

General Fund Revenue Outlook

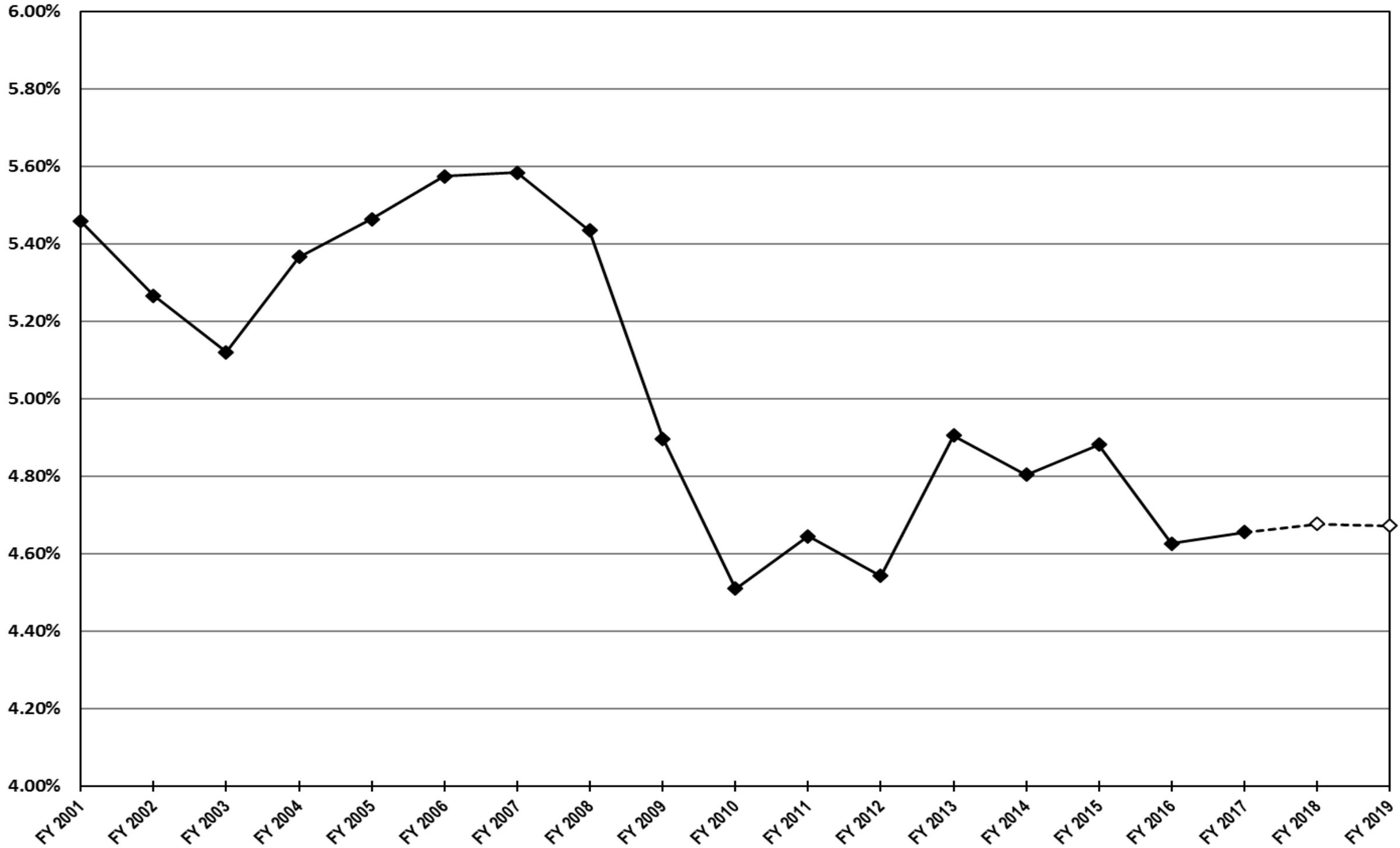
17-7-140, MCA Reductions

Dan Villa, Budget Director
State of Montana
Office of Budget and Program Planning

October 4, 2017

Our Revenue Streams Do Not Reflect Our Economy As They Once Did

General Fund Collections Relative to Gross State Product
FY 2001 Through FY 2017 and Projection to FY 2019 (OBPP September 5, 2017 Estimate)



OBPP General Fund Revenue Forecast Relative to HJR 2 (Adjusted for Legislation)
September 5, 2017



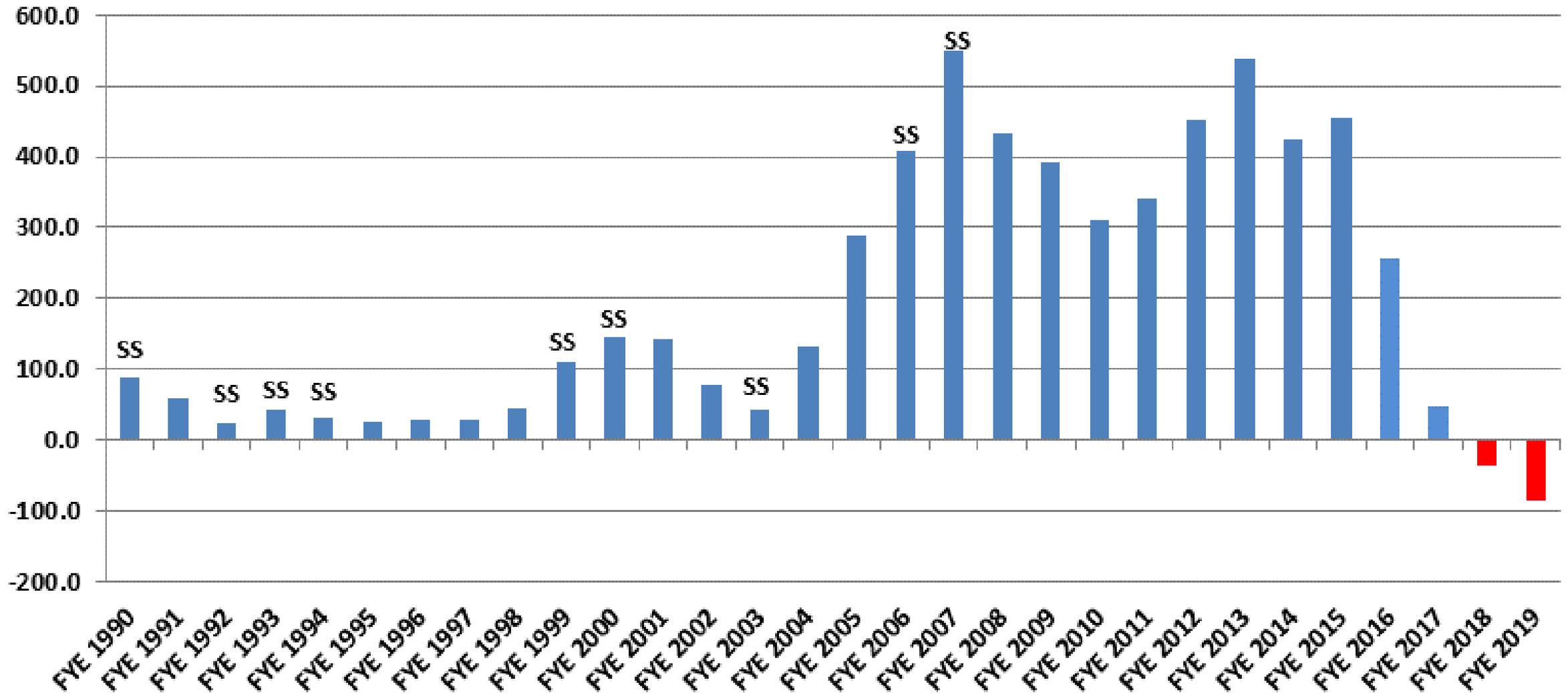
Revenue Category	FY 2017			FY 2018			FY 2019			Biennium
	Actual	HJR 2	Difference	Forecast	HJR 2	Difference	Forecast	HJR 2	Difference	Difference
MAJOR TAXES										
Individual Income Tax	\$1,168.22	\$1,238.52	(\$70.29)	\$1,241.41	\$1,320.81	(\$79.40)	\$1,312.38	\$1,404.30	(\$91.92)	(\$171.32)
Property Tax	\$260.22	\$261.00	(\$0.78)	\$276.71	\$277.12	(\$0.41)	\$283.01	\$286.13	(\$3.12)	(\$3.53)
Vehicle Taxes and Fees	\$109.19	\$110.84	(\$1.65)	\$112.20	\$112.96	(\$0.76)	\$116.40	\$114.55	\$1.85	\$1.09
Corporation License Tax	\$125.99	\$139.95	(\$13.96)	\$132.49	\$168.76	(\$36.27)	\$141.55	\$173.15	(\$31.59)	(\$67.86)
Insurance Premiums Tax	\$75.56	\$73.41	\$2.14	\$77.79	\$76.00	\$1.79	\$79.81	\$79.89	(\$0.08)	\$1.71
Video Gambling License Tax	\$59.96	\$59.28	\$0.68	\$60.90	\$61.90	(\$1.00)	\$62.45	\$64.52	(\$2.06)	(\$3.07)
Total Major Taxes	\$1,799.15	\$1,883.01	(\$83.86)	\$1,901.50	\$2,017.55	(\$116.05)	\$1,995.61	\$2,122.53	(\$126.92)	(\$242.98)
NATURAL RESOURCE TAXES										
Oil and Gas Production Taxes	\$46.33	\$45.29	\$1.05	\$43.04	\$49.94	(\$6.90)	\$40.79	\$48.91	(\$8.13)	(\$15.03)
U.S. Mineral Royalties	\$17.32	\$19.25	(\$1.93)	\$16.32	\$20.50	(\$4.18)	\$16.13	\$21.23	(\$5.10)	(\$9.28)
Coal Severance Tax	\$13.80	\$13.58	\$0.22	\$14.16	\$13.81	\$0.35	\$13.99	\$14.30	(\$0.31)	\$0.05
Metalliferous Mines Tax	\$4.84	\$4.41	\$0.43	\$5.32	\$4.27	\$1.04	\$5.43	\$4.16	\$1.27	\$2.32
Electrical Energy Tax	\$4.31	\$4.45	(\$0.13)	\$4.61	\$4.44	\$0.17	\$4.50	\$4.52	(\$0.02)	\$0.15
Wholesale Energy Transactions Tax	\$3.46	\$3.54	(\$0.07)	\$3.49	\$3.51	(\$0.02)	\$3.44	\$3.54	(\$0.10)	(\$0.12)
Total Natural Resource Taxes	\$90.07	\$90.51	(\$0.44)	\$86.93	\$96.47	(\$9.53)	\$84.27	\$96.66	(\$12.38)	(\$21.92)
INTEREST EARNINGS										
Coal Trust Interest Earnings	\$19.80	\$19.96	(\$0.16)	\$17.89	\$19.83	(\$1.94)	\$17.28	\$19.07	(\$1.78)	(\$3.73)
Treasury Cash Account Interest	\$5.69	\$4.27	\$1.42	\$8.57	\$7.58	\$0.99	\$16.16	\$15.51	\$0.66	\$1.65
Total Interest Earnings	\$25.49	\$24.24	\$1.25	\$26.45	\$27.41	(\$0.95)	\$33.45	\$34.57	(\$1.12)	(\$2.08)
LIQUOR TAXES										
Liquor Excise and License Taxes	\$20.37	\$21.36	(\$0.99)	\$21.79	\$22.27	(\$0.48)	\$22.86	\$23.22	(\$0.36)	(\$0.84)
Liquor Profits	\$11.75	\$11.50	\$0.25	\$12.50	\$12.08	\$0.42	\$13.19	\$12.58	\$0.61	\$1.03
Beer Tax	\$3.00	\$3.05	(\$0.05)	\$3.04	\$3.07	(\$0.03)	\$3.04	\$3.08	(\$0.04)	(\$0.07)
Wine Tax	\$2.43	\$2.48	(\$0.05)	\$2.49	\$2.58	(\$0.10)	\$2.56	\$2.67	(\$0.12)	(\$0.22)
Total Liquor Taxes	\$37.54	\$38.39	(\$0.85)	\$39.82	\$40.00	(\$0.18)	\$41.64	\$41.55	\$0.09	(\$0.09)
TOBACCO TAXES										
Cigarette Tax	\$30.56	\$30.92	(\$0.37)	\$30.84	\$30.65	\$0.19	\$30.63	\$30.46	\$0.16	\$0.35
Tobacco Products Tax	\$6.25	\$6.62	(\$0.38)	\$6.48	\$6.81	(\$0.34)	\$6.61	\$7.00	(\$0.39)	(\$0.72)
Tobacco Settlement	\$3.34	\$3.10	\$0.24	\$2.89	\$2.62	\$0.27	\$2.83	\$2.60	\$0.23	\$0.49
Total Tobacco Taxes	\$40.15	\$40.65	(\$0.50)	\$40.21	\$40.09	\$0.12	\$40.07	\$40.06	\$0.00	\$0.12
SALES TAXES										
Telecommunications Excise Tax	\$15.60	\$16.09	(\$0.49)	\$14.97	\$15.57	(\$0.60)	\$14.15	\$14.97	(\$0.82)	(\$1.42)
Institutional Reimbursements	\$14.26	\$14.16	\$0.10	\$11.91	\$15.72	(\$3.80)	\$12.02	\$14.73	(\$2.72)	(\$6.52)
Health Care Facility Utilization Fees	\$4.63	\$4.59	\$0.05	\$4.28	\$4.31	(\$0.02)	\$4.25	\$4.25	\$0.01	(\$0.02)
Accommodations Tax	\$21.78	\$22.20	(\$0.42)	\$23.25	\$23.40	(\$0.15)	\$25.16	\$24.77	\$0.39	\$0.24
Rental Car Sales Tax	\$3.40	\$3.31	\$0.09	\$3.42	\$3.36	\$0.06	\$3.53	\$3.66	(\$0.13)	(\$0.07)
Total Sales Taxes	\$59.68	\$60.35	(\$0.66)	\$57.84	\$62.35	(\$4.51)	\$59.10	\$62.38	(\$3.27)	(\$7.78)
OTHER TAXES AND REVENUES										
Lottery	\$9.62	\$12.36	(\$2.74)	\$10.17	\$12.36	(\$2.19)	\$10.65	\$12.36	(\$1.72)	(\$3.90)
Highway Patrol Fines	\$3.93	\$4.10	(\$0.17)	\$3.97	\$4.15	(\$0.18)	\$4.07	\$4.19	(\$0.12)	(\$0.30)
Investment Licenses and Permits	\$7.33	\$7.45	(\$0.13)	\$7.73	\$7.66	\$0.08	\$8.01	\$7.99	\$0.01	\$0.09
Contractors' Gross Receipts Tax	\$3.08	\$2.55	\$0.53	\$3.08	\$2.54	\$0.54	\$3.16	\$2.53	\$0.64	\$1.18
Driver's License Fee	\$4.31	\$4.94	(\$0.63)	\$4.37	\$4.34	\$0.03	\$4.60	\$5.01	(\$0.41)	(\$0.38)
Rail Car Tax	\$3.79	\$3.39	\$0.40	\$3.54	\$3.64	(\$0.10)	\$3.58	\$3.91	(\$0.32)	(\$0.43)
Other Revenue	\$57.34	\$45.00	\$12.34	\$47.64	\$46.06	\$1.58	\$48.03	\$47.32	\$0.71	\$2.29
Total Other Taxes and Revenues	\$89.39	\$79.80	\$9.60	\$80.51	\$80.76	(\$0.25)	\$82.10	\$83.30	(\$1.20)	(\$1.45)
TOTAL GENERAL FUND REVENUE	\$2,141.48	\$2,216.94	(\$75.46)	\$2,233.27	\$2,364.62	(\$131.36)	\$2,336.24	\$2,481.05	(\$144.81)	(\$276.17)



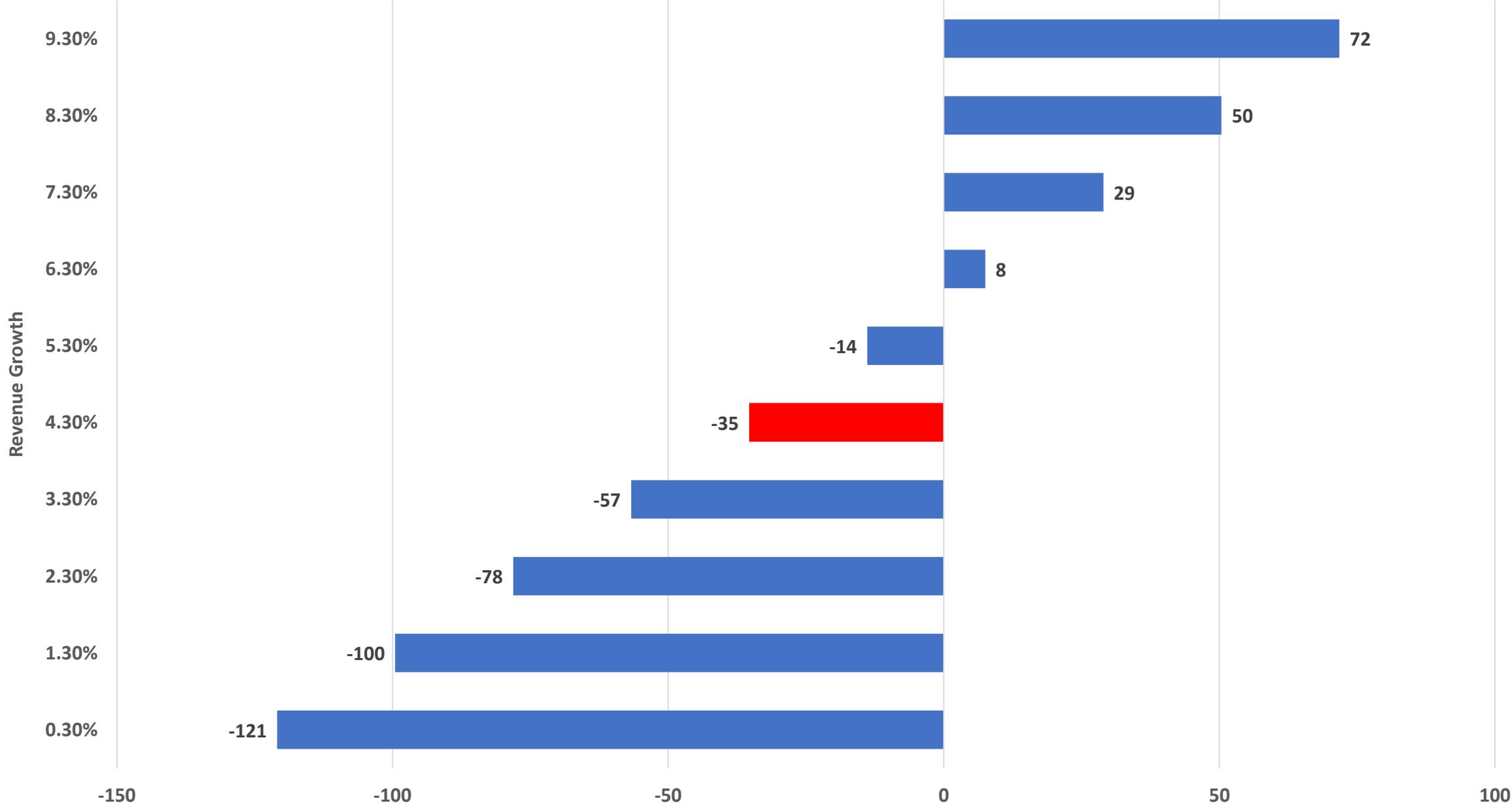
FY 2017 and 2019 Biennium General Fund Status (Millions \$)

<u>Description</u>	<u>Actual</u>	<u>Enacted</u>	
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Beginning Fund Balance</u>	256.478	47.564	(35.576)
OBPP Revenue Estimate - August, 2017	2,141.479	2,233.266	2,336.240
Transfers-In (SB 261)		31.640	1.640
Prior Year Revenue Adjustments	(2.111)		
Total Funds Available	2,395.846	2,312.470	2,302.304
<u>General Appropriations Act</u>			
HB 2 Disbursements (Adjusted for SB 261)	2,004.574	1,986.310	2,033.305
<u>Non-HB 2 Disbursements</u>			
HB 1 - Feed Bill	8.239	2.210	9.063
HB 3 - Supplemental	23.167	20.000	20.000
Non HB 2 Reductions (SB 261)		(2.630)	(2.630)
<u>Other Disbursements</u>			
Statutory Appropriations	291.065	325.531	313.825
Transfers	20.668	20.108	20.693
Fire Fund Transfer (HB 354)	11.422		
Other Appropriations	5.602	4.291	0.281
Reversions		(7.774)	(7.902)
Prior Year Expenditure Adjustments	(4.058)		
Total Disbursements	2,360.679	2,348.046	2,386.635
Fund Balance Adjustments	12.397		
Ending Fund Balance	47.564	(35.576)	(84.331)
YOY Expenditure Growth		-0.54%	1.64%
YOY Revenue Growth		4.29%	4.61%
Fund Balance as a % of Total Spend		-1.52%	-3.53%
"Cut-To" Target			143.20
Trigger			119.33

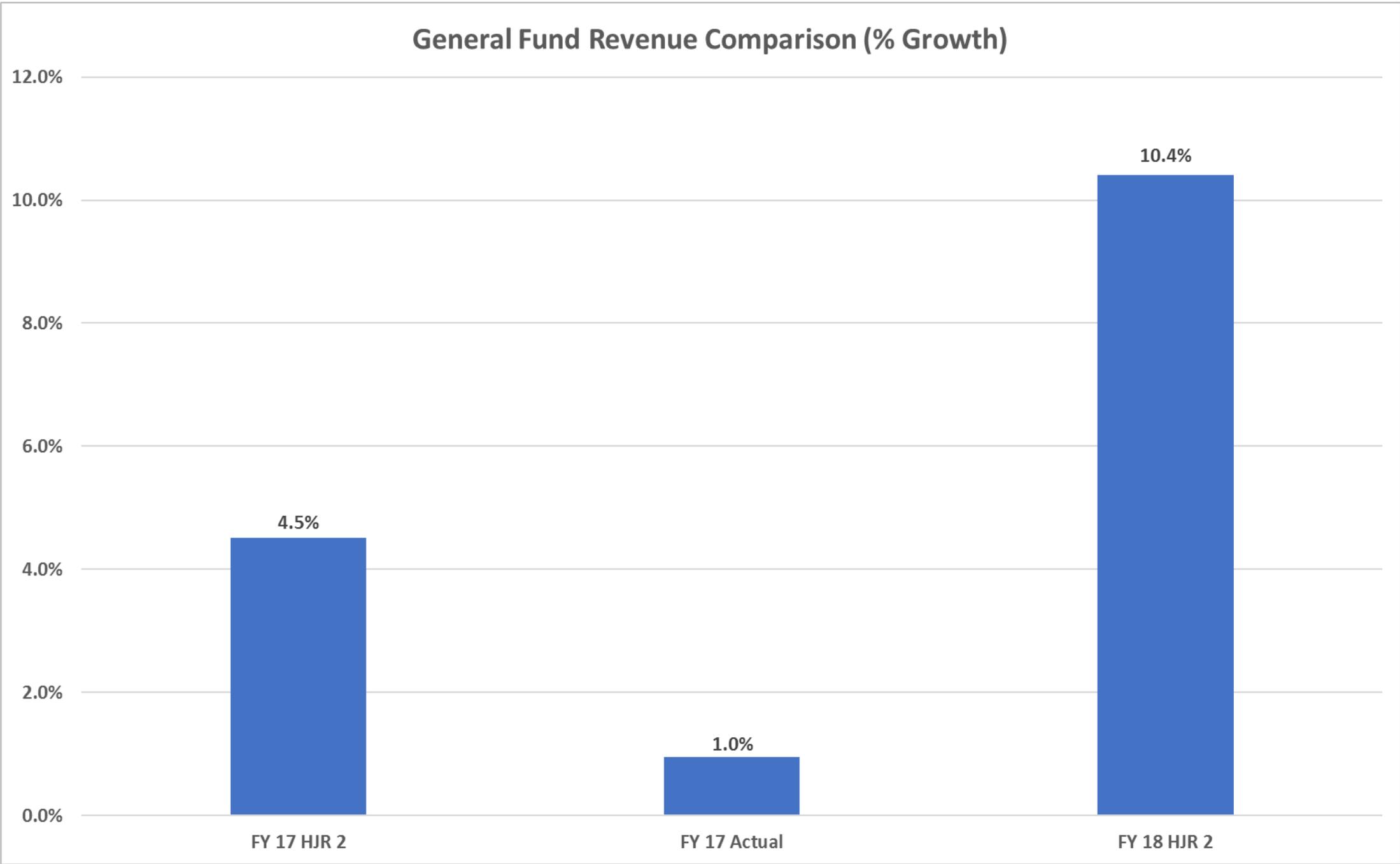
Actual and Forecast General Fund Ending Fund Balance (Millions \$)
1990 - 2017 Actual; Forecast 2018 - 2019
(SS = Special Session)



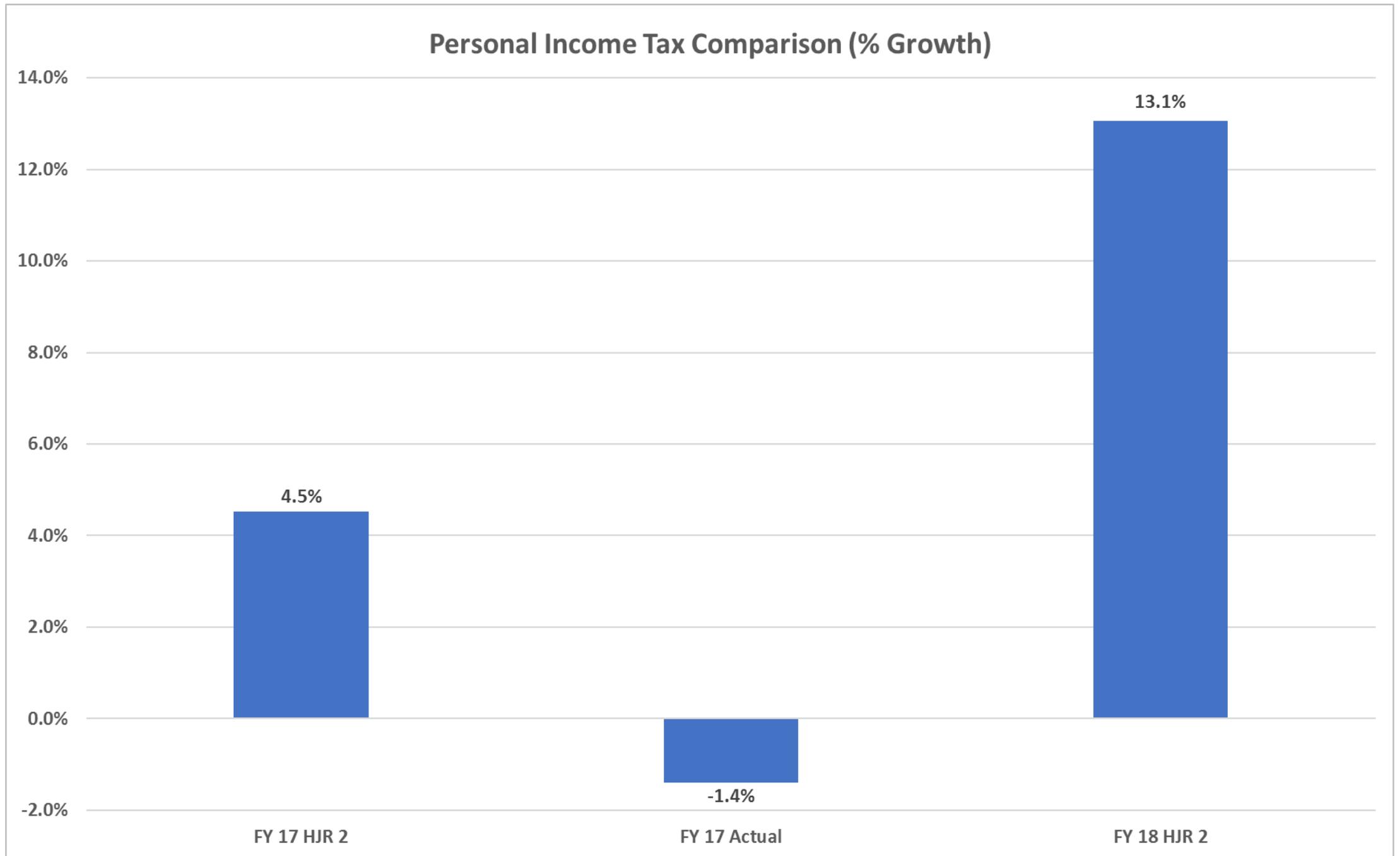
FY 2018 Ending Fund Balance Scenario's Based on Revenue Growth (\$20 million fire cost scenario for FY 18)



How do we reach HJ2 estimates?



How do we reach HJ2 estimates for PIT?



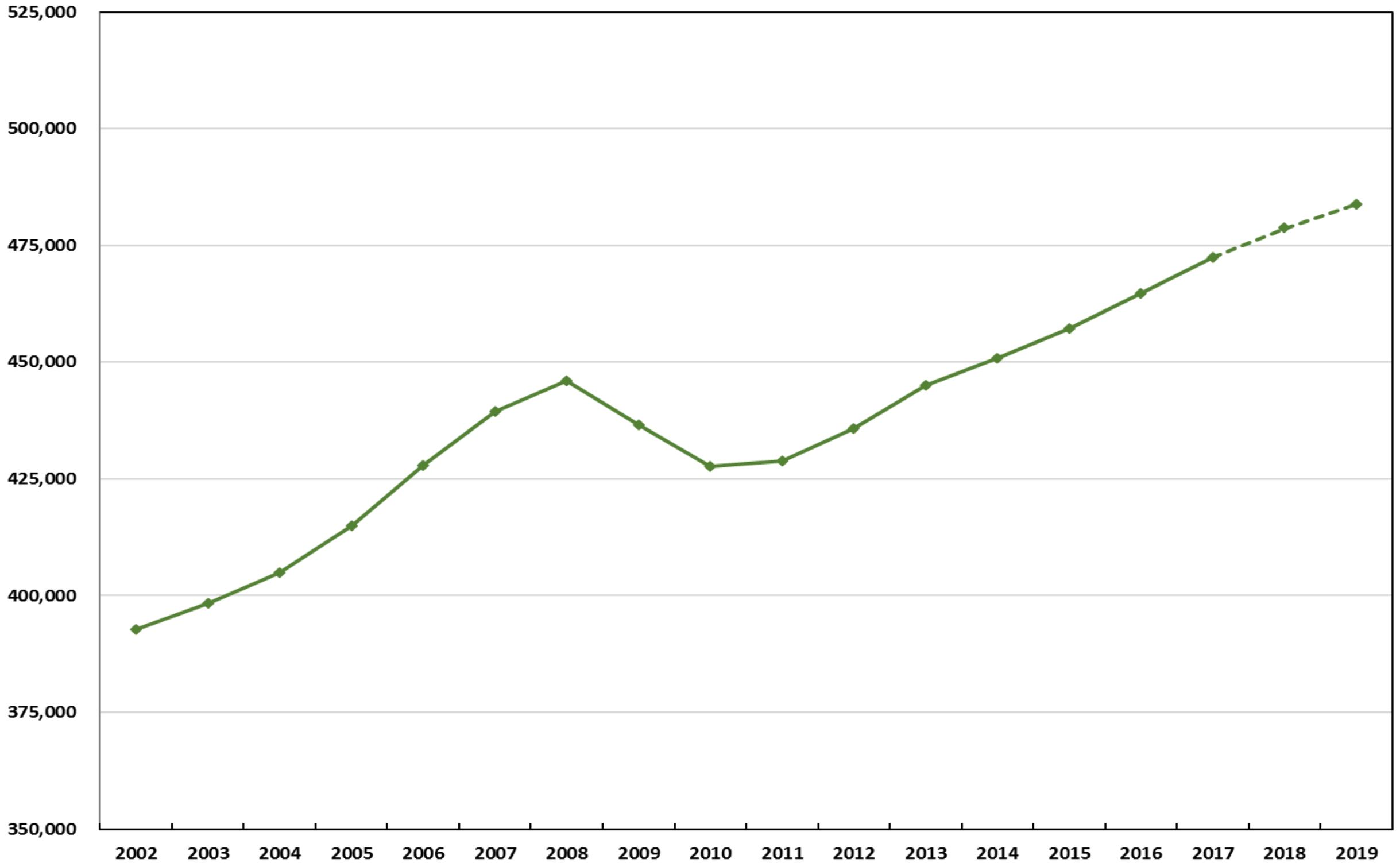
Natural Resource Revenues Are Beyond Our Control

Montana Quarterly Oil Production

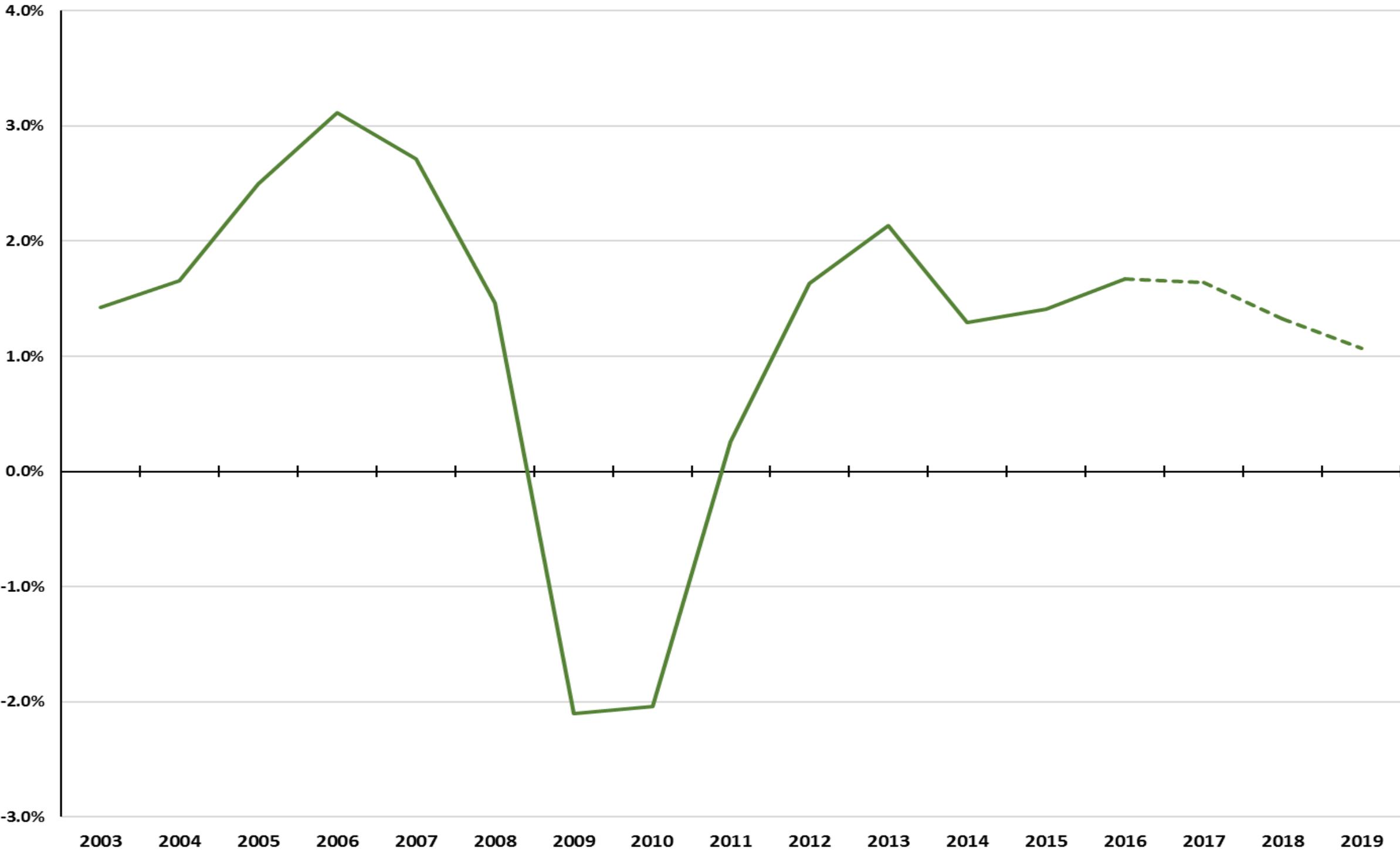


Workforce Hurdles Are Higher...

Non-Farm Employment (CES) by Fiscal Year and IHS Markit Projection for FY 2018 and FY 2019



Change in Montana Employment by Fiscal Year and IHS Projection for FY 2017 - FY 2019



The Conditions Which Correlate to 10%+ Revenue Growth Are Not Present

Change in Employment, Oil Production, and Collections by Fiscal Year with Projections



The Role of This Committee

17-7-140(2)(c) The governor shall direct agencies to manage their budgets in order to reduce general fund expenditures. Prior to directing agencies to reduce spending as provided in subsection (1)(a), the governor shall direct each agency to analyze the nature of each program that receives a general fund appropriation to determine whether the program is mandatory or permissive and to analyze the impact of the proposed reduction in spending on the purpose of the program. An agency shall submit its analysis to the office of budget and program planning and shall at the same time provide a copy of the analysis to the legislative fiscal analyst. The report must be submitted in an electronic format. The office of budget and program planning shall review each agency's analysis, and the budget director shall submit to the governor a copy of the office of budget and program planning's recommendations for reductions in spending. The budget director shall provide a copy of the recommendations to the legislative fiscal analyst at the time that the recommendations are submitted to the governor and shall provide the legislative fiscal analyst with any proposed changes to the recommendations. The recommendations must be provided in an electronic format. The legislative finance committee shall meet within 20 days of the date that the proposed changes to the recommendations for reductions in spending are provided to the legislative fiscal analyst. The legislative fiscal analyst shall provide a copy of the legislative fiscal analyst's review of the proposed reductions in spending to the budget director at least 5 days before the meeting of the legislative finance committee. The committee may make recommendations concerning the proposed reductions in spending. The governor shall consider each agency's analysis and the recommendations of the office of budget and program planning and the legislative finance committee in determining the agency's reduction in spending. ***Reductions in spending must be designed to have the least adverse impact on the provision of services determined to be most integral to the discharge of the agency's statutory responsibilities.***

Required Reductions

Section	Agency Name	Agency No.	17-7-140 Biennial Reduction Amount	% Reduction
A - General Govt	Commissioner of Political Practices	32020	(152,414)	-10.00%
	Department of Administration	61010	(1,459,332)	-10.00%
	Department of Commerce	65010	(725,503)	-10.00%
	Department of Military Affairs	67010	(1,071,022)	-8.20%
	Department of Revenue	58010	(9,179,870)	-8.69%
	Governor's Office	31010	(1,290,839)	-10.00%
	Labor and Industry	66020	(358,270)	-10.00%
B - DPHHS	Public Health and Human Services	69010	(105,029,491)	-10.00%
C - Nat Resources	Department of Agriculture	62010	(152,058)	-10.00%
	Department of Environmental Quality	53010	(1,038,935)	-10.00%
	Department of Livestock	56030	(511,416)	-10.00%
	Dept. of Natural Resources/Conservation	57060	(2,929,085)	-5.39%
D - Public Safety	Crime Control Division	41070	(461,916)	-10.00%
	Department of Corrections	64010	(40,229,844)	-10.00%
	Department of Justice	41100	(6,560,286)	-9.57%
	Public Defender	61080	(6,471,590)	-10.00%
E - Education	Board of Public Education	51010	(29,900)	-10.00%
	Commissioner of Higher Education	51020	(42,810,094)	-9.57%
	Historical Society	51170	(536,071)	-10.00%
	Library Commission	51150	(441,836)	-10.00%
	Montana Arts Council	51140	(105,663)	-10.00%
	Office of Public Instruction	35010	(7,770,617)	-9.57%
Total Recommended Reductions			(229,316,052)	
Average Percentage Reduction				-9.571%

More Responsible Solutions from Our Predecessors

Governor Martz

- Increased tobacco tax
- Increased accommodations tax
- Created Medicaid provider taxes
- Created rental car revenues

Governor Racicot

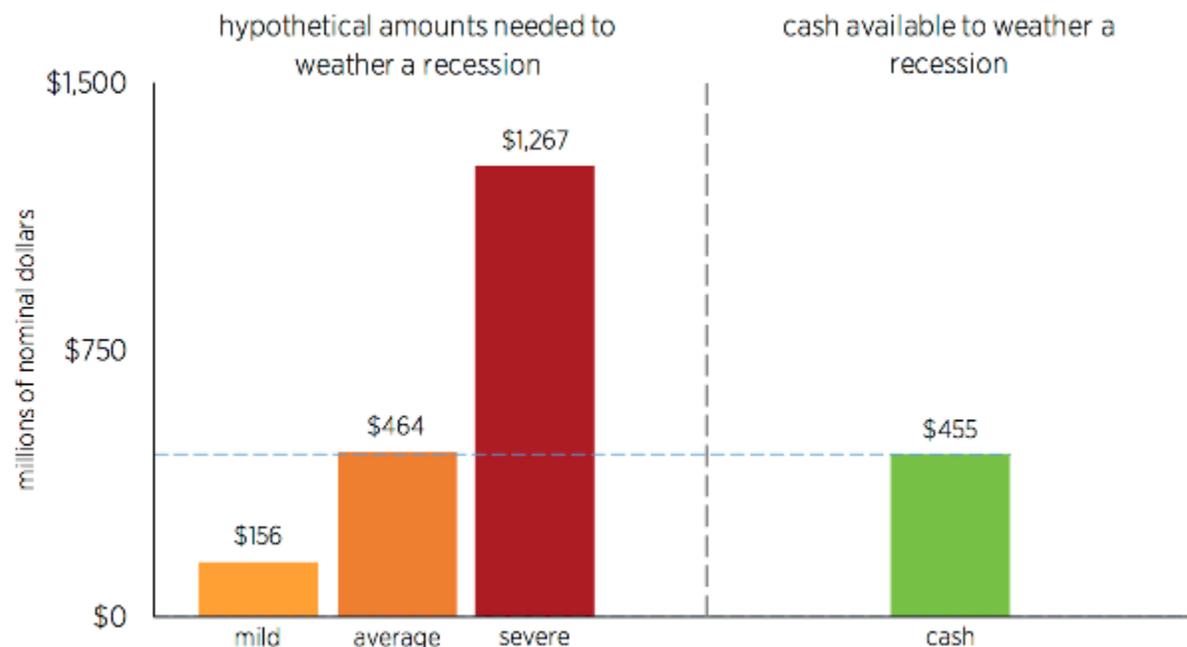
Oversaw the “99/99” Plan which lead to \$99 million in cuts and \$99 million in revenue enhancements*

Ignoring the Problem Will Only Make Future Cuts Deeper

DATA AND EMPIRICAL STRATEGY

Credit rating agencies and professional organizations for state policymakers have suggested that states should aim to save enough to cover between 5 percent and 16.7 percent of their annual spending or revenue, but this one-size-fits-all solution ignores variances in business cycle duration and severity among the states. This study accounts for differences among the states by using state-level public finance data and economic indicators to create potential distributions of savings goals for each state.

Montana's Cash Available and Amounts Needed to Weather Recessions



Data note: Cash available includes the sum of the state's actual rainy day fund and general fund balances.
 Source: *Fiscal Survey of the States*, National Association of State Budget Officers, annual surveys (fiscal year 2015 data).
 Produced by Erick Elder, Olivia Gonzalez, and Thomas Savidge.

Saving Needs Based on Historical Patterns

[Weathering the Next Recession: How Prepared Are the 50 States?](#), a recent paper by Erick Elder from the Mercatus Research Center at the University of Arkansas, provides a statistical distribution of potential budget shortfalls by state and compares the results with states' current level of savings. Findings for Montana based on the historical data from the U.S. Census Bureau and National Association of State Budget Officers (NASBO) used for the report include the following:

- Montana has a shorter business cycle of 70 month or 5.8 years than the 7-year national average
 - Montana's expected expansion is 56 months and expected contraction is 14 months
 - The national average expected expansion is 67 months and expected contraction is 18 months
- The savings Montana would need to weather three out of four recessions without spending reductions or tax increases ranges from 21% to 39% of pre-contraction annual revenue, depending on whether recessionary spending has zero or average growth
- Based on the FY 2014 general fund ending fund balance of \$425 million, Montana would have been able to weather 63% to 72% of potential economic contractions depending on spending assumptions

Applying Elder's revenue savings recommendations to the 2017 biennium leads to a total savings range of \$460 million to \$860 million depending on expenditure growth assumptions.

The advantage to this form of stress testing is that the revenue component is largely done. The legislature could choose which assumptions it wished to use and evaluate the future budgets relative to that level of reserves or other tools. The disadvantage to this approach is that it does not consider a state's current point in the business cycle or the current economics of the state. An alternative approach could be a forward-looking analysis.