

Fund Transfers are Prudent and Have Precedent



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Special Series: Balanced Solutions for 2011

All Montanans want a state we can be proud of--a state where our children can learn, grow, prosper, and stay to raise their own families. That future depends on our ability to invest in the public structures that educate our children, keep our communities safe, protect our land and water, and provide health care and other services when we struggle to make ends meet.

Like all other states, the Great Recession has temporarily threatened Montana's ability to adequately invest in these public structures. Montana deserves a balanced approach to our revenue challenges that looks not just at dramatic and harmful cuts to public services, but also targeted efforts to increase revenue. This brief is one in a series of MBPC reports that explores policies to responsibly raise revenue in the state.

Although Montana has lost some revenue thanks to the Great Recession, the amended executive budget submitted on December 15, 2010 manages to largely maintain core public services that educate our children, keep our families and communities healthy and safe, and help our most vulnerable neighbors make ends meet. These programs also create jobs for teachers, nurses, and other workers throughout the state.

Unfortunately, the 2011 Legislature has started by implementing a starting point for the budget that is almost \$500 million below the governor's proposed budget and over \$300 million below the legislature's own revenue estimates, a decision that swept over 200 individual cuts into a handful of procedural motions.¹ If these cuts are not restored, they will decrease income for Montana families and businesses, hurt vulnerable children and seniors, and cost the state more in the long run. A cuts-only approach will result in laid off workers, cancelled contracts, students unprepared for the workforce, and a further drag on our already struggling economy.

The legislature does have options for restoring some of those cuts. One mechanism available is to support the proposals by the executive to transfer funds from special revenue accounts into the General Fund, which would provide bridge funding for core services while revenues recover.² The governor's fund transfer proposals are outlined in Table 1, to the right.³

Transfer	FY 2012	FY 2013	2013 Biennium
TSEP and Regional Water	\$10.44	\$12.05	\$22.49
Big Sky Economic Development	\$1.33	\$1.56	\$2.89
Fire Suppression Fund	\$20	0	\$20
School Facility Account	\$10	\$10	\$20
Coal Bed Methane Account	\$6	0	\$6
Total	\$47.77	\$23.61	\$71.38

Previous legislatures have shown bipartisan support for using one-time-only fund transfers and other revenue enhancements. In general, fund transfers are wise economic policy during economic downturns because they prevent cuts to core services when Montana families and businesses are struggling. The benefits and risks of each of these individual fund transfer proposals deserve to be debated on their own merits, but the idea of short-term fund transfers should not be rejected wholesale.

One-Time-Only Solutions are Appropriate Responses to Economic Downturns.

Information from both the Governor's Office of Budget and Program Planning and Legislative Fiscal Division indicate that we have survived the worst impacts of the recession, and state revenues are on the rebound.⁴ However, at the moment, we are still seeing lingering effects of the recession on state revenues.

In a recession, people buy less and earn less, reducing what the state gets from individual and corporate income taxes. Unfortunately, this happens just as more Montanans are losing their jobs, facing reduced work hours and wages, struggling to get by, and, as a result, having to rely more heavily on public programs from children's health insurance to job training. This dynamic results in a cyclical imbalance that causes a temporary gap between state tax revenue and the funding needed to maintain core public services.

It is perfectly appropriate - indeed it is good fiscal policy - to look for short-term revenue solutions to a cyclical imbalance. These short-term solutions can act as bridge funding while the economy recovers, people return to work, and state revenues rebound.

It's worth noting that in ordinary times, there is valid reason to be concerned with using one-time-only solutions to fund ongoing public services. Over the long term, such plans can create a structural imbalance whereby ongoing revenue is insufficient to keep pace with ongoing investments in public programs and infrastructure, and cliffs are created that eventually require deep cuts in public spending and/or a restructuring of the tax system.

However, the state is currently experiencing cyclical, not structural, challenges related to the nationwide recession. Using short-term revenue solutions can be one part of our approach to balancing our budget as we continue to move out of the recession.

Montana has a history of using fund transfers during economic downturns.

From 2001-2003, the last time that Montana experienced recession-induced revenue declines, the legislature and Martz administration used over \$300 million in fund transfers and other revenue enhancers in an attempt to shore up the budget. Table 2 on the next page shows some of those transfers and revenue enhancements.

Table 2: 2001-2003 Fund Transfers and Revenue Raisers⁵ (in millions)	
2003 Legislative Session	General Fund Impact
Accommodations, rental car, and cigarette tax increase; income tax decrease (SB 407)	\$70.40
Funding switches to replace General Fund	\$48.20
Fund transfer from Old Fund to General Fund (HB 363)	\$26.30
Revise interest rate for refund of protested property taxes (SB 294)	\$11.00
Revisions to motor vehicle registration requirements (HB 559)	\$10.30
OTO eliminate General Fund transfers to Highway Fund (HB 217)	\$6.00
Revise philanthropy tax credit (HB 616)	\$4.40
Fund transfer from Motor Vehicle Information Technology System Account (SB 493)	\$3.70
Simplify Oil and Natural Gas distribution (HB 748)	\$3.30
Total:	\$183.60
2002 Special Session	
Fund switches to replace General Fund	\$18.50
Additional or accelerated General Fund revenue collection	\$9.60
Fund balance transfers to General Fund	\$4.20
Redirection of revenue to the General Fund	\$2.30
Total:	\$34.60
2001 Legislative Session	
Loan from coal tax trust fund to purchase the mineral rights of public school trust lands (SB 495)	\$75.00
Fee changes, fund transfers, and other revenue enhancers	\$28.20
Revise local government funding (HB 124, "Big Bill")	\$11.20
Total:	\$114.40
Total 2001-2003	\$332.60

Conclusion

The 2011 legislature has difficult choices ahead that will have potentially serious consequences for Montana's seniors, children, businesses, and communities all across the state. Our economic future will depend on legislators' abilities to find balanced solutions to our challenges.

Montana deserves solutions that look beyond a cuts-only approach. The commitment to "turn over every rock" in creating a balanced budget should include targeted revenue enhancements, including careful consideration of fund transfers to support Montana's core public services.

Endnotes

1. See "Early Budget Plans Bode Poorly for Montana," Montana Budget and Policy Center, January 5, 2011.
2. Other options include increasing compliance by taxpayers who are not paying what they owe under our current tax laws and closing ineffective and unfair tax loopholes. See "Menu of Revenue Options for a Balanced Approach to Montana's Economic Recovery," Montana Budget and Policy Center, December 13, 2010. The governor's budget includes several of these revenue enhancers in addition to the transfers. See Dec. 15 Revisions to Governor's Budget, http://budget.mt.gov/content/Dec15_Budget_Revisions.pdf.
3. In addition to the transfers listed here, the governor is proposing a restructuring of the oil and natural gas severance tax to fund a new "Teach Montana" fund which will be used to fund the Quality Educator Payment.
4. See Dec. 15 Revisions to Governor's Budget, http://budget.mt.gov/content/Dec15_Budget_Revisions.pdf. Legislative Fiscal Division Revenue Estimates, http://leg.mt.gov/content/Publications/fiscal/interim/financemty_nov2010/Revenue-Assumptions.pdf.
5. All figures from Legislative Fiscal Reports, 2003 Biennium, 2002 Special Session, and 2005 Biennium, and bill fiscal notes.