permanently or for this biennium is one alternative. The other alternative will require both individual and corporations with income not subject to withholding to pay quarterly estimated income tax payments. This system follows the current federal income tax rules.

Summary

The budget presented is a balanced budget and meets the Governor's constitutional responsibility. The budget funds necessary programs, reduces the size of government, increases the commitment to higher education, takes action to address equal funding of public schools, and reduces personal property taxes. This is accomplished without tax increases and without the income tax surcharge.

EXHIBIT 2

DATE 1/4/89

~~HOUSE~~ Appropriations

During the eighties this nation's economic expansion has created 17 million new jobs, and even with tax rate cuts this expanding national economy has produced 8 percent per year growth in federal tax revenue.

If Montana had participated in an average way in this national growth, we would have today 55,000 more jobs in Montana and \$240 million dollars more to spend in Montana's present biennium general fund.

Clearly, Montana has not participated in the national economic recovery -- the reasons are varied -- but the result is very modest revenue sources for balancing our budget, and a state per capita income which is falling ever more behind the national level.

This administration's budget recognizes these present realities, but it is also striking out in several new directions which are designed to revive the Montana economy and bring Montana into the mainstream of the fast changing national and international economy.

As long ago as 1981, those who analyzed our state budget saw that we had on-going expenditures exceeding on-going tax collections.

That problem still faces us today. The balanced budget we present you with today still contains a gap between on-going revenues and expenditures.

We are striving in some of our budget recommendations to close part of this gap by promoting economic recovery in the state.

We are neither proposing nor recommending any tax rate hikes to balance this budget, since such measures would be counter productive to economic recovery and we have alternatives.

Our revenues start with a beginning fund balance of ^{32.0}~~\$32.8~~ million dollars. Using the Governor's Revenue Estimating Advisory Council estimate of revenue as a starting point at this early date in the legislative session, we propose to spend an additional total of \$767.7 million dollars of on-going revenue plus taxes previously collected from Montanans.

We propose an additional source of revenue amounting to \$47.9 million dollars over the biennium and present three options for your consideration. No option involves a new tax rate hike on Montanans.

We suggest that the permanent Coal Trust principle -- now approaching \$400 million dollars in size -- be capped and that additional revenues which would flow into that fund in the future be used to fund those aspects of our budget related to maintaining the capital infrastructure of our state.

Spread out among the budgets of our cities, counties, schools, universities, institutions and the state government, there is clearly an identifiable collection of expenditures for maintaining public capital items which adds up to more than \$24 million dollars per year.

The Coal Trust principle is eroding because of inflation. We have real needs, today, to prevent erosion of our public infrastructure for which use of the future coal tax revenues are most suitable.

This capping of the Trust could be done for this biennium only, or if you wish, to significantly close the gap between on-going expenditures and on-going revenues, you could make this cap permanent.

We point out a third alternative for providing the \$47.9 million dollars needed to balance this budget. By changing to federal rules for making quarterly estimated tax payments for corporations and individuals with significant income not subject to withholding, we will obtain \$47.9 million dollars in one-time accelerations of revenue into this biennium without adversely depleting future biennium revenues. This action can not be repeated -- stressing the point that it will not become a new, permanent tax rate hike on Montanans. This action does not affect very small corporations and the majority of individuals whose income is subject to withholding.

Let me now describe in more detail some of the administration's significant budget initiatives.

1) Personal Property Tax Relief

We propose to bring the classification rates of personal property down to a common 4% through a phased-in 4 year plan. In the process, we would eliminate the personal property tax entirely on a collection of small-revenue items which are a nuisance to both taxpayers and tax collectors.

Our final personal property effective tax rates will thereby become competitive with those in other states -- they are not competitive today. We expect this program to stimulate more business activity in this state, and the validation of this initiative would be creation of more jobs in Montana. We have budgeted \$20 million for this biennium's general fund impact of this program. That money reimburses schools and local governments for the tax-base loss -- schools are reimbursed through greater state equalization of their funding by increases in the foundation program schedules. Cities and counties will be reimbursed by a block-grant type program.

2) Equalization of County Levies for School Employee Retirement Benefits

We are initiating a program of greater equalization of school funding by proposing elimination of the unequalized county levies for school retirement benefits -- levies which vary from 6 mills to 50 mills around the state -- and instituting a uniform state-wide mill levy of about 22 mills as a replacement. The state revenue and the lottery revenue will be distributed to the schools on an equalized basis by an increase in foundation schedules which absorbs the approximately \$52 million dollars per year of revenue. Retirement benefits will become a part of school general fund budgeting.

This action plus the equalization which occurs in our personal property tax reimbursements moves us about 1/3 the way toward a final solution of the equalization issue. It is a significant step. Equalization of some other funds, such as the comprehensive insurance funds and the transportation funds, could also be discussed this session, but they are clearly more complex issues.

We budget a \$2 million dollar general fund impact of the school equalization plan which will result from lower severance tax collections from the resource industries to balance the higher proceeds property taxes they will pay under the statewide levy. We are sharing their present tax effort among all the State's schools, our plan is not to increase their already substantial tax loads.

We will be sending our school funding legislation to you within a few days, so that you can expedite its consideration and let the schools know where they stand in time to prepare their budgets.

3) Increased University System Funding

One problem with Montana's economy is its lack of diversity and its less than full participation in the high-tech revolutions occurring in the national and world economy. We look to our university system to help us improve our state economy and help prepare our young people for tomorrow's economy.

We are budgeting \$13 million dollars of increased monies for the university system. Adding in revenues to be raised by the Board of Regents through tuition and fee increases, we significantly strengthen our university system budget and give them the tools to more effectively compete for quality teaching and research faculty. This proposal includes giving the universities 100% reimbursement of the indirect costs they generate from outside on their research grants. We will expect in return that the universities use their indirect cost revenues as "seed and nourishment" monies for their research programs, for increasing the productivity of their present research and for leveraging the state monies by finding new research grants from outside agencies, and with a focus on developing research programs which are relevant to strengthening Montana's economy. These indirect cost monies are not to be spent for general university budget purposes.

EXHIBIT 2DATE 7/19/89House AppropriationGovernor Stephens' Executive Budget Modifications
General Fund Summary
(In Millions)

	Actual FY 88	Estimate FY 89	Recommend FY 90-91
Beginning Fund Balance	\$10.557	\$39.472	\$31.974
Receipts			
Estimated Receipts	\$391.152	\$377.357	\$767.727
Revenue Adjustments			\$47.900
Total Available	\$401.709	\$416.829	\$847.601
Disbursements			
Current Level Disbursements	370.795	362.752	720.020
Foundation Program at 0/0	0.000	0.000	9.655
Modified Level Disbursements		0.000	20.719
Disbursement Adjustments		0.000	40.500
Legislative Feed Bill		4.400	4.400
Miscellaneous Appropriations		0.382	
Pay Plan Proposal		0.000	0.000
Supplemental Requests		17.630	
Disaster		0.000	0.000
Trans Interest		0.000	3.719
Debt Service		11.088	22.041
Language Appropriations		0.302	
Administrative Appropriations		0.123	
Appropriation Transfers		-2.679	
Relinquish Appropriation Authority		-0.825	
Continuing Appropriations		3.665	
Reversions		-10.623	-13.000
Total Disbursements	\$370.795	\$386.215	\$808.054
Adjustments	4.707		0.000
Foundation Program Reversion	3.651		0.000
Residual Equity Transfer	0.200	1.360	0.000
Tax Reimbursement Adjustments			22.000
Ending Fund Balance	\$39.472	\$31.974	\$17.547
Surplus as % of Disbursements	10.65%	8.28%	2.17%

Governor Stephens' Executive Budget Modifications
General Fund Summary
(In Millions)

	Actual FY 88	Estimate FY 89	Recommend FY 90-91
<hr/>			
Revenue Adjustments			
A) Capping Permanent Coal Severance Tax Trust	1) Permanently 2) Only 1990-91 Biennium		\$47.900
- - - O R - - -			
B) Individual Income Tax(Quarterly Est. Payment)			\$26.500
B) Corporation Income Tax(Quarterly Est. Payment)			21.400
Total Revenue Adjustments			<u>\$47.900</u>
Tax Reimbursement Adjustments			
Personal Property Tax Relief			\$20.000
Equalization of Retirement Account			2.000
Total Tax Reimbursement Adjustments			<u>\$22.000</u>
Disbursement Adjustments			
Increased University System Funding			\$13.000
Fully Fund Pay Plan			16.000
Increased Special Education Funding			12.000
Increased Vocational Education Funding			1.800
Additional Modifications			1.700
Vacancy Savings From 2% to 4%			-4.000
Total Disbursement Adjustments			<u>\$40.500</u>

VISITORS' REGISTER

House Appropriation COMMITTEE Joint Sen F & C

BILL NO. Gov. BudgetDATE 1/19/89

SPONSOR _____

NAME (please print)	RESIDENCE REPRESENTING	SUPPORT	OPPOSE
Dwight Mackay	Yellowstone CO		
Rick Allen	Lamar Office		
Dave Nelson	MT. Arts Council		
David Deppen	MEFA		
Ray Shackelford	OBPP		
Ken Lundbrecht	DOR		
Bob Kuchensood	OBPP		
Tom Madax	MATED		
Keith Grolatt	LFA		
Von Angels	Mr Chamber of Commerce		
Phil Campbell	MEFA		
Julie Hacker	Trule Co. Truholders		
Vera Cahoon	Trule Co. Truholders		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.