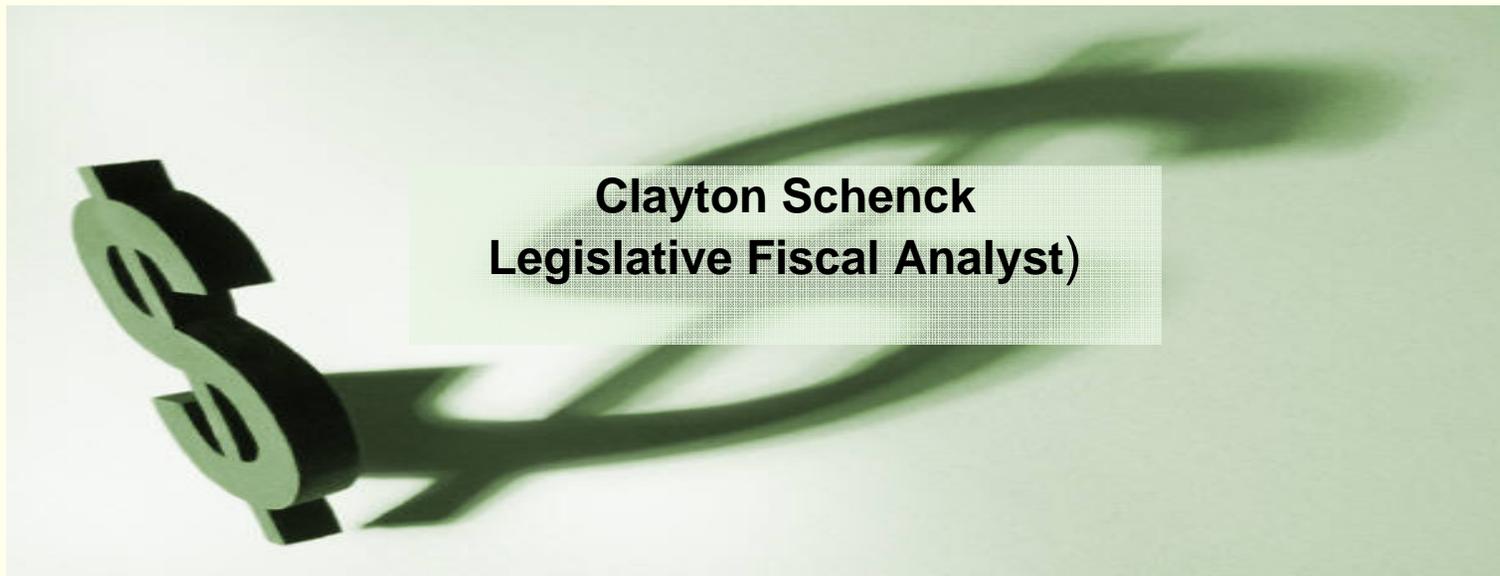




Legislative Budget Analysis 2011 Biennium Overview

Welcome 61st Legislature!



January 6, 2009

61st Legislature



Presentation Outline

- **What is Budgeting**
- **Overview of State Revenues**
- **Overview of State Expenditures**
- **Governor's Budget Proposal/Analysis**



What Is Budgeting? What Are You Here to Do?

- **Balancing Revenues and Expenditures**
 - Revenues are Extremely Volatile
 - Expenditures are Relatively Consistent

- **Constitutional Requirement to Pass the State Budget**





Budget Process

What is Your Role?



- **Governor Proposes a Budget**
 - Pre-Session Statutory Submission Date
 - Independent Analysis, Legislative Staff
 - Non-partisan Review
 - Provides observations, critique, options

- **Legislature Sets the Budget**
 - Sole Constitutional Authority to Appropriate
 - Sets Priorities/Programs of State Government

- **Governor Administers the Budget**

- **How Does the Governor Balance Revenues and Expenditures?**





Budget Bills



- **General Appropriations Act (HB 2)**
 - Only Bill Legislature is Required to Pass
 - 45 Days in 5 Subcommittees
 - Last Bill to Pass Legislature?
 - Up to 1000 Hours of Hearings/Exec Action

- **Long Range Planning**
 - 45 Days in Subcommittee
 - Several Bills
 - Capital Projects, IT Projects, Grants



Overview of State Revenues

- **State Government Fund Structure**
- **2011 Biennium Outlook**
 - Budget Terms
 - Present Law Excess
 - Economic Uncertainty



State Government Fund Structure



- General Fund
- State Special Revenue
- Federal Special Revenue
- Selected Proprietary





Montana's Budget Terminology



- **Base Budget** (FY 2008 expenditures)
- **Adjusted Base** (one-time costs removed plus selected inflationary costs)
- **Present Law Adjustments** (additional costs due to caseloads, ANB, population, etc.)
- **New Proposals or Initiatives** (Revenue and/or expenditure)





2011 Biennium Present Law General Fund Balance (Millions)



Beginning Fund Balance		\$387.1
Estimated Revenue (Revised LFD)		3,709.9
Estimated Disbursements (Executive Present Law)		3,722.7
Adjusted Base	3,392.2	}
Present Law Adjustments	329.6	
Feed Bill & Reversions	0.9	
Recommended Reserves (LFD)		146.8
Fund Balance	111.3	}
Wildfire Suppression	35.5	
Projected Present Law Excess		\$227.5





2011 Biennium General Fund Structural Balance (Millions)

Structural Balance Summary

Estimated Revenue (Revised LFD)		\$3,709.9
Estimated Disbursements		3,758.2
Adjusted Base Plus Present Law (Exec.)	3,721.8	}
Feed Bill & Reversions	0.9	
Wildfire Suppression (LFD Recom.)	35.5	
Revenue Available for On-going Initiatives		(\$48.3)
Revenue Available for One-time Initiatives		\$275.8
Total Available		\$227.5



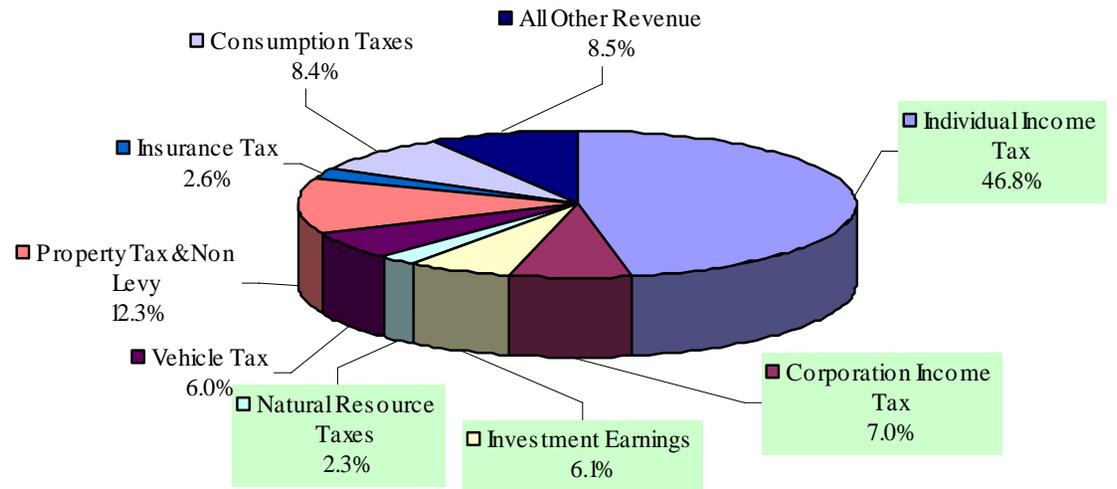


Economic Uncertainty - Caution



- Montana Wage & Salaries
- Montana Capital Gains
- Corporation Income Tax
- Interest Rates
- Oil Prices

General Fund Revenue By Source - 2011 Biennium



Income, Investment, Natural Resources 62.2%

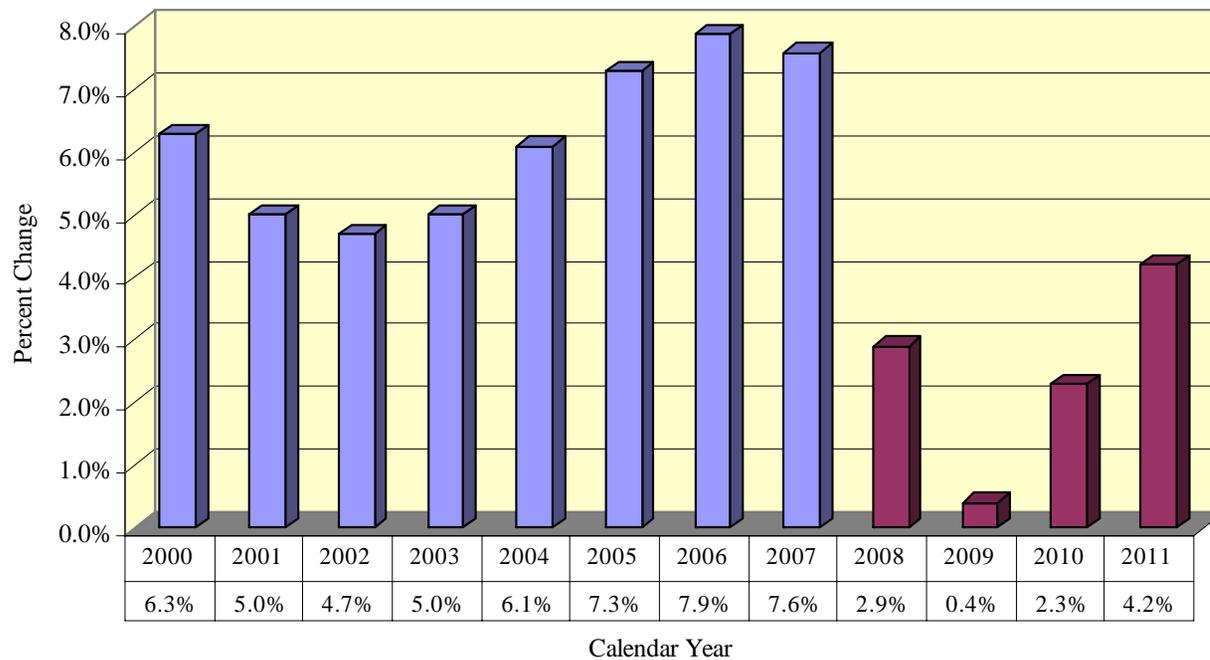




LFD Economic Assumptions



**Montana Wage & Salary Income
Percent Change**



Legislative Fiscal Division



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Actual



Estimated

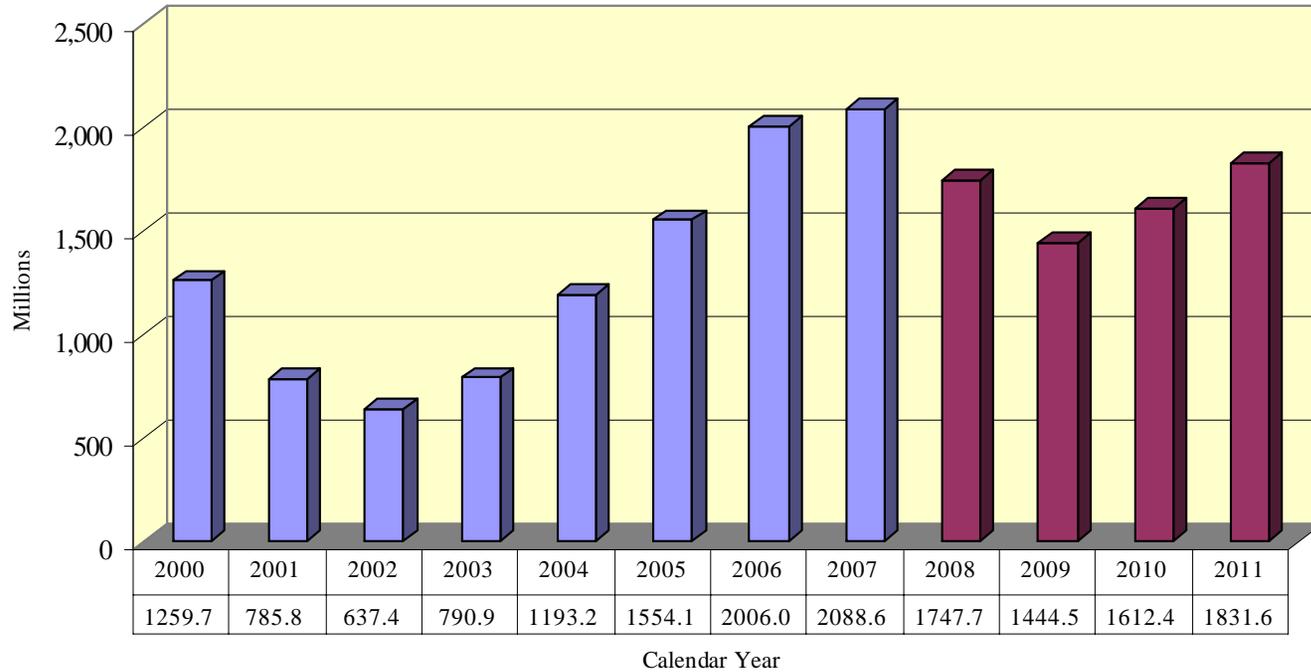




LFD Economic Assumptions



Montana Capital Gains Income



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Actual Estimated

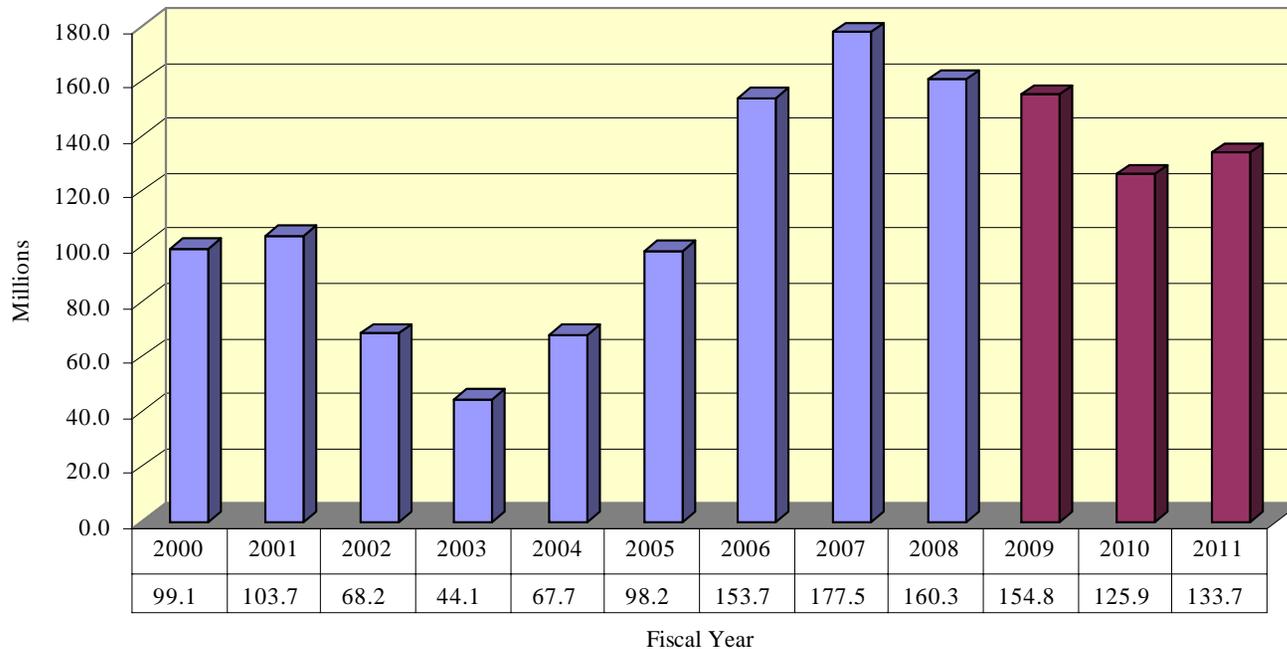




LFD Economic Indicators



Montana Corporation Income Tax



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Actual



Estimated

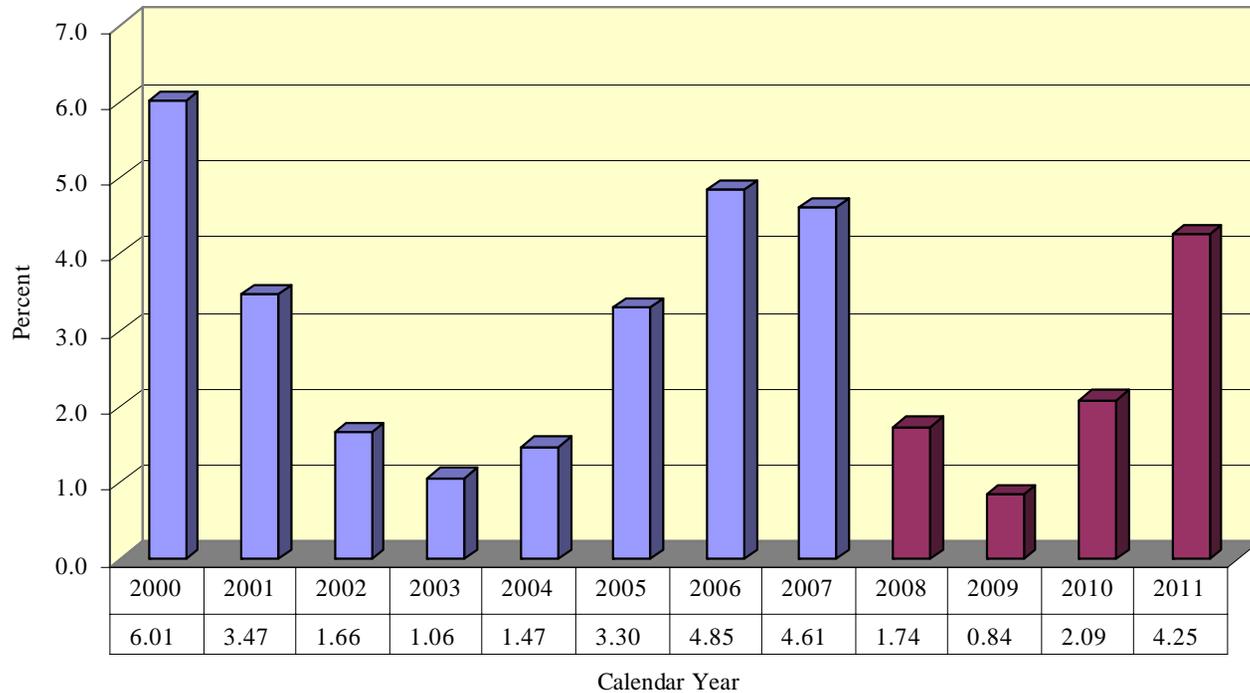




LFD Economic Assumptions



Short Term Interest Rates



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Actual



Estimated

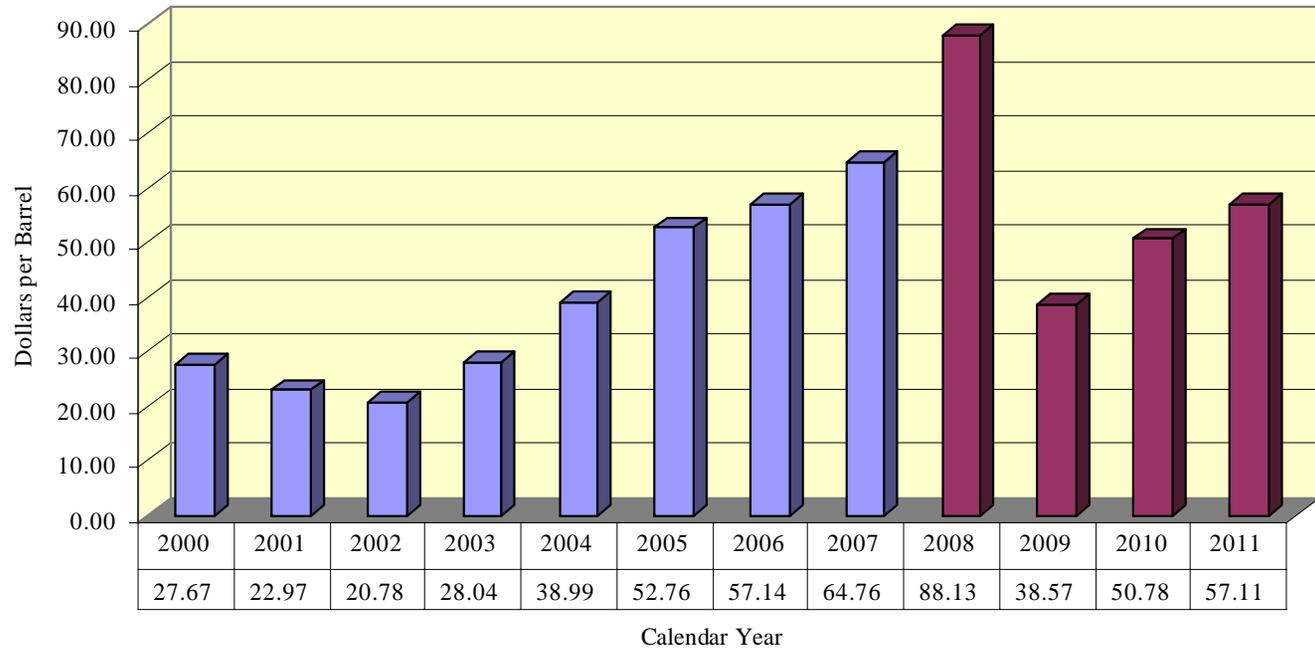




LFD Economic Assumptions



Montana Oil Prices



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Actual



Estimated

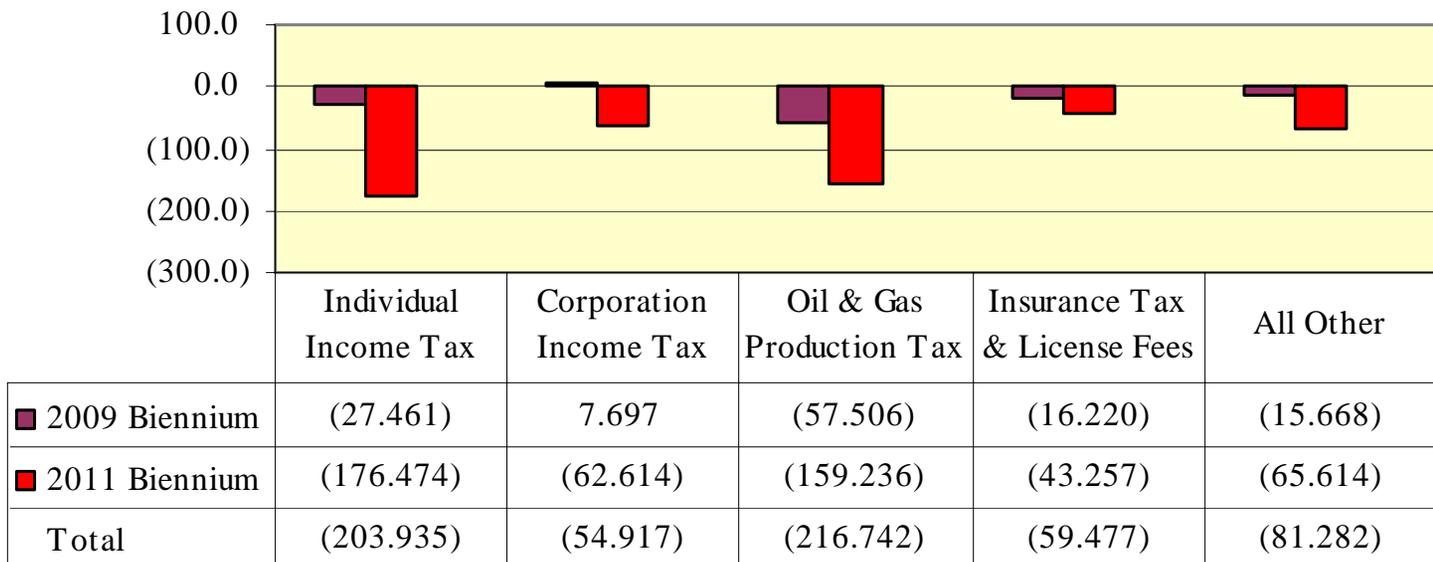




LFD Revenue Estimate Change From “Big Picture” Report

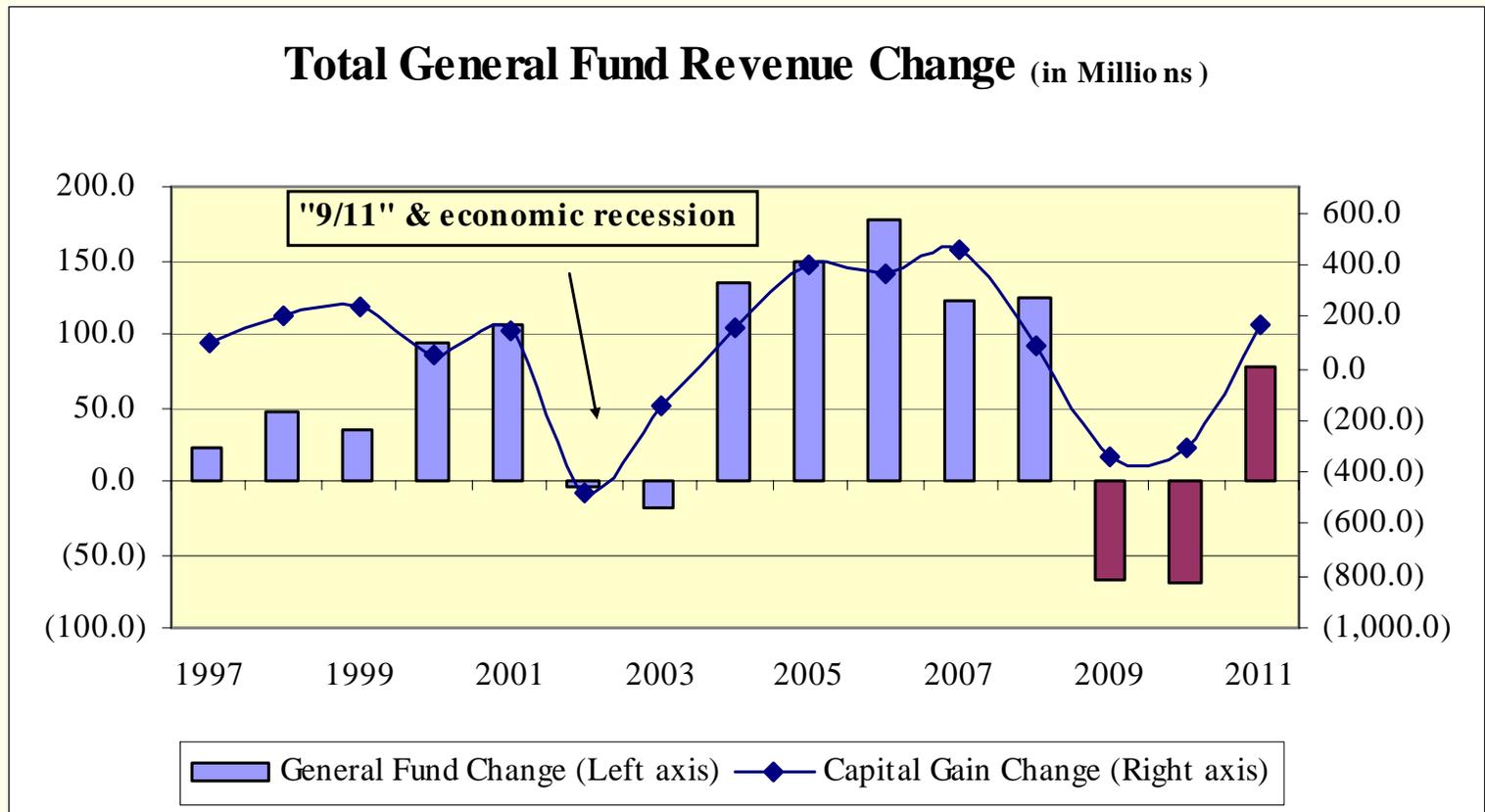


General Fund Revenue Estimate Change \$-616.4M LFD Big Picture Vs. Revised LFD Recommendations





General Fund Revenue Trends



Actual ■ Estimated ■



Summary

- 
- **2011 General Fund Outlook**
 - Revenues expected to be below 2009 biennium
 - Includes Initiative 155 impacts (CHIP expansion)
 - Property tax reappraisal mitigated (State Level)
 - Insufficient revenue to fund present law costs (Assuming Wildfire Costs are On-Going)



Overview of State Expenditures

- Where does Montana spend money?
- How are budgets built?
- What is present law and why is it important





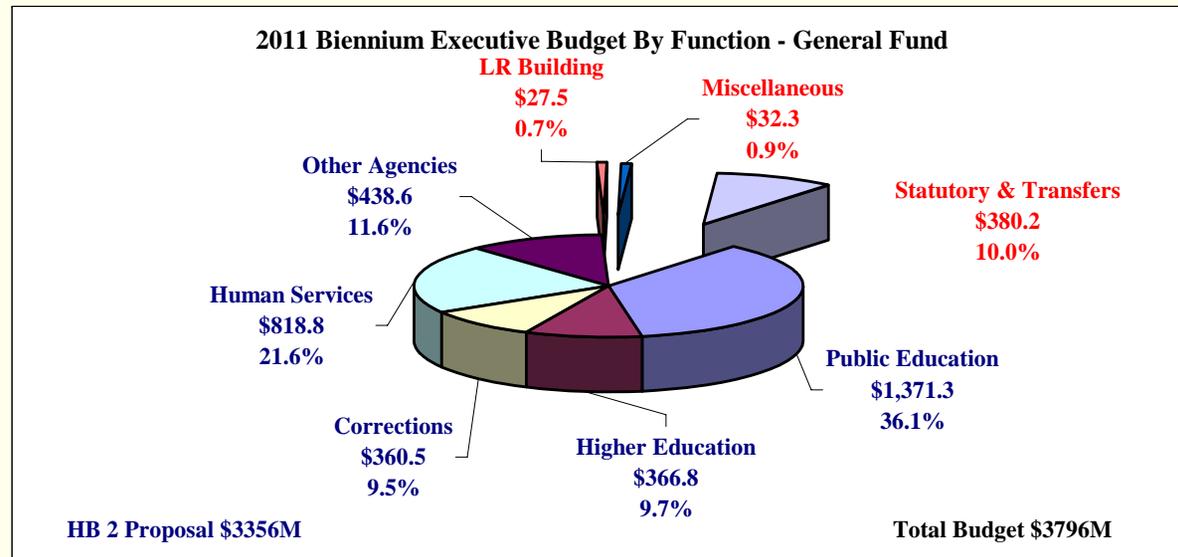
Where Does Montana Spend Money?



General fund dominated by 4 areas:

- Education (K-12 and Higher Ed)
- Human Services
- Corrections
- Statutory Appropriations

Account for 87% of total spending



What Are Statutory Appropriations?



- Money appropriated in statute, rather than in a temporary spending bill
 - Unless the legislature changes statute, the money is provided each biennium without further review
 - Essentially, 10% of the general fund budget is “off the chart” each session
- What do we fund with statutory appropriations?
 - Debt service
 - Required contributions to certain retirement accounts (firefighters, etc.)
 - Payments to counties, with automatic inflation rates
 - Miscellaneous other



Building a Budget

- Base
- Present Law Adjustments
- New Proposals





What is Present Law – Why is it Important?

- **Present law is funding necessary to do what was done in the current biennium in the next biennium**
 - Base plus present law adjustments = present law
- **For present law to change, you've got to specify what you will do differently**
 - Money spent is not just expenditures, it's the services those expenditures represent
- **Present law in a world of volatile revenues**



Examples



- **K-12 Education – BASE aid payments to schools**
- **Human services – Eligibility for and utilization of services/payment levels to providers**
- **Corrections – Population and where they are housed**
- **Inflation and workload changes**

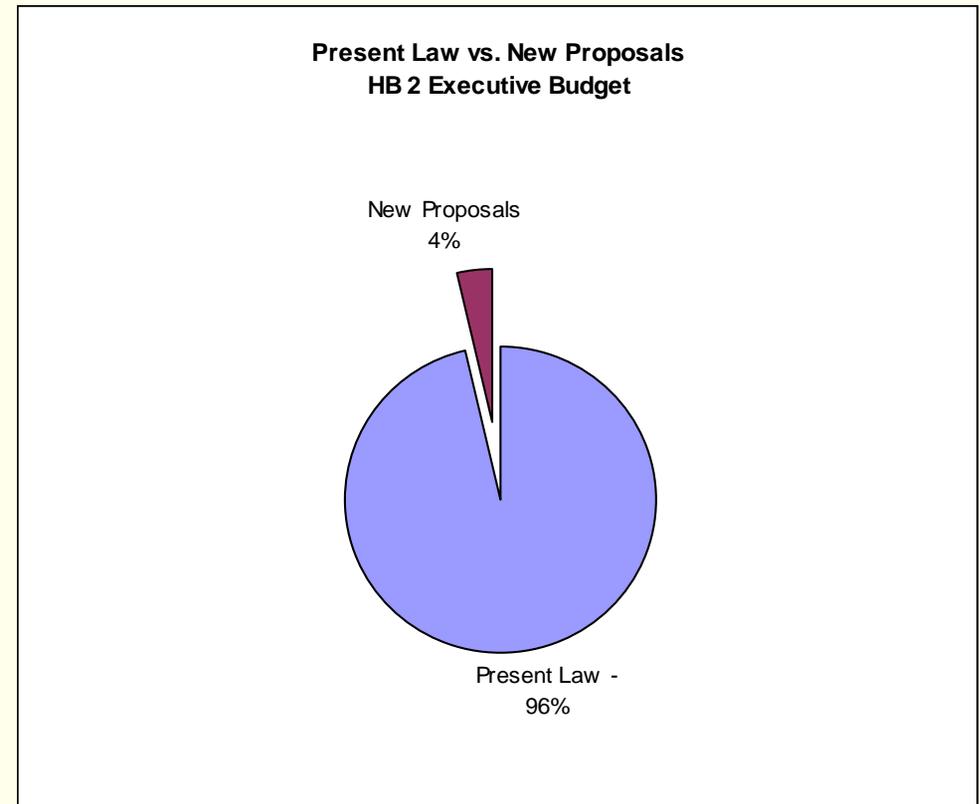




Present Law vs. New Proposals



- Almost 96% of all general fund HB 2 adjustments in the executive budget are for present law
- 1.7% of all proposed general fund spending is in new proposals (0.2% of total HB 2)



Governor's Budget Proposal/Analysis

- Governor's Budget - Key Features
- LFD Analysis
- Budget Risks
- Other Issues for Legislative Consideration



Governor's Budget

The Bottom Line



- **Balanced Budget, Large Fund Reserve**
- **GF Budget is Structurally Balanced**
- **Provides for Moderate Increase in Budget**
- **Predominantly a Maintenance Budget**
- **Funded with Existing Revenues**





Bottom Line: Balanced Budget



➤ Record Proposed General Fund Reserve

- Proposes \$295 Million Reserve
- Provides Cushion for extended economic downturn
- Fund Balance Unrestricted





Bottom Line: Structurally Balanced

- **Ongoing Revenues Equal or Exceed Ongoing Expenditures**
 - **In Second Year of Biennium**
 - **Could be Impacted by Further Deterioration of Revenue Estimates**





Bottom Line:

Moderate Budget Increase

- **GF Increase of \$312 Million, or 9 Percent over Biennium**
- **Total Funds Increase of \$793 Million, or 9 Percent Over Biennium**
- **Based on Comparison of Ongoing Revenues/Expenditures**
- **Slightly Below GF 12 Year Average**



Bottom Line: Present Law Budget

- Funds Existing Services at Current Caseload, Population, Enrollment Projections
- Only Minor New Proposals (Education)
- Proposed Budget May Not Fully Fund Impacts of Economic Downturn – LFD Issue



Bottom Line: Uses Existing Revenues

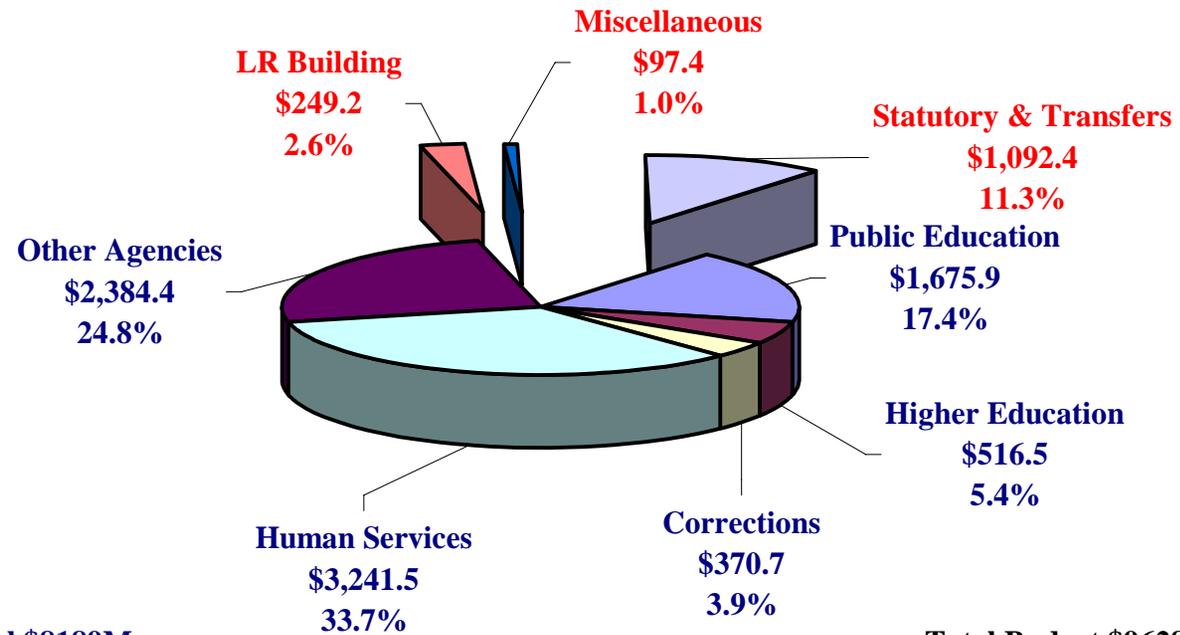
- No Significant New Tax Policy Proposals
- Exception is Mitigation of Property Tax Reappraisal, Lowers Revenue Collections





Governor's Proposed Spending – Total Funds

2011 Biennium Executive Budget By Function - Total Funds



HB 2 Proposal \$8189M

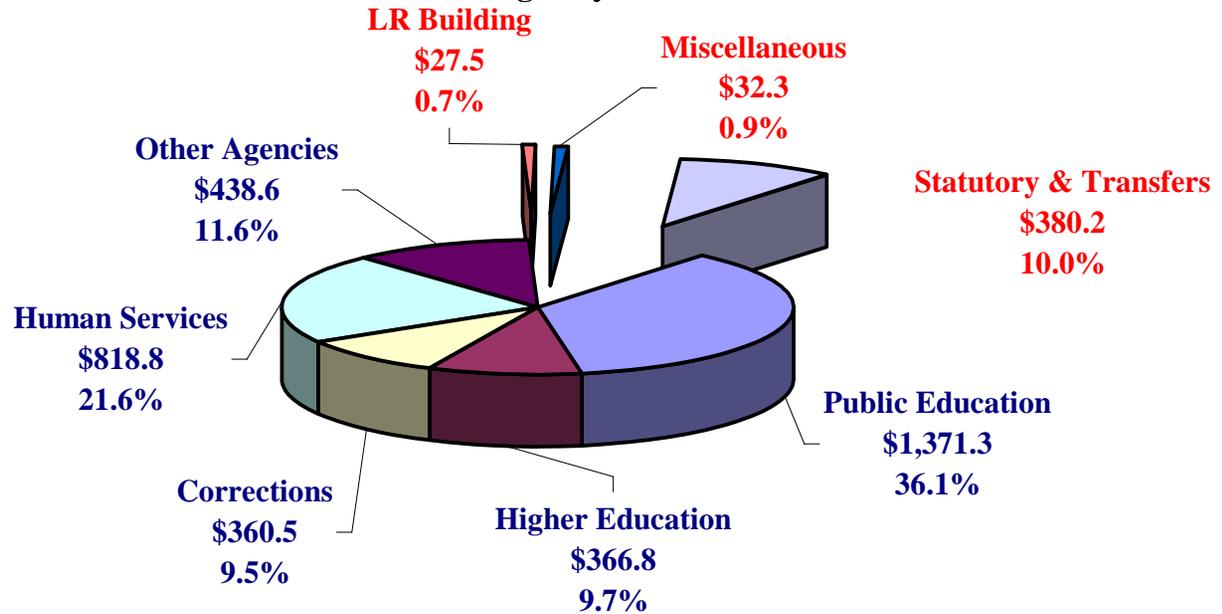
Total Budget \$9628M





Governor's Proposed Spending – General Fund

2011 Biennium Executive Budget By Function - General Fund



HB 2 Proposal \$3356M

Total Budget \$3796M



Key Features of The Executive Budget

- Present Law Budget
- Education
- Public Health
- Corrections
- Long Range Planning
- Employee Pay Plan
- Revenue/Tax Prop.
- One-Time-Only Expenditures



Key Feature

Present Law Budget

- **Present Law Adjustments Add \$330 Million**
- **Funds Caseload, Population, Enrollments at Current Projections**
- **Only Major New Proposal – Public Education**





Key Feature Education



- **Increase K-12 Funding \$62.5 Million**
 - 5 Percent Biennial Increase
 - 3 Percent Annual Increase in Base Aid (Statutory)
 - 3 Percent Increase In Spec. Ed. (New Proposal)

- **Increase Higher Educ. Funding \$10.4 Million**
 - 3 Percent Biennial Increase
 - Essentially Funds at 2009B Level Present Law
 - Assumes Greater Level of Funding from Tuition/Other
 - Discontinues College Affordability Program



Key Feature

Health and Human Services

- **Maintains Current Services for Current Eligible**
 - Funds Current Projected Caseload Level
 - Replaces Reduced Federal Match

- **Fully Funds Healthy Montana Kids (I-155)**
 - Full Implementation Depends On:
 - Securing Amendment to Current State Plan
 - Large Increase in Federal Grant

- **\$73 Million GF Increase (10 Percent)**



Key Feature Corrections

- **Funds Projected Population Increase of 4.6%**
 - **Doesn't Fund Some Projected Secure Care Inmates**
 - **Some Inmates Would Have to Lower Cost Programs/Facilities**

- **\$18 Million GF Increase (5.4 Percent)**





Key Feature

Long Range Planning



- **Funds Capital Projects of \$21 Million GF, \$113 Million Total Funds**
 - Predominantly Infrastructure Maintenance
 - Governor's 20x10 Energy Savings Initiative
 - FWP Access Montana – Added Parks Land
- **Funds Information Technology Projects of \$13 Million GF, \$100 Million Total Funds**
- **Grants and Loans, \$50 Million SSR**
- **Quality Schools Facility Program, \$21 Million SSR**





Key Feature

State Employee Pay Plan

- **Increases State Contribution toward Health Insurance Premiums**
- **No Percentage Increase for Cost of Living/Market Adjustment**
- **One Time Lump Sum Payment to Employees Making \$45,000 or Less**
- **Total Cost \$19 Million GF, \$14 Million Other Funds**



Key Feature

Revenue/Tax Proposals

- **Would Mitigate Impact of Property Tax Reappraisal**
- **Removes Sunset Provision on Wildfire Suppression Account, \$33 Million**
- **No Other Significant Proposals**





Key Feature

One-Time-Only Expenditures

- **15 Percent (\$55 Million) of 2009B GF Balance Allocated to 2011B for OTO**
- **Governor's 20x10 Energy Savings Proposal is 40 Percent of Total OTO (\$22 Million)**



LFD Analysis

– Major Findings –

- Budget Would Leave \$277 Million Reserve
- Can Present Law Services Be Maintained?
- Budget Doesn't Provide Measurable Performance Indicators
- Some Budget Proposals Lack Detail





LFD Analysis: \$277 Million GF Reserve

- **Compares to \$295 Million Projected by Executive**
 - Based on LFD Revised Estimates
 - Lower Revenue Estimates/Revenue Impacts
 - Higher Disbursements Anticipated by LFD
 - Offset by Higher Fund Balance Adjustments by LFD

- **Executive Budget Remains Structurally Balanced**





LFD Analysis: Can Current Services Be Maintained?

- **Budget Reduces Funding for Current Services to Point Where Services May be Jeopardized**
 - Across the Board Reductions (Vacancy Savings: 7%)
 - Underfunds More Expensive Corrections Population Facilities
 - Access to Higher Education May be Impacted by Tuition Increases

- **Impacts of Recession Generally Increase Demand for Many State Services**
 - May Not be Reflected in Executive Budget
 - Medicaid and Other Health Services Eligibility





LFD Analysis: Lacks Measurable Performance Indicators

- **Measurable Performance Indicators Provide Means for Evaluating Value/Ultimate Success of Proposals**
- **Performance Indicators Submitted by Executive are Predominantly Not Measurable**
- **Lack of Measurability Precludes Valuable Information for Prioritization /Measurement of Progress/Future Assessment of Success of Program and Necessary Modifications**





LFD Analysis: Lack of Budget Detail

- **Some Budget Proposals Lack Information and Details to Evaluate Their Impact and Merit**
- **Statute Requires Submission of Executive Budget by a Specific Deadline**
- **Requires Sufficient Data to Evaluate and Understand the Proposals**
- **Legislature Has Major Role in This Pattern**



Budget Risks: Important Considerations

- **Economic Volatility**
- **Pension Plans Unfunded Liability**
- **Other Liabilities**
 - State Fund “Old Fund” Liability
 - Pending Lawsuits



Budget Risk: Economic Volatility

- Revenue Estimates May Have to Be Revised During Session
- Budget May Not Reflect Full Impacts of Economic Downturn
- What if Revenues Fall Post-Session?



Post-Session

What if Revenues Fall?

- **Governor's Budget Leaves Large GF Reserve (\$277 Million)**
- **Entire Reserve is Unrestricted**
- **If Revenue Collections Fall, Governor Can Still Fund Full Budget**
 - Only Limited By Amount of Reserve
 - Legislature Might be Excluded From Re-evaluating Budget Priorities
- **Legislative Options: Rainy Day Fund or Other Restrictions on Budget Reserve**





Budget Risk: Pension Plans Unfunded Liability



- **Reduction in Asset Value Will Result in Increased Unfunded Liability of Plans**
 - State General Fund Must Pay for Unfunded Liability

- **If Economic Recovery is Slow, Legislature May Have to Supplement the Retirement Plans**
 - Legislature Provided Cash Infusions of \$175 Million in Past Biennia
 - Next Actuarial Valuation is June 2009



Budget Risk: Outstanding Liabilities

- **State Fund “Old Fund” Liability**
 - State General Fund Must Pay for Unfunded Claims – Current Projected Deficit is \$ 37 Mill.
 - Shortfalls Projected In FY2011 and Beyond

- **State Fund Lawsuit**
 - Potential Liability to GF of up to \$116 Million
 - On Appeal to Supreme Court

- **K-12 Lawsuit**
 - Continued Debate Over Adequate Funding of Schools
 - Current Case May Still Be Appealed





Other Issues For Legislative Consideration

- **Long-Term Stability of General Fund**
 - See Page 106, Volume 1

- **Historical Perspective of General Fund Spending**
 - See Page 68, Volume 1
 - On Appeal to Supreme Court

- **Highways Fund: Is it Sustainable?**
 - See Page 120, Volume 1, Page C-126, Volume 5

- **Statutory Appropriations - Significant Portion of Budget**
 - See Page 55, Volume 1





LFD Budget Analysis: Detail

- **Volume 2: Revenue Estimates**
 - Revenue Estimates By Component
 - Working Document for Taxation Committees – HJR2

- **Volumes 3 Through 7 – Agency Budget Proposals**
 - Working Document for Appropriations Subcommittees
 - Agency Budget Detail, LFD Issues and Options





Legislative Fiscal Division: Your Non-Partisan Staff

- Appropriations Committees Staffing
- Taxation Committees Assistance
- Legislative Requests
- Legislator Budget Orientation/Training
- Budget Detail
- GF Status Sheet
- HB2 Narrative and Numbers

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Questions?

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