

State of Montana

Current Status of State Finances

June 2016



Governor Steve Bullock

Lt. Governor Mike Cooney

Presentation By:

Dan Villa, Budget Director

General Fund Balance Sheet Overview for 2017 Biennium

- **Continued Strong Reserves** – Collections continue to point to strong historical reserves.
- **Structural Balance** – The Governor and Legislature did not budget more funds than were anticipated to be collected for the biennium.
- **Actively addressing long term liabilities** – Major pension systems remain under a 30 year amortization period with improving funded ratios.
- **Sustainable spending from 2015 biennium budget to 2017 biennium budget** - Total spending in FY 17 is budgeted to be less than FY 2016 due to OTO expenditures in FY 2016.*
- **General fund balance continues to be insulated from fire-related costs with advent of the Montana Wildfire Suppression Fund** – Current cash balance in the fire fund is \$84.5 million with access to another \$16 million in Governor’s Emergency Funds. Average fire season costs are approximately \$25 million.

** Efficiencies and fiscal year end reversions of budgeted funds may impact this metric. Efficiencies and savings would revert to the appropriate fund type and/or account.*

Montana Continues to Receive High Marks for Fiscal Conservancy

MOODY'S INVESTORS SERVICE

STRENGTHS:

- Record of good financial controls underscored by a history of implementing expenditure reductions when needed to address budget shortfalls, the maintenance of healthy fund balances, and adequate liquidity.

STANDARD & POOR'S RATINGS SERVICES McGRAW HILL FINANCIAL

- Strong available general fund balances on a historical basis, which provide a substantial buffer should there be any unanticipated softness in the state's key revenue streams;
- Relatively low historical unemployment rate compared to the national level.

Fitch Ratings

HIGH BALANCES: The state benefits from very high trust fund balances and a practice of carrying solid ending budgetary fund balances, helping to offset the cyclical nature inherent in its resource-based economy and tax revenue system.

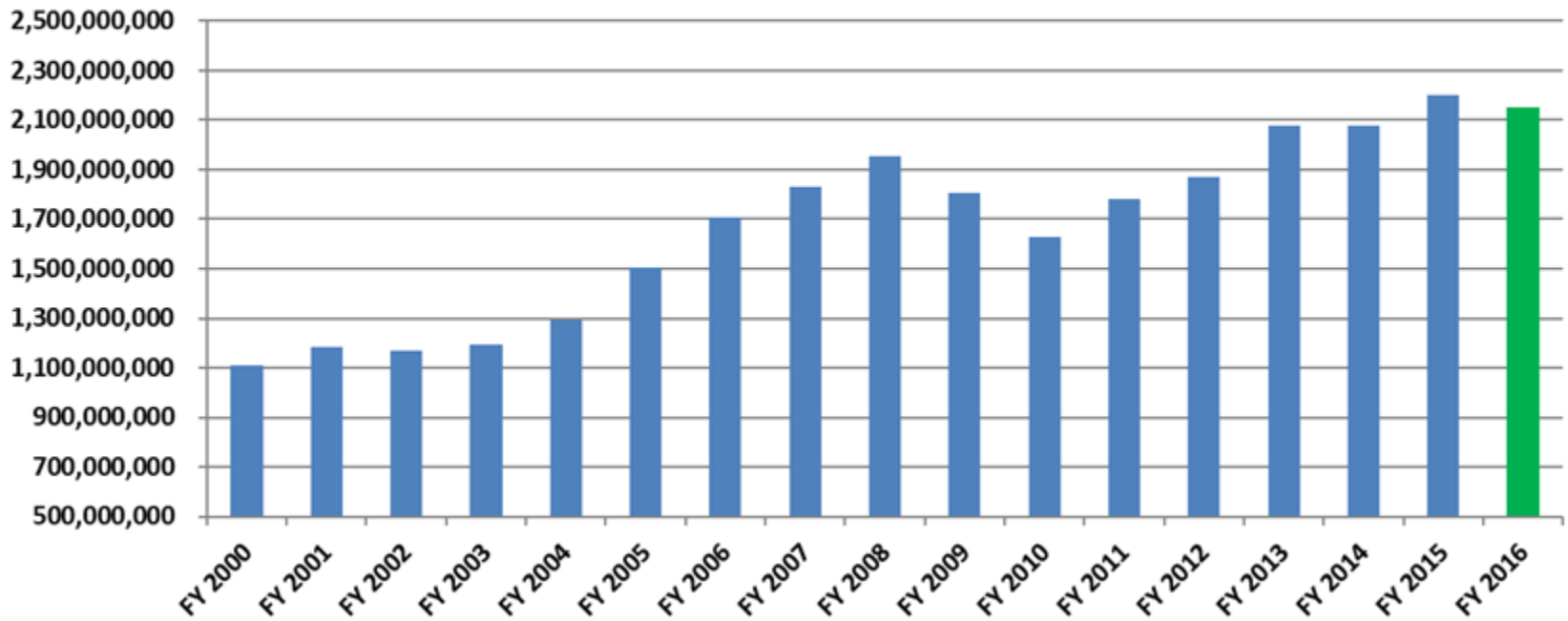
CONSERVATIVE FISCAL MANAGEMENT: A longstanding conservative approach to fiscal management and a decade of strong revenue gains have enabled the state to build balances and simultaneously address longstanding spending needs, including education and pensions. Unexpected spending demands, including from litigation, have affected the state in the past.

GREATER DIVERSIFICATION: Despite the preeminence of energy, mining and forestry, the state's economy continues to diversify, particularly into services. Natural resources sectors are subject to volatility.

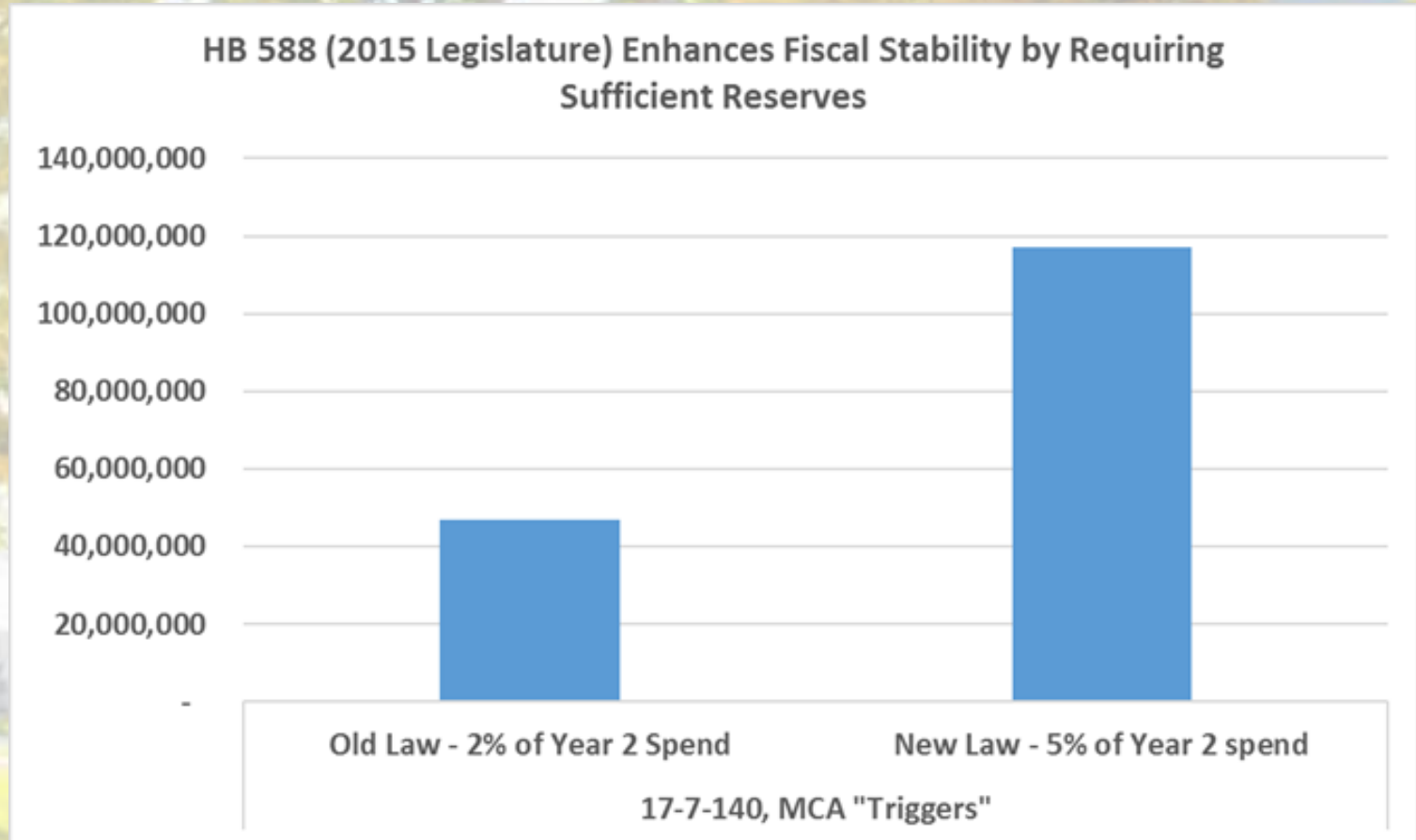
Current Year Revised Revenue Outlook

On Track to be the Second Best in Montana History

General Fund Revenue
Actual FY 2000 - FY 2015; Forecast FY 2016



The Governor and Legislature Reduced Financial Risk



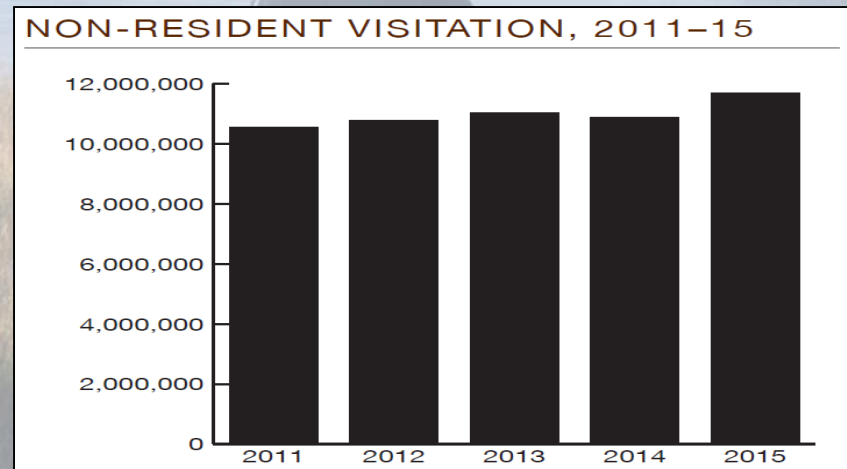
Montana Economic Indicators

Exports and Tourism

- In 2014, Montana exports (excluding services) increased 2.63% over 2013, shipping goods to trading partners on nearly every continent.
- Leading exports include: mineral fuels, inorganic chemicals, industrial machinery, vegetables, optic, medical or surgical instruments, etc.
- In 2015, 11.7 million people visited Montana, breaking previous record visitation.
- In 2015, tourists spent \$3.6 billion in Montana, nearly a \$1 billion increase from 2011.

VALUE OF EXPORTS TO PARTNER COUNTRIES*	2014 TOTAL (IN MILLIONS)	% CHANGE (2013-2014)
Canada	\$ 563.64	-5.5%
Republic of Korea	\$ 205.39	21.9%
China	\$ 106.27	13.9%
Mexico	\$ 92.83	66.3%
Switzerland	\$ 87.46	15.4%
Japan	\$ 61.56	25.1%
Taiwan	\$ 44.05	-40.1%
Belgium.....	\$ 43.75	-33.1%
India	\$ 42.37	34.7%
Netherlands	\$ 28.29	13.4%

*These figures do not include bulk wheat or service exports



Source: Montana Department of Commerce and Governor's Office of Economic Development

Montana Economic Indicators

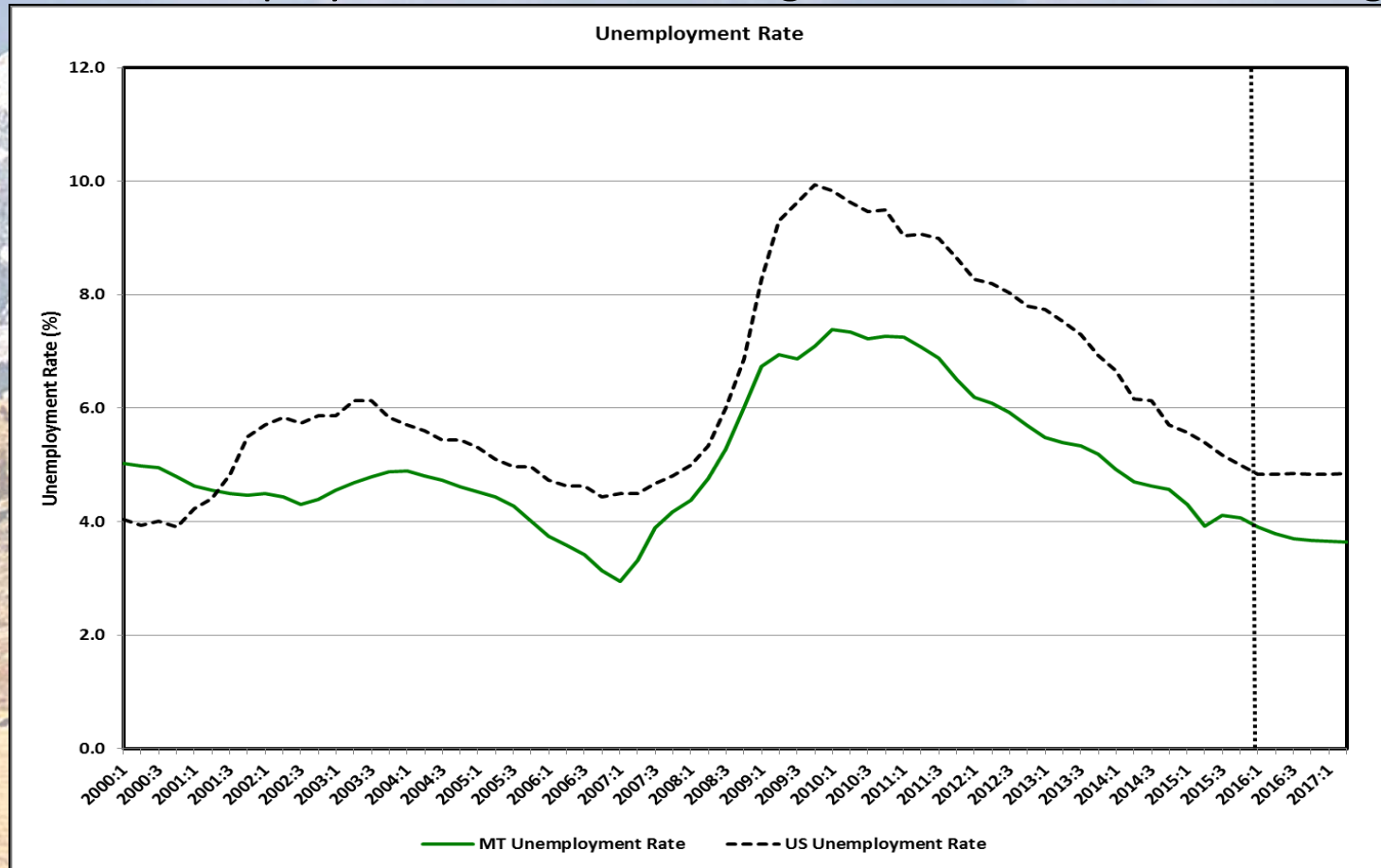
Competitive Tax System, Economic Prosperity, and Quality of Life

- Montana’s economic rankings are excellent.
 - 1st best (tie) in state and local average sales taxes (no statewide sales tax)
 - 6th best on list of “tax friendly states” (overall state business tax climate index)
 - 6th best in per capita income growth
 - 10th best for overall business climate

Montana Rankings in the “Top Ten” in the Nation		
<u>Item</u>	<u>Rank</u>	<u>Source</u>
Rate of Entrepreneurship	1 st	Kauffman Foundation
State Fiscal Prudence	1 st	JP Morgan
Place to Live the American Dream	1 st	Xavier University
Lowest Sales Tax Rate (No Sales Tax)	1 st	Sales Tax Institute
Population over 25 with at least a High School Education	2 nd	U.S. Census
Export Growth	3 rd	U.S. Chamber of Commerce
Wellbeing Index	5 th	Gallup
Innovation & Entrepreneurship	6 th	U.S. Chamber of Commerce
Business Tax Climate	6 th	Tax Foundation
Long Term Job Growth	6 th	U.S. Chamber of Commerce
Per Capita Income Growth	6 th	U.S. Chamber of Commerce
Percentage of Renewable Energy	6 th	U.S. Energy Information Administration
Small Business Innovation Research Grants per Worker	8 th	Small Business Administration
Small Business Lending	9 th	U.S. Chamber of Commerce
Business Climate	10 th	U.S. Chamber of Commerce

Montana Economic Indicators

Montana Unemployment Rate Performing Better than National Average

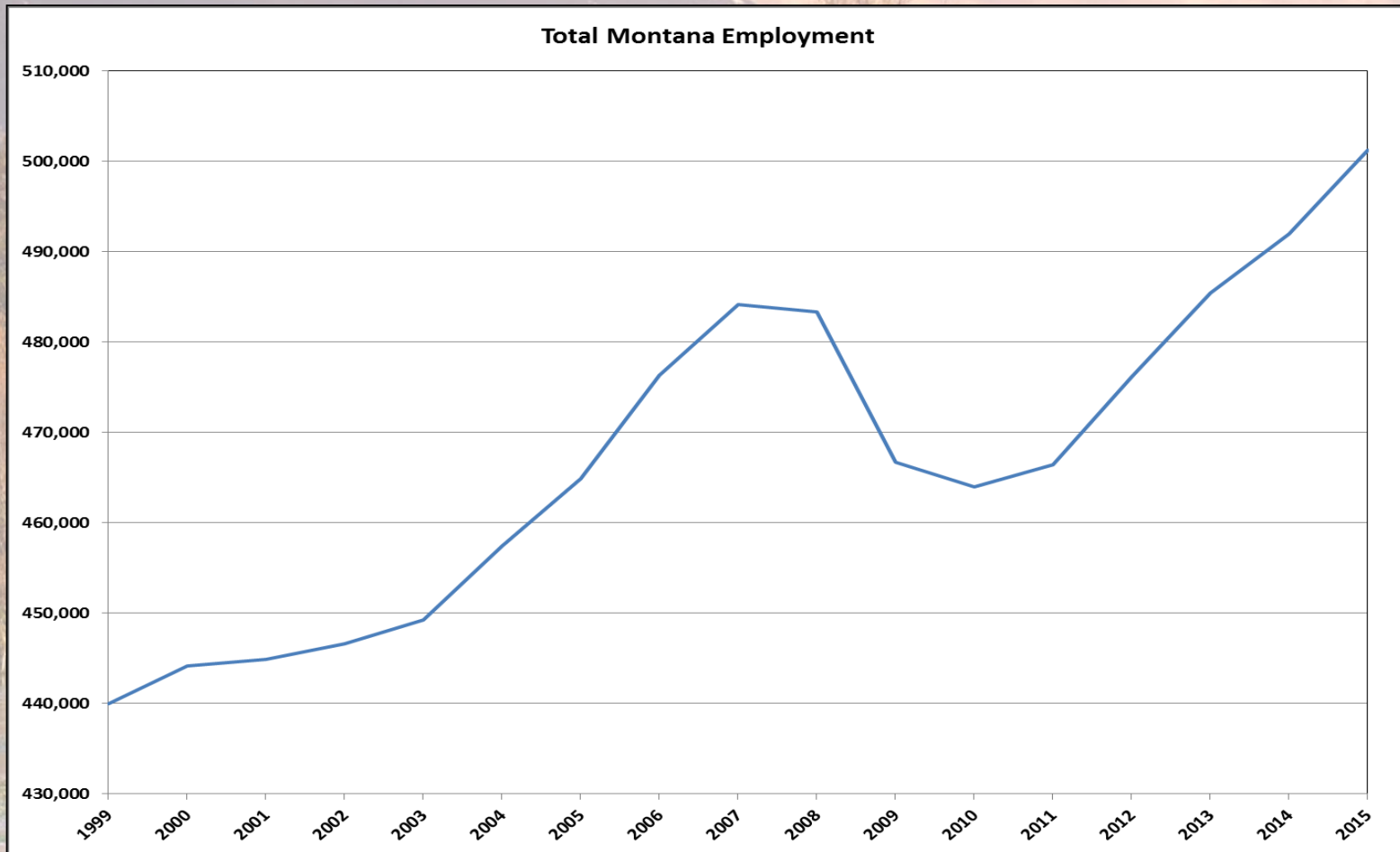


- As of February, 2016 the Montana unemployment rate is 4.2 %, compared to 4.9% for the nation.

Source: BLS and IHS Global Insight

Montana Economic Indicators

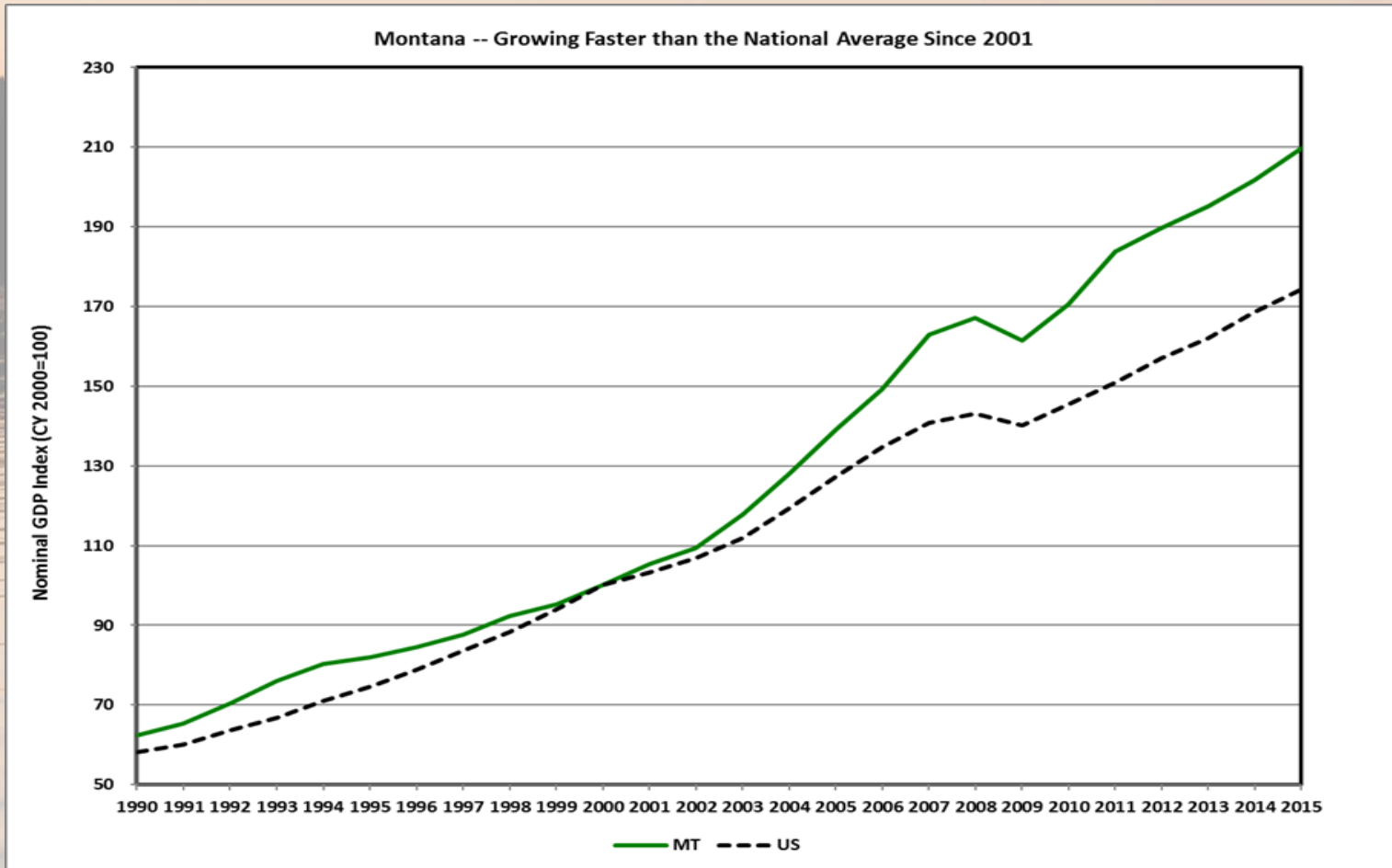
Montana Total Employment Continues On Into Record Territory



Source: BLS

Montana Economic Indicators

Montana GDP Outperforming Nation



Source: BEA and IHS

Diversity in Montana's Economy

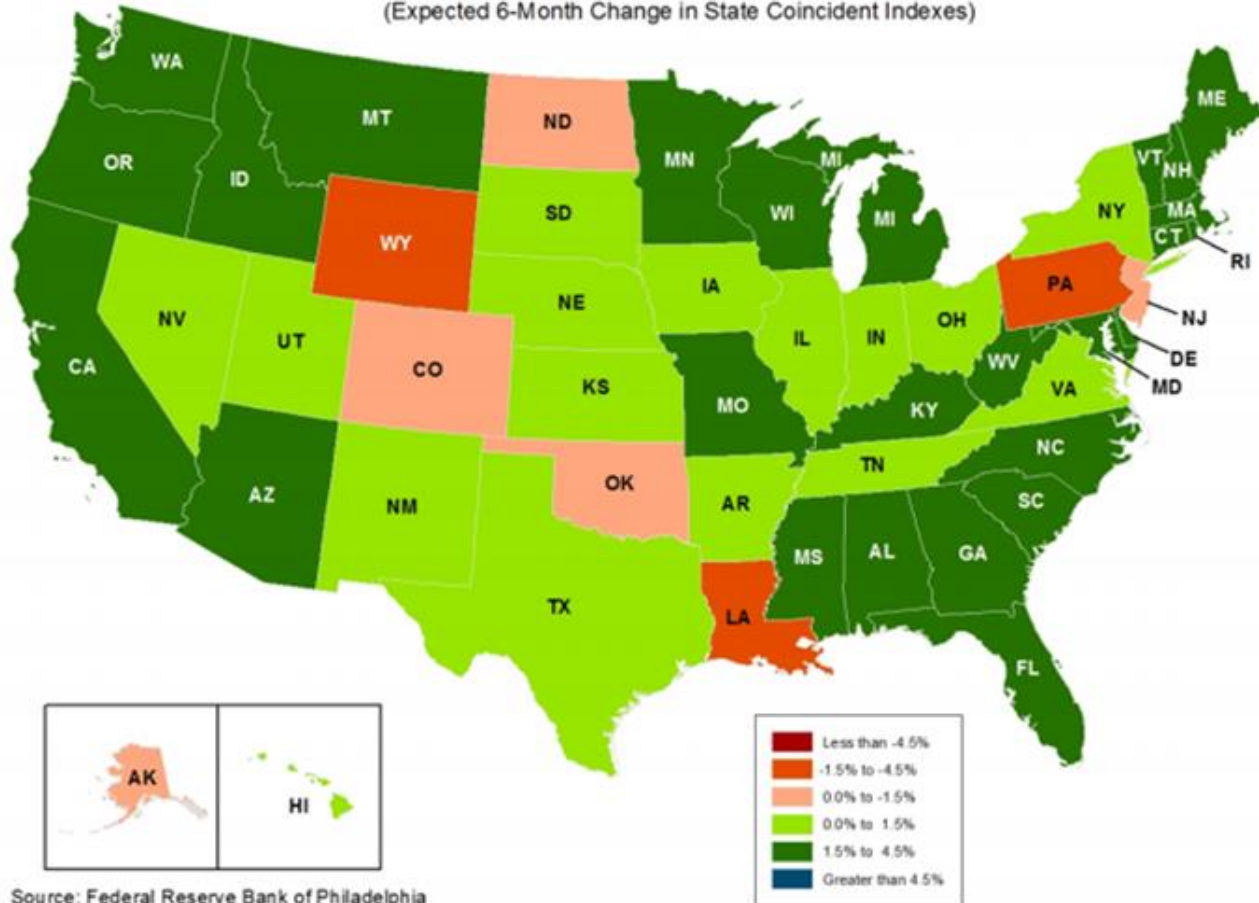
Montana's Economy is More Diverse Than Ever Before

- Growing diversity in Montana's economy led by continued emergence of financial, information, business & professional services, as well as educational and health services.

Montana Employment by Sector 2012 and 2014 (thousands)			
Sector Type	2012	2014	Percent Change 2012 - 2014
Educational & Health Services	67.6	70.0	3.6%
Financial, Information, Business & Professional Services	68.9	71.0	3.1%
Construction	23.2	24.8	7.1%
Leisure, Hospitality, & Other Services	75.4	78.0	3.6%
Ag, Forestry, Fishing & Mining	19.5	19.2	-1.4%
Government	89.8	89.1	-0.8%
Trade, Transp.& Utilities	88.8	92.9	4.6%
Manufacturing	17.6	18.9	7.6%
Total Employment	450.6	464.0	3.0%

April 2016 State Leading Indexes

(Expected 6-Month Change in State Coincident Indexes)

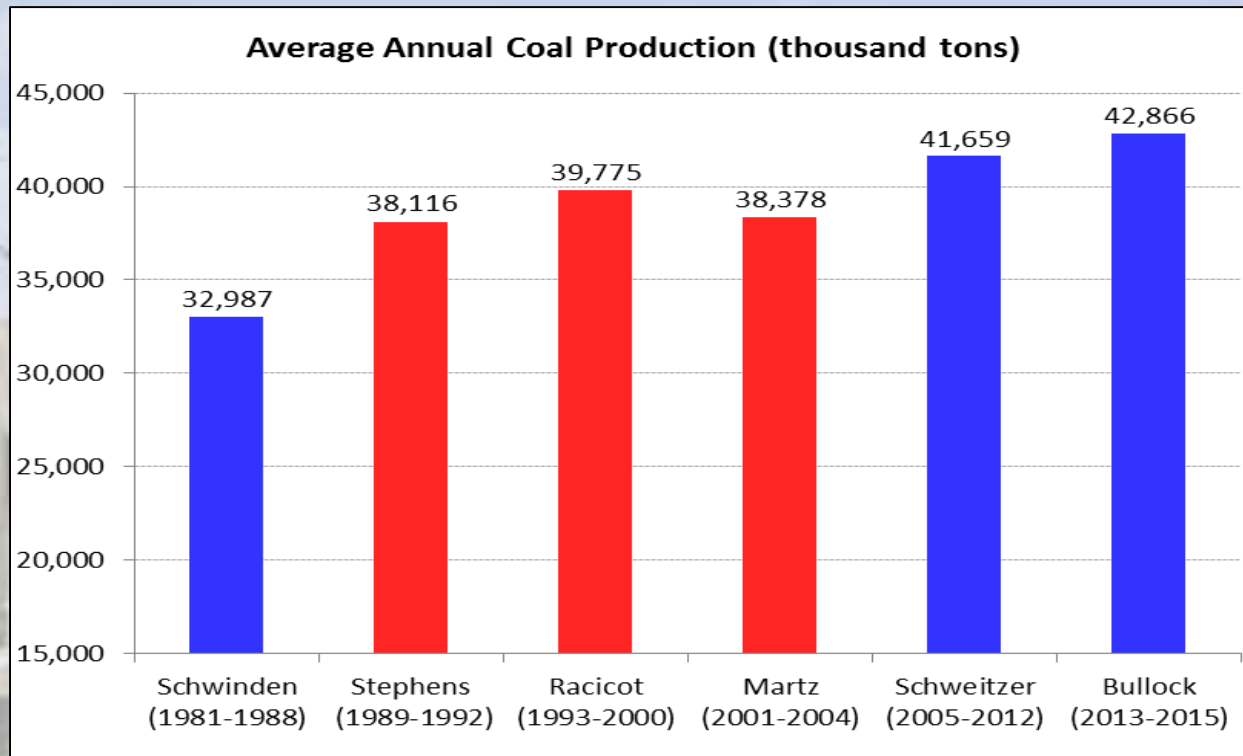


Source: Federal Reserve Bank of Philadelphia

Coal Production in Montana

Historic Production Over the Last Three Years

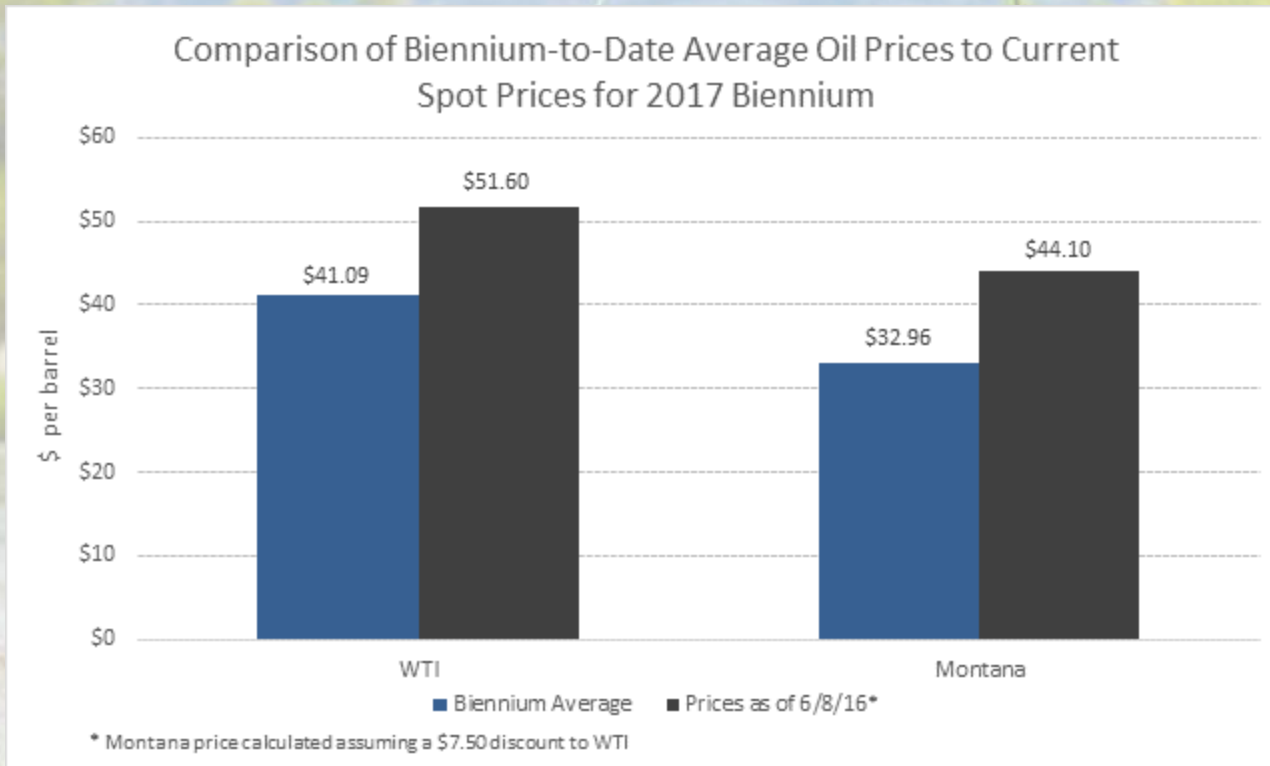
- Montana coal production has been over 40 million tons per year for the last three years, surpassing previous peaks set in 1998 and 1994.



- Production has begun to show signs of weakness in light of international commodity price collapse that began in FY2015.

Oil Production in Montana

International Pressures Impact Markets, but Prices Are Rising



Federal PATH Act Ramifications

Washington, DC Causes Fiscal Uncertainty

- **Congress Approved a Budget with Significant Tax Policy Impacts on the States** – This includes extension of Bonus Depreciation, permanent extension of Section 179 business expensing at \$500,000, and permanently extended the 15-year recovery period for qualified leasehold, restaurant and retail property.
- **Simulating the effects of Bonus Depreciation in the corporate tax model suggests a loss of over \$30 million in FY2016 with tail effects in subsequent years.**
- **Personal Income Tax effects are likely within the margin of forecast error.**
- **Net effect: Lower state general fund collections due to Washington, DC policy shifts that were not contained in the estimate produced in the 2015 session.**

Montana's Assets

Past, Present, and Future

- **Cash, Asset, and Liquidity Management**

- FY 2016 presented continued strong general fund cash holdings for the State of Montana.

FY 16 YTD Cash Summary	
Minimum	\$ 215,708,690
Maximum	\$ 524,390,325
Mean	\$ 352,573,496
Median	\$ 346,141,621

- Continual review of cash and asset management in coordination with Montana Board of Investments and Montana Department of Administration.

- **Robust Trust Holdings in Absence of a Formal “Rainy Day Fund”**

- At the end of FY 2015, the balance of the coal severance tax trust (and sub-trusts) was \$1,034 million.
- At the end of FY 2015, the combined balance of other non-major state-held trusts was \$999 million.

Montana CAFR 2015

Unmodified and Timely

2014 CAFR

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Adverse
Business-Type Activities	Adverse
Aggregate Discretely Presented Component Units	Qualified
Aggregate Remaining Fund Information	Qualified
General Fund	Unmodified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Unmodified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified

2015 CAFR

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Economic Development Bonds	Unmodified



Looking forward...

2019 BIENNIUM BUDGET SCENARIOS

2019 Budget with Proposed Tax Cuts and \$300 Million Initial Fund Balance

Article VIII Section 9. Balanced Budget & 17-7-140, MCA, Minimum Fund Balance Requirement of \$118 Million

Tax Proposals

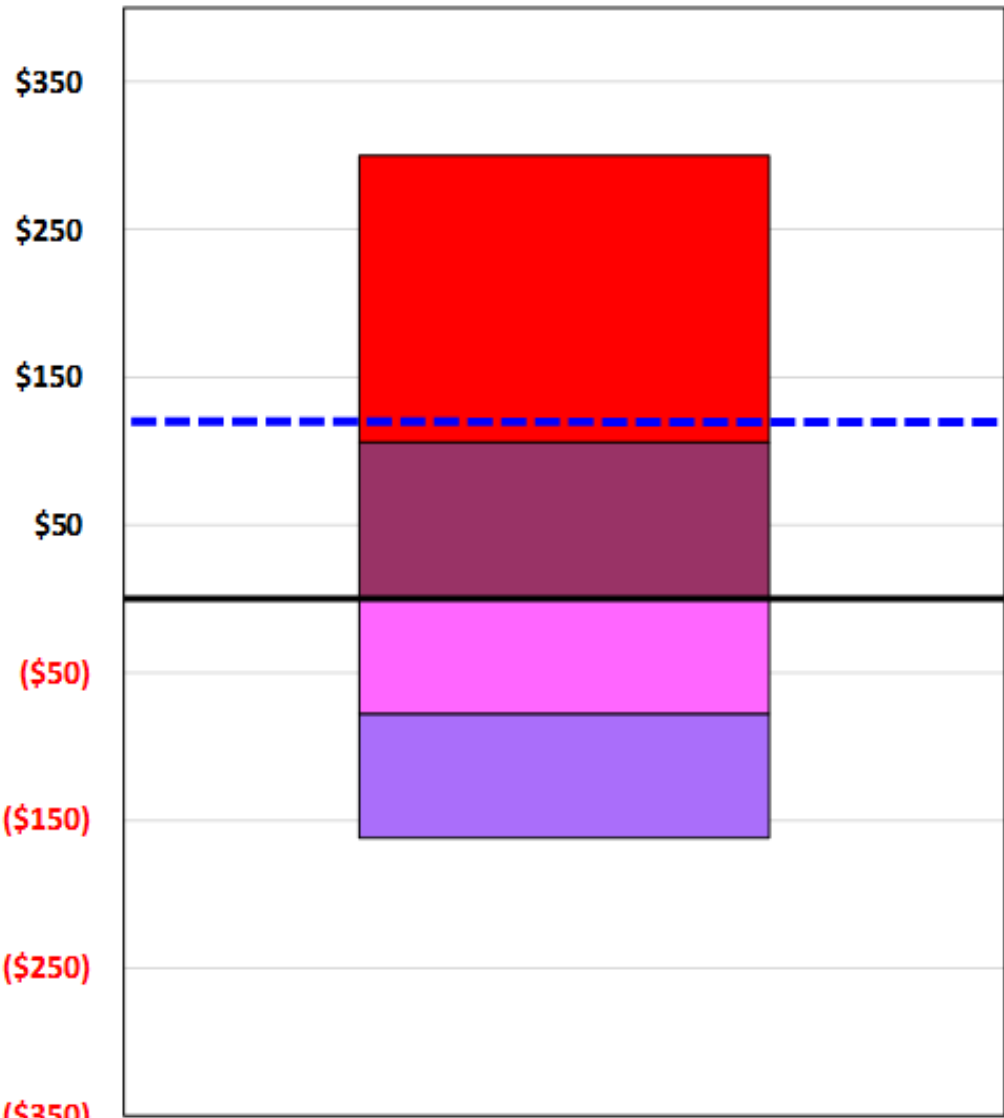
Business Equipment Tax Elimination \$194 million
 Income Tax Plan \$106 million

Required Statutory Growth, Plus Infrastructure

20-9-353, MCA, K-12 BASE Aid \$41.6 million
 15-1-121, MCA, Entitlement Share \$12.3 million
 Old Fund 39-71-2352 (6), MCA. \$8.6 million
 Infrastructure Funding (bonding) \$15.7 million
 Sub-total \$78.2 million

All Cash Infrastructure (additional) \$84.3 million

Resulting 2019 Fund Balance - Negative \$162.4 million



2019 Biennium (\$300 Million Fund Balance Starting Point)

■ BET Elimination ■ 6% Income Tax plan ■ Statutory and Infrastructure ■ All Cash Bonding

2019 Biennium Budget Balance with Proposed Tax Cuts and \$150 Initial Fund Balance

Article VIII Section 9. Balanced Budget & 17-7-140, MCA, Minimum Fund Balance Requirement of \$118 Million

Tax Proposals

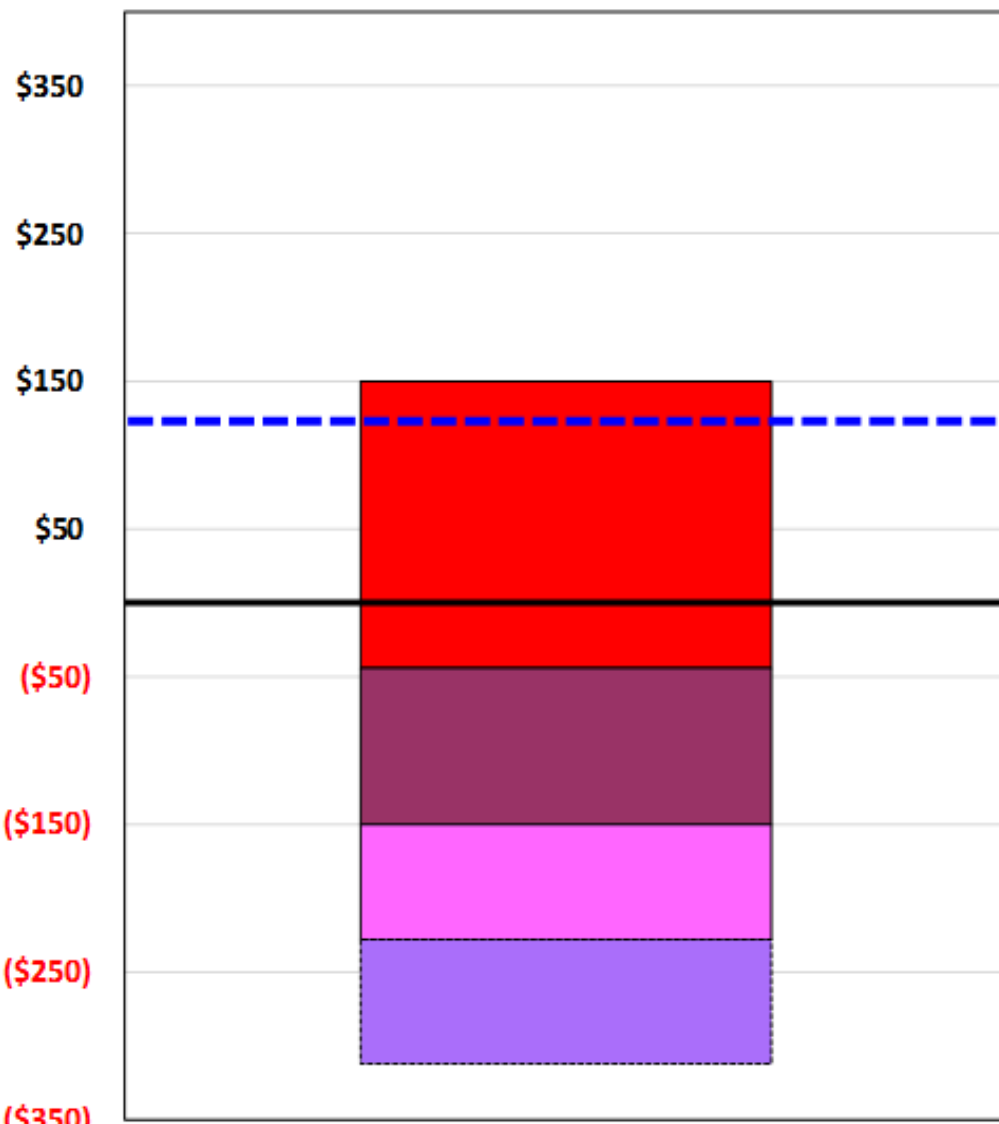
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 Infrastructure Funding (bonding) \$15.7 million
 Sub-total \$78.2 million

All Cash Infrastructure (additional) \$84.3 million

Resulting 2019 Fund Balance - Negative \$312.4 million



2019 Biennium (\$ 150 Million Fund Balance Starting Point)

■ BET Elimination ■ 6% Income Tax plan ■ Statutory and Infrastructure ■ All Cash Bonding

Montana Cash Flow with a \$150 Million “Rainy Day Fund” vs \$300 Million

