

The 2011 Biennium Budget: Maintenance, Recovery, and Future Cuts

Every legislative session, Montana lawmakers introduce over a thousand bills. Many aim to better the lives of Montanans by doing such things as improving the educational system, caring for those with mental health emergencies or revising hunting license rules. Among the reams of legislative paperwork and policy statements, the most important—and perhaps least understood—set of bills considered is the state budget. The budget makes everything else state government does possible.

The decisions made during this year's budget debate affect the daily lives of all Montanans –from the quality of our public schools to the roads we drive on and the air we breathe. Some of the decisions made as part of the budget deliberations could affect Montanans for decades into the future.

This document will evaluate the actions of the 61st Legislature in setting the budget for 2011 biennium (July 1, 2009 through June 30, 2011).

The Economic Context

The 61st Legislature faced the unenviable challenge of balancing the budget during a time of economic downturn and extreme revenue uncertainty. The challenges during an economic crisis are great. They include:

1. Declining tax revenue due to decreased incomes and economic activity, and
2. Increased need for state services as more residents are eligible for assistance programs.

Key Terms

61st Legislature- The 61st Legislature met for 90 days beginning in January 2009. The 62nd Legislature will meet in 2011.

Fiscal Year (FY)- The state accounts for its finances using a “fiscal year” that begins July 1 and ends June 30. It is named for the calendar year in which it ends.

Biennium- Montana is one of the few states that has a true biennial budget. The Montana legislature meets every two years (every odd year), at which time it approves a budget for a two-year period, also called a biennium. The biennium is named for the calendar year in which it ends. During the 2009 Legislative Session, the legislature considered and approved a budget for fiscal years 2010 and 2011; this two-year period is also referred to as the **2011 biennium**.

House Joint Resolution 2 (HJR 2) – HJR2 is a resolution that details the revenue estimates for the upcoming biennium. While HJR 2 is created every session, it was not adopted in the 2011 Biennium. Nevertheless, by law, it became the official revenue estimate.

Montana has been experiencing both declining revenues and revenue volatility that has made revenue estimating particularly difficult. Revenues are expected to be lower for FY2010 than they were in FY 2009 (Table 1). Revenues are expected to start improving in FY2011 but not make it all the way back to FY2009 levels. These revenue estimates were created during the legislative session after several downward revisions reflecting the impact of the economic downturn. Based on recent reports from the Legislative Fiscal Division, revenues over the biennium may be even lower than anticipated by the legislature. [1]

Table 1: General Fund Revenue Estimates (HJR2 Revised)			
	2009	2010	2011
Revenue Estimates (in millions)	\$1,844.603	\$1,772.915	\$1,829.348
Source: Legislative Fiscal Division, 2011 Biennium Report			

The Big Picture

The 61st Legislature passed a budget that exceeds \$9 billion for fiscal years 2010 and 2011 and includes over \$1 billion in additional federal revenue as a result of the American Recovery and Reinvestment Act. The budget includes a \$282 million ending fund balance. The \$282 million can be utilized if actual revenues are not as large as anticipated. The anticipated ending fund balance for the 2011 biennium represents 9% of the total appropriations from the general fund. The uncertainty around the revenue estimates contributed to the decision to have a large ending fund balance.

Figures 1, 2, and 3 illustrate the breakdown in appropriations for total funds, the general fund and federal funds respectively. Figures 4 and 5 illustrate the sources of revenue for total funds and for the general fund.

Key Terms

Ending Fund Balance- An ending fund balance exists when the amount of anticipated general fund revenue exceeds general fund appropriations. An ending fund balance can be used to maintain fiscal stability over a biennium when revenues collected are not as high as anticipated.

General Fund- The General Fund is money available for the state to use for most of its functions without restrictions. The biggest source for general fund revenue is individual income taxes. General funds do not include payments to the state from the federal government or fund sources that are restricted for specific purposes.

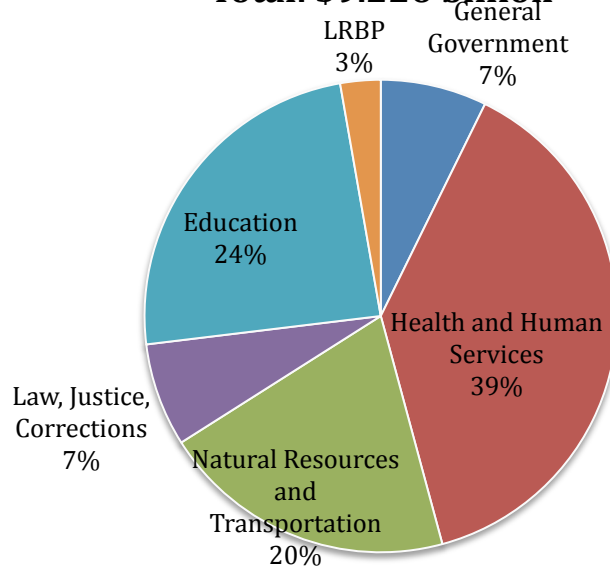
State Special Revenue Funds- State special revenue funds are kept separate from the general fund and are legally restricted for specific uses. State special revenue funds also tend to be funded by specific funding sources and/or fees rather than general taxes.

Federal Special Revenue Funds- Federal special revenue funds (or federal funds) are funds from the federal government that are made available to the state to fulfill specific purposes and must be used within the federal rules and guidelines. Often federal funds require a certain level of state matching funds.

Appropriation- An appropriation is authority given to a government agency to spend a specified amount of government money. Appropriations are made through legislation.

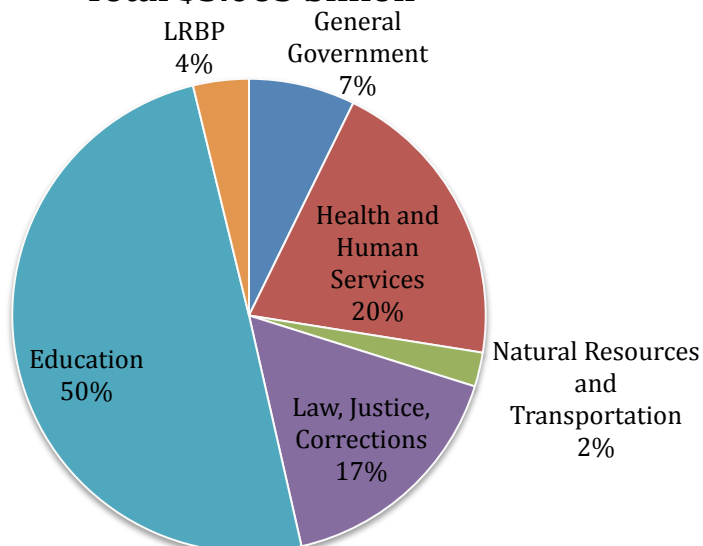
For more information and background on the Montana budgeting process, see "[Investing in Our Common Good: A Guide to the Montana Budget](http://www.montanabudget.org)" at www.montanabudget.org.

**Figure 1: 2011 Biennium Total Funds
Appropriated by Section
Total: \$9.226 billion**



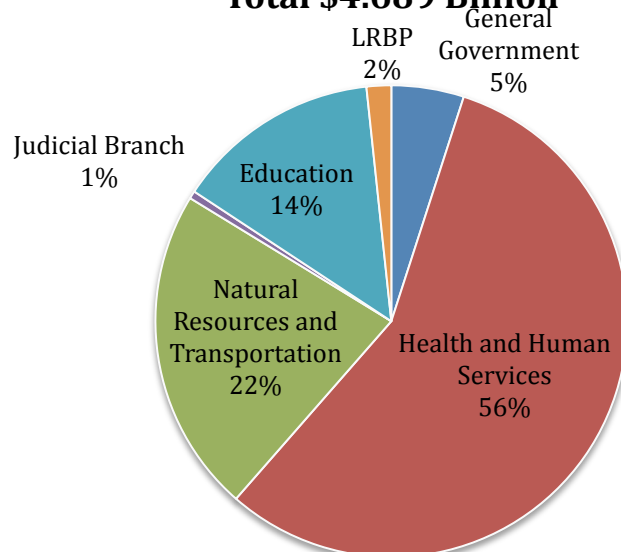
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report

**Figure 2: 2011 Biennium General Fund
Appropriated by Section
Total \$3.065 billion**



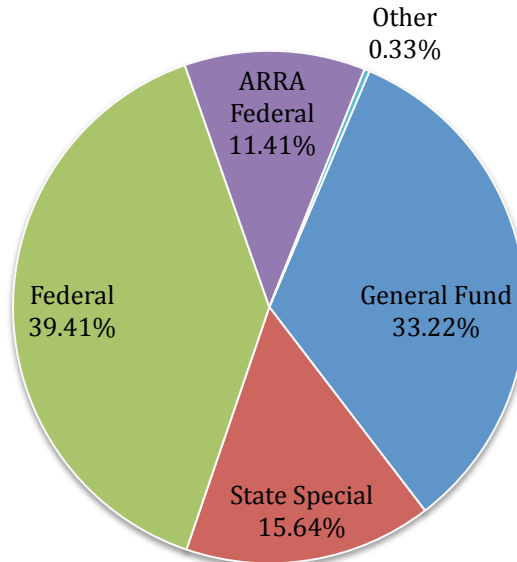
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report

**Figure 3: 2011 Biennium Federal Funds
Appropriated by Section
Total \$4.689 Billion**



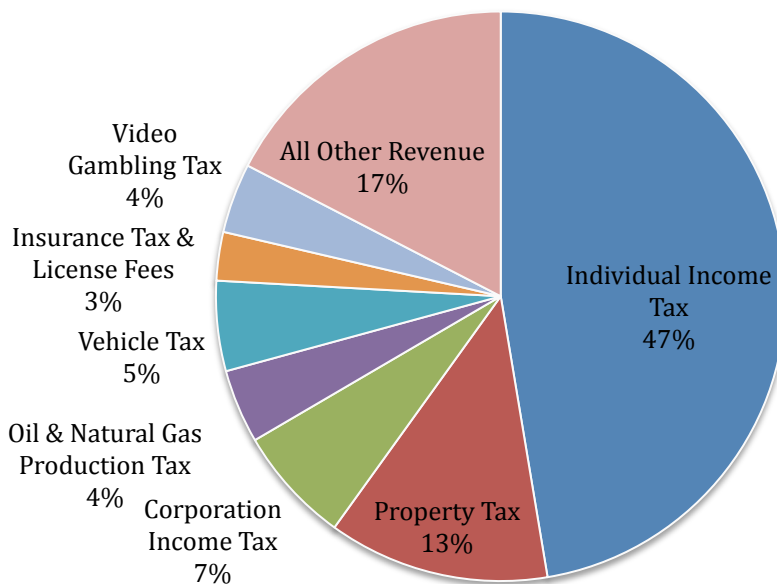
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report

Figure 4: Funding Sources for Total Appropriations, 2011 Biennium



Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report

Figure 5: Estimated General Fund Revenue Sources, 2011 Biennium



Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report; sources for "all other revenue" can be found at Volume 2 page 8 of report.

Major Outcomes of the 2011 Biennium Budget

Present Law Budget

The 2011 biennial budget is primarily a present law budget, with some significant exceptions. A present law budget includes adjustments to the previous budget (or base budget) so that programs can be provided in future years:

1. To all who would be eligible based on current eligibility requirements and
2. At the same level.

A present law budget often requires more than an inflationary increase over previous budgets for several reasons:

1. No existing measure of inflation captures the cost of services provided by state government. For example, state government is a major purchaser of healthcare for employees, prison populations, low-income children, legislators, etc. Health care costs are rising much faster than general inflation.
2. The state's population is increasing.
3. The populations that use state services are growing faster than the general population. [2]
4. For the 2011 biennium, the number of persons eligible for state services will likely increase due to declining employment and incomes resulting from the economic crisis.

Therefore, simply maintaining the level of spending in the previous budget will almost always result in a cut in services. Even inflationary increases above base budgets will not, in most cases, be sufficient to maintain services. Comparing proposed and enacted budgets to a present law budget allows legislators and voters to evaluate whether the budget has increased or cut back the commitment to a certain area of government programs or services.

Figure 6 compares appropriations for the 2011 biennium to the present law by displaying appropriations as a percent of present law, for both the general fund and total funds (Table 2 details the dollar amount difference between appropriations and present law). In order for an agency to have sufficient funds to continue existing services, appropriations should be 100% of present law.[3] In Figure 6, please note that the Department of Commerce is not graphed to scale because the general fund appropriation for that department was 939% of present law and the total funds appropriation was 309% of present law. Depicting these numbers to scale would have made interpreting all the other agency budgets difficult.

Key Terms

The base budget- defined as the resources necessary to cover current biennium expenses of an ongoing and non-extraordinary nature. The base budget is built by looking at the actual ongoing expenditures during the most recently completed fiscal year.

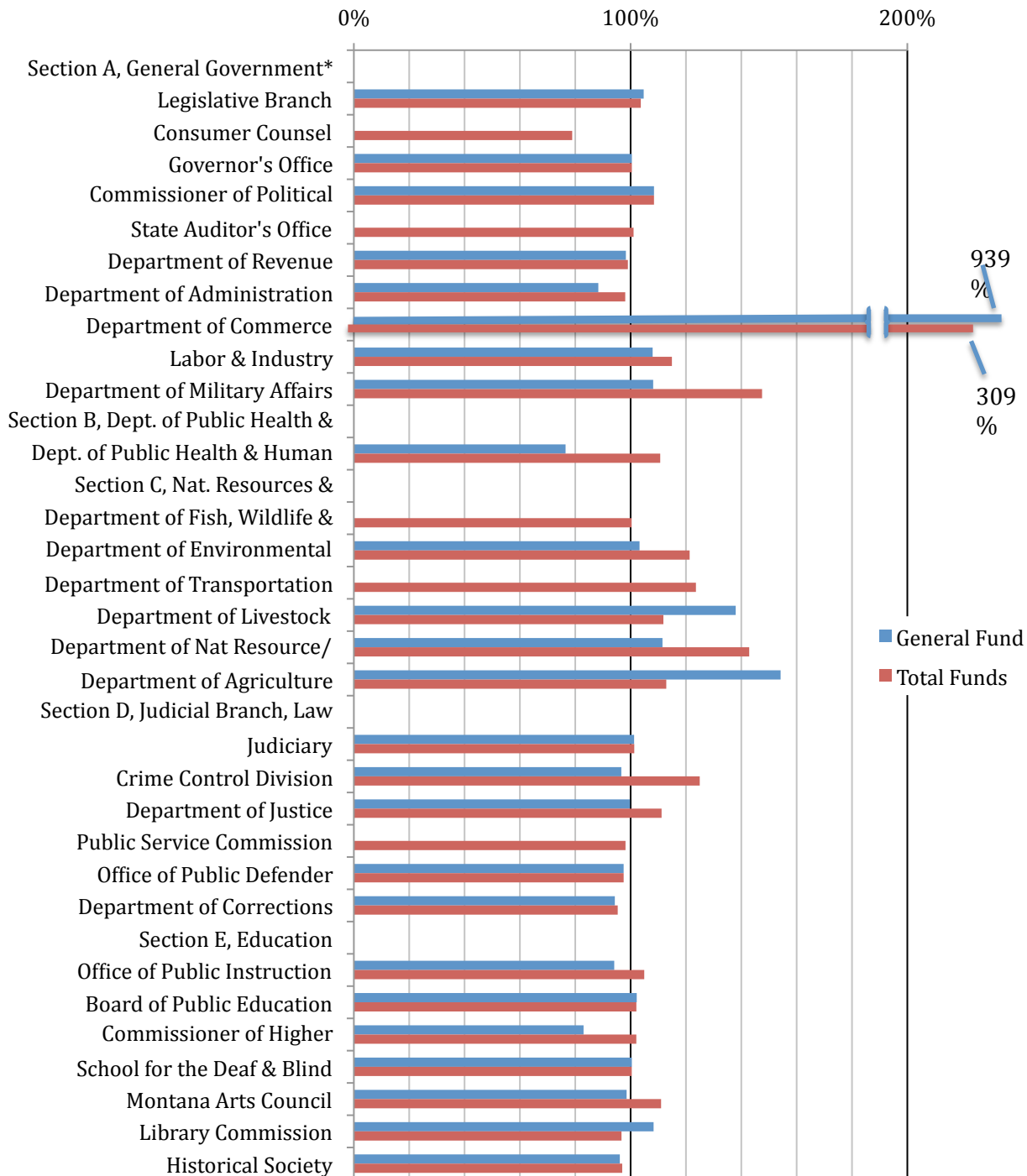
Present law budget - defined as that additional level of funding needed to maintain operations and services at the level authorized by the previous legislature. Present law includes but is not limited to legally mandated workload, caseload, or enrollment changes, changes in funding requirements, inflationary or deflationary adjustments, and elimination of one-time-only appropriations.

New proposals - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

House Bill 2 (HB2)- HB2 is the main appropriation bill passed by the legislature each biennium.

Source: *HB2 The Barbarian*, 2008, Legislative Fiscal Division: Helena, MT.

Figure 6: Appropriations as a Percent of Present Law, 2011 Beinnium



Source: MBPC calculations based on Legislative Fiscal Division, 2011 Biennium Report
Please note that Department of Commerce numbers are not depicted to scale.

Table 2: Dollar Differences between Appropriations and Present Law, 2011 Biennium (A positive number indicates appropriations were above present law, and a negative number indicates appropriations were below present law)		
	General Fund	Total Funds
Section A, General Government		
Legislative Branch	1,075,897	1,012,706
Consumer Counsel	n/a	(741,497)
Governor's Office	56,145	56,145
Secretary of State's Office	n/a	1,400,000
Commissioner of Political Practices	75,655	75,655
State Auditor's Office	n/a	399,041
Department of Revenue	(1,767,989)	(1,088,527)
Department of Administration	(1,660,397)	(861,879)
Montana Consensus Council	(152,032)	(408,682)
Department of Commerce	47,265,390	128,217,391
Labor & Industry	384,287	20,896,843
Department of Military Affairs	944,510	26,913,480
Section B, Department of Public Health & Human Services		
Department of Public Health and Human Services	(190,687,167)	343,709,606
Section C, Natural Resources & Transportation		
Department of Fish, Wildlife & Parks	n/a	538,615
Department of Environmental Quality	384,401	25,693,001
Department of Transportation	2,600,000	260,929,322
Department of Livestock	869,585	2,502,761
Department of Nat. Resources/Conservation	5,230,724	44,569,430
Department of Agriculture	964,506	3,983,268
Section D, Judicial Branch, Law Enforcement, Justice		
Judiciary	886,867	985,767
Crime Control Division	(167,994)	4,493,444
Department of Justice	(110,131)	15,515,201
Public Service Commission	n/a	(136,118)
Office of Public Defender	(1,031,995)	(1,031,995)
Department of Corrections	(20,560,121)	(17,244,421)
Section E, Education		
Office of Public Instruction	(80,884,546)	82,473,404
Board of Public Education	9,780	16,774
Commissioner of Higher Education	(64,247,126)	10,900,233
School for the Deaf & Blind	53,254	53,259
Montana Arts Council	(13,650)	282,426
Library Commission	426,537	(325,212)
Historical Society	(221,984)	(283,211)
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report		

Agencies Cut Below Present Law

Most state agencies received enough funding to meet their present law budgets with a combination of state and federal (including ARRA) funding. However, several agencies were cut below present law levels, meaning they likely will be unable to maintain the same level of programs and services delivered during the last biennium. These agencies include: the Consumer Counsel, the Department of Revenue, the Department of Administration, the Montana Consensus Council, the Office of the Public Defender, the Department of Corrections, the Library Commission and the Historical Society.

Several of these agencies, provide services that are vital to the state during an economic downturn.

- The Office of the Public Defender's mission is to "ensure equal access to justice for the state's indigent." [4] As the economy worsens, more Montanans are likely to require the services of the Office of the Public Defender.
- Department of Revenue cuts will impact future revenue. By not fully funding the present law for the Department of Revenue (DOR), the legislature has likely reduced the amount of revenue the department will be able to collect under current tax laws as compared to the previous biennium. For example, DOR has shown that for every dollar spent in the audit function, over \$7 of revenue is collected. [5]

Across the Board Cuts

Most agency budgets were subject to two separate decreases, which will adversely affect their ability to provide the required services to the public: a significant increase in the vacancy savings rate and a 2% across the board reduction in agency general fund budgets.

Vacancy Savings

Vacancy savings are the savings that accrue to the state when vacant positions remain unfilled. Since 2003, most agency budgets have included a 4% vacancy savings rate. In the 2011 biennium budget, vacancy savings were increased to 7% from 4% across most agencies. A few agencies have been exempted from the vacancy savings increase.[6] The increase in the vacancy savings rate saves \$38 million in general fund and \$95 million in total funds over the biennium.[7]

Key Term

Vacancy Savings- Vacancy savings are the savings a department receives when a job is left unfilled. Because the department does not have to pay salary or benefits while the position is open, the department 'saves' money.

When the vacancy savings rate is set higher than naturally occurs- in other words when jobs do not come or stay open long enough to accrue the anticipated savings- then vacancy savings act as a general cut to the budget. Because the vacancy savings rate has been set so high over the 2011 biennium, agencies are likely to have to either leave positions open they could have otherwise filled or find the cost savings elsewhere in their budgets. The effect is to cut state employment and/or other services with no corresponding cut to statutory delivery requirements. These cuts come at a time when state jobs and services are needed to help the economy recover.

The legislature created a \$7 million contingency fund that departments may apply for if they cannot meet the increased vacancy savings rate.

In addition to the increase in the vacancy savings rate, state employees will not receive a pay increase for the 2011 Biennium. Insurance contributions were increased for state employees, and employees earning below \$45,000 will receive a lump sum payment of \$450.

2% across the Board Cuts

In addition to the increased vacancy savings rate, most agencies received a 2% across the board reduction to their budgets. The 2% cuts will further increase the likelihood that agencies will have to reduce staff and/or reduce services, which will, in turn, further exacerbate the economic outlook for the state. The 2% cuts reduced state spending by a total of \$12.2 million.[7] The legislature did not dictate where the 2% cuts should occur within each agency but rather left it up to the discretion of the agencies. The cuts did not come with a concomitant reduction in the statutory or constitutional demands that must be met by the agencies.

The American Recovery and Reinvestment Act

On February 13, 2009, the U.S. Congress passed the \$787 billion American Recovery and Reinvestment Act of 2009 (ARRA or 'stimulus act'), which provided extensive relief to states, local governments, and individuals suffering from the current economic downturn. The state of Montana is expected to receive over \$1.73 billion in relief from the stimulus act,[8] including money flowing directly to individual Montanans through tax credits, increased unemployment insurance, and increased food stamp benefits. The bulk of the funding, roughly \$1.05 billion[9], was provided to the State of Montana for further distribution. ARRA funding, comprising approximately 11% of the total state budget, was appropriated by the 61st Legislature with other state and federal funds as part of an unusually complicated budgeting process.

Key Term

House Bill 645 (HB645)- HB645 is the bill that appropriated the American Recovery and Reinvestment Act funding distributed to the state. HB645 was an appropriation bill unique to the 2009 Legislative Session.

Silo Funds

Most of the over \$1 billion in stimulus funding provided to Montana had to be used for specific purposes and programs outlined in the federal stimulus act. These funds were commonly referred to by legislators and legislative staff as "silo funds." The state received over 60 distinct "silos" of funding through the stimulus act, totaling over \$900 million, for a diverse array of programs ranging from homelessness prevention to highway repair. Figure 7, below, shows the silo funds broken down by the state agency receiving the funds.

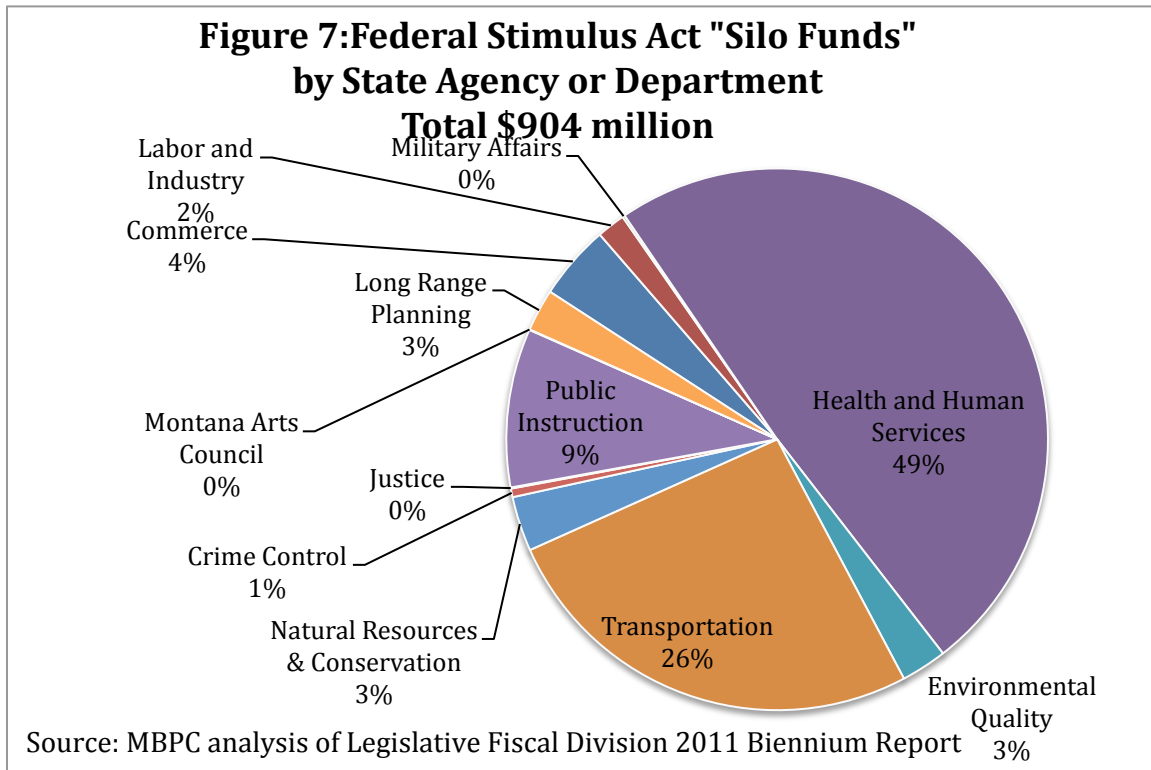
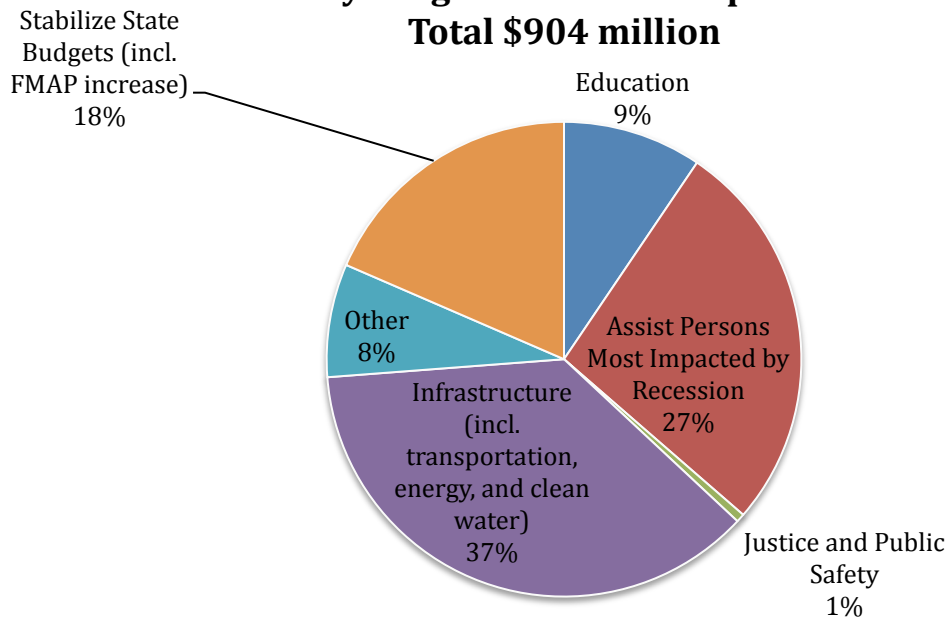


Figure 8, below, shows the same funds broken down by general program area or purpose. As Figure 8 demonstrates, the greatest share of federal silo funds (37%) were devoted to infrastructure projects, with significant funding going toward highway repair and construction and a smaller portion dedicated to energy efficiency and natural resources projects. Programs aimed at assisting Montanans most impacted by the recession made up the second biggest category of silo funds, representing 27% of the total. Most of the silo funds supplemented rather than supplanted state funding for the same or similar programs. In other words, the federal dollars were in *addition* to any funds the state had already planned on spending on those services.

Eighteen percent of the silo funds were dedicated toward stabilizing the state budget, the primary source of which was an increase in funding from the federal government to reduce the state's costs associated with the Medicaid program (commonly referred to as the "FMAP increase"). This funding was intended to *replace* state funding that would have otherwise paid for Medicaid services, thus freeing up that state money to be used for other purposes. Because Montana was not facing budget deficits, policy makers had more flexibility regarding how to spend the freed up state funds compared to other states.

Figure 8: Federal Stimulus Act "Silo Funds"
by Program Area or Purpose
Total \$904 million



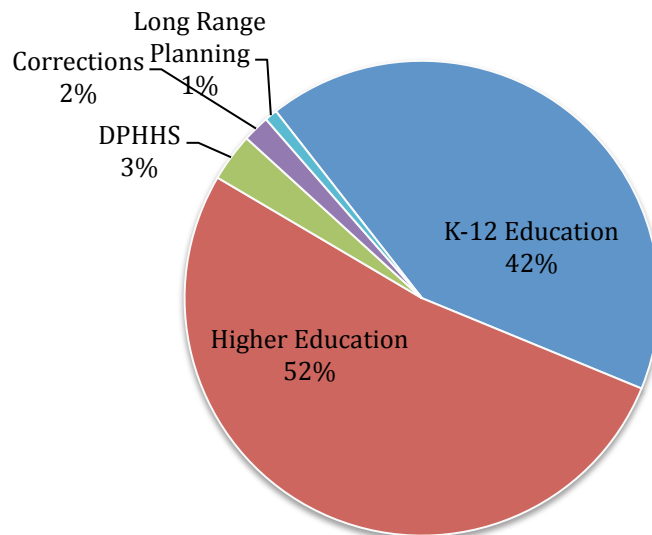
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report

Fiscal Stabilization Funds

In addition to the FMAP increase, the stimulus act provided Montana with almost \$149 million in "fiscal stabilization funds," for the express purpose of preventing cuts to state government programs and services. The stabilization funds were provided in two distinct block grants to the state, one to help prevent cuts to K-12 and higher education (\$122 million, or 82% of the fiscal stabilization fund) and another allowing states flexibility in avoiding cuts to other key services (\$27 million, or 18% of the stabilization fund).

Figure 9 shows how the fiscal stabilization funds were appropriated. Of the \$149 million in state fiscal stabilization funds, 94% was spent on K-12 and higher education. This represents all of the education stabilization funds and an additional 67% of the general stabilization funds. In general, the one-time-only fiscal stabilization funds were appropriated to *replace* state funding for education rather than *adding to* state funding for education, with the result that the ongoing base budgets for education were reduced (discussed in more detail below).

**Figure 9: State Fiscal Stabilization Funds
Appropriations
Total \$149 million**



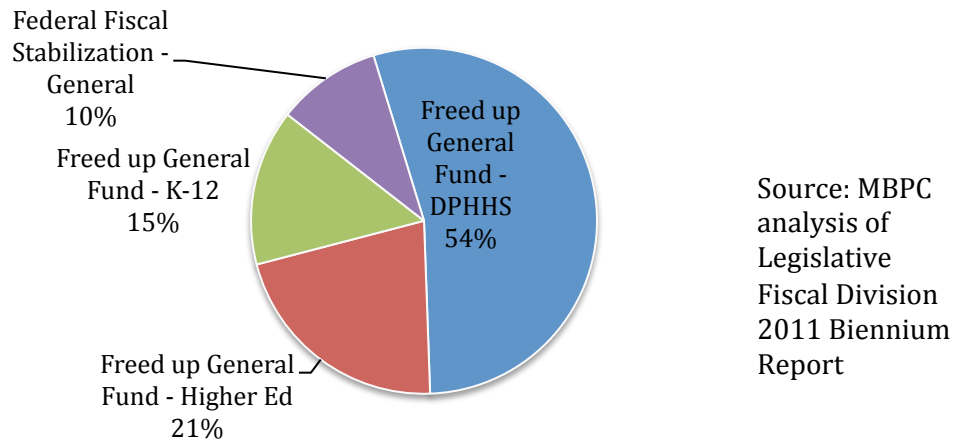
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report

Summary of Sources of Discretionary Funding from the Stimulus Act

In total, the stimulus act resulted in an additional \$277 million that could be appropriated by the legislature at its discretion, subject to the approval of the Governor. The sources for the discretionary funding can be divided into three categories:

1. **Freed up General Fund from Silos (\$150 million)**- As noted above, in some cases, the funding provided through the stimulus act for specific purposes freed up state funding that would have otherwise gone toward those purposes. The most significant example of this phenomenon is the increased federal funding for Medicaid. Montana expects to receive over \$163 million in increased federal Medicaid assistance. Because most of that increase was not necessary for meeting projected increases to Medicaid caseloads, the additional federal dollars “freed up” state funding that would have otherwise gone toward Medicaid.
2. **General Fiscal Stabilization (\$27 million)**- The stimulus act provided the state of Montana with \$27 million to be used at the legislature’s discretion in order to avoid cuts to important government programs and services.
3. **Freed Up General Fund from Education Stabilization Funds (\$100 million)**- The stimulus act also provided \$122 million in funds meant to prevent cuts to K-12 and higher education. Unlike most states, Montana had state resources available to fund its education systems. Therefore, the education stabilization funds directed toward maintaining those budgets freed up significant state funding that would have otherwise gone toward education.

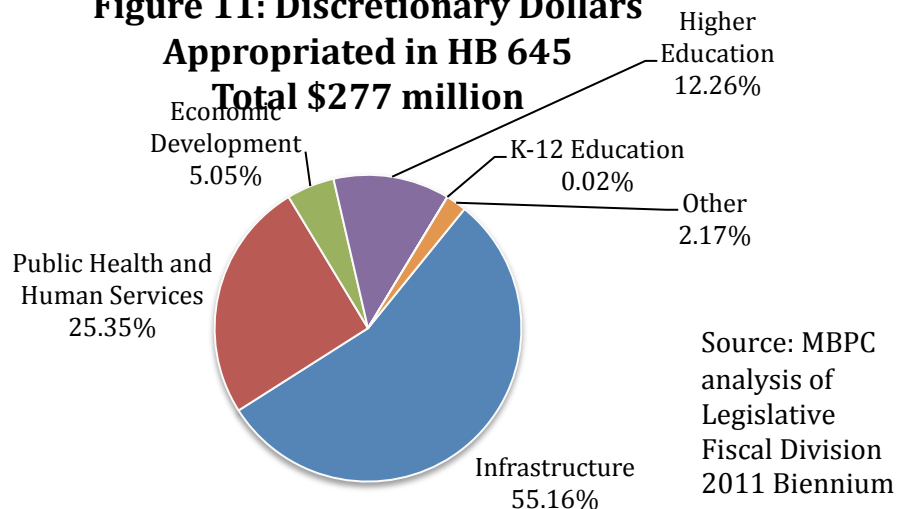
**Figure 10: Discretionary Dollars by Source:
Total \$277 million**



The Discretionary Funding was Redistributed from Education and DPHHS toward Infrastructure

The appropriate use for the discretionary funding made available by the stimulus act was the subject of much debate during the session. Many social services and education advocates argued that the general fund dollars freed up by replacing state dollars with stimulus funding should stay in the human services and education budgets. As Figure 11 below shows, instead, the majority of the discretionary dollars were diverted to infrastructure, such as water projects, historic preservation, and energy conservation. This funding for infrastructure projects was in addition to the \$334 million dedicated for infrastructure in the silo funds. In contrast, the Department of Public Health and Human Services, the source of 54% of the stimulus related discretionary funding, received 26% of the discretionary dollars. Similarly, K-12 and higher education, the source of 36% of the discretionary dollars, received 12% of the discretionary funding, with most going to higher education.

**Figure 11: Discretionary Dollars
Appropriated in HB 645
Total \$277 million**



Structural Imbalance and Cuts to Base Budgets

The concept of structural balance played a critical role in budget decisions during the 2009 Legislative Session. As used by the legislature, structural balance means ongoing revenues are sufficient to fund ongoing expenditures over a biennium. Under this definition, funds available such as ending fund balances, federal fiscal stimulus and other one-time money should not be used to fund ongoing programs. While attention should be paid to a true structural imbalance, a two-year (biennium) time frame is too short to assess structural imbalance.

By using a short time frame, the legislature is capturing what could be explained as a cyclical imbalance and calling it a structural imbalance. A cyclical imbalance will occur during times of economic downturn because of decreased revenue and increased demand for government services. Under normal circumstances, cyclical imbalances are difficult for state governments to deal with because most states, including Montana, have a balanced budget requirement. In other words, Montana cannot run a deficit during times of economic downturn and repay that deficit during times of above-normal economic growth.

Key Terms

Structural Imbalance- A structural imbalance occurs when, over the long term, ongoing expenditures exceed ongoing revenues.

Cyclical Imbalance- A cyclical imbalance exists when, in the short term, ongoing expenditures exceed ongoing revenues. A cyclical imbalance occurs during an economic downturn due to increased demand for services and decreased revenue.

Distinguishing between a structural imbalance and cyclical imbalance is critical to making sound fiscal decisions regarding the use of one-time-only funds. During an economic downturn, it may be wise to spend one-time-only funds to prevent cuts to services while the economy, and state revenues, have time to rebound. Spending cuts will damage an already fragile economy and decrease access to government programs when many Montanans need them most. Every dollar state government spends goes back into the economy in the form of salaries, payments for purchases and contracts, and/or assistance programs.

The legislature's short-term conceptualization of structural balance was used to limit the use of one-time-only money for ongoing programs and services during this time of economic downturn. The result has been that, in addition to the cuts to present law discussed above, the legislature has prematurely planned cuts to programs for the 2013 session prior to knowing if ongoing funds will be available. More information about the preemptive cuts to base budgets can be found in the education and DPHHS budget overviews below.

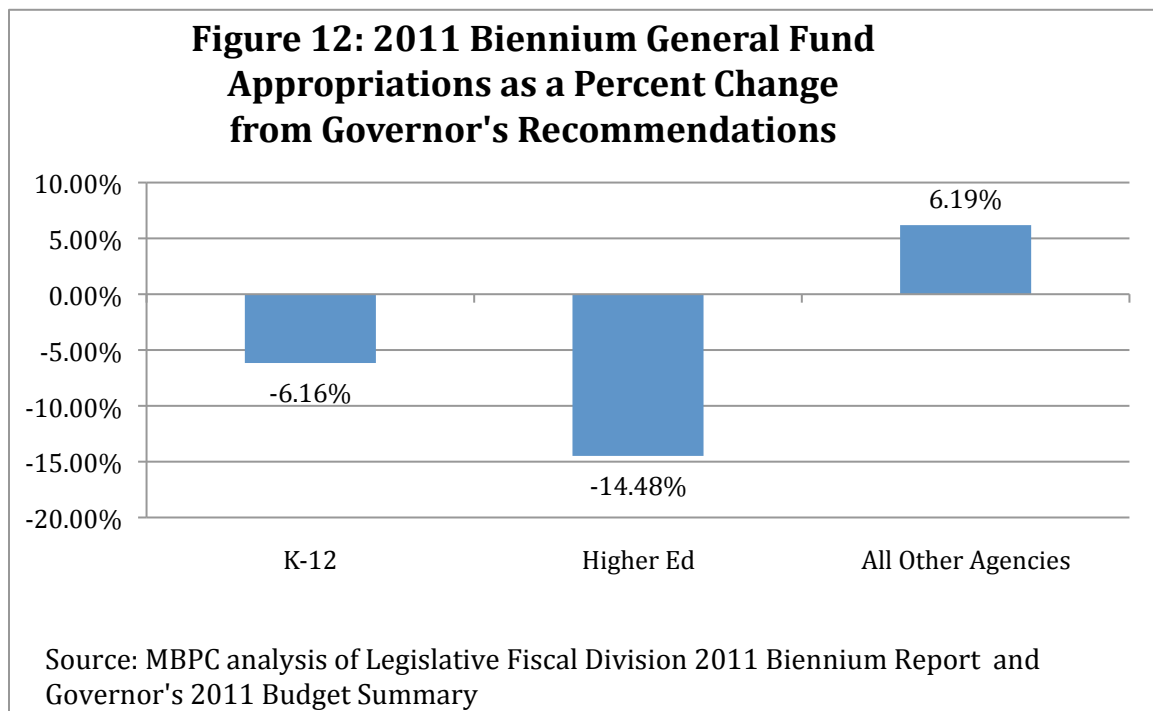
Critical Issues in the Education Budgets

State Funding for Education

Compared to the Governor's recommendations, state funding for K-12 and higher education was substantially reduced. Even including federal funding, total funding for K-12 education was below the Governor's recommendations. The state's own funding of K-12 education was \$84.5 million (over 6%) below the Governor's recommendations. Likewise, total funding for higher education was less than proposed by the Governor, and state

funding for higher education was reduced by \$53 million (14.48%) (Table 3 and Figure 12). In comparison, excluding K-12 and higher education, all other agencies received on average a 6.19% increase relative to the Governor's recommendations.

Table 3: 2011 Biennium General Fund			
	K-12	Higher Ed	All Other Agencies
Governor's Recommendation	\$1,371,347,089	\$366,799,703	\$1,614,207,208
Legislature's Appropriations (including federal stimulus bill)	\$1,286,829,718	\$313,673,276	\$1,714,078,402
Budget Change	\$(84,517,371)	\$(53,126,427)	\$99,871,194
Percent	-6.16%	-14.48%	6.19%
Source: MBPC analysis of Legislative Fiscal Division 2011 Biennium Report			



While the use of ARRA funds to reduce state funding for education was not a technical violation of ARRA provisions, it may have violated the spirit of the act. The ARRA requirements were created to restore funding for education during a time of budget deficits. For states with relatively strong budget positions like Montana, the intent was to increase total funding for education.[10] However, the flexibility in the maintenance of effort (MOE) requirements allowed Montana to actually reduce state funding for education compared to what it would have spent without ARRA. The U.S. Department of Education Office of Inspector General has expressed concern about states using the ARRA state fiscal stabilization funding ("SFSF") in this manner, "The consequence of this [reduction in state funding for education] could adversely impact the achievement of the education reform objectives of the SFSF program." [10]

Base Funding for K-12 Education

For K-12 education, present law adjustments include a 3% inflationary increase in both years of a biennium (often referred to as a 3-3 increase). For the 2011 biennium, the legislature approved the 3-3 increases, but, because of concerns about structural imbalance, the full amount cannot be included in the base for the 2013 biennium. Rather, for fiscal year 2010, only 1% of the increase was deemed ongoing. The remaining 2% (\$21,710,627) was classified as one time only, and thus will not be included in the base budget for the 2013 biennium.

In addition, the at-risk school funding was reduced to \$1 in each year of the 2011 biennium. At-risk funding is intended to provide targeted assistance to children in poverty. While there was stimulus funding available for similar purposes, the stimulus funding was not necessarily distributed in the same fashion or to the same schools. An additional \$999,998 will be required to reinstate the at-risk school funding in the 2013 biennium.

In addition to the planned cuts to the base budget, the legislature replaced \$40 million of state general funds with federal funds for ongoing funding of K-12 education in the 2011 biennium. These funds will be considered part of the base budget for the 2013 biennium but will need to be replaced with state general fund dollars. If revenues are adequate to fund base budgets, this funding switch should not be a concern.

Funding for Higher Education

HB645 replaced \$59 million of ongoing general fund dollars with federal stimulus dollars for the 2011 biennium. This \$59 million will be included in the general fund base budget, but the federal funds will need to be replaced with state general funds in the 2013 biennium. This should not be a concern if revenues for 2013 are adequate to fund base budgets.

The 2013 base budget for higher education will be cut \$33 million below the 2011 level, mostly because of one-time only stimulus dollars that will not be replaced

Highlights of DPHHS Budget

Five major changes were implemented in the DPHHS budget for the 2011 biennium

1. The legislature funded a voter initiative to expand children's health insurance (see next section).
2. Because of concerns regarding structural balance, the 2013 biennium general fund base budget will be lowered by \$22 million.[7] The total budget for DPHHS will be lowered by substantially more than the \$22 million because the federal government matches spending on DPHHS programs such as Medicaid. The reduction in total budget will likely be between \$66 million and \$88 million.
3. DPHHS was the recipient of \$448 million federal stimulus dollars including \$109 million in enhanced Medicaid federal match[11] and \$130 million for Medicaid caseload growth during the 2011 biennium.[7]
4. \$76 million of general fund dollars were replaced by federal dollars for the funding of ongoing programs in the 2011 biennium. These dollars will be included in the 2013 biennium general fund base budget. This should not be a concern if revenues are adequate to fund base budgets.
5. Providers were given a one time only increase of 2% which does not match healthcare inflation and will not be included in the 2013 budget.

Children's Health Insurance

In November of 2008, voters overwhelmingly approved an expansion in the Children's Health Insurance Program (CHIP). According to the law passed by the voters, children in families up to 250% of the Federal Poverty Level (FPL) are eligible, an increase from 175% of the FPL. 250% of FPL for a family of three is \$45,775, and 175% of FPL is \$32,043.[12] The legislature appropriated \$21 million in Special Revenue to fund this expansion. As a result of the CHIP expansion, the state will receive \$70 million in additional federal revenue, and 29,000 additional children will be eligible for health insurance.[7]

Conclusion and Issues for the 2013 Session

Most agencies maintained present law budgets for this biennium, with some large increases for additional programs funded by ARRA. However, three agencies of particular importance during an economic downturn did not receive adequate funding to maintain present law: the Office of the Public Defender and the Department of Revenue.

In addition, based on the budget decisions made for the 2011 biennium, there are several concerns that will arise when the budget for the 2013 biennium is set in the next legislative session. The main concerns will be:

1. Inadequate base budgets for certain programs,
2. The need to replace federal dollars with general fund dollars for some ongoing programs, and
3. Potentially inadequate revenue to fund a present law budget.

The first two concerns are primarily for K-12, higher education and DPHHS. The third concern could affect all agencies.

Inadequate Base Budgets

As discussed above, base budgets for K-12, higher education and DPHHS will be inadequate to continue current services in the 2013 biennium. In order to maintain current services,

these three agencies will have to request additional appropriations in the form of “new proposals” rather than have them automatically added to the base. New proposals face a much higher level of scrutiny during the budget-making process. If revenues are inadequate, new proposals may not even be considered, even though, in the case of these three agencies, the new proposals will actually be proposals to continue the existing level of services.

General Fund Replacing Federal Dollars

In three agencies, federal dollars were appropriated in the 2011 biennium that will be partially included in the general fund base budget for the 2013 biennium. In other words, unless there is additional federal relief for state budgets, these federal dollars will need to be replaced by general fund dollars in the base budgets for the next biennium. Unlike the concerns discussed under “Inadequate Base Budgets” above, as mandated by the language in HB645, the base will be adjusted to include a portion of these federal dollar appropriations. Therefore, only if general fund revenues are not adequate to fund base budgets would this be a potential concern. In theory, if revenues are not adequate, these three agencies will not be any worse off than other agencies. However, care must be taken to ensure that these agencies are not targets for additional cuts simply because their base budgets this biennium were funded in part with one-time-only federal dollars that freed up state dollars to be used for other purposes. This is particularly important because of the cuts to base budgets already anticipated by these agencies.

Table 6 shows the amount of federal dollars that will need to be replaced by general fund dollars in the next biennium. Column A shows the general fund dollars that were replaced by federal dollars for the 2011 Biennium but that will be included in calculating the base for the 2013 Biennium. Column B shows appropriations for the 2011 Biennium that will *not* be added back to the base for the 2013 Biennium and will result in 2013 base budgets below 2011 levels for those programs. For the 2013 Biennium, the amounts in column B will be considered new proposals.

Table 6: Adjustments and Cuts to the General Fund Base Budgets for the 2013 Biennium		
	(A) Approximate General Fund Base Adjustments for 2013 Biennium	(B) Approximate Cuts for the 2013 Biennium
K-12	\$40 million	\$23 million
Higher Education	\$59 million	\$33 million
DPHHS	\$76 million	\$22 million
Total	\$175 million	\$78 million
Source: LFD 2011 Biennium Report		

In other words, to maintain a true present law budget that does not result in cuts to key programs and services, K-12 education, higher education, and DPHHS will need a total of \$253 million more in state general fund dollars than they received this biennium.

Revenue Adequacy

The uncertain economy creates an unknown about whether revenues for the 2013 biennium will be adequate to cover ongoing programs and services. If revenues are not adequate, the state will need to take a balanced approach to filling budget gaps. A balanced approach includes looking at both sides of the budget equation- revenue increases and spending cuts.

Ensuring that Montana can maintain government services during a time of increased need is critical to economic recovery. Over 200 economists from 38 states (including Montana) have signed a letter urging state governments to “maintain the public services that are critical to the health of the economy and the well-being of working families,” because “cutbacks at this time would further slow the economy and harm those already hardest hit by the downturn . . . We understand that the law requires a balanced budget, which forces officials to make difficult decisions. But even when options are limited, some choices are better than others. Economic theory and historical experience both show that raising taxes during a downturn—particularly taxes that affect only higher-income families—is generally better for a state’s economy, and better for its citizens, than sharp budget cuts.” [13]

Unlike most states, Montana has been able to avoid large cuts to services in the 2011 biennium. However, some programs did face cuts and more cuts are planned for the 2013 biennium. Going forward, Montana needs to meet this crisis with a balanced approach that includes, if necessary, potential revenue increases. [14] A strategy that implements the cuts to education and DPHHS planned by the 2009 Legislature or, worse, makes additional cuts, will only exacerbate the economic downturn and increase the suffering of those Montanans whom have been most impacted by the recession.

Endnotes

1. However, as of the end of September 2009, revenue collections were over 18% below the estimated revenue for the first three months of FY 2010.
2. For example, from 2000 to 2007 Montana's population increased by 6.2% . However, the population over 60 increase by 17.3% (U.S. Census Bureau). The prison population grew by over 15% in the same time period (Bureau of Justice Statistics).
3. New proposals that require additional programs or populations to be served may underestimate the funds needed to meet present law. However, there were few new proposals of this type.
4. Office of the State Public Defender website <http://publicdefender.mt.gov/>
5. Montana Department of Revenue, *Business and Income Taxes: Audit Collections by Fiscal Year*. 2010.
6. For a complete list of exemptions see the Legislative Fiscal Division, 2001 Biennium Report, volume 1 page 99.
http://www.leg.mt.gov/content/Publications/fiscal/fr_2011/vol_1/Overview%20of%20State%20Expenditures.pdf
7. *Legislative Fiscal Report 2011 Biennium: Report from the Legislative Fiscal Division to the Sixty First Legislature*. 2009, Legislative Fiscal Division.
8. Center for American Progress at
http://www.americanprogress.org/issues/2009/02/compromise_map.html
. Note: The total amount of funds to Montana will likely be substantially greater than this estimate because it does not include grant funding available to states, tribes, local governments, nonprofits, or businesses through the stimulus act.
9. Includes stimulus funding allocated for specific state programs and fiscal stabilization funding. This figure does not include increases in unemployment insurance benefits which flow through the state but did not require appropriation by the legislature (\$207,129,149) nor general fund dollars freed up by the use of stimulus funding (\$249,819,396). Legislative Fiscal Division, 2011 Biennium Legislative Fiscal Report, Vol. 1, p. 60, June 2009.
10. West, K., *Potential Consequences of the Maintenance of Effort Requirements under the ARRA State Fiscal Stabilization Fund*, O.o.I.G. United States Department of Education, Editor. 2009.
11. An additional \$54 million was provided to enhance the Medicaid match rate for FY2009.
12. For more information on the federal poverty level for 2009 see
<http://aspe.hhs.gov/poverty/09poverty.shtml>.
13. Montana Economists Join Hundreds Across Nation Urging States to

Maintain Public Services.

<http://www.montanabudget.org/reports/montana-economists-join-hundreds-across-nation-urging-states-maintain-public-services>

14. Johnson, N., A. Nicholas, and S. Pennington, *Tax Measures Help Balance State Budgets: A Common and Reasonable Response to Shortfalls*. 2009, Center on Budget and Policy Priorities: Washington DC.

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