OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR

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To the People of Montana and
The Honorable Members of the 62nd Legislature:

Montana's economy is on the rebound. Jobs are being created. Commodities are at record production levels and at record prices, tourist visits at new highs and new technology companies are choosing to locate in Montana in record numbers. Unlike almost all other states, we have "cash in the 'bank'"-- currently over $330 million. Our state's finances are sound.

From my first day as Governor, building a strong economy and creating good paying jobs has been my highest concern. We have been successful in that endeavor, but we must redouble our efforts as we emerge from the Great Recession. My budget for the next 2 years reflects my single purpose in keeping and creating good paying jobs in Montana. My budget will keep the excellent pro-business climate we have earned and will invest in ways that help our economy grow.

We already have cut more taxes for more businesses and citizens than any administration in Montana history. To preserve and even improve our outstanding business climate, I propose to eliminate the business equipment tax for 98.6% of all Montana businesses. The proposal will eliminate this tax for 30,500 total businesses, 13,000 from our previous efforts in 2005 and 17,500 from this plan. Homeowners also deserve a tax break. I propose to allocate $36 million in income tax credits so that homeowners are able to reduce $36 million from the property tax on their home.

The budget I present is balanced. Once again, I call for strong reserves to be maintained -- $125 million (the third highest amount ever recommended) -- "grain in the bin" to protect for the future. No other administration has built up our state's finances so strongly. Our bond ratings are higher today than they have ever been.

Unlike the education cuts in more than 40 states, this budget puts more state money into K12 and into our higher education system. We must not short-change our children's future!

In summary, this budget puts people first by creating high paying jobs, educating our kids, protecting our seniors, and keeping our communities safe.

Many have taken notice of Montana's grand beauty, quality of life and business-friendly climate. Working together we will keep Montana the greatest place in the world to raise a family, to start and grow a business and to build a community.

I welcome the 62nd Legislature and look forward to a productive session.

Sincerely,

BRIAN SCHWEITZER
Governor

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The Schweitzer Budget for 2012-2013

A Balanced, Pro-Job, Pro-Family Budget that Cuts Taxes and Invests in the Future while Providing Essential Core Services and a Strong Ending Fund Balance

A Brighter Jobs Future and a Balanced Budget

Montana's economy is brightening. Commodity production and prices are at record highs. Investment in the oil, coal, wind generation, and transmission and pipeline industries remains high. Our unemployment rate remains well below the national average.

The Governor's budget for 2012-2013 is balanced. It is pro-job, pro-family and pro-growth. It puts people first by funding essential core serves. It provides the necessary funding for educating our children, protecting our seniors and keeping our communities safe.

Cutting Taxes

The Schweitzer Administration has cut more taxes for Montana businesses and homeowners than any administration in history. This budget cuts taxes.

In fact this budget calls for significantly lowering Montana's business equipment tax, helping keep us among states with the best business climates in the entire nation. To preserve and even improve our outstanding business climate, we propose changing the business equipment tax to eliminate the tax for 98.6% of all Montana businesses. We previously eliminated this tax for over 13,000 small businesses. The Schweitzer Administration proposes raising the current $20,000 threshold for paying the business equipment tax to a $200,000 threshold in 2012, and then to $500,000 in 2013, and then to $1 million thereafter. Our previous efforts removed over 13,000 small businesses from the business equipment tax rolls – this will remove another 17,500 small businesses by 2014.

For homeowners, the Schweitzer Administration recommends allocating $36 million so that homeowners are able to reduce the property tax on their home through a refundable homeowner's income tax credit.

Keeping Money in the Bank

Montana has over $330 million in the bank. We are one of the few states that have not experienced a budget deficit. Our bond ratings are high and stable; in fact, under the Schweitzer Administration, our bond ratings were raised for the first time in over 25 years. A key reason for this was Governor Schweitzer's insistence that significant cash reserves be kept on hand -- 'grain in the bin' as he describes it. The Administration is recommending an ending fund balance of $125 million for FY 2013, the third highest ever recommended by the executive; the two highest also having been by this administration.

Governor's Business & Economic Development and Quality of Life Efforts are Nationally Noted

The Governor has tirelessly promoted Montana's many economic strengths especially in traditional and renewable energy development. These efforts have received national attention and excellent national rankings (see http://www.innovatemontana.com/montana-by-numbers/ for details):

- Entrepreneurship and overall business start-up activity.....1st place
- Economic performance in economic competitiveness index .....2nd best
- Sales taxes for business ..... 3rd best
- Most educated workforce ..... 4th best
- Overall tax climate for business ..... 6th best
- Cost of Labor (includes productivity) ..... 6th best
- Overall business climate ..... 8th best
- Combined state and local tax burden ..... 8th lowest
- Quality of life ..... 8th best
- State economic growth over last 3 years.....8th fastest
- Property tax index .....10th best
- Runner-up for Economic Development State of the Year for 2009.
- Corporate Investment and Community Impact Award for both 2009 and 2010.

Montana energy development helps drive the Montana economy:

- #1 in state growth rate for wind power
- 2nd fastest state growth rate in oil production
- 2nd fastest state growth rate in coal production
- More new electrical generation capacity than previous 20 years combined

Montana has had record job growth – at record high wages – prior to the recession

- 60,000 private sector jobs created between 1/1/2005 and 10/28/2008
- 5000 private sector jobs created in the first 7-8 months of 2010

- We have held state government executive branch job growth to less than ¼ of 1% /yr over the last 10 years.

Maintaining Our Good Business Climate and Successful Job Creation Partnerships

Creating jobs is a private-public partnership. Most jobs are created by private sector economic investment. But state policies and state, regional & local economic development programs are important in establishing a climate for growth and actually providing catalytic assistance so private businesses can maintain and create jobs. To keep this strong partnership, this budget continues to fund:

- New Worker Training,
- Small Business Development Centers and Small Business Innovation Research,
- Growth Through Agriculture,
- Foreign Trade Assistance,
- Montana Manufacturing support,
- Energy Development support, and
- Other key economic development efforts.

Paying for Our Strong Pro-Job Efforts

We have to be smarter, work smarter and tax smarter to stay competitive as individuals, businesses and as a state. Our state government, like our families and businesses, has to live within its means. We must carefully spend the money we collect and not collect more than we need. But those who do not pay the taxes they owe push a tax burden on to all those individuals and businesses who do pay their taxes. This budget calls for taking measures to ensure that out-of-staters who have to this point avoided paying millions in Montana taxes pay their fair share – what they owe. The Schweitzer Administration advocates seven pieces of legislation that would conservatively collect over $27 million just in the next two years to help sustain the funding that keeps our business climate positive and our state competitive.

Education – Path to Good Jobs, Growing Economy & Competitive State

We must continue to invest in education because an educated people – an educated workforce -- is the best path to good jobs, a strong economy and a competitive state. This budget puts more state money into K-12 and into our higher education system. We must not short-change our children's future!

We propose putting $50 million more into K-12 education.

We propose putting $39 million more into higher education.

Putting People First

This budget puts people first by funding essential core services: educating our kids, protecting our seniors, and keeping our communities safe. In addition to the education funding discussed above, two state agencies, the Department of Corrections and Department of Public Health & Human Services (DPHHS) provide the core services of public safety and protecting our seniors and others. The Schweitzer budget proposes that both of these agencies receive more total funding dollars than was in their 2010 base budgets.

State Employee Pay Plan

All state employees employed as of the last day of the preceding calendar year would receive base pay raises of:

- 1 percent effective the first full-pay period in January 2012, and
- 3 percent effective the first full-pay period in January 2013.

There is no increase in the state's contribution for employee health insurance in this agreement.

Proposed FY 2011 and 2013 Biennium General Fund Balance Sheet

	Projected FY 2011	Projected FY 2012	Projected FY 2013
Beginning Fund Balance	316.57	240.37	163.67
Adjustments	(5.93)		
Adjusted Fund Balance	310.64	240.37	163.67
OBPP Revenue Estimate	1694.11	1757.10	1846.14
Prior Year Revenue	0.00	0.00	0.00
Proposed Revenue Bills and Other OTO Transfers-In			
Eliminate Foreign Country Tax Shelter		2.65	2.65
Revise Business Equipment Tax		(8.54)	(13.50)
Tax Cut for Homeowners		(12.00)	(24.00)
Revise Corporate Tax Audit Advantage		2.90	2.90
Eliminate Corporate Net Operating Carryback		2.15	2.15
Nonresident High Value Real Estate Property		1.50	1.50
Eliminate Nevada Tax Dodge		2.80	2.80
Technical Fix to SB 407 (2003 Session)		2.00	2.00
DOR Tax Compliance Package		2.00	3.00
Transfers-In to General Fund	22.72	48.19	24.03
Total Funds Available	2027.47	2041.12	2013.34
Disbursements - Ongoing General			
General Appropriations Act - Base	1608.15	1511.67	1510.12
General Appropriations Act Decision Packages		146.83	171.41
Statutory Appropriations	181.24	189.99	199.55
Non-Budgeted Transfers	10.97	16.30	12.74
Feed Bill	7.63	1.92	7.48
Reversions	(153.41)	(5.65)	(5.67)
Other Appropriations	0.08	0.00	0.00
Subtotal Ongoing	1654.67	1861.06	1895.62
Disbursements - One-Time-Only			
General Appropriations Act Decision Packages	17.30	4.39	(13.62)
Non-Budgeted Transfers	38.21	0.00	0.00
HB 645	59.38	0.00	0.00
House Bill 13 - Personal Services Contingency	3.68	4.08	0.00
Carryforward	7.98	0.00	0.00
Other House or Senate Bill	3.03	0.00	0.00
Subtotal OTO	129.58	8.46	(13.62)
Total Disbursements Before Other Bills	1784.25	1869.52	1882.01
Proposed (Non HB 2) Bills - OTO			
HB 3 - Supplementals	2.85	0.00	0.00
Other	0.00	10.30	0.00
Subtotal	2.85	10.30	0.00
Proposed (Non HB 2) Bills - Ongoing			
HB 13 - Pay Plan		1.89	9.52
Other		(4.26)	(7.37)
Subtotal	0.00	(2.37)	2.15
Total Disbursements	1787.10	1877.45	1884.16
Ending Fund Balance After Adjustments	**240.37**	**163.67**	**129.18**

HB 2 General Fund					
Agency No.	Agency Name	2011 Biennum HB 2 General Fund (Per HB 2)	2013 Biennium Proposed HB 2 General Fund	% Change 11B to 13B	2013 Biennium Less than 2011 Biennium
1104	Legislative Branch	23,402,895	23,904,275	2.14%	NO
2110	Judiciary	69,480,181	73,972,970	6.47%	NO
3101	Governor's Office	12,325,455	12,049,768	-2.24%	YES
3202	Commissioner of Political Practices	960,320	1,138,471	18.55%	NO
3501	Office of Public Instruction	1,324,597,380	1,305,064,733	-1.47%	YES
4107	Crime Control Division	4,813,596	4,841,384	0.58%	NO
4110	Department of Justice	52,393,808	54,783,053	4.56%	NO
5101	Board of Public Education	444,888	461,402	3.71%	NO
5102	Commissioner of Higher Education	354,395,060	389,797,639	9.99%	NO
5113	School for the Deaf and Blind	11,735,408	11,968,052	1.98%	NO
5114	Montana Arts Council	923,817	900,100	-2.57%	YES
5115	Library Commission	5,518,071	5,427,370	-1.64%	YES
5117	Historical Society	5,398,259	5,713,092	5.83%	NO
5301	Department of Environmental Quality	11,382,231	10,935,218	-3.93%	YES
5401	Department of Transportation	2,600,000	-	-100.00%	YES
5603	Department of Livestock	3,128,563	2,963,814	-5.27%	YES
5706	Dept. of Natural Resources/Conservation	44,767,913	46,289,188	3.40%	NO
5801	Department of Revenue	101,211,843	99,179,664	-2.01%	YES
6101	Department of Administration	12,468,343	12,624,664	1.25%	NO
6108	Public Defender	39,640,612	43,368,678	9.40%	NO
6201	Department of Agriculture	2,729,211	2,624,409	-3.84%	YES
6401	Department of Corrections	337,939,310	355,668,495	5.25%	NO
6501	Department of Commerce	13,933,959	10,024,118	-28.06%	YES
6602	Labor and Industry	5,165,095	4,845,093	-6.20%	YES
6701	Department of Military Affairs	11,424,336	11,236,213	-1.65%	YES
6901	Public Health and Human Services	800,748,865	841,009,152	5.03%	NO
Total		3,253,529,419	3,330,791,015	2.37%	NO

General Fund			
	2011 Biennium As Appropriated	2013 Biennium As Proposed	% Change
HB 2	3,253,529,419	3,330,791,015	2.37%

General Fund			
	2011 Biennium As Appropriated	2013 Biennium As Proposed	% Change
All Authority	3,688,998,000	3,761,610,000	1.97%