

# **FY 2013 FISCAL YEAR END AND 2015 BIENNIUM UPDATE REPORT**

A Report Prepared for the  
**Legislative Finance Committee**

By  
Amy Carlson, Legislative Fiscal Analyst  
and Legislative Fiscal Division Staff

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## INTRODUCTION

The purpose of this report is to provide the committee with preliminary FY 2013 ending fund balance data for the general fund. Although the revenue and disbursement data for the fund have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the Generally Accepted Accounting Principles (GAAP) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund account has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

This report provides a comparison between budgeted data as presented during the 63rd Legislature and actual data from SABHRS for FY 2013. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2015 Biennium.

## FUND BALANCE DISCUSSION

The 2013 Legislative session estimated general fund balance at the end of FY 2013 was \$435 million. This estimate was based on Senate Joint Resolution 2 (SJ 2) revenue estimates of the 63rd Legislature, disbursement budgets adopted during the 62<sup>nd</sup> and 63rd legislative sessions, and reversion estimates.

As shown in Figure 1, the preliminary general fund account unassigned balance for FY 2013 was \$537.3 million, or \$102.4 million above the level anticipated by the 63rd Legislature. Figure 1 also shows the additional revenue of \$82.4 million, plus a reduction in spending by \$14.9 million, and plus \$5.2 million in prior year and other adjustments add for a total \$102.4 million increase to ending fund balance or to the higher ending fund balance of \$537.3 million.

Figure 1

| <b>General Fund Update FY 2013 Actual</b> |                      |                   |                 |
|---|----------------------|-------------------|-----------------|
| (in Millions)                             |                      |                   |                 |
|   | Estimated<br>FY 2013 | Actual FY<br>2013 | Difference      |
| <b>Beginning Fund Balance</b>             | \$452.4              | \$452.4           | \$0.0           |
| Revenue                                   | 1,995.2              | 2,077.6           | 82.4            |
| <b>Total Funds Available</b>              | <b>\$2,447.6</b>     | <b>\$2,530.0</b>  | <b>\$82.4</b>   |
| Disbursements                             |                      |                   |                 |
| Ongoing                                   |                      |                   |                 |
| HB 2                                      | \$1,628.7            | \$1,613.5         | (\$15.2)        |
| Statutory                                 | 200.9                | 199.7             | (1.3)           |
| Other                                     | 67.5                 | 76.2              | 8.7             |
| OTO                                       | 115.6                | 108.5             | (7.1)           |
| <b>Total Disbursements</b>                | <b>\$2,012.7</b>     | <b>\$1,997.9</b>  | <b>(\$14.9)</b> |
| Adjustments                               |                      | \$5.2             | \$5.2           |
| <b>Ending Fund Balance (Unassigned)</b>   | <b>\$434.9</b>       | <b>\$537.3</b>    | <b>\$102.4</b>  |

### Reasons for Higher FY 2013 Ending Fund Balance

The largest component of this increase is \$82.4 million in higher than anticipated revenues. The two largest differences in revenue are: (1) \$63.8 million higher individual income tax receipts; and (2) \$26.8 million in increased

corporation tax revenues. Also increasing ending fund balance are nearly \$15 million in higher than anticipated net reversions and \$5.2 million in prior year and other adjustments. Descriptions of the differences are described in more detail in the revenue and spending sections of this report.

## Anticipated 2015 Biennium Ending Fund Balance Update

Although the ending fund balance for FY 2013 is \$102.4 million higher than anticipated, not all of that increased fund balance will be added to the 2015 Biennium anticipated ending fund balance. Two bills: HB 3 (supplemental appropriations) and HB 354 (establish a wildfire project suppression fund) contained provisions for transfers to occur in FY 2014 based on specific conditions happening in FY 2013. These transfers decrease the anticipated 2015 biennium ending fund balance.

### *Impact of Fire Suppression Transfers*

HB 3, the supplemental appropriations bill, required a FY 2014 transfer from the general fund to the state special fire suppression fund of any remaining appropriation authority from the fire supplemental. The amount of reversion in FY 2013 and thus the transfer from HB 3 was \$11.9 million in FY 2014.

HB 354 Establish a wildfire project suppression fund: required transfers based on two items:

1. Reversions of general fund appropriations: Reversions greater than 0.5% of the total general fund money appropriated for each fiscal year must be transferred to the wildfire project suppression fund. The Governor’s Budget Office (OBPP) calculated this number to be \$14.3 million by using the actual reversion of appropriation journals in the SABHRS accounting system.
2. Corporation tax revenue in excess of \$152.0 million: Corporation tax revenues in FY 2013 were \$177.5 million or \$25.5 million greater than the threshold causing a transfer of a like amount into the wildfire project suppression fund.

Figure 2

| Fire Transfer Summary<br>(in Millions)                        |        |
|---|--------|
| HB 3: remaining from \$ 50 million Fire supplemental          | \$11.9 |
| HB 354: Reversion of general fund authority greater than 0.5% | 14.3   |
| HB 354: Corporation tax in excess of threshold                | 25.5   |
| Total transfer to wildfire project supression fund            | \$51.7 |

### *Summary 2015 Biennium Impacts*

In early FY 2014, after FY 2013, the total transfer from the general fund to the wildfire project suppression fund was \$51.7 million. This reduces the amount that the 2015 biennium general fund ending fund increases from \$102.4 million by \$51.7 million for an estimated \$50.6 million increase in the 2015 biennium ending fund balance. The following table in Figure 2a summarizes these calculations.

Figure 2a

| <b>General Fund Update FY 2013 Actual</b>                  |                   |                      |                   |                       |                        |                        |
|--|-------------------|----------------------|-------------------|-----------------------|------------------------|------------------------|
| (in Millions)  |                   |                      |                   |                       |                        |                        |
|  | Actual<br>FY 2012 | Estimated<br>FY 2013 | Actual FY<br>2013 | FY 2013<br>Difference | Legislative<br>FY 2014 | Legislative<br>FY 2015 |
| <b>Beginning Fund Balance</b>                              | \$341.9           | \$452.4              | \$452.4           | \$0.0                 | \$537.3                | \$388.5                |
| Revenue  | \$1,871.0         | \$1,995.2            | \$2,077.6         | \$82.4                | \$2,056.4              | \$2,136.6              |
| <b>Total Funds Available</b>                               | \$2,212.8         | \$2,447.6            | \$2,530.0         | \$82.4                | \$2,593.7              | \$2,525.1              |
| Disbursements  |                   |                      |                   |                       |                        |                        |
| Ongoing  |                   |                      |                   |                       |                        |                        |
| HB 2   | \$1,577.9         | \$1,628.7            | \$1,613.5         | (\$15.2)              | \$1,734.6              | \$1,786.2              |
| Statutory  | 171.2             | 200.9                | 199.7             | (1.3)                 | 199.8                  | 214.1                  |
| Other  | 16.8              | 78.6                 | 76.2              | (2.4)                 | 107.4                  | 148.8                  |
| Reversions   |                   | (11.1)               |                   | 11.1                  | (7.8)                  | (8.1)                  |
| OTO  |                   |                      |                   |                       |                        |                        |
| HB 2   | 10.06             | 13.61                | 13.45             | (0.2)                 | 20.80                  | 23.20                  |
| Other  | 3.7               | 102.0                | 95.0              | (6.9)                 | 98.6                   | 12.3                   |
| <b>Total Disbursements</b>                                 | \$1,779.6         | \$2,012.7            | \$1,997.9         | (\$14.9)              | \$2,153.5              | \$2,176.6              |
| Wildfire Project Suppression Fund Transfers                |                   |                      |                   |                       |                        |                        |
| Transfers from HB 3 remaining supplemental                 |                   |                      |                   |                       | (\$11.9)               |                        |
| Transfers from HB 354 Corp Tax, Reversions                 |                   |                      |                   |                       | (\$39.8)               |                        |
| Adjustments  | \$19.2            |                      | \$5.2             | \$5.2                 |                        |                        |
| <b>Ending Fund Balance (Unassigned)</b>                    | <b>\$452.4</b>    | <b>\$434.9</b>       | <b>\$537.3</b>    | <b>\$102.4</b>        | <b>\$388.5</b>         | <b>\$348.6</b>         |
| <b>Summary of final impacts to ending fund balance</b>     |                   |                      |                   |                       |                        |                        |
| FY 2013 Higher revenues                                    |                   |                      |                   | \$82.4                |                        |                        |
| FY 2013 Less spending                                      |                   |                      |                   | \$14.9                |                        |                        |
| FY 2013 Adjustments  |                   |                      |                   | \$5.2                 |                        |                        |
| FY 2014 Transfers to the Wildfire Project Suppression Fund |                   |                      |                   |                       | (\$51.7)               |                        |
| <b>Total Impact to ending fund balance</b>                 |                   |                      |                   |                       |                        | <b>\$50.7</b>          |

Note that the estimated revenues from SJ 2 for FY 2014 are less than the actual general fund revenue in FY 2013. As described in further detail in the Revenue analysis section, much of the higher than anticipated revenue in FY 2013 is from one-time sources. The Legislative Fiscal Division analysis to re-evaluate the revenue estimate for FY 2014 and FY 2015 will be complete and reported in December 2013.

## REVENUE AND SPENDING

The following sections give additional information on the differences between anticipated and actual revenue and spending in FY 2013. A description of the prior year and adjustments follows both these sections.

# REVENUE ANALYSIS

## INTRODUCTION

The revenue analysis portion of this report is to provide the committee with fiscal year end revenue collection information and reasons for the differences, if any, from the estimate contained in SJ 2. In summary, actual FY 2013 general fund revenues were \$82.4 million or 4.1% ahead of the SJ 2 estimate. The difference can almost entirely be attributed strong growth in individual income and corporate license tax collections, and a sharp decrease in U.S. mineral royalties. The remaining sources combined were very close to the official estimate.

Figure 3

| Summary of FY 2013 Changes from SJ 2 |              |              |               |              |
|--------------------------------------|--------------|--------------|---------------|--------------|
| (in Millions)                        |              |              |               |              |
|                                      | Estimate     | Actual       | \$ Difference | % Difference |
| Individual Income Tax                | \$984.0      | \$1,047.8    | \$63.8        | 6.5%         |
| Corporation Tax                      | 150.7        | 177.5        | 26.8          | 17.8%        |
| U.S. Mineral Royalties               | 37.0         | 29.2         | -7.8          | -21.0%       |
| Remaining Sources                    | <u>823.6</u> | <u>823.1</u> | <u>-0.5</u>   | -0.1%        |
| Total                                | \$1,995.2    | \$2,077.6    | \$82.4        | 4.1%         |

Figure 4 on the following page shows actual FY 2012 revenues in the first numerical column, followed by estimated and actual FY 2013 revenues. The next two columns show the estimated and actual growth in FY 2013 from FY 2012. The last two columns compare the actual FY 2013 revenue to the estimate, showing the difference as an amount and as a percentage. A summary explanation of the differences between actual revenues and SJ 2 estimated revenues for sources for the top seven sources and those sources with differences exceeding \$1 million or 5% follow the table.

Figure 4

| General Fund Revenue--FY 2013 Actuals Compared to SJ 2 Estimate<br>(in Millions) |                    |                          |                    |                          |                    |                              |                           |
|--|--------------------|--------------------------|--------------------|--------------------------|--------------------|------------------------------|---------------------------|
| Revenue Source   | Actual<br>FY 2012  | SJ2 Estimate*<br>FY 2013 | Actual<br>FY 2013  | SJ2 Estimate<br>% Change | Actual<br>% Change | Est. - Act.<br>\$ Difference | Est./Act.<br>% Difference |
| <b>Largest Seven Sources</b>   |                    |                          |                    |                          |                    |                              |                           |
| Individual Income Tax  | \$898.851          | \$983.953                | \$1,047.790        | 9.5%                     | 16.6%              | \$63.837                     | 6.5%                      |
| Property Tax   | 236.662            | 241.741                  | 244.607            | 2.1%                     | 3.4%               | 2.866                        | 1.2%                      |
| Corporation Tax  | 127.771            | 150.658                  | 177.497            | 17.9%                    | 38.9%              | 26.839                       | 17.8%                     |
| Vehicle Taxes & Fees   | 99.954             | 100.836                  | 99.352             | 0.9%                     | -0.6%              | (1.484)                      | -1.5%                     |
| Oil Severance Tax  | 97.560             | 98.750                   | 98.683             | 1.2%                     | 1.2%               | (0.067)                      | -0.1%                     |
| Insurance Tax  | 58.951             | 59.932                   | 61.678             | 1.7%                     | 4.6%               | 1.746                        | 2.9%                      |
| Video Gaming Tax   | 53.824             | 57.706                   | 57.261             | 7.2%                     | 6.4%               | (0.445)                      | -0.8%                     |
| <b>Other Business Taxes</b>  |                    |                          |                    |                          |                    |                              |                           |
| Drivers License Fee  | 4.369              | 3.867                    | 4.527              | -11.5%                   | 3.6%               | 0.660                        | 17.1%                     |
| Estate Tax   | 0.060              | 0.000                    | 0.002              | -100.0%                  | -97.2%             | 0.002                        |                           |
| Investment Licenses  | 6.961              | 7.210                    | 6.951              | 3.6%                     | -0.1%              | (0.259)                      | -3.6%                     |
| Lodging Facilities Sales Tax   | 15.606             | 17.314                   | 16.720             | 10.9%                    | 7.1%               | (0.594)                      | -3.4%                     |
| Public Contractor's Tax  | (3.042)            | 1.140                    | (0.138)            | -137.5%                  | -95.5%             | (1.278)                      | -112.1%                   |
| Railroad Car Tax   | 2.273              | 2.157                    | 2.179              | -5.1%                    | -4.2%              | 0.022                        | 1.0%                      |
| Rental Car Sales Tax   | 3.420              | 3.539                    | 3.523              | 3.5%                     | 3.0%               | (0.016)                      | -0.4%                     |
| Retail Telecom Excise Tax  | 21.459             | 22.606                   | 20.652             | 5.3%                     | -3.8%              | (1.954)                      | -8.6%                     |
| <b>Other Natural Resource Taxes</b>  |                    |                          |                    |                          |                    |                              |                           |
| Coal Severance Tax   | 12.350             | 12.864                   | 13.265             | 4.2%                     | 7.4%               | 0.401                        | 3.1%                      |
| Electrical Energy Tax  | 4.481              | 4.442                    | 5.067              | -0.9%                    | 13.1%              | 0.625                        | 14.1%                     |
| Metal Mines Tax  | 10.010             | 10.904                   | 10.049             | 8.9%                     | 0.4%               | (0.855)                      | -7.8%                     |
| U.S. Mineral Royalties   | 31.057             | 36.989                   | 29.205             | 19.1%                    | -6.0%              | (7.784)                      | -21.0%                    |
| Wholesale Energy Trans Tax   | 3.427              | 4.038                    | 3.558              | 17.8%                    | 3.8%               | (0.480)                      | -11.9%                    |
| <b>Other Interest Earnings</b>   |                    |                          |                    |                          |                    |                              |                           |
| Coal Trust Interest Earnings   | 25.840             | 24.451                   | 24.153             | -5.4%                    | -6.5%              | (0.298)                      | -1.2%                     |
| TCA Interest Earnings  | 2.654              | 2.779                    | 2.465              | 4.7%                     | -7.1%              | (0.314)                      | -11.3%                    |
| <b>Other Consumption Taxes</b>   |                    |                          |                    |                          |                    |                              |                           |
| Beer Tax   | 2.956              | 3.052                    | 3.033              | 3.2%                     | 2.6%               | (0.019)                      | -0.6%                     |
| Cigarette Tax  | 31.483             | 30.991                   | 31.011             | -1.6%                    | -1.5%              | 0.020                        | 0.1%                      |
| Liquor Excise Tax  | 17.037             | 18.206                   | 17.724             | 6.9%                     | 4.0%               | (0.482)                      | -2.6%                     |
| Liquor Profits   | 9.500              | 10.604                   | 10.500             | 11.6%                    | 10.5%              | (0.104)                      | -1.0%                     |
| Lottery Profits  | 13.061             | 14.477                   | 13.084             | 10.8%                    | 0.2%               | (1.393)                      | -9.6%                     |
| Tobacco Tax  | 5.709              | 5.821                    | 5.853              | 2.0%                     | 2.5%               | 0.032                        | 0.5%                      |
| Wine Tax   | 2.104              | 2.144                    | 2.195              | 1.9%                     | 4.3%               | 0.051                        | 2.4%                      |
| <b>Other Sources</b>   |                    |                          |                    |                          |                    |                              |                           |
| All Other Revenue  | 47.258             | 32.864                   | 36.576             | -31.0%                   | -22.6%             | 3.712                        | 11.3%                     |
| Highway Patrol Fines   | 4.385              | 4.427                    | 4.140              | 1.0%                     | -5.6%              | (0.287)                      | -6.5%                     |
| Nursing Facilities Fee   | 5.077              | 4.876                    | 4.928              | -4.0%                    | -2.9%              | 0.052                        | 1.1%                      |
| Public Institution Reimbursements  | 14.562             | 16.332                   | 16.212             | 12.2%                    | 11.3%              | (0.120)                      | -0.7%                     |
| Tobacco Settlement   | 3.322              | 3.552                    | 3.321              | 6.9%                     | 0.0%               | (0.231)                      | -6.5%                     |
| <b>Largest Seven Subtotal</b>  | <b>\$1,573.574</b> | <b>\$1,693.576</b>       | <b>\$1,786.868</b> | <b>7.6%</b>              | <b>13.6%</b>       | <b>\$93.292</b>              | <b>5.5%</b>               |
| <b>Remaining Sources Subtotal</b>  | <b>297.380</b>     | <b>301.646</b>           | <b>290.754</b>     | <b>1.3%</b>              | <b>-2.2%</b>       | <b>(10.892)</b>              | <b>-3.6%</b>              |
| <b>Grand Total</b>   | <b>\$1,870.954</b> | <b>\$1,995.222</b>       | <b>\$2,077.622</b> | <b>6.6%</b>              | <b>11.0%</b>       | <b>\$82.400</b>              | <b>4.1%</b>               |

\*SJ 2, Adjusted for Legislative Impacts

## LARGE REVENUE SOURCES

### Individual Income Tax: \$63.8 million

Individual income tax collections were \$63.8 million or 6.5% above the estimate contained in SJ 2. The difference was driven by robust withholding growth—a proxy for wage and retirement income—and higher-than-expected estimated and current year payments—a proxy for all other non-wage income. The table below shows the detail for FY 2013 compared to FY 2012.

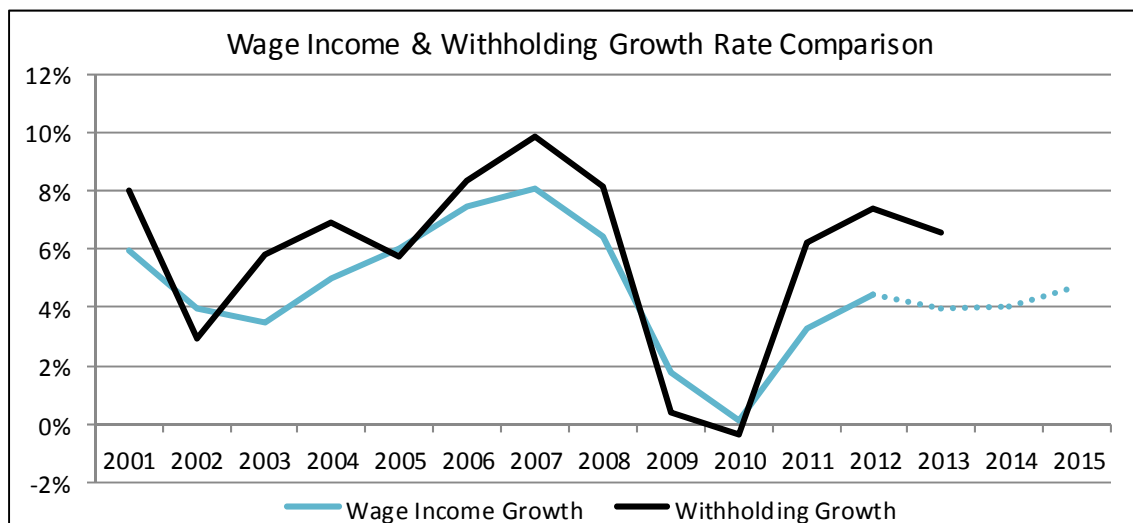
Figure 5

| Individual Income Tax<br>(\$ millions) |                  |                |                |              |
|--|------------------|----------------|----------------|--------------|
|  | YTD FY 2013      | YTD FY 2012    | Difference     | % Difference |
| Withholding                            | \$783.6          | \$734.2        | \$49.4         | 6.7%         |
| Estimated Payments                     | 233.7            | 189.5          | 44.2           | 23.4%        |
| Current Year Payments                  | 211.2            | 153.8          | 57.4           | 37.3%        |
| Audit, P&I, Amended                    | 31.8             | 28.3           | 3.5            | 12.4%        |
| Refunds                                | (244.0)          | (235.1)        | (8.9)          | 3.8%         |
| Partnership Income Tax                 | 14.0             | 9.7            | 4.3            | 44.1%        |
| Mineral Royalties                      | 17.4             | 18.4           | (1.0)          | -5.3%        |
| <b>Total</b>                           | <b>\$1,047.8</b> | <b>\$898.9</b> | <b>\$148.9</b> | <b>16.6%</b> |

### Wage Income

There is a correlation between withholding growth and wage income growth; however, the correlation is not particularly strong, as shown in the graph below:

Figure 6

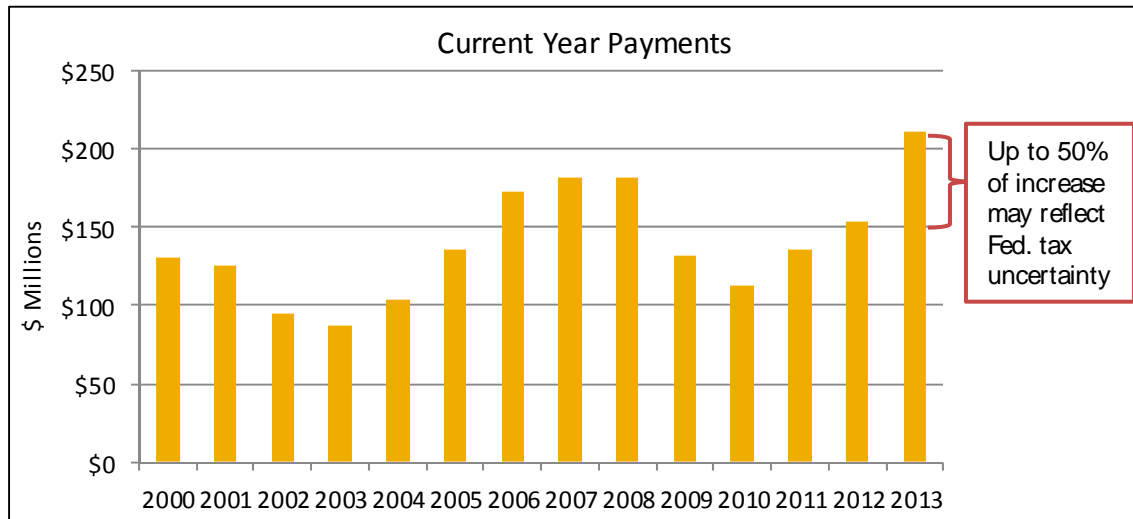


Actual wage income growth for calendar year 2012 won't be available until early November, and even then data won't be available with which to approximate FY 2013 wage income growth. The strong withholding growth suggests that wage income growth was stronger than estimated in SJ 2. Since wage income accounts for approximately 65% of total individual income, even a small increase over expected growth would have a significant impact on tax collections.

## Non-Wage Income: \$40 million potentially due to Federal Tax Uncertainty

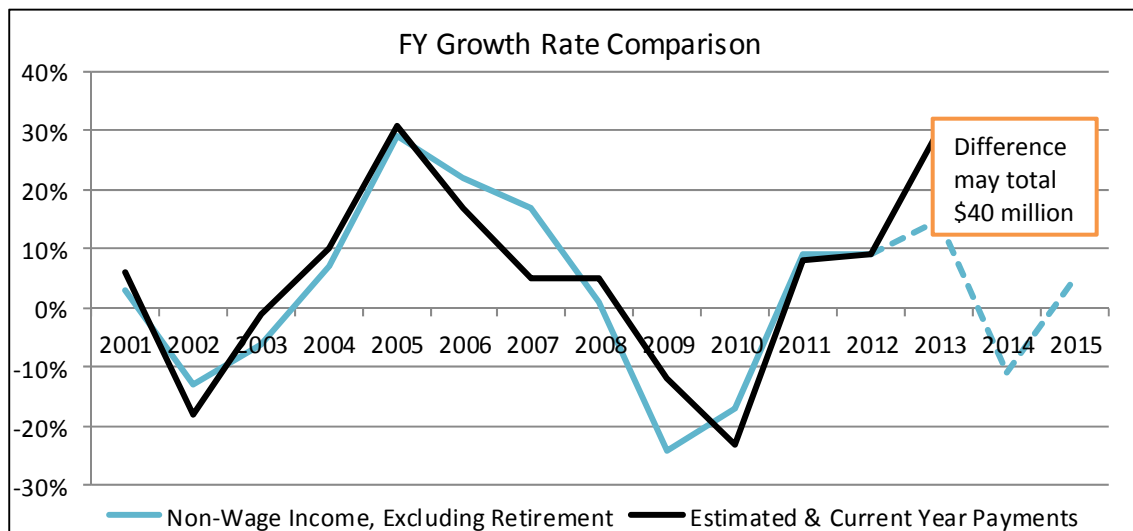
High estimated and current year payments were significant contributors to the increase in total collections; both of these revenue streams were likely impacted by taxpayers' response to the federal tax uncertainty at the end of calendar year 2012. Current year payments totaled \$161.6 million for the month of April, far exceeding the previous high of \$135.5 million in FY 2008, as shown in the chart below:

Figure 7



The extent to which increased current year payments may reflect last year's tax uncertainty rather than continued income growth cannot be estimated until CY 2012 return information is available; even then, the data will likely not provide a strong indicator of taxpayer behavior change versus normal growth. However, if the forecast growth in all non-wage income excluding retirement is compared to the growth in estimated and current year tax payments, a sharp difference appears in FY 2013:

Figure 8



The difference in growth rates in FY 2013 suggests that about \$40 million of the unexpected increase may be due to growth in non-wage income.



### ***Audit, Penalty & Interest, and Amended: (\$4.4 million)***

Audit, penalty and interest, and amended collections are forecast explicitly in SJ 2; combined collections in FY 2013 were lower than expected by \$4.4 million.

### **Property Tax: \$2.9 million**

General fund property tax revenue was \$2.9 million or 1.2% above the SJ 2 estimate. The primary reason for the difference has to do with protested taxes, both FY 2013 protested taxes being lower than anticipated, and about \$2.5 million of previously protested taxes coming in due to a settlement with Puget Sound Energy (DOR Press Release June, 2013). Detailed tax data will be available in October, at which point a comprehensive analysis of the difference can be performed.

### **Corporation Tax: \$26.8 million**

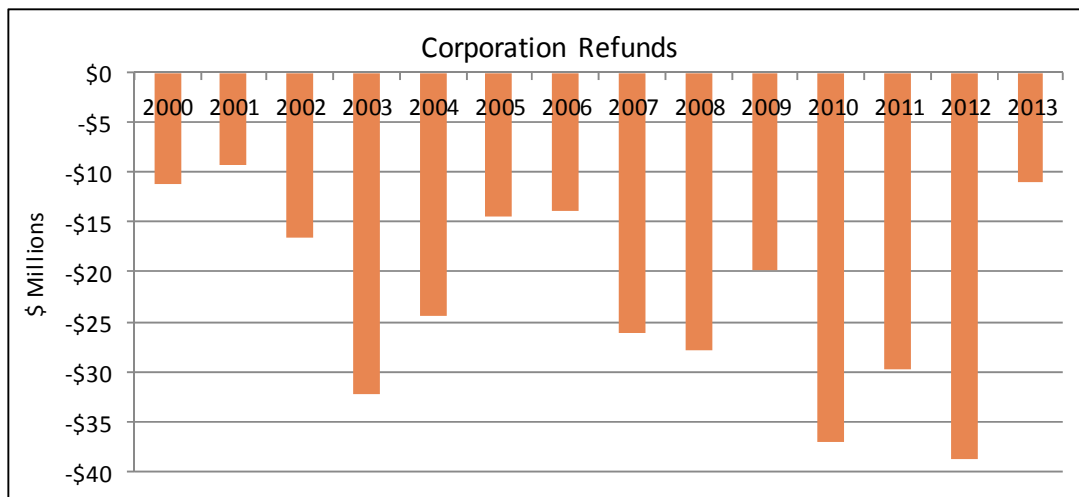
Corporation income tax collections were \$26.8 million or 17.8% above SJ 2 primarily due to an increase in payments and a reduction in refunds. The increase in payments was in part due to a large one-time payment from a corporation that reorganized as an LLC. This change in filing status may impact future corporation and individual income tax collections.

Figure 9

| Corporation Income Tax--FY 2013 Actuals versus SJ 2<br>(in Millions) |             |             |             |
|--|-------------|-------------|-------------|
|  | SJ 2        | Actual      | Difference  |
| Tax Liability & Adjustment   | \$153.0     | \$172.2     | \$19.2      |
| Refunds  | -24.6       | -11.0       | 13.6        |
| Audit, Penalty & Interest  | <u>22.3</u> | <u>16.3</u> | <u>-6.0</u> |
| Total  | \$150.7     | \$177.5     | \$26.8      |

Refunds were unusually low in FY 2013, as show below:

Figure 10

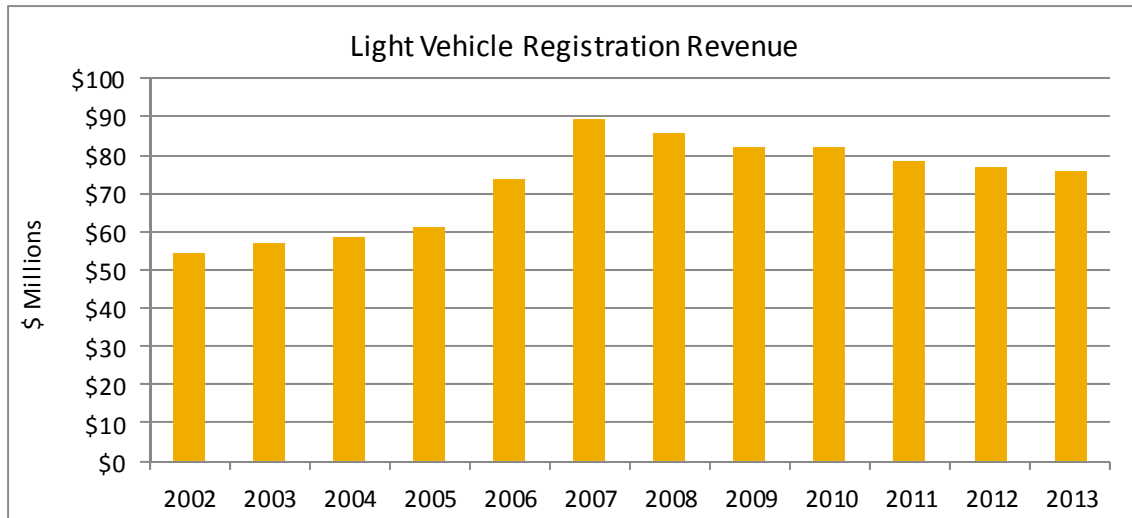


### **Vehicle Taxes & Fees: (\$1.5 million)**

Combined revenue collections from vehicle fees and taxes were 1.5% or \$1.5 million less than anticipated in SJ 2. Furthermore, FY 2013 revenue was \$0.6 million less than collections in FY 2012. While large vehicle and watercraft registrations increased in FY 2013 compared to FY 2012, motor home and light vehicle registrations continued to

decrease in FY 2013. This decrease occurred even though new car sales increased from 46,000 to 55,000 from FY 2012 to FY 2013, an increase of nearly 20%. Revenue generated from light vehicle registration was \$2.0 million less than the SJ 2 estimate. Further research is planned to understand the contradictory decline in revenue.

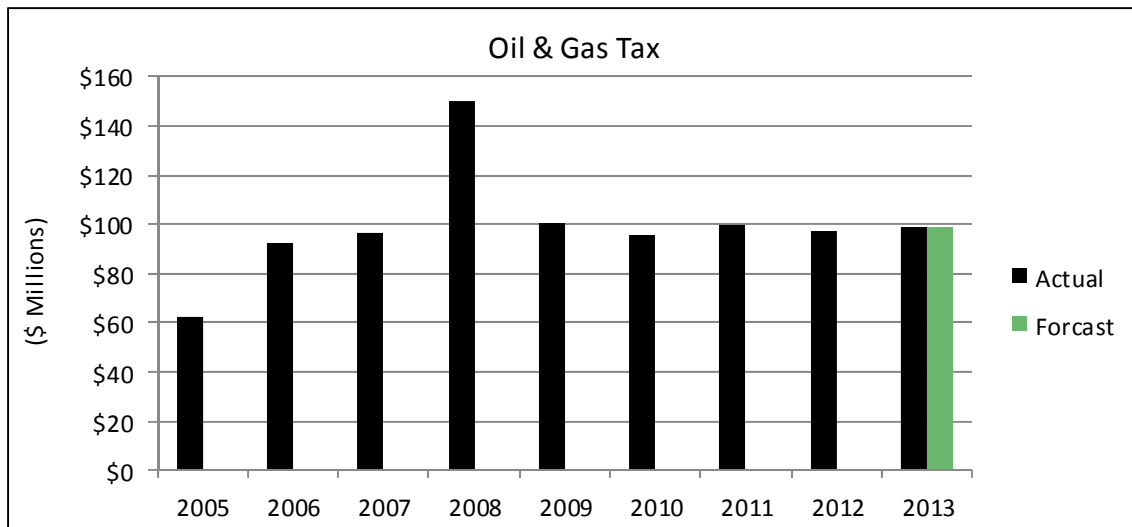
Figure 11



**Oil & Gas Severance Tax: (\$0.1 million)**

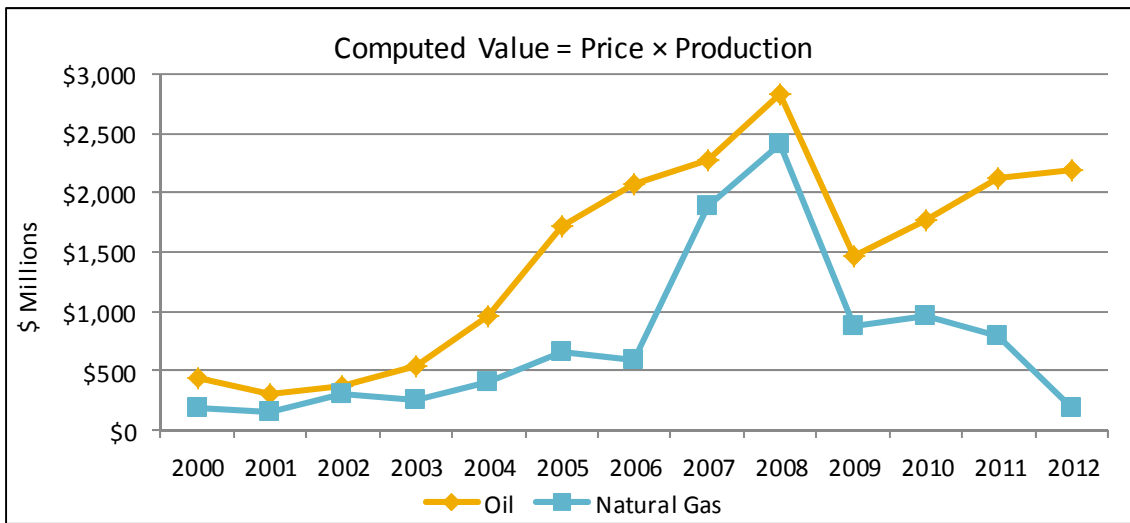
Oil and natural gas contributions to the general fund have been fairly consistent in the state since the Elm Coulee increase which peaked in FY 2008. This trend continued in FY 2013 allowing for a very close estimate. General fund revenue amounted to \$98.7 million in FY 2013, 0.1% below the estimate.

Figure 12



The consistency of the revenue collections masks changes that are happening with the mix of oil and gas production and price. From the peak value in FY 2008, there was an overall decline in both oil and gas; however, in the last three years, the consistent revenue has been achieved by an increase in oil value that offsets the continuing decline of natural gas value, as illustrated in the chart below:

Figure 13



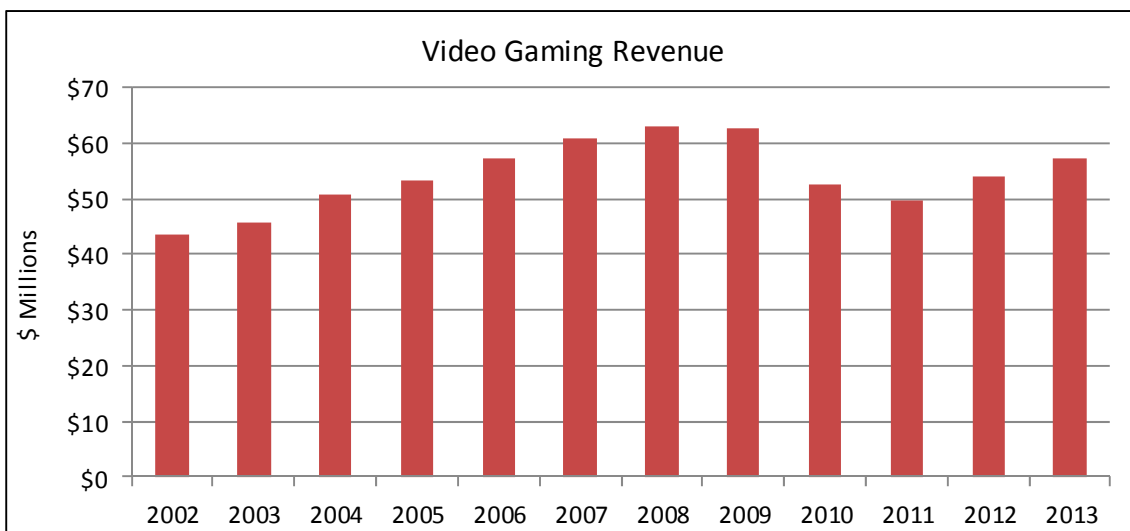
**Insurance Tax: \$1.8 million**

FY 2013 insurance taxes totaled 2.9% above the SJ 2 revenue estimate, bringing in an additional \$1.8 million. This increase is mostly associated with higher-than-projected insurance premiums. Insurance tax growth has been stronger than expected throughout the fiscal year. According to the Bureau of Business and Economic Research at the University of Montana, the IHS Global Insight forecast significantly under-represents new housing growth in rural areas, which is where most of the change is occurring. If so, this may account for much of the difference between estimated and actual collections. Further analysis will be possible when more data are available by the State Auditor’s office.

**Video Gaming Tax: (\$0.4 million)**

Video gaming revenue was a mere 0.8% or \$0.4 million less than anticipated in SJ 2. The general fund revenue for FY 2013 was \$3.4 million more than the generated revenue from FY 2012. The increase in video gaming revenue from FY 2012 to FY 2013 is likely due to SB 361, which allowed video line games in licensed establishments.

Figure 14

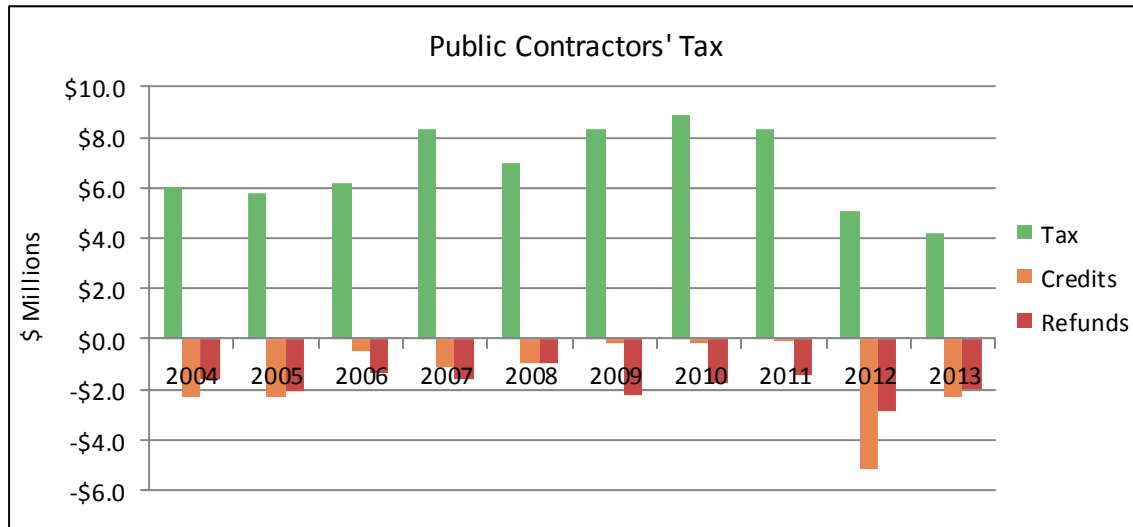


## OTHER BUSINESS TAXES

### Public Contractors' Gross Receipts Tax: (\$1.3 million)

Public contractors' gross receipts tax collections were negative for the second year in a row, and \$1.3 million below the estimate contained in SJ 2. Higher levels of credits & refunds due to the increased number of public projects funded through the American Recovery & Reinvestment Act (ARRA) in 2009 and 2010, coupled with the subsequent decrease in publicly funded projects may account for a large share of the net negative income. There is a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects will produce unusual future collection patterns.

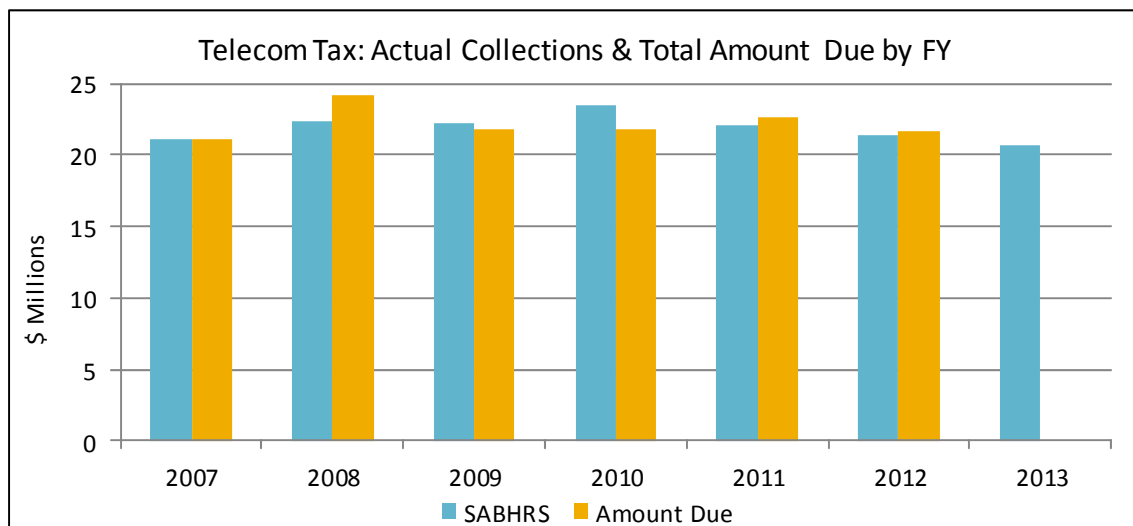
Figure 15



### Retail Telecommunications Excise Tax: (\$2.0 million)

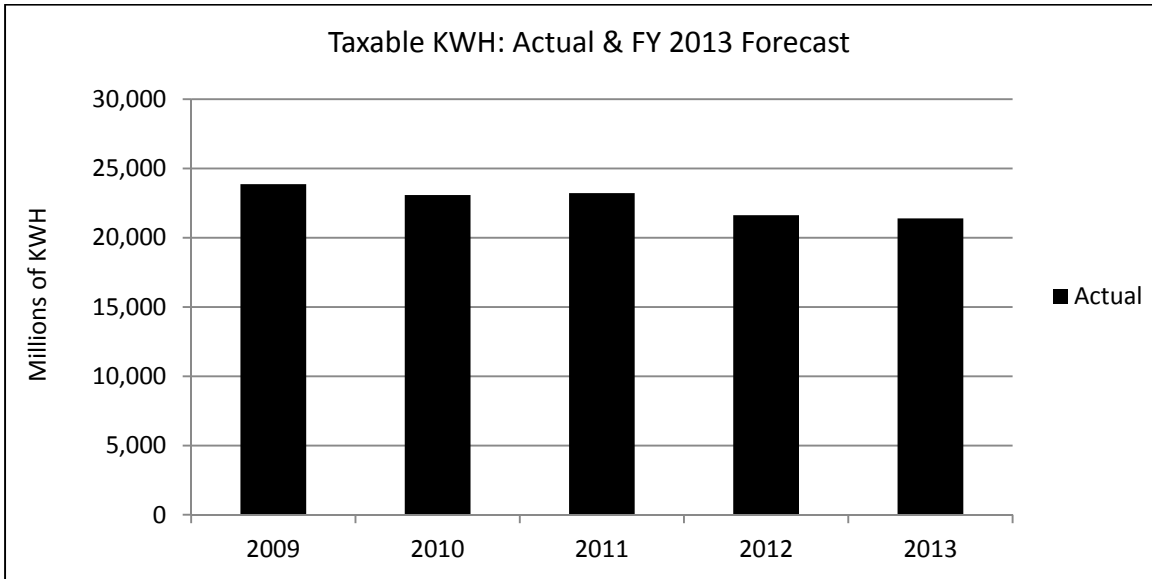
Retail telecommunications excise tax collections were \$2.0 million or 8.6% below the estimate contained in SJ 2. The primary reason for the decline in revenue since FY 2011 is the DOR's loss of the pre-paid wireless case in 2011. The impact of the case is an annual reduction in revenue of about \$1.0 million.

Figure 16



Collections were forecast in SJ 2 based on Gross State Product for the information sector.

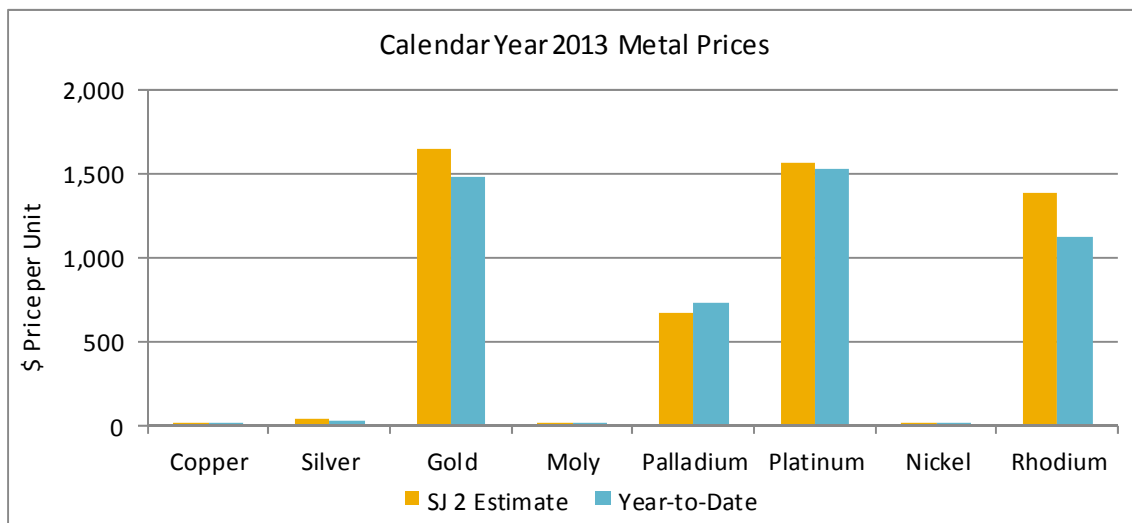
Figure 17



**Metalliferous Mines Tax: (\$0.9 million)**

Metal mines tax collections were \$0.9 million or 7.8% below the estimate contained in SJ 2. Commodity prices are lower than forecast for most metals, as shown in the chart below:

Figure 18



Assuming the production levels contained in SJ 2, the decrease in prices result in an 11% reduction in total commodity value.

**U.S. Mineral Royalties: (\$7.8 million)**

Revenue from U.S. mineral leases in the state declined from \$31.1 million in FY 2012 to \$29.2 in FY 2013. The SJ 2 estimate for FY 2013 anticipated revenue increasing to \$37.0 million. While data from the Federal Office of Natural Resources Revenue is not yet available, the decline is primarily due to two factors: a \$2 million decrease in payments due to the sequestration and the loss of the Montana portion of a large oil and gas lease that failed to materialize in

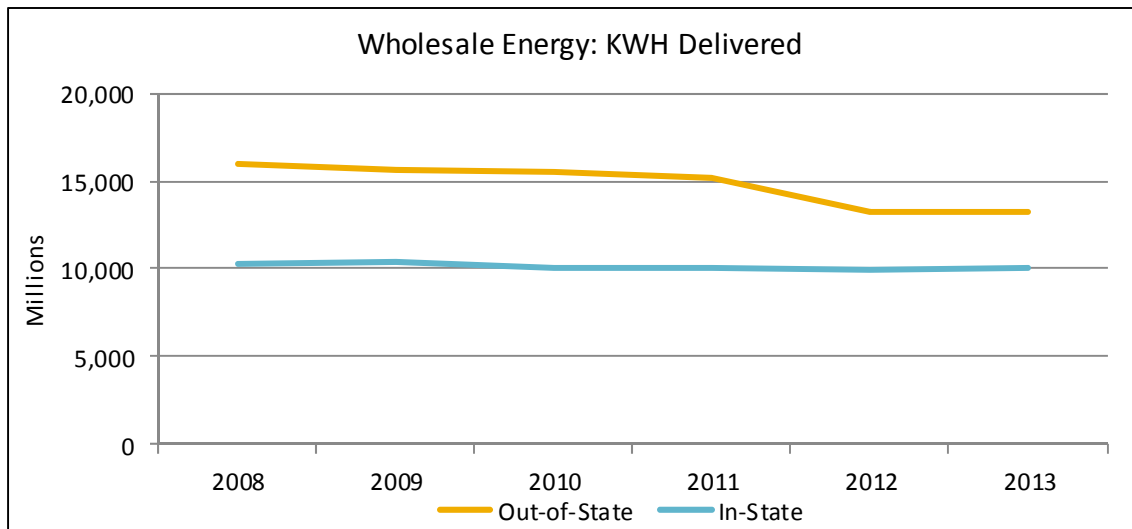
McCone County. Donco Inc. paid \$13.3 million for the lease (Billings Gazette 10/24/2012) which was subsequently included in the FY 2013 forecast. The company later backed out of the lease, forgoing a deposit of \$0.3 million (Petroleum News Bakken 05/26/2013).

The lost revenue due to the sequester is expected to be paid in FY 2014, as the Department of the Interior reversed its decision to withhold U.S. mineral royalties from the states.

**Wholesale Energy Transaction Tax: (\$0.5 million)**

Wholesale energy transaction tax increased slightly between FY 2012 and FY 2013, from \$3.4 million to \$3.6 million, but was below the estimate by \$0.5 million or 11.9%. This is attributable primarily to changes in delivery of out-of-state kilowatt hours, as in-state kilowatt hours delivered has remained fairly constant. There was a drop in FY 2012 in out-of-state kilowatt hours delivered to Montana from the seven year average. It was assumed in the forecasting model that this was an anomaly and FY 2013 numbers would return to seven year average levels. The assumed return to normal levels did not occur and FY 2013 out-of-state numbers are similar to FY 2012 numbers. The cause of this reduction is unclear and needs further research.

Figure 19

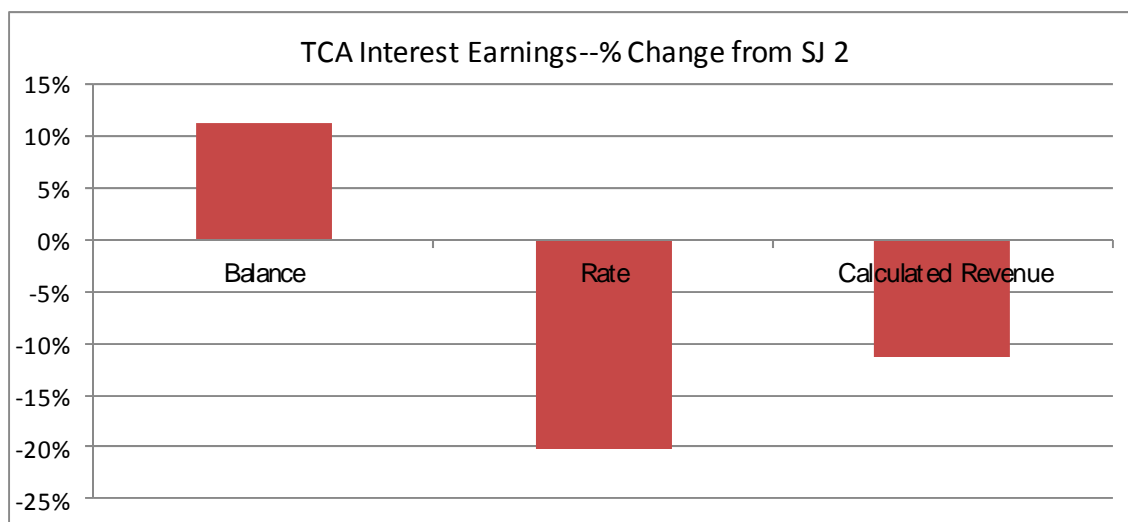


**OTHER INTEREST EARNINGS**

**Treasury Cash Account Interest Earnings: (\$0.3 million)**

Based on year-end data for FY 2013, the TCA interest earnings were 11.3% or \$0.3 million below the SJ 2 estimate. Earnings are dependent on the average balance and rate of return. The chart below shows the percentage difference between actual values and those forecast in SJ 2. The higher-than-expected average balance was not large enough to offset the decreased average rate of return; therefore, interest earnings were lower than forecast.

Figure 20



## OTHER CONSUMPTION TAXES

### Lottery Profits: (\$1.4 million)

Lottery profits for FY 2013 came in 9.6%, or \$1.4 million, under the SJ 2 revenue estimate. This under-performance is primarily due to increased spending. In FY 2012, there was a transfer of \$0.5 million in appropriation authority from FY 2013 to supplement operating expenses, and in FY 2013, Lottery received authority for an additional \$2.2 million of which it spent \$0.8 million. These amounts sum to \$1.3 million, accounting for nearly all of the discrepancy between FY 2013 actuals and the SJ 2 forecast. The annual report by the Lottery is published in October, at which point more comprehensive analysis will be possible.

## OTHER SOURCES

### All Other Revenue: \$3.7 million

The combined revenue from all other general fund sources exceeded the SJ 2 estimate by 11.3% or \$3.7 million, primarily due to increased general fund transfers. In SJ 2, on-going transfers were anticipated to grow at 2%; FY 2013 transfers exceeded expectations. FY 2013 saw an unusually high \$4.3 million in abandoned property collections, most likely reflecting the changes made to SB 335 which reduced the amount of time needed for the DOA to replace a stale-dated warrant. The increase in abandoned property collections offset the decline in SWCAP fees.

### Highway Patrol Fines: (\$0.3 million)

Total revenue generated from highway patrol fines in FY 2013 was 6.5% or \$0.3 million less than the SJ 2 estimate. This was due to a fine growth rate in FY 2013 that was lower than the growth rate developed for use by the forecasting model. Patrol fines in FY 2013 were \$0.2 million or 5.6% less than FY 2012.

### Tobacco Settlement: (\$0.2 million)

Tobacco settlement revenue was below the SJ 2 estimate by 6.5% or \$0.2 million for FY 2013. Growth was estimated at 6.9%, but in the end there was no real change in revenue from FY 2012. To identify potential reasons for the difference, data from PriceWaterhouseCoopers on market share and volume of sold cigarettes are needed.

## SPENDING ANALYSIS

### HB 2 ANALYSIS INCLUDING ONE-TIME ONLY

The following table illustrates the HB 2 appropriation budget authority and the spending (including accruals) for FY 2013. For this analysis, both ongoing appropriations of \$1,628.7 million and one-time only appropriations of \$13.6 million are included in this analysis. A summary of the major appropriation balances over \$1 million or over 5% follow the table.

Figure 21

| <b>HB 2 General Fund Spending and Remaining Authority</b> |  |                      |                      |                   |             |
|---|--|----------------------|----------------------|-------------------|-------------|
| Section   | Agency Name                                    | Budget               | Spending             | Balance           | % Remaining |
| <b>A</b>  | Legislative Branch                             | 12,309,085           | 9,985,521            | 2,323,564         | 18.9%       |
|   | Governor's Office                              | 5,928,604            | 5,780,771            | 147,833           | 2.5%        |
|   | Comm Of Political Practices                    | 567,028              | 490,881              | 76,147            | 13.4%       |
|   | Department Of Revenue                          | 48,009,729           | 47,784,850           | 224,879           | 0.5%        |
|   | Department Of Administration                   | 6,202,162            | 5,908,812            | 293,350           | 4.7%        |
|   | Department Of Commerce                         | 5,129,433            | 5,004,682            | 124,751           | 2.4%        |
|   | Department Of Labor & Industry                 | 1,483,665            | 1,483,558            | 107               | 0.0%        |
|   | Department Of Military Affairs                 | 5,825,199            | 5,769,787            | 55,412            | 1.0%        |
| <b>A Total</b>  |  | <b>85,454,906</b>    | <b>82,208,862</b>    | <b>3,246,044</b>  | <b>3.8%</b> |
| <b>B</b>  | Department of Public Health and Human Services | 423,749,027          | 416,290,786          | 7,458,241         | 1.8%        |
| <b>B Total</b>  |  | <b>423,749,027</b>   | <b>416,290,786</b>   | <b>7,458,241</b>  | <b>1.8%</b> |
| <b>C</b>  | Department Of Environmental Quality            | 5,287,921            | 5,059,983            | 227,938           | 4.3%        |
|   | Department Of Livestock                        | 1,272,667            | 1,052,824            | 219,843           | 17.3%       |
|   | Dept Of Natural Resources & Conservation       | 23,015,268           | 22,551,578           | 463,690           | 2.0%        |
|   | Department Of Agriculture                      | 923,538              | 917,475              | 6,063             | 0.7%        |
| <b>C Total</b>  |  | <b>30,499,394</b>    | <b>29,581,860</b>    | <b>917,534</b>    | <b>3.0%</b> |
| <b>D</b>  | Judicial Branch                                | 36,051,219           | 35,189,866           | 861,353           | 2.4%        |
|   | Crime Control Division                         | 2,263,250            | 2,056,162            | 207,088           | 9.2%        |
|   | Department Of Justice                          | 26,575,148           | 26,376,320           | 198,828           | 0.7%        |
|   | Office Of The Public Defender                  | 22,480,088           | 22,480,933           | (844)             | 0.0%        |
|   | Department Of Corrections                      | 170,404,609          | 169,779,290          | 625,320           | 0.4%        |
| <b>D Total</b>  |  | <b>257,774,315</b>   | <b>255,882,571</b>   | <b>1,891,744</b>  | <b>0.7%</b> |
| <b>E</b>  | Office Of Public Instruction                   | 646,440,344          | 645,399,112          | 1,041,232         | 0.2%        |
|   | Board Of Public Education                      | 222,033              | 131,737              | 90,296            | 40.7%       |
|   | Commissioner Of Higher Education               | 186,133,914          | 185,751,897          | 382,017           | 0.2%        |
|   | School For The Deaf & Blind                    | 5,964,359            | 5,897,338            | 67,021            | 1.1%        |
|   | Montana Arts Council                           | 448,088              | 448,088              | (0)               | 0.0%        |
|   | Montana State Library                          | 2,643,606            | 2,570,382            | 73,224            | 2.8%        |
|   | Montana Historical Society                     | 2,934,256            | 2,892,088            | 42,168            | 1.4%        |
| <b>E Total</b>  |  | <b>844,786,600</b>   | <b>843,090,642</b>   | <b>1,695,958</b>  | <b>0.2%</b> |
| <b>Grand Total</b>  |  | <b>1,642,264,241</b> | <b>1,627,054,721</b> | <b>15,209,521</b> | <b>0.9%</b> |



## Large General Fund Agencies

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

Given the inter-related nature of the funding for DPHHS, the general fund analysis for DPHHS includes discussion of other funding sources. Fiscal year end reversions from all DPHHS fund types were \$95 million, of which \$7.4 million was general fund. An additional \$4.0 million general fund authority was transferred to other uses. Figure 23 gives the overall comparison of appropriations and remaining authority. The figure is followed by a list of key transfers that occurred during FY 2013.

Figure 22

| FY 2013 HB 2 and HB 13 Appropriation Compared to Expenditures |                        |                        |                               |                |
|---|------------------------|------------------------|-------------------------------|----------------|
| Expenditure<br>Category/Fund                                  | HB 2 & HB 13           | Expenditures           | Expenditures                  |                |
|   |                        |                        | (Over) Under<br>Appropriation | %<br>Different |
| Personal Services   | \$159,732,190          | \$161,831,834          | (\$2,099,644)                 | -1.3%          |
| Operating Expenses  | 102,548,454            | 124,342,073            | (21,793,619)                  | -21.3%         |
| Equipment   | 670,318                | 1,031,000              | (360,682)                     | -53.8%         |
| Grants  | 80,799,185             | 75,330,071             | 5,469,114                     | 6.8%           |
| Benefits & Claims   | 1,568,792,705          | 1,452,562,589          | 116,230,116                   | 7.4%           |
| Transfers Out   | 267,629                | 3,292,772              | (3,025,143)                   | -1130.3%       |
| Debt Service  | <u>351,901</u>         | <u>219,229</u>         | <u>132,672</u>                | 37.7%          |
| Total Budget  | 1,913,162,382          | 1,818,609,570          | 94,552,812                    | 4.9%           |
| 01 General Fund   | 423,718,355            | 416,290,786            | 7,427,569                     | 1.8%           |
| 02 State Spec Rev   | 154,881,443            | 150,861,774            | 4,019,669                     | 2.6%           |
| 03 Fed Spec Rev   | 1,334,562,584          | 1,251,456,761          | 83,105,823                    | 6.2%           |
| 08 State/Other Spec Rev                                       | <u>0</u>               | <u>249</u>             | <u>(249)</u>                  | n/a            |
| Total Funding   | <u>\$1,913,162,382</u> | <u>\$1,818,609,570</u> | <u>\$94,552,812</u>           | 4.9%           |

#### Key Transfers of Authority

Transfers in appropriation authority primarily came from Medicaid and SNAP (food stamps) benefits/services being lower than appropriated by the 2011 Legislature, as recessionary impacts were not as severe as anticipated. In some cases, the freed up authority was transferred and used in other places:

- Expenditures were \$2.1 million above the budgeted level in personal services. The primary reasons for these transfers were pay increases granted late in FY 2012, modified FTE, and lack of vacancy savings at most state facilities
- The sizable increase in operating costs was primarily due to increases in the Technology Services Division (TSD) to fund accruals for systems development. The accruals are primarily for: 1) Affordable Care Act implementation; and 2) eligibility and enrollment systems. The original TSD budget was \$22 million while the final actual spending (including accruals) was \$44 million. Of this \$22 million increase \$2.3 million was general fund
- Transfers were greater than the original appropriation due to changes in accounting methods as a result recommendations from a Legislative Audit
- Transfers of \$0.4 million were made to the Architecture and Engineering Division (A & E) for maintenance and repairs at state facilities. Approximately \$108,000 of this transfer was general fund

- Additional state special revenue (intergovernmental transfer) from counties above the HB 2 appropriation was used as state Medicaid match. Federal Medicaid funds were used to match these local funds and increase nursing home reimbursements by \$6 million
- As a part of the DPHHS transition to community services, federal Medicaid funds were used to match state general fund for developmentally disabled clients

### ***Department of Corrections***

The Department of Corrections expended or accrued all but 0.7%, or \$1.2 million of its FY 2013 combined HB 2, HB 13 (pay plan), and HB 3 (supplemental appropriation) budget. For HB 2 only, the department spent all but \$625,320 or 0.4%. In total, nearly \$2.3 million was accrued for various purposes. The most significant accrual, at \$1.6 million, was associated with the memorandum of understanding (MOU) between the department and DPHHS to house 25 infirm inmates at the Montana Mental Health Nursing Home in Lewistown in FY 2013. This accrual is for the remaining amount committed under the MOU that had not been paid to DPHHS as of the end of the fiscal year.

Year-end budget changes through the transfer of authority between expenditure categories and programs were made to address shortages in:

- Personal services of the Administration and Financial Services Program due to unbudgeted retirement payouts of senior staff
- Personal services of the Montana Correctional Enterprises Program due to insufficient vacancy savings
- Unspecified operating expenditure shortages in the Adult Communities Corrections and Secure Custody Facilities programs
- High juvenile placement costs in the Youth Services Program

Funding to address the above shortages came from excess vacancy savings in the Secure Custody Facilities and Youth Services programs. In addition, nearly \$1.6 million in funding came from carryforward funding that originated from FY 2011 reverted appropriations to sustain program operations.

A pressure point facing the agency for the past several years has been high growth in outside medical costs. The agency expended nearly \$8.2 million on outside medical services in FY 2013. This is nearly 6% higher than the FY 2012 expenditures, which saw a 21% growth over FY 2011. These costs were funded with a combination of HB 2 authority and \$3.6 million from a supplemental appropriation approved by the 2013 Legislature.

### ***Office of Public Instruction***

The Office of Public Instruction reverted just over \$1.0 million, or 1.7 % of the general fund operating funds of the agency. State operations accounted for \$170,436 of this amount and was primarily the result of vacancy savings. The remaining reversion is the result of actual K-12 distribution to districts spending being slightly (0.14%) less than appropriated for FY 2013. About half of the difference was due to district transportation payments being less than anticipated.

### ***Office of the Commissioner of Higher Education (OCHE)***

The Office of the Commissioner of Higher Education (OCHE) left a remaining balance of \$75.7 million of the amount appropriated for FY 2013, with less than \$12,000 accrued. The majority of the balance, accounting for \$68.1 million, is the reserve balance for the group insurance plan. OCHE is currently compiling the amount of general fund received by each unit, but the full amount for the education units was expended. This information will be presented at the September Board of Regents meeting.

Major budget changes include an operating transfer of \$200,000 to bring first level accounts to a positive balance. A net \$281,000 was transferred from the Appropriation Distribution program to the Administration program to align funding with the Regents priorities, which according to OCHE were to increase student financial aid distributions and to fund OCHE programs that were not fully funded by the legislature.

## ***Legislative Branch***

The branch will have a general fund reversion of \$2.3 million as shown above for the biennium. If the branch were an annual budget, the reversion would be 18.9%. However, the Branch has a biennial budget and a biennial comparison is more appropriate. This total is 10.1% of the biennial budget of \$22.8 million. All divisions experienced savings from the retirement of senior staff and the pay freeze. In addition, the Audit Division eliminated a position (removed from the budget beginning in FY 2014) and moved spending to state special funding to the extent possible as required by law. The Legislative Services Division had savings in the branch information technology budget.

## ***Commissioner of Political Practices***

The Commissioner of Political Practices spent 86% of its FY 2013 general fund appropriation. The main difference between budgeted and actual expenditures was in personal services due to the position of commissioner being vacant for a portion of the year. The Governor has since appointed the commissioner and these savings are not anticipated to continue.

## ***Department of Livestock***

The Department of Livestock reverted 17% of its HB 2 general fund appropriations. The primary cause for the large reversion was one-time funding for brucellosis surveillance. The legislature appropriated \$281,603 general fund as one-time and only \$73,056 was spent. Per-capita fees were also appropriated for this purpose and state law requires that non-general fund sources be spent first. The department spent the per-capita fee revenue before the general fund, thus leaving \$208,546 general fund unspent.

## ***Crime Control Division***

Reversions of HB 2 and HB 13 general fund authority were 9.1% or \$208,000. The division had vacancy savings of 8.2% or \$93,000. Other sources that funded operations were budget amendment authority at \$241,000, remaining American Recovery and Reinvestment Act authority from HB 645 in the 2009 Legislature at \$206,000, and carry-forward of FY 2011 reverted authority at \$61,000.

## ***Board of Public Education***

The Board of Public Education under spent its \$222,033 general fund appropriation for FY 2013 by \$90,296 or 40.7%. This savings is attributable to operating with 2.75 FTE while being funded for 4.0 FTE.

## **STATUTORY**

The legislature anticipated spending from statutory appropriations of at \$200.9 million. The actual spending was \$199.7 million for a difference of 0.6%. The executive had \$207.1 million of statutory appropriations established on SABHRS (the state accounting system) for a difference of 3.6%. The differences between actual and established appropriations were primarily in the payments to the pension systems on behalf of local governments.

## **OTHER (INCLUDING NON-HB 2 OTO)**

The remaining sources of authority were estimated by the legislature at \$180.6 million, while actual all other spending totaled \$171.2 million. The major differences were comprised of: 1) the reversion of the wildfire supplemental of \$11.9 million; 2) a reversion of the feed bill of \$3.9 million; and 3) an under estimate of carry forward and other bill spending by about \$5 million.

## **PRIOR YEAR AND OTHER ADJUSTMENT ANALYSIS**

Prior year and other adjustments total a positive \$5.2 million to the general fund ending fund balance. Total revenue prior year adjustments account for \$3.3 million of the \$5.2 million, due to changes from prior reported levels of a variety of revenue sources. Total spending prior year adjustments were \$0.94 million, of which \$0.88 million was due to several offsetting entries in DPHHS. The remaining adjustments are for various other accounting adjustments.