

# FYE 2019 Financial Report

THE BUDGET IN REVIEW  
BY LEGISLATIVE FISCAL DIVISION STAFF

SEPTEMBER 17, 2019

# OVERVIEW

## GENERAL FUND ENDING BALANCE HIGHER BY \$159.4 MILLION

The FYE 2019 unaudited, unassigned, general fund ending balance was \$358.1 million, which was \$159.4 million more than expected. The larger than expected fund balance was primarily the result of higher than anticipated general fund revenues, which were \$107.5 million above the HJ 2 estimate and lower than expected spending by \$46.0 million. The table on the next page shows the detailed FYE 2019 fund balance.

General Fund Balance Sheet  
Actuals FY 2018 and FY 2019  
(\$ Millions)

	Actual FY 2018	Actual FY 2019
Beginning Fund Balance	\$47.9	\$186.7
Revenues		
Actual & Estimated	2,333.6	2,519.6
OTO	71.8	54.1
Prior Year Adjustments - revenue	1.6	0.6
<b>Total Revenue Funds Available</b>	<b>2,455.0</b>	<b>2,760.9</b>
Expenditures - Ongoing		
Statutory Approps	316.4	317.1
General Fund Transfers	19.9	26.8
HB 2 Agency Budgets	1,904.3	1,951.6
HB 1	2.4	8.5
Other Appropriations	0.1	1.5
<b>Ongoing Expenditures</b>	<b>2,243.0</b>	<b>2,305.7</b>
OTO		
HB 2 Agency Budgets	13.0	15.2
HB 3 Supplemental		12.2
Budget Stabilization Reserve Fund Transfer		60.7
Fire Fund Transfers	25.3	21.5
Other Appropriations	2.0	
Other, including carry forward	4.2	
<b>Total Expenditures</b>	<b>2,287.5</b>	<b>2,415.3</b>
<b>Adjustments</b>	<b>19.2</b>	<b>12.0</b>
<b>Ending Fund Balance</b>	<b>186.7</b>	<b>358.1</b>

## GENERAL FUND EXPENDITURES \$46.0 MILLION BELOW ESTIMATES

The general fund expenditures for FY 2019 were lower than anticipated by \$46.0 million. The lower spending was primarily attributed to HB 2, which was \$37.0 million below anticipated levels.

	FYE 2019 General Fund Expenditures Estimated vs. Actual		
	Estimate	Actual	Difference
HB 2	2,003.9	1,966.8	(37.1)
Other appropriations	12.1	10.1	(2.0)
HB 3 Supplementals	12.8	12.2	(0.6)
Transfers	108.5	109.1	0.6
Statutory Appropriations	324.0	317.1	(6.9)
Estimated reversions	(7.1)		
<b>Total Estimates/Actuals</b>	<b>\$2,454.1</b>	<b>\$2,415.3</b>	<b>(\$45.9)</b>

### HB 2, \$37.0 million less than expected

While all agencies attributed to the \$37.0 million in lower HB 2 spending, the following agencies had the most significant unspent appropriations:

1. Department of Public Health and Human Services (DPHHS) underspent by \$19.0 million in general fund, with the largest components in the following three areas: 1) waivers for autism, children’s mental health, and Big Sky RX, \$4.3 million; 2) Medicaid caseload contingency, \$3.3 million; and 3) Medicaid nursing home benefits, \$2.8 million;
2. The Office of Public Instruction returned \$7.5 million BASE Aid appropriations to the general fund. This savings to general fund was mostly attributed to higher than expected guarantee account state special revenue, which offsets general fund expense;
3. Department of Corrections (DOC) underspent HB 2 appropriations by \$5.2 million. Most of the cost savings was for unspent county jail hold authority; and
4. Department of Justice returned \$1.0 million, the majority of which was for unspent authority in the legal services division and 24/7 testing.

### Other Appropriation Bills, \$2.0 million less than expected

Estimates for other appropriation bills and actual expenditure differences were primarily: HB 1, which was \$1.8 million lower than expected, and \$200,000 in unspent HB 70 (2017 session) authority.

### Supplemental Appropriations, \$602,000 less than expected

HB 3 supplemental appropriation authority was underutilized by \$602, 000. The Department of Administration and Department of Corrections did not fully expend their granted HB 3 authority

### Non-budgeted Transfers, \$600,000 higher than anticipated

Non-budgeted transfer costs for State Fund Libby asbestos settlements were higher than anticipated. State Fund has indicated that higher than originally estimated settlements will continue through FY 2021.

### **Statutory Appropriations, \$6.9 million less than expected**

The difference in the statutory appropriations estimates from the June 2019 Fiscal Report and actual expenditures was \$6.9 million less than anticipated. Medicaid expansion accounted for \$6.1 million in unspent appropriations.

[HB 715](#), 2019 session stipulates that unspent 2019 biennium statutory appropriation authority for the Governor's emergency fund shall be transferred to the budget stabilization reserve fund. In August, \$11.0 million was transferred to the fund.

### **PRIOR YEAR ADJUSTMENTS INCREASE GENERAL FUND BALANCE BY \$10.4 MILLION**

Prior year adjustments were made for revenues and expenditures which added \$10.4 million to the fund balance.

General fund revenue prior adjustments added to the fund balance \$557,695. Agencies reported \$9.9 million in expenditure prior year adjustments. Of this amount, \$9.8 million were made by the Department of Public Health and Human Services, of which \$8.2 million was in traditional and expanded Medicaid.

### **OTHER ADJUSTMENTS INCREASE FUND BALANCE BY \$1.6 MILLION**

An additional \$1.6 in direct to fund balance adjustments increased the general fund balance.

## FIRE FUND UPDATE

The summer fire seasons of 2018 and 2019 were mild, with less than 150,000 acres burning over the two summers combined. The ending fund balance for FY 2019 was \$36.6 million and is shown in the following table.

Montana State Fire Suppression Fund			
	FY 2018	FY 2019	Actual YTD FY 2020
Beginning Fund Balance	\$62,600,216	\$8,555,508	\$36,562,660
Revenues	40,462,637	37,198,944	30,402,530
Expenditures <sup>1</sup>	94,507,345	9,191,791	6,375,785
Ending Fund Balance	<u>\$8,555,508</u>	<u>\$36,562,660</u>	<u>\$60,589,405</u>

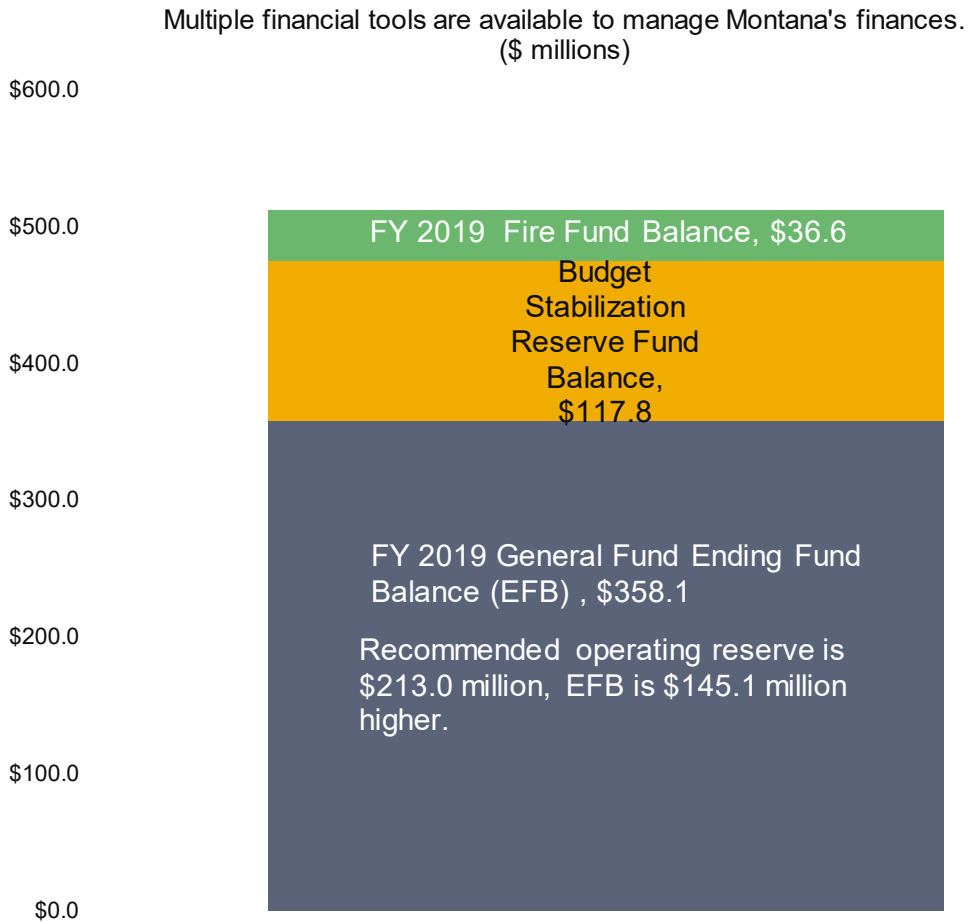
<sup>1</sup> Expenditures for FY 2020 are estimated year to date based on DNRC forestry estimate

## TRANSFERS TO RESERVE BALANCES

The robust FY 2019 revenues allowed for transfers to the following reserve funds: 1) fire fund, 2) budget stabilization reserve fund, and 3) in August 2020, the newly created state infrastructure fund ([HB 553, 2019 session](#)). These reserves provide the State of Montana with financial tools in times of economic volatility.

1. Fire Fund - The ending fund balance for FY 2019 was \$36.6 million primarily the result of transfers into the fund in FY 2019 as directed in [HB 3](#). Statute dictates that the fire fund receives a calculated portion of unspent general fund authority returned by agencies, commonly referred to as reversions. At the start of FY 2020, the fire fund received \$30.3 million in reversions.;
2. BSRF - as directed in [HB 715](#), the budget stabilization reserve fund received the remaining Governor's emergency appropriation authority for the 2019 biennium of \$11.0 million. In addition, [HB 715](#) dictated that the amount of general fund revenue over \$15.0 million was evenly split between the general fund and the budget stabilization reserve fund (BSRF). The budget stabilization reserve fund portion was \$46.0 million.
3. The BSRF balance is limited by a calculation provided in statute and has exceeded its limit by about \$4.0 million. HB 715 directs the excess be transferred to the newly created [HB 553](#) infrastructure fund. The executive has indicated that the excess will remain in the BSRF until August 2020. For the purposes of this report, the excess is shown in the BSRF.

The graphic illustrates the estimated reserve funds.



## GENERAL FUND REVENUES

Actual FY 2019 general fund revenues were \$107.5 million or 4.4% above the HJ 2 estimate. The difference was primarily due to stronger-than-expected growth in individual and corporate income taxes. The following table shows actual FY 2018 revenues in the first numerical column, followed by estimated and actual FY 2019 revenues. The next two columns show the estimated and actual growth in FY 2019 from FY 2018. The last two columns compare the actual FY 2019 revenue to the estimate in HJ 2, showing the difference as an amount and as a percentage. Further detail on each revenue source and the difference from the estimate are organized in order of the revenue list on the table.

General fund revenue: FY 2019 actual collections exceeded HJ 2 estimate by \$107.5 million  
(\$ Millions)

Revenue Source	Actual FY 2018	HJ 2* FY 2019	Actual FY 2019	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.	% Diff Illustrated
<b>Largest Seven Sources</b>								
Individual Income Tax	\$1,297.8	\$1,357.0	\$1,429.0	4.6%	10.1%	\$72.0	5.3%	
Property Tax	276.4	283.2	289.2	2.5%	4.6%	6.0	2.1%	
Corporation Tax	167.1	160.8	186.5	-3.8%	11.6%	25.7	16.0%	
Vehicle Taxes & Fees	109.5	111.5	109.5	1.8%	0.0%	(2.0)	-1.8%	
Oil & Natural Gas Taxes	54.5	60.0	54.2	10.2%	-0.6%	(5.9)	-9.8%	
Insurance Tax	75.3	77.5	76.1	2.9%	1.2%	(1.3)	-1.7%	
Video Gaming Tax	60.3	60.2	63.2	-0.3%	4.8%	3.1	5.1%	
<b>Other Business Taxes</b>								
Drivers License Fee	4.6	4.3	4.0	-5.2%	-13.2%	(0.4)	-8.4%	
Investment Licenses	7.7	8.3	8.2	7.6%	6.5%	(0.1)	-1.1%	
Lodging Facilities Sales Tax	24.1	25.2	26.7	4.7%	10.8%	1.5	5.9%	
Public Contractor's Tax	4.3	3.5	3.6	-17.9%	-15.7%	0.1	2.7%	
Railroad Car Tax	3.6	3.5	3.6	-4.3%	-1.5%	0.1	2.9%	
Rental Car Sales Tax	3.7	3.7	4.4	0.3%	19.1%	0.7	18.8%	
Retail Telecom Excise Tax	13.7	12.9	13.2	-6.1%	-3.7%	0.3	2.6%	
<b>Other Natural Resource Taxes</b>								
Coal Severance Tax	14.1	13.6	14.1	-3.9%	-0.1%	0.5	3.9%	
Electrical Energy Tax	4.3	4.5	4.2	5.7%	-2.7%	(0.4)	-8.0%	
Metal Mines Tax	6.3	6.7	6.9	7.3%	9.8%	0.2	2.3%	
U.S. Mineral Royalties	20.1	20.9	21.6	3.9%	7.1%	0.6	3.0%	
Wholesale Energy Trans Tax	3.6	3.5	3.5	-3.1%	-3.8%	(0.0)	-0.7%	
<b>Other Interest Earnings</b>								
Coal Trust Interest Earnings	17.9	17.1	18.2	-4.7%	1.3%	1.1	6.3%	
TCA Interest Earnings	10.9	21.5	22.0	97.6%	102.4%	0.5	2.4%	
<b>Other Consumption Taxes</b>								
Beer Tax	3.0	3.1	3.0	2.4%	1.3%	(0.0)	-1.1%	
Cigarette Tax	27.8	27.3	27.5	-1.6%	-0.9%	0.2	0.7%	
Liquor Excise Tax	21.0	22.9	21.9	8.9%	4.5%	(0.9)	-4.1%	
Liquor Profits	12.2	12.9	12.5	5.7%	2.5%	(0.4)	-3.1%	
Lottery Profits	10.7	11.5	12.2	7.6%	14.2%	0.7	6.1%	
Tobacco Tax	6.1	6.3	5.9	3.6%	-3.1%	(0.4)	-6.4%	
Wine Tax	2.4	2.5	2.5	0.6%	1.3%	0.0	0.7%	
<b>Other Sources</b>								
All Other Revenue	117.6	95.0	98.8	-19.2%	-16.0%	3.8	4.0%	
Highway Patrol Fines	3.8	3.9	3.9	4.1%	2.9%	(0.0)	-1.2%	
Nursing Facilities Fee	4.4	4.3	4.4	-3.0%	0.2%	0.1	3.3%	
Public Institution Reimb.	13.8	13.9	16.0	1.0%	16.3%	2.1	15.1%	
Tobacco Settlement	2.8	3.0	3.0	7.9%	9.2%	0.0	1.3%	
Ongoing Revenue Subtotal	2,328.1	2,410.7	2,519.6	3.5%	8.2%	108.9	4.5%	
OTO & Transfers Subtotal	77.4	55.4	54.1	-28.4%	-30.1%	(1.3)	-2.4%	
<b>Grand Total</b>	<b>\$2,405.4</b>	<b>\$2,466.1</b>	<b>\$2,573.6</b>	<b>2.5%</b>	<b>7.0%</b>	<b>\$107.5</b>	<b>4.4%</b>	

\*HJ 2, adjusted for legislation impacts

**Individual Income Tax: \$72.0 million**

Individual income tax collections were \$72.0 million or 5.3% above the estimate contained in HJ 2. The adjacent table shows the year-over-year changes by accounting category; however, assessing the differences with respect

FY 2019 individual income tax grew 10.1% from FY 2018 (\$ millions)

	FY 2019	FY 2018	\$ Difference	% Difference
Withholding	\$1,063.4	\$998.4	\$65.1	6.5%
Estimated Payments	300.7	319.7	(19.1)	-6.0%
Current Year Payments	240.1	192.6	47.5	24.7%
Audit, P&I, Amended	49.0	44.2	4.8	10.8%
Refunds	(276.3)	(304.3)	28.0	-9.2%
Partnership Income Tax	42.0	36.4	5.6	15.3%
Mineral Royalties	10.1	10.6	(0.6)	-5.5%
<b>Total</b>	<b>\$1,429.0</b>	<b>\$1,297.8</b>	<b>\$131.2</b>	<b>10.1%</b>

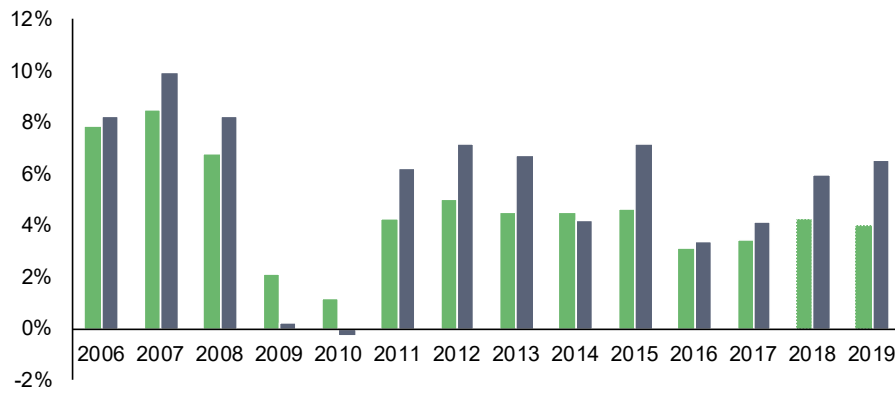
to HJ 2 is difficult, as the estimate is not developed based on the accounting categories. Detailed CY 2018 return data available in November 2019 will allow for income source comparisons to HJ 2.

The strong growth in current year payments is likely one-time revenue as taxpayers continued to respond to the federal tax changes the began in 2018. The HJ 2 forecast for FY 2020 anticipates a decline of 1.3% from actual collections in FY 2019, largely due to a return to a more usual level of business and investment income, and the corresponding

Wage Income

There is a correlation between withholding growth and wage and retirement income growth; however, the correlation is not particularly strong, as shown in the adjacent graph. FY 2019 withholding growth of 6.5% is above the approximated FY

Withholding growth is typically above approximated FY wages and retirement income growth.



2019 wage and retirement income growth of 4.0%, and may suggest stronger-than-anticipated growth in those income types.

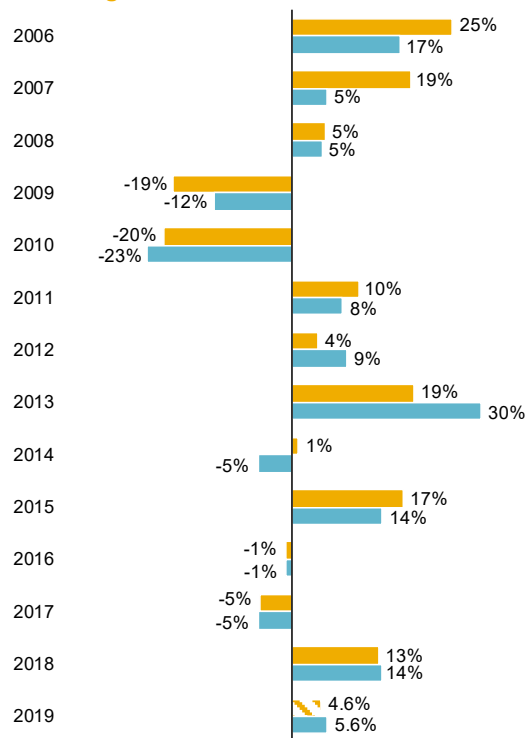
Additionally, preliminary wage data from the quarterly census of employment and wages (QCEW) for CY 2018 is now available; it suggests that CY 2018 wage growth was 4.4%, which is above the 3.3% estimate in HJ 2.



Non-Wage Income

Non-wage income from business and investment income is typically reflected in taxes collected through quarterly estimated and current year payments. FY 2019 quarterly estimated and current year payments grew 5.6% from FY 2018, compared to the anticipated combined CY 2018 business and investment income growth of 4.6% contained in HJ 2. The adjacent figure shows the fiscal year growth rates of estimated and current year tax payments and the prior calendar year's business and investment income.

Combined fiscal year estimated and current year tax payment growth typically tracks the prior calendar year's business and investment income growth.



Audit, Penalty & Interest, and Amended Income: (\$1.1 million)

Audit, penalty and interest, and amended collections are forecast explicitly in HJ 2, and were anticipated to total \$50.1 million in FY 2019; actual collections came in below estimate by \$1.1 million.

**Property Tax: \$6.0 million**

General fund property tax revenue was 2.1% or \$6.0 million above the HJ 2 estimate. While property tax was expected to grow by 2.5%, higher-than-expected revenue resulted from both non-levy and levy revenue resulting in a total growth of 4.6%.

**Corporation Tax: \$25.7 million**

FY 2019 corporate tax collections were \$25.7 million or 16.0% above the estimate contained in HJ 2. The table to the right shows the accounting level detail for FY 2019 compared to FY 2018. Compared to FY 2018, FY 2019 collections increased by \$19.4 million or 11.6%.

FY 2019 corporate income tax grew 11.6% from FY 2018 (\$ millions)

	FY 2019	FY 2018	\$ Difference	% Difference
Corporation Tax	52.6	\$36.4	\$16.2	44.7%
Estimated Payments	137.3	129.1	\$8.2	6.3%
Refunds	(16.8)	(24.2)	\$7.5	-30.8%
Audit, P&I, Amended	13.4	25.9	(\$12.5)	-48.2%
<b>Total</b>	<b>\$186.5</b>	<b>\$167.1</b>	<b>\$19.4</b>	<b>11.6%</b>

The accounting level detail compared to HJ 2 is shown in the adjacent table. Total tax liability was underestimated by \$25.8 million and was primarily responsible for the estimate error, as the lower-than-

FY 2019 corporate income tax came in \$25.7 million above HJ 2 (\$ millions)

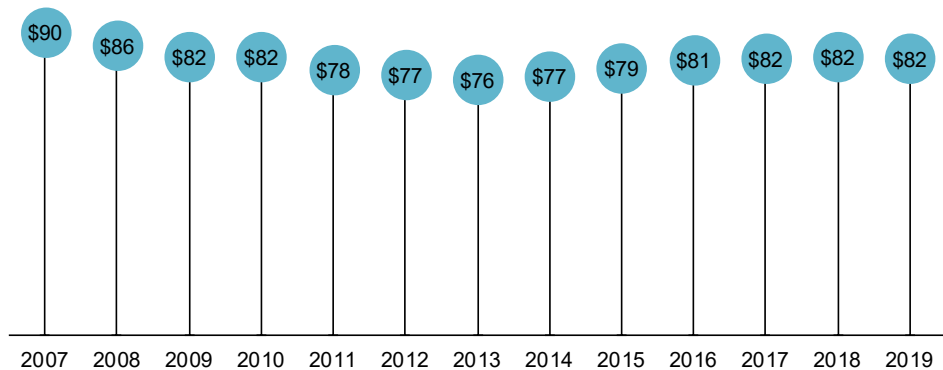
	HJ 2	Actual	\$ Difference
Tax Liability & Adjustments	\$164.1	\$189.9	\$25.8
Refunds	(24.8)	(16.8)	8.1
Audit, Penalty & Interest	21.5	13.4	(8.1)
<b>Total</b>	<b>\$160.8</b>	<b>\$186.5</b>	<b>\$25.7</b>

expected refunds offset lower than expected audit, penalty, and interest revenue. The estimate in HJ 2 contained a negative adjustment due to the anticipation that federal tax changes may have reduced tax liabilities; however, the reduction did not seem to materialize.

**Vehicle Taxes & Fees: (\$2.0 million)**

Revenue collections from vehicle taxes and fees were 1.8% or \$2.0 million less than anticipated in HJ 2. Light vehicle registrations were \$2.1 million less than anticipated, explaining the entirety of the estimate error.

Light vehicle registration revenue has remained flat for the past several years, and has not recovered to its pre-recession level. (\$ millions)



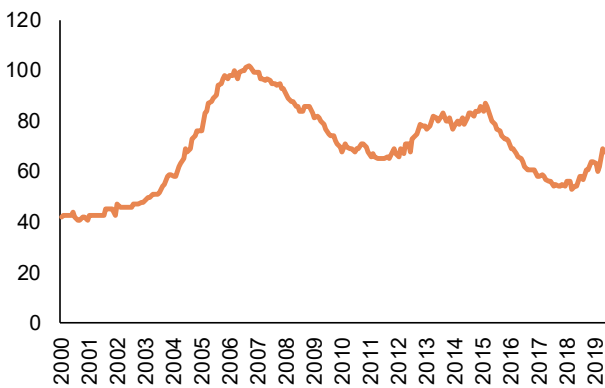
The chart to the right

shows that light vehicle registrations have remained virtually flat for the last four years.

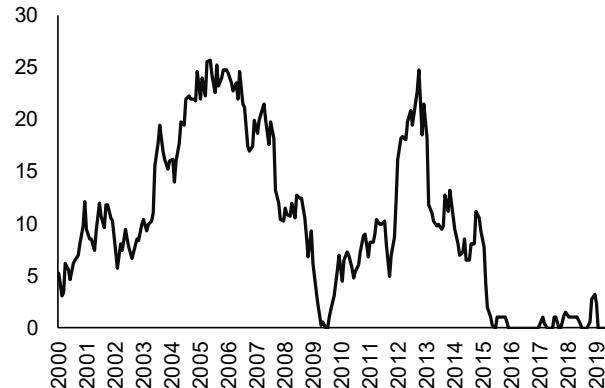
**Oil & Natural Gas Taxes: (\$5.9 million)**

Oil and natural gas collections were \$5.9 million or 9.8% below the HJ 2 estimate, primarily due to a decrease in prices in the second half of FY 2019. West Texas Intermediate (WTI) oil prices averaged \$64/barrel in the first half of FY 2019, but only \$60/barrel in the second half. In HJ 2, average WTI was anticipated at \$71/barrel for FY 2019; however, the actual average was only \$62/barrel.

The current average daily oil production is 28% above the 2018 minimum. (1,000 bbls/day)



The number of oil rigs increased during the second half of 2018, likely in response to higher prices.



As the graphs above show, in early FY 2019 there were four rigs operating in the state. As a result, FY 2019 saw increased production. The increased activity was driven by strong oil prices in fall 2018, as seen in the figure on the next page.

**Montana oil price** is below **West Texas Intermediate oil price** by 12% on average, but the difference increased to 35% in December 2018.



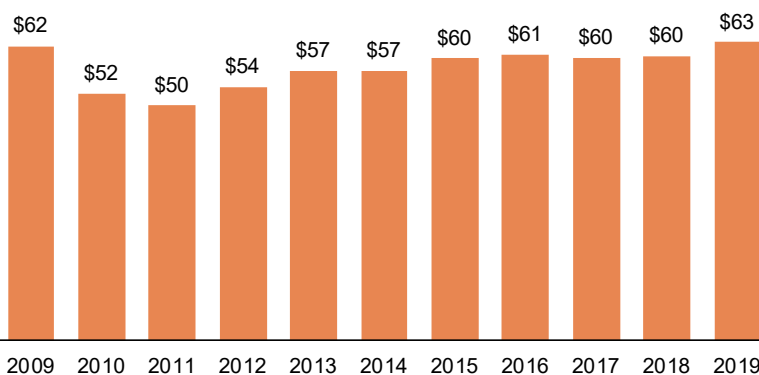
**Insurance Tax: (\$1.3 million)**

FY 2019 insurance tax came in \$1.3 million or 1.7% below the HJ 2 estimate. Growth in premium taxes was slightly lower than expected, but was offset by a modest increase in fire marshal taxes. Impacts of recent federal tax code changes and the elimination of the individual mandate create some uncertainty in this source and will continue to be monitored, but should not affect revenue collections significantly.

**Video Gaming Tax: \$3.1 million**

Video gaming revenue in FY 2019 was \$3.1 million or 5.1% above what was anticipated in HJ 2. After years of stale growth, this source unexpectedly experienced positive growth in FY 2019 as shown in the figure at right.

FY 2019 video gaming tax grew 4.8% after four years of very consistent collections (\$ millions)



**Other Business Taxes**

**Driver's License Fee: (\$0.4 million)**

Total driver's license revenue was \$0.4 million or 8.4% less than was anticipated in HJ 2. Year-over-year collections declined by 13.2%, driven primarily by a decrease in basic class D licenses. The HJ 2 estimate was based on forecast population data and historical ratios between licenses and actual populations.

***Investment License Fee: (\$0.1 million)***

Investment license fee collections were \$0.1 million or 1.1% below the estimate contained in HJ 2. In HJ 2, this source was modeled on the Montana personal consumption expenditure series for finance & insurance from IHS Markit, with modeled growth rates applied to the last known collections. The model seems to be working well, and has not been adjusted.

***Lodging Facilities Sales Tax: \$1.5 million***

Lodging facilities sales tax collections were \$1.5 million or 5.9% above the estimate contained in HJ 2. This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. The IHS Markit outlook for U.S. consumer spending on accommodations in FY 2019 has decreased by 0.6% since the October 2018 forecast that was used as the basis for the HJ 2, which is inconsistent with the higher-than-anticipated revenue growth. However, detailed data from the Department of Revenue suggests resort areas had a very successful winter season, which may account for the additional revenue.

***Public Contractors' Gross Receipts Tax: \$0.1 million***

Public contractors' gross receipts tax collections were \$0.1 million or 2.7% above the estimate contained in HJ 2. This source was estimated in HJ 2 based on a time trend of highway spending and a higher level of all other construction than in recent years. Highway construction came in right at FY 2019 projections, while all other construction came in 35% below projections. The discrepancy with the estimate appears to be primarily due to lower-than-anticipated individual income tax credits, which more than offset the lower-than-anticipated other construction projects.

***Railroad Car Tax: \$0.1 million***

Railroad car tax revenue was \$0.1 million, or 2.9% above the HJ 2 estimate. The HJ 2 estimate was based on total United States railcar valuation, estimates on Montana apportionment, and the IHS Markit forecast for Montana retail sales.

***Rental Car Sales Tax: \$0.7 million***

Rental car sales tax collections were \$0.7 million or 18.8% above the estimate contained in HJ 2. Rental car sales tax was forecast in HJ 2 based on the Montana personal consumption expenditure series for transportation. The IHS Markit outlook for Montana personal consumption expenditures for transportation in FY 2019 has increased by 2.9% since the October 2018 forecast that was used as the basis for the HJ 2; the revised outlook accounts for a portion of the higher revenue growth.

***Retail Telecommunications Excise Tax: \$0.3 million***

Retail telecommunications excise tax collections were \$0.3 million or 2.6% above the estimate contained in HJ 2. The estimate was based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS Markit forecast of Montana population growth.

## Other Natural Resource Taxes

### **Coal Severance Tax: \$0.5 million**

Coal severance tax collections were above the HJ 2 estimate by \$0.5 million or 3.9%. FY 2019 production and price came in above the estimate contained in HJ 2, resulting in higher-than-anticipated revenue.

### **Electrical Energy Tax: (\$0.4 million)**

Taxable energy production was below the forecast by \$0.4 million, or 8.0%. Tax collections are a flat rate imposed against production. This source is forecast by using a trend line on the six most recent years.

### **Metalliferous Mines Tax: \$0.2 million**

Metal mines tax collections were \$0.2 million or 2.3% above the estimate contained in HJ 2. The increase appears to be due to higher production of selected metals in CY 2018 that offset the lower price and production of other metal types.

### **U.S. Mineral Royalties: \$0.6 million**

Revenue from U.S. mineral leases in the state was \$0.6 million or 3.0% above the HJ 2 estimate. It was estimated in HJ 2 that U.S. mineral royalties would increase primarily due to increased coal royalties. Data from FFY 2019 should be available in October, which will provide more detail on production and price by mineral type.

### **Wholesale Energy Transaction Tax: (\$0.0 million)**

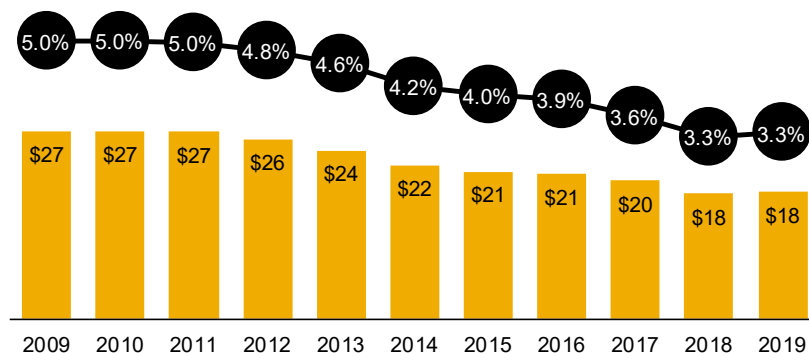
Wholesale energy transaction tax was \$26,000 or 0.7% below the estimate contained in HJ 2. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

## Other Interest Earnings

### **Coal Trust Interest Earnings: \$1.1 million**

Coal trust interest earnings were above the revenue estimate in HJ 2 by 6.3% or \$1.1 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates

**Coal trust interest earnings** coincide with the **rate of return** on investments. (\$ millions)

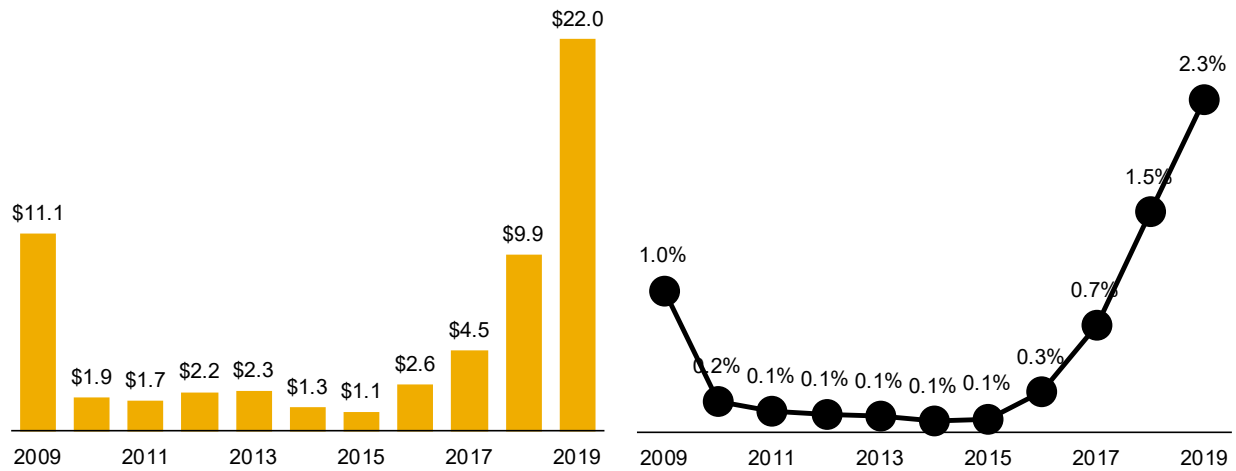


two basis points higher than what was anticipated in HJ 2.

**Treasury Cash Account Interest Earnings: \$0.5 million**

Based on year-end data for FY 2019, the TCA interest earnings were 2.4% or \$0.5 million above the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates; FY 2019 average balance was higher than estimated, yielding the increased revenue.

**Short-term interest pool earnings** are closely tied to **short-term interest rates**. (\$ millions)



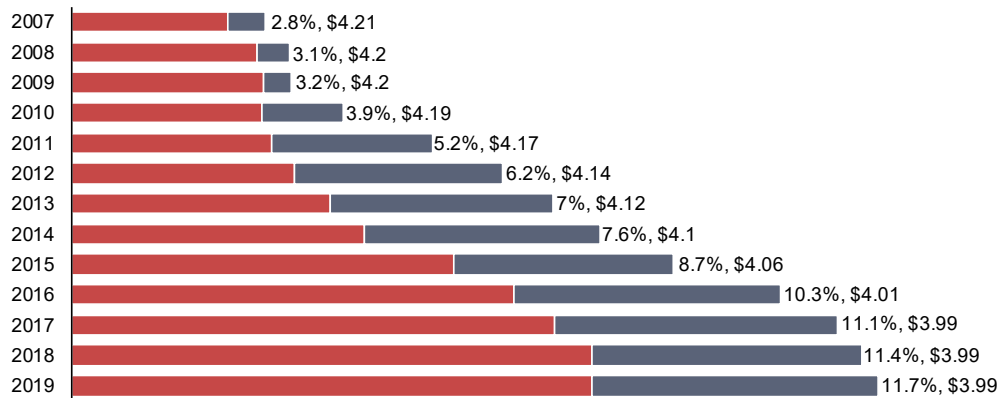
**Other Consumption Taxes**

**Beer Tax: (\$0.0 million)**

Beer tax revenue came in 1.1% or \$33,000 below the official projection in FY 2019. The estimate was based on proxy barrels, population aged 21 or greater, and consumption per capita. While consumption per capita has remained consistent, the effective tax rate has declined due to the increasing market share of craft beer which is taxed at a lower rate based on production. [HB 541 \(2017 Session\)](#) lowered the threshold for the maximum tax rate, which had a stabilizing influence

The market share of small brewers—**those producing 5,000 barrels/year or less** and **those producing between 5,000 and 10,000 barrels/year**— was 4 times higher in FY 2019 than in FY 2007. Since smaller brewers pay lower tax rates, the effective tax rate has declined from \$4.21/barrel to \$3.99/barrel over the same time period.

on the effective tax rate, which has hovered at \$3.99 per barrel since FY 2017.



**Cigarette Tax: \$0.2 million**

Cigarette tax collections came in \$0.2 million or 0.7% above the HJ 2 revenue estimate. The forecast for this source was based on the IHS Markit series for consumer price index for tobacco and consumer spending on tobacco products.

**Liquor Excise & License Tax: (\$0.9 million)**

Liquor excise tax actuals came in 4.1% or \$0.9 million below HJ 2. This revenue source was forecast in HJ 2 based on the Montana personal consumption expenditure series for food. The tax rates are structured by production level with excise taxes ranging from 3% for distillers producing less than 20,000 proof gallons up to 16.0% for distillers producing over 200,000 proof gallons. License tax is also based on production. The HJ 2 estimate assumed an effective rate equal to rate of large producers. However, the FY 2019 effective rate was 15.3% due to a higher share of liquor produced by smaller producers. Lower effective tax rates have only recently become apparent and will be factored into future modeling.

**Liquor Profits: (\$0.4 million)**

Liquor profits came in \$0.4 million or 3.1% below the estimate contained in HJ 2 for FY 2019. [SB 5 \(2017 Special Session\)](#) instituted an auction for beer and liquor licenses to replace the current lottery system. The 2019 HJ 2 estimate had been adjusted to include revenue from the auctioned licenses; however, the implementation of the new system was delayed and revenue from the new system was lower than expected. A cleanup bill was passed in the 2019 session ([HB 35 2019 Session](#)) and revenue from the auction should be realized going forward.

**Lottery Profits: \$0.7 million**

Lottery profits in FY 2019 were 6.1% or \$0.7 million above the HJ 2 revenue estimate. The HJ 2 estimate was based on per capita ticket sales using the IHS Markit forecast of Montana population over age 18 series. The current IHS Markit outlook for population has increased since the October 2018 forecast that was used as the basis for the HJ 2, which suggests the model is performing well.

**Tobacco Tax: (\$0.4 million)**

Tobacco tax revenue came in 6.4% or \$0.4 million below the HJ 2 estimate. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 18 and personal consumption expenditure series. The current IHS Markit outlook for both indicators has increase since the October 2018 forecast that was used as the basis for the HJ 2, which suggests a continued decline in per capita consumption. As with cigarettes, consumers may be substituting other nicotine products.

**Wine Tax: \$0.0 million**

Wine tax revenue came in 0.7% or \$17,000 above the official projection for FY 2019. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 21. The IHS Markit outlook for Montana population over 21 in FY 2019 has increased by 0.4% since the October 2018 forecast that was used as the basis for the HJ 2, which may explain most of the discrepancy.

## Other Sources

### ***All Other Revenue: \$3.8 million***

In FY 2019, all other collections were \$3.8 million or 4.0% above the HJ 2 estimate. The largest seven accounts that make up all other revenue are forecasted individually. The remaining smaller accounts, which total nearly 200, are combined and estimated using a four-year moving average. The estimates of the seven large accounts were quite accurate, leaving the estimate error to be explained by the aggregate estimate of the smaller accounts.

### ***Highway Patrol Fines: (\$0.0 million)***

Total revenue generated from highway patrol fines in FY 2019 was 1.2% or \$45,000 less than the HJ 2 estimate. This revenue source is modeled using a three-year moving average.

### ***Nursing Facilities Fees: \$0.1 million***

Nursing facilities fees came in 3.3% or \$0.1 million over the HJ 2 revenue estimate. It is forecast primarily based on a time series of proxy bed days. This source has declined most years since inception, which is consistent with national trends.

### ***Public Institution Reimbursements: \$2.1 million***

Public institution reimbursements were 15.1% or \$2.1 million higher than the HJ 2 revenue estimate. This source has a history of fluctuating collections primarily due to timing of federal payments. This source was impacted by [HB 387 \(2017 Session\)](#), which changed the closure date for the Montana Developmental Center from June 30, 2017 to June 30, 2019, and continues the use of a 12-bed intensive behavior center after June 30, 2019.

### ***Tobacco Settlement: \$0.0 million***

Tobacco settlement revenue was above the HJ 2 estimate by 1.3% or \$38,000. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies, and the states that delay or mildly adjust the amount of the settlement.

## **AGENCY EXPENDITURE HIGHLIGHTS – FYE 2019**

Agencies with significant budget highlights from FY 2019 are included in this section. All agencies are summarized with charts and tables in the online [appendix](#).

### **DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES**

The department's FY 2019 budget featured several significant changes: 1) the 2019 legislature reduced the agency FY 2019 general fund budget authority by \$13.5 million; 2) the agency returned \$19.0 million in unspent general fund appropriations; and 3) DPHHS moved budget authority from Medicaid appropriations to non-Medicaid services.

The department moved \$33.7 million in Medicaid authority designated for hospital services, adult mental health, and child mental health to the Technology Services Division to cover non-Medicaid



expenditures associated with the [MPATH project](#)<sup>1</sup> contract. Unspent Healthy Montana Kids authority was also transferred to the division to cover those costs.

In addition, Child and Family Services Division received \$12.1 million, the bulk of which was from Health Resources Division, between April and FYE 2019 to cover higher than anticipated caseloads for foster care and related services.

## **OFFICE OF PUBLIC DEFENDER**

The Office of Public Defender received \$7.4 million in supplemental appropriation authority from the 2019 legislature. The agency expended this authority to cover contract attorney costs and personal services costs associated with modified FTE.

## **DEPARTMENT OF CORRECTIONS**

The agency experienced a shortage in FY 2019 and requested a supplemental appropriation from the legislature. This shortage was due to decisions made in FY 2018 to transfer \$4.9 million from FY 2019 appropriations to Secure Custody Facilities to pay for higher than anticipated jail hold placement numbers. Since authority was moved from the FY 2019 budget to cover costs in FY 2018, shortages occurred in FY 2019. The 2019 legislature provided \$4.7 million in supplemental appropriation authority, and the agency spent \$4.1 million of that authority.

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<sup>1</sup> The MPATH Program is a series of projects to implement modules and services to replace the State's aging legacy Medicaid Management Information System (MMIS). DPHHS will obtain discrete modules that support the Department's business needs, project guiding principles, and align with the CMS Final Rule for Mechanized Claims Processing and Information Retrieval Systems as described in 42 CFR 433.111. Source: Montana Department of Administration online [MPATH program overview presentation, page 5](#), June 22, 2017.

## HB 2 GENERAL FUND BY AGENCY

The following table illustrates the budgeted and actual expenditures of general fund for HB 2 from April 2019 through FYE 2019. The budgeted number reflects the FYE modified budget. A summary of budget changes by section, agency, and program can be found in Appendix A.

FY 2019 comparison of April Modified Budget to Actual FYE 2019 Expenditures HB2 General Fund Only				
State Agency	April Modified HB 2 Budget	Year to Date Exenditures	HB 2 Budget Balance	% Expended
<b>Section A - General Government</b>				
Legislative Branch	\$13,866,080.96	\$13,037,706.01	\$828,374.95	94%
Governor's Office	6,640,912.86	6,039,171.89	601,740.97	91%
Commissioner of Political Practices	761,535.14	730,557.53	30,977.61	96%
Department of Revenue	52,890,890.96	52,738,309.87	152,581.09	100%
Department of Administration	7,305,105.75	7,137,824.55	167,281.20	98%
Department of Commerce	3,639,331.38	3,657,536.34	-18,204.96	101%
Department of Labor and Industry	1,792,229.00	1,789,080.57	3,148.43	100%
Department of Military Affairs	6,587,274.20	6,443,993.00	143,281.20	98%
<b>Section A Total</b>	<b>93,483,360.25</b>	<b>91,574,179.76</b>	<b>1,909,180.49</b>	<b>98%</b>
<b>Section B - Health and Human Services</b>				
Department of Public Health & Human Services	518,672,054.73	499,762,302.81	18,909,751.92	96%
<b>Section B Total</b>	<b>518,672,054.73</b>	<b>499,762,302.81</b>	<b>18,909,751.92</b>	<b>96%</b>
<b>Section C - Natural Resources and Transportation</b>				
Department of Environmental Quality	5,199,273.00	5,187,975.73	11,297.27	100%
Department of Livestock	2,562,332.00	2,555,485.27	6,846.73	100%
Department of Natural Resources and Conservation	27,192,782.34	26,766,862.35	425,919.99	98%
Department of Agriculture	738,702.92	735,596.40	3,106.52	100%
<b>Section C Total</b>	<b>35,693,090.26</b>	<b>35,245,919.75</b>	<b>447,170.51</b>	<b>99%</b>
<b>Section D - Judicial Branch, Law Enforcement, and Justice</b>				
Judicial Branch	48,777,479.60	45,632,304.30	3,145,175.30	94%
Department of Justice	35,158,958.52	34,140,147.44	1,018,811.08	97%
Office of the Public Defender	36,488,223.60	36,309,606.97	178,616.63	100%
Department of Corrections	205,413,186.58	199,693,730.13	5,719,456.45	97%
<b>Section D Total</b>	<b>325,837,848.30</b>	<b>315,775,788.84</b>	<b>10,062,059.46</b>	<b>97%</b>
<b>Section E - Education</b>				
Office of Public Instruction	805,266,028.01	797,769,542.07	7,496,485.94	99%
Board of Public Education	155,779.28	130,526.16	25,253.12	84%
Commissioner of Higher Ed	225,237,464.30	225,120,311.80	117,152.50	100%
School for the Deaf & Blind	7,135,350.16	7,114,479.73	20,870.43	100%
Montana Arts Council	517,506.00	408,094.28	109,411.72	79%
Montana State Library	2,186,771.00	2,148,976.51	37,794.49	98%
Montana Historical Society	2,699,329.62	2,699,322.50	7.12	100%
<b>Section E Total</b>	<b>1,043,198,228.37</b>	<b>1,035,391,253.05</b>	<b>7,806,975.32</b>	<b>99%</b>
<b>Total</b>	<b>\$2,016,884,581.91</b>	<b>\$1,977,749,444.21</b>	<b>\$39,135,137.70</b>	<b>98%</b>

## HB 2 BY AGENCY

The following table illustrates the budgeted and actual HB 2 FY 2019 expenditures. This includes general fund, state and federal special revenue, and budgeted proprietary funds. The following table shows a comparison of the FYE modified budget to actual expenditures for all state agencies.

FY 2019 Comparison of April Modified Budget to Actual FYE 2019 Expenditures HB2 All Funds				
State Agency	April Modified HB 2 Budget	Actual FYE 2019 Expenditures	HB 2 Budget Balance	% Expended
<b>Section A - General Government</b>				
Legislative Branch	\$16,301,537.04	\$15,372,601.58	\$928,935.46	94%
Consumer Counsel	1,790,622.00	1,317,481.46	473,140.54	74%
Governor's Office	7,121,644.12	6,138,735.67	982,908.45	86%
Commissioner of Political Practices	761,535.14	730,557.53	30,977.61	96%
State Auditor's Office	8,452,299.92	7,018,499.13	1,433,800.79	83%
Department of Revenue	57,466,580.96	57,240,241.07	226,339.89	100%
Department of Administration	20,271,552.88	18,470,764.81	1,800,788.07	91%
Department of Commerce	32,368,358.17	27,018,726.19	5,349,631.98	83%
Department of Labor and Industry	82,188,081.00	76,272,614.29	5,915,466.71	93%
Department of Military Affairs	49,066,517.57	43,181,470.77	5,885,046.80	88%
<b>Section A Total</b>	<b>275,788,728.80</b>	<b>252,761,692.50</b>	<b>23,027,036.30</b>	<b>92%</b>
<b>Section B - Health and Human Services</b>				
Public Health and Human Services	2,094,641,184.93	1,934,241,378.01	160,399,806.92	92%
<b>Section B Total</b>	<b>2,094,641,184.93</b>	<b>1,934,241,378.01</b>	<b>160,399,806.92</b>	<b>92%</b>
<b>Section C - Natural Resources and Transportation</b>				
Department of Fish, Wildlife & Parks	95,214,700.72	89,338,567.34	5,876,133.38	94%
Department of Environmental Quality	67,008,658.95	47,184,302.51	19,824,356.44	70%
Department of Transportation	743,785,342.11	638,442,264.92	105,343,077.19	86%
Department of Livestock	12,324,234.98	11,868,593.42	455,641.56	96%
Department of Natural Resources and Conserv.	67,289,261.34	61,751,761.83	5,537,499.51	92%
Department of Agriculture	19,615,996.92	16,095,906.70	3,520,090.22	82%
<b>Section C Total</b>	<b>1,005,238,195.02</b>	<b>864,681,396.72</b>	<b>140,556,798.30</b>	<b>86%</b>
<b>Section D - Judicial Branch, Law Enforcement, and Justice</b>				
Judicial Branch	51,400,949.30	48,069,394.56	3,331,554.74	94%
Department of Justice	103,063,529.77	99,732,610.31	3,330,919.46	97%
Public Service Regulation	3,965,449.70	3,963,569.87	1,879.83	100%
Office of the Public Defender	36,488,223.60	36,309,606.97	178,616.63	100%
Department of Corrections	229,698,464.58	216,411,675.60	13,286,788.98	94%
<b>Section D Total</b>	<b>424,616,616.95</b>	<b>404,486,857.31</b>	<b>20,129,759.64</b>	<b>95%</b>
<b>Section E - Education &amp; Cultural</b>				
Office of Public Instruction	986,095,677.33	966,151,358.86	19,944,318.47	98%
Board of Public Education	377,084.03	344,465.48	32,618.55	91%
Commissioner of Higher Ed	354,970,530.45	257,599,190.11	97,371,340.34	73%
School for the Deaf & Blind	7,616,633.16	7,584,228.73	32,404.43	100%
Montana Arts Council	1,463,677.00	1,354,264.28	109,412.72	93%
Montana State Library	5,472,211.28	4,916,612.44	555,598.84	90%
Montana Historical Society	4,989,885.62	4,848,385.42	141,500.20	97%
<b>Section E Total</b>	<b>\$1,360,985,698.87</b>	<b>\$1,242,798,505.32</b>	<b>\$118,187,193.55</b>	<b>91%</b>
<b>Total</b>	<b>\$5,161,270,424.57</b>	<b>\$4,698,969,829.86</b>	<b>\$462,300,594.71</b>	<b>91%</b>

# STATUTORILY REQUIRED REPORTS

## BUDGET AMENDMENT ACTIVITY

As of August 30, 2019, the Legislative Finance Division received notification of 117 budget amendments impacting the 2019 and 2021 biennia and certified by the Governor since the April 30.

These amendments increase total funds by \$19.3 million in FY 2019 and \$12.0 million in FY 2020. An additional 5.21 FTE in FY 2019, 9.05 FTE in FY 2020 and 3.27 FTE in FY 2021 in modified positions have been added. Ten amendments transfer existing authority between expenditure categories or between organizational units and 18 extend previously approved amendment authority. The figure summarizes the budget amendments certified by the Governor from the period October 1, 2017 through November 30, 2017.

Component	FY 2019	FY 2020
Number of Amendments	84	33
FTE Added	0.00	9.34
State Special Revenue	\$0	\$0
Federal Revenue	19,233,771	11,911,200
Proprietary Fund	45,700	52,500
Total Revenue	\$19,279,471	\$11,963,700

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 figures summarizes the budget amendments that were certified for the 2019 and 2021 biennia. The various approving authorities have added a total of \$303.5 million in the 2019 biennium and \$12.0 million in the 2021 biennium.

LFC Meeting	Number of	2019 Biennial			2021 Biennial	
2019 Biennium	Amendments	FY 2018	FY 2019	Total	FY 2020	Total
September 30, 2017	38	\$20,973,751	\$266,447	\$21,240,198	\$0	\$0
November 30, 2017	44	58,950,778	0	58,950,778	0	0
February 28, 2018	57	23,777,650	0	23,777,650	0	0
May 31, 2018	23	18,109,342	0	18,109,342	0	0
August 31, 2018	54	6,266,197	31,780,327	38,046,524	0	0
November 30, 2018	78	(35,810)	97,320,773	97,284,963	0	0
April 30, 2019	30	0	26,791,274	26,791,274	0	0
August 30, 2019	117	0	19,279,471	19,279,471	11,963,700	11,963,700
Total	441	\$128,041,908	\$175,438,292	\$303,480,200	\$11,963,700	\$11,963,700

The following figure reflects the additional budget authority provided to each agency through the budget amendment process in the 2019 biennium compared to the HB 2 budget as of FYE 2019.

**Budget Amendment Authority Comparison  
with HB 2 Total Funds  
By State Agency**

State Agency	FY 2019 Budget HB 2	Budget Amendment	% of Modified Budget
Department of Agriculture	\$19,615,997	\$2,068,524	10.55%
Department of Commerce	32,368,358	6,000,000	18.54%
Department of Corrections	229,698,465	2,767,661	1.20%
Department of Environmental Quality	67,008,659	9,785,596	14.60%
Department of Fish, Wildlife, and Parks	95,214,701	12,795,171	13.44%
Department of Justice	103,063,530	1,965,111	1.91%
Department of Labor and Industry	82,188,081	365,008	0.44%
Department of Livestock	12,324,235	413,961	3.36%
Department of Military Affairs	49,066,518	1,449,365	2.95%
Department of Natural Resources and Conservation	67,289,261	24,220,729	35.99%
Department of Public Health and Human Services	2,094,641,185	19,011,032	0.91%
Department of Revenue	57,466,581	537,259	0.93%
Department of Transportation	743,785,342	70,396,131	9.46%
Judicial Branch	51,400,949	2,458,263	4.78%
Montana Arts Council	1,463,677	77,976	5.33%
Montana State Library	5,472,211	76,010	1.39%
Montana Historical Society	4,989,886	519,771	10.42%
Office of Public Instruction	986,095,677	20,516,100	2.08%
Public Service Commission	3,965,450	14,624	0.37%
<b>Total</b>	<b>\$4,707,118,763</b>	<b>\$175,438,292</b>	<b>3.73%</b>

## **OPERATING PLAN CHANGES AND PROGRAM TRANSFERS**

The Office of Budget and Program Planning (OBPP) submitted a total of 33 operating plan changes and program transfers that met statutory criteria for LFC review and comment between May 29, 2019 and fiscal year end. Staff have reviewed the budget changes. Staff have raised no issues with the proposed changes. A summary of the changes from OBPP can be found in [Appendix D](#).

## **OTHER AGENCY REPORTS**

Other agency required reports have been received and are posted on the LFD website. The required reports can be found on the LFD website at: <https://leg.mt.gov/committees/admincom/lfc/>