



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: Aug. 31, 2018  
TO: Legislative Finance Committee  
FROM: Joshua Poulette, LFD  
RE: SB 261 Recommendations

[SB 261](#) (2017 regular session) required both the Legislative Fiscal Division (LFD) and the Office of Budget and Program Planning (OBPP) to develop a set of recommended best practices for the Budget Stabilization Reserve Fund (BSRF) by Sept. 1, 2018. As directed by SB 261 both LFD ([Part I](#), [Part II](#), [Part III](#)) and OBPP ([Report](#)) conducted analysis and published reports on budget stabilization policies.

In evaluating the documents submitted by the OBPP and the LFD there are three areas of potential improvement in the BSRF (and general fiscal stabilization policy) identified by both offices:

1. Both parties agree that the statutorily defined size of the BSRF (4.5% of the annual general fund budget, or about \$106 million) is too small, and both parties recommend changes to the overall set of fiscal volatility management tools (operating reserve cash buffer, BSRF, and minimum ending fund balance). LFD recommends increasing the statutorily defined size of the BSRF while decreasing the minimum ending fund balance. OBPP recommends increasing the size of the BSRF without reducing the size of the other volatility management tools.
2. Both LFD and OPBB agree that the BSRF deposit rule could potentially be improved by shifting the methodology used to determine average revenue growth rates. Currently statute requires a 6-year cumulative average growth (6-year compound annual growth rate) comparison for deposits into the BSRF. LFD analysis indicates a time-squared methodology for comparing actual revenue to long term trend is less reactive to current trends and as a result would deposit more cash into the BSRF in years of strong revenue growth. OBPP recommends comparing actual revenue to a consensus revenue estimate (discussed below) to determine BSRF deposit amounts.
3. Both parties agree that taking steps toward consensus revenue estimating could improve the state's ability to manage fiscal volatility. Consensus revenue estimating is a process in which a team of experts with different backgrounds, including members with diverse political ideologies, work together to develop a revenue estimate. While the majority of academic studies consider consensus revenue estimation to be a beneficial practice, it does not necessarily create a more accurate estimate. Both LFD and OBPP agree that in order for consensus revenue estimation to be a meaningful practice the estimate, once agreed upon, must be accepted by all actors in the process. Given the current status of Montana's revenue estimating process, starting with developing steps toward mutual acceptance would be appropriate.

The analysis and recommendations for the three items is different between the offices, so no specific joint recommendation is included. If the legislature chooses to further study methods of managing financial volatility, reports provided by both offices should be considered.