



# Outlook

2025 Biennium and Beyond

# Legislative Analyst Summary

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Amy Carlson

# 2025 Biennium Outlook

Summary: Growth – Inflation, Population, Wages & Personal Income

Revenues . . . Alternative Forecast

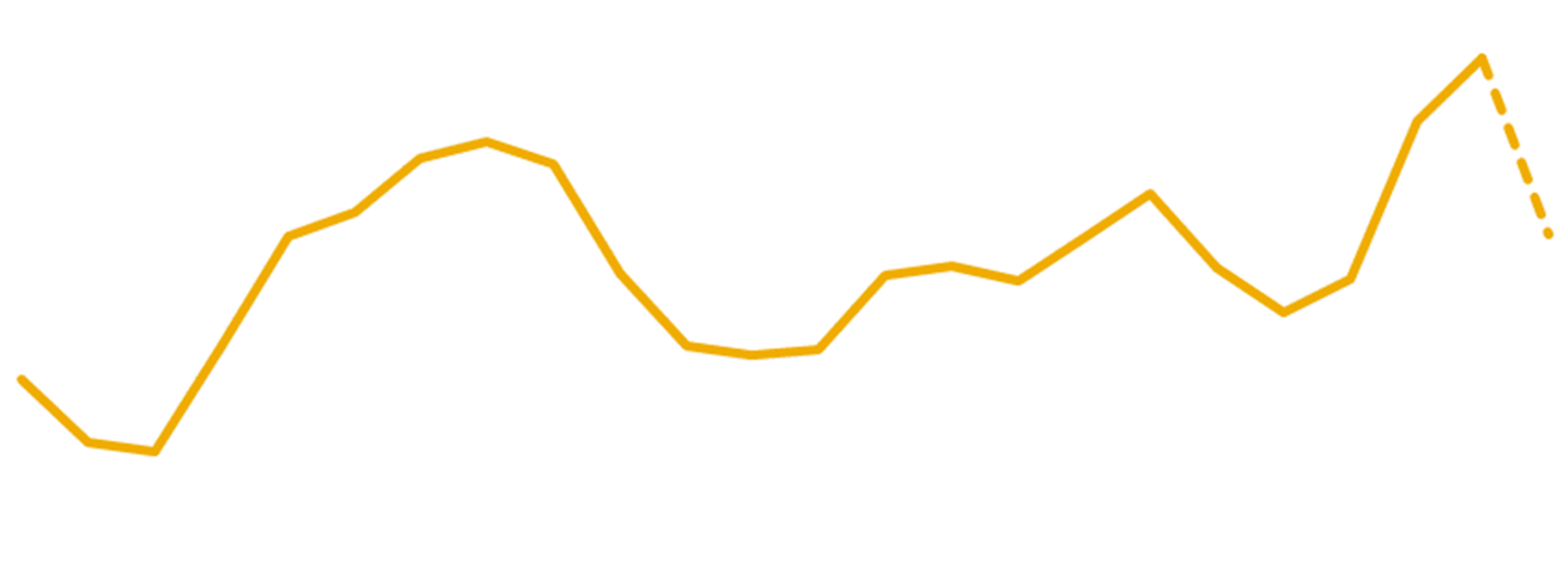
Expenditure Pressures

Structural Balance

Balances in the general fund and other reserve funds

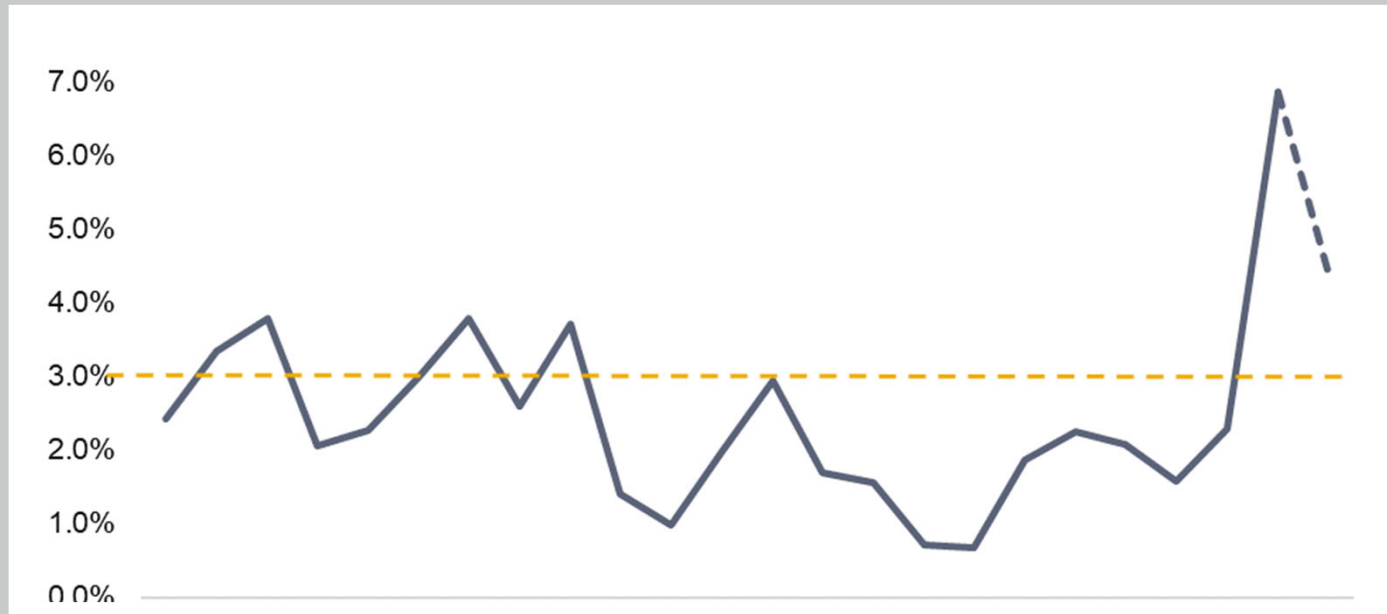
## Population Growth Rate

1.6%  
1.4%  
1.2%  
1.0%  
0.8%  
0.6%  
0.4%  
0.2%



Population Growth

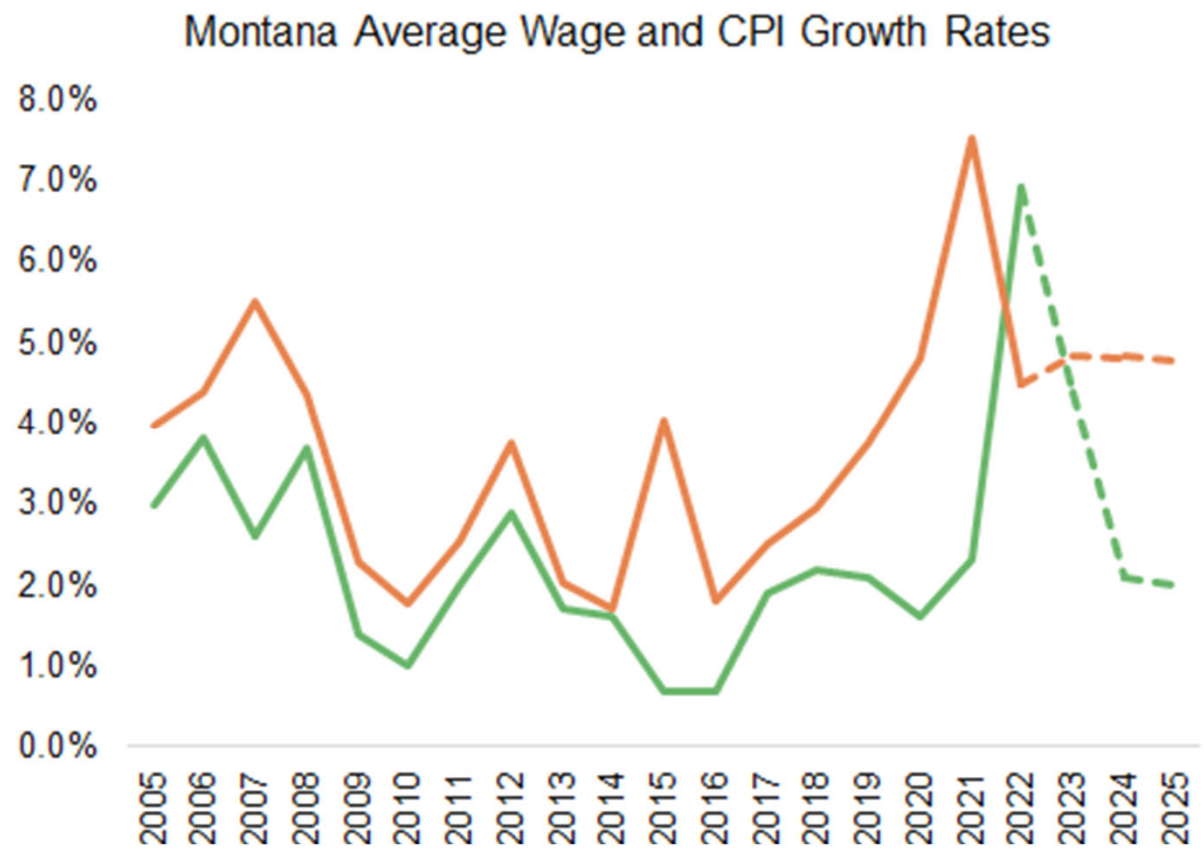
- I H S anticipates population growth to slow in FY 2023



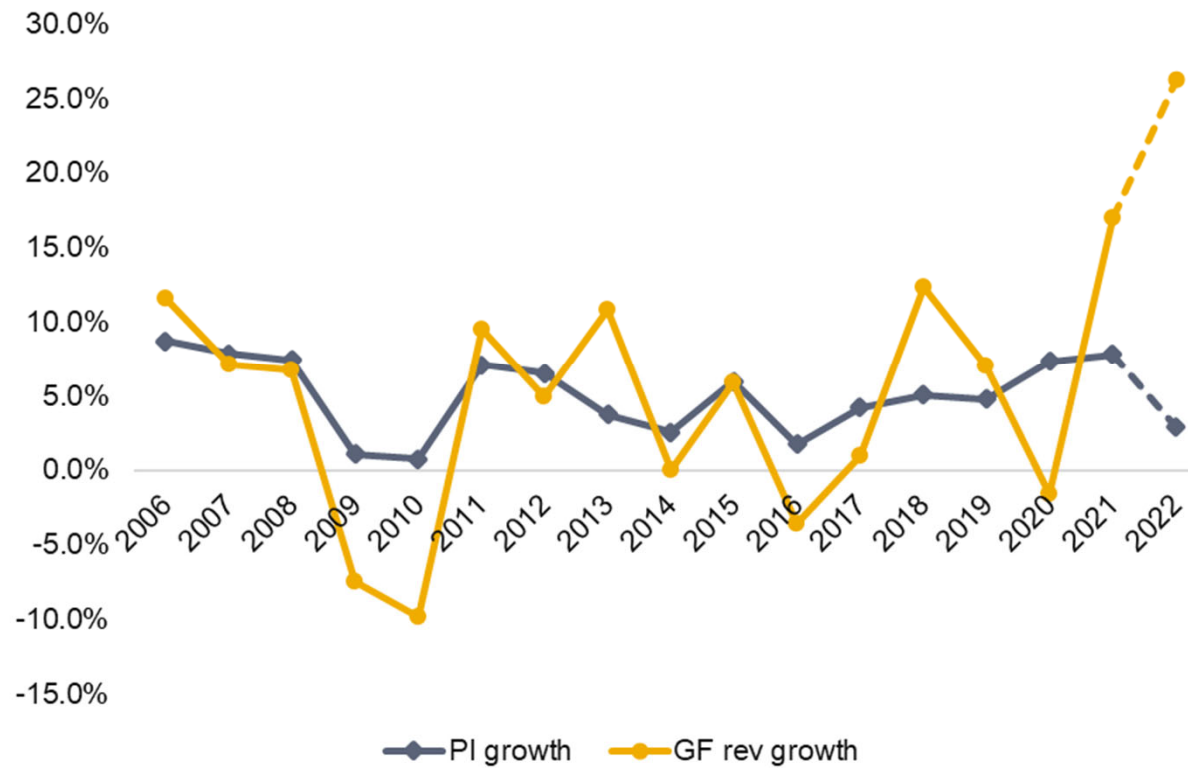
## Inflation Growth

- Current inflation significantly exceeds the Federal Reserve target range. The I H S Markit forecast suggests that inflation will slow in FY 2023 and return to within target range by FY 2024

## Wage Growth

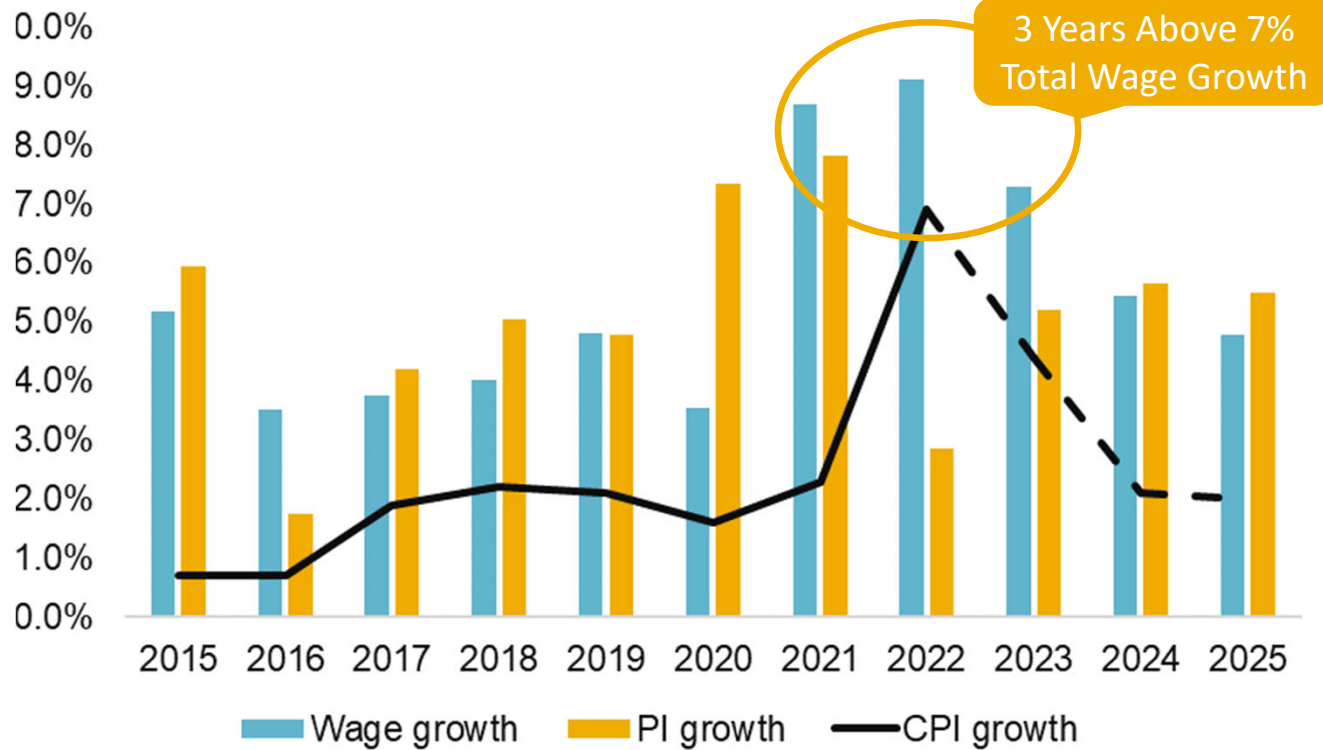


Growth Rates of Personal Income & General Fund Revenue



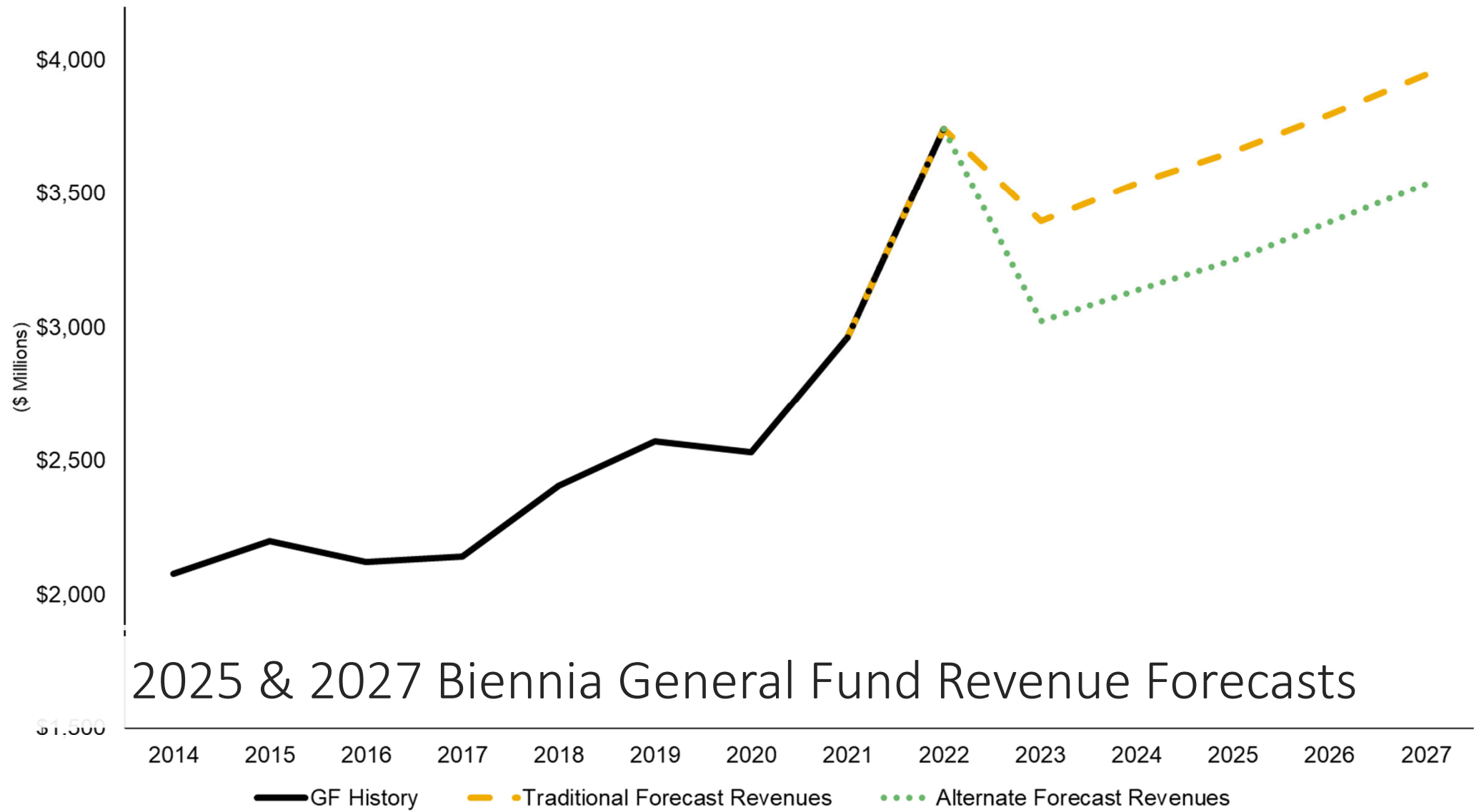
Personal  
Income  
Growth

Montana Total Wage and Personal Income Growth  
vs. CPI Growth

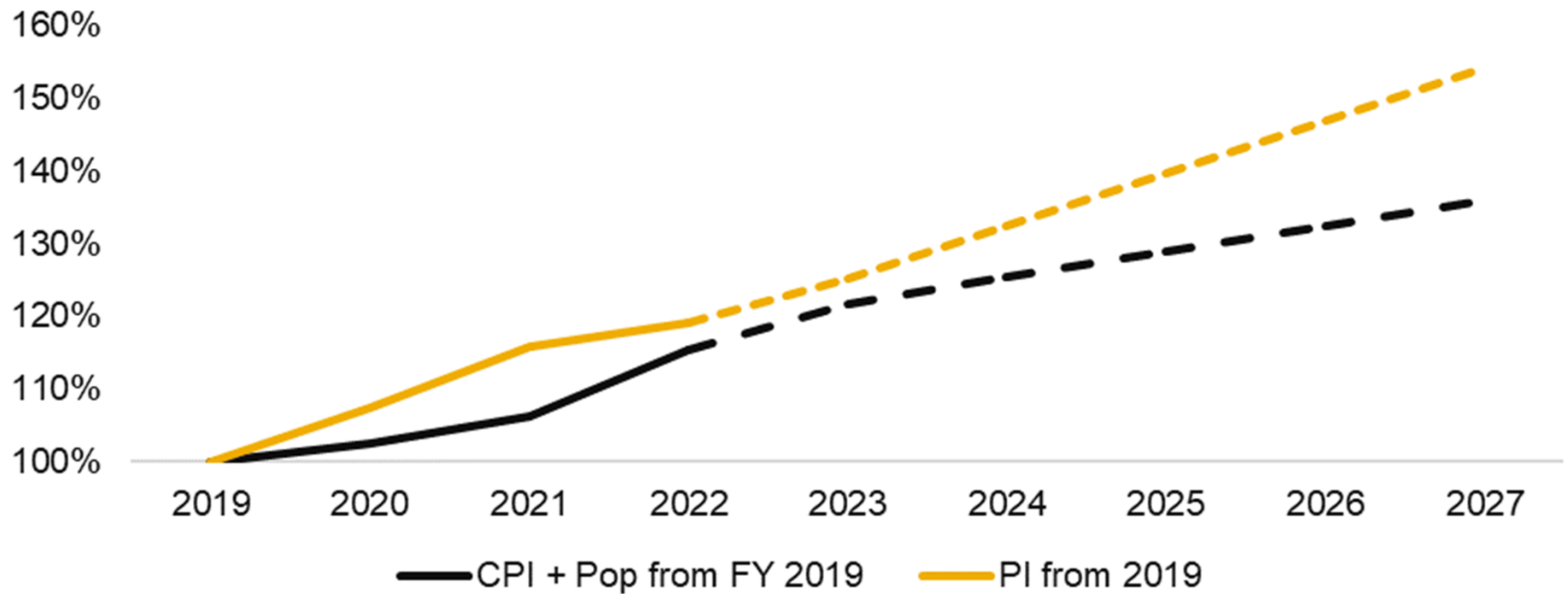


Wage &  
Personal  
Income  
Growth  
Compared to  
Inflation





Growth in CPI and Population  
Compared to Growth in Personal Income

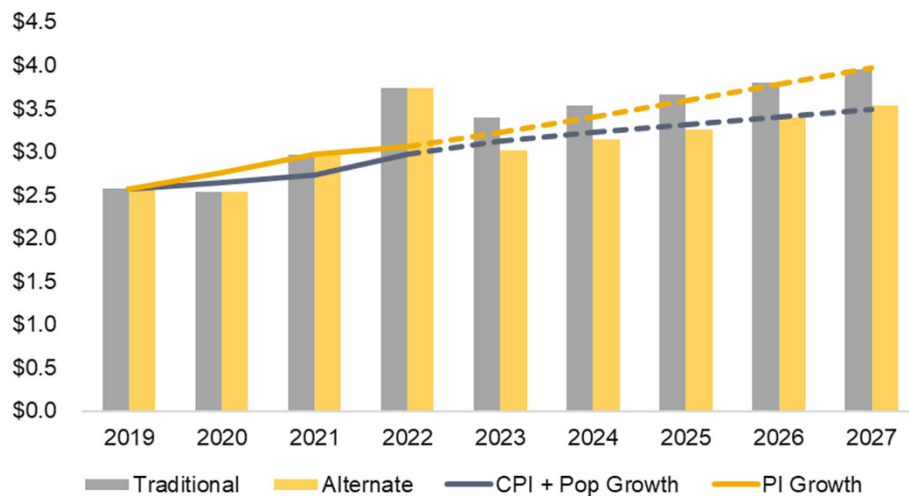


State Revenues and Personal Income Growth Usually in Tandem

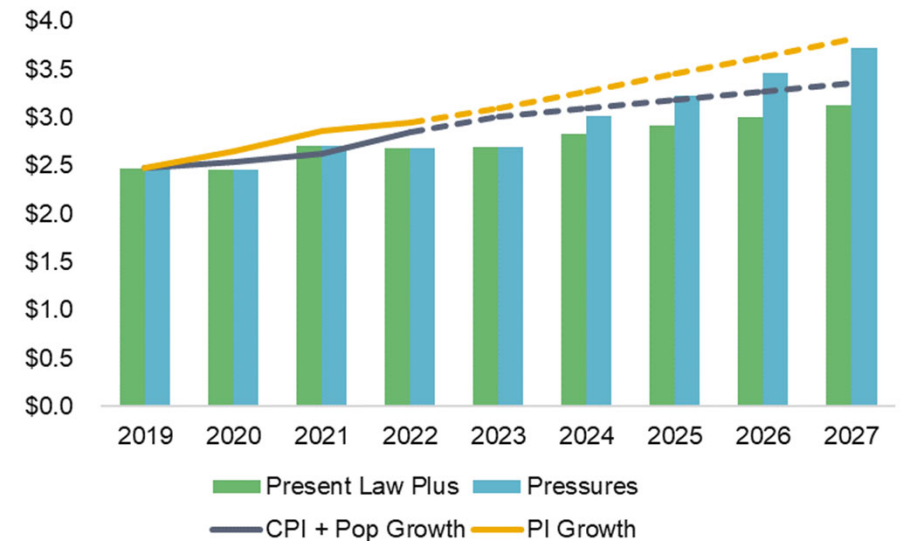
# Alternative Revenue Growth in Tandem with Inflation and Population

## Expenditure Forecast in Tandem with Growth in Personal Income

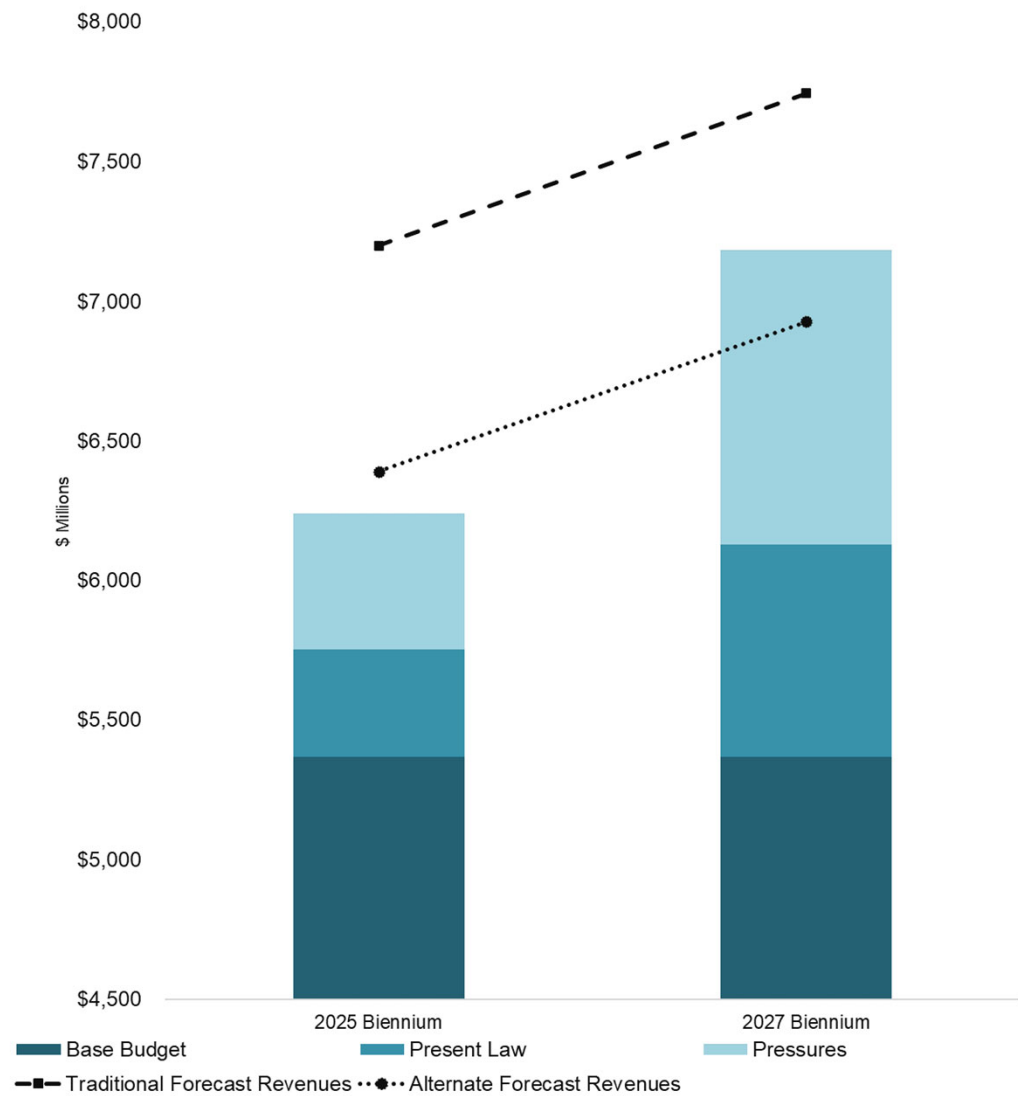
Comparison of Outlook Revenue to Forecasted Growth in PI and Population and Inflation (\$ Billions)

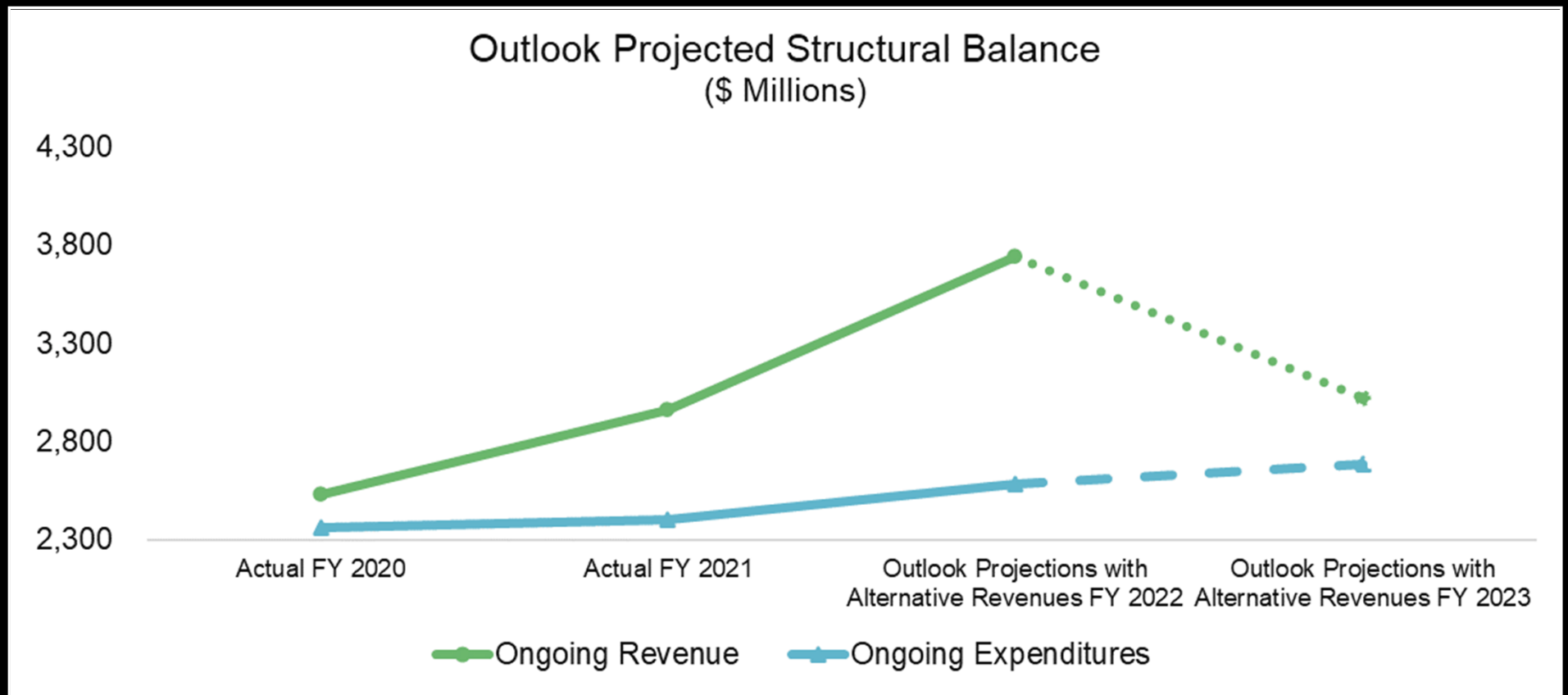


Comparison of Outlook Expenditures to Forecasted Growth in PI and Population and Inflation (\$ Billions)



## 2025 & 2027 Biennia Present Law Plus and Expenditure Pressures

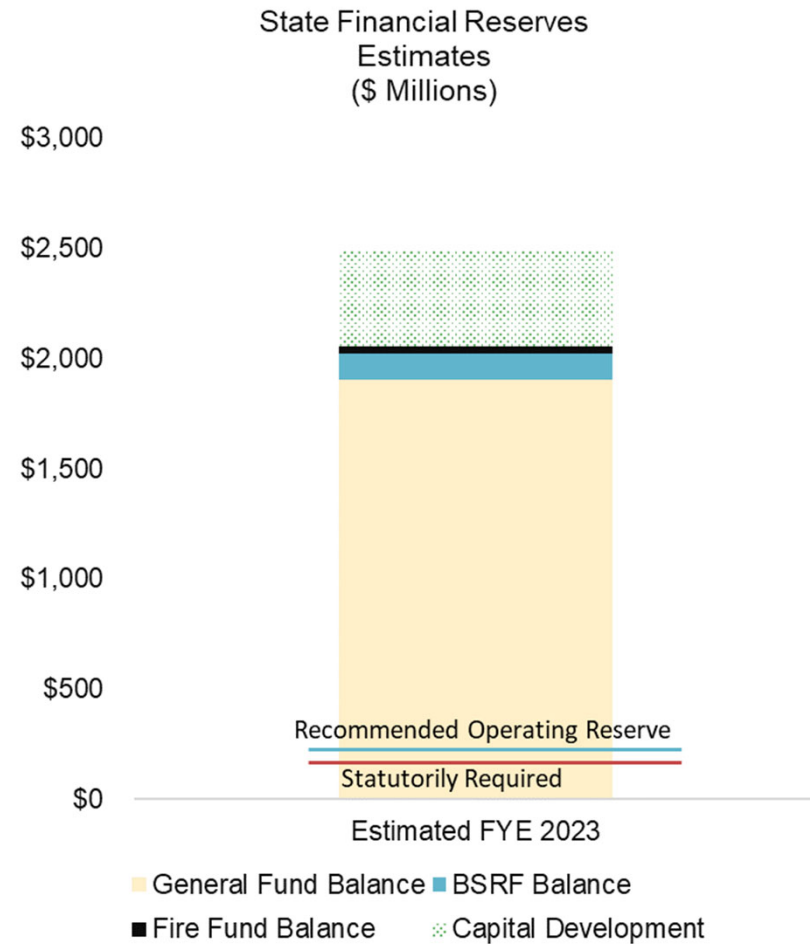




Inflated Revenues Short Lived & Structural Balance Narrows by FYE 2023

# State Financial Reserves Full

Hyper inflated revenues filled reserves



# 2025 Biennium Outlook Road Show

- Tour by region
- Amy Carlson meets with legislators & answers questions – some hybrid
- Session Preparation

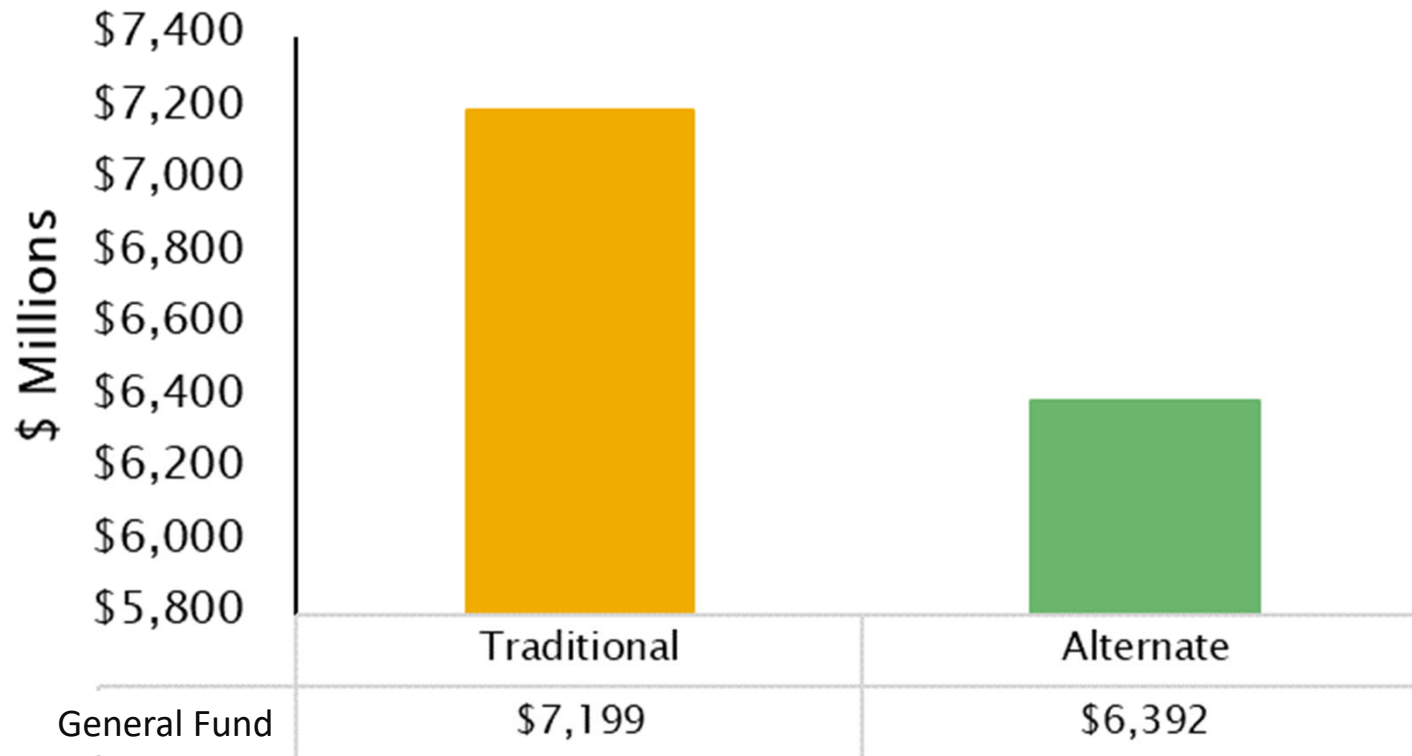
# Revenue Forecast

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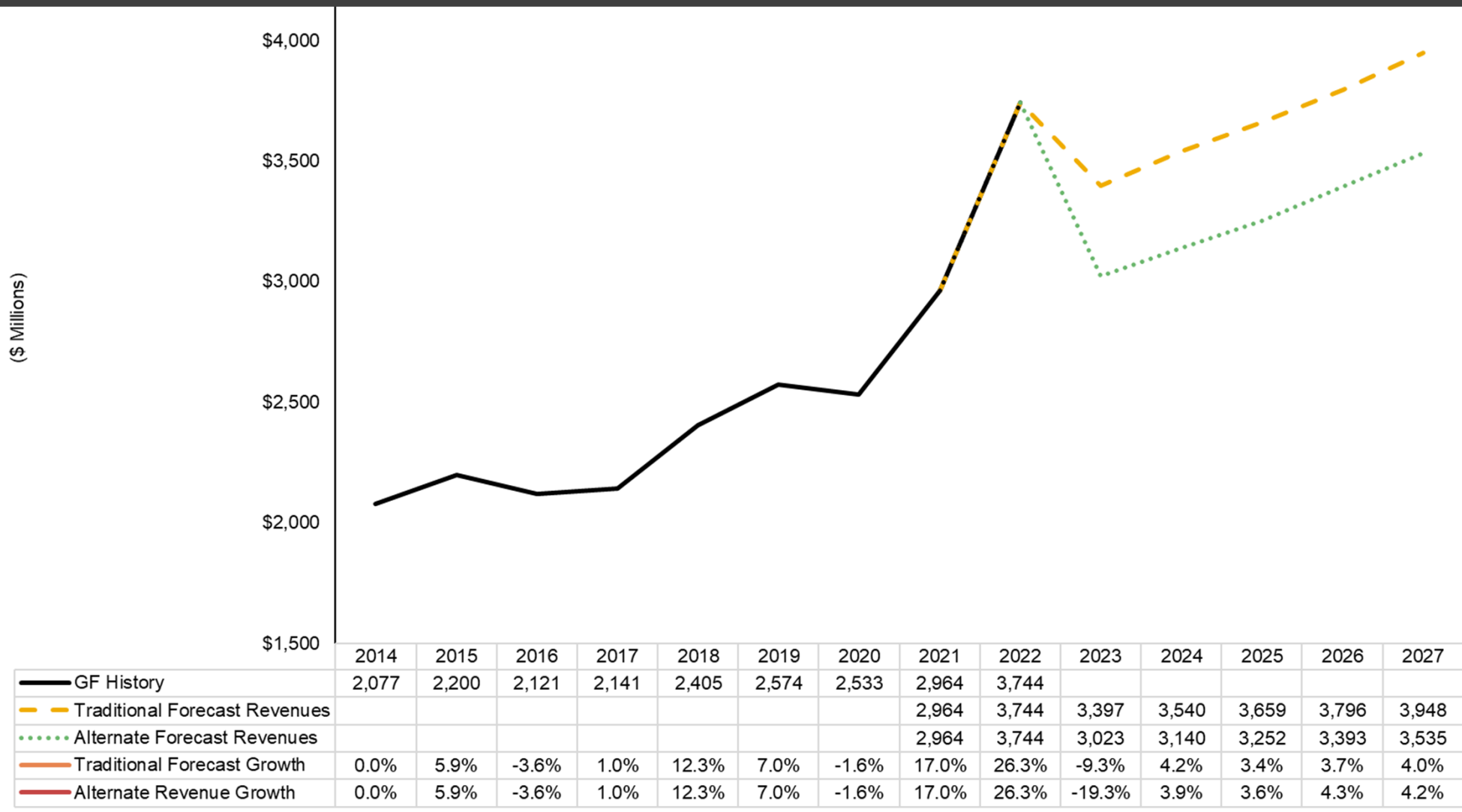
Sam Schaefer



## 2025 Biennium Revenue Scenarios



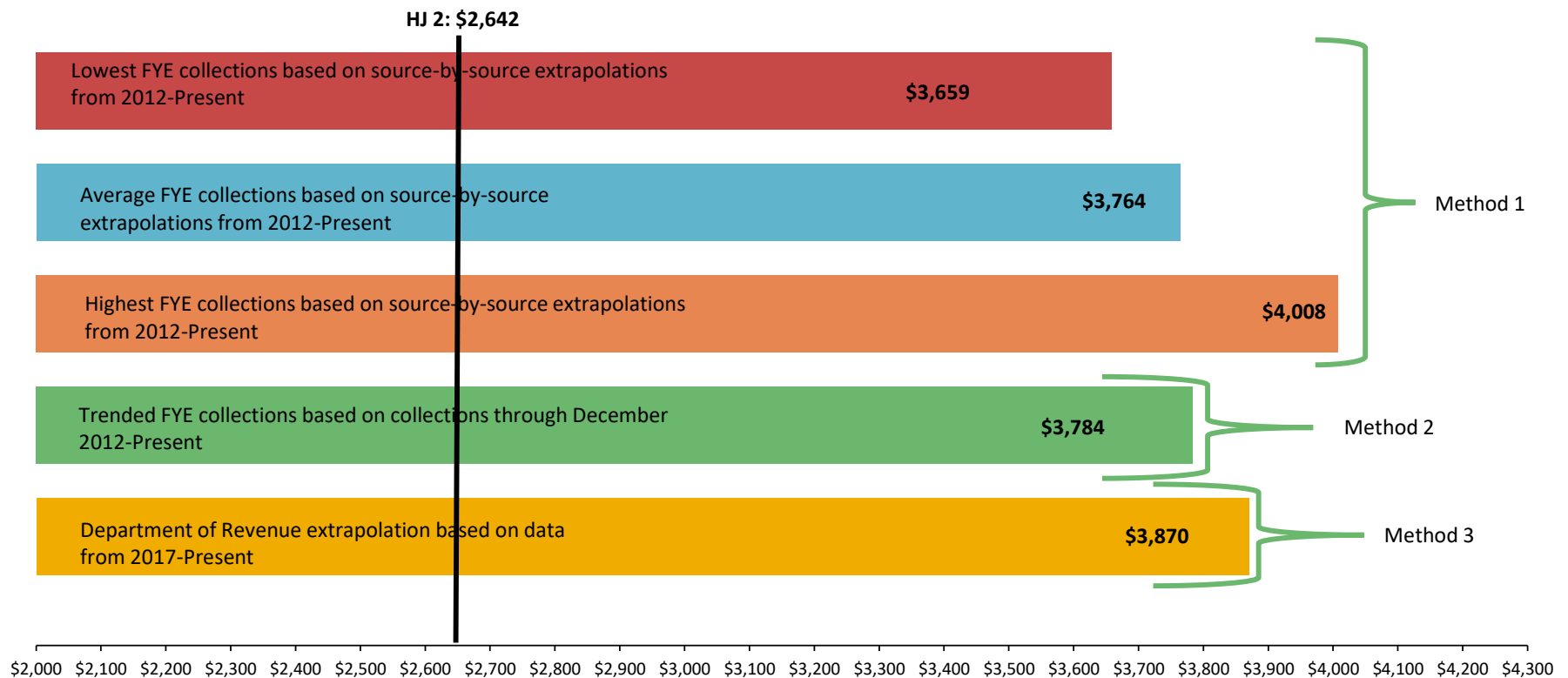
Traditional vs. Alternate Revenue Scenarios



# Year-to-Date Extrapolation (Through May)

To date, general fund revenues have grown \$735 million or 28.4% compared to this time in FY 2021.

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



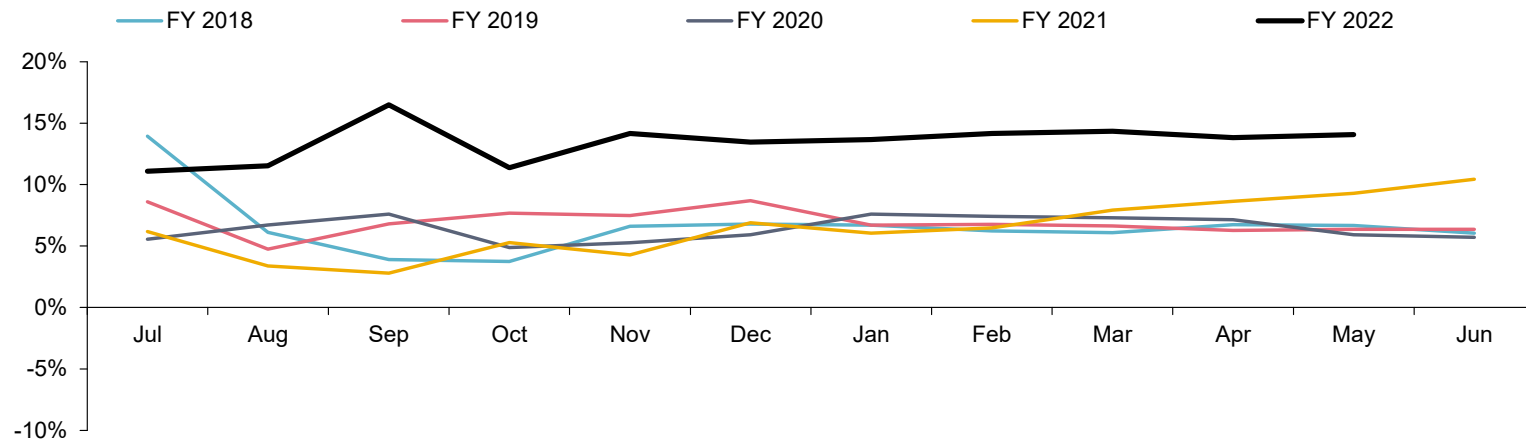
# Individual Income Tax

## Individual Income Tax (\$ Millions)

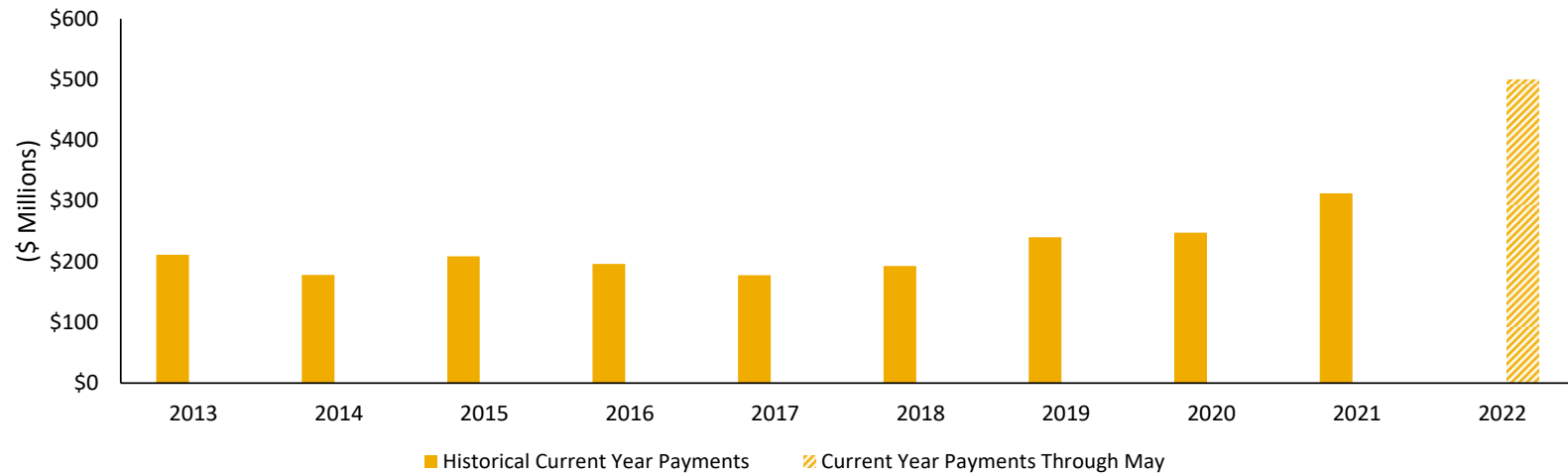
Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Withholding	\$1,246.4	\$1,092.8	\$153.6	14.1%
Estimated Payments	491.9	368.5	123.4	33.5%
Current Year Payments	499.4	291.2	208.2	71.5%
Audit, P&I, Amended	58.1	47.0	11.1	23.7%
Refunds	(96.4)	(152.0)	55.6	-36.6%
Partnership Income Tax	114.4	69.5	44.9	64.6%
Mineral Royalties	10.5	6.2	4.2	67.4%
Total	2,324.2	1,723.1	601.1	34.9%

Individual Income Tax is responsible for \$601 million, or nearly 82% of the total general fund growth this year of \$735 million.

### Cumulative year-over-year withholding growth continues to be strong



### Individual Income Tax Current Year Payments



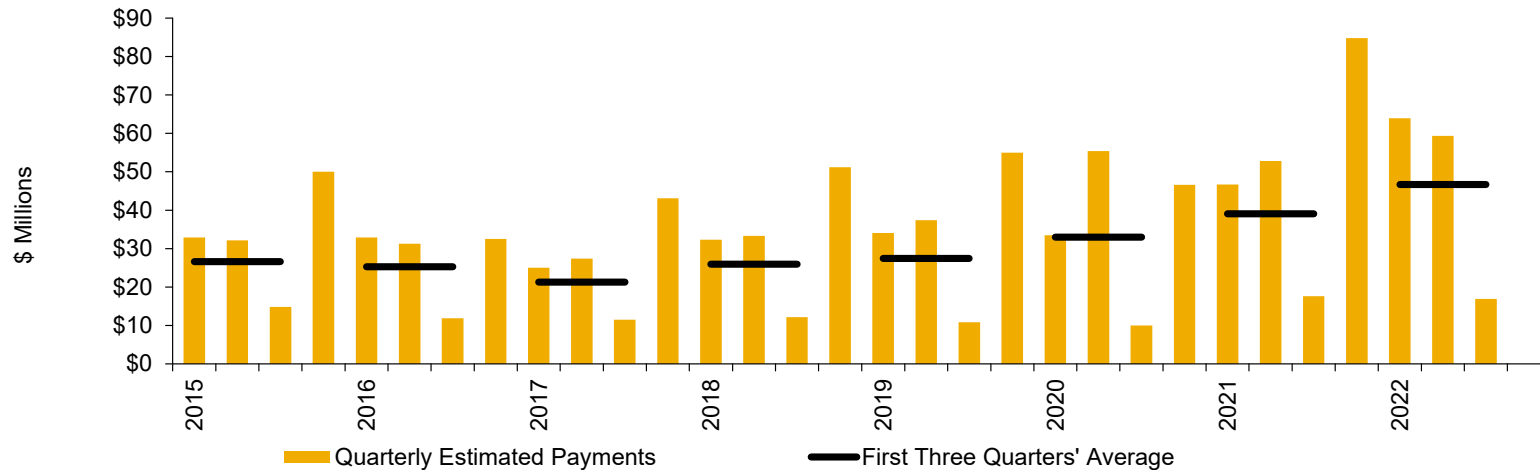
# Corporate Income Tax

## Corporate Income Tax

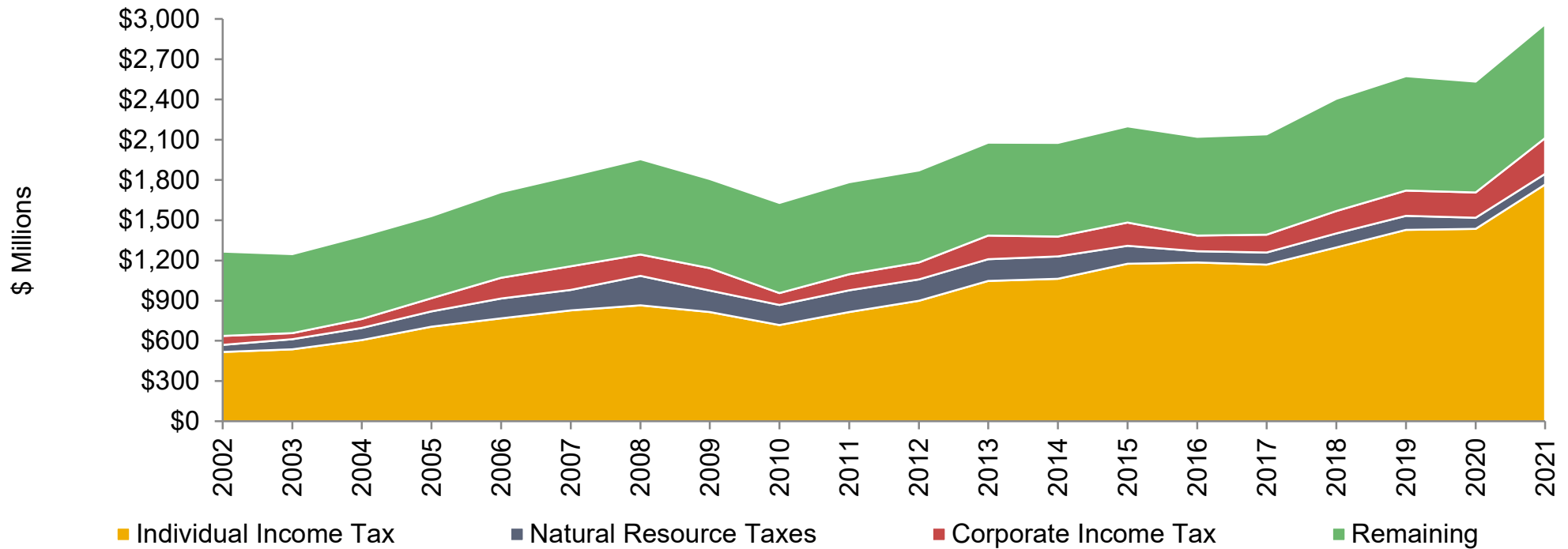
(\$ Millions)

Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Corporation Tax	\$71.5	\$75.8	(\$4.3)	-5.7%
Estimated Payments	\$182.5	\$155.0	27.6	17.8%
Refunds	(15.9)	(19.3)	3.4	-17.7%
Audit, P&I, Amended	15.2	9.7	5.5	56.5%
Total	\$253.4	\$221.2	\$32.1	14.5%

Corporate Estimated Payments by Fiscal Year Quarter



General Fund Revenue by Fiscal Year



### Long-Term Risk

- Increasing individual income tax reliance as shown in the graphic. Grew at an average annual rate of 6.7%
- All other sources grew an average 2.5% over same time period

# Expenditures

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Quinn Holzer and Katie Guenther



# Present Law Plus & Pressures Table

General Fund Expenditure Present Law+ & Pressures 2025 Biennium Outlook  
(\$ Millions)

	Present Law+	Pressure	Total
<b>All Agencies</b>	<b>198.5</b>	<b>\$197.4</b>	<b>\$395.9</b>
Pay Increases for Wage Inflation (catch-up+~2% & 7%)	91.1	78.1	169.2
Fixed Cost Inflation (catch-up+~2% & 7%)	74.2	39.0	113.2
Provider Rate Increases for Wage Inflation (~2% & 7%)	24.0	68.4	92.4
Caseload Adjustments (for Sections B and D)	9.2	9.9	19.1
Personal Services Contingency	0.0	2.0	2.0
	<b>Present Law+</b>	<b>Pressure</b>	<b>Total</b>
<b>A - General Government</b>	<b>49.7</b>	<b>41.5</b>	<b>91.2</b>
Capital Development Transfers, Major Main. & Debt Service	31.4	0.0	31.4
Entitlement Share Increase to Local Governments for Inflation (statute/7%)	10.8	22.3	33.1
Employer Pension Contribution Increase (1%)	0.0	5.9	5.9
Pensions Compensation Inflation Increase (actuarial eval/7%)	6.6	7.1	13.7
Legislative Branch (includes HB 1)	1.1	3.3	4.5
Department of Commerce Economic Development	0.0	2.3	2.3
All Other	(0.3)	0.5	0.2
<b>B - Public Health and Human Services</b>	<b>30.1</b>	<b>4.0</b>	<b>34.1</b>
Behavioral Health Center		4.0	4.0
Montana State Hospital	16.3		16.3
Clawback	13.8		13.8

- Inflation impacts across multiple agencies are included in the top section
- Section information is specific to those agencies

General Fund Expenditure Present Law+ & Pressures 2025 Biennium Outlook  
(\$ Millions)

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Present Law Plus &  
Pressures

ALL Agencies

- Catch up inflation – the difference between current inflation and the inflation budgeted in the 2021 Session for the 2023 Biennium
- Provider Rates and Caseload Adjustments impact Health and Human Services, Corrections, and Public Defender

	Present Law+	Pressure	Total
A - General Government	49.7	41.5	91.2
Capital Development Transfers, Major Main. & Debt Service	31.4	0.0	31.4
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Department of Commerce Economic Development	0.0	2.3	2.3
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## Present Law Plus & Pressures

### General Government

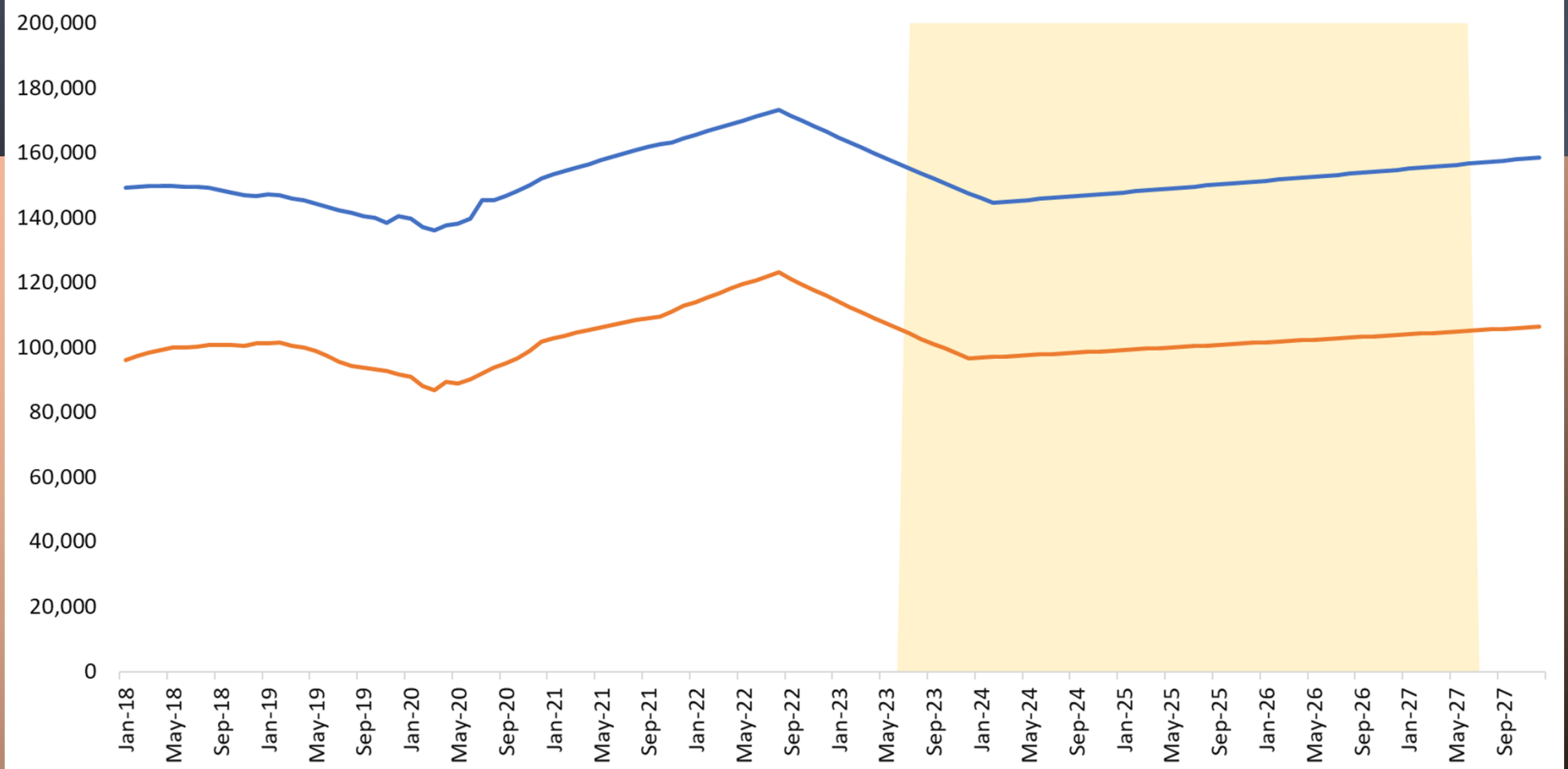
- Capital Development Transfers based on revenue collections
- Present law for entitlement share is based on statute. Pressure to increase for inflation

# Public Health and Human Services

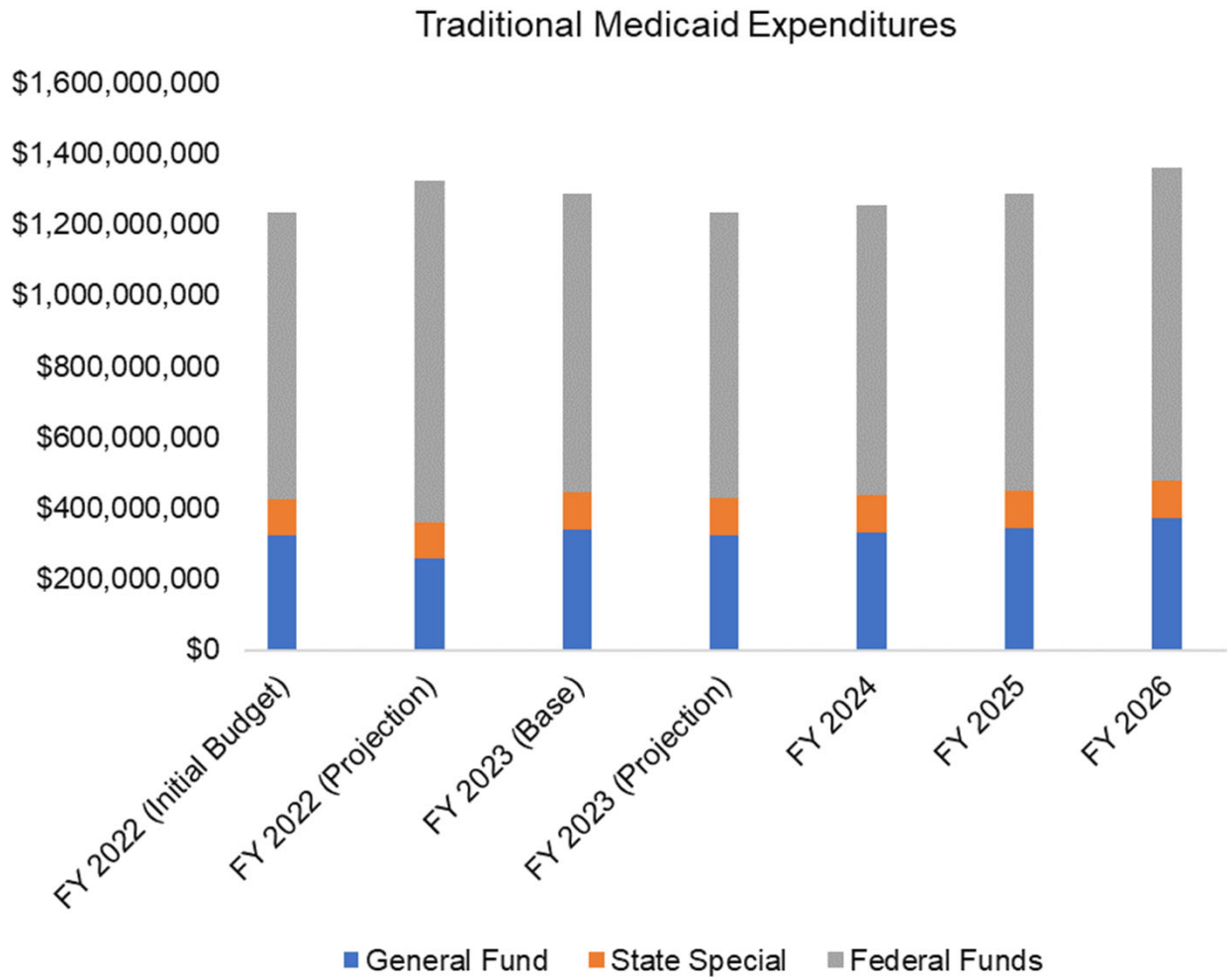
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Josh Poulette

Medicaid Enrollment Projection: FY 2023-FY 2027

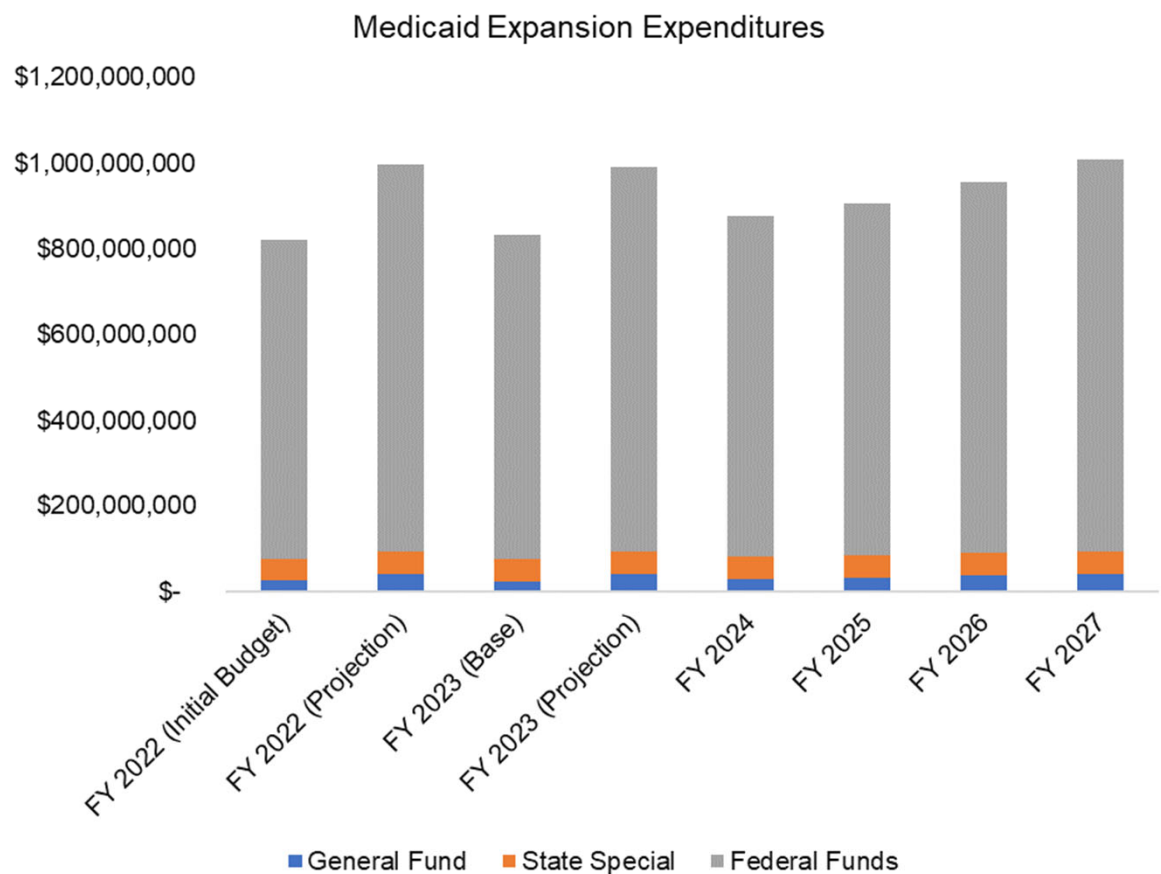


# Traditional Medicaid

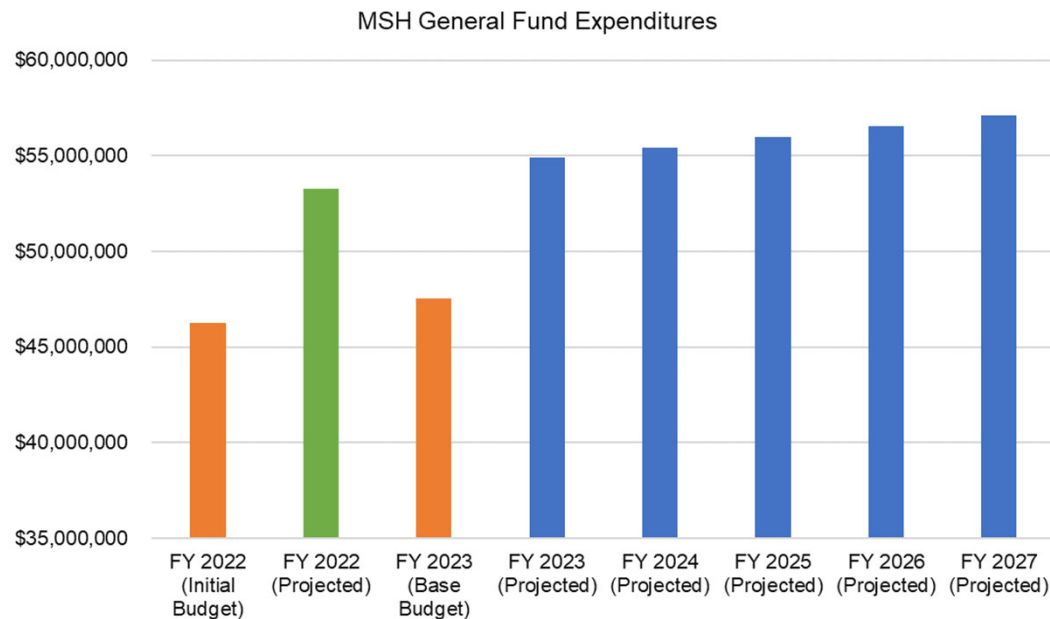


# Medicaid Expansion

- Medicaid expansion expenditures grew due to increased enrollment tied to federal COVID-19 policy limiting the state's ability to redetermine Medicaid eligibility
- Once COVID-19 Public Health Emergency is lifted, the state will redetermine eligibility



# Montana State Hospital Expenditures



- Expenditures are up due to increased use of contracted staff
- Expenditures projected to grow in the next to biennia



# Fires and Natural Resources

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Rob Miller

# Fires and Natural Resources

- Assuming average revenues and expenditures over the last ten years, revenues would not be sufficient to cover expenditures
- \$14.2 million for average fire costs for the 2025 biennium
- \$81.4 million for the extreme fire costs for the 2025 biennium
- General Fund transfers supply ongoing revenue replacement for some natural resources state special funds

	Present Law+	Pressure	Total
C - Natural Resources	15.4	84.8	100.2
Wildland Fire Suppression	14.2	81.4	95.6
General Fund Revenue Replacement (includes water adjudication)	0.0	3.1	3.1
All Other	1.2	0.2	1.5

# Corrections & Public Defender

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Cathy Duncan



## Corrections and Public Defender

Increased pay for  
lawyers, contracted  
lawyers, and  
correctional officers to  
recruit and retain

Anticipated caseload  
growth in OPD and  
Corrections will result  
in additional costs

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# K-12 Education

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Julia Pattin

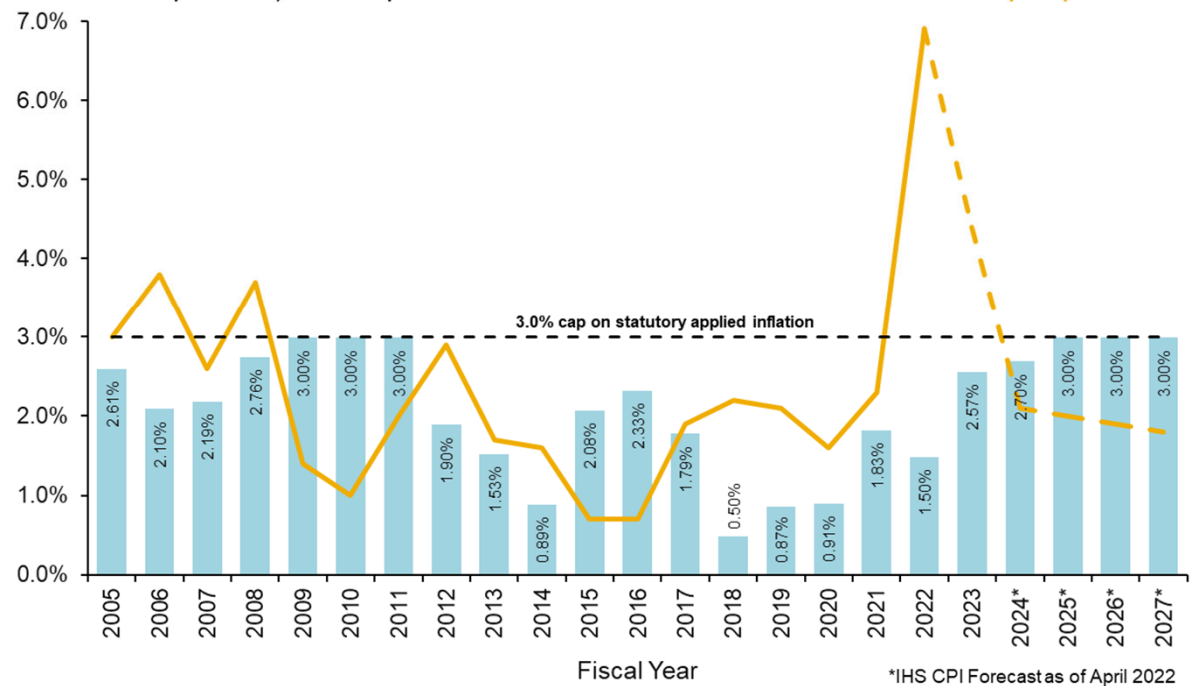
## Present Law Growth

OPI Present Law Detail (\$ <i>in millions</i> )	
Component	Growth
BASE Aid (Inflation & ANB Growth)	70.5
Advanced Opportunities (2019 Session)	2.3
Transformational Learning (2019 Session)	0.5
All Other	2.5
Total (Including BASE Aid)	\$75.8

# K-12 Inflation

- FY 2024 inflation = 2.70%
- FY 2025 inflation = 3.00%

**Present Law Statutory Applied Inflation** (Basic Entitlements, Per ANB, and State Funded Components) as compared to **Growth in the Consumer Price Index (CPI)**

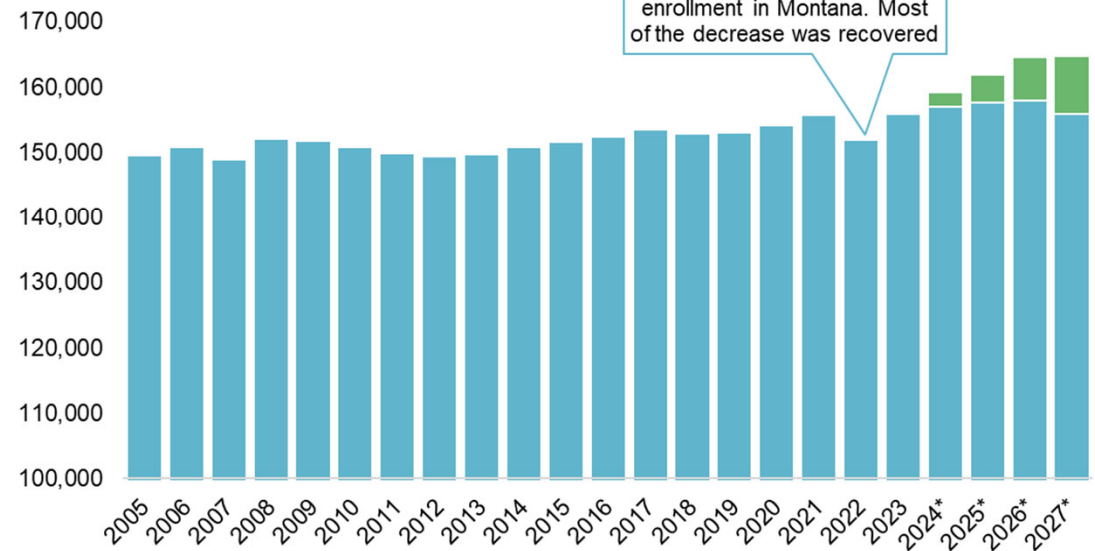


# Enrollment Trends (ANB)

- FY 2024 = 1.38% growth
- FY 2025 = 2.85% growth

**K-12 enrollment (ANB)** is expected to grow moderately over the next two biennia. If **enrollment (ANB) returns to pre-pandemic growth** levels, it may add additional pressure to the budget.

*Note that the scale on this chart does not begin at zero.*



\*Based on projections from May 2022



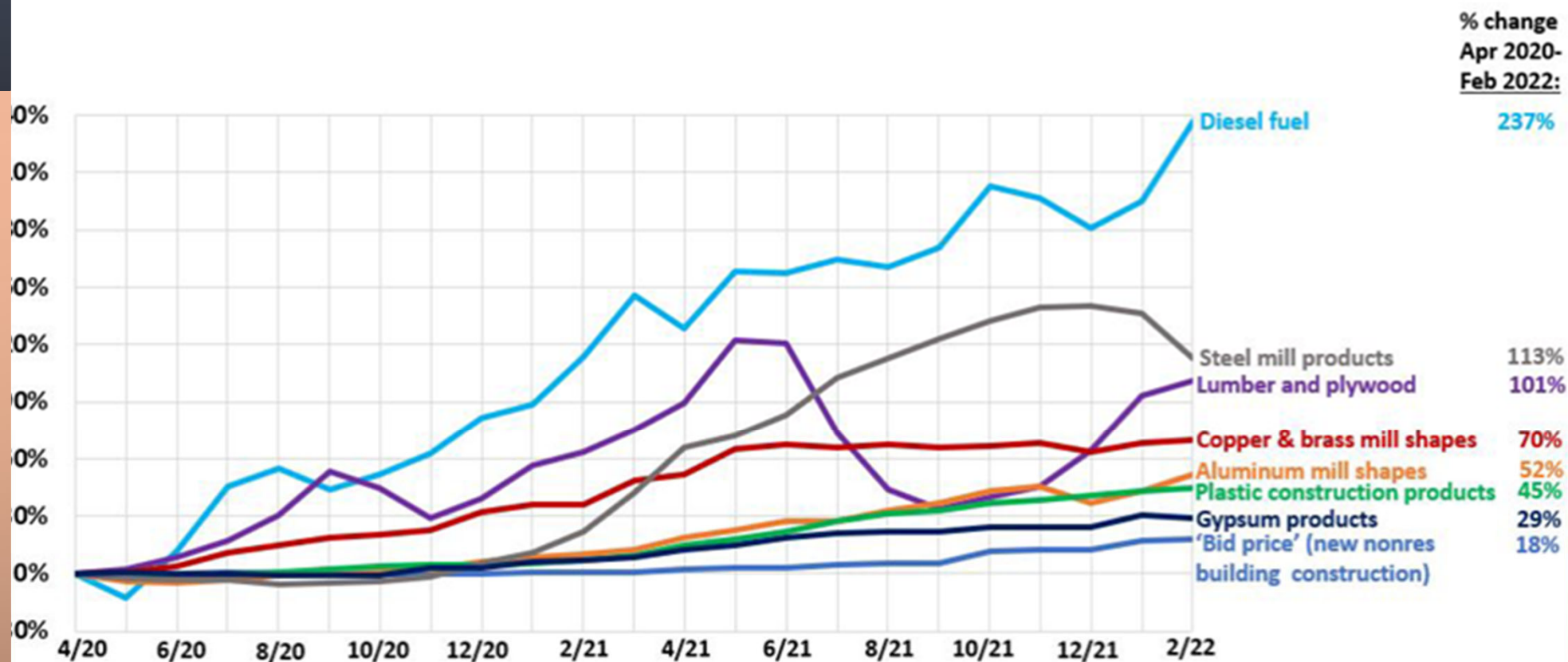
# Infrastructure

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Joe Triem

## PPIs for construction bid prices and selected inputs

cumulative change in PPIs, April 2020–February 2022, not seasonally adjusted



Source: Bureau of Labor Statistics, producer price indexes, [www.bls.gov/ppi](http://www.bls.gov/ppi)

# Capital Development Fund

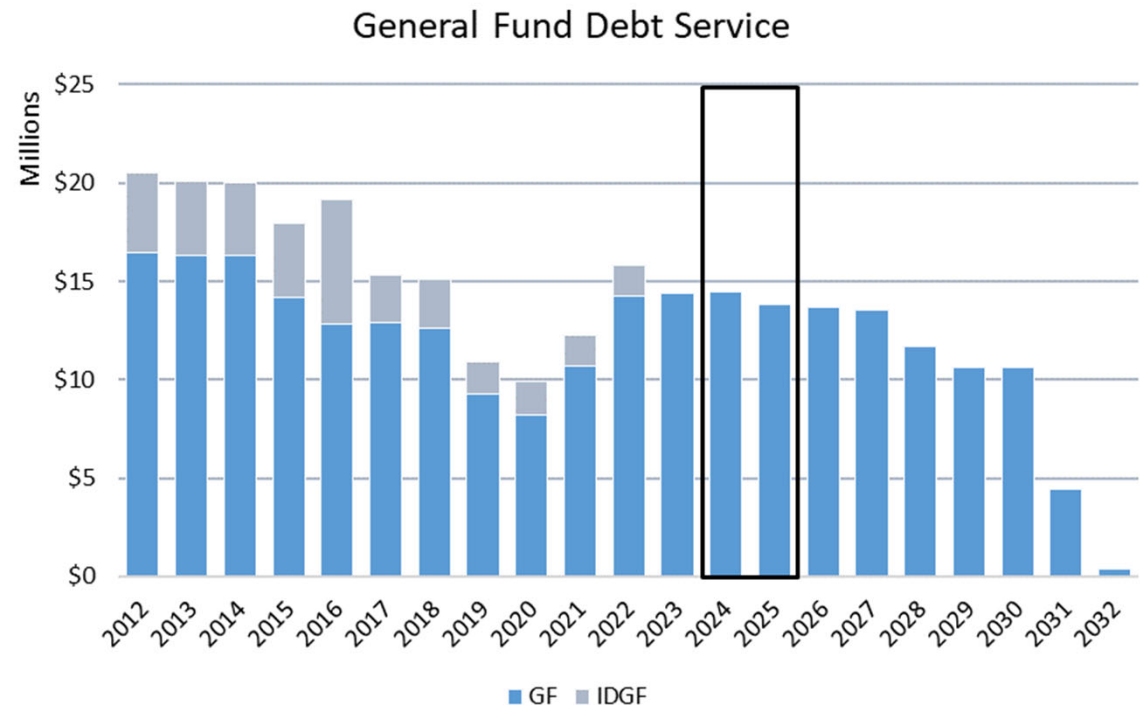
## Pressure for Capital Development Funds

- Materials Cost Increases
- Supply-Chain Disruptions
- Tight Labor Market

Further Impacts - Reduced scope of projects & temporary delays

# Debt Service Update

- Tax supported debt is low compared to other states
- General Fund (GF) obligation to debt service is projected to average \$14.2 million a year
- General Fund Indirect (IDGF) obligation to debt service is projected to be fully paid off in FY 2022



# Session Planning

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Amy Carlson

# Update Volatility Analysis

- For September LFC meeting
  - Update his statistics from 2018 and add some additional work that looks back (to maybe the 90s) that adjusts for population and inflation
  - Review the policy work done in 2018 and update as necessary
- For November RIC
  - Evaluate the anticipated negative bounce anticipated in FY 2023 and or FY 2024 for the revenue estimate
  - Provide longer term trend analysis for FY 2025 - FY 2027



End