

# VOLUME 1: THE OVERVIEW

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2017 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2017 biennium, and identifying some of the major issues now facing the Legislature. As such, this document is intended to complement the Legislative Budget Analysis – 2017 Biennium Online, which contains our review of the 2017 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2017 Biennium Online reports the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this Statewide Perspective presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 provides an updated general fund balance sheet, projects the general fund structural balance and includes a summary of anticipated ongoing general fund revenues, ongoing present law expenditure requirements, including budget risks and budget pressures.

This volume is divided into five parts:

- The Introduction provides a high level summary of our analysis of the proposed executive budget
- State Revenues provides a review of the revenue assumptions adopted by the Revenue and Transportation Interim Committee
- State Expenditures provides an overview of the Governor's state spending plan for the 2017 biennium
- Risks & Pressures highlights key underlying assumptions in revenues and expenditures, and also details some of the pressures that the legislature may face in the upcoming session
- Appendix: Web based only documents that provide additional information

## LEGISLATIVE BUDGET ANALYSIS - 2017 BIENNIUM ONLINE

### Revenue Estimates

Volume 2 contains an overview of underlying national and state-specific economic forecasts, and detailed information on each of the state's general fund revenue sources and several non-general fund revenue sources. In particular, it delineates the economic assumptions used as a basis for the revenue estimates adopted by the Revenue and Taxation Interim Committee (RTIC) on November 20, 2014. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. Volume 2 will be provided to the House and Senate Taxation committees for use as a reference document.

### Budget Analysis

The Budget Analysis offers detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but were unable to be updated before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Section A – General Government
- Section B – Health and Human Services
- Section C – Natural Resources and Transportation
- Section D – Judicial Branch, Law Enforcement, and Justice
- Section E – Education
- Section F – Long-Range Planning

## Other Useful Links

In addition to the Legislative Budget analysis prepared for session, there are a number of other documents online that you may find helpful in your deliberations:

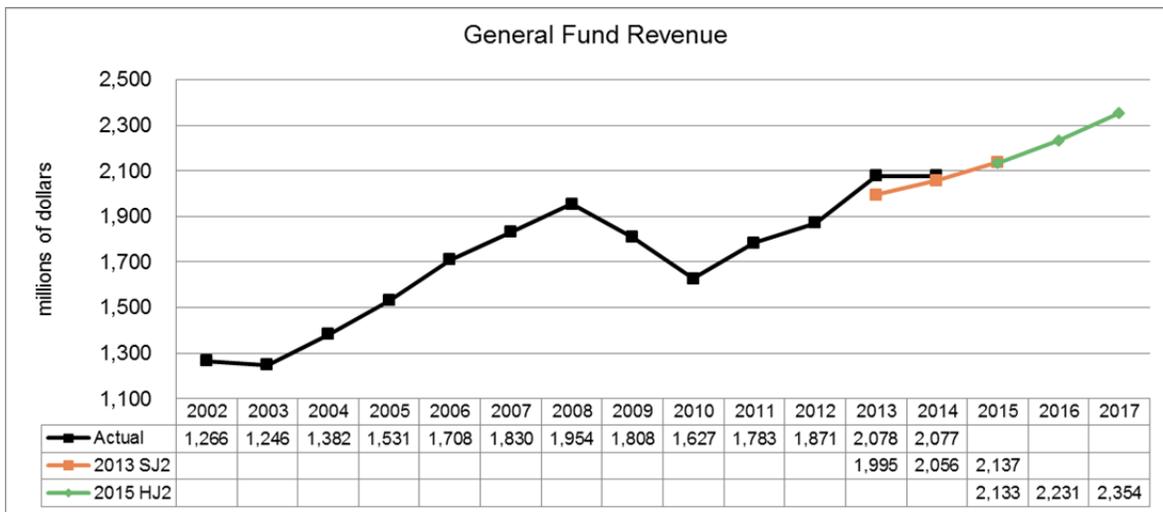
- [Understanding State Finances](#)
- [2015 Session Materials such as General Fund Status Sheets](#)
- [Historical Expenditures Report](#)
- [Personal Services HJR 17 Analysis Report from the interim](#)

# OVERVIEW

## Relatively Stable General Fund Budget

The 2017 biennium general fund revenues and expenditure pressures are anticipated to be relatively stable. In the past ten years, Montana has experienced high revenue growth as well as significant declines. Recent years have been more stable and this stability is anticipated to continue into the 2017 biennium. In addition, no significant unexpected expenditures, or “expenditure shocks” are currently anticipated. Fire costs have at times been a source of “expenditure shocks”. The 2013 Legislature passed a bill to allocate funds to wildfire suppression, which should take some of the “expenditure shocks” out of future budgets.

The Revenue and Transportation Interim Committee (RTIC) adopted revenue estimates for the 2017 biennium. The following chart illustrates actual revenue collections from FY 2002 to FY 2014, and includes revenue estimates as adopted by RTIC for FY 2015 through FY 2017.



While revenue collections are anticipated to have steady growth, the growth rates in Montana are not anticipated to be as robust as in some parts of the country. The general growth in the nation will keep Montana’s growth levels strong; however, the energy cost reductions aiding the national economy are expected to be a drag on Montana general fund revenues. RTIC adopted revenue estimates at a level in between the amounts suggested by the Governor, which did not take into account recent oil price reductions, and those calculated by the Legislative Fiscal Division (LFD). During the session, the House and Senate Tax committees will have an opportunity to revise revenue estimates as more information becomes available.

## Governor Bullock’s Budget

The following table outlines the general fund budget recommendations of Governor Bullock with the revenue recommendations of RTIC. Note that the revenues anticipated by Governor Bullock are materially higher than the RTIC revenues, which causes the lower ending fund balance and negative structural balance.

General Fund Balance Sheet				
Governor's Budget Proposal with HJ 2 Revenue, and LFD Statutory, PL, and Transfer Estimates				
(\$ Millions)				
	Actual FY 2014	Current FY 2015	Proposed FY 2016	Proposed FY 2017
Beginning Fund Balance	\$537.6	\$428.5	\$332.8	\$216.6
RTIC HJ 2 Revenue Estimates	2,077.0	2,133.0	2,230.7	2,353.5
Governor's Revenue Legislation				(0.8)
Expenditures (includes ongoing and one-time)				
Previously authorized (statutory and other)	406.4	321.6	289.5	295.6
HB 2: 2017 Biennium Governor's Budget	1,784.2	1,871.2	2,023.4	2,057.2
HB 13: Pay plan for state employees ongoing			12.5	30.0
Other legislation included in Governor's Budget**		31.6	26.9	30.2
Assumptions				
HB 1 Feed Bill estimate		11.1	1.6	11.0
Reversions		(6.7)	(7.1)	(7.3)
Total Expenditures	2,190.6	2,228.8	2,346.9	2,416.7
Adjustments	4.5			
Ending Fund Balance	\$428.5	\$332.8	\$216.6	\$152.6
Structural Balance (CHIP FMAP savings assumed ongoing)	\$42.6	(\$9.4)	(\$71.1)	(\$44.5)
Structural Balance (CHIP FMAP savings assumed OTO)	\$42.6	(\$9.4)	(\$91.6)	(\$73.7)

\*\*CHIP FMAP change has been included in the HB2 Section B budget assumptions as present law

## Executive Present Law Recommendations

While statutory appropriations are estimated for the 2017 biennium, the estimates are governed by statute and not subject to significant variations. HB 2 contains executive recommendations for present law budgets and includes a number of assumptions. The HB 2 executive ongoing budget contains increases in present law from FY 2015 to FY 2016 of 7.0% and from FY 2016 to FY 2017 of 1.6%. The executive present law does not include the increase in CHIP FMAP, or federal matching rate for the Children's Health Insurance Program, which is current federal law for FFY 2016 to FFY 2019. It is unknown what the match rate will be after this date; however, it is assumed throughout this analysis to be ongoing. The Legislative Finance Committee leadership will finalize the rules for whether this funding will be considered one-time or ongoing for purposes of the balance sheet.

As shown in the shaded lines in the adjacent table, adjusting for the CHIP FMAP results in lower growth rates: 5.9% in FY 2016 and 1.1% in FY 2017. While the largest percentage growth is in Section C, the base general fund expenditures are the lowest in Section C. While the percentage growth in Section E is smaller than other

Governor's HB 2 Ongoing Present Law December 15					
	FY 2015 % 2013 session	FY 2016 Increase (\$ Millions)	FY 2016 % Increase	FY 2017 Increase (\$ Millions)	FY 2017 % Increase
Section A	7.2%	\$6.1	6.9%	(\$0.7)	-0.7%
Section B	5.2%	43.2	9.2%	21.3	4.2%
Section B with CHIP FMAP adjusted		22.6	4.8%	12.3	2.5%
Section C	4.8%	3.9	12.2%	0.1	0.2%
Section D	2.5%	29.8	10.5%	0.4	0.1%
Section E	4.8%	45.5	4.7%	10.2	1.0%
Total	4.6%	\$128.6	7.0%	\$31.3	1.6%
Total with CHIP FMAP adjusted		\$108.0	5.9%	\$22.3	1.1%

sections, it has the largest biennial dollar growth. Section E base general fund expenditures are over half the total HB 2 general fund budget. Section B is a close second in the biennial dollar growth. The large increases in Section B are largely the result of assumptions of increased caseload.

## Key Executive Recommended New Proposals

Several new programs are recommended by the Governor. Total general fund new proposals total \$249 million. With the current bill drafts available, the total of additional all fund appropriations is \$1,399 million. In some cases bill drafts did not tie to the executive balance sheet, if these cases, the balance sheet is assumed to be correct and that the bills will be updated. The largest all fund new proposals include:

- Build Montana, with \$344 million in HB 5 and \$16 million in HB 14 for broadband bonds and bond payments of appropriations and authorizations, are requested for state and local infrastructure. Note that much of this program typically is contained in HB 5, 6, 7, 8, 14, and 15 and is not unusual. In the 2013 Session, approximately \$304 million was appropriated and authorized for infrastructure purposes.
- The HB 13 state employee pay plan proposed by the executive is \$79 million with \$44 million from the general fund. The pay increase requested includes a \$0.50/hour pay increase effective Oct 1, 2015 and a \$0.50/hour pay increase effective Oct 1, 2016. The contribution for state employee health insurance is recommended to increase by 10% on January 1, 2016 and by 8% on January 1, 2017. The Montana university system contribution for group benefits is scheduled to increase by 18% on July 1, 2016. The request also includes \$1 million general fund, \$1.95 million all funds for the personal services contingency fund and \$75,000 general fund for the labor and management training initiative. Note that the amounts contained in the bill do not contain the Governor's final recommendation. The 2015 biennium pay plan totaled \$116 million all funds.
- In HB 2, the executive is requesting a total of \$76.9 million for inflation like increases for providers of state services. In general, the request adds a 2% per year increase in rates paid to providers of services to state government. Most of these services are in the health care area, but correctional facility and legal services providers are also included. Some health care providers are also recommended to receive additional funding for health care for their employees. Last session, \$73.6 million was approved for this purpose.
- The Governor's proposal for early childhood education includes \$37.2 million of general fund in HB 2 for preschool for four-year-olds. There is no bill associated with this proposal.
- The HB 10 Information Technology Infrastructure bill contains \$20 million all funds and \$12 million of general fund. The 2015 biennium HB 10 contained \$21 million for information technology infrastructure.
- HB 2 contains a request for \$15 million to improve Montana's economy through research. These funds are intended to serve as seed money to leverage university-based research.

The following table summarizes the general fund and all funds appropriations requested:

Governor's New Proposal Budget Recommendations - 2017 Biennium (\$ Millions)		
New Proposal Item	General Fund	All Funds
<b>Education</b>		
Early Childhood Education (HB 2)	\$37.2	\$37.2
Improve Montana's Economy through Research OTO (HB 2)	15.0	15.0
Student Assistance Fund Allocation (HB 2)	6.2	6.2
Quality Schools Redirect NRD Payment (net of HB 2 + LC717)	7.0	16.5
<b>Public Health and Human Services</b>		
Medicaid Autism Services (HB 2)	4.3	12.2
Mental Health (HB 2 + bill unknown)	12.3	10.2
TANF FPL/Benefits Update (HB 2)	-	5.5
SNAP Benefits from HB 2 to Statutory Appropriation (HB 2 + LC627)	-	-
Healthy Montana NP general fund other funds not listed (LC631)	(9.9)	623.8
Safe Child Initiative (LC1089 amounts do not tie to balance sheet)	3.0	4.4
<b>Natural Resources and Transportation</b>		
Sage Grouse Conservation OTO and ongoing (HB 2)	11.2	11.2
CSKT Water Compact	8.0	8.0
Operating Adjustment for Abandoned Mine Lands (HB 2)	-	8.0
Federal Pittman Robertson Funds (HB 2)	-	6.0
Yellowstone Airport Taxiway (HB 2)	-	6.4
Water Adjudication (LC398 general fund transfer)	4.2	4.2
<b>All others</b>		
HB 5 Build Montana**	23.1	344.1
HB13 Pay plan includes ongoing and OTO	43.8	79.3
Provider rate increases (HB 2)	28.8	76.9
Other new proposals: ongoing and OTO (HB 2)	19.6	23.4
HB 10 Information Technology cash infrastructure	12.0	20.0
HB 14 Broadband Bonds	1.2	16.2
Personal Services related new proposals (HB 2)	11.8	13.2
Unexploded Ordinance Remediation for MTARNG (HB 2)	-	8.0
Enhance Economic Development in Montana OTO (HB 2)	5.5	5.5
Fund Switches (HB 2)	4.9	(0.1)
HB 9 Cultural and Asthetic Grants	-	0.4
<b>Total</b>	<b>\$249.0</b>	<b>\$1,361.7</b>
**HB 5 Build Montana all funds total excludes \$70.2 million in spending authority.		

# Managing General Fund Budget Risk

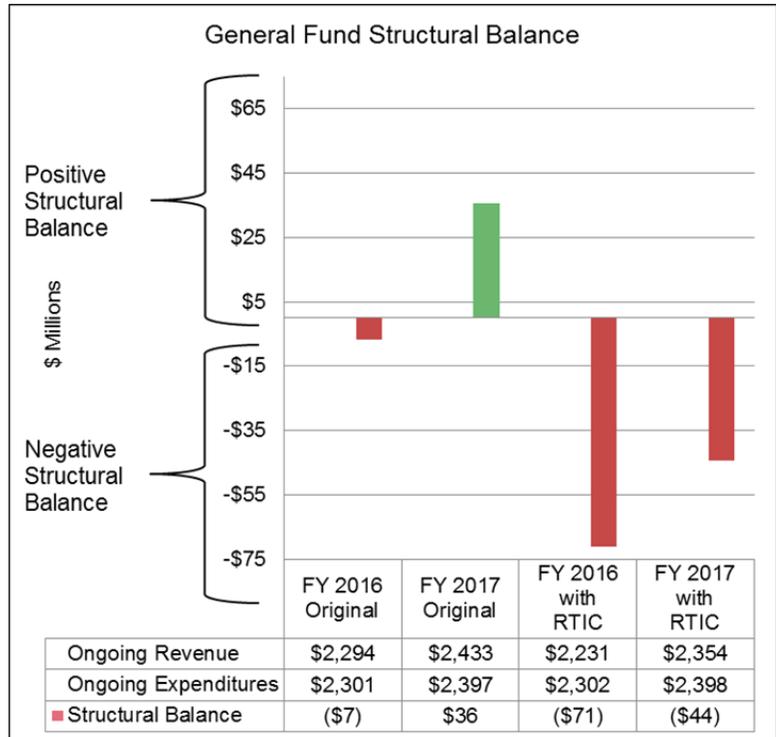
Budget risk is primarily measured by two methods: 1) structural balance, which measures if the ongoing revenues and the ongoing expenditures are in balance and 2) ending fund balance, which measures the amount of funds available for one-time expenditures or revenue shocks and cash flow.

## Structural Balance

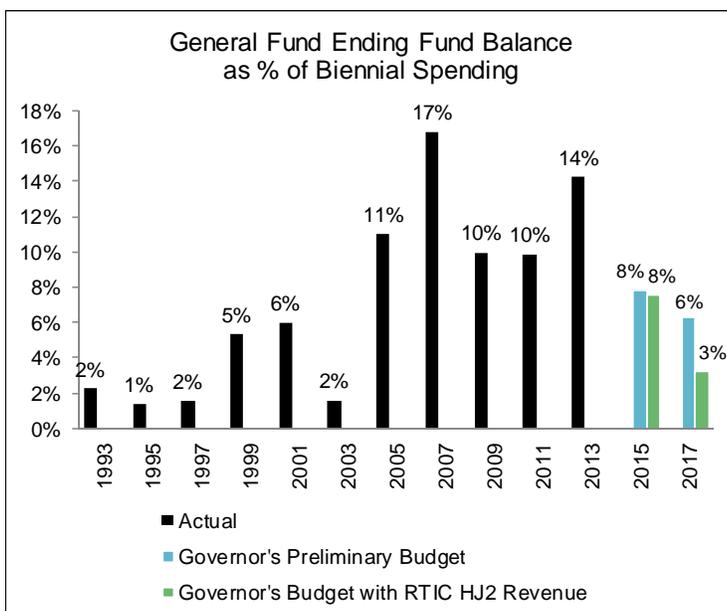
In all biennia, assumptions on ongoing versus one-time only are made. This biennium a significant assumption needs to be made about whether the additional Children’s Health Insurance Program (CHIP) Federal Medical Assistance Percentages (FMAP) discussed earlier is considered one-time or ongoing. In this analysis in FY 2017 \$30 million in general fund savings is assumed to be ongoing.

As shown in the chart to the right, the Governor’s recommended ongoing expenditures total \$2,301 million in FY 2016 and \$2,397 million in FY 2017. The Governor’s revenue estimates are \$2,294 in FY 2016 and \$2,433 in FY 2017. As stated, the RTIC committee adopted revenue estimates for the legislature for HJ 2 (the official legislative revenue estimate) of lower revenue levels. The Governor’s

recommended structural balance was a positive \$36 million in FY 2017 with CHIP FMAP assumed to be ongoing and \$7 million if it were assumed to be one time only. After the RTIC revenues are taken into consideration, the Governor’s structural balance with CHIP FMAP assumed to be ongoing would be negative \$44 million.



## Ending Fund Balance



The Governor’s original recommended ending fund balance is \$300 million or 6% of biennial expenditures. With the RTIC adopted revenues, the ending fund balance at the end of the 2017 biennium is estimated to be 3%.

## ***Legislative Options***

Legislative options for managing volatility were researched and reported to the Legislative Finance Committee in September 2012; the link to this report is shown below in the references section. One material change in statute has been made since the writing of that report: in the 2013 Session, the legislature passed HB 354, which provides a funding stream for wildfire suppression. The need to have additional ending fund balance for potential fire suppression costs is greatly reduced with this new statute.

In addition to structural balance and ending fund balance, risk can be seen throughout specific areas of the budget. Examples of other specific budget risk include revenue shocks from economic, demographic, or other tax related risks; and expenditure shocks from caseload estimate inaccuracy, natural disaster costs above those budgeted, and other changes. The legislature will consider estimates of these items primarily in Joint Appropriations Subcommittees and the appropriation committees of House Appropriations and Senate Finance and Claims.

## **Budget Pressures for 2017 Current Budget**

The 2017 Outlook contained a number of budget pressures for the 2017 Biennium. The list of pressures included items such as:

- Financial pressures
- Population
- Cost pressures
- Sunset
- Property Tax Reappraisal

A few items have been added to and subtracted from this list as updated information has become available. For updated information regarding these budget pressures, please see the Risks and Pressures section of this document.

## ***References***

The Legislative Finance Committee considered options for managing volatility in the 2013 interim; further information can be found in the following reports located at <http://leg.mt.gov/css/fiscal/>:

- [Managing Financial Volatility](#)
- [2015 Biennium Budget Update Report](#)
- [2017 Biennium Outlook](#)