Revenue and Risk Analysis

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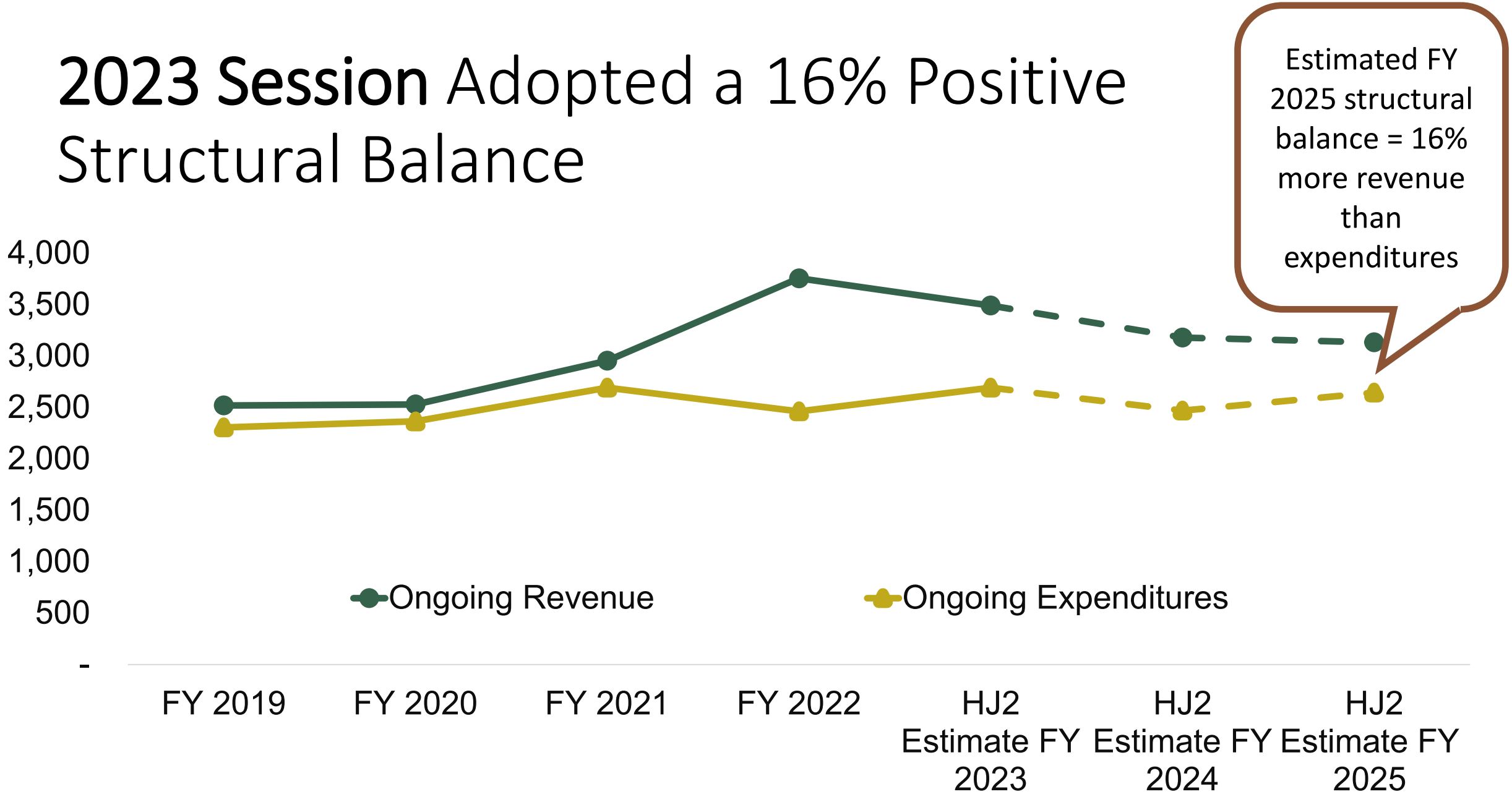
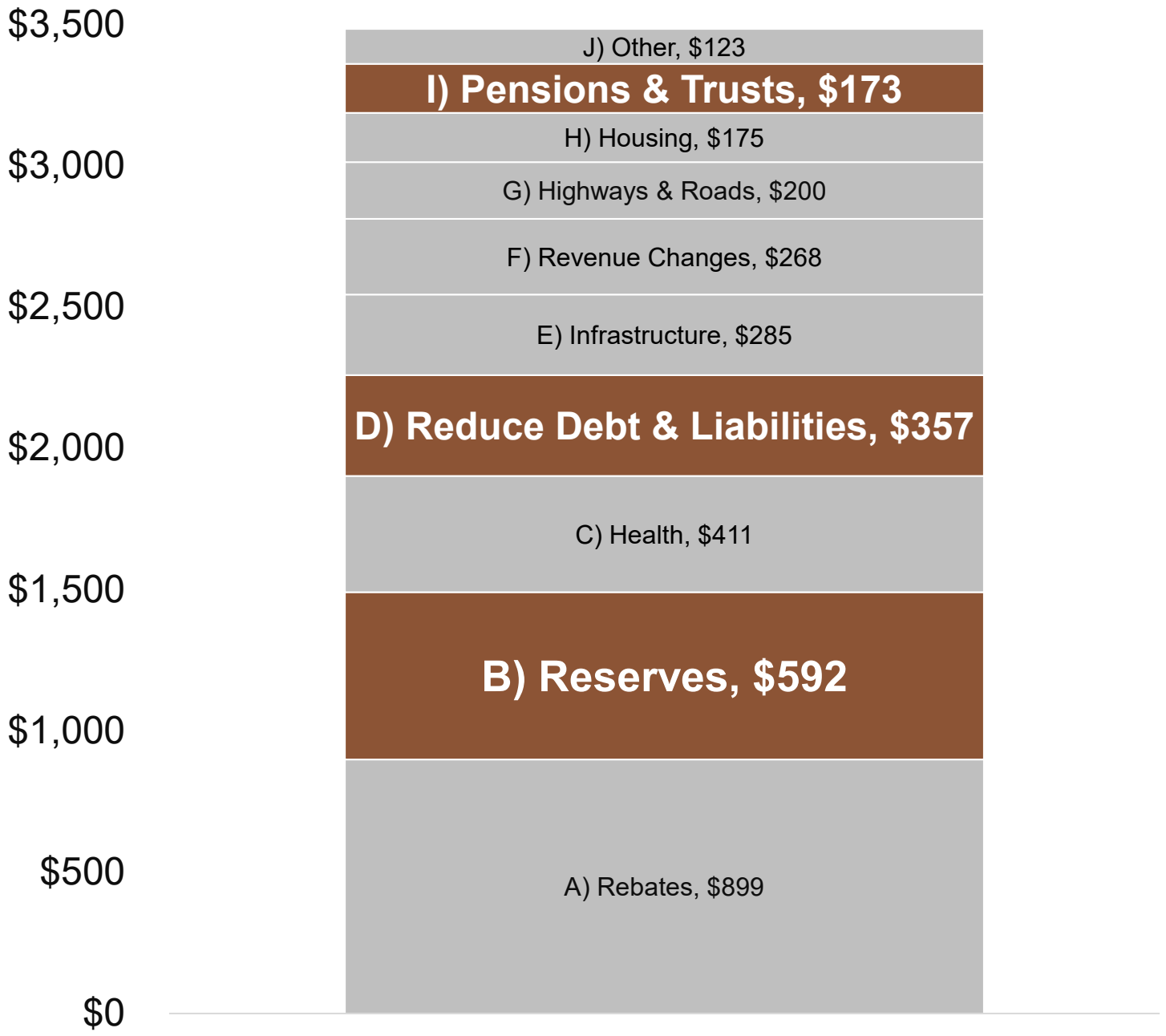
2023 Session Adopted a 16% Positive Structural Balance



The 2023 Session adopted uses of funding that absorb risk

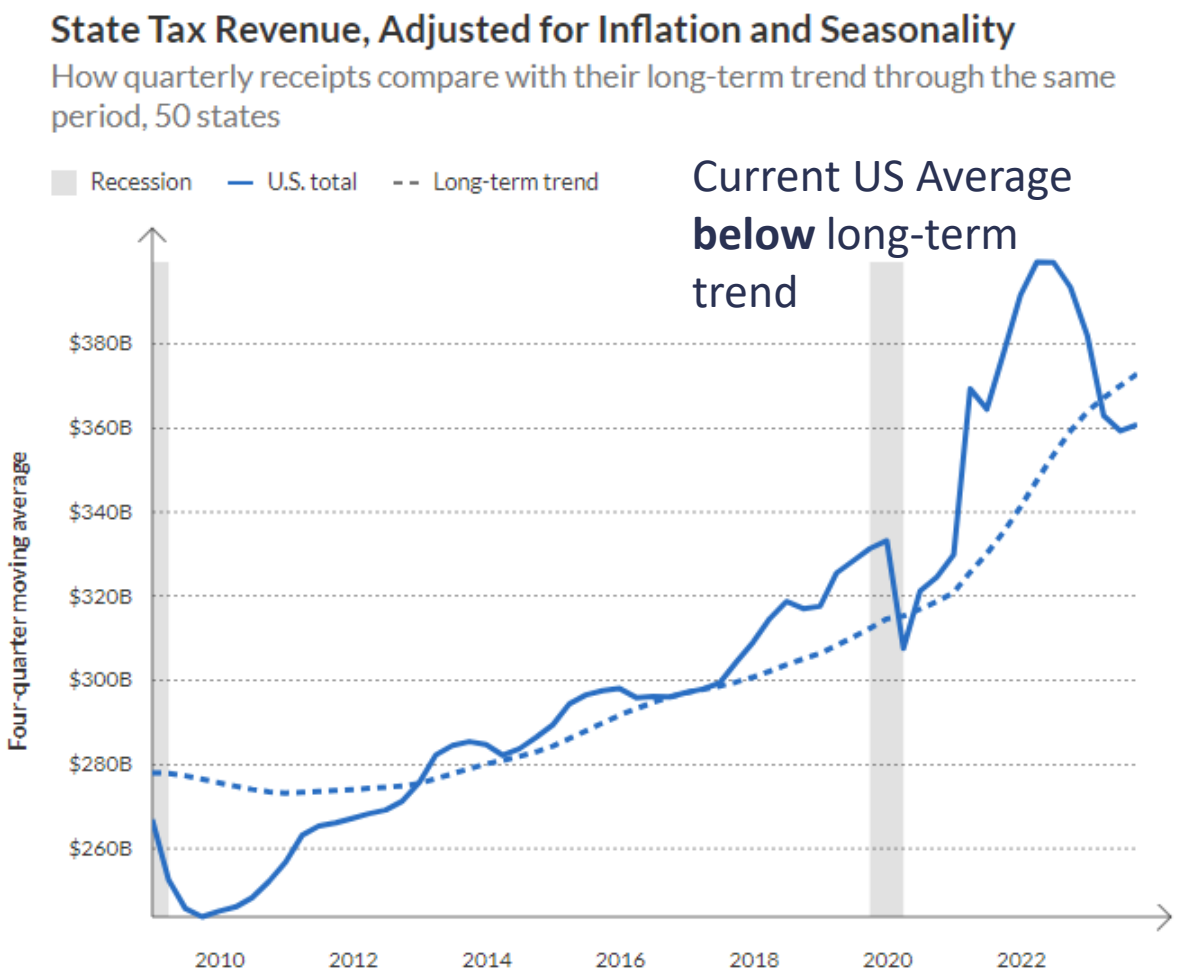
Of the $3.5 billion spent, about **a third** of it reduces risk with reserves, trust infusions, reducing debt, and pensions

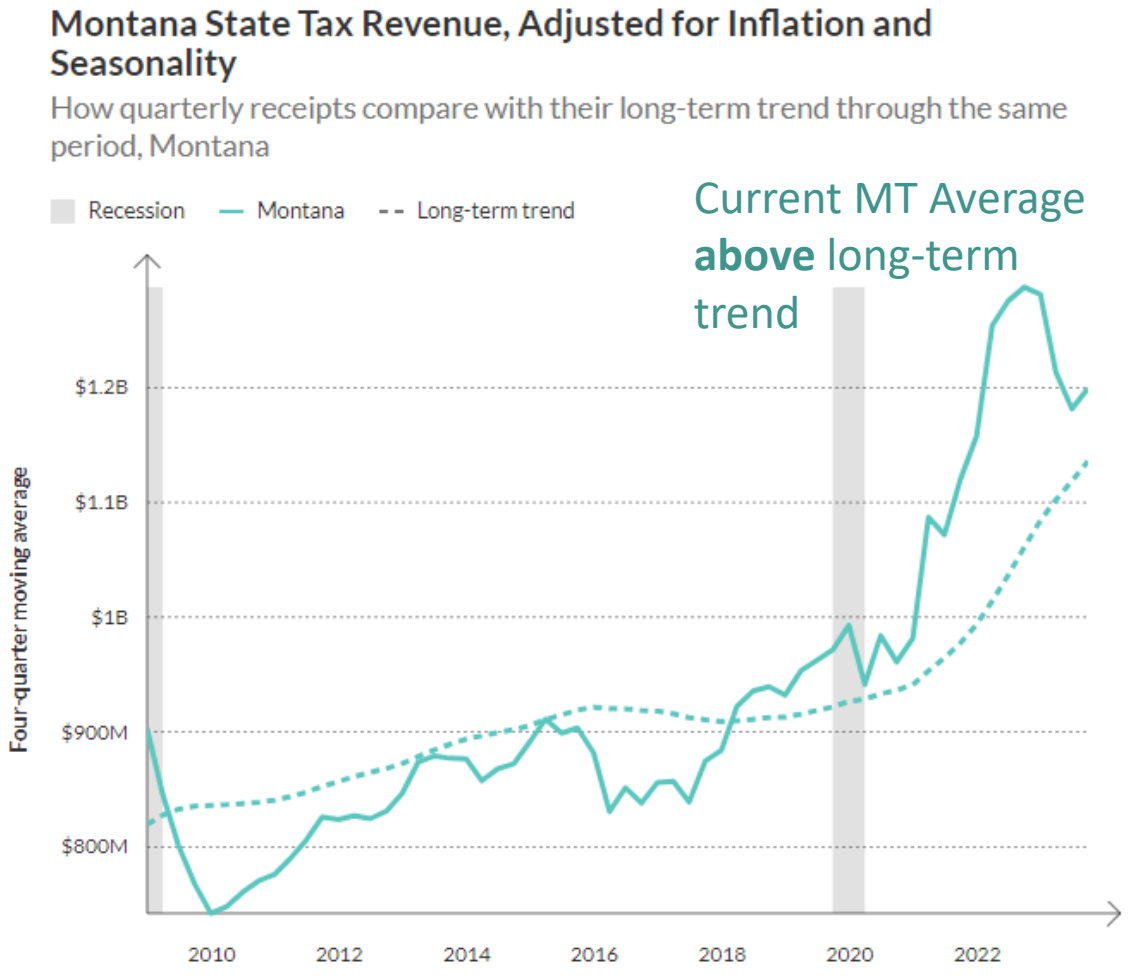


Legislature left 2023 Session with a strong structural balance, what are revenues now and what are the risks on the horizon?

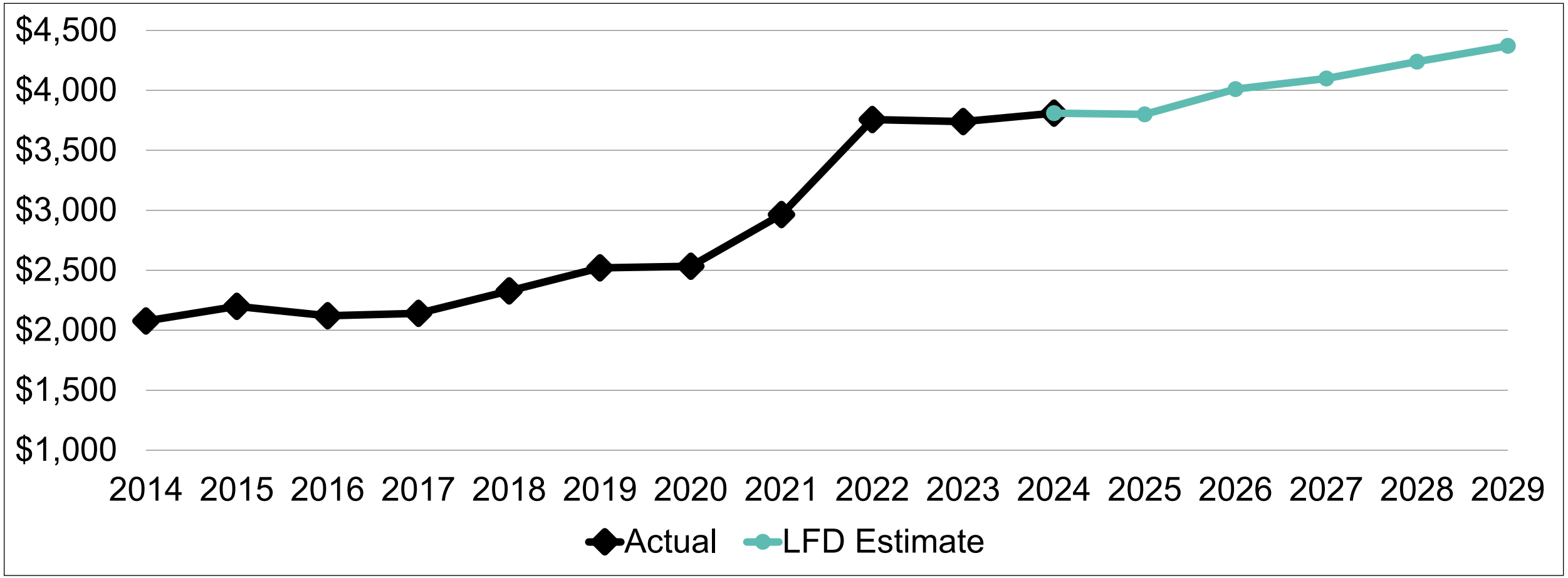
In June, after the Outlook Report showed continued strong revenue, the Legislative Finance Committee requested an analysis of risk.

Pew Fiscal 50 Comparison:
Montana is an Outlier on Revenue Growth





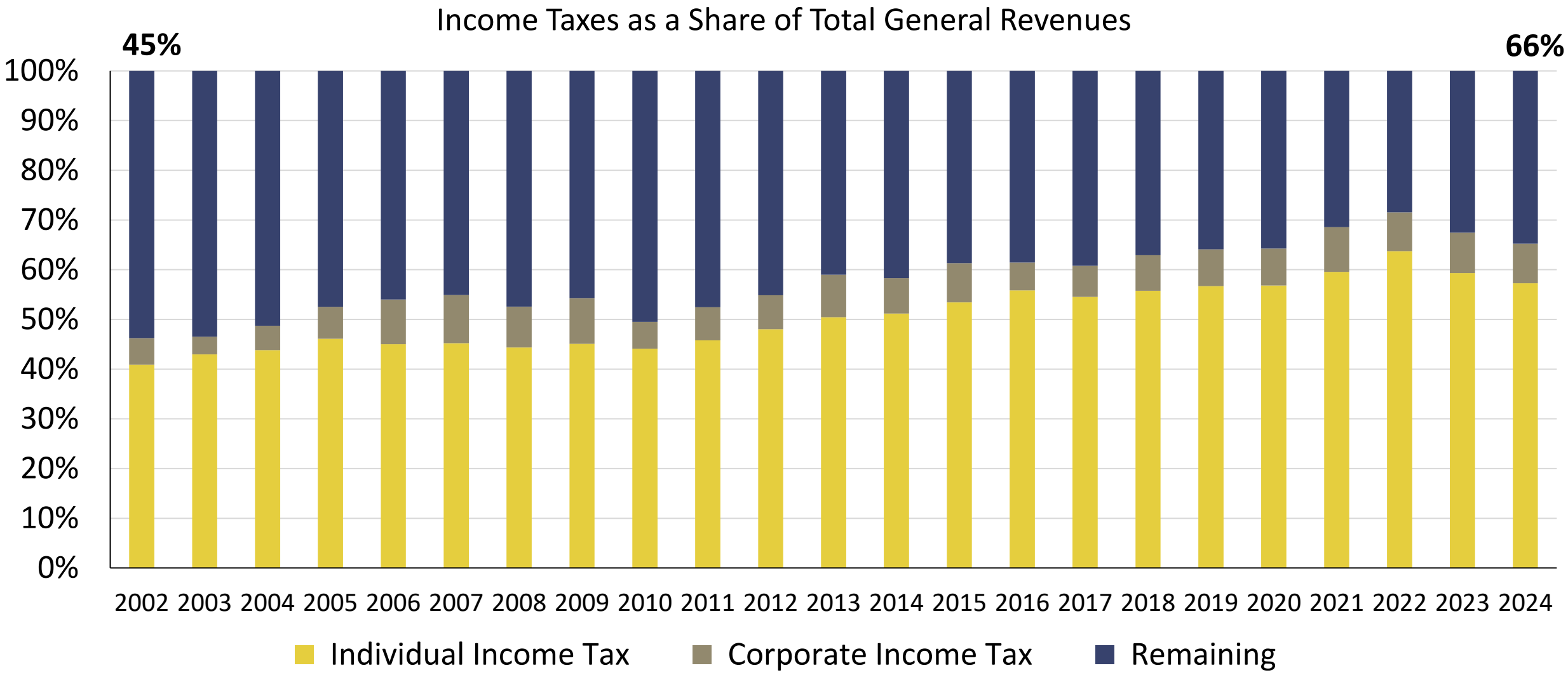
Current forecast of General Revenue continues to be strong, slightly lower than the Outlook in June



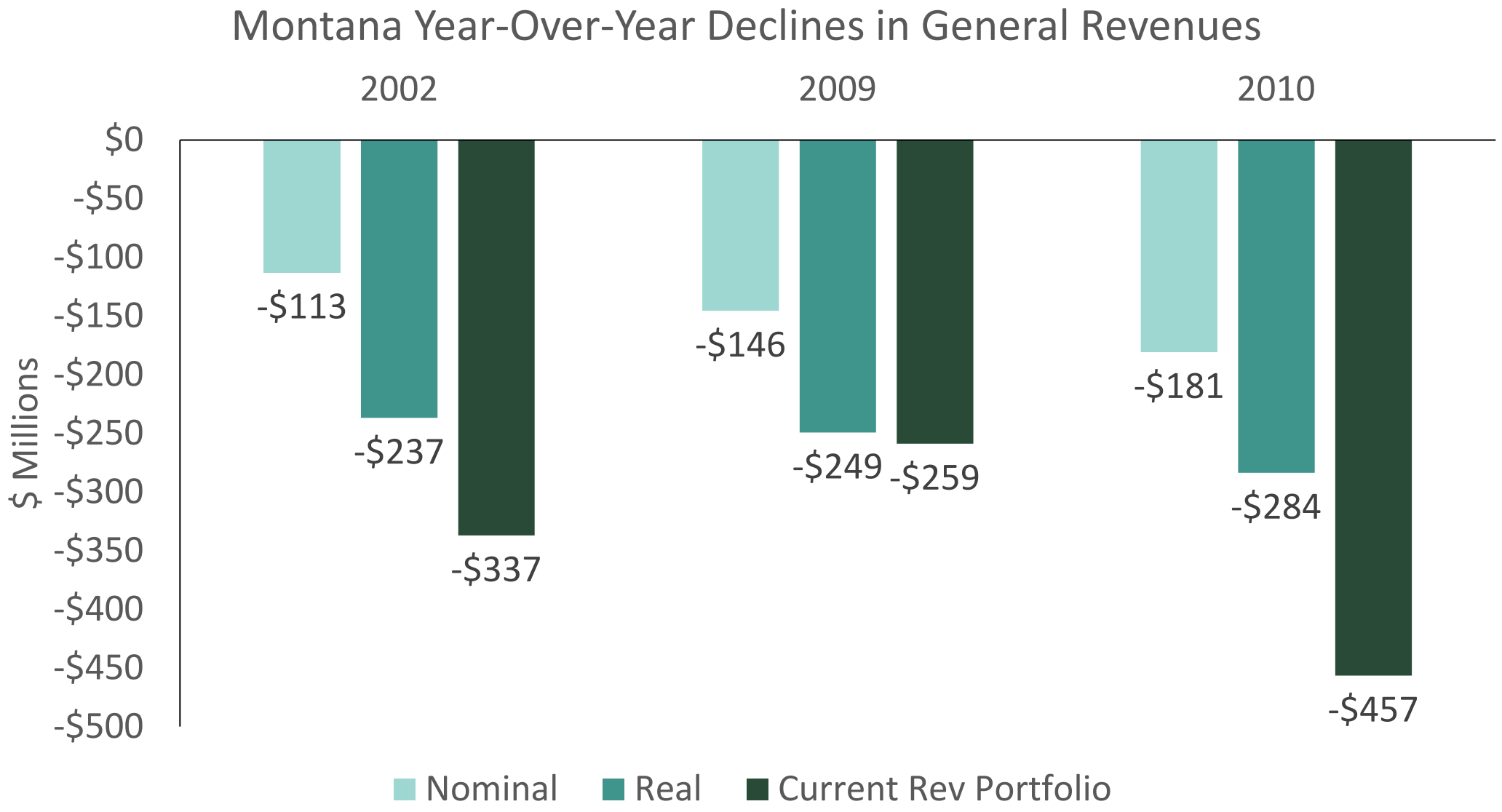
Future Risk

- More volatile revenue streams
- Federal funding
- Aging infrastructure
- Unfunded liabilities like pensions

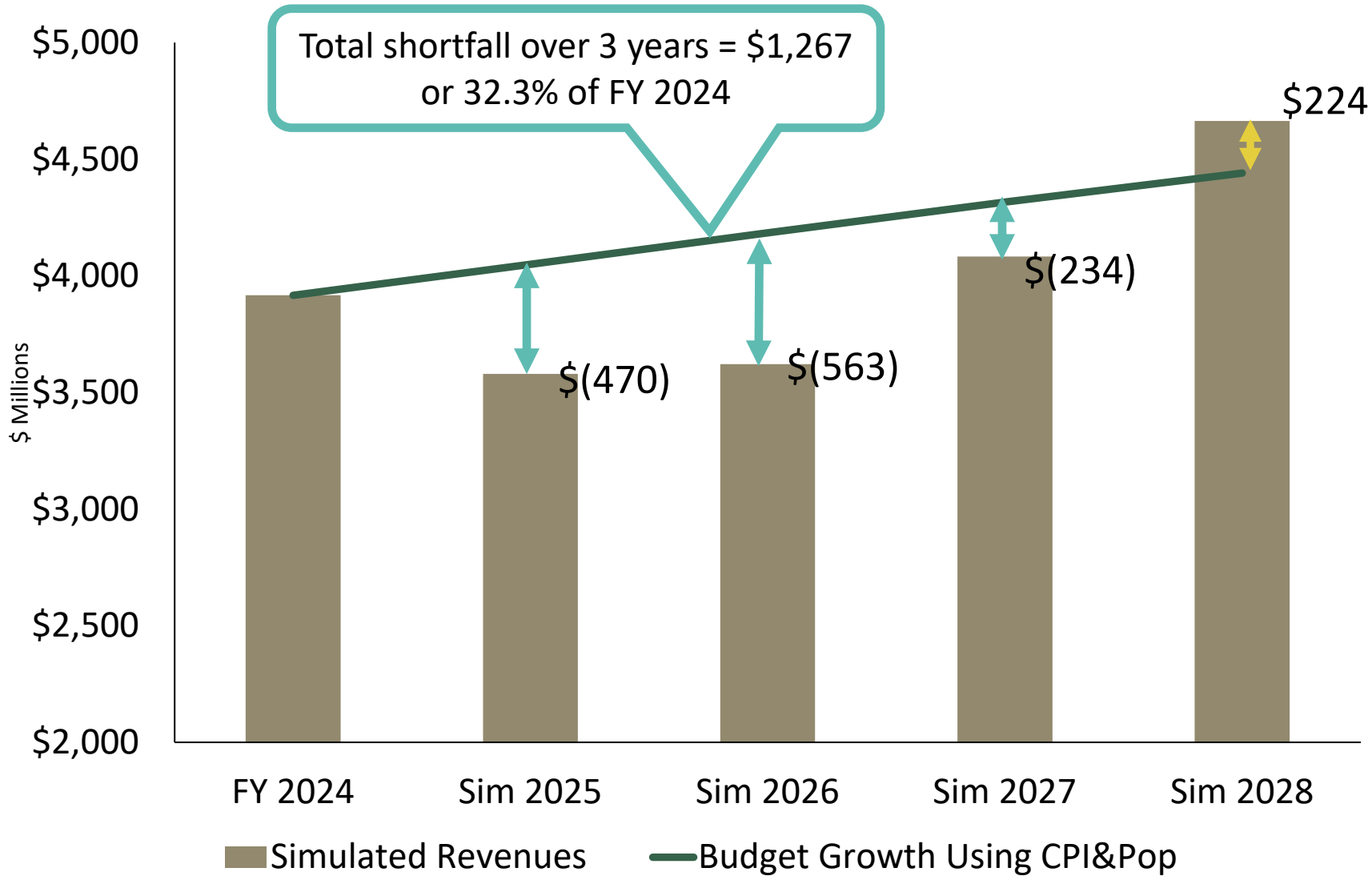
More Revenue Risk



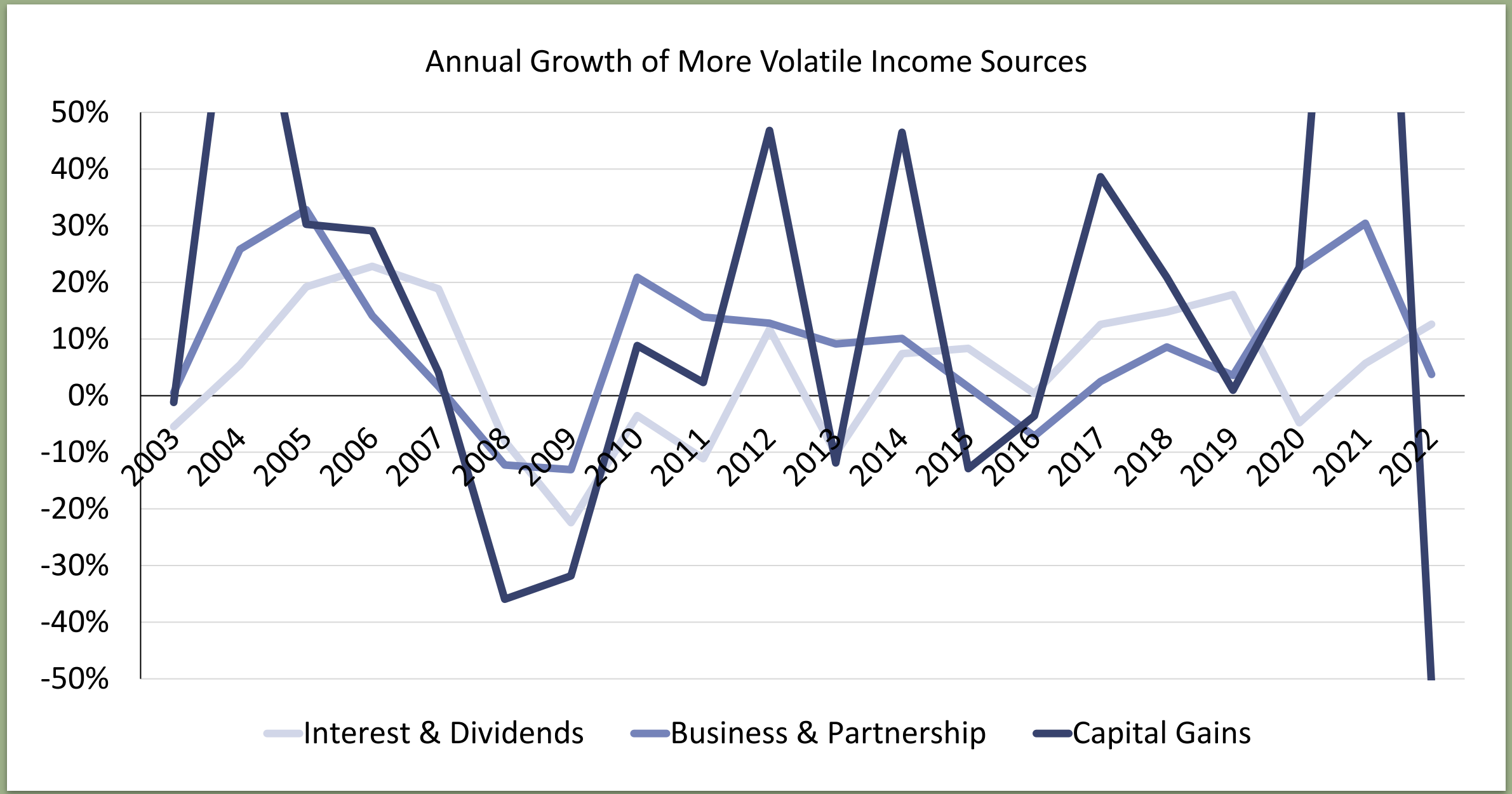
More Reliance on Income Taxes Creates More Volatility



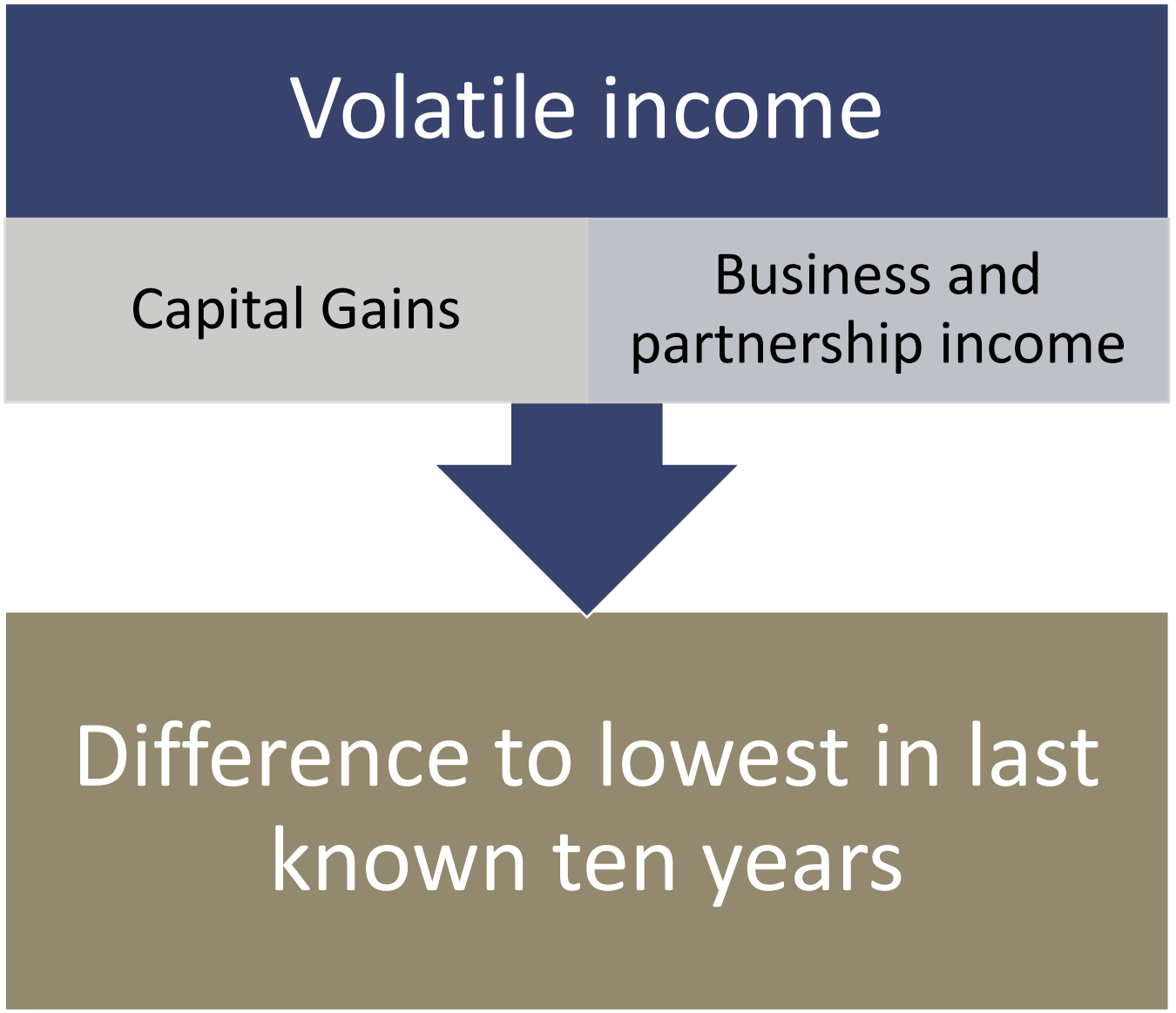
Revenue Growth Simulated Using the **Mild** Recession of 2001 Growth Rates Compared to Simulated Budget



Annual Growth of Relatively Stable Personal Income Sources
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Wages
Taxable Pensions, IRAs, Social Security

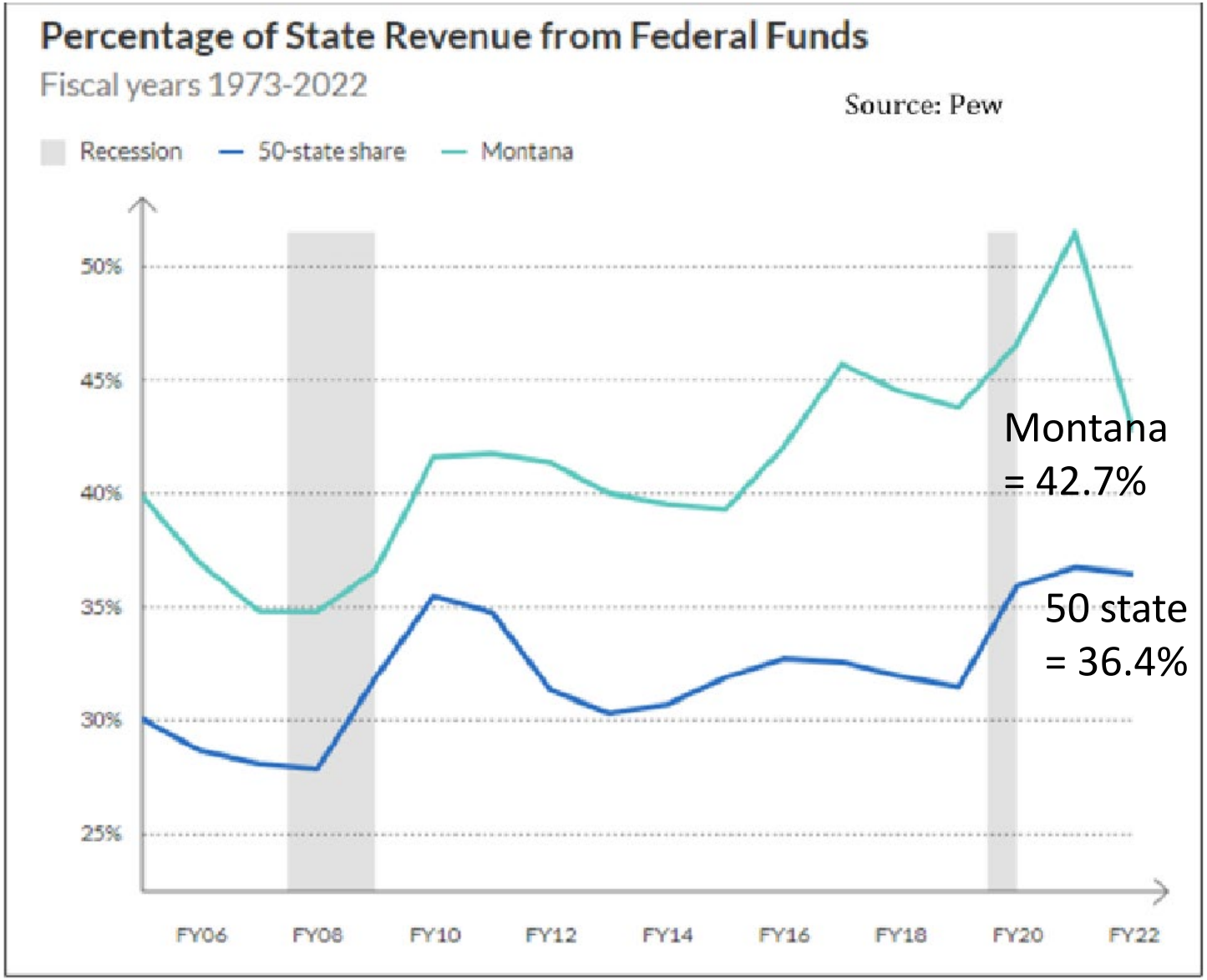

Annual Growth of More Volatile Income Sources
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
Interest & Dividends
Business & Partnership
Capital Gains

Should Risky Revenue be defined?



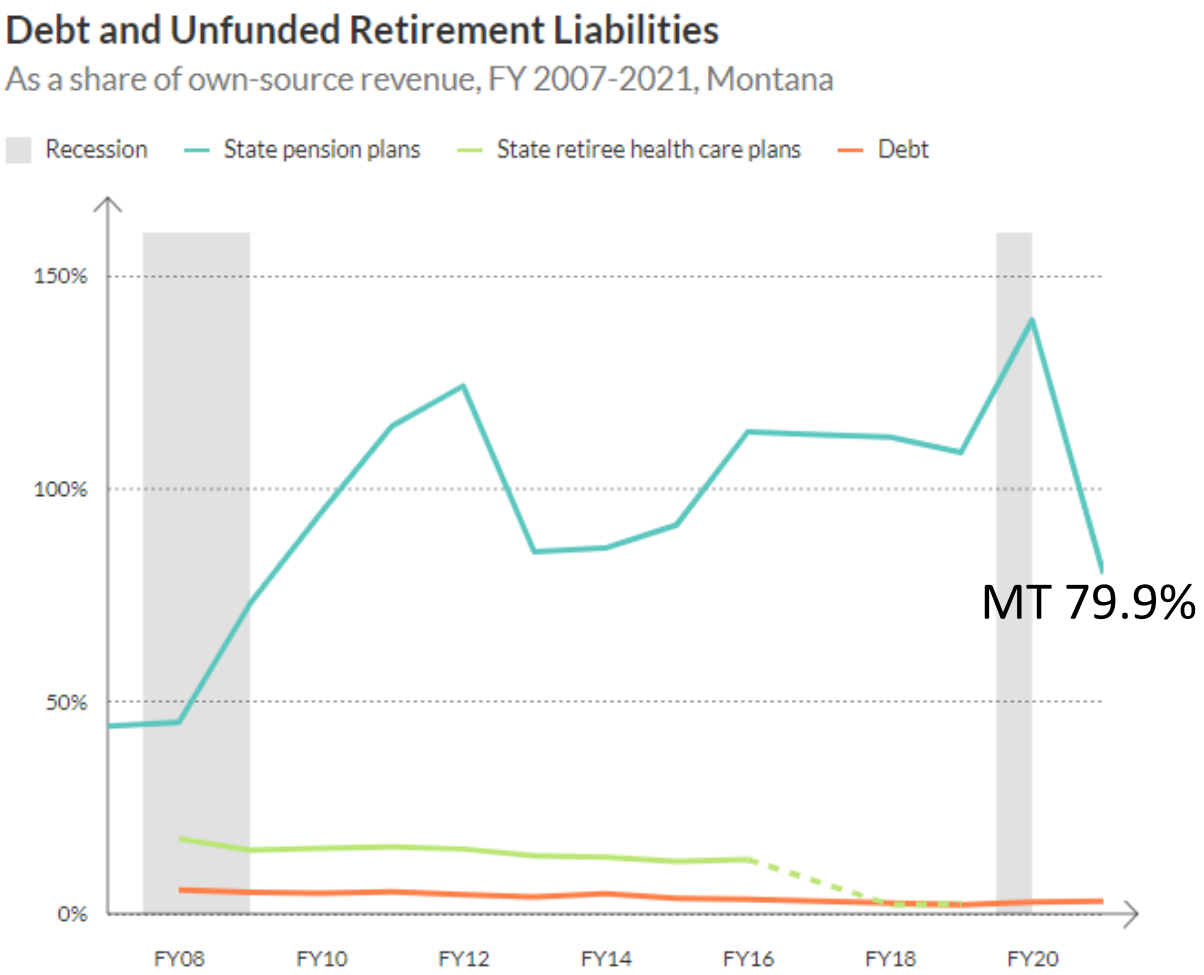
Other sources of financial risk

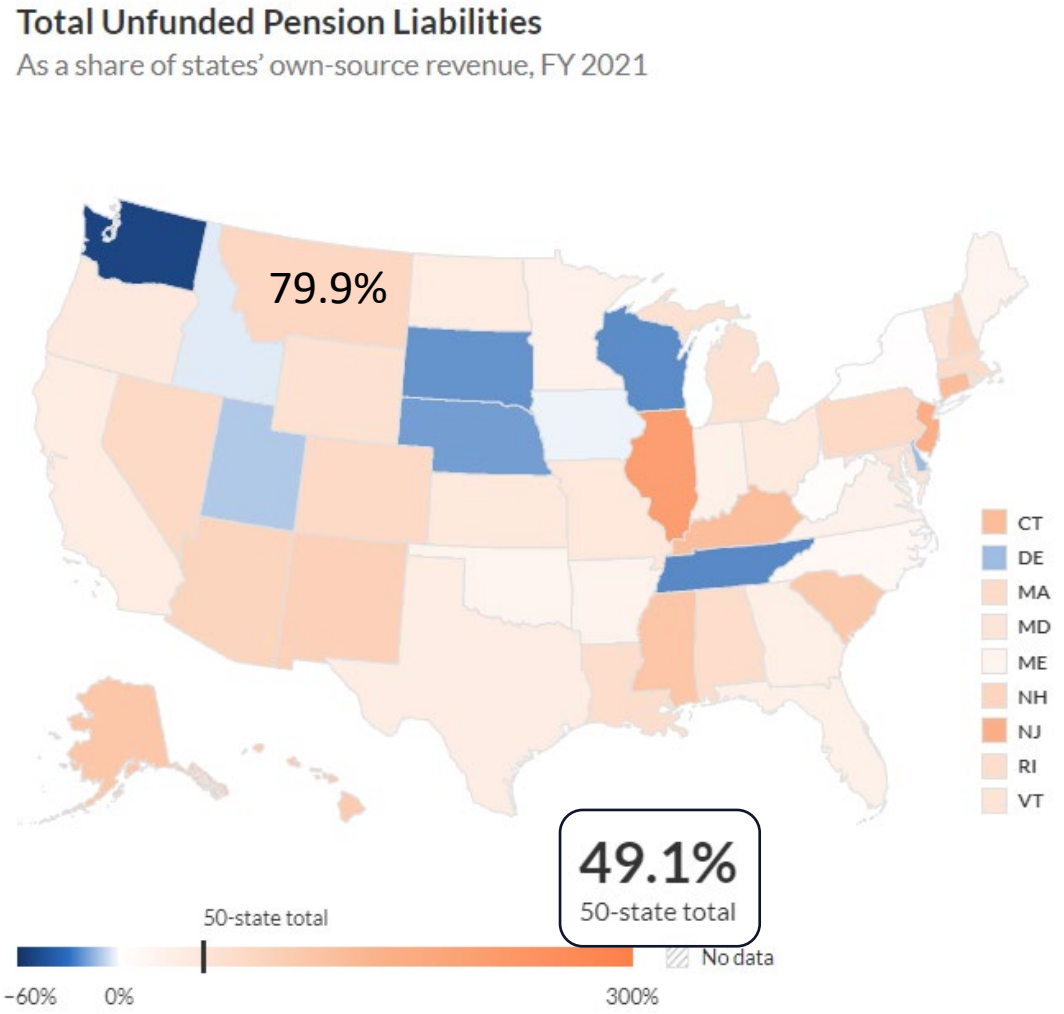
Montana is More Reliant on Federal Funds Than Most States



Source: Pew Fiscal 50

Pew Pension Debt Comparison Montana to Other States





Infrastructure

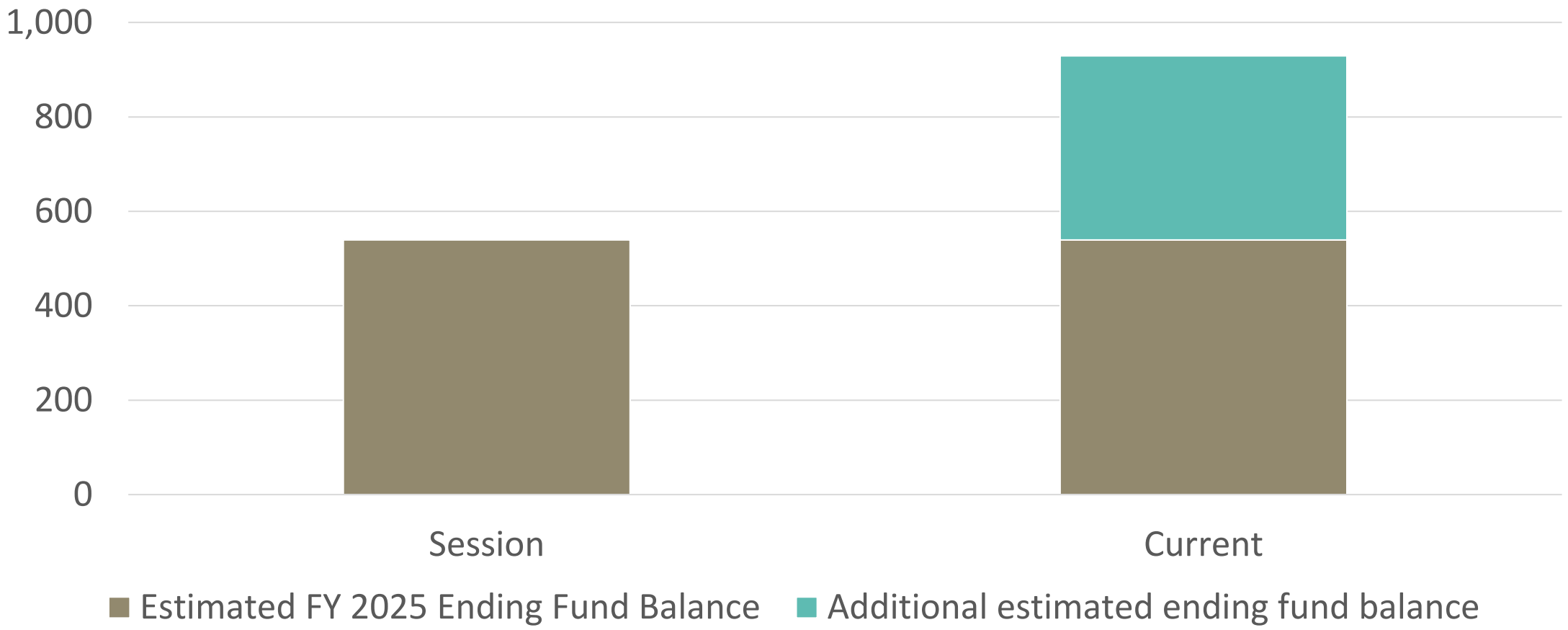
THERE IS NO NATIONAL EVALUATION OF BACKLOGS IN INFRASTRUCTURE BUILDING AND MAINTENANCE

LFD IS RESEARCHING MONTANA INFRASTRUCTURE AND WILL REPORT TO THE 2025 SESSION

Budget Analysis

Current Law Fund Balance = Strong

The FY 2025 ending fund balance is currently anticipated to be greater than the estimate during session



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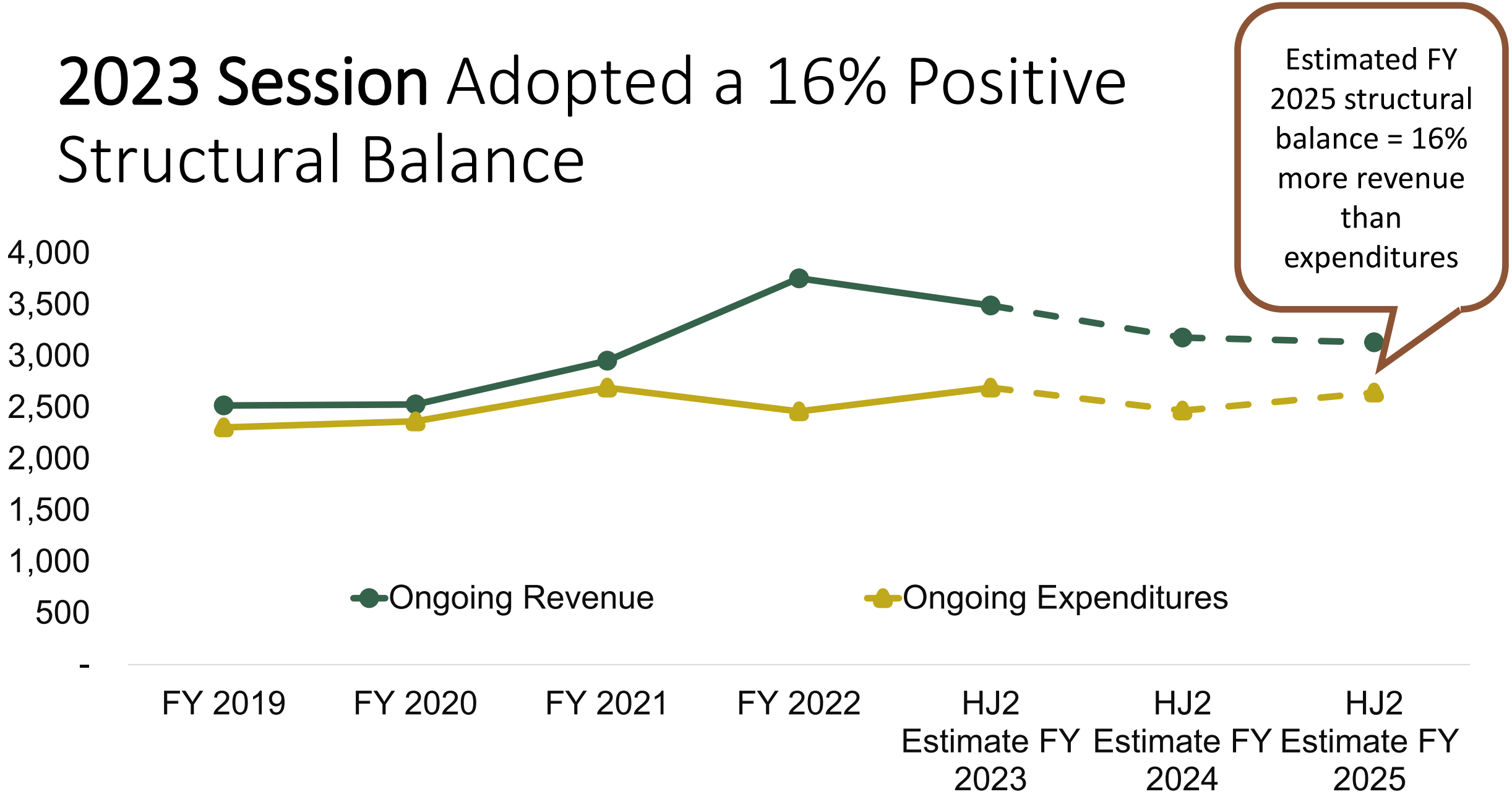
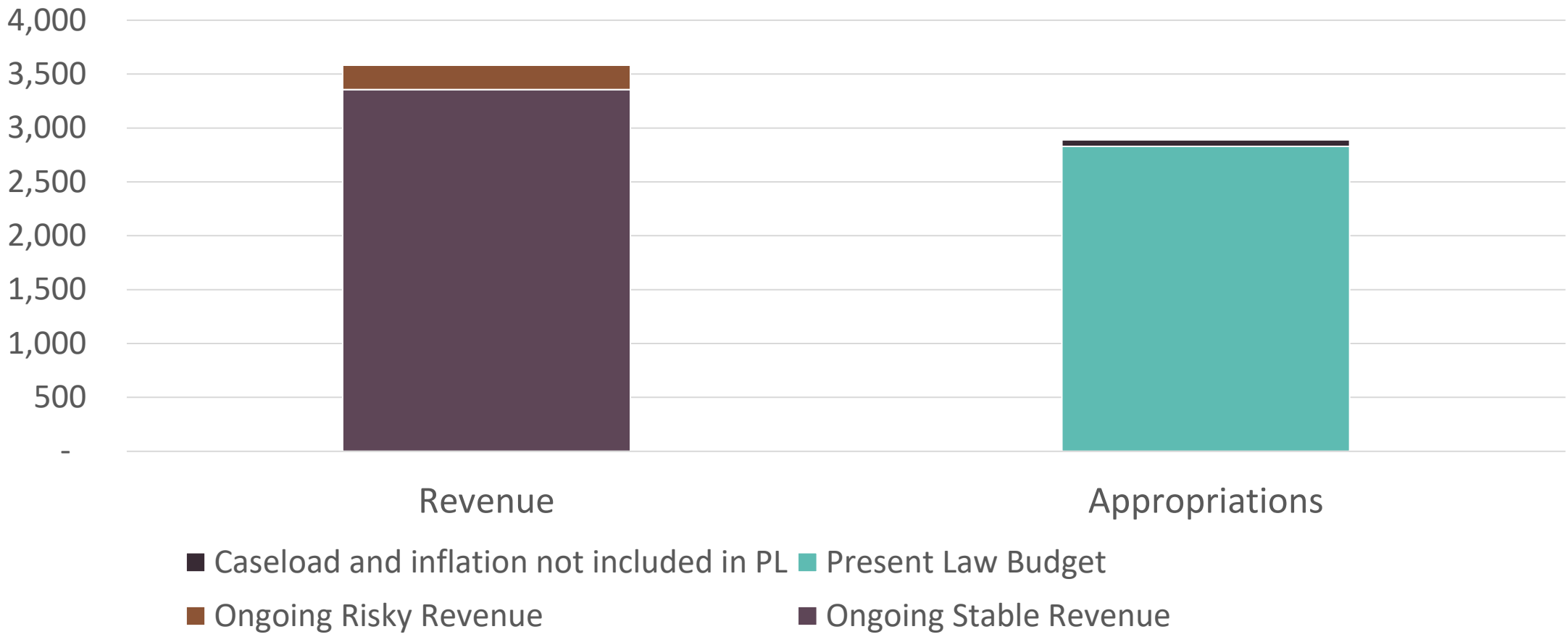


FY 2027 By the definition previously discussed “Risky Revenue” is about 6% of Ongoing Revenue

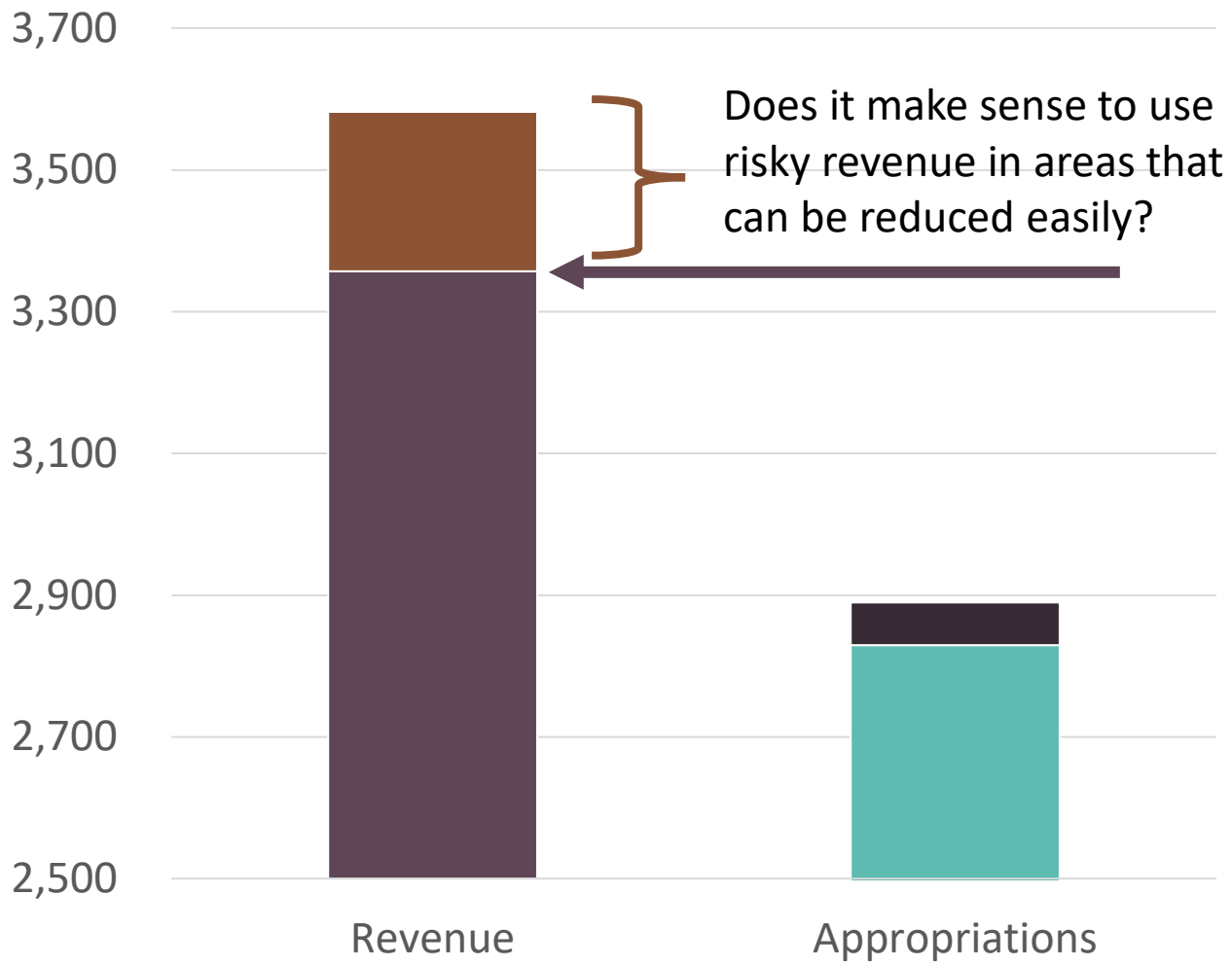


Looking at it closer….

Comparing Revenues to Appropriations

Capital gains and business income are very volatile sources of income for Montanans and result in volatile income tax payments to the state.

Is it logical to dedicate these volatile sources to revenue reductions like tax rebates, paying off long-term liabilities like pensions, or funding back logs in infrastructure maintenance like roads, bridges, buildings?



Next Steps –Analysis

Refine options for the legislature to define “Risky Revenue”

Full Budget Analysis of Governor’s budget and other factors