



## Newsletter

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### Save the Dates!

#### Caucus and Orientation for Session

The 2016 dates related to preparation for the 2017 legislative session are as follows:

- Caucuses — Monday, Nov. 14 (morning).
- Training and orientation — Monday, Nov. 14 (afternoon) through Wednesday, Nov. 16.
- Rules committees — Wednesday, Dec. 7 (morning).
- Presiding officer training — Wednesday, Dec. 7 (afternoon).
- Budget training, 2019 Biennium Budget review, and other topics — Thursday, Dec. 8.

The first day of the 2017 session is Monday, Jan. 2, 2017. The House and the Senate will each convene at noon.

The tentative session calendar may be found online at the [2017 session web page](#).

#### CFHHS Advances Some Bills, Refines Others

The Children, Families, Health, and Human Services Interim Committee continued work in June on several bill drafts related to its studies, approving some for introduction during the 2017 Legislature, revising others, and deciding against pursuing one.

The decisions came as the committee worked on studies related to guardianship and Alzheimer's disease, legislative mental health investments, and children's mental health outcomes.

#### SJR 22: Guardianship/Alzheimer's Disease

The committee reviewed changes to several bill drafts that were initially suggested by stakeholders during work on the Senate Joint Resolution 22 (2015) study of guardianship and Alzheimer's disease.

The committee agreed to introduce the preliminary bill draft LCCF5a as a committee bill during the next legislative session. The bill would create a grant program for training people to volunteer as respite caregivers for people with Alzheimer's disease or other dementias. The bill would also appropriate \$240,000 for grants to organizations that provide the training and oversee the volunteers.

The committee also made several decisions related to two preliminary bills that will be revised and reviewed again at the committee's final meeting in August: LCCF6a and LCCF7b.

Preliminary bill draft LCCF6a would add 200 home- and community-based waiver slots for home and assisted living care in the next biennium. It would also provide money to increase reimbursement rates for assisted living care, including memory care provided in assisted living facilities. Committee members had heard from stakeholders that many facilities are reluctant to accept Medicaid patients because the reimbursement rates don't cover the costs of providing care — particularly the more intensive care required by some Alzheimer's or other dementia patients. The additional funding would gradually increase reimbursement rates to a target of \$3,200 a month for assisted living care and \$3,850 a month for memory care.

Preliminary bill draft LCCF7b would create a working interdisciplinary network of guardianship stakeholders (WINGS) group and fund a grant program for public guardianship efforts. The committee decided that the chief justice of the Montana Supreme Court should appoint nine members to the group, which would review laws, standards, and practices related to both guardianship and conservatorship.

The committee also agreed to take final action on the following preliminary bills at its August meeting:

- LCCF02, to adopt model legislation on financial exploitation of vulnerable people.
- LCCF04, to appropriate \$1.5 million to the state's area agencies on aging.
- LCCF08, to require guardians to report suspected financial exploitation to the Department of Public Health and Human Services.

Members asked that panelists be scheduled to speak on preliminary bill draft LCCF02 in August. They want to hear more about the pros and cons of requiring financial advisers to report suspected exploitation, as proposed in the draft.

Members agreed not to advance LCCF03, a preliminary bill draft that would have appropriated \$207,000 to a nonprofit group to facilitate providing services for people with Alzheimer's or other dementias. The Alzheimer's/Dementia Work Group had suggested that statewide coordination of services is needed. But some committee members said they believed that

DPHHS should be able to provide the necessary coordination with existing staff.

### **SB 418: Legislative Mental Health Investments**

As part of the ongoing review required by Senate Bill 418 (2015) of how new funds are being used for mental health services, the committee heard from Glenda Oldenburg about the most recent round of grants awarded to counties. Oldenburg, administrator of the DPHHS Addictive and Mental Disorders Division, said that 14 counties applied for and received funding totaling \$2.1 million for the next fiscal year. For the first time since the grant program began in 2009, the amount of money requested exceeded the amount available.

Oldenburg noted that Cascade and Fergus counties were receiving grant funds for the first time, while several eastern Montana counties were cooperating in a grant request to reopen the behavioral health unit at the Glendive hospital. The unit could provide an alternative to taking a patient to the Montana State Hospital in Warm Springs for an evaluation, she said.

Committee members also reviewed and approved preliminary bill draft LCCF12 as a committee. The bill requires Medicaid to reimburse clinical pharmacist practitioners for managing drug therapy. These pharmacists have additional training and can initiate and modify medications if they have an agreement with a prescriber. Members noted that bringing pharmacists into the treatment team might reduce some of the problems with obtaining mental health care.

In preparation for the committee report that must be provided to the 2017 Legislature, members reviewed and approved draft findings. They also discussed recommendations to be included in the report. The committee will review and approve final recommendations in August.

### **HB 422: Children's Mental Health Outcomes**

For the House Bill 422 (2015) study of children's mental health outcomes, the committee heard from two private companies that collect and analyze data. Jim Mantell of NetReflector and Scott Green of Netsmart provided examples of how their companies can obtain, compile, and analyze information to help organizations or states review the effectiveness of the services they provide.

The presentations were scheduled after the committee learned in March that the Children's Mental Health Bureau doesn't have a database it can use for collecting outcomes data. In May, the committee heard from state agencies about the time and costs involved in developing systems for collecting and analyzing data.

Members had a wide-ranging discussion during their work session about whether and how they could develop

pilot project legislation to track and improve outcomes for children, as required by HB 422. Some members questioned whether they could draft any legislation that would accomplish the HB 422 goals or be supported by the executive branch. However, Rep. Jessica Karjala (D-Billings) and Rep. Gordon Pierson (D-Deer Lodge) encouraged continued action on the study and offered to work with staff to develop a bill draft for the August meeting.

## DPHHS Oversight

After reviewing and revising a preliminary bill draft (LCCF11) to eliminate certain DPHHS advisory councils and reports required by law, the committee agreed to introduce it as a committee bill next session. The bill eliminates the Child Support Enforcement Advisory Board, the Commission on Provider Rates and Services, the Community Health Centers Advisory Group, and the Montana 2-1-1 Community Coalition, none of which has met in recent years.

The bill also eliminates reports on community health center grants, statewide 2-1-1 calling system activity, the Big Sky Rx prescription drug discount program, and mental health services for children with serious emotional disturbance. None of those reports has been published in recent years.

The committee also heard the following information from DPHHS Director Richard Oppen:

- Enrollment in the expanded Medicaid program is holding steady at about 47,000, with most enrollees having incomes of less than 100 percent of the federal poverty level.
- The state will be providing Medicaid coverage to people who are in most of Montana's prerelease centers, after the federal government in April changed its interpretation of federal rules to allow this coverage.
- The Governor's Council on Healthcare Innovation will be supporting changes to the health care delivery system to provide more coordinated care, expand coverage in rural areas, and reduce the number of people using a high volume of health care services.
- The Medicaid program will be covering group prenatal care as a way to encourage better birth outcomes.
- A program that helps Temporary Assistance for Needy Families recipients obtain additional education helped 47 people during the current fiscal year, with 14 completing their education and 11 still in the program.
- The percentage of children being placed in out-of-state residential mental health services has remained steady this year compared to a year ago, but the overall number of children in residential care either in state or out of state has decreased slightly.

## Next Meeting

The committee will meet on Aug. 25-26 in Room 137 of the Capitol in Helena at a time to be determined. For more information on the committee's activities and upcoming meeting, please visit the committee's website or contact Sue O'Connell, committee staff.

Committee Website: [www.leg.mt.gov/cfhhs](http://www.leg.mt.gov/cfhhs)

Committee Staff: [soconnell@mt.gov](mailto:soconnell@mt.gov) or 406-444-3597

## Livestock Topics Dominate Economic Affairs Committee Meeting

At a meeting headlined for covering workers' compensation and livestock topics, the Economic Affairs Interim Committee spent the majority of its time on the latter and took unrelated actions tied to committee oversight.

### Department of Livestock

As part of its Department of Livestock monitoring duties, the committee heard summaries of two audits recently completed by the Legislative Audit Division and updates on bison, milk, and budgets.

The financial audit of the department contained three recommendations. The committee was most interested in the recommendation to "comply with state law related to the use of per capita fees." These fees are supposed to be used by the department to fund enforcement of livestock laws.

The committee's concern focused on the department's use of per capita fees for a settlement related to the departure of the past executive director and on the department's "do not concur" response to the audit recommendation. John Scully, the vice presiding officer of the Board of Livestock, explained that legal advice to the department suggested the department's use of per capita fees was permissible and that finding alternate funding options might be difficult. However, the department is looking at some of the audit suggestions for funding sources that the department could use for the remaining \$84,000 to be paid on the two-part settlement in the next fiscal year.

The performance audit of the Veterinary Diagnostic Laboratory, based at Montana State University-Bozeman, recommended creation and maintenance of information related to testing costs, routine reviews of fees charged for services, a stable source of funds (including per capita fees) for the budget, follow-through on information technology contracts, and a plan for replacing the laboratory facility. In general, the audit said stakeholders saw a need for the lab in this state, in part for public health purposes and in part for commercial benefits for the livestock industry.

At the request of the committee, Montana State University's Vice President for Agriculture, Charles Boyer, and the university's chief communications officer, Tracy Ellig, commented to the committee about the "landlord-style" relationship between the university and the Veterinary Diagnostic Lab. Committee members asked if more active interest from the university was likely in light of a new veterinary medicine program that is being carried out in conjunction with Washington State University. Boyer noted that only about 10 students a year are in the program, which is too few to deepen the university's relationship with the lab. Boyer also noted that the Veterinary Diagnostic Lab is one of several entities on campus that are affiliated with state agencies and whose interests must be balanced.

In response to other questions about whether the Board of Regents should give more attention to the need to replace the current Veterinary Diagnostic Lab, the MSU representatives reiterated that the priority for the lab has not been high at MSU but noted that other agencies interested in developing a combined laboratory can put forward plans to the Board of Regents to build a lab.

Other updates provided by Scully and Mike Honeycutt, the Department of Livestock's executive officer, included the review of a letter from the state attorney general's office regarding the department's responsibility for diseased bison. Scully questioned whether isolated bison remain subject to the department's control. Scully also reviewed a milk assessment to go into effect possibly as early as July of this year on all licensed milk producers. For dairies, the assessment means a slight decrease in former fees, but for manufacturers who have never paid the assessment before, the cost will be as high as \$1,050 a month, which will be a new cost for them. With respect to budget updates, Honeycutt noted that bare bones activities and short staffing had helped the Milk & Egg Bureau's budget but that the approach was not sustainable. He also noted that most of the other livestock functions were running close to their budgeted expectations.

## Workers' Compensation

The June 22 agenda also featured three workers' compensation items:

- A report on Montana State Fund's calendar year 2016 budget compared to its previously established fiscal year 2016 budget showed the following:
  - a 3.1 percent increase in estimated premiums;
  - a 5 percent increase in operations costs;
  - a 0.8 percent increase in claim benefit payments; and
  - a 7.3 percent drop in estimated investment income.

- The distinction between fiscal year and calendar year budgets is a result of changes at Montana State Fund under Senate Bill 123 (2015), which required that MSF report on a calendar-year basis. The report also compared Montana State Fund's expense ratio to the average expense ratio of the state's largest workers' compensation carriers. In 2014 (the most recent year for which data are available), MSF's expense ratio was 22 percent compared with a 36.71 percent average among other carriers in Montana. The other Montana carriers' average is generally equal to the countrywide composite for workers' compensation insurers. Also according to the report, claim payments comprise nearly 70 percent of the total budget, with medical settlements taking up an increasing share of claim payments compared to earlier years.
- Representatives of Montana's professional firefighters described their plans to bring a bill during the 2017 session that would allow firefighters who have contracted certain diseases to be automatically presumed to have contracted those diseases on the job. Members of the Montana State Council of Professional Fire Fighters told the committee that 44 states now have some sort of presumptive disease statute for firefighters. The firefighters' representatives noted that their proposed bill would seek to cover both volunteer and professional firefighters through a limited application under the Workers' Compensation Act. A State Auditor's Office representative reviewed this prospective coverage and how insurers could protest.
- Great Falls Police Sergeant Richard LaBard explained how posttraumatic stress experienced on the job can lead to an eventual inability to perform the job. He suggested that revising state law to recognize work-related stress through workers' compensation claims might allow workers to find help earlier for what can be a debilitating syndrome. Other presenters outlined past concerns that mental-related stress might be too broadly claimed as an illness compared to concerns that failure to treat mental-related claims puts a strain on workers and employers, which is what the Workers' Compensation Act was designed to alleviate.

## Other Activities

Other committee activities included the following:

- Updates on air ambulance work coordinated by the State Auditor's Office for which legislation may be presented at the committee's last meeting.
- An overview of the commercial bison industry.
- A review of bills intended to address a U.S. Supreme Court decision on whether state-authorized licensing boards had state action immunity in antitrust cases. The

committee recommended continued work on a potential committee bill.

- Authorization for early drafting of two Department of Commerce bills, one related to the Board of Horseracing and the other related to the Board of Housing.
- Authorization to draft as committee bills proposals to do the following:
  - Transfer duties related to monitoring liquor laws from the Revenue and Transportation Interim Committee to the Economic Affairs Interim Committee, whose members are mostly drawn from the standing committees that generally hear liquor bills.
  - Set a trigger for reports on business and industrial development corporations (BIDCOs). These reports are currently required annually even when there is no activity concerning the BIDCOs.
  - Modify to an as-needed-basis the interim committee duty to review statutory advisory councils and reports as required under House Bill 142 (2011).

### Next Meeting

The committee will meet for the last time on Aug. 30-31 in Room 137 of the Capitol in Helena. The meeting will start at 8:30 a.m. on Aug. 30 and at 8 a.m. on Aug. 31. For more information on the committee's activities and upcoming meeting, please visit the committee's website or contact Pat Murdo, committee staff.

Committee Website: [www.leg.mt.gov/eaic](http://www.leg.mt.gov/eaic)

Committee Staff: [pmurdo@mt.gov](mailto:pmurdo@mt.gov) or 406-444-3594

### ETIC Meeting in Helena on July 14-15

During a two-day meeting in July, the Energy and Telecommunications Interim Committee will develop findings and recommendations to begin wrapping up its net metering assignment as outlined in Senate Joint Resolution 12 (2015).

### Net Metering

The committee meets on July 14-15 in Helena and will work through a full agenda. NorthWestern Energy, Montana-Dakota Utilities, and the Montana Renewable Energy Association are defining elements of agreement on an updated framework for net metering in Montana. They are focusing on implementation of interconnection standards and rules, modifications to metering technology and practices for customer generators, timing and framework of a net metering cost-benefit analysis, and consumer protections for existing customer generators under future net metering policies. The committee in May asked the group to bring members

a formal report to assist in the formation of findings and recommendations.

### Next-Generation 9-1-1

Members will also review public comment on draft legislation and a report concerning next-generation 9-1-1 (NG911). Some stakeholders have raised concerns about the bill draft (LC ET04) requested by the committee in May, which incorporates a new funding model for 9-1-1 in Montana and deals specifically with NG911. The bill draft updates the overall funding mechanism and distribution of 9-1-1 funds in Montana. As the bill is currently drafted, some larger answering points for public safety calls would receive less funding. The committee is expected to review the funding formula and hear from stakeholders about how to adjust the formula so it is more equitable to larger answering points. The committee will then determine how best to amend the draft and whether it should be brought before the 2017 Legislature.

### The Future of Colstrip

The first day of the July meeting will focus on the future of the coal-fired Colstrip generating units. At the committee's May meeting, members asked that Talen Energy (now Riverstone Holdings) and Puget Sound Energy (PSE) be invited to the July meeting to discuss the operation of Colstrip Units 1 and 2. The committee would like to know more about Talen's plans for continued operation of Colstrip and the company's ongoing efforts to exit Montana. Committee members also have an interest in better understanding potential impacts to the transmission system and grid stability as changes are made in the operation of Colstrip Units 1 and 2.

Committee members are also interested in PSE's development of a rate case outlining the company's path forward at Units 1 and 2 — particularly in light of passage of Senate Bill 6248 by the Washington Legislature. That legislation authorizes Puget Sound Energy to create a fund to pay for the closure of Colstrip Units 1 and 2. The rate case will be submitted to the Washington Utilities and Transportation Commission in January 2017 and will outline the retirement of Units 1 and 2, including closure dates.

The committee has also invited Absaroka Energy to discuss the proposed Gordon Butte closed-loop pumped storage hydro project. The project, near Martinsdale, would feature two reservoirs measuring 4,000 acre feet each and with the potential to generate up to 400 megawatts (MW) of electricity. The project would be built in proximity to the 500-kilovolt (kv) Colstrip transmission lines.

Clearwater Energy has also been invited to discuss a proposed wind farm near Forsyth that could generate up to 300 MW of electricity. Clearwater's developer is Orion Renewable Energy Group, an Oakland, California, company. The Clearwater project has been cited as an example of renewable energy

possibilities in the Colstrip region. It also would tap into the 500 kv Colstrip transmission line.

The electricity from the pumped hydro and wind projects could potentially replace power now generated at Units 1 and 2 and be exported to customers in Washington or elsewhere on the West Coast.

### Statutory Duties

Much of the July meeting will be dedicated to the committee's statutory duties. Included on the agenda are Universal System Benefits Program reports, renewable energy credit reports, Public Service Commission legislative proposals, a hydroelectric report, and a geothermal research update.

### Next Meeting

The committee will meet at 9 a.m. on July 14-15 in Room 172 of the Capitol in Helena. For more information on the committee's activities and upcoming meeting, please visit the committee's website or contact Sonja Nowakowski, committee staff.

Committee Website: [www.leg.mt.gov/etic](http://www.leg.mt.gov/etic)

Committee Staff: [snowakowski@mt.gov](mailto:snowakowski@mt.gov) or 406-444-3078

## July EQC Meeting to Examine 2017 Session Issues

The Environmental Quality Council's July meeting will look toward the 2017 legislative session with agenda items on state agency legislative proposals and the impact of decreased natural resource revenues on two agencies' budgets. The council will also fine-tune its federal roads study report.

The council will hear the next two installments in a series of agency program evaluations. One program that will be evaluated is under the Real Estate Management Bureau, which administers leases and sales of state land for the Department of Natural Resources and Conservation. Also on the agenda are programs administered under the Major Facility Siting Act and the Metal Mine Reclamation Act within the Department of Environmental Quality. Interested members of the public are encouraged to submit comments in advance or attend the meeting.

The Department of Fish, Wildlife and Parks recently finished its '15 and Forward planning process and will present its vision for the agency's next 10 years.

FWP will also provide an update on a land administration issue at West Shore State Park, part of which was purchased with hunting and fishing license dollars. The agency says the parcel in question is no longer used for fish and wildlife purposes and must be replaced with property of equal value. An intra-agency exchange may help alleviate the problem, but

because Flathead Lake property is so expensive, some money might also be needed for full compensation. FWP expects to provide the results of a recent property valuation.

DNRC and the Private Land/Public Wildlife Council administered by FWP will present their legislative proposals to the EQC, which will decide whether to authorize them for drafting in advance of the 2017 session.

The council will also receive updates on the cleanup of petroleum tank release sites, the first round of sage grouse conservation grant approvals, and the fire season.

### Next Meeting

The council will meet on July 20-21 in Room 317 of the Capitol in Helena at a time to be determined. For more information on the council's activities and upcoming meeting, please visit the council's website or contact Joe Kolman, council staff.

Committee Website: [www.leg.mt.gov/eqc](http://www.leg.mt.gov/eqc)

Committee Staff: [jkolman@mt.gov](mailto:jkolman@mt.gov) or 406-444-3747

## New Legislative Auditor Appointed

The Legislative Audit Committee met June 16-17 and appointed Angus Maciver as the new Legislative Auditor beginning July 1. The appointment was necessary because longtime Legislative Auditor Tori Hunthausen retired June 30. Maciver has worked for the Legislative Audit Division for more than 14 years, the past four as performance and information systems audit function lead.

In addition, the committee heard presentations on 14 recent performance, financial-compliance, and financial audits of state agencies and programs.

### Performance Audits

#### Veterinary Diagnostic Lab

A performance audit of the Department of Livestock's Veterinary Diagnostic Laboratory (15P-04) found that the lab does not maintain a regularly updated accounting of the costs associated with the majority of its testing services and that there is not a recurring, standard process in place for monitoring or reviewing the fees charged for these testing services. Further, though the lab certainly has a role to play in monitoring diseases that can impact public health, attempting to quantify this role to provide a basis for the lab's budget presents concerns. The department and lab could do more to provide for a consistent and stable lab budget in the long term.

Additionally, the facility housing the lab is at the end of its useful life. As such, the department needs to take detailed and specific steps to plan for future lab space, particularly in light of the fact that the university displays little interest or willingness to pursue a closer relationship with the lab. Five recommendations are made in the report related to these issues.

#### OPI Data Collection Systems and Processes

A performance audit of the Office of Public Instruction Data Collection Systems and Processes (16P-01), a result of Senate Joint Resolution 10 passed during the 2015 session, found that the Office of Public Instruction collects thousands of data elements from local school districts in Montana. However, some currently collected data elements are not required by state or federal mandates and place additional reporting requirements on local school districts. In addition, the audit found that there are weaknesses in how OPI secures and maintains the individual privacy of students and their families. The audit report makes six recommendations to the department on these topics.

#### Independent Contractor Regulation

A performance audit regarding the regulation of independent contractors (15P-02) found that independent contractors are a growing segment of the national workforce and that this working arrangement can have many benefits for both individuals and businesses. However, independent contractor status can be abused through misclassification of employees as independent contractors, which can have negative effects on individuals, state revenues and programs, and business competition. The Department of Labor and Industry regulates the independent contractor designation in Montana and can improve its efforts to identify and prevent misclassification of employees as independent contractors. The audit report makes three recommendations to the department related to these issues.

### **Financial-Compliance Audits**

#### Montana Single Audit Report

The Montana Single Audit Report (14-02) is required by federal regulations and relates to federal spending by state agencies. Montana spent approximately \$2.7 billion in federal funds in FY 2014 and FY 2015. Montana had 30 major federal programs during the audit period administered by 12 different state agencies. Audits at state agencies resulted in 27 recommendations related to major programs or otherwise required to be reported by federal audit guidelines. Federal grantor agencies are the primary users of the Montana Single Audit Report, and the form of the audit report is designed to meet their oversight needs. Legislators and others use the

Schedules of Expenditures of Federal Awards for FY 2014 and FY 2015, which are included in the report.

#### Department of Agriculture

A financial-compliance audit of the Department of Agriculture (15-21) reports that in FY 2014, the department paid more than \$14 million in insurance claims for the 2013 hail year, resulting in an 88 percent decrease in the department's hail insurance reserves. As a result, the department entered into a reinsurance agreement as allowed by state law, which transfers a portion of the liability risk to a third party. The audit makes three recommendations to the department, pertaining to the misclassification of hail insurance assets and liabilities, an internal control deficiency regarding the transfer of revenue to the department, and noncompliance with a state law related to industrial hemp.

#### Department of Livestock

A financial-compliance audit of the Department of Livestock (15-22) identifies three instances of noncompliance with state law and accounting policy. They relate to recording transactions about a personal services settlement, properly calculating unearned revenue and recording the correct balance, and recording revenues related to stray animals in the correct fund.

#### Montana State Fund

An unmodified opinion was issued on the financial statements of Montana State Fund for the six-month period ending December 31, 2015. This financial-compliance audit (15-05) does not contain any recommendations. The financial statements for this six-month period were released in order to transition to a calendar fiscal year-end. Pursuant to Chapter 320, Montana Session Laws of 2015, effective on January 1, 2016, MSF is under the regulatory authority of the State Auditor and operates on a calendar-year basis. Also as a result of this change, MSF is subject to additional reporting requirements, and the State Auditor is to review the rates set by MSF to determine if they are excessive, inadequate, or unfairly discriminatory.

#### Montana State Library Commission

A financial-compliance audit of the Montana State Library Commission (15-23) contains one recommendation related to internal controls over financial recording. The library did not have adequate controls in place to ensure the accuracy and completeness of its charges for services revenues.

#### Montana Arts Council

An unmodified opinion was issued on the financial schedules of the Montana Arts Council. This financial-compliance audit (15-24) contains one recommendation related to compliance with state procurement requirements.

## Financial Audits

### Montana Water Pollution Control and Drinking Water

A financial audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs (15-25-A) resulted in no recommendations.

### State of Montana

An unmodified opinion was issued in the financial audit of the state of Montana (15-01A), generally referred to as the state's basic financial statements. It provides a summary of the state's overall financial position related to all activities of state government. A prior audit recommendation related to design and implementation of internal controls over timely and accurate financial reporting was identified as being fully implemented.

### **Contract Financial Audits (Conducted by Outside Firms)**

#### Dawson Community College

A financial audit of Dawson Community College (15C-06) contains one finding related to controls over preparation of their financial statements.

#### Flathead Valley Community College

A financial audit of Flathead Valley Community College (15C-07) includes one finding related to internal controls not being in place to sufficiently identify misstatements.

#### Miles Community College

A financial audit of Miles Community College (15C-08) made two findings, one related to internal controls not being in place and one related to incomplete Other Post Employment Benefits (OPEB) disclosures for one of their OPEB plans, for which the calculation did not use actuarial assumptions and methods.

## Other Activities

At the June meeting, the committee also considered potential legislation for the 2017 session, 2017 performance audit topics, and the division's 2017 operating plan. Committee members also heard follow-up reports on three audits: Property Tax Relief (14P-02), Public Employee Retirement Information System (PERIS) Development Life Cycle (14DP-03), and Offender Management Information System (OMIS) (13DP-04).

## For More Information

For additional information on the committee's activities or the audits listed above, please visit the division's website or

contact division staff. The division provides independent and objective evaluations of the stewardship, performance, and cost of government policies, programs, and operations. The division is responsible for conducting financial, financial-compliance, performance, and information system audits of state agencies and programs, including the Montana University System.

Division Website: [www.leg.mt.gov/audit](http://www.leg.mt.gov/audit)

Division Phone Number: 406-444-3122

## Legislative Council Requests Survey on Public Broadcasts

At the Legislative Council's request, a survey on TVMT and ideas for additional uses of the legislative public access channel will be coming soon. Legislators, legislative staff, citizens, executive and judicial branch officials and staff, lobbyists, and others involved in the legislative process and with state government will be given an opportunity to weigh in. More information will be included in next month's issue of *The Interim* — stay tuned!

## Next Meeting

The council will meet on Aug. 24-25 at the Capitol in Helena at a time to be determined. The Rules Subcommittee will meet during the morning on Aug. 24, and the full council meeting will follow. For more information on the council's activities and upcoming meeting, please visit the council's website or contact Susan Byorth Fox, council staff.

Council Website: <http://leg.mt.gov/legcouncil>

Council Staff: [sfox@mt.gov](mailto:sfox@mt.gov) or 406-444-3066

## LFC Covers Budget and Other Issues at March Meeting

At the Legislative Finance Committee's quarterly meeting on June 9-10, committee members received reports on the 2019 biennium outlook, the budget status, state employee group benefit plans, budget policy choices, and other areas. All handouts provided at the meeting are available on the committee's website at [www.leg.mt.gov/lfc](http://www.leg.mt.gov/lfc).

## 2019 Biennium Budget Outlook

Legislative Fiscal Division staff reviewed the budget outlook for the 2019 biennium, which included a revenue forecast and summary, expenditure highlights, and other budget considerations. For more information on the 2019 Biennium Budget Outlook, please see the "Back Page" article at the end of this newsletter.

## Budget Status Report

Legislative Fiscal Division staff presented the Budget Status Report, which included an analysis of all changes to departmental budgets and expenditures to date. It also included a summary of program transfers, reorganizations, operational plan changes, budget amendments, statutory appropriations, and carry forward appropriations.

## Budget Policy Choices

The committee also discussed the following budget policy areas and associated choices:

- The preliminary 2017 executive modified base budget.
- A budget analysis mock-up for the regular budget analysis of agencies.
- Budget analysis examples for agencies that were largely funded by the Legislature on a one-time-only basis.
- Follow-up on questions about long-term budgeting and zero-based budgeting.
- The Revenue and Transportation Interim Committee's subcommittee recommendations for a joint revenue subcommittee process during sessions.

## Other Presentations

Other presentations at the June meeting included the following:

- Scot Conrady, LFD, delivered the Medicaid Monitoring Report.
- Quinn Holzer, LFD, gave an update on the Montana HELP Act, Medicaid expansion, and HELP-Link, the Montana HELP Plan workforce program.
- Quinn Holzer and Alice Hecht, LFD, presented Medicaid forecast highlights.
- Dan Villa, director of the Governor's Office of Budget and Program Planning, offered his perspective on 2017 biennium revenues.
- Kris Wilkinson, LFD, provided an information technology report, and Ron Baldwin reported on IT portfolio changes, policy changes, the Montana Manufacturers Information System final costs and next steps, and IT budget policy recommendations.
- Glen Stinar, Department of Justice, gave an update on the Montana Law Enforcement Academy interim study under House Joint Resolution 8 (2015).
- Susie Lindsay, LFD, provided a brochure detailing the statutory appropriations process.
- Quinn Holzer and Alice Hecht, LFD, reported on the Child and Family Services Division's federal requirements.

- Greg DeWitt, LFD, presented a report on the Office of the State Public Defender's dependent neglect and conflict cases. This report included a cost comparison of dependent neglect and conflict cases handled by public defender staff and contract attorneys.
- Kris Wilkinson, LFD, Marilyn Bartlett, Department of Administration, and Connie Welsh, Montana University System, reported on state employee health insurance. Their reports included information on the state employee health clinics and health risk assessment data for both state plans.
- Cathy Duncan, LFD, and Tom O'Connell, Department of Administration, Architecture and Engineering Division, delivered a report on state infrastructure budgeting and funding. This report included budget proposal processes, prioritization, funding mechanisms, budget trends, and pressure points and examples.
- Rob Miller, LFD, reported on K-12 capital budgeting comparisons.
- Pad McCracken, Legislative Services Division, provided an update on the School Funding Interim Commission.

## Next Meeting

The Legislative Finance Committee will meet on Sept. 29-30 at the Capitol in Helena at a time to be determined. For more information on the committee's activities and upcoming meeting, please visit the committee's website or call the Legislative Fiscal Division.

Committee Website: [www.leg.mt.gov/lfc](http://www.leg.mt.gov/lfc)  
Division Phone: 406-444-2986

## Revenue and Transportation Interim Committee Concludes Studies, Requests Legislation

At its June 9-10 meeting, the Revenue and Transportation Interim Committee concluded the information-gathering stage of its studies and requested legislation for some of the studies. The committee also heard the Legislative Fiscal Division's 2019 Biennium Outlook for the General Fund Budget and agency updates from the Department of Revenue, the Department of Transportation, and the Montana Tax Appeal Board.

## Draft Legislation Related to Committee Studies

The committee requested the drafting of legislation for six of the nine committee-adopted studies. Staff will present the draft legislation at the committee's September meeting for committee discussion and public comment.

### Tax Increment Financing Districts Study

The committee requested draft legislation to include the following concepts:

- Provide for school district approval when creating a district that uses tax increment financing (TIF).
- Exclude the 95 mills for school equalization from TIF provisions, provided that the funds are not currently used for bond payments.
- Disallow the collection of increment by districts using TIF on permissive levies adopted after creation of the district and on levies not subject to 15-10-420, MCA.
- Prohibit the use of TIF fund grants for private projects.
- Better define the ending date of a district using TIF.
- Require reapproval to renew a district using TIF.
- Amend the definition of “blight.”
- Require an annual audit of districts using TIF.
- Require remittances to be distributed proportionally to all taxing jurisdictions.

### Elderly Homeowner/Renter Credit Study

The committee requested the drafting of a bill to allow the elderly homeowner/renter credit to be claimed on property not subject to property taxes. The draft bill will be similar to Senate Bill 194 considered in the 2015 legislative session.

### Highway State Special Revenue Account Study

After hearing recommendations from the Department of Justice and the Department of Transportation, the committee requested draft legislation to prohibit the use of highway state special revenue account funds for the Department of Justice’s Centralized Services Division and Motor Vehicles Division and for the state crime lab. The committee also asked staff to explore whether legislation is needed to address concerns raised by the Department of Transportation about dyed diesel fraud and, if so, to draft that legislation.

### Treatment of Intangible Property for Centrally Assessed Property Valuation Study

The Department of Revenue, industry representatives, and other stakeholders discussed legislative options related to the treatment of intangible personal property. The committee requested that the parties meet before the next committee meeting and, if there is agreement on a legislative proposal, to present the proposal in September.

### Property Taxable Value Neutrality Study

The requests for draft legislation for this study focus on the classification of agricultural property. The committee requested draft legislation to include the following concepts:

- The valuation of one acre of land under an improvement as Class 4 residential property, thus eliminating valuation at highest productive value for land under agricultural improvements.
- Allowing classification of a parcel to be split, with a portion classified as agricultural property and a portion classified as residential property.
- Elimination of the nonqualified agricultural property classification.
- Removal of the automatic agricultural classification for parcels of property of 160 acres or more.
- Revision of the gross income threshold required for agricultural classification for parcels of less than 160 acres.

### Tax Lien and Tax Deeds Study

The committee received a recommendation from an independent work group composed of county treasurers, county clerks and recorders, and county commissioners to simplify and streamline the tax lien and tax deed process. The recommendation includes elimination of the tax lien sale. Instead, counties would be the holders of tax liens and would offer them for assignment to tax lien investors. The recommendations also include changes to notification requirements and to the text of required notifications aimed at improving taxpayer understanding.

The committee requested that all recommendations be drafted and asked the work group to submit a proposal to address a situation in which more than one tax lien investor requests assignment of a tax lien.

### Other Committee Studies

The committee did not request draft legislation or suggest recommendations for the following studies: the adequacy of local government revenue-generating capacity, the nonprofit reporting of community benefits, and the taxation of international corporations doing business in Montana.

## **Revenue Estimating and Monitoring**

After receiving the 2019 Biennium Outlook for the General Fund Budget and the fiscal year 2016 General Fund Revenue Collection update, the committee discussed the information desired for the September meeting in preparation for adopting a revenue estimate in November. The committee wishes to focus on the individual income tax, which is the largest source of general revenue funds, and the corporate income tax, a volatile revenue source. Specifically, the committee requested more information about how withholding serves as a predictor for income tax collections and more details on corporate income tax refunds by size and sector, including whether the refunds are attributable to the state’s carryback provision.

The committee also accepted a subcommittee recommendation to not request formalization of a revenue-estimating subcommittee process during legislative sessions. The committee will send a letter to the 2017 Legislature's leadership and to the taxation committee's presiding officers suggesting that the informal process used during the 2015 legislative session was useful and offering recommendations on how such a committee should be appointed and composed if its use seems advisable during the 2017 legislative session.

### Agency Monitoring

The Montana Tax Appeal Board updated the committee on recent closed tax appeals and on the docket of pending cases. The committee also learned that the board now offers redesigned forms for filing an appeal.

The Department of Revenue updated the committee on the individual income tax season and major cases involving the department, provided a required report on tax havens, and offered possible legislation to address local government funding of firefighters' retirement. Changes to the law passed during the 2015 legislative session increased the assets required to be held for retirement funding. The committee requested that, when drafted, the proposed bill to address the firefighters' retirement fund be sent to the State Administration and Veterans' Affairs Interim Committee for that committee's consideration.

The Department of Transportation updated the committee on public transportation, responded to an information request about engineering staff eligible for retirement, and advised the committee about ongoing communications with the Federal Highway Administration regarding advertisements on transit shelters.

The committee also authorized bill requests from the Department of Revenue and the Department of Transportation so that those agencies' legislation could be submitted for drafting.

### Other Actions

The committee also took the following actions:

- Approved draft legislative rules prohibiting the rereferal of revenue bills originating in the House and Senate Taxation Committees to the House Appropriations and Senate Finance and Claims Committees and asked that the draft rules be sent to the Legislative Council's Rules Subcommittee and to the House and Senate Rules Committees.
- Requested a draft bill to repeal the refundable income tax credit relief multiple.
- Requested a draft bill to provide for primary enforcement of the seatbelt law.

- Requested a draft bill to clean up errors contained in the two-year property reappraisal bill that became law in 2015 (Senate Bill 157).

### Next Meeting

The committee will meet on September 7-8 at the Capitol in Helena at a time to be determined. The meeting will include an opportunity for public comment on the committee's draft legislation as well as agency updates and agenda items devoted to the committee's revenue-estimating and monitoring functions. For more information on the committee's activities and upcoming meeting, please visit the committee's website or contact Megan Moore, committee staff.

Committee Website: [www.leg.mt.gov/rtic](http://www.leg.mt.gov/rtic)

Committee Staff: [memoore@mt.gov](mailto:memoore@mt.gov) or 406-444-4496

### School Funding Interim Commission Not Done Yet

What was scheduled to be the final meeting of the School Funding Interim Commission on June 13 became the penultimate meeting, and the commission will convene a final time in August on a date to be determined. Please check the commission's website for updates: [www.leg.mt.gov/sfc](http://www.leg.mt.gov/sfc).

The commission's work is often referred to as "the decennial study" because it fulfills a statutory requirement that Montana's K-12 school funding formula be reviewed at least every 10 years. The 16 commission members (12 legislators and 4 public members) are tasked with reassessing the needs and costs related to the basic system of free quality public elementary and secondary schools and, if necessary, recommending changes to the state's funding formula to the 65th Legislature.

Montana's school funding formula was described by District Judge Jeffrey Sherlock in a 2004 decision as possessing a "confounding complexity," and perhaps it is this complexity, in part, that has extended the commission's exploration. In addition to wanting more time to review possible bill draft proposals, the commission also expressed a desire to prepare a final report of this 10-year review that would be useful not just for the 2017 Legislature but also for subsequent legislative sessions and interims.

### Lengthy Discussion on Findings and Recommendations

Most interim study requirements include issuing a report on the group's findings and recommendations, which may include bill drafts. The commission spent much of its June 13 meeting reviewing, discussing, and revising a draft outline of its final report. For the most part, the discussion focused on

developing consensus findings and recommendations. The work was structured on the four main topics the commission has explored during the past 10 months:

- Recruitment and retention.
- School facilities.
- Special needs (including special education and gifted and talented programs).
- District structure and equity.

The commission began its discussion by reviewing the reports, presentations, and testimony it has received, which provided a good reminder of the volume of information the commission has produced and received. The commission then discussed findings and recommendations under each of the topics. Ultimately, the commission directed staff to produce a full draft final report reflecting commission input and to distribute it to commissioners for review in advance of the final meeting in August. The draft will also be posted to the commission's website.

### Bill Drafts Under Consideration

Following the discussion of the final report, commissioners who have been working on specific bill drafts provided brief updates to the full commission. The drafts are at various stages of completion — some nearly done, others still under construction. Materials distributed for the progress reports are available on the commission's website (click "Meetings and Materials" and then click the "June 13, 2016" meeting page link). A quick breakdown of the drafts follows.

#### Special Needs

- LCs SE01, SE02, SE03 — increase the state special education payment in various ways and degrees.
- LC GFTD — create a new funding component for gifted and talented programs.
- LC SNSY — request a study of funding for special needs students.

#### School Facilities

- LC ICAP — revise the INTERCAP loan program.
- LC EFBT — provide transferability of unexpended district general fund to the building reserve fund.
- LC GRT1 — revise revenue streams for facility programs and replace the Quality Schools Facility Grant Program with a new formula grant program.
- LC GRT2 — revise revenue streams for facility programs and revise the Quality Schools Facility Grant Program.
- LC DSGB — revise revenue streams for existing facility programs.

#### Recruitment and Retention

- LC QELP — revise the Quality Educator Loan Assistance Program.
- LC STRS — create a tuition assistance program to incentivize student teaching in rural schools.

#### Other

- LC HLTH — create a task force to study K-12 health benefits.

Complete drafts will be provided to commissioners and posted in advance of the final meeting. The commission will determine at the final meeting which drafts will receive the commission's recommendation to the 2017 Legislature.

### Next Meeting

The commission will meet in August at the Capitol in Helena at a time to be determined. Public comment will be accepted on the final report and bill draft proposals. For more information on the commission's activities and upcoming meeting, please visit the commission's website or contact Pad McCracken, commission staff.

Commission Website: [www.leg.mt.gov/sfc](http://www.leg.mt.gov/sfc)

Commission Staff: [padmccracken@mt.gov](mailto:padmccracken@mt.gov) or 406-444-3595

### State-Tribal Relations Committee to Focus on Education in July

Education-related topics will be the focus of the State-Tribal Relations Committee in July, and tribal colleges will headline the event.

Data on the economic impacts of and funding for Montana's seven tribal colleges will be presented to the committee as well as information on staffing, wages, and a comparison with funding for other public postsecondary institutions in the state.

The committee will also consider the effects of charter schools on reservations and student outcomes. A case study of three charter schools in California, Florida, and Wisconsin will be reviewed.

The topic of supplemental state funding for tribally controlled Bureau of Indian Education grant schools — presented initially in October 2015 — will also be on the agenda. Montana has two such schools: the Northern Cheyenne Tribal School in Busby and the Two Eagle River School in Pablo.

The committee will also receive updates on Montana's Indian language preservation and immersion programs, state implementation of the Indian Child Welfare Act, suicide prevention, and activities of the Governor's Office of Indian Affairs.

## Next Meeting

The committee will meet on July 13-14 in Room 137 of the Capitol in Helena at a time to be determined. For more information on the committee's activities and upcoming meeting, please visit the committee's website or contact Hope Stockwell, committee staff.

Committee Website: [www.leg.mt.gov/tribal](http://www.leg.mt.gov/tribal)

Committee Staff: [hstockwell@mt.gov](mailto:hstockwell@mt.gov) or 444-9280

## Water Policy Committee to Consider Seven Bill Drafts

After touring various water distribution projects in the Gallatin Valley, the Water Policy Interim Committee asked for seven pieces of draft legislation ahead of the 2017 session.

The committee will further review the draft legislation at its July 11-12 meeting, including bills to accomplish the following:

- Clarify the threshold for water commissioner appointments.
- Require an educational program for certain water commissioners.
- Clarify the definition of the term "water right change."
- Allow applicants for water right permits or water right change authorizations to ignore analysis of adverse effects for certain water rights.
- Allow a person to appeal a Department of Natural Resources and Conservation decision to the Water Court (two bills).
- Define the term "combined appropriation" for water wells and developed springs that are exempt from permitting.

The committee visited the following three sites on May 2, which provided its eight members with an out-of-the-committee-room look at relevant water issues:

- A subdivision in the Four Corners area that uses an existing irrigation water right to water its lawns and other landscaping. Typically, developments must secure unique water rights, which involves a lengthy permitting process.
- The state's first infiltration gallery at Four Corners Water and Sewer District. The gallery injects water from its ground water wells, which mitigates the district's impact on other area water users.
- The start of the 21-mile Farmers Canal, which diverts water from the Gallatin River and feeds many farms in the valley before it eventually flows alongside 19th Avenue in Bozeman.

At the July 11-12 meeting, the committee will determine which of the seven bill drafts they might pre-introduce. The following items are also on the July agenda:

- A staff program review of the Public Water and Subdivisions Bureau (Department of Environmental Quality).
- Draft committee reports on the assumption of federal section 404 permitting and the future of the Water Court.
- A draft summary of the committee's work on issues related to water availability and supply.

Committee rules require six votes to pre-introduce WPIC legislation. Pre-introduction allows a bill to be scheduled for committee hearing early in the upcoming legislative session.

## Next Meeting

The committee will meet on July 11-12 in Room 172 of the Capitol in Helena beginning at 9 a.m. on both days. For more information on the committee's activities and upcoming meeting, please visit the committee's website or contact Jason Mohr, committee staff.

Committee Website: [www.leg.mt.gov/water](http://www.leg.mt.gov/water)

Committee Staff: [jasonmohr@mt.gov](mailto:jasonmohr@mt.gov) or 406-444-1640

## Next Meeting Dates

- Children, Families, Health, and Human Services Interim Committee — Aug. 25-26
- Commission on Sentencing — TBD
- Economic Affairs Interim Committee — Aug. 30-31
- Education and Local Government Interim Committee — Sept. 8-9
- Energy and Telecommunications Interim Committee — July 14-15
- Environmental Quality Council — July 20-21
- Judicial Redistricting Commission — Aug. 16
- Law and Justice Interim Committee — Aug. 22
- Legislative Audit Committee — TBD
- Legislative Council — Aug. 24-25
- Legislative Finance Committee — Sept. 29-30
- Revenue and Transportation Interim Committee — Sept. 7-8
- School Funding Interim Commission — Aug. TBD

- State Administration and Veterans' Affairs Interim Committee — Aug. 23
- State-Tribal Relations Interim Committee — July 13-14
- Task Force on State Public Defender Operations — Sept. 12
- Water Policy Interim Committee — July 11-12

*These dates are current as of July 1, 2016. For the most up-to-date meeting dates and information, please see the individual committee websites.*

# The Back Page

## 2019 Biennium Outlook for the General Fund Budget

by the Legislative Fiscal Division

### Overview

The 2019 Biennium Outlook Report provides the current outlook for ongoing general fund revenues and expenditures. This helps to project the general fund amount that the Legislature will have available when setting the state's budget for the 2019 biennium. The report includes a summary of findings and elaborates on the following topics:

- Anticipated ongoing general fund revenues.
- Ongoing general fund present law expenditure requirements.
- Budget pressures.
- Risks associated with the budget.

This “Back Page” article is based on the introduction to the report. The [full report](#) is available online.

### Risks and Pressures

Various risks and pressures that are not part of present law base funding levels could impact spending or revenue. Present law base is defined in statute (see section [17-7-102\(10\), Montana Code Annotated](#)) as the level of funding needed under present law to maintain operations and services at the level authorized by the previous Legislature.

“Pressures” are those factors that are not included in either the statutory definition of present law base or the present law base estimates but that could place pressure on the Legislature for additional funding. In several areas, these pressures are as compelling as present law.

“Risks” are those factors that could cause the actual present law base to be different than projected. For example, estimates of Medicaid costs and K-12 school funding are included in the present law base estimate. Changes in any of the factors used in the cost estimates will result in a different actual present law base.

The report concentrates on the general fund because it is the primary source used by the Legislature to make funding decisions for general government services, such as education, health and human services, and public safety. The general fund's ending fund balance (to include any rainy day fund) and structural balance are also generally used to determine the fiscal soundness of the state.

### 2017 Biennium Ending General Fund Balance

Budgeting for the 2019 biennium begins with estimating the 2017 ending fund balance. At the end of the 2015 legislative session, the 2017 ending fund balance was expected to be \$314 million. In FY 2015, revenues were greater than anticipated and expenditures were less than anticipated. This increased the expected ending fund balance to \$357 million. However, the revenue forecasts for the remainder of the 2017 biennium are about \$166 million lower than were expected, and if current income tax trends continue, revenues could ultimately be \$191 million lower than expected.

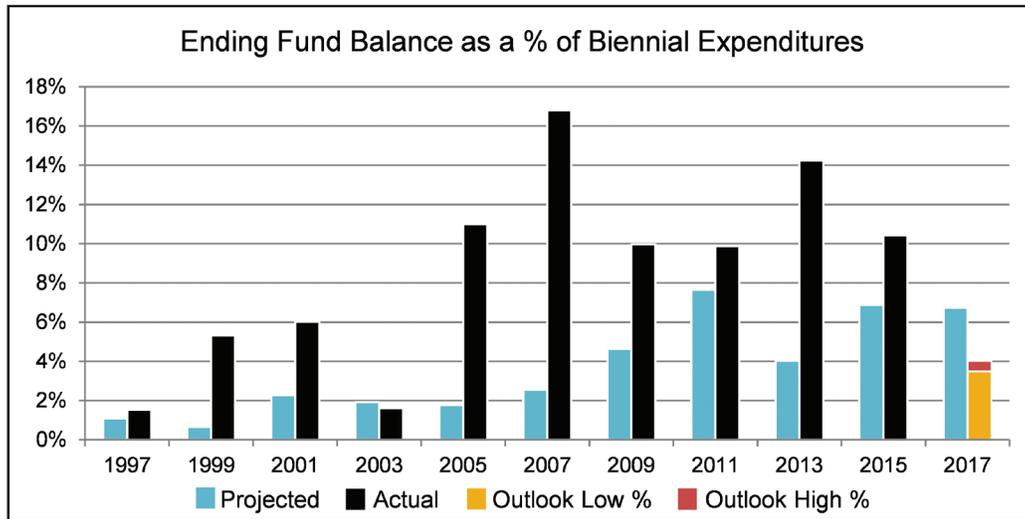
The 2019 biennium begins with the 2017 anticipated ending fund balance. At the end of the 2015 legislative session, the 2017 ending fund balance was anticipated at \$314 million. In FY 2015, revenues were greater than anticipated and expenditures were less than anticipated, which increased the anticipated ending fund balance to \$357 million. Current 2017 biennium forecasts based on FY 2016 year-to-date revenues are about \$166 million lower than the revenue estimate and, if current income tax trends continue, could be \$191 million lower. In addition to revenue impacts to the ending fund balance, expenditure impacts are anticipated. Slightly lower estimates of expenditures for statutory appropriations, but higher nonbudgeted transfers of \$4 million and school funding shortfall of \$7 million are anticipated. The school funding formula for BASE Aid is defined in statute, and general fund supplemental appropriations provide for any shortfalls in school funding (see section [17-7-301, MCA](#)).

Considering these revenue and expenditure projections, and applying standard assumptions for anticipated reversions, this would result in an ending fund balance between \$163 and \$188 million or approximately between 3.5% and 4.0% of 2017 biennial expenditures. It is important to remember that statute directs the governor's budget director to reduce spending “in an amount that ensures that the projected ending general fund balance for the biennium will be at least 3.5% of all general fund appropriations” (see section [17-7-140, MCA](#)).

The graph at Figure 1 puts this in historical perspective. Historically, actual general fund ending fund balances have usually been greater than expected. Since the 2005 biennium, actual ending fund balances have been at least 9.9% higher than projected. Additionally, in the most recent five biennia, budgeted

ending fund balances have averaged 6% of biennial expenditures. For the 2017 biennium, the budgeted ending fund balance was projected to be 6.4% of biennial expenditures.

**Figure 1**



This projected level of ending fund balance is relatively low compared to recent trends. The statutorily defined minimum ending fund balance (section 17-7-140, MCA) is anticipated to be approximately \$127 million in the 2019 biennium. In the past 10 years, the Legislature and the governor have budgeted ending fund balances at \$250 million or greater. The 2017 biennium was budgeted at \$314 million.

In order to return to an ending fund balance of \$250 million, between \$62 and \$87 million of general fund revenue would need to be reserved from the 2019 biennium expenditures. A reserve of \$62 million is shown as a potential impact to the 2019 biennium general fund budget on page 10 of the [full report](#).

**Structural Balance**

The term “structural balance” refers to the balance between expected ongoing revenues and expected ongoing expenditures. The general fund structural balance for the 2019 biennium is expected to be positive, meaning that the current outlook for general fund revenue exceeds the amount needed to meet present law level expenditure requirements. However, this outlook changes when pressures in addition to present law expenditure requirements are considered.

Present Law Assumptions

*Present Law Revenue Assumptions*

House Joint Resolution 2 (2015) estimated revenue growth during the 2015 biennium at 8.0%. Current revenue trends indicate that the revenue growth rate will be approximately 3.9% in the 2017 biennium and 11.4% in the 2019 bienni-

um. The primary cause for lower revenue growth in the 2017 biennium is lower energy commodity prices, which reduce severance taxes and corporation income tax. In addition, the

weak stock market growth negatively impacts individual income tax collections primarily through reduced capital gains income. For more detail on revenue estimates, please see page 12 of the [full report](#).

*Baseline Forecast*

The baseline revenue forecast by the Legislative Fiscal Division (LFD) contains a general fund income tax forecast for FY 2016 that includes the dampened growth rate currently seen in FY 2016. However, it is assumed that this dampened level is temporary because taxpayers have

a one-time adjustment for reduced capital gains received in calendar year 2015. In this baseline forecast, the FY 2017 individual income tax collections make a rebound of 6.7%. At this time, it is uncertain whether the current dampened growth rate will continue. For more information, see page 13 of the [full report](#).

*Individual Income Tax Trend Risk Alternative Forecast*

Given the risk inherent in the baseline revenue forecast, an alternative assumption for FY 2017 was created. In this alternative assumption, the individual income tax revenue would be projected to grow from the FY 2016 individual income tax level at the typical rate of 4.7% in FY 2017. This makes a \$25 million difference in FY 2017 and a \$55 million difference in the 2019 biennium. For more information, see page 13 of the [full report](#).

Additional analysis will be performed over the next several months to determine if the baseline revenue forecast should be amended to include the lower individual income tax assumptions.

*Present Law Adjustments*

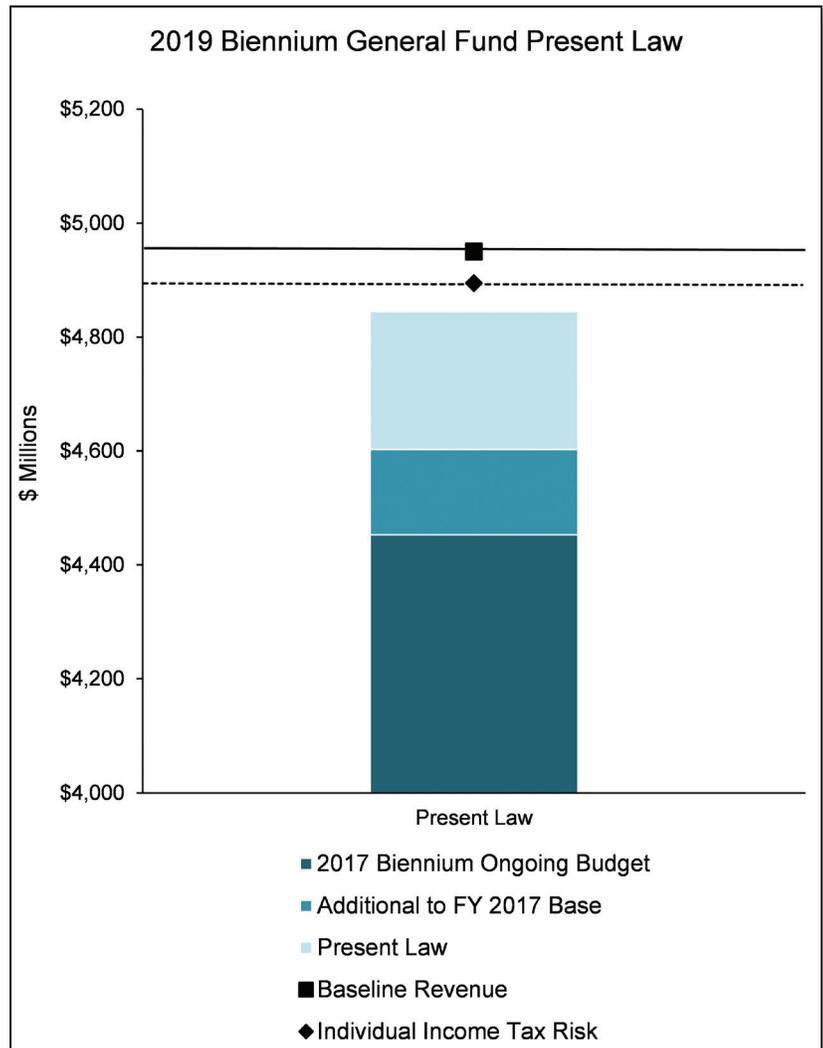
Present law adjustments from the FY 2017 base total \$242 million. This includes \$71 million that would reestablish the FY 2017 level of appropriations for the Office of the State Public Defender and the Department of Livestock. Without these reestablishing items, the present law adjustments would be \$171 million.

The \$242 million total increase in present law funding includes the following key increases:

- A \$48 million increase in K-12 BASE Aid funding.
- A \$60 million growth in statutory appropriations, which includes the following:
  - Additional statutory appropriation expenditures for enrollment and administrative appropriations for the HELP Act Medicaid expansion, which total \$36 million over the anticipated FY 2017 expenditures.
  - Retirement contribution increases totaling \$15 million for the state’s share to local government and school pension systems, and additional general fund contributions to amortize the pension systems sponsored by the state.
  - Local government entitlement share increases of \$12 million.
  - A \$3 million decrease because of lower bond payments as bonds are paid off.
- A \$31 million increase in costs for the Department of Public Health and Human Services (DPHHS), which includes the following:
  - \$22 million caused by Medicaid caseload increases.
  - \$5 million for caseload growth in Children and Families services.
  - \$4 million in other adjustments for the DPHHS.
- An \$8 million increase in costs for the Department of Corrections, which includes the following:
  - \$5 million for additional prisoners held in county jails.
  - \$3 million in other adjustments.
- A \$24 million increase attributed to other increased costs throughout state government.

- Additions to the FY 2017 base budget (i.e., the FY 2017 ongoing appropriation level for items like the FY 2017 pay plan and benefits), which amount to \$149.6 million.
- Present law expenditure increases of \$242.2 million for items like Medicaid caseload growth and statutory increases for K-12 BASE Aid.

**Figure 2**



*Present Law Chart*

The present law chart at Figure 2 provides a visual representation of the projected general fund structural balance for the 2019 biennium. The chart shows that anticipated ongoing present law expenditures are below projections of ongoing revenue.

The following three building blocks make up the chart:

- The 2017 biennium ongoing budget (i.e., ongoing budgeted expenditures for FY 2016 and FY 2017), which amount to \$4,453 million.

Based on the assumptions and risks previously discussed, the total present law base is expected to be \$4,844 million for the 2019 biennium.

As shown in the chart, the projected revenue and present law spending trends may result in a structural balance of \$105 million for the 2019 biennium, meaning that ongoing baseline revenues are greater than assumed present law spending by \$105 million, which represents 2.1% of anticipated biennial revenue. Alternatively, the Individual Income Tax Risk alternative forecast would decrease revenues by \$55 million for the 2019 biennium. However, even with the lower revenue alternative, ongoing revenues would be sufficient for present law ongoing expenditures.

**Expenditure Pressure**

In addition to present law adjustments, the Legislature can anticipate additional expenditure pressures for services that currently are provided by state government. The 2017 general fund biennial expenditure growth was 8.0%. Overall, the 2019 outlook forecast assumes total expenditure pressure growth ranging from 4.3% to 8.1% in the 2019 biennium.

Pressures for additional expenditures include the following:

- Agency pressures or pressures for services that agencies anticipate or are currently providing with current resources.
- Pressures for ongoing services that the Legislature funded on a one-time basis.
- Inflationary increases for state purchased services such as health benefits and treatment facilities known as provider rate increases.
- Inflationary increases for state employee pay known as the pay plan.
- Shortfalls in other funding sources.
- Funding for state and local infrastructure.

Expenditure pressure for current services within state government extends beyond present law. In several cases, some items are historically deemed new proposals, due to the inherent policy decisions incorporated into the budget adjustment. One example is the population growth in the Department of Corrections. When budgets increase to fund new prisoners, the policy questions regarding where to place or house new populations are significant and lead policymakers to consider these choices new proposals.

The table at Figure 3 summarizes the expenditure pressures and the specific page numbers in the full report referring

**Figure 3**

General Fund Pressures (\$ Millions)			
	Minimum	Potential	Page
<b>Agency Pressures</b>			
Office of the Public Defender - Caseload increases	\$4.8	\$5.8	23
Department of Corrections - Caseloads in all areas	11.8	11.8	23
Department of Corrections - County jail rate pressure	1.7	3.0	23
DPHHS - Additional Federal waiver for Developmental Disabilities Services	2.4	2.4	23
DPHHS - Protect Montana Kids Initiative	1.0	1.5	23
Natural Resource revenue shortfall backfill with general fund	2.5	5.8	23
Judicial Branch - additional district court judges	-	2.3	24
K-12 Funding Study: waiting for Commission recommendations	-	-	24
<b>Current Service Level: services funding with one-time appropriations</b>			
Aquatic Invasive Species	1.0	1.9	25
Office of Public Instruction - Montana Digital Academy	0.8	1.7	25
Department of Administration - State Facilities Maintenance of Common Areas	1.6	3.3	25
Department of Commerce - Indian Country Economic Development	0.8	1.6	25
Department of Commerce - Tribal language	0.8	1.5	25
Department of Corrections - Lewistown Infirmiry and Women's Prison	0.6	1.1	25
Judicial Branch - Information technology staff	0.2	0.4	25
<b>Inflationary items: Provider Rate Increases (1% - 3%)</b>			
Department of Public Health & Human Services (DPHHS)	10.9	32.7	26
Department of Corrections	1.6	4.8	26
Office of Public Defender	0.2	0.6	26
<b>Inflationary items: Pay increases for state employees (pay plan) (1% - 3%)</b>			
Mitigating tuition increases for inflationary items for the Montana University System	14.0	42.1	26
<b>Mitigating tuition increases for inflationary items for the Montana University System</b>			
<b>State and Local Infrastructure</b>			
State infrastructure historical level of general fund transfers	-	40.0	27
State Information Technology Infrastructure historical level of transfers	-	10.0	27
Local infrastructure grants such as Treasure State Endowment Grants	1.0	14.3	27
School Facility shortfall in revenue (includes school facility debt service)	4.8	21.6	28
Highway state special revenue fund shortfall	-	32.4	29
<b>Total Pressures</b>	<b>\$62.4</b>	<b>\$255.4</b>	

**Expenditure Pressure**

**Department of Corrections Population**

Population increases may necessitate the following:

- Additional hard cells at the primary men's facility at Deer Lodge.
- Additional treatment facilities for drug and alcohol addiction.
- Additional mental health treatment facilities.
- Additional prerelease community placement facilities.
- Additional probation and parole officers.

to the written narrative explaining each pressure. The table shows two columns, one for the minimum amount projected to provide for the pressure and a second column for the higher expenditure level that may be necessary.

Figure 4

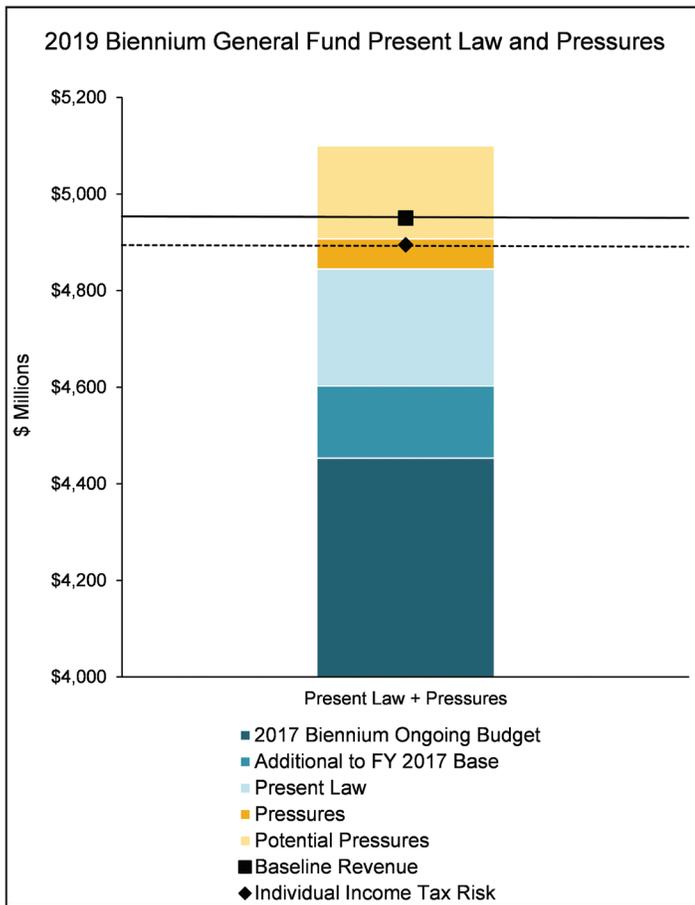


Figure 5

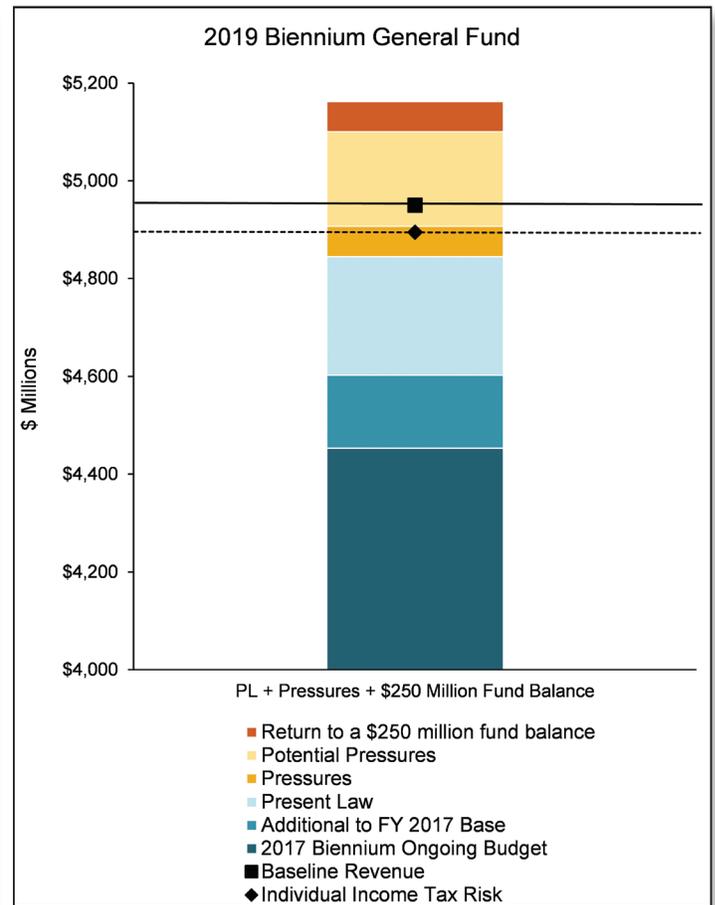


Figure 4 shows the projected present law expenditures but also adds the various expenditure pressures previously described.

Structural Balance Recap

With the baseline revenue forecast, all expenditure pressures could be funded at the minimum level and \$43 million of additional potential pressures could be funded. With the Individual Income Tax Risk alternative forecast, which is lower by \$55 million for the 2019 biennium, ongoing revenues would be insufficient to fund the minimum level of all expenditure pressures.

**One-Time Pressure for 2019 Biennium**

As previously noted, the governor and the Legislature have typically budgeted for an ending general fund balance of at least \$250 million. With the assumptions in this report, and the baseline revenue estimate, if the Legislature chooses to budget for a \$250 million ending fund balance for the 2019 biennium, then \$62 million of projected revenues would need to be reserved. Figure 5 illustrates this analysis.

**Alternative Expenditure Assumptions**

As discussed, several expenditure assumptions were applied to develop this analysis. As is typical, the assumptions used by LFD may or may not occur. These assumptions could improve or worsen the ending fund balance or structural balance picture facing the Legislature next session. For example, except for K-12 BASE Aid, no supplemental appropriations were included in the analysis. Additional supplemental appropriations could be approved, which would reduce the ending fund balance.

Conversely, only the standard level of reversions was assumed. However, current House Bill 2 (2015) Medicaid benefit expenditures are less than budgeted and may result in higher than anticipated reversions of general fund appropriations. These potentially higher reversions are uncertain because the Executive has the statutory ability to move these general fund appropriations to cover other expenses within the Department of Public Health and Human Services.

The examples shown in Figure 6 provide a range of alternative assumptions that may impact either the ending fund balance or the structural balance.

### Summary of General Fund Outlook

The general fund outlook is solid, though less strong than in recent years. Natural resource prices have impacted general fund revenue through lower severance and corporation

income taxes, and the weak stock market growth has likely resulted in lower capital gains income and reduced individual income tax revenue collections. Expenditure pressures are typical, but the pressure to increase the ending fund balance has not been experienced recently. Alternative assumptions and other factors that could develop in the next six months may have a significant impact on the anticipated ending fund balance or structural balance of the general fund.

Figure 6

2017 Expenditure Alternative Assumptions - impact fund balance		
	(\$ Millions)	Page # in Full Report
<b>Supplemental Pressure that could reduce ending fund balance</b>		
Dept. of Justice: higher than anticipated costs for medical examiners	\$0.8	19
Office of Public Defender: caseload higher than anticipated	3.5	19
Dept. of Corrections - Jail Holds	5.0	19
Total potential additional expenditures	9.3	
<b>Potential for Higher Reversions that could increase ending fund balance</b>		
Medicaid caseload: lower than HB 2 budgeted	26.4	18
Medical cost savings in Dept. of Corrections for the HELP Act	4.8	19
Montana Developmental Center saving from SB 411 service level	4.0	39
Total potential lower expenditures	35.2	
<b>2019 Expenditure Alternative Assumptions - impact structural balance</b>		
<b>Potential for Higher Reversions that could increase structural fund balance</b>		
Medicaid caseload: lower than HB 2 budgeted continues	26.4	18
Medical cost savings in Dept. of Corrections for the HELP Act	4.8	19
Montana Developmental Center saving from SB 411 service level	8.0	39
Total potential lower expenditures	\$39.2	