

# **BIENNIAL BUDGET COMPARISONS**

A Report Prepared for the  
**Legislative Finance Committee**

By  
Stephen Forrest, Fiscal Analyst

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## **SUMMARY**

This report follows-up on analysis presented to the Legislative Finance Committee (LFC) in March 2014 on budget comparisons.<sup>1</sup> During the last six months, the Legislative Fiscal Division (LFD) has conducted additional work that refines and extends previous analysis, lays out issues raised by the current budget comparison statute, and presents areas for discussion for the LFC and legislature.

### **OVERVIEW OF BUDGET COMPARISONS, 2008-2015**

#### **GENERAL METHOD OF BUDGET COMPARISON**

Statutory budget comparisons compare the total authority in a fiscal year to those in another fiscal year. The comparison statute specifically excludes appropriations, such as budget amendments, created after the beginning of a biennium. The comparer must set these later appropriations aside as “non-comparable”.

At the March 2014 LFC meeting, the LFD staff presented an analysis of the budget comparisons using the method set forth in 17-17-150 and 151, MCA. At that time, the LFD made the following choices regarding ambiguities in the method:

- Exclusion of both the governor’s statutory appropriation for emergencies and the wildfire fund as non-comparable
- Exclusion of the feed bill
- Inclusion of both long-range building and long-range IT appropriations
- Inclusion of transfers to the Montana University System

Throughout the summer, LFD staff further refined and updated numbers. The additional analysis included:

- Updates to include FY 2008 appropriations and FY 2014 actual expenditures
- Updates to effective reversions for FY 2008-2014 and updating the reversion estimate for 2015
- Further clarification of transfers for consistent application

The above impacts are small relative to the overall calculation. They will be included in the final calculations. The following section outlines the summary of the changes recommended in the bill draft.

#### **POSSIBLE STATUTE CHANGES/BILL DRAFT**

As mentioned in the March 2014 report, the biennial comparison statutes – 17-7-150 and 151, MCA – contain some language and methodological concepts that make comparisons difficult. These include:

- Lack of clarity of what constitutes an “emergency appropriation”
- Exclusion of transfers including those to the university and pensions systems
- Lack of clarity regarding long-range appropriations
- Mixing of actual spending with appropriations, requiring the use of reversion estimates

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<sup>1</sup> Both the March report and this report have been referred to as either “budget comparisons” or “biennial comparisons”. This report will use the term budget comparisons as it is the current statutory language.

- Possible inclusion of reappropriations – also known as continuing appropriations – which, along with the reversion estimates, can create ambiguity in the comparisons

To rectify these issues, the LFD and the Legislative Services Division created a bill draft to revise the statute. The bulk of the draft cleans up the language and, with updates, aligns with current statutory accounting practices. However, a number of policy choices exist that need further direction.

### **Provisions for transfers**

Currently all transfers are excluded, which does not count state contributions to the Montana University System and the pension systems. Given that some transfers are used outside the definition of state resources, this definition may exclude some valid expenditures. For example, the general fund transfer to the State Fund proprietary enterprise fund is not captured by this definition, yet it does effectively spend a state resource.

*Consider: Excluding transfers among the state resources funds and from state resources to debt services. Include transfers to funds outside of state resources including the pensions and the Montana University System*

### **Capital Project Funds**

Currently, the statute contains inconsistent language regarding capital projects funds, both including and excluding some appropriations at the same time.

*Consider: Including all funds of the capital project fund type*

### **Statutory Emergency Appropriations**

Currently, statute excludes “emergency appropriations” from calculations without defining them. The governor’s emergency and wildfire suppression appropriations both could be considered emergency but are available at the beginning of a biennium, the normal test for inclusion in the budget comparisons.

*Consider: Including both the emergency and/or wildfire suppression as comparable*

### **Wildfire fund \$5 million maximum for fuel reduction/mitigation/forest restoration**

Currently, the appropriation for fuel reduction/mitigation/forest restoration is combined with the rest of the wildfire suppression appropriation.

*Consider: Including the entire wildfire suppression appropriation as comparable*

### **Appropriation Comparison**

Currently, the budget comparison compares a year of actual expenditures, a year of anticipated expenditures, and two years of appropriations. This comparison requires multiple reversion estimates – a situation that increases ambiguity.

*Consider: Using an appropriation to appropriation comparison*

### **Original Appropriations**

Currently, the appropriations that carry on beyond the first year are placed back into comparable appropriations each subsequent year until they are expended or reverted. This situation requires generating reversion estimates to remove the unspent remaining appropriations at the end of each year and reestablishing them again the next.

*Consider: Counting appropriations only in the year that they are originally appropriated and then segregating them out as a “non-comparable” item each subsequent year if the appropriation continues*

A copy of the current bill draft is attached to the back of this report.

## **STATUS SHEET**

During the March 2014 meeting, LFC members asked for inclusion of a biennial comparison as part of the status sheet during session. Such an addition could give legislators a sense of how the appropriation of all state resources has changed between biennia. Two main possibilities exist for how this information could be formatted.

The first continues to use both the strict and the bill recommendation versions of the comparisons on the same sheet. It requires negotiating reversion and continuing appropriation estimates with OBPP. The second would use only one version, based off the modified version and consistent with the LFC approved bill draft. Examples of both are attached.

# STATE RESOURCES BUDGET COMPARISON (VER. 1 SAMPLE)

NOTE: For format use only; the numbers are only place holders.

Budget Comparison – Appropriation to Appropriation Using Modified 17-7-150 Methodology (in millions)				
	FY 2014 (Approp)	FY 2015 (Approp)	FY 2016 (Approp)	FY 2017 (Approp)
<b>Comparable Current Year Appropriations</b>				
General	\$1,800	\$1,900	\$2,000	\$2,100
State Special	1,400	1,100	1,200	1,100
Federal	2,600	2,200	2,200	2,300
Long-range building	200	100	100	100
Appropriated proprietary	400	200	200	200
<b>Total Comparable</b>	<b><u>\$6,400</u></b>	<b><u>\$5,500</u></b>	<b><u>\$5,700</u></b>	<b><u>\$5,800</u></b>
<b>Biennial Total Comparable Appropriations</b>		<b><u>\$11,900</u></b>		<b><u>\$11,500</u></b>
<b>Biennial change</b>				<b>-3.4%</b>
<b>Non-comparable</b>				
Added Authority (e.g. feed bill, BA)	\$500	\$500		
Emergencies and Fire Fund	50	\$20		
Special Session Appropriations	0	0		
Reappropriations (Continuing Approps)	<u>\$600</u>	<u>\$600</u>		
<b>Total Non-Comparable Appropriations</b>	<b><u>\$1,150</u></b>	<b><u>\$1,120</u></b>		
<b>Note: Comparable appropriations include only regular session appropriations.</b>				

Budget Comparison – Actual to Appropriation Using Strict 17-7-150 Methodology* (in millions)				
	FY 2014 (Actual)	FY2015 (Estimated)	FY 2016 (Approp)	FY 2017 (Approp)
<b>Comparable Current Year Appropriations</b>				
General	\$1,700	\$1,850	\$2,200	\$2,300
State Special	1,000	1,300	1,300	2,000
Federal	2,200	2,500	2,300	2,500
Long-range building	30	150	150	250
Appropriated Proprietary	120	200	300	350
Estimated Reversions		350	360	370
<b>Total Comparable</b>	<b><u>\$5,050</u></b>	<b><u>\$5,650</u></b>	<b><u>\$5,890</u></b>	<b><u>\$7,030</u></b>
<b>Biennial Total Comparable Appropriations</b>		<b><u>\$10,700</u></b>		<b><u>\$12,920</u></b>
<b>Biennial change</b>				<b>20.7%</b>
<b>Non-comparable</b>				
Added Authority (e.g. feed bill, BA)	\$500	\$500		
Emergencies and Fire Fund	50	20		
Special Session Appropriations	<u>\$0</u>	<u>\$0</u>		
<b>Total Non-Comparable Appropriations</b>	<b><u>\$550</u></b>	<b><u>\$520</u></b>		
<b>Note: Comparable appropriations include only regular session appropriations.</b>				

See Over

**Notes on the comparisons:**

- The strict methodology places reappropriations in the fund type in which they originated. The bill recommendation version methodology segregates them as non-comparable.
- The strict methodology uses actual expenditures for FY 2014 and estimated expenditures for FY2015
- The strict methodology reversions are estimated for 2015, 2016, and 2017 based on an average of the prior three biennia. LFD and OBPP have/have not agreed on this number
- The strict methodology reappropriations are included in the fund types from which originally appropriated. LFD and OBPP have/have not agreed on the estimates on reappropriations
- All capital projects funds have been included in both versions
- Both the governor's statutory appropriation for emergencies and the wildfire fund are included as non-comparable in both versions
- Transfers to the Montana University System, the pension systems, and the old state fund are included as comparable in both versions

The numbers on the general fund status sheet and the state resources budget comparison sheet differ because:

- The state resources budget comparison includes five fund types as a single whole. The general fund is one of those fund types
- Non-budgeted items, including transfers among the stated fund types, are not included on the budget comparison, but are included on the general fund status sheet
- The general fund status sheet includes general fund only
- The general fund status sheet uses estimated actuals where the state resources budget comparison uses only appropriations

## STATE RESOURCES BUDGET COMPARISON (VER. 2 SAMPLE)

NOTE: For format use only; the numbers are only place holders.

Budget Comparison – Appropriation to Appropriation Using Modified 17-7-150 Methodology (in millions)				
	FY 2014 (Approp)	FY 2015 (Approp)	FY 2016 (Approp)	FY 2017 (Approp)
<b>Comparable Current Year Appropriations</b>				
General	\$1,800	\$1,900	\$2,000	\$2,100
State Special	1,400	1,100	1,200	1,100
Federal	2,600	2,200	2,200	2,300
Long-range building	200	100	100	100
Appropriated proprietary	400	200	200	200
<b>Total Comparable</b>	<b><u>\$6,400</u></b>	<b><u>\$5,500</u></b>	<b><u>\$5,700</u></b>	<b><u>\$5,800</u></b>
<b>Biennial Total Comparable Appropriations</b>		<b><u>\$11,900</u></b>		<b><u>\$11,500</u></b>
<b>Biennial change</b>				-3.4%
<b>Non-comparable</b>				
Added Authority (e.g. feed bill, BA)	\$500	\$500		
Emergencies and Fire Fund	50	\$20		
Special Session Appropriations	0	0		
Reappropriations (Continuing Approps)	<u>\$600</u>	<u>\$600</u>		
<b>Total Non-Comparable Appropriations</b>	<b><u>\$1,150</u></b>	<b><u>\$1,120</u></b>		
<b>Note: Comparable appropriations include only regular session appropriations.</b>				

The numbers on the general fund status sheet and the state resources budget comparison sheet differ because:

- The state resources budget comparison includes five fund types as a single whole. The general fund is one of those fund types
- Non-budgeted items, including transfers among the stated fund types, are not included on the budget comparison, but are included on the general fund status sheet
- The general fund status sheet includes general fund only
- The general fund status sheet uses estimated actuals where the state resources budget comparison uses only appropriations

\*\*\*\* Bill No. \*\*\*\*  
Introduced By \*\*\*\*\*  
By Request of the \*\*\*\*\*

A Bill for an Act entitled: "An Act revising the methodology for budget comparison; amending sections 17-7-150 and 17-7-151, MCA."

Be it enacted by the Legislature of the State of Montana:

**Section 1.** Section 17-7-150 , MCA, is amended to read:

**"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) the state special revenue funds other than private funds;

(iii) the federal special revenue funds;

(iv) ~~proprietary funds~~ accounts within the enterprise fund type that require an appropriation; and

(v) ~~long-range building program appropriations~~ the capital projects fund type.

(b) The term does not include:

(i) the debt service ~~funds~~ fund type;

~~(ii) capital project funds other than those appropriated;~~  
~~(iii) (ii) the internal service or proprietary funds that do not require an appropriation fund type;~~  
~~(iv) (iii) fund transfers among state resources or from state resources to the debt service fund type;~~  
~~(v) enterprise funds;~~  
~~(vi) (iv) unrestricted or other university the higher education funds;~~  
~~(vii) agency funds not distributed to local governments;~~  
~~(viii) private purpose trust funds;~~  
~~(ix) (v) permanent funds;~~  
~~(x) pension trust funds;~~  
~~(vi) the fiduciary fund category; and~~  
~~(xi) (x) noncash accounting entries; and.~~  
~~(xii) private funds deposited in state special revenue accounts."~~

{Internal References to 17-7-150: None.}

**Section 2.** Section 17-7-151 , MCA, is amended to read:

**"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 fee comparison contrasts the appropriations for general government operations in one biennium to those in a different biennium.

(2) In preparing budget comparisons for legislative sessions,

the office of budget and program planning and the legislative fiscal division shall compare ~~actual expenditures~~ temporary and statutory appropriations 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 temporary and statutory 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~~ share the methods used 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, reappropriations, appropriations made from the fire suppression account, and appropriations made pursuant to 10-3-310 or 10-3-312, ~~and emergency appropriations,~~ must be included in budget comparisons, but must be segregated and indicated as noncomparable items."

{*Internal References to 17-7-151:*

17-7-150x }

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{Name : Julie A. Johnson  
Title : Attorney  
Agency : Legislative Services Division  
Phone : 406-444-4024  
E-Mail : juliejohnson@mt.gov}