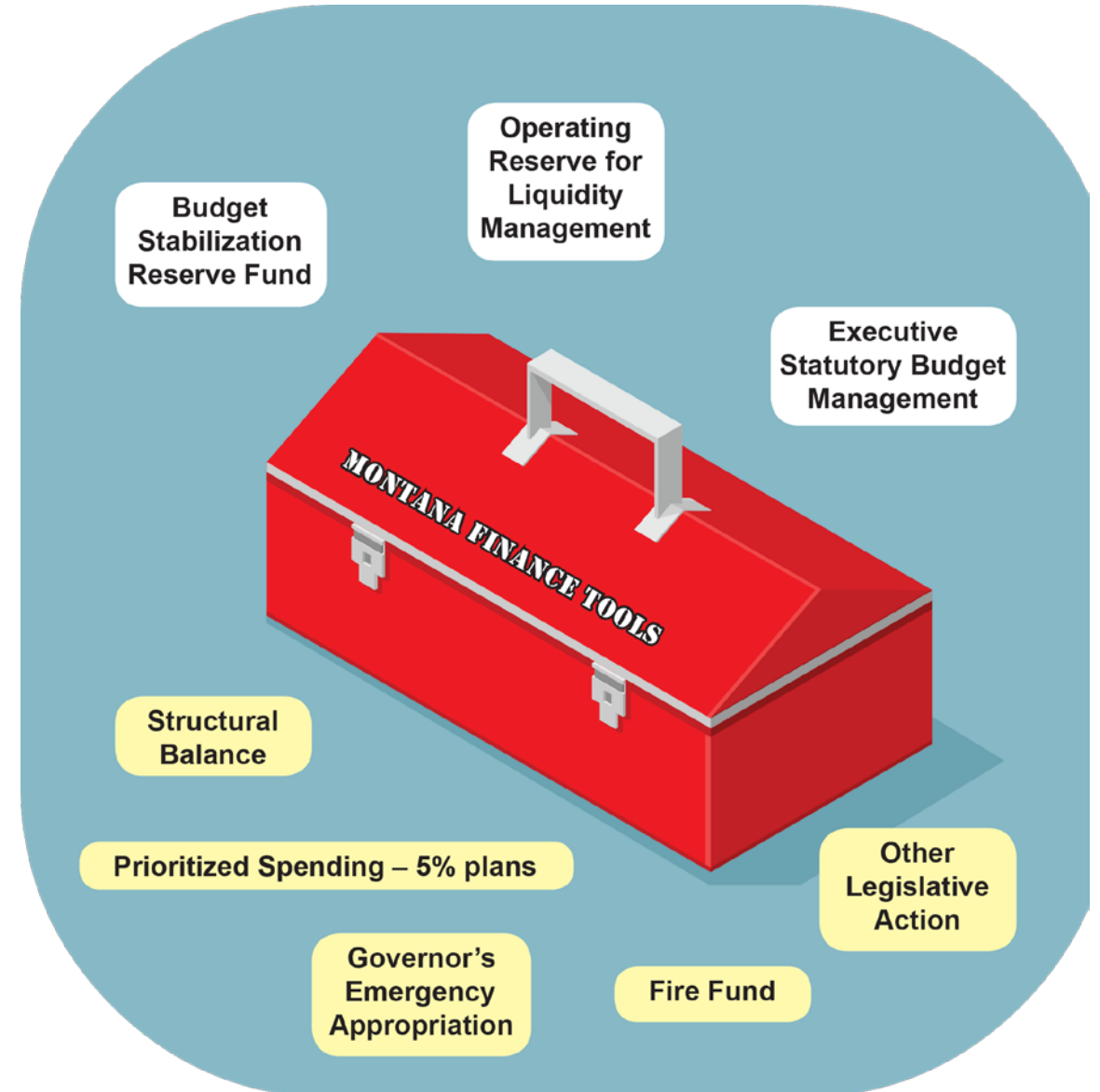


# Montana's Financial Management Tools

Managing Financial Volatility in an Uncertain World

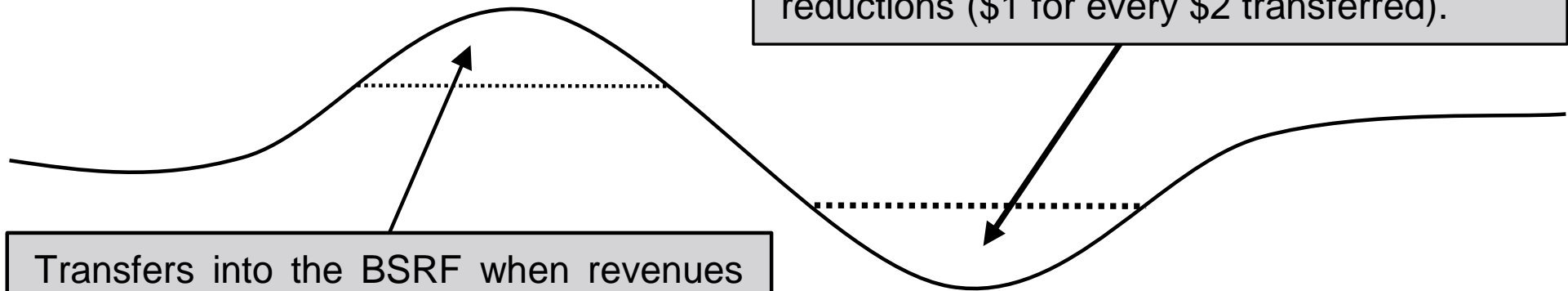
# Montana's Financial Tool Box

- States with multiple financial management tools are better equipped to manage financial uncertainty
- Montana has multiple tools to manage volatility including a budget stabilization reserve fund (aka a rainy day fund)



# Budget Stabilization Reserve Fund (BSRF)

## General Fund Revenue Cycle with the BSRF



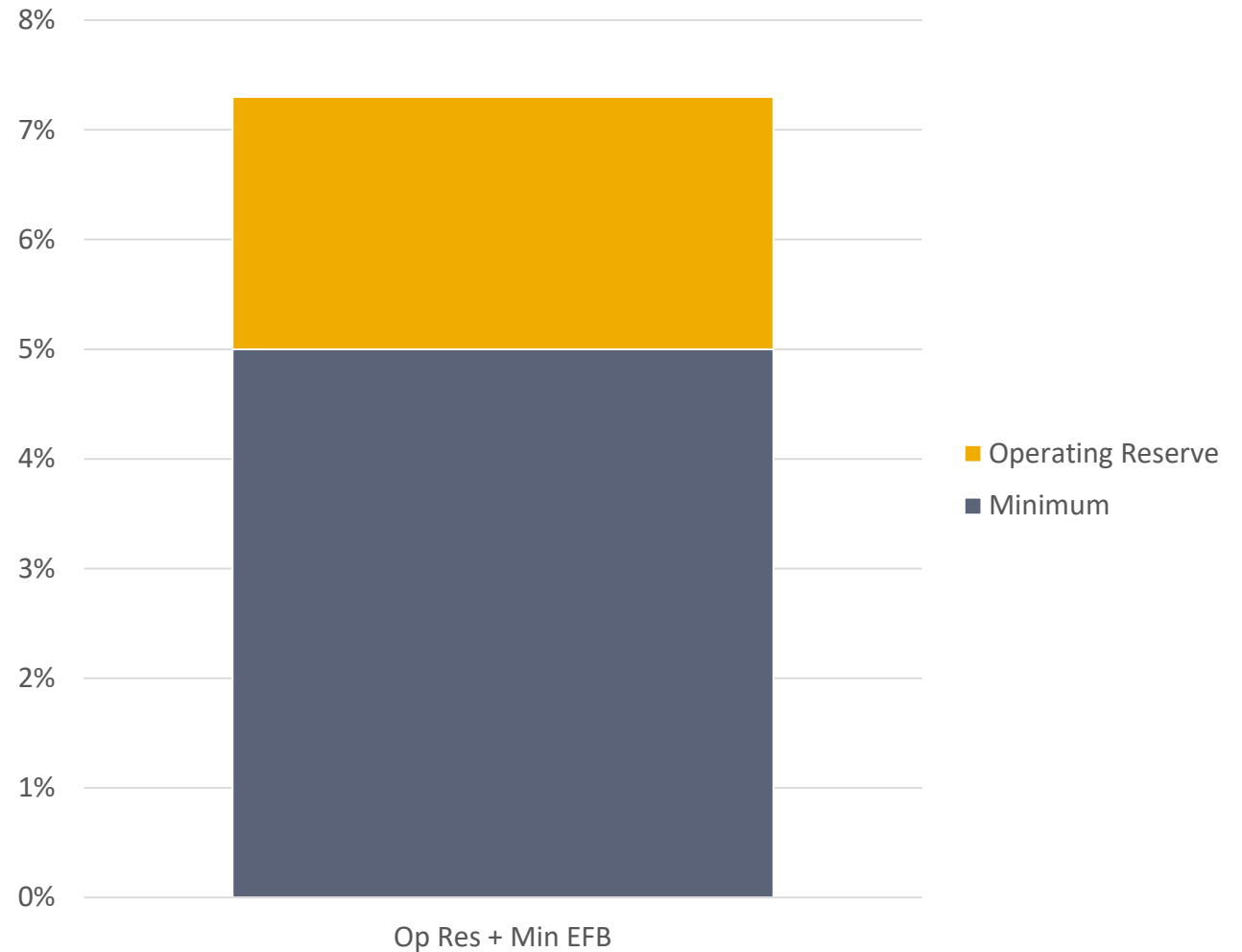
Transfers into the BSRF when revenues are higher than trend; 50% to the general fund, 50% to the BSRF.

Transfers from the BSRF to the general fund when revenues are lower than trend. When the BSRF is full, access is easier, and some funds may be transferred without reductions. Drawing down the BSRF further requires reductions (\$1 for every \$2 transferred).

# Operating Reserve + Minimum General Fund Ending Balance

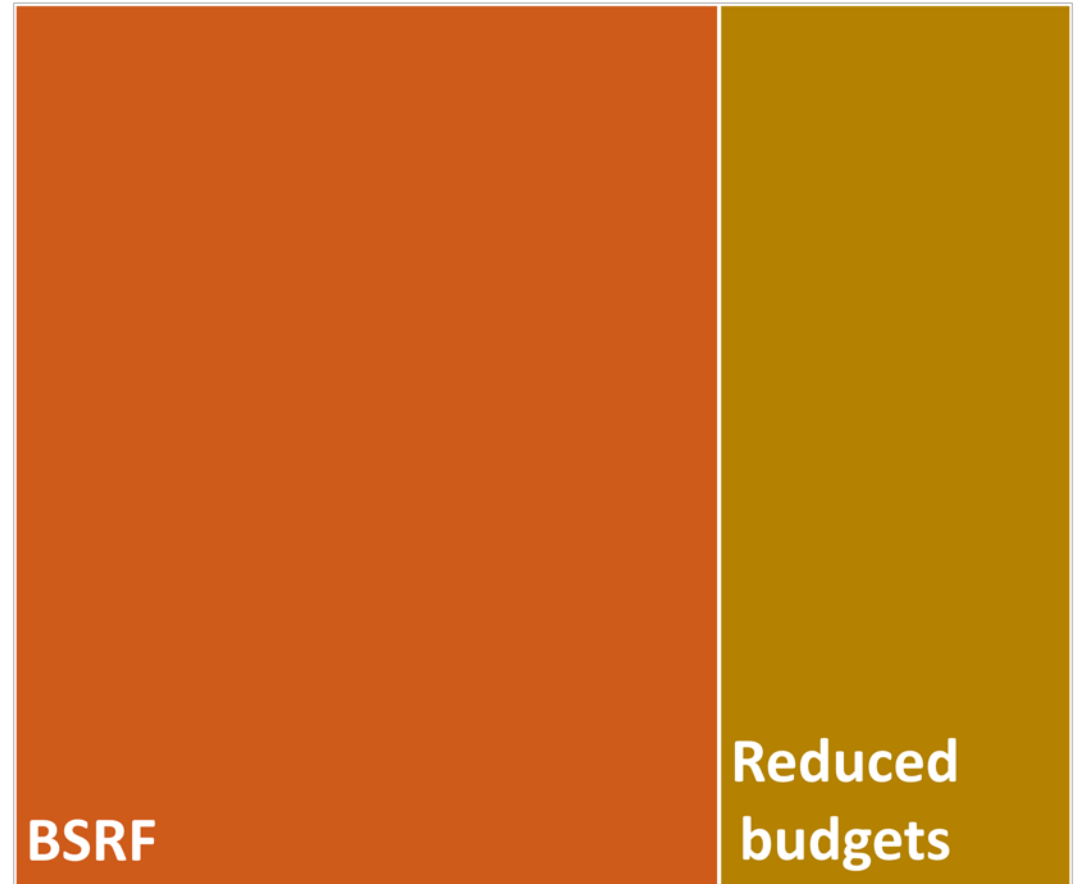
General fund balance has two thresholds identified in statute:

- I. Minimum ending fund balance threshold: the minimum that the Legislature or the Governor budgets to leave as a cushion. This amount is 5% of the second year appropriations.
- II. Operating Reserve of 8.3%, which has two goals:
  - i. Reduce the need for cash flow borrowing within the fiscal year
  - ii. Buffer against revenue downside risk. Allows revenue reductions of up to 3.3% before the Governor or Legislature needs to address spending reductions and transfers from the BSRF



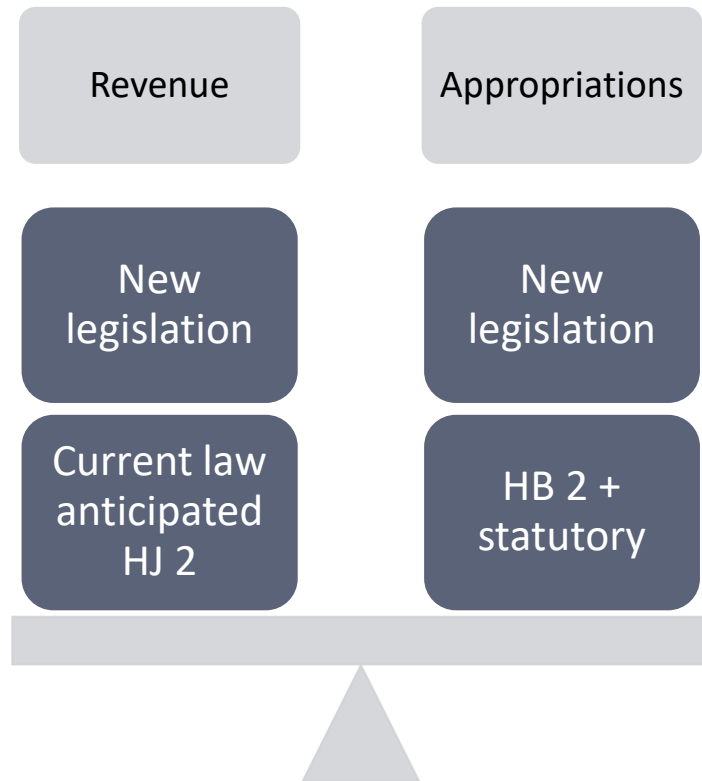
# Governor's Ability to Reduce Budgets

- Statute requires the Governor to reduce agency general fund budgets when his staff anticipate revenue shortfalls or supplemental spending reduces ending fund balance below the minimum 5% threshold
- Budget reductions are matched with transfers from BSRF 1:2
- Detailed statutory guidance in [MCA 17-7-140](#)

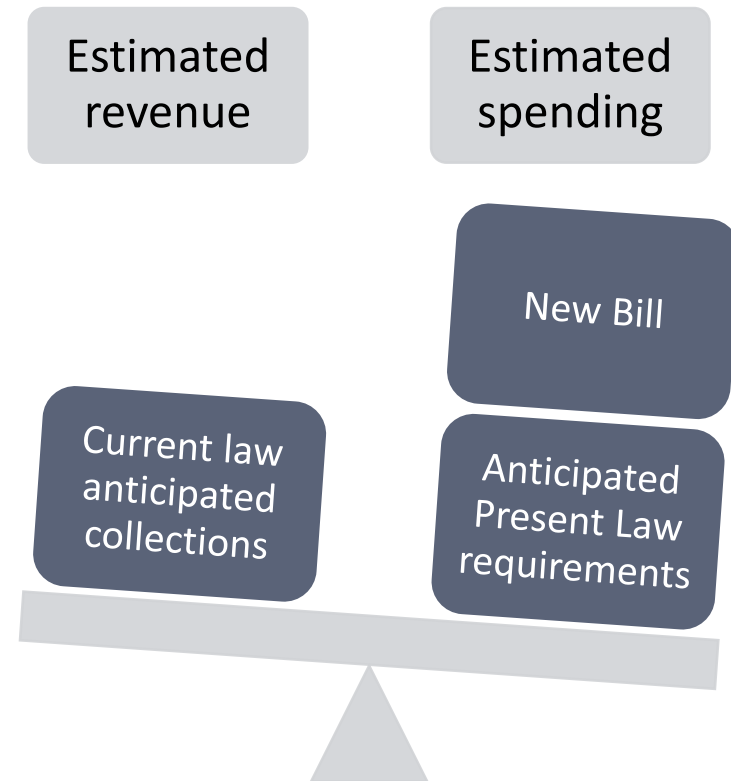


# Long term Planning Tool

## Structural Balance – Two years out

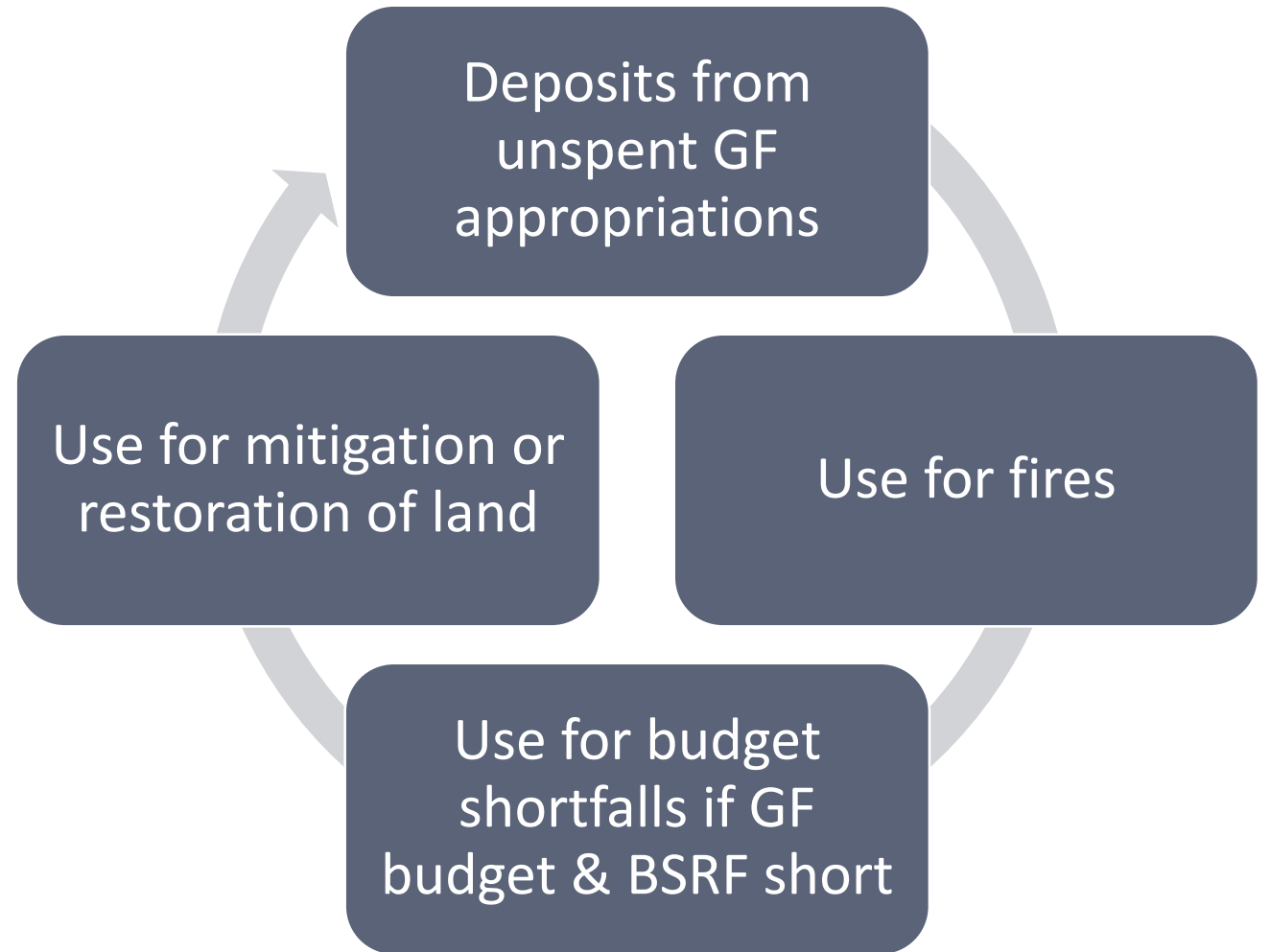


## Extended Outlook – Four years out



# Fire Suppression Fund

- Receives funds from unspent general fund appropriations and other deposits directed by the legislature
- Spends on fire suppression and fire suppression restoration and mitigation
- In budget shortfalls, can be used to match 1:1 Governor's reductions if BSRF is exhausted
- Maximum fund balance is 4.5% of second year of general fund appropriations



# Emergency Spending Needs

## **Fire Suppression Fund**

- Up to 4.5% or approximately \$100 million today

## **Governor's Emergency Appropriations**

- \$16 million in the biennium for any declared emergency
- Presidential declared emergency an additional \$0.5 million



# Quarterly Reporting: (early warning system)

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- The Legislature is informed of the financial condition of the state in time to react to the changes
- The LFD reports financial data quarterly to the Legislative Finance Committee and the Revenue and Transportation Interim Committee



# Montana Keeps an Eye on Money Owed

## **Debt**

- Montana has little General Obligation (GO) and other debt relative to other states
- A 2/3 vote is required to pass debt
- Little debt has been issued in recent years and outstanding liability balances have been declining

## **Pensions**

- At present, almost all states face challenges with pension debt
- Montana addressed known pension issues funding from 2007 through 2013
- Montana has a good track record of addressing pension liabilities when they are understood by the legislature

# Links to more information: Interim study

October 2017:

<https://leg.mt.gov/content/Publications/fiscal/interim/Oct-2017/SB261-Study-Phase1.pdf>

March 2018:

<https://leg.mt.gov/content/Publications/fiscal/interim/March-2018/Montana-managing-volatility.pdf>

May 2018

<https://leg.mt.gov/content/Publications/fiscal/interim/May-2018/BSRFIII-final.pdf>