

UNDERSTANDING STATE FINANCES & THE BUDGETING PROCESS

A REFERENCE MANUAL FOR LEGISLATORS
2017 LEGISLATIVE SESSION

TABLE OF CONTENTS

| | |
|--|----|
| | 1 |
| Table of Contents..... | 2 |
| Purpose and Scope..... | 3 |
| The Legislative Fiscal Division | 3 |
| Division Structure..... | 4 |
| Key Terms And Concepts | 6 |
| Appropriations | 6 |
| Fund Types..... | 8 |
| How Much Of State Government Is Funded With General Fund? | 12 |
| Expenditures..... | 13 |
| Budget Basics And Revenue Estimating | 15 |
| Budget Basics And Budget Development And Analysis | 15 |
| Estimating Anticipated Available General Fund – HJR 2..... | 18 |
| The Budget And Appropriation Process..... | 19 |
| Appropriations Process..... | 20 |
| Agency Subcommittee Grouping | 24 |
| Other Legislation With Fiscal Impacts | 25 |
| Bills With Fiscal Impact and Fiscal Notes..... | 25 |
| Post Session And Interim Activities | 31 |
| The Interim – While the Legislature is Away | 31 |
| Operating Plans and Changes to the Plan | 31 |
| What Happens If Revenues Are Less Than Anticipated and/or Expenditures Are Higher? | 32 |
| Governor’s Executive Budget | 34 |
| Legislative Budget Analysis | 34 |
| Legislative Budget Analysis - Statewide Perspectives, Volume 1..... | 35 |
| Legislative Budget Analysis – Revenue Estimates..... | 35 |
| Legislative Budget Analysis – Agency Budgets..... | 35 |
| Legislative Fiscal Division General Fund Status Sheet | 36 |
| HB 2 Narrative | 36 |
| Legislative Fiscal Report..... | 37 |
| Glossary | 38 |
| Acronyms | 43 |

PURPOSE AND SCOPE

This manual provides information on the resources available to assist in learning more about the process of state budgeting. Its purpose is to assist legislators in understanding budget terms and concepts and their specific application in Montana in order to:

- 1) Make the appropriations process more inclusive.
- 2) Enhance the efficiency of the process on the floor and elsewhere through a foundation of state finances.
- 3) Enable legislators to speak with authority on budgetary issues and terms.
- 4) Enable legislators to better understand the fiscal impacts of their bills (and bills they hear in committee that carry a fiscal impact) and how they relate to the overall state budget.
- 5) Provide legislators with knowledge of the full range of staff services and materials available to them and how to best employ them.

The manual is divided into seven sections:

- 1) Key Terms and Concepts, which provides an understanding of key state governmental fiscal terms and concepts.
- 2) Budget and Revenue Estimating Basics, which discusses how budgets are put together and how the legislature estimates revenues for budget balancing purposes.
- 3) How the Budget and Appropriations Process Works, which provides information on how key concepts and processes are applied in Montana.
- 4) Other Legislation with Fiscal Impact, which discusses other bills carrying a monetary cost and the procedures and guidelines for review of those bills.
- 5) Post Session and Interim Budget Activities, which discusses legislative control and tells what happens once the legislature adjourns.
- 6) Budget Publications, which discusses the budget publications.
- 7) Glossary and Acronyms, which provides a reference source for common fiscal terms and acronyms referenced in this publication and elsewhere.

Legislators desiring more in-depth training or information are urged to contact the Legislative Fiscal Division.

Legislative Fiscal Analyst & Director – Amy Carlson

Main telephone number – 444-2986

Building address – State Capitol, Room 110

Mail Address – P.O. Box 201711, Helena, MT 59620-1711, Helena, MT 59620

On the Internet: <http://leg.mt.gov/css/fiscal/default.asp>

THE LEGISLATIVE FISCAL DIVISION

The Legislative Fiscal Division (LFD) is the legislature's financial staff. The LFD provides non-partisan budget and data analysis to the Montana Legislature, so that all lawmakers have objective, accurate, and relevant information to make state financial decisions. The division, by statute, is charged with the following duties:

- Provides fiscal analysis of state government and accumulates, compiles, analyzes, and furnishes information on fiscal matters of state government
- Investigates and studies the economy and efficiency of state government
- Estimates revenues
- Analyzes the executive budget and budget requests
- Makes any reports and recommendations considered desirable or as requested
- Assists committees and individual legislators in compiling and analyzing financial information; and
- Provides staff assistance to the Revenue and Transportation Interim Committee

During the legislative session, the division meets these responsibilities by providing:

- An independent and impartial analysis of the proposed executive budget conducted in the months prior to the legislative session, followed by publication and distribution of those findings to all legislators
- Staffing to appropriations subcommittees and the House Appropriations Committee and the Senate Finance and Claims Committee
- Staff assistance to the House and Senate Taxation Committees
- Fiscal status reports and estimates of the general fund balance, reflecting actions and assumptions of the legislature throughout the session
- Responses to requests from individual legislators on any fiscal matters
- Any other fiscal analysis required

During the interim between legislative sessions, the division:

- Tracks expenditures, appropriations, and revenues
- Produces fiscal-related research in any area of state government finance, as authorized by the Legislative Finance Committee
- Assists the Revenue and Transportation Committee, as well as other interim legislative committees, as requested
- Staffs the Legislative Finance Committee and all subcommittees thereof
- Assists individual legislators with informational and research needs

The Legislative Fiscal Division

The LFD is the legislature's non-partisan fiscal experts on all matters related to the collection and expenditure of funds by state government.

The division:

- Conducts analysis and provides information on any state fiscal matter
- Estimates revenues
- Analyzes the executive budget
- Staffs appropriations committees and assists taxation committees during the legislative session

Consult the LFD on:

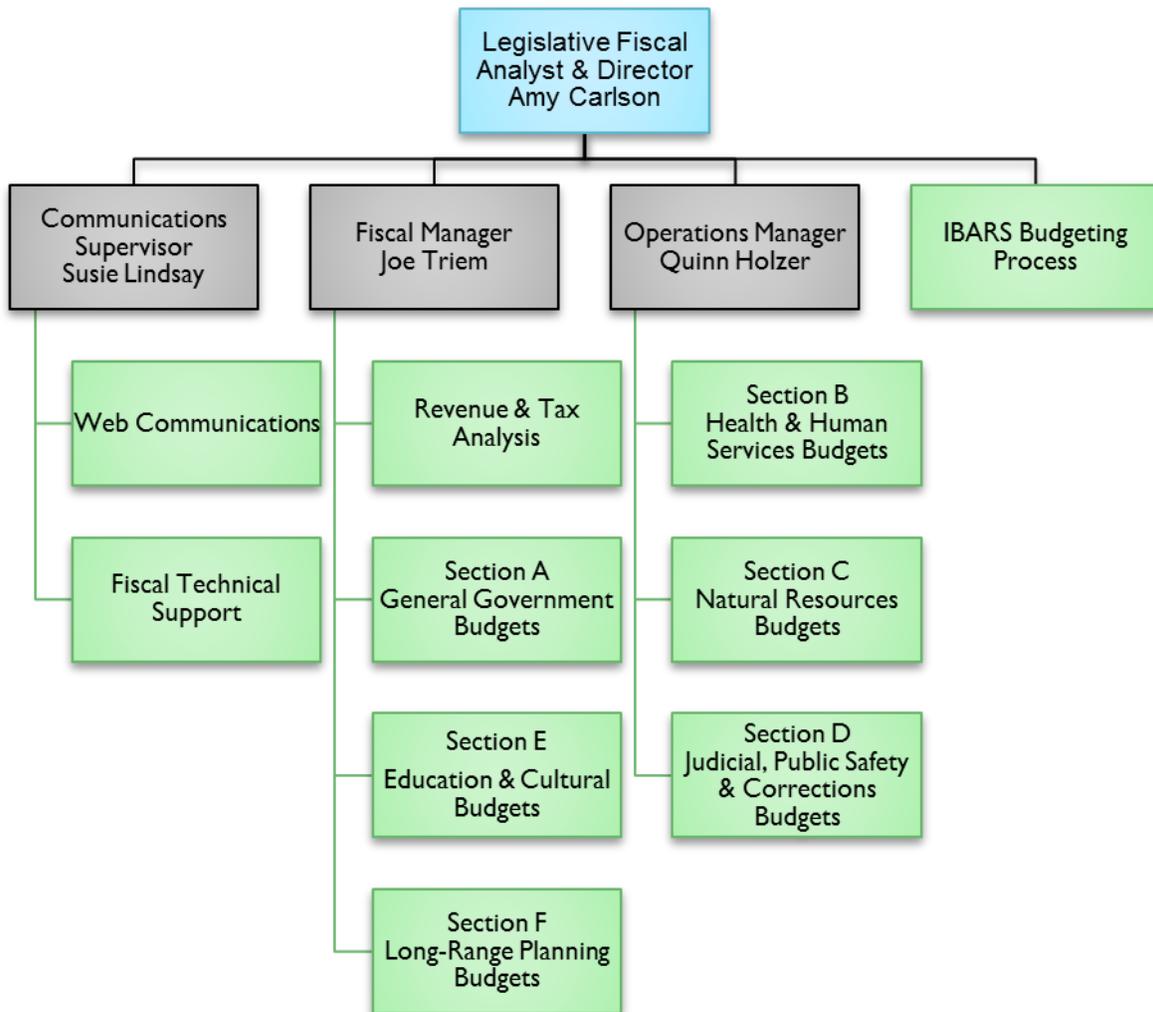
- Any questions concerning state agency operations and funding, including historical information
- Tax and revenue collection issues
- Any other fiscal research and other information assistance needs, including HB 2 amendments

DIVISION STRUCTURE

Each LFD analyst specializes in the operations and budgets of a particular group of state agencies or revenues. Analysts assigned to a given area are available to answer any questions you may have about individual agencies and their budgets, and about general budgeting and appropriations as well.

- 1) **Revenue Estimation and Tax Policy Analysis** – Staff provide objective, impartial estimation of state revenues during the legislative session and during the interim. Staff also analyzes all bills impacting tax policy and collections during the legislative session and assists House and Senate tax committees and the Revenue and Transportation Interim Committee.
- 2) **Expenditure Analysis** – Staff provide objective, impartial analysis of state agency operations and expenditures during the legislative session and during the interim. Analysts also staff appropriations subcommittees, write the general appropriations act, and conduct fiscal research as required or requested.
- 3) **Statewide Analysis, Communication, and Administration** – The personnel in this role are responsible for communicating objective, impartial statewide financial analysis and providing managerial functions for the division.

This organizational chart details the division's structure.



KEY TERMS AND CONCEPTS

This section of the manual is designed to provide an introduction to basic state governmental terms and concepts that will be applied throughout the manual and in the application section that follows. It is divided into two parts:

- 1) Appropriations
- 2) Government accounting and fund types

APPROPRIATIONS

General Background

Appropriations are authorizations by law to spend money or acquire obligations. Montana's Constitution states: "Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law..."

Who Can Be Authorized to Spend State Money?

Montana's Constitution states that for an entity to receive authorization to expend state money, it must be under the control of the state:

"No appropriation shall be made for religious, charitable, industrial, educational, or benevolent purposes to any private individual, private association, or private corporation not under control of the state."

A state agency can contract with private individuals or companies to provide services. The money the state agency spends on the contract appears as an expenditure on state accounting records. The state also provides appropriations to state agencies, which allow them to reimburse and/or pay local governments (such as to reimburse local governments for lost revenue as a result of changes in state tax law).

Appropriations

- No state money can leave the state treasury without an appropriation
- Appropriations cannot be made to private individuals, associations, or corporations
- Appropriations can be made only by the legislature (there are minor exceptions)
- The constitution requires that the budget be balanced before the legislature can adjourn
- The constitution prohibits debt to fund deficit spending

What is the Legislature's Role?

It is the legislature's role to determine the size and scope of state government, not only through the enactment of laws, but through the funding of that government. The legislature not only specifies how revenues are to be raised, but provides authorization for how revenues may be spent and for what purpose.

How Does the Legislature Provide an Authorization to Spend?

Appropriations are within the constitutional powers of the legislature. The legislature sets a maximum amount of authorization. It is up to the legislature to determine how specific they want to be about the purposes for which an appropriation can be spent.

Appropriations can be provided in one of three ways:

- **Temporary appropriations.** These appropriations are made for a two-year period and then expire. Most appropriations to operate state government are made in one temporary appropriations bill – HB 2, the General Appropriations Act. Appropriations can be made in other bills as well, generally called “cat and dog” bills. While many functions of state government are ongoing, the legislature must still reauthorize funding for those functions every two years.

- **Statutory appropriations.** These appropriations are made within codified law and although some may have termination dates, many do not expire. Rather than examine these appropriations every two years, the legislature allows the function to be funded on an ongoing basis, and must change statute to adjust the appropriation in any way. Since statutory appropriations are not regularly examined every two years, the legislature established guidelines to use as a tool in drafting statutory appropriation legislation. The guidelines follow the general philosophy of the legislature to limit statutory appropriation use to when factors that impact either revenues or expenditures make two year appropriation impractical.

Can the State Operate at a Deficit as the Federal Government Does?

No. The Constitution says, “... [a]ppropriations by the legislature shall not exceed anticipated revenue.” Montana’s budget, therefore, must balance before you can go home at the end of a session. This prohibition does not mean that revenues cannot fall short of anticipated levels or that expected expenditures can’t increase during the interim. In case of those events, statute allows for a reduction in expenditures by the executive. If this measure is insufficient, the legislature must reconvene in special session. In addition to the citation above, the Constitution further states that “...[n]o state debt shall be created to cover deficits incurred because appropriations exceeded anticipated revenue.” (This topic is discussed in more detail in the “Post Session and Interim Activities” section.)

Why Does the State Have Debt?

The state assumes debt primarily to acquire capital assets (which can include major information technology systems). Any authorizations of the assumption of debt are contained in separate bills and can only pass with a two-thirds majority of each house of the legislature, or by a majority of voters in the instance of a voters’ initiative. The state sometimes borrows money to provide for short-term cash flow in anticipation of tax revenues.

Example

Since payment of debt undertaken for capital projects or to meet short-term cash flow needs is critical to the state’s bond rating, any debt obligations are authorized to be paid through statutory appropriations and do not require specific legislative authorization.

- **Budget amendments.** The legislature is not in continual session, and yet events that require action can occur during the interim between sessions. For this reason, other branches of government can appropriate funds under very limited conditions. Various approving authorities (most often the Governor) can approve the addition of federal funds (and state special revenue funds if an emergency exists) received between sessions and not anticipated by the legislature. The funds cannot be considered part of ongoing operations and, if they are to continue, must be separated for specific authorization by the legislature in the next session.

Other types of funds can also be paid out of the treasury, either by appropriation or under general laws or lawful contracts that allow the payment. Examples include:

- Proprietary funds
- Debt service funds
- Agency funds
- Permanent funds
 - Private funds restricted by law or by the terms of an agreement

Pension funds are not considered a part of the treasury. (These funds are discussed in more detail in the “Fund Types” section of this manual.)

Appropriation Types

The legislature sets a maximum amount when making an appropriation. There are three ways appropriations can be made:

- **Temporary appropriations** good for only two years (most appropriations). Authority - only the legislature
- **Statutory appropriations** can be changed only through a statutory change. Authority - only the legislature
- **Budget amendments** for adding certain types of funds (never general fund) during the interim. Authority - the Governor, the Board of Regents, the Supreme Court, and statutory legislative committees

Most appropriations are temporary. Most temporary

How Do Most Appropriations Get Made?

Historically, about 90% of expenditures are made with appropriations in temporary appropriations bills.

FUND TYPES

Governmental accounting differs from private enterprise accounting in that the funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting:

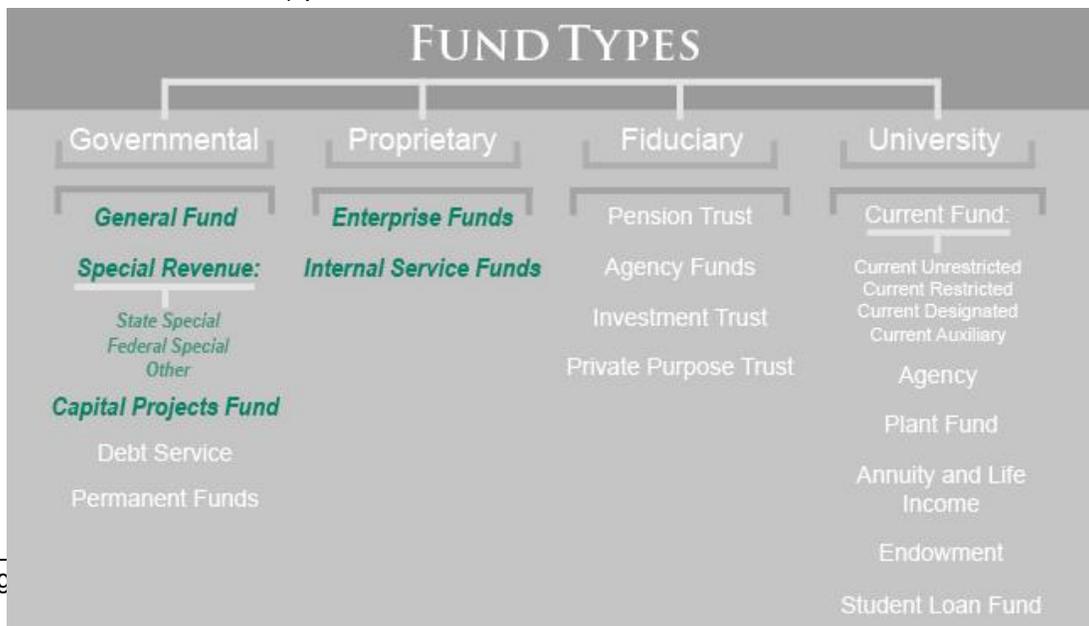
- 1) Governmental
- 2) Proprietary
- 3) Fiduciary
- 4) University

The main groupings are divided into various types of funds. The fund types are further divided into accounts based upon a further differentiation in the source and use of the money (general fund is all one big account).

By providing an appropriation, the legislature is authorizing a unit of state government to spend money from a particular account. (As discussed within the description of each fund type, the legislature does not appropriate all funds.) The following shows each type of fund, with sub-funds.

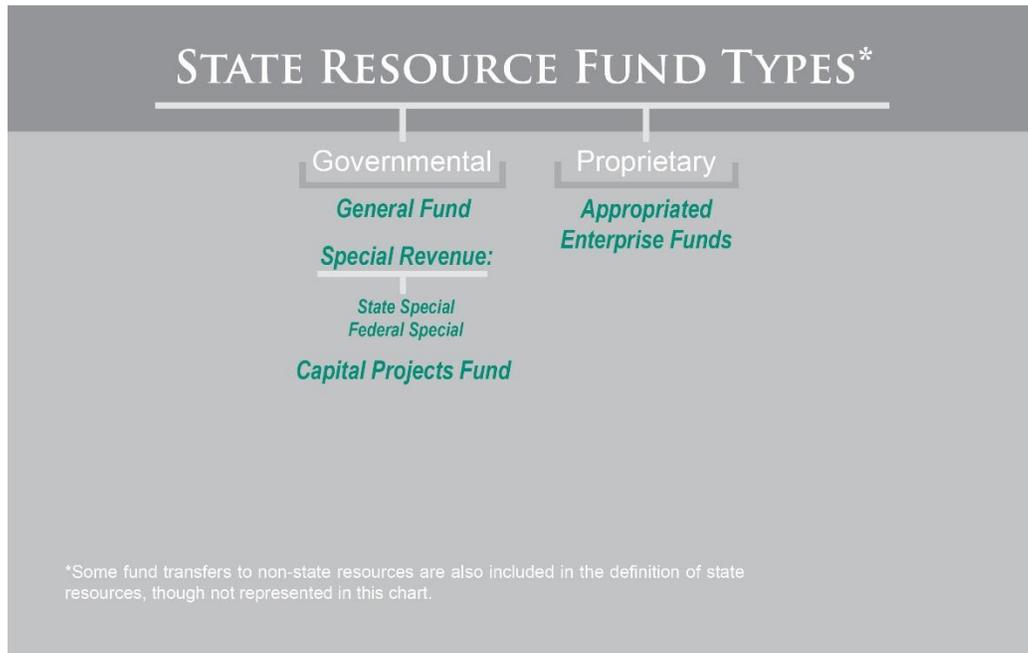
Governmental Funds

There are five main types of governmental funds: 1) general fund; 2) special revenue funds; 3) capital projects funds; 4) debt service funds; and 5) permanent funds.



State Resource Funds

While there are four main groups of funds in state government, Montana statute defines which funds are state resources. The LFD regularly reports on biennial comparisons of state resource fund types.



General Fund is defined as all financial resources except those required to be accounted for in another fund. General fund is primarily general tax revenues (generally applied across a very wide spectrum of taxpayers) used for general purposes of state government. Since general fund can be used for any purpose within the law, the legislature is usually more concerned with the use and availability of general fund than with the other sources of revenue.

Why Do We Pay So Much Attention to the General Fund?

General fund is the focus of virtually all of the attention before, during, and after the legislative session. This focus is due to the general fund's source and use, and the ways in which it differs from the other funds. Income, property, and corporation taxes are the primary sources of the general fund. Many of the largest programs and services are funded by the general fund.

General fund can be broadly defined as revenues from general sources that can be used for any lawful purpose. Therefore, the amount of general fund available is very important in determining the overall level of funding available for a broad range of government services and, consequently, the overall size and scope of state government. The legislature must prioritize both revenues and expenditures from a wide array of choices. Since it can be used for any lawful purpose, general fund is also used to manage the state's financial stability through the ending fund balance, which may alleviate fluctuations in revenue collections and expenditures.

Special Revenue Funds are defined as specific revenue sources that are legally restricted to expenditure for specified purposes. There are two main types of special revenue funds: a) state special revenue; and b) federal special revenue

- a) State special revenue is defined as money from state and other sources that is earmarked for the purpose of defraying particular costs within an agency, program, or function. To provide a little further differentiation from general fund, state special revenue is derived from specific rather than general tax

or fee sources and is used to fund the costs of specific functions. There are hundreds of state special revenue accounts in state government. They range from the very large (e.g., funds that receive all state fuel taxes) to small (e.g., the fund that receives the revenues from Lewis & Clark bicentennial license sales).

- b) Federal special revenue is, as the name implies, revenue from federal sources. These funds are made available from the federal government for specific purposes and must be used within federal confines and guidelines. Federal funds can also come with requirements for state matching funds or with the requirement that the state provide a certain level of overall state funding.

As stated, state special revenues are, in most cases, specific fees and/or taxes used for specific purposes. Therefore, while the question of whether revenues are sufficient to support those specific purposes (and whether those revenues should be collected or activities funded at all) becomes relevant when developing individual budgets, the overall level of state special revenue, since it is not used for overall state government support, takes on a different meaning. The same is true of federal funds. These funds are given to the state for specific functions. The issue comes down to whether the state should accept the funds and perform the specific functions that are contingent on acceptance. The level of federal funding should, therefore, be examined within the context of functions, desired existence, size, scope, and level of other state funds that are required as a condition of receiving federal funds.

- The level of federal and state special revenues available, and their purposes, can have a major impact on the expenditures of the general fund. In addition, these state special and federal fees and taxes have a financial impact on citizens and contribute to the overall costs of government. For these reasons, scrutiny of these expenditures and revenue sources is a vital part of the legislature's work during the session, and are discussed in detail within the individual agency narratives and budgets in the LFD Budget Analysis.
- It is important to remember that Montana's state budget includes only those federal funds that support programs administered by a state agency. Consequently, only a fraction of the funds provided by the federal government to institutions and individuals in Montana actually flows through state government, and must be appropriated by the state legislature. Among the federal funds that do *not* go through the state budget are Social Security and Medicare payments and almost all military (including veterans' benefits) expenditures.
- Most federal funds that do go through the budget are appropriated by the legislature in HB 2 or (in limited cases) another temporary appropriations bill

Special revenue funds also include what used to be called expendable trust funds, which are used to account for assets held by the state in a trustee capacity, in which the trust principal and earnings may be expended. Examples of expendable trusts include the Unemployment Insurance Trust Fund, private donations to the School for the Deaf and Blind, and the Historical Society General Trust.

Special Revenue Fund Examples:

- Fish, Wildlife, and Parks Conservation Licenses – revenue from the sale of conservation (hunting and fishing) licenses is deposited to a state special revenue account and used to support the operations of the Department of Fish, Wildlife, and Parks
- Highways – revenue from state taxes on motor fuels is deposited to

Capital Projects Funds account for financial resources used for the acquisition or construction of major governmental assets. The primary capital projects account is the one used to account for revenues and expenditures for the state's long-range building program.

Debt Service Funds account for the accumulation of resources for the payment of general long-term obligations, both principal and interest. Examples of debt service funds include coal tax bonds, the long-range building program, and highway revenue bonds.

- **Permanent Funds** account for financial resources that are legally restricted to the extent that only earnings, but not principal, may be used. Permanent funds used to be called "nonexpendable

trusts.” Examples of permanent funds include the Coal Tax Trust, the Resource Indemnity Trust, the Parks Trust, and the Cultural Trust.

Proprietary Funds

There are two types of proprietary funds: 1) enterprise; and 2) internal service.

- 1) **Enterprise Funds** are used to account for operations that provide goods or services to the public on a user-charge basis for operations that essentially act as a business. Examples of enterprise funds include the liquor warehouse, the state lottery, and the prison ranch.
- 2) **Internal Service Funds** are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. Examples of internal service funds include the Information Technology Services Division, the Investment Division, and the state motor pool.

- With limited exceptions, the legislature does not appropriate proprietary funds. Enterprise fund operations must be reported to the legislature. Since any “profit” is deposited to the general fund, all costs to operate the state liquor warehouse and the state lottery must be appropriated. The legislature must approve all internal service rates charged to other state agencies for services.

Federal Special Revenue Fund Examples:

- Medicaid – Montana administers a Medicaid program and receives federal special revenue for the specific purpose of providing Medicaid health care to adults and children that meet certain enrollment criteria
- Highways – federal funds from federal fuel taxes are provided to the state for certain types of highway construction and other highway-related expenses. The state must match construction funds primarily on an 87% federal/13% state fund basis

Proprietary Funds

Prior to the 1997 biennium, the legislature appropriated all proprietary funds. The 1995 legislature changed statute to allow expenditure of proprietary funds under general laws. The executive must report on all enterprise funds and internal service funds, and the legislature approves a maximum rate that programs funded with internal service funds can charge for their services. Two enterprise funded operations – state lottery and liquor – must receive an appropriation from the legislature, since any fund balances revert to the general fund.

Fiduciary Funds

There are four fiduciary fund types:

- 1) **Private Purpose trust funds** are used to account for trust management under which principal and income benefit individuals, private organizations, or other governments, such as trusts that account for abandoned property assets.
- 2) **The Investment Trust Fund** is used to account for the investment of local government agencies’ funds in the Short-Term Investment Pool. (STIP).
- 3) **Pension and other employee benefits trust funds** include employees’ retirement systems.
- 4) **Agency funds** are used to account for assets held by the state as an agent for individuals, private organizations, other government agencies, and other funds. Examples of agency funds include the investment pool and child support collections.

Here are a few notes on fiduciary fund types:

- Except in extremely limited cases, the legislature does not appropriate fiduciary funds
- The legislature may appropriate interest on some trust funds
- Pension fund payments are made under general laws and contracts
- The legislature does not appropriate agency funds

University Funds

The university system's accounting is structured in accordance with the College and University Business Association (CUBA) structure, which categorizes revenues and expenditures based upon source and use. University funds include six funds.

- 1) The **current fund** is used to fund day-to-day operations. This fund includes the current unrestricted fund, which can be used for any purpose. The current unrestricted fund includes those funds appropriated and/or reviewed by the legislature, as well as tuition revenues.
- 2) The **student loan fund** is money that may be loaned to students or others for university-related activities, such as education and research.
- 3) The **endowment fund** is essentially an expendable trust fund.
- 4) The **annuity and life income fund** includes the pension funds.
- 5) The **plant fund** is used for capital outlay purposes.
- 6) The **agency fund** includes funds for which the university system acts as custodian or fiscal agent.

Permanent Funds

There are two types of non-fiduciary trusts: 1) constitutional trusts; and 2) statutory trusts. Interest from both trusts is appropriated by the legislature. The two primary constitutional trusts are the coal tax trust and the resource indemnity trust. The constitution outlines the circumstances under which the principal of both of these trusts can be expended.

- Coal tax trust principal can be expended with a $\frac{3}{4}$ vote of each house of the legislature
- Resource indemnity trust principal can be spent only when the trust corpus reaches \$100 million, at which time only that portion over \$100 million can be expended

The legislature directly appropriates only the general fund, six-mill levy, and certain federal funds. These funds become university system funds when the Commissioner of Higher Education distributes them to the university units.

While the legislature examines tuition in the context of the overall state support it wishes to provide the university system, these funds do not require an appropriation. Tuition and some fees are deposited to the current unrestricted fund. Other student fees are deposited to other types of funds, depending on source and use.

HOW MUCH OF STATE GOVERNMENT IS FUNDED WITH GENERAL FUND?

General fund represents about 40% of all funds expended. All other appropriated funds consist of state and federal special revenue and a small number of other funds.

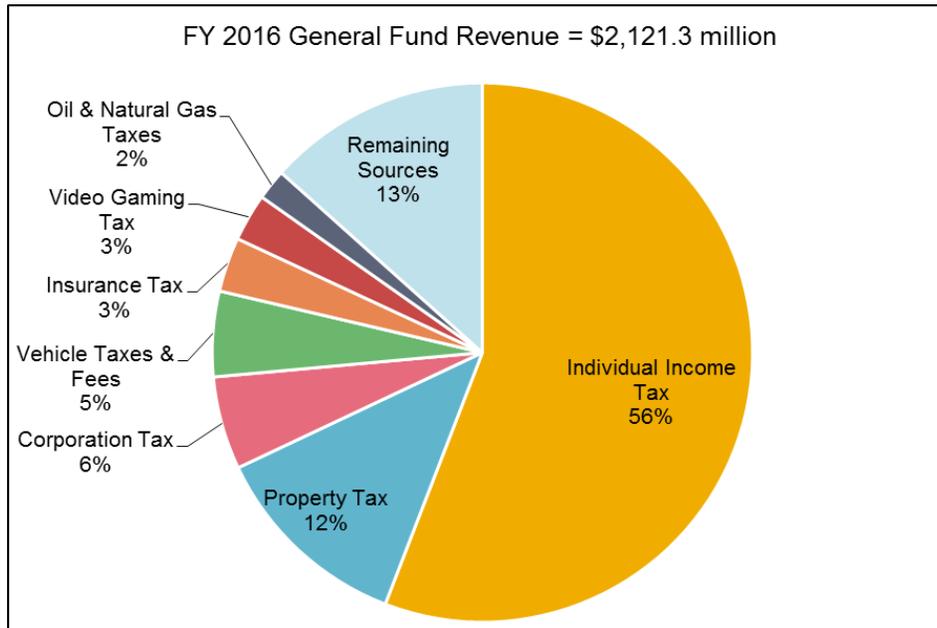
Revenue Sources

As the earlier section on funding indicates, there are several types and many sources of revenue for state government. Besides the general fund, there are numerous state special revenue and federal fund accounts, and many more accounts in other fund types. For these many accounts, the sources of revenue vary with the account. For example, the source for a specific state special account might be license fees. Another might receive a tax dedicated to a specific purpose. A specific federal fund account might receive grant moneys or an allocation of funds for administrative costs of a federally supported program. Many accounts have multiple sources of revenue.

Funding

- General fund is about 40% of total state spending
- Over half of general fund is collected through individual taxes
- Historically, about 90% of total general fund expenditures from authority in HB 2 are for K-12 and higher education, human services, and corrections
- Historically, over half of the total expenditures from authority in HB 2 from all funding sources support human services and transportation

General fund receipts come from many sources. The following chart shows which sources contributed the most dollars to the general fund in fiscal 2016. Individual income tax is the largest source, followed by property tax and corporation tax. While the “all other” category is a large piece of the pie, it represents many smaller sources of general fund revenue.



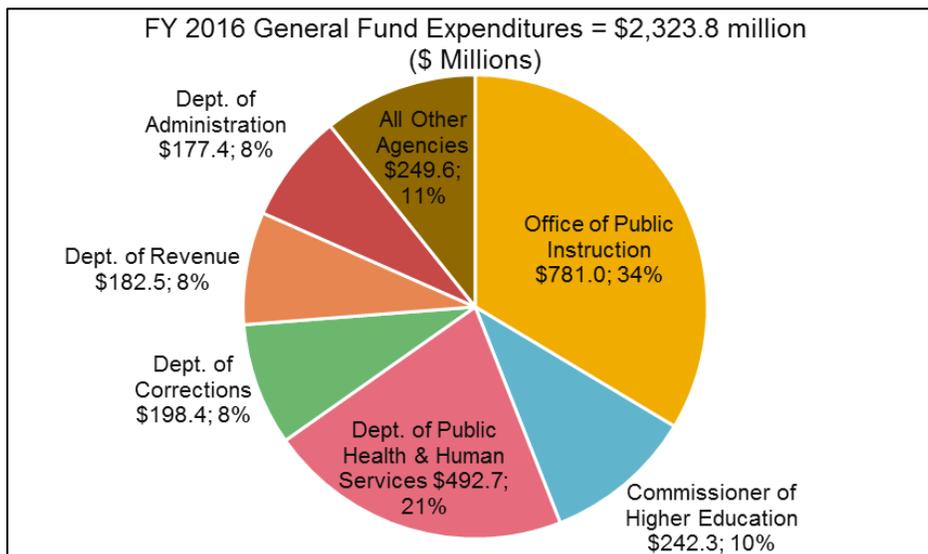
EXPENDITURES

What Process Does the Legislature Use to appropriate Money?

Of the total general fund expenditures, historically about 90% are appropriated in temporary appropriation bills. Of those total temporary appropriations, all but a very small amount (usually 2-5%) is made from appropriations in one bill-HB 2 (the General Appropriations Act)¹

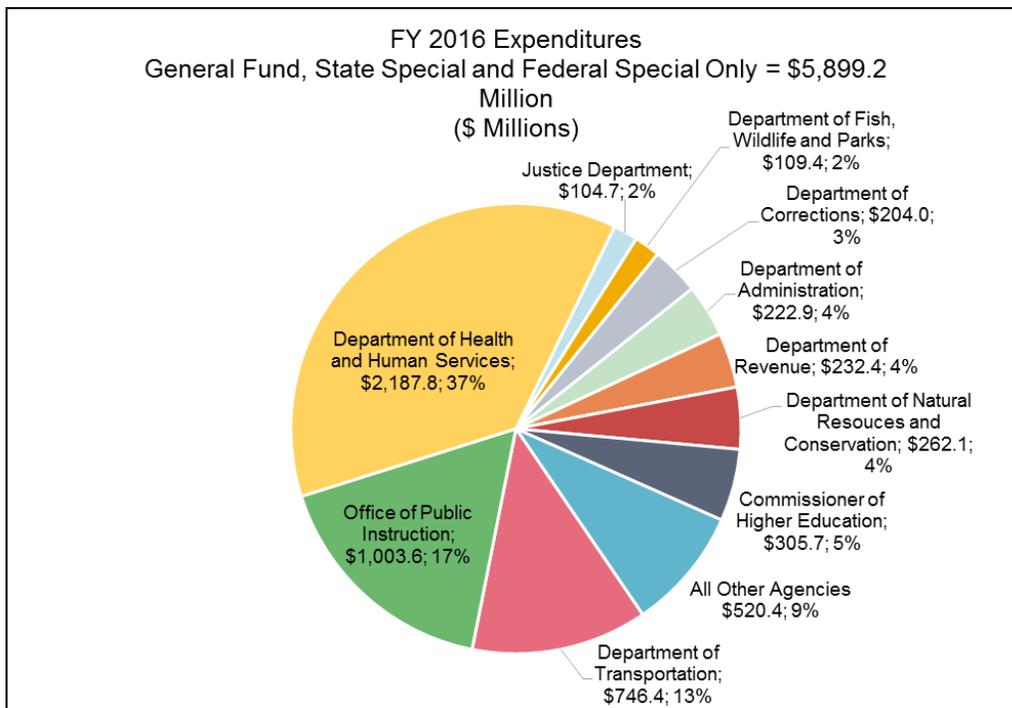
Where Does Montana Spend Its Money?

The following charts show expenditures from HB 2 and the pay plan by area of state government. As shown, most general fund goes to education, human services, and corrections.



¹ The state pay plan is also included in the total.

The following chart shows the three largest funding types appropriated: general fund, state special and federal special revenues. While K-12 is significantly funded with general fund, the federal government pays a significant portion of the overall cost of human services, transportation and environmental programs. In fact, the federal government and state special revenue funds are the exclusive sources of funding for highway-related expenditures, including construction and maintenance.



Budget Busters

The amount of money available to the legislature for discretionary spending fluctuates from biennium to biennium and certain areas of the budget can quickly eat up any level of discretionary funding available sometimes forcing reprioritizations in existing programs. The two areas most likely to cause these fluctuations are K-12 education and human services, particularly Medicaid. Their capacity to “bust the budget” is based upon two factors: 1) the sheer size of these areas means that small fluctuations in costs can result in large sums of money; and 2) both areas are highly influenced by factors beyond the control of the legislature, in particular, the number of students enrolled and the number of persons eligible for payments. (In the case of human services, the state must often follow federal requirements on eligibility and services in order to be eligible for federal cost sharing.) For these reasons, the legislature often has limited options for dealing with cost shifts.

Budget busters can also occur on the revenue side of the equation. For example, revenues more directly react to a downturn in the economy than do expenditures, which can in fact have upward pressures in downturns (such as caseloads). Balancing revenues and expenditures is a major challenge for the legislature every session.

BUDGET BASICS AND REVENUE ESTIMATING

This section of the manual discusses basic budget concepts and describes how budgets are put together, as well as how the legislature estimates revenues for the purpose of balancing the budget.

BUDGET BASICS AND BUDGET DEVELOPMENT AND ANALYSIS

Budgeting Law

Montana's budgeting law is contained in Title 17, chapter 7, of the Montana Code Annotated. At its core, the statute includes the guidelines for:

- The form in which the budget is submitted
- The information it must include
- Due dates

Form of the Budget

Budgets are composed of three parts: 1) the base budget; 2) present law adjustments; and 3) new proposals (see figure on the following page).

Decision Packages

Decision packages are individual changes (either present law adjustments or new proposals) to the base budget. Any change to the base must be requested in decision packages.

Budget Development

- Statute dictates the form, general content, and timetable of the executive budget
- There are three tiers: 1) base budget; 2) present law adjustments; and 3) new proposals
- Any change to the base must be highlighted separately in a "decision package"
- The LFD conducts and publishes an analysis of the executive budget and the general state financial condition prior to the legislative session
- Budget development is a year-long process, with the most intense activity occurring the fall before the session begins

The HB 2 Budget Development and Analysis Process

Several months prior to the convening of the legislature, agencies submit proposed spending increases or decreases to the Office of Budget and Program Planning (OBPP) through the executive planning process (EPP). By August 1, the Governor must send instructions to agencies for completion of budget submission

The Three Budget Building Blocks

1 - For the **Base budget**, historically the legislature generally used adjusted expenditures made during the last fully completed year (the base year) as a starting point for the next biennium's budget. Beginning with the 2017 biennium budget building process, the legislature used the second year of the biennium's adjusted appropriations as a starting point. The **Base budget** includes only ongoing appropriations for consideration. Hence, the budget base differs from total expenditures in a base year. Among the items removed from the base are one-time appropriations.

2 - **Present law** is defined in statute as that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

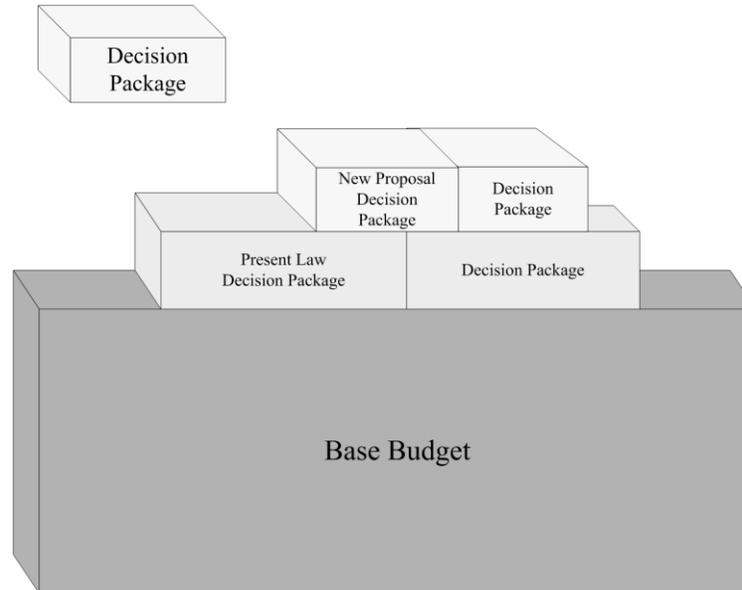
- Changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;

- Changes in funding requirements resulting from constitutional or statutory schedules or formulas; inflationary or deflationary adjustments; and
- The elimination of nonrecurring appropriations

These changes or adjustments are called present law adjustments

3 - **New proposals** are defined in statute as “requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.” Any proposal that is not based upon the existence of constitutional or statutory requirements is a new proposal.

In most agencies, major changes are included in new proposals. However, in other agencies present law adjustments are often the heart of changes in budget and policy issues, such as Corrections, Transportation, and Public Health and Human Services.



Following submission of the agency request, OBPP develops the executive budget, which must be submitted to the Legislative Fiscal Division (and the legislature) in written form by November 15 (the Governor has until December 15 to make changes to this budget). A copy of this budget is made available at this time, in print and on the internet. If a new Governor is taking office, he or she has until January 7 to submit recommended changes to the proposed budget.

Analysis by the Legislative Fiscal Division

The Legislative Fiscal Division conducts a detailed and comprehensive analysis of the executive budget, as well as other fiscal policy issues. The purpose of this analysis is to provide the legislature with an independent, nonpartisan source of information with which to make informed decisions about the executive budget and other revenue and appropriations policies.

This analysis is contained in a *Budget Analysis* document separate from the executive budget. The *Budget Analysis* is presented to the legislature just prior to the start of the legislative session and available on the internet and in written form to agencies and interested members of the public.

Both the executive budget and *Budget Analysis* are presented in the base budget/present law/new proposals format required in statute. The executive budget contains a summary of major present law adjustments and all new proposals for each agency. This budget is designed to convey general policy and total appropriations proposed by the executive. The *Budget Analysis* provides a more detailed explanation and analysis and is designed as a tool for use by the legislature throughout the appropriations process. Increases or decreases in the base budget for any agency are defined and identified in such a way as to allow for direct legislative action.

Budget for Other Sources of Authority

Sources of authority that do not require legislative action each session, such as statutory and non-budgeted transfers, are estimated by the LFD and the OBPP and included in budget operations. New legislation that contains appropriations are included in status sheets throughout session.

General HB 2 Budget Preparation and Submittal Timeline

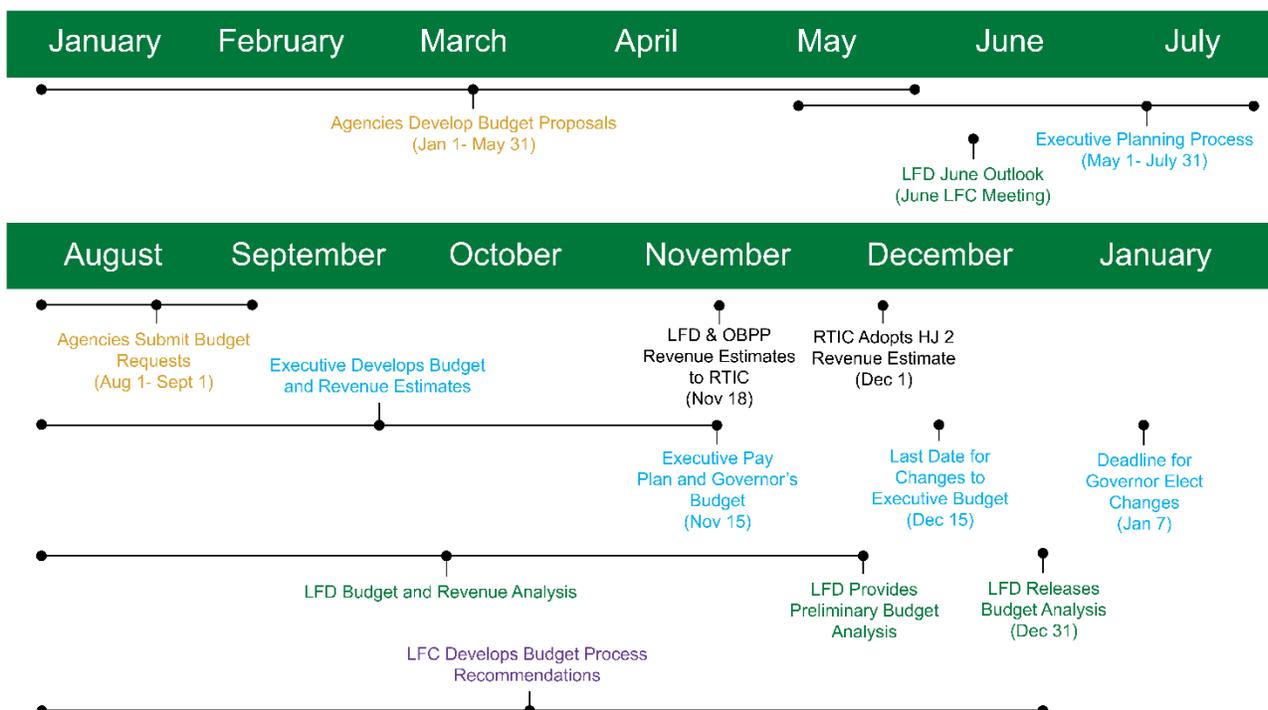
The following chart shows the major tasks and timelines for completion of the budget submission and analysis presented to the legislature. As shown, budget development is a yearlong process, and many tasks must be done concurrently.

What Budget Submission Involves

Statute requires the Governor to include the following in the budget he or she submits to the legislature:

- A summary showing a balance between proposed spending and projected revenues for the last completed fiscal year, the current fiscal year, and the two years of the next biennium (a balanced budget)
- All FTE in the current and subsequent biennium
- Mission and goal statements for each program in each state agency
- The base budget expenditures in the last completed fiscal year, estimated expenditures for the current year, and proposed expenditures for the coming biennium (including present law adjustments and new proposals)
- A statement of recommendations for the next biennium
- A report on enterprise funds and fees and charges in the internal service fund type
- Any other financial or budgetary

SESSION BUDGET PREPARATION TIMELINE



ESTIMATING ANTICIPATED AVAILABLE GENERAL FUND – HJR 2

Legislative Responsibility

As stated earlier, 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 (and other adjustments to the general fund balance) during the legislative session. This revenue estimate is formally adopted in House Joint Resolution 2 (HJR 2).

The Pre-session Process

Prior to the start of the legislative session, the Legislative Fiscal Division and the executive branch build and present independent estimates of general fund collections along with their assumptions as to the value of the underlying economic factors that determine revenue collections. These underlying economic factors include such dynamics as the price of oil, wage and income growth, and interest rates, among others.

Revenue Estimating

- The legislature must estimate general fund (and other major funds) revenues to ensure a balanced budget
- The Revenue and Transportation Interim Committee makes a recommendation in November, which is introduced as HJR 2 and becomes the official estimate until amended by the legislature
- When approved by both houses HJR 2 becomes the official revenue estimate of the legislature and must be used in fiscal note analysis and

Revenue estimating begins at least a full year prior to the legislative session. The final stage of the process begins in earnest in August and concludes in the first half of November.

In November, the Revenue and Transportation Interim Committee (RTIC) of the legislature reviews the economic assumptions and makes a formal recommendation of those assumptions and the resulting general fund estimate for presentation to the legislature. These estimates and assumptions are included in HJR 2, which is introduced at the start of the session. The legislature, and the Governor for the purpose of fiscal notes, are required to use these estimates until they are amended or approved by the legislature.

The Legislative Session

HJR 2 follows a path similar to other resolutions. It is heard by the House Taxation Committee before proceeding to the full House and then to the Senate. The resolution can be refined and amended throughout this process.

Once the resolution has passed both houses, it is signed by the Speaker of the House and the President of the Senate. As a joint resolution, it does not require the signature of the Governor. The legislature must use the revenue estimates included in HJR 2 when determining if the budget is balanced.

Revenue Volatility

Revenue estimating is a complex process that depends upon a number of educated assumptions that must be made well in advance of actual events. The Legislative Fiscal Division explains in, [Montana's Financial Volatility](#), that state tax revenue has become more volatile for many states since 2000. The report provides reasons for revenue volatility and summarizes best practices for financial strategies to address the volatility of state government finances.

THE BUDGET AND APPROPRIATION PROCESS

This section discusses how the budgeting and appropriations process works in Montana and applies the basic terms and concepts discussed in the first section of the manual.

Assignment of Appropriations Bills

The principal appropriation committees of the legislature are:

- 1) The House Appropriations Committee; and
- 2) The Senate Finance and Claims Committee.

Appropriations bills must originate in the House of Representatives (the House). These bills and other bills with major fiscal impact are assigned to the Appropriations Committee for review and recommendation to the full House. Appropriations bills can be transmitted to the Senate from the House no later than the 67th day, as opposed to the 45th day for most other bills. After transmittal, appropriations bills are assigned to Senate Finance and Claims for review and recommendation to the full Senate. (While appropriations bills must originate in the House, the House may amend appropriations onto transmitted Senate bills.)

Types of Temporary Appropriations Bills

Temporary appropriations bills are the vehicles by which the legislature provides funding for most functions in state government (see the “Key Terms and Concepts” sections for background information). Temporary appropriations bills can be classified in three categories: 1) HB 2; 2) long-range planning bills; and 3) other appropriations (frequently referred to as cat and dog) bills.

- **HB 2** – funds the majority of the functions of state government. As such, it is large and complex, containing individual appropriations for each program in state government, as well as any language placing conditions on the appropriation. Due to its size and complexity, joint subcommittees of the House Appropriations and Senate Finance and Claims Committees conduct hearings and make recommendations on HB 2 prior to House Appropriations Committee hearings and action. A continually updated narrative written by LFD staff accompanies HB 2 throughout the process to provide information on the contents of the bill.
- **Long-Range Planning Bills** – Bills addressing Montana’s long-term capital requirements, the payment for which may be through either cash or the acquisition of debt, are written and reviewed separately from HB 2. The following lists the major long-range planning bills reviewed during each legislative session and their traditional bill numbers (these may be changed in a session). Other capital asset bills may be heard as well, depending upon current issues and legislative interest.
- **HB 5 and HB 14** contain the cash and bonding authorizations (respectively) for the long-range building program. Specific projects are approved and funded through these bills
- **HB 6 and HB 8** are the bills that fund the state’s renewable resource grants and loans, the purpose of which is to fund projects that promote the “conservation, development, management, and preservation of water and other renewable resources”. The grants and loans are funded with Resource Indemnity Trust (RIT) funds
- **HB 7** funds the RIT Reclamation and Development Grant Program. These grants are used to address environmental damage due to nonrenewable resource extraction, and to develop and ensure the quality of public resources
- **HB 9** funds cultural and aesthetic grants for protection of works of art in the State Capitol and other cultural and aesthetic projects. The grants are primarily funded through coal severance tax revenues
- **HB 10** funds information technology capital projects. Specific projects are approved and funded in the bill

- **HB 11** includes authorizations from the state’s Treasure State Endowment Program (TSEP), which is an infrastructure-financing program funded from the coal tax trust
- **HB 15** funds the Quality Schools Facility Grant Program administered by the Department of Commerce, which provides competitive grant funding for infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana

Other Appropriation Bills – commonly called “Cat and Dog Bills”

This designation includes any other bill with a valid appropriation included in the body of the bill. Other appropriation bills expend funds in the next biennium. However, in addition to those bills, there are three other appropriation bills that appropriate money in the current fiscal year, as opposed to the next biennium.

- HB 1 contains all appropriations needed to operate the legislative session and certain interim costs and includes provisions for session staff and printing costs
- HB 3 contains all requests for additional general fund and state special revenue money in the current year to address anticipated shortfalls
- HB 4 includes appropriations for federal funds (and limited state special revenue and other funds) received by an agency but for which it doesn’t have spending authority

APPROPRIATIONS PROCESS

The following discusses the process through which temporary appropriations bills are reviewed and acted upon by the legislature. Please note that the process for HB 2 and all long-range planning bills is the same. This section includes a discussion of HB 2 only.

House Bill 2

The legislative session stage of the appropriations process begins with the introduction of HB 2, the bill in which the bulk of funding for state government operations is contained. At the introductory stage, the bill is the proposed executive budget. The bill is assigned to the House Appropriations Committee.

Subcommittee Review

The complexity and size of HB 2 necessitates that sections of the bill are assigned to various joint subcommittees of the Appropriations Committee. Subcommittees are composed of members of the Appropriations and Finance and Claims committees. These subcommittees are:

- General Government
- Health and Human Services
- Natural Resources and Transportation
- Judicial Branch, Law Enforcement, and Justice
- Education
- Long-Range Planning

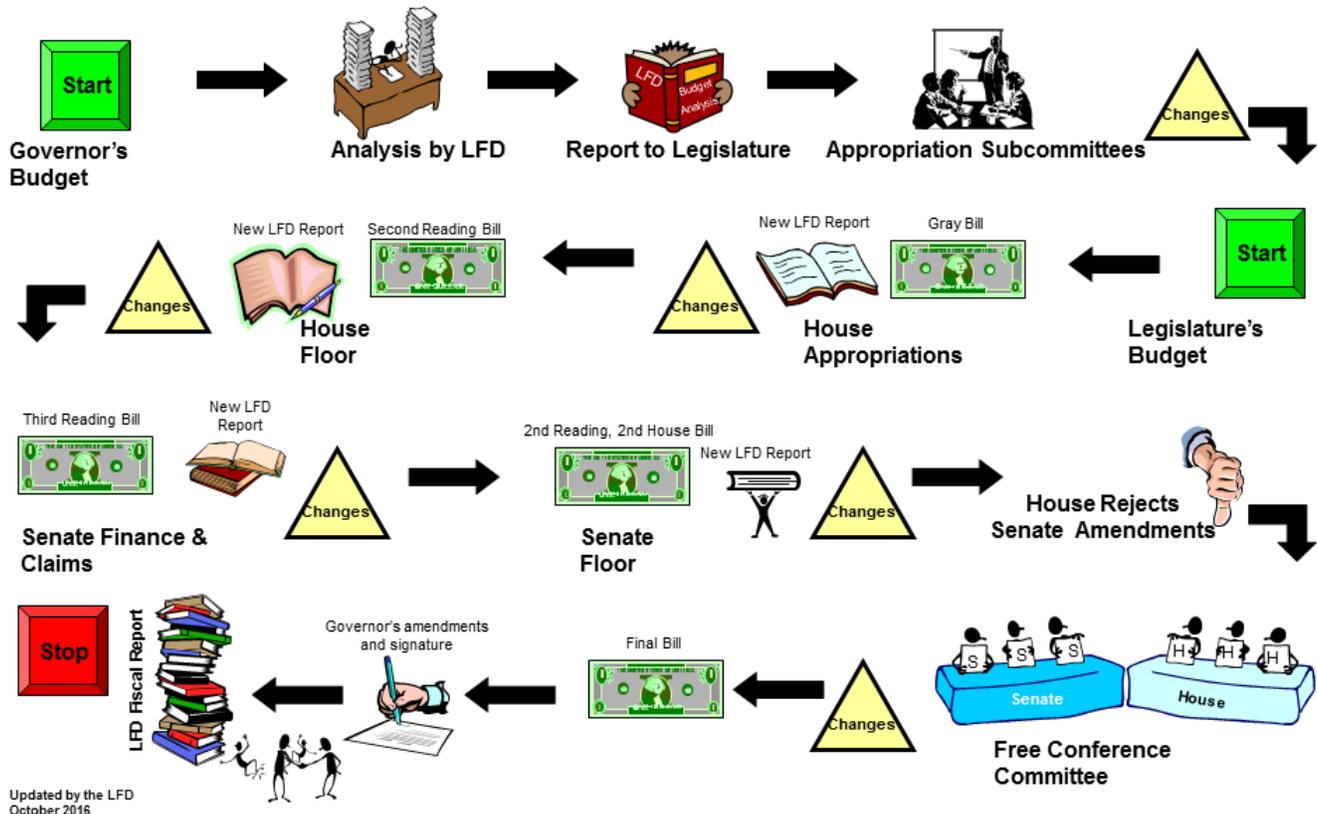
The chair of each committee is a member of the House majority party. The vice-chair is a member of the Senate majority party. Analysts from the Legislative Fiscal Division staff each subcommittee. Analysts from the Office of Budget and Program Planning represent the Governor at all meetings.

House Appropriations Committee Review

Following subcommittee review, the subcommittees report to the Appropriations Committee with their recommendations. The Appropriations Committee combines the separate subcommittee recommendations into a comprehensive appropriations bill.

The House Bill 2 Appropriation Process

Article VIII, Section 14, Montana Constitution: *Prohibited payments. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof.*



Committee Study

To assist in this process, the Legislative Fiscal Division produces a committee study bill and an appropriations report - [HB 2 Narrative](#). The committee study bill reflects subcommittee action and is produced strictly to help provide clarity in terms of the subcommittee's recommendations and to make writing and following introduced amendments easier. It is neither the first nor the second reading of the bill. The narrative is a written report explaining the recommendations and major policy decisions of the appropriations subcommittees.

The Appropriations Committee hears specific appeals from agencies concerning subcommittee action, compares subcommittee recommendations to projected revenues, and considers amendments to subcommittee recommendations from committee members. The committee substitutes its bill for the bill embodying the executive budget and moves the bill to the full House for debate. This process commences shortly after the 45th day and generally takes 3 to 5 days.

The Appropriations Committee is the first stage in the process in which true amendments to the bill are heard. Prior to this time, subcommittees use the Legislative Fiscal Division *Budget Analysis* as the working document. During the House Appropriations stage and at all times thereafter, committees will use the actual copy of the bill, and draft and act on amendments to that bill

Legislative Fiscal Division staff then produces the second written copy of the bill and updates the HB 2 Narrative for presentation to all members of the House.

House Floor

Prior to introduction of the bill on the floor, Legislative Fiscal Division staff drafts amendments at the request of House members. Floor debate in the House generally requires at least one entire legislative day, and can take several days. The chair of the Appropriations Committee introduces the bill and subcommittee chairs summarize each section. Legislative Fiscal Division staff are on the floor to assist subcommittee chairs. Staff are also present to assist any legislators who may have questions or wish to introduce additional amendments.

Senate Finance and Claims

The Finance and Claims Committee generally takes several days to review the bill. Each subcommittee chair summarizes major policy issues within each section. The committee generates a series of amendments that provide the basis for much of the debate on the Senate Floor. Agency input is generally confined to specific appeals from House action, and to answering committee questions.

Senate Floor

Prior to Senate Floor action, Legislative Fiscal Division staff draft amendments to the bill as requested by members. On the Senate Floor, the subcommittee vice-chairs summarize each section of the bill. Legislative Fiscal Division staff are again present on the floor to assist vice-chairs, as well as any members who may have questions or who wish to introduce amendments. Debate on the Senate Floor generally focuses on amendments generated by the Finance and Claims Committee, a process that has traditionally taken one day to complete.

Conference Committee

After 3rd reading passes in the Senate, HB 2 returns to the House for approval or the Senate amendments. If the House rejects the Senate's amendments, the bill goes to conference committee. The conference committee is traditionally a free conference committee to allow amendments to any item in the bill. In addition, the free conference committee may recommend amending the appropriations bill to conform to other legislation that carries an estimated fiscal impact but does not carry appropriations. The conference committee reports to the full legislature. Each house then rejects or approves the bill.

The Governor has full, line-item, and amendatory veto power over the bill. The Governor can reject or sign the bill in total, remove specific line items, or propose amendments to the bill. The legislature must vote on any proposed amendments. If the legislature rejects the amendments, the Governor must sign or veto the bill.

If A Legislator Wants To Get Involved, But Is Not a Subcommittee Member

The bulk of the review of HB 2 takes place at the subcommittee level. Therefore, it is during the subcommittee process that legislators who are not members of the subcommittee, but have an interest in any portion of the budget, may want to participate. The subcommittees review information presented in the executive budget and in the Legislative Fiscal Division Budget Analysis of the executive budget and hear testimony from the agencies and the public. The subcommittee then finalizes all recommendations for report to the House Appropriations Committee. This process generally takes between 6 and 8 weeks and is concluded before the 45th legislative day.

Prior to the beginning of the legislative session, Legislative Fiscal Division staff drafts a calendar of subcommittee action for review and approval by the subcommittee chair. This schedule is available through the Legislative Fiscal Division and over the Internet. The schedule details when certain programs and agencies will be heard in the subcommittee and offers preliminary dates of executive action. Legislators should consult the calendar to determine when agencies or programs in which they are interested are being heard. As the calendar changes to meet changing circumstances, the calendar should be consulted regularly and often for updates. You can also directly contact Legislative Fiscal Division staff assigned to the subcommittees for additional information.

Other Appropriation Bills

Other appropriations bills are reviewed in the same manner as bills without appropriations. They are usually referred to the House Appropriations Committee and are generally not referred to a subcommittee for prior review. The deadline for transmittal of appropriation bills to the second house is the 67th, rather than the 45th day (for non-appropriation bills) of the legislative session.

EXAMPLE OF A TYPICAL APPROPRIATIONS SCHEDULE

Legislative Days

- 1-6 HB 1 (*Feed Bill*) - Prepared by the Legislative Services Division. There will be hearings in both the House Appropriations and Senate Finance committees.
- 2-43 *Subcommittee Hearings* on HB 2 - Subcommittees meet 3 to 4 hours, 5 days a week.
- 50-55 *Subcommittees Report HAC Action on HB 2* -- On successive days, the five subcommittees present their reports to the House Appropriations Committee (HAC).
- 56-61 *Preparation of Bill and Narrative* -- The LFD staff takes the action of the full Appropriations Committee and incorporates it into the original draft. The HAC version of the bill is a clean second reading copy that is completely substituted for the bill entered originally.
- The LFD staff also updates the subcommittee HB 2 Narrative so that it is consistent with the full committee actions. The updated narrative, along with the bill, is distributed a day or two prior to the scheduled debate in the full House.
- Long-Range Planning Subcommittee* -- HAC completes action and reports all long-range planning bills to the floor.
- 64-65 *Appropriations Bill Second Reading* -The bill is debated in sections. Legislative Fiscal Division staff update the HB 2 Narrative following House action.
- 65- *House Third Reading of Appropriations Bill.*
- 66-76 *Senate Finance HB 2*—On successive days, the committee takes action on HB 2, by section. Staff updates the HB 2 Narrative to reflect committee action.
- 79 *Senate Floor Debate on Appropriations Bill.*
- 80 *Senate Third Reading on Appropriations Bill.*
- 80 Senate returns appropriations bill to the House.
- 81-89 Free conference committee on long-range planning and major appropriations bills.

AGENCY SUBCOMMITTEE GROUPING

GENERAL GOVERNMENT (Section A)

Legislative Branch
Consumer Counsel
Governor's Office
Commissioner of Political Practices
State Auditor's Office
Secretary of State
Revenue
Administration
Labor and Industry
Military Affairs
Commerce

HEALTH AND HUMAN SERVICES (Section B)

Public Health and Human Services

NATURAL RESOURCES AND TRANSPORTATION (Section C)

Fish, Wildlife, and Parks
Environmental Quality
Livestock
Natural Resources and Conservation
Agriculture
Transportation

JUDICIAL BRANCH, LAW ENFORCEMENT, AND JUSTICE (Section D)

Board of Crime Control
Justice
Public Service Regulation
Corrections
Judiciary

EDUCATION (Section E)

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Montana Arts Council
State Library Commission
Montana Historical Society
Montana University System
Commissioner of Higher Education
Six University Units
Colleges of Technology
Community Colleges
Agricultural Experiment Station
Cooperative Extension Service
Forestry and Conservation
Experiment Station
Bureau of Mines
Fire Services Training School

LONG-RANGE PLANNING (Section F)

Long-Range Building Program
Treasure State Endowment Program
State Building Energy Conservation
Renewable Resource Grant and
Loan Program
Reclamation and Development
Grant Program
Cultural and Aesthetic Grant Program
Quality Schools Facilities Program
Long-Range Information Technology
Program

OTHER LEGISLATION WITH FISCAL IMPACTS

The previous section discussed HB 2 and bills containing other temporary appropriations. This section discusses bills with fiscal impact that do not contain temporary appropriations, explains fiscal notes and statutory appropriations.

BILLS WITH FISCAL IMPACT AND FISCAL NOTES

Fiscal Notes

Section 5-4-201 of the Montana Code Annotated states that "...bills reported out of a committee of the legislature having an effect on the revenues, expenditures, or fiscal liability of the state or of a county or municipality, except appropriation measures carrying specific dollar amounts, shall include a fiscal note incorporating an estimate of such effect."

A fiscal note contains estimates of anticipated financial impacts generated by passage of the bill. If amendments significantly change the bill, an updated fiscal note may be requested. Bills with a fiscal impact differ from other appropriation bills in that they do not include appropriations. (Note: On rare occasions, an appropriations bill will also carry a fiscal note.)

Reviewing a Fiscal Note

You might wish to consult with the budget director over a fiscal note written for your bill. There are a number of questions you might want to ask when reviewing a fiscal note, including but not limited to the following.

- Do the assumptions appear reasonable?
- Is the cited funding source appropriate?
- Does the fiscal note appear to address all the factors you intended in the bill?
- Is it overlooking any factors that could impact the assumptions?
- Are there changes to the bill to consider that might maintain its integrity and yet reduce the financial impacts?

How are fiscal notes used?

The fiscal note accompanies the bill through the deliberation process. The financial impact if the proposed bill is passed may be used by legislators to determine whether the bill should or should not pass in its current form.

If a bill is shown to have expenditure impacts, it is up to the legislature to decide whether any funds will be added to or removed from the agency's appropriation in HB 2. The legislature is usually asked to make this decision during HB 2 free conference committee deliberations at the end of the legislative session. If funds are not added, the agency must still follow the law, but must do so within existing appropriations.

Fiscal Impacts

- Bills with a fiscal impact (revenues or expenditures) must have an attached note detailing those impacts
- Fiscal notes are written by the Governor's Office of Budget and Program Planning with assistance from state agencies
- Statute details required elements, including content and timelines
- A requestor can either sign the note to signify acceptance, not sign, request additional time for review, or create a fiscal note rebuttal if you disagree
- There are statutory guidelines that should be consulted when considering bills that add state special revenue accounts or statutory appropriations

If the bill has an anticipated revenue impact, the legislature must take this impact into consideration when estimating revenues, in order to provide a balanced budget as required by the Constitution.

Who May Request a Fiscal Note?

Fiscal notes may be requested by certain parties, including:

- The presiding officer of each house, who determines the need for the fiscal note when the bill is introduced
- A committee considering the bill (with the approval by the presiding officer)
- A majority of the members of the house where the bill is receiving a second reading; or
- The bill sponsor, through the presiding officer

Who Writes Fiscal Notes?

The Governor's Office of Budget and Program Planning (OBPP) writes all fiscal notes. They perform this function with the assistance of the agencies affected by the proposed legislation.

The budget director, who signs all fiscal notes, must complete the fiscal note within six days, although additional time may be requested.

What Do Fiscal Notes Contain?

Fiscal notes must contain, if possible, in dollar amounts:

- The estimated increase or decrease in revenues or expenditures
- Costs that can be absorbed without additional funds
- Long-range financial implications

Any bill that carries a financial impact to local government or school districts must be accompanied by an estimate of those impacts. If the bill proposes to dedicate revenue or create or amend a statutory appropriation the note must include the result of a review by the budget director.

What if you disagree?

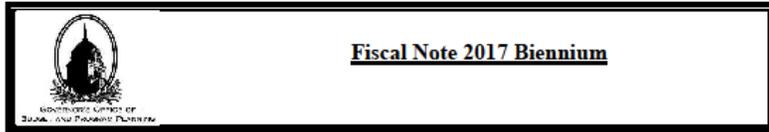
If you feel a fiscal note is unfair or incorrect, you can challenge the findings of the budget director. There are a couple of options available to you if this occurs.

- Request time to consult with the budget director
- Create a sponsor's fiscal note rebuttal, which accompanies the legislation throughout the deliberation process. If you would like assistance writing the rebuttal, please contact the Legislative Fiscal Division
- Leaving the fiscal note unsigned sends a message that you are not completely satisfied

Remember that you have only 24 hours to convey concurrence, request additional time to consult with the budget director, or elect to prepare a rebuttal.

Fiscal Note Example

An example of a fiscal note begins on the next page and is followed by the fiscal note rebuttal form.



Fiscal Note 2017 Biennium

| | | | |
|------------------|---------------------|---------|-----------------|
| Bill # | SB0150 | Title: | Revise USB laws |
| Primary Sponsor: | Windy Boy, Jonathan | Status: | As Introduced |

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

| FISCAL SUMMARY | | | | |
|---|------------|------------|------------|------------|
| | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
| | Difference | Difference | Difference | Difference |
| Expenditures: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| Other | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| Revenue: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| Other | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| Net Impact-General Fund Balance: | \$0 | \$0 | \$0 | \$0 |

Description of fiscal impact: SB 150 increases a public utility's minimum annual funding requirement for low-income energy and weatherization assistance from 17% to 50% of the public utility's annual electric universal system benefits (USB) level. If donated to the department, it would allow for weatherization of approximately 121 low-income homes.

FISCAL ANALYSIS

Assumptions:

Department of Public Health and Human Services

- NorthWestern Energy is the only utility affected by this bill as Montana Dakota Utilities already exceeds the percentages for low-income weatherization and energy assistance as increased.
- The utility company has discretion to direct USB funds to eligible activities. NorthWestern Energy currently provides 40.9% of electric USB funds for low-income activities. Passage of the bill will result in a 9.1% increase or \$863,221 based on the 2013 NorthWestern Energy Electrical Universal System Benefits Activities, 2009-2013 report.
- Assuming these funds are donated to the state for weatherization, 121 additional homes would be weatherized. Weatherization with USB funds follows the US Department of Energy (DOE) rules and the DOE 2015 adjusted average expenditure per home weatherized is \$7,105.

SB0150.01
1/23/2015

Page 1 of 2

Fiscal Note Request – As Introduced

(continued)

- Donated funds are received into a non-budgeted fund type and are shown as "other" in this fiscal note.

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 |
|---------------------------------|------------------|------------------|------------------|------------------|
| | Difference | Difference | Difference | Difference |
| Fiscal Impact: | | | | |
| Expenditures: | | | | |
| Benefits/Claims | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| TOTAL Expenditures | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| Funding of Expenditures: | | | | |
| Other | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| TOTAL Funding of Exp. | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| Revenues: | | | | |
| Other | \$863,221 | \$863,221 | \$863,221 | \$863,221 |
| TOTAL Revenues | \$863,221 | \$863,221 | \$863,221 | \$863,221 |

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

| | | | | |
|-------|-----|-----|-----|-----|
| Other | \$0 | \$0 | \$0 | \$0 |
|-------|-----|-----|-----|-----|

Technical Notes:

- The utility company has complete discretion on how they elect to use the funds. If the company chose to use the funds differently, less funding or no funding may be passed through to the state and the fiscal impact would be adjusted accordingly.

 Sponsor's Initials Date Budget Director's Initials Date

SB0150.01
1/23/2015

Page 2 of 2

SPONSOR'S REBUTTAL TO FISCAL NOTE

Bill Number:

Date Prepared:

Short Title:

Sponsor:

Fiscal Note Version and Date:

Generally, why do you disagree with the fiscal note?

Specifically, what in the fiscal note do you feel is flawed?

[Describe specific assumptions, calculations, technical issues, etc.]

What is your estimate of the fiscal impact?

Creating a Bill with a Statutory Appropriation

You may request – or be asked to support – legislation that includes a statutory appropriation. Statutory appropriations ensure that a certain level or source of funding is always available to support the operation the bill addresses.

As previously stated, the legislature does not review all statutory appropriations regularly in order to determine either whether the function should continue and/or that the level or method of funding remains appropriate. Since the legislature does not provide regular, periodic review of statutory appropriations, guidelines were established in statute addressing the circumstances under which statutory appropriations are most appropriate.

When crafting or reviewing legislation, you should consult these statutory guidelines. While they do not prohibit the creation of statutory appropriations that fall outside the parameters, they do provide a means for determining whether or not a statutory appropriation follows the general philosophy of the legislature and whether it demonstrates appropriate legislative review and control.

The following guidelines are contained in Section 17-1-508 of the Montana Code Annotated (MCA). As shown, statute recommends that all of the guidelines be met.

“(2)... A statutory appropriation may be considered appropriate if:

- a) the fund or use requires an appropriation;
- b) the money is not from a continuing, reliable, and estimable source;
- c) the use of the appropriation or the expenditure occurrence is not predictable and reliable;
- d) the authority does not exist elsewhere;
- e) an alternative appropriation method is not available, practical, or effective;
- f) other than for emergency purposes, it does not appropriate money from the state general fund;
- g) the money is dedicated for a specific use;
- h) the legislature wishes the activity to be funded on a continual basis; and [emphasis added]
- i) when feasible, an expenditure cap and sunset date are included.”

Note: If you are unsure or want some general advice, a [statutory appropriations guide](#) has been developed by the Legislative Fiscal Division to assist you.

Creating a Bill with a State Special Revenue Account

In some instances, legislators may request or be asked to support a bill that establishes and/or provides an appropriation from a state special revenue account. State special revenue accounts preclude the use of certain revenues for other purposes and they may receive a lower level of scrutiny, so the legislature established certain “principles of revenue dedication” in statute. While the principles do not prohibit the establishment of any state special revenue accounts or associated appropriations, it may be desirable to consult the principles for clarification of general legislative philosophy and policy, thus helping ensure that any action taken is consistent with statutorily expressed policy. The principles are contained in Section 17-1-507, MCA;

“(1) It is the policy of the legislature that a revenue source not be dedicated for a specific purpose unless one or more of the following conditions are met:

- a) The person or entity paying the tax, fee, or assessment is the direct beneficiary of the specific activity that is funded by the tax, fee, or assessment; the entire cost of the activity is paid by the beneficiary; and the tax, fee, or assessment paid is commensurate with the cost of the activity, including reasonable administrative costs.
- b) There is an expectation that funds donated by a person or entity will be used for a specified purpose. Grants from private or public entities are considered donations under this subsection.
- c) There is a legal basis for the revenue dedication. A legal basis is a constitutional mandate, federal mandate, or statutory requirement in which a source of funds is designated for a specific purpose.

- d) There is a recognized need for accountability through a separation of funding from the general fund consistent with generally accepted accounting principles.
- (2) The total funding for a program is a legislative budget and policy issue for which a dedicated revenue provision may not be justified if:
- a) a general fund appropriation is needed to supplement the dedicated revenue support for the program or activity; or
 - b) dedicating a revenue source or portion of a revenue source diverts funds that could be considered a general revenue source.”

Note: If you have any questions about the principles and how they might apply to specific legislation, please visit the Legislative Fiscal Division and we will be happy to assist you.

POST SESSION AND INTERIM ACTIVITIES

The purpose of this section is to provide information about what happens to budgets and appropriations after the legislature leaves and the circumstances under which they can be adjusted.

THE INTERIM – WHILE THE LEGISLATURE IS AWAY

Since the legislature is only in session for a portion of the biennium and state government entities are dynamic, the legislature has provided a means for addressing issues that may arise during the interim between sessions.

There are four overarching realities that dictate the expenditure of funds:

- 1) The Montana Constitution (and Montana statute) requires strict accountability of all funds received and money spent by the state and by counties, cities, towns, and all other local governmental entities. (Article VIII, Section 12; Title 17, Montana Code Annotated)
- 2) Montana's Constitution prohibits expenditures in excess of revenues and prohibits the use of debt under those circumstances
- 3) Only the legislature can increase an agency's general fund appropriation over the biennium
- 4) Agencies cannot, under any circumstances, overspend their appropriations-either appropriation authority must be increased or expenditures must be reduced

OPERATING PLANS AND CHANGES TO THE PLAN

After the legislative session, agencies must establish an operating plan in the state accounting system. This is a financial outline detailing how the program expects to expend the appropriation provided by the legislature. The initial operating plan must be an exact reflection of the appropriation authorized by the legislature.

Can Operating Plans Be Changed During the Year?

As long as the legislature has not restricted any of the appropriations, agencies are allowed to change their operating plans throughout the year in order to meet changing circumstances. This adjustment can be done by use of two primary means. Each is discussed below, with a discussion of legislative oversight of those changes.

Program transfers and operating plan changes

Agencies can move funds between programs and among categories of expenditures within programs. These changes are offsetting, either between programs or types of expenditures, and do not add any overall authority to the agency.

Legislative Oversight – Statute doesn't put any limit on the size or number of changes, although the "approving authority" (defined in 17-7-102, MCA) must approve all program transfers and operating plan changes. If the change is significant enough to signal a potential change in policy from the legislative

Post Session and Interim

- Changes can be made in the way agencies spend money during the interim
- Appropriation authority can be added under strictly controlled circumstances. No general fund can be added without the approval of the full legislature
- The Governor must order agencies to reduce spending if the projected ending fund balance falls below a statutory trigger point
- The Governor and other approving authorities can transfer funds (including general fund) from the second year of the biennium to the first to cover shortfalls in appropriation authority
- Legislative oversight through the Legislative Finance Committee

appropriation (this criteria is defined in statute), it must be reviewed by the Legislative Finance Committee prior to enactment.

Budget amendments.

Agencies can add new federal funds (and state special revenue funds in an emergency) if the funds could not have been anticipated by the legislature and do not make any present or future commitment of general fund. Budget amendments represent an increase in the overall authority available to an agency.

Legislative Oversight – Budget amendments cannot be added without the approval of the agency's approving authority. Statute is very specific as to the circumstances under which authority to spend money can be added via budget amendment. The approving authority must certify that the statutory criteria have been met, though statute does not require legislative review prior to approval. Legislative Fiscal Division staff reviews budget amendments prior to approval and reports on those budget amendments to the Legislative Finance Committee.

WHAT HAPPENS IF REVENUES ARE LESS THAN ANTICIPATED AND/OR EXPENDITURES ARE HIGHER?

Circumstances can result in major fiscal difficulties during the interim, either on a statewide or individual agency basis:

- 1) A reduction in revenue or an increase in expenditures (such as an increase in prison population) can result in an imbalance between revenues and expenditures, with insufficient revenues to fund all appropriations given by the legislature.
- 2) Within an individual agency, anticipated or known general fund expenditures can be more than the amount of appropriation authority granted by the legislature.

The legislature has provided certain means for dealing with these circumstances.

Imbalance of Revenues and Expenditures

If a general fund deficit is projected during the interim, statute ([17-7-140, MCA](#)) requires the Governor to order agencies to reduce expenditures. (The Governor cannot reduce general fund appropriations, which is a power granted exclusively to the legislature by the Montana Constitution.) There are a number of caveats on this provision:

- The projected imbalance must meet a statutory trigger point, and the budget director must seek the advice of the Revenue and Transportation Committee regarding revised revenue estimates
- The reduction can be no more than 10% from any program
- The Governor cannot order a reduction in spending for certain functions, such as K-12 BASE aid, state debt, or salaries of elected officials. Nor can the Governor order the Legislative Branch or the Judiciary to reduce expenditures

If these measures are insufficient, the legislature must meet in special session to raise revenues and/or reduce appropriations.

Legislative Oversight – All recommended reductions in spending must be reviewed by the Legislative Fiscal Analyst. The Legislative Finance Committee must meet within 20 days of the date of the proposed reductions and can make recommendations on those reductions to the Governor.

Insufficient Authority to Meet Expenditure Requirements

In the first year of the biennium, if an agency anticipates general fund expenditures will exceed its general fund appropriation, it can request that the Governor (or appropriate approving authority) move general fund from the second year's appropriation into the first year through a supplemental appropriation

(appropriation transfer). Statute ([17-7-301, MCA](#)) requires that: 1) the circumstances be an unforeseen and unanticipated emergency; and 2) the agency submit a plan on how it will operate in the second year within the reduced appropriation available after the transfer. So the transfer is not an increase in the overall general fund appropriation for the biennium, but a shift in appropriation authority from the second year to the first.

Legislative Oversight – The Legislative Fiscal Analyst reviews proposed supplemental appropriations. Before the Governor or other approving authority can approve the transfer of general fund from the second year to the first, the Legislative Finance Committee must review the supplemental appropriation. The committee can choose to report to the approving authority on whether it believes statutory requirements have been met, or it can choose not to report. If the committee chooses not to report, the approving authority must wait 90 days before it can approve the transfer.

If the agency anticipates spending more in the second year than is available through appropriation, it must request additional authority from the legislature during the legislative session.

Budget Publications

The following financial and budgeting publications are available to legislators:

- Governor's Executive Budget
- Legislative Budget Analysis
- Legislative Fiscal Division General Fund Status Sheet
- Legislative Fiscal Division HB 2 Narrative
- Legislative Fiscal Report

GOVERNOR'S EXECUTIVE BUDGET

Produced by: Office of Budget and Program Planning (OBPP)

Available: Mid November

Where: Copies are mailed to all legislators and are available from the Governor's Office

On the Internet: <https://budget.mt.gov/Budgets>

The Governor is responsible for submitting a proposed budget to the legislature for consideration prior to the start of the legislative session. The budget is composed of several volumes, reflecting certain statutory requirements. The primary components of this budget are included in the first volume, but this document consists of:

- 1) An overview that summarizes the executive budget and highlights certain budgetary issues; and
- 2) A summary of the proposed budget for each program within each agency, including the Long-Range Building Program, and proposed rates and related justification for all proprietary funded programs. The executive budget narrative highlights major changes proposed to the budget and provides program and agency descriptions, program indicators, organization charts, and in-depth discussion of selected issues. The narrative for each program and agency includes a summary table showing the base budget, along with proposed present law adjustments and new proposals. This table is duplicated in the LFD Budget Analysis and is discussed and analyzed in more detail in that section.

LEGISLATIVE BUDGET ANALYSIS

Produced by: Legislative Fiscal Division (LFD)

Available: All sections are available prior to the start of the legislative session.

Where: Volume 1 Statewide Perspectives is available to all legislators during legislator budget training, all other volumes are available online. Copies are available to purchase for the general public through legislative distribution.

On the Internet: <http://leg.mt.gov/css/fiscal/publications.asp>

This document is produced to aid the legislature in setting its fiscal priorities and reflecting those priorities in the general appropriations act and other fiscal legislation. It does this by providing an objective analysis of the executive budget and the state's fiscal picture. The *Budget Analysis* deals with a number of subjects and serves several purposes.

Highlights include:

- A summary of the state's financial picture as it enters the legislative session
- A summary and analysis of the executive's overall budget proposal
- A discussion and analysis of statewide fiscal issues of importance, whether proposed by the executive or not
- A detailed listing and explanation of present law and new proposal adjustments proposed by the executive, by agency and program; and

- A discussion of issues and comments on the executive's budget proposal for each agency and other fiscal issues of importance within those agencies

The *Budget Analysis* consists of three documents, each having a number of sections and purposes. Each document is discussed below.

- 1) The *Legislative Budget Analysis Overview*.
- 2) *Revenue Estimates*.
- 3) The *Agency Budget Analysis* (in multiple volumes).

LEGISLATIVE BUDGET ANALYSIS - STATEWIDE PERSPECTIVES, VOLUME 1

Available: Just prior to the start of the legislative session.

Where: Copies are provided to all legislators during legislator budget training. Copies are available to purchase for the general public through legislative distribution.

On the Internet: <http://leg.mt.gov/css/fiscal/publications.asp>

The *Legislative Budget Analysis – Statewide Perspectives* presents a broad fiscal overview and summarizes significant fiscal issues that may impact more than one agency or that do not fall under the jurisdiction of a single fiscal subcommittee. Legislators can use the overview to get the following:

- A broad picture of the state's overall economic picture and how much money is available for expenditure or other purposes
- An overview of the executive budget, including a discussion of major issues
- A discussion of other fiscal issues that may have an impact on the budget
- A primer on basic budget terms and concepts
-

The Overview contains:

- 1) An analysis of the status of the general fund at the end of the current biennium, as well as the projected balance for the upcoming biennium given the expenditures proposed in the executive budget and Revenue and Transportation Committee revenue estimates.
- 2) A summary of the Revenue and Transportation Committee revenue estimates.
- 3) A summary of the proposals included in the executive budget and the Legislative Fiscal Division's analysis of those proposals, including a complete discussion of issues that cross agency lines.
- 4) An analysis of other issues of statewide importance or application not proposed by the executive budget, but which have a bearing on the state's fiscal picture.

LEGISLATIVE BUDGET ANALYSIS – REVENUE ESTIMATES

Available: Early December, prior to the start of the legislative session.

Where: Printed copies are available for purchase through legislative distribution.

On the Internet: <http://leg.mt.gov/css/fiscal/publications.asp>

The Legislative Fiscal Division estimates general fund and selected state special revenues prior to the start of the legislative session. The Revenue and Transportation Committee examines these estimates, along with estimates made by the executive branch, and makes recommendations to the full legislature. The *Revenue Estimates* volume contains those recommendations.

LEGISLATIVE BUDGET ANALYSIS – AGENCY BUDGETS

Available: Start of the legislative session.

Where: Printed copies are available through legislative distribution.

On the Internet: <http://leg.mt.gov/css/fiscal/publications.asp>

These volumes provide a detailed analysis of the executive budget to aid the legislature in constructing

agency budgets for the coming biennium. The agency analysis serves as: 1) the vehicle through which legislative staff can provide a discussion about the executive budget and any other fiscal issues pertaining to agencies; and 2) the working document for all Joint Appropriations Subcommittee work during the subcommittee hearing portion of the development of HB 2.

The volumes provide the following:

- 1) A detailed listing, explanation, critical analysis, and discussion of the Governor's proposed budget for each agency and program of state government.
- 2) Discussion of other issues pertinent to agency budgets and operations designed to aid the legislature in determining agency operations and funding.

This analysis is the primary tool used by the House Appropriations and Senate Finance Committees when constructing the General Appropriations Act (HB 2) for recommendation to the full legislature. Because the analysis is structured around the Joint Appropriations Subcommittee agency groupings, legislators and others interested in a particular agency can consult the volume containing that agency's budget. Individual agency and program budgets can also be downloaded separately from the Internet.

LEGISLATIVE FISCAL DIVISION GENERAL FUND STATUS SHEET

Produced by: Legislative Fiscal Division

Available: Generally midway through the legislative session as budgets begin to be established, and at least weekly thereafter.

Where: Copies are distributed to all legislators and are available through legislative distribution for the general public.

On the Internet: <http://leg.mt.gov/css/fiscal/default.asp>

The purpose of the general fund status sheet is to provide the legislature with a detailed picture of the general fund. The status sheet is designed to aid legislators in determining an appropriate mix of revenue and appropriations measures that together will result in the desired balance of the general fund at the end of the upcoming biennium. It is the primary document used to aid the legislature in balancing the state's budget. The general fund status sheet contains the following:

- 1) A balance sheet showing the projected general fund ending balance given current and proposed legislative action.
- 2) A listing of all appropriations bills given a positive recommendation by at least one committee that, if passed, will impact the ending fund balance available.
- 3) A listing of all bills given a positive recommendation by at least one committee that, if passed, will impact revenues collected by the state, and their impact on the projected ending fund balance.
- 4) A listing of other bills with potential fiscal impact. (The fiscal impact of these bills is not reflected in the projected ending fund balance, as the legislature can choose whether to reflect that potential impact in budgets.
- 5) A biennial comparison sheet showing the comparisons of budgets by biennia. For the purposes of this comparison, state resources, which is defined in statute, are used. The term "state resources" incorporates five fund types: general, state special, federal special, capital projects, and appropriated proprietary (17-7-150). The term excludes transfers of money among these funds and between one of these funds and the debt services fund. This provision ensures that expenditures are only counted once. When comparing appropriation of state resources, statute requires a specific methodology that ensures equitable comparisons between biennia.

HB 2 NARRATIVE

Produced by: The Legislative Fiscal Division

Available: Beginning with deliberations on HB 2 before the House Appropriations Committee in early March and updated throughout the process.

Where: Copies are provided to members of the committees hearing HB 2, including the House and

Senate Committees of the Whole. Copies are available to the general public through legislative distribution.

On the Internet: <http://leg.mt.gov/css/fiscal/publications.asp>

Since HB 2 is very complex and consists primarily of listings of numbers, the Legislative Fiscal Division produces a working document that explains current legislative action on each agency and program. Legislators can use this document to gain understanding of agency budgets and any changes to those budgets made throughout the budget process. The document shares the same overall structure as the Agency Budgets section of the *Legislative Budget Analysis*.

LEGISLATIVE FISCAL REPORT

Produced by: The Legislative Fiscal Division

Available: June, following the conclusion of the legislative session.

Where: Copies of Volume 1, Statewide Perspectives are distributed by the Legislative Fiscal Division to all legislators. Other volumes are available to legislators upon request.

On the Internet: <http://leg.mt.gov/css/fiscal/publications.asp>

The *Legislative Fiscal Report* is produced by the Legislative Fiscal Division after the legislative session. It provides a guide to and a record of legislative actions relative to the budget. It follows the same structure as the *Legislative Budget Analysis* and provides an overview document and a detailed listing of all agency and program budgets for the coming biennium.

Glossary and Acronyms

The next two sections define some of the most commonly used and important fiscal terms and acronyms. It is designed as a general reference source.

GLOSSARY

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget books and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium. In HB 2, it can be split between years, but still be biennial if so indicated.

Budget Amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount. They also are used as a method of appropriation if a specific event occurs.

Line Item – An appropriation made for a specific purpose. A line item appropriation highlights certain appropriation and ensures that it can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references must be listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see “Supplemental Appropriation”) – The transfer of appropriations for the second year of the biennium to the first year if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch

- Agencies
- The Speaker of the House of Representatives for the House
- The President of the Senate for the Senate
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in a state facility. ADP is equivalent to one person served for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE Aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

BASE Aid – Base amount for school equity. The components that make up BASE Aid are defined in statute.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Benefits and Claims – A category of expenditure that accounts for provision of direct financial assistance or provision of services to specific individuals. Persons must meet eligibility criteria such as income limits and end of disability to receive services.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Budget - The total amount of appropriations for a given year and includes one-time only appropriations.

Budget Analysis – The statutorily required analysis provided by the Legislative Fiscal Division to the Legislature.

Cat and Dog Appropriations – One-time or on-going appropriations made in bills other than the general appropriations act.

Change Package – see decision package

Debt Service – The payment on outstanding bonds

Decision Package – Separate, specific adjustments to the base budget. Change packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Executive Modified Base – The operating budget after all program transfers, operating plan changes and reorganizations occur.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by agencies and reviewed by the Governor's Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. FY 2015 refers to the fiscal year ending June 30, 2015. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services).

FTE – Full-time equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period (fiscal year).

Grants – An expenditure category used to account for the payment by a government entity to an entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for the operation of state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

IBARS – The Internet Budget and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS)

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

Legislative Budget – The amounts recorded in IBARS at the end of session with line item vetoes removed.

Legislative Budgeted Personal Services - An amount estimated by the Legislative Fiscal Division that represents the level of personal services that the Legislature would anticipate personal services budgets to grow, based on statutory adjustments to pay and benefits.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each \$1,000 of assessed property value.

New Proposals – Requests (change packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Legislative Budget – The level of funding authorized by previous legislature, including pay plan and contingency fund allocations and any line item veto action by the Governor.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Non-budgeted Transfer – Funds moved from one account to another in the state accounting system based upon statutory authority but not by appropriation in the General Appropriations Act (HB 2).

Operating Expenses – All expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

- Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds
- Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services – Expenditures for personnel pay and benefits.

Personal Services Snapshot – The point in time at which personal services attributes are captured from SABHRS and from which the personal services budget is determined. The executive personal

services budget request is based on a “snapshot” of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (change packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

- Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public
- Internal service funds - Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state’s accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Tax Holiday – Oil and natural gas produced from a vertically drilled well qualifies for a tax holiday of 12 months and a tax rate of 0.76% (0.5% production tax and 0.09 percent board of oil and gas tax and 0.17% to local impact accounts for cities and counties). Oil and natural gas produced from a horizontally drilled well qualifies for a tax holiday of 18 months and the same tax rate of 0.76%. After the tax holiday is over these minerals are taxed at 9%.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year. Also the rate that may be established by the legislature to reduce personal services budgets.

ACRONYMS

Acronyms are used to denote agencies, programs, and common terms. The following list includes some of the most common acronyms you are likely to encounter.

ADP - Average Daily Population (institutions)
ANB - Average Number Belonging (K-12 education)
BASE Aid - Base Amount for School Equity Aid
BPE - Board of Public Education
C&A Grants - Cultural and Aesthetic Grants
CES - Cooperative Extension Service
CHE - Commissioner of Higher Education
CHIP - Children's Health Insurance Program
CIO - Chief Information Officer
COPP - Commissioner of Political Practices
CP - Change Package
COT - College of Technology, followed by campus designation
DEQ - Department of Environmental Quality
DES - Disaster and Emergency Services
DMA - Department of Military Affairs
DNRC - Department of Natural Resources and Conservation
DOA - Department of Administration
DOC - Department of Commerce (see Corrections)
DOC - Department of Corrections (see Commerce)
DOJ - Department of Justice
DLI - Department of Labor and Industry
DOR - Department of Revenue
DP - Decision Package
DPHHS - Department of Public Health and Human Services
EPP - Executive Planning Process
ESA - Employment Security Account
FCES - Forestry and Conservation Experiment Station
FF - Federal Fund
FSTS - Fire Services Training School
FTE - Full-Time Equivalent
FWP - Fish, Wildlife, and Parks [Department of]
FY - Fiscal Year
FYE - Fiscal Yearend
GAAP - Generally Accepted Accounting Principles
GF - General Fund
GTB - Guaranteed Tax Base
HAC - House Appropriations Committee
HSSRA - Highway State Special Revenue Account
IBARS - Internet Budget and Reporting System

IRIS - Integrated Revenue Information System
I&I - Interest and Income
ITSD - Information Technology Services Division
IT - Information Technology
LAD - Legislative Audit Division
LEPO - Legislative Environmental Policy Office
LFA - Legislative Fiscal Analyst
LFC - Legislative Finance Committee
LFD - Legislative Fiscal Division
LSD - Legislative Services Division
LRBP - Long-Range Building Program
LRP - Long-Range Planning
MAC - Montana Arts Council
MBARS - Montana Budget, Analysis, and Reporting System
MBCC - Board of Crime Control
MBMG - Montana Bureau of Mines and Geology
MCA - Montana Code Annotated
MDT - Montana Department of Transportation
MHP - Montana Highway Patrol
MHS - Montana Historical Society
MHSP - Mental Health Services Plan
MSDB - School for the Deaf and Blind
MSH - Montana State Hospital
MSL - Montana State Library (State Library Commission)
MSP - Montana State Prison
MSU - Montana State University, followed by campus designation, i.e. MSU – Bozeman
MUS - Montana University System
MWP - Montana Women's Prison
NP - New Proposal
OBPP - Office of Budget and Program Planning
OPI - Office of Public Instruction
P&P - Probation and Parole
PERD - Public Employees Retirement Division
PL - Present Law
POL Boards - Professional and Occupational Licensing Boards
PSC - Public Service Commission
RIGWAT - Resource Indemnity and Groundwater Assessment Tax
RIT - Resource Indemnity Trust
RTIC - Revenue and Transportation Interim Committee
SABHRS - Statewide Accounting, Budgeting, and Human Resources System
TANF - Temporary Assistance for Needy Families
TRS - Teachers' Retirement System
TSEP - Treasure State Endowment Program