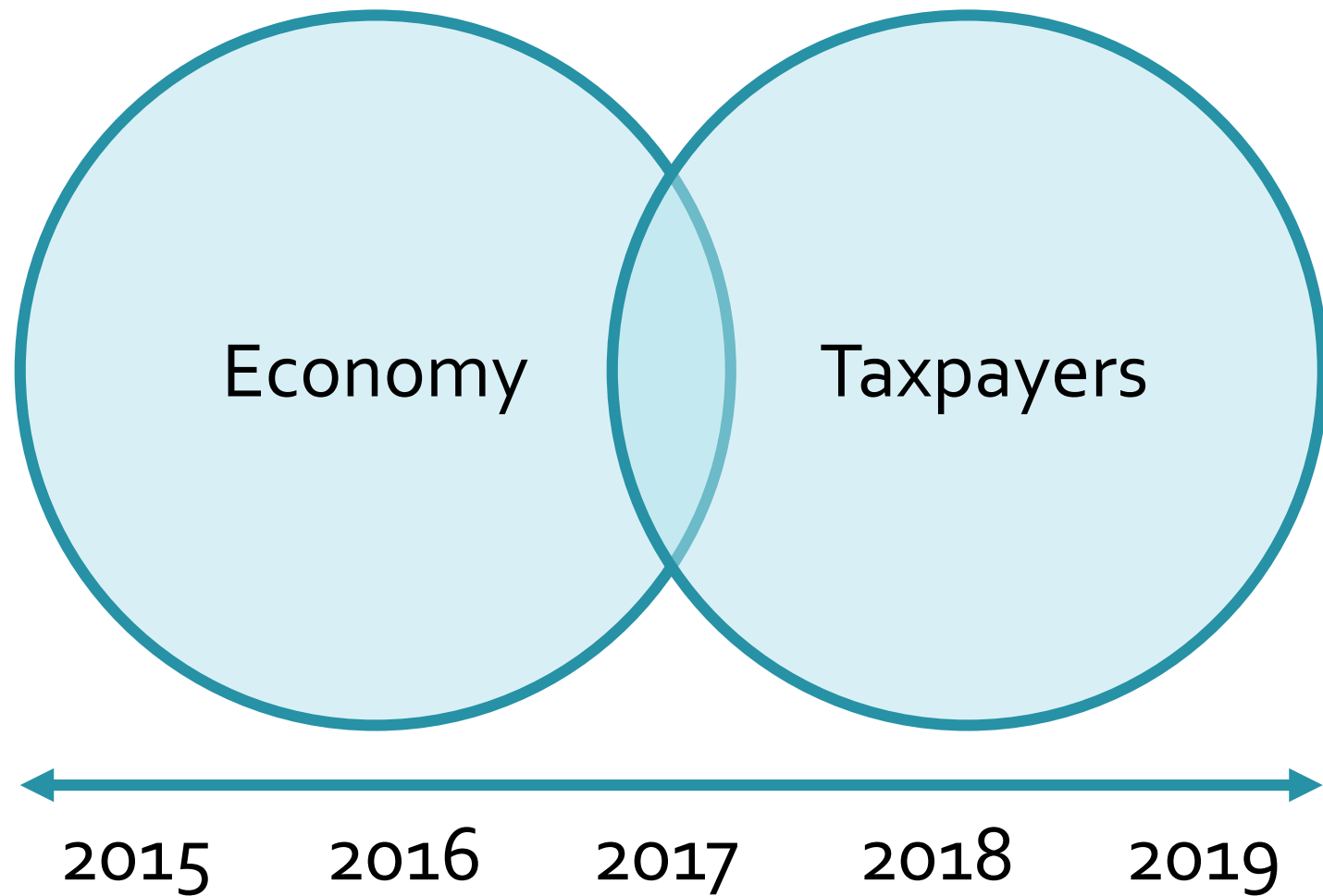


Montana's General Fund

A Tale of Two Biennia with Implications for the 2021 Biennium

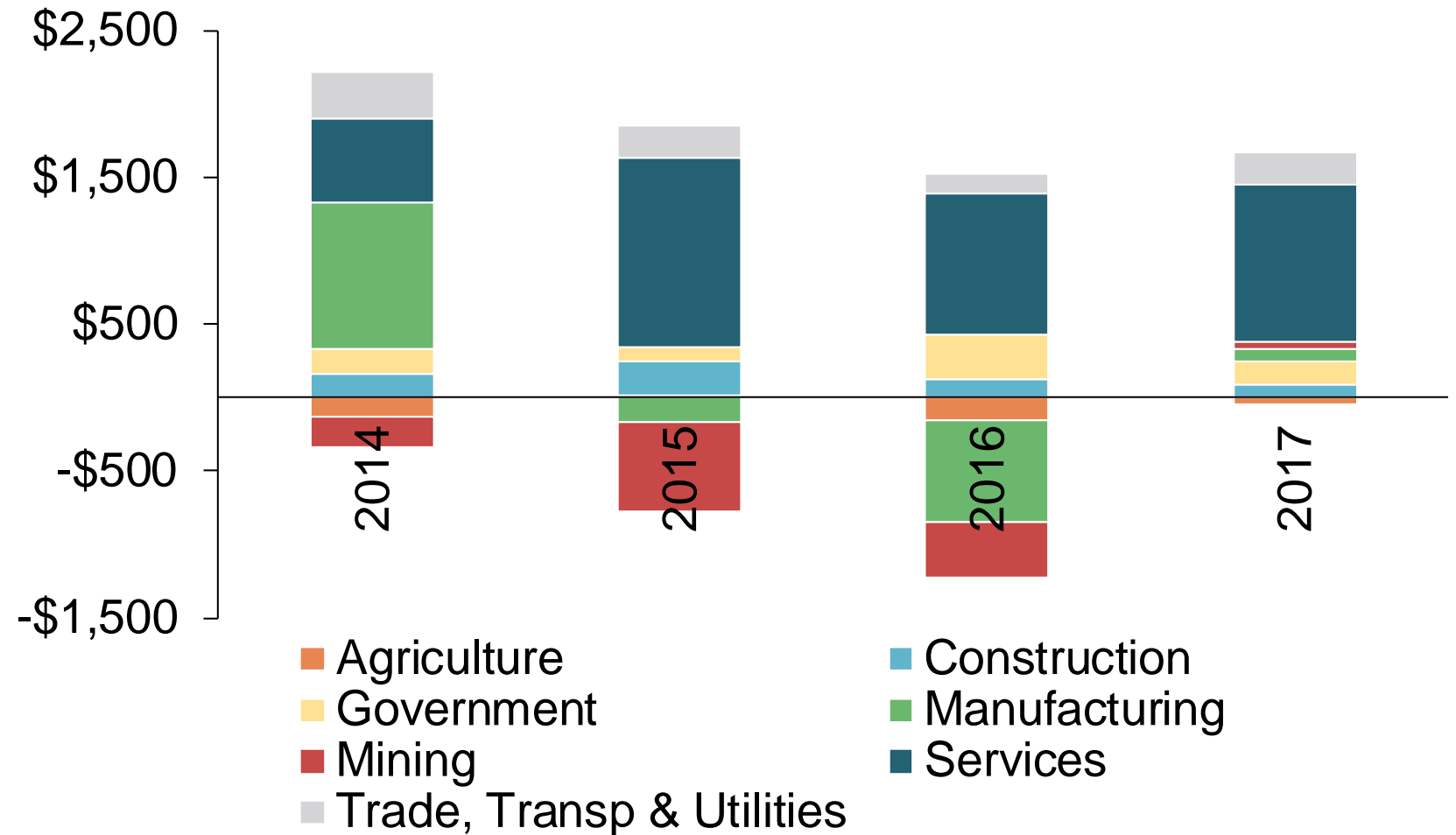
Montana
economy &
taxpayers
intersect in FY
2017



Economy

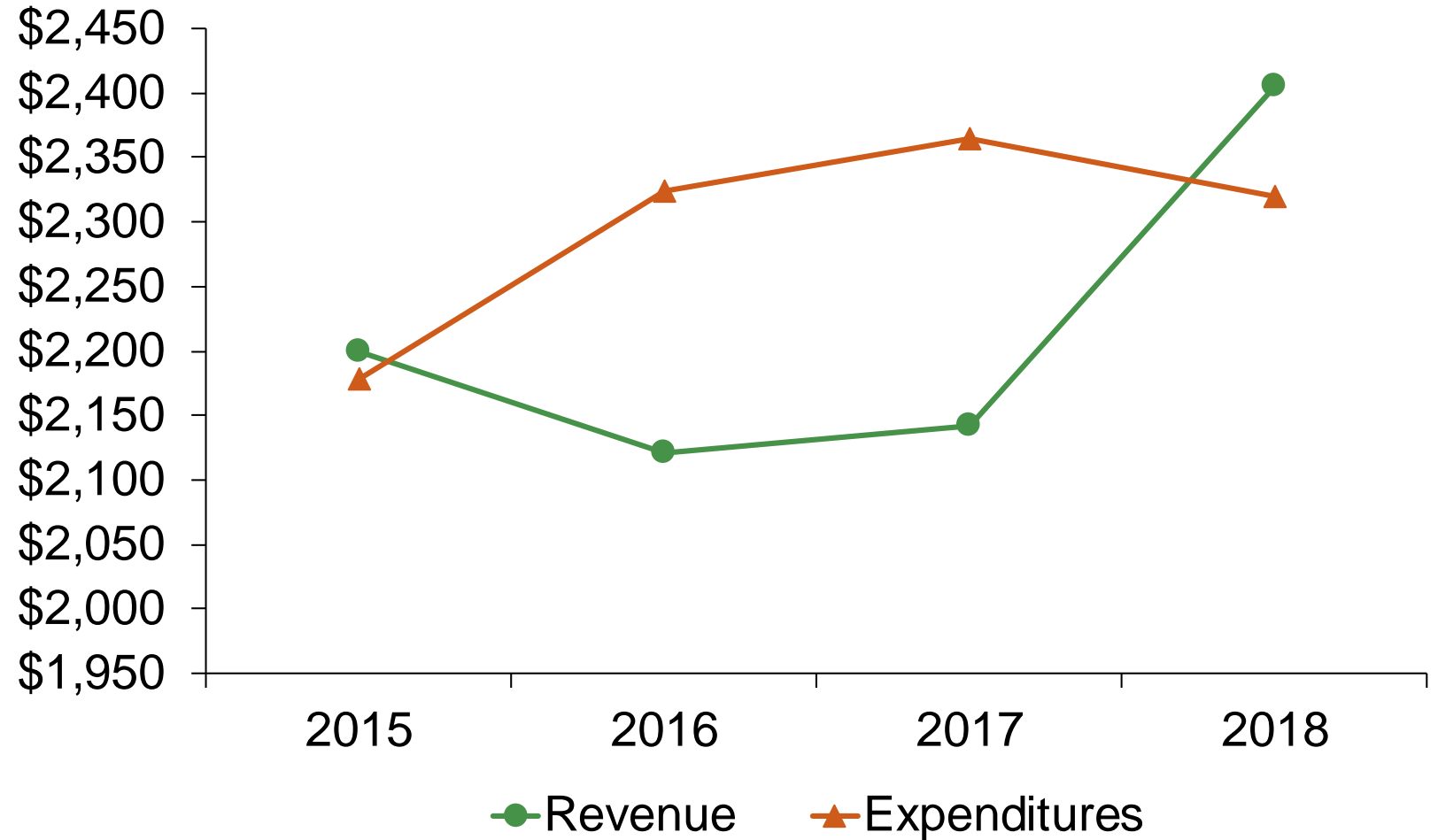
Ag, mining & manufacturing industry sectors were a drag on economic growth in CY2015 & 2016

Year/Year Gross State Product Change by Industry Sector (\$ Millions)



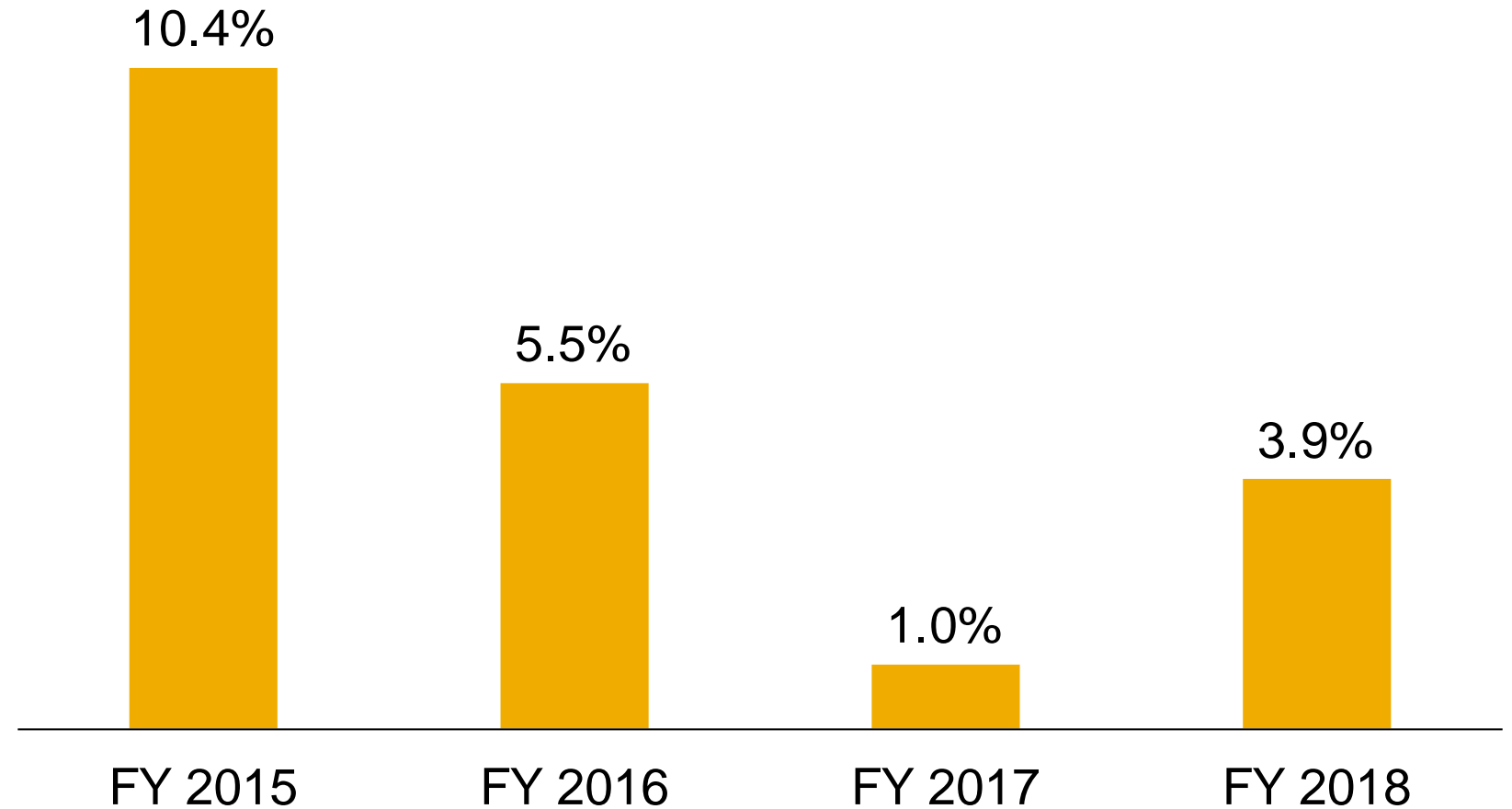
As economic drag led to decreased revenues in FY 2016 & 2017, expenditures continued to increase...

General Fund Revenues & Expenditures (\$ Millions)



...which resulted in a declining general fund ending fund balance

General Fund Ending Fund Balance as % of Biennial Expenditures

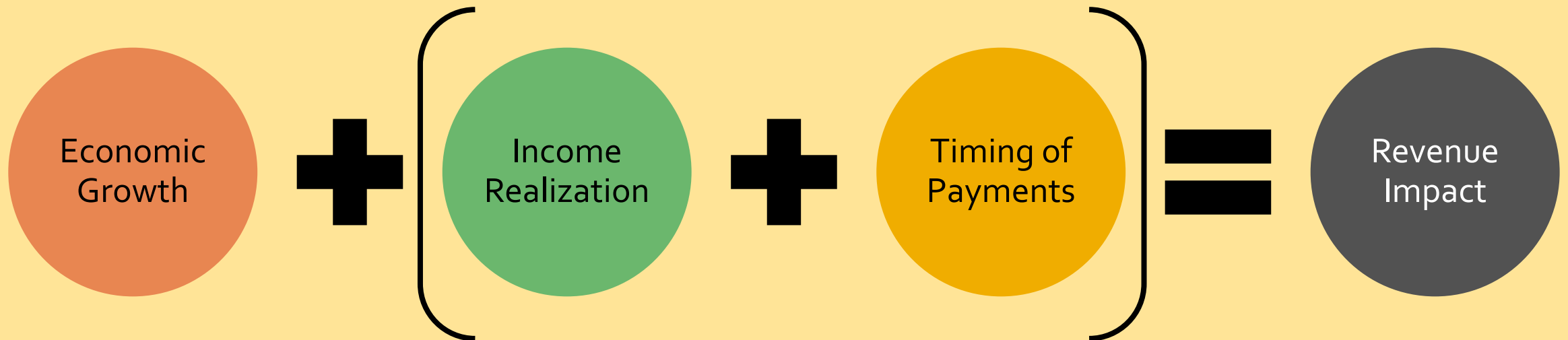


Revenue Collections: A Two-Part Story

Combined Revenue Impact

Part 1: Economics

Part 2: Taxpayers

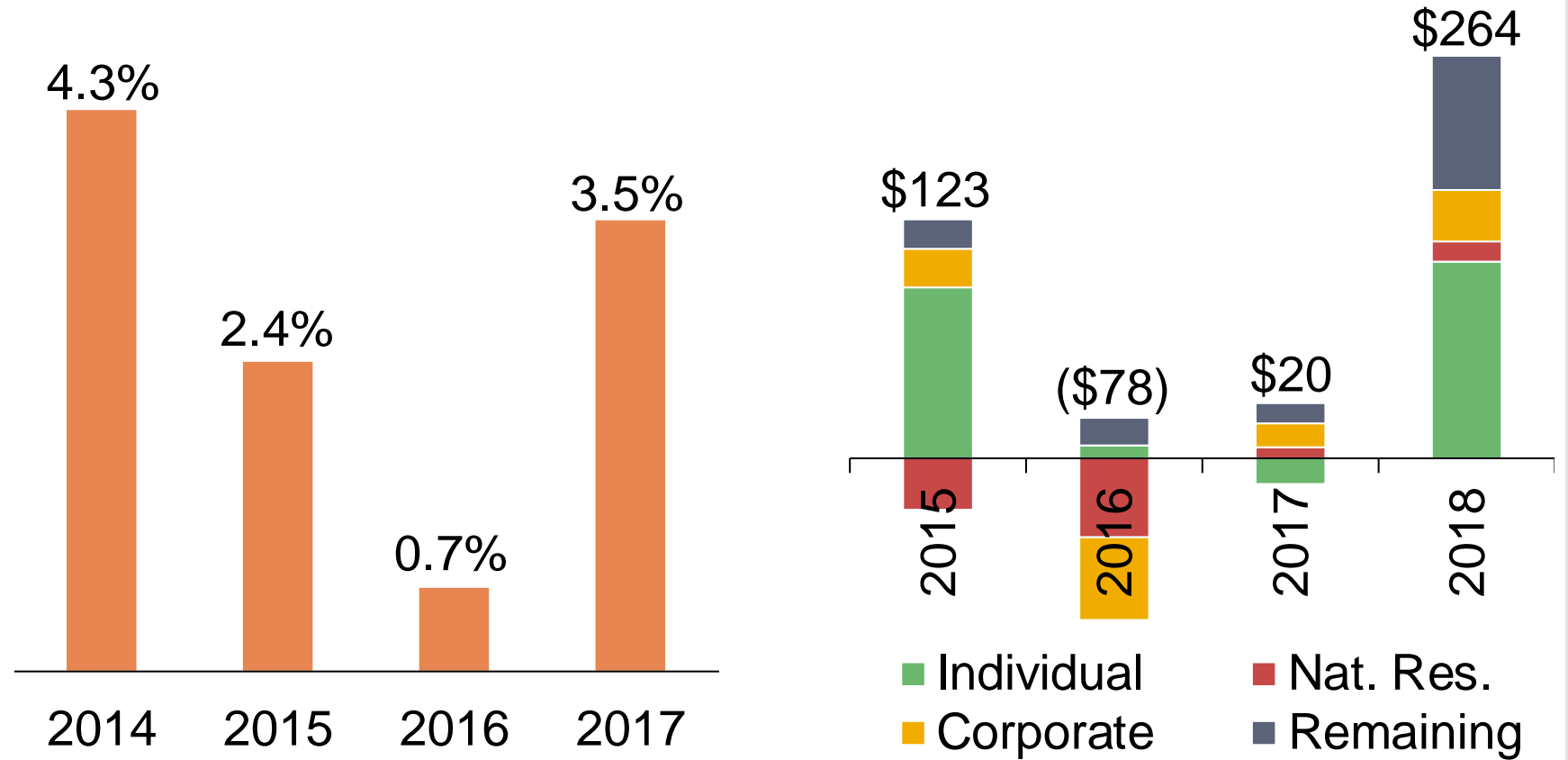


Part 1: Economics

Anemic GSP Growth due to Mining & Manufacturing Drag

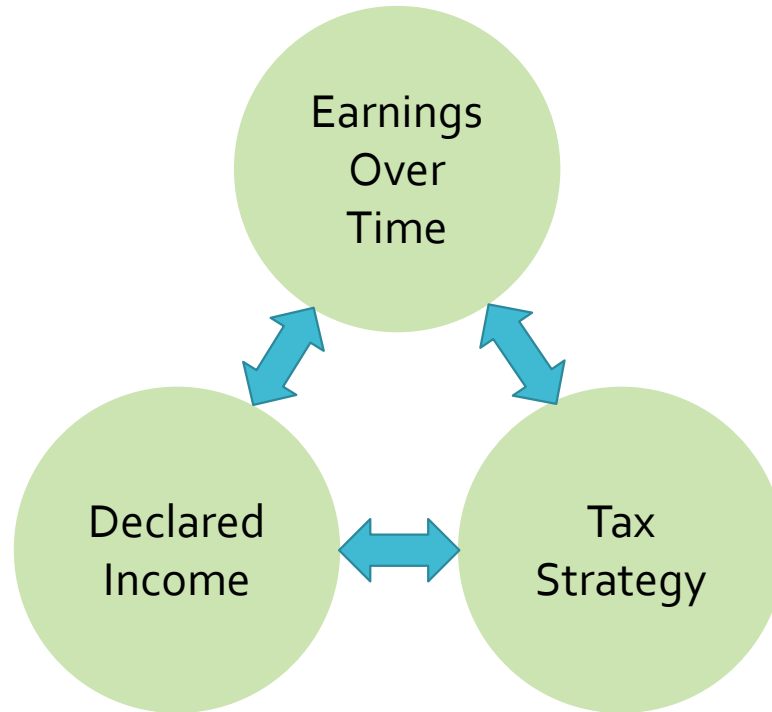


Reduced Year-Over-Year General Fund Growth (\$ Millions)



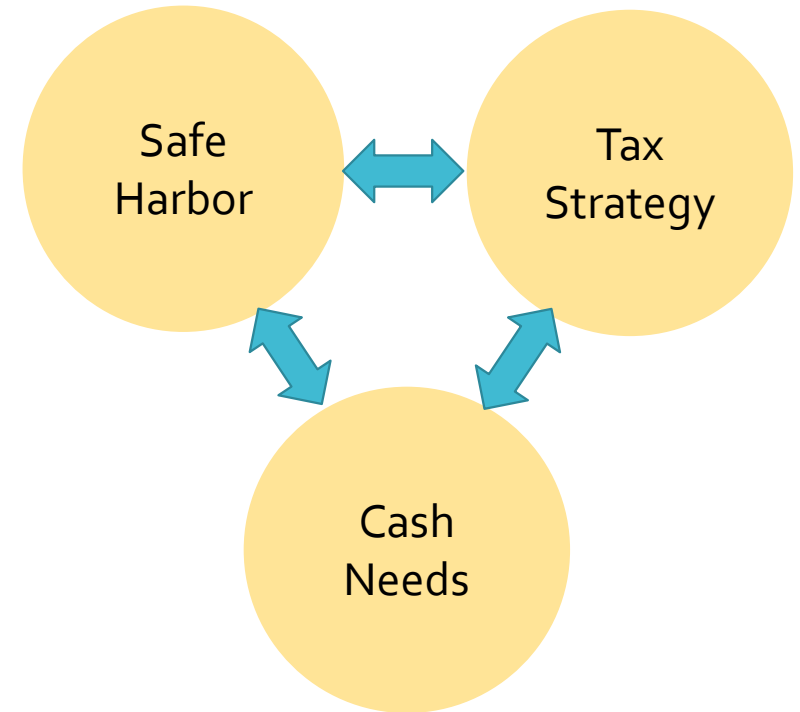
Part 2: Taxpayers

Income Realization



Calendar year income shifting may or may not impact fiscal year revenue collections

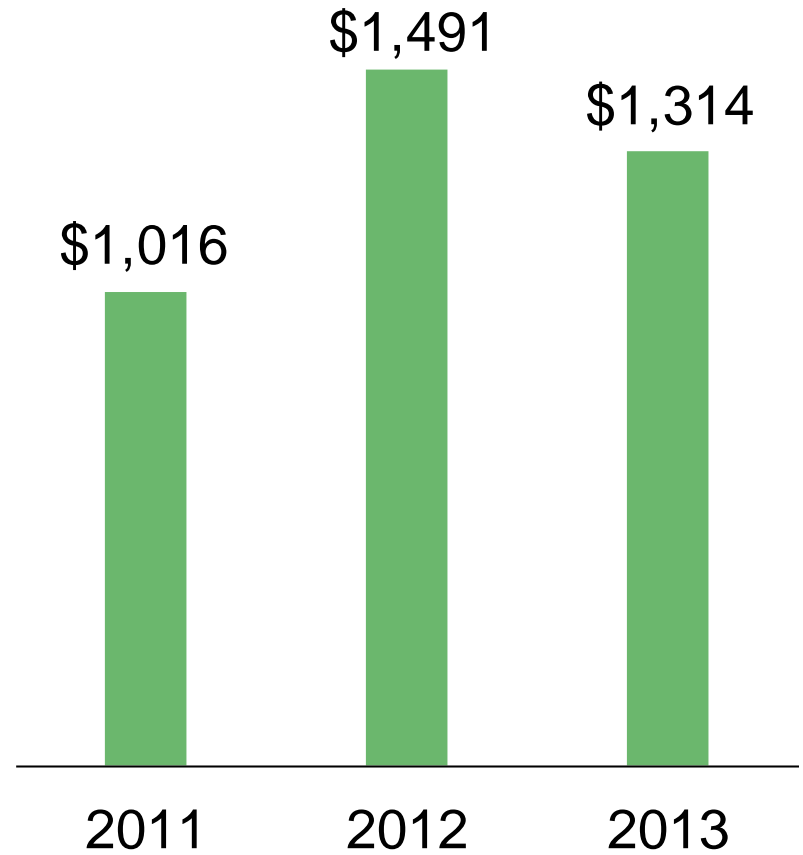
Timing of Payments



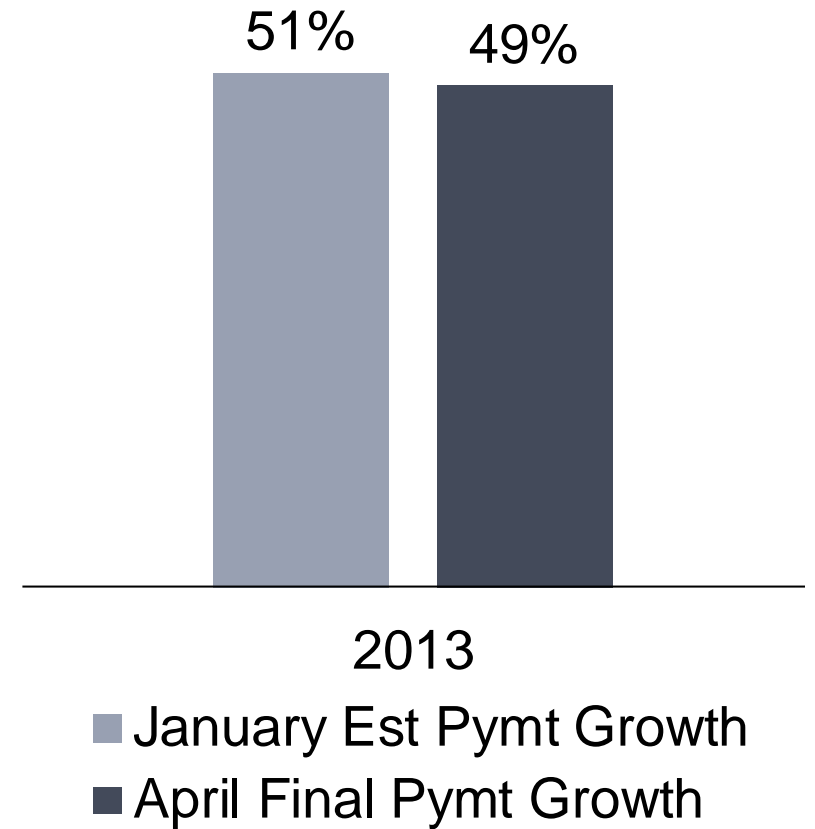
Widespread adjustment of payment timing may or may not affect fiscal year revenue

Taxpayer timing, 2012: Federal "Fiscal Cliff" capital gains highest marginal rate goes from 15% to 23.8%

2012 "Fiscal Cliff" Appears to Result in Large Increase in Capital Gains Realizations (\$ Millions)

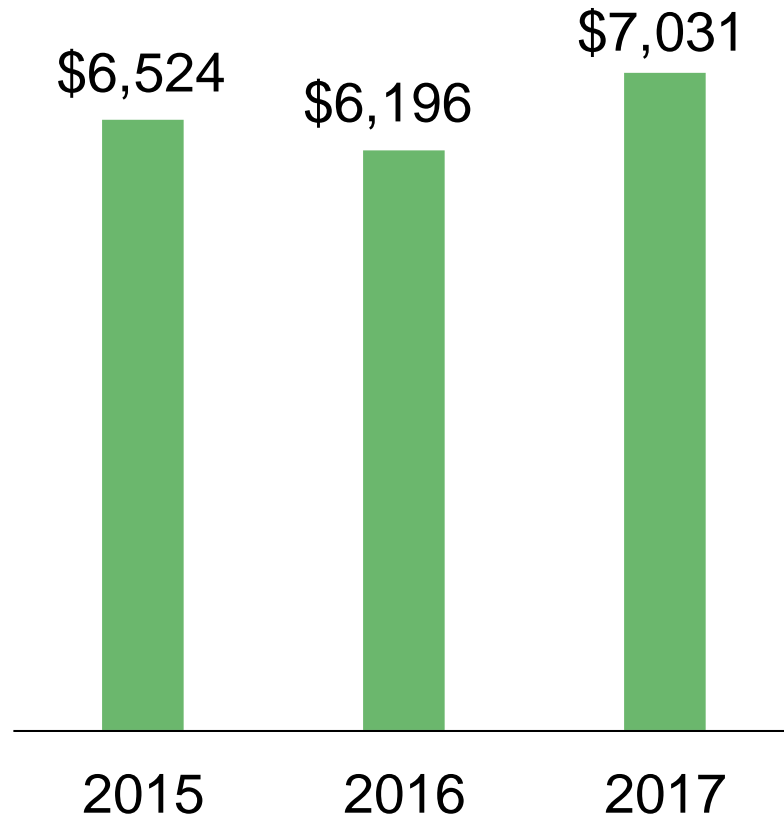


Similar Growth in January Estimated Payment & April Final Payment Suggests No Timing Shift

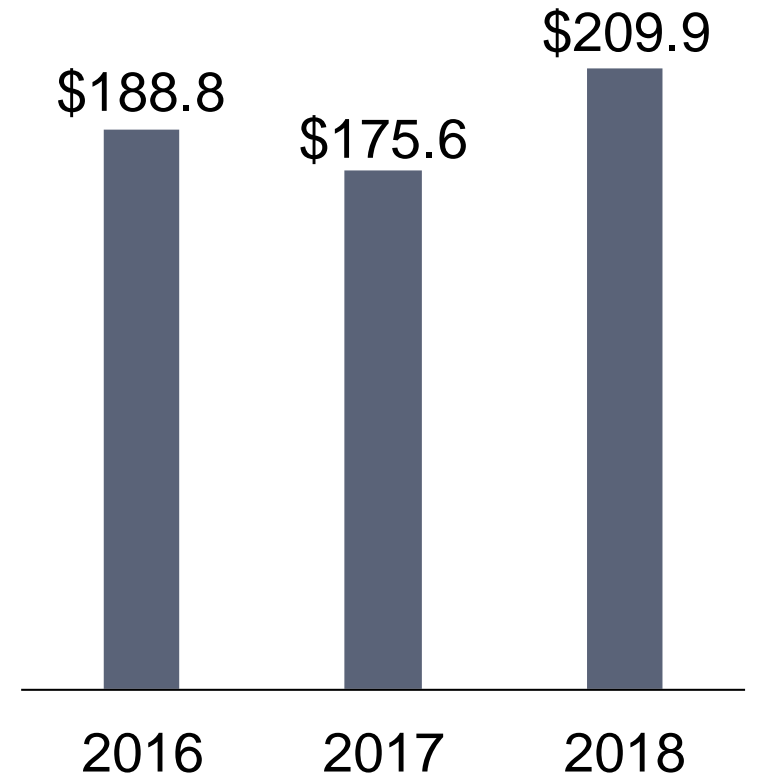


Taxpayer timing, 2016: Election of Republican president and majorities in both houses. Tax cuts ahead?

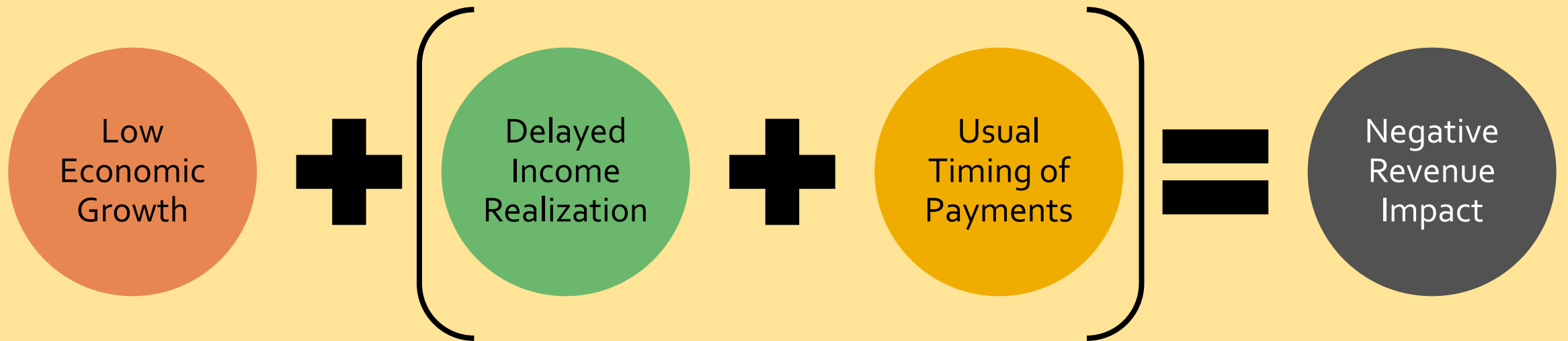
Federal Tax Change Expectations May Have Dampened Non-Wage Income in 2016 & 2017 (\$ Millions)



Combined January Estimated & April Final Payments Showed a Similar Pattern (\$ Millions)

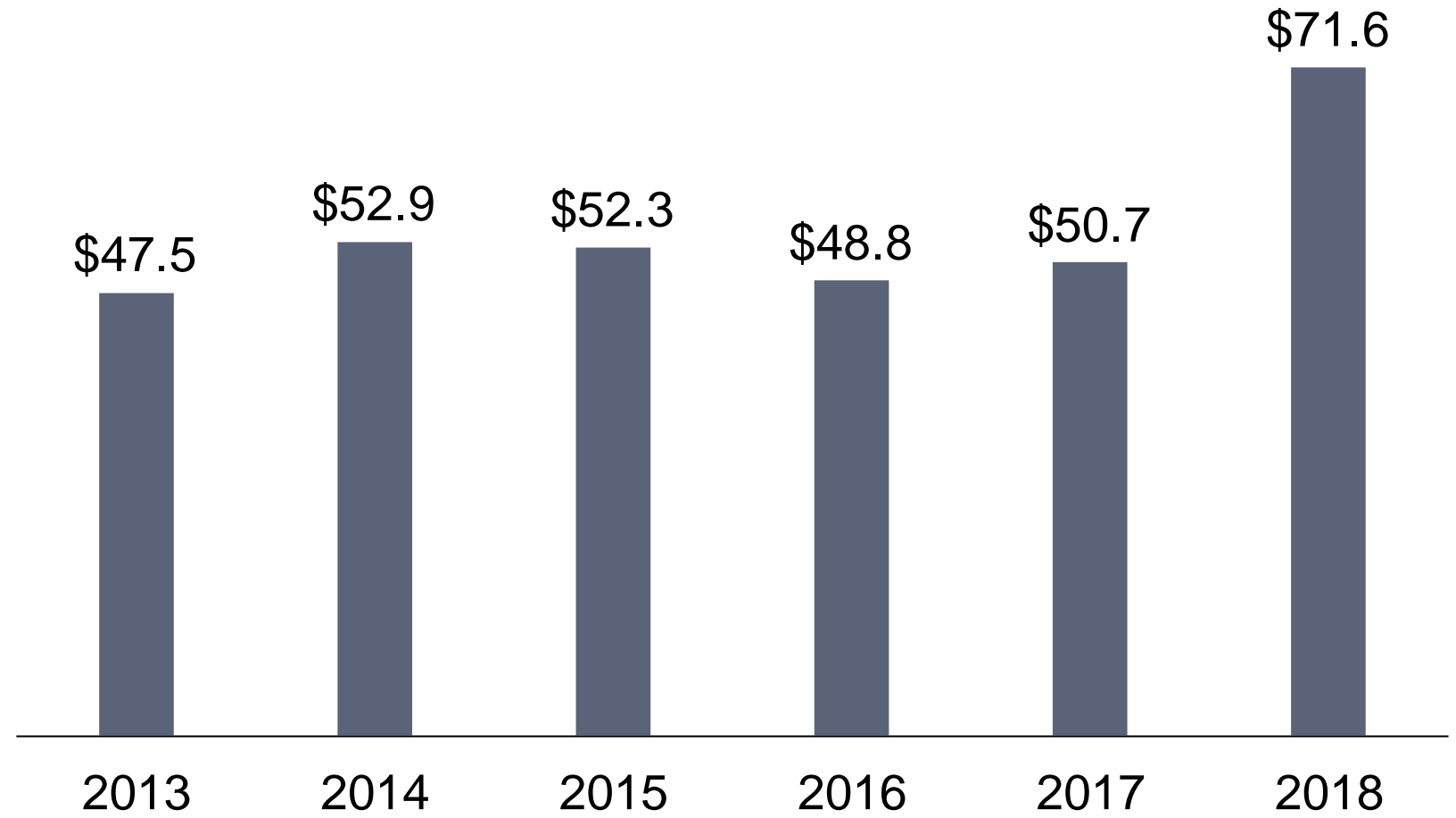


Combined Revenue Impact: CY 2016/FY 2017



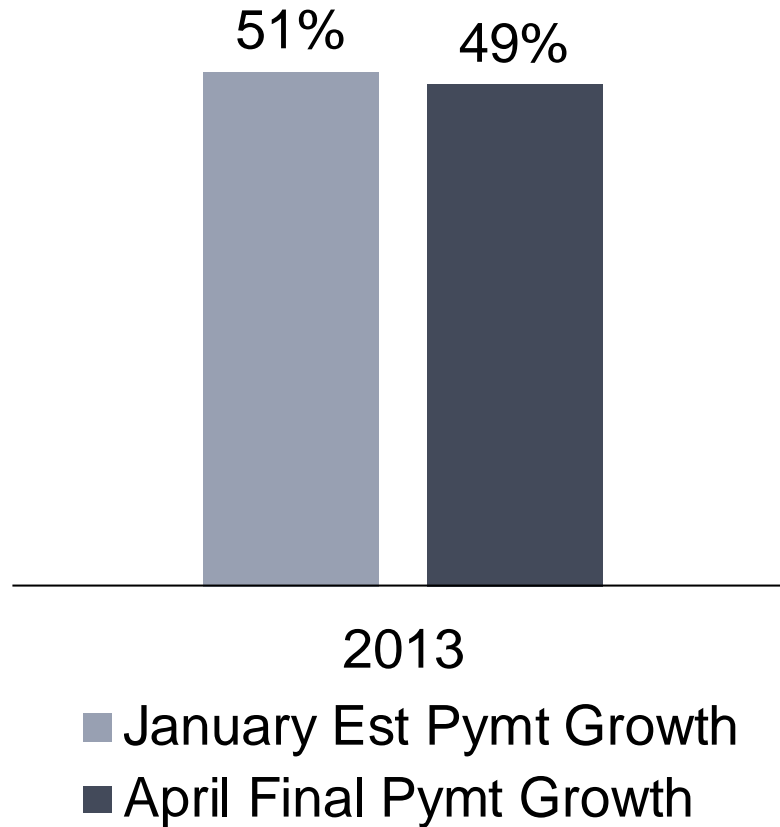
Taxpayer
timing,
January 2018:
Is it income
realization or
prepayment of
state taxes?

January Individual Income Estimated Payments (\$ Millions)

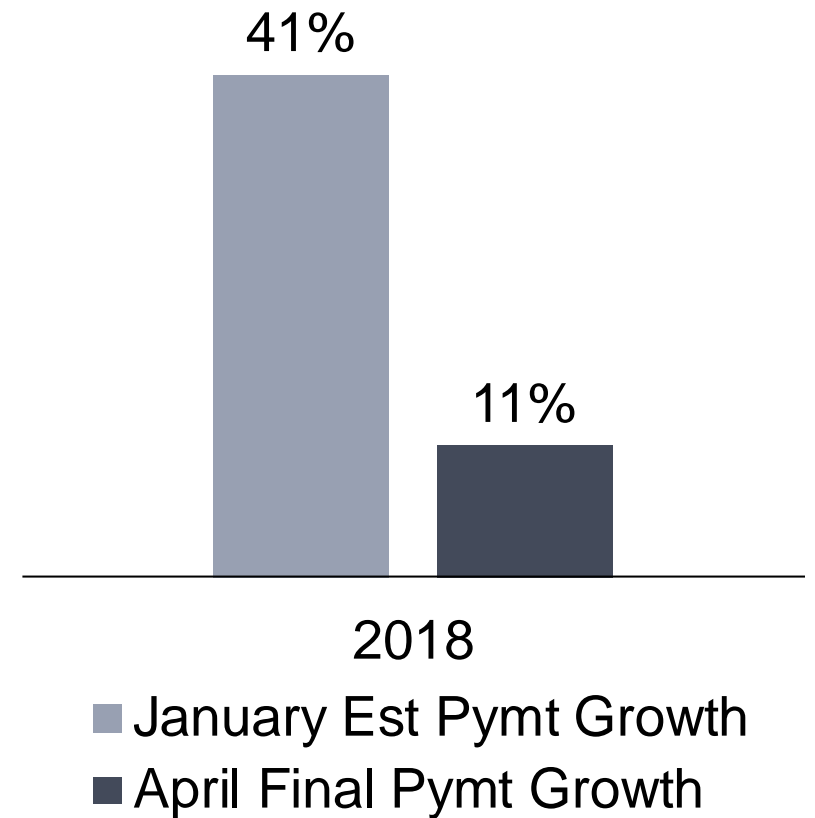


April 2018 final payment also increased, but much more slowly, suggesting primarily payment shifting

FY 2013 Similar Growth in January Estimated Payment & April Final Payment Suggests No Timing Shift

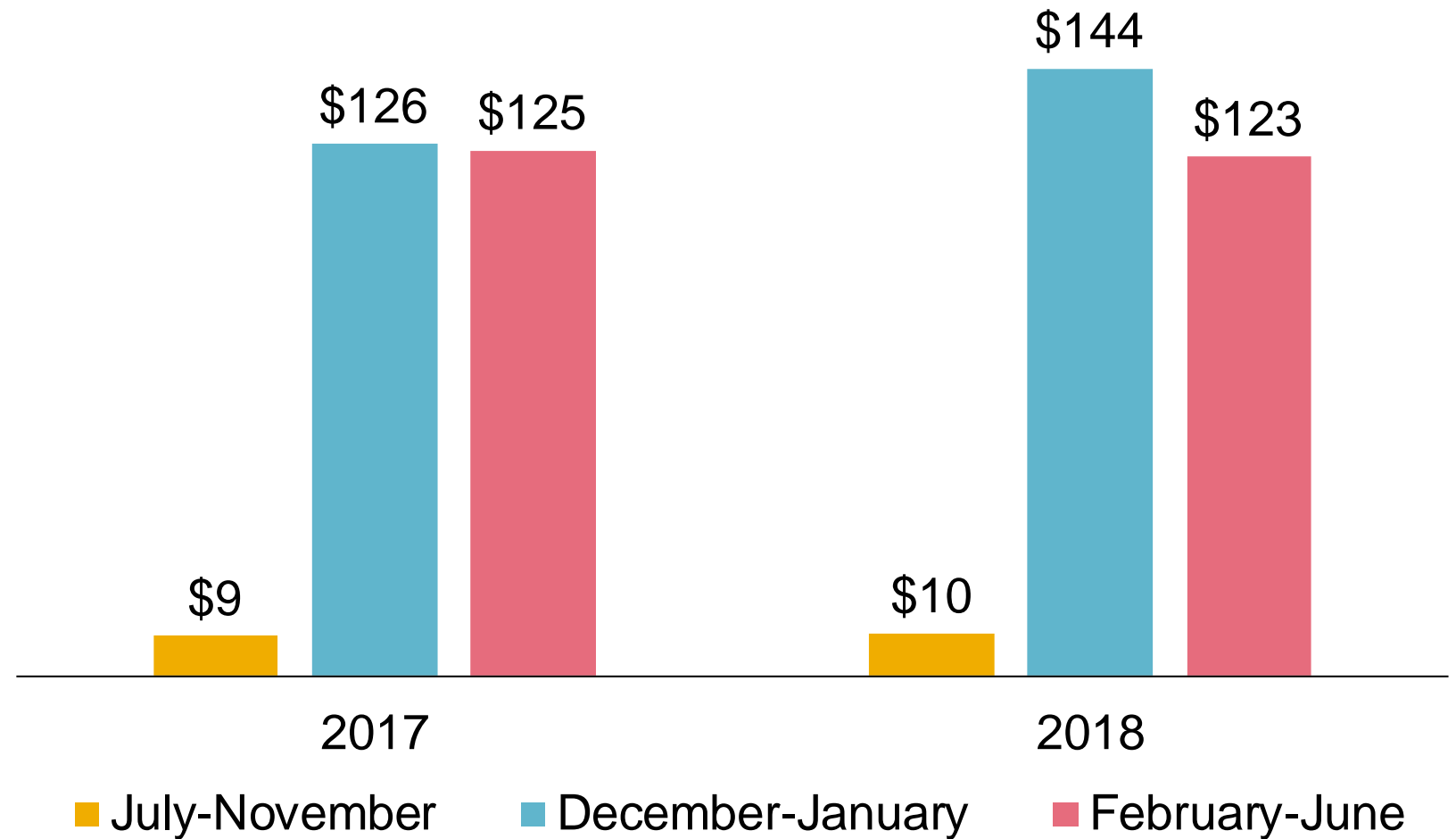


FY 2018 Differing Growth in January Estimated Payment & April Final Payment Suggests Timing Shift

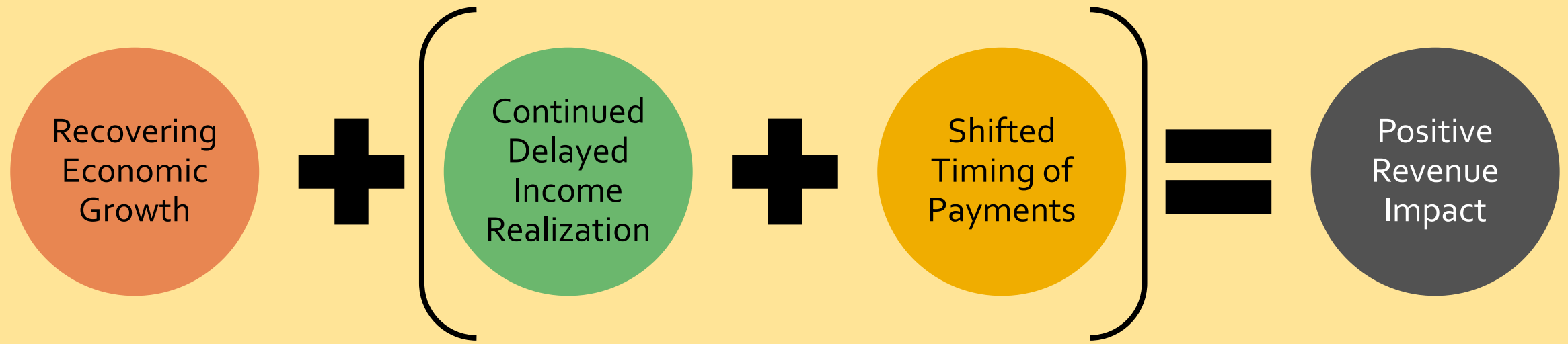


Property tax payments also illustrate a shift in taxpayer payment timing

Property Tax Payments (\$ Millions)



Combined Revenue Impact: CY 2017/FY 2018



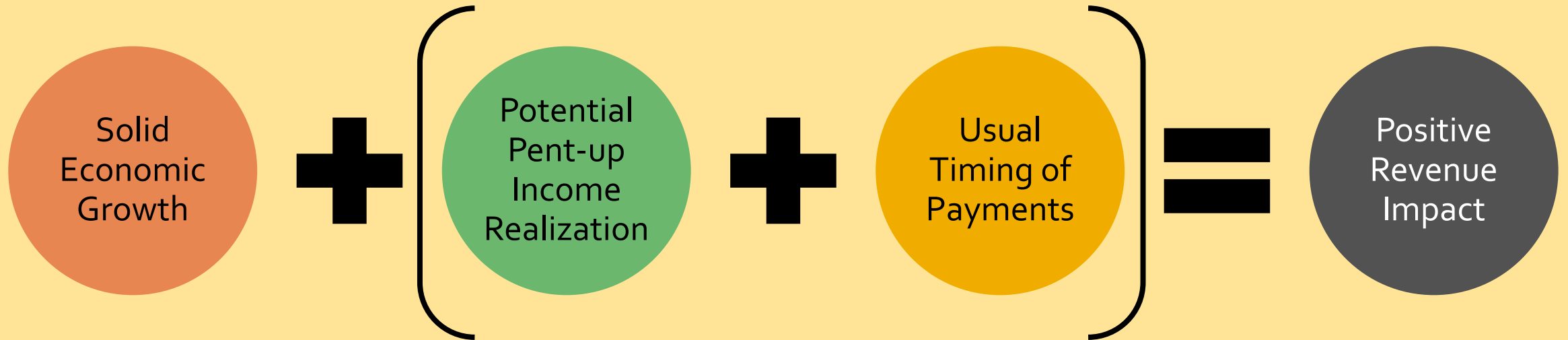
CY 2018/FY 2019
taxpayer income
impact may be
positive, but is
not included in
legislative
revenue
estimate

Additional Income Realization May Impact CY 2018/FY 2019

Possible sources of higher revenue include

- Capital gains
- Business profits
- Doubling up of bonus income

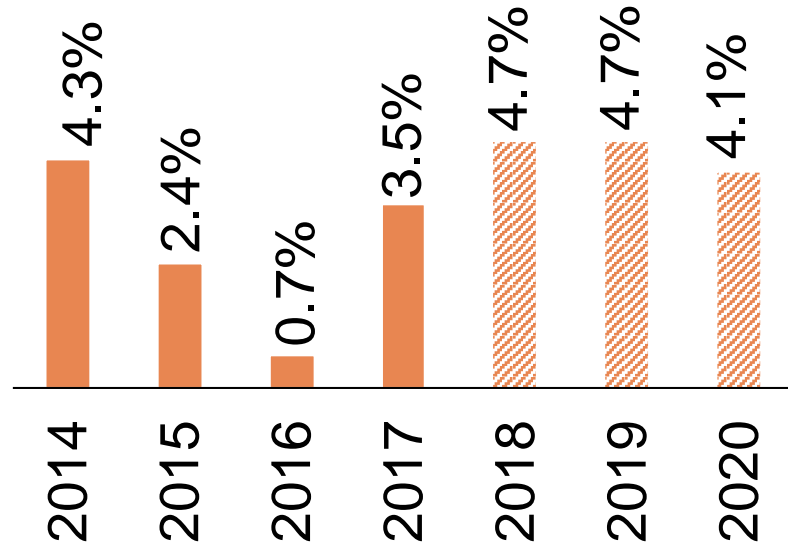
Combined Revenue Impact: CY 2018/FY 2019



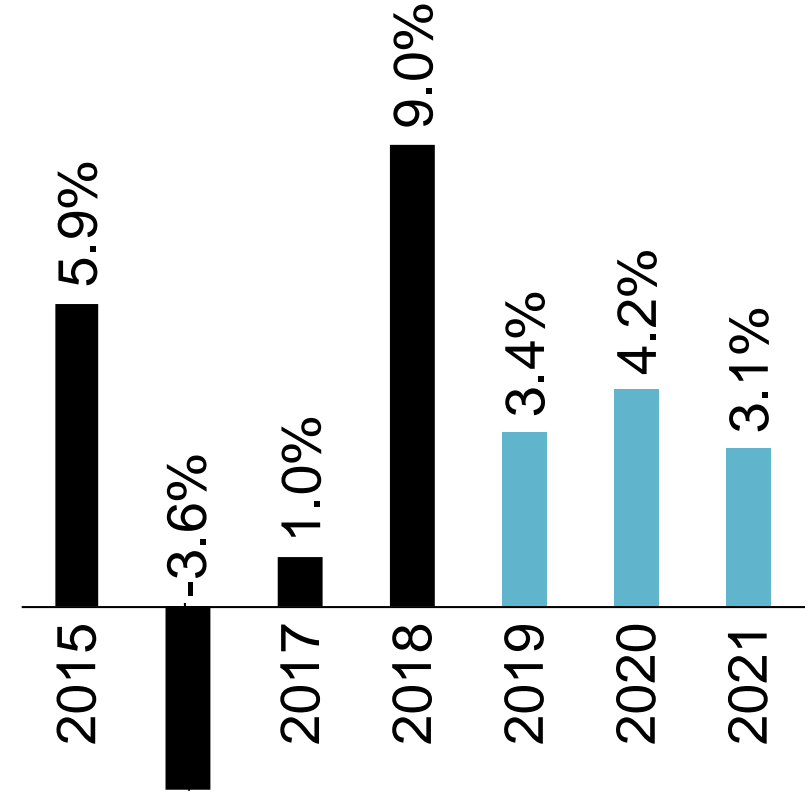
Looking Forward to the 2021 Biennium

Ongoing revenue growth lower than anticipated economic growth

Forecast GSP Growth

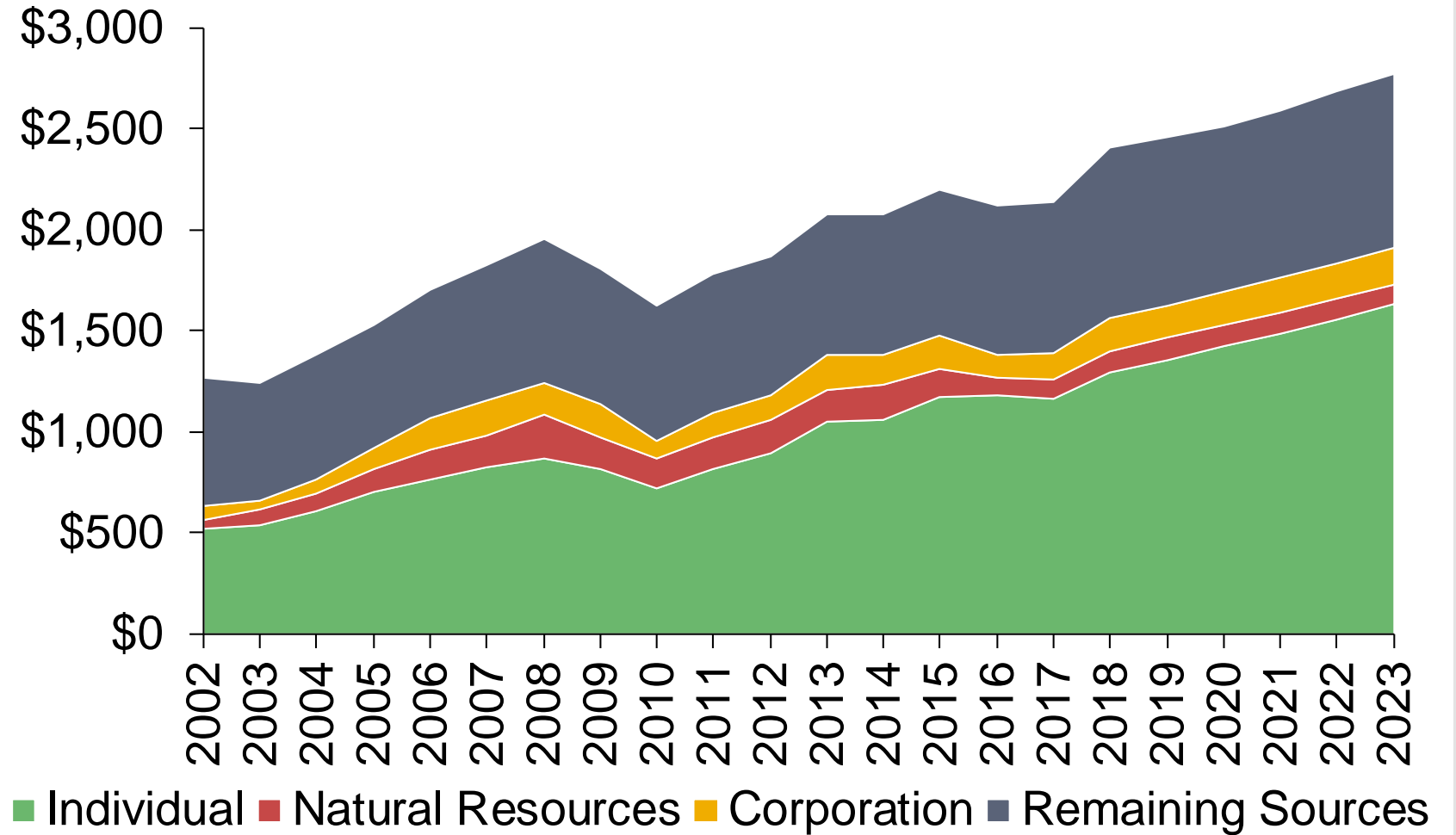


Ongoing GF Revenue Growth



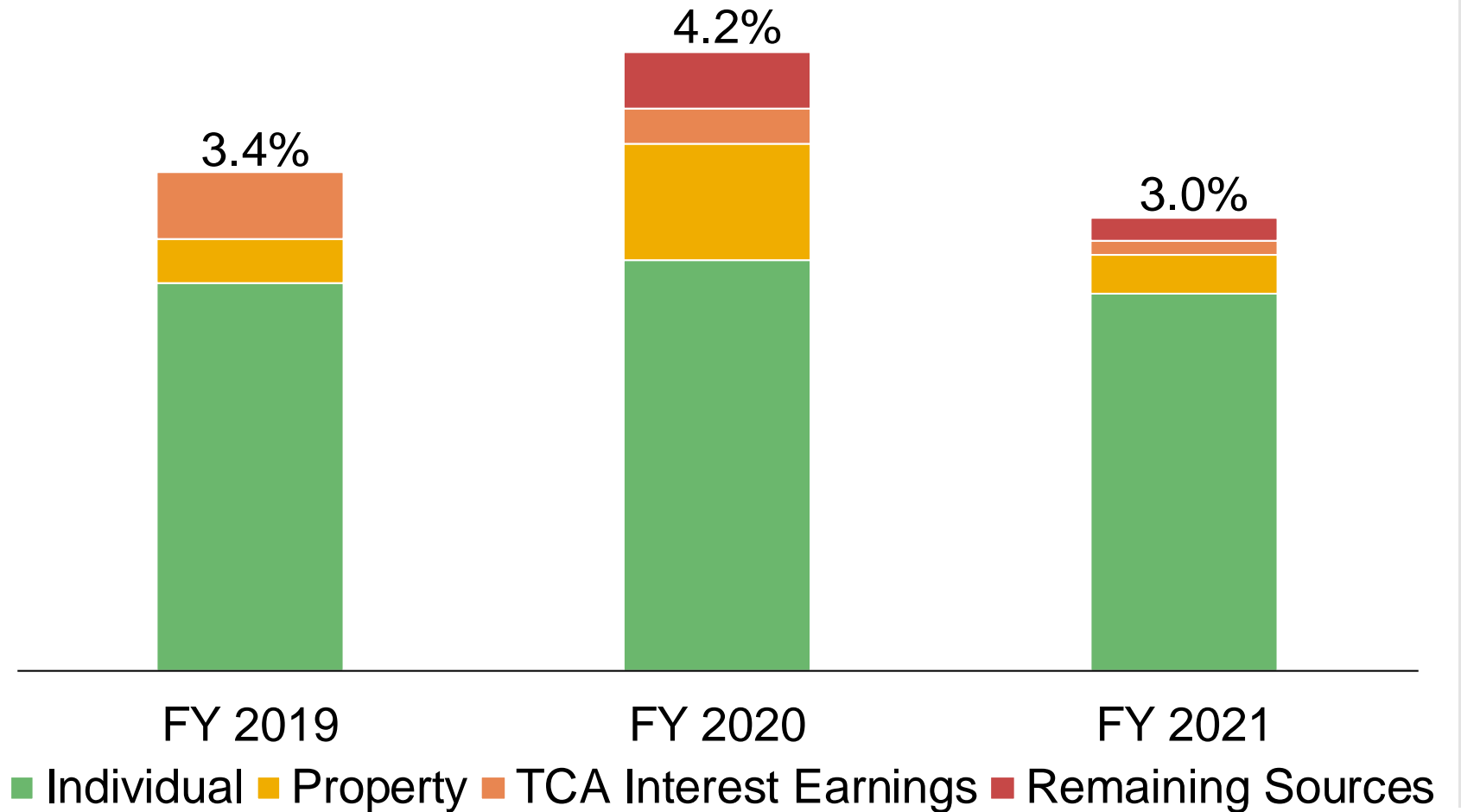
Individual income tax continues to grow as a share of general fund revenue

General Fund Revenue by Major Type (\$ Millions)



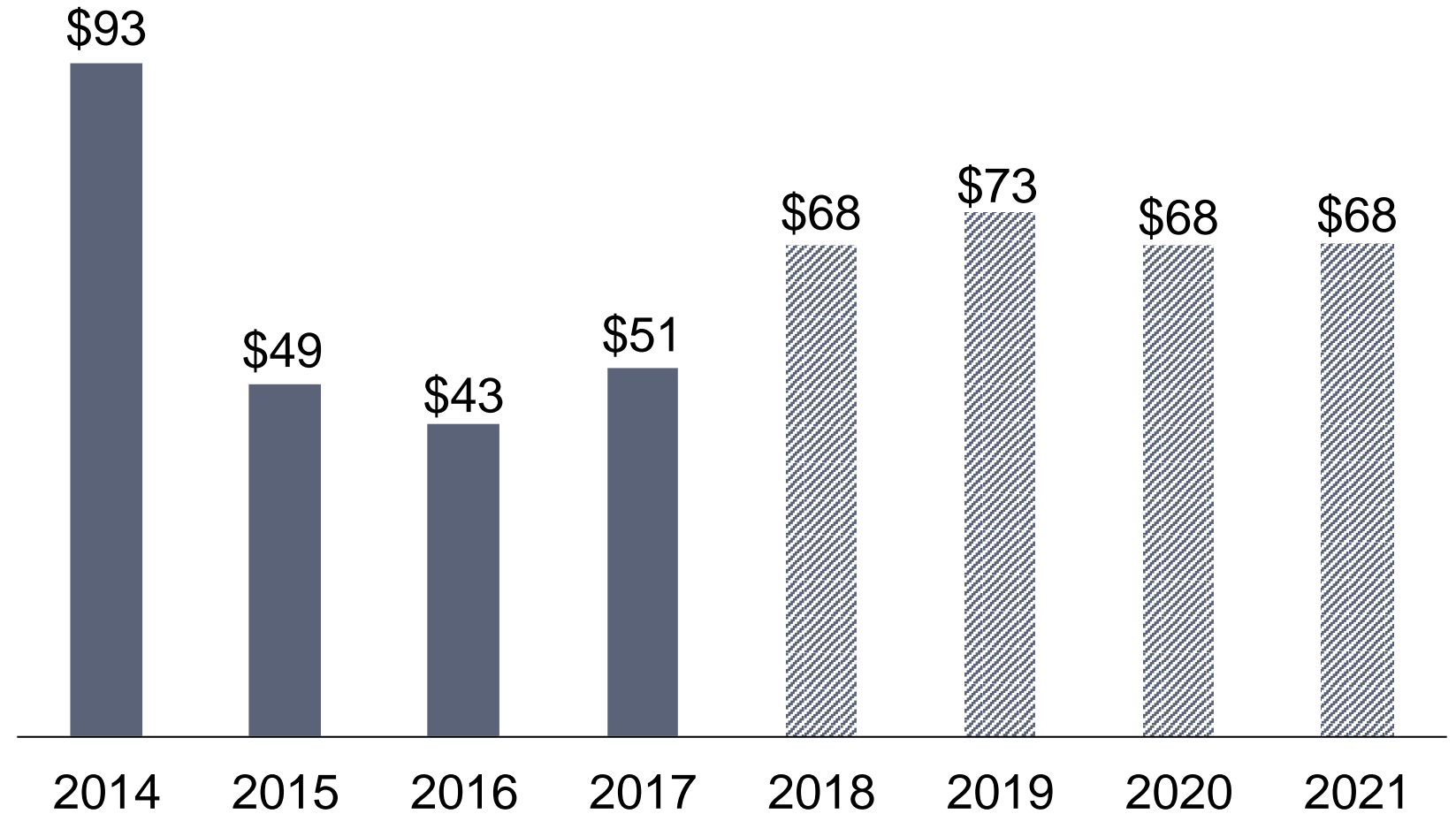
Property tax & TCA interest earnings also contributing to 2021 biennium revenue growth

Contribution to General Fund Revenue Growth by Source



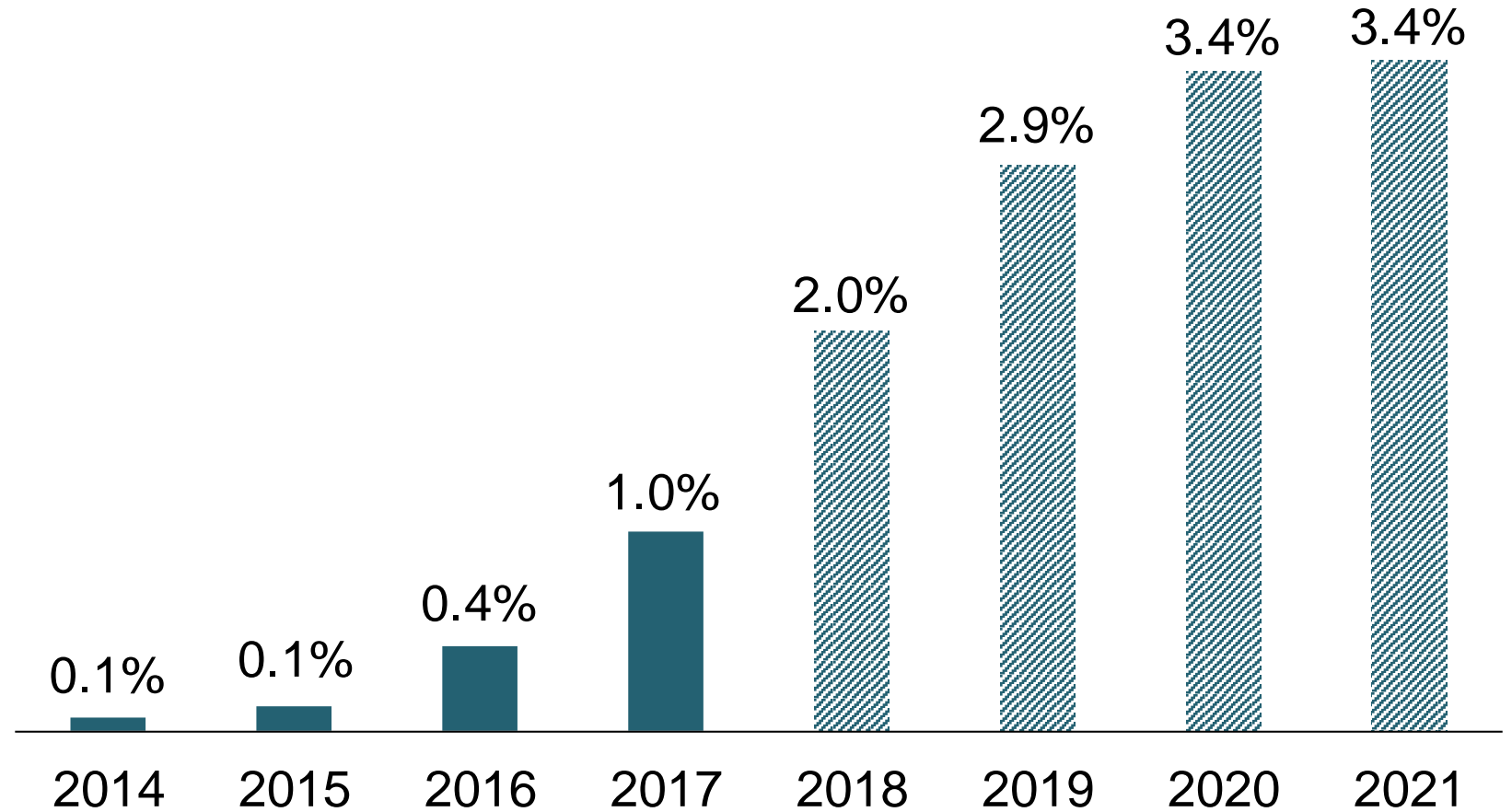
Oil price
expected to
stabilize

West Texas Intermediate Oil Price (\$/bbl)



Average short-term interest rate expected to plateau

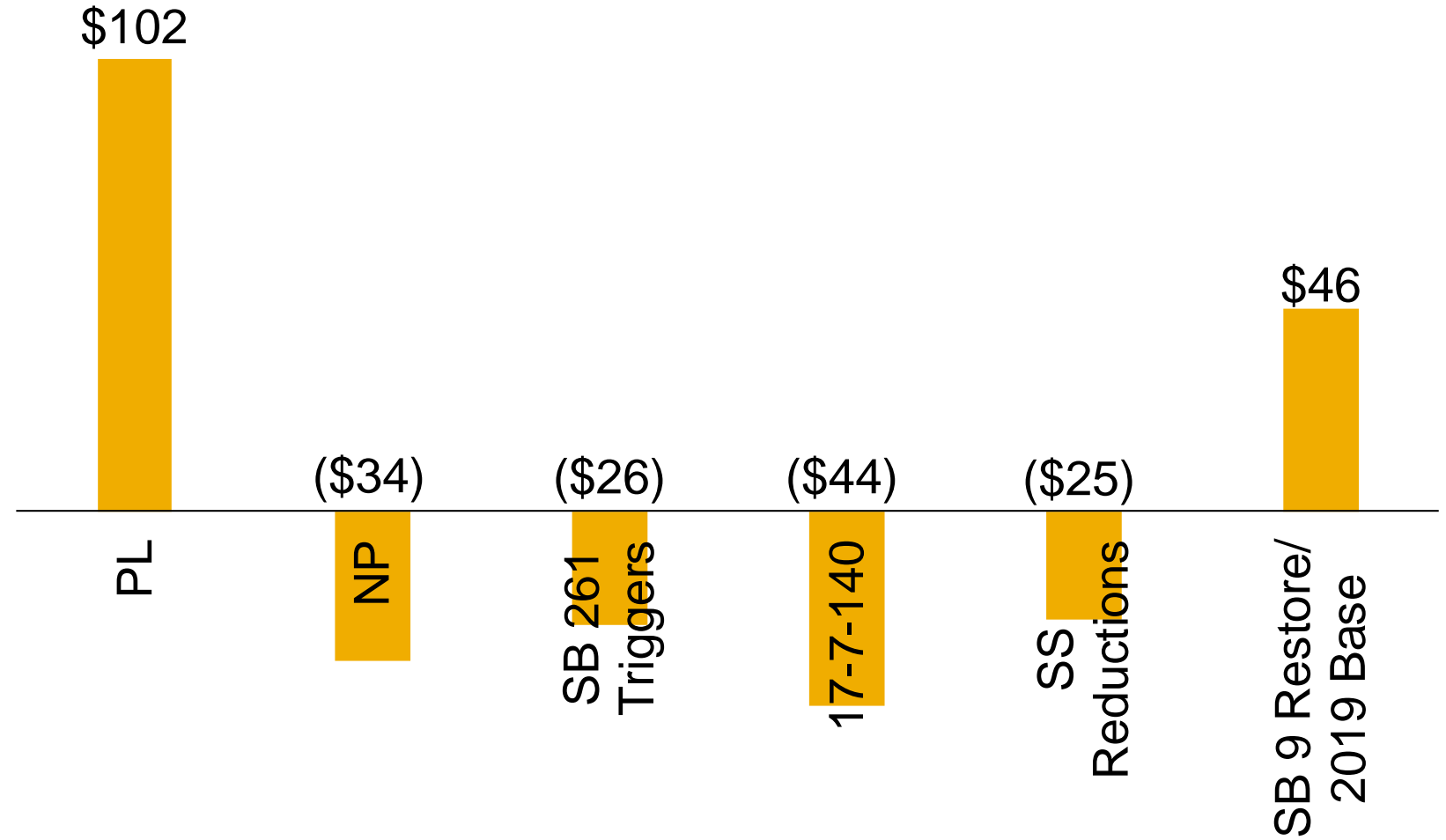
Short-Term Interest Rates



Building the Budget

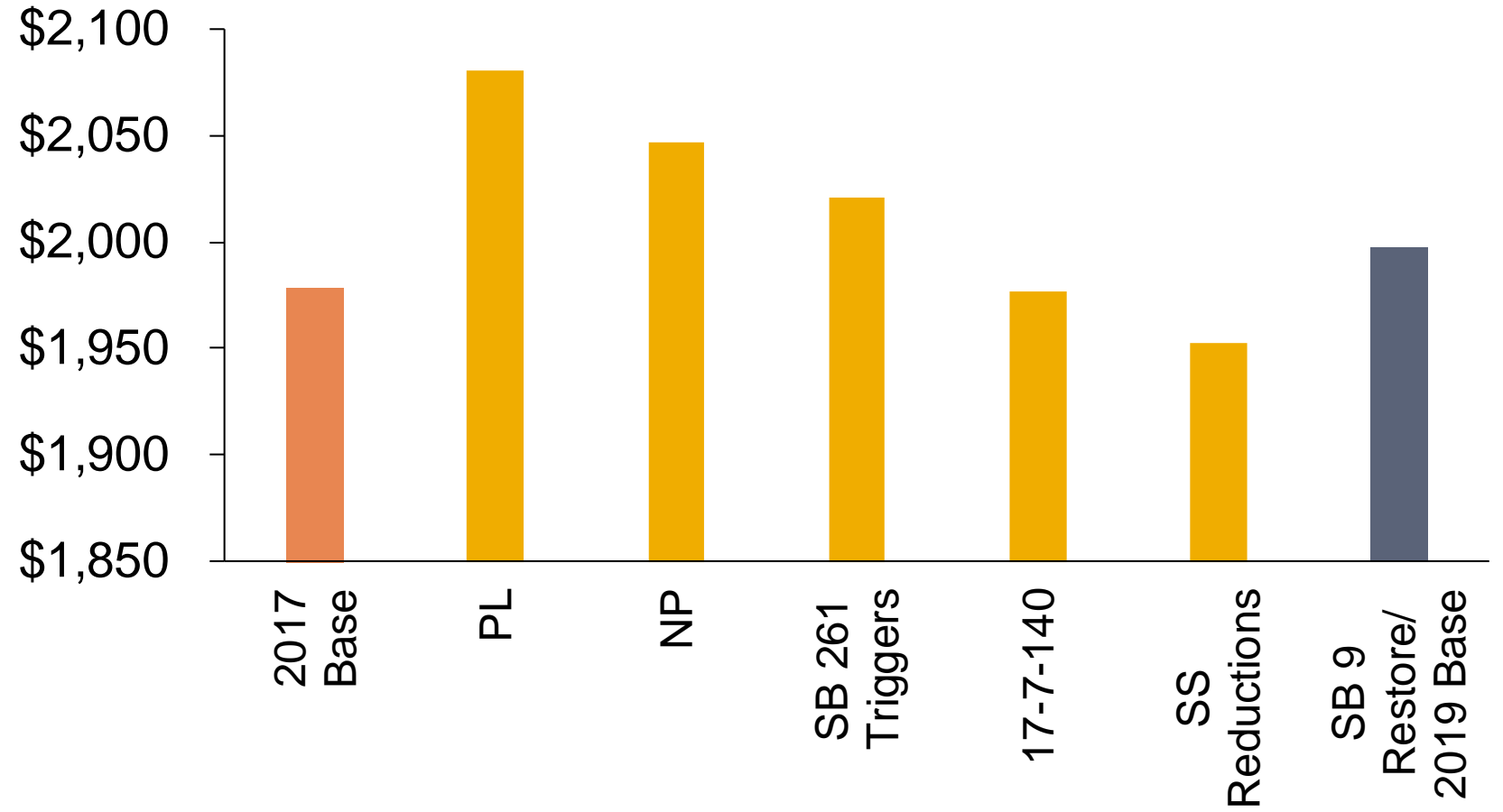
There have been many changes to the base budget since the beginning of the 2017 session

2017 Base Budget to 2019 Base Budget Changes (\$ Millions)



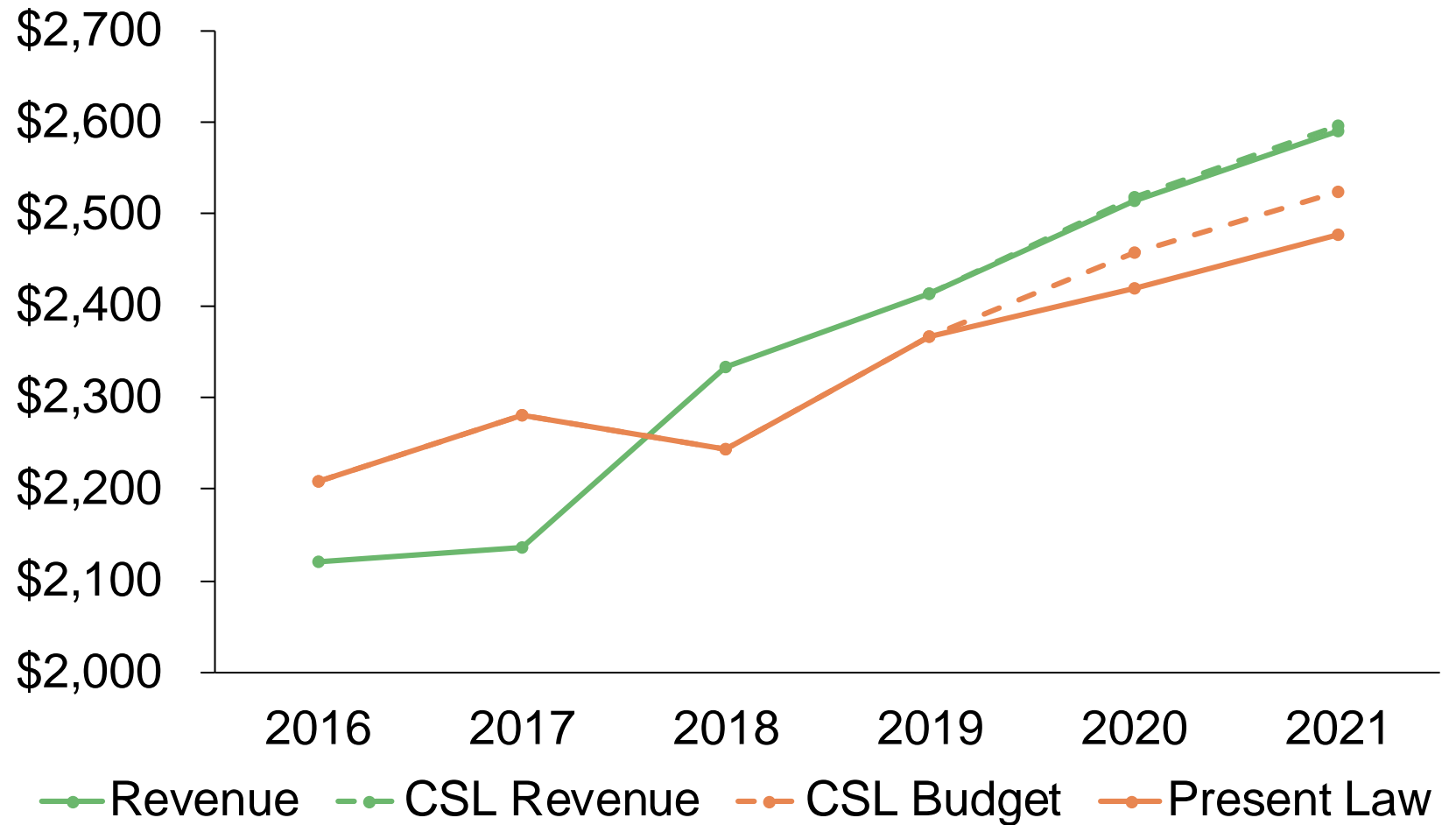
Evolution of the base budget

2017 Session Base Budget to 2019 Session Base Budget (\$ Millions)



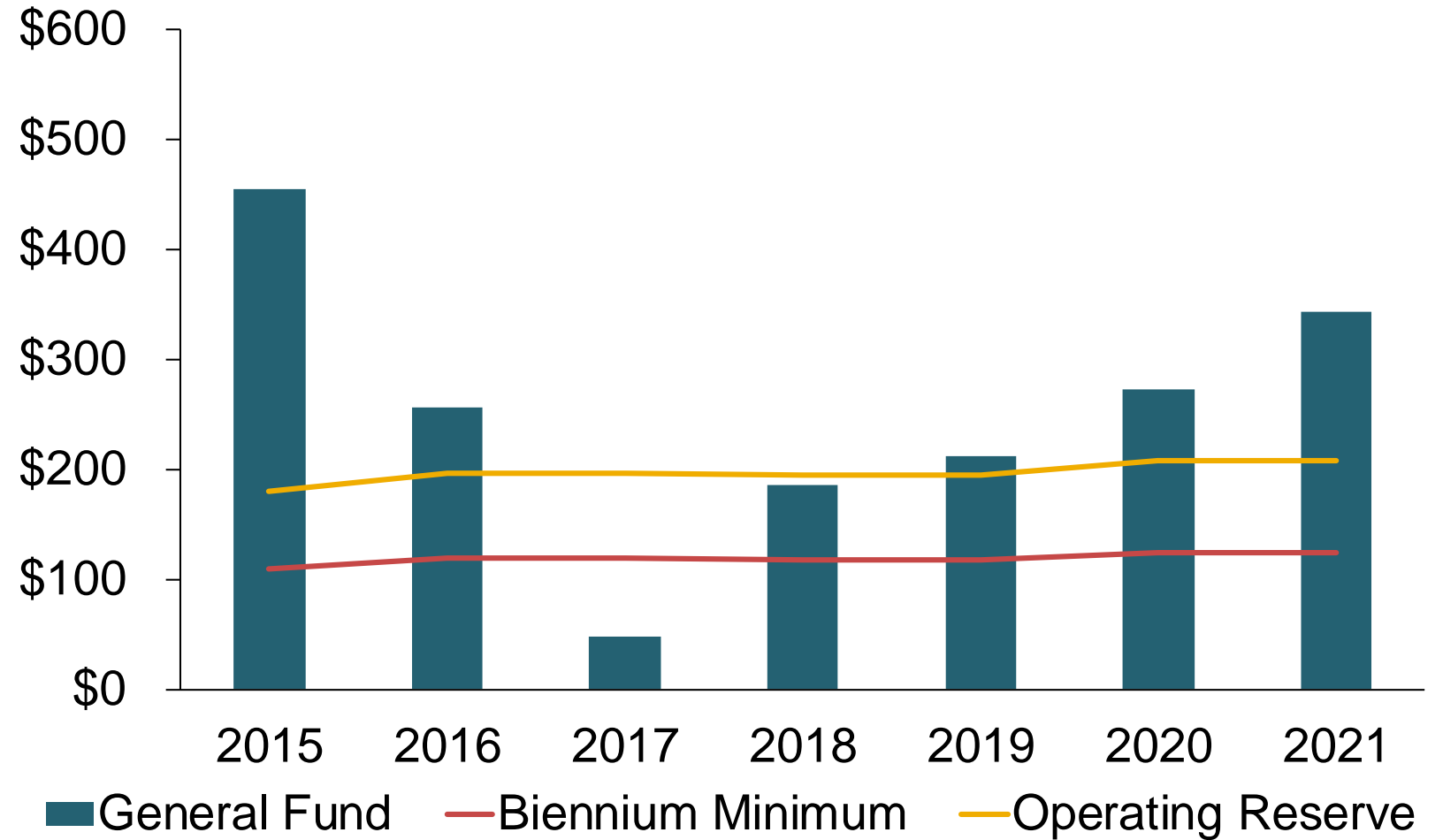
Current service level (CSL) structural balance is anticipated to be positive in the 2021 biennium

CSL Budget vs. Legislative Ongoing Revenue Estimate (\$ Millions)



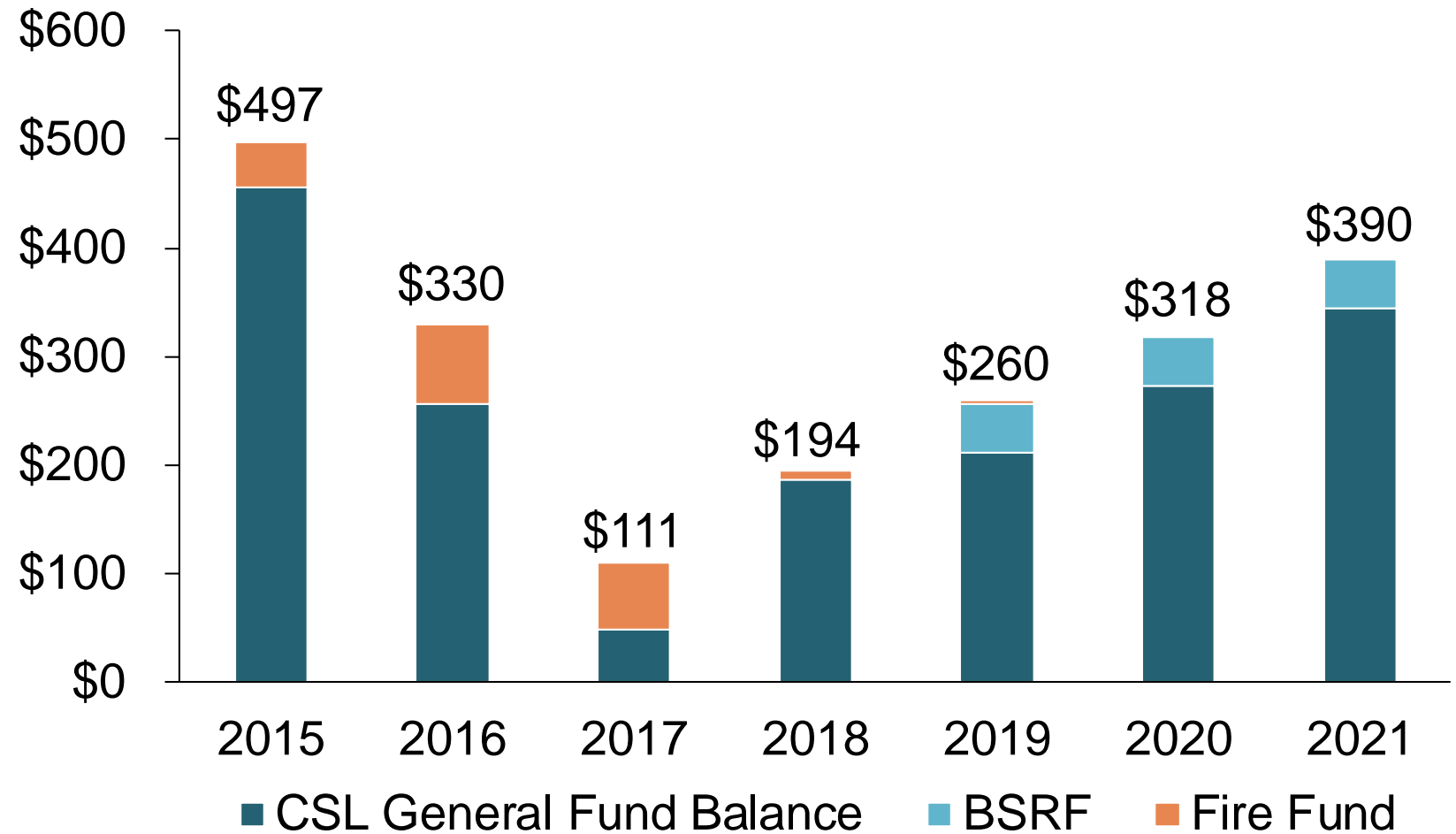
2021 biennium
CSL general
fund ending
fund balance
exceeds with
statutory
minimums

CSL General Fund Balance (\$ Millions)



Ability to mitigate revenue & expenditure risk depends on fund balances

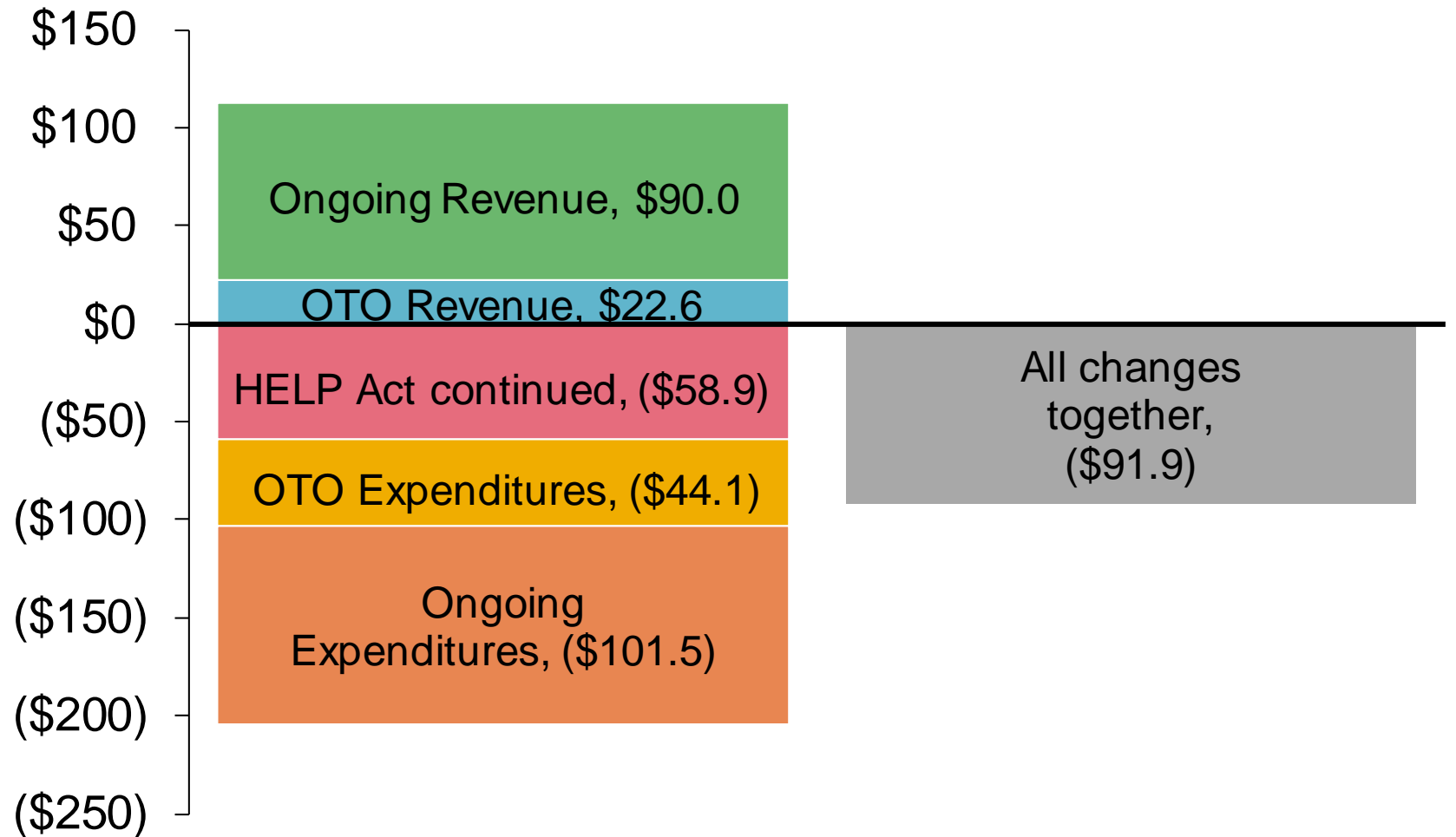
General Fund & Other Reserves (\$ Millions)



Executive Proposals for 2019 Session

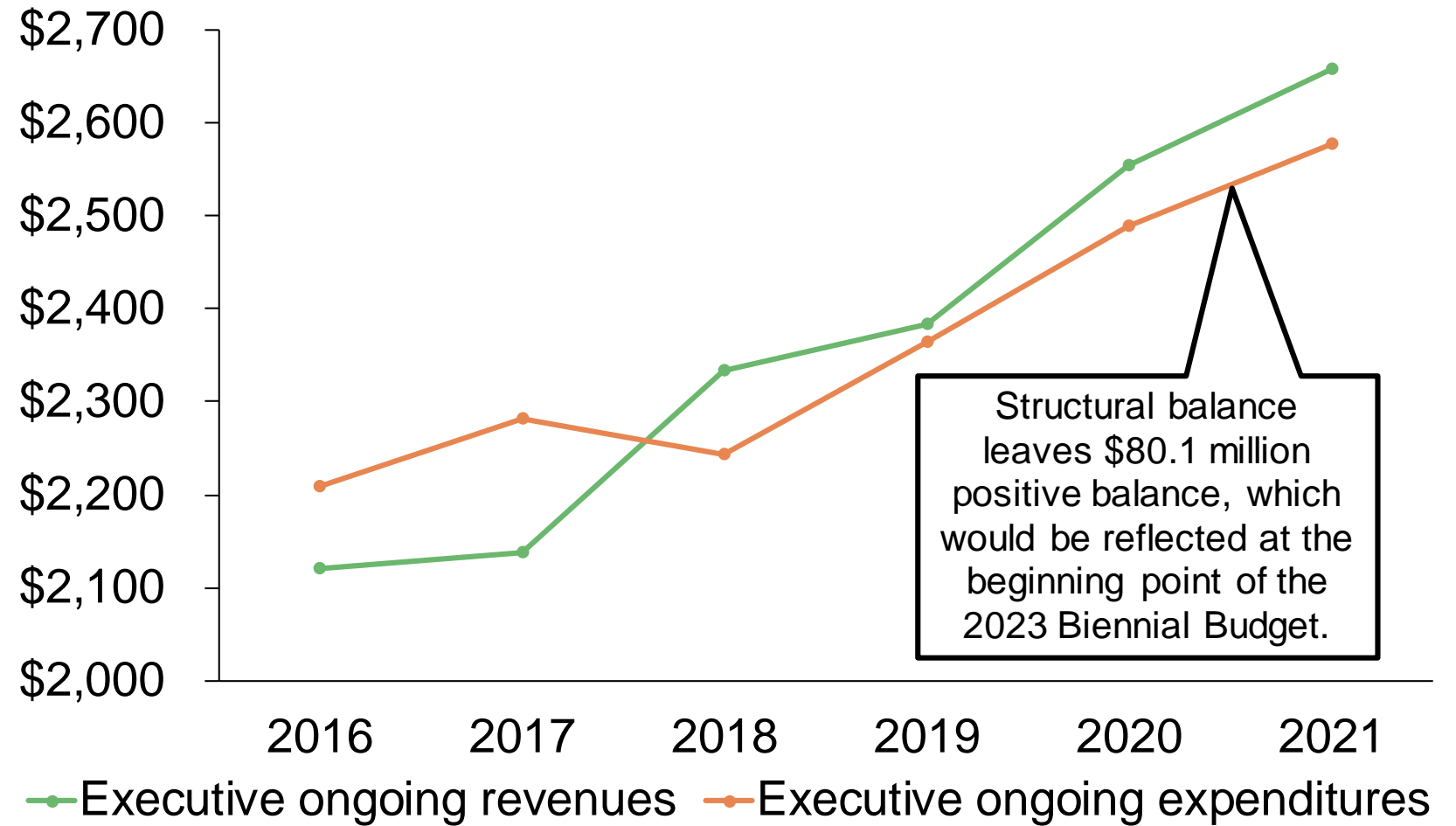
Governor
Bullock
recommends a
variety of new
proposals for
the 2021
biennium

Executive Proposals: 2021 Biennium Impact to General Fund Ending Fund Balance (\$ Millions)



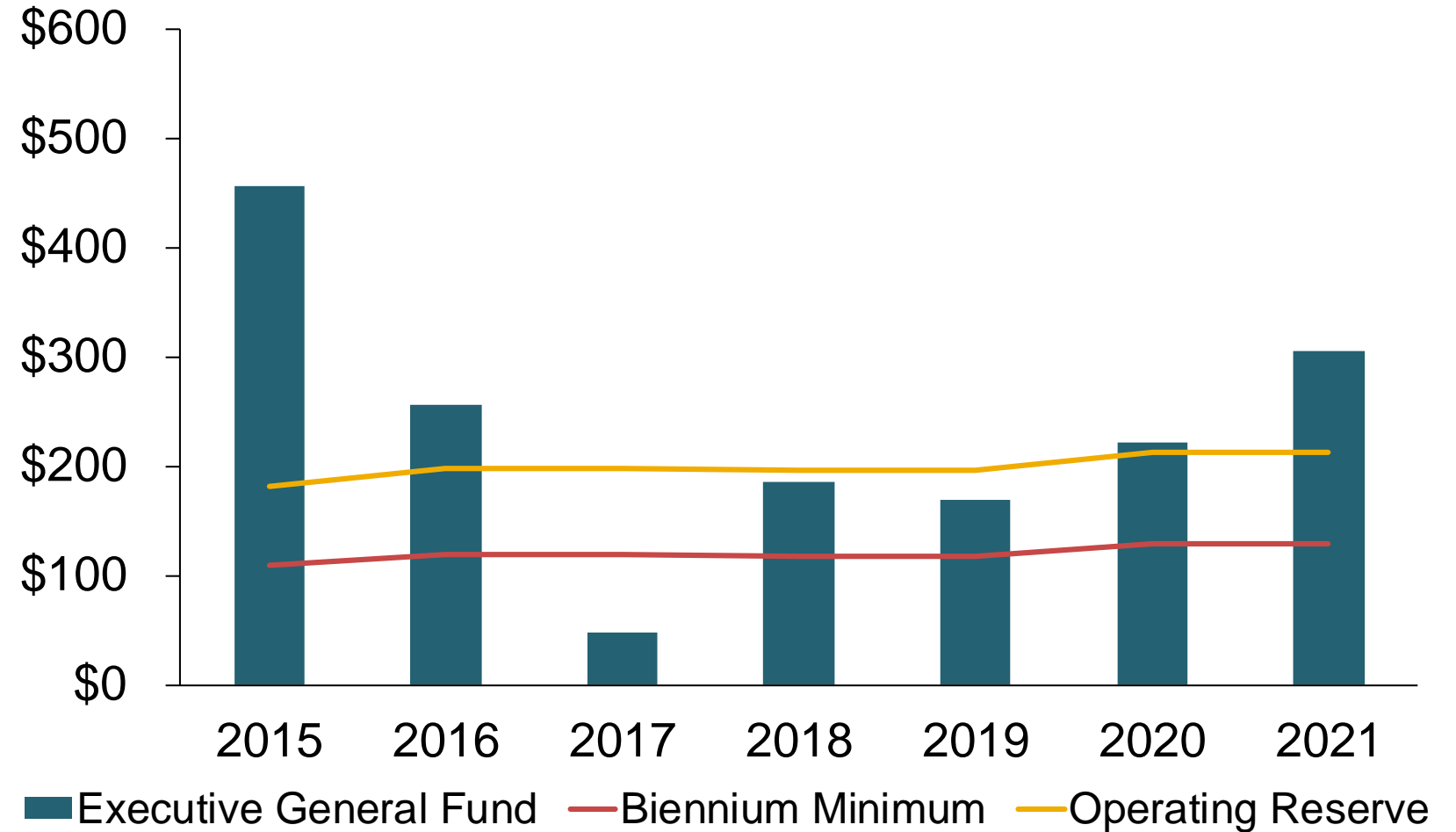
Executive budget leaves a solid structural balance for 2021 biennium

Executive Ongoing Revenue vs. Ongoing Expenditures (\$ Millions)



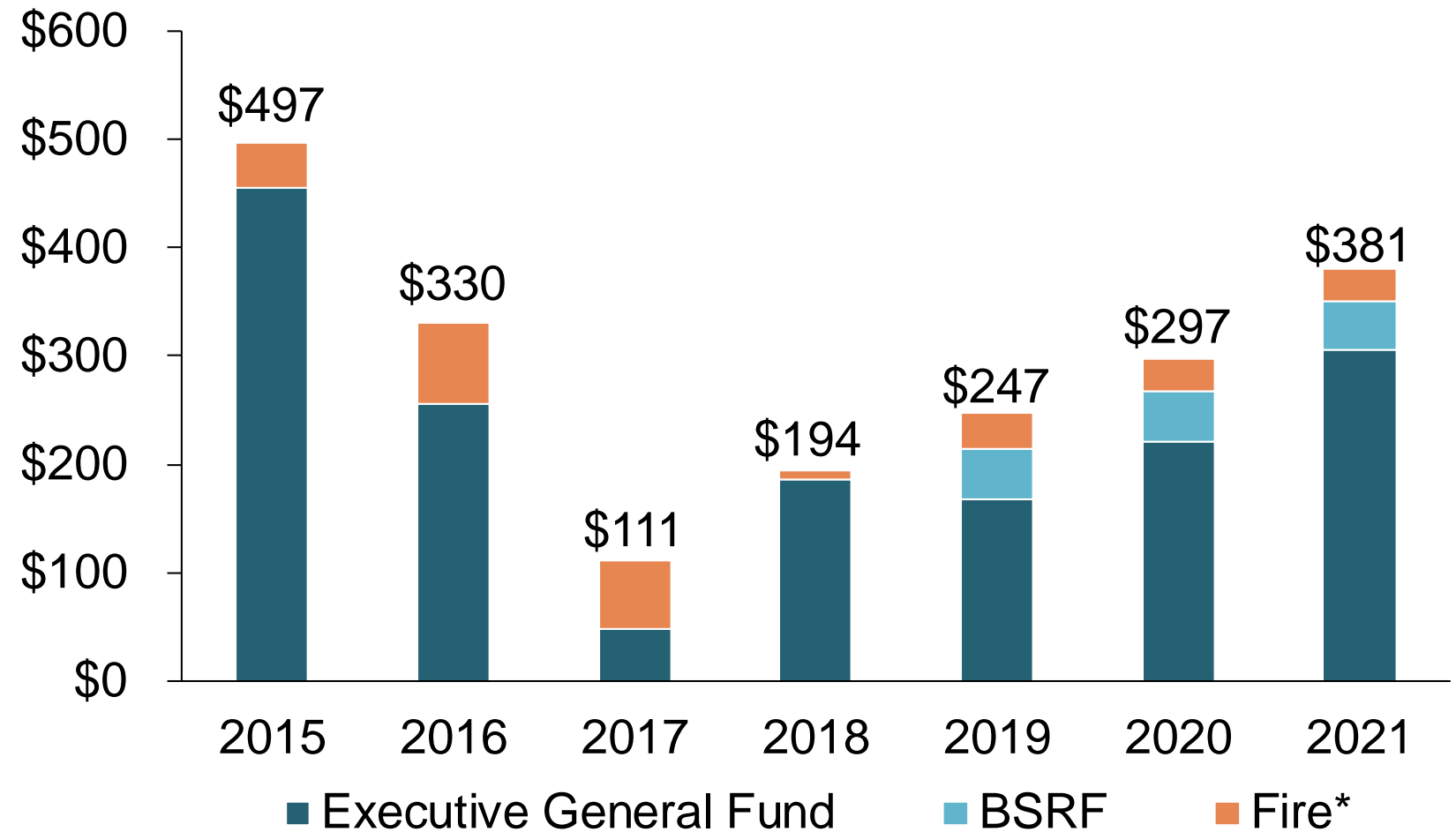
Executive 2021
biennium
general fund
ending fund
balance
exceeds with
statutory
minimums

Executive Recommended General Fund Balance (\$ Millions)



Executive 2021
biennium
reserve
balances total
\$381 million at
the end of the
biennium

Executive Recommended Reserves (\$ Millions)



Bottom Line: Current Budget Outlook
Appears to be Stable

Questions?