Revenue Estimate Comparison and Ending Fund Balance

LFD
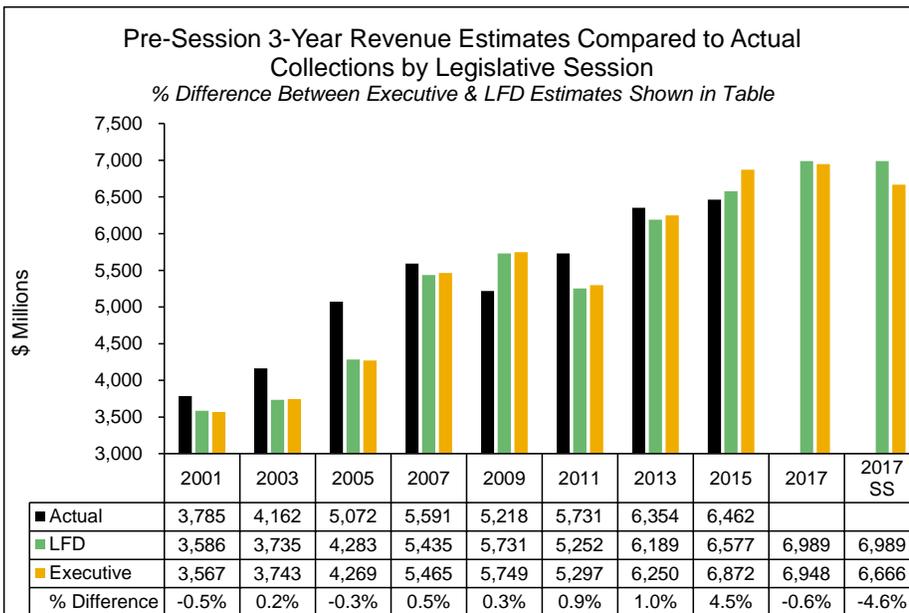Montana Legislative Fiscal Division

Please provide an historical estimate comparison of the Legislative Fiscal Division (LFD) and Office of Budget and Program Planning (OBPP) by 3-year biennial projection.

Three-Year Estimate Comparison

Prior to the 2015 session, 3-year revenue estimates by LFD and OBPP were quite similar, with total differences less than or equal to 1%. As shown in the chart below, although the two estimates may have either underestimated actual collections (as in 2001-2007 and 2011-2013) or overestimated actual collections (as in 2009), the estimates were similar.


Pre-Session 3-Year Revenue Estimates Compared to Actual Collections by Legislative Session
% Difference Between Executive & LFD Estimates Shown in Table

	2001	2003	2005	2007	2009	2011	2013	2015	2017	2017 SS
Actual	3,785	4,162	5,072	5,591	5,218	5,731	6,354	6,462		
LFD	3,586	3,735	4,283	5,435	5,731	5,252	6,189	6,577	6,989	6,989
Executive	3,567	3,743	4,269	5,465	5,749	5,297	6,250	6,872	6,948	6,666
% Difference	-0.5%	0.2%	-0.3%	0.5%	0.3%	0.9%	1.0%	4.5%	-0.6%	-4.6%

Why Use a 3-Year Estimate for Comparison?

Since the legislature budgets on a biennial basis, legislators make fiscal decisions while maintaining general fund structural balance—that is, on-going revenues meet or exceed on-going expenditures—in the last year of the budgeted biennium.
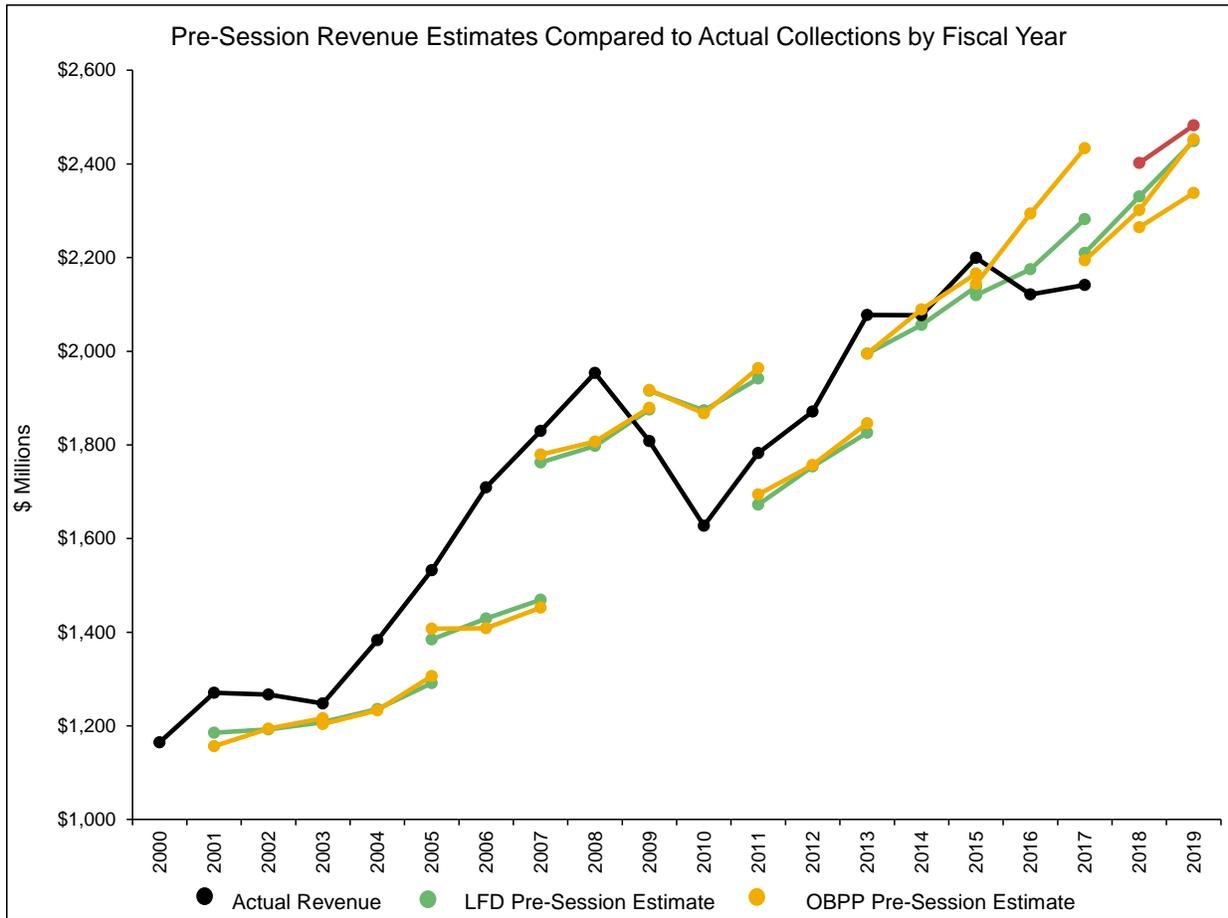
If first-year revenues are different than anticipated, the ending fund balance will be affected; however, structural balance may be less at risk.

The following chart illustrates the difference in the 3-year revenue estimates by LFD and OBPP since the 2001 session. Again, the estimates have typically been similar, with the exception of estimates provided for the 2015 session and the 2017 special session.

% Difference Between Pre-Session 3-Year Executive & LFD Revenue Estimates by Legislative Session
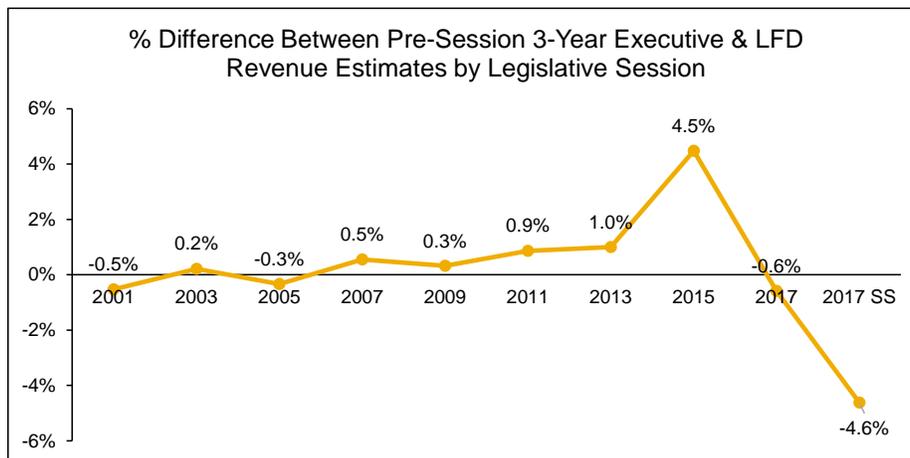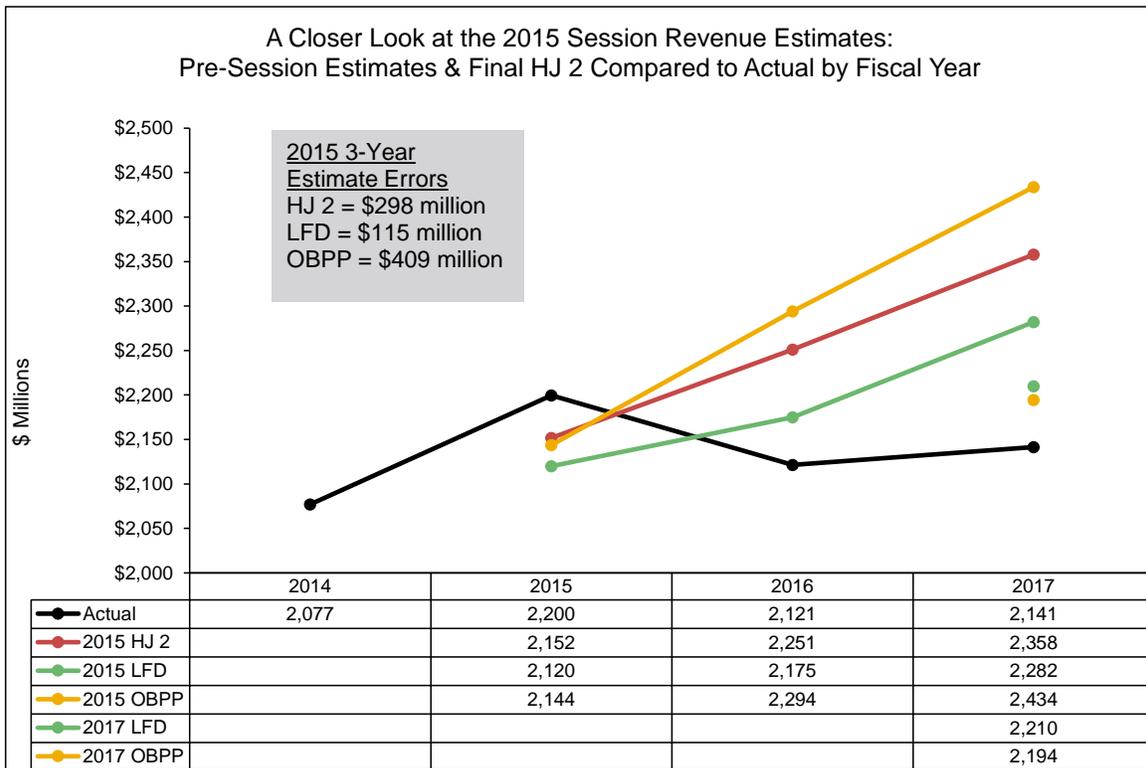
Annual Estimate Comparison

The next chart provides annual estimate comparison detail and again depicts the similarity of the two estimates for all years except those covered by the 2015 session and 2017 special session.

Pre-Session Revenue Estimates Compared to Actual Collections by Fiscal Year

● Actual Revenue   ● LFD Pre-Session Estimate   ● OBPP Pre-Session Estimate

2015 Session

The OBPP 3-year revenue estimate for the 2017 biennium provided to the Revenue & Transportation Interim Committee in anticipation of the 2015 legislative session was 4.5% higher than the comparable LFD estimate. The differences continued to diverge throughout the legislative session, which led to the creation of a joint subcommittee for the purpose of settling on a legislative estimate. Ultimately, HJ 2 incorporated most of the higher revenue anticipated by OBPP.

A Closer Look at the 2015 Session Revenue Estimates:
Pre-Session Estimates & Final HJ 2 Compared to Actual by Fiscal Year

2015 3-Year
Estimate Errors
HJ 2 = $298 million
LFD = $115 million
OBPP = $409 million

|	2014	2015	2016	2017
Actual	2,077	2,200	2,121	2,141
2015 HJ 2		2,152	2,251	2,358
2015 LFD		2,120	2,175	2,282
2015 OBPP		2,144	2,294	2,434
2017 LFD				2,210
2017 OBPP				2,194

2017 Session

After the large differences of the 2015 session, the LFD and OBPP 3-year revenue estimates prepared for Revenue & Transportation Interim Committee in anticipation of the 2017 legislative session were quite close. Mid-legislative session updates provided by the LFD incorporated the improved economic forecasts of IHS Markit, and the legislature adopted the higher revenue estimates.
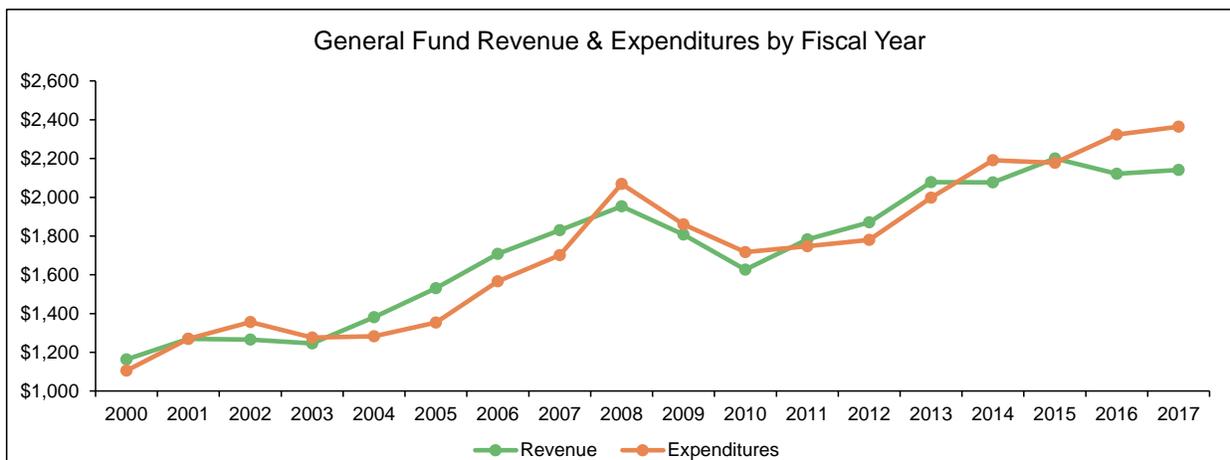
2017 Special Session

In August 2017, OBPP published a revised revenue forecast with combined FY 2018 and FY 2019 revenue projected to be below the official HJ 2 estimate by 4.6% or $282 million. Although the legislature did not change the official revenue estimate contained in HJ 2, they used the OBPP revenue estimate to balance the budget in the November 2017 Special Session.
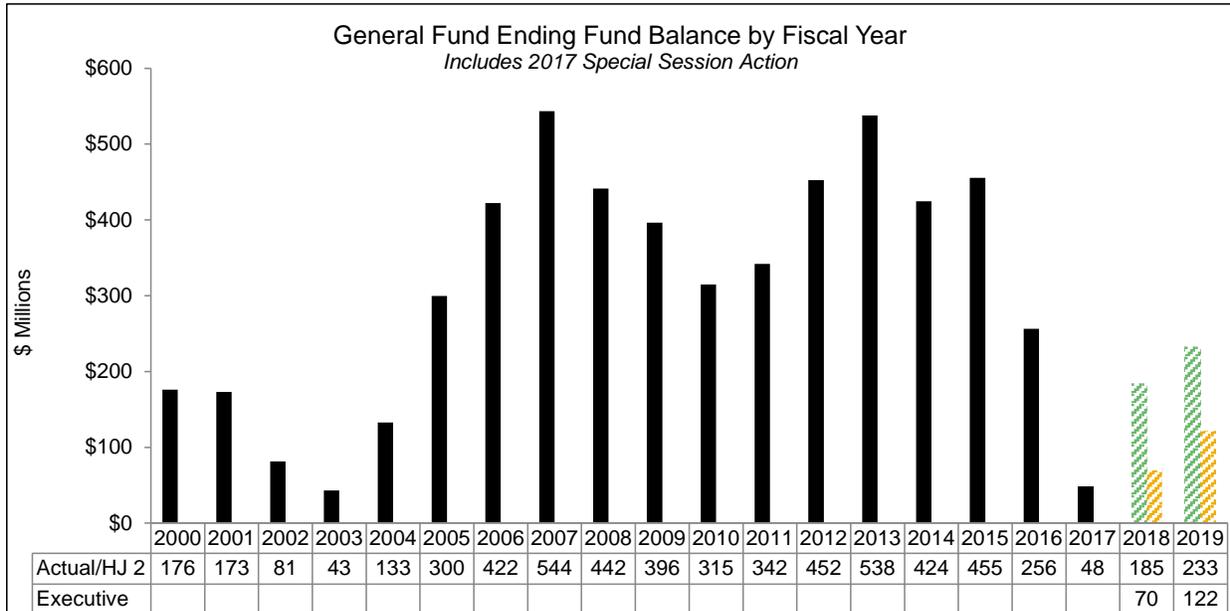
The chart below summarizes the various 3-year revenue estimates since the 2015 session, and includes actual revenue and expenditure amounts for the 3-year period budgeted by the 2015 Legislature. Actual revenue came in $404 million below expenditures over this period, and resulted in a significant decline in general fund balance.

General Fund Revenue & Expenditures by Legislative Session
Excludes Legislatively Authorized Transfers
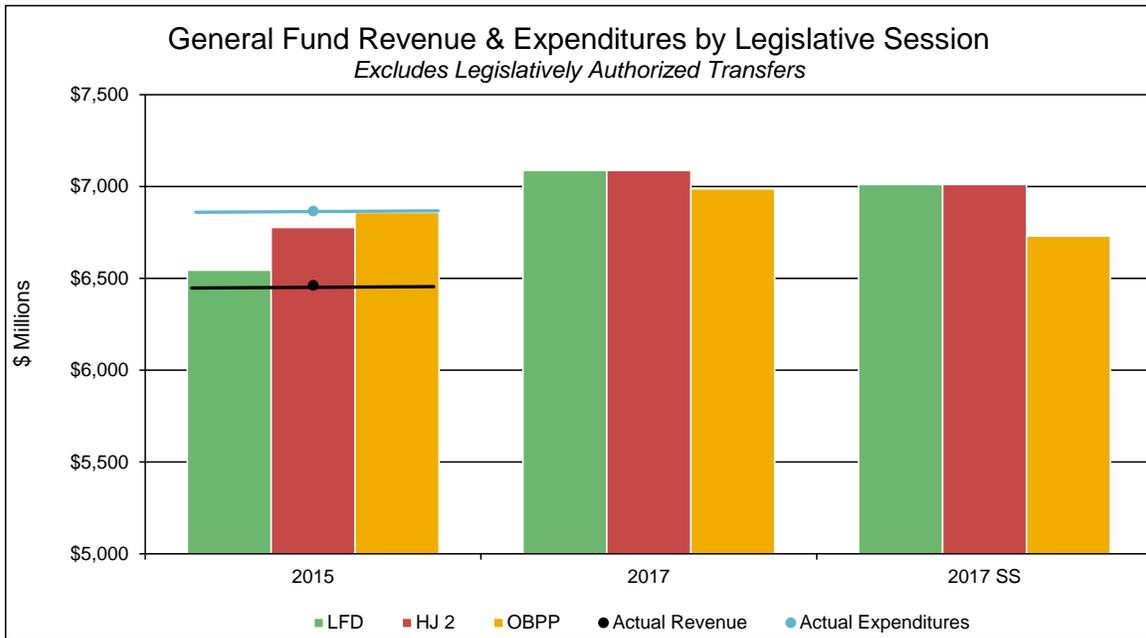
Please provide the general fund ending fund balance, along with projections based on the 2017 HJ 2 and the OBPP 2017 special session revenue estimate.

Over time, the difference between revenues and expenditures have had a direct impact on the general fund ending fund balance. The strong revenue growth FY 2004 to FY 2007 consistently outpaced expectations, and exceeded expenditures. As a result, the ending fund balance grew rapidly during this time. In more recent years, with expenditures based on the revenue expectations of the 2015 session, lower-than-anticipated revenue collections have led to a declining general fund balance.

General Fund Revenue & Expenditures by Fiscal Year

General Fund Ending Fund Balance by Fiscal Year
Includes 2017 Special Session Action

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Actual/HJ 2	176	173	81	43	133	300	422	544	442	396	315	342	452	538	424	455	256	48	185	233
Executive																			70	122

What percent miss is represented by $10 million? By $100 million?

Comparing Error Size by Recent Biennia & Fiscal Years				
($ Millions)				
Biennium	Actual	A 1% Error Represents	A $10 Million Error Represents	A $100 Million Error Represents
2009	$5,591	$56	0.2%	1.8%
2011	5,218	52	0.2%	1.9%
2013	5,731	57	0.2%	1.7%
2015	6,354	64	0.2%	1.6%
2017	6,462	65	0.2%	1.5%
FY	Actual	A 1% Error Represents	A $10 Million Error Represents	A $100 Million Error Represents
2013	$2,078	$21	0.5%	4.8%
2014	2,077	21	0.5%	4.8%
2015	2,200	22	0.5%	4.5%
2016	2,121	21	0.5%	4.7%
2017	2,141	21	0.5%	4.7%