



Montana Budget Update

Where Do We Go from Here?

September 2017

An Unbalanced Budget Leaves Deep Cuts to Services for Montanans

The recent decline in state revenue threatens Montana's ability to adequately invest in the public institutions and services that educate our children, keep our communities safe, and provide health care and other services to our most vulnerable neighbors. Acknowledging that revenue levels were below projections in the 2017 biennium, the governor released a proposed budget in late 2017 for the 2019 biennium that included a package of budget cuts, revenue enhancers, and fund transfers.

At the conclusion of the legislative session, the legislature: (1) accepted nearly all the Governor's proposed cuts; (2) made even deeper cuts, particularly in health and human services and higher education; (3) and refused nearly every bill to increase revenue to sustain services at their current level. In addition to the significant reductions made during the session, policymakers left Helena with less than a \$200 million ending fund balance (well below past sessions). Senate Bill 261 made further cuts when state revenue again dropped below projections.¹ **In total, legislative action between January and July 2017 has resulted in \$218 million in general fund cuts.**² DPHHS has had present law reductions of \$13.4 million in general fund dollars, and these cuts result in an additional loss of nearly \$56 million in matching federal funds.³

Montana law requires the governor to reduce spending when the ending fund balance falls below a certain percentage of expenditures in the second year of the biennium. That trigger amount phases down as the state advances into the biennium. For the period between July 2017 and September 2018, that trigger amount is 5 percent of expenditures in the second fiscal year (FY19), or about \$119 million. On August 30th, the governor's budget office announced that it estimated the state's ending fund balance at the end of FY19 would be below the trigger amount.⁴ This estimate is based on: (1) lower revenue in FY17; (2) the governor's budget office projecting lower revenue for FY18 and FY19; and (3) higher expenditures for FY18 and FY19, partly due to wildfires. In order to meet the required minimum, the state must restore **\$227 million** to reach an ending fund balance of \$143 million.⁵ This \$227 million can come from a combination of further cuts, transfers, and additional new revenue. The executive branch has some authority to make spending reductions but is limited to no more than a 10 percent reduction in each agency division. Alternatively, the governor (or the legislature itself) can call a special session to address the current budget crisis.

Now is the Time for the Legislature to Seriously Consider Revenue

Further cuts may be inevitable, given the level of the ending fund balance, but Montanans should continue to call for a balanced approach that was not adequately debated during the session. Republican leadership's refusal to consider new revenue has meant devastating cuts for many services that support families and communities across the state. Additional cuts will impact nearly every part of the state budget. It is critical that citizens call on legislators to have a thoughtful conversation about new revenue to stave off even greater destructive cuts.

- **Any additional cuts made would be on top of \$218 million in general fund cuts already taken this year.** During the session, the legislature made significant cuts to health and human services, higher education, and many other state agencies. In total, the legislature cut \$151 million from a present law budget during the legislative session, and SB 261 triggered an additional \$67 million in cuts, including reductions to payments for Medicaid providers and K-12 education.⁶ Further cuts could impact all agencies, including even deeper cuts to mental health services, K-12 education, and public safety.
- **Policymakers on both sides of the aisle need to come back to the table to consider common-sense proposals to restore revenue.** This session, legislators proposed over 20 measures to raise revenue, but a majority of Republican legislators blocked nearly all of these bills from coming to the House or Senate floor for a full debate. Now is the time to reconsider revenue, to lessen the need for cuts impacting Montana families, and ensure Montana continues to be a state where families can live and work.
- **Increasing the tobacco tax would restore over \$100 million in revenue to the state.** Senate Bill 354 proposed a long overdue increase in the tobacco tax and passed the Senate, but was killed in House Taxation Committee on a party line vote.⁷ Recent polling shows that the vast majority of Montanans support an increase in the tobacco tax.⁸ In addition to restoring needed revenue, an increase in the tobacco tax can have positive health benefits for the state and its citizens.⁹
- **Closing tax loopholes is common sense.** Instead of protecting special interests, legislators should return to Helena to consider several proposals to close tax loopholes that benefit powerful special interests. It is time for the super wealthy and large corporations to pay their fair share, instead of forcing Montana families to bear the brunt of budget cuts.

Making Tough Choices: A Framework for Considering Future Budgetary Cuts

While we believe a balanced approach that includes new revenue is essential to mitigate the worst level of cuts, we understand that short-term cash flow issues may necessitate the governor to take immediate cuts under the authority of 17-7-140.¹⁰ We recognize the difficult decision in making further cuts, and the below factors should be considered to limit the damage of these cuts.

- **Make only the cuts necessary to comply with state law and utilize all allowable authority to make transfers.** Cuts made beyond what is necessary for any short-term cash flow reasons may limit our leverage to raise revenue in the future. Automatic cuts should be limited to what is required under 17-7-140, and the state should utilize transfer authority to the full extent authorized by law.
- **Avoid further damage to programs that help our most vulnerable families.** Montana seniors and people with disabilities who depend on publicly funded health services are now facing serious shortages of services at a crisis level. Cutting the same percentage from every

state agency would be an excessively blunt tool that could increase suffering as well as threaten our economy.

- **Limit cuts to agencies and programs that will result in loss of federal funds.** In general, for each state dollar cut in public health services, the state foregoes two dollars in federal matching funds. This compounds the effects of state general fund cuts, primarily to programs supporting low-income seniors and people with disabilities. With HB 2 and SB 261 cuts, the state is already set to give up roughly \$56 million in federal funds in the 2019 biennium.
- **Avoid cuts that may result in lower revenue over time.** It is critical when making tough budget decisions to weigh short term cuts against the long-term effects of cuts on revenue and the broader economy. Low- and middle-income families are more likely to spend their dollars in their own communities, and services that help families make ends meet can also result in stronger local economies. Additionally, cuts to the Department of Revenue will impact future revenue. DOR data shows that every dollar cut in their budget results in \$6.30 less in revenue collected.¹¹

¹ Legislative Fiscal Division. "SB 261 'Budget Stabilization'."

<http://leg.mt.gov/content/Publications/fiscal/2017%20Session/SB261.pdf>.

² Legislative Fiscal Division. "SB 261 Revenue Triggers – Preliminary results are Level 4." July 26, 2017.

<http://leg.mt.gov/content/Publications/fiscal/2017%20Session/Revenue-Trigger4.pdf>.

³ Total federal funds include both legislative action during the session and an additional \$17.4 million in lost federal funds resulting from cuts in SB 261. Legislative Fiscal Division. "Legislative Fiscal Report 2019 Biennium." June 2017.

<http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Fiscal-Report/Volume-1/0-Entire-Volume1.pdf>. Montana Department of Public Health and Human Services. Presentation by Marie Matthews during DPHHS administrative hearings. July 27, 2017. On file with author.

⁴ Office of the Governor Budget and Program Planning. "Memorandum to Agency Directors from Dan Villa, Budget Director." August 30, 2017. <https://bloximages.chicago2.vip.townnews.com/helenair.com/content/tncms/assets/v3/editorial/0/34/0344266b-45a9-58a8-9eb8-170b19f461aa/59a7030133288.pdf.pdf>.

⁵ Office of the Governor Budget and Program Planning. "Memorandum to Agency Directors from Dan Villa, Budget Director." August 30, 2017. <https://bloximages.chicago2.vip.townnews.com/helenair.com/content/tncms/assets/v3/editorial/0/34/0344266b-45a9-58a8-9eb8-170b19f461aa/59a7030133288.pdf.pdf>.

⁶ Legislative Fiscal Division. "SB 261 'Budget Stabilization'."

<http://leg.mt.gov/content/Publications/fiscal/2017%20Session/SB261.pdf>.

⁷ Montana 65th Legislature. Senate Bill 354. <http://leg.mt.gov/css/default.asp>.

⁸ Moore Information. "Executive Summary: Montana Voters and Tobacco Policy." March 21, 2017. On file with author.

⁹ Marr, C., and Huang, C. "Higher Tobacco Taxes Can Improve Health and Raise Revenue." Center on Budget and Policy Priorities. March 19, 2014.

¹⁰ Montana Code Annotated. Section 17-7-140.

¹¹ Legislative Fiscal Division. "General Fund Status Sheet Rules." 2017 Legislative Session.

<http://leg.mt.gov/content/Publications/fiscal/2017%20Session/Status%20Sheet/Status-Sheet-Rules-2017.pdf>.