



HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS

67TH Legislature

TO: HB 2 Subcommittee Chairs

FROM: Senator John Esp, Chair, Senate Finance & Claims Committee

Representative Llew Jones, Chair, House Appropriations Committee

DATE: January 3, 2023

RE: Chair Budget guidelines and Subcommittee instructions

Recognizing the unique risk associated with the current budget and revenue forecast, we are recommending that the legislature adopt a budget that plans for a 20-year economic event that impacts revenue. The following guidelines should enable Montana to weather a 20-year event with a responsible level of budget reductions and still provide services and investments in Montana.

- The structural balance in FY 2025 should be positive by \$450 million to allow for revenue fluctuations in the future years.
- The fund balance in the general fund should be \$800 million to allow for revenue fluctuations. The one-time investments that bring down the ending fund balance should either lower long-term costs and risk or provide long-term benefits to Montanans.
- The Budget Stabilization Reserve Fund should have at least \$300 million, and subsequently the Governor should have enhanced access at a ratio of 3:1 (three dollars of reserve for one dollar of spending reduction) instead of the current ratio of 2:1

Within these parameters, the budget also needs to address the inflation and population pressures in the budget to allow services provided by state supported entities to continue. Both inflation and population have risen considerably in recent years. These add pressure to agency, local government, schools, and private provider budgets. Please consider the comparison of agency expenditures to population and inflation and personal income growth over the last 20 years and the changes since FY 2019 when weighing the inflation and population needs of your agencies. We will be reviewing these comparisons throughout the session to evaluate the overall budget needs.

The following instructions will be used to keep consistency between subcommittees in application of certain budget issues:

Instructions for the Application of Certain Budget Issues

1. The starting point motion will be the 2023 Base budget as submitted by the executive and tied out by the Legislative Fiscal Division.

- a. If the chair of the subcommittee has reasons to add change packages to alter the starting point for legislative decision making, they will work with the Legislative Fiscal Division to assure that desired changes are possible within the parameters of IBARS and the limitations of staff time.
2. Personal Services – Recommend subcommittees consider the statewide present law (SWPL) personal services adjustments with the following decision points:
 - a. Expected changes
 - b. Personal services management decisions
 - c. Budget modifications that impacted personal services budgets
3. Fixed Costs – Recommend the Section A and Section C subcommittees examine fixed cost rates and provide directions regarding the acceptance of the rates to the other subcommittees. Any adjustments should be made on a consistent basis.
4. Inflation/Deflation – Direct the Section A subcommittee to examine the inflation/deflation factors and provide directions to the other subcommittees. Any adjustments shall be made on a consistent basis.
5. Proposals requiring Legislation – Appropriations for items requiring statutory change should not be included in HB 2 until the required legislation passes, except for K-12 present law inflation and items contained in a HB 2 Companion bill.
6. HB 2 Companion Bill – Appropriation subcommittees shall determine any appropriate items for inclusion into a HB 2 companion bill and provide those items to the full House Appropriations Committee for further review. House Appropriations Committee Leadership will provide a vehicle or vehicles for enacting substantive language related to the implementation of appropriations in HB 2 and this legislation will be considered as part of the appropriations process, and should be submitted to House Appropriations for action by the 45th legislative day.
7. Subcommittees are encouraged to use set outcome goals for the current budget evaluation that include:
 - a. Evaluate items receiving one-time only appropriations or further study in the interim last session
 - b. Other items identified by the committee
8. Internal Service Programs – The appropriation subcommittees should not approve decision packages of internal service funded proprietary programs unless quantifiable rate impact information is provided.
9. As an alternate to using a “one-time-only” designation for entire agency budgets, subcommittees could consider two alternative approaches:
 - a. Put an agency on notice that in the subsequent legislative session, a specific budget area will be scrutinized more heavily, utilizing the following language:
 - i. “It is the intent of the legislature to consider the 2027 biennium budget for the department of _____ from zero to the full recommended budget. The department shall explain the necessity of each reporting level (RL4) of the budget, including the base budget for the budget submission for the 2027 biennium budget.”
 - b. Indicate that the subcommittee intends to follow up on specific budget areas in the interim, utilizing the following language:
 - i. “The Interim Budget Committee may consider the full budget of (department/division/specific programmatic subset/etc.) during the 2025 interim. The (department/division/specific programmatic subset/etc.) shall explain the necessity of each reporting level (RL4) of the budget, or pertinent sub-unit, and provide detail regarding the use, objectives, and results of appropriations provided by the legislature.”
10. Volume 10 - Information technology budget process recommendations. Each subcommittee should consider the comparisons in volume 10 when adopting the IT budget for each agency. Section A subcommittee should review format of volume 10 and make recommendations for the next session.
11. Only approve statutory appropriations that meet all the statutory guidance, 17-1-508, MCA. Specifically, do not approve statutory appropriations for administrative or operational expenditures.
12. For subcommittee hearing process: Require all materials that an agency intends to use in presentation to subcommittees be delivered to subcommittee members not later than 3 committee days before the presentation.