

Outlook

2023 Biennium and Beyond

2023 Outlook

As usual, we will take the 2023 Outlook to legislators in preparation for session

A “Zoom tour” by region will be available to all legislators in late September and early October

This year on our “tour” I will be joined by Susan Fox to discuss the up coming legislative session and the preparations that are being made for a potential remote or hybrid session

Both general fund revenues and expenditures

Balances in the general fund and other reserve fund

Risks of revenues and expenditures

Cost pressures

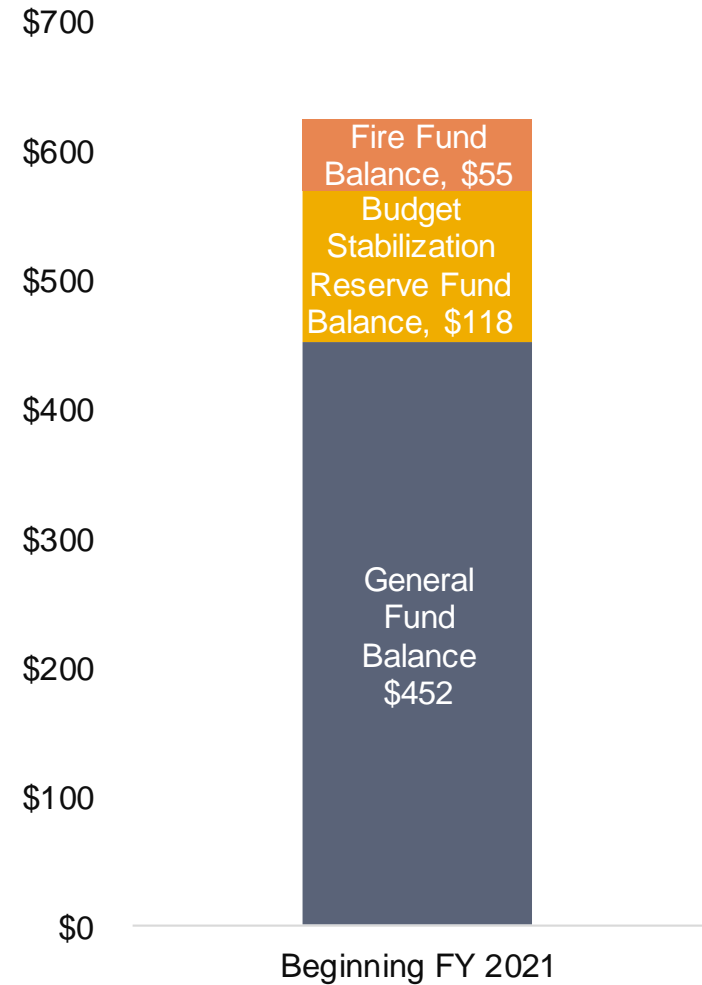
Beginning Fund Balances are Strong

Fund balances were strong going into FY 2020

FY 2020 ended strong with less expenditures and more revenue than anticipated

Reserve fund balances at the beginning of FY 2021 are strong

Reserve Balances
Beginning FY 2021
(\$ millions)




Revenue Forecast





Individual Income Tax

- There is significant uncertainty in forecasting individual income taxes due:
 - Taxpayer behavior and the impacts of the CARES Act
 - Potential for economic changes
- 

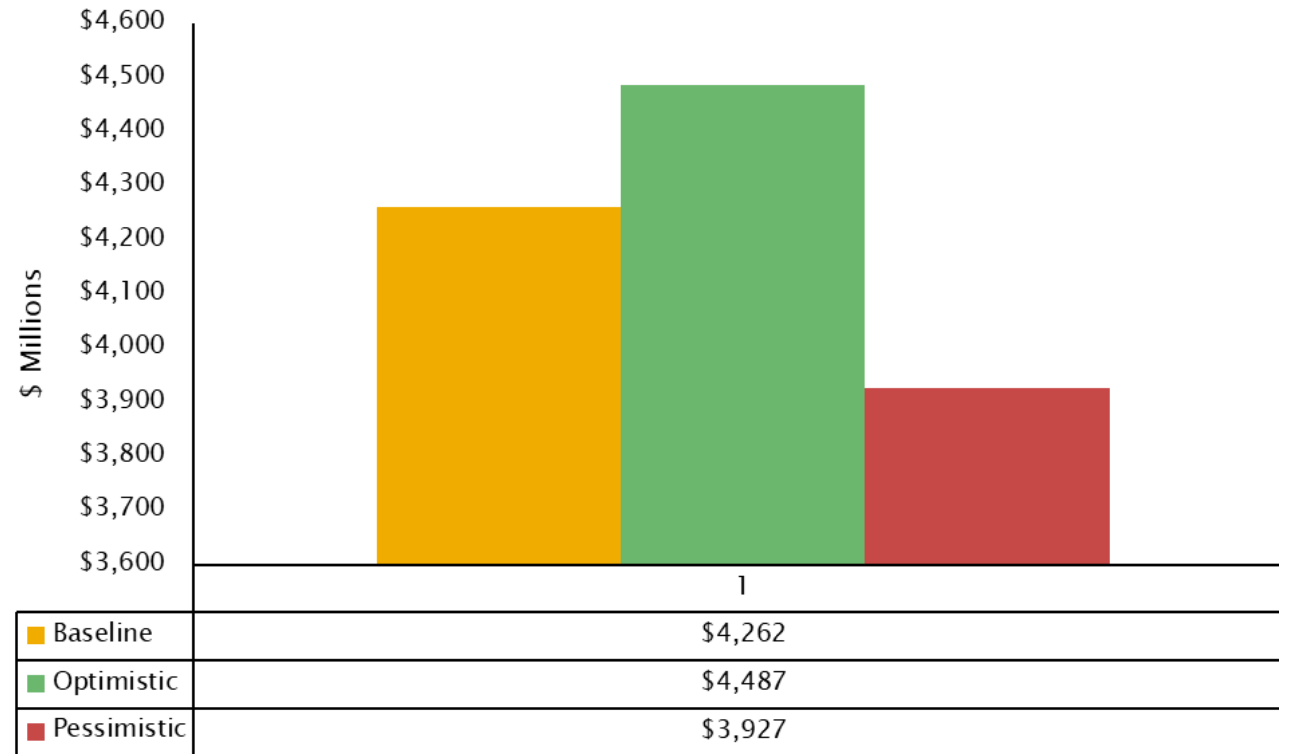
| August Assumption | September Assumption | September Baseline | Optimistic Forecast | Pessimistic Forecast |
|---|--|---|--|----------------------------------|
| Taxpayers will maximize liquidity and opt to choose refunds as opposed to putting them towards future payments | Unchanged from August | Baseline includes a reduction of \$30 million in FY 2021 | Same as baseline | Same as baseline |
| The CARES Act suspended required minimum distributions from tax deferred retirement account. | Unchanged from August | Reduces tax liability by approximately \$20 million | Same as baseline | Same as baseline |
| The Federal Cares Act provides additional abilities for taxpayers to carryback Net-Operating Losses. In August it was assumed that this would reduce FY 2021 revenues by \$58 million and FY 2022 revenues by \$6.5 million | CY 2018 return data suggests that losses in this amount would reduce MT net business income to nearly \$0. This seems unlikely | Reduction of \$44 million in FY 2021 and \$5 million in FY 2022 | Reduction of \$29 million in FY 2021 and \$3 million in FY 2022 | Same as August assumption |
| The Federal Cares Act provides additional abilities for taxpayers to offset non-business income with business losses. it was assumed that this would reduce FY 2021 revenues by \$63 million and FY 2022 by \$54 million | CY 2018 data suggests that nearly 2/3 of additional non-business income would need to be offset to reach the August assumption | Reduction of \$47 million in FY 2021 and \$41 million in FY 2022 | Reduction of \$32 million in FY 2021 and \$27 million in FY 2022 | Same as August assumption |
| CY 2018 income contained one-time money due to taxpayers shifting money into CY 2018 to take advantage of the federal tax reform late in CY 2017 | Strong individual income tax collections in FY 2020 indicate that some of this may be ongoing | Some of the growth is ongoing. Increases FY 2021 & FY 2022 by \$50 million. | \$100 million is on-going before gradually decreasing down to \$50 million | Assumes it was all one-time-only |

Key Modeling Assumptions and Changes from the August Revenue Update

Individual Income Tax Variation

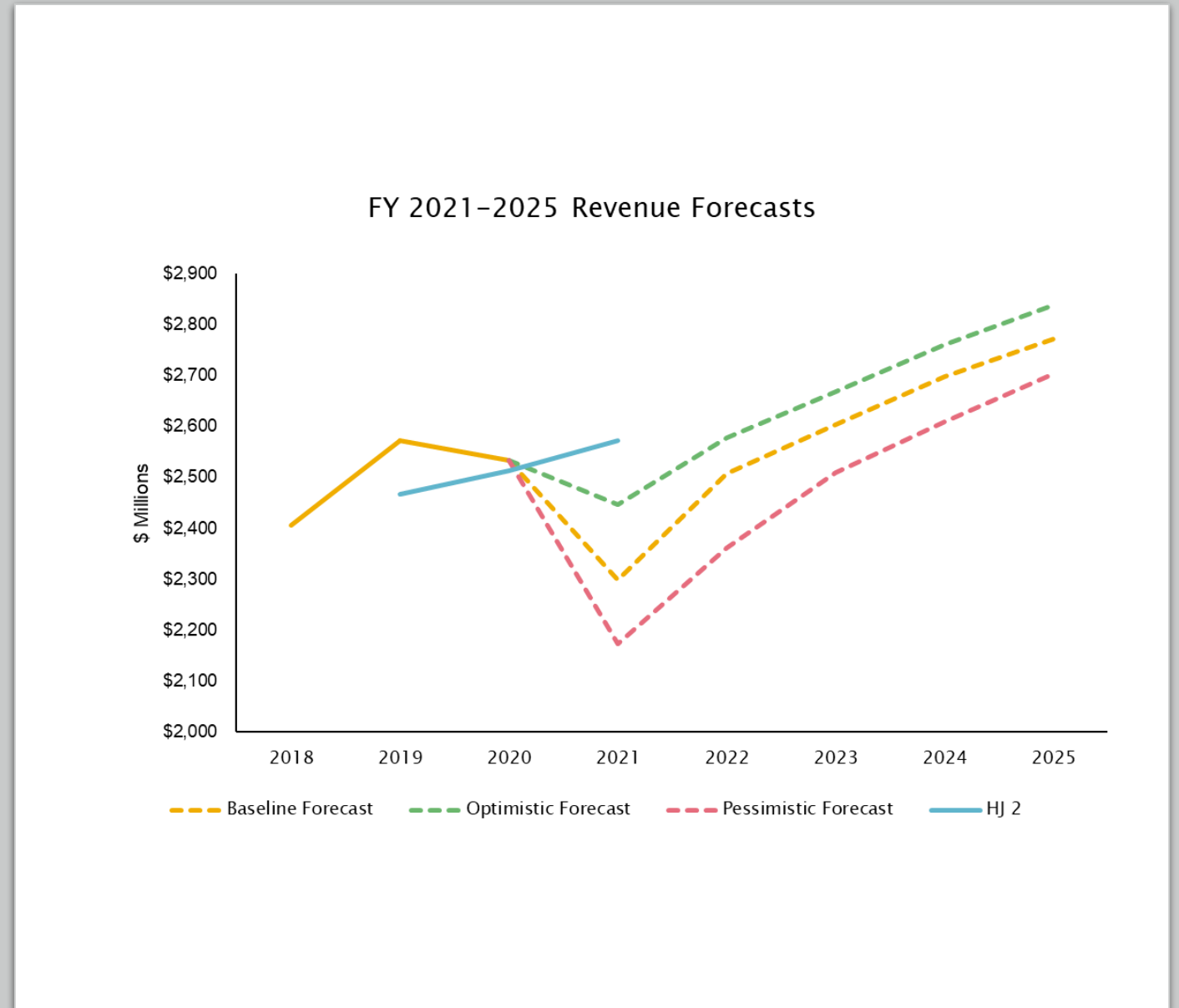
- Note that the variation between Optimistic and Pessimistic – at this time, does not vary the wage assumption. A wage assumption range will be included in the November Estimate update.
- Over the three-year period, the range of possibilities from individual income tax vary by \$560 million.

2021–2023 Individual Income Tax Scenarios



General Fund

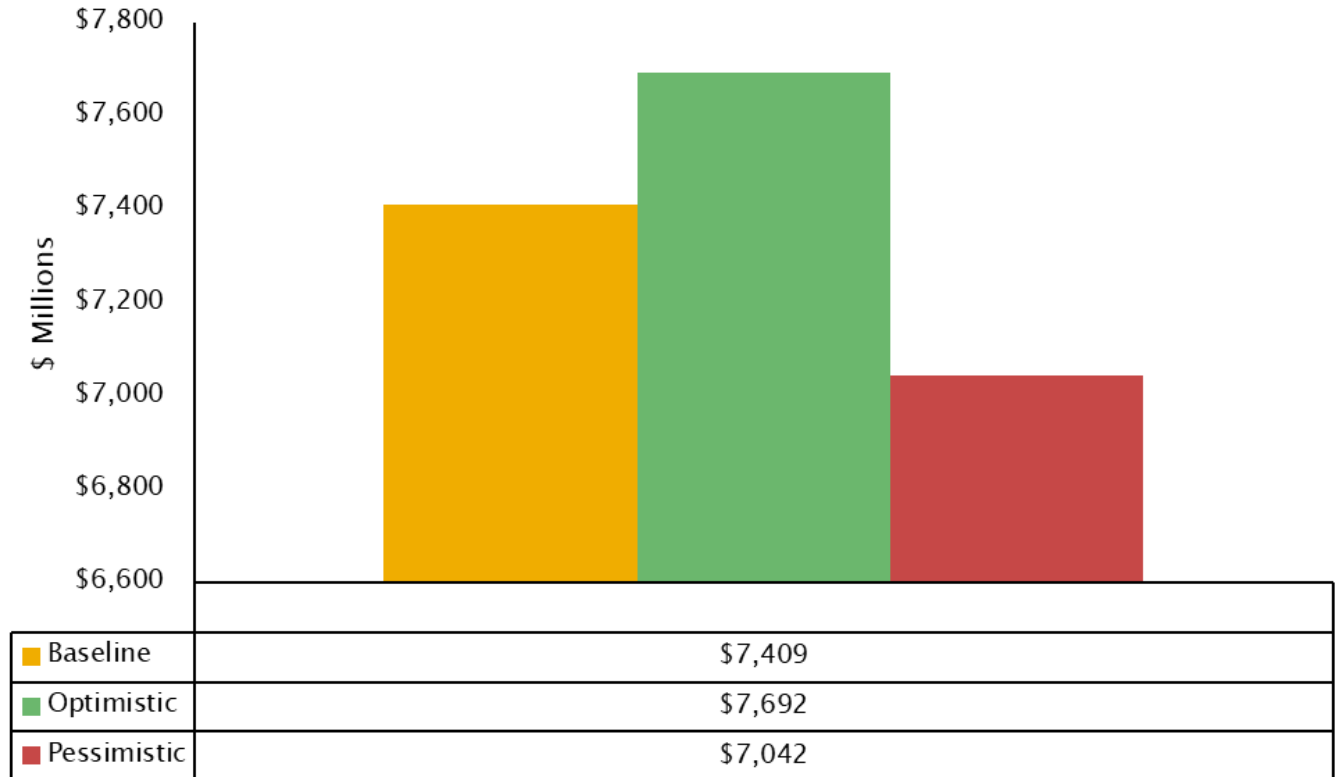
- Note that there is a significant range of possible final collections, especially in FY 2021.
- The baseline forecast is \$274 million below the previously adopted HJ 2 for FY 2021.
- Even in the optimistic scenario, collections fall short of HJ 2 by \$127 million in FY 2021.



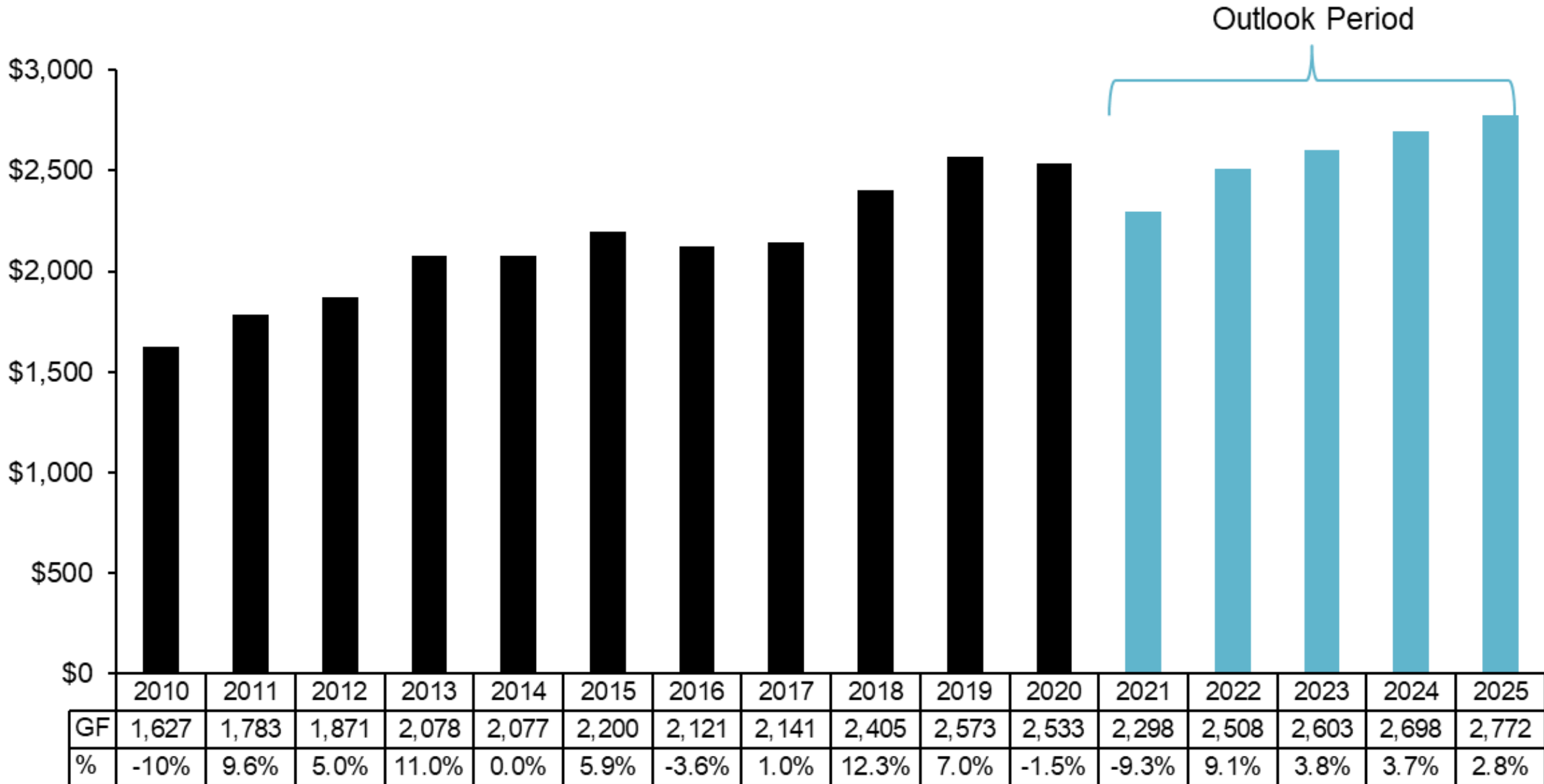
3 year Revenue Estimate

- Variation high (3-year totals vary by \$650 million)
- Likelihood of a higher or lower actual revenue strong
- Wage variable when extrapolate in November is expected to widen this variation

2021-2023 Revenue Scenarios



General Fund Revenue (\$ Millions) by Fiscal Year

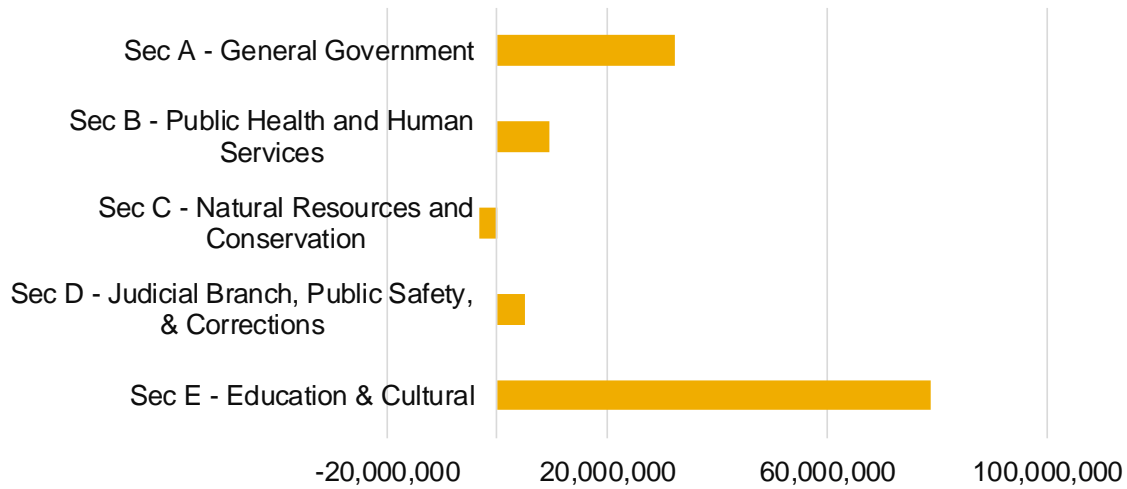


Expenditures

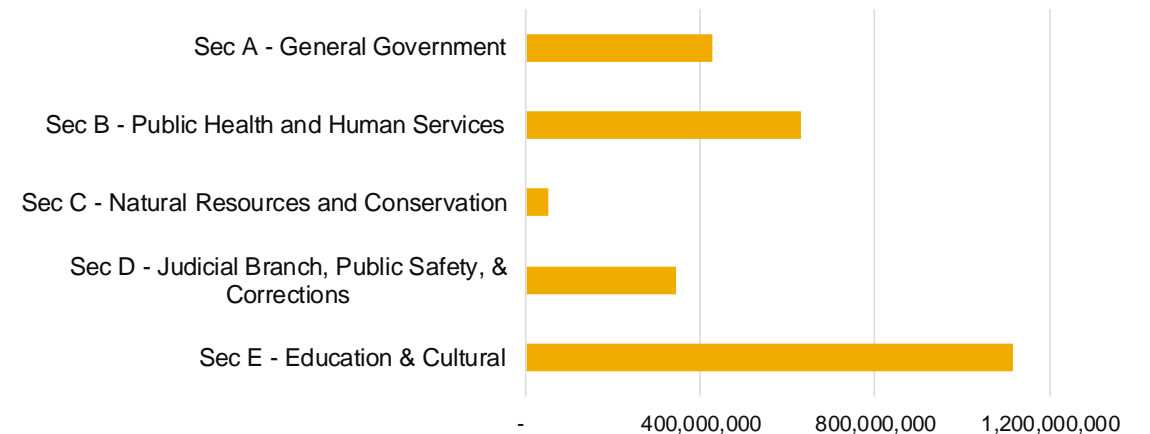
Quinn Holzer

Base Budget and Present Law

General Fund Present Law by Section of Government



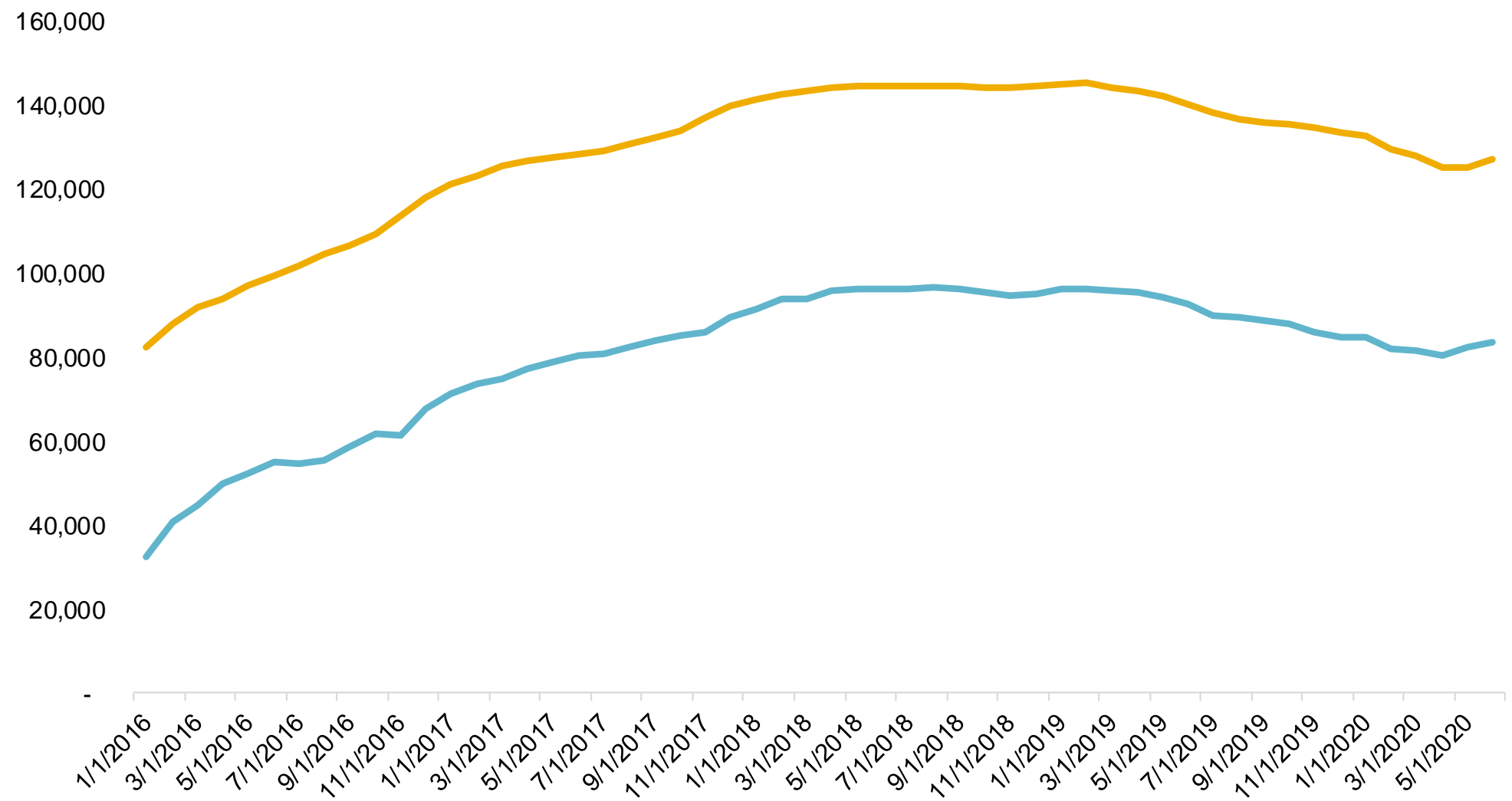
Agency General Fund Base Budgets by Section of Government



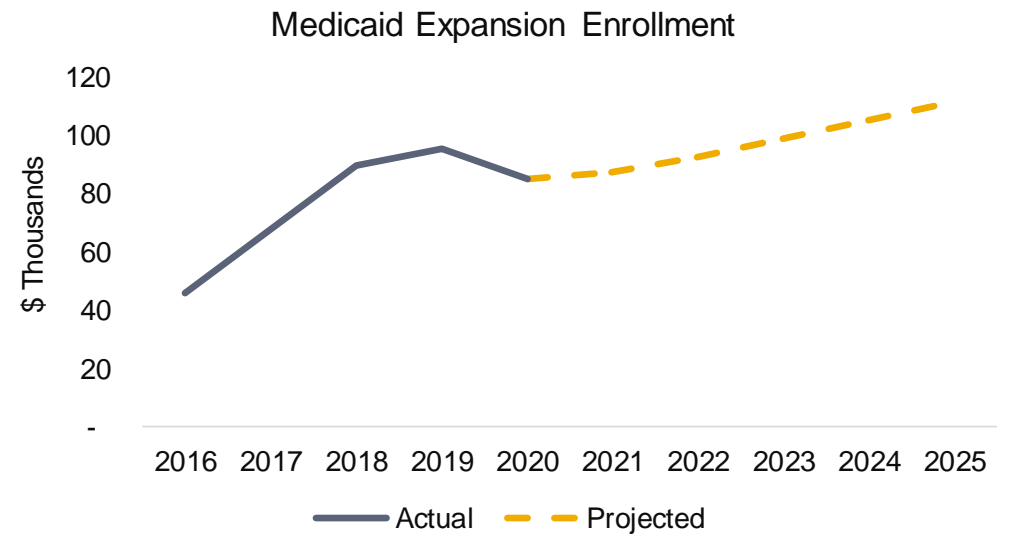
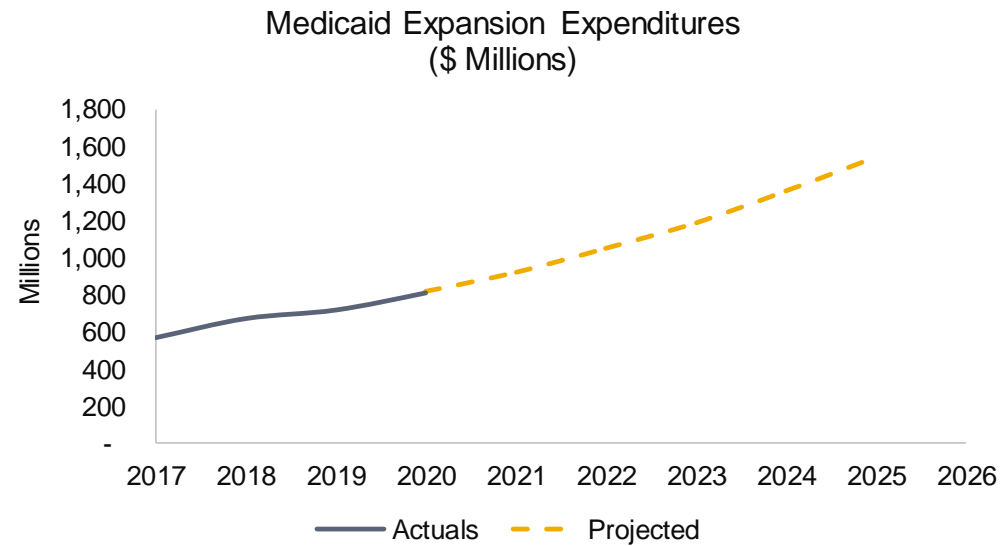
Deep Dive into Health and Human Services

Josh Poulette

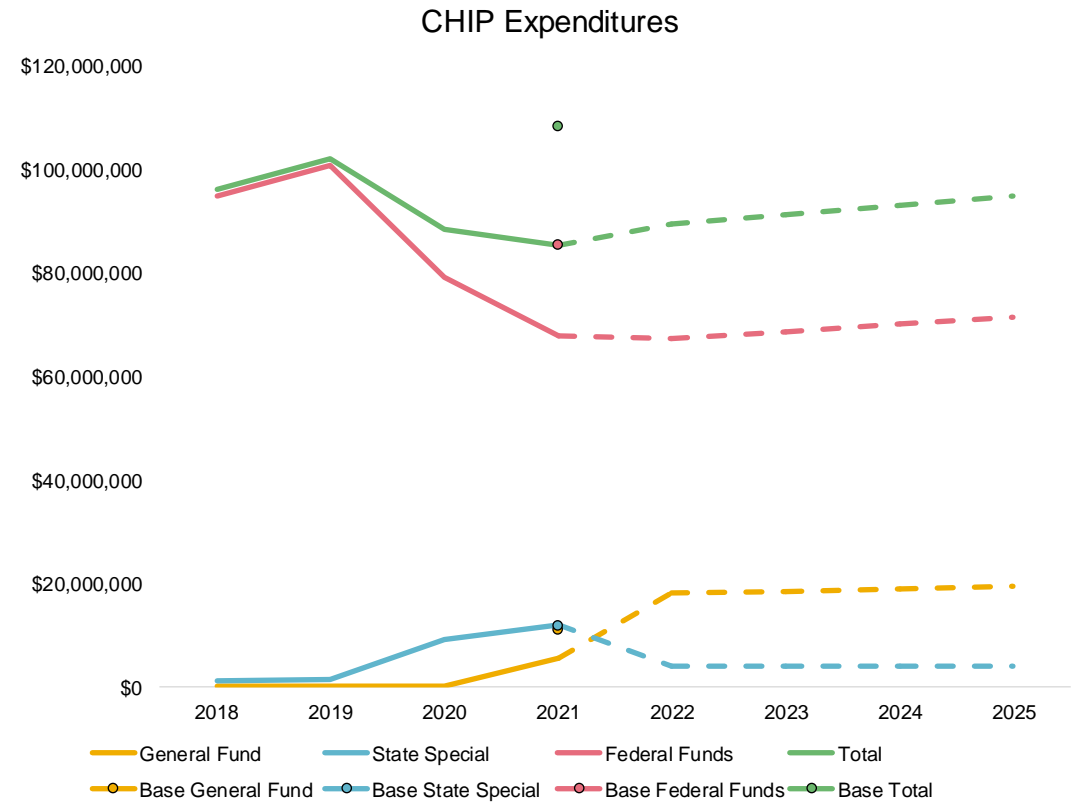
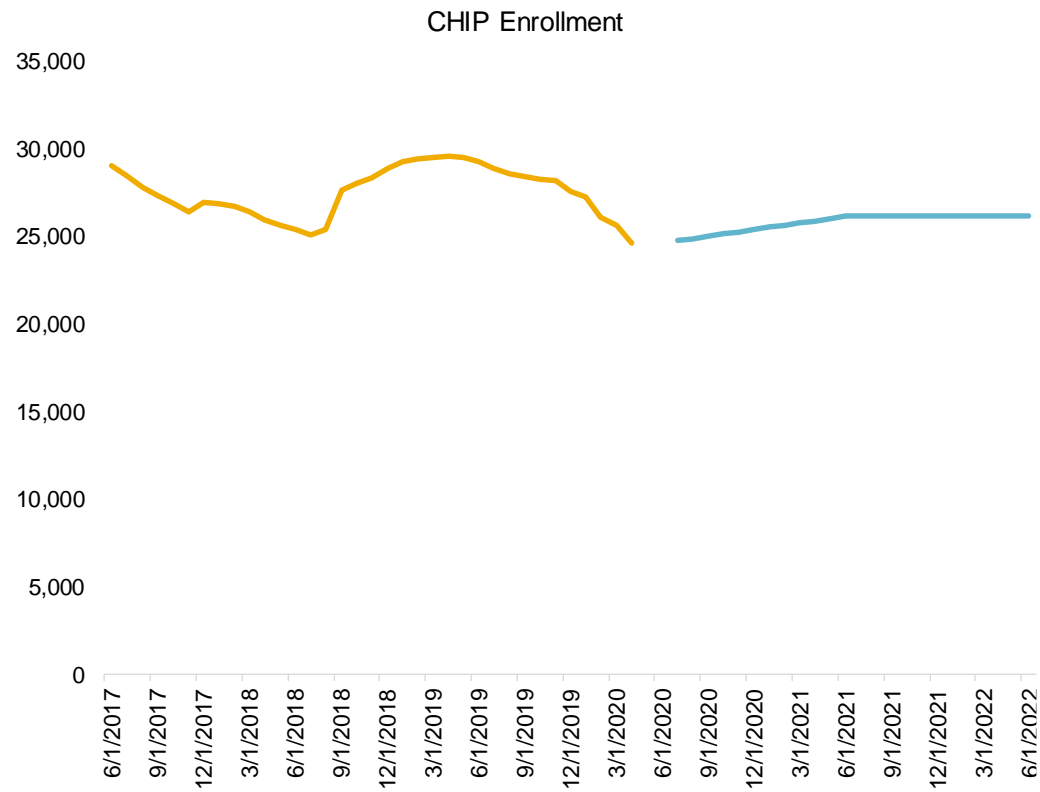
Enrollment in Traditional Medicaid and Medicaid Expansion Jan 2016 - June 2020



Expansion

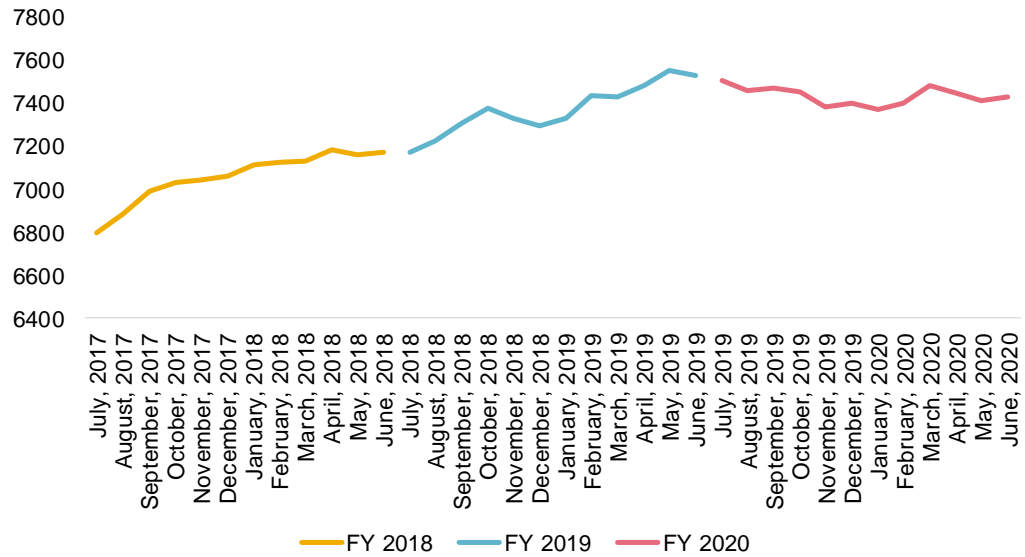


Children's Health Insurance (CHIP)

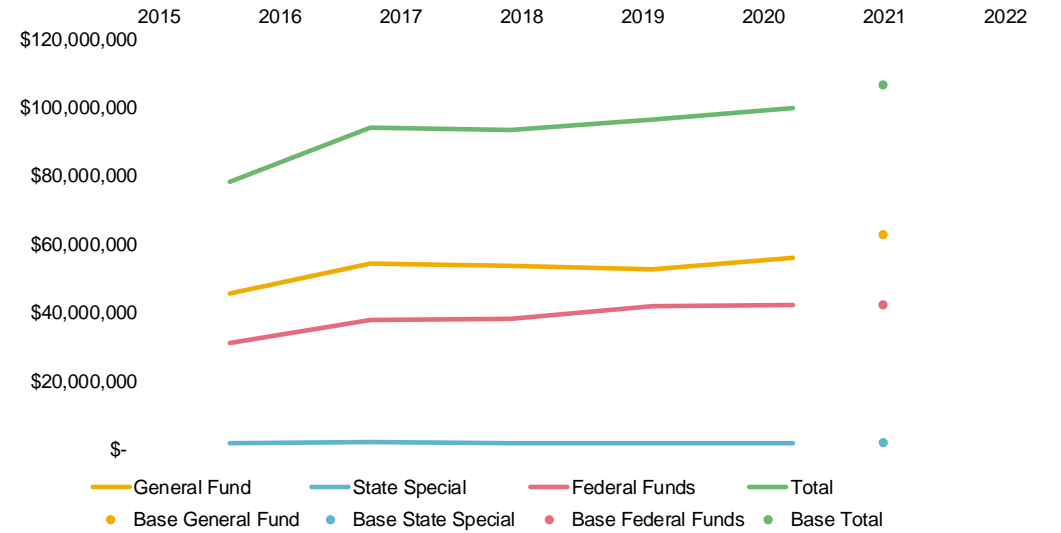


Children and Families

Child & Family Services Division Caseload: Foster Care, Guardianship, & Adoption



Child and Family Services Division Expenditures

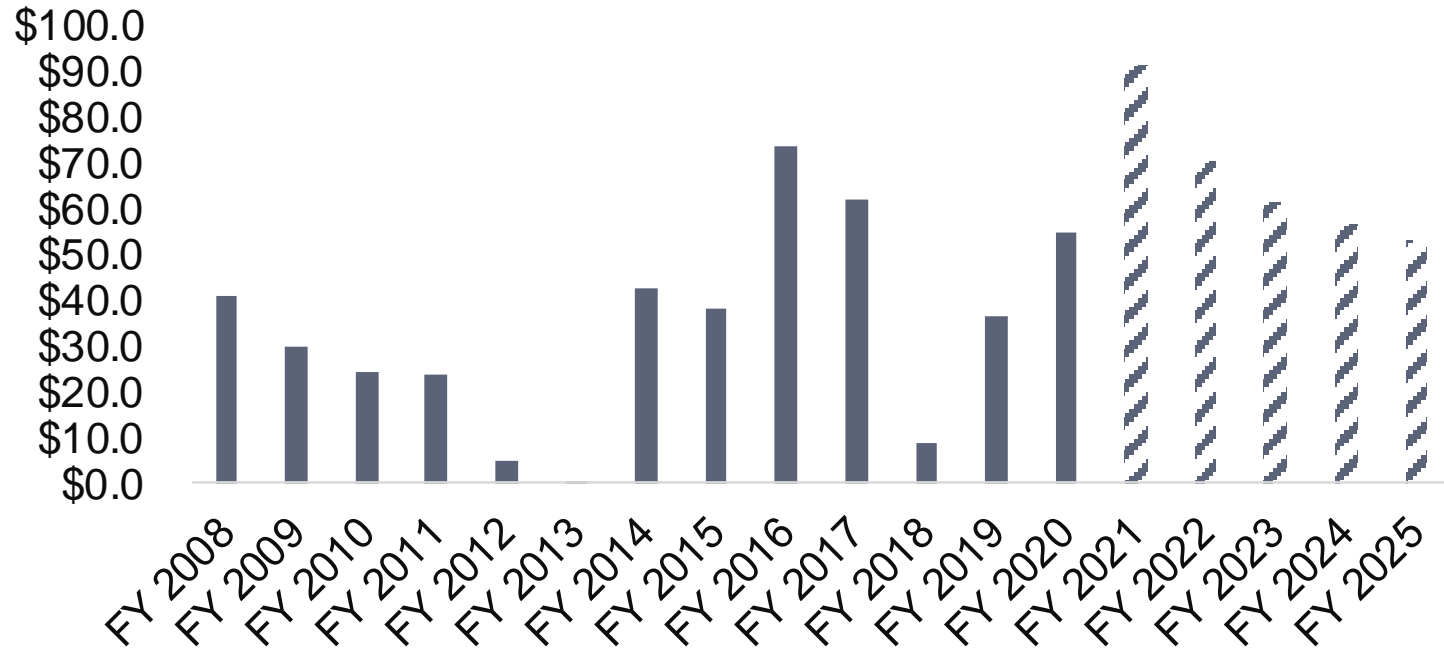


Section C and D Highlights

Quinn Holzer

Fire Fund
Balance

Wildfire suppression fund balances actual and
projected for FY 2008-FY 2025
(\$ millions)



K-12 Education

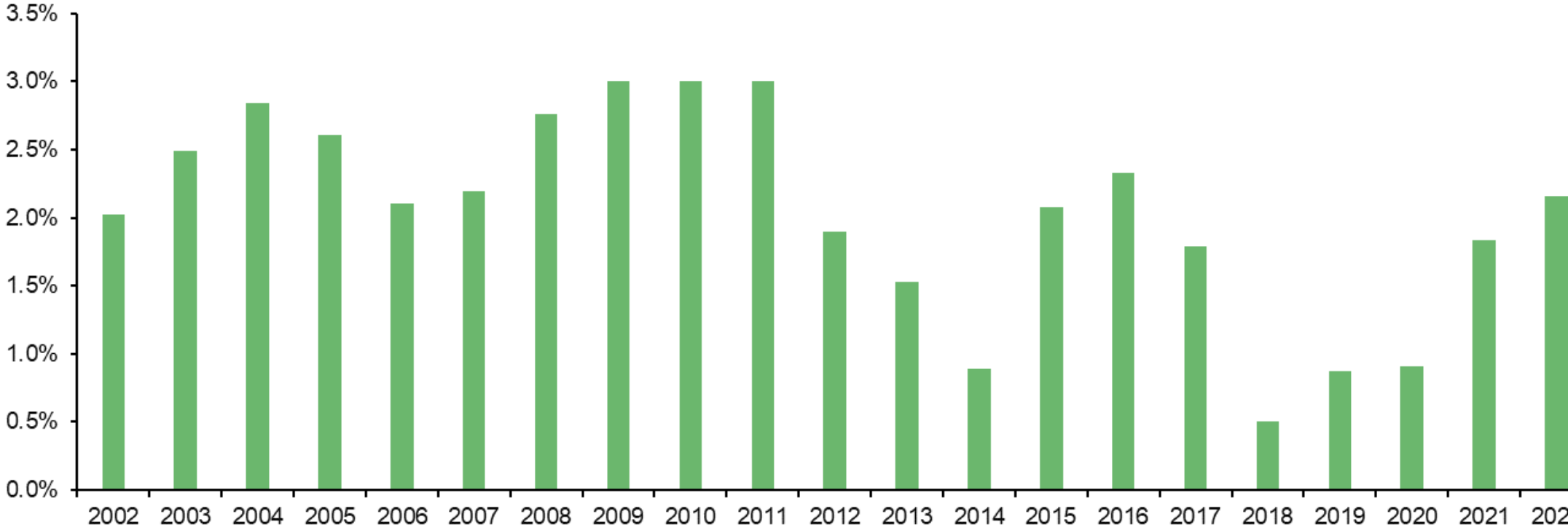
Julia Pattin and Nick VanBrown

Present Law Growth

| OPI Present Law Detail (<i>\$ in millions</i>) | |
|--|--------|
| Component | Growth |
| BASE Aid (Inflation & ANB Growth) | 63.7 |
| K-12 Facilities Payment (2017 Session) | 2.8 |
| Transformational Learning (2019 Session) | 4.3 |
| Advanced Opportunities (2019 Session) | 4.2 |
| All Other | 1.2 |
| Total (Including BASE Aid) | \$76.1 |

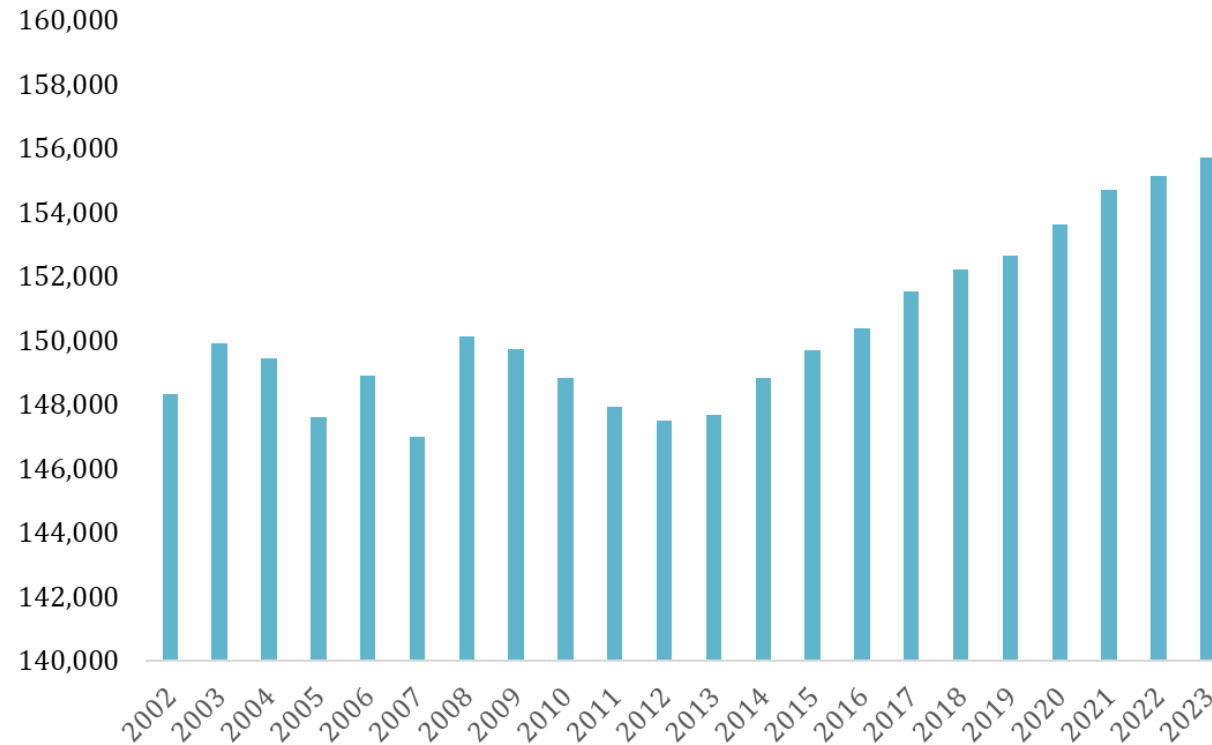
K-12 Inflation

Statutory Applied Inflation to Basic Entitlements, Per ANB, and State Funded Components by Fiscal Year



Enrollment Trends (ANB)

Enrollment (ANB) cycled up and down slightly between FY 2002 and FY 2012, but the recent uptick in enrollment from FY 2013 is projected to continue into the future. *(Note that the scale on this chart does not begin at zero.)*



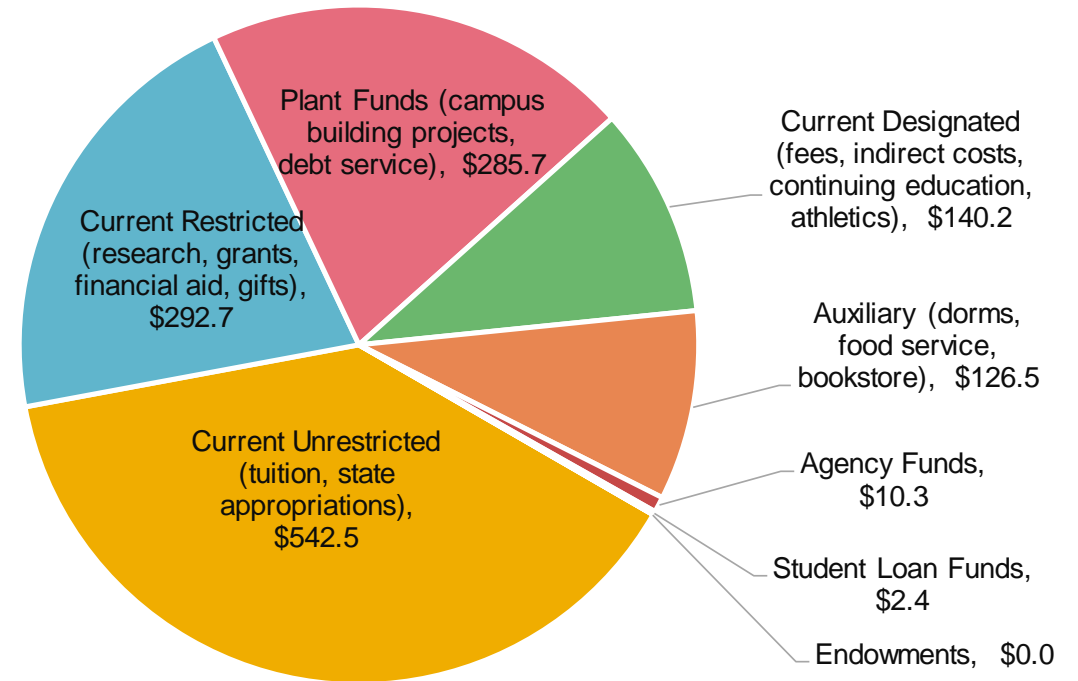
MUS, Long Range, and Pensions

Joe Triem

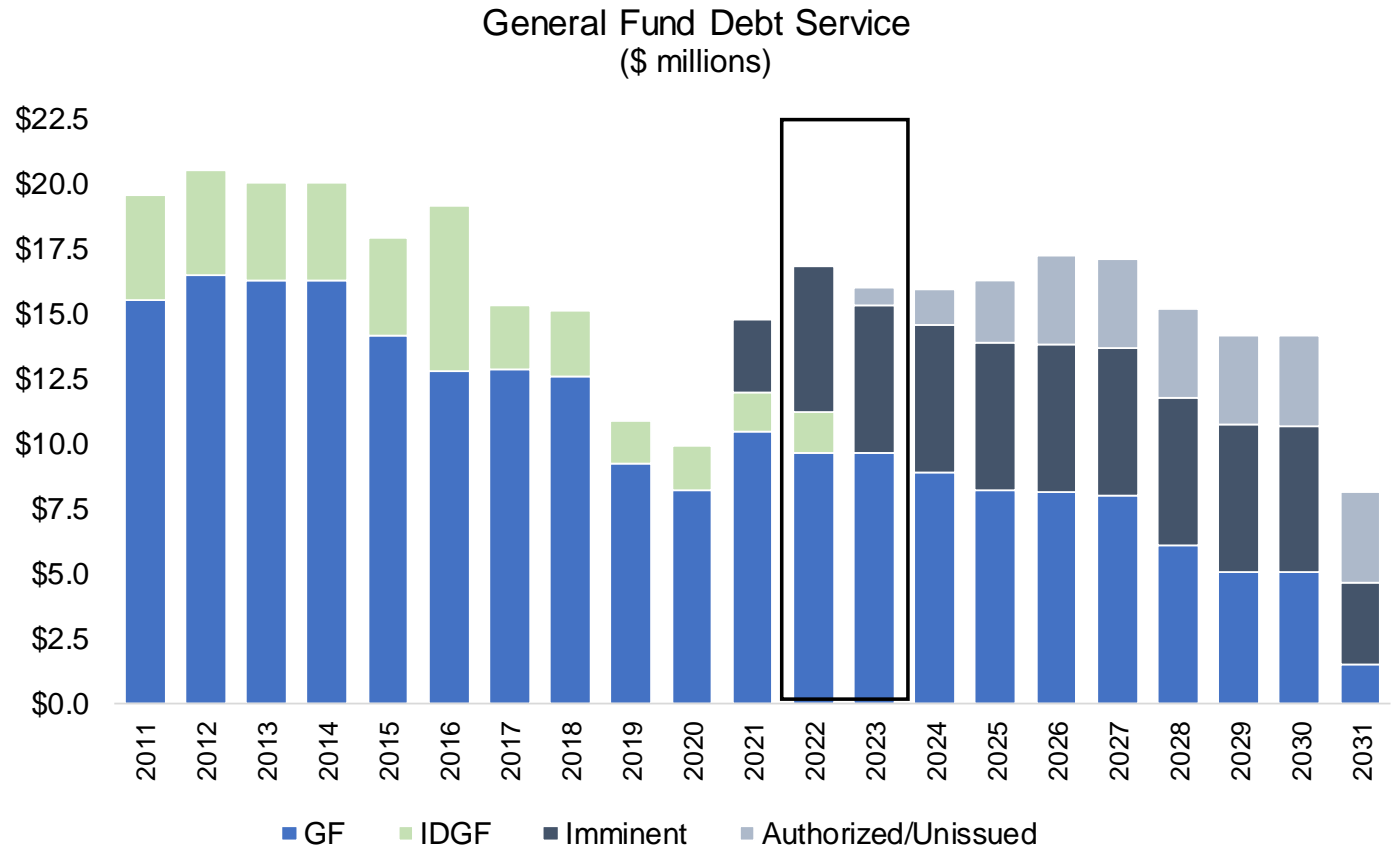
University System Risk

- Most University System spending is not state funds

Expenditures for the Montana University System totaled \$1.4 billion in FY 2020 (\$ millions)



Debt Service Update



Pensions – 20 year Layered - potential pressure

PERS

| Funding Source | (\$ Millions) |
|---|---------------|
| City | \$4.37 |
| Consolidated | 0.6 |
| County | 5.6 |
| Other Local Gov't | 1.1 |
| School Districts* | 2.9 |
| University System | 1.9 |
| General Fund | 4.6 |
| State Special Funds | 3.7 |
| Federal | 2.1 |
| Other State Funds | 1.2 |
| Total | \$28.0 |
| * Approximately \$0.8 million of this would be GF | |

TRS

| Funding Source | (\$ Millions) |
|-------------------------------------|---------------|
| State Retirement GTB (General Fund) | \$6.9 |
| Local Retirement Mills | 18.1 |
| Total | \$25.0 |

Overview and Wrap up

Amy Carlson

General Fund Ending Fund Balance

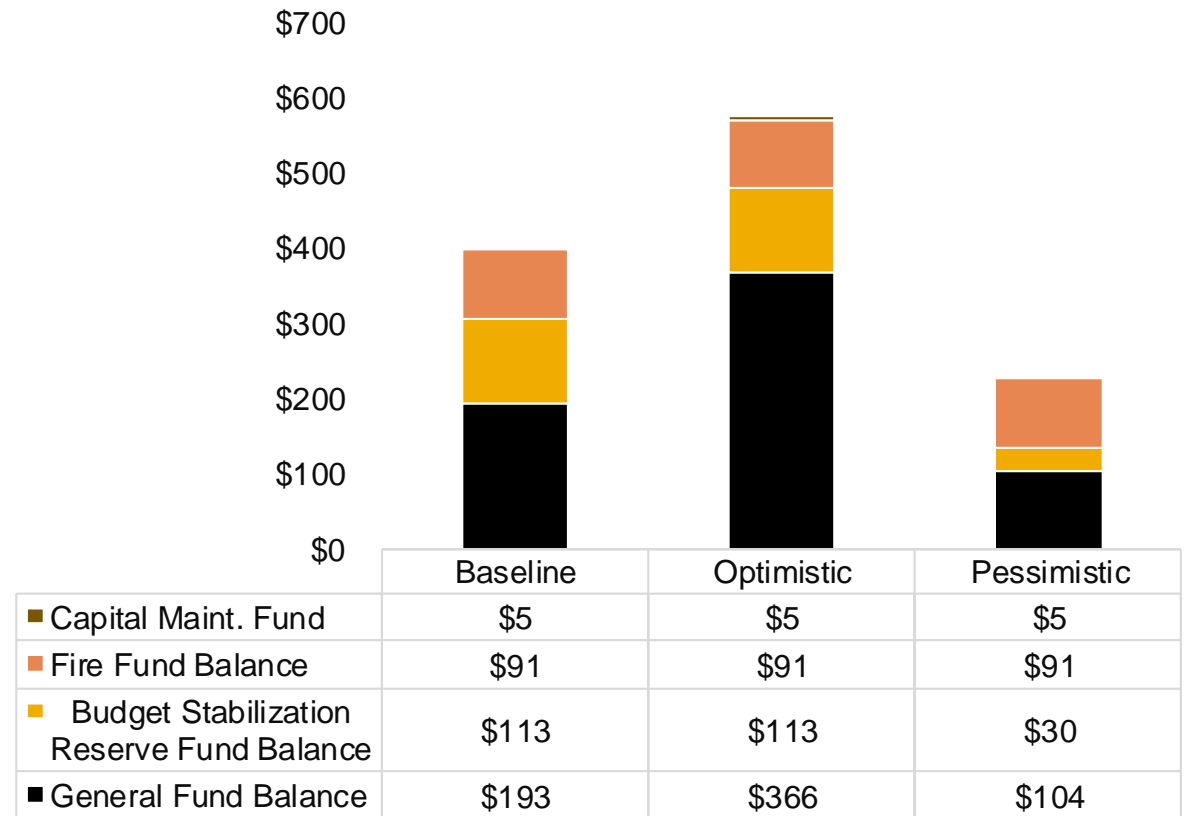
The bar on the left shows the state general fund financial reserves at FYE 2020. The bar on the right shows what reserves might look like at FYE 2021 if baseline assumptions materialize.



All Reserve Fund Balances

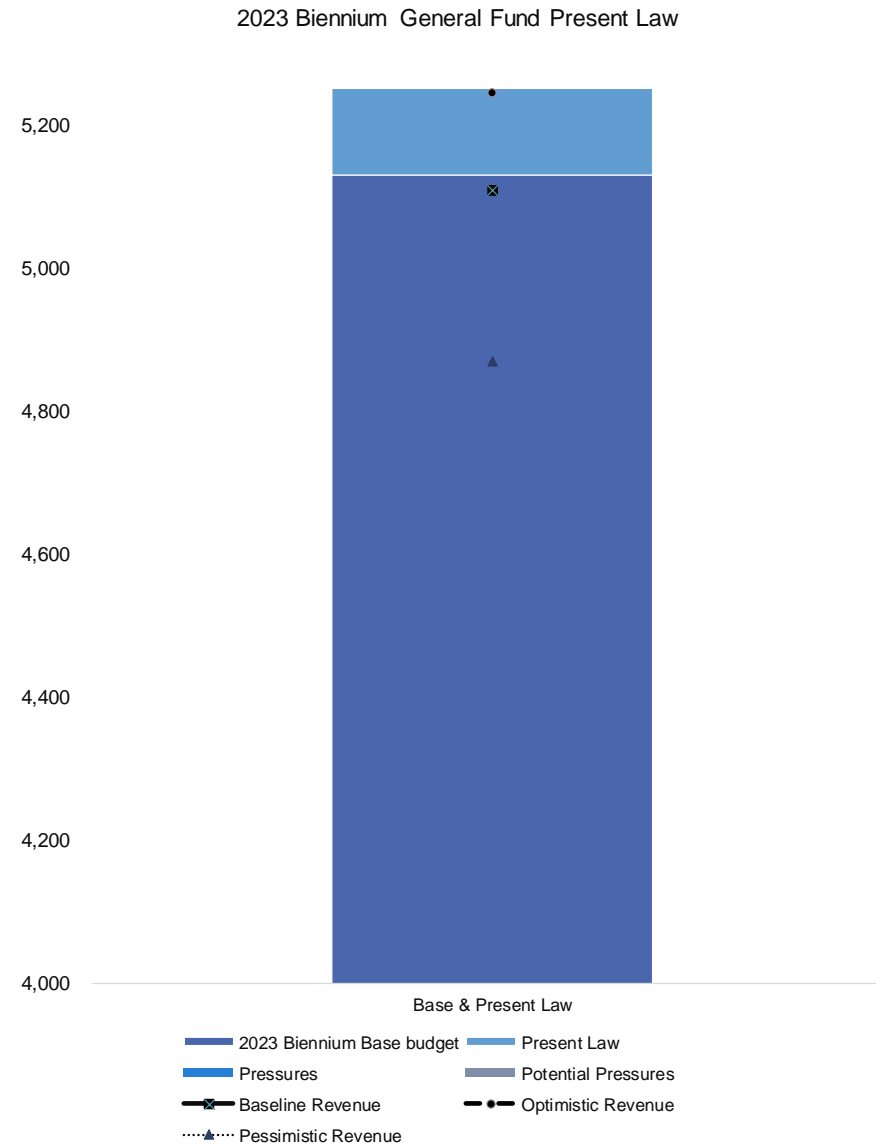
- FY 2021 is uncertain

Uncertain FY 2021 Ending Fund Balances



Base plus Present Law

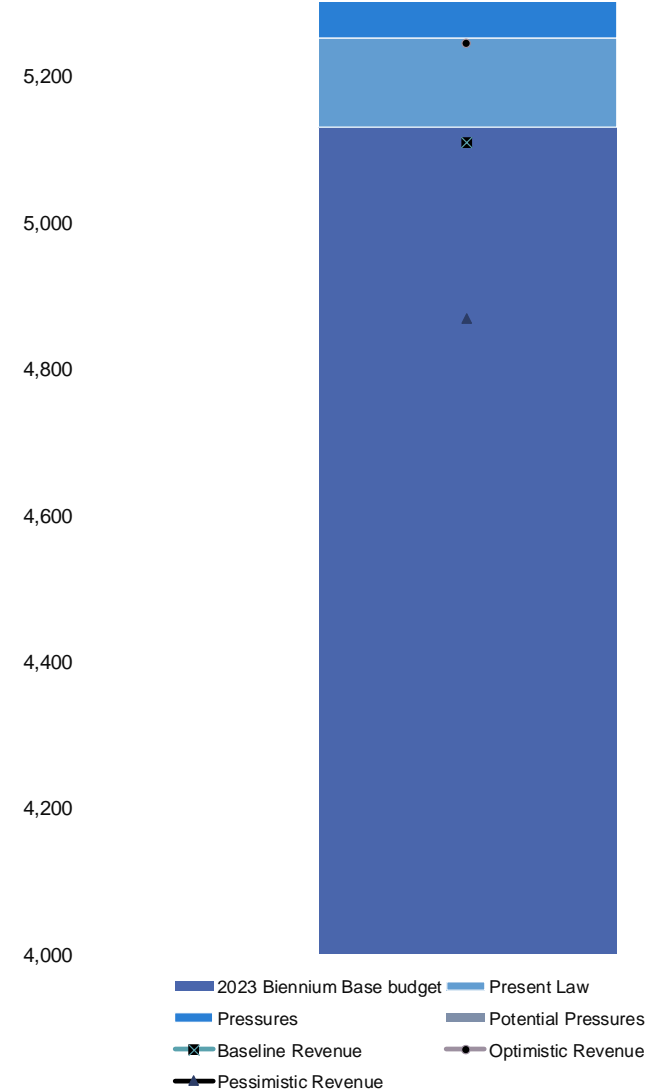
Present law above anticipated revenues by \$142 million or 2.7%



Present Law Plus Pressures

- Present Law and minimal pressures are \$194 million above baseline revenues or 3.7%
 - In the 2025 Biennium this is anticipated to be less than 2%
- Potential pressures are unlikely

2023 Biennium General Fund Present Law + All Pressures





End