

COVID-19 Impacts

May 2020

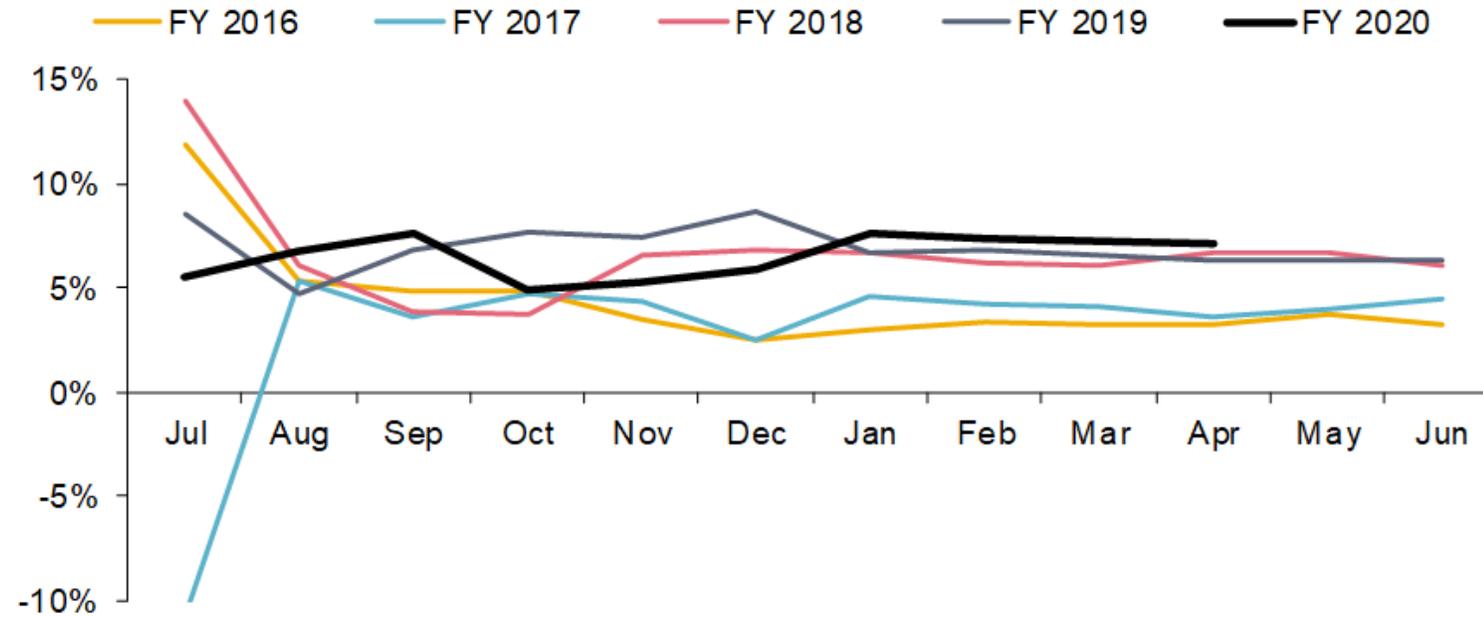
Quote:
Jerome
Powell, Chair
of the Federal
Reserve
May 13

“Both the depth and the duration of the economic downturn are extraordinarily uncertain and will depend in large part on how quickly the virus is brought under control. The severity of the downturn will also depend on the policy actions taken at all levels of government to cushion the blow and to support the recovery when the public health crisis passes.”

What we know

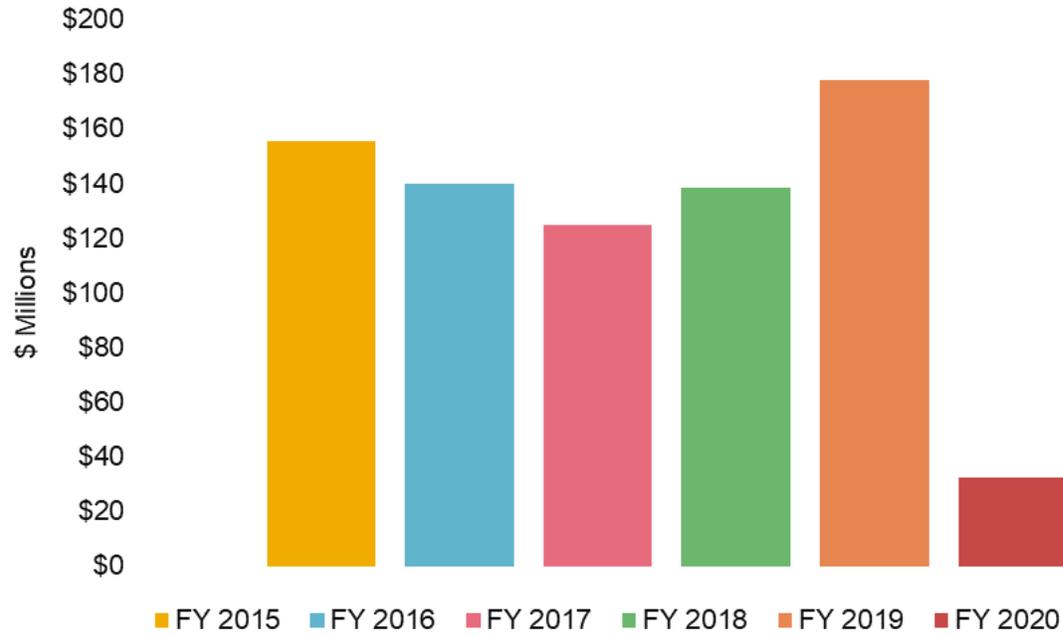
- FY 2020 general fund revenue is starting to see signs of the economic event, timing of payments is slowing the recognition of many of the anticipated impacts
- Revenue reductions will become more apparent by the close of the fiscal year and FY 2021 is expected to have significant declines
- Montana's financial reserves are strong and in a better position than most states to weather the storm
- The next several years of state and local revenue and the economy are highly uncertain
- Federal support to date has been for direct COVID-19 spending only
- Federal support for state and local government revenue is being debated

Cumulative year-over-year withholding growth may decrease throughout the remainder of the fiscal year due to increased unemployment.

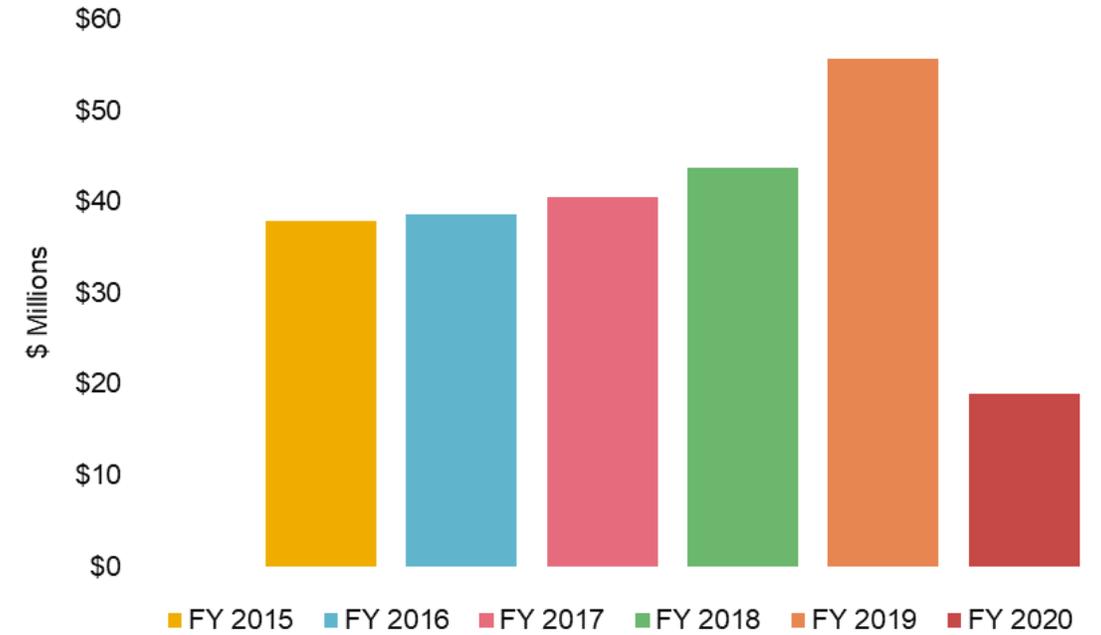


Personal Income Tax Withholding – very small decline in cumulative year-over-year

Individual Income Tax April Current Year Payments



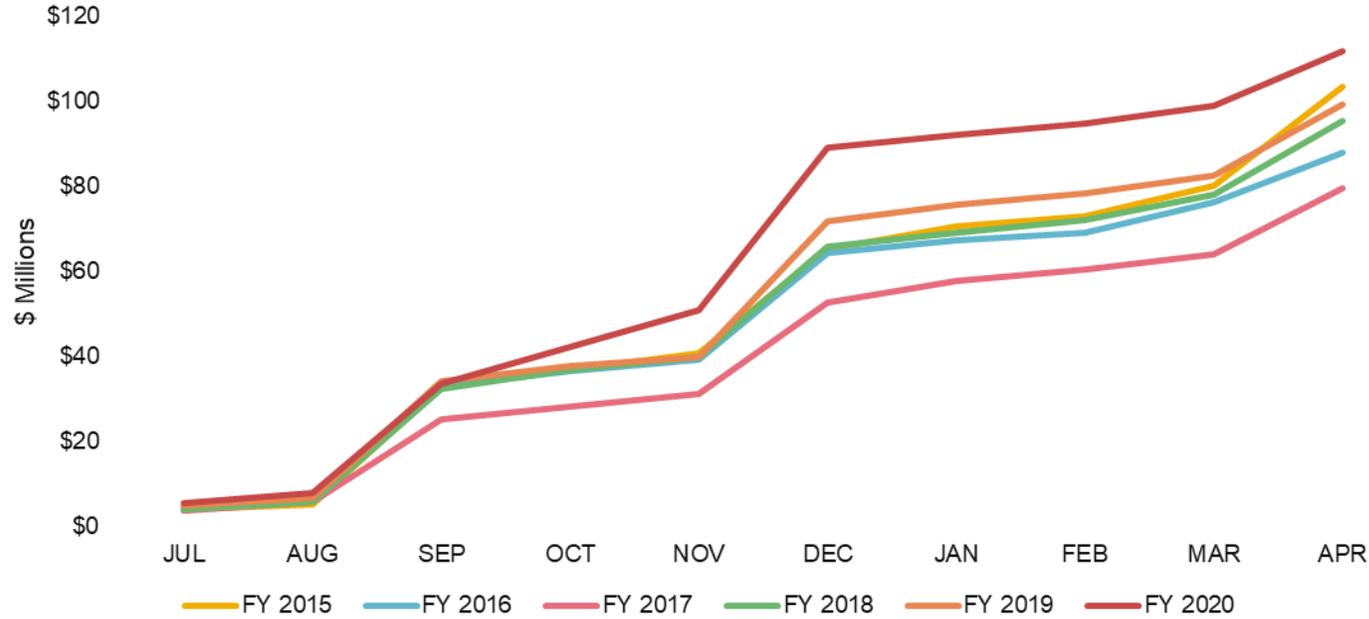
Individual Income Tax April Estimated Payments



Delay in tax payments

Corporate Income Tax Estimated Payments

Estimated payments through April are higher in FY 2020 than any prior year.



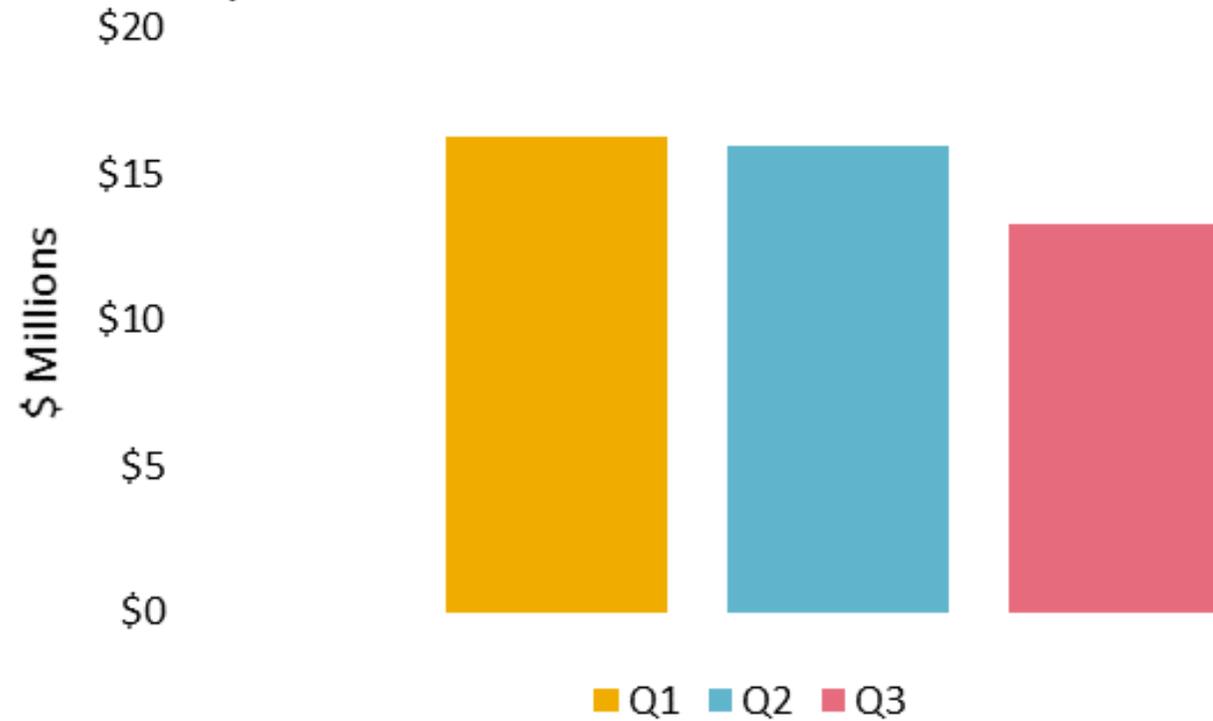
Video Gaming

Third quarter of FY 2020 or

January through March of
2020

Video Gaming starts to show
decline

Video gaming revenues began to decline in the end of
the third quarter



FY 2021
General Fund
Balance Sheet
basics
with HJ2
Revenues

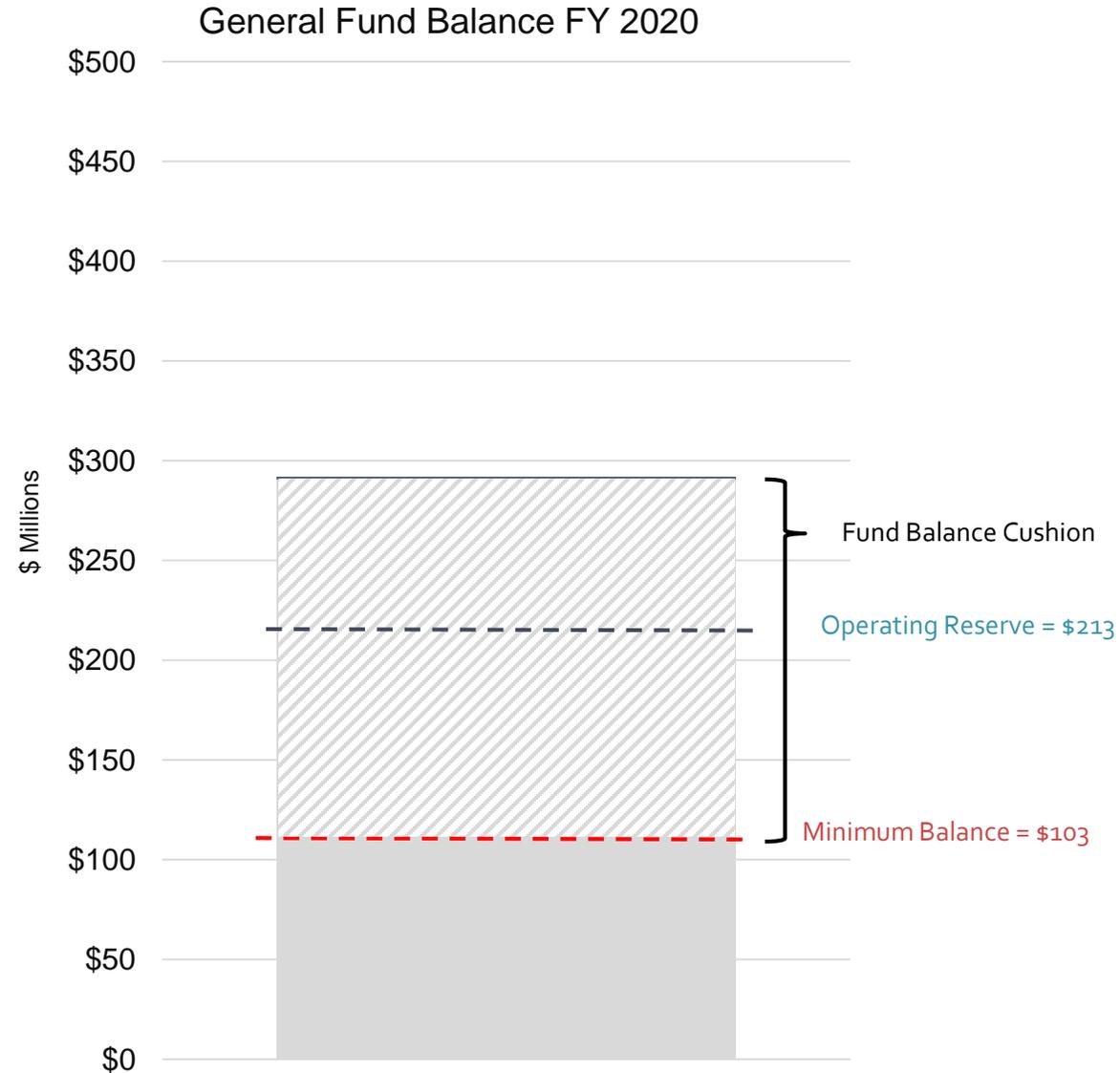
<i>In millions</i>	FY 2021
Beginning fund balance – standard assumptions	\$291.4
HJ 2 Revenues	2,572.9
Expenditures – appropriations net of standard reversions	2,566.7
Ending fund balance	\$297.5

FY 2020 anticipated ending fund balance = FY 2021 beginning fund balance

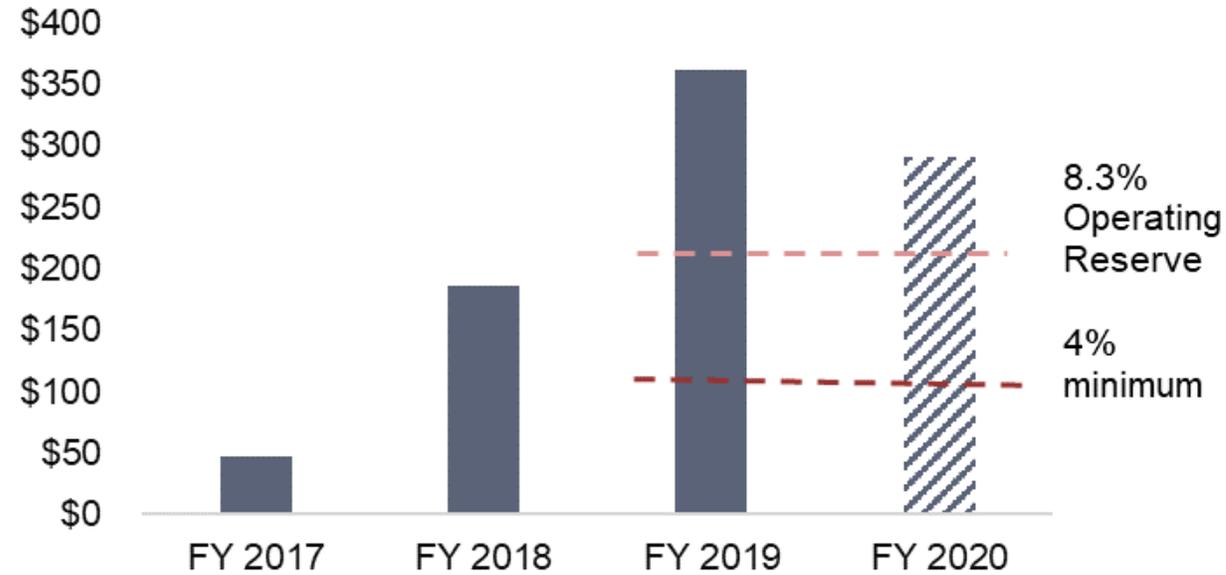
Fund Balance Cushion Available

In times of financial stress, revenue volatility may exhaust the available fund balance cushion, including the operating reserve.

The general fund cushion is about \$190 million or 7.4% of FY 2021 revenues.



General Fund Ending Fund Balances \$ Millions



The reserve parameters designed to weather financial difficulties recommend maintaining an operating reserve balance of 8.3% of all general fund appropriations in the second year of the biennium, or about \$213 million.

Statute requires a minimum state general fund balance of 4% of general fund appropriations in the second year of the biennium prior to October 2020.

After October, minimum balances drop incrementally as shown in the table.

Minimum Ending Fund Balance		
Timetable		
\$ Millions		
Prior October 2020	4%	\$103
Oct-20	3%	\$77
1-Jan-21	2%	\$51
Mar-21	1%	\$26

- Reserves:

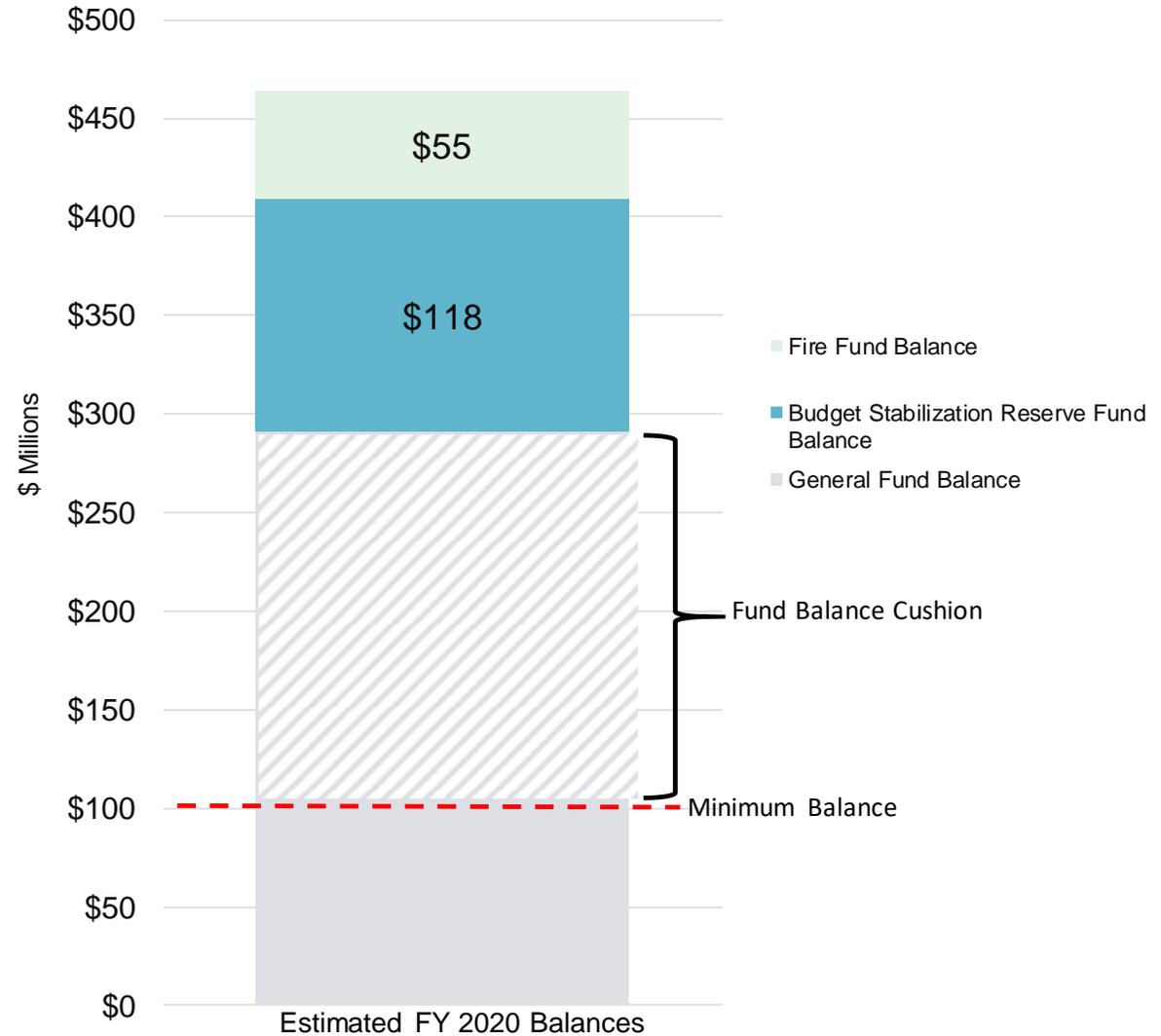
Fire Fund is \$55 million

Budget Stabilization Reserve is \$118 million

General fund above the minimum is about \$190 million

Total above the minimum is about 14% of annual general fund appropriations or revenue

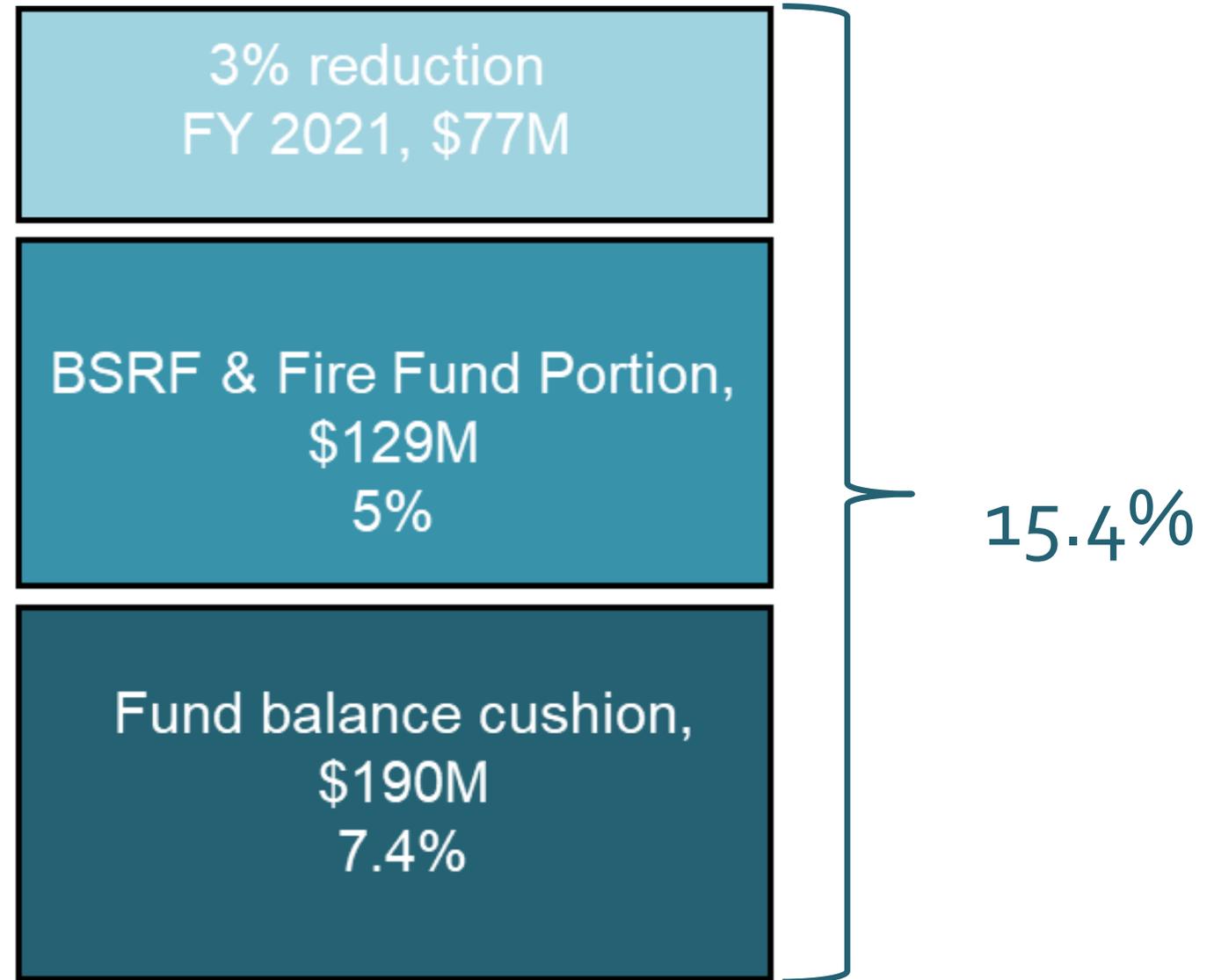
Balances for Managing State Financial Stress
= 18% of Annual General Fund Revenues



Moody's Analytics has estimated Montana's revenue shock through FY 2021 to be between 15.4% and 18.7% of annual revenue.

If the state receives no federal revenue support, and revenues decline as indicated by Moody's Analytics, other methods may be needed to stabilize state finances.

A combination of fund balance cushion, reserves, and assumed general fund expenditure reductions total 15.4% of FY 2021 revenues.



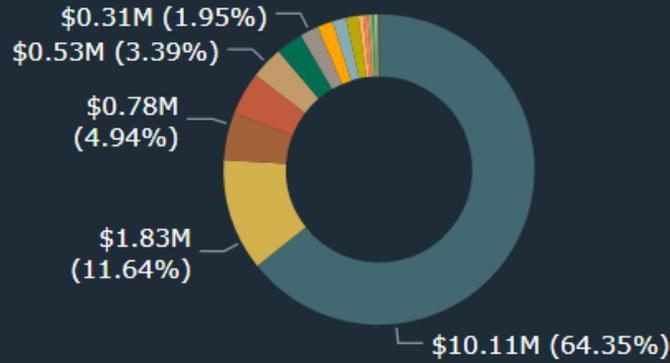
Other Possibilities

- General fund reductions through the enhanced FMAP exceeding any additional cost to Medicaid
- General fund reductions through changing duties of state workers to work on COVID or state workers using qualified leave toward COVID related costs
- Other general fund reductions as “regular” needs fall to be less and COVID related costs increase
- Federal revenue replacement for state and local government

COVID-19 State Expenditures

\$15.71M

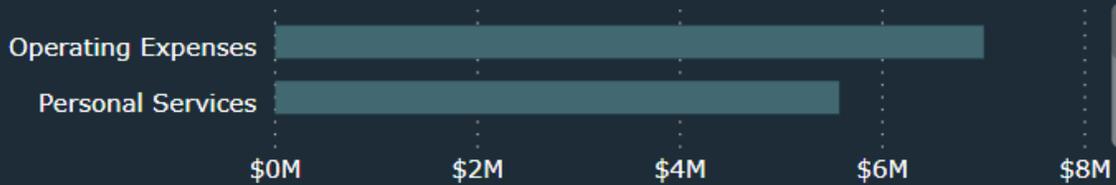
Agency



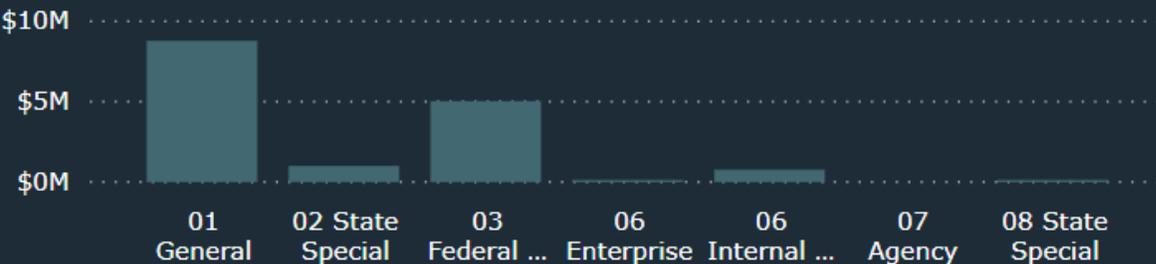
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- Department of Publi...
- Department Of Lab...
- Department Of Milit...
- Department Of Corr...
- Department Of Adm...
- Department Of Justi...

Expenditure Type

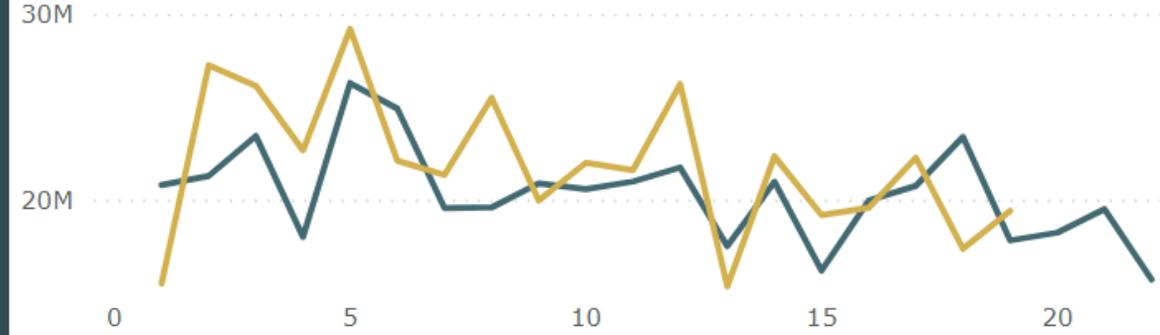


Fund Type



Income Tax Withholding by Calendar Week & Fiscal Year

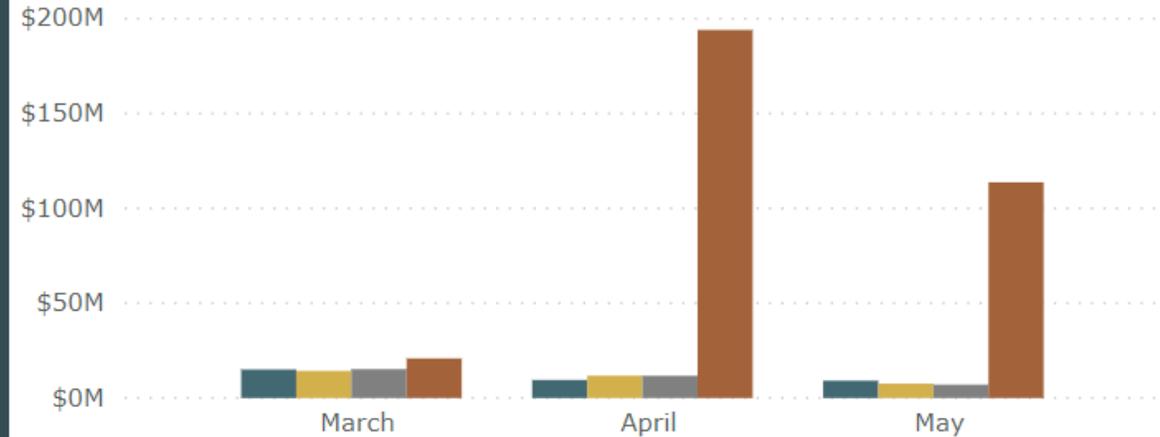
Fiscal Year ● FY19 ● FY20



Income tax withholding accounts for about one-third of all general fund revenue collections and is important for estimating future revenues. Withholding data updates once a week on Tuesdays.

Unemployment Insurance Benefit Payments

Fiscal Year ● 2017 ● 2018 ● 2019 ● 2020



May 14, 2020

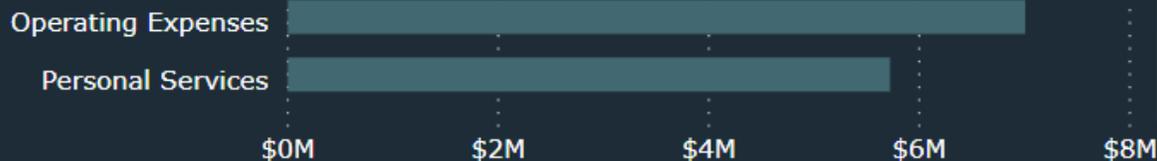
COVID-19 State Expenditures

\$16.44M

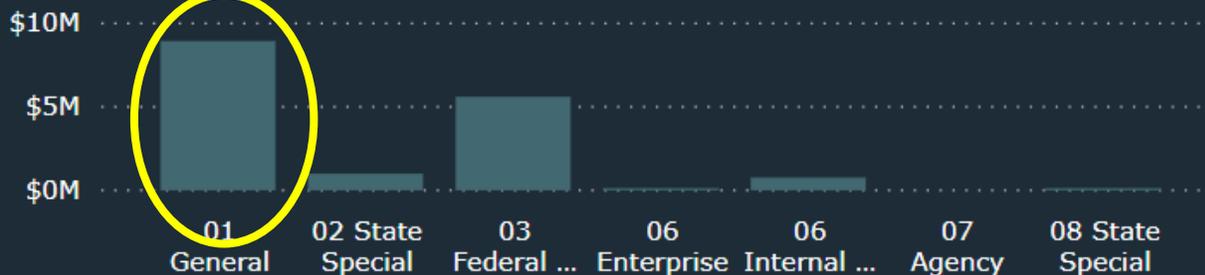
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Expenditure Type

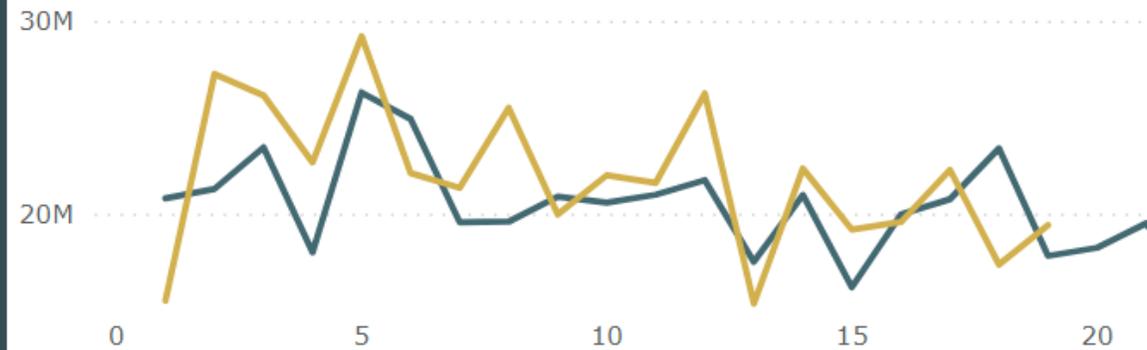


Fund Type



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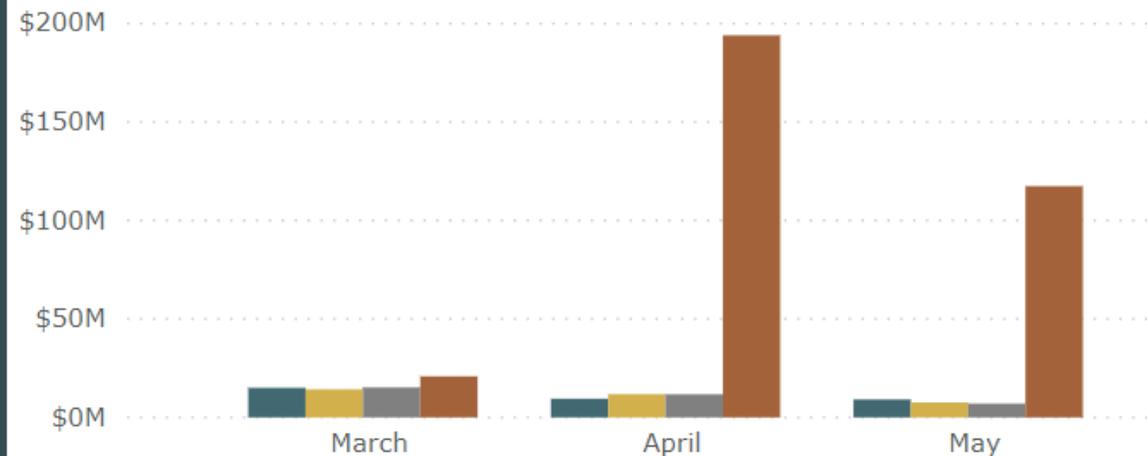
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Unemployment Insurance Benefit Payments

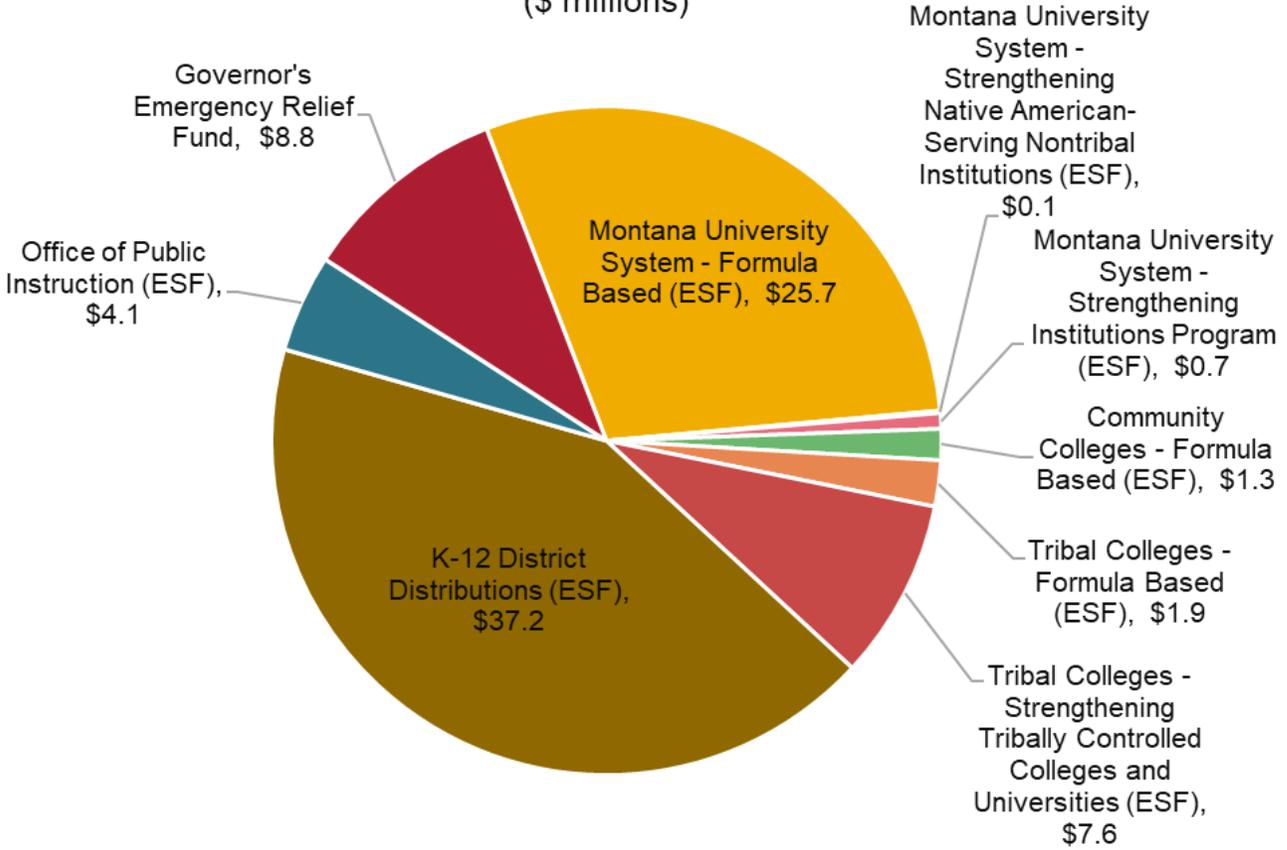
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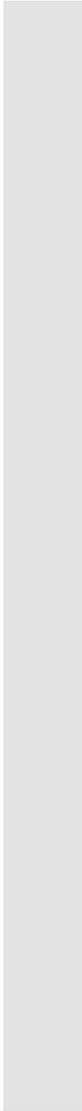


May 15, 2020

Federal Education Spending

Allocations to the State of Montana from the Education Stabilization Fund (ESF) and Governor's Emergency Relief Fund (\$ millions)



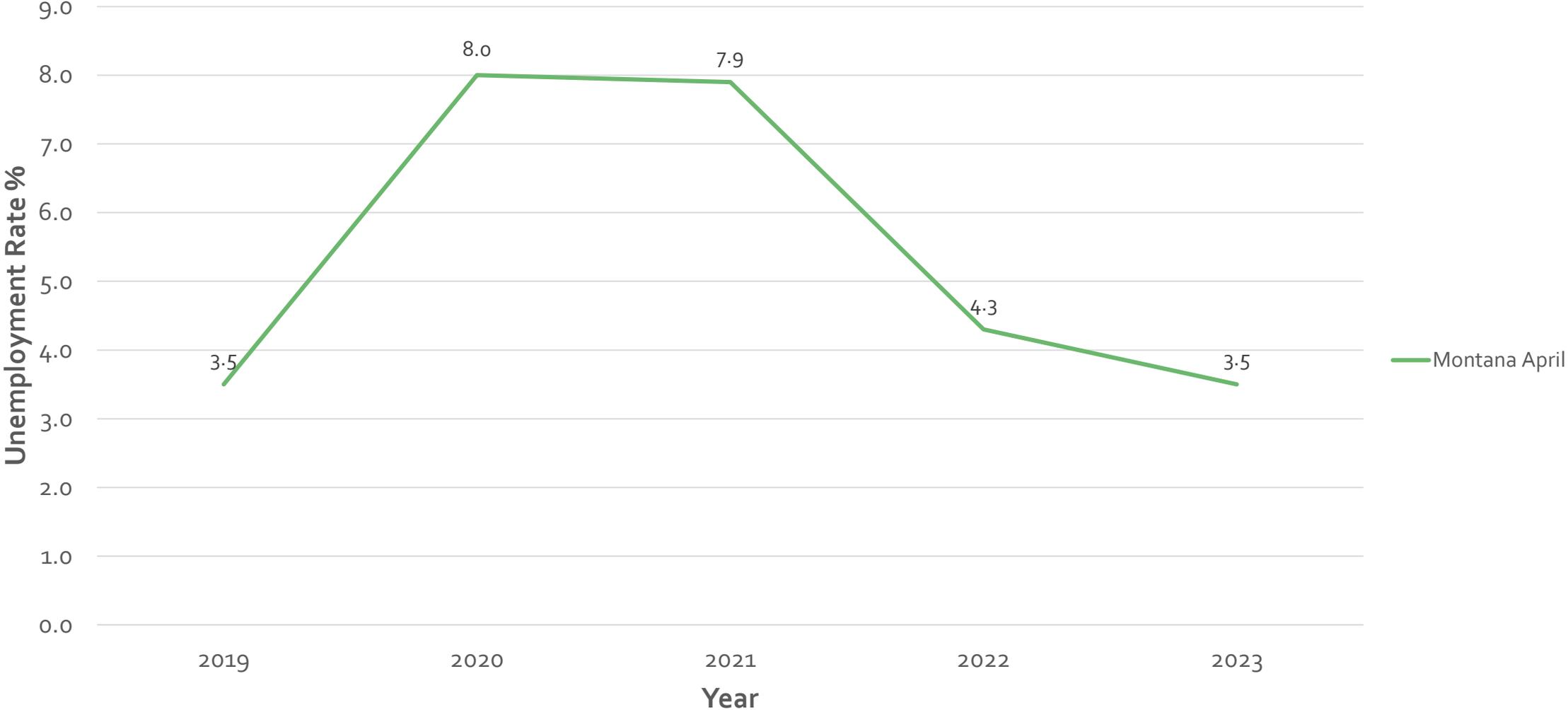


Economics

It will likely take two to three years for most economies to return to their pre-pandemic levels of output.

Quote:
IHS Markit

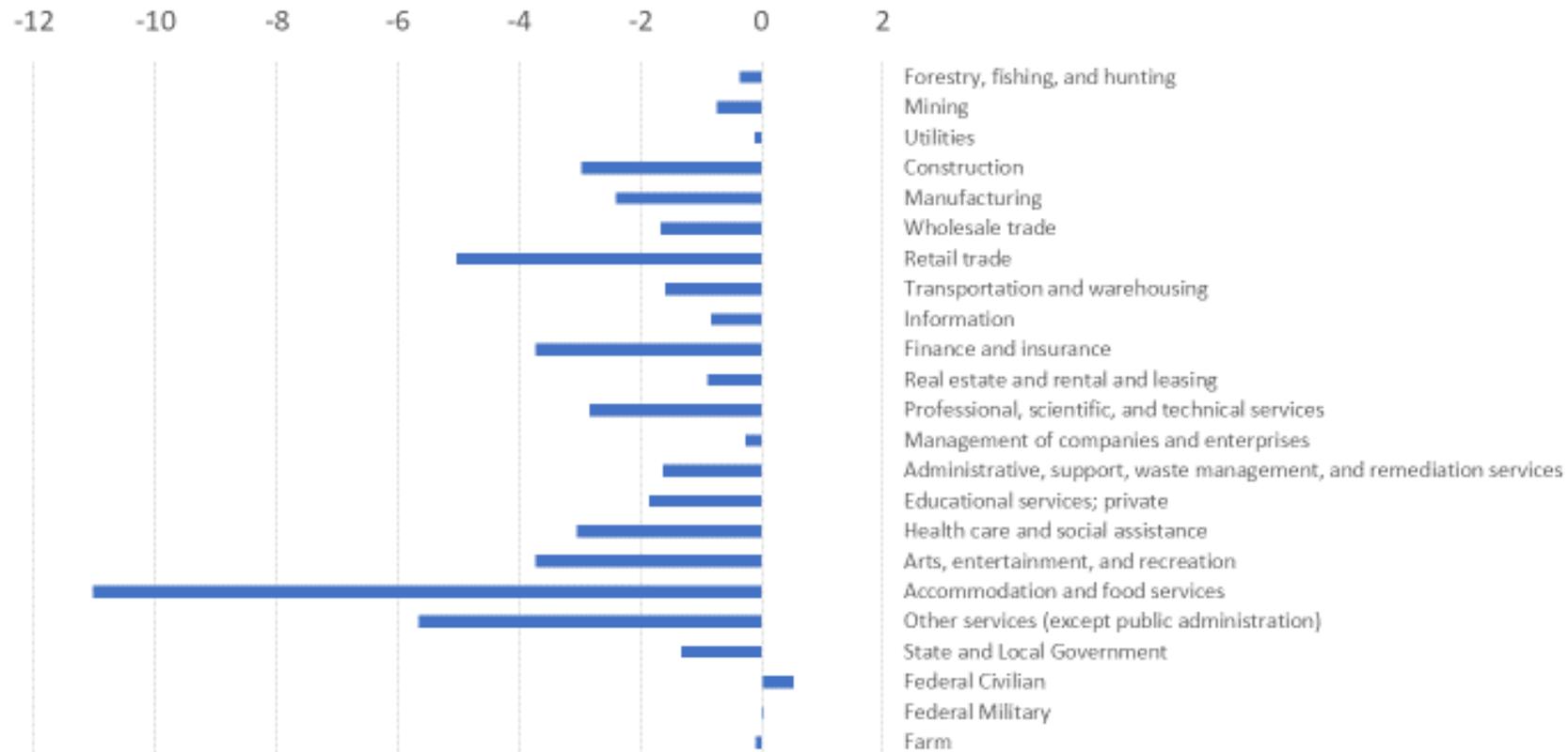
Montana Unemployment Rate Forecast



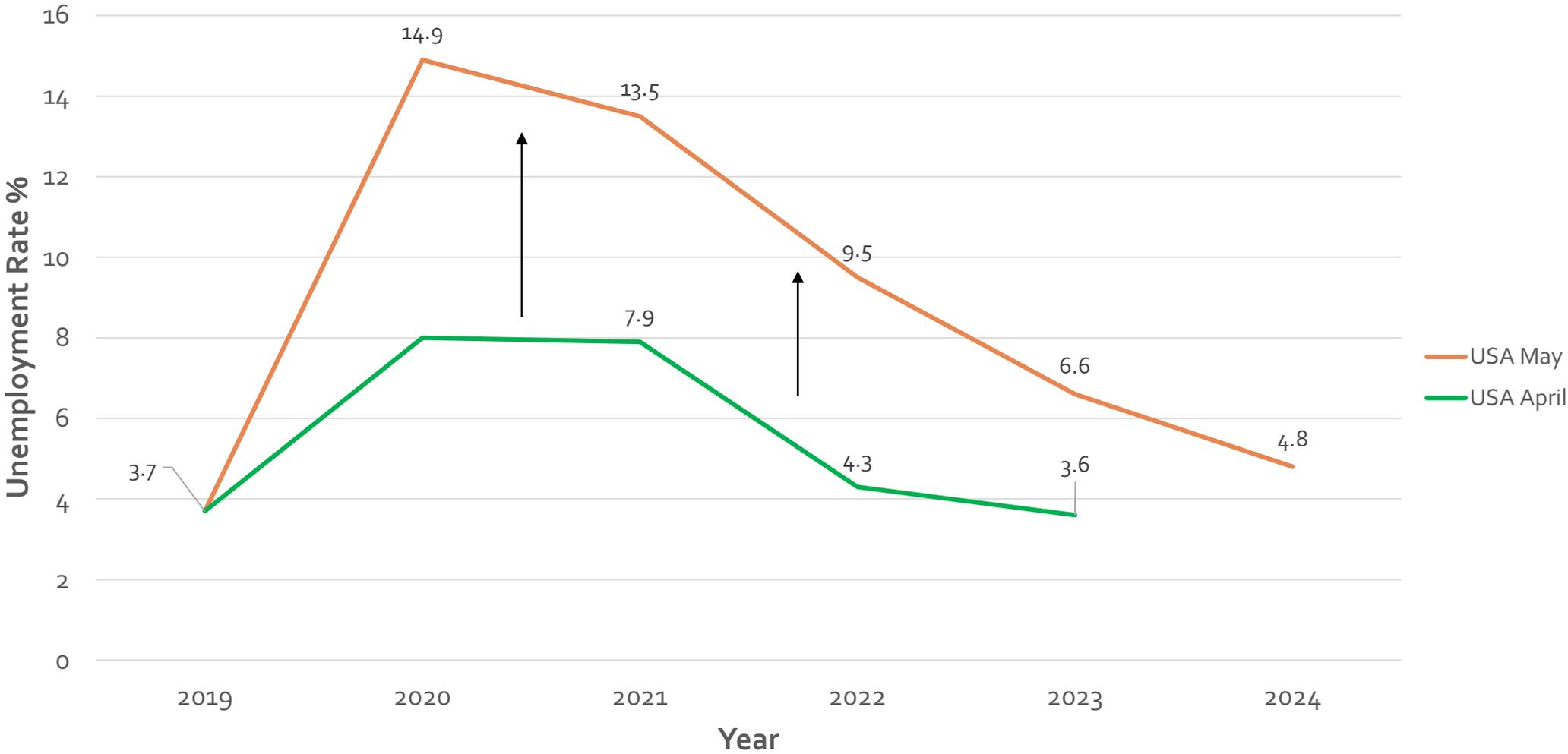
Source: Montana unemployment estimates from the April IHS state analysis report.



Dec-2019 vs. Apr-2020 Forecast Comparison 2020 Employment by Industry, Montana

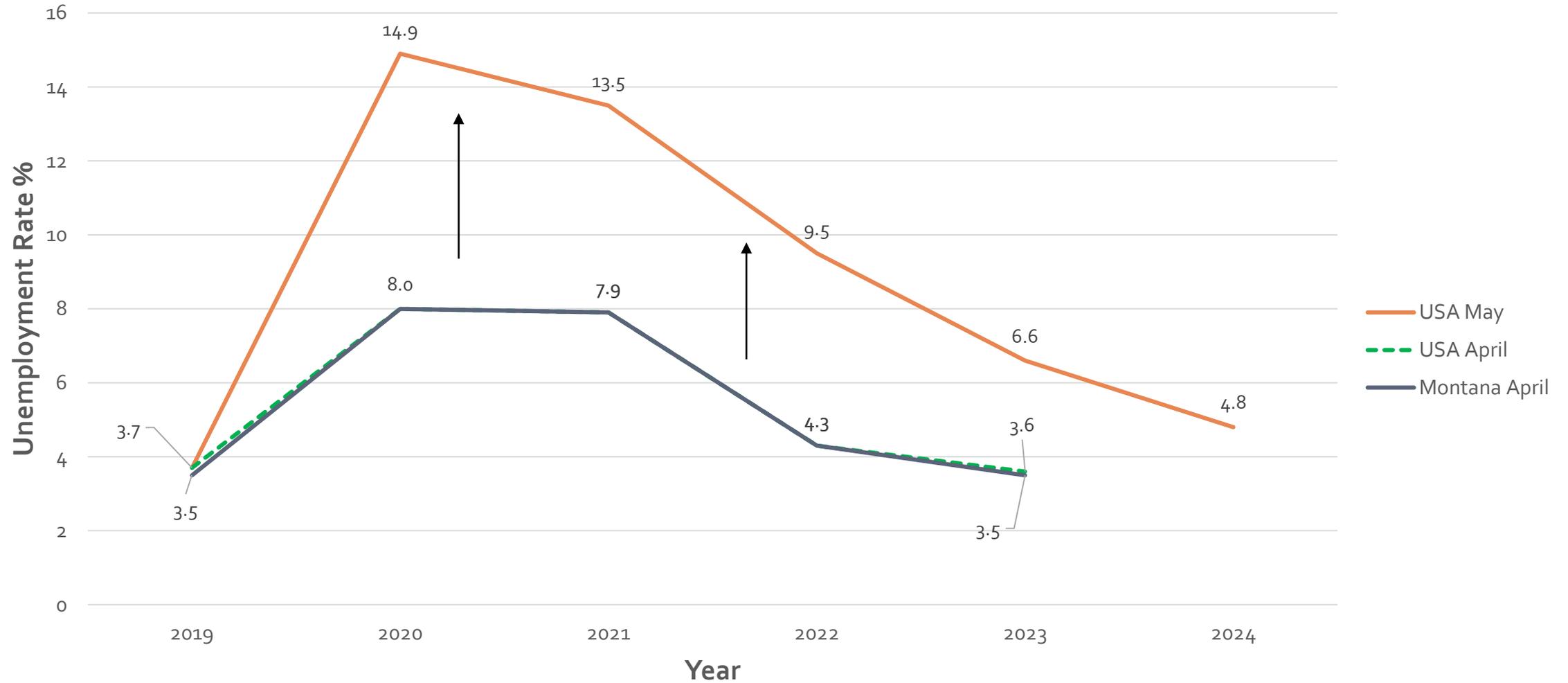


USA Unemployment Rate Forecast



Source: USA unemployment estimates from the April and May IHS Forecast Flash report.

IHS Unemployment Forecast



Source: Montana unemployment estimates from the April Montana Forecast IHS report. USA unemployment estimates from the April and May IHS Forecast Flash report.

IHS Markit Market: Montana Analysis from April

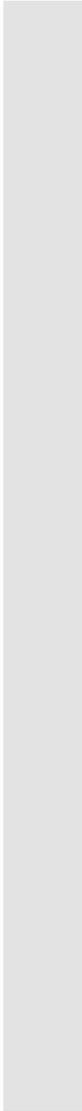
Real gross state product expected to drop 5% in 2020 to \$44,833 million, but recover by 2021 to \$47,550 million

Unemployment expected to increase to 8.0% and 7.9% in 2020 and 2021 respectively, but recover to pre Covid-19 rates of 3.5% in 2023

Personal income projected growth to slow, but still remain positive in 2020

Change in total housing starts decreased by 25.2% and 21.2% in 2019 and 2020, but expected to experience positive growth starting 2021 in addition to rising existing home prices

Only industry expected to not experience job losses related to Covid-19 in 2020 is the federal government (BBER report)



Next Steps

Track Expenditures and Revenues on COVID-19

Track economic indicators

Tracking Medicaid and other safety net programs

Local Government revenue – property taxes

Education revenue and spending on COVID-19

Revenue and Cashflow forecast updates

Information as
available



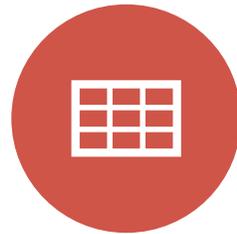
DASHBOARD
CONTINUE



JUNE REPORT



JUNE MEETING
WITH REVENUE
FORECAST



JULY REPORT



AUGUST MEETING
AND FISCAL YEAR
END REPORT

Next Steps

End