

FYE 2017 BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division

October 5, 2017



INTRODUCTION

This report provides an overview of the unaudited, unassigned FY 2017 ending balance of the general fund, detailed revenue collection information, and FY 2017 budgeted and actual expenditures for all funds. Although the revenue and disbursement data for the general fund have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the balance sheet 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 report provides a comparison between budgeted data as presented to the legislature and actual data from SABHRS for FY 2017. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement.

GENERAL FUND OVERVIEW

GENERAL FUND BALANCE SUMMARY

The unaudited and unassigned FY 2017 ending fund balance for the general fund as reported by the state accountant is \$47.6 million or \$64.0 million less than anticipated. The Legislative Fiscal Division's (LFD) [June 2017 Fiscal Report](#) projected an ending fund balance of \$111.6 million for FY 2017. This estimate was based on House Joint Resolution 2 (HJ 2) revenue estimates of the 65th Legislature, revenue legislation, other one-time-only revenue, expenditure budgets adopted during legislative sessions, and reversion estimates.

The lower than expected FY 2017 ending balance is attributed to lackluster revenues, particularly lower than anticipated individual income tax collections. Actual revenues in FY 2017 were \$75.5 million less than anticipated in HJ 2. Actual direct to fund balance revenue was \$10.5 million as projected. Actual expenditures were \$13.2 million lower than anticipated and prior year adjustments netted a positive impact to ending fund balance of \$2.1 million. The following table shows the differences between estimated fund balance and actual fund balance.

General Fund FY 2017 Estimated vs. Actual (\$ Millions)			
	Estimated FY 2017	Actual FY 2017	Difference
Beginning Fund Balance	\$256.478	\$256.478	\$0.000
HJ 2 Revenue Legislation	\$2,212.592 4.351		
Subtotal of Estimated/Actuals	2,216.943	\$2,141.479	(75.463)
Direct to Fund Balance Revenue	\$10.539	10.539	0.000
Revenue PY Adjustments	5.487	(1.932)	(7.419)
Total Funds Available	2,489.447	2,406.565	(82.883)
Expenditures			
HB 2	2,034.230		
HB 3 & HB 648 reductions to HB 2	(11.269)		
HB 3 executive expenditure reductions	0.000		
Reversions	(6.962)		
HB 2 Subtotal of Estimated/Actuals includes HB 2 reversions	2,015.999	2,004.574	(11.425)
HB 3 Supplemental Approps includes HB 2 OPD	23.206	23.167	(0.039)
Statutory Approps	298.823		
HB 3 Reduce Governor's Statutory Approp	(\$12.000)		
Subtotal of estimated/actual statutory appropriations	\$286.823	291.065	4.241
Non-budgeted Transfers	32.361	32.090	(0.271)
Appropriation Bills (excludes HB 3)*	17.593	11.656	(5.937)
Other	1.907	2.185	0.278
Total Expenditures	2,377.890	2,364.737	(13.153)
Expenditure PY Adjustments		(4.058)	(4.058)
Other Adjustments		(1.678)	(1.678)
Ending Fund Balance	\$111.557	\$47.564	(\$63.994)
<i>Appropriation bills includes estimated amount of \$10.0 million appropriation for 2017 biennium sage grouse and (\$8.0) million savings for sage grouse for 2019 biennium.</i>			

General Fund Balance Sheet

The following table shows the general fund balance sheet in more detail.

Legislative Fiscal Division General Fund Balance Sheet
(\$ Millions)

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	Actual FY 2016	Actual FY 2017
Beginning Fund Balance	\$455.436	\$256.478
Revenues		
Actual/HJ 2	2,121.288	2,141.479
Prior Year Adjustments - revenue	(3.667)	(1.932)
Direct to Fund Balance Transfer		10.539
Total Revenue Funds	2,573.057	2,406.565
<u>Expenditures - Ongoing</u>		
Previously Authorized		
Statutory Appropriations	265.168	291.065
General Fund Transfers	29.254	20.668
HB 2		
HB 2 Agency Budgets	1,908.415	1,957.389
Non HB 2 - Other appropriations, etc.		
HB 1	5.025	8.239
Other Appropriations		3.417
Ongoing Expenditures	2,207.861	2,280.778
OTO		
HB 2	64.519	47.185
HB 2 Appropriation Transfers and Other		0.433
HB 3 Supplemental Appropriations		23.167
Fire Fund Transfers	50.310	11.422
Other, including carry forward	1.147	1.752
Total Expenditures	2,323.836	2,364.737
Adjustments	5.888	(1.678)
Prior Year Adjustments		(4.058)
CAFR Adjustments	1.368	
Ending Fund Balance	\$256.478	\$47.564
Structural Balance (ongoing revenues minus ongoing expenditures)	(\$86.573)	(\$139.299)

Reasons for Lower Ending Fund Balance

Revenues

The largest component of the decline in ending fund balance is individual income tax collections that were \$70.3 million or 5.7% below the estimate contained in HJ 2. The difference was driven by lower estimated and current year payments, which primarily represent nonwage income such as capital gains and pass-through business income. As noted in a later section, a [recent article](#) from the Rockefeller Institute on Government highlighted similar revenue challenges across the states; the article concludes

that declining revenue in FY 2017 was likely due to taxpayers shifting income out of CY 2016 in anticipation of lower federal tax rates, but could also indicate incomes lower than initial economic estimates suggest. Detailed CY 2016 return data available in November 2017 will provide more information on incomes and liabilities of taxpayers reported on returns in CY 2016.

Expenditures

Total general fund expenditures were less than estimated by \$13.2 million.

- HB 3 directed the executive to reduce expenditures by \$10.0 million. The executive reduced general fund expenditures by \$8.4 million. This reduction was not included on the estimated balance sheet
- Other appropriation bills were estimated \$5.9 million higher than was actually spent. The Legislative Branch HB 1 was less than estimate by \$1.3 million; the Judicial Branch spent 32% of appropriation authority for HB 12 child abuse diversion pilot program; and the Department of Revenue left SB 405 appropriation authority unspent
- Statutory appropriations were higher than estimated by \$4.2 million. Contributing to the higher than estimated amount was the increase in HELP Act expenditures. LFD estimated HELP Act at \$17.8 million general fund for FY 2017. Actual HELP Act general fund expenditures were \$24.5 million

General Fund Reversions

Agencies reverted (returned unspent appropriation authority) \$10.3 million in HB 2 authority to the general fund. The following provides more detail on the significant HB 2 reversions:

- Office of Public Instruction HB 2 reversions totaled \$3.3 million and included \$2.1 million in unspent supplemental appropriation authority for BASE Aid
- The Judicial Branch returned \$1.1 million in HB 2 reverted authority, most of which came from the Supreme Court and District Court operations
- Commissioner of Higher Education HB 2 reversions totaled \$1.0 million in unspent appropriations, primarily in administration authority

Prior Year Adjustments

Actual prior year revenue adjustments were less than predicted, but expenditure prior year adjustments recorded less spending, therefore the net result was a positive \$2.1 million to the general fund balance.

Carryforward Authority

Statute allows the reestablishment of 30% of certain reverted appropriations to be returned to agencies that reverted authority. Carryforward for FY 2017 was \$1.5 million and is included on the balance sheet.

Wildfire Suppression Fund

The administration transferred \$11.4 million in FY 2017 to the wildfire suppression fund as per statute. The wildfire suppression fund at the end of FY 2017 was \$62.3 million.

REVENUE COLLECTIONS

Actual FY 2017 general fund revenues were \$75.5 million or 3.4% below the HJ 2 estimate. Most of the difference can be attributed to a decline in individual income tax and lower-than-expected growth in corporation income tax.

Summary of FY 2017 Revenue Changes from HJ 2				
(\$ Millions)				
	HJ 2	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,238.5	\$1,168.2	(\$70.3)	-5.7%
Property Tax	261.0	260.2	(0.8)	-0.3%
Corporation Tax	140.0	134.0	(6.0)	-4.3%
Vehicle Taxes & Fees	110.8	109.2	(1.6)	-1.5%
Oil & Natural Gas Taxes	45.3	46.3	1.0	2.3%
Insurance Tax	73.4	75.6	2.1	2.9%
Video Gaming Tax	59.3	60.0	0.7	1.1%
Remaining Sources	288.6	288.0	(0.7)	-0.2%
General Fund Total	\$2,216.9	\$2,141.5	(\$75.5)	-3.4%

The table on the following page shows actual FY 2016 revenues in the first numerical column, followed by estimated and actual FY 2017 revenues. The next two columns show the estimated and actual growth in FY 2017 from FY 2016. The last two columns compare the actual FY 2017 revenue to the estimate in HJ 2, 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 remainder of this document in order of the revenue list on the table.

General Fund Revenue--FY 2017 Actuals Compared to HJ 2 Estimate
(\$ Millions)

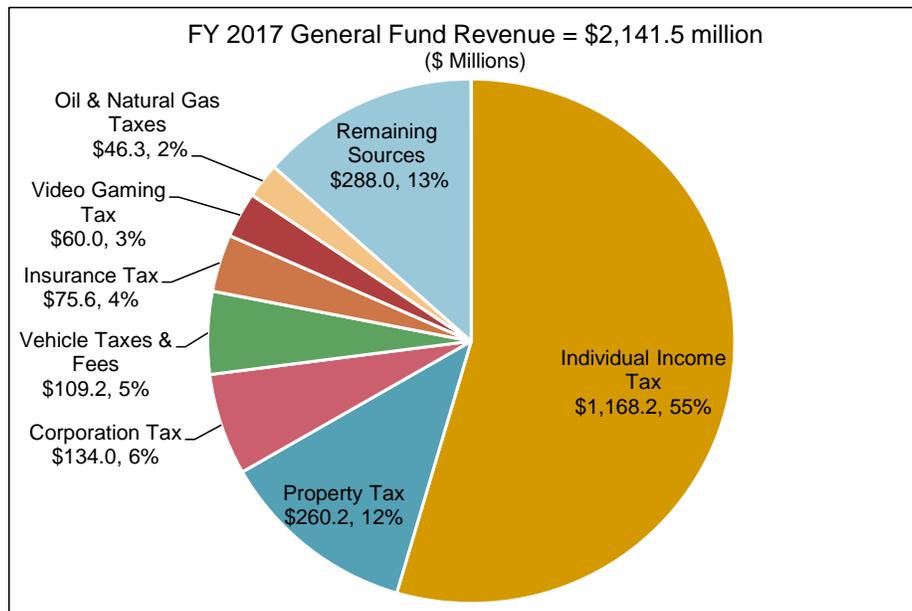
Revenue Source	Actual FY 2016	HJ 2* FY 2017	Actual FY 2017	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.
Largest Seven Sources							
Individual Income Tax	\$1,184.828	\$1,238.516	\$1,168.225	4.5%	-1.4%	(\$70.291)	-5.7%
Property Tax	257.100	261.003	260.224	1.5%	1.2%	(0.778)	-0.3%
Corporation Tax**	118.387	139.952	133.992	18.2%	13.2%	(5.961)	-4.3%
Vehicle Taxes & Fees	108.480	110.844	109.197	2.2%	0.7%	(1.647)	-1.5%
Oil & Natural Gas Taxes	39.083	45.289	46.334	15.9%	18.6%	1.045	2.3%
Insurance Tax	69.255	73.414	75.558	6.0%	9.1%	2.143	2.9%
Video Gaming Tax	60.554	59.280	59.956	-2.1%	-1.0%	0.676	1.1%
Other Business Taxes							
Drivers License Fee	4.345	4.938	4.308	13.7%	-0.8%	(0.630)	-12.8%
Investment Licenses	7.212	7.454	7.327	3.4%	1.6%	(0.127)	-1.7%
Lodging Facilities Sales Tax	21.493	22.196	21.780	3.3%	1.3%	(0.416)	-1.9%
Public Contractor's Tax	2.397	2.552	3.078	6.5%	28.4%	0.526	20.6%
Railroad Car Tax	3.594	3.387	3.790	-5.8%	5.4%	0.404	11.9%
Rental Car Sales Tax	3.878	3.310	3.402	-14.6%	-12.3%	0.092	2.8%
Retail Telecom Excise Tax	16.775	16.089	15.603	-4.1%	-7.0%	(0.486)	-3.0%
Other Natural Resource Taxes							
Coal Severance Tax	14.236	13.577	13.799	-4.6%	-3.1%	0.222	1.6%
Electrical Energy Tax	4.536	4.448	4.314	-1.9%	-4.9%	(0.135)	-3.0%
Metal Mines Tax	4.221	4.410	4.839	4.5%	14.6%	0.429	9.7%
U.S. Mineral Royalties	16.759	19.249	17.322	14.9%	3.4%	(1.927)	-10.0%
Wholesale Energy Trans Tax	3.516	3.539	3.464	0.6%	-1.5%	(0.075)	-2.1%
Other Interest Earnings							
Coal Trust Interest Earnings	20.722	19.963	19.799	-3.7%	-4.5%	(0.164)	-0.8%
TCA Interest Earnings	3.961	4.274	5.692	7.9%	43.7%	1.418	33.2%
Other Consumption Taxes							
Beer Tax	3.027	3.051	2.998	0.8%	-1.0%	(0.053)	-1.7%
Cigarette Tax	31.103	30.924	30.558	-0.6%	-1.8%	(0.365)	-1.2%
Liquor Excise Tax	19.776	21.359	20.366	8.0%	3.0%	(0.993)	-4.6%
Liquor Profits	11.000	11.500	11.750	4.5%	6.8%	0.250	2.2%
Lottery Profits	11.963	12.363	9.624	3.3%	-19.6%	(2.739)	-22.2%
Tobacco Tax	6.184	6.623	6.247	7.1%	1.0%	(0.377)	-5.7%
Wine Tax	2.373	2.484	2.429	4.7%	2.3%	(0.055)	-2.2%
Other Sources							
All Other Revenue**	41.420	45.001	49.336	8.6%	19.1%	4.335	9.6%
Highway Patrol Fines	4.040	4.101	3.927	1.5%	-2.8%	(0.174)	-4.2%
Nursing Facilities Fee	4.764	4.589	4.635	-3.7%	-2.7%	0.046	1.0%
Public Institution Reimb.	16.910	14.162	14.264	-16.3%	-15.6%	0.102	0.7%
Tobacco Settlement	3.394	3.101	3.343	-8.7%	-1.5%	0.243	7.8%
Largest Seven Subtotal	1,837.687	1,928.299	1,853.485	4.9%	0.9%	(74.813)	-3.9%
Remaining Sources Subtotal	283.601	288.644	287.994	1.8%	1.5%	(0.650)	-0.2%
Grand Total	\$2,121.288	\$2,216.943	\$2,141.479	4.5%	1.0%	(\$75.463)	-3.4%

*HJ 2, adjusted for legislation impacts

**Actual FY 2017 Corporation Tax and All Other Revenue amounts have been adjusted to reflect an \$8 million posting error. The error did not impact the FY 2017 revenue total, and was corrected in the accounting system at the beginning of FY 2018.

Large Revenue Sources

In FY 2017, the largest seven revenue sources accounted for 86.6% 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: (\$70.3 million)

Individual income tax collections were \$70.3 million or 5.7% below the estimate contained in HJ 2, despite the solid 4.1% growth from FY 2016 in withholding collections, which primarily represents wage income. The difference was driven by lower estimated and current year payments, which primarily represent nonwage income such as capital gains and pass-through business income. As the table below shows, non-withholding payments were \$21.9 million or 4.3% less than in FY 2016.

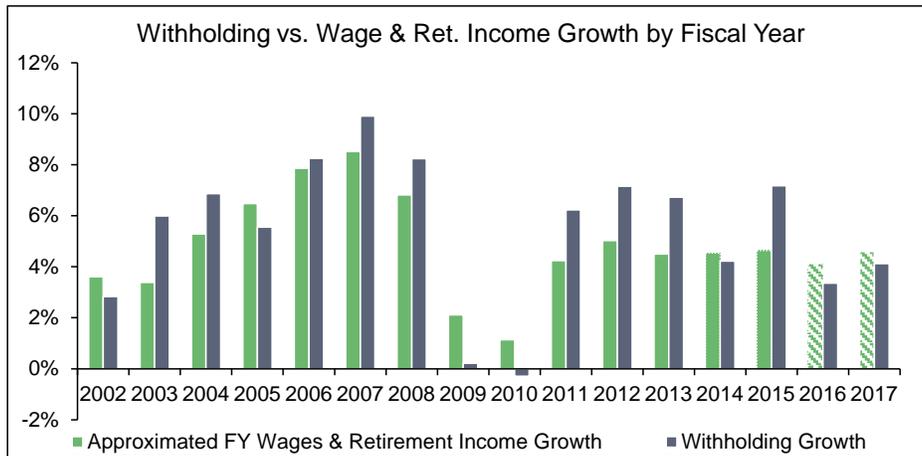
Individual Income Tax (\$ Millions)				
	FYE 2017	FYE 2016	\$ Difference	% Difference
Withholding	\$942.0	\$904.7	\$37.3	4.1%
Other Payments				
Estimated Payments	271.3	278.5	(7.3)	-2.6%
Current Year Payments	177.6	196.4	(18.7)	-9.5%
Partnership Income Tax	28.4	22.1	6.3	28.5%
Mineral Royalties	7.6	9.8	(2.2)	-22.5%
Other Payments Subtotal	484.9	506.8	(21.9)	-4.3%
Audit, P&I, Amended	40.8	51.7	(11.0)	-21.2%
Refunds	(299.4)	(278.3)	(21.1)	7.6%
Total	\$1,168.2	\$1,184.8	(\$16.6)	-1.4%

A [recent article](#) from the Rockefeller Institute on Government highlighted similar revenue challenges across the states; the article concludes that declining revenue in FY 2017 was likely due to taxpayers shifting income out of CY 2016 in anticipation of lower federal tax rates, but could also indicate incomes lower than initial economic estimates suggest. Detailed CY 2016 return data available in November 2017 will provide more information on incomes and liabilities of taxpayers reported on returns in CY

2016. The return data will also give an indication if the timing of payments by taxpayers has changed. However determining the reason why the changes occurred and what that might mean for future years will be a more difficult problem.

Wage Income—Preliminary Data Suggests CY 2016 Wage Income Higher than HJ 2

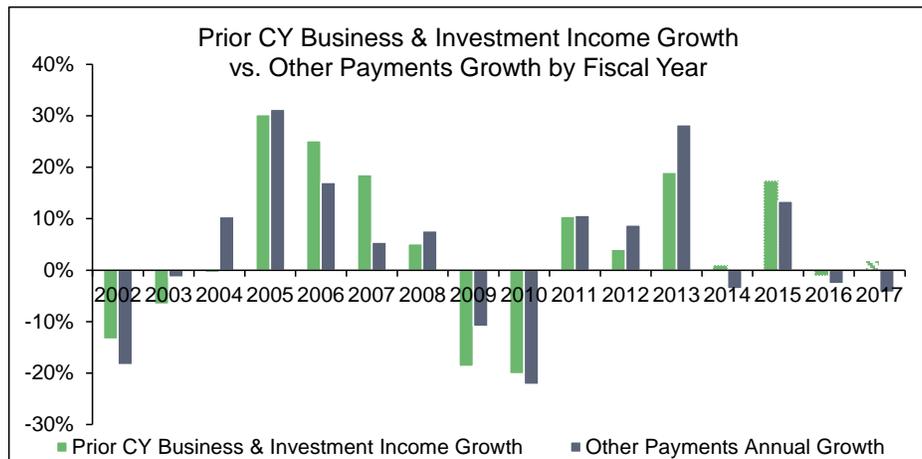
Withholding collections are typically representative of wage and retirement income, and although comparable growth rates are usually similar, they aren't the same, as shown in the adjacent graph. One reason for differing growth rates may be that taxpayers can choose to increase withholding to account for additional non-wage tax liability.



Preliminary wage data from the quarterly census of employment and wages (QCEW) for CY 2016 is now available; it suggests that CY 2016 wage growth was 3.7%, which is slightly above the 3.3% estimate in HJ 2.

Non-Wage Income—Other Payments Decline Suggests CY 2016 Non-Wage Income below HJ 2

Other payments, including estimated and current year payments, tend to reflect non-wage income sources. FY 2017 other payments declined 4.3% from FY 2016, compared to the anticipated combined CY 2016 business and investment income growth of 1.9% contained in HJ 2. The adjacent figure shows annual growth rates for other payments and prior calendar year business and investment income.



Although the growth rates tend to differ in each year, they typically are both positive or both negative. The decline in FY 2017 other payments suggests that the anticipated growth of business and investment income in HJ 2 may have been too high.

Audit, Penalty & Interest, and Amended: (\$5.2 million)

Audit, penalty and interest, and amended collections are forecast explicitly in HJ 2; combined collections in FY 2017 were anticipated to be \$5.7 million below the unusually high FY 2016 amount, but came in even lower than expected by \$5.2 million.

Refunds

FY 2017 total refunds were 7.6% or \$21.1 million higher than FY 2016; the increase can be separated into two sections:

- o The portion of the increase due to the refund accrual
- o The portion of the increase due to refunds excluding accrual activity

The FY 2017 refund accrual booked at the end of the fiscal year accounts for the withholding collections from January through June that are likely to be owed back to taxpayers as refunds in the next fiscal year. The accrual amount was booked at 31% of the total withholding for January through June, consistent with prior years. The FY 2017 refund accrual was \$10.3 million or 7.2% above the FY 2016 amount, due to strong withholding growth in the first half of the calendar year. This signifies recent growth in withholding that may have positive implications for FY 2018.

Refunds excluding accrual activity were \$13.7 million or 5.0% higher in FY 2017 than in FY 2016, in line with withholding growth.

Property Tax: (\$0.8 million)

General fund property tax revenue was 0.3% or \$0.8 million below the HJ 2 estimate. The FY 2017 estimate was based on tax year 2016 data, which was available at the time of the producing the estimate. Since the first year of the property tax estimate is based on known data, small discrepancies are likely due to protested taxes, coal gross proceeds, and federal forest receipts.

Corporation Tax: (\$6.0 million) After Adjusting for Posting Error

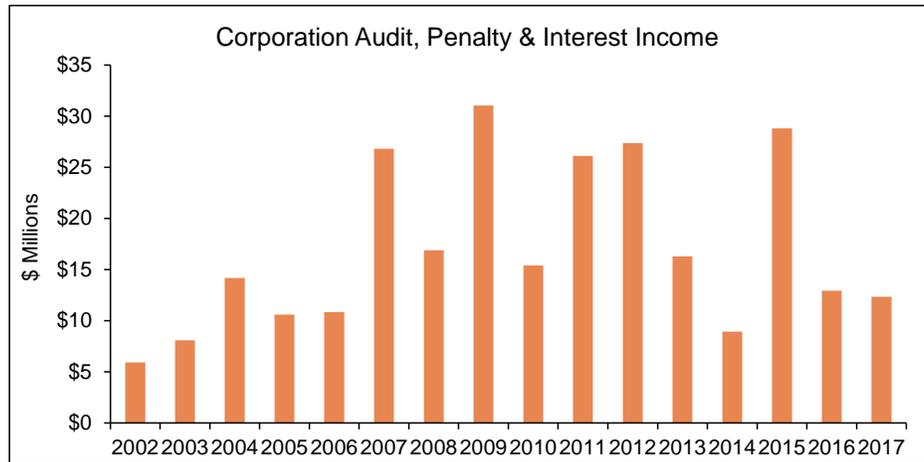
After accounting for an \$8.0 million corporation tax payment that was posted as miscellaneous revenue in the all other revenue source, corporation income tax collections were \$6.0 million or 4.3% below HJ 2. The table below shows the accounting level detail for FY 2017 compared to FY 2016. Compared to FY 2016, FY 2017 collections increased by \$15.6 million or 13.2%. The year-over-year increase was primarily driven by higher corporation tax payments in FY 2017 and lower refunds in FY 2017 compared to FY 2016.

Corporation Income Tax (\$ Millions)				
Account	FY 2017	FY 2016	\$ Difference	% Difference
Corporation Tax	\$40.4	\$27.9	\$12.5	44.7%
Estimated Payments	107.1	108.5	(1.4)	-1.3%
Refunds	(25.9)	(31.4)	5.5	-17.6%
Audit, P&I, Amended	12.3	13.3	(1.0)	-7.4%
Total	\$134.0	\$118.4	\$15.6	13.2%

The accounting level detail compared to HJ 2 is shown below. Total tax liability was overestimated but was partially offset by lower-than-expected refunds.

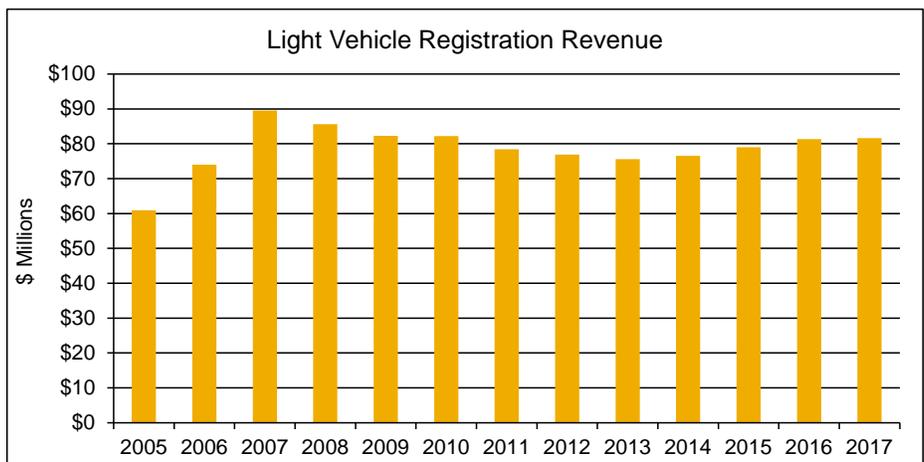
Corporation Income Tax--FY 2017 Actuals versus HJ 2 (\$ Millions)			
	HJ 2	Actual	Difference
Tax Liability & Adjustments	\$160.1	\$147.5	(\$12.6)
Refunds	(31.4)	(25.9)	5.5
Audit, Penalty & Interest	11.2	12.3	1.1
Total	\$139.9	\$134.0	(\$5.9)

The graph to the right illustrates the variable collections of audit, penalty & interest revenue since FY 2002.



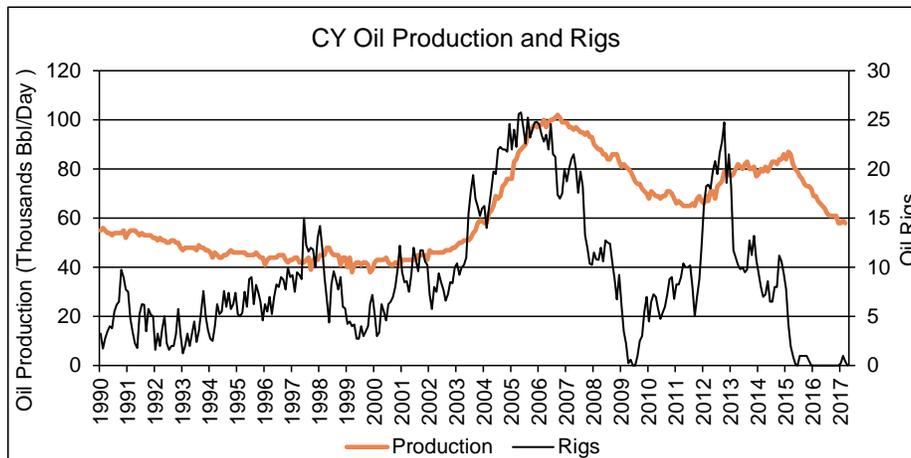
Vehicle Taxes & Fees: (\$1.6 million)

Revenue collections from vehicle taxes and fees were 1.5% or \$1.6 million less than anticipated in HJ 2. Slight year-over-year growth was experienced in light vehicle registrations as shown in the figure. However, the year-over-year growth of \$0.7 million was primarily due to increases in permanent registrations, which grew by \$0.4 million.

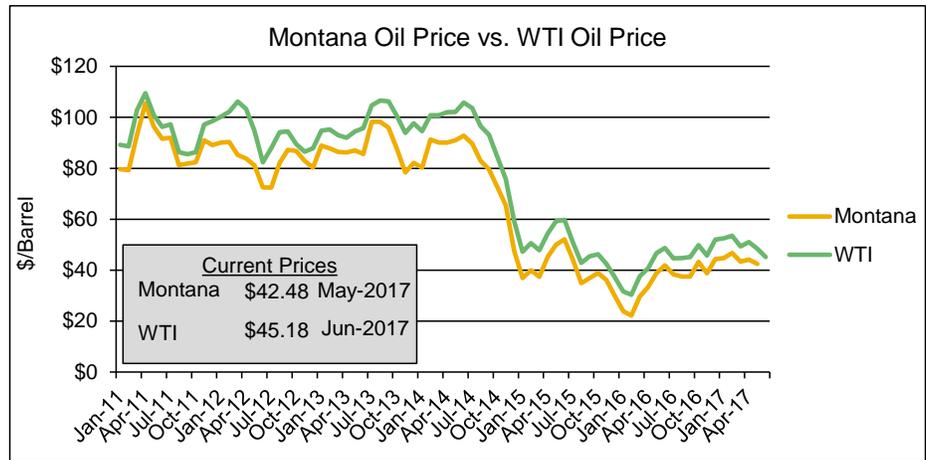


Oil & Natural Gas Taxes: \$1.0 million

Oil and natural gas collections were \$1.0 million or 2.3% above the HJ 2 estimate. Compared to FY 2016, collections increased by \$7.3 million. The increase in collections was due to an increase in price.



As the graph above shows, there has been at most one rig in Montana since early 2015 and production has been declining since February of 2015. Production in July 2016 was 62,000 barrels per day and had decreased to 56,000 barrels per day by May 2017. Though production decreased slowly throughout FY 2017, increased prices more than offset the decline in production.

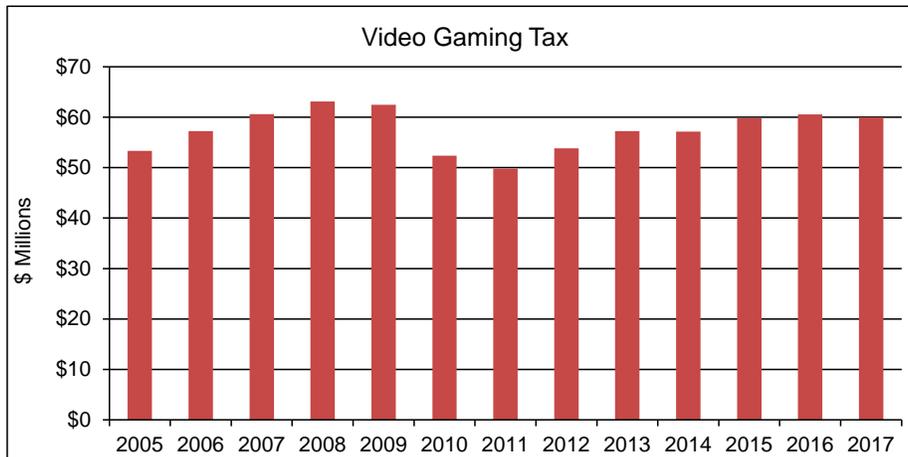


Insurance Tax: \$2.1 million

FY 2017 insurance tax came in \$2.1 million or 2.9% above the HJ 2 estimate. The difference is largely due to a rule change that led to increased fire marshal tax collections. The rule requires that insurers provide a reason if the fire risk reported is lower than the presumptively reasonable risk listed.

Video Gaming Tax: \$0.7 million

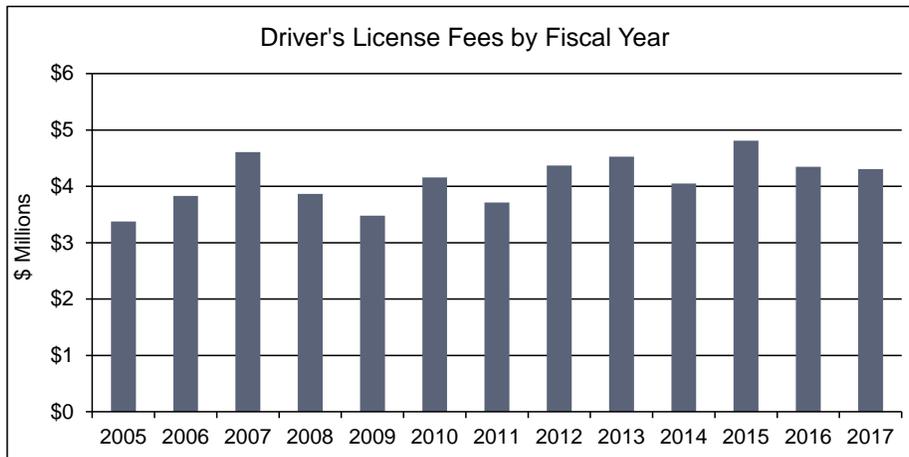
Video gaming revenue in FY 2017 was \$0.7 million or 1.1% more than what was anticipated in HJ 2; however, revenue collections have been flat for three years. Inflation-adjusted gambling revenue has been trending downward across the U.S. in recent years.



Other Business Taxes

Driver’s License Fee: (\$0.6 million)

Total driver’s license revenue was \$0.6 million or 12.8% less than anticipated in HJ 2. Collections in FY 2017 were nearly identical to those in FY 2016 as shown in the following chart. The overestimate was due to lower-than-expected revenue from the Class D (standard) licenses.



Investment License Fee: (\$0.1 million)

Investment license fee collections were \$0.1 million, or 1.7% below the estimate contained in HJ 2. In HJ 2, this source was modeled on the Montana personal consumption expenditure series for finance & insurance from IHS, with modeled growth rates applied to the last known collections. The model seems to be working well.

Lodging Facilities Sales Tax: (\$0.4 million)

Lodging facilities sales tax collections were \$0.4 million or 1.9% below the estimate contained in HJ 2. This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. The IHS outlook for U.S. consumer spending on accommodations in FY 2017 has declined by 1.6% since the March 2017 forecast that was used as the basis for the HJ 2; the revised outlook is consistent with the lower revenue growth which suggests the model is performing well.

Public Contractors' Gross Receipts Tax: \$0.5 million

Public contractors' gross receipts tax collections were \$0.5 million or 20.6% above the estimate contained in HJ 2. This source was estimated in HJ 2 based on a time trend of highway spending and a higher level of all other construction than in recent years. Highway construction came in 25% below FY 2017 projections, while all other construction came in as anticipated. The discrepancy with the estimate appears to be due to lower-than-anticipated individual income tax credits.

Railroad Car Tax: \$0.4 million

Railroad car tax revenue was \$0.4 million, or 11.9% above the HJ 2 estimate. The HJ 2 estimate was based on the IHS forecast for Montana retail sales. The current IHS outlook for retail sales has improved since the March 2017 forecast that was used for HJ 2, and may explain some of the discrepancy. Future model adjustments may replace the retail sales series with Montana personal consumption expenditures, and possibly incorporate an energy price indicator.

Rental Car Sales Tax: \$0.1 million

Rental car sales tax collections were \$0.1 million or 2.8% above the estimate contained in HJ 2. Rental car sales tax was forecast in HJ 2 based on the Montana personal consumption expenditure series for transportation. The IHS outlook for Montana personal consumption expenditures for transportation in FY 2017 has increased by 1.2% since the March 2017 forecast that was used as the basis for the HJ 2; the revised outlook accounts for a portion of the higher revenue growth.

Retail Telecommunications Excise Tax: (\$0.5 million)

Retail telecommunications excise tax collections were \$0.5 million or 3.0% below the estimate contained in HJ 2. The estimate was 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. An increased rate of transition to pre-paid smartphones, which are non-taxable, may be the reason for the stronger-than-expected decline in collections.

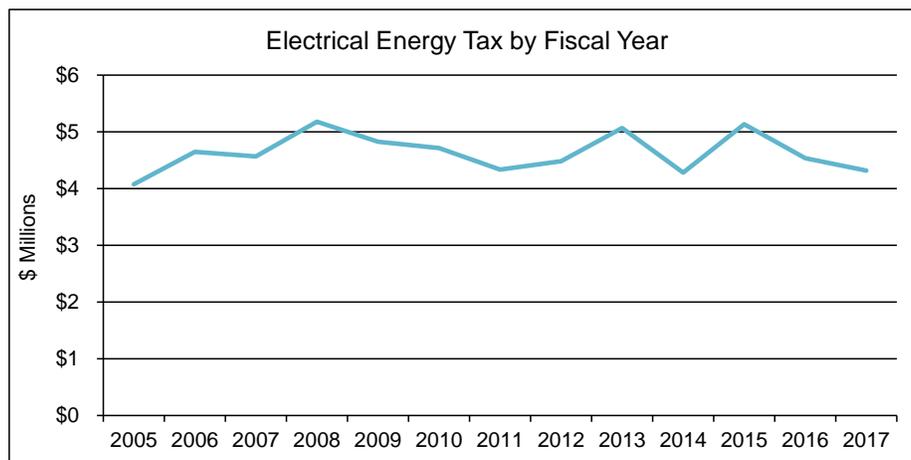
Other Natural Resource Taxes

Coal Severance Tax: \$0.2 million

Coal severance tax collections were above the HJ 2 estimate by \$0.2 million or 1.6%. Although FY 2017 total production decreased, higher prices and larger audits offset some of the negative impact.

Electrical Energy Tax: (\$0.1 million)

Taxable energy production was below the forecast by \$0.1 million, or 3.0%. Tax collections are a flat rate imposed against production, which has been inconsistent lately, as implied by the chart below. This source is forecast by using a trend line on the five most recent years.



Metalliferous Mines Tax: \$0.4 million

Metal mines tax collections were \$0.4 million or 9.7% above the estimate contained in HJ 2. The increase is primarily attributable to higher metal prices in CY 2016 than anticipated in HJ 2, although most metal production was lower than anticipated in HJ 2. Metal prices for CY 2017 are currently higher than the estimates contained in HJ 2.

U.S. Mineral Royalties: (\$1.9 million)

Revenue from U.S. mineral leases in the state was \$1.9 million or 10.0% below the HJ 2 estimate. It was estimated in HJ 2 that U.S. mineral royalties would increase primarily due increases in coal and oil prices. While the price increases occurred, the overall growth in collections was likely mitigated by production declines. Data from FFY 2017 should be available in October to verify if decreases in production occurred.

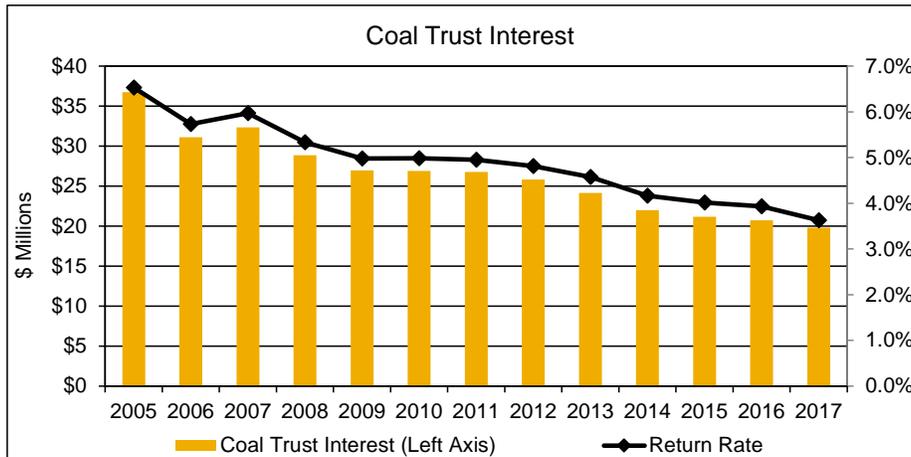
Wholesale Energy Transaction Tax: (\$0.1 million)

Wholesale energy transaction tax was \$0.1 million or 2.1% below the estimate contained in HJ 2. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

Other Interest Earnings

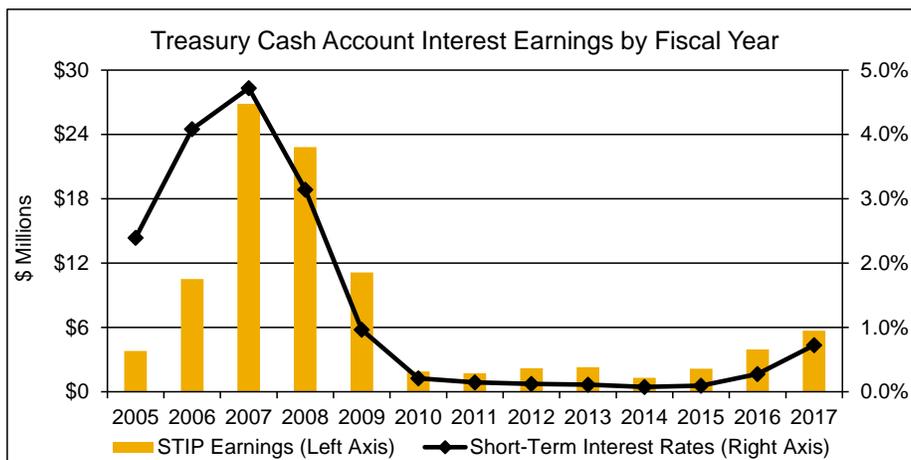
Coal Trust Interest Earnings: (\$0.2 million)

Coal trust interest earnings were below the revenue estimate in HJ 2 by 0.8% or \$0.2 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates have decreased over the past years, and are expected to average approximately 3.5% in the coming years.



Treasury Cash Account Interest Earnings: \$1.4 million

Based on year-end data for FY 2017, the TCA interest earnings were 33.2% or \$1.4 million above the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates. Interest rates have slowly been rising, and as a result this source is expected to continue growing. The average amount of cash in the treasury will ultimately limit how much it can grow.



Other Consumption Taxes

Beer Tax: (\$0.1 million)

Beer tax revenue came in 1.7% or \$0.1 million below the official projection in FY 2017. The model estimate was based on proxy barrels, population aged 21 or greater and consumption per capita. While consumption per capita has remained fairly consistent, the effective tax rate has declined due to the increasing market share of craft beer which is taxed at a lower rate based on production. [HB 541 \(2017\)](#)

[Session](#)) lowered the threshold for the maximum tax rate, which will slightly increase the effective tax rate.

Cigarette Tax: (\$0.4 million)

Cigarette tax collections came in below the HJ 2 revenue estimates by 1.2% or \$0.4 million. The forecast for this source was based on the IHS series for consumer price index for tobacco and consumer spending on tobacco products. Modeling also includes the population over age 18. Consumption per capita trended downward slightly more than anticipated.

Liquor Excise & License Tax: (\$1.0 million)

Liquor excise tax actuals came in 4.6% or \$1.0 million below the official projection. This revenue source was forecast in HJ 2 based on the Montana personal consumption expenditure series for food. The IHS outlook in FY 2017 has declined by 3.0% since the March 2017 forecast that was used as the basis for the HJ 2; the revised outlook is consistent with the lower revenue growth which suggests the model is performing well.

Liquor Profits: \$0.3 million

Liquor profits came in \$0.3 million or 2.2% above the estimate contained in HJ 2 for FY 2017. The difference is due to lower discounts and commissions than anticipated in HJ 2.

Lottery Profits: (\$2.7 million)

Lottery profits in FY 2017 were 22.2% or \$2.7 million below the HJ 2 revenue estimate due in part to lower ticket sales and increased vendor fees. In FY 2016, a record \$1.5 billion Powerball jackpot had been a strong driver of sales with an additional \$6.0 million in sales over FY 2015. FY 2017 had no comparatively large jackpots. The outlook for FY 2018 may be impacted by the publicity surrounding the recent \$0.75 billion dollar jackpot.

Tobacco Tax: (\$0.4 million)

Tobacco tax revenue came in 5.7% or \$0.4 million below the official projection. A portion of the discrepancy appears to be due to the lower IHS personal expenditure series, but given the magnitude of the error, further model refinements will be explored over the interim.

Wine Tax: (\$0.1 million)

Wine tax revenue came in at 2.2% or \$0.1 million below the official projection in FY 2017. The HJ 2 estimate was based on the IHS forecast of Montana population over age 21. The growth of per capita consumption has been declining in recent years.

Other Sources

All Other Revenue: \$4.3 million After Adjusting for Posting Error

After accounting for an \$8.0 million corporation tax payment that was posted as miscellaneous revenue in the all other revenue source, all other revenue collections were 9.6% or \$4.3 million above the estimate contained in HJ 2. The increase compared to the estimate was due to larger-than-expected abandoned property collections and HELP Act premium collections.

Highway Patrol Fines: (\$0.2 million)

Total revenue generated from highway patrol fines in FY 2017 was 4.2% or \$0.2 million less than the HJ 2 estimate. This revenue source is modeled on a time series, which tends to capture the underlying trend, but is not exact.

Nursing Facilities Fees: \$0.0 million

Nursing facilities fees came in 1.0% or \$0.0 million over the HJ 2 revenue estimate. It is forecast primarily based on a time series of proxy bed days. This source has declined most years since inception; FY 2016 continued this trend with a 1% decline from FY 2015. However, it should increase over the biennium with the implementation of [HB 618 \(2017 Session\)](#), which raised the per bed fee from the current rate of \$8.30 to \$11.30 in FY 2018 and \$15.30 in FY 2019 going forward.

Public Institution Reimbursements: \$0.1 million

Public institution reimbursements were 0.1% or \$0.1 million more than the HJ 2 revenue estimate. This source has a history of fluctuating collections primarily due to timing of federal payments. This source will be impacted by [HB 387 \(2017 Session\)](#), which changed the closure date for the Montana Developmental Center from June 30, 2017 to June 30, 2019, and continues the use of a 12-bed intensive behavior center after June 30, 2019.

Tobacco Settlement: \$0.2 million

Tobacco settlement revenue was above the HJ 2 estimate by 7.8% or \$0.2 million. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies, and the states that delay or mildly adjust the amount of the settlement. These changes are not captured in the revenue model and continue to contribute to discrepancies between estimates and actual collections.

BUDGET AND EXPENDITURES

FY 2017 APPROPRIATIONS AND EXPENDITURES

This portion of the report discusses the FY 2017 appropriations and related expenditures by budget section including:

- Modifications to FY 2017 that have been made to the HB 2 FY 2017 budget since the last full status report to the Legislative Finance Committee in December 2016. These modifications, occurring between December 1, 2016 and June 30, 2017, are included in Appendix A¹
- Expenditure and spending patterns relative to FY 2017 appropriations
- Supplemental appropriations and FY 2017 appropriation authority reductions adopted by the 2017 Legislature
- Other appropriation authority granted to state agencies
- Non-budgeted proprietary funds
- Statutory appropriations
- Budget amendments

¹ As used in the report the following definitions apply:

Modified Budget – HB 2 allocated budget as modified by the Executive, Legislative, or Judicial Branch for transfer of authority between programs, changes between expenditure categories, or transfer of appropriation authority and FTE to restructure agency functions.

The LFD has developed a guide to the transactions included in each budget type. LFD staff included a detailed discussion on transfers of agency pay plan distributions and allocations of contingency funds in the 2017 Biennium Budget Status Report provided in December 2015 to the LFC. Modifications for reorganizations, program transfers, and operating plan changes that occurred between December 1, 2017 and June 30, 2017 are included in this report. These modifications establish the modified budget used to compare budgeted appropriations to actual fiscal year expenditures and to determine the remaining, unspent budget authority. Note that for the purposes of this report:

- Appropriations provided as one-time-only are included as part of total appropriations and expenditures
- Unspent authority from FY 2016 that was designated as biennial is included as part of the total FY 2017 budget

It should be noted that budget amendments and carry-forward authority that have been “continued” from a previous fiscal year are included along with Long-Range Building and Information Technology Program projects approved by previous legislatures as continuing appropriations.

Statute provides for the Executive, Legislative, and Judicial Branches to make these types of budget modifications when the legislature is not in session.

To provide a more complete picture of agency resources, Appendix B summarizes total appropriation authority provided to an agency including HB 2, non-budgeted proprietary funds, statutory appropriations, budget amendments, carry-forward authority, and other appropriation bills. Appendix A summarizes HB 2 appropriations.

FY 2017 LEGISLATIVE AND EXECUTIVE BUDGET CHANGES

The 2017 Legislature adopted changes to the FY 2017 HB 2 budget including supplemental appropriations and appropriation authority reductions. In addition, state agencies submitted budget modifications. The following section discusses:

- o Increases in FY 2017 appropriations approved by the 2017 Legislature referred to as supplemental appropriations
- o Decreases in FY 2017 appropriations approved by the legislature in HB 3 and HB 648 and decreases approved by the executive as required in HB 3
- o Other state agency budget modifications

Increases in Appropriations: FY 2017 Supplemental Appropriations

HB 3 and HB 2, as enacted by the 2017 Legislature, included supplemental appropriation authority for general fund and state special revenue for state agencies in FY 2017. Figure 1 provides the state agency, fund source, amount, and condition that resulted in the need for the supplemental appropriation.

Figure 1

Supplemental Appropriations FY 2017				
Legislation	State Agency	Condition	Fund	Amount
HB 3	Office of Public Instruction	Higher ANB, lower guarantee account funding, lower tax base	General Fund	\$17,300,000
HB 3	Department of Corrections	Costs of housing state offenders in county jails	General Fund	3,148,125
HB 3	Commissioner of Higher Education	Revenue shortages for scholarships provided for STEM	General Fund	358,000
HB 3	Department of Commerce	Align appropriations with cash available for Coal Board grants	State Special	1,945,617
HB 3	Department of Fish, Wildlife, and Parks	Costs related to aquatic invasive species found in Montana	Federal Special	1,500,000
HB 3	Department of Fish, Wildlife, and Parks	Costs related to aquatic invasive species found in Montana	General Fund	200,000
HB 3	Department of Natural Resources & Conservation	Costs related to aquatic invasive species found in Montana	General Fund	200,000
HB 2	Office of the Public Defender	Caseload growth	General Fund	2,000,000
Total Supplemental Appropriations				26,651,742

As reflected in Figure 1, state agencies required an additional \$23.2 million in additional general fund, \$1.9 million in state special revenue, and \$1.5 million in federal special revenue authority in FY 2017. The majority of the general fund was needed in the Office of Public Instruction (OPI) for:

- o Higher average number belonging (ANB) than included in the estimates for the biennium
- o Lower than anticipated guarantee account funding due to higher administrative costs related to school trust lands
- o Lower property tax base due to a settlement with Northwest Energy on centrally assessed properties throughout Montana. This temporarily increases guaranteed tax base aid that the state owes to school districts

FY 2017 Appropriation Authority Reductions or Executive Expenditure Reductions

Legislative Appropriation Reductions

The 2017 Legislature included general fund reductions in FY 2017 appropriation authority in HB 3, including reductions for HB 2 and a number of other appropriation bills. Additional reductions for

general fund and state special revenue fund were included in HB 648, the Section C, Natural Resources and Transportation companion bill to HB 2.

Figure 2 provides the general fund and state special revenue reductions included in HB 3 and HB 648.

Figure 2

Appropriation Reductions FY 2017				
State Agency	2017 Legislation	2015 Legislation	Fund	Reduction
Legislative Branch	HB 3	HB 2	General Fund	(\$1,106,655)
Department of Revenue	HB 3	HB 2	General Fund	(446,855)
Department of Public Health and Human Services	HB 3	HB 2	General Fund	(5,000,000)
Department of Livestock	HB 3	HB 2	General Fund	(47,003)
Department of Natural Resources & Conservation	HB 3	HB 2	General Fund	(1,000,000)
Judicial Branch	HB 3	HB 2	General Fund	(1,000,000)
Crime Control Division	HB 3	HB 2	General Fund	(100,000)
Department of Justice	HB 3	HB 2	General Fund	(724,302)
Office of Public Instruction	HB 3	HB 2	General Fund	(300,000)
Commissioner of Higher Education	HB 3	HB 2	General Fund	(100,000)
Office of Public Instruction	HB 648	HB 2	State Special	(8,586,000)
Department of Justice	HB 648	HB 2	General Fund	(125,000)
Legislative Branch	HB 3	HB 627	General Fund	(4,466)
Legislative Branch	HB 3	HB 230	General Fund	(14,748)
Legislative Branch	HB 3	SB 128	General Fund	(4,575)
Department of Revenue	HB 3	SB 405	General Fund	(95,157)
Judicial Branch	HB 3	HB 612	General Fund	(200,000)
Department of Justice	HB 3	HB 244	General Fund	(1,000,000)
Total FY 2017 Appropriation Reductions				(\$19,854,761)

As shown, the legislature reduced appropriations by \$11.3 million for general fund and \$8.6 million for state special revenue from various state agencies in FY 2017. A discussion of the program impacts of the legislative reductions can be found in the state agency narratives.

Executive Expenditure Reductions

HB 3 also required the Budget Director to mandate reductions of at least \$10.0 million for the 2017 biennium budget. Figure 3 shows the reductions mandated by the executive.

Figure 3

All Funds - Executive Reductions FY 2017 As Directed by HB 3					
Agency	General Fund	State Special Revenue	Federal Special Revenue	Proprietary Funds	Total
Board of Public Education	(\$17,500)				(\$17,500)
Historical Society	(18,000)				(18,000)
Department of Environmental Quality		(2,750,000)	(500,000)		(3,250,000)
Department of Natural Resources and Conservation	(600,000)				(600,000)
Department of Revenue	(350,000)			(50,000)	(400,000)
Department of Administration	(205,000)	(20,000)			(225,000)
Department of Corrections	(3,011,634)				(3,011,634)
Department of Labor and Industry			(1,379,722)		(1,379,722)
Department of Commerce	(80,000)				(80,000)
Department of Military Affairs	(100,000)				(100,000)
Department of Public Health and Human Services	(4,000,000)				(4,000,000)
Grand Total	(\$8,382,134)	(\$2,770,000)	(\$1,879,722)	(\$50,000)	(13,081,856)

It should be noted that while the executive reduced HB 2 expenditure authority as required in HB 3, the appropriation authority was reclassified and still technically remains available as shown in

Appendix B. The appropriations related to the reduced expenditures are still valid until reverted at the end of the fiscal year.

The reduction in state special revenue funds were due to declining revenues within the Department of Environmental Quality for natural resources operations, hard rock mining reclamation, and petroleum storage tank cleanup. Federal state special revenue funds in the Department of Labor and Industry are due to declining federal grants for employment services.

In addition to budgetary changes that were completed on a statewide basis, the Legislative Fiscal Division noted a number of budget modifications at the agency level. These are discussed below.

General Government, Section A Budget Changes

Governor's Office

The 2017 biennium HB 2 contained \$5.7 million in personal services contingency base funds and \$8.1 million in contingency base funds that were transferred to other state agencies throughout FY 2017. The Office of Budget and Program Planning (OBPP) requested that state agencies return \$1.4 million in unspent state special revenue authority related to these contingency appropriations including:

- o Department of Transportation returned \$702,000 for contingency base authority
- o Department of Labor and Industry returned \$700,000 in personal services contingency base authority

The pay plan included in HB 2 provided the Governor's Office with an additional \$1.8 million in personal services contingency funding. Between December 2016 and June 2017 OBPP transferred the following personal services contingency funding:

- o \$230,000 in general fund to the Department of Public Health and Human Services
- o \$81,000 in federal special revenue to the Department of Revenue
- o \$58,000 in general fund to the Office of the Commissioner of Higher Education

The need for this funding is addressed in the state agency narratives.

Health and Human Services, Section B Budget Changes

The Department of Public Health and Human Services (DPHHS) transferred \$16.4 million in general fund between programs with the majority of the funding coming from Medicaid benefits and claims appropriations. Decreases in general fund were the result of savings within the traditional Medicaid Program due to participant transition to the expanded Medicaid Program and lower costs in the Community First Choice Program in the Senior and Long-term Care Division (SLTC). Increases in the Disability Employment & Transitions Division allowed for additional services to be provided to participants, these services were not reimbursed by the federal grant. Child and Family Services Division increased budget was needed to address a higher caseload. As reflected in the following figure, the majority of the funding was transferred to non-Medicaid programs. Figure 4 summarizes the program transfers of general fund between the agency divisions.

Figure 4

Department of Public Health and Human Services General Fund Transfers FY 2017		
Division	Increase	Decrease
Disability Employment & Transitions	\$2,127,850	
Human and Community Services		(2,318,900)
Child and Family Services	11,726,072	
Director's Office	311,500	
Child Support Enforcement		(338,000)
Business & Financial Services		(436,000)
Public Health & Safety		(58,800)
Quality Assurance		(47,700)
Technology Services		(167,755)
Developmental Services		(5,866,891)
Health Resources	126,753	
Medicaid and Health Services Management	82,347	
Management and Fair Hearings	108,000	
Senior and Long-Term Care		(7,179,476)
Addictive and Mental Disorders	1,931,000	
Total	\$16,413,522	(\$16,413,522)

Further discussion on program transfers is included in the agency narrative and shown in Appendix A.

Judicial Branch, Law Enforcement, and Justice, Section D Budget Changes

Judicial Branch

In accordance with 41-5-2001, MCA, the Judicial Branch transferred \$3.6 million in general fund from benefits and claims to transfers. The statute requires that unexpended general fund appropriations in the judicial district's annual allocations and cost containment pool be transferred to the state special revenue fund for the Youth Court Intervention and Prevention Program in the following year.

Department of Corrections

SB 418 as enacted by the 2015 Legislature, required OBPP to capture savings in HB 2 generated due to the implementation of SB 405, the Health and Economic Livelihood Partnership (HELP) Act. Under this requirement the Department of Corrections saved \$3.0 million in outside medical costs due to the ability to establish Medicaid eligibility for prisoners that were treated in hospitals outside of the prison. The executive also included this savings as part of the HB 3 reductions mandated by the Budget Director described on page 19.

HB 2 GENERAL FUND EXPENDITURES BY AGENCY

The budget modifications implemented during FY 2017 impacted the level of HB 2 expenditures in several agencies. The following sections discuss FY 2017 expenditures for general fund and total state resources when compared to the modified budget.

Figure 4 illustrates the budgeted and actual expenditures of general fund for HB 2 through fiscal year end (FYE). The budgeted number reflects the modified budget, as previously discussed. A summary of expenditures by agency and program can be found in the agency narratives and Appendix A along with related budget modifications.

In FY 2017 state agencies expended 99.5% of HB 2 general fund appropriations compared to the modified budget leaving \$10.3 million in general fund appropriations remaining. As discussed in the

introduction, state agencies reverted \$25.2 million in general fund from all appropriation authority including the HB 2 appropriations illustrated in Figure 5.

Figure 5

Comparison of Modified Budget to Year to Date Expenditures				
FY 2017				
HB 2 - General Fund Only				
State Agency	Modified Budget	Actuals and Accruals	Budget Remaining	% Expended
General Government				
Legislative Branch	\$12,935,326	\$12,132,040	\$803,286	93.8%
Governor's Office	7,051,969	6,500,123	551,846	92.2%
Commissioner of Political Practices	693,309	686,137	7,172	99.0%
Department of Revenue	54,802,246	54,701,177	101,069	99.8%
Department of Administration	7,629,885	7,170,211	459,674	94.0%
Department of Commerce	7,398,738	7,349,447	49,291	99.3%
Department of Labor and Industry	1,938,755	1,880,034	58,721	97.0%
Department of Military Affairs	<u>6,559,790</u>	<u>6,425,182</u>	<u>134,608</u>	<u>97.9%</u>
Subtotal General Government	99,010,018	96,844,351	2,165,667	97.8%
Health and Human Services				
Department of Public Health and Human Services	<u>515,060,061</u>	<u>514,209,729</u>	<u>850,332</u>	<u>99.8%</u>
Subtotal Health and Human Services	515,060,061	514,209,729	850,332	99.8%
Natural Resources and Transportation				
Department of Fish, Wildlife, and Parks	1,174,000	1,154,143	19,857	98.3%
Department of Environmental Quality	5,696,019	5,641,822	54,197	99.0%
Department of Livestock	2,716,065	2,542,059	174,006	93.6%
Department of Natural Resources & Conservation	29,071,950	28,919,108	152,842	99.5%
Department of Agriculture	<u>977,548</u>	<u>932,073</u>	<u>45,475</u>	<u>95.3%</u>
Subtotal Natural Resources and Transportation	39,635,582	39,189,205	446,377	98.9%
Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	48,343,514	47,217,421	1,126,093	97.7%
Crime Control Division	2,413,078	2,298,269	114,809	95.2%
Department of Justice	34,988,913	34,978,589	10,324	100.0%
Office of the Public Defender	37,010,161	37,010,161	0	100.0%
Department of Corrections	<u>200,762,944</u>	<u>200,120,107</u>	<u>642,837</u>	<u>99.7%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	323,518,610	321,624,547	1,894,063	99.4%
Education				
Office of Public Instruction	814,264,696	810,917,838	3,346,858	99.6%
Board of Public Education	169,621	155,442	14,179	91.6%
Office of the Commissioner of Higher Education	232,634,850	231,574,364	1,060,486	99.5%
School for the Deaf and Blind	7,259,038	6,848,165	410,873	94.3%
Montana Arts Council	542,020	537,381	4,639	99.1%
Montana State Library	3,111,173	3,014,170	97,003	96.9%
Montana Historical Society	<u>3,541,986</u>	<u>3,524,394</u>	<u>17,592</u>	<u>99.5%</u>
Subtotal Education	1,061,523,384	1,056,571,754	4,951,630	99.5%
Grand Total	\$2,038,747,655	\$2,028,439,586	\$10,308,069	99.5%

HB 2 ALL STATE RESOURCE EXPENDITURES BY AGENCY

The following table illustrates the budgeted and actual FY 2017 expenditures for all state resources appropriated to state agencies through HB 2. This includes general fund, state and federal special revenue, and budgeted proprietary funds. Agencies expended 99.5% of general fund, 86.4% of state special revenue, and 85.9% of federal special revenue. Further detail of specific agencies may be found in the agency narratives.

Figure 6 shows a comparison of the modified budget to FY 2017 expenditures.

Figure 6

Comparison of Modified Budget to Year to Date Expenditures				
FY 2017				
HB 2 - State Resources				
State Agency	Modified Budget	Actuals and Accruals	Budget Remaining	% Expended
General Government				
Legislative Branch	\$15,491,019	\$14,591,306	\$899,713	94.2%
Consumer Counsel	1,733,265	1,142,229	591,036	65.9%
Governor's Office	9,101,068	6,500,123	2,600,945	71.4%
Secretary of State	104,918	83,471	21,447	79.6%
Commissioner of Political Practices	693,309	686,137	7,172	99.0%
State Auditor's Office	8,644,036	7,069,692	1,574,344	81.8%
Department of Revenue	204,502,260	178,263,847	26,238,413	87.2%
Department of Administration	22,077,526	18,066,580	4,010,946	81.8%
Department of Commerce	35,731,709	30,782,782	4,948,927	86.1%
Department of Labor and Industry	85,011,573	76,320,606	8,690,967	89.8%
Department of Military Affairs	49,540,263	40,337,831	9,202,432	81.4%
Subtotal General Government	432,630,946	373,844,604	58,786,342	86.4%
Health and Human Services				
Department of Public Health and Human Services	<u>2,174,311,072</u>	<u>2,076,880,650</u>	<u>97,430,422</u>	<u>95.5%</u>
Subtotal Health and Human Services	2,174,311,072	2,076,880,650	97,430,422	95.5%
Natural Resources and Transportation				
Department of Fish, Wildlife, and Parks	86,994,590	82,584,487	4,410,103	94.9%
Department of Environmental Quality	66,451,273	55,045,045	11,406,228	82.8%
Department of Transportation	727,944,990	515,182,468	212,762,522	70.8%
Department of Livestock	13,347,400	12,025,138	1,322,262	90.1%
Department of Natural Resources & Conservation	71,183,113	62,711,550	8,471,563	88.1%
Department of Agriculture	<u>18,118,331</u>	<u>16,699,588</u>	<u>1,418,743</u>	<u>92.2%</u>
Subtotal Natural Resources and Transportation	984,039,697	744,248,276	239,791,421	75.6%
Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	50,298,325	48,886,487	1,411,838	97.2%
Crime Control Division	11,920,121	8,095,710	3,824,411	67.9%
Department of Justice	100,905,222	95,615,496	5,289,726	94.8%
Public Service Regulation	4,116,522	3,692,577	423,945	89.7%
Office of the Public Defender	37,283,767	37,283,767	0	100.0%
Department of Corrections	<u>205,709,073</u>	<u>204,669,390</u>	<u>1,039,683</u>	<u>99.5%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	410,233,030	398,243,427	11,989,603	97.1%
Education				
Office of Public Instruction	994,214,396	974,856,749	19,357,647	98.1%
Board of Public Education	348,590	325,760	22,830	93.5%
Office of the Commissioner of Higher Education	348,151,831	293,264,776	54,887,055	84.2%
School for the Deaf and Blind	7,587,882	7,165,475	422,407	94.4%
Montana Arts Council	1,473,509	1,471,488	2,021	99.9%
Montana State Library	6,027,067	5,392,631	634,436	89.5%
Montana Historical Society	<u>5,790,916</u>	<u>5,632,056</u>	<u>158,860</u>	<u>97.3%</u>
Subtotal Education	1,363,594,191	1,288,108,935	75,485,256	94.5%
Grand Total	\$5,364,808,935	\$4,881,325,892	\$483,483,043	91.0%

General Government, Section A Expenditures

Legislative Branch

Recruitment and retention issues in the Legislative Audit Division drove the lower expenditures of general fund in the Legislative Branch.

Governor's Office

As part of HB 2, the legislature provided \$1.0 million in general fund appropriations for personal services contingency to OBPP in the pay plan. OBPP transferred \$684,000 in personal services contingency funding to state agencies over the biennium leaving \$316,000 in general fund appropriations at the end of the fiscal year that was not needed by state agencies. The majority of the remaining general fund is due to less travel conducted through the Air Transportation Program.

In addition \$650,000 in other authority, mainly state special revenue, for the personal services contingency is unexpended at the end of the fiscal year. As discussed in the budget narrative, OBPP requested that state agencies transfer unexpended appropriation authority for personal services contingency base and contingency base funding. This makes up the majority of the remaining appropriations in state resources for the Governor's Office.

Department of Revenue

The Liquor Control Division within the Department of Revenue has language appropriation authority of \$145.0 million in budgeted proprietary funds to maintain inventories, pay freight charges, and transfer profits and taxes to the related accounts including the general fund. Historically the legislature has authorized appropriations above that needed. In FY 2017 the Liquor Control Division spent \$118.9 million in its language appropriation leaving \$26.1 million in authority remaining.

Department of Administration

Lower expenditures in three divisions, the Director's Office, the State Financial Services Division, and the Montana Tax Appeal Board, resulted in remaining general fund appropriation authority of \$460,000. This was due to a combination of vacant positions and lower operating expenses.

Department of Labor and Industry (DOLI)

A combination of federal grants coming in lower than anticipated and lower legal costs within the Business Standards Division are the majority of the reason for the \$8.6 million in state and federal special revenue authority remaining in DOLI.

Department of Military Affairs

Federal grant authority within Disaster and Emergency Services Division was established for all grant funding that was anticipated in FY 2017. Spending associated with the grants is made over several fiscal years resulting in lower expenditures than budgeted in FY 2017.

Health and Human Services, Section B Expenditures

Department of Public Health and Human Services

Of the \$97.7 million in remaining state resources within the DPHHS, \$86.0 million is federal special revenue, \$0.8 million in general fund, and \$9.8 million in state special revenue.

Medicaid appropriations in HB 2 were 94.4% expended. The lower expenditures reflect savings within the traditional Medicaid Program due to participant transition to the expanded Medicaid Program and lower costs in the Community First Choice Program in the Senior and Long-term Care Division (SLTC). Community First Choice serves the elderly and disabled. Providers in the program are experiencing staffing difficulties due to recruitment and retention issues associated with pay levels.

As providers do not have staff to provide services to participants, the number of participants was lower than anticipated.

Natural Resources and Transportation, Section C Expenditures

Department of Environmental Quality (DEQ)

State special revenues for petroleum storage tank cleanup, natural resource operations, and hard rock mining reclamation were lower than budgeted. As a result, DEQ reduced spending in the Waste Management and Remediation Division and the Air, Energy, and Mining Division.

Department of Transportation (DOT)

Expenditures in FY 2017 were less than previous years, most significantly in the Construction Program in the Department of Transportation. The reduced expenditures can be related to work planned in the 2015 biennium. During the 2015 biennium, the federal government had not passed and allocated funding from the Fixing America's Surface Transportation Act (FAST). Federal authority for FAST was provided through continuing resolutions, and as a result the agency was reluctant to enter into contracts for large federal-aid highway projects and planned fewer than previous years. Additionally, DOT was required to reduce expenditures from the restricted highway state special revenue account to avoid drawing down the fund balance any further than necessary. It should be noted that in FY 2017 DOT obligated all available federal highway funding for construction projects and no federal authority has been declined.

Department of Natural Resources and Conservation (DNRC)

Expenditures for state special revenue funds were \$8.0 million lower than appropriations. This is primarily the result of revenues in the following accounts coming in lower than projected:

- Coal severance tax shared funds - \$0.5 million
- Private water project loan proceeds - \$1.7 million
- Broadwater dam projects - \$0.5 million
- Trust land management administration - \$0.9 million

In addition, state hydro project earnings are received each year and used for water projects. DNRC balances the use of funding between current and future projects. In FY 2017 about \$1.9 million of the appropriations were not needed for current projects.

Judicial Branch, Law Enforcement, and Justice, Section D Expenditures

Department of Justice

The majority of the appropriation authority remaining in Department of Justice is in the Motor Vehicle Division. Operating expenses for the insurance and verification system were lower in FY 2017 as the work load is cyclical and peaked in FY 2015. Debt service for MERLIN was not required in FY 2017 leaving \$500,000 in remaining authority.

Education, Section E Expenditures

Office of Public Instruction (OPI)

The 2017 legislature approved a supplemental appropriation of \$17.3 million general fund for BASE Aid distributions to local school districts. OPI reverted \$2.1 million of this to the general fund. The primary reason for the reversion was due to increased interest and income of \$2.0 million from the guarantee account. In addition, the school districts reverted to OPI \$500,000 in entitlement payments for anticipated ANB increases that did not materialize in FY 2017 and \$700,000 in transportation funding that was not needed at the local level.

Office of the Commissioner of Higher Education (OCHE)

The Guaranteed Student Loan (GSL) Program only expended 38.3% of its budget as this program continues to wind down. GSL has not issued loans since July 2010 and has been managing the existing loan portfolio. As of October 1, 2017, GSL will no longer be managing the portfolio as it will be sold to a federally approved loan servicing provider. The appropriation of federal funding has remained constant during this transition due to unknowns of when they would transfer the portfolio to another organization. OCHE will continue to offer other student financial aid-related activities for the benefit of students as determined by the Board of Regents in future years.

STATUTORY APPROPRIATIONS

Department of Public Health and Human Services

The fiscal note for the HELP Act estimated the FY 2017 costs would be \$246.0 million in total state resources. At the beginning of the fiscal year statutory authority for the HELP Act was increased to \$286.1 million. At FYE statutory appropriations budgeted from state resources for the HELP Act were \$581.1 million with \$24.5 million in general fund, \$4.2 million in state special revenue, and \$552.4 million in federal special revenue. The nearly double increase was due to higher enrollment and higher average costs per participant than anticipated.

REQUIRED REPORTS AND BUDGET AMENDMENTS

The LFC receives a number of reports from various state agencies including:

- Budget amendments increasing agency appropriations for state or federal special revenues or proprietary funds between May 1, 2017 and June 30, 2017. Details on budget amendments and a summary of changes are provided in Appendix C
- Operating plan changes and program transfers meeting requirements for LFC review received between May 22, 2017 and June 30, 2017. A memorandum received from the Office of Budget and Program Planning (OBPP) outlining these changes is included in Appendix D
- Other agency reports statutorily required to be provided to the LFC. Included in the required reports section of the meeting materials on the LFC webpage

LFC Review

Staff reviewed budget amendments, operating plan changes, and program transfers and have raised no concerns with transactions meeting statutory requirements. The LFC may wish to comment on the transactions during its review and discussion of the FY 2017 Budget Status Report.

Budget Amendments

As of June 30, 2017 the Legislative Finance Division received notification of 37 budget amendments certified by the Governor since the May 2017 Legislative Finance Committee meeting.

These amendments increase total funds \$2.9 million in FY 2017. An additional 2.50 FTE in FY 2017 in modified positions have also been added. One amendment transfers existing authority between expenditure categories or between organizational units and seven extend previously approved amendment authority. Figure 7 summarizes the budget amendments certified by the Governor from the period May 1, 2017 through June 30, 2017.

Figure 7

Budget Amendment Summary (since last LFC meeting)		
Component	FY 2016	FY 2017
Number of Amendments	0	37
FTE Added	0.00	2.50
State Special Revenue	\$0	\$0
Federal Revenue	0	2,852,355
Proprietary Fund	0	38,500
Total Revenue	\$0	\$2,890,855

Each amendment, along with a brief explanation, is summarized in Appendix C. Staff has reviewed the amendments and has raised no concerns with any amendment meeting statutory criteria.

Figure 8 summarizes the budget amendments that were certified for the 2017 biennium. The various approving authorities have added a total of \$134.4 million in the 2017 biennium.

Figure 8

Budget Amendment Cumulative Summary 2017 Biennium				
LFC Meeting	Number of			Biennial
2017 Biennium	Amendments	FY 2016	FY 2017	Total
September 24, 2015	43	\$15,053,512	\$189,721	\$15,243,233
December 1, 2015	49	16,329,726	1,849,475	18,179,201
February 29, 2016	40	16,707,391	1,065,320	17,772,711
May 31, 2016	36	5,724,633	0	5,724,633
August 31, 2016	62	3,738,475	11,250,102	14,988,577
November 30, 2016	113	0	49,409,650	49,409,650
April 30, 2017	25	4,496	13,098,689	13,103,185
June 30, 2017	37	0	2,890,855	2,890,855
Total	405	\$57,558,233	\$79,753,812	\$134,421,190