FYE 2021 Financial Report

THE BUDGET IN REVIEW
BY LEGISLATIVE FISCAL DIVISION STAFF

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OVERVIEW

GENERAL FUND ENDING BALANCE HIGHER BY $442.6 MILLION

The FYE 2021 unaudited, unassigned, general fund ending balance was $720.0 million, which was $442.6 million more than expected at the end of the 2021 legislative session. The larger than expected fund balance was primarily the result of the following:

- Higher than anticipated general fund revenues, $401.9 million above the HJ 2 estimate
- Lower than expected spending by $45.6 million
- Net accounting adjustments

The following table shows the detailed FYE 2021 balance sheet.

General Fund Balance Sheet
($ Millions)

	Actual FY 2020	Actual FY 2021
Beginning Fund Balance	$361.3	$452.5
Revenues		
Actuals	2,529.2	2,959.8
One-Time-Only (OTO) Revenue	4.1	4.0
Adjustments	(3.5)	(12.2)
Total Revenue Funds Available	2,891.2	3,404.1
Expenditures - Ongoing		
Statutory Appropriations	282.8	290.9
General Fund Transfers	35.2	23.3
HB 2 Agency Budgets (includes payplan)	2,014.5	2,038.4
HB 1	2.4	9.7
Other Appropriations	29.6	44.4
Ongoing Expenditures	2,364.4	2,406.8
One-Time-Only (OTO)		
HB 2 Agency Budgets		5.7
Other Appropriations, AT, Carryforward,blanks	0.4	4.7
BSRF Transfers	57.1	1.1
Fire Fund Transfers	30.3	46.8
Other OTO Transfers		233.9
Accounting Adjustments	(13.5)	(15.0)
Total Expenditures	2,452.2	2,699.0
Ending Fund Balance	$452.5	$720.0
Structural Balance	$164.4	$553.0

BSRF means budget stabilization reserve fund. FY 2020 OTO revenue is Core Civic contract renegotiation amount. FY 2021 OTO revenue is tobacco settlement interest and reduced liquor profit due to lawsuit payment. FY 2021 other OTO expenditure transfers are directed by legislation, primarily HB 5, HB 14, and SB 191.

General Fund Revenues $401.9 Million Above HJ 2 Estimates

The general fund revenues for FY 2021 were higher than anticipated by $401.9 million. The largest portion of the difference was driven by stronger-than-expected growth in individual and corporate income taxes, which together accounted for $377.1 million of the growth above HJ 2. Much of this higher than anticipated individual and corporate income tax revenue can be attributed to temporary sources such as federal stimulus, temporary federal tax provisions, and potential anticipation of federal tax law changes. Some portion of these temporary impacts may last one or more fiscal years beyond FY 2021. It is unknown how much, if any of the higher revenues could be associated with long-term revenue trends. As additional tax return data and economic data are available, the understanding of the long- and short-term components will become more clear, but are unlikely to be fully understood.

General Fund Expenditures $45.6 Million Below June Estimates

The general fund expenditures for FY 2021 were lower than anticipated by $45.6 million. The lower spending was primarily in three areas:

- HB 2, $19.8 million below
- Other appropriation bills, $9.1 million below
- Statutory appropriations, $14.2 million below

FYE 2021 General Fund Expenditures Estimated vs. Actual

	Estimate	Actual	Difference
HB 2 (including estimated Covid savings)	$2,064.0	$2,044.2	($19.8)
Other Appropriations (includes AT)	66.1	57.0	(9.1)
Statutory Appropriations	305.0	290.9	(14.2)
Non-budgeted Transfers	305.5	305.1	(0.4)
Other (continuing & carryforward)	4.1	1.9	(2.2)
Total Estimates/Actuals	$2,744.6	$2,699.0	($45.6)

HB 2, $19.8 million less than expected during session and $150.4 million less than expected at the beginning of FY 2021

The difference between the June 2021 balance sheet estimates and actual HB 2 spending was $19.8 million less than expected.

While the difference between June estimates and FYE actuals was $19.8 million, this is not the whole story of FY 2021 general fund HB 2 expenditures. The executive branch alerted the legislature in the fall of 2020 that the general fund appropriations were adjusted down in the accounting system using 17-2-108(2), MCA for $46.0 million in realized COVID-19 general fund savings related to federal stimulus. An additional $85.0 million in estimated savings was realized in further 17-2-108(2) adjustments and unspent authority in FY 2021. Therefore, the cumulative difference between what was estimated at the beginning of FY 2021 (July 2020) and actual FYE 2021 HB 2 general fund expenditures is $150.4 million in unspent appropriations. The table displays the changes. More information can be found in the agencies FYE 2021 Financial Reports presented to the Interim Budget Committees.

FY 2021 HB 2 General Fund Changes Over Time
$ Millions

		Cumulative Changes
Beginning FY 2021 (July 2020)	$2,195	
Lowered Budget, 17-2-108, MCA (October 2020)	(46)	(46)
Estimated Additional COVID Savings (Jan-June)	(85)	(131)
Estimate June 2021	2,064	
Difference btwn June 2021 Estimate & FYE Actuals	(20)	(150)
FYE 2021 HB 2 General Fund Actuals	$2,045	

While all agencies exhibited lower HB 2 spending, the following agencies had the most significant unspent appropriations:

1. Department of Public Health and Human Services (DPHHS) savings were $120.4 million or 80.1% of the $150.4 million savings. The DPHHS savings were the result of 1) the agency's 2021 general fund base budget lowered due to the provisions of 17-2-108(2), MCA by $63.7 for realized savings related to the federal Families First Coronavirus Response Act, which increased the Federal Medical Assistance Program (FMAP) for all states by 6.2 percentage points, retroactive to January 1, 2020; and 2) the agency underspending general fund authority by $56.7 million, with the largest unspent general fund HB 2 appropriations in the following areas:
   a. Health Resources Division, $21.5 million
   b. Addictive & Mental Disorders Division, $10.8 million
   c. Developmental Services Division, $9.2 million
2. The Department of Corrections (DOC) unspent general fund authority by $14.8 million. The unspent general fund HB 2 appropriations were primarily in the following areas:
   a. Probation and Parole Division , $9.9 million
   b. Clinical Services Division, $3.9 million
3. The Office of Public Instruction (OPI) unspent HB 2 general fund authority by $5.3 million, the majority of this was in K-12 BASE Aid and school transportation;
4. The Legislative Branch unspent HB 2 general fund authority by $1.5 million, primarily the result of fewer travel related costs for in-person interim legislative committee meetings and in-person trainings. These were directly related to the COVID-19 public health emergency; and
5. The Department of Natural Resources and Conservation (DNRC) lowered their base general fund appropriations by $84,874 and the unspent HB 2 general fund authority was $1.4 million, the majority of this was in personal services and operating costs.

Other Appropriation Bills, $9.1 million less than expected

Estimates for other appropriation bills and actual expenditure differences were primarily in the following areas:

- The Office of Public Instruction (OPI) did not spend the $4.5 million supplemental appropriation authority provided in HB 3. Revenue collections for the guarantee fund were higher than estimated and therefore, the supplemental appropriation was not needed. The guarantee account is a state special revenue fund dedicated to school funding. The fund receives revenue generated from common school state lands and interest on the common school trust fund. In addition, the OPI did not spend $223,595 for recruitment and retention of teachers
- The Department of Public Health and Human Services did not spend estimated appropriations provided in other appropriation bills by $2.1 million, with the majority in unspent Medicaid expansion appropriations

- The Department of Revenue unspent appropriations by $1.4 million. The department was estimated to spend up to $2.0 million for payments to local governments to cover protested taxes, the department spent $649,778
- The Governor's Office unspent personal services contingency funding

Statutory Appropriations, $14.2 million less than expected

The difference in the statutory appropriations estimates from the June 2021 Fiscal Report and actual expenditures was $14.2 million less than anticipated. The remaining balance of the Governor's emergency fund (estimated at $14.8 million) was budgeted to be used but was not.

Accounting adjustments

Accounting adjustments, primarily prior year adjustments, were made for revenues and expenditures.

2023 Biennium Update

Fire Fund Update

The wildfire suppression state special revenue fund pays for the state share of wildfire suppression. The fund receives revenue from the unspent amount of the Governor's emergency general fund statutory appropriation, and general fund reversions in excess of 0.5% of the state general fund budget. The fire fund ended FY 2021 with a balance $70.3 million. In accordance with 76-13-150(6)(8), the fund received an additional $35.4 million bringing the fund balance to $105.6 million. Fires suppression cost year-to-date are estimated at $39.2 million with about two months left in the fire season. The table to the right shows the actual balance in the fire fund as of FY 2021, and estimated year end fire fund balance for FY 2022.

Montana State Fire Suppression Fund

	FY 2020	FY 2021	Estimated YTD FY 2022
Beginning Fund Balance	$36,270,454	$54,661,037	$70,342,410
Revenues	31,658,583	47,146,768	36,500,000
Expenditures[1]	(13,268,000)	(31,465,395)	(44,200,000)
Ending Fund Balance	$54,661,037	$70,342,410	$62,642,410

[1] Expenditures for FY 2022 are estimated year to date based on DNRC forestry estimate

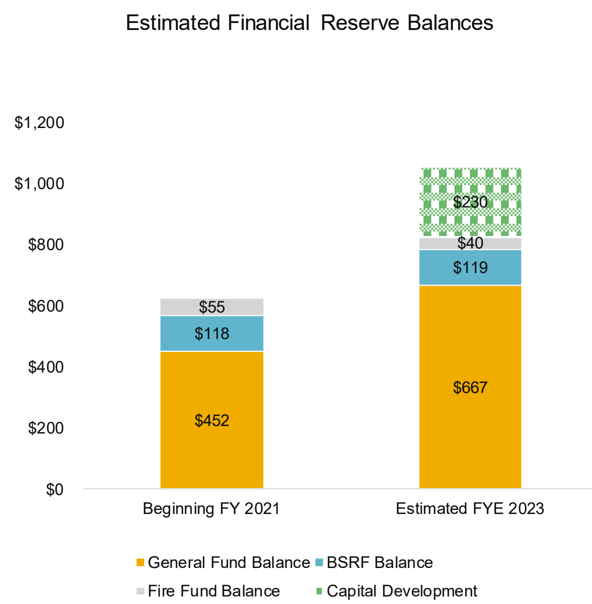
Transfers to Reserve Balances

Robust FY 2021 revenues and higher than anticipated unspent general fund appropriations allowed for transfers to the following reserve funds: 1) budget stabilization reserve fund; 2) capital development fund; and 3) fire fund. These reserves provide the State of Montana with financial tools in times of economic volatility. While some reserves may be used exclusively for economic volatility, others like the fire fund and the capital development fund have limitations to consider.

1. Fire Fund - The ending fund balance for FY 2021 was $70.3 million, primarily the result of transfers into the fund in FY 2021 as directed in law. Statute dictates that the fire fund receives a calculated portion of unspent general fund authority returned by agencies, commonly referred to as reversions. At the start of FY 2021, the fire fund received $46.7

million in reversions and in early FY 2022 received $39.9 million. HB 330 (2021 session) directs the use of fire fund suppression funding for financial volatility only if the budget stabilization fund is fully expended. The estimated FYE 2023 fund balance is $39.9 million assuming an average fire year for FY 2023.

2. Budget Stabilization Reserve Fund (BSRF) – The BSRF received $4.7 million in August 2021. SB 191 (2021 session) required that if certain criteria were met, transfers into the BSRF would occur. For more information on the criteria, please review page 6 of the 2023 Biennium Fiscal Report. The BSRF is currently at the maximum level of $118.9 million.;
3. Capital Development Fund - The BSRF balance is limited by a calculation provided in statute, which directs 50% of the excess be transferred to the capital development fund. The BSRF balance reached its allowable maximum in August 2021, which resulted in the capital development fund receiving a general fund excess revenue transfer of $115.1 million. Additionally, HB 14 (2021 session) and SB 191 (2021 session) authorized general fund transfers into the capital development fund. The capital development fund may be used for long-range building program and to pay down state debt, or delay, forgo, or reduce bond issuance and therefore not all is available for reserves. The FYE 2023 estimated fund balance in this fund is $229.9 million after statutorily required uses, however deferred maintenance backlog at state-owned facilities, requests to assist in the funding of local government water and sewer projects, and funding for the state's portion of water compacts are some of the pressures or potential uses of the estimated FYE 2023 fund balance.



While the reserve funds discussed on page four decreased the general fund balance, moving forward the general fund ending fund balance for FY 2023 is projected at $666.6 million or $287.0 million higher than the 2023 Biennium Fiscal Report . This assumes the revenues will not change from the HJ 2 estimate and the general fund expenditures (other than the transfers discussed in the reserves section above) are the same as assumed in the 2023 Biennium Fiscal Report.

The graphic illustrates the estimated financial reserve funds for FY 2021 and FYE 2023.

GENERAL FUND REVENUES

Actual FY 2021 general fund revenues were $401.9 million or 15.7% above the HJ 2 estimate adopted by the 2021 Legislature. The difference was driven by stronger-than-expected growth in individual and corporate income taxes, which together accounted for $377.1 million of the growth above HJ 2.

Given that CY 2020 saw many negative impacts to the economy as a result of the Covid-19 public health emergency, it is counterintuitive that revenues grew by as much as they did on both a year-to-date basis and above and beyond the estimate contained in HJ 2. There are multiple explanations that may be at least partially responsible for such strong revenue collections above what was anticipated in HJ 2.

1. Federal Stimulus: The sheer magnitude of federal stimulus funds sent to Montana resulted in strong revenue collections. Whether the stimulus funds were in the form of payroll loans, or were stimulus checks to individuals, at some point those funds become taxable either directly through payroll withholding taxes or in the form of a business profit when an individual makes a purchase. This impact is expected to have been mostly realized in FY 2021, and not expected to continue into future years.
2. Difficulty in Estimating Impact of Federal Provisions: Throughout the course of CY 2020 the federal government passed multiple pieces of legislation that provided businesses with additional methods to lower their tax liabilities. These included more flexibility on how losses could be moved from one year to the next, additional deductions for non-business income, and the ability to deduct Paycheck Protection Program (PPP) loans as normal operating expenses. While there was no established model to estimate these federal provisions, multiple outside-the-model adjustments were made to quantify these impacts. Such strong collections indicate that the effects of these provisions were ultimately over-estimated in HJ 2. There is still a possibility that some of these federal provisions could lower liabilities in FY 2022 and FY 2023, though in smaller amounts than what was anticipated in HJ 2.
3. In-Migration: Anecdotal evidence suggests that Montana saw an influx of new residents above recent trends, resulting in new residents added to the tax base. When CY 2020 data becomes available in November, this theory will be analyzed using actual data.
4. Anticipation of future federal tax increases: In the past, taxpayer behavior has been impacted by federal tax legislation or the anticipation of future changes to federal taxes. If taxpayers are currently anticipating tax increases in future years, they may have declared more income in CY 2020 to take advantage of current tax rates.
5. Uncertainty: The past year brought unprecedented uncertainty related to the economy and ultimately the revenue estimating process. Whether it was in the form of business restrictions/re-openings or additional federal stimulus the revenue forecasting/monitoring process has been and continues to be fluid. In addition to federal tax reform, the potential of an infrastructure bill at the federal level may add additional uncertainty to predictions of future revenues.

The following table shows actual FY 2020 revenues in the first numerical column, followed by estimated and actual FY 2021 revenues. The next two columns show the estimated and actual growth in FY 2021 from FY 2020. And the last two columns compare the actual FY 2021 revenue to the estimate in HJ 2, showing the difference as an amount and as a percentage.

Further detail on each revenue source and the difference from the estimate are provided in the following pages, organized in the same order as the revenue is listed on the table.

General fund revenue: FY 2021 actual collections exceeded HJ 2 estimate by $401.9 million
($ Millions)

Revenue Source	Actual FY 2020	HJ 2* FY 2021	Actual FY 2021	HJ 2 % Change	Actual % Change	Act.-HJ 2 $ Diff.	Act./HJ 2 % Diff.	% Diff Illustrated
Largest Seven Sources								
Individual Income Tax	$1,435.2	$1,505.4	$1,765.4	4.9%	23.0%	$260.0	17.3%	
Property Tax	308.6	313.4	310.7	1.6%	0.7%	(2.7)	-0.9%	
Corporation Tax	187.4	149.4	266.5	-20.2%	42.2%	117.1	78.4%	
Vehicle Taxes & Fees	108.5	109.3	117.8	0.8%	8.6%	8.5	7.7%	
Oil & Natural Gas Taxes	38.4	40.4	39.5	5.2%	3.0%	(0.8)	-2.0%	
Insurance Tax	82.5	88.4	87.3	7.2%	5.8%	(1.2)	-1.3%	
Video Gaming Tax	57.4	60.3	74.9	5.0%	30.4%	14.6	24.2%	
Other Business Taxes								
Drivers License Fee	4.4	4.1	4.7	-6.7%	6.5%	0.6	14.1%	
Investment Licenses	15.7	16.4	17.0	4.3%	8.3%	0.6	3.9%	
Lodging Facilities Sales Tax	25.1	21.5	25.9	-14.2%	3.3%	4.4	20.4%	
Public Contractor's Tax	6.7	5.0	3.9	-25.9%	-42.1%	(1.1)	-21.8%	
Railroad Car Tax	4.3	4.3	5.2	0.3%	20.8%	0.9	20.5%	
Rental Car Sales Tax	4.2	3.6	3.9	-15.5%	-7.3%	0.3	9.7%	
Retail Telecom Excise Tax	11.8	11.0	8.8	-6.7%	-25.2%	(2.2)	-19.9%	
Other Natural Resource Taxes								
Coal Severance Tax	10.9	9.6	10.1	-12.5%	-7.7%	0.5	5.6%	
Electrical Energy Tax	3.9	4.0	3.3	2.0%	-15.7%	(0.7)	-17.3%	
Metal Mines Tax	8.7	9.9	12.1	13.7%	39.1%	2.2	22.3%	
U.S. Mineral Royalties	18.5	17.6	12.1	-4.9%	-34.8%	(5.5)	-31.4%	
Wholesale Energy Trans Tax	3.4	3.5	3.0	3.4%	-11.0%	(0.5)	-14.0%	
Other Interest Earnings								
Coal Trust Interest Earnings	21.6	17.9	16.0	-17.2%	-26.1%	(1.9)	-10.8%	
TCA Interest Earnings	18.6	2.4	3.4	-87.1%	-81.7%	1.0	42.6%	
Other Consumption Taxes								
Beer Tax	3.2	3.1	3.3	-1.5%	4.7%	0.2	6.3%	
Cigarette Tax	27.0	27.1	27.9	0.4%	3.4%	0.8	3.0%	
Liquor Excise Tax	23.8	25.0	27.8	4.9%	17.0%	2.9	11.5%	
Liquor Profits	18.1	15.8	13.3	-12.6%	-26.7%	(2.5)	-16.1%	
Lottery Profits	8.1	13.2	12.3	63.8%	52.4%	(0.9)	-7.0%	
Tobacco Tax	5.8	5.7	5.6	-1.7%	-2.5%	(0.0)	-0.8%	
Wine Tax	2.5	2.6	2.7	2.2%	6.2%	0.1	4.0%	
Other Sources								
All Other Revenue	46.1	39.3	45.6	-14.7%	-1.0%	6.3	16.1%	
Highway Patrol Fines	3.5	3.7	3.5	6.7%	1.7%	(0.2)	-4.7%	
Nursing Facilities Fee	4.2	4.0	3.4	-4.7%	-18.8%	(0.6)	-14.8%	
Public Institution Reimb.	12.7	12.6	13.7	-1.5%	7.8%	1.2	9.4%	
Tobacco Settlement	2.7	12.5	13.2	371.6%	397.2%	0.7	5.4%	
Ongoing Revenue Subtotal	2,529.2	2,552.1	2,954.0	0.9%	16.8%	401.9	15.7%	
OTO & Transfers Subtotal	4.1	9.8	9.8	140.1%	140.1%	-	0.0%	
Grand Total	$2,533.3	$2,561.9	$2,963.8	1.1%	17.0%	$401.9	15.7%	

*HJ 2, adjusted for legislation impacts

Individual Income Tax: $260.0 million

Individual income tax collections were $260.0 million or 17.3% above the estimate contained in HJ 2. The adjacent table shows the year-over-year changes by accounting category.

Individual Income Tax ($ Millions)

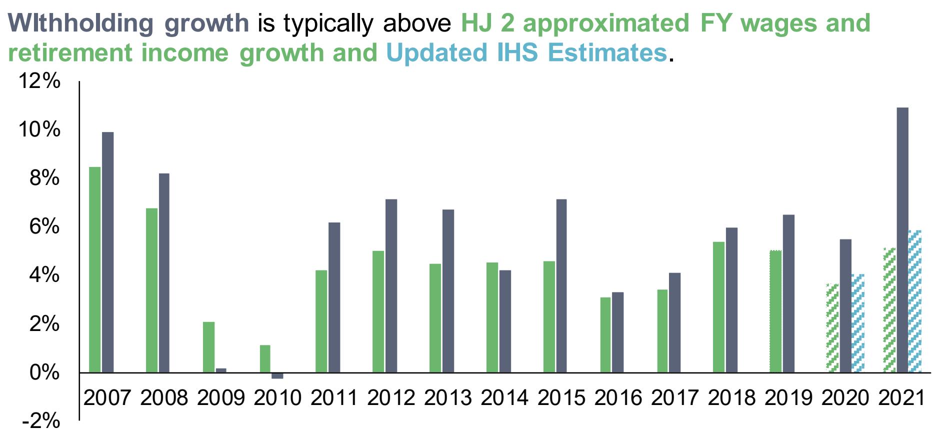
Account	YTD 2021	YTD 2020	$ Difference	% Difference
Withholding	$1,245.4	$1,122.3	$123.0	11.0%
Estimated Payments	432.1	282.8	149.2	52.8%
Current Year Payments	312.3	247.3	65.0	26.3%
Audit, P&I, Amended	59.2	48.2	11.0	22.8%
Refunds	(367.2)	(321.0)	(46.2)	14.4%
Partnership Income Tax	74.8	44.9	29.9	66.7%
Mineral Royalties	8.8	10.7	(1.8)	-17.3%
Total	1,765.4	1,435.2	330.2	23.0%

Detailed CY 2020 return data available in November will allow for income source comparisons to HJ 2. The return data will specifically indicate which sources of income were greater or less than expected in HJ 2. Understanding the differences may prove to be larger challenge this year. However, it is likely that the growth above what was expected was a largely a result of the magnitude of federal stimulus funds that were sent to Montana and the difficulty in forecasting that impact.

The strong growth in estimated payments is partially a result of FY 2021 receiving quarterly estimated payments that normally would have been due in FY 2020, but the extension of Tax Day caused these taxes to be due in July instead of April. Nevertheless, even if the additional payments are removed estimated payments still grew by $100.0 million or 35.1%.

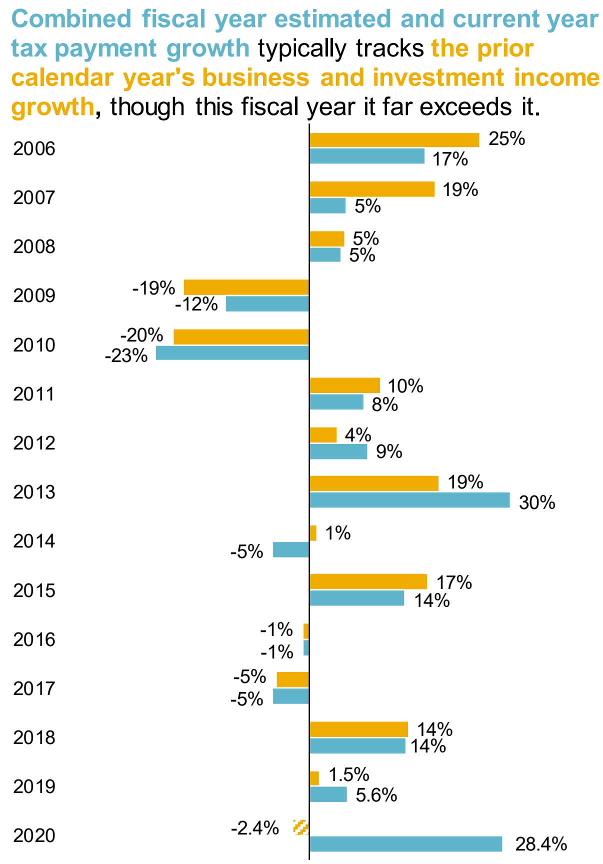
<u>Wage Income</u>

There is a correlation between withholding growth and wage and retirement income growth; however, the correlation is not particularly strong, as shown in the adjacent graph. FY 2021 withholding growth of 11.0% is far above the HJ 2 estimated FY 2021 wage and retirement income growth of 5.2% and suggests stronger-than-anticipated growth in those income types.



<u>Non-Wage Income</u>

Non-wage income from business and investment income is typically reflected in taxes collected through quarterly estimated and current year payments. FY 2021 quarterly estimated and current year payments (when excluding the additional quarterly estimated payment from FY 2020 that was booked in FY 2021) grew 28.4% from FY 2020, compared to the anticipated decline of 2.4% contained in HJ 2 which was based upon the combined CY 2018 business and investment income growth with a negative adjustment due to recent federal tax legislation. The adjacent figure shows the fiscal year growth rates of estimated and current year tax payments and the prior calendar year's business and investment income.



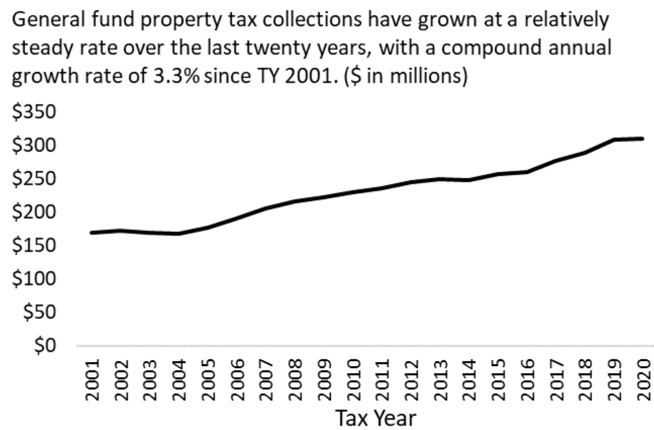
Over the course of the past year the federal government passed legislation that was intended to lower the tax liability for many small businesses and was especially beneficial for those businesses who experienced losses. These provisions resulted in lowering the individual income estimate that was outside the typical estimating process.

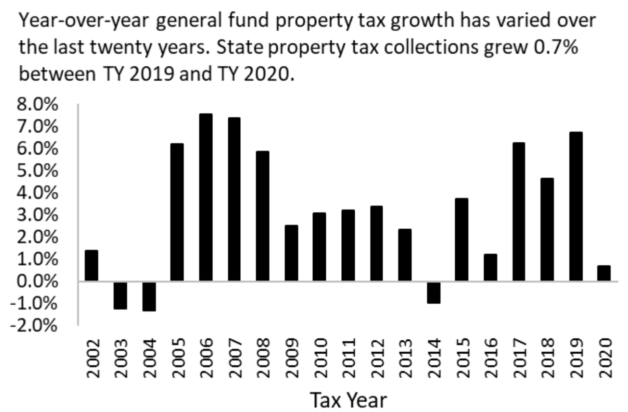
Like the wage and withholding figure, actual collections in the accounting system for estimated payments and current year payments far exceeded the prior year's business and investment income estimates that normally correlate well. Once again, this is likely a result of the federal stimulus becoming taxable, if not initially, then as the income is spent in the economy.

Property Tax: ($2.7 million)

General fund property tax revenue was 0.9% or $2.7 million below the HJ 2 estimate. While property tax was expected to grow by 1.6%, lower-than-expected levy revenue resulted in a total growth of 0.7%.

Year-over-year general fund property tax growth has varied between -1.3% and 7.5% over the last two decades. In recent years, property tax revenues have grown at rates above the twenty-year compound annual growth rate of 3.3%, but that growth slowed down in TY 2020. However, these fluctuations are relatively small compared to the total amount of property tax revenue collected by the state, and property tax is one of the more stable sources of revenue for the state general fund.





Corporate Tax: $117.1 million

FY 2021 corporate tax collections were $117.1 million or 78.4% above the estimate contained in HJ 2. The table to the right shows the accounting level detail for FY 2021 compared to FY 2020. Compared to FY 2020, which was previously the highest collections ever for corporate income tax, FY 2021 collections increased by $79.1 million or 42.2%.

Corporate Income Tax
($ Millions)

Account	YTD 2021	YTD 2020	$ Difference	% Difference
Corporation Tax	$79.4	$50.9	$28.4	55.9%
Estimated Payments	$202.1	$145.6	56.5	38.8%
Refunds	(26.8)	(20.0)	(6.8)	33.8%
Audit, P&I, Amended	11.9	10.9	1.0	9.1%
Total	$266.5	$187.4	$79.1	42.2%

Actual collections compared to HJ 2 are shown in the adjacent table. Total tax liability was underestimated by $121.8 million. Similar to individual income tax, the estimate in HJ 2 contained a negative adjustment due to multiple federal provisions that were intended to lower tax liabilities.

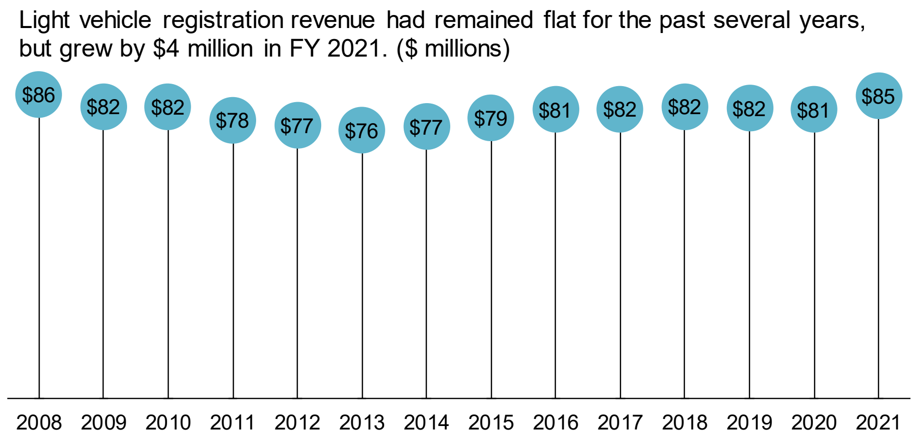
FY 2020 corporate income tax came in $117.1 million above HJ 2
($ millions)

	HJ 2	Actual	$ Difference
Tax Liability & Adjustments	$159.6	$281.4	$121.8
Refunds	(27.3)	(26.8)	0.5
Audit, Penalty & Interest	17.0	11.9	(5.1)
Total	$149.4	$266.5	$117.1

Specifically, these provisions allowed corporations to deduct payroll funds received from the federal government as expenses, and this would offset any taxable income they would have reported. However, many of Montana's larger corporations may not have seen losses to the extent that was anticipated in HJ 2

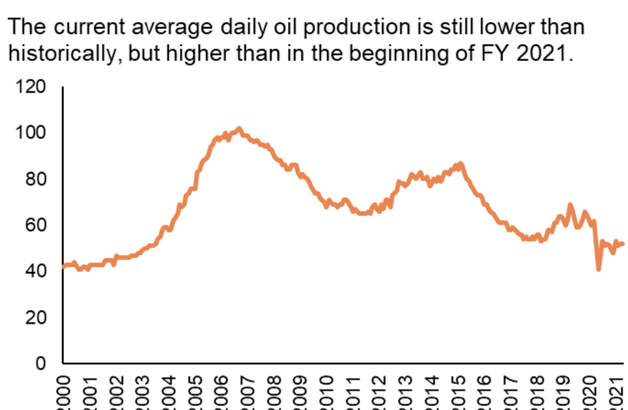
Vehicle Taxes & Fees: $8.5 million

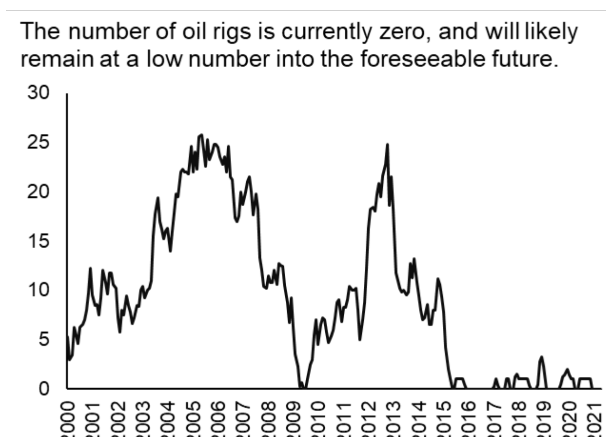
Revenue collections from vehicle taxes and fees were 7.7% or $8.5 million higher than anticipated in HJ 2. Light vehicle registrations were about $4.0 million higher than anticipated, which explains a significant portion of the higher than expected revenue collections. This was likely driven partly by higher than normal vehicle purchases, as well as an influx of new residents moving to the state and registering vehicles in Montana. As can be seen in the above chart, light vehicle registrations had remained virtually flat for the last several years, before increasing in FY 2021.



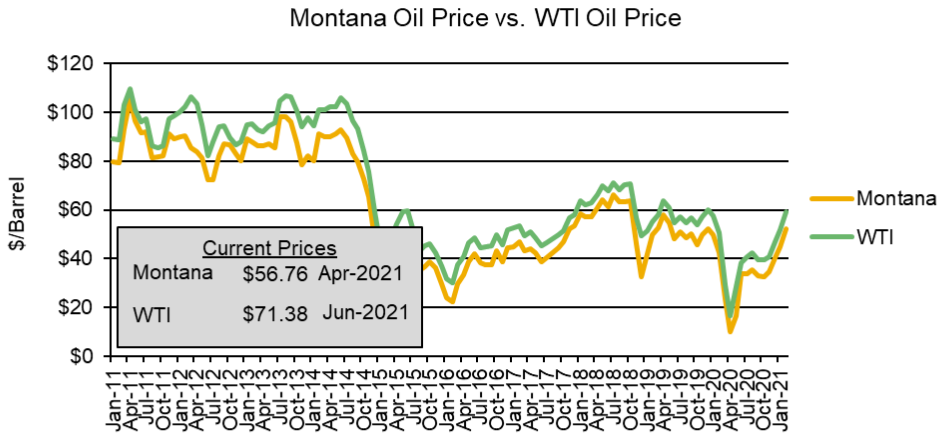
Oil & Natural Gas Taxes: ($0.8 million)

Oil and natural gas collections were $0.8 million or 2% below the HJ 2 estimate. Revenue collections through most of the fiscal year were tracking well below HJ 2, primarily due to the low prices and subsequent production declines early in the year. The second half of the fiscal year saw a strong return in prices, which ultimately led to revenue collections ending very close to HJ 2.





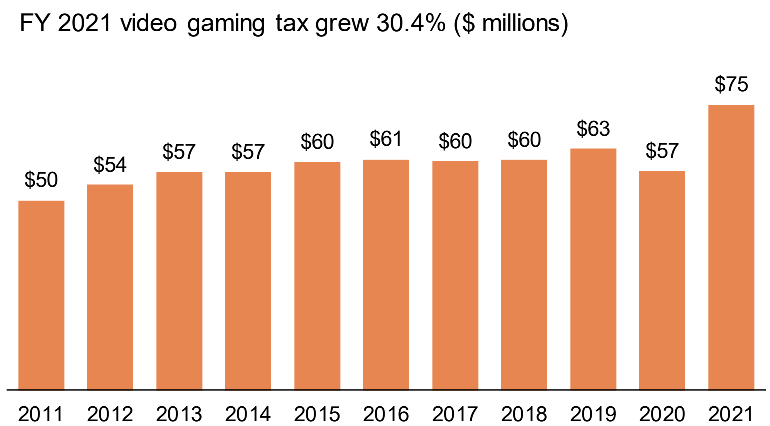
As the graphs above show, production from existing wells remains near historical lows and no oil rigs are operating in MT drilling new wells. Most of the increase in revenue through the second half of the fiscal year has been driven by steadily rising prices, as demonstrated in the graph below.



Insurance Tax: ($1.2 million)

FY 2021 insurance tax came in $1.2 million or 1.3% below the HJ 2 estimate. Growth in the fire marshal premium tax was lower than expected. The fire marshal tax is an additional 2.5% premium tax on selected risks of certain property casualty policies and is deposited 100% to the general fund, unlike most other premiums which are split between the general fund and the Healthy Montana Kids state special revenue account.

Video Gaming Tax: $14.6 million



Video gaming revenue in FY 2021 was $14.6 million or 24.2% above what was anticipated in HJ 2. After years of flat-to-modest growth video gaming tax surged in FY 2021 as shown in the chart to the right. According to Forbes, this trend has been evident in other non-destination gaming markets that have seen recently seen record setting months. The increase may be due to extra income from stimulus checks and/or a lack of other leisure activities available during the COVID-19 pandemic. However, revenue totals as the economy recovers will indicate whether this is a lasting trend or a temporary increase.

Other Business Taxes

Driver's License Fee: $0.6 million

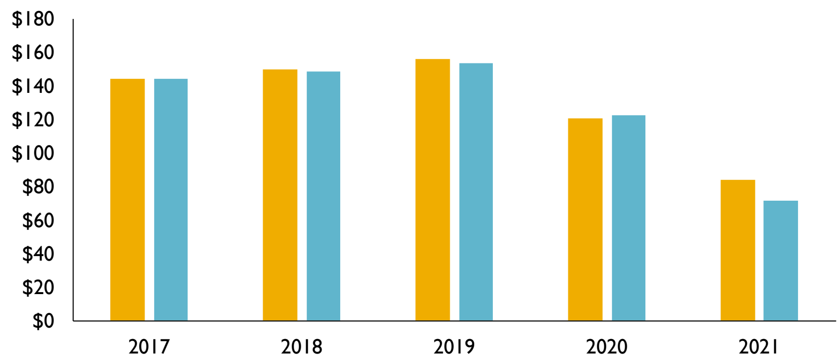
Total driver's license revenue was $0.6 million or 14.1% more than was anticipated in HJ 2. The HJ 2 estimate was based on forecast population data and historical ratios between licenses and actual populations.

Investment License Fee: $0.6 million

Investment license fee collections were $0.6 million or 3.9% higher than the estimate contained in HJ 2. In HJ 2, this source was modeled on the Montana personal consumption expenditure series for finance & insurance from IHS Markit, with modeled growth rates applied to the last known collections. The model seems to be working well and has not been adjusted.

Lodging Facilities Sales Tax: $4.4 million

Current IHS estimates for consumer spending on accomodations in FY 2021 are 17% larger than the estimate used in HJ 2.



Lodging facilities sales tax collections were $4.4 million or 20.4% above the estimate contained in HJ 2. This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. Over the past year, and particularly through the summer months, lodging tax collections have performed well. This could be a result of pandemic driven tourism pushing many people towards Montana and higher than normal room rates. High tourism areas have fared much better than others and have driven most of the revenue collections, as evidenced by data on county and city level collections, which can be found on the Department of Commerce website.

Public Contractors' Gross Receipts Tax: ($1.1 million)

Public contractors' gross receipts tax collections were $1.1 million or 21.8% below the estimate contained in HJ 2. This source was estimated in HJ 2 based on a time trend of highway spending and all other construction in recent years. This source is difficult to estimate due to the unpredictability of income tax credits and property tax refunds.

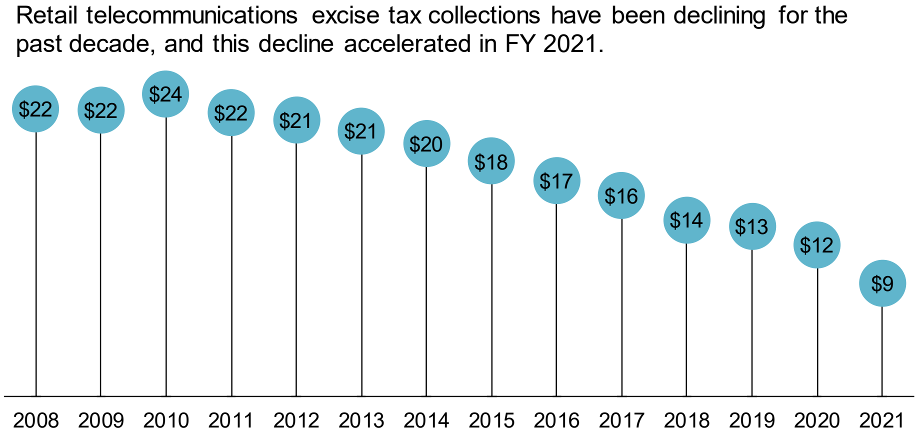
Railroad Car Tax: $0.9 million

Railroad car tax revenue was $0.9 million or 20.5% above the HJ 2 estimate. The HJ 2 estimate was based on total United States railcar valuation, estimates on Montana apportionment, and the IHS Markit forecast for Montana retail sales.

Rental Car Sales Tax: $0.3 million

Rental car sales tax collections were $0.3 million or 9.7% above the estimate contained in HJ 2. Rental car sales tax was forecast in HJ 2 based on the Montana personal consumption expenditure series for transportation.

Retail Telecommunications Excise Tax: ($2.2 million)



Retail telecommunications excise tax collections were $2.2 million or 19.9% below the estimate contained in HJ 2. The estimate was based on U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS Markit forecast of Montana population growth. Although revenue collections for this source have been steadily declining, it is not exactly clear why there was such a significant decline in FY 2021.

Other Natural Resource Taxes

Coal Severance Tax: $0.5 million

Coal severance tax collections were above the HJ 2 estimate by $0.5 million or 5.6%. Production in FY 2021 declined by 18% from FY 2020, however total collections decreased only 8%. Collections did not decline as much as the production drop would have suggested due some payments arriving in FY 2021 that were due in FY 2020.

Electrical Energy Tax: ($0.7 million)

Taxable energy production was below the HJ 2 forecast by $0.7 million, or 17.3%. Tax collections are a flat rate imposed against production. This source is forecast by using a trend line on the six most recent years. Collections are likely lower due to declines in the coal industry and the closure of Colstrip units 1 and 2.

Metalliferous Mines Tax: $2.2 million

Metal mines tax collections were $2.2 million or 22.3% above the estimate contained in HJ 2. The increase can be attributed primarily to high palladium and copper prices over the past year.

U.S. Mineral Royalties: ($5.5 million)

Revenue from U.S. mineral leases in the state was $5.5 million or 31.4% below the HJ 2 estimate. A declining coal industry is primarily responsible for the decline in royalty collections, as a substantial amount of Montana’s coal production occurs on federal land.

Wholesale Energy Transaction Tax: ($0.5 million)

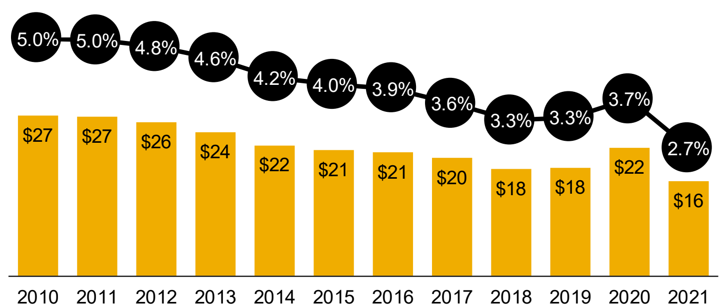
Wholesale energy transaction tax was $0.5 million or 14% below the estimate contained in HJ 2. Like electrical energy, wholesale energy transaction tax collections fluctuate around an average. The estimate was based on an average of recent years.

Other Interest Earnings

Coal Trust Interest Earnings: $(1.9 million)

Coal trust interest earnings were below the revenue estimate in HJ 2 by 10.8% or $1.9 million. The coal trust is invested in the Trust Funds Bond Pool, Short-Term Investment Pool, and in-state investments. Annual return rates on the permanent trust were lower-than-expected in FY 2021, causing the decrease relative to the estimate.

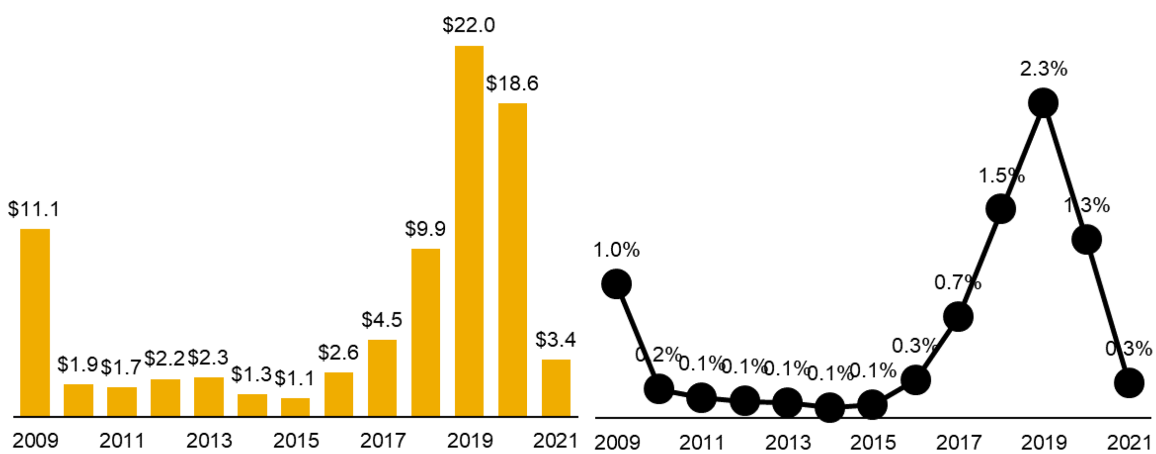
Coal trust interest earnings coincide with the **rate of return** on investments. ($ millions)



Treasury Cash Account Interest Earnings: $1 million

Based on year-end data for FY 2021, the TCA interest earnings were 42.6% or $1.0 million above the HJ 2 estimate. Earnings are dependent on the average balance and short-term interest rates. In

Short-term interest pool earnings are closely tied to **short-term interest rates**. ($ millions)



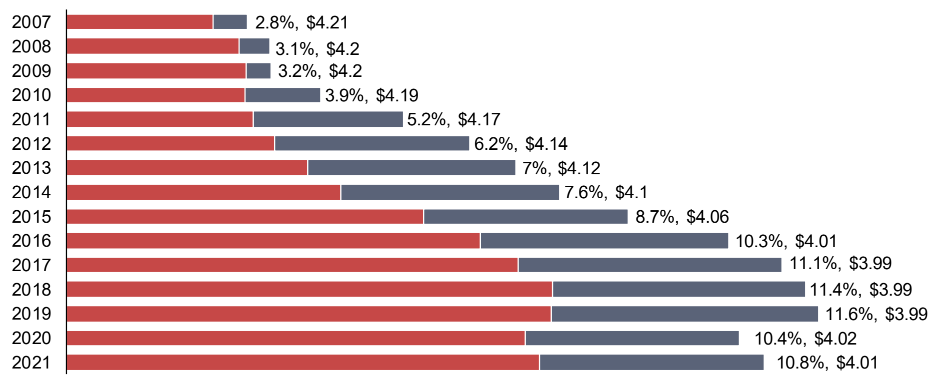
the HJ 2 assumptions short-term interest rates were expected to be 0.23% but ultimately were slightly higher at 0.25%. The remaining growth can be attributed to strong cash balances throughout the course of FY 2021.

Other Consumption Taxes

Beer Tax: $0.2 million

Beer tax revenue came in 6.3% or $0.2 million above the official projection in FY 2021. The estimate is based on proxy barrels, population aged 21 or greater, and consumption per capita. The effective tax rate on beer has been declining for several years due to the increasing market share of craft beer, which is taxed at a lower rate based on production. However, during the COVID-19 pandemic the market share of large producers increased causing the effective tax rate to rise. In addition to the increase in effective tax rate, the consumption per capita rose roughly 6.0% over the past 2 years, contributing to higher collections as well.

The market share of small brewers—**those producing 5,000 barrels/year or less** and **those producing between 5,000 and 10,000 barrels/year**— declined moderately in FY 2020 and FY 2021, following annual increses since 2007, causing the effective tax rate to slightly increase due to larger brewers being taxed at a higher rate.



Cigarette Tax: $0.8 million

Cigarette tax collections came in $0.8 million or 3.0% above the HJ 2 revenue estimate. The forecast for this source is based on the IHS Markit series for consumer price index for tobacco and consumer spending on tobacco products. This source has been generally declining for two decades but nationally the downward trend of cigarette sales halted during the COVID-19 pandemic and smoking is currently on the rise.

Liquor Excise & License Tax: $2.9 million

Liquor excise tax actuals came in 11.5% or $2.9 million above HJ 2. The estimate adopted by the legislature projected a 4.9% increase in this source. However, liquor license and excise tax revenue increased by 17.0% over the previous year. This appears to be caused by COVID-19 pandemic consumption behavior.

Liquor Profits: ($2.5 million)

Liquor profits came in $2.5 million or 16.1% below the estimate contained in HJ 2 for FY 2021. Liquor sales for 2021 were up roughly 18.0% over FY 2020. However, during FY 2021 the state paid a lawsuit settlement to Lolo Liquor store in the amount of $5.8 million, which effectively decreased revenues flowing into the general fund from the liquor profits account. The lawsuit stemmed from the passage of SB 193 (2015) which was ruled to have violated the terms of the store's franchise agreement by the 9th US District Court of Appeals.

Lottery Profits: ($0.9 million)

Lottery profits in FY 2021 were 7.0% or $0.9 million below the HJ 2 revenue estimate. Lottery profits were forecast to increase by 63.8% or $5.1 million, but instead it only grew by 52.4% or $4.2 million. The HJ 2 estimate included the new sports betting revenue that was a result of HB 725 (2019). This source was expected to be substantial. However, the implementation of sports betting coincided with the beginning of the COVID-19 pandemic and most sporting events during that time period were cancelled. The model will be adjusted now that more data is available.

Tobacco Tax: ($0.0 million)

Tobacco tax revenue came in 0.8% or $0.0 million below HJ 2. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 18 and personal consumption expenditure series.

Wine Tax: $0.1 million

Wine tax revenue came in 4.0% or $0.1 million above HJ 2. The HJ 2 estimate was based on the IHS Markit forecast of Montana population over age 21. Consumption per capita was up slightly over the previous years, following the pattern of other beverage taxes.

Other Sources

All Other Revenue: $6.3 million

In FY 2021, all other collections were $6.3 million or 16.1% above the HJ 2 estimate. The largest seven accounts that make up all other revenue are forecasted individually. The remaining smaller accounts, which total nearly 200, are combined and estimated using a four-year moving average. The estimates of the seven large accounts were quite accurate, leaving the estimate error to be explained by the aggregate estimate of the smaller accounts.

Highway Patrol Fines: ($0.2 million)

Total revenue generated from highway patrol fines in FY 2021 was 4.7% or $0.2 million less than the HJ 2 estimate. This revenue source is modeled using a three-year moving average.

Nursing Facilities Fees: ($0.6 million)

Nursing facilities fees came in 14.8% or $0.6 million below the HJ 2 revenue estimate. It is forecast primarily based on a time series of proxy bed days. This source has declined most years since inception, which is consistent with national trends.

Public Institution Reimbursements: $1.2 million

Public institution reimbursements were 9.4% or $1.2 million higher than the HJ 2 revenue estimate. This source has a history of fluctuating collections primarily due to timing of federal payments.

Tobacco Settlement: $0.7 million

Tobacco settlement revenue was 5.4% or $0.7 million above the HJ 2 estimate. The calculation of the annual settlement amount by Price Waterhouse Coopers is based in part on national sales volume, which was higher last year than expected due to the recent trend in smoking.

AGENCY EXPENDITURE HIGHLIGHTS – FYE 2021

Agencies with significant budget highlights from FY 2021 are included in this section. Detailed spending by each agency is provided in reports to the Interim Budget Committees.

DEPARTMENT OF CORRECTIONS

As mentioned on page 3, the Department of Corrections unspent $14.8 million in general fund authority. The department's budget is principally funded with general fund and 90.0% of these funds were expended in FY 2021. Spending was below the five-year average of 96.1%. In FY 2021 HB 2 authority was at times displaced by federal funds, including $15.9 million of the department's personal service costs funded with COVID-19 funds.

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES (DPHHS)

As described on page two, the DPHHS unspent general fund HB 2 appropriation authority was $120.4 million in FY 2021. The lower spending was primarily in the following three divisions:

a. Health Resources Division (HRD), $21.5 million. This reduction is due to budget amendments associated with the COVID 19-related enhanced FMAP tied to the federal Families First Coronavirus Response Act (FFCRA). HRD also made several transfers of authority to other DPHHS divisions, including Medicaid authority for the Community First Program in the Senior and Long-Term Care Division (SLTC) as well as Medicaid authority to other DPHHS divisions for Medicaid purposes
b. Addictive & Mental Disorders Division, $10.8 million. This reduction is mostly due to lower than budgeted spending for the Montana State Hospital, the Mental Health Bureau, the Chemical Dependency Bureau, and the Montana Mental Health Nursing Care Center
c. Developmental Services Division, $9.2 million. This reduction is due to budget amendments associated with the COVID 19-related enhanced FMAP tied to the federal Families First Coronavirus Response Act, which increased the FMAP for all states by 6.2 percentage points, retroactive to January 1, 2020.

OFFICE OF PUBLIC DEFENDER (OPD)

A $350,000 general fund supplemental appropriation was authorized by the 2021 legislature in HB 630 and 100% was expended to address budget shortfalls in FY 2021.

OFFICE OF PUBLIC INSTRUCTION (OPI)

The OPI received $4.5 million general fund supplemental appropriation authorized by the 2021 legislature in HB 3 to cover shortfalls in payments to K-12 school districts. The supplemental appropriation was budgeted, but not used. Please see page 3 for additional details.

HB 2 General Fund by Agency

The Legislative Fiscal Division has created a Power BI interactive data tool that illustrates the budgeted and actual expenditures of ***general fund*** for HB 2 for FY 2021. The budgeted number reflects the FYE modified budget. Detailed budget changes by section, agency, and program can be found in reports given to the Interim Budget Committees.

The link to the Power BI tool allows viewers to pick and choose agencies and drill down deeper into the data. Page 3 of the interactive tool shows general fund only. Please note, there are slight differences between the Power BI tool and SABHRS accounting/general fund balance sheet.

https://app.powerbigov.us/view?r=eyJrIjoiYTQ0NzBkMGEtZjY1ZS00OWZlLWIwMjctZDQ0MDA1MTg5MWM2IiwidCI6IjVmYzM1Mjk4LTQyMTEtNDA1NC04Njc4LWIzMjgxYzM5NzI2NyJ9

HB 2 by Agency

The Legislative Fiscal Division has created a Power BI interactive data tool that illustrates the budgeted and actual HB 2 FY 2021 expenditures. This includes general fund, state and federal special revenue, and budgeted proprietary funds. The interactive tool shows a comparison of the FYE modified budget to actual expenditures for all state agencies.

The link to the Power BI tool allows viewers to pick and choose agencies and drill down deeper into the data. Page 2 of the interactive tool shows all funds.

https://app.powerbigov.us/view?r=eyJrIjoiYTQ0NzBkMGEtZjY1ZS00OWZlLWIwMjctZDQ0MDA1MTg5MWM2IiwidCI6IjVmYzM1Mjk4LTQyMTEtNDA1NC04Njc4LWIzMjgxYzM5NzI2NyJ9

STATUTORILY REQUIRED REPORTS

Budget Amendments

As of August 31, 2021, the Legislative Finance Division received notification of 196 budget amendments impacting the 2021 and 2023 biennia and certified by the Governor since November 30, 2021.

These amendments increase federal revenue authority by $251.8 million, state special revenue by $0.7 million and proprietary fund authority $0.2 million, for an increase in total authority of $198.0 million in FY 2021, $54.4 million in FY 2022 and $0.3 million in FY 2023. An additional 12.70 FTE in FY 2021, 45.01 FTE in FY 2022, and 17.99 FTE in FY 2023 in modified positions have also been added. Modified FTE are valid for the fiscal year but do not become permanent FTE in agency base budgets. A total of 13 amendments transfer existing authority between expenditure categories or between organizational units and 24 extend previously approved amendment authority. Figure 1 summarizes the budget amendments certified by the Governor from the period December 1, 2020 through August 31, 2021.

Figure 1

Budget Amendment Summary (since last LFC meeting)			
Component	FY 2021	FY 2022	FY 2023
Number of Amendments	108	88	1
FTE Added	12.70	45.01	17.99
State Special Revenue	$0	$341,600	$341,600
Federal Revenue	197,868,393	53,944,667	0
Proprietary Fund	142,000	80,500	0
Total Revenue	$198,010,393	$54,366,767	$341,600

Each amendment, along with a brief explanation, is summarized in Appendix C. Staff has reviewed the amendments and has raised no concerns with any amendment meeting statutory criteria.

Figure 2 summarizes the budget amendments that were certified for the 2021 biennia. The only amendments from Figure 1 that appear in Figure 2 are the 108 amendments from FY 2021, shown below as those pertaining to August 31, 2021. The various approving authorities have added a total of $772.8 million in the 2021 biennium.

Figure 2

Budget Amendment Cumulative Summary 2021 Biennia				
LFC Meeting 2021 Biennium	Number of Amendments	FY 2020	FY 2021	2021 Biennium Total
August 30, 2019	38	$11,963,700	$0	$11,963,700
November 30, 2019	78	62,226,969	11,109,447	73,336,416
May 31, 2020	82	127,427,835	17,137,197	144,565,032
August 31, 2020	94	40,483,656	109,799,281	150,282,937
November 30, 2020	73	0	194,623,183	194,623,183
August 31, 2021	108	0	198,010,393	198,010,393
Total	473	$242,102,160	$530,679,501	$772,781,661

Figure 3 reflects the additional budget authority provided to each agency through the budget amendment process in FY 2021 compared to the HB 2 budget approved by the 2019 Legislature.

Figure 3

Budget Amendment Authority Comparison with HB 2 Total Funds By State Agency			
State Agency	FY 2021 Modified HB 2	Budget Amendment	% of Modified Budget
Section A - General Government			
Governor's Office	$9,027,469	$4,577,829	50.71%
Secretary of State	0	1,937,047	0.00%
Department of Commerce	33,447,506	12,007,565	35.90%
Department of Labor and Industry	86,491,943	55,555,688	64.23%
Total Section A	128,966,918	74,078,129	57.44%
Section B - Public Health & Human Services			
Department of Public Health and Human Services	2,200,708,939	253,229,236	11.51%
Total Section B	2,200,708,939	253,229,236	11.51%
Section C - Natural Resources & Transportation			
Department of Fish, Wildlife, and Parks	99,259,788	10,875,778	10.96%
Department of Environmental Quality	67,734,577	2,792,867	4.12%
Department of Transportation	734,120,275	121,195,588	16.51%
Department of Livestock	13,546,600	439,111	3.24%
Department of Natural Resources and Conservation	76,019,527	16,660,163	21.92%
Department of Agriculture	18,941,187	3,339,405	17.63%
Total Section C	1,009,621,954	155,302,912	15.38%
Section D - Judicial, Law Enforcement, and Justice			
Judicial Branch	54,306,406	3,000,678	5.53%
Department of Justice	110,595,570	2,918,681	2.64%
Public Service Commission	4,389,863	12,361	0.28%
Department of Corrections	236,340,199	4,546,672	1.92%
Total Section D	405,632,038	10,478,392	2.58%
Section E - Education			
Office of Public Instruction	1,045,913,381	35,577,835	3.40%
Montana Arts Council	1,495,475	130,981	8.76%
Montana State Library	5,441,985	736,413	13.53%
Montana Historical Society	5,450,654	1,145,603	21.02%
Total Section E	1,058,301,495	37,590,832	3.55%
Total	$4,803,231,344	$530,679,501	11.05%

It should be noted that a large amount of the funding received through budget amendments in the 2021 biennium was provided to offset the impacts of the Covid-19 pandemic.

Operating Plan Changes and Program Transfers

The Office of Budget and Program Planning (OBPP) submitted a total of 41 operating plan changes and program transfers that met statutory criteria for LFC review and comment between December 8, 2020 and August 31, 2021. Staff have reviewed the amendments and have raised no concerns with any changes meeting statutory criteria.

A summary of the changes from OBPP can be found in Appendix D available on the LFC website.