SENATE FINANCE AND CLAIMS
EXHIBIT NO. 2
DATE 1-12-05
BILL NO. SB 27

Testimony on SB 27 – Senate Finance and Claims – January 12, 2005

Mr. Chairman and Committee Members,

I am David Ewer, the Governor's Budget Director.

I respectfully oppose SB 27 in the introduced form. The bill is effective upon passage and approval, which requires transferring $155 million from the general fund to the proposed budget stabilization and emergency funds. This is a significant impact to the proposed budget. The executive budget is structurally balanced for the 2007 biennium, with on-going revenues covering on-going expenditures. The budget uses one-time funds that have built up over the 2005 biennium to pay for deferred maintenance and reduce liabilities for other programs that were incurred in difficult financial times. This bill removes those funds from the appropriation process.

This bill would reduce the beginning fund balance for the 2007 biennium to 1% of general fund appropriations for the biennium. Current law, 17-7-131, MCA, requires the ending fund balance to be at least 1% of all general fund appropriations during the biennium. This puts the Governor in the position of needing to monitor the ending fund balance constantly for the slightest variance that could cause the fund balance to go below 1%. Even with a "rainy day or budget stabilization fund," it is good fiscal management to keep the fund balance between 2.5% and 3% of the biennium's general fund appropriations.

This bill requires returning funds that exceed the budget stabilization fund cap to the taxpayers through an income tax reduction. This is administratively unworkable. In addition, there may be other uses of the funds that would benefit the citizens of Montana more than returning funds collected from all sources to the income taxpayers. For example, Governor Schweitzer's budget proposes one-time expenditures of funds to correct some financing methods used in prior years, which are now considered unconstitutional, and doing the most serious maintenance projects on a long list of deferred maintenance needs for state assets.

SB 27 contains concepts that are acceptable and even desirable in operating a budget stabilization fund if it becomes the policy to have this fund. These good concepts are:

1. This bill would smooth government spending and provide program stability, which is desirable. Funds will be set aside when general fund revenue grows more robustly than anticipated which can be used when general fund revenue is less than anticipated. It is not good government management to constantly change program requirements and service levels.

2. The governor may transfer funds from the budget stabilization fund without reconvening the legislature.
3. The governor may maintain the target ending fund balance by transferring funds from the budget stabilization account, reducing expenditures, or both. The governor has discretion on how best to manage within a reasonable range of funding fluctuations.
4. If establishment of the budget stabilization fund were planned in advance, the financial impact would be known in advance of budget preparations for the next legislative session. All interested parties would know the available funds during the budget process. This would keep expectations and promises in line with available revenue or new revenue proposals.

Mr. Chairman and committee members, I reiterate that we are opposed to the bill as introduced, but recognize that there are some very worthwhile concepts in this bill if a budget stabilization fund is established.