

FYE 2023 Financial Report

THE BUDGET IN REVIEW
BY LEGISLATIVE FISCAL DIVISION STAFF

SEPTEMBER 14, 2023



OVERVIEW

GENERAL FUND ENDING BALANCE FY 2023 \$851.2 MILLION

The FYE 2023 unaudited, unassigned, general fund ending balance was \$851.2 million. Estimated FY 2023 balance was \$754.7 million as shown in the [2025 Biennium Fiscal Report](#). The difference of \$96.5 million is attributed to lower spending and larger-than-expected general fund revenue collections, which were above the HJ 2 estimate.

The following table shows the detailed FYE 2023 balance sheet.

General Fund Balance Sheet		
Includes Revenue Actuals		
(\$ Millions)		
	Actual FY 2022	Actuals FY 2023
Beginning Fund Balance	\$720.0	\$1,847.1
Revenues		
Actuals & HJ 2 Ongoing Revenue Forecasts	3,755.7	3,682.6
One-Time-Only (OTO) Actuals & HJ 2 Revenue Forecast	135.9	
OTO revenues		260.8
One-time-Only Revenue Accruals for Property Tax Rebates		(187.4)
Total Funds Available	4,598.1	5,612.9
Adjustments	(13.6)	9.8
Expenditures - Ongoing		
Statutory Appropriations	302.9	315.2
Ongoing Transfers	23.4	22.2
HB 2 Agency Budgets	2,121.9	2,237.2
HB 2 Language Appropriations		0.1
HB 1 Feed Bill	2.2	11.5
Other House and Senate Bills	10.8	3.1
Ongoing Expenditures	2,461.3	2,589.3
Expenditures One-Time-Only (OTO)		
HB 2 Agency Budgets	18.6	13.5
OTO Transfers	270.2	2,125.7
OTO Other House & Senate Bills, Carryforward, ATs, Other	2.6	41.5
Total Expenditures	2,752.7	4,769.9
Adjustments	(1.7)	8.3
Ending Fund Balance	\$1,847.1	\$851.2
Structural Balance	\$1,294.4	\$1,093.3

GENERAL FUND EXPENDITURES \$21.3 MILLION LOWER THAN ESTIMATES

The general fund expenditures for FY 2023 were lower than anticipated by \$21.3 million. The primary differences are shown in the following table.

General Fund Expenditures, Estimated vs Actuals FY 2023			
	Estimated	Actual	Difference
Statutory Approps	\$319.4	\$315.2	(\$4.3)
Transfers	\$2,135.8	\$2,147.8	\$12.0
HB 2 (includes estimated reversions & FMAP reduced approps)	\$2,274.0	\$2,250.7	(\$23.3)
HB 2 Language	\$2.0	\$0.1	(\$1.9)
HB 1	\$12.1	\$11.5	(\$0.6)
Other House & Senate Bills, Carryforward, ATs, & Other	\$48.0	\$44.6	(\$3.3)
Total Differences	\$4,791.3	\$4,769.9	(\$21.3)

STATUTORY APPROPRIATIONS, \$4.3 MILLION LOWER THAN ESTIMATE

Actual FY 2023 statutory appropriations were lower than estimated in June, primarily the result of lower than estimated Governor's emergency fund spending.

TRANSFERS, HIGHER THAN ESTIMATE BY \$12.0 MILLION

The primary difference between estimates and actuals were two transfers that occurred in FY 2023, but were estimated to occur in FY 2024:

- HB 5 for emergency shelters, \$5.0 million, estimated in FY 2024, but occurred in FY 2023
- HB 5 for capital development, \$6.0 million, estimated in FY 2024, but occurred in FY 2023
- Others estimated in FY 2024, but occurred in FY 2023, nearly \$1.0 million

HB 2, \$23.3 MILLION LESS THAN ESTIMATE

The net total estimate for HB 2 general fund was \$2,274.0 million which included estimated reversions of \$8.1 million and estimated reduced appropriations of \$62.8 million. Actual HB 2 general fund spending was \$2,250.7 million, which was \$23.3 million less than the estimate. The primary areas of difference were the following:

- Office of Public Instruction (OPI), \$21.8 million less
- Department of Public Health and Human Services (DPHHS), estimated savings for enhanced FMAP was \$62.8, actual savings was \$64.1 million, a difference of \$1.3 million
- Department of Corrections (DOC), \$2.3 million less
- Judicial Branch, \$2.3 million less
- Legislative Branch, \$2.0 million less

Additional details of the unspent general fund appropriations are included in the agency expenditures section of this report and in the agency specific reports presented to the [interim budget committees](#).

HB 2 GENERAL FUND LANGUAGE APPROPRIATION, LOWER THAN ESTIMATE BY \$1.9 MILLION

The HB 2 language for the Department of Revenue provided authority for payments to local governments to pay settlements required under 15-1-402(6)(d)(i)(A). Actuals were \$121, 561.

OTHER HOUSE AND SENATE BILLS, ETC., LOWER THAN ESTIMATE BY \$3.3 MILLION

Other house and senate bills including the FY 2023 general fund supplemental appropriations, FY 2023 HB 13 one-time bonuses to employees, previously authorized bills from the 2021 session, and carryforward authority were underspent by \$3.3 million or 92.9%. No one data point stood out, but rather a combination of lower spending throughout agencies.

AGENCY EXPENDITURE FYE 2023 HIGHLIGHTS

Agencies with significant budget highlights from FY 2023 are included in this section. Detailed spending by each agency is provided in reports to the [Interim Budget Committees](#).

DEPARTMENT OF CORRECTIONS

The Department of Corrections unspent general fund HB 2 authority for FY 2023 was primarily unused contingency funding in the Director's office of \$1.6 million. As per the provisions of HB 2, the Director's Office contingency funding may have been expended only after the budget director certified that county jail holds were maintained at a monthly average of 250 or less each month of the biennium beginning on July 1, 2021.

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES (DPHHS)

In the course of FY 2023 general fund appropriations were adjusted down in the accounting system using [17-2-108\(2\)](#), MCA for realized COVID-19 general fund savings related to federal stimulus. A total of \$64.1 million in general fund appropriation authority was reduced from the Department of Public Health and Human Services budget. This was the result of the enhanced COVID Federal Medical Assistance Percentage (COVID-FMAP), which increased federal authority for traditional Medicaid, saving the state general fund.

DPHHS underspent HB 2 general fund authority by a total of \$1.9 million.

[HB 835](#) (2023 session) created a state special revenue fund (Medicaid and 24/7 Facility Contingency fund) from which the executive could support expenditures on Medicaid and state facilities, including the Montana State Hospital, in FY 2023. HB 835 directed that \$56.5 million of general fund be transferred into this fund by June 30, 2023.

JUDICIAL BRANCH

The Judicial Branch underspent authority primarily in the following three areas:

- Supreme Court operations, \$485,275
- The transfer, placement and supervision of youth parole as defined in [HB 111 \(2019 session\)](#), \$466,187
- District Court operations, \$741,427

LEGISLATIVE BRANCH

The Legislative Branch primarily underspent appropriations in legislative committees and activities and Legislative Audit Division operations. The Audit Division underspent authority by \$1.1 million mostly attributed to turnover and Legislative committee activities underspent by \$577,423.

OFFICE OF PUBLIC INSTRUCTION (OPI)

The OPI underspent HB 2 general fund authority of \$21.8 million is attributed to higher than anticipated revenue in the guarantee account, which is statutorily appropriated and offset general fund expenditures for K-12 BASE Aid, and continuing authority from FY 2022 into FY 2023. The guarantee account came in higher than expected by \$11.7 million, and OPI also had \$5.4 million of continuing authority rollover into FY 2023 from unspent biennial appropriation authority left over at the end of FY 2022. In addition, the following HB 2 budget authority was underspent:

- Transportation aid authority was underspent by \$2.3 million
- Starting teacher pay authority underspent by \$1.2 million
- Advanced opportunity aid authority underspent by \$1.1 million
- Other underspent authority (major maintenance, recruit and retain, etc.) by nearly \$1.0 million

HB 2 GENERAL FUND BY AGENCY

The Legislative Fiscal Division has created a Power BI interactive data tool that illustrates the budgeted and actual expenditures of *general fund* for HB 2 for FY 2023. The budgeted number reflects the FYE modified budget. Detailed budget changes by section, agency, and program can be found in reports given to the [Interim Budget Committees](#).

The link to the Power BI tool allows viewers to pick and choose agencies and drill down deeper into the data. Three pages or dashboards provide a different view of the data. The general fund only dashboard is the second page. Please note, there are slight differences between the Power BI tool and SABHRS accounting/general fund balance sheet.

<https://app.powerbigov.us/view?r=eyJrIjoiNzUxOWI5MzYtZTgyZS00NDZkLWE4NTUtZjk0YjUyNTk5NzE0IiwidCI6IjVmYzM1Mjk4LTQyMTEtNDA1NC04Njc4LWlzMjgxYzYzM5NzI2NyJ9>

HB 2 BY AGENCY

The Legislative Fiscal Division has created a Power BI interactive data tool that illustrates the budgeted and actual HB 2 FYE 2023 expenditures. This includes general fund, state, and federal special revenue, and budgeted proprietary funds. The interactive tool shows a comparison of the FYE modified budget to actual expenditures for all state agencies.

The link to the Power BI tool allows viewers to pick and choose agencies and drill down deeper into the data. The third page or dashboard shows all funds.

<https://app.powerbigov.us/view?r=eyJrIjoiNzUxOWI5MzYtZTgyZS00NDZkLWE4NTUtZjk0YjUyNTk5NzE0IiwidCI6IjVmYzM1Mjk4LTOyMTEtNDA1NC04Njc4LWlzMjgxYzM5NzI2NyJ9>

LOOKING AHEAD TO FY 2025

GENERAL FUND ENDING BALANCE, ESTIMATED FY 2025

The estimated FY 2025 ending fund balance is \$782.9 million which is higher than estimated at the end of session due to higher-than-expected revenues in FY 2023 and lower than expected spending in FY 2023. The following graphic shows the details of the ending fund balance with the HJ 2 revenue estimate.

General Fund Balance Sheet
Includes HJ Revenue Estimates Adjusted for Legislation
(\$ Millions)

	Actual FY 2022	Actuals FY 2023	Revenue Forecast Adjusted for Legislation FY 2024	Revenue Forecast Adjusted for Legislation FY 2025
Beginning Fund Balance	\$720.0	\$1,847.1	\$851.2	\$701.7
Revenues				
Actuals & HJ 2 Ongoing Forecasts Adjusted for Legislation	3,755.7	3,682.6	3,178.1	3,131.7
One-Time-Only (OTO) Actuals & Forecast				
OTO revenues	135.9	260.8	(55.5)	(54.7)
OTO Accounting Accruals & Assumed Reversal for Property Tax Rebates		(187.4)	187.4	
Total Funds Available	4,598.1	5,612.9	4,161.2	3,778.7
Adjustments	(13.6)	9.8		
Expenditures - Ongoing				
Statutory Appropriations	302.9	315.2	312.5	335.4
Ongoing Transfers	23.4	22.2	12.5	12.5
HB 2 Agency Budgets (includes pay plan)	2,121.9	2,237.2	2,098.6	2,247.6
HB 2 Language Appropriations		0.1	1.9	1.9
HB 1 Feed Bill	2.2	11.5	7.1	13.4
Other House and Senate Bills	10.8	3.1	27.5	19.0
Health plans transfer (structural balance purposes)			8.2	8.2
Estimated Reversions			(7.4)	(7.9)
Ongoing Expenditures	2,461.3	2,589.3	2,461.0	2,630.2
Expenditures One-Time-Only (OTO)				
HB 2 Agency Budgets	18.6	13.5	57.3	38.6
OTO Health plans transfer (structural balance purposes)			(8.2)	(8.2)
OTO FMAP phase down			(20.0)	
OTO Statutory Appropriations (property tax rebates)			191.4	192.0
OTO Transfers	270.2	2,125.7	642.1	122.6
OTO Other House & Senate Bills, Carryforward, etc.	2.6	41.5	136.0	20.7
Total Expenditures	2,752.7	4,769.9	3,459.5	2,995.9
Adjustments	(1.7)	8.3		
Ending Fund Balance	\$1,847.1	\$851.2	\$701.7	\$782.9
Structural Balance	\$1,294.4	\$1,093.3	\$717.1	\$501.6

The following are technical assumptions that impact the general fund balance:

- State accounting included a negative revenue accrual for the property tax rebates in FY 2023. This negative accrual was not reflected in the HB 222 or HB 816 fiscal notes and is essentially an accounting transaction. The Legislative Fiscal Division staff assume that an

accrual reversal will occur in FY 2024 after TY 2022 rebates are finalized. Staff will continue to monitor the outcome of this accounting transaction and update the balance sheet when changes in the Statewide Accounting, Budgeting and Human Resource System (SABHRS) occur

- LFD assumes that no general fund debt service payments will be made in FY 2024 and FY 2025, although SABHRS includes statutory appropriations for debt service and associated bond fees of \$30.6 million general fund for the biennium
- LFD assumes that as per HB 251 fiscal note that State Fund Old Fund financial liabilities will be paid off in FY 2024. LFD will monitor this and adjust the fund balance estimate as needed
- LFD assumes a \$50.0 million transfer in FY 2025 to the fire fund to bring the fire fund up to 6% of second year general fund appropriations. More analysis of this will be done for the December 2023 report and the balance sheet will be adjusted as needed

GENERAL FUND REVENUES

Actual FY 2023 ongoing general fund revenues were \$244.5 million or 7.1% above the HJ 2 estimate adopted by the 2023 Legislature. Compared to FY 2022 collections, FY 2023 ongoing revenues decreased by \$73.1 million, a decline of 1.9%. This small decline follows two years of extremely strong revenue growth (16.8% in FY 2021 and 27.1% in FY 2022).

FY 2023 revenues were a tale of two halves. In the first half of FY 2023, ongoing general fund revenues were growing at 14.2%. However, in the final six months of FY 2023 ongoing general fund revenues decreased by 12.9%, yielding a final year-to-date decline of 1.9%.

At the time the revenue estimate was adopted in November of 2022, the LFD's baseline underlying economic forecast data assumed the United States would enter a mild recession in CY 2023. This was a result of the Federal Reserve's policy to raise interest rates to tame high inflation. However, to date, the national economy has been resilient, and many signs now point to a "soft landing" as opposed to a mild recession.

There is still a higher-than-normal level of uncertainty moving forwards, as the overall impact of the Federal Reserve's interest rate hikes filter through the economy. It does appear however, that the pandemic-era strong revenue growth may be over, and a clearer picture of Montana's new ongoing revenue stream is emerging. The current estimate for FY 2024 assumes an ongoing revenue decline of 3.7%. Montana's revenue decline in FY 2023 of 1.9% was better than the nationwide state revenue decline of 5.4%. Montana often lags the nation in economic trends, so it would not be surprising if revenues declined to HJ 2 values, or even slightly more.

The following table shows actual FY 2022 revenues in the first numerical column, followed by estimated and actual FY 2023 revenues. The next two columns show the estimated and actual growth in FY 2023 from FY 2022. The last two columns compare the actual FY 2023 revenue to the estimate in HJ 2, showing the difference as an amount and as a percentage. Further detail on each revenue source and the difference from the estimate are provided in the following pages, organized in the same order as the revenue is listed on the table.

General fund revenue: FY 2023 actual collections exceeded HJ 2 estimate by \$245 million
(\$ Millions)

Revenue Source	Actual FY 2022	HJ 2* FY 2023	Actual FY 2023	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.	% Diff Illustrated
Largest Seven Sources								
Individual Income Tax	\$2,393.8	\$2,033.8	\$2,254.3	-15.0%	-5.8%	\$220.5	10.8%	
Property Tax	335.1	351.8	356.0	5.0%	6.2%	4.2	1.2%	
Corporation Tax	293.7	284.3	309.9	-3.2%	5.5%	25.5	9.0%	
Vehicle Taxes & Fees	121.1	121.5	123.0	0.3%	1.5%	1.5	1.2%	
Oil & Natural Gas Taxes	70.5	78.7	71.0	11.6%	0.8%	(7.7)	-9.7%	
Insurance Tax	97.9	101.4	106.2	3.5%	8.4%	4.8	4.7%	
Video Gaming Tax	77.9	80.2	80.1	3.0%	2.9%	(0.1)	-0.1%	
Other Business Taxes								
Drivers License Fee	6.2	5.9	6.6	-5.1%	7.0%	0.7	12.7%	
Investment Licenses	19.5	20.2	20.9	3.3%	7.2%	0.8	3.8%	
Lodging Facilities Sales Tax	46.2	51.1	42.3	10.7%	-8.3%	(8.8)	-17.2%	
Public Contractor's Tax	2.8	4.2	6.7	47.7%	137.1%	2.5	60.5%	
Railroad Car Tax	4.0	4.8	4.0	19.4%	-0.2%	(0.8)	-16.4%	
Rental Car Sales Tax	6.8	8.1	7.3	18.9%	6.6%	(0.8)	-10.4%	
Retail Telecom Excise Tax	8.6	7.9	8.4	-7.9%	-1.6%	0.5	6.9%	
Other Natural Resource Taxes								
Coal Severance Tax	15.4	21.4	20.9	39.2%	35.9%	(0.5)	-2.3%	
Electrical Energy Tax	3.9	3.8	4.0	-2.3%	1.9%	0.2	4.2%	
Metal Mines Tax	12.2	11.3	7.3	-7.8%	-40.6%	(4.0)	-35.6%	
U.S. Mineral Royalties	19.5	28.1	37.5	44.6%	92.7%	9.4	33.3%	
Wholesale Energy Trans Tax	3.4	3.4	3.5	2.2%	3.1%	0.0	0.8%	
Other Interest Earnings								
Coal Trust Interest Earnings	16.6	17.9	18.1	8.4%	9.3%	0.2	0.9%	
TCA Interest Earnings	11.8							
Other Consumption Taxes								
Beer Tax	3.2	3.3	3.2	2.9%	-0.5%	(0.1)	-3.2%	
Cigarette Tax	28.0	27.5	20.8	-1.7%	-25.7%	(6.7)	-24.4%	
Liquor Excise Tax	32.5	31.2	32.7	-4.0%	0.5%	1.5	4.7%	
Liquor Profits	18.5	22.6	19.0	22.2%	2.7%	(3.6)	-15.9%	
Lottery Profits	15.3	15.3	22.7	-0.3%	48.0%	7.4	48.4%	
Marijuana Tax	14.2	27.4	29.4			2.0	7.4%	
Tobacco Tax	5.6	5.5	5.4	-2.0%	-3.7%	(0.1)	-1.7%	
Wine Tax	2.6	2.6	2.5	2.7%	-1.7%	(0.1)	-4.3%	
Other Sources								
All Other Revenue	180.5	305.5	304.8	69.2%	68.9%	(0.7)	-0.2%	
Highway Patrol Fines	3.5	3.5	3.6	-0.8%	1.5%	0.1	2.4%	
Nursing Facilities Fee	3.4	3.2	3.5	-8.5%	2.7%	0.4	12.3%	
Public Institution Reimb.	13.9	8.1	4.3	-42.1%	-69.1%	(3.8)	-46.6%	
Tobacco Settlement	3.4	3.3	3.5	-2.4%	1.2%	0.1	3.7%	
Ongoing Revenue Subtotal	3,755.7	3,438.1	3,682.6	-8.5%	-1.9%	244.5	7.1%	
OTO & Transfers Subtotal	135.9	260.8	260.8	91.9%	91.9%	-		
Grand Total	\$3,891.6	\$3,698.9	\$3,943.4	-5.0%	1.3%	\$244.5	6.6%	

*HJ 2, adjusted for legislation impacts

**Individual Income Tax:
\$220.5 million above HJ 2**

Individual Income Tax (\$ Millions)

Individual income tax collections were \$220.5 million or 10.8% above the estimate contained in HJ 2. Compared to FY 2022 individual income tax

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Withholding	\$1,521.2	\$1,416.5	\$104.7	7.4%
Estimated Payments	521.3	579.4	(58.0)	-10.0%
Current Year Payments	430.3	524.4	(94.1)	-17.9%
Audit, P&I, Amended	81.4	72.0	9.5	13.2%
Refunds	(462.8)	(335.1)	(127.7)	38.1%
Partnership Income Tax	150.3	122.3	28.1	23.0%
Mineral Royalties	12.5	14.4	(1.9)	-13.2%
Total	2,254.3	2,393.8	(139.5)	-5.8%

collections, revenues decreased by \$139.5 million or 5.8%, but in HJ 2 were expected to decline by 15.0%. It appears that the pandemic-era strong growth in individual income taxes over the last two years has ended. However, it is possible that the new ongoing base is larger than what was anticipated during the development and adoption of HJ 2.

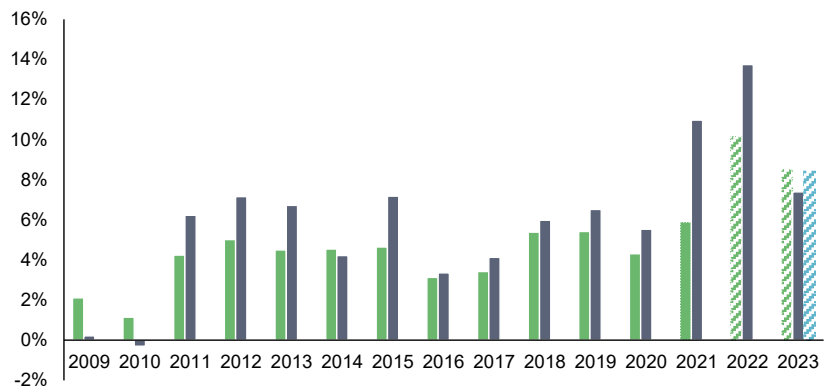
Detailed CY 2022 return data available in November will allow for income source comparisons to HJ 2. The return data will specifically indicate which sources of income were greater or less than expected in HJ 2. Given that finalized individual income taxes were 10.8% above HJ 2, it is likely that many of the income sources were above the HJ 2 assumptions.

As the table above shows, withholding growth finished the year at a strong 7.4%, but down substantially from its growth of 13.3% in the fall of last year. Both estimated payments and April payments had double-digit decreases from the prior year, and the amount of refunds issued by the state were substantially greater than the previous year.

Wage Income

There is a correlation between withholding growth and wage and retirement income growth; however, the relationship varies from year to year as shown in the adjacent graph. FY 2023 withholding growth of 7.4% is fairly consistent with the HJ 2 estimated CY 2022 wage and retirement income growth of 8.5% as well as the updated IHS Montana wage disbursement that is also 8.5%.

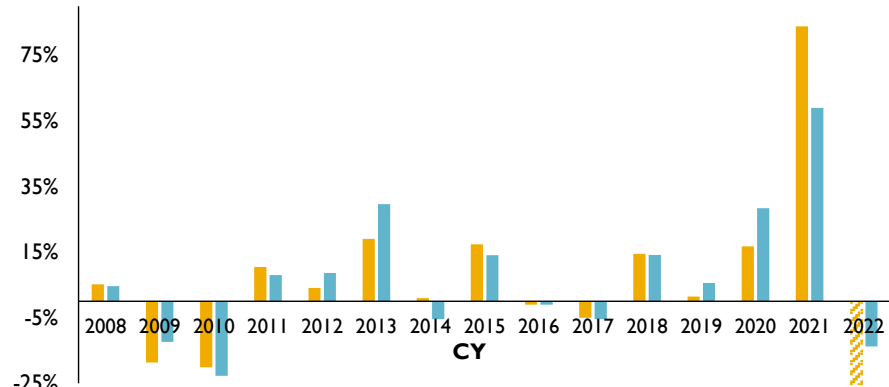
Withholding growth is typically above approximated FY wages and retirement income growth and Updated IHS Wage Growth Estimates.



Non-Wage Income

Non-wage income from business and investment income is typically reflected in taxes collected through quarterly estimated and current year payments. FY 2023 quarterly estimated and current year payments decreased by 13.8% in FY 2023 after

Combined fiscal year estimated and current year tax payment growth typically tracks the prior calendar year's business and investment income growth. Given the known FY 2023 values it is possible that the estimated decline in CY 2022 was overstated.



experiencing growth of 59.0% in FY 2022. The figure above shows the fiscal year growth rates of estimated and current year tax payments and the most recent estimates of prior calendar year's business and investment income. In HJ 2, there was an expected decline of 25.8%.

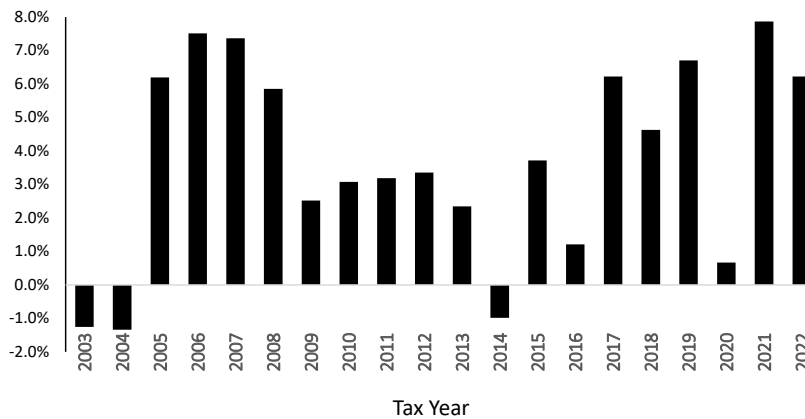
Unlike the wage and withholding figure, actual collections in the accounting system for estimated payments and current year payments appear to have exceeded the prior year's business and investment income estimates. If this turns out to be true, then the growth for individual income taxes compared to HJ 2 will have been in the form of non-wage income, with a larger portion of the surge in CY 2021 lingering into CY 2022 than was initially anticipated. At this point, it is expected that non-wage income will continue to decrease throughout FY 2024 (CY 2023).

Property Tax: \$4.2 million above HJ 2

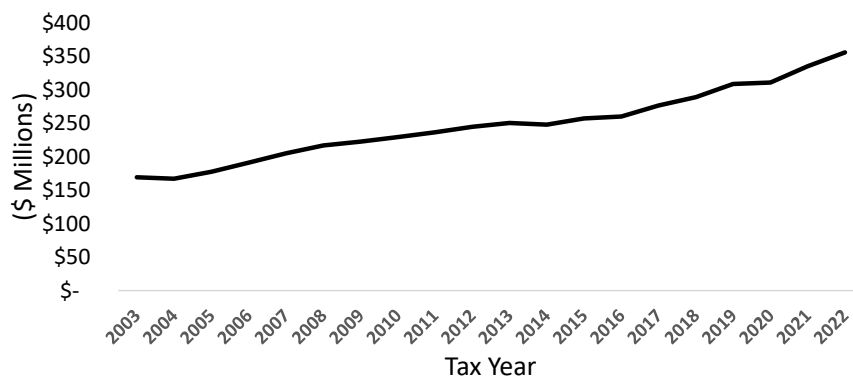
General fund property tax revenue was 1.2% or \$4.2 million above the HJ 2 estimate. While property tax was expected to grow by 5%, a high amount of non-levy revenue resulted in a total growth of 6.2%.

Year-over-year general fund property tax growth has varied between -1.3% and 7.9% over the last two decades. Since TY 2002, property tax revenues have had a compound annual growth rate of 3.7%. TY 2022 saw less growth than last year's 7.9% but was still far above the TY 2020 low of 0.7%. Approximately 2.58% of that general fund growth is attributable to new property coming onto the tax rolls. Fluctuations in property tax revenue are still relatively small compared to the total amount of property tax collected by the state and property tax remains one of the more stable sources of revenue for the state general fund. Total property tax growth (including property tax revenue for local governments and schools in addition to that which goes to the state general fund) was greater than the previous year and is expected to increase next year due to high reappraisal values.

Year-over-year general fund property tax growth has varied over the last twenty years. State Property tax collections grew 6.2% between TY 2021 and TY 2022.



General fund property tax collections have grown at a relatively steady rate over the last twenty years, with a compound annual growth rate of 3.8% since TY 2003.



**Corporate Income Tax:
\$25.5 million above HJ 2**

FY 2023 corporate tax collections were \$25.5 million or 9.0% above the estimate contained in HJ

Corporate Income Tax (\$ Millions)				
Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Corporation Tax	\$69.0	\$67.7	\$1.3	1.9%
Estimated Payments	\$250.6	\$224.2	26.4	11.8%
Refunds	(29.7)	(20.4)	(9.3)	45.6%
Audit, P&I, Amended	20.0	22.2	(2.2)	-9.9%
Total	\$309.9	\$293.7	\$16.2	5.5%

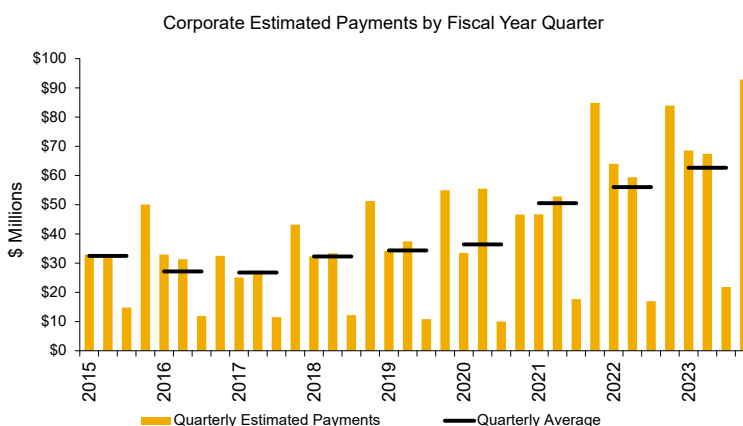
2. The table above shows the accounting level detail for FY 2023 compared to FY 2022. Compared to FY 2022, which was previously the highest collections ever for corporate income tax, FY 2023 collections increased by \$16.2 million or 5.5%.

Actual collections compared to HJ 2 are shown in the adjacent table. Total tax liability was underestimated by \$40.1 million.

FY 2023 corporate income tax came in \$25.5 million above HJ 2 (\$ millions)

	HJ 2	Actual	\$ Difference
Tax Liability & Adjustments	\$279.5	\$319.6	\$40.1
Refunds	(21.6)	(29.7)	(8.1)
Audit, Penalty & Interest	26.4	20.0	(6.5)
Total	\$284.3	\$309.9	\$25.5

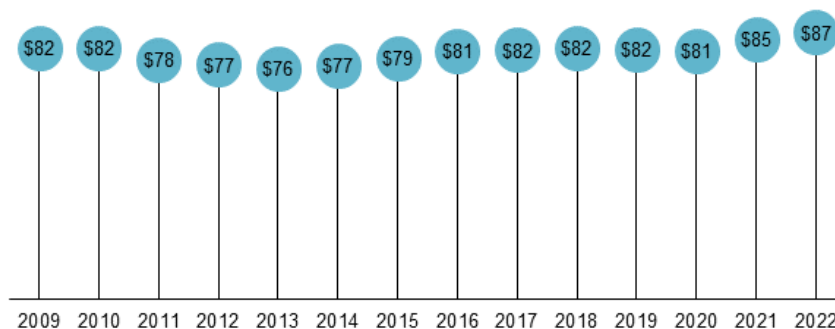
Estimated payments, which often account for 80% of total corporate tax revenues, remained strong throughout FY 2023, unlike individual income tax estimated payments.



Vehicle Taxes & Fees: \$1.5 million above HJ 2

Revenue collections from vehicle taxes and fees were \$1.5 million or 1.2% higher than anticipated in HJ 2. Light vehicle registrations continued a steady climb in FY 2023. This was likely influenced by a continued influx of new residents moving to the state and registering vehicles in Montana.

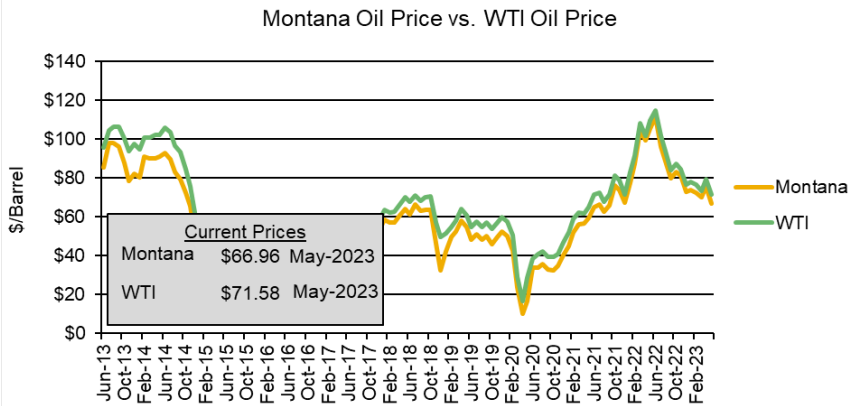
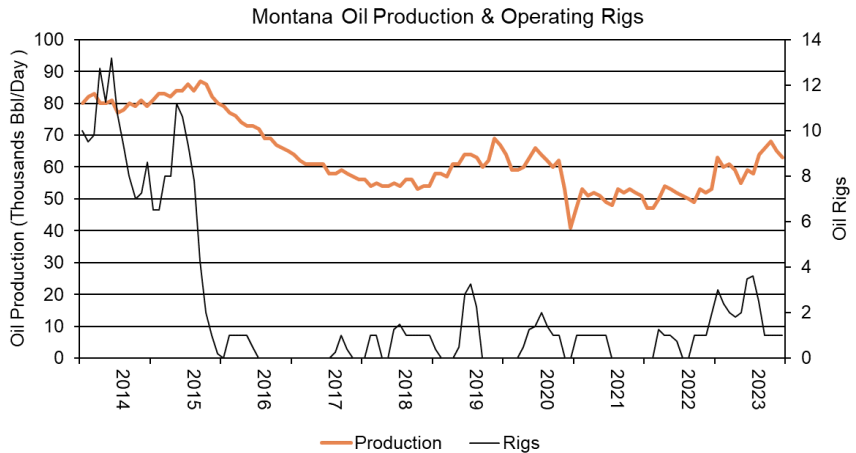
Light vehicle registration revenue had remained flat for several years, but grew by \$2 million in FY 2022. (\$ millions)



Oil & Natural Gas Taxes: \$7.7 million below HJ 2

Oil and natural gas collections were \$7.7 million or 9.7% below the estimate in HJ 2. This difference was mostly driven by a cooling of prices. Average price per barrel for FY 2023 in Montana was approximately \$76.5 million, and in FY 2022 it was about \$85.6 million.

Shown in the graph to the upper-right, production from existing wells increased slightly in FY 2023 following a peak in prices in late FY 2022. The number of oil rigs operating in Montana averaged about 2 during FY 2023. In the graph to the right, there was a peak in price in late FY 2022. Since the peak of \$111.36 per barrel in June 2022, prices in Montana have fallen to \$66.96 per barrel as of May.



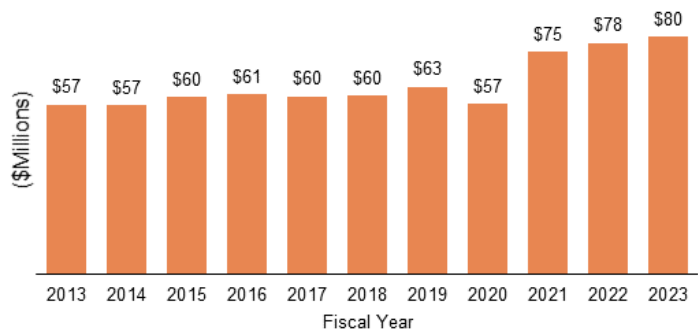
Insurance Tax: \$4.8 million above HJ 2

FY 2023 insurance tax came in \$4.8 million or 4.7% above the HJ 2 estimate. This source is forecast using the IHS Montana Personal Consumption Expenditure (PCE) for financial and insurance products and a trended proxy premium. The increase may be due in part to increasing property values and population.

Video Gaming Tax: \$0.1 million below HJ 2

Video gaming revenue in FY 2023 came in as expected at \$0.1 million or 0.1% below what was anticipated in HJ 2. After years of flat-to-modest growth, video gaming tax surged in FY 2021 as shown in the chart. Growth has slowed to 2.6% over the previous year, closer to the 3.2% average growth of the past 20 years.

FY 2023 video gaming tax grew 2.6%



Other Business Taxes

Driver's License Fee: \$0.7 million above HJ2

Total driver's license revenue was \$0.7 million or 12.7% above the estimate in HJ 2. The estimate was based on forecast population data and historical ratios between licenses and actual populations. Like vehicle registrations, the data suggest that higher collections may have been driven by increases in population.

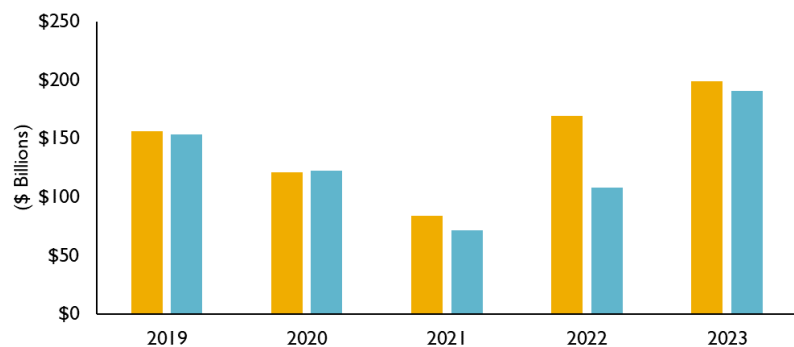
Investment License Fee: \$0.8 million above HJ2

Investment license fee collections were \$0.8 million or 3.8% higher than the estimate in HJ 2. The estimate was modeled on the Montana personal consumption expenditure series for finance & insurance from IHS Markit, with modeled growth rates applied to the last known collections. Estimated consumption on finance & insurance in FY 2023 was higher than anticipated in HJ 2.

Lodging Facilities Sales Tax: \$8.8 million below HJ 2

Lodging facilities sales tax collections were \$8.8 million or 17.2% below the estimate in HJ 2. This revenue source was forecast based on national consumer spending on accommodations. Actual collections were down by about \$3.9 million from FY 2022. This represents a plateauing of tourism and lodging spending from pandemic and post covid-19 highs.

Current IHS estimates for national consumer spending on accommodations in FY 2023 are slightly larger than the estimate used in HJ 2.



After the 68th legislative session, the LFD reviewed the lodging facilities sales tax forecast model and decided to no longer use national spending on accommodations as a predictor. This was due to recent years in which Montana's tourism activity began to deviate from national trends. Instead, the new model now uses Montana specific data related to tourism related activity.

Public Contractors' Gross Receipts Tax: \$2.5 million above HJ 2

Public contractors' gross receipts tax collections were \$2.5 million or 60.5% above the estimate contained in HJ 2. This source was estimated in HJ 2 based on a time trend of highway spending and all other construction in recent years. This source is volatile and difficult to estimate due to the unpredictability of income tax credits and property tax refunds.

Railroad Car Tax: \$0.8 million below HJ 2

Railroad car tax revenue was \$0.8 million or 16.4% below the HJ 2 estimate. The HJ 2 estimate was based on total United States railcar valuation, estimates on Montana apportionment, and the IHS Markit forecast for Montana retail sales. This source can be difficult to forecast in some years, and in FY 2023 the large increase in Montana retail sales did not translate to increased railroad car tax revenue.

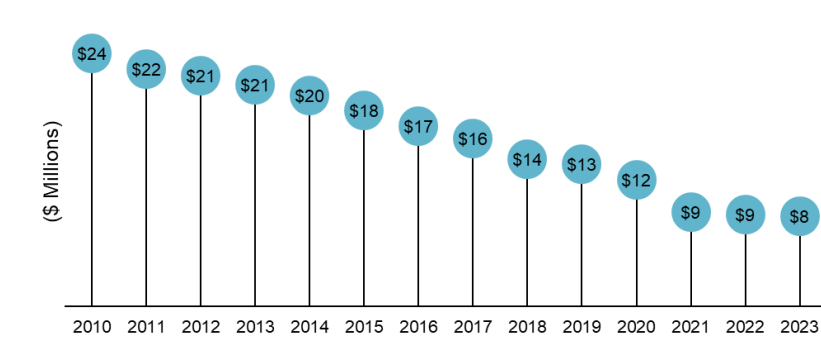
Rental Car Sales Tax: \$0.8 million below HJ 2

Rental car sales tax collections were \$0.8 million or 10.4% below the estimate contained in HJ 2. Rental car sales tax was forecast in HJ 2 based on the Montana personal consumption expenditure series for transportation. - note the higher revenues from FY22, but not as high as HJ 2

Retail Telecommunications Excise Tax: 0.5 million above HJ 2

Retail telecommunications excise tax collections were \$0.5 million or 6.9% above the estimate in HJ 2. The estimate was based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS Markit forecast of Montana population growth.

Retail telecommunications excise tax collections have been declining since FY 2010.



Other Natural Resource Taxes

Coal Severance Tax: \$0.5 million below HJ 2

Coal severance tax collections were slightly below the HJ 2 estimate by \$0.5 million or 2.3%. This source is forecasted based on production and price assumptions, and the HJ 2 estimate assumed very strong prices and consistent production. As a result of these strong prices, on a year-over-year basis, collections increased by \$5.5 million or 35.9%.

Electrical Energy Tax: \$0.2 million above HJ 2

Taxable energy production was above the HJ 2 forecast by \$0.2 million, or 4.2%. Tax collections are a flat rate imposed against production. This source is forecast by using an Olympic moving average (excludes the maximum and minimum) of the six most recent years.

Metalliferous Mines Tax: \$4.0 million below HJ 2

Metal mines tax collections were \$4.0 million or 35.6% below the estimate contained in HJ 2. Based on volatile mineral commodities, this source returned to pre pandemic collections more dramatically than estimated.

U.S. Mineral Royalties: \$9.4 million above HJ 2

Revenue from U.S. mineral leases in the state was \$9.4 million or 33.3% above the HJ 2 estimate. Strong coal prices were primarily responsible for higher-than-expected collections.

Wholesale Energy Transaction Tax: \$0.0 million below HJ 2

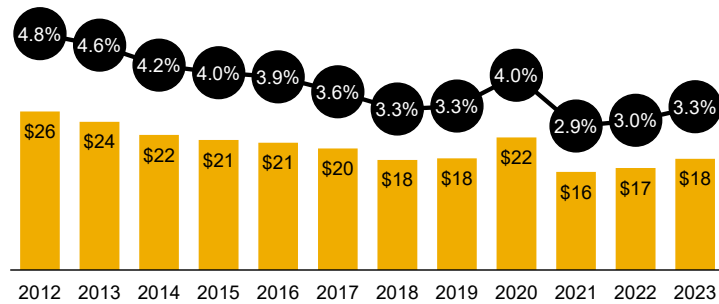
Wholesale energy transaction tax was \$0.0 million or 0.8% below the estimate contained in HJ 2. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

Other Interest Earnings

Coal Trust Interest Earnings: 0.2 million above HJ 2

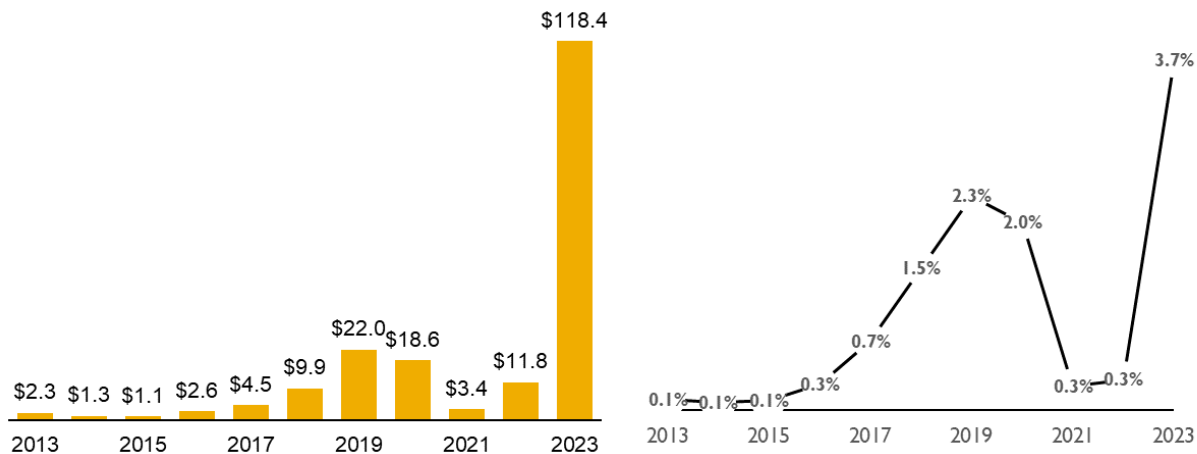
Coal trust interest earnings were slightly above the revenue estimate in HJ 2 by 0.9% or \$0.2 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates on the permanent trust came in as expected, resulting in an estimate slightly above HJ 2.

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



Treasury Cash Account Interest Earnings (Now State Special Revenue)

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



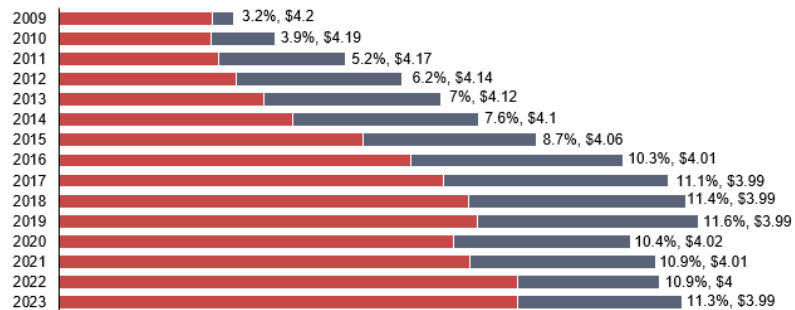
With the passing of HB 251, all TCA earnings will no longer go to the general fund and will instead be sent to the “debt and liability free” account. Earnings are dependent on the amount of cash in the short-term investment pool (STIP) and short-term interest rates. The growth can be attributed to strong cash balances and high short term interest rates throughout the course of FY 2023. Under current law, earnings will return to the general fund after FY 2025.

Other Consumption Taxes

Beer Tax: \$0.1 million below HJ 2

Beer tax revenue came in 3.2% or \$0.1 million below the official projection in FY 2023, however revenue is down 3.2% from the previous year due to lower per capita consumption and a consumer shift back to smaller producers who pay lower effective tax rates. Lower per capita consumption may be attributable to inflation. The

The market share of small brewers—those producing 5,000 barrels/year or less and those producing between 5,000 and 10,000 barrels/year- has been increasing over time, decreasing the effective tax rate.



effective tax rate on beer has been declining for several years due to the increasing market share of craft beer, which is taxed at a lower rate based on production. The first 5,000 barrels are taxed at \$1.30 per 31-gallon barrel. The second 5,000 barrels are taxed at \$2.30 per barrel, while all production beyond 10,000 barrels is taxed at \$4.30 per barrel. During the COVID-19 pandemic, the market share of large producers increased causing the effective tax rate to rise but appears to be settling back to pre-pandemic levels. The estimate for this revenue source is based on proxy barrels, population aged 21 or greater, and consumption per capita.

Cigarette Tax: \$6.7 million below HJ 2

Cigarette tax collections came in \$6.7 million or 24.4% below the HJ 2 revenue estimate. This drop in revenue appears to be a product of several factors including a drop in smoking since the pandemic as well as a collections timing issue that artificially inflated revenue for 2022.

The Department of Revenue sells decals for retailers to affix to packs of cigarettes as evidence of paying the \$1.70 per pack state tax. Decals are purchased in bulk sheets of 150, or rolls of 30,000, with small discounts for larger orders. Since decals need to be purchased in bulk and prior to sales, retailers must estimate sales. Because of this, they may overestimate sales and not need to restock decals for some time when demand drops. The recently published Federal Trade Commission (FTC) Cigarette Report shows a slight increase in cigarette sales in 2020 and a decrease in 2021, while data from the Montana Department of Revenue decal sales does not show an increase until fiscal 2021 and the increase continues in FY 2022. It may be that retailers were well stocked with decals in FY 2023 and did not need to restock, however a two-year revenue increase makes a material decrease seem unlikely.

Liquor Excise & License Tax: \$1.5 million above HJ 2

Liquor excise tax actuals came in 4.7% or \$1.5 million above HJ 2. These taxes are based on retail selling price of liquor. Liquor prices have risen recently due to inflation. Year over year sales increased slightly, mostly due to increased prices rather than increased sales volume.

Liquor Profits: \$3.6 million below HJ 2

Liquor profits came in \$3.6 million or 15.9% below the estimate contained in HJ 2 for FY 2023. This is likely due to impacts of inflation as increases in price have cooled alcohol sales.

Lottery Profits: \$7.4 million above HJ 2

Lottery profits in FY 2023 were 48.4% or \$7.4 million above the HJ 2 revenue estimate. This is largely due to large jackpots in multiple games driving increased sales. Additionally, sports betting showed strong growth in FY 2023.

Marijuana Tax: \$2.0 million above HJ 2

Marijuana collections were 7.4% or \$2.0 million above the HJ 2 estimate. This source is forecasted using CPI and population growth trend estimates from IHS. To initially estimate a full fiscal year, the LFD doubled collections from FY 2022.

Tobacco Tax: \$0.1 million below HJ 2

Tobacco tax revenue came in as expected at 1.7% or \$0.1 million below HJ 2. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 18 and personal consumption expenditure series.

Wine Tax: \$0.1 million below HJ 2

Wine tax revenue came in near the estimate at 4.3% or \$0.1 million below HJ 2. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 21.

Other Sources

All Other Revenue: \$0.7 million below HJ 2

All other revenue collections were \$0.7 million or 0.2% below the estimate in HJ 2. The one-time-only transfer into this revenue source of \$260 million was a scheduled transfer to the general fund from the Budget Stabilization Reserve Fund.

Highway Patrol Fines: \$0.1 million above HJ 2

Total collections from highway patrol fines were 2.4% or \$0.1 million above the HJ 2 estimate. This revenue source is modeled using a three-year moving average.

Nursing Facilities Fees: \$0.4 million below HJ 2

Nursing facilities fees came in 12.3% or \$0.4 million below the HJ 2 revenue estimate. It is forecast primarily based on a time series of proxy bed days. This source has declined most years since inception, which is consistent with national trends.

Public Institution Reimbursements: \$3.8 million below HJ 2

Public institution reimbursements were 46.6% or \$3.8 million lower than the HJ 2 revenue estimate. This source has a history of fluctuating collections primarily due to timing of federal payments. However, currently the federal Centers for Medicare and Medicaid Services (CMS) [will](#)

[not reimburse](#) the state for services at the Montana State Hospital (MSH). In recent years CMS has reimbursed the general fund for \$6.0-\$9.0 million in services annually.

Tobacco Settlement: \$0.1 million above HJ 2

Tobacco settlement revenue was 3.7% or \$0.1 million above the HJ 2 estimate. The calculation of the annual settlement amount by PricewaterhouseCoopers is based in part on national sales volume and has decreased more slowly in the years since the pandemic.

STATUTORILY REQUIRED REPORTS

BUDGET AMENDMENTS

As of August 31, 2023, the Legislative Finance Division received notification of 91 budget amendments impacting FY 2023 and FY 2024 and certified by the Governor since June 1, 2023.

These amendments increase federal special revenue authority by \$125.9 million and proprietary authority by \$125,500 in FY 2023. State special revenue was decreased by \$2.5 million and general fund was decreased by \$64.1 million in FY 2023. For FY 2024, federal special revenue was increased by \$11.8 million. An additional 21.26 FTE in FY 2024, 11.08 FTE in FY 2025, and 7.95 FTE in FY 2026 in modified positions have also been added. Modified FTE are valid for the fiscal year but do not become permanent FTE in agency base budgets. Figure 1 summarizes the budget amendments certified by the Governor from the period June 1, 2023, through August 31, 2023.

Budget Amendment Summary (Since last LFC meeting)			
Component	FY 2023	FY 2024	FY 2025
Number of Amendments	61	32	11
FTE Added	0	21.26	11.08
General Fund	(64,109,335)	-	-
State Special Revenue	(2,543,812)	-	-
Federal Special Revenue	125,856,183	11,769,811	-
Proprietary Fund	125,500	-	-
Total Revenue	\$59,328,536	\$11,769,811	\$0

Each amendment, along with a brief explanation, is summarized in the Budget Amendment Report available on the [LFC website](#). Staff have reviewed the amendments and did not identify any concerns.

Figure 2 summarizes the budget amendments that were certified during the last LFC reporting periods. The only amendments from Figure 1 that appear in Figure 2 are the 91 amendments, shown below as those pertaining to September 14, 2023. The various approving authorities have added a total of \$975.3 million for the 2023 biennium and the start of the 2025 biennium.

Budget Amendment Cumulative Summary					
LFC Meeting	Number of Amendments	FY 2022	FY 2023	FY 2024	Total
September 16, 2021	88	54,366,767	341,600	-	54,708,367
December 16, 2021	85	113,218,085	15,059,636	-	128,277,721
March 17, 2022	60	55,591,378	3,137,500	-	58,728,878
June 16, 2022	66	64,669,519	-	-	64,669,519
September 15, 2022	129	156,361,521	48,863,882	-	205,225,403
June 16, 2023	261	-	392,547,828	-	392,547,828
September 14, 2023	91	-	59,328,536	11,769,811	71,098,347
Total	780	\$ 444,207,270	\$ 519,278,982	\$ 11,769,811	\$ 975,256,063

Figure 3 reflects the additional budget authority provided to each agency through the budget amendment process in FY 2023 compared to the modified HB 2 budget approved by the 2021 Legislature.

Budget Amendment Authority Comparison with HB 2 Total Funds By State Agency			
State Agency	FY 2023 Modified HB 2	FY 2023 Budget Amendment	% of Modified Budget
Section A - General Government			
Department of Commerce	36,117,402	121,878	0.3%
Department of Labor and Industry	89,916,225	138,167	0.2%
Total Section A	126,033,627	260,045	0.2%
Section B - Public Health & Human Services			
Department of Public Health and Human Services	3,015,984,564	10,742,378	0.4%
Total Section B	3,015,984,564	10,742,378	0.4%
Section C - Natural Resources & Transportation			
Department of Fish, Wildlife, and Parks	107,870,925	44,775	0.0%
Department of Environmental Quality	63,787,443	8,236,275	12.9%
Department of Livestock	13,946,786	301,670	2.2%
Department of Transportation	887,976,020	30,400,000	3.4%
Department of Natural Resources and Conservation	76,939,637	551,674	0.7%
Department of Agriculture	19,509,426	7,473,691	38.3%
Total Section C	1,170,030,237	47,008,085	4.0%
Section D - Judicial, Law Enforcement, and Justice			
Judicial Branch	56,235,396	792,895	1.4%
Department of Justice	134,528,520	338,461	0.3%
Total Section D	190,763,916	1,131,356	0.6%
Section E - Education			
Arts Council	1,503,783	(2,828)	-0.2%
Montana State Library	6,773,589	64,000	0.9%
Montana Historical Society	6,040,554	125,500	2.1%
Total Section E	14,317,926	186,672	1.3%
Total	\$ 4,517,130,270	\$ 59,328,536	1.3%

A summary of the changes from OBPP can be found on the Budget Amendment memo available on the [LFC website](#).