

Tools in the Toolbox: Montana's Approach to Fiscal Volatility Management

LEGISLATIVE FISCAL DIVISION STAFF

OCTOBER 2026

Introduction

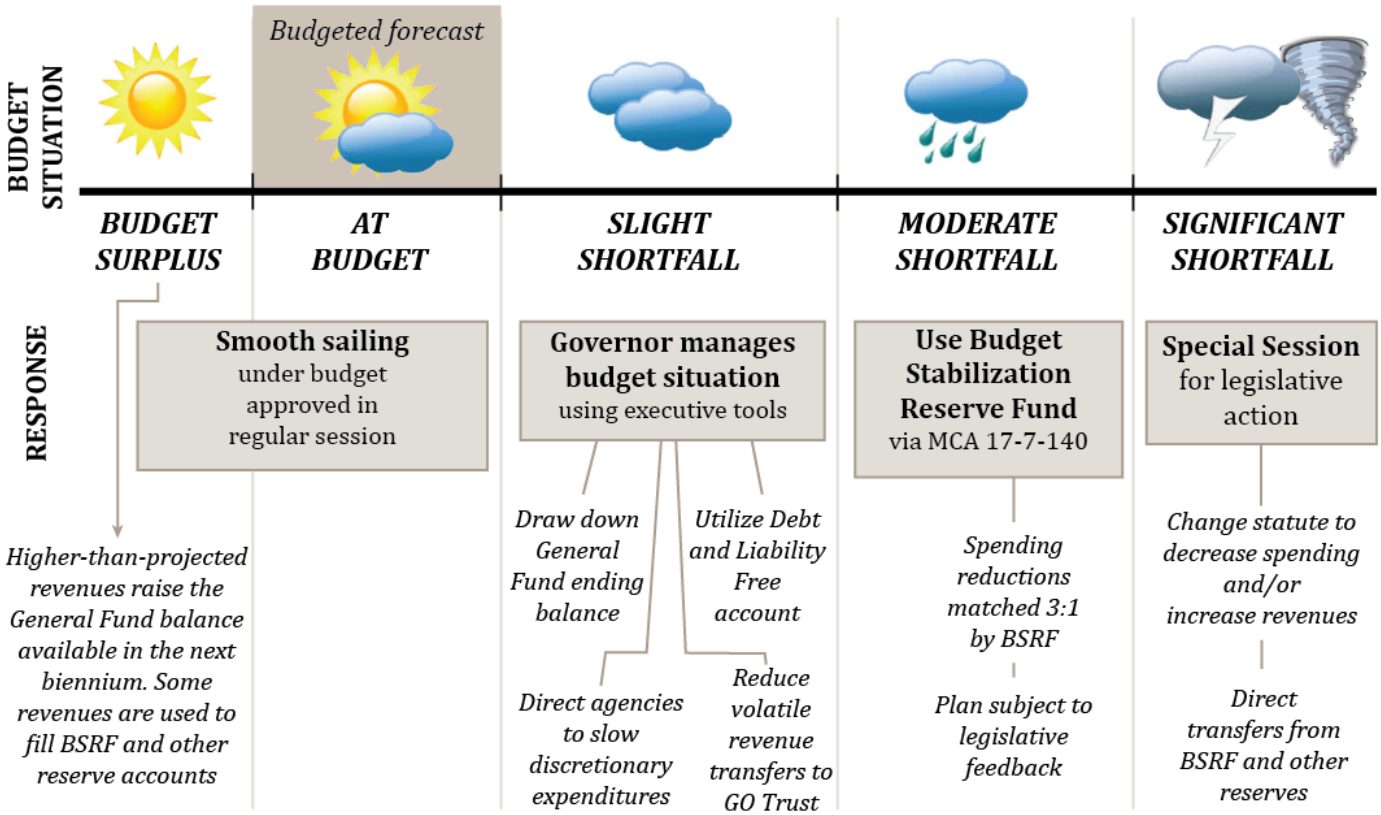
This resource provides an overview of the state's tools for managing fiscal volatility. Over the past decade, the state has added several fiscal volatility management tools and has also refined certain volatility management practices.

Montana's legislative and executive branches have shared responsibility for the management of periods of fiscal volatility. Montana's tools for managing fiscal volatility have varying levels of availability to the executive and legislative branches: generally, the executive branch is able to address minor shortfalls while providing for public disclosure. Legislative branch involvement is required for more serious shortfalls. More severe budget shortfalls may lead the legislature to employ multiple options to address the problem.

The remainder of this document gives an overview of the state's current fiscal volatility management tools before describing in more detail the tools available primarily to the executive, and those available to the legislature. The subsequent section describes the process of budget reductions and other actions that occur under 17-7-140, MCA, or in situations when the biennial general fund ending fund balance is expected to be below a certain threshold. The final section describes fund balances at the end of the most recently completed fiscal year, along with a history of general fund ending fund balances.

Overview of Montana's Volatility Mitigation Tools

The graphic below illustrates Montana's management of fiscal volatility – from situations in which the budget balance is higher than expected, to those in which fiscal pressures of varying severity emerge.



Primary takeaways from the above graphic include:

- Montana's tools and practices for managing fiscal volatility include split responsibility that scales with severity – mild shortfalls do not necessarily require legislative action beyond monitoring
- Several of Montana's tools are designed to grow their balances when revenues are higher than anticipated: these tools are designed so that good times pay for bad, at least in part
- Budget pressure is most commonly due to revenues coming in lower than expected, but higher than expected spending can also lead to budget shortfall – or both conditions can be true simultaneously

Governor's Access to Volatility Mitigation Tools

In between sessions, the Governor has some ability to mitigate budget shortfalls without the legislature coming into full regular or special session. The Governor's access to these tools is established in statute.

General Fund Ending Fund Balance

Montana statute contains a recommended ending fund level of 8.3% or $290.5 million of annual appropriations to ensure stable cash flow and to mitigate any need for a cash flow loan. The ending fund balance at the end of FY 2026 was $1,223.4 million or 34.9% of annual appropriations, which is higher than was anticipated in the 2025 Legislative Session. The Governor does not need to take any action if the forecasted biennial ending fund balance is above 4.0% or $140.0 million of annual appropriations.

Volatile Revenue Transfers to the GO Trust

Beyond the general fund balance is the volatile revenue transfer into the Growth and Opportunity Trust (GO Trust – established in HB 924, 2025 Session). Upon reporting to the Legislative Finance Committee that the anticipated ending fund balance is forecasted to be below the recommended ending fund balance, the budget director may reduce the transfer into the GO Trust. The budgeted level of the volatile revenue transfer is anticipated at +/- $100 million per year beginning in FY 2028.

Budget Stabilization Reserve Fund (BSRF) & Spending Reductions

The Budget Stabilization Reserve Fund (BSRF) is the state's primary "rainy day" fund and acts in concert with reductions in spending 17-7-140, MCA. The Governor can access this fund through a significant process outlined in 17-7-140, MCA. The Governor's access to the BSRF is contingent upon reductions in general fund spending as outlined in law. The Governor may not access the whole balance of the BSRF and must call in the legislature to assist at triggers established in law. The Governor may also direct agencies to slow spending before accessing the BSRF.

At the close of FY 2026, the BSRF totaled $557.6 million or 16.0% of annual appropriations. For more information on this process see page 14 of the 2027 Biennium Budget Analysis.

Legislative Volatility Mitigation Tools

In addition to the tools available to the Governor, the Legislature has other tools available to mitigate financial shocks during either a special or regular session.

Other Fund Balances

Other state special funds can be utilized during budgetary shortfalls. State special funds vary between those that are inaccessible due to being constitutionally protected, like the gas tax, to those that are general fund set aside by the legislature for a specific purpose and have few restrictions if they have not already been spent. The state special funds with few restrictions are categorized by generally accepted accounting principles to be grouped in the state Annual Comprehensive Financial Report (ACFR) with general funds, though those funds may or may not be funds the legislature would choose to utilize in the event of a general fund shortfall. Significant portions of the other funds are discussed in the Budget Stabilization Reserve Fund brochure, GO Trust brochure, Debt and Liability Free Account brochure, Behavioral Health for Future Generations brochure, and the Fire Fund brochure.

Debt and Liability Free Account – Governor has Access in Certain Cases

The 2023 Legislature passed and approved HB 251, which established the debt and liability free account (DLFA), and the 2025 Legislature expanded the uses of this account and modified the transfers into this account in HB 924. This account can be used to pay off state bonds, prevent the issuance of new state bonds, mitigate the need for general fund supplemental appropriations, and several other uses. The Governor may use the DLFA to replace rescinded federal funding and mitigate the need for general fund supplemental appropriations.

Growth and Opportunity Trust Balances

HB 924 (2025) created the Montana Growth and Opportunity Trust (GO Trust) and transferred $639.0 million of general fund into various portions of the trust in FY 2025. Further transfers into GO Trust components are detailed in the bill and include $130.4 million in FY 2026 and $92.0 million in FY 2027. The balance of the sum of all GO Trust components (pensions, distribution, housing, early childhood, local bridges, and water development) totaled $798.1 million at FYE 2026.

Behavioral Health Systems for Future Generations Fund

The 68th Legislature passed HB 872 in 2023, creating the Behavioral Health System for Future Generations (BHSFG) state special revenue fund. The fund was created with a general fund transfer of $300.0 million and intended to address gaps and improve the statewide behavioral health and developmental disabilities systems. Fund balance at FYE 2026 was $157.2 million.

Wildfire Suppression Fund

The wildfire suppression fund was established by the legislature in 2008 and is statutorily appropriated to the Department of Natural Resources (DNRC) for wildfire mitigation, wildfire season preparedness, equipment purchases, and wildfire suppression. The 2023 Legislature passed HB 883, which impacted the wildfire suppression fund in three significant ways: seeded the fire suppression fund with $152 million through a general fund transfer, provided a mechanism in statute to transfer general fund to the fire suppression account each biennium sufficient to bring the balance to an equivalent of 6.0% of annual appropriations, and increased the amount that DNRC could use for fire mitigation, equipment, and preparedness from $5.0 million per biennium to $30.0 million per biennium, depending on the balance of the fund.

Capital Development (CD) Fund

The CD fund may be used to retire debt, forego, or reduce general obligation bonds paid by the general fund, or fund capital developments. In the 2023 Legislative Session the legislature further defined when the CD fund could be used for costs and fees associated with redeeming or defeasing outstanding general obligation bonds paid by the general fund. The CD fund receives a transfer of 1.0% of general fund revenues annually (about $35.0 million), and the executive may propose to change that amount but must include such a proposed change in the executive budget submission as a new proposal.

Other state special funds and other state resources may also be available to the legislature during times of budget stress, but research into the restrictions and status of each fund would be required.

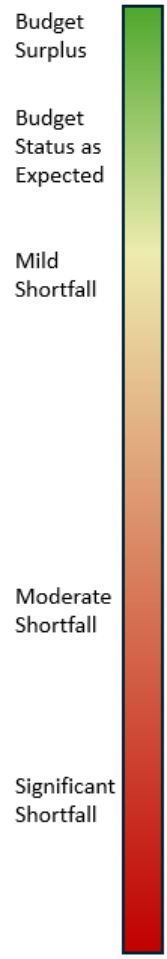
Budget Reductions

The legislature could reduce spending in almost all areas of state government. Budget hearings with estimated impact of such reductions would be required for the legislature to make these types of decisions.

Revenue Increases

The legislature can redirect certain tax revenue from state special or other funds and/or increase tax rates to mitigate budget shortfalls.

The table below provides a recap of the above information, with additional detail on the roles of the executive and the legislature as budget shortfalls become more severe.



Action	Governor's Authority	Legislature's Role
Potential transfers into BSRF, Capital Development Fund, GO Trust	Make transfers as required by statute	Monitor through Legislative Finance Committee/Legislative Fiscal Division
No action required		
No action required	Draw down general fund balance if revenues are lower than anticipated	Monitor through Legislative Finance Committee/Legislative Fiscal Division
Minimal action required	Direct agencies to slow expenditures to a minimal extent	
Report to LFC on usage of Debt and Liability Free account at next meeting	Utilize Debt and Liability Free account if shortfall is related to certain expenditures	Monitor through Legislative Finance Committee/Legislative Fiscal Division
Publicly announce shortfall concern: ending fund balance expected to drop below 8.3%	Reduce transfers of volatile revenue to the GO Trust	Monitor through Legislative Finance Committee/Legislative Fiscal Division
Publicly announce budget shortfall: implement 17-7-140, MCA	Develop new revenue estimate, financial status, and plan for spending reductions and transfer from BSRF. Implement plan for spending reductions after legislative comment	Revenue Interim Committee meets and offers comment Legislative Finance Committee meets and offers comment
Call special session	Issue call for special session	Poll on call for special session contingent on Governor's action
Special session	Options Include: • Decrease appropriations to reduce spending or transfers from the general fund, including actions that require statute change • Make transfers to the general fund from BSRF and potentially other accounts, including transfers that require statute change • Change statute to increase revenue	

The next section of this resource describes the 17-7-140, MCA process in more detail.

What if the Problem Requires Additional Action? The 17-7-140, MCA Roadmap and Budget Shortfalls

This section describes how significant budget shortfalls may be mitigated with a combination of executive and legislative action. Note that revenue collections below expectation is the most likely, but not sole, scenario under which the state experiences a significant shortfall: higher-than-expected expenditures can also lead to budget pressure.

Statute directs the Governor to ensure that the projected biennial general fund ending fund balance does not fall below the following thresholds:

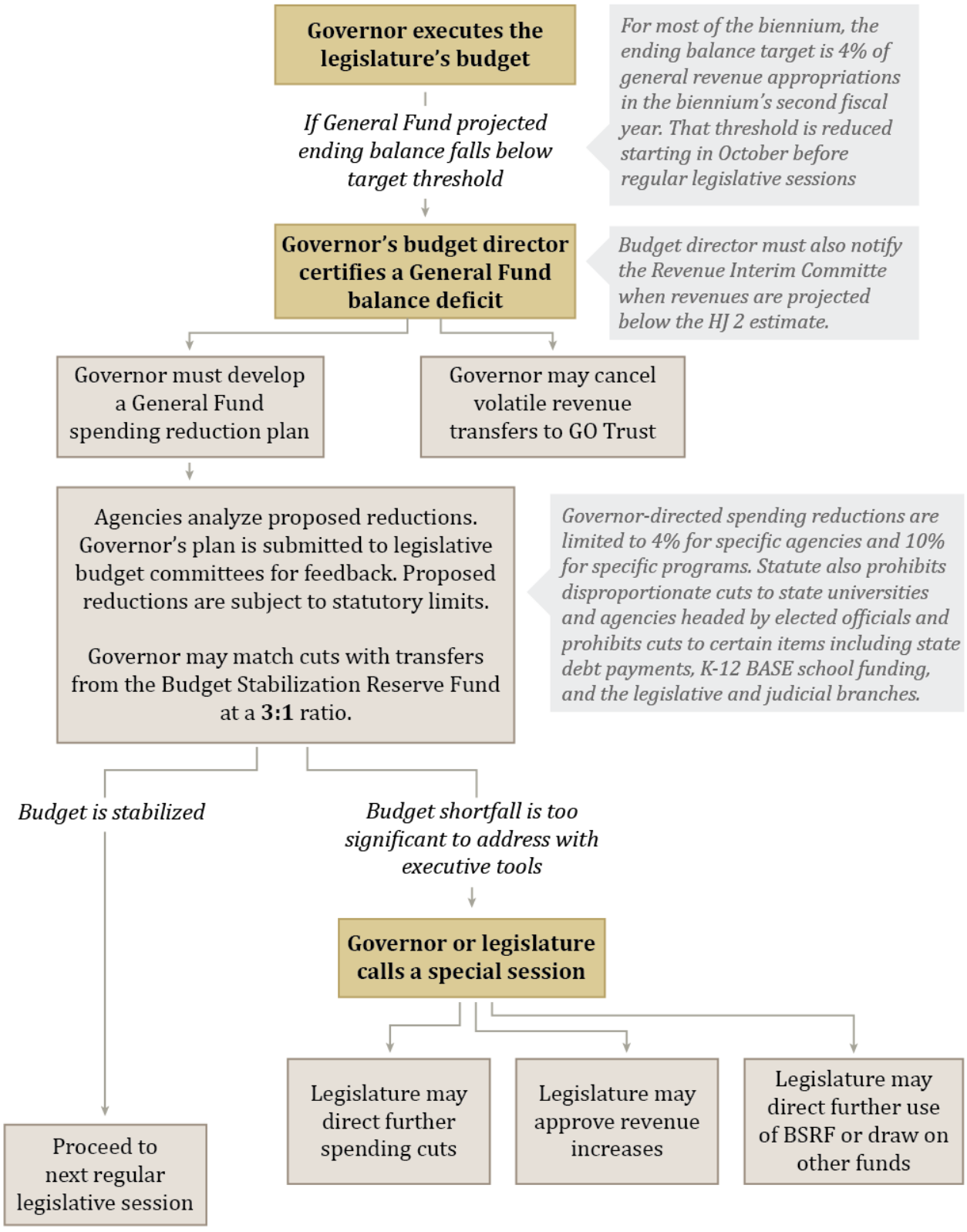
- 4% of second fiscal year general revenue appropriations[1] prior to the October before session
- 3% of second fiscal year general revenue appropriations during October before session
- 2% of second fiscal year general revenue appropriations in January of a session year
- 1% of second fiscal year general revenue appropriations in March of a session year

These thresholds shrink as the legislature gets closer to convening for session or has entered regular session.

The 17-7-140 process is public: If the executive utilizes the 17-7-140 process an additional layer of legislative involvement is initiated, even when the legislature is not in session. Additional meetings of the Legislative Finance Committee and Revenue Interim Committee are triggered by the 17-7-140 process, and these committees can provide feedback on the executive's estimates and plan for budget reductions. The graphic below describes the 17-7-140 process.

[1] General revenue appropriations are general fund appropriations *plus* appropriations from the school equalization and property tax reduction account (SEPTR).

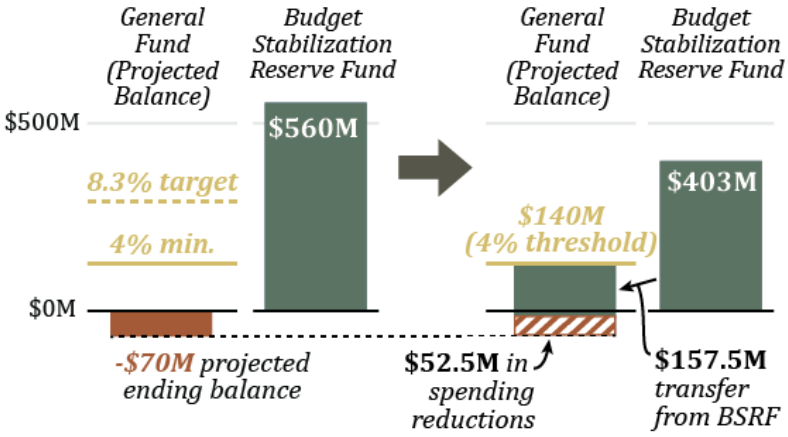
Budget Stabilization Process Outlined in MCA 17-7-140



Consider the following examples of how the 17-7-140 process could play out:

Example A – A moderate shortfall that the governor can manage with a full Budget Stabilization Reserve Fund

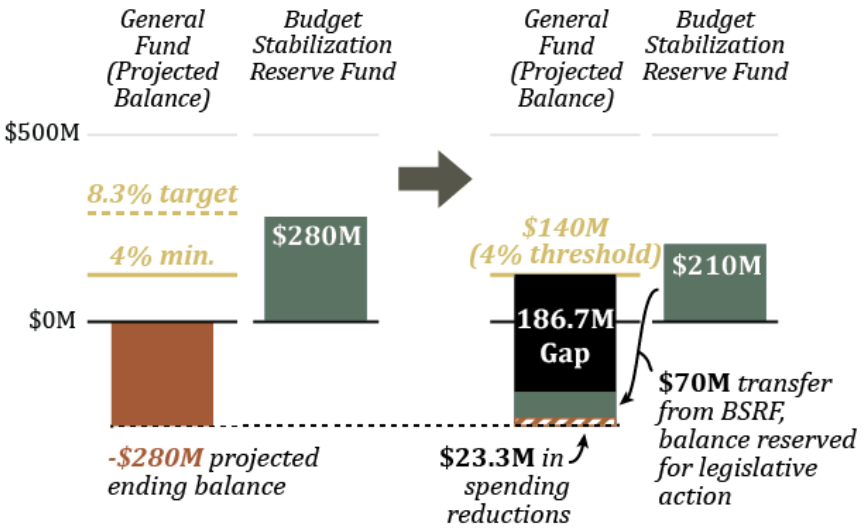
In this example, the biennial ending fund balance is anticipated to be -$70.0 million, or -2% of second year general revenue appropriations in the summer of the even-numbered year, or the summer before legislative session.



The Governor must notify the legislature of this anticipated shortfall and return the anticipated ending fund balance back to 4% of second year general revenue appropriations, or $140.0 million, or call the legislature to a special session. So, the magnitude of the problem is $210.0 million. In Example A, there is some good news: the BSRF is full, with a balance of $560.0 million. The Governor can transfer $157.5 million from the BSRF to the general fund by directing agencies to reduce general fund spending by $52.5 million (a 3:1 match). The LFC and RIC meet and may provide comment and recommendations on the Governor's estimates and plan. The BSRF balance when the legislature returns for session is $402.5 million.

Example B – A significant shortfall that requires a special session

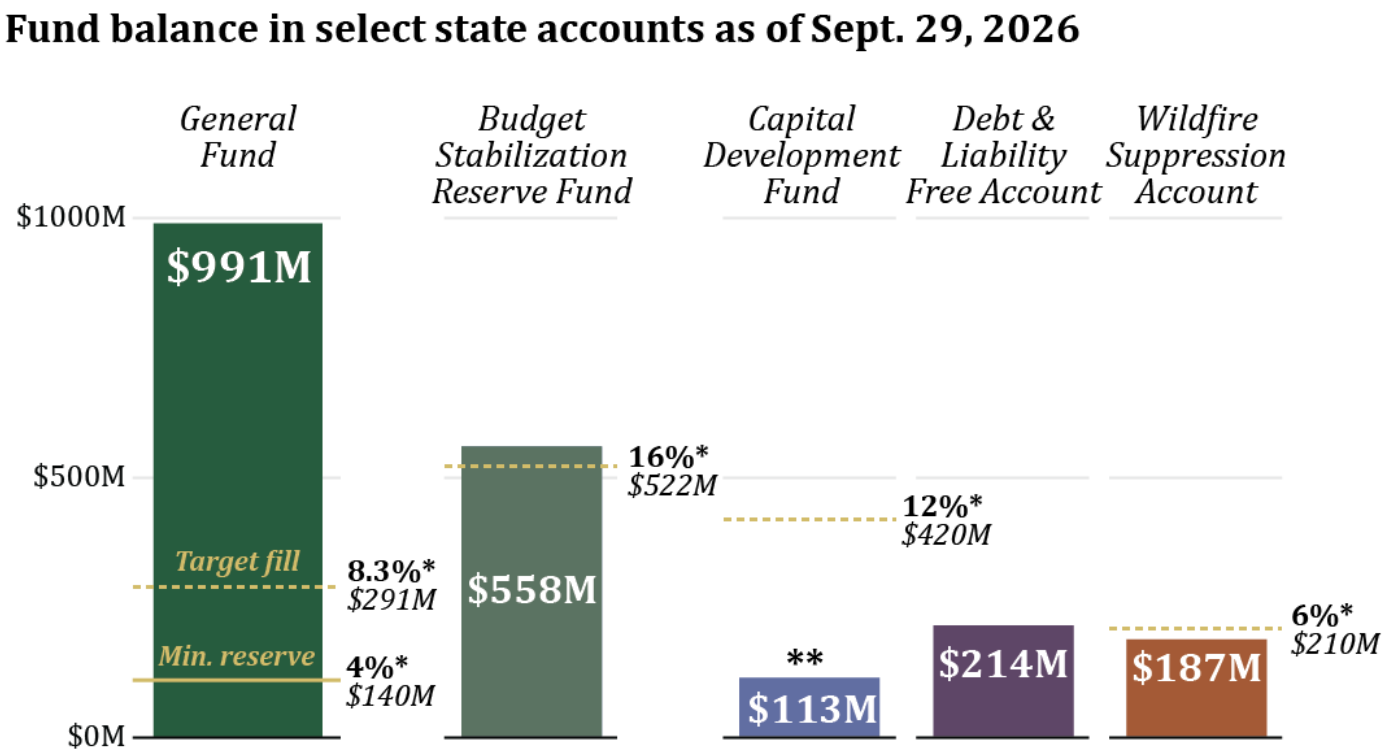
In this example, the biennial ending fund balance is anticipated to be -$280.0 million, or -8% of second year general revenue appropriations in the summer of the even-numbered year. The Governor must return the anticipated ending fund balance back to 4% of second year general revenue appropriations, or $140.0 million, making the magnitude of the problem $420.0 million. In Example B, the BSRF is not full, but has a balance of $280.0 million, or 8% of second year general revenue appropriations. While the Governor can access some of the BSRF, statute requires that at least 6% or $210.0 million remain in the BSRF for legislative utilization. In this example, the Governor is unable to return the anticipated ending fund balance to $140 million and thus issues a call for a



special session. Under a special session, the legislature could utilize the remainder of the BSRF to solve a portion of the problem, but additional steps would be required by the legislature to bring the state's budget back into balance. These additional steps could include utilization of other fund balances, further expenditure reductions, revenue increases, and other actions.

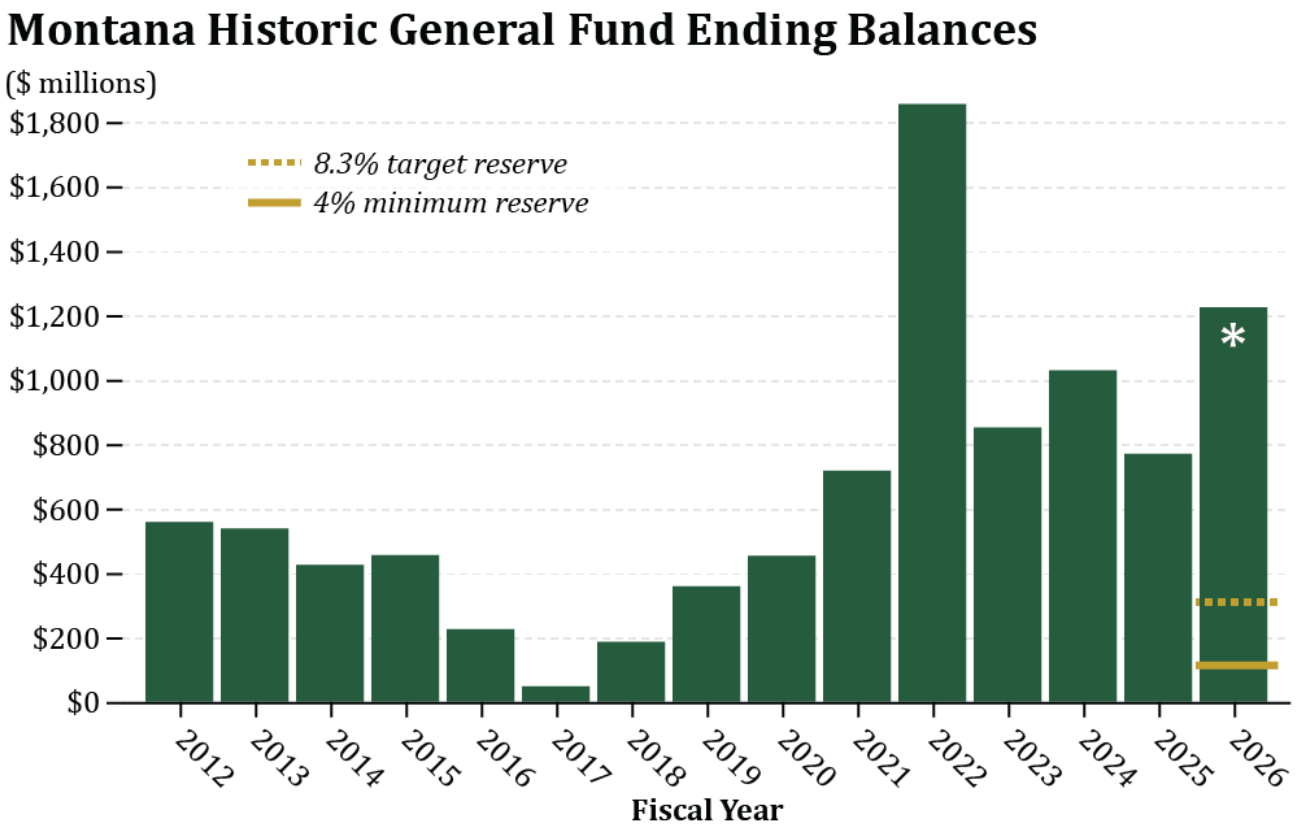
Fund Balances: Reserve Fund Balances and the History of the General Fund Ending Fund Balance

The graphic below shows the status of several funds, or accounts, as of the end of August 2026, or about one-quarter of the way through FY 2027. As described above, some of these funds are available for executive access under certain conditions, while others are available only with legislative action.



**Fund balance targets are expressed as percentage of general revenue appropriations (General Fund and SEPTR appropriations) in the second year of the biennium. For the 2027 Biennium, year-two general revenue appropriations in FY 2027 are $3.5 billion.*
***Projected fund balance at the close of FY 2027. While the current fund balance is $497 million, much of that balance is committed to capital projects that have already been authorized by the Legislature.*

The graphic below shows a history of general fund ending fund balances by fiscal year.



**Note: Large statutory transfers drew down the General Fund shortly after the close of FY 2026. Fund balance targets are expressed as percentage of general revenue appropriations (General Fund and SEPTR appropriations) in the second year of the biennium.*

Source: Legislative Fiscal Division

General fund balances peaked in the 2023 biennium and have remained higher than historical levels since. The graphic illustrates the low ending fund balance in the 2017 biennium, which led to a special session during that biennium.

CONCLUSION

Montana has more tools for managing fiscal risk than in years past. Many of the tools created over the last decade, such as the BSRF, have significant cash balances available to mitigate fiscal difficulties. These tools have different levels of availability to the executive and legislative branches: there is split responsibility built into the system, including in 17-7-140, MCA, which provides a roadmap for handling significant budget shortfalls.

These tools are an asset to Montana, as the state has higher revenue volatility than many other states due to the increasing share of income tax as a generator of state revenues[2]. These tools can also mitigate the impact of large national economic contractions: in such cases, the federal government tends to offer fiscal relief to states (Great Recession, Covid-era transfers), but this relief is not a certainty in the future.

[2] See LFD's 2027 Biennium Volume 1 starting on page 21 and further LFD analysis of fiscal risk for discussions of revenue volatility in Montana.