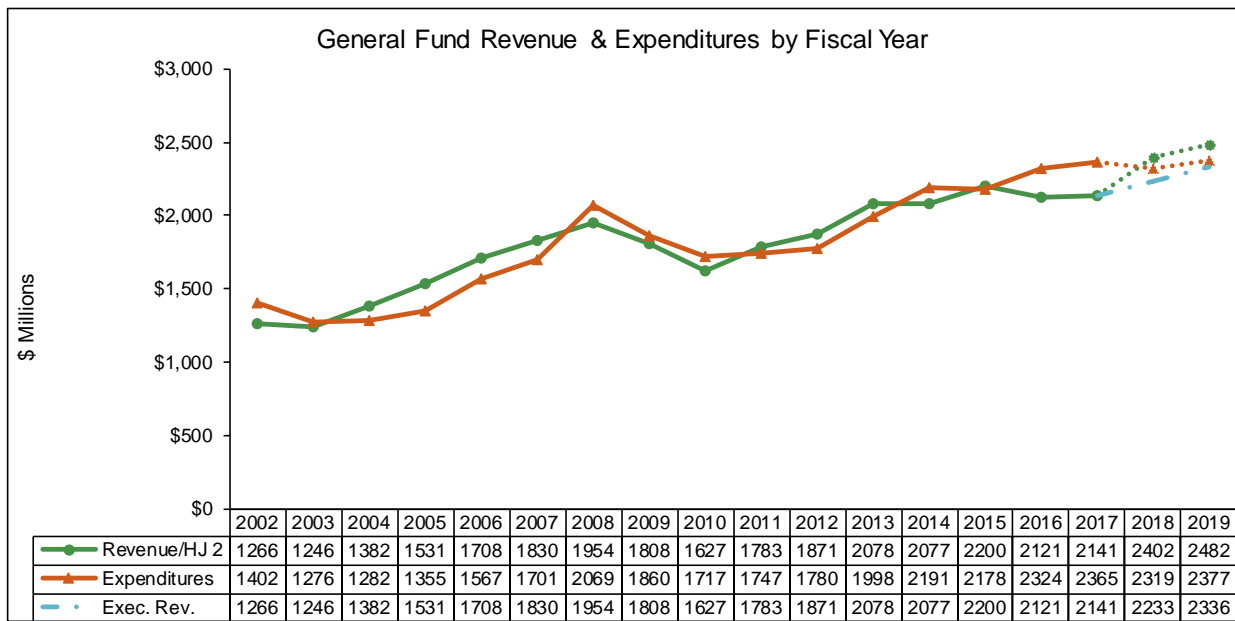
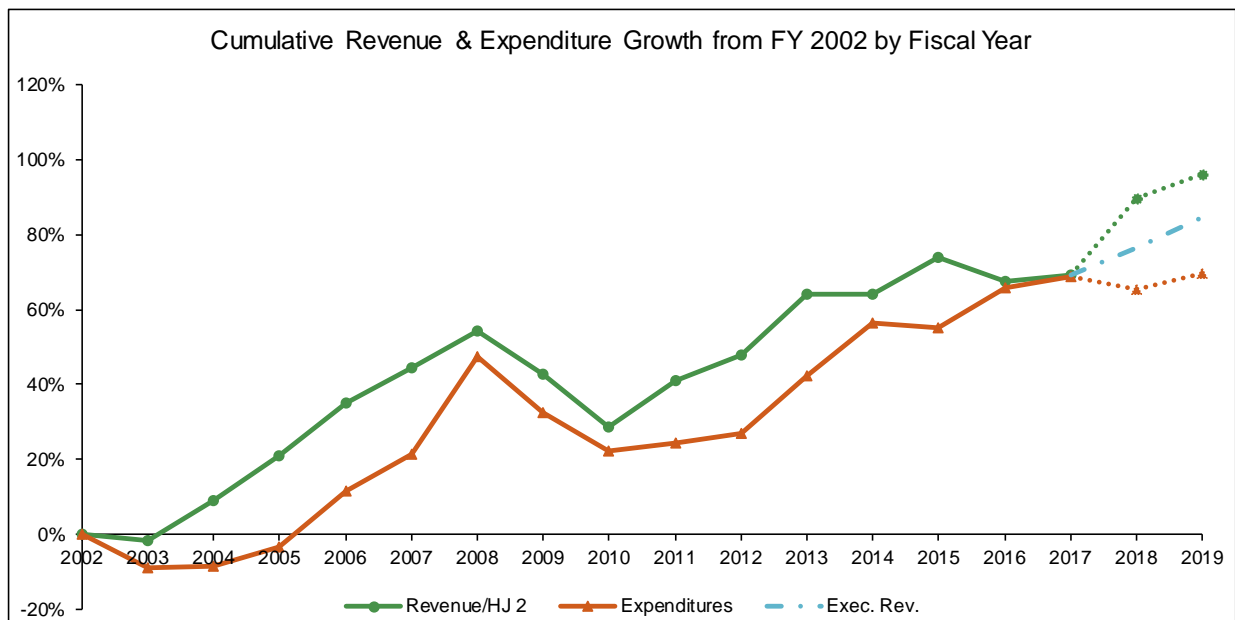


General Fund Revenue and Expenditure Trends

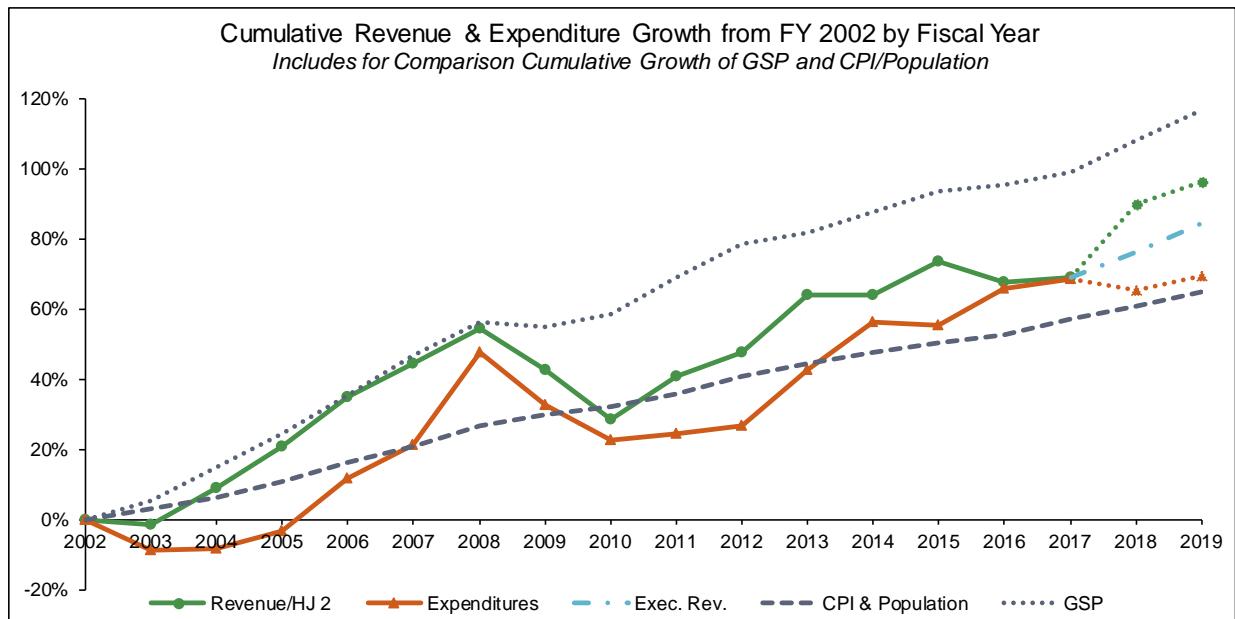
Total general fund revenue has grown from \$1,266 million in FY 2002 to \$2,141 million in FY 2017, while total general fund expenditures have grown from \$1,402 million in FY 2002 to \$2,365 million in FY 2017. The chart below includes [HJ 2 \(2017 Session\)](#) revenue forecasts for FY 2018 and FY 2019, and estimated expenditures with full implementation of [SB 261 \(2017 Session\)](#). The executive August 2017 revenue estimate is shown for comparison.



Cumulative growth from FY 2002 is shown in the chart below. FY 2017 revenue and expenditures both grew 69% since FY 2002; however, cumulative revenue growth was higher than the corresponding expenditures growth for all but the most recent years, which led to growing or high ending fund balances in most years.



Relative to two measures of growth—combined inflation (as measured by CPI) and population growth, and gross state product (GSP) growth—cumulative revenue and expenditures growth has typically fallen somewhere in the middle. Note that combined inflation and population growth does not reflect higher standards of living due to increased real personal income.



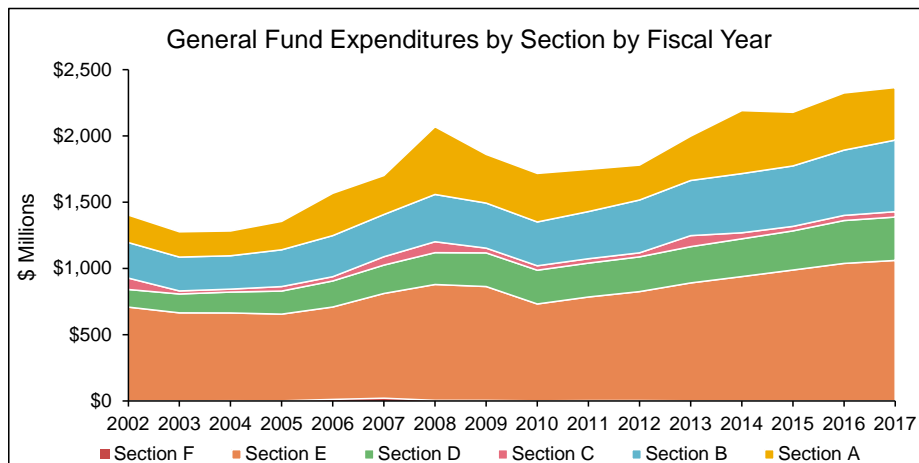
For further detail on general fund revenue trends, see the last two pages of this document.

General Fund Expenditures by Section and Type

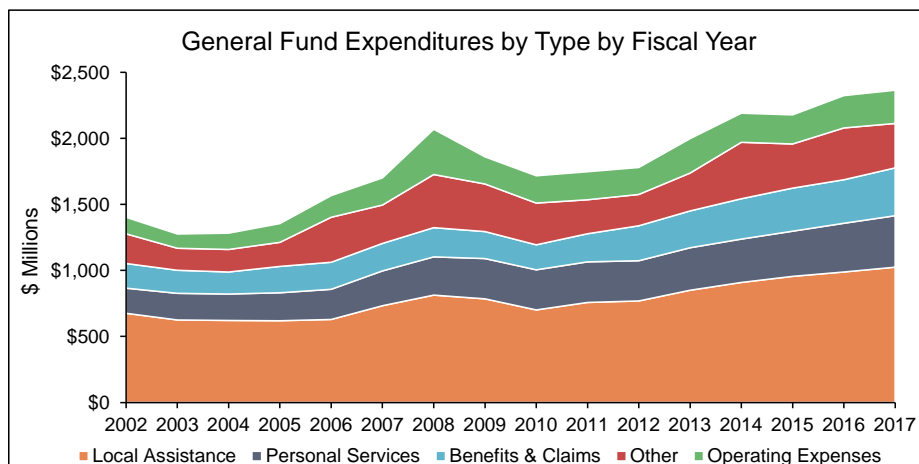
The following chart shows general fund expenditures between FY 2002 and FY 2017 for all sources of funding including HB 2, statutory appropriations, and other appropriation bills. The expenditures are separated into functional areas of the budget:

- Section A – General Government
- Section B – Public 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 Building Program

Section E—primarily K-12 and higher education—makes up between 42% and 52% of the total expenditures from the general fund.

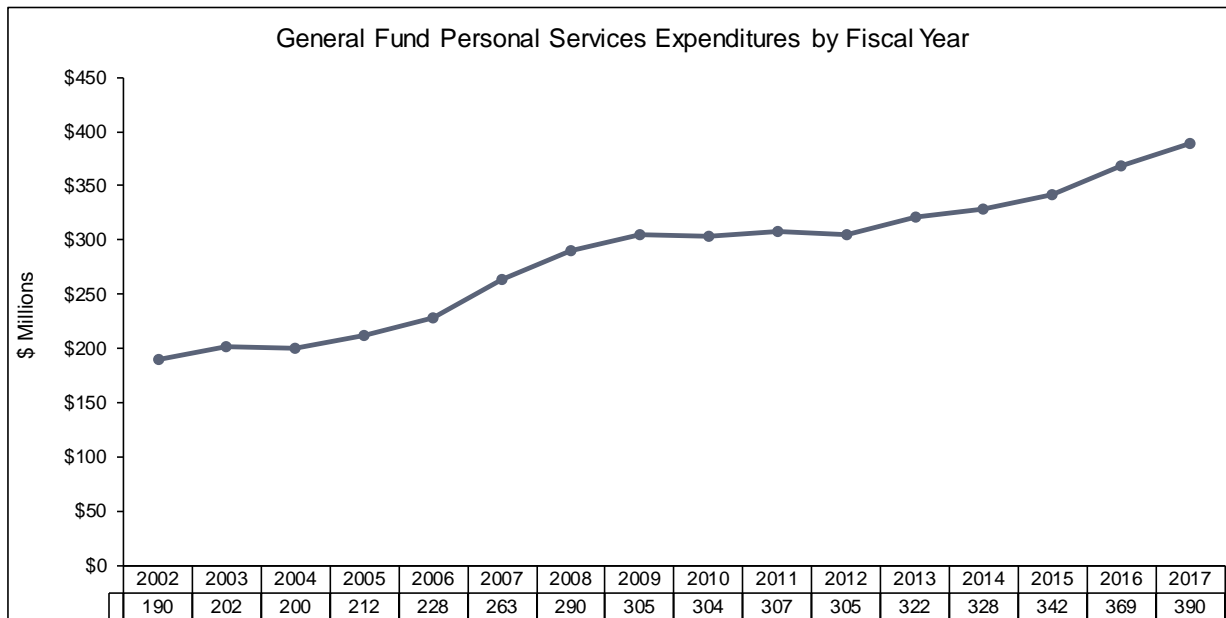


The legislature establishes appropriation authority by type of expenditures. As reflected in the following chart, local assistance is between 40% and 49% of general fund expenditures. Local assistance includes support to schools, state contributions on behalf of local pension obligations, and local government entitlement share.

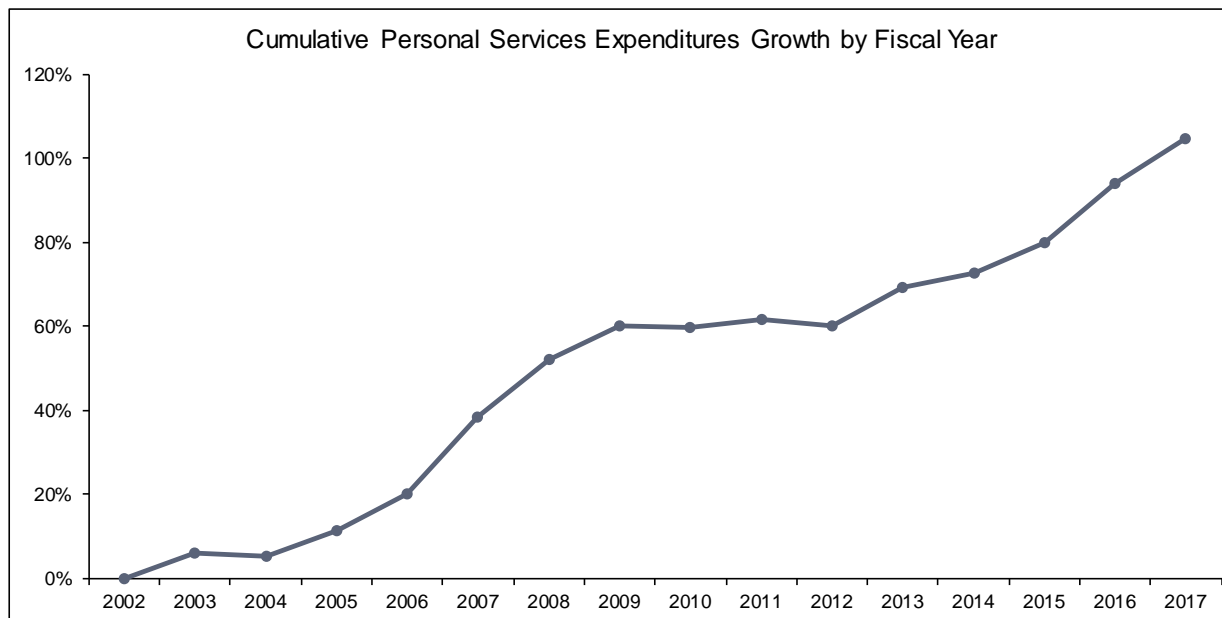


*Personal Services Detail*

Personal services expenditures have grown 105% since FY 2002, somewhat faster than the other broad categories of expenditures. For comparison, operating expenses have grown 101%; benefits and claims, 94%; local assistance, 52%; and other expenditures, 50%. Key drivers in the mid-2000's growth in personal services include the state assumption of Office of Public Defender and district courts.



Cumulative growth in general fund personal services expenditures is shown in the following chart.

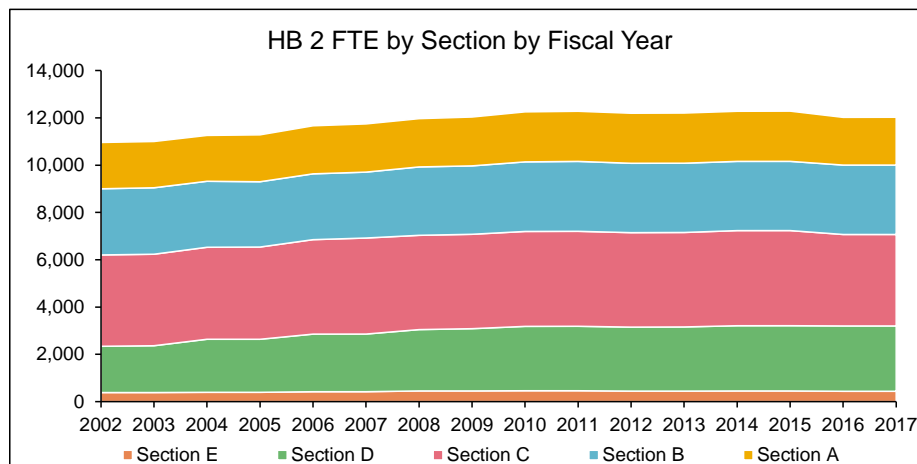


Personal Services Expenditures vs. Budgeted FTE

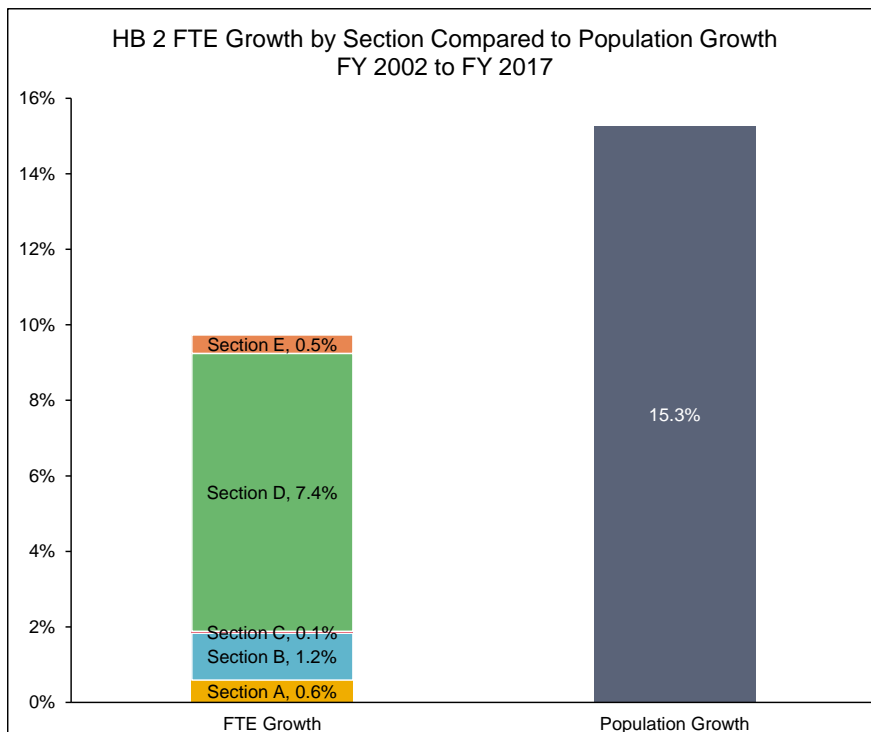
The previous section provided information on general fund expenditures and further detail on general fund personal services expenditures. The next section provides information on full-time equivalent (FTE) positions in HB 2 for all fund types. Personal services expenditures are not equivalent budgeted FTE: the legislature agrees to a base level of FTE, but may or may not appropriate full funding for the FTE. The difference is commonly referred to as vacancy savings. Vacancy savings has ranged between 2% and 7%; in the 2019 biennium, implied vacancy savings rate is at least 6%.

HB 2—All Funds FTE Trends

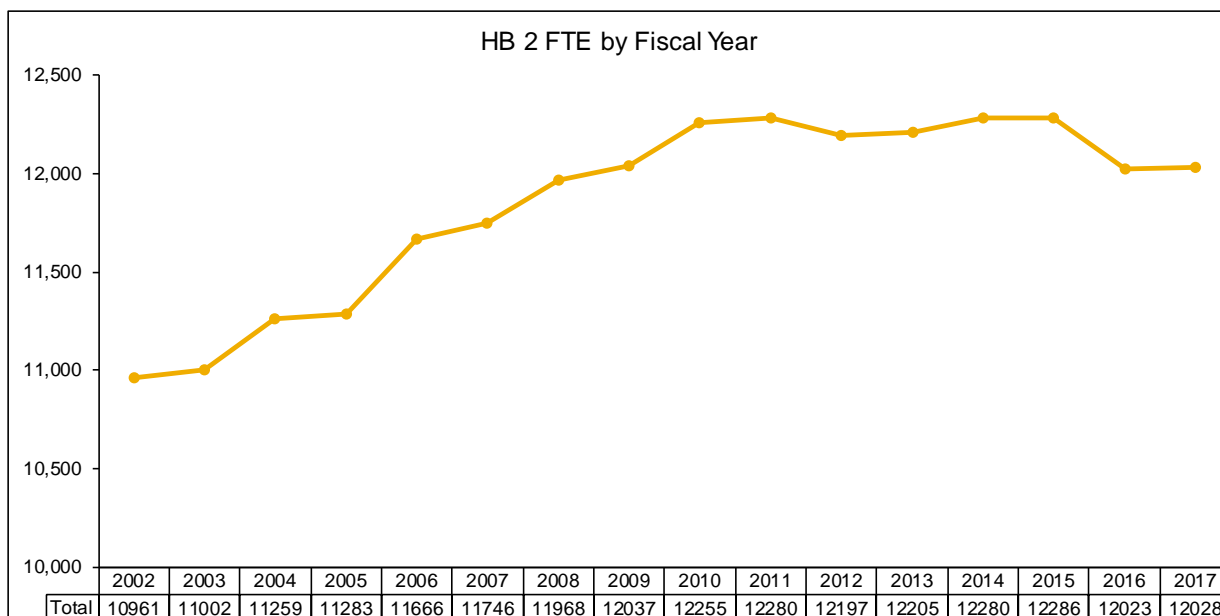
The following chart shows full-time equivalent positions (FTE) as budgeted in HB 2 between FY 2002 and FY 2017 from all funding sources. The FTE for the Montana University System are not budgeted in HB 2 and are not reflected in the chart. Section C – Natural Resources and Transportation, which includes the Departments of Transportation, Fish, Wildlife, and Parks, Natural Resources and Conservation, and Environmental Quality has the largest number of FTE. The number of FTE in Section C has ranged between 3,863.10 FTE and 4,023.05 FTE; note that most of the Section C FTE is not funded with general fund.



Overall HB 2 FTE has grown 9.7% between FY 2002 and FY 2017 compared to 15.3% population growth over the same time period. Section D – Judiciary, Law Enforcement, and Justice shows the largest growth in the period due to establishment of the Office of the Public Defender. In FY 2002 the Appellate Defender Commission with 3.00 FTE was part of the function of state government. In FY 2006, the Office of the Public Defender was created with a total 92.25 FTE; the agency has grown to 235.94 FTE, as funded by the 2017 Legislature.

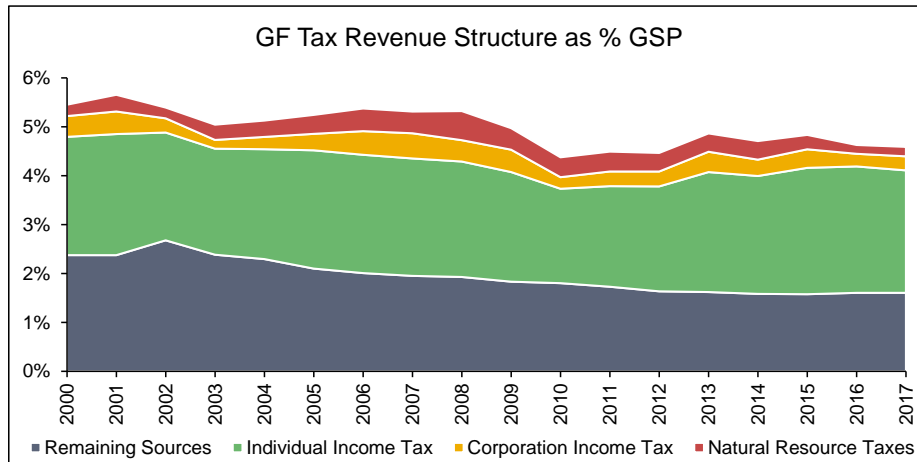


Total FTE over time appears to have not changed significantly, as depicted in the area chart on the previous page; however, a closer view of the total as shown below more clearly illustrates the change over time.



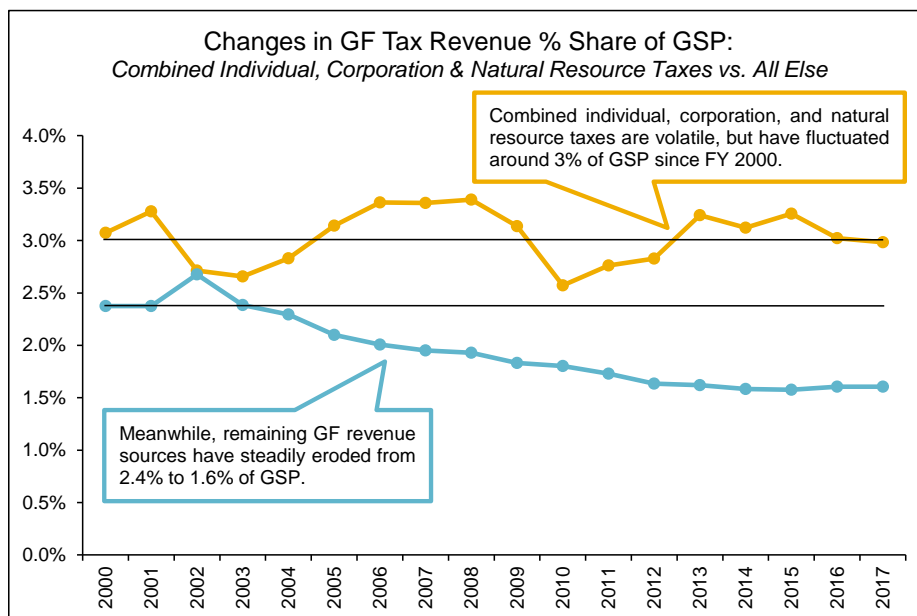
General Fund Revenue Trends

Total general fund revenue as a share of gross state product (GSP) has declined since FY 2000, as shown in the chart below. To better understand the underlying cause of the decline, key revenue sources—individual income tax, corporation income tax, and natural resource taxes—are shown separately.



As depicted in the chart above, the primary source of decline seems to be due to the “Remaining Sources” category. The chart below groups individual, corporation and natural resource tax revenue as a share of GSP, and compares it with remaining sources of general fund revenue as a share of GSP. While combined individual, corporation, and natural resource taxes are certainly volatile, the amount has fluctuated around 3% of GSP since FY 2000. The decline on overall revenue as a share of GSP appears to be due to the decline in the remaining sources of general fund revenue.

An approximation of the revenue impact attributable to the erosion of remaining sources from 2.4% to 1.6% of GSP can be generated by multiplying annual GSP by the difference between 2.4% and the actual share collected. Under this calculation, the difference in FY 2017 was \$371 million and the cumulative total since FY 2000 is over \$3.3 billion.



The following table summarizes the primary sources responsible for the overall decline in general fund revenue as a share of GSP. For most sources, an estimate of recent years' revenue impact is calculated based on an average share of GSP; however, for sources diverted to other funds, actual impacts are known.

Sources of GF Revenue Erosion & Estimate of Recent Years' Impact				
(\$ Millions)				
Revenue Source	FY 2015	FY 2016	FY 2017	Possible Reason for Decline
Property Tax	\$70.8	\$63.9	\$66.5	Legislative & executive policy decisions
Vehicle Taxes & Fees	75.7	74.9	77.5	Permanant registration, consumer behavior
Insurance Tax*	24.5	22.5	17.8	Revenue diverted by voter initiative
Video Gambling Tax	22.1	22.0	24.1	Smoking ban, consumer behavior
Other Business Taxes	12.4	13.7	15.4	Flat fee structures, consumer behavior
Interest Earnings	44.9	44.1	44.5	Low short-term interest rates
Other Consumption Taxes	21.1	20.0	23.4	Flat fee structures, consumer behavior
Tobacco Settlement*	14.4	15.0	14.9	Revenue diverted to state special revenue accounts
Common School Interest and Income*	48.3	47.0	43.1	Revenue diverted to state special revenue account
Estate Tax	15.0	15.0	15.0	Federal tax law change
Remaining Sources	25.6	26.7	28.9	Flat fee structures, consumer behavior
<b>Total</b>	<b>\$374.8</b>	<b>\$364.8</b>	<b>\$371.1</b>	

\*Insurance tax, tobacco settlement revenue, and common school interest and income actual amounts are known, as these revenue sources were diverted to other funds.