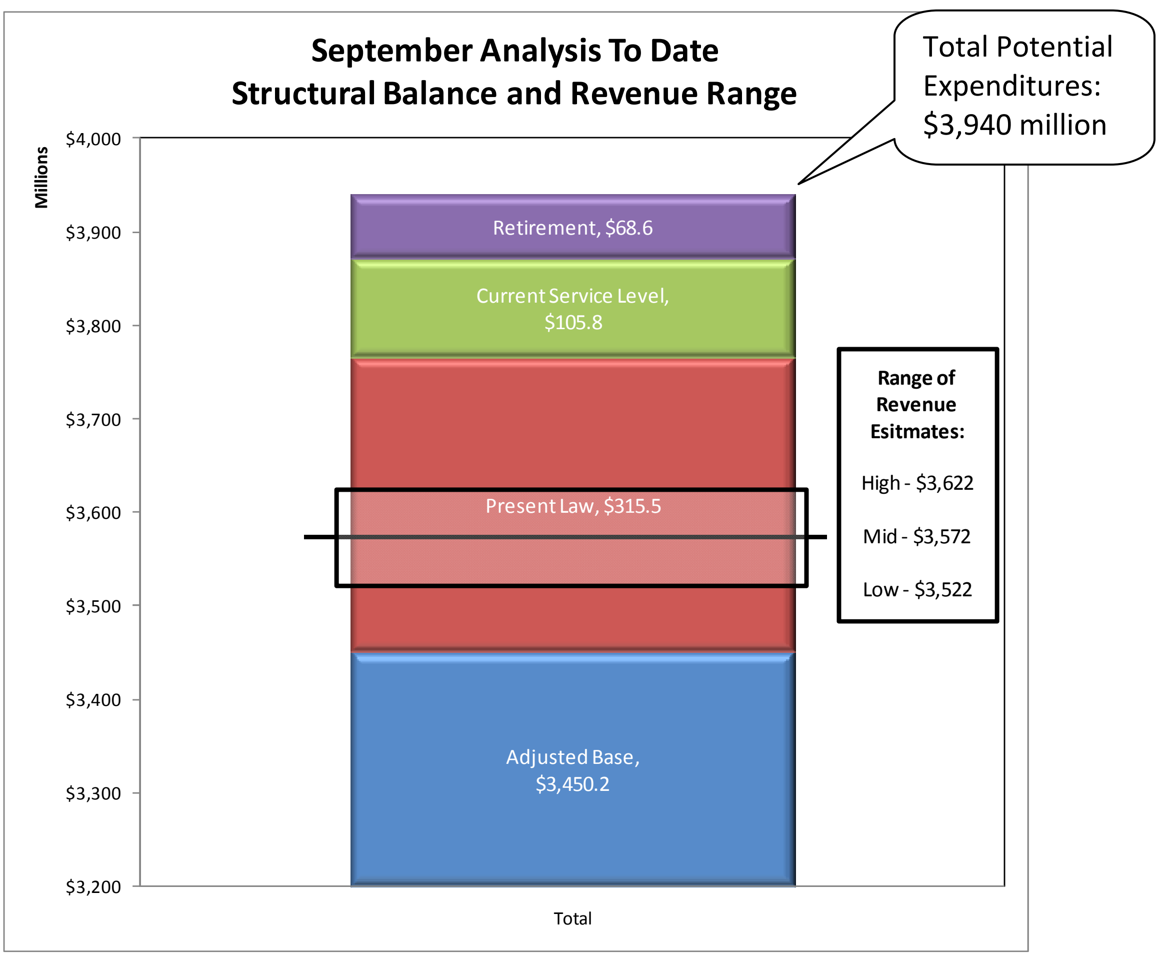
LEGISLATIVE FISCAL DIVISION

BUDGET UPDATE AND OPTIONS

The following summarizes the "Risk Assessment Report", which updates the analysis the Legislative Fiscal Division presented in March on the "big picture" of the overall state financial and budget condition for the 2013 biennium. In March, the analysis demonstrated a structural budget gap of approximately $400 million. This gap included different categories of costs: adjusted base, present law, the level of current services provided, and the cost to pay the actuarial-required rate for the retirement systems. For a definition of terms see page 3.

The analysis in this report updates the March work and continues these categories of cost. Given changes in forecasted costs and preliminary budget assumptions by the Governor's Office of Budget and Program Planning (OBPP) this gap appears to have narrowed. If all categories of cost continue to be measured, the structural budget gap is now approximately $368 million in comparison to the $400 million in March.



In addition, the anticipated ending fund balance has improved dramatically. The lowest estimate in March before any subsequent improvements was as low as negative $63 million. Today, an ending fund balance exceeding $200 million appears likely.

Revenue trends are mixed. Personal income tax collection estimates have weakened and corporation tax collection estimates have strengthened. Other revenue sources have also trended both up and down. At this point in time there is not enough information to adjust the 2013 biennium revenue estimates. However, significant additional data is coming in November. The Legislative Fiscal Division is estimating that the biennial revenues will be within $50 million either above or below the estimates provided in February and March.

The "Risk Assessment Report" concludes with possible solutions and the risks associated with those options. The key choices evaluated include:

- Ending fund balance – a portion of the "cash" in the bank could be used to offset expenditure reductions
- Retirement $68.6 million – the cost to actuarially fund the pension systems could be delayed until the next biennium
- Current Service Level $105.8 million – health services, provider rates, and school funding items that comprise most of these costs could be eliminated
- Four Percent Personal Services Reductions $19.8 million – the legislature could accept the four percent reduction in personal services as included in the OBPP instructions to agencies for submission of the initial budget
- Caseloads – assumptions on human services, corrections, and other caseloads could be reduced
- Five Percent plans up to $100 million – the legislature could choose to adopt some of the items included in the five percent reduction plans submitted by the agencies
- Reference Book - the legislature could choose to adopt some of the items in the Reference book developed by the Legislative Finance Committee subcommittees and the Legislative Fiscal Division. For more information on Reference Book options see http://leg.mt.gov/css/fiscal/hot-topics.asp.

Please refer to the full report for more information and a brief description of the risks associated with each of the options.

http://leg.mt.gov/css/fiscal/reports/2009-2010-interim-reports.asp#oct2010

TERMS AND DEFINITIONS

ADJUSTED BASE ASSUMPTIONS

These assumptions basically say how much you spent in 2010 for things that you have committed to paying for in 2011, 2012, and 2013. Examples for a family might include the mortgage, utilities, and food. These cost assumptions include some adjustments for inflation, but do not fully account for inflation.

PRESENT LAW CASELOAD INCREASES

These assumptions generally add to the adjusted base and take into account changes in the budget that do not expand lifestyle, but take into account changes in the family. Examples might include: a baby being born, high school activity fees, more food consumption, and areas of inflation not already considered.

CURRENT SERVICES LEVEL

This is an unusual category of cost. Usually in the analysis of the budget we would stop here and say that everything else is a lifestyle upgrade, or in state budget lingo, “new proposal”. In this biennium, it is meaningful to consider these types of costs. In our state/family budget for 2011 we are spending more than we have committed to spend in the future. Some of these expenses are purchases of assets like buildings, vehicles, and remodeling and other expenses are supporting our lifestyle.

When we set the budget that we set in 2009, we thought revenues/incomes were going to stabilize or improve, and they have not. They continued to fall through 2010. Again, we think revenues will improve from here, but not to the level we thought. Knowing that revenues were uncertain, we improved or held on to lifestyle of 2009, but did not commit to those improvements for the long term.

Examples in a family might look like this: You know that your work hours have been reduced by 5% in 2009 and the reduction could go as high as 10%, but your boss thinks the economy will improve, and by 2011 he thinks you will be back to full employment. The choices you make maintain most of your adjusted base and present law items listed above in 2009, but you preliminarily determine that you will give up certain items if your hours do not return.

In the green box in the earlier chart are items that were not additional services in 2009, but are considered new in 2010 and 2011 2% inflation for schools and 2% for providers of health services. These are increases from the 2009 actual spending level, but not increases in 2010 and 2011.

Given that the items in the green box are not one-time in nature, nor are they improvements in lifestyle, they were included for consideration in this analysis.

PENSION FUNDS

The state sets aside money to cover the retirement of state employees. When the market fell in 2008, the value of the funds set aside to pay these expenses fell. The expenses they are obligated to pay did not fall. The amount in the purple box in the chart is the amount necessary to maintain the obligated level of pensions to state employees.

A family situation can be similar. For example, when stock market conditions erode the value of your retirement plan, it takes additional savings to offset the loss in value.

NOT INCLUDED IN THE CALCULATION

A number of other issues are not included in the calculations. Therefore, any additional costs for these items will add to the potential budget gap. These might include:

- State employee pay plan or health insurance increases
- Fire costs beyond the amount in the Governor's emergency fund
- Any potential lawsuit settlement costs
- Inflationary adjustments for provider rates, rents, food, fuel, or other contracts
- Water compact distributions to the Blackfeet or Gros Ventre tribes
- Supplemental appropriations for the current year not anticipated by the 2009 Legislature
- New programs or services