

# August 2020 Financial Update – COVID-19

STATE BUDGET IMPLICATIONS OF COVID-19 & FISCAL  
YEAR END ANALYSIS OF 2020

BY LEGISLATIVE FISCAL DIVISION STAFF

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# OVERVIEW OF STATE BUDGET IMPLICATIONS OF COVID-19

This report is fourth in a series used to update the legislature on the impacts of the coronavirus public health emergency on the state budget. The report provides an update on fiscal year-end 2020; an overview of state finances for FY 2021 and beyond; and federal COVID-19 allocations and the funds remaining for allocation including a summary of federal funded expenditures to date, and other items of interest to the legislature.

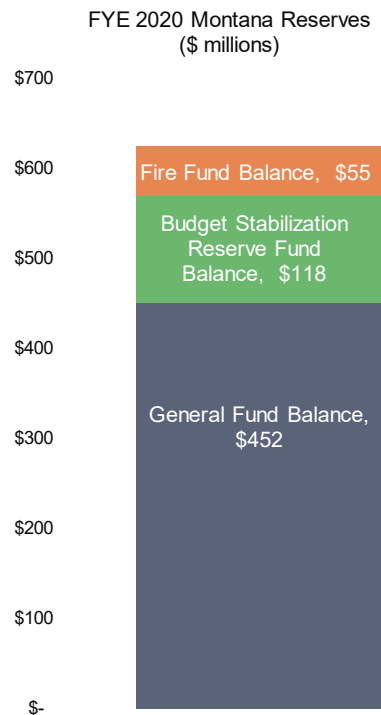
For real time data on coronavirus state expenditures, unemployment insurance benefit payments, and income tax withholding trends, please use the [LFD COVID-19 Dashboard](#). Data are updated daily, except weekly withholding data, which updates on Tuesday of each week.

## EXECUTIVE SUMMARY

COVID-19 implications to Montana’s economic and fiscal health are substantial and our understanding of these implications continues to change. Estimates currently are subject to an even greater range of estimate error than typical. See page 19 for economic updates.

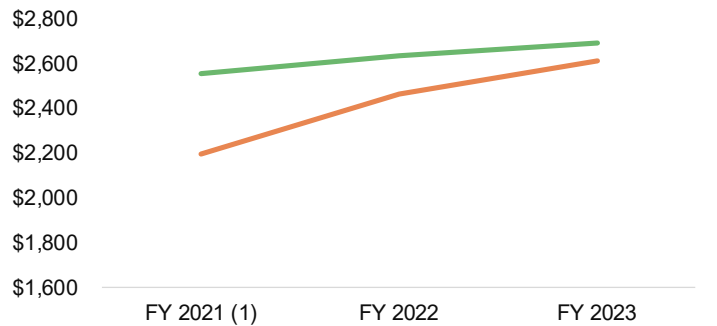
Yet, Montana’s finances going into this time of uncertainty are strong. While the revenues in FY 2021 are anticipated to be more than \$300 million lower than estimated in the 2019 session, the financial reserves are strong:

1. The general fund balance of \$451.7 million appears strong enough that transfers from the Budget Stabilization Reserve may not be necessary;
2. The budget stabilization reserve fund is slightly overfilled at \$117.8 million. If a transfer is necessary, it is not expected to exceed the Governor’s current ability to use approximately \$92 million of those funds to maintain the minimum general ending fund balance; and
3. The wildfire suppression fund is strong at \$54.7 million.



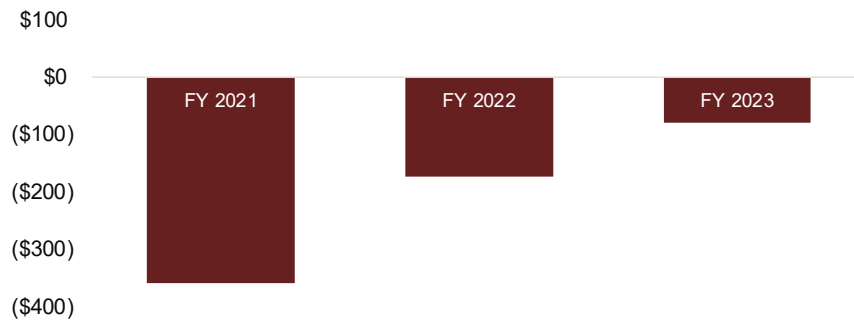
While the reserves appear sufficient through the 2021 biennium, the 2023 biennium could be a challenge for the legislature. Reserves will have been weakened from FY 2021 and the 2023 biennium revenues are expected to continue to be lower than the level necessary for current state operations and transfers to local governments. Assuming minimal growth in these expenditures, the 2023 structural

Estimated revenues are expected to remain below projected expenditures through the 2023 biennium. (\$ millions)



deficit (2023 biennium revenues less than 2023 biennium expenditures) is anticipated to be about \$253 million or 5% of biennial expenditures, page 20 provides more details.

Assuming LFD revenues and minimal expenditure growth, structural balance is estimated to remain negative through the 2023 biennium. (\$ millions)



In September, the Legislative Fiscal Division (LFD) will produce a “2023 Biennium Outlook” that will examine more closely the 2023 biennium anticipated present law expenditures and other pressures on the budget. This more detailed analysis will provide a better estimate of the funding challenges of the 2021 Legislative Session.

## STATE SPECIAL REVENUE FUNDS

In addition to general fund impacts, certain state special revenue (SSR) funds and state distributions to local governments have experienced negative impacts in FY 2020 from reduced revenue streams due to the coronavirus public health emergency. Those impacts are projected to continue. In FY 2021 state special funds are anticipated to receive \$61.1 million less than budgeted in the 2019 session. And the anticipated decrease of funds collected by the state and distributed to local governments and schools totals approximately \$17.3 million for FY 2021. More details about these areas of concern begin on page 30 of this report.

## **MONTANA'S SAFETY NETS**

### **Unemployment Insurance Benefits**

July was the first month of decline in unemployment insurance benefit payments since the coronavirus public health emergency began in March. Although July saw a 26% decline compared to the June peak, payments remain at historically high levels.

### **Department of Public Health and Human Services Programs**

The department has experienced modest increases in the Supplemental Nutrition Assistance Program (SNAP) and Medicaid (both traditional and expansion) enrollment since the onset of COVID-19 in March 2020, although Medicaid expenditures in FY 2020 were below budgeted amounts. SNAP benefit expenditures have increased from about \$12.0 million per month (January-March 2020) to \$18.0-19.0 million per month (April-July 2020) due to expanded federal SNAP benefits. Child welfare allegations/referrals decreased during the early period of the coronavirus public health emergency but have begun to trend back up in more recent months.

### **FEDERAL FUNDING**

The federal funding to date has covered most of the additional expenditures related to the coronavirus public health emergency.

One of the largest expenditures thus far has been for unemployment insurance benefit payments (UI), which is provided through an enterprise fund. Over \$625.5 million of additional federal funding for enhanced benefits has been paid out through this program.

The largest source of federal funding has been the Coronavirus Relief Funds, which provided Montana with the federal minimum of \$1.25 billion. As of August 7, \$198.3 million of this fund had been spent, with another \$306.9 million of authority established in the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) for specific grant programs, leaving \$744.8 million still unallocated in SABHRS at this time.

In addition, agencies have established new budget authority for other new sources of federal authority totaling \$239.2 million and have spent \$73.3 million of that authority, which includes some of the K-12 portions of the federal education funding assistance.

A more complete summary of federal funding can be found beginning on page 42 of this report.

## **FYE 2020 SUMMARY**

As stated in the executive summary, state fiscal year 2020 ended strong. The ending fund balance for the general fund for FY 2020 was \$451.7 million, \$160.4 million higher than anticipated in March and \$67.5 million higher than anticipated in June. The higher than expected FYE 2020 ending fund balance provides additional cushion for state financial reserves beginning in FY 2021.

General Fund Ending Fund Balance  
Estimated FY 2020 vs FYE 2020 Actuals

	Estimated March FY 2020	Revised Estimate June FY 2020	Actual FYE 2020
Beginning fund balance	361.3	361.3	361.3
Accounting adjustments		-	9.3
Revenues	2,512.6	2,515.4	2,533.3
Expenditures	(2,582.5)	(2,492.5)	(2,452.2)
Ending Fund Balance	291.4	384.2	451.7

## GENERAL FUND REVENUES

Actual FY 2020 general fund revenues were \$20.8 million or 0.8% above the HJ 2 estimate. The following table shows actual FY 2019 revenues in the first numerical column, followed by estimated and actual FY 2020 revenues. The next two columns show the estimated and actual growth in FY 2020 from FY 2019. The last two columns compare the actual FY 2020 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.

As more revenue-specific data becomes available in the coming months the LFD will gain more insight into differences between final collections and HJ 2. This is especially true for individual and corporate incomes taxes, as more calendar year (CY) tax return data becomes available.

**General Fund Revenue--FY 2020 Actuals Compared to HJ 2 Estimate**  
(\$ Millions)

Revenue Source	Actual FY 2019	HJ 2* FY 2020	Actual FY 2020	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,429.010	\$1,410.943	\$1,435.240	-1.3%	0.4%	\$24.297	1.7%
Property Tax	289.212	302.470	308.610	4.6%	6.7%	6.140	2.0%
Corporation Tax	186.536	165.893	187.358	-11.1%	0.4%	21.465	12.9%
Vehicle Taxes & Fees	109.508	112.953	108.482	3.1%	-0.9%	(4.471)	-4.0%
Oil & Natural Gas Taxes	54.178	56.639	38.380	4.5%	-29.2%	(18.259)	-32.2%
Insurance Tax	76.141	81.158	82.489	6.6%	8.3%	1.331	1.6%
Video Gaming Tax	63.228	60.248	57.447	-4.7%	-9.1%	(2.801)	-4.6%
<b>Other Business Taxes</b>							
Drivers License Fee	3.976	4.370	4.410	9.9%	10.9%	0.041	0.9%
Investment Licenses	8.182	16.040	15.711	96.0%	92.0%	(0.329)	-2.1%
Lodging Facilities Sales Tax	26.703	26.380	25.058	-1.2%	-6.2%	(1.322)	-5.0%
Public Contractor's Tax	3.597	3.579	6.729	-0.5%	87.0%	3.150	88.0%
Railroad Car Tax	3.594	3.878	4.294	7.9%	19.5%	0.416	10.7%
Rental Car Sales Tax	4.431	4.039	4.224	-8.8%	-4.7%	0.185	4.6%
Retail Telecom Excise Tax	13.224	11.927	11.788	-9.8%	-10.9%	(0.139)	-1.2%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	14.091	13.731	10.920	-2.6%	-22.5%	(2.811)	-20.5%
Electrical Energy Tax	4.185	4.416	3.910	5.5%	-6.6%	(0.505)	-11.4%
Metal Mines Tax	6.907	6.767	8.724	-2.0%	26.3%	1.957	28.9%
U.S. Mineral Royalties	21.570	20.891	18.527	-3.1%	-14.1%	(2.364)	-11.3%
Wholesale Energy Trans Tax	3.490	3.464	3.351	-0.8%	-4.0%	(0.113)	-3.3%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	18.172	17.315	21.600	-4.7%	18.9%	4.285	24.7%
TCA Interest Earnings	22.036	27.318	18.597	24.0%	-15.6%	(8.722)	-31.9%
<b>Other Consumption Taxes</b>							
Beer Tax	3.041	3.074	3.167	1.1%	4.2%	0.093	3.0%
Cigarette Tax	27.500	26.687	26.983	-3.0%	-1.9%	0.296	1.1%
Liquor Excise Tax	21.946	24.153	23.786	10.1%	8.4%	(0.367)	-1.5%
Liquor Profits	12.500	13.506	18.080	8.0%	44.6%	4.574	33.9%
Lottery Profits	12.215	14.603	8.073	19.6%	-33.9%	(6.530)	-44.7%
Tobacco Tax	5.869	6.279	5.754	7.0%	-2.0%	(0.524)	-8.4%
Wine Tax	2.478	2.554	2.522	3.1%	1.8%	(0.032)	-1.2%
<b>Other Sources</b>							
All Other Revenue*	97.807	45.359	46.062	-53.6%	-52.9%	0.704	1.6%
Highway Patrol Fines	3.862	3.848	3.458	-0.4%	-10.5%	(0.390)	-10.1%
Nursing Facilities Fee	4.416	4.087	4.188	-7.5%	-5.2%	0.102	2.5%
Public Institution Reimb.	15.991	11.396	12.745	-28.7%	-20.3%	1.349	11.8%
Tobacco Settlement	3.034	2.603	2.654	-14.2%	-12.5%	0.051	2.0%
Ongoing Revenue Subtotal	2,518.573	2,508.465	2,529.221	-0.4%	0.4%	20.756	0.8%
OTO Revenue & Transfers Subtotal	54.055	4.100	4.100	-92.4%	-92.4%	-	0.0%
<b>Grand Total</b>	<b>\$2,572.629</b>	<b>\$2,512.565</b>	<b>\$2,533.321</b>	<b>-2.3%</b>	<b>-1.5%</b>	<b>\$20.756</b>	<b>0.8%</b>

\*HJ 2, Adjusted for Legislative Impacts as well as a \$4.1 million CoreCivic payment that booked in All Other Revenue



**Individual Income Tax: \$24.3 million**

Individual income tax collections were \$24.3 million or 1.7% above the estimate contained in HJ 2. The adjacent table shows the year-over-year changes by accounting category;

FY 2020 individual income tax grew 0.4% from FY 2019 (\$ millions)

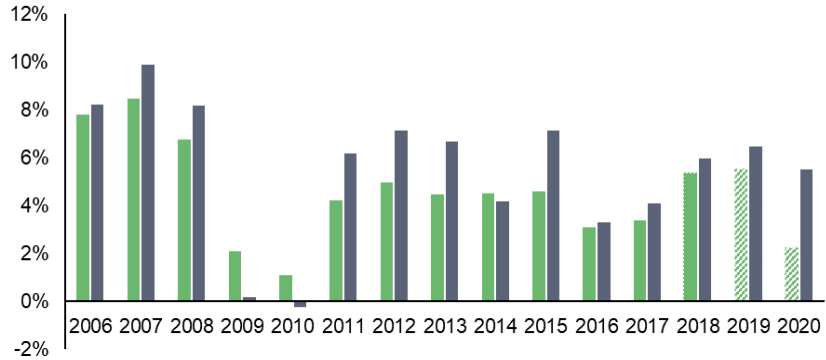
	FY 2020	FY 2019	\$ Difference	% Difference
Withholding	\$1,122.3	\$1,063.4	\$58.9	5.5%
Estimated Payments	282.8	300.7	(17.8)	-5.9%
Current Year Payments	247.3	240.1	7.2	3.0%
Audit, P&I, Amended	48.2	49.0	(0.8)	-1.6%
Refunds	(321.0)	(276.3)	(44.8)	16.2%
Partnership Income Tax	44.9	42.0	2.9	6.8%
Mineral Royalties	10.7	10.1	0.6	6.0%
<b>Total</b>	<b>\$1,435.2</b>	<b>\$1,429.0</b>	<b>\$6.2</b>	<b>0.4%</b>

however, assessing the differences with respect to HJ 2 is difficult, as the estimate is not developed based on the accounting categories. Detailed CY 2019 return data available in November 2020 will allow for income source comparisons to HJ 2.

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. In the graph, FY 2019 and FY 2020 display estimated wage and retirement income, as calendar year data for 2019 and 2020 are not yet available.

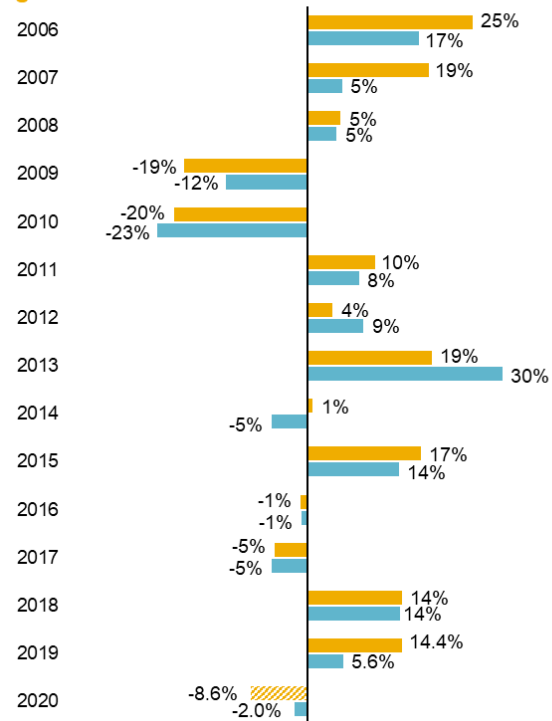
Withholding growth is typically above approximated FY wages and retirement income growth.



Non-Wage Income

Estimated and current year payments are a proxy for non-wage income. The adjacent figure shows the fiscal year growth rates of estimated and current year tax payments and the prior calendar year’s business and investment income. FY 2020 quarterly estimated and current year payments declined by 2.0% from FY 2019, compared to the estimated combined CY 2019 business and investment income decline of 8.6%. The timing of when this liability is paid may be altered by the current pandemic, and decreases may be seen in the second half of CY 2020. Note that this is estimated CY 2019 income, as full calendar year data is not available until November.

Combined fiscal year estimated and current year tax payment growth typically tracks the prior calendar year’s business and investment income growth.



Audit, Penalty & Interest, and Amended Income: (\$4.7 million)

Audit, penalty and interest, and amended collections are forecast explicitly in HJ 2, and were anticipated to total \$52.9 million in FY 2020; actual collections came in below estimate by \$4.7 million.

**Property Tax: \$6.1 million**

General fund property tax revenue was 2.0% or \$6.1 million above the HJ 2 estimate. While property tax was expected to grow by 4.6%, it grew by 6.7%, and was driven primarily by increased residential property values.

**Corporate Tax: \$21.5 million**

In FY 2020, corporate tax collections were \$21.5 million or 12.9% above the estimate contained in HJ 2. The table to the right shows the accounting level detail for FY 2020 compared to FY 2019. Compared to FY 2019, FY 2020 collections increased by \$0.9 million.

FY 2020 corporate income tax grew \$0.9 million from FY 2019 (\$ millions)

	FY 2020	FY 2019	\$ Difference	% Difference
Corporation Tax	50.9	\$52.6	(\$1.7)	-3.2%
Estimated Payments	145.6	137.3	\$8.3	6.1%
Refunds	(20.0)	(16.8)	(\$3.2)	19.3%
Audit, P&I, Amended	10.9	13.4	(\$2.5)	-18.6%
<b>Total</b>	<b>\$187.4</b>	<b>\$186.5</b>	<b>\$0.9</b>	<b>0.5%</b>

The accounting level detail compared to HJ 2 is shown in the adjacent table. Total tax liability was underestimated by \$27.3 million and was primarily responsible for the estimate error.

FY 2020 corporate income tax came in \$21.5 million above HJ 2 (\$ millions)

	HJ 2	Actual	\$ Difference
Tax Liability & Adjustments	\$169.2	\$196.5	\$27.3
Refunds	(24.6)	(20.0)	4.6
Audit, Penalty & Interest	21.3	10.9	(10.4)
<b>Total</b>	<b>\$165.9</b>	<b>\$187.4</b>	<b>\$21.5</b>

Differences between estimated refunds, audits, penalty and interest accounted for the remaining \$5.8 million in discrepancies with HJ 2.

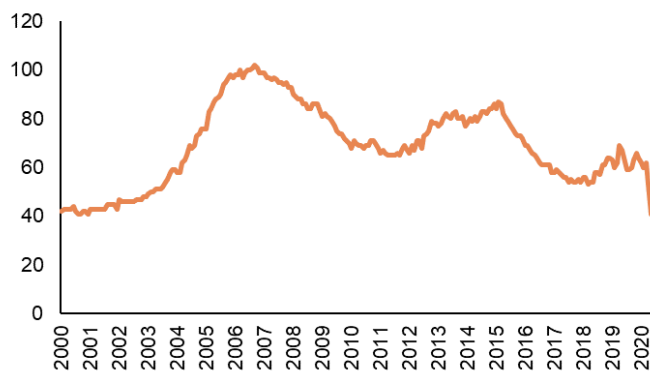
**Vehicle Taxes & Fees: (\$4.5 million)**

Revenue collections from vehicle taxes and fees were 4% or about \$4.5 million less than anticipated in HJ 2. Light vehicle registrations were \$3.5 million less than anticipated, which explains much of the estimate difference. New vehicle purchases were down in March and April during the economic shutdown caused by the coronavirus public health emergency, which is the main reason for lower revenues.

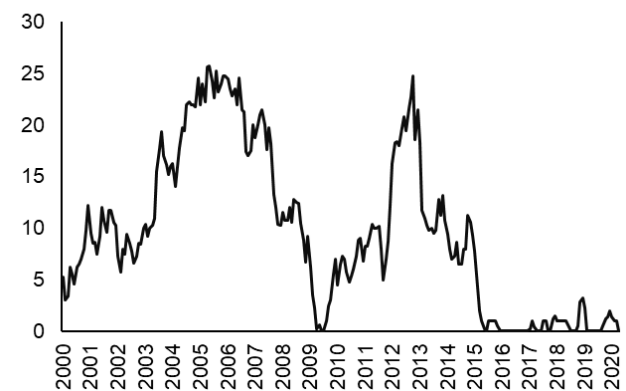
**Oil & Natural Gas Taxes: (\$18.3 million)**

Oil and natural gas collections were \$18.3 million or 32.2% below the HJ 2 estimate, primarily due to a decrease in prices in the second half of FY 2020. West Texas Intermediate (WTI) oil prices

The current average daily oil production is below the 2018 minimum. (1,000 bbls/day)



The number of oil rigs is currently zero, likely as a result of low oil prices through early 2020.



averaged \$56/barrel in the first half of FY 2020, but only \$36/barrel in the second half, with a low below \$20/barrel in April. In HJ 2, average WTI was anticipated at \$68/barrel for FY 2020; however, the actual average was much lower at \$38/barrel.

The decrease in prices caused decreased production as seen in the chart above. It's likely that prices got low enough that oil from certain wells was not profitable, causing those wells to cease production. This appeared to be happening in April and May, as production relative to March was down 14.5% in April and 34.0% in May.

As the graph on the previous page shows, in mid FY 2020 there were two rigs operating in the state, however there have been no rigs operating for the past several months. As a result, the latter half of FY 2020

Montana oil price is below West Texas Intermediate oil price by 12% on average, but the difference increased to 42% in May 2020.



saw decreased production. The decreased activity was driven by the sharp decline in oil prices in the first quarter of CY 2020, as seen in the figure to the right.

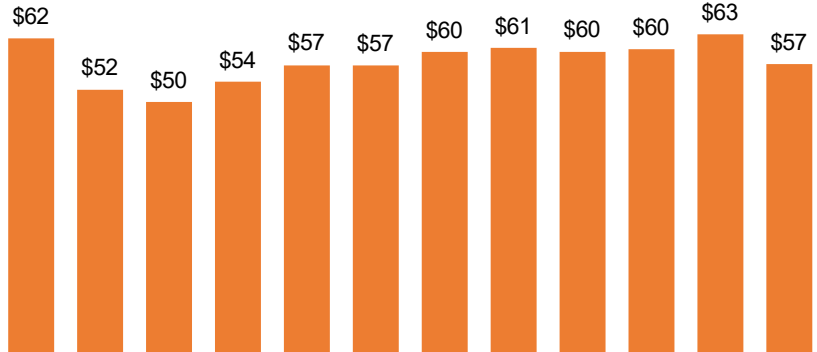
**Insurance Tax: \$1.3 million**

FY 2020 insurance tax came in \$1.3 million or 1.6% above the HJ 2 estimate. Growth in premium taxes was due to modest growth in collections of premium insurance tax and surplus lines premium tax. Impacts of recent federal tax code changes and the elimination of the individual mandate create some uncertainty in this source and will continue to be monitored, but should not affect revenue collections significantly.

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

Video gaming revenue in FY 2020 was \$2.8 million or 4.6% below what was anticipated in HJ 2. The drop in revenue was due to the statewide closure of gambling establishments earlier in the spring.

FY 2020 video gaming tax declined 9.1%, a result of the closures of nonessential businesses in the fourth quarter. (\$ millions)



**Other Business Taxes**

**Driver's License Fee: \$0.0 million**

Total driver's license revenue was \$41,000 or 0.9% higher than what was anticipated in HJ 2. The HJ 2 estimate was based on forecast population data and historical ratios between licenses and actual populations.

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

Investment license fee collections were \$0.3 million or 2.1% 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 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: (\$1.3 million)***

Lodging facilities sales tax collections were \$1.3 million or 5.0% below the estimate contained in HJ 2. This revenue source was forecast in HJ 2 based on national consumer spending on accommodations.

In the June COVID-19 report, revenue from the lodging sales tax was expected to take a fairly substantial hit as a result of the travel restrictions and shutdowns from the coronavirus public health emergency. The IHS Markit outlook for U.S. consumer spending on accommodations has decreased since the HJ 2 projections were made. This 5.0% decrease for FY 2020 is less than the estimated 8.6% decrease from the June analysis.

***Public Contractors' Gross Receipts Tax: \$3.2 million***

Public contractors' gross receipts tax collections were \$3.2 million or 88% 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 spending was almost \$50 million higher than what was expected in HJ 2, which is the primary source of the large revenue increase.

***Railroad Car Tax: \$0.4 million***

Railroad car tax revenue was \$0.4 million, or 10.7% 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: \$0.2 million***

Rental car sales tax collections were \$0.2 million or 4.6% 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. Collections decreased in the last quarter of the FY relative to the first three quarters due to travel restrictions associated with the pandemic.

***Retail Telecommunications Excise Tax: (\$0.1 million)***

Retail telecommunications excise tax collections were \$0.1 million or 1.2% 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.

## Other Natural Resource Taxes

### **Coal Severance Tax: (\$2.8 million)**

Coal severance tax collections were below the HJ 2 estimate by \$2.8 million or 20.5%. The decrease was primarily due to decreased production, which was a result of the closure of Colstrip Units 1 & 2. The remaining difference is due to payment that is anticipated to be delayed until FY 2021.

### **Electrical Energy Tax: (\$0.5 million)**

Taxable energy production was below the forecast by \$0.5 million, or 11.4%. Tax collections are a flat rate imposed against production. This source is forecast by using a trend line on the six most recent years.

### **Metalliferous Mines Tax: \$2 million**

Metal mines tax collections were \$2 million or 28.9% above the estimate contained in HJ 2. The increase is primarily due to an increase in palladium prices in FY 2020.

### **U.S. Mineral Royalties: (\$2.4 million)**

Revenue from U.S. mineral leases in the state was \$2.4 million or 11.3% below the HJ 2 estimate and 14.1% below FY 2019. The lower revenues from U.S. mineral royalties is likely due to decreased oil and coal production on federal lands within Montana. More information will be available once finalized federal fiscal year data becomes available, which is typically in October.

### **Wholesale Energy Transaction Tax: (\$0.1 million)**

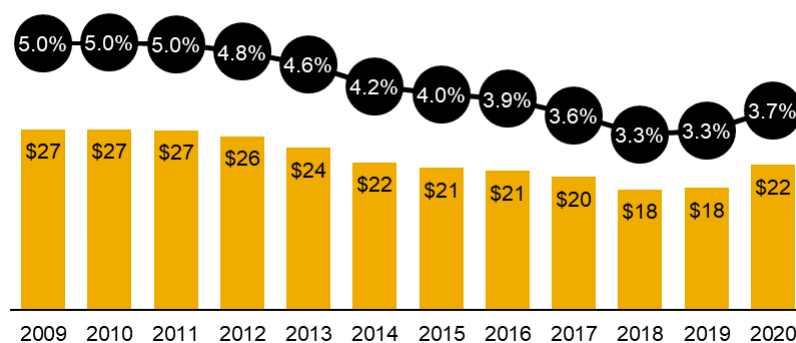
Wholesale energy transaction tax was \$0.1 million or 3.3% below the estimate contained in HJ 2. Like the electrical energy tax, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

## Other Interest Earnings

### **Coal Trust Interest Earnings: \$4.3 million**

Coal trust interest earnings were above the revenue estimate in HJ 2 by 24.7% or \$4.3 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates were two basis points higher than what was anticipated in HJ 2.

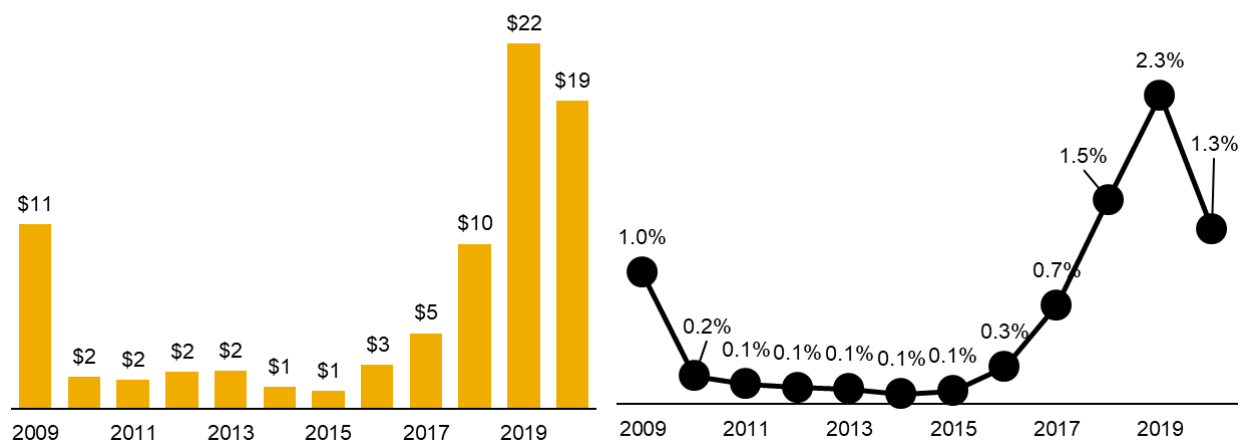
**Coal trust interest earnings** coincide with the **rate of return** on investments. (\$ millions)



### **Treasury Cash Account Interest Earnings: (\$8.7 million)**

Treasury Cash Account (TCA) interest earnings were 31.9% or \$8.7 million below the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates, which were increasing when the HJ 2 estimate was created. Short term interest rates have recently decreased to near zero, however, which is the cause of the decrease in interest earnings revenue.

**Short-term interest pool earnings** are closely tied to **short-term interest rates**. (\$ millions)



## **Other Consumption Taxes**

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

Beer tax revenue came in 3.0% or \$0.1 million above HJ 2. This source did not decline during the stay at home order as consumers shifted from on premises to at-home consumption. The estimate was based on proxy barrels, population aged 21 or greater, and consumption per capita. While consumption per capita has remained 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 had a stabilizing influence on the effective tax rate, which has hovered at \$3.99 per barrel since FY 2017.

### **Cigarette Tax: \$0.3 million**

Cigarette tax collections came in \$0.3 million or 1.1% above the HJ 2 revenue estimate. The forecast for this source was based on the IHS Markit series for consumer price index for tobacco and consumer spending on tobacco products.

### **Liquor Excise & License Tax: (\$0.4 million)**

Liquor excise tax actuals came in 1.5% or \$0.4 million below HJ 2. This revenue source was forecast in HJ 2 based on the Montana personal consumption expenditure series for food. The tax rates are structured by production level with excise taxes ranging from 3% for distillers producing less than 20,000 proof gallons up to 16.0% for distillers producing over 200,000 proof gallons. License tax is also based on production. The HJ 2 estimate assumed an effective rate equal to the rate of large producers. However, an increase in the share of liquor manufactured by smaller producers has led

to a lower effective tax rate. Lower effective tax rates have only recently become apparent and will be factored into future modeling.

***Liquor Profits: \$4.6 million***

Liquor profits came in \$4.6 million or 33.9% above the estimate contained in HJ 2 for FY 2020. The main reason for the strong revenue for this source was collections from the liquor license auction [SB 5 \(2017 Special Session\)](#). Revenue from the auction was expected to occur as early as FY 2018. However, the implementation of the new system was delayed. A cleanup bill was passed in the 2019 session ([HB 35 2019 Session](#)) to add clarification. The HJ 2 estimate was adjusted to include revenue from the auctioned licenses; however, that estimate was very conservative following the initial uncertainty caused by the delay. In FY 2020 several licenses were awarded through the competitive bidding process, most of which were more than double the minimum bid.

***Lottery Profits: (\$6.5 million)***

Lottery profits in FY 2020 were 44.7% or \$6.5 million below the HJ 2 revenue estimate. The HJ 2 estimate was based on per capita ticket sales using the IHS Markit forecast of Montana population over age 18 series. Lottery sales declined sharply with the closure of several outlets during the COVID-19 stay at home order. During May and June, instant ticket sales recovered. However, Lotto ticket sales which usually make up two-thirds of ticket sales were down substantially.

***Tobacco Tax: (\$0.5 million)***

Tobacco tax revenue came in 8.4% or \$0.5 million below the HJ 2 estimate. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 18 and personal consumption expenditure series. The current IHS Markit outlook for both indicators increased since the October 2018 forecast that was used as the basis for the HJ 2, which suggests a continued decline in per capita consumption. As with cigarettes, consumers may be substituting other nicotine products.

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

Wine tax revenue came in 1.2% or \$32,000 below the official projection for FY 2020. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 21. The IHS Markit outlook for Montana population over 21 in FY 2019 has increased by 0.4% since the October 2018 forecast that was used as the basis for the HJ 2, which may explain most of the discrepancy.

**Other Sources**

***All Other Revenue: \$0.7 million***

In FY 2020, all other collections were \$0.7 million or 1.6% above the HJ 2 estimate. The largest seven accounts that make up all other revenue are forecasted individually. The remaining smaller accounts, which total nearly 200, are combined and estimated using a four-year moving average. The estimates of the seven large accounts were quite accurate, although several came in slightly above what was forecasted in HJ 2.



**Highway Patrol Fines: (\$0.4 million)**

Total revenue generated from highway patrol fines in FY 2020 was 10.1% 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 2.5% 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: \$1.3 million**

Public institution reimbursements were 11.8% or \$1.3 million higher than the HJ 2 revenue estimate. This source has a history of fluctuating collections primarily due to timing of federal payments. This source was 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: \$0.0 million**

Tobacco settlement revenue was above the HJ 2 estimate by 2.0% or \$51,000. 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.

## GENERAL FUND EXPENDITURES

### Less than budgeted – for FY 2020

In June LFD anticipated an additional savings of \$90.0 million. Actual general fund expenditures were an additional \$40.3 million lower than thought in June. The table shows the differences between estimated and actuals.

	General Fund Expenditures 2020 Estimated vs. FYE 2020 Actual		
	FY 2020 Estimated	FY 2020 Actuals	Differences
HB 2	\$2,113.9	\$2,014.5	(\$99.3)
Statutory Approps	\$290.6	\$282.8	(\$7.8)
NB Transfers	\$126.5	\$122.6	(\$3.9)
HB 1	\$4.8	\$2.4	(\$2.4)
Other Appropriations, includes HB 715 ATs	\$40.7	\$29.6	(\$11.1)
Other	\$6.0	\$0.4	(\$5.6)
June anticipated 2020 savings	(\$90.0)		
<b>Total Estimates/Actuals</b>	<b>\$2,492.5</b>	<b>\$2,452.2</b>	<b>(\$40.3)</b>

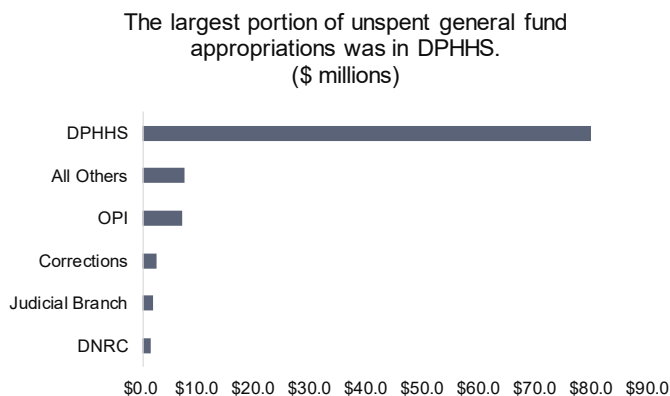
Please keep in mind that some agencies used federal funding for COVID-19 in place of state general fund. Also, some underspent authority in HB 2 is biennial, meaning authority may be used in either the first or second year of the biennium. Remaining biennial appropriations are expected to be spent in FY 2021.

#### **HB 2, below legislative appropriation by \$99.3 million**

The significant difference between estimated and actual general fund expenditures occurred in HB 2, with the following agencies contributing most of the savings.

#### Department of Public Health and Human Services (DPHHS), underspent by almost \$80 million

One of the primary reasons for lower general fund spending was the 6.2 percentage points increase in federal matching funds, which resulted in \$31.4 million of general fund savings. In addition, \$48.1 million of general fund authority went unspent, primarily in Medicaid, where lower enrollment and delayed elective procedures resulted in lower overall spending.



The only other large amount of unused general fund authority in DPHHS, aside from Medicaid, was in the Mental Health Bureau, where \$5.3 million was not utilized. It is possible this was partially due to that fact that an additional \$2.0 million federal funding was provided in COVID-19 emergency grants to address mental and substance use disorders. Additionally, Montana's tribal governments received a total of \$1.7 million in COVID related funding for Tribal Behavioral Health.

#### Office of Public Instruction (OPI), underspent authority by about \$7.0 million

Approximately \$7.0 million in unspent HB 2 general fund authority was in the OPI budget. This difference between appropriations and actual expenditures for FY 2020 was primarily due to lower guaranteed tax base (GTB) costs and was unrelated to the COVID-19 public health emergency. The biennial growth calculation for the GTB payment was slightly low for FY 2020, but is anticipated to offset by slightly higher costs FY 2021. Nearly all of the unspent general fund authority is biennial and will be available for the costs in FY 2021. OPI anticipates that these unspent funds will be expended in FY 2021 primarily due to the GTB payment increase

Department of Corrections, underspent appropriations by \$2.3 million

The department initially transferred \$2.3 million from clinical services to the probation & parole division to cover COVID-19 related expenses. The \$2.3 million was then transferred back to the clinical services division after receiving Coronavirus Relief Funds to help offset probation and parole staff regular and overtime salaries, subsistence payments, and operating expenses.

The \$2.3 million is intended to be spent in the clinical services program for the electronic health records systems and Hepatitis C treatment of offenders. The majority of appropriations within clinical services are biennial. Therefore, any unused funds in FY 2020 can be used in FY 2021.

Judicial Branch, underspent appropriations by \$1.7 million

Approximately \$1.1 million, the majority of the underspent appropriation, was left unused in the district court operations as less court and travel costs were incurred during the COVID-19 lockdown

Department of Natural Resources and Conservation (DNRC), underspent authority by \$1.4 million

The \$1.4 million in unspent general fund was the result of lower than anticipated expenditures for personal services. The agency anticipates filling vacancies in FY 2021.

***Statutory Appropriations, below estimate by \$7.8 million***

The Governor's emergency and disaster appropriation is a biennial appropriation that is carried on the balance sheet as if it is spent evenly over the biennium. Actual spending was below estimate by \$6.7 million and will be available in FY 2021.

***Non-Budgeted Transfers, underspent by \$3.9 million***

Old fund liabilities incurred by the State Fund were less than predicted by \$3.6 million, comprising most of the difference between estimated and actuals.

***HB 1 Feed Bill, underspent appropriation by \$2.4 million***

Anticipated spending on HB 1 activities was less than expected, however, appropriations are biennial and are anticipated to be expended in FY 2021.

### **Other Appropriation Bills, underspent appropriations by \$11.1 million**

The following areas were underspent in FY 2020, but are expected to be fully expended in FY 2021. Authority for temporary appropriation bills continues into FY 2021. LFD anticipates that agencies will spend remaining biennial authority.

- \$6.0 million under spending for HB 658, generally revise healthcare laws and permanently expand Medicaid
- \$2.0 million unspent HB 715 appropriation for HB 636 protested reserve taxes and \$0.3 million unspent for remaining appropriations for fiscal studies and to executive agencies
- \$1.9 million unspent for personal services contingency funding provided as part of HB 175
- \$243,975 less spending in HB 660, create mobile crisis unit grant program
- \$226,930 underspent for HB 211, address recruitment and retention of K-12 quality educators

## **STATE FINANCES: FY 2021 AND BEYOND**

### **ECONOMIC TRENDS & UNCERTAINTY**

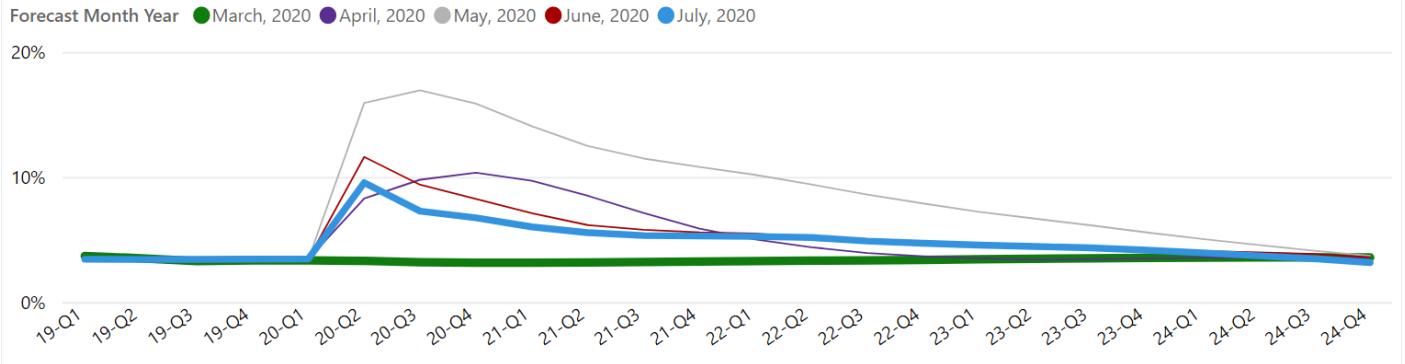
The LFD uses *IHS Markit* (IHS) as the supplier for both US and Montana specific economic and forecasting data. This includes a wide variety of trends and forecasts that are used to help inform the legislature about the condition of the Montana economy and produce state revenue projections. The ongoing economic reactions to the coronavirus have created increased uncertainty in the forecasts from IHS. This uncertainty is likely to persist for some time but become somewhat better as additional historical data begins to produce a more complete picture of the economic effect from coronavirus and subsequent social distancing measures.

The charts shown below are updated from the last LFC meeting with one additional month of data, July. Key points and changes from last month include:

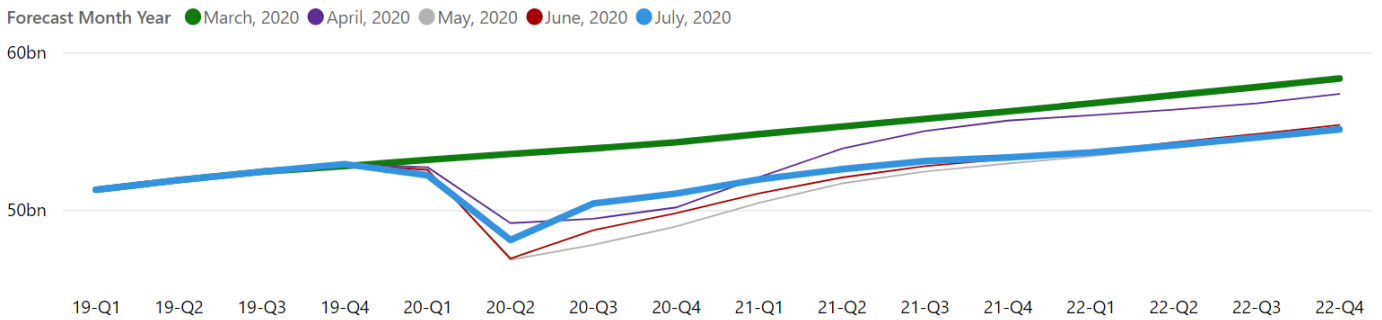
1. The second quarter (Q2) of 2020 remains the low point economically in the forecast. This is the quarter that ended June 30<sup>th</sup>, 2020.
2. Economic uncertainty remains, however, forecasts especially in out years are becoming more consistent.
3. Montana is projected to be doing better than last month with unemployment falling to a quarterly peak of 9.6% and gross state product (GSP) up slightly at its 2020 Q2 trough of \$48.1 billion compared to the March baseline of \$53.6 billion.
4. Personal income was adjusted up considerably in Q2 2020 to \$58.5 billion from a baseline of \$54.2 billion. This occurred nationally as well, although to a lesser extent, due to Federal stimulus programs. In out quarters personal income settles close to the June estimate of \$58.5 billion.

Data and forecasts from IHS are updated monthly. The March data represents a baseline forecast as that was the last update prior to large changes resulting from the coronavirus. Three economic metrics are shown below with the most recent forecast and March baseline bolded: Unemployment, GSP (an estimate of goods and services produced in the state), and income. All these data are based on the quarterly calendar year.

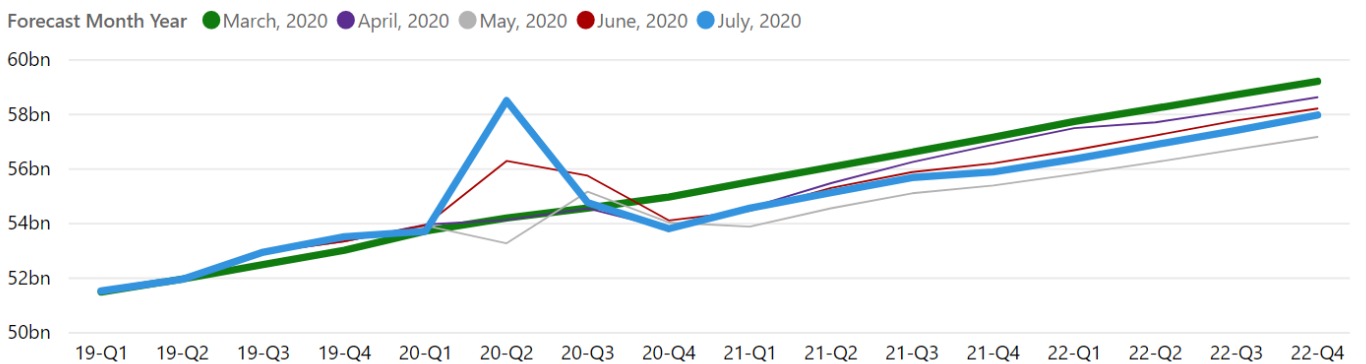
## Montana Unemployment Rate



## Montana Gross State Product



## Montana Personal Income



The limited details and uncertainty continue to make estimating even more challenging. Estimates that we provide in this report are limited by these factors and we will continue to update as new data and information from IHS as well as other sources becomes available.

### GENERAL FUND BALANCE SCENARIO WITH UPDATED LFD REVENUE FORECAST

Using new LFD forecasted revenues for FY 2021-FY 2023, the following table shows the general fund balance and how much is needed to return the ending fund balance to the statutorily required

amount. The table shows a need for \$8.3 million from reserves, however the amount is small to keep the ending fund balance above the minimum required balance in FY 2021.

<b>FY 2021 and Next Biennium</b>			
	FY 2021 (1)	FY 2022 (1)	FY 2023 (1)
<b>Revenue assumptions</b>			
Beginning fund balance	451.7	102.2	107.7
Revenue	2,198.2	2,466.0	2,611.5
Expenditures including unspent biennial appropriations in FY2021	(2,555.9)	(2,638.7)	(2,691.4)
Governor's MCA 17-4-140 transfers from reserves (2)	8.3		
No fire transfer (3)			
Revenue replacement from federal government			
Legislative Action to Return to Minimum Ending Fund Balance		178.1	79.9
<b>Ending Fund Balance</b>	<b>102.2</b>	<b>107.7</b>	<b>107.7</b>
Minimum Ending Fund Balance	102.2	107.7	107.7
Structural balance	(357.7)	(172.7)	(79.9)

(1) Assumes LFD revenue projection

(2) Assumes Governor's access to Budget Stabilization Reserve Fund through the provisions of MCA 17-7-140 in effect through the end of 2020

(3) Assumes no transfer is made to the fire suppression fund

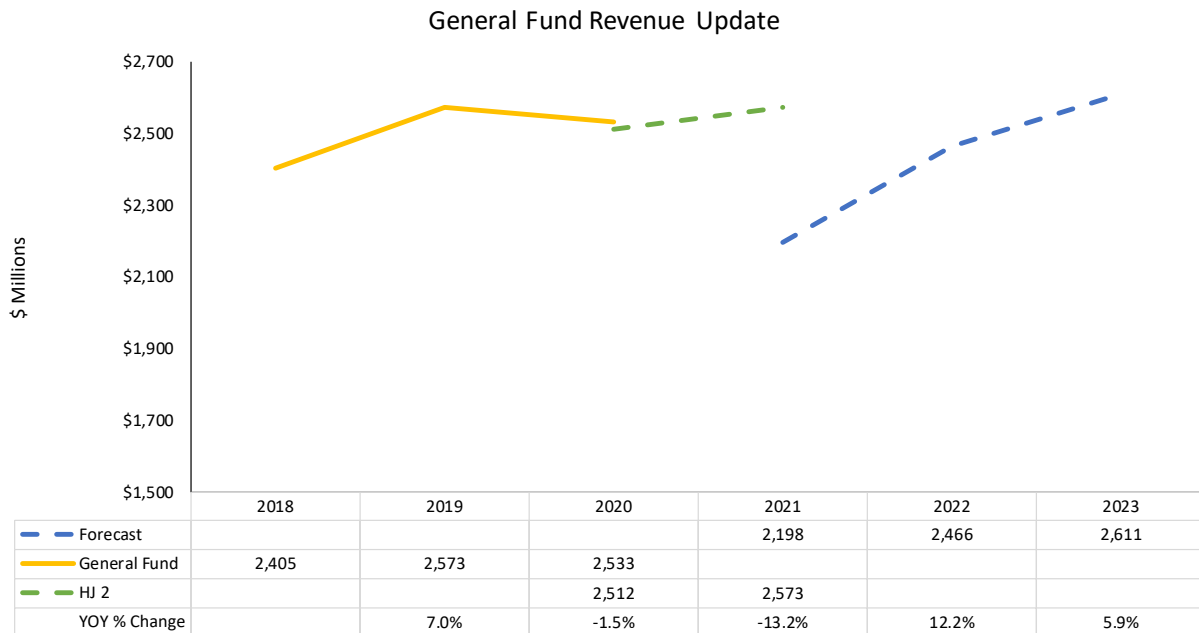
Expenditures are calculated to grow by 2% in FY 2022 and again in FY 2023

## LFD REVENUE FORECAST

### General Fund Revenue Forecast lower than budgeted

The following graph shows the updated general fund forecast through FY 2023, including year-over-year percent change. It also includes the adopted HJ 2 numbers for FY 2020 and FY 2021.

Please note that significant continued research from both IHS Markit as they continue to update the economic forecast, other additional data availability, and LFD analysis of various revenue sources will continue and change the revenue forecast in preparation for the 2021 legislative session.



With the closing of FY 2020, revenue forecast models are updated with the newly available FY data. This report contains an updated revenue forecast from the June [LFC report](#). This forecast also uses updated economic data from IHS Markit from the month of July. In comparison to the last update, this update contains FY 2020 actuals as well as a new forecast for FY 2021 through FY 2023.

This report contains a baseline revenue projection for the state's general fund, as well as individual write-ups for those sources expected to be impacted the most from the COVID-19 pandemic.

LFD General Fund Revenue Estimate - August  
(\$ Millions)

Source of Revenue	Actual FY 2020	HJ 2 FY 2020	Estimated FY 2021	HJ 2 FY 2021	Estimated FY 2022	Estimated FY 2023
<b>Largest Seven Sources</b>						
Individual Income Tax*	\$ 1,435.240	\$ 1,410.943	\$ 1,180.587	\$ 1,464.438	\$ 1,413.306	\$ 1,528.662
Property Tax	308.610	302.470	309.565	308.944	321.348	325.434
Corporation Income Tax	187.358	165.893	136.873	167.209	141.634	150.260
Vehicle Taxes & Fees	108.482	112.953	108.961	114.118	109.595	110.370
Oil & Natural Gas Production Tax	38.380	56.639	38.332	53.049	43.449	43.695
Insurance Tax & License Fees	82.489	81.158	80.612	83.915	77.100	79.240
Video Gambling Tax	57.447	60.248	60.320	60.172	63.336	66.503
<b>Other Business Taxes</b>						
Driver's License Fee	4.410	4.370	4.029	4.394	4.053	4.071
Investment License Fee	15.711	16.040	16.013	16.473	16.369	16.696
Lodging Taxes	25.058	26.380	18.079	27.287	28.482	34.903
Public Contractors Tax	6.729	3.579	4.967	3.655	5.077	5.179
Railroad Car Tax	4.294	3.878	4.077	4.196	4.110	4.040
Rental Car Sales Tax	4.224	4.039	4.083	4.258	4.881	5.315
Telecommunications Excise Tax	11.788	11.927	11.221	11.370	11.205	11.280
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	10.920	13.731	11.842	13.756	12.778	12.381
Electrical Energy Tax	3.910	4.416	4.480	4.497	4.223	4.203
Metalliferous Mines Tax	8.724	6.767	6.343	6.761	6.389	6.468
US Mineral Royalty	18.527	20.891	18.726	20.547	17.837	17.067
Wholesale Energy Tax	3.351	3.464	3.467	3.485	3.460	3.466
<b>Other Interest Earnings</b>						
Coal Trust Interest	21.600	17.315	18.720	17.461	18.969	19.215
Treasury Cash Account Interest	18.597	27.318	3.059	29.643	1.681	1.724
<b>Other Consumption Taxes</b>						
Beer Tax	3.167	3.074	3.021	3.075	3.013	3.002
Cigarette Tax	26.983	26.687	26.834	26.057	26.395	25.946
Liquor Excise & License Tax	23.786	24.153	25.255	25.346	26.808	28.443
Liquor Profits	18.080	13.506	16.500	14.206	17.500	18.500
Lottery Profits	8.073	14.603	11.779	14.462	14.045	14.162
Tobacco Tax	5.754	6.279	5.781	6.268	5.780	5.785
Wine Tax	2.522	2.554	2.631	2.644	2.723	2.814
<b>Other Sources</b>						
All Other Revenue	46.062	45.359	41.658	39.588	40.478	41.884
Highway Patrol Fines	3.458	3.848	3.691	3.827	3.670	3.607
Nursing Facilities Fee	4.188	4.087	3.992	3.990	3.896	3.799
Public Institution Reimbursements	12.745	11.396	10.111	11.197	9.894	10.878
Tobacco Settlement	2.654	2.603	2.571	2.581	2.516	2.485
Ongoing Revenue Subtotal	2,529.221	2,508.465	2,198.179	2,572.869	2,465.998	2,611.479
OTO Revenue & Transfers Subtotal	4.100	4.100				
<b>Total General Fund</b>	<b>\$ 2,533.321</b>	<b>\$ 2,512.565</b>	<b>\$ 2,198.179</b>	<b>\$ 2,572.869</b>	<b>\$ 2,465.998</b>	<b>\$ 2,611.479</b>

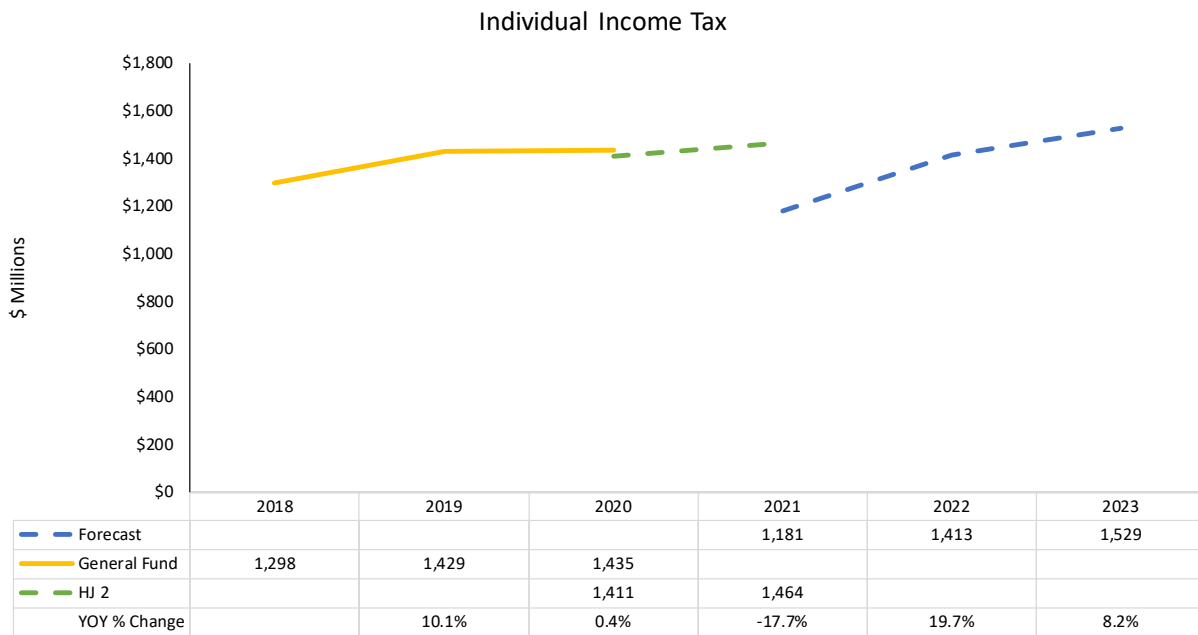
\*Assumes a \$121 million reduction in FY 2021 and a \$61 million reduction in FY 2022 due to CARES Act provisions



## Significant General Fund Revenues

### Individual Income Tax

Of all the sources that are expected to be impacted by the economic downturn, the largest impact and largest source of uncertainty lies within individual income taxes. After growing slightly off FY 2019 in FY 2020, this source is expected to decline significantly in FY 2021 but experience a quick rebound by FY 2022.



Individual income tax revenues receive a disproportionate decline in FY 2021 due to temporary federal tax law changes and individual taxpayer behavior during tight fiscal times. These factors cause a large decline of 17.7% in individual income tax collections in FY 2021 but is followed by a swift rebound as the federal tax law changes expire.

#### Key assumptions:

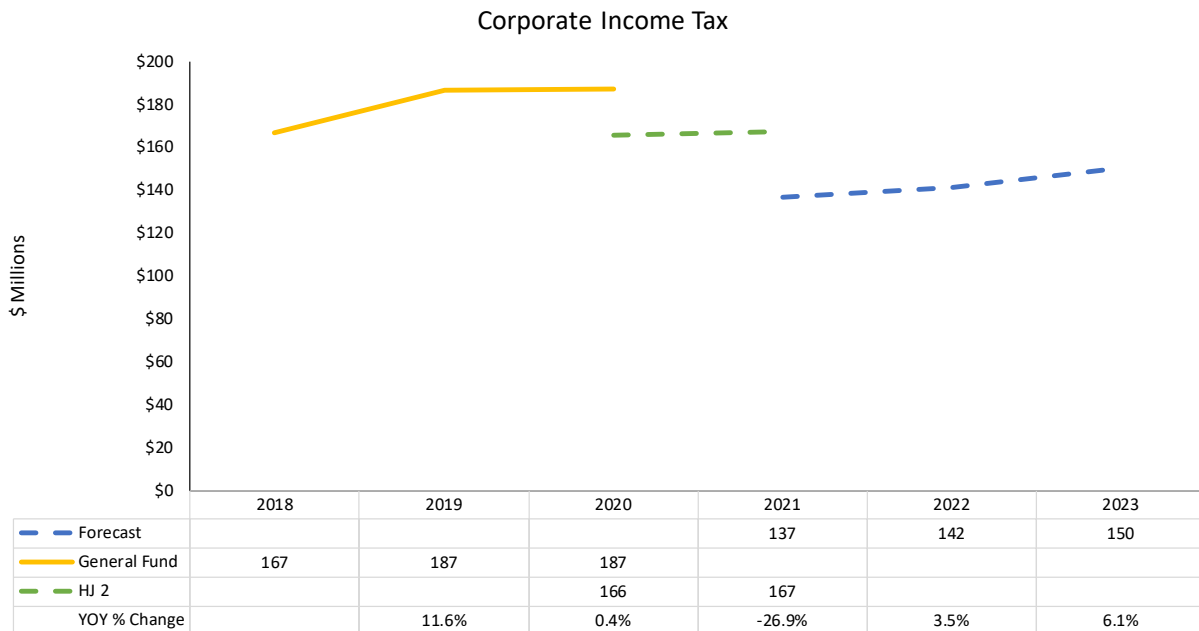
- a) 2021 Biennium and 2023 Biennium - Taxpayers will maximize liquidity and choose to receive refunds as opposed to putting them towards future state tax payments. This trend is assumed for FY 2020 and FY 2021 but ends by FY 2022 as taxpayers return to prior patterns of pre-payment. This assumption will be revisited in the fall update. In FY 2022 and FY 2023, this impact could reduce revenues by as much as \$30.0 million in each fiscal year if taxpayers do not return to previous behavior.
- b) FY 2021 – Taxpayers may have overpaid on their quarterly estimated taxes in the first half of CY 2020 due to uncertainty in how much business revenue they will collect. Any overpayment in the first half of CY 2020 could result in lower payments in FY 2021.
- c) FY 2020 and FY 2021 – The CARES Act suspended required minimum distributions from tax-deferred retirement accounts. As a result, the LFD assumed that retirement income

would decrease in CY 2020, as wealthier individuals would take advantage of the provision and not withdraw income. This reduces retirement income by 15.0% in CY 2020, resulting in a decrease of approximately \$20.0 million tax liability.

- d) FY 2021 and FY 2022 – The CARES Act allows businesses to carryback 100% of any net-operating losses incurred in CY 2018, CY 2019, or CY 2020. For a loss incurred in any one year, the new provision allows a carryback of that loss to any of the five preceding tax years. Prior to the CARES Act, losses could only be carried forward and were capped at 80% of taxable income. This is estimated to decrease collections by \$58.0 million in FY 2021 and \$6 million in FY 2022. The estimate is based off numbers provided to the United States Senate from the Congressional Budget Office (CBO).
- e) FY 2021 only-The CARES Act allows taxpayers to deduct the entirety of business losses against non-business income for tax years 2018 through 2020, and tax years 2018 through 2025 for farm losses. Prior to the CARES Act, taxpayers could deduct up to \$250,000 (\$500,000 for joint filers) of business losses against non-business income. This could decrease Montana collections by \$63.0 million in FY 2021 and \$54.0 million in FY 2022. Shifting business losses to other non-business income would reduce overall tax liabilities in CY 2020.

**Corporate Income Tax**

Corporate income tax collections finished FY 2020 strong, surpassing HJ 2 by \$21.5 million. However, the effects of the pandemic are expected to become apparent in FY 2021. After bottoming out in FY 2021, this source is expected to steadily increase into the next biennium.

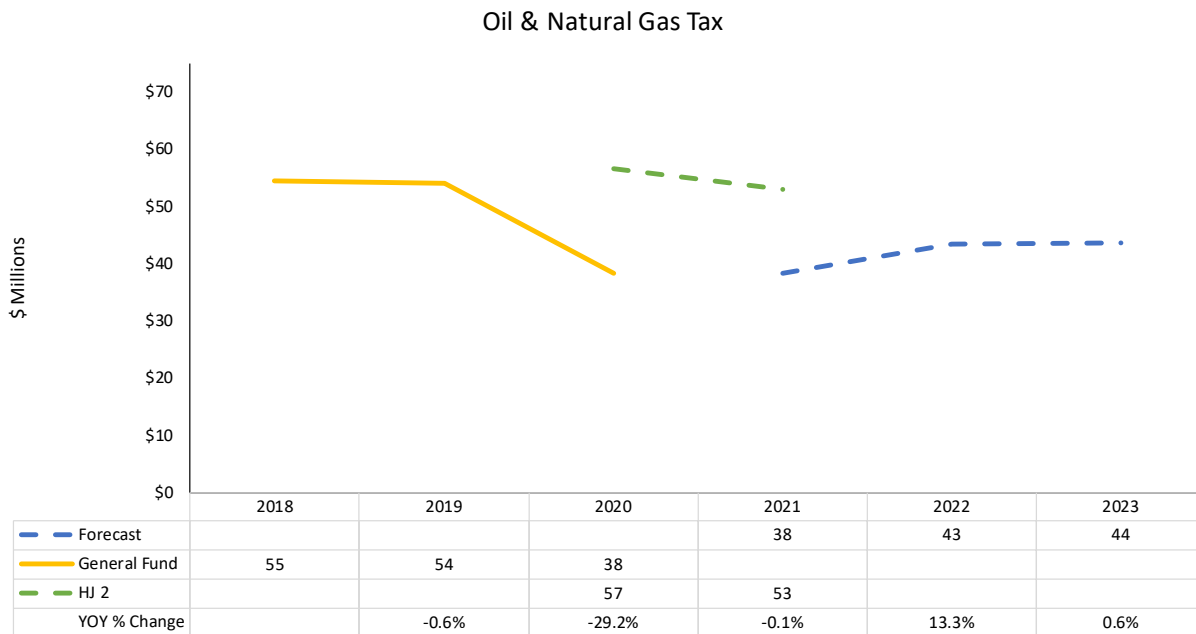


This source is forecast using individual sub models for the various sectors of the economy that pay corporate income tax. The decline in the forecast is mainly attributable to decreases in the manufacturing, retail trade, and financial sectors.

This source is extremely volatile. Recent changes in state-level carryback provisions may reduce the volatility of corporate income tax and make modeling more accurate in an economic downturn. Under previous law, carryback provisions resulted in large refunds to corporations that lowered collections further than modeling could capture. Current modeling assumes that the collections are consistent with the overall trend of economic indicators from IHS Markit.

**Oil & Natural Gas Tax**

Oil and natural gas severance taxes declined substantially in FY 2020 and are expected to remain low well into the next biennium compared to HJ 2 and what was experienced in past years.



Revenue collections from this source are driven by both price and production. The forecast decline is driven primarily by lowered production, as prices are forecast to increase in the out years. The decline in production is a result of no rigs operating in the state, and this is expected to persist throughout the forecasted period. In addition to impacts to the general fund, this source provides substantial funding to both state special funds and local governments (see table on page 31).

It is possible that prices dropped to a level that makes it unprofitable to pump from already existing wells in April and May. This appeared to be happening in April and May, as production relative to March was down 14.5% in April and 34.0% in May. Once finalized June and July production data is available, better insight into whether this decline is temporary will be known.

Natural Resources Projects State Special Revenue Account

The 2021 biennium projections of oil & natural gas taxes show an \$0.8 million reduction in the Natural Resource Projects Account from the HJ 2 estimates. These revenues have historically represented approximately 50% of the total revenues in the account. The primary expenditure

from the account are grants. Even with the projected revenue shortfall the account is expected to be able to support the grant activity through the remainder of the biennium.

**Accommodations Tax**

Accommodations taxes saw slight decrease in FY 2020 and came in below HJ 2 due to impacts from the COVID-19 public health emergency in the last quarter of the fiscal year. Moving forward, there will likely be a sharp decline in FY 2021, but a quick return towards normal as travel restrictions lift and more people begin to visit the state.

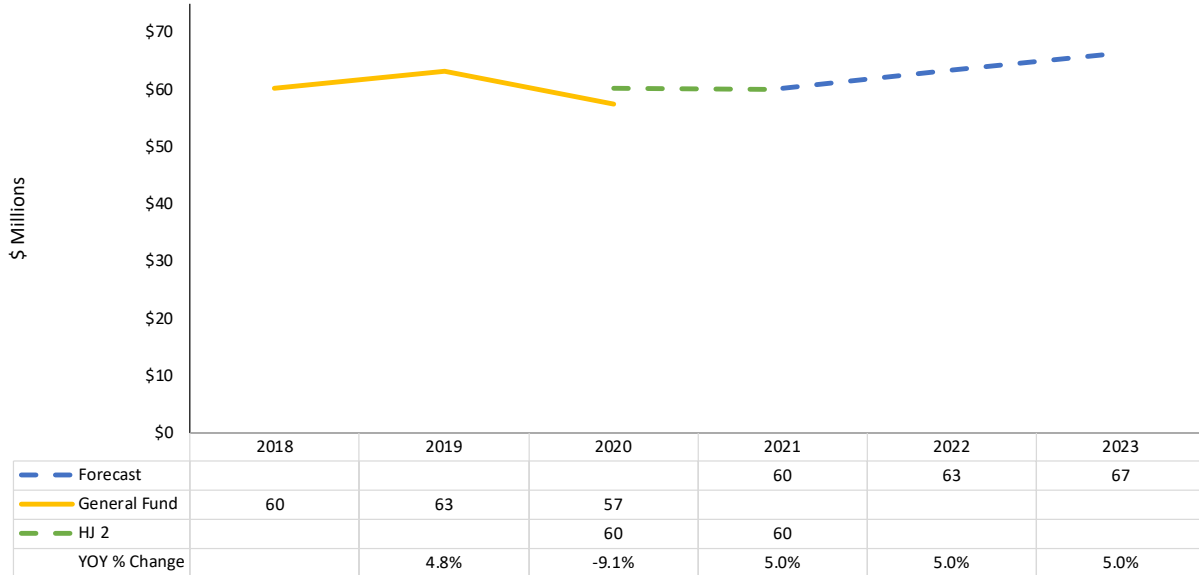


This source’s forecast is primarily driven by IHS Markit predictions on consumer spending for accommodations in the United States. Research into the COVID-19 impacts will be ongoing through the fall. In addition to the general fund, this source also provides a significant amount of funding to state special revenue funds which are likely to be impacted as well (see table on page 31).

**Video Gaming Tax**

Video gaming tax collections declined during the fourth quarter of FY 2020, when establishments were either closed or at limited capacity. It is expected to slowly increase during FY 2021 before returning to pre-pandemic levels in the next biennium.

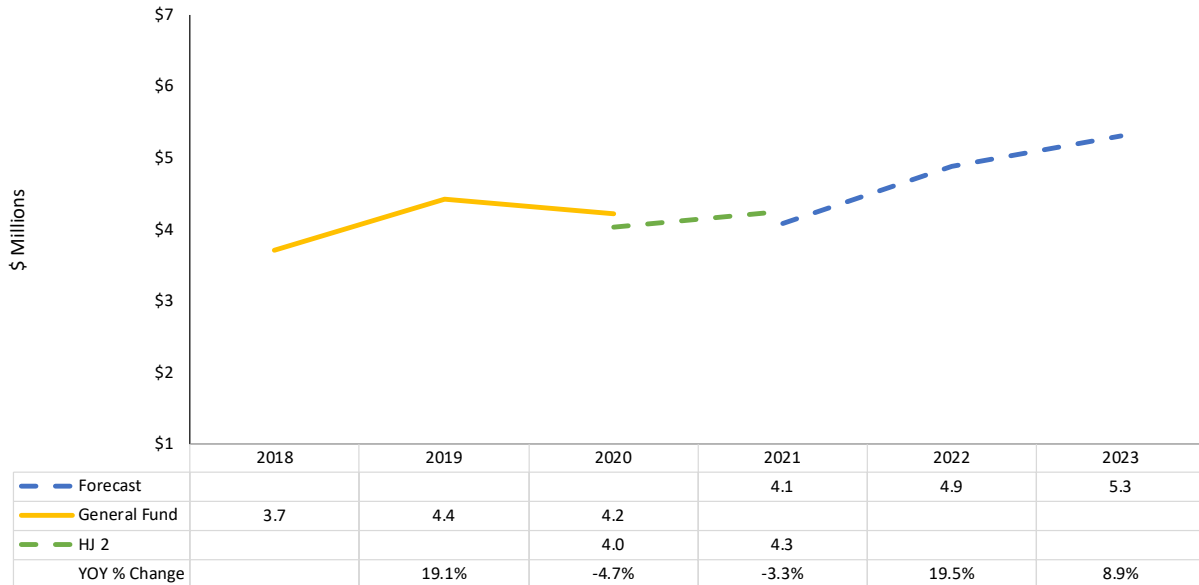
### Video Gaming Tax



### Rental Car Sales Tax

Revenues from rental car sales tax are expected to slightly decline in FY 2021, but steadily rise throughout the next biennium.

### Rental Car Sales Tax



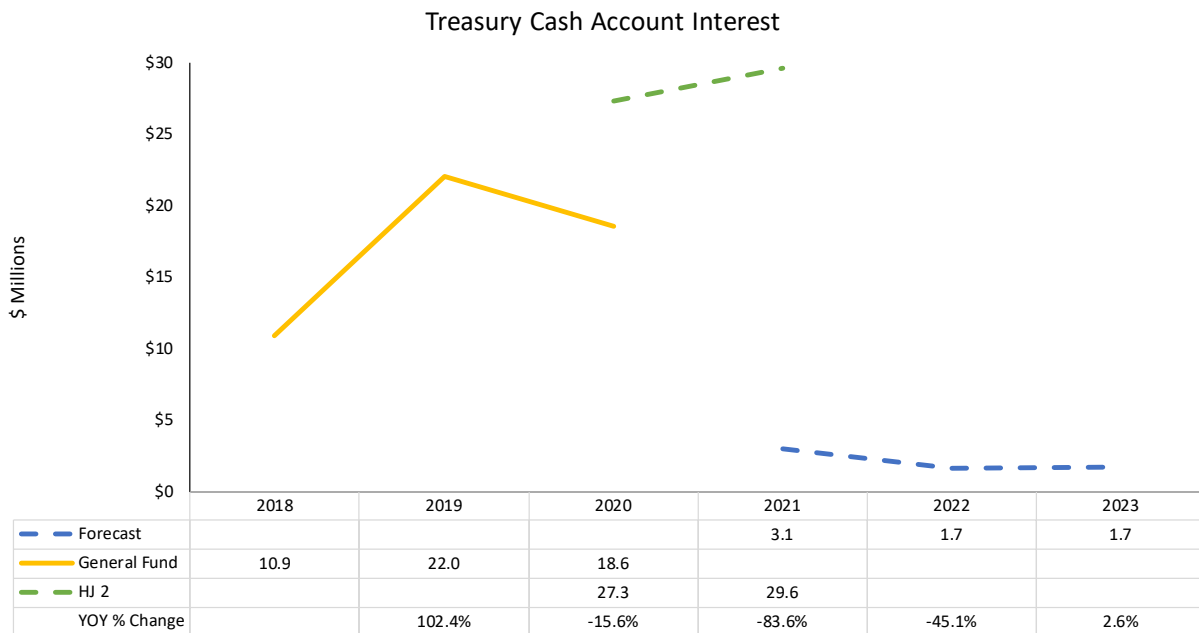
Revenue forecasts for this source are based on an IHS Markit forecast for personal consumption expenditures on transportation in the state of Montana, which generally forecasts revenues quite well. During the COVID-19 pandemic, it is somewhat unclear how much rental car tax receipts will be impacted as travel patterns have changed significantly with airport travel being restricted. With

fewer flights into Montana than pre-pandemic levels, more people are likely to travel into the state in personal vehicles. This would lead to lower demand for rental cars and therefore cause the forecast to possibly underestimate the negative impact on rental car sales tax revenues.

In the early stages of the pandemic, revenue was forecast to decline fairly substantially for the rental car sales tax; however, the IHS Markit forecast for personal consumption expenditures on transportation in Montana has improved since then, thus improving the future forecast.

**Treasury Cash Account Interest**

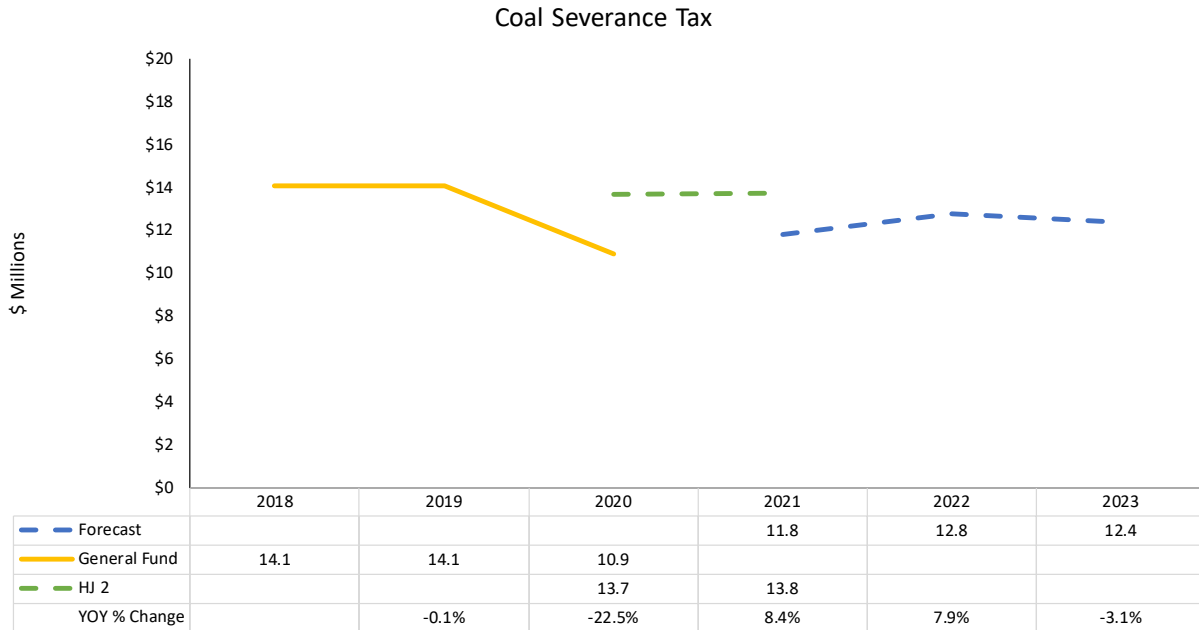
Revenue from this source significantly decreased in FY 2020 and will remain substantially below recent high levels through the next biennium.



TCA revenues are directly related to short term interest rates, which have sharply decreased back to near zero in response to the economic downturn caused by the COVID-19 pandemic. Interest rates are expected to remain at these low levels for the foreseeable future, so TCA revenues will be back around the low levels experienced for most of 2010.

**Coal Severance Tax**

While coal severance tax collections are not affected by COVID-19, other recent changes have materially impacted anticipated collections. Coal production dropped nearly 10.0% during FY 2020 and is expected to decline slightly in FY 2023. The closure of Colstrip Units 1 & 2 along with decreased demand domestically have contributed to this decline.



## STATE SPECIAL AND LOCAL GOVERNMENT FUNDS

Certain state special funds are anticipated to receive less revenue than budgeted in the 2019 session. In FY 2021 various state special funds are anticipated to receive \$61.1 million less than budgeted in the 2019 session.

### State Government

Tourism promotion, highway funds, and natural resource funded programs will see the largest decreases. Also, of note is the impact to the Montana Heritage Center capital projects account, which is projected to receive approximately \$3.1 million less in FY 2021. Pages 32-34 address these funding pressures in more detail.

### Local government

While property tax collections in May came in as expected, there are projected reductions in other funds distributed by the state to local governments. The anticipated decrease of funds collected by the state and distributed to local governments and schools totals approximately \$17.3 million for FY 2021 and is primarily due to lower tax collections related to oil and gas production and fuel tax sales. Pages 35-36 address these funding pressures in more detail.

HJ 2 vs. 2021 Revenue Update Forecast Comparisons				
Source and Revenue by Fund	2021	HJR 2	Difference	% Change
	Update	Estimate		
<b>Department of Commerce</b>				
Accommodations Tax - Tourism Promotion	14.9	23.1	(8.2)	-36%
Accommodations Tax - Regional Nonprofits	5.3	8.1	(2.8)	-34%
Coal - Big Sky Economic Development Trust	6.1	7.1	(1.0)	-14%
Coal - Coal Mining Local Impacts	2.8	3.3	(0.5)	-15%
<b>Total Commerce</b>	<b>29.0</b>	<b>41.5</b>	<b>(12.5)</b>	<b>-30%</b>
<b>Department of Fish, Wildlife, and Parks</b>				
Accommodations Tax - Parks Maintenance	1.5	2.3	(0.8)	-34%
Fuel Taxes - State Parks Motorboats	1.3	1.4	(0.0)	-3%
<b>Total FWP</b>	<b>2.9</b>	<b>3.7</b>	<b>(0.8)</b>	<b>-23%</b>
<b>Department of Environmental Quality</b>				
Oil & Natural Gas - Orphan Share	1.3	1.7	(0.5)	-28%
Oil & Natural Gas - Natural Resource Operations	0.7	0.9	(0.2)	-24%
Fuel Taxes - Petroleum Storage Tank Cleanup	6.7	4.3	2.4	57%
<b>Total DEQ</b>	<b>8.6</b>	<b>6.9</b>	<b>1.7</b>	<b>25%</b>
<b>Department of Transportation</b>				
Rental Car Sales Tax - Sr Citizen Transportation	1.4	1.4	(0.1)	-5%
Fuel Taxes - BARSAA	9.8	10.7	(0.9)	-8%
Fuel Taxes - Highways from Diesel	58.8	64.4	(5.6)	-9%
Fuel Taxes - Highways from Gasoline	88.2	100.0	(11.8)	-12%
Fuel Taxes - Refunds IFTA Suspense	5.7	5.9	(0.2)	-4%
Fuel Taxes - Administrative Expenses/Refunds - Tribal	5.2	5.9	(0.7)	-13%
<b>Total DOT</b>	<b>169.0</b>	<b>188.4</b>	<b>(19.4)</b>	<b>-10%</b>
<b>Department of Natural Resources &amp; Conservation</b>				
Oil & Natural Gas - Board of Oil & Gas	2.7	3.3	(0.6)	-19%
Oil & Natural Gas - Natural Resource Projects	0.9	1.3	(0.4)	-28%
Oil & Natural Gas - Natural Resource Operations	0.2	0.3	(0.1)	-33%
<b>Total DNRC</b>	<b>3.8</b>	<b>4.9</b>	<b>(1.1)</b>	<b>-22%</b>
<b>Department of Justice</b>				
Gambling - Gambling Administrative License Fee	4.6	4.6	0.0	1%
Fuel Taxes - MT Highway Patrol Fund	28.6	31.6	(3.0)	-10%
<b>Total DOJ</b>	<b>33.2</b>	<b>36.2</b>	<b>(3.0)</b>	<b>-8%</b>
<b>Office of Public Instruction</b>				
Oil & Natural Gas - Guarantee Fund	1.2	1.6	(0.4)	-27%
Coal - School Facilities Trust	18.2	21.2	(3.0)	-14%
<b>Total OPI</b>	<b>19.4</b>	<b>22.9</b>	<b>(3.5)</b>	<b>-15%</b>
<b>Montana University System</b>				
Oil & Natural Gas - University System Millage	1.1	1.6	(0.4)	-28%
<b>Total MUS</b>	<b>1.1</b>	<b>1.6</b>	<b>(0.4)</b>	<b>-28%</b>
<b>Montana Historical Society</b>				
Accommodations Tax - MT Heritage Center	6.0	9.1	(3.1)	-34%
<b>Total MHS</b>	<b>6.0</b>	<b>9.1</b>	<b>(3.1)</b>	<b>-34%</b>
<b>Long-range Building Program</b>				
Coal - Long-range Building	5.8	6.8	(1.0)	-14%
<b>Total LRBP</b>	<b>5.8</b>	<b>6.8</b>	<b>(1.0)</b>	<b>-14%</b>
<b>Local Governments</b>				
Oil & Natural Gas - Oil Production Local Impact	37.4	52.2	(14.8)	-28%
Fuel Taxes - BARSAA - Local Fund	17.7	19.8	(2.1)	-11%
Fuel Taxes - Local Government/LTAP	16.8	16.8	0.0	0%
Coal - Conservation Districts	1.8	2.2	(0.3)	-15%
<b>Total Local Governments</b>	<b>73.8</b>	<b>91.0</b>	<b>(17.3)</b>	<b>-19%</b>
<b>Miscellaneous</b>				
All Other Accommodations	2.4	2.9	(0.5)	-16%
All Other Fuel	1.0	1.0	(0.0)	-3%
All Other Coal	2.5	2.8	(0.3)	-12%
<b>Total Miscellaneous</b>	<b>5.9</b>	<b>6.7</b>	<b>(0.8)</b>	<b>-13%</b>
<b>Total Changes</b>	<b>358.6</b>	<b>419.7</b>	<b>(61.1)</b>	<b>-15%</b>



## State Special Revenues

### Lodging Facility Use Tax (LFUT)

The FY 2021 updated revenue forecast projects revenues to be \$48.2 million for lodging facility use tax collections, a \$24.6 million or 33.8% decrease overall. LFUT is collected by the Department of Revenue and, once administrative costs are deducted and \$400,000 is transferred to Montana heritage preservation account, is transferred to state special revenue funds for various state agencies.

#### *Department of Commerce*

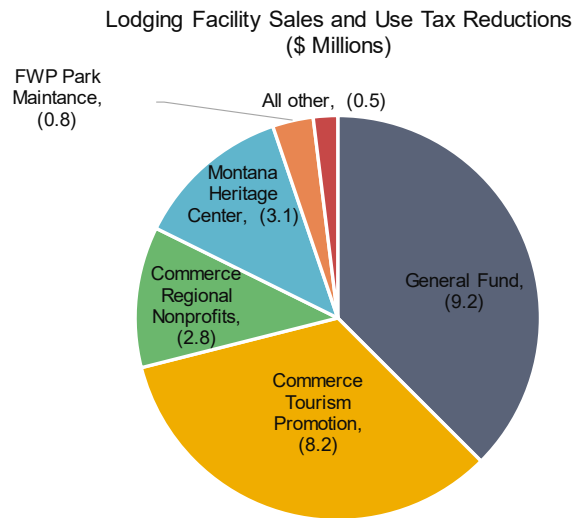
Department of Commerce receives the majority of LFUT including:

- 63.0% for tourism and film and television location promotion which is projected to be \$14.9 million in FY 2021, a \$8.2 million revenue decline from HJ 2. The fund balance for tourism and location promotion is \$3.6 million as of the June 30, 2020. The fund balance is not sufficient to cover the projected revenue shortfall and will result in a reduction of expenditures in FY 2021
- 22.5% to regional nonprofit tourism corporations or qualifying cities and resorts, which is projected to be \$5.3 million in FY 2021, a \$2.8 million revenue decline. The fund balance for the regional nonprofit tourism corporations account is \$0 as of June 30, 2020. The Department of Commerce passes through the funding to the regional nonprofit tourism corporations and does not retain a fund balance in this account
- 0.5% for the State-Tribal Economic Development Commission, which is projected to be \$118,000 in FY 2021, a revenue decline of \$60,000. As of the June 30, 2020, the state special revenue account has a fund balance of \$109,000 which is enough to cover the revenue shortfall in FY 2021. The remaining fund balance at the end of FY 2021 would be about \$49,000, a decline of 55.0%

#### *Department of Fish, Wildlife, and Parks (FWP)*

FWP receives:

- 6.5% of LFUT for the maintenance of facilities in state parks, which is projected to be \$1.5 million in FY 2021, a \$0.8 million revenue decline. The fund balance for the FWP accommodations tax account is \$1.9 million which is sufficient to cover the revenue shortfall in FY 2021. The remaining fund balance at the end of FY 2021 would be approximately \$1.1 million, a 42.1% decrease in fund balance



- 1.4% for invasive species work, which is projected to be \$330,000 in FY 2021, a \$174,000 revenue decline. The aquatic invasive species account has a fund balance of \$307,000 as of June 30, 2020 which is sufficient to cover the revenue decline in FY 2021. The remaining fund balance at the end of FY 2021 would be about \$133,000, a decline of 56.7%

#### *Montana Historical Society (MHS)*

MHS is allocated:

- 1.0% for installation of roadside historical sites and signs, which is projected to be \$236,000 in FY 2021, a revenue decline of about \$120,000. The fund balance for the MHS sites and signs account is \$637,000 as of June 30, 2020, which is sufficient to cover the revenue shortfall in FY 2021. The remaining fund balance at the end of FY 2021 would be about \$517,000, a decline of 18.8%
- 22.6% to fund MHS operations, which is projected to be \$613,000 in FY 2021, a revenue decline of about \$320,000. The fund balance for the MHS accommodations tax account is \$633,000 as of June 30, 2020, which is sufficient to cover the revenue shortfall in FY 2021. The remaining fund balance at the end of FY 2021 is estimated to be \$313,000, a decline of 50.6%
- The Montana Heritage Center project, funded with a distribution of the accommodations tax starting in January 2020 and extending through December 2024, will face projected shortfalls of approximately \$3.1 million, or 34.1% below the projected income of \$9.1 million in FY 2021. Consequently, the distribution of the tax may need to be extended past the statutory termination date to fully fund construction of the project

#### *Montana University System (MUS)*

Montana University System receives 2.5% for the Travel Research Program, which is projected to be \$589,000 in FY 2021, a \$310,000 decline in revenues below HJ 2. The fund balance for the MUS accommodation tax account has a \$400,000 fund balance as June 30, 2020 which is sufficient to cover the revenue decline in FY 2021. The remaining fund balance at the end of FY 2021 would be about \$90,000, a decline of 77.5%

### **State Special Revenues Fuel Taxes: Gas and Diesel**

#### ***Montana Department of Transportation (MDT)***

The major revenues in the MDT highway state special revenue account (HSSRA) are projected to be \$17.7 million, or 10.4% lower than was anticipated in FY 2021. Of the HSSRA major revenue sources, gasoline tax is 11.8% and diesel tax is 8.7% lower than HJ 2. The agency has no plans to eliminate or postpone highway construction projects due to the shortfall in fuel taxes. In the 2021 biennium, legislative appropriations left a balance in HSSRA of more than \$60.0 million and the agency has indicated it will be able to mitigate the shortfalls that materialize. The MDT revenues from the bridge and road safety and accountability act (BaRSAA) account is also expected to experience a shortfall of approximately \$0.9 million, or 8.3%, from the HJ 2 projections in FY 2021.

### ***Montana Highway Patrol Administrative Account***

The FY 2021 LFD revenue update is estimated at \$28.6 million in the Montana highway patrol administrative account. This is a \$3.0 million or 9.8% decrease from the HJ 2 estimate of \$31.6 million. The fund balance in the Montana highway patrol highway administrative account in FY 2020 is \$9.0 million as of June 5, 2020. Therefore, the fund balance would be able to cover the projected revenue shortfall in FY 2021. The remaining fund balance would be approximately \$6.0 million, a 34.0% decrease in the fund balance.

### ***Gambling Administrative License Fee***

The gambling administrative license fee showed a 1% increase between the HJ 2 estimate and the 2021 update with revenues at \$4.6 million.

### **Other State Special Funds to Consider**

#### ***Department of Environmental Quality***

In FY 2012 the ending fund balance in the orphan share account was \$10.0 million, the ending fund balance for FY 2020 is \$565,601. In recent years the main expenditure from the account is a \$1.2 million transfer to the environmental quality protection fund as per 75-10-743 (10)(c), MCA. Other expenditures include personal services and operating expenditures of about \$0.1 million in recent years.

The FY 2021 updated revenue forecast projects revenues to be \$1.3 million or \$0.5 million less than the HJ 2 estimate. At this level of revenue and expenditures the fund can support the transfer required by statute only through FY 2022.

#### ***Department of Fish Wildlife and Parks***

The agency's HB 2 budget is 72.0% supported by the general license account (GLA) and federal revenues from the sale of hunting and fishing licenses. Revenues for the GLA grew at a 4.1% in FY 2020 compared to FY 2019, and the ending fund balance of the GLA grew by 18.5% compared to FY 2019. Although revenues from the sale of hunting and fishing licenses remain strong, impacts from the pandemic may require refunds should the states impose stay at home orders. Out of state hunters account for 75% of the GLA revenues, and should the pandemic worsen in the fall the agency may be required to refund for licenses already purchased. It should be noted that the new requirement to purchase an AIS pass has had an impact on increased revenue over the last four years.

#### ***Montana University System***

The six-mill levy fund primarily receives revenues from property tax, but also receives a small amount of revenue from the oil and natural gas tax. The FY 2021 updated revenue forecast projects revenues from oil and natural gas to be at \$1.1 million, which is a \$0.4 million or 27.8% decrease from the HJ 2 estimate of \$1.6 million. The fund balance in the six-mill levy fund in FY 2019 was \$2.1 million. Therefore, the fund balance would be able to cover the projected revenue shortfall in FY 2021.

## LOCAL GOVERNMENT IMPACTS

Montana local governments have indicated they are experiencing revenue declines in resort taxes and park and recreation fees. While property taxes, a major source of revenues for local governments, was paid as expected in May, local entities are concerned they may face shortfalls due to delinquent or delayed payment in November. The LFD will continue to communicate with local governments and financial institutions to identify if any change in behavior becomes apparent as the November taxes become due. Although the LFD is projecting property tax payments to be in line with HJ 2 estimates, the updated FY 2021 revenue projections indicate revenue shortfalls may occur in several areas of state assistance in local government infrastructure and service programs, as follows:

- Oil & Gas Production Tax Distribution to Schools and Local Governments – The revised projections for the oil & gas production tax distribution to local governments and school districts is \$32.5 million lower than the estimate adopted in HJ 2 in the 2021 biennium. The state distributes a percentage of the tax revenues from extraction within county or district boundaries based upon statutory percentages. These funds are used by the county or school district to support various areas of their respective budgets to support costs that would otherwise be funded through increased property taxes. The shortfall includes \$17.7 million in FY 2020 (includes projected accruals) and \$14.8 million in FY 2021. This amounts to a total reduction of approximately 30% from the HJ 2 estimates for the biennium.
- DNRC natural resources projects account – The 2021 biennium projections of oil & natural gas taxes show an \$0.8 million reduction in the natural resource projects account from the HJ 2 estimates. These revenues have historically represented approximately 50.0% of the total revenues in the account. The primary expenditure from the account are grants. Even with the projected revenue shortfall the account is expected to be able to support the grant activity through the remainder of the biennium.
- MDT BaRSAA Matching Grant Program – For the 2021 biennium, the revenues to the BaRSAA matching grant program were realized as was expected in FY 2020, but are projected to be \$2.1 million, or 11%, lower than HJ 2 projections in FY 2021. Revenues include a portion of gasoline and diesel taxes. The funds are distributed to local governments based on the fuel tax distribution formula and require other local inputs for receipt of the grant funds. In FY 2020, grants totaling \$2.3 million for counties and \$13.9 million for municipalities were distributed through the matching program. In FY 2021, the shortfall will result in a reduction in grants across all local entities.
- Coal Severance Tax distribution to Conservation Districts – In the 2021 biennium the revised revenue projections for the Coal Severance Tax distribution to conservation districts to be \$0.7 million, or 17% lower than the estimate adopted in HJ 2. The state distributes 3.89% of the coal severance tax revenues to promote natural resource conservation in Montana. The shortfall includes \$0.4 million in FY 2020 and \$0.3 million in FY 2021.

Other local assistance programs, such as the Treasure State Endowment Program (TSEP) and the TSEP regional water programs are primarily funded through interest from sub-trusts of the coal severance tax trust. These programs are receiving revenues as projected by the 2019 Legislature.

The Governor's Office, in coordination with the Montana Association of Counties and the Montana League of Cities and Towns, has created a process to reimburse local government entities for COVID-19 related expenditures. Reimbursement is available to local governments as part of the CARES Act for direct costs associated with COVID-19 including public health, medical, safety costs, personal services, and other costs that are dedicated to mitigating or responding to the coronavirus. This program is administered by the Local Government Services Bureau (LGSB) at the Department of Administration, in consultation with the Governor's Office of Budget and Program Planning. Further details about this reimbursement program including reimbursement guidance, reimbursement forms, and certification forms are available at <http://sfsd.mt.gov/LGSB/COVID-Relief>.

Local governments applying for reimbursements must provide a list actual costs incurred related to COVID-19, provide sufficient documentation to support incurred costs and evidence of payment, which may include itemized invoices, receipts, and vouchers, payroll reports/timesheets listing hours worked, salary information, estimates of future costs to be incurred through December 30, 2020, and the local government entity (LGE) certification form signed by a member of the governing body. The due dates for reimbursement requests are June 12, July 24, sometime early fall, early December, and mid-January,

As of August 10, local entities from 33 of the 56 counties, or 58.9% of Montana counties, have received payments in the amount of \$26.2 million. According to LGSB, the local entities can expect reimbursements within 30 days of these deadlines mentioned above. With the deadline of July 24, reimbursement should be available by August 24, 2020. A complete list of the local government reimbursements is available on the Department of Commerce website at: <https://commerce.mt.gov/Montana-Coronavirus-Relief/Awarded-Grants>.

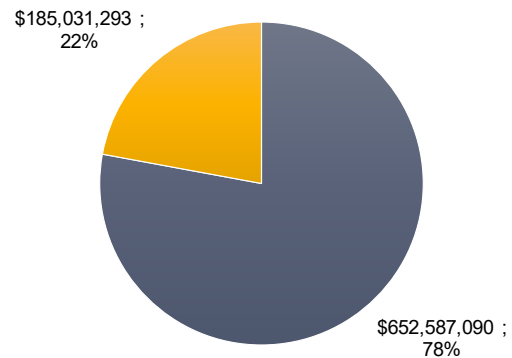
In addition to the CARES Act reimbursements, local governments may also qualify for Public Assistance (PA) grants from the Federal Emergency Management Agency (FEMA). FEMA may provide funding to eligible applicants for the costs of emergency protective measures, to address immediate threats to life, public health, and safety, local governments may have conducted due to COVID-19. According to the LGSB, the differentiating factor is that costs related to the continuity of government may be eligible under CARES Act reimbursement; whereas costs related to emergency operation centers (EOC) may be eligible for FEMA reimbursements.

## SAFETY NETS

### Unemployment Insurance Enrollment and Benefits Distributed in Response to COVID-19

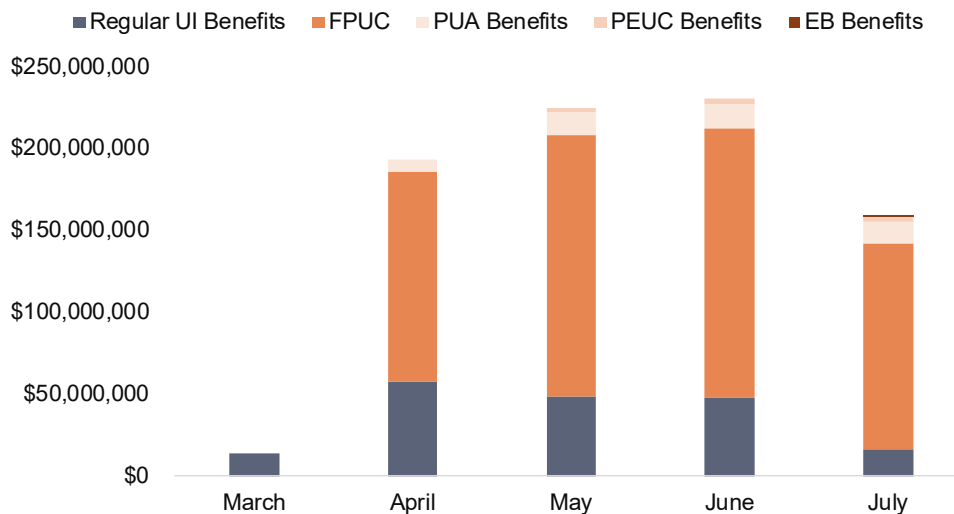
Montanans received \$837.62 million in unemployment insurance benefits between March 12 – July 31, 2020. The chart demonstrates the proportion of the unemployment insurance benefit payments that were funded with the state trust fund (22%) and federal stimulus (78%) during that period. The regular unemployment benefit payments of \$185.03 million leave a fund balance in the unemployment trust fund of about \$223 million.

Federal funding for unemployment benefits comprised 78% of payments provided from March - July, 2020, whereas the state funded portion was 22%



Please note, due to a timing issue, expenditures vary on a monthly basis with data presented in this section from the DLI unemployment insurance database and the totals shown on the LFD COVID-19 dashboard. The dashboard includes values posted in the accounting system.

Montana unemployment insurance benefit payments from March through July. FPUC, the federal program that increased benefits by \$600, is the significant portion of the monthly payments.



Federal stimulus funding included \$652.6 million in benefits from the following federal unemployment stimulus packages:

- Federal pandemic unemployment compensation (FPUC) provided qualified workers with an additional \$600 a week in benefits. Montanans have received \$578.05 million in FPUC, however the expanded additional weekly benefit expired at the end of July.
- Pandemic unemployment assistance (PUA) extends benefits to self-employed and independent contractors. Department of Labor and Industry (DLI) has paid \$49.26 million in PUA benefits and, qualifying individuals have received \$148.3 million from the \$600 per week in PUA FPUC
- Pandemic emergency unemployment compensation (PEUC) extends the period to receive unemployment insurance benefits to 39 weeks to those who have exhausted their benefits. In addition, these individuals are eligible to receive the \$600. DLI has paid \$8.29 million in PEUC benefits. FPUC benefits are included in the total of \$578.05 million shown above.
- In July, Montanans received \$69,885 from the Extended Benefits (EB) Program, which provides up to an additional 13 weeks of unemployment benefits when the state's unemployment rate is 5.0% or higher and is 120.0% of the average rate for the 13-week period in the two previous years. The EB is a federal program that states are required to offer and is usually paid 50.0% by the state fund and 50.0% by the federal fund. However, the federal stimulus is currently funding 100.0% of all EB payments. The EB was made effective on May 3, 2020 and is available to anyone who has exhausted all other unemployment compensation benefits, including the PEUC.

Please view the [LFD COVID-19 dashboard](#) for the most up-to-date information on unemployment insurance benefit payments.

For more detail about unemployment statistics including job tracking, please visit the DLI web site: <http://lmi.mt.gov/home/job-tracking#Unemployment-Insurance-Monthly-2930>

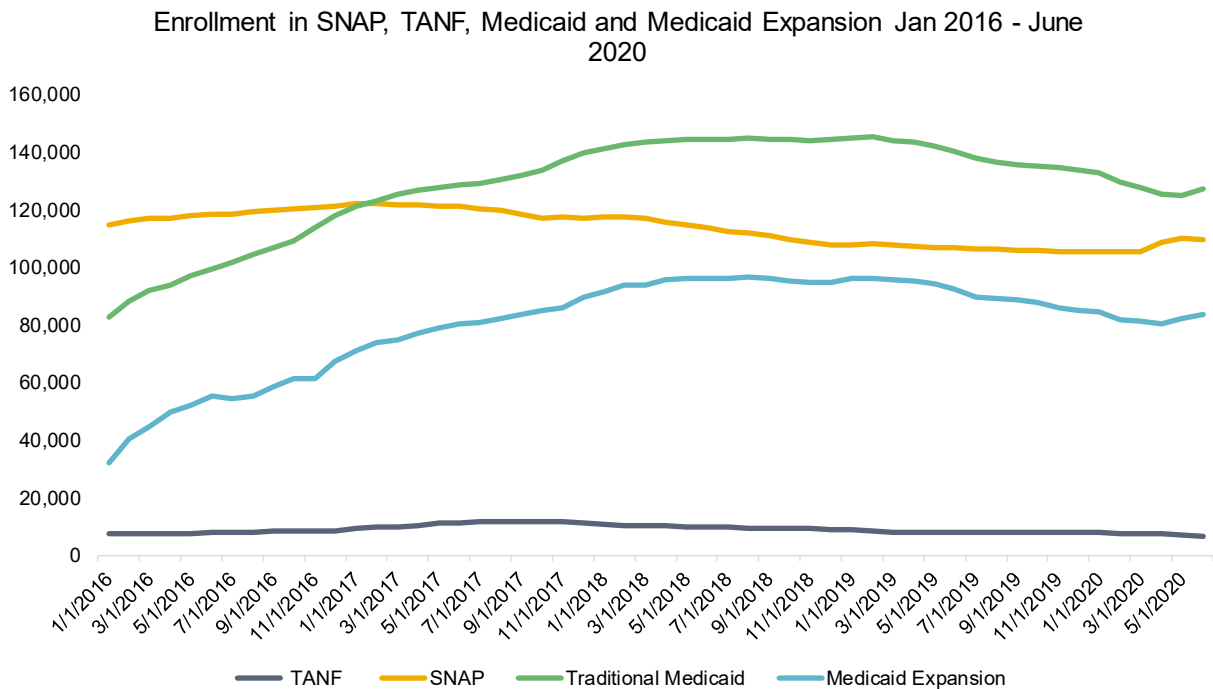
For additional employer information, please visit the DLI web site: <http://dli.mt.gov/employercovid-19>

## **Department of Public Health and Human Services**

### ***Enrollment Changes***

The figure below illustrates enrollment trends in Medicaid (both traditional and expansion), the Temporary Assistance for Needy Families program (TANF), and the Supplemental Nutrition Assistance Program (SNAP) from January 2016 to June 2020. Several trends are apparent:

- Both traditional and expanded Medicaid enrollment increased from January 2016 (the first month of Medicaid expansion) through the spring of 2018. At the end of spring 2018 both began to flatten out
- Both traditional and expanded Medicaid have experienced a decline in enrollment from the spring of 2019 up until the most recent several months, during which both traditional and expanded Medicaid have experienced an increase
- Medicaid and SNAP trends changed as the COVID-based economic contraction came into play in the most recent several months



**Medicaid Expenditure Changes**

The COVID-19 pandemic has already impacted the budget for Medicaid and could continue to impact Medicaid expenditures in several significant ways.

- *Enrollment:* we expect an increase in overall Medicaid enrollment due to a larger population of eligible persons resulting from a contraction in economic activity and an increase in unemployment. A larger population of enrollees can be expected to increase Medicaid expenditures. It is likely that the majority of new enrollees would be due to income qualifications. This could result in greater impacts to the Medicaid expansion population than that of traditional Medicaid, which is relevant as the expansion population has a 90% federal matching rate
- *Utilization:* during the initial shelter-in-place scenario, many elective procedures were delayed, resulting in lower utilization of medical services. Given the recent rise in COVID-19 cases in the state it is unknown how quickly providers will ramp back up to full capacity
- *Pent-up demand:* because so many procedures were delayed, we might expect an increase in utilization of medical services when restrictions are rolled back. It seems realistic to expect that most procedures are still needed, and any savings realized were only being delayed rather than fully avoided

National data indicates most states have experienced higher than anticipated Medicaid enrollment and expenditures in FY 2020 and expect this trend to continue through FY 2021. This [report](#) from the Kaiser Family Foundation discusses this dynamic at length. Montana’s data does not indicate higher than anticipated Medicaid expenditures for FY 2020. Medicaid had unused authority of \$31.4 million general fund in FY 2020.



While recent past enrollment declines in both traditional and expanded Medicaid have halted as of the end of FY 2020, we have not yet seen large spikes in Medicaid enrollment in the state, although slight increases have occurred in the last several months. It is possible that the state could see high enrollment growth in Medicaid starting in July and FY 2021 Medicaid expenditures could exceed budgeted amounts for this reason and the “pent-up-demand” reason discussed above.

Medicaid general fund expenditures in FY 2020 and at least part of FY 2021 are significantly impacted by federal action which temporarily increased the Federal Medical Assistance Percentage (FMAP) by 6.2 percentage points, retroactive to January 1, 2020, and changed the FMAP from 64.78% to 70.98%. This lowers the state share of traditional Medicaid costs. In FY 2020, this policy change has resulted in lower state share for Medicaid expenditures by approximately \$38.0 million, resulting in savings to both the general fund and some state special revenue funds. While the duration of this enhanced rate is unknown, as long as it continues it will result in additional federal Medicaid funding of approximately \$20.0 million per quarter. The enhanced FMAP will persist until the end of the quarter in which the Secretary of Health and Human Services declares an end to the COVID-19 state of emergency. The enhanced FMAP also lowers the state share required for Children’s Health Insurance Program (CHIP) by 4.34% for the duration of the COVID-19 state of emergency.

#### ***Hospital Utilization Fee (HUF) Revenue***

It is possible that COVID restrictions could impact the revenues associated with Montana’s Hospital Utilization Fee (HUF) by depressing demand for elective services. The HUF was increased by HB 658 (2019 Session), which increased the inpatient bed tax from \$50/day to \$70/day and added a new tax of 0.9% on hospital outpatient revenue, of which almost half is directed to the HUF account. (The remaining half provides part of the state match for Medicaid expansion.) HUF revenue in FY 2020 is \$49.3 million as compared to \$22.6 million in each of FY 2018 and FY 2019. Due to the timing of the tax increases it is difficult to ascertain from this data if demand for medical care is lower due to the COVID-19 public health emergency.

#### ***COVID-Related Federal Grants/Revenues***

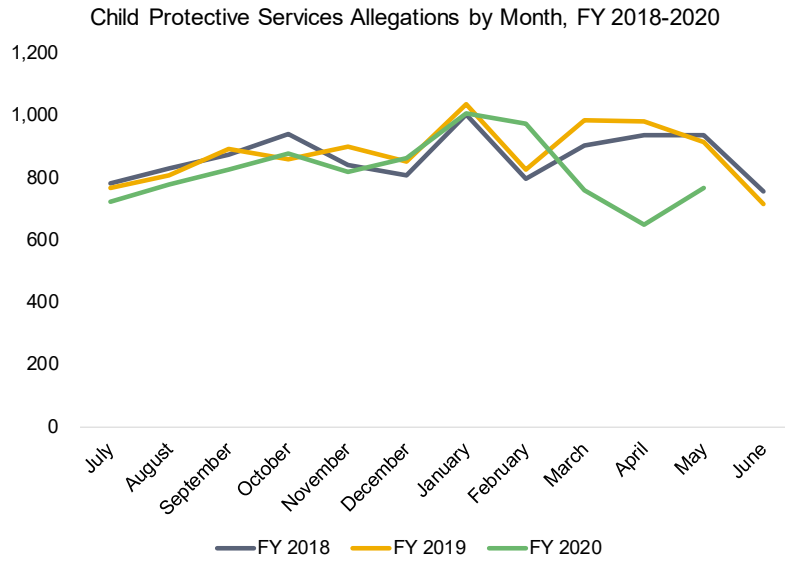
As of early August 2020, DPHHS has recorded COVID-19 expenditures totaling \$90.7 million, all but \$0.6 million of which is in federal funds. Of this total, \$19.0 million is associated with the \$1.25 billion CRF while the remainder is non-CRF COVID-19 expenditures. Large expenditure categories to date include grants to nonprofits, Montana State Hospital operations, the Low-Income Energy Assistance Program (LIEAP), grants to public health clinics, and childcare.

#### ***Child Welfare Changes***

It is possible that the COVID-19 public health emergency could have a significant impact on child welfare financing, expenditures, and outcomes in the state. Some of this impact is known, while other components remain unknown at this time. DPHHS has indicated to the interim Children, Families, Health, and Human Services Committee that they witnessed a sharp drop in child protective services maltreatment referrals in the early stages of the COVID-19 public health emergency, and DPHHS stated that this decrease was likely due, in part, to the closure of K-12

schools as K-12 educators and staff are a significant source of these referrals. The graph below shows the number of Child Protective Services (CPS) referrals over the past 3 fiscal years. A significant decrease in referrals coincides with COVID-19 related school closures in the winter/spring of 2020.

A decrease in referrals could be associated with an increase in child maltreatment if there is a stable level of maltreatment but lower probabilities of detection and intervention. Note that the 6.2% FMAP increase applies to federal IV-E funds for foster care and will lower the state share of foster care costs for the duration of the COVID-19 public health emergency.



# FEDERAL COVID-19 STIMULUS FUNDING AND EXPENDITURES

In response to the COVID-19 emergency, four separate federal bills have been passed and approved to provide relief. Those bills include:

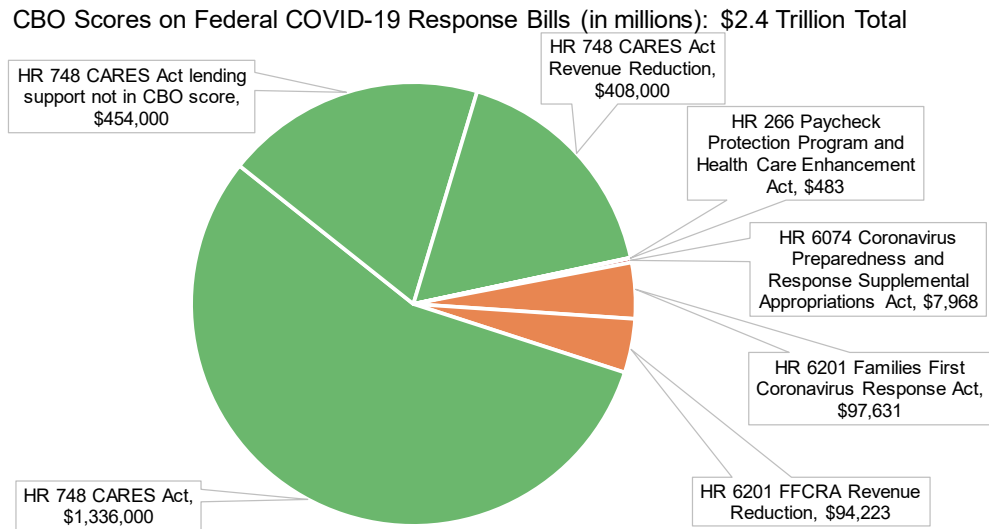
Bill 1: H.R. 6074 “[Coronavirus Preparedness and Response Supplemental Appropriations Act](#)”

Bill 2: H.R. 6201 “[Families First Coronavirus Response Act](#)”

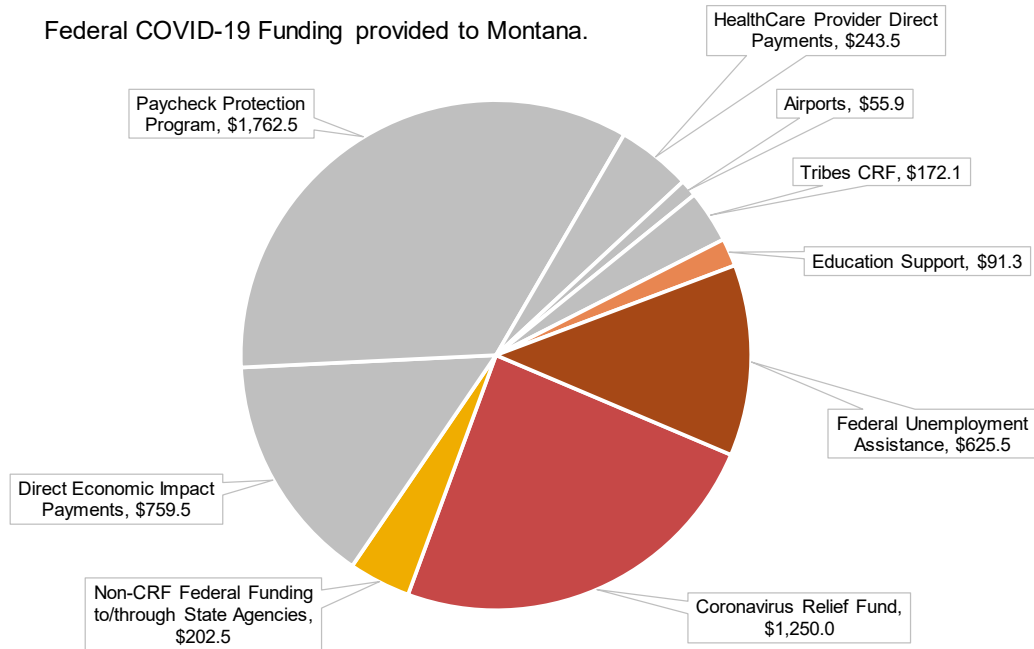
Bill 3: H.R. 748 “[Coronavirus Aid, Relief, and Economic Security Act](#)” or “[CARES Act](#)”

Bill “3.5”: H.R. 266 “[Paycheck Protection Program and Health Care Enhancement Act](#)”

The CARES Act is by far the largest from the perspective of fiscal impact. Widely reported as costing a total of \$2.2 trillion, the Congressional Budget Office (CBO) score indicates a total impact of \$1.7 trillion, as they do not count the funding included in lending programs. This funding is expected to be returned, resulting in no long-term net impact.



This federal funding has been directed toward multiple different approaches to assisting the economy and providing relief, both through state and local governments as well as directly to individuals and businesses. While the majority of the funding does not flow through state government, there is a significant amount of federal funding flowing through state government, as depicted in the colored portions of the following chart.



For each of the four areas impacting the budget of the State of Montana, a further breakdown is provided in this report to provide context and detail. The federal unemployment assistance amount included above is the actual amount received through July 28, 2020 and does not include any additional estimates for future federal assistance.

### **Coronavirus Relief Funds Statutory Appropriation, \$1.25 billion**

The Coronavirus Relief Fund, in the amount of \$1.25 billion, has been received from the federal government. The following table displays CRF grant appropriations of \$490.2 million established and \$ 183.3 million expended through different state agencies as of August 7, 2020.

For the most up-to-date expenditures, please use the [LFD dashboard](#) that is updated daily.

More information on these grants can be found on the Department of Commerce website at <https://commerce.mt.gov/BusinessRecovery>

Coronavirus Relief Funds Grant Programs

Agency	Grant Program	SABHRS Appropriation Established <sup>1</sup>	Expenditures
57060	Natural Resources and Conservation		
	Business Adaptability Grants	\$20,000,000	\$1,569,756
61010	Dept. of Administration		
	School Funding for COVID impacts	75,000,000	54,868,321
	Mail-in Ballot Postage Reimbursement to Counties	500,000	288,463
	Local Government Reimbursements	80,000,000	26,172,439
62010	Agriculture		
	Agricultural Adaptaion Grants	1,050,000	359,139
	Business Innovation Grants	5,000,000	1,107,503
	Montana Meat Processing Grants	7,600,000	0
65010	Commerce		
	Business Stabilization Grants	74,990,000	67,015,579
	Emergency Housing Assistance	49,996,492	1,566,670
	Loan Deferment	125,000,000	16,440,899
69010	Public Health & Human Services		
	Public Health Clinic Grants	5,000,000	4,567,681
	Stay Connected Grants	400,000	189,879
	Food Bank and Food Pantry	1,985,000	1,593,100
	Social Services Non-Profits	10,000,000	7,538,202
	Telework Assistance	650,000	15,724
	Behavioral Health	33,000,000	0
<b>Grand Total</b>		<b>\$490,171,492</b>	<b>\$183,293,354</b>

<sup>1</sup>Appropriations are as currently established in SABHRS, the state accounting system, and may not reflect all amounts planned by the Executive.

The following table has been developed with information provided by the executive branch and shows the various grant programs, the CRF allocated to the program, grant funds requested, awarded, and paid, applications received, funded and determined to ineligible or duplicative, as of August 4, 2020. Please note that totals do not match as a result of timing and minor details in the SABHRS data.

Montana Coronavirus Relief Funds							
Status as of August 4, 2020							
	Allocated	Awarded	Paid to Recipients	Funds Requested Not yet processed	Applications Received	Applications Funded	Applications Declined
Business Stabilization	\$80,000,000	\$69,177,698	\$65,745,739	\$7,250,515	9,924	7,710	1,210
Business Innovation*	5,000,000	2,728,834	1,107,503	599,509	1,127	70	930
Agriculture Adaptation *	1,050,000	1,003,296	350,365	0	412	45	303
Public Health Grants	5,000,000	4,863,387	3,083,201	82,112	132	56	67
Stay Connected	400,000	227,359	116,070	27,932	160	107	20
Food Bank and Food Pantry	2,000,000	1,968,100	1,281,600	1,407,528	150	94	22
Social Services Nonprofit	10,000,000	9,993,980	5,979,632	2,011,244	1,371	825	52
Emergency Housing	50,000,000	1,628,595	1,455,245	0	1,885	610	751
Telework Assistance	650,000	124,500	62,923	12,500	157	87	61
Business Adaptability*	20,000,000	2,060,787	1,567,132	1,083,472	927	446	47
Montana Meat Processing*	7,600,000	7,584,424	0	17,927,078	153	0	92
Local Government Reimbursement*	80,000,000	23,799,378	23,799,378	41,733,956	92	38	7
Loan Deferment	125,000,000	14,234,369	5,195,444	6,939,836	870	181	33
Behavioral Health	33,000,000	0	0	6,074,874	29	0	0
School Funding for COVID Impacts	<u>75,000,000</u>	0	0	<u>0</u>	<u>346</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$494,700,000</u></b>	<b><u>\$139,394,707</u></b>	<b><u>\$109,744,232</u></b>	<b><u>\$85,138,055</u></b>	<b>17,735</b>	<b>10,269</b>	<b>3,595</b>

\* Grant program designed to reimburse participant for expenditures

Each grant program has specific requirements for eligibility, application deadlines, if applicable, and maximum amount of assistance. The requirements, deadlines, and amounts can be found at: <https://commerce.mt.gov/Montana-Coronavirus-Relief/Business-Assistance>

### CRF Funding use in State Agencies

In addition to the grant programs being operated through state agencies, many agencies have undertaken specific activities associated with COVID-19 that are eligible for CRF reimbursement. The following table summarizes these CRF expenditures to date by agency. A total of \$13.5 million was reimbursed to state agencies in FY 2020.

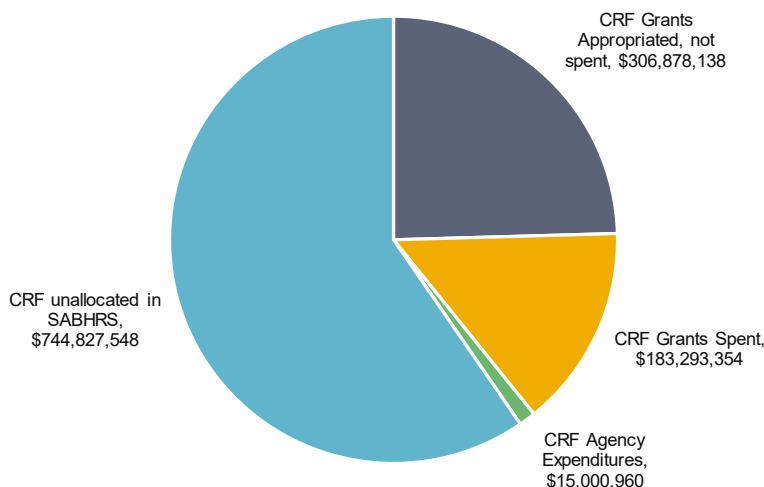
Coronavirus Relief Funds Expended in Agency Budgets  
Excludes Grants to Entities Outside of State Government  
Actual Expenditures

Agency	FY 2020	FY 2021	Grand Total
11040 Legislative Branch	\$1,419		\$1,419
21100 Judicial Branch	51,300	1,087	52,387
31010 Governor's Office	58,037		58,037
35010 Office of Public Instruction	20,350		20,350
51020 Commissioner of Higher Ed	126,218		126,218
51130 School for the Deaf & Blind	9,677		9,677
51150 Library	15,297	0	15,297
53010 Environmental Quality	63,792	0	63,792
54010 Transportation	55,510		55,510
57060 Nat. Resources & Conservation	102,973		102,973
58010 Dept. of Revenue	55,944		55,944
61010 Dept. of Administration	3,049,047	0	3,049,047
61080 Office of the Public Defender	22,265		22,265
62010 Agriculture	25,749	0	25,749
64010 Corrections	4,323,307		4,323,307
65010 Dept. of Commerce	238,260	1,467,452	1,705,712
66020 Labor & Industry	152,631		152,631
69010 Public Health & Human Service	5,160,884	(238)	5,160,646
<b>Grand Total</b>	<b>\$13,532,659</b>	<b>\$1,468,301</b>	<b>\$15,000,960</b>

It is worth noting that a significant amount, over \$4.4 million of state expenditures were coded as COVID-19 expenditures in FY 2020 and subsequently not reimbursed. This could be due to the very rapid nature of

changing guidance or that items were simply not approved for reimbursement that agencies felt might be eligible. These amounts are still included in the LFD Dashboard for general fund expenditures associated with COVID-19. Approximately 40.4% of the CRF has been committed in SABHRS or spent as of August 7, 2020, as can be seen in the chart below.

Coronavirus Relief Funds Summary: \$1.25 Billion Total



## FEDERAL FUNDING TO/THROUGH STATE AGENCIES

The final category of federal funding is that of other state funding programs that were directly established via the federal COVID-19 response bills, outside of the Coronavirus Relief Act, but still directed at responding to the economic impacts in all states. As a result, many agencies processed additional budget amendments to establish additional federal authority. The following table summarizes the new federal authority within Montana agencies. Expenditures reported are as of August 7, 2020.

It should be noted that most of this funding is not replacement funding for state expenditures, but increases the overall state budget for federal funds. However, the 6.2 percentage points FMAP increase does decrease the amount of state funding required to fund the Medicaid program, resulting in general fund and state special fund savings.

For daily updates on CRF expenditures and non-CRF expenditures, please use the [LFD Dashboard](#).

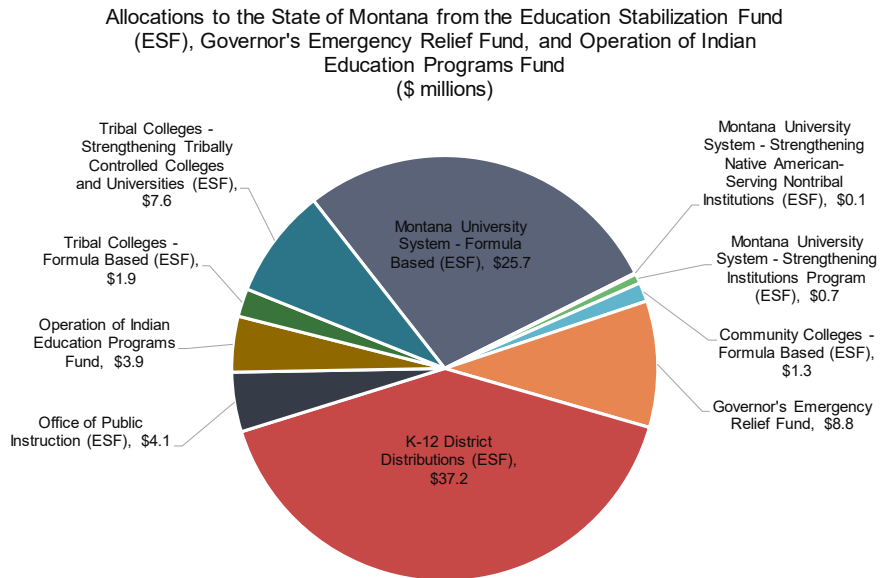
Non-CRF Federal Funding from Federal COVID response bills

Agency and Program	Appropriation Established	Expenditures			Remaining Authority
		FY 2020	FY 2021	Grand Total	
31010 Governor's Office					
Governor's Emergency Education Relief (GEER)	\$8,764,495		\$840,000	\$840,000	\$7,924,495
32010 Secretary of State					
2020 Federal Election Cycle Supplemental Funding	3,000,000			0	3,000,000
35010 Office of Public Instruction					
K-12 Education Stabilization Fund	41,295,230				41,295,230
51150 Library					
Hotspots for local libraries, online content	96,573	0	9,556	9,556	87,017
51140 Arts Council					
National Endowment for the Arts	424,400				424,400
54010 Transportation					
Federal Aviation Grant West Yellowstone/Lincoln	3,435,688	212,432	15,896	228,328	3,207,360
Federal Transit Infrastructure Grants	35,454,948	5,784,009	106,453	5,890,461	29,564,487
64010 Corrections					
COVID Administrative Support	3,457,033	52,143		52,143	3,404,890
65010 Dept. of Commerce					
Tenant Based Section 8 Voucher Program	109,677			0	109,677
Project Based Rental Assistance	541,418				
Small Business Development Centers	1,280,000	23,552	29,143	52,695	1,227,305
66020 Labor & Industry					
Support increased staffing for UI benefits	2,678,938	987,231	30,140	1,017,371	1,661,567
Emergency UI Operations	1,198,117	375,676		375,676	822,441
Pandemic UI Operations	347,793	149,789		149,789	198,004
Pandemic UI Assistance Operations	2,165,496	1,728,479	166,416	1,894,895	270,601
69010 Public Health & Human Services					
FMAP 6.2 percentage points increase	38,822,172	38,822,166	0	38,822,166	6
Assistance for homeless	2,524,355	100,715		100,715	2,423,640
Housing Opportunities for Person with AIDS (HOPWA) g	324,723	31,894		31,894	292,829
LIEAP funding for additional heat & electricity assistanc	5,173,970	3,571,621	109,133	3,680,754	1,493,216
Cares Act Community Services Block Grant	1,258,912	35,386		35,386	1,223,526
COVID-19 Federal support for local food banks	310,666	71,574		71,574	239,092
TEFAP funding additional food to local food banks.	465,998	242,622	45,000	287,622	178,376
Increased support for domestic violence women's shel	111,582			0	111,582
Hospitals and other healthcare providers support	1,523,288	934,894		934,894	588,394
COVID-19 Surveillance, Lab Testing, Reporting, Commur	4,567,500	2,559,384	10,316	2,569,700	1,997,800
Support for Hospitals, Health Systems, Health Care Wor	273,861			0	273,861
COVID-19 Response for clients of Ryan White HIV/AIDS	50,000			0	50,000
COVID-19 Testing and Monitoring to Support State and	5,075,000	1,798,084	23,667	1,821,751	3,253,249
MT Epidemiology and Laboratory Capacity	49,914,794	3,105,113	(1,087,036)	2,018,077	47,896,717
Covid - 19 Hospital Preparedness and Response	941,173			0	941,173
Increased influenza vaccination coverage	359,041	504		504	358,537
Provider Certification and Oversight	372,641			0	372,641
Families First Administration for Community Living	800,000	798,655		798,655	1,345
Additional Funding Meals Program for Older Americans	400,000	399,175		399,175	825
Caregiver Support and Meals Program	500,000	141,588		141,588	358,412
Aging Support Services	1,000,000	299,917		299,917	700,083
COVID-19 increases support for local Ombudsman prog	100,000	10,800		10,800	89,200
Additional Funding Meals Program for Older Americans	2,400,000	585,870		585,870	1,814,130
COVID-19 increases support for Aging services in Mont	305,454	303,449		303,449	2,005
Targeted support for emergency, medical and essential	10,113,887	6,634,740	5,000	6,639,740	3,474,147
National School Lunch/Breakfast, Special Milk, Child an	5,299,634	3,205,405		3,205,405	2,094,229
Behavioral health crisis services	2,000,000			0	2,000,000
<b>Grand Total</b>	<b>\$239,238,457</b>	<b>\$72,966,868</b>	<b>\$303,683</b>	<b>\$73,270,551</b>	<b>\$165,967,905</b>



# APPENDIX – EDUCATION FUNDING FOR COVID-19

## EDUCATION FUNDING IN RESPONSE TO COVID-19



### Education Funding Allocated to the Tribal Colleges

The tribal colleges in Montana received two funding allocations from the CARES Act, which were from the education stabilization fund (ESF) and the operation of Indian education programs fund. The ESF allocation totaled \$9.6 million and was broken into two types of allocations: formula-based and strengthening tribally controlled colleges and universities. The tribal colleges were allocated \$1.9 million as part of the formula-based allocation and were required to use at least 50% of the funds for student assistance. The tribal colleges were allocated \$7.6 million for strengthening tribally controlled colleges and universities. Additionally, the tribal colleges in Montana were allocated \$3.9 million from the operation of Indian education programs fund. This can be used for, but is not limited to, funding for tribal colleges and universities, salaries, transportation, and information technology.

## APPENDIX – FYE 2020 FIRE FUND BALANCE

The following table shows the FYE 2020 ending fund balance of the fire suppression fund at \$54.7 million. A portion of unspent general fund reversions is set to transfer to the fire suppression fund by August 15, 2020. If this occurs, the transfer would be about \$47.5 million. Montana statute provides the Governor the option of not transferring excess reversions to the fire suppression fund if a general fund shortfall is anticipated by the executive. LFD assumes that this transfer will not occur in FY 2021.

Montana Fire Suppression Fund Fund Balance	
	FY2020
Beginning Balance	\$36,270,454
Revenues	
Reimbursements for Fire Suppression	\$251,560
MBOI Earnings (STIP)	1,061,030
Reverted General Fund	30,343,641
Other	2,351
<b>Total Revenues</b>	<b>\$31,658,583</b>
Expenditures	
Personal Services	(\$1,880,927)
Operating Expenditures	(11,387,073)
<b>Total Expenditures</b>	<b>(\$13,268,000)</b>
<b>FYE 2020 Fire Suppression Fund Balance</b>	<b>\$54,661,037</b>