2025 Biennium Outlook Report

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LEGISLATIVE FISCAL DIVISION
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Montana’s Financial Future for the 2025 Biennium

The purpose of this report is to provide legislators with a preliminary look at the major financial considerations for the upcoming 2025 biennium budget. The report provides the current outlook for ongoing general fund revenues and expenditures to project available resources for the 2025 biennium. The report includes a summary of findings, with further elaboration on the following:

- General fund projections
- Projected state financial reserve balances
- General fund revenue projection scenarios
- Present law expenditure requirements
- Spending pressures on the budget

BUDGET PRESSURES

The report contains a discussion of various pressures that are not part of present law but may impact spending or revenues.

Present law base is defined in statute (17-7-102(10), MCA) as that level of funding needed to maintain operations and services at the level authorized by the previous legislature. “Pressures” are defined as those factors that are not within the statutory definition of present law and are not included in the present law estimate, but that the legislature is likely to be under pressure to fund. Pressures are often as compelling as present law and legislators often face difficult choices deciding which or how many pressures to fund.

Preface – Legislative Fiscal Analyst’s Summary

Two years ago, words like historic and unprecedented were often used to describe the global economy. At present, the nation and state have been through unprecedented events, and now looks to the future with lingering effects from those unprecedented events and a new conflict further impacting supply chains and prices.

Key factors influencing how to understand the next two biennia include:

- Population growth and aging
- Inflation, including stimulus and the impact of the Ukrainian conflict on the global economy
- Higher wages and lower labor participation rates

Glossary of Terms

“Catch-up” means the difference between current inflation and the inflation budgeted in the 2021 Session for the 2023 Biennium.

Consumer Price Index for all Urban Consumers (CPI – U): This is the monthly measure of average change over time in the prices paid by consumers for consumer goods and services. Often this is interchanged with the word inflation or CPI.

IHS Markit: The state purchases monthly econometric data from IHS Markit, which has recently undergone a name change to S&P Global Market Intelligence.

Personal Income: as defined by the U.S. Bureau of Economic Analysis is income people receive from wages and salaries, Social Security and other government benefits, dividends and interest, business ownership, and other sources.

Present Law Plus: Includes a broad, low-level inflation factor across the budget.

1Content for the charts included as key factors on population, inflation, wage growth, and personal income was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings (“Content”) in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers (“Content Providers”) do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.
• Changes in the underlying economy including remote work, tourism, and the changing energy economy

POPULATION AND INFLATION

Population
Population growth in Montana in recent years has been higher than past years. It is unknown if this growth rate will remain high or return to a lower trend. Population impacts both state revenue collections and state expenditures for services provided to Montana citizens. For example, population growth might contribute to higher income tax collections and increase enrollment of children in public schools. The IHS Markit forecast suggests that Montana’s population growth will slow and return to historic trends.

Inflation
As seen in the chart below, in recent decades, inflation has remained at or close to the 1.0% - 3.0% Federal Reserve target range. Current inflation is anticipated to significantly exceed the Federal Reserve target range in FY 2022 at 7.2% and in FY 2023 at 4.4%. The IHS Markit forecast suggests that inflation will then return to within the target range by FY 2024.
**WAGE GROWTH**

Growth in the average wages paid in Montana exceeded the growth in inflation in FY 2021. Inflation is anticipated to be above wage growth in FY 2022, but beyond FY 2023, wages are anticipated to return to past trends and grow faster than inflation.

**STATE GOVERNMENT REVENUES**

General fund revenue trends are key to the analysis of the future capacity of state government to provide services. State government revenues grow relative to total personal income. Personal income grows relative to the population and the income of residents. Wages are a substantial portion of personal
income, but personal income also comes from other sources including business income and social security.

**High Collections in FY 2021 and FY 2022 – “Bubble”**

Personal income grew at 7.3% and 7.8% respectively during FY 2020 and FY 2021, but the growth rate is anticipated to slow in coming years. As seen in the chart below, the annual year-over-year growth in general fund revenue collections was 17.0% in FY 2021 and if current year-to-date collections continue, the growth will be approximately 26.3% in FY 2022.

After times of high revenue collections relative to personal income, a period of low collections can be expected. FY 2023 and FY 2024 are anticipated to respond to the higher collections in FY 2021 and FY 2022 with lower than typical collections.

General fund revenues are more volatile than personal income, meaning the growth in general fund revenue collections swing higher than personal income growth when the trend in personal income growth is higher and lower when personal income grows slower. The current very high revenues are anticipated to be offset by declines in general fund revenue growth over the next year or two.

![Growth Rates of Personal Income & General Fund Revenue](chart.png)

**General Fund Revenue Forecast**

The graphic on the next page illustrates the two forecasts used in this Outlook report.

Traditional forecasting techniques often are overly influenced by the most recent years, and there currently is unprecedented strong growth in both FY 2021 and anticipated in FY 2022. In addition, these traditional techniques miss predicting the inherent volatility swings in general fund revenue collections. For these reasons, the traditional forecasting techniques may be overstating anticipated income. An alternative forecast was developed to remove the unexpected increase in revenues in FY 2021 and FY 2022 but account for recent inflationary impacts. This alternative should not be considered a pessimistic or worst-case forecast. The LFD did not forecast a worst-case scenario.
The LFD staff and other forecasters across the country do not have experience with this type of growth, nor this type of uncertainty. An alternative forecast was developed to accommodate this uncertainty. This alternative forecast grows from the forecast for FY 2023, adjusts for inflation, and then grows at a modest rate. Until a better understanding of revenues can be developed and for planning purposes, the LFD is recommending using the alternative forecast for describing the financial status of the state. Given the variation and uncertainties in these estimates, the LFD recommends a study on revenue volatility management tools and forecast strengths and weaknesses. See call out box for more details.

**Approach to Expenditure Analysis for the 2025 and 2027 Biennia**

**Current State Services Only**
As described in the expenditure section of this report in greater detail, the costs in this report represent anticipated costs for current government services. It does not include new services but provides a range of funding levels for current services.

**Economic and Budget Growth**
Montana total wages increased more than 7.0% in FY 2021 and are expected to continue to be above that level through FY 2023. In the budgets adopted in the 2021 session, state

**Volatility Study**
The LFD proposes to study the variation in collections for major revenue sources, to portray expected swings in revenue on a year-by-year basis. Sources will be ranked by volatility, as well as the impact that each source’s volatility has on overall revenue collections.

The study will also analyze the likelihoods of downturns in the revenue cycle, as well as the size of these downturns.

In addition, the study will research federal action during historical recessions and previous federal stimuli that limited downside economic risks on state budgets. Using the historical research, the LFD will forecast scenarios using current statute that determines state financial reserve levels sufficiency for downturns in the economy and how often and how much the federal government assists states.
government wages were budgeted to grow very little through FY 2023. Since that time, the executive has made targeted wage increases in specific areas of the budget to hire and retain employees, such as increasing lawyer and correctional officer pay in the Office of Public Defender and the Department of Corrections.

However, state agencies have been averaging a high rate of vacant positions as they have faced challenges retaining existing staff and hiring new staff. The statewide vacancy rate for HB 2 positions as of May 1, 2022 was 13.8%. Many state agencies have increased wages to meet these challenges, and personal services budgets are assumed to grow in the upcoming biennia to accommodate these changes.

In addition, various government agencies often contract with the private sector for the provision of services. From K-12 schools to Medicaid nursing homes, the largest item purchased is labor to perform a service. Wages are growing in all sectors of the economy, which results in increased cost for providing governmental services.

Like the impact seen in revenues, inflation and population will play a significant role in estimating costs. Wage inflation, in addition to overall inflation, will play a significant role in cost estimates.

Data in the above chart, Growth in Montana Total Wages, Montana Total Personal Income, and CPI-U, is provided by IHS Markit.

Present Law Plus
State budgeting law and tradition determine how changes in costs are adjusted. Present law budgets defined in MCA 17-7-102(12)(c) include adjustments for inflation. Other statutes and traditions limit customary application of inflation in certain areas of the budget. These details are a significant part of the technical budgeting process. However, the approach in this report simplifies budgeting and eliminates many of the complexities that will be considered during session, which do not add value to the high-level depiction of the budget contained in this report. The definition of “present law plus” incorporates a broad, low level of inflation across the budget. Generally, each cost estimate includes at least the level of inflation anticipated from CPI-U forecast in IHS Markit from FY 2023 forward.
cases where costs are already adjusted upward prior to session, “catch-up” inflation was applied. “Catch-up” means the difference between the inflation that was anticipated when the 2023 biennium budget was developed and current inflation.

**Pressures**

“Pressures” are defined as those factors that are not within the statutory definition of present law and are not included in the present law estimate, but that the legislature is likely to be under pressure to fund.

Additional inflationary pressure to adjust expenditures to 7.0% per year were included for almost all cost categories. While this rate of inflation is above the anticipated CPI-U growth from IHS Markit for later years in the budget, total wage growth is anticipated to exceed 7.0% per year from FY 2021 to FY 2023 and anticipated to slow to a lower growth rate of around 5.0% per year after FY 2023. Note the 7.0% was carried through the 2027 biennium. Since most government purchases are for labor, this is an important factor when looking towards the future. By the 2027 biennium, this may materially overestimate expenditure pressures if inflation returns to the Federal Reserve target rate of 1.0% to 3.0% inflation.

Other cost increases under pressures include increased wildfire suppression expenditures, if above average fires occur, and increased pension compensations, if higher wage inflation occurs in local governments and schools, as well as increasing employer contribution rates by 1.0% per year for the state sponsored retirement systems, to amortize the unfunded liability more quickly.

**Comparisons**

Comparisons used to measure growth in expenditures include: 1) growth in personal income and 2) growth in CPI-U (inflation) and population. The following illustrates both comparisons.

The graphic above shows the amount of growth in personal income and CPI-U and population since FY 2019. For example, $100 of personal income in FY 2019 grows to $154 of personal income in FY 2027. Likewise, growth in population and inflation grows from $100 in FY 2019 to $136 in FY 2027. Personal income tends to grow faster than population and inflation due to the increases in relative wealth of the population.

As stated already, state revenues tend to grow close to the growth in personal income. In the past two decades, state government general fund spending has grown between the growth in population and
inflation and the growth in personal income (LFD report from January 2020). If these trends continue, then the rate of growth between FY 2019 and future fiscal years will result in correspondingly larger budgets.

**Revenue Comparisons**

The following graphic shows the projected growth in inflation and population and personal income, compared to growth in the LFD traditional and alternate revenue forecasts. The very large growth anticipated in FY 2022 revenues is above the level of anticipated growth in personal income. Both forecasts assume a reduction from the FY 2022 level of revenue for the upcoming biennia.

Over the forecast period through FY 2027, the traditional forecast tracks at or above growth in personal income from FY 2019. The alternate forecast tracks more closely with the growth rate for population and inflation.

**Expenditure Comparison**

A similar analysis was done for the expenditure forecast. In FY 2019, state government general fund was budgeted at $2.5 billion. The adjacent graphic compares the growth in inflation and population and personal income to growth in forecasted expenditures. As described previously and in more detail in the expenditure section, the analysis contained in this report includes many assumptions on caseload growth and inflation. The higher inflation was continued into the 2027 biennium but may overstate the expenditure pressure if inflation recedes from current levels. The assumptions contained herein were necessary to project a range of potential costs to maintain current levels of services and pressures for additional services, however any increase in appropriation is at the discretion of the legislature.

**Comparing Revenues to Expenditures**

As shown above, the anticipated growth in expenditures is below the growth in population and inflation from FY 2019 through the 2025 biennium. When revenues and expenditures are compared together, as shown in the chart below, anticipated present law plus expenditures and pressures remain below both revenue forecast scenarios in the 2025 biennium. The impact of potential pressures in the 2027 biennium result in potential expenditures that are above the lower, alternative revenue forecast. More detailed explanations about expenditures begins on page 20.
General Fund Focus
This report concentrates on the general fund, as it is the primary discretionary source used by the legislature to make funding decisions for government services, such as education, health and human services, and public safety. General fund was 35.0% of the state budget for the 2023 biennium. In addition, general fund is important to legislators as general fund ending fund balance and structural balance are used to determine the fiscal soundness of the state.
2025 BIENN NUM BEGINNING GENERAL FUND BALANCE

When legislators completed their work in the 2021 session, the anticipated ending fund balance for the 2023 biennium was above the operating reserve level (defined in statute) by $157.2 million. After considering anticipated changes in revenues and expenditures, including supplemental pressures, the general fund balance at the beginning of the 2025 biennium is projected to be above the operating reserve level by $1.7 billion. The primary reasons for the higher-than-expected ending fund balance are the hyper inflated revenues due to the federally stimulated economy, strong stock market in calendar year 2021, and inflation. Projected revenues in FY 2023 are expected to drop at least 10.0% but possibly as much as 20.0% from FY 2022. This represents a reduction of $347.0 – $721.0 million in general fund revenue collections in just one year.

The recent years of high revenues provide a cushion to absorb the extreme volatility projected for FY 2023. Revenue collections are expected to decline from the hyper-inflated years (FY 2021 and FY 2022) and structural balance (ongoing revenues vs ongoing expenditures) is expected to narrow by the end of FY 2023.

State government’s ability to manage financial volatility is necessary to weather the huge swings in the economy. In 2019 and 2021 the legislature adopted budget stabilization methods like recommending an operating reserve level, creating a dedicated fund to be used in times of financial need, and establishing a pay-as-you-go infrastructure fund, serving as a working rainy-day fund as needed. Other tools like prioritized spending plans that identify reductions in state agency budgets ahead of time are also in place to mitigate volatility, but additional study may provide more ideas for greater stability.

STATE FINANCIAL RESERVES

As mentioned, the state relies on financial reserve balances in times of economic volatility. Since revenue collections in FY 2021 were $401.9 million above expectation, the state financial reserves benefited from the one-time surge in revenues. Legislation in 2019 established the budget stabilization reserve fund (BSRF) and a working capital development revenue fund (CD). Both funds received an influx from high FY 2021 revenue collections. If FY 2022 revenue collections continue the trajectory predicted from April filings, the financial reserve funds will receive additional one-

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2 17-7-102(11), Montana Code Annotated.
time revenues. The BSRF is anticipated to have reached its limit, as defined in statute, and have a full balance of $120.5 million in FY 2023.

When the BSRF is statutorily full, a portion of excess general fund revenues flow to the CD fund where it is available for appropriation for major repairs and improvements to state-owned infrastructure. The CD fund is anticipated to receive excess revenues of $211.7 million in FY 2023. Although the CD fund is primarily used for capital improvements, in times of financial volatility the legislature may pass legislation to use it for budget stabilization. The capital development fund is projected to have an ending fund balance of $430.3 million at the end of FY 2023.

The wildfire suppression fund is also available to the legislature as a reserve fund for use in times of financial need. The average cost of wildfire suppression has increased in the last ten years from $22.3 million to $29.2 million per year. Per statute, the balance of the wildfire suppression fund is limited to 4.0% of the total general fund appropriation in the second year of the biennium, or about $107.2 million for FY 2023. Based on cost estimates and projected revenues, the fund balance is estimated to be $32.4 million by the end of FY 2023.

Moving Forward into the 2025 Biennium

Strong collections provide a secure beginning for the 2025 biennium budget process, but economic uncertainty clouds the future. Outlined in this section of the report are 2025 biennium revenue expectations compared with present law plus expenditure assumptions, and expenditure pressures the legislature may wish to consider during the 2023 legislative session.

A series of graphics visually depict revenue projections in relation to estimated spending levels for the base budget, present law plus, and pressure considerations.

Revenue Projection Scenarios

Present Law Revenue Assumptions

When the legislative revenue estimate (HJ 2 adjusted for legislation) was adopted in March of 2021 it had anticipated growth rates of 1.1%, 3.1%, and 3.6% for FY’s 2021, 2022, and 2023 respectively. A lot of uncertainty surrounded this estimate, such as the effects that COVID-19 lockdowns would have on the economy as well as how long it would take the economy to recover. Instead, revenues have grown considerably, buoyed by multiple rounds of federal stimulus funds, and most recently, high inflation. Current revenue trends indicate that revenues will decrease in FY 2023, as the direct effects of the federal stimulus on state tax revenues are expected to end. Year-over-year revenue growth in the 2025 biennium is then expected to slow and average 3.8%, and slightly increase to 3.9% in the 2027 biennium.

Traditional Revenue Forecast

The traditional forecast contains the IHS Markit baseline for Montana and national economic assumptions for FY 2023 and beyond but incorporates current year-to-date collections to forecast final FY 2022 revenues. Furthermore, it utilizes the forecasting models that the LFD has developed and used for historical revenues estimates. These models heavily utilize the most recent collections for many sources, and the most recent year serves as the base year for
modeling numerous sources, including individual income taxes. This may prove to be problematic in the near-term, as the base has likely been artificially inflated by federal stimulus funds. Since the projections grow off the base year, future estimates may be too high once the effects of the federal stimulus have become less pronounced.

**Alternative Revenue Forecast**
The alternate revenue scenario incorporates the IHS Markit pessimistic forecast for national economic variables to produce annual revenue growth rates. The growth rates are then applied to the current HJ 2 estimate for FY 2023 after being adjusted for the effects of inflation. In HJ 2 there was an adjustment in FY 2023 that reduced revenues based on federal policies intended to reduce tax liabilities for taxpayers experiencing losses. It appears as though the federal stimulus did enough to more than offset these losses, so these adjustments were also removed from the FY 2023 HJ 2 estimate. This alternate forecast serves as an estimated counterfactual, or an estimate that only incorporates the inflation impacts on revenues while attempting to mute the effects of the federal stimulus.

**PRESENT LAW PLUS AND EXPENDITURE PRESSURES FOR THE 2025 BIENNium**
Present law plus adjustments from the base total $382.6 million. In comparison to previous biennial Outlook present law adjustments, the amount is higher due to anticipated inflationary adjustments. Pressures are defined as those factors that are not within the statutory definition of present law and are not included in the present law estimate, but that the legislature is likely to be under pressure to fund. The following table summarizes both present law plus and expenditure pressures.
Present Law Plus Detail
Present law plus of $382.6 million is primarily composed of growth in the Department of Public Health and Human Services (DPHHS), K-12 education, and the Department of Corrections (DOC). The following section summarizes changes in those areas.

Department of Public Health and Human Services

Present Law Plus

The present law plus projections for DPHHS represent an increase of $91.2 million in general fund for the 2025 biennium. Included in the general fund projections are the following:

- $16.3 million estimated for pay adjustments of nearly all staff types at the Montana State Hospital
- $10.9 million projected for statewide adjustments related to inflation
- $13.8 million for Medicaid “clawback” payments
- $17.0 million for personal services increases related to wage inflation
- $9.2 million for traditional and expanded Medicaid caseload adjustments
- $24.0 million for provider rate increases for wage inflation
Medicaid Clawback Payments
A brief from Federal Funds Information for States (FFIS) projects an increase in Montana's Medicare Part D clawback payments for CY 2023 of $6.9 million. FFIS describes the Medicare clawback: “Under the Part D drug benefit program created by the Medicare Modernization Act (P.L. 108-173), most costs are paid by beneficiary premiums and general tax revenues. The program is also supported by state payments to the federal government for beneficiaries who are eligible for both Medicare and Medicaid who receive drug coverage through Part D. Previously, prescription drug costs for these ‘dual eligibles’ were shared between the federal government and states as part of Medicaid. These state payments were designed to equal 90% of state Medicaid savings in CY 2006, declining each year by 1 2/3 percentage points and leveling off at 75% after 10 years (CY 2015). It is officially referred to as the “phased-down state contribution,” but generally known as the ‘clawback.’” The increase in general fund expenditures over the base is projected to be $13.8 million in the 2025 biennium and $13.8 million in the 2027 biennium. Additional detail about the DPHHS budget is found on page 21.

Department of Corrections
During the last five years, the Department of Corrections has seen an average growth in general fund expenditures of 1.5%. It should be noted that between FY 2019 and FY 2021 adult incarcerated populations declined and costs increased with the impacts of COVID-19. But in the near term, inflation within the labor markets has made the retention and recruitment of correctional officers problematic, along with inflation in housing, fuel, and food, all necessary aspects in the care of incarcerated offenders, combine to increase costs in the agency. Furthermore, the costs of community correctional facilities and programs have experienced the same cost increases. While the contracts for community correction services have been held at lower rates of growth in the past, current contracts are expiring and new contracts are expected to increase costs substantially as early as FY 2023.

Office of Public Instruction (OPI)
The present law plus adjustments for the Office of Public Instruction represent an increase of $75.7 million. The primary reason for the increase is the growth in BASE Aid of $70.5 million. Statute requires that certain components of school funding include a present law adjustment for inflation in the superintendent’s budget request (20-9-326, MCA). Anticipated inflationary increases in the 2025 biennium are 2.7% in FY 2024 and 3.0% in FY 2025, based on the Global Insight forecast from August 2021. Additional information on present law BASE Aid inflation and other adjustments for OPI are included on page 26.
Pressures
The expenditure pressures included in this section do not add new services, but fund current operations of state government at a level higher than present law. Pressures total $487.6 million and the most significant areas are the following:

- $78.1 million for a 7% employee pay increase
- $68.4 million for 7% provider rate increase
- $39.0 million for 7% fixed cost inflation
- $22.3 million for 7% entitlement share increase for inflation to local governments
- $9.9 million for caseload adjustments in the Office of Public Defender and DOC
- $7.1 million for pensions compensation inflation
- $5.9 million for 1.0% employer contribution to the pension system to amortize the unfunded liability more quickly

The total general fund pressure considering base, present law plus, and pressures is $6,239 million, and is $152.9 million less than the alternative revenue forecast of $6,392 million for the 2025 biennium.
Revenue Details

Most general taxes are deposited in the state general fund. The general fund is used for most broad purposes of state government; education, health, and corrections are the predominant uses of this fund. Details of all general fund and most major state special fund revenue sources and allocations are contained in the Legislative Fiscal Division’s 2023 Biennium Fiscal Report.

GENERAL FUND REVENUE SOURCES
The largest seven sources of general fund revenue are individual income tax, property tax, corporate income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2021, these sources accounted for 90.0% of general fund revenue. Highlights of the top seven tax sources are provided later in this section.

General fund revenue volatility is usually attributable to three sources: individual income tax, corporate income tax, and oil and natural gas production tax. These sources are quite volatile in relative terms, and due to the greater percentage of the overall pie a small percentage swing in individual income tax can produce significant changes to overall general fund revenue collections.

GENERAL FUND REVENUE OUTLOOK AND FUTURE UPDATES
The chart below shows general fund revenue collections since FY 2014, with historical values shown in black, and traditional or alternative revenue forecasts shown in orange and green respectively. FY 2022 final revenues are forecast based on year-to-date collections. Montana, as well as most states, saw extremely robust growth in FY 2021 and FY 2022, likely a result of pandemic-driven federal stimulus, and most recently, high inflation. Revenues are expected to decrease in FY 2023 and return to growth rates that more closely resemble historical rates.
The general fund revenue outlook is produced by estimating the underlying sources of revenue and the economic drivers of those sources. Updated 2025 biennium revenue estimates for the general fund will be produced in November 2022 and presented to the Revenue Interim Committee (RIC). FY 2023 monthly revenue collections will be closely monitored throughout the 2023 session. If significant differences occur between the FY 2023 estimate and the actual revenues received, updates will be provided to the legislature.

**Individual Income Tax**

The individual income tax is levied against taxable income. The calculation for taxable income begins with Federal Adjusted Gross Income. Several adjustments are made to produce Montana Adjusted Gross Income, and exemptions and deductions are subtracted to produce taxable income.

Tax rates vary from 1.0% to 6.75%, depending on the level of taxable income. The effective tax rate on capital gains income is less than the tax rate on ordinary income by 2.0%, after accounting for the 2.0% capital gains income tax credit.

**SB 399**, which was passed in the 2021 Legislative Session, considerably changed Montana’s individual income tax laws. This law eliminated multiple credits beginning in CY 2022. Furthermore, beginning in CY 2024 Montana’s taxable income will be based on federal taxable income and contain two tax rates, 4.7% and 6.5%.
The outlook for individual income is based on IHS Markit April economic projections at both the federal and state level as well as the updated individual income tax model provided by the Department of Revenue.

**Property Tax**
Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (voc-tech) college (20-25-439, MCA). Taxable value is defined as the market value of statutorily defined property multiplied by a statutory tax rate.

The outlook for property tax is based on taxable value data by property class type for TY 2021, and assumes historic growth patterns by class adjusted during reappraisal years.

**Corporate Income Tax**
The corporate income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. The tax rate is 6.75%, except for corporations making a "water's edge" election (15-31-322, MCA), who pay a 7.0% tax on their net income.

The financial, energy, transportation, and retail related sectors are the largest contributors to corporate income tax liability. Primary economic drivers of this source include oil prices, median house price, professional sector employment, and retail sales. The forecast for this source is based on prior statistical analysis by Legislative Fiscal Division staff.

**Vehicle Taxes**
Revenue for this source is primarily generated by taxing light vehicles and a variety of other vehicles under a fee schedule that varies by age and weight. Light vehicles aged 0 to 4 years are taxed at $217; vehicles aged 5 to 10 years cost $87; and vehicles 11 years of age and older cost $28, although there is the option to permanently register them for $87.50.
In addition, the state assesses a variety of motor vehicle fees such as fees for motor vehicle liens, fees for new license plates, and title fees.

**Oil & Natural Gas Production Taxes**
The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. The gross taxable value of oil and natural gas production is based on the type of well and type of production, and whether the production occurs within the tax holiday (15-36-304, MCA). The charts below show the West Texas Intermediate (WTI) oil price and Montana production as well as forecasted values.

The outlook for oil production tax assumes a continued decline in production and sustained higher prices than what has been seen in recent years. Oil production taxes could be different than forecast if prices are materially different than assumed in the forecast. Sudden changes to drilling activity would have a delayed revenue impact in the 2025 biennium due to the oil tax holiday for newly completed wells.

**Insurance Tax**
The majority of insurance tax revenue comes from a tax of 2.75% on net premiums sold. There is an additional 2.5% levied on fire insurance premiums sold, and a number of small fees.

**Remaining Sources**
The outlook for video gaming tax and all remaining sources is relatively stable through the next two biennia. Video gaming taxes grow by 4.8% per year while the remaining sources grow by an average of 3.2% per year.
Expenditure Details

ALL AGENCIES

Present Law Plus
Present law plus adjustments calculated statewide for all agencies include adjustments for personal services, fixed costs, and inflation:

- Personal services totals $91.1 million over the 2025 biennium. This adjustment includes the annualization of the pay plan provided in HB 2, estimated inflationary components, and approximately 5.0% for anticipated agency decisions related to pay and retention
- Inflation for operating costs total $74.2 million over the 2025 biennium. State accounting and information technology services, rent on state owned buildings, workers’ compensation insurance, gasoline, food for institutions, electricity, etc. are examples of operating costs which include inflationary adjustments
- Provider rate increases totals $24.0 million over the 2025 biennium, which includes an estimated CPI-U inflation adjustment

Pressures
State Employee Pay Plan
In addition to the present law personal services adjustment, an additional pressure is included for a total of 7.0% inflation. This additional inflationary pressure is $78.1 million in general fund.

Inflation for Operating Costs
An additional pressure is included for a total of 7.0%. This additional inflationary pressure is $39.0 million for the 2025 biennium.

Provider Rate Increases
The majority of medical and community services administered by the Departments of Public Health and Human Services and the Department of Corrections are provided through contracts with private businesses. In some instances, the state agency is the primary or only customer for these services. As business entities or private non-profits, contractors are subject to the same economic conditions as other employers. These businesses traditionally request that the legislature consider rate increases to cover cost growth and to maintain operations.

DPHHS is currently contracting with a consultant to study the adequacy of agency provider rates across a variety of services. Accordingly, the impact of a 2.0% and 5.0% provider rate increase (year-over-year for both the 2025 and 2027 biennia) are shown in the adjacent table. Federal funds increase relative to general fund at a ratio of 5.6:1.

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<th>DPHHS Provider Rate Impacts (in millions)</th>
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<td>2% Provider Rate PL+</td>
<td>5% Provider Rate Pressure</td>
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<td>$80.0</td>
<td>$448.0</td>
</tr>
</tbody>
</table>

In recent biennia, the legislature has provided a 1.0% increase to the providers of community corrections services. There is expected to be pressure to increase the provider rates for community corrections. Provider rate increases were included in estimated cost pressures using a 5.0% rate of growth, increasing the biennial budget by $8.4 million.
SECTION A: GENERAL GOVERNMENT
General government expenditure projections include present law plus impacts and pressures for the pension systems, including an 1.0% employer contribution increase, increased entitlement share payments to local governments for inflation, and transfers for capital development and major maintenance funding. The total potential general government increase for present law plus and pressures is $125.7 million.

SECTION B: HEALTH AND HUMAN SERVICES
The Department of Public Health and Human Services expenditure projections include present law plus impacts and pressures the legislature will likely face in making budgeting decisions. These projections represent a total potential general fund increase of $177.0 million general fund for the 2025 biennium as compared to the 2023 biennium. The total potential general fund increase for FY 2024 through FY 2027 is $625.6 million. This section provides further detail on the expenditure projections of the two largest subsets of the DPHHS budget (traditional Medicaid and Medicaid expansion), as well as the total budget. The section is organized as follows:

1. Traditional Medicaid
2. Medicaid Expansion
3. Other Areas of the DPHHS Budget

Traditional Medicaid Benefits & Claims
Montana’s traditional (non-expansion) Medicaid program HB 2 expenditures totaled $1,233.8 million in FY 2022 ($259.0 million general fund and $101.3 million state special funds). The FY 2023 base budget for the traditional Medicaid program is $1,287.2 million, $340.6 million of which is general fund and $106.3 million of which is state special funds. The state’s share of expenditures in traditional Medicaid were lower than anticipated in FY 2022 due to the enhanced Federal Medical Assistance Percentage (FMAP) associated with COVID-19 related federal legislation. This same federal legislation limited the state’s ability to redetermine Medicaid eligibility and has led to higher enrollment in Medicaid. Once the COVID-19 Public Health Emergency is lifted, the state will be permitted to resume the redetermination process, which is expected to result in a reduction in Medicaid enrollment from the current peak. Redetermination is anticipated to begin in September 2022. The following graph shows projected enrollments for traditional Medicaid and Medicaid expansion for the FY 2023 through FY2027 period.
The adjacent graphic shows projected HB 2 traditional Medicaid expenditures. Expenditures in the 2025 biennium are projected to be close to the base year (FY 2023) budget due to an anticipated decrease in enrollment associated with redetermination following the end of the COVID-19 public health emergency. The overall general fund impact is a reduction from the base of $4.3 million for the 2025 biennium and an increase of $91.8 million for the 2027 biennium.
**Medicaid Expansion Benefits & Claims**

Montana’s Medicaid expansion expenditures totaled $998.1 million in FY 2022 ($41.4 million general fund and $51.0 million state special funds with $905.6 million federal funds). The FY 2023 base budget for the Medicaid expansion program is $833.8 million, $23.8 million of which is general fund and $52.3 million of which is state special funds with $757.7 million in federal funds. Medicaid expansion expenditures were higher than anticipated in FY 2022 due to increased enrollment tied to federal legislation limiting the state's ability to redetermine Medicaid eligibility. Once the COVID-19 Public Health Emergency is lifted the state will be permitted to resume the redetermination process, which should lead to a reduction in Medicaid enrollment from the current peak. It is likely that the bulk of this redetermination will occur during FY 2023.

The adjacent graphic shows projected Medicaid expansion expenditures. Expenditures in the 2025 biennium are projected to be higher than the base year (FY 2023) budget but lower than the actual expenditures in FY 2022. The overall general fund impact is an increase from the base of $13.5 million for the 2025 biennium and an increase of $30.3 million for the 2027 biennium.

**Other Areas of DPHHS Budget**

**Montana State Hospital**

General fund expenditures for the Montana State Hospital (MSH) in FY 2022 are projected to be $53.3 million with an initial budget of $45.7 million. Staffing shortages and other issues have led to involuntary termination of the provider agreement with the Centers for Medicare and Medicaid Services (CMS). According to the termination notice “involuntary termination of a provider agreement is generally a last resort after all other attempts to remedy the deficiencies at a facility have been exhausted. In this instance, CMS has found that Montana State Hospital is out of compliance with CMS basic health and safety requirements.”

Higher-than-budgeted expenditures at MSH are largely due to the increased use of contracted staff. The overall employment vacancy rate at MSH was 39.3% in March 2022, including 72.5% vacancies for registered nurses and 62.1% vacancies for psychiatric technicians. The agency has increased base pay for nearly all types of staff at MSH, which may alleviate the high rates of vacancy over time. The graphic below illustrates projected general fund expenditures at MSH over the next two biennia. Expenditures are anticipated to remain elevated relative to the FY 2023 base over the next two biennia. The general fund increase over the FY 2023 base amounts to $16.3 million for the 2025 biennium and $18.5 million for the 2027 biennium.
Intensive Behavioral Center

The budget for the Intensive Behavioral Center (IBC) in Boulder was reduced by $2.0 million general fund in each year of the 2023 biennium during the 2021 legislative session. The agency has transferred $2.0 million general fund to the IBC budget from a contingency fund and it is anticipated that the agency will do the same in FY 2023. This level of expenditure can be anticipated to continue into the 2025 and 2027 biennia. The general fund increase over the base is $4.0 million in the 2025 biennium and $4.0 million in the 2027 biennium.

SECTION C: NATURAL RESOURCES

Wildland Fire Fund

The state of Montana is directly responsible for protecting 5.2 million acres of state, private and federal lands and assists counties when fires exceed their capabilities on 45.3 million acres of state and private lands. The goal of Department of Natural Resources and Conservation (DNRC) is to control 95.0% of all fires at ten acres or less. In the past decade DNRC has suppressed 96.0% of fires at less than ten acres. Fires that are not contained at ten acres or less have the potential to grow into large, expensive fires. It is the large fires that account for most of the expenditures.

The cost to the state of fighting fires has averaged $58.4 million in current dollars per biennium over the last ten years. Average fire costs have increased in recent years and are expected to increase in the future due to longer fire seasons, increased cost for labor, equipment, fuel, supplies, and an increasing number of large fires. The state maintains a state special revenue account that is statutorily appropriated for wildfire suppression (76-13-150, MCA). The balance of the fire suppression fund is limited to 4.0% of the total general fund appropriation in the second year of any biennium (76-13-150, MCA). Ongoing sources of revenue include unexpended appropriations in excess of 0.5% of the total general fund appropriation for each fiscal year, and the unexpended portion of the Governor’s emergency appropriation (76-13-150, MCA and 10-3-312, MCA). Currently, revenues for the fund
consist of unused general fund appropriation. Assuming average revenues and expenditures over the
last ten years, revenues would not be sufficient to cover expenditures. The table below summarizes
the biennial revenues and expenditures for wildfire suppression under two assumptions for wildfire
severity, average and extreme fire seasons. The shortfall of $14.2 million under the average scenario
is included in the present law plus estimate, and the shortfall of $81.4 million is included as a potential
pressure.

Average Biennial Revenues and Expenditures for Wildfire Suppression
Based on Ten Year Averages Adjusted For Inflation (Millions of $)

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Average</th>
<th>Extreme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$49.2</td>
<td>$12.8</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$(63.4)</td>
<td>$(94.2)</td>
</tr>
<tr>
<td>Revenue Surplus/(Short Fall)</td>
<td>$(14.2)</td>
<td>$(81.4)</td>
</tr>
</tbody>
</table>

1 Average Biennium assumes average revenues and average fire expenditures in both years of the biennium and average revenues
2 Extreme Biennium assumes a mild fire year and an extreme fire year and no general fund appropriation reverted

SECTION D: PUBLIC SAFETY
Department of Corrections
Pressures
The Department of Corrections (DOC) utilizes both state owned and private contracted facilities to
house and transition offenders back into society. In FY 2021, DOC expended $197.5 million in general
fund for the custody and care of an average population of 14,517 offenders. Almost half or $93.7
million was paid to private providers.

During the last five years, the department has seen an average growth in general fund expenditures
of 1.5%. It should be noted that between FY 2019 and FY 2021 adult incarcerated populations
dropped and costs increased with the impacts of COVID-19. A component of the slow growth in costs
in DOC, costs of housing state offenders in county jails, has been capped at $69.95 per day and DOC could
take advantage of additional operational funding by limiting the length of time offenders were held in
jails.

In FY 2022 when DOC experienced substantial vacancies in correctional officers, the agency provided
a pay raise of $2 per hour, which is expected to increase the budget by $2.0 million each year.
Furthermore, to account for caseload growth in incarcerated populations and individuals on probation
and parole, combined growth of 1.8%, or $4.0 million in the 2025 biennium, is included as a budgetary
pressure for the care and custody offenders going forward.

In recent biennia, the legislature has provided a 1.0% increase to the providers of community
corrections services. Potentially, there could be pressure for higher increases in the 2025 biennium
due to inflationary factors and wage increases. According the DOC, in FY 2023 several of the major
contracts for community services will expire, forcing the re-negotiation of contracts. With increased
costs anticipated, adjustments of 5.0% annually were used to increase the budget, amounting to $8.4
million in the FY 2025 biennium.
Office of Public Defender

Pressures
In FY 2022, the Office of Public Defender (OPD) faced issues with the provision of public defenders, both in their agency staffing and in contracted public defender services. The agency increased pay for public defender attorneys and increased the rate for contracted attorneys. Adjustments to personal services are $1.3 million per year and for contracted services is expected to increase by $3.8 million over the 2025 biennium.

COVID-19 impacted the public safety sector of the Montana government when the courts needed to stop hearing cases and advance new technologies (remote trials) to resume activities. This need for change also impacted all public safety agencies in the state, including the OPD. Caseloads in OPD began to decline in FY 2020 and were lower in FY 2021. In FY 2022, OPD had backlogged cases, principally in Yellowstone and Cascade counties. Based on the growth between FY 2020 and FY 2022, open and active cases have increased 9.9%. Caseload growth is expected to continue, and an annual caseload growth of 5.6% was included in the OPD budget, amounting to $5.9 million in the 2025 biennium budget.

SECTION E: EDUCATION
Office of Public Instruction

Inflation
Statute requires that certain components of school funding include a present law adjustment for inflation in the superintendent’s budget request (20-9-326, MCA). Anticipated inflationary increases in the 2025 biennium are 2.7% in FY 2024 and 3.0% in FY 2025, based on the IHS Markit forecast from August 2021. This growth rate is higher than previous biennium growth rates which were 1.5% in FY 2022 and 2.6% in FY 2023.

This basic inflation is included in the calculation for present law plus and a higher inflation level to take the inflation to 7.0% is included as a pressure.

The adjacent graphic illustrates the present law statutorily applied inflation and current and forecast of CPI.
Enrollment

The school age population is higher today than prior to the pandemic. Public school enrollments were unusually low in FY 2021, which resulted in low ANB for FY 2022. School enrollments partially returned in FY 2022 which will result in ANB returning to a level more consistent with previous years in FY 2023. Under present law assumptions, enrollments are anticipated to grow modestly from this level.

Due to enrollment preference changes from the pandemic, this present law analysis does not fully account for the impacts of higher school age populations due to in migration, or the full return of pandemic losses in public school enrollments. As a method of estimating what the potential impact may be, a pre-pandemic forecast that included continued growth in school age students was used to illustrate possible enrollments and included in the cost pressures.

Present Law Recap

The largest present law increase in school funding occurs in BASE Aid. This is split into three large categories: the Guaranteed Tax Base (GTB) increase; inflation; and Average Number Belonging (ANB) changes, which has other smaller adjustments included.

A summary of the components increasing present law is shown in the table below. Included in present law, but not shown in the table is $2.0 million for increases in inflation and wage inflation. The remaining $73.8 million increase is entirely due to K-12 funding formula.

<table>
<thead>
<tr>
<th>Component</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASE Aid (Inflation &amp; ANB Growth)</td>
<td>70.5</td>
</tr>
<tr>
<td>Advanced Opportunities (2019 Session)</td>
<td>2.3</td>
</tr>
<tr>
<td>Transformational Learning (2019 Session)</td>
<td>0.5</td>
</tr>
<tr>
<td>All Other</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total (Including BASE Aid)</strong></td>
<td><strong>$75.8</strong></td>
</tr>
</tbody>
</table>

Inflation, enrollment, and the following changes are included in present law plus K-12 expenditures:

- **Advanced Opportunities**: This program was established in HB 387 (2019 Session) to expand personalized career and technical education opportunities for middle and high school students, and amounts to an increase of about $2.3 million over the biennium
- **Transformational Learning**: This program was established in HB 351 (2019 Session) in order to provide grants for flexible learning systems and amounts to an increase of about $0.5 million over the biennium
• All Other: All other present law growth such as increases in operating and personal services costs as well as increases in at-risk funds amounts to $2.5 million over the biennium
• Adjustments due to changes in anticipated levels of guarantee fund revenues. The guarantee fund is the first funding for BASE Aid, this increase in anticipated revenue decreases the need for general fund

Pressure Recap
Additional inflation was added to pressures on the BASE Aid portion of the budget to bring the total inflation up to 7.0%, consistent with projections of expenditure pressures in other areas of this report. In addition, a higher level of enrollments was included to account for potential additional participation in public school enrollment after the pandemic subsides.

The total state cost of these pressures above present law is calculated at $156.0 million over the 2025 biennium. High inflation and enrollment growth may also have ramifications in other school funds or other areas of the school budget, such as, major maintenance costs, and debt service payments.

Section F: Long-Range Planning
Capital Development Fund Pressure
Two years after the coronavirus pandemic began, the U.S. construction industry is still experiencing multiple impacts. Unprecedented increases in materials costs, supply-chain disruptions, and an increasingly tight labor market have had significant cost impacts to previously authorized projects. While the Architecture & Engineering Division has taken steps to mitigate the effects, including reducing project scopes and temporarily delaying lower-priority projects, the effects of construction inflation will result in pressure to appropriate additional resources from the CD fund in order to meet the original intent of the projects as presented to and authorized by past legislatures.

General Fund Debt Service
The state has historically financed major investments in state infrastructure with debt in the form of bond issue proceeds. The level of Montana’s tax supported debt is low when compared to other states, and the (direct) general fund obligation to debt service is projected to average $14.2 million per year in the 2025 biennium, assuming no new issues. The following figure illustrates the debt service cost for issued general obligation (GO) debt, that debt where the full faith and credit of the state is pledged to the payment of the debt.
The figure above shows the general fund debt service costs, as projected in the 2025 biennium. The figure includes general fund historic debt service payments (2012-2021) and the debt service projections (2022-2032). The chart above includes the following:

- **General Fund (GF)** – GO bonds paid directly by the general fund. The proceeds from these bond issues primarily funded the construction of state government buildings and more recently local government infrastructure improvements. The total cost of GF bonds is projected to be $28.3 million in the 2025 biennium.
- **GF Indirect (IDGF)** – This category includes GO bonds and special revenue bonds that have historically been paid indirectly through the general fund. The related bond issues include state building energy conservation bonds and revenue bonds issued for improvements at the state hospital. The debt service costs of these bonds offset general fund revenue that would otherwise flow into the general fund. These bond issues are expected to be fully paid off in FY 2022, and there will be no costs associated with IDGF in the 2025 biennium.

There is $38.5 million of authorized but unissued bonds, previously presented in this figure. The authorized but unissued debt includes bonds authorized to the Blackfeet and Ft. Belknap tribal compacts, the remainder of the St. Mary’s funding provided in the 2005 Legislative Session, and the remainder of funding authorized in HB 652 of the 2019 Legislative Session.

SB 191, passed in the 2021 Legislative Session, required that if there is an unappropriated balance in the CD account the state must use funds from the CD account in lieu of issuing any new, previously authorized but unissued general fund general obligation bonds. As a result, if any of the $38.5 million in unissued bonds described above become eligible to issue, the balance of the CD account will be decreased by a like amount.
LONG-TERM RISK

Increasing Individual Income Tax Reliance

Individual income tax has been a growing share of total general fund revenue since FY 2002, as illustrated in the adjacent chart. In FY 2002, it accounted for 40.9% of general fund revenue. By FY 2021 its share had reached 60.0%.

In fact, while all other sources combined grew an average of 2.5% annually from FY 2002 to FY 2021—slightly above the average annual inflation growth of 2.1% over the same period—individual income tax grew at an average annual rate of 6.7%. Although individual income tax is less volatile than corporate income tax or natural resource taxes, the increasing reliance on a single source of revenue may result in more exposure to forecasting error, as well as business cycle fluctuations.

Pensions

At the end of FY 2021, both the Teachers’ Retirement System (TRS) and Public Employees’ Retirement System (PERS) amortized in under 30 years. For the most recent actuarial valuation, PERS had an assumed rate of return of 7.65% and TRS had an assumed rate of 7.50%. The funded ratios and amortization periods for the state’s retirement systems as of July 1, 2021 are shown below, as well as these same metrics as measured in FY 2020.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers’ Retirement System (TRS)</td>
<td>69%</td>
<td>71%</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>Public Employees’ Retirement System (PERS)</td>
<td>74%</td>
<td>76%</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>Judges’ Retirement System</td>
<td>163%</td>
<td>177%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Highway Patrol Officers’ Retirement System</td>
<td>65%</td>
<td>67%</td>
<td>39</td>
<td>26</td>
</tr>
<tr>
<td>Sheriffs’ Retirement</td>
<td>81%</td>
<td>83%</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Game Wardens’ Retirement System</td>
<td>84%</td>
<td>85%</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Municipale Police Officers</td>
<td>71%</td>
<td>74%</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Firefighters’ Unified Retiremenet System</td>
<td>82%</td>
<td>86%</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Volunteer Firefighters</td>
<td>87%</td>
<td>100%</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

The major sources of funding for the retirement systems are investment earnings, employee and employer contributions, and general fund statutory appropriations. While general fund statutory appropriations and the employer/employee contributions are set in statute, investment earnings are much more volatile.

In FY 2021 the pension systems’ investments earned nearly 28.0%, far above the assumed rate of return mentioned earlier. These strong investment earnings caused the year-over-year improvements in both the funded ratio and amortization period in the table above. Since the last actuarial valuation on July 1, 2021, the stock market has declined approximately 9.4%. This decline instead of the actuarial assumed rate of return will lengthen the amortization periods and add risk to pension funding. Due to
this decline and relatively low funded ratios this report assumes an increase of 1% employer contributions to mitigate the added risk as a funding pressure.

Litigation

HB 358 (2021 session) requires the Department of Administration to provide information on a website regarding the amount of monetary compensation contained in a compromise or settlement with the state. The website contains information on compromise or settlements made by any state agency that exceeded $10,000. A short description of the compromise or settlement and amount paid is included on the DOA website: https://montana.servicenowservices.com/citizen?id=settlements.

Next Steps for Session Preparation – Volatility Study

The LFD believes that the uncertainty of anticipated revenues and expenditures warrants additional analysis. The LFD workload planning for the 2025 biennium will add the following steps to better understand the volatility of revenues and the financial condition:

1) Understanding how much the FY 2023 and potentially FY 2024 revenues may be offset by the “Bubble” of high revenue collected in FY 2021 and FY 2022
2) Understanding the long-term revenue trends in FY 2025 through FY 2027 with population, inflation, and the new economy in Montana after the “Bubble”
3) Stress testing various risk levels for revenues and expenditures with different reserve levels. Given the current high reserve balances, how much is needed in reserves to address future volatility and how much could be invested in ongoing expenditures or tax reductions
Appendix A

ECONOMIC SCENARIO HIGHLIGHTS

Economic data provided by IHS Markit, the econometric data service contracted by the state, forms the basis of most revenue forecasts. Many other data sources are used for historical information, but IHS Markit is the primary source for forecast data used by the state. Three forecast scenarios—baseline, optimistic and pessimistic—of selected variables are provided in this section. Note that IHS Markit only provides alternative scenarios for national statistics, and not for state-specific statistics.

Gross Domestic Product

GDP is one of the most comprehensive national economic statistics. As noted by the Bureau of Economic Analysis, GDP is used by the White House and Congress to prepare the Federal budget, by the Federal Reserve to formulate monetary policy, by Wall Street as an indicator of economic activity, and by the business community to prepare forecasts of economic performance that provide the basis for production, investment, and employment planning.

S&P 500 Stock Market Index

The S&P 500 is a stock market index based on the market capitalizations of 500 large companies. Due to the diversity of companies, it is a broad representation of the U.S. stock market and is a good indicator for investment income.

West Texas Intermediate Oil Price

West Texas Intermediate (WTI) spot oil prices are a good indicator of Montana oil prices, and are used for the oil and natural gas production tax estimate. In addition, WTI price is used for several sectors of the corporation income tax estimate and the part of the individual income tax estimate.

After peaking in CY 2022, oil prices are expected to decline and then stabilize by CY 2026.
Interest Rates
A large portion of Montana’s revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. In addition to the state revenue impact, interest rates impact the climate in which consumers and businesses are likely to make investments and large purchases.