



# 2025 Biennium Budget Analysis

Statewide Perspective

**LEGISLATIVE BUDGET ANALYSIS  
2025 BIENNIUM  
VOLUME 1 – STATEWIDE PERSPECTIVES  
GOVERNOR GIANFORTE’S BUDGET PROPOSAL**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION  
TO THE SIXTY-EIGHTH LEGISLATURE  
DECEMBER 2022**

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## **Acknowledgements**

The Legislative Budget Analysis report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and fiscal policy information and advice to the legislature. Director Carlson thanks all that assisted in its completion.

For information on this report and others, contact the Legislative Fiscal Division at (406) 444-2986 or visit the division's website at: <https://leg.mt.gov/lfd/>

The LFD is located in Room 110, State Capitol, Helena, MT.



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

December 2022

Members of the Sixty-Eighth Legislature:

I submit for your consideration the high-level analysis of the Governor's proposed state budget for the 2025 biennium.

The Legislative Fiscal Division works for you, the legislators of Montana. We have no partisan alliance and seek to deliver high quality information and analysis of fiscal issues. A significant quantity of additional information is available online at our general website: <https://leg.mt.gov/lfd/>. Some specific resources that you may be interested in are reports on specific fiscal issues presented to the Legislative Finance Committee and other committees over the interim. Reports on new resident individual income tax trends, on options to further stabilize state financial volatility, and dynamic fiscal note analysis were some of the key areas researched this interim. Interactive data tools built for legislator use included an interactive budget tool, a cost-of-living analysis, tools updated for Montana's changing demographics, and a collaborative project that brought data from across Montana together and provided an interactive glimpse future trends. The interactive tools are found on the Legislative Fiscal Division's website <https://leg.mt.gov/lfd/budget-tools/>

In addition to this analysis, the LFD has access to the collaborative data, the state accounting system and other resources for researching specific fiscal questions. If a fiscal question arises, please feel free to contact either myself or any member of our staff to help answer your questions. Reach us through Microsoft Teams or via e-mail. A staff listing can be found at the following: <https://leg.mt.gov/lfd/staff-page/>

We look forward to working with you all during the 2023 Session.

Sincerely,

A handwritten signature in black ink, appearing to read "Amy Carlson".

Amy Carlson  
Legislative Fiscal Analyst  
Director, Legislative Fiscal Division

## OVERVIEW

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2025 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by providing perspectives on the state's fiscal condition and the budget proposed by Governor Gianforte for the 2025 biennium and identifying some of the major issues now facing the Legislature. As such, this document is intended to complement the entire Legislative Budget Analysis – [2025 Biennium online](#), which contains LFD's review of the 2025 Biennium Executive Budget by state agency and revenue estimates. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2025 Biennium reports the results of LFD's detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this document presents a broader, statewide, fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. This report provides an updated general fund balance sheet, projects the general fund structural balance, compares biennial appropriations, and includes a summary of anticipated ongoing general fund revenues, ongoing present law expenditure requirements, including budget risks and budget pressures.

This volume is divided into five parts:

- Executive Summary - provides a short summary of the Legislative Fiscal Analyst's analysis of the proposed executive budget and the state's fiscal condition
- State Revenues - provides a review of the revenue assumptions adopted by the Revenue and Transportation Interim Committee
- State Expenditures - provides an overview of the Governor's state expenditure plan for the 2025 biennium
- Cost Pressures - highlights key underlying assumptions in revenues and expenditures, and also details some of the pressures that the legislature may face in the upcoming session
- Appendix - documents that provide additional information

## LEGISLATIVE BUDGET ANALYSIS - 2025 BIENNIUM

### REVENUE ESTIMATES

The revenue estimates are a detailed reference of the state's major revenue sources and is available online. It provides the highlights of the underlying economic assumptions used in the revenue estimate adopted by the Revenue and Transportation Interim Committee, as well as historical collections and distributions for each revenue source. Also included are statutory references and estimate methodologies.

### BUDGET ANALYSIS

The Budget Analysis offers detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Section A – General Government
- Section B – Health and Human Services
- Section C – Natural Resources and Transportation
- Section D – Judicial Branch, Law Enforcement, and Justice
- Section E – Education
- Section F – Long-Range Planning

## OTHER USEFUL LINKS

In addition to the Legislative Budget Analysis prepared for session, there are other financial documents online:

[Understanding State Finances](#)

[HB 2 Guide](#)

Legislative Finance Committee Reports

- 2025 Biennium Budget Proposal Interactive Tool
- Personal Services Proposal Interactive Tool
- Global Motions – December 2022

## FOCUS ON GENERAL FUND

While there are many different funds that make up Montana's state finances, the general fund is the main fund used for state government operations. It is the primary measure for state finance and is the focus for the overview of the budget presented in this report.

# SUMMARY OF THE GENERAL FUND FINANCIAL CONDITION AND RISK ANALYSIS

The state financial position is very strong. The large reserve balances and structural balance (ongoing revenue less ongoing expenditures) are both large and unprecedented. Revenues flowing into the state are tied to the economy. Revenues increase and decrease with the economy automatically, like the water flowing into a dammed reservoir. Expenditures are only released by an appropriation from the legislature.

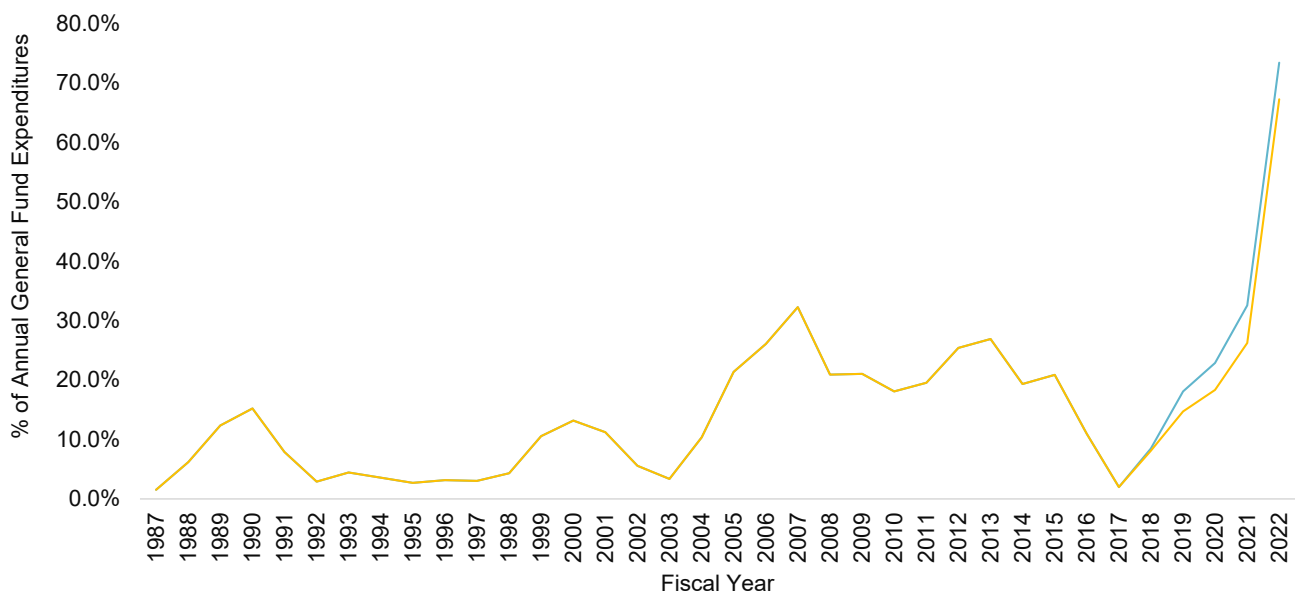
The legislature acts on behalf of the citizens to determine how to manage, invest, or redistribute these funds. While this is always a significant role of the legislature, with this level of funds, balancing the needs of current and future Montanans through uncertainty is an extraordinary task. Please see the risk management section for more information.

The two-primary means of measuring general fund health are structural balance and ending fund balance. Structural balance demonstrates the comparison between ongoing revenues and ongoing expenditures. Ending fund balance is the cash or fund balance available at the end of the fiscal year.

## STRONG BALANCES GOING INTO THE 2025 BIENNIUM

State financial reserves and the general fund balance is at unprecedented levels. The following chart shows that ending fund balance ranged from 1.0% to 32.3% of annual general fund expenditures until FY 2022, when fund balance was 67.3%. In addition to general fund balance, the state has other financial reserves that may be used in time of economic volatility. When considering general fund balance and the other financial reserves, the state reserves were 73.5% of annual general fund spending in FY 2022.

This chart demonstrates **general fund balance** and **all state financial reserves** as a percentage of annual general fund expenditures. In FY 2022, **all reserves** were 73.5% of annual general fund expenditures.

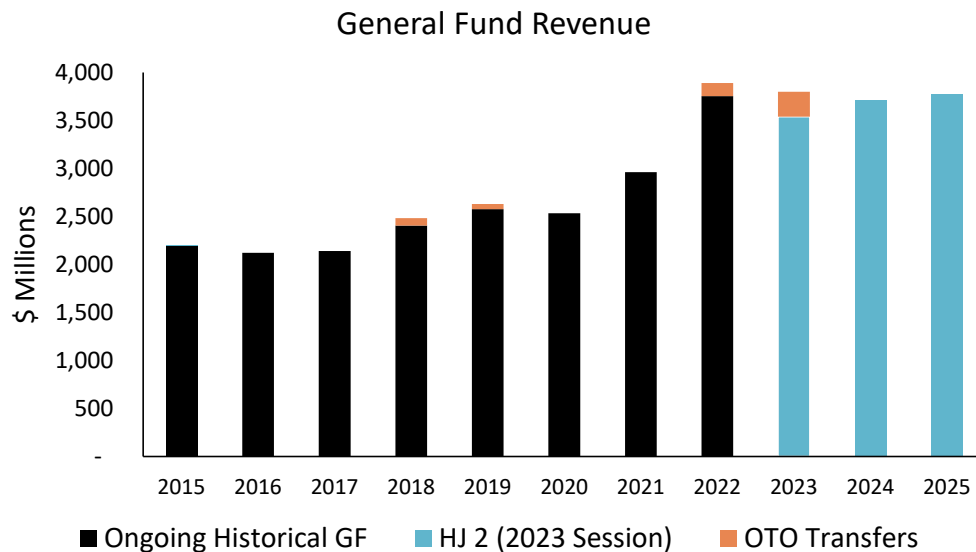


These strong balances will be key as the legislature chooses how to balance the competing needs and risks of the general fund budget.

## 2025 BIENNIUM GENERAL FUND REVENUES

Revenue collections have been extremely volatile in the past two years, and this volatility may continue into the upcoming biennium. General fund revenues grew by 17.0% and 26.7% in FY 2021 and FY 2022, which was significantly above the estimate adopted in HJ 2 (2021 Session), and they have remained strong into November of 2022.

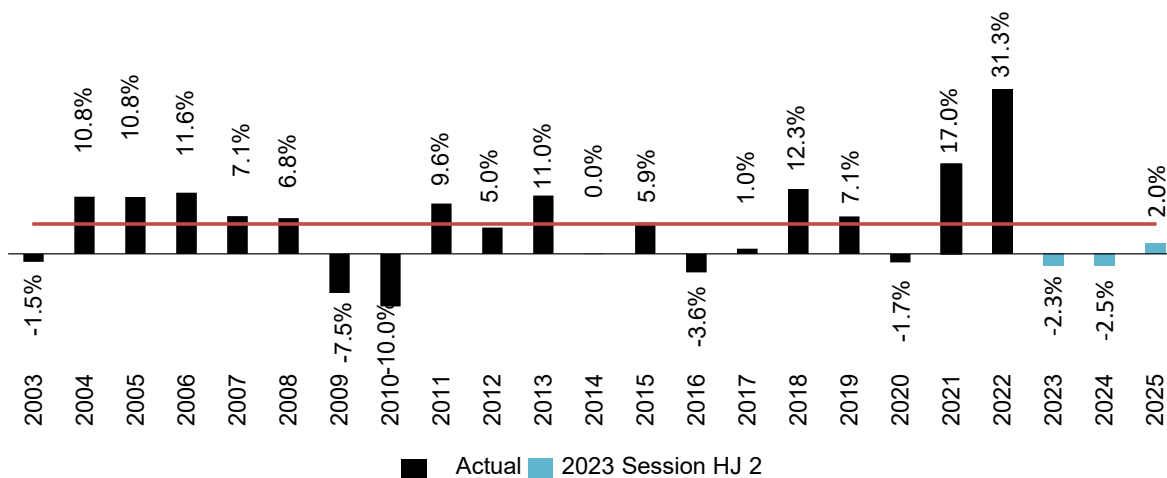
The level of revenue collected in FY 2022 is not expected to continue however, as shown in the figure below.



The drop in revenue over the upcoming biennium is primarily due to a projected decline in individual income taxes. The LFD believes a significant amount of collections in April of 2022 were OTO and will not continue into future years. Individual income tax is projected to decline by 15.0% in FY 2023 then slowly grow in FY 2024 and FY 2025. However, multiple sources, namely property taxes and TCA (Treasury Cash Account) interest earnings are projected to experience strong growth, and partially mute the decline in individual income tax. The figure below shows the adopted revenue estimate compared to historical revenue growth rates. Currently, the adopted HJ 2 revenues are anticipated to decrease from FY 2022 levels by 2.3% in FY 2023. Then, in the upcoming biennium revenues are expected to decline by 2.5% in FY 2024 and grow by 2.0% in FY 2025. All three years' estimates are below the long-term trend of 5.64% annual growth, as shown by the red line.



## General Fund Revenue Growth



As the following months ensue, the LFD will closely monitor the revenue picture as updated IHS forecasts and collection data becomes available. Given the extraordinary uncertainty with the current revenue picture, it is possible that revised forecasts from the LFD in the coming months may differ substantially from what was adopted in HJ 2. For additional information on the HJ 2, please refer to the LFD [2025 Budget Analysis](#), Volume 2 Revenue Estimates.

## Recession Risk

In recent months, the Federal Reserve Bank has targeted inflation by raising interest rates to trim consumer borrowing. Historically, when interest rates rise, recession risk elevates. Recent reports from IHS indicate that the economy will be in recession by the fourth quarter of 2022. According to the IHS October 2022 report, “Our base forecast now includes a mild recession from the fourth quarter of this year through the second quarter of next year.” While the revenues estimates adopted in HJ 2 include the mild recessionary risk in the IHS Markit forecast from November of 2022, the LFD will continue to monitor IHS reports and alert the legislature if IHS forecasts a further downturn in the economy.

## 2025 BIENNIUM GENERAL FUND EXPENDITURES

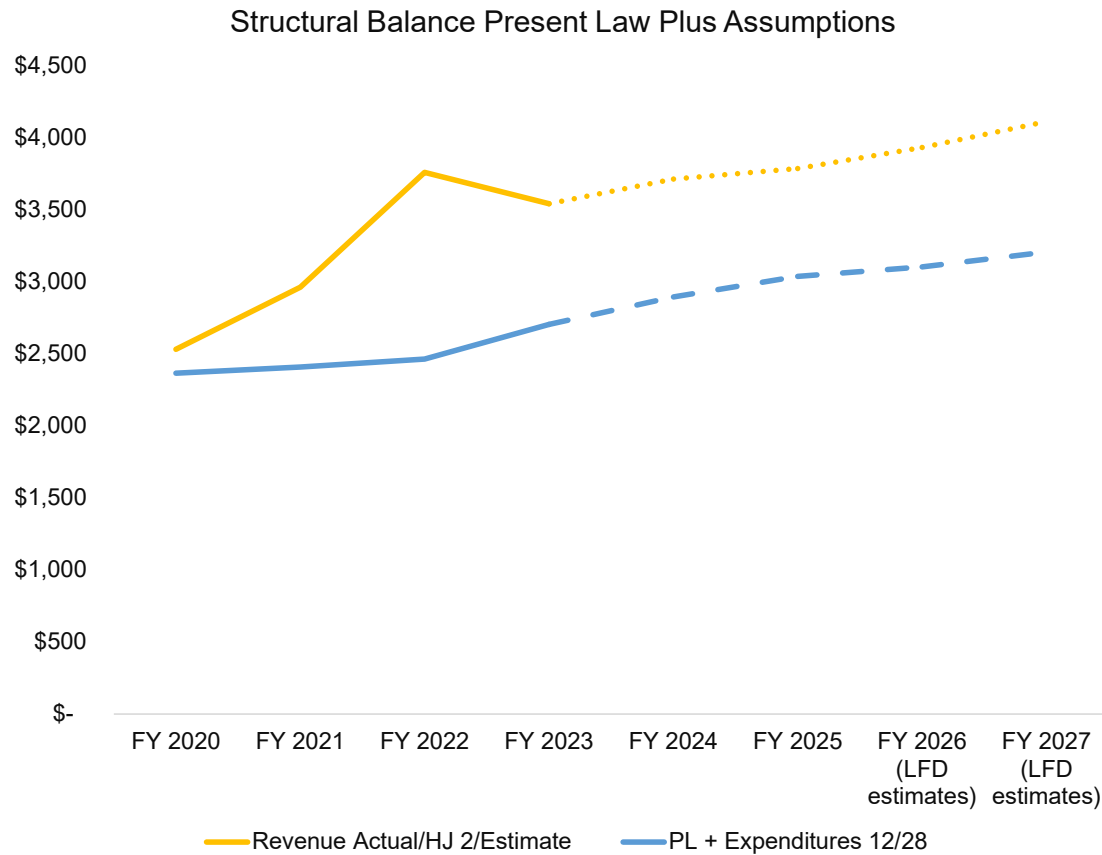
As a comparison to the general fund revenue forecast, the LFD is using a concept of “Present Law Plus”. Present law includes the cost of current state provided services adjusted for population and inflation. While budgeting techniques have evolved to include a subset of cost adjustments as present law, the do not fully account for population and inflation. The “Present Law Plus” in this analysis uses all adjustments in the Governor’s budget that are the result of population or inflation adjustments for “Present Law Plus”. Please note that it could be argued that the Governor’s Budget does not fully address inflation, and this will be addressed later in the report.

The “Present Law Plus” comparison provides a more accurate reflection of inflationary adjustments as well as one-time only in comparison to ongoing expenditures.<sup>1</sup>

<sup>1</sup> Present Law versus New Proposal:

Since the Montana Code Annotated includes inflationary or deflationary items in the description for present law base, this report re-categorizes the following new proposals as present law plus: 1) \$25.0 million general fund for the 2025 biennium for the provider rate pool in DPHHS; 2) rate increases for DPHHS providers at \$68.6 million general fund for the 2025 biennium; 3) \$34.7 million general fund for

In FY 2025, the year of focus for structural balance, the present law plus budget is structurally positive, meaning that HJ 2 general fund revenue estimates exceed present law plus expenditures by \$748 million. In a typical budget year, it would be \$0 or greater. The following chart illustrates.



While this revenue and expenditure forecast is very strong, the current economic conditions are cause for caution and a review of the risk analysis.

### **VOLATILITY RISK ANALYSIS**

The LFD re-examined general fund risk in the summer of 2022 and reported to the Legislative Finance Committee at the September 2022 meeting. The [report](#) suggested that higher reserve levels may be warranted under the current circumstances and illustrated various levels of risk associated with revenue volatility.

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the 2025 biennium in Corrections for provider rate increases, 4) capital development transfers negative \$47.3 million general fund. This better informs the legislature of present law plus inflationary like adjustments.

#### One-time-Only Reductions versus Ongoing

The DPHHS Provider rate pool, \$25 million general fund for the 2025 biennium was treated as an ongoing commitment by the LFD: The risk management and tort defense insurance rate holiday is treated as one-time-only by the LFD.

## Case for State Reserve Increases

The state uses financial reserves to cushion the impact of state revenue collections volatility. In September 2022 the Legislative Fiscal Division published an updated study on state general fund revenue volatility.

The key takeaways from the volatility study were the following:

1. Montana's revenue volatility is high and rising, largely due to reliance on income tax
2. Montana currently has very high reserve balances, mostly due to short-term revenue growth
3. Policymakers may wish to consider changes to the BSRF, fire fund, and other tools to further safeguard state finances against future revenue shortfalls

When budget deficits are projected, statute defines how expenditure reductions and the budget stabilization reserve fund (BSRF) and fire fund may be used. In FY 2021 and FY 2022, revenue collections far exceeded estimates and these reserve funds reached their statutory limitations or caps. Legislators may wish to consider adjustments to those limitations to allow for greater reserve balances. Incorporating well-designed fiscal rules and targets strengthen the state's reserves and improve the state's financial position.

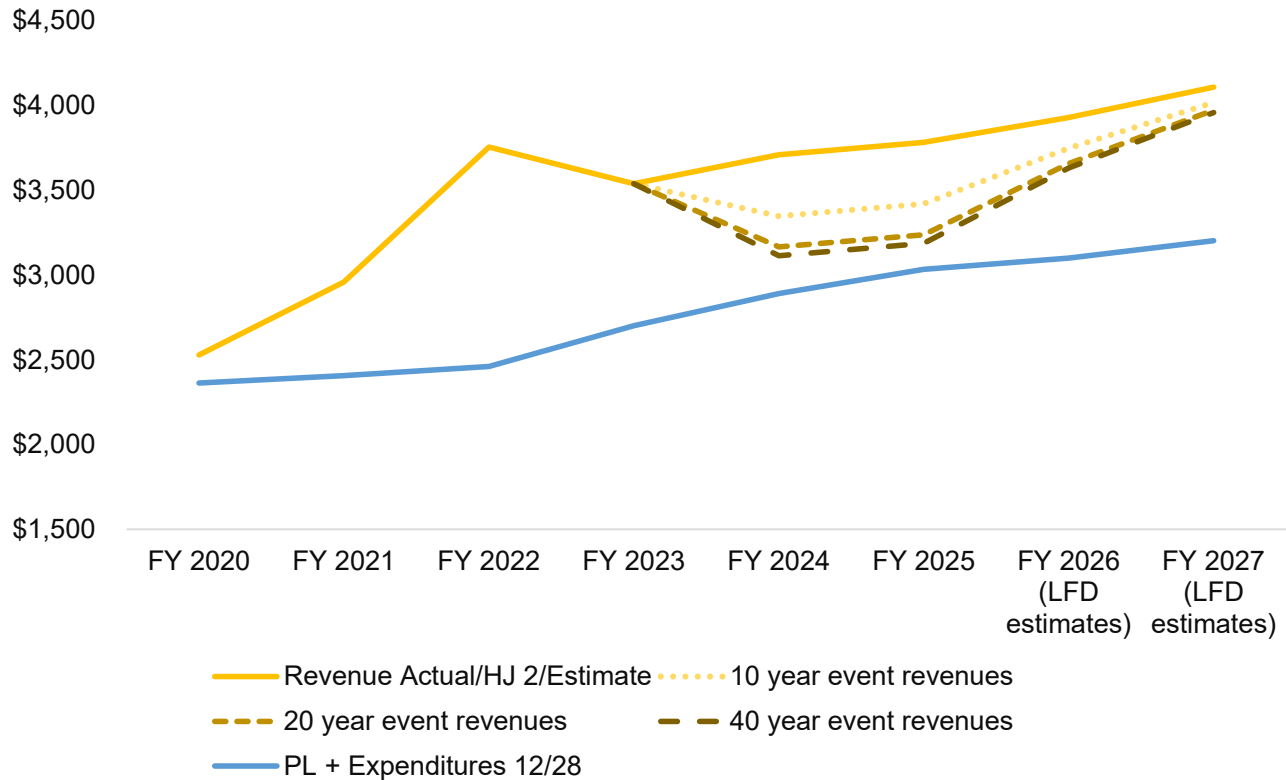
## Evaluating Revenue Risk Events

The volatility report updated the statistical analysis of the volatility of general fund revenue. The following graphics illustrate various levels of downside revenue risk.

### ***Structural Balance***

If the legislature adopted only the present law plus level of expenditures, the structural balance would remain positive at statistically known risk levels. As shown in the graphic below, even at the 40-year event level of risk, revenues would exceed expenditures.

## Structural Balance Event Scenarios



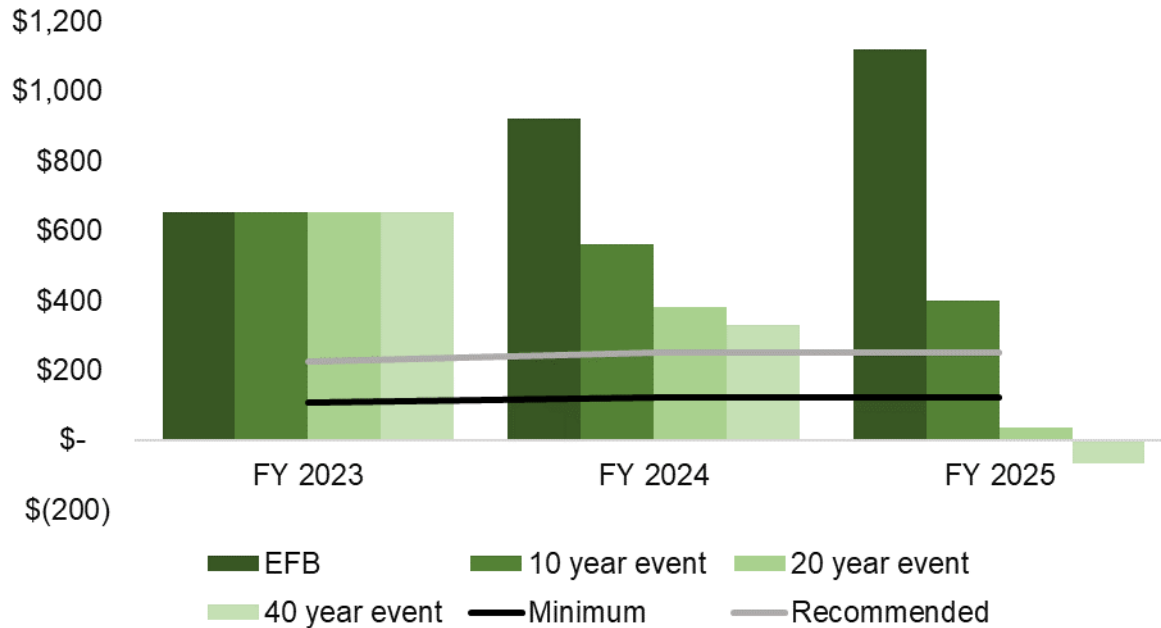
The legislature can choose a level of risk that balances the risks and benefits of various levels of spending. If the legislature adopted a higher level of spending or reduced revenue, the lines would begin to cross at about \$200 million per year in ongoing change. In other words, the legislature could increase spending or reduce revenues by \$200 million per year and be structurally balanced with a 20-year event scenario.

### **Ending Fund Balance**

Ending fund balances can provide needed cushion for volatile revenues. If no spending, transfers, or revenue reductions occur other than the Present Law plus level of spending, ending fund balances are anticipated to grow to even more extraordinary levels at \$4 billion or 180% of annual expenditure.

If ongoing expenditures or revenue reductions are \$200 million more than the Present Law plus level as discussed above and one-time uses are \$2.5 billion, then the ending fund balance would still exceed \$1.1 billion. Increasing reserve balances as a portion of the \$2.5 billion one-time uses as recommended in the volatility report could be a significant tool to manage risk.

## Ending Fund Balance Event Scenarios



Under these assumptions, a reserve balance of \$1.1 billion would keep the fund balance above zero in all except the 40-year event scenario. Reductions in spending and transfers from reserves by the Governor under the provisions of MCA 17-7-140 would be necessary in the 20-year and 40-year event scenarios.

### Minimum Ending Fund Balance

Statute directs that the general fund ending balance should have a statutory minimum level. The [statutory minimum](#) projected ending fund balance is 4% of the total second-year general fund appropriations.

### Operating Reserve

The [statutorily recommended](#) operating reserve for projected ending fund balance is 8.3% of the total second-year general fund appropriations.

## WRAP UP

### Comments on the Governor's Budget Risk

The Governor recommends increasing reserve balances to over \$600 million, transfers out of the general fund or spends \$2.9 billion, and decreases structural balance from the present law plus level of \$748 million to \$563 million. There are also several areas of the budget that put pressure on the structural balance by proposing one-time funding for services that may be difficult to remove when the funds are spent. It was not possible to quantify this potential impact, so it is not included in the structural balance, but is described as a risk.

## CONCLUSION

Throughout the session, the legislature will make choices on various funding proposals. The LFD will publish “status sheets” or the status of the structural and ending fund balance levels as soon as HB 2 has passed from subcommittees at the end of February. Given the potential for one-time decisions to have ongoing impacts on the budget, the LFD will also include ongoing impacts of one-time appropriations when the impacts are known or by pointing out the risk if the amount is not quantifiable. These status sheets will be a key tool to enable the legislature to track progress toward the structural and ending fund balance goals.

As described throughout this section the budget and revenue decisions the legislature makes this session have the potential to set Montana up for financial success or failure in the future. With the additional funds available, the risk is greater than under usual circumstances. The legislature has the opportunity to carefully weigh the options to make the best decisions possible on behalf of the citizens of Montana. The LFD has further tools and analysis available to help the legislature evaluate the options and risks to determine the structural and ending fund balance goals.

## GOVERNOR’S BUDGET

### BUILDING THE BUDGET

The budget has three basic components: base budget, [present law](#), and new proposals. For information on budget rules, budgeted appropriation types, and a general understanding of state finances, please refer to the LFD publication [Understanding State Finances](#). The details of all budgeted fund types are contained in the expenditure section of this report, and the overview of the general fund budget is contained in this section.

### Base Budget

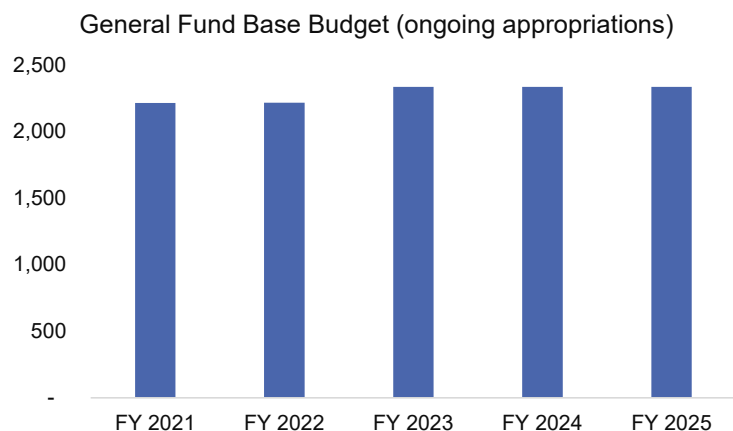
The base budget is defined as the resources authorized by the legislature for the ongoing operation of state government in FY 2023. The HB 2 base budget for the 2025 biennium including all fund types totals \$6.4 billion.

### General Fund Base Budget

The HB 2 general fund base budget is \$2,337 million per year or \$4,675 million for the biennium.

#### General Fund HB 2 Base

The chart shows the general fund base budget over time beginning with FY 2021, the previous biennium’s base budget. The 2025 biennium budget process begins with the FY 2023 base budget at \$2,337 million.



### General Fund Present Law Budget

When building the state’s budget, the base level of funding is adjusted for present law changes. Statute provides a definition of the present law budget, as the level of funding necessary to maintain current government services. Present law gives the legislature a baseline budget presentation and provides the beginning point at which legislative budget decisions are made.

Budget building basics use the base budget and then adds the statutorily defined present law base [17-7-102, MCA](#) which includes funding for continuation of ongoing programs.

Statute defines present law as the following:

(12) "Present law base" means that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

- (a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
- (b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;
- (c) inflationary or deflationary adjustments; and
- (d) elimination of nonrecurring appropriations.

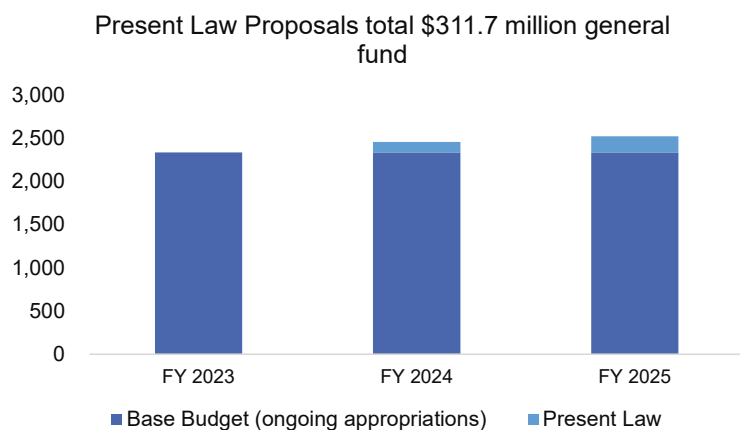
## General Fund HB 2 Present Law for the 2025 Biennium

General fund total base budget plus proposed present law appropriations total \$4,986 million for the biennium. Present law adjustments from the base total \$311.7 million.

### Present Law

Present law adjustments include adjustments for enrollments in various programs, population changes, statutory changes, and inflationary like adjustments. The legislature will evaluate the executive proposed present law in detail during the budget deliberation process.

The following items are the primary areas of increase in present law:



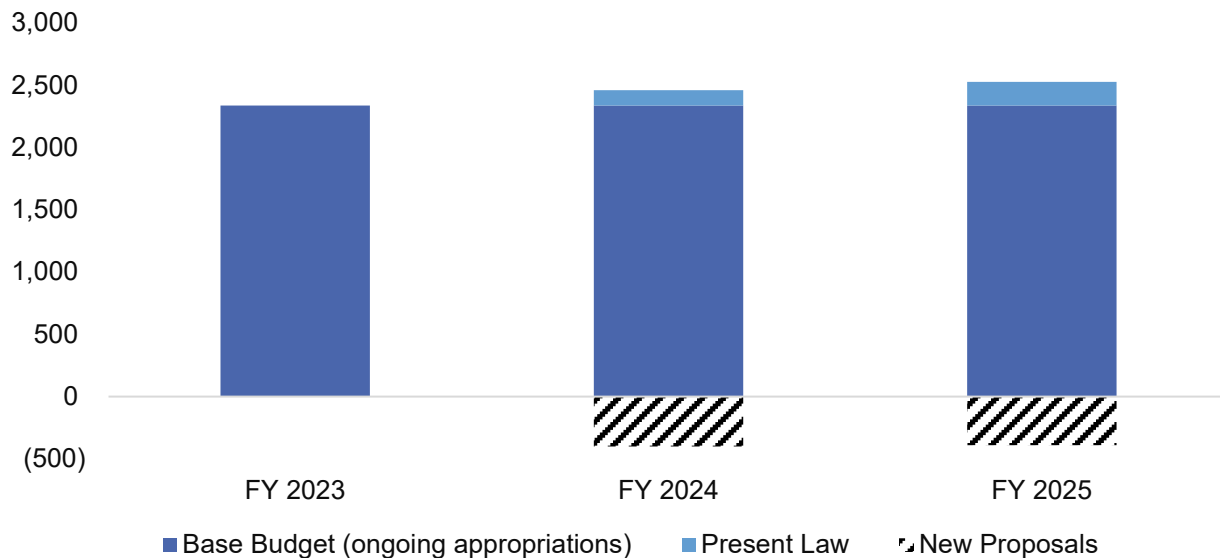
### Department of Public Health and Human Services (DPHHS)

- The executive proposes a \$15.7 million general fund increase for the 2025 biennium for the state match of the Federal Medical Assistance Percentage (FMAP). The FMAP is a result of comparing the per capita income for Montana to the per capita income for the United States. As Montana's per capita income increases relative to the per capita income of the United States, the percentage of federal funding received decreases
- The executive proposes \$86.3 million general fund increase for the 2025 biennium for caseload and other Medicaid purposes

## GOVERNOR GIANFORTE'S GENERAL FUND BUDGET - NEW PROPOSALS

The Governor's general fund new proposals for the 2025 biennium decrease general fund spending by \$790.0 million. Some of the decrease is offset by the increase in present law. The net difference between present law and new proposals is a decrease of \$478.0 million general fund. Details of the new proposals follow the chart.

This chart shows the executive proposed budget for general fund base budget, present law, and new proposals



## New Proposal Details

The proposed budget classifies expenditures in ways that do not fully agree with the strict interpretation of statute and may misstate the level of present law spending or the level of ongoing spending. The ramifications of misstating ongoing spending directly correlate to structural balance. The following is a summary of the primary new proposals included in the executive 2025 biennium budget proposal:

### LFD Comment

One-time-only provider rate increases may be longer term and are re-classified as ongoing expenditures for the purposes of general fund structural balance.

### DPHHS

- \$68.5 million general fund, for the biennium for provider rate adjustments in DPHHS. Of the \$68.5 million, \$25.0 million is proposed as a one-time-only pool to use as needed for one time provider rate adjustments

### Department of Corrections (Corrections)

- \$18.0 million general fund, \$3.6 million is one-time-only, for the biennium for provider rate adjustments in Corrections
- \$6.9 million general fund for the biennium for pay increases negotiated with the union for Corrections

### Office of Public Instruction

- \$886.4 million reduction in general fund for the biennium in the Office of Public Instruction. This proposal removes the general fund expenditure for BASE Aid from the HB 2 budget for the Office of Public Instruction

### State General Fund Revenue Switch to State Special Revenue Fund

The executive proposes earmarking both the 55 mills and the 40 mills property tax collections (95 mills) for K-12 education and depositing the revenue collections into a state special revenue fund rather than the general fund. The estimated collections from the 95 mills property tax totals \$861.6 million for the 2025 biennium.



## Montana Infrastructure Proposal

The executive proposes to transfer \$150.0 million from the general fund to a newly created state special revenue fund that is statutorily appropriated to payoff of general obligation debt. Additionally, the executive proposes to use up to \$326.5 million in interest earnings gained on funds in the treasury cash account as part of the debt free proposal.

The executive proposes to transfer \$200 million from the general fund to the Department of Commerce for the Home Ownership Means Economic Security (HOMES) Program state special revenue fund. Interest accrued on the state special revenue fund would be statutorily appropriated to the Department of Commerce for housing infrastructure, specifically higher density housing, and local water and sewer projects that may not have qualified for grant funding through the American Rescue Plan Act (ARPA).

The executive proposes to transfer \$300.0 million from general fund for Modernizing Warm Springs and Behavioral Health System within the state. Of the \$300.0 million, approximately \$128.9 million is proposed in HB 5, including \$15.9 million for Montana State Hospital (Warm Springs) Compliance Upgrades for Recertification and \$113.0 million for capital improvements related to a statewide Behavioral Health Initiative under DPHHS. The balance of the \$300.0 million, approximately \$171.1 million, will be deposited in a newly established behavioral health state special fund.

Including to the funds directed to capital improvements for DPHHS facilities at Warm Springs and throughout the state, the executive proposal for the state's long-range planning programs totals \$1.0 billion. An additional \$220.1 million is proposed of non-state funds (university, proprietary, and donated funds). The proposal makes use of state resources, including federal funds, to provide appropriations and grants for state and local government infrastructure investments.

More information on the Long-Range Planning programs and the executive proposal for Montana Infrastructure is available in [Section F of the Legislative Budget Analysis](#).

## GENERAL FUND STRUCTURAL BALANCE RECOMMENDED BY THE EXECUTIVE

In the 2025 biennium, the executive's total proposed budget is less than the HJ 2 revenues adopted by the Revenue and Interim Committee on November 17, 2022.

Structural balance is a measure of ongoing revenues against ongoing expenditures. The executive's proposed budget is structurally balanced.

### Recategorization of OTO versus Ongoing

In addition to the re-categorization of certain new proposals to present law, this report re-categorizes a new proposal for \$25.0 million general fund for the 2025 biennium for the provider rate pool in DPHHS as ongoing rather than one-time-only to better inform the legislature of structural balance. In addition, the risk management and tort defense insurance rate holiday is treated as one-time-only.

### Executive General Fund Balance

At the time of this writing, details for proposed legislation are insufficient for full analysis of the executive's general fund balance to be completed. The following is a draft analysis of the Governor's balance sheet, which is subject to change once legislation details are known.

**General Fund Analysis of Executive Balance Sheet**

HJ 2 Revenue Forecasts  
(\$ Millions)

	Actual FY 2022	HJ 2 Revenue Forecast FY 2023	HJ 2 Revenue Forecast FY 2024	HJ 2 Revenue Forecast FY 2025
<b>Beginning Fund Balance</b>	<b>\$720.0</b>	<b>\$1,854.4</b>	<b>\$521.7</b>	<b>\$854.3</b>
<b>Revenues</b>				
Actuals & HJ 2 Revenue Forecasts	3,755.7	3,539.5	3,710.0	3,782.7
<b>Executive Proposed Revenue Legislation</b>				
Income Tax Proposals				
LCXXXX Executive Proposed Earned Income Tax Credit Proposal & Cap Gain			(31.2)	(175.2)
LCXXXX Executive Proposed Big Sky Scholarship Proposal				(5.2)
LCXXXX Executive Proposed Child Tax Credit (ages 0-5) Proposal				(31.5)
LCXXXX Executive Proposed Child Adoption Tax Credit				(1.1)
LCXXXX Executive Proposed Expansion of Apprenticeship Credit				(1.0)
Property Tax Proposals				
LC0946 Executive Proposed Property Tax Assistance Program Adjustment			(2.7)	(2.7)
LC0180 Executive Proposed Business Equipment (BE) Exemption Increase			(1.0)	(1.3)
LCXXXX K-12 School Funding Proposal			(430.3)	(436.1)
Corporate Tax Proposal				
LCXXXX Executive Proposed Single Factor Corporate Tax			7.5	15.3
Other Proposals				
LC0010 MERLIN repay & Other		2.5	2.7	3.2
One-Time-Only (OTO) Revenue	135.9	260.8		
Executive Proposed One-time-Only Revenue Legislation				
LCXXXX Executive Proposal for Debt Free (Treasury Cash Account HJ2)		(101.4)	(126.6)	(98.6)
<b>Total Revenues Funds Available</b>	<b>4,598.1</b>	<b>5,555.8</b>	<b>3,650.2</b>	<b>3,902.7</b>
Adjustments	(0.8)			
Accounting Adjustment	(12.8)			
<b>Expenditures - Ongoing</b>				
Statutory Appropriations	302.9	327.0	329.6	336.9
2 Exec Proposals: Entitlement share increase (BE) & GO debt pay off			(8.9)	(6.3)
General Fund Transfers	23.4	21.7	22.9	23.3
Executive Proposals Pay Off Public Communications & Old Fund			(10.5)	(10.0)
HB 2 Agency Budgets ** Present Law	2,121.9	2,339.1	2,457.0	2,526.0
Department of Corrections Present Law+ (provider rates & caseloads)			15.5	19.2
DPHHS Present Law+ (provider rates & caseloads)			25.2	43.4
Office of Public Instruction Present Law+ School Fund Switch			(430.3)	(436.1)
Cap Dev Transfers Present Law			(23.1)	(24.2)
Risk Management and Tort Rate Holiday			14.1	14.1
HB 2 New Proposals				
DPHHS Provider Rate Pool OTO Assumed Ongoing			12.5	12.5
Remaining Ongoing New Proposals			5.4	0.5
HB 2 Language Appropriations		2.0	2.1	2.1
HB 1 Feed Bill	2.2	11.4	4.0	13.3
HB 5 Operations and Maintenance		0.9	2.7	2.7
HB 13 Executive Proposed Pay Plan			28.9	66.6
Other Legislation (previous session)	10.8	16.4		
Reversions		(4.0)	(4.5)	(5.9)
<b>Ongoing Expenditures</b>	<b>2,461.3</b>	<b>2,714.4</b>	<b>2,442.6</b>	<b>2,578.2</b>
<b>One-Time-Only (OTO)</b>				
HB 2 Agency Budgets	18.6	5.7		
HB 2 Present Law (includes Risk Management & Tort Rate Holiday)			(11.6)	(13.4)
HB 2 New Proposals			(4.9)	(5.6)
HB 2 Enhanced COVID 6.2% FMAP Estimated Savings**		(62.8)		
HB 3 Executive Proposed Supplemental Appropriations		8.6		
HB 5 Executive Proposed Infrastructure		113.0	2.5	2.5
HB 10 Executive Proposed IT Infrastructure		0.5	73.8	73.8
HB 13 Executive Proposed Pay Plan (includes OTO employee bonuses)		9.3	0.5	0.5
<b>Executive Proposals to Spenddown General Fund</b>				
MT residents' property tax on primary residence			265.1	268.6
Infrastructure Proposals (LC 0136; XXXX; XXXX)		670.3		
LC 0128 Transfers to State Reserves		438.5		
Pay off state liabilities		150.0		
24/7 Facility & Medicaid Contingency		150.0		
LC 2014 Workforce Modernization		100.0	20.0	30.0
Pension Payments for Sheriff, Game Wardens and Hwy Patrol		107.2		
Other		95.0	8.0	8.0
Previous approp bills & carryforward	2.6	7.3		
BSRF Transfers				
Fire Fund Transfers	35.4	7.7		
Transfers (Title 17)	234.9	519.4		
Prior Year Adjustment	(4.7)			
<b>Total Expenditures</b>	<b>2,748.0</b>	<b>5,034.0</b>	<b>2,795.9</b>	<b>2,942.6</b>
Accounting Adjustments	4.3			
<b>Ending Fund Balance</b>	<b>\$1,854.4</b>	<b>\$521.7</b>	<b>\$854.3</b>	<b>\$960.1</b>
<b>Structural Balance</b>	<b>\$1,294.4</b>	<b>\$821.0</b>	<b>\$808.0</b>	<b>\$562.9</b>
<b>Governor's Risk Management (Volatility Hedge)</b>		<b>(24.7)</b>	<b>(199.7)</b>	<b>(199.7)</b>

\*\* The Federal Consolidation Appropriations Act of December 19, 2022 proposes decoupling the Medicaid continuous eligibility policy from the COVID-19 public health emergency. Medicaid redeterminations would begin on April 1, 2023, and the 6.2 percentage-point FMAP increase would be phased-out beginning with 5 percentage-point increase for April - June 2023. LFD assumes the Consolidation Appropriations Act passes Congress as introduced.

## EXECUTIVE RESERVE BALANCE RECOMMENDATIONS

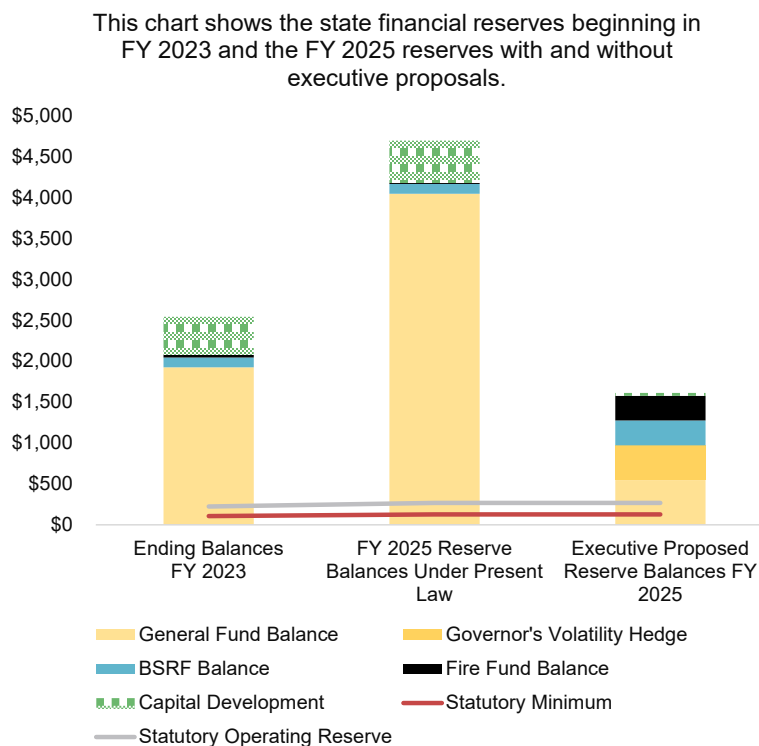
When the BSRF is statutorily full (4.5% of the total general fund appropriation in the second year of the biennium), a portion of excess general fund revenues flow to the CD fund where it is available for appropriation for major repairs and improvements to state-owned infrastructure, legislative transfer to supplement funding local government infrastructure, and as a working rainy-day fund for use in times of financial need. Since the BSRF was full, the CD fund received \$259.7 million at the beginning of FY 2023 from excess general fund revenues.

The wildfire suppression fund is also available to the legislature as a reserve fund for use in times of financial need. Per statute, the balance of the wildfire suppression fund is limited to 4.0% of the total general fund appropriation in the second year of the biennium.

As mentioned in the “Present Law Plus” expenditure section on page 8-9, the general fund balance and reserves together are approximately \$4.7 billion. The executive proposals provide roughly \$1.6 billion for general fund balance, a volatility hedge, and other reserve funds.

The executive proposes \$424.0 million for a volatility hedge as well as a \$548.0 million ending fund balance. In addition to the fund balance and volatility hedge, the executive proposes increasing the wildfire suppression fund and the budget stabilization fund to 12.0% of total general fund appropriations in the second year of the biennium. With this proposal, the wildfire suppression fund would receive \$253.8 million and the budget stabilization fund \$184.7 million from general fund transfers in FY 2023. This would bring both funds up to \$303.4 million. The capital development fund balance was over \$500 million at the beginning of FY 2023. Additional spending proposals by the executive for the 2025 biennium bring the estimated fund balance for the capital development fund to \$34.2 million for FY 2025.

The chart shows what the reserve balances might be in FY 2025 with and without the executive’s proposals.



## EXECUTIVE PROPOSAL FOR GENERAL FUND BALANCE SPENDDOWN

The executive proposes to transfer \$1.8 billion from the general fund in FY 2023, \$293.1 million in FY 2024, and \$306.6 million in FY 2025 to spenddown the general fund balance on executive requests for “One-time-only Investments and Relief”. The following are preliminary details on the proposed general fund spenddown as the majority of legislation was not available at the time of the writing:

### Property Tax Rebates

- \$533.7 million for the 2025 biennium for one-time-only property tax relief payments to taxpayers

### Transfers to Spend

- \$300.0 million in FY 2023 for the Behavioral Health Facilities and Program, this includes a \$113 million general fund transfer to the capital development projects fund and appropriated in HB 5 to use for a statewide behavioral health initiative, and approximately \$15.9 million to implement immediate compliance and recertification upgrades to the Montana State Hospital
- \$200.0 million in FY 2023 for the Home Ownership Means Economic Security (HOMES) Program. The proposal transfers \$200.0 general fund to a new state special revenue fund with dedicated interest earnings subject to appropriation once the fund exceeds \$200.0 million.
- \$150.0 million in FY 2023 for Medicaid and 24/7 Facilities. While the details are yet to be defined, it is anticipated that the executive will propose this funding be statutorily appropriated, providing ultimate flexibility in the interim

#### **LFD Comment**

The legislature will need to consider a wider overall medical and behavioral health package of funding than the traditional HB 2 appropriations and be prepared to weigh in on the use and guidelines of funds that may not be considered ongoing.

- \$148.0 million transferred from the general fund to the long range IT fund (included in HB 10) for the MERLIN upgrade at the Department of Justice
- \$100.0 million in FY 2023 transferred from the general fund to a newly established Disaster Resiliency state special revenue fund that retains interest which could be appropriated
- \$100.0 million in FY 2023 for Securing Access to Federal Expenditures to Repair Montana Roads and Bridges Fund (SAFER). The Department of Transportation applies for federal “grab bag” funds which become available when other states fail to spend their federal authority. Montana can apply for the unused federal funds, but a state match is required. This proposal would allow the MDT to access appropriation authority for the state match. The new state special fund would be statutorily appropriated
- \$100.0 million in FY 2023, \$20.0 million in FY 2024, and \$30.0 million in FY 2025 for implementation of the workforce and information technology study conducted by the executive. Contractors hired by the executive surveyed state employees on type of work, conditions of the workplace, and technology requirements. The contractors also analyzed state-owned and leased office facilities. The compiled analyses provided options to meet future workforce needs.
- \$83.3 million in FY 2023 for the school facility sub-trust. This would bring the school facility sub-trust to the statutory limit of \$200.0 million. At the end of FY 2023, the sub-trust would have approximately \$30.0 million above the statutory limit and under present law, that amount would revert to the coal severance trust corpus. The executive proposal creates a new conservation district sub-trust and allocates 75% of the amount of revenues flowing into the coal severance tax bond fund, in excess of the amount required to meet all principal and interest payments on bonds payable from the coal severance tax bond fund, to the new sub-trust until the balance reaches \$100.0 million. When the conservation district trust balance reaches \$100.0 million the allocation reverts to the coal severance tax permanent fund
- \$60.0 million in FY 2023 to the health insurance trust fund for state and university employees health insurance pool. The executive proposes no increase for the 2025 biennium for the health insurance plan for either the state or the employee share

- \$35.0 million in FY 2023 for a state special revenue fund established in [10-4-304, MCA](#). The fund is statutorily appropriated for 9-1-1 services. Funds not used for the administration of public safety 9-1-1 services or used for public safety radio communications, may be used for distribution to local and tribal governments for public safety awareness meetings and may be distributed as grants to private telecommunication providers
- \$10.0 million in FY 2023 for proposed one-time-only state employee bonuses in June 2023

#### Transfers to State Financial Reserves

- The executive proposes increasing the cap on the wildfire suppression fund and the budget stabilization fund to 12.0% of total general fund appropriations in the second year of the biennium. In this proposal the calculation is based on the executive proposed FY 2025 total general fund appropriations and translates to the following amounts:
  - \$253.8 million in FY 2023 transferred from the general fund to the wildfire suppression fund to bring the total to \$303.4 million
  - \$184.7 million in FY 2023 transferred from the general fund to the Budget Stabilization Reserve Fund to bring the total to \$303.4 million
  - In addition, the executive proposes a 12% cap on the capital development fund that currently has no cap. The balance is forecast to be lower than the proposed cap after spending for infrastructure is considered

#### Reduce Liabilities

- \$107.2 million in FY 2023 for public safety employee pension systems to amortize plans in 25 years. This proposal includes providing one-time-only infusions of general fund cash for the following pension plans: Montana Highway Patrol; Sherriff ; and Game Warden systems

#### **LFD Comment**

The legislature may wish to consider the following:

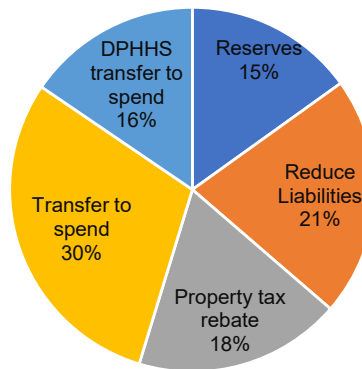
1. Under present law, the state does not make contributions to the Sherriff and Game Warden pension systems. Those systems are funded by employer and employee contributions.
2. A one-time infusion of cash may not have the same return on investment during a recession. The potential to lose gains on the investment is higher during a recession.

- \$150.0 million in FY 2023 to pay off general obligation debt. The executive proposes a Debt Free in 2023 plan that transfers \$150.0 million general fund to a new state special revenue fund by June 30, 2023. Included in the proposal is a bond defeasance provision to allow non-callable general obligation debt to be paid in full. The proposal includes using up to \$326.5 million of earned treasury cash account interest to pay for debt

## **ONE-TIME-ONLY TRANSFERS, TAX REBATES, AND SPENDING**

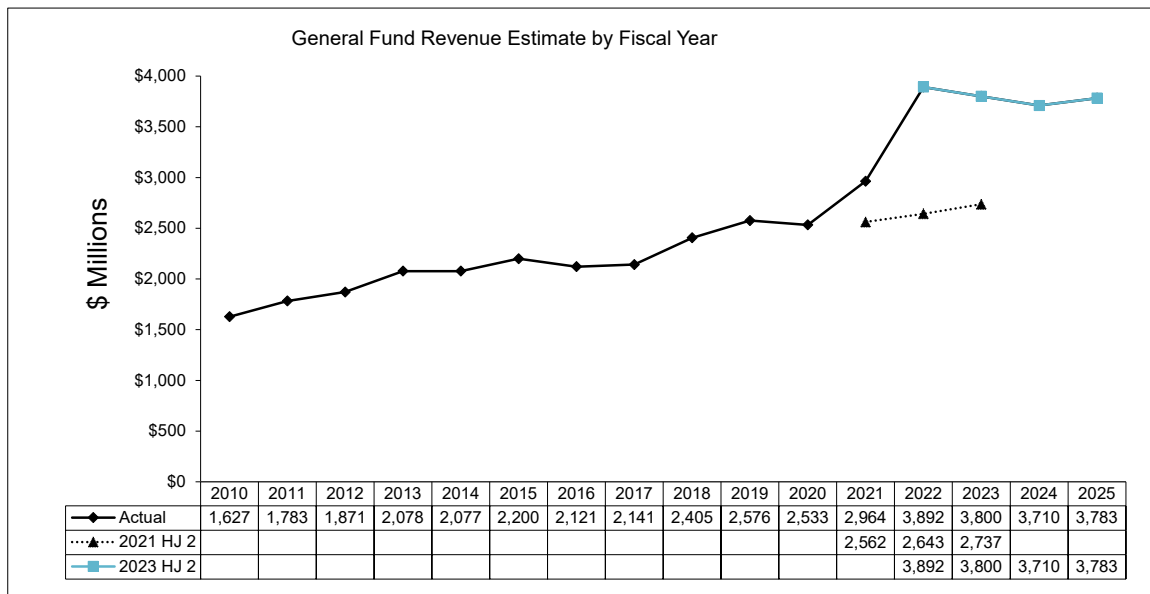
As outlined above, the executive proposes to transfer general fund and increase state financial reserve balances. In addition, the executive proposes reducing liabilities and providing property tax rebates. The following chart shows the executive proposals for spending, transferring, and tax rebates, which totals \$2.9 billion general fund.

General Fund One-Time-Only Transfers, Tax  
Rebates, and Spending  
\$2.9 Billion



## GENERAL FUND REVENUE ESTIMATES ADOPTED BY REVENUE INTERIM COMMITTEE

In November 2022, RIC heard the revenue estimate recommendations from OBPP and LFD. The committee adopted the LFD estimate recommendations and assumptions.

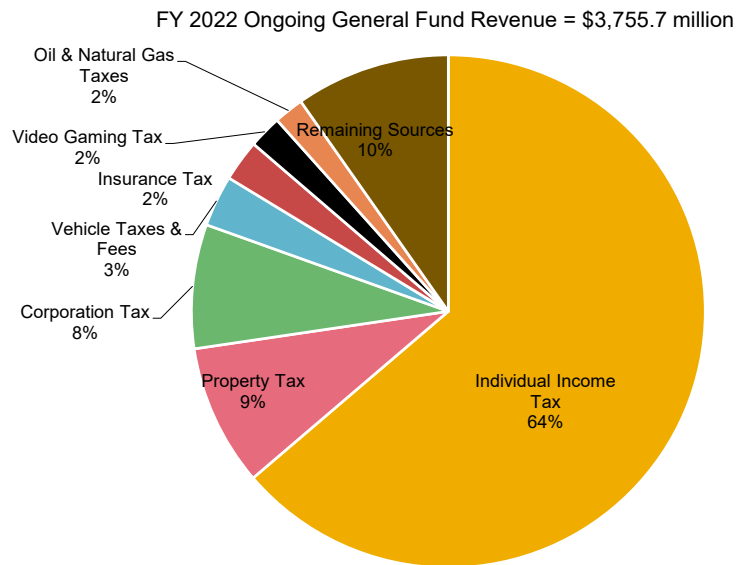


The table below shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources, as well as a breakout of ongoing and one-time-only revenue.

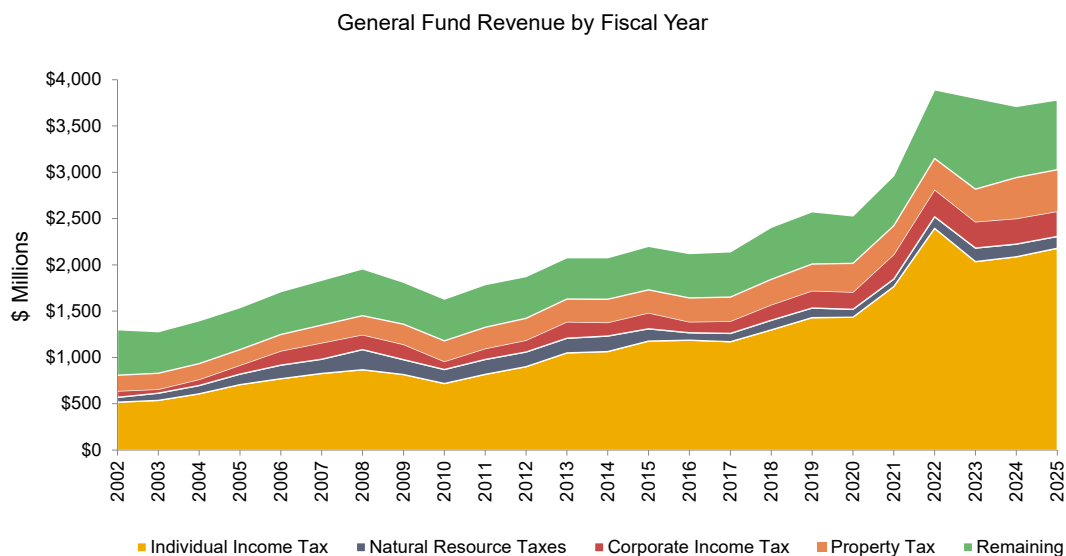
General Fund Revenue Estimates as Adopted by RIC						
(\$ Millions)						
Source of Revenue	Actual FY 2022	Estimated FY 2023	Estimated FY 2024	Estimated FY 2025	Estimated 2023 Bien	Estimated 2025 Bien
Individual Income Tax	\$2,393.8	\$2,033.8	\$2,086.8	\$2,178.3	\$4,427.6	\$4,265.1
Property Tax	335.1	351.8	443.1	450.8	686.94	893.96
Corporation Income Tax	293.7	284.3	277.2	271.4	578.02	548.56
Vehicle Taxes & Fees	121.1	121.5	122.3	123.2	242.68	245.51
Oil & Natural Gas Production Tax	70.5	78.7	73.3	72.0	149.22	145.31
Insurance Tax & License Fees	97.9	101.4	105.8	110.6	199.33	216.45
Video Gambling Tax	77.9	80.2	83.7	86.9	158.07	170.56
<u>Remaining Sources</u>	<u>501.6</u>	<u>748.5</u>	<u>517.9</u>	<u>489.4</u>	<u>1,250.07</u>	<u>1,007.29</u>
Ongoing Revenue Subtotal	3,755.7	3,539.5	3,710.0	3,782.7	7,295.2	7,492.7
OTO Revenue & Transfers Subtotal	135.9	260.8			396.7	-
Total General Fund	\$3,891.6	\$3,800.3	\$3,710.0	\$3,782.7	\$7,691.9	\$7,492.7

## GENERAL FUND REVENUE

The largest seven sources of general fund revenue are individual income tax, property tax, corporate income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2022, these sources accounted for 87.1% of general fund revenue. Details of all general fund and selected non-general fund revenue sources are contained in the Legislative Fiscal Division's [2025 Biennium Budget Analysis: Volume 2](#).

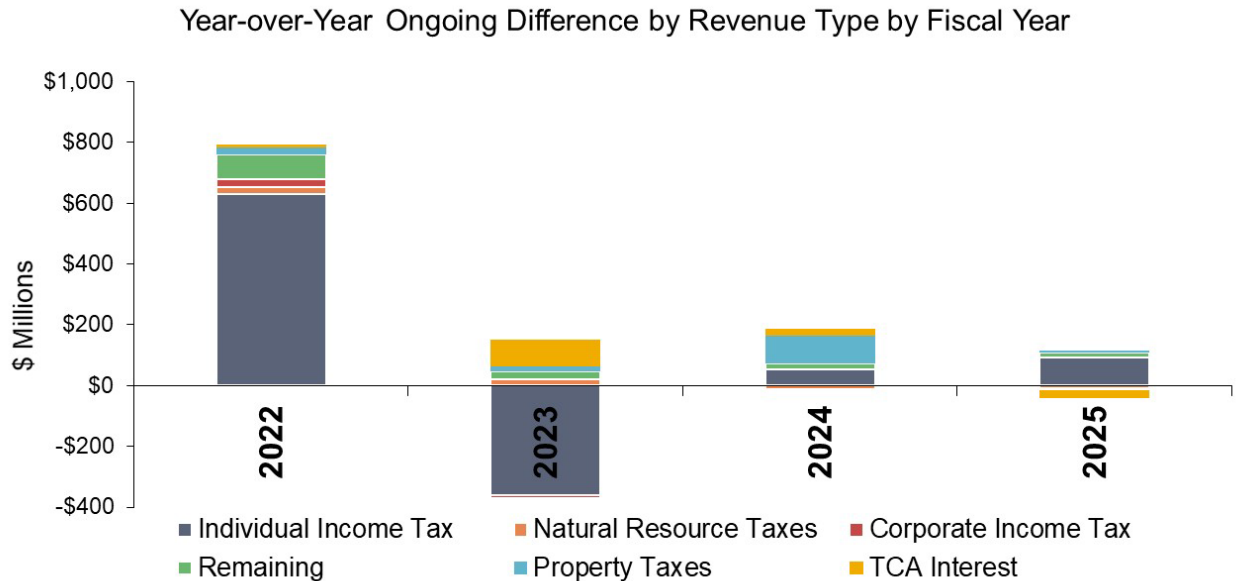


Individual income tax has been a growing share of total general fund revenue since FY 2002, as illustrated in the chart below. In FY 2002, it accounted for 40% of general fund revenue; by FY 2022, it represented 64% of ongoing general fund revenue. Based on the revenue estimates adopted by RIC, it is anticipated to decrease to 57.6% of ongoing general fund revenue by FY 2025, as property taxes and TCA interest experience stronger-than-normal growth and as a result account for a larger portion than past years.





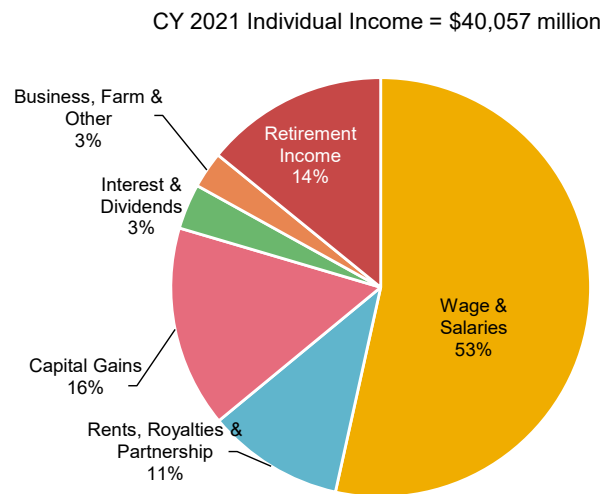
The following chart shows the year-over-year difference by the three largest contributing sources to volatility, as well as property taxes and TCA interest earnings. Compared to FY 2022 collections, natural resource taxes and corporate income taxes are relatively stable. However, there is a sizeable decline forecasted in individual income taxes. As mentioned earlier, this decline is muted by growth in TCA interest earnings in FY 2023 and property taxes in FY 2024. High interest rates coupled with large general fund ending fund balances is forecast to contribute to high interest collections. In addition, reappraisal growth estimates in class 4 residential property of 43.8% and class 4 commercial property of 16.1% result in the strong growth in property taxes in FY 2024.



The following section provides a brief summary on some of the significant economic drivers and their influence on the general fund of several key sources. More details on all sources of revenue can be found in the Legislative Fiscal Division’s [2025 Biennium Budget Analysis: Volume 2](#).

## INDIVIDUAL INCOME TAX

The individual income tax is levied against taxable income, which is defined as total Montana income adjusted for exemptions and deductions. In 2021, full year resident income totaled \$40.1 billion. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.75% through CY 2023, depending on the level of taxable income. With the passage of [SB 399](#) in the 2021 Session, beginning in CY 2024, Montana taxable income will be based on federal taxable income, and the number of tax brackets changes from seven to two, with the highest rate decreasing to 6.5%.



Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. The effective tax rate on capital gains income is less than the tax rate on ordinary income by 2%, due to the 2% capital gains tax credit. With the passage of SB 399 from above, this credit disappears in CY 2024, and is replaced with a 30% subtraction of long-term capital gains. Wage income typically accounts for about 60% of total individual income, while withholding tax on wages accounts for about one-third of total general fund revenue. In the upcoming biennium, wage growth is expected to follow historical trends, along with pension and social security income. Decreases are expected in capital gains, IRA (Individual Retirement Account), and rents/royalties and partnership income.

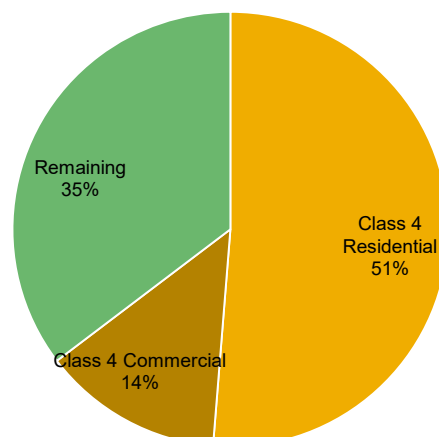
## PROPERTY TAX

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. The strong growth expected in the upcoming biennium is due to large growth rates in Class 4 reappraisal values.

Class 4 commercial and residential property, and class 3 agricultural property, are reappraised every two years with no phase-in of the new value. Class 10 timber land is on a six-year reappraisal cycle with a 1/6<sup>th</sup> phase in of value per year. Agricultural land and timberland continue to be valued on a productivity basis.

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed based on mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

TY 2022 Taxable Value = \$3,488 Million

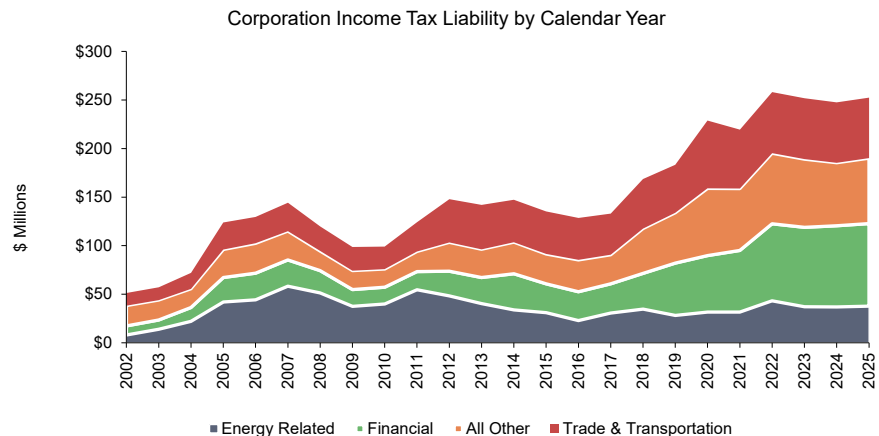


**LFD Comment**

The property tax forecast for FY 2024 grows substantially, due to high reappraisal growth estimates from the Department of Revenue for residential property at 43.8% and commercial property at 16.1%. The growth in revenue from the reappraisal increase is expected to level off in FY 2025.

## CORPORATE INCOME TAX

The corporate income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. Financial, retail trade, transportation, and energy related sectors are the largest sources of tax liability. Primary economic drivers of this source include oil prices, median house prices, and retail sales. The tax rate is 6.75%, except for corporations making a "water's edge" election (see [15-31-322, MCA](#)), who pay a 7.0% tax on their net income

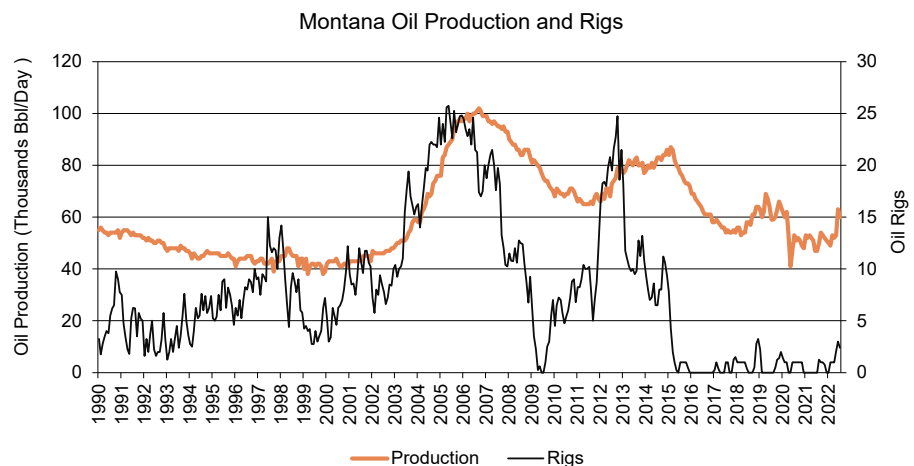


Corporate income tax revenues are quite volatile from year to year, resulting in a revenue stream that is difficult to predict. The volatility can be attributed to many factors: sensitivity of corporate income to business cycles, industry composition in the state, reliance on a limited number of large taxpayers, and federal and state tax policy.

## OIL & NATURAL GAS PRODUCTION TAX

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. The gross taxable value of oil and natural gas production is based on the type of well and type of production, and whether the production occurs within the tax holiday.

Since the beginning of FY 2016, there has been at most four drilling rigs operating in the state, as shown in the chart above. As a result, production has been relatively stable for the better half of the last three years. However, increases in prices compared to past biennia have caused revenue collections to increase substantially in recent years.



In the 2023 biennium, revenue from this source is anticipated to remain relatively flat. HJ 2 assumes West Texas Intermediate oil prices per barrel of \$82 in 2023, \$83 in 2024, and \$84 in 2025.

## EXECUTIVE REVENUE PROPOSALS

### Reduce Top Individual Income Tax Rate and Increase Earned Income Tax Credit

Under this proposal, beginning in CY 2024, the top marginal tax rate will be reduced from 6.5% to 5.9%. In addition, the state earned income tax credit will be increased from 3% of the federal credit to 10%. This bill is estimated to decrease individual income tax collections by \$50.1 million in FY 2024 and \$209.4 million in FY 2025, totaling \$259.5 million over the biennium.

### Property Tax Rebate (OTO)

This proposal offers taxpayers a property tax rebate in the upcoming biennium. It is expected to cost \$250 million in each year of the biennium. Further details are not known at this time.

### LC 0946: Revise PTAP (Property Tax Assistance Program)

This proposal increases the market value of residential property that qualifies for the property tax assistance program from \$200,000 to \$350,000. In addition, the qualifying income level brackets are also increased. This proposal is estimated to decrease revenues to the state general fund by \$2.6 million per year.

### LC 0180: Increase Business Equipment Tax Exemption

This proposal increases the exemption on business equipment tax from the first \$300,000 of market value to the first \$1,000,000 of market value. This proposal is estimated to reduce general fund property tax collections by \$2.3 million over the biennium. Furthermore, local governments will be reimbursed for their lost revenue from the general fund. This reimbursement will increase general fund spending by \$8.2 million over the biennium. Overall, the net impact of this proposal on the general fund is a decrease of \$10.5 million over the biennium.

### Single Factor Corp Apportionment

Currently, for Montana corporations doing business in both Montana and other states, a three-factor apportionment formula is used to determine what portion of their total income is apportioned to Montana. The current formula uses a corporation's sales, property, and payroll in Montana as a proportion of their total sales, property, and payroll. Currently, the apportionment factor weights the sales at 50%, with the remaining property and payroll at 25% each. This proposal would base the entire apportionment factor on a corporation's proportion of sales in Montana. This proposal would increase corporate income tax revenue by \$9.6 million in FY 2024 and \$11.5 million in FY 2025, totaling \$21.6 million over the biennium.

### Child Tax Credit

This proposal offers families a \$1,200 tax credit for children under the age of six. This proposal is estimated to reduce individual income tax collections by \$37.2 million in FY 2024 and \$39.1 million in FY 2025, totaling \$76.3 million over the biennium.

### Adoption Tax Credit

This proposal offers families a \$5,000 credit for adopting a child. This proposal is estimated to reduce individual income tax collections by \$1 million each year of the biennium.

### Big Sky Scholarship

This proposal increases the cap on allowable credits for the Big Sky Scholarship Program. It is estimated to reduce individual income tax collections by \$5 million in each year of the upcoming biennium.

### Expand (Montana Trade Education Credit) MTEC

This proposal expands the Montana Trades Education Credit for employers to send their employees to learn a trade. It is estimated to cost the state \$1 million in each year of the biennium.

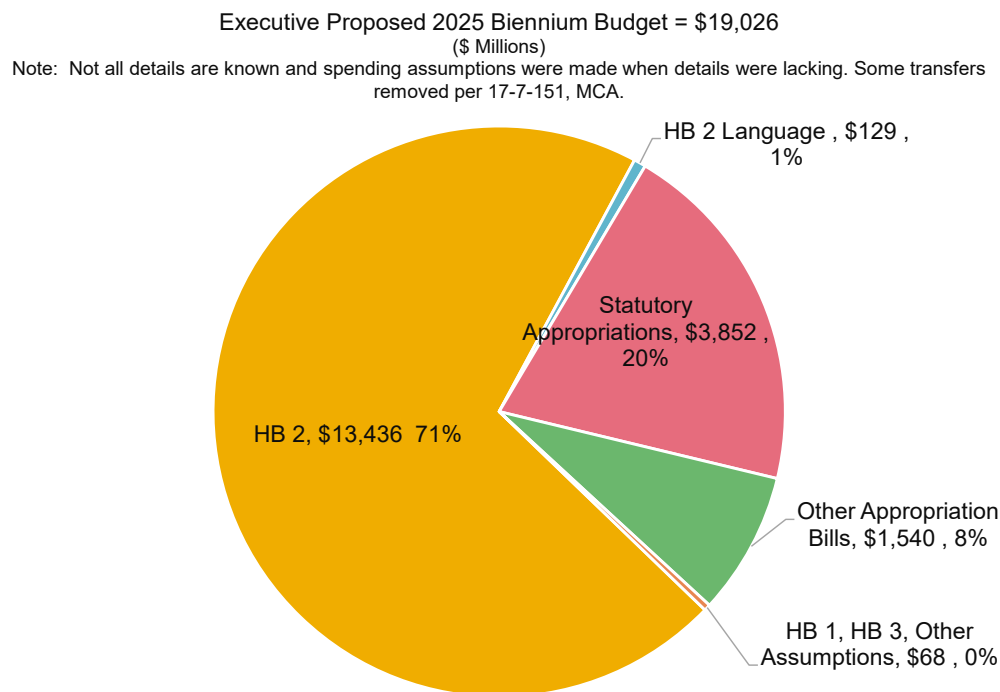
### General Fund Transfer to School Facilities Trust

This proposal would transfer \$83.3 million of general fund to the school facilities trust fund. This transfer would allow the school facilities trust to reach its statutory cap of \$200 million. Currently, the school facilities sub-trust receives 75% of the allocation that goes to the coal trust. With this proposal, this amount will instead go to a newly created conservation district sub-trust, until it reaches \$100 million. When the conservation district trust balance reaches \$100 million the allocation reverts to the coal severance tax permanent fund.

## STATE EXPENDITURES

### TOTAL EXECUTIVE 2025 BIENNIUM SPENDING REQUEST

The Legislative Fiscal Division is unable to fully complete a biennial comparison of the executive's 2025 Biennium Budget Proposal due to a lack of details of proposed executive legislation. The following pie chart demonstrates both known appropriation requests and appropriation assumptions for some legislation where details are unknown. For a biennial comparison, certain legislation is always excluded from the comparison per [17-7-151, MCA](#) like house bills 1, 3, and 4. Using statute as a guide, the biennial comparison with LFD assumptions for legislation lacking in details is a total increase of 8.8% compared to the previous biennium including American Recovery and Reinvestment Act funding. It is a 17.3% increase if ARPA funding is excluded.



### Funding of the HB 2 Appropriations

HB 2 is the general appropriations bill, in which the executive proposes the majority of general fund and total funds appropriated by the legislature in the 2025 biennium.

An interactive data visualization product based on the executive's budget submission provides a look at funding charts and appropriation comparisons between the 2023 biennium legislative appropriated budget and the Governor's proposed 2025 biennium budget. This tool does not include LFD adjustments to present law, new proposals, and one-time-only vs ongoing change packages discussed earlier in this report.

Use and view the data tool available at this location: <https://leg.mt.gov/lfd/budget-reports-hb2/>

## All Sections

### ***Inflation***

The executive proposed budget has inflation implications included in the following areas:

#### COVID-19 Ramifications and Workforce Issues

A changing economy has multiple impacts on the human services budget, as inflation and workforce shortages impact the cost of hiring and provider rates. Additionally, because federal assistance for Medicaid is set based on how individual states measure up against other states, Montana's positive overall economic situation results in a greater state share necessary to cover Medicaid services.

In Public Safety agencies (Section D) there is a combined general fund increase of almost \$28.9 million for personal services salary adjustments. The Department of Corrections accounts for over half of this with \$17.0 million, primarily driven by salary adjustments for corrections officers at the state prison. The Judicial Branch and the Office of the Public Defender (OPD) receive the remaining increase, with \$6.5 million and \$6.2 million general fund requested, respectively.

Other general inflationary type increases result in an additional \$25.3 million general fund, with the Department of Corrections accounting for \$20.0 million.

#### Provider Rates

The executive has proposed various provider rate increases in the DPHHS budget that would increase the Medicaid general fund cost by \$59.6 million, with \$25.0 million of this being unidentified potential increases that would be determined by the executive branch in the interim.

Other provider rates outside of Medicaid would also increase the DPHHS budget by \$5.4 million general fund, although this increase is more than offset by projected caseload reductions that would reduce general fund by (\$9.0 million). The other HB 2 proposal to consider here would provide \$1.8 million general fund for healthcare facilities in Montana, including \$1.1 million for overtime at the Montana State Hospital. Not accounted for in HB 2 is significant funding for mental health, including the state hospital, that are addressed in long-range planning bills, transfer bills, and other one-time support.

The Department of Corrections has a significant request for provider rates, totaling \$19.0 million general fund, with an addition of \$1.4 million general fund for OPD.

#### Caseloads

The largest overall general fund impact to the DPHHS budget is a request for \$86.3 million for the biennium for Medicaid caseload projects above the base. The other aspect of Medicaid that can impact the overall general fund budget is the FMAP (Federal Matching Assistance Percentage), which fluctuates based on a states' economic standing as compared to other states. Montana's economy has experienced higher than average growth, and as such, our FMAP will be reduced. This results in a proposed increase of \$15.7 million of general fund than would otherwise be required. The net result of these factors is a Medicaid present law increase of \$102.0 million for the biennium.

#### K-12 Statutory Inflation

The executive proposed LC 15 requests a 2.7% inflationary rate in FY 2024 and 3.0% in FY 2025 for applied inflationary adjustments for K-12 education funding. This includes increases for BASE Aid. The total cost for the inflationary rate increase is \$96.5 million general fund for the 2025 biennium.

#### **LFD Comment**

The inflationary adjustment is well below the consumer price index projected for FY 2024 and FY 2025.

## ***Risk Management and Tort Defense Insurance Holiday***

Montana self-insures its insurance risks for automobiles, aviation, general liability and property via the Risk Management and Tort Defense Division (RMTD). All agencies pay insurance premiums to the division.

In FY 2022, the amount of the reserves in the RMTD fund increased significantly. The Risk Management and Tort Defense Division won a judgement of approximately \$78.6 million against the state's former insurance carrier for recovery of expenses incurred in defense and settlement of Libby asbestos claims. Additionally, in the same fiscal year, the former insurance carrier agreed to pay the state \$62.5 million in another settlement involving Libby asbestos claims.

The executive is proposing to eliminate the insurance premiums paid by state agencies in the 2025 biennium. In HB 2, this results in an estimated general fund reduction of \$14.1 million dollars in each year of the biennium.

## **STATUTORY APPROPRIATIONS**

Statutory appropriations are in statute and are not part of the biennial budgeting process. They are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. However, all statutory appropriations are available for the legislature to review and change if desired. For additional information on statutory appropriations, please refer to the statutory appropriations [guide](#) prepared by the LFD.

Valid statutory appropriations are contained in a list in [17-7-502, MCA](#). The list provides statutory citations for each statutory appropriation. Statutory appropriations are intended for limited situations, and guidelines for the appropriateness for establishing them are specified in [17-1-508, MCA](#). The Legislative Finance Committee periodically reviews statutory appropriations and sometimes sunset dates are included when new statutory appropriation legislation is adopted by the legislature.



# GENERAL FUND STATUTORY APPROPRIATIONS

General Fund Statutory Appropriations FY 2018 - FY 2025								
	(\$ Millions)							
General Fund	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Actual	Actual	(Estimate)	(Estimate)	(Estimate)
<b>Retirement</b>								
<a href="#">19-3-320 Statutory Appropriation to PERS</a>	\$31.386	\$31.958	\$33.951	\$34.291	\$34.634	\$34.980	\$35.330	35.683
<a href="#">19-3-319 Local Gov. Retirement Contribution</a>	0.969	1.115	1.151	1.204	1.240	1.280	1.322	1.365
<a href="#">19-6-404 MHP Retirement Transfer</a>	1.460	1.694	1.710	1.837	1.865	1.926	1.988	2.053
<a href="#">19-6-410 MHP Supplemental Retirement Transfer</a>	0.250	-	-	-	-	-	-	-
<a href="#">19-9-702 Police Retirement Contribution</a>	15.858	15.982	16.636	17.387	18.122	18.711	19.319	19.947
<a href="#">19-13-604 Firefighters' Association Contribution</a>	16.157	16.606	17.721	18.438	19.436	20.068	20.720	21.393
<a href="#">19-17-301 Volunteer Firefighter Fund Contribution</a>	2.212	2.370	2.487	2.592	2.852	2.995	3.144	3.302
<a href="#">19-18-512 Fire Department Relief Association Contribution</a>	0.390	0.386	0.404	0.394	0.394	0.394	0.394	0.394
<a href="#">19-19-305 Police (Non-PERS) Retirement Contribution</a>	0.216	0.206	0.202	0.184	0.167	0.159	0.151	0.143
<a href="#">19-19-506 Police Officer Pension Supplemental Contribution</a>	-	-	-	-	-	-	-	-
<a href="#">19-20-604 Teacher's Retirement Supplemental Contribution</a>	0.909	0.930	0.949	0.996	1.037	1.071	1.106	1.142
<a href="#">19-20-607 Teachers' Retirement System Contribution</a>	44.096	44.565	44.999	46.025	46.962	47.901	48.859	49.837
<a href="#">19-21-203 MUS Retirement Contribution</a>	1.767	1.790	1.814	1.802	1.836	1.855	1.873	1.892
<b>Subtotal</b>	<b>\$115.669</b>	<b>\$117.603</b>	<b>\$122.026</b>	<b>\$125.148</b>	<b>\$128.546</b>	<b>\$131.339</b>	<b>\$134.207</b>	<b>\$137.150</b>
<b>Economic Development</b>								
<a href="#">15-35-108(11)(b)(i)(A) Coal Sev. to Coop. Dev. Center</a>	0.065	0.065	0.065	0.065	0.065	0.065	0.065	0.065
<a href="#">15-35-108(11)(b)(i)(B) Coal Sev. to Growth Through Ag</a>	0.623	0.625	0.899	0.898	0.854	0.900	0.900	0.900
<a href="#">15-35-108(11)(b)(i)(C) Coal Sev. to MT Food &amp; Ag</a>	-	-	0.600	0.595	0.596	0.600	0.600	0.600
<a href="#">15-35-108(11)(b)(ii) Coal Sev. to Dept. of Commerce</a>	1.099	1.099	1.799	1.799	1.800	1.800	1.800	1.800
<a href="#">15-70-433 Biodiesel Tax Refunds</a>	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>1.788</b>	<b>1.789</b>	<b>3.363</b>	<b>3.358</b>	<b>3.315</b>	<b>3.365</b>	<b>3.365</b>	<b>3.365</b>
<b>Local Assistance</b>								
<a href="#">7-4-2502 Payment of County Attorneys</a>	3.452	3.460	3.518	3.583	3.843	3.936	4.051	4.170
<a href="#">15-1-121 Local Government Combined Distribution</a>	133.853	135.581	140.545	144.476	148.751	153.520	158.102	163.320
<a href="#">22-1-327 State Aid to Public Libraries</a>	-	-	0.395	0.394	0.434	0.423	-	-
<b>Subtotal</b>	<b>137.304</b>	<b>139.040</b>	<b>144.459</b>	<b>148.453</b>	<b>153.027</b>	<b>157.879</b>	<b>162.153</b>	<b>167.490</b>
<b>Other</b>								
<a href="#">HB 67 2021 Session</a>	-	-	-	-	-	-	-	-
<a href="#">10-1-1202 National Guard Death Benefit</a>	-	-	-	-	-	-	-	-
<a href="#">10-3-310 Incident Response Appropriation</a>	-	-	-	-	-	-	-	-
<a href="#">10-3-312 Emergency and Disaster Appropriation</a>	3.574	0.747	1.689	(0.447)	0.496	8.250	8.250	8.250
<a href="#">15-1-218 Out of State Collections</a>	0.182	0.150	0.172	0.185	0.200	0.180	0.200	0.200
<a href="#">16-11-509 Tobacco Enforcement</a>	-	-	-	-	-	-	-	-
<a href="#">17-3-106 Return of Federal Grant Interest</a>	0.013	0.028	0.036	0.022	0.002	0.020	0.020	0.020
<a href="#">17-3-106 Return of Federal Grant Money (GSD Only)</a>	0.276	0.415	0.314	0.276	0.253	0.307	0.307	0.307
<a href="#">17-3-106 Return of Federal Grant Money</a>	0.213	0.155	0.139	0.259	0.294	0.212	0.212	0.212
<a href="#">HB 676 2019 Session</a>	-	-	0.045	0.045	0.045	0.045	-	-
<a href="#">5-13-402 Legislative Audits</a>	-	-	-	-	-	-	-	-
<a href="#">17-1-205 Loan to G.F. / other</a>	0.075	-	-	-	-	-	-	-
<a href="#">17-6-101 Banking Charges</a>	2.235	2.170	2.282	2.431	2.275	2.279	2.279	2.279
<a href="#">17-7-502(4) Bond Fees &amp; Costs (Debt Service)</a>	12.395	9.370	8.150	10.889	14.356	15.566	15.656	14.964
<a href="#">17-7-502(4) Bond Fees &amp; Costs (Issuance costs)</a>	-	-	0.075	0.078	0.072	-	-	-
<a href="#">Highways &amp; Engineering</a>	-	-	-	0.174	0.001	-	-	-
<a href="#">Aquatic Invasive Species</a>	-	-	-	-	-	-	-	-
<a href="#">53-6-1304 SB 405 HELP Act</a>	42.634	45.666	-	-	-	-	-	-
<b>Subtotal</b>	<b>61.598</b>	<b>58.700</b>	<b>12.902</b>	<b>13.912</b>	<b>17.993</b>	<b>26.859</b>	<b>26.924</b>	<b>26.232</b>
<b>General Fund Total</b>	<b>\$316.360</b>	<b>\$317.133</b>	<b>\$282.750</b>	<b>\$290.872</b>	<b>\$302.881</b>	<b>\$319.442</b>	<b>\$326.648</b>	<b>\$334.237</b>

## REMAINING STATUTORY APPROPRIATIONS

Remaining Statutory Appropriations - Legislative Fiscal Division Estimates								
	(\$ Millions)							
	2018	2019	2020	2021	2022	2023	2024	2025
State Special Funds	Actual	Actual	Actual	Actual	Actual	(Estimate)	(Estimate)	(Estimate)
<a href="#">20-9-622 Guarantee Account to BASE Aid</a>	53.052	45.970	45.551	47.945	47.843	50.344	54.399	56.843
<a href="#">15-36-332 Oil &amp; Gas Distribution to Counties</a>	53.594	52.788	38.215	40.986	71.153	76.733	69.159	68.010
<a href="#">15-65-121 Lodging Tax Distribution</a>	25.485	31.359	24.840	19.468	40.332	45.050	50.637	54.434
<a href="#">15-70-101 Fuel Tax to Local Governments</a>	20.218	26.202	38.982	40.013	38.174	41.607	41.882	42.243
<a href="#">17-3-241 Mineral Impact Account</a>	5.779	6.819	7.078	6.212	3.824	9.381	8.071	6.764
<a href="#">HB 141, 2023 session proposed 85-20-1504 Blackfeet Water Compact Mitigation Fund</a>								
K-12 Executive Proposal (proposed 2023 session)							430.310	436.050
All Other State Special	122.744	92.469	100.384	101.957	111.790	104.710	106.152	107.551
<b>State Special Total</b>	<b>\$280.871</b>	<b>\$255.607</b>	<b>\$255.050</b>	<b>\$256.582</b>	<b>\$313.116</b>	<b>\$327.826</b>	<b>\$760.610</b>	<b>\$771.894</b>
<b>Federal Special Funds</b>								
<a href="#">53-6-1304 SB 405 HELP Act</a>	\$672.988	\$677.628	-	-	-	-		
<a href="#">53-6-148 Indian Health Services</a>	74.823	77.490	77.231	67.348	88.980	90.314	91.669	93.044
<a href="#">17-3-212 Federal Forest Funds to Counties</a>	15.120	14.177	13.801	12.197	14.383	19.831	19.831	4.682
<a href="#">17-7-502(4) Highway 93 Debt Service</a>	15.125	15.110	15.412	3.924	3.920	3.927	-	-
<a href="#">Coronavirus Relief</a>			93.093	1,184.819	18.962	5.030	-	-
All Other Federal Funds	29.099	13.206	11.797	17.958	15.646	15.133	16.246	15.675
<b>Federal Special Total</b>	<b>\$807.155</b>	<b>\$797.612</b>	<b>\$211.334</b>	<b>\$1,286.246</b>	<b>\$141.890</b>	<b>\$134.235</b>	<b>\$127.745</b>	<b>\$113.401</b>
<b>Capital Projects and Enterprise Funds</b>								
<a href="#">23-7-402 Lottery Prizes</a>	32.551	34.460	36.791	80.419	77.925	77.379	82.386	87.081
<a href="#">23-7-301 Lottery Commission/Fees</a>	8.110	8.657	9.065	13.322	14.661	15.062	15.796	16.565
<a href="#">HB 553 2019 Session</a>	-	-	-	-	-	-	-	-
All Other	2.405	3.055	3.153	1.939	1.255	2.116	1.770	1.713
<b>Capital Projects and Enterprise Funds Total</b>	<b>\$43.066</b>	<b>\$46.172</b>	<b>\$49.010</b>	<b>\$95.680</b>	<b>\$93.840</b>	<b>\$94.557</b>	<b>\$99.952</b>	<b>\$105.360</b>
<b>Total Statutory Appropriations (All Funds)</b>	<b>\$1,447.451</b>	<b>\$1,416.524</b>	<b>\$798.144</b>	<b>\$1,929.380</b>	<b>\$851.727</b>	<b>\$876.060</b>	<b>\$1,314.955</b>	<b>\$1,324.892</b>

## ASSUMED ADDITIONAL STATUTORY APPROPRIATIONS FROM EXECUTIVE PROPOSED LEGISLATION

New legislation proposed by the executive was unavailable at the time of this writing. Based on conversations with LFD staff and Office of Budget and Program Planning staff and LFD assumptions, the following table shows additional statutory appropriation spending authority proposed by the executive.

Assumed Additional State Special Revenue Statutory Appropriations	
	2025 Biennium
(\$ Millions)	
Executive Proposal - Property Tax Rebate	534
Executive Proposal - HOMES	100
Executive proposal - Pension systems	107
Executive proposal - Local Resiliency	100
Executive proposal - Grab Bag for Transportation	100
Executive proposal - Debt Free and Public Safety Radios	512
Executive Proposal - Health Trust to Regents	60
Executive Proposal - Medicaid & 24/7 Facilities	130
Executive Proposal - Modern Workforce	100
Executive Proposal - Increased Governor's Emergency Appr	16

# GENERAL FUND TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous

## LFD Comment

In the past, the Legislative Finance Committee approved a policy that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated.

accounts and – with proper legislative authorization – money may be transferred from one account to another without an appropriation. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in un-codified legislation) and are not part of the biennial budgeting process. However, they impact the amount of money available for the legislature to appropriate for specific programs.

General Fund Non-Budgeted Transfers: LFD Estimates								
Statutory Reference	(\$ Millions)						2024 Estimate	2025 Estimate
	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Estimate		
<b>Vehicle</b>								
<a href="#">15-1-122(1) Adoption Services Account</a>	\$0.072	\$0.245	\$0.154	\$0.169	\$0.186	0.204	\$0.225	\$0.247
<a href="#">15-1-122(2) Research &amp; Commercialization Account</a>	1.275	1.275	(0.203)	-	-	-	-	-
<a href="#">15-1-122(2)(a) Motor Vehicle Recycling &amp; Disposal Program</a>	1.620	1.649	1.606	1.828	1.642	1.793	1.809	1.824
<a href="#">15-1-122(2)(b) Noxious Weed Account</a>	1.641	1.671	1.628	1.853	1.664	1.817	1.834	1.849
<a href="#">15-1-122(2)(c)(i) Boat Facilities &amp; Off-Highway Vehicles</a>	0.503	0.512	0.499	0.568	0.510	0.557	0.562	0.567
<a href="#">15-1-122(2)(c)(ii) Snowmobile Facility Development &amp; Maint.</a>	0.109	0.111	0.109	0.124	0.111	0.121	0.122	0.123
<a href="#">15-1-122(2)(c)(iii) Motorboat Account</a>	0.175	0.178	0.174	0.198	0.178	0.194	0.196	0.197
<a href="#">15-1-122(3)(d) State Veterans' Cemetery Account</a>	0.159	0.217	0.216	0.246	0.221	0.241	0.243	0.245
<a href="#">15-1-122(2)(d) Veteran's Services Account</a>	0.554	0.668	0.663	0.755	0.678	0.740	0.747	0.753
<a href="#">15-1-122(3)e Search &amp; Rescue Account</a>	0.062	0.044	0.043	0.049	0.044	0.048	0.049	0.049
<b>Other Transfers</b>								
<a href="#">15-1-122(4) Sage Grouse</a>	2.000	2.000	2.000	2.000	-	-	-	-
<a href="#">15-1-122(3)(a) Livestock Loss</a>	0.200	0.200	0.300	0.300	0.300	0.300	0.300	0.300
<a href="#">15-1-122(3)(b) Livestock Loss (2021 session)</a>					0.100	0.100	0.100	0.100
<a href="#">17-1-511(2) Rural Physicians</a>	0.227	0.227	0.227	0.227	0.227	0.227	0.227	0.227
<a href="#">39-11-206 Commerce Training Account</a>	0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.600
<a href="#">39-71-2352(6) Old State Fund Shortfall</a>	8.050	10.000	9.200	7.300	7.494	7.238	7.173	5.938
<a href="#">44-4-1607 DOJ Statewide Public Safety Communication System Account</a>			3.750	3.750	3.750	3.750	3.750	3.750
<a href="#">77-1-108(5a) Trust Land Adm.</a>	0.080	-	0.080	-	0.080	-	0.080	0.000
<a href="#">85-2-280 Water Adjudication</a>	3.179	3.864	2.600	4.100	2.663	2.763	4.100	4.180
<a href="#">85-2-527 Ground Water</a>			0.250	0.258	0.258	0.258	0.258	0.258
<a href="#">87-2-801(6) Purple Heart Free Hunting</a>	0.025	-	0.000	0.000	-	-	-	-
<a href="#">87-2-803(12d) Military Free Hunting</a>	0.000	-	0.016	0.016	0.016	0.016	-	-
<a href="#">HB 373 (2021 session)</a>					1.090	1.036	1.029	1.022
<a href="#">HB 374 (2021 session)</a>				1.000	1.176	1.201		
<b>One-time transfers</b>								
<a href="#">17-7-130 Budget Stabilization Reserve Fund</a>		15.000	57.052	1.129	4.705	-	-	-
<a href="#">76-13-150 Fire Suppression Account</a>		21.500	30.344	46.754	35.350	7.671		
<a href="#">17-7-209, Capital Development Long Range Building Program Fund</a>				228.302	115.084	259.689		
<a href="#">2017 Special Session Transfers</a>	25.309	45.721						
<a href="#">HB 652 (2019 Session)</a>			9.00					
<a href="#">HB 647 (2017 Session)</a>	-	0.400	-	-	-	-		
<a href="#">HB 158 (2019 Session)</a>	-	-	0.050	-	-	-	-	-
<a href="#">HB 631 (2019 Session)</a>	-	-	0.045	-	-	-	-	-
<a href="#">HB 633 (2019 Session)</a>	-	-	0.000	-	-	-	-	-
<a href="#">HB 662 (2019 Session)</a>	-	-	0.000	-	-	-	-	-
<a href="#">HB 684 (2019 Session)</a>	-	4.103	-	-	-	-	-	-
<a href="#">HB 715 (2019 Session)</a>	-	-	-	-	-	-	-	-
<a href="#">SB 312 (2019 Session)</a>	-	-	0.025	-	-	-	-	-
<a href="#">HB 5 (2019 &amp; 2021 session)</a>			2.500	2.000				
<a href="#">HB 10 (2019 &amp; 2021 session)</a>				7.313		0.500	0	0
<a href="#">HB 14 (2021 session)</a>				58.600	2.099			
<a href="#">HB 92 (2021 session)</a>					0.700	-	-	-
<a href="#">HB 98 (2021 session)</a>					0.050			
<a href="#">HB 374 (2021 session)</a>				1.000				
<a href="#">SB 191 (2021 session)</a>				165.000				
<b>Other Adjustments</b>	(0.212)	-	-	-	-	-		
<b>Total General Fund</b>	<b>\$45.629</b>	<b>\$110.187</b>	<b>\$122.926</b>	<b>\$535.438</b>	<b>\$180.977</b>	<b>\$291.065</b>	<b>\$23.405</b>	<b>\$22.229</b>

## GENERAL FUND EXPENDITURE LEGISLATION

Much of the proposed expenditure legislation was not available at the time of this writing and the following table includes information available at the time of writing:

General Fund Proposed Legislation for 2025 Biennium			
	\$ Millions		
	FY 2023	FY 2024	FY 2025
HB0001	11.4	4.0	4.4
HB0002		2.1	2.1
HB0003	8.6		
HB0005		118.2	5.2
HB0010		73.8	73.8
HB0013	9.3	29.4	67.1
Grand Total	\$29.2	\$227.4	\$152.5

### HB 1 Feed Bill

\$19.7 million general fund. This legislation provides funding for operations of the legislature for the 2023 session and the interim period during FY 2024-FY 2025.

### HB 2 Language Appropriations

\$4.1 million general fund for the 2025 biennium. HB 2 language general fund appropriations are for pass-through grants and payments to local governments pursuant to 15-1-102(6)(d), MCA.

### HB 3 Supplemental Appropriations

The executive requested \$8.6 million general fund in HB 3 supplemental appropriations for FY 2023. The following agencies have been included in the request:

- Department of Corrections, \$952,498 general fund for the public safety division
- Department of Military Affairs, \$40,925 general fund for the director's office; \$80,248 general fund for the National Guard scholarship program; and \$22,715 general fund for the Air National Guard
- Department of Justice (DOJ), \$2.6 million general fund for the Montana Highway Patrol and \$305,779 general fund for the legal services division
- Office of Public Defender, \$4.5 million general fund for the conflict division
- Office of Public Instruction, \$86,000 in general fund for state level activities

### HB 5, Long-Range Planning

\$123.3 million general fund for the 2025 biennium. This includes a \$113.0 million transfer from the general fund to the capital development projects fund.

### HB 10, Long-Range Information Technology

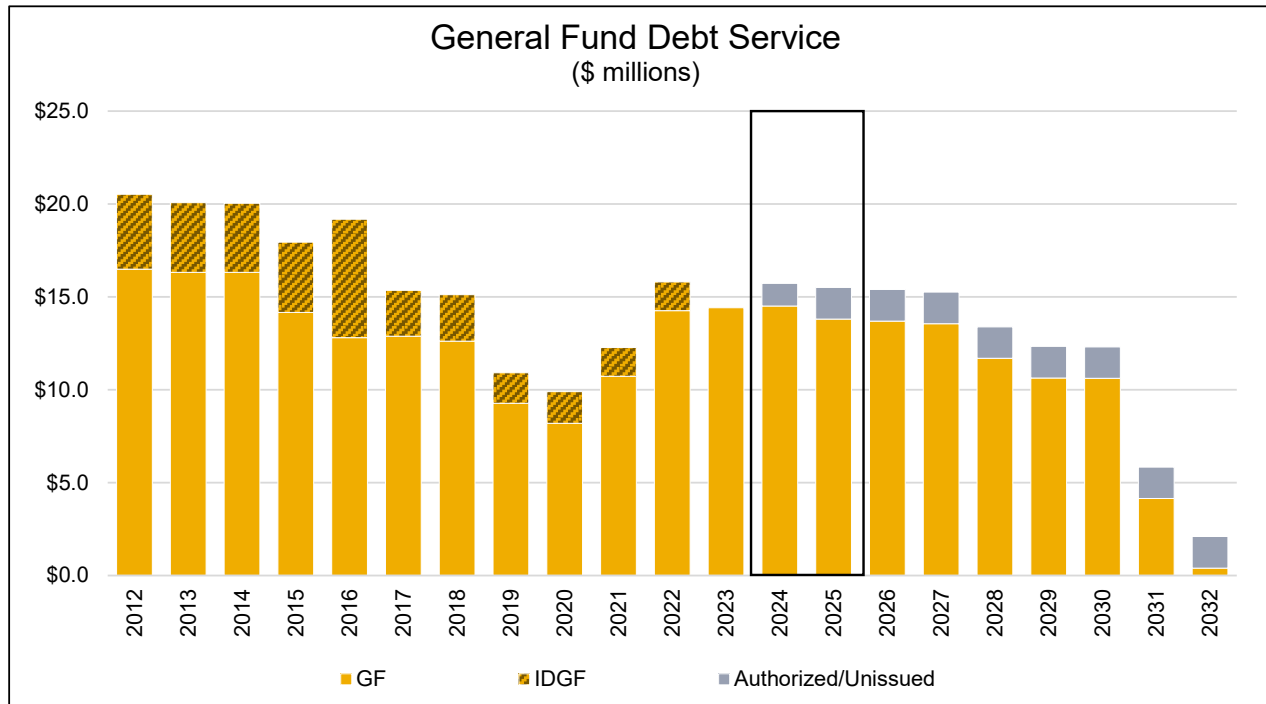
\$147.6 general fund transfer to the Long-range information technology program fund to use on an as needed incremental basis no later than June 30, 2025.

### HB 13 Employee Pay Plan

\$105.8 million general fund for FY 2023 – FY 2025. This includes a proposal for \$9.3 million general fund for one-time-only bonuses to state employees by June 30, 2023. The executive proposes to increase employee pay by 4.0% in FY 2024 and 4.0% in FY 2025.

## DEBT SERVICE

The following table illustrates current debt service and includes projections for authorized but unissued debt service.



- **Gold-GF** – General obligation (GO) bonds paid by the general fund. The bond issues related to this debt service primarily funded the construction of state government buildings and beginning in FY 2019 local government infrastructure projects (\$28.3 million in the 2025 biennium)
- **Grey (Authorized/Unissued)** – This category includes the projections for debt services costs on authorized but unissued bonds (\$21.7 million of authority). The bonds are authorized for the costs of the Fort Belknap tribal compact, the St. Mary's diversion system improvements, and the balance of the bonds authorized by the 2019 Legislature (HB 652)
- **Gold Hatched IDGF** – This category included special revenue bonds that were paid indirectly through the general fund. The related bond issue covered the costs of improvements at Montana State Hospital. Debt service on this bond was paid by funds that would otherwise flow into the general fund. The issue was paid in full in FY 2022 and is no longer included in the projected debt service.

In the 2025 biennium, the debt service paid directly and indirectly through the general fund for existing bond issues is expected to be \$14.5 million in FY 2024 and \$15.1 million in FY 2023.

The executive's proposal for "One-time-only Investments and Relief" includes a transfer of \$150.0 million general fund to a new state special revenue fund by June 30, 2023. This transfer would establish the executive's Debt Free in 2023 plan to pay off general obligation (GO) debt. The proposed fund will be used to pay off GO bonds that are currently callable, or in other words bonds that may be paid off under the terms of the bond's issuance. The proposed fund will also be used to make debt payments on GO bonds that are callable at a future date until such time those bonds reach their call date and can be paid off. And the proposed fund will be used for defeasance of GO bonds with no call date, a financial means by which outstanding bonds with no call provision may be retired.

# PENSIONS

## UPDATE ON CURRENT VALUATIONS

Upon completion of the FY 2022 actuarial valuations, the unfunded liability across Montana's nine retirement systems was \$4.7 billion, all of which are under amortization schedules as shown below. The two largest systems, the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) had actuarially calculated unfunded liabilities of \$2.3 billion and \$1.9 billion respectively.

Overall, compared to the FY 2021 actuary valuations, most systems' funded ratios decreased slightly. However, this was after incorporating a new rate of return assumption. In the new actuarial valuations, the investment return assumption was lowered from 7.65% to 7.30%.

Montana Pension Systems Actuarial Valuations				
	Funded Ratio 2022	Funded Ratio 2021	Amortization Period 2022	Amortization Period 2021
Teachers' Retirement System (TRS)	72%	71%	25	24
Public Employees' Retirement System (PERS)	75%	76%	32	28
Judges' Retirement System	174%	177%	0	0
Highway Patrol Officers' Retirement System	66%	67%	47	26
Sheriffs' Retirement	79%	83%	33	18
Game Wardens' Retirement System	83%	85%	DNA	35
Municipal Police Officers	71%	74%	24	15
Firefighters' Unified Retirement System	81%	86%	12	6
Volunteer Firefighters	91%	100%	3	1

## AMERICAN RESCUE PLAN ACT (ARPA) FUNDING UPDATE

In 2021, the Montana Legislature passed HB 632, authorizing the use of ARPA funding. Since that time, over \$1,022.3 million has been awarded to public and private entities around the state. Of that amount, \$609.3 million has been paid out, including \$343.6 million passed on directly to counties and municipalities. Over \$92.2 million has been provided for emergency rental assistance. The largest area of awarded funds that have yet to be paid out is for Water and Sewer infrastructure, where a total of \$322.4 million has been awarded, but only \$15.8 million has been paid out.

## FULL-TIME EQUIVALENT

Full-time-equivalent (FTE) is used to account for full and part-time employees of state government. The legislature does not appropriate FTE per se, but instead uses FTE and its individual attributes such as salary and benefits to build the personal services budget. The FTE are also used to indicate which FTE can be used to build the base budget in the next biennium.

HB 2 Only FTE Agency Summary		Requested New FTE	
	Base FTE	FY 2024	FY 2025
<b>General Government</b>			
COMMISSIONER OF POLITICAL PRACTICES	6.00	1.00	1.00
CONSUMER COUNSEL	5.54		
DEPARTMENT OF ADMINISTRATION	140.44	9.75	9.75
DEPARTMENT OF COMMERCE	54.05	4.00	4.00
DEPARTMENT OF LABOR AND INDUSTRY	668.48	(39.00)	(39.50)
DEPARTMENT OF MILITARY AFFAIRS	220.66	14.00	14.00
DEPARTMENT OF REVENUE	661.17	6.00	6.00
GOVERNOR'S OFFICE	56.57	4.00	4.00
LEGISLATIVE BRANCH	143.39	23.95	23.95
STATE AUDITOR'S OFFICE	72.50		
<b>General Government Total</b>	<b>2,028.80</b>	<b>23.70</b>	<b>23.20</b>
<b>Health &amp; Human Services</b>			
DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES	2,831.02	9.40	10.40
<b>Health &amp; Human Services Total</b>	<b>2,831.02</b>	<b>9.40</b>	<b>10.40</b>
<b>Natural Resources &amp; Transp</b>			
DEPARTMENT OF AGRICULTURE	119.66		
DEPARTMENT OF ENVIRONMENTAL QUALITY	366.04	3.00	3.00
DEPARTMENT OF FISH, WILDLIFE, AND PARKS	756.89	(50.73)	(50.73)
DEPARTMENT OF LIVESTOCK	132.87	5.00	5.00
DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION	539.61	1.00	1.00
DEPARTMENT OF TRANSPORTATION	2,018.27		
<b>Natural Resources &amp; Transp Total</b>	<b>3,933.34</b>	<b>(41.73)</b>	<b>(41.73)</b>
<b>Judicial Br. Law Enf &amp; Justice</b>			
DEPARTMENT OF CORRECTIONS	1,282.17	2.00	2.00
DEPARTMENT OF JUSTICE	825.65	34.50	34.50
JUDICIAL BRANCH	466.44	9.00	12.00
OFFICE OF STATE PUBLIC DEFENDER	302.44	20.00	20.00
PUBLIC SERVICE COMMISSION	36.00	4.00	4.00
<b>Judicial Br. Law Enf &amp; Justice Total</b>	<b>2,912.70</b>	<b>69.50</b>	<b>72.50</b>
<b>Education</b>			
BOARD OF PUBLIC EDUCATION	3.00		
COMMISSIONER OF HIGHER EDUCATION	50.22		
MONTANA ARTS COUNCIL	7.00		
MONTANA HISTORICAL SOCIETY	54.38	24.46	24.46
MONTANA STATE LIBRARY	30.46		
OFFICE OF PUBLIC INSTRUCTION	153.27	(4.00)	(4.00)
SCHOOL FOR THE DEAF & BLIND	83.47	3.27	3.27
<b>Education Total</b>	<b>381.80</b>	<b>23.73</b>	<b>23.73</b>
<b>Grand Total</b>	<b>12,087.66</b>	<b>84.60</b>	<b>88.10</b>

## BIENNIAL COMPARISON, 17-7-151, MCA

The Legislative Fiscal Division was unable to complete a rigorous biennial comparison due to the lack of detailed legislation proposed by the executive. However, LFD assumptions and comparisons were completed on known information to develop a total budget picture provided on page 27 of this report.