

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR



CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

May 1, 2018

Representative Nancy Ballance, Chairwoman
Legislative Finance Committee
PO Box 314
Hamilton, MT 59840-0314

Madame Chairwoman,

Pursuant to Section 8 of SB261 (L Jones, 2017), the Office of Budget and Program Planning submits the following recommendations regarding budget stabilization policies to the Legislative Finance Committee:

I. Trigger Levels in 17-7-140, MCA

The trigger levels in 17-7-140, MCA is effective in its current version and no changes should be made.

II. Legislative and Executive Access to the Budget Stabilization Reserve Fund

Executive access to the Budget Stabilization Reserve (BSR) must accommodate known expenditure pressures during periods of revenue and economic volatility. Increases in caseload under previously legislatively authorized eligibility criteria should be allowed for withdrawal from the BSR without expenditure reduction requirements.

III. Deposit Rules in the Budget Stabilization Reserve Fund

Montana must adopt a consensus revenue estimate process between the Executive and Legislative branches to implement nationally recognized financial best practice, establish a consistent revenue base, and ensure accurate deposits into the BSR.

The current 4.5% BSR cap is inadequate based on historical revenue fluctuations. The maximum size of the BSR should be based on adjusted total risk requirements.

Compound annual growth rate methodology should be eliminated as it will not fund the BSR as intended.

IV. Level of Operating Reserve

General fund operating reserve should be increased from 8.3% to 14.6% to ensure adequate cashflow for state operations. Further, the operating reserve target must be mandatory rather than permissively binding.

I look forward to discussing these recommendations with you in the coming months. A report supporting the same will be sent to you, your staff and other committee members prior to the June 18, 2018 LFC meeting.

Sincerely,



DAN VILLA
Budget Director

CC: Legislative Fiscal Analyst
Legislative Finance Committee