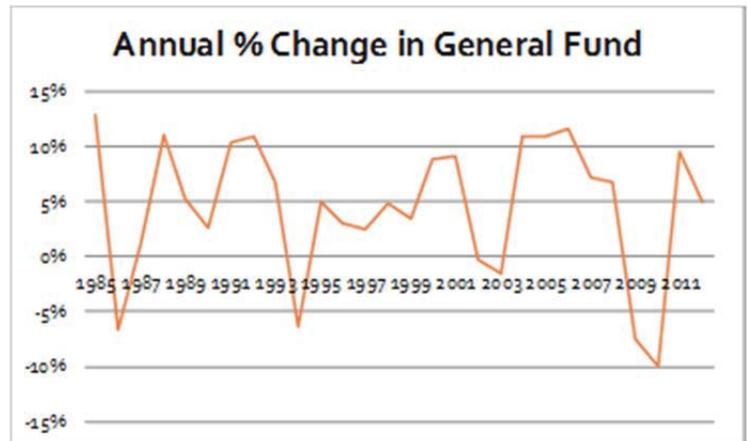


MANAGING VOLATILITY

In Montana, volatile revenue streams are nearly an expectation. Annual general fund revenue growth has varied from -10.0% to +12.8% since 1985. While some of these changes are predictable, many are not. Consequently, the ability to anticipate changes in revenue has been challenging.

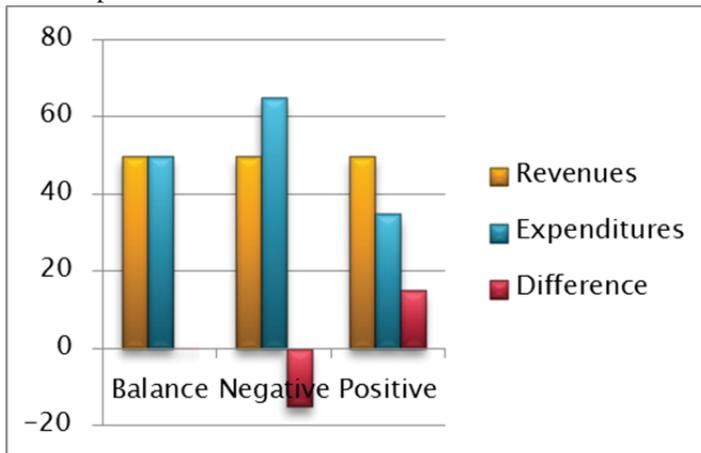


Structural Balance

Structural balance is defined as the difference between ongoing revenues and ongoing expenditures during a fiscal year. Per the chart below, consider structural balance in three different scenarios.

1) Balance – Structural balance exists when revenues and ongoing expenditures are equal.

2) Negative – A negative structural balance exists when revenues (yellow bar) fall short of ongoing appropriations (blue bar). When this occurs, the ending fund balance could be utilized to supplement revenues to meet the expenditure demands. The short fall can come from revenue volatility, costs of natural disasters, or other unanticipated costs.



3) Positive – A positive structural balance exists when ongoing revenues (yellow bar) exceed ongoing expenditures (blue bar). When this occurs, the ending fund balance is increased by the difference. The increase can come from revenue volatility and/or reduced expenditures

Ending Fund Balance

The general fund ending fund balance is effectively the “checking account balance” of the state. It is often equated to “surplus” funds, yet to be truly “surplus” the funds would not be serving a purpose of the legislature or the State of Montana. In contrast a “Rainy Day Fund” is understood as funds that are needed for

managing volatility. An ending fund balance can be used to manage volatility much like a statutorily defined “Rainy Day Fund”. In recent years, Montana has used the general fund ending fund balance for managing volatility.

The Legislative Finance Committee considered this topic in the interim and further information on managing volatility can be found at:

http://leg.mt.gov/content/Publications/fiscal/interim/2012_financemty_Sept/Volatility%20report.pdf

Governor Bullock proposes a \$300 million ending fund balance and a positive ending fund balance.