



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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

Legislative Fiscal Analyst  
CLAYTON SCHENCK

DATE: October 3, 2003

TO: Revenue and Transportation Interim Committee (RTIC)  
Legislative Finance Committee (LFC)

FROM: Terry W. Johnson  
Principal Fiscal Analyst

RE: General Fund Status: Fiscal Year 2003 Actual / 2005 Biennium Projected

## INTRODUCTION

The purpose of this report is to provide the committees with preliminary fiscal 2003 ending fund balance data for the general fund account. Although the revenue and disbursement data for the account have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the GAAP (Generally Accepted Accounting Principles) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund account has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

This report provides a comparison between budgeted data as developed by the 57<sup>th</sup> and 58<sup>th</sup> Legislatures and what actually occurred in fiscal 2003. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2005 biennium. A more detailed analysis on revenue trends and the implications for the current biennium and the 2007 biennium is currently underway and will be the basis for our revenue estimate recommendations to the RTIC in November of 2004.

## FUND BALANCE DISCUSSION

The general fund account GAAP balance at the beginning of fiscal 2003 was \$81.3 million. Based on House Joint Resolution 2 (HJR 2) revenue estimates and disbursement budgets adopted during the 57<sup>th</sup> and 58<sup>th</sup> legislative sessions, this balance was forecast to decrease to \$16.5 million by the end of fiscal 2003<sup>1</sup>. Total revenues (including one-time transfers) were expected to be less than total disbursements by approximately \$64.8 million.

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<sup>1</sup>Legislative Fiscal Report, 2005 Biennium Volume 1 June 2003, page 38.

As shown in Table 1, the preliminary general fund account unreserved, undesignated balance for fiscal year end 2003 was \$46.4 million, or \$29.9 million above the level anticipated by the 58<sup>th</sup> Legislature. Table 1 also shows the differences between budgeted and actual amounts for revenues, disbursements, and other adjustments.

<b>Table 1</b>				
<b>General Fund Account</b>				
<b>Fiscal 2003 Budgeted Versus Actual</b>				
<b>Fund Balance Detail</b>				
	Budgeted Amount*	Actual Fiscal 2003	Over (Under) Estimate	Diff. Percent
Beginning Balance	\$81,316,000	\$81,316,000	\$0	0.00%
General Fund Receipts	1,222,723,000	1,246,381,221	23,658,221	1.93%
Prior Year Rev. Adjustments	0	(6,059,702)	(6,059,702)	na
Residual Equity Transfers	0	0	0	na
<b>Total Revenue</b>	<b>\$1,222,723,000</b>	<b>\$1,240,321,519</b>	<b>\$17,598,519</b>	<b>1.44%</b>
General Fund Disbursements	1,287,518,000	1,275,826,893	(11,691,107)	-0.91%
Non-Budgeted Disbursements	0	0	0	na
Prior Year Exp. Adjustments	0	2,219,128	2,219,128	na
<b>Total Disbursements</b>	<b>\$1,287,518,000</b>	<b>\$1,278,046,021</b>	<b>(\$9,471,979)</b>	<b>-0.74%</b>
Fund Balance Adjustments	0	113,203	113,203	na
CAFR Adjustments	0	2,699,636	2,699,636	na
<b>Total Adjustments</b>	<b>0</b>	<b>2,812,839</b>	<b>2,812,839</b>	<b>na</b>
<b>Ending Balance (Preliminary)</b>	<b>\$16,521,000</b>	<b>\$46,404,337</b>	<b>\$29,883,337</b>	<b>180.88%</b>

\* Legislative Fiscal Report, 2005 Biennium Volume 1, June 2003

## **REASONS FOR DIFFERENCES**

### **REVENUE ESTIMATES AND COLLECTIONS**

Column 1 of Table 2 shows the fiscal 2003 revenue estimates for the general fund account as adopted in HJR 2 during the 2003 legislative session. The adjacent columns in the table show actual collections, the amount collections were over or (under) the estimate, the estimation difference percentage, and the contribution percent. The contribution percent signifies the importance of each revenue component to the general fund account. For example, individual income taxes were 43.2 percent of the total general fund collections while wine taxes accounted for only 0.11 percent during fiscal 2003. This column of information shows that about 69.0 percent of general fund revenue collections in fiscal 2003 came from individual (43.2%), property (13.8%), vehicle (8.4%), and corporate (3.6%) taxes.

Revenue Category	Estimated 2003 Receipts *	Actual 2003 Receipts	Over(Under) Estimate	Percent Difference	Contribution Percent
GF0100 Drivers License Fee	\$2,355,000	\$2,119,499	(\$235,501)	-11.11%	0.17%
GF0200 Insurance Tax	51,446,000	50,809,600	(636,400)	-1.25%	4.10%
GF0300 Investment Licenses	4,567,000	5,141,561	574,561	11.17%	0.41%
GF0400 Vehicle License Fee	74,773,000	75,185,331	412,331	0.55%	6.06%
GF0500 Vehicle Registration Fee	27,703,000	28,352,232	649,232	2.29%	2.29%
GF0600 Nursing Facilities Fee	5,723,000	5,723,472	472	0.01%	0.46%
GF0700 Beer Tax	2,918,000	2,771,455	(146,545)	-5.29%	0.22%
GF0800 Cigarette Tax	12,408,000	12,576,306	168,306	1.34%	1.01%
GF0900 Coal Severance Tax	10,221,000	9,721,540	(499,460)	-5.14%	0.78%
GF1000 Corporation Tax	47,347,000	44,137,518	(3,209,482)	-7.27%	3.56%
GF1100 Electrical Energy Tax	4,329,000	4,130,019	(198,981)	-4.82%	0.33%
GF1150 Wholesale Energy Trans Tax	3,373,000	3,532,056	159,056	4.50%	0.28%
GF1200 Railroad Car Tax	1,577,000	1,458,706	(118,294)	-8.11%	0.12%
GF1300 Individual Income Tax	520,764,000	535,830,664	15,066,664	2.81%	43.20%
GF1400 Inheritance Tax	11,015,000	13,305,983	2,290,983	17.22%	1.07%
GF1500 Metal Mines Tax	4,842,000	4,586,335	(255,665)	-5.57%	0.37%
GF1700 Oil Severance Tax	21,676,000	29,086,038	7,410,038	25.48%	2.35%
GF1800 Public Contractor's Tax	2,679,000	3,081,553	402,553	13.06%	0.25%
GFXXX Property Tax	170,218,000	171,657,132	1,439,132	0.84%	13.84%
GF2200 Telephone Tax	33,000	37,387	4,387	11.73%	0.00%
GF2250 Retail Telecom Excise Tax	20,100,000	20,800,646	700,646	3.37%	1.68%
GF2300 Tobacco Tax	2,399,000	2,304,532	(94,468)	-4.10%	0.19%
GF2400 Video Gaming Tax	45,219,000	45,794,025	575,025	1.26%	3.69%
GF2500 Wine Tax	1,264,000	1,339,799	75,799	5.66%	0.11%
GF2600 Institution Reimbursements	15,851,000	13,042,526	(2,808,474)	-21.53%	1.05%
GF2650 Highway Patrol Fines	4,142,000	4,109,703	(32,297)	-0.79%	0.33%
GF2700 TCA Interest Earnings	7,456,000	6,366,439	(1,089,561)	-17.11%	0.51%
GF2900 Liquor Excise Tax	9,854,000	10,042,488	188,488	1.88%	0.81%
GF3000 Liquor Profits	5,637,000	6,000,000	363,000	6.05%	0.48%
GF3100 Coal Trust Interest Earnings	36,825,000	36,297,863	(527,137)	-1.45%	2.93%
GF3200 Interest & Income	0	0	0		0.00%
GF3300 Lottery Profits	6,210,000	7,453,281	1,243,281	16.68%	0.60%
GF3450 Tobacco Settlement	19,025,000	18,699,611	(325,389)	-1.74%	1.51%
GF3500 U.S. Mineral Leasing	22,715,000	25,989,828	3,274,828	12.60%	2.10%
GF3600 Other Revenue	<u>46,059,000</u>	<u>44,896,093</u>	<u>(1,162,907)</u>	-2.59%	3.62%
Total Current Year Revenue	\$1,222,723,000	\$1,246,381,221	\$23,658,221	1.90%	100.49%
Prior Year Adjustments	0	(6,059,702)	(6,059,702)		-0.49%
Residual Equity Transfers	0	0	0		0.00%
Total Revenue	\$1,222,723,000	\$1,240,321,519	\$17,598,519	1.42%	100.00%

\* House Joint Resolution 2 estimates as adjusted for enacted legislation.

At the bottom of Table 2, prior year adjustments and residual equity transfers are shown, providing a complete picture of the total revenue flow in the account. When revenues are received by the state, agency personnel have three ways to account for collections on SABHRS:

- 1) If the tax or fee remitted by the taxpayer is for the current year tax liability, the revenue is recorded as current year collections.
- 2) If the tax or fee is due for previous years' tax liability, the revenue is recorded as a prior year revenue adjustment. Current and prior year revenue amounts are maintained and reported separately on SABHRS.

3) The third way revenues are deposited (transferred) to an account is by a transaction called a residual equity transfer. This type of transaction allows an agency to transfer monies from one account to another when the revenue has been previously recorded in the original account.

Table 3 shows aggregate revenue estimates and collections for the general fund account. The 58<sup>th</sup> Legislature adopted a total fiscal 2003 general fund account revenue estimate of \$1,222.7 million. The Legislature did not anticipate any prior year adjustments or residual equity transfers. Total collections were \$1,240.3 million or \$17.6 million (1.4 percent) above the estimated amount.

Total current year revenue collections (before prior year adjustments) were \$23.7 million above the amount anticipated by the 58<sup>th</sup> Legislature. Table 3a summarizes which sources of revenue exceeded or were below expectations and provides a brief explanation

Account	Revenue Category	Estimated Receipts	Fiscal 2003 Receipts	Over (Under) Estimate	Diff. Percent
01100	General Fund Receipts	\$1,222,723,000 *	\$1,246,381,221	\$23,658,221	1.93%
---	Prior Year Adjustments	0	(6,059,702)	(6,059,702)	
---	Residual Equity Transfers	0	0	0	
<b>Totals After Adj. &amp; Trsf.</b>		<b>\$1,222,723,000</b>	<b>\$1,240,321,519</b>	<b>\$17,598,519</b>	<b>1.44%</b>

\* House Joint Resolution 2 estimates as adjusted for enacted legislation.

of why collections were different than anticipated. As shown in Table 3A, wage growth and energy prices were the economic forces behind stronger revenue growth. Low interest rates, unusual corporate refunds, and reduced resident populations at state institutions caused a majority of the revenue reductions. As mentioned in the introduction of this report, a more detailed analysis on these revenue trends is currently underway.

Revenue Source	Amount	Preliminary Explanation
Individual Income Tax	\$15.1	Stronger Wage Growth
Oil & Natural Gas Production Tax	7.4	Higher Energy Prices
US Mineral Royalties	3.3	Higher Energy Prices
Inheritance Tax	2.3	Large Estates
Property Tax	1.4	Protested Tax Accrual
Corporation Income Tax	(3.2)	Higher Refunds
Institution Reimbursements	(2.8)	Reduced Population
All Other Categories	0.2	-
<b>Total Change</b>	<b>\$23.7</b>	

The 58<sup>th</sup> Legislature did not include any prior year revenue adjustments in HJR2. Since this type of revenue is the result of revenue accruals and/or uncollected previous years' receipts, it would be difficult to include an estimated amount in the state budget. As shown in Tables 2 and 3, however, prior year revenue adjustments were a negative \$6.1 million. Most of these adjustments were due to actual revenues received in July and August of

fiscal 2003 being less than the accrued amounts booked during fiscal year end 2002. While most revenue categories include prior year revenue adjustments, individual income tax accounted for over 60 percent of the prior year activity.

## DISBURSEMENTS AND REVERSIONS

Table 4 shows general fund account disbursements and reversions for fiscal 2003. General fund current year disbursements (excluding non-budgeted and prior year activity) were \$32.2 million below appropriated amounts. Reversions (this amount plus non-budgeted disbursements and prior year expenditure adjustments) were \$30.0 million. Since total reversions were budgeted by the 58<sup>th</sup> Legislature to be \$20.5 million, "unexpected" reversions were \$9.5 million (\$30.0 - \$20.5 = \$9.5).

Although unexpected reversions of \$9.5 million appear unusually large, a closer look at the details indicates this amount is misleading. Not all of this amount will truly revert since a \$4.7 million U.S. mineral royalty transfer was not recorded in fiscal 2003 as specified in statute. This transfer, however, has already occurred in fiscal 2004 as prior year activity.

Account	Category	Budgeted Amount	Fiscal 2003 Disbursements	Over (Under) Budget	Diff. Percent
01100	General Fund Disbursements	\$1,308,020,000 *	\$1,275,826,893	(\$32,193,107)	-2.46%
—	Non-Budgeted Disbursements	0	0	0	na
—	Prior Year Exp. Adjustments	0	<del>2,219,128</del>	<del>2,219,128</del>	na
	<b>Total Disbursements</b>	<b>\$1,308,020,000</b>	<b>\$1,278,046,021</b>	<b>(\$29,973,979)</b>	<b>-2.29%</b>
—	<b>Reversions</b>	<b>(\$20,502,000)</b>	<b>(\$29,973,979)</b>	<b>(\$9,471,979)</b>	

\* General fund disbursements are before adjustments for budgeted reversions of \$20.5 million.  
Total reversions were \$30.0 million or \$9.5 million more than budgeted.

Additionally, \$2.1 million of the reversion amount will be re-established as continuing and carry-forward appropriations in fiscal 2004. These appropriations are expected to be expended by the end of the biennium. The remaining amount of \$2.7 million is a more accurate figure of unexpected reversions. The primary agencies with significant reversions were the Departments of Public Health and Human Services, Corrections, and Public Instruction.

## FUND BALANCE ADJUSTMENTS

During fiscal 2003, there were direct adjustments to the fund balance and SABHRS to GAAP reconciliation items. Direct fund balance adjustments increased the general fund account ending fund balance by about \$0.1 million (shown in Table 1). Most of these adjustments were insignificant and had minimal impact on the preliminary ending fund balance.

The SABHRS to GAAP reconciliation items (\$2.7 million) reflect net adjustments made by agencies per the direction of the DOA, Accounting Division. These adjustments were necessary to bring the SABHRS general fund ending balance in conformance with GAAP.

## SUMMARY OF FISCAL 2003 INFORMATION

As stated earlier, the preliminary general fund account unreserved, undesignated ending balance for fiscal 2003 was \$46.4 million, or \$29.9 million above the level anticipated by the 58<sup>th</sup> Legislature. The reasons for the increase are summarized in Table 5.

Explanation of Fund Balance Change	Amount
Revenue Collections (Actual - Estimated)	\$23.7
Prior Year Revenue Adjustments	(6.1)
Disbursements (Budgeted - Actual)	11.7
Prior Year Expenditure Adjustments	(2.2)
Fund Balance Adjustments	2.8
<b>Total Change</b>	<b>\$29.9</b>

## 2005 BIENNIUM BUDGET

Table 6 shows the revised 2005 biennium estimated ending fund balance for the general fund account. Shown at the bottom of Table 6 is the impact on state finances when the federal relief grant funds and the current **net state** wildfire costs are combined with the general fund account. This distinction is necessary because the federal grant monies are deposited to a federal account and the current wildfire costs are being paid from this federal account.

The projected general fund ending fund balance for the 2005 biennium (\$68.8 million) is \$22.6 million more than the amount estimated at the end of the 58<sup>th</sup> legislative session. This balance incorporates actual revenue and disbursement data for fiscal 2003 and includes revenue and disbursement estimates for the 2005 biennium as budgeted by the 58<sup>th</sup> Legislature. Also included in this balance are adjustments that the LFD is currently tracking. A summarization of these adjustments is shown in Table 7.

	Actual Fiscal 2002	Preliminary Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Actual 2003 Biennium	Estimated 2005 Biennium
<b>Beginning Fund Balance</b>	<b>\$172.897</b>	<b>\$81.316</b>	<b>\$46.404</b>	<b>\$48.230</b>	<b>\$172.897</b>	<b>\$46.404</b>
<b>Revenues</b>						
Current Law Revenue	1,265.713	1,246.381	1,224.243	1,296.456	2,512.094	2,520.699
Legislation Impacts	0.000	0.000	65.624	38.600	0.000	104.224
Residual Transfers	0.000	0.000	0.000	0.000	0.000	0.000
<b>Total Revenue</b>	<b>\$1,265.713</b>	<b>\$1,246.381</b>	<b>\$1,289.867</b>	<b>\$1,335.056</b>	<b>\$2,512.094</b>	<b>\$2,624.923</b>
<b>Total Funds Available</b>	<b>\$1,438.610</b>	<b>\$1,327.697</b>	<b>\$1,336.271</b>	<b>\$1,383.286</b>	<b>\$2,684.991</b>	<b>\$2,671.327</b>
<b>Disbursements</b>						
General Appropriations	1,120.576	1,082.513	1,158.783	1,160.978	2,203.089	2,319.761
Statutory Appropriations	149.108	132.347	127.633	130.724	281.455	258.357
Local Assistance Appropriations	0.000	0.000	0.000	0.000	0.000	0.000
Miscellaneous Appropriations	68.016	84.423	3.979	2.371	152.439	6.350
Language Appropriations	0.000	0.000	0.646	0.000	0.000	0.646
Non-Budgeted Transfers	18.768	3.150	13.363	17.802	21.918	31.165
Continuing Appropriations	2.611	3.368	2.086	0.000	5.979	2.086
Supplemental Appropriations	0.000	0.000	0.000	0.000	0.000	0.000
Wildfire Costs	0.000	0.000	0.000	0.000	0.000	0.000
Feed Bill Appropriations	0.000	0.000	0.000	6.699	0.000	6.699
Anticipated FMAP Reversions			(19.029)			(19.029)
Anticipated Reversions	(3.176)	(29.974)	(4.094)	(4.097)	(33.150)	(8.191)
<b>Total Disbursements</b>	<b>\$1,355.903</b>	<b>\$1,275.827</b>	<b>\$1,283.367</b>	<b>\$1,314.477</b>	<b>\$2,631.730</b>	<b>\$2,597.844</b>
<b>Adjustments</b>	(1.391)	(5.466)	(4.674)	0.000	(6.857)	(4.674)
<b>Unreserved Ending Fund Balance</b>	<b>\$81.316</b>	<b>\$46.404</b>	<b>\$48.230</b>	<b>\$68.809</b>	<b>\$46.404</b>	<b>\$68.809</b>
Federal Relief Grant Funds		25.000	25.000	0.000	25.000	25.000
State Net WildFire Costs			(27.101)	(7.045)	0.000	(34.146)
<b>Unreserved Ending Fund Balance + Federal Grant Monies</b>		<b>\$71.404</b>	<b>\$71.129</b>	<b>\$84.663</b>	<b>\$71.404</b>	<b>\$84.663</b>

As shown in Table 6, total 2005 biennium revenues are anticipated to be \$2.625 billion while total disbursements for the same period are expected to be \$2.598 billion or a difference of approximately

Budgetary Item	2005 Biennium
1 Unanticipated Fiscal 2003 Balance	\$29.883
2 Federal Relief FMAP Increase *	19.029
3 US Mineral Royalty Transfer	(4.674)
4 Continuing Appropriations	(2.086)
5 Protested Property Tax	(3.772)
6 Debt Service	1.411
7 Revenue Estimate Variances	(17.200)
<b>Total Adjustments</b>	<b>\$22.591</b>
Anticipated Ending Fund Balance	46.218
<b>Revised Ending Fund Balance</b>	<b>\$68.809</b>

\* Adjusted for FMAP Increase included in fiscal 2003 ending fund balance

\$27.0 million. This amount has not been adjusted for one-time revenues or disbursements. If revenues for the 2005 biennium do not materialize as estimated by the 58<sup>th</sup> Legislature, a structural imbalance condition could occur. Depending on the significance of the imbalance, the next legislature could be faced with another challenging budget session.

As mentioned above, Table 7 is a summary of adjustments that our office is currently tracking. Based on information that is currently available, items 1 through 6 should not change significantly. Item 7 is revenue estimate variances that will be continually updated as more information becomes available. At this time, the revenue estimate

variances reflect adjustments for higher corporation tax refunds and reduced investment earnings from short-term interest rates for fiscal 2004 only. A more thorough analysis of fiscal 2004 trends must be completed before adjustments can be made to the fiscal 2005 revenue estimates.

<b>Table 8</b>	
<b>Potential Funds Available For Other Fiscal Issues</b>	
<b>General Fund Account Plus Federal Grant Funds (In Millions)</b>	
Budgetary Item	2005 Biennium
<b>Budgeted Ending Fund Balance</b>	<b>\$46.218</b>
<u>Current Known Fiscal Issues</u>	
Federal Relief Grant Funds	50.000
Federal Relief FMAP Increase *	19.029
Unanticipated Fiscal 2003 Balance	<u>29.883</u>
Sub Total	\$98.912
US Mineral Royalty Transfer	(4.674)
Continuing Appropriations	(2.086)
Protested Property Tax	(3.772)
Debt Service	1.411
<u>Current Estimated Other Fiscal Issues</u>	
State WildFire Costs 2003 Season (Net)	(27.101)
Revenue Estimate Variances	(17.200)
State WildFire Costs 2004 Season (Net)	(7.045)
<u>Current Unknown Other Fiscal Issues</u>	
Potential Supplementals	
Legislative Audit Adjustments to Fiscal 2003	
Impact of NorthWestern Chapter 11	
Potential Ending Fund Balance	\$84.663
Budgeted Ending Fund Balance	46.218
<b>Potential Funds Available For Other Fiscal Issues</b>	<b>\$38.445</b>

\* Adjusted for FMAP Increase included in fiscal 2003 ending fund balance

Table 8 shows the state's financial condition when the general fund account is combined with federal grant funds. This table is categorized by "current known fiscal issues", "current estimated other fiscal issues", and "current unknown other fiscal issues". While the amounts for certain items in this table are exactly the same as in Tables 6 and 7, this table summarizes the financial information in way that provides a clearer perspective on the amounts that are known versus the amounts that are estimated or totally unknown at this time. At the bottom of the table, an amount of \$38.4million is shown that represents an estimate of the excess fund balance above the legislative adopted amount. This estimate reflects potential funds available for consideration by the executive and/or the legislature.

Included in the calculation of the excess is the estimated state wildfire costs for the 2003 season from the Department of Natural Resources and Conservation. These costs were as of

Tuesday, September 30, 2003. The excess fund balance also includes an estimate for 2004 state wildfire costs based on a five-year average over the period 1998 through 2002.

## 2005 BIENNIUM SUMMARY

Based on current information, the general fund account would end the 2005 biennium with a balance of \$68.8 million, or \$22.6 million more than anticipated. If the federal grant funds are combined with the general fund account, the combined balance would be \$84.7 million, or \$38.4 million more than anticipated by the 58<sup>th</sup> Legislature. Although this potential excess is good news for state finances, it should be noted that this amount represents what is left of the \$98.9 million (shown in Table 8) in additional funds that was not anticipated by the Legislature. If revenue estimate variances or other fiscal issues are greater than the amounts shown in Table 8, the excess funds may be needed to maintain an adequate ending fund balance.

Your staff will continue to research and analyze state finances as we proceed through the interim. Any significant fiscal issues that emerge will be incorporated into Table 8 and presented accordingly.