

**LEGISLATIVE BUDGET ANALYSIS 2021 BIENNIUM**

**VOLUME 1—STATEWIDE PERSPECTIVES**

**Preliminary Edition**



**LEGISLATIVE BUDGET ANALYSIS  
2021 BIENNIUM  
VOLUME 1 – STATEWIDE PERSPECTIVES  
PRELIMINARY EDITION**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION  
TO THE SIXTY-SIXTH LEGISLATURE  
JANUARY 2019**

**Legislative Finance Committee**

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Representative Kimberly Dudik (Vice Chair)  
Representative Ken Holmlund  
Representative Mike Hopkins  
Representative Jim Keane  
Representative Marilyn Ryan  
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## **Acknowledgements**

The Legislative Budget Analysis report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and policy information and advice to the legislature. The LFD thanks the many entities that assisted in its completion.

For information on this report and others, contact the Legislative Fiscal Division at (406) 444-2986 or visit the division's website at: <https://leg.mt.gov/lfd/>

The LFD is located at Room 110, State Capitol, Helena, MT 59620.



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

**Director**  
AMY CARLSON

December 2018

Members of the Sixty-Sixth Legislature:

I submit for your consideration the high-level state budget outlook for 2021 biennium as preliminary Volume 1 of the Legislative Budget Analysis. More details in volumes 2 through 8 will be available prior to session at <https://leg.mt.gov/lfd/publications/>. Additional reference material, standard charts and tables are available online at the same website as appendices to this Volume 1. If you are unable to access the online version please let staff know and we will provide you with printed versions of the documents.

The Legislative Fiscal Division works for you, the Legislators of Montana. We have no partisan alliance and seek to deliver high quality information and analysis of fiscal issues. A significant quantity of additional information is available online at our general website: <https://leg.mt.gov/lfd/>. Some specific resources that you may be interested in are reports on specific fiscal issues presented to the Legislative Finance Committee over the interim. Reports on financial volatility, community college funding formulas, results first methodologies with the Department of Health and Human Services, and state laboratories were some of the key areas researched this interim.

In addition to this analysis, the LFD has access to the state accounting system and other resources for researching specific fiscal questions. If a fiscal question arises, please feel free to contact either myself or any member of our staff to help answer your questions.

We look forward to working with you all during the 2019 Session.

Sincerely,

A handwritten signature in cursive script, appearing to read "Amy Carlson".

Amy Carlson  
Legislative Fiscal Analyst



## **VOLUME 1: THE OVERVIEW**

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2021 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2021 biennium, and identifying some of the major issues now facing the Legislature. As such, this document is intended to complement the Legislative Budget Analysis – 2021 Biennium online, which contains our review of the 2021 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2021 Biennium reports the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this Statewide Perspective presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 provides an updated general fund balance sheet, projects the general fund structural balance, compares biennial appropriations, and includes a summary of anticipated ongoing general fund revenues, ongoing present law expenditure requirements, including budget risks and budget pressures.

This volume is divided into five parts:

- The Introduction provides a summary of our analysis of the proposed executive budget
- State Revenues provides a review of the revenue assumptions adopted by the Revenue and Transportation Interim Committee
- State Expenditures provides an overview of the Governor's state expenditure plan for the 2021 biennium

## **LEGISLATIVE BUDGET ANALYSIS - 2021 BIENNIUM ONLINE**

### **REVENUE ESTIMATES**

Volume 2 is a detailed reference of the state's major revenue sources and is available online. It provides the highlights of the underlying economic assumptions used in the revenue estimate adopted by the Revenue and Transportation Interim Committee, as well as historical collections and distributions for each revenue source. Also included are statutory references estimate methodologies.

### **BUDGET ANALYSIS**

The Budget Analysis offers detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Section A – General Government
- Section B – Health and Human Services
- Section C – Natural Resources and Transportation
- Section D – Judicial Branch, Law Enforcement, and Justice
- Section E – Education
- Section F – Long-Range Planning

## **OTHER USEFUL LINKS**

In addition to the Legislative Budget analysis prepared for session, there are a number of other documents online that you may find helpful in your deliberations:

[Understanding State Finances](#)

## [HB 2 Guide](#)

### Legislative Finance Committee Reports

- [2019 Biennium Budget Status – Dec. 2018](#)
- [Base Budget Report](#) – Sept. 2018
- [Personal Services Report](#) – Sept. 2018
- [Global Motions](#) – Dec. 2018



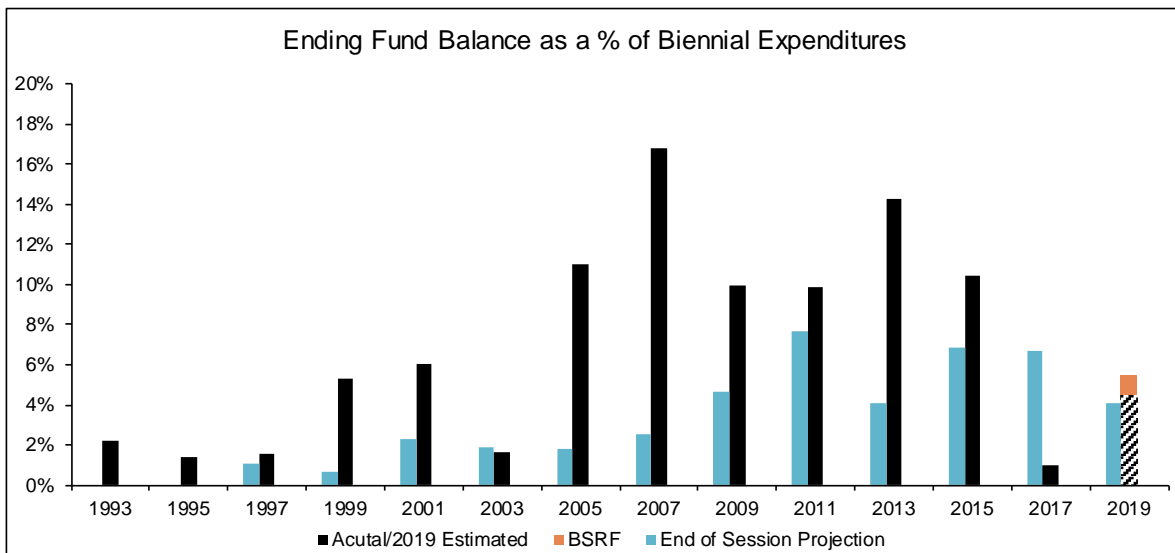
# OVERVIEW

## GENERAL FUND BALANCE 2019 BIENNIUM

The financial challenges faced over the past several years have resolved and the current budget outlook appears to be stable. After the exceptionally low FY 2017 ending fund balance, a combination of adjustments made from the 2017 regular session, triggered reductions in SB 261 and the November 2017 Special Session adjustments have provided a solid ending fund balance, plus a rainy-day fund balance.

When the legislature adjourned in April 2017, general fund revenue for the 2019 biennium as contained in HJ 2 was anticipated to grow to \$198.8 million. After the many changes during the 2019 biennium, the general fund ending fund balance is anticipated to be higher \$211.5 million, which is 4.5% of biennial appropriations. In addition, \$45.7 million or almost 1% has been placed in the Budget Stabilization Reserve Fund.

Prior to the 2009 biennium, budgeting ending fund balances at less than 2% of biennial expenditures were considered normal. From the 2009 biennium through the 2017 biennium, budgeting large ending fund balances was used as a way of managing state financial volatility. In the 2017 session, the legislature adopted short-term and long-term methods of managing volatility that includes recommended general fund balance levels for an operating reserve and a new rainy-day fund known as the [Budget Stabilization Reserve Fund \(BSRF\)](#).



Statute requires 5% of annual appropriations or about \$125 million to be budgeted. For cash flow operating reserve purposes, statute recommends 8.3% or about \$210 million for an anticipated ending fund balance.

Given these values, the 2021 Biennium begins with a fund balance above the statutorily recommended operating reserve, plus another \$45.7 million in the rainy-day fund known as the Budget Stabilization Reserve Fund.

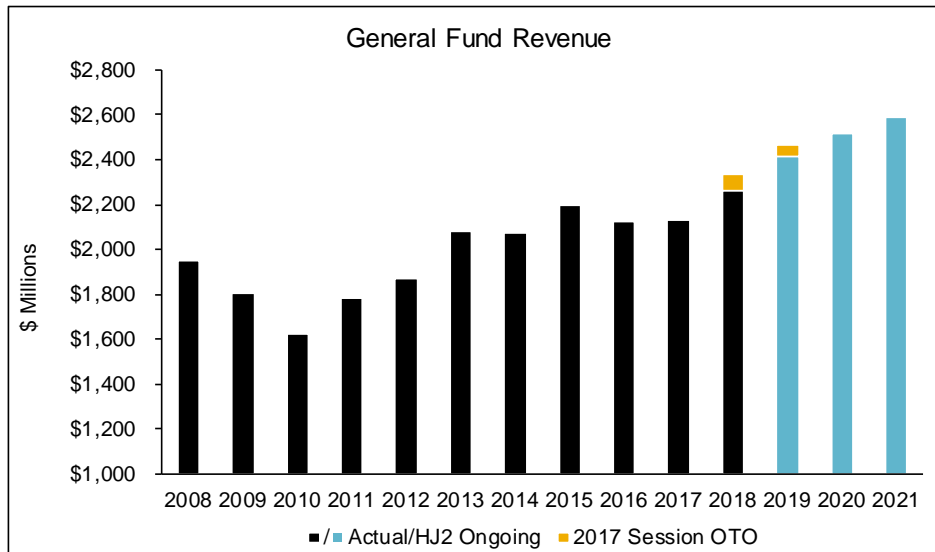
### Annual versus Biennial

**Biennial:** The budget is built for two plus years and anticipated revenue and expenditures for the conclusion of the fiscal year that session takes place, for example it is currently FY 2019 and the revenues and expenditures of FY 2019 will continue through June 30, 2019, plus the revenues and expenditures in from July 1, 2019 to June 30, 2021 are forecast in the biennial budget.

**Annual:** The budget or actual transactions for an individual fiscal year. Statute for measuring budgeted ending fund balance is based on second year appropriations only, so the resulting comparison is roughly twice the size of the biennial comparison.

## GENERAL FUND REVENUES THROUGH THE 2021 BIENNIUM

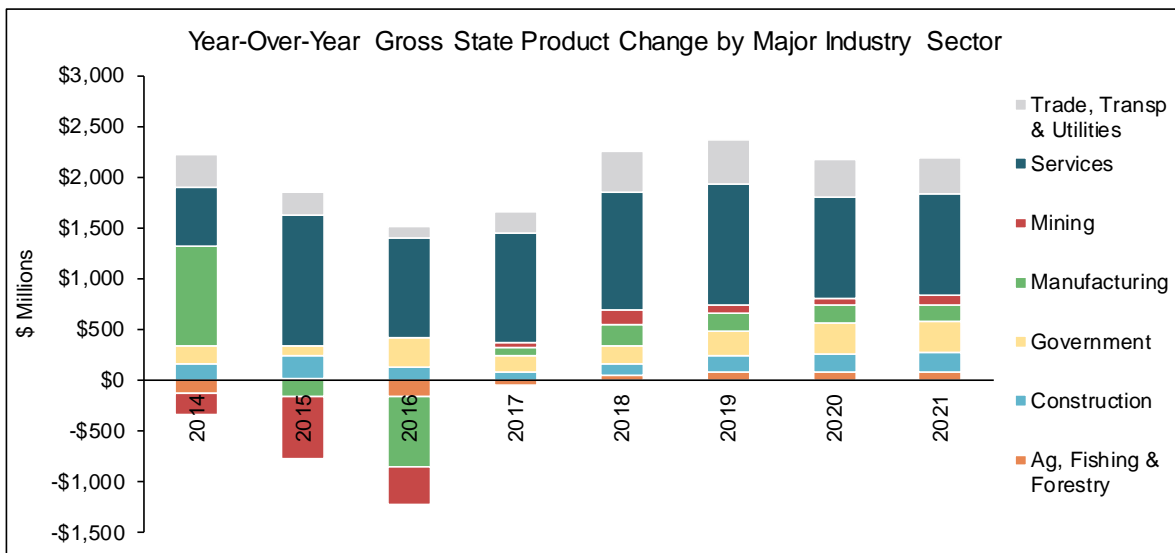
The following bar chart illustrates the annual general fund revenue collections in the past decade and forecast levels through the 2021 Biennium. The revenue declines in FY 2009 and FY 2010 and then again in FY 2016 are apparent from this chart.



Note that the one-time-only revenue in FY 2017 through FY 2019 was primarily used to shore up the decline in ending fund balance in the 2017 biennium shown in the chart on the previous page.

## Economic Trends

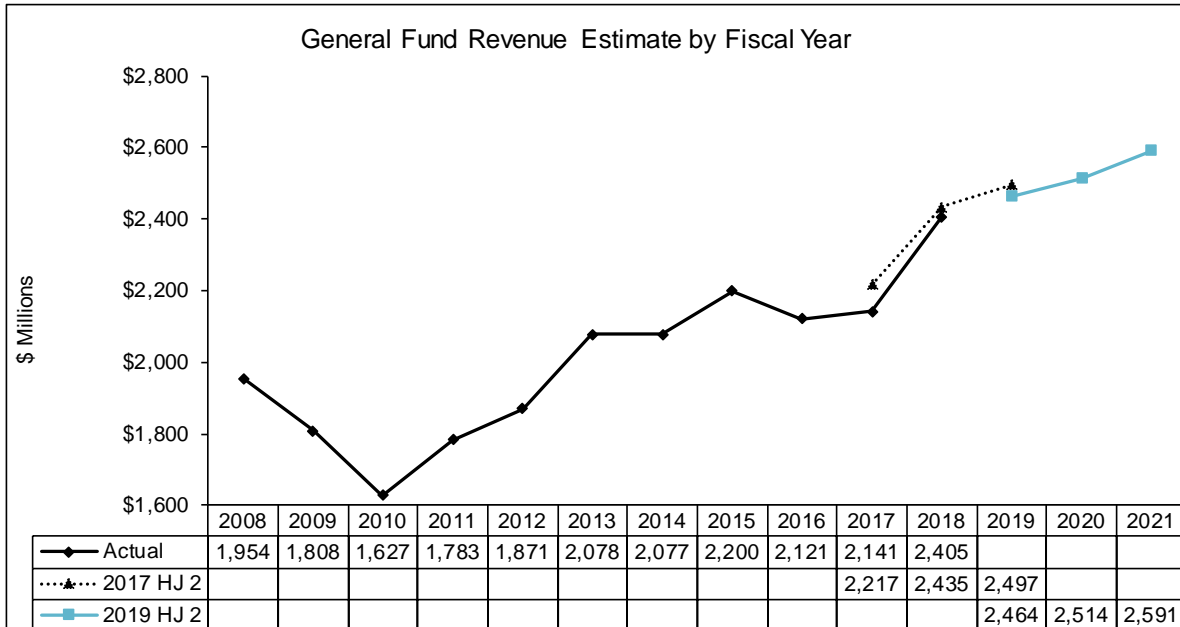
The reduction in revenues in FY 2016 and continued low revenues in FY 2017 can be seen in the economic data as well. The following graphic illustrates the drag on the Montana gross state product (GSP) from the agriculture, mining, and manufacturing industry sectors from calendar year 2014 through 2017. Note that the effect on the economy from calendar year changes tend to primarily impact the following fiscal year.



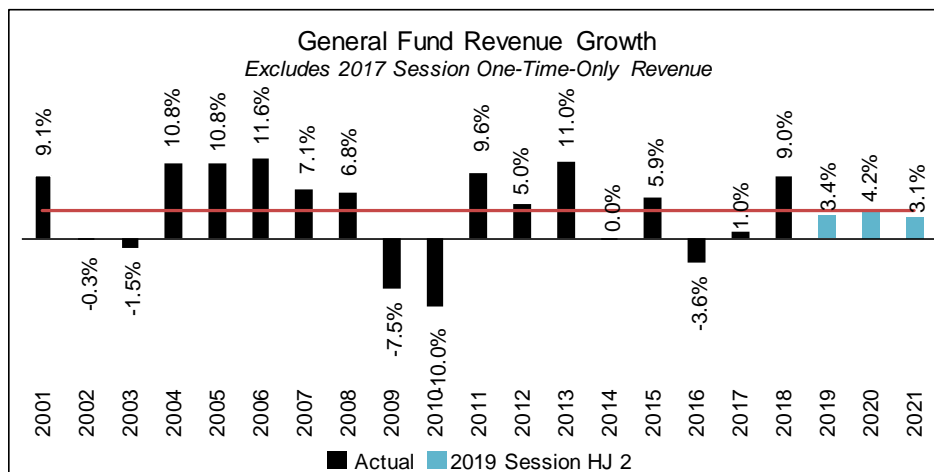
IHS Markit, the economic forecasting data is purchased by the state of Montana, and IHS Markit anticipates moderate nominal growth of the economy of 4-5% in the next several years.

## Anticipated General Fund Revenue Growth

Since the decline in revenue in FY 2016, annual general fund revenue collections have increased. As shown in the chart below, after adjusting for all enacted legislation, FY 2017, FY 2018, and FY 2019 were all 1-3% less than was anticipated last session in the adopted revenue estimate contained in 2017 HJ 2. Most of the difference was due to lower-than-expected growth in individual income tax in FY 2017 that continued to impact FY 2018 collections. The adopted 2019 HJ 2 estimate assumes total collections will remain at the lower level in FY 2019 than anticipated in the 2017 session.



To compare ongoing revenues, the bar chart below has growth stated without the one-time-only revenue of the last few years. Currently, 2019 HJ 2 adopted revenues are anticipated to grow from FY 2018 by 3.4% in FY 2019, 4.2% in FY 2020, and 3.1% in FY 2021. The past 18 years has an average growth rate of 4.2%. The growth anticipated in HJ 2 is modest in comparison to this long term trended growth rate and below the anticipated growth in the economy.

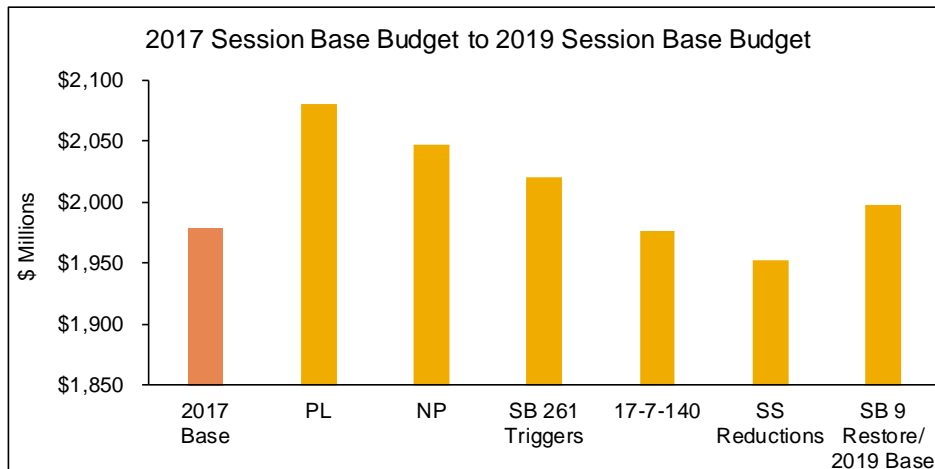


The growth in revenues is below the growth in the economy in part due to the fact that nearly 25% of Montana's general fund revenue sources are expected to be essentially flat or decline from FY 2018 levels throughout the forecast period. For additional information, please refer to the LFD [2021 Budget Analysis](#), Volume 2.

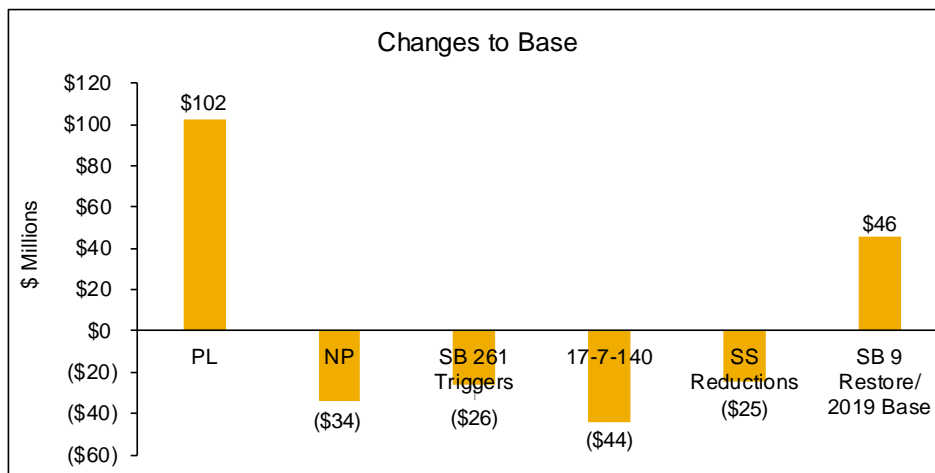
# EXPENDITURES

## Base Budget

The budget is built from the base which is the ongoing HB 2 appropriation levels approved by the previous legislature. Over the course of the past two years, many changes have occurred to impact the base level. The following chart shows the base budget at the beginning of the 2017 session and demonstrates the many changes that occurred from that level to the new 2019 session base budget.



The resulting base budget for HB 2 is 1% or \$20 million more than the base budget in the last session. The many reductions in spending through the several budget reductions and final restoration resulted in this low growth rate. Note this 1% increase is an overall increase level. Specific agencies within the budget will be higher and lower than this amount.



## Present Law Budget

When building the state's budget, the base level of funding is adjusted for present law changes. Statute provides a definition of the present law budget, as the level of funding necessary to maintain current government services. Present law gives the legislature a baseline budget presentation and illustrates the beginning point at which legislative budget decisions are made.

## Present Law Structural Balance

Lower than anticipated revenues in FY 2016 and FY 2017 created a negative structural balance that reduced ending fund balance, but FY 2018 revenues grew, and expenditures were decreased to achieve a positive structural balance. The chart below demonstrates the changes to structural balance.

In the 2021 Biennium the executive's present law budget is less than the anticipated ongoing revenue level. Due to sunsets and one-time designations, this present law level does not include all current services to citizens. The most notable service in this category is the HELP Act (Medicaid expansion).

Some items in present law like the [Children's Health Insurance Program \(CHIP\) costs](#) will

increase in the 2021 biennium. A lower federal match rate for CHIP results in an increase share of state cost of about \$25-35 million and more going forward.

### LFD Analysis of Present Law

Budget building basics: use the base budget and then build the statutorily defined present law base which includes funding for continuation of ongoing programs.

(12) "Present law base" means that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

(a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;

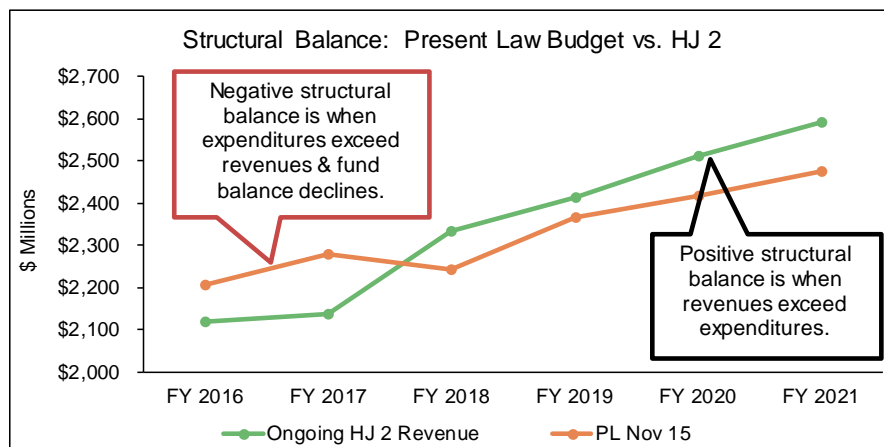
(b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;

(c) inflationary or deflationary adjustments; and

(d) elimination of nonrecurring appropriations.

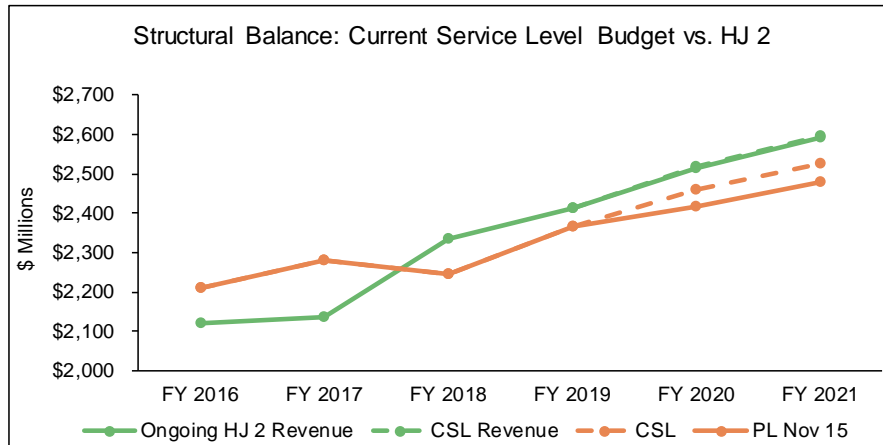
The substantial changes to the budget in the past 2 years as described on the previous page prompted the analysis of the present law for this biennium to be more subjective than usual. Given the reductions, a strict interpretation of present law would, in many cases, yield a lower number than submitted by the executive.

The LFD is preparing an in-depth analysis for the subcommittees to consider during the legislative budget deliberations. A summary of these differences will be available in the final version of the entire [Legislative Budget Analysis](#).



## Current Service Level Structural Balance

Given the size and impact of the HELP Act, it is important to consider the structural balance including this and other current services to citizens.

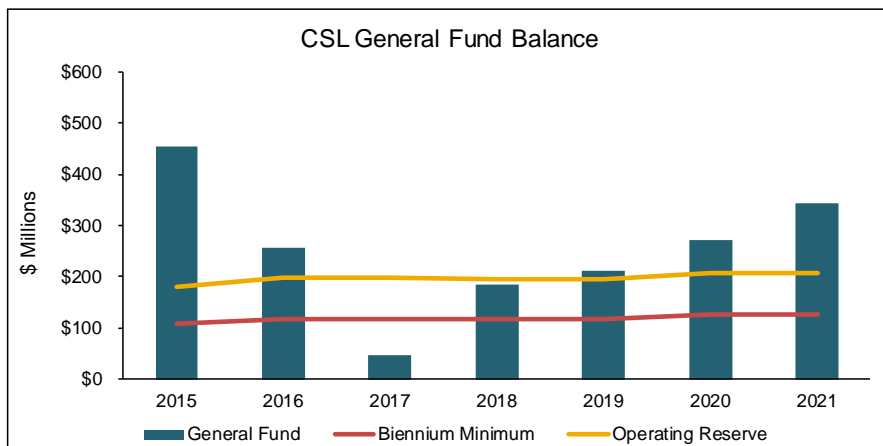


While the costs increase when the HELP Act and other current service items are considered, overall expenditures still remain below the level of anticipated ongoing revenue and the budget remains in structural balance.

## Current Service Level Ending Fund Balance

The chart below illustrates the current service level ending fund balance, the ending fund balance that assumes that the HELP Act continues. The Current Service Level (CSL) ending fund balance for the 2021 Biennium is anticipated to be \$343.8 million. When only present law expenditures are considered, the ending fund balance in FY 2021 would be anticipated to be \$76.5 million higher or \$420.3 million.

This ending fund balance amount is above both the statutory minimum ending fund balance established in [17-7-140, MCA](#) and the recommended operating reserve in [17-7-102, MCA](#). The difference between the actual ending fund balance and the minimum ending fund balance is a financial cushion during the interim for the executive to manage the budget if revenues come in lower than anticipated.



## General Fund Measurement

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

### Structural Balance

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

### Ending Fund Balance

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

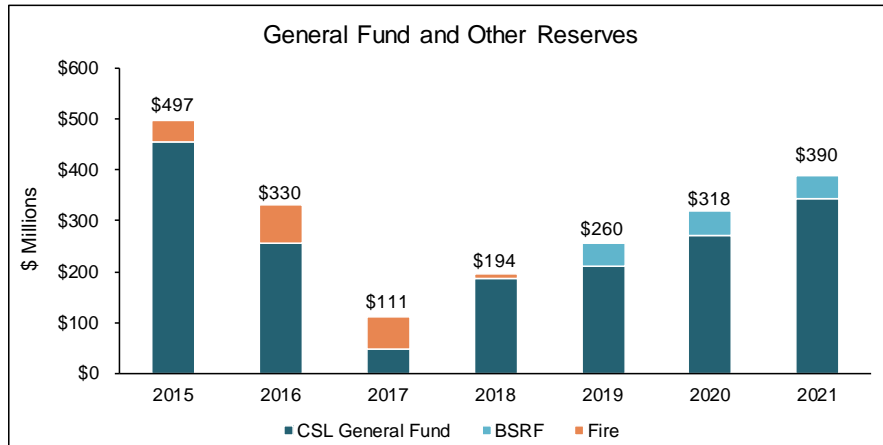
The [statutory minimum](#) projected ending fund balance is 5% of the second-year appropriations or approximately \$125 million.

### Operating Reserve

The [statutorily recommended](#) operating reserve for projected ending fund balance is 8.3% of the second-year appropriations or approximately \$210 million.

## Mitigating Expenditure and Revenue Risk

To better understand the ability of the state to mitigate both expenditure and revenue risk, a look at all reserve funds is helpful. The following chart illustrates not only the general fund ending fund balance, but also the fire fund ending fund balance in orange and the Budget Stabilization Reserve Fund (BSRF) in light blue.



At present, the fire fund ending fund balance is anticipated to be less than \$3.0 million at the end of FY 2019. Deposits into the fire fund are dependent on reversions of unspent appropriations from FY 2019 and each year after. This low fund balance may be of concern to the legislature. The Governor has proposed transfers into the fire fund. This is further described on page 17.

New to the Montana budget is the Budget Stabilization Reserve Fund (BSRF) which was established by the 65<sup>th</sup> Legislature. Currently \$45.7 million is in the BSRF and can be used either statutorily by the Governor or the legislature to mitigate risks to the general fund.

## Present Law and Current Service Level Budget

The following table summarizes the present law budget and includes the current service level increases described earlier. Present law includes LFD estimates for statutory appropriations and non-budget transfers. Statutory appropriation present law estimates are calculated without the HELP Act (Medicaid expansion), as this legislation is set to sunset on June 30, 2019. LFD assumes a higher standard reversion than the Governor's Office of Budget and Program Planning.

Current service level adds the cost of continuing Medicaid expansion and economic development, continues the STARS pre-school program, and includes costs for current service level services like Indian Country Economic Development, Native Language Preservation, and Digital Academy, all services that have been in multiple biennia budgets as one-time-only.

| General Fund Balance Sheet - Present Law and Current Service Level                     |                   |                      |   |   |
|--|-------------------|----------------------|---|---|
| Includes HJ 2 Estimates as Adopted by the Revenue and Transportation Interim Committee |                   |                      |   |   |
| (\$ Millions)  |                   |                      |   |   |
|  | Actual FY<br>2018 | Estimated<br>FY 2019 | Present Law &<br>Current Service FY<br>2020 | Present Law &<br>Current Service FY<br>2021 |
| Beginning Fund Balance   | \$47.933          | \$185.795            | \$211.452                                   | \$306.769                                   |
| Revenues   |                   |                      |   |   |
| Actual & Adopted HJ 2 by RTIC (Nov 2018)   | 2,333.618         | 2,412.503            | 2,513.558                                   | 2,590.661                                   |
| OTO  | 77.061            | 51.024               |   |   |
| Prior Year Adjustments - revenue   | 1.638             |                      |   |   |
| Total Revenue Funds Available  | 2,460.250         | 2,649.322            | 2,725.010                                   | 2,897.430                                   |
| Expenditures - Ongoing   |                   |                      |   |   |
| Statutory Approps  | 316.360           | 336.675              | 283.802                                     | 289.443                                     |
| General Fund Transfers   | 19.857            | 21.055               | 17.988                                      | 18.423                                      |
| HB 2 language appropriations   |                   | 0.050                | 0.050                                       | 0.050                                       |
| HB 2 Agency Budgets - Present Law FY 2019-2021   | 1,904.347         | 2,003.024            | 2,120.937                                   | 2,165.077                                   |
| HB 1   | 2.401             | 10.172               | 2.713                                       | 11.494                                      |
| Other Appropriations   | 0.068             | 2.193                |   |   |
| Reversions   |                   | (7.120)              | (7.276)                                     | (7.453)                                     |
| Ongoing Expenditures   | 2,243.033         | 2,366.050            | 2,418.214                                   | 2,477.034                                   |
| OTO  |                   |                      |   |   |
| HB 2 Agency Budgets  | 12.992            | 14.351               | 0.027                                       | 0.077                                       |
| Supplemental Appropriations  | 3.320             | 11.748               |   |   |
| Special Session SB 9 Budget Stabilization Transfer                                     |                   | 45.721               |   |   |
| Fire Fund Transfers  | 25.309            |                      |   |   |
| Other Appropriations   | 2.031             |                      |   |   |
| Other, including carry forward   | 0.846             |                      |   |   |
| Total Present Law Expenditures   | 2,287.530         | 2,437.870            | 2,418.241                                   | 2,477.111                                   |
| Other adjustments  | 2.295             |                      |   |   |
| Adjustments - Prior Year expenditures  | (10.781)          |                      |   |   |
| CAFR Adjustments   |                   |                      |   |   |
| Ending Fund Balance - Present Law FY 2019-FY 2021                                      | \$185.795         | \$211.452            | \$306.769                                   | \$420.319                                   |
| Current Service Level Revenues   |                   |                      | 5.200                                       | 5.300                                       |
| Current Service Level Expenditures   |                   |                      | 39.739                                      | 47.236                                      |
| Present Law Structural Balance (ongoing revenues minus ongoing expend                  | \$167.646         | \$46.453             | \$95.344                                    | \$113.627                                   |
| Assumptions: HB 638 (2017 regular session) has been funded in the base budget.         |                   |                      |   |   |

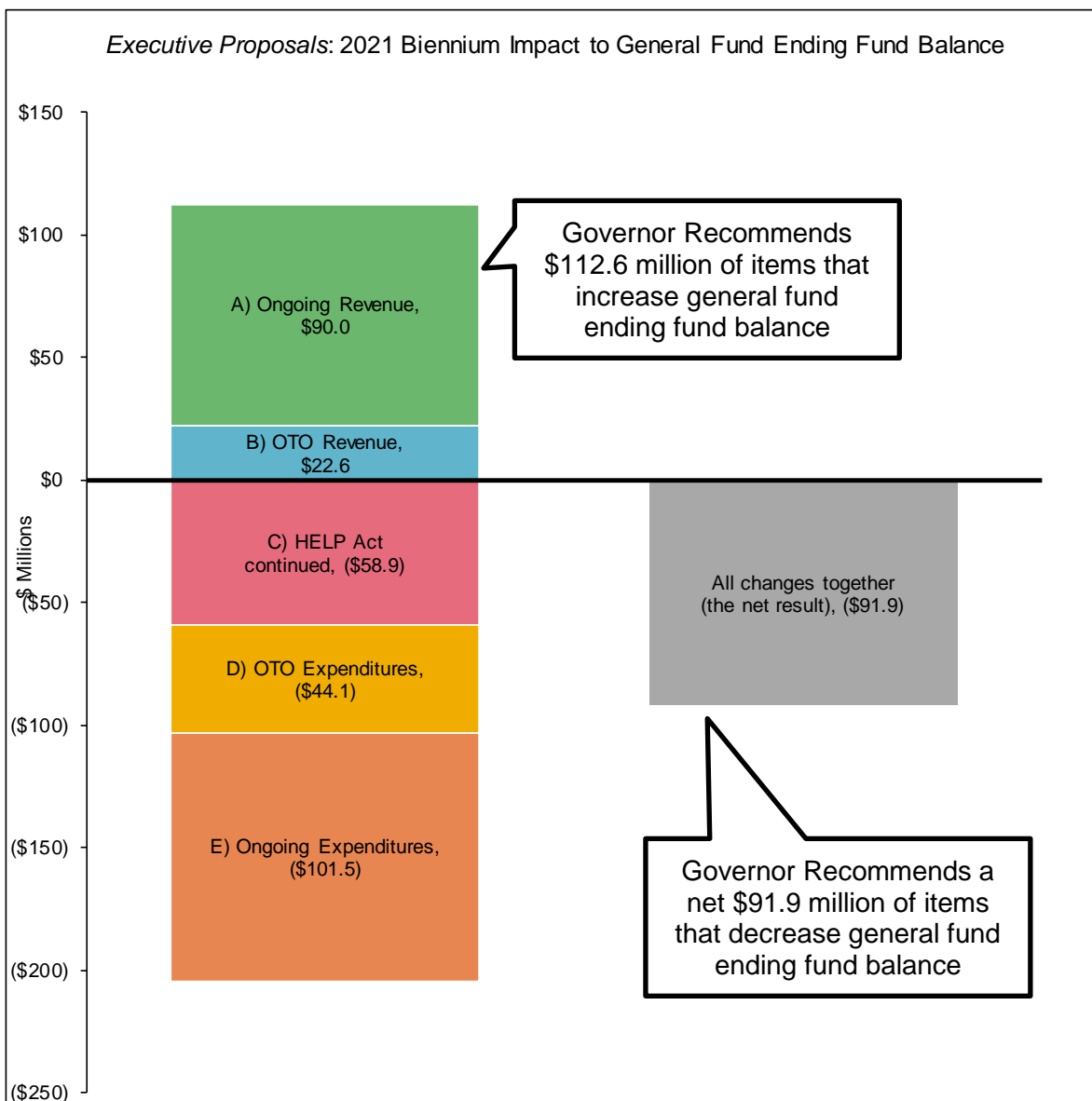


# GOVERNOR BULLOCK'S GENERAL FUND BUDGET PROPOSALS

The present law ending fund balance is balance is anticipated to be \$420.3 million with a positive structural balance of \$113.6 million.

The graphic illustrates groups of components of the Governor's recommendations of new proposals for the general fund budget and each groups' impact on the general fund balance. Increases in revenue, including transfers, increase ending fund balance by \$112.6 million. Increases in spending of \$204.6 million decrease ending fund balance. The result is a net decrease to ending fund balance of \$91.9 million.

The executive ending fund balance is projected to be \$305.2 million at the end of FY 2021. To tie the present law ending fund balance on the previous page to the Governor's recommended ending fund balance, the difference in the budget details also need to be included. See page 17 for details.



## KEY GOVERNOR RECOMMENDED NEW PROPOSALS

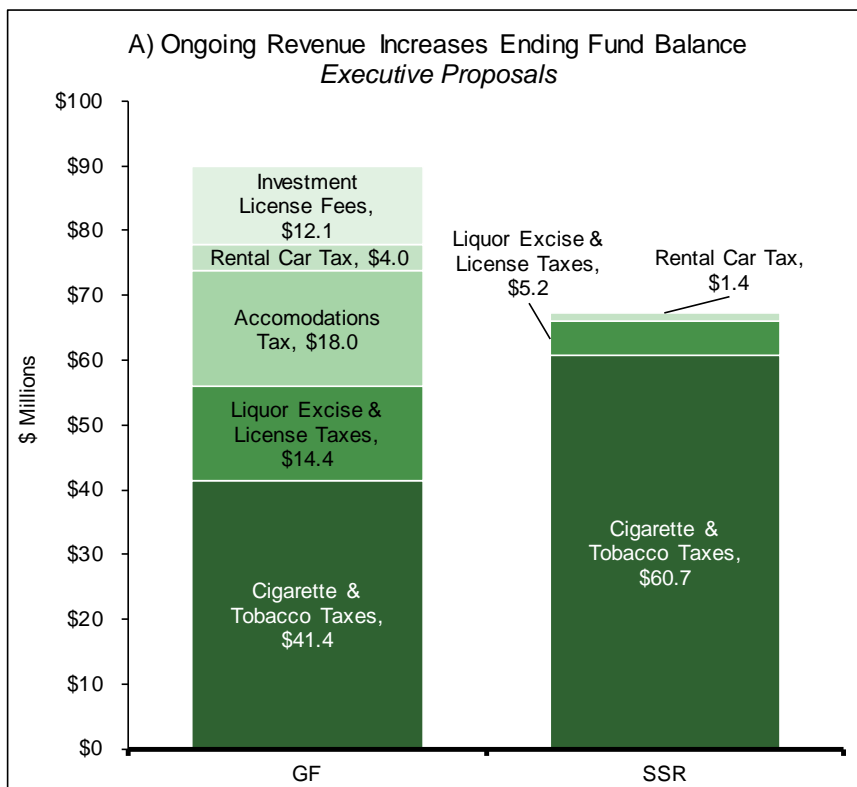
### A) Ongoing Revenue Increases: \$90 million general fund and \$67 million state special funds

The Governor proposes increasing tax revenue in a variety of ways. The largest revenue generating increases are in consumption taxes with a combined general fund and state special fund increase of \$121.7 million over the 2021 biennium. Other increases in lodging tax, rental car tax, and investment license fees would generate an additional combined general fund and state special revenue fund of \$37 million over the 2021 biennium.

#### Consumption Tax Increases

The executive proposals related to consumption taxes include:

- Increasing liquor excise tax, from 16% to 20.8%
- Increasing liquor license tax, from 10% to 13%
- Increasing the cigarette tax by \$1.50 per pack from \$1.70 to \$3.20
- Increasing the tax on moist snuff by \$1.82 per ounce, from \$0.85 to \$2.67
- Increasing other tobacco product taxes from 50% of the wholesale price to 94%
- Making e-cigarette juice or other vapor consumption products taxable
- Reducing the insignia discount for wholesalers

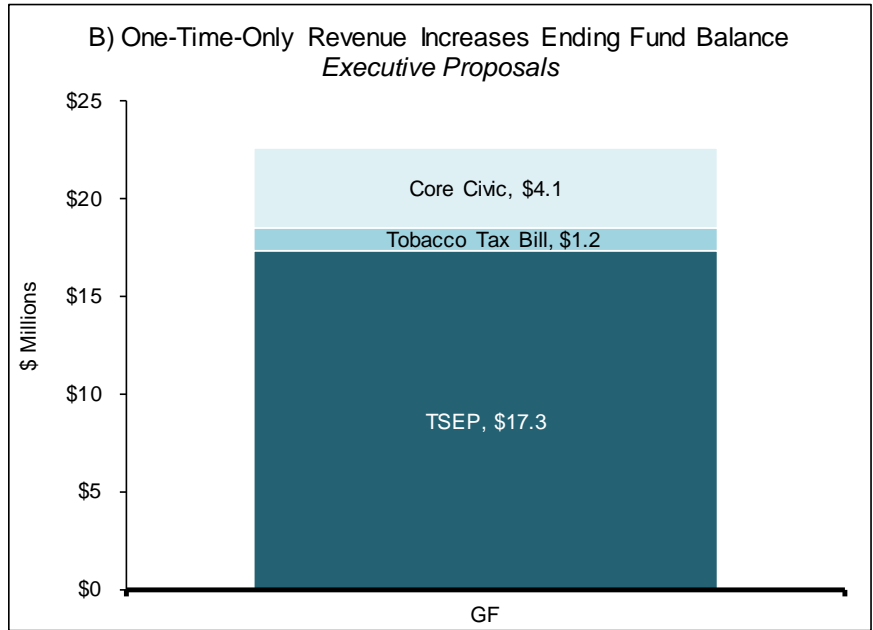


Further information on the executive revenue proposals, including comparisons with other states, is provided in the revenue section of this report.

### B) Other One-time-Only Revenue, and Transfers into the General Fund from Other Funds: \$23 million one-time increase to ending fund balance

Transfers into the general fund do not increase revenue to the state, but reduce money in one fund and move it to another. The Governor recommends \$23 million of transfers into the general fund from several sources to increase the general fund balance. The Governor recommends replacing some of the transferred funds with state bonding.

- Transferring \$17.3 million from the Treasure State Endowment Program local government infrastructure programs and replacing this with bonds
- \$1.2 million of funding connected to the tobacco tax increase described under A) Ongoing Revenue
- Transferring \$4.1 million from the Core Civic Agreement funds negotiated by the Governor and set aside in accordance with SB 9 of the November 2017 Special Session



**C) HELP Act Continuation**

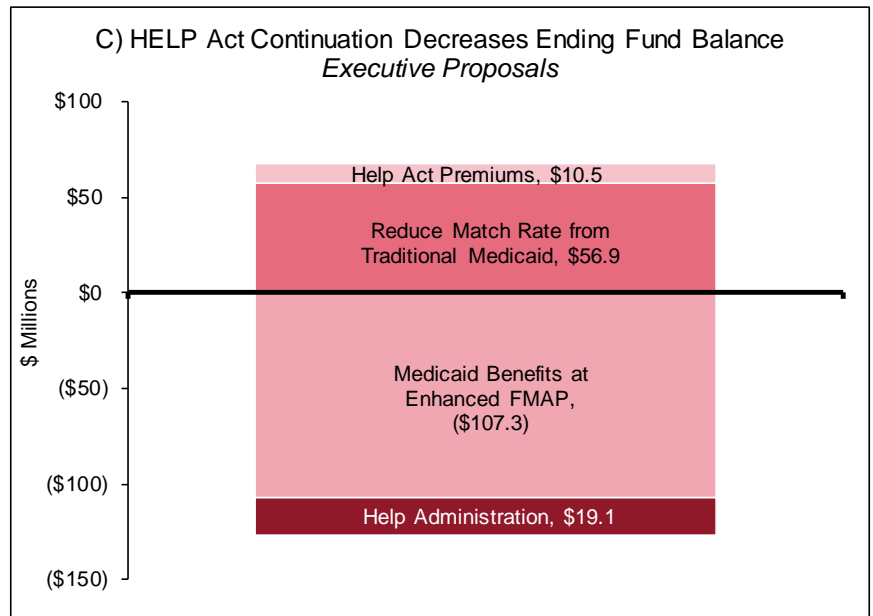
The Governor recommends continuation of the HELP Act. Several components adjust the present law budget to continue the HELP Act.

Components that improve general fund balance include:

- Save \$56.9 million from traditional Medicaid benefits covered under the HELP Act
- Collect \$10.5 million in premiums from participants that offsets state general fund costs

Components that decrease general fund balance:

- \$19.1 million to Administer the HELP Act
- \$107.3 million to cover the general fund share of benefits provided under the HELP Act



## Current Service Level Projections for HELP Act Medicaid Expansion

This section provides a closer look at HELP Act projections if continued in the 2021 biennium. Under present law, the HELP Act, which authorizes Medicaid expansion in Montana, ceases to exist after June 30, 2019. The table below summarizes the current status of HELP Act expenditures, along with costs associated with either allowing Medicaid expansion to lapse, or continuing the program in a similar manner.

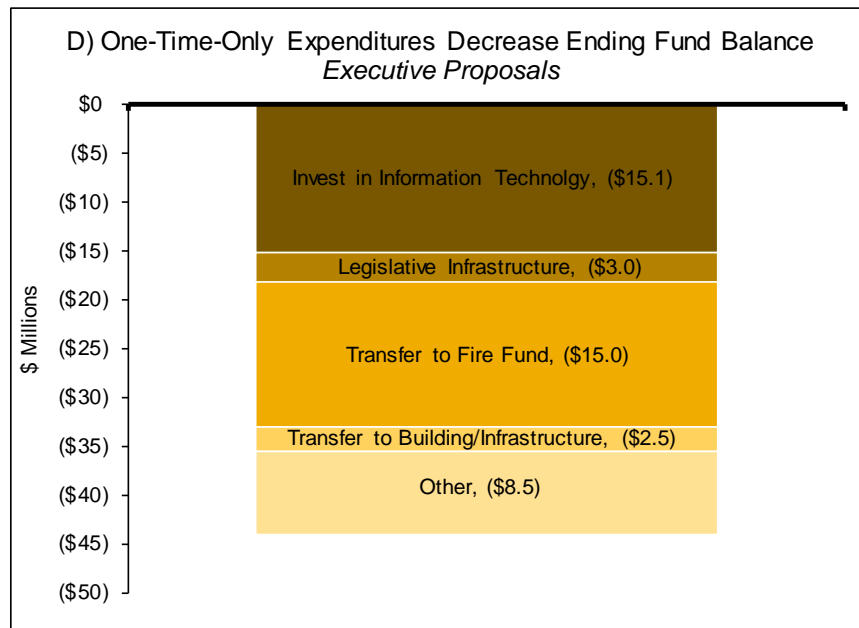
The executive has included a present law general fund increase in the 2021 biennium budget recognizing there are individuals currently covered by the higher federal match under Medicaid expansion that will have to be covered under traditional Medicaid without expansion. The cost included in the proposed budget for this group totals \$56.9 million general fund for the biennium, which is \$69.4 million less than the projected general fund cost of Medicaid expansion totaling \$126.4 million. To understand the net cost of continuing Medicaid expansion beyond this population, the projected revenues from the premiums also serve as an offset, with the result being \$58.9 million of additional general fund as the net cost of Medicaid expansion in the 2021 biennium.

| HELP Act Medicaid Expansion Expenditures<br>(\$ Millions)                             |                  |                  |                  |                                |                    |                  |
|---|------------------|------------------|------------------|--------------------------------|--------------------|------------------|
|   | FY 2016          | FY 2017          | FY 2018          | DPHHS<br>Estimate <sup>1</sup> | Executive Proposal |                  |
|   |                  |                  |                  | FY 2019                        | FY 2020            | FY 2021          |
| <b>General Fund</b>   |                  |                  |                  |                                |                    |                  |
| Administration  | \$4.177          | \$8.535          | \$10.672         | \$8.494                        | \$9.382            | \$9.796          |
| Benefits & Claims   | <u>1.426</u>     | <u>16.275</u>    | <u>31.962</u>    | <u>40.215</u>                  | <u>50.003</u>      | <u>57.195</u>    |
| Subtotal  | 5.603            | 24.811           | 42.634           | 48.708                         | 59.384             | 66.991           |
| <b>Federal Funds</b>  |                  |                  |                  |                                |                    |                  |
| Administration  | 8.004            | 7.882            | 11.653           | 9.584                          | 11.675             | 12.976           |
| Benefits & Claims   | <u>129.058</u>   | <u>541.639</u>   | <u>661.335</u>   | <u>721.259</u>                 | <u>666.510</u>     | <u>672.630</u>   |
| Subtotal  | 137.062          | 549.522          | 672.988          | 730.843                        | 678.185            | 685.606          |
| <b>Grand Total</b>  | <b>\$142.665</b> | <b>\$574.332</b> | <b>\$715.622</b> | <b>\$779.551</b>               | <b>\$737.570</b>   | <b>\$752.597</b> |
| <b>2021 Biennium General Fund Summary of Medicaid Expansion</b>                       |                  |                  |                  |                                |                    |                  |
| Cost shift to Traditional Medicaid (HELP Act sunset)<br>*as proposed by the executive |                  |                  |                  |                                | 28.410             | 28.519           |
| Difference between projected expansion and cost shift                                 |                  |                  |                  |                                | (30.974)           | (38.472)         |
| Premium Revenues <sup>2</sup>   |                  |                  |                  |                                | 5.200              | 5.300            |
| <b>Net general fund cost to expand Medicaid</b>                                       |                  |                  |                  |                                | <b>\$25.774</b>    | <b>\$33.172</b>  |
| <sup>1</sup> As reported in the November DPHHS Budget Status Report                   |                  |                  |                  |                                |                    |                  |

## D) One-time Only Expenditures

The Governor recommends the following one-time-only expenditures.

- Invest \$15.1 million in Information Technology projects in Department of Health and Human Services, Department of Natural Resources and Conservation, and the Statewide Information Technology Cyber Security
- Invest \$3 million in Legislative Information Technology and other Infrastructure
- Transfer \$2.5 million Long-Range building fund to for fund balance for building and infrastructure investments
- \$15 million transfer to fire fund to add fund balance
- Other: including \$1.8 million for the Good Neighbor Natural Resources Program; \$1.6 million Pretrial program, Continue the \$1.7 million Digital Academy investment, and \$1.8 million for start-up costs for Pre-school

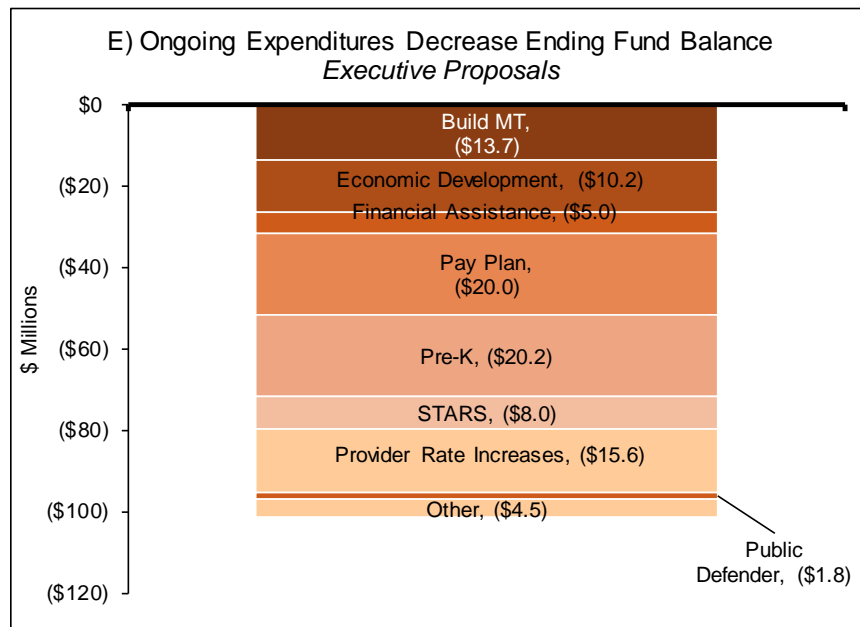


## E) Ongoing Expenditures

The executive recommends the following ongoing expenditure increases from present law:

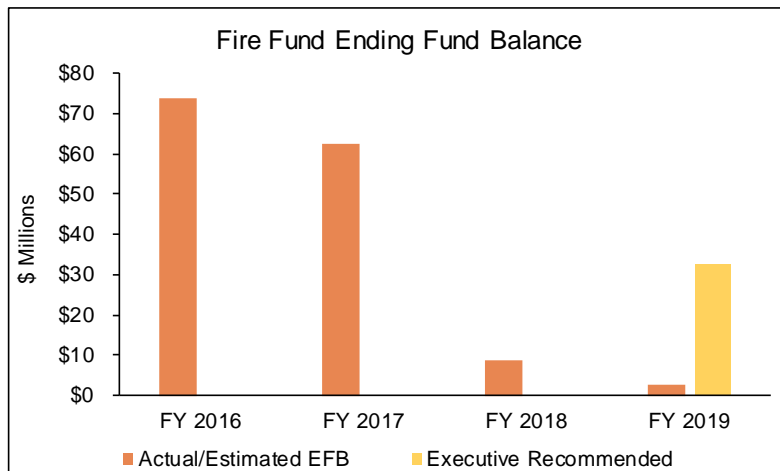
- The Infrastructure in Montana proposal by the executive includes bonding, increases present law general obligation debt by \$13.7 million (executive estimate) in the 2021 biennium. More information is detailed in the long-range planning section of the [2021 biennium budget analysis in Sec. F](#).
- The executive proposal to extend the sunset date and increase the appropriation for the statutorily appropriated economic development programs within the Department of Commerce, increases present law by \$10.2 million for the 2021 biennium
- The executive has proposed \$5.0 million for financial assistance match for the Commissioner of Higher Education
- Pre-school: the executive has proposed two separate initiatives to provide preschool opportunities in Montana. The first is an expansion of a pilot program offered in the 2019 biennium on a one-time-only basis, requesting \$8.0 million general fund in DPHHS to provide access to varied classrooms, including private entities. The second is a request for \$20.2 million general fund in OPI for a voluntary public preschool program statewide. The one-time-only amount for start-up costs is referenced above in that section of this report.

- Provider Rate Increases: the executive has generally requested a provider rate increase of 0.91% in FY 2020 and 1.83% in FY 2021
- Public Defender: the executive has requested \$1.8 million to provide pay ladder adjustments for attorneys
- Pay plan
  - Increases in pay for individuals
  - Personal services contingency of \$2.0 million general fund to allow the executive cover personal services funding shortfalls
  - Technical changes anticipated for the Dec 15 submittal



## FIRE FUND SUMMARY

Over the past few years, the fire fund ending fund balance has decreased substantially, due both to transfers from the fire fund to the general fund and fire costs. The executive recommends increasing the ending fund balance of the fire funds with two transfers: a \$15.0 million transfer from the general fund; and a transfer of \$15.0 million from the state special fund of the negotiation of the contract extension of Core Civic and from funds set aside from SB 9 of the November 2017 Special Session.



Beginning with the close of FY 2019, the reversion transfers from the state general fund to the fire fund will restart after the action of the last session temporarily ended these transfers. These transfers along with the executive recommended transfers in will likely be sufficient to cover average biennial fire costs of about \$50.0 million.

## GOVERNOR'S BUDGET WRAP UP

### Budget Assumption Differences

The Governor's budget makes several assumptions on present law fund balance that are different than the Legislative Fiscal Division. The following summarizes these differences.

| Present Law Differences FY 2019 - FY 2021  |                 |
|--|-----------------|
| \$ Millions  |                 |
| Executive present law revenues vs adopted HJ 2 revenues (exec estimates more revs) | \$22.830        |
| HB 2 Language Appropriations   | (0.150)         |
| Statutory Appropriations pl only   | (6.117)         |
| Non-budgeted Transfers   | (0.098)         |
| Reversion estimates (executive not using standard calculations)                    | 6.721           |
| <b>Total Difference</b>  | <b>\$23.186</b> |

The largest single disparity is the difference between the executive's revenue estimates and HJ 2 adopted by the Revenue and Transportation Interim Committee in November 2018, which the LFD is required to use on the present law balance sheet. Other minor differences are shown in the table.

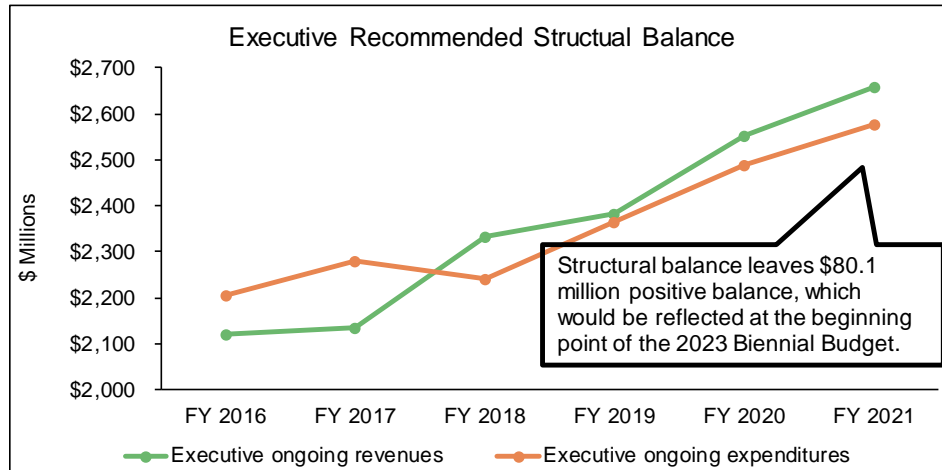
### Budget Change Differences

At the time of print deadlines in late November, the Legislative Fiscal Division has not received all the bills associated with the Governor's new proposals. These proposals should be available and the LFD should be able to analyze them for the final edition of this volume.

At present the LFD is aware of minor changes that will occur to the balance sheet on December 15. The LFD will continue to analyze these and other information as it becomes available and in the Final Volume 1 of the Budget Analysis.

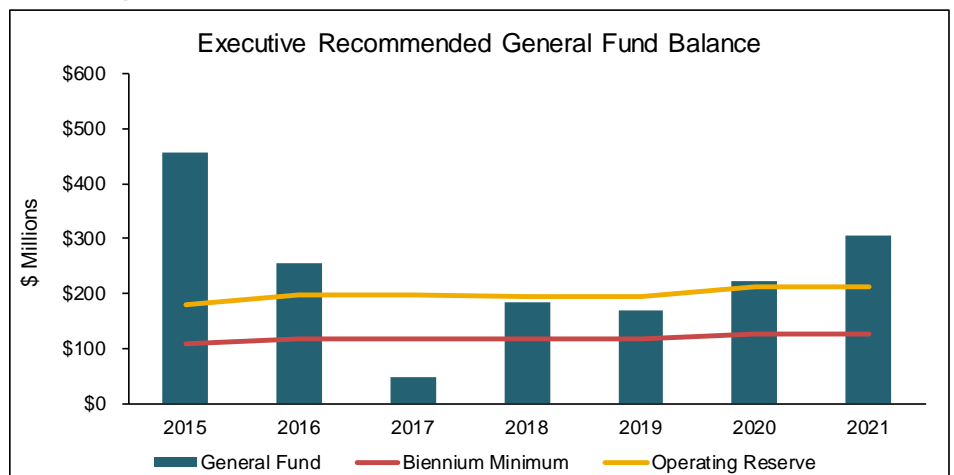
## Governor's Recommended Structural Balance

The Governor's budget leaves a solid structural balance available for the 2021 session. Legislators and the Governor would have a structurally positive budget that would give the next Legislature and the Governor the ability to increase spending or decrease taxes in the 2023 biennium.



## Executive Recommended Ending Fund Balance

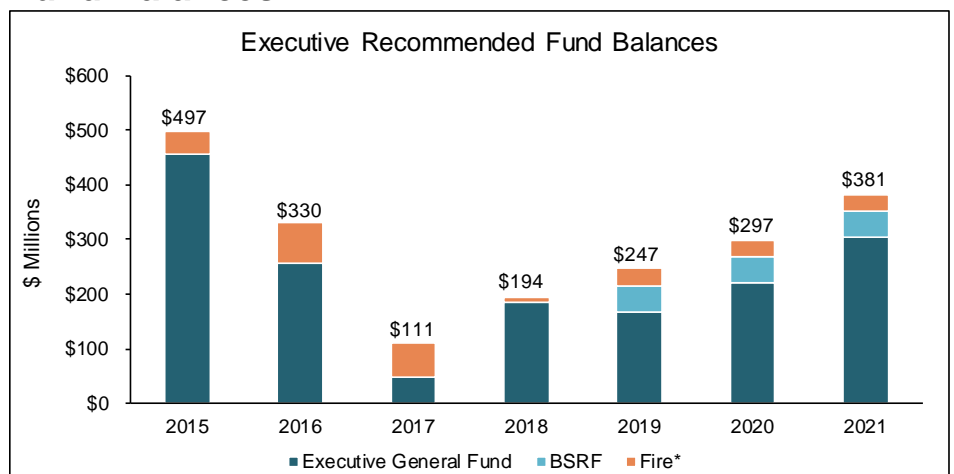
Governor recommends an ending fund balance of \$305.2 million or 11.9% of second year annual appropriations by the end of FY 2021. This level is \$180.0 million or 6.9% above the statutory minimum and \$93.0 million or 3.6% above the statutory recommended operating reserve.



## Executive Recommended Fund Balances

In addition to the general fund balance, the Governor recommends balances in the fire fund and the Budget Stabilization Reserve Fund. The following graphic compare recent balances to the executive recommendation.

\*Note that for comparison purposes the fire fund balance is shown to continue at the level that the executive recommends in addition to present law. It is unknown what the actual fire fund balance will be due to unknown transfers in from appropriation reversions and actual fire expenditures.





## Governor's Recommended Budget

With the Governor's assumptions and estimates for present law and new proposals the following spreadsheet summarizes his budget recommendation.

| Governor's Proposed General Fund Balance Sheet  |                   |                      |                      |                      |
|---|-------------------|----------------------|----------------------|----------------------|
| (\$ Millions)   |                   |                      |                      |                      |
|   | Actual FY<br>2018 | Estimated<br>FY 2019 | Estimated<br>FY 2020 | Estimated<br>FY 2021 |
| Beginning Fund Balance  | \$47.933          | \$185.795            | \$168.527            | \$221.542            |
| Revenues  |                   |                      |                      |                      |
| Actual/Governor's Office Estimates (different than HJ 2)  | 2,405.447         | 2,434.174            | 2,506.157            | 2,604.585            |
| LC# 1369 Proposed Accommodations & Rental Car Sales Tax Increase  |                   |                      | 10.639               | 11.395               |
| LC# 1371 Investment License Increase  |                   |                      | 6.011                | 6.124                |
| LC# 1372 Proposed Liquor Excise & License Tax Increase  |                   |                      | 7.044                | 7.361                |
| LC# 1373 Proposed Cigarette & Tobacco Products Tax Increase   |                   |                      | 17.689               | 23.756               |
| HB 11 Treasure State Endowment Program Transfer-in  |                   |                      | 8.513                | 8.819                |
| Third Party Administrator Premiums if HELP Act extended (OBPP estimates)  |                   |                      | 5.200                | 5.300                |
| Core Civic Re-negotiated Contract   |                   |                      | 4.100                | -                    |
| Other   |                   |                      | 1.600                | (0.409)              |
| Prior Year Adjustments - revenue  | 1.638             |                      |                      |                      |
| <b>Total Revenue Funds Available</b>  | <b>2,455.018</b>  | <b>2,619.969</b>     | <b>2,735.480</b>     | <b>2,888.473</b>     |
| Expenditures  |                   |                      |                      |                      |
| HB 2  | 1,917.538         | 2,017.375            | 2,123.233            | 2,176.445            |
| Statutory Appropriations (executive estimates 2021 biennium)  | 316.360           | 333.095              | 345.608              | 357.206              |
| General Fund Transfers (executive estimates 2021 biennium)  | 19.503            | 21.050               | 19.265               | 19.603               |
| Other Appropriations  | 2.948             | 2.193                |                      |                      |
| Budget Stabilization Reserve Transfer   |                   | 45.721               |                      |                      |
| Fire Fund Transfer  | 25.309            |                      |                      |                      |
| HB 1  | 2.401             | 10.172               | 2.713                | 11.494               |
| HB 3 & HB3 Proposed FY 2019   | 3.320             | 11.748               |                      |                      |
| HB 3 Proposal for transfer to fire fund   |                   | 15.000               |                      |                      |
| HB 5 Proposal for transfer to Long Range Building for Projects  |                   |                      | 2.500                |                      |
| HB 10 Proposal for transfer to long range IT program  |                   |                      | 15.113               |                      |
| HB 13 Proposal Employee Pay Plan Increase   |                   |                      | 6.764                | 13.274               |
| HB 14 Proposal OBPP General Obligation Debt Estimates   |                   |                      | 3.530                | 10.180               |
| LC# 482 Proposal for OPI to Administer Quality Educator Loan Assistance Program   |                   |                      | 0.250                | 0.250                |
| Reversions  |                   | (4.913)              | (5.038)              | (5.177)              |
| Total Expenditures  | <u>2,287.379</u>  | <u>2,451.442</u>     | <u>2,513.938</u>     | <u>2,583.275</u>     |
| Other adjustments   | 7.375             |                      |                      |                      |
| Adjustments - Prior Year expenditures   | (10.781)          |                      |                      |                      |
| Ending Fund Balance   | \$185.795         | \$168.527            | \$221.542            | \$305.198            |
| 1. Please note: The executive reversions are unusually low calculations and not the standard 0.3% of ongoing appropriations. 2. Minor technical differences: HB 13 calculations for general fund actually total \$21.575 for the biennium, not \$20.038 as included on executive balance sheet. |                   |                      |                      |                      |

## CHOICES FOR MANAGING VOLATILITY

The Governor has requested a return to a higher ending fund balance of 11.9% instead of the 8.3% of second year appropriations recommended in statute. Higher ending fund balances give the executive a higher cushion against declining revenue before action is required by statute.

As shown on the chart to the right, general fund revenues are volatile. While there are always risks to revenue collections, the HJ 2 revenue estimate is below the long-term rate of growth.

The complete Montana package for managing volatility can be found in the [March 2018 report](#) of the LFD to the Legislative Finance Committee. This report explains Montana's tools and compares Montana's tools to other states' practices. A portion of these tools are new and were adopted in the 2017 session.

### New Tools

Newly adopted tools for managing volatility include:

#### ***Operating Reserve***

Recommended operating reserve level of general fund balance at 8.3% of second year appropriations that will help manage cash flow in the general fund.

#### ***Rainy Day Fund: Budget Stabilization Reserve Fund***

Montana now has a rainy day fund called the Budget Stabilization Reserve Fund (BSRF). The differences between a rainy day fund and general fund ending fund balance are: 1) rainy day funds limit the Governor's immediate access to reserved funds so that a combination of spending reductions and rainy day fund transfers can occur at the same time and 2) rainy day funds have statutory provisions that determine when deposits are made into the fund and when they can be withdrawn. In general, deposits are made into the BSRF when revenues are higher than trend so that BSRF funds may be balanced when revenues are lower than anticipated.

#### ***Multi-year financial plan***

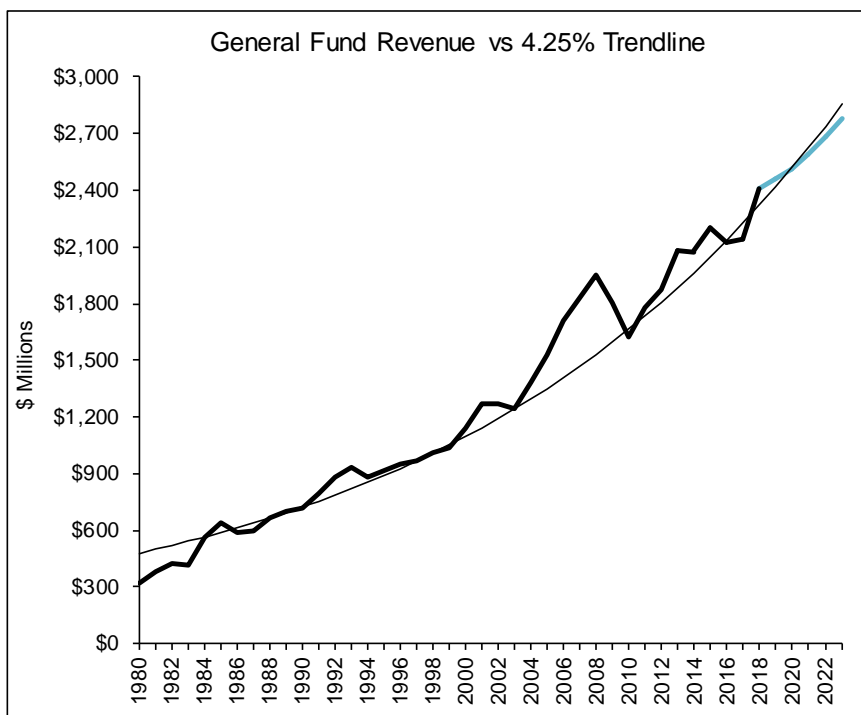
The Legislative Fiscal Division will track and report a four-year budget at certain times to the legislature in an effort to extend the outlook and number of years considered in the budget.

#### **Additional Tools to Consider**

The legislature could also adopt the following tools for managing volatility:

#### ***Prioritized Spending Plan***

Develop a prioritized spending plan to identify reductions ahead of time. The legislature could identify specific items or programs that could be reduced at legislative direction if revenues do not meet expectations.



## ***Debt Management Policy***

Develop a full debt management policy that sets limits and policies for debt repayment when funds are available and sets maximum debt levels to manage when cash is short. A policy of this type would also include regular state reporting on the current debt. The Governor has recommendations for bonding in this biennium, but has not recommended a long-term debt policy.

## ***Pay as You Go Infrastructure***

The legislature could develop a long-term plan for “pay as you go infrastructure funding” when budget and revenue levels permit, and bonding when revenues cannot support it. The first step in this direction was the passage of SB 43 during the 2017 session, which put in place a facility condition assessment program to identify, track, and prioritize deferred maintenance needs within state-owned buildings and campuses. Information gathered through this process will be available for legislative consideration in determination of ongoing funding levels, as well as balancing investments in new infrastructure with the obligation of preserving and maintaining the capital assets the state already owns.

## **EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING**

### **Infrastructure in Montana Proposal**

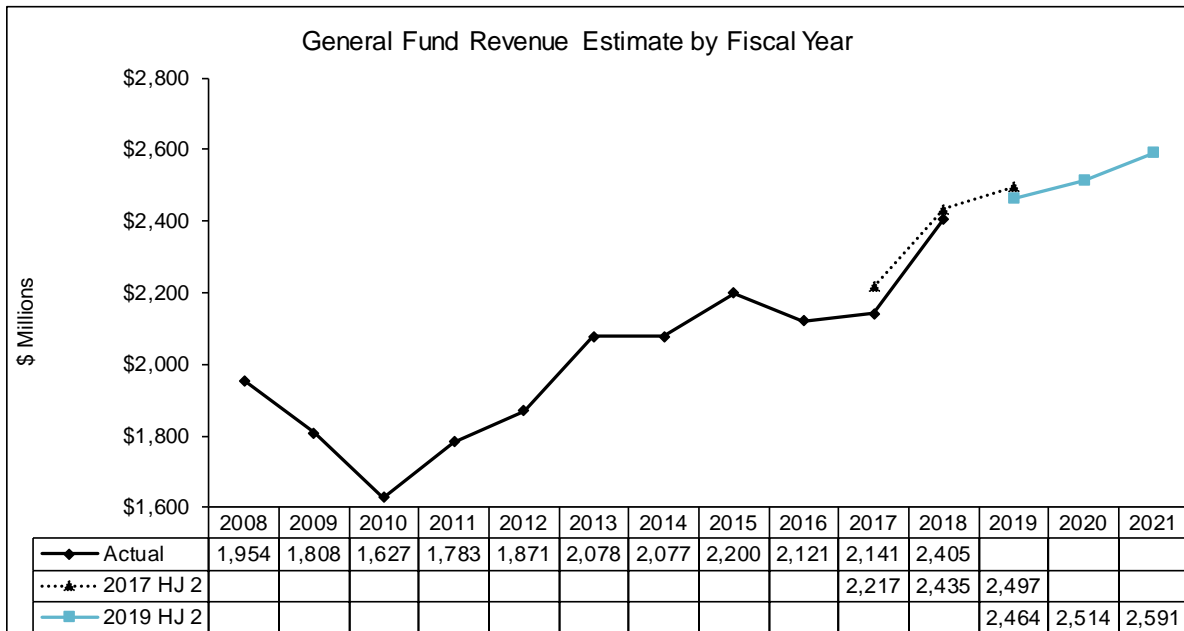
The executive proposal entitled “Infrastructure in Montana” is basically an aggregation of the traditional LRP budgets. The proposal totals \$372.2 million of state funds and \$67.2 million of non-state funds (university and proprietary funds). The proposal makes use of \$146.3 million in dedicated program revenues, \$17.6 million of general fund transferred into two programs, \$48.2 million of the proceeds from coal-severance tax bonds, and \$160.0 million in general obligations (GO) bond proceeds to provide appropriations and grants for state and local government infrastructure investment. Dedicated program revenues of the Treasure State Endowment Program in the amount of \$17.3 million would be transferred to the general fund (GF). The transfers to and from LRP programs net to a general fund cost of \$281,366. The LRP funding increase provided through the Infrastructure in Montana proposal is \$160.3 million (GO bonds + net GF transfers).

More information on the Long-Range Planning programs and the executive proposal for Infrastructure in Montana is available in Section F of the Legislative Budget Analysis.

# STATE REVENUE

## GENERAL FUND REVENUE ESTIMATES AS ADOPTED BY RTIC

In November 2018, RTIC heard the revenue estimate recommendations from OBPP and LFD, which were quite close: the OBPP recommendation was \$46.3 million or 0.6% below LFD over the three-year forecast. The committee adopted the LFD estimate and corresponding assumptions, with an adjustment in corporate tax that essentially resulted in an average of the two estimate recommendations. Comparison of actual collections since FY 2008, the estimates contained in [HJ 2 \(2017 Session\)](#), and the RTIC 2021 biennium estimate recommendation are shown in the chart below. The RTIC estimate for annual growth in general fund revenue for FY 2019 is 2.4%, for FY 2020 is 2.0%, and for FY 2021 is 3.1%.

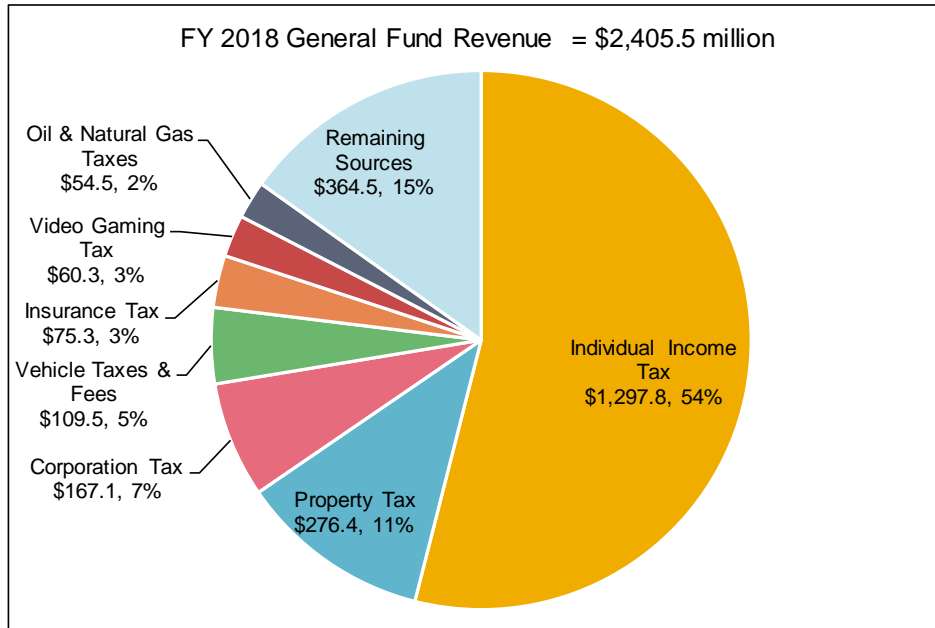


The table below shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources, as well as a breakout of ongoing and one-time-only revenue.

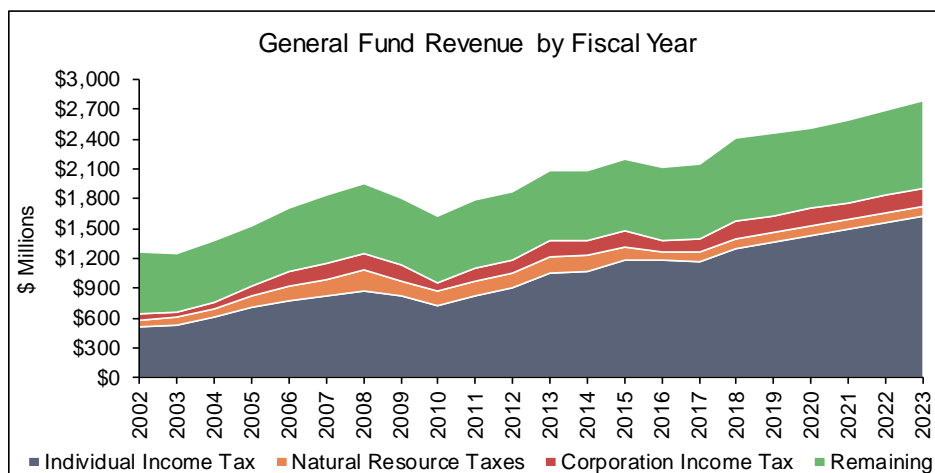
| General Fund Revenue Estimates as Adopted by RTIC |                   |                      |                      |                      |                        |                        |
|---|-------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
| (\$ Millions)                                     |                   |                      |                      |                      |                        |                        |
| Source of Revenue                                 | Actual<br>FY 2018 | Estimated<br>FY 2019 | Estimated<br>FY 2020 | Estimated<br>FY 2021 | Estimated<br>2019 Bien | Estimated<br>2021 Bien |
| Individual Income Tax                             | \$1,297.8         | \$1,359.1            | \$1,425.9            | \$1,490.0            | \$2,656.8              | \$2,916.0              |
| Property Tax                                      | 276.4             | 283.2                | 302.5                | 309.1                | 559.6                  | 611.6                  |
| Corporation Income Tax                            | 167.1             | 160.8                | 165.9                | 167.2                | 327.9                  | 333.1                  |
| Vehicle Taxes & Fees                              | 109.5             | 111.5                | 113.0                | 114.2                | 221.1                  | 227.1                  |
| Oil & Natural Gas Production Tax                  | 54.5              | 60.0                 | 56.7                 | 53.1                 | 114.6                  | 109.7                  |
| Insurance Tax & License Fees                      | 75.3              | 77.5                 | 81.2                 | 83.9                 | 152.7                  | 165.1                  |
| Video Gambling Tax                                | 60.3              | 60.2                 | 60.2                 | 60.2                 | 120.5                  | 120.4                  |
| Remaining Sources                                 | 364.5             | 351.2                | 308.2                | 313.0                | 715.7                  | 621.2                  |
| Ongoing Revenue Subtotal                          | 2,333.6           | 2,412.5              | 2,513.6              | 2,590.7              | 4,746.1                | 5,104.2                |
| OTO Revenue & Transfers Subtotal                  | 71.8              | 51.0                 |                      |                      | 122.9                  | -                      |
| <b>Total General Fund</b>                         | <b>\$2,405.4</b>  | <b>\$2,463.5</b>     | <b>\$2,513.6</b>     | <b>\$2,590.7</b>     | <b>\$4,869.0</b>       | <b>\$5,104.2</b>       |

# GENERAL FUND REVENUE

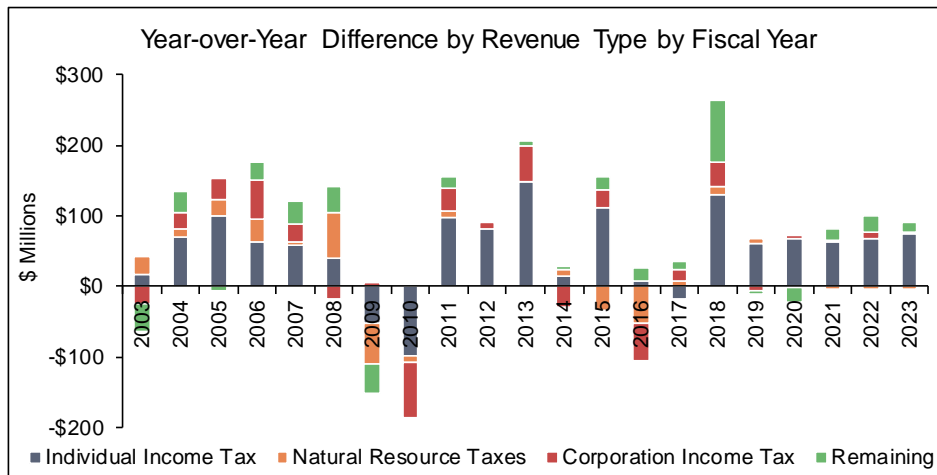
The largest seven sources of general fund revenue are individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2018, these sources accounted for 85.0% of general fund revenue. Details of all general fund and selected non-general fund revenue sources are contained in the Legislative Fiscal Division's [2021 Biennium Budget Analysis: Volume 2](#).



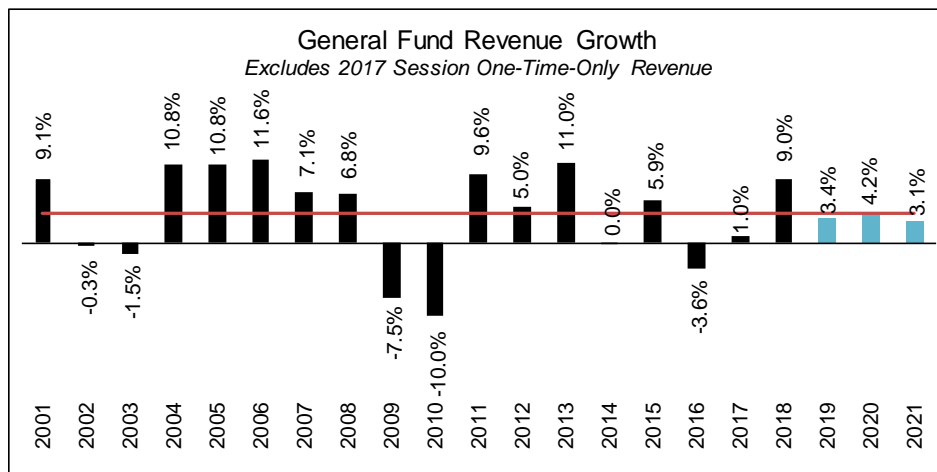
Individual income tax has been a growing share of total general fund revenue since FY 2002, as illustrated in the chart below. In FY 2002, it accounted for 40.9% of general fund revenue; by FY 2018, it grew to account for 54.0%. Based on the revenue estimates adopted by RTIC, it is anticipated to grow to 57.5% of general fund revenue in FY 2021. The LFD extended forecast suggests that individual income will grow further as a share of general fund revenue to 58.7% in FY 2023.



The following chart shows the year-over-year difference by the three largest contributing sources to volatility, as a percentage of the previous fiscal year's total general fund revenue. Although individual income as the largest source of revenue typically also produced the largest year-over-year change in revenue, corporation income tax and natural resource taxes are significant contributors.



The chart below shows the annual percent change in revenue, with actual values shown in black and the estimate growth as adopted by RTIC shown in blue. Note that the one-time-only revenue in the 2019 biennium has been excluded from the growth rate calculations.



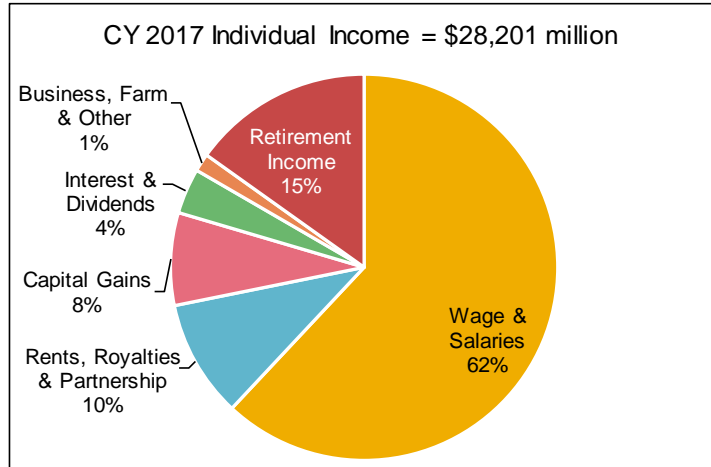
Five of the top seven tax sources, the significant economic drivers and their influence on the general fund are highlighted in the following sections. More details on all sources of revenue can be found in the Legislative Fiscal Division's [2021 Biennium Budget Analysis: Volume 2](#).

## INDIVIDUAL INCOME TAX

The individual income tax is levied against taxable income, which is defined as total Montana income adjusted for exemptions and deductions. In 2017, full year resident income totaled \$28.2 billion. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income.

Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. The effective tax rate on capital gains income is less than the tax rate on ordinary income by 2%, due to the 2% capital gains tax credit.

Wage income accounts for nearly two-thirds of total individual income, while withholding tax on wages accounts for about one-third of total general fund revenue. Growth in the 2021 biennium is driven by growth in wages income, as well as strong growth in retirement income and partnership income.

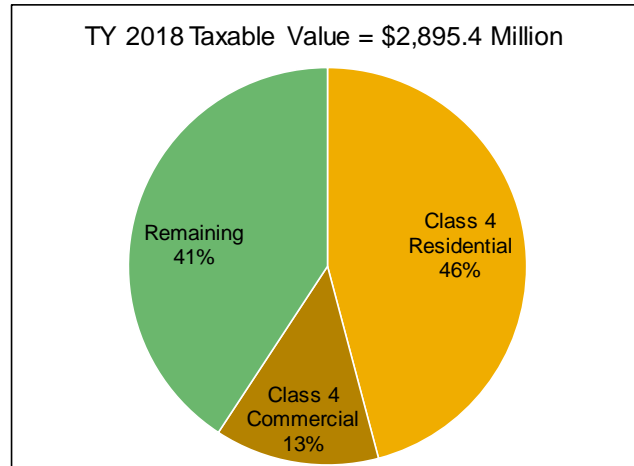


Individual income tax collections grew very slowly in FY 2016 and declined slightly in FY 2017—in contrast to the tight labor market and growing economy. Much of the discussion regarding this discrepancy has focused on taxpayer behavior following the 2016 national elections and potential taxpayer anticipation of lower federal tax rates. The HJ 2 estimate incorporates the baseline economic outlook from IHS Markit and does not include any adjustments for the potential shifting of income into CY 2018, so there may be upside revenue risk in FY 2019; however, the additional revenue would likely be one-time-only rather than ongoing.

## PROPERTY TAX

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate.

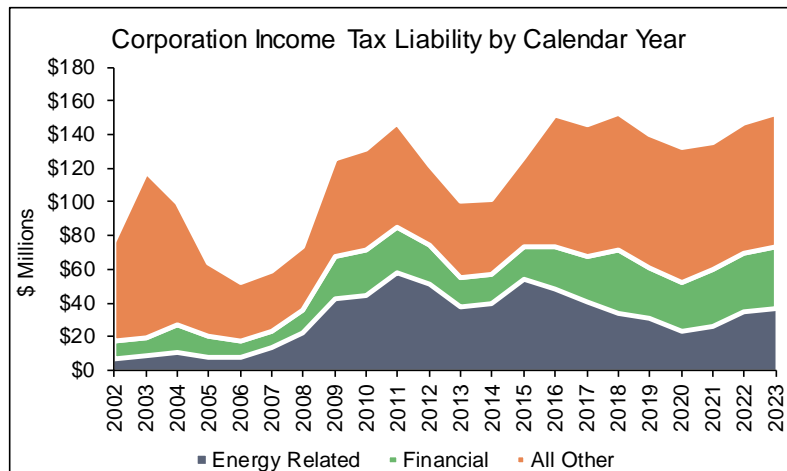
Class 4 commercial and residential property, and class 3 agricultural property, are reappraised every two years with no phase-in of the new value. Class 10 timber land is on a six-year reappraisal cycle with a 1/6<sup>th</sup> phase in of value per year. Agricultural land and timberland continues to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



In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed based on mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

## CORPORATE INCOME TAX

The corporate income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. Financial, retail, and energy related sectors are the largest sources of tax liability. Primary economic drivers of this source include oil prices, median house price, and retail sales. The tax rate is 6.75%, except for corporations making a "water's edge" election (see [15-31-322, MCA](#)), who pay a 7.0% tax on their net income

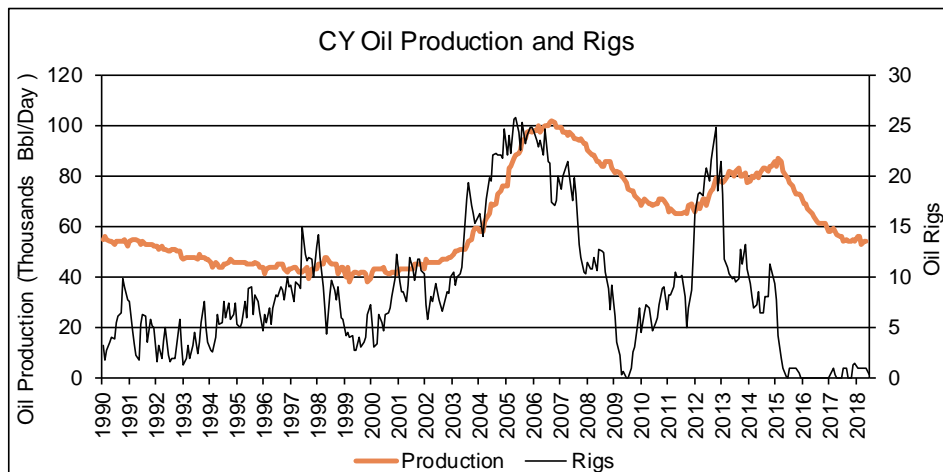


Corporation income tax revenues are quite volatile from year to year, resulting in a revenue stream that is difficult to predict. The volatility can be attributed to many factors: sensitivity of corporation income to business cycles, industry composition in the state, reliance on a limited number of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

Corporate income tax changes due to the federal Tax Cuts and Jobs Act is likely to have an impact on collections at the state level, but the timing is uncertain. Both upside and downside risks come with the new federal provisions. Corporations' abilities to further accelerate expensing could reduce collections. However, a larger taxable base at the state level could increase collections. The HJ 2 estimate is based on sector-based model per the research detailed in the LFD's [Standard Error Analysis](#) and includes an adjustment for the potential accelerated expensing as a result of the federal tax changes.

## OIL & NATURAL GAS PRODUCTION TAX

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. The gross taxable value of oil and natural gas production is based on the type of well and type of production, and whether the production occurs within the tax holiday.



Since the beginning of FY 2016, there has only been at most two drilling rigs operating in the state, as shown in the chart above. The reduction in the number of active rigs is having an effect on production, as it has been declining for nearly three years; however, the rate of decline has slowed in the past year.

In FY 2019, revenue from this source is anticipated to increase is due to higher price. Revenue is expected to flatten over the 2021 biennium, as slight increases in the price will be offset by continued slow declines in production. HJ 2 assumes West Texas Intermediate oil prices per barrel of \$73 in 2019, \$68 in 2020, and \$68 in 2021, and includes an 12% discount for the Montana price.

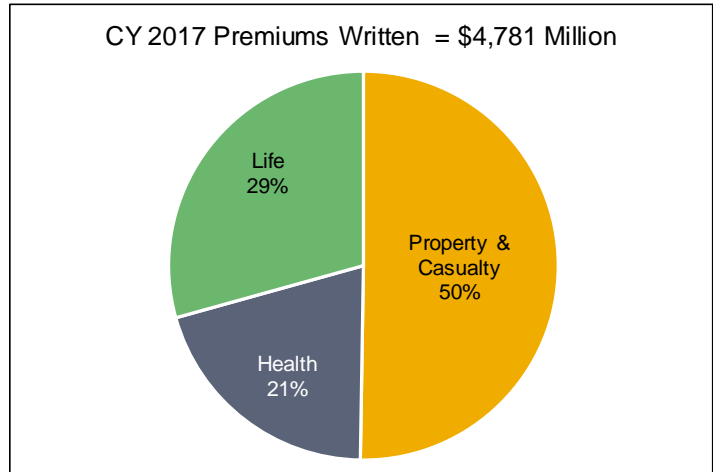


## INSURANCE TAX

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

The adjacent chart illustrates the share of premiums written by major type of insurance. In CY 2017, property and casualty insurance accounted for half of premiums written.

Although changes in federal health care policy may impact on this revenue source, the overall change in revenue is likely to be small relative to total collections. Within health insurance taxed premiums in CY 2017, individual premiums accounted for 30%, small group plans accounted for 23%, and large group plans accounted for 46%.

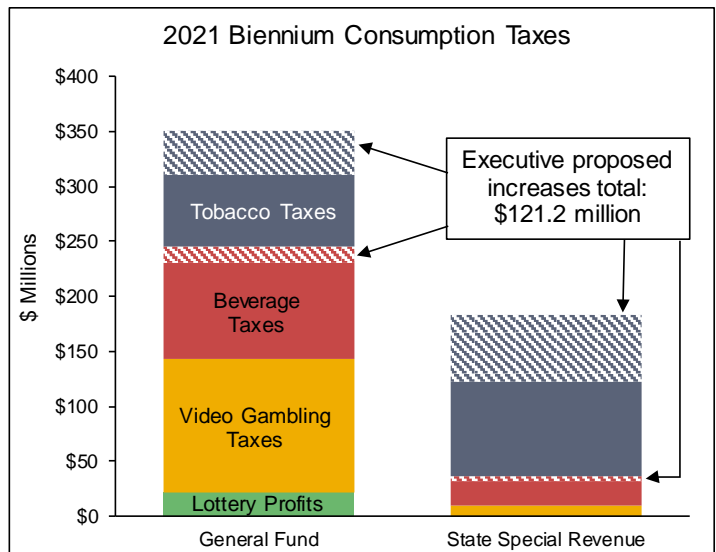


HJ 2 is based on current law, but does not assume a change in consumer behavior if the HELP Act sunsets at the end of FY 2019. There could be additional insurance tax revenue collected if a portion of HELP Act enrollees switch to individual plans.

## CONSUMPTION TAXES

Consumption taxes—including video gambling, cigarette and other tobacco products, and beer, wine, and liquor taxes—have been trending down as a share of general fund revenue from 8.7% in FY 2004 to 6.0% in FY 2018; based on the HJ 2 estimate, they are anticipated to be 5.7% by the end of FY 2021. Although the majority of each of the consumption taxes is deposited in the general fund, several of the tax types of significant allocations go to various state special revenue accounts.

The executive budget includes several proposals related to consumption taxes: increasing liquor excise tax from 16% to 20.8%, increasing liquor license tax from 10% to 13%; increasing the cigarette tax by \$1.50 per pack from \$1.70 to \$3.20; increasing the tax on moist snuff by \$1.82 per ounce from \$0.85 to \$2.67; increasing other tobacco product taxes from 50% of the wholesale price to 94%; and making e-cigarette juice or other vapor consumption products taxable. Consumption tax revenue by type is shown in the above chart, with the executive proposals indicated with thatched areas.



## Other Revenue Sources with Proposed Executive Changes

### Lodging Tax

The state imposes two taxes on room charges collected by lodging facilities and campgrounds: a 3% lodging sales tax and a 4% lodging facility use tax. The taxes only apply for rooms used for lodging which includes hotels, motels, campgrounds, resorts, and bed and breakfast facilities. The 3% lodging sales tax also applies to online travel agencies, and exempts sales to the U.S. government.

| Statistics               | State Lodging & Sales Tax Rate | Max Local Lodging Tax Rate | Max Local Sales Tax Rate | Max State & Local Lodging & Sales Tax |
|--------------------------|--------------------------------|----------------------------|--------------------------|---------------------------------------|
| All States Average Tax   | 6.3%                           | 6.2%                       | 2.5%                     | 14.6%                                 |
| All States Median Tax    | 6.0%                           | 6.0%                       | 2.0%                     | 14.5%                                 |
| Maximum Tax              | 15.0%                          | 16.0%                      | 8.3%                     | 27.0%                                 |
| Montana Tax              | 7.0%                           | 0.0%                       | 3.0%                     | 10.0%                                 |
| Executive Proposal       | 8.0%                           | 0.0%                       | 3.0%                     | 15.0%                                 |
| Montana Rank             | 12                             | 42                         | 17                       | 45                                    |
| Montana Rank if Adjusted | 10                             | 42                         | 17                       | 43                                    |

The executive budget proposes combining the two taxes and increasing the general fund portion of the total lodging tax from 3% of sales to 4%. Total lodging taxes would be 8%. The table above compares current and proposed Montana lodging tax rates to the combined lodging and sales tax rates of other states.

### Rental Car Tax

The 4% sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. Rental vehicles include light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax.

| Statistics               | Sales Tax Rates on Rental Cars |
|--------------------------|--------------------------------|
| All States Average Tax   | 5.2%                           |
| All States Median Tax    | 6.0%                           |
| Maximum Tax              | 7.3%                           |
| Montana Tax              | 4.0%                           |
| Executive Proposal       | 6.0%                           |
| Montana Rank             | 40                             |
| Montana Rank if Adjusted | 16                             |

The executive budget proposes increasing the rental car sales tax rate from 4% to 6%. The adjacent table compares current and proposed Montana rental car sales tax rates to the sales tax rates of other states.

### Investment License Tax

Investment advisors and investment companies pay fees to the state for registration of securities and agents, registration of securities by notification, notice of a federal filing of a federally secured security, and name changes.

Initial and annual registration fees for a broker-dealer, investment adviser, and federal covered adviser are \$200. Initial and annual registration fees for a salesperson or investment adviser are \$50. The fee for name changes to series, portfolio, or a subdivision of an investment company is \$50.

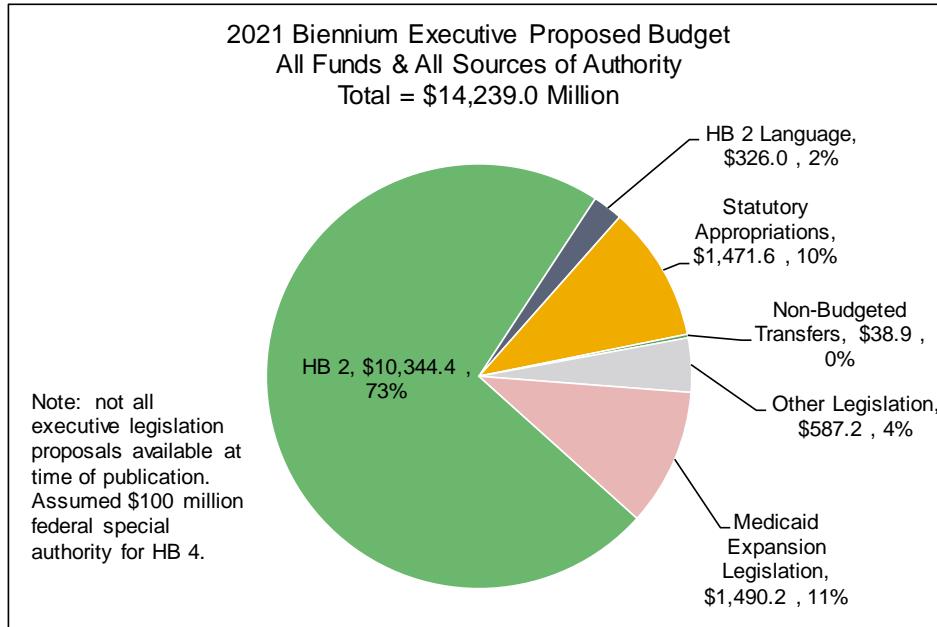
| Statistics               | Firm License Fee \$/Year | Individual License Fee \$/Year |
|--------------------------|--------------------------|--------------------------------|
| All States Average       | \$207                    | \$64                           |
| All States Median        | \$200                    | \$50                           |
| Maximum                  | \$400                    | \$285                          |
| Montana Fee              | \$200                    | \$50                           |
| Executive Proposal       | \$400                    | \$100                          |
| Montana Rank             | 23                       | 21                             |
| Montana Rank if Adjusted | 1                        | 8                              |

The executive budget proposes doubling the fee amounts to \$400 and \$100. The adjacent table compares current and proposed Montana firm and individual license fees to the fees of other states. Staff at the Montana State Auditor's Office has previously noted that based on recent research from their office, raising investment license fees significantly may result in a decline in revenue due to fewer out-of-state representatives registering in Montana.

# STATE EXPENDITURES

## EXECUTIVE PROPOSED SPENDING BY SOURCE OF AUTHORITY

The following chart shows the executive budget broken down by source of authority (appropriation source). HB 2 dominates the appropriation sources for total funds at 73% of total authority.



Note that the figure above is based on preliminary budgeting system data. LFD analysis indicates small technical differences with the executive balance sheet that may be adjusted after December 15<sup>th</sup>.

### Executive Proposals

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

The executive proposes to continue the Medicaid expansion program and is shown in the pink slice of the pie.

Other legislation is primarily Long-Range Building Program bills, but does include proposals for a pay plan for state employees, and continuing authority for federal grants.

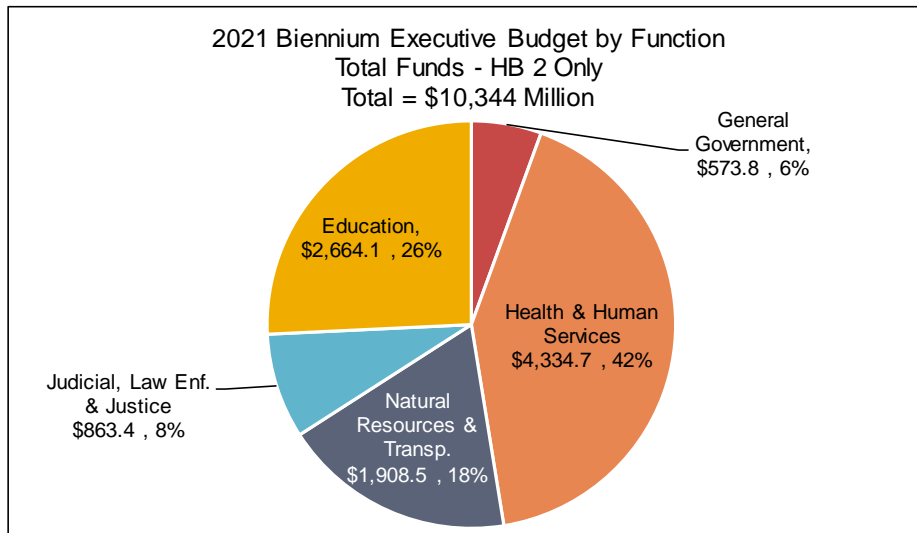
HB 2 language appropriations are dominated by proposed language for the Department of Revenue liquor warehouse operations.

## HB 2 FUNDING

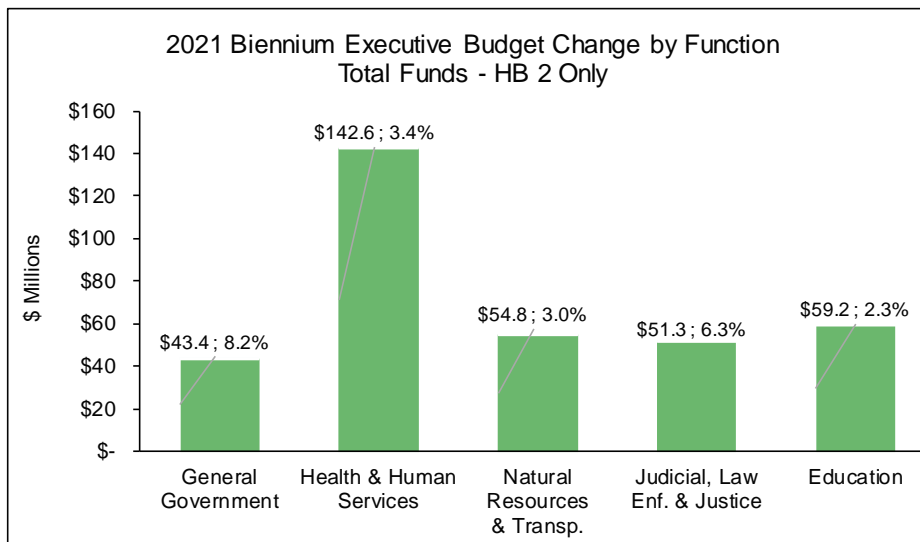
HB 2 is the general appropriations bill, in which the executive proposes the majority of general fund and total funds appropriated by the legislature in the 2021 biennium.

### FUNDING BY FUNCTIONAL AREA

The legislature uses functional areas of state government when considering HB 2. The following figure shows the allocation of total funds proposed in HB 2 by functional area. Education and health and human services account for 67.6% of the total.



The following chart shows the changes between the 2019 and 2021 biennia in HB 2 total funds by functional area.



Overall, the executive proposes a 2021 biennium budget for HB 2 that is 3.5% or \$351.3 million higher than the 2019 biennium appropriated budget. The largest percentage growth is for general government, growing at 8.2% but with the smallest actual growth of \$43.4 million. The largest overall increase is for health and human services for \$142.6 million, for an increase of 3.4%, with the following changes to the FY 2019 base being the major reasons:

- A caseload increase for foster care, guardianships and adoption of \$44.2 million
- Provider rate increases of \$38.8 million
- An increase for a waiver in Disability Services Division totaling \$24.2 million
- Medicaid caseload increase totaling \$21.7 million
- Personal Services are increased in statewide present law by a total of \$21.5 million
- In addition to other increases, there are a variety of decreases that partially offset the, including a reduction of \$14.9 million for waiver services in Senior & Long Term Care

The budgets for all agencies are discussed further in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis.

The following table shows the difference between 2019 biennium appropriations as compared to those included in the executive's proposed 2021 biennium budget. One-time-only funding has been segregated from ongoing expenditures.

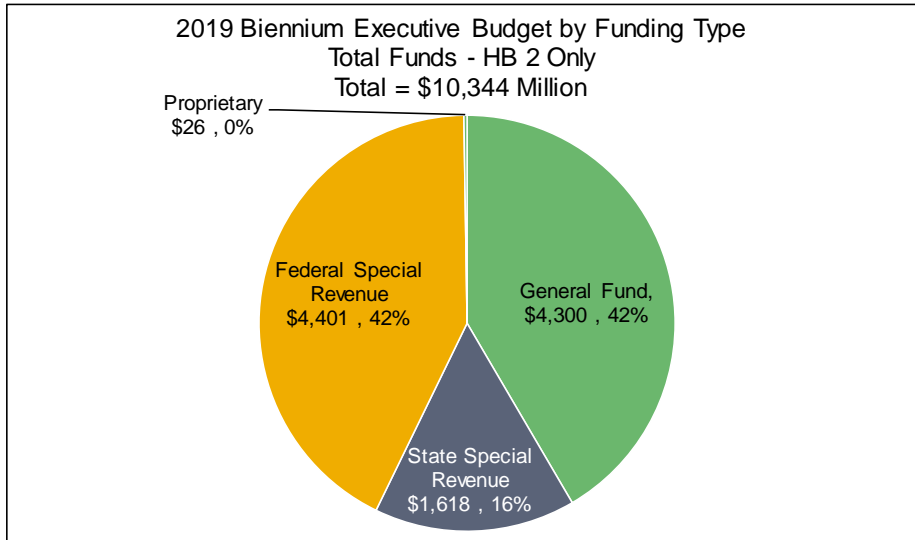
The table shows a total growth of 3.5%, which is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 2.2%.

| HB 2 Only - All Funds Agency Comparison  |                     |                    |                           |                    |               |
|--|---------------------|--------------------|---------------------------|--------------------|---------------|
| Comparison of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget |                     |                    |                           |                    |               |
| (\$ Millions)  |                     |                    |                           |                    |               |
|  | Appropriated Budget |                    | Executive Proposed Budget |                    | Biennium      |
|  | FY 2018             | FY 2019            | FY 2020                   | FY 2021            | % Change      |
| <b>Ongoing</b>   |                     |                    |                           |                    |               |
| <b>General Government</b>  |                     |                    |                           |                    |               |
| Legislative Branch   | \$14.738            | \$15.492           | \$17.615                  | \$17.182           | 15.1%         |
| Consumer Counsel   | 1.621               | 1.641              | 1.652                     | 1.651              | 1.3%          |
| Governor's Office  | 5.910               | 6.427              | 7.061                     | 6.994              | 13.9%         |
| Commissioner of Political Practices  | 0.581               | 0.662              | 0.863                     | 0.850              | 37.9%         |
| State Auditor's Office   | 8.213               | 8.426              | 8.713                     | 8.659              | 4.4%          |
| Department of Revenue  | 53.697              | 57.280             | 61.463                    | 61.265             | 10.6%         |
| Department of Administration   | 17.521              | 17.505             | 18.598                    | 18.388             | 5.6%          |
| Department of Commerce   | 26.441              | 26.803             | 32.198                    | 32.243             | 21.0%         |
| Department of Labor and Industry   | 80.066              | 82.188             | 85.778                    | 85.648             | 5.7%          |
| Department of Military Affairs   | <u>47.848</u>       | <u>48.896</u>      | <u>51.623</u>             | <u>51.548</u>      | <u>6.6%</u>   |
| Subtotal   | 256.637             | 265.319            | 285.563                   | 284.429            | 9.2%          |
| <b>Health and Human Services</b>   |                     |                    |                           |                    |               |
| Department of Public Health & Human Services   | <u>2,045.224</u>    | <u>2,122.564</u>   | <u>2,118.434</u>          | <u>2,216.229</u>   | <u>4.0%</u>   |
| Subtotal Health and Human Services   | 2,045.224           | 2,122.564          | 2,118.434                 | 2,216.229          | 4.0%          |
| <b>Natural Resources and Transportation</b>  |                     |                    |                           |                    |               |
| Department of Fish, Wildlife, and Parks  | 86.602              | 88.576             | 95.042                    | 95.099             | 8.5%          |
| Department of Environmental Quality  | 61.219              | 63.699             | 66.250                    | 66.256             | 6.1%          |
| Department of Transportation   | 673.116             | 673.759            | 683.104                   | 684.024            | 1.5%          |
| Department of Livestock  | 11.211              | 11.714             | 13.353                    | 13.306             | 16.3%         |
| Department of Natural Resources & Conservation                                       | 62.204              | 65.280             | 73.210                    | 73.717             | 15.3%         |
| Department of Agriculture  | <u>17.370</u>       | <u>17.840</u>      | <u>18.610</u>             | <u>18.564</u>      | <u>5.6%</u>   |
| Subtotal   | 911.723             | 920.869            | 949.570                   | 950.966            | 3.7%          |
| <b>Judicial Branch, Law Enforcement, and Justice</b>                                 |                     |                    |                           |                    |               |
| Judicial Branch  | 46.884              | 48.722             | 52.292                    | 52.348             | 9.4%          |
| Department of Justice  | 96.848              | 101.168            | 107.315                   | 106.748            | 8.1%          |
| Public Service Commission  | 3.984               | 3.675              | 4.863                     | 4.840              | 26.7%         |
| Office of the Public Defender  | 31.509              | 31.537             | 37.482                    | 38.062             | 19.8%         |
| Department of Corrections  | <u>220.994</u>      | <u>220.674</u>     | <u>227.603</u>            | <u>228.404</u>     | <u>3.2%</u>   |
| Subtotal   | 400.219             | 405.777            | 429.555                   | 430.402            | 6.7%          |
| <b>Education</b>   |                     |                    |                           |                    |               |
| Office of Public Instruction   | 957.538             | 979.186            | 1,014.869                 | 1,042.476          | 6.2%          |
| Board of Public Education  | 0.323               | 0.331              | 0.356                     | 0.339              | 6.2%          |
| Office of the Commissioner of Higher Education                                       | 312.048             | 315.199            | 280.411                   | 282.468            | -10.3%        |
| School for the Deaf and Blind  | 7.168               | 7.303              | 8.079                     | 8.059              | 11.5%         |
| Montana Arts Council   | 1.411               | 1.463              | 1.509                     | 1.480              | 4.0%          |
| Montana State Library  | 5.086               | 5.163              | 5.587                     | 5.231              | 5.6%          |
| Montana Historical Society   | <u>4.857</u>        | <u>4.953</u>       | <u>5.553</u>              | <u>5.517</u>       | <u>12.8%</u>  |
| Subtotal   | 1,288.431           | 1,313.598          | 1,316.364                 | 1,345.570          | 2.3%          |
| Subtotal Ongoing   | 4,902.233           | 5,028.127          | 5,099.487                 | 5,227.596          | 4.0%          |
| <b>One-Time*</b>   |                     |                    |                           |                    |               |
| General Government   | 4.197               | 4.289              | 2.200                     | 1.655              | -54.6%        |
| Health and Human Services  | 12.706              | 11.537             | -                         | -                  | -100.0%       |
| Natural Resources and Transportation   | 9.272               | 11.754             | 5.283                     | 2.641              | -62.3%        |
| Judicial Branch, Law Enforcement, and Justice  | 2.677               | 3.426              | 2.091                     | 1.341              | -43.8%        |
| Education  | <u>1.449</u>        | <u>1.419</u>       | <u>1.063</u>              | <u>1.063</u>       | <u>-25.9%</u> |
| Subtotal One-time  | 30.301              | 32.425             | 10.637                    | 6.700              | -72.4%        |
| <b>Total Submitted HB 2</b>  | <b>\$4,932.534</b>  | <b>\$5,060.552</b> | <b>\$5,110.124</b>        | <b>\$5,234.296</b> | <b>3.5%</b>   |

## TYPE OF FUNDING

The largest source of funding for operations of state government in HB 2 is federal funds at 42.5% of the total, followed by general fund at 41.6%.

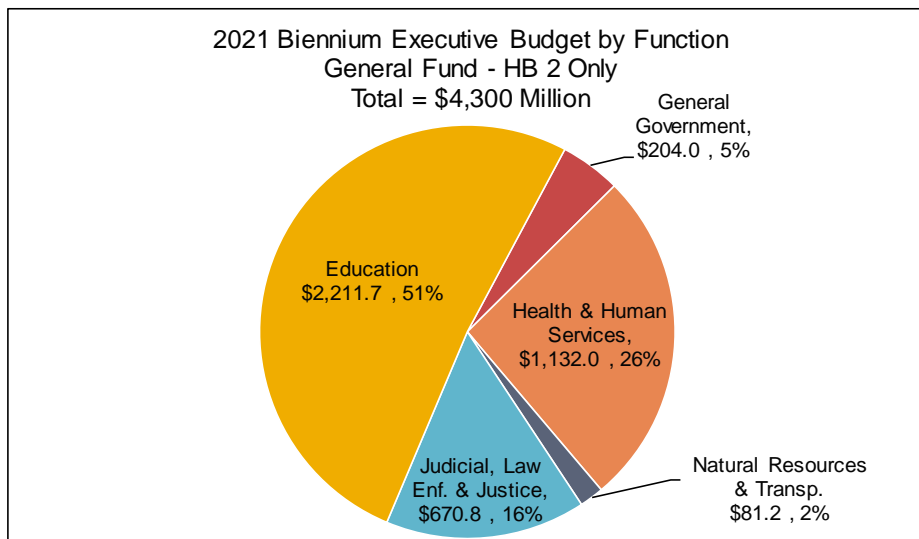
The following figure illustrates the executive funding appropriations for HB 2.



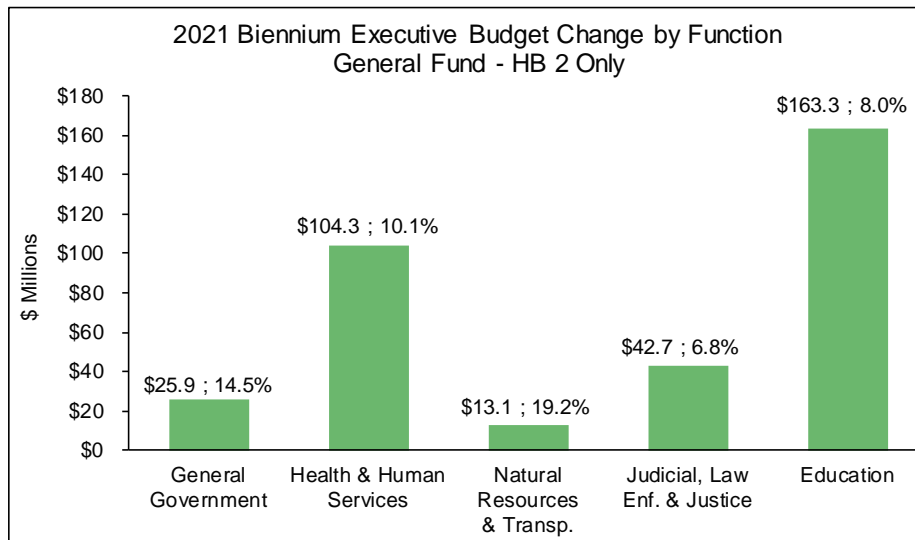
The three primary funding sources in HB 2—general fund, state special revenue, and federal funds—are discussed in the following sections.

### **General Fund**

The following shows total HB 2 general fund expenditures as proposed by the executive, by government functional area. Education, health and human services, and the Judicial Branch, law enforcement, and justice are 93.4% of the total proposed expenditures.



The following chart shows the total changes from the 2019 biennium, by functional area. As shown, the changes provide for increases in all sections, with the largest overall increases for education and health & human services, which together account for 76.6% of the proposed growth in general fund expenditures. The largest percentage increase is in natural resources, where a \$13.1 million increase would result in a 19.2% increase from the 2019 biennium.



The Governor proposes to increase ongoing general fund expenditures by \$368.9 million. Proposals for \$9.8 million of one-time-only general fund are \$19.7 million lower than those included in the 2019 biennial general fund budget, resulting in a total general fund increase of \$349.2 million or 8.8% when compared to 2019 biennium appropriations.

The largest increase is for education, which is driven by a \$127.9 million increase for the Office of Public Instruction, driven primarily by present law inflation that provides \$70.7 million for K-12 BASE aid. Also included is \$22.0 million for preschool.

Health and human services general fund appropriations would increase by \$104.3 million, which is the result of \$28.9 million for foster care, guardianship, and adoption caseload growth, \$12.0 million for provider rate increase, \$8.5 million for changes to the federal Medicaid matching rate (FMAP) and provider rate increases, \$8.0 million for STARS preschool, \$7.8 million for a personal services adjustment, and \$7.1 million for Medicaid caseload increases.



The next figure shows general fund appropriations by agency compared to the 2019 biennium.

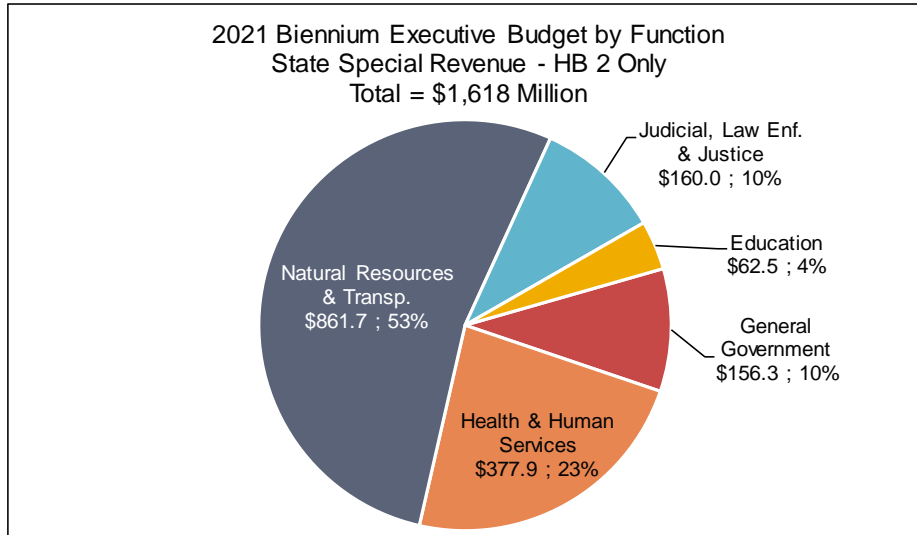
| HB 2 Only - General Fund Agency Comparison   |                     |                    |                           |                    |              |
|--|---------------------|--------------------|---------------------------|--------------------|--------------|
| Comparison of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget |                     |                    |                           |                    |              |
| (\$ Millions)  |                     |                    |                           |                    |              |
|  | Appropriated Budget |                    | Executive Proposed Budget |                    | Biennium     |
|  | FY 2018             | FY 2019            | FY 2020                   | FY 2021            | % Change     |
| <b>Ongoing</b>   |                     |                    |                           |                    |              |
| <b>General Government</b>  |                     |                    |                           |                    |              |
| Legislative Branch   | \$12.538            | \$13.260           | \$15.071                  | \$15.024           | 16.7%        |
| Governor's Office  | 5.910               | 6.427              | 7.061                     | 6.994              | 13.9%        |
| Commissioner of Political Practices  | 0.581               | 0.662              | 0.863                     | 0.850              | 37.9%        |
| Department of Revenue  | 49.334              | 52.824             | 56.701                    | 56.498             | 10.8%        |
| Department of Administration   | 4.797               | 5.610              | 6.085                     | 6.016              | 16.3%        |
| Department of Commerce   | 2.889               | 3.201              | 5.723                     | 5.728              | 88.0%        |
| Department of Labor and Industry   | 1.567               | 1.792              | 1.973                     | 1.973              | 17.5%        |
| Department of Military Affairs   | <u>5.936</u>        | <u>6.540</u>       | <u>7.139</u>              | <u>7.105</u>       | <u>14.2%</u> |
| Subtotal   | 83.552              | 90.316             | 100.615                   | 100.188            | 15.5%        |
| <b>Health and Human Services</b>   |                     |                    |                           |                    |              |
| Department of Public Health & Human Services   | <u>488.273</u>      | <u>521.882</u>     | <u>551.846</u>            | <u>580.187</u>     | <u>12.1%</u> |
| Subtotal   | 488.273             | 521.882            | 551.846                   | 580.187            | 12.1%        |
| <b>Natural Resources and Transportation</b>  |                     |                    |                           |                    |              |
| Department of Environmental Quality  | 4.566               | 5.200              | 5.453                     | 5.451              | 11.7%        |
| Department of Livestock  | 2.248               | 2.562              | 3.112                     | 3.111              | 29.4%        |
| Department of Natural Resources & Conservation                                       | 24.774              | 26.921             | 30.250                    | 30.197             | 16.9%        |
| Department of Agriculture  | <u>0.680</u>        | <u>0.738</u>       | <u>0.858</u>              | <u>0.811</u>       | <u>17.8%</u> |
| Subtotal   | 32.269              | 35.420             | 39.673                    | 39.570             | 17.1%        |
| <b>Judicial Branch, Law Enforcement, and Justice</b>                                 |                     |                    |                           |                    |              |
| Judicial Branch  | 44.213              | 46.742             | 49.786                    | 49.878             | 9.6%         |
| Department of Justice  | 30.730              | 34.168             | 36.860                    | 36.780             | 13.5%        |
| Office of the Public Defender  | 31.509              | 31.537             | 37.482                    | 38.062             | 19.8%        |
| Department of Corrections  | <u>201.231</u>      | <u>202.818</u>     | <u>209.389</u>            | <u>209.969</u>     | <u>3.8%</u>  |
| Subtotal   | 307.683             | 315.264            | 333.517                   | 334.689            | 7.3%         |
| <b>Education</b>   |                     |                    |                           |                    |              |
| Office of Public Instruction   | 778.405             | 798.679            | 839.895                   | 863.410            | 8.0%         |
| Board of Public Education  | 0.137               | 0.142              | 0.173                     | 0.157              | 18.4%        |
| Office of the Commissioner of Higher Education                                       | 220.704             | 223.986            | 238.214                   | 239.707            | 7.5%         |
| School for the Deaf and Blind  | 6.757               | 6.886              | 7.612                     | 7.592              | 11.4%        |
| Montana Arts Council   | 0.479               | 0.516              | 0.551                     | 0.523              | 7.9%         |
| Montana State Library  | 2.149               | 2.186              | 2.582                     | 2.560              | 18.6%        |
| Montana Historical Society   | <u>2.593</u>        | <u>2.662</u>       | <u>3.309</u>              | <u>3.267</u>       | <u>25.1%</u> |
| Subtotal   | 1,011.224           | 1,035.057          | 1,092.337                 | 1,117.215          | 8.0%         |
| Subtotal Ongoing   | 1,923.000           | 1,997.940          | 2,117.988                 | 2,171.850          | 9.4%         |
| <b>One-Time</b>  |                     |                    |                           |                    |              |
| General Government   | 2.122               | 2.114              | 1.900                     | 1.250              | -25.6%       |
| Health and Human Services  | 8.783               | 8.808              | -                         | -                  | -100.0%      |
| Natural Resources and Transportation   | 0.207               | 0.207              | 0.978                     | 0.978              | 372.5%       |
| Judicial Branch, Law Enforcement, and Justice  | 2.177               | 2.926              | 1.276                     | 1.276              | -50.0%       |
| Education  | <u>1.062</u>        | <u>1.032</u>       | <u>1.063</u>              | <u>1.063</u>       | <u>1.5%</u>  |
| Subtotal One-time  | 14.351              | 15.086             | 5.217                     | 4.567              | -66.8%       |
| <b>Total</b>   | <b>\$1,937.352</b>  | <b>\$2,013.026</b> | <b>\$2,123.205</b>        | <b>\$2,176.417</b> | <b>8.8%</b>  |

The table shows a total growth of 8.8%, which is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 6.8%.

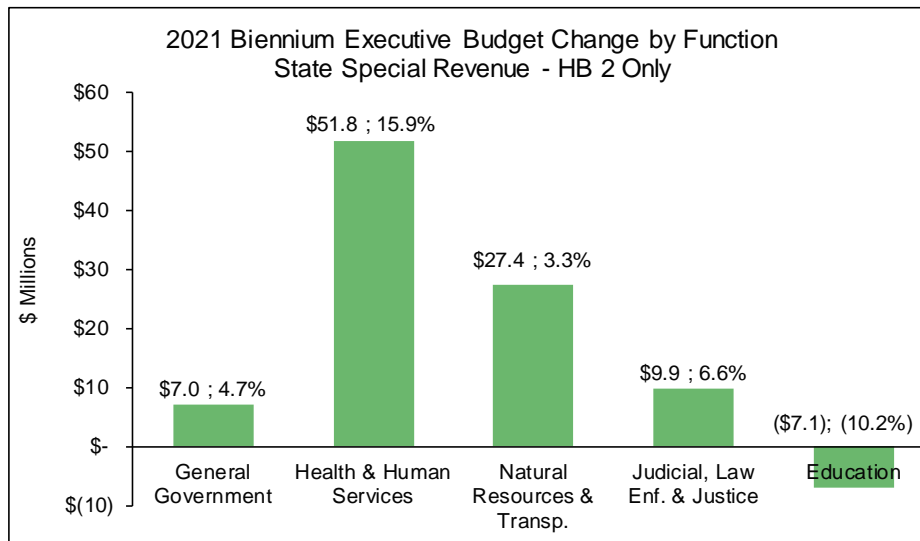
General fund adjustments are discussed in more detail in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis, along with any analysis comments or issues. Each of the one-time-only proposals is also explained more fully in Volumes 3-6.

## State Special Revenue

State special revenue is earmarked for specific purposes and totals \$1,618 million or 15.7% of total proposed expenditures in the 2021 biennium in HB 2. The following figure shows total state special revenues by function for HB 2 only. The usage of these funds varies significantly from general fund, where natural resources receives only a small portion, while 53.2% of the state special revenue authority is allocated to natural resources.



The following shows the proposed change from the previous biennium, by function of state government. The executive budget would increase state special revenue authority by \$93.7 million when compared to 2019 biennium appropriations.



The executive budget proposes increasing ongoing expenditures by \$103.6 million or 6.9% while decreasing proposed one-time-only appropriations by \$14.7 million or a reduction of 71.8%. The resulting total state special revenue increase would be \$89.0 million which is a growth of 5.8%.

The increase of \$51.8 million for health and human services is due to a variety of factors, including:

- A federal match rate change that the executive is proposing to cover with \$35.2 million from tobacco settlement funds and a tobacco tax increase for the Children's Health Insurance Program (CHIP)
- An increase for veterans' homes from tobacco taxes that includes \$3.5 million for the SW MT Veterans' Home, and a \$2.3 million increase for the MT Veterans' Home

- An increase of \$3.8 million for the medical marijuana program, utilizing fees established by the 2017 Legislature

The largest contributor to the overall increase for natural resources is an increase of \$14.0 million from the general license account in Fish, Wildlife and Parks.

The reduction in education is a result of the elimination of \$17.2 million of appropriation authority for school facility reimbursement that was previously authorized, but had no available funding.

The next figure compares state special revenue appropriations by agency in the proposed 2021 biennium budget to the 2019 biennium.

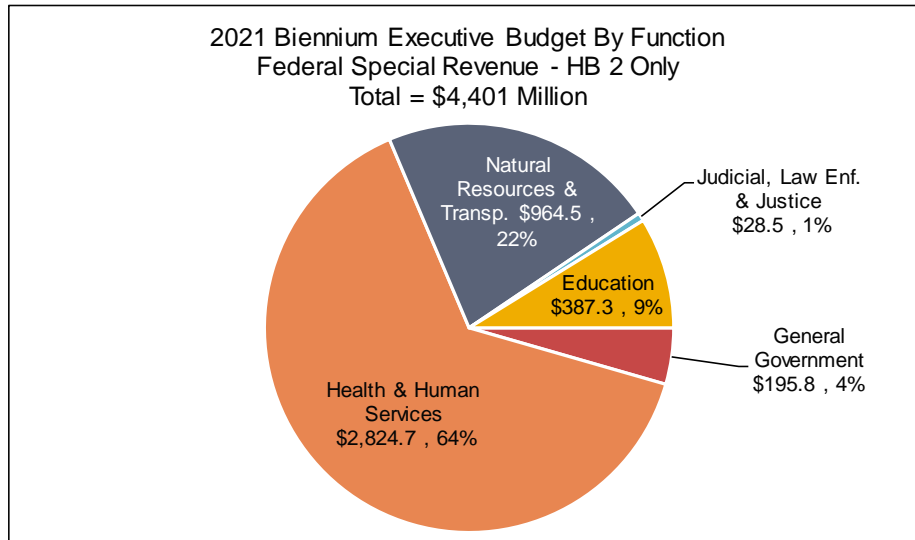
| HB 2 Only - State Special Revenue Agency Comparison                                  |                     |                  |                           |                  |             |
|--|---------------------|------------------|---------------------------|------------------|-------------|
| Comparison of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget |                     |                  |                           |                  |             |
| (\$ Millions)  |                     |                  |                           |                  |             |
|  | Appropriated Budget |                  | Executive Proposed Budget |                  | Biennium    |
|  | FY 2018             | FY 2019          | FY 2020                   | FY 2021          | % Change    |
| <b>Ongoing</b>   |                     |                  |                           |                  |             |
| <b>General Government</b>  |                     |                  |                           |                  |             |
| Legislative Branch   | \$2.200             | \$2.231          | \$2.544                   | \$2.158          | 6.1%        |
| Consumer Counsel   | 1.62                | 1.64             | 1.65                      | 1.65             | 1.3%        |
| State Auditor's Office   | 8.21                | 8.43             | 8.71                      | 8.66             | 4.4%        |
| Department of Revenue  | 0.96                | 0.96             | 1.01                      | 1.01             | 5.0%        |
| Department of Administration   | 6.50                | 6.67             | 7.13                      | 7.12             | 8.2%        |
| Department of Commerce   | 5.48                | 5.49             | 5.42                      | 5.40             | -1.3%       |
| Department of Labor and Industry   | 46.10               | 47.29            | 50.64                     | 50.50            | 8.3%        |
| Department of Military Affairs   | 0.74                | 0.78             | 1.11                      | 1.11             | 46.2%       |
| Subtotal   | 71.81               | 73.49            | 78.22                     | 77.62            | 7.3%        |
| <b>Health and Human Services</b>   |                     |                  |                           |                  |             |
| Department of Public Health & Human Services   | 160.00              | 166.14           | 180.51                    | 197.39           | 15.9%       |
| Subtotal   | 160.00              | 166.14           | 180.51                    | 197.39           | 15.9%       |
| <b>Natural Resources and Transportation</b>  |                     |                  |                           |                  |             |
| Department of Fish, Wildlife, and Parks  | 63.64               | 64.94            | 69.74                     | 69.75            | 8.5%        |
| Department of Environmental Quality  | 34.06               | 35.46            | 37.09                     | 37.11            | 6.7%        |
| Department of Transportation   | 256.48              | 248.69           | 257.31                    | 257.60           | 1.9%        |
| Department of Livestock  | 7.26                | 7.40             | 8.38                      | 8.33             | 14.0%       |
| Department of Natural Resources & Conservation                                       | 35.15               | 36.05            | 40.05                     | 40.11            | 12.6%       |
| Department of Agriculture  | 15.06               | 15.42            | 15.88                     | 15.88            | 4.2%        |
| Subtotal   | 411.65              | 407.96           | 428.46                    | 428.79           | 4.6%        |
| <b>Judicial Branch, Law Enforcement, and Justice</b>                                 |                     |                  |                           |                  |             |
| Judicial Branch  | 2.57                | 1.88             | 2.40                      | 2.37             | 7.2%        |
| Department of Justice  | 62.93               | 63.75            | 67.08                     | 66.60            | 5.5%        |
| Public Service Commission  | 3.81                | 3.50             | 4.59                      | 4.57             | 25.2%       |
| Department of Corrections  | 5.39                | 5.31             | 5.66                      | 5.89             | 8.0%        |
| Subtotal   | 74.70               | 74.44            | 79.74                     | 79.42            | 6.7%        |
| <b>Education</b>   |                     |                  |                           |                  |             |
| Office of Public Instruction   | 9.53                | 9.54             | 2.61                      | 5.70             | -56.4%      |
| Board of Public Education  | 0.19                | 0.19             | 0.18                      | 0.18             | -2.8%       |
| Office of the Commissioner of Higher Education                                       | 21.72               | 21.49            | 23.62                     | 24.08            | 10.4%       |
| School for the Deaf and Blind  | 0.34                | 0.35             | 0.29                      | 0.29             | -17.1%      |
| Montana Arts Council   | 0.23                | 0.24             | 0.24                      | 0.24             | 3.4%        |
| Montana State Library  | 1.73                | 1.76             | 1.78                      | 1.80             | 2.4%        |
| Montana Historical Society   | 0.77                | 0.77             | 0.77                      | 0.77             | 0.1%        |
| Subtotal   | 34.51               | 34.34            | 29.49                     | 33.06            | -9.2%       |
| Subtotal Ongoing   | 752.68              | 756.36           | 796.42                    | 816.27           | 6.9%        |
| <b>One-Time</b>  |                     |                  |                           |                  |             |
| General Government   | 1.95                | 2.05             | 0.18                      | 0.28             | -88.6%      |
| Health and Human Services  | -                   | -                | -                         | -                | 0.0%        |
| Natural Resources and Transportation   | 5.84                | 8.85             | 3.19                      | 1.25             | -69.8%      |
| Judicial Branch, Law Enforcement, and Justice  | 0.50                | 0.50             | 0.82                      | 0.07             | -12.0%      |
| Education  | 0.39                | 0.39             | -                         | -                | -100.0%     |
| Subtotal One-time  | 8.68                | 11.79            | 4.18                      | 1.60             | -71.8%      |
| <b>Total</b>   | <b>\$761.361</b>    | <b>\$768.148</b> | <b>\$800.598</b>          | <b>\$817.871</b> | <b>5.8%</b> |

The table shows a total growth of 5.8%, which for state special revenue is less significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 5.3%.

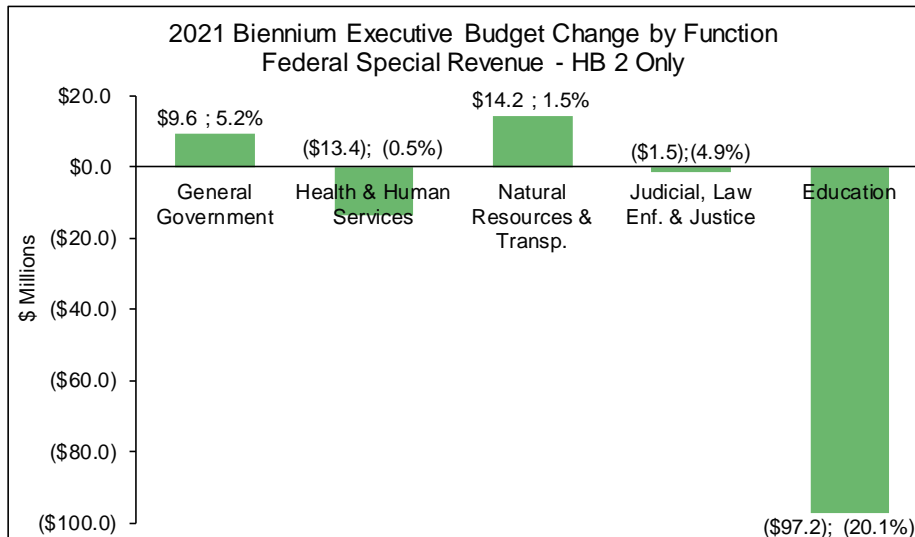
State special revenue adjustments are discussed in more detail in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis, along with any analysis comments or issues. Each of the one-time-only proposals is also explained more fully in Volumes 3-6.

### Federal Funds

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. It totals \$4,400.8 million or 42.5% of the proposed expenditures in the 2019 biennium.



The following figure shows the proposed change in funding compared to the 2019 biennium. As proposed, federal special revenues decrease by \$88.2 million when compared to 2019 biennium appropriations for a reduction of 2.0%.



As shown, the overall decrease is primarily the result of reductions in education, which is a result of changes to higher education funding. The decline in federal special revenue for the Office of the Commissioner of Higher Education (OCHE) is attributed to the reduction of services in the guaranteed student loan program and the elimination of the improving teacher quality grant program, resulting in a reduction of \$104.2 million of federal funding for the biennium.

The next figure compares federal funds by agency in the proposed 2021 biennium to the 2019 biennium.

| HB 2 Only - Federal Special Revenue Agency Comparison                                |                     |                    |                           |                    |                      |
|--|---------------------|--------------------|---------------------------|--------------------|----------------------|
| Comparison of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget |                     |                    |                           |                    |                      |
| (\$ Millions)  |                     |                    |                           |                    |                      |
|  | Appropriated Budget |                    | Executive Proposed Budget |                    | Biennium<br>% Change |
|  | FY 2018             | FY 2019            | FY 2020                   | FY 2021            |                      |
| <b>Ongoing</b>   |                     |                    |                           |                    |                      |
| <b>General Government</b>  |                     |                    |                           |                    |                      |
| Department of Revenue  | \$0.262             | \$0.263            | \$0.283                   | \$0.283            | 7.7%                 |
| Department of Administration   | 1.078               | 0.116              | 0.014                     | 0.014              | -97.6%               |
| Department of Commerce   | 18.073              | 18.108             | 21.053                    | 21.112             | 16.5%                |
| Department of Labor and Industry   | 32.404              | 33.107             | 33.162                    | 33.170             | 1.3%                 |
| Department of Military Affairs   | <u>41.172</u>       | <u>41.579</u>      | <u>43.375</u>             | <u>43.335</u>      | <u>4.8%</u>          |
| Subtotal   | 92.989              | 93.173             | 97.887                    | 97.914             | 5.2%                 |
| <b>Health and Human Services</b>   |                     |                    |                           |                    |                      |
| Dept. of Public Health & Human Services  | <u>1,396.946</u>    | <u>1,434.546</u>   | <u>1,386.074</u>          | <u>1,438.652</u>   | <u>-0.2%</u>         |
| Subtotal   | 1,396.946           | 1,434.546          | 1,386.074                 | 1,438.652          | -0.2%                |
| <b>Natural Resources and Transportation</b>  |                     |                    |                           |                    |                      |
| Department of Fish, Wildlife, and Parks  | 22.962              | 23.632             | 25.306                    | 25.345             | 8.7%                 |
| Department of Environmental Quality  | 22.591              | 23.039             | 23.705                    | 23.693             | 3.9%                 |
| Department of Transportation   | 416.635             | 425.065            | 425.790                   | 426.425            | 1.2%                 |
| Department of Livestock  | 1.705               | 1.756              | 1.865                     | 1.866              | 7.8%                 |
| Department of Natural Resources & Conservation                                       | 2.280               | 2.313              | 2.907                     | 3.412              | 37.6%                |
| Department of Agriculture  | <u>1.166</u>        | <u>1.207</u>       | <u>1.313</u>              | <u>1.314</u>       | <u>10.7%</u>         |
| Subtotal   | 467.339             | 477.013            | 480.886                   | 482.055            | 2.0%                 |
| <b>Judicial Branch, Law Enforcement, and Justice</b>                                 |                     |                    |                           |                    |                      |
| Judicial Branch  | 0.099               | 0.101              | 0.102                     | 0.101              | 1.3%                 |
| Department of Justice  | 1.335               | 1.356              | 1.423                     | 1.423              | 5.8%                 |
| Public Service Commission  | 0.173               | 0.173              | 0.273                     | 0.273              | 57.8%                |
| Department of Corrections  | <u>14.266</u>       | <u>12.443</u>      | <u>12.443</u>             | <u>12.443</u>      | <u>-6.8%</u>         |
| Subtotal   | 15.874              | 14.074             | 14.241                    | 14.241             | -4.9%                |
| <b>Education</b>   |                     |                    |                           |                    |                      |
| Office of Public Instruction   | 169.598             | 170.962            | 172.361                   | 173.361            | 1.5%                 |
| Office of the Commissioner of Higher Education                                       | 69.095              | 69.187             | 17.973                    | 18.071             | -73.9%               |
| School for the Deaf and Blind  | 0.069               | 0.071              | 0.182                     | 0.182              | 159.5%               |
| Montana Arts Council   | 0.702               | 0.710              | 0.717                     | 0.716              | 1.5%                 |
| Montana State Library  | 1.208               | 1.212              | 1.225                     | 0.875              | -13.2%               |
| Montana Historical Society   | <u>0.818</u>        | <u>0.841</u>       | <u>0.820</u>              | <u>0.823</u>       | <u>-0.9%</u>         |
| Subtotal   | 241.490             | 242.982            | 193.278                   | 194.028            | -20.1%               |
| Subtotal Ongoing   | 2,214.638           | 2,261.787          | 2,172.366                 | 2,226.890          | -1.7%                |
| <b>One-Time</b>  |                     |                    |                           |                    |                      |
| General Government   | -                   | -                  | -                         | -                  | 0.0%                 |
| Health and Human Services  | 3.923               | 2.730              | -                         | -                  | -100.0%              |
| Natural Resources and Transportation   | 3.221               | 2.695              | 1.120                     | 0.410              | -74.1%               |
| Judicial Branch, Law Enforcement, and Justice  | -                   | -                  | -                         | -                  | 0.0%                 |
| Education  | -                   | -                  | -                         | -                  | 100.0%               |
| Subtotal One-time  | <u>7.144</u>        | <u>5.424</u>       | <u>1.120</u>              | <u>0.410</u>       | <u>-87.8%</u>        |
| <b>Total</b>   | <b>\$2,221.782</b>  | <b>\$2,267.212</b> | <b>\$2,173.486</b>        | <b>\$2,227.300</b> | <b>-2.0%</b>         |

The table shows a total growth of 3.5%, which is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 2.2%. Federally funded new proposals and present law adjustments are discussed in more detail in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis.

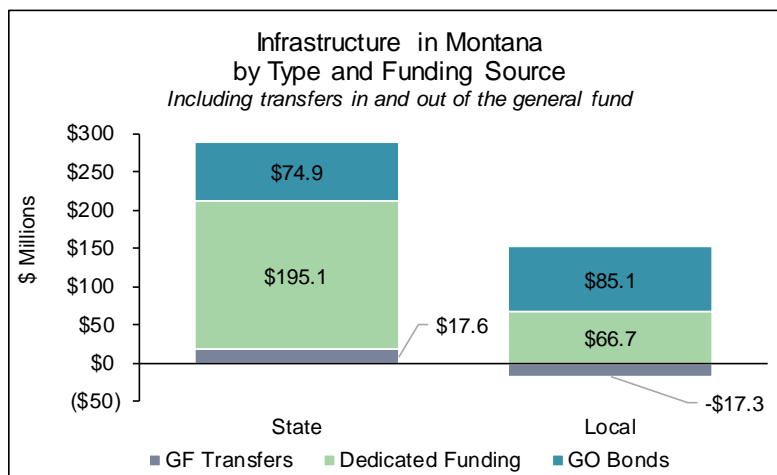
# EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

## Background

The Long-Range Planning Subcommittee (LRP) analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology. Apart from the IT program, the LRP programs have dedicated revenue streams, or revenues designated in statute for the programs and their purposes. Occasionally those dedicated revenue streams are augmented with general fund transfers, or through the authorization to issue bonded debt.

## Infrastructure in Montana Proposal

The executive proposal entitled “Infrastructure in Montana” is basically an aggregation of the traditional LRP budgets, except for the Cultural and Aesthetic Grants Program. The proposal totals \$372.2 million of state funds and \$67.2 million of non-state funds (university and proprietary funds). The proposal makes use of \$146.3 million in dedicated program revenues, \$17.6 million of general fund transferred into two programs, \$48.2 million of the proceeds from coal-severance tax bonds, and \$160.0 million in general obligations (GO) bond proceeds to provide appropriations and grants for state and local government infrastructure investment. Dedicated program revenues of the Treasure State Endowment Program in the amount of \$17.3 million would be transferred to the general fund (GF). The transfers to and from LRP programs net to a general fund cost of \$281,366. The LRP funding increase provided through the Infrastructure in Montana proposal is \$160.3 million (GO bonds + net GF transfers). The figure below shows the proposal by project type, be they state government projects or local government projects and by the type of funding.



Some of the major initiatives included in the Infrastructure in Montana proposal include:

- Construction of the new Betty Babcock Museum - \$32.1 million
- Renovation of Romney Hall, MSU - \$32.0 million
- Delivering Local Assistance Grant Program - \$44.2 million
- Funding increase for the new Southwest Veterans’ Home - \$5.0 million
- Funding increase of \$23.6 million in the Treasure State Endowment, Renewable Resources, and Reclamation and Development grants programs

## STATUTORY APPROPRIATIONS

Statutory appropriations are in statute and are not part of the biennial budgeting process. They are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. However, all statutory appropriations are available for the legislature to review and change if desired. Estimated totals by the Legislative Fiscal Division (LFD) for all statutory appropriation fund types are \$745.4 million in FY 2020 and \$769.2 million in FY 2021. For additional information on statutory appropriations, please refer to the statutory appropriations [guide](#) prepared by the Legislative Fiscal Division.

Valid statutory appropriations are contained in a list in [17-7-502, MCA](#). The list provides statutory citations for each statutory appropriation. Statutory appropriations are intended for limited situations, and guidelines for the appropriateness for establishing them are specified in [17-1-508, MCA](#). The Legislative Finance Committee periodically reviews statutory appropriations and sometimes sunset dates are included when new statutory appropriation legislation is adopted by the legislature.



# GENERAL FUND ESTIMATES

The following table shows each individual general fund statutory appropriation estimated by the Legislative Fiscal Division. The LFD estimates do not include statutory appropriation authority for the HELP Act or the Economic Development for Department of Commerce as these are set to sunset on June 30, 2019 and would need new legislation to continue the programs.

| General Fund Statutory Appropriations FY 2018 - FY 2023                    |                  |                    |                    |                    |                    |                    |
|--|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | (\$ Millions)    |                    |                    |                    |                    |                    |
| General Fund   | 2018<br>Actual   | 2019<br>(Estimate) | 2020<br>(Estimate) | 2021<br>(Estimate) | 2022<br>(Estimate) | 2023<br>(Estimate) |
| <b>Retirement</b>  |                  |                    |                    |                    |                    |                    |
| <a href="#">HB 648 (2017 Session) Statutory Appropriation to PERS</a>      | \$31.386         | \$31.958           | \$32.278           | \$32.600           | \$32.926           | \$33.256           |
| <a href="#">19-3-319 Local Gov. Retirement Contribution</a>                | 0.969            | 0.988              | 1.008              | 1.028              | 1.048              | 1.069              |
| <a href="#">19-6-404 MHP Retirement Transfer</a>                           | 1.460            | 1.489              | 1.519              | 1.549              | 1.580              | 1.612              |
| <a href="#">19-6-410 MHP Supplemental Retirement Transfer</a>              | 0.250            | 0.250              | 0.250              | 0.250              | 0.250              | 0.250              |
| <a href="#">19-9-702 Police Retirement Contribution</a>                    | 15.858           | 16.254             | 16.660             | 17.077             | 17.504             | 17.941             |
| <a href="#">19-13-604 Firefighters' Association Contribution</a>           | 16.157           | 16.803             | 17.475             | 18.174             | 18.901             | 19.657             |
| <a href="#">19-17-301 Volunteer Firefighter Fund Contribution</a>          | 2.212            | 2.301              | 2.393              | 2.488              | 2.588              | 2.691              |
| <a href="#">19-18-512 Fire Department Relief Association Contribution</a>  | 0.390            | 0.390              | 0.390              | 0.390              | 0.390              | 0.390              |
| <a href="#">19-19-305 Police (Non-PERS) Retirement Contribution</a>        | 0.216            | 0.216              | 0.216              | 0.216              | 0.216              | 0.216              |
| <a href="#">19-19-506 Police Officer Pension Supplemental Contribution</a> | -                | -                  | -                  | -                  | -                  | -                  |
| <a href="#">19-20-604 Teacher's Retirement Supplemental Contribution</a>   | 0.909            | 0.937              | 0.965              | 0.994              | 1.023              | 1.054              |
| <a href="#">19-20-607 Teachers' Retirement System Contribution</a>         | 44.096           | 44.656             | 45.246             | 45.854             | 46.479             | 47.124             |
| <a href="#">19-21-203 MUS Retirement Contribution</a>                      | 1.767            | 1.838              | 1.911              | 1.988              | 2.067              | 2.150              |
| <b>Subtotal</b>  | <b>\$115.669</b> | <b>\$118.079</b>   | <b>\$120.310</b>   | <b>\$122.607</b>   | <b>\$124.973</b>   | <b>\$127.410</b>   |
| <b>Economic Development</b>  |                  |                    |                    |                    |                    |                    |
| <a href="#">15-35-108(9)(b)(i) Coal Sev. to Coop. Dev. Center</a>          | 0.065            | 0.065              | -                  | -                  | -                  | -                  |
| <a href="#">15-35-108(9)(b)(ii) Coal Sev. to Growth Through Ag</a>         | 0.623            | 0.625              | -                  | -                  | -                  | -                  |
| <a href="#">15-35-108(9)(b)(iv) Coal Sev. to Dept. of Commerce</a>         | 1.099            | 1.100              | -                  | -                  | -                  | -                  |
| <a href="#">15-70-433 Biodiesel Tax Refunds</a>                            | -                | -                  | -                  | -                  | -                  | -                  |
| <b>Subtotal</b>  | <b>1.788</b>     | <b>1.790</b>       | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           |
| <b>Local Assistance</b>  |                  |                    |                    |                    |                    |                    |
| <a href="#">7-4-2502 Payment of County Attorneys</a>                       | 3.452            | 3.555              | 3.662              | 3.772              | 3.885              | 4.001              |
| <a href="#">15-1-121 Local Government Combined Distribution</a>            | 133.853          | 136.514            | 140.253            | 144.726            | 149.068            | 153.540            |
| <a href="#">22-1-327 State Aid to Public Libraries</a>                     | -                | -                  | 0.396              | 0.396              | 0.396              | 0.396              |
| <b>Subtotal</b>  | <b>137.304</b>   | <b>140.069</b>     | <b>144.310</b>     | <b>148.894</b>     | <b>153.349</b>     | <b>157.938</b>     |
| <b>Other</b>   |                  |                    |                    |                    |                    |                    |
| <a href="#">10-1-1202 National Guard Death Benefit</a>                     | -                | -                  | -                  | -                  | -                  | -                  |
| <a href="#">10-3-310 Incident Response Appropriation</a>                   | -                | -                  | -                  | -                  | -                  | -                  |
| <a href="#">10-3-312 Emergency and Disaster Appropriation</a>              | 3.574            | 12.926             | 8.250              | 8.250              | 8.250              | 8.250              |
| <a href="#">15-1-218 Out of State Collections</a>                          | 0.182            | 0.120              | 0.120              | 0.120              | 0.120              | 0.120              |
| <a href="#">16-11-509 Tobacco Enforcement</a>                              | -                | -                  | -                  | -                  | -                  | -                  |
| <a href="#">17-3-106 Return of Federal Grant Interest</a>                  | 0.013            | 0.002              | 0.002              | 0.002              | 0.002              | 0.002              |
| <a href="#">17-3-106 Return of Federal Grant Money (GSD Only)</a>          | 0.276            | 0.225              | 0.225              | 0.225              | 0.225              | 0.225              |
| <a href="#">17-3-106 Return of Federal Grant Money</a>                     | 0.213            | 0.170              | 0.170              | 0.170              | 0.170              | 0.170              |
| <a href="#">5-13-402 Legislative Audits</a>                                | -                | -                  | -                  | -                  | -                  | -                  |
| <a href="#">17-1-205 Loan to G.F. / other</a>                              | 0.075            | -                  | -                  | -                  | -                  | -                  |
| <a href="#">17-6-101 Banking Charges</a>                                   | 2.235            | 2.279              | 2.325              | 2.372              | 2.419              | 2.467              |
| <a href="#">17-7-502(4) Bond Fees &amp; Costs</a>                          | 12.395           | 9.271              | 8.145              | 6.888              | 6.108              | 6.103              |
| <a href="#">Aquatic Invasive Species</a>                                   | -                | -                  | -                  | -                  | -                  | -                  |
| <a href="#">53-6-1304 SB 405 HELP Act</a>                                  | 42.634           | 51.771             | -                  | -                  | -                  | -                  |
| <b>Subtotal</b>  | <b>61.598</b>    | <b>76.764</b>      | <b>19.237</b>      | <b>18.026</b>      | <b>17.294</b>      | <b>17.337</b>      |
| <b>General Fund Total</b>  | <b>\$316.360</b> | <b>\$336.703</b>   | <b>\$283.858</b>   | <b>\$289.527</b>   | <b>\$295.616</b>   | <b>\$302.685</b>   |

## REMAINING STATUTORY APPROPRIATIONS

The following table shows LFD estimates for statutory appropriations that impact state special revenue funds, federal special revenue funds, capital projects and enterprise funds. LFD estimates do not include HELP Act for the 2021 biennium as the legislation is set to expire on June 30, 2019.

| Remaining Statutory Appropriations - Legislative Fiscal Division Estimates |                    |                    |                  |                  |                  |                  |
|--|--------------------|--------------------|------------------|------------------|------------------|------------------|
| (\$ Millions)  |                    |                    |                  |                  |                  |                  |
|  | 2018               | 2019               | 2020             | 2021             | 2022             | 2023             |
|  | (Estimate)         | (Estimate)         | (Estimate)       | (Estimate)       | (Estimate)       | (Estimate)       |
| <b>State Special Funds</b>   |                    |                    |                  |                  |                  |                  |
| <a href="#">20-9-622 Guarantee Account to BASE Aid</a>                     | 47.041             | 43.394             | 45.692           | 46.204           | 47.477           | 49.443           |
| <a href="#">15-36-332 Oil &amp; Gas Distribution to Counties</a>           | 53.594             | 58.918             | 58.474           | 58.461           | 57.369           | 56.171           |
| <a href="#">15-65-121 Lodging Tax Distribution</a>                         | 25.485             | 32.351             | 33.997           | 35.224           | 36.326           | 37.301           |
| <a href="#">HB 473 Fuel Tax to Local Governments</a>                       | 20.218             | 33.929             | 36.439           | 36.512           | 38.594           | 40.882           |
| <a href="#">17-3-241 Mineral Impact Account</a>                            | 5.779              | 5.779              | 5.779            | 5.779            | 5.779            | 5.779            |
| All Other State Special  | 128.755            | 85.232             | 85.232           | 85.232           | 85.232           | 85.232           |
| <b>State Special Total</b>   | <b>\$280.871</b>   | <b>\$259.603</b>   | <b>\$265.612</b> | <b>\$267.412</b> | <b>\$270.776</b> | <b>\$274.808</b> |
| <b>Federal Special Funds</b>   |                    |                    |                  |                  |                  |                  |
| <a href="#">53-6-1304 SB 405 HELP Act</a>                                  | \$672.988          | \$715.731          | -                | -                | -                | -                |
| <a href="#">HB 639 Indian Health Services</a>                              | 74.823             | 94.556             | 108.740          | 125.051          | 143.808          | 165.379          |
| <a href="#">17-3-212 Federal Forest Funds to Counties</a>                  | 15.120             | 8.700              | 8.700            | 8.700            | 8.700            | 8.700            |
| <a href="#">17-7-502(4) Highway 93 Debt Service</a>                        | 15.416             | 15.416             | 15.416           | 15.416           | 15.416           | 15.416           |
| All Other Federal Funds  | 28.808             | 20.000             | 20.000           | 20.000           | 20.000           | 20.000           |
| <b>Federal Special Total</b>   | <b>\$807.155</b>   | <b>\$854.404</b>   | <b>\$152.856</b> | <b>\$169.167</b> | <b>\$187.925</b> | <b>\$209.496</b> |
| <b>Capital Projects and Enterprise Funds</b>                               |                    |                    |                  |                  |                  |                  |
| <a href="#">23-7-402 Lottery Prizes</a>                                    | 32.551             | 32.551             | 32.551           | 32.551           | 32.551           | 32.551           |
| All Other  | 10.515             | 10.515             | 10.515           | 10.515           | 10.515           | 10.515           |
| <b>Capital Projects and Enterprise Funds Total</b>                         | <b>\$43.066</b>    | <b>\$43.066</b>    | <b>\$43.066</b>  | <b>\$43.066</b>  | <b>\$43.066</b>  | <b>\$43.066</b>  |
| <b>Total Statutory Appropriations (All Funds)</b>                          | <b>\$1,447.451</b> | <b>\$1,493.775</b> | <b>\$745.392</b> | <b>\$769.172</b> | <b>\$797.383</b> | <b>\$830.055</b> |

## GENERAL FUND TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and – with proper legislative authorization – money may be transferred from one account to another without an appropriation. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in un-codified legislation) and are not part of the biennial budgeting process. However, they impact the amount of money available for the legislature to appropriate for specific programs. The Legislative Finance Committee has approved a policy that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated.

### LEGISLATIVE FISCAL DIVISION ESTIMATES

The following table shows each individual general fund transfer estimated by the Legislative Fiscal Division. The LFD non-budgeted transfer estimates are used in the LFD general fund balance sheet. LFD analysis indicates small technical difference with the executive balance sheet that will be adjusted after December 15<sup>th</sup>.

| General Fund Non-Budgeted Transfers: LFD Estimates                              |                 |                  |                  |                  |                  |                  |
|---|-----------------|------------------|------------------|------------------|------------------|------------------|
| (\$ Millions)   |                 |                  |                  |                  |                  |                  |
| Statutory Reference   | 2018<br>Actual  | 2019<br>Estimate | 2020<br>Estimate | 2021<br>Estimate | 2022<br>Estimate | 2023<br>Estimate |
| <b>Vehicle</b>  |                 |                  |                  |                  |                  |                  |
| <a href="#">15-1-122(1) Adoption Services Account</a>                           | \$0.072         | \$0.079          | \$0.087          | \$0.095          | \$0.105          | \$0.115          |
| <a href="#">15-1-122(2) Research &amp; Commercialization Account</a>            | 1.275           | 1.275            | -                | -                | -                | -                |
| <a href="#">15-1-122(3)(a) Motor Vehicle Recycling &amp; Disposal Program</a>   | 1.620           | 1.651            | 1.672            | 1.689            | 1.706            | 1.723            |
| <a href="#">15-1-122(3)(b) Noxious Weed Account</a>                             | 1.641           | 1.673            | 1.694            | 1.712            | 1.729            | 1.747            |
| <a href="#">15-1-122(3)(c)(i) Boat Facilities &amp; Off-Highway Vehicles</a>    | 0.503           | 0.513            | 0.520            | 0.525            | 0.530            | 0.536            |
| <a href="#">15-1-122(3)(c)(ii) Snowmobile Facility Development &amp; Maint.</a> | 0.109           | 0.112            | 0.113            | 0.114            | 0.115            | 0.116            |
| <a href="#">15-1-122(3)(c)(iii) Motorboat Account</a>                           | 0.175           | 0.178            | 0.181            | 0.183            | 0.184            | 0.186            |
| <a href="#">15-1-122(3)(d) State Veterans' Cemetery Account</a>                 | 0.868           | 0.903            | 0.915            | 0.925            | 0.934            | 0.943            |
| <a href="#">15-1-122(3)e Search &amp; Rescue Account</a>                        | 0.044           | 0.045            | 0.045            | 0.046            | 0.046            | 0.047            |
| <b>Other Transfers</b>  |                 |                  |                  |                  |                  |                  |
| <a href="#">15-1-122(5) Sage Grouse</a>   | 2.000           | 2.000            | 2.000            | 2.000            | -                | -                |
| <a href="#">15-1-122(4) Livestock Loss</a>                                      | 0.200           | 0.200            | 0.200            | 0.200            | 0.200            | 0.200            |
| <a href="#">17-1-511(2) Rural Physicians</a>                                    | 0.227           | 0.227            | 0.227            | 0.227            | 0.227            | 0.227            |
| <a href="#">39-11-206 Commerce Training Account</a>                             | -               | -                | -                | -                | -                | -                |
| <a href="#">39-71-2352(6) Old State Fund Shortfall</a>                          | 8.050           | 7.936            | 7.299            | 6.965            | 6.965            | 6.965            |
| <a href="#">76-13-105 Wildfire Suppression</a>                                  | 25.309          | -                | -                | -                | -                | -                |
| <a href="#">77-1-108(5a) Trust Land Adm.</a>                                    | 0.080           | -                | 0.040            | 0.040            | 0.040            | 0.040            |
| <a href="#">85-2-280 Water Adjudication</a>                                     | 3.179           | 3.864            | 2.996            | 3.702            | 3.702            | 3.702            |
| <a href="#">87-2-801(6) Purple Heart Free Hunting</a>                           | 0.025           | -                | -                | -                | -                | -                |
| <a href="#">87-2-803(12d) Military Free Hunting</a>                             | 0.000           | -                | -                | -                | -                | -                |
| <b>Legislation</b>  |                 |                  |                  |                  |                  |                  |
| <a href="#">HB 647 (2017 Session)</a>   | -               | 0.400            | -                | -                | -                | -                |
| <b>Other Adjustments</b>  |                 |                  |                  |                  |                  |                  |
|   | (0.212)         | -                | -                | -                | -                | -                |
| <b>Total General Fund</b>   | <b>\$45.166</b> | <b>\$21.055</b>  | <b>\$17.988</b>  | <b>\$18.423</b>  | <b>\$16.485</b>  | <b>\$16.548</b>  |

## GOVERNOR'S PROPOSED OTHER LEGISLATION GENERAL FUND ONLY

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

| 2021 Biennium Executive Proposed General Fund Legislation                          |                  |                 |
|--|------------------|-----------------|
| \$ Millions  |                  |                 |
| <u>General Fund Revenue Legislation</u>  | FY 2020          | FY 2021         |
| LC# 1369 Proposed Accommodations & Rental Car Sales Tax Increase                   | \$10.639         | \$11.395        |
| LC# 1371 Investment License Increase   | 6.011            | 6.124           |
| LC# 1372 Proposed Liquor Excise & License Tax Increase                             | 7.044            | 7.361           |
| LC# 1373 Proposed Cigarette & Tobacco Products Tax Increase                        | 17.689           | 23.756          |
| Other  | 1.600            | -0.409          |
| Third Party Administrator Premiums if HELP Act extended (OBPP estimates)           | 5.200            | 5.300           |
| Core Civic Contract Renegotiation  | 4.100            | -               |
| HB 11 Treasure State Endowment Program Transfer-in                                 | 8.513            | 8.819           |
| <b>General Fund Revenue Legislation Total</b>                                      | <b>\$60.796</b>  | <b>\$62.346</b> |
| <u>General Fund Expenditures</u>   | FY 2020          | FY 2021         |
| HB 2 (language appropriations only)  | \$0.050          | \$0.050         |
| HB 3 Supplemental Appropriations   | 11.748           |                 |
| HB 3 Fire  | 15.000           |                 |
| HB 5 Long Range Building   | 2.500            |                 |
| HB 10 Long Range Information Technology  | 15.113           |                 |
| HB 13 Employee Pay Plan  | 6.834            | 14.756          |
| HB 14 Creating the Local Assistance Grant Program (executive estimate for GO debt) | 3.580            | 10.180          |
| Continue HELP Act (no LC# at time of publication)                                  | 59.384           | 66.991          |
| LC# 271 Revise and make permanent funding for economic development programs        | 2.490            | 2.490           |
| LC# 482 Revising the quality educator loan assistance program                      | 0.250            | 0.250           |
| <b>General Fund Expenditure Legislation Total</b>                                  | <b>\$116.950</b> | <b>\$94.718</b> |

For a more detailed explanation of the revenue legislation proposed by the executive, please refer to the revenue section of this report.

- HB 3: The executive proposes supplemental appropriations that are discussed in further detail in a later section of this volume. In addition, the executive proposes to transfer \$15.0 million from the general fund to the fire suppression special revenue fund
- Infrastructure bills: HB 5 and HB 10 are proposals to transfer general fund to the long range building program and long range information technology. HB 14 proposes the issuance bonds. The cost for the new general obligation debt as estimated by the executive is included in the table. More detail is provided in Section F of the 2021 biennium budget analysis
- HB 13
  - The executive proposes a 50 cent/hour increase to state employee pay in FY 2020 and a 50 cent/hour increase in FY 2021
  - \$2.0 million has been proposed for the purpose of providing for personal services shortfalls that may occur in the 2021 biennium and may be used at the discretion of the executive
  - LFD analysis indicates that a technical adjustment to the executive ending fund balance sheet will be included after December 15<sup>th</sup>
- The executive has proposed continuing the Medicaid expansion. The general fund cost is estimated at \$126.3 by the executive and has been discussed in previous sections of this report

- LC #271 proposes to both increase funding and extend the termination date on existing statutory appropriations for the Department of Commerce Research and Commercialization Program
- LC #482 executive proposal revises the quality educator loan assistance program by first moving it from the Office of Commissioner of Higher Education to the Office of Public Instruction and also decreasing the amount

## **REFERENCES**

The Governor's Budget Highlights Fiscal Years 2018-2019 are found on the Governor's website:  
[http://budget.mt.gov/Budgets/2021\\_Budget](http://budget.mt.gov/Budgets/2021_Budget)

# **FY 2019 SUPPLEMENTAL REQUESTS**

## **EXECUTIVE PROPOSAL**

The executive is requesting \$11.7 million general fund in HB 3 supplemental appropriations for FY 2019.

### **Department of Corrections**

The department issued a fiscal year transfer late in FY 2018 that moved appropriation authority from FY 2019 to FY 2018 to address agency shortfalls. The executive requests \$3.7 million for secure facilities.

### **Office of Public Defender**

The Office of Public Defender experienced shortfalls in the 2019 biennium. The executive has requested \$7.4 million.

### **The Judicial Branch and Department of Administration**

During the 2017 November Special Session, the Judicial Branch was inadvertently reduced by \$120,000 general fund. The executive has requested this authority be restored to FY 2019.

During the 2017 November Special Session, the Department of Administration was inadvertently reduced by \$500,000. The executive has requested this authority be restored to FY 2019.