

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA



STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

To: Directors, Centralized Services Administrators and Interested Parties

From: Dan Villa, Budget Director *Dan Villa*
Office of Budget and Program Planning

Date: August 30, 2017

Subject: Fiscal Year 2018 & 2019 budget reductions under 17-7-140, MCA

It is now likely that the general fund ending fund balance minimums established by 17-7-140, MCA, will not be met. This memo shall serve as the first of several directing agencies on the processes and actions that we as the Executive Branch are required to take.

What Does 17-7-140, MCA, Require of the Executive?

Both Governors Schweitzer and Martz were required to use this statute to help keep Montana's budget balanced. The statute essentially mandates mid-year reductions in expenditures to offset revenue losses or unanticipated expenditures. Expenditure reductions must be made to ensure a "rainy day fund" or ending fund balance minimum of approximately \$143 million at the conclusion of fiscal year 2019 on June 30, 2019. Expenditures shielded from these mandatory reductions include K-12 BASE Aid, salaries of elected officials, the Montana School for the Deaf and Blind, principle and interest on state debt, and the Legislative and Judicial Branches. The Office of Public Instruction state level operations budget, Department of Justice, State Auditor, and the Board of Regents may not be reduced by more than the average reduction percentage required of all other executive branch agencies.

Why is this Action Necessary?

Several circumstances have led to this situation. First and foremost, the revenue estimate upon which the 65th Legislature built the 2019 biennial budget was flawed. Even with the reductions mandated in SB261, revenues were still substantially below the official estimate by nearly \$75 million. This error will continue to haunt ongoing structural balance as the base upon which all growth will occur, and upon which all expenditure growth was based, is now lower. Over the three-year budget period (FY2017, 2018 and 2019) this could lead to a ripple effect of as much as \$225 million. The legislative rejection of the Governor's insistence on a \$300 million rainy day fund and this error necessitate action.

Second, Montana has had one of the worst fire seasons in modern history, perhaps the most expensive ever. The fire fund is now exhausted and the Governor's emergency appropriation is nearly so as well. This will not lead to any diminishment in the Bullock Administration's commitment to fight fires early through initial attack efforts or to necessary ongoing efforts to fight wildland fire wherever and whenever necessary. The Governor will not put our firefighters, citizens or their property in harm's way due to this fiscal challenge.

Finally, there is a tremendous amount of uncertainty in our nation's capital. From a revenue perspective, ongoing debates regarding federal tax reform/policy changes will pose risk to the state's coffers. State revenues can be substantially impacted by federal tax changes, which is now front and center of the political debate in Washington, DC. This phenomenon is best and most recently illustrated by the 2015 P.A.T.H. Act which reduced state corporate tax receipts.

Authorized Reductions

Reductions may be made from any general fund expenditure not exempted by statute, including HB2, any other appropriations bills, statutory appropriations, or language appropriations. Additional reductions may be made in non-general fund appropriations and nonbudgeted transfers. Reductions may not exceed 10% of general fund appropriations for any single program.

Agency Submission and OBPP Review of Proposed Reductions

On behalf of the Governor, I am directing that each Agency engage in the analysis called for under 17-7-140(1)(c). Agencies must determine if reductions for each program are mandatory or permissive, which for the purposes of this process a service is deemed mandatory if it is required by state or federal law. This finding does not necessarily mean the programs cannot or will not be reduced.

In the absence of legislative action to enhance revenues, program reductions will be substantial. Please submit proposals totaling 10% per program, the maximum allowed by law, unless specifically exempted by my office. I will be asking for voluntary cooperation from the MSDB, Judicial and Legislative Branches.

A timetable, Agency and program 10% totals, and a preliminary balance sheet used to inform the decisions ahead are attached. Technical instructions for Agency electronic submissions will be sent in a separate memo.

Please contact Deputy Budget Director Amy Sassano (x0619), Assistant Budget Director Ryan Evans (x3163), your OBPP budget analyst, or me (x3616) with any questions. Press inquiries should be directed to the Governor's Communications Director Ronja Abel (x9725).

Section - Agency - Program	FY 2018		FY 2019	
	APPROP Budget	Sum of 10%	APPROP Budget	Sum of 10%
A				
Commissioner of Political Practices				
01 ADMINISTRATION	765,826	(76,583)	758,305	(75,831)
Commissioner of Political Practices Total	765,826	(76,583)	758,305	(75,831)
Department of Administration				
01 DIRECTOR'S OFFICE	474,966	(47,497)	410,806	(41,081)
03 STATE FINANCIAL SERVICES DIVISION	4,181,638	(418,164)	4,205,525	(420,553)
07 INFORMATION TECH SERV DIVISION	428,358	(42,836)	430,499	(43,050)
23 STATE HUMAN RESOURCES DIVISION	1,610,435	(161,044)	1,623,290	(162,329)
37 MONTANA TAX APPEAL BOARD	613,160	(61,316)	614,618	(61,462)
Department of Administration Total	7,308,557	(730,856)	7,284,738	(728,474)
Department of Commerce				
51 MONTANA OFFICE OF TOURISM AND BUS. DEV.	2,797,071	(279,707)	2,801,902	(280,190)
60 COMMUNITY DEVELOPMENT DIVISION	828,464	(82,846)	827,586	(82,759)
Department of Commerce Total	3,625,535	(362,554)	3,629,488	(362,949)
Department of Military Affairs				
01 DIRECTOR'S OFFICE	743,038	(74,304)	745,719	(74,572)
02 CHALLENGE PROGRAM	1,114,498	(111,450)	1,116,781	(111,678)
03 SCHOLARSHIP PROGRAM	207,362	(20,736)	207,362	(20,736)
12 ARMY NATIONAL GUARD PGM	1,687,299	(168,730)	1,699,061	(169,906)
13 AIR NATIONAL GUARD PGM	423,176	(42,318)	425,763	(42,576)
21 DISASTER & EMERGENCY SERVICES	1,165,765	(116,576)	1,166,647	(116,665)
31 VETERANS AFFAIRS PROGRAM	1,179,733	(117,973)	1,181,673	(118,167)
Department of Military Affairs Total	6,520,870	(652,087)	6,543,006	(654,301)
Department of Revenue				
01 DIRECTOR'S OFFICE	13,670,618	(1,367,062)	13,723,937	(1,372,394)
05 CITIZEN SERV. & RESOURCE MANAGEMENT	8,420,199	(842,020)	8,456,562	(845,656)
07 BUSINESS & INCOME TAXES DIVISION	10,099,411	(1,009,941)	10,189,733	(1,018,973)
08 PROPERTY ASSESSMENT DIVISION	20,480,852	(2,048,085)	20,600,170	(2,060,017)
Department of Revenue Total	52,671,080	(5,267,108)	52,970,402	(5,297,040)
Governor's Office				
01 EXECUTIVE OFFICE PROGRAM	2,765,063	(276,506)	2,772,820	(277,282)
02 EXECUTIVE RESIDENCE OPERATIONS	166,388	(16,639)	167,679	(16,768)
03 AIR TRANSPORTATION PROGRAM	311,867	(31,187)	315,841	(31,584)
04 OFC BUDGET & PROGRAM PLANNING	2,316,190	(231,619)	2,271,418	(227,142)
05 COORDINATOR OF INDIAN AFFAIRS	189,608	(18,961)	190,048	(19,005)
12 LIEUTENANT GOVERNOR'S OFFICE	333,234	(33,323)	334,035	(33,404)
20 MENTAL DISABILITIES BD VISITORS	385,935	(38,594)	388,263	(38,826)
Governor's Office Total	6,468,285	(646,829)	6,440,104	(644,010)
Labor and Industry				
03 COMMISSIONER'S OFFICE/CSD	287,125	(28,713)	287,838	(28,784)
04 EMPLOYMENT RELATIONS DIVISION	1,353,577	(135,358)	1,359,106	(135,911)
07 OFFICE OF COMMUNITY SERVICES	146,609	(14,661)	148,433	(14,843)
Labor and Industry Total	1,787,311	(178,731)	1,795,377	(179,538)

B				
Public Health and Human Services				
01 DISABILITY EMPLOYMENT & TRANSITIONS	5,997,464	(599,746)	6,008,508	(600,851)
02 HUMAN AND COMMUNITY SERVICES	36,087,934	(3,608,793)	36,083,904	(3,608,390)
03 CHILD & FAMILY SERVICES	47,424,106	(4,742,411)	47,493,145	(4,749,315)
04 DIRECTOR'S OFFICE	2,885,092	(288,509)	2,897,092	(289,709)
05 CHILD SUPPORT ENFORCEMENT	3,592,639	(359,264)	3,615,142	(361,514)
06 BUSINESS & FINANCIAL SERVICES DIV	4,036,714	(403,671)	3,867,530	(386,753)
07 PUBLIC HEALTH & SAFETY DIVISION	3,898,715	(389,872)	3,906,160	(390,616)
08 QUALITY ASSURANCE DIVISION	2,496,859	(249,686)	2,509,628	(250,963)
09 TECHNOLOGY SERVICES DIVISION	12,481,891	(1,248,189)	12,467,620	(1,246,762)
10 DEVELOPMENTAL SERVICES DIVISION	87,483,075	(8,748,308)	90,604,685	(9,060,469)
11 HEALTH RESOURCES DIVISION	161,932,375	(16,193,238)	167,868,443	(16,786,844)
12 MEDICAID AND HEALTH SERVICES MANAGEMENT	2,331,977	(233,198)	2,333,170	(233,317)
16 MANAGEMENT AND FAIR HEARINGS	857,409	(85,741)	861,979	(86,198)
22 SENIOR & LONG-TERM CARE	73,174,369	(7,317,437)	75,078,963	(7,507,896)
33 ADDICTIVE & MENTAL DISORDERS	74,596,018	(7,459,602)	75,435,404	(7,543,540)
Public Health and Human Services Total	519,276,637	(51,927,664)	531,031,373	(53,103,137)
C				
Department of Agriculture				
15 CENTRAL MANAGEMENT DIVISION	156,637	(15,664)	110,345	(11,035)
30 AGRICULTURAL SCIENCES DIV.	228,898	(22,890)	229,454	(22,945)
50 AGRICULTURAL DEVELOPMENT DIV.	396,508	(39,651)	398,744	(39,874)
Department of Agriculture Total	782,043	(78,204)	738,543	(73,854)
Department of Environmental Quality				
10 CENTRALIZED SERVICES DIVISION	255,104	(25,510)	257,613	(25,761)
20 WATER QUALITY DIVISION	2,484,557	(248,456)	2,497,822	(249,782)
30 ENFORCEMENT DIVISION	522,736	(52,274)	526,013	(52,601)
40 WASTE MANAGEMENT & REMEDIATION	332,763	(33,276)	332,942	(33,294)
50 AIR, ENERGY & MINING DIVISION	1,588,026	(158,803)	1,591,767	(159,177)
Department of Environmental Quality Total	5,183,186	(518,319)	5,206,157	(520,616)
Department of Livestock				
01 CENTRALIZED SERVICES DIVISION	91,846	(9,185)	93,065	(9,307)
04 ANIMAL HEALTH DIVISION	2,459,970	(245,997)	2,469,267	(246,927)
Department of Livestock Total	2,551,816	(255,182)	2,562,332	(256,233)
Dept. of Natural Resources/Conservation				
21 DIRECTOR'S OFFICE	3,704,250	(370,425)	3,605,735	(360,574)
23 CONSERVATION/RESOURCE DEV DIV	1,722,745	(172,275)	1,729,428	(172,943)
24 WATER RESOURCES DIVISION	9,070,361	(907,036)	9,143,550	(914,355)
35 FORESTRY/TRUST LANDS DIV.	12,639,423	(1,263,942)	12,724,320	(1,272,432)
Dept. of Natural Resources/Conservation Total	27,136,779	(2,713,678)	27,203,033	(2,720,303)
D				
Crime Control Division				
01 JUSTICE SYSTEM SUPPORT SERVICE	2,290,883	(229,088)	2,328,275	(232,828)
Crime Control Division Total	2,290,883	(229,088)	2,328,275	(232,828)
Department of Corrections				
01 ADMINISTRATIVE SUPPORT SERVICES	13,200,130	(1,320,013)	13,166,363	(1,316,636)

02 PROBATION & PAROLE DIVISION	70,737,688	(7,073,769)	70,797,011	(7,079,701)
03 SECURE CUSTODY FACILITIES	79,286,587	(7,928,659)	79,653,192	(7,965,319)
04 MONT CORRECTIONAL ENTERPRISES	937,018	(93,702)	938,797	(93,880)
05 YOUTH SERVICES	13,551,649	(1,355,165)	13,591,344	(1,359,134)
06 CLINICAL SERVICES DIVISION	22,116,311	(2,211,631)	22,252,948	(2,225,295)
07 BOARD OF PARDONS & PAROLE	961,062	(96,106)	1,008,059	(100,806)
Department of Corrections Total	200,790,445	(20,079,045)	201,407,714	(20,140,771)
Department of Justice				
01 LEGAL SERVICES DIVISION	6,666,071	(666,607)	7,003,257	(700,326)
04 JUSTICE INFORMATION TECHNOLOGY SERVICES	4,436,833	(443,683)	4,519,846	(451,985)
05 DIVISION OF CRIMINAL INVESTIGATIONS	7,436,082	(743,608)	7,541,583	(754,158)
08 FORENSIC SERVICES DIVISION	5,608,353	(560,835)	3,903,906	(390,391)
09 MOTOR VEHICLE DIVISION	8,702,032	(870,203)	9,657,807	(965,781)
10 CENTRAL SERVICES DIVISION	1,125,951	(112,595)	1,098,084	(109,808)
19 POST COUNCIL	417,249	(41,725)	425,123	(42,512)
Department of Justice Total	34,392,571	(3,439,257)	34,149,606	(3,414,961)
Public Defender				
01 OFFICE OF PUBLIC DEFENDER	21,385,917	(2,138,592)	20,905,232	(2,090,523)
02 OFFICE OF APPELLATE DEFENDER	1,902,922	(190,292)	1,910,765	(191,077)
03 CONFLICT COORDINATOR	6,687,331	(668,733)	6,692,548	(669,255)
04 CHIEF ADMINISTRATOR'S OFFICE	2,653,920	(265,392)	2,577,264	(257,726)
Public Defender Total	32,630,090	(3,263,009)	32,085,809	(3,208,581)
E				
Board of Public Education				
01 K-12 EDUCATION	156,887	(15,689)	142,108	(14,211)
Board of Public Education Total	156,887	(15,689)	142,108	(14,211)
Commissioner of Higher Education				
01 ADMINISTRATION PROGRAM	3,107,132	(310,713)	3,134,806	(313,481)
02 STUDENT ASSISTANCE PROGRAM	9,440,248	(944,025)	9,446,398	(944,640)
04 COMMUNITY COLLEGE ASSISTANCE	12,823,606	(1,282,361)	12,856,403	(1,285,640)
06 EDUCATIONAL OUTREACH & DIVERSITY	127,998	(12,800)	129,797	(12,980)
08 WORK FORCE DEVELOPMENT PGM	90,067	(9,007)	90,067	(9,007)
09 APPROPRIATION DISTRIBUTION	169,507,703	(16,950,770)	170,321,155	(17,032,116)
10 AGENCY FUNDS	27,132,916	(2,713,292)	27,263,147	(2,726,315)
11 TRIBAL COLLEGE ASSISTANCE PGM	837,875	(83,788)	837,875	(83,788)
13 BOARD OF REGENTS-ADMIN	67,350	(6,735)	67,350	(6,735)
Commissioner of Higher Education Total	223,134,895	(22,313,490)	224,146,998	(22,414,700)
Historical Society				
01 ADMINISTRATION PROGRAM	819,967	(81,997)	770,573	(77,057)
02 RESEARCH CENTER	977,037	(97,704)	959,163	(95,916)
03 MUSEUM PROGRAM	558,303	(55,830)	570,045	(57,005)
04 PUBLICATIONS PROGRAM	121,808	(12,181)	129,125	(12,913)
05 EDUCATION	191,502	(19,150)	212,992	(21,299)
06 HISTORIC PRESERVATION PROGRAM	23,652	(2,365)	26,538	(2,654)
Historical Society Total	2,692,269	(269,227)	2,668,436	(266,844)
Library Commission				
01 STATEWIDE LIBRARY RESOURCES	2,211,289	(221,129)	2,207,070	(220,707)

Library Commission Total	2,211,289	(221,129)	2,207,070	(220,707)
Montana Arts Council				
01 PROMOTION OF THE ARTS	539,269	(53,927)	517,358	(51,736)
Montana Arts Council Total	539,269	(53,927)	517,358	(51,736)
Office of Public Instruction				
06 STATE LEVEL ACTIVITIES	11,130,615	(1,113,061)	11,305,110	(1,130,511)
09 LOCAL EDUCATION ACTIVITIES	34,739,619	(3,473,962)	34,839,921	(3,483,992)
Office of Public Instruction Total	45,870,234	(4,587,023)	46,145,031	(4,614,503)
Grand Total	1,178,786,757	(117,878,676)	1,191,961,263	(119,196,126)

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Timeline for Official Actions Regarding Implementation of 17-7-140, MCA Spending Reductions

- August 30 Office of Budget and Program Planning (OBPP) notifies agencies of situation. Governor directs agencies to “analyze the nature of each program that receives a general fund appropriation to determine whether the program is mandatory or permissive and to analyze the impact of the proposed reduction in spending on the purpose of the program.”
17-7-140(1)(c)
- September 8 Agencies submit plans to OBPP. [By statute, LFD gets a copy at the same time]
17-7-140(1)(c)
- September 8 OBPP must notify the Revenue and Transportation Interim Committee (RAT) if it anticipates it will certify a revenue shortfall to the Governor. The RAT has 20 days to meet and provide feedback to OBPP. The Budget Director “shall consider” recommendations of RTIC prior to certifying a shortfall to the Governor. **17-7-140(4), MCA**
- September 14 RAT meets to provide any recommendations concerning the amount.
17-7-140(4), MCA
- September 20 Legislative Fiscal Analyst comments on Agency and/or OBPP recommendations due to OBPP and Legislative Finance Committee (LFC).
17-7-140(1)(c), MCA
- September 25 LFC may make recommendations concerning the proposed reductions in spending.
17-7-140(1)(c), MCA

FY 2017 and 2019 Biennium General Fund Status (Millions \$)			
<u>Description</u>	<u>Actual</u>	<u>Enacted</u>	
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Beginning Fund Balance	256.478	47.564	(35.576)
OBPP Revenue Estimate - August, 2017	2,141.479	2,233.266	2,336.240
Transfers-In (SB 261)		31.640	1.640
Prior Year Revenue Adjustments	(2.111)		
Total Funds Available	2,395.846	2,312.470	2,302.304
General Appropriations Act			
HB 2 Disbursements (Adjusted for SB 261)	2,004.574	1,986.310	2,033.305
Non-HB 2 Disbursements			
HB 1 - Feed Bill	8.239	2.210	9.063
HB 3 - Supplemental	23.167	20.000	20.000
Non HB 2 Reductions (SB 261)		(2.630)	(2.630)
Other Disbursements			
Statutory Appropriations	291.065	325.531	313.825
Transfers	20.668	20.108	20.693
Fire Fund Transfer (HB 354)	11.422		
Other Appropriations	5.602	4.291	0.281
Reversions		(7.774)	(7.902)
Prior Year Expenditure Adjustments	(4.058)		
Total Disbursements	2,360.679	2,348.046	2,386.635
Fund Balance Adjustments	12.397		
Ending Fund Balance	47.564	(35.576)	(84.331)
YOY Expenditure Growth		-0.54%	1.64%
YOY Revenue Growth		4.29%	4.61%
Fund Balance as a % of Total Spend		-1.52%	-3.53%
"Cut-To" Target			143.20
Trigger			119.33