

MONTANA'S BUDGETING PROCESS

A Report Prepared for the
Committee on Efficiency in State Government

By
Taryn Purdy
Principal Fiscal Analyst
Legislative Fiscal Division

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This report outlines the budgeting process used by the State of Montana.

For additional information, see “Understanding State Finances and the Budgeting Process” in the LFD offices or on the LFD website:

http://leg.mt.gov/content/Publications/fiscal/leg_reference/Understanding_State_Finances_Manual_2010.pdf

WHAT DEFINES THE BUDGETING PROCESS

Budgeting is framed by statute, which addresses:

- The general content and form of the budget - each agency is required to submit and the executive budget is required to include a number of items, including mission statement and goals and objectives
- Avenues for agreement on other content and form issues between the executive and legislative staff
- Timelines for completion

The system is fundamentally an incremental system, with aspects of performance-based budgeting, line-iteming, and zero-based budgeting.

LAYERS OF THE BUDGET

There are three layers of budget building:

- Base;
- Present law; and
- New proposals

Base

Base budget is defined in statute as the “resources for the operation of state government that are of an ongoing and nonextraordinary nature in the current biennium. The base budget for the state general fund and state special revenue funds may not exceed that level of funding authorized by the previous legislature.”

The base budget begins with the amount spent in the base year, which is the last-completed fiscal year. Several adjustments are then made to this total, including:

- Elimination of one-time-only expenditures
- Continuance or elimination of cat and dog bills, depending upon whether the legislature intended the function to continue
- Reduction to zero of certain expenditures that are zero-based, including per diem, overtime, and other expenditures, which must be requested in total in the budget submission
- Other adjustments

In addition, an “adjusted base” is calculated, whereby any personal services adjustments sanctioned by law or by the legislature in a pay plan are included, as well as proposed inflation and changes to fixed costs, and any vacancy savings proposed by the Governor and/or approved by the legislature.

Present Law

Present law base is defined as “that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

- (a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
- (b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;
- (c) inflationary or deflationary adjustments; and
- (d) elimination of nonrecurring appropriations.”

In a world of strict interpretation, present law base would likely be significantly higher than it ever is. An agency would determine changes in the budget due to general or specific inflation not included in the adjusted base, caseload, workload changes, and other factors. New proposals would then be included to propose

programmatic changes to stay within the available revenues. The requested present law is generally a function of revenue and other considerations that skew the total from the strict definitional level.

New Proposals

New proposals are defined as “requests to provide new nonmandated services, to change program services, to eliminate existing services, or to change sources of funding. For purposes of establishing the present law base, the distinction between new proposals and the adjustments to the base budget to develop the present law base is to be determined by the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal.”

New proposals can be negative or positive, depending upon the change. For example, the elimination of a function would be a negative new proposal.

OTHER FACTORS

Expanded Present Law and New Proposals

As outlined in the report on the history of performance measures in Montana budgeting, expanded present law and new proposals have been used for several bienniums to provide the legislature with additional information on significant requested changes. The information provided includes the following categories:

- Justification: Why is this proposal needed?
- Goals: What are the goals of the proposal?
- Performance Criteria: How will progress be measured?
- Milestones: When will key activities to the proposal be completed?
- FTE: Who will do the work?
- Funding Source: How does the funding work?
- Future Funding: What is the projected cost for FY 2014 and FY 2015?
- Obstacles: What are the challenges to implementing this proposal?
- Risks: What is the risk to the state if the proposal is not adopted?

5% Reduction Plans

Each agency over 20 FTE is required to submit a plan to reduce the proposed base budget to 95% of the current base budget (or lower if directed by the budget director). In the 2011 Legislative Session the plans were included in the LFD budget analysis and the legislature reviewed these plans. The plans will be submitted as part of the proposed 2015 biennium budget.

STAGES AND TIMELINE OF BUDGET DEVELOPMENT

There are three main sections of budget determination:

- 1) Executive Planning Process (EPP)
 - a. Initial determination of available resources
 - b. Agency presentation of their highest priorities and areas of perceived greatest need
 - c. Within the anticipated available resources, determination of what the agencies will be allowed to ask for in the budget submission
- 2) Initial agency budget submission and refinement to create the executive proposed budget
 - a. Refined determination of available resources
 - b. Within the confines of available resources, determination of the Governor’s priorities and areas of greatest perceived need
 - c. LFD conducts analysis of proposed budget, including alternatives and other issues for legislative consideration
- 3) Legislative appropriations setting
 - a. Final determination for budgeting purposes (refined during the session) of available resources
 - b. Finalization of the biennium budget, including prioritization of need within those resources

At each stage, the agencies, Governor, and the legislature are all prioritizing what they want government to be, either to stay within current resource or to either enhance or reduce those resources.

The following shows a general timeline of the process.

Task	...Even (NonSession) Year...												Session
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Agencies Develop Budget Proposals	●												
Executive Planning Process					●								
Agencies Submit Budget Requests								●					
OBPP and Governor Develop Budget									●				
LFD/Gov Develop Revenue Est.									●				
LFD Budget Analysis								●					
Present Law Submitted to LFD													Nov. 01
Executive Pay Plan to LFD													Nov.15
Gov Submits Budget to LFD/Leg													Nov. 15
Finanilized Revenue Estimates(RTIC)													Mid-Nov
Last Date for Changes to Executive Budget													Dec. -15
LFD Releases Analysis and State Overview													Late Dec
Deadline for Governor-Elect Changes													Jan. -07

*Time leading up to the Revenue and Transportation Meeting. Actual revenue estimating begins the previous spring

REVENUE ESTIMATING PROCESS

Obviously in the early stages of budget development, less is known about anticipated revenues. Consequently, revenue assumptions and projections are adjusted throughout the process, with the executive providing its own revenue estimate and legislative staff providing another. Therefore, throughout the budgeting timeframe the revenue estimates are made, refined, and generally adjusted as additional information becomes available. As a consequence, the directions to the agencies, refinements in the proposed executive budget, and adjustments by the legislature are based upon potentially constantly shifting revenue estimates or other revenue factors.

SPECIAL CIRCUMSTANCE BUDGETING

Section 17-7-140, MCA requires the Governor to order agencies to reduce expenditures if the general fund ending fund balance is predicted to fall below a certain threshold (which changes as it gets closer to fiscal yearend). The Governor must first present his proposal for reducing expenditures to the Legislative Finance Committee. The character of these reductions reflects a prioritization by the Governor as to where the reductions would take place. While new programs are the likely first review target, past history shows a number of reductions that reflect a change in ongoing service provision.

The last instance of the invocation of this statute was in the 2011 biennium.