

# A Balanced Approach to Montana's Revenue Challenges



Like all other states, the Great Recession is threatening Montana's ability to adequately invest in the public structures and services that educate our children, keep our communities safe, protect our land and water, and provide health care and other services when we struggle to make ends meet. State revenues are plummeting, and legislative staff is estimating that the next legislature may face over a \$400 million deficit.

## The Current Budget (2011 Biennium Budget)

Compared to last year, revenue has declined by almost 16%, or \$229 million, through the first 11 months of the budget. Revenue fell dramatically enough that the governor was required by law to reduce spending by \$41.1 million. Even with the governor's cuts and additional revenue from sources such as Otter Creek and increased federal funding for Medicaid, Montana's projected ending fund balance for this budget has fallen from \$282 million to \$91.7 million.

## What Does this Mean for the Next Budget (2013 Biennium Budget)?

Legislative Fiscal Division is now estimating that the 2011 legislature will have to either increase revenue or cut spending by \$405 million in order to balance the next budget. Preliminary options being considered by legislators for closing the budget gap include eliminating full-time kindergarten, meals on wheels, and Medicaid coverage for dental and optometric care; releasing inmates early; reducing funding for child care assistance; and closing courts one day per week.

## Montana Needs a Balanced Approach to the Revenue Crisis

We can't meet our revenue challenges with cuts alone. Montana needs a balanced approach that looks at every option, including targeted attempts to raise revenue. A balanced approach would include:

- 1. Improving Collections.** Most Montanans and businesses pay the taxes they owe. Not all taxpayers do. An estimated \$300 million in owed taxes go unpaid each year. Montana can raise revenue by further investing in audit and collection activities and by pursuing concrete policy proposals that ensure all taxpayers are paying what they owe.
- 2. Curbing Tax Expenditures.** Each year Montana loses millions of dollars in revenue through tax credits, deductions, and exemptions in the tax code. Unlike state spending, tax expenditures are rarely reevaluated after they are passed. Ineffective and inefficient tax expenditures should be eliminated.
- 3. Finding True Efficiencies in Public Spending.** "Efficiency" has been used to justify massive cuts in services, without looking at how the cuts would affect states' goals and populations. But the revenue crisis demands that we ask if our goals can be met at a lower cost by changing the policies we use to achieve them. For example, other states have found significant savings in corrections and economic development reform without jeopardizing—and, in fact, sometimes furthering—the goals of public safety and development.
- 4. Targeted Tax Increases.** A majority of states—both blue and red—have raised taxes and made spending cuts to meet their revenue challenges. Many economists have argued that raising taxes, especially on the wealthiest, does less economic harm than deep cuts to public programs, services, and infrastructure.

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