

# VOLUME 1: INTRODUCTION

The purpose of this report is to provide legislators and all interested parties with information regarding the fiscal actions of the 2015 Legislature (including both legislation passed and legislative intent related to fiscal issues) and the fiscal status of state government through the 2017 biennium. This report provides an objective perspective on the state's fiscal condition and on the fiscal outcomes of the 2015 regular session. In addition, the report is a reference document for all legislators, as well as an historic record of fiscal decisions.

Volume 1 is intended to complement Volumes 2 through 4 of the [2017 Biennium Legislative Fiscal Report](#) by providing a general overview of the budget approved by the legislature. Volumes 2 through 4 describe the detailed results of the 2015 Legislature's actions regarding expenditures and revenues, and Volumes 3-4 include adopted budgets of state programs. Volume 1 presents a broader fiscal overview and discusses significant fiscal and policy issues that either encompasses all programs and agencies or that do not necessarily fall under the jurisdiction of a single committee of the legislature.

This volume is divided into the following sections:

- Overview provides a high level summary of the actions of the 2015 Legislature
- Biennial Comparison shows the changes between the 2015 biennium and 2017 biennium legislative appropriations
- Revenues provide a review of the revenue projections used to craft the 2017 biennium budget
- Expenditures provides an overview of the state spending plan for the 2017 biennium
- Legislative Action describes significant fiscal decisions
- Appendix contains information that further details various aspects of the legislative budget

## LEGISLATIVE FISCAL REPORT: VOLUMES 2 THROUGH 4

### [Volume 2](#) – Revenue Estimates

Volume 2 provides a detailed summary of the state's major revenue sources is included online. 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 also describes the legislative actions that affected the various revenue sources.

### [Volumes 3 and 4](#) – Expenditure Details

Volumes 3 and 4 offer detailed summaries of each individual agency budget as adopted by the legislature. These volumes feature program-by-program detail, including a summary of legislative intent where appropriate. Agency sections correspond with the appropriations subcommittee that reviewed their budget.

- Volume 3
  - HB 2 – General Appropriations Act of 2015
  - Section A – General Government
  - Section B – Health and Human Services
- Volume 4
  - HB 2 – General Appropriations Act of 2015
  - Section C – Natural Resources and Transportation
  - Section D – Judicial Branch, Law Enforcement, and Justice
  - Section E – Education
  - Section F – Long-Range Planning

The basic structure used for the [2017 Biennium Legislative Fiscal Report](#) is consistent across agencies. Please note that if using this document to compare to previous Legislative Fiscal Reports,

this biennium is a transition from budgeting based on FY 2014 actual spending to instead using the legislatively budgeted FY 2015 level of spending.

Agency budgets are presented in three tiers:

- 2015 legislative appropriations as a starting point
- Present law adjustment: additional funding needed to maintain current operations and services at the level authorized by the 2013 Legislature
- New proposal requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding

The 64<sup>th</sup> Legislature used the 2015 legislative appropriations as the starting point, then incrementally added or subtracted funds through either present law adjustments or new proposals to arrive at a total approved budget for an agency. These volumes detail an agency's appropriations, both in tables and narrative, and present detailed discussions of present law adjustments, new proposals and new legislation.

# OVERVIEW

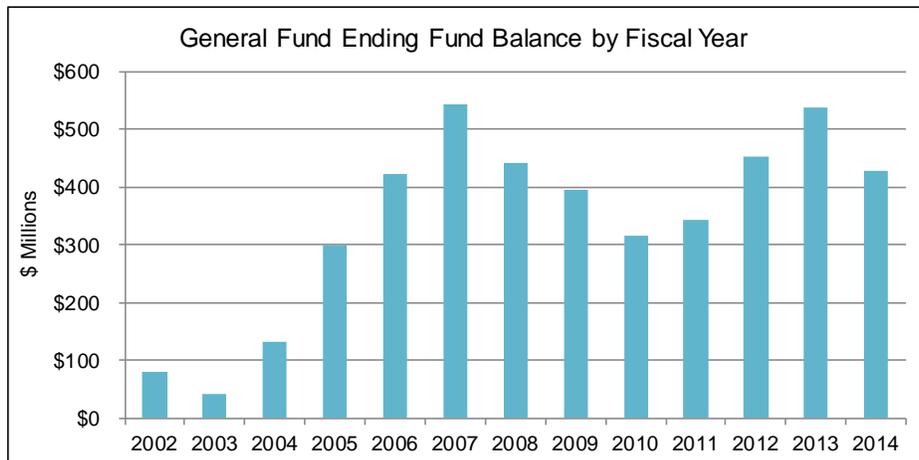
The legislature biennially appropriates general fund, state special funds, federal funds, and certain proprietary funds as defined in [17-7-150, MCA](#). The general fund is the primary fund used for general government purposes such as education, health care, and corrections. The all funds budgets include the general fund plus any other appropriated funds. The overview of the general fund budget begins below and the overview of the all funds begins on page 9.

## GENERAL FUND ENDING FUND BALANCE

The legislature primarily uses the ending fund balance as the means for managing potential budget volatility in either expenditures or revenues. Governor Bullock proposed an ending fund balance of \$300 million. The estimated ending fund balance at the end of legislative action and upon adjournment of the legislature was \$269 million. The Governor's vetoes brought the ending fund balance to \$314 million or approximately 6.7% of the biennial ongoing general fund expenditures.

### Actual Ending Fund Balance

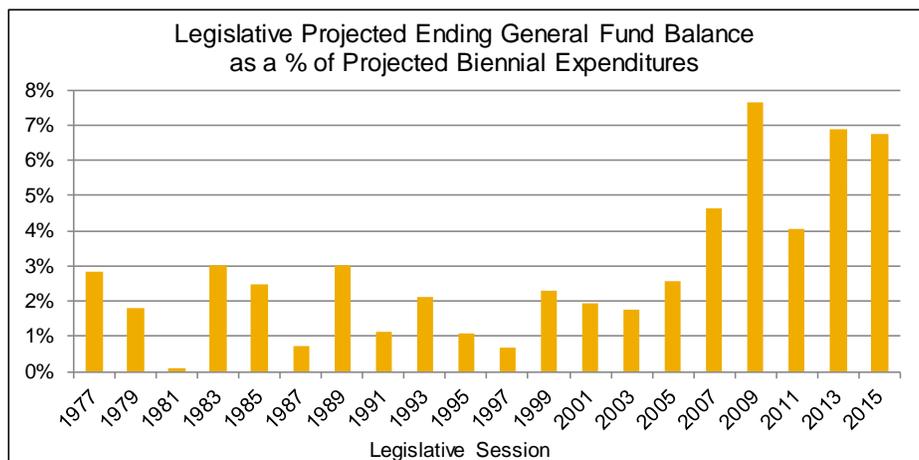
In the past ten years, the actual general fund ending fund balances have been \$300 million or greater. Prior to FY 2005, the general fund ending fund balances were less than \$300 million. The FY 2014 general fund ending fund balance was \$424 million. Prospective biennial ending fund balances are typically measured at the end of the second year of the biennium. The 2017 biennium projected ending fund balance is \$314 million.



### End of Session Estimated General Fund Ending Fund Balances

Historically, projected ending fund balances have varied from nearly 0% to as high as 7.7% of biennial spending. The current 6.7% is similar to the most recent biennia, but materially higher than biennia 2005 and prior.

The 64<sup>th</sup> Legislature adopted [HB 588](#) which changed statute ([17-7-140, MCA](#)) to increase the minimum projected ending fund balance from 1% of biennial appropriations to 3.5% of biennial appropriations, with a declining rate at the end of the biennium.



## GENERAL FUND STRUCTURAL BALANCE

In addition to using the general fund ending fund balance, the legislature also uses structural balance (the difference between ongoing revenues and ongoing expenditures) as the means for managing potential volatility. The estimated structural balance at the end of legislative action of the 2015 session was \$24.4 million. However, the legislature adopted one-time budgeting for the operations of the Office of Public Defender (OPD) and Department of Livestock (Livestock) for the purpose of thoroughly detailing these budgets for the 2019 biennium. If these appropriations were considered ongoing, the structural balance would be negative \$8.9 million or 0.4% of annual expenditures. After the Governor's vetoes the structural balance, considering OPD and Livestock as ongoing, is positive \$20 million or 1%.

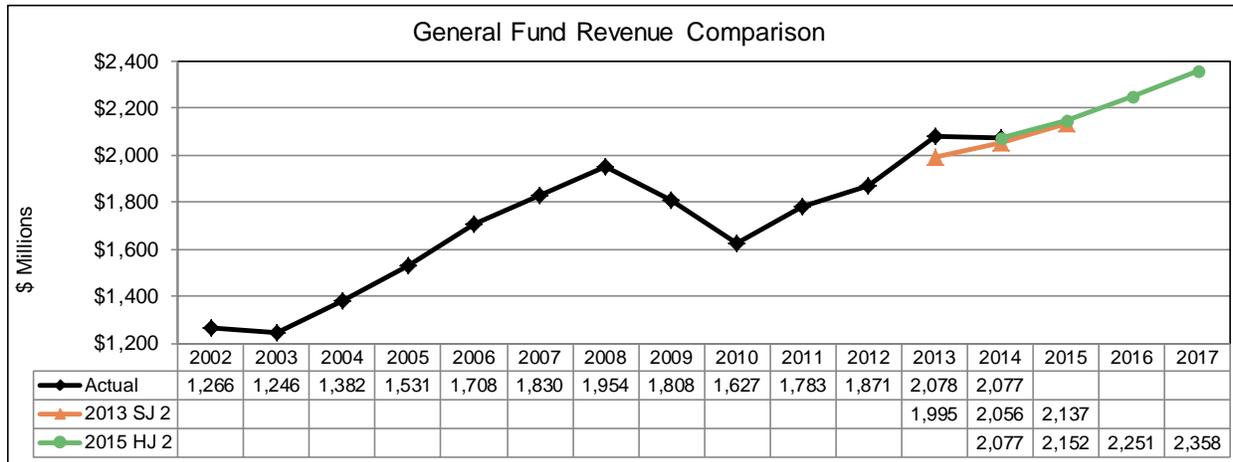
The following table is an updated general fund balance sheet of adjustments that reflect the bills that were sent out for legislative polling. The polling results indicated that the Governor's vetoes were upheld.

Legislative Fiscal Division General Fund Balance Sheet (\$ Millions)				
6/11/15 9:29 AM	FY 2014	FY 2015	FY 2016	FY 2017
Beginning Fund Balance	\$537.600	\$424.451	\$364.934	\$319.061
<b>Revenues</b>				
Actual/HJ 2	2,077.044	2,151.786	2,251.181	2,357.877
<b>Revenue Legislation</b>				
Ongoing Revenue		(0.043)	11.874	(2.521)
OTO Revenue		2.250	(0.122)	0.005
<b>Total Available Funds</b>	<b>\$2,614.644</b>	<b>\$2,578.444</b>	<b>\$2,627.867</b>	<b>\$2,674.422</b>
<b>Expenditures - Ongoing</b>				
Previously Authorized				
Statutory App/ Non-Bud Trans/Other	270.900	292.600	289.300	295.600
HB 2				
Section A: General Government	82.600	88.500	101.924	112.145
Section B: Health and Human Services	445.900	469.100	502.221	517.559
Section C: Natural Resources	30.900	32.400	33.973	33.902
Section D: Public Safety	276.200	283.200	281.241	283.899
Section E: Education	927.900	972.200	1,019.715	1,040.181
HB 2 Subtotal	1,763.500	1,845.400	1,939.074	1,987.686
Non HB 2 Legislation Appropri (Bill list)		6.000	19.786	21.361
HB 2 Language Appropriations		21.194	(2.110)	(3.448)
HJ 2 Statutory and Transfer Adjustments		0.258	0.166	0.209
Assumed 2017 Appropriations (HB 1 & SB 260)				7.600
Reversion Assumptions		(6.700)	(7.100)	(7.300)
<b>One-Time Expenditures</b>				
Previously Authorized	135.500	28.900		
HB 2	20.600	25.858	65.969	58.422
Non-HB 2 Legislation (Bill List)		-	3.721	(0.054)
<b>Total Expenditures</b>	<b>\$2,190.500</b>	<b>\$2,213.510</b>	<b>\$2,308.806</b>	<b>2,360.076</b>
Other Adjustments	0.307			
<b>Ending Fund Balance (unaudited and unassigned)</b>	<b>\$424.451</b>	<b>\$364.934</b>	<b>\$319.061</b>	<b>\$314.345</b>
Total Ongoing Revenues	2,077.044	2,151.743	2,263.055	2,355.356
Total Ongoing Expenditures	2,034.400	2,158.751	2,239.116	2,301.708
<b>Structural Balance (ongoing revenues-ongoing expenditures)</b>	<b>\$42.644</b>	<b>(\$7.008)</b>	<b>\$23.939</b>	<b>\$53.648</b>
Adjust Structural Balance for ongoing liabilities funded with one-time funding				
Assumption for Public Defender and Dept. of Livestock ongoing			33.330	33.285
<b>Adjusted Structural Balance</b>			<b>(\$9.391)</b>	<b>\$20.362</b>

# REVENUES

The 2017 biennium general fund revenues are anticipated to grow at rates similar to growth in 2010. In the past ten years, Montana has experienced high revenue growth as well as significant declines. The stability of recent years is anticipated to continue into the 2017 biennium.

Prior to the 2015 legislative session and throughout legislative deliberation, the revenue estimates of the LFD and the Governor’s Office of Budget and Program Planning (OBPP) varied as much as \$358 million over the three year estimated period. Ultimately, the House Tax Committee adopted an estimate that was based on the core methodologies and assumptions of the LFD with the exception of alternative assumptions in specific sources to bring the estimate between the level estimated by the OBPP and the LFD.



The chart above illustrates the actual revenue collected from FY 2002 to FY 2014 with the black line. The orange line shows the revenue anticipated at the end of the 2013 session and the green line shows the revenue estimate for FY 2015 to FY 2017 as contained in HJ 2, the official revenue estimate of the 2015 session.

## LEGISLATIVE GENERAL FUND BUDGET FOR THE 2017 BIENNIUM

The status sheet at the end of session had an ending fund balance anticipated at \$268.6 million and a negative structural balance of \$8.6 if the assumption for Office of Public Defender and Department of Livestock are ongoing liabilities. However, the Governor vetoed a number of bills after the end of the 2015 legislative session that impacted both the overall and structural balances. The following table details the Governor's vetoes. All vetoes that qualified for potential polling were upheld by the legislature.

Vetoed Bills (after 4/28/2015) -- General Fund Only FY 2015 - FY 2017 (\$ Millions)				
Bill	Short title	Status	Revenues	Approp.
HB0002	General Appropriations Act line-items, Section A	Vetoed, line-item, override attempt failed		\$0.180
HB0237	Providing requirements for Medicaid overpayment audits	Vetoed, override attempt failed	-	-
HB0322	Create education savings accounts for children with disabilities	(H) Vetoed by Governor		0.105
HB0423	Revise education funding laws related to oil & natural gas taxes	Vetoed, override attempt failed	-	0.515**
HB0496	Establish public lands task force	(H) Vetoed by Governor		0.035
HB0599	Allow for permanent registration of heavy trucks & truck tractors	Vetoed, override attempt failed	\$2.519	-
HB0614	Study committee on patient compensation for medical injury	(H) Vetoed by Governor		0.031
HB0628	Revise the replacement schedule for regular license plates	Vetoed, override attempt failed	(1.131)	-
SB0099	Revise insure Montana small business health insurance laws	(S) Vetoed by Governor	(17.118)	
SB0171	Generally revise taxation of income, including corporate tax	(S) Vetoed by Governor	(28.328)	
SB0316	Regarding when certain individuals may be transferred to DOC	Vetoed, override attempt failed	-	-
SB0354	Create infrastructure funding program	(S) Vetoed by Governor	(0.784)	
SB0390	Study fees charged relating to boards	Vetoed, override attempt failed	-	0.007
Grand Total			(\$44.842)	\$0.358

\*\*HB 423 had a BASE-aid impact that would have reduced the general fund balance. HB 154 anticipated a \$10.3 million increase to revenues beginning in FY 2019, so is therefore not shown on the table.

The final adopted general fund budget included an ending fund balance anticipated at \$314.3 million and a positive structural balance of about \$20 million if the ongoing liabilities funded with one-time funding for the Office of Public Defender and Department of Livestock are assumed ongoing.

## DETAIL OF ONGOING GENERAL FUND INCREASE

### *Department of Health and Human Services*

The general fund 2017 biennium HB 2 ongoing appropriations for the Department of Public Health and Human Services (DPHHS) are \$104.3 million, or 11.4% higher than the 2015 biennium appropriation. The major increase is for Medicaid services for persons who meet specific eligibility criteria, which is \$94.5 million general fund. If Medicaid caseloads exceed expected levels, the legislature authorized up to an additional \$21.8 million general fund to be appropriated in language in HB 2. Medicaid services costs rose due to increased enrollment and service utilization as well as a 2% annual provider rate increase for most Medicaid services.

In addition, the legislature funded general fund increases in mental health services \$19.2 million and moved patients from the Montana Developmental Center (MDC) to community based services and care. General fund expenditures for the MDC transition are estimated to increase by \$1.0 million in FY 2016 with a reduction of \$2.8 million in FY 2017.

### *Department of Corrections*

The Department of Corrections is funded primarily with the general fund. The main increases in the Department of Corrections HB 2 budget are to maintain current programs. The budget addresses average annual offender population increases of 1% and budget pressures driven by costs to hold offenders in county jails, to treat the medical needs of inmates, and to enhance reentry efforts by providing more supervision to offenders returned to the communities. To accommodate these factors,

the legislature funded the department at \$26.3 million, or 7.2% higher than the 2015 biennium, to increase staffing by 9.5 FTE. Of the staffing growth, 6.0 FTE were added to address probation and parole officer caseloads. The increases noted above are after \$10.5 million and 4.0 FTE were moved from the department to the Judicial Branch to administer allocation of juvenile placement funds.

### Department of Public Defender

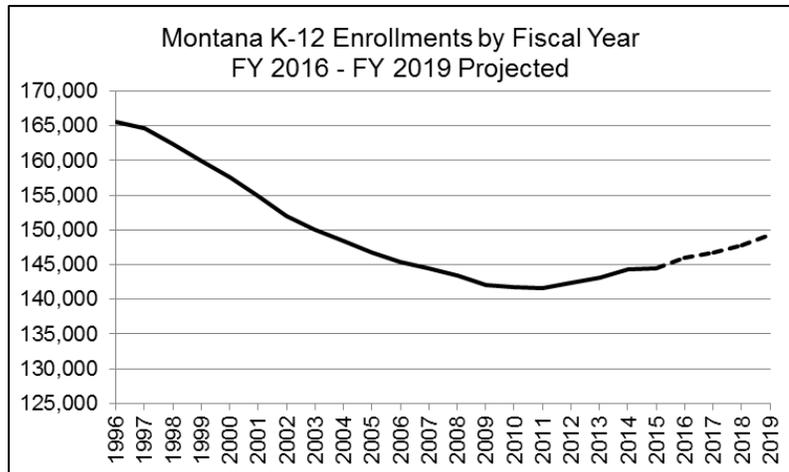
The legislature increased funding in HB 2 for the Office of Public Defender by \$11.2 million or 20.7% over the previous biennium HB 2 funding, which included increasing staffing by 27.4 FTE to address caseload issues. Significant increases also included \$1.9 million to contract for private attorneys to augment staff and \$0.5 million in discretionary funding for the Public Defender Commission to allocate to address budget pressures during the 2017 biennium. All funding for the office was designated as one-time-only so the budget for the 2019 biennium would be developed from a zero base.

In addition to the budget, the legislature passed [HB 627](#) that created an interim task force to study the operations of the office and to develop a long-term organizational plan that will allow the office to provide effective assistance of counsel to those that qualify.

### K-12 Funding

K-12 funding is a significant portion of the total general fund share of HB 2 or about 39% of the spending in the 2017 biennium.

The increase in ongoing K-12 HB 2 general fund spending was \$119.8 million or 38% of the total general fund ongoing increase in spending. Total enrollments are expected to grow by about 0.6% in each year of the biennium compared to FY 2015 (see adjacent chart).



The components of the increase in general fund include:

- o A replacement of \$19.7 million of funding that was available in the guarantee account in the 2015 biennium that is not anticipated in the 2017 biennium
- o An increase of \$92.1 million in BASE Aid driven by inflationary rates of 2.33% in FY 2016 and 1.79% in FY 2017 applied to the basic components of the school funding model and increases in enrollment of 1.2% over the biennium
- o An increase of \$7.9 million in BASE Aid due to shortfall in appropriation for the 2015 biennium to fund a \$7.5 million shortfall in BASE funding and a \$0.4 million shortfall in funding for block grants

### Montana University System (MUS) Funding

The 2015 Legislature increased general fund appropriations in HB 2 for Montana’s postsecondary education institutions by \$23.3 million for the 2017 biennium over the FY 2015 legislative appropriation. Of this increase, 47% is for present laws expenditures while the remaining 53% is attributed to the state share of the educational units’ pay plan cost increases outlined in [SB 418](#).

HB 2 General Fund Increase (\$ Millions)	
State Share Funding for Present Law Adjustments	<u>\$10.9</u>
Ongoing Expenditures Total	10.9
Pay Increase for Educational Units	12.4
<b>Total Increase</b>	<b>\$23.3</b>

The general fund increase for the state share funding of present law adjustments will be allocated to the Montana University System education units to implement a Tuition Cap Agreement reached between the Governor and the Board of Regents and approved by

All Funds HB 2 Tuition Cap Agreement (\$ Millions)	
State Share Funding for Present Law Adjustments	\$10.9
Pay Increase for Educational Units	12.7
<b>Total Increase</b>	<b>\$23.6</b>

the legislature to freeze resident student tuition rates each year of the 2017 biennium. (At its May 2015 meeting, the Board of Regents maintained tuition rates at the prior level.)

In addition to present law adjustments within HB 2 appropriations, the Tuition Cap Agreement includes an appropriation for the state share of the educational units' pay plan costs. The estimated general fund allocation is \$12.4 million for pay raises and increased state contribution toward health insurance premiums. The agreement also commits the Montana University System to incorporating a performance funding component of \$30.0 million into the allocation model used by the Board of Regents for distributing funds to the MUS education units.

## DETAIL OF GENERAL FUND ONE-TIME-ONLY SPENDING

### ***MUS Research Funding***

The MUS received a \$15.0 million restricted, biennial, one-time-only state general fund appropriation to serve as seed money to leverage university-based research into strategic advancements for Montana's economy. The fundamental purpose of this research initiative is to: (1) solve Montana problems with Montana solutions; (2) create good Montana private-sector jobs, and/or; (3) grow emerging and important research sectors that contribute to the diversity of Montana's economy.

The Commissioner of Higher Education will administer competitive grants to researchers on the basis of each new project's potential for private-sector job creation, commercialization, and economic return on investment for Montana. Areas of emphasis shall include agriculture, natural resources and energy, materials and manufacturing, health and biomedical sciences, as well as technology and computer science.

### ***Long Range Planning***

The 2015 Legislature approved total one-time general fund transfers of \$11.8 million for funding state information technology projects and one additional state building construction project.

## ALL FUNDS SUMMARY

### ***Long Range Planning***

The 2015 Legislature approved total one-time spending (appropriations and authorizations) of \$232.7 million for the Long Range Planning (LRP) budgets. The largest source of state funding is derived from state special revenue at \$71.8 million, primarily from dedicated program funding. In the upcoming biennium, the highest amount of the spending will occur in the Long Range Building Program, which includes \$61.4 million in total appropriations and \$71.5 million of authorization to expend donated funds for state buildings. More information on the LRP programs and projects may be seen in Section F of the [2017 Biennium Legislative Fiscal Report](#).

### ***Public Health and Human Services***

The 2017 biennium DPHHS appropriation in HB 2 is \$315.1 million higher than the 2015 biennium. Major changes include:

- Medicaid enrollment and service utilization changes - \$261.1 million
- An annual 2% provider rate increase for most providers - \$52.2 million
- Other selected provider rate increases - \$7.2 million
- Additional mental health services - \$19.2 million

Increases are partially offset by lower expected costs in Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP) and reductions in state HB 2 spending due to [SB 405](#) Health and Economic Livelihood Partnership (HELP) Act.

In addition to HB 2, there were two new statutory appropriations authorized:

- SB 405, the HELP Act – the largest component of this act is Medicaid expansion with statutory appropriations estimated at \$362.9 million, including \$26.1 million general fund
- Federal Title X family planning funds - \$3.8 million

## 2017 BIENNIAL COMPARISON – 17-7-151, MCA

The following table is provided in accordance with the requirements for content and comparison to the previous biennium contained in [17-7-151, MCA](#). The legislature adopted [SB 140](#) which revised the methodology for budget comparison, amending sections [17-7-150, MCA](#) and [17-7-151, MCA](#). This legislation will go into effect on October 1, 2015, so the following table illustrates the current statute.

The biennial increase approved by the final legislature and executive action is 9.0%. The single largest increase is from SB 405 which accounts for \$363 million or 3.3% of the 9.0% increase.

Biennial Budget Comparisons (\$ Millions)					
Fiscal Year	2014 Actuals	2015 Approp	2016 Proposed	2017 Proposed	% Increase
<b>Estimated Expenditure Comparison MCA 17-7-151</b>					
Appropriations HB 2 includes other bills in HB 2 base					
General Fund	\$1,782.4	\$1,870.4	\$2,005.0	\$2,046.1	10.9%
State Special Revenue Fund	682.7	763.7	759.2	768.7	5.6%
Federal Special Revenue	1,998.1	2,259.3	2,227.2	2,303.6	6.4%
Appropriated Proprietary Fund	10.3	11.4	13.6	13.1	23.0%
Subtotal HB 2	4,473.6	4,904.8	5,005.0	5,131.5	8.1%
Transfers HB 2 MUS transfers not subtracted	(19.6)	(22.1)	(15.5)	(15.5)	-25.5%
Net Subtotal HB 2	4,454.0	4,882.7	4,989.5	5,116.0	8.2%
Appropriations Existing Statutory					
General Fund	254.4	264.6	265.2	275.1	4.1%
State Special Revenue Fund	277.7	285.1	234.8	238.1	-16.0%
Federal Special Revenue	38.1	39.2	18.1	17.8	-53.5%
Capital Projects Fund	0.4	0.4	0.4	0.4	-0.1%
Appropriated Proprietary Fund	35.7	44.6	46.5	46.5	15.8%
Transfers statutory (pension trans subtracted)	(77.4)	(76.6)	(69.2)	(72.6)	-7.9%
Net Subtotal Statutory	528.9	557.2	495.7	505.4	-7.8%
Other Bill Appropriations (not including non-budgeted transfers since not appropriated)					
General Fund	2.9	2.0	9.4	15.7	408.8%
State Special Revenue Fund	78.7	99.6	36.6	39.1	-57.6%
Federal Special Revenue*	20.3	32.8	118.8	257.4	608.4%
Capital Projects Fund	19.0	21.3	26.9	26.9	33.2%
Appropriated Proprietary Fund	0.7	-	0.4	0.4	13.2%
Transfers	(36.5)	(3.4)	-	-	-100.0%
Net Subtotal Other Bill Appropriations	85.1	152.4	192.1	339.4	123.8%
Language appropriations (mostly budgeted proprietary)					
General Fund	-	-	(2.1)	(3.4)	
State Special Revenue Fund	2.0	4.4	4.5	4.5	40.5%
Federal Special Revenue	0.0	0.4	3.6	3.6	1710.2%
Appropriated Proprietary Fund	105.9	130.0	138.0	145.0	19.9%
Language appropriations transfers	(35.3)	(43.3)	(46.0)	(48.3)	19.9%
Net Subtotal Language Appropriations	72.6	91.4	98.0	101.3	21.5%
Other appropriations					
Continuing Long Range Building Appropriations		257.8			-100.0%
Appropriation Transfers		58.8			-100.0%
Totals not including transfers	5,140.6	6,000.3	5,775.2	6,062.1	6.3%
Estimated Reversion (12.6% w/cont, 4.4%w/o cont.)	-	(755.4)	(254.1)	(266.7)	-31.1%
Total Comparable Est. Expenditures	5,140.6	5,244.9	5,521.1	5,795.3	9.0%
Biennial Total Est Expenditures		10,385.5		11,316.5	9.0%
<b>Biennial increase estimated expenditures</b>					<b>9.0%</b>
Non-comparable (note this was not updated during session)					
Budget Amendments & Carryforward	121.6	324.9	104.5	-	
Added Authority (HB1 & Supplemental)	1.5	32.2	1.9	2.2	
Special Session	-	-	-	-	
Emergency	20.3	17.1	8.3	8.3	
Total Non-Comparable	143.4	343.9	8.3	8.3	
<b>Biennial Appropriation to Appropriation Comparison</b>					
Comparable only: General	1,986.1	2,073.6			
State Special	1,100.8	1,017.3			
Total Comparable Appropriations	5,473.9	5,445.8	5,775.2	6,062.1	
Biennial Total Comparable Appropriations		10,919.7		11,837.3	
<b>Biennial appropriation to appropriation increase</b>					<b>8.4%</b>
* Federal special revenue portion under other appropriation bills includes Medicaid statutory authority. Does not include triggers in HB 2 and does not include potential general fund spending reductions in HB 2 due to SB 405					