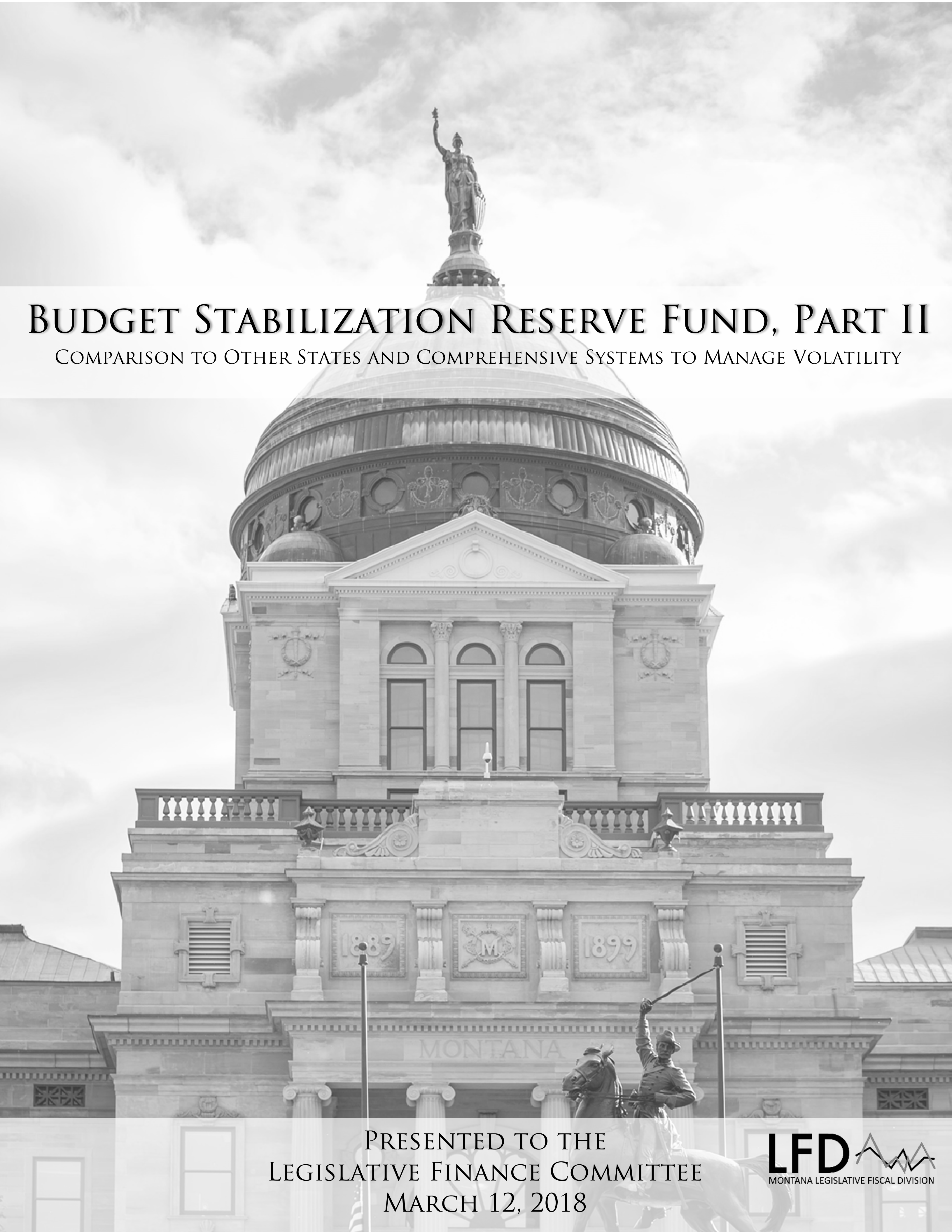


Budget Stabilization Reserve Fund, Part II

Comparison to Other States and Comprehensive Systems to Manage Volatility

Presented to the
Legislative Finance Committee
March 12, 2018

LFD
Montana Legislative Fiscal Division

Introduction

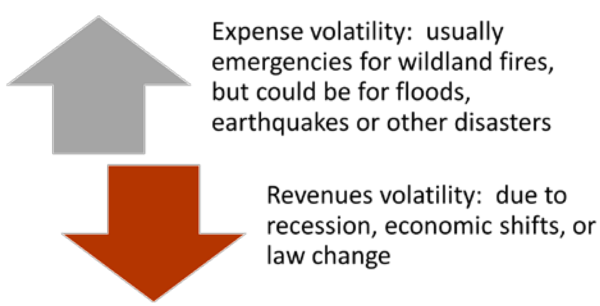
Greater consistency of state finances enables better operation of state government as over time Montana, like all entities, has the need to manage its finances in a manner that enables stable taxing and services for its citizenry. Montana faces the challenge of greater revenue volatility than the average state. According to Pew's Fiscal 50 Revenue Volatility Indicator, Montana's volatility score is 6.2 in comparison to the average 50 State volatility score of 5.0. Given this and recent experience, the legislature passed SB 261 (2017 regular session) in an effort to provide the state with an additional tool to manage that volatility.

Example household: average annual income of two working adults: $80,000

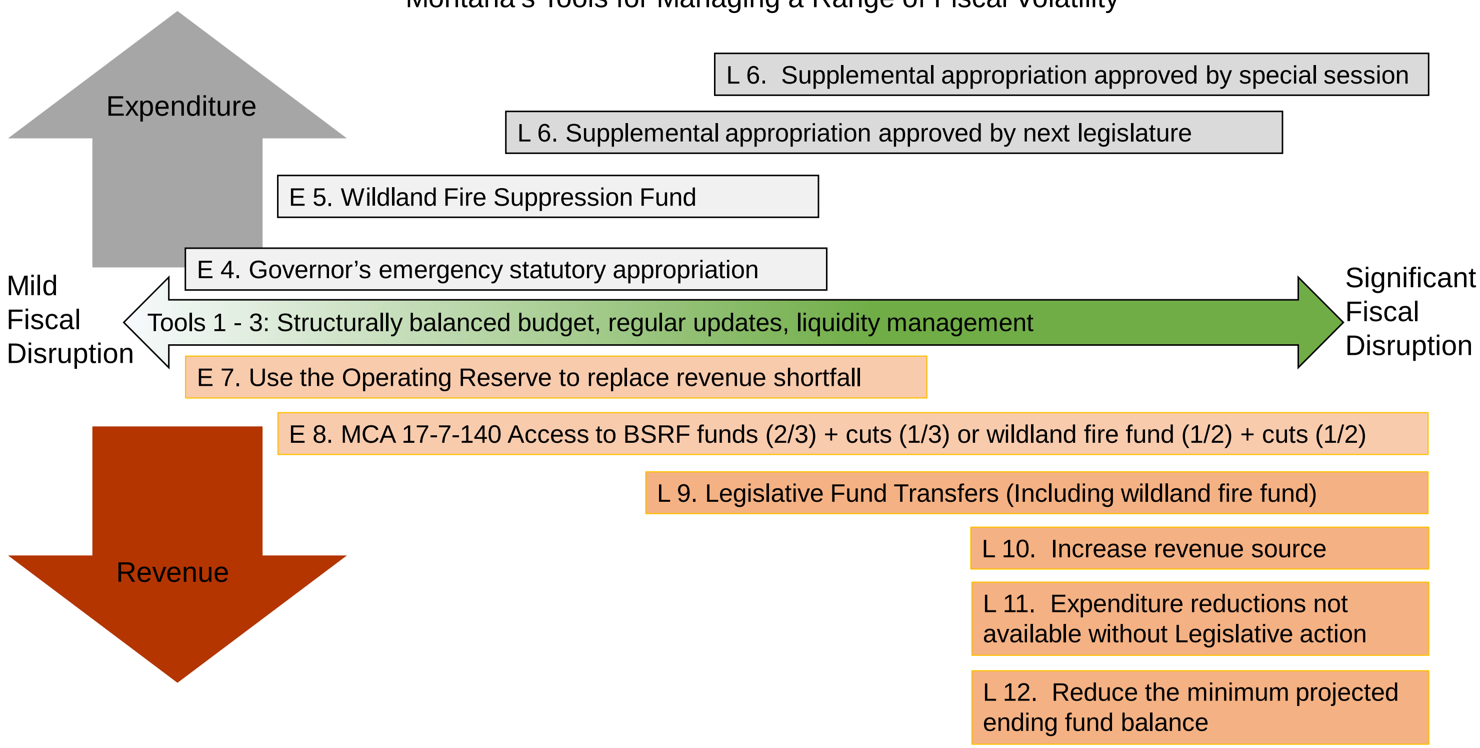
- One has steady income with benefits
- One operates a small business with volatile income
- One travels for work and is not able to make day to day budget decisions (similarly the legislature is not in Helena fulltime and not readily available for decisions)
- Other does not travel for work and makes daily budget decisions, (similar to the Governor's ability to manage the budget)

This document attempts to aid understanding of complex financial management tools using household analogies. The first example uses a model with two earners in which one person has a consistent job with benefits, and one individual operates a small business with a more volatile income level. One of the earners travels frequently, and the day to day decisions are made by the non-traveling earner. The household has ongoing bills and certain one-time expenditures such as an unexpected medical bill. A household may have tools to help them provide for that unexpected bill and unsteady small business income. For example, if the small business goes through a short dry spell, the family may have some extra funds immediately available in the checking account that can be spent down.

Like any well-managed household, the State of Montana has various tools in place to manage the variability of the income streams and expenditures. Montana's management tools are discussed in detail in this report and other household analogies are included to help clarify the concepts.



Montana's Tools for Managing a Range of Fiscal Volatility



Note: E=executive action alone and L=legislative action needed in addition to executive

Tools for Managing Volatility

1. Structural balance: Montana has strong mechanisms to report if the legislature or executive is budgeting levels that are likely to go beyond the ability to pay for the services in the long run. This mechanism is called structural balance;

Household example1 – compare continuing bills vs known revenues

- Continuing expenditures - house payments or phone bills
- Known revenues - salaries or average earnings from the business

2. Reporting revenue and budget data on a regular basis alerts decision-makers to any potential issues with finances. This allows for the opportunity for quicker responses; and

Household example 2
Review household income and expenses at regular intervals to ensure understanding of the current finances.

3. Liquidity management (Operating Reserve): Liquidity management evaluates the timing of revenues and expenditures to determine cash needs. Montana has expenditures that can be more or less than the revenue received at that point in the year. Typically this cash flow difference does not exceed 8.3% of annual expenditures.

Household example 3
8.3% = $6,640 (if using $80,000 average annual income) in the checking account at the beginning and end of the year, BUT the business revenue may cause the checking account to be $0 at some point in the year. *Note this assumes no use of credit cards or other short-term cash flow financing.*

Montana's Expenditure Volatility Management Tools

In Montana, the primary expenditure volatility occurs through wildland fires and other emergencies. The state has two funding sources for emergencies:

4. The Governor's emergency and disaster appropriation of $16 million per biennia may be used for any Governor's declared emergency (E 4). This $16 million is about 0.35% of biennial (two year) income.

Household example 4
For a household that typically makes $80,000 per year, this would be a set aside amount of $560 over two years for emergency repairs or similar unexpected expenses. The adult managing the day to day expenses can access these funds automatically.

5. The fire suppression fund was established to address wild land fire cost volatility (E 5). This fund is readily available for the Governor to use in the event of wildland fires up to the amount of cash in the fund. As seen in the current fiscal year, the cash available in this fund is not always enough to cover the fire expenditures and a special session may be necessary in order to pay expenses. The funds are not guaranteed to be available nor budgeted. The cash in the fund comes from unspent appropriations in excess of a statutory limit. The fund has a maximum limit, which is 4.0% of annual income or about $100 million for the state.

Household example 5
The limit would be $3,200 in our household example. The mechanism for depositing funds in this savings account for a household is would be like taking funds available at the end of the year that you had set aside for a purpose, like car repairs or clothing that had not been spent and setting them aside for emergencies in the future.

6. If the costs exceed the available appropriation authority for emergencies or the fire suppression fund, the Governor may need the legislature to approve a supplemental appropriation (L 6). Depending on the timing of the fire costs and the availability of other financing mechanisms the Governor may be able to wait until regular session to request the legislative appropriation, or the Governor may need to call a special session to receive immediate appropriation authority.

Household example 6
The couple may have funds for emergencies such as emergency funds (E 4) and fire funds (E 5), but at some point when those set aside funds are expended, the household needs to decide together how to pay for the emergency expenses.

Montana's Revenue Volatility Management Tools

Montana has very unique variety of tools in the toolbox, that when fully implemented, allow the state to better manage finances when revenues are significantly lower than anticipated.

7. The Governor can use the Operating Reserve to replace revenue (E 7): clear provisions provided in SB 261 explain when and how the Governor can spend the reserve. The Governor can use this fund balance to manage cash and also has access to spend down the projected ending fund balance from 8.3% to 5% without making spending reductions.

8. A blend of the Governor's access to Rainy Day Fund (RDF)/Budget Stabilization Reserve Fund (BSRF) and spending reductions (E 8): If the executive projects a general fund budget deficit (fund balance less than 5.0%), the executive must reduce expenditures (1/3 of the amount needed) and transfer from the BSRF (2/3 of the amount needed when funds available) to return the fund balance to at least an anticipated 6.0%.

Household example 7
When income is lower than anticipated, the adult managing the budget on a day to day basis can continue to spend funds as budgeted using the cash in the checking (8.3% or $6,640) account to cover expenses until the anticipated reduced income lowers the anticipated ending cash from $6,640 (8.3%) to $4,000 (5.0%).

Household example 8
When lower than anticipated income causes the adult managing the budget on a day to day basis to anticipate that the checking balance will be lower than $4,000 (5.0%) the adult managing the budget on a day to day basis reduces spending by 1/3 of the amount needed and take funds from savings by 2.3 of the amount needed to the extent funds are available to return the anticipated checking account balance to $4,800 (6%).

Special Session - Tools Accessible to the Legislature and Governor combined:

When the Governor has made all the reductions possible and has exhausted his access to the BSRF, the Governor can call the Legislature in for a special session to use additional measures only accessible to the Legislature and Governor combined, such as transfers from other funds, increased revenue, expenditure reductions not included in the list accessible to the Governor, or reduce the required ending fund balance.

> Household example
> A special session is like having the traveling adult make a special trip home to make decisions together.

9. Transfers from other funds: Legislators may introduce legislation to transfer authority from existing funds. These other funds are typically designated for a specific purpose, but most fund balances may be transferred and used in the general fund. Transfers could include legislative transfers from the BSRF. (L 9)

> Household example 9
> When the couple does get together to discuss finances, they may choose to take funds from funds set aside for vacations, long-term repair, children's education or even funds set aside for retirement.

10. Increased revenue: The legislature may choose to add additional taxes or fees to increase revenue to the general fund. In addition, the legislature could choose to make different revenue assumptions and change the anticipated level of revenue in the fund balance. (L 10)

> Household example 10
> The couple may choose to work additional hours, charge higher fees for the goods or services of the business, or re-evaluate together the anticipated revenue.

11. Expenditure reductions not included in the statutory authority of the Governor (L 11): The statute defines certain expenditures that are not possible for the Governor to reduce alone. These expenditures (budgets) can be reduced by the Legislature and the Governor agreeing. Thus more choices for spending reductions exist with the Governor and Legislature working together. (L 11)

> Household example 11
> The couple may decide that the adult managing the budget on a day to day basis can reduce certain expenditures, like entertainment, without consulting the traveling adult, but other expenditure reductions, like car repairs, need to be discussed together.

12. Reduce the minimum ending fund balance required (L 12): Statute requires a minimum of a 5.0% anticipated ending fund balance. This level is nearly twice the average and median cash balances available across the states. Working together, the Governor and the Legislature can choose to lower the anticipated minimum ending fund balance.

> Household example 12
> Both adults agree to reduce the minimum checking account balance at the end of the year from $4,000 (5.0%) to a lower level. Both would need to acknowledge that some cash flow loan or credit card balance may need to occur for some portion of the year.

Volatility Management Tools in Other States, including Executive and Legislative Roles

Tool	Most States	Montana	Other states with tool	Comment
1. Structural balance	+	+		Most states consider structural balance
2. Reporting	+	+		Most states have reporting structures
3. Operating Reserve 8.3% total	FY 2017 All state: median 2.6% average 2.7%	+ **8.3%**	California, Minnesota, Oklahoma	Few states have specifically defined operating reserves. However, most states have cash reserves at some level, median 2.6% and average 2.7%. (Table 31-32 National Association of State Budget Officers (NASBO) Fall 2017 Fiscal Survey of States)
4. Governor's Emergency $16 million or 0.7% of annual expenditures	+	+	39 states have a small amount of funds available for declared emergencies	Not including California & North Dakota, these funds average 0.2% of annual expenditures in FY 2014 in comparison 0.7% for Montana. (National Association of State Budget Officers (NASBO) Budget Processes in the States Spring 2015)
5. Fire Suppression Account/fund	-	+	North Dakota had $89 million or 2.7% of annual expenditures in FY 2014	California's op reserve can also be used for emergencies. See Appendix W
6. Supplemental Appropriation	+	+		All states can authorize supplemental appropriations
7. Spend Operating Reserve 3.3% to minimum level of 5%	-	+	California (0.5 - 3.1%), Minnesota (1.6%), Oklahoma	Few states have specifically defined operating reserves, but five states limit appropriations, which would have a similar effect. See appendix Y
8. Governor Spend BSRF & Cuts	Legislative action required for most	+	13 states allow the Governor to access RDF; 16 states allow the Governor to make cuts	Montana's Governor can access the BSRF or fire suppression fund & cuts when the 17-7-140 trigger is met. See appendix X
9. Legislature transfers from other funds	+	+		All state legislatures have funds they can transfer from in if needed
10. Legislature increase revenues	+	+		All legislatures states can raise revenue
11. Legislature reduce appropriations	+	+		All state legislatures can lower appropriations
12. Legislature reduce minimum ending fund balance 5%	-	+	Colorado 6.5% Kansas 7.5%	Most states do not have a minimum ending fund balance so it cannot be reduced in tight fiscal times.

A note on comparisons: Biennial versus annual budgeting

Data collected nationally is done on an annual basis. Thus comparisons in the table above are done in annual terms. In most states, the legislature is in session every year and address budgets every year. Montana is a biennial budget state and the legislature meets every other year while most states are annual session and budget states. Only four states have both of these factors: biennial budgets and biennial sessions. This affects policy decisions in two ways:

1) The legislature may choose to delegate more power to the Governor in biennial session states. In that way, it does not force the legislature into special session as often. This policy choice is apparent in Montana's laws as the Governor has more power to reduce spending and access the BSRF in tight fiscal times.
2) The second area that could be influenced by a biennial budget is the level of reserves recommended. What level of reserves should be available to the Governor to manage through an interim, and what level of reserves should be available to the full legislature and Governor to manage through an entire business cycle? The Legislative Fiscal Division memorandum Statistical Analysis of Variability of General Fund Revenue in Montana[1] analyzes the level of reserves needed.

Improving Montana's Financial Management

In addition to improving the tools Montana currently has, adding additional financial management tools may improve Montana's financial management.

Items mentioned in the credit reports for Montana include:

- Restoring and sustaining strong reserves
- Further addressing unfunded pension liabilities
- Diversification of economic base
- Adopt institutionalized financial best practices (note this was written before SB 261, but some mentioned issues persist such as formal multi-year financial planning of revenues and expenditures, and binding consensus revenue forecasting)

The September 2016 Managing Volatility Report demonstrated the areas of improvement to Montana's financial management. From the time this report was written in 2016, significant progress was made with the creation of the Budget Stabilization Reserve Fund, but additional improvements could be considered. Of the S and P top 10 financial best practices described in the 2016 report and in Appendix Z, Montana could continue to improve its ability to manage volatility in the following ways:

- Pay as you go infrastructure plan with bonding back up to continue progress
- Multi-year financial plan that goes beyond two years would strengthen the state's position with rating agencies
- Managing long-term liabilities other than bonded debt (pensions): Montana pension plans constitute a large share of the state's liability, and rating agencies carefully monitor the amortization schedules and have noted the relatively high investment return assumption (Fitch Ratings)
- Debt management plan for bonded indebtedness
- Evaluate if the prioritized spending plan contained in 17-7-140 should be re-evaluated in current statute

1. Legislative Fiscal Division, "Statistical Analysis of Variability of General Fund Revenue in Montana", March 2018.

- Economic diversity, while not a financial policy in and of itself, would improve Montana's bond ratings.

Rainy Day Fund improvements:

Further improvements to Montana system of managing volatility by using Statistical Analysis of Variability of General Fund Revenue in Montana as a guide to provide a statutory scalable response to various levels of revenue shortfall. While Montana now has a Rainy Day Fund (RDF), Pew research[2] suggests that Rainy Day Fund balances have an evidence-based target that reflects the purpose of the fund and the relative state revenue volatility.

The scalable response could reflect those purposes and balance the needs of Montana citizens and the responses required of the branches of Government. When considering the scalable response, appropriate deposit rules that rebuild of fund balances should also be considered. Are the current triggers, return to ratios, and fund balance levels appropriate or could alternatives improve the system? SB 261 requires Legislative Fiscal Division and the Office of Budget and Program Planning to make recommendations to the LFC by May 1.

Summary/Conclusion

Once Montana budget stabilization mechanisms are fully in place, it will have a stronger than average state system for managing volatility. The full implementation of the Montana system needs to include full statistical evaluation of the revenue volatility in Montana to determine the combined level of reserves and policies that Montana desires to implement.

Further improvements to the financial strength of Montana would continue to strengthen pension funding, debt management policy, infrastructure funding, long-term planning, and other methods of bringing stability to Montana's financial management.

The next steps in the evaluation will hone in on the questions asked by the language in SB 261 (below.). The LFC will receive the Legislative Fiscal Division and the Office of Budget and Program Planning recommendations by May 1, 2018.

(2) (a) The legislature directs the staff of the legislative fiscal division and the office of budget and program planning to study, analyze, and make recommendations regarding the budget stabilization policies to the legislative finance committee by May 1, 2018. The study should address:

(i) trigger levels in 17-7-140;
(ii) legislative and executive access to the budget stabilization reserve fund;
(iii) deposit rules into the budget stabilization reserve fund; and
(iv) the level of operating reserve.

(b) The legislative fiscal division and the office of budget and program planning shall work jointly toward development of a set of best practices for the fund by September 1, 2018.

2. Pew Charitable Trusts, "Why States Save," December 2015.

APPENDIX W

The following table illustrates the emergency funds used in states.[3]

Emergency funds	
States	Disaster Fund % of Expenditures
North Dakota	2.75%
Montana	2.67%
Fire Suppression Fund	1.94%
Governor's Emergency Fund	0.73%
California	1.07%
Special Fund for Economic Uncertainties	1.07%
West Virginia	0.78%
New Mexico	0.67%
Maine	0.64%
South Carolina	0.50%
Oregon	0.39%
Utah	0.37%
Tennessee	0.28%
Oklahoma	0.27%
Arkansas	0.27%
Disaster Response/Disaster Recovery/Hazard Mitigation/Catastrophic Loss	0.27%
Washington	0.27%
Vermont	0.24%
Missouri	0.24%
Alaska	0.19%
Disaster Relief Fund	0.19%
Virginia	0.19%
Ohio	0.18%
New York	0.15%
Texas	0.14%
Arizona	0.09%
Fire Suppression Fund	0.05%
Governor's Emergency Fund	0.05%
Alabama	0.08%
Finance-FEMA	0.07%
Military Emergency Active Duty	0.01%
Public Safety Emergency Code	0.00%
Georgia	0.08%
Governor's Emergency Fund	0.08%
North Carolina	0.07%
(blank)	0.07%
Colorado	0.07%
Disaster Emergency Fund	0.07%
Kentucky	0.05%
Illinois	0.03%
Wyoming	0.03%
Michigan	0.03%
Louisiana	0.02%
Minnesota	0.02%
Hawaii	0.02%
Rhode Island	0.01%
Indiana	0.01%
Maryland	0.00%
Connecticut	0.00%
Governor's Contingency Account	0.00%
New Hampshire	0.00%
Governor's Contingency Fund	0.00%
Nebraska	0.00%
Governor's Emergency Fund	0.00%
South Dakota	-0.25%

3. National Association of State Budget Officers, “Budget Processes in the States,” Spring 2015.

APPENDIX X

Robert Zahradnik, Principal Officer, Pew Charitable Trusts stated that[4] in total, NASBO lists 16 states[5] that give the Governor authority to cut budgets, however those methods vary greatly as you can see in the table summarized below.

Alabama	The Governor has the ability to reduce the enacted budget without legislative approval if revenues are not anticipated to be sufficient to fund the enacted budget.
Arizona	The Governor cannot withhold appropriations from any agency, other than the Governor's Office.
California	The Governor can give an Executive Order to reduce, but not eliminate, budget authority.
Colorado	The Executive Branch agencies that are overseen by the Governor (excluding elected officials such as the Treasurer, or Secretary of State) can have their funding lowered based on executive order pursuant to specific statutory criteria during certain revenue reductions.
Connecticut	The Governor has rescission authority up to 5% of any appropriation, not to exceed 3% of any fund and not applicable to municipal aid. The Governor may not unilaterally decide which appropriations are subject to rescission in the Legislative and Judicial branches of government; the Governor may propose an aggregate allotment reduction for each branch, and the leaders of those branches decide which specific appropriations are to be reduced.
Florida	The Governor can withhold funds only when necessary to avoid or eliminate a deficit pursuant to the provisions of s.216.221.
Idaho	A reduction to the budget can be made by Executive Order, but the reduction is temporary. Only the Board of Examiners (Governor, Attorney General, and Secretary of State) and legislature can make a permanent change to appropriation.
Iowa	The Governor can withhold appropriations only when it is determined that there is estimated to be not enough revenues coming into a fund to satisfy the appropriations. The Governor has the authority to enact an across-the-board reduction in appropriations to bring the fund back into balance.
Kansas	In specific situations outlined in statute, the Director of the Budget can notify the Governor of a projected state general fund deficit, in which case targeted allotments can be imposed, or a projected ending balance < $100 M, in which case an across the board rescission is enacted for the executive branch.
Maine	Whenever it appears to the Commissioner of Administrative and Financial Services that the anticipated income and other available funds of the State will not be sufficient to meet the expenditures authorized by the Legislature, the Governor may temporarily curtail allotments equitably so that expenditures will not exceed the anticipated income and other available funds. No allotment may be terminated. Any curtailment of allotments must, insofar as practicable, be made consistent with the intent of the Legislature in authorizing these expenditures.
Massachusetts	The Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional

4. Robert Zahradnik, e-mail message to Amy Carlson, March 13, 2017.
5. “Budget Processes in the States,” National Association of State Budget Officers, Spring 2015.

	revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that, under current law, the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control.
Missouri	May reduce expenditures when actual revenues are below estimates.
Nevada	Can withhold appropriations from Executive Branch agencies only.
New Jersey	Can limit an enacted budget through lapsing unspent funds at year-end, as well as impound funds as long as no legislative goals are ignored.
North Dakota	Can reduce spending if revenues fall below forecast. Reductions must be across the board.
Pennsylvania	Must provide General Assembly with 10-day notice of reduction to grants and subsidies. Also has authority to abate appropriations by establishing budgetary reserves on appropriations.

APPENDIX Y

According to Pew[6], at least five states do not allow appropriations to expend all anticipated revenues and fund balance. This limits budgeting to 95 to 99% of anticipated revenue and fund balance. This has a similar effect on budgeting to Montana's ability to spend down anticipated ending fund balance from 8.3% of annual expenditures to 5.0% of annual expenditures as the spend down occurs if revenue is less than anticipated without action of either the Executive or Legislative Branch.

Robert Zahradnik, Principal Officer, Pew Charitable Trusts stated that,

> Montana is unique in that it has an ending balance requirement in the general fund in addition to having a budget stabilization fund. States with a budget stabilization fund can and usually do keep reserves in their general fund, but there is not a required balance. Only three states have an ending balance requirement in the general fund other than Montana: Colorado, which has no formal budget stabilization fund, Kansas, which is in the process of formalizing their budget stabilization fund policies, and Nebraska, which has a statutorily-required buffer in the general fund, amounting to 3% of revenue estimated for the biennium. In addition to the states listed above, there are five states that have an appropriation limit either in their constitution or in statute.

State	Appropriation Rule	Constitution/Statute
Delaware	Delaware cannot appropriate above 98 percent of the estimated State General Fund revenue plus unencumbered funds	Constitution
Iowa	Appropriations cannot exceed 99 percent of adjusted general fund receipts	Statute
Mississippi	State law limits appropriations to 98 percent of the official revenue estimate.	Statute
Oklahoma	The constitution limits appropriations to no more than 95 percent of the official revenue estimate	Constitution
Rhode Island	The constitution requires that only 98 percent of available resources be appropriated	Constitution

6. Robert Zahradnik, e-mail message to Amy Carlson, January 5, 2018.

APPENDIX Z[7]

Table of Financial Management Tools from Standard and Poor's				
	Required by Policy, Practice, or Statute	**Governor Official Action Required**	**Legislative and Executive Action Required**	**Comment/Other states**
1) Structural Balance	Yes - Practice			Required in majority, but not all states
2) Liquidity Management	Yes – Statutory recommended minimum level of 8.3% of annual expenditures plus internal borrowing and TRANS available	Board of Examiners vote required if issue TRANS		See Section **C**: Comparisons: California SFEU and Minnesota Cash Flow Account
• Transfers from other funds			Legislative action required	Commonly referred to as fund sweeps
3) Updates on revenue and budget	Yes – LFD issues updates monthly after 5 months and full budget updates quarterly			
4) Rainy Day Fund	Statute			
Minimum forecast GF ending fund balance at the end of the biennium	Statute at 5% of second year GF appropriations			
Budget Stabilization Reserve	Statute			Defines up to 4.5% of second year GF appropriations as the reserve, amount above would be excess, but continue to be deposited in fund.
• deposit	Statute			See section **B** below on other

7. Sugden, John A., and Prunty, Robin L. "The Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers," Standard & Poor's Ratings Services, July 23, 2012.

				state's rules for **deposits to the RDF**
• withdrawal		Statutory rules available to transfer from BSRF to GF	Legislative transfers possible	See section **C** below on other state's rules for **access to the RDF**
Wildfire Suppression	Statute			
• deposit	Statute deposit a portion of unspent general fund appropriations into the fund			
• withdrawal	Statutory appropriation		Legislative transfers possible	
5) Prioritized spending and contingency plans	At times, triggers are included in legislation passed such as SB 261	Governor may implement spending reductions per MCA 17-7-140 guidance and requirements are provided in statute		More legislative input could be given to the Governor on guidance for reductions. See Appendix X for other state options.
• Legislative reductions			Legislature can reduce spending	The legislature could pre-approve additional prioritized spending reductions such as was included in SB 261
• Could have increased revenue contingencies			Revenue increases can be approved by the legislature	The legislature could pre-approve additional prioritized spending reductions such as was included in SB 261
6) Manage long-term liabilities	Policy requirements: Pension systems instructed to report and to recommend			Higher than average pension liabilities by various measures. Currently at about 5% of personal income

	changes to the systems. Intend to keep at 30 year or less amortization.			Moody's calculates MT 3 year average at 78.7% of governmental revenues in comparison to median of 52.8% of revenue
7) Multi-year plan	Only 2 year			Multi-year plan window could be extended to 4 years by building on current 4 year fiscal note process
8) Debt Management policy in place	No policy or plan other than constitutional requirement for 2/3 vote			Low ratios in comparison to other states approximately 0.5% to 0.7% of personal income with the median for all states at 2.6%
9) Pay-Go infrastructure plan	No policy, SB 43 takes a step in this direction			**Utah example[8] of pay go**

8. State of Utah Code 63A-5-104, "Capital development and capital improvement process – Approval requirements – Limitations on new projects – Emergencies," 2017 General Session.

Section B: Deposit Rules for Montana and Across the States[9]

Montana Reserve	Montana Required by Policy, Practice, or Statute	Montana Governor Official Action Required	Montana Legislative and Executive Action Required	Comment/Other states
Minimum Fund Balance: Minimum ending fund balance of 5% of the second year's appropriations	Statute	Automatic fill as the cash included in general fund ending fund balance, so no action necessary		Few states have Minimum Fund Balances
				Colorado – minimum 6.5% of appropriations in reserves
				Kansas – minimum 7.5% of current year expenditures new RDF
Operating Reserve: Ending fund balance recommended for cash flow, 8.3% including the 5% above for minimum	Policy recommended in statute	Automatic fill as the cash included in general fund ending fund balance, so no action necessary Plus fill from BSRF withdrawal	Legislature budgets to operating reserve level	Few states have statutory operating or cash flow reserves, but may have unofficial reserves used similarly
				California
				Minnesota
Rainy Day Fund (RDF) generally or Budget Stabilization Reserve Fund (BSRF) Montana				Rules beginning FY 2021
1) When revenue exceeds 6 year trend half is deposited	Statute		No legislative action necessary	Similar to Virginia
2) Legislative transfer			As authorized in legislation such as special session SB 9	
3) Cap on deposits				Reserve level defined, but no cap
Most states limit fund balance to a percentage of appropriations or revenue varying between 2.5% and 20%				
Pew best practices suggest that a deposit rule is important to success of RDF in general.				

9. Zahradnik e-mail March 13, 2017.

Fire Suppression Fund		Governor accesses the wild fire suppression fund to the extent needed to fight fires		No cap on spending other than fund balance Few other states have this size of emergency fund, see Appendix W

Section C: Withdrawal Rules for Montana and Across the States				
Montana Reserve	**Montana Required by Policy, Practice, or Statute**	**Montana Governor Official Action Required**	**Montana Legislative and Executive Action Required**	**Comment/Other states**
Minimum Fund Balance: Minimum ending fund balance of 5% of the second year's appropriations	Statute	If the Governor anticipates lower than 5% reductions in spending and withdrawals from the BSRF are required	The legislature would change 17-7-140 to allow lower anticipated minimum ending fund balance	Few states have Minimum Fund Balances, only 16 allow the Governor to reduce spending without legislative action, see Appendix X
				Colorado – minimum 6.5% of appropriations in reserves, No RDF Legislature can override
				Nebraska must budget so that 3% of biennial revenue
				Kansas – minimum 7.5% of current year expenditures New RDF Legislature can override
				5 states limit appropriations to 95-99% of available revenue: Delaware, Iowa, Mississippi, Oklahoma, Rhode Island
Operating Reserve: Ending fund balance recommended for	New law recommends in statute, practice has	Governor can withdraw from the operating reserve until	No action legislative action necessary to	Few states have Operating or cash flow Reserves

cash flow, 8.3% including the 5% above for minimum	been this level or higher	get to the minimum ending fund balance whenever revenues are below anticipated	withdraw from the operating reserve	
California: The Special Fund for Economic Uncertainties is designed to address end of year deficits in the state's general fund. Deposits are made if there is a surplus at the end of the fiscal year. The fund does not have a specified cap or savings target, and if withdrawals are made there is no repayment provision. The State's Budget Stabilization Account was designed to address "budget emergencies" as determined by the legislature. Deposits are made in two ways: (1) a static deposit equal to 1. 5 percent of general fund revenues and (2) when the share of total general fund revenues from capital gains exceeds eight percent. (Pew)				
Minnesota the state's Cash Flow Account (a separate account from their budget stabilization fund) is funded by one-time appropriations and can be used to meet cash-flow deficiencies resulting from uneven distribution of revenue collections and required expenditures during a fiscal year. The cap on this account is currently set in statute at $350 million. Since cash flow accounts are designed to offset imbalances in collections within a fiscal year and not used to offset imbalances across years, these funds are not considered rainy day funds by Pew, but they are still effective tools to ensure cash availability. Oklahoma has a fund similar to Minnesota's. (Pew)				
Rainy Day Fund (RDF) generally or Budget Stabilization Reserve Fund (BSRF) Montana				Rules beginning FY 2021: two methods of transferring cash from BSRF to general fund
4) If part of the operating reserve has been spent	Statute	Governor can transfer to general fund if ending general fund balance is less than 6.8% of second year spending	No legislative action necessary	MT – transfer to operating reserve is capped to half the amount between 2% and BSRF balance No known state has a similar rule.
5) Matching transfers and spending reductions required in MCA 17-7-140 a. $2 in BSRF transfers to $1 reductions b. If no BSRF balance may use the	New statute allows transfers to general fund when cash is available in BSRF	Governor can access when implementing budget reductions per 17-7-140	No legislative action necessary	MT - No cap other than budget reductions Virginia allows transfers from RDF can of half the shortfall or $1 for $1 Most states limit Governor and Legislature access to RDF on withdrawal by portion of the fund or

Wildfire Suppression fund $1 transfers to $1 reductions				a percentage of appropriations Only 13 states give the Governor authority to access the RDF with specific statutory guidance – see Pew appendix X
Wildfire Suppression Fund		Governor accesses the wildfire suppression fund to the extent needed to fight fires		No cap on spending other than fund balance Half of the states allow use of the rainy day fund for emergencies.

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