



Legislative Fiscal Division

2023 Biennium Budget Analysis

Volume 1 - Statewide Overview

Jan. 7, 2021

Governor Gianforte

LEGISLATIVE BUDGET ANALYSIS 2023 BIENNIUM

VOLUME 1—STATEWIDE PERSPECTIVES GOVERNOR GIANFORTE’S BUDGET PROPOSAL

**LEGISLATIVE BUDGET ANALYSIS
2023 BIENNIUM
VOLUME 1 – STATEWIDE PERSPECTIVES
GOVERNOR GIANFORTE’S BUDGET PROPOSAL**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION
TO THE SIXTY-SEVENTH LEGISLATURE
JANUARY 2021**

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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 policy information and advice to the legislature. The LFD thanks the many entities 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/>

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MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

January 2020

Members of the Sixty-Seventh Legislature:

I submit for your consideration the high-level state budget outlook for the 2023 biennium as Statewide Analysis, Volume 1 Legislative Budget Analysis.

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 over the interim. Reports on financial modernization and stabilization, community college funding formulas, pension systems, local government budgets, and state information technology were some of the key areas researched this interim.

In addition to this analysis, the LFD has access to 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 on the Montana Legislature 2021 Session Team 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 2021 Session.

Sincerely,

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

Amy Carlson
Legislative Fiscal Analyst

VOLUME 1: THE 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 2023 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 2023 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 – 2023 Biennium online, which contains LFD's review of the 2023 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 – 2023 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:

- Introduction - provides a summary of LFD's analysis of the proposed executive budget
- 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 2023 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 - web only documents that provide additional information

LEGISLATIVE BUDGET ANALYSIS - 2023 BIENNIUM

REVENUE ESTIMATES

[Volume 2](#) is 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

- [Base Budget Examples](#) – Sept. 2020
- [Personal Services Memo](#) – Sept. 2020
- [Global Motions](#) – Dec. 2020

OVERVIEW

FOCUS ON GENERAL FUND

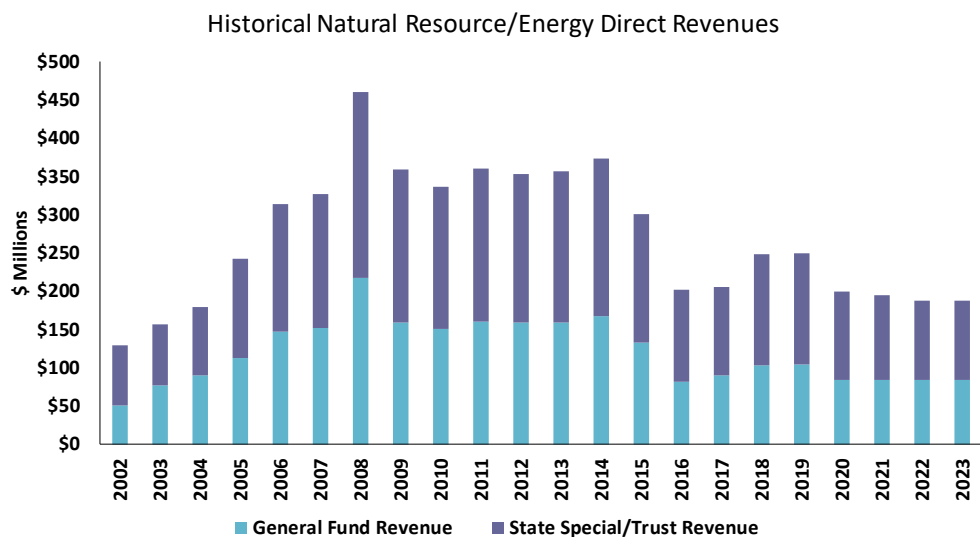
While there are many different funds that make up Montana's state finances, the general fund is the main fund used for state government operations. It is the primary measure for state finance and is the focus for the overview of the budget presented in this report.

2023 BIENNIUM BUDGET UNCERTAINTY

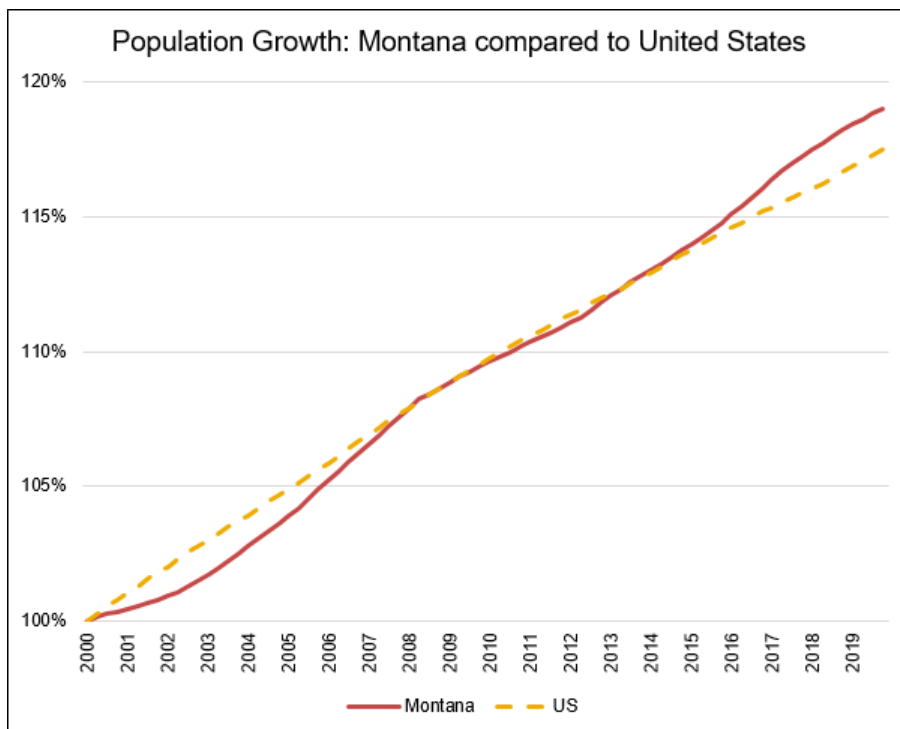
The pandemic has caused disruption in workplaces and markets. This disruption has driven innovation that has temporarily and possibly permanently changed how we all do business and communicate across the country and around the planet. Changes in business practices have further economic impacts as they change where we choose to live and work. The pandemic has been described as accelerating trends that were already in the economy. Trends like automation of low skill work, more remote work, changing energy markets, and relocation of workplaces.

The first example of an accelerated trend impact on Montana's economy was the pandemic's contribution to already decreasing oil prices. Natural resource activity in the state had already been much lower than FY 2015 levels, and after a brief uptick in FY 2018 and FY 2019, these revenues fell again in FY 2020 and are expected to

slowly decrease throughout the biennium. The graphic above shows the decline in revenue from natural resources and energy.



Another example of accelerating trends in Montana is population growth. In recent years, prior to the COVID-19 pandemic, individuals moved to Montana from other states and population growth exceeded the national growth rate. There is anecdotal information that this trend accelerated in 2020, but so far it is difficult to quantify with data to know how many people are moving to Montana, paying taxes, and need state and local services.

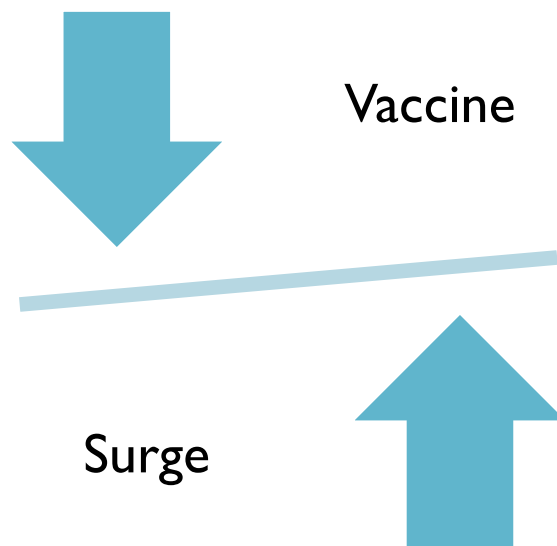


The graphic on the left is from the bottom of page 5 of the [Demographic Report](#) published for Legislative Week January 2020. It demonstrates the trend of the last several years when Montana's population growth has exceeded the growth of the country.

Population growth affects the cost of government services and the revenues generated from taxes on additional people. The associated report delves into more details about population growth.

ECONOMETRIC FORECAST

In addition to the acceleration of change, the immediate economic effects of the pandemic continue to evolve. The revenue estimates were based on the October IHS Markit forecast which did not include a specific timeframe for a vaccine, nor did it account for the current surge in COVID cases and the economic impacts. At the same time IHS Markit has been analyzing the changing effects of people's reaction to the pandemic and are re-evaluating how to incorporate the current surge into the forecast. Changes to the IHS Markit forecast will be included in the January IHS Markit forecast and the January forecast update from the Fiscal Division.



Tax Law and Taxpayer Behavior

In addition to economic uncertainty, the CARES Act tax provisions and other taxpayer choices add variability to the forecast. The CARES Act tax provisions were modified by the most recent federal stimulus package and will reduce income taxes paid in Montana. The new provisions allow the forgiven federal Paycheck Protection Program (PPP) loans to not be accounted as income, but the corresponding expenses continue to be deducted for income tax purposes. This new provision was not included in HJ 2 calculations and will reduce state income tax collections for FY 2021 and FY 2022.

The LFD has had conversations with Montana Certified Public Accountants (CPA) and were informed of various income and payment choices that taxpayers are considering that will impact how revenues flow to the state. A summary of these discussion is in the following callout box.

These result of all the possible choices of taxpayers, the tax payment information available this spring, will not be enough to be certain of the short term and long term implications from the data and the ultimate tax payments the state will receive over the next two years.

October Conversations with CPAs - Timing of Income Realization and Tax Payments

People are filing quarterly payments to be tax penalty free – aka “safe harbor”. This may result in taxpayers pre-paying what they ultimately owe in taxes for calendar year 2020 and may pay less in calendar 2021. If significant pre-paying of taxes has occurred, February filing of refunds would be the first indication of this. On the other hand, individuals may accelerate income into calendar 2020 in anticipation of higher federal tax rates in 2021.

Through mid-October, the CPAs were uncertain what losses may occur. It appeared that most businesses were able to remain operating, some at reduced level, with the use of stimulus funds available through state and federal programs. Since October several items have materialized: 1) the surge in cases has impacted business’ ability to operate, 2) a second federal stimulus package passed that allowed business’ to keep the first federal stimulus payments without paying tax improved the financial condition of businesses by this tax savings, and at the same time reduces anticipated income to the state through personal and corporate income taxes.

Revenue Volatility

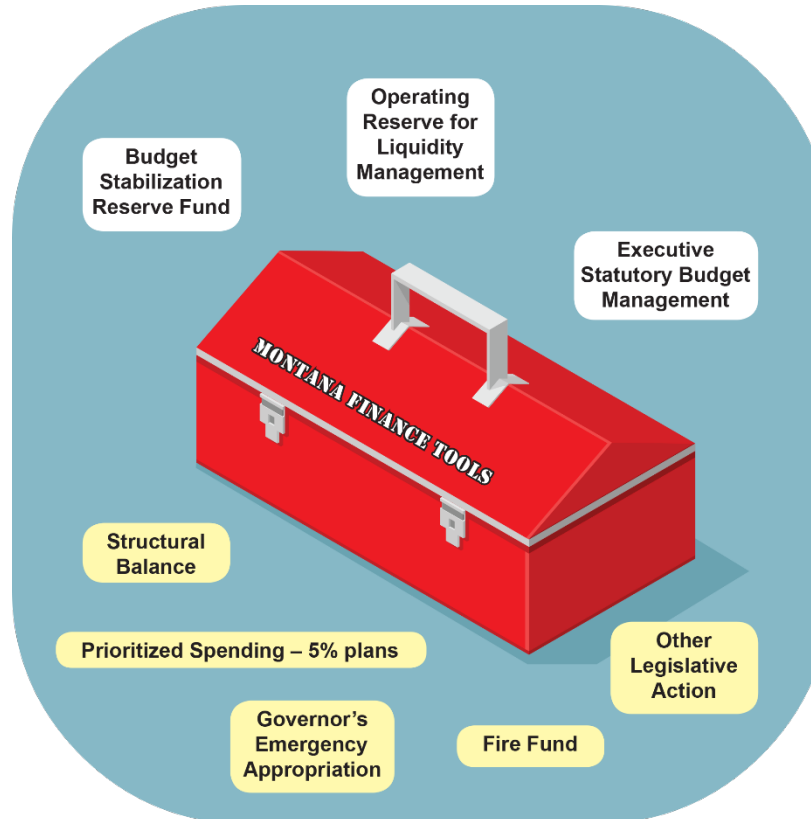
General fund revenues have remained strong through December 2020. While accommodations, oil, gas, and coal taxes, and interest payments have been lower than previous years, the largest sources of general fund revenue in corporate and individual income taxes have been strong. In these tax sources, withholding and estimated taxes are above the levels of the previous year.

This current revenue strength is not anticipated to continue. Even before considering the impact of the most recent tax provisions of the second stimulus package, HJ 2 assumes lower revenues than current trends demonstrate. The tax provisions of the second federal stimulus will be incorporated into the revenue forecast presented later in January by the Legislative Fiscal Division.

MONTANA'S TOOLBOX FOR UNCERTAINTY

Over the past decade, Montana has improved its toolbox for managing uncertain and potentially volatile revenue streams. Given the uncertainty in the current budget this toolbox will be important for risk management.

Tools available for liquidity management include minimum and ideal levels of general fund balances defined in statute; balances in the budget stabilization reserve; fire fund; and capital development fund. All of the previously mentioned tools allow cushions to variability in actual general fund revenues. Balances in other state special funds can also be used by the legislature to shore up the general fund when needed. In addition to balances, tools available also include reviewing the agency suggested 5% plan reductions, modifying laws to eliminate programs, or to increase tax rates, add new taxes or fees, and the ability to reduce the pay as you go infrastructure spending for bonded infrastructure investments.



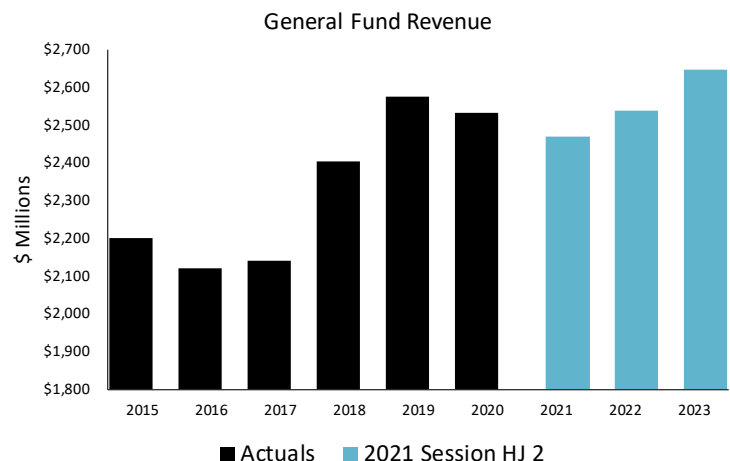
For more details on the financial tools please see the [online training](#).

GENERAL FUND BEGINNING BALANCES AND OTHER RESERVE BALANCES

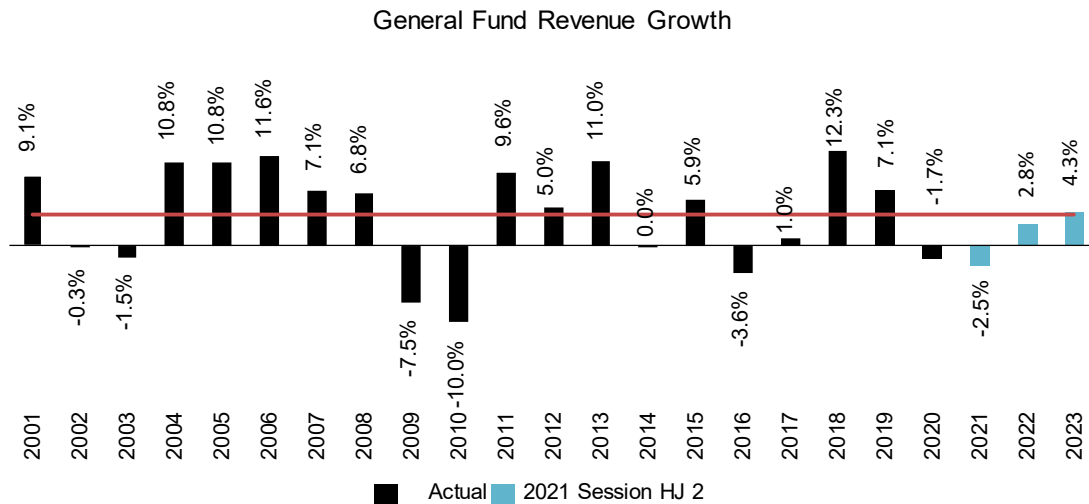
At the beginning of FY 2021, the state financial reserves were full and offered a solid cushion to begin FY 2021. The reserve balances at the beginning of FY 2021 totaled \$624.0 million, or 24.7% of annual general fund revenues. The FYE 2020 general fund ending fund balance contributed to reserve cushions, as the balance was higher than anticipated at \$451.7 million. In addition, the budget stabilization reserve began FY 2021 with \$117.8 million, and the wildfire suppression beginning fund balance for FY 2021 was \$54.6 million.

The adjacent chart illustrates general fund revenue collections since FY 2015 and forecast HJ 2 revenues as adopted by the Revenue Interim Committee (RIC) through the 2023 biennium. Following stagnant growth in FY 2016 and FY 2017, revenue growth was extremely strong in the following two years before slowing in the second half of FY 2020.

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 2020 levels by 2.5% in



FY 2021, and then grow by 2.8% in FY 2022 and 4.3% in FY 2023. The past 20 years has an average growth rate of 4.0%, illustrated in the chart below by the red line.



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 [2023 Budget Analysis](#), Volume 2 Revenue Estimates.

Governor Bullock and Governor Gianforte's revenue assumptions

Governor Bullock's final budget and Governor Gianforte's budget adopted the HJ 2 revenue estimate.

BUILDING THE BUDGET

The budget is built according to statute. 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 2021. The HB 2 base budget for the 2023 biennium including all fund types totals \$12,345 million.

General Fund Base Budget

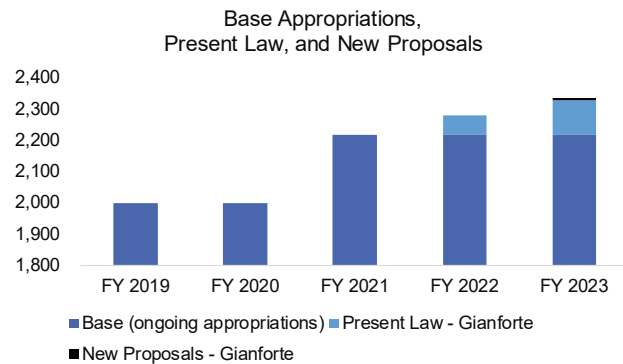
The HB 2 general fund base budget is \$2,218 million per year or \$4,437 million for the biennium.

General Fund HB 2 Base

The chart shows the general fund base budget over time beginning with FY 2019, the previous biennium's base budget. The 2021 budget process began with the FY 2019 base budget at \$1,998 million. The 2023 biennium budget process begins with the FY 2021 base at \$2,218 million. Present law and new proposals increase the budget to \$2,336 million by FY 2023.

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 2023 Biennium

General fund total base budget plus present law appropriations total \$4,608 million. Present law adjustments from the base total \$171.0 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.

Governor Gianforte began the budget building process by using the framework of Governor Bullock's budget. While Governor Gianforte adjusted the budget for his priorities, a mis-categorization of expenditures persists in both budgets. The budget classifies expenditures in ways that do not fully agree with the strict interpretation of statute and either misstate the level of present law spending or the level of ongoing spending. The ramifications of misstating ongoing spending has a direct correlation on structural balance.

The following items list the classification differences:

Present Law versus New Proposal:

Categorizing a \$23.1 million fund switch in the developmental disabilities services division and the senior and long-term care division of the Department of Health and Human Services as present law. Fund switches are defined in statute as new proposals. As further analysis of the budget is completed, additional fund switches incorrectly categorized may be discovered.

Ongoing versus One-Time-Only (OTO)

Legislation adopted in 2019 established ongoing funding sources for maintenance/repairs of state buildings and for larger renovations or new construction related to state and local

infrastructure (capital development projects) and limited the amount of general obligation bonds that the legislature may authorize.

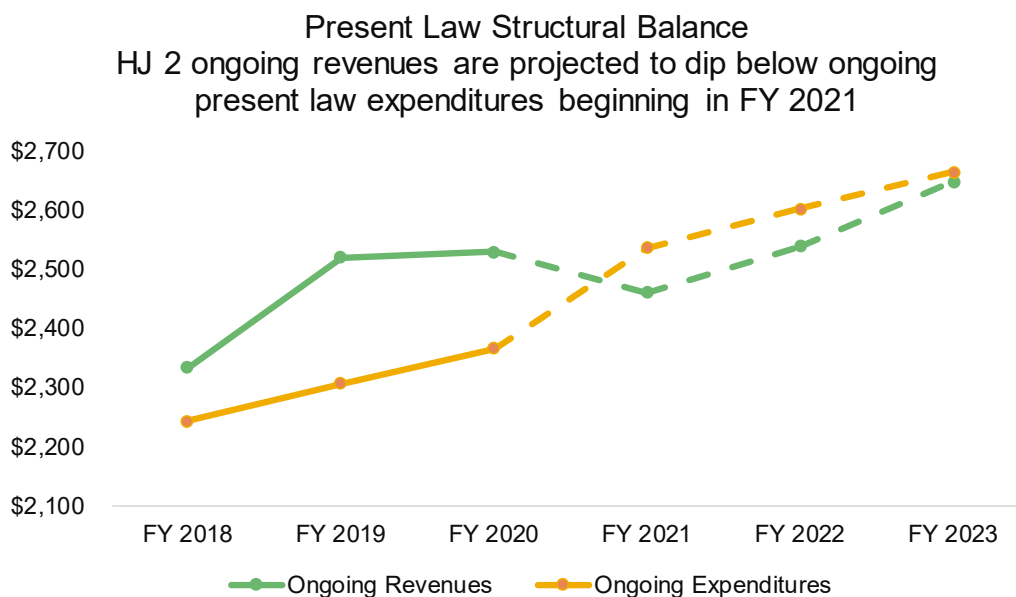
The budget included a reduction in the transfer to the capital development account. This reduction was not identified as OTO. Statute requires the ongoing level of spending. Any reduction from this amount not replaced with debt service in the current year is temporary and must be considered OTO.

Statute requires an appropriation to account for the ongoing operation and maintenance cost of new buildings authorized in the budget and then requires the reversion of unnecessary appropriation authority until the building is completed. The purpose is to recognize the ongoing level of spending authorized in the budget. The appropriation was not included in the budget, but neither was the higher reversion amount to offset the appropriation, resulting in the correct total amount but a misrepresentation of ongoing spending.

This report re-categorizes the items above to better inform the legislature of structural balance and new proposals that will be deliberated this session during budget proceedings.

STRUCTURAL BALANCE OF PRESENT LAW

While Governor Gianforte made recommendations for present law and new proposals, the legislature will evaluate both present law and new proposals during its budget deliberations. The present law items in the budget are similar to the concept of the minimum level of spending that the legislature will need to adopt without changing statute or services provided.



The structural balance using HJ 2 and the Governor Gianforte's present law budget is \$327 million or 0.6% in FY 2023.

GOVERNOR GIANFORTE'S GENERAL FUND BUDGET - NEW PROPOSALS

The Governor's general fund new proposals for the 2023 biennium decrease revenue by \$15.3 million over the 2023 biennium and add one-time revenues by transferring \$4.2 million from other funding sources.

New proposals decrease spending in HB 2 by \$21.8 million general fund for the biennium. New legislation proposals, LC 851 and LC 943, provide \$4.8 in general fund transfers into HB 2 in the 2023

biennium. This \$4.8 would increase spending, resulting in a total spending decrease of \$17.0 million general fund.

Details of expenditure proposals are included in the expenditure section of this report.

The significant new general fund expenditure proposals are in the following areas of the budget:

- Statewide, including the university system – suspension of the employer share of group benefits for employees for two months, reduces general fund across all programs by \$20.1 million
- Statewide 4% vacancy savings reduction taken against personal services. This proposal reduces general fund by \$11.6 million
- Refinance Cyber security removes \$6 million of general fund and replaces with rates
 - Reduces Dept of Administration HB 2 general fund by \$6 million
 - Now paid by all agencies within the Enterprise Service Rate
 - GF – 39.5%
 - SSR – 23.8%
 - FSR – 17.6%
 - Other – 19.1% (internal service funds, enterprise, etc.)
 - HB 10 includes Montana cybersecurity enhancement appropriation of \$4.9 million
- Governor's Office
 - Proposal to provide 1.50 FTE, \$298,200 in personal services, and \$345,243 in operating expenses over the biennium to assist the Lieutenant Governor in leading a review of administrative rules in cabinet agencies. Funding for the proposal is offset by elimination of the Air Transportation Program
 - A proposal to increase general fund by \$180,000 in operating expenses each year of the biennium to facilitate a government efficiency initiative focusing on identifying and implementing efficiency measures in state agencies
- Natural Resource Agencies and State Library

There is a proposal to supplement the coal severance tax and natural resources operations funding with ongoing general fund transfers. Numerous agencies are impacted by the changes.

 - Proposed LC 943 would provide for a general fund transfer into a state special fund for the Department of Natural Resources and Conservation to support conservation districts where coal severance taxes are used
 - Natural Resource operations - Proposed LC 851 funds the natural resources operations state special revenue fund impacting Department of Natural Resources and Conservation and the Department of Environmental Quality with ongoing general fund transfers. More information on these impacts is in the HB 2 section of this report
- Department of Public Health and Human Services
 - A funding shift would increase general fund spending for the Children's Health Insurance Program (CHIP) by \$8.4 million due to the spenddown of available fund balance
 - A variety of other funding shifts occur in present law within the Medicaid programs that increase general fund by \$32.2 million, while reducing federal funding by \$106.0 million and state special funding by \$12.1 million
- Department of Corrections
 - Hepatitis C treatments for inmates would increase the general fund appropriation by \$5.1 million
 - Caseload increases and other factors are typically addressed in DOC with additional personnel. Funding has been requested for 24.50 FTE in Department of Corrections, and \$3.2 million
- Office of Public Instruction
 - Governor Gianforte's adjusted proposal would reduce the appropriation by \$5.5 million in general fund in FY 2022 only, for a total K-12 BASE aid amount of approximately \$18.7 million in FY 2022. The K-12 BASE aid amount would remain at \$45.8 million in FY 2023. The proposed change is contingent on the passage and approval of an amendment to

HB 15, which would decrease the inflationary factor from 2.16% to 1.50% in FY 2022 and increase it from 1.91% to 2.57% in FY 2023.

- Proposal to increase starting teacher salaries increases the requested budget by \$2.5 million in ongoing general fund in FY 2023 only. This request is contingent on the passage and approval of HB 143, the Tomorrow's Educators Are Coming Home (TEACH) Act. Please see additional details in the HB 2 expenditure section of this report.
- Office of Commissioner of Higher Education
The executive is requesting a decrease of approximately \$478,000 in FY 2022 and an increase of \$10.8 million in FY 2023 when compared to the FY 2021 base appropriations. Significant changes are primarily included in the Appropriation Distribution Program and Research and Development Agencies. For additional information, please see the HB 2 expenditure section of this report.

EXECUTIVE PROPOSED INFRASTRUCTURE

Montana Infrastructure Proposal

The executive proposal entitled "Montana Infrastructure" is basically an aggregation of the traditional LRP infrastructure budgets. The proposal totals \$554.7 million, including \$78.2 million of non-state funds (university, proprietary, and donated funds). The proposal makes use of \$306.4 million in state resources, including federal funds, \$78.6 million of proceeds from coal-severance tax bonds, and \$91.5 million in general fund general obligation bond proceeds 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 GOVERNOR GIANFORTE

General Fund Measurement

The general fund budget is measured in two ways: structural balance and ending fund balance.

Structural Balance

Structural balance is the measure of ongoing revenue to ongoing spending and is important since it sets the stage for the following biennium budget. For example, if the budget is at a structural deficit or spending more than current year revenue, the budget for the following biennium will likely be out of balance and require reductions to balance the budget.

Ending Fund Balance

Ending fund balance is the amount of funds anticipated to be in the general fund at the end of the biennium.

The [statutory minimum](#) projected ending fund balance is 4% of the second-year appropriations or approximately \$108 million.

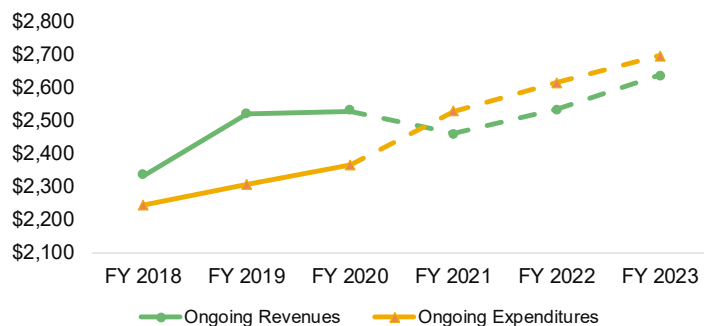
Operating Reserve

The [statutorily recommended](#) operating reserve for projected ending fund balance is 8.3% of the second-year appropriations or approximately \$223 million.

In the 2023 biennium, the executive's total present law budget, not just HB 2, is more than the HJ 2 revenues adopted by the Revenue and Interim Committee on November 19, 2020.

While one-time cost savings measures like higher federal match for Medicaid during the public health emergency and one-time infusions of funds from the budget stabilization reserve fund, bolster the ending fund balance of the general fund, the one-time occurrences have no impact on structural balance. Since structural balance is a measure of ongoing revenues against ongoing expenditures, expenditure projections remain above the level of anticipated ongoing revenue and therefore the budget is projected to be structurally imbalanced by -2.2% in FY 2023. As proposed by Governor Gianforte, ongoing expenditures exceed ongoing revenues by \$81.9 million or 3.2% in FY 2022 and \$58.8 million or 2.2% in FY 2023.

Structural Balance: HJ 2 revenues are expected to dip below the Governor's proposed ongoing expenditures beginning in FY 2021.



THE EXECUTIVE PROPOSED GENERAL FUND BALANCE SHEET

The executive proposed general fund balance sheet adopted the HJ 2 revenue projections for the state general fund. When developing a budget, maintaining a structurally balanced budget in the second year of the biennium is a key component of financial risk management. If this is not attained, the next biennium budget will likely begin in deficit with revenues less than expenditures. While some imbalance may be reasonable as the economic uncertainty persists, a negative \$58.8 million structural imbalance is high and should be considered during the 2021 session in relation to the evolving understanding of anticipated revenue mentioned earlier in the report.

The following table illustrates the executive's balance sheet.

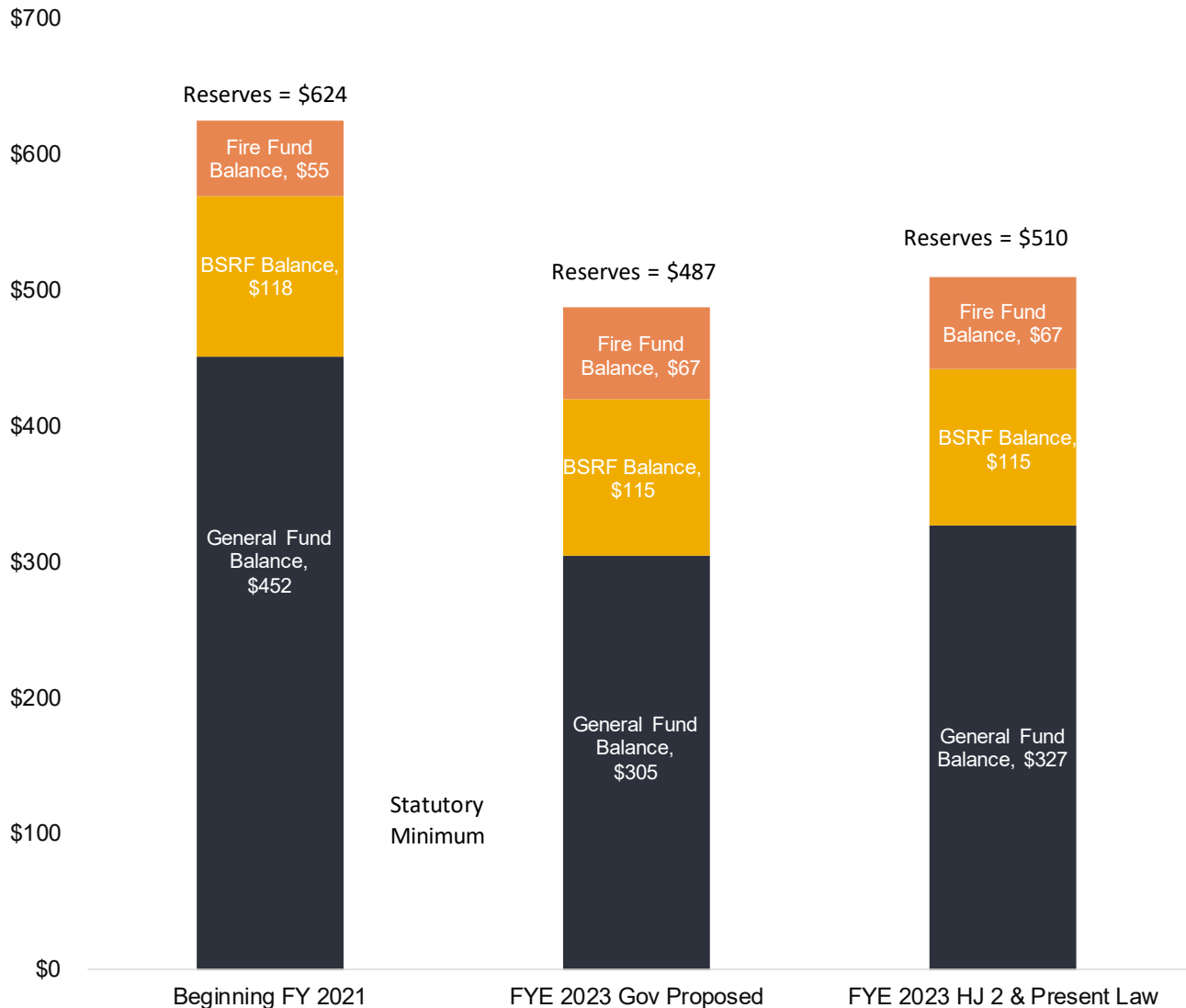
General Fund Balance Sheet - Governor Gianforte
Includes Executive's Revenue Use of HJ 2 and Executive Expenditure Projections
(\$ Millions)

	Actual FY 2020	Estimated w/HJ 2 Revs FY 2021	Estimated w/HJ 2 Revs FY 2022	Estimated w/HJ 2 Revs FY 2023
Beginning Fund Balance	\$361.3	\$452.4	\$408.6	\$356.9
Revenues				
Actual & Executive uses HJ 2 Revenues	2,529.2	2,459.8	2,537.7	2,647.7
Revenue legislation				
Reduce Personal Income Tax to 6.75%			(5.4)	(28.1)
Revise Corporate Income Tax Apportionment			10.3	14.2
HEART Act			(0.5)	10.8
Keep Your Home Tax Relief			(3.0)	(3.0)
Big Sky Scholarship			(3.0)	(3.0)
LC 684 Montana Trades Education Credit (MTEC) Act			(1.0)	(1.0)
LC 1158 Business Investment Grows (BIG) Jobs Act			(0.8)	(0.8)
LC 611 Kids with Disabilities Opportunities Act			(0.5)	(0.5)
Broadband Expansion Tax Incentive				(0.1)
Entrepreneur Magnet Act			-	-
OTO	4.1			
Tobacco settlement		9.4		
LC 850, Generally Revise State Finance Laws, proposed amendments		4.2		
Adjustments - revenue	(3.5)			
Total Revenue Funds Available	2,891.2	2,925.9	2,942.4	2,993.1
Expenditures - Ongoing				
Statutory Approps	282.8	305.5	306.1	314.1
New Statutory Appropriation HB 14, Debt Service			0.4	2.0
General Fund Transfers	35.2	24.5	21.7	21.5
New Proposals for General Fund Transfers, ongoing (LC 851 & LC 943 amended)			2.4	2.4
HB 2 Agency Budgets (pay plan in current biennium)	2,014.5	2,142.4	2,285.0	2,341.6
HB 1	2.4	10.5	2.5	10.8
Other Appropriations (includes HB 715)	29.6	49.7		
HB 13 Payplan, proposed			0.2	7.2
LC 1158 BIG Act Distribution to Locals			4.1	4.1
Carryforward & other (including maintenance funds for HB 14)	0.4	2.9	1.2	1.2
Reversions		(7.8)	(8.0)	(10.0)
Ongoing Expenditures	2,364.8	2,527.7	2,615.7	2,695.0
OTO				
HB 2 Agency Budgets		6.6	(\$35.0)	(\$5.5)
HB 3 Supplemental (this is prior to 1-6-21 amendments in HAC)		11.4		
HB 10, Information Technology Transfer		7.3	5.0	
HB 13 Pay Plan (contingency funding and other**)			1.1	
Estimated savings from increased FMAP & COVID reimbursements		(84.1)		
BSRF Transfers	57.1	1.1		
Fire Fund Transfers	30.3	46.7		
Other Appropriations		0.5		
Other				
Reversions of maintenance funds for HB 14			(1.2)	(1.2)
Total Expenditures	2,452.2	2,517.2	2,585.5	2,688.3
Other Adjustments	16.1	0.1		
Anticipated CAFR Adjustments	(2.6)			
Ending Fund Balance	\$452.4	\$408.6	\$356.9	\$304.8
Structural Balance	\$164.4	(\$67.8)	(\$81.9)	(\$58.8)

BSRF means budget stabilization reserve fund. FY 2020 OTO revenue is Core Civic contract renegotiation amount. **HB 13 other is \$75,000 not included on the executive's balance sheet.

EXECUTIVE RESERVE BALANCE RECOMMENDATIONS AND HJ 2

The executive proposed ending fund balance for FY 2023 is \$305.0 million which is above the recommended operating reserve by about \$82.0 million. Governor Gianforte did not propose reductions to the budget stabilization reserve or the fire suppression fund. If none of Governor Gianforte's new proposals are adopted, the ending fund balance of present law and HJ 2 revenues is \$327.0 million.



GENERAL FUND REVENUES THROUGH THE 2023 BIENNIUM

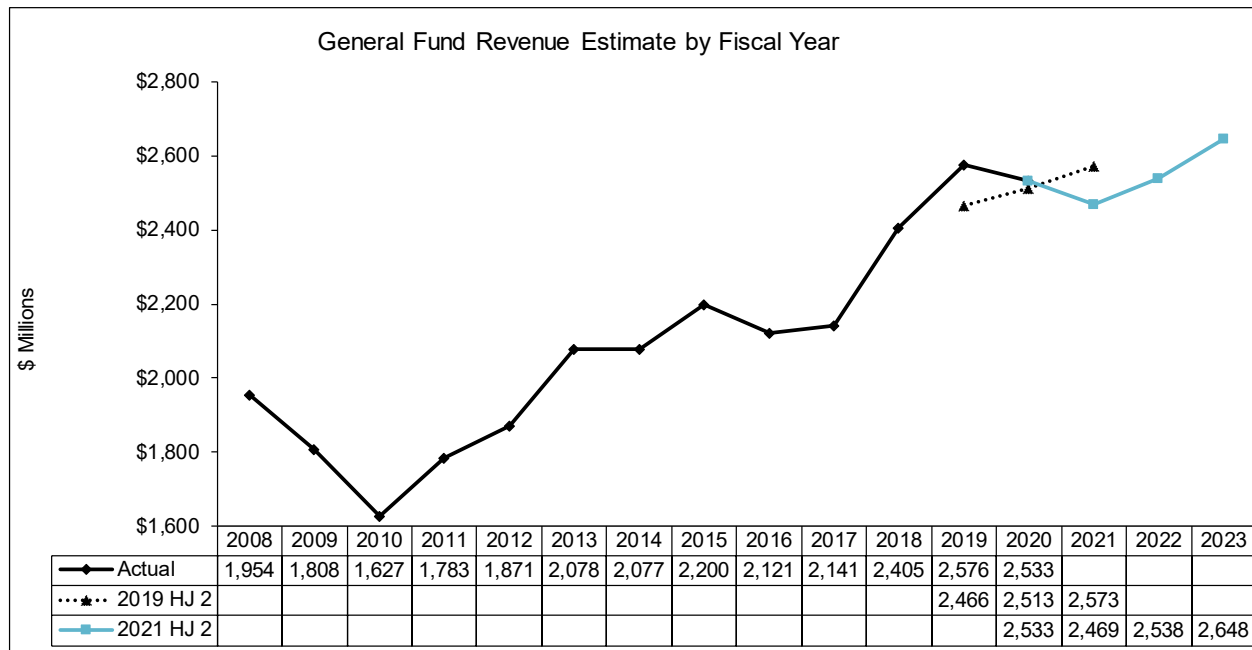
General fund revenue collections face a significant amount of uncertainty going into the 2023 biennium. This is driven by uncertainty associated with economic forecasts from IHS as well as how taxpayers will choose to utilize the tax provisions of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Mitigating Expenditure and Revenue Risk

The ability of the state to mitigate both expenditure and revenue risk by using the budget stabilization reserve fund or other tools, like using the wildfire suppression fund, provide one-time options against financial risk. At present, the fire fund ending fund balance is anticipated to be \$67.3 million at the end of FY 2023. Deposits into the fire fund are dependent on reversions of unspent appropriations from FY 2021 and each year after. The Governor has proposed limiting transfers into the fire fund in LC 850 and the LFD assumes no transfers of general fund into the fire fund on August 15, 2021.

GENERAL FUND REVENUE ESTIMATES ADOPTED BY REVENUE INTERIM COMMITTEE

In November 2020, RIC heard the revenue estimate recommendations from OBPP and LFD. The committee adopted the LFD estimate recommendation, with a few downward adjustments.

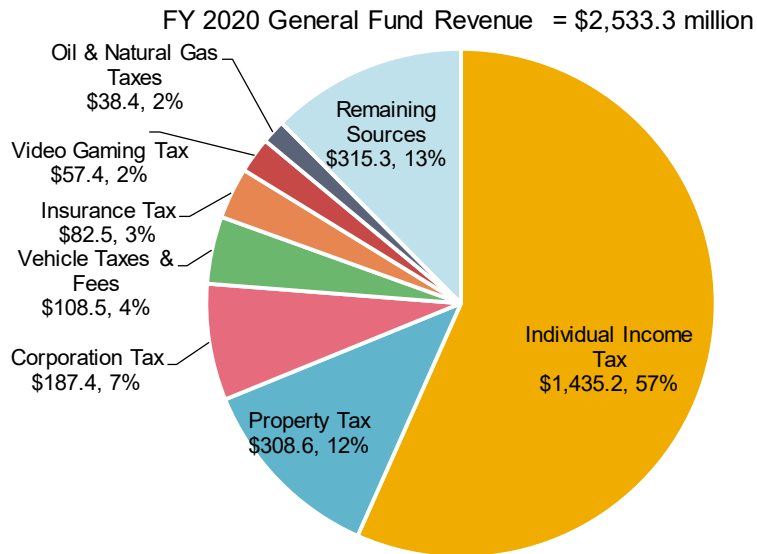


The table below shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources, as well as a breakout of ongoing and one-time-only revenue.

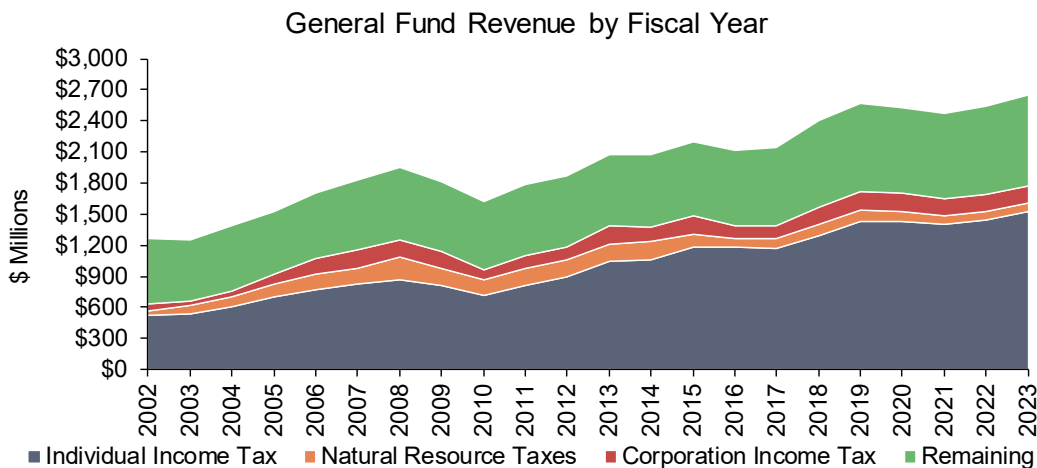
General Fund Revenue Estimates as Adopted by RIC						
(\$ Millions)						
Source of Revenue	Actual FY 2020	Estimated FY 2021	Estimated FY 2022	Estimated FY 2023	Estimated 2021 Bien	Estimated 2023 Bien
Individual Income Tax	\$1,435.2	\$1,404.6	\$1,443.8	\$1,523.2	\$2,839.8	\$2,966.9
Property Tax	308.6	313.0	333.0	339.8	621.6	672.8
Corporation Income Tax	187.4	156.3	163.5	168.8	343.6	332.3
Vehicle Taxes & Fees	108.5	109.3	110.4	111.4	217.8	221.8
Oil & Natural Gas Production Tax	38.4	36.5	40.4	41.0	74.9	81.4
Insurance Tax & License Fees	82.5	86.1	84.8	87.8	168.6	172.5
Video Gambling Tax	57.4	60.3	63.3	66.5	117.8	129.8
<u>Remaining Sources</u>	<u>311.2</u>	<u>303.2</u>	<u>298.5</u>	<u>309.2</u>	<u>614.4</u>	<u>607.7</u>
Ongoing Revenue Subtotal	2,529.2	2,469.2	2,537.7	2,647.7	4,998.5	5,185.4
OTO Revenue & Transfers Subtotal	4.1				4.1	-
Total General Fund	\$2,533.3	\$2,469.2	\$2,537.7	\$2,647.7	\$5,002.6	\$5,185.4

GENERAL FUND REVENUE

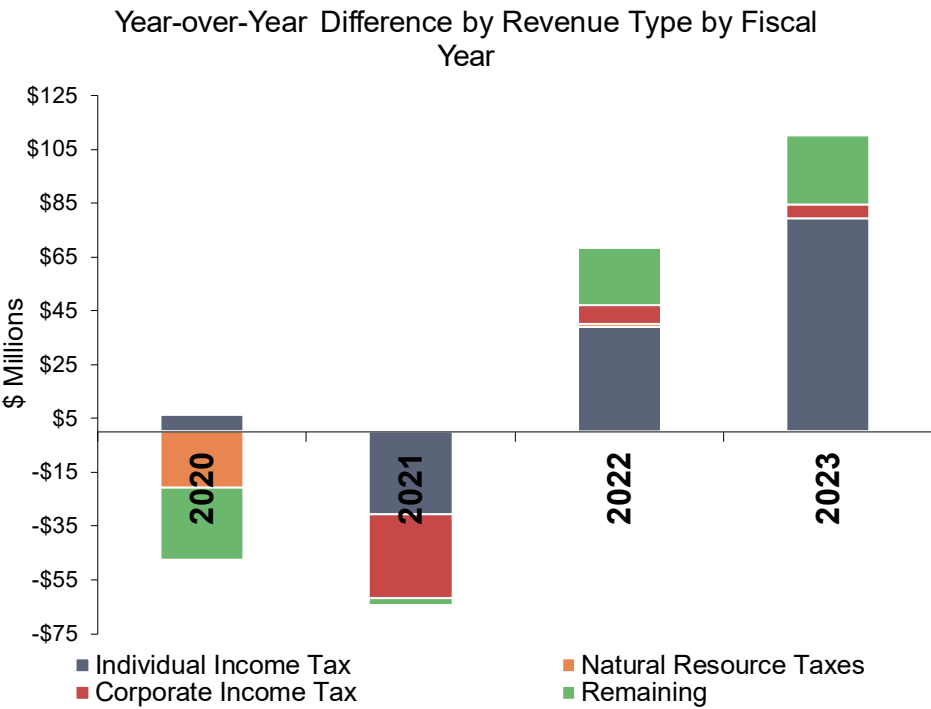
The largest seven sources of general fund revenue are individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2020, these sources accounted for 87.6% of general fund revenue. Details of all general fund and selected non-general fund revenue sources are contained in the Legislative Fiscal Division's [2023 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 39.9% of general fund revenue; by FY 2020, it grew to account for 56.7%. Based on the revenue estimates adopted by RIC, it is anticipated to grow to 57.5% of general fund revenue by FY 2023.



The following chart shows the year-over-year difference by the three largest contributing sources to volatility. Natural resource revenues declined substantially in FY 2020 and are expected to remain flat throughout the biennium. As a result, the year-over-year changes in HJ 2 are primarily due to growth/decline in income taxes.

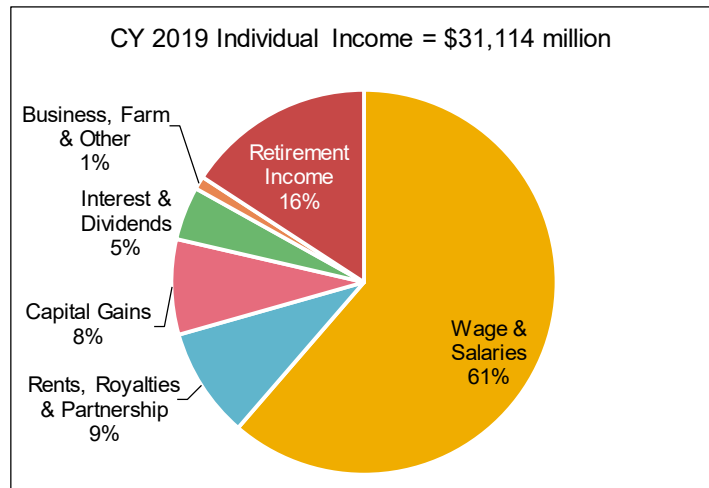


The following section provides a brief summary on some of the significant economic drivers and their influence on the general fund of several key sources. More details on all sources of revenue can be found in the Legislative Fiscal Division’s [2023 Biennium Budget Analysis: Volume 2](#).

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 2019, full year resident income totaled \$31.1 billion. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income.

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. Wage income accounts for over 60% of total individual income, while withholding tax on wages accounts for about one-third of total general fund revenue. Even in the midst of the COVID-19 public health emergency, wage growth is expected to remain fairly resilient, with only a modest drop of 0.6% in CY 2020 followed by growth rates approaching 4.0% in the out years. Other sources such as interest income, capital gains, and partnership income are expected to see steeper declines in CY 2020.

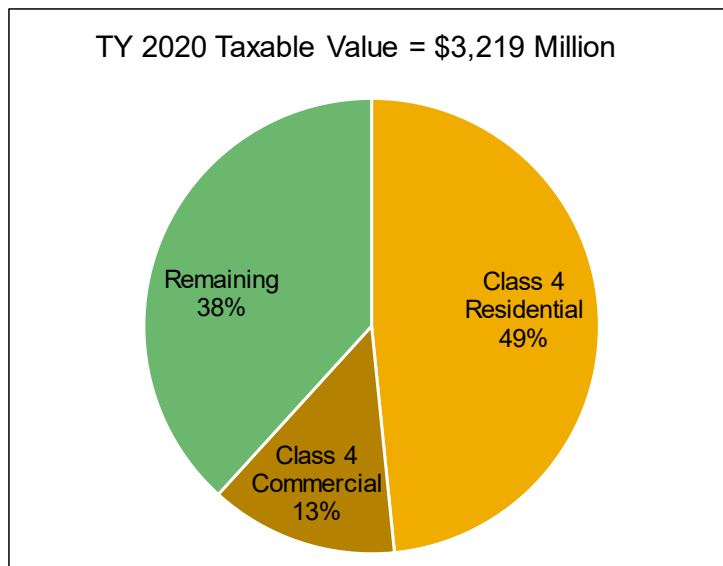


The Federal CARES Act provided additional tax provisions for corporations and small businesses to offset business losses. These provisions allow for net operating loss (NOL) carrybacks beyond what was previously allowed and removed the threshold on non-business income that could be offset with business losses. These provisions could result in large refunds in the spring of CY 2021. However, it is possible that the federal CARES Act stimulus money received by individuals may prevent significant losses from being realized. How taxpayers ultimately choose to use these provisions will likely not be known until the beginning of May after April revenues are known.

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.

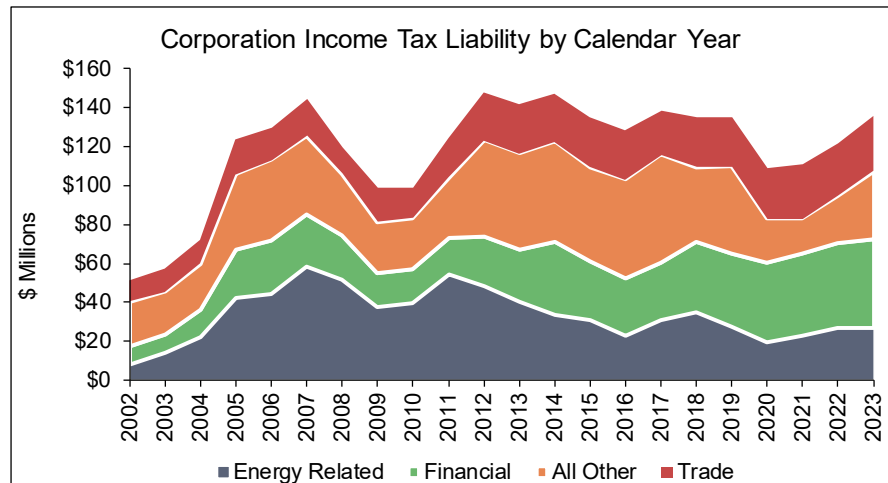
Class 4 commercial and residential property, and class 3 agricultural property, are reappraised every two years with no phase-in of the new value. Class 10 timber land is on a six-year reappraisal cycle with a 1/6th phase in of value per year. Agricultural land and timberland continue to be valued on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

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, and energy related sectors are the largest sources of tax liability. Primary economic drivers of this source include oil prices, median house price, 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



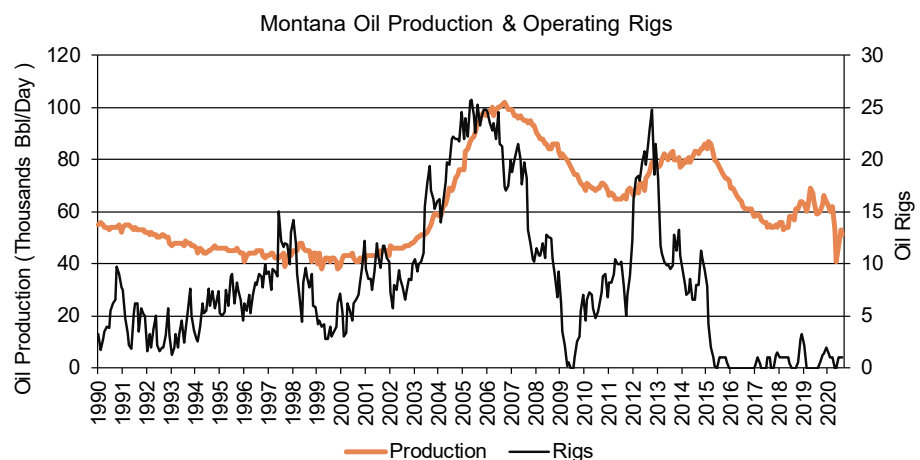
Corporation income tax revenues are quite volatile from year to year, resulting in a revenue stream that is difficult to predict. The volatility can be attributed to many factors: sensitivity of corporation income to business cycles, industry composition in the state, reliance on a limited number of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

As noted in the individual income tax section, the CARES Act provides small businesses and corporations the ability to carry back net operating losses (NOL's) up to five years for losses incurred in CY's 2018, 2019, and 2020. Prior to the CARES Act, these losses could be used to offset 80% of taxable income but can now offset 100% of taxable income.

In the 2017 Legislative Session, HB 550 was passed. This bill capped NOL carrybacks at \$500,000 while allowing corporations to move losses back three years and forward ten years. As a result, the CARES Act provisions will not be nearly as influential for corporate income tax in terms of refunds this fiscal year, as significant losses exceeding \$500,000 will need to be moved forward to future tax years.

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 prices increased in the fall of CY 2018, increased production followed. However, prices plummeted in the spring of CY 2020, causing a sharp drop in production before a recent rebound.

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 \$42 in 2021, \$51 in 2022, and \$56 in 2023, but the increased prices are expected to be offset by a decrease in production.

INSURANCE TAX

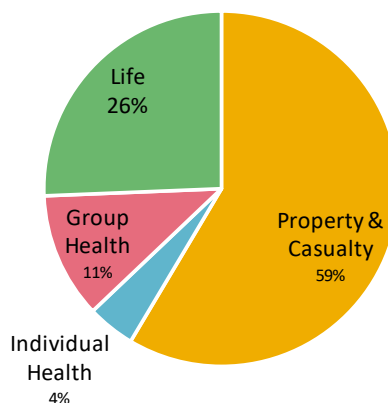
Most insurance tax collections come from 2.75% tax on net premiums sold. There is an additional 2.5% tax levied on fire insurance premiums sold, and several small fees.

The adjacent chart illustrates the share of premiums written by major type of insurance. In CY 2019, property and casualty insurance accounted nearly 60% of premiums written.

Total taxes and fees are calculated by summing the forecasts for premium taxes and all other fees as estimated individually.

Premium taxes are forecast with a regression model using the independent, IHS Markit-provided values for the Montana personal consumption expenditure (PCE) series for finance and insurance. Changes in health insurance spending due to the Affordable Care Act are assumed to be captured in the IHS Markit forecast of Montana PCE for finance and insurance. Estimates for the various fees are based on time trends or an assumption of no growth.

CY 2019 Premium Tax by Type=\$4,008 Million



EXECUTIVE REVENUE PROPOSALS

LC 850: Generally Revise State Finance Laws

Governor Gianforte proposes to amend Governor Bullock's proposal. The proposed legislation provides one-time transfers to the general fund in FY 2021. The two areas of impact are the following:

- Medical marijuana state special revenue fund, \$2.0 million
- State Auditor excess authority, \$2.2 million
- Biennia

Reduce Personal Income Tax to 6.75%

The Governor's budget proposal decreases individual income taxes. Under the proposal, beginning in CY 2022, the top marginal rate would be reduced from 6.9% to 6.75%. The proposal would decrease revenues by \$5.4 million in FY 2022 and \$28.1 million, for a combined reduction of \$33.5 million over the biennium.

Revise Corporate Income Tax 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. The proportions from each of these three factors are currently equally weighted to determine the final Montana apportionment. Under the Governor's budget proposal, only a corporation's proportion of sales that occur in Montana would be used in the apportionment. Under the proposal, the new apportionment formula would begin in CY 2022. This proposal would increase general fund revenues by \$10.3 million in FY 2022 and \$14.2 million in FY 2023, totaling \$24.5 million over the biennium.

Tobacco Prevention Tax Distribution Change (HEART Act)

The executive proposes to enact the Healing and Ending Addiction Through Recovery and Treatment (HEART) Act. Program funding for the first two years will include up to \$6.0 million per year in recreational marijuana tax revenue, a total of approximately \$15.5 million in Tobacco Settlement funds, and \$18.6 million per year in federal match. The Tobacco Settlement funds for this program come from

a \$49.5 million one-time release of disputed payments and is not expected to impact the normal distribution of Tobacco Settlement revenue. Allowable uses of the Tobacco Prevention Fund will need to be statutorily changed to allow the use of funds for community-based substance abuse treatment and prevention, and community-based health crisis stabilization.

Keep Your Home Tax Relief

This bill increases funding for state programs designed to mitigate the effects of property taxes for low-income Montanans. The proposal decreases general fund by \$3.0 million in each year of the biennium.

Big Sky Scholarship

This legislation expands the existing Big Sky Scholarship program. The proposal decreases general fund by \$3.0 million in each year of the biennium.

Montana Trades Education Credit (MTEC) Act

This legislation will provide businesses with a tax credit to encourage education and training in the trades for employees. This proposal would reduce general fund revenues by \$1.0 million in each year of the biennium.

Business Investment Grows (BIG) Jobs Act

The Governor's budget proposes to reduce business equipment property taxes. The proposal would increase the threshold on which businesses begin paying equipment taxes from \$100,000 worth of equipment to \$200,000. This would reduce general fund revenues by approximately \$1.5 million over the biennium.

Kids with Disabilities Opportunities Act

This bill creates a new education savings account (ESA) specifically designed to provide school choice to kids with disabilities. The ESA would entail an income tax deduction and dedication of the portion of BASE aid funding to a disabled student's account. The proposal would decrease general fund revenues by \$500,000 each year of the biennium.

Broadband Expansion Tax Incentive

This bill will provide a property tax holiday for investments in expansion of broadband infrastructure in Montana. This bill is expected to decrease general fund revenues by \$57,000 in FY 2023.

Entrepreneur Magnet Act

This bill exempts from capital gains tax the sale of employee-owned stock and IPOs. At this time there is no fiscal impact associated with this legislation.

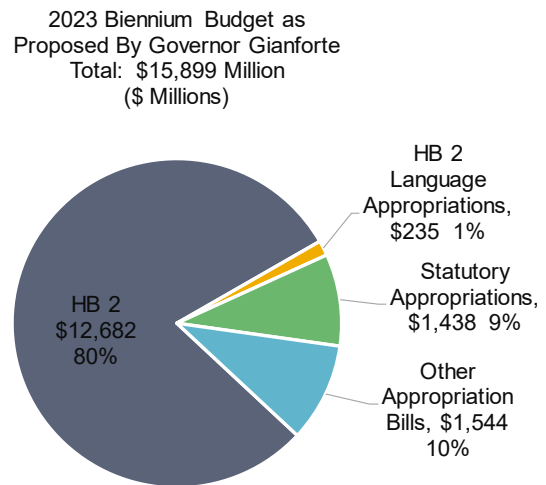
Combined, these revenue proposals would decrease general fund revenues by \$15.3 million over the biennium. As drafts of these bills become available, the LFD will be able to provide further, more detailed analysis.

STATE EXPENDITURES

EXECUTIVE PROPOSED SPENDING BY SOURCE OF AUTHORITY

The chart shows the executive budget broken down by appropriation source. The data included in the graphic uses the biennial comparison definition in 17-7-151, MCA, but also includes proposals for HB 1, HB 3, and HB 4, which are treated as non-comparables in the definition. A detailed table of biennial comparisons and non-comparables is located at the end of this report.

HB 2, including language appropriations, dominates the appropriation sources for total funds at 81% of total authority.



Executive Proposals for Appropriations

Most of the executive budget is proposed in HB 2 and is detailed in the next section of this report, HB 2 expenditures.

Statutory appropriations primarily consist of payments made to local governments and retirement systems for teachers, state and public safety employees.

Other legislation is comprised of proposed new legislation for the 2023 biennium, the bulk of which is Long-Range Building Program bills, and proposals for a pay plan for state employees, and continuing authority for federal grants. HB 3, which impacts FY 2021, is included in legislation as it is part of the executive proposal.

HB 2 language appropriations include natural resource project funding, K-12 traffic education funding, and liquor warehouse appropriations adjusted for transfers out.

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 2023 biennium.

An interactive data visualization product based on the executive's budget submission provides a look at funding charts and appropriation comparisons between the 2021 biennium legislative appropriated budget and the Governor's proposed 2023 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/publications/>

All Sections

Vacancy Savings

The vacancy savings rate proposed by Governor Gianforte is 4%. This would be a reduction in personal services budgets of 4% in all areas that are not exempt from vacancy savings reductions. For information on how vacancy savings is used, please see the [LFD vacancy savings publication](#). This calculation is done by position. The LFD is in the process of determining the value of this reduction by fund and agency program.

State Share Holiday

As an employer, the state of Montana provides a contribution to state employees' group benefits such as health insurance. Under current statute the contribution for state employees' group benefits, often referred to as the state share, is \$1,054 a month. In addition to the state share, employees contribute premiums for their family members to be included in the group benefits.

The Governor is proposing a suspension of the state employee group benefit contribution for two-months. The self-insured plan (SEGBP) is required to maintain reserves to ensure that funding is available for the health costs submitted in subsequent years. At June 30, 2020 the reserve amount recommended by the actuary was \$76.9 million, while the fund balance for the self-insured plan was \$156.2 million or \$79.3 million above the recommendation. The self-insured plan may use fund balance to offset benefits costs paid on behalf of employees.

Section A – General Government

Department of Administration

The 2019 Legislature adopted \$6.3 million in general fund increases to fund the Montana cybersecurity enhancement project in the State Information Technology Services Division. The project included operating expenses and personal services related to 10.00 FTE. Like Governor Bullock, Governor Gianforte proposes to refinance cybersecurity enhancement using proprietary fund rates instead of general fund. The new proposal reduces general fund by \$3.0 million in FY 2022 and \$3.0 million in FY 2023.

Section B – Public Health and Human Services

The DPHHS budget proposal increases by \$86.3 million general fund in the 2023 biennium.

Medicaid is often a major driver of budget increases in Section B. In the executive budget, the total biennial Medicaid present law change from the base is a (\$33.7) million reduction. However, due to a variety of funding shifts occurring within the Medicaid present law request, the general fund increases by a slight \$231,000 in spite of the overall decrease. For a more detailed analysis of these funding shifts, see the Agency Summary of the DPHHS Budget Analysis.

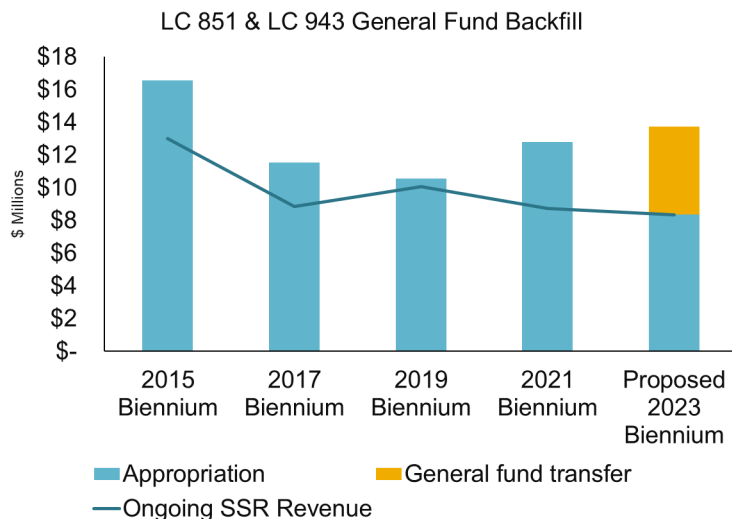
Another requested funding shift for the Children's Health Insurance Program (CHIP) has been discussed and anticipated by previous legislatures but will need to be considered by the 2021 Legislature. Due to a declining fund balance, \$8.4 million would be shifted from the CHIP state special revenue fund to the general fund in FY 2023.

Also, of note is a proposal for an additional \$6.4 million general fund to pay for operating costs associated with the MMIS/MPATH data systems for managing Medicaid information and an overall data warehousing application.

Section C – Natural Resources

Two proposals impact natural resource agencies and the way they have traditionally been funded with state special revenues. LC 851 deals the natural resources operations state special funding LC 943 addresses certain distributions from coal severance taxes. As these are declining revenue sources, both proposals would provide for transfers from the general fund to backfill any shortfall to meet the full appropriation. The state library state special revenue appropriation is reduced by 10%, but a general fund transfer to backfill the library appropriation may still be necessary, if fund balance is exhausted.

The chart shows state special revenue derived from natural resources eroded over time. When state special revenue is not adequate for appropriations, spending must drop to match revenue or fund balances may be used to make up the difference. Once fund balances are exhausted, expenditures must stay in line with revenues. Finally, the chart shows how general fund will fill in the gap between revenue and spending needs as proposed in the coming biennium.



Section D – Department of Corrections

With an overall proposed increase in general fund of \$15.0 million, DOC has several significant requests.

Hepatitis C treatments for offenders in secure facilities is a national issue that is currently being considered required by states. This is a costly treatment for which DOC has requested \$5.1 million for the 2023 biennium.

To provide security and services to a growing offender population often means adding personnel. DOC is requesting a total of 24.50 FTE at a general fund cost of \$3.2 million.

Judicial Branch

Another area requesting FTE for the coming biennium, the Judicial Branch has proposed an increase of 17.75 FTE at a general fund cost of \$3.2 million in the 2023 biennium. Some of these FTE would be phased in, and some are one-time-only, so this does not reflect ongoing costs.

Office of the Public Defender (OPD)

OPD has traditionally seen caseload growth drive budget increases, and in the 2023 biennium, the total general fund increase for this purpose is \$0.8 million.

Section E – Education

Office of Public Instruction

A proposed decrease of approximately \$5.5 million over the biennium due to a proposed change to the K-12 BASE aid inflationary factors and an increase of approximately \$2.5 million over the biennium for proposed increases to teacher starting salaries.

The K-12 BASE aid request is approximately \$18.7 million in FY 2022 and \$45.8 million in FY 2023. The proposed change is contingent on the passage and approval of an amendment to HB 15, which would decrease the inflationary factor from 2.16% to 1.50% in FY 2022 and increase it from 1.91% to 2.57% in FY 2023.

Governor Gianforte proposed an increase in starting teacher salaries which would increase the requested budget by \$2.5 million in ongoing general fund in FY 2023 only. This request is contingent on the passage and approval of HB 143, the Tomorrow's Educators Are Coming Home (TEACH) Act. The TEACH Act would provide for wage increases for teachers in their first three years in the classroom, in order to incentivize school districts to modify pay scales to increase base pay for starting teachers.

Office of the Commissioner of Higher Education

In the Office of the Commissioner of Higher Education, the executive is requesting a decrease of approximately \$478,000 in FY 2022 and an increase of \$10.8 million in FY 2023 when compared to the FY 2021 base appropriations. Significant changes are primarily included in the Appropriation Distribution Program and Research and Development Agencies.

The primary changes in the Appropriation Distribution Program include:

- Requested general fund and state special revenue increases of \$6.8 million in FY 2022 and \$8.1 million in FY 2023 for present law adjustments for personal services, audit costs, and fixed costs
- General fund decreases of \$8.9 million in FY 2022 for a proposed two-month state share holiday for employer contributions to the Montana University System (MUS) health insurance fund. There are two general fund reductions included in with this proposal:
 - A general fund reduction of \$4.0 million for the state portion of funding for the university system. This is the amount of state general fund revenue for the MUS health insurance fund that will not need to be paid because of the state share holiday
 - A general fund reduction of \$4.9 million. This additional general fund reduction is equal to the amount of tuition revenue for the MUS health insurance fund that will not need to be paid because of the state share holiday

On June 30, 2020, the actuarial recommended reserves for the MUS health insurance fund were \$47.1 million and the fund balance was \$97.5 million. There is approximately \$50.4 million in fund balance available to offset the reductions in revenue.

The executive is requesting an increase of general fund for the Research and Development Agencies of \$1.2 million in FY 2022 and \$1.6 million in FY 2023. This request is for a present law adjustment for personal services and higher education fixed costs.

Section F – Long Range Planning and Infrastructure

Governor Gianforte has proposed reducing capital development present law general fund transfers by approximately \$14.0 million for the 2023 biennium. This reduces pay as you go infrastructure and replaces it with \$91.5 million of state and local government capital development bonds with an estimated general fund debt service cost in the 2023 biennium of \$2.4 million.

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 APPROPRIATION ESTIMATES

The following table shows each general fund statutory appropriation estimated by the LFD.

General Fund Statutory Appropriations FY 2018 - FY 2023						
	(\$ Millions)					
General Fund	2018	2019	2020	2021	2022	2023
	Actual	Actual	Actual	(Estimate)	(Estimate)	(Estimate)
Retirement						
19-3-320 Statutory Appropriation to PERS	\$31.386	\$31.958	\$33.951	\$34.291	\$34.634	\$34.980
19-3-319 Local Gov. Retirement Contribution	0.969	1.115	1.151	1.192	1.233	1.277
19-6-404 MHP Retirement Transfer	1.460	1.694	1.710	1.727	1.745	1.762
19-6-410 MHP Supplemental Retirement Transfer	0.250	-	-	-	-	-
19-9-702 Police Retirement Contribution	15.858	15.982	16.636	17.218	17.821	18.445
19-13-604 Firefighters' Association Contribution	16.157	16.606	17.721	18.341	18.983	19.648
19-17-301 Volunteer Firefighter Fund Contribution	2.212	2.370	2.487	2.599	2.716	2.838
19-18-512 Fire Department Relief Association Contribution	0.390	0.386	0.404	0.404	0.404	0.404
19-19-305 Police (Non-PERS) Retirement Contribution	0.216	0.206	0.202	0.202	0.202	0.202
19-19-506 Police Officer Pension Supplemental Contribution	-	-	-	-	-	-
19-20-604 Teacher's Retirement Supplemental Contribution	0.909	0.930	0.949	0.980	1.012	1.045
19-20-607 Teachers' Retirement System Contribution	44.096	44.565	44.999	45.649	46.321	47.013
19-21-203 MUS Retirement Contribution	1.767	1.790	1.814	1.838	1.863	1.887
Subtotal	\$115.669	\$117.603	\$122.026	\$124.442	\$126.933	\$129.501
Economic Development						
15-35-108(11)(b)(i)(A) Coal Sev. to Coop. Dev. Center	0.065	0.065	0.065	0.065	0.065	0.065
15-35-108(11)(b)(i)(B) Coal Sev. to Growth Through Ag	0.623	0.625	0.899	0.900	0.900	0.900
15-35-108(11)(b)(i)(C) Coal Sev. to MT Food & Ag	-	-	0.600	0.600	0.600	0.600
15-35-108(11)(b)(ii) Coal Sev. to Dept. of Commerce	1.099	1.099	1.799	1.800	1.800	1.800
15-70-433 Biodiesel Tax Refunds	-	-	-	-	-	-
Subtotal	1.788	1.789	3.363	3.365	3.365	3.365
Local Assistance						
7-4-2502 Payment of County Attorneys	3.452	3.460	3.518	3.624	3.733	3.845
15-1-121 Local Government Combined Distribution	133.853	135.581	140.545	144.120	146.204	150.745
22-1-327 State Aid to Public Libraries	-	-	0.395	0.423	0.423	0.423
Subtotal	137.304	139.040	144.459	148.167	150.359	155.012
Other						
10-1-1202 National Guard Death Benefit	-	-	-	-	-	-
10-3-310 Incident Response Appropriation	-	-	-	-	-	-
10-3-312 Emergency and Disaster Appropriation	3.574	0.747	1.689	14.811	8.250	8.250
15-1-218 Out of State Collections	0.182	0.150	0.172	0.180	0.180	0.180
16-11-509 Tobacco Enforcement	-	-	-	-	-	-
17-3-106 Return of Federal Grant Interest	0.013	0.028	0.036	0.016	0.016	0.016
17-3-106 Return of Federal Grant Money (GSD Only)	0.276	0.415	0.314	0.319	0.319	0.319
17-3-106 Return of Federal Grant Money	0.213	0.155	0.139	0.192	0.192	0.192
HB 676 2019 Session	-	-	0.045	0.045	0.045	0.045
5-13-402 Legislative Audits	-	-	-	-	-	-
17-1-205 Loan to G.F. / other	0.075	-	-	-	-	-
17-6-101 Banking Charges	2.235	2.170	2.282	2.328	2.375	2.422
17-7-502(4) Bond Fees & Costs (Debt Service)	12.395	9.370	8.150	11.049	14.419	15.132
17-7-502(4) Bond Fees & Costs (Issuance costs)	-	-	0.075	0.130	-	-
Aquatic Invasive Species	-	-	-	-	-	-
53-6-1304 SB 405 HELP Act	42.634	45.666	-	-	-	-
Subtotal	61.598	58.700	12.902	29.070	25.796	26.557
General Fund Total	\$316.360	\$317.133	\$282.750	\$305.044	\$306.453	\$314.435

REMAINING STATUTORY APPROPRIATIONS ESTIMATES

The following table shows LFD estimates for statutory appropriations that impact state special revenue funds, federal special revenue funds, capital projects and enterprise funds.

Remaining Statutory Appropriations - Legislative Fiscal Division Estimates						
	(\$ Millions)					
	2018	2019	2020	2021	2022	2023
State Special Funds	Actual	Actual	Actual	(Estimate)	(Estimate)	(Estimate)
20-9-622 Guarantee Account to BASE Aid	53.052	45.970	45.551	42.914	42.406	42.845
15-36-332 Oil & Gas Distribution to Counties	53.594	52.788	38.215	35.571	39.386	39.971
15-65-121 Lodging Tax Distribution	25.485	31.359	24.840	27.837	40.785	48.505
15-70-101 Fuel Tax to Local Governments	20.218	26.202	38.982	36.046	37.933	40.038
17-3-241 Mineral Impact Account	5.779	6.819	7.078	5.961	6.409	6.567
All Other State Special	122.744	92.469	100.384	66.384	66.384	66.384
State Special Total	\$280.871	\$255.607	\$255.050	\$214.713	\$233.303	\$244.310
Federal Special Funds						
53-6-1304 SB 405 HELP Act	\$672.988	\$677.628	-	-	-	-
53-6-148 Indian Health Services	74.823	77.490	77.231	78.390	79.566	80.759
17-3-212 Federal Forest Funds to Counties	15.120	14.177	13.801	13.111	3.760	3.917
17-7-502(4) Highway 93 Debt Service	15.125	15.110	15.412	3.924	3.920	3.927
Coronavirus Relief			93.093	1,098.796		
All Other Federal Funds	29.099	13.206	11.797	12.501	12.501	12.501
Federal Special Total	\$807.155	\$797.612	\$211.334	\$1,206.723	\$99.747	\$101.105
Capital Projects and Enterprise Funds						
23-7-402 Lottery Prizes	32.551	34.460	36.791	36.791	70.331	74.378
23-7-301 Lottery Commission/Fees	8.110	8.657	9.065	9.428	15.147	15.898
HB 553 2019 Session	-	-	-	-	-	-
All Other	2.405	3.055	3.153	3.153	3.153	3.153
Capital Projects and Enterprise Funds Total	\$43.066	\$46.172	\$49.010	\$49.372	\$88.631	\$93.428
Total Statutory Appropriations (All Funds)	\$1,447.451	\$1,416.524	\$798.144	\$1,775.852	\$728.134	\$753.278

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 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.

LFD Issue

The Legislative Finance Committee has 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. Governor Gianforte's proposed amendments to LC 851 and LC 943 transfer general fund to existing state special revenue funds that would then fund ongoing natural resource operations projects.

LEGISLATIVE FISCAL DIVISION ESTIMATES

The following table shows each individual general fund transfer estimated by the LFD.

General Fund Non-Budgeted Transfers: LFD Estimates						
Statutory Reference	(\$ Millions)					
	2018 Actual	2019 Actual	2020 Actual	2021 Estimate	2022 Estimate	2023 Estimate
Vehicle						
15-1-122(1) Adoption Services Account	\$0.072	\$0.245	\$0.154	\$0.169	\$0.186	\$0.204
15-1-122(2) Research & Commercialization Account	1.275	1.275	(0.203)	-	-	-
15-1-122(2)(a) Motor Vehicle Recycling & Disposal Program	1.620	1.649	1.606	1.687	1.706	1.723
15-1-122(2)(b) Noxious Weed Account	1.641	1.671	1.628	1.710	1.729	1.747
15-1-122(2)(c)(i) Boat Facilities & Off-Highway Vehicles	0.503	0.512	0.499	0.524	0.530	0.536
15-1-122(2)(c)(ii) Snowmobile Facility Development & Maint.	0.109	0.111	0.109	0.114	0.115	0.116
15-1-122(2)(c)(iii) Motorboat Account	0.175	0.178	0.174	0.182	0.184	0.186
15-1-122(3)(d) State Veterans' Cemetery Account	0.159	0.217	0.216	0.217	0.218	0.220
15-1-122(2)(d) Veteran's Services Account	0.554	0.668	0.663	0.666	0.671	0.676
15-1-122(3)e Search & Rescue Account	0.062	0.044	0.043	0.044	0.044	0.044
Other Transfers						
15-1-122(4) Sage Grouse	2.000	2.000	2.000	2.000	-	-
15-1-122(3) Livestock Loss	0.200	0.200	0.300	0.300	0.300	0.300
17-1-511(2) Rural Physicians	0.227	0.227	0.227	0.227	0.227	0.227
39-11-206 Commerce Training Account	0.600	0.600	0.600	0.600	0.600	0.600
39-71-2352(6) Old State Fund Shortfall	8.050	10.000	9.200	8.589	7.494	7.238
44-4-1607 DOJ Statewide Public Safety Communication System Account			3.750	3.750	3.750	3.750
77-1-108(5a) Trust Land Adm.	0.080	-	0.080		0.080	
85-2-280 Water Adjudication	3.179	3.864	2.600	2.700	2.700	2.800
85-2-527 Ground Water			0.250	0.257	0.263	0.271
87-2-801(6) Purple Heart Free Hunting	0.025	-	0.000	0.000	0.000	0.000
87-2-803(12d) Military Free Hunting	0.000	-	0.016	0.016	0.016	0.016
One-time transfers						
BSRF (HB 3 2017 session and MCA)		15.000	57.052			
Fire (HB 3 2017 session and HB 715 2019 session plus MCA)		21.500	30.344			
2017 Special Session Transfers	25.309	45.721				
IT infrastructure in HB 10 2019 session				7.313		
LRBP infrastructure in HB 5 and HB 652 2019 session			11.500			
Legislation						
HB 647 (2017 Session)	-	0.400	-	-	-	-
HB 158 (2019 Session)	-	-	0.050	-	-	-
HB 631 (2019 Session)	-	-	0.045	-	-	-
HB 633 (2019 Session)	-	-	0.000	-	-	-
HB 662 (2019 Session)	-	-	0.000	-	-	-
HB 684 (2019 Session)	-	4.103	-	-	-	-
HB 715 (2019 Session)	-	-	-	-	-	-
SB 312 (2019 Session)	-	-	0.025	-	-	-
Other Adjustments						
	(0.212)	-	-	-	-	-
Total General Fund	\$45.629	\$110.187	\$122.926	\$31.065	\$20.815	\$20.655

GOVERNOR'S PROPOSED OTHER LEGISLATION

GENERAL FUND ONLY

Other than HB 2, Long-Range Building, statutory authority, and non-budgeted transfer changes described in previous sections, the executive proposes other legislation that impacts general fund. The following figure illustrates the general fund executive proposals.

2021 Biennium Executive Proposed General Fund Legislation \$ Millions			
<u>General Fund Revenue Legislation</u>	FY 2021	FY 2022	FY 2023
Reduce Personal Income Tax to 6.75%		(5.4)	(28.1)
Revise Corporate Income Tax Apportionment		10.3	14.2
HEART Act		(0.5)	10.8
Keep Your Home Tax Relief		(3.0)	(3.0)
Big Sky Scholarship		(3.0)	(3.0)
LC 684 Montana Trades Education Credit (MTEC) Act		(1.0)	(1.0)
LC 1158 Business Investment Grows (BIG) Jobs Act		(0.8)	(0.8)
LC 611 Kids with Disabilities Opportunities Act		(0.5)	(0.5)
Broadband Expansion Tax Incentive			(0.1)
Entrepreneur Magnet Act		-	-
LC 850, Generally revise state finance laws, proposed amendments.	4.2		
General Fund Revenue Legislation Total	\$4.2	(\$3.8)	(\$11.5)
<u>General Fund Expenditures</u>	FY 2021	FY 2022	FY 2023
HB 1 - includes 2021 session bill only	\$7.0	\$2.6	\$3.5
HB 3 Supplemental Appropriations - amended in House Appropriations Committee 1-6-2021	4.5		
HB 10 Long Range Information Technology		5.0	
HB 13 Employee Pay Plan (per fiscal note)		1.3	7.2
HB 14 Funding and Authorization for Capital and Infrastructure (executive estimate for general obligation debt)		0.4	2.0
LC 851, Revise Natural Resources Operations State Special Revenue Account, transfers		1.2	1.2
LC 943, Amend Coal Severance Tax State Special Revenue Accounts, transfers		1.2	1.2
LC 1158 BIG Act Distribution to Locals		4.1	4.1
General Fund Expenditure Legislation Total	\$11.5	\$15.8	\$19.2

Revenue Impacts

Please refer to the revenue legislation portion of this report.

Expenditure Impacts

- HB 1 Feed Bill: \$13.0 million adopted by the legislature to fund the session activities of the legislature.
- HB 3: The executive proposes supplemental appropriations that are discussed in further detail in a later section of this volume.
- Infrastructure bills: HB 10 proposals to transfer general fund to the long-range information technology. HB 14 proposes the issuance of bonds. The cost for the new general obligation debt as estimated by the executive is included in the table. More detail is provided in [Section F of the 2023 Biennium Budget Analysis](#)
- HB 13
 - The executive proposes a longevity increase for state employees with 25 years of uninterrupted service
 - Employee base pay as determined on June 30, 2021 to be increased by 55 cents per hour on November 15, 2022
 - \$1.0 million has been proposed to provide for personal services shortfalls that may occur in the 2021 biennium and may be used at the discretion of the executive
- LC 851 and LC 943 consider natural resource revenue funding and have been discussed previously in the HB 2 expenditure section of this report
- LC 1158 BIG Act, a distribution to locals generated from changes to property taxes. Additional information was not available at the time of publication

REFERENCES

The Governor's Budget is found on the Office of Budget and Program Planning's website: http://budget.mt.gov/Budgets/2023_Budget-Page

FY 2021 GENERAL FUND SUPPLEMENTAL REQUESTS

EXECUTIVE PROPOSAL

The executive requested \$11.6 million general fund in HB 3 supplemental appropriations for FY 2021. The House Appropriations Committee **amended the bill on 1-6-2020** and reduced the request to \$4.5 million general fund.

Department of Revenue

In anticipation of summary judgement in the case of L.L. Liquor v. State of Montana et al, United States District Court District of Montana, Case No. CV 15-71-H-SHE, the Department of Revenue requested \$5.8 million general fund.

Anticipation of costs associated with implementation of state revenue collections for recreational marijuana, the department is requesting \$1.8 million.

Office of Public Instruction

Due to projected revenue declines associated with the economic uncertainty, the Office of Public Instruction anticipates a decline in guarantee fund revenue that provides a portion of K-12 education funding and is requesting \$4.5 million to cover the shortfall.

House Appropriations Committee Action

The House Appropriations Committee amended the bill to remove funding for potential recreational marijuana implementation costs. The committee also adopted a funding switch of \$5.8 million from general fund to proprietary funds.

LAWSUITS

L.L. Liquor v. State of Montana et al, United States District Court District of Montana, Case No. CV 15-71-H-SHE

The Department of Revenue is requesting \$5.6 million in supplemental appropriation authority for FY 2021 for summary judgement costs in the case of L.L. Liquor v. State of Montana et al, United States District Court District of Montana.

In 2015, the Legislature passed Senate Bill 193 (SB 193). The bill repealed the old commission rate structure for agency liquor stores, having a positive fiscal impact for 90 of the 96 agency liquor stores. One of the 6 stores that would see less profit from SB 193, L.L. Liquor, Inc. d/b/a Lolo Liquor, filed a Complaint in the First Judicial District Court on May 26, 2015, naming as Defendants: State of Montana; Steven Bullock, in his official capacity as the Governor of Montana; Montana Department of Revenue; and Mike Kadas, in his official capacity as the Director of the Montana Department of Revenue.

In the Complaint, Lolo Liquor alleged that SB 193: (1) violated the contracts clauses of the United States and Montana Constitutions; (2) breached the agency franchise agreements and breached the covenant of good faith; (3) resulted in an unconstitutional taking; and (4) violated Lolo Liquor's due process rights. On July 23, 2015, the department removed the case to the Montana Federal District Court based upon federal question jurisdiction as allowed in 28 U.S.C. § 1331.

As the named defendant, the department defended on the basis that the agency liquor store contract signed by LL Liquor indicated that the commission rates could change at any time based upon changes to those commission rates made by the Legislature.

The Federal Courts' Decisions

On April 25, 2017, Judge Haddon granted the department's summary judgment motion that there was no breach of contract, and on May 11, 2017, Lolo Liquor filed a Notice of Appeal with the 9th Circuit Court of Appeals.

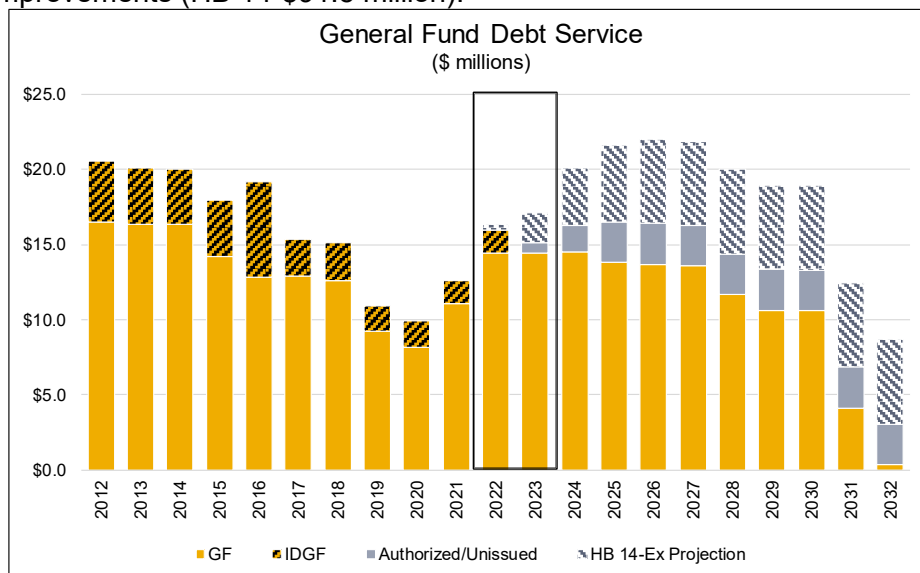
On December 28, 2018, the 9th Circuit upheld Judge Haddon's decision that SB 193 did not violate the contracts clauses of the Montana and United States Constitutions. However, the Court held, in an unpublished opinion, that the changes to the commission rates resulted in a breach of the Agency Franchise Agreement with Lolo Liquor and the Court remanded the case back to Judge Haddon to determine damages and statutory attorney fees.

DEBT SERVICE

Montana's debt liability is relatively low and unless additional bonds are issued or approved, the payment streams of the currently issued general fund general obligation bonds (GFGO) will end in FY 2041. Montana ranks well when compared to other states' tax supported debt, according to a report by Moody's Investor Services, the May 2020 Moody's Debt Medians Report. In comparison with the 50 states, with lower debt states having a higher rank, Montana ranks as follows:

- 47th in net tax supported debt (thousands); \$113,753
- 47th in tax supported debt per-capita; \$106
- 47th in net tax supported debt as a percent of personal income; 0.2%

The following table illustrates current debt service and includes projections for authorized but unissued debt service, as well as projections in the executive proposal to authorize bonds for state and local infrastructure improvements (HB 14-\$91.5 million).



- 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 (\$30.2 million in the 2023 biennium)
- Gold Hatched IDGF – This category includes special revenue bonds that are paid indirectly through the general fund. The related bond issue covered the costs of improvements at Montana State Hospital. Debt service on this bond is paid by funds that would otherwise flow into the general fund. The issue is expected to be paid in full in FY 2022 (\$1.5 million in the 2023 biennium)

- Grey (Authorized/Unissued) – This category includes the projections for debt services costs on authorized but unissued bonds (\$38.3 million of authority). The bonds are authorized for the costs of two tribal compacts, the St. Mary’s diversion system improvements, and the balance of the bonds authorized by the 2019 Legislature (HB 652). With uncertainty for when these bonds may be issued, only the remaining authority for HB 652 is projected to be issued in the 2023 biennium, the remainder is projected to be issued in the 2025 biennium (\$0.7 million in the 2023 biennium)
- Black Hatched (HB 14-Ex Projection) – This category illustrates the debt service costs of the HB 14 as shown on the executive balance sheet (\$2.4 million in the 2023 biennium)

In the 2023 biennium, the debt service paid directly and indirectly through the general fund for existing bond issues is expected to be \$16.0 million in FY 2022 and \$15.1 million in FY 2023. The debt service for executive proposal in HB 14, as calculated by the executive, is based on 20-year maturities and are expected to be sold in five issues. The bonds are projected to have a general fund debt service cost of \$0.4 million in FY 2022 and \$2.0 million in FY 2023. Including HB 14, total debt service is expected to be \$16.4 in FY 2022 and \$17.1 million in FY 2023. Once all bonds are issued, the projected annual cost HB 14 debt service would be \$5.6 million per year.

DEBT LIMITATIONS

In the work of the 2019 Legislature, 17-5-802, MCA now imposes two limits on the legislative ability to authorize GFGO bonds. The limits include:

1. A prohibition on the legislature from authorizing new GFGO bonds if state debt is greater than 0.6% of the fair market value of all property within the state (\$1,114.5 million in the 2023 biennium), and
2. A prohibition on the legislature from authorizing new GFGO bonds if the annual fiscal year costs of the current and proposed GFGO debt service would exceed 1.5% of annual general fund revenues, measured at 7/1/2020 (\$38.0 million).

In the 2023 biennium, the executive proposal for HB 14 is well within both limits.

PENSIONS

UPDATE ON CURRENT VALUATIONS

Upon completion of the FY 2020 actuarial valuations, the unfunded liability across Montana’s nine retirement systems approached \$4.6 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 \$2.1 billion and \$2.0 billion respectively.

Overall, compared to the FY 2019 actuary valuations, most systems’ funded ratios did not change by much as seen in the table below.

Montana Pension Systems Actuarial Valuations				
	2019	2020	Amortization Period 2019	Amortization Period 2020
Teachers' Retirement System (TRS)	69%	69%	29	29
Public Employees' Retirement System (PERS)	74%	74%	36	35
Judges' Retirement System	161%	163%	0	0
Highway Patrol Officers' Retirement System	65%	65%	42	39
Sheriffs' Retirement	82%	81%	21	21
Game Wardens' Retirement System	84%	84%	53	40
Municipal Police Officers	69%	71%	18	16
Firefighters' Unified Retirement System	80%	82%	9	8
Volunteer Firefighters	85%	87%	5	4

Rate of Return Assumption

Recently, the assumed rate of return has been a topic of much discussion in public pension literature. Most public pension plans have operated under an assumed rate of return between 7.50% and 8.0%. Many states have recently revised their assumed rate of return downward. In FY 2017, Montana revised its return rate assumption from 7.75% to 7.65%. At one point, these return rates could be realized by investing in bonds that had little risk. To receive returns at this level today, many public pensions have become increasingly reliant on domestic equity. This introduces added risk to the system, as the stock market can be extremely volatile. Even if return rates average 7.65%, the timing of good and bad years matters. A significant decrease from the assumed rate-of-return in any one year can take many years of above average returns to heal. Simulated scenarios where return rates can vary from year to year, but average the same return rate, can produce very different funded levels and amortization periods.

A rate of return of 7.65%, even under a stock-heavy investment portfolio, may be difficult to achieve. The Montana Board of Investments (BOI), the agency in charge of investing all of Montana's funds, recently published a [report](#) forecasting its estimated returns over the next ten years. The BOI report estimated that the future median long-term expected return would equal 6.33%, compared to the assumed rate of 7.65%. It is possible that higher returns after ten years could make up for lower returns in the near term. However, if returns over the next ten years are lower than the assumed rate of return it is likely that additional funding will be needed to improve the health of the systems.

Discount Rate Assumption

The assumed discount rate ultimately plays the largest role in illustrating the true liability of a pension system. The purpose of using a discount rate is to ascertain the current value of a future liability, and in this case, to determine how much the retirement benefits owed to future pensioners is valued today. As a result, larger discount rate produce smaller liabilities, and vice versa.

Traditionally, actuarial valuations have used the assumed rate of return as the discount rate as well. The reasoning has been that since the assets are forecast to grow at that rate, it is fair to discount the liabilities backwards at that rate to calculate a funded ratio. However, in recent years it has been argued that a riskless discount rate should be used, since those pension liabilities, or benefits, are guaranteed. By using a discount rate that is too high the true liability that will need to be paid out can be severely understated.

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.

Governor Gianforte proposes to increase FTE by 134.89 in FY 2022 and 176.14 in FY 2023. The primary increases are in the Department of Revenue for recreational marijuana implementation; the Department of Transportation for the construction program and rail, transit and planning program; the Judicial Branch for additional judges and accompanying staff, and additional drug court staff; and the Department of Corrections for probation and parole officers and pre-sentence investigation writers. The following figure shows the FTE by agency included in the base budget, requested FTE for FY 2022 and FY 2023, and totals.

HB 2 Only- FTE Agency Summary Jan 7, 2021 Governor Gianforte Budget					
	Base FTE	Requested New FTE		Total Requested FTE	
		2022	2023	2022	2023
General Government					
11040 LEGISLATIVE BRANCH	141.89	-	-	141.89	141.89
11120 CONSUMER COUNSEL	5.54	-	-	5.54	5.54
31010 GOVERNOR'S OFFICE	58.07	-	-	58.07	58.07
32020 COMMISSIONER OF POLITICAL PRACTICES	6.00	1.00	1.00	7.00	7.00
34010 STATE AUDITOR'S OFFICE	74.50	(2.00)	(2.00)	72.50	72.50
58010 DEPARTMENT OF REVENUE	625.67	48.00	75.00	673.67	700.67
61010 DEPARTMENT OF ADMINISTRATION	153.16	(9.00)	(9.00)	144.16	144.16
65010 DEPARTMENT OF COMMERCE	46.05	4.00	4.00	50.05	50.05
66020 DEPARTMENT OF LABOR AND INDUSTRY	668.48	2.00	2.00	670.48	670.48
67010 DEPARTMENT OF MILITARY AFFAIRS	213.25	8.00	8.00	221.25	221.25
Subtotal	1,992.61	52.00	79.00	2,044.61	2,071.61
Health and Human Services					
69010 DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES	2,873.52	1.00	1.00	2,874.52	2,874.52
Subtotal	2,873.52	1.00	1.00	2,874.52	2,874.52
Natural Resources and Transportation					
52010 DEPARTMENT OF FISH, WILDLIFE, AND PARKS	754.39	4.39	4.39	758.78	758.78
53010 DEPARTMENT OF ENVIRONMENTAL QUALITY	365.54	-	-	365.54	365.54
54010 DEPARTMENT OF TRANSPORTATION	1,992.27	24.00	26.00	2,016.27	2,018.27
56030 DEPARTMENT OF LIVESTOCK	132.87	1.50	0.50	134.37	133.37
57060 DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION	531.11	8.50	8.50	539.61	539.61
62010 DEPARTMENT OF AGRICULTURE	118.06	1.00	1.00	119.06	119.06
Subtotal	3,894.24	39.39	40.39	3,933.63	3,934.63
Judicial Branch, Law Enforcement, and Justice					
21100 JUDICIAL BRANCH	454.69	8.50	19.75	463.19	474.44
41100 DEPARTMENT OF JUSTICE	792.16	4.00	6.00	796.16	798.16
42010 PUBLIC SERVICE COMMISSION	35.00	2.50	2.50	37.50	37.50
61080 OFFICE OF STATE PUBLIC DEFENDER	302.44	-	-	302.44	302.44
64010 DEPARTMENT OF CORRECTIONS	1,274.17	25.50	25.50	1,299.67	1,299.67
Subtotal	2,858.46	40.50	53.75	2,898.96	2,912.21
Education					
35010 OFFICE OF PUBLIC INSTRUCTION	152.27	1.00	1.00	153.27	153.27
51010 BOARD OF PUBLIC EDUCATION	3.00	-	-	3.00	3.00
51020 COMMISSIONER OF HIGHER EDUCATION	50.22	-	-	50.22	50.22
51130 SCHOOL FOR THE DEAF & BLIND	83.47	-	-	83.47	83.47
51140 MONTANA ARTS COUNCIL	7.00	-	-	7.00	7.00
51150 MONTANA STATE LIBRARY	29.46	1.00	1.00	30.46	30.46
51170 MONTANA HISTORICAL SOCIETY	54.38	-	-	54.38	54.38
Subtotal	379.80	2.00	2.00	381.80	381.80
Total	11,998.63	134.89	176.14	12,133.52	12,174.77

BIENNIAL COMPARISON, 17-7-151, MCA

This is as the Governor Gianforte bills are understood as of January 14, 2021. Further clarifications or amendments to the bills could change the estimates. The statutory appropriations and transfers from the liquor warehouse included in this comparison have been estimated by the Legislative Fiscal Division and tie to HJ 2 when appropriate.

January 7, 2021 Governor Gianforte's Biennial Comparisons
(\$ Millions)

	Appropriated 2019 Biennium	Appropriated 2021 Biennium	Appropriated 2023 Biennium	2021 to 2023 Biennial Change
Comparables				
HB 2				
General Fund	\$4,063.2	\$4,275.5	\$4,586.2	7.3%
State Special Revenue	1,513.2	\$1,599.4	\$1,879.0	17.5%
Federal Special Revenue	4,531.1	\$4,392.9	\$6,265.8	42.6%
Appropriated Proprietary	<u>24.3</u>	<u>\$25.5</u>	\$27.4	7.6%
Subtotal HB 2	10,131.9	10,293.3	12,758.4	23.9%
Transfers HB 2	(40.6)	(38.1)	(76.0)	99.6%
Net Subtotal HB 2	10,091.2	10,255.3	12,682.4	23.7%
Statutory Appropriations				
General Fund	626.0	592.0	620.9	4.9%
State Special Revenue	493.8	530.6	477.6	-10.0%
Federal Special Revenue	1,100.6	333.1	200.9	-39.7%
Appropriated Proprietary & Capital Projects	<u>80.0</u>	<u>104.0</u>	182.1	75.0%
Subtotal Statutory	2,300.4	1,559.8	1,481.4	-5.0%
Transfers & Debt Service Statutory	(60.7)	(57.7)	(43.9)	-24.0%
Net Subtotal Statutory	2,239.7	1,502.0	1,437.5	-4.3%
Other Appropriation Bills (excludes noncomparables)	397.0	2,312.9	412.3	-82.2%
Debt Service	0.0	0.0	0.0	
Net Subtotal Other Appropriation Bills	397.0	2,312.9	412.3	-82.2%
HB 2 Language Appropriations	325.8	329.8	351.0	6.4%
Transfers Language Appropriations	(102.0)	(102.0)	(116.3)	14.0%
Net Subtotal Language Appropriations	223.9	227.8	234.7	3.0%
Total Comparables Not Including Transfers	\$12,951.8	\$14,298.0	\$14,766.9	3.3%
Non-Comparable				
HELP Act under appropriated	547	-		
HB 4	238.7	-	294.0	0.0%
HB 3	0.7	-	824.8	0.0%
HB 1 & other	12.8	-	13.0	0.0%
Legislative adjustments after 2019 Biennium began				
General Fund	0.0	-		
17-7-140	(139.2)	-		
SS Reductions	(61.6)	-		
Restore	<u>45.7</u>	-		
Total 2019 Biennium adjustments	(200.9)	-		
Total Non-Comparable Items	\$850.9	\$0.0	\$1,131.8	0.0%