A Crumbling State Budget: Its Impact on Nonprofits and What We Can Do About It

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Co-director
Montana Budget and Policy Center
What is the Montana Budget & Policy Center?

It is our MISSION to advance responsible tax, budget, and economic policies through credible research and analysis in order to promote opportunity and fairness for all Montanans.
Federal funds comprise nearly half of revenue for Montana’s state budget.

2019 BIENNIAL TOTAL BUDGET (REGULAR SESSION) = $14,183.9
BY SOURCE OF FUNDING
($ MILLIONS)

- Federal Special Revenue: 44%
- General Fund: 36%
- State Special Revenue: 17%
- Proprietary: 3%

Source: Legislative Fiscal Division
Education funding makes up half of state general fund appropriations.

2019 BIENNIAL BUDGET (REGULAR SESSION)
GENERAL FUND - HB 2 ONLY - $4,063.2
(IN MILLIONS)

- Education $2,098.1; 52%
- Health & Human Services $1,066.2; 26%
- Judicial Branch, Law Enforcement & Justice $640.6; 16%
- Natl Resources & Transp. $71.9; 2%
- General Government $186.4; 4%

Source: Legislative Fiscal Division
But when factoring in federal funds, HHS makes up the biggest share of the budget.

2019 BIENNIAL BUDGET (REGULAR SESSION)
TOTAL FUNDS - HB 2 ONLY - $10,131.9
(IN MILLIONS)

- General Government: 6%
- Education: 26%
- Natl Resources & Transp.: 18%
- Judicial Branch, Law Enforcement & Justice: 8%
- Health & Human Services: 42%

Source: Legislative Fiscal Division
Individual income taxes comprise the largest share of general fund revenue.

FY2016 GENERAL FUND REVENUE - $2,121.3
(IN MILLIONS)

- Individual Income Tax: 56%
- Property Tax: 12%
- Vehicles Tax & Fees: 5%
- Corporation Tax: 6%
- Insurance Tax: 3%
- Video Gaming Tax: 3%
- Oil & Natural Gas Taxes: 2%
- Remaining Sources: 13%

Source: Legislative Fiscal Division
General fund revenue dropped in 2016, coming in nearly $270 million below projections for the 2017 biennium.

Source: Legislative Fiscal Division
In 2016, the governor proposed a combination of cuts and new revenue in his 2019 biennium budget to restore $300M ending fund balance.

- Cuts, $108.5
- Funding Switch / Transfers, $138.2
- Revenue Increases, $122.9
- HB 2 New Expenditures, ($37.7)
- Non-HB 2 New Expenditures, ($39.5)
- Revenue Reductions, ($7.5)

All Changes Together, $284.9

Source: Legislative Fiscal Division
The 2017 legislature made additional cuts and rejected nearly all revenue proposals, leaving less than $200M ending fund balance.

Source: Legislative Fiscal Division
General Fund revenue came in below the legislature’s 2017 projections.

Source: Legislative Fiscal Division
Lower 2017 revenue triggered additional budget cuts under SB 261.

Source: Legislative Fiscal Division
The executive projected lower revenue in 2018 and 2019 and called special session.

Source: Legislative Fiscal Division
Actions taken during special session (in millions)

- Transfers and Other Budget Adj. $53.8
- New Revenue (Management Fee on State Fund, etc.) $40
- Budget Cuts: Health and Human Services $49.2
- Budget Cuts: Education (K-12, higher ed, etc.) $29.5
- Budget Cuts: Natural Resource (DNRC, DEQ, etc.) $4.6
- Budget Cuts: Justice (Corrections, AG, etc.) $9.4
- Other reductions $7.3
- Budget Cuts: General Govt (Governor, Revenue, Admin, Commerce, Labor, etc.) $7

Factoring in federal funds, total cuts to DPHHS is $110 million.

Source: Legislative Fiscal Division
Nearly $100 million general fund cuts to DPHHS has resulted in the loss of over $100 million in federal funds.

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<th>Timing of the Cuts</th>
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<td>($12,017,536)</td>
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Source: Department Public Health and Human Services
Cuts to DPHHS

Total general fund cuts of $95 million have also resulted in the loss of more than $100 million in federal matching funds.

- Senior & Long-Term Care
- Offices of Public Assistance
- Services for seniors and adults and children with disabilities
- Case management for those seeking mental health or substance use disorder treatment
General fund revenue came in as projected for FY2018, triggering restoration of some budget reductions.

Source: Legislative Fiscal Division
Recent restorations equate to 32% of total cuts to DPHHS.

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<td><strong>Restoration in August 2018</strong></td>
<td>Includes restore some Medicaid provider rates, one-fourth targeted case management, and some new obligations (Child Family Services, MT State Hospital)</td>
<td>$30,551,970</td>
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<td><strong>NET GENERAL FUND CUTS TO DPHHS</strong></td>
<td>($64,743,967)</td>
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Source: Department Public Health and Human Services
The $30 million restored to DPHHS will address some, but not all, of the cuts made for FY2019.

- **Targeted case management** funds restored are **one-fourth** of original appropriation.

- Additional cuts **not restored** includes:
  - Second chance homes;
  - Chemical treatment services;
  - Closure of 19 offices of public assistance*:
  - Support for children and adults with developmental disabilities;
  - Services for seniors and people with disabilities living in their homes

- Some “restoration” funds went toward **meeting new or increased obligations**:
  - Increased caseload within child welfare system
  - Increased costs at Montana State Hospital
Most state agencies will start the 2021 biennium budget process below FY2017 base levels

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<th>Percent Above/Below FY2017 Base (GF only)</th>
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<td>Labor &amp; Industry</td>
<td>-7.9% Staff vacancies within Human Rights Bureau, limited outreach to businesses and employees.</td>
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<td>Corrections</td>
<td>0.3% Possible supplemental appropriation for FY19 to address increased prison populations; increased county jail holds.</td>
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<td>Public Health &amp; Human Services</td>
<td>1.9% Increased Medicaid caseload is offsetting significant reductions in other divisions. **See division detail</td>
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<tr>
<td>Natural Resource &amp; Conservation</td>
<td>-10.7% Reductions to water resource division, including stream gauges, water monitoring and testing.</td>
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<tr>
<td>Revenue</td>
<td>-4.8% Elimination of 28 county property tax assistance offices, over 100 vacancies within PAD (some will be filled now, but will have to keep at least 24 open in FY19).</td>
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Source: Legislative Fiscal Division and individual agencies
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<td>Higher Education</td>
<td>-2.9% Reductions felt by individual colleges and universities, with corresponding tuition increases.</td>
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<td>Office of Public Instruction</td>
<td>1.0% $18 million in special session cuts reduced total $45 million present law adjustment during regular session. Many school districts raised mills to fill gap.</td>
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<td>Historical Society</td>
<td>-25.1 Staff layoffs (9 of 60 FTEs), elimination of capitol tours and other services.</td>
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<td>State Library</td>
<td>-29.9 Staff layoffs (reported 12 of its 44 FTEs) and reduced services for services for those with sight-impairment or physical disabilities.</td>
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Source: Legislative Fiscal Division and individual agencies
What Happens Now? 2021 Biennium Budget Outlook

- Governor will release proposed 2021 biennium budget in November
  - Revenue projections (FY2019 – FY2021)
  - Restoration amounts reflected in base
  - Likely another tight budget cycle

- Budgetary cuts taken are inefficient and will result in increased state costs (as well as risk lower revenue collections) over time

- Legislative action has resulted in increased pressure on local governments, nonprofits, and local property taxpayers to pick up the tab.

- State policymakers must have an honest discussion about additional revenue sources that the state should consider.
What are some revenue options?

• Restore top tax bracket on high-income earners. A 1% surcharge on income above $500,000 would:
  • Raise $19 million/year
  • Impact less than half of one percent of taxpayers

• Pare back preferential tax treatment on capital gains (investments). Eliminating the capital gains tax credit for households with incomes greater than $1 million would:
  • Raise $11 million/year
  • Impact less than 400 taxpayers

• Close corporate tax loopholes that benefit large out-of-state, multinational corporations.

• Consider increases and indexing certain targeted excise taxes.
Helpful Resources


Questions?

Heather O’Loughlin
Co-director
Montana Budget and Policy Center

www.montanabudget.org
ADDITIONAL MATERIALS
Key Budget Terms

**General Fund:** Primary fund for the state budget, and unlike other funds, is not a specific purpose fund.

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

**State Special Revenue:** State and other nonfederal sources that are earmarked for a particular purpose or restricted by law.

**Proprietary Funds:** Enterprise or internal service funds that are generated from the sale of goods or providing services.

**HB 2:** The General Appropriations Act to authorize funding for the operation of state government.

**Statutory Appropriation:** Funds appropriated in permanent law rather than a temporary bill, such as HB 2, and listed in 17-7-502, MCA.
Key Budget Terms

One-time-only Appropriations: Appropriations for a one-time purposes and are not reflected in the base budget.

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

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

Decision Package: separate, specific adjustment to the base budget. DPs can be either:

  Present Law Adjustments
  New Proposals
BUILDING A BUDGET
A GUIDE TO MONTANA’S PROCESS

Agency budget requests to governor

Revenue estimate

Governor drafts budget proposal

LFD budget analysis

Senate Finance and Claims Committee & Senate approval

House Appropriations Committee & House approval

Joint subcommittee hearings

Joint conference committee of House and Senate

Governor signs/vetoes

Programs and services funded
Sections of the State Budget

Section A – Gen. Govt.
Legislative Branch
Consumer Counsel
Governor’s Office
Secretary of State
Commissioner of Political Practices
State Auditor
Revenue
Administration
Commerce
Labor and Industry
Military Affairs

Section B – Health and Human Services
Public Health and Human Services

Section C – Natl. Resources and Transp.
Fish, Wildlife and Parks
Environmental Quality
Transportation
Livestock
Natural Resources and Conservation
Agriculture

Section D – Justice
Judicial Branch
Board of Crime Control
Justice
Public Service Regulation
State Public Defender
Corrections

Section E – Education
Public Instruction
Board of Public Ed
Higher Education
School for Deaf and Blind
Arts Council
State Library
Historical Society

Section F – Long-Range Planning
Long-Range Building Program
State Building Energy Conservation
Treasure State Endowment Program (TSEP)
Treasure State Regional Water Program
Quality Schools Facility Grant Program
Long-Range IT Program
Reclamation and Development Grant
Renewable Resource Grant and Loan Program
Cultural and Aesthetic Grant Program