

HOUSE BILL NO. 715

INTRODUCED BY L. JONES

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4 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING LAWS RELATED TO THE BUDGET STABILIZATION  
5 RESERVE FUND; REVISING PERCENTAGES FOR REDUCTIONS IN SPENDING; PROVIDING FOR A TAX  
6 MODERNIZATION STUDY TO BE COMPLETED BY A JOINT COMMITTEE OF THE REVENUE AND  
7 TRANSPORTATION INTERIM AND LEGISLATIVE FINANCE COMMITTEES AND PUBLIC MEMBERS;  
8 DIRECTING THE LEGISLATIVE FINANCE COMMITTEE TO CONDUCT A STUDY ON LONG-TERM BUDGET  
9 STABILIZATION; SETTING PARAMETERS FOR THE STUDIES; PROVIDING FOR APPROPRIATIONS;  
10 AMENDING SECTIONS 17-7-130 AND 17-7-140, MCA; PROVIDING FOR CONTINGENT VOIDNESS; AND  
11 PROVIDING EFFECTIVE DATES AND A TERMINATION DATE."

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13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:  
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**Section 1.** Section 17-7-130, MCA, is amended to read:

**"17-7-130. Budget stabilization reserve fund -- rules for deposits and transfers -- purpose. (1)**

There is an account in the state special revenue fund established by 17-2-102 known as the budget stabilization reserve fund.

(2) The purpose of the budget stabilization reserve fund is:

(a) to mitigate budget reductions when there is a revenue shortfall; and

(b) when there are funds in excess of the operating reserve level, to:

(i) pay down the debt service on bonds for capital projects previously authorized by the legislature if allowed without penalty by the terms of the bond issuance;

(ii) delay, forego, or reduce the amount of an issuance of bonds authorized by the legislature; and

(iii) allow the funds to remain in the account.

(3) By August 1 of each year, the department of administration shall certify to the legislative fiscal analyst and the budget director the following:

(a) the unaudited, unassigned ending fund balance of the general fund for the prior fiscal year; and

(b) the amount of unaudited general fund revenue and transfers into the general fund received in the prior fiscal year recorded when that fiscal year's statewide accounting, budgeting, and human resource system

1 records are closed. General fund revenue and transfers into the general fund are those recorded in the statewide  
 2 accounting, budgeting, and human resource system using generally accepted accounting principles in  
 3 accordance with 17-1-102.

4 (4) For the fiscal years beginning July 1, 2016, through July 1, 2020, if actual general fund revenue  
 5 exceeds the revenue estimate established pursuant to 5-5-227 for that fiscal year, excess revenue over the  
 6 amount of revenue that exceeds the revenue estimate by \$15 million is allocated as follows:

7 (a) 50% remains in the general fund; and

8 (b) 50% is transferred into the budget stabilization reserve fund on or before August 15 of the following  
 9 fiscal year.

10 (5) Starting in the fiscal year beginning July 1, 2021, the state treasurer shall transfer, by August 15 of  
 11 the following fiscal year:

12 ~~—— (a) if there is not an operating reserve differential, from the general fund to the budget stabilization~~  
 13 ~~reserve fund an amount equal to 50% of the excess revenue for the fiscal year;~~

14 ~~—— (b) if there is an operating reserve differential for the fiscal year, from the general fund to the budget~~  
 15 ~~stabilization reserve fund an amount equal to 50% of the excess revenue for the fiscal year less the operating~~  
 16 ~~reserve differential; and~~

17 ~~—— (c) if the ending fund balance of the general fund for the prior year is less than 6.8% of the amount of~~  
 18 ~~all general fund appropriations in the second year of the biennium, from the budget stabilization reserve fund to~~  
 19 ~~the general fund up to one-half of the amount in the budget stabilization reserve fund in excess of the amount of~~  
 20 ~~2% of all general fund appropriations in the second year of the biennium in the subsequent fiscal year.~~

21 (6) For the purposes of this section, the following definitions apply:

22 (a) "Adjusted revenue" means general fund revenue for the prior fiscal year plus the growth amount.

23 (b) "Excess revenue" means the amount of general fund revenue, including transfers in, for the most  
 24 recently completed fiscal year minus adjusted revenue.

25 (c) "Growth amount" means general fund revenue for the prior fiscal year multiplied by the growth rate.

26 (d) "Growth rate" means the average compound rate of growth of general fund revenue for the most  
 27 recently completed 6 fiscal years.

28 ~~—— (e) "Operating reserve differential" means a nonnegative difference from 8.3% of all general fund~~  
 29 ~~appropriations in the second year of the biennium minus the sum of the ending fund balance for the prior year~~  
 30 ~~and 50% of excess revenue of the prior year."~~

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2           **Section 2.** Section 17-7-140, MCA, is amended to read:

3           **"17-7-140. Reduction in spending.** (1) (a) As the chief budget officer of the state, the governor shall  
4 ensure that the expenditure of appropriations does not exceed available revenue. Except as provided in  
5 subsection (2), in the event of a projected general fund budget deficit, the governor, taking into account the  
6 criteria provided in subsection (1)(c), shall direct agencies to reduce spending in an amount that ensures that the  
7 projected ending general fund balance for the biennium will be at least:

8           (i) ~~6%~~ 4% of the general fund appropriations for the second fiscal year of the biennium prior to October  
9 of the year preceding a legislative session;

10           (ii) 3% of the general fund appropriations for the second fiscal year of the biennium in October of the year  
11 preceding a legislative session;

12           (iii) 2% of the general fund appropriations for the second fiscal year of the biennium in January of the year  
13 in which a legislative session is convened; and

14           (iv) 1% of the general fund appropriations for the second fiscal year of the biennium in March of the year  
15 in which a legislative session is convened.

16           (b) An agency may not be required to reduce general fund spending for any program, as defined in each  
17 general appropriations act, by more than 10% during a biennium. Departments or agencies headed by elected  
18 officials or the board of regents may not be required to reduce general fund spending by a percentage greater  
19 than the percentage of general fund spending reductions required for the total of all other executive branch  
20 agencies. The legislature may exempt from a reduction an appropriation item within a program or may direct that  
21 the appropriation item may not be reduced by more than 10%.

22           (c) The governor shall direct agencies to manage their budgets in order to reduce general fund  
23 expenditures. Prior to directing agencies to reduce spending as provided in subsection (1)(a), the governor shall  
24 direct each agency to analyze the nature of each program that receives a general fund appropriation to determine  
25 whether the program is mandatory or permissive and to analyze the impact of the proposed reduction in spending  
26 on the purpose of the program. An agency shall submit its analysis to the office of budget and program planning  
27 and shall at the same time provide a copy of the analysis to the legislative fiscal analyst. The report must be  
28 submitted in an electronic format. The office of budget and program planning shall review each agency's analysis,  
29 and the budget director shall submit to the governor a copy of the office of budget and program planning's  
30 recommendations for reductions in spending. The budget director shall provide a copy of the recommendations

1 to the legislative fiscal analyst at the time that the recommendations are submitted to the governor and shall  
2 provide the legislative fiscal analyst with any proposed changes to the recommendations. The recommendations  
3 must be provided in an electronic format. The legislative finance committee shall meet within 20 days of the date  
4 that the proposed changes to the recommendations for reductions in spending are provided to the legislative  
5 fiscal analyst. The legislative fiscal analyst shall provide a copy of the legislative fiscal analyst's review of the  
6 proposed reductions in spending to the budget director at least 5 days before the meeting of the legislative  
7 finance committee. The committee may make recommendations concerning the proposed reductions in spending.  
8 The governor shall consider each agency's analysis and the recommendations of the office of budget and  
9 program planning and the legislative finance committee in determining the agency's reduction in spending.  
10 Reductions in spending must be designed to have the least adverse impact on the provision of services  
11 determined to be most integral to the discharge of the agency's statutory responsibilities.

12 (2) Reductions in spending for the following may not be directed by the governor:

- 13 (a) payment of interest and principal on state debt;  
14 (b) the legislative branch;  
15 (c) the judicial branch;  
16 (d) the school BASE funding program, including special education;  
17 (e) salaries of elected officials during their terms of office; and  
18 (f) the Montana school for the deaf and blind.

19 (3) (a) As used in this section, "projected general fund budget deficit" means an amount, certified by the  
20 budget director to the governor, by which the projected ending general fund balance for the biennium is less than:

- 21 (i) ~~5%~~ 4% of the general fund appropriations for the second fiscal year of the biennium prior to October  
22 of the year preceding a legislative session;  
23 (ii) 1.875% in October of the year preceding a legislative session;  
24 (iii) 1.25% in January of the year in which a legislative session is convened; and  
25 (iv) 0.625% in March of the year in which a legislative session is convened.

26 (b) In determining the amount of the projected general fund budget deficit, the budget director shall take  
27 into account revenue, established levels of appropriation, anticipated supplemental appropriations for school  
28 equalization aid and the cost of the state's wildland fire suppression activities exceeding the amount statutorily  
29 appropriated in 10-3-312, and anticipated reversions.

30 (4) If the budget director determines that an amount of actual or projected receipts will result in an

1 amount less than the amount projected to be received in the revenue estimate established pursuant to 5-5-227,  
 2 the budget director shall notify the revenue and transportation interim committee of the estimated amount. Within  
 3 20 days of notification, the revenue and transportation interim committee shall provide the budget director with  
 4 any recommendations concerning the amount. The budget director shall consider any recommendations of the  
 5 revenue and transportation interim committee prior to certifying a projected general fund budget deficit to the  
 6 governor.

7 (5) If the budget director certifies a projected general fund budget deficit, the governor may authorize  
 8 transfers to the general fund from certain accounts as set forth in subsections (6), ~~and (7)~~, and (8).

9 (6) If the balance of the budget stabilization reserve fund is more than 2% of all general fund  
 10 appropriations in the second year of the biennium, the governor may authorize transfers from the budget  
 11 stabilization reserve fund prior to making reductions in spending. The total amount of transfers under this  
 12 subsection may not exceed an amount equal to 1% of all general fund appropriations in the second year of the  
 13 biennium prior to reductions in spending.

14 ~~(6)(7)~~ The governor may authorize transfers from the budget stabilization reserve fund provided for in  
 15 17-7-130. The governor may authorize \$2 of transfers from the fund for each \$1 of reductions in spending.

16 ~~(7)(8)~~ If the budget director certifies a projected general fund budget deficit, the governor may authorize  
 17 transfers to the general fund from the fire suppression account established in 76-13-150. The amount of funds  
 18 available for a transfer from this account is up to the sum of the fund balance of the account, plus expected  
 19 current year revenue, minus the sum of 1% of the general fund appropriations for the second fiscal year of the  
 20 biennium, plus estimated expenditures from the account for the fiscal year. The governor may authorize \$1 of  
 21 transfers from the fire suppression account established in 76-13-150 for each \$1 of reductions in spending."  
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23 NEW SECTION. Section 3. Legislative tax modernization study. (1) A joint committee of members  
 24 of the legislative finance committee and the revenue and transportation interim committee and appointed  
 25 members of the public shall study the long-term future budget needs and revenue collections with changing  
 26 economics and demographics.

27 (2) The study must be conducted by a bipartisan joint committee consisting of the following:

28 (a) six members of the legislative finance committee, with three members appointed by the chair and  
 29 three members appointed by the vice chair;

30 (b) six members of the revenue and transportation interim committee, with three members appointed by

- 1 the chair and three members appointed by the vice chair; and
- 2 (c) four members of the public with one appointed by each chair and vice chair of the two committees.
- 3 (3) The legislative fiscal division will provide administrative duties for the joint committee in coordination
- 4 with the legislative services division. The legislative fiscal division will provide fiscal support and the legislative
- 5 services division will provide policy research and legal support.
- 6 (4) Subject to direction provided by the joint committee, the study shall include but is not limited to:
- 7 (a) identifying structural challenges, including but not limited to consideration of:
- 8 (i) a tax structure weighted toward a reliance on natural resources, which is declining;
- 9 (ii) a tax structure not fully capturing the tourist economy, increasing consumer preference for services
- 10 over goods, and the growing e-commerce economy;
- 11 (iii) revenue being highly dependent on individual income taxes, which can be volatile;
- 12 (iv) Montana's aging population, which may result in slowing individual income tax growth, even as
- 13 demand for services increases;
- 14 (v) flat fees that do not address inflation;
- 15 (vi) tobacco taxes based on declining consumption; and
- 16 (vii) individual income tax implications with an increasingly mobile workforce;
- 17 (b) exploring revenue sufficiency for long-term potential expenditures, including but not limited to the
- 18 following:
- 19 (i) increasing health care costs and consumption;
- 20 (ii) K-12 inflationary increases;
- 21 (iii) higher education;
- 22 (iv) pensions;
- 23 (v) state infrastructure; and
- 24 (vi) natural resource revenue funded programs; and
- 25 (c) proposing potential solutions and possible legislation for consideration by the 2021 legislature,
- 26 including options regarding:
- 27 (i) limiting expenditures to available revenue;
- 28 (ii) adjusting tax rates;
- 29 (iii) broadening the tax base; or
- 30 (iv) expanding or revising tax structure to better reflect Montana's economy.

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2        **NEW SECTION. Section 4. Long term budget stabilization study.** (1) The legislative finance  
3 committee shall direct a study of fiscal and economic policy practices of other states.

4        (2) Subject to direction provided by the legislative finance committee the study may include but is not  
5 limited to research and evaluation of state practices related to the following topics:

6        (a) budget stress tests, including pension stress testing, revenue volatility, revenue trends, expenditure  
7 trends, and expenditure volatility;

8        (b) financial sustainability of revenue sources supporting medicaid and the children's health insurance  
9 program; and

10        (c) personal services budgeting practices.

11        (3) The legislative fiscal division shall complete the study and report the results of the study to the  
12 legislative finance committee for consideration and possible legislation to be introduced in the 2021 legislative  
13 session.

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15        **NEW SECTION. Section 5. Appropriations.** (1) There is appropriated \$15,000 for the biennium  
16 beginning July 1, 2019, to the legislative fiscal division from the general fund for the purposes of the study as set  
17 forth in [section 3].

18        (2) There is appropriated \$100 for the biennium beginning July 1, 2019, to the legislative fiscal division  
19 from the general fund for the purposes of the study as set forth in [section 4].

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21        **COORDINATION SECTION. Section 6. Coordination instruction.** If both [this act] and House Bill No.  
22 553 are passed and approved, then the section in [this act] amending 17-7-130 is void and 17-7-130 must be  
23 amended to read:

24        **"17-7-130. Budget stabilization reserve fund -- rules for deposits and transfers -- purpose.** (1)  
25 There is an account in the state special revenue fund established by 17-2-102 known as the budget stabilization  
26 reserve fund.

27        (2) The purpose of the budget stabilization reserve fund is:

28        (a) to mitigate budget reductions when there is a revenue shortfall; and

29        (b) when there are funds in excess of the operating reserve level, to:

30        (i) pay down the debt service on bonds for capital projects previously authorized by the legislature if

1 allowed without penalty by the terms of the bond issuance;

2 (ii) delay, forego, or reduce the amount of an issuance of bonds authorized by the legislature; and

3 (iii) allow the funds to remain in the account.

4 (3) By August 1 of each year, the department of administration shall certify to the legislative fiscal analyst  
5 and the budget director the following:

6 (a) the unaudited, unassigned ending fund balance of the general fund for the prior fiscal year; and

7 (b) the amount of unaudited general fund revenue and transfers into the general fund received in the  
8 prior fiscal year recorded when that fiscal year's statewide accounting, budgeting, and human resource system  
9 records are closed. General fund revenue and transfers into the general fund are those recorded in the statewide  
10 accounting, budgeting, and human resource system using generally accepted accounting principles in  
11 accordance with 17-1-102.

12 (4) For the fiscal years beginning July 1, 2016, through July 1, 2020, if actual general fund revenue  
13 exceeds the revenue estimate established pursuant to 5-5-227 for that fiscal year, excess revenue over the  
14 amount of revenue that exceeds the revenue estimate by \$15 million is allocated as follows:

15 (a) 50% remains in the general fund; and

16 (b) 50% is transferred into the budget stabilization reserve fund on or before August 15 of the following  
17 fiscal year.

18 (5) Starting in the fiscal year beginning July 1, 2021, the state treasurer shall transfer, by August 15 of  
19 the following fiscal year:

20 ~~—— (a) if there is not an operating reserve differential, from the general fund to the budget stabilization~~  
21 ~~reserve fund an amount equal to 50% of the excess revenue for the fiscal year;~~

22 ~~(b) if there is an operating reserve differential for the fiscal year, from the general fund to the budget~~  
23 ~~stabilization reserve fund an amount equal to 50% of the excess revenue for the fiscal year less the operating~~  
24 ~~reserve differential; and~~

25 ~~—— (c) if the ending fund balance of the general fund for the prior year is less than 6.8% of the amount of~~  
26 ~~all general fund appropriations in the second year of the biennium, from the budget stabilization reserve fund to~~  
27 ~~the general fund up to one-half of the amount in the budget stabilization reserve fund in excess of the amount of~~  
28 ~~2% of all general fund appropriations in the second year of the biennium in the subsequent fiscal year.~~

29 (6) After a transfer is made pursuant to subsection (4) or (5), if the balance of the fund exceeds an  
30 amount equal to 4.5% of all general fund appropriations in the second year of the biennium in the subsequent



1 fiscal year, any funds in excess of that amount must be transferred to the account established in [section 4 of  
2 House Bill No. 553] by August 16 of each fiscal year.

3 ~~(6)~~(7) For the purposes of this section, the following definitions apply:

4 (a) "Adjusted revenue" means general fund revenue for the prior fiscal year plus the growth amount.

5 (b) "Excess revenue" means the amount of general fund revenue, including transfers in, for the most  
6 recently completed fiscal year minus adjusted revenue.

7 (c) "Growth amount" means general fund revenue for the prior fiscal year multiplied by the growth rate.

8 (d) "Growth rate" means the average compound rate of growth of general fund revenue for the most  
9 recently completed 6 fiscal years.

10 ~~—— (e) "Operating reserve differential" means a nonnegative difference from 8.3% of all general fund~~  
11 ~~appropriations in the second year of the biennium minus the sum of the ending fund balance for the prior year~~  
12 ~~and 50% of excess revenue of the prior year."~~

13  
14 NEW SECTION. Section 7. Contingent voidness. (1) If [this act] is passed and approved and does  
15 not contain an appropriation for the study set forth in [section 3], [section 3 of this act] is void.

16 (2) If [this act] is passed and approved and does not contain an appropriation for the study set forth in  
17 [section 4], [section 4 of this act] is void.

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19 NEW SECTION. Section 8. Effective dates. (1) Except as provided in subsection (2), [this act] is  
20 effective July 1, 2019.

21 (2) [Section 3] and this section are effective May 1, 2019.

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23 NEW SECTION. Section 9. Termination. [This act] terminates December 1, 2020.

24 - END -