

FYE 2022 Financial Report

THE BUDGET IN REVIEW
BY LEGISLATIVE FISCAL DIVISION STAFF

SEPTEMBER 15, 2022

OVERVIEW

GENERAL FUND ENDING BALANCE FY 2022 \$1.9 BILLION

The FYE 2022 unaudited, unassigned, general fund ending balance was \$1,854.4 million. The larger-than-expected fund balance was primarily the result of higher than anticipated general fund revenues, which were \$1,249.1 million above the HJ 2 estimate.

The following table shows the detailed FYE 2022 balance sheet.

General Fund Balance Sheet
Actuals FY 2020 - FY 2022
(\$ Millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022
Beginning Fund Balance	\$361.3	\$452.5	\$716.5
Revenues			
Actuals & HJ 2 Revenues	2,529.2	2,959.8	3,755.7
New Revenue Legislation			
One-Time-Only (OTO) Revenue	4.1	4.0	135.9
Adjustments	(3.5)	(31.2)	
Total Revenue Funds Available	2,891.2	3,385.1	4,608.1
<u>Expenditures - Ongoing</u>			
Statutory Appropriations	282.8	290.9	302.9
General Fund Transfers	35.2	23.3	25.6
HB 2 Agency Budgets (pay plan included)	2,014.5	2,038.4	2,121.9
HB 1	2.4	9.7	2.2
Other Appropriations	29.6	44.4	10.4
Ongoing Expenditures	2,364.4	2,406.8	2,463.0
<u>One-Time-Only (OTO)</u>			
HB 2 Agency Budgets		5.7	18.3
HB 2 Language Appropriations			0.2
Other approp bills & carryforward	0.4	10.3	2.6
BSRF Transfers	57.1	1.1	4.7
Fire Fund Transfers	30.3	46.8	35.4
Transfers			115.1
Capital Development Fund transfers		228.3	115.1
Total Expenditures	2,452.2	2,699.0	2,754.3
Accounting Adjustments	(13.5)	(30.4)	(0.6)
Ending Fund Balance	\$452.5	\$716.5	\$1,854.4
Structural Balance	\$164.4	\$553.0	\$1,292.7

BSRF means budget stabilization reserve fund.

GENERAL FUND EXPENDITURES \$69.3 MILLION ABOVE JUNE ESTIMATES

The general fund expenditures for FY 2022 were higher than anticipated by \$69.3 million. The primary differences were the result of an accounting transfer.

FY 2022 Expenditure Differences, Projected vs. Actual			
	Projected	Actual	Difference
Carryforward, etc.	\$8.3	\$1.3	(\$7.0)
HB2 & HB13	2,167.4	2,140.3	(27.1)
LA Language	2.0	0.2	(1.8)
NB Non-Budgeted	180.9	295.6	114.7
Other House or Senate Bill	17.8	14.2	(3.6)
SA Statutory	308.6	302.9	(5.7)
Other	0.0	(0.1)	(0.1)
	<u>\$2,685.0</u>	<u>\$2,754.3</u>	<u>\$69.3</u>

Accounting Transfers

The Department of Administration transferred \$230.2 million from the general fund to the budget stabilization reserve fund (BSRF). Since the BSRF had reached its statutory limit, \$115.1 million was transferred back to the general fund as general fund revenue, and \$115.1 million was transferred to the capital development fund.

HB 2, \$27.1 million less than expected since June

The difference between the June 2022 balance sheet estimates and actual HB 2 spending was \$27.1 million less than expected. The differences were primarily in the following agencies:

- (\$10.9) million, Department of Public Health and Human Services
- (\$6.5) million, Office of Public Instruction
- (\$6.3) million, Department of Corrections
- (\$3.4) million, Judicial Branch

Details of the unspent general fund appropriations are included in the agency expenditures section of this report and in the agency specific reports presented to the [interim budget committees](#).

LOOKING AHEAD TO FY 2023

GENERAL FUND ENDING BALANCE, ESTIMATED FY 2023

The estimated FY 2023 ending fund balance is \$1,926.8 million. This is based on an alternative revenue estimate by the LFD instead of the HJ 2 revenue estimate. If HJ 2 were assumed, the ending fund balance would be \$1,642.2 million, however LFD expects general fund revenues to exceed HJ 2. Included on the balance sheet is a (\$30.0) million estimate for general fund savings related to the continued enhanced COVID-Federal Medical Assistance Percentage (eCOVID-FMAP), and \$1.2 million in increased debt service costs related to general fund bonds issued in FY 2022.

The following graphic shows the details of the ending fund balance with the alternate revenue estimate.

General Fund Balance Sheet
Uses Alternative Revenue Estimate for FY 2023
(\$ Millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Alternative revenue estimate FY 2023
Beginning Fund Balance	\$361.3	\$452.5	\$716.5	\$1,854.4
Revenues				
Actuals & HJ 2 Revenues	2,529.2	2,959.8	3,755.7	3,021.9
New Revenue Legislation				
One-Time-Only (OTO) Revenue	4.1	4.0	135.9	1.1
Adjustments	(3.5)	(12.2)		259.7
Accounting Adjustment		(19.0)		
Total Revenue Funds Available	2,891.2	3,385.1	4,608.1	5,137.1
Expenditures - Ongoing				
Statutory Appropriations	282.8	290.9	302.9	317.6
New debt service				1.2
General Fund Transfers	35.2	23.3	25.6	23.3
HB 2 Agency Budgets (pay plan included)	2,014.5	2,038.4	2,121.9	2,339.1
HB 1 (includes 2023 session estimates)	2.4	9.7	2.2	10.6
Other Appropriations	29.6	44.4	10.4	13.8
Reversions				(8.1)
Ongoing Expenditures	2,364.4	2,406.8	2,463.0	2,697.4
One-Time-Only (OTO)				
HB 2 Agency Budgets		5.7	18.3	(2.9)
HB 2 OTO authority for 1st quarter eCOVID-FMAP contingency				8.7
Supplemental Appropriations (Office of Public Defender)				1.0
HB 2 Language Appropriations			0.2	1.9
Other approp bills & carryforward	0.4	10.3	2.6	7.2
Enhanced COVID FMAP (2 quarters)				(30.0)
BSRF Transfers	57.1	1.1	4.7	
Fire Fund Transfers	30.3	46.8	35.4	7.7
Transfers			115.1	259.7
Capital Development Fund transfers		228.3	115.1	259.7
Total Expenditures	2,452.2	2,699.0	2,754.3	3,210.3
Accounting Adjustments	(13.5)	(30.4)	(0.6)	
Ending Fund Balance	\$452.5	\$716.5	\$1,854.4	\$1,926.8
Structural Balance	\$164.4	\$553.0	\$1,292.7	\$324.5

BSRF means budget stabilization reserve fund.

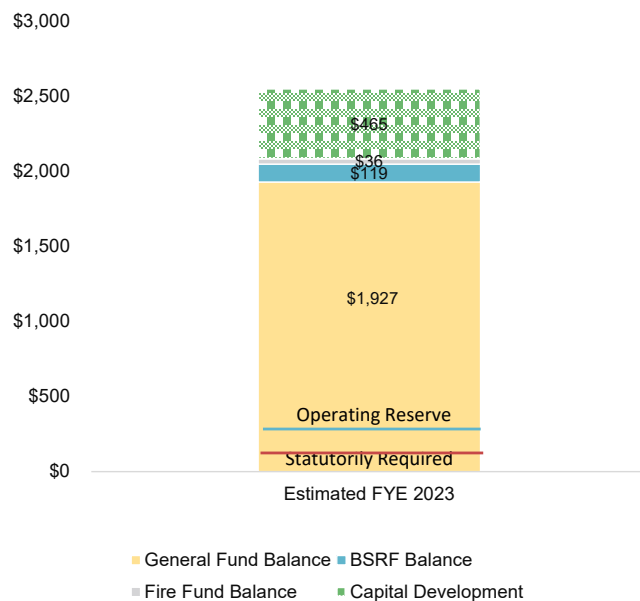
TRANSFERS TO RESERVE BALANCES

State revenue collections experienced unusually high revenues in FY 2022 that significantly contributed to reserve balances. When revenue collections exceed a calculated threshold, transfers may occur to the following reserve funds: 1) budget stabilization reserve fund; 2) capital development fund; and 3) general fund balance. In addition, the fire fund may receive a transfer from the general fund depending on the level of unspent appropriations. The reserve funds provide the State of Montana with financial tools in times of economic volatility. While some reserves may

be used exclusively for economic volatility, others like the fire fund and the capital development fund have limitations to consider.

1. Fire Fund - The ending fund balance for FY 2022 was \$49.6 million, primarily the result of transfers into the fund as directed in law. Statute dictates that the fire fund receives a calculated portion of unspent general fund authority returned by agencies, commonly referred to as reversions. At the start of FY 2022, the fire fund received \$35.4 million in reversions. [HB 330 \(2021 session\)](#) directs the use of fire fund suppression funding for financial volatility only if the budget stabilization fund is fully expended. In the beginning of FY 2023, the fire fund received \$7.7 million from reversed general fund authority. The estimated FYE 2023 fund balance is \$36.0 million based on projected fire costs for FY 2023.
2. Budget Stabilization Reserve Fund (BSRF) – The BSRF is currently at the maximum level allowed by statute at \$118.9 million.
3. Capital Development Fund - The BSRF balance is limited by a calculation provided in statute, which directs that once the BSRF is at the maximum level, 50% of the excess revenue be transferred to the capital development fund. On August 15, 2022 (FY 2023) the capital development fund received \$259.7 million. The capital development fund may be used for the long-range building program and to pay down state debt, or delay, forgo, or reduce bond issuance, and therefore not all is available for reserves. The FYE 2023 estimated fund balance in this fund is \$465.4 million after statutorily required uses, however the deferred maintenance backlog at state-owned facilities, requests to assist in the funding of local government water and sewer projects, and funding for the state’s portion of water compacts are some of the pressures or potential uses of the estimated FYE 2023 fund balance.
4. General Fund Balance - While the reserve funds discussed above decreased the general fund balance, moving forward FY 2023 is projected at \$1,926.8 million.

FYE 2023 Projected Financial Reserve Balances (\$ Millions)



The graphic illustrates the estimated financial reserve funds by FYE 2023.

GENERAL FUND REVENUES

Actual FY 2022 general fund revenues were \$1,249.1 million or 47.3% above the HJ 2 estimate adopted by the 2021 Legislature. Furthermore, final collections were \$927.8 million or 31.3% above FY 2021 collections. The difference was driven by stronger-than-expected growth in a

multitude of general fund sources but was especially pronounced in individual and corporate income taxes. Other sources such as oil and natural gas taxes, video gaming, and lodging taxes all experienced continued growth from their already strong FY 2021 collections.

The strong growth above HJ 2 occurred for a variety of reasons. First of all, FY 2021 collections were so strong that FY 2022 revenues would have had to decrease by 10.8% to reach HJ 2. Instead, as noted above, revenues increased 31.3% year-over-year and was likely due to the following factors.

1. Federal Stimulus: The sheer magnitude of federal stimulus funds sent to Montana resulted in strong revenue collections in FY 2021 and FY 2022. Whether the stimulus funds were in the form of payroll loans, or were stimulus checks to individuals, at some point those funds become taxable either directly through payroll withholding taxes or in the form of a business profit when an individual makes a purchase. The American Rescue Plan Act was passed in March of 2021, it appears that its impacts continued throughout CY 2021 and into the second half of FY 2022. Furthermore, the Infrastructure Investment and Jobs Act (IIJA) was passed in November of 2021, and its provisions may impact revenue collections through the next biennium.
2. Inflation: High inflation, especially in the second half of FY 2022, increased revenue collections, as revenues are collected in nominal dollars. For instance, as increased prices of goods drive wages higher, these higher wages result in higher income taxes, likely in the form of withholding taxes. In addition, many taxes such as oil severance taxes and lodging taxes are taxed as a percentage of their values, so as their values increase, revenues will increase as well.
3. In-Migration: [Research](#) done using CY 2020 individual income tax data suggests that many of the new residents moving to the state have higher incomes than the typical Montana resident. Population growth was even higher in CY 2021, and it is expected that these income trends from in-migration continued. CY 2021 data will be available in November, and these past analyses will be updated with the newer data to see the extent to which these trends continued.
4. Uncertainty: The past two years brought unprecedented uncertainty related to the economy and ultimately the revenue estimating process. Whether it was in the form of business restrictions/re-openings or multiple rounds of federal stimulus, the revenue forecasting/monitoring process was quite fluid. At the beginning of the pandemic, revenue estimates for many states were quite pessimistic and often below the long-term revenue trends. However, most states instead experienced strong growth. As federal stimulus winds down, an added layer of uncertainty is present insofar as how this will impact the strong revenue growth that was recently experienced.

The following table shows actual FY 2021 revenues in the first numerical column, followed by estimated and actual FY 2022 revenues. The next two columns show the estimated and actual growth in FY 2022 from FY 2021. The last two columns compare the actual FY 2021 revenue to the estimate in HJ 2, showing the difference as an amount and as a percentage. Further detail on

each revenue source and the difference from the estimate are provided in the following pages, organized in the same order as the revenue is listed on the table.

General fund revenue: FY 2022 actual collections exceeded HJ 2 estimate by \$1,249 million (\$ Millions)

Revenue Source	Actual FY 2021	HJ 2* FY 2022	Actual FY 2022	HJ 2 % Change	Actual % Change	Act.-HJ 2 \$ Diff.	Act./HJ 2 % Diff.	% Diff Illustrated
Largest Seven Sources								
Individual Income Tax	\$1,765.4	\$1,539.1	\$2,393.8	-12.8%	35.6%	\$854.7	55.5%	
Property Tax	310.7	331.5	335.1	6.7%	7.9%	3.7	1.1%	
Corporation Tax	266.5	161.4	293.7	-39.4%	10.2%	132.2	81.9%	
Vehicle Taxes & Fees	117.8	110.9	121.1	-5.8%	2.8%	10.2	9.2%	
Oil & Natural Gas Taxes	39.5	44.0	70.5	11.2%	78.3%	26.5	60.3%	
Insurance Tax	87.3	92.0	97.9	5.4%	12.2%	5.9	6.5%	
Video Gaming Tax	74.9	63.3	77.9	-15.5%	4.0%	14.5	23.0%	
Other Business Taxes								
Drivers License Fee	4.7	4.4	6.2	-5.4%	31.3%	1.7	38.8%	
Investment Licenses	17.0	16.4	19.5	-3.9%	14.8%	3.2	19.4%	
Lodging Facilities Sales Tax	25.9	28.3	46.2	9.5%	78.5%	17.8	63.0%	
Public Contractor's Tax	3.9	5.1	2.8	30.4%	-27.1%	(2.2)	-44.1%	
Railroad Car Tax	5.2	4.4	4.0	-15.3%	-22.5%	(0.4)	-8.5%	
Rental Car Sales Tax	3.9	4.7	6.8	19.6%	74.2%	2.1	45.7%	
Retail Telecom Excise Tax	8.8	10.2	8.6	15.4%	-2.8%	(1.6)	-15.7%	
Other Natural Resource Taxes								
Coal Severance Tax	10.1	8.7	15.4	-13.8%	52.3%	6.7	76.6%	
Electrical Energy Tax	3.3	3.8	3.9	14.0%	19.1%	0.2	4.6%	
Metal Mines Tax	12.1	8.0	12.2	-33.8%	0.6%	4.2	51.9%	
U.S. Mineral Royalties	12.1	16.2	19.5	34.1%	61.1%	3.3	20.2%	
Wholesale Energy Trans Tax	3.0	3.5	3.4	16.1%	12.5%	(0.1)	-3.1%	
Other Interest Earnings								
Coal Trust Interest Earnings	16.0	16.8	16.6	5.3%	3.7%	(0.3)	-1.5%	
TCA Interest Earnings	3.4	1.0	11.8	-70.6%	245.3%	10.8	1074.7%	
Other Consumption Taxes								
Beer Tax	3.3	3.1	3.2	-5.5%	-3.4%	0.1	2.2%	
Cigarette Tax	27.9	26.5	28.0	-4.8%	0.4%	1.5	5.5%	
Liquor Excise Tax	27.8	26.5	32.5	-4.8%	17.0%	6.1	22.9%	
Liquor Profits	13.3	15.8	18.5	19.2%	39.6%	2.7	17.1%	
Lottery Profits	12.3	13.2	15.3	7.2%	24.5%	2.1	16.2%	
Marijuana Tax	-	6.3	14.2			8.0	126.5%	
Tobacco Tax	5.6	5.6	5.6	0.1%	-0.8%	(0.1)	-0.9%	
Wine Tax	2.7	2.6	2.6	-1.7%	-4.0%	(0.1)	-2.3%	
Other Sources								
All Other Revenue	45.6	46.2	180.5	1.2%	295.8%	134.4	291.1%	
Highway Patrol Fines	3.5	3.6	3.5	3.5%	0.5%	(0.1)	-2.9%	
Nursing Facilities Fee	3.4	3.9	3.4	14.6%	1.4%	(0.4)	-11.5%	
Public Institution Reimb.	13.7	12.4	13.9	-9.9%	1.4%	1.6	12.5%	
Tobacco Settlement	13.2	3.0	3.4	-77.1%	-74.0%	0.4	13.2%	
Ongoing Revenue Subtotal	2,954.0	2,642.5	3,755.7	-10.5%	27.1%	1,113.2	42.1%	
OTO & Transfers Subtotal	9.8		135.9	-100.0%	1280.9%	135.9		
Grand Total	\$2,963.8	\$2,642.5	\$3,891.6	-10.8%	31.3%	\$1,249.1	47.3%	

*HJ 2, adjusted for legislation impacts

Individual Income Tax: \$854.7 million

Individual Income Tax (\$ Millions)

Individual income tax collections were \$854.7 million or 55.5% above the estimate contained in HJ 2. FY 2021 individual income tax collections were very strong, and collections would have had to decline by 12.8% to reach HJ 2. The table above shows the year-over-year changes by accounting category.

Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Withholding	\$1,416.5	\$1,245.4	\$171.1	13.7%
Estimated Payments	579.4	432.1	147.3	34.1%
Current Year Payments	524.4	312.3	212.1	67.9%
Audit, P&I, Amended	72.0	59.2	12.8	21.6%
Refunds	(335.1)	(367.2)	32.0	-8.7%
Partnership Income Tax	122.3	74.8	47.4	63.4%
Mineral Royalties	14.4	8.8	5.6	63.4%
Total	2,393.8	1,765.4	628.4	35.6%

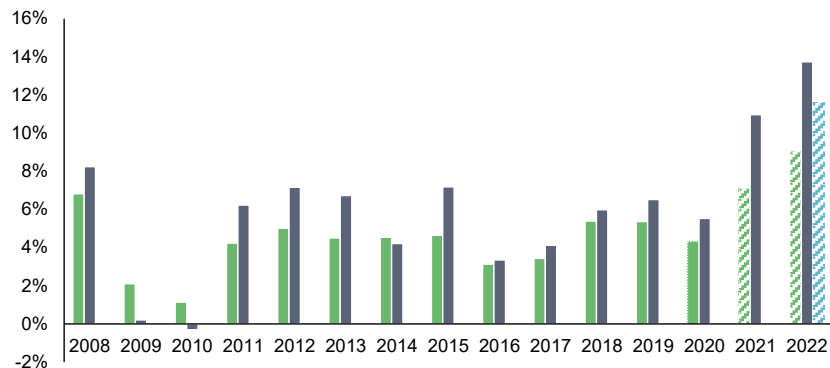
Detailed CY 2021 return data available in November will allow for income source comparisons to HJ 2. The return data will specifically indicate which sources of income were greater or less than expected in HJ 2. Given the magnitude that individual income taxes were above HJ 2, it is likely that most, if not all income sources, were above the HJ 2 estimate. Understanding the differences may prove to be a larger challenge this year.

As the table above shows, all individual income tax accounts in the statewide accounting system had a positive difference compared to last year. Current year payments saw record collections in the month of April, with payments totaling \$410.0 million, more than double the next highest April.

Wage Income

There is a correlation between withholding growth and wage and retirement income growth; however, the relationship varies from year to year as shown in the adjacent graph. FY 2022 withholding growth of 13.7% is far above the HJ 2 estimated CY 2021 wage and retirement income growth of 6.8% and suggests stronger-than-anticipated growth in those income types.

Withholding growth is typically above approximated FY wages and retirement income growth and Updated IHS Wage Growth Estimates.



Non-Wage Income

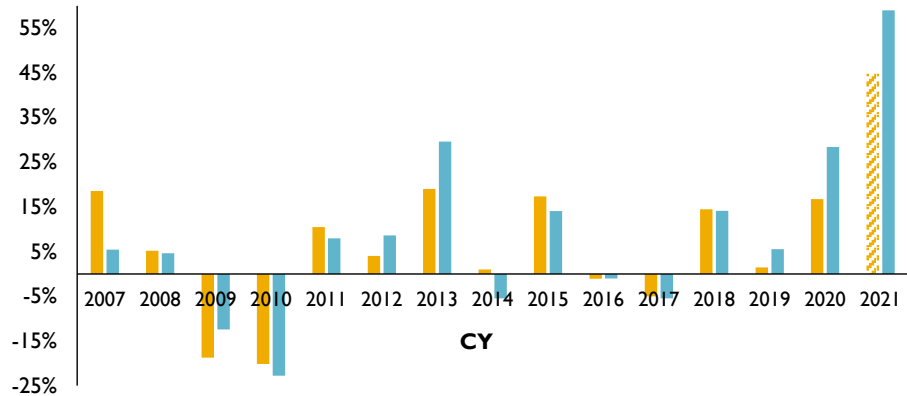
Non-wage income from business and investment income is typically reflected in taxes collected through quarterly estimated and current year payments. FY 2022 quarterly estimated and current year payments grew at record rates and did this after experiencing an

already strong FY 2021. The figure above shows the fiscal year growth rates of estimated and current year tax payments and the most recent estimates of prior calendar year's business and investment income. In HJ 2, this growth rate was estimated to be 10.4%.

Like the wage and withholding figure, actual collections in the accounting system for estimated payments and current year payments far exceeded the prior year's business and investment income estimates that normally correlate well.

Strong estimated payments were likely driven by increased small business and self-employment income, buoyed by increased consumer spending from federal stimulus funds. In addition, CY 2021 saw a strong stock market year, and if taxpayers realized gains at the end of CY 2021, this is likely to explain the strong collections of current year payments in April.

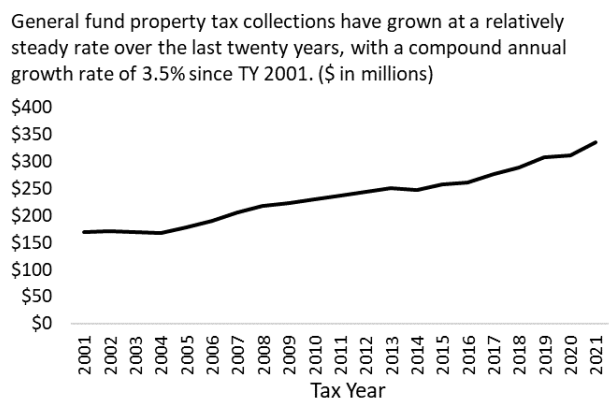
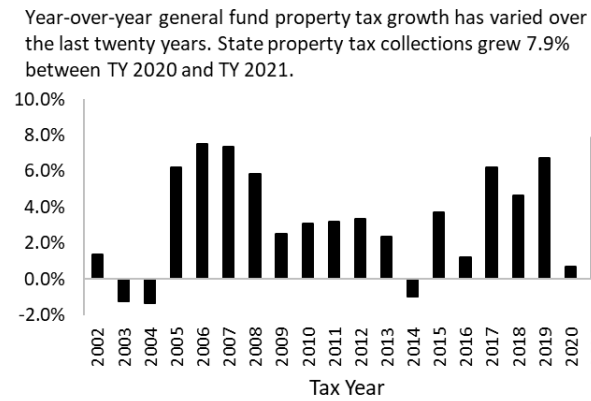
Combined fiscal year estimated and current year tax payment growth typically tracks the prior calendar year's business and investment income growth, though this fiscal year it far exceeds it by an estimated 14%.



Property Tax: \$3.7 million

General fund property tax revenue was 1.1% or \$3.7 million above the HJ 2 estimate. While property tax was expected to grow by 6.7%, higher-than-expected non-levy revenue resulted in a total growth of 7.9%.

Year-over-year general fund property tax growth has varied between -1.3% and 7.9% over the last two decades. Since TY 2001, property tax revenues have had a compound annual growth rate of 3.5%. TY 2020 saw reduced growth at about 0.7%, but growth rebounded in TY 2021 to the highest year of growth in recent years, at 7.9%. Approximately 2.9% of that general fund growth is attributable to new property coming onto the tax rolls. Additionally, total property tax growth (which included property tax revenue for local governments and schools in addition to that which goes to the state general fund) was not at an all-time high, indicating that the large growth in the general fund property tax revenue is due in part to property reappraisal. However, these fluctuations in property tax revenue are still relatively small compared to the total amount of property tax collected by the state, and property tax is one of the more stable sources of revenue for the state general fund.



Corporate Tax: \$132.2 million

FY 2022 corporate tax collections were \$132.2 million or 81.9% above the

Account	Corporate Income Tax (\$ Millions)			
	YTD 2022	YTD 2021	\$ Difference	% Difference
Corporation Tax	\$67.7	\$79.4	(\$11.6)	-14.7%
Estimated Payments	\$224.2	\$202.1	22.1	11.0%
Refunds	(20.4)	(26.8)	6.4	-23.8%
Audit, P&I, Amended	22.2	11.9	10.3	86.9%
Total	\$293.7	\$266.5	\$27.2	10.2%

estimate contained in HJ 2. The table above shows the accounting level detail for FY 2022 compared to FY 2021. Compared to FY 2021, which was previously the highest collections ever for corporate income tax, FY 2022 collections increased by \$27.2 million or 10.2%.

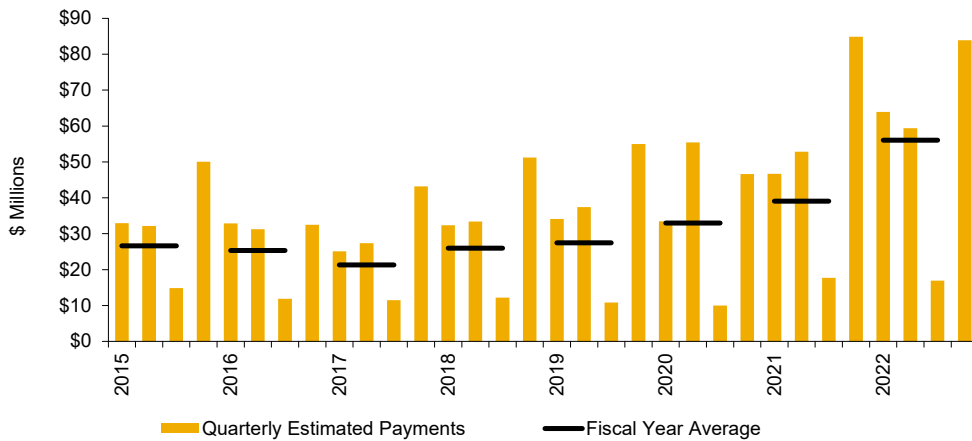
Actual collections compared to HJ 2 are shown in the adjacent table. Total tax liability was underestimated by \$121.8 million. Similar to individual income tax, FY 2021 collections were very strong and surpassed the FY 2022 estimate.

FY 2022 corporate income tax came in \$132.2 million above HJ 2 (\$ millions)

	HJ 2	Actual	\$ Difference
Tax Liability & Adjustments	\$171.3	\$293.5	\$122.2
Refunds	(26.4)	(20.4)	6.0
Audit, Penalty & Interest	16.5	20.6	4.1
Total	\$161.4	\$293.7	\$132.2

Once again, it is likely that the magnitude of stimulus sent to the state of Montana contributed to increased corporate profits, driving continued growth in collections off of an already strong FY 2021.

Corporate Estimated Payments by Fiscal Year Quarter

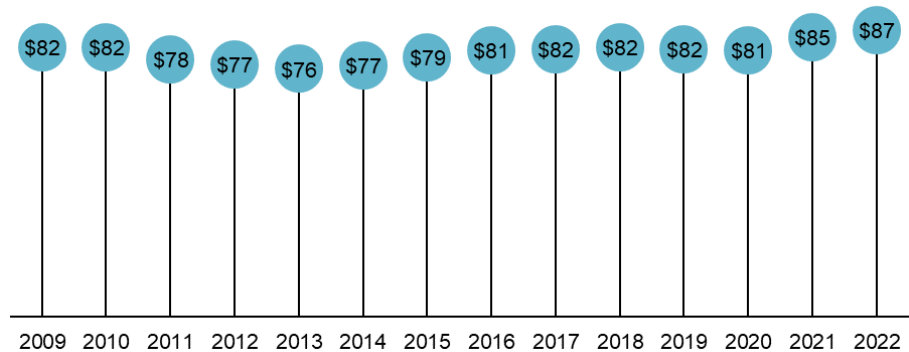


However, in the second half of FY 2022, this growth seems to have slowed, as evidenced by a slight decrease in estimated payments in the third and fourth quarters of FY 2022 compared to FY 2021.

Vehicle Taxes & Fees: \$10.2 million

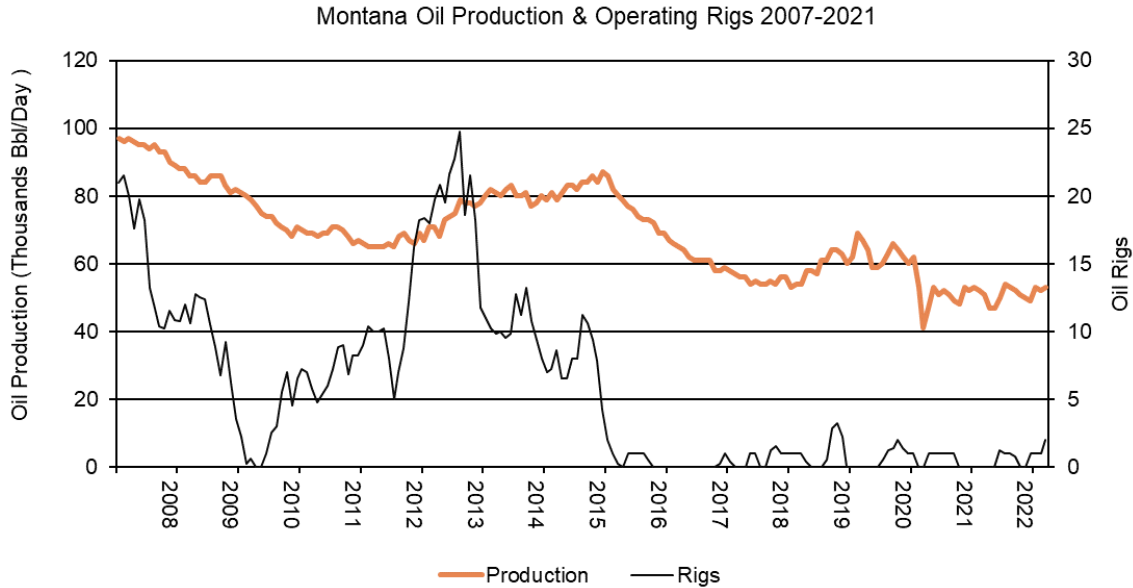
Revenue collections from vehicle taxes and fees were \$10.2 million or 9.2% higher than anticipated in HJ 2. Light vehicle registrations were about \$4.0 million higher than anticipated, which explains a significant portion of this year's higher than expected revenue collections. This was likely influenced by an influx of new residents moving to the state and registering vehicles in Montana.

Light vehicle registration revenue had remained flat for the past several years, but grew by \$2 million in FY 2022 continuing a slight upward trend(\$ millions)

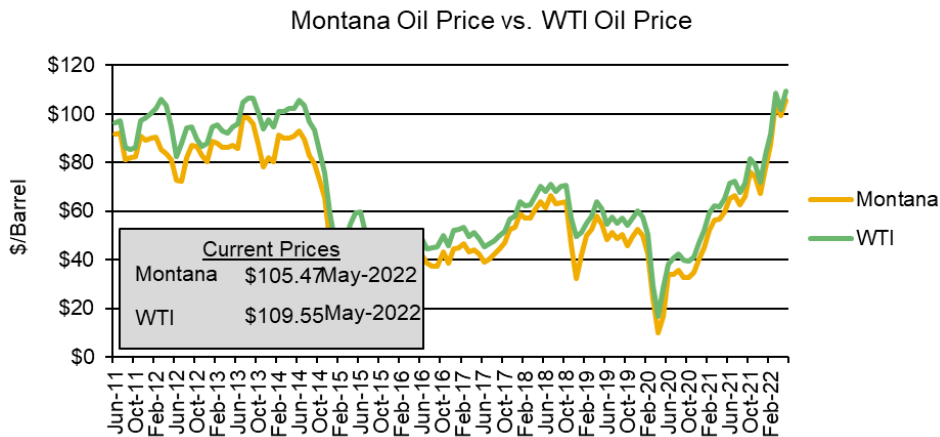


Oil & Natural Gas Taxes: \$26.5 Million

Oil and natural gas collections were \$26.5 million or 60.3% above the estimate in HJ 2. This difference was mostly driven by a rapid increase in oil prices that were much higher than anticipated. West Texas Intermediate (WTI) oil prices were expected to average \$57/Bbl in FY 2022, but instead averaged nearly \$88/Bbl.



Shown in the graph above, production from existing wells remains near historical lows and an average of 2 rigs have been operating in Montana over the last year. In the graph below, there is a large spike in price that has continued to rise over FY 2022. This suggests increased price, not production, was the main driver of collections being higher than what was anticipated in HJ 2.



Insurance Tax: \$5.9 million

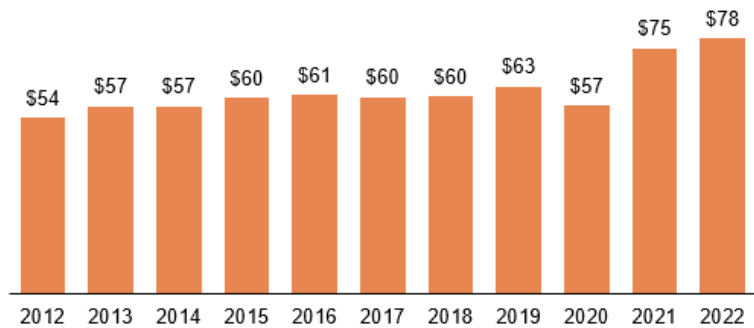
FY 2022 insurance tax came in \$5.9 million or 6.5% above the HJ 2 estimate. This source is forecast using the IHS Montana Personal Consumption Expenditure (PCE) for financial and insurance

products and a trended proxy premium. The increase may be due in part to increasing property values and population.

Video Gaming Tax: \$14.5 million

Video gaming revenue in FY 2022 was \$14.5 million or 23.0% above what was anticipated in HJ 2. After years of flat-to-modest growth, video gaming tax surged in FY 2021 as shown in the chart to the right. Growth has slowed to 4.0% over the previous year, however this is still greater than the 3.2% average growth over the past 20 years.

FY 2022 video gaming tax grew 4.0% (\$ millions)



Other Business Taxes

Driver’s License Fee: \$1.7 million

Total driver’s license revenue was \$1.7 million or 38.8% above the estimate in HJ 2. The estimate was based on forecast population data and historical ratios between licenses and actual populations. Normal driver licenses collections were about \$1.0 million over expectations which suggests that higher collections may have been driven by increases in population.

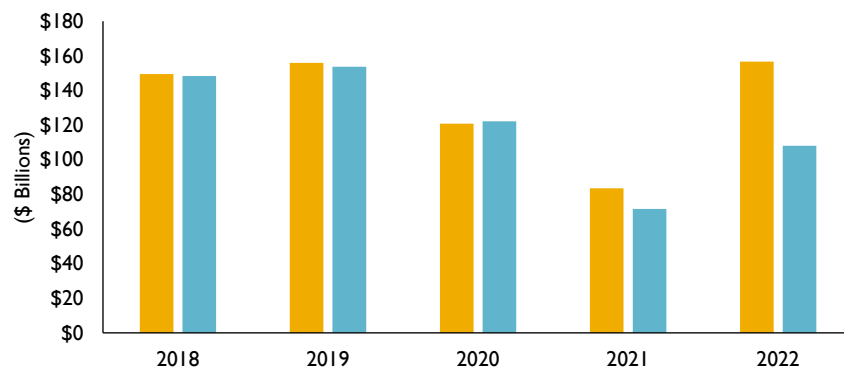
Investment License Fee: \$3.2 million

Investment license fee collections were \$3.2 million or 19.4% higher than the estimate in HJ 2. The estimate was modeled on the Montana personal consumption expenditure series for finance & insurance from IHS Markit, with modeled growth rates applied to the last known collections. Estimated consumption on finance & insurance in FY 2022 was higher than anticipated in HJ 2.

Lodging Facilities Sales Tax: \$17.8 million

Lodging facilities sales tax collections were \$17.8 million or 19.4% above the estimate in HJ 2. This revenue source was forecast based on national consumer spending on accommodations. Over the past year lodging tax collections have performed well. This is likely a result of pandemic driven

Current IHS estimates for national consumer spending on accommodations in FY 2022 are 45% larger than the estimate used in HJ 2.



tourism pushing many people towards Montana and higher than normal room rates. Every quarter

of FY 2022 has seen higher collections than in FY 2021. This continues a trend of seven fiscal quarters in a row of higher collections than the year before.

Public Contractors’ Gross Receipts Tax: (\$2.2 million)

Public contractors’ gross receipts tax collections were \$2.2 million or 44.1% below the estimate contained in HJ 2. This source was estimated in HJ 2 based on a time trend of highway spending and all other construction in recent years. This source is volatile and difficult to estimate due to the unpredictability of income tax credits and property tax refunds.

Railroad Car Tax: (\$0.4 million)

Railroad car tax revenue was \$0.4 million or 8.5% below the HJ 2 estimate. The HJ 2 estimate was based on total United States railcar valuation, estimates on Montana apportionment, and the IHS Markit forecast for Montana retail sales.

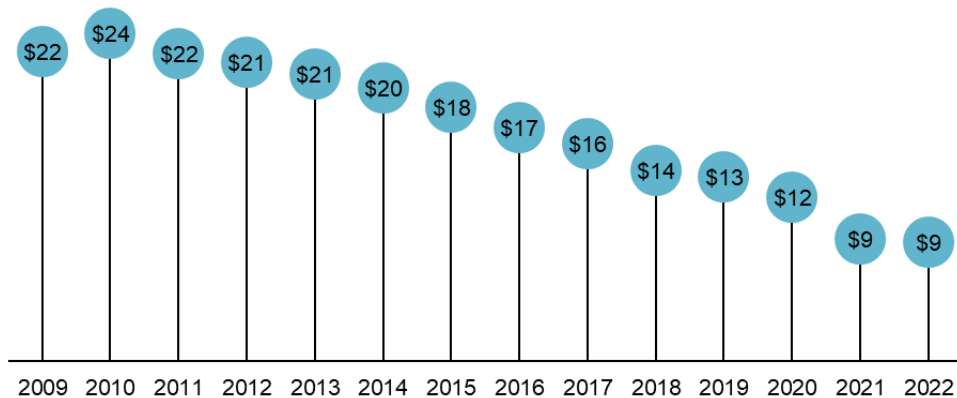
Rental Car Sales Tax: \$2.1 million

Rental car sales tax collections were \$2.1 million or 45.7% above the estimate contained in HJ 2. Rental car sales tax was forecast in HJ 2 based on the Montana personal consumption expenditure series for transportation. Similar to accommodation collections, this source has seen strong growth continued from the end of FY 2021.

Retail Telecommunications Excise Tax: (\$1.6) million

Retail telecommunications excise tax collections were \$1.9 million or 15.7% below the estimate in HJ 2. The estimate was based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile

Retail telecommunications excise tax collections have been declining for the past decade, however there was a slight increase in FY 2022.



Phone Tracker statistics, Google smartphone statistics, and the IHS Markit forecast of Montana population growth. This source has seen a steady decline over the years and that trend is expected to continue.

Other Natural Resource Taxes

Coal Severance Tax: \$6.7 million

Coal severance tax collections were above the HJ 2 estimate by \$6.7 million or 76.6%. Production in CY 2021 was nearly 21.0% greater than what was anticipated in HJ 2. In addition, coal prices were

much stronger than expected in HJ 2. In CY 2021, Montana coal contract sales prices were approximately 22.0% higher than anticipated in HJ 2. It is likely that these increases in both price and production carried into the second half of FY 2022, causing the growth above the HJ 2 estimate.

Electrical Energy Tax: \$0.2 million

Taxable energy production was above the HJ 2 forecast by \$0.2 million, or 4.6%. Tax collections are a flat rate imposed against production. This source is forecast by using a trend line on the six most recent years.

Metalliferous Mines Tax: \$4.2 million

Metal mines tax collections were \$4.2 million or 51.9% above the estimate contained in HJ 2. The increase can be attributed primarily to an increase in palladium and copper prices over the past year compared to what was expected in HJ 2.

U.S. Mineral Royalties: \$3.3 million

Revenue from U.S. mineral leases in the state was \$3.3 million or 20.2% above the HJ 2 estimate. An increase in both oil and coal prices is primarily responsible for higher-than-expected collections.

Wholesale Energy Transaction Tax: (\$0.1 million)

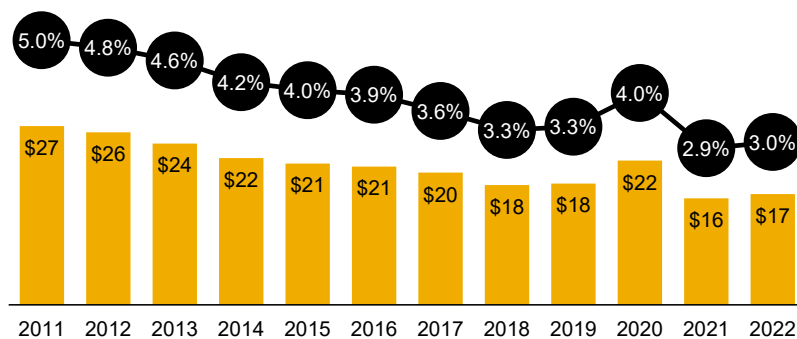
Wholesale energy transaction tax was \$0.5 million or 3.1% below the estimate contained in HJ 2. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

Other Interest Earnings

Coal Trust Interest Earnings: \$(0.3 million)

Coal trust interest earnings were below the revenue estimate in HJ 2 by 1.5% or \$0.3 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates on the permanent trust came in as expected, resulting in an estimate nearly equaling HJ 2.

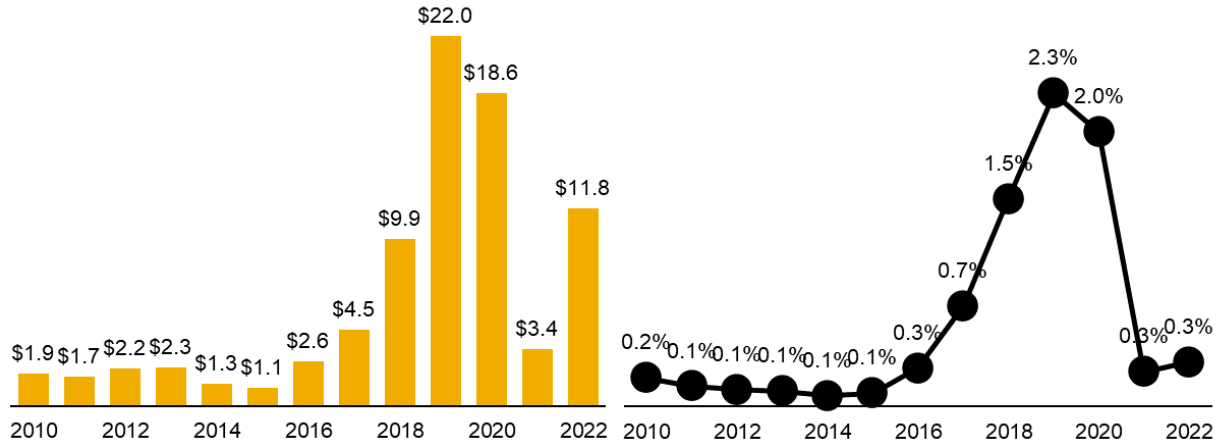
Coal trust interest earnings coincide with the **rate of return** on investments. (\$ millions)



Treasury Cash Account Interest Earnings: \$10.8 million

Based on year-end data for FY 2021, the TCA interest earnings were 1,074.0% or \$10.8 million above the HJ 2 estimate. Earnings are dependent on the amount of cash in the short-term investment pool (STIP) and short-term interest rates. In the HJ 2 assumption, short-term interest rates were about 3 times lower than what was experienced in FY 2022. The remaining growth can be attributed to strong cash balances throughout the course of FY 2022.

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



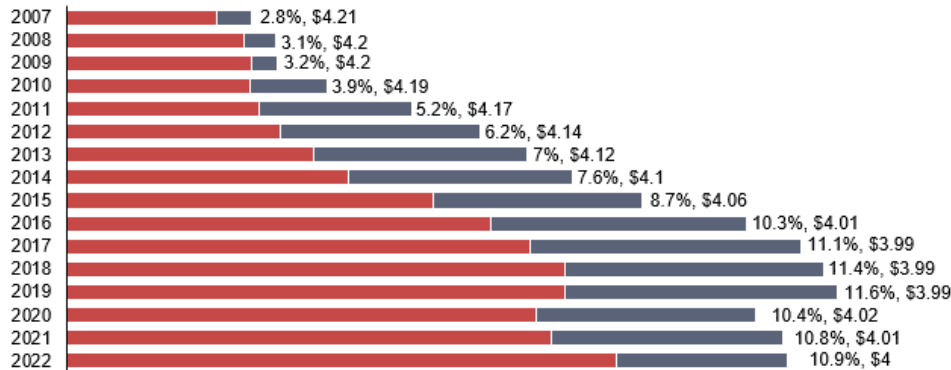
Other Consumption Taxes

Beer Tax: \$0.1 million

Beer tax revenue came in 2.2% or \$0.1 million above the official projection in FY 2022, however revenue is down 3.2% from the previous year due to lower per capita consumption and a consumer shift back to smaller producers who pay lower effective tax rates. The effective tax rate on beer has

The market share of small brewers—those producing 5,000 barrels/year or less and those producing between 5,000 and 10,000 barrels/year— increased in FY 2022, decreasing the effective tax rate. Additionally, overall consumption fell by 2.3%.

been declining for several years due to the increasing market share of craft beer, which is taxed at a lower rate based on production. The first 5,000 barrels are taxed at \$1.30 per 31-gallon barrel. The second 5,000 barrels are taxed at \$2.30 per barrel, while all production



beyond 10,000 barrels is taxed at \$4.30 per barrel. During the COVID-19 pandemic, the market share of large producers increased causing the effective tax rate to rise. In addition to the increase in effective tax rate, the consumption per capita rose roughly 6.0% during peak pandemic year, contributing to higher collections as well. In FY 2022, overall consumption fell, however, the portion of sales from small producers rose. Both of these points contributed to a small decline in revenue. The estimate for this revenue source is based on proxy barrels, population aged 21 or greater, and consumption per capita.

Cigarette Tax: \$1.5 million

Cigarette tax collections came in \$1.5 million or 5.5% above the HJ 2 revenue estimate. The forecast for this source is based on the IHS Markit series for consumer price index for tobacco and consumer spending on tobacco products. This source has been generally declining for two decades but nationally the downward trend of cigarette sales [halted](#) during the COVID-19 pandemic, and smoking is currently on the rise.

Liquor Excise & License Tax: \$6.1 million

Liquor excise tax actuals came in 22.9% or \$6.1 million above HJ 2. Consumption increased appreciably during the COVID-19 pandemic. Growth is continuing from this new level rather than reverting to consumption levels that existed before the pandemic when HJ 2 was estimated for the 2023 biennium.

Liquor Profits: \$2.7 million

Liquor profits came in \$2.7 million or 17.1% above the estimate contained in HJ 2 for FY 2022, commensurate with the trends in liquor license and excise taxes.

Lottery Profits: \$2.1 million

Lottery profits in FY 2022 were 16.2% or \$2.1 million above the HJ 2 revenue estimate. Ticket sales for traditional lottery products was nearly identical to sales in FY 2021. However, the prize payout expense was lower by \$2.7 million. Sports wagering revenue in the same period increased by approximately 9.1% but has a higher ratio of prizes to wagers.

Marijuana Tax: \$8.0 million

Marijuana collections in FY 2022 were 126.0% or \$8.0 million above the HJ 2 estimate. This is the first year of the new adult use cannabis taxes, and estimates will be adjusted in the future.

Tobacco Tax: (\$0.1 million)

Tobacco tax revenue came in as expected at 0.9% or \$0.1 million below HJ 2. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 18 and personal consumption expenditure series.

Wine Tax: (\$0.1 million)

Wine tax revenue came as expected at 2.3% or \$0.1 million below HJ 2. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 21.

Other Sources

All Other Revenue: \$134.4 million

In FY 2022, all other collections were \$134.4 higher than the estimate adopted in HJ 2. This large increase compared to HJ 2 was due to \$135.9 million in transfers that occurred but were not anticipated. First, at the end of FY 2021 excess general fund was transferred to the Budget Stabilization Reserve Fund (BSRF). Once this excess general fund filled the BSRF to the statutorily required amount, the remainder, per statute, was then transferred back to the general fund. This amount totaled \$115.1 million. In addition to this transfer, there was a reimbursement from the National Indemnity Company for a Libby settlement totaling \$20.8 million.

Highway Patrol Fines: (\$0.1 million)

Total revenue generated from highway patrol fines in FY 2022 was 2.9% or \$0.2 million less than the HJ 2 estimate. This revenue source is modeled using a three-year moving average.

Nursing Facilities Fees: (\$0.4 million)

Nursing facilities fees came in 11.5% or \$0.4 million below the HJ 2 revenue estimate. It is forecast primarily based on a time series of proxy bed days. This source has declined most years since inception, which is consistent with national trends.

Public Institution Reimbursements: \$1.6 million

Public institution reimbursements were 12.5% or \$1.6 million higher than the HJ 2 revenue estimate. This source has a history of fluctuating collections primarily due to timing of federal payments. Through June, all regular payments were received. However, moving forward, the federal Centers for Medicare and Medicaid Services (CMS) [will no longer reimburse](#) the state for services at the Montana State Hospital (MSH). In recent years CMS has reimbursed the general fund for \$6.0-\$9.0 million in services annually. It is unclear whether private payments and insurance will make up all or a portion of reimbursement.

Tobacco Settlement: \$0.4 million

Tobacco settlement revenue was 13.2% or \$0.4 million above the HJ 2 estimate. The calculation of the annual settlement amount by PricewaterhouseCoopers is based in part on national sales volume, which was higher last year than expected due to the recent increase in smoking.

AGENCY EXPENDITURE HIGHLIGHTS – FYE 2022

Agencies with significant budget highlights from FY 2022 are included in this section. Detailed spending by each agency is provided in reports to the [Interim Budget Committees](#).

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES (DPHHS)

The executive branch alerted the legislature in the fall of 2021 (FY 2022) that the general fund appropriations would be adjusted down in the accounting system using [17-2-108\(2\)](#), MCA for realized COVID-19 general fund savings related to federal stimulus. A total of \$51.2 million in general fund appropriation authority was reduced from the Department of Public Health and Human Services budget. This was the result of the enhanced COVID Federal Medical Assistance Percentage (COVID-FMAP), which increased federal authority for traditional Medicaid, saving the state general fund.

In addition, DPHHS underspent HB 2 general fund authority by \$10.9 million. The lower spending was primarily in the following divisions:

- a. Director’s Office, \$8.8 million. This was primarily unspent authority for COVID-FMAP contingency funding provided by the legislature as biennial, one-time-only funding. The department was authorized for the first quarter of FY 2022 to include both general fund and state special funding equal to the amounts reduced for COVID-FMAP as a new appropriation. Since this funding is biennial, it has been re-established for FY 2023. The department must provide detailed accounting reports on the contingency funding for COVID-FMAP to the Legislative Fiscal Analyst three times during the 2023 biennium. The most recent report was received on September 1, 2022 and is included on the Legislative Finance Committee webpage under the September 2022 meeting materials
- b. Developmental Services \$574, 275. This is mostly due to lower than budgeted spending for the Montana State Hospital, the Mental Health Bureau, the Chemical Dependency Bureau, and the Montana Mental Health Nursing Care Center
- c. Senior & Long Term Care Services \$279,220. This is mostly due to lower than budgeted spending for nursing home and community-based services.
- d. Health Resources Division, \$252,315. This amount was primarily for underspent administrative costs

OFFICE OF PUBLIC INSTRUCTION (OPI)

The Office of Public Instruction expended 97.5% of the HB 2 budget. The \$6.5 million remaining HB 2 authority was primarily in the following two areas: K-12 BASE Aid funding authority, \$4.2 million and transportation aid, \$1.1 million. The authority for BASE Aid and transportation is biennial and has been re-established in FY 2023. The HB 2 language appropriation authority of \$550,00 was 100.0% expended and 100.0% of \$10.2 million authorized in [HB 663](#) was expended.

DEPARTMENT OF CORRECTIONS (DOC)

The Department of Corrections underspent general fund HB 2 authority by \$6.3 million. The department's budget is principally funded with general fund, and 97.0% of these funds were expended in FY 2022. The unspent appropriations were primarily in two programs:

- Public Safety, \$1.5 million
- Rehabilitation and Programs, \$3.9 million

A comparison to FY 2021 unspent appropriation authority is complicated because FY 2021 HB 2 authority was at times displaced by federal funds, including personal services authority. Both public safety and rehabilitation programs have biennial authority, so portions of the unspent appropriations are re-established in FY 2023.

JUDICIAL BRANCH

The Judicial Branch underspent general fund appropriations by \$3.4 million primarily in the Supreme Court operations and district court operations. Supreme Court operations expended 91.5% of the general fund budget, leaving \$1.7 million unspent in the areas of operations, youth parole, and drug treatment courts. District court operations expended 94.9% of the appropriated budget. The remaining 5.1% unspent authority or \$1.5 million was for costs associated with district court expenses, including salaries and operating expenses for judges and their employees.

OFFICE OF PUBLIC DEFENDER

The OPD transferred \$958,000 from FY 2023 to FY 2022 to cover expenditure shortfalls in FY 2022. When an agency transfers funding from the second year to the first year, typically the year in which the authority is taken will also experience a shortage. As a result, LFD estimates that the OPD may need a supplemental appropriation in FY 2023.

HB 2 GENERAL FUND BY AGENCY

The Legislative Fiscal Division has created a Power BI interactive data tool that illustrates the budgeted and actual expenditures of *general fund* for HB 2 for FY 2022. The budgeted number reflects the FYE modified budget. Detailed budget changes by section, agency, and program can be found in reports given to the [Interim Budget Committees](#).

The link to the Power BI tool allows viewers to pick and choose agencies and drill down deeper into the data. Page 3 of the interactive tool shows general fund only. Please note, there are slight differences between the Power BI tool and SABHRS accounting/general fund balance sheet.

<https://app.powerbigov.us/view?r=eyJrIjoiYTQ0NzBkMGEtZjY1ZS00OWZlLWlwMjctZDQ0MDA1MTg5MWM2IiwidCI6IjVmYzM1Mjk4LTQyMTEtNDA1NC04Njc4LWlzMjg5YzM5NzI2NyJ9>

HB 2 BY AGENCY

The Legislative Fiscal Division has created a Power BI interactive data tool that illustrates the budgeted and actual HB 2 FY 2022 expenditures. This includes general fund, state, and federal special revenue, and budgeted proprietary funds. The interactive tool shows a comparison of the FYE modified budget to actual expenditures for all state agencies.

The link to the Power BI tool allows viewers to pick and choose agencies and drill down deeper into the data. Page 2 of the interactive tool shows all funds.

<https://app.powerbigov.us/view?r=eyJrIjoiYTQ0NzBkMGEtZjY1ZS00OWZlLWlwMjctZDQ0MDA1MTg5MWM2liwidCI6IjVmYzYzM1Mjk4LTQyMTEtNDA1NC04Njc4LWlzMjgxYzYzM5NzI2Ny9>

STATUTORILY REQUIRED REPORTS

BUDGET AMENDMENTS

As of August 31, 2022, the Legislative Finance Division received notification of 129 budget amendments impacting the 2023 biennia and certified by the Governor since May 31, 2022.

These amendments increase federal special revenue authority by \$179.0 million and proprietary authority by \$38,000 in FY 2022. State special revenue was decreased by \$1.2 million and general fund was decreased by \$21.4 million in FY 2022. For FY 2023, state special revenue was increased by \$12.9 million and federal special revenue was increased by \$36.0 million. An additional 1.76 FTE in FY 2022, 10.96 FTE in FY 2023, and 2.64 FTE in FY 2024 in modified positions have also been added. Modified FTE are valid for the fiscal year but do not become permanent FTE in agency base budgets. Figure 1 summarizes the budget amendments certified by the Governor from the period June 1, 2022 through August 31, 2022.

Figure 1

Budget Amendment Summary (Since last LFC meeting)			
Component	FY 2022	FY 2023	FY 2024
Number of Amendments	106	24	4
FTE Added	1.76	10.96	2.64
General Fund	(21,442,034)	-	-
State Special Revenue	(1,226,863)	12,875,000	-
Federal Special Revenue	178,992,618	35,988,882	-
Proprietary Fund	37,800	-	-
Total Revenue	\$156,361,521	\$48,863,882	\$0

Each amendment, along with a brief explanation, is summarized in Appendix C. Staff have reviewed the amendments and only one concern was identified. Please refer to Appendix C for more information regarding that concern.

Figure 2 summarizes the budget amendments that were certified for the 2023 biennia. The only amendments from Figure 1 that appear in Figure 2 are the 129 amendments, shown below as those pertaining to September 15, 2022. The various approving authorities have added a total of \$511.6 million in the 2023 biennium.

Figure 2

Budget Amendment Cumulative Summary 2023 Biennium				
LFC Meeting 2023 Biennium	Number of Amendments	FY 2022	FY 2023	2023 Biennium Total
September 16, 2021	88	54,366,767	341,600	54,708,367
December 16, 2021	85	113,218,085	15,059,636	128,277,721
March 17, 2022	60	55,591,378	3,137,500	58,728,878
June 16, 2022	66	64,669,519	-	64,669,519
September 15, 2022	129	156,361,521	48,863,882	205,225,403
Total	428	\$ 444,207,270	\$ 67,402,618	\$ 511,609,888

Figure 3 reflects the additional budget authority provided to each agency through the budget amendment process in FY 2022 compared to the modified HB 2 budget approved by the 2021 Legislature.

Figure 3

Budget Amendment Authority Comparison with HB 2 Total Funds By State Agency			
State Agency	FY 2022 Modified HB 2	FY 2022 Budget Amendment	Modified Budget
Section A - General Government			
Secretary of State	100,000	1,000,000	1000.0%
Department of Commerce	35,766,284	2,946,027	8.2%
Department of Labor and Industry	89,204,692	63,238	0.1%
Department of Military Affairs	<u>54,162,459</u>	<u>5,683,416</u>	<u>10.5%</u>
Total Section A	179,233,435	9,692,681	5.4%
Section B - Public Health & Human Services			
Department of Public Health and Human Services	<u>2,962,392,404</u>	<u>94,130,835</u>	<u>3.2%</u>
Total Section B	2,962,392,404	94,130,835	3.2%
Section C - Natural Resources & Transportation			
Department of Fish, Wildlife, and Parks	106,946,301	227,400	0.2%
Department of Environmental Quality	63,198,118	1,500,000	2.4%
Department of Livestock	14,058,937	445,310	3.2%
Department of Transportation	785,137,721	(287,721)	0.0%
Department of Natural Resources and Conservation	<u>75,637,132</u>	<u>98,786</u>	<u>0.1%</u>
Total Section C	1,044,978,209	1,983,775	0.2%
Section D - Judicial, Law Enforcement, and Justice			
Judicial Branch	54,069,271	1,473,702	2.7%
Department of Justice	129,729,264	889,124	0.7%
Public Service Commission	4,742,745	12,340	
Department of Corrections	<u>218,847,802</u>	<u>28,863</u>	<u>0.0%</u>
Total Section D	407,389,082	2,404,029	0.6%
Section E - Education			
Office of Public Instruction	1,069,272,052	48,000,000	4.5%
Montana State Library	7,227,760	62,401	0.9%
Montana Historical Society	5,863,225	87,800	1.5%
Total Section E	1,082,363,037	48,150,201	4.4%
Total	\$ 5,676,356,167	\$ 156,361,521	2.8%

OPERATING PLAN CHANGES AND PROGRAM TRANSFERS

The Office of Budget and Program Planning (OBPP) submitted a total of 42 operating plan changes and program transfers that met statutory criteria for LFC review and comment between June 13, 2022 and September 12, 2022. Staff have reviewed the amendments and have raised no concerns with any changes meeting statutory criteria.

A summary of the changes from OBPP can be found in Appendix D available on the [LFC website](#).