

FYE 2018 BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division

September 6, 2018



INTRODUCTION

This report provides an overview of the unaudited, unassigned FY 2018 ending balance of the general fund, detailed revenue collection information, and FY 2018 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 2018. 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 2018 ending fund balance for the general fund as reported by the state accountant is \$185.8 million or \$1.3 million more than anticipated. The Legislative Fiscal Division's (LFD) [June 2018 Budget Status Report](#) projected an ending fund balance of \$184.5 million for FY 2018. 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 higher than expected FY 2018 ending balance was primarily the result of \$27.6 million in lower revenues offset by \$21.4 million in lower than anticipated spending and \$7.3 million in other adjustments. The following table shows the differences between estimated fund balance and actual fund balance.

FY 2018 General Fund Balance - Differences Between Estimates and Actuals (\$ Millions)				
		June Estimated FY 2018	Actual FY 2018	Over (Under) Estimate
Beginning Fund Balance		\$47.933	\$47.933	-
Revenues				
HJ 2 & enacted legislation		2,434.645	2,405.447	(29.198)
Prior year adjustments		-	1.638	1.638
Total Revenues		2,482.578	2,455.018	(27.559)
Expenditures				
Total Expenditures		2,298.040	2,287.374	(10.665)
Prior year adjustments		-	(10.781)	(10.781)
Total Expenditures		2,298.040	2,276.594	(21.446)
Other Accounting Adjustments			7.370	7.370
Ending Fund Balance		\$184.538	\$185.795	\$1.257

Reasons for Difference between Estimates and Actuals

Revenues – lower than expected, lowered fund balance

Actual FY 2018 general fund revenues were \$29.2 million or 1.2% below the HJ 2 estimate. The difference was primarily due to slower-than-expected growth in individual income tax. Note that the HJ 2 estimate does not include prior year revenue. The table on the previous page also shows prior year revenue.

Expenditures – less than anticipated, increased fund balance

General fund expenditures for FY 2018 were less than estimated by \$21.4 million. The key areas of lower spending were the following:

- HB 2, \$13.4 million in lower spending, primarily in the Department of Health and Human Services (DPHHS)
- Statutory appropriations, \$2.5 million below estimate, the result of lower than projected HELP Act expenditures

General Fund Reversions – higher than anticipated, increased fund balance

Agencies returned \$9.4 million in unspent general fund appropriation authority, which was \$2.6 million higher than estimated. Reverted HB 2 authority was \$7.6 million.

DPHHS reverted \$5.9 million in unspent HB 2 authority, of which \$5.0 million was in unspent contingency authority.

The remaining HB 2 reverted authority of \$1.7 million was split between 23 agencies.

Prior Year Adjustments – increased fund balance

Adjustments made to the prior year that impacted FY 2018 increased the general fund ending fund balance by \$12.4 million as follows:

- \$1.6 million in additional revenue
- \$10.8 million in lower than anticipated spending in DPHHS and offset by small adjustments in other agencies

Expenditure prior year adjustments for the Department of Public Health and Human Services were \$11.8 million. Additional analysis on the DPHHS prior year adjustments is underway and will be reported on later.

Other Adjustments – increased fund balance

Other accounting adjustments increased fund balance by \$7.3 million. Direct to fund balance transactions that occurred in FY 2018 included \$4.4 million from the Forestry and Trust Lands Division in the Department of Natural Resources and Conservation (DNRC). The DNRC used general fund authority to pay fire related costs. The final fire costs were less than accrued by \$4.4 million and therefore were returned to general fund. The remaining are various accounting adjustments.

Carryforward Authority

Statute allows the reestablishment of 30% of certain reverted appropriations to be returned to agencies that reverted authority. Carryforward for FY 2018 was \$507,775 and is reported on the balance sheet.

2019 BIENNIUM GENERAL FUND BALANCE SHEET

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

General Fund Balance Sheet				
(\$ Millions)				
	Actual FY 2016	Actual FY 2017	Actual FY 2018	Estimated FY 2019
Beginning Fund Balance	\$455.436	\$256.478	\$47.933	\$185.795
Revenues				
Actual ongoing/HJ 2	2,121.413	2,137.129	2,333.618	2,476.395
Estimated Ongoing Revenue				3.855
OTO Revenue (2017 reg. session)**	(0.125)	4.351	10.721	4.351
OTO Revenue: Transfer from Fire Fund ** (see wildfire fund table for FY 2019)			30.000	30.000
SB 261 Triggered Revenue - 2019 biennium change for accommodations tax**			1.681	1.640
2017 November Special Session OTO Revenue **			29.428	9.735
Prior Year Adjustments - revenue	(3.667)	(1.932)	1.638	
Total Revenue Funds Available	2,573.057	2,396.025	2,455.018	2,711.771
Expenditures - Ongoing				
Statutory Appropriations (updated since 10/2017)	265.168	291.065	316.360	326.632
SB 261 Statutory Approp Reduction (TPA)				(2.000)
General Fund Transfers	29.254	20.668	19.857	20.068
HB 2 Language Appropriations				0.050
HB 2 Agency Budgets*	1,908.415	1,957.389	1,904.347	1,949.376
HB 2 Special Session Additional Authority				45.721
Contingent Fund Transfer per HB 638				2.789
HB 1	5.025	8.239	2.401	10.172
Other Appropriations		3.417	0.068	1.154
Continuing Appropriations (HB 1 excluded)				18.163
Reversions (includes standard assumption and additional anticipated)**				(12.469)
Ongoing Expenditures	2,207.861	2,280.778	2,243.033	2,359.656
OTO				
HB 2 Agency Budgets *	64.519	47.185	12.836	14.393
HB 2 Appropriation Transfers and Other		0.433		
Supplemental Appropriations (estimated for FY 2019)**		23.167	3.320	14.900
Special Session SB 9 Budget Stabilization Transfer				45.721
Fire Fund Transfers	50.310	11.422	25.309	
Other Appropriations			2.031	
Other, including carry forward	1.147	1.752	0.846	
Total Expenditures	2,323.836	2,364.737	2,287.374	2,434.671
Other adjustments	5.888	12.217	7.370	
Adjustments - Prior Year expenditures		(4.058)	(10.781)	
CAFR Adjustments	1.368	0.369		
Ending Fund Balance	\$256.478	\$47.933	\$185.795	\$277.100
Structural Balance (ongoing revenues minus ongoing expenditures)	(\$86.448)	(\$143.650)	\$90.586	\$120.593
Please note: SB 9, section 1 1(b) is assumed to be deposited into a state special revenue fund for the purposes of Section 1 (3) essential services and are assumed to not impact the general fund balance at this time.				
* The balance sheet and Appendix A tie in the following manner: Appendix A HB 2 general fund total includes other authority, primarily SB 294 (pay plan). The balance sheet shows SB 294 authority in other appropriations.				
**FY 2019 adjusted since the June balance sheet. Note: Reversions have additional anticipated for K-12 and DPHHS above standard calculation.				
***FY 2019 continuing appropriations are lower than as reported in SABHRS. LFD assumes that some agencies will not expend all of their continuing authority.				

Balance Sheet Changes Since June

Changes to fund balance since the June 2018 Status Report include the following:

- Adjusted to reflect FY 2018 actuals
- \$30 million in FY 2019 transfers into the general fund - HB 6 requires excess revenue in the fire fund above \$40 million to be transferred to the general fund. Please refer to the wildfire suppression section of this report for more detail
- \$14.9 million in potential FY 2019 supplemental appropriations, which has been reduced after analysis of FY 2018 actuals and current fire expenses. Supplemental appropriation estimates are discussed in further detail in the expenditure summary of this report. Updated LFD estimates are the following for FY 2019 supplemental appropriations:
 - \$7.8 million for Department of Corrections
 - \$7.1 million for Office of Public Defender
- Reversions: \$5.3 million is estimated above the calculated reversion level to offset higher than normal continuing authority in K-12 and DPHHS
- Adjusted one-time-only HB 6 (special session) transfers revenue because of FY 2018 revenue triggers: Secretary of State and Public Service Commissioner will not transfer state special revenues to the general fund as revenue was higher than anticipated

Wildfire Suppression Fund

On June 1, 2018 \$23.3 million was transferred to the wildfire suppression account to bring fund balance up to \$40.0 million as directed by [HB 6](#) (November 2017 special session). Fire activity on state lands since June has been low, keeping FY 2019 expenditures well below average thus far. If costs remain low, a FY 2019 supplemental may be unnecessary. The following is the updated fire suppression fund balance:

Montana Fire Suppression Fund Ending Balance FY 2016 - FY 2018				
	FY 2016	FY 2017	FY 2018	FY 2019
<u>Beginning Balance</u>	\$38,357,577	\$73,747,521	\$62,600,216	\$8,555,508
<u>Revenue</u>				
Investment Earnings and other revenue	\$273,388	\$620,099	\$462,637	\$289,120
2013 HB 354	50,309,602	11,422,299	-	-
2017 Special Session	-	-	40,000,000	29,690,912
Total Revenue	\$50,582,990	\$12,042,398	\$40,462,637	\$29,980,032
<u>Expenditures</u>				
Fire Suppression	(\$15,108,535)	(\$19,155,695)	(\$64,407,345)	(\$4,000,000)
Grants (fuel reduction, mitigation, restoration)	(113,003)	(4,375,608)	-	-
2017 SB 261 Transfer to the general fund	-	-	(30,000,000)	-
2017 HB 647 Transfer to OCHE	-	-	(100,000)	-
Excess Revenue Transfer to General Fund				(29,980,032)
Total Expenditure	(\$15,221,538)	(\$23,531,303)	(\$94,507,345)	(\$33,980,032)
Prior Period Adjustments	\$28,492	\$341,600	-	-
Ending Fund Balance	\$73,747,521	\$62,600,216	\$8,555,508	\$4,555,508

REVENUE COLLECTIONS

Actual FY 2018 general fund revenues were \$29.2 million or 1.2% below the HJ 2 estimate. The difference was primarily due to slower-than-expected growth in individual income tax. The following table shows actual FY 2017 revenues in the first numerical column, followed by estimated and actual FY 2018 revenues. The next two columns show the estimated and actual growth in FY 2018 from FY 2017. The last two columns compare the actual FY 2018 revenue to the estimate in HJ 2, showing the difference as an amount and as a percentage. Further detail on each revenue source and the difference from the estimate are organized in order of the revenue list on the table.

General Fund Revenue--FY 2018 Actuals Compared to HJ 2 Estimate
(\$ Millions)

Revenue Source	Actual FY 2017	HJ 2* FY 2018	Actual FY 2018	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.
Largest Seven Sources							
Individual Income Tax	\$1,168.225	\$1,320.808	\$1,297.777	13.1%	11.1%	(\$23.031)	-1.7%
Property Tax	260.224	277.119	276.414	6.5%	6.2%	(0.704)	-0.3%
Corporation Tax	133.992	168.763	167.100	26.0%	24.7%	(1.663)	-1.0%
Vehicle Taxes & Fees	109.197	112.956	109.540	3.4%	0.3%	(3.416)	-3.0%
Oil & Natural Gas Taxes	46.334	49.939	54.508	7.8%	17.6%	4.569	9.1%
Insurance Tax	75.558	76.003	75.273	0.6%	-0.4%	(0.729)	-1.0%
Video Gaming Tax	59.956	61.904	60.324	3.2%	0.6%	(1.580)	-2.6%
Other Business Taxes							
Drivers License Fee	4.308	4.341	4.581	0.8%	6.3%	0.240	5.5%
Investment Licenses	7.327	7.660	7.683	4.5%	4.9%	0.024	0.3%
Lodging Facilities Sales Tax	21.780	23.399	24.091	7.4%	10.6%	0.692	3.0%
Public Contractor's Tax	3.078	2.540	4.267	-17.5%	38.6%	1.727	68.0%
Railroad Car Tax	3.790	3.642	3.649	-3.9%	-3.7%	0.007	0.2%
Rental Car Sales Tax	3.402	3.357	3.719	-1.3%	9.3%	0.362	10.8%
Retail Telecom Excise Tax	15.603	15.570	13.726	-0.2%	-12.0%	(1.844)	-11.8%
Other Natural Resource Taxes							
Coal Severance Tax	13.799	13.811	14.107	0.1%	2.2%	0.296	2.1%
Electrical Energy Tax	4.314	4.439	4.302	2.9%	-0.3%	(0.138)	-3.1%
Metal Mines Tax	4.839	4.274	6.291	-11.7%	30.0%	2.018	47.2%
U.S. Mineral Royalties	17.322	20.497	20.139	18.3%	16.3%	(0.358)	-1.7%
Wholesale Energy Trans Tax	3.464	3.505	3.628	1.2%	4.7%	0.123	3.5%
Other Interest Earnings							
Coal Trust Interest Earnings	19.799	19.829	17.938	0.1%	-9.4%	(1.891)	-9.5%
TCA Interest Earnings	5.692	7.577	10.888	33.1%	91.3%	3.310	43.7%
Other Consumption Taxes							
Beer Tax	2.998	3.072	3.002	2.5%	0.2%	(0.069)	-2.3%
Cigarette Tax	30.558	30.652	27.755	0.3%	-9.2%	(2.897)	-9.5%
Liquor Excise Tax	20.366	22.265	21.007	9.3%	3.1%	(1.259)	-5.7%
Liquor Profits	11.750	14.614	12.200	24.4%	3.8%	(2.414)	-16.5%
Lottery Profits	9.624	12.365	10.699	28.5%	11.2%	(1.665)	-13.5%
Tobacco Tax	6.247	6.815	6.058	9.1%	-3.0%	(0.757)	-11.1%
Wine Tax	2.429	2.584	2.446	6.4%	0.7%	(0.138)	-5.3%
Other Sources							
All Other Revenue	49.336	113.552	117.645	130.2%	138.5%	4.093	3.6%
Highway Patrol Fines	3.927	4.152	3.754	5.7%	-4.4%	(0.398)	-9.6%
Nursing Facilities Fee	4.635	4.305	4.405	-7.1%	-5.0%	0.100	2.3%
Public Institution Reimb.	14.264	15.718	13.754	10.2%	-3.6%	(1.964)	-12.5%
Tobacco Settlement	3.343	2.622	2.778	-21.6%	-16.9%	0.156	6.0%
Ongoing Revenue Subtotal	2,137.129	2,360.274	2,333.618	10.4%	9.2%	(26.655)	-1.1%
OTO Revenue & Transfers Subtotal	4.351	74.371	71.829	1609.4%	1551.0%	(2.542)	-3.4%
Grand Total	\$2,141.479	\$2,434.645	\$2,405.447	13.7%	12.3%	(\$29.198)	-1.2%

*HJ 2, adjusted for legislation impacts

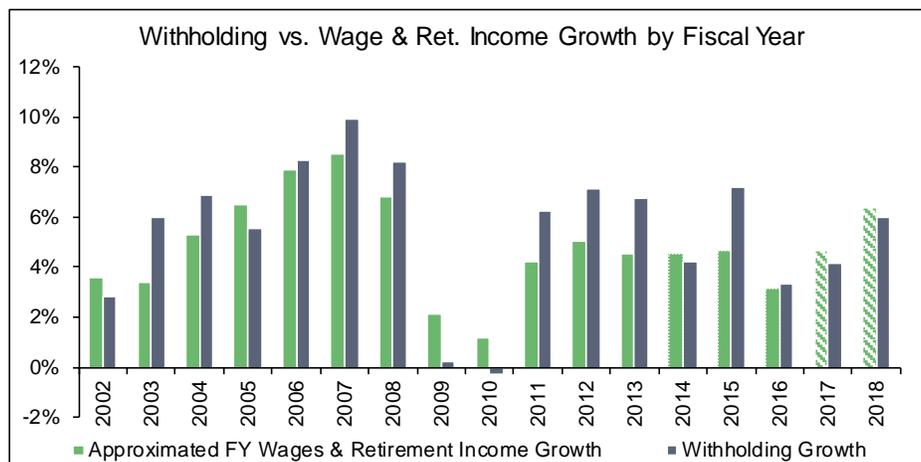
Individual Income Tax: (\$23.0 million)

Individual income tax collections were \$23.0 million or 1.7% below the estimate contained in HJ 2. The table below shows the year-over-year changes by accounting category; however, assessing the differences with respect to HJ 2 is difficult, as the estimate is not developed based on the accounting categories. Detailed CY 2017 return data available in November 2018 will allow for income source comparisons to HJ 2.

Individual Income Tax				
(\$ Millions)				
	FYE 2018	FYE 2017	\$ Difference	% Difference
Withholding	\$998.4	\$942.0	\$56.4	6.0%
Estimated Payments	319.7	271.3	48.5	17.9%
Current Year Payments	192.6	177.6	15.0	8.4%
Audit, P&I, Amended	44.2	40.8	3.5	8.5%
Refunds	(304.3)	(299.4)	(4.8)	1.6%
Partnership Income Tax	36.4	28.4	8.0	28.1%
Mineral Royalties	10.6	7.6	3.1	40.6%
Total	\$1,297.8	\$1,168.2	\$129.6	11.1%

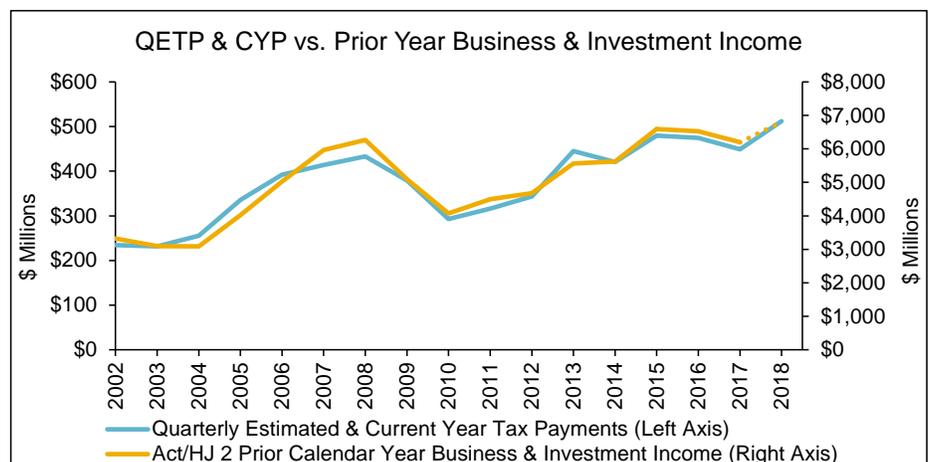
Wage Income

There is a correlation between withholding growth and wage and retirement income growth; however, the correlation is not particularly strong, as shown in the adjacent graph. Preliminary wage data from the quarterly census of employment and wages (QCEW) for CY 2017 is now available; it suggests that CY 2017 wage growth was 4.1%, which is slightly below the 4.3% estimate in HJ 2.



Non-Wage Income

Estimated and current year payments are a proxy for non-wage income. FY 2018 quarterly estimated and current year payments grew 17.9% from FY 2017, compared to the anticipated combined CY 2017 business and investment income growth of 9.9% contained in HJ 2. The adjacent figure shows estimated and current year tax payments with the prior calendar year's business and investment income.



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

Audit, penalty and interest, and amended collections are forecast explicitly in HJ 2, and were anticipated to total \$49.0 million in FY 2018; actual collections came in below estimate by \$4.8 million.

Property Tax: (\$0.7 million)

General fund property tax revenue was 0.3% or \$0.7 million below the HJ 2 estimate. Levy revenue came in very close to expected; however, there were offsetting effects in non-levy revenue. The Secure Rural Schools act was reauthorized by the federal government, which increased federal forest revenue by \$2.5 million. This increase was almost entirely offset by lower coal gross proceeds and greater-than-expected protested taxes.

Corporation Tax: (\$1.7 million)

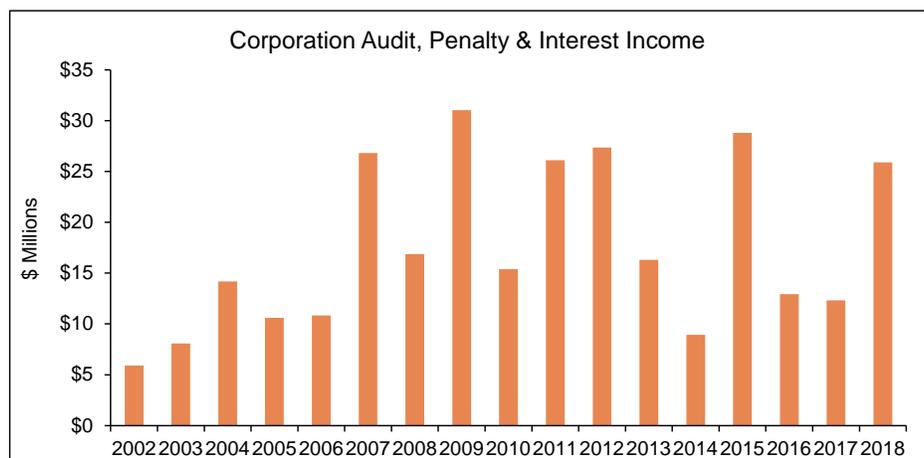
In FY 2018, corporation tax collections were \$1.7 million or 1.0% below the estimate contained in HJ 2. The table below shows the accounting level detail for FY 2018 compared to FY 2017. Compared to FY 2017, FY 2018 collections increased by \$33.1 million or 24.7%. The year-over-year increase was primarily driven by higher estimated payments and audit collections in FY 2018.

Corporation Income Tax (\$ Millions)				
Account	FY 2018	FY 2017	\$ Difference	% Difference
Corporation Tax	36.4	\$40.4	(\$4.0)	-10.0%
Estimated Payments	129.1	107.1	\$22.0	20.5%
Refunds	(24.2)	(25.9)	\$1.6	-6.3%
Audit, P&I, Amended	25.9	12.3	\$13.5	109.9%
Total	\$167.1	\$134.0	\$33.1	24.7%

The accounting level detail compared to HJ 2 is shown below. Total tax liability was slightly overestimated but offset by higher-than-expected audits.

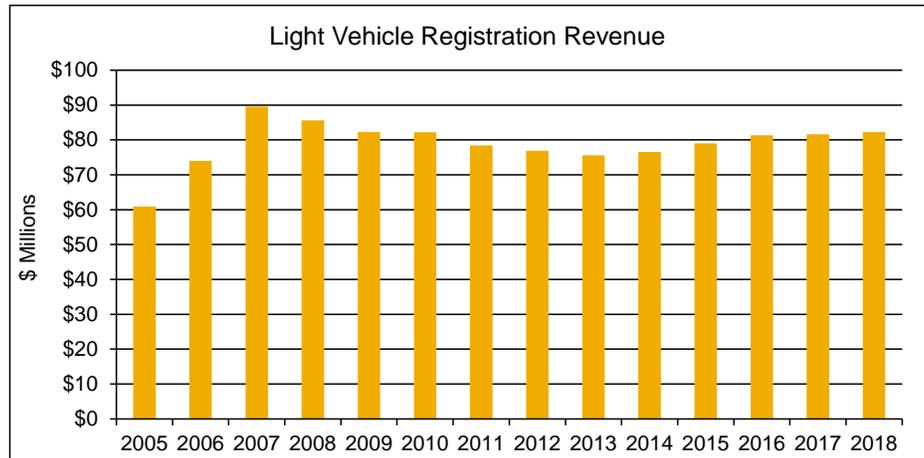
Corporation Income Tax--FY 2017 Actuals versus HJ 2 (\$ Millions)			
	HJ 2	Actual	Difference
Tax Liability & Adjustments	\$171.7	\$165.5	(\$6.2)
Refunds	(22.0)	(24.2)	(2.2)
Audit, Penalty & Interest	19.1	25.9	6.8
Total	\$168.8	\$167.1	(\$1.6)

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



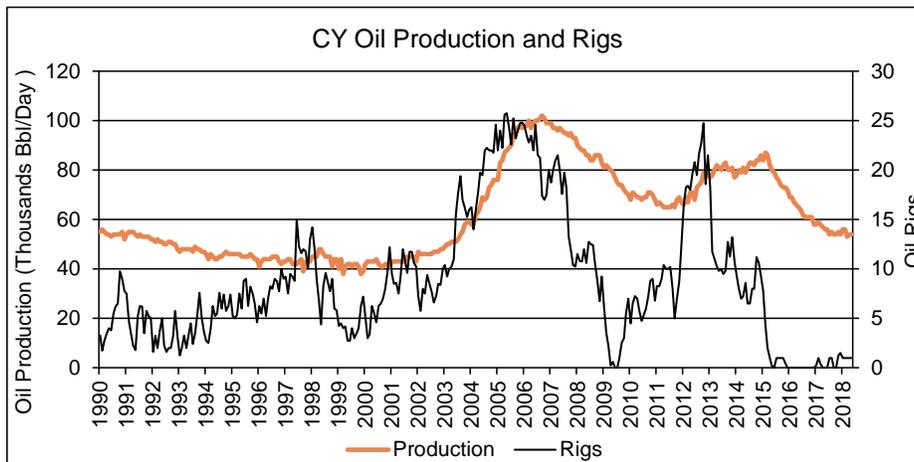
Vehicle Taxes & Fees: (\$3.4 million)

Revenue collections from vehicle taxes and fees were 3.0% or \$3.4 million less than anticipated in HJ 2. Total vehicle tax growth was 0.3%, and was driven primarily by a small increase in light vehicle registration revenue. The discrepancy compared to HJ 2 was due to an overestimate of new car sales in MT.

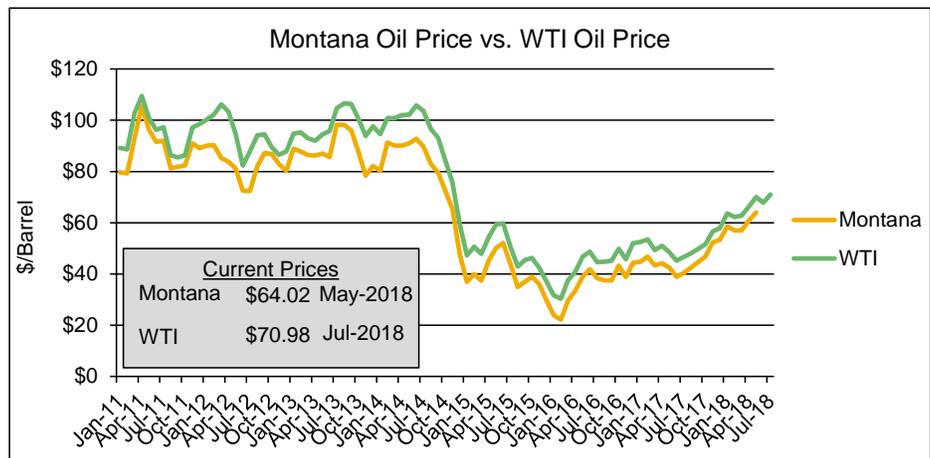


Oil & Natural Gas Taxes: \$4.6 million

Oil and natural gas collections were \$4.6 million or 9.1% above the HJ 2 estimate. Compared to FY 2017, collections increased by \$8.2 million. The increase in collections compared to HJ 2 was due to prices that were ultimately higher than those assumed in HJ 2. In HJ 2, WTI prices for FY 2018 were estimated at \$54/barrel; however, they ultimately averaged nearly \$59/barrel.



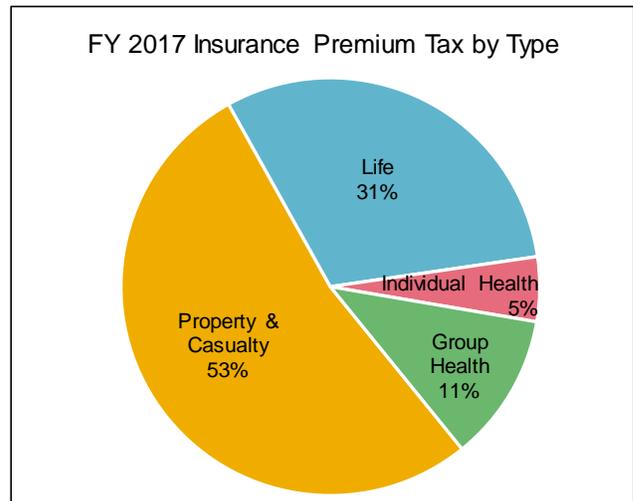
As the graph above shows, there has been at most two rigs in Montana since early 2015. After a few years of steady decline, oil production has flattened out over the past year. As the chart to the right shows, there has been a steady increase in price over the past year.



Insurance Tax: (\$0.7 million)

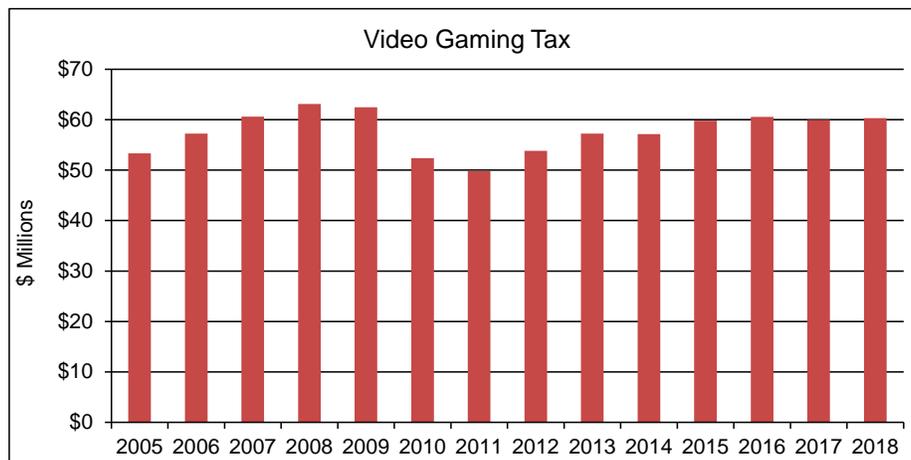
FY 2018 insurance tax came in \$0.7 million or 1.0% below the HJ 2 estimate. Impacts of the new federal tax code and the elimination of the individual mandate create some uncertainty in this source and will continue to be monitored, but should not affect the source significantly as individual health insurance policies account for approximately 5% of this source.

The adjacent chart shows the insurance premium tax by type of policy.



Video Gaming Tax: (\$1.6 million)

Video gaming revenue in FY 2018 was \$1.6 million or 2.6% less than what was anticipated in HJ 2. This source continues to experience slow, if any, growth. The continued slow growth will be incorporated into future modeling for this source.



Other Business Taxes

Driver's License Fee: \$0.2 million

Total driver's license revenue was \$0.2 million or 5.5% more than was anticipated in HJ 2. Year-over-year growth was 6.3%, driven primarily by growth in basic class D licenses. The HJ 2 estimate was based on forecast population data and historical ratios between licenses and actual populations. Actual ratios from the most recent fiscal years are applied to forecast years.

Investment License Fee: \$0.0 million

Investment license fee collections were \$0.0 million or 0.3% above 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 Markit, with modeled growth rates applied to the last known collections. The model seems to be working well, and has not been adjusted.

Lodging Facilities Sales Tax: \$0.7 million

Lodging facilities sales tax collections were \$0.7 million or 3.0% above the estimate contained in HJ 2. This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. The IHS Markit outlook for U.S. consumer spending on accommodations in FY 2018 has increased by 9.6% since the March 2017 forecast that was used as the basis for the HJ 2; the revised outlook is consistent with the higher revenue growth which suggests the model is performing well. Future forecasts for lodging taxes may need to adjust for the increasing popularity of online marketplaces, for which the tax compliance rates are unknown.

Public Contractors' Gross Receipts Tax: \$1.7 million

Public contractors' gross receipts tax collections were \$1.7 million or 68.0% 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 22% below FY 2018 projections, while all other construction came in 24% above projections. The discrepancy with the estimate appears to be primarily due to lower-than-anticipated individual income tax credits.

Railroad Car Tax: \$0.0 million

Railroad car tax revenue was \$0.0 million, or 0.2% above the HJ 2 estimate. The HJ 2 estimate was based on total United States railcar valuation, estimates on Montana apportionment, and the IHS Markit forecast for Montana retail sales.

Rental Car Sales Tax: \$0.4 million

Rental car sales tax collections were \$0.4 million or 10.8% 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 Markit outlook for Montana personal consumption expenditures for transportation in FY 2018 has increased by 8.9% 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: (\$1.8 million)

Retail telecommunications excise tax collections were \$1.8 million or 11.8% 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 Markit 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: \$0.3 million

Coal severance tax collections were above the HJ 2 estimate by \$0.3 million or 2.1%. Total coal production increased by 13.6% in FY 2018 compared to FY 2017. The boost in production was led by Cloud Peak's Spring Creek Mine and the Decker mine, who both export coal through British Columbia.

Electrical Energy Tax: (\$0.1 million)

Taxable energy production was below the forecast by \$0.1 million, or 3.1%. Tax collections are a flat rate imposed against production. This source is forecast by using a trend line on the five most recent years.

Metalliferous Mines Tax: \$2.0 million

Metal mines tax collections were \$2.0 million or 47.2% above the estimate contained in HJ 2. The increase is primarily attributable to higher metal prices in CY 2017 than anticipated. Metal prices for CY 2018 are also currently higher than the estimates contained in HJ 2.

U.S. Mineral Royalties: (\$0.4 million)

Revenue from U.S. mineral leases in the state was \$0.4 million or 1.7% below the HJ 2 estimate. However, this source grew by 16.3% compared to FY 2017 collections. It was estimated in HJ 2 that U.S. mineral royalties would increase primarily due increases in coal and oil prices. Data from FFY 2018 should be available later in the fall to see where the increases took place.

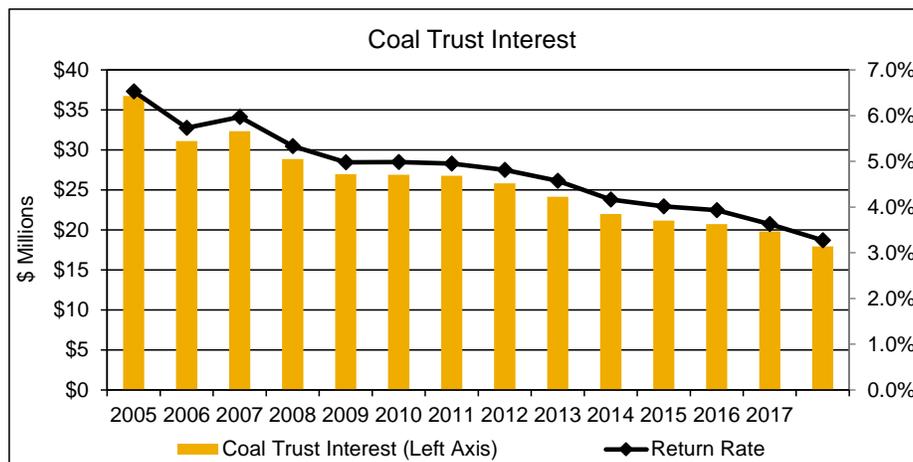
Wholesale Energy Transaction Tax: \$0.1 million

Wholesale energy transaction tax was \$0.1 million or 3.5% above 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

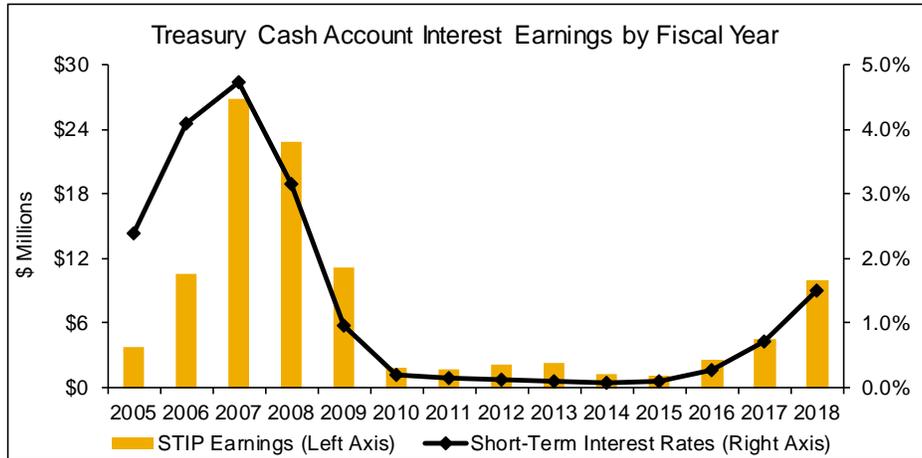
Coal Trust Interest Earnings (TCA): (\$1.9 million)

Coal trust interest earnings were below the revenue estimate in HJ 2 by 9.5% or \$1.9 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 this year decreased more than was assumed in HJ 2.



Treasury Cash Account Interest Earnings: \$3.3 million

Based on year-end data for FY 2018, the TCA interest earnings were 43.7% or \$3.3 million above the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates. Short-term interest rates were only slightly higher than what was forecast in HJ 2, so the increased collections were due to a higher-than-estimated daily cash balance.

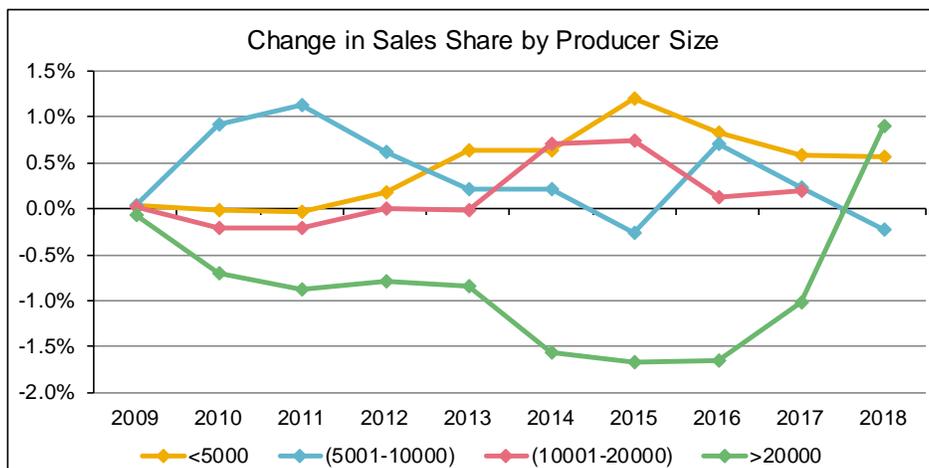


Other Consumption Taxes

Beer Tax: (\$0.1 million)

Beer tax revenue came in 2.3% or \$0.1 below the official projection in FY 2018. 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.

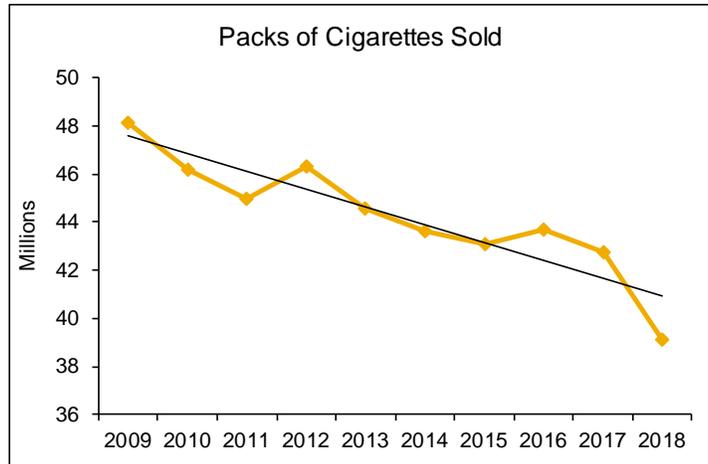
[HB 541 \(2017 Regular Session\)](#) lowered the threshold for the maximum tax rate, which had a stabilizing influence on the effective tax rate. HJ 2 was adjusted to reflect this change, which became effective 3 months into FY 2018. Further impacts of HB 541 will be monitored in the coming biennium. The following chart illustrates the shift in sales to the top tax rate in FY 2018.



Cigarette Tax: (\$2.9 million)

Cigarette tax collections came in below the HJ 2 revenue estimates by 9.5% or \$2.9 million. The forecast for this source was based on the IHS Markit series for consumer price index for tobacco and consumer spending on tobacco products. Consumption per capita trended downward more steeply than anticipated.

Recent data has shown significant declines in cigarette use in Montana among young adults and corresponding increases in alternative tobacco products such as e-cigarettes. High-profile legislative proposals and ballot initiatives to increase cigarette taxes may have also influenced consumer behavior. Research into these trends and revenue impacts is ongoing.



Liquor Excise & License Tax: (\$1.3 million)

Liquor excise tax actuals came in 5.7% or \$1.3 million below HJ 2. This revenue source was forecast in HJ 2 based on the Montana personal consumption expenditure series for food. The IHS Markit outlook in FY 2018 has declined by 3.9% 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: (\$2.4 million)

Liquor profits came in \$2.4 million or 16.5% below the estimate contained in HJ 2 for FY 2018. [SB 5 \(November 2017 Special Session\)](#) instituted an auction for beer and liquor licenses to replace the current lottery system. HJ 2 was adjusted to include the fiscal note impact for auction profits, estimated at \$2.5 million in FY 2018. However, the process was delayed for rulemaking and no auction occurred.

Lottery Profits: (\$1.7 million)

Lottery profits in FY 2018 were 13.5% or \$1.7 million below the HJ 2 revenue estimate. The HJ 2 forecast followed several years consistent revenues, ending with the record Powerball jackpot of over \$1.5 billion in FY 2016, which had been a strong driver of sales. FY 2017 ticket sales per capita declined nearly 15% possibly due to consumer jackpot fatigue. In FY 2018 ticket sales recovered somewhat; however, vendor costs rose following the recent expiration of a 10-year contract. The model has been updated to incorporate the new developments.

Tobacco Tax: (\$0.8 million)

Tobacco tax revenue came in 11.1% or \$0.8 million below the HJ 2 estimate. This source has recently seen a decline in per capita consumption. As with cigarettes, consumers may be substituting other nicotine products. Model refinements will be made for the coming biennium to reflect changing tastes and preferences.

Wine Tax: (\$0.1 million)

Wine tax revenue came in at 5.3% or \$0.1 million below the official projection in FY 2018. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 21. The growth of per capita consumption has been slowing in recent years.

Other Sources

All Other Revenue: \$4.1 million

In FY 2018, all other collections were \$4.1 million or 3.6% above the HJ 2 estimate. This source grew by \$68.3 million compared to FY 2017. This increase was due to legislatively authorized transfers contained in [SB 261 \(2017 Regular Session\)](#) and [HB 6 \(November 2017 Special Session\)](#). These transfers account for \$65.6 million of the year-over-year difference. The remaining growth was primarily seen in increased abandoned property collections.

Highway Patrol Fines: (\$0.4 million)

Total revenue generated from highway patrol fines in FY 2018 was 9.6% or \$0.4 million less than the HJ 2 estimate. This revenue source is modeled using a three-year moving average.

Nursing Facilities Fees: \$0.1 million

Nursing facilities fees came in 2.3% or \$0.1 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, which is consistent with national trends.

Public Institution Reimbursements: (\$2.0 million)

Public institution reimbursements were 12.5% or \$2.0 million lower 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 \(2017 Regular Session\)](#), 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 6.0% 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 2018 APPROPRIATIONS AND EXPENDITURES

This section of the report discusses the FY 2018 appropriations and related expenditures by budget section including:

- Modifications to HB 2 FY 2018 appropriations that have been made between June 1, 2018 and fiscal year end (FYE)
- Expenditure patterns through FYE 2018 relative to FY 2018 appropriations
- Supplemental transfers from FY 2019 to FY 2018
- Other appropriation authority granted to state agencies
- Statutory appropriations
- Non-budgeted proprietary funds
- Budget amendments

Appendix A summarizes HB 2 appropriations, budget modifications, and expenditures.

To provide a more complete picture of agency resources, Appendix B summarizes total appropriation authority provided to an agency including HB 2, HB 2 language appropriations, non-budgeted

proprietary funds, statutory appropriations, budget amendments, carry-forward authority, continuing appropriations, and other appropriation bills.

FY 2018 EXECUTIVE BUDGET CHANGES

Fiscal Year Transfers

Agencies transferred \$8.4 million from FY 2019 to FY 2018. Two agencies, the Office of the Public Defender (OPD) and the Department of Corrections, transferred the majority of appropriation authority.

The Office of the Public Defender transferred \$3.0 million in general fund appropriation authority from FY 2019 to FY 2018 including:

- \$1.0 million in the Public Defender Division in operating expenses
- \$2.0 million in operating expenses in the Conflict Defender Division

According to OPD, the need for the fiscal year supplemental transfer was due to:

- Growth in dependent and neglect cases that outpaced budget authority by \$0.8 million. OPD projects dependent and neglect caseload growth to continue
- Unexpected leave payouts for staff exceeding budgeted authority by \$0.6 million
- OPD expending \$1.0 million in two death penalty cases in FY 2018
- Expenses related to court orders requiring a further \$0.5 million for FY 2018

OPD has submitted a mitigation plan for reducing expenditures in FY 2019 including:

- Continued employment of 20.50 FTE used to reduce reliance on contracted attorneys. OPD estimates this would reduce expenditures by \$3.0 million
- Reduce travel pay and contract provider services by 27.0% and 10.0%, respectively. OPD estimates FY 2019 savings at \$1.2 million
- Potentially cease providing services for a period. An estimate of the time period and savings was not provided

OPD also discussed the potential of requiring a supplemental appropriation in FY 2019. While the mitigation plan addresses the amount of the fiscal year supplemental transfer continued growth in caseload, unexpected leave payouts, or continued expenditures for death penalty cases and court orders could cause expenditures to exceed the FY 2019 budget.

The Department of Corrections (Corrections) has a biennial appropriation of \$157.6 million in general fund for the Secure Custody Facilities allowing Corrections to spend the appropriation in either year. The Secure Custody Facilities Program in the Department of Corrections transferred \$4.9 million general fund from FY 2019 budget authority to FY 2018 to help fund shortfalls. The main reasons for the fiscal year supplemental transfer include:

- Larger prison population counts have contributed to an increase of nearly \$1.9 million in expenses including laundry, food, medical, operations contracts and utilities.
- Per HB 2, if Corrections lowered jail holds below 250, appropriation authority would increase. While county jail holds were below the 250 threshold by December 31, 2017, county jail holds for the first half of FY 2018 exceeded the budgeted level by \$1.1 million
- There were unanticipated infrastructure costs of \$0.8 million
- Personal services for the Montana State Prison (MSP), including the MSP treatment center, exceeded personal services budget by nearly \$0.5 million

The Department of Corrections has a biennial appropriation and therefore is not required to submit a mitigation plan to reduce expenditures in FY 2019. The 2017 Legislature enacted a number of bills targeted to reduce prisons population. However, the implementation of these bills has not yet realized

a reduction to the prisons population. If the population in prisons continue to rise the Department of Corrections may require a supplemental appropriation in FY 2019.

The Department of Public Health and Human Services (DPHHS) did not utilize any of the proposed \$20.6 million fiscal year supplemental transfer funding, and instead reverted a total of \$5.9 million in general fund authority. Of this amount, \$5.0 million in general funds was reverted from Health Resources Division (HRD), from the \$5.3 million in Medicaid caseload contingency funds in HB 2. This is discussed further in the Section B, Other Budgetary Changes narrative.

Other fiscal year transfers are discussed in detail in the agency narratives.

Other Budgetary Changes

In addition to the fiscal year transfers, the executive made a number of other budgetary changes. The following discusses the program transfers, operating plan changes, personal services contingency transfers, and transfers of biennial authority between fiscal years for each section in HB 2.

Section A, General Government

Legislative Branch

The Legislative Branch had one budget modification since June 1, 2018 that impacted two divisions. The Legislative Services Division moved general fund of approximately \$22,000 from operating expenses to equipment and intangible assets in order to capitalize equipment purchases. Committees and Activities moved general fund of \$4,385 from operating expenses to personal services in order to realign budget reductions.

Governor's Office

The Governor's Office had several budget modifications since June 1, 2018. These modifications include:

- The Governor's Office transferred personal services contingency funds totaling \$630,100 to state agencies, which was comprised of general fund, state special revenue, and federal special revenue
 - The Montana Historical Society received \$52,000 of general fund
 - The Department of Natural Resources and Conservation received \$23,100 of state special revenue and \$50,000 of federal special revenue
 - The Department of Public Health and Human Services received \$300,000 of general fund
 - The Office of State Public Defender received \$205,000 of general fund
- The Executive Office Program and Office of Indian Affairs transferred general fund personal services of \$44,400 and operating expenses of \$54,000 to the Executive Residence Operations, Lieutenant Governor's Office and Mental Disabilities Board of Visitor's Program. This transfer was made to realign the reductions in the budget
- The Air Transportation Program, Office of Budget and Program Planning, and Office of Indian Affairs transferred general fund personal services authority of \$35,000 to the Mental Disabilities Board of Visitor's Program. This transfer was made to cover a shortfall in personal services in the Mental Disabilities Board of Visitors program
- Executive Office Program and the Air Transportation Program transferred general fund personal services and operating expense authority of \$71,250 to equipment and intangible assets in the Air Transportation Program. This transfer was made to cover maintenance expenses in the Air Transportation Program

Department of Revenue (DOR)

The Department of Revenue had several program transfers between June 1, 2018 and the fiscal year-end, primarily general fund transfers of personal services and operating expenses authority from the Director's Office and Citizen Services and Resource Management Divisions into the Property Assessment Division. According to DOR staff, the changes implemented during November 2017 Special Session—especially the personal services reductions in the Property Assessment Division—were met through a hiring freeze and other cost-saving measures across the department.

Department of Administration

The Department of Administration had several budget modifications since June 1, 2018. Significant changes include:

- The Director's Office transferred general fund personal services authority of \$53,000 to the Montana Tax Appeal Board. This transfer was completed to manage budget reductions within the Montana Tax Appeal Board
- The State Financial Services Division transferred approximately \$5,700 of general fund from personal services and \$13,000 from operating expenses to capital outlay. This transfer was made for remodel expenses that will need to be capitalized as building improvements when completed
- The State Financial Services Division transferred general fund of \$200,000, \$125,000 in personal services and \$75,000 in operating expenses from FY 2019 to FY 2018 as a fiscal year supplemental transfer

Department of Commerce

The Department of Commerce had several budget modifications since June 1, 2018. Significant changes include:

- The Montana Office of Tourism and Business Development (OTBD) transferred state special revenue of \$355,000 from operating expenses to grants to allow for the accrual of outstanding primary business sector worker training grants
- OTBD also transferred general fund of \$78,000 from personal services to operating expenses because operating expenses were greater than anticipated

Department of Labor & Industry

The Department of Labor and Industry had several modifications between June 1, 2018 and fiscal year-end, the most major of which are outlined below.

- The Unemployment Insurance Division transferred \$290,000 in state special revenue from operating expenses to personal services
- The Commissioner's Office and the Employment Relations Division transferred a total of \$140,000 in state special revenue to the Unemployment Insurance Division for their needs in personal services and operating expenses. The Unemployment Insurance Division was unable to meet their 6% vacancy savings
- The Employment Relations Division moved \$247,000 of state special revenue from operating expenses to personal services in order to cover staffing costs
- The Workforce Services Division (WSD) transferred \$315,000 in state special revenue from grants to operating expenses allowing the WSD to track technology services expenses correctly
- The Workforce Services Division transferred 11.00 FTE funded in HB 2 to the Business Standards Division

Department of Military Affairs (DMA)

The Department of Military Affairs had several budget modifications between June 1, 2018 and fiscal year-end, the majority are outlined below.

- The Army National Guard Program transferred \$17,900 in general fund from operating expenses to transfers. According to DMA, this was to balance budgets for fiscal year end

- Disaster and Emergency Services transferred \$111,672 in general fund and \$80,500 in federal authority from grants to personal services. According to DMA, this was to balance budgets for the end of the fiscal year
- The ChalleNGe Program transferred \$20,000 of general fund from operating expenses to the personal services in the Director's Office at fiscal year-end. According to DMA, this was in order to manage the impacts of budget reductions

Section B, Department of Public Health and Human Services (DPHHS)

Children and Family Services Division (CFSD)

The CFSD HB 2 budget increased by \$8.7 million between June 1, 2018 and fiscal year-end including \$5.6 million in general fund, and \$3.1 million in federal special revenue. Child protection caseloads remain higher than anticipated, which drive costs in CFSD administration (caseworker labor), foster care, guardianship, and adoption. The child victimization rate in Montana is more than twice what it was five years ago. These increases in authority for CFSD were provided through transfers from other DPHHS divisions, mostly Health Resources Division (HRD) and Senior and Long-Term Care Division (SLTC).

Director's Office

Total budget modifications for the Director's Office between June 1, 2018 and fiscal year-end were a reduction of \$318,400 including \$168,800 in general fund, \$16,600 in state special revenue, and \$133,000 in federal special revenue. This change is accounted for by several transfers to other DPHHS divisions. Some of these transfers were processed for FYE realignment and another sent state special revenue authority to the Child Support Enforcement Division (CSED) and SLTC.

Business and Financial Services Division (BFSD)

BFSD transferred in \$307,990 between June 1, 2018 and fiscal year-end including \$169,390 in general fund, \$5,600 in state special revenue, and \$133,000 in federal special revenue for FYE realignment purposes.

Public Health and Safety Division (PHSD)

PHSD had several transfers of authority moved state special authority to other DPHHS divisions between June 1, 2018 and fiscal year-end. The most significant of these transfers reduced state special revenue authority for the state public health labs and moved a total of \$495,000 to CSED, SLTC, and Technology Services Division.

Technology Services Division (TSD)

TSD transferred in \$408,000 state special revenue authority at FYE.

Developmental Services Division (DSD)

DSD's budget increased by \$685,857 between June 1, 2018 and fiscal year-end, largely due to an \$883,927 (general fund) transfer in for the Medicaid DD waiver program. DSD also transferred out some general fund authority associated with Children's Mental Health Services and Medicaid Children's Autism Services.

Health Resources Division (HRD)

HRD's budget was reduced by \$7.7 million between June 1, 2018 and fiscal year-end due to transfers to other DPHHS divisions (mostly CFSD), including a reduction of \$4.5 million in general fund authority. This general fund reduction was mostly taken from Medicaid Hospital Services. HRD also had a \$2.9 million reduction in federal authority which was taken out of the Healthy Montana Kids (HMK) program.

Medicaid and Health Services Management (MHSM)

The MHSM budget increased by \$1.4 million general fund and \$870,641 overall in this period. This shift was part of an FYE reorganization associated with “caseload changes and staffing changes.”

Senior and Long Term Care Division (SLTC)

The SLTC budget declined by \$1.6 million between June 1, 2018 and fiscal year-end due to transfers to other divisions (largely CFSD). About \$1.1 million of this transfer was general fund authority associated with Medicaid Nursing Home expenditures.

Addictive and Mental Disorders Division (AMDD)

AMDD’s budget declined by \$803,826 total funds (\$1.4 million general fund) between June 1, 2018 and fiscal year-end due to transfers to other divisions. The largest areas of general fund reduction were Mental Health Bureau, AMDD Administration, and Medicaid Adult Mental Health.

Section C, Natural Resources and Transportation

Department of Fish, Wildlife, and Parks (FWP)

FWP moved \$22,517 in federal special revenue for operating expenses from the Administration Program to the Enforcement Division. In addition, FWP switched funding authority for aquatic invasive species response within Fisheries Division. The agency increased state special revenue authority by \$532,000 and decreased federal authority by a like amount. HB 2 language authorized an increase in state special revenue should the anticipated federal funds not be available.

Changes between expenditure categories included transfers in state and federal special revenue mainly from operating expenses to personal services, equipment & intangible assets, capital outlay, and grants.

Department of Environmental Quality (DEQ)

The Air, Energy, and Mining Division transferred \$1.6 million in state special revenue authority for operating expenses to the Central Management, and Waste and Remediation Divisions.

Department of Transportation (MDT)

HB 2 includes language that allows MDT to transfer between state and federal special revenue. Between June 1, 2018 and fiscal year-end MDT appropriation transfers included:

- \$10.6 million in operating expenses from federal special revenue to state special revenue in the Highway Construction Program.
- \$0.1 million in grants from federal special revenue to state special revenue in the Transportation Planning Division

Operating plan changes included:

- Moving \$5,000 from state special revenue operating expenses to equipment in the General Operations Program
- Moving \$20,000 from grants to transfers-out and transferring from state special revenue fund to federal special revenue in the Rail, Transit, and Planning Program

Department of Livestock (DOL)

The Department of Livestock decreased expenditure categories including:

- Transferring \$785,594 in general fund, state and federal special revenue out of personal services
- Transferring \$779,602 in general fund, state and federal special revenue into operating expenses
- Transferring \$5,992 in state special revenue into transfers out

Department of Natural Resources and Conservation (DNRC)

DNRC transferred \$138,190 in general fund and state special revenue from personal services and operating expense to equipment & intangible assets and grants. In addition, DNRC decreased federal special revenue by \$177,821 and increased state special revenue by a like amount as authorized in HB 2 language.

Department of Agriculture

The Agricultural Sciences Division (ASD) transferred \$9,880 of state special appropriation authority from operating expenses to equipment and intangible assets to capitalize an equipment purchase. ASD also transferred \$10,000 of state special revenue in operating expenses to grants. The Agricultural Development Division transferred \$97,530 of general fund in personal services to grants for the Growth Through Agriculture Program.

Section D, Judicial Branch, Law Enforcement, and Justice

Judicial Branch

Program Transfers

The Law Library transferred general fund of \$228 in personal services, \$20,000 in operating expenses, and \$8,415 in debt service to the District Court Operations which recorded the transfer as \$28,643 in additional operating expenses. Reductions of \$1.4 million in general fund operating expenses were taken from the District Court Operations during the 2017 Legislative Session. The program managed operating expenses within established amounts with the exception of the program transfer of \$28,643 provided here and the transfer discussed below.

The Water Court Operations transferred general fund of \$293,630 from personal services to the District Court Operations which recorded the transfers as \$293,630 in operating expenses. The Water Court Operations has 4.00 FTE water master positions currently vacant. The resulting personal service cost savings were than transferred to District Court Operations.

The Clerk of Court transferred \$4,574 of general fund in personal services to the District Court Operations which recorded the authority as increased operating expenses of \$4,574.

Fiscal Year Supplemental Transfers

The Judicial Branch transferred \$120,000 of general fund HB 2 authority from FY 2019 to FY 2018 to address issues related to budget reductions made in the November 2017 Special Session. The Supreme Court Operations transferred \$80,000 to operating expenses and the Law Library transferred \$30,000 to personal services and \$10,000 to operating expenses.

Operating Plan Changes

In addition to transferring appropriation between programs and expenditure categories using program transfers, the Judicial Branch also transferred authority between expenditure categories using operating plan changes including:

- The largest transfer was \$3.8 million in general fund transferred from benefits and claims into transfers to a Youth Court state special revenue account. By statute, at the end of the fiscal year any remaining funding provided for Youth Courts is transferred into a state special revenue fund. The funding is used to provide prevention and intervention services for justice involved juveniles or juveniles at risk of being involved with the Youth Court.
- Supreme Court Operations transferred \$236,885 in HB 2 general fund personal services appropriations, with \$211,937 going into operating expenses and \$24,948 into benefits and claims. The Judicial Branch did not have reductions of personal services for vacancy savings. In Supreme Court operations the positions were filled 94.6% of the year generating unused

authority available to transfer to operating expenses. Additional transfers in this program included \$1,000 in general fund from grants, transferred to personal services

Department of Justice

Changes to appropriation authority at the Department of Justice included transfers between expenditure categories in the following divisions:

- The Division of Criminal Investigation moved \$310,000 in state special revenue from personal services to operating expenses, for increased food services costs and operating expenses associated with the Montana Law Enforcement Academy and the criminal justice information network respectively. An additional \$12,200 in general fund was transferred from operating expenses to grants to allow for the Montana Child Sexual Assault Team awards for child safety programs
- The Montana Highway Patrol (MHP) moved \$186,880 in state special revenue from personal services to equipment and intangible assets to purchase interdiction team vehicles. The 2017 Legislature authorized the creation of the Montana Interdiction Drug Apprehension Squad with total funding for the costs allocated to personal services. As the appropriation included funding for operating expenses and equipment purchases, MPH moved appropriation authority within the program. An additional \$463,984 in state special revenue was moved from operating expenses to equipment to purchase upgraded equipment for the dispatch center
- The Information Technology Services Division moved \$49,014 in state special revenue from operating expenses to equipment and intangible assets for servers and fiber switches and \$30,059 in general fund from operating expenses to capital outlay for remodeling costs
- The Forensic Science Division moved \$50,000 in general fund from debt service to equipment and intangible assets due to accounting rules that require certain assets to be capitalized

Office of the Public Defender

Fiscal Year Supplemental Transfer

The Office of the Public Defender transferred \$3.0 million in general fund appropriation authority from FY 2019 to FY 2018 including:

- \$1.0 million in the Public Defender Division in operating expenses
- \$2.0 million in operating expenses in the Conflict Defender Division

According to OPD, the need for the fiscal year supplemental transfer was due to:

- Growth in dependent and neglect cases that outpaced budget authority by \$0.8 million. OPD projects dependent and neglect caseload growth to continue
- Unexpected leave payouts for staff exceeding budgeted authority by \$0.6 million
- OPD expending \$1.0 million in two death penalty cases in FY 2018
- Expenses related to court orders requiring a further \$0.5 million for FY 2018

Personal Services Appropriation Transfer

The Office of Budget and Program Planning transferred \$205,000 in general fund from the personal services contingency established in SB 95 to the Public Defender Division for termination payouts due to employees leaving state employment.

Program Transfers

Between the end of May and fiscal year end the Office of the Public Defender transferred HB 2 appropriation authority between divisions. The majority of the modifications were:

- \$146,665 in personal services and \$304,076 in operating expenses from the general fund was transferred out of the Central Services Division. \$91,750 in operating expenses were transferred to the Appellate Defender Division, \$206,747 was transferred to the Conflict Coordinator, and \$5,579 was transferred to the Public Defender Division

- \$205,000 in general fund personal services appropriation authority was transferred from the Public Defender Division to the Conflict Coordinator. The Conflict Coordinator recorded the additional authority as operating expenses

Operating Plan Changes

The Public Defender Division moved \$223,726 in general fund from personal services to operating expenses, the Appellate Defender Division transferred \$85,839 in general fund from personal services to operating expenses, and the Conflict Defender Division transferred \$501,563 in general fund from operating expenses to personal services.

Department of Corrections

Split Biennial Appropriation Transfers

The Department of Corrections has a biennial appropriation for the Secure Custody Facilities allowing Corrections to spend the appropriation in either year. The Secure Custody Facilities program transferred \$4.9 million general fund for operating expenses from FY 2019 to FY 2018 to help fund shortfalls. Main reasons driving the need for a fiscal year supplemental transfer are as follows:

- Larger prison population counts have contributed to an increase of nearly \$1.9 million in expenses including laundry, food, medical, operations contracts and utilities.
- Per HB 2, Corrections receives additional appropriation authority if county jail holds are below 250 individuals. While county jail holds were below 250 by December 31, 2017, county jail holds for the first half of FY 2018 exceeded the budgeted level by \$1.1 million
- There were unanticipated infrastructure costs of \$0.8 million
- Payroll costs for the Montana State Prison (MSP) including the MSP treatment center exceeded personal services budget by nearly \$0.5 million

Section E, Education

Office of Public Instruction (OPI)

The Office of Public Instruction primarily had budget modifications that were to adjust for negative appropriation balances. The State Level Activities Program moved approximately \$1.0 million of federal funds from personal services to operating expenses to cover contractor costs related to a federal grant program. In addition, state special funds in the amount of \$5,665 were moved from operating costs to personal services.

The Local Education Activities Program moved \$13,584 of general fund appropriated for the School Food Program from operating expenses to local assistance and transfers.

Office of the Commissioner of Higher Education (OCHE)

Program Transfers

The Guaranteed Student Loan Program transferred approximately \$920,000 of federal authority for benefit and claims to the Workforce Development Program. The Workforce Development Program recorded the additional authority as \$15,000 in personal services, \$347,000 in grants, and \$558,000 as transfers out.

Operating Plan Changes

OCHE moved approximately \$5.8 million in general fund, state and federal special revenue primarily from benefits and claims and personal services to operating expenses. The modification was to correct budgets between multiple programs.

School for the Deaf and Blind

The School for Deaf and Blind transferred \$13,147 in general fund for operating expenses to equipment & intangible assets, in order to buy new copiers and printers. This program transfer affected the Administration Program, Student Services, and Education.

Montana Historical Society (MHS)

MHS had several budget modifications since the last budget status report. The following program transfers occurred during this reporting period:

- The Publications Program moved \$8,500 of enterprise funds for operating expenses to Administration
- The Research Center and Museum Program transferred \$31,529 of state special revenue generated through the bed tax for equipment and intangible assets to operating expenses
- The Administration Program, Research Center, Museum Program, Publications Program, and Education transferred \$7,072 in enterprise funds between programs resulting in a decrease in operating expenses and an increase in equipment and intangible assets
- The Administration Program, Museum Program, and Publications Program moved \$692 of operating expenses between programs. Both general fund and proprietary fund appropriations were also transferred
- The Administration Program shifted proprietary fund of \$600 for personal services to the Publications Program

HB 2 GENERAL FUND EXPENDITURES BY AGENCY

The following sections discuss FY 2018 expenditures for general fund and total state resources when compared to the FY 2018 modified budget.

Figure 1 illustrates the budgeted and actual expenditures of general fund for HB 2 in FY 2018. The budgeted number reflects the modified budget 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.

Through the end of June, state agencies expended 98.9% of HB 2 general fund appropriations of the FY 2018 modified budget leaving \$21.8 million or 1.1% in general fund appropriations unspent. As discussed in the General Fund Balance Summary, \$7.6 million in general fund was reverted and the majority of the remaining authority is for biennial appropriations that can be expended in FY 2019.

Figure 1

Comparison of FY 21018 Modified Budget to Expenditures FY 2018 HB 2 General Fund Only				
State Agency	Modified HB 2 Budget	Year to Date Expenditures	HB 2 Budget Remaining	% Expended
Section A - General Government				
Legislative Branch	\$12,588,880	\$11,940,776	\$648,104	94.9%
Consumer Counsel	0	0	0	0.0%
Governor's Office	6,352,714	5,715,950	636,764	90.0%
Commissioner of Political Practices	670,126	624,146	45,980	93.1%
State Auditor's Office	0	0	0	0.0%
Department of Revenue	49,334,221	49,108,338	225,883	99.5%
Department of Administration	6,656,152	6,520,036	136,116	98.0%
Department of Commerce	3,264,192	3,196,571	67,621	97.9%
Department of Labor and Industry	1,566,994	1,566,869	125	100.0%
Department of Military Affairs	5,935,830	5,774,648	161,182	97.3%
Section A Total	86,369,109	84,447,335	1,921,774	97.8%
Section B - Public Health & Human Services				
Department of Public Health and Human Services	497,080,811	489,862,999	7,217,812	98.5%
Section B Total	497,080,811	489,862,999	7,217,812	98.5%
Section C - Natural Resources and Transportation				
Department of Fish, Wildlife, and Parks	0	0	0	0.0%
Department of Environmental Quality	4,566,124	4,541,226	24,898	99.5%
Department of Transportation	0	0	0	0.0%
Department of Livestock	2,242,608	2,228,888	13,720	99.4%
Department of Natural Resources and Conservation	24,981,293	24,709,808	271,485	98.9%
Department of Agriculture	679,829	675,724	4,105	99.4%
Section C Total	32,469,854	32,155,646	314,208	99.0%
Section D - Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	45,233,996	44,005,800	1,228,196	97.3%
Board of Crime Control	829,975	829,975	0	100.0%
Department of Justice	31,530,081	30,486,723	1,043,358	96.7%
Public Service Commission	0	0	0	0.0%
Office of the Public Defender	35,238,734	35,170,788	67,946	99.8%
Department of Corrections	201,890,529	199,185,899	2,704,630	98.7%
Section D Total	314,723,315	309,679,185	5,044,130	98.4%
Section E - Education				
Office of Public Instruction	779,283,557	773,704,821	5,578,736	99.3%
Board of Public Education	136,811	118,715	18,096	86.8%
Office of the Commissioner of Higher Education	222,857,734	221,766,500	1,091,234	99.5%
School for the Deaf and Blind	6,757,028	6,266,624	490,404	92.7%
Montana Arts Council	479,042	475,349	3,693	99.2%
Montana State Library	2,148,954	2,099,356	49,598	97.7%
Montana Historical Society	2,645,159	2,605,785	39,374	98.5%
Section E Total	1,014,308,285	1,007,037,149	7,271,135	99.3%
Total	\$1,944,951,374	\$1,923,182,314	\$21,769,059	98.9%

HB 2 ALL STATE RESOURCE EXPENDITURES BY AGENCY

Figure 2 illustrates the budgeted and actual expenditures for all state resources appropriated in HB 2 for FY 2018. This includes general fund, state and federal special revenue, and budgeted proprietary funds. Agencies expended 98.9% of general fund, 89.3% of state special revenue, and 89.0% of federal special revenue. Further detail of specific agencies may be found in the agency narratives.

Figure 2

Comparison of FY 2018 to Expenditures
 FY 2018
 HB 2 - State Resources

State Agency	Modified HB 2 Budget	Year to Date Expenditures	HB 2 Budget Remaining	% Expended
Section A - General Government				
Legislative Branch	\$14,789,095	13,936,417	\$852,678	94.2%
Consumer Counsel	1,621,359	1,227,189	394,170	75.7%
Governor's Office	6,904,614	5,849,739	1,054,875	84.7%
Commissioner of Political Practices	670,126	624,146	45,980	93.1%
State Auditor's Office	8,213,426	7,022,646	1,190,780	85.5%
Department of Revenue	53,822,265	53,316,426	505,839	99.1%
Department of Administration	19,380,046	17,575,444	1,804,602	90.7%
Department of Commerce	30,164,659	14,772,896	15,391,763	49.0%
Department of Labor and Industry	80,066,349	72,728,985	7,337,364	90.8%
Department of Military Affairs	47,997,670	35,945,863	12,051,807	74.9%
Section A Total	263,629,609	222,999,751	40,629,858	84.6%
Section B - Public Health & Human Services				
Department of Public Health and Human Services	2,043,441,127	1,909,170,603	134,270,525	93.4%
Section B Total	2,043,441,127	1,909,170,603	134,270,525	93.4%
Section C - Natural Resources and Transportation				
Department of Fish, Wildlife, and Parks	93,587,224	86,582,698	7,004,526	92.5%
Department of Environmental Quality	62,219,437	50,623,018	11,596,419	81.4%
Department of Transportation	673,116,239	603,040,780	70,075,459	89.6%
Department of Livestock	11,195,393	10,902,024	293,369	97.4%
Department of Natural Resources and Conservation	64,031,044	58,724,815	5,306,229	91.7%
Department of Agriculture	19,144,397	16,061,856	3,082,541	83.9%
Section C Total	923,293,734	825,935,190	97,358,544	89.5%
Section D - Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	47,904,759	46,457,951	1,446,808	97.0%
Board of Crime Control	2,435,117	2,404,859	30,258	98.8%
Department of Justice	98,148,317	91,232,045	6,916,272	93.0%
Public Service Commission	3,983,726	3,957,316	26,410	99.3%
Office of the Public Defender	35,238,734	35,170,788	67,946	99.8%
Department of Corrections	221,654,466	211,666,501	9,987,965	95.5%
Section D Total	409,365,119	390,889,460	18,475,659	95.5%
Section E - Education				
Office of Public Instruction	958,416,211	942,370,061	16,046,149	98.3%
Board of Public Education	353,097	304,110	48,987	86.1%
Office of the Commissioner of Higher Education	314,502,388	275,191,117	39,311,271	87.5%
School for the Deaf and Blind	7,224,651	6,715,875	508,776	93.0%
Montana Arts Council	1,411,450	1,407,757	3,693	99.7%
Montana State Library	5,085,537	4,391,249	694,288	86.3%
Montana Historical Society	4,908,547	4,763,505	145,042	97.0%
Section E Total	1,291,901,881	1,235,143,674	56,758,206	95.6%
Total	\$4,931,631,469	\$4,584,138,678	\$347,492,792	93.0%

As reflected in Figure 2, state agency expenditures of total state resources are lower than anticipated in the budget. At the end of the fiscal year one could anticipate that agencies would have expended 100.0% of their budgets. The following narratives discuss state agency expenditures that are significantly below this percentage or have budgetary challenges going forward into FY 2019.

Section A, General Government

Consumer Counsel

The Montana Consumer Counsel's HB 2 modified budget of \$1.6 million, comprised entirely of state special revenue, was 75.7% expended as of the end of FY 2018. The lower percentage expended is primarily due to caseloads being lower than the historical average and the caseload contingency appropriation being unexpended.

Governor's Office

The Governor's Office HB 2 modified budget of \$6.9 million was 84.7% expended as of the end of FY 2018. There was \$795,000 of personal services contingency funds included in the budget that has not been transferred to agencies as of the end of the fiscal year. Excluding the remaining personal services contingency funding, the office has expended 95.7% of its budget.

State Auditor's Office

The modified HB 2 budget of \$8.2 million for the State Auditor's Office was 85.5% expended at the end of FY 2018. Expenditures within personal services were low due to unfilled positions, and operating expenses were low due to the timing of contract examinations.

Department of Commerce

The Department of Commerce's HB 2 modified budget of \$30.2 million was 49.0% expended as of the end of FY 2018. The primary reason for the low percentage expended is due to grant activity. Grants totaling \$21.0 million are 37.3% expended. The low percentage expended is primarily due to the timing of accruing valid obligations, timing related to grant disbursements, and fluctuation in the amount of federal funds received.

Department of Military Affairs

The modified HB 2 budget of \$48.0 million for the Department of Military Affairs was 74.9% expended through the end of FY 2018. The lower overall percentage expended was mainly due to low expenditures in federal special revenue. Programs within the Department of Military Affairs track their federal funds in the federal fiscal year and plan to spend those funds between state fiscal year end and the federal fiscal year end of September 31st.

Section B, Department of Public Health and Human Services (DPHHS)

DPHHS expended a total of \$2,722.7 million, including HB 2 expenditures of \$1,909.2 million in FY 2018. General fund expenditures associated with HB 2 totaled \$489.9 million, or 98.5% of that appropriation.

The department did not utilize any of the proposed fiscal year transfer supplemental funding, and instead reverted a total of \$5.9 million in general fund authority. Of this amount, \$5.0 million in general funds was reverted from Health Resources Division (HRD), from the \$5.3 million in Medicaid caseload contingency funds in HB 2.

DPHHS transferred \$19.6 million across programs in June

- HRD had a net of \$7.7 million in total spending authority transferred out while Senior and Long-Term Care Division (SLTC) had a reduction of \$1.6 million in June
- Child and Family Services Division (CFSD) authority was increased by \$8.7 million in June

Previous reports have focused on four main areas of projected general fund concern, including Medicaid, Child & Family Services, Vocational Rehabilitation, and the Montana State Hospital. Final status of these areas is as follows:

- Medicaid reverted 94.3% of the Medicaid caseload contingency funding, and transferred out \$5.8 million of authority to non-Medicaid programs. More detail can be found in the Medicaid Monitoring Report
- CFSD authority was increased by \$13.9 million from other divisions, including \$8.4 million of general fund and \$5.0 million of federal funds, and spent 99.4% of the resulting authority
- The appropriation for Vocational Rehabilitation was increased by \$2.6 million of general fund authority, which is an increase of 48.1% over the HB 2 general fund appropriation of \$5.5 million
- Montana State Hospital operations transferred out a small amount of general fund authority, reducing the appropriation by \$396,234

Section C, Natural Resources and Transportation

Department of Environmental Quality

The Department of Environmental Quality (DEQ) expended 81.4% of their FY 2018 HB 2 total appropriation including:

- 99.5% of general fund
- 79.9% of state special revenue
- 80.0% of federal special revenue

The DEQ budget is primarily state special revenue at 56.4% of the budget and federal special revenue at 36.3%, only 7.3% of the budget is general fund.

DEQ has a \$5.3 million restricted biennial appropriation of state special revenue for hard rock reclamation. In FY 2018 DEQ included \$2.3 million of appropriation authority related to hard rock reclamation in its HB 2 budget and expended less than \$10,000. This is driving the low percentage of expenditures in FY 2018.

Department of Transportation

In FY 2018, the Montana Department of Transportation (MDT) expended \$603.0 million from the \$673.1 million of HB 2 authority (89.6%). In past years (FY 2009 - FY 2017), expenditures averaged 84.9% of the authority, demonstrating that MDT made greater use of their authority in FY 2018. The Construction Program with 67.6% of total appropriations used 88.4% of their HB 2 authority, compared to an average of 83.8%

A working capital analysis of the three major MDT state special revenue funds (the non-restricted and restricted highway state special revenue (HSSRA) accounts and the bridge and road safety accountability act (BaRSAA) restricted fuel tax account) are projected to finish FY 2018 with a combined balance of \$73.2 million (prior to revenue accrual adjustments). This is an improvement of \$26.1 million from the FY 2018 beginning balance. The non-restricted HSSRA is expected to finish FY 2018 with a balance of \$2.7 million, which may not be sufficient to fund the August 31 transfer of \$4.0 million to the general fund and may require MDT to make short-term “loans” from other state special accounts to enable the transfer.

Section D, Judicial Branch, Law Enforcement, and Justice

Office of the Public Defender

In spite of requiring transfers of \$3.0 million from FY 2019 to FY 2018, the Office of the Public Defender spent 4.9% less, or \$1.8 million, than it did in FY 2017. Comparing operating expenses with previous

years shows the majority of the reduction came from lower costs in other services. Hiring an additional 20.50 FTE as modified staff and reducing the hourly rate paid to contract attorneys generated the savings. The reductions were partially offset by higher personal services due to the additional 20.50 FTE.

Department of Corrections

While the Department of Corrections transferred \$4.9 million from FY 2019 to FY 2018, a comparison with FY 2017¹ HB 2 expenditures show that the Department of Corrections reduced spending by 4.0% or \$8.1 million over the FY 2017 level.

The HB 2 budget of \$221.7 million for the Department of Corrections was 95.5% expended in FY 2018. Personal services were slightly higher (0.2%) than anticipated in the budget. This was primarily due to large termination payouts and positions obtaining career ladder adjustments in the Probation and Parole Division and Secure Custody Facilities Program, totaling nearly \$670,000. Grants, benefits & claims, and transfers expenditures were below anticipated levels due, in part, to the funds obtained from the Board of Crime Control. The timing of federal grants has also impacted expenditures.

Section E, Education

Office of Public Instruction (OPI)

The Office of Public Instruction's modified HB 2 budget of \$958.4 million, comprised of general fund, state special revenue, and federal funds, was 98.3% expended as of the end of FY 2018. Funds from common school interest and income into the guarantee account came in \$2.7 million higher than expected, primarily due to bonus payments.

Commissioner of Higher Education (OCHE)

- The Office of the Commissioner of Higher Education (OCHE) has expended 87.5% of their \$314.5 million FY 2018 HB 2 modified budget
- The majority of expenditures are in line with previous years with a few exceptions primarily due to timing of grant activities
- Guaranteed Student Loan (GSL) is continuing to phase out of loan servicing thus this program budget is only 36.1% expended
- Tribal college enrollment of non-beneficiary students as reported by OCHE increased by 55.33 FTE for FY 2018. This increase adjusted the reimbursement rate and fully expended the appropriation as allowed by statute

School for the Deaf and Blind

The School for Deaf and Blind's modified HB 2 budget of \$7.2 million, comprised of general fund, state special funds and federal funds, was 93.0% expended as of the end of FY 2018. The personal services budget of \$6.3 million was 92.7% expended. The school has had difficulty recruiting for open teaching positions and retaining employees. Several pay adjustments were granted prior to the snapshot in order to bring pay up to parity with the Great Falls school district.

STATUTORILY REQUIRED REPORTS

BUDGET AMENDMENT ACTIVITY

As of August 31, 2018, the Legislative Fiscal Division received notification of 54 budget amendments impacting the 2019 biennium and certified by the Governor since May 31st.

¹ For this comparison \$14.8 million in appropriation authority from the Board of Crime Control was eliminated.

These amendments increase total funds by \$6.3 million in FY 2018 and \$31.8 million in FY 2019. An additional 1.80 FTE in FY 2018 and 10.13 FTE in modified positions in FY 2019 have also been added. One amendment transfers existing authority between expenditure categories or between organizational units. The following figure summarizes the budget amendments certified by the Governor from the period June 1, 2018 through August 31, 2018.

Budget Amendment Summary (since last LFC meeting)		
Component	FY 2018	FY 2019
Number of Amendments	32	19
FTE Added	2.05	7.00
State Special Revenue	\$0	\$0
Federal Revenue	6,266,197	31,780,327
Proprietary Fund	0	0
Total Revenue	\$6,266,197	\$31,780,327

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

The following figure summarizes the budget amendments that were certified for the 2019 biennium. The various approving authorities have added a total of \$153.9 million primarily in federal special revenue, \$128.1 million in FY 2018 and \$32.0 million in FY 2019.

Budget Amendment Cumulative Summary 2019 Biennium				
LFC Meeting	Number of			Biennial
2019 Biennium	Amendments	FY 2018	FY 2019	Total
September 30, 2017	38	\$20,973,751	\$266,447	\$21,240,198
November 30, 2017	44	58,950,778	0	58,950,778
February 28, 2018	57	23,777,650	0	23,777,650
May 31, 2018	23	18,109,342	0	18,109,342
August 31, 2018	54	6,266,197	31,780,327	31,780,327
Total	216	\$128,077,718	\$32,046,774	\$153,858,295

The following figure reflects the additional budget authority provided to each agency through the budget amendment process in the 2019 biennium compared to the FY 2018 modified budget reflected in Appendix A. A comparison to FY 2019 modified budget will be provided in December.

**Budget Amendment Authority Comparison
with HB 2 Total Funds
By State Agency**

State Agency	FY 2018 Budget HB 2	Budget Amendment	% of Modified Budget
Department of Agriculture	\$19,144,397	\$1,784,398	9.32%
Department of Commerce	30,164,659	526,818	1.75%
Department of Corrections	\$221,654,466	6,717,147	3.03%
Department of Environmental Quality	62,219,437	1,548,000	2.49%
Department of Fish, Wildlife, and Parks	93,587,224	18,523,809	19.79%
Department of Justice	98,148,317	1,204,229	1.23%
Department of Labor and Industry	80,066,349	2,336,575	2.92%
Department of Livestock	11,195,393	504,536	4.51%
Department of Military Affairs	47,997,670	843,364	1.76%
Department of Natural Resources and Conservation	64,031,044	14,507,403	22.66%
Department of Public Health and Human Services	2,043,441,127	13,279,803	0.65%
Department of Revenue	53,822,265	410,903	0.76%
Department of Transportation	673,116,239	35,321,671	5.25%
Judicial Branch	47,901,459	1,361,039	2.84%
Montana Arts Council	1,411,450	71,257	5.05%
Montana State Library	5,085,537	140,000	2.75%
Montana Historical Society	4,908,547	639,039	13.02%
Office of Public Instruction	958,416,211	25,357,727	2.65%
Secretary of State	0	3,000,000	100.00%
Total	\$4,516,311,791	\$128,077,718	2.84%

OPERATING PLAN CHANGES AND PROGRAM TRANSFERS

OBPP submitted a total of 19 operating plan changes and program transfers that met statutory criteria for LFC review and comment. Staff have reviewed the budget changes. Staff have raised no issues with the proposed changes. A summary of the changes from OBPP can be found in Appendix D.

OTHER AGENCY REPORTS

Other agency required reports have been received and are posted on the LFC website. The required reports can be found on the LFC webpage at:

<http://leg.mt.gov/css/Committees/Administration/Finance/2018-19/Report-Pages/Dec-2017.asp>