

Financial Recap

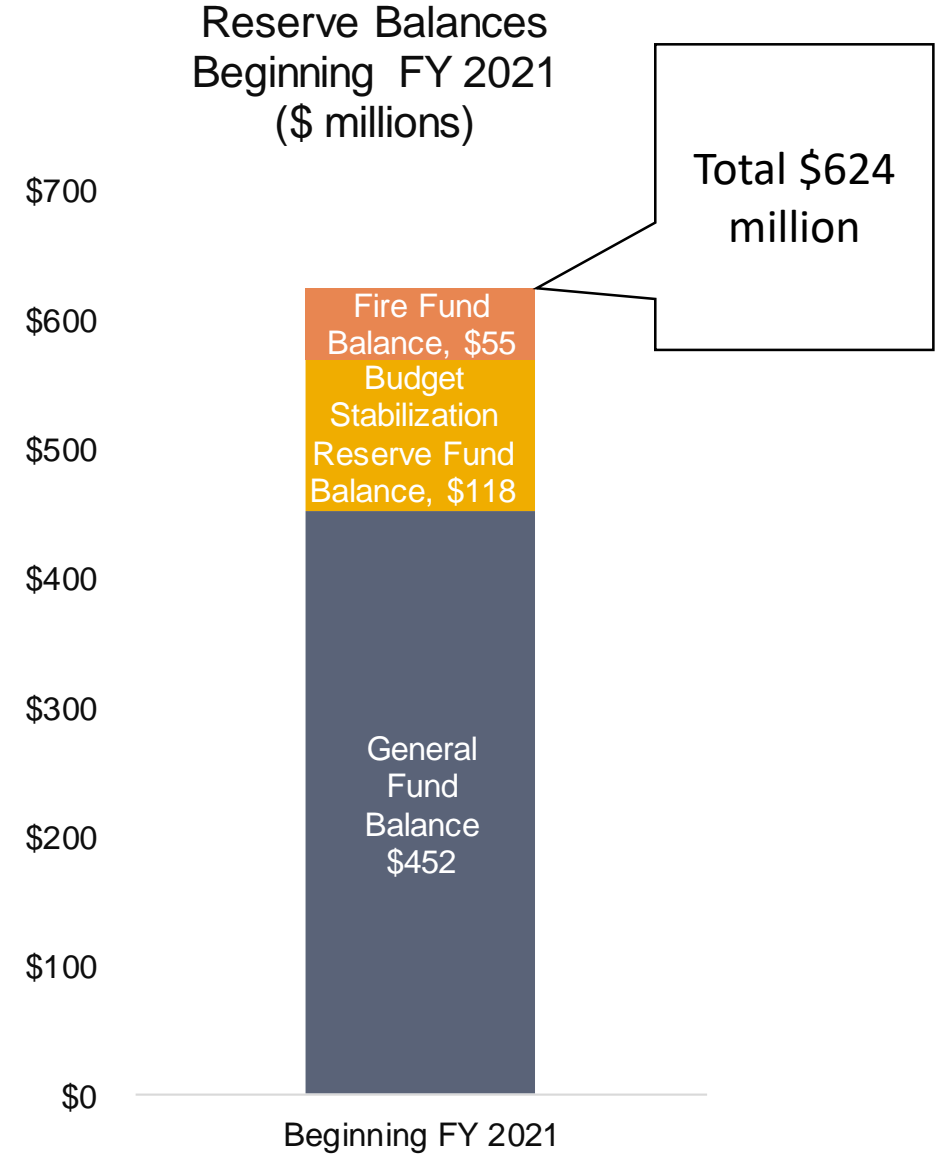
2023 Biennium

Beginning Fund Balances are Strong

Fund balances were strong going into FY 2020

FY 2020 ended strong with less expenditures and more revenue than anticipated

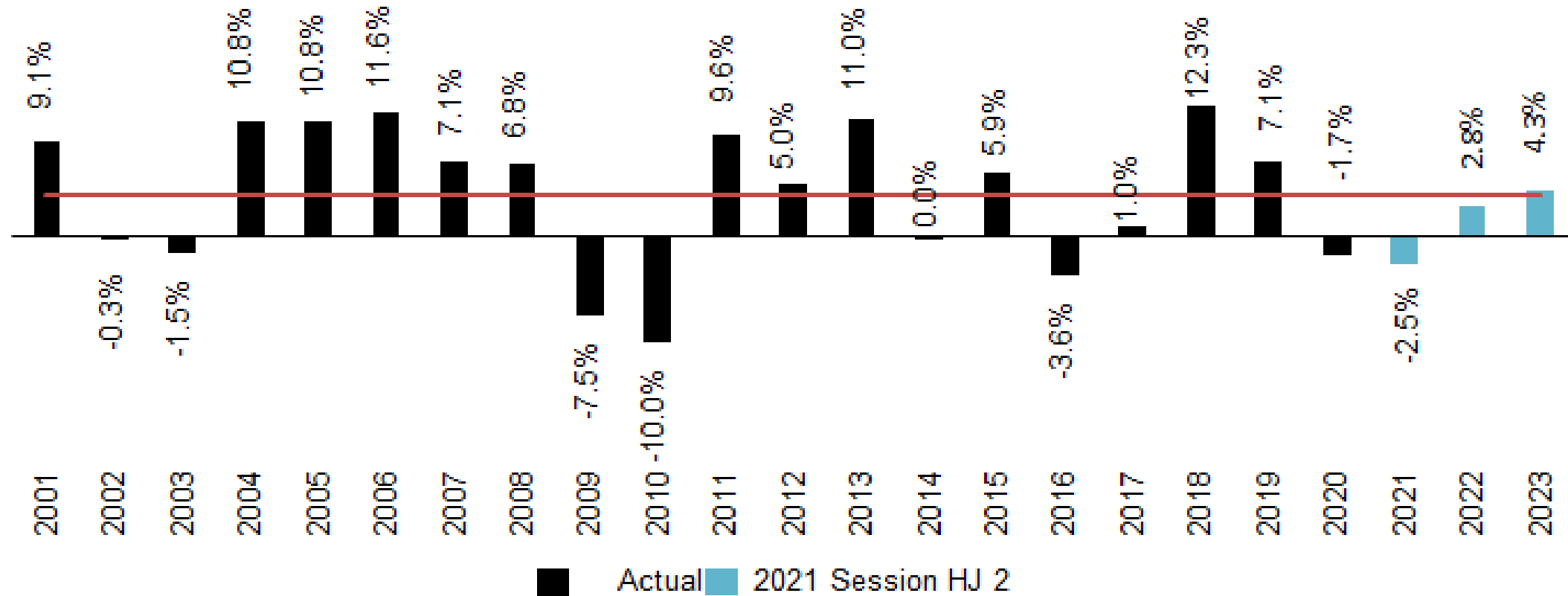
Reserve fund balances at the beginning of FY 2021 are strong



HJ 2 as Adopted by RIC

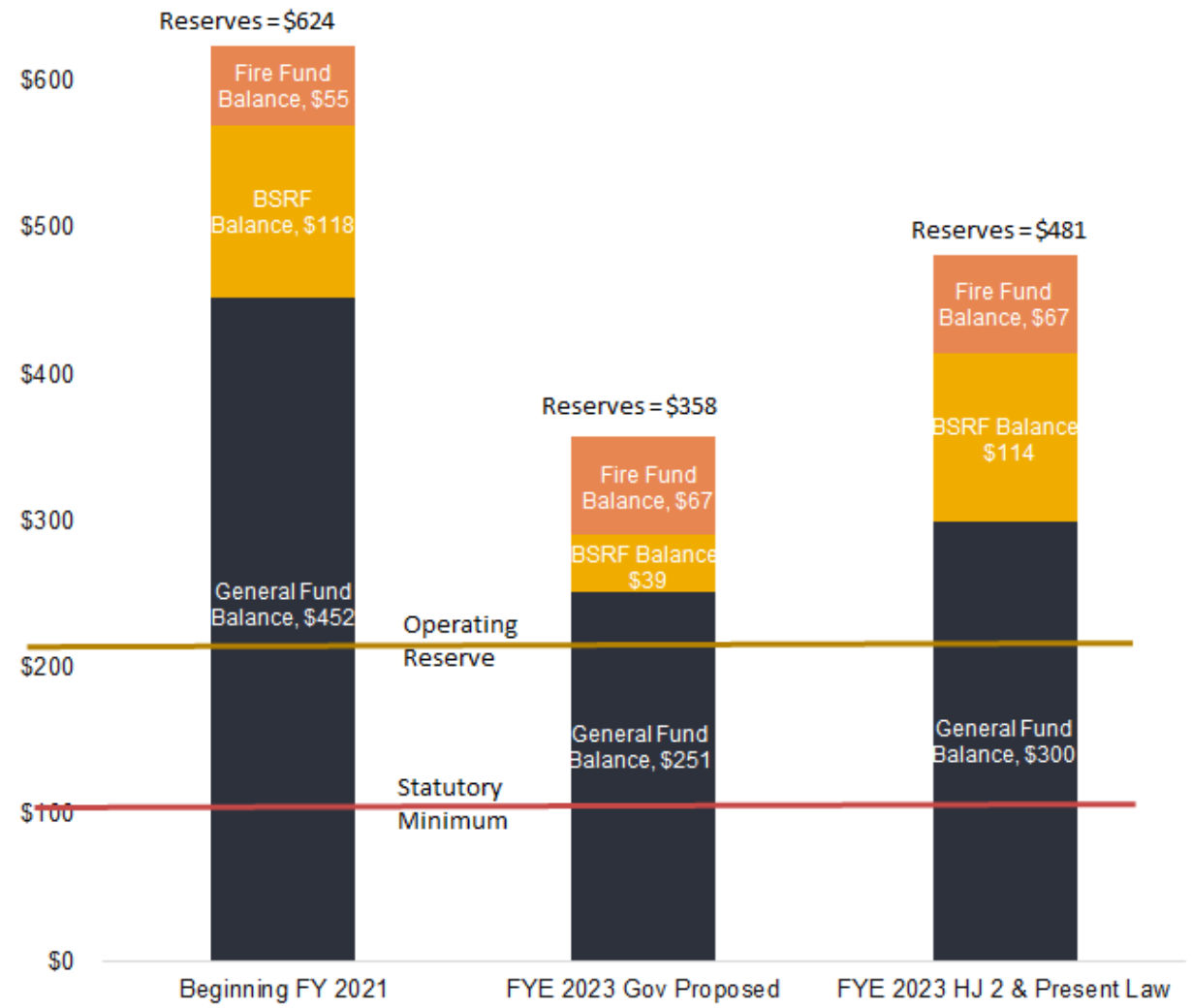
- RIC adopted the LFD baseline assumptions with and adjustment that resulted in an estimate between the LFD and OBPP recommendations.

General Fund Revenue Growth



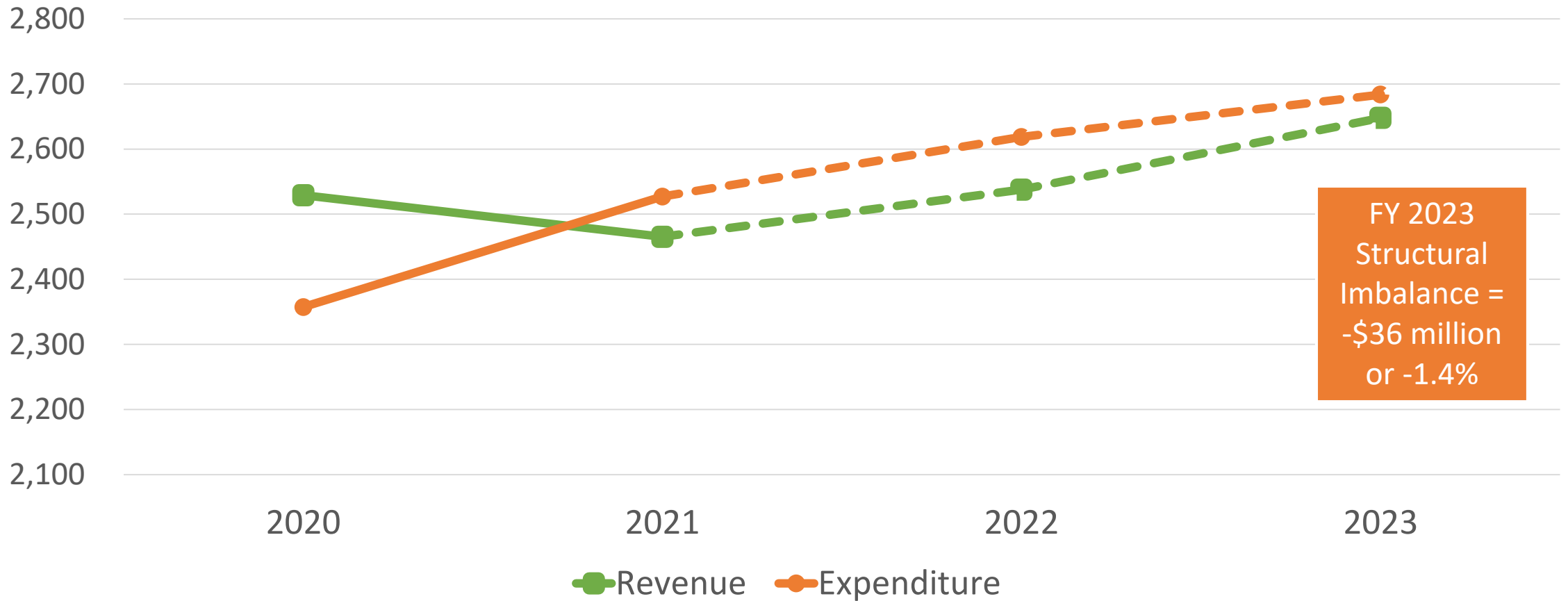
Governor Bullock's Budget with HJ 2 Revenue

Reserve Balances



General Fund Structural Balance

HJ 2 Revenues and Present Law Expenditures

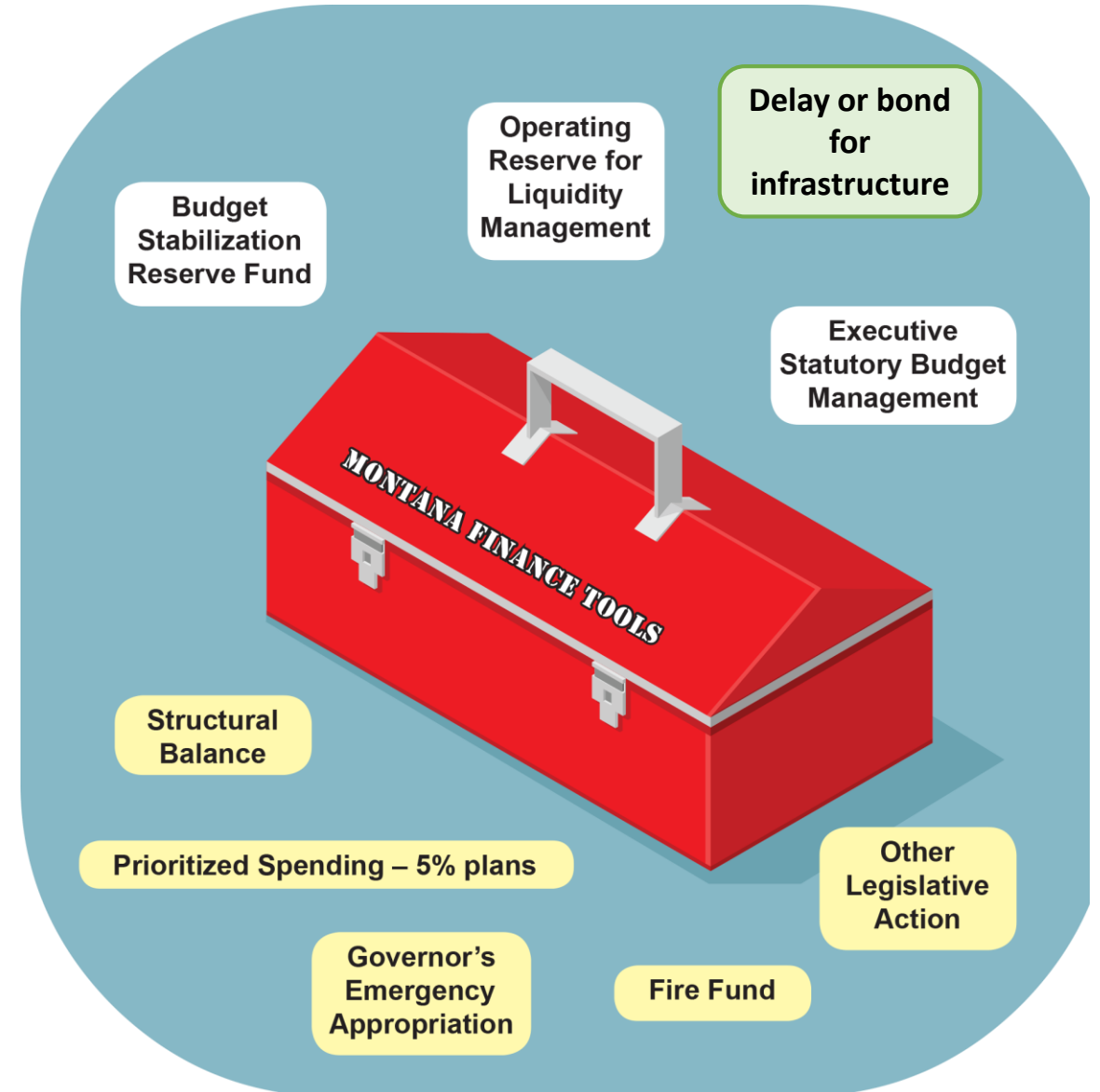


Montana's Financial Management Tools

Managing Financial Volatility

Montana's Financial Tool Box

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



Financial Management Tools



Reserve and other funds



Tools for reducing spending

5% reduction plans
Delayed or bonded
infrastructure development



Options for increasing revenue



Governor's tools in the interim



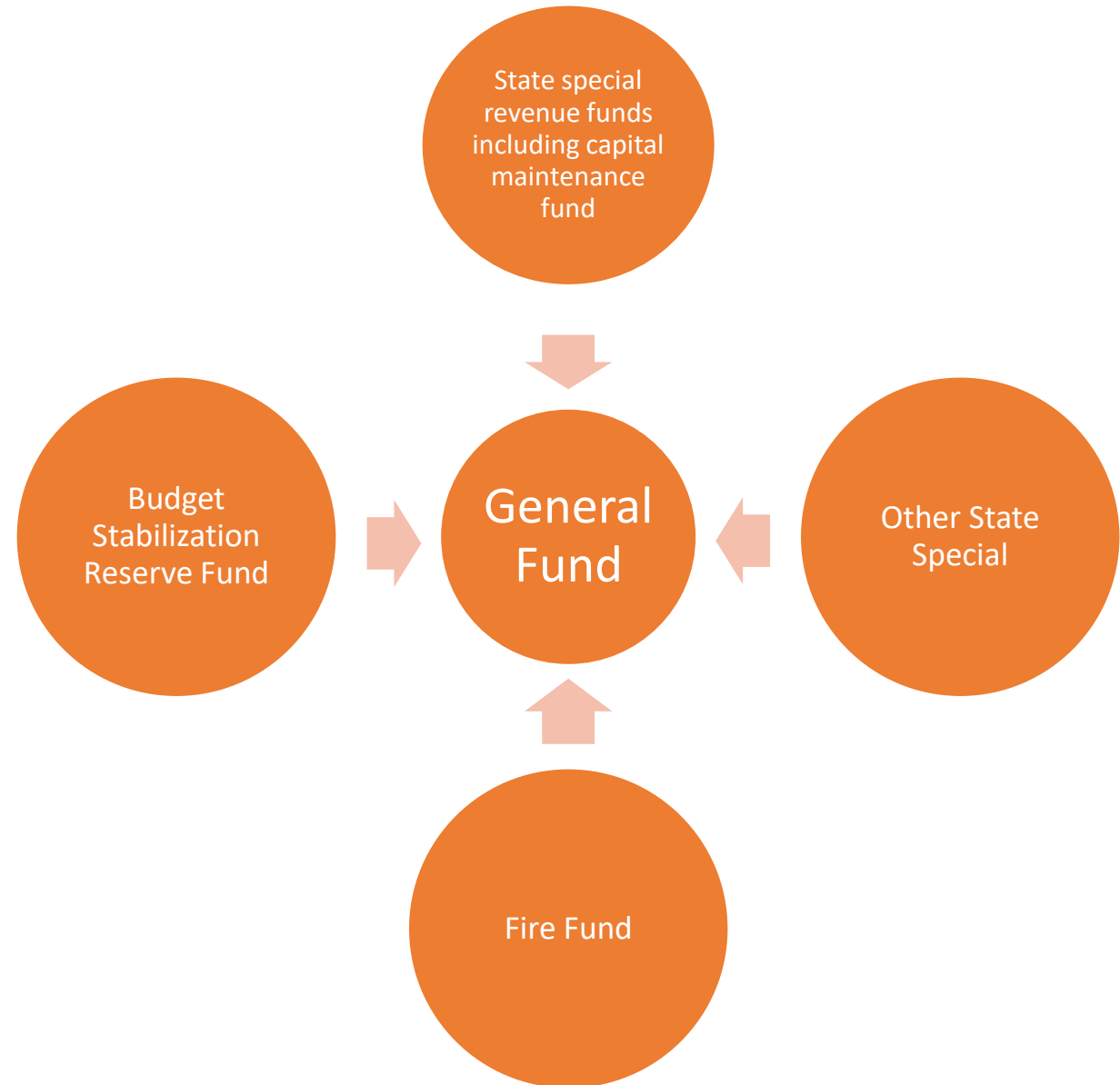
Structural balance for looking toward future budgets

Transfers to the General Fund

When needed, the legislature can transfer money from reserves or other funds to the general fund.

This is sometimes known as “fund sweeps”

To learn more about the funds that could be used please see the reserves training.



Tools for Reducing Spending

5% Plans

Delayed or bonded infrastructure projects

5% Plans
MCA 17-7-111
(3)(f)

Agencies must submit a plan to reduce the base budget of the agency by 5% which must include:

A prioritized list of service reductions

Cost savings for each reduction

Consequences for reductions

Delayed or bonded infrastructure projects

- Capital Development Projects
- Funds allocated in ongoing present law budget for infrastructure
- If there is a revenue shortfall, the legislature may decrease the amount to balance expenditures and revenues.
- The ongoing funding stream allows these funds to be put to work for infrastructure needs during good times and curtailed for budget stabilization during revenue shortfalls – hence the term “working rainy day fund”

Tools for Increasing Revenue

- The LFD can prepare a list of options to increase revenue at the request of the legislature
- The most recent LFD analysis of revenue options can be viewed at these links: [inflation adjusted and other revenue](#)

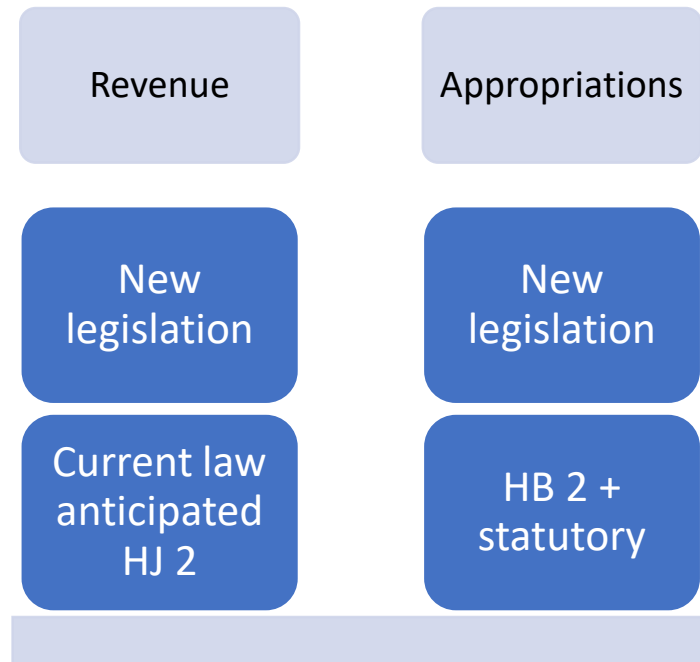


Governor's Authority in the interim

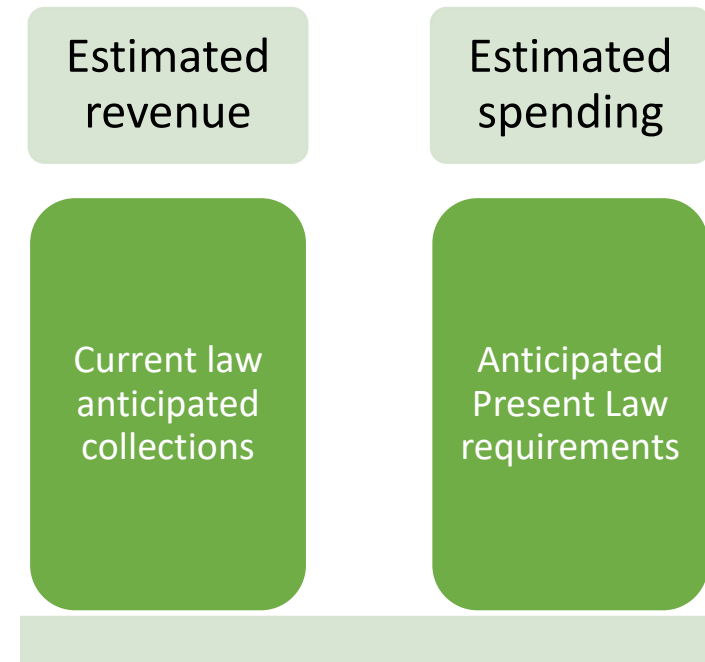
- MCA 17-7-140
- The Governor has limited authority to balance the budget in the interim
- See the Governor's Authority Training for more details

Structural Balance: Revenues = Expenditures

Structural Balance – Two years out



Extended Outlook – Four years out



If the legislature creates a structurally balanced 2-year budget, then normal growth in revenue should cover normal growth in expenditure.

Reserves

General Fund

Budget Stabilization Reserve Fund

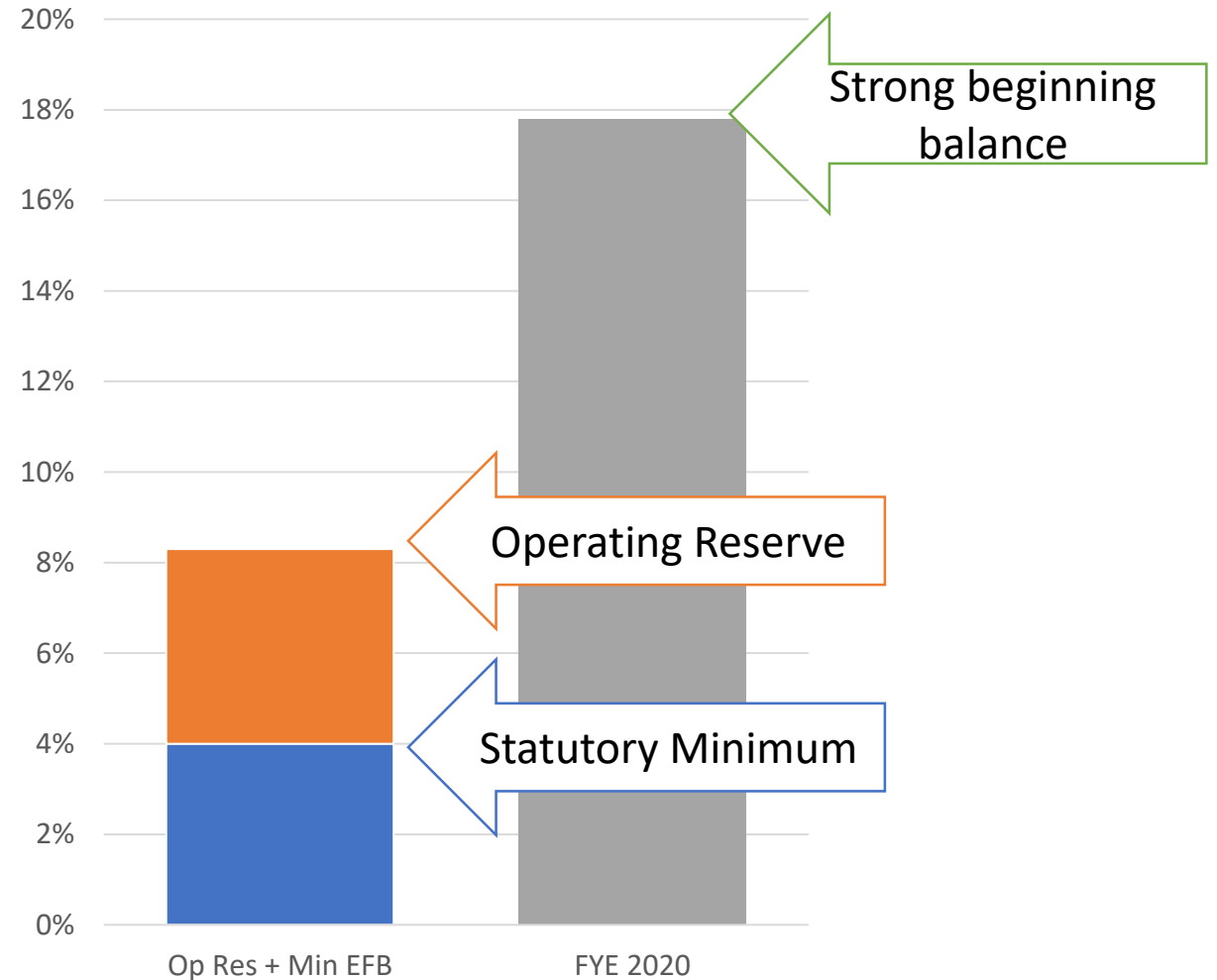
Fire Fund

Other state special fund balances, including
Capital Maintenance Fund

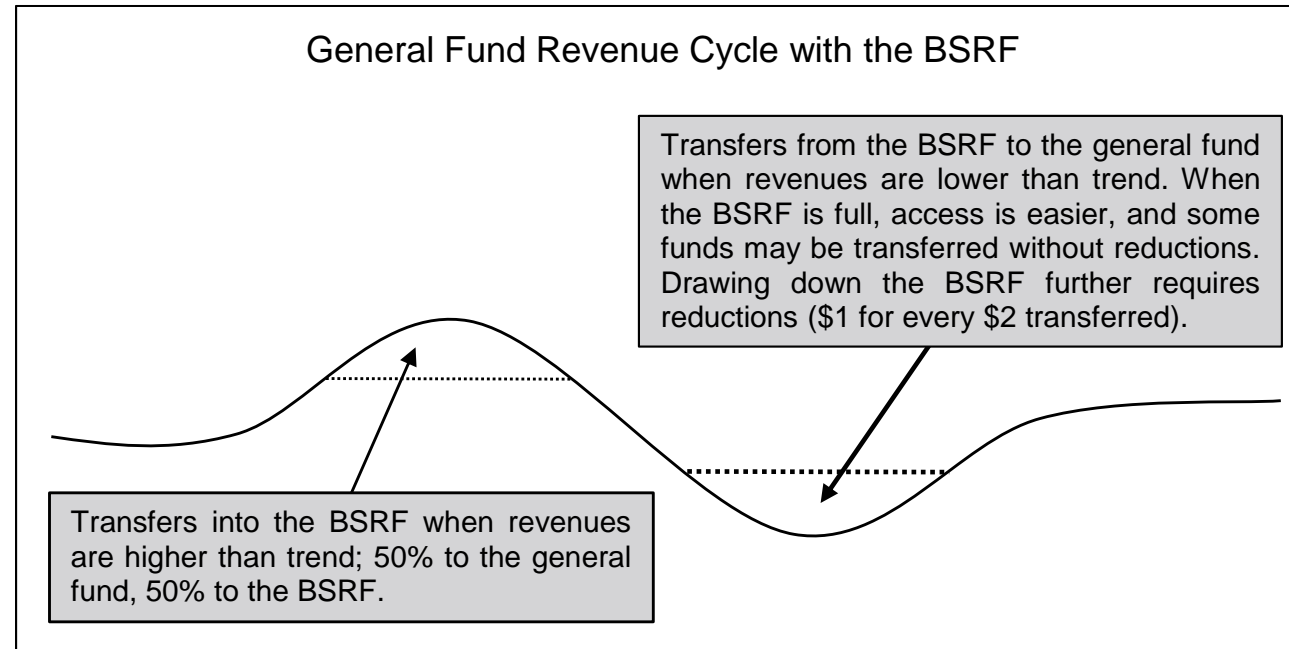
General Fund Balance

General fund balance has two thresholds identified in statute:

- I. Minimum ending fund balance threshold: the minimum that the Legislature or the Governor budgets to leave as a cushion. This amount is 4% of the second year appropriations.
- II. Operating Reserve of 8.3%, which has two goals:
 - i. Reduce the need for cash flow borrowing within the fiscal year
 - ii. Buffer against revenue downside risk. Allows revenue reductions of up to 4.3% before the Governor or Legislature needs to address spending reductions and transfers from the BSRF



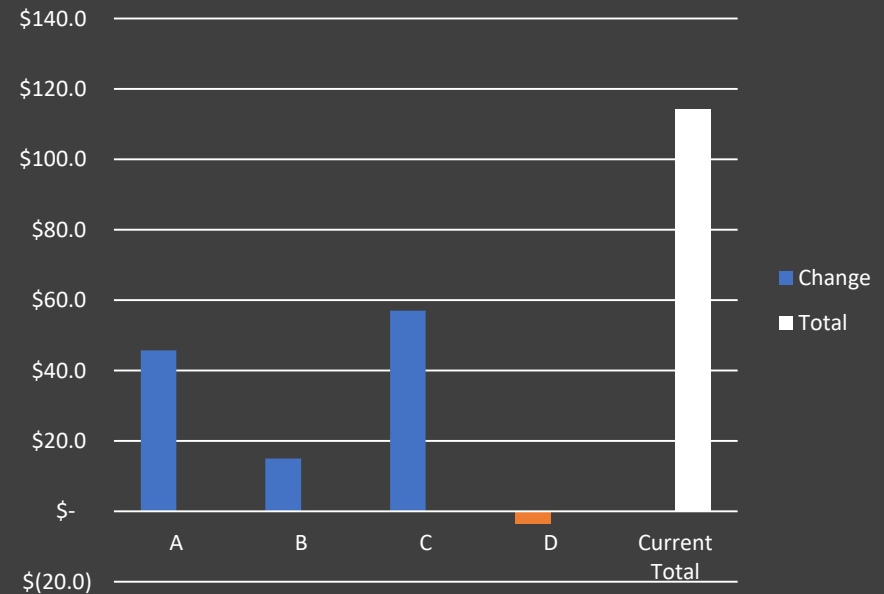
Budget Stabilization Reserve Fund (BSRF)



- Transfers from the BSRF to the general fund when revenues are lower than anticipated. Some funds are automatically transferred without reductions when the BSRF has a significant balance. Further transfers require reductions (\$1 for every \$2 transferred).

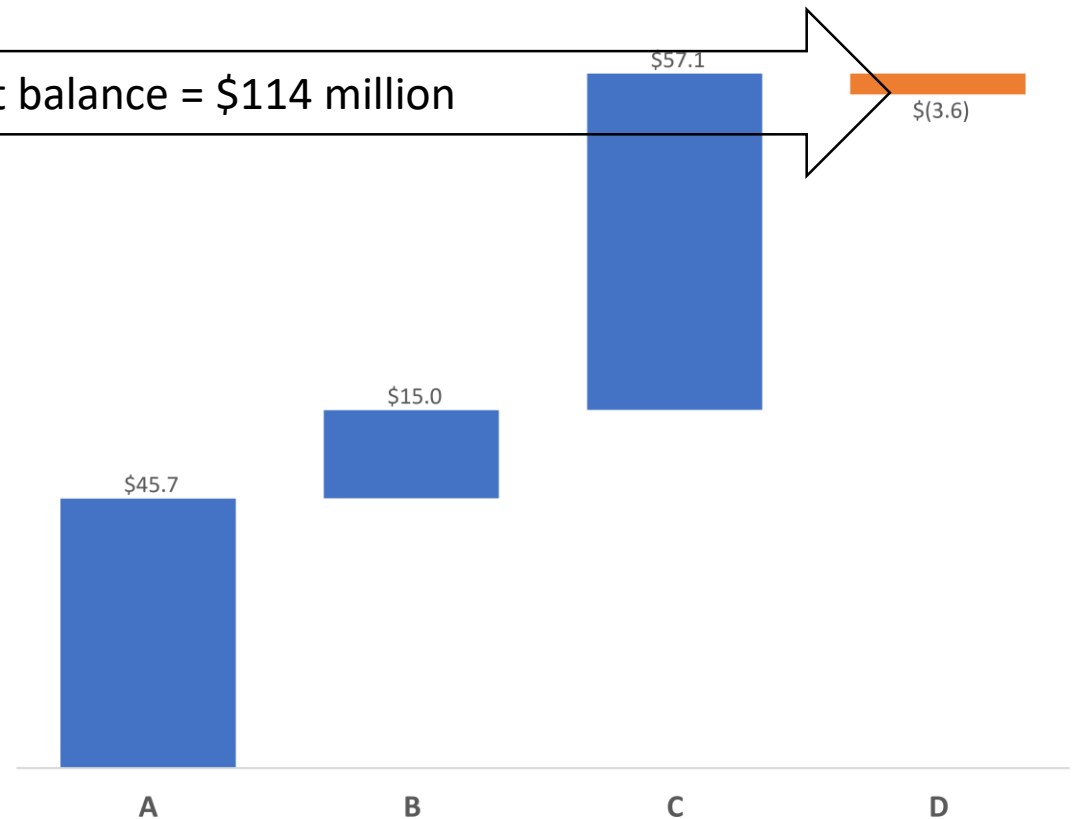
BSRF Balance History

- A. 5/18 - SB 9 from special session restoration provisions \$46 million
- B. May 2019 \$15 million
- C. HB 715, 2019 session Governor's emergency fund \$11 million plus excess revenue of \$46 million
- D. Excess BSRF balance transferred to Capital Development fund \$3.6 million



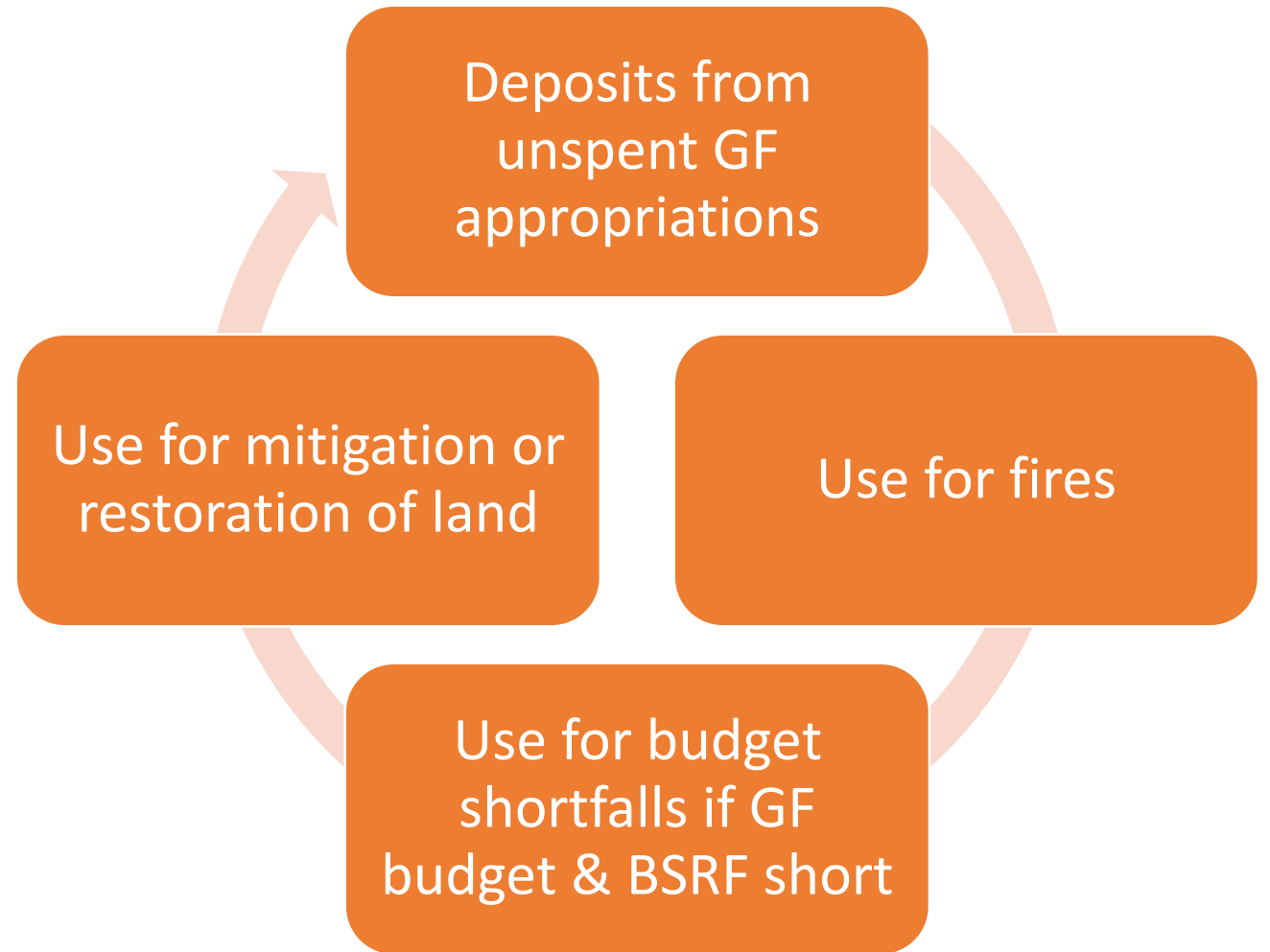
BSRF Balance History

- A. 5/18 - SB 9 from special session restoration provisions \$46 million
 - B. May 2019 \$15 million
 - C. HB 715, 2019 session Governor's emergency fund \$11 million plus excess revenue of \$46 million
 - D. \$1.1 million added from excess general fund then, BSRF balance excess transferred to Capital Development fund \$4.7 million, net reduction of \$3.6 million
- Current balance = \$114 million



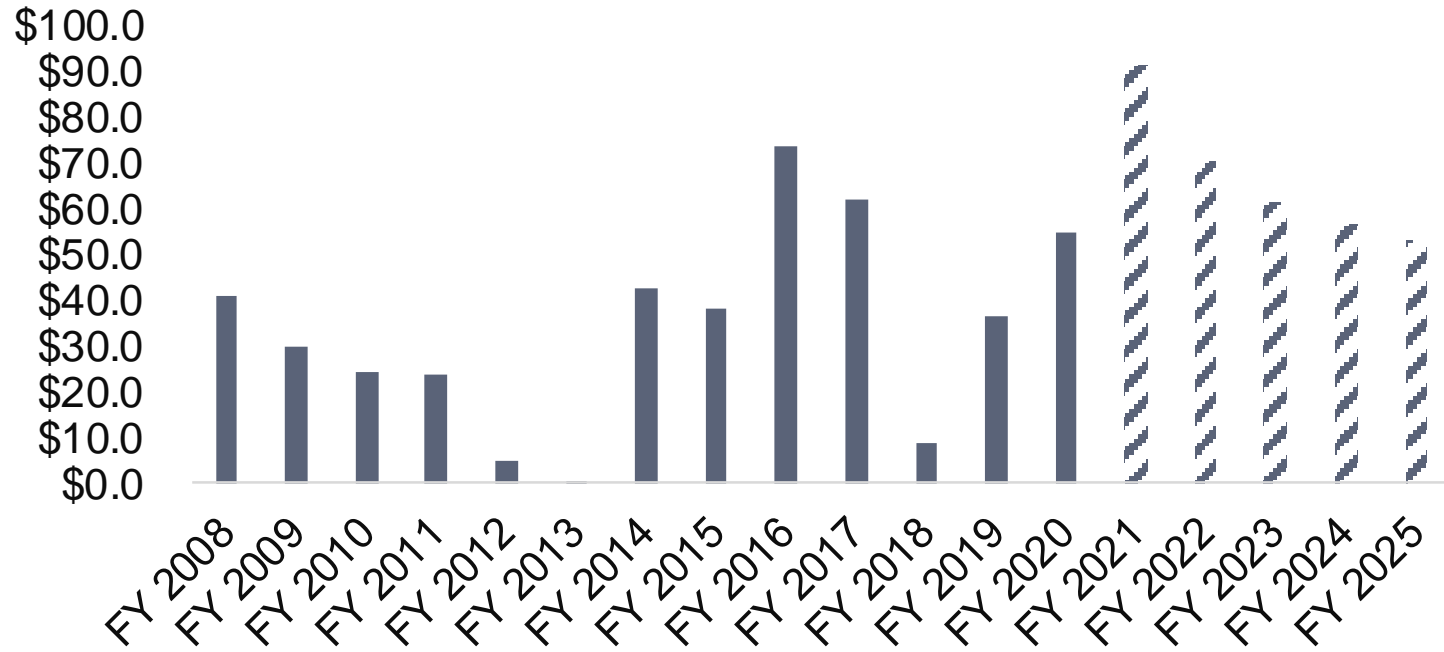
Fire Fund

- Receives funds from unspent general fund appropriations and other deposits directed by the legislature
- Spends on fire suppression and fire suppression restoration and mitigation when fund balance is above \$40 million
- In budget shortfalls, can be used to match 1:1 Governor's reductions if BSRF is exhausted
- Maximum fund balance is 4% of second year of general fund appropriations



Fire Fund Balances

Wildfire suppression fund balances actual and projected for FY 2008-FY 2025 (\$ millions)



Governor's Authority in the Interim

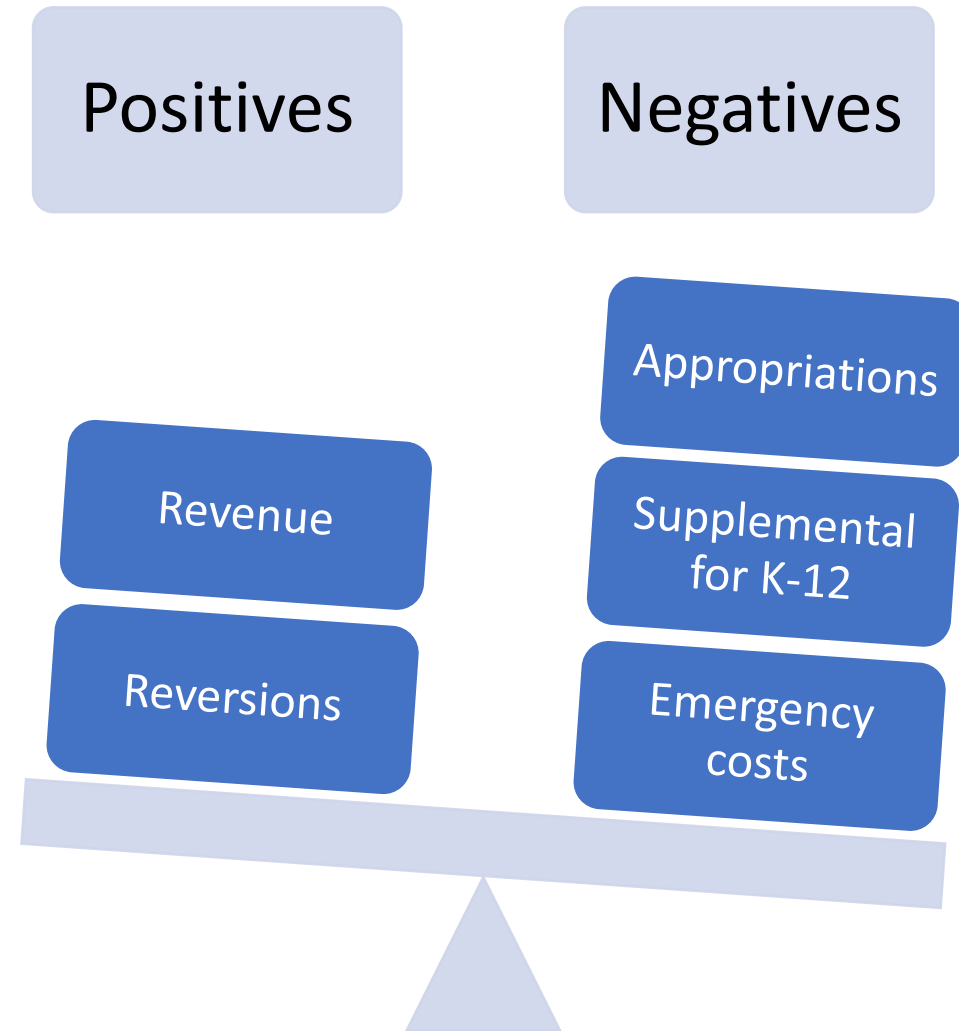
When the legislature is not in session,
the Governor has authority to re-
balance the budget

What is a budget deficit in statute? MCA 17-7-140

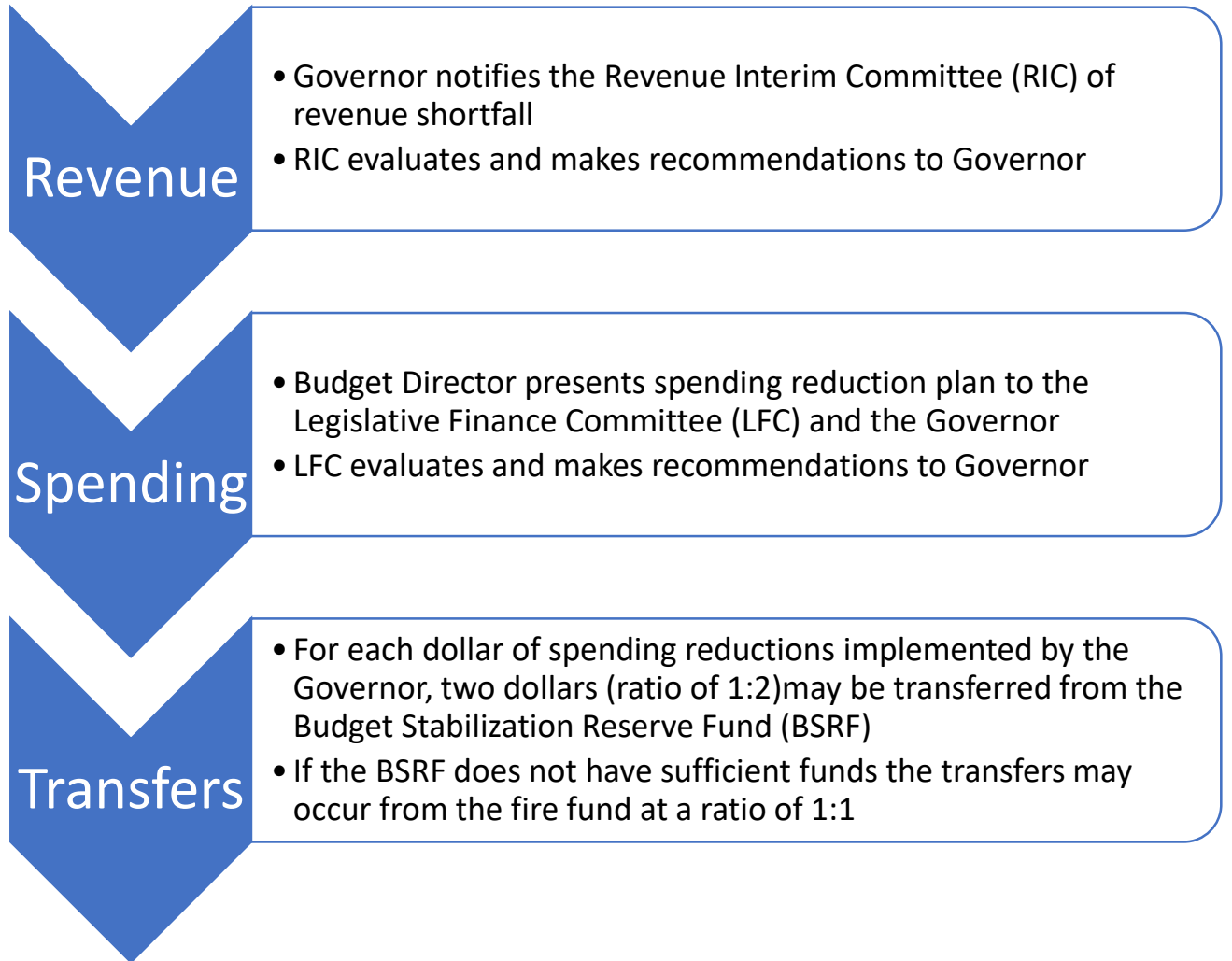
If the Governor projects a deficit then actions can be taken.

A deficit is a forecast by the Governor that the ending fund balance for the biennium is less than 4% of the second year of the biennium appropriations. Note that the percentage decreases as just prior to and during session.

The Governor's forecast of ending fund balance to determine a deficit considers his estimates for revenue, reversions (unspent appropriations), appropriations, and supplemental costs for schools and emergencies (need for additional appropriations)



Steps to enact Reductions in spending



Limits on Governor's Spending Reductions

The Governor cannot reduce spending in certain areas of the budget and is limited in how much any agency or program can be reduced.

The Governor cannot reduce spending in the Legislative or Judicial Branches nor school BASE aid and a few other items.

Spending reductions by agency are limited for the biennium to 4% of all appropriations in the second year of the biennium

Spending reductions are limited to 10% of general fund appropriations in any program within an agency



Governor's Authority to Transfer

Budget Stabilization Reserve Fund (BSRF) MCA 17-7-130



Fire Suppression Account (aka Fire Fund) MCA 76-13-150



What if the Governor does not have enough authority to resolve the deficit?

- If the Governor has exhausted the statutory provisions then he can call the legislature into special session
- The legislature and governor combined have additional tools to resolve budget deficits
 - Other fund balances to transfer
 - Options to increase revenue
 - Ability to reduce appropriations across all of state government

Questions

- Contact Legislative Fiscal Division
- Amy Carlson, Director acarlson@mt.gov
- Susie Lindsay, Lead Fiscal Analyst – Communications slindsay@mt.gov
- Josh Poulette, Senior Fiscal Analyst jpoulette@mt.gov