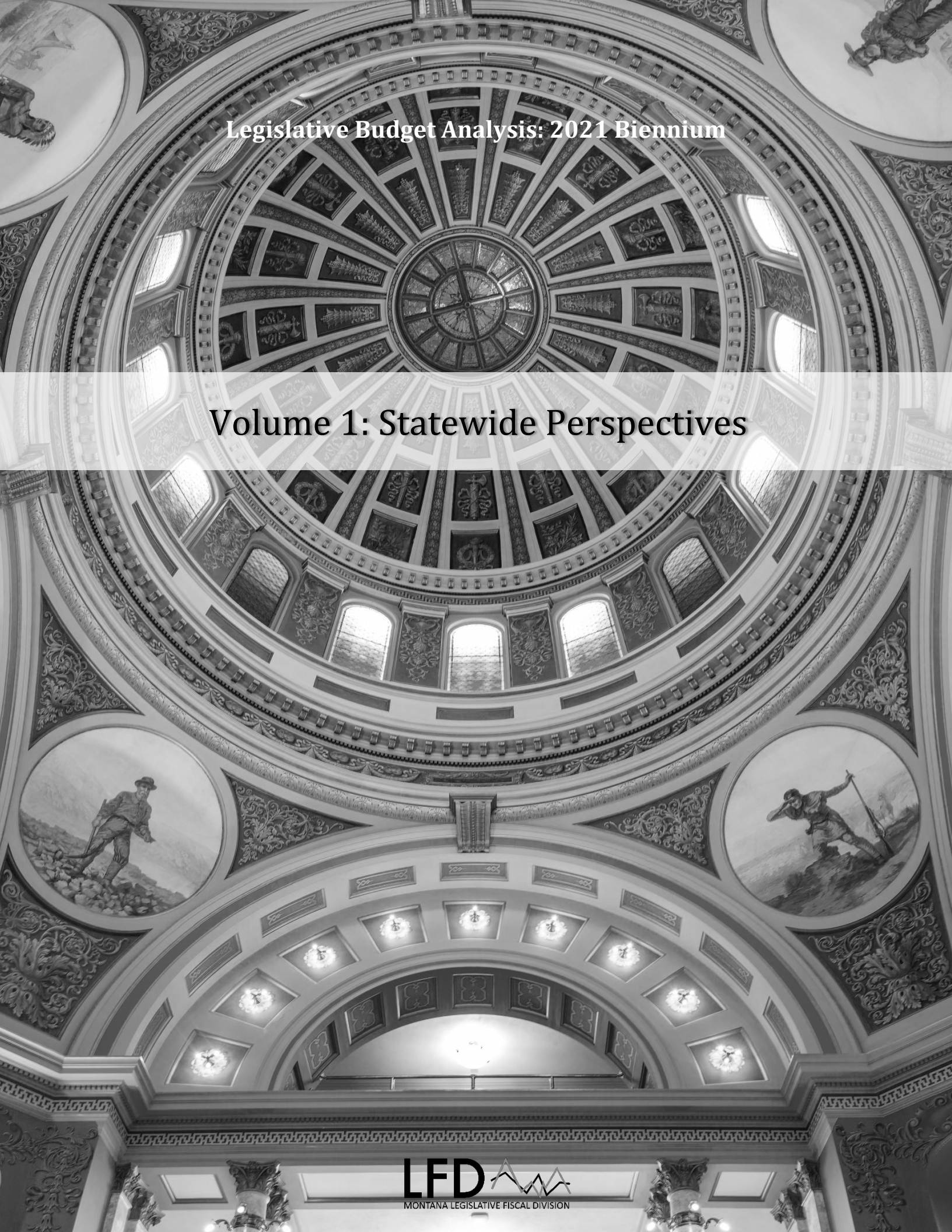

Legislative Budget Analysis: 2021 Biennium

Volume 1: Statewide Perspectives

LFD

MONTANA LEGISLATIVE FISCAL DIVISION

LEGISLATIVE BUDGET ANALYSIS 2021 BIENNIUM

VOLUME 1—STATEWIDE PERSPECTIVES

LEGISLATIVE BUDGET ANALYSIS
2021 BIENNIUM
VOLUME 1 – STATEWIDE PERSPECTIVES

REPORT FROM THE LEGISLATIVE FISCAL DIVISION
TO THE SIXTY-SIXTH LEGISLATURE
JANUARY 2019

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Acknowledgements

The Legislative Budget Analysis report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and policy information and advice to the legislature. The LFD thanks the many entities that assisted in its completion.

For information on this report and others, contact the Legislative Fiscal Division at (406) 444-2986 or visit the division's website at: https://leg.mt.gov/lfd/

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Legislative Fiscal Division

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Director
AMY CARLSON

December 2018

Members of the Sixty-Sixth Legislature:

I submit for your consideration the high-level state budget outlook for 2021 biennium as Volume 1 of the Legislative Budget Analysis. More details in volumes 2 through 8 will be available prior to session at https://leg.mt.gov/lfd/publications/. Additional reference material, standard charts and tables are available online at the same website as appendices to this Volume 1. If you are unable to access the online version, please let staff know and we will provide you with printed versions of the documents.

The Legislative Fiscal Division works for you, the Legislators of Montana. We have no partisan alliance and seek to deliver high quality information and analysis of fiscal issues. A significant quantity of additional information is available online at our general website: https://leg.mt.gov/lfd/. Some specific resources that you may be interested in are reports on specific fiscal issues presented to the Legislative Finance Committee over the interim. Reports on financial volatility, community college funding formulas, results first methodologies with the Department of Health and Human Services, and state laboratories were some of the key areas researched this interim.

In addition to this analysis, the LFD has access to the state accounting system and other resources for researching specific fiscal questions. If a fiscal question arises, please feel free to contact either myself or any member of our staff to help answer your questions.

We look forward to working with you all during the 2019 Session.

Sincerely,

Amy Carlson
Legislative Fiscal Analyst

VOLUME 1: THE OVERVIEW

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2021 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2021 biennium, and identifying some of the major issues now facing the Legislature. As such, this document is intended to complement the Legislative Budget Analysis – 2021 Biennium online, which contains LFD's review of the 2021 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing budget information for state government.

While the Legislative Budget Analysis – 2021 Biennium reports the results of LFD's detailed examination of revenue estimates and expenditures and proposed budgets of state programs, this Statewide Perspective presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 provides an updated general fund balance sheet, projects the general fund structural balance, compares biennial appropriations, and includes a summary of anticipated ongoing general fund revenues, ongoing present law expenditure requirements, including budget risks and budget pressures.

This volume is divided into five parts:

- The Introduction provides a summary of LFD's analysis of the proposed executive budget
- State Revenues provides a review of the revenue assumptions adopted by the Revenue and Transportation Interim Committee
- State Expenditures provides an overview of the Governor's state expenditure plan for the 2021 biennium
- Cost Pressures highlights key underlying assumptions in revenues and expenditures, and also details some of the pressures that the legislature may face in the upcoming session
- Appendix: Web based only documents that provide additional information

LEGISLATIVE BUDGET ANALYSIS - 2021 BIENNIUM ONLINE

REVENUE ESTIMATES

Volume 2 is a detailed reference of the state's major revenue sources and is available online. It provides the highlights of the underlying economic assumptions used in the revenue estimate adopted by the Revenue and Transportation Interim Committee, as well as historical collections and distributions for each revenue source. Also included are statutory references and estimate methodologies.

BUDGET ANALYSIS

The Budget Analysis offers detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Section A – General Government
- Section B – Health and Human Services
- Section C – Natural Resources and Transportation
- Section D – Judicial Branch, Law Enforcement, and Justice
- Section E – Education
- Section F – Long-Range Planning

OTHER USEFUL LINKS

In addition to the Legislative Budget Analysis prepared for session, there are a number of other documents online:

Understanding State Finances
HB 2 Guide
Legislative Finance Committee Reports

- 2019 Biennium Budget Status – Dec. 2018
- Base Budget Report – Sept. 2018
- Personal Services Report – Sept. 2018
- Global Motions – Dec. 2018

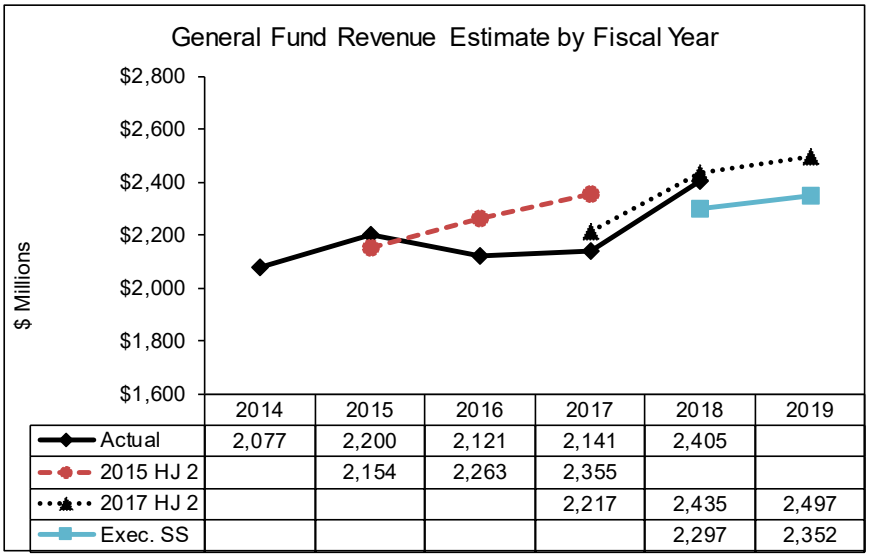
OVERVIEW

FOCUS ON GENERAL FUND

While there are many different funds that make up Montana's state finances, the general fund is the main fund used for state government operations. It is the primary measure for state finance and is the focus for the overview of the budget presented in this report.

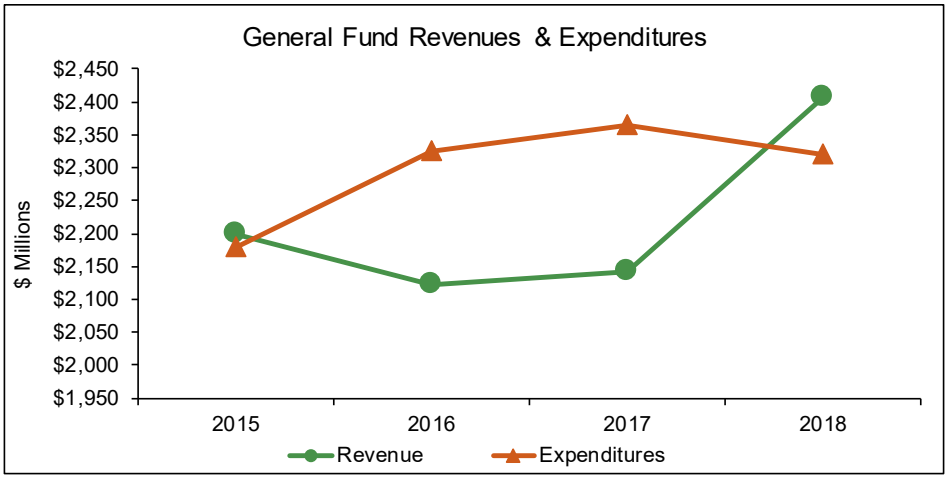
A BRIEF HISTORY OF GENERAL FUND

As shown in the chart to the right, state general fund revenue was anticipated by the 2015 Legislature to grow steadily through the 2017 biennia. While FY 2015 revenues were greater than the 2015 Legislature anticipated, the 2017 biennium, FY 2016 and FY 2017, did not grow as anticipated and were $356 million or 7.7% less than anticipated. The 2017 Legislature met and reduced revenue estimates for FY 2017 and set the 2019 biennium revenue estimates.

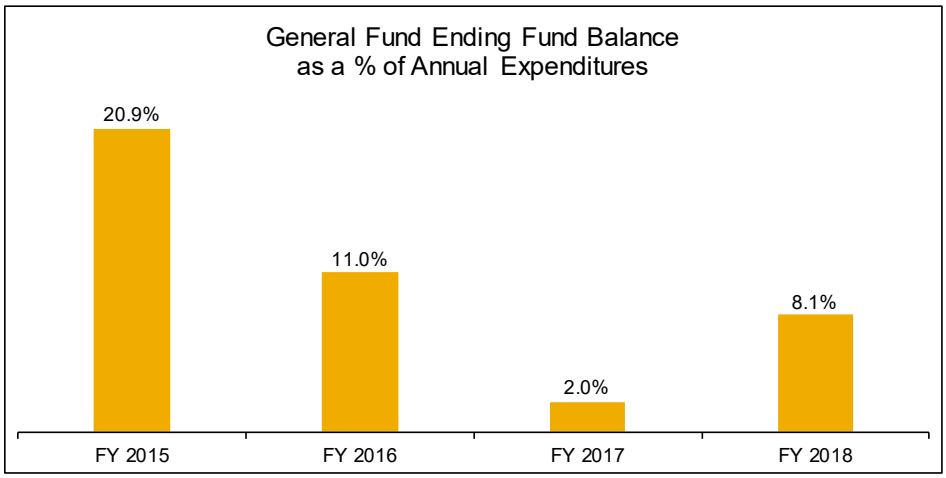


Annual general fund revenue collections have increased since the decline in revenue in FY 2016. Also shown chart, after adjusting for all enacted legislation, FY 2017 and FY 2018 were $106 million or 2.3% less than was anticipated last session in the adopted revenue estimate contained in 2017 HJ 2. Most of the difference was due to lower-than-expected growth in individual income tax in FY 2017 that continued to impact FY 2018 collections. The adopted 2019 HJ 2 estimate assumes total collections will remain at a lower level in FY 2019.

While revenue came in below expectations in the 2017 biennium, the expenditures continued to grow as appropriated in the 2015 session. As illustrated in the chart below, general fund expenditures were significantly above revenues in FY 2016 and FY 2017.



As expenditures outpaced revenue, the general fund balance declined from $455 million or 20.9% of annual expenditures in FY 2015 to just $48 million or 2.0% of annual expenditures in FY 2017. After legislative action in both the 2017 regular and special sessions, the FY 2018 ending fund balance returned to 8.1% of annual expenditures, close to the operating reserve level defined statute.



GENERAL FUND BALANCE 2019 BIENNIUM

The financial challenges faced over the past several years have resolved and the current budget outlook appears to be stable. After the exceptionally low FY 2017 ending fund balance, a combination of adjustments made from the 2017 regular session, triggered reductions in SB 261, and the November 2017 Special Session adjustments have provided a solid ending fund balance, plus a rainy day fund balance.

When the legislature adjourned in April 2017, general fund revenue for the 2019 biennium as contained in HJ 2 was anticipated to grow to $198.8 million. After the many changes during the 2019 biennium, the general fund ending fund balance is anticipated to be higher - $211 million or 8.9% of annual appropriations. In addition, $45.7 million or almost 2% of annual appropriations has been placed in the Budget Stabilization Reserve Fund.

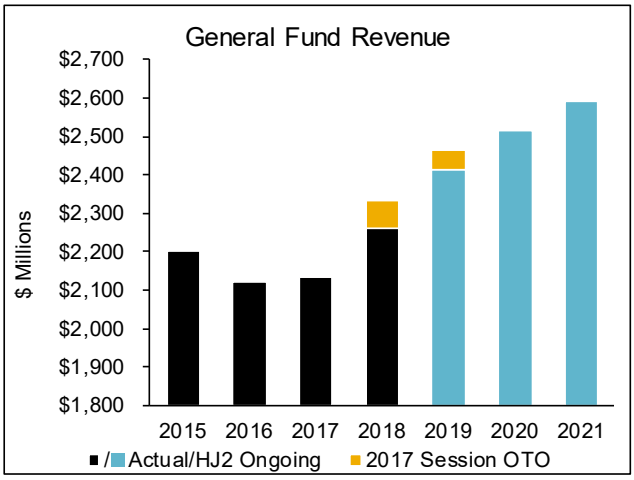
In the 2017 session, the legislature adopted short-term and long-term methods of managing volatility that includes recommended general fund balance levels for an operating reserve and a new rainy day fund known as the Budget Stabilization Reserve Fund (BSRF).

For cash flow operating reserve purposes, statute recommends 8.3% or about $210 million for an anticipated ending fund balance

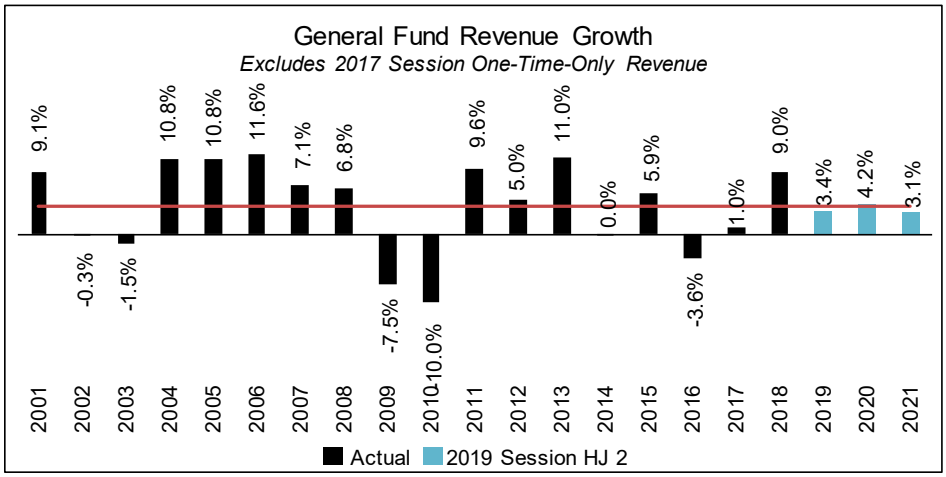
GENERAL FUND REVENUES THROUGH THE 2021 BIENNIUM

General fund revenue collections have been and continue to be influenced by both changing economics and change in taxpayer choices made in response to the anticipated and actual federal tax changes. Economic factors lowered collections in FY 2016 and FY 2017. Taxpayer choices may have lowered general fund revenues in FY 2017 that may have extended in to FY 2018. For more description of how both impacts have affected revenue collections, see page 26.

The adjacent chart illustrates general fund revenue collections since FY 2015 and forecast levels through the 2021 biennium. Note that the one-time-only revenue depicted in yellow in FY 2017 through FY 2019 was primarily used to shore up the decline in ending fund balance in the 2017 biennium shown in the chart on the previous page.



To compare ongoing revenues, the bar chart below has growth stated without the one-time-only revenue of the last few years. Currently, 2019 HJ 2 adopted revenues are anticipated to grow from FY 2018 by 3.4% in FY 2019, 4.2% in FY 2020, and 3.1% in FY 2021. The past 18 years has an average growth rate of 4.2%. The growth anticipated in HJ 2 is modest in comparison to this long term trended growth rate and below the anticipated growth in the economy.



The HJ 2 revenue estimate does not include any additional one-time revenue from potential delayed income realization due to taxpayer choices as described in the revenue section of this report. If taxpayers were to realize above-trend business profits or other types of income, revenue collections could be higher than estimated.

The growth in revenues is below the growth in the economy in part because nearly 25% of Montana's general fund revenue sources are expected to be essentially flat or decline from FY 2018 levels throughout the forecast period. For additional information, please refer to the LFD 2021 Budget Analysis, Volume 2.

BUILDING THE GENERAL FUND BUDGET

The general fund budget is built according to statute in the same manner as other fund types. The details of all budgeted fund types are contained in the expenditure section, and the overview of the general fund budget is contained in this section.

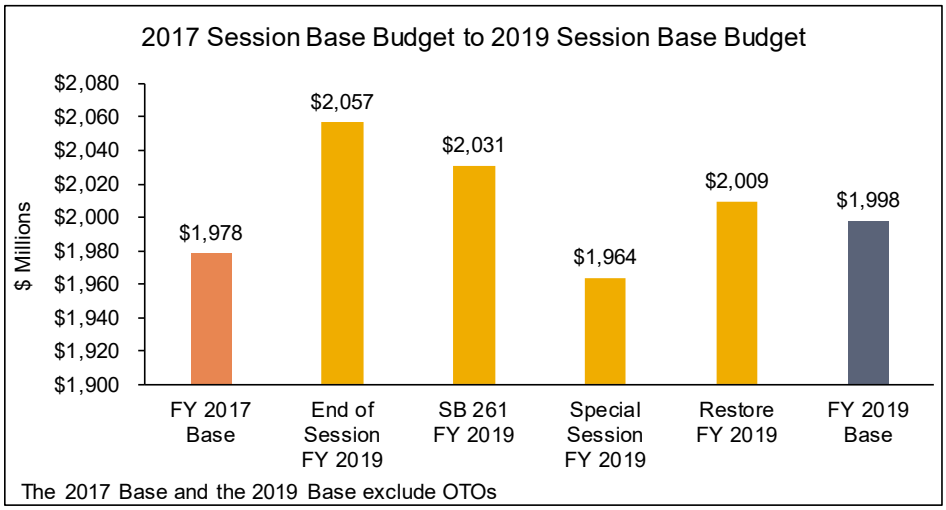
General Fund Base Budget

The base budget is defined as the resources authorized by the legislature for the ongoing operation of state government in FY 2019. The 2021 biennium base has several key components:

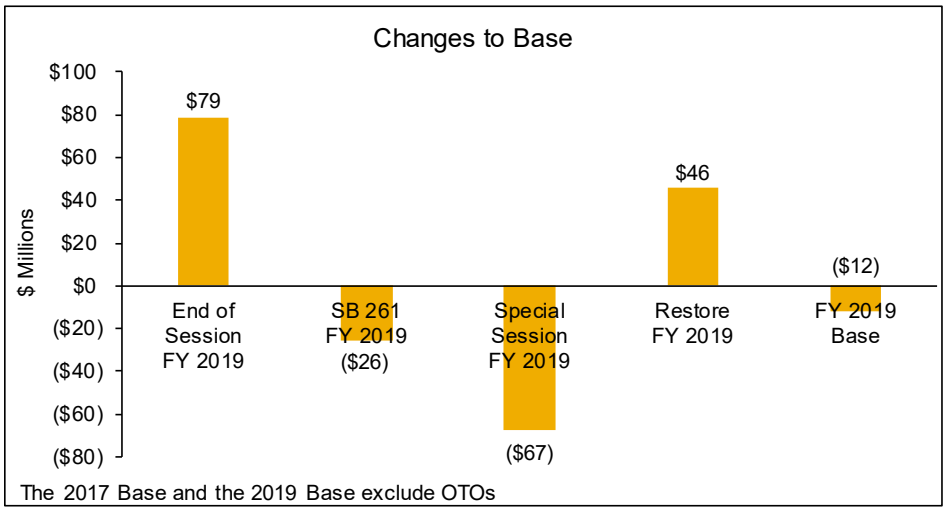
1) Eliminates funding for the HELP Act, including Medicaid expansion, as that act sunsets at the end of the 2019 biennium
2) Appropriation adjustments that occurred during the 2019 biennium that impacted FY 2019 (excluding one-time-only appropriations) are included in the base. The base for FY 2019 began with the 2017 base and was adjusted as follows:
    a. Regular session in 2017 made both present law and new proposal adjustments
    b. SB 261 triggered reductions in appropriations when FY 2017 actual revenues were lower than anticipated in FY 2017
    c. 2017 Special Session reductions both the Governor's recommended MCA 17-7-140 reductions and other legislative reductions
    d. Appropriations restored from SB 9 (2017 Special Session), which stipulated that if FY 2018 revenues were higher than the executive expected, up to $45.7 million could be added back to agency appropriation authority in FY 2019
3) Base budget for the biennium including both HB 2 and other appropriations totals $4,575 million. The general fund base budget for HB 2 only is $1,998 million per year or $3,976 million for the biennium

HB 2 Base

The following chart shows the base budget at the beginning of the 2017 session and demonstrates the many changes described above that occurred from that level to the new 2019 session base budget.



The resulting base budget for HB 2 is 1% or $20 million more than the base budget in the last session. The many reductions in spending through the several budget reductions and final restoration resulted in this low growth rate. Note this 1% increase is an overall increase level. Specific agencies within the budget will be higher and lower than this amount.



General Fund Present Law Budget

When building the state's budget, the base level of funding is adjusted for present law changes. Statute provides a definition of the present law budget, as the level of funding necessary to maintain current government services. Present law gives the legislature a baseline budget presentation and illustrates the beginning point at which legislative budget decisions are made.

LFD Analysis of Present Law

Budget building basics: use the base budget and then build the statutorily defined present law base 17-7-102, MCA which includes funding for continuation of ongoing programs.

(12) "Present law base" means that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

(a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;

(b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;

(c) inflationary or deflationary adjustments; and

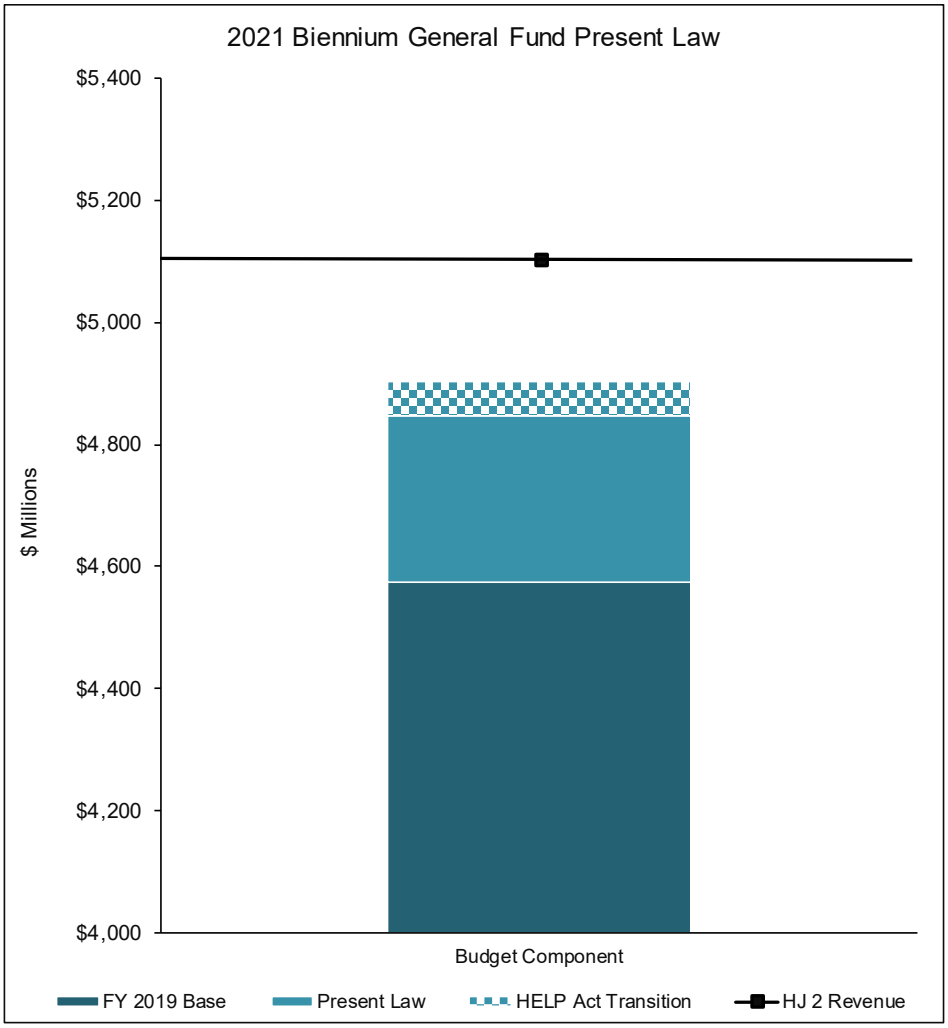
(d) elimination of nonrecurring appropriations.

The substantial changes to the budget in the past 2 years as described on the previous page prompted the analysis of the present law for this biennium to be more subjective than usual. Given the reductions, a strict interpretation of present law would, in many cases, yield a different number than submitted by the executive. Please see the present law assumptions section on page 56 for details.

General Fund Present Law for the 2021 Biennium

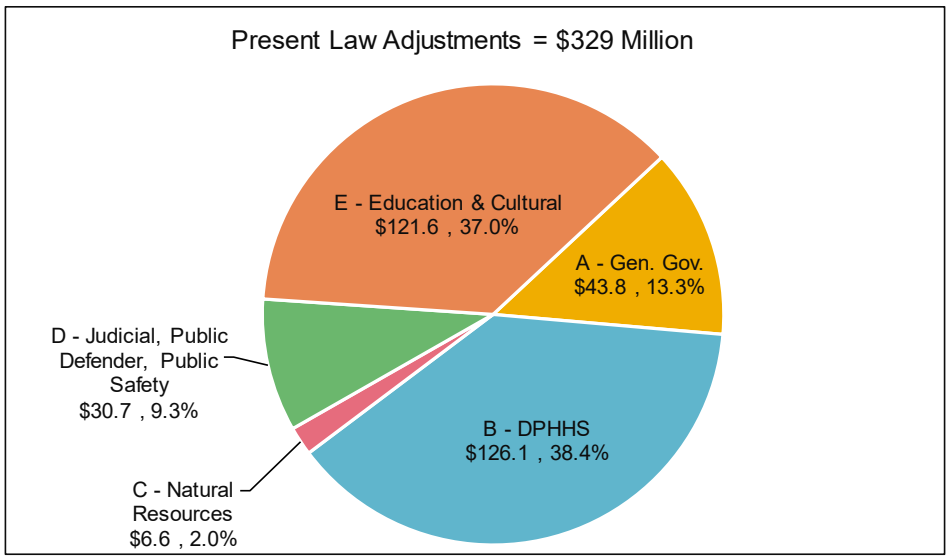
The graphic below illustrates general fund present law expenditures in relation to anticipated HJ 2 revenues. As the graphic depicts, revenue projections are above present law expenditure assumptions. HJ 2 legislative revenue estimates are $5,104 million compared to a total base budget plus present law of $4,904 million.

Present law adjustments from the base total $329 million. In comparison to previous biennial levels of present law adjustments, this amount for present law is unusually high due to unusual budget changes from the various reductions made over the past two years. Most of these non-standard items occur in the budget of the Department of Health and Human Services (DPHHS) and K-12 school funding.



Present Law Detail

The expenditure projections for the 2021 biennium for present law obligations are $329 million. Several non-standard increases are due the return of items temporarily removed from the 2019 budget and returned in present law.



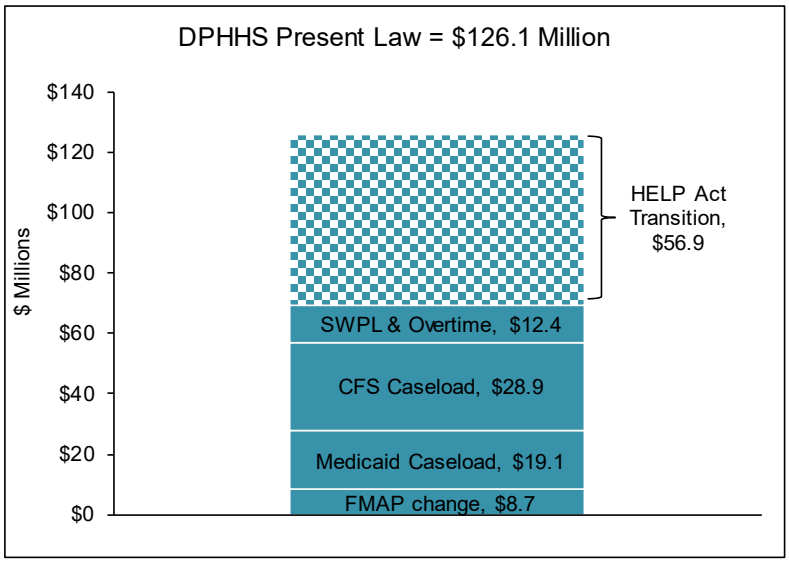
The key areas of increase include:

- $126 million in Section B: Health and Human Services
- $122 million in Section E: primarily additional BASE Aid and other K-12 school district funding
- $43.8 million in Section A: primarily increases in statutory payments to local governments and pensions

Department of Public Health and Human Services (DPHHS)

DPHHS represents $126 million in increased present law, which is 38% of the total present law amount.

The largest single component of this present law increase is due to the sunset included in the HELP Act. Present law allows certain participants in the HELP Act to transition to traditional Medicaid and the executive has included $56.9 million of general fund to cover these individuals at the lower federal match rate for traditional Medicaid and resulting higher state match costs.



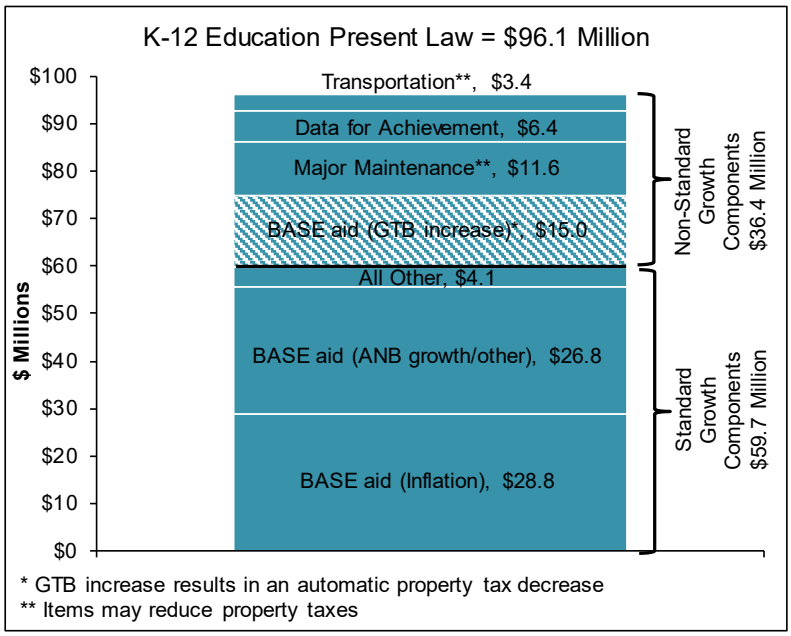
Other major factors in the executive present law increase include:

- $28.9 million for caseload growth in Child & Family Services
- $19.1 million for Medicaid caseload growth
- $8.7 million to account for changes to federal matching rates

One item not reflected here is the change to the match rate for the Children's Health Insurance Program (CHIP). The executive has proposed to fund that present law change with state special funds, much of which are contingent on the passage of a proposed tobacco tax increase. Without this revenue increase, there will be a general fund cost of $23 million in the current biennium.

K-12 Education

The Office of Public Instruction funding represents $96.1 million in increased present law for the 2021 biennium. The changes include $59.8 million in standard growth components and $32.5 million in non-standard growth components due to restoring reductions made by the 2017 Legislature.



The pieces making up the standard growth components include:

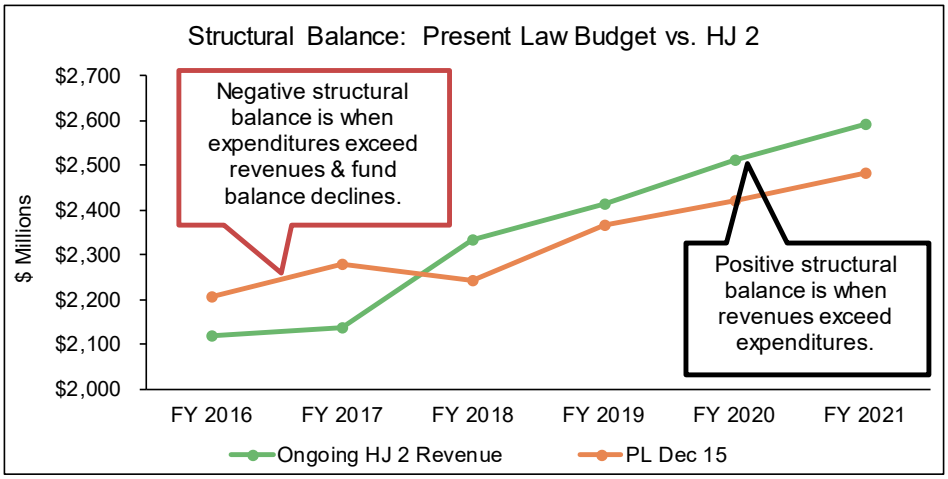
- $28.8 and $26.8 million for BASE Aid components: $28.8 million is for inflation, and $26.8 million is for additional enrollment and other adjustments. These other adjustments include a $100,000 reduction in funding as the guarantee account is forecasted to grow
- $4.1 million all other: $2.4 million statutory growth established in HB 647 (2017 Session) for supporting district facility needs for major maintenance, $100,000 growth in the Data-for-Achievement payment, $400,000 growth in transportation payments, and $1.2 million growth in all other categories

The pieces making up the non-standard growth components are comprised of reductions that occurred in FY 2019 and will statutorily return in FY 2020 and FY 2021:

- $15.0 million BASE Aid component: $15 million is for increases to the guaranteed tax base (GTB) ratio as adopted in HB 647 (2017 Session). This is a restoration of state support that will have the effect of reducing local property tax levies
- $7.8 million in the NRD facilities payment: This is a restoration of the payment that was established in HB 647 (2017 Session) for the purpose of supporting district facility needs
- $9.7 million all other: $6.4 million to restore the SB 261 (2017 Session) suspension of Data-for-Achievement payments and $3.4 million in transportation

Present Law Structural Balance

Lower than anticipated revenues in FY 2016 and FY 2017 created a negative structural balance that reduced ending fund balance, but FY 2018 revenues grew, and expenditures were decreased to achieve a positive structural balance. The chart below demonstrates the changes to structural balance.



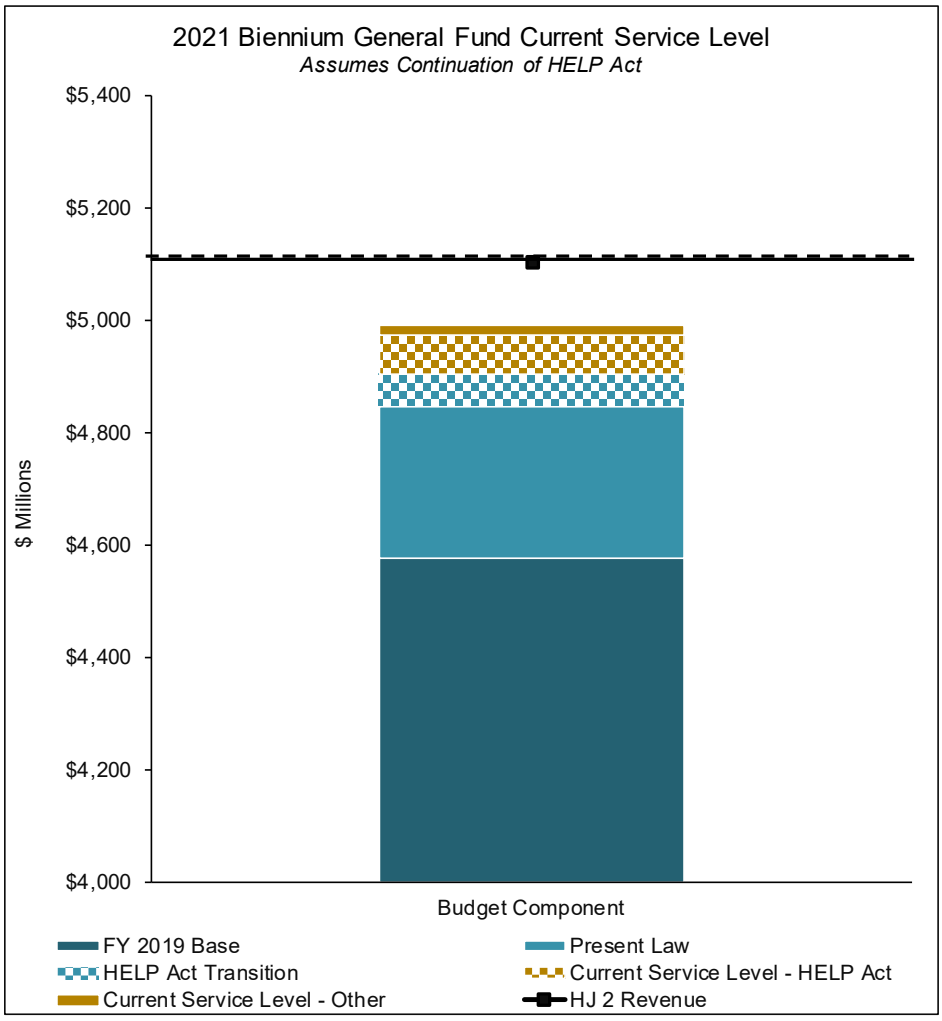
In the 2021 biennium, the executive's present law budget is less than the anticipated ongoing revenue level. Due to sunsets and one-time designations, this present law level does not include all current services to citizens. The most notable service in this category is the HELP Act also known as Medicaid expansion.

Current Service Level

While statute does not define current service level, it is a definition that has been used in the past to better communicate the budget choices. Current service level includes items approved by a previous legislature and of an ongoing nature, but for one reason or another are not included in the present law base.

The current service level costs total $86.8 million. The largest cost included in this amount is the Health and Economic Livelihood Partnership (HELP) Act passed in the 2015 session that expanded Medicaid benefits to adults up to 138% of the federal poverty level until June 30, 2019. Since this legislation is set to terminate, it was not included in the base or present law base budget, but is considered a current service level cost for the 2021 biennium. The HELP Act is projected at $69.2 million in current service level in addition to the $56.9 million discussed on page 7 and included in present law for the 2021 biennium. The remainder of current service level costs includes several sunset statutory appropriations and non-budgeted transfers and also certain one-time only appropriations in HB 2.

Current service level also includes a small amount of revenue. The HELP Act includes collection of $10.5 million of premiums from certain participants in the program. This revenue is shown in the dashed line in the chart below. The total general fund cost including base, present law, and current service level is $4,991 million, and is $113 million less than the legislative HJ 2 revenue forecast of $5,104 million, and $124 million less than current service level revenue of $5,115 million.



Current Service Level Projections - HELP Act Medicaid Expansion

This section provides a closer look at HELP Act projections if continued in the 2021 biennium. Under present law, the HELP Act, which authorizes Medicaid expansion in Montana, ceases to exist after June 30, 2019. The table below summarizes HELP Act expenditures, along with costs associated with either allowing Medicaid expansion to lapse, or continuing the program in a similar manner.

In addition to the $56.9 million request included in present law, the continuation of Medicaid expansion is proposed to cost an additional $69.2 million for a total current service level cost of $126.2 million general fund. There is also a $10.5 million revenue offset due to premiums charged for certain participants. The net cost of Medicaid expansion is $58.7 million general fund, as shown in the current service level chart below, and as proposed by the Governor for continuation of the HELP Act.

HELP Act Medicaid Expansion Expenditures
($ Millions)

				DPHHS Estimate[1]	Executive Proposal	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
General Fund						
Administration	$4.177	$8.535	$10.672	$8.494	$9.382	$9.796
Benefits & Claims	1.426	16.275	31.962	40.215	50.128	56.871
Subtotal	5.603	24.811	42.634	48.708	59.510	66.667
Federal Funds						
Administration	8.004	7.882	11.653	9.584	11.675	12.976
Benefits & Claims	129.058	541.639	661.335	721.259	666.510	672.630
Subtotal	137.062	549.522	672.988	730.843	678.185	685.606
Grand Total	$142.665	$574.332	$715.622	$779.551	$737.695	$752.273

2021 Biennium General Fund Summary of Medicaid Expansion

Cost shift to Traditional Medicaid (HELP Act sunset) *as proposed by the executive	28.410	28.519
Difference between projected expansion and cost shift	(31.100)	(38.147)
Premium Revenues[2]	5.200	5.300
Net general fund cost to expand Medicaid	$25.900	$32.847

[1]As reported in the November DPHHS Budget Status Report.
[2]Premiums received are recorded as revenue, but can only benefit the general fund to the same level as the FMAP. Included in the general fund expenses is a cost for the federal share of this revenue.
[3]Current service level does not include proposed provider rate increases of $1.1 million.

Other Current Service Level Costs

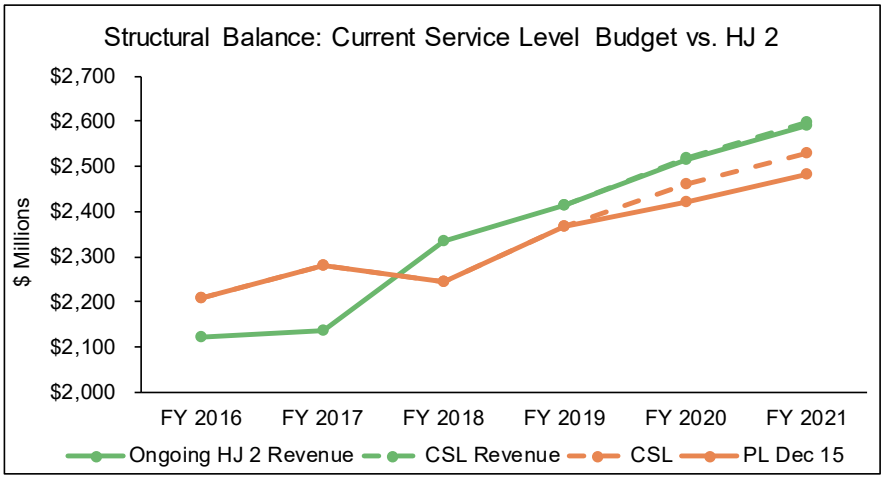
The remaining $17.5 million of other current service level costs include:

- Digital Academy for K-12 schools: $1.7 million in the biennium
- Continue various statutory appropriations, one-time appropriations and non-budgeted transfers for Economic Development items totaling $6.1 million in the biennium
- Continue STARS preschool education investment of $6 million in the biennium
- Other smaller items

In some cases, the Governor increased the amount of funds requested. The amounts above only include the amount that was approved by a previous legislature and thus at the current service level. The remaining requested amounts are included as a new proposal in the following section.

General Fund Current Service Level Structural Balance

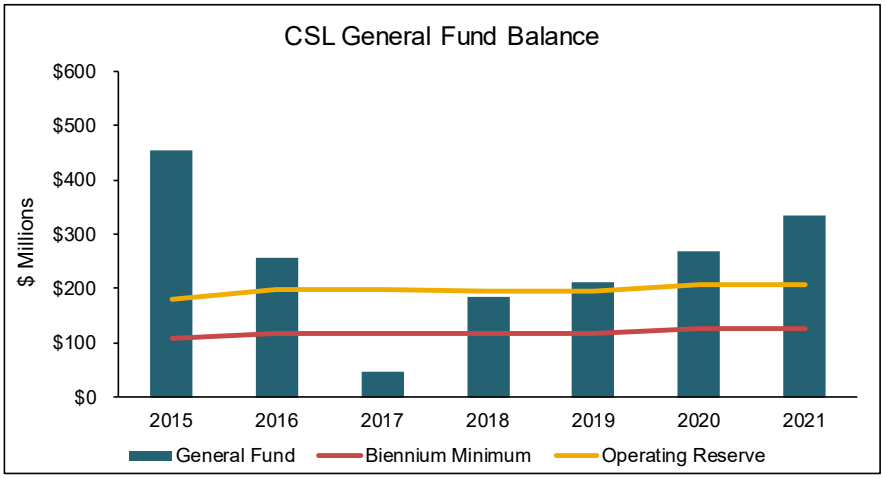
Given the size and impact of the HELP Act, it is important to consider the structural balance including this and other current services to citizens.



While the costs increase when the HELP Act and other current service items are considered, overall expenditures still remain below the level of anticipated ongoing revenue and the budget remains in structural balance.

Current Service Level Ending Fund Balance

The chart below illustrates the general fund current service level ending fund balance, the ending fund balance that assumes that the HELP Act continues. The Current Service Level (CSL) ending fund balance for the 2021 biennium is anticipated to be $335 million. When only present law expenditures are considered, the ending fund balance in FY 2021 would be anticipated to be $76.0 million higher or $411 million.



General Fund Measurement

The general fund budget is measured in two ways: structural balance and ending fund balance.

Structural Balance

Structural balance is the measure of ongoing revenue to ongoing spending and is important since it sets the stage for the following biennium budget. For example, if the budget is at a structural deficit or spending more than current year revenue, the budget for the following biennium will likely be out of balance and require reductions to balance the budget.

Ending Fund Balance

Ending fund balance is the amount of funds anticipated to be in the general fund at the end of the biennium.

The statutory minimum projected ending fund balance is 5% of the second-year appropriations or approximately $125 million.

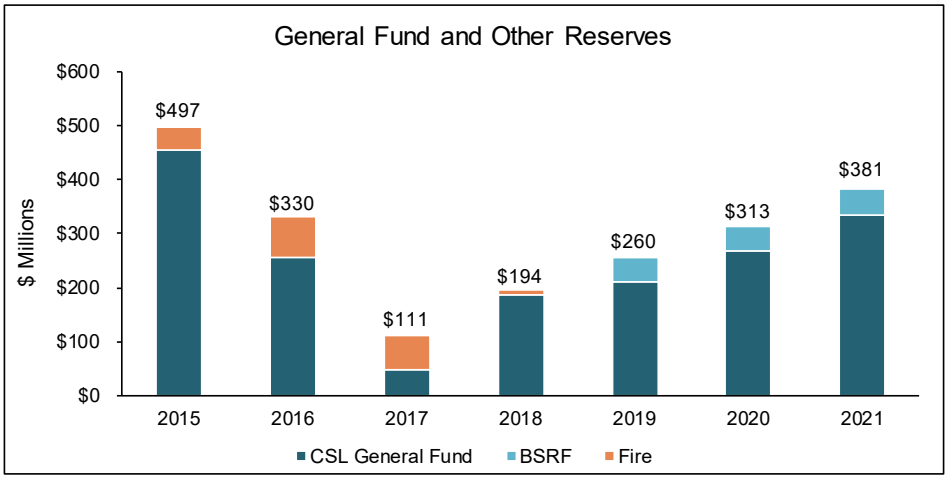
Operating Reserve

The statutorily recommended operating reserve for projected ending fund balance is 8.3% of the second-year appropriations or approximately $210 million.

This ending fund balance amount is above both the statutory minimum ending fund balance established in 17-7-140, MCA and the recommended operating reserve in 17-7-102, MCA. The difference between the actual ending fund balance and the minimum ending fund balance is a financial cushion during the interim for the executive to manage the budget if revenues come in lower than anticipated.

Mitigating Expenditure and Revenue Risk

To better understand the ability of the state to mitigate both expenditure and revenue risk, a look at all reserve funds is helpful. The following chart illustrates not only the general fund ending fund balance, but also the fire fund ending fund balance in orange and the Budget Stabilization Reserve Fund (BSRF) in light blue.



At present, the fire fund ending fund balance is anticipated to be less than $3.0 million at the end of FY 2019. Deposits into the fire fund are dependent on reversions of unspent appropriations from FY 2019 and each year after. This low fund balance may be of concern to the legislature. The Governor has proposed transfers into the fire fund, which are further described on page 53.

New to the Montana budget is the Budget Stabilization Reserve Fund (BSRF), which was established by the 65th Legislature. Currently $45.7 million is in the BSRF and can be used either statutorily by the Governor or the legislature to mitigate risks to the general fund.

Present Law and Current Service Level Budget

The following table summarizes the present law budget and includes the current service level increases described earlier. Present law includes LFD estimates for statutory appropriations and non-budget transfers. Statutory appropriation present law estimates are calculated without the HELP Act (Medicaid expansion), as this legislation is set to sunset on June 30, 2019. LFD assumes a higher standard reversion than the Governor's Office of Budget and Program Planning.

The present law ending fund balance for FY 2021 is projected at $411 million. The largest single disparity in present law between the executive is the difference between the executive's revenue estimates and HJ 2 adopted by the Revenue and Transportation Interim Committee in November 2018, which the LFD is required to use on the present law balance sheet. The revenue difference is $22.8 million and a few minor other differences are approximately $2.0 million. The total present law difference is $24.8 million.

Current service level adds the cost of $86.8 million for the biennium. Those current service items continue Medicaid expansion and economic development; provide the current level of the STARS pre-school program; and includes costs for current service level services like Indian Country Economic Development, Native Language Preservation, and Digital Academy, all services that have been in multiple biennia budgets as one-time-only.

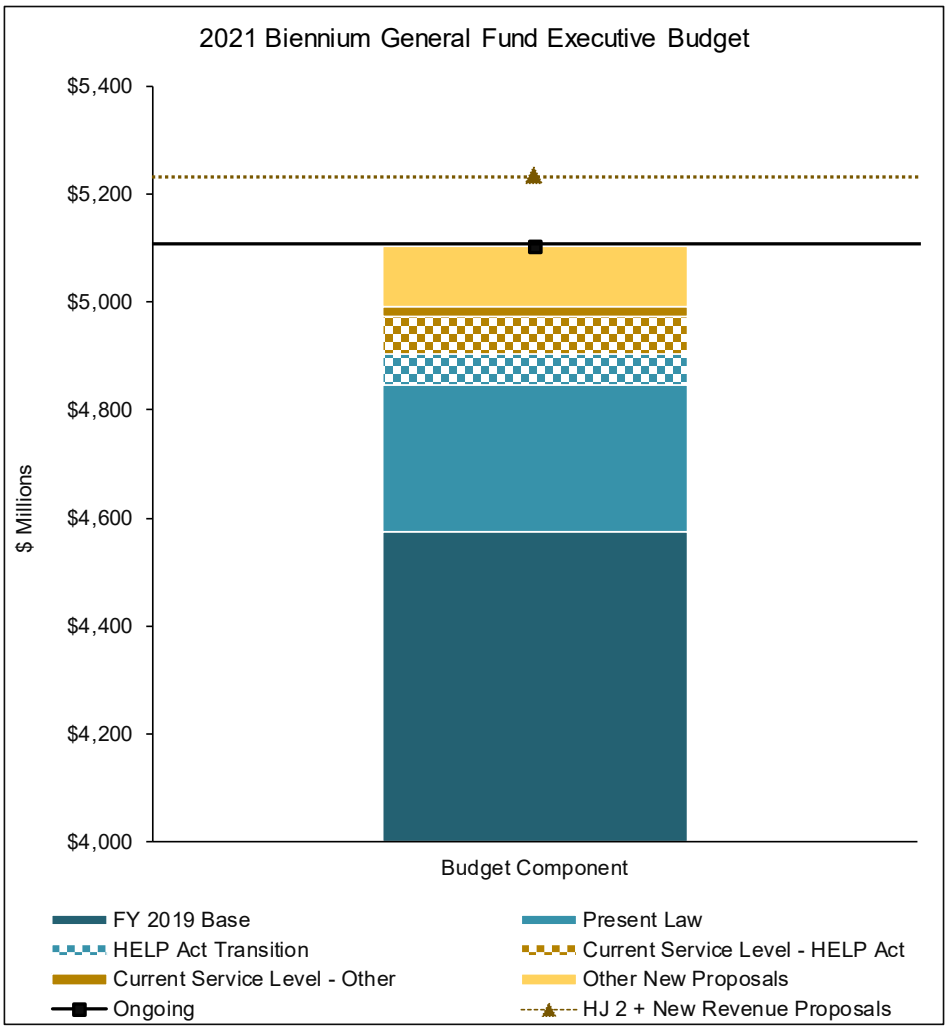
Current service level also provides an additional $10.5 million in revenue for the 2021 biennium from premiums paid to the state by Medicaid expansion recipients. After these additions, the current service level ending fund balance is $335 million, or $76.0 million lower than the anticipated present law ending fund balance.

December 15 General Fund Balance Sheet - Present Law and Current Service Level Includes HJ 2 Estimates as Adopted by the Revenue and Transportation Interim Committee ($ Millions)				
	Actual FY 2018	Estimated FY 2019	Present Law & Current Service FY 2020	Present Law & Current Service FY 2021
Beginning Fund Balance	$47.933	$185.795	$211.325	$302.314
Revenues				
Actual & Adopted HJ 2 by RTIC (Nov 2018)	2,333.618	2,412.503	2,513.558	2,590.661
OTO	77.061	51.024		
Prior Year Adjustments - revenue	1.638			
Total Revenue Funds Available	2,460.250	2,649.322	2,724.883	2,892.975
Expenditures - Ongoing				
Statutory Approps	316.360	336.703	283.858	289.527
General Fund Transfers	19.857	21.055	17.988	18.423
HB 2 language appropriations		0.050	0.050	0.050
HB 2 Agency Budgets - Present Law FY 2019-2023	1,904.347	2,003.024	2,125.64	2,170.40
HB 1 (includes contuing authority)	2.401	10.272	2.293	10.657
Other Appropriations	0.068	2.193		
Reversions		(7.120)	(7.289)	(7.467)
Ongoing Expenditures	2,243.033	2,366.177	2,422.542	2,481.594
OTO				
HB 2 Agency Budgets	12.992	14.351	0.027	0.077
Supplemental Appropriations	3.320	11.748		
Special Session SB 9 Budget Stabilization Transfer		45.721		
Fire Fund Transfers	25.309			
Other Appropriations	2.877			
Total Present Law Expenditures	2,287.530	2,437.997	2,422.569	2,481.671
Other adjustments and Prior year expenditures	13.075			
Ending Fund Balance - Present Law FY 2019-FY 2023	$185.795	$211.325	$302.314	$411.305
Present Law Structural Balance	$90.586	$46.326	$91.016	$109.068
Current Service Level Adjustments				
Current Service Level Revenues			5.200	5.300
Current Service Level Expenditures			39.864	46.912
Current Service Level Ending Balance		211.325	267.650	335.029
Current Service Level Structural Balance		$46.326	$56.352	$67.456
Assumptions: HB 638 (2017 regular session) has been funded in the base budget.				

GOVERNOR'S GENERAL FUND BUDGET 2021 BIENNIUM NEW PROPOSALS (OTHER THAN ITEMS DISCUSSED IN CURRENT SERVICE LEVEL)

The current service level ending fund balance is anticipated to be $335 million with a positive structural balance of $67.4 million.

The Governor's new proposals, other than current service level for the general fund budget are reviewed in the following section. Increases in revenue, including transfers total $121 million. Increases in spending of $114 million in the 2021 biennium plus a $15 million transfer to the fire fund in FY 2019 total $129 million.



KEY GOVERNOR RECOMMENDED NEW PROPOSALS

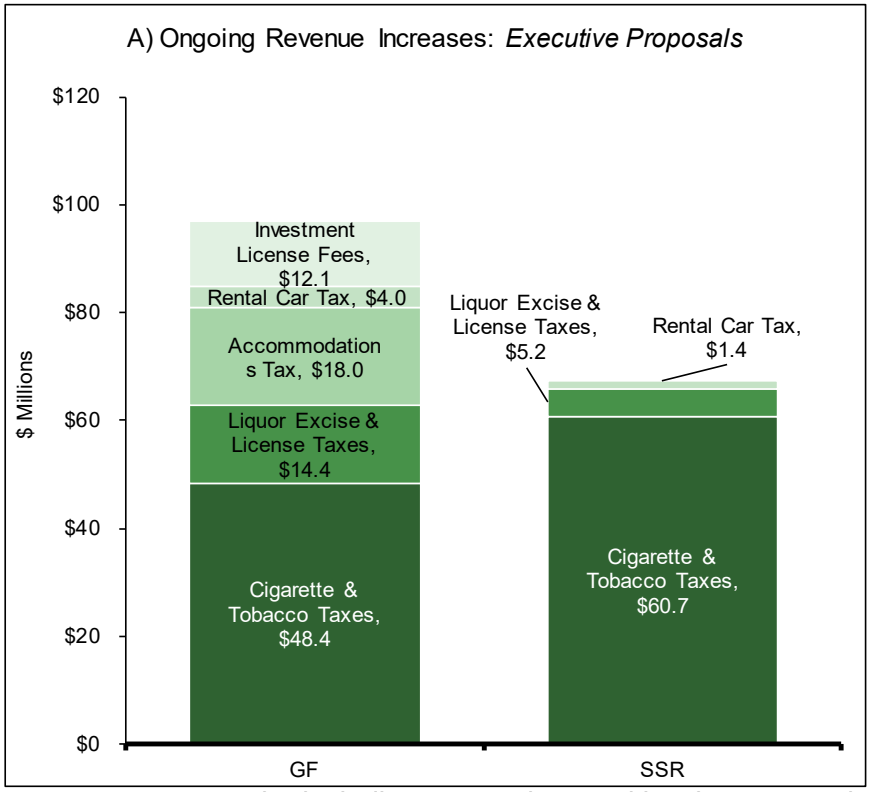
A) Ongoing Revenue Increases: $97 million general fund and $67 million state special funds

The Governor proposes increasing tax revenue in a variety of ways. The largest revenue generating increases are in consumption taxes with a combined general fund and state special fund increase of $128.8 million over the 2021 biennium. Other increases in lodging tax, rental car tax, and investment license fees would generate an additional combined general fund and state special revenue fund of $37 million over the 2021 biennium.

Consumption Tax Increases

The executive proposals related to consumption taxes include:

- Increasing liquor excise tax, from 16% to 20.8%
- Increasing liquor license tax, from 10% to 13%
- Increasing the cigarette tax by $1.50 per pack from $1.70 to $3.20
- Increasing the tax on moist snuff by $1.82 per ounce, from $0.85 to $2.67
- Increasing other tobacco product taxes from 50% of the wholesale price to 94%
- Making e-cigarette juice or other vapor consumption products taxable
- Reducing the insignia discount for wholesalers

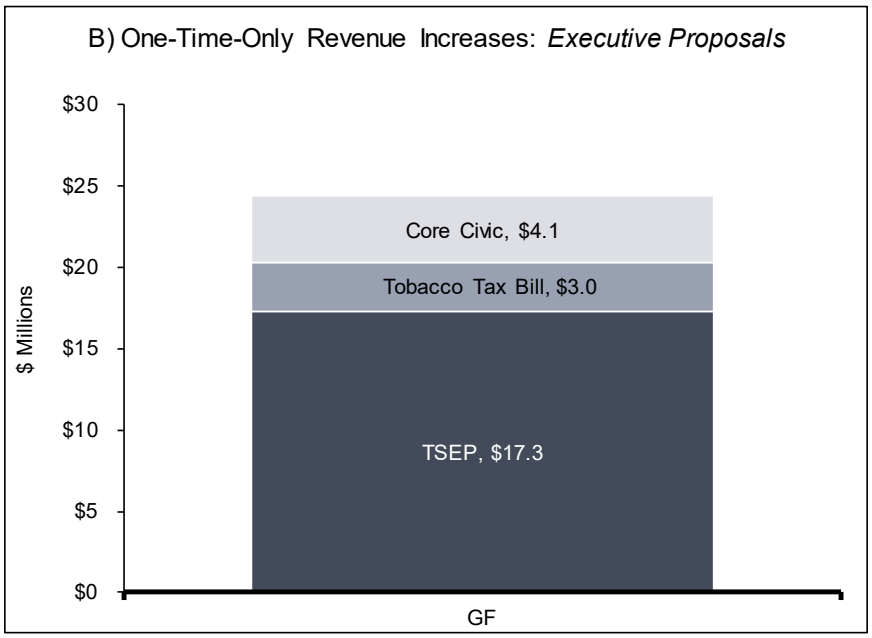


Further information on the executive revenue proposals, including comparisons with other states, is provided in the revenue section of this report.

B) Other One-time Only Revenue, and Transfers into the General Fund from other funds: $24 million one-time increase to ending fund balance

Transfers into the general fund do not increase revenue to the state, but reduce money in one fund and move it to another. The Governor recommends $23 million of transfers into the general fund from several sources to increase the general fund balance. The Governor recommends replacing some of the transferred funds with state bonding. The proposals include:

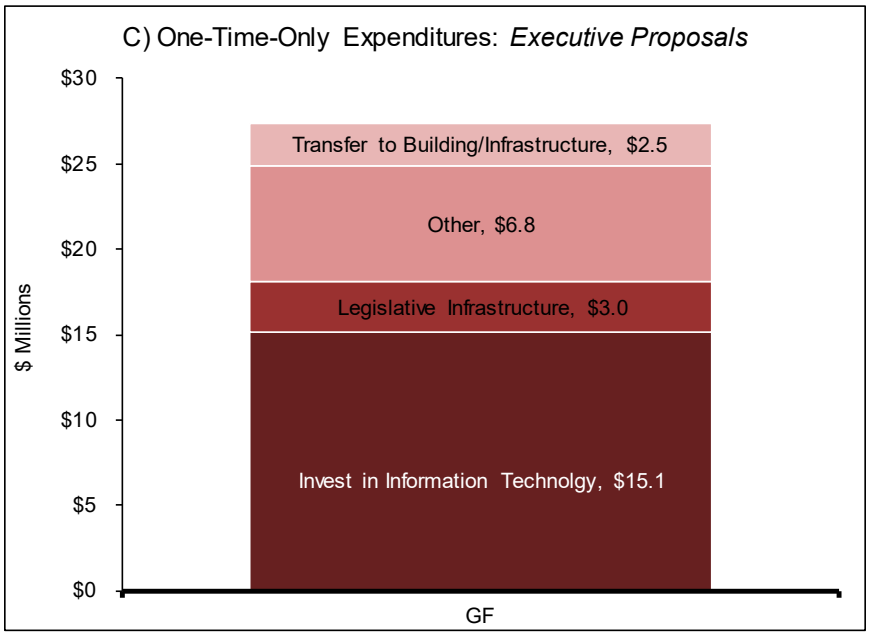
- Transferring $17.3 million from the Treasure State Endowment Program local government infrastructure programs and replacing this with bonds
- $3 million of funding connected to the tobacco tax increase described under A) Ongoing Revenue
- Transferring $4.1 million from the Core Civic Agreement funds negotiated by the Governor and set aside in accordance with SB 9 of the November 2017 Special Session



C) One-time Only Expenditures: $27.4 million

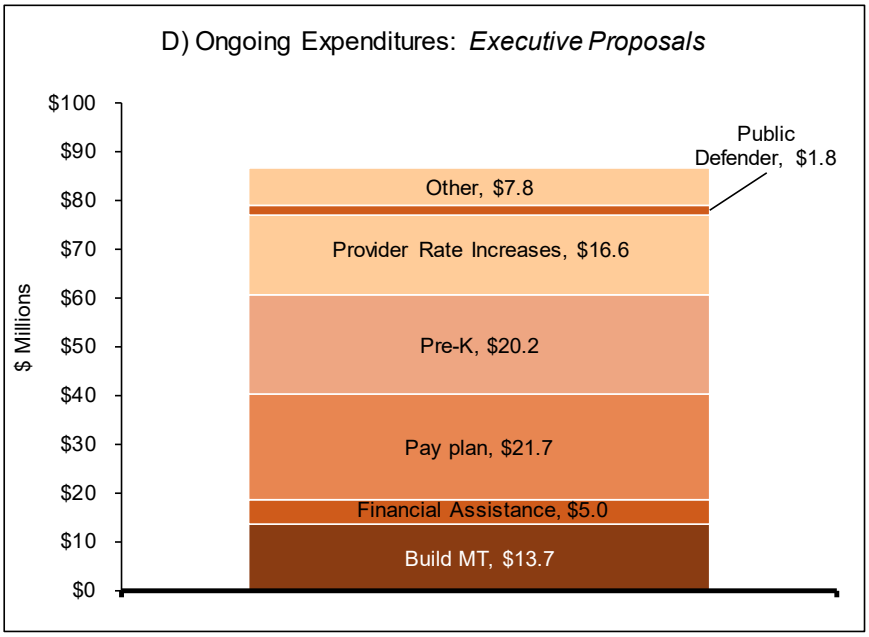
The Governor recommends the following one-time-only expenditures:

- Invest $15.1 million in Information Technology projects in Department of Health and Human Services, Department of Natural Resources and Conservation, and the Statewide Information Technology Cyber Security
- Invest $3 million in Legislative Information Technology and other infrastructure
- Transfer $2.5 million Long-Range building funds to fund balance for building and infrastructure investments
- $15 million transfer to fire fund
- Other: including $1.8 million for the Good Neighbor Natural Resources Program; $1.6 million Pretrial program, and $1.8 million for start-up costs for pre-school



D) Ongoing Expenditures: $86.7 million

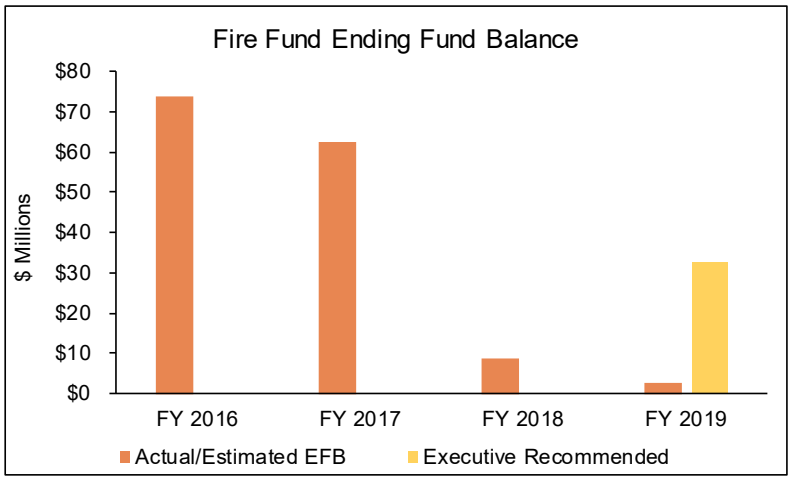
The executive recommends the following ongoing expenditure increases from present law:



- The Infrastructure in Montana proposal includes bonding, andincreases present law general obligation debt by $13.7 million (executive estimate) in the 2021 biennium. More information is detailed in the long-range planning section of the 2021 biennium budget analysis in Sec. F
- A financial assistance match of $5.0 million for the Commissioner of Higher Education
- Two separate initiatives to expand preschool opportunities in Montana. The first is an expansion of a pilot program known as STARS offered in the 2019 biennium on a one-time-only basis. This expansion of $2.0 million general fund will provide additional grants directly to qualified applicants, including private entities. The second is a request for $20.2 million general fund in OPI for a voluntary public preschool program statewide. Start-up pre-school costs are included above in the one-time requests
- Provider Rate Increases: the executive has generally requested a provider rate increase of 0.91% in FY 2020 and 1.83% in FY 2021
- Public Defender: $1.8 million to provide pay ladder adjustments for attorneys
- Pay plan
  - Increases in pay for individuals
  - Personal services contingency of $2.0 million general fund to allow the executive cover personal services funding shortfalls

FIRE FUND SUMMARY

Over the past few years, the fire fund ending fund balance has decreased substantially, due both to transfers from the fire fund to the general fund and fire costs. The executive recommends increasing the ending fund balance of the fire fund with two transfers: a $15.0 million transfer from the general fund; and a transfer of $15.0 million from the state special fund of the negotiation of the contract extension of Core Civic and from funds set aside from SB 9 of the November 2017 Special Session.

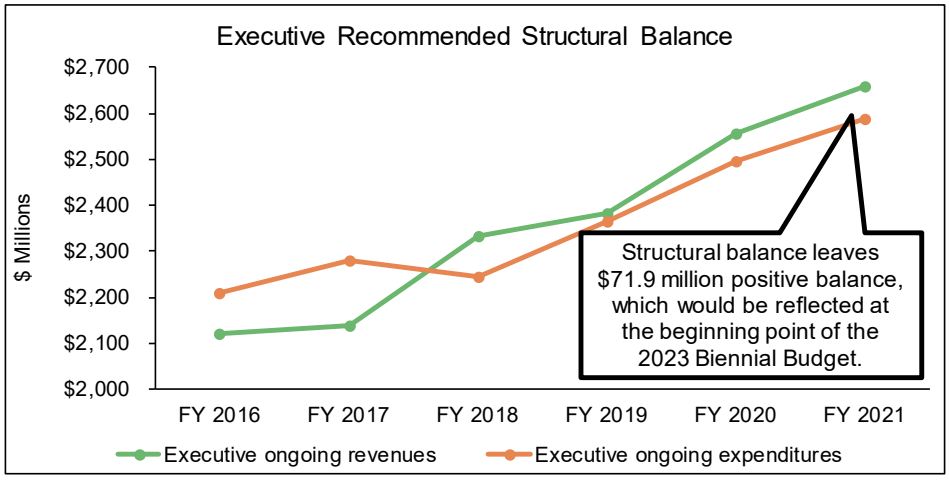


Beginning with the close of FY 2019, the reversion transfers from the state general fund to the fire fund will restart after the action of the last session temporarily ended these transfers. These transfers along with the executive recommended transfers in will likely be sufficient to cover average biennial fire costs of about $50.0 million.

GOVERNOR'S BUDGET WRAP UP

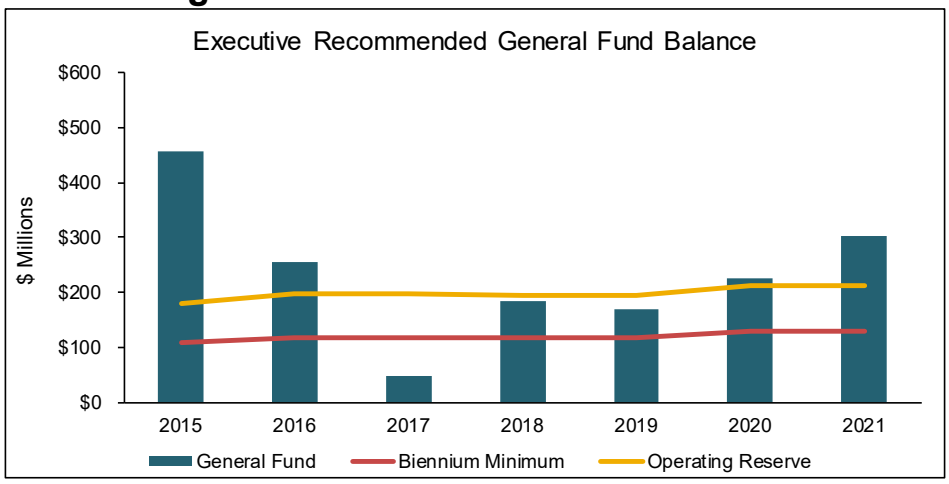
Governor's Recommended Structural Balance

The Governor's budget leaves a solid structural balance available for the 2021 session. A structurally positive balance provides the next legislature and governor the flexibility to increase spending, decrease taxes, or continue to build balances in the 2023 biennium.



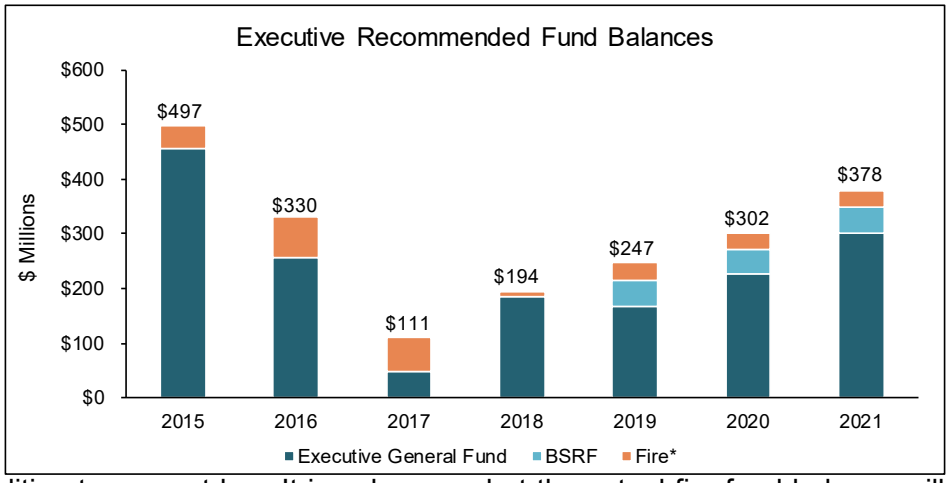
Executive Recommended Ending Fund Balance

The Governor recommends an ending fund balance of $302.5 million or 11.8% of second year annual appropriations by the end of FY 2021. This level is $174 million or 6.8% above the statutory minimum and $89 million or 3.5% above the statutory recommended operating reserve.



Executive Recommended Fund Balances

In addition to the general fund balance, the Governor recommends balances in the fire fund and the Budget Stabilization Reserve Fund. The adjacent graphic compare recent balances to them executive recommendation.



*Note that for comparison purposes, the fire fund balance is shown to continue at the level that the executive recommends in addition to present law. It is unknown what the actual fire fund balance will be due to unknown transfers in from appropriation reversions and actual fire expenditures.

Governor's Recommended Budget

With the Governor's assumptions and Govornor's estimates for present law and new proposals the following table summarizes his budget recommendation.

The executive ending fund balance is projected to be $302.5 million at the end of FY 2021. The difference between the present law ending fund balance on page 17 and the Governor's present law ending fund balance is $24.8 million, which is described on page 16.

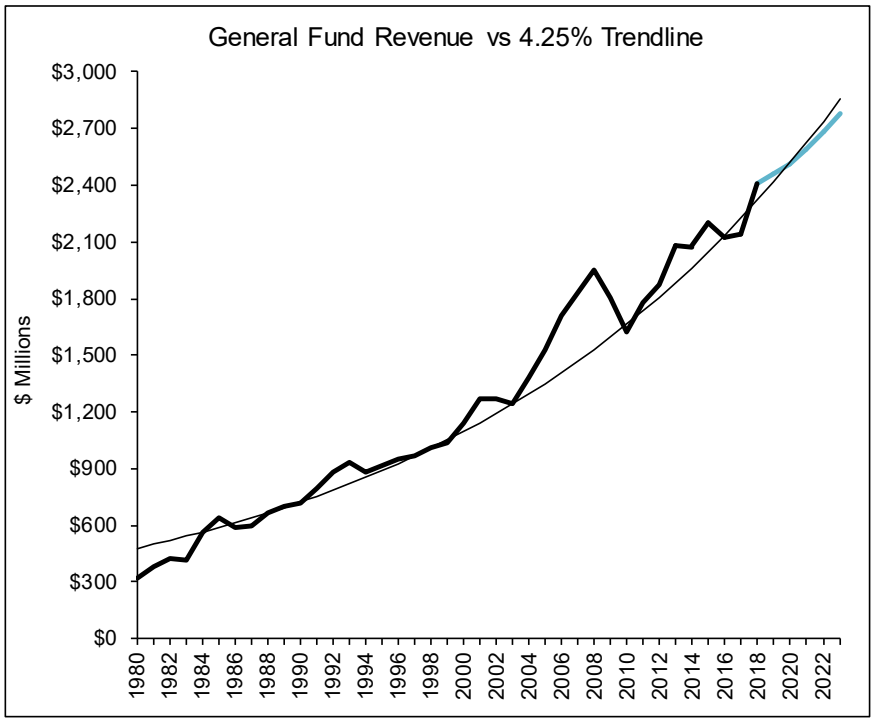
December 15 Governor's Proposed General Fund Balance Sheet ($ Millions)	Actual FY 2018	Estimated FY 2019	Estimated FY 2020	Estimated FY 2021
Beginning Fund Balance	$47.933	$185.795	$168.527	$226.415
Revenues				
Actual/Governor's Office Estimates (different than HJ 2)	2,405.447	2,434.174	2,506.157	2,604.585
LC# 1369 Proposed Accommodations & Rental Car Sales Tax Increase			10.639	11.395
LC# 1371 Investment License Increase			6.011	6.124
LC# 1372 Proposed Liquor Excise & License Tax Increase			7.044	7.361
LC# 1373 Proposed Cigarette & Tobacco Products Tax Increase			24.672	23.756
HB 14 Treasure State Endowment Program Transfer-in			8.513	8.819
Third Party Administrator Premiums if HELP Act extended (OBPP estimates)			5.200	5.300
Core Civic Re-negotiated Contract			4.100	-
Other			3.386	(0.409)
Prior Year Adjustments - revenue	1.638			
Total Revenue Funds Available	2,455.018	2,619.969	2,744.249	2,893.346
Expenditures				
HB 2	1,917.538	2,017.375	2,127.872	2,181.706
Statutory Appropriations (executive estimates 2021 biennium)	316.360	333.095	346.383	357.901
General Fund Transfers (executive estimates 2021 biennium)	19.503	21.050	18.490	18.828
Other Appropriations	2.948	2.193		
Budget Stabilization Reserve Transfer		45.721		
Fire Fund Transfer	25.309			
HB 1	2.401	10.172	2.713	11.494
HB 3 & HB3 Proposed FY 2019	3.320	11.748		
HB 3 Proposal for transfer to fire fund		15.000		
HB 5 Proposal for transfer to Long Range Building for Projects			2.500	
HB 10 Proposal for transfer to long range IT program			15.113	
HB 13 Proposal Employee Pay Plan Increase			6.028	15.642
HB 14 Proposal OBPP General Obligation Debt Estimates			3.530	10.180
LC# 949 Proposal for OPI to Administer Quality Educator Loan Assistance Program			0.250	0.250
Reversions		(4.913)	(5.046)	(5.192)
Total Expenditures	2,287.379	2,451.442	2,517.834	2,590.809
Other adjustments	7.375			
Adjustments - Prior Year expenditures	(10.781)			
Ending Fund Balance	$185.795	$168.527	$226.415	$302.537

Please note: The executive reversions are unusually low calculations and not the standard 0.3% of appropriations.

CHOICES FOR MANAGING VOLATILITY

The Governor has requested a return to a higher ending fund balance of 11.9% instead of the 8.3% of second year appropriations recommended in statute. Higher ending fund balances give the executive a higher cushion against declining revenue before action is required by statute.

As shown on the chart to the right, general fund revenues are volatile. While there are always risks to revenue collections, the HJ 2 revenue estimate is below the long-term rate of growth.



The complete Montana package for managing volatility can be found in the March 2018 report of the LFD to the Legislative Finance Committee. The report explains Montana's tools and compares Montana's tools to other states' practices. A portion of these tools are new and were adopted in the 2017 session.

New Tools

Newly adopted tools for managing volatility include:

Operating Reserve

Recommended operating reserve level of general fund balance at 8.3% of second year appropriations that will help manage cash flow in the general fund.

Rainy Day Fund: Budget Stabilization Reserve Fund

Montana now has a rainy day fund called the Budget Stabilization Reserve Fund (BSRF). The differences between a rainy day fund and general fund ending fund balance are: 1) rainy day funds limit the Governor's immediate access to reserved funds so that a combination of spending reductions and rainy day fund transfers can occur at the same time and 2) rainy day funds have statutory provisions that determine when deposits are made into the fund and when they can be withdrawn. In general, deposits are made into the BSRF when revenues are higher than trend so that BSRF funds may be used to balance the budget when revenues are lower than anticipated.

Multi-year financial plan

The Legislative Fiscal Division will track and report a four-year budget at certain times to the legislature in an effort to extend the outlook and number of years considered in the budget.

Additional Tools to Consider

The legislature could also adopt the following tools for managing volatility:

Prioritized Spending Plan

Develop a prioritized spending plan to identify reductions ahead of time. The legislature could identify specific items or programs that could be reduced at legislative direction if revenues do not meet expectations.

Debt Management Policy

Develop a full debt management policy that sets limits and policies for debt repayment when funds are available and sets maximum debt levels to manage when cash is short. A policy of this type would also include regular state reporting on the current debt. The Governor has recommendations for bonding in this biennium, but has not recommended a long-term debt policy.

Pay-as-You-Go Infrastructure

The legislature could develop a long-term plan for "pay as you go infrastructure funding" when budget and revenue levels permit, and bonding when revenues cannot support it. The first step in this direction was the passage of SB 43 (2017 Session), which put in place a facility condition assessment program to identify, track, and prioritize deferred maintenance needs within state-owned buildings and campuses. Information gathered through this process will be available for legislative consideration in determination of ongoing funding levels, as well as balancing investments in new infrastructure with the obligation of preserving and maintaining the capital assets the state already owns.

EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

Infrastructure in Montana Proposal

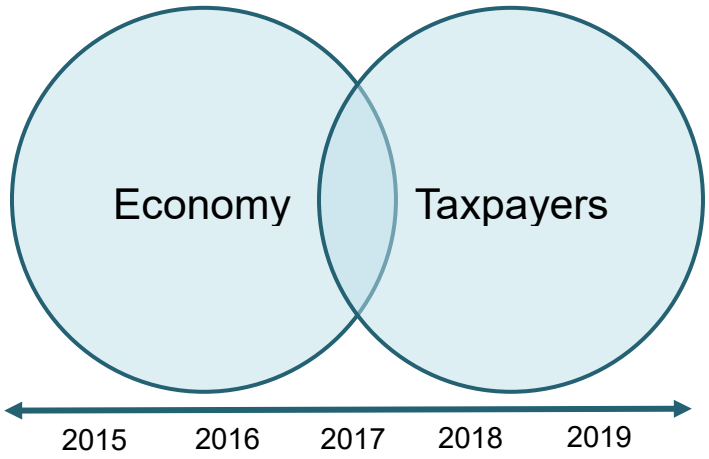
The executive proposal entitled "Infrastructure in Montana" is basically an aggregation of the traditional LRP budgets. The proposal totals $372.2 million of state funds and $67.2 million of non-state funds (university and proprietary funds). The proposal makes use of $146.3 million in dedicated program revenues, $17.6 million of general fund transferred into two programs, $48.2 million of the proceeds from coal-severance tax bonds, and $160.0 million in general obligations (GO) bond proceeds to provide appropriations and grants for state and local government infrastructure investment. Dedicated program revenues of the Treasure State Endowment Program in the amount of $17.3 million would be transferred to the general fund (GF). The transfers to and from LRP programs net to a general fund cost of $281,366. The LRP funding increase provided through the Infrastructure in Montana proposal is $160.3 million (GO bonds + net GF transfers).

More information on the Long-Range Planning programs and the executive proposal for Infrastructure in Montana is available in Section F of the Legislative Budget Analysis.

STATE REVENUE

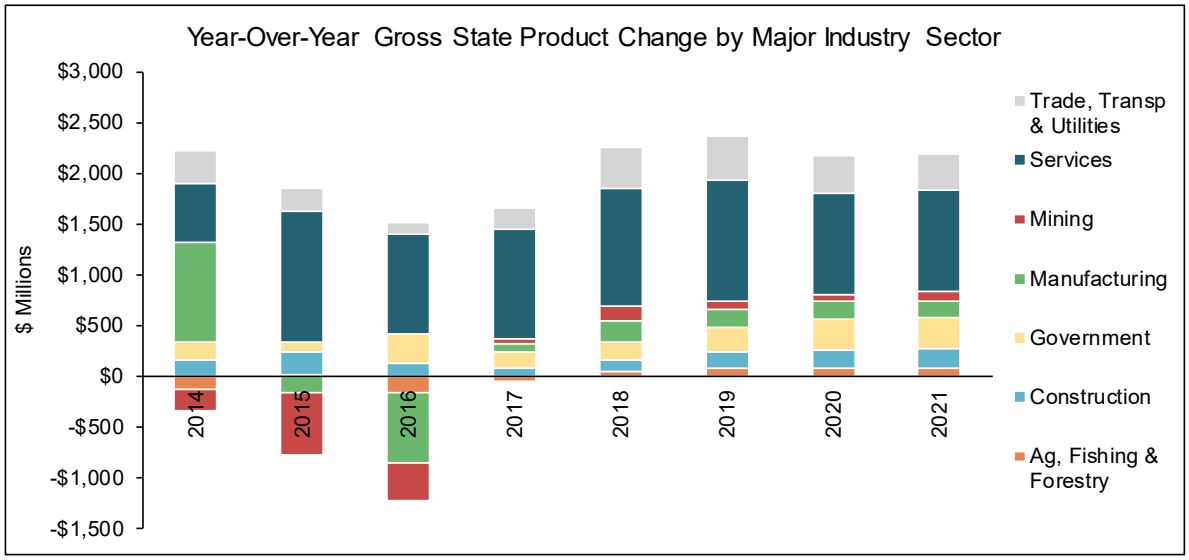
A Short History of General Fund Revenues: A Two-Part Story

Recent general fund revenue collections have been and continue to be influenced by the changing economy and taxpayer choices made in response to anticipated and actual federal tax changes. Economic factors lowered collections in FY 2016 and FY 2017. Taxpayer choices may have lowered individual income tax collections in FY 2017 and may have extended into FY 2018.

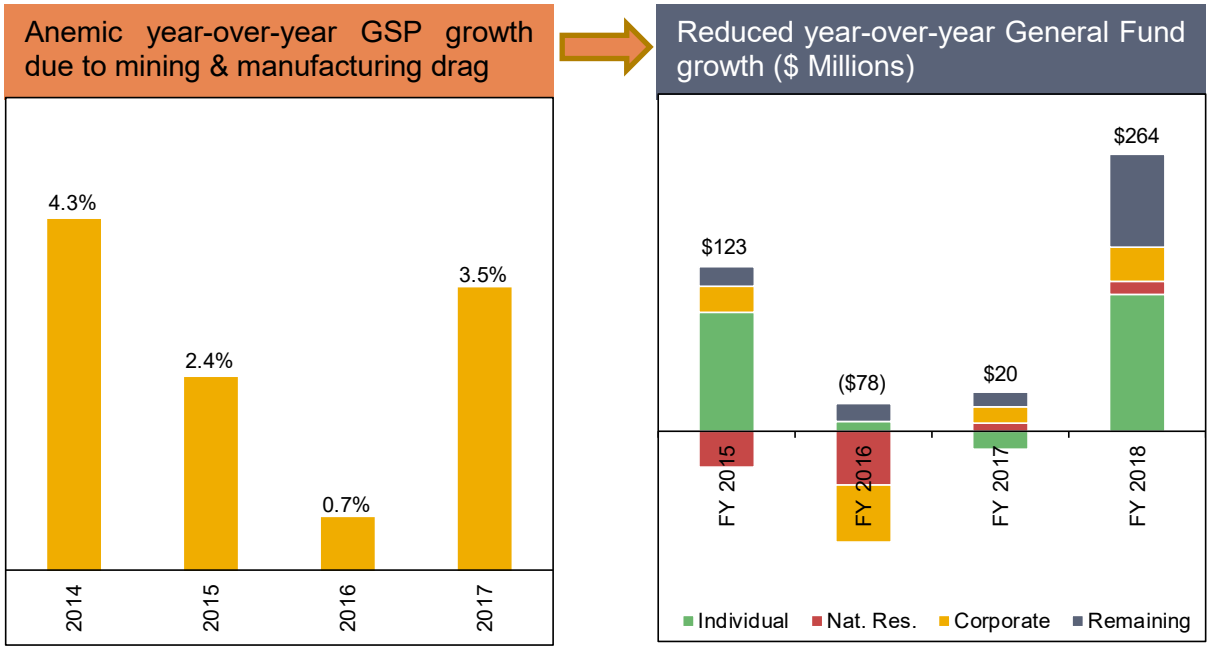


Economic Impacts

The reduction in revenues in FY 2016 and continued low revenues in FY 2017 can be seen in the economic data as well. The following graphic illustrates the drag on the Montana gross state product (GSP) from the agriculture, mining, and manufacturing industry sectors from calendar year 2014 through 2017. Note that the effect on the economy from calendar year changes tend to primarily impact the following fiscal year.



The drag on the Montana economy in CY 2015 and CY 2016 due to declines in the mining and manufacturing sectors correspond with the lower general fund revenue in FY 2016 and FY 2017. Natural resource revenue declined in FY 2015 and FY 2016, while corporate income tax—which is strongly dependent on non-durable manufacturing—declined in FY 2016 and grew slowly in FY 2017.

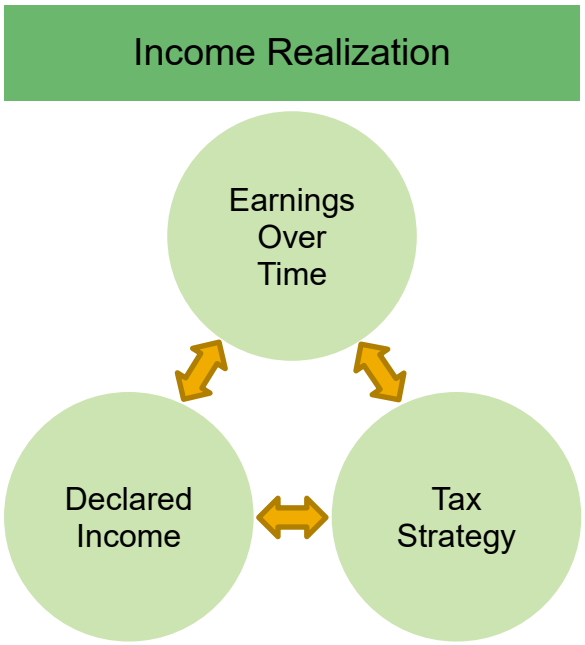


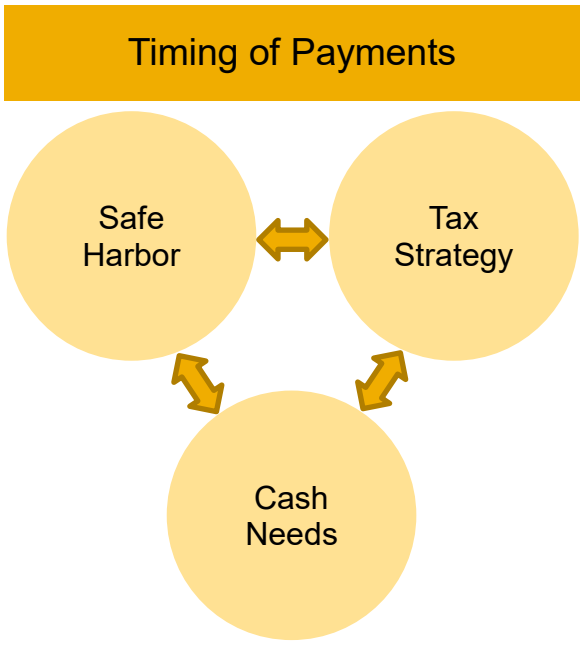
IHS Markit, the economic forecasting data purchased by the state of Montana, anticipates moderate nominal growth of the economy of 4-5% in the next several years.

Taxpayer Choices

Following the 2016 election of a Republican president and majorities in both houses of Congress, taxpayers may have anticipated a possible federal tax cut in CY 2017, and seemed to minimize to the extent possible CY 2016 income. Taxpayers may have been somewhat disappointed in CY 2017—although there was comprehensive federal tax legislation, it didn't come until December & was primarily effective starting in 2018. Ultimately, the federal tax changes may have inspired taxpayers to minimize income realizations in CY 2017 as they held out for more favorable rates, while at the same time maximizing CY 2017 state income and property tax payments to avoid the deduction cap.

Taxpayers can make choices about when to realize certain types of income and when to make tax payments. The following diagrams illustrate some of the interacting components behind taxpayer choices.

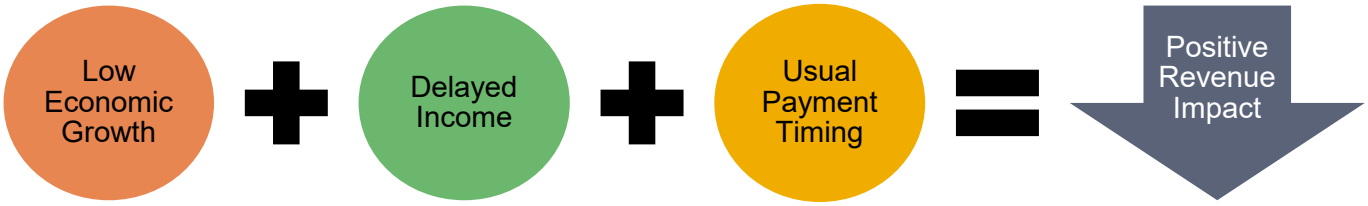




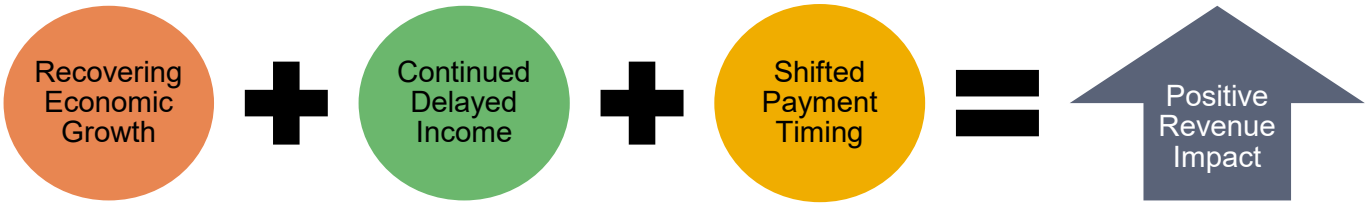
Combined Revenue Impact – Illustrated Version

Although attributing specific revenue change amounts to underlying changes in the economy or to unusual taxpayer choices is difficult or impossible, the schematics below provide a high-level summary of the possible components influencing recent general fund revenue collections.

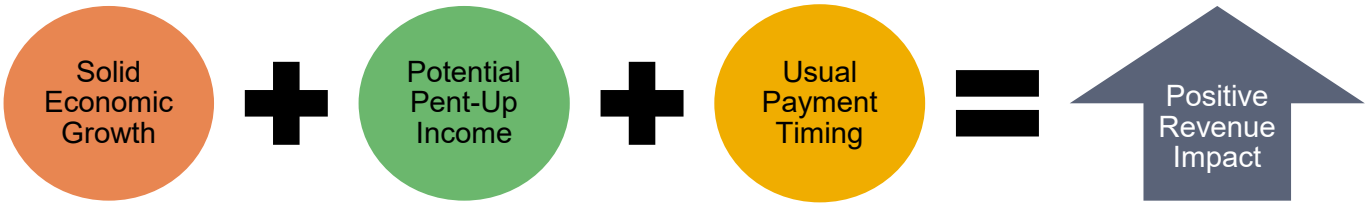
CY 2016/FY 2017



CY 2017/FY 2018



CY 2018/FY 2019



Implications for the 2021 Biennium

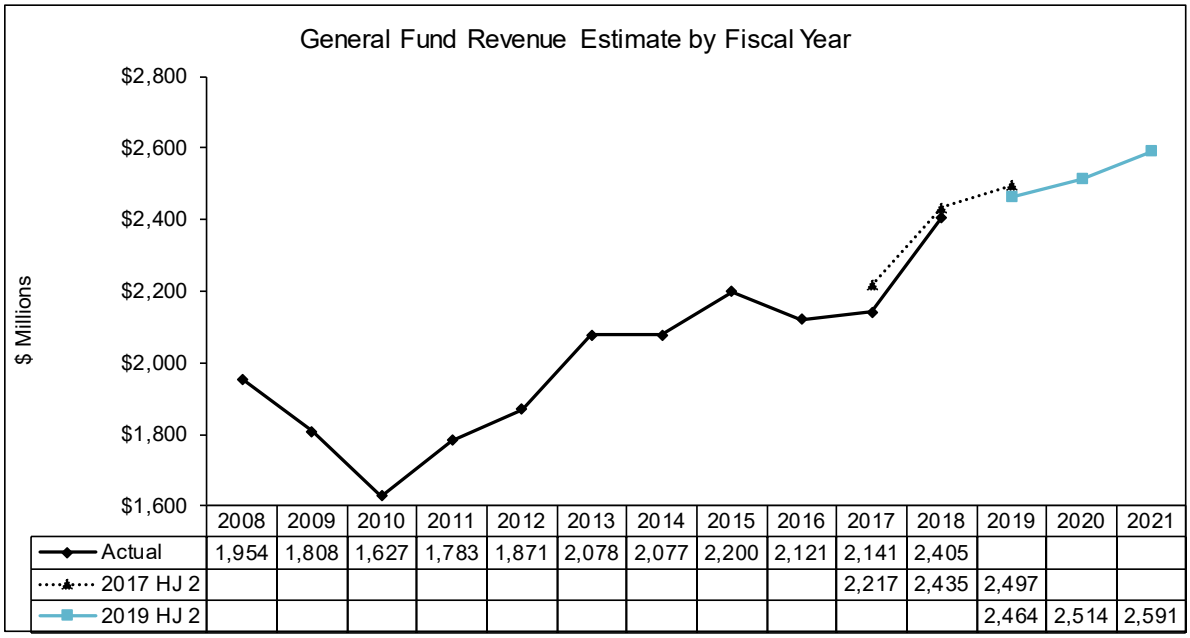
The HJ 2 revenue estimate does not anticipate any additional one-time revenue from potential delayed income realization due to taxpayer choices as described above. If taxpayers realize above-trend business profits or other types of income, revenue collections could be higher than estimated; however, the additional revenue would likely be one-time, not ongoing.

General Fund Revenue

The largest seven sources of general fund revenue are individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2018, these sources accounted for 85.0% of general fund revenue. Details of all general fund and selected non-general fund revenue sources are contained in the Legislative Fiscal Division's 2021 Biennium Budget Analysis: Volume 2.

GENERAL FUND REVENUE ESTIMATES AS ADOPTED BY RTIC

In November 2018, RTIC heard the revenue estimate recommendations from OBPP and LFD, which were quite close: the OBPP recommendation was $46.3 million or 0.6% below LFD over the three-year forecast. The committee adopted the LFD estimate and corresponding assumptions, with an adjustment in corporate tax that essentially resulted in an average of the two estimate recommendations. Comparison of actual collections since FY 2008, the estimates contained in HJ 2 (2017 Session), and the RTIC 2021 biennium estimate recommendation are shown in the chart below. The RTIC estimate for annual growth in general fund revenue for FY 2019 is 2.4%, for FY 2020 is 2.0%, and for FY 2021 is 3.1%.



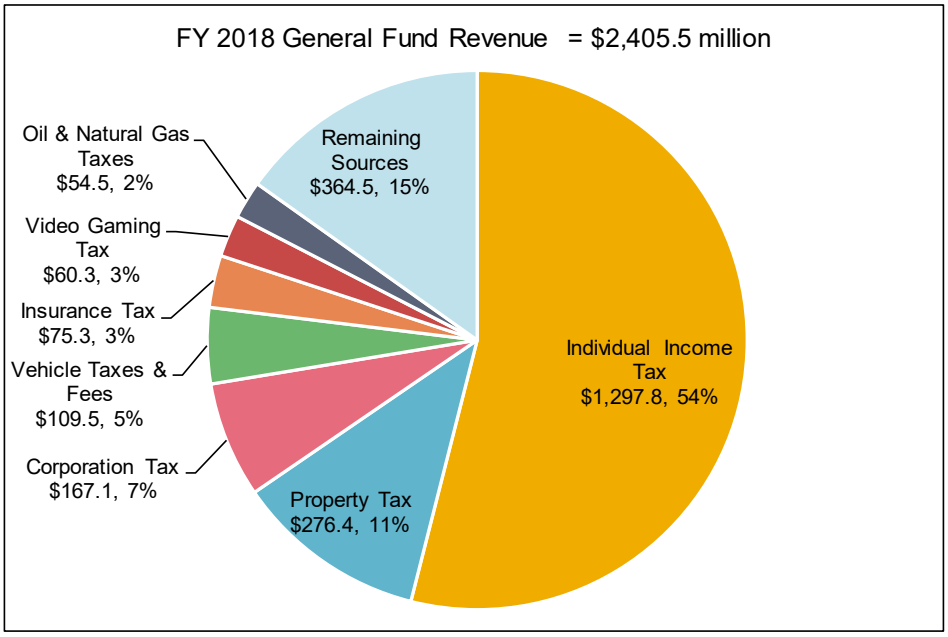
The table below shows the annual detail for the top seven general fund revenue sources and subtotal of remaining sources, as well as a breakout of ongoing and one-time-only revenue.

General Fund Revenue Estimates as Adopted by RTIC
($ Millions)

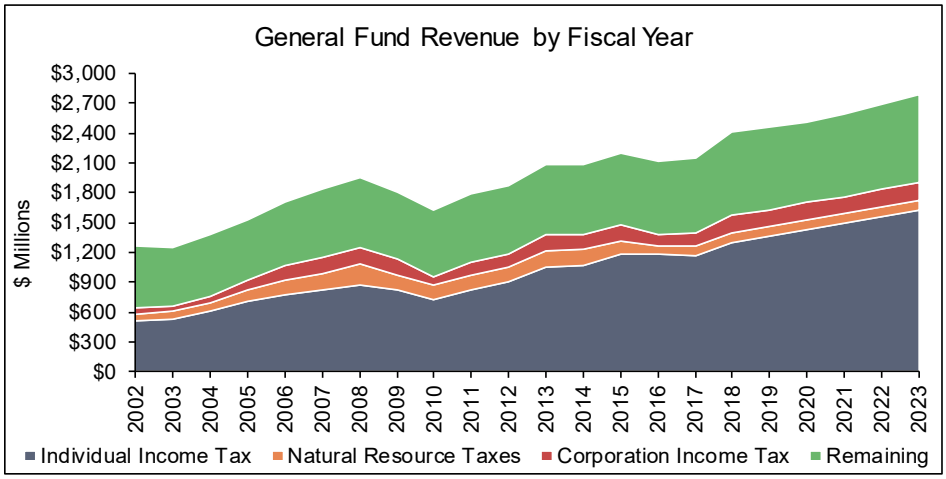
Source of Revenue	Actual FY 2018	Estimated FY 2019	Estimated FY 2020	Estimated FY 2021	Estimated 2019 Bien	Estimated 2021 Bien
Individual Income Tax	$1,297.8	$1,359.1	$1,425.9	$1,490.0	$2,656.8	$2,916.0
Property Tax	276.4	283.2	302.5	309.1	559.6	611.6
Corporation Income Tax	167.1	160.8	165.9	167.2	327.9	333.1
Vehicle Taxes & Fees	109.5	111.5	113.0	114.2	221.1	227.1
Oil & Natural Gas Production Tax	54.5	60.0	56.7	53.1	114.6	109.7
Insurance Tax & License Fees	75.3	77.5	81.2	83.9	152.7	165.1
Video Gambling Tax	60.3	60.2	60.2	60.2	120.5	120.4
Remaining Sources	364.5	351.2	308.2	313.0	715.7	621.2
Ongoing Revenue Subtotal	2,333.6	2,412.5	2,513.6	2,590.7	4,746.1	5,104.2
OTO Revenue & Transfers Subtotal	71.8	51.0			122.9	-
Total General Fund	$2,405.4	$2,463.5	$2,513.6	$2,590.7	$4,869.0	$5,104.2

GENERAL FUND REVENUE

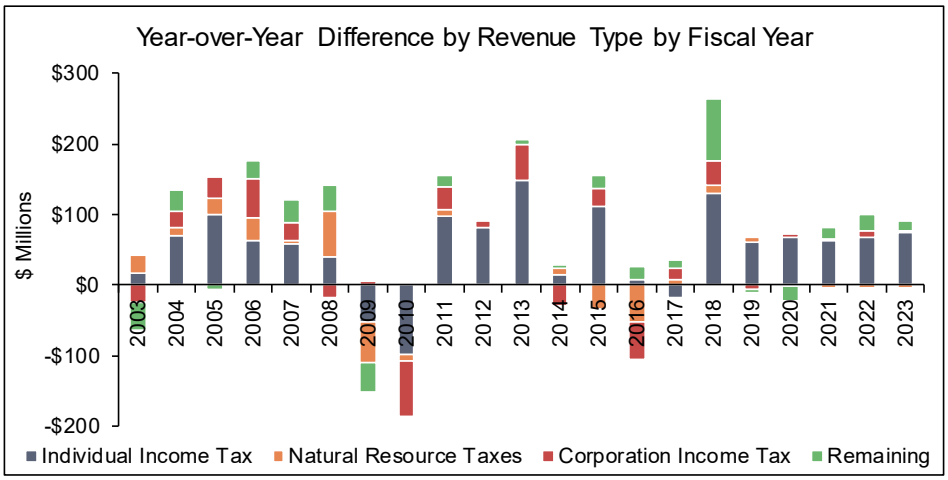
The largest seven sources of general fund revenue are individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2018, these sources accounted for 85.0% of general fund revenue. Details of all general fund and selected non-general fund revenue sources are contained in the Legislative Fiscal Division's 2021 Biennium Budget Analysis: Volume 2.



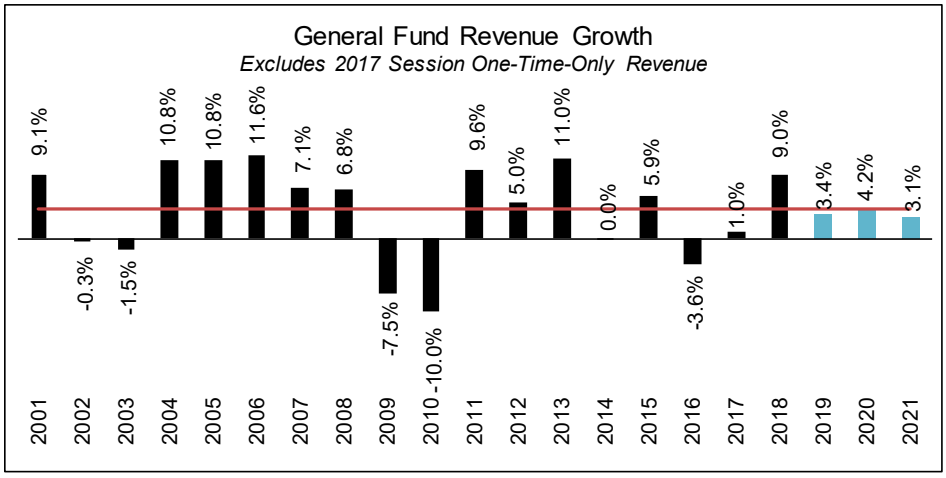
Individual income tax has been a growing share of total general fund revenue since FY 2002, as illustrated in the chart below. In FY 2002, it accounted for 40.9% of general fund revenue; by FY 2018, it grew to account for 54.0%. Based on the revenue estimates adopted by RTIC, it is anticipated to grow to 57.5% of general fund revenue in FY 2021. The LFD extended forecast suggests that individual income will grow further as a share of general fund revenue to 58.7% in FY 2023.



The following chart shows the year-over-year difference by the three largest contributing sources to volatility, as a percentage of the previous fiscal year's total general fund revenue. Although individual income as the largest source of revenue typically also produced the largest year-over-year change in revenue, corporation income tax and natural resource taxes are significant contributors.



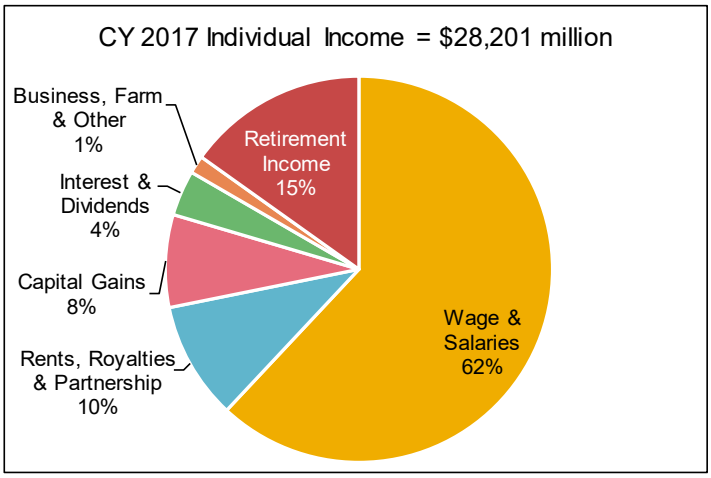
The chart below shows the annual percent change in revenue, with actual values shown in black and the estimate growth as adopted by RTIC shown in blue. Note that the one-time-only revenue in the 2019 biennium has been excluded from the growth rate calculations.



Five of the top seven tax sources, the significant economic drivers and their influence on the general fund are highlighted in the following sections. More details on all sources of revenue can be found in the Legislative Fiscal Division's 2021 Biennium Budget Analysis: Volume 2.

INDIVIDUAL INCOME TAX

The individual income tax is levied against taxable income, which is defined as total Montana income adjusted for exemptions and deductions. In 2017, full year resident income totaled $28.2 billion. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income.

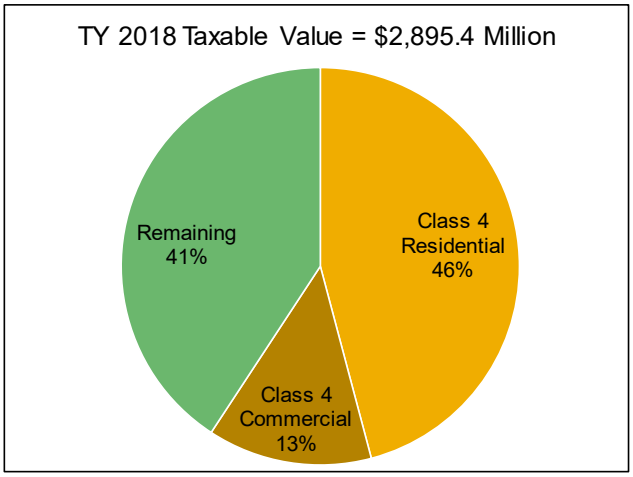


Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. The effective tax rate on capital gains income is less than the tax rate on ordinary income by 2%, due to the 2% capital gains tax credit. Wage income accounts for nearly two-thirds of total individual income, while withholding tax on wages accounts for about one-third of total general fund revenue. Growth in the 2021 biennium is driven by growth in wage income, as well as strong growth in retirement income and partnership income.

Individual income tax collections grew very slowly in FY 2016 and declined slightly in FY 2017—in contrast to the tight labor market and growing economy. Much of the discussion regarding this discrepancy has focused on taxpayer behavior following the 2016 national elections and potential taxpayer anticipation of lower federal tax rates. The HJ 2 estimate incorporates the baseline economic outlook from IHS Markit and does not include any adjustments for the potential shifting of income into CY 2018, so there may be upside revenue risk in FY 2019; however, the additional revenue would likely be one-time-only rather than ongoing.

PROPERTY TAX

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate.

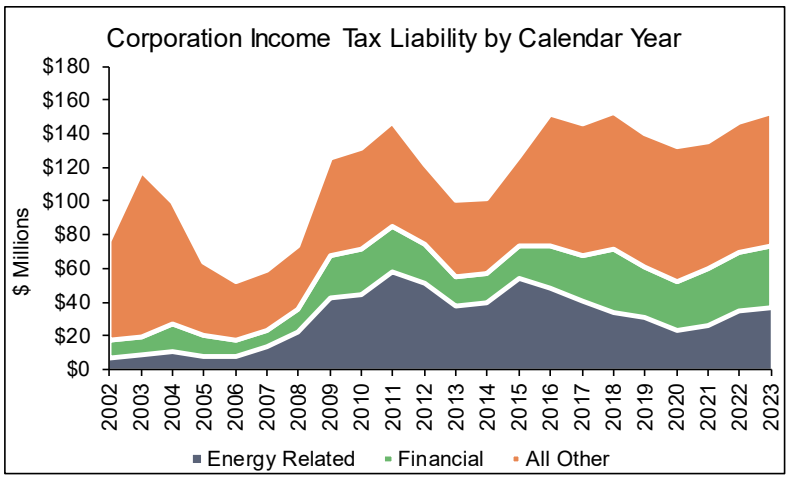


Class 4 commercial and residential property, and class 3 agricultural property, are reappraised every two years with no phase-in of the new value. Class 10 timber land is on a six-year reappraisal cycle with a 1/6th phase in of value per year. Agricultural land and timberland continues to be valued on a productivity basis.

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed based on mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

CORPORATE INCOME TAX

The corporate income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits. Financial, retail, and energy related sectors are the largest sources of tax liability. Primary economic drivers of this source include oil prices, median house price, and retail sales. The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income

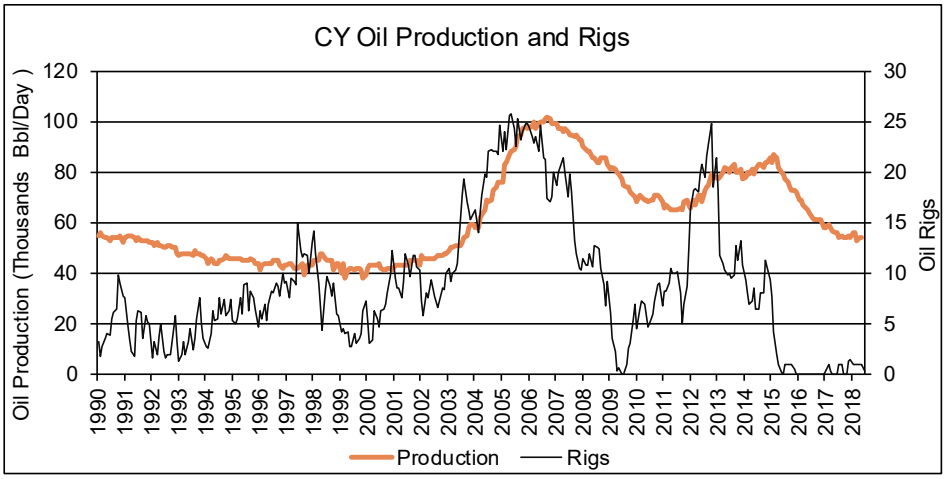


Corporation income tax revenues are quite volatile from year to year, resulting in a revenue stream that is difficult to predict. The volatility can be attributed to many factors: sensitivity of corporation income to business cycles, industry composition in the state, reliance on a limited number of large taxpayers, and federal and state tax policy.

Corporate income tax changes due to the federal Tax Cuts and Jobs Act is likely to have an impact on collections at the state level, but the timing is uncertain. Both upside and downside risks come with the new federal provisions. Corporations' abilities to further accelerate expensing could reduce collections. However, a larger taxable base at the state level could increase collections. The HJ 2 estimate is based on sector-based model per the research detailed in the LFD's Standard Error Analysis and includes an adjustment for the potential accelerated expensing as a result of the federal tax changes.

OIL & NATURAL GAS PRODUCTION TAX

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. The gross taxable value of oil and natural gas production is based on the type of well and type of production, and whether the production occurs within the tax holiday.

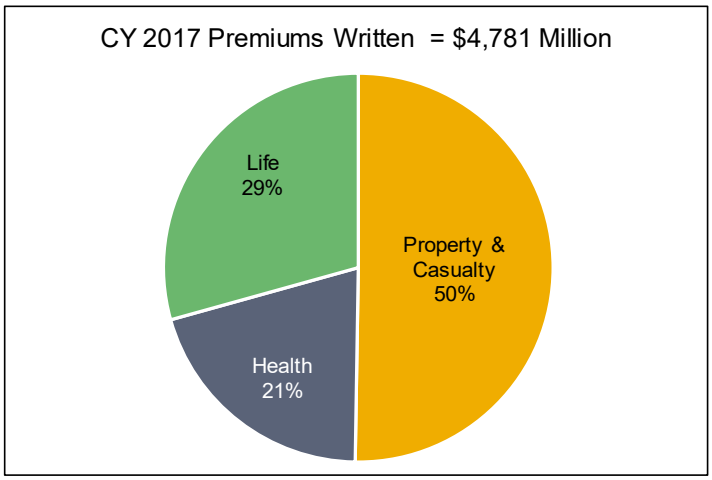


Since the beginning of FY 2016, there has been at most two drilling rigs operating in the state, as shown in the chart above. The reduction in the number of active rigs is having an effect on production, as it has been declining for nearly three years; however, the rate of decline has slowed in the past year.

In FY 2019, revenue from this source is anticipated to increase is due to higher price. Revenue is expected to flatten over the 2021 biennium, as slight increases in the price will be offset by continued slow declines in production. HJ 2 assumes West Texas Intermediate oil prices per barrel of $73 in 2019, $68 in 2020, and $68 in 2021, and includes an 12% discount for the Montana price.

INSURANCE TAX

Most insurance tax collections come from 2.75% tax on net premiums sold. There is an additional 2.5% tax levied on fire insurance premiums sold, and several small fees.



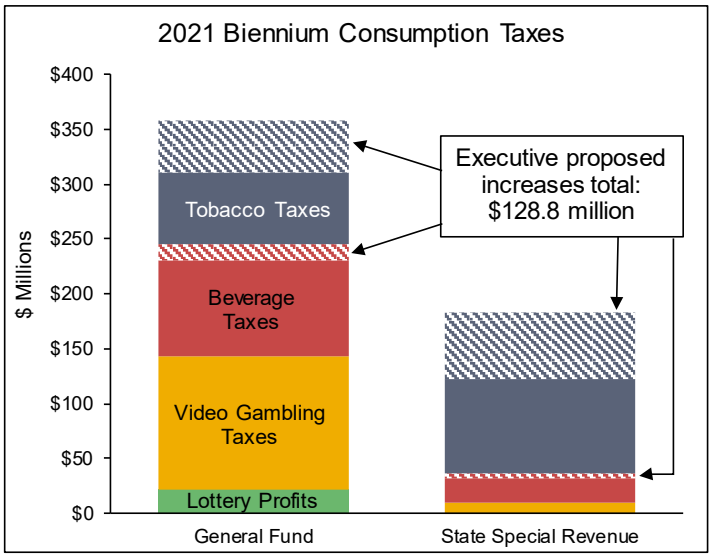
The adjacent chart illustrates the share of premiums written by major type of insurance. In CY 2017, property and casualty insurance accounted for half of premiums written.

Although changes in federal health care policy may impact this revenue source, the overall change in revenue is likely to be small relative to total collections. Within health insurance taxed premiums in CY 2017, individual premiums accounted for 30%, small group plans accounted for 23%, and large group plans accounted for 46%.

HJ 2 is based on current law, but does not assume a change in consumer behavior if the HELP Act sunsets at the end of FY 2019. There could be additional insurance tax revenue collected if a portion of HELP Act enrollees switch to individual plans.

CONSUMPTION TAXES

Consumption taxes—including video gambling, cigarette and other tobacco products, and beer, wine, and liquor taxes—have been trending down as a share of general fund revenue from 8.7% in FY 2004 to 6.0% in FY 2018; based on the HJ 2 estimate, they are anticipated to be 5.7% by the end of FY 2021. Although the majority of each of the consumption taxes is deposited in the general fund, several of the tax types have significant allocations go to various state special revenue accounts.



The executive budget includes several proposals related to consumption taxes: increasing liquor excise tax from 16% to 20.8%, increasing liquor license tax from 10% to 13%; increasing the cigarette tax by $1.50 per pack from $1.70 to $3.20; increasing the tax on moist snuff by $1.82 per ounce from $0.85 to $2.67; increasing other tobacco product taxes from 50% of the wholesale price to 94%; and making e-cigarette juice or other vapor consumption products taxable. Consumption tax revenue by type is shown in the above chart, with the executive proposals indicated with thatched areas.

Other Revenue Sources with Proposed Executive Changes

Lodging Tax

The state imposes two taxes on room charges collected by lodging facilities and campgrounds: a 3% lodging sales tax and a 4% lodging facility use tax. The taxes only apply for rooms used for lodging which includes hotels, motels, campgrounds, resorts, and bed and breakfast facilities. The 3% lodging sales tax also applies to online travel agencies, and exempts sales to the U.S. government.

Statistics	State Lodging & Sales Tax Rate	Max Local Lodging Tax Rate	Max Local Sales Tax Rate	Max State & Local Lodging & Sales Tax
All States Average Tax	6.3%	6.2%	2.5%	14.6%
All States Median Tax	6.0%	6.0%	2.0%	14.5%
Maximum Tax	15.0%	16.0%	8.3%	27.0%
Montana Tax	7.0%	0.0%	3.0%	10.0%
Executive Proposal	8.0%	0.0%	3.0%	15.0%
Montana Rank	12	42	17	45
Montana Rank if Adjusted	10	42	17	43

The executive budget proposes combining the two taxes and increasing the general fund portion of the total lodging tax from 3% of sales to 4%. Total lodging taxes would be 8%. The table above compares current and proposed Montana lodging tax rates to the combined lodging and sales tax rates of other states.

Rental Car Tax

The 4% sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. Rental vehicles include light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax.

Statistics	Sales Tax Rates on Rental Cars
All States Average Tax	5.2%
All States Median Tax	6.0%
Maximum Tax	7.3%
Montana Tax	4.0%
Executive Proposal	6.0%
Montana Rank	40
Montana Rank if Adjusted	16

The executive budget proposes increasing the rental car sales tax rate from 4% to 6%. The adjacent table compares current and proposed Montana rental car sales tax rates to the sales tax rates of other states.

Investment License Tax

Investment advisors and investment companies pay fees to the state for registration of securities and agents, registration of securities by notification, notice of a federal filing of a federally secured security, and name changes.

Initial and annual registration fees for a broker-dealer, investment adviser, and federal covered adviser are $200. Initial and annual registration fees for a salesperson or investment adviser are $50. The fee for name changes to series, portfolio, or a subdivision of an investment company is $50.

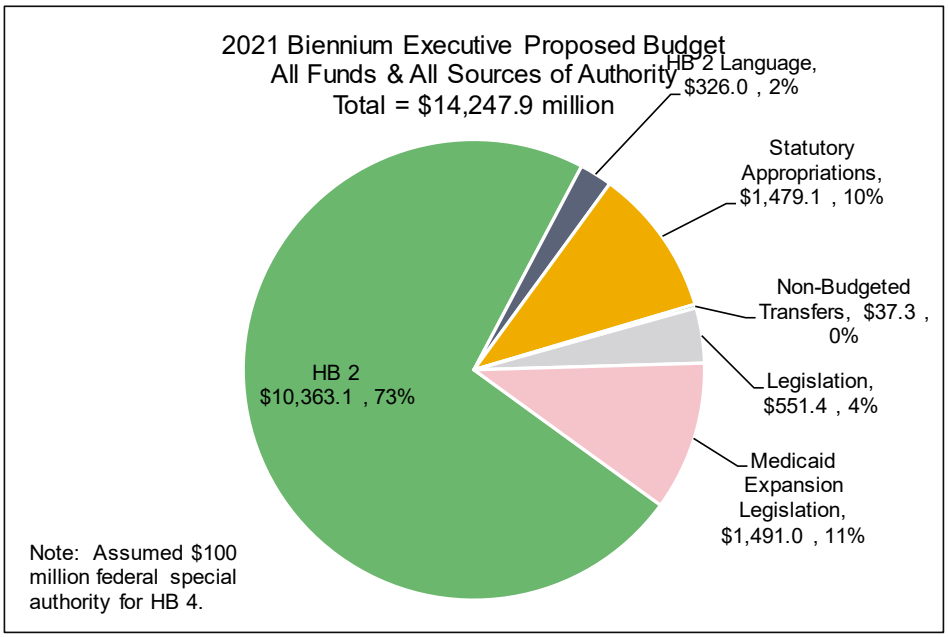
Statistics	Firm License Fee $/Year	Individual License Fee $/Year
All States Average	$207	$64
All States Median	$200	$50
Maximum	$400	$285
Montana Fee	$200	$50
Executive Proposal	$400	$100
Montana Rank	23	21
Montana Rank if Adjusted	1	8

The executive budget proposes doubling the fee amounts to $400 and $100. The adjacent table compares current and proposed Montana firm and individual license fees to the fees of other states. Staff at the Montana State Auditor's Office has previously noted that based on recent research from their office, raising investment license fees significantly may result in a decline in revenue due to fewer out-of-state representatives registering in Montana.

STATE EXPENDITURES

EXECUTIVE PROPOSED SPENDING BY SOURCE OF AUTHORITY

The following chart shows the executive budget broken down by appropriation source. HB 2 dominates the appropriation sources for total funds at 77% of total authority.



Executive Proposals

Most of the executive budget is proposed in HB 2 and is detailed in the next section of this report, HB 2 expenditures.

The executive proposes to continue the Medicaid expansion program for a proposed cost of $1,491 million shown in the pink slice of the pie.

Statutory appropriations primarily consist of payments made to local governments and retirement systems for teachers, state and public safety employees.

Other legislation is comprised of proposed new legislation for the 2021 biennium, the bulk of which is Long-Range Building Program bills, and proposals for a pay plan for state employees, and continuing authority for federal grants. Please note: HB 3, which impacts FY 2019, is included in legislation as it is part of the executive proposal.

HB 2 language appropriations are dominated by proposed language for the Department of Revenue liquor warehouse operations.

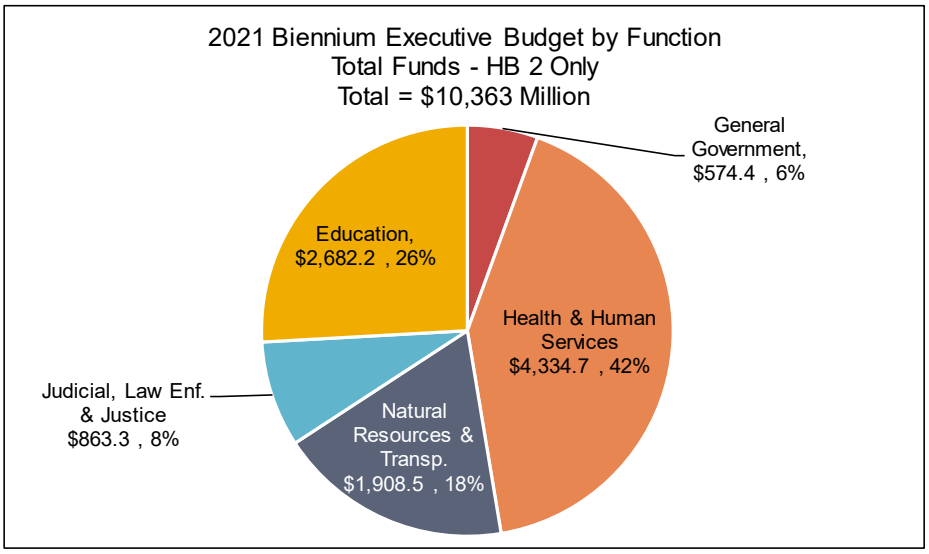
Non-budgeted general fund transfers proposals primarily continue State Fund payments for medical benefits relating to Libby asbestos claims.

HB 2 FUNDING

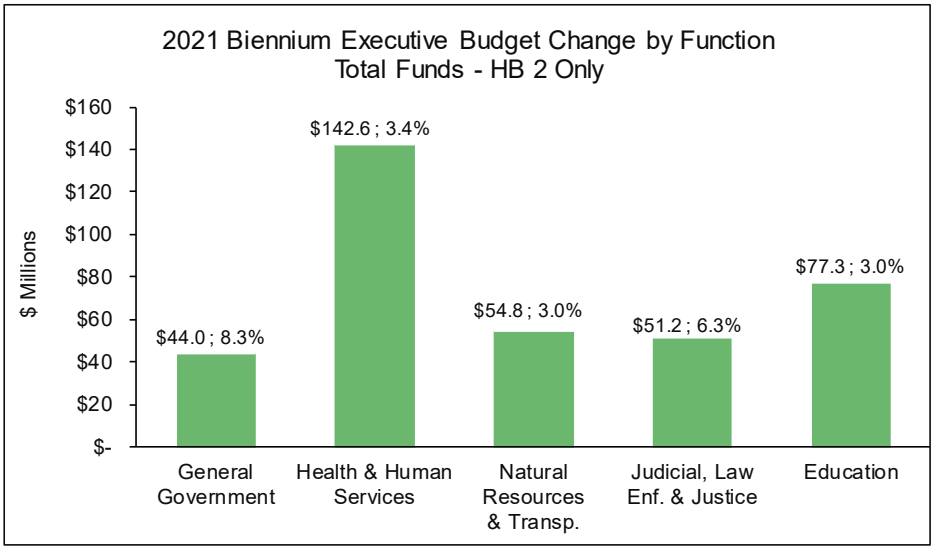
HB 2 is the general appropriations bill, in which the executive proposes the majority of general fund and total funds appropriated by the legislature in the 2021 biennium.

FUNDING BY FUNCTIONAL AREA

The legislature uses functional areas of state government when considering HB 2. The following figure shows the allocation of total funds proposed in HB 2 by functional area. Education and health and human services account for 67.7% of the total.



The following chart shows the changes between the 2019 and 2021 biennia in HB 2 total funds by functional area.



Overall, the executive proposes a 2021 biennium budget for HB 2 that is 3.7% or $370.0 million higher than the 2019 biennium appropriated budget. The largest percentage growth is for general government, growing at 8.3% but with the smallest actual growth of $44.0 million. The largest overall increase is for health and human services with $142.6 million, for an increase of 3.4%, with the following changes to the FY 2019 base being the major reasons:

- A caseload increase for foster care, guardianships and adoption of $44.2 million
- Provider rate increases of $38.8 million
- An increase for a waiver in Disability Services Division totaling $24.2 million
- Medicaid caseload increase totaling $21.7 million
- Personal Services are increased in statewide present law by a total of $21.5 million
- In addition to other increases, there are a variety of decreases that partially, including a reduction of $14.9 million for waiver services in Senior & Long Term Care

The budgets for all agencies are discussed further in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis.

The following table shows the difference from 2019 biennium appropriations as compared to those included in the executive's proposed 2021 biennium budget. One-time-only funding has been segregated from ongoing expenditures.

The table shows a total growth of 3.7%, which is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 2.4%.

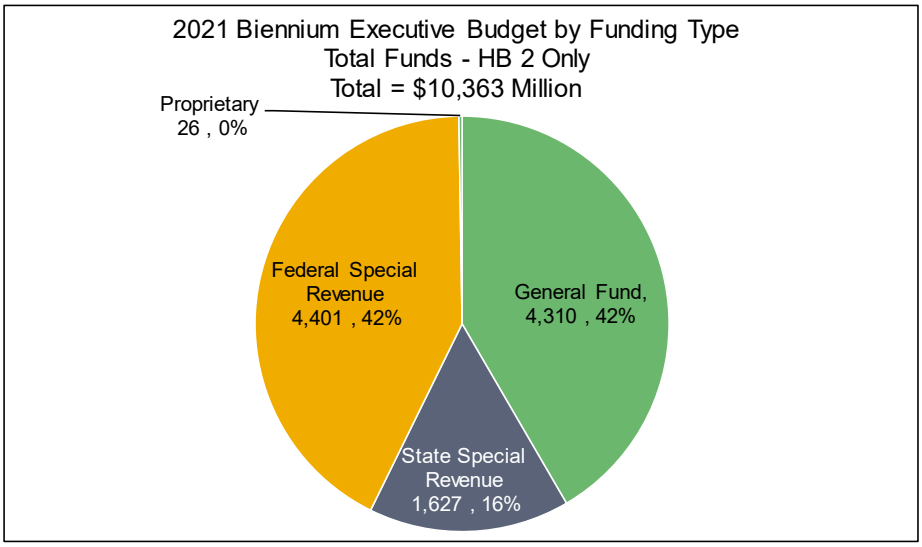
HB 2 Only - All Funds Agency Comparison
Comparision of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget
($ Millions)

	Appropriated Budget		Executive Proposed Budget		Biennium
	FY 2018	FY 2019	FY 2020	FY 2021	% Change
Ongoing					
General Government					
Legislative Branch	$14.738	$15.492	$17.615	$17.182	15.1%
Consumer Counsel	1.621	1.641	1.652	1.651	1.3%
Governor's Office	5.910	6.427	7.061	6.994	13.9%
Commissioner of Political Practices	0.581	0.662	0.863	0.850	37.9%
State Auditor's Office	8.213	8.426	8.889	8.939	7.1%
Department of Revenue	53.697	57.280	61.463	61.265	10.6%
Department of Administration	17.521	17.505	18.700	18.490	6.2%
Department of Commerce	26.441	26.803	32.018	32.062	20.4%
Department of Labor and Industry	80.066	82.188	86.112	86.048	6.1%
Department of Military Affairs	47.848	48.896	51.623	51.548	6.6%
Subtotal	256.637	265.319	285.995	285.032	9.4%
Health and Human Services					
Department of Public Health & Human Services	2,045.224	2,122.564	2,118.434	2,216.229	4.0%
Subtotal Health and Human Services	2,045.224	2,122.564	2,118.434	2,216.229	4.0%
Natural Resources and Transportation					
Department of Fish, Wildlife, and Parks	86.602	88.576	95.042	95.099	8.5%
Department of Environmental Quality	61.219	63.699	66.250	66.256	6.1%
Department of Transportation	673.116	673.759	683.104	684.024	1.5%
Department of Livestock	11.211	11.714	13.353	13.306	16.3%
Department of Natural Resources & Conservation	62.204	65.280	73.210	73.717	15.3%
Department of Agriculture	17.370	17.840	18.610	18.564	5.6%
Subtotal	911.723	920.869	949.570	950.966	3.7%
Judicial Branch, Law Enforcement, and Justice					
Judical Branch	46.884	48.722	53.068	53.136	11.1%
Department of Justice	96.848	101.168	107.315	106.748	8.1%
Public Service Commission	3.984	3.675	4.863	4.840	26.7%
Office of the Public Defender	31.509	31.537	37.482	38.062	19.8%
Department of Corrections	220.994	220.674	227.564	228.368	3.2%
Subtotal	400.219	405.777	430.292	431.153	6.9%
Education					
Office of Public Instruction	957.538	979.186	1,023.652	1,051.867	7.2%
Board of Public Education	0.323	0.331	0.356	0.339	6.2%
Office of the Commissioner of Higher Education	312.048	315.199	280.393	282.449	-10.3%
School for the Deaf and Blind	7.168	7.303	8.079	8.059	11.5%
Montana Arts Council	1.411	1.463	1.509	1.480	4.0%
Montana State Library	5.086	5.163	5.587	5.231	5.6%
Montana Historical Society	4.857	4.953	5.553	5.517	12.8%
Subtotal	1,288.431	1,313.598	1,325.129	1,354.943	3.0%
Subtotal Ongoing	4,902.233	5,028.127	5,109.420	5,238.324	4.2%
One-Time*					
General Government	4.197	4.289	2.025	1.375	-59.9%
Health and Human Services	12.706	11.537	-	-	-100.0%
Natural Resources and Transportation	9.272	11.754	5.283	2.641	-62.3%
Judicial Branch, Law Enforcement, and Justice	2.677	3.426	1.315	0.565	-69.2%
Education	1.449	1.419	1.063	1.063	-25.9%
Subtotal One-time	30.301	32.425	9.686	5.644	-75.6%
Total Submitted HB 2	$4,932.534	$5,060.552	$5,119.106	$5,243.967	3.7%

TYPE OF FUNDING

The largest source of funding for operations of state government in HB 2 is federal funds at 42.5% of the total, followed by general fund at 41.6%.

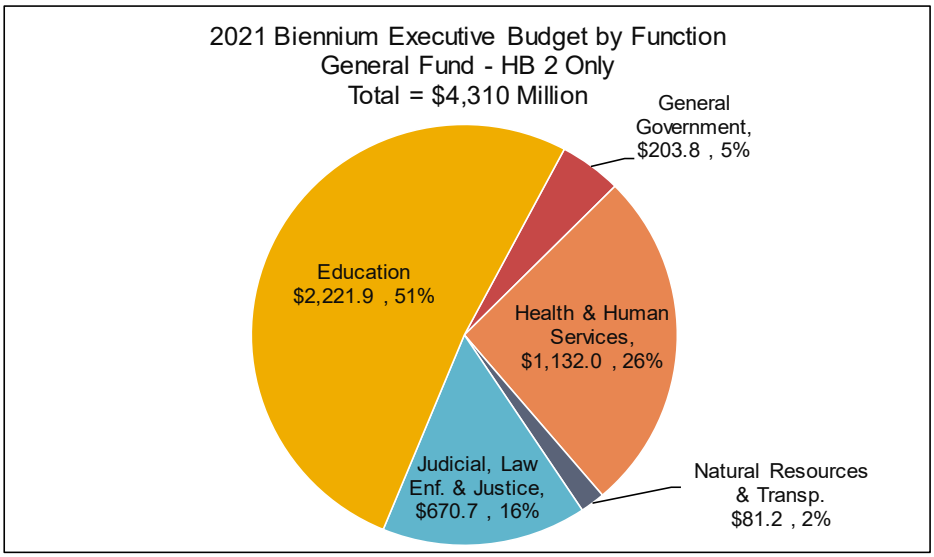
The following figure illustrates the executive funding appropriations for HB 2.



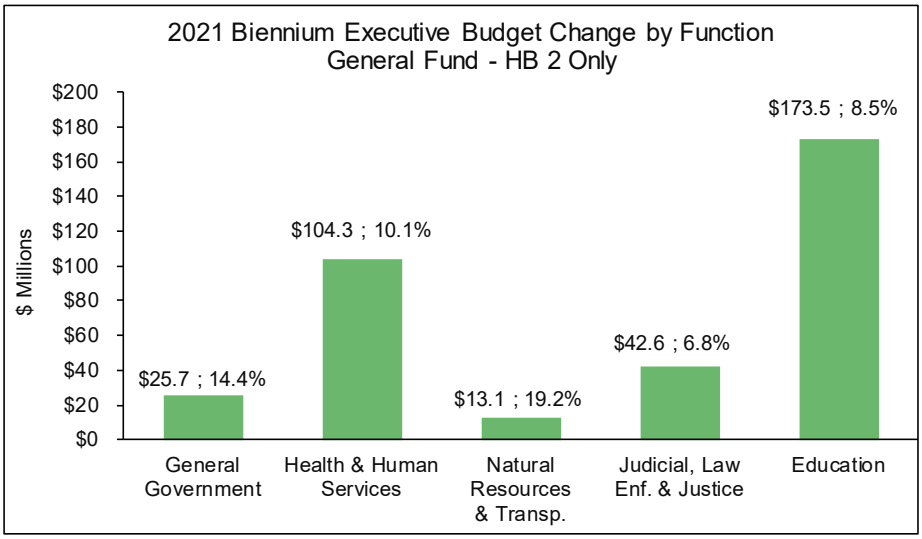
The three primary funding sources in HB 2—general fund, state special revenue, and federal funds—are discussed in the following sections.

General Fund

The following chart shows total HB 2 general fund expenditures as proposed by the executive, by government functional area. Education, health and human services, and the Judicial Branch, law enforcement, and justice are 93.4% of the total proposed expenditures.



The following chart shows the total changes from the 2019 biennium, by functional area. As shown, the changes provide for increases in all sections, with the largest overall increases for education and health & human services, which together account for 77.5% of the proposed growth in general fund expenditures. The largest percentage increase is in natural resources, where a $13.1 million increase would result in a 19.2% increase from the 2019 biennium.



The Governor proposes to increase ongoing general fund expenditures by $380.4 million. Proposals for $8.2 million of one-time-only general fund are $21.2 million lower than those included in the 2019 biennial general fund budget, resulting in a total general fund increase of $359.2 million or 7.0% when compared to 2019 biennium appropriations.

The largest increase is for education, which is driven by a $127.9 million increase for the Office of Public Instruction, driven primarily by present law inflation that provides $70.7 million for K-12 BASE aid. Also included is $22.0 million for preschool.

Health and human services general fund appropriations would increase by $104.3 million, which is the result of $28.9 million for foster care, guardianship, and adoption caseload growth, $12.0 million for provider rate increases, $8.5 million for changes to the federal Medicaid matching rate (FMAP) and provider rate increases, $8.0 million for STARS preschool, $7.8 million for a personal services adjustment, and $7.1 million for Medicaid caseload increases.

The next figure shows general fund appropriations by agency compared to the 2019 biennium.

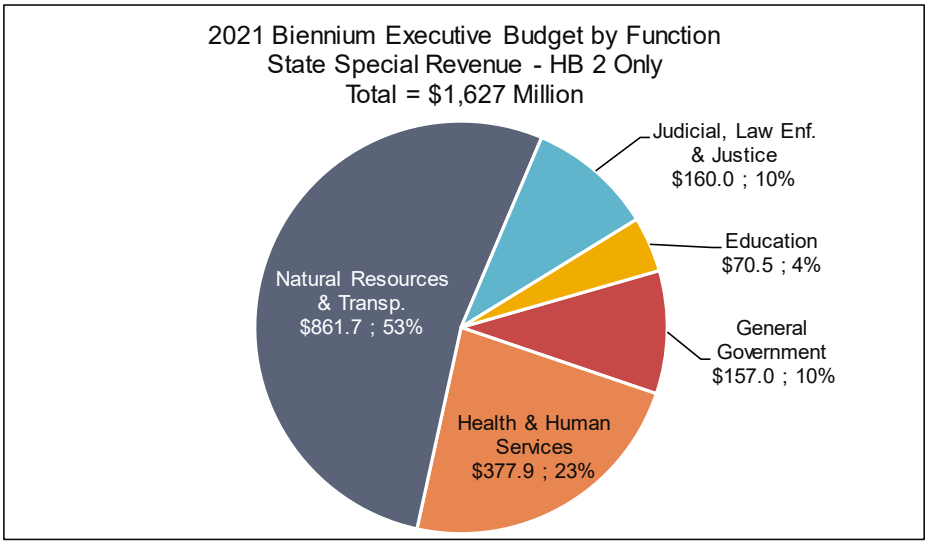
HB 2 Only - General Fund Agency Comparison Comparison of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget ($ Millions)					
	Appropriated Budget		Executive Proposed Budget		Biennium
	FY 2018	FY 2019	FY 2020	FY 2021	% Change
Ongoing					
General Government					
Legislative Branch	$12.538	$13.260	$15.071	$15.024	16.7%
Governor's Office	5.910	6.427	7.061	6.994	13.9%
Commissioner of Political Practices	0.581	0.662	0.863	0.850	37.9%
Department of Revenue	49.334	52.824	56.701	56.498	10.8%
Department of Administration	4.797	5.610	6.187	6.119	18.2%
Department of Commerce	2.889	3.201	5.542	5.548	82.1%
Department of Labor and Industry	1.567	1.792	1.973	1.973	17.5%
Department of Military Affairs	5.936	6.540	7.139	7.105	14.2%
Subtotal	83.552	90.316	100.537	100.110	15.4%
Health and Human Services					
Department of Public Health & Human Services	488.273	521.882	551.846	580.187	12.1%
Subtotal	488.273	521.882	551.846	580.187	12.1%
Natural Resources and Transportation					
Department of Environmental Quality	4.566	5.200	5.453	5.451	11.7%
Department of Livestock	2.248	2.562	3.112	3.111	29.4%
Department of Natural Resources & Conservation	24.774	26.921	30.250	30.197	16.9%
Department of Agriculture	0.680	0.738	0.858	0.811	17.8%
Subtotal	32.269	35.420	39.673	39.570	17.1%
Judicial Branch, Law Enforcement, and Justice					
Judical Branch	44.213	46.742	50.562	50.666	11.3%
Department of Justice	30.730	34.168	36.860	36.780	13.5%
Office of the Public Defender	31.509	31.537	37.482	38.062	19.8%
Department of Corrections	201.231	202.818	209.350	209.932	3.8%
Subtotal	307.683	315.264	334.255	335.440	7.5%
Education					
Office of Public Instruction	778.405	798.679	844.678	868.801	8.6%
Board of Public Education	0.137	0.142	0.173	0.157	18.4%
Office of the Commissioner of Higher Education	220.704	223.986	238.214	239.707	7.5%
School for the Deaf and Blind	6.757	6.886	7.612	7.592	11.4%
Montana Arts Council	0.479	0.516	0.551	0.523	7.9%
Montana State Library	2.149	2.186	2.582	2.560	18.6%
Montana Historical Society	2.593	2.662	3.309	3.267	25.1%
Subtotal	1,011.224	1,035.057	1,097.120	1,122.606	8.5%
Subtotal Ongoing	1,923.000	1,997.940	2,123.431	2,177.915	9.7%
One-Time					
General Government	2.122	2.114	1.900	1.250	-25.6%
Health and Human Services	8.783	8.808	-	-	-100.0%
Natural Resources and Transportation	0.207	0.207	0.978	0.978	372.5%
Judicial Branch, Law Enforcement, and Justice	2.177	2.926	0.500	0.500	-80.4%
Education	1.062	1.032	1.063	1.063	1.5%
Subtotal One-time	14.351	15.086	4.441	3.791	-72.0%
Total	$1,937.352	$2,013.026	$2,127.872	$2,181.705	9.1%

The table shows a total growth of 9.1%, which is significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 7.0%.

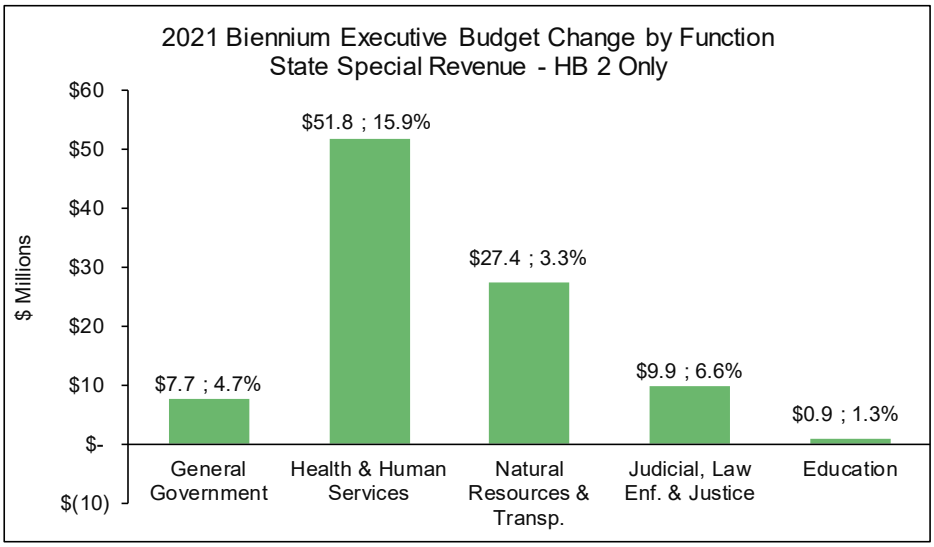
General fund adjustments are discussed in more detail in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis, along with any analysis comments or issues. Each of the one-time-only proposals is also explained more fully in Volumes 3-6.

State Special Revenue

State special revenue is earmarked for specific purposes and totals $1,627 million or 15.7% of total proposed expenditures in the 2021 biennium in HB 2. The following figure shows total state special revenues by function for HB 2 only. The usage of these funds varies significantly from general fund, where natural resources receives only a small portion, while 53.0% of the state special revenue authority is allocated to natural resources.



The following chart shows the proposed change from the previous biennium, by function of state government. The executive budget would increase state special revenue authority by $97.7 million when compared to 2019 biennium appropriations.



The executive budget proposes increasing ongoing expenditures by $112.8 million or 7.5% while decreasing proposed one-time-only appropriations by $15.2 million or a reduction of 74.0%. The resulting total state special revenue increase would be $97.7 million, which is a growth of 6.0%.

The increase of $51.8 million for health and human services is due to a variety of factors, including:

- A federal match rate change that the executive is proposing to cover with $35.2 million from tobacco settlement funds and a tobacco tax increase for the Children's Health Insurance Program (CHIP)
- An increase for veterans' homes from tobacco taxes that includes $3.5 million for the SW MT Veterans' Home, and a $2.3 million increase for the MT Veterans' Home

- An increase of $3.8 million for the medical marijuana program, utilizing fees established by the 2017 Legislature

The largest contributor to the overall increase for natural resources is an increase of $14.0 million from the general license account in the Department of Fish, Wildlife and Parks.

The next figure compares state special revenue appropriations by agency in the proposed 2021 biennium budget to the 2019 biennium.

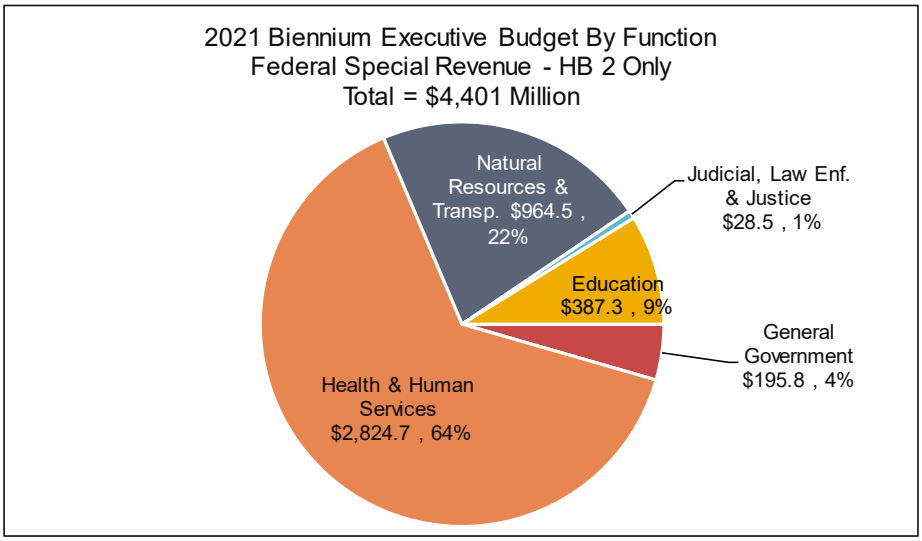
HB 2 Only - State Special Revenue Agency Comparison Comparision of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget ($ Millions)					
	Appropriated Budget		Executive Proposed Budget		Biennium
	FY 2018	FY 2019	FY 2020	FY 2021	% Change
Ongoing					
General Government					
Legislative Branch	$2.20	$2.23	$2.54	$2.16	6.1%
Consumer Counsel	1.62	1.64	1.65	1.65	1.3%
State Auditor's Office	8.21	8.43	8.89	8.94	7.1%
Department of Revenue	0.96	0.96	1.01	1.01	5.0%
Department of Administration	6.50	6.67	7.13	7.12	8.2%
Department of Commerce	5.48	5.49	5.42	5.40	-1.3%
Department of Labor and Industry	46.10	47.29	50.98	50.91	9.1%
Department of Military Affairs	0.74	0.78	1.11	1.11	46.2%
Subtotal	71.81	73.49	78.73	78.30	8.1%
Health and Human Services					
Department of Public Health & Human Services	160.00	166.14	180.51	197.39	15.9%
Subtotal	160.00	166.14	180.51	197.39	15.9%
Natural Resources and Transportation					
Department of Fish, Wildlife, and Parks	63.64	64.94	69.74	69.75	8.5%
Department of Environmental Quality	34.06	35.46	37.09	37.11	6.7%
Department of Transportation	256.48	248.69	257.31	257.60	1.9%
Department of Livestock	7.26	7.40	8.38	8.33	14.0%
Department of Natural Resources & Conservation	35.15	36.05	40.05	40.11	12.6%
Department of Agriculture	15.06	15.42	15.88	15.88	4.2%
Subtotal	411.65	407.96	428.46	428.79	4.6%
Judicial Branch, Law Enforcement, and Justice					
Judical Branch	2.57	1.88	2.40	2.37	7.2%
Department of Justice	62.93	63.71	67.04	66.56	5.5%
Public Service Commission	3.81	3.50	4.59	4.57	25.2%
Department of Corrections	5.39	5.31	5.66	5.89	8.0%
Subtotal	74.70	74.40	79.70	79.38	6.7%
Education					
Office of Public Instruction	9.53	9.54	6.61	9.70	-14.5%
Board of Public Education	0.19	0.19	0.18	0.18	-2.8%
Office of the Commissioner of Higher Education	21.72	21.49	23.62	24.08	10.4%
School for the Deaf and Blind	0.34	0.35	0.29	0.29	-17.1%
Montana Arts Council	0.23	0.24	0.24	0.24	3.4%
Montana State Library	1.73	1.76	1.78	1.80	2.4%
Montana Historical Society	0.77	0.77	0.77	0.77	0.1%
Subtotal	34.51	34.34	33.49	37.06	2.5%
Subtotal Ongoing	752.68	756.32	800.89	820.91	7.5%
One-Time					
General Government	1.95	2.05	-	-	-100.0%
Health and Human Services	-	-	-	-	0.0%
Natural Resources and Transportation	5.84	8.85	3.19	1.25	-69.8%
Judicial Branch, Law Enforcement, and Justice	0.50	0.50	0.82	0.07	-12.0%
Education	0.39	0.39	-	-	-100.0%
Subtotal One-time	8.68	11.79	4.00	1.32	-74.0%
Total	$761.361	$768.107	$804.892	$822.231	6.4%

The table shows a total growth of 6.4%, which for state special revenue is less significantly influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the growth is 5.9%.

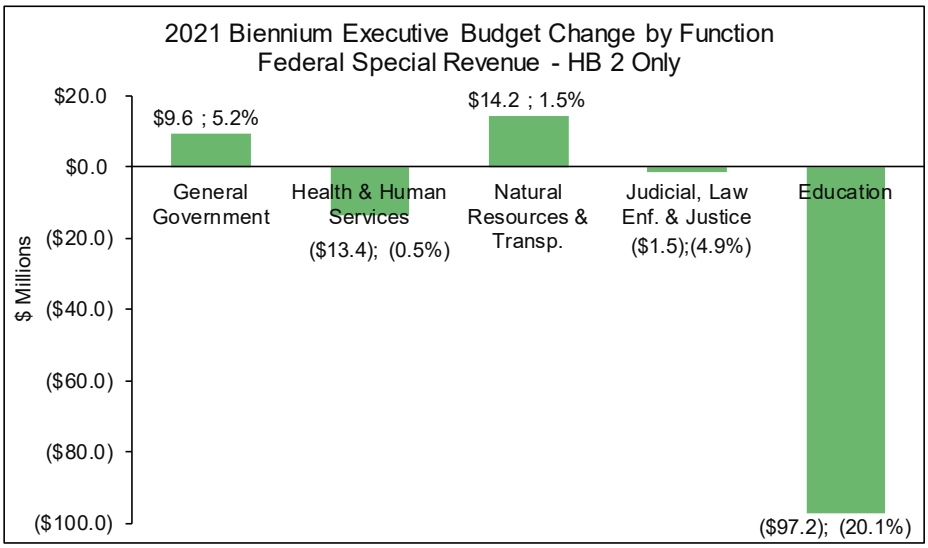
State special revenue adjustments are discussed in more detail in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis, along with any analysis comments or issues. Each of the one-time-only proposals is also explained more fully in Volumes 3-6.

Federal Funds

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. It totals $4,400.8 million or 42.5% of the proposed expenditures in the 2021 biennium.



The following figure shows the proposed change in funding compared to the 2019 biennium. As proposed, federal special revenues decrease by $88.2 million when compared to 2019 biennium appropriations for a reduction of 2.0%.



As shown, the overall decrease is primarily the result of reductions in education, because of changes to higher education funding. The decline in federal special revenue for the Office of the Commissioner of Higher Education (OCHE) is attributed to the reduction of services in the guaranteed student loan program and the elimination of the improving teacher quality grant program, resulting in a reduction of $104.2 million of federal funding for the biennium.

The next figure compares federal funds by agency in the proposed 2021 biennium to the 2019 biennium.

HB 2 Only - Federal Special Revenue Agency Comparison
Comparision of 2019 Biennium Appropriation to 2021 Biennium Executive Proposed Budget
($ Millions)

	Appropriated Budget		Executive Proposed Budget		Biennium
	FY 2018	FY 2019	FY 2020	FY 2021	% Change
Ongoing					
General Government					
Department of Revenue	$0.262	$0.263	$0.283	$0.283	7.7%
Department of Administration	1.078	0.116	0.014	0.014	-97.6%
Department of Commerce	18.073	18.108	21.053	21.112	16.5%
Department of Labor and Industry	32.404	33.107	33.162	33.170	1.3%
Department of Military Affairs	41.172	41.579	43.375	43.335	4.8%
Subtotal	92.989	93.173	97.887	97.914	5.2%
Health and Human Services					
Dept. of Public Health & Human Services	1,396.946	1,434.546	1,386.074	1,438.652	-0.2%
Subtotal	1,396.946	1,434.546	1,386.074	1,438.652	-0.2%
Natural Resources and Transportation					
Department of Fish, Wildlife, and Parks	22.962	23.632	25.306	25.345	8.7%
Department of Environmental Quality	22.591	23.039	23.705	23.693	3.9%
Department of Transportation	416.635	425.065	425.790	426.425	1.2%
Department of Livestock	1.705	1.756	1.865	1.866	7.8%
Department of Natural Resources & Conservation	2.280	2.313	2.907	3.412	37.6%
Department of Agriculture	1.166	1.207	1.313	1.314	10.7%
Subtotal	467.339	477.013	480.886	482.055	2.0%
Judicial Branch, Law Enforcement, and Justice					
Judical Branch	0.099	0.101	0.102	0.101	1.3%
Department of Justice	1.335	1.356	1.423	1.423	5.8%
Public Service Commission	0.173	0.173	0.273	0.273	57.8%
Department of Corrections	14.266	12.443	12.443	12.443	-6.8%
Subtotal	15.874	14.074	14.241	14.241	-4.9%
Education					
Office of Public Instruction	169.598	170.962	172.361	173.361	1.5%
Office of the Commissioner of Higher Education	69.095	69.187	17.954	18.053	-74.0%
School for the Deaf and Blind	0.069	0.071	0.182	0.182	159.5%
Montana Arts Council	0.702	0.710	0.717	0.716	1.5%
Montana State Library	1.208	1.212	1.225	0.875	-13.2%
Montana Historical Society	0.818	0.841	0.820	0.823	-0.9%
Subtotal	241.490	242.982	193.260	194.010	-20.1%
Subtotal Ongoing	2,214.638	2,261.787	2,172.348	2,226.872	-1.7%
One-Time					
General Government	-	-	-	-	0.0%
Health and Human Services	3.923	2.730	-	-	-100.0%
Natural Resources and Transportation	3.221	2.695	1.120	0.410	-74.1%
Judicial Branch, Law Enforcement, and Justice	-	-	-	-	0.0%
Education	-	-	-	-	100.0%
Subtotal One-time	7.144	5.424	1.120	0.410	-87.8%
Total	$2,221.782	$2,267.212	$2,173.468	$2,227.282	-2.0%

The table shows a total reduction of (2.0)%, which is influenced by the FY 2018 appropriation reductions. Compared to the FY 2019 base appropriation, the reduction totals (2.9)%. Federally funded new proposals and present law adjustments are discussed in more detail in Volumes 3-6 of the 2021 Biennium LFD Budget Analysis.

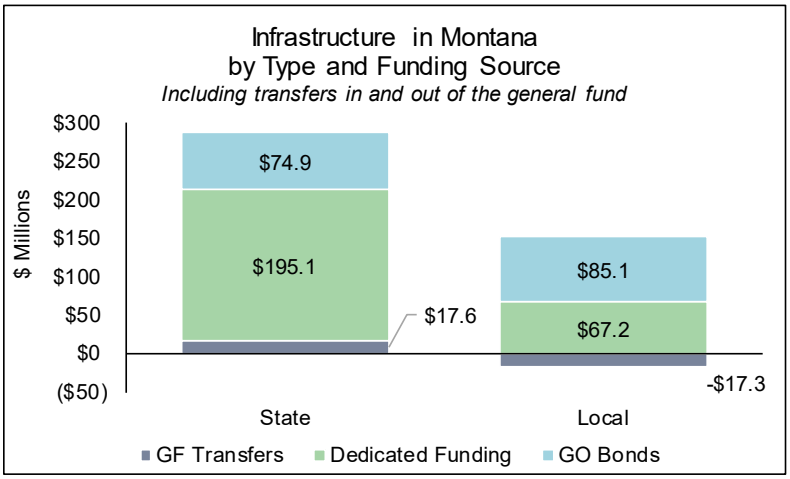
EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

Background

The Long-Range Planning Subcommittee (LRP) analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology. Apart from the IT program, the LRP programs have dedicated revenue streams, or revenues designated in statute for the programs and their purposes. Occasionally those dedicated revenue streams are augmented with general fund transfers, or through the authorization to issue bonded debt.

Infrastructure in Montana Proposal

The executive proposal entitled "Infrastructure in Montana" is basically an aggregation of the traditional LRP budgets, except for the Cultural and Aesthetic Grants Program. The proposal totals $373.1 million of state funds and $67.2 million of non-state funds (university and proprietary funds). The proposal makes use of $147.3 million in dedicated program revenues, $17.6 million of general fund transferred into two programs, $48.2 million of the proceeds from coal-severance tax bonds, and $160.0 million in general obligations (GO) bond proceeds to provide appropriations and grants for state and local government infrastructure investment. Dedicated program revenues of the Treasure State Endowment Program in the amount of $17.3 million would be transferred to the general fund (GF). The transfers to and from LRP programs net to a general fund cost of $281,366. The LRP funding increase provided through the Infrastructure in Montana proposal is $160.3 million (GO bonds + net GF transfers). The chart below shows the proposal by project type, by state government projects or local government projects, and by the type of funding.



Some of the major initiatives included in the Infrastructure in Montana proposal include:

- Construction of the new Betty Babcock Museum - $32.1 million
- Renovation of Romney Hall, MSU - $32.0 million
- Delivering Local Assistance Grant Program - $44.2 million
- Funding increase for the new Southwest Veterans' Home - $5.0 million
- Funding increase of $23.6 million in the Treasure State Endowment, Renewable Resources, and Reclamation and Development grants programs

More information on the Long-Range Planning programs and the executive proposal for Infrastructure in Montana is available in Section F of the Legislative Budget Analysis.

STATUTORY APPROPRIATIONS

Statutory appropriations are in statute and are not part of the biennial budgeting process. They are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. However, all statutory appropriations are available for the legislature to review and change if desired. Estimated totals by the LFD for all statutory appropriation fund types are $745.4 million in FY 2020 and $769.2 million in FY 2021. For additional information on statutory appropriations, please refer to the statutory appropriations guide prepared by the LFD.

Valid statutory appropriations are contained in a list in 17-7-502, MCA. The list provides statutory citations for each statutory appropriation. Statutory appropriations are intended for limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA. The Legislative Finance Committee periodically reviews statutory appropriations and sometimes sunset dates are included when new statutory appropriation legislation is adopted by the legislature.

GENERAL FUND ESTIMATES

The following table shows each general fund statutory appropriation estimated by the LFD. The LFD estimates do not include statutory appropriation authority for the HELP Act or the Economic Development for Department of Commerce as these are set to sunset on June 30, 2019 and would need new legislation to continue the programs.

General Fund Statutory Appropriations FY 2018 - FY 2023
($ Millions)

General Fund	2018 Actual	2019 (Estimate)	2020 (Estimate)	2021 (Estimate)	2022 (Estimate)	2023 (Estimate)
Retirement						
HB 648 (2017 Session) Statutory Appropriation to PERS	$31.386	$31.958	$32.278	$32.600	$32.926	$33.256
19-3-319 Local Gov. Retirement Contribution	0.969	0.988	1.008	1.028	1.048	1.069
19-6-404 MHP Retirement Transfer	1.460	1.489	1.519	1.549	1.580	1.612
19-6-410 MHP Supplemental Retirement Transfer	0.250	0.250	0.250	0.250	0.250	0.250
19-9-702 Police Retirement Contirbution	15.858	16.254	16.660	17.077	17.504	17.941
19-13-604 Firefighters' Association Contribution	16.157	16.803	17.475	18.174	18.901	19.657
19-17-301 Volunteer Firefighter Fund Contribution	2.212	2.301	2.393	2.488	2.588	2.691
19-18-512 Fire Department Relieft Association Contribution	0.390	0.390	0.390	0.390	0.390	0.390
19-19-305 Police (Non-PERS) Retirement Contribution	0.216	0.216	0.216	0.216	0.216	0.216
19-19-506 Police Officer Pension Supplemental Contribution	-	-	-	-	-	-
19-20-604 Teacher's Retirement Supplemental Contribution	0.909	0.937	0.965	0.994	1.023	1.054
19-20-607 Teachers' Retirement System Contribution	44.096	44.656	45.246	45.854	46.479	47.124
19-21-203 MUS Retirement Contribution	1.767	1.838	1.911	1.988	2.067	2.150
Subtotal	$115.669	$118.079	$120.310	$122.607	$124.973	$127.410
Economic Development						
15-35-108(9)(b)(i) Coal Sev. to Coop. Dev. Center	0.065	0.065	-	-	-	-
15-35-108(9)(b)(ii) Coal Sev. to Growth Through Ag	0.623	0.625	-	-	-	-
15-35-108(9)(b)(iv) Coal Sev. to Dept. of Commerce	1.099	1.100	-	-	-	-
15-70-433 Biodiesel Tax Refunds	-	-	-	-	-	-
Subtotal	1.788	1.790	-	-	-	-
Local Assistance						
7-4-2502 Payment of County Attorneys	3.452	3.555	3.662	3.772	3.885	4.001
15-1-121 Local Government Combined Distribution	133.853	136.514	140.253	144.726	149.068	153.540
22-1-327 State Aid to Public Libraries	-	-	0.396	0.396	0.396	0.396
Subtotal	137.304	140.069	144.310	148.894	153.349	157.938
Other						
10-1-1202 National Guard Death Benefit	-	-	-	-	-	-
10-3-310 Incident Response Appropriation	-	-	-	-	-	-
10-3-312 Emergency and Disaster Appropriation	3.574	12.926	8.250	8.250	8.250	8.250
15-1-218 Out of State Collections	0.182	0.120	0.120	0.120	0.120	0.120
16-11-509 Tobacco Enforcement	-	-	-	-	-	-
17-3-106 Return of Federal Grant Interest	0.013	0.002	0.002	0.002	0.002	0.002
17-3-106 Return of Federal Grant Money (GSD Only)	0.276	0.225	0.225	0.225	0.225	0.225
17-3-106 Return of Federal Grant Money	0.213	0.170	0.170	0.170	0.170	0.170
5-13-402 Legislative Audits	-	-	-	-	-	-
17-1-205 Loan to G.F / other	0.075	-	-	-	-	-
17-6-101 Banking Charges	2.235	2.279	2.325	2.372	2.419	2.467
17-7-502(4) Bond Fees & Costs	12.395	9.271	8.145	6.888	6.108	6.103
Aquatic Invasive Species	-	-	-	-	-	-
53-6-1304 SB 405 HELP Act	42.634	51.771	-	-	-	-
Subtotal	61.598	76.764	19.237	18.026	17.294	17.337
General Fund Total	$316.360	$336.703	$283.858	$289.527	$295.616	$302.685

REMAINING STATUTORY APPROPRIATIONS

The following table shows LFD estimates for statutory appropriations that impact state special revenue funds, federal special revenue funds, capital projects and enterprise funds. LFD estimates do not include HELP Act for the 2021 biennium as the legislation is set to expire on June 30, 2019.

Remaining Statutory Appropriations - Legislative Fiscal Division Estimates ($ Millions)						
State Special Funds	2018 (Estimate)	2019 (Estimate)	2020 (Estimate)	2021 (Estimate)	2022 (Estimate)	2023 (Estimate)
20-9-622 Guarantee Account to BASE Aid	47.041	43.394	45.692	46.204	47.477	49.443
15-36-332 Oil & Gas Distribution to Counties	53.594	58.918	58.474	58.461	57.369	56.171
15-65-121 Lodging Tax Distribution	25.485	32.351	33.997	35.224	36.326	37.301
HB 473 Fuel Tax to Local Governments	20.218	33.929	36.439	36.512	38.594	40.882
17-3-241 Mineral Impact Account	5.779	5.779	5.779	5.779	5.779	5.779
All Other State Special	128.755	85.232	85.232	85.232	85.232	85.232
State Special Total	$280.871	$259.603	$265.612	$267.412	$270.776	$274.808
Federal Special Funds						
53-6-1304 SB 405 HELP Act	$672.988	$715.731	-	-	-	-
HB 639 Indian Health Services	74.823	94.556	108.740	125.051	143.808	165.379
17-3-212 Federal Forest Funds to Counties	15.120	8.700	8.700	8.700	8.700	8.700
17-7-502(4) Highway 93 Debt Service	15.416	15.416	15.416	15.416	15.416	15.416
All Other Federal Funds	28.808	20.000	20.000	20.000	20.000	20.000
Federal Special Total	$807.155	$854.404	$152.856	$169.167	$187.925	$209.496
Capital Projects and Enterprise Funds						
23-7-402 Lottery Prizes	32.551	32.551	32.551	32.551	32.551	32.551
All Other	10.515	10.515	10.515	10.515	10.515	10.515
Capital Projects and Enterprise Funds Total	$43.066	$43.066	$43.066	$43.066	$43.066	$43.066
Total Statutory Appropriations (All Funds)	**$1,447.451**	**$1,493.775**	**$745.392**	**$769.172**	**$797.383**	**$830.055**

GENERAL FUND TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and – with proper legislative authorization – money may be transferred from one account to another without an appropriation. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in un-codified legislation) and are not part of the biennial budgeting process. However, they impact the amount of money available for the legislature to appropriate for specific programs. The Legislative Finance Committee has approved a policy that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated.

LEGISLATIVE FISCAL DIVISION ESTIMATES

The following table shows each individual general fund transfer estimated by the LFD. The LFD non-budgeted transfer estimates are used in the LFD general fund balance sheet.

General Fund Non-Budgeted Transfers: LFD Estimates
($ Millions)

Statutory Reference	2018 Actual	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
Vehicle						
15-1-122(1) Adoption Services Account	$0.072	$0.079	$0.087	$0.095	$0.105	$0.115
15-1-122(2) Research & Commercialization Account	1.275	1.275	-	-	-	-
15-1-122(3)(a) Motor Vehicle Recycling & Disposal Program	1.620	1.651	1.672	1.689	1.706	1.723
15-1-122(3)(b) Noxious Weed Account	1.641	1.673	1.694	1.712	1.729	1.747
15-1-122(3)(c)(i) Boat Facilities & Off-Highway Vehicles	0.503	0.513	0.520	0.525	0.530	0.536
15-1-122(3)(c)(ii) Snowmobile Facility Development & Maint.	0.109	0.112	0.113	0.114	0.115	0.116
15-1-122(3)(c)(iii) Motorboat Account	0.175	0.178	0.181	0.183	0.184	0.186
15-1-122(3)(d) State Veterans' Cemetery Account	0.868	0.903	0.915	0.925	0.934	0.943
15-1-122(3)e Search & Rescue Account	0.044	0.045	0.045	0.046	0.046	0.047
Other Transfers						
15-1-122(5) Sage Grouse	2.000	2.000	2.000	2.000	-	-
15-1-122(4) Livestock Loss	0.200	0.200	0.200	0.200	0.200	0.200
17-1-511(2) Rural Physicians	0.227	0.227	0.227	0.227	0.227	0.227
39-11-206 Commerce Training Account	-	-	-	-	-	-
39-71-2352(6) Old State Fund Shortfall	8.050	7.936	7.299	6.965	6.965	6.965
76-13-105 Wildfire Suppression	25.309	-	-	-	-	-
77-1-108(5a) Trust Land Adm.	0.080	-	0.040	0.040	0.040	0.040
85-2-280 Water Adjudication	3.179	3.864	2.996	3.702	3.702	3.702
87-2-801(6) Purple Heart Free Hunting	0.025	-	-	-	-	-
87-2-803(12d) Military Free Hunting	0.000	-	-	-	-	-
Legislation	-	-	-	-	-	-
HB 647 (2017 Session)	-	0.400	-	-	-	-
Other Adjustments	(0.212)	-	-	-	-	-
Total General Fund	$45.166	$21.055	$17.988	$18.423	$16.485	$16.548

GOVERNOR'S PROPOSED OTHER LEGISLATION GENERAL FUND ONLY

Other than HB 2, Long-Range Building, statutory authority, and non-budgeted changes described in previous sections, the executive proposes other legislation that impacts general fund. The following figure illustrates the general fund executive proposals.

2021 Biennium Executive Proposed General Fund Legislation $ Millions		
General Fund Revenue Legislation	FY 2020	FY 2021
LC# 1369 Proposed Accommodations & Rental Car Sales Tax Increase	$10.639	$11.395
LC# 1371 Investment License Increase	6.011	6.124
LC# 1372 Proposed Liquor Excise & License Tax Increase	7.044	7.361
LC# 1373 Proposed Cigarette & Tobacco Products Tax Increase	24.672	23.756
LC# 1373 Cigarette & Tobacco Products Increase - Other	3.386	(0.409)
Premiums if Medicaid expansion continued (OBPP estimates)	5.200	5.300
Core Civic Contract Renegotiation	4.100	-
HB 11 Treasure State Endowment Program Transfer-in	8.513	8.819
General Fund Revenue Legislation Total	$69.565	$62.346
General Fund Expenditures	FY 2020	FY 2021
HB 1 2019 Feed Bill	$2.293	$2.804
HB 2 (language appropriations only)	$0.050	$0.050
HB 3 Supplemental Appropriations	11.748	
HB 3 Fire	15.000	
HB 5 Long Range Building	2.500	
HB 10 Long Range Information Technology	15.113	
HB 13 Employee Pay Plan	6.950	14.563
HB 14 Creating the Local Assistance Grant Program (executive estimate for GO debt)	3.530	10.180
Continue HELP Act (no LC# at time of publication)	59.812	67.419
LC# 271 Revise and make permanent funding for economic development programs	3.365	3.365
LC# 949 Revising the quality educator loan assistance program	0.250	0.250
General Fund Expenditure Legislation Total	$120.612	$98.632
Note: HB 13 difference between exective is ($156,712). In order to tie to HB 1 2019 Feed Bill as introduced, you must include FY 2019 at $7.224 million.		

For a more detailed explanation of the revenue legislation proposed by the executive, please refer to the revenue section of this report.

- HB 1 Feed Bill – The proposed bill to fund the operations of the legislature totals $12.4 million general fund for FY 2019-FY 2021
- HB 3: The executive proposes supplemental appropriations that are discussed in further detail in a later section of this volume. In addition, the executive proposes to transfer $15.0 million from the general fund to the fire suppression special revenue fund
- Infrastructure bills: HB 5 and HB 10 are proposals to transfer general fund to the long rang building program and long-range information technology. HB 14 proposes the issuance of bonds. The cost for the new general obligation debt as estimated by the executive is included in the table. More detail is provided in Section F of the 2021 Biennium Budget Analysis
- HB 13
    - The executive proposes a 50 cent/hour increase to state employee pay in FY 2020 and a 50 cent/hour increase in FY 2021
    - $2.0 million has been proposed to provide for personal services shortfalls that may occur in the 2021 biennium and may be used at the discretion of the executive

- The executive has proposed continuing Medicaid expansion. The general fund cost is estimated at $127.2 by the executive and has been discussed in previous sections of this report
- LC #271 proposes to both increase funding and extend the termination date on existing statutory appropriations for the Department of Commerce Research and Commercialization Program and extend the termination date and adjust the general fund non-budgeted transfer to the same program
- LC #482 executive proposal revises the quality educator loan assistance program by first moving it from the Office of Commissioner of Higher Education to the Office of Public Instruction and then decreasing the amount

REFERENCES

The Governor's Budget is found on the Office of Budget and Program Planning's website:
http://budget.mt.gov/Budgets/2021_Budget

FY 2019 SUPPLEMENTAL REQUESTS

EXECUTIVE PROPOSAL

The executive is requesting $11.7 million general fund in HB 3 supplemental appropriations for FY 2019.

Department of Corrections

The department issued a fiscal year transfer late in FY 2018 that moved appropriation authority from FY 2019 to FY 2018 to address agency shortfalls. The agency reported reasons for the fiscal year transfer as the following: 1) larger prison populations contributed to higher costs for food, medical, laundry, and operations contracts/utilities; 2) an unanticipated infrastructure repair; 3) county jail holds above the budgeted level for the first half of FY 2018; and 4) payroll costs that exceeded budgeted amounts. The executive requests $3.7 million for secure facilities. For further analysis please refer to the Department of Corrections portion of the full 2021 Biennium Budget Analysis.

Office of Public Defender

The Office of Public Defender experienced shortfalls in the 2019 biennium. The executive has requested $7.4 million.

The Judicial Branch and Department of Administration

During the 2017 November Special Session, the Judicial Branch was inadvertently reduced by $120,000 general fund. The executive has requested this authority be restored to FY 2019.

During the 2017 November Special Session, the Department of Administration was inadvertently reduced by $500,000. The executive has requested this authority be restored to FY 2019.

PRESENT LAW ASSUMPTIONS

After a complete analysis of the Governor's 2021 biennium budget request, LFD noted a sizeable level of change in the underlying budget that has led to an unusual level of difference of interpretation within the present law budget that both increase and decrease the cost of present law. The most significant items of difference in general fund present law interpretation between the executive and legislative staff are shown in the table below.

Differences in Interpretation of General Fund Present Law
$ Millions

Items	Higher estimated cost than executive present law	Lower estimated cost than executive present law
K-12 Funding		
Transfer to Major Maintenace less than statute	$3.8	
HJ 2 guarantee fund revenue more than executive estimate		8.0
Montana University System		
Fund shift/new proposal portion of the tuition freeze request		14.4
Department of Health & Human Services		
Change in CHIP match requirement not included present law	23.0	
Personal Services Statewide Reienstatements and Budget Modifications		
Estimated general fund share		34.0
Total Higher and Lower cost estimates	$26.8	$56.4

K-12 SCHOOL FUNDING

In the executive budget proposal, the present law request for school major maintenance is $6.4 million in FY 2020 and $7.6 million in FY 2021, includes $3.8 million of state special revenue from the school major maintenance coal sub-trust. Statute (20-9-635, MCA) suggests school major maintenance appropriations would be additive, with the $3.8 million coal trust money being in addition to the executive proposal. Present law general fund would thus be short by $3.8 million.

The guarantee account is a state special revenue account statutorily appropriated to school funding (20-9 622, MCA). The executive estimates the amount of revenue deposited in the guarantee account in both FY 2020 and FY 2021 to be approximately $4.0 million less than the estimate in HJ 2. When HJ 2 estimates are used, the general fund request for BASE Aid would be reduced by $8.0 million over the biennium.

MONTANA UNIVERSITY SYSTEM (MUS)

The MUS 2021 biennium budget present law executive budget request proposes a tuition freeze.

In order to cover present law costs without tuition meeting its full share, general fund replaces tuition is considered a fund shift. In recent biennia, the state appropriation portion of the MUS current unrestricted revenue has been roughly 40.0%, with the remainder of the current unrestricted revenues coming from tuition. Barring significant spending reductions or additional revenue provided by non-tuition sources it would be estimated that of the $18.1 million in present law adjustment, $14.4 million or 60.0% is the revenue that would have been from tuition if a freeze had not been proposed.

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

The federal government reimbursement of the match rate for the Children's Health Insurance Program (CHIP) will be lower than in the 2019 biennium. This lower federal match rate will result in an increase share of state cost. The increased state share is not reflected in the general fund portion of the present law budget and insufficient present law state special funding is available. The executive has proposed funding the increased state share with a tobacco tax increase. Present law funding is short by $23 million in the current biennium.

PERSONAL SERVICES STATEWIDE REINSTATEMENTS AND BUDGET MODIFICATIONS IN DP 1

Decision Package 1 (DP 1) includes formula based adjustments and management choices regarding personnel as is normal in a budget request. In addition to these items, Personal Services Statewide Reinstatements and Budget Modifications were included in DP 1. Given that these adjustments were not approved as ongoing by the 65th Legislature, these items may not strictly meet the definition of present law.

COST PRESSURES

Cost pressures can take many forms, from revenue sources experiencing change, to expenditures required by mandated programs, to the extension of current service level programs that are sunsetting. Pressures are also created by economic changes that influence expenditures related to investment returns, such as pension debt and authorized but unissued debt. This section will cover a number of cost pressures that have the potential to affect legislative decisions in the next few years. Additionally, at the end of this section is a listing of outstanding lawsuits facing the state that may affect revenues or expenditures.

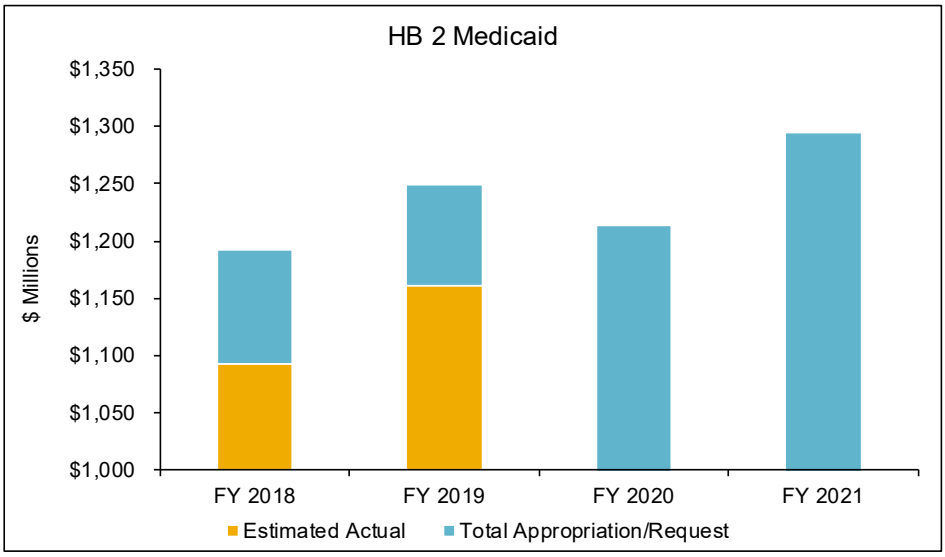
REVENUE RISK: COAL SEVERANCE TAX

In the fall of 2018 Westmoreland Coal Company filed for bankruptcy. Westmoreland owns the Rosebud Mine, which produces approximately 9 million tons of coal per year. This coal runs the Colstrip power plants and represents roughly one-quarter of Montana's total coal production. There is no indication that Rosebud mine will cease operations in the near future, and it is set for auction in the coming months. While the bankruptcy filing has not impacted the LFD baseline coal revenue forecast for this biennium, it may ultimately lead to decreased coal production in future biennia.

MEDICAID

For an overview of Montana Medicaid, see the Medicaid 101 primer developed by the LFD.

Medicaid is a major cost driver for state governments nationally. For federal fiscal years (FFY) 2010-2014, the national average annual growth in Medicaid expenditures was 5.2%, while the Montana annual growth was only 3.8%. However, for FFYs 2007-2010, the national average growth in spending was 6.8% while Montana experienced a growth of 8.5% annually (Kaiser Family Foundation). National trends since 2014 have varied depending upon the timing and implementation of Medicaid expansion. Since Montana's expansion of Medicaid, effective January 1, 2016, there has been an uptick in total enrollment, with approximately 1 in 4 Montanans being covered by Medicaid or Children's Health Insurance Program.



As a result of combined 2017 Regular and Special Session actions, HB 2 Medicaid appropriations for FY 2018 totaled $1,192.3 million and for FY 2019 are $1,248.6 million. Medicaid expansion and Indian Health Services are not included in these amounts, as those appropriations are currently statutory.

As can be seen in the HB 2 Medicaid chart, the FY 2019 appropriation is greater than the Department of Public Health & Human Services is currently projecting for total FY 2019 Medicaid expenditures, but lower than the FY 2021 projection. The executive proposes a negative adjustment in FY 2020, with an overall increase for the 2021 biennium.

Medicaid HB 2 Caseload
A 1% annual change in traditional Medicaid from the budgeted FY 2019 level (exclusive of the HELP Act population) results in approximately a $12.5 million total budget change. Approximately 30.7% of this is the responsibility of state funds, including both general fund and other state special funds, resulting in a state liability of $3.8 million for each 1% increase.

Medicaid HB 2 FMAP State Share
The FMAP is set each year by Center for Medicaid Services, and at the time of budgeting, a projection of that FMAP is used, currently forecasted to be 64.97% in SFY 2020 and 64.78% in SFY 2021. A 1 percentage point change in the FMAP will have a state share impact of roughly $11.0 million each year. Montana's FMAP depends on the per-capita income (PCI) of the state relative to the per-capita income of the United States. Lower PCI figures for Montana result in a higher state FMAP.

HELP ACT MEDICAID EXPANSION

For an overview of the Medicaid expansion, see the HELP Act primer developed by the LFD.

The HELP Act (2015 Legislature) expanded Medicaid in Montana as allowed under the Affordable Care Act (ACA), with a sunset provision of June 30, 2019, meaning that unless the 2019 Legislature authorizes a continuation of Medicaid expansion, this program would cease at the end of FY 2019.

As previously approved, the expenditures associated with Medicaid expansion were not included in HB 2, but do impact the general fund. For the 2019 biennium, the authority for the Medicaid expansion is statutory. Under present law, there is no authority for 2021 biennium expenditures associated with Medicaid expansion.

HELP Act Medicaid Expansion Expenditures
FY 2016 - FY 2018 Statutory Appropriation
($ Millions)

	FY 2016	FY 2017	FY 2018	Total
General Fund				
Administration	$4.177	$8.535	$10.672	$23.384
Benefits & Claims	1.426	16.275	31.962	49.664
Subtotal	5.603	24.811	42.634	73.048
Federal Funds				
Administration	8.004	7.882	11.653	27.539
Benefits & Claims	129.058	541.639	661.335	1,332.032
Subtotal	137.062	549.522	672.988	1,359.571
Grand Total	$142.665	$574.332	$715.622	$1,432.619

The expenditure table above reflects the actual expenditures for the FY 2016 to 2018. Total expenditures have continued to grow as enrollment increased, while the general fund share has also increased due to the phased-in nature of the federal match rate. Total enrollment growth has slowed significantly, and is expected to stabilize at a more steady and predictable overall population.

The federal match rate will change again for calendar years 2019 and 2020, after which the federal match is scheduled to stay at 90%. However, there are several things that can affect the match rate:

Federal Match Rate		
Calendar Year	Federal Share	State Share
2016	100.0%	0.0%
2017	95.0%	5.0%
2018	94.0%	6.0%
2019	93.0%	7.0%
2020+	90.0%	10.0%

- Administration is matched at varying rates, depending upon the specific category, with the FY 2018 effective rate being 52.2% federal share
- A waiver for continuous eligibility was approved for Montana, and results in 2.6% of the claims being reimbursed at the traditional FMAP rather than the enhanced FMAP
- Some recipients receive 100% federal match through Indian Health Service
- The totals above include supplemental payments to hospitals that are being matched by state special funds authorized in HB 2

The executive budget proposal includes a present law increase to HB 2 in the amount of $56.9 million to move certain eligible individuals from the Medicaid expansion population back into the traditional Medicaid program, resulting in the state covering a greater share of their total cost. However, the executive also proposes continuing the HELP Act, and has included a new proposal to offset this in HB 2. See the introduction section in this report for more information.

More detail on the interaction between HB 2 Medicaid, the current HELP Act, and any proposed bills for Medicaid expansion can be found in the Budget Analysis for Section B.

PENSIONS

Update on Current Valuations

Upon completion of the FY 2018 actuary valuations, the unfunded liability across Montana's nine retirement systems approached $4.5 billion, of which approximately $4.3 billion is under an amortization schedule. The two largest systems, the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) had actuarially calculated unfunded liabilities of $2.0 billion and $1.9 billion respectively.

Overall, compared to the FY 2017 actuarial valuations, most systems' funded ratios did not change by much as seen in the table below.

Montana Pension Systems Actuarial Valuations				
	Funded Ratio 2017	Funded Ratio 2018	Amortization Period 2017	Amortization Period 2018
Teachers' Retirement System (TRS)	70%	68%	22	31
Public Employees' Retirement System (PERS)	73%	74%	30	38
Judges' Retirement System	167%	161%	0	0
Highway Patrol Officers' Retirement System	64%	64%	37	40
Sheriffs' Retirement	81%	81%	25	21
Game Wardens' Retirement System	81%	83%	Doesn't amortize	Doesn't amortize
Municiple Police Officers	69%	68%	16	20
Firefighters' Unified Retiremenet System	76%	78%	10	10
Volunteer Firefighters	81%	83%	6	5

Unlike the funded ratios, some of the amortization periods changed substantially. Most notably, PERS and TRS saw amortization periods increase by eight and nine years respectively. The increased amortization rates were caused by actuarial returns that were lower than the assumed rate of return of 7.65%. The realized actuarial returns were 6.85% for TRS and 6.69% for PERS. The actuarial return is not the same as the market return in a given year. Instead, it uses the four most recent market returns to calculate a "smoothed" actuarial return.

Rate of Return Assumption

Recently, the assumed rate of return has been a topic of much discussion in public pension literature. Most public pension plans have operated under an assumed rate of return between 7.50% and 8.0%. Many states have recently revised their assumed rate of return downward. In FY 2017, Montana revised its return rate assumption from 7.75% to 7.65%. At one point, these return rates could be realized by investing in bonds that had little risk. To receive returns at this level today, many public pensions have become increasingly reliant on domestic equity. This introduces added risk to the system, as the stock market can be extremely volatile. Even if return rates average 7.65%, the timing of good and bad years matters. A significant decrease from the assumed rate-of-return in any one year can take many years of above average returns to heal. Simulated scenarios where return rates can vary from year to year, but average the same return rate, can produce very different funded levels and amortization periods.

It is possible that a rate of return of 7.65%, even under a stock-heavy investment portfolio, may be difficult to achieve. The Montana Board of Investments (BOI), the agency in charge of investing all of Montana's funds, recently published a report forecasting its estimated returns over the next ten years. The BOI estimated that the future median long-term expected return would equal 6.57%, compared to the assumed rate of 7.65%. If a return rate of 6.57% is indeed realized over the long term, additional funds would need to be contributed to the pension system to maintain current levels of funding.

Discount Rate Assumption

The assumed discount rate ultimately plays the largest role in illustrating the true liability of a pension system. The purpose of using a discount rate is to ascertain the current value of a future liability, and in this case, to determine how much the retirement benefits owed to future pensioners is valued today. As a result, larger discount rates produce smaller liabilities, and vice versa.

Traditionally, actuarial valuations have used the assumed rate of return as the discount rate as well. The reasoning has been that since the assets are forecast to grow at that rate, it is fair to discount the liabilities backwards at that rate to calculate a funded ratio. However, in recent years, it has been argued that a riskless discount rate should be used, since those pension liabilities, or benefits, are guaranteed. By using a discount rate that is too high, the true liability that will need to be paid out can be severely understated.

Stress Testing Moving Forward

The risks associated with public pensions moving forward are not unique to Montana. In fact, state and local government unfunded liabilities are larger than they've ever been before, as measured as a percent of gross domestic product (GDP). This has prompted officials and non-partisan think tanks to take a more data-driven approach to more accurately assess the health of public pension systems, outlined in a presentation at the National Conference of State Legislature (NCSL) by Pew Charitable Trusts. This approach is called stress testing, and in theory would better educate plan sponsors (the legislature) on the risks that their pension systems may experience moving forward. For instance, it may educate policymakers on the robustness of a system. More specifically, stress testing could illustrate how well a pension system could respond to less-than-ideal economic conditions.

Not only would this provide information on a pension system's ability to respond to an economic downturn, but it would also provide policymakers a quantitative assessment of the likelihood of such events occurring. Furthermore, any additional funding that would be required to keep the system sound during a downturn would be analyzed under a variety of scenarios. Numerous states have already began adopting stress testing analyses as components of pension reporting going forward and many have adopted it through legislation. As the future pension landscape remains unpredictable, further educating the legislature on realistic risks facing the systems will only serve to better safeguard against downturns that the systems experience.

CONFEDERATED SALISH & KOOTENAI TRIBAL WATER COMPACT

The legislature passed SB 262 in the 2015 Legislative Session, which provided the state ratification of the Confederated Salish and Kootenai (CSKT) tribal water compact (April 24, 2015). The compact included an obligation (state-share match) of $55.0 million for the costs of mitigation projects. SB 262 did not appropriate funds for the match. Generally, the funding of tribal compacts is contingent on the ratification of the compact by the Congress and the tribe, however the CSKT compact included three projects with total costs of $12.0 million that are not contingent on final approval. The projects would be executed by the Department of Natural Resources and Conservation (DNRC). The projects include:

1. $4 million for water measurement activities,
2. $4 million for improving on-farm efficiency, and
3. $4 million for mitigating the loss of Stock Water deliveries from the FIIP.

The funding for the three projects has never been explicitly appropriated to DNRC by the legislature. Instead, $3.0 million was directed to the projects by the Governor's Office of Budget and Program Planning through a contingent appropriation in the 2015 version of HB 2. Another $914,355 was provided when the DNRC applied their November 2017 Special Session SB 9 reinstatement funds for this purpose, which will exist in the DNRC base budget for approximately ten years. Combined with the previously mentioned $3.0 million, the funds made available through these two actions total $12.1 million.

The CSKT compact includes a deadline for Congressional ratification and provides unilateral rights to both the state and the tribe to withdraw from the compact. According to the law (85-20-1901, MCA, Article VII-Finality), the deadline for Congress will occur on April 24, 2019, potentially during the 2019 Legislative Session. If the Congress meets the deadline, the state will have five years from the ratification date to appropriate the balance of the state-share match or the tribe has the option to withdraw from the compact. Additionally, the state has the option to withdraw from the compact if the Congress increases the total $55 million state share match.

LAWSUITS

Duane C. Kohoutek, Inc., Bucher Sales, LLC, Nobles, Inc., and Spirits Plus, LLC v. State of Montana

A group of liquor store owners challenged state statute that provides for a formula used to calculate the compensation for mandatory discounts provided to liquor licensees. The district court awarded storeowners damages, attorney fees, and interest totaling nearly $35.0 million. The Department of Revenue appealed the decision to the Supreme Court. The Supreme Court reversed the district court's judgement.

Moodys Market, Inc.; Liquid Engineering Corp.; Steig Ranch, LLC.; et al v. Montana State Fund, Montana Board of Investments and State of Montana

The November 2017 Special Session legislature adopted SB 4 that required the Montana State Fund to transfer funds invested with the Montana Board of Investments to the wildfire suppression fund. Plaintiffs filed a complaint January 22, 2018 seeking a ruling declaring SB 4 unconstitutional. The plaintiffs allege that Montana State Fund has fiduciary and legal duties and an obligation to ensure funds paid are not utilized for any purposes not solely and exclusively related to its operations and obligations. If the district court rules in favor of the plaintiffs, the state could be required to return the transferred funds to State Fund. If returned to State Fund, the cost to the general fund is approximately $30.0 million.

Nick Brooke, Ethan Lerman, Brian West, et al v. State of Montana

The Office of Public Defender (OPD) contracts with attorneys to litigate cases when staff attorneys are unable to litigate where potential conflicts between OPD's various clients arise. OPD mitigated anticipated budget shortfalls in FY 2018 by lowering the contracted attorney fee from $62.00 an hour

down to $56.00 an hour. Contracted attorneys filed a complaint seeking a ruling that the rate be restored to $62.00 an hour. If the district court rules in favor of the plaintiffs, the estimated cost to the general fund is $1.4 million for the 2021 biennium

Kendra Espinoza, Jeri Ellen Anderson, and Jaime Schaefer v. Montana Department of Revenue

The 2015 Legislature adopted legislation that implemented the Student Scholarship Organization (SSO) tax credit, which provides a taxpayer a dollar-for-dollar tax credit based on the taxpayer's donation to a student scholarship organization. A SSO funds tuition scholarships for students who attend private schools that meet the definition of a qualified education provider. Taxpayers claiming this credit totaled about $30,000 for each calendar year since the legislation was implemented.

The Department of Revenue implemented an administrative rule excluding religiously-affiliated private schools from qualifying as qualified education providers. Plaintiffs Espinoza, Anderson, and Schaefer filed a complaint in district court challenging the Department of Revenue rule. The Eleventh Judicial District Court determined that the tax credit program was constitutional without the administrative rule and granted the plaintiffs summary judgement.

The Department of Revenue appealed the order to the Supreme Court arguing the tax credit program was unconstitutional absent the administrative rule. In December 2018, the opinion of the Supreme Court was the tax credit program violated the Montana Constitution, and the high court reversed the district court's order granting plaintiffs summary judgement.

UPDATES ON PRIOR SESSION ACTIONS

This section covers a number of prominent issues that were addressed in the 2017 and prior sessions, many of which were intended to decrease cost pressure in the future. Additionally, shown in this section are updates on a number of fiscal studies from last interim, which are available to inform legislative decisions related current funding or expenditure practices and future investments in capital expenditures.

JUSTICE REINVESTMENT

The 2017 Legislature adopted a package of bills designed to reduce growth in several areas of the criminal justice system. The bills amended laws related to crimes, sentences and sentencing procedures, the structure of the Board of Pardons and Parole and its decision-making process, when and how an offender in the community under supervision may be sanctioned, rewarded, or returned to prison, added a new requirement for evidence-based and evaluated Department of Corrections programs, and created of several grants to support criminal justice programs. For the 2019 biennium, a Criminal Justice Oversight Council was created to oversee the implementation of the various reforms.

The changes in Montana's criminal justice systems laws were designed to increase efficiency and decrease costs. For example, the Criminal Justice Oversight Council cites increased community supervision revocations accounting for 74.0% of prison admissions and a lack of risk-based decision making at the front end and back end of the system as adding to rising criminal justice system costs. Several of the bills required the use of evidence based assessment tools for risk-based decision making when determining placement of offenders. The Council on State Governments (CSG) projected that the changes would avert prison population growth by 13.0% by FY 2023, which is 1.0% below the forecasted increase in the Department of Corrections population from FY 2017 to FY 2023. CSG also projected that the deceleration in growth would lead to $69.0 million in averted costs including $58.8 million in prison costs and $11.3 million in probation and parole costs.

The 2017 Legislature provided the Department of Corrections and the Judicial Branch with general fund to implement components of the justice reinvestment legislation including:

- $1.6 million for the Judicial Branch to develop a Pretrial Diversion Program
- $0.2 million for the Department of Corrections to implement accountability for justice reinvestment through tracking and analysis of data and publication of an annual report related to the implementation, effectiveness, and cost savings
- $0.7 million for the Department of Corrections to create a presentence investigation unit
- $0.1 million for the Department of Corrections to transition the Board of Pardons and Parole to a full-time professional board
- $0.4 million for the Department of Corrections to establish supportive housing grants

The funding was provided as one-time-only to allow the 2019 Legislature to examine the implementation of the new programs and processes. Both the Judicial Branch and the Department of Corrections have requested general fund for the components discussed above in the executive budget request for the 2021 biennium.

Implementation of the enacted legislation began in FY 2018 with the majority of the requirements either completed or in progress at the end of the fiscal year. Because the implementation of many of the requirements was done near the end of FY 2018, the amount of projected averted costs may not be realized over the timeline projected by CSG. For example, the adoption of risk-based decision processes for offenders being supervised by probation and parole officers was completed near the end of FY 2018 so that FY 2019 will be the first year that the changes may begin to impact the number of offenders supervised by probation and parole or the numbers returned to prison.

Implementation of HB 133 (2017 Regular Session) and requirements outlined in HB 2 resulted in cost reductions for components of the justice system in FY 2018 including:

- HB 133 reduced the number of misdemeanor crimes requiring a public defender to represent the defendant. In FY 2018 the number of misdemeanor cases represented by public defenders declined by 11.4% while the associated costs declined from $8.7 million in FY 2017 to $6.9 million in FY 2018
- Reduction of the number of offenders held in county jails while awaiting placement by the Department of Corrections. HB 2 provided the Department of Corrections with contingent funding of $1.0 million in FY 2018 if the number of offenders held in county jails was no more than 250. County jail holds dropped below 250 in December 2017 and have remained at that level since. In FY 2017, costs for county jail holds were $10.5 million; in FY 2018, they were $8.6 million. To attain this goal, the Department of Corrections added capacity to the number of secure beds used for sentenced offenders. This added costs to the Secure Custody Facilities Division that offset the reductions in county jail holds

GASOLINE TAXES

During the 2017 session the legislature passed HB 473, the Bridge and Road Safety and Accountability Act (BaRSAA), implementing the first increase in fuel taxes since 1993 to correct the structural imbalance that had developed in the restricted highway state special revenue account (HSSRA) and a long-term stagnant flow of funding for local government roads. In the 2019 biennium, the per gallon tax increase will be 4.5 cents for gasoline and 1.5 cents for special fuels (diesel) and will be stepped up to a total increase of 6 cents for gasoline and 2 cents for special fuels by FY 2023. From the new taxes generated by the increase, 35% is directed to the Department of Transportation (MDT) to provide a state funding match for federal-aid highway construction projects and 65% is statutorily appropriated in a match program for local government road and bridge projects.

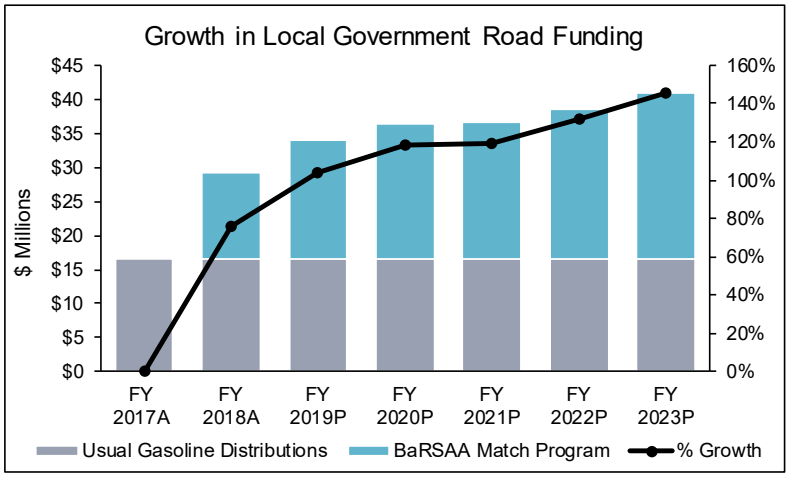
Department of Transportation

MDT is the administering agency for the gas and diesel taxes. Those taxes have been deposited into and expended from the restricted highway state special revenue account (HSSRA). Over time, the uses of the HSSRA funds grew and the tax revenues were unable to keep the pace with the spending needs, not only by MDT but also by the Department of Justice (DOJ) and in particular the Montana Highway Patrol (MHP), whose reliance on the account had grown. Between FY 2012 and 2016, spending from HSSRA outpaced the revenue collections, leading to reductions in the balance supporting the functions of MDT and its ability to match the federal dollars provided for the state's highway system.

In addition to the new funding provided by BaRSAA, the legislature made a series of changes in the distributions of funds flowing into and out of HSSRA, the most significant of which was to provide alternative funding for many of the DOJ needs and to distribute four cents of the gas and diesel taxes to MHP. The 2017 Legislature also made reductions in the MDT budget to reduce expenditures from the account.

With the numerous changes to the amount of appropriations, the fuel tax distributions, and the addition of the new BaRSAA tax, it is difficult to illustrate a comparison on the full benefits of the package of legislative changes for MDT. However, BaRSAA provided direct funding exclusively to the MDT Construction Program of $22.3 million in the 2019 biennium and projections are that BaRSAA will add $21.3 million in the 2021 biennium. Another indication of the benefit of the changes is that in FY 2018, revenue exceeded appropriations by $13.6 million in HSSRA for the first time in five years. Also, the working capital balance for the beginning of the 2021 biennium, is projected to be $46.4 million, an improvement over the beginning balance of 2019 biennium.

Local Government



The improvement in local government road funding is more obvious. BaRSAA provided a significant increase in the funding for local government, city/town and county, road projects. Since 1993, local governments received a set amount of $16.7 million annually from the gasoline taxes. Cities and towns received $10.4 million or 62.2% and counties received $6.3 million or 37.8%. BaRSAA provided local governments a 65% distribution of the increases in fuel taxes (both gasoline and diesel), with the same city/town and county split. To obtain the funding, local governments must request project funding through the "match program" established in 15-70-130, MCA. Eligible projects must result in the construction, reconstruction, maintenance, and repair of rural roads, city or town streets and alleys, or bridges. To qualify for the program, local governments must provide a match of $1 of local government funds to $20 of BaRSAA/match program funds. Match program awards are provided in March of each year and are based on calendar year tax collections.

The figure above shows the growth in local government road funding that resulted from HB 473. Funding for local projects is projected to increase by 119.1% by the end of the FY 2021, and by 145.3% in FY 2023. While this chart shows the increase in revenues by fiscal year, actual distributions in the match program revenues are distributed on a calendar year basis and local governments' action is required to obligate their portion of the distribution. As a result, the actual distribution of funding to local governments will differ slightly from the figure above.

Further Information

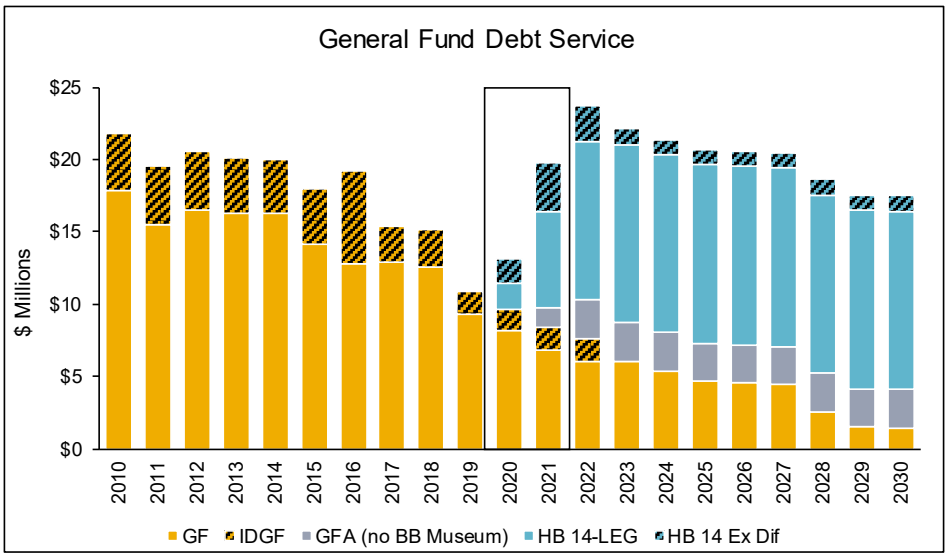
As required in HB 473, a website listing all highway and local road projects funded through BaRSAA was created, and is available online at https://app.mdt.mt.gov/barsaa/agency/project/list (deselect MDT from "Submitting Agency" filter to view only local government projects or only select MDT for Department of Transportation projects).

DEBT SERVICE

Montana's debt liability is relatively low and unless additional bonds are issued or approved, the payment streams will end in FY 2031. Montana ranks well when compared to other states' tax supported debt, according to a report by Moody's Investor Services, entitled *Medians-Total State Debt Remains Essentially Flat in 2017*. In comparison with the 50 states, with lower debt states having a higher rank, Montana ranks as follows:

- 48th in gross tax supported debt
- 47th in tax supported debt per-capita; $207
- 47th in net tax supported debt as a percent of personal income; 0.5%

The following table illustrates current debt service and includes projections for authorized but unissued debt service, as well as projections related to the executive proposal to authorize bonds for improvements to infrastructure statewide (HB 14).



- Gold-GF – General obligation (GO) bonds paid by the general fund. The bond issues related to this debt service primarily funded the construction of state government buildings ($15.0 million in the 2021 biennium)
- Gold Hatched IDGF – This category includes GO bonds and special revenue bonds that are paid indirectly through the general fund. The related bond issues include state building energy conservation bonds and revenue bonds for one of the state's hospitals that offset general fund revenue through institutional reimbursements that would otherwise flow into the general fund ($3.1 million in the 2021 biennium)
- Grey GO/GFA – This category includes the projections for debt services costs on authorized but unissued bonds ($42.2 million of authority). This category includes bonds authorized for the costs of two tribal compacts, and the St. Mary's diversion structure repairs ($1.3 million in the 2021 biennium). In this analysis, the remaining authority for the Montana Heritage Center (Betty Babcock Museum) is included in the debt service for HB 14, since it is assumed the authority would be issued along with the HB 14 bond authority
- Blue HB 14-LFD – This category illustrates the debt service costs of the Infrastructure in Montana executive proposal for the 2021 biennium (HB 14) using the assumptions of the LFD.[1] This estimate includes an assumption that the $160.0 million of GO bonds along with the previously authorized but unissued authority for the Betty Babcock Museum ($6.7 million). The bonds would be issued over three years with debt service costs beginning in the second-half of FY 2020 ($8.4 million in the 2021 biennium)
- Blue Hatched HB 14-Ex Dif – This category illustrates the debt service costs of the HB 14 as shown on the executive balance sheet. Like the LFD projections, the executive projection includes the authority recommended in the executive proposal along with the remaining authority for the Betty Babcock Museum. The blue hatched line demonstrates the difference between the LFD and executive (Ex) assumptions. The executive projection includes bond issuance over the same three-year period, however the executive projection uses higher interest rates and the associated greater debt service payment schedule for the bonds (total $13.4 million in the 2021 biennium)

In the 2021 biennium, the debt service paid directly and indirectly through the general fund for existing bond issues is expected to average $9.1 million per year. The debt service for executive proposal for

[1] The LFD analysis includes a bond issuance schedule provided by the bond proceeds user agencies as provided to the executive's office. Debt service is calculated by Piper Jaffray & Co., the state's financial advisors.

HB 14 as calculated by the LFD is projected to have a general fund debt service cost of $1.8 million in FY 2020 and $6.6 million in FY 2021. The executive calculation provides a more aggressive bond issuance schedule, leading to a cost estimate that is $2.5 million higher than LFD estimates in the 2021 biennium. Once all bonds are issued, the projected annual cost HB 14 debt service as calculated by the LFD would be $12.3 million per year while the projected debt service as calculated by the executive would be $13.4 million.

STATE INFORMATION TECHNOLOGY SERVICE DIVISION

HB 2 contained language which directed the Legislative Finance Committee (LFC) to:

- Conduct a customer satisfaction survey to assess agency needs and challenges that may need to be addressed by the State Information Technology Services Division of the Department of Administration (SITSD)
- Conduct a study of enterprise, data storage, and network services provided by SITSD

The customer satisfaction survey was completed in August of 2017 with the results presented to LFC in October 2017. The key findings in the survey include:

- Agencies concur with the concept of convergence
    - Smaller agencies are more satisfied with convergence
    - Medium and larger agencies have more concerns and complications with the impacts of convergence
- Positive experience with most areas of technical support within SITSD
- Agencies have concerns with the enterprise rate
- SITSD needs to improve internal and external communication

Due to the timing of convergence being completed and the hiring of a new Chief Information Officer, a follow-up survey will be conducted in the 2021 interim.

A case study which analyzed the costs and benefits of IT convergence versus decoupling from the current centralized services model was presented to LFC in March 2018.

The analysis of IT convergence has led to the conclusion that neither end of the spectrum is optimal, one extreme being IT services are completely centralized and the other being IT services are completely decentralized. A well-conceived hybrid of the two would provide the best overall value in helping state agencies fulfill their missions, with specific elements centralized in order to capitalize on the cost savings but with the ability to customize certain services and providers to best fit the needs of individual agencies and their customers.

Although the case study set out to define unequivocally the costs and benefits of centralized IT services versus a decentralized environment, it quickly became apparent that each agency and each branch of government has unique and different business needs that may not be met through a completely centralized enterprise. Decisions about establishing the best hybrid package of services will take a significant and deliberate analysis for each specific agency or branch. The benefits of full convergence alone must be weighed against the value of flexibility and, in some instances, autonomy that certain agencies may need in order to provide the best overall value to their customers.

COMMUNITY COLLEGE FUNDING FORMULA REVIEW

The Legislative Finance Committee established a review of the community college funding formula to occur every three biennia to determine if the calculation is still valid to use for the state appropriation calculation. Over the last two reviews, there have been adjustments to statute based on the findings. The most recent review occurred during the 2019 interim. The scope of this review was to analyze the following factors within the funding formula:

- Cost of education (COE)
- Fixed and variable cost allocation
- Calculating the formula by individual community college or collectively

- State percent share
- State support per resident FTE
- State share calculations (banding)

The two areas of concern stemming from the review are the methods and results of the calculation of the cost of education, and the state share per resident FTE band. As a result of the review, LC 1258 and LC 1259 were requested to revise funding for the community colleges by adjusting the range of allowable state support per resident FTE to:

- Plus or minus two standard deviations of the six-year weighted average of the community colleges and 2-year colleges
- Plus or minus two standard deviations of the six-year weighted average of the Montana University System

STUDY OF STATE LABS

The 2017 Legislature adopted and the Governor signed into law HB 661, an interim study on Montana state laboratories. The intent of this bill was for the Legislative Finance Committee (LFC) to direct a study of the long-term future of and possible efficiencies to be gained from consolidating or collocating the state-supported labs that are currently located on the Montana State University campus in Bozeman. The study is being conducted by a bipartisan subcommittee comprised of two members each from LFC, Environmental Quality Council (EQC), and Economic Affairs Interim Committee (EAIC).

The goal of the subcommittee was to evaluate the function, condition, and needs of six labs located within the MSU Bozeman campus and, if deemed appropriate, recommend a proposal to the LFC in regard to the subcommittee's findings. The labs included in the study are the Montana Department of Livestock Veterinary Diagnostic Lab, the Montana Agricultural Experiment Station's (MAES) Wool Lab, the MAES Seed Lab, the Montana Department of Fish, Wildlife, & Parks (FWP) Wildlife Lab, the Montana State University (MSU) Pulse Crops Diagnostic Lab, and the Montana Department of Agriculture Analytical Lab.

The options presented were created by prioritizing the most critical program elements that were identified through the baseline process. The projected costs for each option include the cost of building construction and renovation, construction cost inflation assuming project appropriation in the 2019 Session, and project associated costs such as design fees and lab fixtures, furnishings, and equipment. All options exclude the cost of land acquisition, sitework, and extension of utilities to site if necessary. Estimated costs for the options range between $20.8 million and $59.9 million.

The Department of Livestock has proposed using state special revenue funds for preliminary design of a new Veterinary Diagnostic Lab through HB 5, the Long-Range Building Program bill, for consideration by the 2019 Legislature.

BIENNIAL COMPARISON 17-7-151, MCA

Statute requires in 17-7-150, MCA that the Legislative Fiscal Division compare temporary and statutory appropriations of state resources in the current biennium to the same in the next biennium.

2019 Biennial Budget Compared to 2021 Biennial Budget ($ Millions)	Appropriated 2019 Biennium	Appropriated 2021 Biennium	Biennial Change
Comparables			
HB 2			
General Fund	$4,063.2	$4,309.6	6.1%
State Special Revenue	1,513.2	1,627.1	7.5%
Federal Special Revenue	4,531.1	4,400.7	-2.9%
Appropriated Proprietary	24.3	25.6	5.4%
Subtotal HB 2	10,131.9	10,363.1	2.3%
Transfers HB 2	(40.6)	(39.2)	-3.7%
Net Subtotal HB 2	10,091.2	10,323.9	2.3%
Statutory Appropriations (HELP Act sunsets)			
General Fund	626.0	570.2	-8.9%
State Special Revenue	493.8	502.5	1.8%
Federal Special Revenue	1,100.6	315.1	-71.4%
Appropriated Proprietary	80.0	91.3	14.1%
Subtotal Statutory	2,300.4	1,479.1	-35.7%
Transfers Statutory	(60.7)	(38.5)	-36.6%
Net Subtotal Statutory	2,239.7	1,440.7	-35.7%
Other Appropriation Bills (including HELP Act in 2021 Biennium)			
Subtotal Other Appropriation Bills	397.0	2,010.5	406.4%
Transfers Other Appropriation Bills	0.0	0.0	0.0%
Net Subtotal Other Appropriation Bills	397.0	2,010.5	406.4%
Language Appropriations*			
Subtotal Language Appropriations	325.8	326.0	0.1%
Transfers Language Appropriations	(102.0)	(102.0)	0.0%
Net Subtotal Language Appropriations	223.9	224.1	0.1%
Total Comparables Not Including Transfers	$12,951.8	$13,999.2	8.1%
Non-Comparable			
Subtotal Budget Amendments & Carryforward	228.4	0.0	-100.0%
Added Authority (HB 1 and Supplemental)			0.0%
Total Added Authority	24.2	0.0	-100.0%
After Biennium began legislative adjustments			
SB 261	(45.9)	0.0	-100.0%
17-7-140	(139.2)	0.0	-100.0%
SS Reductions	(61.6)	0.0	-100.0%
Restore	45.7	0.0	-100.0%
Total 2019 Biennium adjustments	(200.9)	0.0	-100.0%
Total Non-Comparable Items	$51.7	$0.0	-100.0%