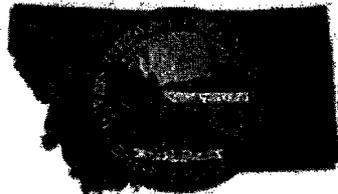


# UNDERSTANDING STATE FINANCES AND THE BUDGETING PROCESS

*A Reference Manual For Legislators*

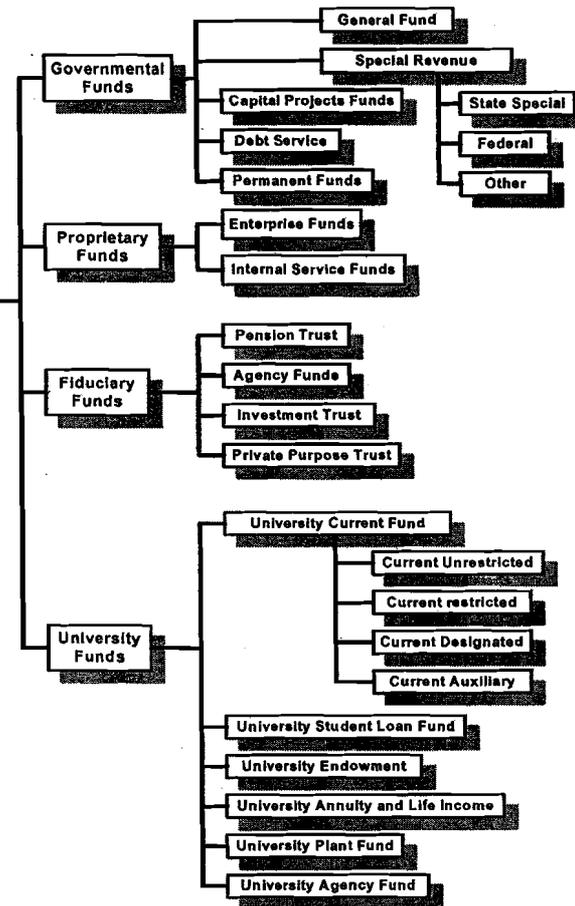
Excerpts  
Presentation for the *Pro Se* Subcommittee  
Of the Law and Justice Interim Committee  
Prepared by Pat Gervais, LFD  
February 17, 2006

**Legislative Fiscal Division**



[www.leg.state.mt.us/css/fiscal](http://www.leg.state.mt.us/css/fiscal)

## Fund Types



By providing an appropriation, the legislature is authorizing a unit of state government to spend money from a particular account. (As discussed within the description of each fund type, the legislature does not appropriate all funds.)

### Governmental Funds

There are five main types of governmental funds: 1) general fund; 2) special revenue funds; 3) capital projects funds; 4) debt service funds; and 5) permanent funds.

LAW & JUSTICE INTERIM COMMITTEE  
PRO SE SUBCOMMITTEE  
FEBRUARY 17, 2006 MEETING  
**EXHIBIT 2**

## How Does the Legislature Provide an Authorization to Spend?

Appropriations are within the constitutional powers of the legislature. The legislature sets a maximum amount of authorization. It is up to the legislature to determine how specific they want to be about the purposes for which an appropriation can be spent.

Appropriations can be provided in one of three ways:

- **Temporary appropriations.** These appropriations are made for a two-year period and then expire. Most appropriations to operate state government are made in one temporary appropriations bill – HB 2, the General Appropriations Act. Appropriations can be made in other bills as well, generally called “cat and dog” bills. While many functions of state government are ongoing, the legislature must still reauthorize funding for those functions every two years.
- **Statutory appropriations.** These appropriations are made within codified law and do not expire. Rather than examine these appropriations every two years, the legislature allows the function to be funded on an ongoing basis, and must change statute to adjust the appropriation in any way. Because statutory appropriations are not regularly examined every two years, the legislature attempts to limit their use to those instances in which payments must be made, and/or in which the amount of the revenue collected or payments received cannot, with any reasonableness, be predicted for the purpose of providing a temporary appropriation.

### Example

Because payment of debt undertaken for capital projects or to meet short-term cash flow needs is critical to the state’s bond rating, any debt obligations are automatically paid through statutory appropriations and do not require specific legislative authorization.

- **Budget amendments.** The legislature is not in continual session, and yet events that require action can occur during the interim between sessions. For this reason, other branches of government can appropriate funds under very limited conditions. Various approving authorities (most often the Governor) can approve the addition of federal funds (and state special revenue funds if an emergency exists) received between sessions and not anticipated by the legislature. The funds cannot be considered part of ongoing operations and if they are to continue must be separated for specific authorization by the legislature in the next session.



### Appropriation Types

The legislature sets a maximum amount when making an appropriation. There are three ways appropriations can be made:

- **Temporary appropriations** good for only two years (most appropriations). Authority - only the legislature
- **Statutory appropriations** that can only be changed through a statutory change. Authority - only the legislature
- **Budget amendments** for adding certain types of funds (never general fund) during the interim. Authority - the Governor, the Board of Regents, the Supreme Court, and statutory legislative committees

Most appropriations are temporary. Most temporary appropriations are made in HB 2.

~~Other types of funds can also be paid out of the treasury, either by appropriation or under general laws or lawful contracts that allow the payment. Examples include:~~

- ~~◦ Proprietary funds~~
- ~~◦ Debt service funds~~
- ~~◦ Agency funds~~
- ~~◦ Permanent funds~~
- ~~◦ Private funds restricted by law or the terms of an agreement~~

## Other Appropriation Bills – Cat and Dog Bills

This designation includes any other bill with a valid appropriation included in the body of the bill. Most cat and dog bills include appropriations to expend funds in the next biennium. However, in addition to those bills, there are three major cat and dog bills that appropriate money in the current year, as opposed to the next biennium.

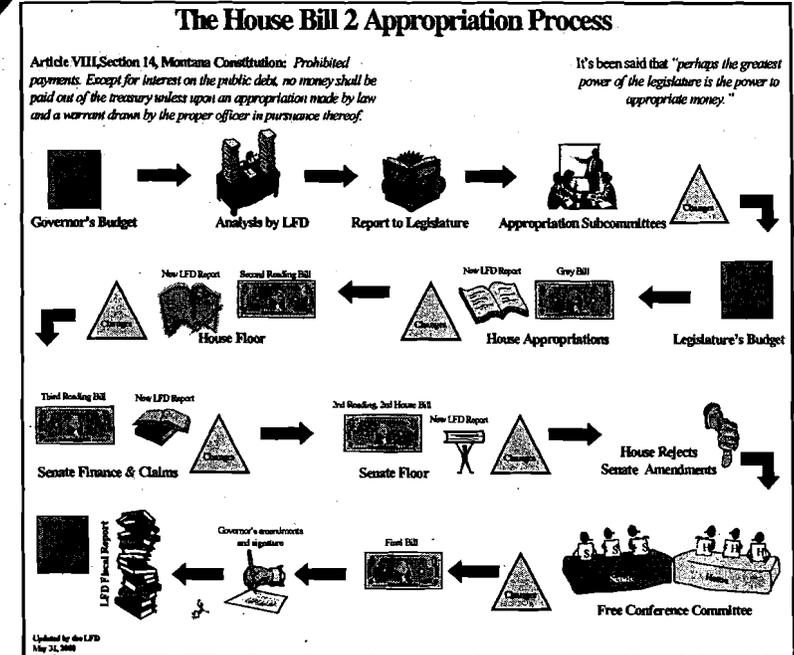
- **HB 1** contains all appropriations needed to operate the legislative session, and includes provisions for session staff and printing costs
- **HB 3** contains all requests for additional general fund and state special revenue money in the current year with which to address anticipated shortfalls
- **HB 4** includes appropriations for federal funds (and limited state special revenue and other funds) for the current year, received by an agency but for which it doesn't have spending authority

## APPROPRIATIONS PROCESS

The following discusses the process through which temporary appropriations bills are reviewed and acted upon by the legislature. Please note that the process for HB 2 and all long-range planning bills is the same. For brevity, this section includes a discussion of HB 2 only.

### House Bill 2

The legislative session stage of the appropriations process begins with the introduction of HB 2, the bill in which the bulk of funding for state government operations is contained. At the introductory stage, the bill includes the provisions of the executive budget. The bill is assigned to the House Appropriations Committee. (Note: A general calendar of the bill process is included: see page 51. Also included is a visual representation of the HB 2 appropriations process: see next page.)



### Subcommittee Review

Because of the complexity and size of HB 2, sections of the bill are assigned to various joint subcommittees of the Appropriations Committee. Subcommittees are comprised of members of the Appropriations and Finance and Claims committees. These subcommittees are:

- 1) General Government and Transportation
- 2) Health and Human Services
- 3) Natural Resources and Commerce
- 4) Corrections and Public Safety
- 5) Education
- 6) Long-Range Planning

(Note: A listing of the agencies heard in each subcommittee is included in this document. Please see pages 53 and 54.)

The chair of each committee is a member of the House majority party. The vice-chair is a member of the Senate majority party. Analysts from the Legislative Fiscal Division staff each subcommittee. Analysts from the Office of Budget and Program Planning represent the Governor at all meetings.