

OVERVIEW OF STATE GOVERNMENT FINANCE

January 2011



Fund Structure

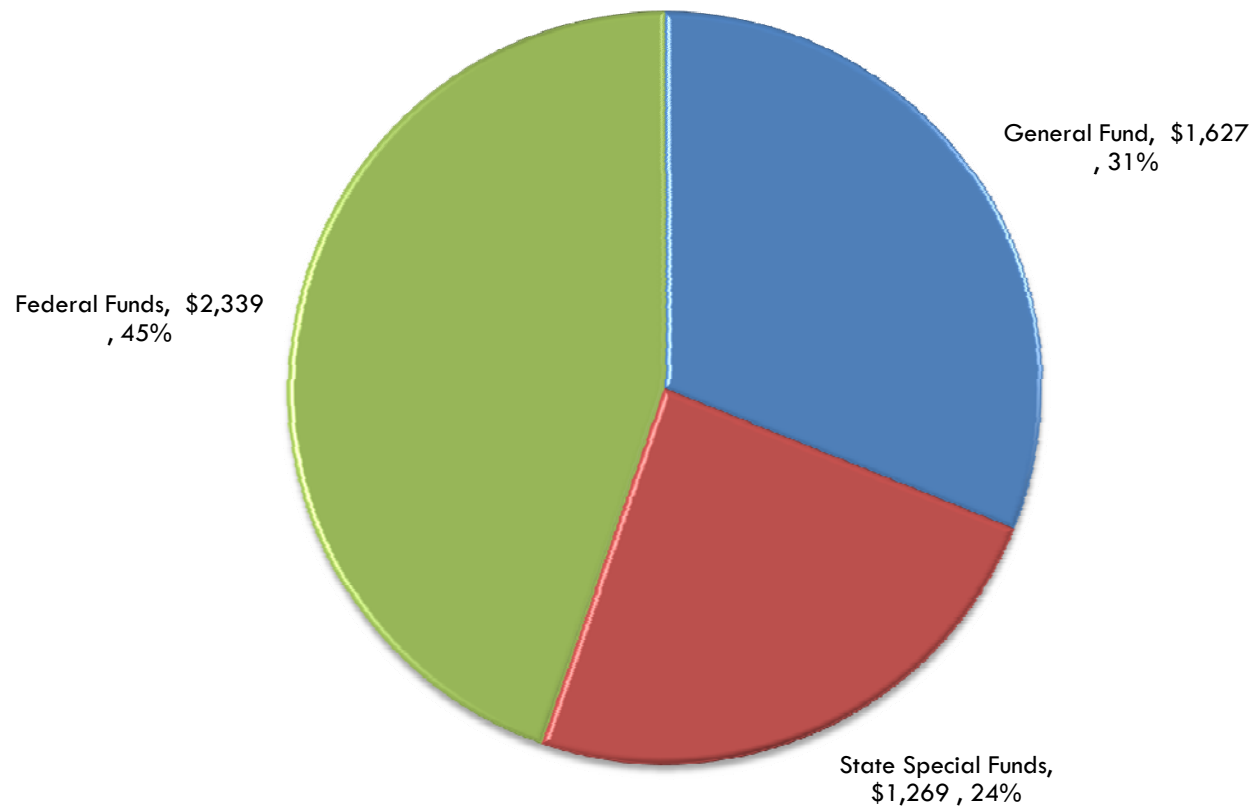
How do we account for state funds?

Primary State Funds

General Fund:
main fund for
taxes for state
spending

State Special:
various
sources:
taxes, fees,
trust revenues,
other

Federal: from
US
government





State Funds

General Fund

State Special Funds

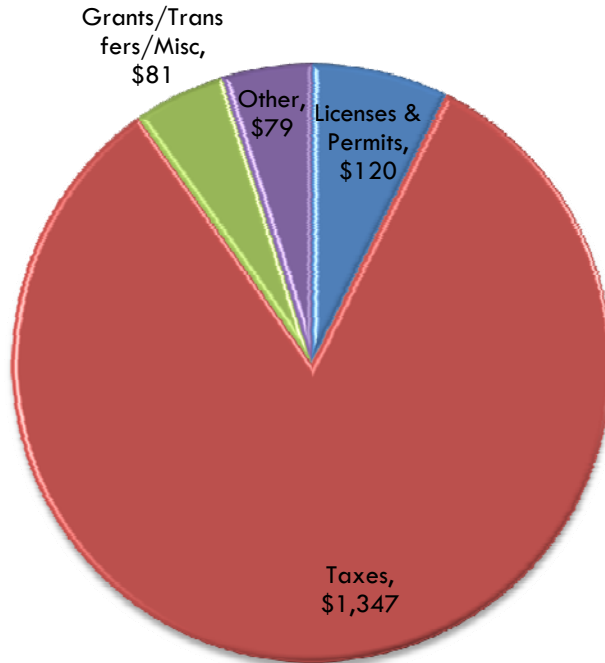
Where does state money come from?



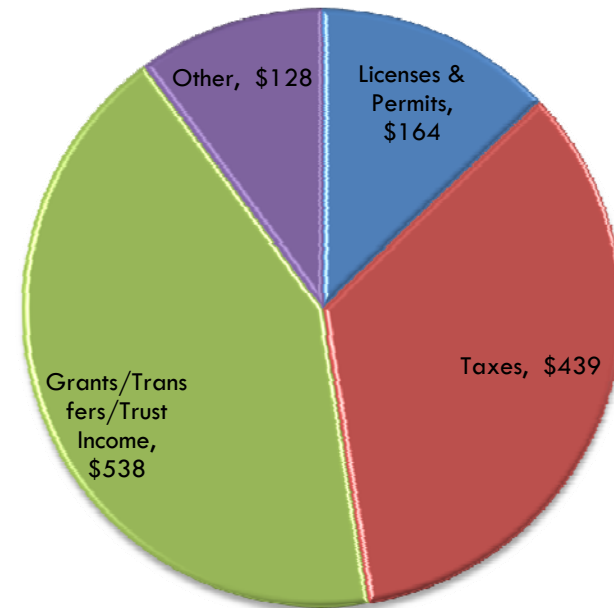
- ❑ Taxes
- ❑ Licenses & Permits
- ❑ Grants/Transfers/Trust Revenue
- ❑ Other
 - ▣ Investment Earnings
 - ▣ Fines/Forfeits
 - ▣ Sale Of Documents/Mdse/Prop
 - ▣ Rentals/Leases/Royalties
 - ▣ Contributions/Premiums
 - ▣ Federal Grants (not Federal Funds)

State Revenue Pieces FY 2010

General Fund - \$1,627 million



State Special - \$1,269 million



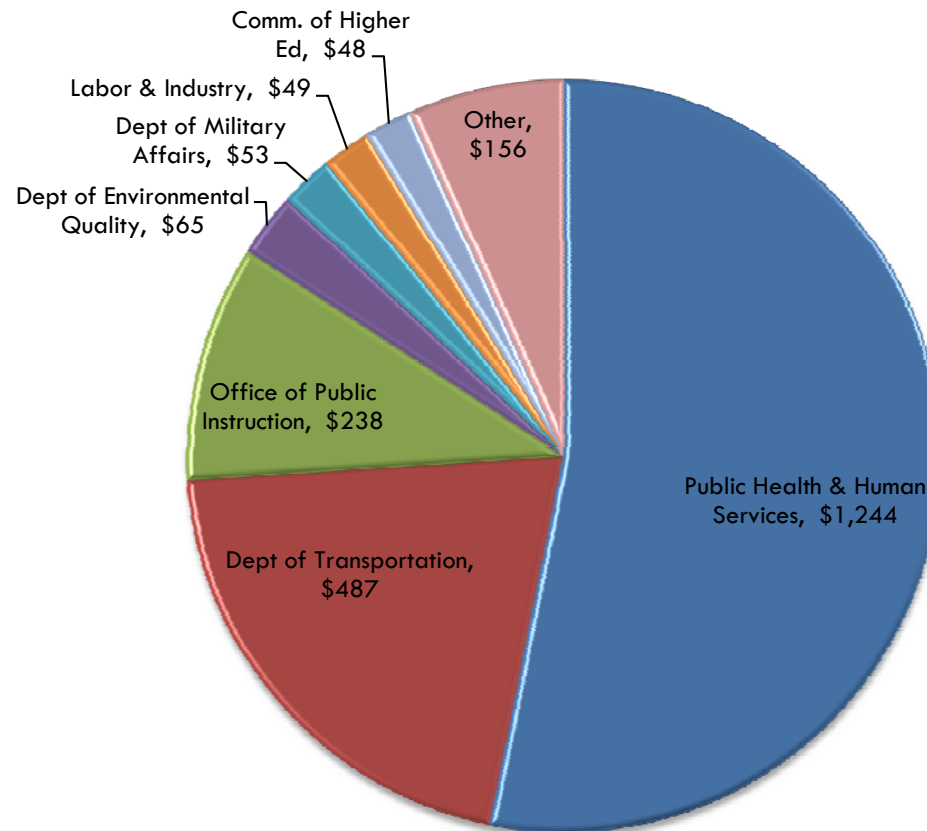
Large State Special Funds



- Five Year Average Revenue and primary sources
 - ▣ Highway Special Revenue: \$277 million
 - Gas Tax
 - ▣ Oil Production Tax: \$107 million
 - Account for local government share of oil and gas tax
 - ▣ Guarantee Account: \$94 million
 - School Trust Revenues
 - ▣ Tobacco Health and Medicaid: \$40 million
 - Tobacco Tax set aside
 - ▣ General License at Fish and Wildlife: \$38 million

Federal Funds: \$2,331 million

Federal Government almost always restricts use for very specific purposes



Other State Funds



- Expendable Trusts - \$0.9 billion per year
 - ▣ Some Board of Investments activity
- Non-expendable Trusts - \$0.8 billion per year
 - ▣ Trust activities for Pensions and other trusts
- Proprietary Funds - \$1.2 billion per year
- Capital Projects - \$54 million per year
- Debt Service - \$84 million per year

Proprietary



- ▣ Recycled: General Fund, State Special, or Federal spent internally such as the case with information technology which is provided centrally and charged to agencies
- ▣ Fee for service: Unemployment and workers compensation insurance or liquor
- ▣ Total Proprietary \$1.2 billion per year



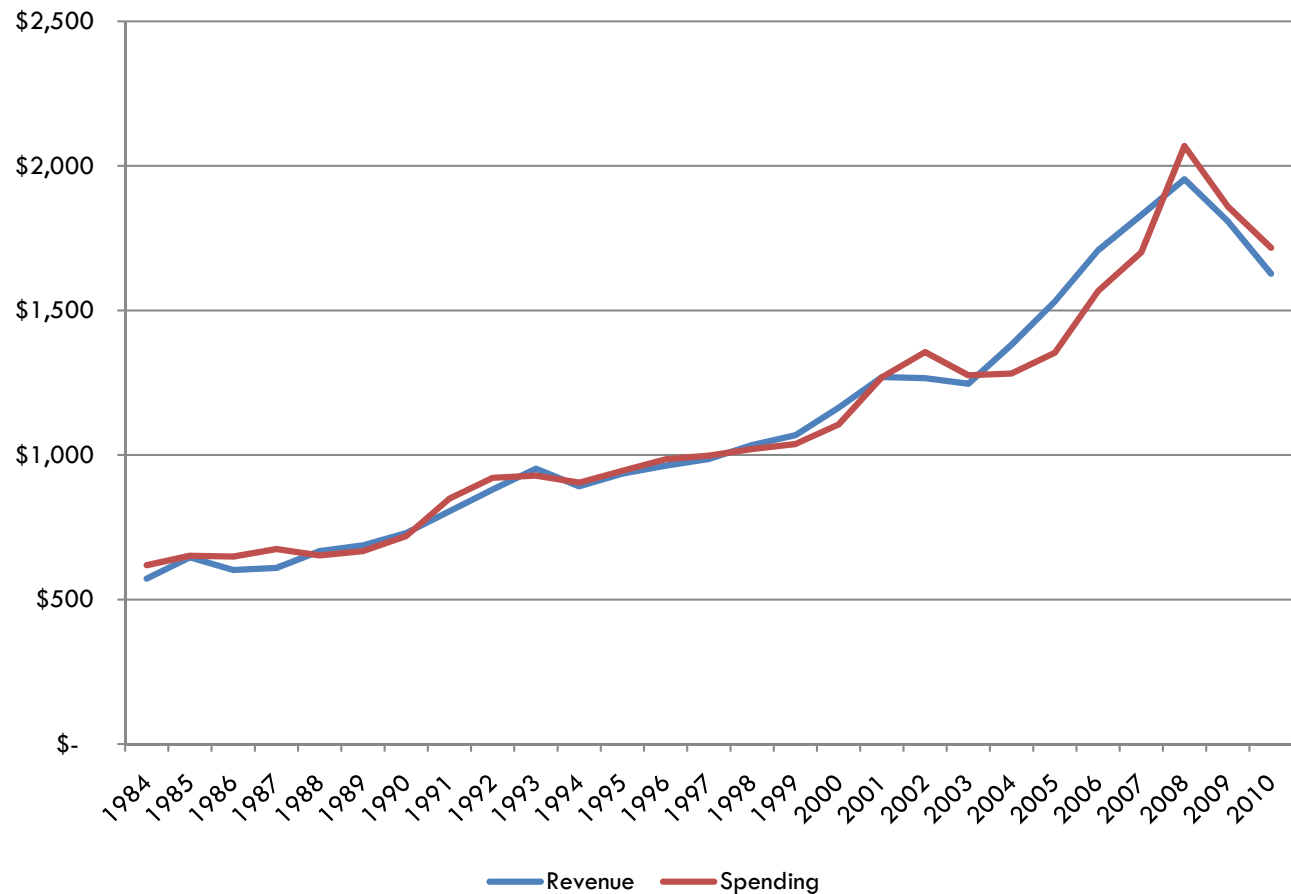
General Fund

History

Forecast

General Fund Revenue and Spending

Overtime
Revenues =
Expenditures

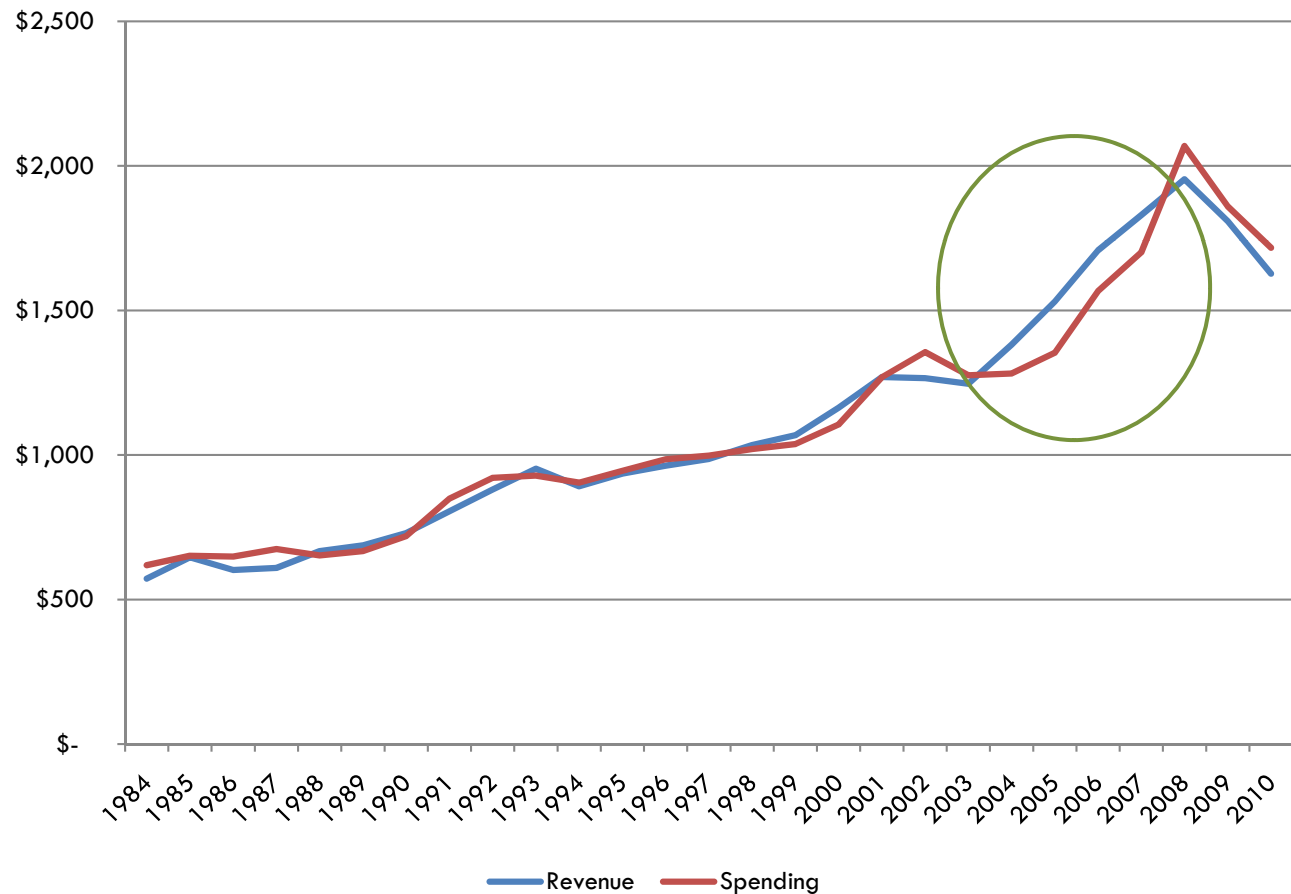


General Fund Revenue and Spending

Revenues grew tremendously during the nation's housing bubble.

Revenues were underestimated during this period.

Ending fund balance grew.

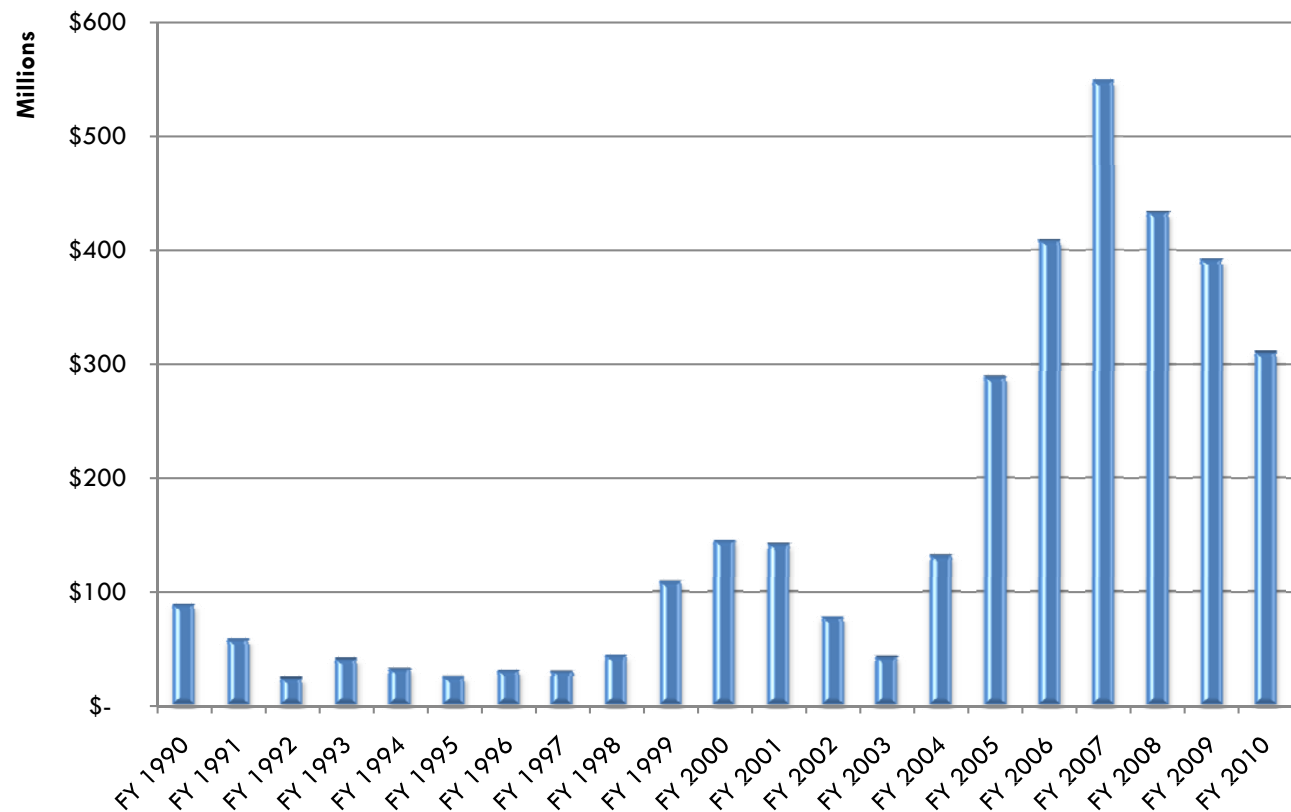


Ending General Fund Balance

From FY 2004 to FY 2007 General Fund Balance grew to be in excess of \$500 million.

Page 1

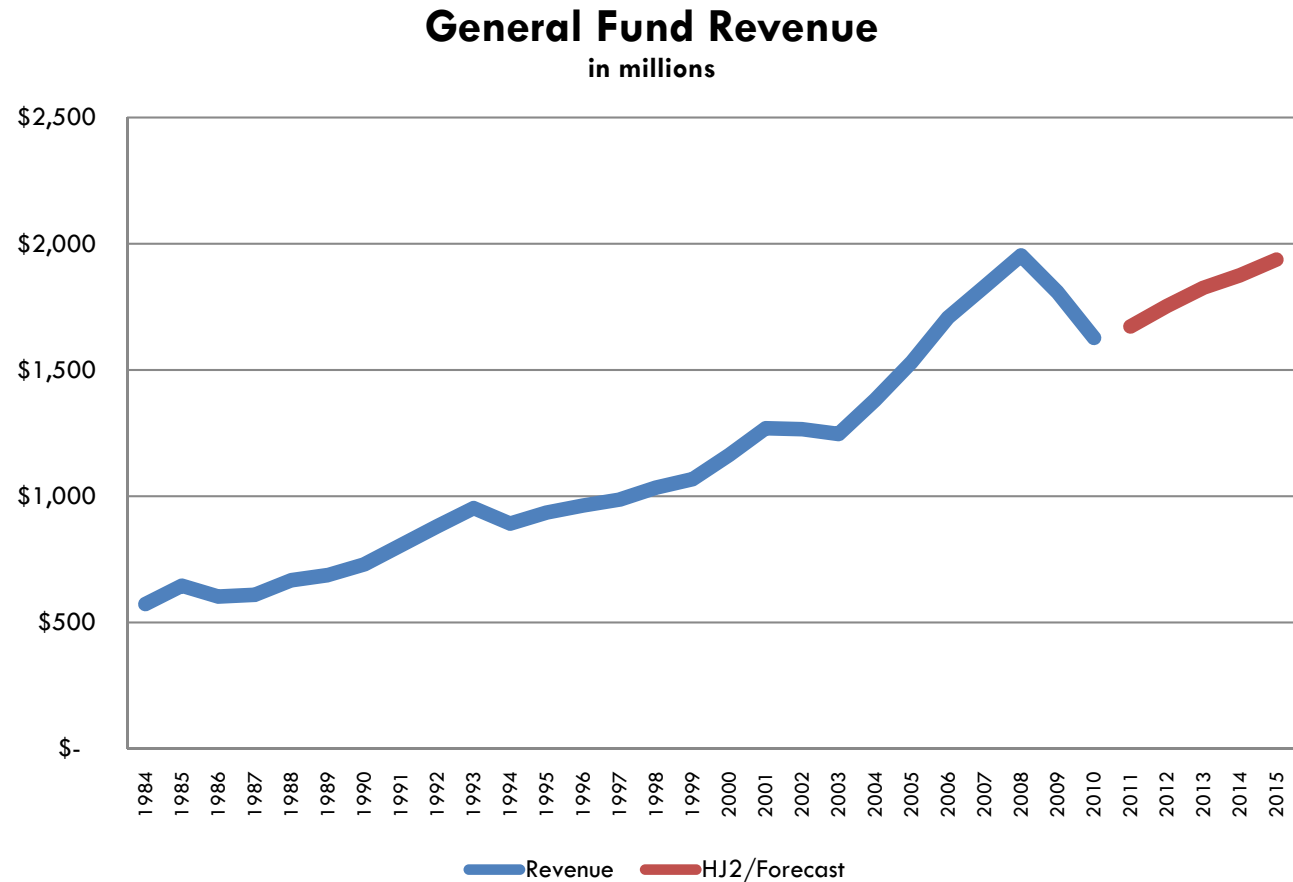
Ending General Fund Balance



General Fund Forecast

The forecast from FY 2011 to FY 2015 is for revenue growth between 2.7% and 4.9%

Return to peak revenue in FY 2015.





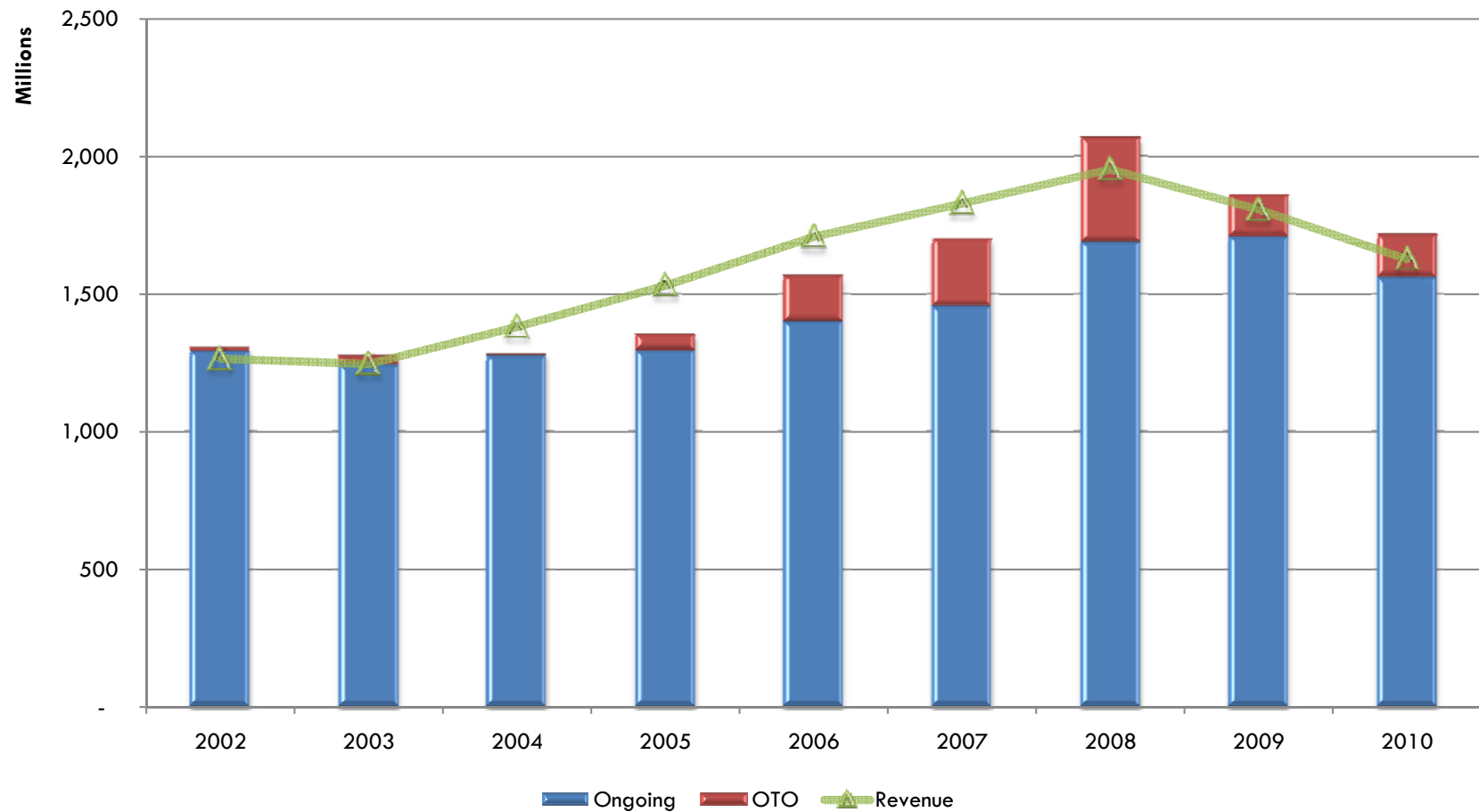
General Fund Spending

Definitions



- ❑ Ongoing – services and corresponding appropriations that are authorized by the legislature to continue into the next legislative session
- ❑ OTO or One Time Only – goods or services and corresponding appropriations that are not authorized by the legislature to continue into the next biennium.

Ongoing vs. OTO Spending



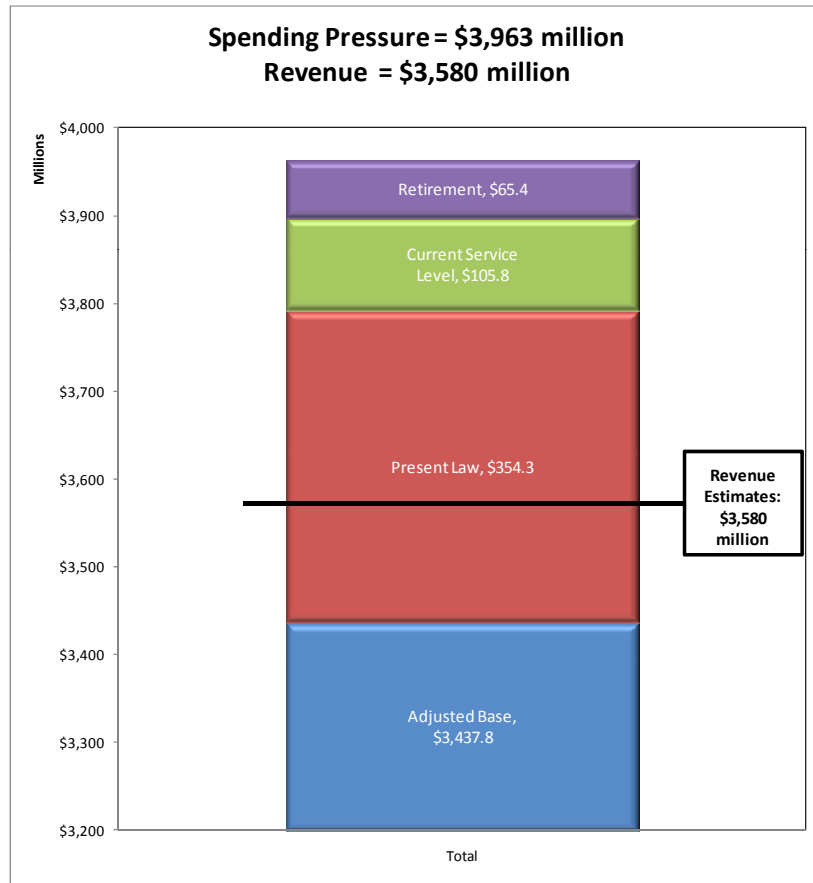


Spending Pressure Gap

Analysis began March 2010

Third update

Spending Pressure Gap



- Actuarially funding retirement systems
- Current level of services not considered ongoing
- Present level of services authorized by the previous legislature
- Adjusted Base – including statutory appropriations
- HJ2 Revenues



Legislative Finance Committee

Rep. Llew Jones (Chair)

Sen. Carol Williams
(Vice Chair)

Rep. Bill Glaser

Sen. Keith Bales

Rep. Cynthia Hiner

Sen. Steve Gallus

Rep. Galen Hollenbaugh

Sen. Dave Lewis

Rep. Jon Sesso

Sen. Rick Ripley

Rep. Janna Taylor

Sen. Dave Wanzenried

Summary of Choices



- ☐ Ending fund balance
- ☐ Transfers from state special
- ☐ Retirement \$65.4 million
- ☐ Current Service Level \$105.8 million
- ☐ 4% Personal Services Reductions \$15.7 million
- ☐ 5% Plans \$96 million
- ☐ Reference Book
- ☐ Statutory Appropriations
- ☐ State Special Accounts
- ☐ Tax Credits

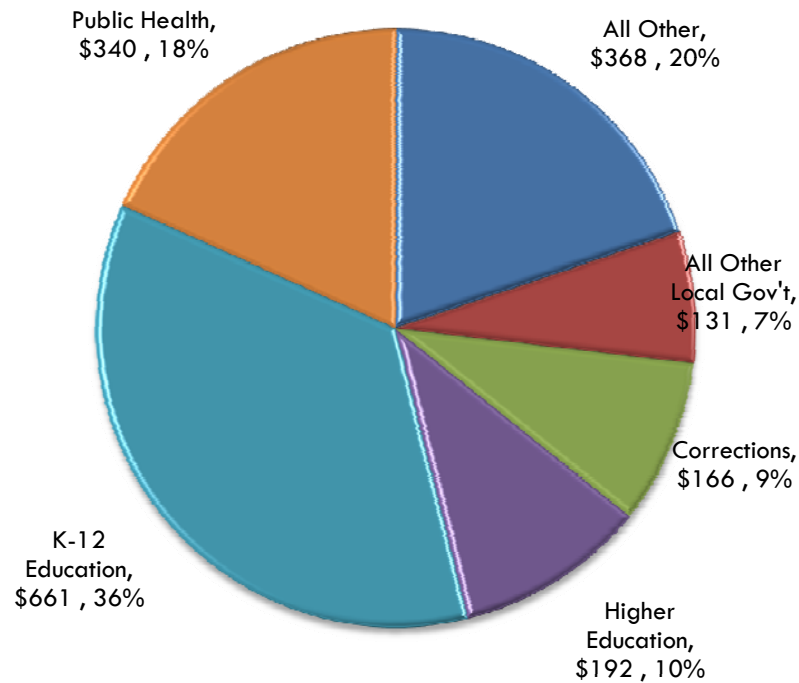


How General Fund was Spent

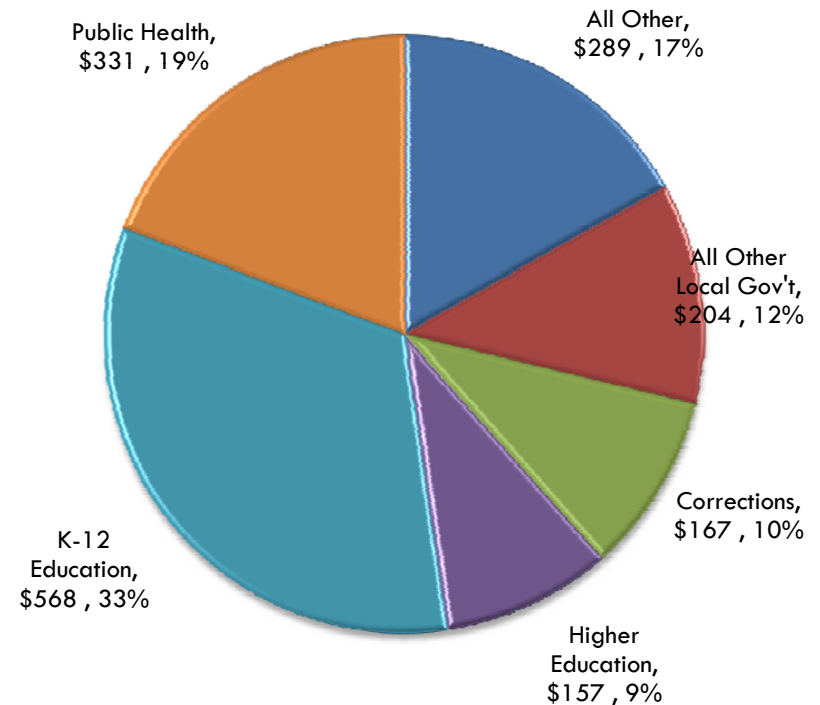
FY 2009 and FY 2010

GF Spending: Educate, Medicate, Incarcerate (OTO + Ongoing)

FY 2009 - \$1,860 million



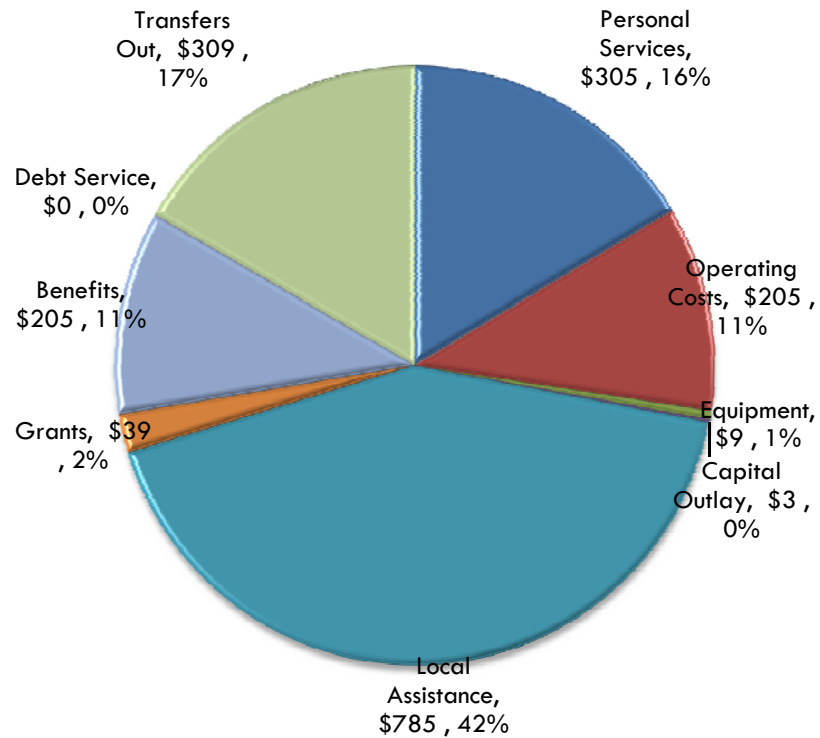
FY 2010 - \$1,717 million



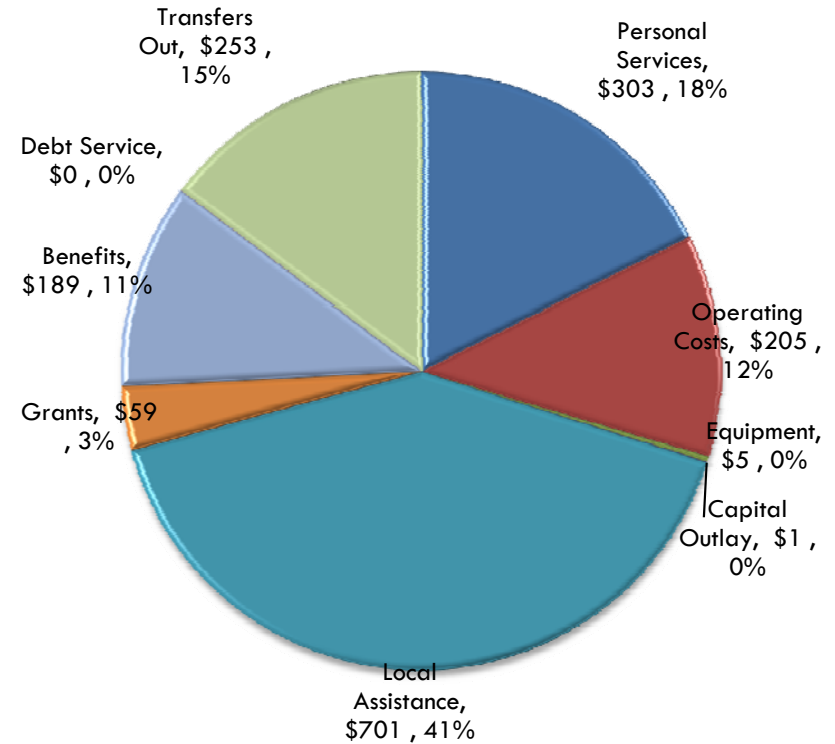
General Fund Spending by Type

(OTO + Ongoing)

FY 2009 - \$1,860 million



FY 2010 - \$1,717 million

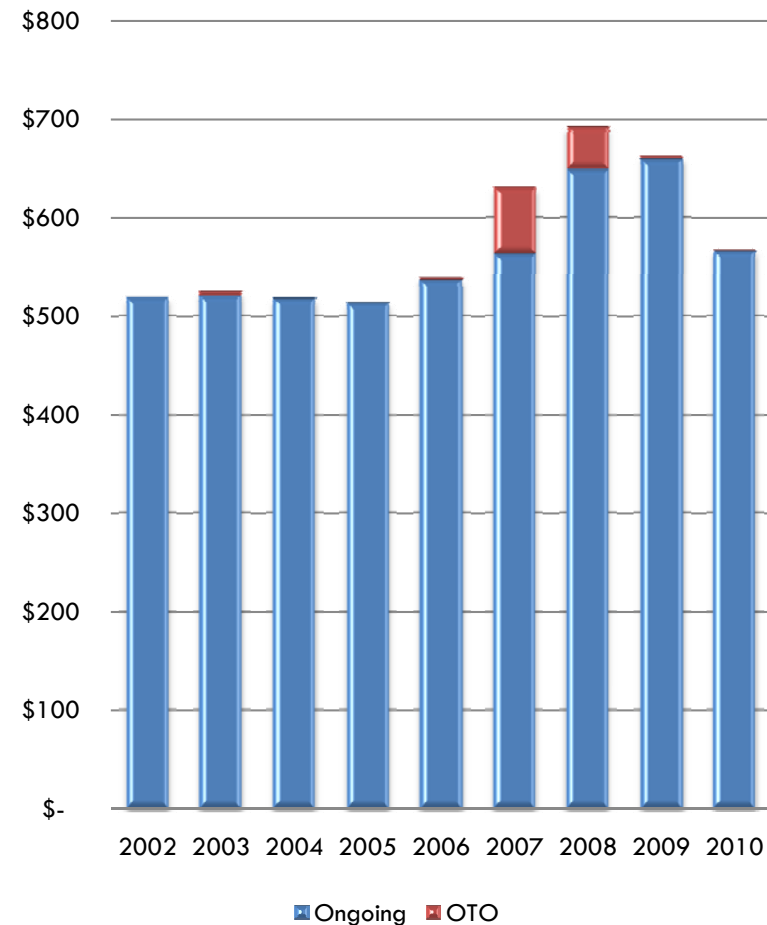




K-12 Education

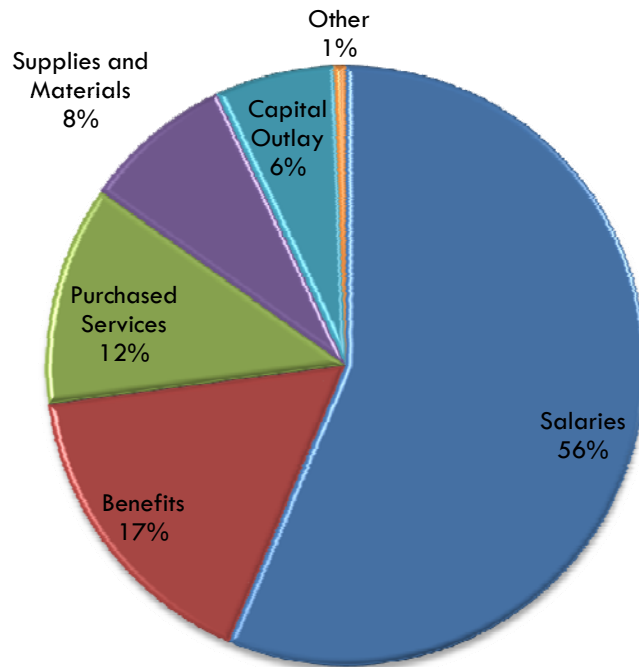
Educate – K-12: General Fund

- Significant increases since FY 2005 reflect the additional funding to resolve litigation.
- In FY 2010
 - ▣ \$81.5 million was funded with trust revenue (Otter Creek) instead of general fund
 - ▣ Federal stimulus helped support K-12

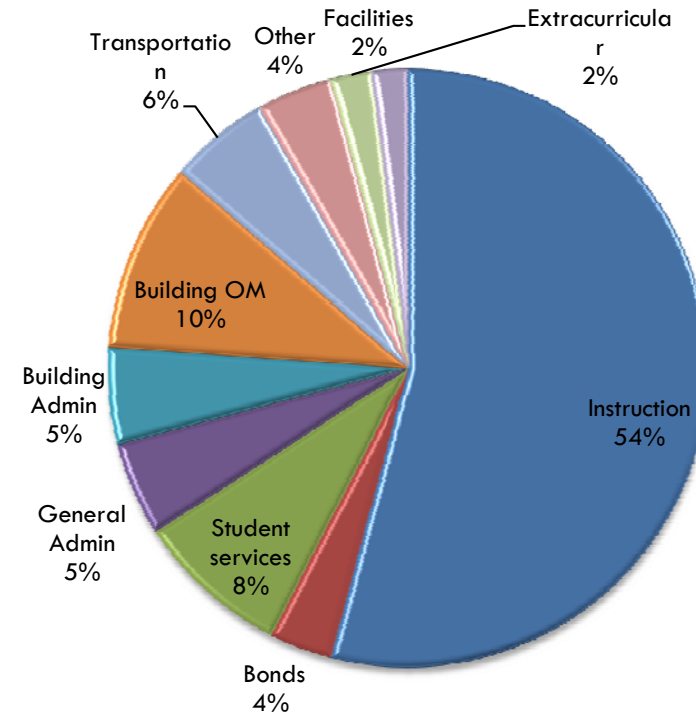


All Funds Spending K-12 FY 2009- \$1,448 million

By Type of Expenditure



By Function

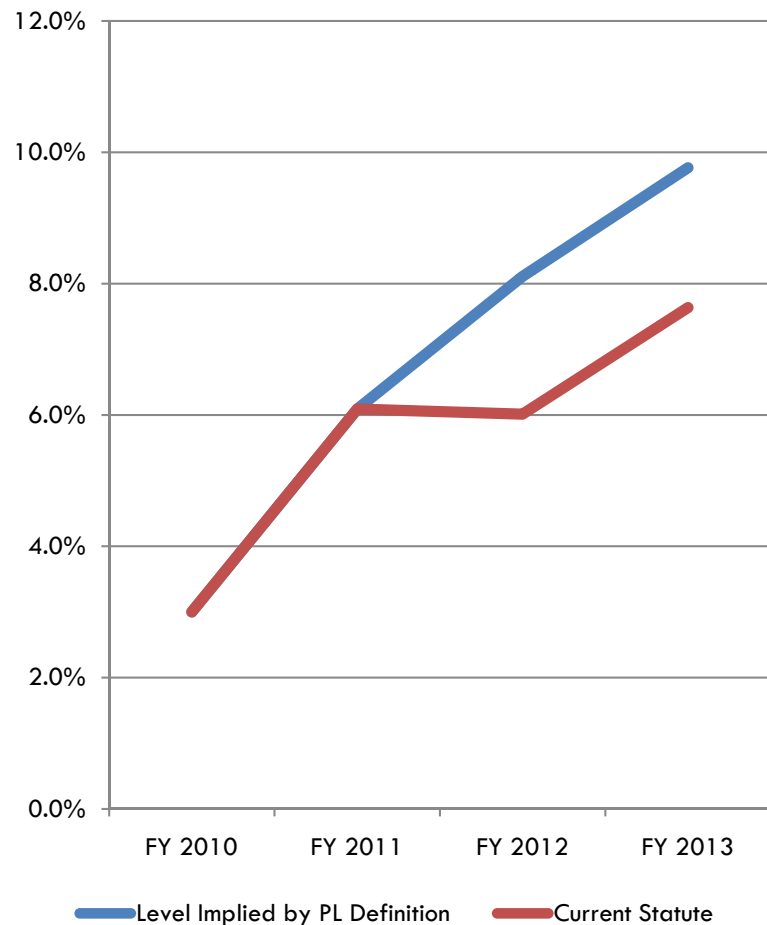


Spending Pressures



Montana courts have held that the school funding system must be based upon the costs of meeting the standards that govern the operation of the state's schools. Once adequate levels of funding are determined, the state must then fund its share of the cost of the system. The state's share must be an amount that is adequate at the BASE or foundation levels to allow districts to meet the standards. This applies to the overall costs of the elementary and secondary systems. To do otherwise is to potentially expose the state to another legal challenge.

Spending Pressures –Inflation



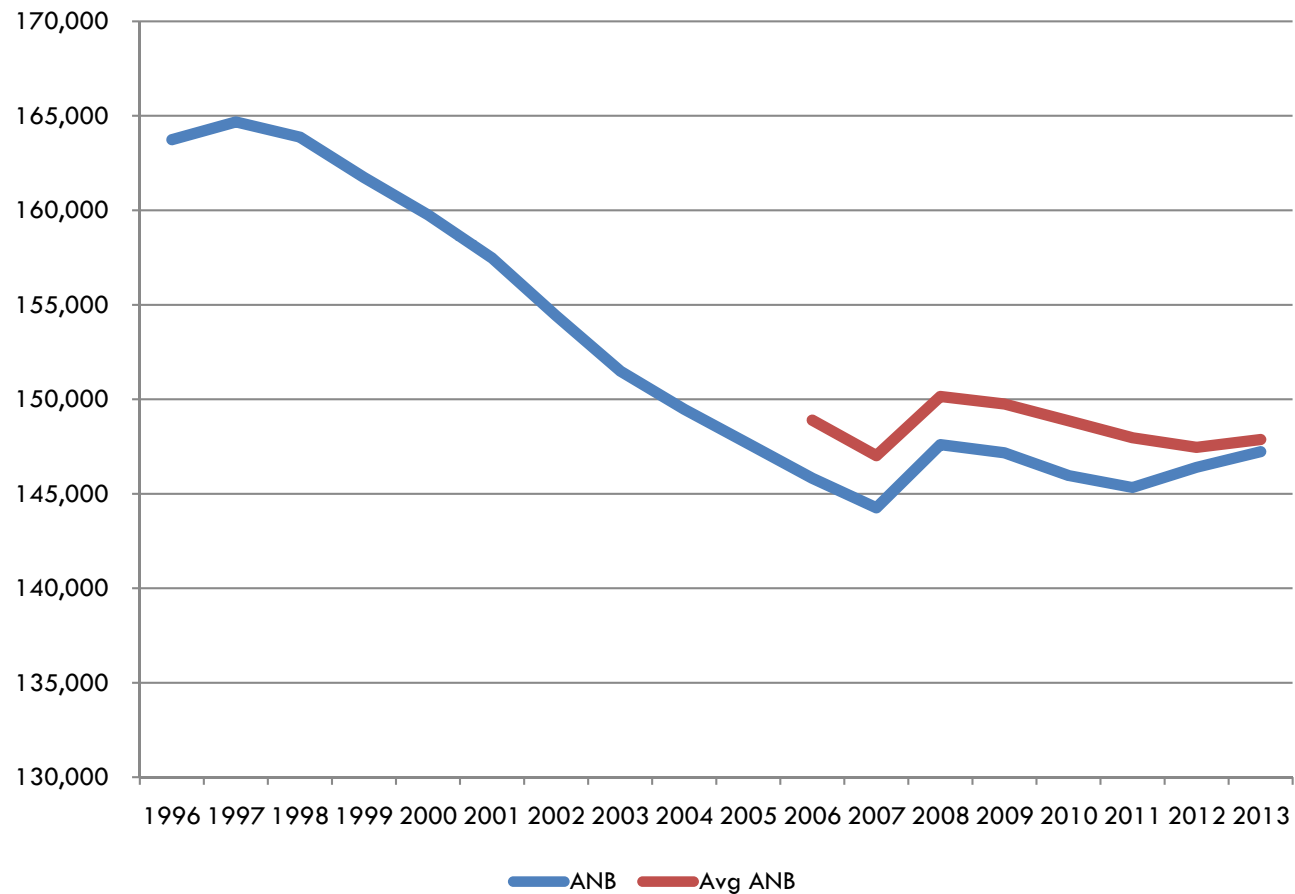
- Inflation has a statutory definition for present law (PL) adjustment for inflation
- 2% of the inflation in the 2011 biennium was provided on an OTO
- FY 2012 calculated PL inflation is 1.9%
- FY 2013 calculated PL inflation is 1.5%

ANB (students) Have Begun to Increase

FY 2011 is anticipated to be the lowest year of ANB (based on prior year's enrollment)

FY 2012 is anticipated to be the lowest year of three year average ANB or the funded level of students

FY 2013 funding will increase with increased students

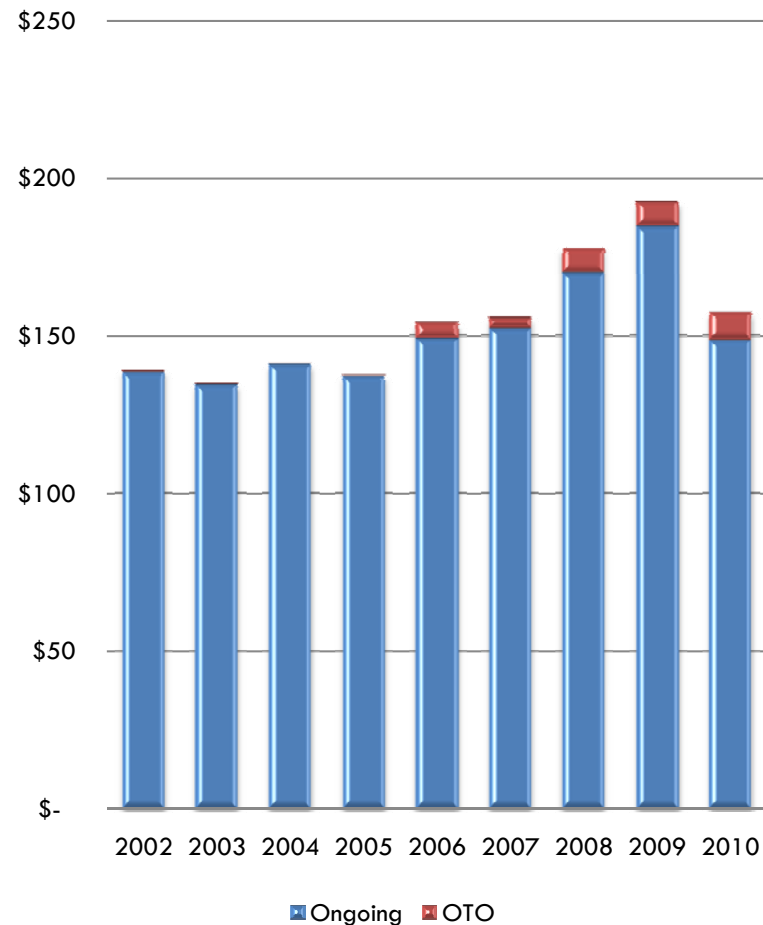




Montana University System

Educate – MUS: General Fund

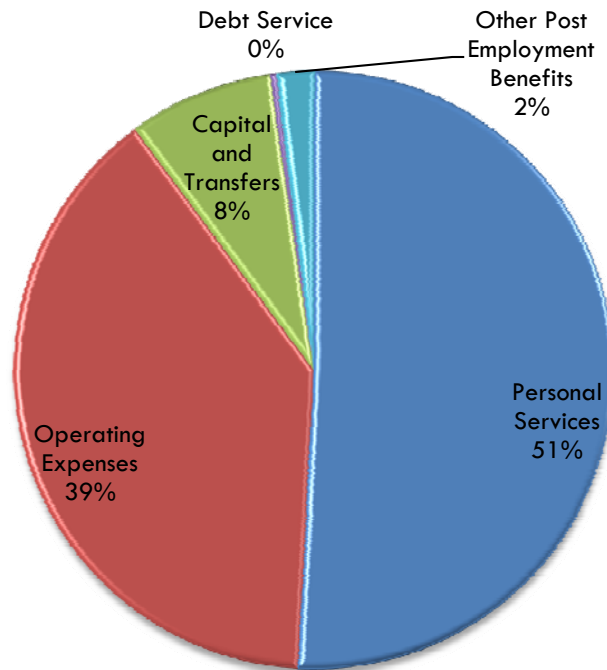
- Only General Fund shown in chart
- Significant increases since FY 2007 reflect the additional funding to mitigate tuition.
- In FY 2010
 - ▣ \$31 million of federal stimulus that replaced general fund



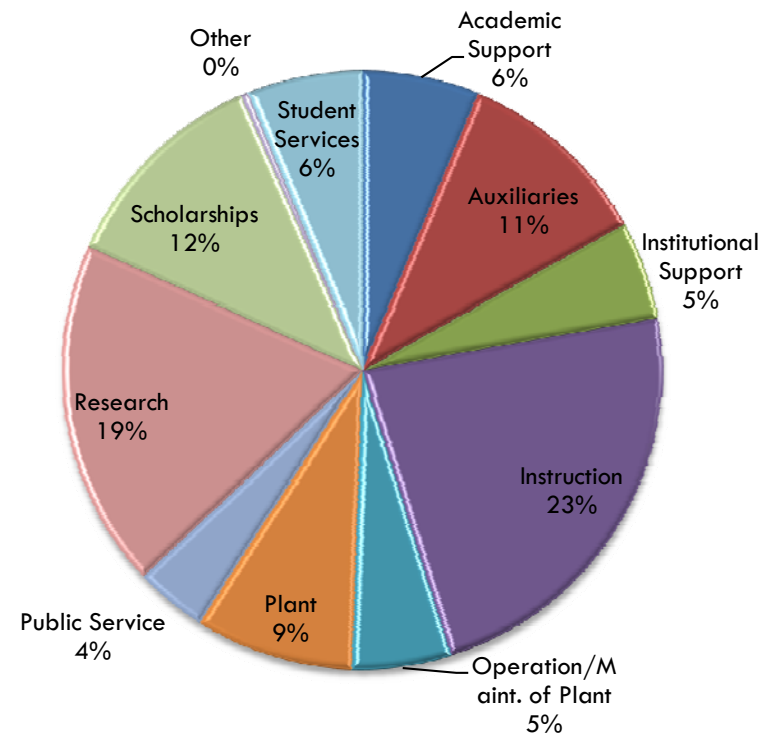
MUS spend All Funds \$973 million

money

By Type of Expenditure



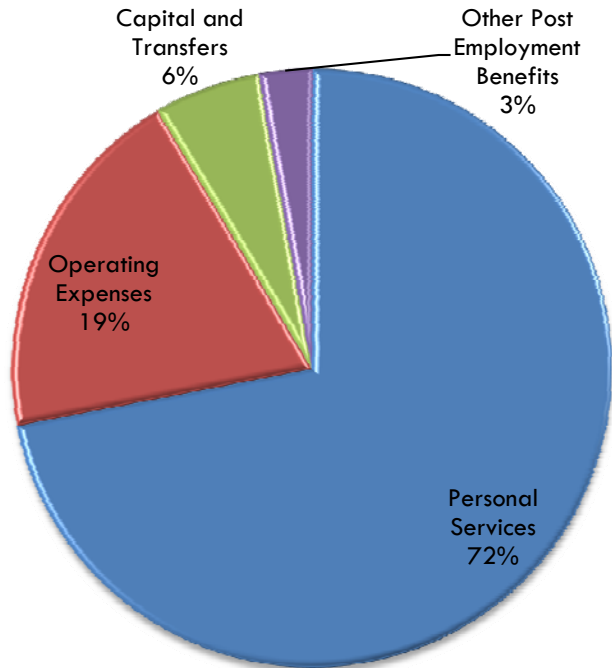
By Program



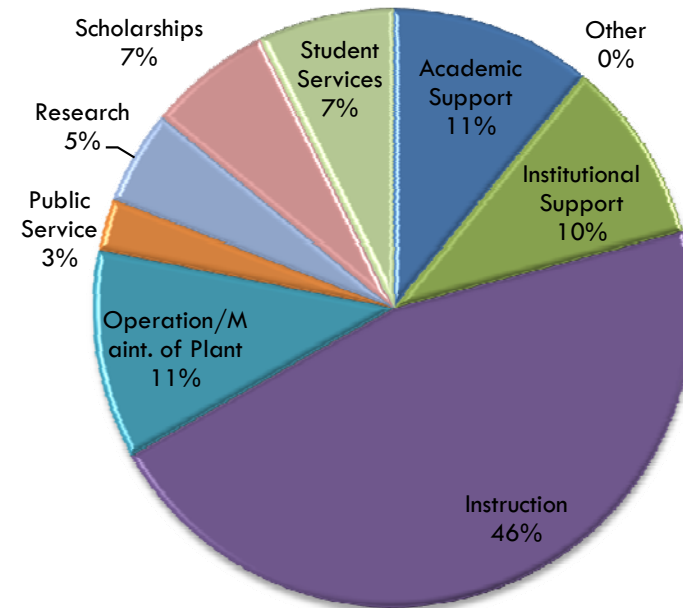
MUS Spend State Funds & Tuition

\$436 million

By Type of Expenditure

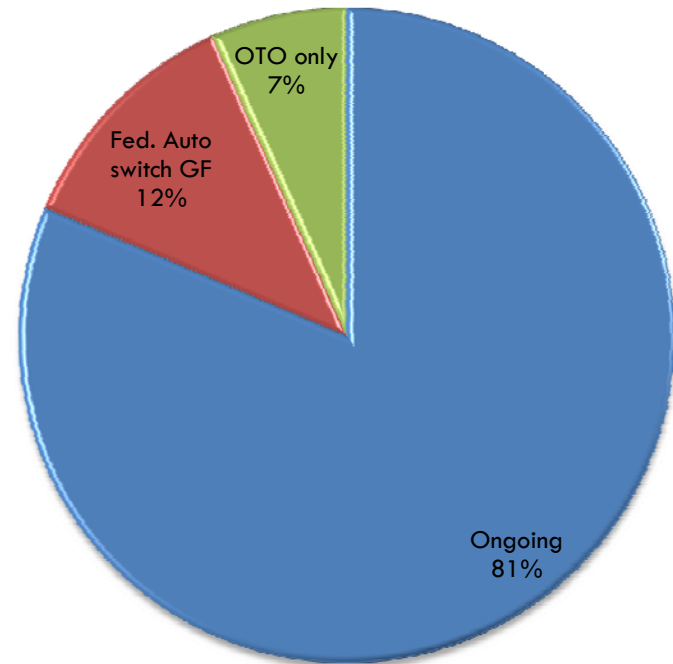


By Program



MUS Spending – \$259 million State and Federal

- FY 2010 had an unusual level of state and federal OTO expenditures:
 - ▣ 7% of expenditures were from OTO sources
 - ▣ 12% are replaced per HB 645



MUS Spending Pressures



- In economic down turns more people choose to get an education rather than be unemployed
- Reductions in state support often lead to tuition increases

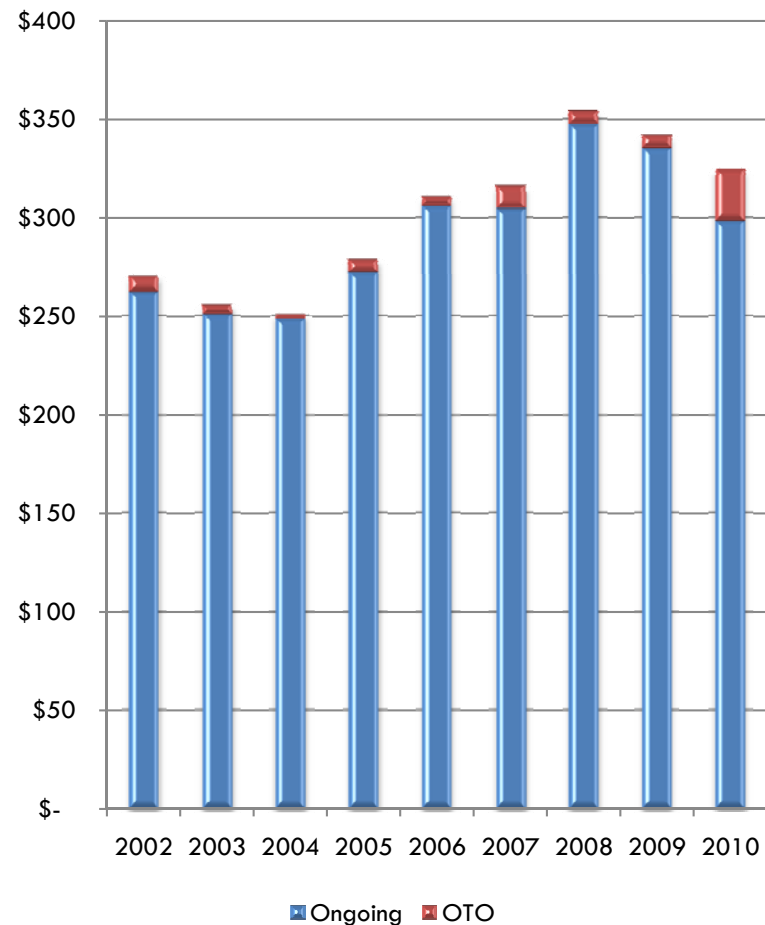


Medicate

Department of Public Health and Human
Services

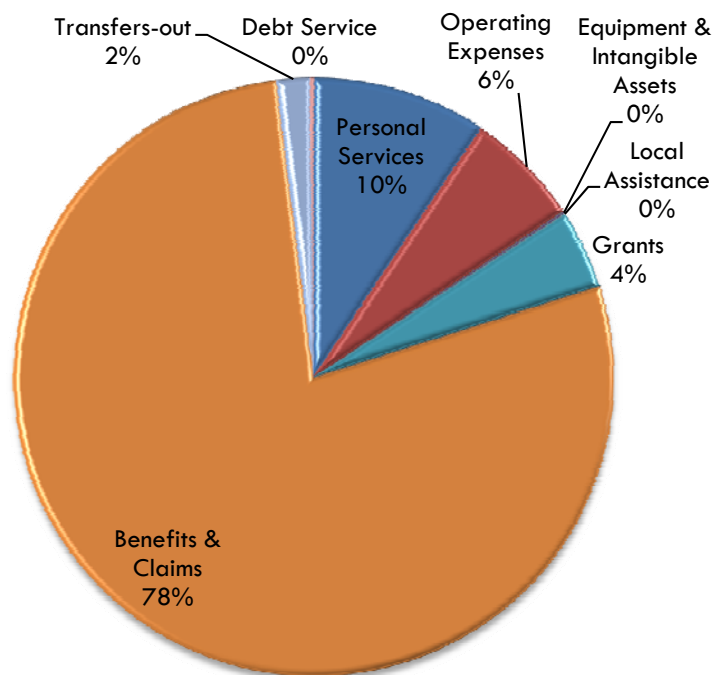
Medicate – General Fund

- FY 2009 and FY 2010 contained enhanced federal match for Medicaid (FMAP) which reduced the required state expenditures
- Several OTO appropriations in the 2011 biennium will not continue into the 2013 biennium, but will add spending pressure

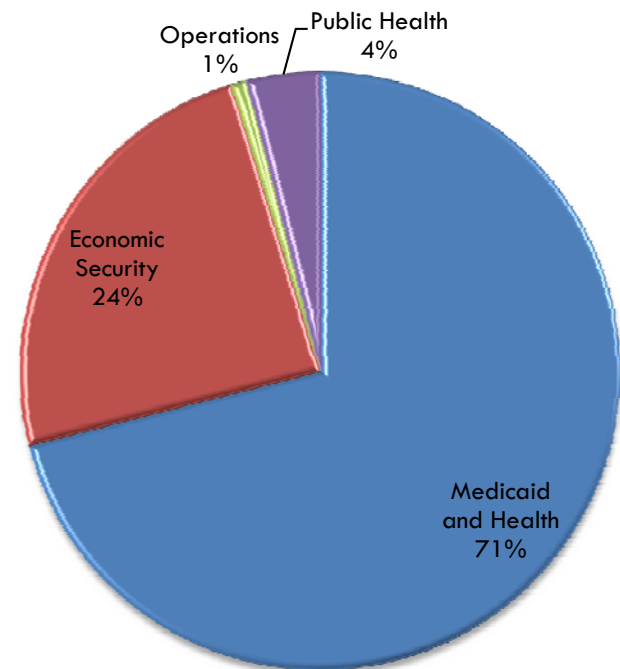


DPHHS All Funds Spending FY 2010: \$1,661 million

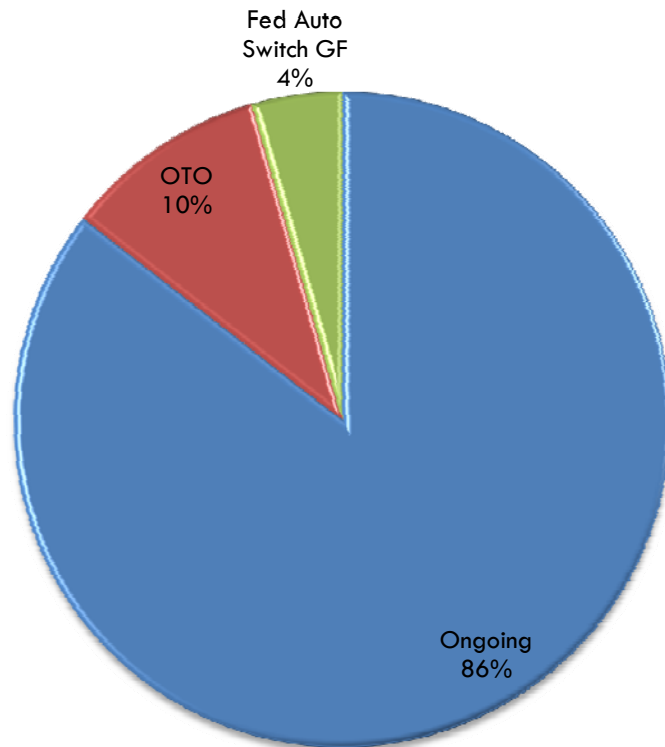
By Type of Expenditure



By Branch



DPHHS Spending Pressures



- FY 2010 had an unusual level of state and federal OTO expenditures: 10% of expenditures were from OTO sources and additional 4% are automatically replaced per HB 645
- Most of the 10% that is not replaced will result in fewer services or lower rates paid to health care providers

DPHHS Spending Pressures



- Recessions, create additional demands on the public safety net

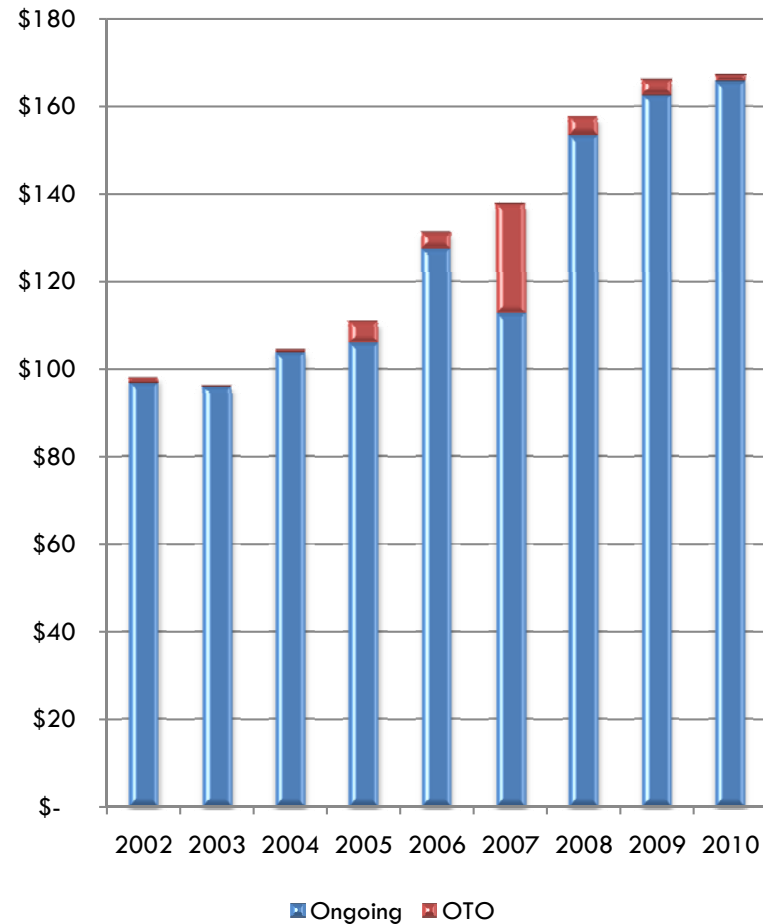


Incarcerate

Department of Corrections

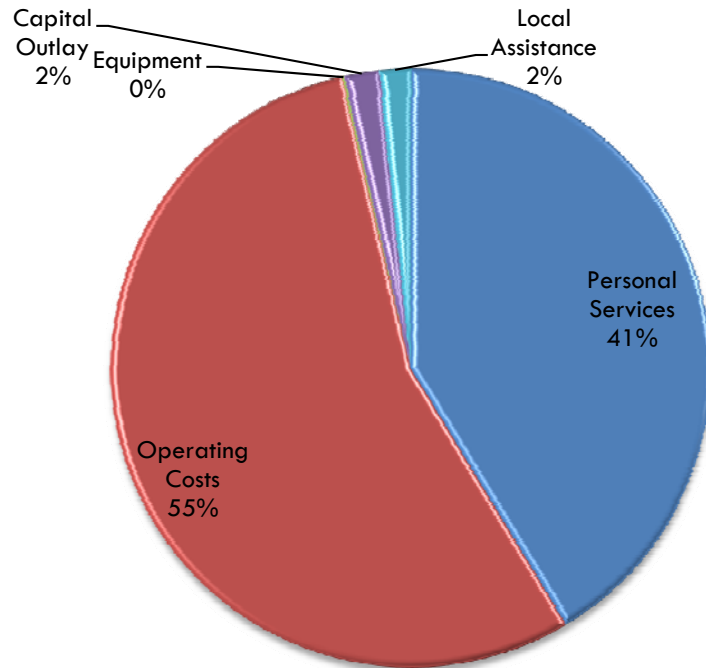
Incarcerate – Department of Corrections General Fund

- Supplementals in FY 2005 and FY 2007 were counted as OTO
- The rate of growth has slowed in recent years
 - ▣ Community placement
 - ▣ Treatment

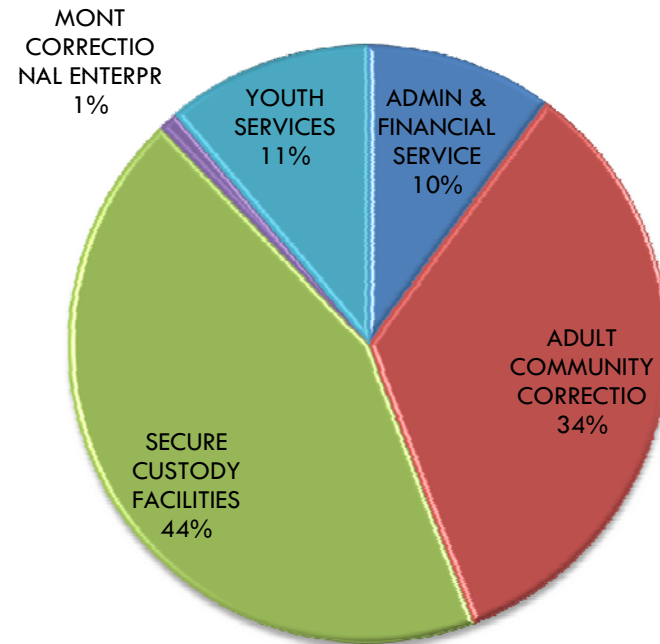


How Does Corrections spend its money?

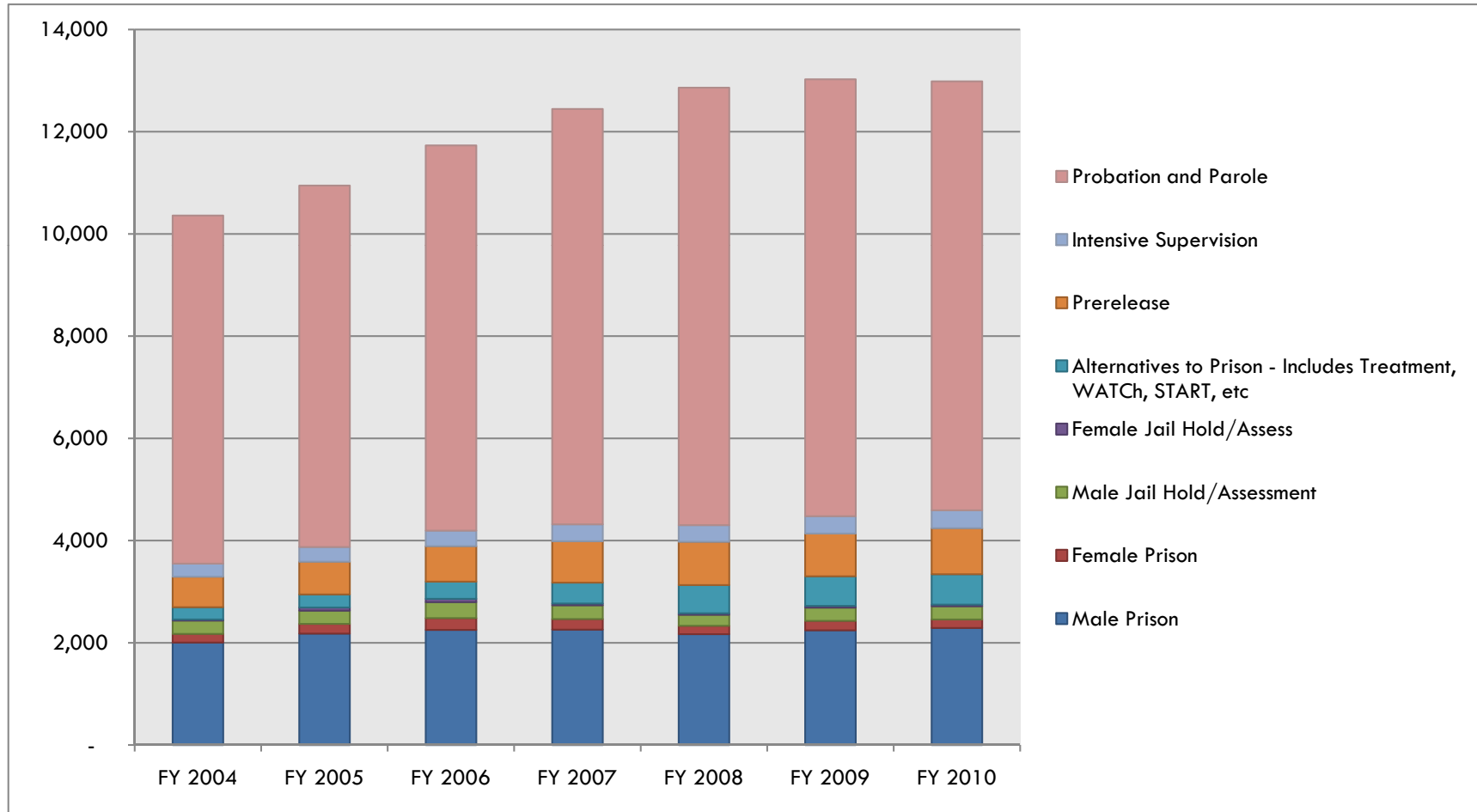
By Type of Expenditure = \$167 million



By Program = \$167 million



Corrections Populations

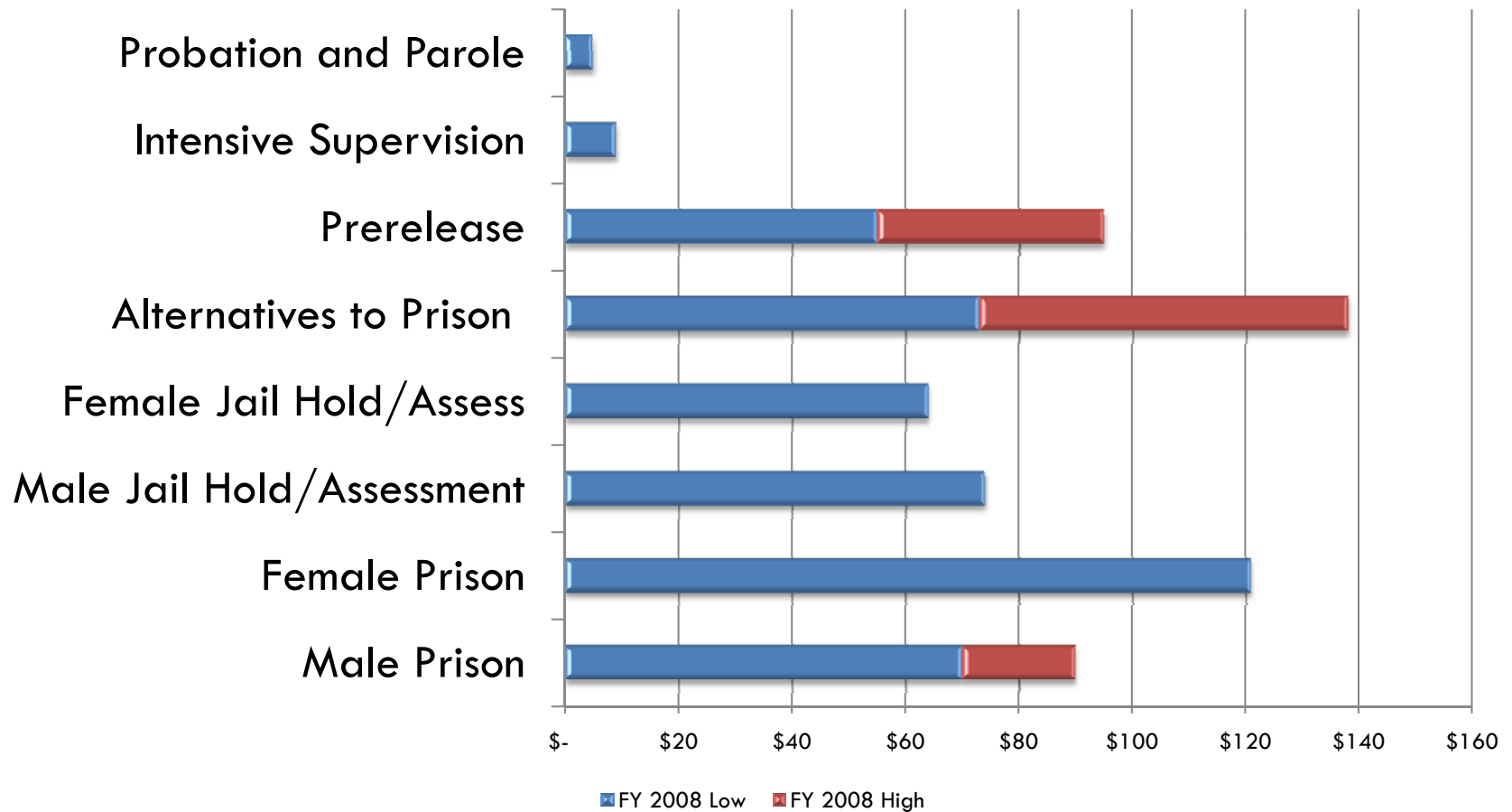


Corrections Populations



- In FY 2003 the state implemented an early release of inmates, since then programs have been implemented to divert offenders from prison
- While total ADP (Average Daily Population) is stagnant, higher cost options such as male prison, alternatives, and prerelease are increasing.

Average Daily Cost



Average Daily Cost



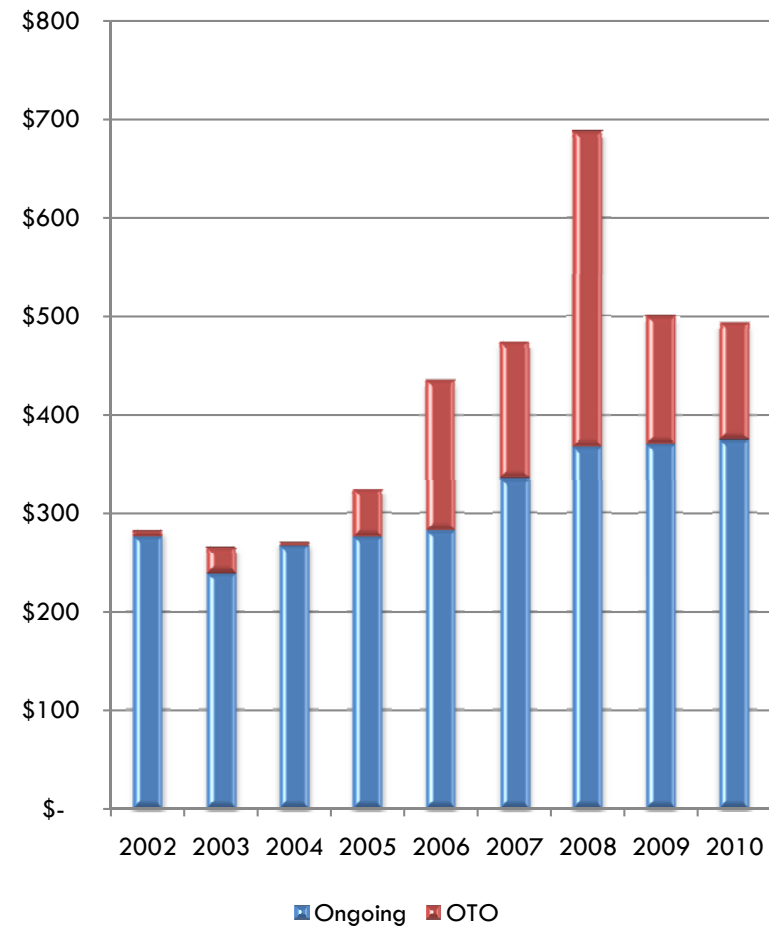
- It is the department's goal to maintain a ratio of community verses secure setting of 80/20.
- Between January 2007 and June 2010 the percentage of inmates at Montana State Prison that are sex offenders increased from slightly less than 25% to 27%. This is significant due to the extended length of stay of these offenders.
- Average length of stay for sex offenders is 52 months, other males is 21.7 months and for other females is 11.7 months.



The Rest of the General Fund

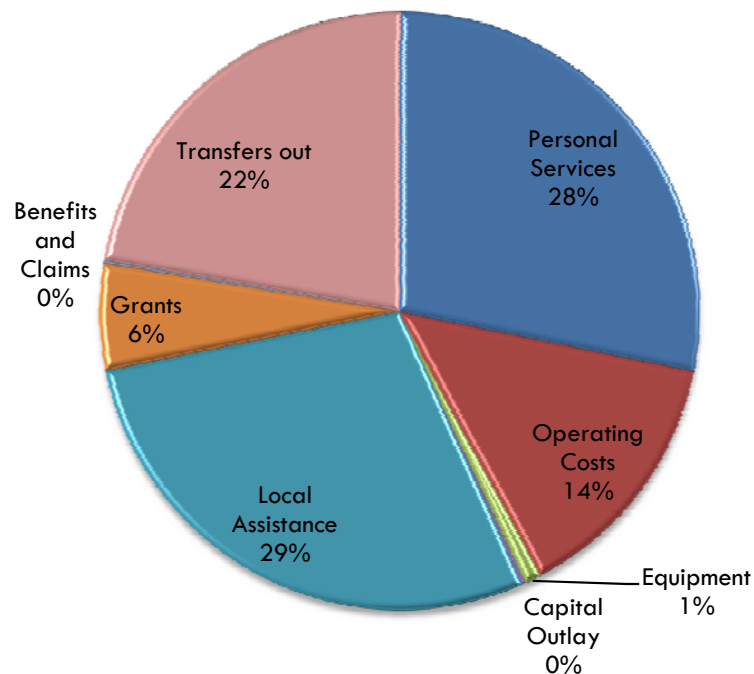
All else: General Fund

- Significant growth has been in one-time only investments to infrastructure and transfers to local governments and pension systems.

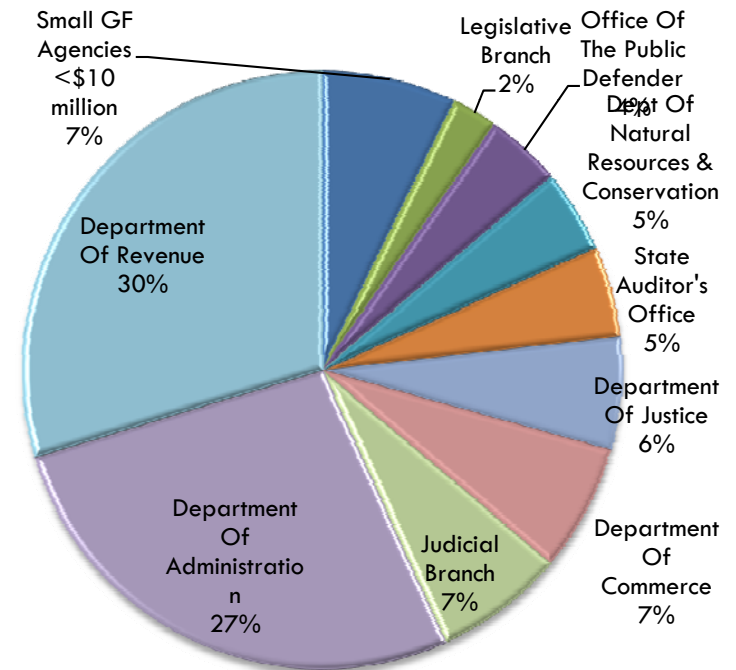


What else do we spend GF on?

By Type of Expenditure = \$493 million



By Agency



LEGISLATIVE FISCAL ANALYST (DIRECTOR)

AMY CARLSON

PRINCIPAL FISCAL ANALYSTS

TERRY JOHNSON

TARYN PURDY

ADMINISTRATIVE SUPPORT

DIANE MCDUFFIE

SUSIE LINDSAY

FISCAL SPECIALIST

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FISCAL ANALYSTS

LOIS STEINBECK

JIM STANDAERT

ROGER LLOYD

PAT GERVAIS

GREG DEWITT

CATHY DUNCAN

PAM JOEHLER

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THE END

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