

January 2022 Legislative Budget Update

Legislative Fiscal Division

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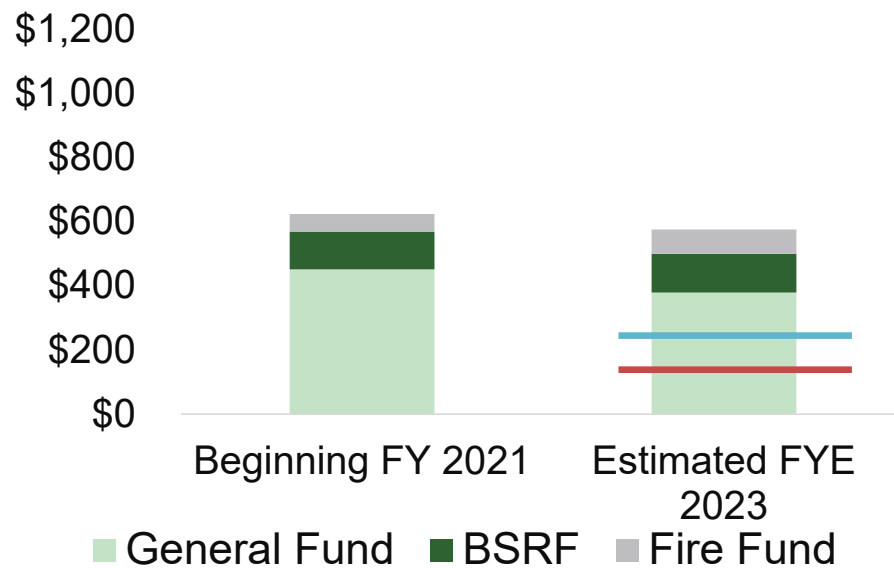


So far so good...

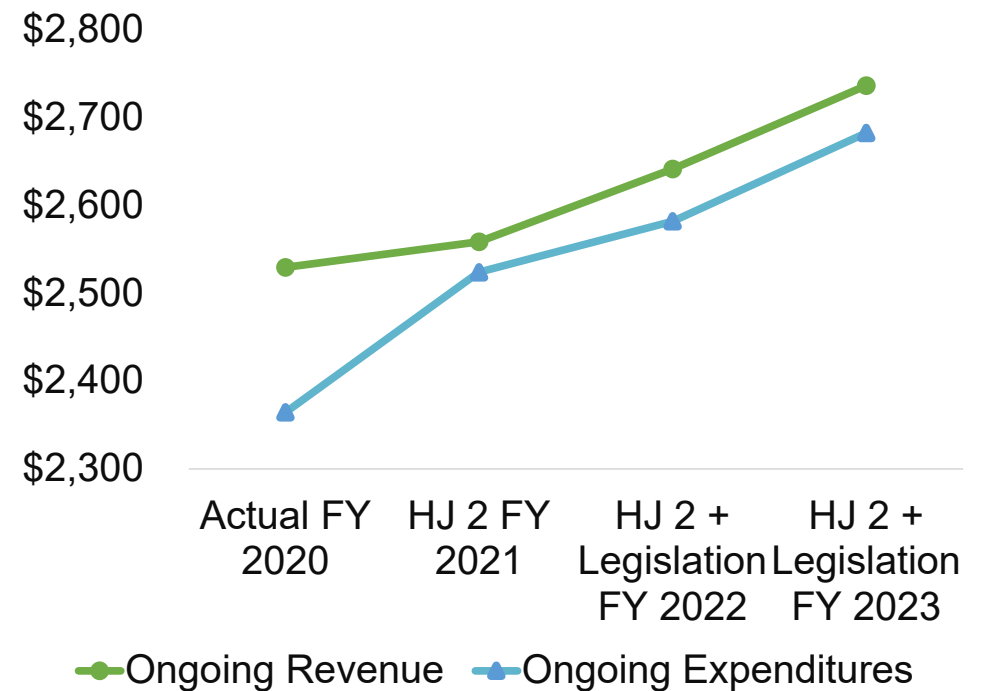
Plentiful State Reserves (aka awash in cash)

End of Session General Fund Estimates

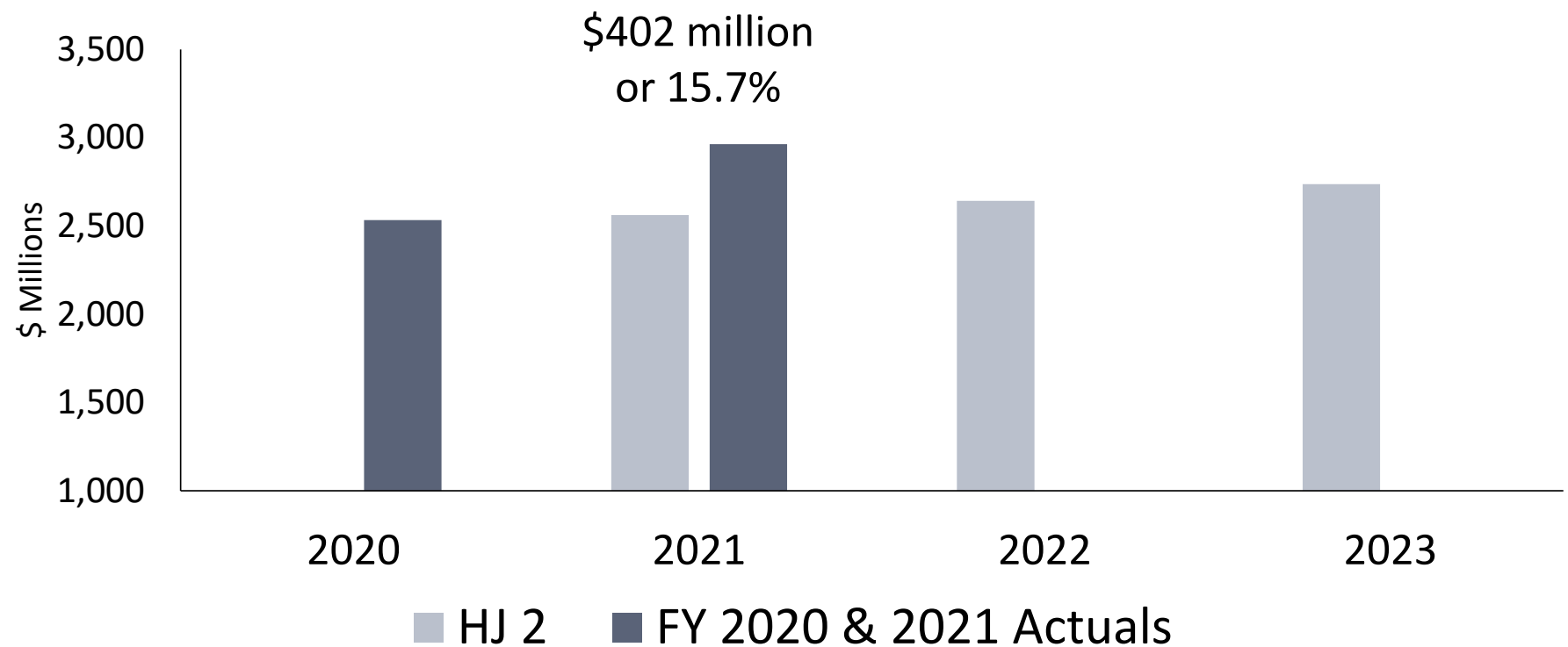
Reserve Balances



Structural Balance



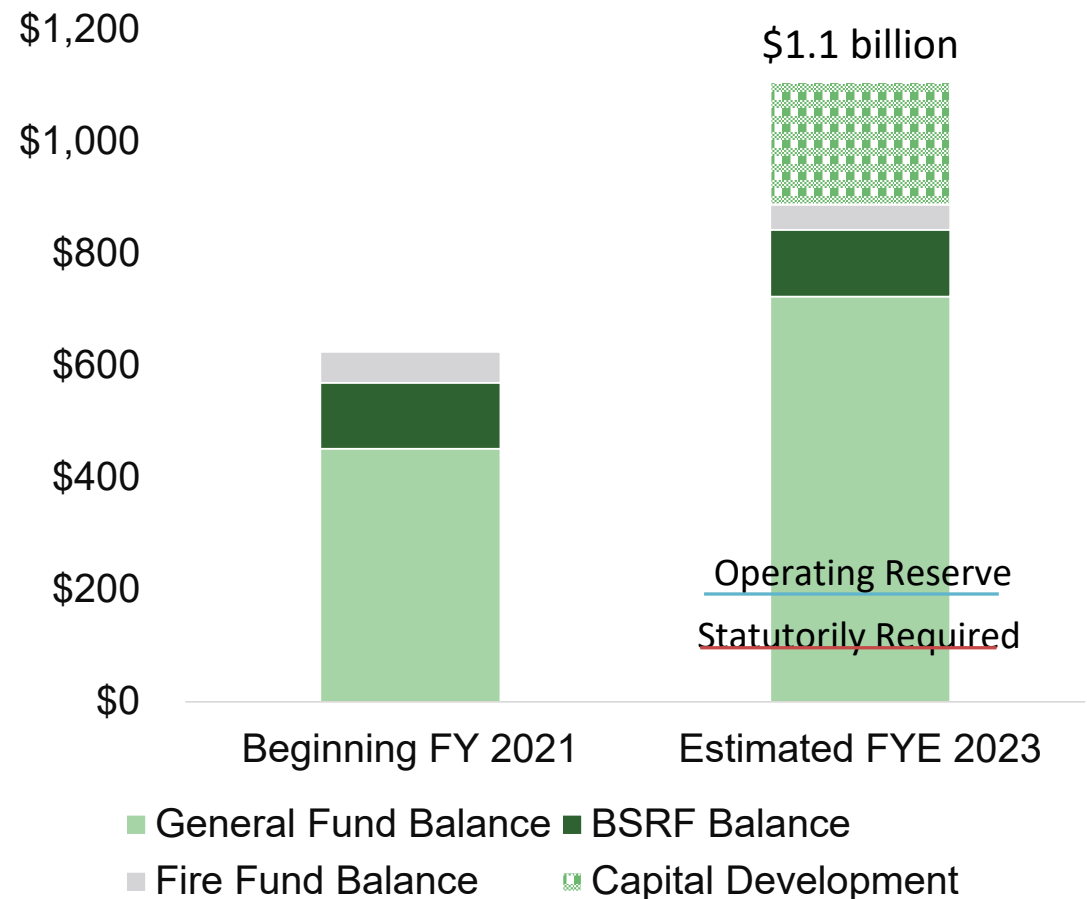
Revenue Compared to HJ 2 Estimate



Estimated Financial Reserve Balances

Using **HJ 2 revenues** and budgeted and anticipated expenditures for the 2023 Biennium.

Capital Development fund is estimated to end the biennium above \$200 million but limited to uses prescribed in statute for state and local capital development unless transferred by the legislature.

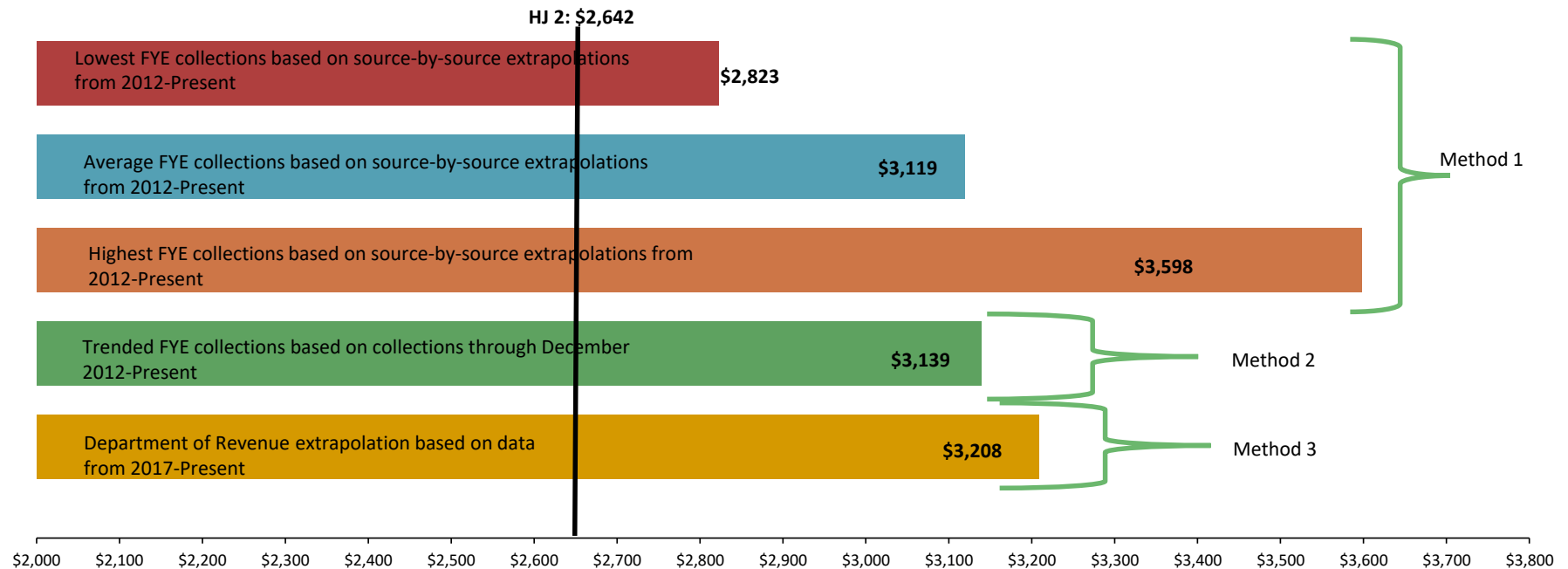




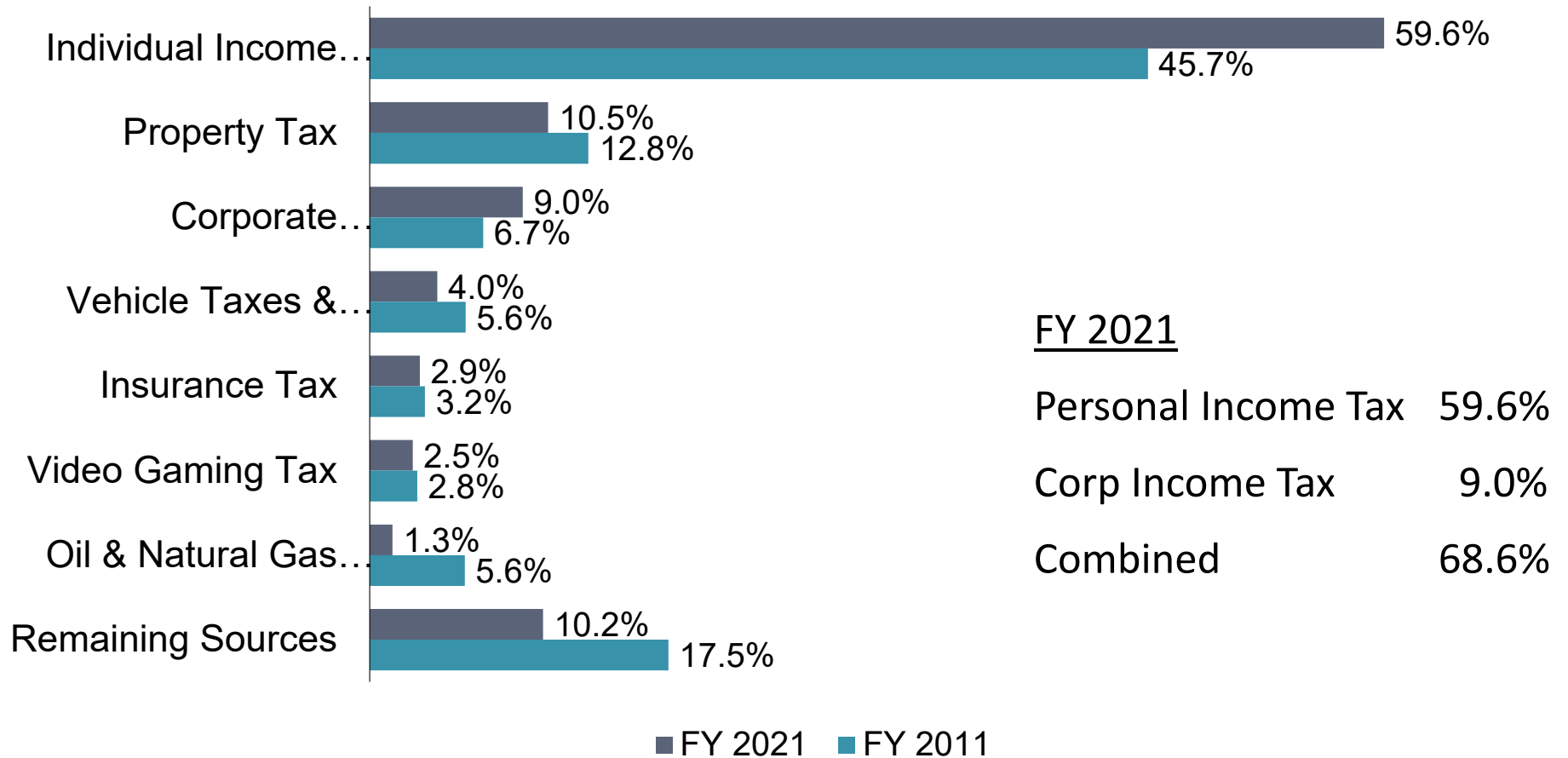
Are higher revenues
going to continue?

FY 2022 Year-to-Date Extrapolations

FY 2022 Year-End Revenue Extrapolations Based on Data Through December (\$ Millions)



General Fund Sources



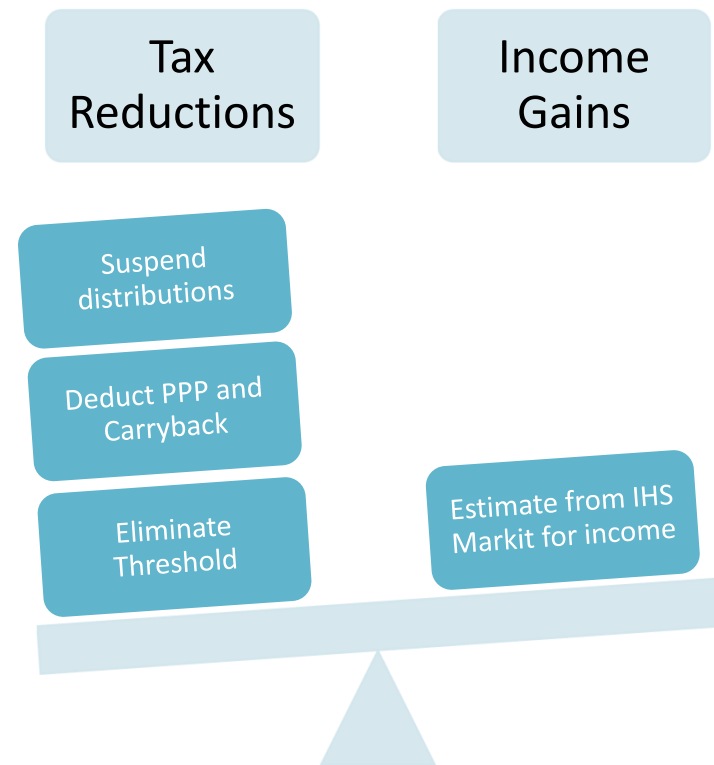


Short-term Income Tax Impacts

- Stimulus direct revenue impacts
- Stimulus indirect revenue impacts
- Capital Gains from Stock Market
- Anticipated Federal Tax Increase

Reductions to Income Tax from Federal Stimulus Packages Anticipated in HJ 2

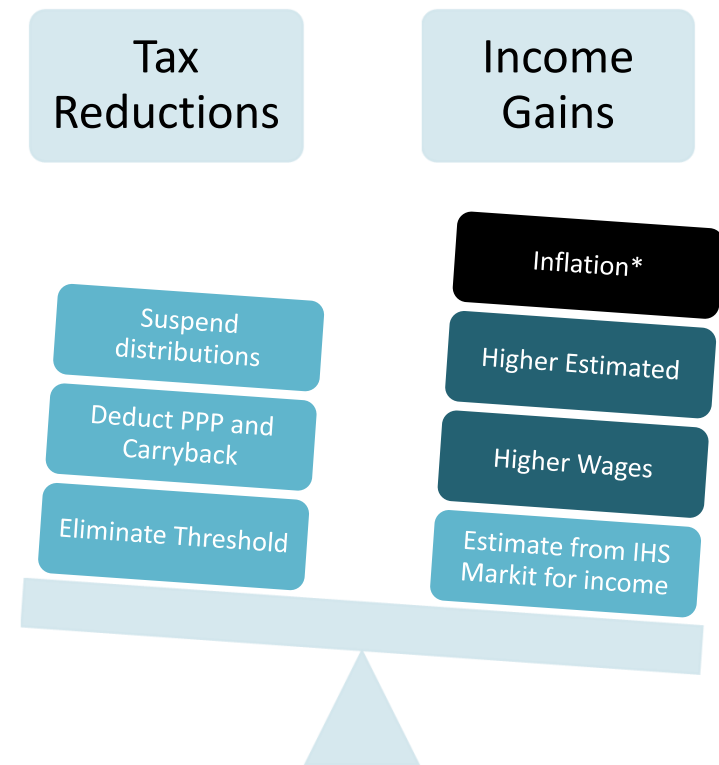
1. Elimination of threshold on offsetting non-business income with business losses (CARES Act)
2. Carryback of Net-Operating Loss Provisions (CARES Act)
3. Businesses may deduct Paycheck Protection Plan expenses without including them as income (Consolidated Appropriations Act, 2021)
4. Federal suspension of required minimum distributions from tax deferred retirement accounts (CARES Act)



Indirect Federal Stimulus impact: income gains the bigger impact

- Federal stimulus relief funds in 2020 and 2021 resulted in increased revenues in FY 2021, though the extent is difficult to measure.
- Stimulus in the form of Paycheck Protection Program (PPP) loans was directly taxed in the form of wage withholding.
- Stimulus such as direct payments to individuals or increased unemployment benefits could become taxable in the form of business profits when a good was purchased with these funds.
- Federal stimulus funds as a result of the pandemic have since ended, and it remains to be seen for how long they will impact Montana revenues.

**Inflation is anticipated to be temporary by IHS Markit, but it is not expected to become deflationary or a reduction to revenue*



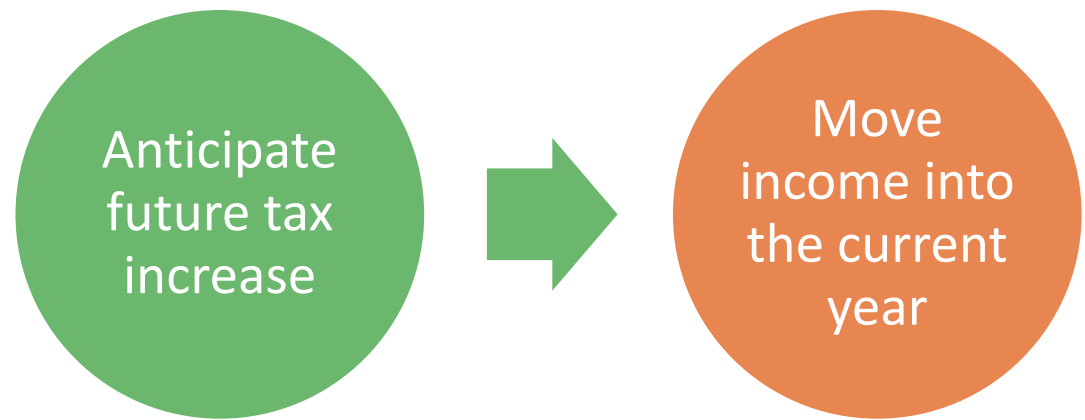


Anticipated Federal Tax changes

Anticipated increases in tax rates for personal and corporate income

Anticipated changes in international corporate tax law

Businesses and personal income taxpayers can make choices to change income levels between tax years. For example, when a business purchases equipment or other investments, sells stocks, or gives dividends or bonuses.



Summary of short- term impacts

Stimulus direct tax revenue impacts generally decreased revenue

Stimulus indirect revenue impacts generally increased revenue and are greater than the decreases

Capital Gains from Stock Market – growth in the stock market provides opportunities for individuals to sell and declare income

Anticipated Federal Tax Increase – when individuals anticipate changes in federal tax law, they plan to pay the least amount of tax



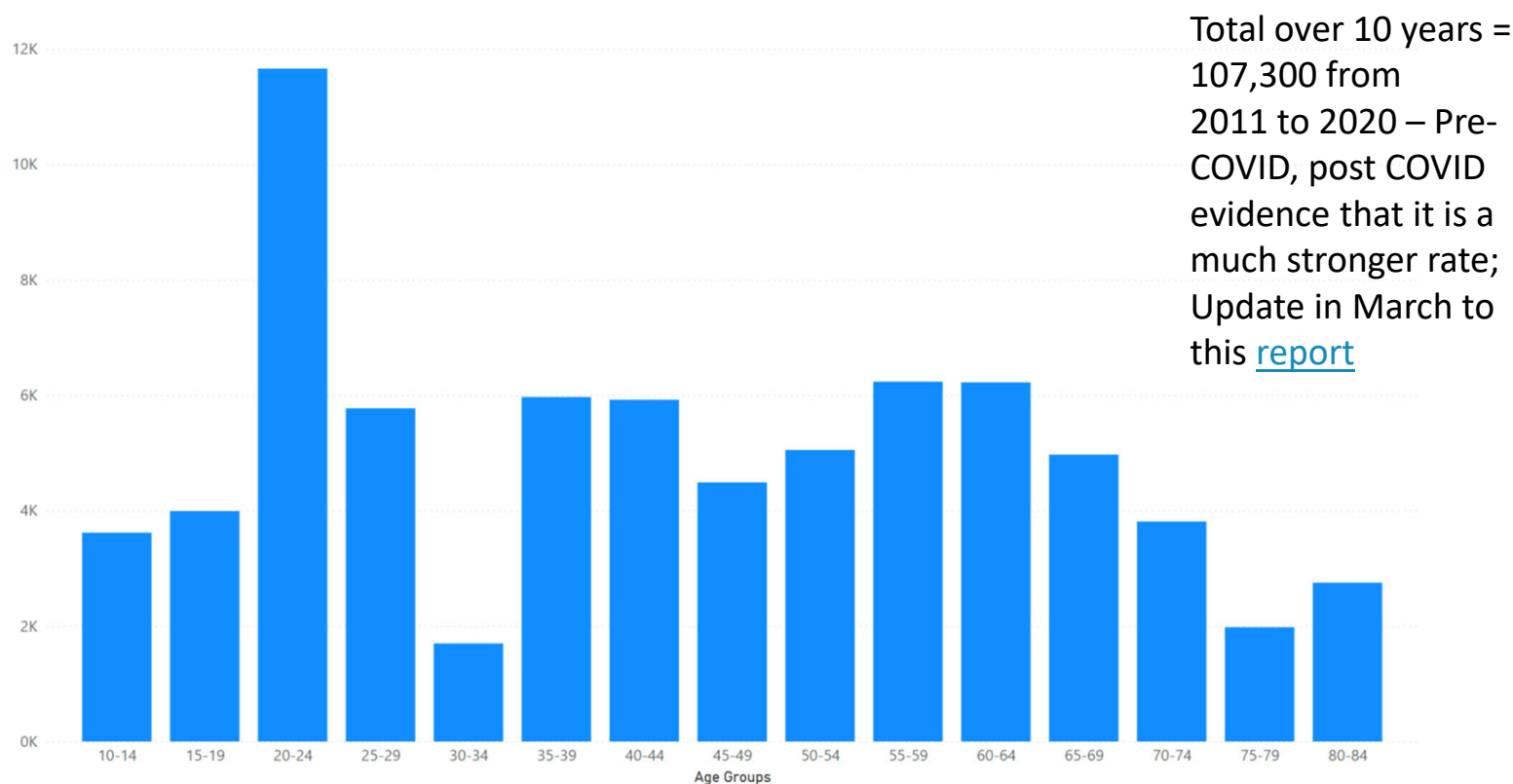
Long-term Impacts on Montana Economy

... a lot of unknowns about ongoing

- New residents
- Retirements
- Fossil Fuels
- Inflation – taxes are collected in nominal dollars
 - Revenues
 - Expenditure pressure

Real dollars exclude inflation and demonstrate true purchasing power. Nominal dollars are the actual dollars that we use, regardless of what they purchase.

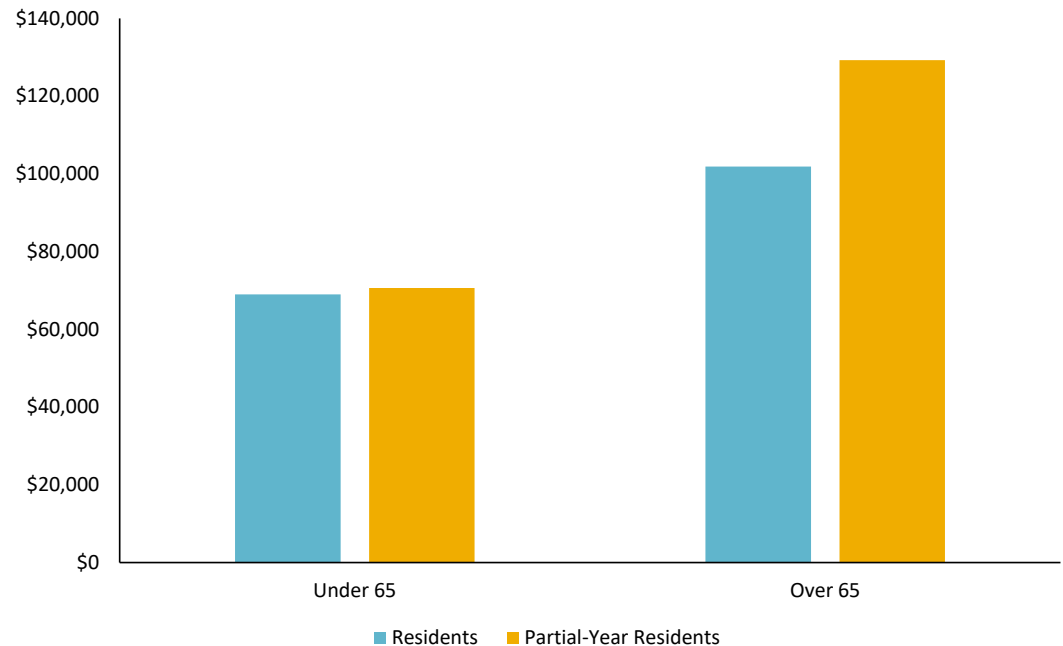
Montana 10 Year Net Migration by Age Cohort



New Residents

- As more individuals move to Montana, it is expected that they will increase the tax base.
- Analysis of CY 2019 return data suggests that individuals who moved to Montana in 2019 have higher a Federally Adjusted Gross Income (FAGI) than full-year residents.
- CY 2020 data has recently become available, and a report will be provided in early March analyzing new residents' income levels as well as how income levels changed in CY 2020 for those individuals who moved to Montana in CY 2019.

New residents had a slightly higher average FAGI for those under 65. However, for those over 65, partial-year residents' FAGI was 27% higher than Montana residents.



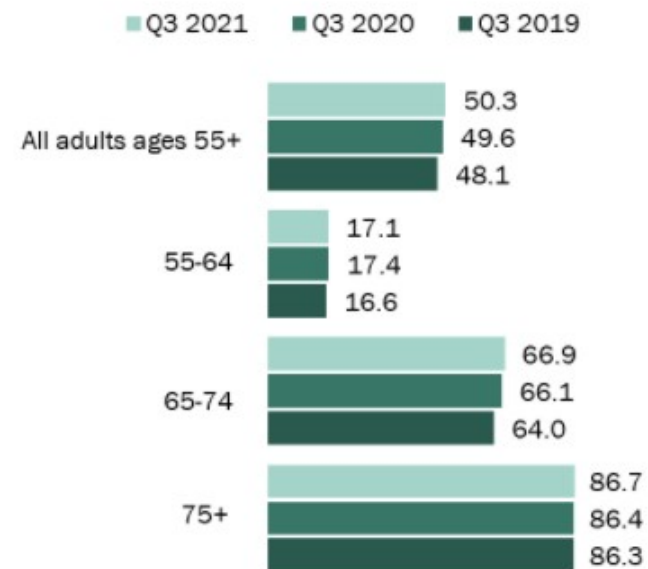
Wall Street Journal, *Workers are Having Their Moment. How Long Can It Last?* January 26, 2022

“...those surveyed by the New York Fed in November said the chance they would still be working beyond the age of 67 was just 31.1%, down from 36% in 2019.”

<https://www.wsj.com/articles/workers-are-having-their-moment-how-long-can-it-last-11642827610>

Half of older U.S. adults are now retired

% of older adults who are retired

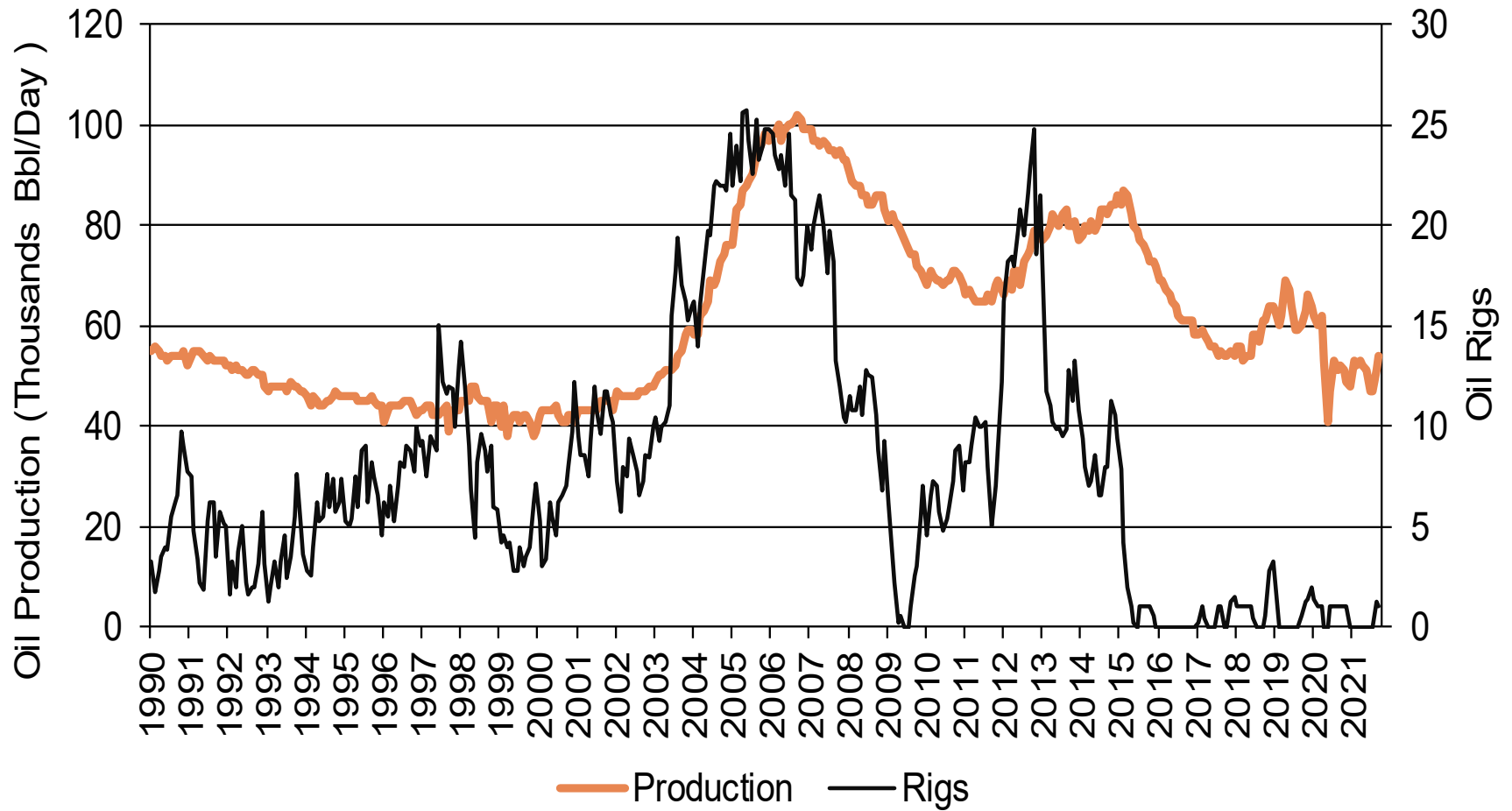


Note: "Retired" refers to those not in the labor force due to retirement.

Source: Pew Research Center analysis of July, August and September Current Population Survey monthly files (IPUMS).

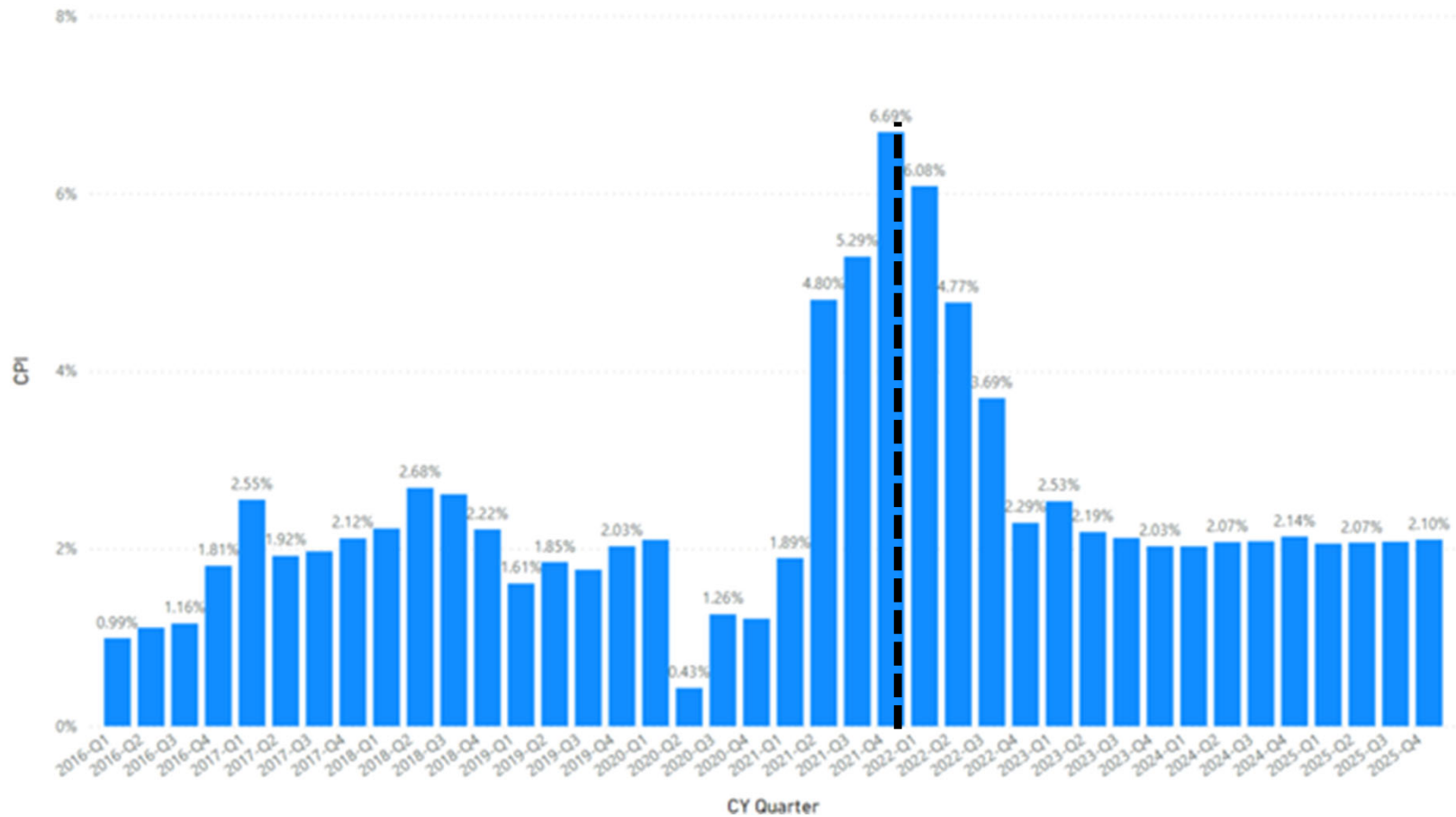
PEW RESEARCH CENTER

Montana Oil Production & Operating Rigs



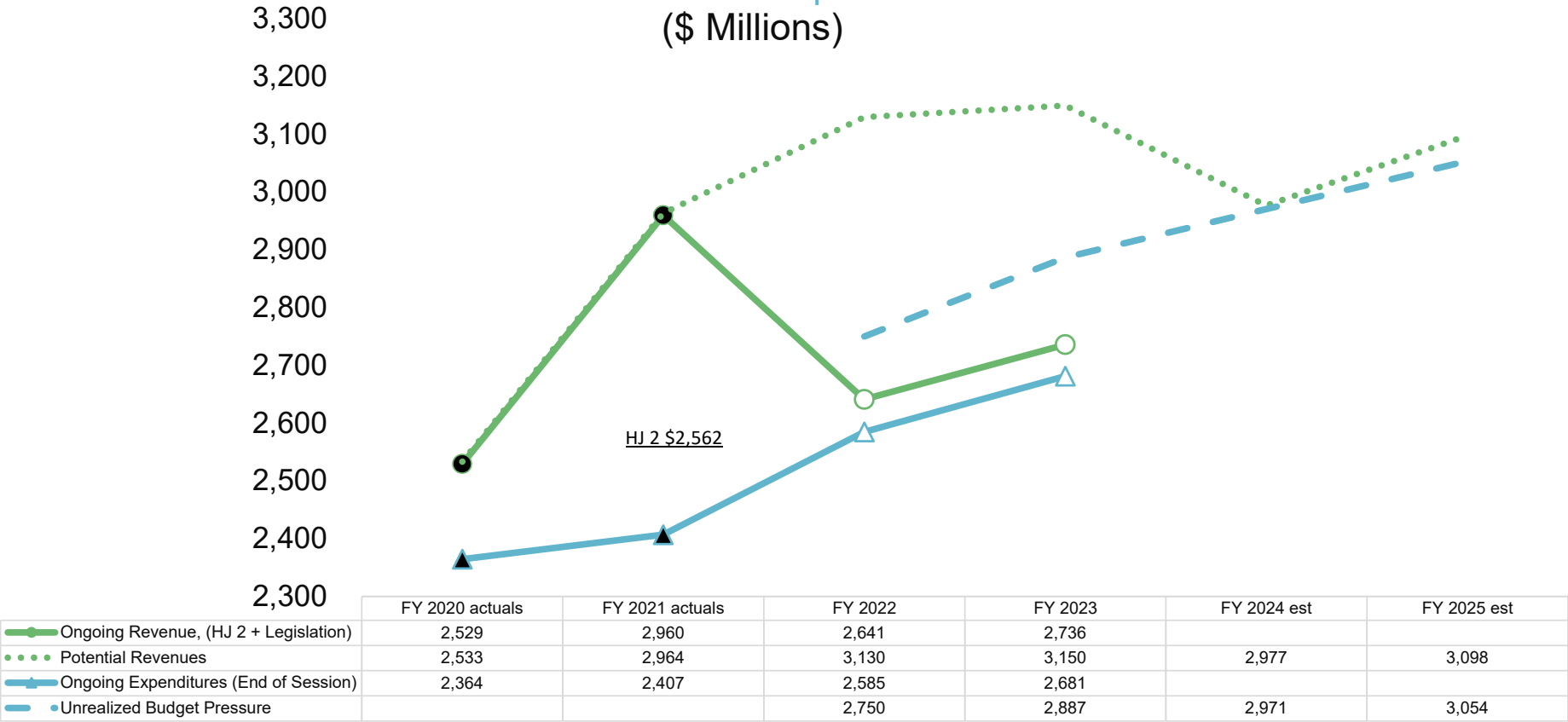
Consumer Price Index Inflation, forecast by IHS

CPI by CY Quarter

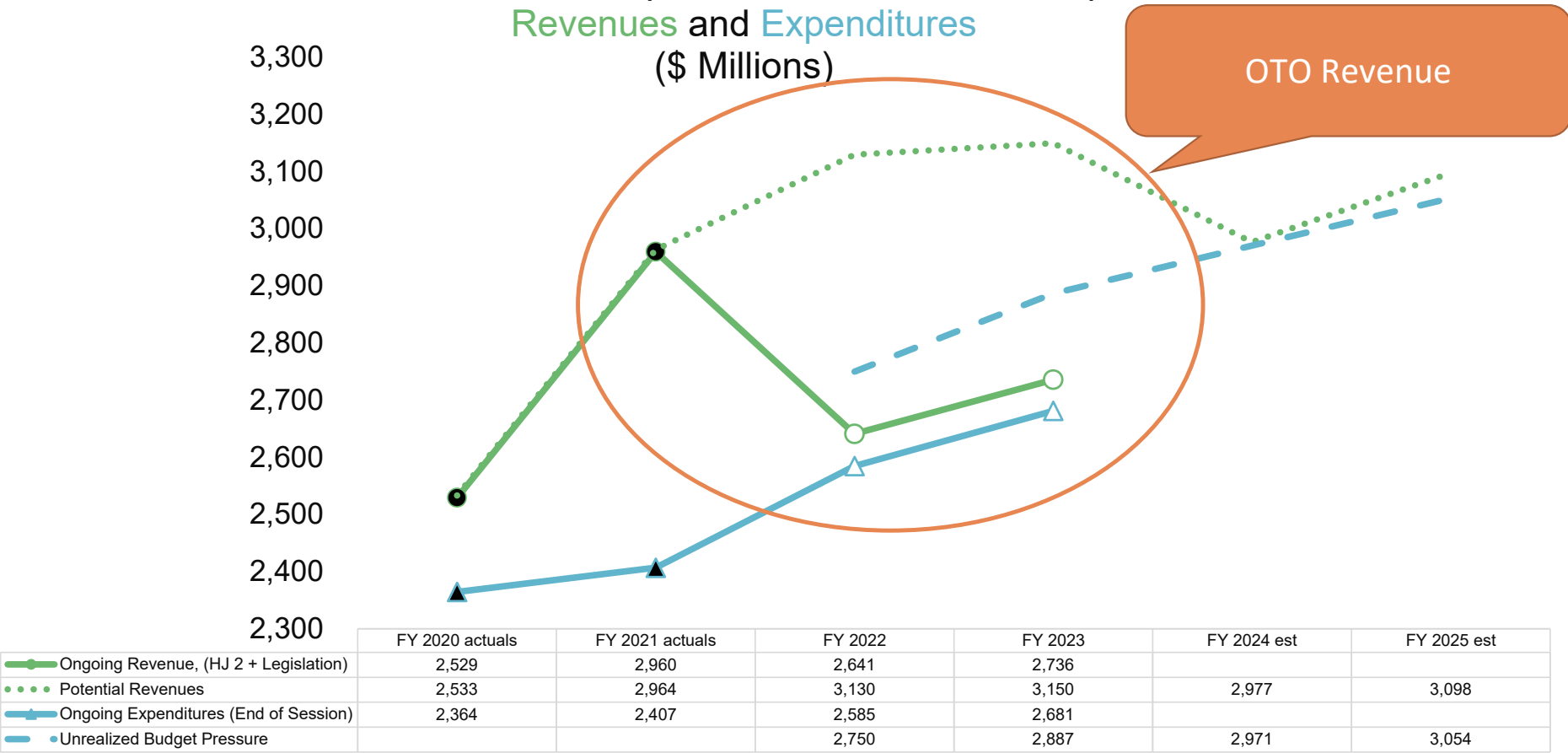


Possible Structural Balance Impacts from Inflation and Population Growth

Revenues and Expenditures
(\$ Millions)



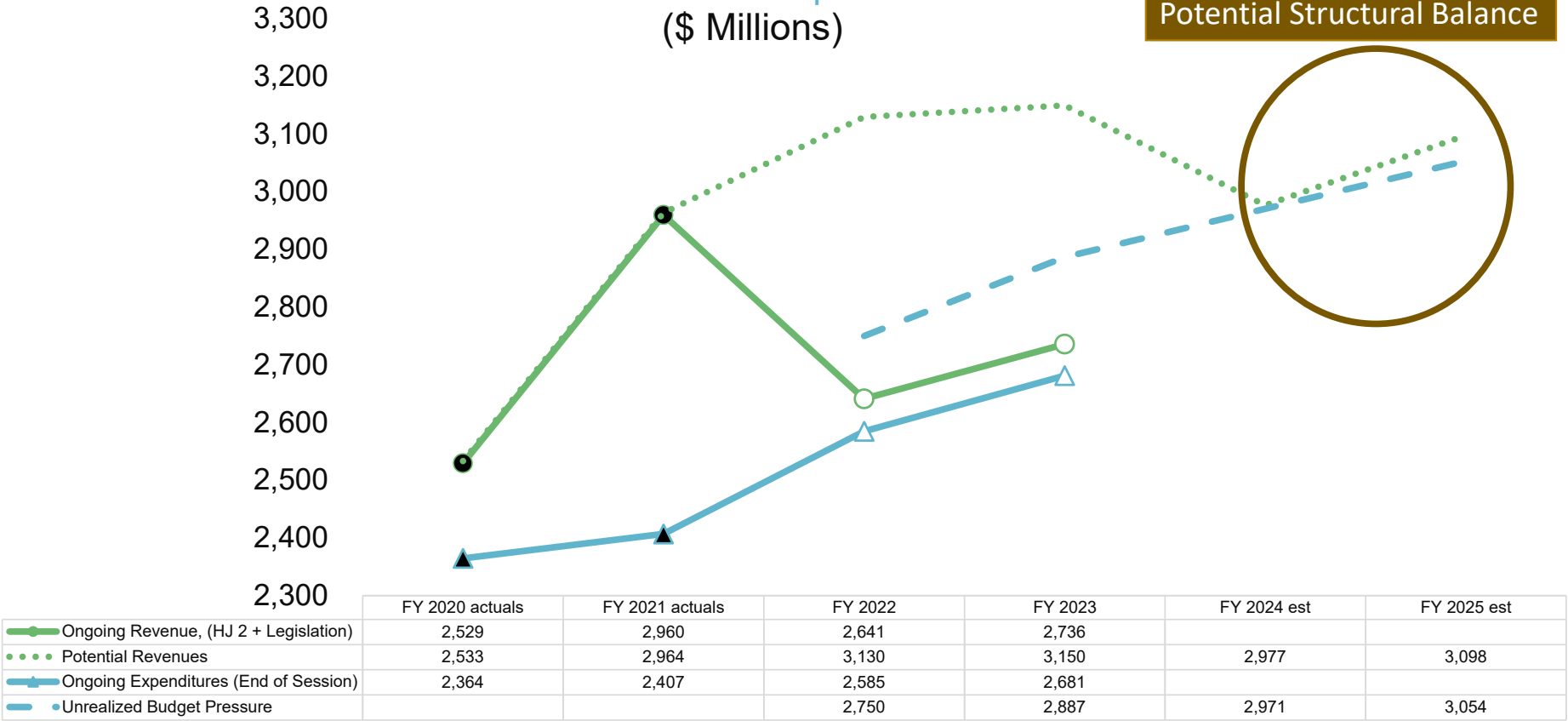
Possible Structural Balance Impacts from Inflation and Population Growth



Possible Structural Balance Impacts from Inflation and Population Growth

Revenues and Expenditures
(\$ Millions)

Potential Structural Balance



The 2025 Biennium Budget Outlook



June 2022



General Fund
focus



Revenues in
more detail

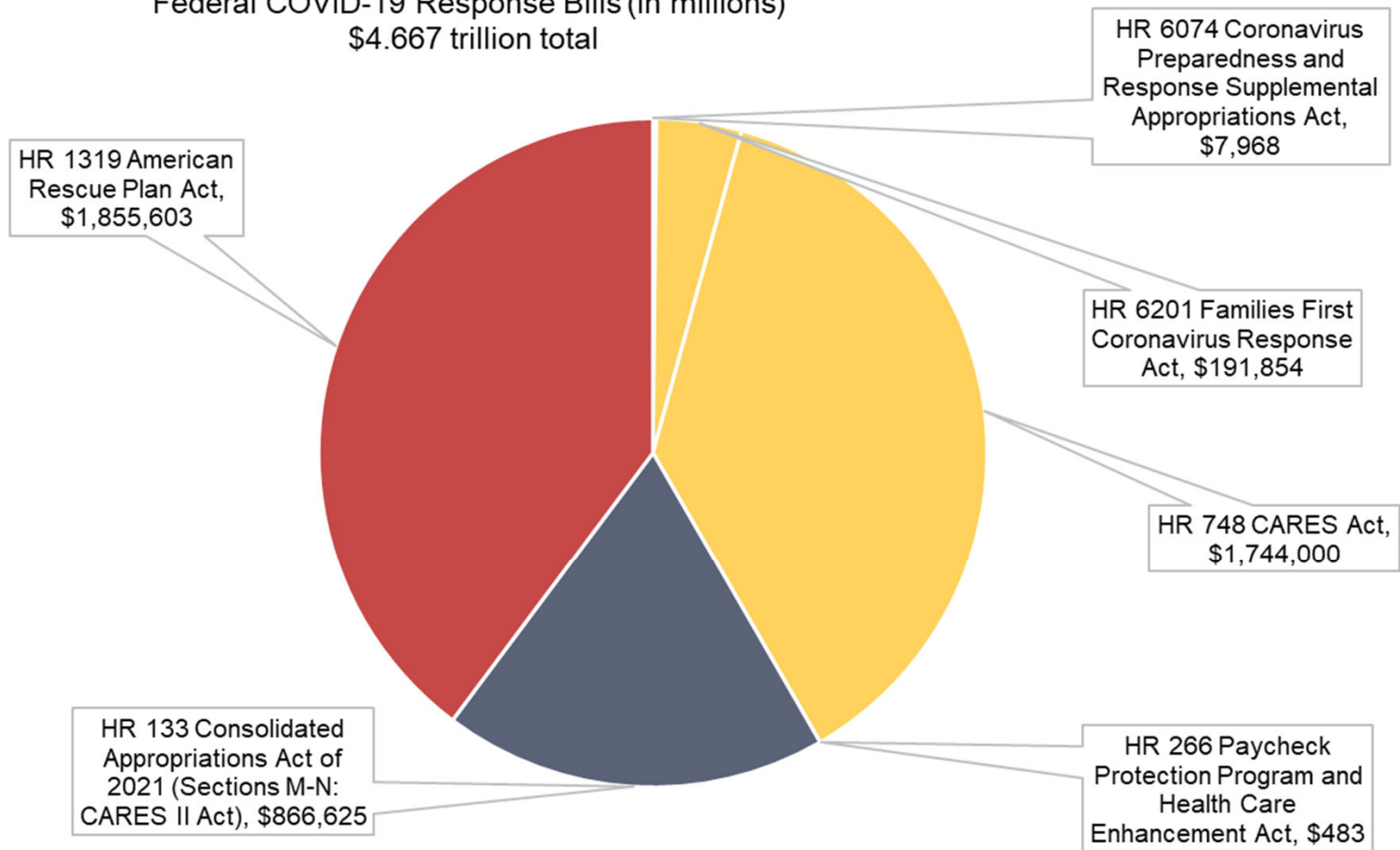


Expenditures
in more detail

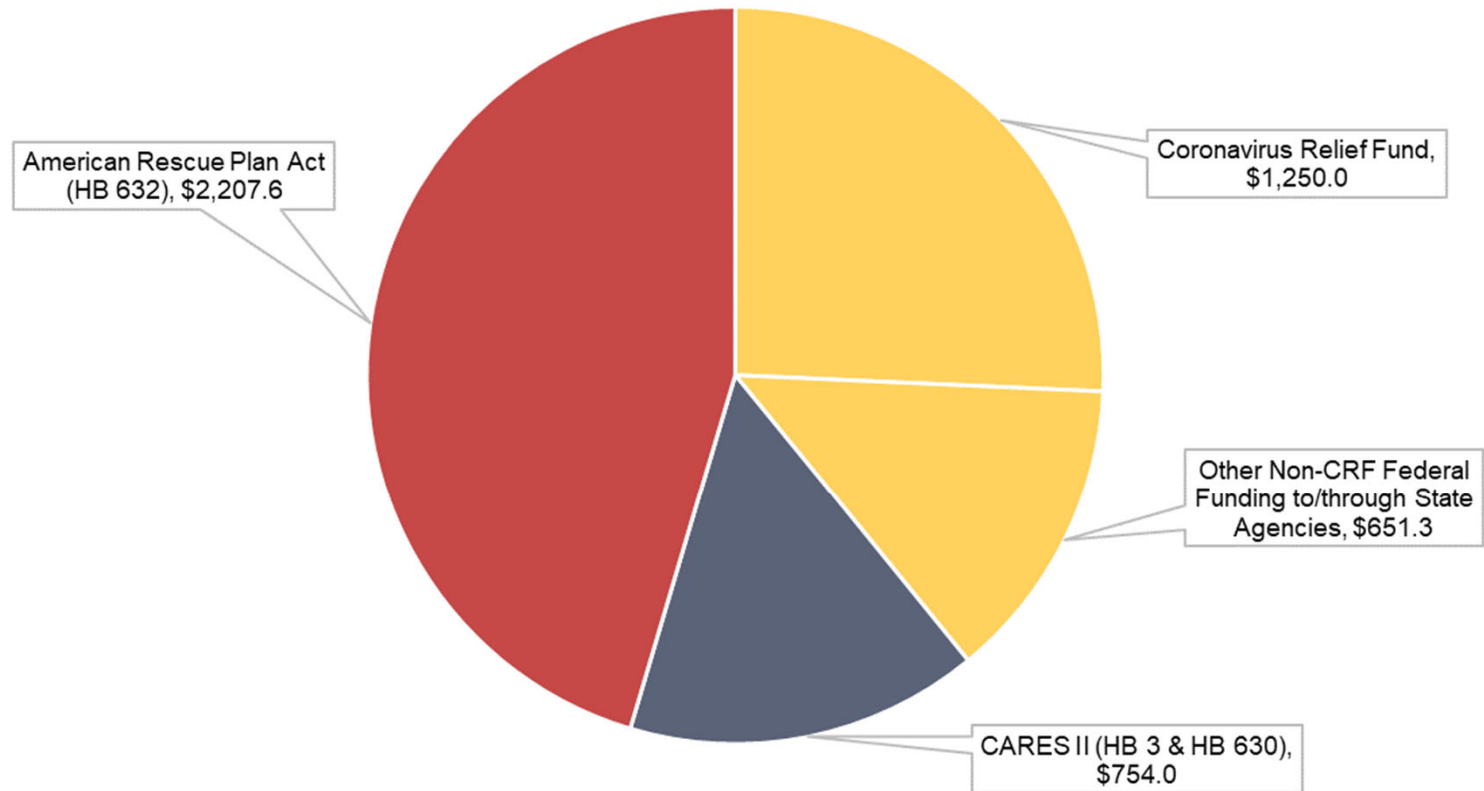


COVID-19, Short-term Economic Impact

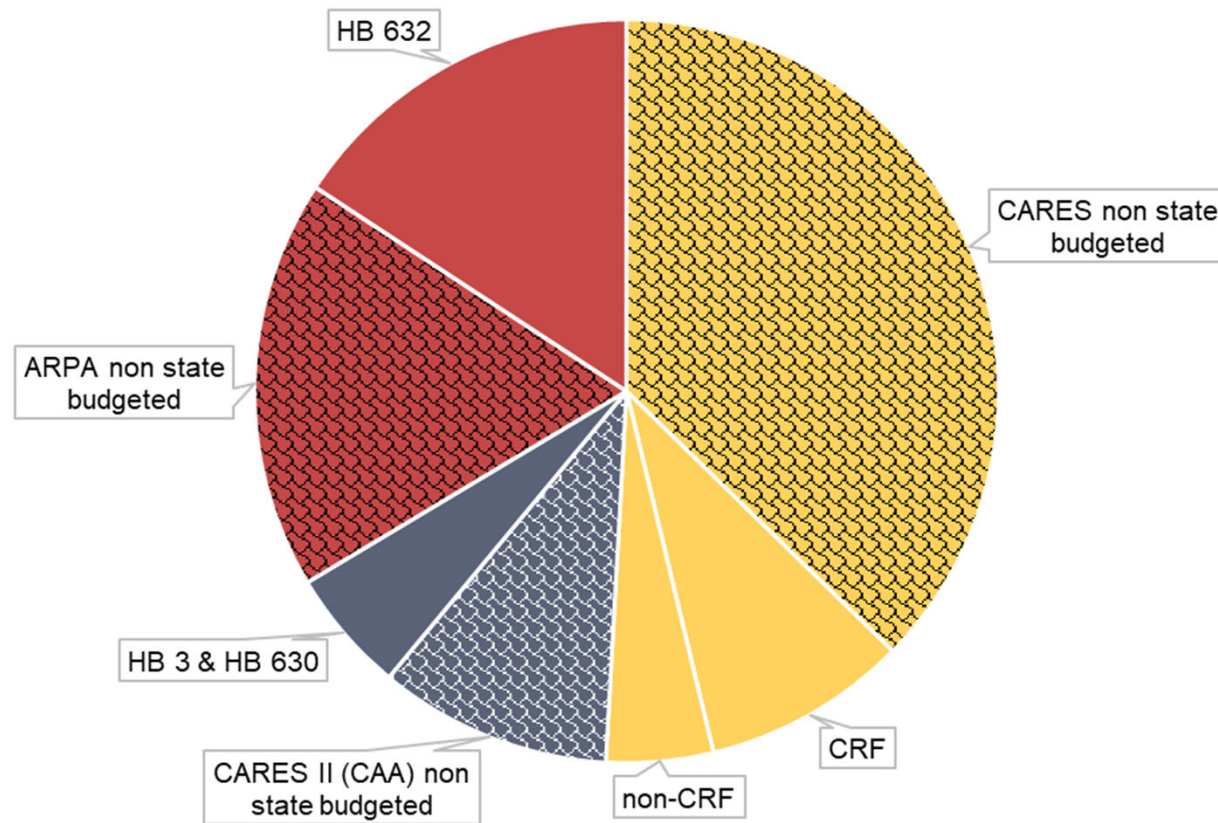
Federal COVID-19 Response Bills (in millions)
\$4.667 trillion total



Federal COVID-19 Funding in Montana Budget (in millions)
\$4.8 billion total

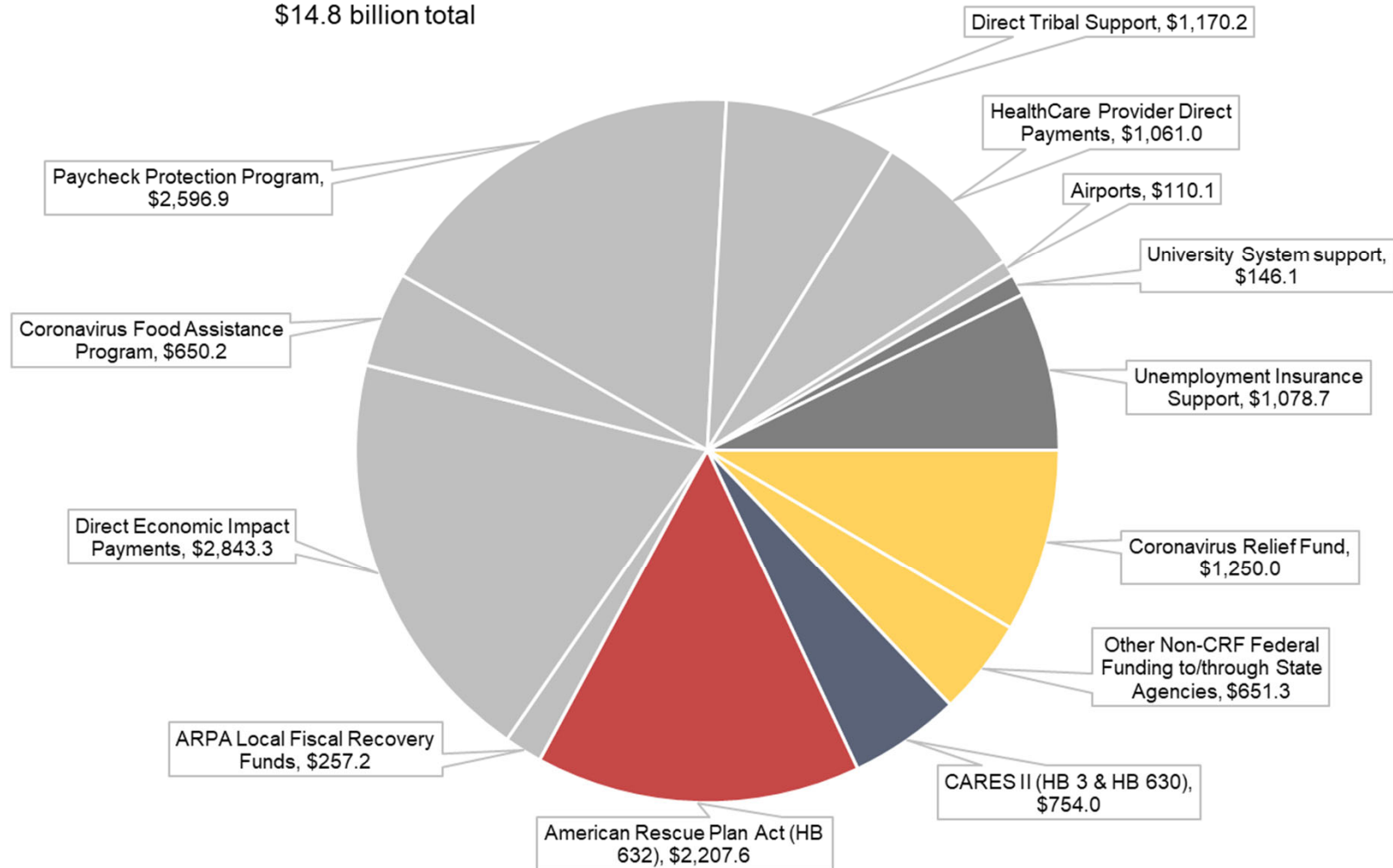


Federal COVID Money to Montana
\$14.1 billion total



~30% of
Gross State
Product

Federal COVID-19 Funding provided to Montana (in millions)
\$14.8 billion total



Federal COVID Assistance for Health & Human Services

DPHHS budgeted	\$1,404,416,963
Direct Healthcare Provider Payments	1,060,993,616
Tribal assistance	104,901,279
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TOTAL	\$2,465,410,579
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Federal COVID Assistance for Education

OPI	\$608,392,870
OCHE	179,845,420
Tribal Education	149,389,696
CRF grants to Public Schools	82,040,879
CRF grants to Private Schools	2,094,441
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TOTAL	\$1,021,763,306
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Local Government Assistance

CRF Reimbursements to Local Governments	\$193,673,134
ARPA Local Fiscal Recovery Funds	343,581,473
HB 632 minimum allocations for water projects	150,000,000
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TOTAL	\$687,254,607
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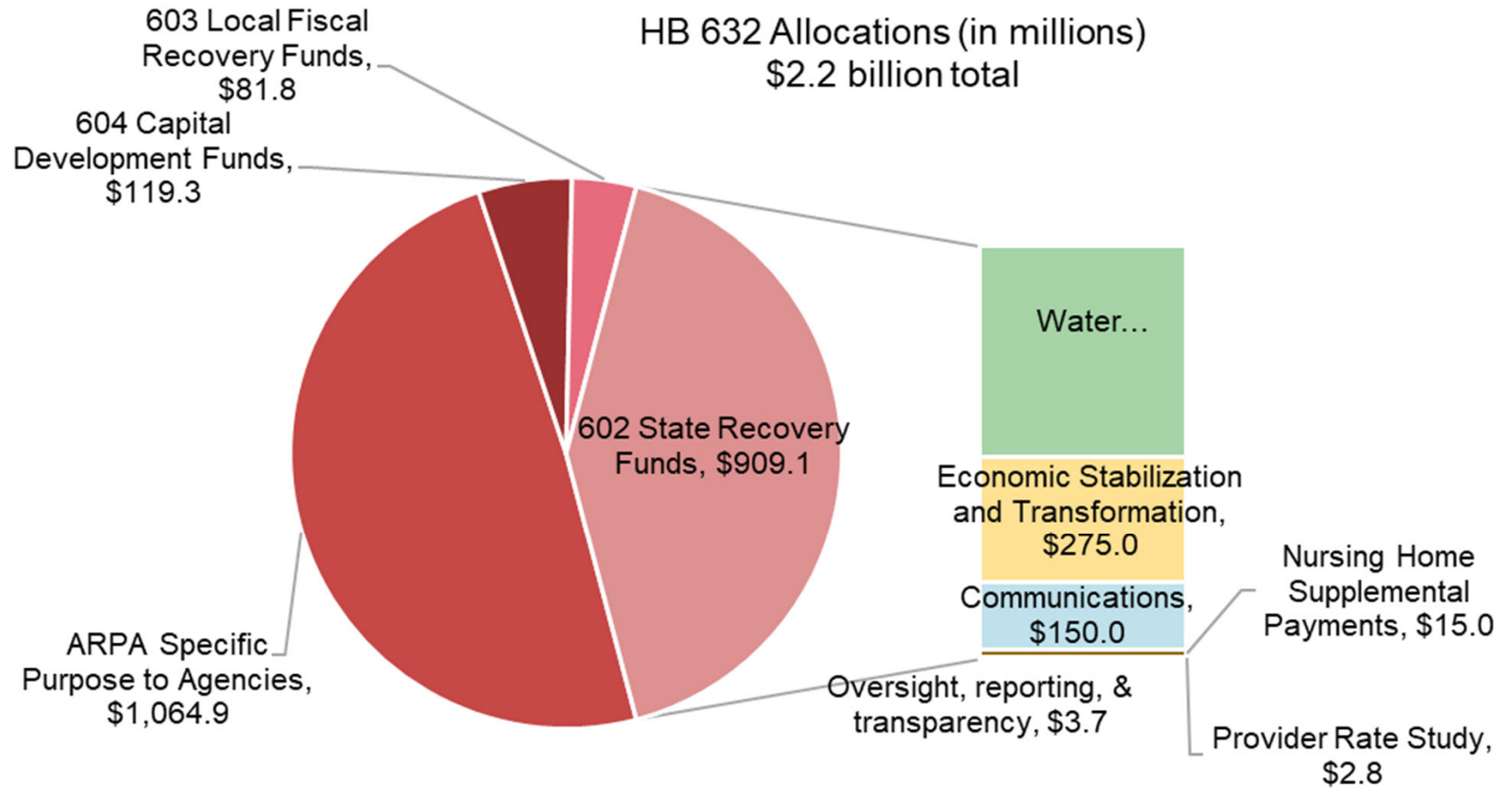
Montana Tribes COVID Funding

	ARPA	CARES II	CARES I	Non-Emergency CARES I, II, ARPA	Total
Tribes	\$681,001,983	28,779,013	280,427,782	36,418,448	1,026,627,226
Tribal Colleges	76,146,062	46,481,824	20,976,851		143,604,737
Total	\$757,148,045	\$75,260,837	\$301,404,633	\$36,418,448	\$1,170,231,963

COVID funding through State Agencies

(updated through December, 2021)

	Budgeted	Expenditures
CARES	\$1,801,966,558	\$1,691,787,354
CARES II	833,537,337	124,377,421
ARPA	2,215,959,005	208,648,122
Total	\$4,851,462,900	\$2,024,812,897





Expectations for Future Infrastructure

Federal Infrastructure Bill

Evenly spent over 5 years FY 2022 to FY 2026

More than \$3.9 billion is anticipated to be spent in Montana

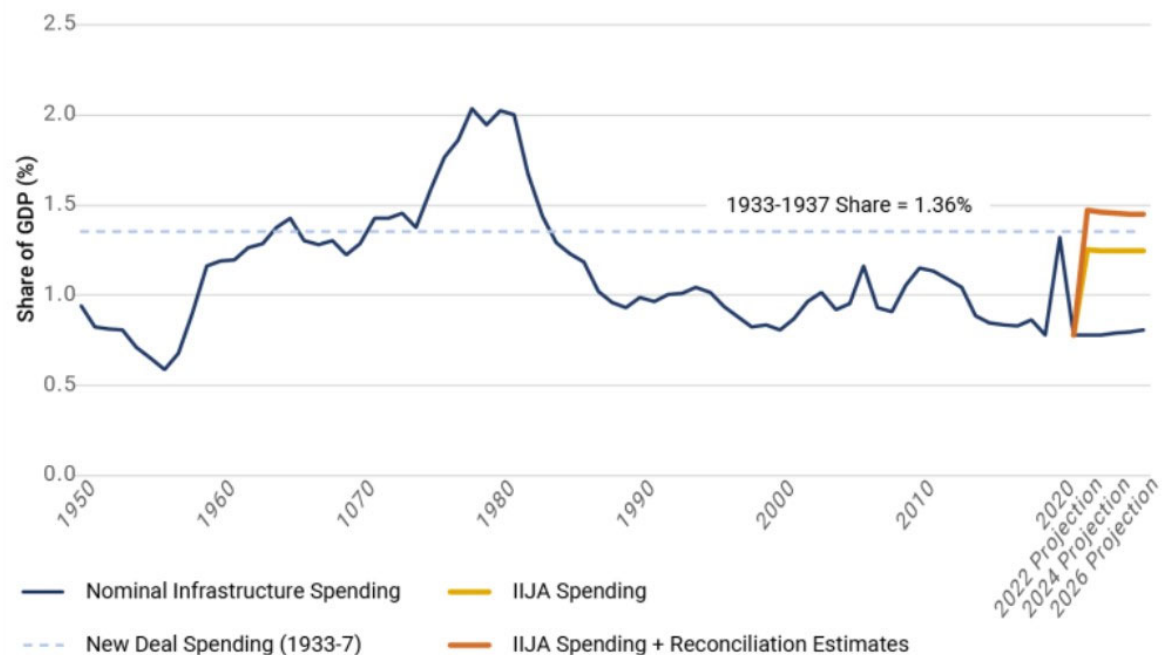
Majority of Montana's funding is reauthorization, not "new programs"

A portion of the funding requires state match

Federal Infrastructure and Jobs Act Share of Gross Domestic Product (GDP)

Source:
<https://www.brookings.edu/blog/the-avenue/2021/11/09/america-has-an-infrastructure-bill-what-happens-next/>

Figure 2. Projected federal infrastructure spending (Nominal), as a share of GDP, 1950 to 2026

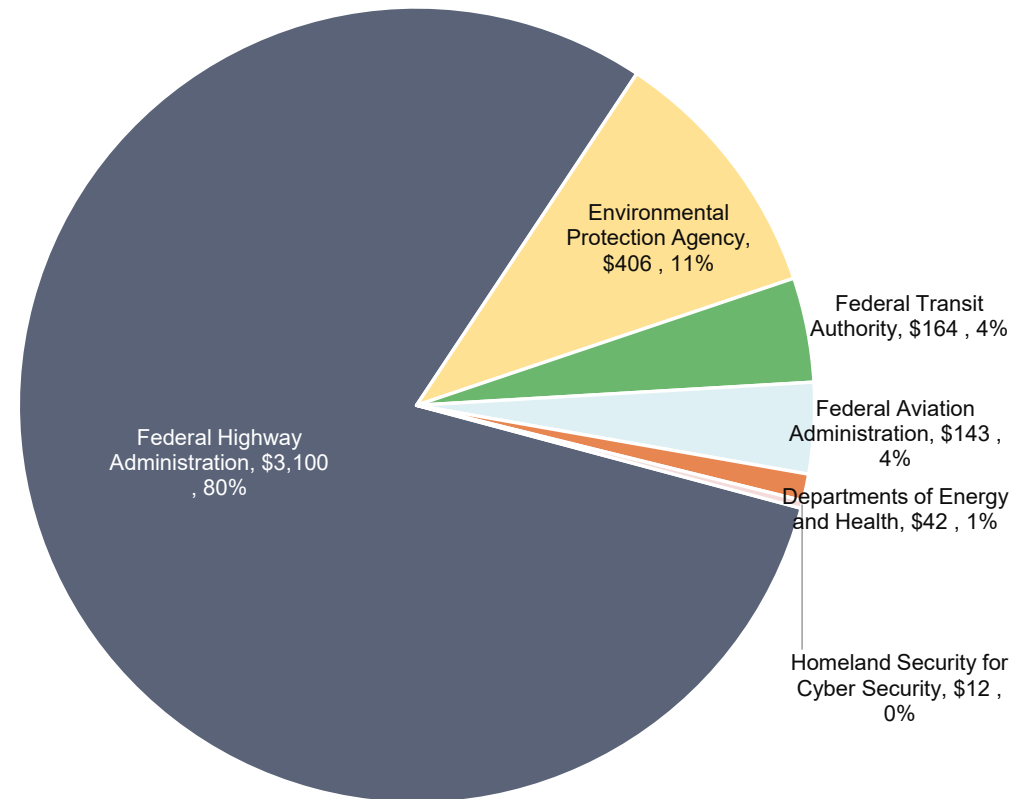


Source: Brookings analysis of Office of Management and Budget Data

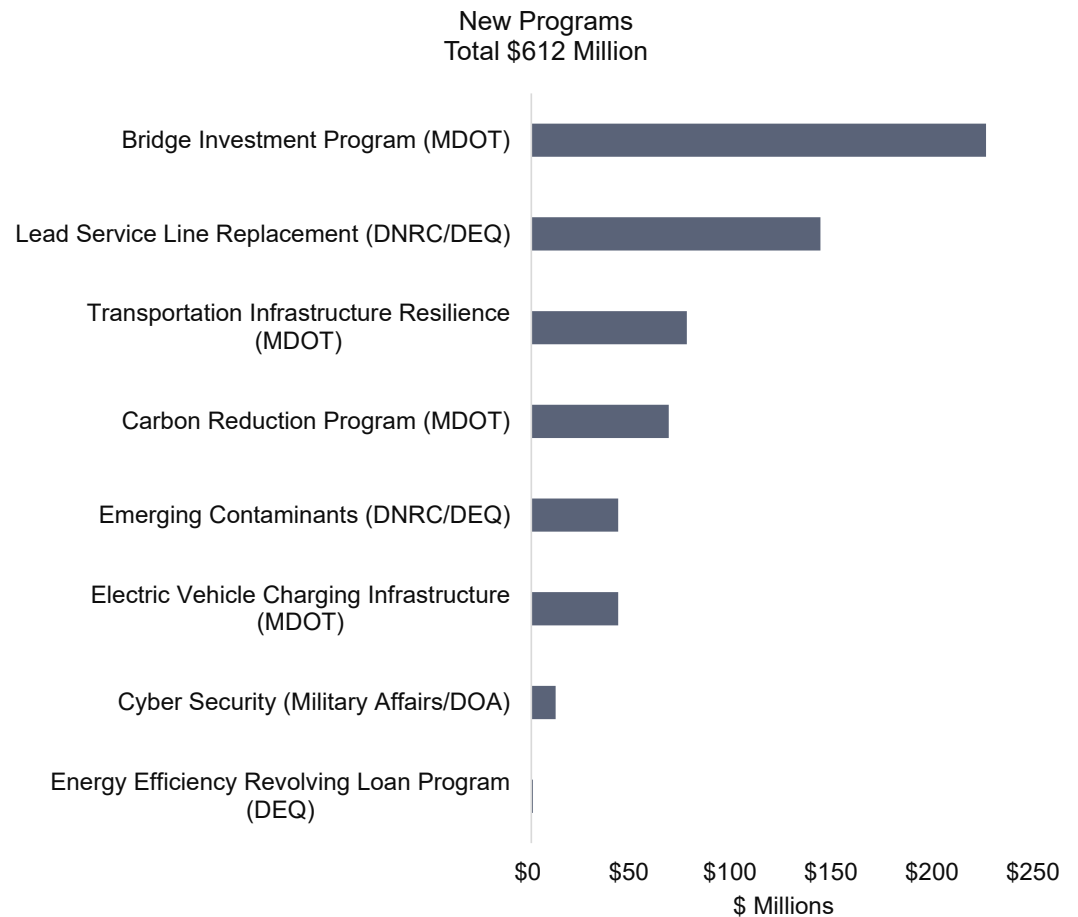
B Metropolitan Policy Program
at BROOKINGS

Infrastructure and Jobs Act for Montana

Infrastructure and Jobs Act for Montana
Totals \$3.9 Billion
(\$ Millions)



New Programs: Infrastructure and Jobs Act for Montana



New Allocations for Montana by Fiscal Year

New Program Allocations by FY - Totals \$612 million (\$ Thousands)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Not specific to year
Military Affairs/DOA - State and Local Cybersecurity Grant Program	\$2,408	\$4,816	\$3,612	\$1,204		
DEQ - Energy Efficiency Revolving Loan Fund Capitalization Program	\$784					
MDOT - Carbon Reduction Program	\$13,089	\$13,351	\$13,618	\$13,891	\$14,168	
MDOT - Promoting Resilient Operations for Transformative, Efficient, and Cost-saving Transportation (PROTECT) Program	\$14,884	\$15,181	\$15,485	\$15,795	\$16,111	
MDOT - Bridge Investment Program (Formula Appropriations)	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	
MDOT - National Electric Vehicle Formula Program						\$42,890
DNRC/DEQ - Clean Water State Revolving Funds: Addressing emerging contaminants	\$462	\$1,051	\$1,051	\$1,051	\$1,051	
DNRC/DEQ - Drinking Water State Revolving Funds: Lead service line replacement	\$28,275	\$28,575	\$28,575	\$28,575	\$28,575	
DNRC/DEQ - Drinking Water State Revolving Funds: Addressing emerging contaminants	\$7,540	\$7,620	\$7,620	\$7,620	\$7,620	
Grand Total	\$112,443	\$115,594	\$114,961	\$113,135	\$112,524	\$42,890

Additional Funding

St. Mary's

- \$2.5 million for design
- \$100 million implementation

Regional Water Systems

- Undefined

Broadband

- \$100 million is minimum allocation
- Plus competitive grants

Questions?

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first floor

