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BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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TO: **Directors, Centralized Services Administrators, & Interested Parties**

FROM: David Ewer, Budget Director
Office of Budget and Program Planning

DATE: January 8, 2010

SUBJECT: **FY 2010- 2011 budget reductions under § 17-7-140, MCA**

My staff has advised me that our current general fund revenue projections, when compared to the appropriations for the biennium passed by the 2009 Legislature, may result in an ending fund balance that is below allowable statutory limits. Therefore, on behalf of Governor Schweitzer, we are initiating the process of identifying potential budget reductions in accordance with § 17-7-140, MCA, which defines both the definition of an ending fund balance "deficit" (1% of expenditures or approximately $36.8 million) and the procedures that must be followed to make expenditure reductions if a deficit is determined to exist.

The law requires that if, as Budget Director, I determine that a deficit exists, reductions must be made to assure that the projected ending fund balance is at least 1% of general fund appropriations for the biennium, or approximately $36 million.

Importantly, reductions should minimize the impact to the citizens of Montana.

What Expenditures May Be Reduced

If a deficit is determined to exist, the Governor may direct reductions from any general fund expenditure not exempted by § 17-7-140, MCA, including HB 2, any other appropriation bills (including HB 645), statutory appropriations, or language appropriations. In addition, reductions may be directed from non-general fund appropriations and non-budgeted transfers when the reduction will increase the general fund balance. An example is the Coal Tax Shared Account, where the unexpended balance is transferred to the general fund.

Reductions may not exceed 10% of general fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

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Agencies and Branches and Certain Expenditures Not Subject to § 17-7-140, MCA

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately 35% of general fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct those executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Submitting proposals

On behalf of the Governor, I am directing that each agency engage in the analysis called for under § 17-7-140(1)(b), MCA. OBPP will be making "versions" available on MBARS to record expenditure reduction proposals, and instructions will follow.

For now, each reduction proposal must include an analysis of the impact of the reduction and a determination as to whether the service is mandatory or permissive. A determination that a service is mandatory does not necessarily prohibit reductions. For example, it may be possible to perform a service at a different level or within a different timeframe with less money. For purposes of this process, a service is mandatory if state or federal law requires it. Reductions must be designed to have the least adverse impact on the provision of services most integral to the agency's statutory responsibilities.

The analysis of impact should contain a brief statement about the impact to the users or recipients of the reduced service and to the state. Your agency need not comment about the longer-term impact that would result if the reduction were extended throughout the 2013 biennium, as this will be addressed during EPP as we prepare for the 2011 legislative session. However, it is possible that reductions will be continued forward into the 2013 biennium. Be prepared to explain why the proposed reductions represent the most reasonable choices for Montanans and why other reductions are not being offered.

At this time we do not know that a deficit will be determined to exist, or the exact level of reduction that may be required. Therefore, we request agencies submit proposals for 5% reduction plans. Final reductions may be up to 10% by program, or may be less. Reductions may come from FY 2010 or 2011 appropriations, or both, as necessary to meet statutory requirements.

Coordination with the Executive Planning Process (EPP)

In addition to the prospect of a deficit in this biennium, I anticipate reductions from base level expenditures may be necessary in the 2013 biennium budget. The Executive Planning Process (EPP) for expenditures in the 2013 biennium will begin on approximately May 1, 2010. Therefore, we ask that when you submit your reduction proposals, you recognize the longer-term nature of these budget restraints and the need for sustainable reductions.

Time Table

Please submit your agency reduction proposals to OBPP by January 29. Through your submission on MBARS, the statutory requirement to provide a copy of the submission to the Legislative Fiscal Analyst will be met. We intend to provide formal notice of the projected deficit to the Revenue and Transportation Interim Committee on January 29, and submit the OBPP's formal spending reduction recommendations to the Governor and LFA on February 19. These timeframes were established to coordinate the statutorily-imposed notice requirements to legislative committees with previously scheduled meetings of the committees. (The RAT Committee is scheduled to meet February 18 and 19 and the LFC is scheduled to meet March 4 and 5.)

Finally, we encourage agencies to be mindful that changes to agency rules may be necessary to implement reductions that are finally approved by the Governor.

We will be clarifying issues relating to § 17-7-140, MCA, implementation procedures, any additional restrictions on budget reduction proposals, and any related issues as we encounter them.