General Fund Budget

Amy Carlson
Personal Income Growth Annual Growth

1.4%  5.7%  4.3%  6.5%  8.7%  7.0%  2.6%  4.5%
Population Annual Growth
Montana Wages and CPI

Average wage growth 2020 to 2023 = 5.8%
Average CPI growth 2020 to 2023 = 4.3%
Revenue Estimate

Sam Schaefer
Strong revenue growth over the last two years

- Ongoing FY 2021 revenues exceeded HJ 2 by $402 million
- Ongoing FY 2022 revenues exceeded HJ 2 by $1.1 billion
Strong revenue growth over the last two years was dominated by individual income taxes, but most sources saw growth as well.
Reasons for strong individual income tax growth

- Multiple rounds of federal stimulus.
- Inflation
- Population growth including high income individuals

The top 10% of new resident filers had an average FAGI of $598,737, compared to $312,759 for the top 10% of full-year resident filers.

Montana Residents vs New Residents Average FAGI

- All Ages: $110,271 vs $82,287
- Under 65: $107,383 vs $75,667
- Over 65: $146,601 vs $110,057

- New Residents
- Residents
In FY 2022, individual income taxes accounted for 64% of total general fund revenue.

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>64%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>9%</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>8%</td>
</tr>
<tr>
<td>Vehicle Taxes &amp; Fees</td>
<td>3%</td>
</tr>
<tr>
<td>Insurance Tax</td>
<td>2%</td>
</tr>
<tr>
<td>Video Gaming Tax</td>
<td>2%</td>
</tr>
<tr>
<td>Oil &amp; Natural Gas Taxes</td>
<td>2%</td>
</tr>
<tr>
<td>Remaining Sources</td>
<td>10%</td>
</tr>
</tbody>
</table>

FY 2022 Ongoing General Fund Revenue = $3,755.7 million
Are higher revenues going to continue?
Ongoing revenues are expected to decline by 5.8% in FY 2023, then grow modestly through FY 2025.
After recent increases, Individual income taxes are expected to decline by 15% in FY 2023

- Fiscal year individual income tax collections usually exceed the prior calendar year liability.
- However, FY 2022 collections exceeded the CY 2021 liability by more than usual.
- As a result, a portion of collections in FY 2022 are believed to be of the one-time-only variety and will not continue in future years.
But the decline in individual income taxes is partially offset by increases in Treasury Cash interest and Property Taxes.
Budget

Amy Carlson
Revenues automatically adjust for Inflation and Population and collect like the reservoir of a dam.

Expenditures must be appropriated by the legislature like the water released from a dam...

Inflation and population also increase the cost and number of services for citizens.
Expenditures Adjusting for Population and Inflation – PL +

• Inflation
  • Pay increases to account for wage inflation
  • Provider rate increases – provide services to the state of Montana on behalf of citizens – nursing homes, treatment facilities, private and regional prisons, etc.
• Other price increases
• Population or caseload increases
  • Service to all Montanan’s
  • School enrollment
  • Medicaid enrollment and utilization

Current budgeting practice has evolved away from the definition of “Present Law” that includes both inflation and caseload increases.
General Fund Present Law plus inflation and caseload completion (PL +)

FY 2025 Structural Balance is Positive by $748 million

*Question if inflation is fully captured in Governor’s Budget*
Example – State Wages

• Last four year pay plan and the next two
  • $0.50 per hour FY 2020
  • $0.50 per hour FY 2021
  • $0 FY 2022
  • $0.55 per hour FY 2023
  • $1.50 per hour or 4% in FY 2024
  • $1.50 per hour or 4% in FY 2025

• Average state employee in FY 2019 made $25.30 per hour. An average employee would get an average wage increase over this period of 2.8%. Higher income workers would have received less than 2.8% per year

• Average Wage inflation from FY 2020 to FY 2023 = 5.8%, IHS Markit forecast FY 2020 through FY 2025 average 5.3%

• Remote work wage pressure puts higher pressure on professional wages
General Fund Ending Fund Balance with only PL + changes

If only PL+ expenditures were adopted by the legislature FY 2025 Ending Fund Balance = $4 billion

Note this is only General fund and does not include other reserve funds
Analysis of Risk

Legislative Fiscal Division recent work on budget volatility
General Fund Present Law plus inflation and caseload completion (PL +)

FY 2025 Structural Balance is Positive by $748 million

Question if inflation is fully captured in Governor’s Budget
Spreadsheet to Evaluate Risk

Available for you to choose different parameters and evaluate risk

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>FY 2028</th>
<th>FY 2029</th>
<th>FY 2030</th>
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<tr>
<td>$1,200</td>
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<td>$1,600</td>
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<table>
<thead>
<tr>
<th>Expenses</th>
<th>FY 2020</th>
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<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>FY 2028</th>
<th>FY 2029</th>
<th>FY 2030</th>
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<tbody>
<tr>
<td>$800</td>
<td>$850</td>
<td>$900</td>
<td>$950</td>
<td>$1,000</td>
<td>$1,050</td>
<td>$1,100</td>
<td>$1,150</td>
<td>$1,200</td>
<td>$1,250</td>
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<table>
<thead>
<tr>
<th>Balance</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>FY 2028</th>
<th>FY 2029</th>
<th>FY 2030</th>
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<tr>
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<td>$750</td>
<td>$800</td>
<td>$850</td>
<td>$900</td>
<td>$950</td>
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Note: The above data is hypothetical and for demonstration purposes only. Actual numbers may vary based on specific conditions and parameters.
$450 million Structural Balance in FY 2025

FY 2025 Structural Balance is Positive by $450 million
$450 million structural balance and the 20-year event scenario
Ending Fund Balance with PL+ and Event Scenarios

FY 2023
FY 2024
FY 2025

$4 billion

PL + and HJ 2
10 year event
20 year event
40 year event
Minimum
Recommended
HJ 2 and 20-year event scenario comparison with $800 million ending fund balance
Other tools for re-balancing the budget with an economic event

MCA 17-7-140 - Current Law
- Reductions ~$33 million for 1% reduction in one year
- Access to the Budget Stabilization Reserve at 2:1
- Access to the Fire Fund at 1:1

Federal Action

Legislative Action

Other ideas during session
Governor's Budget
Governor Gianforte’s Budget Ongoing General Fund Recommendations

- Revenue
  - Income Tax reductions ~ $200 million in FY 2025
  - Other smaller tax impacts
  - Shift property tax to school account

- Expenditure
  - Caseloads and inflation
  - Shift property to school account

Ongoing impacts structural balance of the general fund
Governor’s Recommended Structural Balance

FY 2025 Structural Balance is Positive by ~ $560 million
Governor’s recommended Ending Fund Balance

If Governor’s final recommendations were adopted by the legislature FY 2025 Ending Fund Balance is estimated about $550 million, plus $424 million “hedge”.

Note this is only General fund and does not include other reserve funds.
OTO Impacts to General Fund Ending Fund Balance = $2.9 billion

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Reserves</td>
<td>15%</td>
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<tr>
<td>DPHHS transfer to spend</td>
<td>16%</td>
</tr>
<tr>
<td>Transfer to spend</td>
<td>30%</td>
</tr>
<tr>
<td>Reduce Liabilities</td>
<td>21%</td>
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<tr>
<td>Property tax rebate</td>
<td>18%</td>
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</tbody>
</table>
Estimated Appropriations = $3.2 billion

- Assume spend 50% transfers to spend not included elsewhere
- New Capital Development
- Reduce Liabilities
- Property tax rebate
- Assume spend of DPHHS other than infrastructure
- Supplem... of previously approve...
- Maintain Buildings
- IT Projects
Biennial Comparison – without all the budget bills

• Initial assumptions on appropriations requested in the Governor’s budget led to a biennial comparison of state resource appropriations of the following:
  • 8.8% increase including the federal stimulus package appropriations
  • 17.3% increase if the federal stimulus package appropriations were excluded
• The high amount of one-time expenditures includes a one-time property tax rebate appropriation.
One-time Only Projects and Appropriations

Quinn Holzer and Joe Triem
$300 million Mental Health

$1,414 million HB 2

$150 million Medicaid/Facilities
Long-Range Planning Overview

- $1.5 billion in total appropriations, approximately $913.8 million or 146% more than the 2023 biennium appropriations
- Includes these programs (largest to smallest):
  - Long-Range Building Program
  - Long-Range Information Technology Program
  - Renewable Resource Grant & Loan Program
  - Montana Coal Endowment Program (MCEP)
  - MCEP Regional Water Program
  - Montana Historic Preservation Grant Program
  - Reclamation & Development Grant Program
  - State Building Energy Conservation Program
  - Cultural & Aesthetic Grant Program
Long-Range Planning

Overview

Long-Range Planning Programs
Funding Proposed by Bill - 2025 Biennium
($ Millions)

Total: $1,539.7

HB 5, $1,131.6, 73.5%
HB 10, $240.3, 15.6%
HB 11, $38.0, 2.5%
HB 12, $8.5, 0.6%
HB 8, $98.9, 6.4%
HB 7, $5.7, 0.4%
HB 6, $16.1, 1.0%
HB 9, $0.6, 0.04%
Long-Range Planning

Overview

Long-Range Planning Programs Funding by Source-2025 Biennium ($ millions)

- Capital, $813.5, 52.8%
- SSR, $227.2, 14.8%
- FSR, $140.7, 9.1%
- Authority, $247.7, 16.1%
- Bonds-CST, $98.9, 6.4%
- Proprietary, $1.4, 0.1%
- GF, $10.3, 0.7%

Total - $1,539.7 million
Long-Range Building Program

Overview

Long-Range Building Program (HB 5) Funding by Agency ($ Millions)

- Dept of Administration, $114.5
- Dept of Corrections, $188.2
- Dept of Justice, $3.4
- Dept of Public Health & Human Services, $149.1
- Dept of Transportation, $46.2
- Fish, Wildlife, & Parks, $113.9
- Livestock, $2.2
- MT School for Deaf & Blind, $1.5
- MT University System, $403.8
- Dept of Natural Resources & Conservation, $9.8
- Dept of Labor & Industry, $6.8
- Dept of Military Affairs, $70.0
- Dept of Environmental Quality, $3.7
- Agriculture, $3.9
- Revenue, $14.3

Total: $1,131.6
Long-Range Information Technology Program, HB 10

Funding by Agency ($ Millions)

- Dept of Administration, $23.5
- Agriculture, $0.6
- Livestock, $1.0
- Dept of Natural Resources & Conservation, $4.6
- Office of Public Defender, $0.4
- Dept of Corrections, $18.0
- Dept of Public Health & Human Services, $138.9
- Dept of Justice, $50.5
- Judicial Branch, $1.4

Total: $240.4