

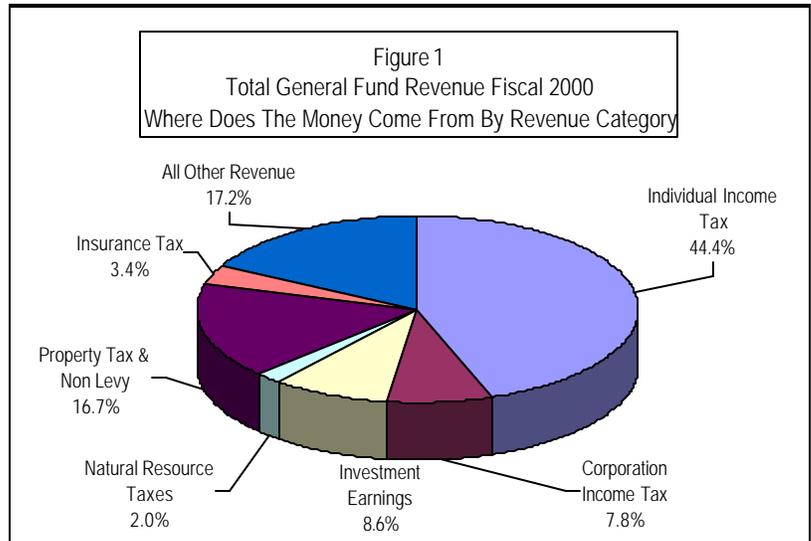


# GENERAL FUND ANALYSIS

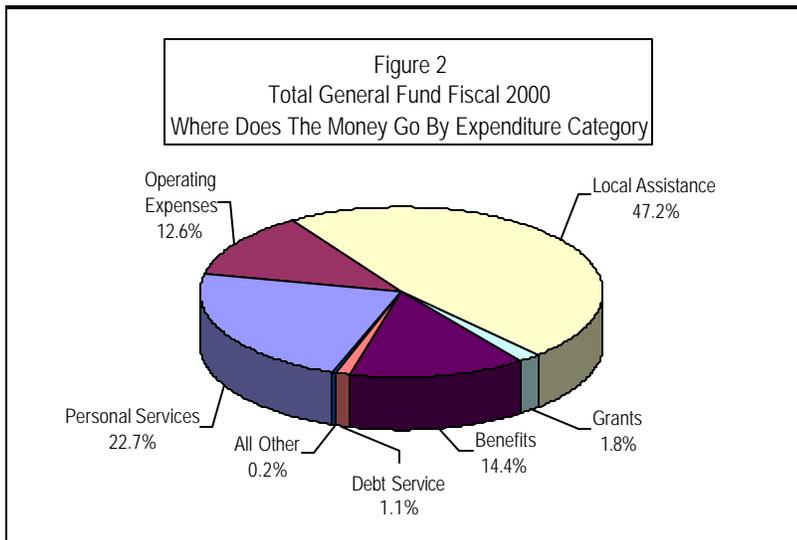
## Introduction

The state general fund is the primary account that funds a significant portion of the general operations of state government and is often referred to as the state's checking account. This account has grown from slightly less than \$700 million in fiscal 1990 to over \$1.1 billion in fiscal 2000, or approximately 4.6 percent annually. Figure 1 shows where the money in this account comes from by major revenue category, while Figure 2 shows how the money is expended by major expenditure category. The information shown in both figures represents actual data for fiscal 2000.

In fiscal 2000, almost 70 percent of total general fund revenues came from income and property taxes. Total revenues to the account for the 2003 biennium are estimated to exceed \$2.4 billion, which is an increase of \$51.5 million, or 2.2 percent from the 2001 biennium. Interestingly, about 35 percent of the general



fund revenue is expended for personal services and operating costs with most of the remainder disbursed for local assistance, human service benefits, and grants.



This indicates that the cost of government is weighted heavily towards local assistance (local government entities) and direct human service benefits. Total general fund disbursements represent approximately 43 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types. Balancing general fund appropriations against anticipated revenues is a major challenge of each legislative session and requires a significant coordination between the taxation and appropriation committees. Based on revenue estimates adopted by the Revenue and Taxation Committee (RATC) on

November 17, 2000, there are sufficient revenues to support the executive present law budget recommendations, leaving a ending fund balance of \$64.4 million.

This projected balance does not include any potential additional revenue from the Montana Power Company asset sales, nor any anticipated revenue from the "Foreign Capital Depository Tax". There are insufficient revenues to accommodate all of the executive new proposals including the executive's recommended ending fund reserve of \$43.6 million. If the total Executive Budget were funded as requested, the ending balance in the general fund would be \$4.1 million. One of the reasons for this reduced balance is that the executive did not have the final revenue estimate recommendations of the RATC prior to the release of their budget. The Executive Budget was based on higher revenue estimates developed by the executive's staff. The result is that the balanced budget as submitted by the executive does not balance when using RATC general fund revenue estimates.

This section of the budget analysis provides a summary of the general fund account as projected through the 2003 biennium. It begins with a reconciliation of the current (2001 biennium) projected fund balance in order to arrive at the beginning balance for the 2003 biennium.

This section is followed by a summary of the 2003 biennium revenue estimates as adopted by RATC, including a graphic view of the significant revenue components. Additionally, a summary of the projected present law general fund balance using RATC revenue estimates is shown. A projected general fund balance is also shown when the executive new proposals are included.

Finally, the differences between the executive proposed fund balance and the balance using RATC revenue estimates and LFD statutory disbursement and reversion computations are explained.

## 2001 BIENNIUM GENERAL FUND OUTLOOK

After completion of the May 2000 special legislative session, the reserved ending general fund balance for the 2001 biennium was projected to be \$94.8 million (Figure 3). This balance was based on: 1) revised revenue estimates adopted in HJR 1; 2) LFD statutory appropriation and reversion estimates; 3) all general fund appropriations authorized by the legislature; and 4) the inclusion of voter approved ballot initiatives. The special session legislature anticipated there would be \$14.9 million supplemental appropriations requested during the 2001 biennium.

**LFD ISSUE** Since release of the Executive Budget, there have been indications from four agencies that additional supplemental appropriations will be requested from the 2001 legislature. The Department of Corrections, Department of Environmental Quality, and Commissioner of Higher Education have indicated a need for supplemental funding that collectively could be \$5.5 to \$7.0 million. The Department of Public Health and Human Services may also need to increase their current supplemental request. None of these requests have been incorporated into the projected fund balance.

**LFD ISSUE** The executive is requesting supplemental appropriations of \$38.8 million in their written documentation of the Executive Budget. In their detailed balance sheet, however, the supplemental amount shown is \$34.8 million. A follow-up conversation with the executive indicates that the correct amount should be the higher amount of \$38.8 million, which would reduce their projected ending fund balance by \$4.0 million. (See page 58 for more detail)

As Figure 3 shows, the revised reserved general fund balance at the end of the 2001 biennium is projected to be \$85.3 million. This revised projection is based on: 1) revenue estimates adopted by RATC on November 17, 2000; 2) LFD statutory appropriation and reversion estimates; and 3) supplemental appropriation recommendations by the executive. This projected balance equals 3.6 percent of anticipated revenues for the 2001 biennium and is \$9.5 million below the balance anticipated in the May 2000 special session.

The decrease in the projected general fund balance is due to several factors that have transpired since the adjournment of the May special session. Total general fund revenues (revenues plus fund balance) are expected to be \$62.1 million more than anticipated, while disbursements are expected to be \$63.6 million more than authorized by the special session. Fund balance adjustments that increased the fund balance are expected to be \$8.0 million less than anticipated.

Figure 3 also shows a local government reserve of \$37.0 million for the 2001 biennium. This reserve was established in HB 4 by the special session legislature. The purpose of the reserve was to specify the intent of the legislature to fully fund local government revenue losses incurred by the passage of several tax relief measures during the 56<sup>th</sup> Legislature. When this reserve is included, the revised unreserved ending fund balance is \$48.3 million.

The improved revenue condition (\$62.1 million) can be attributed to the factors shown in Figure 4. As shown in Figure 4, most of the revenue adjustments were due to new data becoming available that was not available during the May special legislative session. For example, individual income tax returns for calendar year 1999 became available on November 1. Prior to this time, revenue estimates were developed using calendar 1998 tax return information.

The primary reasons for the increased disbursements (\$63.6 million) are: 1) Federal reimbursable wildfire costs of \$41.6 million; 2) and increased supplemental appropriations of \$23.9 million (see page 58 for more details). As Figure 3 shows, the combined impact of higher revenues, greater disbursements, and a negative fund balance adjustment is a net decrease in the projected fund balance of \$9.5 million for the 2001 biennium.

**Figure 3**  
**Comparison of 2001 Biennium General Fund Balance**  
**LFD Special Session Fiscal Report vs. LFD Budget Analysis**  
 In Millions

	Special Session 2001 Biennium	Revised 2001 Biennium	Difference 2001 Biennium
<b>Beginning Fund Balance</b>	<b>\$109.673</b>	<b>\$109.673</b>	
<b>Revenues</b>			
Current Law Revenue	2,286.279	2,348.972	62.693
Residual Transfers	<u>1.840</u>	<u>1.289</u>	(0.551)
<b>Total Funds Available</b>	<b>\$2,397.792</b>	<b>\$2,459.934</b>	<b>\$62.142</b>
<b>Disbursements</b>			
General Appropriations	2,110.278	2,107.999	(2.279)
Statutory Appropriations	92.661	91.188	(1.473)
Local Assistance Appropriations	70.584	70.584	
Miscellaneous Appropriations	17.708	17.788	0.080
Non-Budgeted Transfers	2.350	5.577	3.227
Continuing Appropriations	1.694	1.487	(0.207)
Supplemental Appropriations	14.900	38.760	23.860
FEMA Wildfire Costs		41.600	41.600
Feed Bill Appropriations	5.865	6.700	0.835
Anticipated Reversions	(3.135)	(5.197)	(2.062)
<b>Total Disbursements</b>	<b>\$2,312.905</b>	<b>\$2,376.486</b>	<b>\$63.581</b>
<b>Adjustments</b>	9.931	1.885	(8.046)
<b>Reserved Ending Fund Balance</b>	<b>\$94.818</b>	<b>\$85.333</b>	<b>(\$9.485)</b>
Local Government Reserve	<u>37.000</u>	<u>37.000</u>	
<b>Unreserved Ending Fund Balance</b>	<b>\$57.818</b>	<b>\$48.333</b>	<b>(\$9.485)</b>

**Figure 4**  
**Significant Revenue Adjustments**  
**Special Session vs. Budget Analysis**  
 In Millions

Revenue Component	2001 Biennium Adjustment	Explanation
Individual Income Tax	\$14.8	More Current Data
Property Tax	12.4	More Current Data
Common School Interest and Income	6.2	New Coal Lease
Insurance Tax and License Fees	4.9	Stronger Growth
Foreign Capital Depository Tax	(7.1)	New Information
Wildfire Reimbursements	41.6	Summer Wildfires
Tobacco Initiative	(10.1)	Voter Approved
All Other Revenue Sources	(0.6)	More Current Data
<b>Total</b>	<b>\$62.1</b>	

## GENERAL FUND REVENUE ESTIMATES

On November 17, 2000, the Revenue and Taxation Committee (RATC) met to adopt economic assumptions relevant to the development of revenue estimates for fiscal 2001, 2002, and 2003. These assumptions were used by the LFD to produce the general fund revenue estimates shown in Figure 5 and also in the preceding table (Figure 3) to project the 2001 biennium ending balance in the general fund. Adjusted actual fiscal 2000 collections are shown, along with projections for fiscal 2001 through 2003. Included in the projections are the revenue impacts of the ballot initiatives approved by the voters on November 7<sup>th</sup>. Receipts for fiscal 2000 were adjusted for

accounting errors made by state agencies under the first year of the new accounting system. Total general fund adjustments were a reduction of \$18.0 million.

It should be noted that the RATC discussed the three issues shown in Figure 6. By their formal actions, the committee did not include any of these potential revenues in the revenue estimate for the 2003 biennium. These issues were discussed, but the committee did not believe they had sufficient information to include them in the 2003 biennium revenue estimates.

**Figure 5**  
**House Joint Resolution 2**  
**General Fund Revenue Estimates**  
In Millions

Source of Revenue	Percent of Total	Adj. Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Individual Income Tax	44.37%	\$516.262	\$541.382	\$569.469	\$596.526	\$1,057.644	\$1,165.995	48.57%
2 Property Tax	16.69%	194.197	175.065	173.754	178.828	369.262	352.582	63.26%
3 Corporation Income Tax	7.79%	90.683	71.126	73.653	75.144	161.809	148.797	69.46%
4 Common School Interest and Incr	3.81%	44.296	47.924	42.621	43.600	92.220	86.221	73.05%
5 Insurance Tax & License Fees	3.38%	39.334	40.810	42.656	44.030	80.144	86.686	76.66%
6 Coal Trust Interest	3.37%	39.195	39.117	39.133	39.043	78.312	78.176	79.92%
7 US Mineral Royalty	1.65%	19.243	21.807	26.756	20.474	41.050	47.230	81.89%
8 All Other Revenue	1.76%	20.488	50.782	30.062	19.462	71.270	49.524	83.95%
9 Tobacco Settlement	2.99%	34.804	15.677	18.925	19.147	50.481	38.072	85.54%
10 Telecommunications Excise Tax	0.55%	6.366	16.833	17.234	17.692	23.199	34.926	86.99%
11 Video Gambling Tax	1.19%	13.851	13.828	13.796	15.107	27.679	28.903	88.20%
12 Treasury Cash Account Interest	1.38%	16.088	17.703	14.696	14.127	33.791	28.823	89.40%
13 Estate Tax	1.64%	19.039	19.691	17.118	10.097	38.730	27.215	90.53%
14 Oil & Natural Gas Production Tax	0.98%	11.363	14.188	12.407	11.985	25.551	24.392	91.55%
15 Motor Vehicle Fee	1.01%	11.716	12.954	11.772	12.004	24.670	23.776	92.54%
16 Public Institution Reimbursement	0.97%	11.345	11.141	10.583	10.968	22.486	21.551	93.43%
17 Coal Severance Tax	0.82%	9.502	8.918	9.073	9.058	18.420	18.131	94.19%
18 Liquor Excise & License Tax	0.62%	7.172	7.534	7.925	8.383	14.706	16.308	94.87%
19 Cigarette Tax	0.73%	8.464	8.222	8.057	7.889	16.686	15.946	95.53%
20 Investment License Fee	0.46%	5.390	6.081	6.580	7.119	11.471	13.699	96.10%
21 Lottery Profits	0.50%	5.841	6.197	6.281	6.372	12.038	12.653	96.63%
22 Liquor Profits	0.51%	5.900	5.659	5.977	6.267	11.559	12.244	97.14%
23 Nursing Facilities Fee	0.52%	6.055	5.533	5.547	5.575	11.588	11.122	97.60%
24 Foreign Capital Depository Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	97.60%
25 Electrical Energy Tax	0.41%	4.829	4.562	4.644	4.664	9.391	9.308	97.99%
26 Metalliferous Mines Tax	0.23%	2.703	4.063	4.706	4.553	6.766	9.259	98.38%
27 Highway Patrol Fines	0.35%	4.028	4.096	4.166	4.237	8.124	8.403	98.73%
28 Public Contractors Tax	0.19%	2.162	3.526	3.812	3.999	5.688	7.811	99.05%
29 Wholesale Energy Tax	0.16%	1.895	3.500	3.568	3.614	5.395	7.182	99.35%
30 Tobacco Tax	0.17%	2.017	2.137	2.265	2.400	4.154	4.665	99.55%
31 Driver's License Fee	0.20%	2.333	2.165	2.178	2.194	4.498	4.372	99.73%
32 Railroad Car Tax	0.18%	2.101	1.665	1.688	1.718	3.766	3.406	99.87%
33 Wine Tax	0.09%	1.017	1.059	1.107	1.156	2.076	2.263	99.97%
34 Beer Tax	0.03%	0.370	0.386	0.403	0.421	0.756	0.824	100.00%
35 Telephone License Tax	0.30%	3.491	0.000	0.000	0.000	3.491	0.000	100.00%
36 Long Range Bond Excess	0.01%	0.101	0.000	0.000	0.000	0.101	0.000	100.00%
Total General Fund	100.00%	\$1,163,641	\$1,185,331	\$1,192,612	\$1,207,853	\$2,348,972	\$2,400,465	100.00%

**Figure 6**  
**Significant Revenue Issues**  
**Action By Revenue and Taxation Committee**  
 In Millions

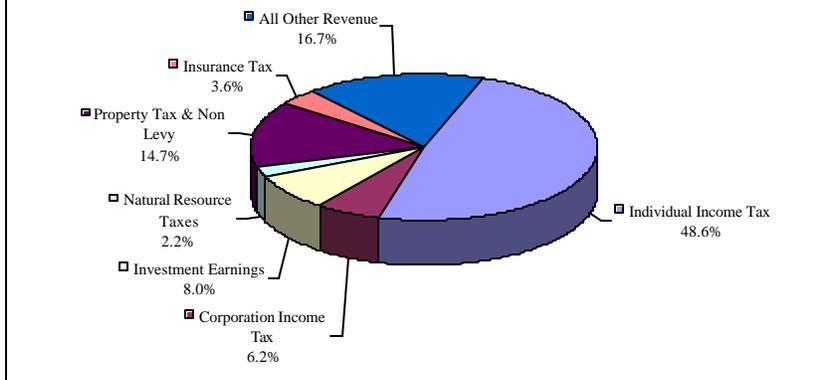
Revenue Issue	RATC Action	Potential Revenue Impact 2001,2002,2003
Montana Power Company Asset Sales	Did Not Include	Unknown
Foreign Capital Depository Tax	Did Not Include	\$12.750
Telecommunications Excise Tax Compliance	Did Not Include	25.000

In accordance with 5-18-107, MCA, the RATC estimates "constitute the legislature's current revenue estimates until amended or until final adoption of the estimates by both houses."

A complete "profile" of each general fund revenue source is provided in a separate published document "Volume 2, Revenue Estimates". Each "profile" provides information on the particular source of revenue including a description, applicable tax or fee rates, distribution mechanisms, historical collection patterns, and all relevant assumptions for the forecast period.

Figure 7 shows the revenue contribution to the general fund by the most significant revenue components. During the 2003 biennium, almost 70 percent of total general fund revenue will come from income and property taxes while about 8 percent will be generated from investment earnings. Natural resource taxes are estimated to produce slightly more than 2 percent of total general fund revenue during the 2003 biennium.

**Figure 7**  
**General Fund Revenue**  
**By Major Component 2003 Biennium**



The information shown in Figure 7 illustrates the significant dependence the state has on income and property taxes to fund local assistance and general government operations. In addition, the table below Figure 7 shows the general fund will receive an estimated \$193.2 million in the 2003 biennium from investment earnings.

Although these revenues are due to the investment by the state of taxpayer dollars, these monies can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or a combination of both. To replace this revenue component would require the equivalent of an annual income tax surtax of approximately 16.6 percent.

Major Category	2001 Biennium	2003 Biennium	Percent Change
	Estimate Millions	Estimate Millions	
Individual Income Tax	\$1,057.644	\$1,165.995	10.24%
Corporation Income Tax	161.809	148.797	-8.04%
Investment Earnings	204.323	193.220	-5.43%
Natural Resource Taxes	50.737	51.782	2.06%
Property Tax & Non Levy	369.262	352.582	-4.52%
Insurance Tax	80.144	86.686	8.16%
All Other Revenue	<u>425.053</u>	<u>401.403</u>	<u>-5.56%</u>
<b>Total General Fund</b>	<b>\$2,348.972</b>	<b>\$2,400.465</b>	<b>2.19%</b>

## 2003 BIENNIUM GENERAL FUND OUTLOOK

Figure 8 shows the projected available pre-reserve present law general fund balance for the 2003 biennium. Amounts shown include the revenue estimates as adopted by RATC on November 17, 2000, and the cost of operating state government based on present law requirements. These disbursement amounts are those contained in the Executive Budget and are also included in a number of subsequent tables. The present law amounts shown for both anticipated revenues and

expenditures do not include any new proposals or initiatives recommended by the executive. Figure 8 also shows the executive recommendations for local assistance appropriations of \$54.9 million per year or \$109.8 million for the 2003 biennium. This amount represents the total amount required to fully fund local governments for the revenue losses incurred by the passage of several tax relief measures during the 56<sup>th</sup> Legislature.

<b>Figure 8</b>			
<b>2003 Biennium General Fund Balance</b>			
<b>Present Law Only</b>			
In Millions			
	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated 2003 Biennium
<b>Beginning Fund Balance</b>	<b>\$85.333</b>	<b>\$72.845</b>	<b>\$85.333</b>
<b>Revenues</b>			
Current Law Revenue	<u>1,192.612</u>	<u>1,207.853</u>	<u>2,400.465</u>
<b>Total Funds Available</b>	<b>\$1,277.945</b>	<b>\$1,280.698</b>	<b>\$2,485.798</b>
<b>Disbursements</b>			
General Appropriations			
Human Services	251.712	256.631	508.343
Corrections	102.595	108.459	211.054
Higher Education	133.435	134.022	267.457
Public Schools	490.339	485.216	975.555
Other Government	119.974	119.110	239.084
Statutory Appropriations	45.597	44.403	90.000
Local Assistance Appropriations	54.934	54.934	109.868
Miscellaneous Appropriations	3.665	3.665	7.330
Language Appropriations	1.000	1.000	2.000
Non-Budgeted Transfers	4.850	4.850	9.700
Feed Bill Appropriations	7.028	7.028	7.028
Anticipated Reversions	<u>(3.001)</u>	<u>(3.026)</u>	<u>(6.027)</u>
<b>Total Disbursements</b>	<b>\$1,205.100</b>	<b>\$1,216.292</b>	<b>\$2,421.392</b>
<b>Unreserved Ending Fund Balance</b>	<b>\$72.845</b>	<b>\$64.406</b>	<b>\$64.406</b>
<b>Structural Deficit (Revenues - Disbursements)</b>	<b>(\$12.488)</b>	<b>(\$8.439)</b>	<b>(\$20.927)</b>

**LFD  
ISSUE**

Present law is defined in statute as “that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.” The concept of present law versus new proposals allows the legislature to examine requested adjustments from a perspective of a “necessary” change to a “desired” change. This distinction assists the legislature in formulating a budget that focuses on existing services before any new initiatives or programs are considered. The executive has included requests for increases in funding as present law adjustments that do not meet the criteria for that categorization. For example, the executive has requested full funding for local government reimbursements due to tax relief measures enacted by the 56<sup>th</sup> Legislature. Chief Legal Counsel for Legislative Services Division has issued a written opinion that defines present law for local government reimbursements as the sum of the reimbursement appropriations contained in SB 184 of the 56<sup>th</sup> Legislature. This definition means the Executive Budget is overstating the general fund present law budget by at least \$37 million, and that this amount should have been included in the budget as a new proposal. As a consequence, the legislature may believe this higher level of funding is necessary when in actuality they have options available when determining the appropriate level of funding. These options could be invaluable when the legislature has to balance limited resources against competing priorities for general fund dollars.

**LFD  
ISSUE**

Although the executive is requesting supplemental appropriations of \$38.8 million for fiscal 2001, their fund balance statement for the 2003 biennium does not include any anticipated supplemental or emergency appropriations. Supplemental appropriations have never been less than \$11.5 million for the last 7 biennia and have never been included in the balanced budget plan.

As Figure 8 shows, the 2003 biennium ending general fund balance is projected to be \$64.4 million before any new proposals or initiatives are considered. Although this balance indicates the state could maintain the existing level of services without a tax increase, it should be noted that this projected balance includes \$20.6 million in one-time revenue. If the \$20.6 million is removed, and the executive’s ending fund reserve (\$43.6 million) is applied,

the excess available balance would be only \$0.2 million. In other words, there are no funds available for any new on-going expenditure proposals/initiatives and/or tax proposals. However, the \$20.6 million in one-time revenue would be available to fund one-time fiscal initiatives and not for on-going governmental costs.

**LFD  
ISSUE**

The general appropriations act as drafted by the executive does not contain any designation of one-time only appropriations. Since the revenue estimates as adopted by the RATC includes \$20.6 million in one-time revenue, the Executive Budget is funding on-going costs with one-time revenue. This creates a task of reprioritization for the 2003 Legislature because the one-time revenue used for on-going costs this biennium will not be available in future biennia.

**LFD  
ISSUE**

Figure 8 shows the structural deficit created by the present law budget proposed by the executive. A structural deficit occurs when annual revenues (excluding the previous year’s fund balance) do not keep pace with annual disbursements. The executive’s present law budget exceeds present law revenues by \$20.9 million during the 2003 biennium, without adjusting for the \$20.6 million in one-time revenues. Utilizing a portion of the fund balance that was produced during the previous biennium creates this structural deficit. If this budget is adopted as proposed, the 2003 legislature will be faced with the difficult task of rebalancing on-going revenues with on-going expenditures. On-going present law revenues and expenditures should be matched, with any excess fund balances used for one-time initiatives or proposals.

Figure 9 shows the allocation of general fund dollars to functional areas. As the chart indicates, educational services consume over 51 percent of total general fund expenditures, with human service and correctional services expending nearly 30 percent. All other governmental agencies expend almost 10 percent, with the remaining 9 percent expended by statutory appropriations for debt service, retirement systems, and local government reimbursements.

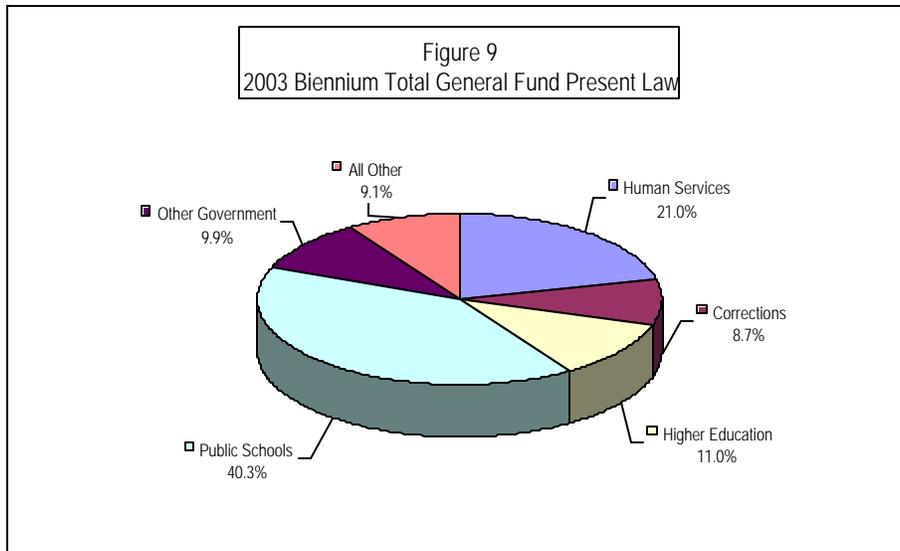


Figure 10 shows the projected general fund balance with the executive new proposals and initiatives included. The executive new proposals are categorized as either a revenue or disbursement proposal. The net total (revenues less expenditures) for all of the executive new proposals is a negative \$60.3 million. This amount, combined with the available present law balance, results in a pre-reserve balance of \$4.1 million. When the executive's recommended ending fund balance reserve of \$43.6 million is included, a deficit of \$39.5 million is created. This deficit is minimized by the use of the \$20.6 million in one-time revenue.

**Figure 10**  
**2003 Biennium General Fund Balance**  
**With Executive New Proposals**  
In Millions

	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated 2003 Biennium
<b>Beginning Present Law Balance</b>	<b>\$64.406</b>	<b>\$53.398</b>	<b>\$64.406</b>
<b>Executive Revenue Proposals</b>			
Tourism Tax			
Cultural Heritage Loans	(0.580)	(0.940)	(1.520)
Extend Endowment Credit		(5.180)	(5.180)
Cigarette & Tobacco Tax Increase	23.540	23.630	47.170
<b>Total Revenue Proposals</b>	<b>\$22.960</b>	<b>\$17.510</b>	<b>\$40.470</b>
<b>Executive Disbursement Proposals</b>			
General Appropriations			
Human Services	9.298	14.283	23.581
Corrections	0.079	0.036	0.115
Higher Education	5.303	7.313	12.616
Public Schools	2.537	17.681	20.218
Other Government	6.081	4.643	10.724
Micro Business Development	0.150	0.150	0.300
Pay Plan	9.700	21.400	31.100
Debt Service	0.320	1.330	1.650
Lewis & Clark Bicentennial	0.500		0.500
<b>Total Disbursement Proposal:</b>	<b>\$33.968</b>	<b>\$66.836</b>	<b>\$100.804</b>
<b>Total Executive New Proposals</b>	<b>(\$11.008)</b>	<b>(\$49.326)</b>	<b>(\$60.334)</b>
Ending Balance Before Reserve	\$53.398	\$4.072	\$4.072
Executive Proposed Ending Fund Reserve	88.340	43.570	43.570
<b>Deficit With Executive New Proposals</b>	<b>(\$34.942)</b>	<b>(\$39.498)</b>	<b>(\$39.498)</b>

**LFD ISSUE** The Executive Budget proposes increased funding for human services, higher education, public school support, employee pay, and debt service due to the issuance of additional bonds. While the merit of these proposals will be debated by the legislature, it should be noted that the full impact of these initiatives would not be fully realized until the 2005 biennium.

**LFD ISSUE (continued)** This is because the fiscal costs of these initiatives are significantly greater in the second year of the 2003 biennium than in the first year. The total costs of the expenditure new proposals are \$34.0 million in fiscal 2002 and increase to \$66.8 million in fiscal 2003. This means the 2003 legislature will be faced with funding at least \$133.6 million of additional services above current (present law) costs. A biennium budget should not be developed with significant cost increases in the second year of the biennium without a corresponding revenue adjustment.

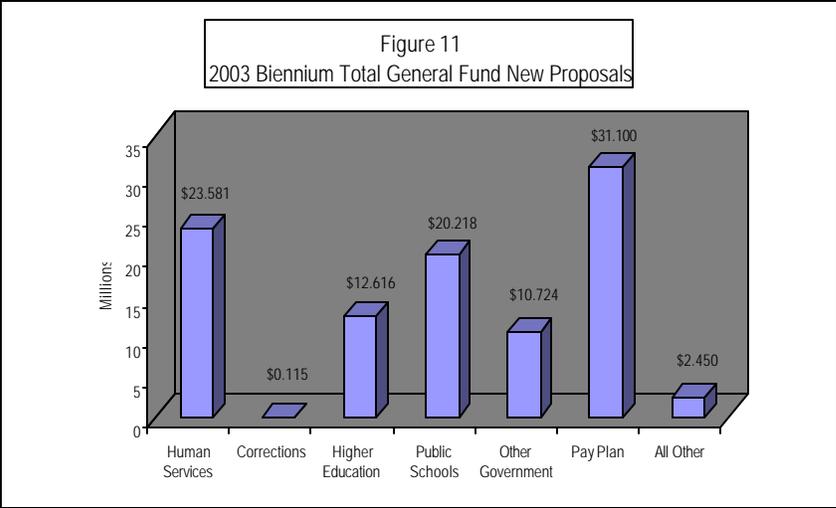
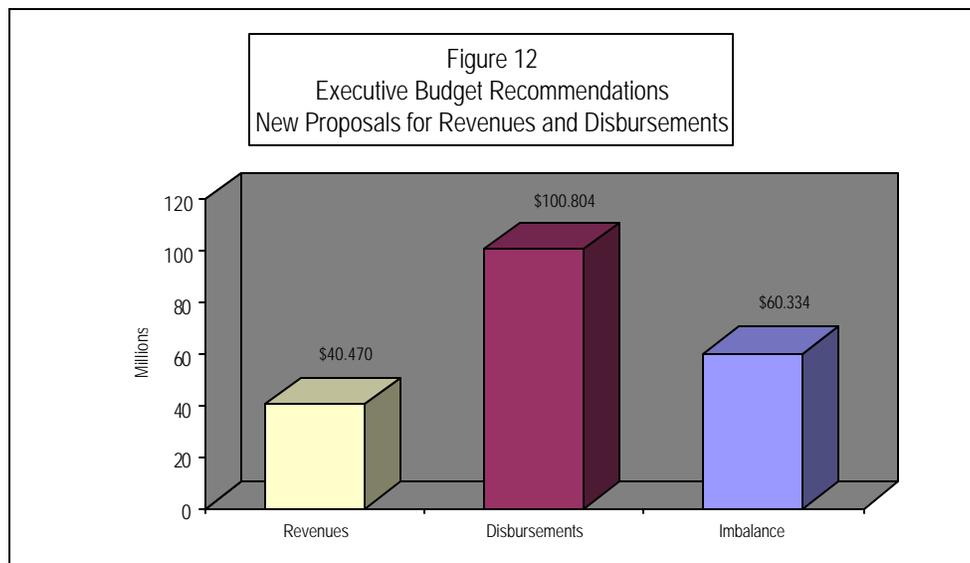


Figure 11 shows the allocation of new proposal dollars to functional areas. As the chart depicts, the Executive Budget emphasizes education, employee pay, and human services as the top three priorities for additional funding. Corrections and all other governmental agencies' funding are recommended for increases but by a minimal amount when compared to the top three priorities.

The new proposal recommendations of the executive include both revenue and disbursement types. Figure 12 graphically portrays the dollar impact of these proposals. As shown in the chart, new disbursement initiatives are significantly greater than the recommended new revenue proposals. The combined impact of these recommendations creates an imbalance of approximately \$60.3 million for the 2003 biennium. When this amount is combined with the present law imbalance of \$20.9 million, the Executive Budget (if adopted) would create a general fund structural deficit of \$81.2 million.



## DIFFERENCES FROM EXECUTIVE PROPOSAL

The Executive Budget as submitted, projects an ending fund balance of \$43.6 million after funding all executive present law adjustments and new proposals. This contrasts with Figure 10, which shows a general fund balance of \$4.1 million or a difference of \$39.5 million. This balance is based on the RATC revenue estimates, LFD estimates for statutory appropriations and reversions, and the executive's recommendations for all present law adjustments and new proposals. As advocated by the LFD in the past, an adequate reserve is necessary for unexpected occurrences including emergencies, fire suppression costs, supplemental appropriations, or lower than expected revenue collections.

**LFD ISSUE** The executive general fund budget for the 2003 biennium is in excess of \$2.5 billion. The recommended ending fund reserve is \$43.6 million, or approximately 1.7 percent of total disbursements. This balance is insufficient when the events of the current year are considered. Total supplemental and emergency appropriations for fiscal 2001 would deplete this balance in its entirety. The legislature may wish to consider whether this recommended reserve is sufficient to ensure budget stability and control of the budget decision-making process. A reserve of 3 to 5 percent is generally recommended by experts and is commonly practiced by other states. (See page 93 for more details)

**Figure 13**  
**Differences From Executive Budget**  
**Fiscal 2001, 2002, 2003**  
 In Millions

Fund Balance Category	3 Year Difference
Beginning Fund Balance	(\$0.494)
Revenues	
Telecommunications Excise Tax	(24.991)
All Other Categories	1.827
Residual Equity Transfers	(1.686)
Disbursements	
General Appropriations	2.430
Statutory Appropriations	(0.853)
Miscellaneous Appropriations	(2.923)
Language Appropriations	(2.000)
Continuing Appropriations	(0.067)
Supplemental Appropriations	(4.010)
Wildfire Costs	0.400
Feed Bill Appropriations	(2.848)
Anticipated Reversions	(4.281)
Adjustments	(0.003)
<b>Total Differences</b>	<b>(\$39.499)</b>

As shown in Figure 13, there are a number of items that contribute to the total difference of \$39.5 million. Each of these differences is explained in the next section.

### EXPLANATION OF DIFFERENCES

Beginning Fund Balance - The preliminary fiscal 2000 unreserved general fund ending fund balance as prepared by the Department of Administration was released in December 2000. This preliminary balance was not available to the executive in time to be included in the Executive Budget. The un-audited balance was \$0.5 million lower than the amount used by the executive.

Telecommunications Excise Tax - The telecommunications excise tax revenue estimates for fiscal 2001, 2002, and 2003 as adopted by the RATC are \$25.0 million less than the estimates used in the Executive Budget. The executive assumed the compliance issues currently applicable to this new tax would be resolved and the state could expect to receive an additional \$25.0 million due to the Department of Revenue's enforcement efforts. The RATC decided to defer the inclusion of the above amount in the estimates until further information became available. All Other General Fund Sources - The combined differences of all other general fund sources (exclusive of telecommunications excise tax) between the RATC adopted estimates and the executive are \$1.8 million.

This difference is insignificant when compared to total revenue of over \$3.5 billion for the three fiscal year periods.

Residual Equity Transfer - Residual equity transfers are funds deposited in a non-general fund account that are eventually transferred to the general fund. The executive assumed the transfers that occurred in fiscal 2000 would continue at the same level for the next three fiscal years. A detailed analysis of these transfers indicates that only one transfer will occur in fiscal 2001 and there will be no transfers in fiscal 2002 and 2003.

General Appropriations/Miscellaneous Appropriations – The net difference between these two appropriation items is about \$0.5 million. The executive included some miscellaneous appropriations in the general appropriations category, thereby reducing the amount for miscellaneous appropriations. However, the executive did not include a \$0.5 million Lewis and Clark Bicentennial request in their balance sheet.

Statutory Appropriations – The difference in this category is due to the methods used to estimate the amounts of statutory appropriations. In most instances, the executive relied on the amount expended in fiscal 2000 to determine the amounts for the next three years. The LFD relied on information supplied by the respective agencies that administer the statutory appropriation.

Language Appropriations – The Executive Budget balance sheet does not include any language appropriations. However, the executive's draft of House Bill 2 specifies "the state auditor's office is appropriated in the 2003 biennium any reverted appropriation from the \$2,000,000 biennial 2001 appropriation available to the Montana comprehensive health association." The State Auditor's office has indicated this appropriation will revert in its entirety during the 2001 biennium. Therefore, the LFD included the \$2.0 million in anticipated reversions and correspondingly showed the language appropriation for \$2.0 million.

Continuing Appropriations – The Executive Budget did not include a continuing appropriation to the long range building program authorized in House Bill 5 of the 56<sup>th</sup> Legislature. The continuing appropriation balance has

been established on the state accounting system for fiscal 2001.

Supplemental Appropriations – The executive is requesting supplemental appropriations of \$38.8 million in their written documentation of the Executive Budget. In their detailed balance sheet, however, the supplemental amount shown is \$34.8 million. A follow-up conversation with the executive indicates that the correct amount should be the higher amount of \$38.8 million. This difference is \$4.0 million.

Wildfire Appropriations – The difference in this category is due to the revenue estimates adopted by the RATC. The estimated Federal reimbursements adopted by the RATC were equal to the anticipated expenditure estimates prepared by the Department of Natural Resources and Conservation. The Executive Budget shows a revenue estimate \$0.4 million higher than the RATC estimate with a corresponding \$0.4 million higher expenditure estimate.

Feed Bill Appropriations – The Executive Budget shows the cost of the 2001 legislative session at the level budgeted for the 1999 legislative session. The LFD estimate is based on the calculations prepared by the Legislative Services Division for approval by legislative leadership. Since the Executive Budget proposal includes a 2003 biennium pay plan increase for state employees, the 2003 legislative session cost has been adjusted upward for the increased legislative personal services costs due to the anticipated pay increase. If the legislature does not adopt the executive's pay plan proposal, the feed bill cost for the 2003 biennium could be adjusted accordingly.

Anticipated Reversions – The Executive Budget is anticipating \$15.0 million in general fund reversions for the three-year period fiscal 2001 through 2003. Although anticipated reversions are difficult to estimate, the LFD reviewed the reversion amounts agency by agency for fiscal 2000. This analysis, when applied to the three-year period, resulted in anticipated reversions of \$10.7 million or a difference of \$4.3 million from the executive estimate. Since state agencies were prohibited from transferring unused personal services authority to other operating categories during fiscal 2000, the LFD estimate may overstate anticipated reversions. This is because the executive did not request the same prohibition to transfer

personal services authority in the proposed Executive Budget.

provided via reduced expenditures, revenue enhancements, and/or a lower reserve below \$43.6 million to eliminate the projected deficit.

**SUMMARY**

In summary, if the RATC revenue estimate recommendations were adopted by the legislature, the general fund pre-reserve present law balance would be \$64.4 million. A deficit in the general fund of \$39.5 million would occur if the legislature adopted the executive's recommendations for all new proposals and initiatives including the proposed ending reserve of \$43.6 million. This would therefore require either a reduction in services

The Executive Budget recommendation not only creates a structural imbalance during the 2003 biennium but also in future biennia. If this budget were adopted, the 2003 legislature would be faced with a significant budget deficit that would require them to reduce expenditures, increase revenues, or a combination of both.

**PROJECTED GENERAL FUND BALANCE**

Figure 14 shows the detailed general fund balance sheet based on present law revenues and disbursements, followed by a sub-table that shows the balance when new proposals are included. The \$43.6 million reserve as proposed by the executive is not shown in this table.

Figure 14 2003 Biennium General Fund Balance Based on Present Law In Millions						
	Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated 2001 Biennium	Estimated 2003 Biennium
<b>Beginning Fund Balance</b>	<b>\$109.673</b>	<b>\$170.326</b>	<b>\$85.333</b>	<b>\$72.845</b>	<b>\$109.673</b>	<b>\$85.333</b>
<b>Revenues</b>						
Current Law Revenue	1,163.641	1,185.331	1,192.612	1,207.853	2,348.972	2,400.465
Residual Transfers	0.725	0.564			1.289	
<b>Total Funds Available</b>	<b>\$1,274.039</b>	<b>\$1,356.221</b>	<b>\$1,277.945</b>	<b>\$1,280.698</b>	<b>\$2,459.934</b>	<b>\$2,485.798</b>
<b>Disbursements</b>						
General Appropriations	1,046.100	1,061.899	1,152.989	1,158.372	2,107.999	2,311.361
Statutory Appropriations	39.645	51.543	45.597	44.403	91.188	90.000
Local Assistance Appropriations	13.813	56.771			70.584	
Miscellaneous Appropriations	4.195	13.593	3.665	3.665	17.788	7.330
Language Appropriations			1.000	1.000		2.000
Non-Budgeted Transfers	2.350	3.227	4.850	4.850	5.577	9.700
Continuing Appropriations		1.487			1.487	
Supplemental Appropriations		38.760			38.760	
FEMA Wildfire Costs		41.600			41.600	
Feed Bill Appropriations		6.700		7.028	6.700	7.028
Anticipated Reversions	(0.505)	(4.692)	(3.001)	(3.026)	(5.197)	(6.027)
<b>Total Disbursements</b>	<b>\$1,105.598</b>	<b>\$1,270.888</b>	<b>\$1,205.100</b>	<b>\$1,216.292</b>	<b>\$2,376.486</b>	<b>\$2,421.392</b>
<b>Adjustments</b>	1.885				1.885	
<b>Reserved Ending Fund Balance</b>	<b>\$170.326</b>	<b>\$85.333</b>	<b>\$72.845</b>	<b>\$64.406</b>	<b>\$85.333</b>	<b>\$64.406</b>
Local Government Reserve						
<b>Unreserved Ending Fund Balance</b>	<b>\$170.326</b>	<b>\$85.333</b>	<b>\$72.845</b>	<b>\$64.406</b>	<b>\$85.333</b>	<b>\$64.406</b>
<b>New Proposals Not Included Above</b>						
Revenue New Proposals			22.960	17.510		40.470
Disbursement New Proposals			<u>33.968</u>	<u>66.836</u>		<u>100.804</u>
<b>Potential Ending Fund Balance Without Reserve</b>			<b>\$61.837</b>	<b>\$4.072</b>	<b>\$85.333</b>	<b>\$4.072</b>