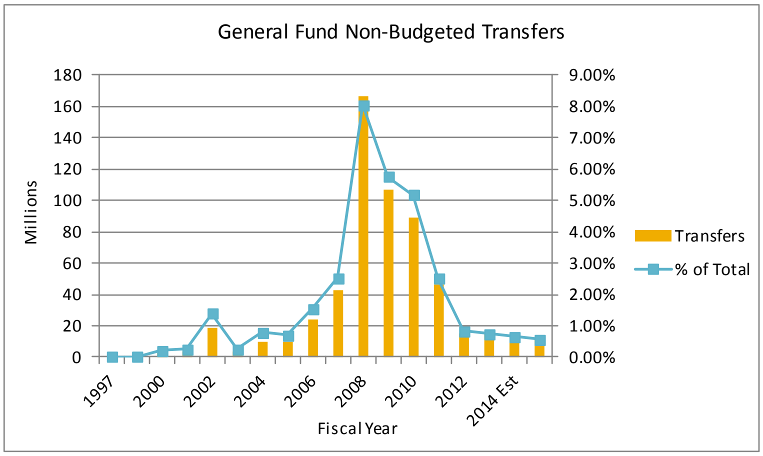
APPENDIX B – NON-BUDGETED TRANSFERS

Since FY 2000, increased amounts of money have been transferred out of the general fund to other accounts that fund non-general fund programs. As illustrated in chart below, this amount has grown from $0 in FY 1999 to a high of $166.4 million in FY 2008. Of the $166.4 million, $158.0 million was uncodified one-time transfers for capital projects ($82.6 million), water adjudication ($25 million), noxious weed trust fund ($5.0 million), cultural trust fund ($1.5 million), national guard life insurance ($1.0 million), and children's trust fund ($1.0 million) among others. In FY 2009 $107.0 million was transferred, including one-time transfers to other funds of $98.2 million for capital projects, community health center support, free hunting licenses, and National Guard life insurance.



Transfers are estimated to be $25.1 million in the 2015 biennium. The largest single transfer in the biennium is $13.0 million to the workers compensation old fund (39-71-235(6), MCA. Beginning FY 2013 at $9.3 million, the Montana State Fund estimates that yearly general fund transfers (in decreasing amounts after FY 2013) totaling $58.8 million will be needed through FY 2051.

These transfers reduce the amount of money in the general fund that would have been available for general fund programs and increase the amount available for non-general fund programs.

LFD COMMENT

Legislative Finance Committee Policy

The Legislative Finance Committee has approved the following policy statement concerning general fund transfers:

"It is the policy of the Legislative Finance Committee that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. Such action obfuscates the true source of funding, reduces the general fund balance without any review by the appropriations subcommittees, and is inefficient. A better method is to directly appropriate the funding for the intended use. This policy also applies to non-general fund on-going transfers. Our Legislative Fiscal Division staff is instructed to inform legislators, legislative committees and others, as it deems necessary, of this policy."

LFD ISSUE

MCA Title 15 General Fund Transfers

The second largest group of on-going transfers out of the general fund ($10.2 million in the 2015 biennium) is the transfer of motor vehicle fee and other revenue that is initially deposited to the general fund (15-1-122, MCA). This money is earmarked and transferred out to multiple accounts to fund various state programs. The practice of transferring money out of the general fund escalated with the enactment of HB 124 (entitlement payments to counties) in the 2001 session. The practice unnecessarily complicates the revenue and disbursement processes.

The legislature could achieve the same results by implementing one of the following changes:

- Earmark the applicable fees and provide for their direct deposit to the various program accounts. This bypasses the unnecessary step of first depositing the money in the general fund and then transferring the general fund to the various program accounts. Since the money is already being appropriated from these program accounts, current appropriations would not change.
- Continue to deposit the applicable fees to the general fund, but eliminate the transfers to the various program accounts. Since there would be no transfer revenue to appropriate from the various program accounts, appropriations from these accounts could be eliminated and replaced by general fund appropriations in the same amounts.

In both cases, the various state programs would receive the same level of appropriation, the general fund transfers are eliminated, and there is no impact on the general fund balance.

LFD ISSUE

Executive Additional General Fund Transfers

The executive proposes additional one-time transfers of general fund money to the following state accounts:
House Bill 10 - $8.808 million to the long-range information technology account
House Bill 5 - $16.3 million to the long-range building account

In LC0876, the executive is proposing to transfer general fund money at the end of the biennium to the fire suppression fund. Unspent amounts of the $16.0 million biennial emergency statutory appropriation authorized in 10-3-312, MCA, in excess of 0.5% of the total general fund appropriations for the previous fiscal year would be transferred. In addition, the proposal would transfer general fund to the fire suppression fund based on amounts of corporation license tax collections that exceed: $163 million in FY 2013, $188 million in FY 2014, and $184 million in FY 2015. The fire suppression fund would be capped at $100 million. No estimate of the amounts to be transferred was included in the proposal.

The executive is also proposing legislation to eliminate the transfer of general fund money to the old fund and to transfer revenue from the new fund’s surplus and reserves to the old fund to pay injury claims. Under current law, general fund transfers to the old fund were estimated to be $9.290 million in FY 2013, $7.356 million in FY 2014, and $5.652 million in FY 2015 for a total of $22.298 million. At the time of this writing the bill number was unknown.

LFD COMMENT

Due to significant unfunded liabilities associated with workers’ compensation in Montana, the May 1990 Montana Special Legislative Session separated funding and accounts for claims and injuries resulting from accidents occurring before July 1, 1990 (Old Fund) and claims occurring on or after July 1, 1990 (New Fund). The August 2002 Special Legislative Session passed Senate Bill 19, which required that in any year the Old Fund was not adequately funded, general fund must be transferred to the Old Fund to pay the claims. As a result, the state’s general fund is responsible for $13.0 million in Old Fund claims costs in 2015 biennium. The executive’s proposal eliminates general fund transfers to the Montana State Fund (MSF) for the Old Fund liability. Further, the executive proposes to require that MSF pay the Old Fund claims from surplus and reserves of the New Fund. Included in the executive’s proposed legislation is a requirement the MSF may not raise rates to pay for claims for injuries resulting from accidents that occur before July 1, 1990.

Beginning July 1, 2003 MSF included language in their contracts for workers’ compensation insurance that indicate all “state fund money” (not just the premiums paid) are to be used only for New Fund claims. For the years when the contract language has been in place, using the funds for other purposes could be considered a contract impairment. To implement the executive’s proposed statutory language would require a determination of the source of the funds included in the surplus, by year from FY 1990 through FY 2012 to determine when the surplus was generated. For surplus funding that was generated prior to the contract requirement, funding for transfers may be available. In addition, the surplus funding is invested and investment income allocated to the surplus. A determination of the relationship between the investment income and period of time the surplus was generated would also need to be established.