

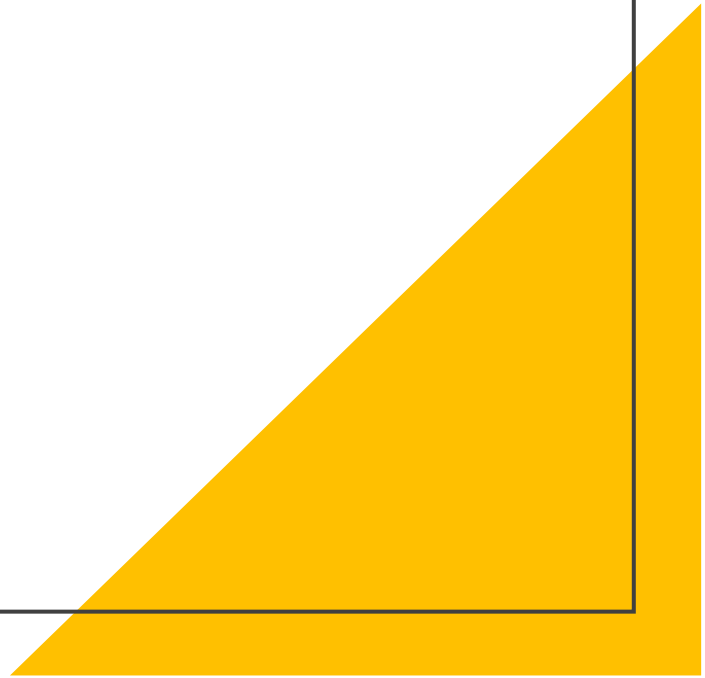
Revenue Interim Committee FY 2024 Year-to- Date Update

March 22, 2024



FY 2025
Projected
General
Fund
Balance

\$785.1 Million



FY 2025 State Financial Reserves

- Projected general fund ending fund balance – 1st fund used when the state experiences revenue volatility
- The budget stabilization reserve fund used by the Governor to stabilize state finances, but certain parameters must be met
- The wildfire suppression fund is used for costs for fighting wildfires, but legislators may appropriate to stabilize state finances if they choose
- Capital development fund is primarily appropriated for infrastructure projects. However, legislators may appropriate when economic volatility occurs

Estimated FY 2025 State Financial Reserve Balances
\$ Millions

■ General Fund Ending Balance ■ Budget Stabilization Reserve Fund
▨ Wildfire Suppression Fund ▨ Capital Development

\$1,800
\$1,600
\$1,400
\$1,200
\$1,000
\$800
\$600
\$400
\$200
\$0



















Year-to-Date Highlights Through February

- Ongoing general fund, school equalization account (95 mills), and Treasury Cash interest revenues are \$105.8 million or 4.6% above collections through the same period last year.
- In the revenue estimate (HJ 2), these sources were estimated to decrease by 3.3%.
- Typically, through February, about 62% of total fiscal year-end general fund & select state special funds are collected.
- Currently, there is a collection timing anomaly with individual income taxes. This will be discussed later.
- Current indications are that collections will be close to the HJ 2 estimate, but as always, the LFD will continue to monitor year-to-date collections and update the legislature as collections are posted to the accounting system.

General Fund, School Equalization, Debt & Liability Free Account Revenue Monitoring Report

(\$ Millions)

Revenue Source	Actual FY 2023	HJ 2 FY 2024	HJ 2 Est. % Change	Feb FY 2023	Feb FY 2024	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$2,254.305	\$2,054.152	-8.9%	\$1,513.598	\$1,586.937	\$73.338	4.8%	
Property Tax (General Fund)	355.982	15.861	23.8%	205.911	9.099	13.409	6.5%	
Property Tax (School Equalization)		424.826			210.222			
Corporate Income Tax	309.884	275.821	-11.0%	165.436	174.930	9.495	5.7%	
Vehicle Taxes & Fees	123.005	122.221	-0.6%	71.701	73.151	1.450	2.0%	
Oil & Natural Gas Taxes	71.039	73.229	3.1%	20.820	17.235	(3.584)	-17.2%	
Insurance Tax	106.196	105.838	-0.3%	46.236	38.348	(7.888)	-17.1%	
Video Gaming Tax	80.105	83.264	3.9%	39.450	41.515	2.065	5.2%	
Other Business Taxes								
Drivers License Fee	6.601	5.919	-10.3%	3.942	3.766	(0.176)	-4.5%	
Investment Licenses	20.942	20.741	-1.0%	19.128	18.696	(0.432)	-2.3%	
Lodging Facilities Sales Tax	42.338	57.476	35.8%	22.796	24.201	1.405	6.2%	
Public Contractor's Tax	6.733	4.203	-37.6%	4.509	6.636	2.127	47.2%	
Railroad Car Tax	4.012	5.496	37.0%	3.124	3.141	0.018	0.6%	
Rental Car Sales Tax	7.270	7.978	9.7%	3.652	4.400	0.748	20.5%	
Retail Telecom Excise Tax	8.436	5.631	-33.3%	4.318	4.079	(0.239)	-5.5%	
Other Natural Resource Taxes								
Coal Severance Tax	20.879	18.420	-11.8%	9.734	9.615	(0.119)	-1.2%	
Electrical Energy Tax	4.004	3.536	-11.7%	2.028	2.031	0.003	0.1%	
Metal Mines Tax	7.251	11.363	56.7%	0.003	-	(0.003)	-100.0%	
U.S. Mineral Leasing	37.508	24.212	-35.4%	20.547	8.310	(12.237)	-59.6%	
Wholesale Energy Trans Tax	3.455	3.410	-1.3%	1.778	1.725	(0.053)	-3.0%	

Other Interest Earnings

Coal Trust Interest Earnings	18.105	18.857	4.2%	9.977	10.493	0.516	5.2%	
TCA Interest Earnings (Now SSR)	118.389	126.591	6.9%	66.493	84.281	17.789	26.8%	

Other Consumption Taxes

Beer Tax	3.188	3.329	4.4%	1.883	1.578	(0.305)	-16.2%	
Cigarette Tax	20.797	26.889	29.3%	12.453	13.009	0.556	4.5%	
Liquor Excise Tax	32.705	32.298	-1.2%	17.530	18.117	0.588	3.4%	
Liquor Profits	19.000	23.700	24.7%	-	-	-	-	
Lottery Profits	22.657	15.508	-31.6%	6.061	6.368	0.307	5.1%	
Marijuana Tax	29.423	30.681	4.3%	-	-	-	-	
Tobacco Tax	5.358	5.320	-0.7%	3.217	3.032	(0.185)	-5.8%	
Wine Tax	2.528	2.696	6.6%	1.539	1.331	(0.208)	-13.5%	

Other Sources

All Other Revenue	304.813	46.544	-84.7%	284.749	29.558	(255.191)	-89.6%	
Highway Patrol Fines	3.587	3.953	10.2%	1.928	1.911	(0.017)	-0.9%	
Nursing Facilities Fee	3.542	2.942	-16.9%	1.653	1.709	0.056	3.4%	
Public Institution Reimbursement	4.308	7.758	80.1%	1.244	3.151	1.907	153.3%	
Tobacco Settlement	3.466	3.327	-4.0%	0.157	-	(0.157)	-100.0%	

Ongoing GF Revenue Subtotal	3,682.630	3,178.074	-13.7%	2,240.312	2,118.072	(122.240)	-5.5%	
Ongoing GF & SSR Subtotal	3,801.019	3,673.991	-3.3%	2,306.804	2,412.575	105.771	4.6%	
OTO Revenue & Transfers Subtotal	260.789	(55.500)		260.789		(260.789)	-100.0%	

Grand Total General Fund	\$3,943.420	\$3,122.574	-20.8%	\$2,501.101	\$2,118.072	(\$383.029)	-15.3%	
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Individual Income Taxes

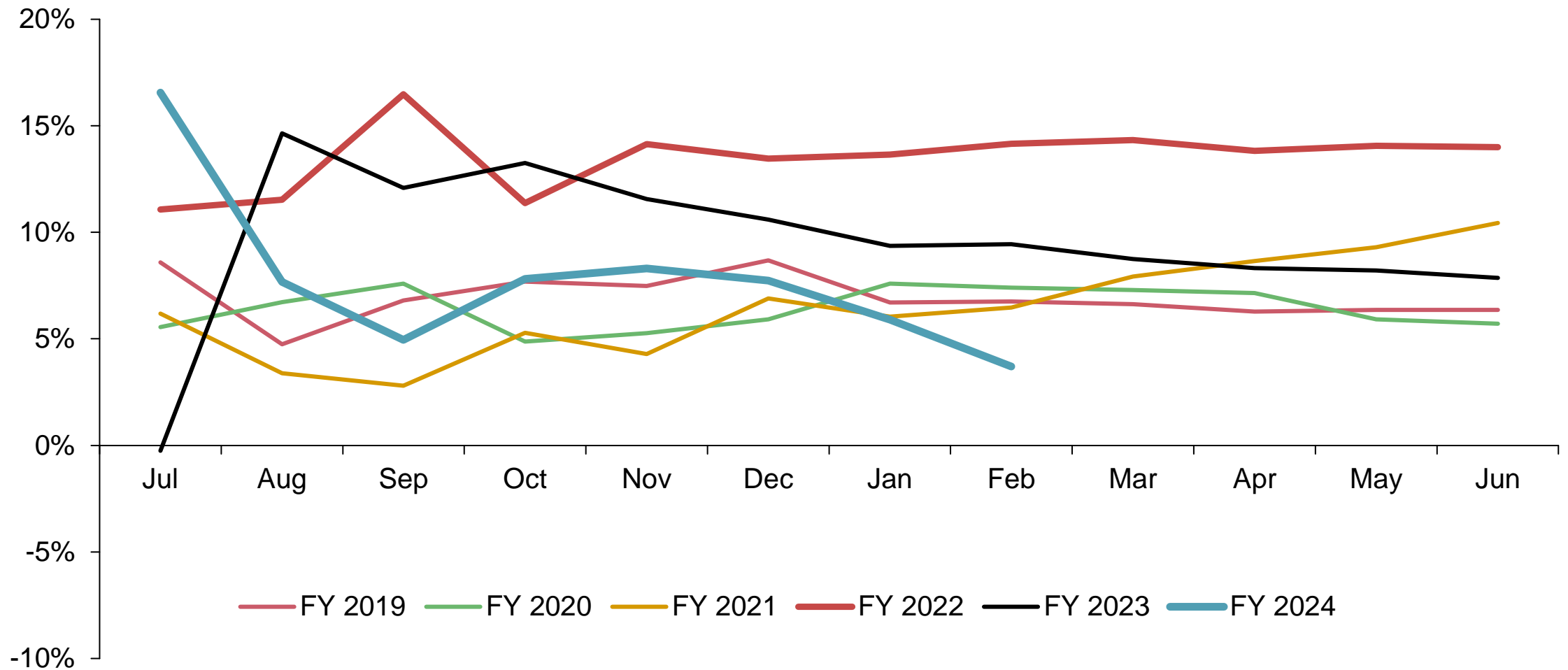


Individual Income Tax (\$ Millions)

Account	YTD 2024	YTD 2023	\$ Difference	% Difference
Withholding	\$1,012.7	\$976.4	\$36.2	3.7%
Estimated Payments	287.5	338.7	(51.1)	-15.1%
Current Year Payments	73.2	77.6	(4.5)	-5.8%
Audit, P&I, Amended	40.2	38.2	2.0	5.2%
Refunds	(49.3)	15.0	(64.4)	-428.4%
Partnership Income Tax	215.3	59.3	156.0	263.3%
Mineral Royalties	7.5	8.4	(0.9)	-10.8%
Total	1,586.9	1,513.6	73.3	4.8%

Individual Income Tax Withholding

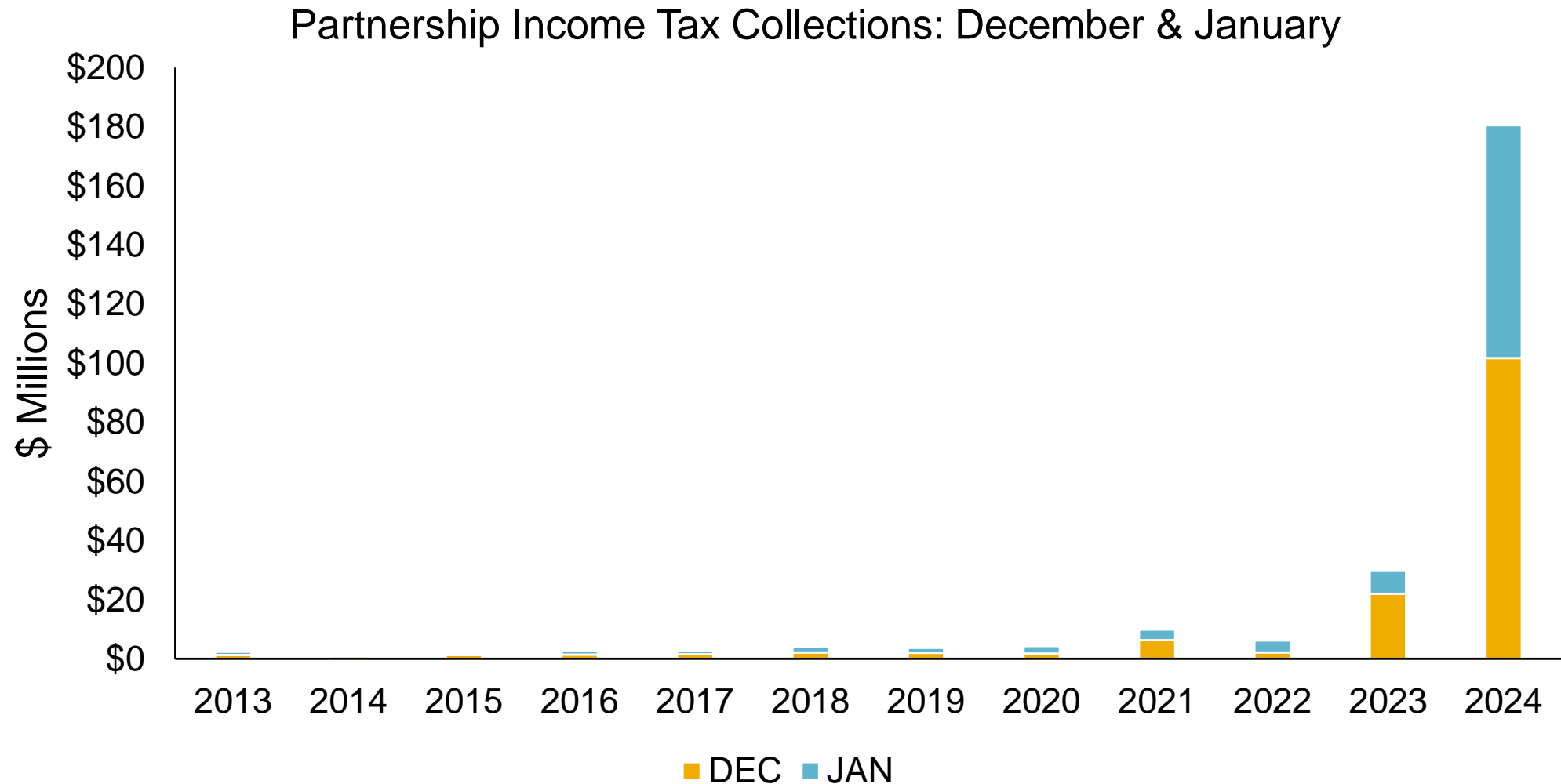
Cumulative Year-over-Year Withholding



SB 554 (2023 Legislative Session)

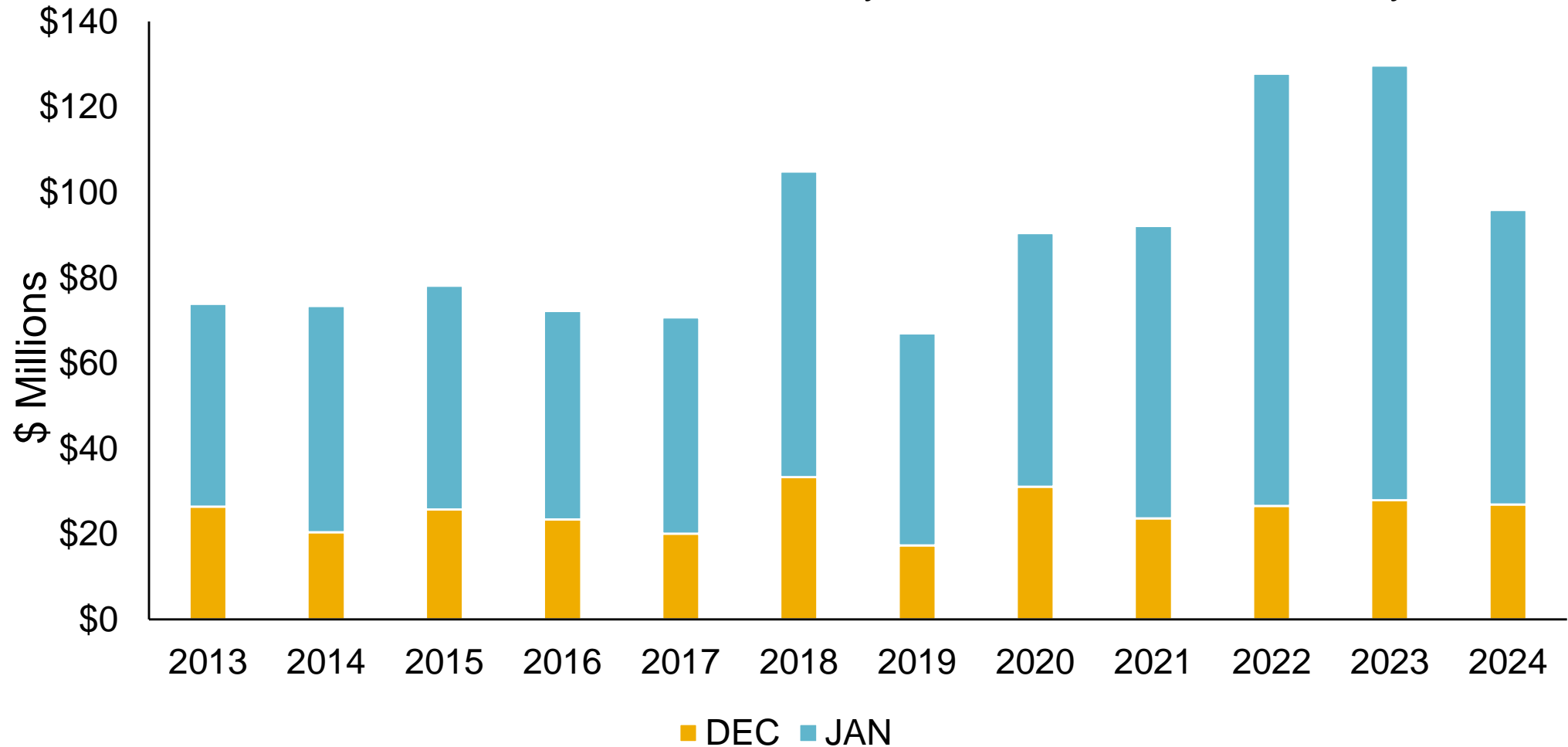
- Partnership Income Tax collections are currently \$156.0 million or 263.3% above last year's collections.
- In December & January, collections totaled \$180.5 million, compared to the five-year average of \$10.8 million.
- SB 554 provided for an optional pass-through entity tax. The fiscal note for this bill estimated that there would be no long-term impact to state revenues.
- At the federal level, state tax liabilities for pass-through entities are classified as a business expense, and not subject to the state and local tax (SALT) itemized deduction cap.
- It is highly likely that many Montana taxpayers pre-paid or overpaid state tax liabilities as a pass-through entity at the end of CY 2023 to lower their federal liability.
- It is anticipated that these liabilities will be offset at the state level in the second half of FY 2024 through lower quarterly estimated payments or refunds.

Individual Income Tax: Partnership Income Tax



Individual Income Tax: Estimated Payments

Individual Income Estimated Payments: December & January



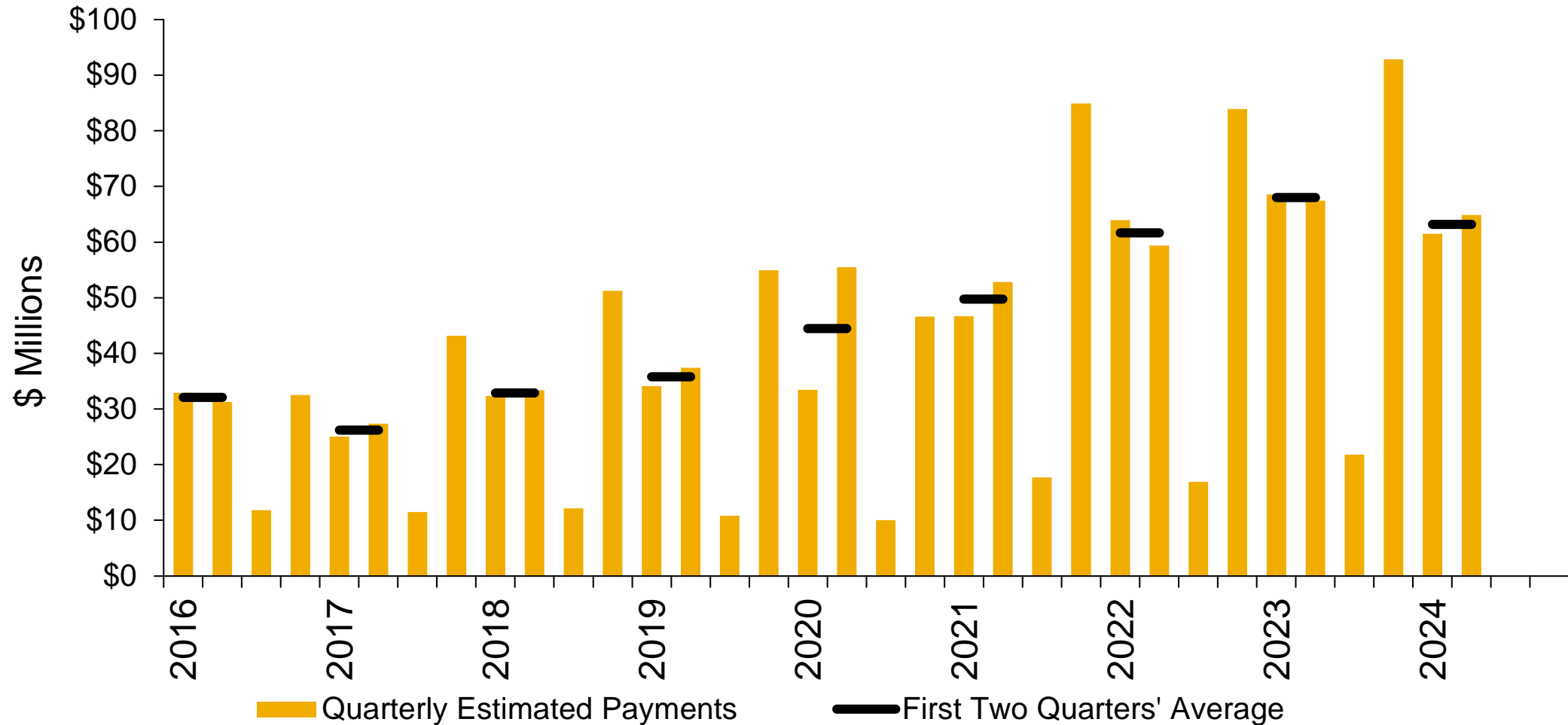
Corporate Income Tax

Corporate Income Tax (\$ Millions)

Account	YTD 2024	YTD 2023	\$ Difference	% Difference
Corporation Tax	\$39.8	\$24.6	\$15.2	61.8%
Estimated Payments	\$142.2	\$148.7	(6.5)	-4.4%
Refunds	(16.4)	(12.7)	(3.6)	28.6%
Audit, P&I, Amended	9.3	4.8	4.4	92.1%
Total	174.9	\$165.4	\$9.5	5.7%

Corporate Income Tax Estimated Payments

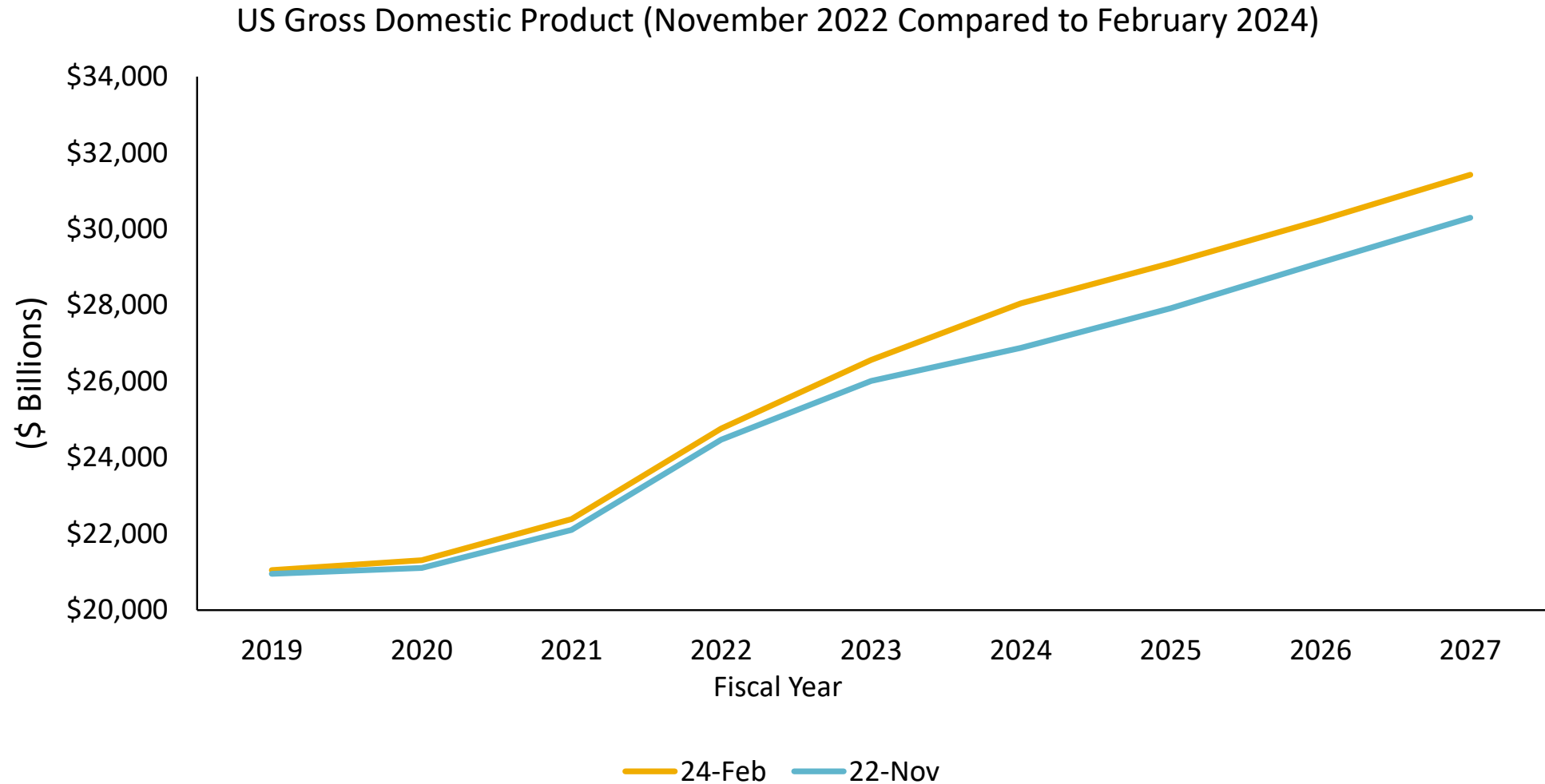
Corporate Estimated Payments by Fiscal Year Quarter





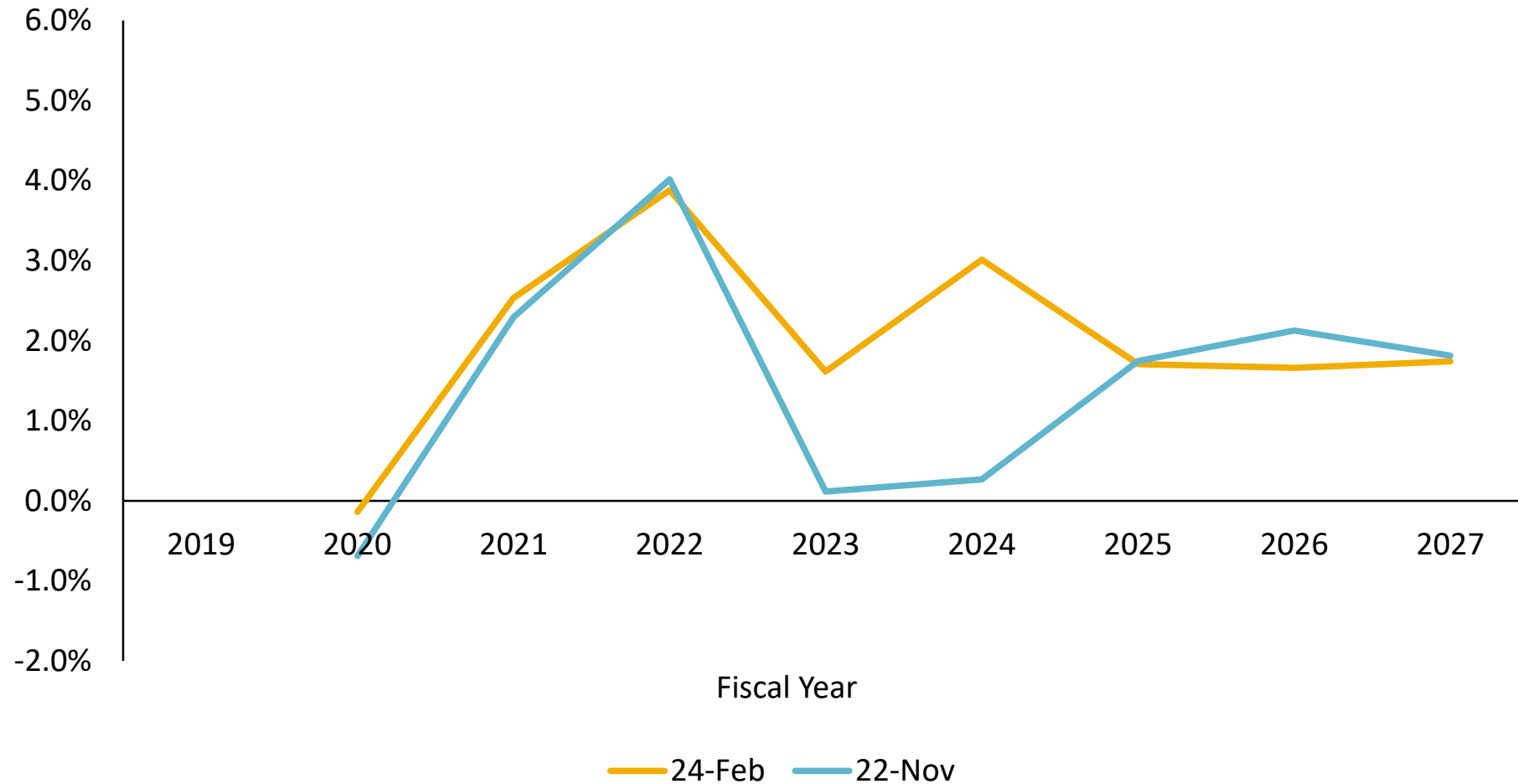
S&P Global Forecast Update

United States Gross Domestic Product (GDP)



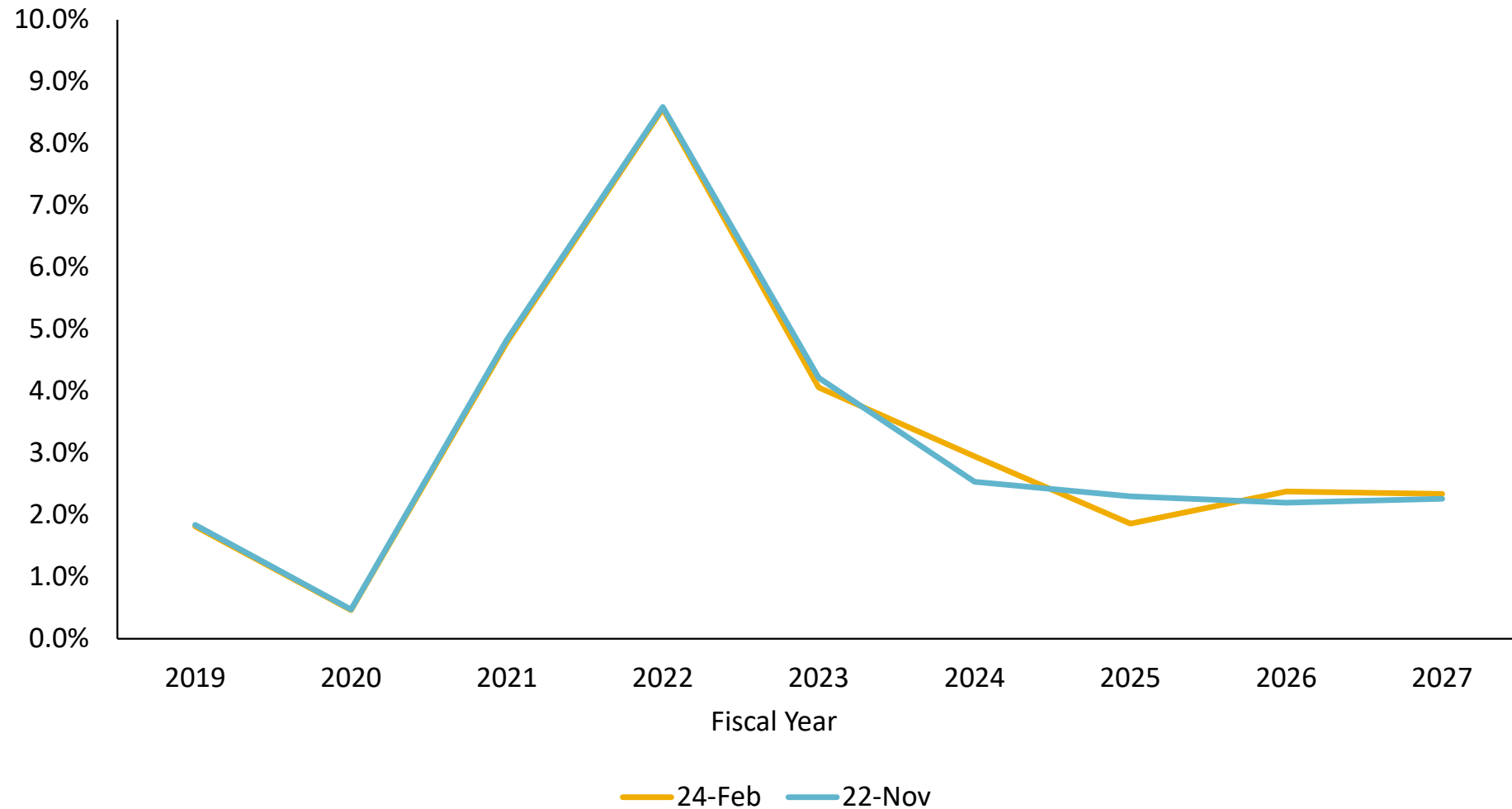
US GDP Real Growth

US Real GDP Growth (November 2022 Compared to February 2024)



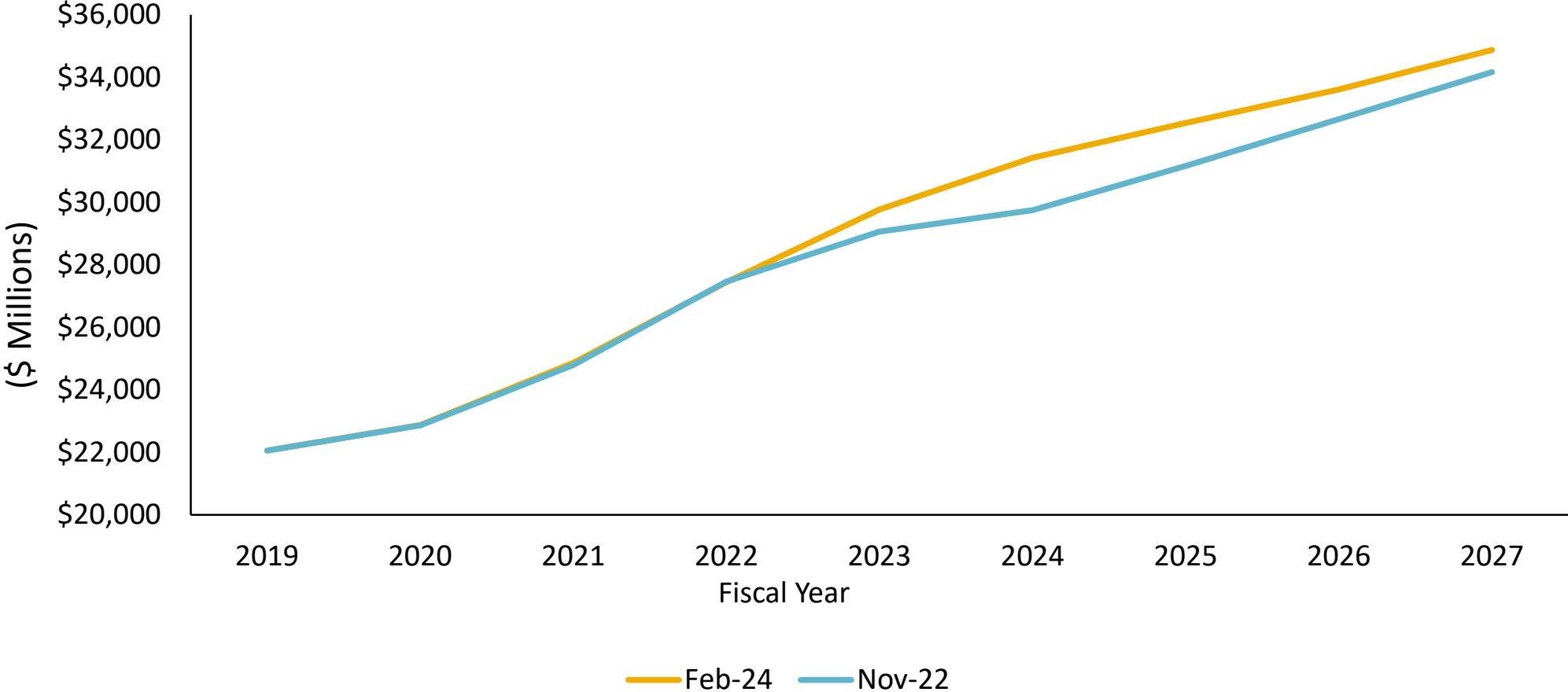
US Inflation

US Consumer Price Index (CPI) Growth (November 2022 Compared to February 2024)



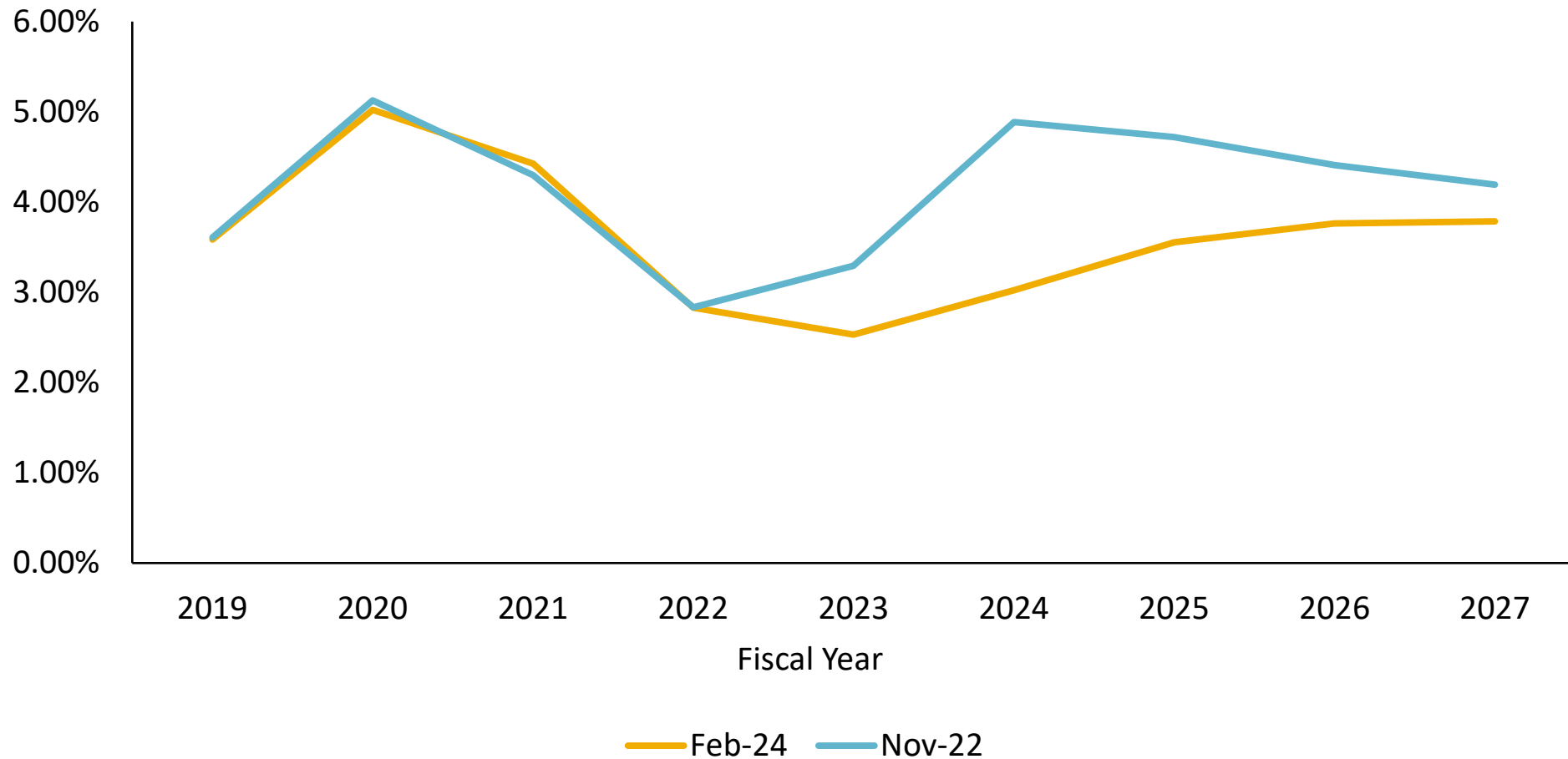
Montana Wage Disbursements

Montana Wage Disbursements Forecast (November 2022 Compared to February 2024)



Montana Unemployment Rate

Montana Unemployment Rate Forecast (November 2022 Compared to February 2024)



A decorative graphic consisting of several overlapping, semi-transparent rings in shades of blue and green, arranged in a circular pattern around the center of the page.

HB 587

2023 Legislative Session

K-12 Revenue: State

41% of K-12 revenue came from state sources in FY 2022 (excluding federal COVID funds)

Guarantee Account

1st Source of State School Funding (*unchanged*)

Receives earnings off the Common School Permanent Trust and revenue generated on the state common school trust lands

Statutory Appropriation
~\$50 M

➤ See the [Guarantee Account Brochure](#) for more information

School Equalization and Property Tax Reduction Account (SEPTR)

2nd Source of State School Funding (*new: HB 587; 2023*)

Receives revenue from the 95 mills
(the 95 mills do not support the full amount of K-12 funding)

Beginning in FY 2026, 55% of any increase in the revenue from the 95 mills over the prior year's revenue will be used to increase various equalization mechanisms within the school funding formula and lower property taxes

HB 2 State Special Revenue Appropriation
~\$430 M

State General Fund

3rd and Final Source of State School Funding (ultimate backfill)
(*update: HB 587; 2023 – no longer receives revenue from the 95 mills*)

Receives revenue through a variety of taxes, with individual income tax being the largest source

HB 2 General Fund Appropriation
~\$500 M

(School funding is appropriated from the general fund in HB 2 as always, but will require less general fund due to the movement of the 95 mills to SEPTR)

➤ In addition to county retirement GTB support, the state also contributes approximately \$50 million annually from the state general fund directly to the teachers retirement system (TRS) and public employees retirement system (PERS)

State sources of school funding total approximately \$1.0 billion for FY 2024 and include:

- \$880 million for BASE Aid
- \$12 million for state transportation reimbursements
- \$12 million for major maintenance aid
- \$15 million for debt service assistance

New SEPTR Account
(School Equalization and
Property Tax Reduction)

Receives revenue from the 95 mill statewide equalization levies, with 55% of increased revenue over prior year triggering a reduction in local property taxes through equalization mechanisms

2nd Source of State School Funding; any remaining state obligation comes from the general fund


This portion of the law is already in effect (as of July 1, 2023)

The SEPTR account also helps maintain a balance between state and local funding for K-12.

Historically, during Montana budget shortfalls K-12 costs have shifted onto local taxpayers.

When K-12 leans harder on local property taxes, the more the Legislature's constitutional duty to "distribute [K-12 funding] in an equitable manner" can be questioned.



55% of Δ 

Utilizing a portion of the 95 mill increase means that the remaining increase can be used to fund annual increases in the existing K-12 formula. This maintains a balance between property tax and other taxes in the state general fund (largely income) in funding K-12.



If there is a reduction in revenue (not just mills) brought in by the 95 mills from the prior year, **BASE GTB** and **countywide retirement GTB** are "dialed down" by the full amount of the decrease, shifting costs back onto local taxpayers

This portion of the law is effective beginning in FY 2025 ("hard coded" increase) and FY 2026 ("dialing" mechanism)

Each equalization mechanism is "dialed up" until the ratio of state to local revenue reaches approximately 70:30 (debt service 20:80) then the revenue increase from the 95 mills flows to next mechanism



Increase countywide school **retirement GTB** to lower county property taxes

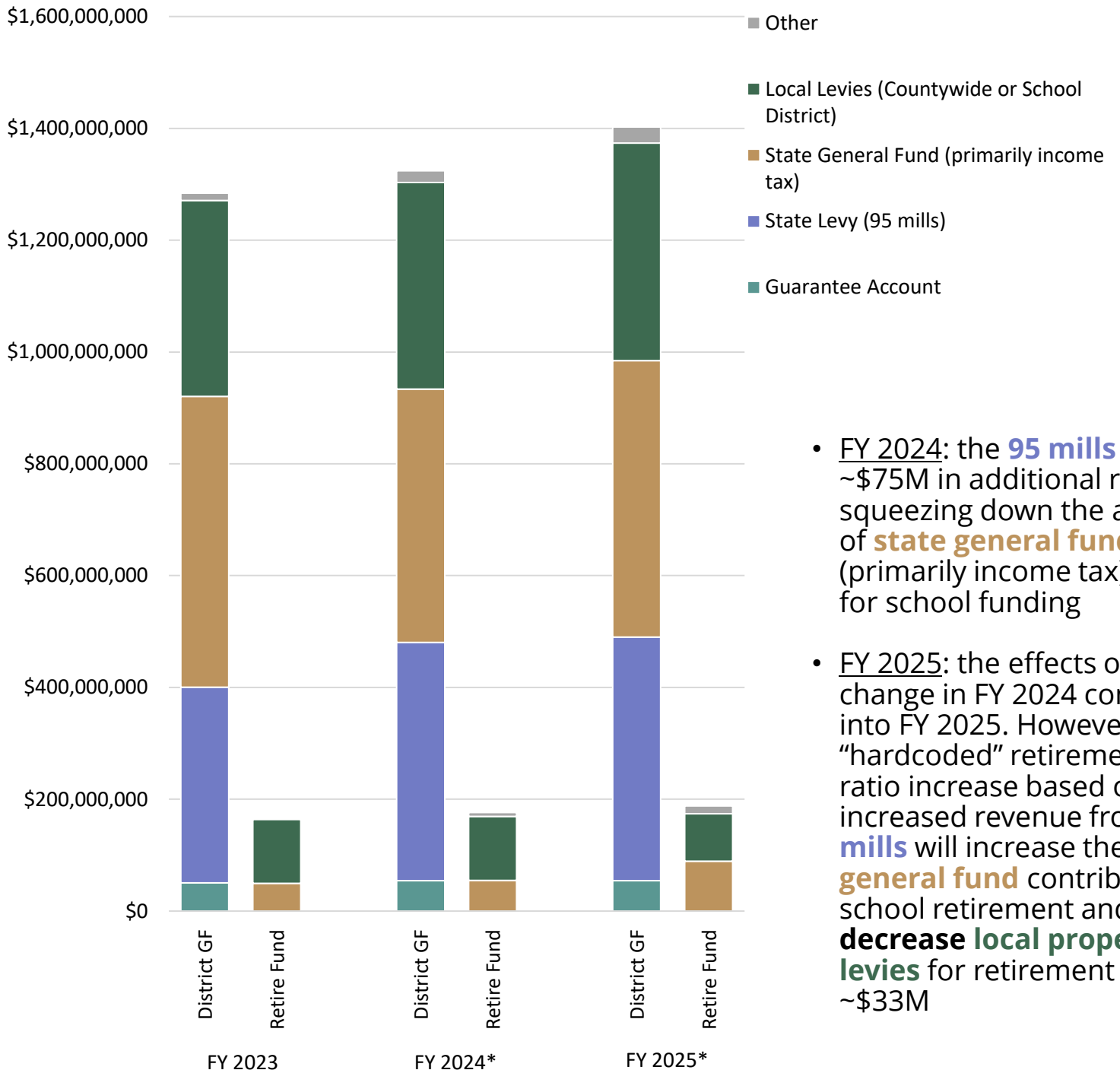


Increase **state major maintenance aid** to lower school district property taxes



Increase **debt service assistance** to lower school district property taxes

School District General Fund & Countywide School Retirement Fund Projections



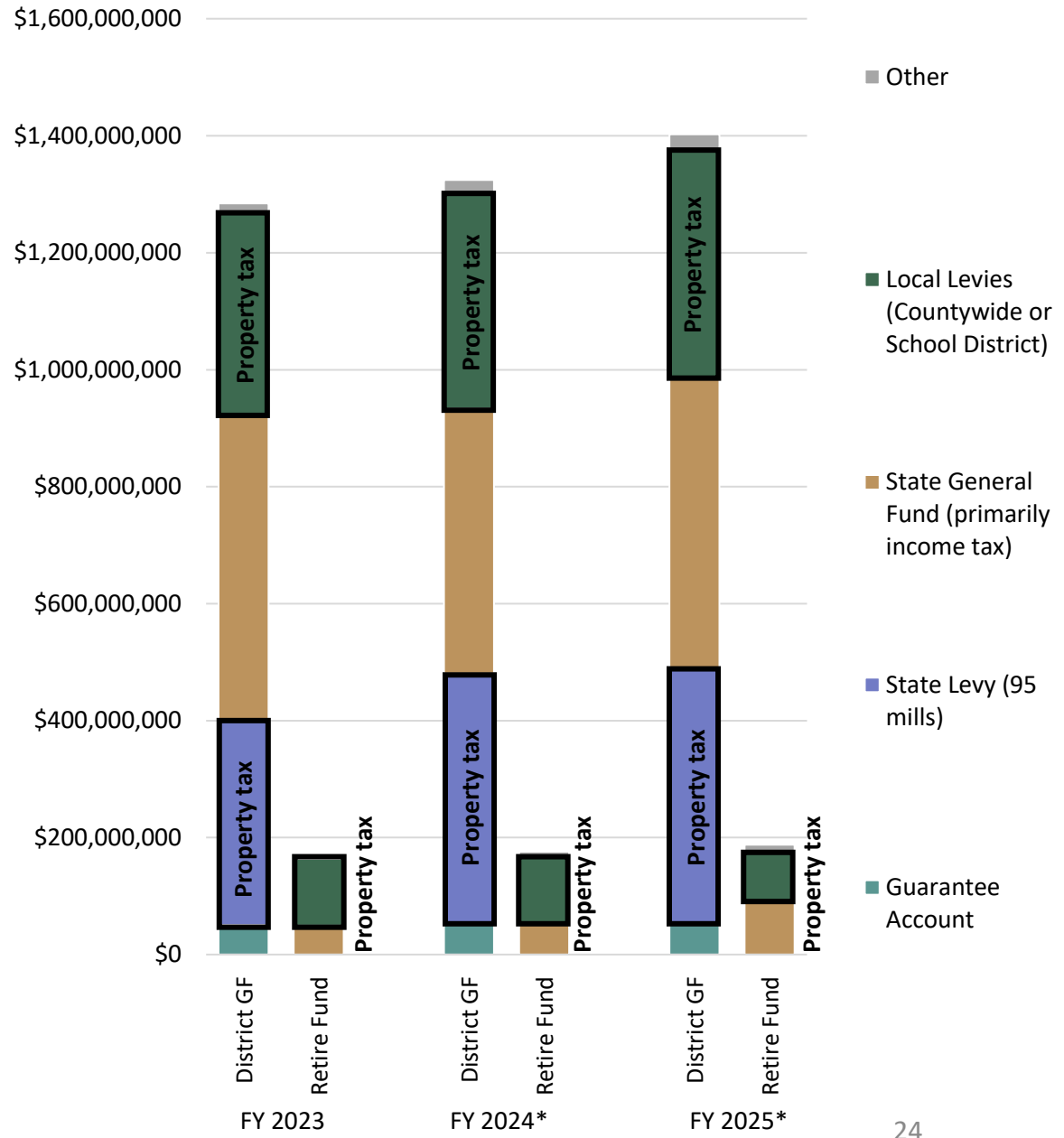
- FY 2024: the **95 mills** bring in ~\$75M in additional revenue, squeezing down the amount of **state general fund** (primarily income tax) needed for school funding
- FY 2025: the effects of the change in FY 2024 continue into FY 2025. However, the “hardcoded” retirement GTB ratio increase based on the increased revenue from the **95 mills** will increase the **state general fund** contribution to school retirement and **decrease local property tax levies** for retirement by ~\$33M

*FY 2024-2025 are estimated

	FY 2023		FY 2024*		FY 2025*	
	District GF	Retire Fund	District GF	Retire Fund	District GF	Retire Fund
Guarantee Account	\$50.3M		\$54.4M		\$54.4M	
State Levy (95 mills)	\$350M		\$426.1M		\$435.5M	
State General Fund (primarily income tax)	\$520.5M	\$49.3M	\$453.1M	\$54.8M	\$494.8M	\$88.9M
Local Levies (School District)	\$350.1M		\$369.7M		\$389.3M	
Local Levies (Countywide)		\$114.5M		\$114.5M		\$85.1M
Other	\$13.5M	\$1M	\$21M	\$6.9M	\$28.5M	\$13.9M
Percentage property tax	56.2%		60.7%		57.2%	

The SEPTR account “dials” the retirement GTB ratio up in FY 2025 such that percentage of property tax that makes up the revenue for these funds returns to level similar to FY 2023.

School District General Fund & Countywide School Retirement Fund Projections

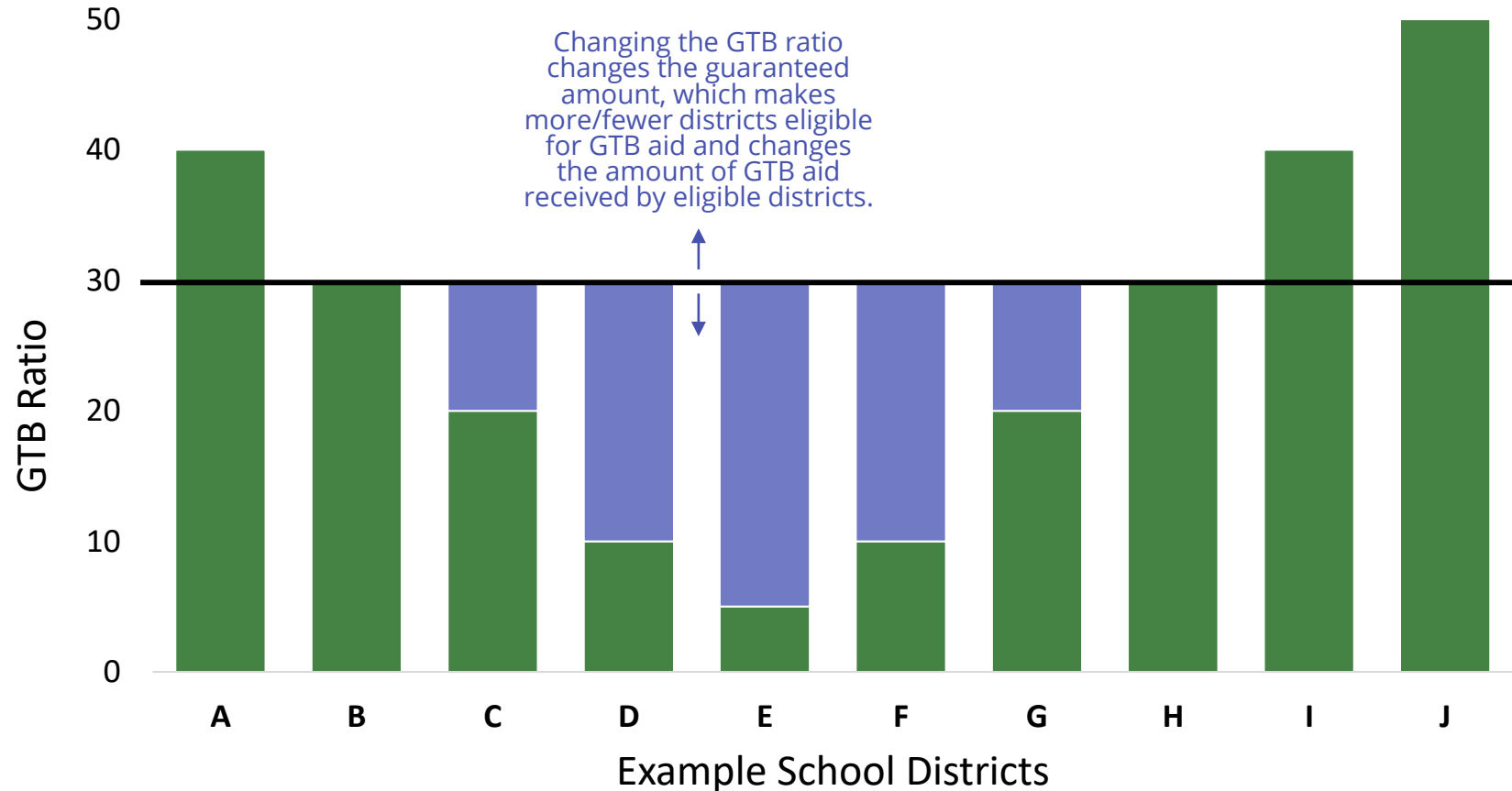


*Estimated



Guaranteed Tax Base (GTB) Aid

GTB aid equalizes districts' revenue-generating capacity by providing a **state GTB aid subsidy** for districts with less property tax wealth to bring their **revenue-generating capacity (based on the district GTB ratio)** to a **guaranteed amount**



A district's **revenue-generating capacity** is measured as a ratio of the district's property wealth (taxable value) to its local funding needs and costs (sometimes ANB, but in our district general fund formula, the GTB area).



Guaranteed Tax Base (GTB) Aid

GTB provides support for low tax value and/or high student areas. When combined with the school funding formula, this promotes base level equal opportunities for students across Montana.

For example, Ennis K-12 and Superior K-12 school districts have relatively comparable enrollment (ANB), and Superior K-12 receives GTB aid while Ennis K-12 does not:

School District	ANB	Taxable Value	GTB	BASE Levy Revenue	Mill Value	Number of Mills
Ennis K-12	425	\$191.4M	\$0	\$1,217,878	\$191,381	6.36
Superior K-12	351	\$5.2M	\$791,827	\$249,824	\$5,196	48.08

This is due to the difference in tax bases for the districts.

The number of mills it would take to raise \$1.0 million for those two districts WITHOUT GTB are calculated below:

School District	ANB	Taxable Value	GTB	Levy Revenue	Mill Value	Number of Mills
Ennis K-12	425	\$191.4M	\$0	\$1,000,000	\$191,381	5.23
Superior K-12	351	\$5.2M	\$0	\$1,000,000	\$5,196	192.46

It would take Superior K-12 192.46 mills to collect \$1.0 million, while Ennis K-12 would need only 5.23 mills to do the same. GTB aid helps equalizes the tax burden for education between different areas.