

# **FY 2014 FISCAL YEAR END AND 2015 BIENNIUM BUDGET UPDATE REPORT**

A Report Prepared for the  
**Legislative Finance Committee**

By  
Legislative Fiscal Division Staff

September 25, 2014



## INTRODUCTION

This report provides an overview of the preliminary FY 2014 ending balance of the general fund and detailed revenue collection information. Although the revenue and disbursement data for the fund have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the Generally Accepted Accounting Principles (GAAP) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

The outline of this report is as follows:

- The general fund balance for the end of FY 2014 and start of FY 2015
- Detailed FY 2014 actual vs. estimated revenue collections
- Estimated 2015 biennium expenditures

## GENERAL FUND BALANCE

The state accountant reported that unaudited, unassigned general fund ending balance was \$426.5 million (See Table 1). This number included one known Comprehensive Annual Financial Report adjustment for FY 2014. The higher FY 2014 ending fund balance results in an anticipated \$364.4 million ending fund balance for FY 2015 compared with \$349.1 million stated in June 2014. These numbers do not include anticipated supplemental appropriations.

**Table 1: General Fund Balance Sheet**

General Fund September 2014							
(in Millions)							
	Actual	FY	Actual	FY	Actual	FY	Budget
	2012		2013		2014		2015
Beginning Fund Balance	\$341.9		\$452.4		\$537.6		\$426.5
Revenue	<u>1,871.0</u>		<u>2,077.6</u>		<u>2,077.0</u>		<u>2,136.6</u>
Total Funds Available	2,212.8		2,530.0		2,614.6		2,563.1
Disbursements							
Ongoing							
HB 2, HB 13, and pension bills	1,577.9		1,613.5		1,763.7		1,821.0
Statutory	171.2		199.7		254.6		281.7
Transfers	15.5		15.9		14.8		13.9
Other (includes feed bill)	1.4		60.4		3.0		32.3
Reversions	0.0		0.0		0.0		(8.1)
OTO							
HB 2	10.1		13.7		19.0		25.9
Transfers	3.7		36.5		133.5		25.4
Other (includes carry forward)	<u>0.0</u>		<u>58.3</u>		<u>2.0</u>		<u>6.5</u>
Total Disbursements	<u>1,779.7</u>		<u>1,997.9</u>		<u>2,190.6</u>		<u>2,198.6</u>
Adjustments	<u>19.2</u>		<u>5.5</u>		<u>2.4</u>		<u>0.0</u>
Ending Fund Balance (Unassigned)	<u>\$452.3</u>		<u>\$537.6</u>		<u>\$426.5</u>		<u>\$364.4</u>



expenditures from the SB 175 appropriation assumed in the June update to the HB 2 appropriation . The Office of Public Instruction (OPI) transferred authority from FY 2015 to FY 2014 to cover these items. For a larger analysis of this topic, see page 19.

Finally, the balance sheet on page 2 shows an increase in adjustments line. Two factors caused this modification to general fund ending balance. First, the general fund incorporates a number of accounting adjustments. These changes boost the general fund total by \$0.3 million. Second, an adjustment has been made due to incorrect coal trust interest statutory appropriations. The 2013 Legislature passed HB 454, providing funding for the public retirement system. Part of the act statutorily appropriates the interest income from the coal severance tax permanent fund. In FY 2014, the Department of Administration transferred \$21.0 million in general fund to the Montana Public Employee Retirement System, \$2.1 million above the amount provided in statute. The Department of Administration has stated that they will correct this error during the CAFR process.

## TOWARD 2015

As discussed above, some of the expenditures from FY 2014 shifted to FY 2015 causing the anticipated expenditures for FY 2015 to increase. At the June LFC meeting, LFD staff reported that FY 2015 anticipated expenditures were \$2,170.9 million. In light of FY 2014 spending, the anticipated expenditure for FY 2015 now stands at \$2,198.6 million. This higher amount primarily results from biennial appropriations or transfers shifting to the second year of the biennium and a transfer to the fire fund of \$3.7 million.

For the biennium, the LFD currently anticipates that total anticipated general fund expenditures will grow by \$7.7 million (See Table 3). Higher than anticipated statutory distributions to the pension systems, the transfer to the wildfire fund, and the lower than projected reversions produce this expenditure increase.

**Table 3: General Fund 2015 Biennium Expenditures**

General Fund 2015 Biennium Expenditures			
June Estimate v. September Estimate (in Millions)			
Source of Authority	June Estimated FY 2015	September Estimate FY 2015	Difference
HB 2 & HB 13	\$3,633.6	\$3,629.6	\$(4.0)
Statutory	533.0	536.4	3.4
Transfers	185.3	187.5	2.2
Other	45.6	43.8	(1.8)
Reversions	(15.9)	(8.1)	7.8
Biennium Total	<u>\$4,381.5</u>	<u>\$4,389.2</u>	<u>\$7.7</u>

FY 2015 holds some risk of agencies needing supplemental appropriations. The Office of Public Instruction (OPI) transferred authority from FY 2015 to FY 2014 in order to meet projected shortfalls, a situation OPI and the LFD both anticipate will continue through FY 2015. Additionally, the Department of Public Health and Human Services, the Department of Corrections, and the Department of Livestock all have budgetary situations which may need supplemental appropriations. For further information on the supplemental appropriation outlook, see page 24.

## REVENUES

Actual FY 2014 general fund revenues were \$20.7 million or 1.0% ahead of the SJ 2 estimate. The difference can be attributed to strong growth in four sources—individual income, oil severance, insurance and property taxes—and below-expected growth in corporate income tax and all remaining sources combined.

Summary of FY 2014 Changes from SJ 2				
(\$ Millions)				
	Estimate	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,039.1	\$1,063.2	\$24.1	2.3%
Oil Severance Tax	99.3	109.6	10.3	10.3%
Insurance Tax	52.0	60.9	8.9	17.0%
Property Tax	245.3	250.3	5.1	2.1%
Corporation Income Tax	154.1	147.5	(6.5)	-4.2%
Remaining Sources	<u>466.6</u>	<u>445.5</u>	<u>(21.1)</u>	-4.5%
<b>General Fund Total</b>	<b>\$2,056.4</b>	<b>\$2,077.0</b>	<b>\$20.7</b>	<b>1.0%</b>

The table on the following page shows actual FY 2013 revenues in the first numerical column, followed by estimated and actual FY 2014 revenues. The next two columns show the estimated and actual growth in FY 2014 from FY 2013. The last two columns compare the actual FY 2014 revenue to the estimate, showing the difference as an amount and as a percentage. Summaries of each of the revenue sources and differences from the estimate are organized in the order of the revenue list on the table.

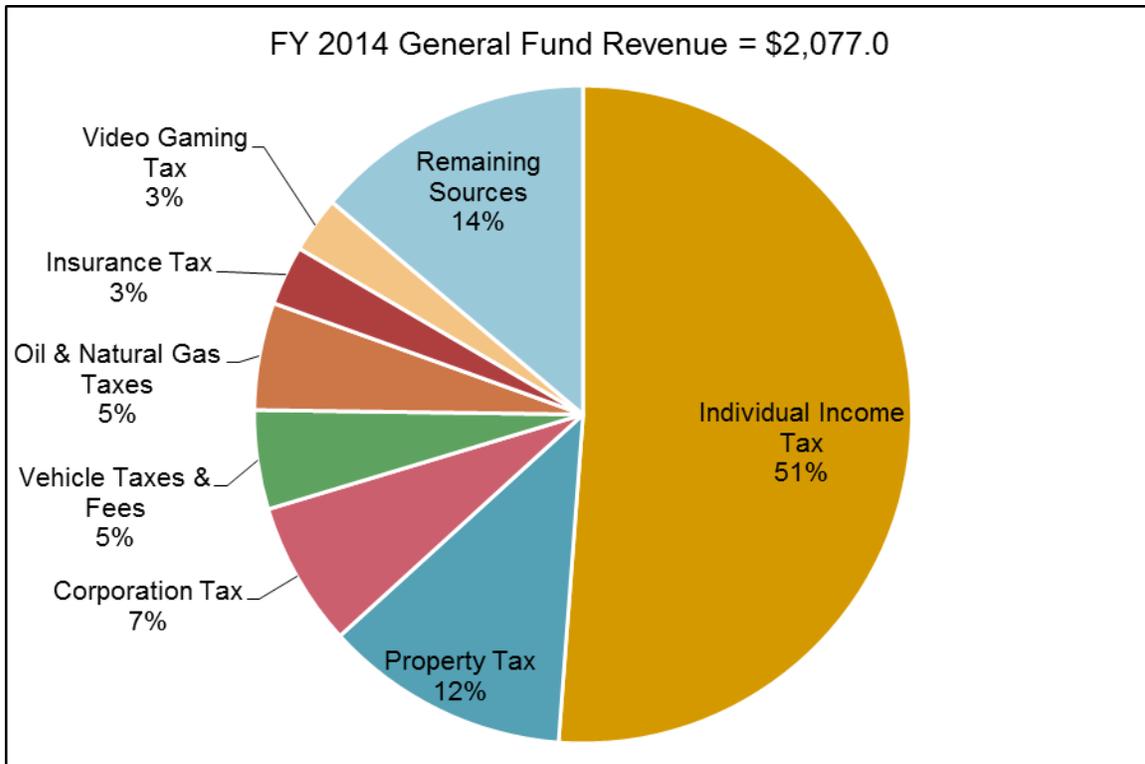
General Fund Revenue--FY 2014 Actuals Compared to SJ 2 Estimate  
(\$ Millions)

Revenue Source	Actual FY 2013	SJ 2* FY 2014	Actual FY 2014	SJ 2 % Change	Actual % Change	Act.-SJ 2 \$ Diff.	Act./SJ 2 % Diff.
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,047.790	\$1,039.082	\$1,063.284	-0.8%	1.5%	\$24.202	2.3%
Property Tax	244.607	245.287	250.344	0.3%	2.3%	5.056	2.1%
Corporation Tax	177.497	154.096	147.548	-13.2%	-16.9%	(6.548)	-4.2%
Vehicle Taxes & Fees	99.352	102.659	101.088	3.3%	1.7%	(1.571)	-1.5%
Oil & Natural Gas Taxes	98.683	99.336	109.606	0.7%	11.1%	10.270	10.3%
Insurance Tax	61.678	52.021	60.873	-15.7%	-1.3%	8.852	17.0%
Video Gaming Tax	57.261	59.929	57.147	4.7%	-0.2%	(2.782)	-4.6%
<b>Other Business Taxes</b>							
Drivers License Fee	4.527	4.435	4.051	-2.0%	-10.5%	(0.384)	-8.7%
Investment Licenses	6.951	7.457	7.115	7.3%	2.4%	(0.342)	-4.6%
Lodging Facilities Sales Tax	16.720	18.365	17.725	9.8%	6.0%	(0.640)	-3.5%
Public Contractor's Tax	(0.138)	3.259	0.887	-2468.7%	-744.7%	(2.372)	-72.8%
Railroad Car Tax	2.179	2.320	2.418	6.5%	11.0%	0.098	4.2%
Rental Car Sales Tax	3.523	3.632	3.521	3.1%	-0.1%	(0.111)	-3.0%
Retail Telecom Excise Tax	20.652	23.236	19.657	12.5%	-4.8%	(3.579)	-15.4%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	13.265	14.857	14.745	12.0%	11.2%	(0.112)	-0.8%
Electrical Energy Tax	5.067	4.521	4.280	-10.8%	-15.5%	(0.241)	-5.3%
Metal Mines Tax	10.049	10.595	7.948	5.4%	-20.9%	(2.647)	-25.0%
U.S. Mineral Royalties	29.205	30.953	27.744	6.0%	-5.0%	(3.209)	-10.4%
Wholesale Energy Trans Tax	3.558	4.140	3.112	16.4%	-12.5%	(1.028)	-24.8%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	24.153	24.354	21.996	0.8%	-8.9%	(2.358)	-9.7%
TCA Interest Earnings	2.465	2.346	1.756	-4.8%	-28.7%	(0.590)	-25.1%
<b>Other Consumption Taxes</b>							
Beer Tax	3.033	3.067	3.023	1.1%	-0.3%	(0.044)	-1.4%
Cigarette Tax	31.011	30.433	30.623	-1.9%	-1.3%	0.190	0.6%
Liquor Excise Tax	17.724	19.284	18.418	8.8%	3.9%	(0.866)	-4.5%
Liquor Profits	10.500	11.080	10.500	5.5%	0.0%	(0.580)	-5.2%
Lottery Profits	13.084	14.342	12.091	9.6%	-7.6%	(2.251)	-15.7%
Tobacco Tax	5.853	6.005	5.929	2.6%	1.3%	(0.076)	-1.3%
Wine Tax	2.195	2.218	2.250	1.0%	2.5%	0.032	1.5%
<b>Other Sources</b>							
All Other Revenue	36.578	32.548	37.320	-11.0%	2.0%	4.772	14.7%
Highway Patrol Fines	4.140	4.467	4.142	7.9%	0.0%	(0.325)	-7.3%
Nursing Facilities Fee	4.928	4.740	4.961	-3.8%	0.7%	0.221	4.7%
Public Institution Reimb.	16.212	17.802	17.298	9.8%	6.7%	(0.504)	-2.8%
Tobacco Settlement	3.321	3.519	3.646	6.0%	9.8%	0.127	3.6%
Largest Seven Subtotal	\$1,786.868	\$1,752.411	\$1,789.890	-1.9%	0.2%	\$37.479	2.1%
Remaining Sources Subtotal	290.754	303.974	287.155	4.5%	-1.2%	(16.820)	-5.5%
<b>Grand Total</b>	<b>\$2,077.622</b>	<b>\$2,056.385</b>	<b>\$2,077.044</b>	<b>-1.0%</b>	<b>0.0%</b>	<b>\$20.659</b>	<b>1.0%</b>

\*SJ 2, Adjusted for Legislative Impacts

## LARGE REVENUE SOURCES

In FY 2014, the largest seven revenue sources accounted for 86% of total general fund revenue. This section will highlight the differences between actual and anticipated revenue collections for each source and go into further detail if applicable.



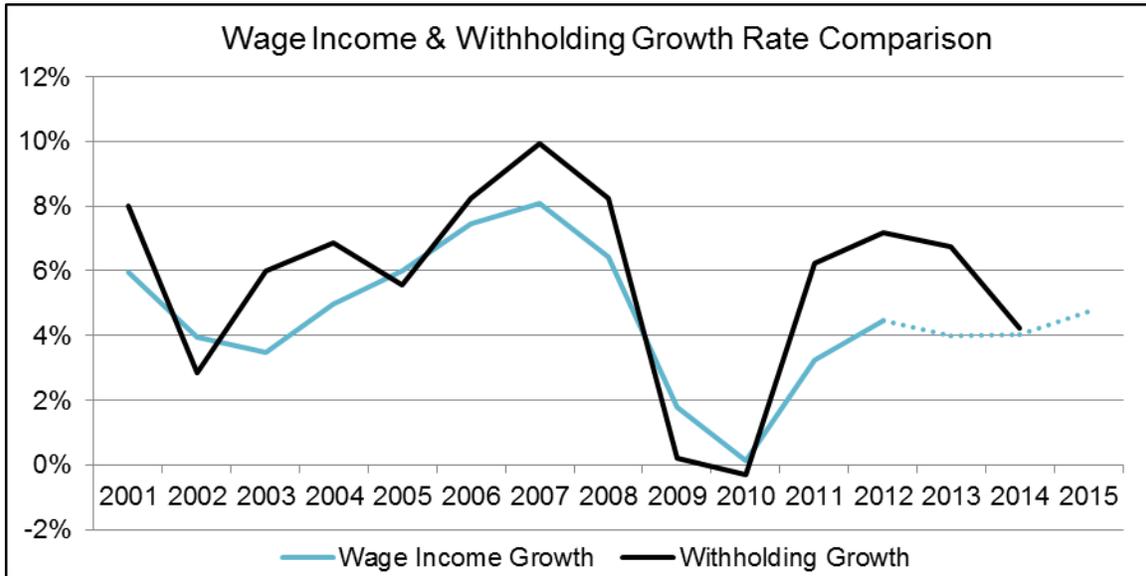
### Individual Income Tax: \$24.2 million

Individual income tax collections were \$24.2 million or 2.3% above the estimate contained in SJ 2. The difference may be explained by slightly above-anticipated withholding growth—a proxy for wage and retirement income—which offset the net decline in estimated and current year payments—a proxy for all other non-wage income. Total audit income was also above estimate. The table below shows the accounting level detail for FY 2014 compared to FY 2013.

Individual Income Tax (\$ Millions)				
	FYE 2014	FYE 2013	Difference	% Difference
Withholding	\$816.7	\$783.6	\$33.1	4.2%
Estimated Payments	242.7	233.7	9.0	3.8%
Current Year Payments	177.9	211.2	(33.3)	-15.8%
Audit, P&I, Amended	41.0	31.8	9.2	28.8%
Refunds	(253.5)	(244.0)	(9.5)	3.9%
Partnership Income Tax	17.0	14.0	3.0	21.3%
Mineral Royalties	21.5	17.4	4.1	23.6%
<b>Total</b>	<b>\$1,063.3</b>	<b>\$1,047.8</b>	<b>\$15.5</b>	<b>1.5%</b>

Wage Income

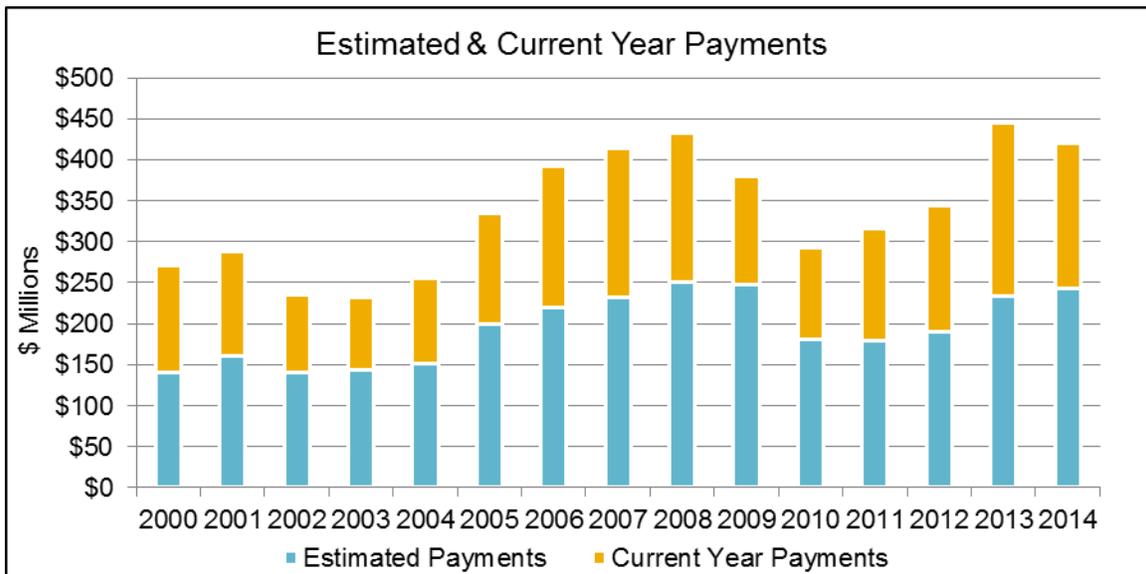
There is a correlation between withholding growth and wage income growth; however, the correlation is not particularly strong, as shown in the graph below:



Actual wage income growth for calendar year 2013 won't be available until early November, and even then data won't be available with which to approximate FY 2014 wage income growth. The moderate withholding growth suggests that wage income growth was close to the estimate contained in SJ 2.

Non-Wage Income

Estimated and current year payments are a proxy for non-wage income. While FY 2014 estimated payments posted moderate gains over FY 2013, current year payments declined over the same period. However, FY 2013 current year payments were unusually high, likely due to taxpayers' responses to the federal tax uncertainty at the end of calendar year 2012. FY 2014 current year payments may be unusually low: if taxpayers realized gains in CY 2012 that they would have primarily realized in CY 2013, the resulting FY 2014 estimated and current year payments could be lower than otherwise anticipated.



The extent to which reduced current year payments may reflect income shifting to the prior year rather than underlying economic weakness cannot be estimated until CY 2013 return information is available; even then, the data will likely not provide a strong indicator of taxpayer behavior change versus normal growth. Future estimates for non-wage income sources—especially those likely to be influenced by unusual shifting in CY 2012—will be carefully examined to insure that an outsized reduction in CY 2013 non-wage income does not result in significantly reducing subsequent growth.

Audit, Penalty & Interest, and Amended: \$4.8 million

Audit, penalty and interest, and amended collections are forecast explicitly in SJ 2; combined collections in FY 2014 were higher than expected by \$4.8 million.

**Property Tax: \$5.1 million**

General fund property tax revenue was 2.1% or \$5.1 million above the SJ 2 estimate. The primary reason for the difference is protested taxes; about \$3.1 million of previously protested taxes were released to the state property tax accounts as a result of settlements with Puget Sound Energy and Bresnan Communications. FY 2014 protested taxes were also somewhat lower than anticipated.

**Corporation Tax: (\$6.5 million)**

Corporation income tax collections were \$6.5 million or 4.2% below SJ 2 primarily due to unusually low audit, penalty & interest collections.

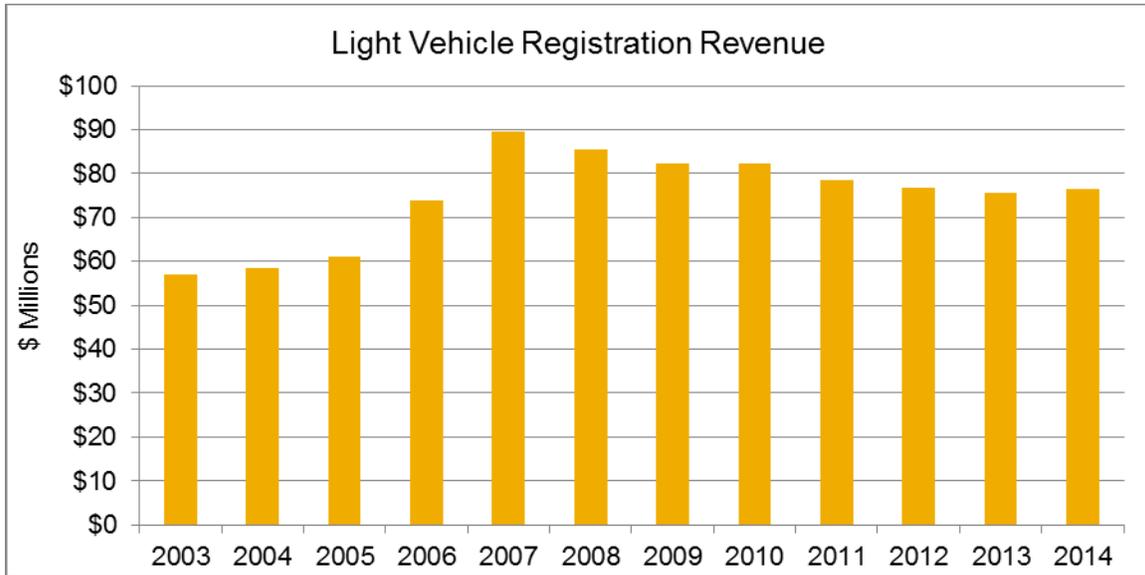
Corporation Income Tax--FY 2014 Actuals versus SJ 2			
(\$ Millions)			
	SJ 2	Actual	Difference
Tax Liability & Adjustments	\$156.1	\$160.3	\$4.2
Refunds	-24.6	-21.7	2.9
Audit, Penalty & Interest	22.6	8.9	-13.7
<b>Total</b>	<b>\$154.1</b>	<b>\$147.5</b>	<b>-\$6.5</b>

Audit, penalty & interest income was unusually low in FY 2014, as shown below:



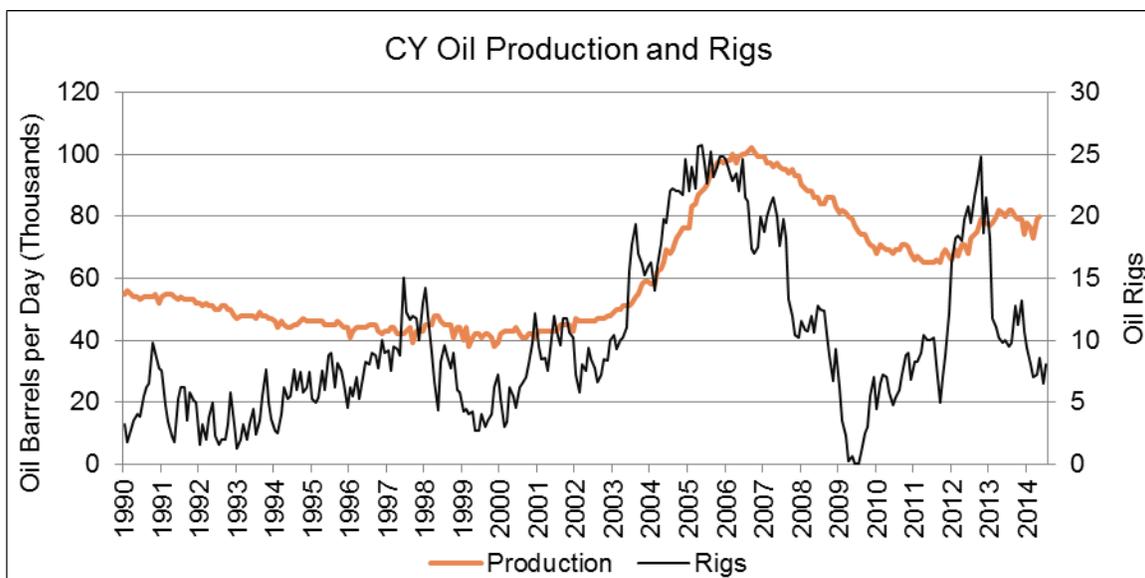
## Vehicle Taxes & Fees: (\$1.6 million)

Combined revenue collections from vehicle fees and taxes were 1.5% or \$1.6 million less than anticipated in SJ 2. However, revenue from this source did increase from FY 2013 by \$1.7 million. This increase was due primarily to increases in light vehicle registrations and light vehicle permanent registrations as compared to FY 2013. FY 2014 was the first year to see a year-over-year increase in revenue generated from light vehicle registrations since FY 2007.



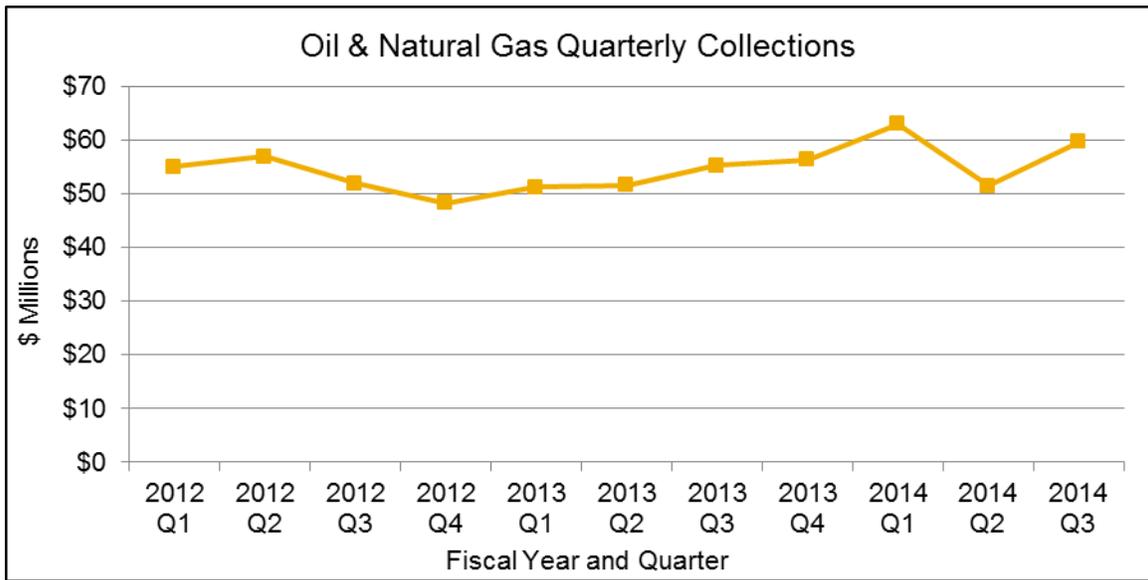
## Oil & Natural Gas Taxes: \$10.3 million

Oil and natural gas contributions to the general fund have been fairly consistent in the state since the Elm Coulee increase which peaked in FY 2008. This trend was expected to continue in FY 2014; however, due to a temporary increase in drilling and subsequent production spike, FY 2014 collections came in \$10.3 million, or 10.3% above the SJ 2 estimate.



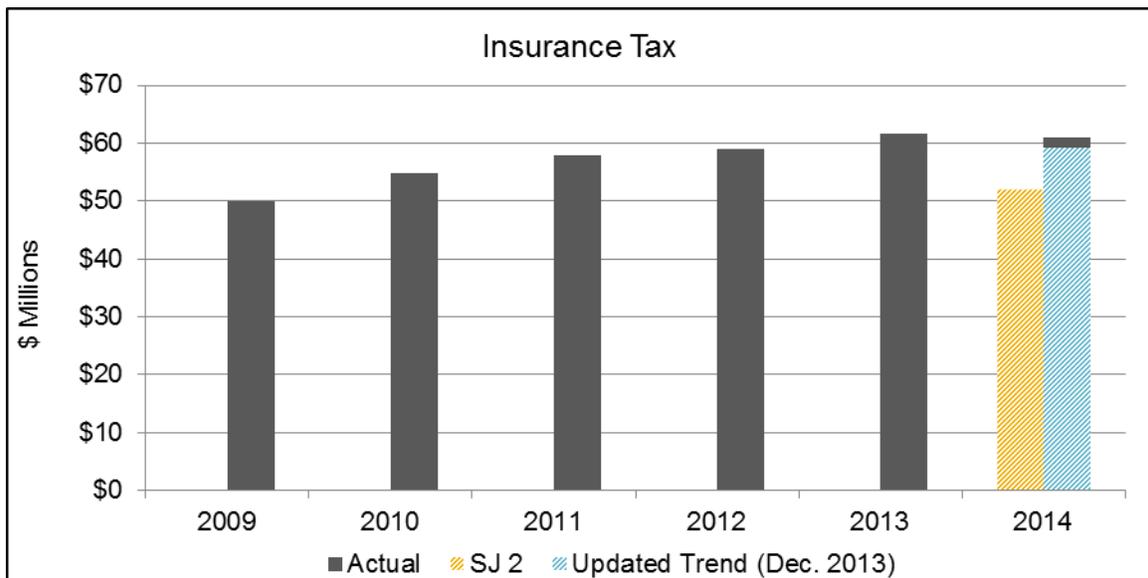
Of the \$10.3 million, approximately \$5.5 million was due to a high quarterly collection in the first quarter of FY 2014, as was discussed in the [RTIC May Update](#). It was expected then that the remaining quarters would be similar to FY 2013 quarterly collections. The fourth quarter accrual,

however, was larger than expected as an oil price increase of 4.7% was used by DOR to make the accrual estimate. Quarterly collections are illustrated in the chart below:



### Insurance Tax: \$8.9 million

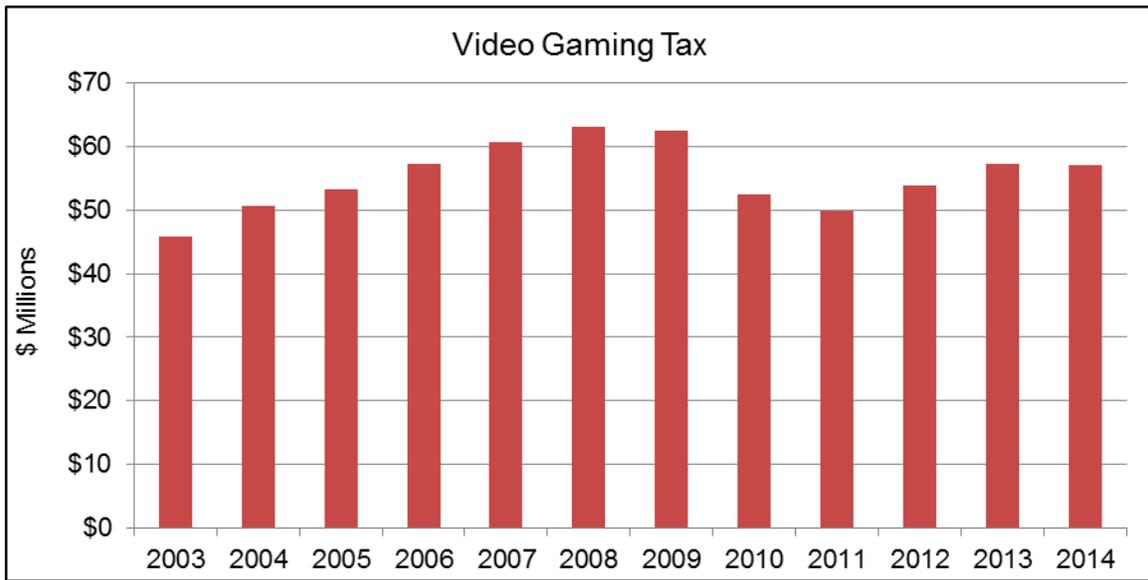
FY 2014 insurance tax came in \$8.9 million or 17% above the official SJ 2 revenue estimate. This is attributable in large part to the buyout of Blue Cross Blue Shield and its resulting loss of tax exempt status that has been discussed throughout the fiscal year. The chart below includes both the SJ 2 estimate and the updated trend presented in December 2013 accounting for prior years' Blue Cross Blue Shield premium values. The updated trend was still somewhat lower than the FY 2014 total. This source is destined for some volatility in the next few years as the effects of the Affordable Care Act begin to manifest.



### Video Gaming Tax: (\$2.8 million)

Video gaming revenue in FY 2014 was \$2.8 million or 4.6% less than what was anticipated in SJ 2. Furthermore, video gambling revenue decreased by \$0.1 million from FY 2013 to FY 2014 after

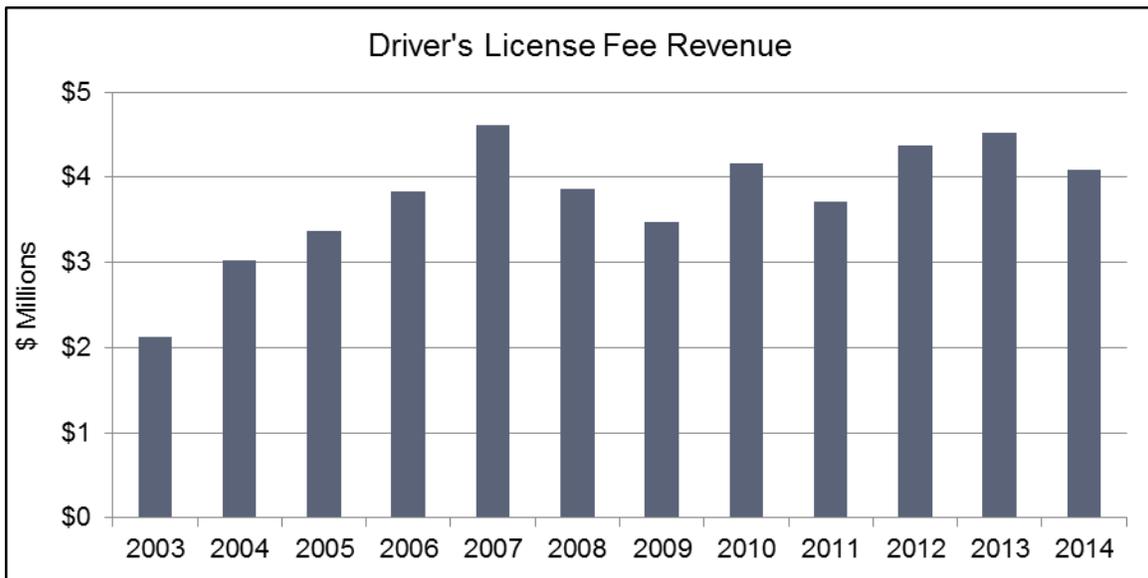
increasing substantially from FY 2011 to FY 2013. Revenue from this source may be leveling out once again as it did prior to the prominent decrease in FY 2010 and FY 2011.



## OTHER BUSINESS TAXES

### Driver's License Fee: (\$0.4 million)

Total driver's license revenue was \$0.8 million or 8.7% less than anticipated in SJ 2. Furthermore, revenue from this source decreased from amounts collected in FY 2013 by \$0.4 million. Since fees are fixed, this decrease in revenue was caused by fewer-than-expected Class D (standard) driver's license purchases.



### Investment License Fee: (\$0.3 million)

Investment license fee collections were \$0.3 million or 4.6% below the estimate contained in SJ 2. Consistent with the explanation from the State Auditor's Office (SAO) for lower-than-anticipated growth in FY 2013, the reduction in FY 2014 revenue is a continuation of a trend in the investment industry toward consolidation by mergers and acquisitions. This results in a declining total number of

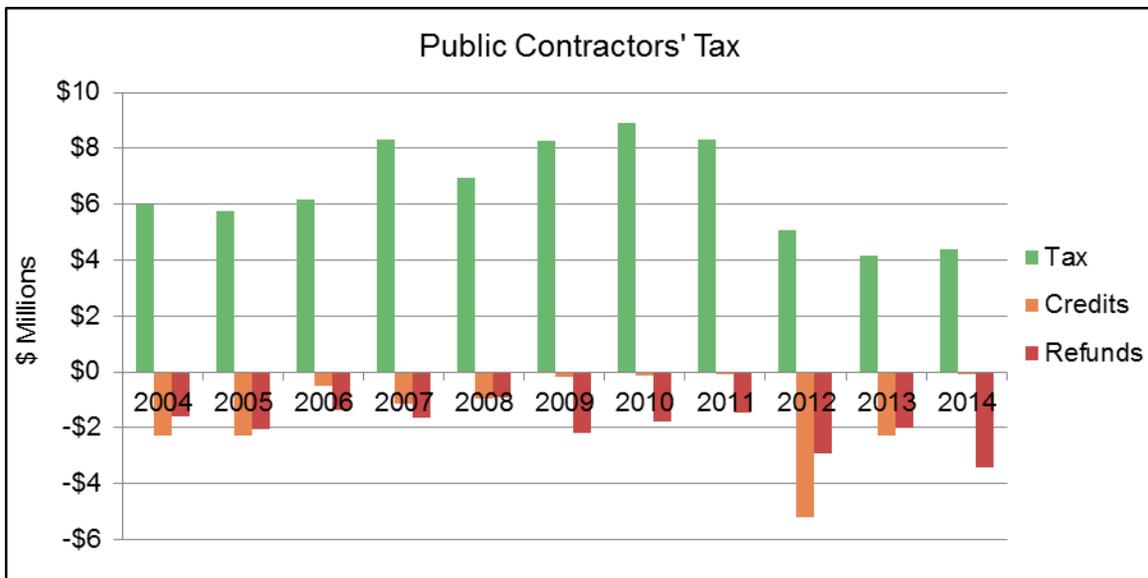
firms and a corresponding loss of license fee revenue. Collections were forecast in SJ 2 based on the S&P 500 Index. Based on the information from SAO, future models will account for the declining number of firms.

**Lodging Facilities Sales Tax: (\$0.6 million)**

Lodging facilities sales tax collections were \$0.6 million or 3.5% below the estimate contained in SJ 2. This revenue source was forecast in SJ 2 based on Montana retail sales. The outlook for Montana retail sales has improved since the production of SJ 2. Given that the lodging tax declined, Montana retail sales may not be a good economic indicator for this source. Preliminary research suggests that U.S. personal income may have a better fit; furthermore, the outlook for U.S. personal income has decreased since the production of SJ 2, which is consistent with lodging collections coming in below estimate.

**Public Contractors’ Gross Receipts Tax: (\$2.4 million)**

Public contractors’ gross receipts tax collections were finally positive—after two years of negative collections in a row—although still \$2.4 million below the estimate contained in SJ 2. Higher levels of credits & refunds due to the increased number of public projects funded through the American Recovery & Reinvestment Act (ARRA) in 2009 and 2010, coupled with the subsequent decrease in publicly funded projects are still producing reduced net taxes. There is a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects will produce unusual future collection patterns.



**Railroad Car Tax: \$0.1 million**

Railroad car tax revenue was \$0.1 million, or 4.2% above the SJ 2 estimate. While this is a relatively small amount of money compared to the general fund, it does represent strong growth in this revenue source. The year-over-year change was 11%, primarily due to strong railroad mileage growth between CY 2013 and CY 2014.

**Rental Car Sales Tax: (\$0.1 million)**

Rental car sales tax collections were very close to the estimate contained in SJ 2. Rental car sales tax was forecast in SJ 2 based on Montana retail sales. As with lodging facilities sales tax, it may make more sense to model this source on U.S. personal income rather than Montana retail sales.

## **Retail Telecommunications Excise Tax: (\$3.6 million)**

Retail telecommunications excise tax collections were \$3.6 million or 15.4% below the estimate contained in SJ 2. The revenue has been declining since FY 2011 in part due to the DOR's loss of the pre-paid wireless case in 2011. The impact of the case was initially estimated to be an annual reduction in revenue of about \$1.0 million. However, the strong growth in the market share of prepaid smartphones was likely underestimated, resulting in an underestimate of the revenue reduction.

Collections were forecast in SJ 2 based on GSP for the information sector. Revised modeling based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS forecast of Montana population growth suggests continued decline, which is consistent with recent trends.

## **OTHER NATURAL RESOURCE TAXES**

### **Coal Severance Tax: (\$0.1 million)**

Coal severance tax collections were below the SJ 2 estimate by \$0.1 million or 0.8%. There are two factors that affect the estimate: the number of tons of coal produced and the contract sales price (CSP) of coal. Both of these were up in FY 2014 compared to FY 2013—from 35.5 million tons to 35.6 million tons for production and from \$12.3 to \$12.5 per ton for price. These two increases produced a year-over-year increase in revenue of 11.2%, just slightly lower than what was expected from the coal company survey data.

### **Electrical Energy Tax: (\$0.2 million)**

Taxable energy production was below the forecast by \$0.2 million, or 5.3%, at \$4.3 million. It was forecast in SJ 2 that FY 2014 would be below FY 2013 collections of \$5.1 million. Collections fell more than expected, however, 15.5% year-over-year, which is similar to the drop in year-over-year wholesale energy transaction tax of 12.5%. A major reason for this drop appears to be a shutdown in early FY 2014 at Colstrip.

### **Metalliferous Mines Tax: (\$2.6 million)**

Metal mines tax collections were \$2.6 million or 25% below the estimate contained in SJ 2. The decline in revenue is primarily due to a decline in production.

### **U.S. Mineral Royalties: (\$3.2 million)**

Revenue from U.S. mineral leases in the state was \$3.2 million or 10.4% below the SJ 2 estimate. Detailed federal FY 2014 information is not yet available; however, given the one quarter lag between federal and state fiscal years, the loss of a large oil and gas lease in McCone County in federal FY 2013 reduced FY 2014 collections. This was discussed as far back as the [December 2013 RTIC meeting](#).

### **Wholesale Energy Transaction Tax: (\$1.0 million)**

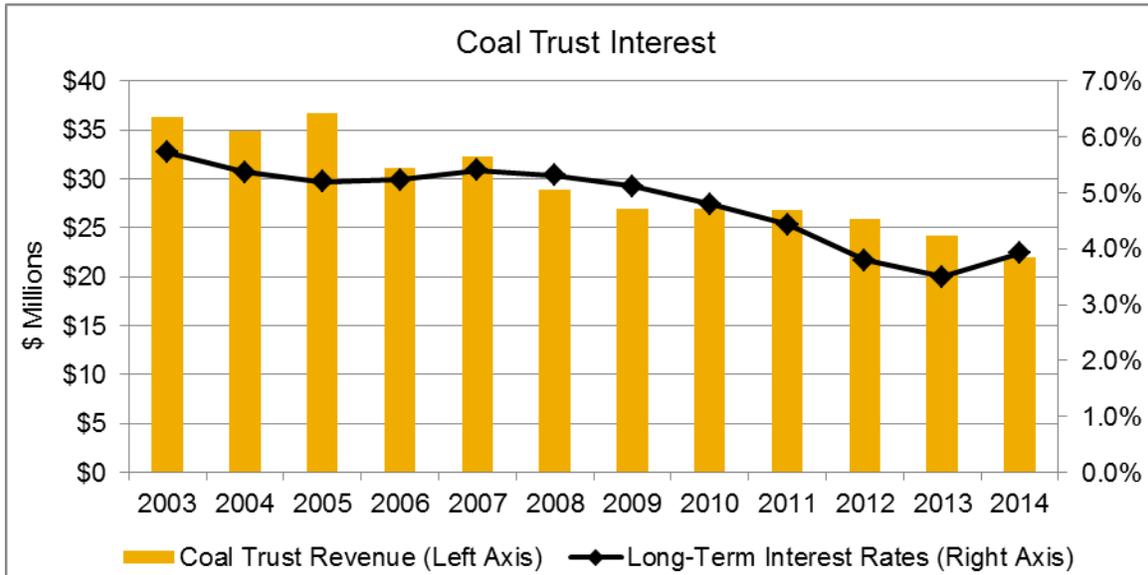
Wholesale energy transaction tax was down \$1.0 million or 24.8% from SJ 2 to \$3.6 million. As discussed in Electrical Energy Tax, the year-over-year drop was 12.5%, due in part to the shutdown at Colstrip. Collections were anticipated to increase to levels seen in FY 2008, 2009, and 2011.

## **OTHER INTEREST EARNINGS**

### **Coal Trust Interest Earnings: (\$2.4 million)**

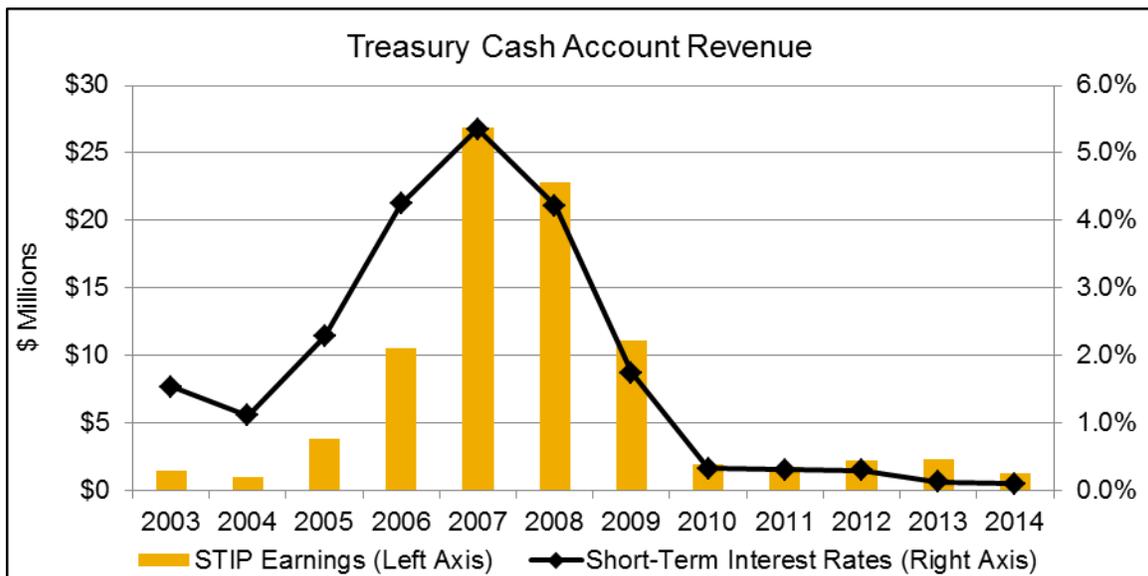
Coal trust interest earnings fell below the revenue estimate in SJ 2 by 9.7% or \$2.4 million. In addition, revenue decreased from FY 2013 by \$2.2 million. The coal trust is invested in the Trust

Funds Bond Pool, Short-Term Investment Pool, as well as in-state investments. The continued decrease in revenue is a result of lower rates of return than were expected when SJ 2 estimates were produced.



### Treasury Cash Account Interest Earnings: (\$0.6 million)

Based on year-end data for FY 2014, the TCA interest earnings were 25.1% or \$0.6 million below the SJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates. The majority of this revenue is produced from earnings in the Short-Term Investment Pool (STIP). As short-term interest rates continue to sit near zero, revenue from this source will continue to produce amounts far smaller than those seen in the past.



## **OTHER CONSUMPTION TAXES**

### **Beer Tax: (\$0.0 million)**

Beer tax revenue was very close to the SJ 2 estimate, coming in at 1.4% or \$0.0 million below the official projection. As with some other revenue sources, Montana retail sales is used as a driver in the current model, and its inclusion will be reevaluated and potentially altered.

### **Cigarette Tax: \$0.2 million**

Cigarette taxes exceeded the SJ 2 revenue estimates by 0.6% or \$0.2 million. As with FY 2013, a decline did occur from the prior year, but SJ 2 projected a slightly steeper drop than was actually observed. The continual decline is due to the decrease in cigarette sales associated with lower smoking rates.

### **Liquor Excise & License Tax: (\$0.9 million)**

Liquor excise tax revenue was overestimated in SJ 2; actuals came in 5.2% or \$0.9 million under the estimate. The actuals are only \$0.1 million under the updated trend from December at which time FYE 2013 actuals – which had come in under estimate – were incorporated, and the model had been modified slightly to rely on more than simply US CPI as a driver.

### **Liquor Profits: (\$0.6 million)**

The SJ 2 revenue projection for liquor profits was \$11.1 million and FY 2014 actuals came in at \$10.5 million or 5.2% under estimate. Important to note is that the transfer of liquor profits to the general fund is always a round number rather than total collections and keeping that in mind, the SJ 2 estimate could have been \$11.0 million, and slightly closer. As with liquor tax, once the lower-than-expected FY 2013 revenues were input into the modified model, the updated trend indicated a transfer of \$10.5 million for FY 2014.

### **Lottery Profits: (\$2.3 million)**

Lottery profits for FY 2014 came in 15.7%, or \$2.3 million, under the SJ 2 revenue estimate. There were three Powerball winners in FY 2014, which resulted in lower advertised jackpots and reduced ticket sales.

### **Tobacco Tax: (\$0.1 million)**

Tobacco tax revenue came in under the SJ 2 estimate by 1.3% or \$0.1 million. While cigarette usage continues its slow decline, other tobacco use continues to experience slow growth in Montana. As with beer tax, this revenue source uses Montana retail sales; other economic variables will be explored that may have a more consistent relationship with the revenue source.

### **Wine Tax: \$0.0 million**

Wine tax revenue came in close with growth of 1.5% more than expected. Fun fact: wine has the fastest growing per capita usage in the consumption sector.

## **OTHER SOURCES**

### **All Other Revenue: \$4.8 million**

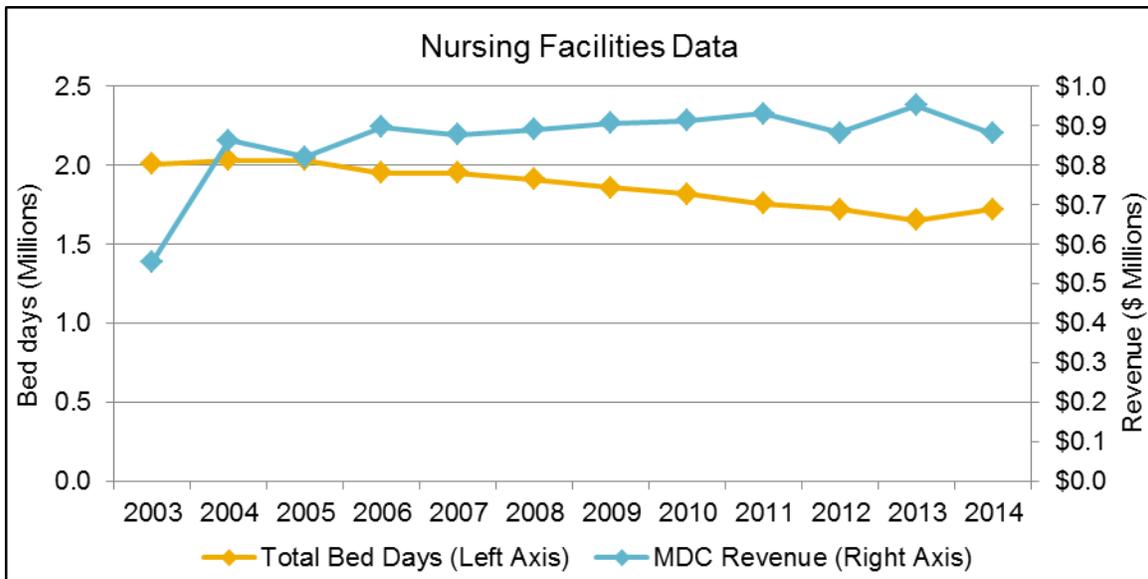
The combined revenue from all other general fund sources exceeded the SJ 2 estimate by 14.7% or \$4.8 million. In SJ 2, abandoned property collections were estimated to be \$2.2 million. In FY 2014, abandoned property collections were unusually high at \$7.7 million. These collections explain the majority of the discrepancy between all other revenue in FY 2014 and the estimate contained in SJ 2.

### Highway Patrol Fines: (\$0.3 million)

Total revenue generated from highway patrol fines in FY 2014 was 7.3% or \$0.3 million less than the SJ 2 estimate. This revenue source follows a time trend with random fluctuations; actual collections are likely to be close to forecast values, but not exact.

### Nursing Facilities Fees: \$0.2 million

Nursing facilities fees came in 4.7% or \$0.2 million over the SJ 2 revenue estimate. Revenue and bed days both increased for the first time since 2007. At the same time, after strong growth in FY 2013 Montana Developmental Center (MDC) revenue declined to approximately FY 2009 amounts.



### Public Institution Reimbursements: (\$0.5 million)

Public institution reimbursements were 2.8% or \$0.5 million less than SJ 2 revenue estimate, due to a larger Montana State Hospital debt service payment and a decline in Montana's Federal Medical Assistance Percentage (FMAP), determining Medicaid reimbursement levels.

### Tobacco Settlement: \$0.1 million

Tobacco settlement revenue was above the SJ 2 estimate by 3.6% or \$0.1 million for FY 2014. Fluctuations in this revenue source are generally due to disputes and litigation brought forth by attorneys representing the cigarette companies and the states that delay or mildly adjust the amount of the settlement. These cannot be captured in the revenue model and will always contribute to discrepancies between estimates and actuals in this source.

## EXPENDITURES

Prior budget status reports had shown general fund budget pressure in the two largest general fund spending areas - K-12 education and the Department of Public Health and Human Services (DPHHS). As of the writing of this report, a general fund supplemental is still anticipated for the Office of Public Instruction, but DPHHS was able to remain within its overall FY 2014 appropriation. A further discussion follows later in the report on page 20.

In addition, in March the Office of the Public Defender submitted a request to transfer FY 2015 general fund appropriations to FY 2014 and was utilizing the Governor's SB 410 and personal services contingency appropriations to cover shortfalls. It is likely that spending pressures in that agency will continue into FY 2015.

## **HB 2 ANALYSIS INCLUDING ONE-TIME-ONLY APPROPRIATIONS**

The following table illustrates the HB 2 and related bills (HB 13, HB 377, and HB 454) general fund appropriation authority. For this analysis, both ongoing appropriations of \$1,755.9 million and one-time-only appropriations of \$22.7 million are included. The analysis following the table also includes SB 410, as it is associated with the HB 2 budget.

Staff reviewed the spending for all agencies in the three main fund types (general fund, state special and federal) and investigated any significant differences between what the legislature provided and intended, and what the agencies spent. Emphasis was placed on HB 2 general fund, with additional examination of major state special revenue funds and general fund statutory appropriations. The following table compares the HB 2 general fund appropriation for each agency to expenditures through fiscal year end. State special and federal revenue tables can be found in Appendix A.

FY 2014 HB 2 FY 2014 General Fund Expenditures				
Section Agency	Appropriations	Expenditures	Balance	% Remaining
A Legislative Branch	\$12,274,326	\$10,982,290	\$1,292,036	10.53%
Governor's Office	6,083,739	5,934,267	149,472	2.46%
Commissioner Of Political Practices	601,140	571,353	29,787	4.96%
State Auditor's Office	1,646,660	1,115,596	531,064	32.25%
Department Of Revenue	51,206,869	51,049,298	157,571	0.31%
Department Of Administration	6,524,061	6,345,971	178,090	2.73%
Department Of Commerce	7,652,744	5,585,833	2,066,911	27.01%
Department Of Labor & Industry	1,348,216	1,347,211	1,005	0.07%
Department Of Military Affairs	6,147,007	5,880,209	266,798	4.34%
A Total	<u>\$93,484,762</u>	<u>\$88,812,027</u>	<u>\$4,672,735</u>	<u>5.00%</u>
B Department of Public Health and Human Services	<u>\$447,180,713</u>	<u>\$446,665,855</u>	<u>\$514,858</u>	<u>0.12%</u>
C Department Of Fish, Wildlife & Parks	\$309,125	\$309,125	\$0	0.00%
Department Of Environmental Quality	5,358,621	5,301,047	57,574	1.07%
Department Of Livestock	1,536,904	1,515,006	21,898	1.42%
Department Of Natural Resources & Conservation	24,326,428	23,836,251	490,177	2.01%
Department Of Agriculture	997,371	969,234	28,137	2.82%
C Total	<u>\$32,528,449</u>	<u>\$31,930,664</u>	<u>\$597,785</u>	<u>1.84%</u>
D Judicial Branch	\$38,387,321	\$36,979,579	\$1,407,742	3.67%
Crime Control Division	2,376,682	2,343,011	33,671	1.42%
Department Of Justice	30,605,195	30,423,591	181,604	0.59%
Office Of The Public Defender	26,963,146	26,942,957	20,189	0.07%
Department Of Corrections	185,957,991	181,925,821	4,032,171	2.17%
D Total	<u>\$284,290,335</u>	<u>\$278,614,958</u>	<u>\$5,675,377</u>	<u>2.00%</u>
E Office Of Public Instruction	\$727,834,653	\$713,321,072	\$14,513,581	1.99%
Board Of Public Education	215,614	119,086	96,528	44.77%
Commissioner Of Higher Education	208,757,649	207,657,826	1,099,823	0.53%
School For The Deaf & Blind	6,579,992	6,471,063	108,930	1.66%
Montana Arts Council	584,062	520,541	63,521	10.88%
Montana State Library	3,284,828	3,272,405	12,423	0.38%
Montana Historical Society	3,535,464	3,489,505	45,959	1.30%
E Total	<u>950,792,262</u>	<u>934,851,498</u>	<u>15,940,764</u>	<u>1.68%</u>
	<u>\$1,808,276,521</u>	<u>\$1,780,875,002</u>	<u>\$27,401,518</u>	<u>1.52%</u>

## Agencies with Significant General Fund Appropriations

The following sections highlight the analysis of the agencies with highest general fund appropriation. In addition, any pressure points associated with non-general fund are also discussed.

### **Office of Public Instruction**

The Office of Public Instruction (OPI) Local Education Activities program, which distributes funds to local schools, ended the year with a general fund appropriation balance of \$14.4 million. Of this balance, \$13.4 million is in BASE Aid and is the unexpended portion of a transfer of \$25.0 million from the FY 2015 portion of the biennial appropriation that had been made to address anticipated shortfalls that were not as large as originally estimated. The agency spent only \$1.5 million of the \$12.9 million available in FY 2014 from SB 175 appropriations. If the agency had not transferred the \$25 million but instead spent the SB 175 appropriation, the shortfall in BASE Aid would have been about \$0.2 million.

In previous reports, staff outlined that appropriations for the 2015 biennium were anticipated to be \$2.0 million less than anticipated expenditures due to an underestimation of guaranteed tax base aid

(GTB) payments during the session and repayment of a loan to cover a FY 2013 shortfall. The anticipated shortfall is now projected to be \$4.3 million.<sup>1</sup>

## **Department of Public Health and Human Services (DPHHS)**

The Department of Public Health and Human Services (DPHHS) reverted less than 3% - about \$54.0 million - of the total \$1.9 billion HB 2, HB 13, HB 377, and HB 454 appropriations. General fund expenditures were \$446.2 million, resulting in a reversion of \$1.0 million or 0.2% of the \$447.2 million appropriated from these bills.

At the June LFC meeting, DPHHS projected it would have a general fund deficit of \$11.2 million, including \$8.3 million in Medicaid, based on projected expenditures of \$458.7 million. Actual expenditures were \$12.6 million less than this projection. The major differences between the DPHHS projection in May and actual expenditures are:

- Medicaid expenditures lower than May estimate - \$7.7 million general fund, including:
  - Senior and Long Term Care Division - \$3.6 million
    - Adjustments for higher federal match rate for Community First Choice - \$2.8 million
    - Lower nursing home cost estimate - \$0.8 million
  - Health Resources Division - \$2.4 million
    - General fund offset by \$1.7 million of additional HMK match for Medicaid services
    - Lower hospital services estimate partially offset by higher acute care and pharmacy services estimates - \$0.8 million
  - Developmental Services Division - \$1.6 million
- A shift from general fund to state special revenue - \$1.7 million in Healthy Montana Kids
- Childcare and TANF maintenance of effort lower than May estimate - \$1.0 million
- Montana Developmental Center overtime costs paid from federal CHIPRA bonus payment instead of general fund - \$0.5 million

Because the department was able to eliminate the projected deficit without the use of additional available funds (such as SB 410 or the CHIPRA bonus), these funds are still available for expenditure by the department in FY 2015. For further information, see [“Medicaid Monitoring Report – September LFC Meeting”](#).

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<sup>1</sup> To reiterate the reasons for the anticipated shortfall, a portion of the GTB payments are determined based on the district-anticipated funding from both fund balance re-appropriated and non-levy revenue. These funds offset state general fund GTB payments and local levies. Any change in this area is shared between state general fund and local levies. State analysts estimated these funding amounts during session and both were overestimated as follows: 1) fund balance re-appropriated (\$5.0 million), which is very volatile and cannot be forecasted with certainty and 2) non-levy revenue (\$2.0 million) from oil and gas. The combined difference between expected and actual is \$7.0 million and resulted in both higher guaranteed tax base aid (GTB) payments from the state to districts and higher local BASE mills. In addition, the 2013 Legislature provided a supplemental appropriation to cover a shortfall in funding for BASE aid. Ultimately that supplemental fell short by \$2.0 million. To cover this shortfall the agency borrowed from the general fund in FY 2013 and paid the borrowed funds back out of the FY 2014 appropriation.

Two factors were observed in the district oil and gas revenue budgeting in the GTB area:

1. Overall districts budgeted less oil and gas revenue in the district general fund than anticipated.
2. In FY 2014, SB 175 allowed districts to use a portion of the non-levy revenue in the district general fund above BASE for the first time. The fiscal note assumed there would be no impact to the GTB payments from this provision.

The state special revenue funding available for school BASE aid, the guarantee account, is anticipated to be consistent with budgeted levels and are not anticipated to be available to offset this shortfall. In addition, the trigger set forth in SB 175 that would allocate “excess” guarantee account revenue to other school purposes is not expected to be met.

Lower expenditures were offset by higher costs than anticipated in the May DPHHS report including Montana State Hospital (MSH) operating and personal services, which recorded \$1.2 million more in general fund expenditures than the original legislative appropriation authority. Transfers of general fund from other programs provided the additional money needed at MSH.

### ***Department of Corrections***

The Department of Corrections has a biennial appropriation, meaning that, while the appropriation was split between the fiscal years in HB 2, any funds appropriated can be spent in either year. The department experienced budget pressures in FY 2014 and transferred \$4.1 million from its FY 2015 biennial appropriation to cover a general fund shortfall in FY 2014. The purposes the agency identified to justify its budget authority transfer were:

- County jail holds were 100 beds per day over budget amount
- Inability to achieve vacancy savings in the Community Corrections Program, primarily associated with probation and parole staff, and the Clinical Services Division
- Higher than budgeted costs for outside medical costs in the Clinical Services Division

Only \$67,000 of the \$4.1 million was expended, leaving the remainder to be expended in FY 2015.

The department also used a portion of one-time-only funds from SB 410 for personal services costs. The department also funded a portion of an overrun in youth placement costs by funding \$409,488 in mental health placement costs with an allocation from the Juvenile Delinquency Intervention Program (JDIP) cost containment pool (after receiving approval from the cost containment review panel). The allocation to the department reduced the funds that were transferred to the judicial districts of the Judicial Branch for use in funding community programs and services that are alternatives to out-of-home placement of youth.

### ***Office of the Commissioner of Higher Education (OCHE)***

As stated in previous reports, the university system has experienced lower than anticipated tuition revenue at the University of Montana and research funding at Montana State University. These shortfalls do not have a direct impact on state funding in the 2015 biennium, but impact other areas of campus operations and will likely be part of the policy discussions with the legislature in the 2015 biennium.

### ***Other Agencies***

The following section discusses other agencies general fund impacts as well as any identified issues or other budget factors not discussed above in HB 2 appropriations or related revenues.

### ***Section A – General Government***

State Auditor – The Office of the State Auditor (SAO) was provided authority for “bridge” funding for the Insure Montana program between prior funding from the health and Medicaid initiatives state special revenue fund, which was inadequate to continue to support all activities of the program, and the establishment of small employer health options insurance marketplaces/exchanges. The legislature provided a one-time-only appropriation of \$1.6 million in general fund. Of that amount, \$1.1 million was expended.

### ***Section C – Natural Resources and Transportation***

Fish, Wildlife, and Parks (FWP) – As stated in previous reports, FWP is experiencing an annual budget shortfall of \$5.75 million in its general license account in the state special revenue fund, which is the primary funding source for operations of the agency, and might request a fee increase in the next biennium. Under HB 609 by the 2013 Legislature, the Environmental Quality Council studied Montana’s hunting and fishing license statutes and fees. The governor tasked a citizens’ advisory council with a similar study, and the EQC has incorporated that effort into its own work and approved

drafting of a bill. As drafted, the legislation would increase revenues by \$6.129 million per year from the following:

- Increased fishing license fees
- Creating a base hunting license as a pre-requisite to all other hunting licenses
- Eliminating free licenses
- Standardizing discounts offered to youth, senior, disabled, and nonresident hunters and anglers (which had cost the department more than \$4.5 million in lost revenue each year)

Montana Department of Transportation (MDT) – The highways state special revenue account (HSRA), along with matched federal funds, supports most functions of MDT. It is primarily funded from gas, diesel, and GVW taxes and fees.<sup>2</sup> Current estimates of the revenues to the fund were \$11.0 million lower than anticipated by the 2013 Legislature, and expenditures were in line with the appropriation.

The HSRA began FY 2015 with a fund balance of \$54.9 million. This amount was about \$29.4 million more than anticipated in the fund balance analysis used in the 2013 session. Reasons for the change include:

- Expenditures of FY 2013 were \$49.2 million less than anticipated
- Expenditures of FY 2014 were \$4.8 less than anticipated

The FY 2015 ending balance is \$19.2 million lower than projected during the 2013 Legislature for the following reasons:

- Much of the appropriation authority in MDT is biennial (continued), and all unused appropriations for long-range building projects have continued or been re-appropriated. All of this authority, amounting to some \$35.4 million (\$11.1 million for long-range projects and \$24.3 million of MDT biennial authority), have been continued to FY 2015
- An increase at fiscal yearend in budget authority in the restricted portion of the fund, primarily due to net movements of \$11.9 million from federal funds at the end of the fiscal year, which increased the continued authority and resulted in a lower than expected fund balance.

While it would be unusual, if the state agencies spend all the available 2015 biennium HSRA authority, the fund would end the biennium well below the \$30 to \$50 million the department maintains it must have due to federal reimbursement policies. Staff will be closely monitoring this account as the session approaches. The following table illustrates.

Preliminary Estimated Working Capital Balance, FY 2015 Highway State Speical Revenue Restricted Account (millions)	
Beginning Working Capital Balance, Actual	\$55.2
2015 Anticipated Revenues (SJ 2)	291.0
2015 Authority	
HB 2 & 13 Authority (MDT and DOJ)	296.0
Statutory Appropriations and Transfers	22.1
Continuing Authority - HB 5, HB 10	11.1
Carry Forward Authority (MDT and DOJ)	<u>11.5</u>
Total Authority	340.7
Revenues less Expenditures	(49.7)
Estimated Working Capital Beginning Balance for FY 2016	<u>\$5.5</u>

<sup>2</sup> The fund also supports highways related activities in the Departments of Justice, the Long-Range Building Program, and Fish, Wildlife, and Parks.

Department of Livestock – In the June 2014 status report it was noted that a recent legislative audit determined that, contrary to state law, the Department of Livestock in FY 2012 and FY 2013 spent cash associated with deferred revenue from brand re-record fees to fund current year operations. The department had indicated at that time that a general fund supplemental of \$800,000 would possibly be requested from the 2015 Legislature to replenish the fund. As of the writing of this report the department has stated it will use current agency sources of revenue, including the per capita fund, and not seek a general fund supplemental for this purpose.

In August, the Board of Livestock approved increases in brand inspection, per capita, and lab fees, as well as reductions in staff and the elimination of vacant positions, to address a projected FY 2015 shortfall. As of the writing of this report, the department has stated it does not plan to request a supplemental from the 2015 Legislature, although the Board of Livestock voted to ask the Governor to include an additional \$815,000 general fund for the laboratory in his budget request.

**Section D – Judicial Branch, Law Enforcement, and Justice**

Office of the State Public Defender (OPD) – OPD expended significantly more than the original budget provided by the legislature, as shown in the following table.

Office of the Public Defender Expenditures by Source of Authority FY 2014		
Appropriations Source	Authority	Expended
Initial Legislative Appropriations		
HB 2/13/454	26,994,690	26,954,745
Additional Authority		
SB 410	625,000	625,000
Appropriations Transfer from FY 2015:		
Supplemental Appropriation	1,600,000	1,600,000
Biennial Appropriation	250,000	250,000
Personal Services Contingency (HB 13)	340,000	340,000
Total	29,809,690	29,769,745

Funds from SB 410 were transferred to address higher than anticipated caseloads statewide. Factors cited by the department for the need for the supplemental appropriation were:

- Low vacancy savings due to low turnover of staff following implementation of the career ladder for attorneys
- Expenditures on capital cases that have depleted both restricted funding and drawn on other appropriations of the office
- Higher than anticipated caseloads

Given the ongoing nature of much of the additional spending, there is a high likelihood that the agency will request additional increases to its appropriation authority in FY 2015.

**SB 410**

SB 410 transferred general fund to provide statutory appropriations of state special revenue for various operational costs for the following state agencies:

- Department of Corrections - \$2.0 million
- Department of Public Health and Human Services - \$2.0 million
- Department of Labor and Industry (DOLI) - \$2.0 million
- Governor’s Office - \$7.5 million

Funding provided to the Governor's Office can be transferred to the following state agencies for operational costs:

- Department of Public Health and Human Services
- Department of Natural Resources
- Department of Environmental Quality
- Department of Administration
- Department of Commerce
- Department of Revenue
- Department of Corrections
- Department of Labor and Industry
- Governor's Office

Each department included the statutory appropriations in its budgets at the beginning of the biennium. The following table shows the programs, with the budgeted, allocated, and expenditures as of FYE 2014 amounts for FY 2014. It should be noted that DOLI has split its authority between fiscal years with \$1.0 million in FY 2014 and \$1.0 million in FY 2015.

SB 410 Appropriations by Program and Fiscal Year				
Appropriation to Agencies	Program	FY 2014 Allocated	Expended	Remaining Authority
Department of Corrections	Administration and Support Services	\$2,000,000	\$328,985	\$1,671,015
Department of Labor and Industry*	Workforce Services Division	825,000	763,271	61,729
	Employment Relations Division	125,000	124,999	1
	Office Of Community Services	50,000	50,000	0
Department of Public Health and Human Services	Director's Office	2,000,000	0	2,000,000
Appropriation to the Governor's Office \$7,500,000**				
Governor's Office	Office Of Budget and Program Planning	790,990	790,990	0
Department of Justice	Narcotic Investigations in Eastern Montana	198,773	166,565	32,208
Office of the Public Defender	Offset Budget Overruns	625,000	625,000	0
Office of the Commissioner of Higher Education	Great Falls College	325,000	325,000	0
Department of Commerce	Main Street	215,000	75,576	139,424
Department of Corrections	Administrative and Financial Services	<u>692,000</u>	<u>21,339</u>	\$670,661
Governor's Office Total		\$2,846,763	\$2,004,470	
*Department of Labor and Industry received a total of \$2 million, of which \$1 million shows in the table. The department allocated the remainder to FY 2015. **Governor's office has remaining authority of \$4.7 million.				

As stated in prior reports, three of the agencies that have received a portion of the Governor's allocation are not on the SB 410 list of agencies eligible to receive the funds: 1) the Department of Justice; 2) the Office of the Public Defender; and 3) the Montana University System.<sup>3</sup>

## Supplemental Risk

The only agency that requested and received approval to transfer general fund appropriations authority from FY 2015 to FY 2014 to meet projected budget shortfalls was the Office of the Public Defender. As stated earlier, much of the additional expenditures are likely to be ongoing, increasing the possibility of a supplemental request from the 2015 Legislature.

The Office of Public Instruction is still projected to require a supplemental appropriation of \$2.0 million, as discussed earlier in this report. However, no other agencies, including the Department of Public Health and Human Services (DPHHS), which had earlier projected the need for measures to prevent

<sup>3</sup> The Department of Justice funds are to fund personal services and operating costs for 2.00 FTE modified to provide Division of Criminal Investigation agents for Eastern Montana while the OPD funds are to fund personal services for 9.18 FTE modified to address caseload impacts to the office. The Montana University System funds are for Great Falls College to develop the college's welding and fitting program and other industry-related skills to provide an adequately trained work force for ADF International. ADF is a manufacturer of complex structural steel and heavy built-up steel components for the non-residential construction industry.

a deficit, required an appropriations transfer. While DPHHS maintained expenditures within its appropriation in FY 2014, staff is closely monitoring the agency for trends or other information that indicate a potential supplemental. The Department of Corrections also experienced budget pressures in FY 2014 in a number of areas, including jail holds and outside medical costs. However, the impact on the adequacy of current FY 2015 appropriations is unclear at this time.

## STATUTORY APPROPRIATIONS

Statutory appropriations are those appropriations that are contained in the Montana Code Annotated to be established each year based on specific criteria in law. Spending is capped by the law establishing the appropriation and not through a legislative appropriation in the General Appropriations Act (HB 2). These appropriations are established on the SABHRS accounting system as needed by the executive and can be adjusted at any time in the fiscal year. Likewise, the executive establishes the Governor's emergency appropriations as needed.

### General Fund

FY 2014 Statutory General Fund					
Section/Agency		Appropriations	Expenditures	Balance	% Remaining
A	Governor's Emergency Appropriations	\$8,250,000	\$1,061,781	\$7,188,219	87.13%
	State Auditor's Office	28,559,222	28,447,420	111,802	0.39%
	Department of Revenue	118,709,854	118,582,985	126,869	0.11%
	Department of Administration	101,789,805	97,936,962	3,852,843	3.79%
	Department of Commerce	<u>2,374,218</u>	<u>2,373,109</u>	<u>1,109</u>	<u>0.05%</u>
A Total		259,683,099	248,402,257	11,280,842	4.34%
C	Department of Agriculture	690,000	647,634	42,366	6.14%
D	Department of Justice	4,668,241	4,572,476	95,765	2.05%
E	Commissioner of Higher Education	<u>1,825,541</u>	<u>1,533,652</u>	<u>291,889</u>	<u>15.99%</u>
Grand Total*		<u>\$266,866,881</u>	<u>\$255,156,019</u>	<u>\$11,710,862</u>	<u>4.39%</u>

\* Total statutory appropriations do not tie to Figure 1 since these levels reflect the amount of statutory appropriations levels established on SABHRS as of June 30, 2014 by the executive, plus half of the biennial emergency appropriation level. Figure 1 reflects LFD estimates of the final spending of the same.

### Governor's Office

The following table describes expenditures from the Governor's emergency fund (total \$16.5 million) as of the end of the fiscal year.

Expenditures from Governor's Emergency Appropriation FY 2014		
Agency	Incident	Amount
Military Affairs	Rainbow Family Gathering	\$212,788
Military Affairs	Spring 2013 Flooding	522,768
Military Affairs	June Storm	43,830
Military Affairs	Gallatin march Storm	<u>282,395</u>
Total		\$1,061,781

### State Auditor

The State Auditor statutory appropriations are primarily for distribution to local police and fire pension funds.

### Department of Administration (DOA)

The primary statutory appropriations in DOA are for debt service and pension contributions on behalf of local governments.

Department of Revenue

The Department of Revenue statutory appropriations are primarily the entitlement share payments made to local governments.

Department of Commerce (Commerce)

The statutory appropriations in Commerce are primarily for various economic development activities.

**State Special Revenue**

Department of Natural Resources and Conservation (DNRC) – The legislature has authorized the Department of Natural Resources a state special revenue statutory appropriation from the fire suppression account.

Fire fund revenues come from three sources:

- o Any unencumbered and unexpended funds from the Governor’s emergency statutory appropriation at the end of the biennium
- o Any unencumbered and unexpended general fund reversions in excess of 0.5% of total general fund appropriations each fiscal year as long as no reductions are required as provided in 17-7-140, MCA
- o Any corporate license tax collected in excess of the revenue estimate each fiscal year through FY 2015

Actual and projected revenues through the 2015 biennium are about \$55.4 million. Given the actual FY 2014 costs and the low FY 2015 projected fire season state responsibility costs (\$2.7 million as of this writing, not counting any spring fire costs), the balance in the fire fund will be adequate to fund all FY 2015 fire costs.

Fire Suppression Account		
	FY2014	FY2015
Beginning Fund Balance	\$123,803	\$42,502,104
<u>Revenues</u>		
Charges for services	\$21,077	0
BOI investments	\$63,130	0
<u>General fund transfers</u>	<u>\$51,691,404</u>	<u>\$3,653,421</u>
Total Revenues	\$51,775,611	\$3,653,421
<u>Expenditures</u>		
Fire Suppression	\$9,388,662	\$2,727,625
Reimbursement Adjust.	\$8,648	\$0
Spring Fires	\$0	\$500,000
Total Expenditures	<u>(\$9,397,310)</u>	<u>(\$3,227,625)</u>
Ending Fund Balance	\$42,502,104	\$42,927,900

**OTHER GENERAL FUND APPROPRIATIONS**

The following figure shows the budgeted and expended amounts for FY 2014. Many of the other appropriations have specific spending schedules, and many are biennial and could be spent in the second year of the biennium. The budgeted amounts changed slightly for most sections of government, generally due to workers compensation reductions and/or carry forward amounts. More specific information, including the most significant changes, is detailed below.

FY 2014 General Fund Other Spending				
	Appropriations	Expenditures	Balance	Remaining
A - General Government	\$5,450,093	\$1,895,325	\$3,554,768	65.2%
B - Health and Human Services	311,730	16,353	295,377	94.8%
C - Natural Resources	1,406,693	937,248	469,446	33.4%
D - Public Safety	2,370,760	1,744,841	625,919	26.4%
E - Education	13,012,588	1,571,144	11,441,444	87.9%
F - Long Range Building	<u>100,670</u>	<u>39,629</u>	<u>61,041</u>	60.6%
Grand Total	\$22,652,534	\$6,204,539	\$16,447,994	72.6%

## Section A: General Government

The largest appropriations in General Government are:

- 1) The \$3.3 million in HB 1 Feed Bill appropriations that continues from the 2013 session into the 2015 session. About \$1.5 million in expenditures have occurred since the last report; and \$1.0 million biennial appropriation for executive branch pay plan contingency funding from HB 13, for distribution by the Office of Budget and Program Planning to agencies unable to meet their vacancy savings targets or for other personal services contingencies. The executive was also appropriated \$600,000 state special revenue, \$125,000 federal funds, and \$25,000 proprietary funds. The legislative branch was given \$100,000 in general fund. The following shows allocations from the fund as of fiscal yearend:

Allocations of HB 13 Contingency Account FY 2014				
Agency	General Fund	State Special	Proprietary	Total
Commissioner of Higher Education Administration	\$88,385		\$25,000	\$88,385 25,000
Agriculture	28,000			28,000
Commerce	74,935			74,935
Justice	54,874			54,874
Livestock	10,652	26,095		36,747
Montana Arts Council	1,500			1,500
Office of the Public Defender	<u>146,000</u>	<u>194,000</u>		<u>340,000</u>
Total	\$404,346	\$220,095	\$25,000	\$649,441

## Section C: Natural Resources and Transportation

Of the \$790,000 appropriated for Aquatic Invasive Species in HB 586, \$577,303 was expended.

## Section D: Public Safety

The Office of Public Defender requested a \$1.6 million supplemental appropriation to provide for additional costs the agency incurred. The discussion of this appropriation is included in the Office of Public Defender portion of this report.

## Section E: Education

The largest appropriations in education are for the SB 175 school funding bill that allocated \$12.9 million in FY 2014. About \$1.5 million was expended. The discussion of this appropriation is included in the Office of Public Instruction write up under the HB 2 section.

## **Section F: Long Range Planning**

Expenditures increased by almost 34% since June 2014. These expenditures were mostly related to bond issuance costs.

### **CONTINUING APPROPRIATIONS**

Statewide, budget authority appropriated for a prior year and authorized to continue into FY 2014 totaled \$876.9 million with \$208.8 million, or 23.8% expended. Included are state and federal special revenue funds and capital project funds that are not authorized in HB 2 or as a statutory appropriation provided for in 17-7-502, MCA. University funds are not included. The following figure shows the amounts for each budget section by agency and fund type. It should be noted that the figure does not include items that have not been established on the state accounting system, such as funding for the water compacts for Fort Belknap.

FY 2014 Continuing Authority					
Section	Agency	Budget	Expended	Balances	% Remaining
A	Commissioner of Political Prac	\$502,400	\$343,610	\$158,790	31.6%
	Consumer Counsel	251,477	0	251,477	100.0%
	Department of Administration	49,962,593	3,767,464	46,195,129	92.5%
	Department of Commerce	52,911,183	11,037,612	41,873,571	79.1%
	Department of Revenue	116,411	15,979	100,432	86.3%
	Dept of Military Affairs	88,965,001	33,310,742	55,654,259	62.6%
	Governor's Office	9,503,873	0	9,503,873	100.0%
	Labor & Industry	29,426,840	9,280,129	20,146,710	68.5%
	Secretary of State's Office	1,579,042	990,824	588,218	37.3%
	State Auditor's Office	<u>504,617</u>	<u>311,789</u>	<u>192,828</u>	<u>38.2%</u>
A Total		\$233,723,436	\$59,058,150	\$174,665,286	74.7%
B	Public Health & Human Services	\$72,549,925	\$13,836,419	\$58,713,506	80.9%
C	Department of Livestock	\$1,089,085	\$706,853	\$382,232	35.1%
	Department of Transportation	97,512,422	31,080,101	66,432,320	68.1%
	Dept Nat Resource/Conservation	90,124,922	36,867,579	53,257,343	59.1%
	Dept of Environmental Quality	39,547,712	12,368,791	27,178,921	68.7%
	Dept. of Fish, Wildlife & Parks	74,185,914	12,550,025	61,635,888	83.1%
	MT Dept of Agriculture	<u>1,111,303</u>	<u>380,453</u>	<u>730,850</u>	<u>65.8%</u>
C Total		\$303,571,358	\$93,953,803	\$209,617,554	69.1%
D	Crime Control Division	\$264,750	\$164,587	\$100,164	37.8%
	Department of Justice	13,097,572	3,093,309	10,004,263	76.4%
	Dept of Corrections	1,812,501	474,250	1,338,251	73.8%
	Judiciary	3,767,903	1,261,981	2,505,922	66.5%
	Public Defender	819,000	819,000	0	0.0%
	Public Service Regulation	<u>577,208</u>	<u>191,827</u>	<u>385,381</u>	<u>66.8%</u>
D Total		\$20,338,934	\$6,004,953	\$14,333,981	70.5%
E	Commissioner of Higher Ed	\$1,617,540	\$1,474,586	\$142,954	8.8%
	Historical Society	862,876	360,386	502,490	58.2%
	Library Commission	66,810	33,011	33,800	50.6%
	Montana Arts Council	906,008	442,916	463,092	51.1%
	Office of Public Instruction	<u>13,866,394</u>	<u>12,818,635</u>	<u>1,047,759</u>	<u>7.6%</u>
E Total		\$17,319,629	\$15,129,534	\$2,190,094	12.6%
F	Long Range Building	\$229,363,400	\$20,778,787	\$208,584,614	90.9%
Funding Detail					
	02 State/Other Spec Rev	\$254,550,377	\$74,003,023	\$180,547,354	70.9%
	03 Fed/Other Spec Rev	407,601,997	105,916,127	301,685,870	74.0%
	05 Capital Projects	<u>214,714,307</u>	<u>28,842,496</u>	<u>185,871,811</u>	<u>86.6%</u>
	Statewide Total	<u>\$876,866,682</u>	<u>\$208,761,646</u>	<u>\$668,105,035</u>	<u>76.2%</u>

## PROPRIETARY FUNDS

Proprietary funds include internal service and enterprise funds. The legislature considers and approves rates charged to other state agencies for internal services funds. The rates establish the level of expenditures available to state agency programs funded in this manner. The legislature does not approve rates or appropriate funds for enterprise funds; however, state agencies establish budgets for the funds within the state's budgeting system. The largest enterprise funds are all contained within the general government section of the budget.

Department of Administration – Within the Healthcare Benefits Division (HCBD), benefit costs are \$29.6 million higher overall compared to FY 2013 with a significant increase in costs for January through July, the beginning of the plan year for the state employee group health plan. Higher costs are due to a number of factors including:

- The plan experienced more high cost claims in FY 2014 than anticipated (according to HCBD staff approximately \$4.7 million higher). Higher costs were partially due to:
  - Health care costs increasing overall
  - Higher numbers of employees participating in health screening which identified a number of chronic diseases such as diabetes or illnesses such as cancer that have high treatment costs
  - Open enrollment in October 2014 that added an additional 500 participants, a number that had high health care costs
- Third party administrator paying claims slower than the previous contractors resulting in an incurred but not reported (IBNR) estimate of claims of \$5.5 million in unanticipated claims in plan year 2013 that were paid in 2014 increasing IBNR
- Planned losses in FY 2014 of \$4.8 million due to excess recommended reserve levels at the time the premium rates were established

According to HCBD staff, at fiscal year end the fund balance in the group benefit claims amount was \$52.9 million, the IBNR was \$22.1 million, and the reserve balance was \$3.0 million below the actuarial reserve requirements as calculated for March 2014. HCDB staff project that at the end of the plan year in December 2014 the plan reserves will be \$4.6 million below the actuarially recommended amount. In contrast, as of March 31, 2013 the plan reserves were projected to be \$34.0 million above the actuarially recommended reserves, a difference of \$38.6 million.

Montana State Fund – Montana State Fund net premiums increased over the FY 2014 budget, from \$152.1 million to \$163.7 million, an increase of 7.6%. Operational expenditures for FY 2014 were \$47.6 million and were lower than FY 2014 budgeted by 3.7%. Old Fund claims costs for FY 2014 are projected to be \$7,462,996, which is a decrease from the FY 2013 pay-out of 23.3%.

Department of Labor and Industry – As part of the improvement in the economy, the budget for unemployment insurance benefits was decreased by \$70.0 million annually, leaving \$148.2 million in authority for each year of the 2015 biennium. The unemployment rate in Montana continues to decline, and is calculated to be 4.5% in June 2014. Benefit payments in FY 2014 were \$134.2 million or a 9.4% decrease below the anticipated levels of benefit payments. Changes in the unemployment insurance trust fund impact the state unemployment taxes (SUTA) that provide revenues to fund unemployment benefits for claimants. Improvements in the unemployment insurance trust fund balance may result in lower contribution rates for employers in FY 2015.

## APPENDIX A

FY 2014 HB 2 State Special Revenue Expenditures Through Fiscal Year End 2014					
Section	Agency	Appropriations	Expenditures	Balance	% Remaining
A	Legislative Branch	\$2,573,718	\$2,217,469	\$356,249	13.84%
	Consumer Council	1,656,583	1,320,035	336,548	20.32%
	Governor's Office	8,409	0	8,409	100.00%
	State Auditor's Office	17,976,586	16,419,821	1,556,765	8.66%
	Department Of Revenue	1,120,063	1,119,550	513	0.05%
	Department Of Administration	6,139,622	5,837,627	301,995	4.92%
	Department Of Commerce	7,503,747	2,738,639	4,765,108	63.50%
	Department Of Labor & Industry	40,744,061	40,800,568	(56,507)	-0.14%
	Department Of Military Affairs	1,120,363	687,464	432,899	38.64%
A	Total	<u>\$78,843,152</u>	<u>\$71,141,173</u>	<u>\$7,701,979</u>	<u>9.77%</u>
B	Department of Public Health and Human Services	<u>\$154,036,333</u>	<u>\$147,016,398</u>	<u>\$7,019,935</u>	<u>4.56%</u>
C	Department Of Fish, Wildlife & Parks	\$57,984,680	\$55,036,151	\$2,948,529	5.09%
	Department Of Environmental Quality	32,472,939	26,504,854	5,968,085	18.38%
	Department Of Transportation	260,207,712	234,091,630	26,116,082	10.04%
	Department Of Livestock	7,721,721	7,596,059	125,662	1.63%
	Department Of Natural Resources & Conservation	34,928,228	31,288,756	3,639,472	10.42%
	Department Of Agriculture	<u>13,817,392</u>	<u>13,366,364</u>	<u>451,028</u>	<u>3.26%</u>
C	Total	<u>\$407,132,672</u>	<u>\$367,883,815</u>	<u>\$39,248,857</u>	<u>9.64%</u>
D	Judicial Branch	\$2,559,834	\$2,352,156	\$207,678	8.11%
	Crime Control Division	236,805	113,236	123,570	52.18%
	Department Of Justice	54,418,820	52,520,538	1,898,282	3.49%
	Public Service Regulation	3,761,309	3,537,036	224,273	5.96%
	Office Of The Public Defender	281,544	261,788	19,756	7.02%
	Department Of Corrections	<u>5,925,529</u>	<u>4,444,317</u>	<u>1,481,212</u>	<u>25.00%</u>
D	Total	<u>\$67,183,841</u>	<u>\$63,229,071</u>	<u>\$3,954,771</u>	<u>5.89%</u>
E	Office Of Public Instruction	\$10,598,368	\$9,614,514	\$983,854	9.28%
	Board Of Public Education	171,810	165,315	6,495	3.78%
	Commissioner Of Higher Education	20,792,759	20,746,540	46,219	0.22%
	School For The Deaf & Blind	263,080	255,680	7,400	2.81%
	Montana Arts Council	223,492	223,341	151	0.07%
	Montana State Library	1,801,798	1,738,254	63,544	3.53%
	Montana Historical Society	<u>712,724</u>	<u>712,161</u>	<u>563</u>	<u>0.08%</u>
E	Total	<u>\$34,564,031</u>	<u>\$33,455,807</u>	<u>\$1,108,224</u>	<u>3.21%</u>
		<u>\$741,760,029</u>	<u>\$682,726,264</u>	<u>\$59,033,765</u>	<u>7.96%</u>

FY 2014 HB 2 Federal Revenue Expenditures

Section	Agency	Appropriations	Expenditures	Balance	% Remaining
A	Secretary Of State's Office	\$128,000	\$126,189	\$1,811	1.42%
	Department Of Revenue	257,449	250,057	7,392	2.87%
	Department Of Administration	947,529	19,075	928,454	97.99%
	Department Of Commerce	17,613,162	10,537,882	7,075,280	40.17%
	Department Of Labor & Industry	37,273,751	30,033,388	7,240,363	19.42%
	Department Of Military Affairs	<u>37,746,089</u>	<u>32,071,454</u>	5,674,635	<u>15.03%</u>
A	Total	<u>\$93,965,980</u>	<u>\$73,038,045</u>	<u>\$20,927,935</u>	<u>22.27%</u>
B	Department of Public Health and Human Services	<u>\$1,325,705,560</u>	<u>\$1,280,293,507</u>	<u>\$45,412,053</u>	<u>3.43%</u>
C	Department Of Fish, Wildlife & Parks	\$19,525,151	\$18,428,531	\$1,096,620	5.62%
	Department Of Environmental Quality	20,329,768	18,212,865	2,116,903	10.41%
	Department Of Transportation	419,401,715	384,042,448	35,359,267	8.43%
	Department Of Livestock	1,429,924	1,399,316	30,608	2.14%
	Department Of Natural Resources & Conservation	2,010,224	1,899,238	110,986	5.52%
	Department Of Agriculture	<u>2,104,443</u>	<u>996,071</u>	1,108,372	<u>52.67%</u>
C	Total	<u>\$464,801,225</u>	<u>\$424,978,470</u>	<u>\$39,822,756</u>	<u>8.57%</u>
D	Judicial Branch	\$123,002	\$119,950	\$3,052	2.48%
	Crime Control Division	9,723,533	5,508,317	4,215,216	43.35%
	Department Of Justice	1,120,160	1,086,660	33,500	2.99%
	Public Service Regulation	73,334	73,334	0	0.00%
	Department Of Corrections	<u>16,005</u>	<u>240</u>	15,765	<u>98.50%</u>
D	Total	<u>\$11,056,034</u>	<u>\$6,788,502</u>	<u>\$4,267,533</u>	<u>38.60%</u>
E	Office Of Public Instruction	\$176,419,827	\$161,565,819	\$14,854,008	8.42%
	Commissioner Of Higher Education	56,980,926	48,940,293	8,040,633	14.11%
	School For The Deaf & Blind	71,760	69,164	2,596	3.62%
	Montana Arts Council	709,793	697,453	12,340	1.74%
	Montana State Library	1,664,665	988,582	676,083	40.61%
	Montana Historical Society	<u>742,841</u>	<u>769,705</u>	(26,864)	<u>-3.62%</u>
E	Total	<u>\$236,589,812</u>	<u>\$213,031,016</u>	<u>\$23,558,796</u>	<u>9.96%</u>
		<u>\$2,132,118,612</u>	<u>\$1,998,129,540</u>	<u>\$133,989,072</u>	<u>6.28%</u>