Building an Economic Model to Identify Financial Risks and Pressures

As directed by HB 330, the Financial Modernization and Risk Analysis Committee (MARA) has undertaken a study of the long-term financial needs of the state and the local governments, while considering changes in demographics, technology, and the economy. The Legislative Fiscal Division, under the direction of MARA, is building a model based on econometric data from IHS Markit (and others) capable of identifying future financial risks to the state’s revenues and expenditures, as well as, considering impacts on local governments’ revenues and expenditures. In order to accomplish this complex task, the MARA committee relies on a data-driven approach to identify potential financial concerns for the state and for local governments. This approach has a medium- to long-term time focus, from present to 2040.

Role of Legislative Committee Members and Others

Legislative interim committee members are invited to participated in MARA committee meetings to discuss economic and cost drivers including healthcare, education, incarceration, energy, property tax, housing, and more. In addition, MARA will consider advise from economic experts on the future of the energy economy, advancements in technology, the future of healthcare, demographics, childcare, land use, and other topics. Interested parties including agency analysts and professional economists will vet assumptions and provide feedback.

Goals

The goal of the model is to identify areas of financial risk for the state and the local governments. When the data identifies pressure areas, members of the interim policy and budget committees and other interested parties will be asked to engage in conversations to determine if policy reforms would be beneficial. If policy reforms are needed, a further goal is to determine the evidence-based best practices that most optimally address current or forecasted policy concerns.

In summary MARA’s approach to a long-term understanding of state and local finance is the following:

M - Modular – State and local policy and financial areas will be separated into modules for modeling purposes;

I - Inclusive – open communication with legislative committees, local, regional, stakeholders, and experts;

D - Data-driven forecasting – uses compiled data from the State Accounting Budget and Human Resource System (SABHRS), IHS Markit econometric data, Regional Economic Models Inc. (REMI) population data, K-12 education data, local government data, market value of property by class, Department of Revenue data, and other sources;

I - Insightful - Uses and considers advances in technology, modern consumer preferences, population; and

L - Long-term outlook – looking forward from present to 2040
Next Steps

Legislative interim committee members will continue to be invited to join MARA meetings to hear from economic experts and actively participate in discussions. Staff will communicate progress and request feedback from interested parties and update legislative committees on the development of the model. Any stakeholder interested in working with us on the model, please contact Susie Lindsay at slindsay@mt.gov and she will follow up with the analysts involved. Preliminary findings will be presented to legislative committees in summer 2022 and final conclusions in fall 2022.

Questions? Contact Us

The Legislative Fiscal Division staff are available to answer your questions. Amy Carlson, Director and Legislative Fiscal Analyst, manages the scope of the project and Lead Fiscal Analyst, Nick VanBrown builds the model with LFD data team members. Both Amy and Nick are available to answer questions.