



Legislative Fiscal Report: 2021 Biennium Preliminary Volume 1 - Statewide Perspectives

Preliminary

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OVERVIEW

This analysis reports legislative appropriations of general fund, state special funds, federal funds, and certain proprietary funds as defined in [17-7-150, MCA](#). The general fund is the primary fund used for general government purposes such as education, health care, and corrections. All funds budgets include the general fund plus the other appropriated funds. The overview of the general fund budget begins below and the overview of the all funds budget begins on page 7.

GENERAL FUND BALANCE THROUGH 2021 BIENNIUM

When the legislature adjourned in April 2017, the general fund ending balance was estimated at \$198.8 million. However, measures were adopted in SB 261 to improve the general fund ending balance if projected revenues fell short of expectations. In August 2017 the implementations of SB 261 were necessary and triggered transfers and reductions of \$97.4 million further stabilized the ending fund balance. However, the extraordinary fire season and revenue estimates from the executive's staff, prompted the Governor to further reduce agency expenditures as provided in 17-7-140, MCA. A special session of the legislature was called by the Governor in November 2017, which resulted in additional fire suppression appropriation authority and legislation to increase the projected general fund ending balance to \$132.3 million for FY 2019 based on the executive's revenue estimates.

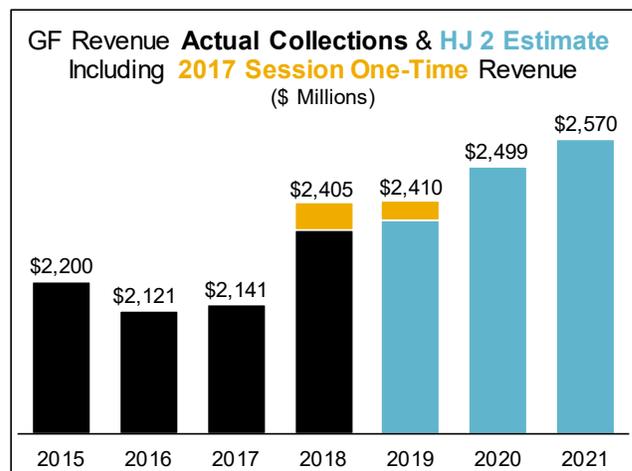
Legislators returned for the regular legislative session in January 2019, expecting a stable financial outlook. The legislature adopted a budget of \$14.3 billion and a projected general fund ending balance of \$239.0 million or 9.3% of annual expenditures. The budget included the continuation of Medicaid expansion, infrastructure funding, and projected fund balances in the budget stabilization reserve fund of \$73.0 million and \$39.0 million in the fire fund.

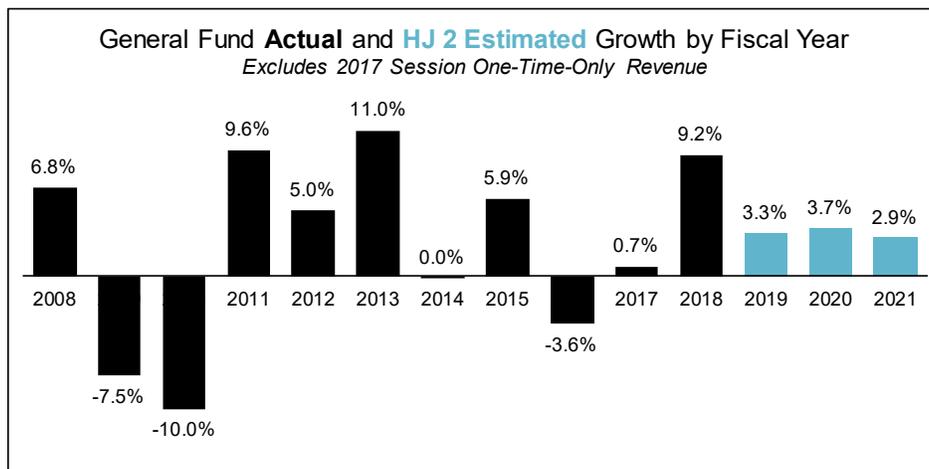
GENERAL FUND REVENUES THROUGH THE 2021 BIENNIUM

General fund revenue collections have been and continue to be influenced by both changing economics and change in taxpayer choices made in response to the anticipated and actual federal tax changes. Economic factors lowered collections in FY 2016 and FY 2017. Taxpayer choices may have lowered general fund revenues in FY 2017 that may have extended into FY 2018.

The adjacent chart illustrates general fund revenue collections since FY 2015 and forecast levels through the 2021 biennium. Note that the one-time-only revenue depicted in yellow in FY 2017 through FY 2019 was primarily used to shore up the ending fund balance in the 2019 biennium as described above.

To compare ongoing revenues, the bar chart on the next page has growth stated without the one-time-only revenue of the last few years. Currently, 2019 HJ 2 ongoing revenues are anticipated to grow by 3.3% in FY 2019, 3.7% in FY 2020, and 2.9% in FY 2021. The average growth of ongoing revenue between FY 2000 and FY 2018 is 3.9%; the growth anticipated in HJ 2 is modest in comparison to this long term trended growth rate and below the anticipated growth in the economy.





FY 2019 may be under-estimated

The HJ 2 revenue estimate does not include any additional one-time revenue from potential delayed income realization due to taxpayer choices as described in the revenue section of this report. The HJ 2 estimate was finalized in early April 2019, before tax return data was complete. It now appears that individual income tax collections for FY 2019 may end up above HJ 2, likely in part due to previously delayed income realizations. This under-estimate is anticipated to affect FY 2019 revenue only and is not anticipated to be an ongoing revenue increase.

ADOPTED GENERAL FUND BUDGET

Present Law Changes

Statute defines present law as the level of funding necessary to maintain current government services. The 2019 Legislature adopted the following significant changes to general fund authority:

Statewide

Executive proposals to increase general fund present law personal services budgets by \$34 million in the 2021 biennium were scrutinized by the legislature. As a result, certain vacant full-time equivalent (FTE) and the associated funding were reduced from HB 2 agency budgets.

[HB 3](#) lowered FY 2019 general fund appropriations in HB 2 by \$13.5 million and increased general fund appropriations by \$12.8 million for a net savings to general fund of about \$700,000.

Bonding for Infrastructure

The legislature passed general obligation bonding for infrastructure in [HB 652](#); the estimated general fund costs for bond issuance and debt service is \$11.0 million for the 2021 biennium.

General Government

The legislature adopted restricted general fund appropriations in HB 2 of \$6.3 million over the biennium for the Montana cybersecurity enhancement project in the Department of Administration's State Information Technology Division.

Department of Public Health and Human Services

- Medicaid expansion was continued in HB 658, with \$54.9 million less general fund than the executive proposal
- Children's Health Insurance Program (CHIP) present law increased by \$11.0 million general fund to adjust for the lower federal match rate known as the Enhanced Federal Medical Assistance Percentage (E-FMAP).

Judicial Branch, Public Safety, Public Defender, and Corrections

Office of Public Defender (OPD) caseload adjustments in HB 2 increased general fund appropriation authority by \$8.5 million for the biennium.

Education

Office of the Commissioner of Higher Education

The legislature adopted a \$26.5 million total increase to the educational units for a tuition freeze and present law adjustments.

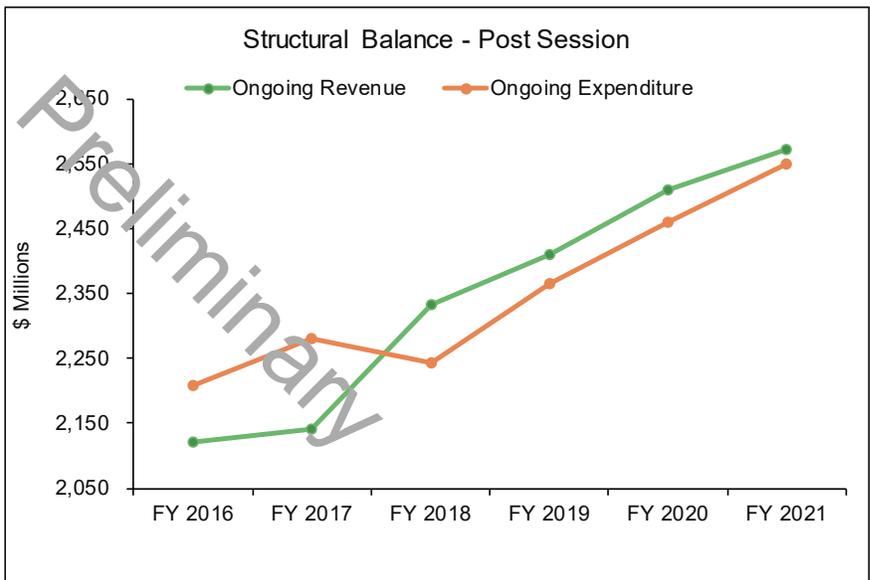
- \$14.4 million was designated as the funding for a tuition freeze
- \$10.1 million for present law adjustments

Office of Public Instruction: K-12 education

- Inflationary and enrollment increases for BASE Aid components growth, at \$77.7 million over the biennium
- Major maintenance aid increased by \$14.0 million over the biennium

Structural Balance

The estimated structural balance at the end of the 2019 Legislative Session was \$24.2 million for FY 2021. Compared to the 2017 biennium, when ongoing expenditures exceeded available ongoing revenue, the projected 2021 biennium structural balance is positive and provides a solid financial start to the 2023 biennium budgeting process.

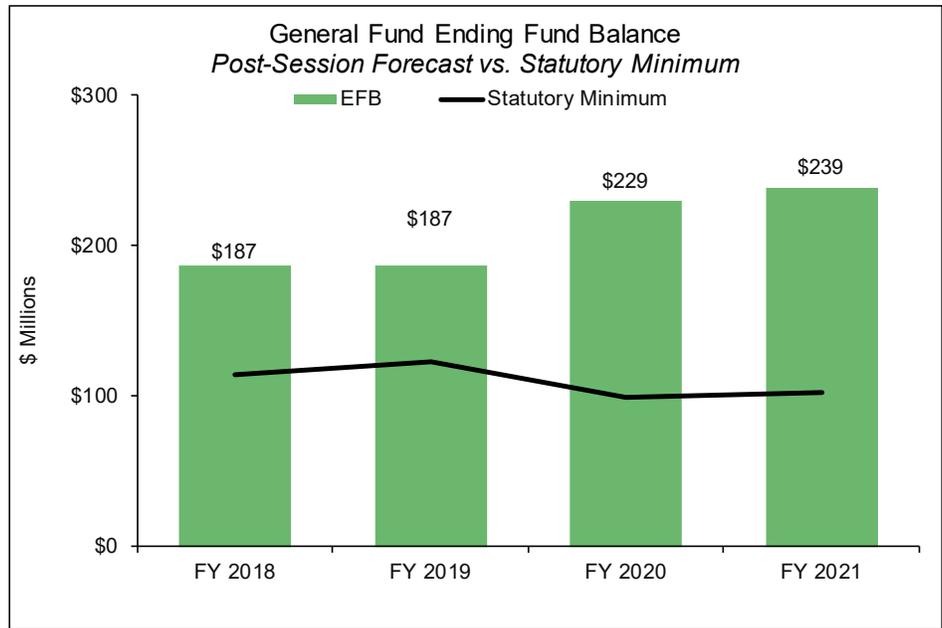


Ending Fund Balance

The suggested general fund operating reserve is 8.3% of second year appropriations. The [budget stabilization reserve study](#) conducted during the 2019 interim concluded that the minimum suggested general fund level at which the projected ending fund balance may be allowed to drop before the executive implements agency budget reductions ([17-7-140, MCA](#)) should be lower.

The 66th Legislature adopted [HB 715](#) which changed the statute, [17-7-140, MCA](#), to lower the projected ending fund balance minimum

before spending reductions occur. The statute change requires the projected ending fund balance be at least 4.0% of the second-year appropriations, prior to October of the year preceding a legislative session.



GENERAL FUND BALANCE SHEET

Pending additional Governor's vetoes and the results of legislative polling, the projected general fund ending fund balance is \$239.0 million in FY 2021. The following table provides general fund balance details:

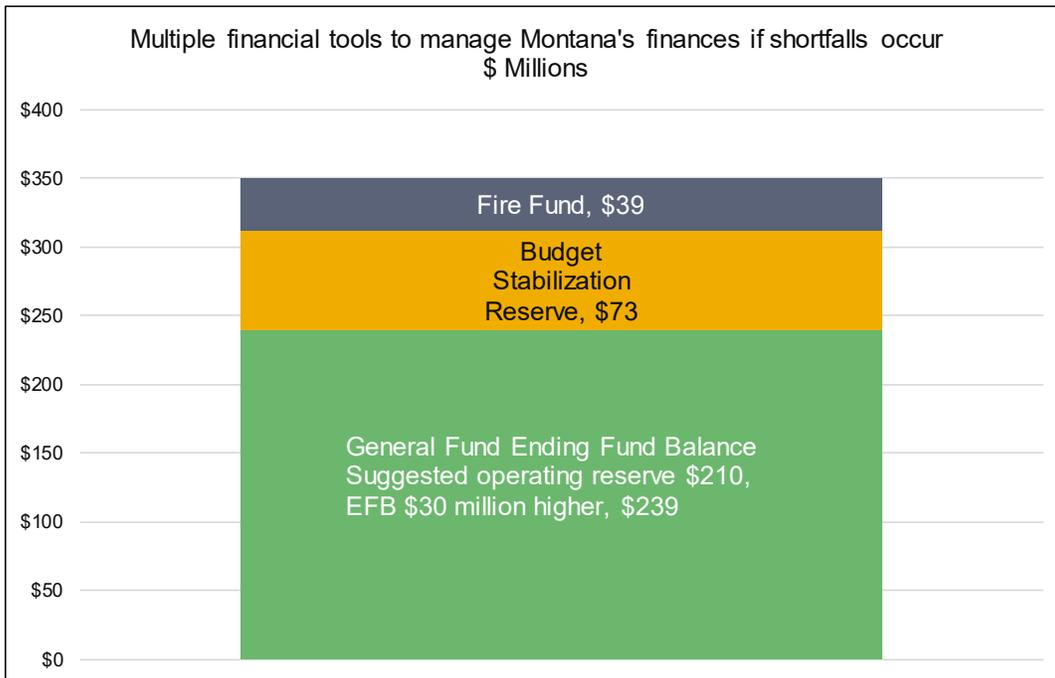
General Fund Balance Sheet				
Includes HJ 2 Revenue Estimates as Adopted by the Revenue and Transportation Interim Committee				
(\$ Millions)				
5/21/2019 11:37 a.m.				
	Actual FY 2018	Estimated FY 2019	Estimated FY 2020	Estimated FY 2021
Beginning Fund Balance	\$47.933	\$186.707	\$187.092	\$229.405
Revenues				
Actual & Estimated	2,333.618	2,410.403	2,498.558	2,570.361
Revenue legislation		0.306	9.908	2.507
Revenue legislation - OTO		4.353		
OTO	71.829	51.024	4.100	
Prior Year Adjustments - revenue	1.638			
Total Revenue Funds Available	2,455.018	2,652.793	2,699.658	2,802.274
Expenditures - Ongoing				
Statutory Approps	316.360	336.703	283.858	289.527
General Fund Transfers	19.857	21.055	17.988	18.423
HB 2 Agency Budgets*	1,904.347	2,003.024	2,101.260	2,159.972
HB 1 (includes continuing authority & estimate for 2021 session)	2.401	10.272	2.293	10.457
Other Appropriations (includes continuing authority)	0.068	1.793		
Bill Legislation			61.626	77.916
Reversions		(7.119)	(7.319)	(7.583)
Ongoing Expenditures	2,243.033	2,365.728	2,459.706	2,548.714
OTO				
HB 2 Agency Budgets	12.992	14.351	7.650	6.948
HB 3		35.798		
Special Session SB 9 Budget Stabilization Transfer		45.721		
Fire Fund Transfers	25.309			
Other Appropriations	2.531			
Bill Legislation		4.103	2.896	7.563
Other, including carry forward	4.166			
Total Expenditures	2,287.530	2,465.701	2,470.253	2,563.225
Other Adjustments, includes CAFR	19.219			
Ending Fund Balance	\$186.707	\$187.092	\$229.405	\$239.048
Structural Balance		\$44.981	\$48.759	\$24.154
Assumptions: Pending additional Governor's vetoes and legislative polling. Bills currently out for legislative polling are not included: HB 482, SB 239, SB 266, SB 330. Please refer to the status sheet rules adopted by the Legislative Finance Committee management group. The rules are available on the LFD web page. Agency budgets in the 2019 biennium include the pay plan. FY 2020 OTO revenue includes an anticipated Core Civic contract renegotiation amount.				

General Fund Structural Balance

Structural balance is defined as the difference between ongoing revenues and ongoing expenditures. Structural balance is projected to be solid in FY 2021 at \$24.2 million.

STATE FINANCIAL TOOLS FOR MANAGING FINANCES

In addition to the general fund balance of \$239.0 million, other financial tools are available for managing volatility in revenues and expenditures, like the general fund operating reserve, budget stabilization reserve fund, and the fire fund.



Operating Reserve, Budget Stabilization Reserve Fund (BSRF), & Fire Fund Summary

Operating Reserve

The operating reserve, the BSRF, and the fire fund strengthen state finances. The suggested operating reserve for general fund is 8.3% of second year appropriations, or roughly \$210 million. The projected ending fund balance is \$239.0 million, which is about \$30.0 million higher than the suggested operating reserve, providing Montana with more than the suggested operating reserve.

Budget Stabilization Reserve Fund Balance Assumptions

The budget stabilization reserve fund is a significant asset for managing general fund volatility and is the cornerstone of Montana's budget management tools. The BSRF funding is the following:

1. Initial funding received into the BSRF occurred in FY 2019 when expected general fund revenues were higher than anticipated, thus triggering \$45.7 million in extra revenues into the BSRF;
2. [HB 3](#), passed during the 2019 session, transferred \$15.0 million to the BSRF from the general fund;
3. For the 2019 biennium, HB 715 redistributed the unspent Governor's emergency statutory appropriation authority is transferred to the BSRF, which is estimated at \$12.0 million; and
4. At the end of FY 2019, if general fund revenues are above the HJ 2 estimate by at least \$15.0 million, then 50.0% of the excess is transferred to the BSRF. At this time, revenues are expected at the HJ 2 level and therefore no extra revenue transfers to the BSRF are anticipated.

Fire Suppression Fund Balance Assumptions

The fire suppression fund is available to manage expenditure risk associated with wildland fire costs. The fire fund balance is projected to be \$38.5 million at the end of the 2019 biennium. The primary reason for the increased balance is the transfer of \$15.0 million from the Core Civic state special revenue fund into the fire fund as directed in [HB 3](#) (2019 session). By law, the executive normally makes two deposits into the fund on a regular basis:

- 1) Reversion Transfer: General fund appropriations that are underspent (or reverted) by more than 0.5% of all appropriations. This transfer was suspended for the 2019 biennium by legislation passed in the 2017 session.
- 2) Remaining authority from the Governor's emergency statutory appropriation is transferred to the fire suppression fund after the end of the biennium. Legislation adopted in [HB 715](#) (2019 session) redistributed this transfer at the end of 2019 biennium to the BSRF.

ALL FUNDS SUMMARY

The following significant legislative actions changed existing law, provided new policy direction, and implemented infrastructure decisions.

Medicaid Expansion

HB 658 extended Medicaid expansion, and compared to the original executive budget proposal, the appropriations included in the bill are \$274.2 million higher than what had been submitted for continuation of the statutory appropriation.

HELP Act Medicaid Expansion Expenditures & 2021 Biennium Appropriations						
	FY 2016	FY 2017	FY 2018	DPHHS Estimate ¹ FY 2019	HB 658	
					FY 2020	FY 2021
General Fund						
Benefits and Administration	\$5,603,410	\$24,810,836	\$42,633,784	\$39,987,699	\$31,657,493	\$40,174,374
Supplemental Payments	-	-	-	-	-	-
subtotal	5,603,410	24,810,836	42,633,784	39,987,699	31,657,493	40,174,374
State Special Revenue						
Benefits and Administration	-	-	-	-	33,165,464	35,200,535
Supplemental Payments ²	-	-	-	-	25,776,425	26,613,993
subtotal	-	-	-	-	58,941,889	61,814,528
Federal Funds						
Benefits and Administration	137,061,972	403,675,669	517,586,943	539,196,331	562,447,343	571,658,286
Supplemental Payments	-	145,845,885	155,400,833	174,920,041	217,278,228	216,176,522
subtotal	137,061,972	549,521,554	672,987,775	714,116,372	779,725,571	787,834,808
Grand Total	\$142,665,382	\$574,332,390	\$715,621,560	\$754,104,071	\$870,324,953	\$889,823,710
¹ As reported in the April 2019 DPHHS Budget Status Report.						
² Prior to the 2021 biennium, the state match for hospital supplemental payments was under the HB 2 Medicaid appropriation.						

In considering the \$274.2 million difference more closely:

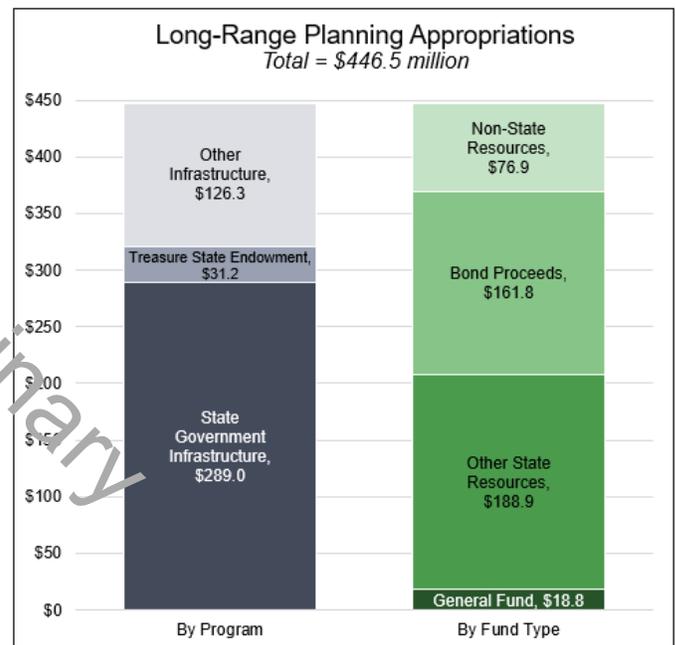
- General fund savings - the executive general fund proposal was \$54.9 million higher what was adopted in HB 658
- New state special revenue funds comprise \$124.3 million in HB 658, from premiums, a new outpatient hospital fee, increased bed tax (Hospital Utilization Fee), 501(d) fees, and the Taxpayer Integrity Fee. Approximately \$5.5 million from premiums were previously being deposited in the general fund and expended from there
- Federal fund authority is higher in HB 658 by \$203.8 million, primarily the result of increased hospital supplemental payments that leverage both the bed tax and the outpatient fee to provide federal matching funds, which are paid out to hospitals

Montana Re-insurance Association and Program – [SB 125](#)

Legislators passed legislation that creates a new 1.2% assessment on total premium volume for major medical health insurers in the individual and employer group health insurance market covering Montana residents. SB 125 requires all eligible health insurers to calculate the premium amount the eligible health insurer would have charged for the benefit year if the Montana reinsurance program had not been established. The [fiscal note](#) estimates that the assessment will create state special revenues of approximately \$9.9 million in each year of the 2021 biennium. Federal revenues received during this period are estimated at \$34.0 million each fiscal year in the 2021 biennium. The cost for the new program is estimated at \$88.0 million in total funds for the 2021 biennium. Appropriation authority to the State Auditor of \$88.3 million in state and federal special revenues was provided in HB 715, if the State Auditor chooses to apply the authority to this new program. The policy benefit as outlined in the legislation states that the program was created to, “. . . stabilize the individual health insurance market, maintain competition, and reduce premiums”. The re-insurance policy and program adopted by the legislature was not included in the executive’s budget proposal, however the Governor signed it into law.

Infrastructure Funding

The 2019 Legislature approved a total one-time spending (appropriations and authorizations) of \$446.5 million in infrastructure funding through the Long-Range Planning budgets. State resources funding is \$207.8 million, made up of state special, federal special, capital project, and general fund appropriations. The general fund appropriations represent transfers to capital projects funds as authorized by the legislature. The 2019 Legislature also provided appropriations of \$161.8 million through the authorization of bond issues, \$79.9 million in general fund supported general obligation bonds and \$82.0 million in coal severance tax bonds funded by local government. Finally, the legislature authorized state agencies to use \$76.9 million in donations and proprietary funds on state building projects. More information on the Long-Range Planning budgets is seen in Section F of the 2021 Biennium Legislative Fiscal Report.



Future Infrastructure Funding – HB 553

The 2019 Legislature made significant policy changes in the financing of infrastructure projects with the passage of HB 553, the Infrastructure Development and Economic Accountability act (IDEA act). The legislation provides ongoing funding sources for state building maintenance (major repairs projects) and new state buildings and local infrastructure (capital development projects) and limits the amount of general obligation bonds that the legislature may authorize. HB 553 applies to budgets starting in the 2023 biennium.

HB 553 increases the amount of funding available for major repairs projects on state buildings through a general fund appropriation in HB 2. Future legislatures will appropriate general fund at a level that combined with the current dedicated program revenues of the Long-Range Building Program (LRBP) will equal 0.6% of the current replacement value of LRBP eligible state buildings. The legislation also requires that major repairs appropriations must meet that level before any capital development projects can be appropriated.

HB 553 also provides ongoing funding for capital development projects, for either state infrastructure (buildings) or local government infrastructure projects, within a working rainy-day fund. The legislation requires the executive budget recommendation to include annual funding for these purposes, as present law, equal to 1.0% of general fund revenue less the amount of annual bond payments of outstanding plus newly proposed general fund general obligation bonds (GFGO). In times of revenue shortfall, the executive may propose, the legislature may elect, to decrease this present law amount to balance expenditures and revenues. This characteristic of this ongoing funding stream allows these funds to be put to work for infrastructure needs during good times and curtailed for budget stabilization during revenue shortfalls – hence the term “working rainy-day fund”. Additionally, HB 553 includes language that halts the flow of funds into the capital developments fund in the event statutory spending reductions are triggered, or the executive needs to access the state’s budget stabilization reserve fund.

Finally, HB 553 imposed two limits on the legislative authority to authorize GFGO bonds. The first prohibits the legislature from authorizing new GFGO bonds if the sum of the current and any new GFGO bond balances plus the unamortized actuarial accrued liability of the state’s pension system is greater than 0.6% of the fair market value of taxable property in the state. The second prohibits the legislature from authorizing new GFGO bonds if the costs of the current and proposed GFGO debt service would exceed 1.5% of general fund revenues.

HB 553 changes the nature and availability of infrastructure funding in the future. The new statutory structure creates a system where maintenance of the state’s assets, buildings, is prioritized and funded before new infrastructure projects are constructed. It provides a stream of revenue that can be used to finance both state and local infrastructure projects. The legislation establishes statutory debt limits, which sets limits on how much money the state can borrow and spend on infrastructure projects, based on state revenues and existing debt.

2021 BIENNIAL COMPARISON – 17-7-151, MCA

The biennial comparison table is provided in accordance with the requirements for content and comparison to the previous biennium contained in [17-7-151, MCA](#).

The adopted budget is \$96 million above the executive's proposed budget. Primary reasons for the difference are in the following three areas:

- New re-insurance policy and program not included in the executive proposal, \$88.0 million in state and federal funding
- The adopted Medicaid expansion appropriations are \$274.2 million higher
- HB 2 was reduced by 0.7% compared to the executive's proposal

The primary difference between the statutory appropriations category and other appropriation bills category from the 2019 biennium to the 2021 biennium is the termination of the statutory appropriations for Medicaid expansion and establishment of Medicaid expansion in [HB 658](#) as an other appropriation bill.

HELP Act (Medicaid expansion) expenditures were under-estimated in the 2019 biennium. Actual expenditures were higher than anticipated primarily due to the significant increase in Medicaid supplemental payments made to hospitals (hospital utilization fee payments). These hospital payments totaled roughly \$66.0 million per year prior to the HELP Act, but increased to \$187.1 million in FY 2017 and \$200.9 million in FY 2018.

If the HELP Act had been correctly estimated, the biennial change between the 2019 biennium and the 2021 biennium would have been 5.9%.

2019 Biennial Budget Compared to 2021 Biennial Budget 5-16-2019 Draft - Pending Governor's Vetoes & Legislative Polling (\$ Millions)			
	Appropriated 2019 Biennium	Appropriated 2021 Biennium	Biennial Change
Comparables			
HB 2			
General Fund	\$4,063.2	\$4,275.8	5.2%
State Special Revenue	1,513.2	\$1,599.3	5.7%
Federal Special Revenue	4,531.1	\$4,392.9	-3.0%
Appropriated Proprietary	<u>24.3</u>	<u>\$25.5</u>	<u>4.8%</u>
Subtotal HB 2	10,131.9	10,293.5	1.6%
Transfers HB 2	(40.6)	(38.1)	-6.4%
Net Subtotal HB 2	10,091.2	10,255.5	1.6%
Statutory Appropriations			
General Fund	626.0	591.3	-5.6%
State Special Revenue	493.8	540.7	9.5%
Federal Special Revenue	1,100.6	322.1	-70.7%
Appropriated Proprietary & Capital Projects	<u>80.0</u>	<u>104.0</u>	<u>30.0%</u>
Subtotal Statutory	2,300.4	1,558.1	-32.3%
Transfers & Debt Service Statutory	(60.7)	(57.7)	-4.9%
Net Subtotal Statutory	2,239.7	1,500.4	-33.0%
Other Appropriation Bills (excludes noncomparable)			
Debt Service	0.0	0.0	
Net Subtotal Other Appropriation Bills	397.0	2,312.9	482.6%
HB 2 Language Appropriations			
Transfers Language Appropriations	(102.0)	(102.0)	0.0%
Net Subtotal Language Appropriations	223.9	227.8	1.8%
Total Comparables Not Including Transfers			
	\$12,951.8	\$14,296.6	10.4%
Non-Comparable			
HELP Act under appropriated	547	-	-100.0%
2019 Session HB 4	238.7	-	-100.0%
General Fund	0.0	-	0.0%
New 2019 session HB 1 & other	12.8	-	-100.0%
After 2019 Biennium began legislative adjustments			
General Fund	0.0	-	0.0%
17-7-140	(139.2)	-	-100.0%
SS Reductions	(61.6)	-	-100.0%
Restore	<u>45.7</u>	-	-100.0%
Total 2019 Biennium adjustments	(200.9)	-	-100.0%
Total Non-Comparable Items	\$850.2	\$0.0	-100.0%