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Comments on Montana's Volatility Management

Stephen Bailey, Associate Manager, State Fiscal Health

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Why Does Volatility Matter?



- Influences timing and size of state budget surpluses and shortfalls
- Confounds best efforts to craft and execute balanced budgets
- Complicates efforts for states to achieve a structurally balanced budget
- Makes it difficult to forecast revenues

State Revenues are Becoming Increasingly Difficult to Forecast



50-state median error rate in forecasting state revenue as percentage of tax collections



Source: Pew's Managing Volatile Tax Collections in State Revenue Forecasts, Rockefeller Institute of Government

How States Can Reduce the Impact of Volatility on the Budget

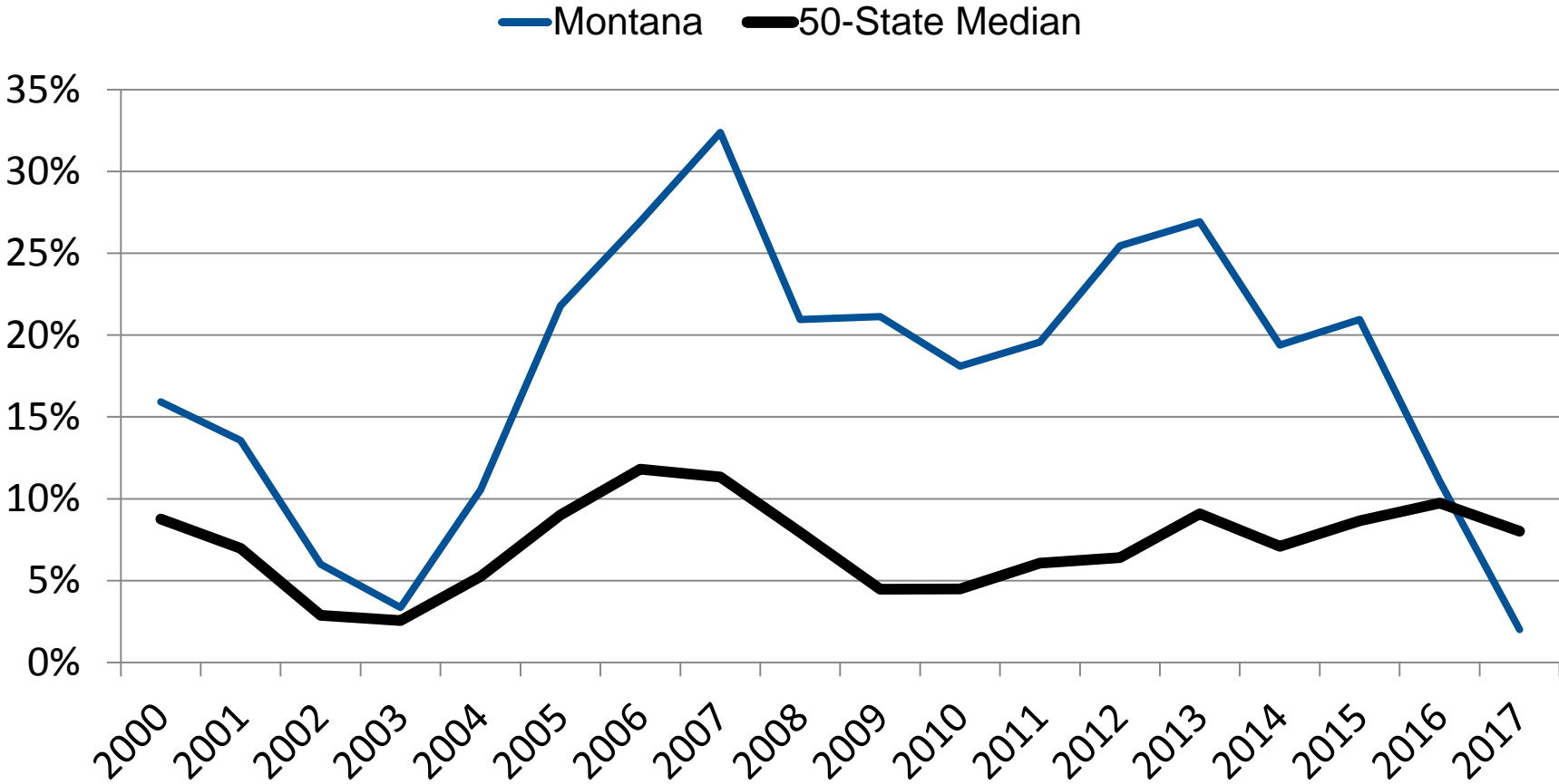


- Building reserves during revenue growth periods to use during revenue declines;
- Depositing above-normal collections of revenue into a budget stabilization fund;
- Stress testing reserve sizes to ensure they can accomplish established goals;
- Managing especially volatile tax sources; and
- Developing multi-year budget projections.

Building Reserves during Revenue Growth Periods to use during Revenue Declines



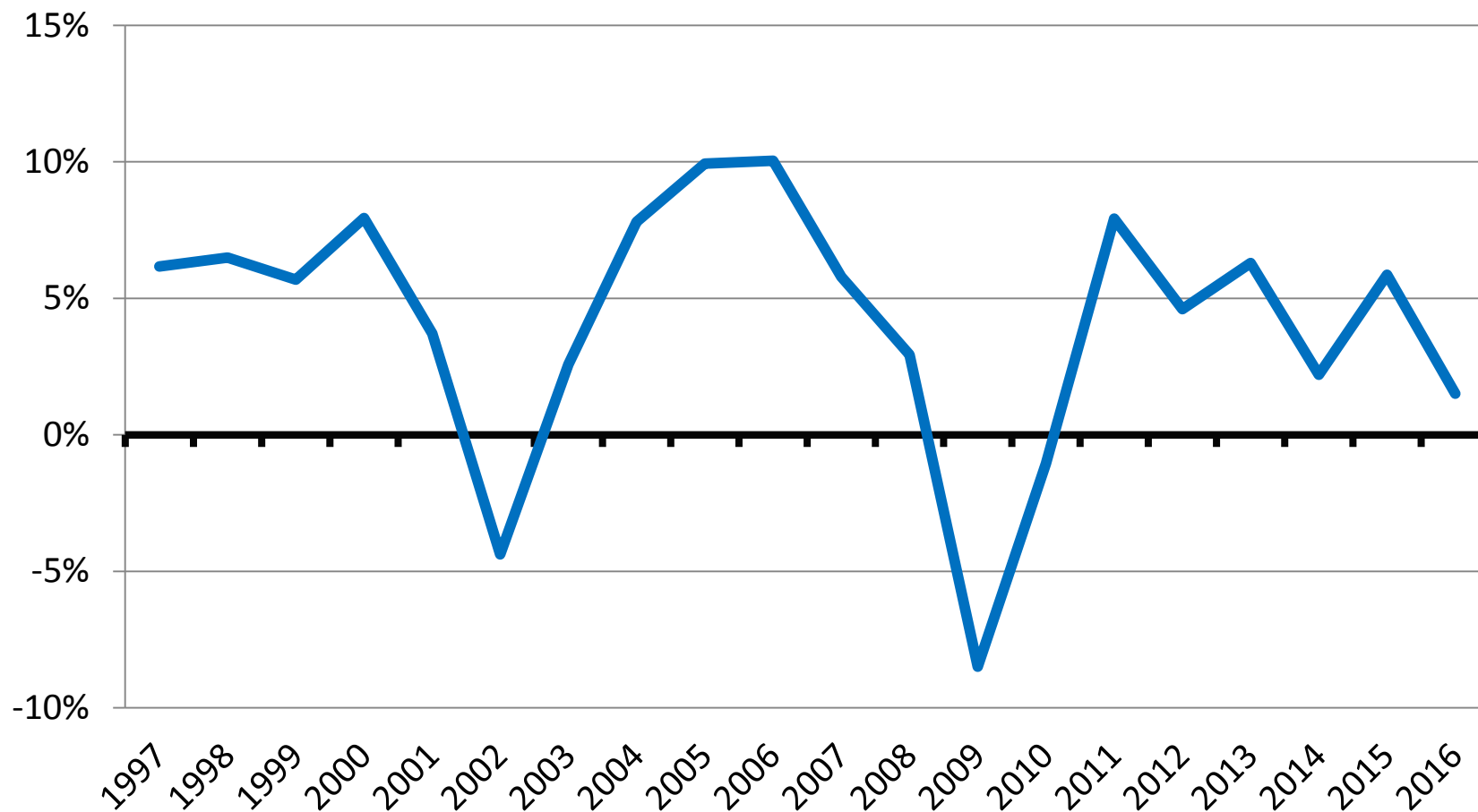
Reserves as a percent of general fund expenditures, 2000-2017



Source: Pew Fiscal 50 Indicator, includes general fund ending balance plus rainy day fund

50-State Total Tax Revenue Collections

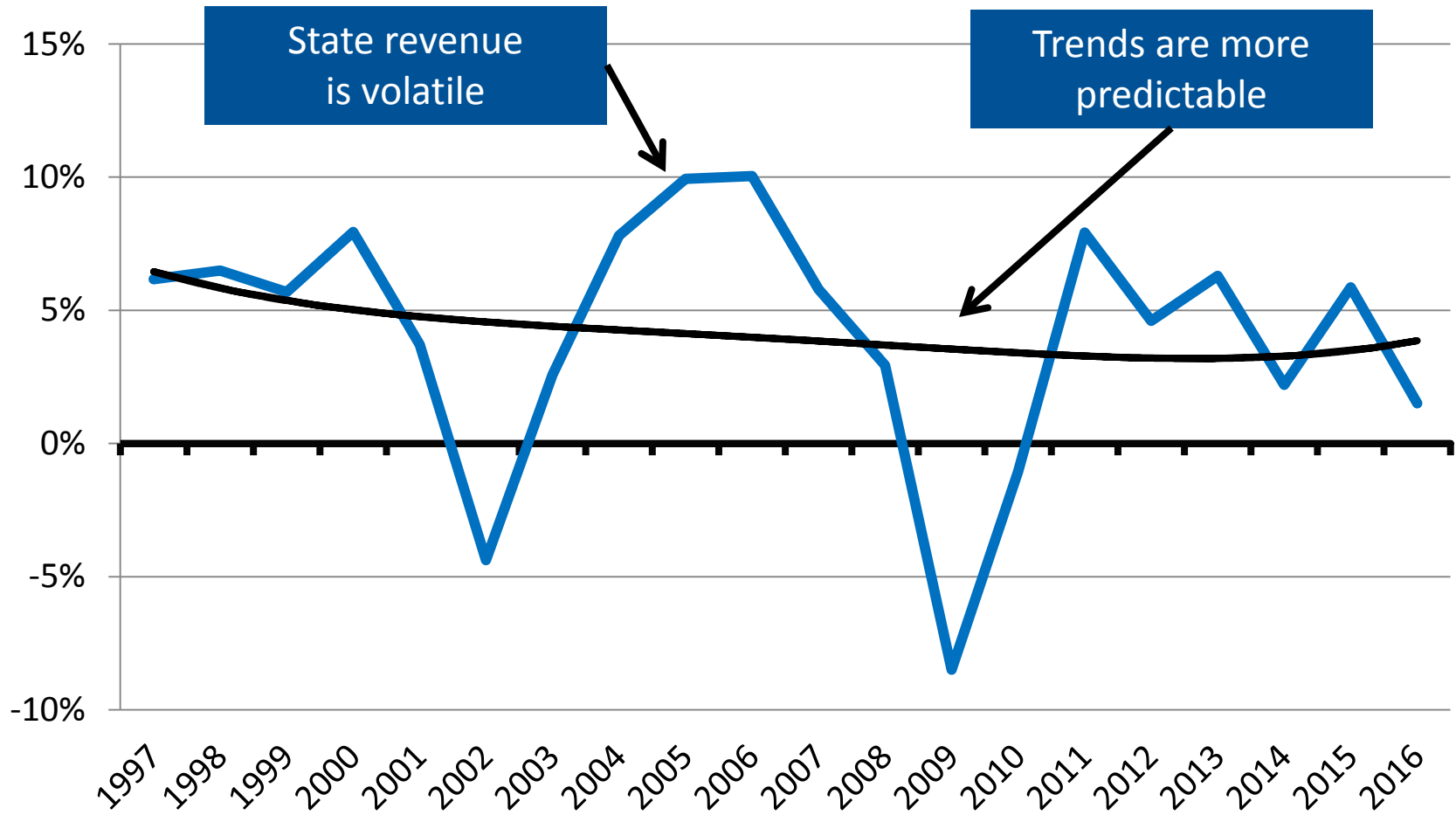
Annual percent change, 1997-2016



Source: Pew analysis of U.S. Census State Annual Tax Collections Data

50-State Total Tax Revenue Collections

Annual percent change, 1997-2016



Source: Pew analysis of U.S. Census State Annual Tax Collections Data

Depositing Above-Normal Collections of Revenue into a Budget Stabilization Fund

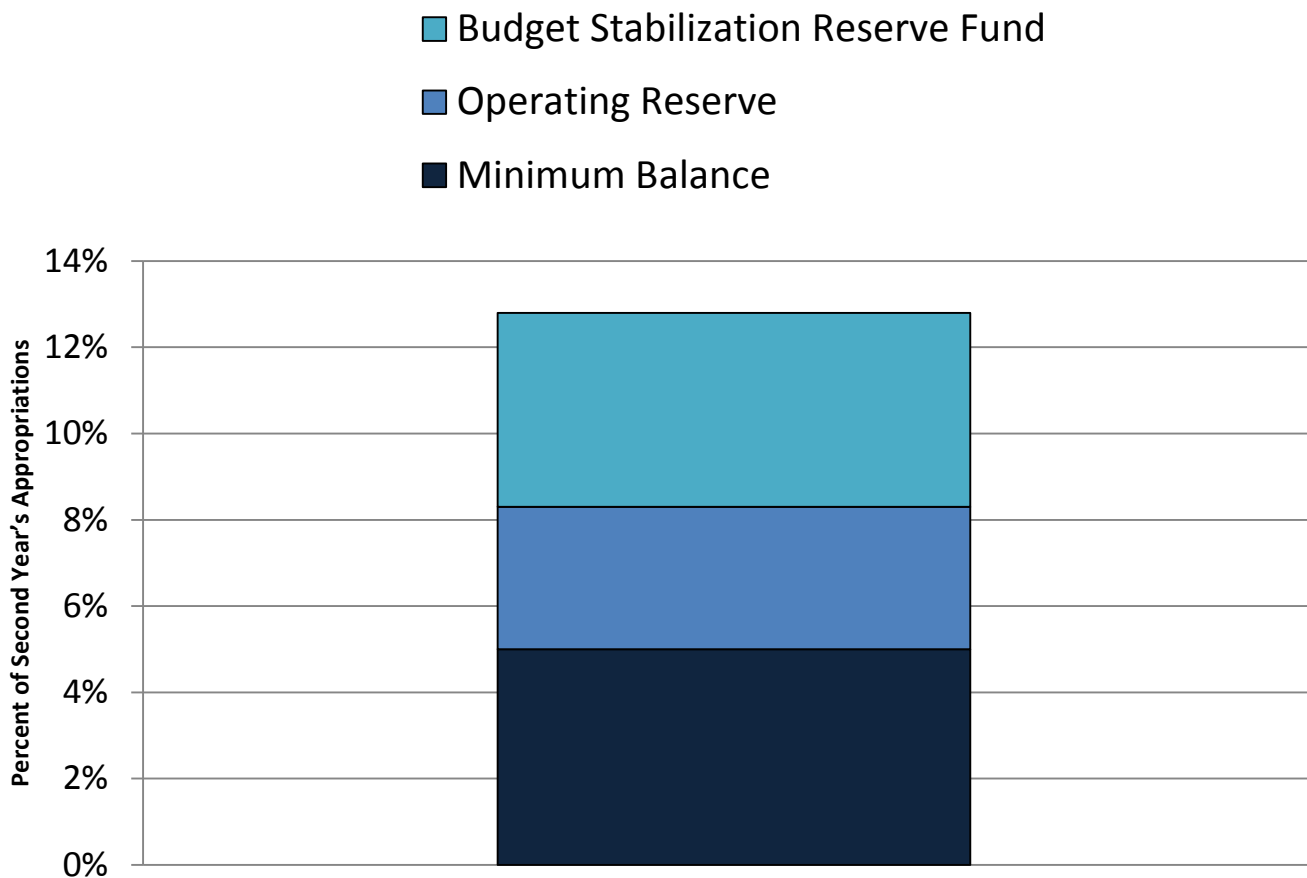


- Montana's budget stabilization reserve fund was established with SB 261 last year.
- Beginning in 2021, ties deposits to above-average collections of revenue growth.
 - 6-year average growth trend
 - 50 percent of excess growth saved into the new fund
 - Based off best practice found in Virginia

Stress Testing Reserve Sizes to Ensure They Can Accomplish Established Goals

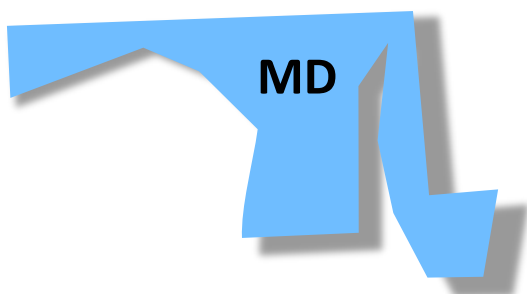


Montana's Current Reserve Purposes and Target Levels



Managing Especially Volatile Tax Sources

Maryland limits the estimate of its non-wage income taxes



Beginning in FY 2020, Maryland will place a cap on estimates for its non-wage tax revenue.

- The state may not appropriate more than the previous 10-year average share of non-wage income as a percent of general fund revenue.
- Above-average revenue will be deposited into the state's rainy day fund, then a fund for one-time projects.

Developing Multi-year Budget Projections



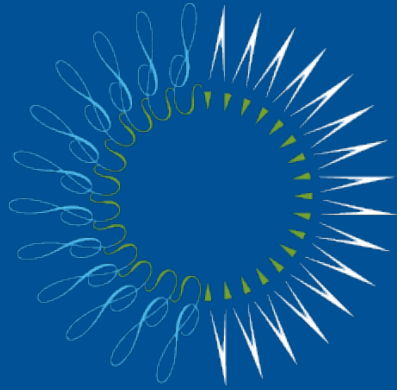
Benefits noted in interviews with other states

- Early view of how policy choices may impact budget beyond the biennium
- Warning system for structural imbalances
- Stay ahead of potential shortfalls and imbalances, rather than react to crises
- Reinforces a long-term focus when budgeting

Concluding Comments



- Budget stabilization reserve fund rules established in SB 261 will help the state mitigate revenue volatility in the future.
- Assess changes in the state's volatility and re-evaluate target levels, withdrawal triggers, and excess growth definition on a regular basis.
- Consider techniques other states have used to mitigate especially volatile tax sources.
- Examine the benefits of increasing the length of budget projections.



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Stephen Bailey

Associate Manager, State Fiscal Health
sbailey@pewtrusts.org, 202.540.6650