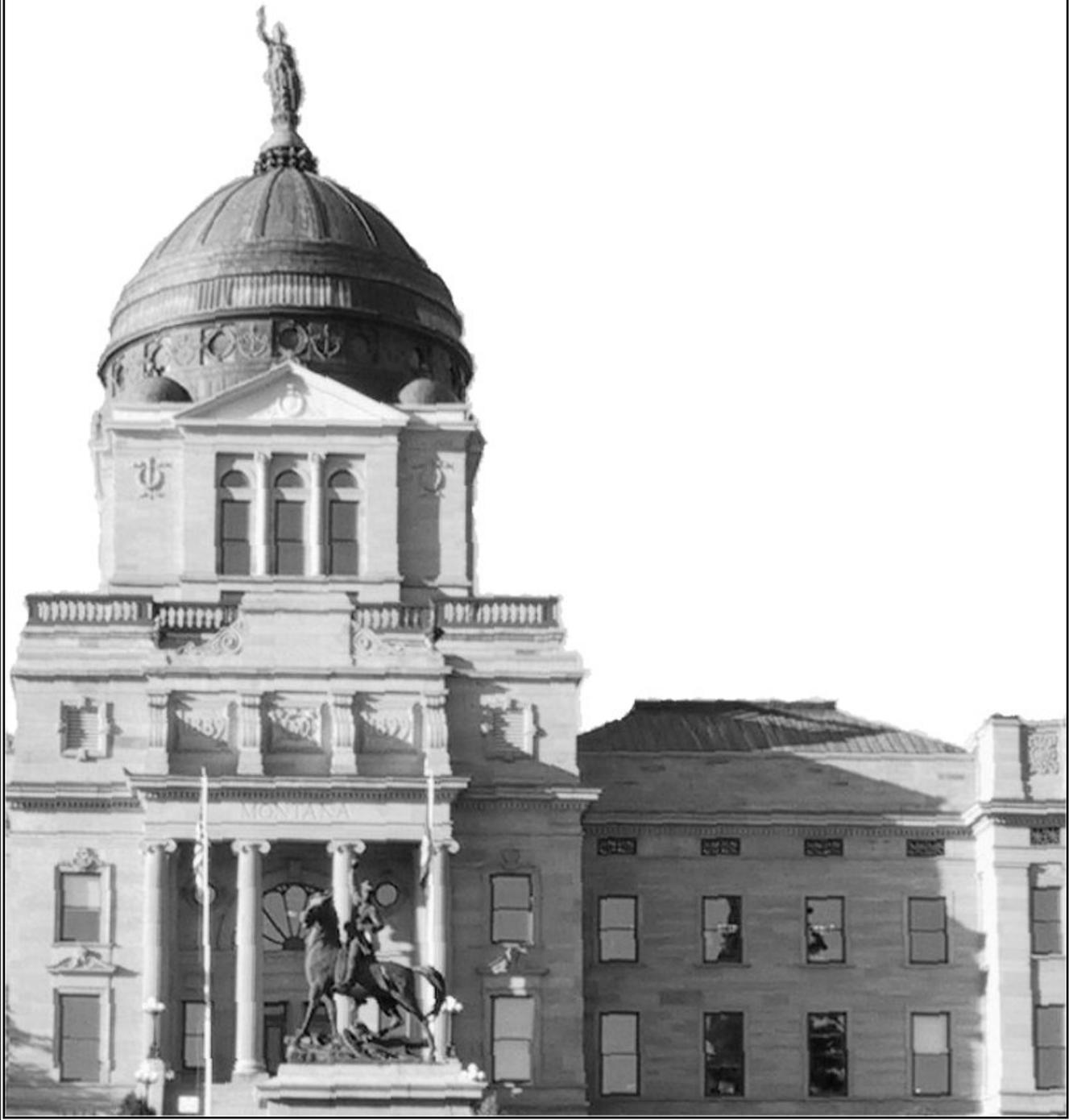


**LEGISLATIVE FISCAL REPORT 2017 BIENNIUM**

**VOLUME 1—STATEWIDE PERSPECTIVES**





**LEGISLATIVE FISCAL REPORT  
2017 BIENNIUM  
VOLUME 1 – STATEWIDE PERSPECTIVES**

**REPORT FROM THE LEGISLATIVE FISCAL DIVISION  
TO THE SIXTY-FOURTH LEGISLATURE  
JUNE 2015**

**Legislative Finance Committee (2015 Session)**

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Representative Rob Cook  
Representative Kimberly Dudik  
Representative Kelly McCarthy  
Representative Ryan Osmundson  
Representative Pat Noonan  
Senator Mary Caferro  
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## **Acknowledgements**

The Legislative Fiscal Division (LFD) is a nonpartisan office which provides fiscal and policy information and advice to the legislature.

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

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# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Director  
AMY CARLSON

June 2015

Members of the 64<sup>th</sup> Legislature  
Members of the Legislative Finance Committee:

In accordance with the provisions of [5-12-302, MCA](#), I submit the Legislative Fiscal Report for the 2017 biennium. The report provides an overview and details of the 2017 biennium budget for the State of Montana adopted by the 64<sup>th</sup> Legislature in the 2015 Session.

This four volume report includes:

- o Volume 1: Statewide Perspectives – This volume provides an overview of the 2017 biennium state budget as well as significant policies addressed by the 2015 Legislature
- o Volume 2: Revenue Estimates – This volume provides the legislative revenue estimates and underlying economic assumptions that were included in HJ 2
- o Volumes 3 and 4: Agency Budgets – These volumes provide a detailed report of the appropriations for each agency and program contained in the general appropriations act (HB 2) and in other legislation

These volumes are intended as a reference document and historical archive of the legislative budget action for the use of legislators, the public and state agencies.

Respectfully submitted,

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

Amy Carlson  
Legislative Fiscal Analyst



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# VOLUME 1: INTRODUCTION

The purpose of this report is to provide legislators and all interested parties with information regarding the fiscal actions of the 2015 Legislature (including both legislation passed and legislative intent related to fiscal issues) and the fiscal status of state government through the 2017 biennium. This report provides an objective perspective on the state's fiscal condition and on the fiscal outcomes of the 2015 regular session. In addition, the report is a reference document for all legislators, as well as an historic record of fiscal decisions.

Volume 1 is intended to complement Volumes 2 through 4 of the [2017 Biennium Legislative Fiscal Report](#) by providing a general overview of the budget approved by the legislature. Volumes 2 through 4 describe the detailed results of the 2015 Legislature's actions regarding expenditures and revenues, and Volumes 3-4 include adopted budgets of state programs. Volume 1 presents a broader fiscal overview and discusses significant fiscal and policy issues that either encompasses all programs and agencies or that do not necessarily fall under the jurisdiction of a single committee of the legislature.

This volume is divided into the following sections:

- Overview provides a high level summary of the actions of the 2015 Legislature
- Biennial Comparison shows the changes between the 2015 biennium and 2017 biennium legislative appropriations
- Revenues provide a review of the revenue projections used to craft the 2017 biennium budget
- Expenditures provides an overview of the state spending plan for the 2017 biennium
- Legislative Action describes significant fiscal decisions
- Appendix contains information that further details various aspects of the legislative budget

## LEGISLATIVE FISCAL REPORT: VOLUMES 2 THROUGH 4

### [Volume 2](#) – Revenue Estimates

Volume 2 provides a detailed summary of the state's major revenue sources is included online. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. Volume 2 also describes the legislative actions that affected the various revenue sources.

### [Volumes 3 and 4](#) – Expenditure Details

Volumes 3 and 4 offer detailed summaries of each individual agency budget as adopted by the legislature. These volumes feature program-by-program detail, including a summary of legislative intent where appropriate. Agency sections correspond with the appropriations subcommittee that reviewed their budget.

- Volume 3
  - HB 2 – General Appropriations Act of 2015
  - Section A – General Government
  - Section B – Health and Human Services
- Volume 4
  - HB 2 – General Appropriations Act of 2015
  - Section C – Natural Resources and Transportation
  - Section D – Judicial Branch, Law Enforcement, and Justice
  - Section E – Education
  - Section F – Long-Range Planning

The basic structure used for the [2017 Biennium Legislative Fiscal Report](#) is consistent across agencies. Please note that if using this document to compare to previous Legislative Fiscal Reports,

this biennium is a transition from budgeting based on FY 2014 actual spending to instead using the legislatively budgeted FY 2015 level of spending.

Agency budgets are presented in three tiers:

- 2015 legislative appropriations as a starting point
- Present law adjustment: additional funding needed to maintain current operations and services at the level authorized by the 2013 Legislature
- New proposal requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding

The 64<sup>th</sup> Legislature used the 2015 legislative appropriations as the starting point, then incrementally added or subtracted funds through either present law adjustments or new proposals to arrive at a total approved budget for an agency. These volumes detail an agency's appropriations, both in tables and narrative, and present detailed discussions of present law adjustments, new proposals and new legislation.

## GENERAL FUND STRUCTURAL BALANCE

In addition to using the general fund ending fund balance, the legislature also uses structural balance (the difference between ongoing revenues and ongoing expenditures) as the means for managing potential volatility. The estimated structural balance at the end of legislative action of the 2015 session was \$24.4 million. However, the legislature adopted one-time budgeting for the operations of the Office of Public Defender (OPD) and Department of Livestock (Livestock) for the purpose of thoroughly detailing these budgets for the 2019 biennium. If these appropriations were considered ongoing, the structural balance would be negative \$8.9 million or 0.4% of annual expenditures. After the Governor's vetoes the structural balance, considering OPD and Livestock as ongoing, is positive \$20 million or 1%.

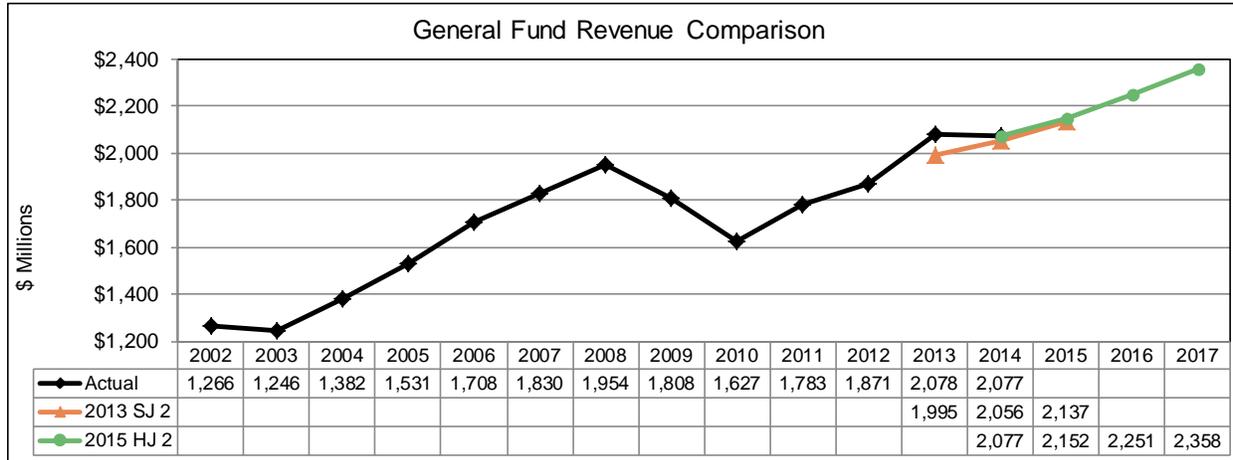
The following table is an updated general fund balance sheet of adjustments that reflect the bills that were sent out for legislative polling. The polling results indicated that the Governor's vetoes were upheld.

Legislative Fiscal Division General Fund Balance Sheet (\$ Millions)				
6/11/15 9:29 AM	FY 2014	FY 2015	FY 2016	FY 2017
Beginning Fund Balance	\$537.600	\$424.451	\$364.934	\$319.061
<b>Revenues</b>				
Actual/HJ 2	2,077.044	2,151.786	2,251.181	2,357.877
<b>Revenue Legislation</b>				
Ongoing Revenue		(0.043)	11.874	(2.521)
OTO Revenue		2.250	(0.122)	0.005
<b>Total Available Funds</b>	<b>\$2,614.644</b>	<b>\$2,578.444</b>	<b>\$2,627.867</b>	<b>\$2,674.422</b>
<b>Expenditures - Ongoing</b>				
Previously Authorized				
Statutory App/ Non-Bud Trans/Other	270.900	292.600	289.300	295.600
<b>HB 2</b>				
Section A: General Government	82.600	88.500	101.924	112.145
Section B: Health and Human Services	445.900	469.100	502.221	517.559
Section C: Natural Resources	30.900	32.400	33.973	33.902
Section D: Public Safety	276.200	283.200	281.241	283.899
Section E: Education	927.900	972.200	1,019.715	1,040.181
<b>HB 2 Subtotal</b>	<b>1,763.500</b>	<b>1,845.400</b>	<b>1,939.074</b>	<b>1,987.686</b>
Non HB 2 Legislation Apprpr(Bill list)				
HB 2 Language Appropriations		6.000	19.786	21.361
HJ 2 Statutory and Transfer Adjustments		21.194	(2.110)	(3.448)
		0.258	0.166	0.209
Assumed 2017 Appropriations (HB 1 & SB 260)				
Reversion Assumptions				7.600
		(6.700)	(7.100)	(7.300)
<b>One-Time Expenditures</b>				
Previously Authorized	135.500	28.900		
HB 2	20.600	25.858	65.969	58.422
Non-HB 2 Legislation (Bill List)		-	3.721	(0.054)
<b>Total Expenditures</b>	<b>\$2,190.500</b>	<b>\$2,213.510</b>	<b>\$2,308.806</b>	<b>2,360.076</b>
Other Adjustments	0.307			
<b>Ending Fund Balance (unaudited and unassigned)</b>	<b>\$424.451</b>	<b>\$364.934</b>	<b>\$319.061</b>	<b>\$314.345</b>
Total Ongoing Revenues	2,077.044	2,151.743	2,263.055	2,355.356
Total Ongoing Expenditures	2,034.400	2,158.751	2,239.116	2,301.708
<b>Structural Balance (ongoing revenues-ongoing expenditures)</b>	<b>\$42.644</b>	<b>(\$7.008)</b>	<b>\$23.939</b>	<b>\$53.648</b>
Adjust Structural Balance for ongong liabilities funded with one-time funding				
Assumption for Public Defender and Dept. of Livestock ongoing			33.330	33.285
<b>Adjusted Structural Balance</b>			<b>(\$9.391)</b>	<b>\$20.362</b>

# REVENUES

The 2017 biennium general fund revenues are anticipated to grow at rates similar to growth in 2010. In the past ten years, Montana has experienced high revenue growth as well as significant declines. The stability of recent years is anticipated to continue into the 2017 biennium.

Prior to the 2015 legislative session and throughout legislative deliberation, the revenue estimates of the LFD and the Governor’s Office of Budget and Program Planning (OBPP) varied as much as \$358 million over the three year estimated period. Ultimately, the House Tax Committee adopted an estimate that was based on the core methodologies and assumptions of the LFD with the exception of alternative assumptions in specific sources to bring the estimate between the level estimated by the OBPP and the LFD.



The chart above illustrates the actual revenue collected from FY 2002 to FY 2014 with the black line. The orange line shows the revenue anticipated at the end of the 2013 session and the green line shows the revenue estimate for FY 2015 to FY 2017 as contained in HJ 2, the official revenue estimate of the 2015 session.

## LEGISLATIVE GENERAL FUND BUDGET FOR THE 2017 BIENNIUM

The status sheet at the end of session had an ending fund balance anticipated at \$268.6 million and a negative structural balance of \$8.6 if the assumption for Office of Public Defender and Department of Livestock are ongoing liabilities. However, the Governor vetoed a number of bills after the end of the 2015 legislative session that impacted both the overall and structural balances. The following table details the Governor's vetoes. All vetoes that qualified for potential polling were upheld by the legislature.

Vetoed Bills (after 4/28/2015) -- General Fund Only FY 2015 - FY 2017 (\$ Millions)				
Bill	Short title	Status	Revenues	Approp.
HB0002	General Appropriations Act line-items, Section A	Vetoed, line-item, override attempt failed		\$0.180
HB0237	Providing requirements for Medicaid overpayment audits	Vetoed, override attempt failed	-	-
HB0322	Create education savings accounts for children with disabilities	(H) Vetoed by Governor		0.105
HB0423	Revise education funding laws related to oil & natural gas taxes	Vetoed, override attempt failed	-	0.515**
HB0496	Establish public lands task force	(H) Vetoed by Governor		0.035
HB0599	Allow for permanent registration of heavy trucks & truck tractors	Vetoed, override attempt failed	\$2.519	-
HB0614	Study committee on patient compensation for medical injury	(H) Vetoed by Governor		0.031
HB0628	Revise the replacement schedule for regular license plates	Vetoed, override attempt failed	(1.131)	-
SB0099	Revise insure Montana small business health insurance laws	(S) Vetoed by Governor	(17.118)	
SB0171	Generally revise taxation of income, including corporate tax	(S) Vetoed by Governor	(28.328)	
SB0316	Regarding when certain individuals may be transferred to DOC	Vetoed, override attempt failed	-	-
SB0354	Create infrastructure funding program	(S) Vetoed by Governor	(0.784)	
SB0390	Study fees charged relating to boards	Vetoed, override attempt failed	-	0.007
Grand Total			(\$44.842)	\$0.358

\*\*HB 423 had a BASE-aid impact that would have reduced the general fund balance. HB 154 anticipated a \$10.3 million increase to revenues beginning in FY 2019, so is therefore not shown on the table.

The final adopted general fund budget included an ending fund balance anticipated at \$314.3 million and a positive structural balance of about \$20 million if the ongoing liabilities funded with one-time funding for the Office of Public Defender and Department of Livestock are assumed ongoing.

## DETAIL OF ONGOING GENERAL FUND INCREASE

### *Department of Health and Human Services*

The general fund 2017 biennium HB 2 ongoing appropriations for the Department of Public Health and Human Services (DPHHS) are \$104.3 million, or 11.4% higher than the 2015 biennium appropriation. The major increase is for Medicaid services for persons who meet specific eligibility criteria, which is \$94.5 million general fund. If Medicaid caseloads exceed expected levels, the legislature authorized up to an additional \$21.8 million general fund to be appropriated in language in HB 2. Medicaid services costs rose due to increased enrollment and service utilization as well as a 2% annual provider rate increase for most Medicaid services.

In addition, the legislature funded general fund increases in mental health services \$19.2 million and moved patients from the Montana Developmental Center (MDC) to community based services and care. General fund expenditures for the MDC transition are estimated to increase by \$1.0 million in FY 2016 with a reduction of \$2.8 million in FY 2017.

### *Department of Corrections*

The Department of Corrections is funded primarily with the general fund. The main increases in the Department of Corrections HB 2 budget are to maintain current programs. The budget addresses average annual offender population increases of 1% and budget pressures driven by costs to hold offenders in county jails, to treat the medical needs of inmates, and to enhance reentry efforts by providing more supervision to offenders returned to the communities. To accommodate these factors,

the legislature funded the department at \$26.3 million, or 7.2% higher than the 2015 biennium, to increase staffing by 9.5 FTE. Of the staffing growth, 6.0 FTE were added to address probation and parole officer caseloads. The increases noted above are after \$10.5 million and 4.0 FTE were moved from the department to the Judicial Branch to administer allocation of juvenile placement funds.

### Department of Public Defender

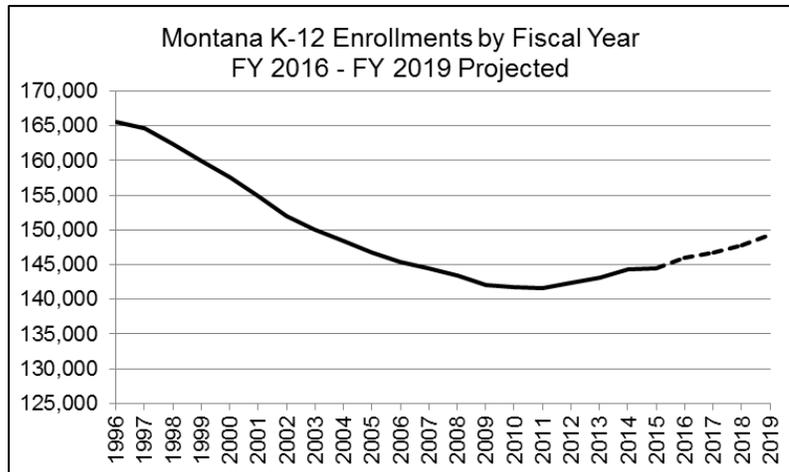
The legislature increased funding in HB 2 for the Office of Public Defender by \$11.2 million or 20.7% over the previous biennium HB 2 funding, which included increasing staffing by 27.4 FTE to address caseload issues. Significant increases also included \$1.9 million to contract for private attorneys to augment staff and \$0.5 million in discretionary funding for the Public Defender Commission to allocate to address budget pressures during the 2017 biennium. All funding for the office was designated as one-time-only so the budget for the 2019 biennium would be developed from a zero base.

In addition to the budget, the legislature passed [HB 627](#) that created an interim task force to study the operations of the office and to develop a long-term organizational plan that will allow the office to provide effective assistance of counsel to those that qualify.

### K-12 Funding

K-12 funding is a significant portion of the total general fund share of HB 2 or about 39% of the spending in the 2017 biennium.

The increase in ongoing K-12 HB 2 general fund spending was \$119.8 million or 38% of the total general fund ongoing increase in spending. Total enrollments are expected to grow by about 0.6% in each year of the biennium compared to FY 2015 (see adjacent chart).



The components of the increase in general fund include:

- o A replacement of \$19.7 million of funding that was available in the guarantee account in the 2015 biennium that is not anticipated in the 2017 biennium
- o An increase of \$92.1 million in BASE Aid driven by inflationary rates of 2.33% in FY 2016 and 1.79% in FY 2017 applied to the basic components of the school funding model and increases in enrollment of 1.2% over the biennium
- o An increase of \$7.9 million in BASE Aid due to shortfall in appropriation for the 2015 biennium to fund a \$7.5 million shortfall in BASE funding and a \$0.4 million shortfall in funding for block grants

### Montana University System (MUS) Funding

The 2015 Legislature increased general fund appropriations in HB 2 for Montana’s postsecondary education institutions by \$23.3 million for the 2017 biennium over the FY 2015 legislative appropriation. Of this increase, 47% is for present laws expenditures while the remaining 53% is attributed to the state share of the educational units’ pay plan cost increases outlined in [SB 418](#).

HB 2 General Fund Increase (\$ Millions)	
State Share Funding for Present Law Adjustments	<u>\$10.9</u>
Ongoing Expenditures Total	10.9
Pay Increase for Educational Units	12.4
<b>Total Increase</b>	<b>\$23.3</b>

The general fund increase for the state share funding of present law adjustments will be allocated to the Montana University System education units to implement a Tuition Cap Agreement reached between the Governor and the Board of Regents and approved by

All Funds HB 2 Tuition Cap Agreement (\$ Millions)	
State Share Funding for Present Law Adjustments	\$10.9
Pay Increase for Educational Units	12.7
<b>Total Increase</b>	<b>\$23.6</b>

the legislature to freeze resident student tuition rates each year of the 2017 biennium. (At its May 2015 meeting, the Board of Regents maintained tuition rates at the prior level.)

In addition to present law adjustments within HB 2 appropriations, the Tuition Cap Agreement includes an appropriation for the state share of the educational units' pay plan costs. The estimated general fund allocation is \$12.4 million for pay raises and increased state contribution toward health insurance premiums. The agreement also commits the Montana University System to incorporating a performance funding component of \$30.0 million into the allocation model used by the Board of Regents for distributing funds to the MUS education units.

## DETAIL OF GENERAL FUND ONE-TIME-ONLY SPENDING

### ***MUS Research Funding***

The MUS received a \$15.0 million restricted, biennial, one-time-only state general fund appropriation to serve as seed money to leverage university-based research into strategic advancements for Montana's economy. The fundamental purpose of this research initiative is to: (1) solve Montana problems with Montana solutions; (2) create good Montana private-sector jobs, and/or; (3) grow emerging and important research sectors that contribute to the diversity of Montana's economy.

The Commissioner of Higher Education will administer competitive grants to researchers on the basis of each new project's potential for private-sector job creation, commercialization, and economic return on investment for Montana. Areas of emphasis shall include agriculture, natural resources and energy, materials and manufacturing, health and biomedical sciences, as well as technology and computer science.

### ***Long Range Planning***

The 2015 Legislature approved total one-time general fund transfers of \$11.8 million for funding state information technology projects and one additional state building construction project.

## ALL FUNDS SUMMARY

### ***Long Range Planning***

The 2015 Legislature approved total one-time spending (appropriations and authorizations) of \$232.7 million for the Long Range Planning (LRP) budgets. The largest source of state funding is derived from state special revenue at \$71.8 million, primarily from dedicated program funding. In the upcoming biennium, the highest amount of the spending will occur in the Long Range Building Program, which includes \$61.4 million in total appropriations and \$71.5 million of authorization to expend donated funds for state buildings. More information on the LRP programs and projects may be seen in Section F of the [2017 Biennium Legislative Fiscal Report](#).

### ***Public Health and Human Services***

The 2017 biennium DPHHS appropriation in HB 2 is \$315.1 million higher than the 2015 biennium. Major changes include:

- o Medicaid enrollment and service utilization changes - \$261.1 million
- o An annual 2% provider rate increase for most providers - \$52.2 million
- o Other selected provider rate increases - \$7.2 million
- o Additional mental health services - \$19.2 million

Increases are partially offset by lower expected costs in Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP) and reductions in state HB 2 spending due to [SB 405](#) Health and Economic Livelihood Partnership (HELP) Act.

In addition to HB 2, there were two new statutory appropriations authorized:

- SB 405, the HELP Act – the largest component of this act is Medicaid expansion with statutory appropriations estimated at \$362.9 million, including \$26.1 million general fund
- Federal Title X family planning funds - \$3.8 million

## 2017 BIENNIAL COMPARISON – 17-7-151, MCA

The following table is provided in accordance with the requirements for content and comparison to the previous biennium contained in [17-7-151, MCA](#). The legislature adopted [SB 140](#) which revised the methodology for budget comparison, amending sections [17-7-150, MCA](#) and [17-7-151, MCA](#). This legislation will go into effect on October 1, 2015, so the following table illustrates the current statute.

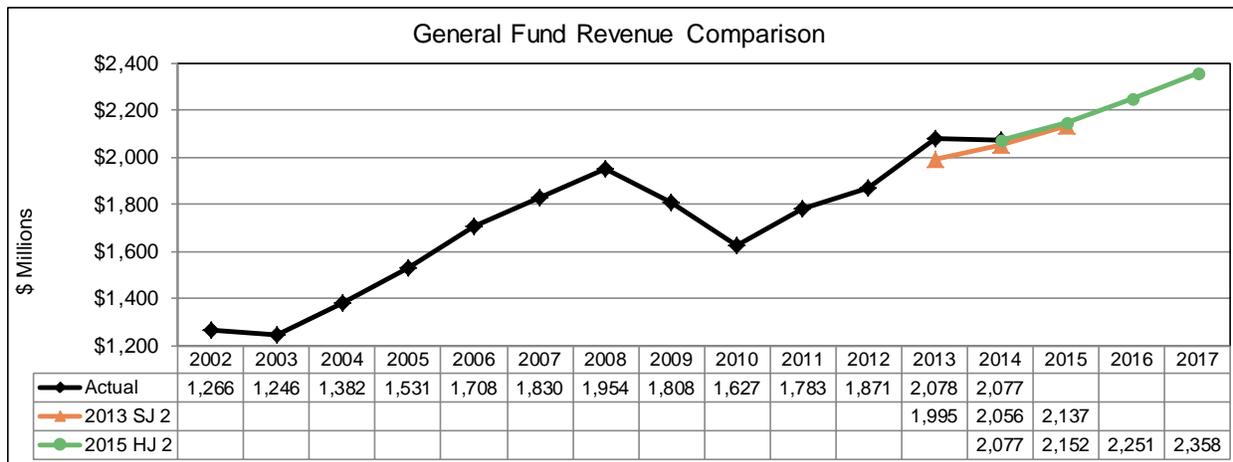
The biennial increase approved by the final legislature and executive action is 9.0%. The single largest increase is from SB 405 which accounts for \$363 million or 3.3% of the 9.0% increase.

Biennial Budget Comparisons (\$ Millions)					
Fiscal Year	2014 Actuals	2015 Approp	2016 Proposed	2017 Proposed	% Increase
<b>Estimated Expenditure Comparison MCA 17-7-151</b>					
Appropriations HB 2 includes other bills in HB 2 base					
General Fund	\$1,782.4	\$1,870.4	\$2,005.0	\$2,046.1	10.9%
State Special Revenue Fund	682.7	763.7	759.2	768.7	5.6%
Federal Special Revenue	1,998.1	2,259.3	2,227.2	2,303.6	6.4%
Appropriated Proprietary Fund	10.3	11.4	13.6	13.1	23.0%
<i>Subtotal HB 2</i>	<i>4,473.6</i>	<i>4,904.8</i>	<i>5,005.0</i>	<i>5,131.5</i>	<i>8.1%</i>
Transfers HB 2 MUS transfers not subtracted	(19.6)	(22.1)	(15.5)	(15.5)	-25.5%
<i>Net Subtotal HB 2</i>	<i>4,454.0</i>	<i>4,882.7</i>	<i>4,989.5</i>	<i>5,116.0</i>	<i>8.2%</i>
Appropriations Existing Statutory					
General Fund	254.4	264.6	265.2	275.1	4.1%
State Special Revenue Fund	277.7	285.1	234.8	238.1	-16.0%
Federal Special Revenue	38.1	39.2	18.1	17.8	-53.5%
Capital Projects Fund	0.4	0.4	0.4	0.4	-0.1%
Appropriated Proprietary Fund	35.7	44.6	46.5	46.5	15.8%
Transfers statutory (pension trans subtracted)	(77.4)	(76.6)	(69.2)	(72.6)	-7.9%
<i>Net Subtotal Statutory</i>	<i>528.9</i>	<i>557.2</i>	<i>495.7</i>	<i>505.4</i>	<i>-7.8%</i>
Other Bill Appropriations (not including non-budgeted transfers since not appropriated)					
General Fund	2.9	2.0	9.4	15.7	408.8%
State Special Revenue Fund	78.7	99.6	36.6	39.1	-57.6%
Federal Special Revenue*	20.3	32.8	118.8	257.4	608.4%
Capital Projects Fund	19.0	21.3	26.9	26.9	33.2%
Appropriated Proprietary Fund	0.7	-	0.4	0.4	13.2%
Transfers	(36.5)	(3.4)	-	-	-100.0%
<i>Net Subtotal Other Bill Appropriations</i>	<i>85.1</i>	<i>152.4</i>	<i>192.1</i>	<i>339.4</i>	<i>123.8%</i>
Language appropriations (mostly budgeted proprietary)					
General Fund	-	-	(2.1)	(3.4)	
State Special Revenue Fund	2.0	4.4	4.5	4.5	40.5%
Federal Special Revenue	0.0	0.4	3.6	3.6	1710.2%
Appropriated Proprietary Fund	105.9	130.0	138.0	145.0	19.9%
Language appropriations transfers	(35.3)	(43.3)	(46.0)	(48.3)	19.9%
<i>Net Subtotal Language Appropriations</i>	<i>72.6</i>	<i>91.4</i>	<i>98.0</i>	<i>101.3</i>	<i>21.5%</i>
Other appropriations					
Continuing Long Range Building Appropriations		257.8			-100.0%
Appropriation Transfers		58.8			-100.0%
Totals not including transfers	5,140.6	6,000.3	5,775.2	6,062.1	6.3%
Estimated Reversion (12.6% w/cont, 4.4%w/o cont.)	-	(755.4)	(254.1)	(266.7)	-31.1%
Total Comparable Est. Expenditures	5,140.6	5,244.9	5,521.1	5,795.3	9.0%
Biennial Total Est Expenditures		10,385.5		11,316.5	9.0%
<b>Biennial increase estimated expenditures</b>					<b>9.0%</b>
Non-comparable (note this was not updated during session)					
Budget Amendments & Carryforward	121.6	324.9	104.5	-	
Added Authority (HB1 & Supplemental)	1.5	32.2	1.9	2.2	
Special Session	-	-	-	-	
Emergency	20.3	17.1	8.3	8.3	
Total Non-Comparable	143.4	343.9	8.3	8.3	
<b>Biennial Appropriation to Appropriation Comparison</b>					
Comparable only: General	1,986.1	2,073.6			
State Special	1,100.8	1,017.3			
Total Comparable Appropriations	5,473.9	5,445.8	5,775.2	6,062.1	
Biennial Total Comparable Appropriations		10,919.7		11,837.3	
<b>Biennial appropriation to appropriation increase</b>					<b>8.4%</b>
* Federal special revenue portion under other appropriation bills includes Medicaid statutory authority. Does not include triggers in HB 2 and does not include potential general fund spending reductions in HB 2 due to SB 405					

# STATE REVENUE

## GENERAL FUND REVENUE ESTIMATES AS ADOPTED BY THE LEGISLATURE

In November 2014, the Revenue and Transportation Interim Committee (RTIC) met to review and adopt a revenue estimate recommendation. The executive recommendation was \$295.4 million above the LFD recommendation. The committee ultimately adopted the LFD recommendations, with total adjustments in individual income tax and oil and natural gas tax equal to half of the total difference between the executive and LFD recommendations for individual income tax, corporation income tax, and oil & natural gas tax. This revenue estimate was incorporated into HJ 2 as the official revenue estimate of the legislature for the beginning of the session.



In January 2015, OBPP and LFD presented updated revenue estimates to a joint meeting of the House and Senate Tax Committees. At this time, the OBPP estimate was above the LFD estimate by \$358.6 million. The two tax committees formed a joint tax subcommittee to understand the revenue estimates and the corresponding differences in more detail, and make a recommendation to the House Tax Committee. The joint subcommittee met weekly throughout February and March, and ultimately made a recommendation to the House Tax Committee based on the LFD estimate, with a variety of alternative assumptions that increased the three-year estimate to \$43.6 million above the RTIC estimate.

The alternative assumptions were included in four revenue sources: individual income tax, corporation income tax, vehicle taxes and fees, and lodging taxes.

The adjacent table shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources. See the appendix for more detail on the revenues estimate by source.

General Fund Revenue Estimates (\$ Millions)						
Source of Revenue	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Estimated 2015 Bien	Estimated 2017 Bien
Individual Income Tax	\$1,063.3	\$1,142.5	\$1,229.1	\$1,311.2	\$2,205.8	\$2,540.3
Property Tax	250.3	250.2	242.9	252.5	500.6	495.4
Corporation Income Tax	147.5	154.3	179.8	156.9	301.8	336.7
Vehicle Taxes & Fees	101.1	103.5	106.2	108.6	204.6	214.8
Oil & Natural Gas Production Tax	109.6	78.8	59.3	68.6	188.4	127.8
Insurance Tax & License Fees	60.9	67.8	72.3	74.9	128.7	147.2
Video Gambling Tax	57.1	60.0	62.0	65.0	117.2	127.0
Largest Seven Subtotal	1,789.9	1,857.1	1,951.7	2,037.5	3,647.0	3,989.2
Remaining Sources Subtotal	287.2	294.7	299.5	320.3	581.8	619.8
<b>Total General Fund</b>	<b>\$2,077.0</b>	<b>\$2,151.8</b>	<b>\$2,251.2</b>	<b>\$2,357.9</b>	<b>\$4,228.8</b>	<b>\$4,609.1</b>

## Legislative Action

The table below summarizes the general fund impacts of revenue-related legislation enacted by the 64<sup>th</sup> Legislature by revenue source. If more than one bill was enacted that impacted a certain revenue source, the cumulative impact of the bills is shown for each revenue source.

Revenue Legislation Impacts of the 64th Legislature						
General Fund						
(\$ Millions)						
Source of Revenue	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Estimated 2015 Bien	Estimated 2017 Bien	Estimated 3-Yr Total
<b>Largest Seven Sources</b>						
Individual Income Tax	\$0.000	\$0.490	(\$3.829)	\$0.000	(\$3.339)	(\$3.339)
Property Tax	-	10.869	8.941	-	19.810	19.810
Corporation Income Tax	-	0.068	(0.100)	-	(0.032)	(0.032)
Vehicle Taxes & Fees	-	(0.001)	(0.001)	-	(0.002)	(0.002)
Oil & Natural Gas Production Tax	-	-	-	-	-	-
Insurance Tax & License Fees	(0.043)	(0.045)	(0.045)	(0.043)	(0.091)	(0.134)
Video Gambling Tax	-	-	-	-	-	-
<b>Other Business Taxes</b>						
Driver's License Fee	-	-	-	-	-	-
Investment License Fee	-	-	-	-	-	-
Lodging Taxes	-	-	-	-	-	-
Public Contractors Tax	-	-	-	-	-	-
Railroad Car Tax	-	-	-	-	-	-
Rental Car Sales Tax	-	(0.332)	(0.704)	-	(1.036)	(1.036)
Telecommunications Excise Tax	-	-	-	-	-	-
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	-	(1.730)	(1.784)	-	(3.514)	(3.514)
Electrical Energy Tax	-	-	-	-	-	-
Metalliferous Mines Tax	-	-	(1.389)	-	(1.389)	(1.389)
US Mineral Royalty	-	-	-	-	-	-
Wholesale Energy Tax	-	-	-	-	-	-
<b>Other Interest Earnings</b>						
Coal Trust Interest	-	(0.037)	(2.326)	-	(2.363)	(2.363)
Treasury Cash Account Interest	-	-	-	-	-	-
<b>Other Consumption Taxes</b>						
Beer Tax	-	-	-	-	-	-
Cigarette Tax	-	-	-	-	-	-
Liquor Excise & License Tax	-	0.050	0.077	-	0.127	0.127
Liquor Profits	-	(0.015)	0.061	-	0.046	0.046
Lottery Profits	-	(0.600)	(1.462)	-	(2.062)	(2.062)
Tobacco Tax	-	-	-	-	-	-
Wine Tax	-	-	-	-	-	-
<b>Other Sources</b>						
All Other Revenue	2.250	2.941	7.336	2.250	10.277	12.527
Highway Patrol Fines	-	0.094	0.065	-	0.160	0.160
Nursing Facilities Fee	-	-	(0.164)	-	(0.164)	(0.164)
Public Institution Reimbursements	-	-	(7.194)	-	(7.194)	(7.194)
Tobacco Settlement	-	-	-	-	-	-
<b>Total General Fund</b>	<b>\$2.207</b>	<b>\$11.752</b>	<b>(\$2.516)</b>	<b>\$2.207</b>	<b>\$9.235</b>	<b>\$11.442</b>

The table below shows the revised general fund revenue estimates by source, which is the sum of HJ 2 estimates and all enacted legislation impacts. These revised estimates are used to determine the overall financial condition of the general fund for the 2017 biennium.

House Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates (\$ Millions)						
Source of Revenue	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Estimated 2015 Bien	Estimated 2017 Bien
<b>Largest Seven Sources</b>						
Individual Income Tax	\$1,063.284	\$1,142.481	\$1,229.616	\$1,307.356	\$2,205.765	\$2,536.972
Property Tax	250.344	250.239	253.799	261.421	500.582	515.219
Corporation Income Tax	147.548	154.272	179.898	156.751	301.820	336.649
Vehicle Taxes & Fees	101.088	103.500	106.199	108.599	204.588	214.798
Oil & Natural Gas Production Tax	109.606	78.811	59.250	68.589	188.417	127.839
Insurance Tax & License Fees	60.873	67.744	72.279	74.832	128.617	147.111
Video Gambling Tax	57.147	60.029	62.007	64.966	117.175	126.973
<b>Other Business Taxes</b>						
Driver's License Fee	4.051	4.395	4.081	4.465	8.446	8.547
Investment License Fee	7.115	7.257	7.412	7.567	14.372	14.978
Lodging Taxes	17.725	20.079	21.872	23.835	37.804	45.707
Public Contractors Tax	0.887	2.817	3.560	3.476	3.704	7.036
Railroad Car Tax	2.418	3.641	3.741	3.883	6.059	7.624
Rental Car Sales Tax	3.521	3.714	3.486	3.308	7.235	6.794
Telecommunications Excise Tax	19.657	19.239	18.999	18.842	38.896	37.841
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	14.745	15.629	14.434	14.858	30.374	29.292
Electrical Energy Tax	4.280	4.738	4.580	4.553	9.018	9.132
Metalliferous Mines Tax	7.948	8.238	8.311	6.529	16.185	14.839
US Mineral Royalty	27.744	26.109	24.069	24.675	53.852	48.744
Wholesale Energy Tax	3.112	3.623	3.595	3.565	6.735	7.160
<b>Other Interest Earnings</b>						
Coal Trust Interest	21.996	20.470	19.805	20.159	42.465	39.964
Treasury Cash Account Interest	1.756	1.605	8.527	20.786	3.361	29.312
<b>Other Consumption Taxes</b>						
Beer Tax	3.023	3.095	3.129	3.189	6.118	6.318
Cigarette Tax	30.623	30.713	31.036	30.453	61.336	61.490
Liquor Excise & License Tax	18.418	18.950	19.521	20.377	37.368	39.898
Liquor Profits	10.500	10.663	11.021	11.591	21.163	22.611
Lottery Profits	12.091	12.177	11.031	11.977	24.268	23.008
Tobacco Tax	5.929	6.233	6.396	6.559	12.163	12.954
Wine Tax	2.250	2.298	2.363	2.434	4.548	4.797
<b>Other Sources</b>						
All Other Revenue	37.320	42.346	40.060	44.469	79.666	84.529
Highway Patrol Fines	4.142	4.224	4.349	4.316	8.366	8.666
Nursing Facilities Fee	4.961	4.859	4.756	4.490	9.820	9.246
Public Institution Reimbursements	17.298	16.630	16.606	9.377	33.928	25.983
Tobacco Settlement	3.646	3.176	3.145	3.115	6.822	6.260
<b>Total General Fund</b>	<b>\$2,077.044</b>	<b>\$2,153.993</b>	<b>\$2,262.932</b>	<b>\$2,355.360</b>	<b>\$4,231.037</b>	<b>\$4,618.293</b>

The following table shows the revenue impacts of legislation enacted by the 64<sup>th</sup> Legislature summarized by bill number. For the three-year outlook period, the enacted legislation increased general fund revenue by \$11.4 million.

General Fund Impact of Legislation Enacted by the 64th Legislature				
(\$ Millions)				
Bill Number and Short Title	FY 2015	FY 2016	FY 2017	Total
HB0089 Generally revise human trafficking laws	-	(\$0.253)	(\$0.253)	(\$0.506)
HB0156 Revise tax laws related to pollution control equipment	-	(0.065)	(0.132)	(0.197)
HB0167 Generally revise off-highway vehicle laws	-	(0.006)	(0.006)	(0.011)
HB0180 Revise regional water laws	-	-	(2.270)	(2.270)
HB0228 Increase coal board funding until June 30, 2019	-	(1.730)	(1.784)	(3.514)
HB0300 Create snowmobile trail pass	-	0.005	0.005	0.009
HB0379 Generally revise income tax laws	-	-	-	-
HB0421 Extend termination date of coal severance tax coal washing credit	-	-	-	-
HB0488 Generally revise DUI laws	-	0.268	0.268	0.537
HB0506 Allowing microdistilleries to deliver products directly to agency liquor	-	(0.122)	0.005	(0.117)
HB0617 Provide scholarship opportunities for higher education in Montana	-	(0.600)	(1.462)	(2.062)
SB0020 Reallocate metal mines license tax	-	-	(1.389)	(1.389)
SB0052 Revise captive insurance laws	-	0.040	0.040	0.081
SB0066 Generally revise laws regarding alternative nicotine or vapor products	-	0.008	0.008	0.017
SB0157 Generally revise tax reappraisal laws	-	10.934	9.073	20.007
SB0180 Revise the disposition of rental car sales tax	-	(0.332)	(0.704)	(1.036)
SB0193 Revise agency liquor store laws	-	0.158	0.133	0.290
SB0234 Revise tax and fees for professional liability insurance	(\$0.043)	(0.086)	(0.086)	(0.214)
SB0309 Revise laws to incentivize access to isolated state and federal lands	-	-	(0.020)	(0.020)
SB0375 Revise certain highway speed limits	-	0.094	0.065	0.160
SB0380 Increase coal tax trust fund money available for MT veteran home loc	-	(0.037)	(0.056)	(0.093)
SB0386 Revising late file penalty, filing, and withholding for pass-through enti	-	0.570	0.570	1.140
SB0387 Revise water quality violation penalties	-	(0.005)	(0.005)	(0.010)
SB0393 Revise vehicle security interest & title filing fees; driver license renew	-	-	-	-
SB0399 Provide for 529 account for disability expenses	-	(0.012)	(0.030)	(0.042)
SB0405 Creating the Healthy Montana Act to Expand Health Care Coverage	-	2.922	7.317	10.240
SB0410 Provide for tax credits for contributions to public and private schools	-	-	(4.449)	(4.449)
SB0411 Plan for the closure of Montana developmental center at Boulder	-	-	(7.357)	(7.357)
SB0418 Authorizing transfers to implement provisions of House Bill 2	2.250	-	-	2.250
<b>Total</b>	<b>\$2.207</b>	<b>\$11.752</b>	<b>(\$2.516)</b>	<b>\$11.442</b>

## General Fund Revenue Bill Highlights

A complete summary of each general fund and selected non-general fund revenue sources can be found in [2017 Biennium Legislative Fiscal Report: Volume 2](#). Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, distribution mechanisms, and other useful information. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue.

The following brief summary of each enacted bill that impacts general fund revenue discusses the particular revenue sources affected.

**HB 89** – Impacts general fund source “All Other Revenue.” This legislation extends the termination date for the crime victim’s compensation (CVC) account, established in [53-9-113, MCA](#). Under current law, it was set to terminate on June 30, 2015. The statutory appropriation currently listed in [17-7-502, MCA](#) that references the CVC account will now terminate on June 30, 2021. The bill also makes multiple revisions to Montana’s human trafficking laws. Note that [SB 68 \(2015 Session\)](#) included identical language for extending the CVC account termination date; however, that bill is not shown in the table as the fiscal impact is already included with HB 89.

**HB 156** – Impacts general fund source “Property Tax.” This bill exempts pollution control and carbon sequestration equipment placed in service after January 1, 2014 (TY 2015) from property taxation. Equipment related to the sequestration of carbon dioxide placed in service after January 1, 2014 is granted a 50% reduction in tax rates for the first 15 years.

**HB 167** – Impacts general fund source “Vehicle Taxes & Fees.” This legislation exempts off-highway vehicles (OHV) registered in an adjacent state from the purchase of a \$27 temporary use sticker if that state does not require users of OHVs registered in Montana to pay a fee in that state.

[HB 180](#) – Impacts general fund source “Coal Trust Interest.” This legislation repeals the termination of the Treasure State Endowment (TSE) regional water program which was set to cease after June 30, 2016. Prior to passage of this legislation, the corpus of this trust was set to go to the permanent coal trust and resulting interest earnings be deposited into the general fund. Due to passage of this bill, interest earnings will continue to be spent on TSE regional water activities.

[HB 228](#) – Impacts general fund source “Coal Severance Tax.” This bill increases the amount of funding going to the coal natural resources special revenue account from 2.9% to 5.8% for FY 2016 and FY 2017. This 2.9% increase to this account has a corresponding 2.9% decrease from the coal severance tax money allocated to the general fund.

[HB 300](#) – Impacts general fund source “Vehicle Taxes & Fees.” This legislation requires all users of snowmobiles, motorized equipment, and mechanized transports (i.e. bicycles) to purchase an \$18 trail pass every three years and will generate revenue to be used for grooming of snowmobile trails and enforcement.

[HB 379](#) – Impacts general fund source “Individual Income Tax.” This bill revises several provisions relating to interest and penalties for late tax payments, late filing, not filing a return, and filing a false return. It changes the statute of limitations for the individual income tax from five years to three years. Changes to penalties apply for tax periods beginning after the end of CY 2016. The reduced statute of limitation applies for tax periods beginning after the end of CY 2014. Changes to interest apply beginning in CY 2018.

[HB 421](#) – Impacts general fund source “Coal Severance Tax.” This bill extends the termination date of the coal washing credit by eight years. It was set to terminate on July 1, 2017. The net effect of the exclusion is to reduce the contract sales price upon which certain taxes are calculated.

[HB 488](#) – Impacts general fund source “All Other Revenue.” HB 488 will increase general fund revenue being collected because the minimum fines will increase from \$300 to \$600 for the first DUI, from \$600 to \$1,200 for the second DUI and from \$1,000 to \$2,500 on third and subsequent DUIs. HB 488 also creates a \$300 administrative fee to be paid when an arrested person refuses to submit to one or more tests as provided in [61-8-402\(4\), MCA](#), and creates a dedicated state special revenue account for the use of those funds.

[HB 506](#) – Impacts general fund source “Liquor Profits.” This bill allows a distillery that produces less than 25,000 gallons of product annually to deliver its product directly to an agency liquor store. It also requires the department to create an electronic reporting system for distilleries to record their deliveries. Both of these revenue effects will decrease transfers from the Liquor Enterprise Fund to the general fund.

[HB 617](#) – Impacts general fund source “Lottery Profits.” This bill creates new scholarships for Montana high school students that meet certain criteria to prepare for postsecondary fields of science, technology, engineering, and mathematics (STEM). The STEM scholarships will be funded by diverting lottery proceeds to the new STEM account instead of the general fund.

[SB 20](#) – Impacts general fund source “Metalliferous Mines Tax.” This bill changes the general fund allocation of metalliferous mines license tax from 57% to 47%, and reallocates the revenue to impacted counties. Hard rock mining counties starting in FY 2016 would receive an additional \$1.2 to \$1.4 million per year. This bill also reallocates \$1.2 million annually from the orphan share account beginning in FY 2019 to the environmental quality protection fund (EQPF). The transfer would be designated for metal mine reclamation projects at abandoned mine sites and the state’s contribution for cleanup, long-term operation, and maintenance costs at the Libby asbestos superfund site. Funds allocated to the EQPF for abandoned mine reclamation would be specifically exempted from other

requirements of the Comprehensive Environmental Cleanup and Responsibility Act ([Title 17, chapter 7, part 4, MCA](#)).

[SB 52](#) – Impacts general fund source “Insurance Tax.” This bill revises and clarifies captive insurance laws, provides a penalty for failure to file annual statements, and prorates distribution of taxes in the year of closure.

[SB 66](#) – Impacts general fund source “All Other Revenue.” This legislation expands [Title 16 Chapter 11, MCA](#), to include “alternative nicotine products” and “vapor products.”

[SB 157](#) – Impacts general fund source “Property Tax.” This is the property reappraisal bill that changes the reappraisal cycle from a six-year cycle to a two-year cycle for class 3 and class 4; adjusts the rates at which the market value of property is taxed to maintain taxable value neutrality between residential, agricultural, and commercial, properties on a statewide basis; extends the base period of the data for the valuation of forest land; and revises Montana’s Property Tax Assistance Program and Montana Disabled Veteran Property Tax Relief Program.

[SB 180](#) – Impacts general fund source “Rental Car Sales Tax.” This legislation increases and changes the source of funding for the senior citizen and persons with disabilities transportation services fund, from motor vehicle fee and taxes to 25% of the revenue generated by the state rental vehicle sales tax.

[SB 193](#) – Impacts general fund sources “Liquor Excise & License Tax” and “Liquor Profits.” This bill increases the state markup on liquor from 40% to 40.5%. It also replaces the current method of calculating each agency liquor store’s discount rate with an alternative method.

[SB 234](#) – Impacts general fund source “Insurance Tax.” This legislation reduces premium tax rates and filing fees for casualty insurers that offer policies of legal professional liability insurance. It is retroactive to December 31, 2014 and therefore impacts FY 2015 revenues.

[SB 309](#) – Impacts general fund sources “Corporation Income Tax” and “Individual Income Tax.” This legislation expands the Unlocking State Lands personal and corporate income tax credit to include land access to federal land managed by the U.S. Forest Service or the Bureau of Land Management.

[SB 375](#) – Impacts general fund source “Highway Patrol Fines.” This legislation increases the maximum speed limit on federal-aid interstate highways from 75 MPH to 80 MPH and increases the penalties assessed for violation of speed limits.

[SB 380](#) – Impacts general fund source “Coal Trust Interest.” This legislation makes an additional \$10 million available to the Montana Veteran’s Home Loan Mortgage Program from money invested by the Board of Investments (BOI) from the permanent coal tax trust fund to be administered by the Board of Housing (BOH).

[SB 386](#) – Impacts general fund sources “Corporation Income Tax” and “Individual Income Tax.” This legislation revises filing and withholding requirements for pass-through entities and limits the penalty for a pass-through entity failing to file a required report to a maximum of \$2,500 per tax period.

[SB 387](#) – Impacts general fund source “All Other Revenue.” This bill revises water quality violation penalties within the Department of Environmental Quality. Penalty fines are deposited into the general fund.

[SB 393](#) – Impacts general fund source “Vehicle Taxes & Fees.” This legislation further extends certain vehicle title and lien fees, and directs the fees to the motor vehicle information technology system account. The bill provides for an online new drivers’ license renewal system. The bill eliminates a

general fund fee and extends state special revenue fees slated to expire in FY 2017 and FY 2019, through June 30, 2026.

**SB 399** – Impacts general fund source “Individual Income Tax.” This bill creates a new type of tax deferred savings account, the Montana Achieving a Better Life Experience (ABLE) account, as provided in federal law under section 529 of the I.R.S. code. The program administrative responsibility is assigned to the Department of Public Health and Human Services (DPPHS).

**SB 405** – Impacts general fund source “All Other Revenue.” This legislation creates the Health and Economic Livelihood Partnership Act to expand health care coverage to additional eligible individuals and improve access to health care services across Montana. The revenue impact from this bill comes from the participants’ copays.

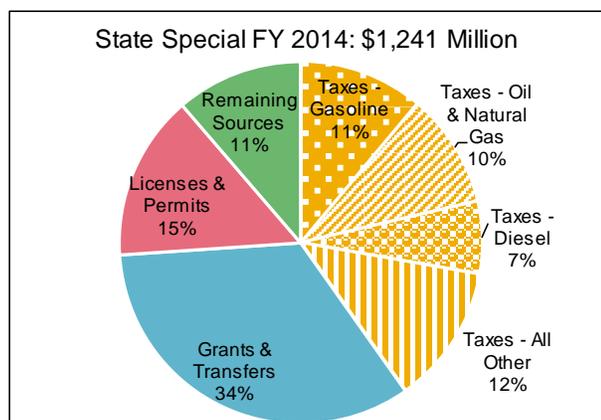
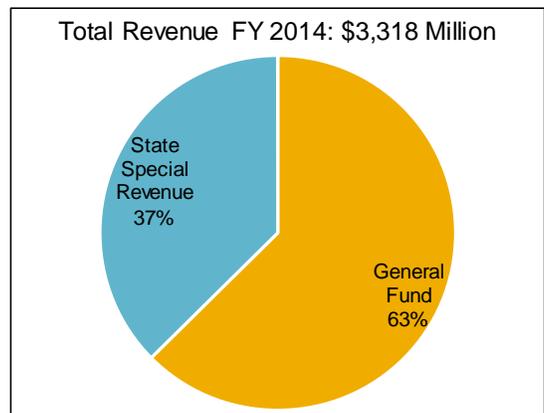
**SB 410** – Impacts general fund sources “Corporation Income Tax” and “Individual Income Tax.” This legislation creates two new tax credits, one for contributing to a new educational improvement special revenue account for distribution to school districts for new programs, and one for making donations to organizations that would give scholarships to students in private schools.

**SB 411** – Impacts general fund sources “Nursing Facilities Fee” and “Public Institution Reimbursements.” This bill requires MDC to reduce capacity from 56 to 12 by transferring the remaining individuals to services in community settings. The bill ends new admissions to MDC as of December 31, 2016 unless there are fewer than 12 individuals at MDC. The bill creates a committee to research, develop, and make recommendations for the closure of MDC. The bill closes the facility completely by June 30, 2017.

**SB 418** – Impacts general fund source “All Other Revenue.” There are two transfers in this bill that impact oil accounts. By June 1, 2015 \$1.35 million from the oil and gas education and research account to the natural resources operations account, and by June 30, 2015 \$2.25 million from the county oil and gas impact account to the state general fund.

## GENERAL FUND & OTHER STATE REVENUE SOURCES

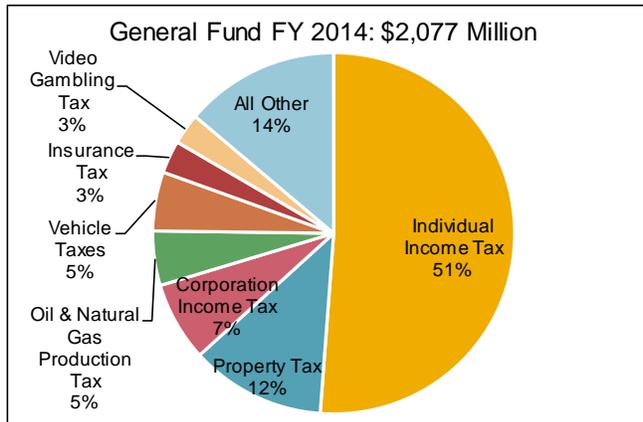
Most general taxes are deposited in the state general fund. The general fund is used for broad purposes of state government; education, health, and corrections are the predominant uses of this fund. State special fund revenues are raised and used for specific purposes. For example, the state levies a gas tax that is dedicated for use on state roads and highways. Details of all general fund and most major state special fund revenue sources are contained in [2017 Biennium Legislative Fiscal Report: Volume 2](#).



Most of the focus during session tends to be on the state general fund which accounted for 63% of FY 2014 total state revenue. Note that trusts or direct services funds such as unemployment insurance and workers’ compensation insurance are not included in the adjacent chart. In addition, there is limited double counting as some sources of revenues are transferred between funds.

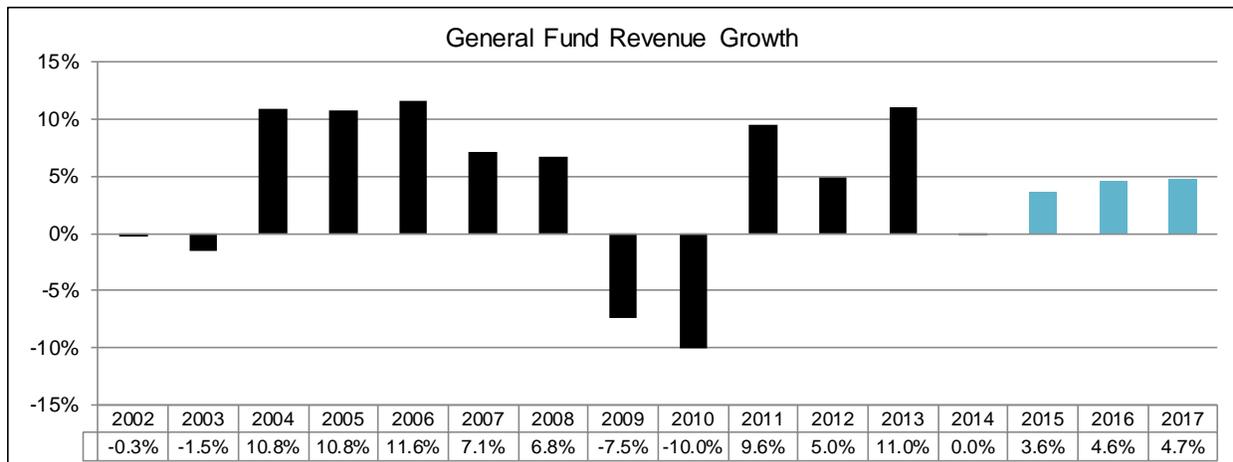
Large sources of state special revenue include the

gasoline and diesel taxes, and oil and natural gas production tax. In FY 2014, the various taxes accounted for 40% of total state special revenue. Grants and transfers were the next largest contributor, amounting to 34% of state special revenue



The largest seven sources of general 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 2014, these sources accounted for 86% of total general fund revenue.

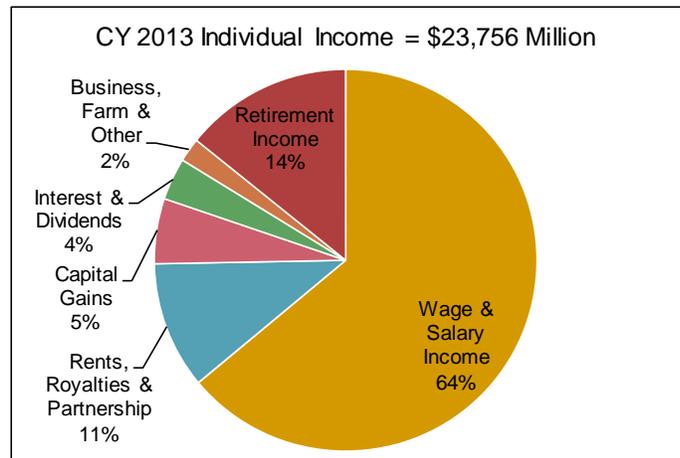
The chart below shows the annual percent change in revenue, with actual values shown in black and the official HJ 2 revenue estimates shown in blue. The estimate for annual growth in general fund revenue for FY 2015 is 3.6%, for FY 2016 is 4.6% and for FY 2017 is 4.7%.



Five of the top seven tax sources, 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 [2017 Biennium Legislative Fiscal Report: 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 2013, full year resident income totaled \$23.8 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 tax rate on capital gains income is less than the tax rate on ordinary income by 2%. 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.



## Legislative Action

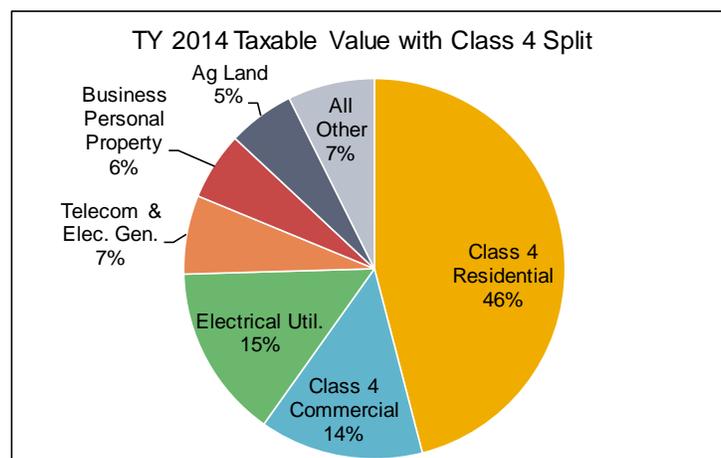
The joint tax subcommittee chose to recommend to the House Tax Committee several alternative assumptions from the baseline forecast provided by the LFD. These alternatives were ultimately incorporated in the official revenue estimate in HJ 2. The alternative assumptions for individual income tax were as follows:

- Higher wage growth for the outlook period
- Increased non-resident liability
- A continuation of FY 2014 taxpayer behavior
- Higher audit collections

## 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.

With the passage of [SB157 \(2015 Session\)](#), class 4 commercial and residential, as well as class 3 agricultural property, are reappraised every two years as opposed to every six years. The process of phasing in values was also eliminated for these properties with the change from a six-year to a two-year reappraisal cycle. Class 10 timber land remains on a six-year reappraisal cycle with a 1/6<sup>th</sup> phase in of value per year. Agricultural land and timberland continue to be valued on a productivity basis.



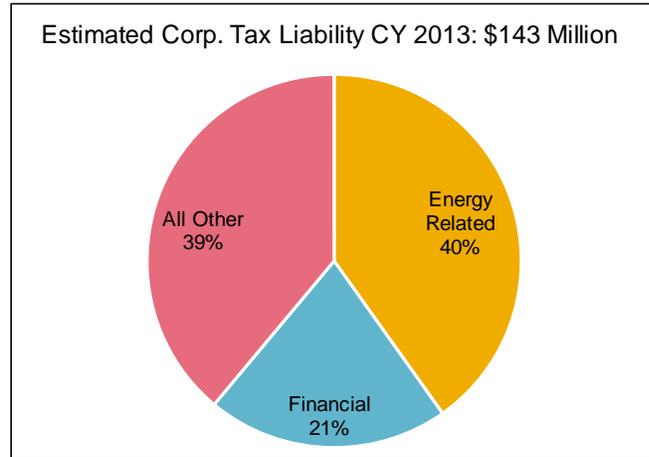
Under [SB157 \(2015 Session\)](#), tax rates have changed for class 4 residential and commercial, class 3 agricultural, and class 10 timber land. Agricultural land has dropped from 2.47% to 2.16%. Residential has dropped from 2.47% with a homestead exemption to 1.35% with no homestead exemption. Commercial has gone from 2.47% with a comstead exemption to the residential rate of 1.35%

multiplied by 1.4. This rate also applies to residences valued over \$1.5 million. Timber land has increased from 0.29% to 0.37%.

## CORPORATION INCOME TAX

The corporation income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. 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.

Financial and energy related sectors are the largest contributors to corporation income tax liability. Primary economic drivers of this source include oil prices, median house price, and retail sales.



### Legislative Action

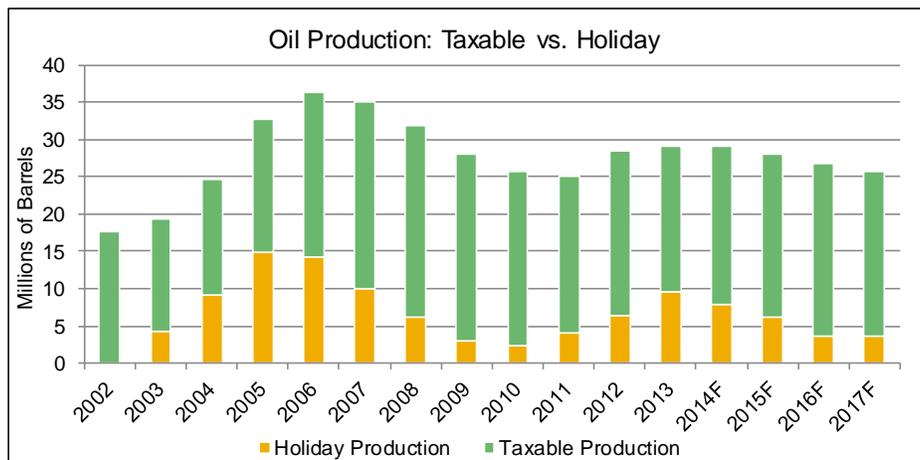
The joint tax subcommittee chose to adopt several alternative assumptions from the baseline forecast provided by the LFD. The alternative assumptions for corporation income tax were the following:

- Mitigate oil price decline dependence for mining, manufacturing and transportation sectors
- Revenue shift from FY 2015 to FY 2016

## 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.

Oil production peaked in Montana in 2006 and fell 34% by 2011. Exploratory drilling in 2012 and 2013 resulted in an increase in production; the estimate assumes a gradual decline as the surge in exploratory drilling has tapered off.



At the national level, lower oil prices tend to correspond with a better economic outlook; manufacturing and transportation costs are lower, and consumers have more income to spend on goods and services.

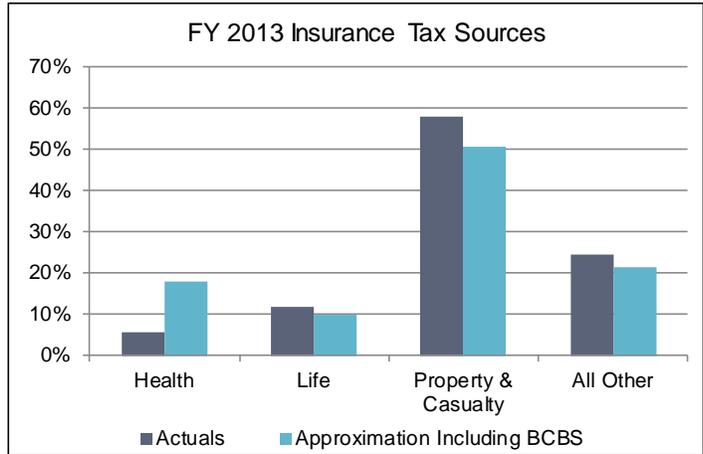
The impact on Montana revenue is more nuanced, however, overall consumer activity may increase with lower prices, natural resource extraction and related industry activity may decline, resulting in lower individual, corporation and natural resource tax collections. Montana oil price tracks closely with West Texas Intermediate oil price, with an approximate 10% reduction to account for transportation costs.

## INSURANCE TAX

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

Two FY 2014 changes impacted this revenue source: Blue Cross and Blue Shield (BCBS) was bought out by Health Care Services Corporation (HCSC) at the beginning of FY 2014 under terms that made all of its policies taxable where they had previously been exempt; and the implementation of the Affordable Care Act.

The adjacent chart illustrates changing share of insurance tax sources with the inclusion of former BCBS premiums.



Although the HJ 2 estimate includes those who became insured during the ACA open enrollment last year, if there are additional enrollees in the upcoming years, revenues may increase slightly above the estimate.