

LEGISLATIVE BUDGET ANALYSIS: 2019 BIENNIUM

VOLUME 1: STATEWIDE PERSPECTIVES

**LEGISLATIVE BUDGET ANALYSIS
2019 BIENNIUM
VOLUME 1 – STATEWIDE PERSPECTIVES
FINAL EDITION**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION
TO THE SIXTY-FIFTH LEGISLATURE
JANUARY 2017**

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Acknowledgements

The Legislative Budget Analysis report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and policy information and advice to the legislature. The LFD thanks the many entities that assisted in its completion.

For information on this report and others, contact the Legislative Fiscal Division at (406) 444-2986 or visit the division's website at: <http://leg.mt.gov/css/fiscal/default.asp>

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Director
AMY CARLSON

December 2016

Members of the Sixty-Fifth Legislature:

I submit for your consideration the high level state budget outlook for 2019 biennium as the final Volume 1 of the Legislative Budget Analysis. More details in volumes 2 through 8 are available at <http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/fiscal-publications.asp>. Additional reference material, standard charts and tables are available online at the same website as appendices to this Volume 1. If you are unable to access the online version please let staff know and we will provide you with printed versions of the documents.

The Legislative Fiscal Division works for you, the Legislators of Montana. We have no partisan alliance and seek to deliver high quality information and analysis of fiscal issues. A significant quantity of additional information is available online at our general website: www.leg.mt.gov/css/fiscal. Some specific resources that you may be interested in are reports on specific fiscal issues presented to the Legislative Finance Committee over the interim. Reports on state employee benefits, local government infrastructure, and our budgeting and analysis methodologies were some of the key areas researched this interim.

In addition to this analysis, the LFD has access to the state accounting system and other resources for researching specific fiscal questions. If a fiscal question arises, please feel free to contact either myself or any member of our staff to help answer your questions.

We look forward to working with you all during the 2017 Session.

Sincerely,

A handwritten signature in cursive script, appearing to read "Amy Carlson".

Amy Carlson
Legislative Fiscal Analyst

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VOLUME 1: INTRODUCTION

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and to assist in reflecting their priorities in the 2019 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2019 biennium, and by identifying some of the major issues now facing the Legislature. This document is intended to complement the Legislative Budget Analysis – 2019 Biennium online, which contains our review of the 2019 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2019 Biennium reports the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this Statewide Perspective presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 provides an updated general fund balance sheet, projects the general fund structural balance, compares biennial appropriations, and includes a summary of anticipated ongoing general fund revenues, ongoing present law expenditure requirements, including budget risks and budget pressures.

This volume is divided into five parts:

- 1) The Overview provides a summary of our analysis of the proposed executive budget;
- 2) State Revenues provides a review of the revenue assumptions adopted by the Revenue and Transportation Interim Committee;
- 3) State Expenditures provides an overview of the Governor's state expenditure plan for the 2019 biennium;
- 4) Risks highlights key underlying assumptions in revenues and expenditures, and also details some of the pressures that the legislature may face in the upcoming session; and
- 5) Appendix: Documents that provide additional detailed information.

REVENUE ESTIMATES

A summary and overview of the state's major revenue sources is included online. This volume will be provided to the House and Senate Taxation committees for use as a working document, and delineates the economic assumptions used to derive revenue estimates adopted by the Revenue and Taxation Interim Committee (RTIC) on November 17, 2016.

EXPENDITURE BUDGET ANALYSIS

The budget analysis offers detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- o Section A – General Government
- o Section B – Health and Human Services
- o Section C – Natural Resources and Transportation
- o Section D – Judicial Branch, Law Enforcement, and Justice
- o Section E – Education
- o Section F – Long-Range Planning

OTHER USEFUL LINKS

In addition to the Legislative Budget analysis prepared for session, there are a number of other documents online that you may find helpful in your deliberations:

[Understanding State Finances](#)

[Vacancy Savings](#)

Legislative Finance Committee Reports

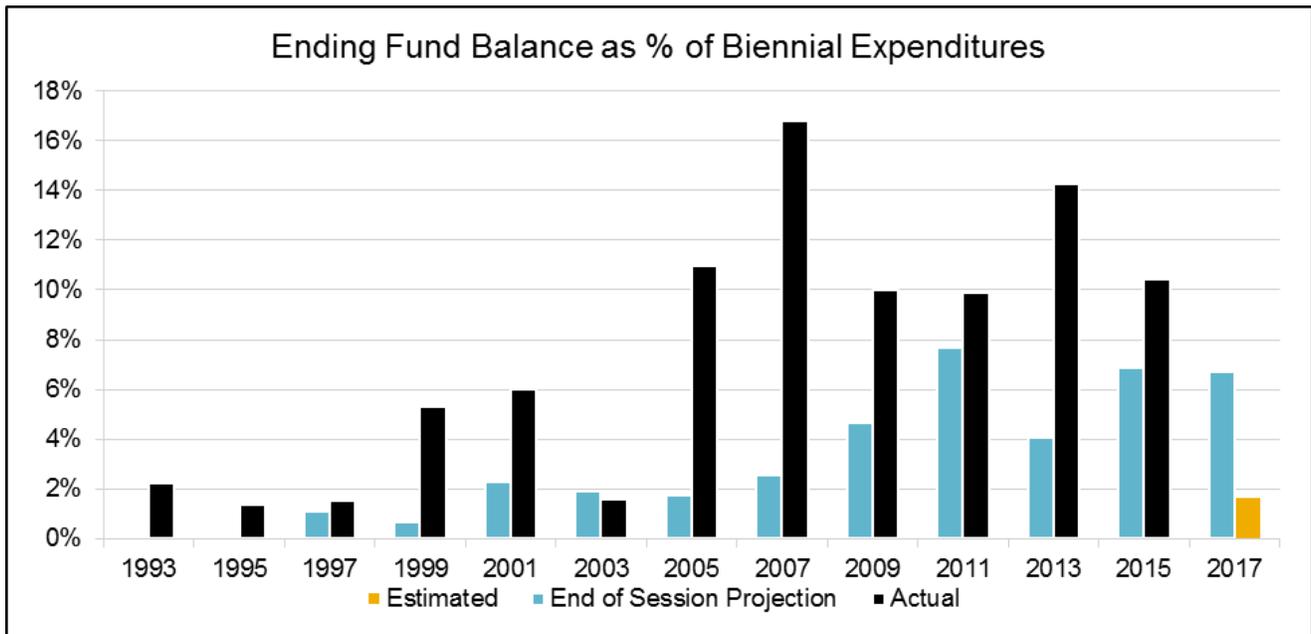
- [2017 Biennium Budget Status](#) – Dec. 2016
- [Base Budget Report](#) – Sept. 2016
- [Personal Services Report](#) – Sept. 2016
- [Global Motions](#) – Dec. 2016

OVERVIEW

GENERAL FUND BALANCE 2017 BIENNIUM

When the legislature adjourned in April 2015, general fund revenue estimates for the 2017 biennium as contained in HJ 2 were anticipated to grow by \$380 million or 9.0% over the 2015 biennium. Actual and current estimated revenue for the 2017 biennium are \$303 million less than the anticipated HJ 2 (2015 session). While these lower revenues are somewhat offset by lower expenditures, without legislative action, the 2017 biennium ending fund balance is forecast to be just \$79.0 million or 1.7% of biennial expenditures. This is \$236 million less than expected at the end of the 2015 session.

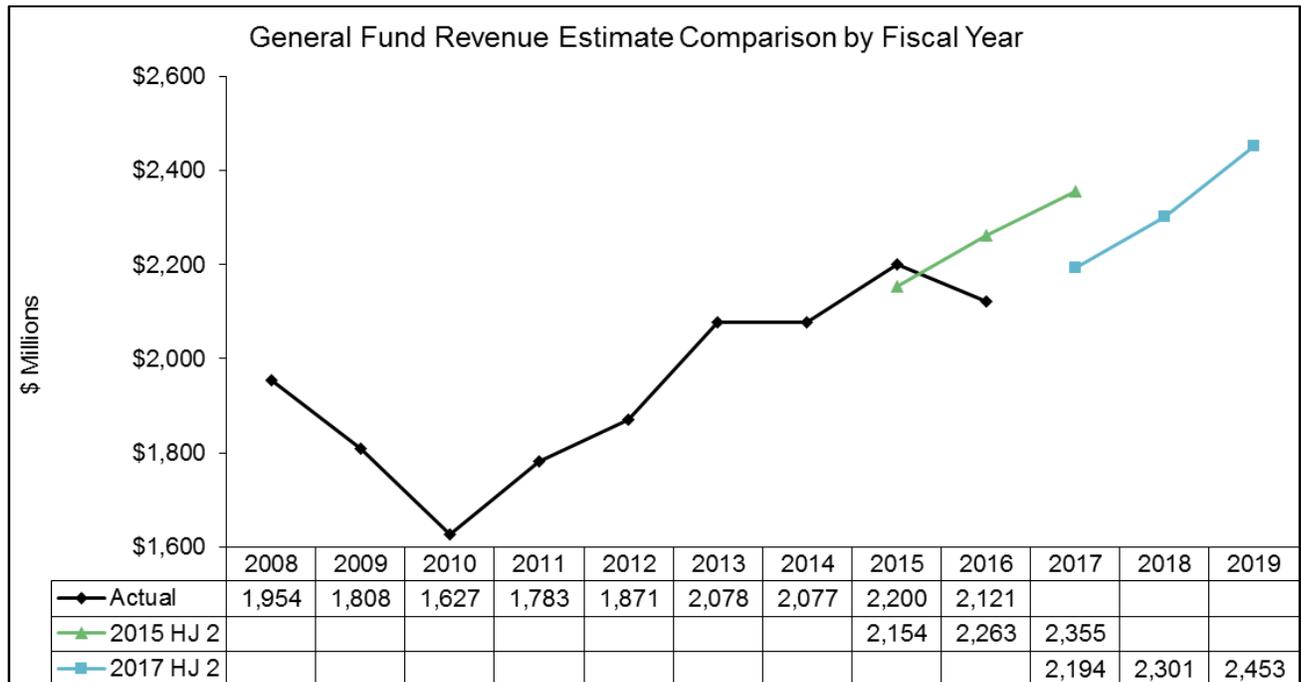
The drop from 6.7% budgeted to the currently expected 1.7% is extraordinary, but the lower percentage has been experienced in the past. Prior to the 2009 biennium, small ending fund balances were the norm, so in the long history of general fund budgets. Although 1.7% is low, this level or lower was observed in the 1995, 1997, and 2003 biennia. Since the 2009 biennium, budgeting large ending fund balances has been used as a way of managing state financial volatility. While this is one way to manage state financial volatility and is included in the Governor's budget proposal, other options are available to the legislature. Budgeting tools described in the Legislative Fiscal Division's [Montana's Financial Volatility](#) and discussed later in this report could be used by the legislature to manage state finances.



As stated above the primary cause of the general fund ending fund balance decline is general fund revenue not meeting projection in the 2017 biennium.

GENERAL FUND REVENUES THROUGH THE 2019 BIENNIUM

As shown in the chart below, FY 2016 revenues were 3.6% lower than the previous year or 6.3% lower than HJ 2. Most of the difference was attributed to lower-than-expected growth in individual income tax, and decline in corporation income tax and oil & natural gas taxes. Currently, 2017 HJ 2 adopted revenues are anticipated to grow from FY 2016 by 3.4% in FY 2017, 4.9% in FY 2018, and 6.6% in FY 2019. While the FY 2016 revenue reduction caused fund balance declines and structural spending imbalance, the anticipated revenue improvements return present law expenditures and regain structural balance as seen in the figure on page 5.



Present Law Budget

Statute provides a definition of the present law budget, or the level of funding necessary to maintain current government services. Present law gives the legislature a baseline budget presentation and illustrates a beginning point of the legislative budget decisions that require legislation.¹

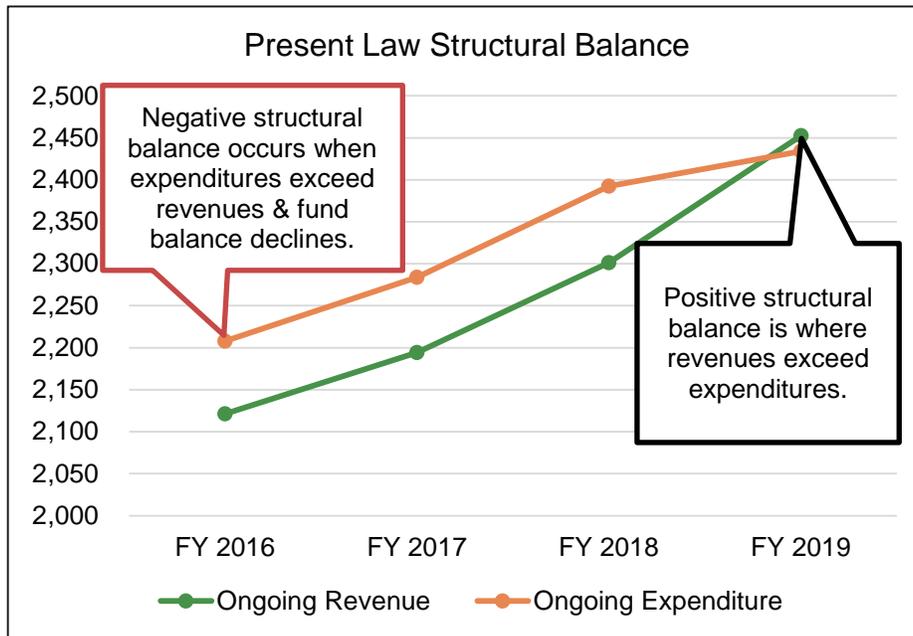
The general fund budget is measured in two ways: ending fund balance; and structural balance. Structural balance is the measure of ongoing revenue to ongoing spending and is important since it sets the stage for the following biennium budget. For example, if the budget is at a structural deficit or spending more than current year revenue, the budget for the following biennium will likely be out of balance and require reductions in order to balance the budget.

Present Law Structural Balance Positive in FY 2019

While the structural balance of the present law general fund is at a deficit for FY 2016 through FY 2018, the budget returns to structural balance in FY 2019 when estimated revenues increase. In FY 2019, revenues exceed ongoing present law expenditures by \$18.7 million.

This small positive structural balance in the last year of the 2019 biennium means that the current financial situation is a short term rather than a long term budget problem.

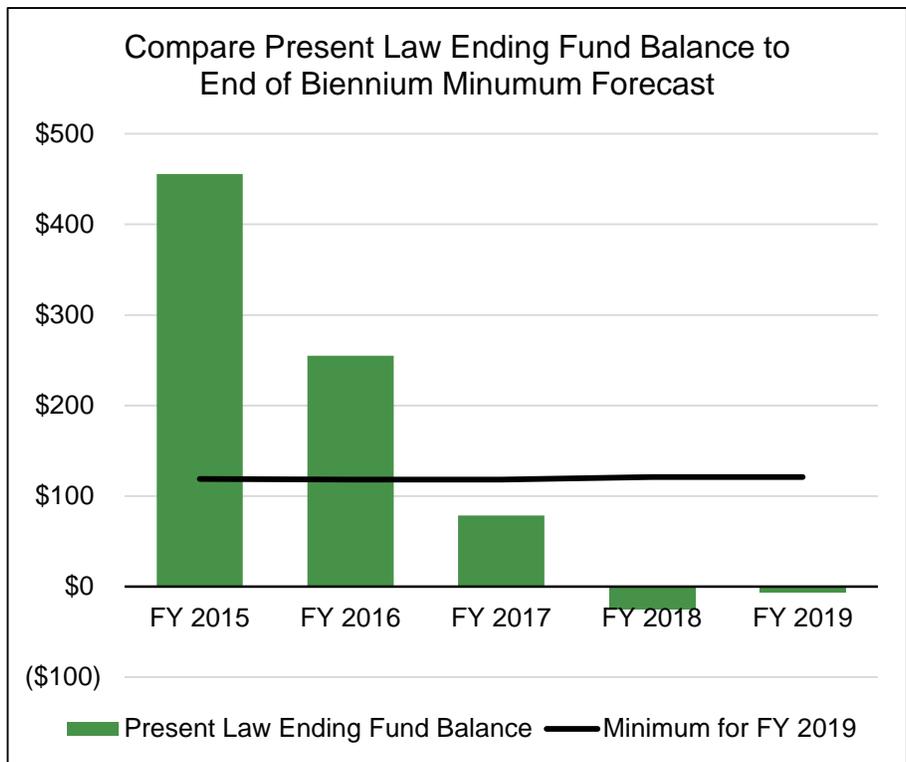
¹ Assumptions used for present law include LFD estimates for HB 1, statutory appropriations, and non-budgeted transfers estimates. Prior year revenue adjustments for FY 2017 were included in LFD present law. LFD assumes a lower general fund standard reversion percentage than the Governor's Office of Budget and Program Planning. Present law assumes excess authority remaining in the Governor's emergency and disaster statutory appropriation be transferred to the fire suppression fund after the end of the 2017 biennium.



Present Law Ending Balance

The ending fund balance is important since Montana has only ending fund balance and the fire suppression fund (fire fund) to cushion against unexpected revenue declines and expenditure increases. Under the present law calculation, the ending fund balance is negative beginning in FY 2018 and increases, but is still negative in FY 2019.

Montana lawmakers established 17-7-140 to direct the reduction of spending when general fund ending balance drops below certain measuring points. When the legislature convenes in January, this statute directs that the 2019 biennium ending fund balance be \$121 million or greater.



The legislature can accomplish this through changes in funding, statute, and other budget tools. Lawmakers can improve the ending fund balance by at least \$128 million and therefore meet the obligation to get to the \$121 million minimum ending fund balance.

In addition to the ending fund balance, the fire suppression fund (fire fund) balance also acts as a cushion against future financial shocks. The FY 2017 balance is estimated at \$65 million and the FY 2019 present law balance is estimated at \$29 million. For more information about the fire fund please see page 15.

Present Law Budget

The following spreadsheet summarizes the present law budget.

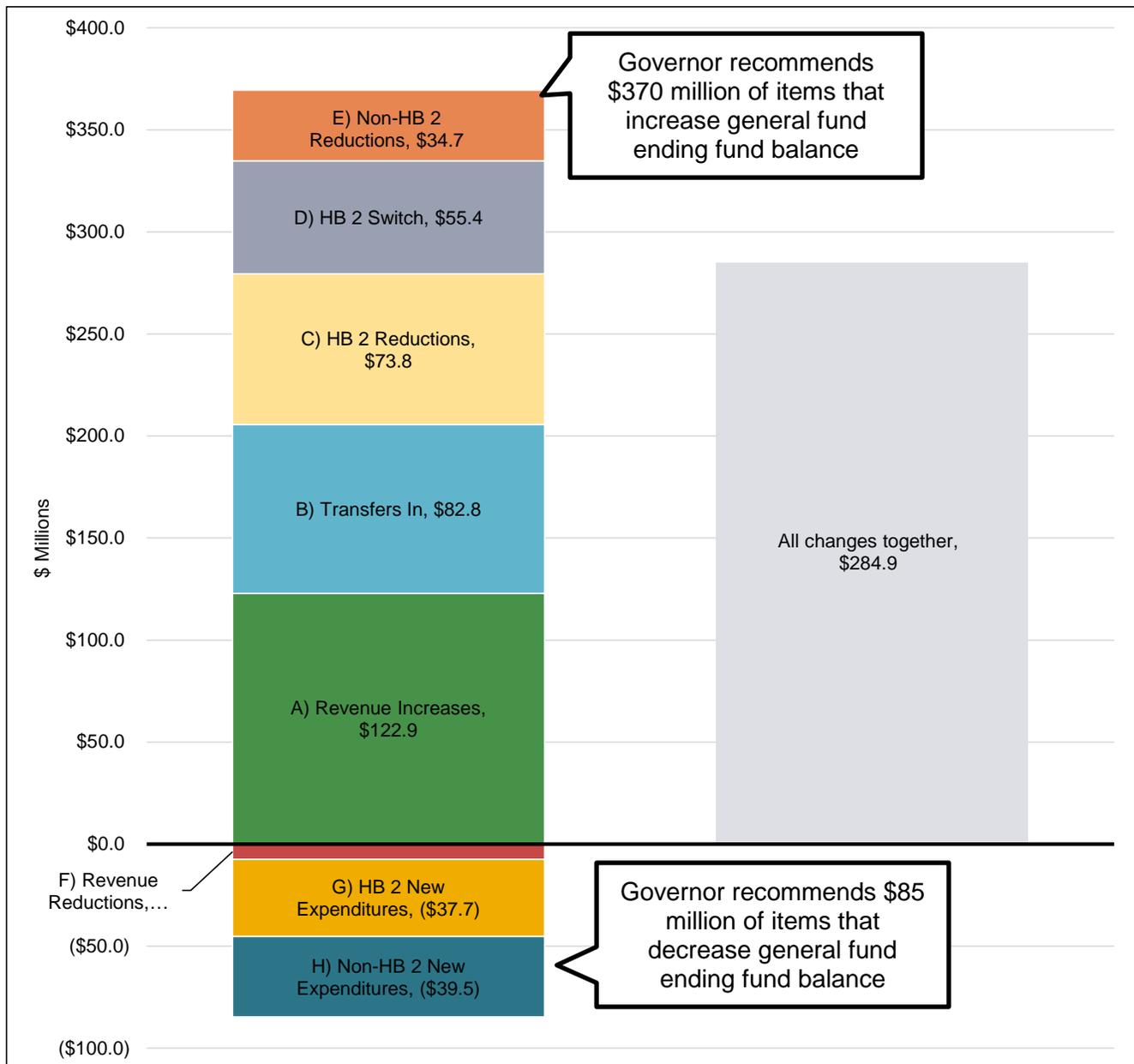
December 15 Present Law General Fund Balance Sheet					
Includes Present Law ONLY and HJ 2 Revenue Estimates					
LFD Estimates for Statutory, Transfers, and HB 1					
(\$ Millions)					
	Actual	FY 2016	Current FY 2017	Present Law FY 2018	Present Law FY 2019
Beginning Fund Balance		\$455.436	\$255.110	\$78.597	(\$25.454)
Revenue as adopted in HJ 2		2,121.288	2,194.337	2,301.383	2,452.611
Prior Year Adjustments		(3.667)	5.236		
Total Revenue Funds Available		2,573.057	2,454.683	2,379.980	2,427.157
Disbursements					
Ongoing					
HB 2		1,908.415	1,985.305	2,063.065	2,085.609
Statutory, including HELP Act		265.168	297.842	314.275	325.217
Transfers		29.254	20.992	20.059	20.150
Actual & Assumed Appropriations - HB 1		5.025	9.635	2.227	10.270
Other Appropriation Bills			6.011		
Assumed Standard Reversions			(6.959)	(7.199)	(7.324)
Assumed Add'l Reversions (\$16 mil. HB 2 & \$13 mil. emergency stat.)			(29.000)		
Governor's Emergency and Disaster Appropriation					
Ongoing Disbursements		2,207.861	2,283.826	2,392.427	2,433.922
OTO					
HB 2		64.519	48.925	0.008	0.072
Fire Fund Transfers		50.310	11.422	13.000	
Sage Grouse Transfer			10.000		
Governor's proposed HB 3 Agency Supplemental Appropriation request			20.006		
Other (includes: carry forward)		1.147	1.907		
Total Disbursements		2,323.836	2,376.086	2,405.435	2,433.995
Adjustments - incl. tying to Comprehensive Annual Financi		5.889			
Ending Fund Balance (Unassigned)		\$255.110	\$78.597	(\$25.454)	(\$6.838)
Structural Balance (ongoing revenues minus ongoing expenditures)		(\$86.573)	(\$89.489)	(\$91.044)	\$18.689

Assumptions: This balance sheet only shows present law obligations and HJ 2 revenues. It also includes LFD estimated statutory appropriations and general fund transfers. Only the Governor's HB 3 proposal is included on this balance sheet. We assume that since the fund balance drops to a level that would trigger 17-7-140, MCA, the 0.5% fire fund transfer would not occur.

GOVERNOR BULLOCK’S GENERAL FUND BUDGET PROPOSALS

The Governor has made proposals to increase general fund ending fund balance to \$300 million and a positive structural balance of \$113.8 million per year.

The graphic illustrates groups of components of the Governor’s new proposal general fund budget recommendations and each groups’ impact on the general fund balance. Increases in revenue and decreases in spending both increase ending fund balance and are shown above the line and total \$370 million. Increases in expenditures and decreases in revenue decrease ending fund balance and are shown below the line and total \$85 million. Cumulatively, the Governor’s proposals increase ending fund balance by \$285 million (\$370 million increase and \$85 million decrease).

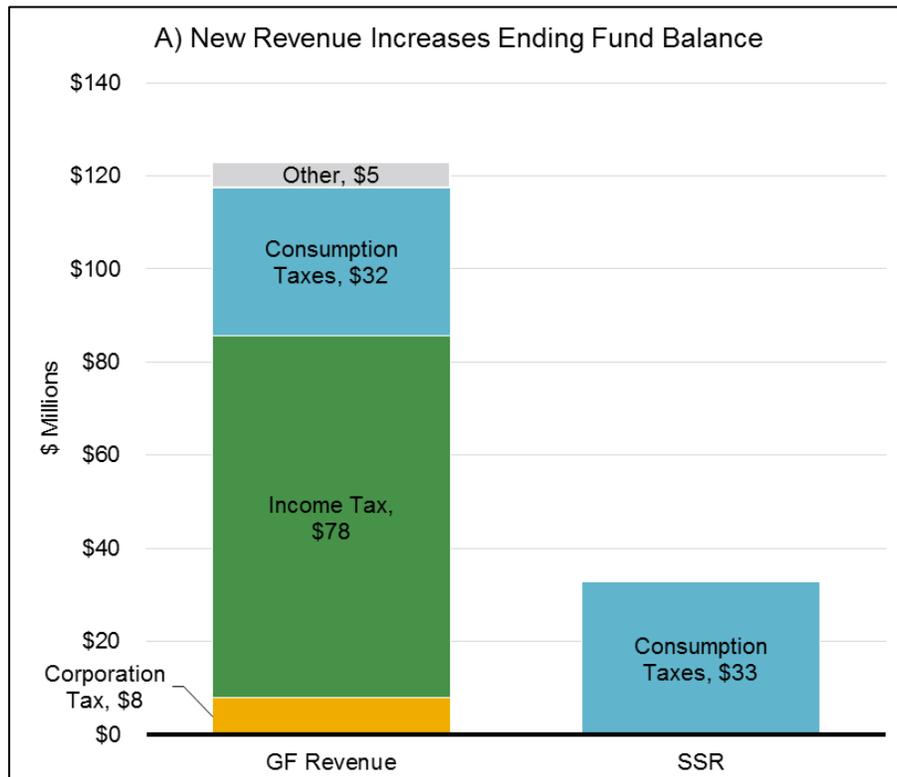


Notes: 1) HB 2 is the general appropriations act. It contains the appropriations or authority to spend general fund for most state agencies and most services supported by the general fund. 2) To tie to the present law ending fund balance on page 6 to the Governor’s recommended ending fund balance on page 19, the differences in budget details also need to be included from page 16.

KEY GOVERNOR RECOMMENDED NEW PROPOSALS

A) Revenue Increases: \$123 million general fund and \$33 million state special funds

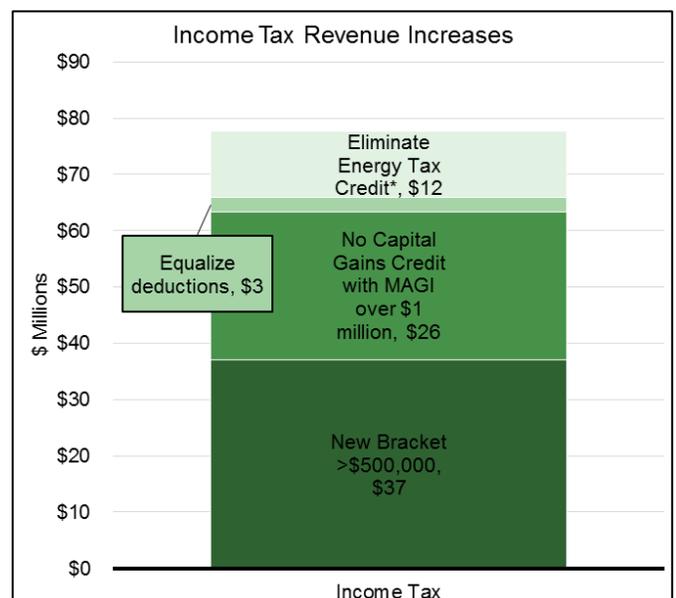
The Governor recommends increasing tax revenue in a variety of ways. The largest revenue generating increases are in income tax, generating \$78 million in higher revenue, followed by consumption taxes with a combined general fund and state special fund increase of \$65 million. Corporation tax collections would increase \$8 million due to proposed changes in how corporation income is apportioned.



Income tax increases

The Governor's recommended increases for individual income tax to increase general fund revenue include:

- Creating a new tax bracket for individuals with a Montana taxable income in excess of \$500,000, anticipated to generate \$37 million additional revenue in the biennium
- Eliminating the capital gains credit for taxpayers with a Montana adjusted gross income over \$1 million, anticipated to generate \$26 million of additional revenue in the biennium
- Equalizing deductions for individuals, estates, and trusts, estimated to generate \$3 million of additional revenue in the biennium; and
- Eliminating the energy tax credit, anticipated to generate \$12 million in the biennium, but replacing it with a grant program as seen in item H) Non-HB 2 new expenditures.



Volatility of Income Tax

As discussed in the interim and in the [Montana's Financial Volatility](#) report in September of 2016, the general fund has become more reliant on income tax as a revenue source, and income tax as a source

of revenue has become more volatile over time. Individuals with high incomes and high capital gains tend to have even more volatile income streams than the average income tax payer.

Consumption Tax Increases

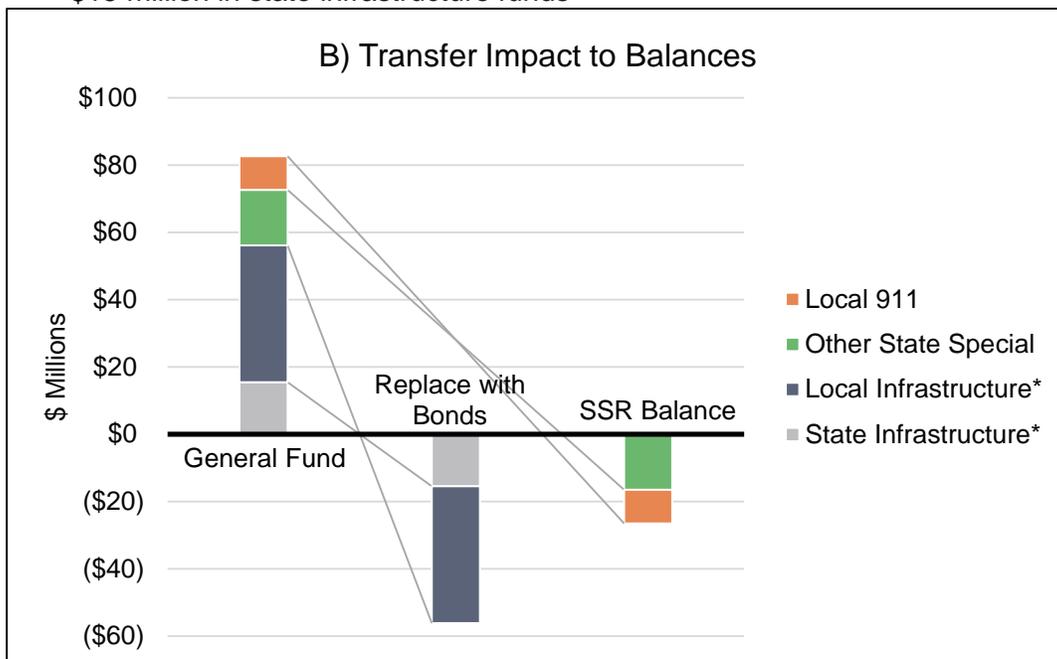
The Governor proposes increasing the following consumption taxes:

- Adding a tax to medical marijuana of 6% with anticipated revenues being \$2.6 million general fund over the biennium
- Increasing the cigarette tax by \$0.50 per pack with anticipated general fund revenue being \$23.6 million and various state special funds by \$30.4 million over the three year period FY 2017 through FY 2019
- Increasing the wine tax by \$0.27 per liter with anticipated general fund revenue being \$5.0 million and state special funds being \$2.3 million over the biennium
- Tightening the lodging facility tax to increase general fund revenue from online companies by \$0.75 million

B) Transfers into the General Fund from other funds: \$83 million one-time increase to ending fund balance

Transfers into the general fund do not increase revenue to the state, but reduce money in one fund and move it to another. The Governor recommends \$82.8 million of transfers into the general fund from several sources to increase the general fund balance. The Governor recommends replacing some of the transferred funds with state bonding.

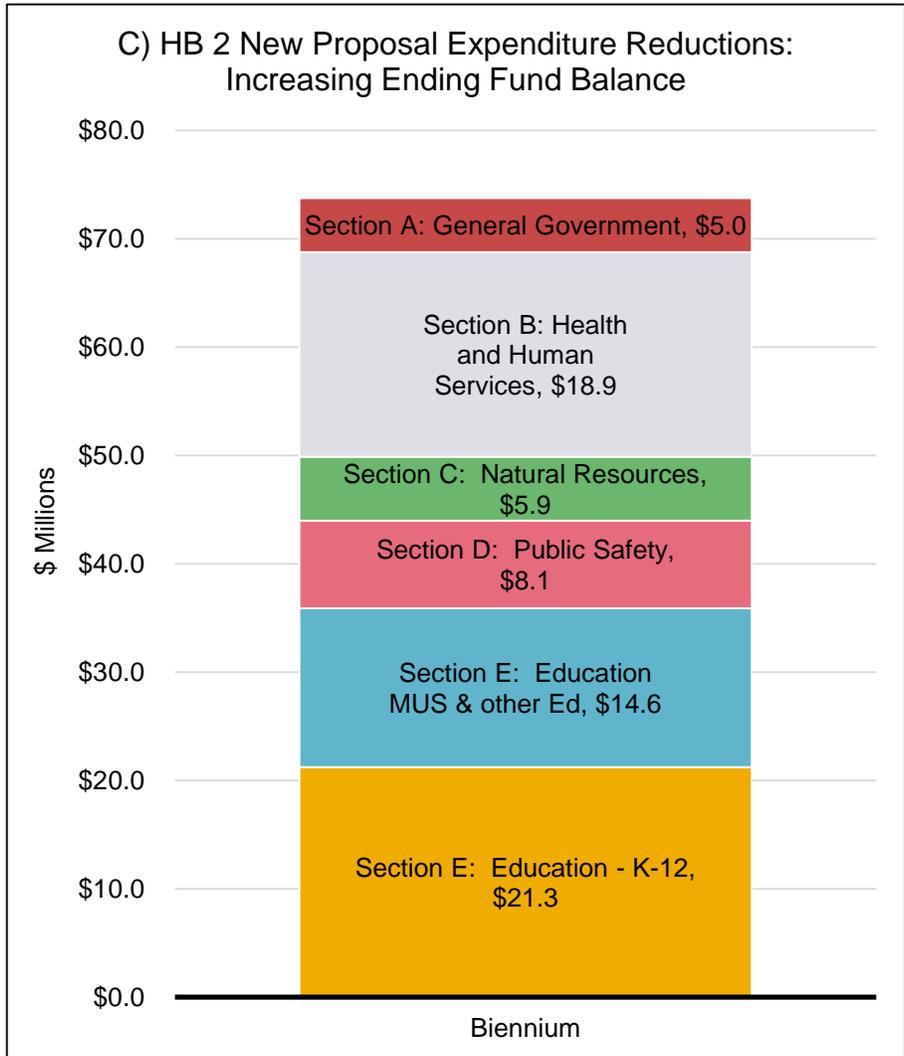
- \$10 million of Local 911 funds and \$16.6 million various other state special fund balances that are not replaced by other means
- Transferring funds from infrastructure programs and replacing them with bonds as seen on page 20
 - \$41 million from local infrastructure programs such as Treasure State Endowment and Quality Schools grants program
 - \$15 million in state infrastructure funds



C) New Proposals to Reduce HB 2: \$74 million increase to ending fund balance

The Governor recommends reductions to the HB 2 general appropriations act present law budgets of general funded agencies. The \$74 million of reductions include:

- o \$48.1 million of the reductions are generally from the 5% plans submitted by nearly all agencies. A comparison of these changes can be found in the appendix section of this document. The details of these base reductions are described in Volumes 3 –7 of the Budget Analysis
- o In addition to these base reductions, the Governor’s recommendations include reductions requiring changes in law, specifically:
 - In the Department of Public Health and Human Services there is a statutory physician inflationary adjustment. The Governor proposes to change statute to reduce the rate of inflation in the 2019 biennium and thereafter

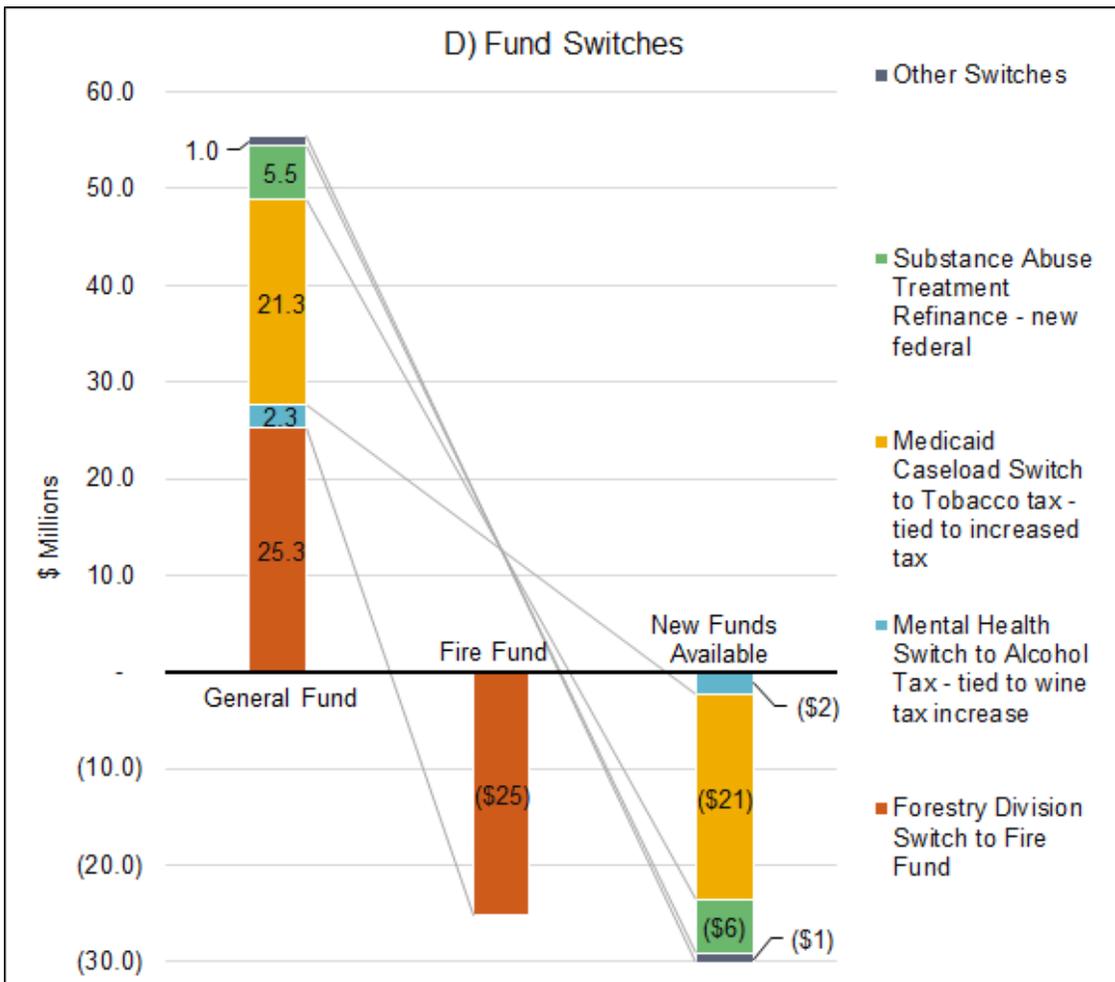


- K-12 funding has various statutory components. The recommended reductions include:
 - \$6.2 million for the elimination of the data for achievement payment which decreases K-12 spending,
 - \$3.2 million of district excess oil and gas revenues being redirected to the guarantee fund and the guarantee fund revenue reducing the general fund needed to fund schools, and
 - \$10.6 million that eliminates the natural resource development payments. Note that the \$10.6 million net reduction in natural resource payments will result in an increase in property taxes in local districts by the same amount.

D) Proposed HB 2 Fund Switches: \$55 million increase to ending fund balance by changing funding for expenditures from general fund to special funds

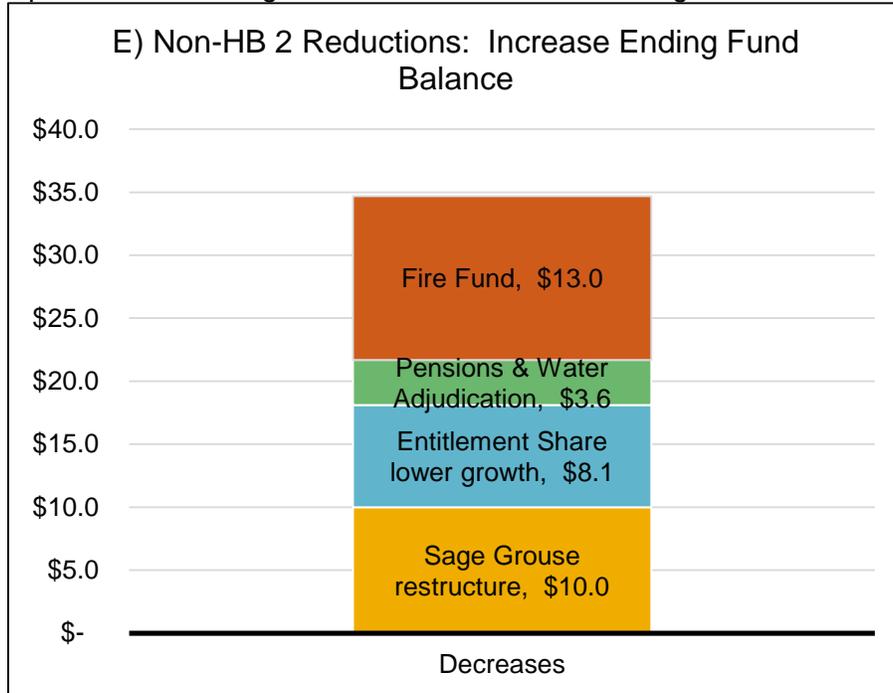
Switching or changing funding sources simply shifts expenditures between one source and another, therefore there is no net increase or decrease in expenditures. The Governor recommends switching the funding source for several HB 2 general fund present law items. Specifically, the most significant items are:

- Proposed switching \$6 million of funding for Substance Abuse Treatment Refinance from general fund to federal special revenue by providing federal facility reimbursement to qualified facilities serving Medicaid eligible populations
- Switching Medicaid caseload funding to tobacco tax state special revenue. This would lower general fund by \$21 million. In order for this to work, the Governor proposes increasing the tobacco tax by \$0.50 per pack (as shown in the A) revenue section), this increase in state special funding will offset current general fund expenditure
- A proposed increase in the wine tax as shown in the revenue increase section, would provide new revenue that would increase state special funds available for mental health services. This proposal switches \$2 million of current general fund expenditures to this state special revenue source
- The Governor proposes to switch the Department of Natural Resources Forestry division funding from the general fund to the fire suppression fund commonly referred to as the fire fund. This proposal saves the general fund \$25 million, but decreases the fire fund balance by an equal amount.



E) Non-HB 2 reductions: \$35 million increase to ending fund balance

The Governor proposed the following reductions to areas of the budget not included in HB 2:

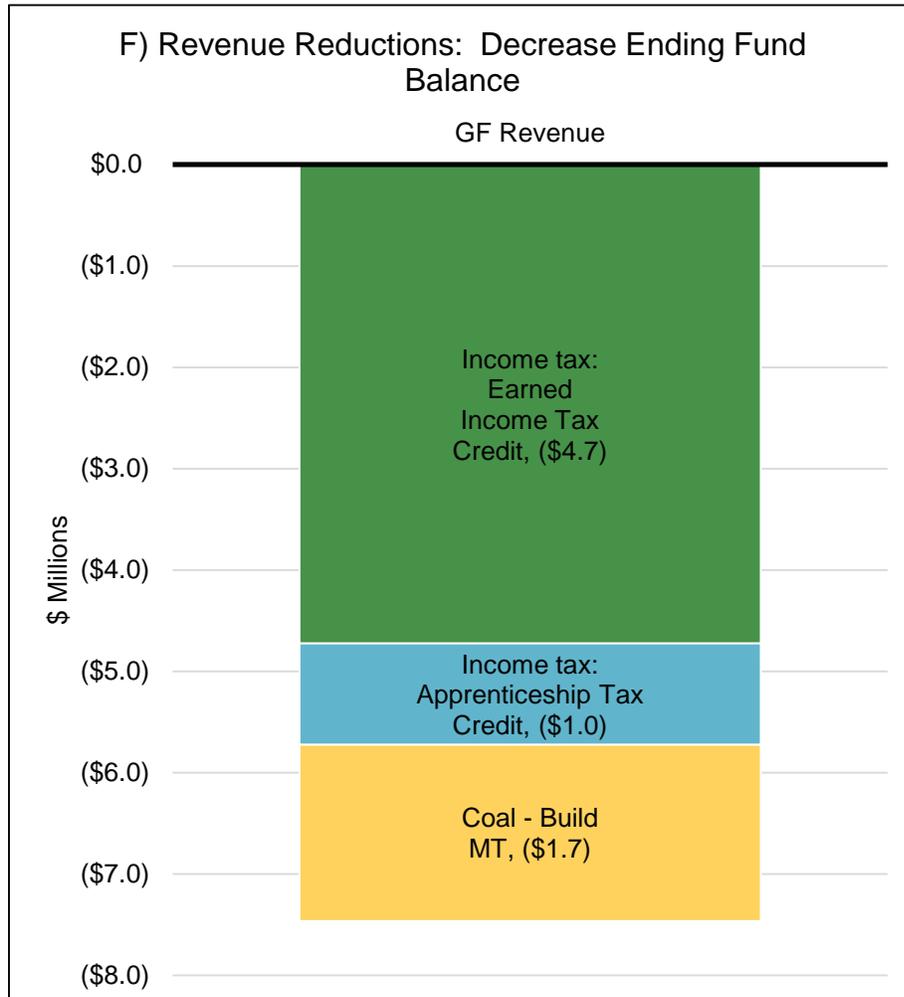


- Restructure the transfers to the sage grouse state special fund from \$10 million in FY 2017 to \$2 million per year for 5 years beginning in FY 2017. By stretching the transfer out to five years and reducing each year transfer, this increases the 2019 biennium general fund ending fund balance by \$4 million in the 2019 biennium
- Statute provides a local government revenue sharing provision known as the entitlement share. The Governor proposed to lower the growth rate for the entitlement share payments to local governments, increasing general fund balance by \$8.1 million
- Lower payments to the pension system by \$1.7 million and lower general fund transfer to water adjudication state special fund by \$1.9 million
- \$13 million from the fire fund: statute requires that the unspent Governor's emergency authority be transferred to the fire fund after the end of the biennium. The Governor proposes to change statute to not make this transfer after the end of the 2017 biennium

While all of the above changes increase ending fund balances, the Governor also recommends several increases in expenditures or decreases in revenue that reduce ending fund balance.

F) Reduce General Fund Revenue: \$7 million reduction in general fund balance

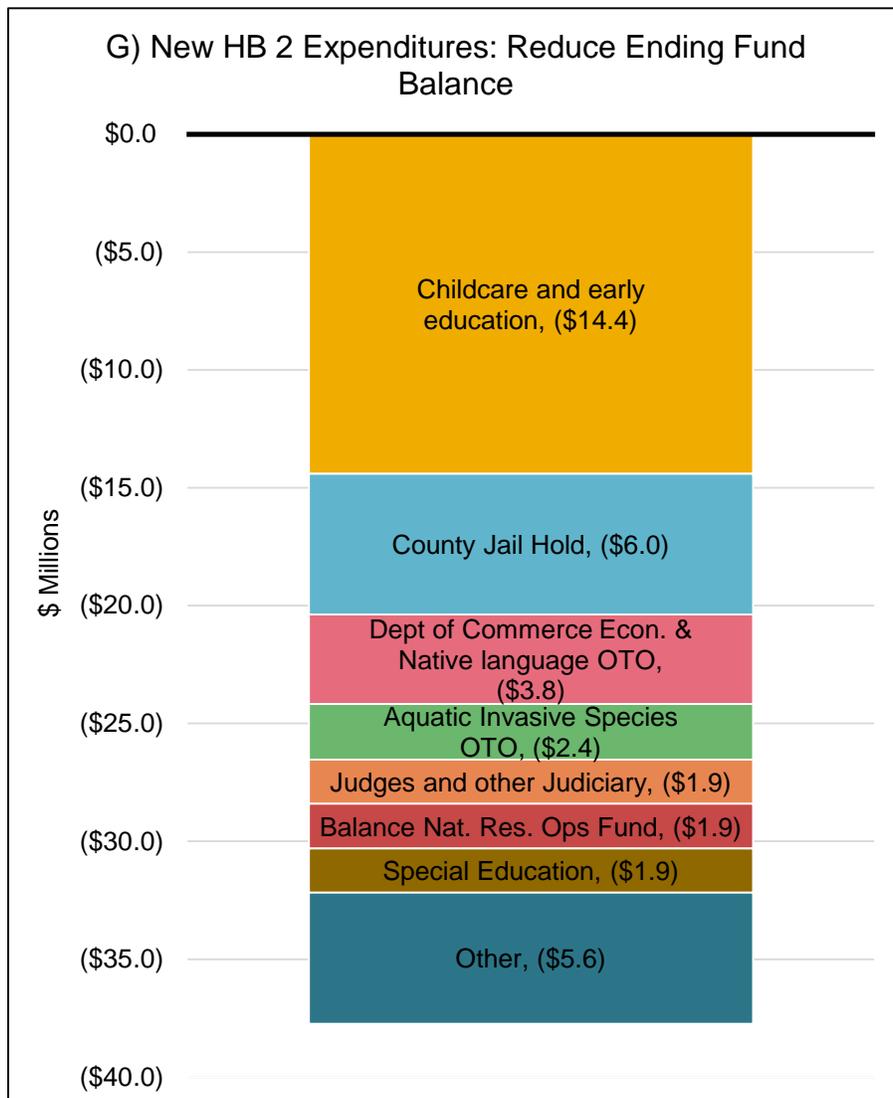
- The Governor proposes a refundable earned income tax credit beginning in tax year 2018 that reduces individual income tax by \$4.7 million per year beginning in FY 2019
- Also beginning in tax year 2018 and affecting fiscal years 2019 and thereafter an apprenticeship tax credit increase costing \$1 million per year
- As a part of the Build Montana Trust proposal, a restructure of the coal severance tax trust fund, the coal trust interest revenue is diverted away from the general fund by \$1.7 million



G) HB 2 New Expenditures: \$38 million decrease to ending fund balance

The Governor recommends the following increases in the HB 2 general appropriations act general fund budget:

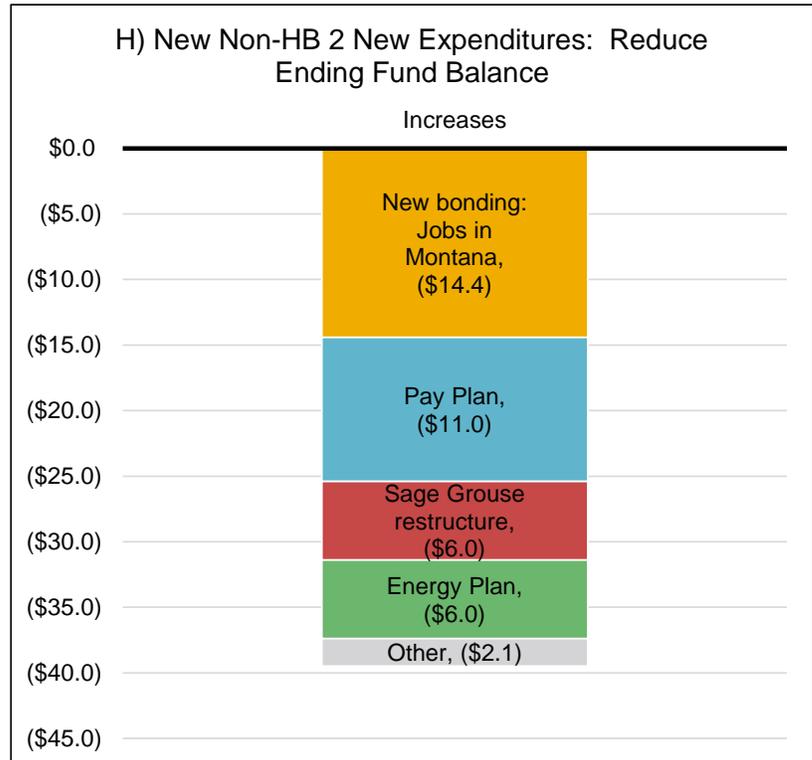
- Child care and early education in the Department of Health and Human Services \$14.4 million
- Increased funding for the Department of Corrections County Jail Holds by \$6 million for the biennium
- Reinstatement of \$3.8 million of the one-time only appropriations in the Department of Commerce for Native languages, primary sector business training and economic development.
- Reinstatement of the \$2.4 million of funding for Aquatic Invasive Species prevention and control efforts
- Increase funding for additional judges and reinstatement of one-time only appropriations for child abuse court diversion and information technology staffing for a total of \$1.9 million
- Provide \$1.9 million in general fund to replace declining revenue in the Natural Resource operations fund
- Provide an inflationary increase of \$1.9 million for special education costs in K-12 school districts
- Various other smaller increases including: \$1.5 million in area aging services funding, \$1.2 million for youth crisis diversion, and other items



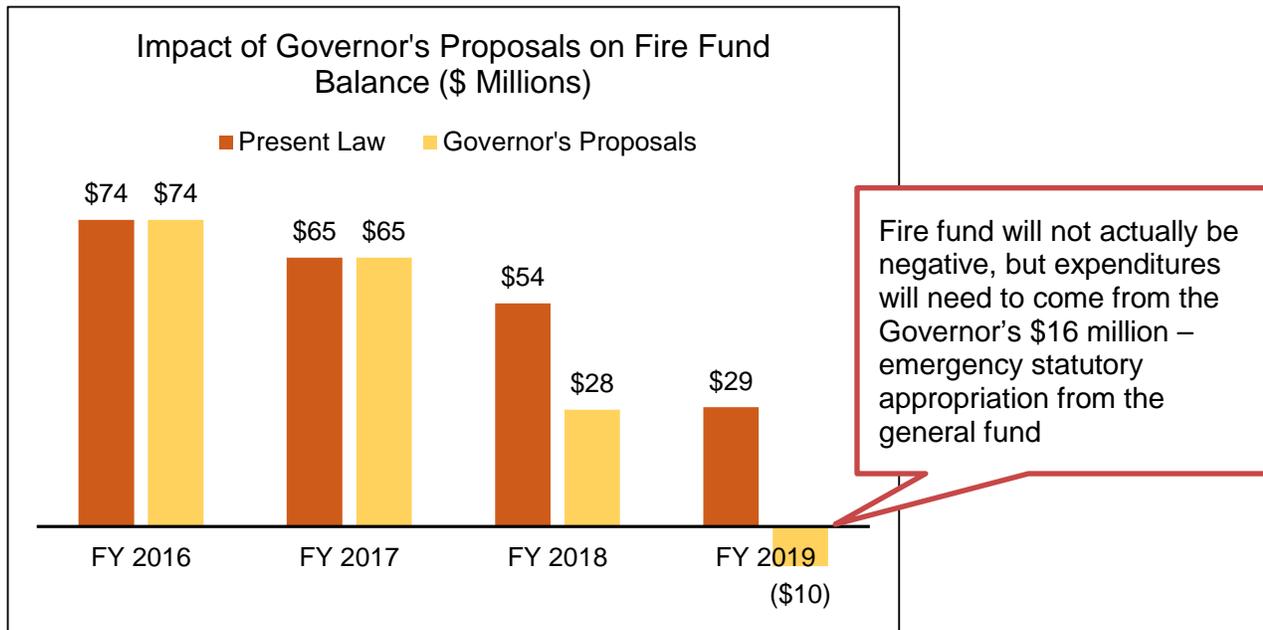
H) New Non-HB 2 New Expenditures: \$39.5 million decrease to ending fund balance

The Governor recommends the following additional spending:

- \$14.4 million in new bonding associated with the infrastructure investment in HB 14 known as Jobs in Montana
- \$11.0 million for a 1% per year increase in state employee pay
- Restructure the transfers to the Sage Grouse state special fund from \$10 million in FY 2017 to \$2 million per year for 5 years beginning in FY 2017, increasing the 2019 biennium general fund ending fund balance by \$4 million in the 2019 biennium (see page 12)
- Creating a new program for energy grants LC 906, offsetting about half of the savings from removal of the energy tax credit.
- Other smaller items include \$1 million for youth suicide prevention funding and IT costs at the Department of Revenue for system enhancements to implement proposed new tax legislation



FIRE FUND SUMMARY



With all of the present law assumptions, the present law fire fund balance would be expected to be \$29 million at the end of the 2019 biennium.

Present Law Fire Suppression Fund Balance Assumptions

The fire suppression fund is available for expenditure surprises associated with wildland fire costs. Under current law, the executive 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 need not be made by the executive if there is a risk that the ending fund balance is lower than the minimum directed by the MCA 17-7-140, or \$121 million. It is estimated that under present law no transfer will be made in August of 2017.
- 2) Unspent Governor's Emergency Authority: Remaining authority from the Governor's emergency statutory appropriation is transferred to the fire suppression fund after the end of the biennium. Unlike the reversion transfer there is no statutory provision to not make this transfer if the general fund balance is low. It is estimated that under present law \$13 million will transfer after the end of the 2017 biennium.

Present law expenditures are forecast to be as follows: Anticipated fire costs \$16 million in FY 2017. Fire costs vary dramatically from year to year. In the past several years they have varied from \$4.7 to \$61.5 million. While the variance is wide, the seven year trended fire costs are \$21.5 million in FY 2018 and \$22.5 million in FY 2019. Fuel mitigation statutory appropriations are \$5 million each biennium.

In contrast to the present law assumptions, the Governor recommends not to transfer either unspent general fund appropriations or the remaining unused emergency statutory appropriation. The Governor also proposes to spend \$25.3 million of fire fund reserves in the Department of Natural Resources Forestry Division. The Governor's proposals reduce the ending fund balance in the fire suppression fund by \$38.3 million causing estimated ending fund balance to decline to zero. The proposal anticipates \$10 million of typical fire costs being paid from the general fund.

GOVERNOR'S BUDGET WRAP UP

Budget Assumption Differences

The Governor's budget makes several assumptions on present law fund balance that are different than the Legislative Fiscal Division. The following summarizes these differences.

Balance Sheet Differences FY 2017 - FY 2019	
LFD includes FY 2017 prior year adjustment	(\$5.236)
Statutory Appropriations - including HELP Act	18.277
Transfer estimate - mostly Old Fund	6.950
HB 1 estimates	(2.837)
Net Reversion estimates	3.770
Other Changes (including revenues & coal share)	1.114
Total	\$22.038

The largest single difference is the difference in statutory appropriations estimated for the estimate of Medicaid Expansion costs within the HELP Act from the 2015 session. This very new program has little data to rely on for the estimate. The fiscal division will recommend that the subcommittee consider both estimates in its deliberations to determine which should be used on the general fund status sheet during session.

Budget Change Differences

At present the LFD is aware of the following technical concerns with budget items in the Governor's Budget:

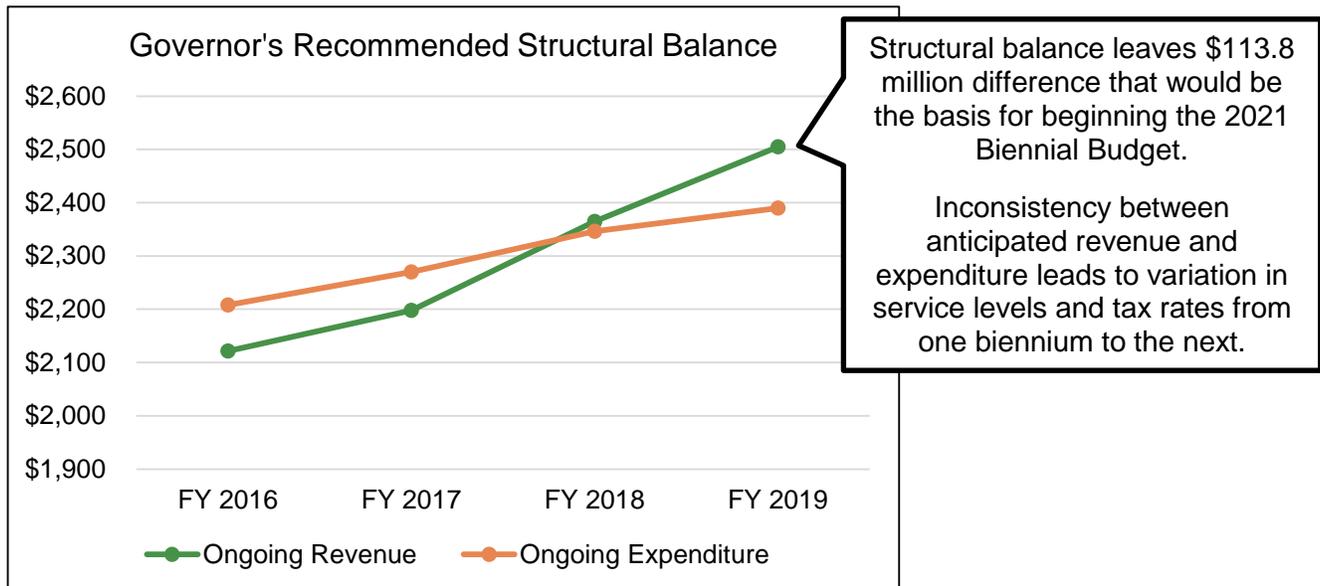
1) The executive present law adjustments in K-12 funding are low relative to current cost estimates by \$5.8 million. The fall student enrollment count resulted in higher ANB than anticipated by the executive, changes in the taxable value resulting from the settlement of the Northwest Energy tax protest, and higher school district budget for retirement all contributed to present law costs that are higher than proposed by the executive. The executive also assumed revenue available from the guarantee account \$3.8 million higher than legislative HJR 2 estimates. The table summarizes the estimated shortfall in the executive present law adjustments.

Estimated Present Law Shortfall for K-12 (\$ Millions)	
BASE Component	2019 Biennium
GTB Retirement	\$5.0
GTB School District General Fund	3.5
Direct State Aid	1.1
Total	\$9.6
LFD Higher Estimate for Guarantee Account Revenue	(\$3.8)
Total Present Law Shortfall	\$5.8

2) Statute does not give the Governor the authority to modify the Legislature's budget. In his proposed budget the Governor reduces the Legislative budget

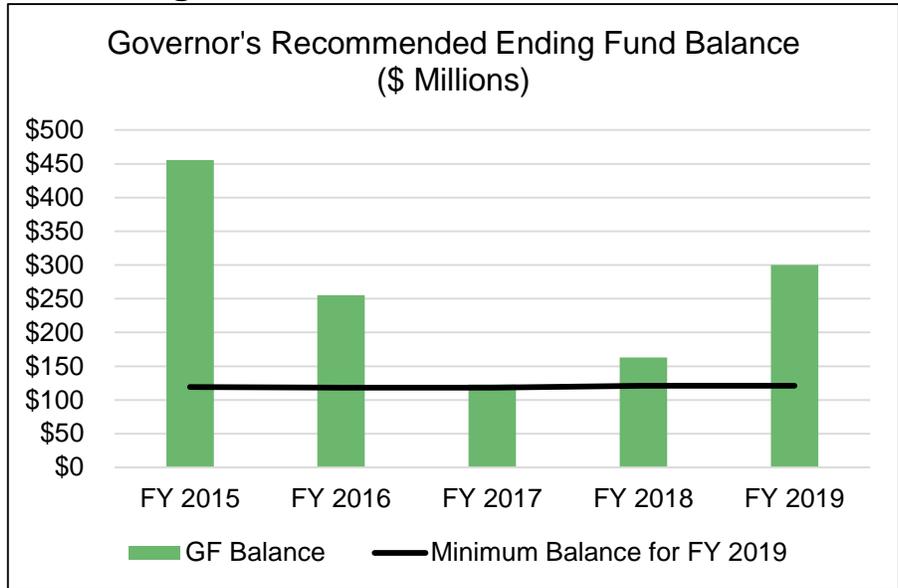
Governor's Recommended Structural Balance

The Governor's budget leaves substantial structural balance available to the 2019 session. Legislators and the Governor would have a structurally positive budget that would give the next Legislature and the Governor the ability to increase spending or decrease taxes in the 2021 biennium.



Governor's Recommended Ending Fund Balance

By proposing HB 2 reductions to present law expenditures and new revenue legislation, the Governor recommends an ending fund balance of \$300 million by the end of FY 2019. This higher ending fund balance is the method of managing volatility chosen in recent biennia. Note that the Governor recommended general fund ending fund balance of \$300 million is accompanied by a zero balance anticipated in the fire fund, see page 15.



Governor's Recommended Budget

With the Governor's assumptions and estimates for present law and new proposals the following spreadsheet summarizes his budget recommendation.

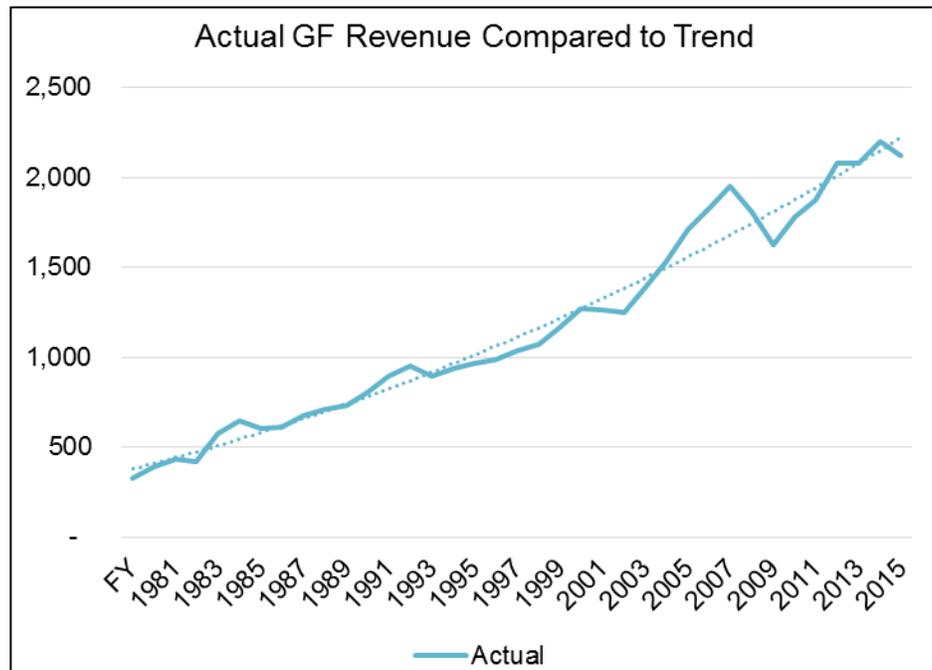
December 15, 2016 General Fund Balance with Governor's Proposals Included				
Contains Governor's Present Law Estimates				
(\$ Millions)				
	Actual FY 2016	Current FY 2017	Proposed FY 2018	Proposed FY 2019
Beginning Fund Balance	455.436	255.110	123.060	162.898
Revenue as updated by the Governor on Dec 15 (includes OTO coal share)	2,121.288	2,194.796	2,301.710	2,452.939
A) Revenue Increases		3.381	61.945	57.566
B) Transfers In - ongoing			1.425	1.419
F) Revenue Reductions		-	(0.500)	(6.963)
B) Transfers In - One time only, Dec 15 Update		27.985	25.984	25.982
Prior Year Adjustments	(3.667)			
Total Revenue Funds Available	2,573.057	2,481.272	2,513.624	2,693.841
Disbursements				
Ongoing				
HB 2	1,908.415	1,985.305	2,063.065	2,085.609
C) HB 2 ongoing reductions, Dec 15 Update			(36.165)	(37.585)
D) HB 2 fund switch			(27.430)	(27.966)
G) HB 2 New Spending, Dec 15 Update			14.491	14.844
Governor's estimate - Statutory, including HELP Act	265.168	290.646	309.893	318.518
Governor's estimate - Transfers	29.254	18.321	18.330	17.600
Governor's legislation requests				
H) Non-HB 2 New Spending, Dec 15 Update		2.575	13.957	22.943
E) Non-HB 2 Reductions		0.000	(3.924)	(7.771)
Governor's Assumed Appropriations - HB 1 funding the legislature	5.025	11.327	1.975	11.667
Governor's Assumed Standard Reversions		(9.233)	(7.925)	(8.094)
Assumed Add'l Reversions (\$16 mil. HB 2 & \$13 mil. Emergency Stat.)		(29.000)		
Ongoing Disbursements	2,207.861	2,269.941	2,346.267	2,389.765
OTO				
HB 2	64.519	48.925	0.008	0.072
G) HB 2 New Spending, Dec 15 Update			4.451	3.952
Fire Fund Transfers	50.310	11.422	13.000	
Sage Grouse Transfer		10.000		
E) Non-HB 2 Reductions (one-time only)		(10.000)	(13.000)	
HB 3 Supplemental Appropriation request		20.006		
Other (includes: carry forward)	1.147	7.918		
Total Disbursements	2,323.836	2,358.212	2,350.726	2,393.789
Adjustments - incl. tying to Comprehensive Annual Financial Report	5.889			
Ending Fund Balance (Unassigned)	255.110	123.060	162.898	300.052
Structural Balance (ongoing revenues minus ongoing expenditures)	(86.573)	(71.764)	13.853	113.869

CHOICES FOR MANAGING VOLATILITY

While the Governor has chosen the above recommendations to manage the financial volatility of the general fund, other states and fiscal experts offer alternative methods of managing volatility. Please refer to the previously mentioned LFD published report entitled [Montana's Financial Volatility](#) in September of 2016. This document discussed the maximum balances that could be justified based on revenue volatility and also outlined alternative means of managing volatility. Key options for managing volatility include:

Rainy Day Fund

The differences between a rainy day fund and general fund ending fund balance are: 1) rainy day funds limit the Governor's immediate access to reserved funds so that a combination of spending reductions and rainy day fund transfers can occur at the same time and 2) rainy day funds have statutory provisions that determine when deposits are made into the fund. For example: deposits to rainy day funds could be made when revenues exceed the long term trend. The graphic illustrates that at



times revenues are both above and below trend. As discussed in the LFD [Montana's Financial Volatility](#) report, rainy day funds are typically capped based on calculated revenue volatility. The cap suggested by the research of Erik Elder, an economist at the University of Arkansas at Little Rock, was in the range of \$480 to \$720 million. Please see the LFD report for more information.

Multi-year financial plan

The Legislature could develop a multi-year financial plan to work through short term budget shortfalls. In the current time frame for example, a plan could be developed over a four year window through the 2021 biennium, instead of a two year window through the 2019 biennium, to re-establish reserves back to "comfortable" levels.

Prioritized Spending Plan

Develop a prioritized spending plan to identify reductions ahead of time. The Legislature could identify specific items that if revenues do not meet expectation, reductions can be made as directed by the legislature.

Debt Management Policy

Develop a full debt management policy that sets limits and policies for debt repayment when funds are available and sets maximum debt levels to manage when cash is short. A policy would also include regular state reporting on the current debt. The Governor has recommendations for bonding in this biennium, but does not recommend a long-term debt policy.

Pay as You Go Infrastructure

The Legislature could develop a long-term plan for "pay as you go infrastructure funding" when budget and revenue levels permit, and bonding when revenues cannot support it. One step in this direction is

the legislation proposed by the Legislative Finance Committee regarding developing a funding stream for building maintenance.

Summary

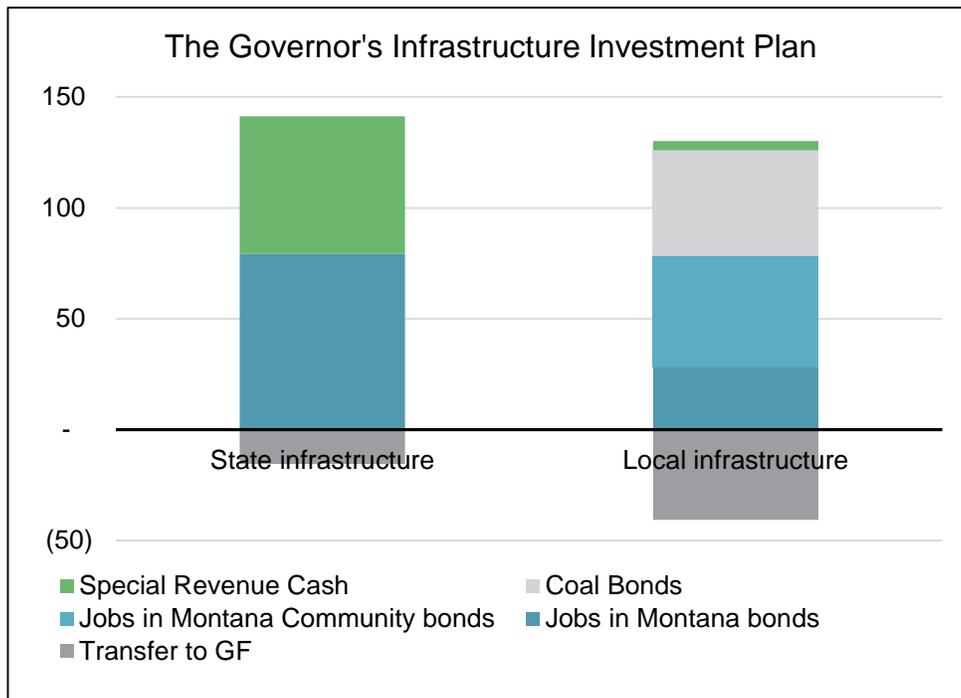
The Governor has presented several significant proposals that impact the state’s management of volatility. The legislature may wish to consider these policy choices along with the Governor’s recommended policies and other alternative methods to soundly manage the state’s financial volatility.

OTHER MAJOR GOVERNOR’S BUDGET PROPOSALS

In addition to the major general fund proposals listed above, the Governor is also recommending several major budget proposals that are not explained in detail above. Two of these recommendations of the Governor are substantial and important to mention in this summary:

Infrastructure

The Governor recommends an infrastructure program that issues \$205 million in bonds. Of this amount \$48 million is from Coal Severance tax bonds that are guaranteed by the Coal severance tax trust fund, but are paid by local governments. The remaining \$157 million of bond authority is recommended as state debt.



In addition to the programs mentioned above, the Governor also recommends creation of a Build Montana Trust within the Coal Severance Tax Trust fund to benefit future infrastructure funding. Please see the Long-Range Building Budget Analysis for more information.

Proposed New Infrastructure Trust: The Build Montana Trust Fund

As proposed by the executive LC 905 would establish The Build Montana Trust Fund, a sub-trust within the Permanent Coal Severance Tax Trust. 75% of coal severance taxes flowing into the permanent trust, less any required costs of the coal tax bond fund, would flow into the new Build Montana Trust. These are funds that are currently flowing into the Coal Severance Tax Permanent Fund. Those coal severance taxes, along with interest earnings within the Build Montana Trust, will continue to flow into the account and must be retained within the Build Montana Trust until the balance is \$50.0 million.

This proposed legislation does not itself create a program for administration or distribution of future interest earnings once the program meets this \$50.0 million threshold. The Build Montana Trust is projected to reach a balance of \$50.0 million around FY2020. Should this legislation be passed and approved, a program will need to be developed for administration and distribution of these infrastructure funds.

The Governor's recommendation on managing the Highway State Special Fund

In addition to the balance shortfalls found in the general fund, the Highway State Special Fund also has budget challenges. The account supports the transportation activities of several agencies, which include:

- Department of Transportation
 - State roads and highways
 - County roads
- Department of Justice
- Fish, Wildlife, and Parks

The Governor recommends reductions in all three of these agencies, but does not reduce the gas tax funds to county, city, and towns to address the balance shortfall. Given the balance shortfall, the Legislature will need to review the fund and either reduce demands upon the fund or increase revenues.

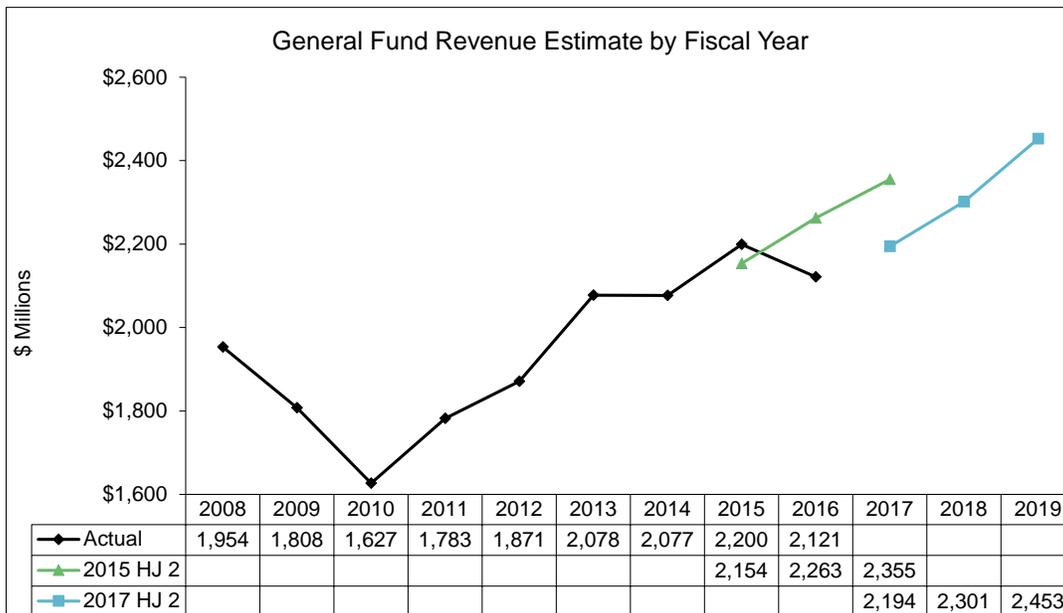
OTHER BUDGET ISSUES TO WATCH

There are several budget issues that may develop in the coming months. These issues are generally covered in the Issues and Pressures section of this Volume 1 of the Budget Analysis and include items like the funding for the CSKT Water Compact, lawsuits that the state has pending, and pension funding. An item that is becoming a financial concern in early December is the declaration of emergency regarding invasive mussels in Montana's waters. As the financial implications of these items become available, they will be reported to the Legislature.

STATE REVENUE

GENERAL FUND REVENUE ESTIMATES AS ADOPTED BY RTIC

In November 2016, RTIC adopted the LFD assumptions but adjusted each general fund revenue source by an amount equal to the difference between the OBPP estimate and the LFD estimate. The end result was a revenue estimate that matched the OBPP recommendation, which was \$40.6 million lower than the LFD estimate over the three year estimate period. Comparison of actual collections since FY 2008, the estimates contained in [HJ 2 \(2015 Session\)](#), and the RTIC 2019 biennium estimate recommendation are shown in the chart below. The RTIC estimate for annual growth in general fund revenue for FY 2017 is 3.4%, for FY 2018 is 4.9% and for FY 2019 is 6.6%.

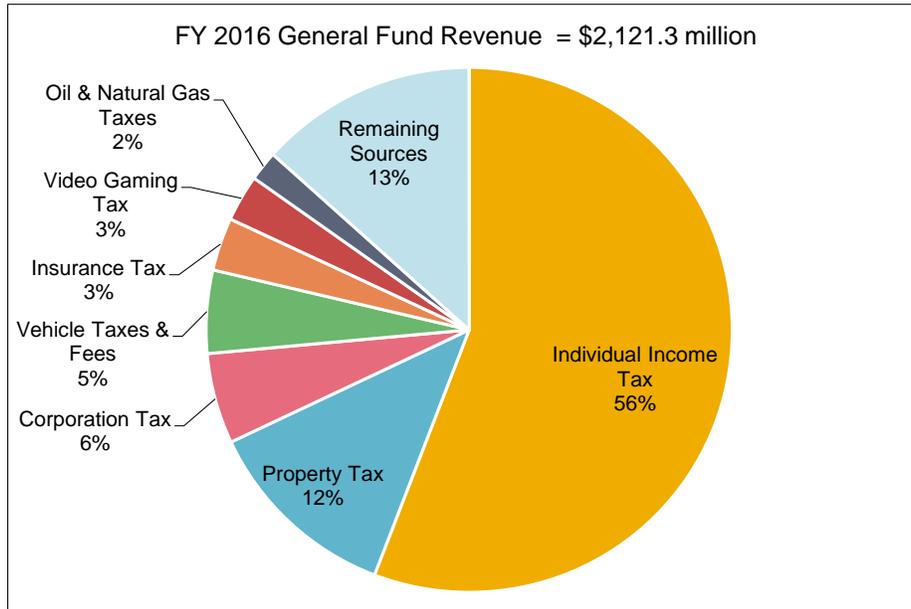


The table below shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources.

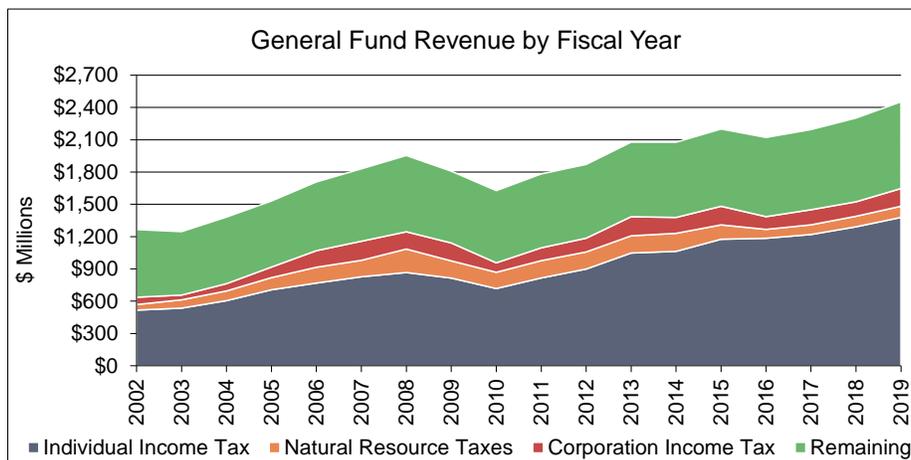
General Fund Revenue Estimates as Adopted by RTIC						
(\$ Millions)						
Source of Revenue	Actual FY 2016	Estimated FY 2017	Estimated FY 2018	Estimated FY 2019	Estimated 2017 Bien	Estimated 2019 Bien
Individual Income Tax	\$1,184.8	\$1,219.8	\$1,291.2	\$1,378.5	\$2,404.6	\$2,669.7
Property Tax	257.1	260.2	279.6	286.1	517.3	565.7
Corporation Income Tax	118.4	140.3	134.3	164.6	258.7	298.9
Vehicle Taxes & Fees	108.5	109.2	112.7	117.5	217.7	230.2
Oil & Natural Gas Production Tax	39.1	44.8	49.5	54.9	83.9	104.4
Insurance Tax & License Fees	69.3	71.1	73.0	74.8	140.4	147.8
Video Gambling Tax	60.6	62.5	64.5	65.8	123.1	130.3
Largest Seven Subtotal	1,837.7	1,907.9	2,004.9	2,142.1	3,745.6	4,147.0
Remaining Sources Subtotal	283.6	286.5	296.5	310.5	570.1	607.0
Total General Fund	\$2,121.3	\$2,194.3	\$2,301.4	\$2,452.6	\$4,315.6	\$4,754.0

GENERAL FUND REVENUE

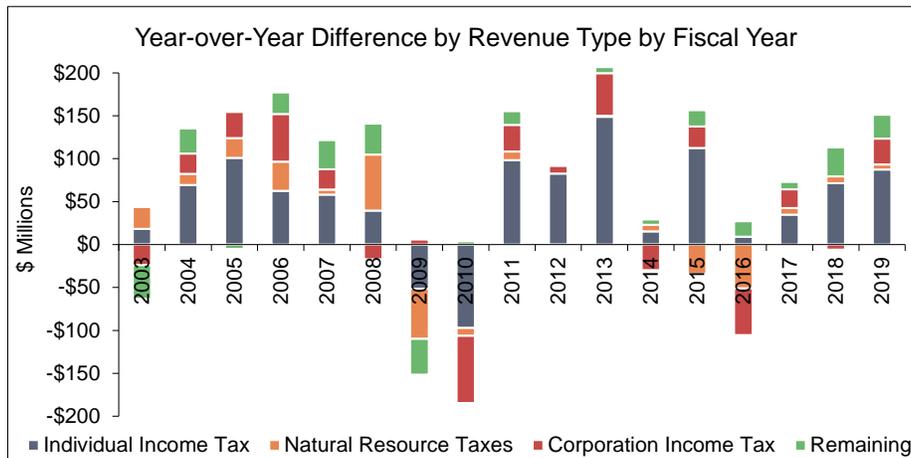
The largest seven sources of general fund revenue are individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2016, these sources accounted for 87% of general fund revenue. Details of all general fund and selected non-general fund revenue sources are contained in the Legislative Fiscal Division's [2019 Biennium Budget Analysis: Volume 2](#).



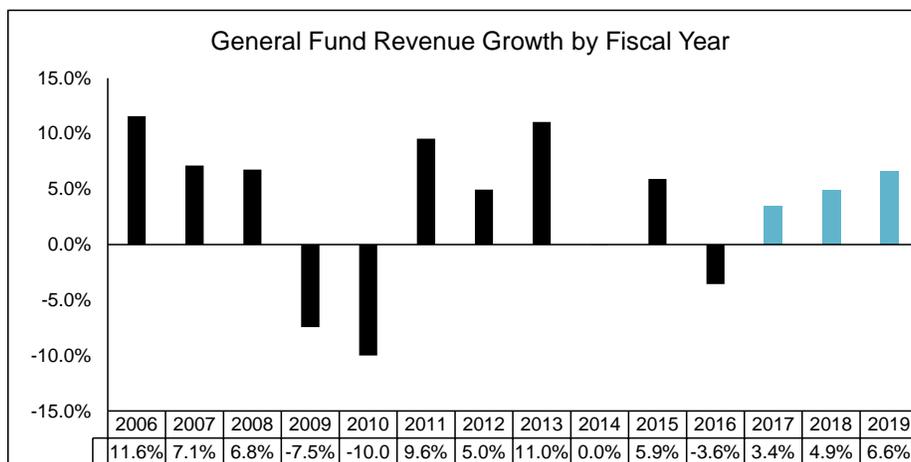
Individual income tax has been a growing share of total general fund revenue since FY 2002, as illustrated in the chart below. In FY 2002, it accounted for 40.9% of general fund revenue; by FY 2016, it grew to account for 55.9%. Based on the revenue estimates adopted by RTIC, it is anticipated to grow to 56.2% of general fund revenue in FY 2019.



The following chart shows the year-over-year difference by the three largest contributing sources to volatility, as a percentage of the previous fiscal year's total general fund revenue. Although individual income as the largest source of revenue typically also produced the largest year-over-year change in revenue, corporation income tax and natural resource taxes are significant contributors.



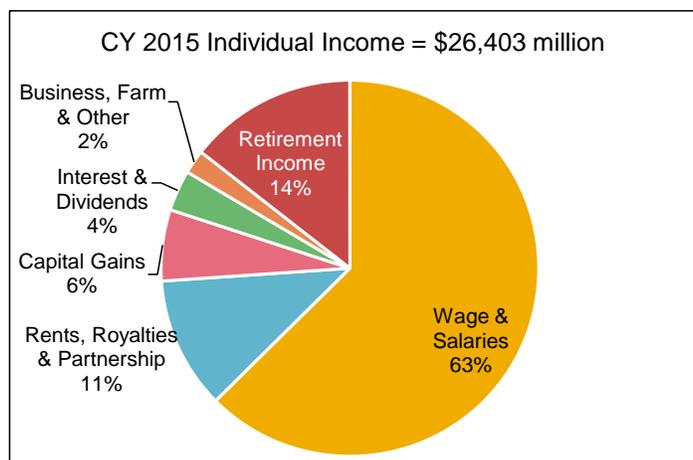
The chart below shows the annual percent change in revenue, with actual values shown in black and the estimate growth as adopted by RTIC shown in blue.



Five of the top seven tax sources, the significant economic drivers and their influence on the general fund are highlighted in the following sections. More details on all sources of revenue can be found in the Legislative Fiscal Division's [2019 Biennium Budget Analysis: Volume 2](#).

INDIVIDUAL INCOME TAX

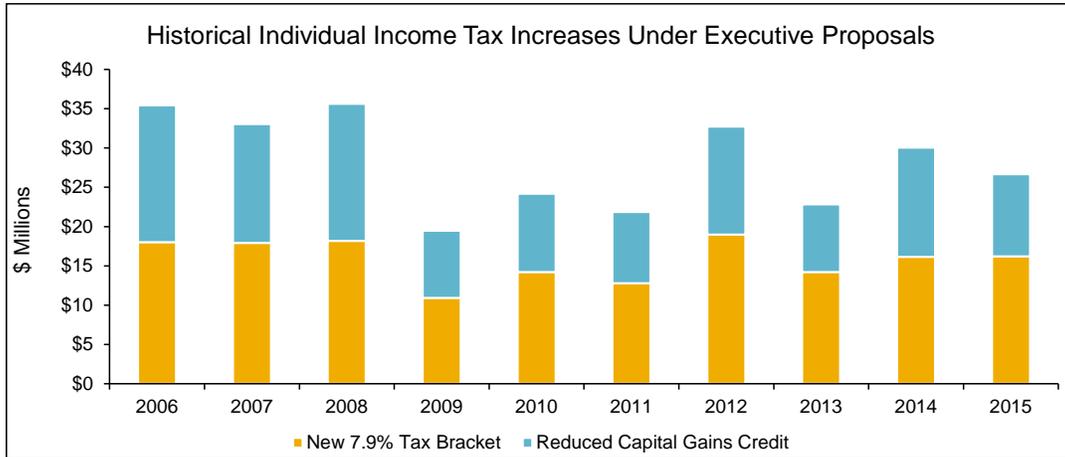
The individual income tax is levied against taxable income, which is defined as total Montana income adjusted for exemptions and deductions. In 2015, full year resident income totaled \$26.4 billion. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. The effective tax rate on capital gains income is less than the tax rate on ordinary income by 2%, due to the 2% capital gains tax credit. Wage income accounts for nearly two-thirds of total individual income, while withholding tax on wages accounts for about one-third of total general fund revenue. Growth in the 2019 biennium



is driven by growth in wages income, as well as strong growth in retirement income and partnership income.

Governor’s Income Tax Proposals

The executive budget includes two key proposals related to individual income tax: a new marginal rate of 7.9% applied to taxable income above \$500,000, and a maximum Montana adjusted gross income (MAGI) threshold of \$1 million for claiming the capital gains tax credit. Both proposals would retroactively apply to all of CY 2017. The chart below shows the increase in calendar year tax liability that would have occurred in past years under the executive proposals, which have been adjusted for inflation.

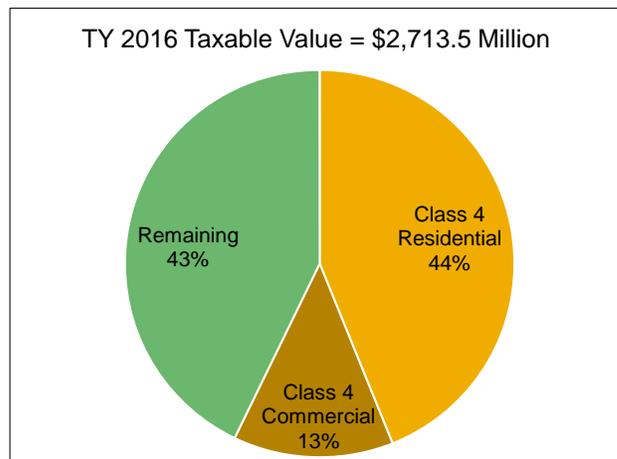


In CY 2006 – CY 2008, the executive proposals would have generated an average of \$35 million or 4.3% of additional tax liability. In CY 2009 – CY 2011, the additional tax liability would have generated an average of \$22 million or about 2.8% of additional tax liability. The executive proposal is anticipated to generate about \$27 million more revenue per fiscal year; however, the volatility of the underlying income may result in additional revenues that fluctuate between \$22 million and \$32 million per fiscal year.

PROPERTY TAX

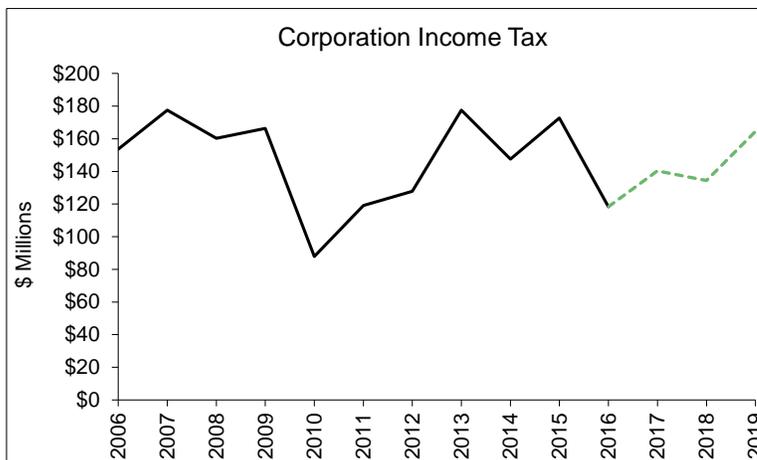
Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate.

With the passage of [SB157 \(2015 Session\)](#), class 4 commercial and residential, as well as class 3 agricultural property, are reappraised every two years as opposed to every six years. The process of phasing in values was also eliminated for these properties with the change from a six-year to a two-year reappraisal cycle. Class 10 timber land remains on a six-year reappraisal cycle with a 1/6th phase in of value per year. Agricultural land and timberland continue to be valued on a productivity basis.



CORPORATION INCOME TAX

The corporation income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. Financial, retail, and energy related sectors are the largest sources of tax liability. Primary economic drivers of this source include oil prices, median house price, and retail sales. The tax rate is 6.75%, except for corporations making a "water's edge" election (see [15-31-322, MCA](#)), who pay a 7.0% tax on their net income



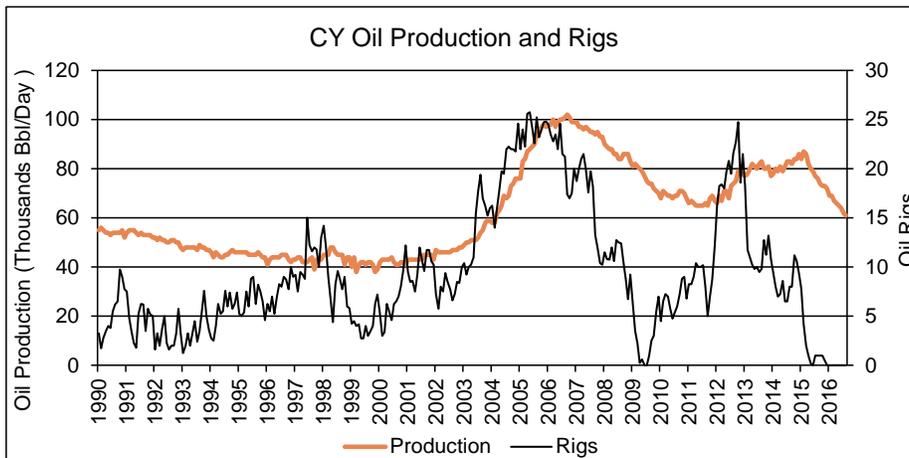
Corporation income tax is quite volatile, as depicted in the adjacent chart. The provision in statute that allows corporations to apply current year losses to three prior years of returns and obtain refunds of taxes paid in those years amplifies the decline in economic downturns.

The executive budget includes two key proposals related to corporation income tax. The first would repeal the water's-edge election for corporation tax purposes and the second would adopt a market-sourcing standard for determining when receipts are sourced to Montana for corporate income tax purposes. Legislation seeking to eliminate the water's-edge election has been proposed, though not passed, in past legislative sessions. The fiscal note for [SB 166 \(2015 Session\)](#) estimated that the repeal of the water's-edge election, once it is completely phased in, would generate approximately \$8.0 million per year. Under the market-sourcing legislation, sales, other than sales of tangible personal property, would be apportioned to Montana if the taxpayer's market for the sales is in this state. Under current law, sales are apportioned to the state in which the income-producing activity is performed.

OIL & NATURAL GAS PRODUCTION TAX

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. The gross taxable value of oil and natural gas production is based on the type of well and type of production, and whether the production occurs within the tax holiday.

Since the beginning of FY 2016, there has only been at most one drilling rig operating in the state, as shown in the adjacent chart. The reduction in the number of active rigs is having an effect on the state's oil production.



FY 2017 oil and natural gas revenue is anticipated to increase due to higher prices and an increase in taxable production.

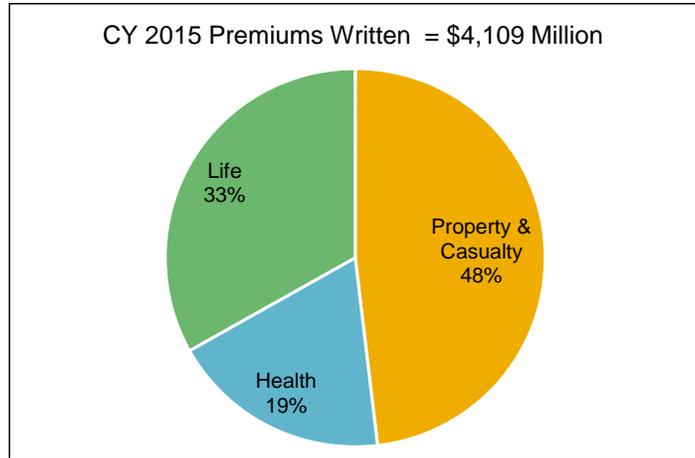
Moving forward into the coming biennium, this source is forecast to grow as declining production will be offset by increased prices. The RTIC assumptions for West Texas Intermediate oil price per barrel are \$51 in 2017, \$55 in 2018 and \$62 in 2019. In addition, the RTIC estimate includes an 18% discount rate for the Montana price.

INSURANCE TAX

The majority of insurance tax collections come from 2.75% of net premiums sold. There is an additional 2.5% levied on fire insurance premiums sold, and a number of small fees.

The adjacent chart illustrates the share of premiums written by major type of insurance. In CY 2015, property and casualty insurance accounted for nearly half of premiums written.

Although changes in federal health care policy may impact on this revenue source, the overall change in revenue is likely to be small relative to total collections. Within health insurance premiums in CY 2015, individual premiums accounted for 29%, small group plans accounted for 25%, and large group plans accounted for 46% of premiums.

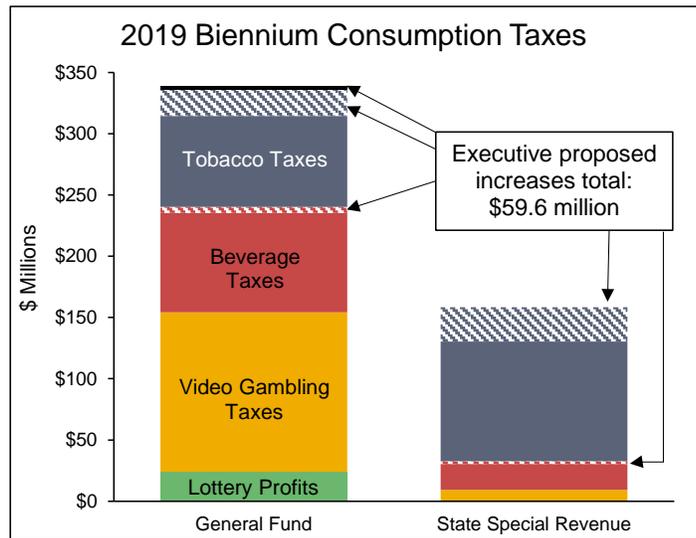


CONSUMPTION TAXES

Consumption taxes—including video gambling, cigarette and other tobacco products, and beer, wine, and liquor taxes—have been trending down as a share of general fund revenue from 8.7% in FY 2004 to 6.9% in FY 2016. Although the majority of each of the consumption taxes is deposited in the general fund, several of the tax types of significant allocations to various state special revenue accounts.

Governor’s Consumption Tax Proposals

The executive budget includes several proposals related to consumption taxes: a new 6% tax on medical marijuana, increasing the cigarette tax by \$0.50 per pack from \$1.70 to \$2.20, making electronic cigarettes or other vapor products taxable, and increasing the wine tax by \$0.27 per liter to \$0.54 per liter. Consumption tax revenue by type is shown in the adjacent chart, with the executive proposals indicated with thatched areas.

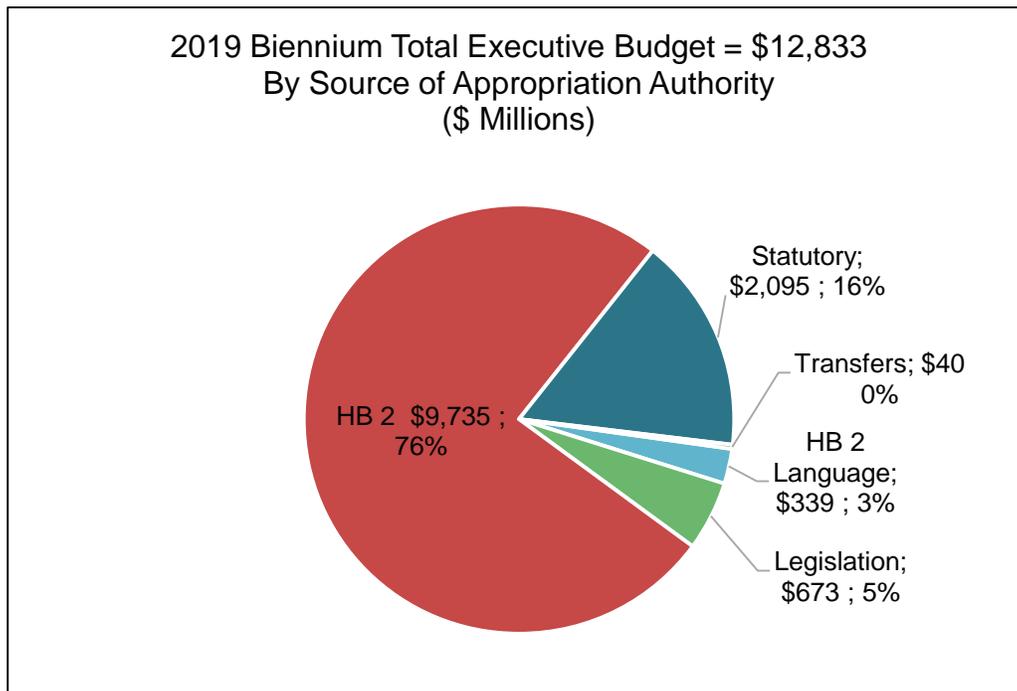


STATE EXPENDITURES

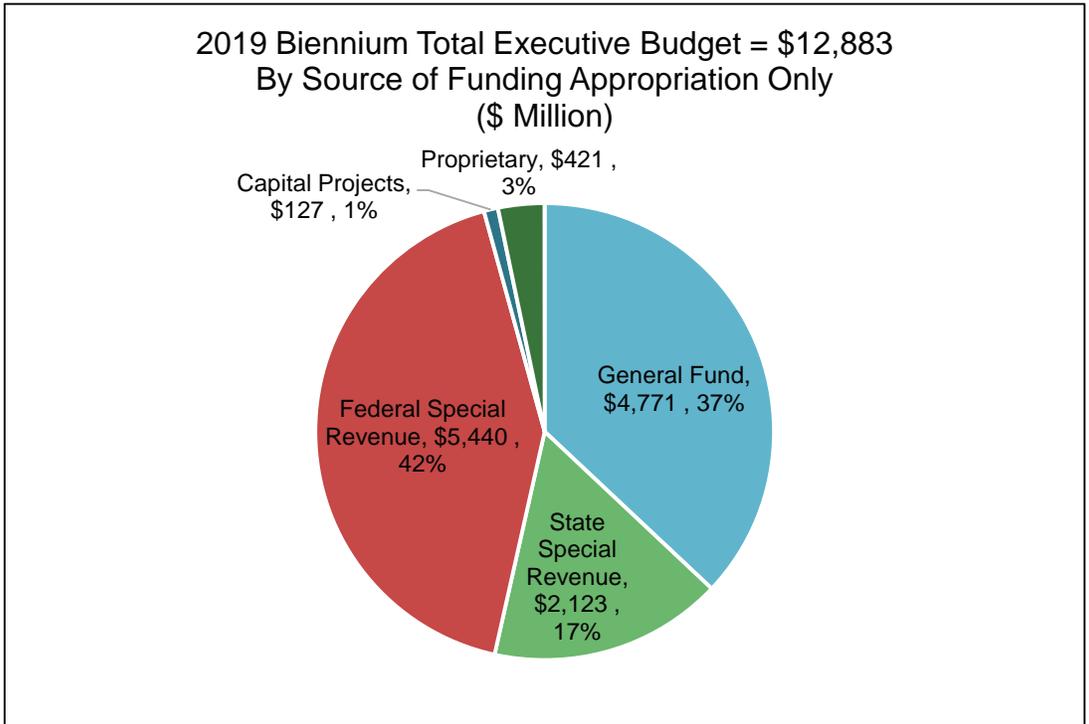
The total budget proposed by the executive includes:

- HB 2 with total funds proposed at \$9,735.5 million for the 2019 biennium
- Language appropriations included in HB 2, an additional \$339.1 million
- Statutory appropriations estimated at \$2,094.9 million over the 2019 biennium
- Non-budgeted transfers estimated at \$40.2 million over the 2019 biennium
- Proposed legislation such as grant programs and Long-Range Building Program bills, continuing authority for federal grants, and a pay plan for state employees

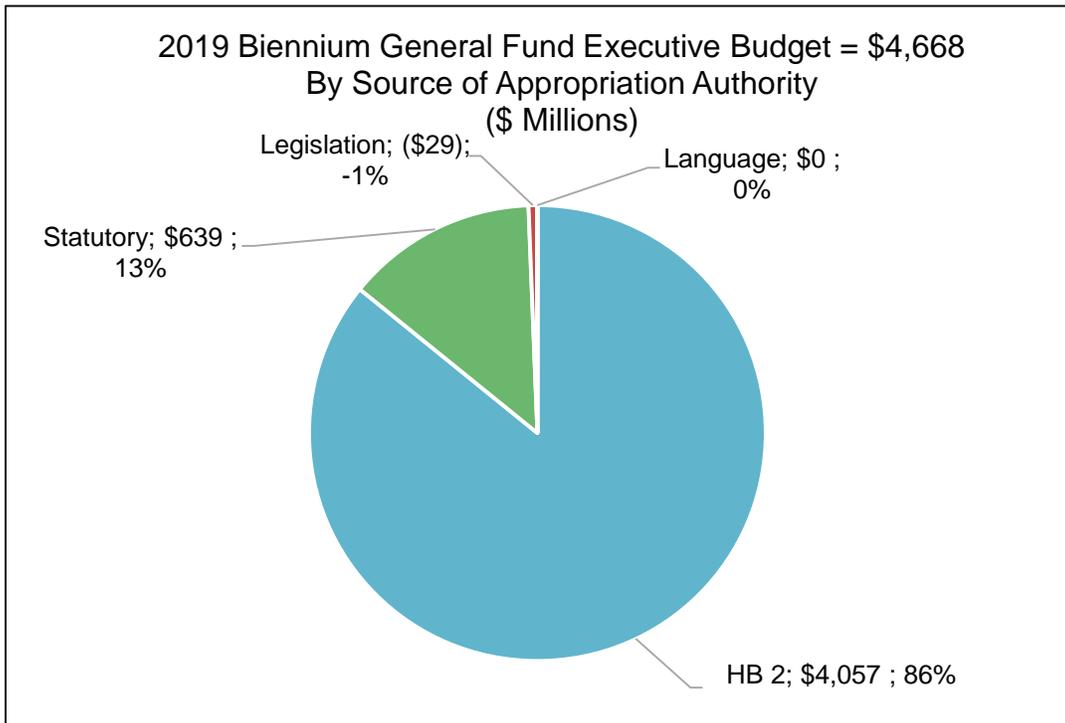
The following chart shows the executive budget broken down by source of authority (appropriation source). HB 2 dominates the appropriation sources. Legislation includes a proposal to designate the federal Supplemental Nutrition Assistance Program (SNAP) as a statutory appropriation.



The following chart shows the executive budget broken down by funding source. As proposed, federal funds are the largest funding sources at 42%.



The figure below shows the general fund budget proposed by the executive by appropriation source of authority.

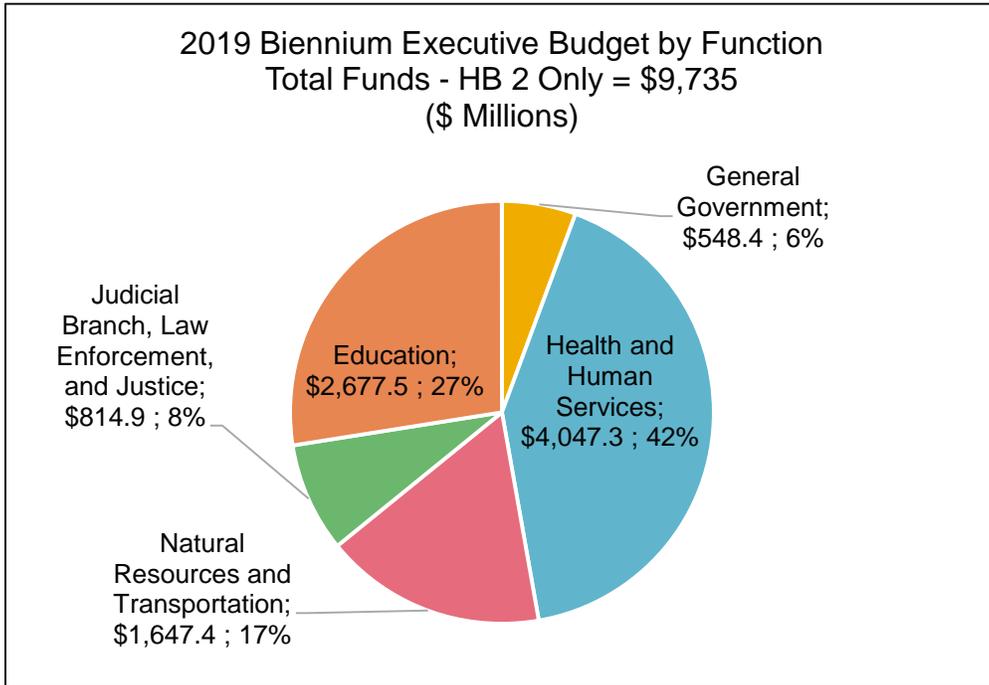


HB 2 FUNDING

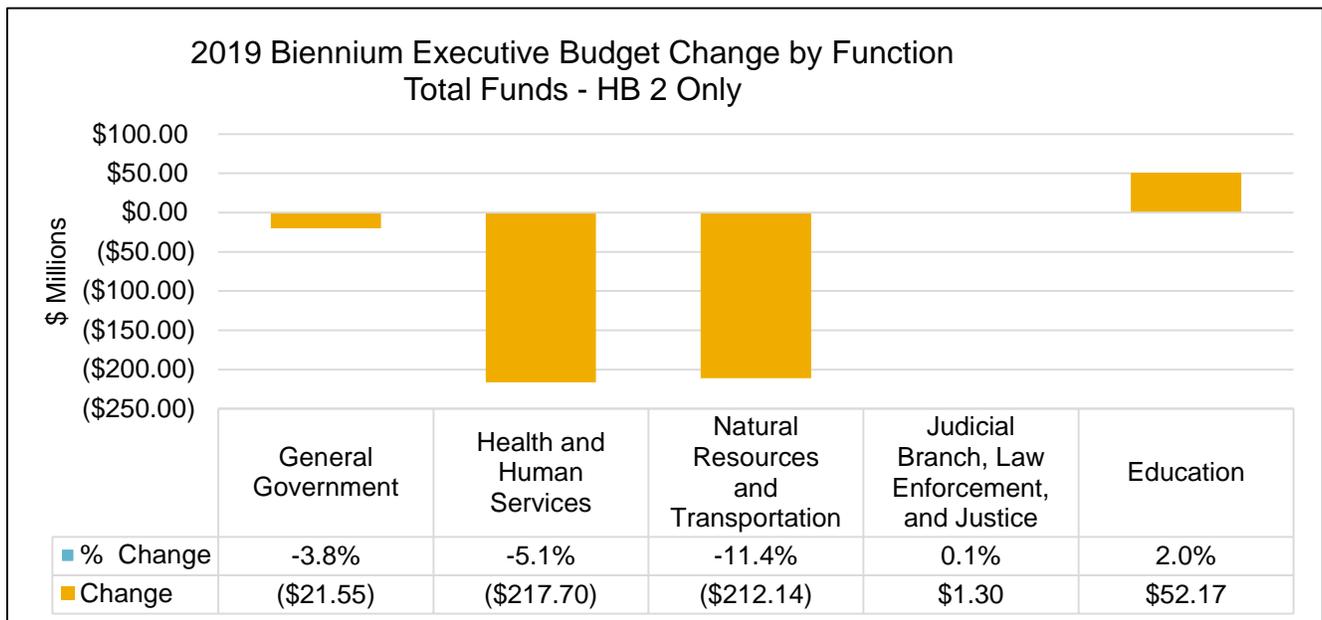
HB 2 is the general appropriations bill, in which the executive proposes the majority of general fund and total funds would be appropriated in the 2019 biennium.

FUNDING BY FUNCTIONAL AREA

The legislature uses functional areas of state government when considering HB 2. The following figure shows the allocation of total funds proposed in HB 2 by functional area. Education and health and human services account for 69% of the total.



The following chart shows the changes between the 2017 and 2019 biennia in HB 2 total funds by functional area.



Overall, the executive proposes a 2019 biennium budget for HB 2 that is 4.0% lower than the 2017 biennium appropriated budget. Reductions within health and human services are mainly related to proposed legislation to provide for a statutory appropriation of \$359.1 million in federal funding for the Supplemental Nutrition Assistance Program (SNAP). Without this change, health and human services appropriations would increase by 3.6 % and the proposed budget reduction would be 0.4% in total funds. Natural resources and transportation reductions reflect proposed changes of \$234.9 million total funds to balance the highway state special restricted revenue account (HSRA). HSRA funds are used to match federal highway funding for highway construction and maintenance. HSRA is also used to fund a portion of the Montana Highway Patrol. The reductions are discussed further in Volumes 3-7 of the 2019 Biennium LFD Budget Analysis.

The following figure shows total funding in HB 2 by agency and compares each to the 2015 biennium. One-time-only funding has been segregated from ongoing expenditures. The figure shows the difference between 2017 biennium appropriations compared to those included in the executive's proposed 2019 biennium budget. The proposed change in funding for SNAP is segregated at the bottom of the chart to show the impact of the change without this factor.

HB 2 Only - All Funds Agency Comparison
Comparison of 2017 Biennium Appropriation to 2019 Biennium Executive Proposed Budget
(\$ Millions)

	Appropriated Budget			Executive Proposed Budget			Biennium % Change
	FY 2016	FY 2017	2017 Biennium	FY 2018	FY 2019	2019 Biennium	
Ongoing							
General Government							
11040 Legislative Branch	\$15.393	\$15.210	\$30.603	\$15.944	\$15.432	\$31.376	2.5%
11120 Consumer Counsel	1.457	1.483	2.940	1.481	1.484	2.965	0.9%
31010 Governor's Office	6.626	6.706	13.332	6.551	6.514	13.065	-2.0%
32020 Commissioner of Political Practices	0.681	0.691	1.372	0.771	0.762	1.534	11.8%
34010 State Auditor's Office	8.881	8.601	17.481	8.343	8.312	16.654	-4.7%
58010 Department of Revenue	58.337	59.827	118.163	59.201	59.213	118.414	0.2%
61010 Department of Administration	19.904	18.474	38.378	19.347	18.236	37.582	-2.1%
65010 Department of Commerce	29.266	29.428	58.694	27.532	27.490	55.022	-6.3%
66020 Department of Labor and Industry	83.695	85.789	169.484	83.977	84.223	168.200	-0.8%
67010 Department of Military Affairs	49.186	49.600	98.786	49.431	49.475	98.906	0.1%
Subtotal General Government	273.426	275.807	549.233	272.578	271.140	543.718	-1.0%
Health and Human Services*							
69010 Department of Public Health & Human Services	2,084.490	2,176.908	4,261.398	1,989.777	2,055.800	4,045.577	-5.1%
Subtotal Health and Human Services	2,084.490	2,176.908	4,261.398	1,989.777	2,055.800	4,045.577	-5.1%
Natural Resources and Transportation							
52010 Department of Fish, Wildlife, and Parks	81.630	83.036	164.667	90.744	90.904	181.648	10.3%
53010 Department of Environmental Quality	61.952	62.973	124.924	64.668	65.505	130.174	4.2%
54010 Department of Transportation	678.318	680.161	1,358.479	537.374	595.860	1,133.234	-16.6%
56030 Department of Livestock	0.445	0.734	1.180	12.969	12.878	25.847	2090.9%
57060 Department of Natural Resources & Conservation	67.164	68.033	135.198	66.953	67.050	134.003	-0.9%
62010 Department of Agriculture	17.667	17.868	35.535	17.853	17.837	35.690	0.4%
Subtotal Natural Resources and Transportation	907.177	912.805	1,819.982	790.561	850.034	1,640.595	-9.9%
Judicial Branch, Law Enforcement, and Justice							
21100 Judicial Branch	50.218	51.056	101.273	50.833	50.831	101.664	0.4%
41070 Crime Control Division	13.134	8.187	21.321	14.667	14.675	29.342	37.6%
41100 Department of Justice	98.524	101.227	199.751	92.995	94.333	187.328	-6.2%
42010 Public Service Commission	4.034	4.095	8.128	4.640	4.178	8.818	8.5%
61080 Office of the Public Defender	2.039	2.814	4.853	34.251	33.585	67.836	1297.9%
64010 Department of Corrections	205.235	205.410	410.646	209.486	209.790	419.276	2.1%
Subtotal Judicial Branch, Law Enforcement, and Justice	373.184	372.788	745.972	406.872	407.392	814.265	9.2%
Education							
35010 Office of Public Instruction	960.606	970.792	1,931.398	992.066	1,003.177	1,995.243	3.3%
51010 Board of Public Education	0.335	0.328	0.663	0.346	0.331	0.677	2.2%
51020 Office of the Commissioner of Higher Education	314.462	316.243	630.705	320.279	320.380	640.660	1.6%
51130 School for the Deaf and Blind	7.304	7.506	14.810	7.368	7.348	14.717	-0.6%
51140 Montana Arts Council	1.460	1.444	2.904	1.484	1.462	2.946	1.4%
51150 Montana State Library	6.484	5.483	11.967	5.866	5.861	11.727	-2.0%
51170 Montana Historical Society	5.700	5.794	11.494	5.647	5.627	11.274	-1.9%
Subtotal Education	1,296.351	1,307.590	2,603.941	1,333.057	1,344.187	2,677.244	2.8%
Subtotal Ongoing	4,934.628	5,045.898	9,980.526	4,792.845	4,928.553	9,721.398	-4.0%
One-Time*							
General Government	14.471	6.242	20.713	2.325	2.350	4.675	-77.4%
Health and Human Services	1.823	1.755	3.579	1.100	0.600	1.700	-52.5%
Natural Resources and Transportation	20.289	19.278	39.566	4.412	2.397	6.809	-82.8%
Judicial Branch, Law Enforcement, and Justice	34.772	32.883	67.655	0.341	0.323	0.664	-99.0%
Education	18.285	3.075	21.360	0.091	0.139	0.230	-98.9%
Subtotal One-time	89.640	63.233	152.873	8.269	5.809	14.078	-90.8%
Total Submitted HB 2	\$5,024.268	\$5,109.131	\$10,133.399	\$4,801.114	\$4,934.362	\$9,735.476	-3.9%
*SNAP moved to statutory appropriation				179.540	179.540	359.080	
Total Submitted HB 2 with SNAP				4,980.654	5,113.902	10,094.556	-0.4%
* In the 2017 biennium Department of Livestock and Office of the Public Defender had the majority of their budgets designated one-time-only							

As noted in the preceding figure, the 2015 Legislature designated the budgets' of the Department of Livestock and the Office of the Public Defender as one-time-only. The movement of the one-time-only funding into ongoing funding in the executive's proposed 2019 budget results in a biennium % change for ongoing funds that is higher than shown in the Change by Function figure.

Substantive law changes cannot be included in the general appropriations act. “Companion bill(s)” to the general appropriations act (HB 2), enable a vehicle for substantive language related to the implementation of certain appropriation line items in HB 2. As part of the executive’s budget proposal a companion bill – HB 10 – has been requested to allow the executive to:

- Provide for rates paid to regional prisons
- Transfer certain state special revenue balances into the general fund in FY 2017
- Expand uses of the school facility and technology account to include administration of infrastructure assistance to local governments and define priorities for available funding
- Reduce the Legislative Branch budget
- Clarify funding for community colleges
- Eliminate a requirement that the health and Medicaid initiatives account is intended to increase Medicaid services and provider rates and not supplant the general fund
- Reduce the calculation of the physician services reimbursements
- Expand the uses of the fire suppression account and suspend transfers of funding into the account
- Provide for legislative intent regarding savings identified during the 2019 biennium

In addition, the executive proposes boilerplate language for HB 2. Proposed language includes a:

- Statement of legislative intent that the appropriations included in the bill do not include any funding for increased rent or lease payments on office, warehouse, or other similar space unless specifically expressed in legislative line item or change package as outlined in the LFD Fiscal Report. Further intent that state agencies are precluded from enacting any inflation provisions of rent or lease agreements or entering into new rent or lease agreements that include automatic inflation adjustors
- Requirement that the Office of Budget and Program Planning establish a separate restricted appropriation for the funding included in each agency’s budget to pay fixed cost allocations to the State Information Technology Services Division in the Department of Administration.

Proposed Base Reductions

As reflected in the preceding figure, the executive proposes to reduce ongoing appropriations for state agency budgets by \$716.8 million total funds over the 2019 biennium through base reductions, changes in IT services, and elimination and or reduction of payments required in current statute. The following figure shows the proposed reductions in general fund compared to agency 2017 base budget appropriations for those funds. For comparison purposes, the one-time-only appropriations for the Department of Livestock and the Office of the Public Defender have been included.

Executive Proposed Budget Reductions Compared to FY 2017 Base Appropriation
HB 2 - General Fund Only
(\$ Millions)

	FY 2017 Appropriation	FY 2018 Reductions	% of 2017 Appropriation	FY 2019 Reductions	% of 2017 Appropriation
General Government					
11040 Legislative Branch	\$13.166	(\$0.330)	-2.5%	(\$0.330)	-2.5%
31010 Governor's Office	6.706	(0.178)	-2.7%	(0.178)	-2.7%
58010 Department of Revenue	55.364	(1.278)	-2.3%	(1.278)	-2.3%
61010 Department of Administration	5.817	(0.281)	-4.8%	(0.275)	-4.7%
65010 Department of Commerce	3.582	(0.167)	-4.7%	(0.167)	-4.7%
66020 Department of Labor and Industry	1.941	(0.094)	-4.8%	(0.094)	-4.8%
67010 Department of Military Affairs	<u>6.632</u>	<u>(0.163)</u>	<u>-2.5%</u>	<u>(0.163)</u>	<u>-2.5%</u>
Subtotal General Government	93.208	(2.491)	-2.7%	(2.485)	-2.7%
Health and Human Services					
69010 Department of Public Health & Human Services	<u>520.700</u>	<u>(9.127)</u>	<u>-1.8%</u>	<u>(9.777)</u>	<u>-1.9%</u>
Subtotal Health and Human Services	520.700	(9.127)	-1.8%	(9.777)	-1.9%
Natural Resources and Transportation					
53010 Department of Environmental Quality	5.541	(0.219)	-4.0%	(0.219)	-4.0%
56030 Department of Livestock*	2.823	(0.121)	-4.3%	(0.121)	-4.3%
57060 Department of Natural Resources & Conservation	30.301	(2.560)	-8.4%	(2.560)	-8.4%
62010 Department of Agriculture	<u>0.960</u>	<u>(0.047)</u>	<u>-4.9%</u>	<u>(0.047)</u>	<u>-4.9%</u>
Subtotal Natural Resources and Transportation	39.624	(2.947)	-7.4%	(2.947)	-7.4%
Judicial Branch, Law Enforcement, and Justice					
21100 Judicial Branch	49.107	(1.078)	-2.2%	(1.001)	-2.0%
41070 Crime Control Division	2.513	(0.410)	-16.3%	(0.410)	-16.3%
41100 Department of Justice	35.669	(1.533)	-4.3%	(1.533)	-4.3%
61080 Office of the Public Defender*	35.207	(0.613)	-1.7%	(0.613)	-1.7%
64010 Department of Corrections	<u>200.472</u>	<u>(0.500)</u>	<u>-0.2%</u>	<u>(0.500)</u>	<u>-0.2%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	322.969	(4.133)	-1.3%	(4.056)	-1.3%
Education					
35010 Office of Public Instruction	792.007	(10.184)	-1.3%	(11.093)	-1.4%
51010 Board of Public Education	0.149	0.000	0.0%	0.000	0.0%
51020 Office of the Commissioner of Higher Education	229.705	(6.665)	-2.9%	(6.634)	-2.9%
51130 School for the Deaf and Blind	7.177	(0.328)	-4.6%	(0.328)	-4.6%
51150 Montana State Library	3.111	(0.158)	-5.1%	(0.158)	-5.1%
51170 Montana Historical Society	<u>3.544</u>	<u>(0.168)</u>	<u>-4.7%</u>	<u>(0.168)</u>	<u>-4.7%</u>
Subtotal Education	1,035.692	(17.503)	-1.7%	(18.382)	-1.8%
Total	\$2,012.193	(\$36.202)	-1.8%	(\$37.647)	-1.9%

* One-time-only base appropriations included in the FY 2017 appropriation.

The executive proposes to reduce general fund appropriations by a total of \$73.849 million in the 2019 biennium with the majority of the funding reductions included in education and health and human services.

An additional \$62.950 million is proposed to be reduced in state special revenue appropriations. Natural resources and transportation include reductions to balance the HRSA account. The majority of the other proposed state special revenue reductions are within education and health and human services.

5% Reduction Plans

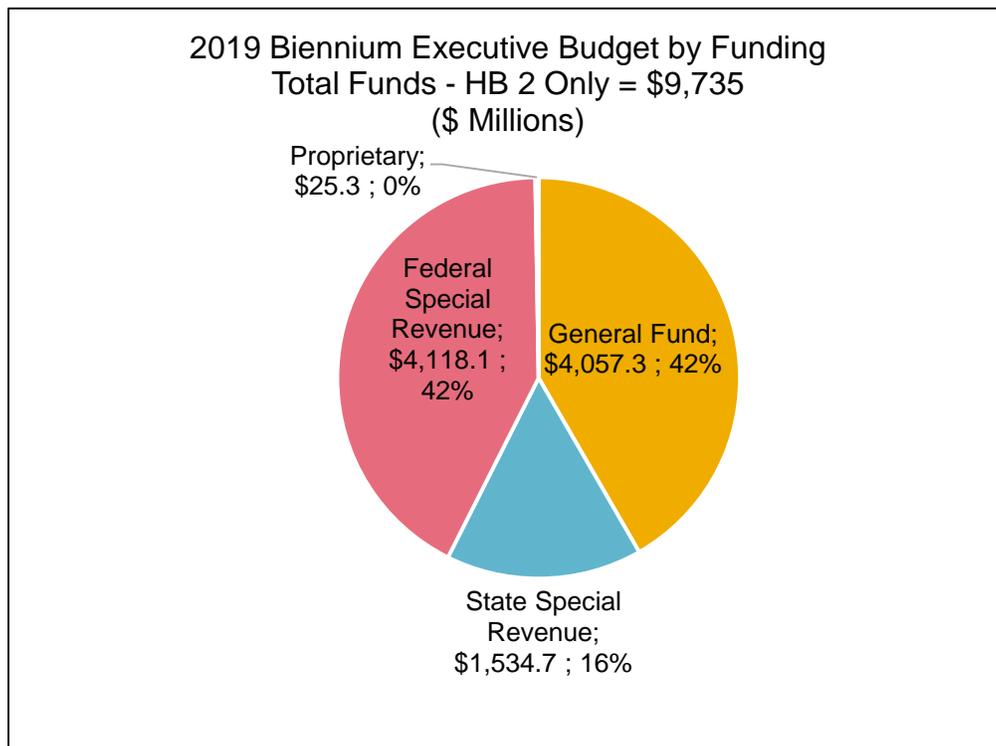
Statute requires that state agencies submit a plan to reduce general fund and certain state special revenue funds by 5% of the current base budget or lower if directed by the budget director. A number of the proposed reductions for the 2019 biennium were based on the 5% reduction plans. A

comparison of the Governor’s base reductions and the required 5% reduction plans is included in the Appendix.

TYPE OF FUNDING

The largest source of funding for operations of state government is federal funds at 42.3% of the total, followed by general fund at 41.7%. General fund decreases as a percentage of the proposed HB 2 budget compared to the previous biennium while federal funds remain at 42.3%. As discussed, the executive recommends statutorily appropriating SNAP funding, reducing federal funds in HB 2 by \$359.1 million. If the impact of the proposed change in SNAP funding was removed, federal funds would be 44.4% of the proposed HB 2 budget while the general fund would be 40.2%.

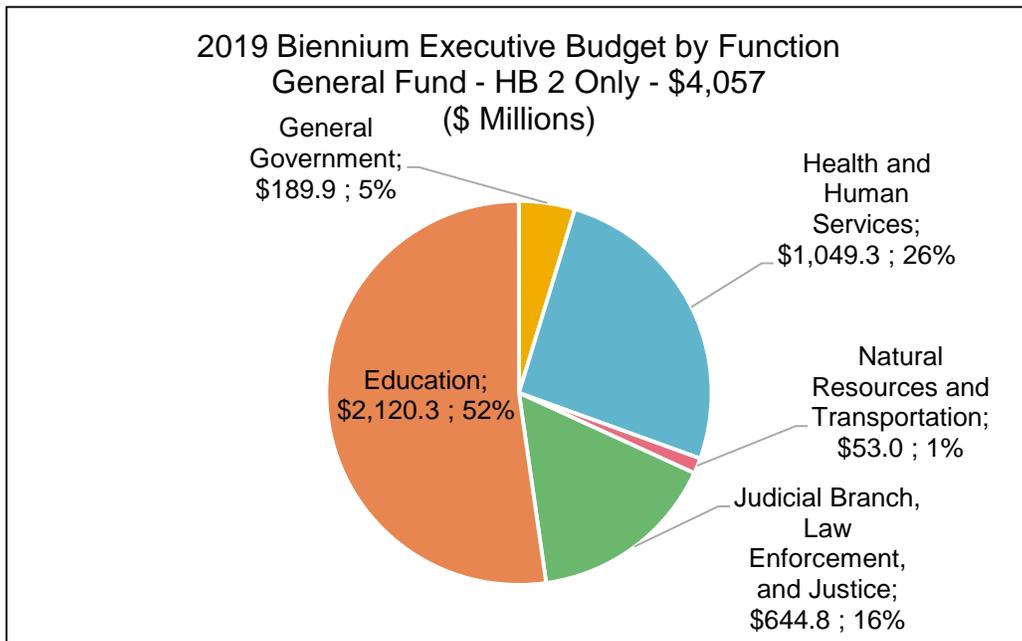
The following figure illustrates the executive funding appropriations for HB 2.



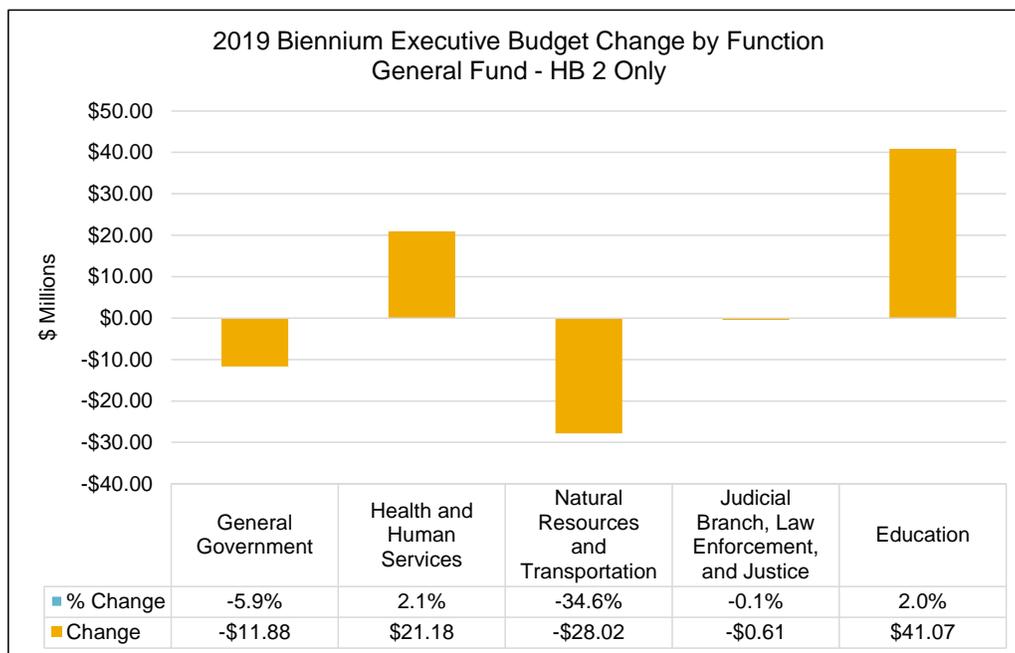
The three primary funding sources in HB 2—general fund, state special revenue, and federal funds—are discussed in the following sections.

General Fund

The following shows total HB 2 general fund expenditures as proposed by the executive, by government functional area. Education, health and human services, and the Judicial Branch, law enforcement, and justice are 93.4% of the total proposed expenditures.



The following chart shows the total changes from the 2017 biennium, by functional area. As shown, the changes include reductions in general government, natural resources and transportation, and increases for education and health and human services.



The Governor proposes to increase ongoing general fund expenditures by \$127.8 million. Proposals for one-time-only general fund are \$106.1 million lower than those included in the 2017 biennial general fund budget resulting in a total general fund increase of \$21.7 million or 0.5% when compared to 2017 biennium appropriations. The designation of the Office of the Public Defender budget as one-time-only in the 2017 biennium is the major factor driving the differences between ongoing and one-time-only funding.

Increases for education and health and human serves are offset by reductions in natural resources and transportation and general government. The executive proposes shifting the funding for \$25.3 million of expenditures in the Forestry Division in the Department of Natural Resources and

Conservation from the general fund to state special revenues from the fire suppression fund. The proposed reductions in general government are spread throughout the various agencies. Education costs increases are mainly related to present law adjustments for inflation and reductions in the guarantee account that are offset by general fund. The proposed health and human services budget increases are mainly due to present law adjustments for Medicaid services and a new proposal for early childhood education.

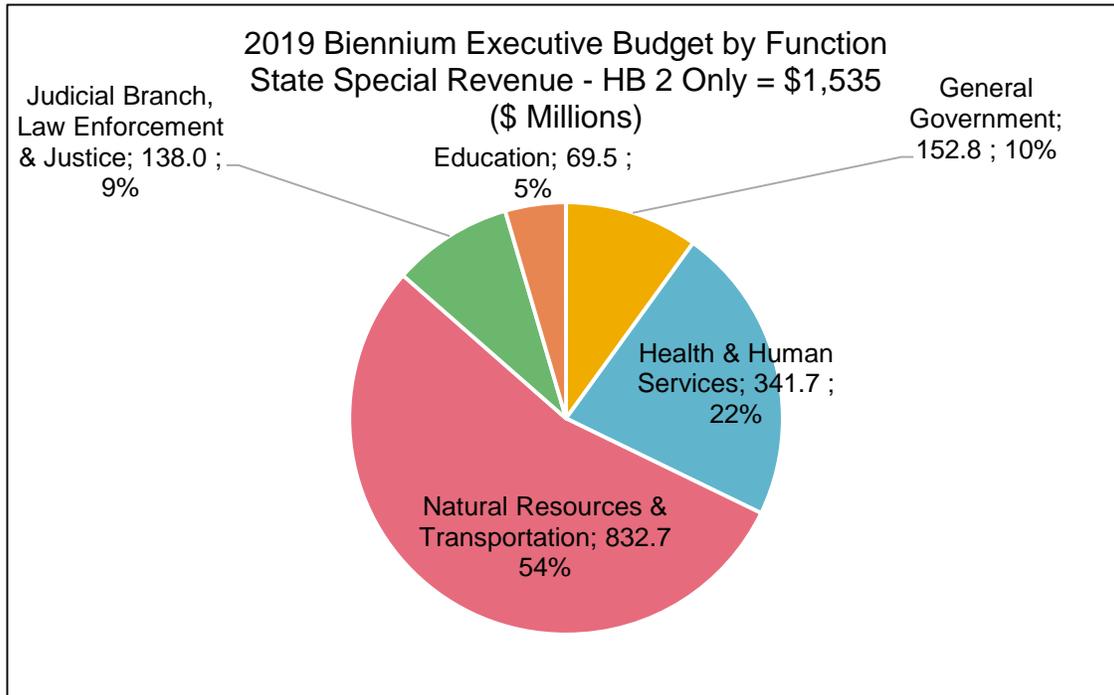
The next figure shows general fund appropriations by agency compared to the 2017 biennium.

HB 2 Only - General Fund Agency Comparison							
Comparison of 2017 Biennium Appropriation to 2019 Biennium Executive Proposed Budget							
(\$ Millions)							
	Appropriated Budget			Executive Proposed Budget			
	FY 2016	FY 2017	2017 Biennium	FY 2018	FY 2019	2019 Biennium	Biennium % Change
Ongoing							
General Government							
11040 Legislative Branch	\$12.794	\$13.166	\$25.960	\$13.668	\$13.280	\$26.949	3.8%
31010 Governor's Office	6.626	6.706	13.332	6.551	6.514	13.065	-2.0%
32020 Commissioner of Political Practices	0.681	0.691	1.372	0.771	0.762	1.534	11.8%
58010 Department of Revenue	53.937	55.364	109.302	54.672	54.670	109.342	0.0%
61010 Department of Administration	5.795	5.817	11.612	5.884	5.838	11.722	0.9%
65010 Department of Commerce	3.537	3.582	7.119	3.306	3.303	6.610	-7.2%
66020 Department of Labor and Industry	1.875	1.941	3.816	1.821	1.824	3.645	-4.5%
67010 Department of Military Affairs	6.482	6.632	13.114	6.619	6.629	13.248	1.0%
Subtotal General Government	91.728	93.899	185.627	93.293	92.821	186.114	0.3%
Health and Human Services							
69010 Department of Public Health & Human Services	504.339	520.700	1,025.039	517.615	529.938	1,047.554	2.2%
Subtotal Health and Human Services	504.339	520.700	1,025.039	517.615	529.938	1,047.554	2.2%
Natural Resources and Transportation							
53010 Department of Environmental Quality	5.375	5.541	10.916	6.286	6.295	12.581	15.3%
56030 Department of Livestock	0.172	0.189	0.361	2.624	2.629	5.252	1354.4%
57060 Department of Natural Resources & Conservation	29.699	30.301	60.000	15.463	15.396	30.859	-48.6%
62010 Department of Agriculture	1.031	0.960	1.991	0.924	0.878	1.802	-9.5%
Subtotal Natural Resources and Transportation	36.278	36.990	73.268	25.297	25.197	50.493	-31.1%
Judicial Branch, Law Enforcement, and Justice							
21100 Judicial Branch	48.325	49.107	97.433	48.846	48.841	97.687	0.3%
41070 Crime Control Division	2.481	2.513	4.994	2.106	2.111	4.217	-15.6%
41100 Department of Justice	34.660	35.669	70.328	33.144	33.194	66.338	-5.7%
61080 Office of the Public Defender	2.039	2.814	4.853	33.977	33.311	67.289	1286.6%
64010 Department of Corrections	200.308	200.472	400.781	204.198	204.502	408.700	2.0%
Subtotal Judicial Branch, Law Enforcement, and Justice	287.813	290.575	578.388	322.271	321.960	644.231	11.4%
Education							
35010 Office of Public Instruction	783.386	792.007	1,575.393	812.525	822.604	1,635.129	3.8%
51010 Board of Public Education	0.157	0.149	0.306	0.158	0.142	0.300	-1.9%
51020 Office of the Commissioner of Higher Education	224.722	229.705	454.427	228.849	228.365	457.214	0.6%
51130 School for the Deaf and Blind	6.975	7.177	14.153	6.951	6.931	13.883	-1.9%
51140 Montana Arts Council	0.525	0.512	1.037	0.542	0.520	1.062	2.4%
51150 Montana State Library	3.063	3.111	6.174	2.949	2.941	5.890	-4.6%
51170 Montana Historical Society	3.481	3.544	7.025	3.418	3.390	6.809	-3.1%
Subtotal Education	1,022.310	1,036.204	2,058.514	1,055.394	1,064.894	2,120.287	-4.7%
Subtotal Ongoing	1,942.469	1,978.368	3,920.837	2,013.869	2,034.810	4,048.679	3.3%
One-Time							
General Government	11.569	4.620	16.189	1.900	1.925	3.825	-76.4%
Health and Human Services	1.551	1.484	3.035	1.100	0.600	1.700	-44.0%
Natural Resources and Transportation	3.871	3.912	7.784	1.267	1.267	2.534	-67.4%
Judicial Branch, Law Enforcement, and Justice	34.124	32.883	67.007	0.281	0.273	0.554	-99.2%
Education	17.985	2.775	20.760	0.003	0.051	0.054	-99.7%
Subtotal One-time	69.100	45.674	114.775	4.551	4.116	8.667	-92.4%
Grand Total	\$2,011.569	\$2,024.042	\$4,035.611	\$2,018.420	\$2,038.926	\$4,057.346	0.5%

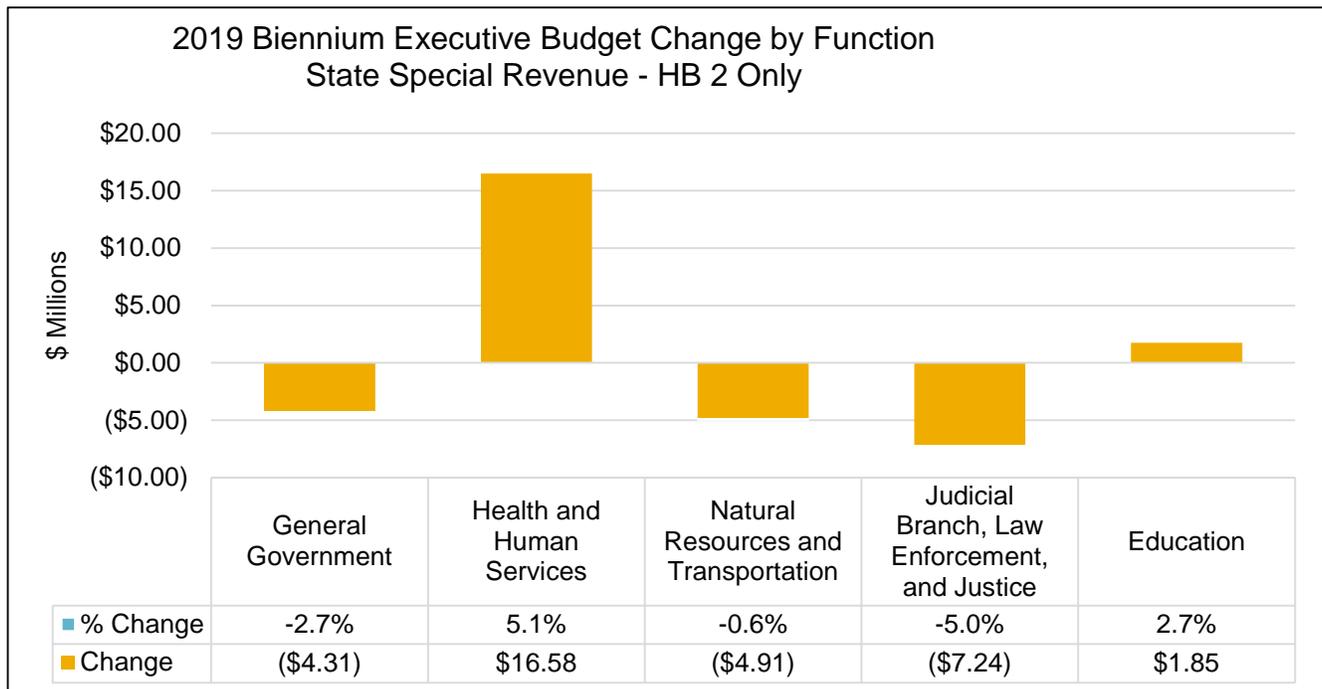
General fund adjustments are discussed in more detail in Volumes 3-7 of the 2019 Biennium LFD Budget Analysis, along with any analysis comments or issues. Each of the one-time-only proposals is also explained more fully in Volumes 3-7.

State Special Revenue

State special revenue is earmarked for specific purposes and totals \$1,535 million or 15.8% of total proposed expenditures in the 2019 biennium in HB 2. The following figure shows total state special revenues by function for HB 2 only.



The following shows the proposed change from the previous biennium, by function of state government. The executive budget would increase state special revenues by \$1.9 million when compared to 2017 biennium appropriations.



The executive budget proposes increasing ongoing expenditures by \$28.5 million or 1.9% while decreasing proposed one-time-only appropriations by \$2 million or a reduction of 77.7%. Similarly to

the general fund, the designation of the Department of Livestock budget as one-time-only in the 2017 biennium is the major reason for the changes between the proposed designations of ongoing and one-time-only funding.

Health and human increases are mainly due to two funding switches proposed by the executive that replace general fund with:

- \$21.3 million from the tobacco and Medicaid health initiatives account
- \$5.5 million from earmarked alcohol funds generated from an increase to the wine tax

This increase is offset by proposed reductions in tobacco settlement funds and case load adjustments for Medicaid.

Reductions in the natural resources and transportation funding and Judicial Branch, law enforcement, and Justice are mainly related to the balancing of HSRA with a reduction of \$42.8 million over the 2019 biennium. This offsets a proposed funding switch in the Department of Natural Resources and Conservation using \$25.3 million of fire funds to replace general fund appropriations within the Forestry Division. Other increases are spread throughout the various state agencies in this functional area of the budget.

The next figure compares state special revenue appropriations by agency in the proposed 2019 biennium budget to the 2017 biennium.

HB 2 Only - State Special Revenue Agency Comparison
 Comparison of 2017 Biennium Appropriation to 2019 Biennium Executive Proposed Budget
 (\$ Millions)

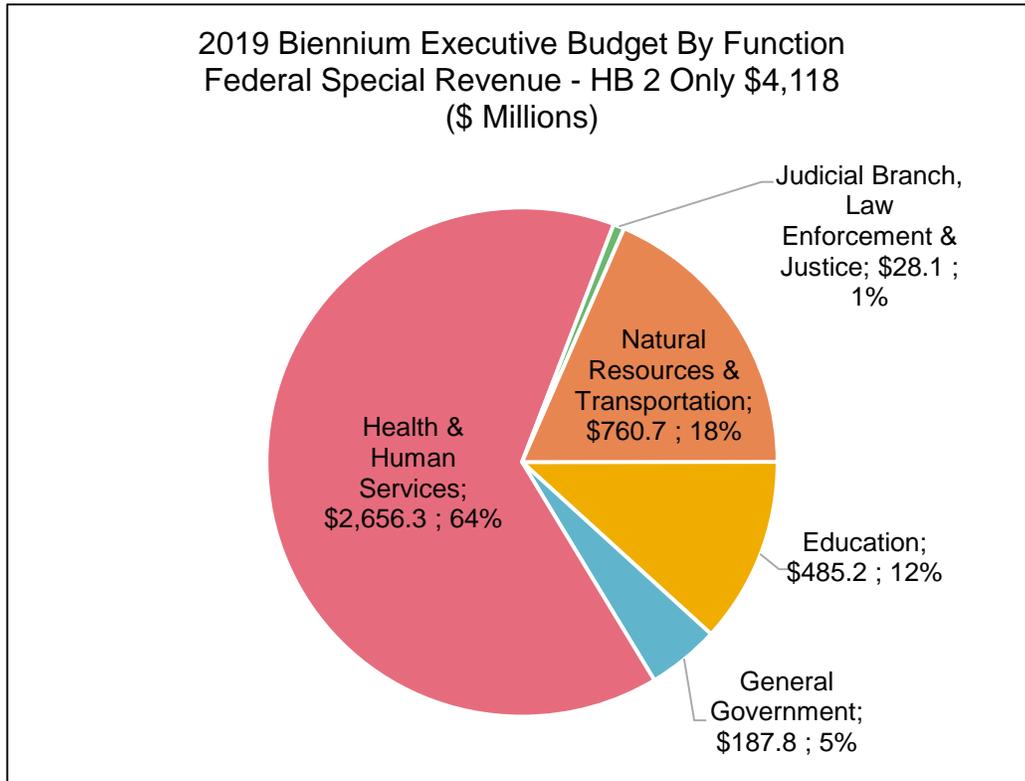
	Appropriated Budget			Executive Proposed Budget			Biennium % Change
	FY 2016	FY 2017	2017 Biennium	FY 2018	FY 2019	2019 Biennium	
Ongoing							
General Government							
11040 Legislative Branch	\$2.599	\$2.044	\$4.643	\$2.276	\$2.152	\$4.427	-4.6%
11120 Consumer Counsel	1.457	1.483	2.940	1.481	1.484	2.965	0.9%
34010 State Auditor's Office	8.881	8.601	17.481	8.343	8.312	16.654	-4.7%
58010 Department of Revenue	1.016	1.018	2.034	1.009	1.013	2.023	-0.6%
61010 Department of Administration	6.979	7.041	14.020	6.761	6.774	13.535	-3.5%
65010 Department of Commerce	7.027	7.124	14.151	6.105	6.072	12.177	-13.9%
66020 Department of Labor and Industry	48.191	49.536	97.726	49.131	49.602	98.733	1.0%
67010 Department of Military Affairs	0.733	0.730	1.463	0.865	0.867	1.732	18.4%
Subtotal General Government	76.883	77.575	154.458	75.970	76.277	152.247	-1.4%
Health and Human Services							
69010 Department of Public Health & Human Services	160.973	164.199	325.172	170.763	170.945	341.708	5.1%
Subtotal Health and Human Services	160.973	164.199	325.172	170.763	170.945	341.708	5.1%
Natural Resources and Transportation							
52010 Department of Fish, Wildlife, and Parks	60.989	61.973	122.962	68.578	68.663	137.241	11.6%
53010 Department of Environmental Quality	33.061	33.564	66.625	35.312	36.074	71.387	7.1%
54010 Department of Transportation	263.225	256.208	519.433	232.753	241.228	473.980	-8.8%
56030 Department of Livestock	0.210	0.380	0.590	8.498	8.388	16.886	2762.0%
57060 Department of Natural Resources & Conservation	35.235	35.385	70.620	49.167	49.328	98.494	39.5%
62010 Department of Agriculture	14.700	14.935	29.635	15.218	15.240	30.459	2.8%
Subtotal Natural Resources and Transportation	407.421	402.445	809.866	409.526	418.921	828.447	2.3%
Judicial Branch, Law Enforcement, and Justice							
21100 Judicial Branch	1.765	1.820	3.585	1.887	1.889	3.776	5.3%
41070 Crime Control Division	0.266	0.122	0.389	0.122	0.122	0.244	-37.1%
41100 Department of Justice	60.693	62.279	122.972	56.596	57.883	114.480	-6.9%
42010 Public Service Commission	3.960	4.021	7.982	4.467	4.005	8.472	6.1%
61080 Office of the Public Defender	0.000	0.000	0.000	0.274	0.274	0.548	100.0%
64010 Department of Corrections	4.824	4.831	9.655	5.181	5.181	10.362	7.3%
Subtotal Judicial Branch, Law Enforcement, and Justice	71.509	73.073	144.582	68.527	69.354	137.881	-4.6%
Education							
35010 Office of Public Instruction	9.657	9.663	19.321	9.546	9.546	19.092	-1.2%
51010 Board of Public Education	0.178	0.179	0.357	0.189	0.189	0.377	5.6%
51020 Office of the Commissioner of Higher Education	20.811	20.614	41.425	21.653	22.249	43.903	6.0%
51130 School for the Deaf and Blind	0.258	0.258	0.516	0.346	0.346	0.693	34.2%
51140 Montana Arts Council	0.225	0.230	0.455	0.234	0.234	0.468	3.0%
51150 Montana State Library	1.748	1.749	3.497	1.703	1.707	3.410	-2.5%
51170 Montana Historical Society	0.749	0.751	1.500	0.697	0.702	1.399	-6.7%
Subtotal Education	33.626	33.445	67.071	34.369	34.974	69.343	3.4%
Subtotal Ongoing	750.412	750.737	1,501.150	759.155	770.471	1,529.625	1.9%
One-Time							
General Government	1.607	1.007	2.614	0.259	0.259	0.518	-80.2%
Health and Human Services	0.020	0.020	0.040	0.000	0.000	0.000	-100.0%
Natural Resources and Transportation	14.399	13.365	27.764	3.145	1.130	4.275	-84.6%
Judicial Branch, Law Enforcement, and Justice	0.648	0.000	0.648	0.060	0.050	0.110	-83.0%
Education	0.300	0.300	0.600	0.087	0.087	0.175	-70.9%
Subtotal One-time	16.974	14.693	31.667	3.551	1.526	5.078	-84.0%
Grand Total	\$767.387	\$765.430	\$1,532.817	\$762.706	\$771.997	\$1,534.703	0.1%

* In the 2017 biennium Department of Livestock and Office of the Public Defender had the majority of their budgets designated one-time-only

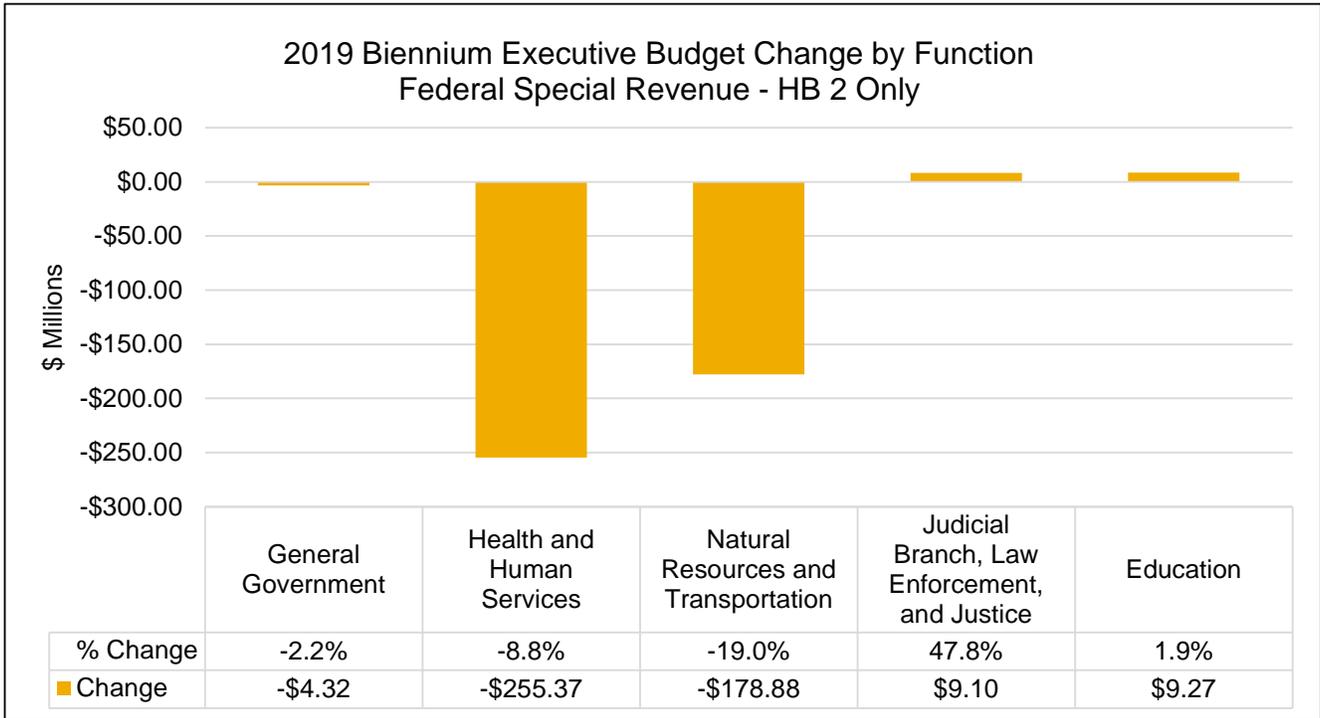
State special revenue adjustments are discussed in more detail in Volumes 3-7 of the 2019 Biennium LFD Budget Analysis, along with any analysis comments or issues. Each of the one-time-only proposals is also explained more fully in Volumes 3-7.

Federal Funds

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. It totals \$4,118.1 million or 42.3% of the proposed expenditures in the 2019 biennium. The following figure is net of the Governor's proposal to move SNAP benefits from HB 2 to a statutory appropriation. If this proposal was not included, federal funds would comprise 44.4% of proposed expenditures, and would decrease by \$61.1 million or 1.3% from the 2017 biennium appropriations.



The following figure shows the proposed change in funding compared to the 2017 biennium. Please note that the figure includes the proposed change in SNAP funding, which results in a decrease of \$359.1 million or 2.8%. As proposed, federal special revenues decrease by \$420.2 million when compared to 2017 biennium appropriations or a reduction of 9.3%.



As shown, the decreases are included in two functional areas of the budget, health and human services and natural resources and transportation. Without the proposed changes to SNAP federal revenues health and human services would increase by \$104.2 million or 3.6%, the majority related to caseload adjustments for Medicaid services, child care, foster care, and CHIP. Natural resources and transportation federal special revenue reductions are driven by the proposed reduction in HRSA funding that is used to match \$193.5 million in federal funding for highway construction and maintenance.

The next figure compares federal funds by agency in the proposed 2019 biennium to the 2017 biennium. The change in SNAP funding is segregated.

HB 2 Only - Federal Special Revenue Agency Comparison
Comparison of 2017 Biennium Appropriation to 2019 Biennium Executive Proposed Budget
(\$ Millions)

	Appropriated Budget			Executive Proposed Budget			Biennium % Change
	FY 2016	FY 2017	2017 Biennium	FY 2018	FY 2019	2019 Biennium	
Ongoing							
General Government							
58010 Department of Revenue	\$0.273	\$0.272	\$0.546	\$0.267	\$0.268	\$0.534	-2.0%
61010 Department of Administration	1.555	0.099	1.654	1.078	0.117	1.195	-27.8%
65010 Department of Commerce	18.702	18.722	37.424	18.121	18.114	36.235	-3.2%
66020 Department of Labor and Industry	33.629	34.313	67.942	33.025	32.797	65.822	-3.1%
67010 Department of Military Affairs	<u>41.971</u>	<u>42.238</u>	<u>84.209</u>	<u>41.947</u>	<u>41.978</u>	<u>83.926</u>	<u>-0.3%</u>
Subtotal General Government	96.130	95.644	191.774	94.439	93.273	187.712	-2.1%
Health and Human Services							
69010 Department of Public Health & Human Services	<u>1,419.178</u>	<u>1,492.009</u>	<u>2,911.187</u>	<u>1,301.399</u>	<u>1,354.916</u>	<u>2,656.316</u>	<u>-8.8%</u>
Subtotal Health and Human Services	1,419.178	1,492.009	2,911.187	1,301.399	1,354.916	2,656.316	-8.8%
Natural Resources and Transportation							
52010 Department of Fish, Wildlife, and Parks	20.641	21.063	41.704	22.167	22.241	44.407	6.5%
53010 Department of Environmental Quality	23.515	23.868	47.383	23.070	23.136	46.206	-2.5%
54010 Department of Transportation	415.093	423.953	839.045	304.621	354.633	659.254	-21.4%
56030 Department of Livestock	0.063	0.166	0.229	1.847	1.861	3.708	1522.2%
57060 Department of Natural Resources & Conservation	2.230	2.347	4.577	2.323	2.327	4.650	1.6%
62010 Department of Agriculture	<u>1.302</u>	<u>1.325</u>	<u>2.627</u>	<u>1.235</u>	<u>1.243</u>	<u>2.478</u>	<u>-5.7%</u>
Subtotal Natural Resources and Transportation	462.844	472.721	935.565	355.263	405.440	760.703	-18.7%
Judicial Branch, Law Enforcement, and Justice							
21100 Judicial Branch	0.127	0.128	0.255	0.101	0.101	0.202	-21.0%
41070 Crime Control Division	10.387	5.551	15.938	12.439	12.441	24.880	56.1%
41100 Department of Justice	1.344	1.364	2.709	1.360	1.358	2.718	0.4%
42010 Public Service Commission	<u>0.073</u>	<u>0.073</u>	<u>0.147</u>	<u>0.173</u>	<u>0.173</u>	<u>0.347</u>	<u>136.4%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	11.932	7.117	19.049	14.074	14.073	28.147	47.8%
Education							
35010 Office of Public Instruction	167.562	169.122	336.685	169.995	171.027	341.022	1.3%
51020 Office of the Commissioner of Higher Education	68.387	65.383	133.770	69.240	69.229	138.469	3.5%
51130 School for the Deaf and Blind	0.070	0.070	0.141	0.070	0.070	0.141	0.1%
51140 Montana Arts Council	0.711	0.701	1.412	0.708	0.708	1.416	0.3%
51150 Montana State Library	1.673	0.623	2.297	1.213	1.213	2.426	5.6%
51170 Montana Historical Society	<u>0.787</u>	<u>0.808</u>	<u>1.595</u>	<u>0.846</u>	<u>0.847</u>	<u>1.693</u>	<u>6.1%</u>
Subtotal Education	239.190	236.709	475.899	242.072	243.095	485.167	1.9%
Subtotal Ongoing	2,229.274	2,304.201	4,533.475	2,007.246	2,110.798	4,118.044	-9.2%
One-Time							
General Government	0.230	0.105	0.335	0.041	0.041	0.082	-75.6%
Health and Human Services	0.252	0.251	0.503	0.000	0.000	0.000	-100.0%
Natural Resources and Transportation	2.018	2.000	4.019	0.000	0.000	0.000	-100.0%
Judicial Branch, Law Enforcement, and Justice	0.000	0.000	0.000	0.000	0.000	0.000	0.0%
Education	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.001</u>	<u>0.001</u>	<u>0.001</u>	<u>100.0%</u>
Subtotal One-time	2.500	2.357	4.857	0.042	0.042	0.083	-98.3%
Grand Total	\$2,231.774	\$2,306.557	\$4,538.332	\$2,007.288	\$2,110.840	\$4,118.127	-9.3%
**SNAP moved to statutory appropriation				179.540	179.540	359.080	
Total Submitted HB 2 with SNAP				\$2,186.83	\$2,290.38	\$4,477.21	-1.3%
* In the 2017 biennium Department of Livestock and Office of the Public Defender had the majority of their budgets designated one-time-only							

Federally funded new proposals and present law adjustments are discussed in more detail in Volumes 3-7 of the 2019 Biennium LFD Budget Analysis.

LONG RANGE

The Long-Range Planning Subcommittee (LRP) analyzes and recommends appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology.

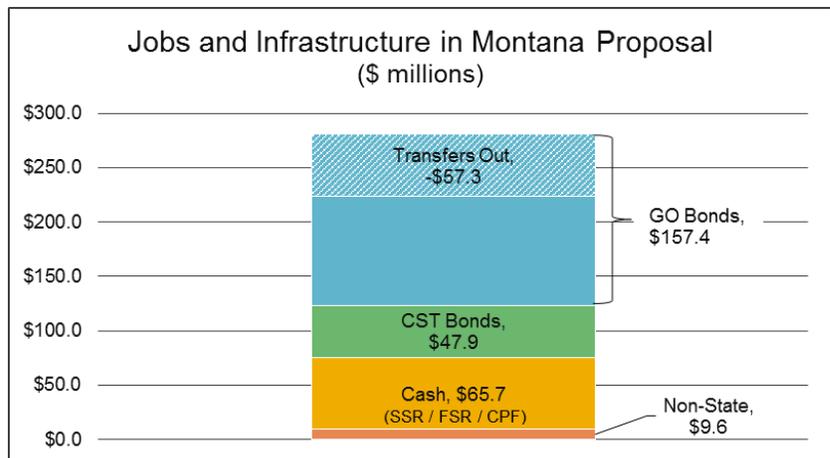
GOVERNOR’S PROPOSAL

Background

The Long-Range Planning Subcommittee (LRP) analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology. With the exception of the IT program, the LRP programs have dedicated revenue streams, or revenues designated in statute for the programs and their purposes. Occasionally those dedicated revenue streams are augmented with general fund transfers, or through the authorization to issue bonded debt.

The Jobs and Infrastructure in Montana Proposal

The executive proposal entitled “Jobs and Infrastructure in Montana” is basically an aggregation of the traditional LRP budgets, with the exception of the Cultural and Aesthetic Grants Program. The proposal totals \$271.0 million of state funds and \$9.6 million of non-state funds (Authority). This proposal makes use of bond proceeds to provide appropriations and grants for state and local government infrastructure investment. \$57.3 million of dedicated program revenues that typically would fund the program projects would be transferred to the general fund (GF). Overall, the increase of state funds financing for the Jobs and Infrastructure in Montana proposal is a \$100.1 million increase in spending above the dedicated revenue streams (Total GO Bonds – Transfers to GF) and is funded with the proceeds of \$157.4 million in general obligation bonds. The table below demonstrates the proposed funding, including the transfers to the general fund, which are shown as an offset to the bonding recommendation of the Jobs and Infrastructure in Montana proposal. SS-state special revenue / FSR-federal special revenue / CPF-capital project fund



Some of the major initiatives included in the Jobs and Infrastructure in Montana proposal include:

- Construction of the new Montana Heritage Center/Betty Babcock Museum - \$27.7 million
- Construction of the new Southwest Veterans’ Home - \$16.8 million
- Renovation of Romney Hall, MSU - \$25.0 million with \$3.0 of Authority
- Montana Community Grants and Loans - \$47.0 million
- Participation in the Wyoming Integrated Test Center - \$3.0 million

More information on the Long-Range Planning programs and the executive proposal for Jobs and Infrastructure in Montana is available in Section F of the Legislative Budget Analysis.

PRESENT LAW STATUTORY APPROPRIATIONS

Statutory appropriations are in statute and are not part of the biennial budgeting process. They are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. However, all statutory appropriations are available for the legislature to review and change if desired. Estimated totals by the Legislative Fiscal Division (LFD) for all statutory appropriation fund types are \$1,021.4 million FY 2018 and \$1,073.5 million FY 2019. For additional information on statutory appropriations, please refer to the statutory appropriations [guide](#) prepared by the Legislative Fiscal Division.

Valid statutory appropriations are contained in a list in [17-7-502, MCA](#). The list provides statutory citations for each statutory appropriation. Statutory appropriations are intended for limited situations, and guidelines for the appropriateness for establishing them are specified in [17-1-508, MCA](#). The Legislative Finance Committee periodically reviews statutory appropriations.

GENERAL FUND PRESENT LAW ESTIMATES

The following table shows each individual general fund statutory appropriation estimated by the Legislative Fiscal Division. The LFD estimates are higher than those of the Office of Budget and Program Planning. The executive estimates for statutory appropriations are \$18.3 million lower for FY 2017-FY 2019. Methodology and assumption differences for HELP Act attribute to the differences.

General Fund Statutory Appropriations FY 2016 - FY 2019

Legislative Fiscal Division Estimates FY 2017 - FY 2019

General Fund	2016 (Actual)	2017 (Estimate)	2018 (Estimate)	2019 (Estimate)
Retirement				
15-35-108(9)(a) Coal Severance to PERS	\$14,235,649	\$13,225,204	\$15,649,893	\$15,724,421
15-35-108(9)(b)(v) Coal Severance to PERS (Interest)	16,076,171	16,828,058	17,385,695	17,889,617
19-3-319 Local Gov. Retirement Contribution	1,005,358	1,045,572	1,087,395	1,130,891
19-6-404 MHP Retirement Transfer	1,472,757	1,531,668	1,592,934	1,656,652
19-6-410 MHP Supplemental Retirement Transfer	242,749	242,749	242,749	242,749
19-9-702 Police Retirement Contribution	13,751,561	14,301,623	14,873,688	15,468,636
19-13-604 Firefighters' Association Contribution	13,969,719	14,528,508	15,109,648	15,714,034
19-17-301 Volunteer Firefighter Fund Contribution	2,036,297	2,138,112	2,245,017	2,357,268
19-18-512 Fire Department Relief Association Contribution	464,238	482,808	502,120	522,205
19-19-305 Police (Non-PERS) Retirement Contribution	180,651	180,651	180,651	180,651
19-19-506 Police Officer Pension Supplemental Contribution	-	-	-	-
19-20-604 Teacher's Retirement Supplemental Contribution	865,444	900,062	936,064	973,507
19-20-607 Teachers' Retirement System Contribution	43,037,162	43,758,648	44,508,994	45,289,354
19-21-203 MUS Retirement Contribution	1,714,016	1,782,577	1,853,880	1,928,035
Subtotal	\$109,051,773	\$110,946,239	\$116,168,730	\$119,078,020
Economic Development				
15-35-108(9)(b)(i) Coal Severance to Cooperative Develop Center	65,000	65,000	65,000	65,000
15-35-108(9)(b)(ii) Coal Severance to Growth Through Ag	615,319	625,000	625,000	625,000
15-35-108(9)(b)(iv) Coal Severance to Department of Commerce	1,098,420	1,100,000	1,100,000	1,100,000
15-70-433 Biodiesel Tax Refunds	-	-	-	-
15-70-601 Biodiesel Tax Incentives	-	-	-	-
Subtotal	1,778,739	1,790,000	1,790,000	1,790,000
Local Assistance				
7-4-2502 Payment of County Attorneys	3,268,393	3,399,129	3,535,094	3,676,498
15-1-121 Local Government Combined Distribution	129,236,950	133,093,768	137,348,633	141,390,757
22-1-327 State Aid to Public Libraries	395,766	396,000	-	-
Subtotal	132,901,109	136,888,897	140,883,727	145,067,255
Other				
10-1-1202 National Guard Death Benefit	-	-	-	-
10-3-310 Incident Response Appropriation	-	-	-	-
10-3-312 Emergency and Disaster Appropriation	889,155	15,610,845	8,250,000	8,250,000
15-1-218 Out of State Collections	400,000	150,000	150,000	150,000
16-11-509 Tobacco Enforcement	-	-	-	-
17-3-106 Return of Federal Grant Interest	90	1,000	1,000	1,000
17-3-106 Return of Federal Grant Money (GSD Only)	294,092	225,000	225,000	225,000
17-3-106 Return of Federal Grant Money	379,258	252,172	252,172	252,172
5-13-402 Legislative Audits	-	-	-	-
17-6-101 Banking Charges	2,337,651	2,407,781	2,480,014	2,554,414
17-7-502(4) Bond Fees & Costs	12,167,717	12,786,390	12,459,283	9,370,366
53-6-1304 SB 405 HELP Act	4,968,280	16,783,534	31,615,056	38,479,149
Subtotal	21,436,243	48,216,722	55,432,525	59,282,101
General Fund Total	\$265,167,864	\$297,841,858	\$314,274,981	\$325,217,376

REMAINING STATUTORY APPROPRIATIONS

The following tables show LFD estimates for statutory appropriations that impact state special revenue funds, federal special revenue funds, capital projects and enterprise funds.

Remaining Statutory Appropriations - Legislative Fiscal Division Estimates				
State Special Funds	2016	2017	2018	2019
	(Actual)	(Estimate)	(Estimate)	(Estimate)
20-9-622 Guarantee Account to BASE Aid	\$47,053,496	\$42,673,884	\$44,038,275	\$45,662,336
15-36-332 Oil & Gas Distribution to Counties	37,865,148	45,257,684	46,807,198	49,453,025
15-65-121 Lodging Tax Distribution	23,374,407	24,031,854	25,141,905	26,219,321
17-3-241 Mineral Impact Account	8,894,445	5,725,088	5,725,088	5,725,088
All Other State Special	93,712,558	101,468,311	101,468,311	101,468,311
State Special Total	\$210,900,055	\$219,156,821	\$223,180,777	\$228,528,081
Federal Special Funds				
53-6-1304 SB 405 HELP Act	\$153,601,319	\$366,737,607	\$403,538,519	\$440,322,538
17-3-212 Federal Forest Funds to Counties	15,938,821	14,834,030	13,805,817	12,848,874
17-7-502(4) Highway 93 Debt Service	15,597,413	15,700,000	15,700,000	15,700,000
All Other Federal Funds	12,069,535	10,877,526	10,877,526	10,877,526
Federal Special Total	\$197,207,088	\$408,149,163	\$443,921,862	\$479,748,938
Capital Projects and Enterprise Funds				
23-7-402 Lottery Prizes	\$33,677,848	\$30,884,197	\$30,884,197	\$30,884,197
All Other	9,137,391	9,137,391	9,137,391	9,137,391
Capital Projects and Enterprise Funds Total	\$42,815,239	\$40,021,588	\$40,021,588	\$40,021,588

PRESENT LAW GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and – with proper legislative authorization – money may be transferred from one account to another without an appropriation. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in un-codified legislation) and are not part of the biennial budgeting process. However, they impact the amount of money available for the legislature to appropriate for specific programs. The Legislative Finance Committee has approved a policy 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.

LEGISLATIVE FISCAL DIVISION PRESENT LAW ESTIMATES

The following table shows each individual general fund transfer estimated by the Legislative Fiscal Division. The primary difference between LFD estimates and the Office of Budget and Program Planning transfer estimates are for the 39-71-2352(6), old fund liability of the State Fund and the transfer into the sage grouse stewardship fund. The LFD estimated transfers are \$6.9 million for FY 2017 – FY 2019 the result of estimated higher costs for the Libby asbestos claims. The present law amount for sage grouse is \$10 million, however the Governor has proposed new legislation that would impact the sage grouse transfer. The Legislative Fiscal Division non-budgeted transfer estimates are used in the LFD general fund balance sheet.

General Fund Non-Budgeted Transfer LFD Estimates, FY 2016 - FY2019				
MCA Cite	2016 (Actual)	2017 (Estimate)	2018 (Estimate)	2019 (Estimate)
<u>Vehicle</u>				
15-1-122(1)	\$188,709	\$78,807	\$86,688	\$95,357
15-1-122(3)(a)	1,601,538	1,684,059	1,660,817	1,683,982
15-1-122(3)(b)	1,631,204	1,706,816	1,683,260	1,706,739
15-1-122(3)(c)(i)	499,566	523,424	516,120	523,400
15-1-122(3)(c)(ii)	113,842	113,788	112,217	113,783
15-1-122(3)(c)(iii)	173,762	182,060	179,548	182,052
15-1-122(3)(d)	878,911	921,681	908,961	921,639
15-1-122(3)(e)	43,441	45,515	44,887	45,513
<u>Other Transfers</u>				
15-1-122(3) Livestock Loss	200,000	200,000	200,000	200,000
17-1-511(2) Rural Physicians	227,285	227,000	227,000	227,000
39-71-2352(6) Old State Fund Shortfall	9,538,000	9,572,686	9,572,686	9,572,686
76-13-105 Wildfire Suppression	50,309,602	11,422,262	-	-
77-1-108(5a) Trust Land Adm.	80,000	-	40,000	40,000
87-2-801(6) Purple Heart Free Hunting	41,254	53,000	53,000	53,000
87-2-803(12d) Military Free Hunting	993	400	400	400
<u>Legislation</u>				
HB 10	10,300,000	-	-	-
HB 403	1,000,000	-	-	-
SB 57	1,060,395	3,632,413	3,498,298	3,509,046
SB 367	1,275,000	1,275,000	1,275,000	1,275,000
SB 163	775,821	775,821	-	-
SB 261		10,000,000		
Other Adjustments	(375,938)			
Total GF	\$79,563,385	\$42,414,732	\$20,058,882	\$20,149,597

GOVERNOR'S PROPOSED OTHER LEGISLATION

GENERAL FUND ONLY

Other than HB 2, Long-Range Building, statutory authority, and non-budgeted changes described above, the executive proposes other legislation that impact general fund. The following figure illustrates those proposals.

Other Proposed Legislation - General Fund Only (does not include any HB 2 items)			
(\$ Millions)			
	FY 2017	FY 2018	FY 2019
Proposed Revenue Legislation			
LC 891 - Repeal water's-edge election for corporation tax		\$2.0	\$4.0
LC 892 - Update Montana's corporate income tax to adopt a market-sourcing standard		0.5	1.5
LC 901 - Amend rates for individual income tax and provide for a new tax rate	1.5	20.9	14.7
LC 903 - Eliminate tax credit for capital gains for MT adjusted gross income over \$1.0 million		13.9	12.4
LC 904 - Income tax deductions equal for individuals, estates and trusts		1.3	1.3
LC 896 - An act taxing medical marijuana at 6%		1.3	1.3
LC 1084 - Increasing the rate of tax on cigarettes, non-cigarette tobacco, and taxing vapor products (increase of \$0.50 per pa	1.9	10.6	11.1
LC 895 - Increasing the rate of tax for sale of wine (increase of \$0.25 per liter)		2.5	2.5
LC 906 - Repeal energy credits		5.9	5.9
LC 899 - Allowing for a refundable earned income credit based on percentage of federal earned income credit			(4.7)
LC 890 - Creating an income tax credit program for employers of registered apprentices			(1.0)
LC 905 - Create Build Montana Trust Fund		(0.5)	(1.2)
LC 1084 - Increase in cigarette taxes revenue into fund for state veterans' homes. Excess authority transfers to general fund		1.4	1.4
LC 1096 - Institutional reimbursements for continued operations of Montana Developmental Center		2.8	2.5
LC 1086 - Online travel company tax		0.4	0.4
Subtotal for proposed revenue legislation	\$3.4	\$62.9	\$52.0
Proposed Transfer In Authority			
LC 907 - Medical Marijuana	2.0		
LC 907 - Big Sky Economic Development - Update Dec 15	0.5		
LC 907 - Criminal Records & Identification Services Section - DOJ	3.0		
LC 907 - Junk Vehicle - DEQ	2.0		
LC 909 - Youth Court Intervention - Judicial Branch	1.0		
LC 907 - Rural Physicians - Higher Education	1.0		
LC 907 - Sale of Armory Fund - Military Affairs	1.3		
LC 907 - Montana Telecommunications Access Program	1.5		
LC 907 - Local 911	10.0		
LC 907 - Fees paid into state treasury - Update Dec 15	0.6		
HB 14 - SW Veteran's Home	5.1		
HB 14 - School Facility Grant Program		5.6	5.6
HB 14 - Treasure State Endowment Program		8.5	8.5
HB 14 - Regional Water		3.0	3.0
HB 14 - Long Range Building Program		5.2	5.2
HB 14 - Reclamation and Development Grants		1.6	1.6
HB 14 - Renewable Resource Grant and Loan Program		1.5	1.5
HB 14 - Long Range Building Program		0.4	0.4
Subtotal of Transfers In Proposed Legislation	\$28.0	\$26.0	\$26.0
Proposed Expenditure Legislation			
HB 1 - Assumed Feed Bill for the 2019 biennium cost of the legislature	\$7.0	\$2.2	\$2.6
HB 3 - Supplemental Appropriation	20.0		
HB 3 - expenditure reductions	(16.0)		
HB 13 - Employee Pay Plan		3.816	7.154
LC 1592 - lowers entitlement share growth		(2.5)	(5.6)
HB 14 - Create Build Montana Trust Fund, creates new fund within coal severance tax trust fund		(0.5)	(1.2)
HB 14 - Proposed General Obligation Bonds costs		6.0	12.1
HB 110 - Smaller general fund transfer as proposed HB 110 would increase revenue into the water adjudication fund		(0.9)	(0.9)
LC 900 - Property assessed clean energy act of Montana (PACE)		3.0	3.0
LC 907 - no transfer of unexpended Governor's emergency and disaster appropriation	(13.0)	0.0	
LC 909 - Suicide Prevention		0.5	0.5
LC 896 - DOR IT system enhancement for new tax legislation	0.6	0.3	0.2
LC 1121 - Sage Grouse Stewardship Act proposed transfer to a statutorily appropriated fund	2.0	2.0	2.0
Subtotal for proposed expenditure legislation	\$0.6	\$13.9	\$19.8

OTHER FUND TYPES (STATE SPECIAL, FEDERAL SPECIAL, AND PROPRIETARY)

In addition, the executive is proposing legislation that impacts other funds. The largest impact is the proposed elimination of \$359.1 million in federal SNAP funding from HB 2 with legislation to statutorily appropriate the funding. Long-Range Building Program (LRPB) proposals include appropriations of:

- \$167.6 million in state special revenue
- \$21.9 million in federal special revenue
- \$79.3 million in capital projects funds

Additional information on the LRBP can be found on page 45. The executive is proposing to extend approximately \$120.2 million in federal grant authority in HB 4. Finally, the executive requested legislation for a state employee pay plan that appropriates:

- \$5.5 million in state special revenue
- \$3.6 million in federal special revenue
- \$0.2 million in proprietary funds

REFERENCES

The Governor's Budget Highlights Fiscal Years 2018-2019 are found on the Governor's website: http://budget.mt.gov/Budgets/2019_Budget

FY 2017 SUPPLEMENTAL REQUESTS

EXECUTIVE PROPOSAL

The executive is requesting \$20.0 million general fund in the 2017 biennium as supplemental funding for three agencies: Office of Public Instruction, Department of Corrections, and the Commissioner of Higher Education. The following details the FY 2017 executive request. A further discussion of the supplemental request is detailed at the agency level in the 2019 Biennium Legislative Fiscal Division Budget Analysis.

Office of Public Instruction (OPI)

The executive is proposing a \$16.5 million general fund supplemental appropriation for OPI to cover unanticipated shortfalls in K-12 education funding. The reasons for are the following:

1. BASE Aid is funded by a combination of interest and income from the guarantee account and an appropriation from the general fund. LFD forecasts for FY 2017 that interest and income from the guarantee account will be \$7.5 million less than anticipated. The executive is using a lower estimate for interest and income from the guarantee fund, resulting in an overall supplemental request that is \$2.0 million higher than LFD estimates.

Office of Public Instruction K-12 Supplemental Appropriation Estimate - Nov 2016	
Funding Sources	Amount
HB2 General Fund Appropriation	\$650,634,914
General Fund Transfer FY 2017 to FY 2016	(\$3,500,000)
General Fund Carry Forward from FY 2016 to FY 2017	\$3,438,721
Guarantee Account HJ 2	\$49,362,000
Lower Than Expected Oil Bonus Payments	(5,460,000)
Other Interest and Income Lower Than Expected	(1,117,980)
LFD Forecast Available from Guarantee Account	\$42,784,020
Total Funding for BASE Aid	\$693,357,655
Forecast BASE Aid Payments	
September Forecast for Total BASE Aid	\$701,665,899
Increases above September Forecast	
Higher Payments for BASE Aid due to ANB Growth	5,562,116
Higher GTB support to due increase in ANB Growth	646,403
Higher GTB payments due to Northwest Energy Settlement	328,928
Total BASE Aid Payments	\$708,203,346
Estimated Supplemental for 2017 Biennium	
Funding Available less OPI Forecast Payments	(\$14,845,691)

2. Higher than anticipated enrollments. The fall enrollment count to determine average

number belonging (ANB) resulted in an ANB count higher than anticipated by 1,600, adjusting the school funding model. LFD estimates this would increase the current year expenditures for per-ANB and basic entitlements by about \$5.6 million. This increase would also increase the guaranteed tax base (GTB) payments from the state general fund to school districts by about \$0.6 million

3. The Department of Revenue settled a tax protest by Northwest Energy that lowered the company's taxable value. Lowering the available tax base for school districts increases the amount of GTB payments from the general fund. Using the school funding model and the lower tax base resulting from this settlement, LFD estimates the impact due to the settlement to be \$0.33 million. Other increases such as changes in audit costs and state funded components will add an additional \$0.8 million.

Department of Corrections

The executive has requested \$3.1 million general fund in FY 2017 for the Department of Corrections to cover shortfalls in secure facilities for costs associated with housing state offenders in county jails.

Commissioner of Higher Education (OCHE)

The executive has requested \$358,000 general fund in FY 2017 to cover revenue shortages for scholarships provided to students in the fields of science, technology, engineering, and math (STEM).

COST PRESSURES

Cost pressures include increases applied to current services in costs to maintain ongoing services such as personal services, fixed costs, and inflation, implementing increases approved by the previous legislature, and new changes in workload and/or utilization, some of which would require legislation to reduce. Cost pressures are also due to new proposals for inflation-like items for providers of services in state government and funding shifts to fund certain present law items with state funds, such as Medicaid share and to ease tuition pressure in the Montana University System (MUS).

MANAGING RISK: REVENUE VOLATILITY

Montana's revenue volatility is primarily due to an increasing reliance on individual income tax including capital gains, an economy with relatively high reliance on the natural resources sector, and budgets based on biennial forecasts. The LFD's September 2016 report on [Montana's Financial Volatility](#) highlights the on-going challenge of managing financial volatility, and summarizes the major factors contributing to Montana's relatively high and increasing revenue volatility. It summarizes the best policies and practices of state government finances according to Standard and Poor's and comments on Montana's current approach to each issue. The report wraps up with options for next steps if the legislature wishes to consider a more in depth study of managing state general fund volatility, including

- Stress test the budget to find the amount of general fund gap that would result in a mild or moderate recession
- Consider further legislative investigation—potentially through a session or interim committee, or by passing a joint resolution to evaluate which financial management strategies, if any, would be appropriate for Montana

MANAGING RISK: EXPENDITURE ESTIMATE ERROR OR SUPPLEMENTAL

Along with the risk that revenue estimates can cause financial stress, so can errors in expenditure estimates. Estimates are used to develop several large appropriations; when required expenditures are greater than the appropriations, a shortfall occurs and the agency must request a supplemental appropriation. Examples of expenditure estimates include caseloads for public defender, Medicaid benefits, county jail holds, prison populations, and student enrollment in school districts. The following agencies requested \$20.0 million in FY 2017 supplemental appropriations: Office of Public Instruction, Department of Corrections, and Office of the Commissioner of Higher Education.

STATUTORY COST INCREASES

Some cost increases to personal services have been previously approved by the legislature, including: health insurance costs that were funded for the second half of FY 2017; longevity increment adjustments; and phased-in employer cost increases for pensions.

ANNUALIZING THE FY 2017 PAY PLAN

HB 2 included an appropriation for the employee pay plan for an increase of \$.50 cents on January 1, 2017. While the cost of the negotiated pay plan is within the HB 2 appropriation for FY 2017, it increases the annualized cost of the pay plan in the 2019 biennium.

2019 BIENNIUM STATE EMPLOYEE PAY PLAN

The executive has proposed a 1% pay plan increase beginning on November 15, 2017 and a 1% increase on November 15, 2018.

OTHER INFLATION INCREASES

Other items are inflated or deflated in the budget from FY 2017. These include statewide adjustments for fixed costs such as insurance and car rental rates, and inflation such as natural gas and electricity.

4% VACANCY SAVINGS

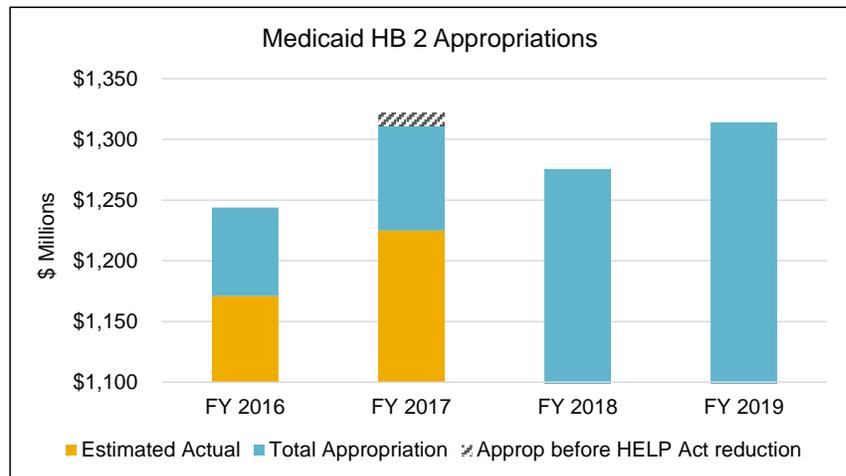
This item is not inflation or inflation like, but is part of the Governor's recommended personal services budget, and thus included in this section. The executive proposes a 4% vacancy savings reduction for most executive branch agencies. For general information on vacancy savings, please refer to the following guide:

http://leg.mt.gov/content/Publications/fiscal/leg_reference/Brochures/Vacancy-Savings.pdf

MEDICAID FORECAST

For an overview of Montana Medicaid, see the [Medicaid 101](#) primer developed by the LFD.

Medicaid is a major cost driver for state governments nationally. For federal fiscal years (FFY) 2010-2014, the national average annual growth in Medicaid expenditures was 5.2%, while the Montana annual growth was only 3.8%. However, for FFYs 2007-2010 the national average growth in spending was 6.8% while Montana experienced a growth of 8.5% annually.²



During the 2015 Legislature, Medicaid appropriations were made for FY 2016 in the amount of \$1,243.9 million and for FY 2017 in the amount of \$1,311.0 million. The Medicaid appropriation for FY 2017, which serves as the base for the 2019 biennium budget, included a reduction of \$10.8 million in anticipation of savings due to Medicaid expansion, as authorized in the HELP Act.

As can be seen in the Medicaid appropriations chart, the FY 2017 executive request is greater than the projected FY 2018 Medicaid expenditure, but lower than the FY 2019 projection. The executive proposes a negative adjustment in FY 2018, with an overall increase for the 2019 biennium.

Medicaid HB 2 Caseload

A 1% annual change in traditional Medicaid from the budgeted FY 2017 level (exclusive of the HELP Act population) results in approximately a \$12 million total budget change. Approximately 30.1% of this is the responsibility of state funds, including both general fund and other state special funds, resulting in a state liability of \$4.0 million for each 1% increase.

Medicaid HB 2 FMAP State Share

The FMAP is set each year by CMS, and at the time of budgeting, LFD uses a projection of that FMAP, currently forecasted to be approximately 65.4% in FFY 2018 and FFY 2019. A 1% change in the FMAP will have a state share impact of over \$8.2 million each year. If the FMAP is off by 1% in FY 2018 and an additional 1% in FY 2019, the cumulative impact could be over \$25.0 million.

HELP ACT

For an overview of the Medicaid expansion, see the [HELP Act primer](#) developed by the LFD.

² kff.org

The expenditures associated with the Medicaid expansion will not be included in HB 2, but will impact the general fund. For the 2019 biennium, the authority for the Medicaid expansion is statutory.

Because this program is so new, there is little data to rely upon. The totals reported in the table here for FY 2016 are subject to revision, as providers have up to a year to submit billable claims. Additionally, these totals are for six months, during which enrollment growth was high. There is base information to build upon, although there is significant risk associated with the assumptions utilized in projecting these costs.

Fiscal Year 2016 Montana HELP Act Expenditures Including Accruals			
	General Fund	Federal Funds	Total
Benefits & Claims			
Health Resources Division	\$1,300,127	\$129,368,682	\$130,668,809
Senior & Long-Term Care	0	2,374,546	2,374,546
Addictive & Mental Disorders	0	13,793,154	13,793,154
	1,300,127	145,536,382	146,836,508
Administration			
Personal Services	226,800	385,936	612,736
Operating Expenses	2,381,522	6,619,069	9,000,591
	2,608,322	7,005,005	9,613,327
Third Party Administrator	1,059,831	1,059,933	2,119,764
TOTAL	\$4,968,280	\$153,601,319	\$158,569,600

The primary risk factors associated with the cost of the Medicaid expansion are associated with the continued enrollment growth and the per member benefit. An increase of 1% enrollment in each of the three years FY 2017 – FY 2019, has a cumulative 2019 biennium general fund cost of approximately \$1.0 million. Additionally, if the average annual per member benefit changes by 1% each of those three years, the general fund impact would be a \$1.5 million change. Using the assumptions outlined below, the total estimated biennial general fund cost is \$70.1 million.

HELP Act Medicaid Expansion				
	FY 16 Actuals	FY 17	FY 18	FY 19
Assumptions				
Growth Rate		15%	7%	3%
Actual Newly Enrolled	47,399			
Reported Refinanced Population	8,458			
Total Annual Average Enrollment		59,412	64,875	67,657
Per Member Per Month (PMPM) cost of TPA	\$26.39	\$25.39	\$26.15	\$26.94
Medical Benefit inflation		4.6%	4.1%	3.0%
Average Annualized Per Member Benefit	\$6,055	\$6,334	\$6,594	\$6,791
Annualized FMAP (Federal Match Rate)	100.0%	97.5%	94.5%	93.5%
Statutory Expenditures				
TOTAL Benefits & Claims	\$146,836,508	\$376,314,553	\$427,762,996	\$459,494,419
General Fund Benefits & Claims	1,300,127	12,785,362	27,372,340	34,003,138
Third Party Administrator Admin Fee (PMPM)	2,119,764	5,148,404	7,072,103	7,476,314
General Fund TPA Admin Fee	1,059,831	1,801,942	2,475,236	2,616,710
TPA IT Expenses		3,000,000		750,000
General Fund TPA IT Expense		300,000		75,000
DPHHS Administration Expenses	9,613,327	7,320,525	7,244,042	7,438,722
General Fund DPHHS Administration	2,608,322	1,986,231	1,965,479	2,018,300
Net General Fund Premium Revenues	0	90,000	198,000	234,000
TOTAL Statutory General Fund Expense	\$4,968,280	\$16,783,534	\$31,615,056	\$38,479,149

CHANGES IN FEDERAL MEDICAID PARTICIPATION

The federal medical assistance percentage (FMAP) is based on national economic factors and determines how much of Medicaid (and other medical costs) is funded by the federal government and how much by the state.

2019 BIENNIUM PROVIDER RATE INCREASES

The vast majority of medical and community services administered by the Departments of Public Health and Human Services (DPHHS) and Corrections (DOC) are provided through contracts with private businesses. In some instances, the state agency is the primary or only customer for these services. As business entities or private non-profits, contractors are subject to the same economic conditions as other employers. These businesses traditionally request that the legislature consider rate increases to cover cost growth and to maintain operations.

MONTANA DEVELOPMENTAL CENTER CLOSURE

The SB 411 Council recommends retention of the Assessment and Stabilization Unit, utilization of the existing comprehensive waiver and the creation of a new waiver called “waiver 2” to transition clientele into community based homes. Additionally, legislation sponsored by the governor’s office could retain \$2.8 million and \$2.5 million in FY18 and FY19 from the roughly \$7.2 million loss in each year in facility revenue from MDC. The legislature would have to pass the bill to ensure two cottages and the ICF-IDD licensure stay intact and continue partial operations at the facility. This would be in contrast to SB-411 that mandates the closure of MDC by July 1, 2017. It had been reported prior that approximately \$2.4 million in general fund may be required for the biennium. This number did not include several recent assumptions and may be higher providing proposed legislation does not pass. New legislation regarding the Governor’s proposal was unavailable at the time of publication.

AQUATIC INVASIVE SPECIES

On November 23, 2016, Montana’s rapid response team submitted a mussel detection strategy recommendation to Governor Bullock. The team proposed a phase one funding request of \$5.0 million for rapid response to prevent new zebra or quagga mussels introductions to Montana waters. The Governor’s emergency and disaster statutory appropriation authorizes up to \$16.5 million general fund for the biennium to be spent on emergencies or disasters. The potential costs for this declared emergency are not included on the balance sheet in this report.

CONFEDERATED SALISH AND KOOTENAI TRIBES (CSKT) WATER COMPACT

The 2015 Legislature passed legislation in SB 262 ratifying a water rights compact with the State of Montana, the United States federal government, and the CSKT. The 11th district court questioned the constitutionality of the compact.

Currently, no appropriation authority remains in HB 2 for state costs associated with the water compact. The Governor has not submitted any budget proposals related to the CSKT compact.

OTHER FUND BALANCES IMPACTED BY DECLINES IN NATURAL RESOURCE REVENUE

Funds outside the general fund may cause pressure on the general fund or other taxes or fees. In addition to direct impacts to the general fund due to continued low oil and natural gas tax collections, numerous state special funds will be impacted by low commodity prices.

Guarantee Fund

The guarantee fund, which is the first source of funding for schools generates revenue from common school trust land. These revenues are in the form of grazing, agriculture, oil, and other mineral leases as well as coal and oil bonus payments. The remaining revenue is generated from this fund’s permanent trust in the form of interest payments. Over the past four years, common school trust land revenues have averaged \$50.7 million. In the next biennium, annual revenues are expected to be approximately \$9.0 million less than this four-year average. This will result in an indirect hit to the general fund as the

general fund will make up the difference to fully fund BASE aid. The decline will likely be driven by lower oil bonus payments and a drop in cattle prices, which directly affects the grazing lease rates.

Coal Shared Fund

Funds that receive distributions from the coal severance tax may also be impacted. The coal shared fund receives 5.46% of total coal severance tax collections and these funds are distributed to the State Library Commission, Conservation Districts, and MT Growth through Agriculture Programs. In addition to these programs, 12.0% of coal severance tax collections are distributed to the Long-range Building Program. The legislature appropriates this money in HB 5 to finance building projects throughout the state. Ultimately, although lower earnings in these accounts do not automatically increase general fund spending, if oil and coal severance tax collections decrease, the services provided by these funds will need to be either scaled back or backfilled by the general fund or alternate funding source.

Other Natural Resource Funds

Other natural resource funds will also continue to be impacted by the drop in oil prices. The orphan share, natural resource operations, and natural resource projects funds will likely receive oil tax funding similar to those numbers in FY 2016, far lower than preceding years. These funds are used to provide services within the Department of Environmental Quality and the Department of Natural Resources.

BALANCING THE STATE HIGHWAY STATE SPECIAL REVENUE ACCOUNT

Fuel taxes and other highway user fees are deposited into the restricted highway state special revenue account (HSRA). The Article VIII, Section 6, of the Constitution restricts the use of the revenues for specific uses that include:

- Payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges
- Payment of county, city, and town obligations on streets, roads, and bridges
- Enforcement of highway safety, driver education, tourist promotion, and administrative collection costs

The revenue may be used for other purposes with a three-fifths vote of the members of each house of the legislature. The fuel tax rates, which are the primary source of revenues deposited in the fund, were last changed in 1994. The account is administered by the Montana Department of Transportation (MDT).

The account supports the activities of several agencies, which include:

- MDT – the primary account user
- Department of Justice (DOJ)
- Fish, Wildlife, and Parks (FWP)

Following the receipt of funding from the American Recovery and Reinvestment Act of 2009, MDT was able to amass a sizable fund balance. An adequate working capital balance allows MDT to pay for costly federal-aid highway construction projects ahead of the receipt of federal project reimbursements. For the past five fiscal years, FY 2012 through FY 2016, expenditures from the account have exceeded the available revenues, requiring the use of fund balance to make up the difference. Over that time, the HSRA working capital balance has declined from \$99.6 at the end of FY 2011 to \$35.6 million at the end of FY 2016. If this imbalance were to continue, the account would reach the point where MDT could no longer pre-fund federal-aid projects, and in response the executive has recommended a series of budget reductions entitled “NP-560: Balancing the Highway State Special Revenue Account”. The executive proposals are projected to result in a working capital balance of \$47.7 million by the end of the 2019 biennium, assuming revenues come in as anticipated and all appropriation authority is fully expended.

According to the executive, the reductions for the HSRA users were made on a pro-rata basis, reducing the budget to provide an adequate fund balance to support the pre-payment of federal-aid construction

projects. The budget reductions would apply to appropriations in MDT and DOJ, and FWP. The implied impacts of the reductions would include:

- MDT (\$42.8 million HSRA, \$193.0 million FSR)
 - Construction Program – The total biennial reduction of authority in the Construction program would be \$221.9 million below the agency present law request. This would be a reduction of \$28.8 million in HSRA funds, and a reduction of \$193.0 million of federal fund authority. Over the biennium, the proposal is equivalent to an average reduction of \$81.6 million, or 19.0%, per year below actual FY 2016 expenditures. With this budget reduction the Construction Program may not have sufficient state special authority to match all the federal funding available for highway construction in the 2019 biennium
 - Maintenance Program – HSRA expenditures from the program budget would be reduced by a biennial \$14.0 million. This would reduce personal services authority by \$1.0 million per year, and operating expenses by \$6.0 million per year. While the reductions would provide a Maintenance Program budget that in total exceeds the actual expenditures of FY 2016, the proposal would reduce the appropriations for construction of state roads by 50% of its normal appropriation, or 25.2% of the actual 2016 expenditures
- DOJ (\$6.95 million and 32.24 FTE in FY 2018 and 22.75 FTE in FY 2019)
 - Montana Highway Patrol – The total biennial reduction in the Montana Highway Patrol would be \$5.5 million, including reductions of 27.00 FTE in FY 2018 and 19.00 FTE in FY 2019. All FTE reductions are grade 5 patrol officer positions
 - Justice Information Technology Services Division – The total biennial reduction in the Justice Information Technology Services Division would be \$11,854 in unspecified operating expenses
 - Motor Vehicle Division - The total biennial reduction in the Motor Vehicle Division would be \$1.3 million, including 4.49 FTE in FY 2018 and 3.00 FTE in FY 2019 in unspecified positions
 - Central Services Division - The total biennial reduction in the Central Services Division would be \$52,283, including 0.75 FTE each year in unspecified positions
- FWP (\$2.0 million HSRA in the 2019 biennium)
 - The proposal would eliminate the normal \$2.0 million appropriation for repairs and maintenance of state parks roads made in the long-range building program bill. Although the Parks program continues to request authority for parks roads, LFD analysts believe that the remaining Parks program funds will not support all the proposed agency projects. As a result this reduction is likely to mean that re-construction of park roads, including the proposed Makoshika Park road, may be postponed

In addressing the imbalance in the HSRA account there are two sides to the equation. The Legislature could either address the account revenues or the account expenditures, or a combination of the two. The executive has recommended adjusting only one side of the equation, the expenditure side. The spending reductions proposed would balance the account, but would lead to reductions in current service levels and loss of federal funds for highway construction.

PENSIONS

Update on Current Valuations

At the time of the FY 2016 actuarially calculated valuations, the unfunded liability across Montana's nine retirement systems totaled \$3.6 billion. The two largest systems, the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) had actuarially calculated unfunded liabilities of \$1.7 billion and \$1.5 billion respectively. The calculated funding levels and amortization periods of the nine systems are shown below.

Compared to FY 2015, all of the retirement systems either improved or remained the same in terms of both funding ratios and amortization periods. Improvements were due to actuarial asset returns of 8.60%, as opposed to the assumed rate of 7.75%. The actuarial value of assets smooths investment gains and losses on a market value basis over a four year period. As a result, the market asset returns, which averaged only 2.05% compared to the assumed 7.75%, were only partly recognized. The lower-than-assumed investment returns will be recognized over the next three years. As those lower return years are included in the actuarial calculations, the funded ratios are expected to decrease and amortization periods increase.

Funding Challenges Revisited

Due to the funding challenges of most public pensions in recent years, the calculations used to determine if a public pension system is sound has been researched extensively. Questions as to the best method of calculating amortization schedules, funding ratios, discount ratios and asset appreciation have been considered. Research is generally showing that current actuarial calculations, may overstate the fiscal soundness of the pension systems. This new analysis and proposed methodologies will influence how actuarial valuations of public pensions will be calculated in the future and will give public policy makers across the country better information upon which to make public policy decisions.

The follow sections describe key research in this area and how this research may influence future calculations.

Level of Rate of Return Assumptions

In contemporary pension literature a topic of much discussion is the assumed rate-of-return for pension plans moving forward. According to [“An Overview of the Pension/OPEB Landscape”](#) from the Center for Retirement Research at Boston College, the long-term return assumption used by state and local pension plans in 2014 averaged 7.6 percent.

The paper notes that the average rolling 10- and 30- year nominal returns for hypothetical portfolios over the past 50 years exceeded the long-term assumption of 7.6% by at least 1%. However, many investment experts currently forecast

Montana Pension Systems Valuation June 30, 2016		
	Funded Ratio	Years to Amortize
Teachers' Retirement System (TRS)	69%	24
Public Employees' Retirement System (PERS)	77%	26
Judges' Retirement System	166%	0
Highway Patrol Officers' Retirement System	66%	28
Sheriffs' Retirement	83%	Does not amortize
Game Wardens' Retirement System	84%	Does not amortize
Municipal Police Officers	69%	18
Firefighters' Unified Retirement System	78%	9
Volunteer Firefighters	80%	7

returns to be far lower than this amount over the next decade. For instance, Goldman Sachs forecasts an average annual return of 4.7%-5.5% over the next five years while Charles Schwab forecasts an average rate of 6.3% over the next ten years. The realized rate of return plays the largest role in the overall calculated health of a system.

Consistency of Rate of Return Assumptions

Results from actuarial valuations assume that there will be an average rate of return moving forward. Typically, this number ranges from 7.0% to 8.0% across most public pension plans. Actuarial results typically assume that not only will future investments average a certain return rate, but that this rate of return will occur each year. Receiving the same rate-of-return year after year is unlikely. Instead, the year-to-year returns are often quite volatile. A recent report by The Rockefeller Institute [“Public Pension Funding Practices”](#) studies the effects of varying rates of return even when the assumed average rate-of-return is met. The health of a system can vary dramatically even when the assumed rate-of-return is met. The discrepancy arises from the timing of higher returns. Higher returns early on reflect healthier systems than if the higher returns occur later. In the Rockefeller study multiple simulations were

performed all using an average rate of return of 7.5%, but allowing the rate to vary year-over-year. The study states "...simulations can produce very different results, including funded status above 100 percent for extended periods, and funded status well below 40 percent...". This demonstrates that even if the average assumed rate-of-return is met over the long-run, at any given time the funded ratios can differ drastically, causing employers to increase their contributions to keep the systems sound.

Discount Rate Assumption

In addition to return rates, the assumed discount rate also plays a large role in illustrating the health of a pension system. The purpose of using a discount rate is to ascertain the current value of a future liability, and in this case to determine how much the retirement benefits owed to future pensioners is valued today. Future liabilities are discounted to a present value using the discount rate. As a result, the larger the discount rate the smaller the liabilities, and vice versa.

Current actuarial practice evaluates the health of a pension system with the discount rate equal to the assumed rate of return. Recently, this traditional practice has come under some debate. Opponents of this practice argue that future liabilities are guaranteed, thus a certain and a lower discount rate that includes this level of certainty should be used. Discount rates that have risk included, or uncertainty if the liability will be owed or not, can be higher since it is assumed that some of the liability would not be paid.

Proponents of this practice argue that if a system expects to earn a particular rate on its investments, then discounting liabilities at this rate provides an appropriate means for comparing present values of assets and liabilities. Ultimately, choosing a discount rate that is too high understates the liability associated with future pension benefits and overstates the funding position of the system.

Future of Calculating Pension Health

Moving forward, the public pension landscape will likely be more unpredictable than in past years.

A portion of pension health will be determined by actual rates of return in markets of uncertainty. In order to achieve desired rates of return most funds are invested in stocks. In the past, investing in bonds yielded steady and much higher returns with far less risk.

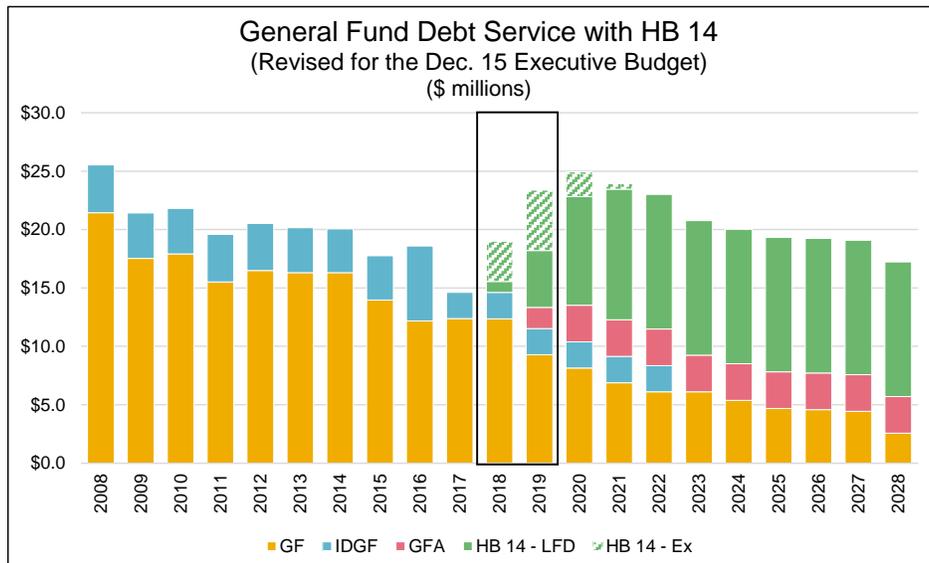
Secondly, as the new research gets assimilated in to the current actuarial calculations of valuations, the fiscal health may be more accurate, but may also be more challenging to fund appropriately.

DEBT SERVICE

Montana's debt liability is relatively low and unless additional bonds are approved, the payment streams will decrease over time. Montana ranks well when compared to the country as a whole according to the 2015 State Debt Medians Report by Moody's Investor Services. In comparison with the 44 states that issue tax supported debt, with lower debt states having a higher rank, Montana ranks as follows:

- 43rd in gross tax supported debt
- 42nd in tax supported debt per-capita; \$247
- 41st in net tax supported debt as a percent of personal income; 0.6%

The following table illustrates current debt service and includes projections for authorized but unissued debt service, as well as projections related to the executive proposal to authorize more bonds related to improvements to statewide infrastructure (HB 14).



- Yellow GF – General obligation (GO) bonds paid by the general fund. The bond issues related to this debt service primarily funded the construction of state government buildings (\$21.6 million in the 2019 biennium)
- Blue IDGF – This category includes GO bonds and special revenue bonds that are paid indirectly through the general fund. The related bond issues include state building energy conservation bonds and revenue bonds for two of the state’s hospitals that offset general fund revenue through institutional reimbursements that would otherwise flow into the general fund (\$4.5 million in the 2019 biennium)
- Pink GO/GFA – This category includes the projections for debt services costs on authorized but unissued bonds. This category includes bonds authorized for the costs of two tribal compacts, the St. Mary’s diversion structure repairs, and the remaining authority for the Montana Heritage Center (\$1.8 million in the 2019 biennium)
- Green HB 14-LFD – This category illustrates the debt service costs of the Creating Jobs and Infrastructure executive proposal for the 2019 biennium (HB 14) using the assumptions of the LFD. This estimate includes an assumption that the \$157.4 million of GO bonds will issued at over 3½ years with debt service costs beginning in the second-half of FY 2018 (\$5.8 million in the 2019 biennium)
- Green Hatched HB 14-Ex – This category illustrates the debt service costs of the HB 14 as shown on the executive balance sheet. The green hatched line demonstrates the difference between the LFD and executive (Ex) assumptions. Included in the executive assumptions is the issuance of \$157.4 million of GO bonds, over a three year period. The executive assumptions also include somewhat higher issuance costs and higher interest rates (total \$14.4 million in the 2019 biennium)

In the 2019 biennium, the debt service paid directly and indirectly through the general fund for existing bond issues is expected to average \$13.1 million per year. The debt service for executive proposal for HB 14 as calculated by the LFD is projected to have a general fund debt service cost of \$946,208 in FY 2018 and \$4.9 million in FY 2019. The executive calculation provides a more aggressive bond issuance schedule, leading to a cost estimate that is \$8.6 million higher than LFD estimates in the 2019 biennium. Once all bonds are issued, the projected annual cost HB 14 debt service as calculated by the LFD would be \$11.5 million per year.

TASK FORCE ON STATE PUBLIC DEFENDER OPERATIONS

During the 2017 interim, a task force was formed to study various aspects of state public defender operations. The task force was created under HB 627 and directed to study the operations of the Office of State Public Defender and develop a long-term organizational plan that would allow it to provide effective assistance of counsel to those who qualify.

Among other things, the task force was required to take into consideration:

- The constitutional and statutory duties of the office
- The ethics and professional responsibilities of attorneys employed at the office
- How other states provide assistance of counsel to those who qualify for assistance
- The effects of compensation and workloads on the recruitment and retention of attorneys and administrative and support staff
- Measures and resources that could be implemented or assigned to improve staff and attorney recruitment and retention issue
- The possibility, costs, and benefits of restructuring the office

After an interim of study, the task force provided recommendations through the following legislation requests:

- Provide an overall agency director appointed by the governor, convert the public defender commission to an advisory body, provide that the commission shall nominate three candidates for director, provide that the governor shall select a director from the list of nominees, and provide that the director would be a hired position, not a politically appointed position, so that the director could only be removed with cause
- Eliminate the statutory requirement for the chief appellate defender to confer with the chief public defender on the Office of the Appellate Defender's budget
- Transfer determination of eligibility for public defender services to the Department of Public Health and Human Services
- Provide that the Montana Department of Revenue is responsible for collecting any fees for public defender services imposed by a judge pursuant to 46-8-113, MCA
- Establish a holistic defense pilot program in up to four public defender office locations across the state
- Require the Office of the State Public Defender to contract for a workload assessment study
- Revise the appointment of a public defender to a putative father in a dependent neglect case
- Revise the appointment of a public defender to an absent parent in a dependent neglect case

For additional information, please refer to the following web page:

<http://leg.mt.gov/css/Committees/interim/2015-2016/Public-Defender/default.asp>

COMMISSION ON SENTENCING ACTIONS

A Commission on Sentencing was undertaken during the 2017 interim. The commission was the result of passage of SB 224 by the 2015 Legislature and was aided in large part by staff resources provided by the Bureau of Justice Assistance, the Pew Center on the States, and Council of State Governments (CSG). The commission studied and made recommendations for legislation to the 2017 Legislature on the following areas that, if enacted, could impact various aspects of Montana's criminal justice system and could impact related costs in future years:

- Criminal justice laws
- Sentencing laws
- Laws on community corrections
- Behavioral health treatment services
- Laws related to the Board of Pardons and Parole
- Crime Victim's Compensation
- Laws related to supervision of probationers and defendants serving a deferred or suspended sentence

As the legislature has to act on any of these initiatives, there is no estimate of what increased or avoided costs will result. However, the staff from CSG provided the following preliminary estimates of the impact if all recommendations CSG offered were undertaken:

- Avert at least \$80 million between FY 2018 and FY 2023
- Reduce the prison population from the baseline projection by 518 people between FY 2018 and FY 2023, bringing the prison population below the current level
- Reduce the supervision population of the Montana Department of Corrections from the baseline projection by 2,639 people
- Double the number of people who can be served in prerelease centers with the existing number of beds
- Provide numerous tools that can enable counties to manage the growth in or reduce their jail populations
- Averting growth in the prison population and generating savings in this six-year time frame would position Montana to instead reinvest \$28 million in strategies to save beds, reduce recidivism, and increase public safety at a lesser cost to taxpayers.

The full Montana Justice Reinvestment Impacts and Reinvestments document and a list of bills associated with the council work can be found on the Commission on Sentencing web page at:

<http://leg.mt.gov/css/Committees/interim/2015-2016/Sentencing/default.asp>

K-12 DECENNIAL FUNDING COMMISSION STUDY RESULTS

The School Funding Interim Commission was created by Senate Bill 128 (2015) and fulfilled an existing statutory requirement that every 10 years the Legislature authorize a “study to reassess the educational needs and costs related to the basic system of free quality public elementary and secondary schools.” This reassessment is sometimes referred to as “the decennial study.”

Through a public survey and hearing from education stakeholders at its initial meeting in September 2015, the commission focused its attention on four main topics over the interim:

- Recruitment and retention
- School facilities
- Special needs (including special education and gifted and talented)
- District size, structure, and equity

Although the commission was able to dive deeply into these and other topics, members acknowledged the complexity of school funding and suggested in the final report that K-12 funding be examined on a regular basis more often than every 10 years, perhaps through an existing or restructured interim standing committee or subcommittee.

Bill drafts adopted by the commission for the 2017 session that may have a fiscal impact are outlined in the final commission report located on the web at: <http://leg.mt.gov/css/Committees/interim/2015-2016/School-Funding/default.asp>

LAWSUITS

Montana –v- Volkswagon

Montana joined other states and the federal government in suing Volkswagon (VW) over the practice of installing illegal software in thousands of its diesel vehicles and cheating on emissions tests. Montana has settled with VW. Under the settlement, affected VW owners will receive restitution payments of at least \$5,100 each. VW will buy back, or modify, certain VW and Audi 2.0-liter diesel vehicles from consumers. VW agreed not to engage in future unfair or deceptive acts and practices in connection with its dealing with consumers and regulators. VW will pay \$2.7 billion into a trust to support environmental programs throughout the country to reduce emissions of NOx. Montana will be eligible to request financial support to fund environmental mitigation projects. Additionally the Montana Attorney General will receive \$2.5 million for violations of state consumer protection laws. The Montana Attorney

General's office expects to receive the \$2.5 million in November or December 2016, which will go into the state special revenue settlement fund already established. At the end of FY 2017, it is projected that the Office of Consumer Protection will need approximately \$2.3 million to replenish its 4-year reserve.

United States and State of Montana v. Exxon Mobil Pipeline Co. (EMPCO), No. CV-26-143-BLG-SPW-CSO (D. Mont.)

A complaint and proposed consent decree to settle all natural resource damage claims of the United States and the State of Montana under the Oil Pollution Act and State Comprehensive Environmental Cleanup and Responsibility Act (CECRA) for a total of \$12 million was filed September 21, 2016. The split of the settlement proceeds is \$2.5 million for the U.S., and \$9.5 million for the State. The consent decree and a related restoration plan are subject to public comment. The comment period closes Oct. 31, 2016, and after that the parties will ask the Court to enter judgment. EMPCO's payment under the consent decree is due 30 days after the time for appeal from entry of judgment (90 days) has run. Assuming that judgment is entered in November, the earliest anticipated date is end of February, 2017. Under OPA settlement proceeds the \$9.5 million must be held separately from general funds, and only used to "restore, replace or acquire the equivalent of" the injured natural resources.

Duane C. Kohoutek, Inc., Bucher Sales, LLC, Nobles, Inc., and Spirits Plus, LLC v. State of Montana

A group of liquor store owners is challenging state statute that provides for a formula used to calculate the compensation for mandatory discounts provided to liquor licensees. The court ordered mediation between store owners and representatives from the legislative and executive branches. The court noted that while rulings are subject to appellate review, the State currently faces substantial damages and mediation is an attempt to resolve litigation carrying significant taxpayer implications. The Montana Department of Revenue identified potential exposure of \$37.0 million in general fund.

All parties met on November 16, 2016 and no agreement was reached. If appealed, any impacts on general fund may not be determined for some time.

Department of Revenue and Northwest Energy

The Department of Revenue settled a tax protest by Northwest Energy that lowered the company's taxable value, the result of which lowered FY 2017 taxable values in 19 counties by a total of \$21.3 million dollars. The lower taxable value will require districts to raise mill values to generate the same revenue or use other non-levy revenue if available. The 15 counties include 62% of the states total enrollment of K-12 students. The counties impacted are shown in the table. Lowering the available tax base for school districts increases the amount of Guaranteed Tax Base payments from the general fund. Using the school funding model and the lower tax base resulting from this settlement, LFD estimates the impact to be \$0.3 million.

19 Counties Impacted by Settlement		
County	Decrease in Taxable Value	Increase in General Fund Mills
Broadwater	(\$177,423)	1.4
Carbon	(513,578)	5
Cascade	(4,612,902)	9.27
Chouteau	(263,685)	3.47
Deer Lodge	(346,362)	1.33
Gallatin	(1,752,183)	9.99
Glacier	(34,165)	1.28
Jefferson	(716,185)	4.8
Judith Basin	(264,915)	3.03
Lewis & Clark	(2,939,555)	7.74
Meagher	(125,955)	1.67
Missoula	(2,848,803)	4.26
Park	(772,893)	3.42
Powell	(22,182)	0.12
Ravalli	(651,721)	2.59
Sanders	(1,364,722)	6.39
Stillwater	(38,481)	1.83
Sweet Grass	(283,559)	2.18
Yellowstone	(3,550,671)	4.75
Grand Total (Mills total Average)	(\$21,279,940)	3.92

Libby Asbestos

The state has reached a tentative \$32.0 million settlement agreement with a second group of claimants regarding asbestos in Libby. Two different groups of claimants were consolidated into one case for the purposes of the settlement. Once the district court agrees to the settlement the state must pay a total of \$14.2 million within 30 days and the remaining \$10.0 million within the year. The remaining \$7.8

million would be paid if the state reaches agreement with the insurance company that indemnified a portion of the state's general liability risk. The state self- insures for general liability and currently anticipates paying this settlement from the proprietary funds generated through state agency premiums. As proposed, premiums for self-insurance increase in the 2019 biennium, in part because of the increased costs associated with general liability claims.

APPENDIX

5% REDUCTION PLANS AND OTHER REDUCTIONS

Statute requires in 17-7-111(3)(f), MCA that as part of their budget submissions agencies with more than 20 FTE submit a plan to reduce base general fund expenditures by 5%. This plan also requires a plan for any state special revenue funds that do not retain their own interest or fund balances. In addition to agencies with 20 or fewer FTE, legislative audit costs and administratively attached entities that hire their own staff are also exempt.

The following table shows the reduction plans for general fund and applicable state special revenue by agency for the 2019 biennium.

Statewide Comparison of Appropriation Rebase Reductions to 5% Reduction Plans 2019 Biennium								
Agency	5% Reduction Plans			NP 555 - Appropriation Rebase				NP 555 as % of 5% plans
	General Fund	State Special Revenue	Total Funds	General Fund	State Special Revenue	Federal Special	Total Funds	
11040 - Legislative Branch	\$1,190,212	\$208,692	\$1,398,904	\$659,378	\$115,616	\$0	\$774,994	55.40%
21100 - Judicial Branch	4,680,232	32,828	4,713,060	2,044,288	13,264	-	2,057,552	43.66%
31010 - Governor's Office	643,138	-	643,138	356,298	-	-	356,298	55.40%
34010 - State Auditor's Office*	-	-	-	-	724,788	-	724,788	-
35010 - Office of Public Instruction	77,905,518	98,022	78,003,540	1,096,570	23,022	-	1,119,592	1.44%
41070 - Crime Control Division	-	-	-	820,216	-	-	820,216	-
41100 - Department of Justice	3,451,834	1,752,228	5,204,062	3,016,365	858,131	-	3,874,496	74.45%
42010 - Public Service Regulation	-	352,618	352,618	-	352,618	-	352,618	100.00%
51020 - Commissioner of Higher Education	-	-	-	12,488,916	-	-	12,488,916	-
51130 - Montana School for the Deaf & the Blind	652,374	24,700	677,074	656,088	-	-	656,088	96.90%
51150 - Montana Library Commission	298,834	74,508	373,342	298,834	-	-	298,834	80.04%
51170 - Montana Historical Society	335,674	66,412	402,086	335,674	-	-	335,674	83.48%
52010 - Fish, Wildlife and Parks	-	765,580	765,580	-	-	-	-	0.00%
53010 - Department of Environmental Quality	535,778	1,398,244	1,934,022	438,720	-	-	438,720	22.68%
54010 - Montana Department of Transportation	-	1,048,662	1,048,662	-	-	-	-	0.00%
56030 - Montana Department of Livestock	242,000	53,142	295,142	241,990	-	-	241,990	81.99%
57060 - Department of Natural Resources & Conservation	2,803,494	2,219,070	5,022,564	2,069,670	-	-	2,069,670	41.21%
58010 - Department of Revenue	5,240,086	101,640	5,341,726	2,116,508	-	-	2,116,508	39.62%
61010 - Department of Administration	515,948	392,580	908,528	436,992	349,511	-	786,503	86.57%
61080 - Office of the State Public Defender	3,502,176	27,392	3,529,568	1,225,762	-	-	1,225,762	34.73%
62010 - Department of Agriculture	93,764	44,842	138,606	93,764	-	-	93,764	67.65%
64010 - Department of Corrections	19,828,026	525,644	20,353,670	1,000,000	-	-	1,000,000	4.91%
65010 - Department of Commerce	334,254	354,520	688,774	334,254	354,520	-	688,774	100.00%
66020 - Department of Labor & Industry	187,514	2,474,894	2,662,408	187,514	-	-	187,514	7.04%
67010 - Department of Military Affairs	622,312	70,480	692,792	326,048	-	-	326,048	47.06%
69010 - Department of Public Health and Human Services	48,578,352	8,953,246	57,531,598	17,261,762	934,956	20,052,106	38,248,824	31.63%
* State Auditor's Office did not submit a 5% plan as required								
Totals	\$171,641,520	\$21,039,944	\$192,681,464	\$47,505,611	\$3,726,426	\$20,052,106	\$71,284,143	37.0%

HOW TO READ A GENERAL FUND BALANCE SHEET

Present Law General Fund Balance Sheet				
Includes Present Law ONLY and HJ 2 Revenue Estimates				
LFD Estimates for Statutory, Transfers, HB 1, and other technical				
(\$ Millions)				
	Actual	Current FY 2017	Present Law FY 2018	Present Law FY 2019
1 12/4/2016				
2 Beginning Fund Balance	\$455.436	\$255.110	\$78.597	(\$23.907)
3 Revenue as adopted in HJ 2	2,121.288	2,194.337	2,301.383	2,452.611
4 Prior Year Adjustments	(3.667)	5.236		
5 Revenue Legislation				
6 Ongoing Revenue Funds Available		2,194.337	2,301.383	2,452.611
6 Total Revenue Funds Available	2,573.057	2,454.683	2,379.980	2,428.704
7 Disbursements				
8 HB 2	1,908.415	1,985.305	2,061.514	2,083.898
9 Statutory, including HELP Act	265.168	297.842	314.275	325.217
9 Non-Budgeted Transfers	29.254	20.992	20.059	20.150
10 Non-HB2 Legislation (Bill List)				
11 Actual & Assumed Appropriations - includes HB 1 Legislative Session	5.025	9.635	2.227	10.270
Other Appropriation Bills		6.011		
12 Assumed Standard Reversions		(6.959)	(7.194)	(7.319)
12 Assumed Add'l Reversions (\$16 mil. HB 2 & \$13 mil. Emergency Stat.)		(29.000)		
13 Ongoing Disbursements	2,207.861	2,283.826	2,390.880	\$2,432.217
14 OTO				
HB 2	64.519	48.925	0.008	0.072
Fire Fund Transfers	50.310	11.422	13.000	
Sage Grouse Transfer		10.000		
Governor's proposed HB 3 Agency Supplemental Appropriation request		20.006		
Other (includes: carry forward)	1.147	1.907		
15 Total Disbursements	2,323.836	2,376.086	2,403.888	2,432.289
16 Adjustments - incl. tying to Comprehensive Annual Financial Report	5.889			
17 Ending Fund Balance (Unassigned)	255.110	78.597	(23.907)	(3.585)
18 Structural Balance (ongoing revenues minus ongoing expenditures)	(86.573)	(89.489)	(89.497)	20.394
Assumptions: This balance sheet only shows present law obligations and HJ 2 revenues. It also includes LFD estimated statutory appropriations and general fund transfers. The only Governor's proposals included on this balance sheet are the supplemental appropriations requested in HB 3 and assumed other reversions. We assume that since the fund balance drops to a level that would trigger 17-7-140, MCA, the 0.5% fire fund transfer would not occur. The Governor's pay plan proposal for FY 2018 - FY 2019 is not included.				

1 - Time and Date Stamp

This tells the reader the day and time the numbers were last updated.

2 - Beginning Fund Balance

The general fund balance sheet shows the beginning fund balance for four fiscal years. The ending fund balance includes the difference between revenues and disbursements.

3 - Revenue Estimate (HJ 2)

The legislature cannot appropriate more expenditures from the general fund than can be funded through anticipated available funds. Therefore, the legislature must estimate general fund revenues. As delineated in Section 5-5-227(2)(a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare "an estimate of the amount of revenue projected to be available for legislative appropriation." The estimate and underlying assumptions are intended to be used in any estimation of revenue, including the preparation of fiscal notes. By statute, the LFD assists the revenue and transportation interim committee in performing its revenue estimating duties by submitting its

recommendations and assumptions. The Office of Budget and Program Planning also presents the executive's revenue estimates.

When RTIC met on November 17, 2016, committee members adopted revenue estimates. This legislation has been introduced as HJ 2.

4 – Prior Year Adjustments

Accounting adjustments for prior year items that impact the current year.

5 – Revenue Legislation

Any revenue bills that are passing through the legislative process and meet status sheet rules.

6 – Ongoing Revenue

Revenue that is of an ongoing type. This is used for structural balance calculations.

7 - Expenditures - Ongoing

The expenditure section of the balance sheet is comprised of ongoing and one-time-only expenditures. Sections 8-13 are ongoing expenditures.

8 - HB2

Included in the Governor's budget submission are the base budget, present law adjustments, and new proposals. The legislative session's appropriations process begins with the introduction of HB 2, or the General Appropriations Act. At the introductory stage, the HB 2 includes the provisions of the Governor's budget. HB 2 is built using three key components: base budget, present law adjustments and new proposals. Generally, the base budget is adjusted spending made during the last fully completed year. Total expenditures are adjusted to remove items that are inappropriate for consideration as spending for on-going functions of state government. Among items removed from the base are statutory appropriations, budget amendments, funds transferred from other agencies (non-budgeted transfers) and one-time expenditures.

9 - Statutory Appropriations and Non-Budgeted Transfers

Statutory appropriations are legislative appropriations that do not expire in two years like temporary appropriations like those in the general appropriations act. Statutory appropriations are in the Montana Code Annotated or statute and remain in place until removed or changed by legislation.

Non-budgeted transfers are funds transferred from one account to another. This results in less money in the General Fund for the programs it funds and more in another. These transfers and their authorizations are in statute and are not part of the biennial budgeting process however they affect the amount of money available for the legislature to appropriate for various programs.

Other funds contained in this line of the balance sheet are previously authorized carried forward amounts from prior years.

10 - Non HB 2 Legislation (Bill List)

During the legislative process, other legislation with fiscal impact to the general fund is monitored and reported upon as part of the general fund status sheet. The balance sheet records by fiscal year the total ongoing general fund expenditures of these other fiscal impact bills in this section.

11 - Assumed 2019 Appropriations

Statute (17-7-301, MCA) allows for certain school funding items not to be subject to reductions when fiscal year transfers occur. Those items identified in statute are guaranteed tax base aid, transportation aid and equalization aid. Any non HB2 2019 legislation that contains those school funding items will be separated from the regular Non HB2 Legislation line and shown here instead.

Two other bills which appropriate money in the current year, as opposed to the next biennium like HB 2 are included in this section. They are the following: HB 1 – commonly referred to as the “feed bill” contains all appropriations needed to operate the legislative session and certain interim costs and includes provisions for session staff and printing costs

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12 – Standard Reversion Assumptions

Assumed expenditures that the legislature has previously authorized but are not anticipated to be spent.

13 - Total Ongoing Expenditures

Ongoing expenditures are totaled by fiscal year.

14 - One-Time Expenditures

The one-time expenditures for HB2, Non-HB2 legislation and any further adjustments that impact the fund balance.

15 – Total Expenditures

Total amount of expenditures.

16 – Other Adjustments

This line is for any other accounting adjustments that may occur.

17 - Ending Fund Balance for the State General Fund

Projected general fund ending balance given current and proposed legislative action.

18 - Structural Balance

Structural balance is the difference between ongoing revenues and ongoing expenditures. Structural balance exists when anticipated revenues and ongoing expenditures are equal. A negative structural balance exists when anticipated revenues are short of ongoing appropriations.

BIENNIAL COMPARISON

Statute 17-7-151, MCA defines how the biennial comparison of the executive or legislative budget growth should be measured. The 2015 Legislature changed the requirements for this comparison, moving to a comparison using budgeted appropriations between biennia. Key factors in the definition include:

- State resources in the comparison include general fund, state and federal special revenues, capital projects funds and budgeted proprietary funds
- Transfers to between state resources are not included in the comparison to avoid counting expenditures twice while transfers to funds outside of state resources such as to the Montana University System (MUS) are included in the comparison

READING AND UNDERSTANDING THE BIENNIAL COMPARISON

The following figure shows a template for the biennial comparison. The numbers included in the template are examples only and do not correspond to either the 2017 or 2019 biennium funding.

Biennial Budget Comparisons					
(\$ Millions)					
		Appropriated		Proposed	
Fiscal Year	FY 2016	FY 2017	FY 2018	FY 2019	Change
Comparables					
1 Estimated Expenditure Comparison MCA 17-7-151					
HB 2 and Other Bills that are included HB 2 Base in 2019 Biennium					
General Fund	\$2,000.0	\$2,000.0	\$2,015.0	\$2,030.0	1.1%
State Special Revenue Fund	770.0	750.0	760.0	770.0	0.7%
Federal Special Revenue	2,200.0	2,300.0	2,000.0	2,100.0	-8.9%
Appropriated Proprietary Fund	12.0	12.0	12.0	12.0	0.0%
Subtotal HB 2	4,982.0	5,062.0	4,787.0	4,912.0	-3.4%
2 Statutory Appropriations					
General Fund	280.0	290.0	315.0	325.0	12.3%
State Special Revenue Fund	212.0	220.0	223.0	325.0	26.9%
Federal Special Revenue	200.0	250.0	400.0	450.0	88.9%
Capital Projects Fund	1.0	1.0	5.0	5.0	400.0%
Appropriated Proprietary Fund	40.0	40.0	55.0	55.0	37.5%
Subtotal Statutory	733.0	801.0	998.0	1,160.0	40.7%
3 Other Appropriation Bills					
General Fund	16.0	20.0	15.0	20.0	-2.8%
State Special Revenue Fund	25.0	30.0	85.0	70.0	181.8%
Federal Special Revenue	100.0	25.0	120.0	25.0	16.0%
Capital Projects Fund	48.0	-	180.0	-	275.0%
Appropriated Proprietary Fund	1.0	1.0	1.0	1.0	0.0%
Subtotal Other Bill Appropriations	190.0	76.0	401.0	116.0	94.4%
4 Language appropriations					
General Fund	0.5	0.5	0.2	0.2	-60.0%
State Special Revenue Fund	7.0	7.0	6.0	6.0	-14.3%
Federal Special Revenue	6.0	6.0	7.0	7.0	16.7%
Appropriated Proprietary Fund	138.0	138.0	154.0	154.0	11.6%
Subtotal Language Appropriations	151.5	151.5	167.2	167.2	10.4%
5 Transfers					
	80.0	32.0	20.0	20.0	-64.3%
6 Estimated reversions					
	-	5.0	6.5	6.5	160.0%
7 Total Comparable Budgeted Expenditures					
	<u>\$6,136.5</u>	<u>\$6,127.5</u>	<u>\$6,379.7</u>	<u>\$6,381.7</u>	4.1%
8 Biennial Total Budgeted Expenditures					
		12,264.0		12,761.4	4.1%
Biennial increase budgeted expenditures					
					4.1%
9 Non-comparable					
Budget Amendment & Carryforward	\$120.0	\$250.0	\$0.0	\$0.0	-100.0%
Added Authority (HB 1 & Supplemental)	1.5	1.0	0.0	0.0	-100.0%
Special Session	0.0	0.0	0.0	0.0	0.0%
Total Non-comparable	\$121.5	\$251.0	\$0.0	\$0.0	-100.0%

For all appropriations presented in the biennial budget comparison FY 2016 and FY 2017 amounts reflected the funding appropriated by the 2015 Legislature. FY 2018 and FY 2019 reflect the executive's proposed budget and legislative decisions on the proposed budget throughout the legislative session.

1 - HB 2 and Other Bills that are included in HB 2 Base in 2019 Biennium

The funding included in the general appropriations act and additional bills that required that the funding appropriated in the other appropriation bill be included in HB 2 for the 2019 biennium. For example, HB 33 required that \$1.0 million of general fund be included in the Department of Public Health and Human Services each year of the 2019 biennium as part of the base budget.

2 - Statutory Appropriations

Permanent appropriations contained in statute. These are considered permanent appropriations as they remain in place unless statute is changed by the legislature.

3 – Other Appropriation Bills

Other bills that contain appropriations. Examples include the pay plan bill and bills for grants and the Long-Range Building Program.

4 – Language Appropriations

HB 2 includes language that provides for appropriation authority that is not part of the appropriations included under HB 2 and other bills. An example would be language providing an appropriation of \$138.0 million in FY 2016 and \$145.0 million in FY 2017 from the liquor enterprise fund for the Liquor Control Division in the Department of Revenue to maintain adequate inventories, pay freight charges, and transfer profits and taxes to the appropriate accounts.

5 - Transfers

Transfers are funds transferred from state resource funds to other funds that are not considered state resources.

6 – Reversions

Remaining budget authority at the end of a fiscal year or biennium that is not anticipated to be spend and reverts back to the fund.

7 – Total Comparable Expenditures

Total amount that is included in the biennial budget for state resources by fiscal year.

8 – Biennial Total Expenditures

Total budgeted amount for the biennium.

9 – Non-comparables

Items that are not appropriated at the beginning of the biennium, such as budget amendments, supplemental appropriations, and re-appropriations must be included in the budget comparisons but must be segregated and indicated as non-comparable items.