2019 BIENNIUM BUDGET STATUS REPORT

A Report Prepared for the

Legislative Finance Committee

By

Legislative Fiscal Division

October 5, 2017

MONTANA LEGISLATIVE FISCAL DIVISION

INTRODUCTION

The purpose of this report is to provide an update on the general fund balance, FY 2018 general fund revenues through the end of September, and budget changes to the 2019 biennium budget since the end of the 2017 Session. Included in this report is an analysis of the SB 261 reductions to the 2019 biennium budget, an updated fire suppression cost estimate, and an analysis of FY 2017 expenditures for Medicaid expansion (HELP Act) and the possible risk to the 2019 biennium general fund.

GENERAL FUND BALANCE SHEET

The Legislative Fiscal Division (LFD) general fund balance sheet includes the revenue estimate contained in HJ 2, which was adopted by the legislature during the 2017 legislative session. When using HJ 2 revenues, the ending balance for FY 2019 is estimated at $236.0 million. This ending fund balance includes LFD estimates for statutory appropriations, including HELP Act estimates as of March 2017.

OTHER ENDING FUND BALANCE RISKS

While the current ending fund balance is estimated at $236.0 million for FY 2019, three items may significantly alter the ending fund balance.

1) Uncertain general fund revenue collections are a risk to the general fund balance. The LFD prepared a range of alternative scenarios, which include a range of $0 to $282 million in lower revenue assumptions;
2) Increased expenditure risk exists for both fire suppression and Medicaid expansion. With FY 2018 fire costs higher than normal an additional $40.6 million in fire expenditures may adversely impact the fund balance; and
3) HELP Act expenditures may increase, therefore impacting the fund balance. The LFD scenarios added an additional cost of $9.8 million - $25.0 million for HELP Act.

The table shows the fund balance risks that may alter the general fund ending fund balance depending on the assumptions used. Detail on the scenarios follows as part of the upcoming financial overview presentation.

Other Fund Balance Risks (for the biennium)	
Revenues - lower than HJ 2	$0 - $282 million
Higher fire costs	$40.6 million
HELP Act higher than estimated	$9.8 - $25.0 million
FY 2019 Ending Fund Balance Range	$185.6 million - $(84.3) million

GENERAL FUND BALANCE SHEET INCLUDING HJ 2 REVENUES

Legislative Fiscal Division General Fund Balance Sheet - HJ 2 Revenues
($ Millions)

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	Actual FY 2016	Actual FY 2017	Estimated FY 2018	Estimated FY 2019
Beginning Fund Balance	$455.436	$256.478	$47.564	$130.754
Revenues				
Actual/HJ 2	2,121.288	2,141.479	2,359.345	2,476.395
Prior Year Adjustments - revenue	(3.667)	(1.932)		
Direct to Fund Balance Transfer		10.539		
Fire suppression fund transfer in, August 15, 2017			30.000	
SB 261 Triggered Revenue - 2019 biennium distribution change for accomodations tax			1.640	1.640
Revenue Legislation				
Ongoing Revenue			0.929	0.011
OTO Revenue			10.421	4.351
Total Revenue Funds Available	2,573.057	2,406.565	2,449.898	2,613.150
Expenditures - Ongoing				
Previously Authorized				
Statutory Appropriations (updated estimates as of August 2017)	265.168	291.065	313.040	324.592
General Fund Transfers (updated estimates as of August 2017)	29.254	20.668	20.108	20.693
HB 2				
HB 2 Language Appropriations			0.050	0.050
HB 2 Agency Budgets	1,908.415	1,957.389	1,991.208	2,042.472
HB 2 SB 261 Reductions			(19.987)	(25.923)
Non HB 2 - Other appropriations, etc.				
HB 1	5.025	8.239	2.390	10.368
Other Appropriations		3.417	3.238	0.281
Continuing Authority (excludes HB 1)			3.034	
Reversions			(6.999)	(7.195)
Ongoing Expenditures	2,207.861	2,280.778	2,306.083	2,365.338
OTO				
HB 2	64.519	47.185	15.158	14.393
HB 2 Appropriation Transfers and Other		0.433		
HB 3 Supplemental Appropriations		23.167		
Fire Fund Transfers	50.310	11.422		
SB 261 Non-HB 2 Reductions			(2.625)	(2.625)
Other Appropriations			0.528	
Other, including carry forward	1.147	1.752		
Prior Year Adjustments				
Total Expenditures	2,323.836	2,364.737	2,319.145	2,377.106
Other adjustments	5.888	(1.678)		
Adjustments - Prior Year		(4.058)		
CAFR Adjustments	1.368			
Ending Fund Balance without additional fund balance risks	$256.478	$47.564	$130.754	$236.044
Structural Balance (ongoing revenues minus ongoing expenditures)	($86.573)	($139.299)	$54.191	$111.067

REVENUE

HJ 2

HJ 2 (2017 Session) is the official legislative revenue estimate for the 2019 biennium. With actual FY 2017 general fund revenues $75.5 million or 3.4% below the HJ 2 estimate, it may be is an appropriate time to re-evaluate the outlook for the 2019 biennium. As discussed at the September 2017 meeting of the Revenue and Transportation Interim Committee (RTIC), the Governor's Office of Budget and Program Planning (OBPP) has lowered their revenue estimate by $282 million for the 2019 biennium, thus triggering the reduction in spending process outlined in 17-7-140, MCA.

The LFD is not making a revised revenue estimate recommendation, but did provide two alternative revenue scenarios for RTIC (see here). The first alternative revenue scenario (#3 of 5) used the August 2017 IHS economic forecast with the models and assumptions of HJ 2, which generated an estimate that is $74 million less than HJ 2 over the biennium. The second alternative revenue scenario (#4 of 5) also included several conservative assumptions—lowering the base for income tax, adjusting corporation tax for lower audits and higher refunds, and removing the bias correction attributable to oil price in the corporation tax assumption—which generated an overall estimate that is $196 million less than HJ 2 over the biennium.

Actual revenue collections through September 2017 are 8.0% above collections through the same period last year, but below the HJ 2/SB 261 anticipated growth of 12.2%. However, year-to-date comparisons after only one full quarter of revenue has been received tend to be quite variable. The LFD does not typically report on year-to-date revenue collections until at least five months of revenue has been received. Observations based on collections through September include the following:

- Individual income tax withholding is 3.9% above FY 2017; calendar year comparisons of January through June and January through September show stronger growth rates of 6.6% and 5.4%, respectively
- Individual income tax first estimated payment of the fiscal year at same level as past two fiscal years; too early to draw conclusions
- Corporation income tax first estimated payment of the fiscal year 38% higher than corresponding FY 2017 payment, and in line with the average of first quarter payments from FY 2012 – FY 2016; too early to draw conclusions

The LFD will continue to monitor revenue collections and will provide monthly year-to-date collection reports to LFC and RTIC beginning in January.

SB 261 Revenue Adjustments

SB 261 impacted revenue in two areas: a $30 million transfer in from the fire fund in FY 2018 and a temporary additional general fund allocation of the accommodations tax.

BUDGET - ALLOCATED LEGISLATIVE BUDGET

SB 261 EXPENDITURE ADJUSTMENTS

Entering into the 2017 session, lawmakers were faced with a decline in ending fund balance from over $300.0 million forecast for the end of the 2017 biennium to essentially zero forecast by the end of the 2019 biennium. A short term plan created triggered appropriation reductions and transfers if FY 2017 revenues were lower than anticipated in HJ 2 with adjustments for other anticipated revenue bills during session. The long term plan created a budget stabilization fund with deposit and withdrawal rules, plus a defined operating reserve level.

Because FY 2017 revenues did come in lower than the trigger amounts established, all of the budget reductions included in SB 261 have become effective. As a result, agency budgets for the 2019 biennium have been reduced by corresponding amounts. The following table shows a summary of these reductions in each agency, with a brief summary of agency changes following.

SB 261 Reductions by Agency
2019 Biennium

	FY 2018			FY 2019		
	HB 2 + SB 294	SB 261 Reductions	Allocated HB 2	HB 2 + SB 294	SB 261 Reductions	Allocated HB 2
Section A - General Government						
11040 Legislative Branch	15,678,461	(236,722)	15,441,739	15,705,265	(164,878)	15,540,387
11120 Consumer Counsel	1,633,194	-	1,633,194	1,641,756	-	1,641,756
31010 Governor's Office	7,916,241	(122,956)	7,793,285	6,762,834	(122,730)	6,640,104
32020 Commissioner of Political Prac	769,674	(3,848)	765,826	762,108	(3,803)	758,305
34010 State Auditor's Office	8,430,290	-	8,430,290	8,490,523	-	8,490,523
58010 Department of Revenue	208,499,530	(264,712)	208,234,818	215,823,924	(265,512)	215,558,412
61010 Department of Administration	20,337,187	(661,764)	19,675,423	19,234,293	(658,488)	18,575,805
65010 Department of Commerce	30,842,794	(143,850)	30,698,944	30,869,495	(302,679)	30,566,816
66020 Labor & Industry	81,855,517	(8,981)	81,846,536	82,410,256	(8,997)	82,401,259
67010 Dept of Military Affairs	49,395,272	(32,780)	49,362,492	49,431,268	(26,899)	49,404,369
Section A - General Government Total	425,358,160	(1,475,613)	423,882,547	431,131,722	(1,553,986)	429,577,736
Section B - Health and Human Services						
69010 Public Health & Human Services	2,099,108,568	(8,066,717)	2,091,041,851	2,154,976,149	(8,130,085)	2,146,846,064
Section B - Health and Human Services Total	2,099,108,568	(8,066,717)	2,091,041,851	2,154,976,149	(8,130,085)	2,146,846,064
Section C - Natural Resources and Transportation						
52010 Dept. of Fish,Wildlife & Parks	96,288,219	-	96,288,219	96,501,004	-	96,501,004
53010 Dept of Environmental Quality	64,706,713	(26,061)	64,680,652	64,772,468	(26,100)	64,746,368
54010 Department of Transportation	674,646,155	-	674,646,155	674,162,094	-	674,162,094
56030 Department of Livestock	11,857,795	(12,823)	11,844,972	11,788,689	(12,847)	11,775,842
57060 Dept Nat Resource/Conservation	69,546,988	(136,366)	69,410,622	67,222,472	(136,369)	67,086,103
62010 MT Dept of Agriculture	19,693,029	(132,819)	19,560,210	17,775,884	(179,265)	17,596,619
Section C - Natural Resources and Transportation Total	936,738,899	(308,069)	936,430,830	932,222,611	(354,581)	931,868,030
Section D - Judicial Branch, Law Enforcement, and Justice						
21100 Judiciary	50,546,809	(242,380)	50,304,429	51,929,384	(248,824)	51,680,560
41070 Crime Control Division	14,865,227	(11,513)	14,853,714	14,907,207	(11,683)	14,895,524
41100 Department of Justice	101,955,302	(172,921)	101,782,381	101,509,746	(171,246)	101,338,500
42010 Public Service Regulation	4,369,962	-	4,369,962	3,929,022	-	3,929,022
61080 Public Defender	32,794,060	(163,970)	32,630,090	32,239,237	(117,409)	32,121,828
64010 Dept of Corrections	207,101,404	(1,008,997)	206,092,407	207,726,362	(851,902)	206,874,460
Section D - Judicial Branch, Law Enforcement, and Justice Total	411,632,764	(1,599,781)	410,032,983	412,240,958	(1,401,064)	410,839,894
Section E - Education						
35010 Office of Public Instruction	971,557,477	(6,731,673)	964,825,804	1,011,154,885	(12,603,661)	998,551,224
51010 Board of Public Education	376,569	(789)	375,780	362,727	(712)	362,015
51020 Commissioner of Higher Ed	317,980,099	(1,121,281)	316,858,818	316,784,033	(1,120,625)	315,663,408
51130 School for the Deaf & Blind	7,409,701	(34,683)	7,375,018	7,397,457	(34,543)	7,362,914
51140 Montana Arts Council	1,485,086	(2,710)	1,482,376	1,467,146	(2,596)	1,464,550
51150 Library Commission	5,839,004	(681,461)	5,157,543	5,868,761	(683,938)	5,184,823
51170 Historical Society	5,613,626	(625,299)	4,988,327	5,592,687	(626,214)	4,966,473
Section E - Education Total	1,310,261,562	(9,197,896)	1,301,063,666	1,348,627,696	(15,072,289)	1,333,555,407
Grand Total	5,183,099,953	(20,648,076)	5,162,451,877	5,279,199,136	(26,512,005)	5,252,687,131

Not included in the table above are the SB 261 reductions to cover the first year of the pay plan, which reduces the total general fund appropriation by almost $7.7 million for the biennium. A more detailed list of the budget changes by program, fund type, and 1st-level expenditure category is included in Appendix A of this report.

In addition to the HB 2 budget reductions, SB 261 directed several other expenditure changes with a positive impact on the general fund ending balance for the 2019 biennium. These other changes include:

- The aforementioned distribution change to the accommodations tax results in lower state special revenue expenditures for tourism promotion
- Changes to statutory appropriations
  - The HELP Act was modified to eliminate the Third Party Administrator (TPA) for Medicaid expansion, seeking to reduce the amount of general fund expended by $4.0 million
  - A reduction in the maximum allowable reimbursement for administration of the Old Fund that would save $1.25 million over the biennium

Section A

The **Department of Administration** (DOA) was impacted by trigger level two; the 0.5% general fund reduction. The reductions were made in the following divisions:

- Director's Office – personal services reduction of $2,387 in FY 2018 and $2,059 in FY 2019 within the Office of Labor Relations
- State Financial Services – personal services reduction of $21,013 in FY 2018 and $21,098 in FY 2019 within the Local Government Services Bureau
- State Information Technology Services – operating expenses reduction of $2,190 in FY 2018 and $2,196 in FY 2019 within the Public Safety Communications Bureau (bureau). Costs will be offset by state special revenue funds within the bureau
- State Human Resources – operating expenses reduction of $8,093 in FY 2018 and $8,135 in FY 2019
- Montana Tax Appeal Board – local assistance reduction of $3,081 in FY 2018 and FY 2019. The reduction impacts reimbursements to counties for secretarial services and training for county board members

In addition, DOA transfers general fund to the Montana State Fund for the Old Fund for claims payments and administrative costs associated with workers' compensation claims. SB 261 lowered the statutory limit for the amount of administrative costs paid to MSF from $1.25 million to $625,000.

The **Legislative Branch** was affected by three trigger levels, which included a 0.5% general fund reduction to the agency, an additional 1.0% general fund reduction across the agency, and the elimination of the general fund appropriation for the first year of the pay plan. The 0.5% and 1.0% general fund reductions totaled approximately $402,000 over the biennium and resulted in reductions to personal services, training, travel and other operational expenses. The reduction to the first year of the pay plan was approximately $35,000 in FY 2018.

The **Governor's Office** was affected by three trigger levels, which included a 0.5% general fund reduction to the agency, a reduction of $90,000 in each fiscal year in the Mental Disabilities Board of Visitors, and the elimination of the general fund appropriation for the first year of the pay plan. The 0.5% reduction totaled approximately $68,000 over the biennium and was primarily allocated to operating expenses. The reduction in the Mental Disabilities Board of Visitors was primarily allocated to personal services. This resulted in reduced hours for several positions as well as one position remaining vacant, which will impact site inspections of mental health facilities. The reduction of the first year of the pay plan was approximately $17,000 in FY 2018.

The **Commissioner of Political Practices** was affected by two triggers, which included a 0.5% general fund reduction to the agency and the elimination of the general fund appropriation for the first year of the pay plan. The 0.5% reduction totaled approximately $7,700 and was allocated to personal services over the biennium. The reduction to the first year of the pay plan was approximately $1,600 in FY 2018.

The **Department of Commerce** was affected by four triggers, which included a 0.5% general fund reduction to the agency, a transfer of 8.1% (of the percentage distributed to the department) from the lodging facility use tax account to the general fund (which is technically a revenue adjustment), the elimination of the general fund appropriation for the first year of the pay plan, and a general fund reduction of $125,000 in each fiscal year to the Native Language Preservation program. The 0.5% general fund reduction resulted in a biennial decrease of approximately $29,000 to Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) grants as well as a biennial decrease to operating expenses in the Community Development Division of approximately $8,000. The reduction of 8.1% from the lodging facility use tax account will primarily impact advertising in the marketing program in the Montana Office of Tourism and Business Development. The reduction to the Native Language Preservation program was to grants. The reduction to the first year of the pay plan was approximately $6,000 in FY 2018.

The **Department of Labor and Industry** was affected by two triggers, which included a 0.5% general fund reduction to the agency and the elimination of the general fund appropriation for the first year of the pay plan. The 0.5% reduction resulted in a biennial decrease of approximately $18,000 in operating expenses in the Commissioner's Office/Centralized Services Division, Employment Relations Division and the Office of Community Services. The reduction in the first year of the pay plan was approximately $5,000 in FY 2018.

The **Department of Military Affairs** was affected by two triggers, which included a 0.5% general fund reduction to the agency and the elimination of the general fund appropriation for the first year of the pay plan. The 0.5% reduction resulted in a biennial decrease of approximately $66,000 in operating expense in all programs except the Starbase Program, which is funded by federal special revenues. The reduction in the first year of the pay plan was approximately $11,000 in FY 2018.

Section B

The **Department of Public Health and Human Services** (DPHHS) budget was reduced by $16.2 million general fund (over the 2019 biennium) in order to align with the requirements of SB 261. This reduction is entirely to Medicaid benefits and claims and occurs in the four DPHHS divisions that provide Medicaid benefits.

Medicaid benefit and claims reductions can either reduce the rates providers are paid for carrying out services or they can eliminate optional Medicaid services. Targeted case management is an optional service that was specifically reduced in SB 261 in the Developmental Services Division.

The Developmental Services Division budget is reduced by about $2.4 million in each of FY 2018 and 2019. The reduction is in the area of 'Medicaid Children's Mental Health' services and includes a reduction of $965,000 each year for eliminating targeted case management in this division.

The Health Resources Division budget is reduced by $2.8 million in FY 2018 and $2.9 million in FY 2019. This reduction is to 'Medicaid Hospital Services.'

The Senior and Long-Term Care Division budget is reduced by $1.5 million in each year of the biennium in the area of 'Medicaid Nursing Home' services.

The Addictive and Mental Disorders Division budget is reduced by $1.4 million in FY 2019 and 2019 in the "Medicaid Adult Mental Health' service area.

Since these general fund reductions are all to Medicaid services they also reduce federal matching dollars available to DPHHS. The $16.2 million in state funds (general fund, in this case) would be matched by about $30 million federal funds were it spent on Medicaid services.

Due to the triggered reductions in SB 261, the appropriations were removed from HB 17 as well, which would have provided funding for additional home and community-based Medicaid services. Additionally, the Third Party Administrator (TPA) for Medicaid expansion was eliminated, with the expectation of general fund savings of $4.0 million. Neither of these reductions directly impacted HB 2.

Section C

The **Department of Environmental Quality** (DEQ) reduced operating expenses by $52,161 for the biennium in the Water Quality Division.

To implement a total general fund reduction of $25,670, the **Department of Livestock** reduced operating expenses primarily in the Animal Health Division appropriation for brucellosis programs. The agency also reduced the appropriation for operating expenses in the Centralized Services Division.

The **Department of Natural Resource and Conservation** (DNRC) reduced the appropriation for operating expenses primarily in the Forestry and Water Resources Division. The agency also reduced operating expenses within the Director's Office and the Conservation and Resource Division.

The **Department of Agriculture** reduced personal services within the Agricultural Sciences Division and the Agriculture Development Division, while the appropriation for grants was reduced within the weed control program. SB 261 also required the department to reduce the general fund appropriation for agricultural marketing by $128,000 in each year of the biennium.

The Department of Transportation and the Department of Fish, Wildlife, & Parks receive no general fund and are not impacted by these reductions.

Section D

The **Judicial Branch** was affected by level two budget reduction; an across the board reduction in general fund appropriation by 0.5% in FY18 and FY19. This amounted to general fund savings of $491,204 for the biennium with all five programs making general fund reductions. The majority, or $359,814, of the biennial reductions came from personal services.

The **Montana Board of Crime Control** (MBCC) was affected by level two budget reduction; an across the board reduction in general fund appropriation by 0.5% in FY18 and FY19. This amounted to general fund savings of $23,196 for the biennium. All of the reductions came from operating costs used to support BEO.

The **Department of Justice** was affected by level two budget reduction; an across the board reduction in general fund appropriation by 0.5% in FY18 and FY19. This amounted to general fund savings of $344,167 for the biennium with all programs participating with the exception of the Montana Highway Patrol (MHP). MHP is funded primarily with state special revenue. All of the biennial reductions came from personal services.

The **Office of Public Defender** was affected by level two budget reduction; an across the board reduction in general fund appropriation by 0.5% in FY18 and FY19. This amounted to general fund savings of $324,835 for the biennium with three of the four programs making general fund reductions. Program 4, the Chief Administrative Office did not have any reductions associated with SB 261. All of the biennial reductions came from operating expenses.

The **Department of Corrections** (DOC) was affected by level two budget reduction; an across the board reduction in general fund appropriation by 0.5% in FY18 and FY19. This amounted to general fund savings of $2.02 million for the biennium with all four of the seven programs making general fund reductions. The Director's Office, the Board of Pardons and Parole, and Montana Correctional Enterprise did not participate in reductions associated with SB 261. All biennial reductions came from operating expenses.

Section E

The **Office of the Commissioner of Higher Education** (OCHE) was affected by trigger level two; the 0.5% general fund reduction to the entire agency. They reduce each of the programs by the established amount with two exceptions. Program 8 Carl Perkins did not receive the reduction, due to the fact that the general fund amount in this program is the minimum maintenance of effort required to maintain the federal fund match. Instead, program 1 Administration absorbed the reduction that would have impacted program 8.

The **Montana Arts Council** (MAC) is a single program agency. The 0.5% reductions were applied to personal services with the recent hire of a new director at a reduced salary, the overall impact is minimal.

The **Montana State Library** (MSL) was impacted by the overall 0.5% reduction and a level three trigger which reduced digital library. The overall reduction was split between personal services and operating expenses. In order to manage the reductions, MSL laid-off employees, maintaining unfilled positions and vacancy savings, and reduced the physical space in which they operate.

The **Montana Historical Society** (MHS) was impacted by the overall 0.5% reduction and a level three trigger reducing the general fund of the research center. The majority of the reductions were taken out of personal services. The reductions to personal services created vacancy savings, lay-offs, reducing hours worked by hourly employees, eliminating Capitol building tours, and reduced hours at the museum. The operating expense reductions delays implementation of exhibits along with reducing education programs around the state.

In order for the **Board of Public Education** (BPE) to meet the 0.5% reduction, personal services funding was reduced by $1,501 for the biennium. The appropriated budget for BPE is funded 40% with general fund and the remainder state special revenue. The agency is budgeted for 3.0 FTE. Typically, the agency recognizes vacancy saving during the interim with one position filled only part time.

The **Montana School for the Deaf and Blind** (MSDB) reduced operating expenses by $69,226 for the biennium. In recent biennium, the MSDB has recognized significant vacancy savings and has used these savings to fund operating expenses.

The **Office of Public Instruction** (OPI) reduced each of the following by 0.5%: Digital Academy, audiological services, school foods, advancing agricultural education, in state treatment, adult basic education, secondary vocational education (this is in addition to level 4 reduction), gifted and talented, special education, and operating expenses for state level activities.

OPI was also affected by SB 261 reductions that reduced the appropriation for local assistance by an additional $18.7 million. The table below summarizes the reductions for OPI.

Office of Public Instruction SB 261 General Fund Reductions			
	FY 2018	FY 2019	2019 Biennium
Data For Achievement	$3,109,347	$3,180,038	$6,289,385
Secondary Vocational Education	500,000	500,000	1,000,000
Combined Block Grants	2,800,000	2,800,000	5,600,000
Natural Resource Development Payments	-	5,800,000	5,800,000
General fund Reduction of 0.5%	314,000	323,623	637,623
	$6,723,347	$12,603,661	$19,327,008

Risks and Pressures

Wildfire Suppression in the 2019 Biennium

The wildfire suppression fund began FY 2018 with a fund balance of $62.3 million. Since FY 2017 revenues came in under the trigger amounts established in SB 261, $30.0 million was transferred out of the fund and into the general fund with the intention of increasing the general fund ending balance. This left the fire suppression fund with $32.3 million.

The FY 2018 fire season has proven to be significantly more costly than average. Estimated obligations as of September 25 exceeded the balance of the fire fund and the Governor’s statutory emergency fund appropriation of $16.0 million for the biennium. While spring fires can vary, additional fire costs for FY 2018 are expected to be minimal. The following analysis illustrates the financial situation.

Estimated Fire Suppression Costs 2019 Biennium (in millions)			
Expenditures	FY 2018	FY 2019	Biennium
Fire Cost (9/25/17) with updated FEMA	$62.2	$0.0	$62.2
Additional Estimated Fire Cost	0.7	22.5	23.2
Total Expenditures	$62.9	$22.5	$85.4
Appropriations			
Fire Fund Statutory Appropriation (02847)	$32.3	$0.0	$32.3
Governor's Emergency Fund[1] For DNRC Fires	12.5	0.0	12.5
Total Funding	$44.8	$0.0	$44.8
Appropriation Shortfall	($18.1)	($22.5)	($40.6)
Biennial Appropriation Shortfall			

[1] Emergency appropriation is $16.0 million. It is assumed $12.5 million will be allocated to DNRC for fires in FY 2018

Assuming an average fire year in FY 2019 and $12.5 million of the emergency appropriation is allocated to the Department of Natural Resources and Conservation (DNRC) fire expense in FY 2018, reserving $3.5 million of emergency authority for Military Affairs fire costs or other emergencies in the biennium; Montana could be facing a shortage of $40.1 million in appropriation authority to pay for fire suppression efforts.

The timing of payments for invoices owed may improve the ability to cover these expenditures in the short term. While the total state fire cost is estimated at $62.2 million as of September 25, 2017, DNRC has recorded approximately $17.9 million in expenditures in that same time period. The delay between firefighting activities and actual payments gives DNRC the ability to cash flow high cost fire years during the fiscal year. At fiscal year-end, the full cost of the fire season needs to be accrued and is anticipated to cause an appropriation shortfall.

DNRC has requested a transfer of up to $23.0 million of its HB 2 FY 2019 appropriation of $27.2 million to FY 2018. (see Appendix E) This transfer represents 85% of the agency's general fund appropriation for FY 2019 and would at a minimum, imply the need for a supplemental in the next legislative session. Given the size of the difference between the appropriation ($42.8 million) and anticipated expense ($62.9 million in FY 2018 and a potential $85.4 million for the 2019 biennium), it is unlikely DNRC will have sufficient appropriation authority to pay fire suppression bills through all of FY 2018 and FY 2019 prior to the legislative session scheduled in January of 2019*.*

Medicaid Expansion

During the 2017 Legislative Session, the LFD updated the projected expenditures associated with the statutory authority for Medicaid expansion, as provided in the HELP Act of 2015. As a result, a general fund impact for the 2019 biennium of $82.5 million was included in the LFD general fund status sheet.

The final enrollment in Medicaid expansion for FY 2016 was almost 56,000 individuals, and by January 2017, over 71,000 individuals were enrolled in Montana's Medicaid expansion. This increased enrollment was the primary driver of the higher general fund projection during the 2017 Legislative Session.

With the FYE 2017 actuals and accruals having been finalized for the Medicaid expansion, there is risk of even greater general fund pressure as a result of continued higher enrollment, with 80,806 members reported as of July 15, 2017. The estimated average cost of benefits per enrollee for FY 2016 was just over $6,000, which is lower than that of the traditional Medicaid population, even when compared to non-disabled adults of the same age range. However, the final estimated average benefit cost per enrollee for FY 2017 is over $8,000, which is very similar to the average cost of non-disabled Medicaid enrollees between the ages of 19-64 in FY 2014.

The average cost for services could drop significantly if the original demand has been met, however, research suggests the time for that cost curve to normalize may be significant. If the average cost remains high for the 2019 biennium, the risk to the general fund ending balance could exceed an additional $25 million above the LFD estimate during session.

The executive has increased their estimates for Medicaid expansion, resulting in an increase of $9.8 million for the biennium above what was included in the LFD general fund balance sheet. The executive has the ability to manage program costs and LFD will continue to monitor the actual expenditures.

CHIP (Children's Health Insurance Program)

Under current law federal funds for state CHIP programs are only provided through federal fiscal year (FFY) 2017 (30 September 2017), and this has officially lapsed as of the date of this report, although it still possible for federal action to extend this prior to states running out of funding. Funds for CHIP are provided to states in the form of allotments based on recent CHIP spending and an inflation factor. Leftover funds in the CHIP allotment may be spent in the next two years (after reverting 1/3rd of the leftover back to the federal government), so most states will be able to continue using federal funds for CHIP beyond the end of FFY 2017.

According to MACPAC (Medicaid and CHIP Payment and Access Commission – U.S. legislative branch agency) all states will exhaust their allotments sometime in FFY 2018, assuming there is no further federal action to provide funds to states for CHIP. MACPAC projects Montana will exhaust its allotment in February 2018 (below – with some peer states for comparison purposes).

Projected Federal CHIP Funding and Spending in FY 2018, by State (millions)

	Estimated unspent FY 2017 allotments	Unspent FY 2017 allotments available in FY 2018	FY 2018 projected redistribution funding from prior year allotments	Total FY 2018 projected CHIP funding	FY 2018 projected federal CHIP spending	Month projected to exhaust CHIP funding
	A	B=A*.67	C	D=B+C	E	F
Montana	31.8	21.2	18.4	39.6	103.2	Feb-2018
Idaho	22.2	14.8	15.4	30.2	83.4	Feb-2018
Wyoming	12.2	8.1	0.8	8.9	11.5	Jul-2018
North Dakota	16.6	11.1	2.3	13.3	21.2	May-2018

Data: MACPAC

Like most other states, CHIP in Montana is made up of a combination of a stand-alone CHIP program and a Medicaid expansion CHIP program. Once federal funding is gone Montana is not obliged to cover those children enrolled in stand-alone CHIP (24,007 in April 2017 according to DPHHS). Many of these children would be eligible for subsidized health insurance coverage on the state exchange. The state could potentially enroll these children in Medicaid but would be required to cover the state cost at the traditional FMAP (about 65%) rate. The state spent a total of $68.9 million on benefits for this population in FY 2017. Only about $785,000 of that total was state funds – the remainder was federal. Covering this population with a standard FMAP would result in an additional cost of about $23 million in state funds.

If federal funding for CHIP in Montana ends the enhanced (about 99%) matching Medicaid rate for children enrolled in expansion CHIP (6,700 in April 2017 according to DPHHS) reverts to the regular CHIP FMAP rate (about 76% - still higher than the standard state Medicaid FMAP of about 65%). The maintenance of effort provisions in the ACA demand that states do not change eligibility requirements in expansion CHIP until after FFY 2019, so this would create a pressure point if federal funding is exhausted. The state would require an additional $6.4 million in state funds to account for the loss of the 23% enhanced CHIP matching rate (see below).

Potential Changes in Medicaid Expansion CHIP (6,700 Enrollees) if Federal Funding Expires						
		FY 2017			Potential Future Years	
State Funds	$	297,019	1.1%	$	6,718,645	24.1%
Federal Funds	$	27,581,174	98.9%	$	21,159,549	75.9%
Total Benefits	$	27,878,194		$	27,878,194	
Difference in State Funds Required:				$	6,421,625	

OTHER UPDATES

Board of Crime Control

Through SB 95, the 2017 Legislature moved the Montana Board of Crime Control (MBCC) from an administratively attached organization under the Department of Justice to a bureau within the Department of Corrections (DOC). The MBCC will remain an independent council but will be administratively attached to the DOC. The DOJ, DOC, MBCC and Governor's Office of Budget and Program Planning have met several times to outline the transition process and to develop work plans and objectives. One of the highlights of this work is that federal granting agencies from the US Department of Justice will not require MBCC to de-obligate the funding for current awards. This would eliminate re-obligation of funds following federal review and ensures grant continuity. The staff of MBCC will formally move to the new bureau at the end of September along with the new budgeting/finance structure integrated shortly thereafter.

REAL ID

The 2017 Legislature passed SB 366 to address federal identification standards. This legislation provides an appropriation and directive for the Department of Justice (DOJ) to enable a person to apply and obtain a REAL ID driver's license or identification card. Montana does not currently have a driver's license or identification card that is compliant with the federal REAL ID Act of 2005. Montana had been operating under an extension period prior to passage of this bill and recently Montana was awarded an additional extension. Federally compliant identification cards are required for "official purposes" such as boarding commercial airlines or entering federal buildings.

Due to the federal extension, contingent language in SB 366 made the appropriation and act void until January 1, 2019. OBPP has suggested some transfers be made between operations and equipment and backfilling with Board of Investment money early in FY 2019. In the meantime, the DOJ is planning on managing project cost with operating funds in FY 2018.

Medicaid Provider Rates

The Department of Public Health and Human Services (DPHHS) has proposed Medicaid provider rate reductions of 3.47% through administrative rule. In addition to the approximately 1% rate reduction mandated by SB 261, DPHHS has chosen to further cut rates to cover the 0.5% across the board general fund reduction, as well as some of the DP 555 reductions approved by the legislature in HB 2.

The “Children, Families, Health, & Human Services Interim Committee” has lodged an informal objection to this administrative rule, which temporarily halts action on implementation until the committee meets and the delay can be continued if the committee chooses to sustain the objections. During their September 11 meeting, they did vote to continue their informal objection, which temporarily prevents the implementation of these rate reductions. The committee also expressed an interest in pursuing a formal objection to the rate reduction during their next meeting, which could permanently block implementation.

These rates would be further affected by the 10% reduction plan in DPHHS.

Montana Developmental Center (MDC)

Overview

- The Montana Developmental Center (MDC) is a state operated facility providing 24 hour care for people with serious developmental disabilities. Clients served in the facility include forensic, civil, emergency, and voluntary commitments. The current census at MDC is 22, with 12 clients residing in the secure Intensive Behavior Center (IBC)
- MDC was slated to close at the end of FY 2017 as a result of the passage of SB 411 by the 64th Montana Legislature, however HB 387, passed by the 65th Montana Legislature, revised the laws relating to the closure of MDC. HB 387 revised the closure date until the end of FY 2019, and established the IBC indefinitely. HB 387 capped the population of MDC at 24 residents and authorized the department to use two cottages on the MDC campus for residential purposes until June 30, 2018 and one cottage until June 30, 2019
- In FY 2017 MDC was appropriated $13.3 million, of which $12.3 was general fund HB 2 authority, and $1.0 million was statutorily appropriated. The statutory appropriation was for the MDC bond repayment, which was paid in full in FY 2017. The current appropriation for MDC is approximately $12.9 million for each year of the 2019 biennium
- HB 639, passed by the 2017 Legislature, restricted funds to expenditures at MDC or for transfers for necessary services for individuals who would otherwise have been served at MDC

HB 2 Appropriation

MDC Appropriated HB 2 Budget

First Level	FY 2017 Base	FY 2018	FY 2019
61000 Personal Services	$10,432,979	$10,876,564	$10,902,043
62000 Operating Expenses	1,895,349	2,006,941	2,016,237
Total	$12,328,328	$12,883,505	$12,918,280

The above charts display the current appropriation for MDC broken out by first level expenditure. The appropriated budget for each year of the biennium is $12.9 million general fund.

DPHHS Intended use of MDC Funds		
Costs	FY 2018	FY 2019
Personal Services Expense	$4,880,000	$4,880,000
Operating Expenses	1,220,000	1,220,000
IBC Remodel Costs	1,500,000	
MDC Cottage and Community Costs	5,283,505	6,818,280
Total	$12,883,505	$12,918,280

The above chart displays the department's intended use of funds, based on a March, 2017 discussion between DPHHS and LFD.

Historical Census, Cost and FTE Count

Montana Developmental Center Average Census, Cost and FTE by Fiscal Year						
	FY 2014 Actuals	FY 2015 Actuals	FY 2016 Actuals	FY 2017 Actuals	FY 2018 Appropriation	FY 2019 Appropriation
FTE	250.67	250.67	192.93	192.93	144.00	144.00
61000 Personal Services	$12,153,824	$11,990,231	$13,383,682	$10,024,945	$10,876,564	$10,902,043
62000 Operating Expenses	2,564,360	2,936,319	3,075,508	2,011,401	2,006,941	2,016,237
67000 Benefits & Claims			268			
69000 Debt Service	37,932	37,932	37,932	37,932		
Total	$14,756,116	$14,964,482	$16,497,391	$12,074,277	$12,883,505	$12,918,280
Avg Census*	50	53	49	26	18	12
Avg Cost per Client	$294,631	$283,239	$337,831	$459,972		
Average Cost per Client per Day	$807	$776	$926	$1,260		

*2018 and 2019 Counts are estimates based on transitioning 6 clients out per year

The above chart shows average census, actual and budgeted costs, and budgeted FTE by fiscal year. Average cost per client is not calculated for the 2019 biennium, as a portion of the budget is expected to be used to pay community costs for transitioning clients, and would not be included in the average cost for MDC clients. LFD will continue to monitor actual expenditures for MDC.

REQUIRED REPORTS AND BUDGET AMENDMENTS

The LFC received a number of reports from various state agencies including:

- Potential transfer of appropriations (supplemental appropriations) of up to $23.0 million in general fund from FY 2019 to FY 2018 within the Department of Natural Resources and Transportation
- Budget amendments increasing agency appropriations for state or federal special revenues or proprietary funds between July 1, 2017 and September 30, 2017. Details on budget amendments and a summary of changes are provided in Appendix C
- Operating plan changes and program transfers meeting requirements for LFC review received between May 22, 2017 and September 30, 2017. A memorandum received from the Office of Budget and Program Planning (OBPP) outlining these changes is included in Appendix D
- Other agency reports statutorily required to be provided to the LFC. This is included in the required reports section of the meeting materials on the LFC webpage

LFC Review

Staff reviewed budget amendments, operating plan changes, and program transfers and have raised no concerns with transactions meeting statutory requirements. The LFC may wish to comment on the transactions during its review and discussion of the FY 2019 Budget Status Report.

It is the role of the LFD to analyze the proposal to transfer appropriations between fiscal years and forward it to the Legislative Finance Committee for comment. It is the obligation of the LFC to report to the Governor whether, in the committee's view, the requests meet the statutory criteria and to raise any necessary compliance issues. If the LFC does not provide a report, the Governor (or other approving authority) can authorize the transfer 90 days after the date the request was forwarded to the committee. The LFC does not approve or deny the requests.

Transfer of Appropriations Between FY 2019 and FY 2018

In accordance with 17-7-301 MCA, the Governor has submitted a potential transfer of appropriations (supplemental appropriations) of up to $23.0 million in general fund from FY 2019 to FY 2018 to the Legislative Fiscal Division (LFD) regarding the Department of Natural Resources and Conservation (DNRC).

Statute requires two things before a request to move authority from the second year of the biennium to the first year can be made:

1. Expenditures must be for an "unforeseen and unanticipated emergency" that causes the appropriation for the year to be insufficient for the operation and maintenance of the agency in that year; and
2. The requesting agency must present a plan for reducing expenditures in the second year of the biennium that "allows the agency to contain expenditures within appropriations." Several exceptions to this requirement exist, including an unforeseen and unanticipated emergency for fire suppression.

The DNRC is requesting a transfer of up to $23.0 million of general fund authority from FY 2019 to FY 2018 to pay for firefighting costs. Year to date estimated obligations for fire suppression are $62.2 million with an additional cost of $700,000 anticipated for the remainder of FY 2018. Current appropriations available to DNRC for fire suppression include the fire suppression fund and the Governor's emergency fund that total $44.8 million, which would imply an $18.1 million shortfall in appropriation authority.

LFD Concern – Supplemental Appropriation in FY 2019 Likely

Pursuant to 17-7-311 MCA the LFD has completed a review of the proposed supplemental and has found a supplemental general fund appropriation will likely be needed for FY 2019. The current FY 2019 general fund appropriation for DNRC is $27.2 million. If the agency transfers the entire $23.0 million, as requested, the appropriation in the second year of the biennium would be reduced by 84.6%. Further, if the second year of the biennium is an average fire year the fire suppression cost would be $22.5 million for which there will be little or no appropriation. It is unlikely that the agency would have sufficient appropriation authority in the second year of the biennium to fund fire suppression and other obligations of the agency. This would imply the need to request a supplemental appropriation of $40.6 million.

LFC Options

1. The LFC may report to the Governor that the request meets the statutory criteria for a supplemental appropriation transfer in accordance with 17-7-301 MCA, or express any concerns and make comments at that time.
2. The LFC may take no action in which case after ninety days the Governor may make the transfer.

Budget Amendments

As of September 30, 2017 the Legislative Finance Division received notification of 38 budget amendments impacting the 2019 biennium and certified by the Governor since the July.

These amendments increase total funds $21.0 million in FY 2018 and $0.9 million in FY 2019. An additional 20.59 FTE in FY 2018 and 11.61 FTE in FY 2019 in modified positions have also been added. One amendment transfers existing authority between expenditure categories or between organizational units and seven extend previously approved amendment authority. The figure summarizes the budget amendments certified by the Governor from the period July 1, 2017 through September 30, 2017.

Budget Amendment Summary (since last LFC meeting)		
Component	FY 2018	FY 2019
Number of Amendments	38	13
FTE Added	20.59	11.61
State Special Revenue	$0	$0
Federal Revenue	20,973,751	866,447
Proprietary Fund	0	0
Total Revenue	$20,973,751	$866,447

Each amendment, along with a brief explanation, is summarized in Appendix C. Staff has reviewed the amendments and has raised no concerns with any amendment meeting statutory criteria.

The following figure summarizes the budget amendments that were certified for the 2019 biennium. The various approving authorities have added a total of $21.8 million in the 2019 biennium.

Budget Amendment Cumulative Summary 2017 Biennium				
LFC Meeting 2017 Biennium	Number of Amendments	FY 2018	FY 2019	Biennial Total
October 5, 2017	38	$20,973,751	$866,447	$21,840,198
December 11, 2017	0	0	0	0
March	0	0	0	0
Total	38	$20,973,751	$866,447	$21,840,198

Operating Plan Changes and Program Transfers

OBPP submitted a total of 40 operating plan changes and program transfers that met statutory criteria for LFC review and comment. Of the total, 38 were processed as time-sensitive and two are being held until the LFC has an opportunity for review and comment. Staff have reviewed the budget changes and have no comment.

Other Agency Reports

A number of required reports have been received and are posted on the LFC website, the majority have been required for a number of years. The 2017 Legislature passed HB 283 requiring state agencies to provide grant information to the Legislative Finance Committee. The legislation directed agencies to report annually on October 1 on grants awarded during the previous fiscal year. The legislation required that the information be submitted as a spreadsheet. The agencies that awarded grants in FY 2017 are included on the LFC webpage at the following location:

http://leg.mt.gov/content/Committees/Administration/Finance/2018-19/Report-Pages/Grant-Reporting.asp