

GENERAL FUND TRANSFERS: ELIMINATION CONSIDERATIONS

A Report Prepared for the
Legislative Finance Committee
Subcommittee on Budget and Appropriation Processes

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PURPOSE

Before the subcommittee decides to eliminate permanent general fund transfers and replace the HB 2 appropriations with general fund appropriations of equal amounts, it should be aware of the possible ramifications of such action. This paper provides the subcommittee with detailed information about each transfer and items for it to consider. Only five sections of the MCA for which permanent general fund transfers are anticipated in the 2009 biennium will be discussed (Figure 1).

Figure 1 Permanent General Fund Transfers					
MCA Authorization	Name	Legislative Session	2009 Biennium (millions)		
			Fiscal 2008	Fiscal 2009	Total
15-1-122	HB 124 transfers of motor vehicle fee revenue	2001	\$8.735	\$8.919	\$17.654
17-1-511(2)	SB 553 - Incentives for rural physicians	2007	0.000	0.063	0.063
77-1-108(4a)	HB19 - To Morrill trust land administration account	2007	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.011	0.011	0.022
87-2-803(12d)	SB 243 - To general license acct. national guard free license	2007	<u>0.043</u>	<u>0.043</u>	<u>0.086</u>
Total			\$8.869	\$9.036	\$17.905

Because all of the transfers in Figure 1 transfer general fund money to state special revenue accounts, the money is dedicated for the purposes specified in statute for those accounts. If the transfers were replaced by general fund appropriations in HB 2, the appropriations would have to be line-itemed or their intended purposes identified in some way to ensure the money is spent for the intended purposes. Like any other appropriation in HB 2, these replacement appropriations could be increased or decreased by future legislatures.

In addition to addressing specific transfers, at the end of this paper is a related issue the subcommittee may want to consider to reduce or eliminate the enactment of permanent general fund transfers by future legislatures.

HB 124 TRANSFERS OF MOTOR VEHICLE FEE REVENUE

[15-1-122, MCA](#)

The largest permanent general fund transfer amount, \$17.7 million in the 2009 biennium, is authorized in 15-1-122, MCA. There are actually 10 separately identified transfers within this one section. As originally enacted in HB 124 by the 2001 legislature, two of the transfers were based on a set amount and eight were based on a portion of specifically identified motor vehicle fees. The latter eight transfers were amended by the 2005 legislature in SB 285 to base each transfer amount on a percentage of total motor vehicle fee revenue. Two of the transfers (#1 and # 8 below) transfer money to an account that is statutorily appropriated. The 10 transfers are:

1. To the Department of Public Health and Human Services for deposit to the adoption services state special revenue account (42-2-105, MCA). The amount transferred is based on a set amount of \$36,764 which is increased by 10 percent each fiscal year. The account also receives adoption fee revenue. Money in the account is to be used for adoption services and is statutorily appropriated.

Considerations:

- Under current statute, revenue to the account from the general fund transfer increases 10 percent each fiscal year. Although the amount of the transfers under current law for the 2009 biennium could be replaced by general fund appropriations of like amounts, there is no guarantee that future legislatures would provide increases to the appropriation.
- Currently, the revenue transferred to the account is statutorily appropriated. If the transfer were replaced by a general fund appropriation, only the fee revenue in the account (about 42 percent of

total revenue) would be statutorily appropriated. Would the subcommittee also want to eliminate the statutory appropriation and replace it with a state special revenue appropriation in HB 2?

- If a general fund appropriation were provided in place of the transfer, the amount statutorily appropriated from the account would decrease by the same amount.
2. To the Montana Department of Transportation for deposit to the non-restricted state special revenue account (15-70-125, MCA). The amount transferred is based on a set amount of \$3,050,205 which is increased by 1.5 percent each fiscal year. Except for \$100,000 transferred each year to the noxious weed state special revenue account and fee revenue from electronic communication equipment or electronic informational kiosks installed on state right-of-ways, money in the account has no restrictions and can be appropriated for any purpose.

Considerations:

- Under current statute, revenue to the account from the general fund transfer increases 1.5 percent each fiscal year. Although the amounts of the transfers under current law for the 2009 biennium could be replaced by general fund appropriations of like amounts, there is no guarantee that future legislatures would provide increases to the appropriations.
 - If a general fund appropriation were provided in place of the transfers, the amount appropriated in HB 2 from the non-restricted account or from the highway state special revenue account should be decreased by the same amount.
3. To the Department of Environmental Quality to administer the motor vehicle recycling and disposal program in Title 75, Chapter 10, Part 5. The money is deposited to the junk vehicle disposal state special revenue account. Under current law, 9.48 percent of the transfer amount must be used to reimburse the hired removal of abandoned vehicles.

Considerations:

- If a general fund appropriation were provided in place of the transfer, the amount appropriated in HB 2 from the junk vehicle disposal state special revenue account should be decreased by the same amount.
 - If the legislature wants to maintain the current restriction that 9.48 percent of the money be used to reimburse the hired removal of abandoned vehicles, two general fund appropriations could be established: one for 90.52 percent of the transfer amount and one for 9.48 percent.
4. To the Department of Agriculture for deposit to the noxious weed state special revenue account (80-7-816, MCA). The account also receives earnings from the noxious weed management trust fund and a \$100,000 transfer from the non-restricted state special revenue account. The earnings are to be used for noxious weed management projects.

Considerations:

- If a general fund appropriation were provided in place of the transfer, the amount appropriated in HB 2 from the noxious weed state special revenue account should be decreased by the same amount.
5. To the Department of Fish, Wildlife and Parks for the following five purposes in the indicated percentages:
- deposit to the state parks miscellaneous account (02411) – 48.3 percent
 - deposit to the F&G motorboat certification ID account (02413) to administer and enforce boat laws – 19.1 percent
 - deposit to the off-highway vehicle account (02239) to develop and implement off-highway vehicle recreational use programs – 16.7 percent
 - deposit to the off-highway vehicle fines account (02115) to enforce the registration and taxation of off-highway vehicles – 11.1 percent
 - deposit to the motorboat certification account (02331) to acquire and maintain pumpout equipment and other boat facilities – 4.8 percent

Considerations:

- If general fund appropriations were provided in place of the transfers, the amounts appropriated in HB 2 from the various state special revenue accounts should be decreased by the same amounts.

- If the legislature wants to maintain the above detailed earmarking percentages, five general fund appropriations could be established: one for each of the above purposes.
6. To the Department of Fish, Wildlife and Parks for the following two purposes in the indicated percentages:
- deposit to the snowmobile registration account (02414) to enforce snowmobile laws – 50.0 percent
 - deposit to the snowmobile registration-parks account (02332) to develop, maintain, and operate snowmobile facilities – 50.0 percent

Considerations:

- If general fund appropriations were provided in place of the transfers, amounts appropriated in HB 2 from the two state special revenue accounts should be decreased by the same amounts.
 - If the legislature wants to maintain the above earmarking percentages, two general fund appropriations could be established: one for each of the two purposes.
7. To the Department of Fish, Wildlife and Parks for deposit to the motorboat fees state special revenue account (02273) to be used to improve, maintain, or operate motorboat facilities and pay costs of the boating advisory council (23-2-532, MCA).

Considerations:

- If a general fund appropriation were provided in place of the transfer to the motorboat state special revenue account, the amount appropriated in HB 2 from the motorboat special revenue account should be decreased by the same amount.
8. To the Department of Military Affairs for deposit to the following accounts in the indicated percentages:
- veterans' services state special revenue account (10-2-112(1), MCA) to be used to promote the general welfare of veterans and their families. The account can also receive revenue from grants and donations. – 75.45 percent
 - veterans' cemetery state special revenue account (10-2-603, MCA) to be used for construction, maintenance, operations, and administration of the state veterans' cemeteries. The account also receives revenue from plot allowances and donations. Money in this account is statutorily appropriated – 24.55 percent

Considerations:

- If a general fund appropriation were provided in place of the transfer to the veterans' services state special revenue account, the amount appropriated in HB 2 from the account should be decreased by the same amount.
 - Currently, the revenue transferred to the veterans' cemetery state special revenue account is statutorily appropriated. If the transfer were replaced by a general fund appropriation, only money from plot allowances and donations (none has ever been received) would be statutorily appropriated. Would the subcommittee also want to eliminate the statutory appropriation and replace it with a state special revenue appropriation in HB 2?
 - If a general fund appropriation were provided in place of the transfer to the veterans' cemetery state special revenue account, the amount statutorily appropriated from the account would be decreased by the same amount.
 - If the legislature wants to maintain the above earmarking percentages, two general fund appropriations could be established: one for each of the two purposes.
9. To the Department of Transportation for deposit to the senior citizens and persons with disabilities transportation services state special revenue account (7-14-112, MCA) to be used to provide transportation services for persons 60 years of age or older and for persons with disabilities.

Considerations:

- If a general fund appropriation were provided in place of the transfer to the senior citizens and persons with disabilities transportation services state special revenue account, the amount appropriated in HB 2 from the account should be decreased by the same amount.
10. To the Department of Military Affairs for deposit to the search and rescue state special revenue account (10-3-801, MCA) to be used for the purposes of search and rescue and administration.

Considerations:

- If a general fund appropriation were provided in place of the transfer to the search and rescue state special revenue account, the amount appropriated in HB 2 from the account should be decreased by the same amount.

SB 553 INCENTIVES FOR RURAL PHYSICIANS

17-1-511(2), MCA

The 2007 Legislature repealed the income tax credits beginning after tax year 2007. As a replacement for the credits, general fund transfers to the rural physician incentive state special revenue account were authorized. Money in the account can be used to pay educational debt of qualifying physicians and for Board of Regent administrative expenses. The legislation set the amount of the combined incentives (the credit and the transferred money) to be the average of credits claimed in tax years 2006 and 2007 (estimated to be \$252,400). Because credits can be claimed for four consecutive years for those who qualified by tax year 2007, credits will phase out over the next three years with the last year being tax year 2010. This means that as the credits phase-out, the general fund transfers phase-in by like amounts. After FY 2011, the transfers will stabilize at a fixed amount (estimated to be \$252,400). Money in the account is statutorily appropriated.

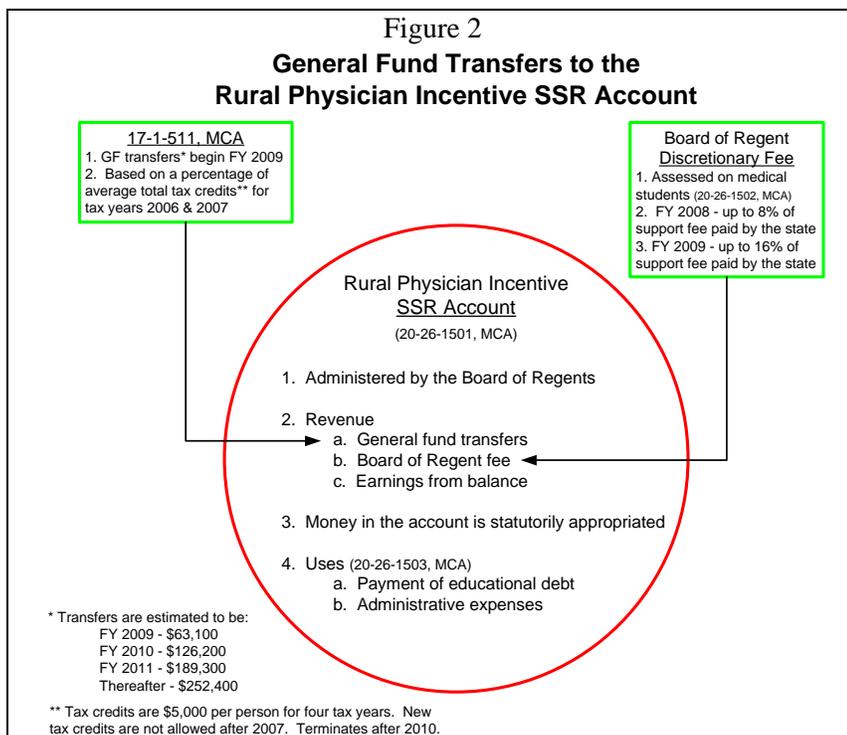


Figure 2 shows some of the details in a diagram format. In FY 2007, the account:

- had an ending fund balance of \$669,362
- received \$230,704 in medical student fees
- earned \$34,709 in interest
- spent \$155,870 as grants

Considerations:

- Currently, the revenue transferred to the rural physician incentive state special revenue account is statutorily appropriated. If the transfer were replaced by a general fund appropriation, only money from student fees and earnings would be statutorily appropriated. Would the subcommittee also want to eliminate the statutory appropriation and replace it with a state special revenue appropriation in HB 2?

- If a general fund appropriation were provided in place of the transfer to the rural physician incentive state special revenue account, the amount statutorily appropriated from the account would be decreased by the same amount.
- The exact amount of the average tax credits for tax years 2006 and 2007 (which drives all future transfer amounts) will be known by November 1, 2008 when the Department of Revenue is required to make that calculation. This means that any general fund appropriations added to HB 2 can be based on this amount.

HB 19 MORRILL TRUST LAND ADMINISTRATION

[77-1-108\(4a\), MCA](#)

HB 19 provides a means to pay costs of administering the Morrill Act land grant since the grant specifically prohibits paying administrative costs from trust interest and income. Use of interest and income from other land trusts is also prohibited. Each biennium, \$80,000 of general fund is transferred to the Morrill trust land administration state special revenue account to be used by the Department of Natural Resources and Conservation to administer the Morrill trust lands. Money in the account is statutorily appropriated and any unspent money remains in the account.

Considerations:

- If a general fund appropriation were provided in place of the transfer to the Morrill trust land administration state special revenue account, the amount statutorily appropriated from the account would be decreased by the same amount.
- Since the Morrill trust land administration state special revenue account has no other purpose and receives no other revenue, if a general fund appropriation were provided in place of the transfer, the account and statutory appropriation could be eliminated since they would no longer be used.

SB 166 GENERAL LICENSE ACCOUNT PURPLE HEART FREE LICENSE

[87-2-801\(6\), MCA](#)

The 2007 Legislature allowed residents of any age who have been awarded a purple heart to fish and hunt game birds (excluding turkeys) with only a conservation license. Certain non-residents are also given this privilege. General fund is transferred quarterly to the Department of Fish, Wildlife and Parks' general license state special revenue account as reimbursement for the forgone hunting and fishing license revenue. It is estimated that the ongoing transfer amounts will be \$11,474 each fiscal year.

Considerations:

- If a general fund appropriation were provided in place of the transfer to the general license state special revenue account, the amount appropriated in HB 2 from the account should be decreased by the same amount as the transfer.
- Interesting questions arise with this situation: Who would receive the appropriation and how is the appropriation used? One scenario would be for the Department of Fish, Wildlife and Parks to receive the general fund appropriation and use it to actually purchase the fishing and game bird licenses for those who are eligible. The money from these purchases, like the sale of any other fishing and hunting licenses, would be deposited to the general license account.
- Past legislatures have enacted legislation for discounted or free hunting and fishing licenses for specific groups of people, but SB 166 (and SB 243 below) is the first legislation to require reimbursement to the general license account for the forgone license revenue. It is important to recognize that if some of the individuals would not have obtained the licenses without the incentive, then there is no forgone revenue. Some examples of the incentives are:
 - Free fishing and game bird licenses (excluding turkey) and discounted deer and elk licenses for residents over the age of 61 (87-2-801(1&2), MCA)
 - Free fishing license for residents who are Legion of Valor members (87-2-801(3), MCA)
 - Free fishing license for veterans in VA hospitals and other institutions (87-2-802, MCA)
 - Free fishing and game bird licenses (excluding turkey) for disabled residents (87-2-803(1), MCA)
 - Discounted deer and elk licenses for disabled (including blind) residents (87-2-803(2), MCA)
 - Half-price for various deer, elk, an antelope hunting licenses (limited to 50 for each type each year) for disabled veterans who must hunt from a vehicle because of certain injuries (87-2-803(5), MCA)

- Lifetime \$10 fishing license and conservation license waiver for blind residents (87-2-803(6), MCA)
- Either a free conservation license or a discounted combination sports license for two years for residents who are members of the national guard or the federal reserves (87-2-803(12), MCA)
- Free fishing and upland game bird licenses for residents 12 to 14 years old and fee migratory bird hunting for 15 year olds (87-2-805(1), MCA)
- Discounted deer and elk licenses for residents 12 to 14 years old (87-2-805(2), MCA)
- Discounted combination sports license for residents 12 to 17 years old and free combination sports license for first time hunting residents 12 to 17 years old (87-2-805(3), MCA)
- Discounted fishing and upland game bird licenses for residents 15 to 17 years old (87-2-805(3), MCA)
- Free big game combination license for residents and non-residents under the age of 17 years who are diagnosed with a terminal illness (87-2-805(4), MCA)
- Fishing license exemption for angler educational events and activities (87-2-808, MCA)
- Discounted combination license for residents over 61 years old (87-2-809, MCA)

SB 166 also provides for temporary free conservation licenses for residents 12 to 14 years of age and those over 61 years of age (this terminates February 28, 2009). General fund is transferred quarterly to the Department of Fish, Wildlife and Parks' general license state special revenue account as reimbursement for the forgone conservation license revenue. The legislation authorizes the transfer, including the on-going transfer amounts for the free fishing and upland game bird licenses for purple heart awardees, of up to \$392,000 for FY 2008 and \$117,600 for FY 2009. Because this part of the legislation is temporary, the portion associated with the free conservation licenses is not considered a permanent general fund transfer.

SB 243 GENERAL LICENSE ACCOUNT NATIONAL GUARD FREE LICENSE

[87-2-803\(12d\), MCA](#)

Although prior law authorized residents who were members of the national guard or the federal reserves to obtain a free conservation license or a discounted combination sports license for two years, SB 243 loosened the eligibility requirements and increased the two-year time frame to five years. It also changed the discounted combination sports license to a free license and added free fishing licenses for five years. General fund is transferred quarterly to the Department of Fish, Wildlife and Parks' general license state special revenue account as reimbursement for the forgone hunting and fishing license revenue. It is estimated that the ongoing transfer amounts will be \$42,867 each fiscal year.

Considerations:

- If a general fund appropriation were provided in place of the transfer to the general license state special revenue account, the amount appropriated in HB 2 from the account should be decreased by the same amount as the transfer.
- Interesting questions arise with this situation: Who receives the appropriation and how is the appropriation used? One scenario would be for the Department of Fish, Wildlife and Parks to receive the general fund appropriation and use it to actually purchase the conservation, fishing or combination sports licenses for those who are eligible. The money from these purchases, like the sale of any other fishing and hunting licenses, would be deposited to the general license account.
- Past legislatures have enacted legislation for discounted or free hunting and fishing licenses for specific groups of people, but SB 243 (and SB 166 above) is the first legislation to require reimbursement to the general license account for the forgone license revenue. It is important to recognize that if some of the individuals would not have obtained the licenses without the incentive, then there is no forgone revenue. See the examples of incentives under the discussion of SB 166 above.

LEGISLATIVE POLICY STATEMENT

FOR THE SUBCOMMITTEE TO CONSIDER

The subcommittee, the Legislative Finance Committee, and subsequently the legislature may approve legislation to eliminate permanent general fund transfers and replace the state special revenue appropriations in HB 2 with general fund appropriations. This effort may be negated over time if subsequent legislatures continue to enact legislation containing permanent general fund transfers. The Legislative Finance Committee could adopt a policy statement addressing these transfers that Legislative Fiscal Division staff could use to inform various committees and legislators prior to and during a legislative session when proposed legislation includes such a transfer. This policy statement could also be recommended to be adopted by the joint committee prior to a legislative session. A sample policy statement might be:

“It is the policy of the Legislative Finance Committee that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. Such action obfuscates the true source of funding, reduces the general fund balance without any review by the appropriations subcommittees, and is inefficient. A better method is to directly appropriate the funding for the intended use. This policy also applies to non-general fund on-going transfers. Our Legislative Fiscal Division staff is instructed to inform legislators, legislative committees, and others as it deems necessary of this policy.”

CONCLUSION

The information in this report will assist the subcommittee in making informed decisions on the elimination of general fund transfers. The more information considered and knowledge gained by the subcommittee and the Legislative Finance Committee in its decision making process, the more able committee members will be to support their decision and defend any proposed legislation. Consideration of a policy statement may reduce or eliminate the enactment of future general fund transfers.