MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
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To: Legislative Finance Committee

From: Amy Carlson, Legislative Fiscal Analyst
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RE: Comparison of Biennial Appropriations: update from the January data

The 2015 Biennium Legislative Fiscal Report reports a biennial increase in general fund spending of 14.2% (page 12, Volume 1). This memo is in response to requests from several legislators for a similar analysis of the growth in "All Funds" (all state resources) for the 2015 Biennium to supplement the general fund analysis.

17-7-150 and 151, MCA describe how biennial comparisons of state resources or funds from taxes or fees are to be performed. The calculation outlined in this statute is not as straightforward as it may seem. While the LFD published a biennial general fund analysis intended to conform to this section of statute in the Fiscal Report, the LFD has not included a complete all state resources analysis and detailed general fund analysis in this manner for three biennia, primarily due to complications with the calculations due to federal stimulus funding and accounting changes. Details of these complications are described throughout the report.

This memo:

1. Calculates the biennial comparison of estimated spending for "All Funds" or all state resources using a strict interpretation of statute and describes technical concerns of this analysis;
2. Offers an "All Fund" or all state resources analysis that removes the most significant disadvantages to the 17-7-151, MCA analysis primarily by focusing on legislative appropriations instead of estimated spending; and
3. Reconciles how the general fund analysis of last summer compares with this analysis; and
4. Provides a description of the results of the "All Funds" or all state resources appropriation analysis.

1. 17-7-150 AND 151, MCA

Statute in 17-7-150 and 151, MCA describes the biennium to biennium comparison methodology. This calculation compares two biennia of estimated spending, with the first year actual spending and the remaining years budgeted spending less an estimate of reversions. The statute is included in Appendix 1.

Strict Interpretation of Statute for Comparison Purposes

Interpretation of statue in the current accounting and budgeting systems includes some complications. Some of the anomalies discovered in this analysis were:

1. The statute requires inclusion of appropriations that are available at the beginning of the biennium. This implies that continuing appropriations be included in the analysis. This causes volatility in the annual total appropriations and for multiple reversion estimates to be created. (Note that budget professionals could argue for inclusion or exclusion of these appropriations, but in either case, the reversion estimate would need to be modified to compensate as the statutory calculation is for estimated spending and not total appropriations.)
2. Statute excludes emergency appropriations from the calculations.
    - The wildfire suppression fund was established in FY 2009 and all appropriations from this fund have been excluded even though some expenditure may be for non-emergency purposes
    - The statutory emergency appropriations have been eliminated even though they are available at the beginning of the biennium and would otherwise be included
3. Statute excludes budgeted and non-budgeted transfers in order to avoid duplicate estimated spending. There are two technical issues to consider:
    - The Montana University System general fund and state special spending are recorded as transfers. When the statute was written these were not recorded as transfers and were included in the comparison. The law would technically exclude them, but given that this was a change in accounting policy since the statute was enacted this analysis includes these transfers
    - Much of the pension system action by the 2013 Legislature relied on budgeted transfers to the pension systems. Consistent with statute these transfers have been eliminated
4. The feed bill has been eliminated since it is not established at the beginning of the biennia.
5. The statute is inconsistent in the description of long range building appropriations for information systems. 17-7-150 (3)(a)(v) MCA includes only long range building program and (3)(b)(ii) only excludes capital project funds that do not require an appropriation. Long range information technology funds are excluded by the former and included by the latter. For the purposes of this analysis, all capital project appropriations, including long range IT, are included.
6. Reversions need to be estimated and negotiated with the Office of Budget and Program Planning. For this analysis no negotiation has taken place, but has been assumed at the FY 2012 rate with and without continuing appropriations depending on the year to which it is applied.

The resulting biennial state resources increase from the 2013 biennium to the 2015 biennium is 2.2%. The detailed results of this calculation are shown in Appendix 2.

There are three key concerns of this analysis: 1) reversion rates are difficult to predict and inherently inaccurate, especially when considering non-general fund sources; 2) due to the actual and budgeted mix of factors, it is difficult to go back in history to compare other biennial increases in the same analysis; and 3) current accounting methodology (e.g. statutory emergency appropriation and Montana University System transfers) requires making assumptions as to what to include in the calculation.

2. ALTERNATE COMPARISON

A similar, but alternate analysis could address these key concerns. It uses legislative appropriations instead of estimating final spending and is identical to the above statutory calculations except for the following:

- Appropriations and not actual expenditures are used in the base year, eliminating the need for reversion estimates
- Continuing appropriations are excluded. The fiscal year for which the initial appropriation was authorized would contain the entire appropriation and would not be repeated in subsequent years

This analysis does not address the accounting methodology issues outlined above.

By removing some of the assumptions, this analysis more clearly compares the appropriations made in one legislative session to another and allows for more straightforward comparisons of legislative policy choices. The statutory definition mixes actual spending and appropriations less an assumption of reversion, which complicates the comparison. Using the alternate appropriation to appropriation methodology the biennial increase is a bit higher than the statutory calculation at a 4.3% increase in appropriations.

Highlights of the Results

Alternative Analysis of Comparable Appropriations: FY 2009 to FY 2015

in millions of dollars

Fiscal Year	General	State Special	Federal	Long-range building	Approp. Proprietary	Total Approps. Compared
2009	1,794	1,110	1,851	3	128	4,886
2010*	1,728	1,142	2,490	62	150	5,572
2011*	1,777	1,033	2,175	(11)	148	5,122
2011 biennium*	**3,505**	**2,174**	**4,665**	**51**	**299**	**10,694**
2012	1,758	1,200	2,115	3	141	5,216
2013	1,834	1,099	2,174	(11)	153	5,250
2013 biennium	**3,592**	**2,300**	**4,289**	**(8)**	**294**	**10,467**
Biennial change	**2.5%**	**5.8%**	**-8.0%**	**-116%**	**-1.6%**	**-2.1%**
2014	1,986	1,101	2,163	78	146	5,474
2015	2,074	1,017	2,212	-	142	5,446
2015 biennium	**4,060**	**2,118**	**4,376**	**78**	**288**	**10,920**
Biennial change	**13.0%**	**-7.9%**	**2.0%**	**-1062%**	**-1.9%**	**4.3%**

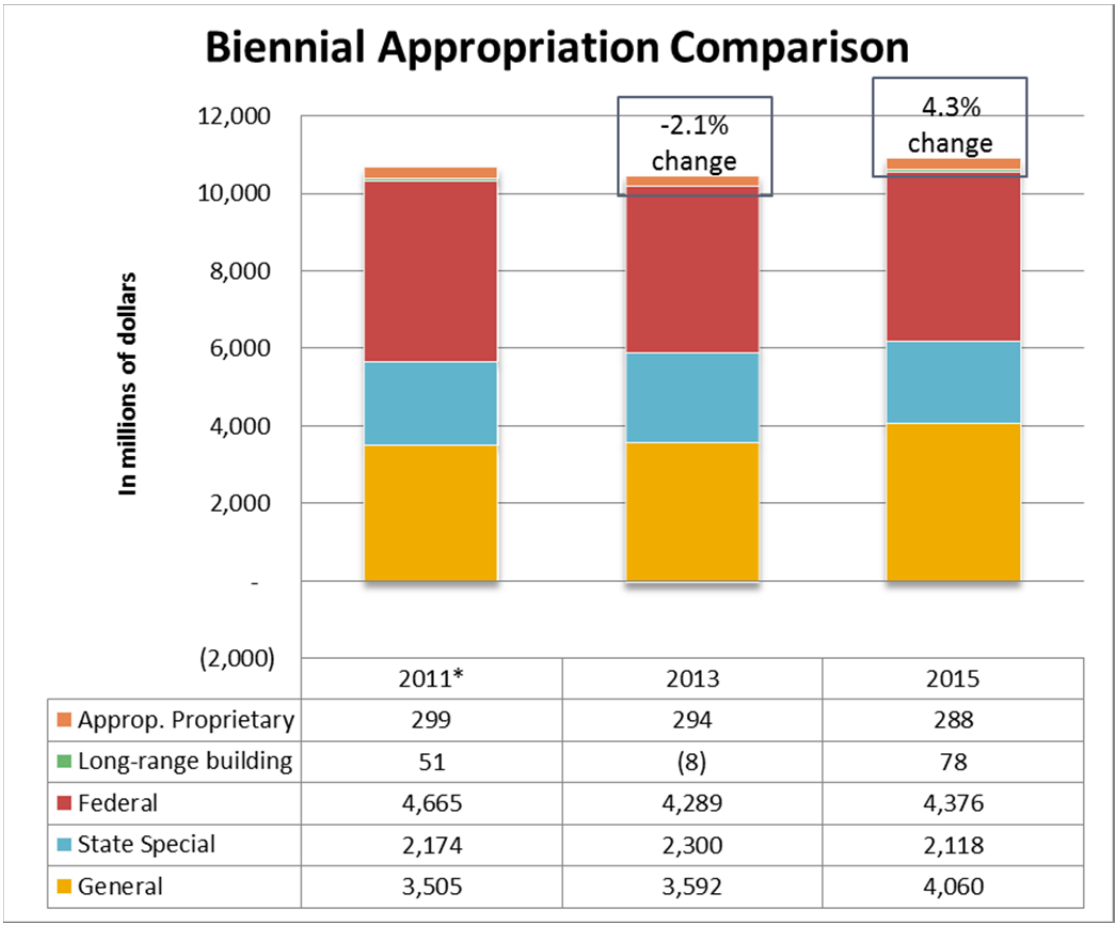
*Includes HB 645 economic stimulus funding

The figure above shows the results of the alternate analysis. One significant item to note is that beginning in FY 2010; the figures include the economic stimulus appropriations for all three major funds plus long range building. These years are noted with an "*". It is not possible to determine what level of appropriations would have been authorized without this legislation, and

significant assumptions would need to be made to compare the biennia. The most significant appropriations were in federal funds in HB 645 and made a material impact on total authority:

FY 2009 – removed from the calculations since not at the beginning of the biennia
FY 2010* - $660 million
FY 2011* - $430 million

The results are also shown in graphic form below.



	2011*	2013	2015
Approp. Proprietary	299	294	288
Long-range building	51	(8)	78
Federal	4,665	4,289	4,376
State Special	2,174	2,300	2,118
General	3,505	3,592	4,060

Appropriation Analysis Summary

Overall the "All Fund" or all state resource analysis shows a slight decrease in the 2013 biennium of 2.1%. The same analysis for the 2015 biennium shows a 4.3% increase in appropriations (alternate calculation), or a 2.2% increase in estimated spending (strict statutory methodology).

General Fund

As stated earlier, the analysis of the biennial increase in general fund contained in the 2015 Biennium Legislative Fiscal Report calculates a 14.2% increase from the 2013 to the 2015 biennium. The alternate appropriation to appropriation analysis calculates to a 13.0% increase. The strict definition general fund spending comparison, if reversions are assumed to be the same as in the general fund reversions used last summer, would be a biennial increase of 13.6%.

The key differences between the two analyses from the 14.2% calculated last summer are due primarily to three partially offsetting factors:

- Removal of pension transfers from both biennia, which reduces the increase by approximately 2.1%
- Removal of other non-budgeted transfers from both biennia, which reduces the increase by approximately 2.0% (primarily HB 5, HB 6, HB 10, HB 11, state fund old fund)
- Since they are only included in the 2013 biennium and some supplemental appropriations can be anticipated in the 2015 biennium, removal of those supplementals, which adds to the increase by approximately 3.1%

State Special Funds

The state special fund appropriations decreased 7.9% from the 2013 to the 2015 biennium. The primary appropriation reductions occurred in the following areas:

- Guarantee account appropriations for K-12 schools were decreased by $96 million and replaced with general fund
- Land banking appropriations totaling $61 million were only authorized in the 2013 biennium
- Oil and gas allocations were established at $58 million lower
- Gas tax appropriations decreased $25 million
- $19 million of state special Medicaid funding no longer available was replaced with general fund
- Insure Montana state special funding was reduced by $11 million and replaced with general fund

Federal and Other Funds

The federal fund appropriations increased by 2.0% from the 2013 to the 2015 biennium. Long range building and appropriated proprietary funds combined increased 28.2%, primarily due to increases in long range building appropriations.

3. APPENDIX 1: APPLICABLE STATUTE

17-7-150. Definitions. As used in 17-7-151, the following definitions apply:
(1) "Current biennium" means the biennium during which the legislature is meeting in regular session.
(2) "Next biennium" means the biennium for which the regular session of the legislature makes appropriations.
(3) (a) "State resources" means:
(i) the general fund;
(ii) state special revenue funds other than private funds;
(iii) federal special revenue funds;
(iv) proprietary funds that require an appropriation;
(v) long-range building program appropriations; and
(vi) agency funds distributed to local governments.
(b) The term does not include:
(i) debt service funds;
(ii) capital project funds other than those appropriated;

(iii) internal service or proprietary funds that do not require an appropriation;
(iv) fund transfers;
(v) enterprise funds;
(vi) unrestricted or other university funds;
(vii) agency funds not distributed to local governments;
(viii) private purpose trust funds;
(ix) permanent funds;
(x) pension trust funds;
(xi) noncash accounting entries; and
(xii) private funds deposited in state special revenue accounts

17-7-151. Budget performance -- comparison. (1) The measure of budget performance is the total actual or estimated expenditure of state resources that reflects the cost of general government operations funded by taxes and fees.
(2) In preparing budget comparisons, the office of budget and program planning and the legislative fiscal division shall compare actual expenditures of state resources in the first year of the current biennium plus appropriations of state resources in the second year of the current biennium to appropriations of state resources in the next biennium. Anticipated reversions may be deducted from appropriated amounts per agreement between the two offices.
(3) The legislative fiscal analyst and the budget director shall enter into an agreement on measurement standards for budget comparisons. The office of budget and program planning and the legislative fiscal division shall use the same methodology to estimate the amounts of statutory appropriations. If there are differences in estimates of revenue or amounts of statutory appropriations, the legislative fiscal analyst shall explain the differences as part of the independent analysis of the executive budget.
(4) Budget comparisons must include the same attributes and methods of calculation. Items that are not appropriated at the beginning of a biennium, such as budget amendments, supplemental appropriations, and emergency appropriations, must be included in budget comparisons, but must be segregated and indicated as noncomparable items.

4. APPENDIX 2:

Calculation of Comparable estimated spending: per strict interpretation of MCA 17-7-151

Appropriations as of mid-December 2013, shown in millions of dollars

Fiscal Year	2009	2010	2011	2012	2013	2014	2015
All Current Year Appropriations (1)							
General	1,853	1,770	1,861	1,840	1,985	2,054	2,133
State Special	1,379	1,367	1,308	1,372	1,366	1,290	1,024
Federal	2,391	3,003	3,087	2,695	2,762	2,585	2,235
Long-range building	306	359	214	169	144	216	0
Appropriated Proprietary	247	277	244	230	234	229	229
All Current Year Appropriations	**6,176**	**6,775**	**6,714**	**6,307**	**6,491**	**6,375**	**5,622**
Non-comparables							
Added Authority (AA, BA, CF, SP, HB1) (2)	437	417	395	320	512	311	46
Transfers except MUS (3)	179	189	165	149	153	230	131
Emergencies (statutory and fire fund) (4)	40	15	25	45	7	12	-
Total "non-comparable"	**656**	**621**	**585**	**514**	**673**	**552**	**177**
Comparable Current Year Appropriations							
General	1,791	1,667	1,844	1,812	1,830	1,987	2,073
State Special	1,316	1,315	1,243	1,301	1,291	1,190	1,017
Federal	1,975	2,673	2,682	2,378	2,411	2,309	2,212
Long-range building (6)	307	342	208	160	132	190	-
Appropriated Proprietary	131	156	152	142	154	147	143
All Comparable Appropriations	**5,520**	**6,154**	**6,129**	**5,792**	**5,818**	**5,823**	**5,445**
Replace Appropriations with Actual spending in base year							
General				1,738			
State Special				1,014			
Federal				1,999			
Long-range building (6)				26			
Appropriated Proprietary				121			
Annual				4,898			
Biennial					10,716		11,268
Biennial increase in all state resources: without considering reversions							**5.1%**
Assumed reversions largely continuing (1) (5)					(899)		(1,232)
Net assumed spending with assumed reversions					9,817		10,036
Biennial increase in all state resources with reversions: Comparable estimated spending							**2.2%**

(1) Continuing appropriation would have to estimated during session for the following biennia or assumed net of the reversions. It could be argued that continuing appropriations could be exlcluded, but it would be difficult to compare to the actual spending that includes continuing.

(2) Added authority includes: AA or Adminstrative Appropriations, BA or Budget Amendments, CF or Carry Forward, SP or supplemental, and HB1 legislative feed bill. Also exluded are budget transactions that move funding.

(3) MUS is recorded as a transfer in the accounting system today, but it was not in 1997 when the law was passed. It is assumed that MUS tranfers are included in the calculation.

(4) Statutory emergency authority has been excluded. It could be argued that it should be included since it is authorized to at the beginning of the biennium.

(5) FY 2013 and FY 2014 reversions were estimated using the actual reversions in FY 2012 including continuing authority or 15.4%. For FY 2015 where no continuing authority exists, the FY 2012 reversions without continuing authoriyy was used or 5.9%.

(6) The statute is inconsistent in the description of long range building appropriations. 17-7-150 (3)(a)(v) MCA includes only long range building program, (3)(b)(ii) only excludes capital project funds that do not require an appropriation. Long range information technology funds are excluded by the former and included by the later. For the purposes of this analysis, all capital project appropriations, including long range information technology are included.

5. APPENDIX 3:

Alternate Calculation of Comparable legislative appropriations: modified MCA 17-7-151
Appropriations as of mid-December 2013, shown in millions of dollars

Fiscal Year	2009	2010	2011	2012	2013	2014	2015	2015 bi increase
All Current Year Appropriations (1)								
General	1,852	1,770	1,861	1,840	1,985	2,054	2,133	
State Special	1,378	1,367	1,308	1,372	1,366	1,290	1,024	
Federal	2,391	3,003	3,087	2,695	2,762	2,585	2,235	
Long-range building (6)	306	359	214	169	144	216	0	
Appropriated Proprietary	247	277	244	230	234	229	229	
All Current Year Appropriations	**6,176**	**6,775**	**6,714**	**6,307**	**6,491**	**6,375**	**5,622**	
Non-comparables								
Added Authority (AA, BA, CF, SP, HB1) (2)	437	417	395	320	512	311	46	
Transfers except MUS (3)	179	189	165	149	153	230	131	
Emergencies (statutory and fire fund) (4)	40	15	25	45	7	12	-	
Continuing Appropriations	634	582	1,006	576	568	349	(1)	
Total non-comparable	**1,290**	**1,203**	**1,591**	**1,090**	**1,241**	**901**	**176**	
Comparable Current Year Appropriations								
General	1,794	1,728	1,777	1,758	1,834	1,986	2,074	13.0%
State Special	1,110	1,142	1,033	1,200	1,099	1,101	1,017	-7.9%
Federal	1,851	2,490	2,175	2,115	2,174	2,163	2,212	2.0%
Long-range building (6)	3	62	(12)	3	(11)	78	-	-1062.3%
Appropriated Proprietary	128	150	148	141	153	146	142	-1.9%
Total Comparable Appropriations	**4,886**	**5,572**	**5,122**	**5,216**	**5,250**	**5,474**	**5,446**	4.3%
Biennial total comparable Appropriations			10,694		10,467		10,920	
Biennial increase without considering reversions					**-2.1%**		**4.3%**	
Biennial increase 3 main funds: general, state, federal							**3.7%**	

(1) Continuing appropriations are not used in this analysis and reversions would not need to be estimated.

(2) Added authority incluces: AA or Adm,instrative Appropriations, BA or Budget Amendments, CF or Carry Forward, SP or supplemental, and HB1 legislative feed bill

(3) MUS is recorded as a transfer in the accounting system today, but it was not in 1997 when the law was passed. It is assumed that MUS tranfers are included in the calculation.

(4) Statutory emergency authority has been excluded. It could be argued that it should be included due to it is authorized to be established at the beginning of the biennium.

(6) The statute is inconsistent in the description of long range building appropriations. 17-7-150 (3)(a)(v) MCA includes only long range building program, (3)(b)(ii) only excludes capital project funds that do not require an appropriation. Long range information technology funds are excluded by the former and included by the later. For the purposes of this analysis, all capital project appropriations, including long range IT are included. Note in some years the reductions in appropriations from the legislature reducing or eliminating prior appropriation can result in a negative number.