

# Early Budget Plans Bode Poorly for Montana

## The starting point sets us back



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The recession has cost our state jobs and revenue for services. Unfortunately, a plan to start the new budget almost \$500 million below the Governor's balanced budget proposal will make matters worse by making unnecessary cuts that will hurt the economy and families.

To create new jobs, local economies need a boost—not cuts. If the legislature continues with their plan, they will begin the session by automatically implementing over 200 cuts hidden in procedural decisions without a transparent discussion of their impacts. These cuts will decrease income for Montana families and businesses, hurt vulnerable children and cost the state more in the long run.

### What is the plan?

The Legislative Finance Committee has recommended to the budget committees and subcommittees that the starting point for budget decisions begin at 5% below the adjusted base budget.

The standard practice is for appropriation committees to begin with the Governor's budget. The Governor's budget is a transparent starting point, as it has been available to the public, was widely publicized, and details each change in budget priorities.

The Governor's budget is created in cooperation with state agencies that provide services like education, public health and public safety. The Governor works with the agencies to take into account what level of services our state needs to move forward. This process is an open and transparent way to balance demand for services and available revenue.

Agencies are also required to create a 5% below adjusted base budget each biennium. The budgets are not widely available to the public. In fact, they are only available in hard copy from the Governor's Office of Planning and Budget. These budgets are typically introduced as a backup, but this time they are unnecessary because the Governor's budget includes enough revenue to continue funding public services at a reasonable level.

The new legislative leadership is breaking with tradition and planning to start with the 5% below adjusted base budgets, which contain hundreds of cuts that will hurt our fragile economic recovery and the families struggling to make ends meet.

### Why cuts are being considered even though we don't need them.

Like all other states, the Great Recession is threatening Montana's public services that educate our children, keep our communities safe, protect our land and water, and provide health care and other services for families struggling with the recession.

#### Key Points

A 5% below adjust base budget is:

- \$632 million below what's considered funding of current services.
- \$497 million below the Governor's budget.
- \$310 million below the Legislature's own revenue estimate, resulting in \$310 million in cuts that are absolutely unnecessary.

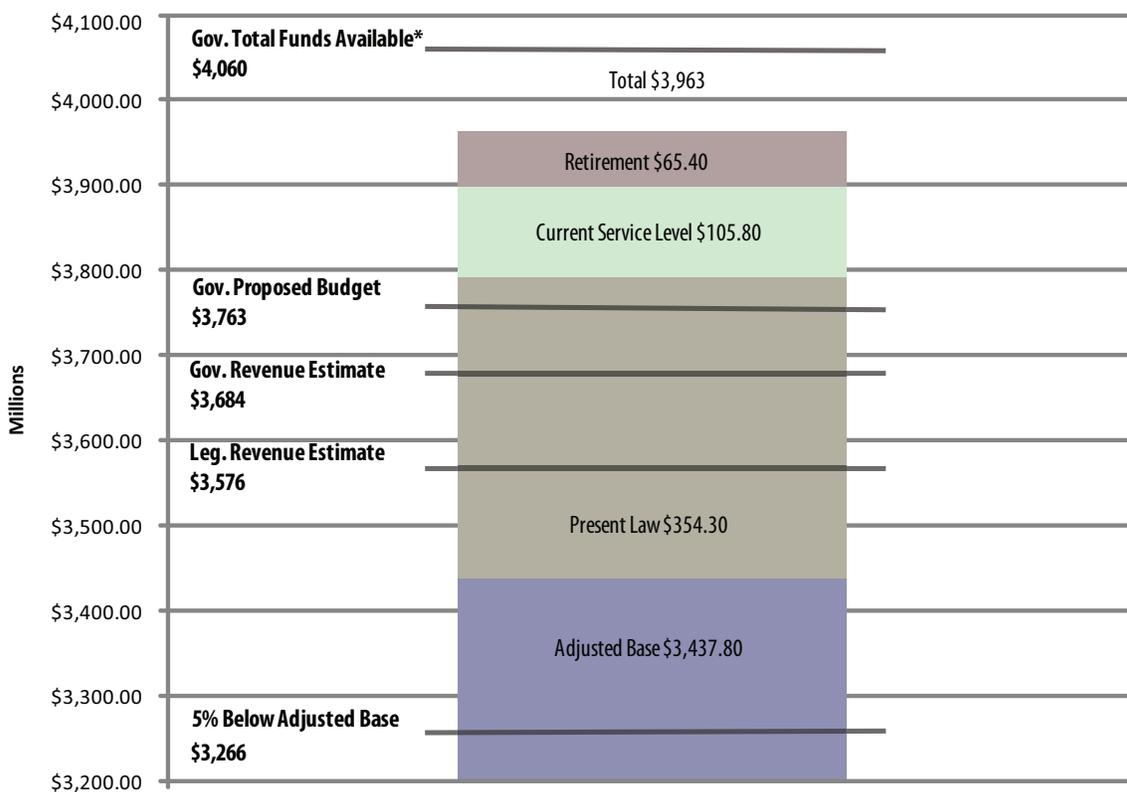
A motion to adopt a 5% below base budget will sweep over 200 individual public service cuts into one procedural motion.

State revenues have fallen and legislative staff is estimating the next legislature may face up to a \$364 million revenue gap. That's the difference between how much revenue is coming in and how much we need to maintain current services.

Fortunately, the legislature can respond to this challenge in ways that protect families and prepare us for a prosperous future. Unfortunately, that currently isn't the plan.

The figure below shows the amount of revenue needed to maintain education, infrastructure and healthy communities. Legislative staff estimates that \$3,940 million is needed, but they only expect \$3,576 million in new revenue (hence the \$364 million revenue gap). The Governor is slightly more optimistic about the amount of revenue that will be available. His office expects \$3,684 million. In addition, the Governor has taken a balanced approach in creating his budget and has not relied on a harmful cuts-only approach to balancing his budget. The Governor has found several new sources for revenue and hence has predicted a total of \$4,060 million in revenue available to fund state priorities.

### General Fund for the 2013 Biennium



\* Including Ending Fund Balance and Revenue Enhancements

The legislature's plan will make cuts well below what is necessary to balance the budget – the proposal starts the new budget at \$3,266 million when at least \$3,576 million of new revenue is available. This amount of cuts would be unnecessary even if we wrongly assumed that cuts were the only way to respond to our revenue challenges.

While some cuts are inevitable, this plan ignores an opportunity to build toward a better economic future. We need a balanced approach to our economic challenges – one that includes new revenue

to meet today's needs and starts planning for our future.

## **What types of cuts will be swept in with the 5% below base starting point?**

**63 of the cuts will either eliminate jobs or reduce income to Montana families** by directly eliminating positions, which will require that available positions remain unfilled longer than usual. Some cuts reduce the amount spent on personal services, which means they will somehow pay employees less. This loss of jobs and income will have a negative ripple effect in local economies across the state. Examples include:

- Eliminating 4.5 positions from the Montana School for the Deaf and Blind.
- Eliminating 6 positions that provide support services to the district courts.
- Eliminating 3.45 positions from the Department of Natural Resources and Conservation.

**36 of the cuts will cancel or limit contracts to the private sector**, reducing the income of businesses statewide by eliminating state contracts or paying less for established contracts and services provided by the private sector. Examples include:

- Lowering payments for guardian ad litem services in child abuse and neglect cases.
- Eliminating the contract to Tumbleweed Runaway Program that provides services to low-risk juvenile offenders and their families.
- Reducing contracts for energy audits and retrofits of buildings.

**29 will hurt vulnerable children** by cutting education, health care or family support. Examples include:

- Reducing financial assistance for students who pursue degrees in education and general practice medicine.
- Reducing support for colleges, which may increase tuition and place college further out of reach for low-income children.
- Decreasing enforcement of child support payments.
- Reducing services that prevent foster care placement and keep children in their homes.

**8 are just really bad ideas** that will save money in the short term, but increase costs substantially in the long run. Examples include:

- Reducing funding for drug courts by 35%. Drug courts have lowered recidivism, allowing offenders to stay in their communities and support their families and pay taxes. They have also reduced the number of babies born into drug addiction and the need for foster care.
- Reducing funding for the Department of Revenue, which will result in a large reduction in state revenues. Every dollar cut from the department reduces the amount collected through regular operations, audits and collections.
- Reducing extended employment supports for individuals with disabilities. Without these supports, individuals will likely lose their jobs and some will end up in nursing homes or other supervised living arrangements.

## Key Terms

**Base Budget** - This is defined as the resources necessary to cover current biennium expenses of an ongoing and non-extraordinary nature. The base budget is built by looking at the actual ongoing expenditures during the most recently completed fiscal year.

**Adjusted Base Budget** - Makes adjustments to the base budget due to known upcoming changes in expenses. For example, a change in employee benefits that happened halfway through the last fiscal year, will cost twice as much in the upcoming fiscal year.

**Present Law Budget** - Defined as that additional level of funding needed to maintain operations and services at the level set by the last legislature. Present law includes, but is not limited to, legally mandated workload, caseload, or enrollment changes, changes in funding requirements, inflationary or deflationary adjustments, and elimination of one-time-only appropriations.

**Current Services Budget** – This is a new term added by legislative staff to indicate the present law budget plus certain expenditures designated as one-time-only (OTO) by the legislature that fund current services. These expenditures will not be included in the budget base for the 2013 biennium, but would result in a loss of services if they are not funded.

**Retirement** – The cost to fund pension systems based on actuarial projections.