GENERAL FUND STATUS:
FISCAL 2011 ACTUAL / 2013 BIENNIUM PROJECTED

A Report Prepared for the

Revenue and Transportation Interim Committee

By

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INTRODUCTION

The purpose of this report is to provide the committee with preliminary FY 2011 ending fund balance data for the general fund account. Although the revenue and disbursement data for the account have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the Generally Accepted Accounting Principles (GAAP) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund account has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

This report provides a comparison between budgeted data as developed by the 61st and 62nd Legislature and what actually occurred in FY 2011. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2013 Biennium. A more detailed analysis of revenue trends and the implications for the current and subsequent biennia is currently underway by Legislative Fiscal Division (LFD) staff.

FUND BALANCE DISCUSSION

The general fund account GAAP balance at the end of FY 2011 was projected to be $227.3 million. This estimate was based on House Joint Resolution 2 (HJ 2) revenue estimates (62nd Legislature) and disbursement budgets adopted during the 61st and 62nd legislative sessions[1]. Total revenues were expected to be less than total disbursements by approximately $87.1 million. This structural imbalance (disbursements greater than revenues) was planned by the legislature whereby appropriations were adopted to fund special one-time disbursements.

As shown in Figure 1, the preliminary general fund account unreserved, undesignated balance for FY 2011 was $343.8 million, or $116.4 million above the level anticipated by the 62nd Legislature. Figure 1 also shows the differences between budgeted and actual amounts for aggregate revenues, disbursements, and other adjustments.

REASONS FOR DIFFERENCES

The next section of the report discusses the reasons for the difference in the ending fund balance. The first part addresses FY 2011 revenue estimates used by the 62nd Legislature, actual collections, and a brief explanation for the variation in revenue collections. The second part discusses appropriations, disbursements, and reversions. The third part briefly discusses fund balance adjustments followed by a summary of FY 2011. Last, a projection of the 2013 biennium is provided including the potential impact of SB 426 (Treasure State Taxpayer Dividend Program) if enacted by the electorate in November 2012.

Figure 1

General Fund Account
Fiscal 2011 Budgeted Versus Actual
Fund Balance Detail

	Budgeted Amount *	Actual Fiscal 2011 **	Over (Under) Estimate	Diff. Percent
Beginning Balance	$314,880,000	314,881,163	$1,163	0.00%
General Fund Receipts	1,706,654,000	1,782,557,554	75,903,554	4.45%
Residual Equity Transfers	0	0	0	na
Total Revenue	$1,706,654,000	$1,782,557,554	$75,903,554	4.45%
General Fund Disbursements	1,793,730,000	1,747,316,632	(46,413,368)	-2.59%
Non-Budgeted Disbursements	0	0	0	na
Total Disbursements	$1,793,730,000	$1,747,316,632	($46,413,368)	-2.59%
Prior Year Rev. Adjustments	750,000	(1,011,414)	(1,761,414)	-234.86%
Prior Year Exp. Adjustments	(1,223,000)	876,749	2,099,749	-171.69%
Other Adjustments	7,000	(6,225,662)	(6,232,662)	-89038.03%
Total Adjustments	($466,000)	($6,360,327)	($5,894,327)	1264.88%
Ending Balance (Preliminary)	$227,338,000	$343,761,758	$116,423,758	51.21%

* Legislative Fiscal Report, 2013 Biennium June 2011
** FY 2011 other adjustments include $4.2 million of non-spendable reserves

[1] Legislative Fiscal Report, 2013 Biennium, June 2011

REVENUE ESTIMATES AND COLLECTIONS

Column 2 of Figure 2 shows the FY 2011 revenue estimates for the general fund account as shown in HJ 2 during the 2011 regular legislative session including adjustments for enacted legislation. The adjacent columns in the figure show actual collections, the amount collections were over or (under) the estimate, the percent difference, and the contribution percent. The contribution percentage signifies the importance of each revenue component to the general fund account. For example, individual income taxes were 45.8% of the total general fund collections, while wine taxes accounted for only 0.11% during FY 2011. This column of information shows that about 76.7% of general fund revenue collections in FY 2011 came from individual (45.8%), property (12.9%), corporate (6.7%), oil and gas production (5.6%), and vehicle (5.7%) taxes.

At the bottom of Figure 2, prior year adjustments and residual equity transfers are shown, providing a complete picture of the total revenue flow to the account.

Figure 2

General Fund Receipts By Major Component
Fiscal 2011

Revenue Category	Estimated 2011 Receipts *	Actual 2011 Receipts	Over(Under) Estimate	Percent Difference	Contribution Percent
GF0100 Drivers License Fee	$3,567,000	$3,710,998	$143,998	4.04%	0.21%
GF0200 Insurance Tax	55,445,000	57,963,581	2,518,581	4.54%	3.25%
GF0300 Investment Licenses	6,375,000	6,922,143	547,143	8.58%	0.39%
GFxxxx Vehicle Fee/Tax	107,004,000	100,576,655	(6,427,345)	-6.01%	5.65%
GF0600 Nursing Facilities Fee	4,984,000	5,197,229	213,229	4.28%	0.29%
GF0700 Beer Tax	3,157,000	2,981,809	(175,191)	-5.55%	0.17%
GF0800 Cigarette Tax	31,554,000	30,991,570	(562,430)	-1.78%	1.74%
GF0900 Coal Severance Tax	12,494,000	12,882,504	388,504	3.11%	0.72%
GF1000 Corporation Tax	97,360,000	119,043,890	21,683,890	22.27%	6.68%
GF1100 Electrical Energy Tax	4,452,000	4,332,363	(119,637)	-2.69%	0.24%
GF1150 Wholesale Energy Trans Tax	3,657,000	3,945,547	288,547	7.89%	0.22%
GF1200 Railroad Car Tax	2,031,000	2,130,192	99,192	4.88%	0.12%
GF1300 Individual Income Tax	762,396,000	816,089,973	53,693,973	7.04%	45.81%
GF1400 Inheritance Tax	5,000	43,165	38,165	763.29%	0.00%
GF1500 Metal Mines Tax	8,931,000	8,096,531	(834,469)	-9.34%	0.45%
GF1700 Oil Severance Tax	104,514,000	99,763,712	(4,750,288)	-4.55%	5.60%
GF1800 Public Contractor's Tax	7,262,000	6,803,285	(458,715)	-6.32%	0.38%
GF1850 Rental Car Sales Tax	3,118,000	3,149,201	31,201	1.00%	0.18%
GFxxxx Property Tax	229,084,000	229,351,961	267,961	0.12%	12.87%
GF2150 Lodging Facilities Sales Tax	13,209,000	14,240,586	1,031,586	7.81%	0.80%
GF2250 Retail Telecom Excise Tax	21,772,000	22,049,967	277,967	1.28%	1.24%
GF2300 Tobacco Tax	5,680,000	5,477,308	(202,692)	-3.57%	0.31%
GF2400 Video Gaming Tax	49,333,000	49,824,310	491,310	1.00%	2.80%
GF2500 Wine Tax	2,058,000	1,993,659	(64,341)	-3.13%	0.11%
GF2600 Institution Reimbursements	17,555,000	20,158,177	2,603,177	14.83%	1.13%
GF2650 Highway Patrol Fines	4,672,000	4,359,203	(312,797)	-6.70%	0.24%
GF2700 TCA Interest Earnings	2,215,000	2,518,853	303,853	13.72%	0.14%
GF2900 Liquor Excise Tax	16,151,000	15,989,480	(161,520)	-1.00%	0.90%
GF3000 Liquor Profits	9,499,000	9,000,000	(499,000)	-5.25%	0.51%
GF3100 Coal Trust Interest Earnings	26,514,000	26,783,197	269,197	1.02%	1.50%
GF3300 Lottery Profits	10,086,000	10,611,184	525,184	5.21%	0.60%
GF3450 Tobacco Settlement	3,565,000	3,258,739	(306,261)	-8.59%	0.18%
GF3500 U.S. Mineral Leasing	31,136,000	31,923,308	787,308	2.53%	1.79%
GF3600 All Other Revenue	45,821,000	50,393,275	4,572,275	9.98%	2.83%
Total Current Year Revenue	$1,706,656,000	$1,782,557,554	$75,901,554	4.45%	100.06%
Prior Year Adjustments	750,000	(1,011,414)	(1,761,414)	-234.86%	-0.06%
Residual Equity Transfers	0	0	0		0.00%
Total Revenue	$1,707,406,000	$1,781,546,140	$74,140,140	4.34%	100.00%

* House Joint Resolution 2 Regular Session revenue estimates as adjusted for enacted legislation

Figure 3 shows aggregate revenue estimates and collections for the general fund account. The 62nd Legislature used a total FY 2011 general fund account revenue estimate of $1,706.7 million, but did not assume any prior year revenue adjustments or any residual equity transfers in HJ 2. Total collections (including adjustments and transfers) were $1,781.5 million or $74.1 million (4.3%) above the estimated amounts.

Figure 3
General Fund Revenue Recap
Fiscal 2011

Account	Revenue Category	Estimated Receipts	Fiscal 2011 Receipts	Over (Under) Estimate	Diff. Percent
01100	General Fund Receipts*	$1,706,654,000	$1,782,557,554	$75,903,554	4.45%
---	Prior Year Adjustments	750,000	(1,011,414)	(1,761,414)	-234.86%
---	Residual Equity Transfers	0	0	0	
	Totals After Adj. & Trsf.	$1,707,404,000	$1,781,546,140	$74,142,140	4.34%

* House Joint Resolution 2 Regular Session revenue estimates adjusted for enacted legislation.

Total current year revenue collections (before prior year revenue adjustments) were $75.9 million above the amount anticipated by the 62nd Legislature. The legislature did not include any prior year revenue adjustments in HJ 2, but the $0.75 million shown in Figures 2 and 3 was included as an aggregate amount in the general fund balance sheet. Since this type of revenue is the result of revenue accruals and/or uncollected previous years' receipts, it is difficult to include an estimated amount by revenue source in the revenue estimate resolution. As shown in Figures 2 and 3, however, prior year revenue adjustments were a negative $1.0 million. The adjustments were primarily due to actual revenues received in July and August of FY 2011 being different than the accrued amounts booked during fiscal year end 2010.

Figure 4 summarizes which major sources of revenue exceeded or were below the adjusted HJ 2 revenue estimate and provides a brief explanation of why collections were different than anticipated. As shown, individual and corporation income taxes were the primary sources responsible for increased revenue collections. Revenue sources that were above the HJ 2 revenue estimate totaled $87.1 million compared to $11.2 million from revenue sources that were below the revenue estimate. From an economic viewpoint, higher non-wage incomes and corporate audit activities were the "drivers" behind higher income sources. The next part of the report provides a more detailed explanation for the change in collections when compared to the HJ 2 adjusted estimates.

Figure 4
Reasons for Changed Revenue Receipts
Fiscal 2011 (In Millions)

Revenue Source	Amount	% Estimate	Preliminary Explanation
Individual Income Tax	$53.7	7.0%	Higher wage and non-wage incomes
Corporation Income Tax	21.7	22.3%	Improved corporate profits; audits
All Other	4.6	12.7%	Additional transfers
Institution Reimbursements	2.6	14.8%	FMAP Increase
Insurance Tax	2.5	2.3%	Higher premium growth
Lodging Facilities	1.0	7.8%	Higher utilization
Oil & Natural Gas Production Tax	(4.8)	-4.6%	Lower natural gas price & production
Vehicle Fee/Tax	(6.4)	-6.0%	Vehicle age distribution
Remaining Revenue Sources	1.0		Numerous explanations
Total Change	$75.9		

DISCUSSION BY REVENUE COMPONENT

Individual Income Tax: $53.7 million

Based on final accounting data for FY 2011, individual income tax collections were above adjusted estimates contained in HJ 2 by $53.7 million. Net collections (gross collections less refunds) were 13.7% above net collections for FY 2010, an increase of $98.3 million. The 62nd Legislature assumed FY 2011 collections would increase 6.2% ($44.6 million) from actual FY 2010 collections. This estimate was based on the lingering effects of the "Great Recession" but with modest improvements in wage and salary income, capital gains, and other investment-sensitive incomes.

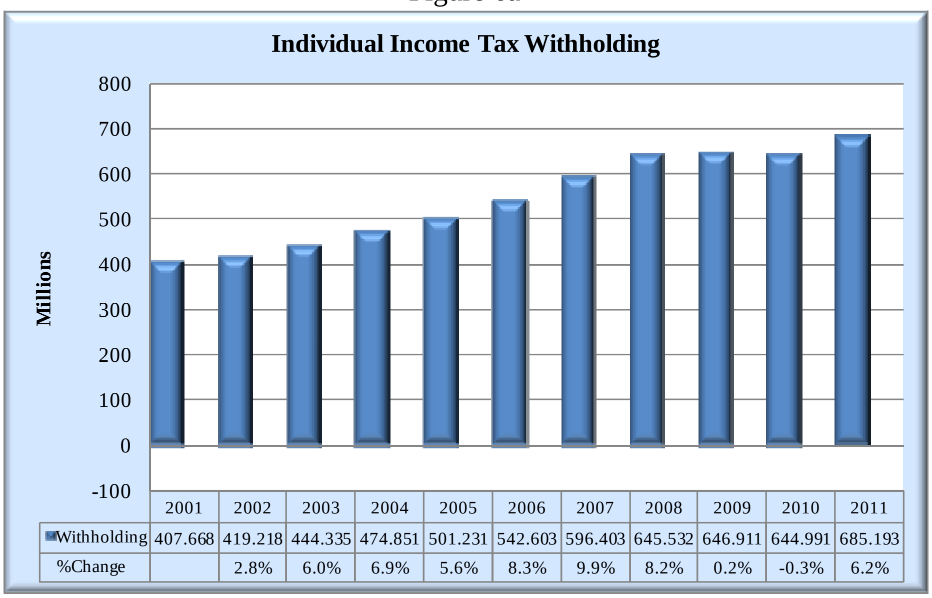
Figure 6 shows the accounting details of individual income tax collections for FY 2011 compared to the totals for FY 2010. The two components that caused individual income tax collections to be significantly higher than estimated were withholding taxes and current year payments. These two items are discussed below.

Figure 6

Individual Income Tax Comparison				
Revenue Code & Description	Final Fiscal 2010	Final Fiscal 2011	Difference	Percent Change
510101 Withholding Tax	644,991,063.91	685,192,810.47	40,201,746.56	6.23%
510482 Mineral Royalty WH Tax	15,703,392.92	15,837,758.63	134,365.71	0.86%
510111 Pass Thru Entity Tax	0.00	9,414,305.62	9,414,305.62	0.00%
510102 Estimated Tax	180,497,517.00	180,099,320.21	(398,196.79)	-0.22%
510103 Current Year I/T	112,312,664.37	136,010,810.44	23,698,146.07	21.10%
510105 Income Tax - Audit Collections	35,293,432.00	33,467,924.00	(1,825,508.00)	-5.17%
510106 Income Tax Refunds	(270,963,699.11)	(243,932,956.50)	27,030,742.61	-9.98%
Income Tax Refunds Adjustment	0.00	0.00	0.00	0.00%
Totals	$717,834,371.09	$816,089,972.87	$98,255,601.78	13.69%
Percent of Actual/Estimated	100.00%	110.47%		

Figure 6a shows individual income tax withholding collections for FY 2011 compared to the same period of FY 2010. Other fiscal years are shown for reference. As shown in the figure, total individual income withholding tax collections were 6.2% ($40.2 million) above last year.

Figure 6a



Withholding taxes are approximately 65% of total individual income taxes before refunds or almost 40% of total general fund revenue collections. In the past, wage and salary incomes have been a good proxy for withholding tax collection patterns.

Since the increase in withholding taxes should be a good indicator that wage and salary incomes are improving and that Montana's economic conditions are recovering from the "Great Recession", the withholding tax growth rate was compared to the wage and salary income growth rate as forecast by Global Insight (IHS) and the preliminary Bureau of Econonic Analysis (BEA) data. IHS is a national economic forecasting company that Montana has a contract with for state and national economic forecasts. As shown in Figure 6b, this comparison (on a fiscal year basis) showed that the forecast rate as prepared by IHS was 1.6% for wage growth versus the preliminary 1.7% for BEA versus the 6.2% withholding growth shown in Figure 6a. Using the individual income tax simulation model, an assumed wage and salary income growth rate of 6.2% instead of 1.6% would have increased the HJ2 estimate by $17.2 million during FY 2011. Since staff use the wage and salary income forecast by IHS as an input to the individual income tax simulation model, the variation between the IHS forecast, BEA data, and the withholding rate needs further research. As previously mentioned, the growth in wage and salary income is extremely critical to the revenue estimate process and staff needs to fully understand what caused the differences shown in Figure 6b. This will require an analysis of the BEA wage and salary income calculations since this information is an input to the IHS models. Staff will also be analyzing withholding processes and the timing of those payments.

Figure 6b

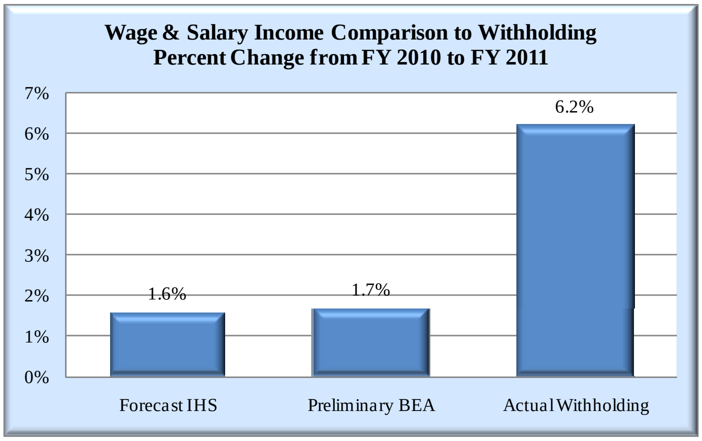
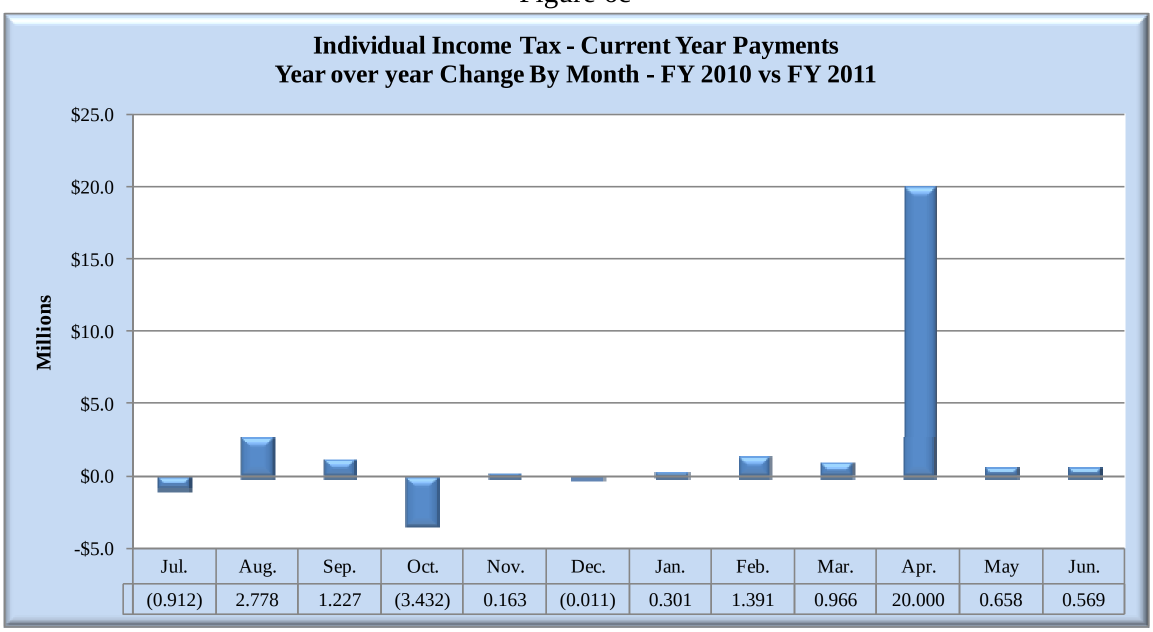


Figure 6c shows individual income tax "current year payments" for FY 2011 compared to the same period of FY 2010. Other fiscal years are shown for reference. Current year payments are a tabulation of all payments that are made by taxpayers when their returns are submitted. This category of tax is generally the difference between the taxpayers liability less withholding and estimated payments. If taxes have been overpaid, then a refund is usually issued. As shown in the figure, current year payments spiked in April and were $20.0 million more than during April of last year. Since these payments are the result of under withholding or insufficient estimated payments, it is difficult to quantify whether these payments were due to higher wage and salary income or non-wage income. Examples of non-wage income would be interest and dividend income, rents, royalties, and partnership income, or net capital gains realizations. The tax return data to be received in November should help staff better understand the reasons for the increase.

Figure 6c



Based on the above information, collection data strongly suggest that wage and salary income increased at a higher rate than forecast by IHS. It also shows that the unanticipated spike in current year payments in April played a significant role in the overall improvement in individual income tax collections. Together, the sum of these two factors accounts for approximately $37 million of the $53.7 million increase. The remaining difference was due to pass through entities (LLC's and S Corporations) and lower refunds.

Corporation Income Tax: $21.7 million

Corporation income tax receipts for FY 2011 were $21.7 million or 22.3% above the adjusted estimate contained in HJ 2. Net collections (gross collections less refunds) were 35.4% or $31.1 million above the net collections for FY 2010. The 62nd Legislature assumed the FY 2011 growth rate to be 10.8% or $9.5 million above the FY 2010 collections. This means the HJ 2 corporation income tax estimate was understated by $21.7 million for FY 2011 ($31.1 million minus $9.5 million). Figure 7 shows specific details of corporation income tax collections for FY 2011 compared to the FY 2010 amounts. As shown in Figure 7, estimated payments and audit collections were significantly higher than the amounts observed in FY 2010. Refunds issued were less than FY 2010 amounts as was current year payments.

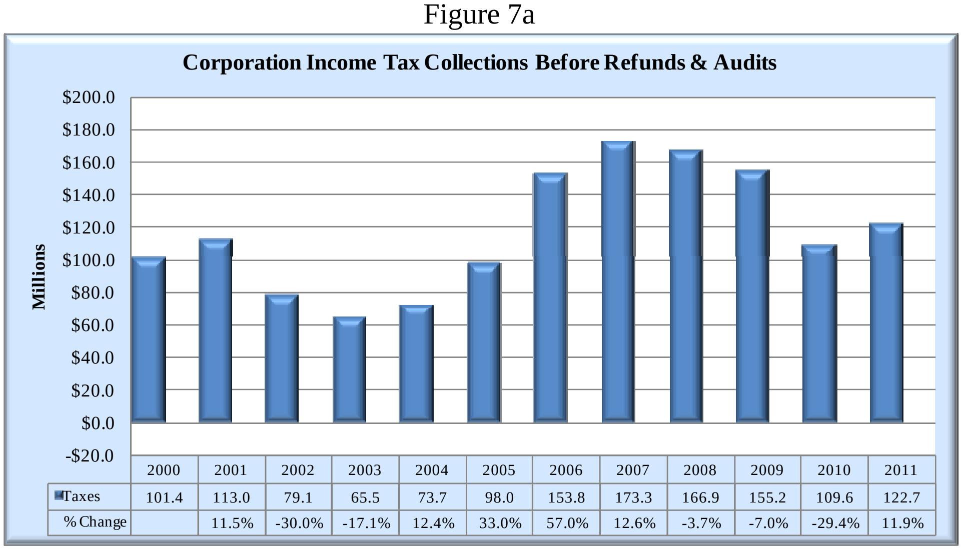
Figure 7

Corporation Income Tax Comparison

Revenue Code & Description	Final Fiscal 2010	Final Fiscal 2011	Difference	Percent Change
510501 Corporation Tax	36,909,142.56	23,747,578.52	(13,161,564.04)	-55.42%
510505 Corporation Tax Estimated Paym	72,732,613.50	98,979,556.35	26,246,942.85	26.52%
510502 Corporation Tax Refunds	(37,121,181.64)	(29,799,711.50)	7,321,470.14	-24.57%
510503 Corporation Tax-Audit Collect.	15,380,337.00	26,116,467.00	10,736,130.00	41.11%
Corporation Tax Refunds Adjustment	0.00	0.00	0.00	
Totals	$87,900,911.42	$119,043,890.37	$31,142,978.95	35.43%
Percent of Actual/Estimated	100.00%	115.22%		

Figure 7a shows corporation income tax collection data (less refunds and audits) for FY 2011 compared to the same period of FY 2010. Other years are shown for reference. As shown in the figure, total corporation income tax collections less refunds and audits were 11.9% ($13.1 million) above last year. By removing refunds and audit collections, the underlying growth in tax collections can be measured more accurately and not be skewed by unusual refund activity and audit collections. This data suggest that underlying corporate profitability improved at a 11.9% rate instead of the 35.4% rate shown in Figure 7. The figure also shows the variability in corporation taxes over the twelve year period FY 2000 through FY 2011.

Figure 7a



A factor that added uncertainty to corporation income tax estimates was federal legislation (H.R. 4853). This bill allowed corporate taxpayers to expense depreciable assets placed in service between September 9, 2010 and the end of 2011 and also allowed a 50% bonus depreciation for depreciable assets placed in service in 2012. An analysis prepared during the session by DOR showed that corporate taxpayers were expected to take advantage of this legislation. The anticipated revenue reduction for FY 2011 was not expected to occur until corporations filed their annual return in May or their estimated payment due June 15th. As shown in Figure 7b, the final estimated payment did not decline from the previous quarterly amounts. This could potentially mean that higher refund amounts may be issued in November or the June 15th estimated payment was reduced because of the provisions of H.R. 4853. Discussions with DOR staff indicate that determining the collection impacts of H.R. 4853 would be difficult to assess.

Figure 7b shows corporation income tax estimated payments by fiscal quarter. As shown in the figure, estimated payments declined to less than $20 million in the third quarter of FY 2009. Since that time, estimated payments have not exceeded $21.3 million until the first quarter of FY 2011. The $27.9 million spike for the first quarter of FY 2011 was followed by another quarter of estimated payments below $20 million. No significant payment information was available until after the session. By the end of the third quarter of FY 2011 (end of April after adjournment of the 62nd Legislature), estimated payments improved. The final estimated payment (end of June) was the largest estimated payment since the 2nd quarter of FY 2009. It is unknown whether this payment would have been higher if H.R. 4853 had not been implemented.

Figure 7b

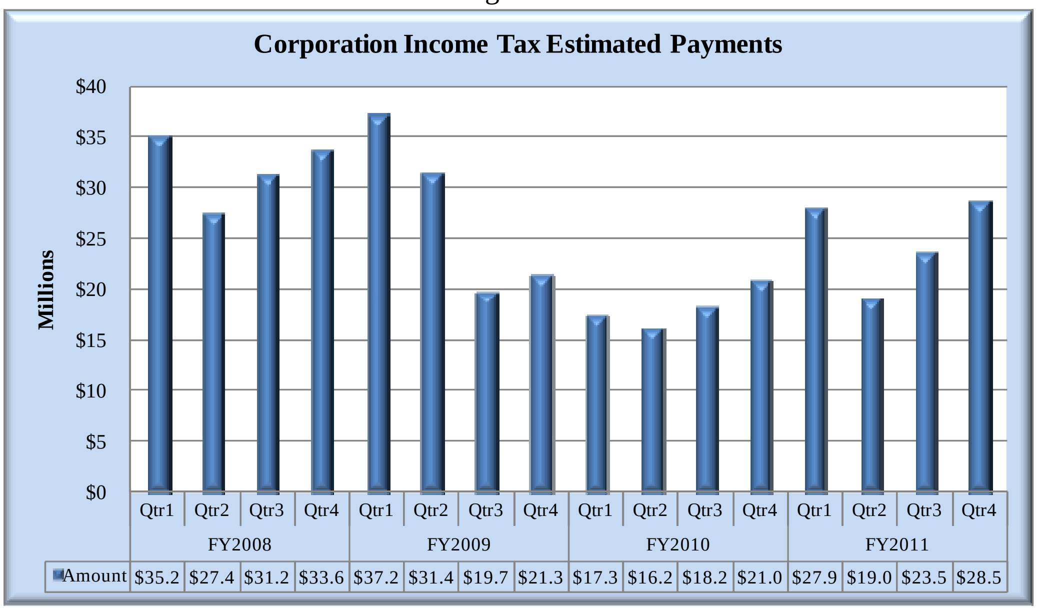
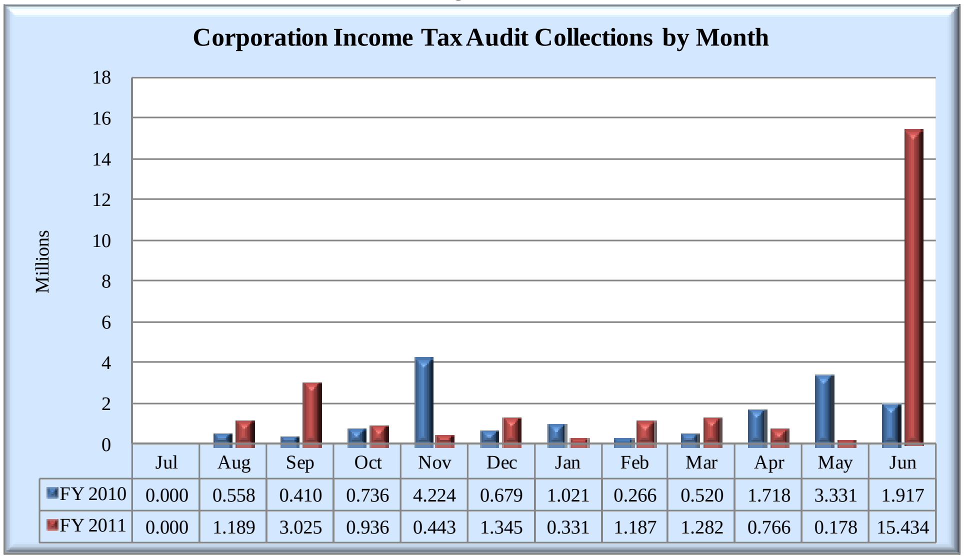


Figure 7c shows a comparison of corporate audit collections by month between FY 2010 and FY 2011. As shown in the figure, audit collections did not fluctuate significantly during the year until June. During the period July through May, total audit collections for FY 2011 were $10.7 million compared to $13.5 million for FY 2010. In June 2011, audit collections spiked by $15.4 million, well above the amount received for the previous twenty-three months. Total audit collections for FY 2011 were $26.1 million compared to $15.4 million for FY 2010, an increase of $10.7 million. Staff has requested details from the DOR related to the larger audits that occurred during FY 2011.

Figure 7c



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 2010	0.000	0.558	0.410	0.736	4.224	0.679	1.021	0.266	0.520	1.718	3.331	1.917
FY 2011	0.000	1.189	3.025	0.936	0.443	1.345	0.331	1.187	1.282	0.766	0.178	15.434

Based on the above information, collection data suggest that the unanticipated spike in audit collections in June played a significant role in the overall improvement in corporation income tax collections. The remaining difference was due to less refunds issued and improved estimated payments that occurred in the last two payments received after adjournment of the 62nd Legislature.

All Other: $4.6 million

The primary reason for the increase is due to $3.5 million authorized by HB 645 (2009 session) that was transferred to the general fund in FY 2011. This amount was not included in the HJ2 estimates. In addition, the amount transferred from the veteran's cigarette account exceeded the amount estimated by $1.3 million. The total of all other sources was slightly below the estimate.

Public Institution Reimbursements: $2.6 million

Public institution reimbursements for FY 2011 were $2.6 million or 14.8% above the estimate contained in HJ 2. The 62nd Legislature assumed the FY 2011 growth rate to be a negative 20.2% or $4.5 million below the FY 2010 collections. Although not all the reasons are yet known, the higher than expected revenue from public institutional reimbursement collections can probably be explained by higher than expected federal reimbursements. The largest reimbursements are from the federal government on behalf of patients participating in the Medicaid and Medicare programs with the largest payment being from Medicaid with smaller amounts from Medicare. Payments are calculated by the federal government through the use of the federal medical assistance percentage, or FMAP, rate. This rate was enhanced due to passage of the federal jobs bill beginning January 2011 and continued through June 2011. Additional revenue, primarily Medicaid payments, from this enhanced rate was not included in HJ 2.

Insurance Tax: $2.5 million

Taxes collected on insurance premiums were 4.5% or $2.5 million above the level anticipated by the 62nd Legislature. Although the reason for the decline is not known, because the tax is applied to net premiums (or gross underwriting profit) it is likely that premiums paid were greater than anticipated.

Lodging Facilities: $1.0 million

Lodging sales taxes exceeded the HJ2 revenue estimates by 7.8% or $1.0 million. Although the reason for the decline is not yet known, because the tax is applied to the amount charged for accommodations it is likely that a greater number of rooms were rented than anticipated.

Oil & Gas Production Tax: -$4.8 million

Oil and natural gas production taxes for FY 2011 were $4.8 million lower than anticipated in the HJ 2 adjusted estimate. At this time, limited data are available to determine the exact reason for the reduced collections. However, preliminary data from tax returns filed with the DOR indicate that Montana's natural gas production is about 85 million MCF's for FY 2011. The assumed production contained in HJ 2 was 102.0 million MCF's or a difference of about 17 million MCF's. This production differential alone could be the primary reason for the reduced collections. Fiscal year tax return data submitted to the DOR will be available later this fall for further analysis. These data will provide specific information on price and production for both oil and natural gas.

Vehicle Fee/Tax: -$6.4 million

Vehicle fee and tax collections were two of the major general fund revenue sources below the HJ 2 adjusted estimate. Combined revenue collections from vehicle fees and taxes were $6.4 million less than anticipated in HJ 2. The exact reason for this shortfall is unknown at this time, but with constant fees and tax rates, any change in revenue results from changes in Montana's stock of vehicles and/or change in the age distribution of vehicles. Lesser collections were evident in all types of vehicle licensing with the most notable decline in light vehicles. The reluctance of consumers to purchase new vehicles may have impacted revenue collections and resulted in a larger inventory of older cars which have a lower tax rate. Further research will be required to identify the specific reasons for the revenue decline.

Remaining Revenue Sources: $1.0 million

The combined change from the HJ 2 estimates for the remaining revenue sources is $1.0 million. Some revenue sources were above the HJ 2 estimate while others were below the estimate. In total, the net change was $1.0 million more than anticipated.

Disbursements and Reversions

Figure 7 shows general fund account disbursements and reversions for FY 2011. General fund disbursements (excluding prior year disbursement adjustments) were $168.0 million less than authorized by the legislature. Since total reversions budgeted by the 62nd Legislature were $121.6 million, "unanticipated" reversions before adjusting for continuing authority were $46.4 million. Of this amount, $4.2 million is authorized to be re-established (continued) into FY 2012. This means that the "true" unanticipated reversion amount was a negative $42.2 million after deducting the anticipated continuing authority ($2.5 million) and the unanticipated continuing authority ($1.7 million).

Figure 7

General Fund Account Disbursements and Reversions Fiscal 2011			
Budgeted Disbursements	$1,915,293,000		
Actual Disbursements	1,747,316,632		
Total Reversions			$167,976,368
Budgeted Reversions			121,563,000
Total Less Budgeted Reversions			$46,413,368
Less Continuing Authority			4,192,191
Anticipated Continuing Authority		2,469,000	
Unanticipated Continuing Authority		1,723,191	
Total Unanticipated Reversions			$42,221,177

The primary agencies with significant reversions were the Office of Public Instruction ($79.4 million), Department of Public Health and Human Services ($27.8 million), and Department of Corrections ($5.1 million). A summary of the major reversions by agency is shown in Figure 7a. Of the total amount shown in Figure 7a, $4.2 million is authorized to be expended in FY 2012. As mentioned before, continuing authority is a fiscal policy approved in the enacting legislation and has the potential of reducing the ending fund balance when the funds are expended by the agency in a subsequent year. From a state accounting operational perspective, all appropriations are in a "reverted" status at the end of a fiscal year. This has the effect of temporarily increasing the fund balance by the amount of the continuing authority. If legislation authorizes the authority to continue, the remaining balance of the appropriation is "reestablished" in the subsequent year. The next section of the report provides a more detailed explanation of the unanticipated reversion amounts in FY 2011.

DETAILS OF UNANTICIPATED REVERSIONS

Legislative Branch: $2.8 million

Of the total reversion, $0.5 million are appropriations that have either already been or are expected to be approved by the Legislative Council to be deposited to the branch's IT account and will therefore not actually revert to the general fund. Of the remaining reversions, over $1.5 million is due to operational expenses in the three divisions, primarily due to vacancy savings. Almost $0.3 million is due to lower expenditures than appropriated in various interim committees.

Figure 7a

General Fund Reversions FY 2011

Description	Actual Reversion	Estimated Reversion	Change	Reason for change
Legislative Branch	$5.406	$2.589	$2.817	Operations,feed bill
Governor's Office	3.172	-	3.172	Pay plan contingency
Public Instruction	79.388	75.987	3.401	Interest & income revenue
Department of Corrections	5.061	-	5.061	Community, juvenile, secure
Public Health & Human Services	27.768	10.939	16.829	
Other Agencies	6.479	3.685	2.794	DEQ,DNRC,Commerce
Statutory	9.835	-	9.835	Emergency,retirement
Transfers	2.504	-	2.504	
Budget Reductions	28.363	28.363	-	
Total Reversions	**$167.976**	**$121.563**	**$46.413**	

Governor's Office: $3.2 million

Of the total reversion, almost $2.9 million is due to non-expenditure of the personal services contingency, which is appropriated to the Office of Budget and Program Planning to provide funding for agencies that are unable to meet their vacancy savings targets. This sum compares to a total biennial appropriation of $4.0 million.

Public Instruction: $3.4 million

The additional reversion amount for public instruction was due to additional monies available in the state special guarantee account. Under current statute, state special revenue funds are to be used to offset the need for general fund monies. In this case, additional revenue occurred in the guarantee account because of the unanticipated oil and gas bonus payments received in June. These additional monies were used for support of public schools thereby reducing the need to use general fund monies.

Department of Corrections: $5.1 million

The most significant reversions were experienced in the Adult Community Corrections Program ($1.6 million), Secure Custody Facilities Program ($2.6 million), and Youth Services Program ($0.8 million). The major factors for these reversions were the following:

1. About $1.9 million was due to additional vacancy savings in the above listed programs. The key factors were: 1) holding positions open in anticipation of implementation of a 4% FTE reduction proposed by the Governor for the 2013 biennium; 2) holding 7.00 FTE probation and parole positions open in anticipation of moving personnel with special skill sets into the positions when a temporary grant expired; and 3) a vacancy in the administrator position for the Youth Services Program
2. Per diem rates for the Missoula Assessment and Sanction Center were lower than anticipated in the budget
3. The per bed rates were lower than anticipated for contracted treatment beds at the Warm Springs Addiction Treatment and Change Program and the Connections Corrections Program
4. There were fewer state inmates housed in county jails than had been anticipated, lowering payments
5. Lower than anticipated maintenance costs were experienced at the Riverside Youth Correctional Facility

Public Health & Human Services: $16.8 million

The Department of Public Health and Human Services (DPHHS) reversion comes from both HB 2 and HB 645 - the bill that authorized funding from the American Recovery and Reinvestment Act of 2009 (ARRA). The amount of the $42.0 million total reversion not attributable to the Governor's reduction or included in the previous reversion estimate is due to four main factors, as shown in Figure 7b.

About one-third of the FY 2011 reversion explained in Figure 7b does not constitute an overall increase in the 2011 biennium reversion. At the close of FY 2011, DPHHS reallocated $5.1 million of FY 2010 expenses between HB 2 and HB 645 appropriations. DPHHS removed $5.1 million in expenses from the HB 645 biennial appropriation and booked those costs against FY 2010 reverted appropriation authority in HB 2. Therefore, the actual ending fund balance in FY 2010 was reduced but FY 2011 reversions were increased by a like amount, which resulted in no net effect to the level of general fund reversions for the 2011 biennium. On the surface, however, this action appeared to make the FY 2011 reversion higher than anticipated.

Figure 7b

Selected Elements of FY 2011 General Fund Reversion - Department of Public Health and Human Services

Item/Component of Reversion	Amount	% of Ttl
HB 645 - Restricted Biennial Appropriation for Medicaid Recession Costs		
Amount Shifted to FY 2010 HB 2 Appropriations	$5,148,119	30.6%
Enhanced FMAP Applied to "Clawback"	4,048,621	24.1%
Remainder of Medicaid Recession Restricted Appropriation	4,620,889	27.5%
Healthy Montana Kids State Special Revenue Offset	2,604,689	15.5%
HB 2 Restricted Appropriations	370,582	2.2%
Remainder of FY 2011 Appropriation Reversion	36,100	0.2%
Total Reversions	$16,829,000	100.0%

About $4.1 million of the reversion was due to the enhanced federal Medicaid match rate (FMAP) being applied to the clawback payment, which is a 100% general fund payment to the federal government to recapture a portion of state Medicaid savings due to implementation of Medicare drug coverage (Part D). After accounting for the clawback savings and reallocation of FY 2010 expenses, the remaining reversion from the HB 645 biennial, restricted Medicaid appropriation was $4.6 million or 28% of the total.

About $2.6 million of the reversion was due to funding increased enrollment in Healthy Montana Kids (HMK) from the state special revenue account set aside for that purpose rather than the general fund.[2] About 2% of the FY 2011 reversion was from HB 2 appropriations that were restricted for specific uses. The remaining reversion amount not explained in the major components is 0.2% of the total.

2 The total general fund offset for Healthy Montana Kids was $3.0 million. However, about $0.4 million of that offset was used to cover other expenses. Enrollment and funding issues related to use of the state special revenue account were discussed during the 2009 session by the Health and Human Services Joint Appropriation Subcommittee.

Additional Information
LFD staff is working with Legislative Audit Division and DPHHS staff to determine how much of the FY 2011 reversion is due to unanticipated savings from the enhanced FMAP. That information is not yet available.

Other Agencies: $2.8 million

Widespread reversions among a number of agencies are responsible for $2.8 million of the remaining unanticipated reversions. Among the larger dollar amount reversions (which may or may not be a large percentage reversion from the original appropriation) are:

1. Funds that had been appropriated for administration of potential additional federal stimulus funds for permitting and compliance activities in the Department of Environmental Quality that did not materialize
2. The entire one-time-only $250,000 appropriation for the brucellosis designated surveillance area in the Department of Livestock, as the testing and vaccination funds provided were sufficient to continue activities to maintain Montana's class-free status
3. General operations in the Water Resources Division in the Department of Natural Resources and Conservation, due primarily to vacancy savings
4. Tribal infrastructure funds in the Department of Commerce
5. The entire $275,000 restricted appropriation for community college student growth in the Department of Labor and Industry that had been part of the 21st Century Workforce appropriation

Statutory: $9.8 million

The primary cause of the large reversion was due to the statutory appropriation for emergencies. Statute authorizes $16.5 million of general fund to be spent over a biennium for emergencies. Half this amount, or $8.25 million, was budgeted for FY 2011, but only $0.8 million was spent. In addition, the general fund transfers through statutory appropriations to the teacher's retirement and the firefighter's retirement funds were $0.6 million and $0.5 million, respectively, less than expected.

Transfers: $2.5 million

Based on analysis by the State Fund, $2.1 million of general fund was to be transferred to the old fund. However, only $50,000 was transferred for a reversion of $2.0 million. The additional reversions can be attributed to differences in the general fund transfers to multiple state special accounts based on vehicle revenue and to $0.2 million less transferred by DPHHS than expected.

FUND BALANCE ADJUSTMENTS

During FY 2011, there were prior year revenue and disbursement adjustments, direct adjustments to fund balance, and SABHRS to GAAP reconciliation items. In total, these adjustments decreased the general fund account ending fund balance by about $6.4 million or $5.9 million more than anticipated by the legislature (shown in Figure 1). Of this amount $1.9 million was due to a reconciliation entry input by the Department of Justice for the MERLIN system. The Department of Corrections also input an adjustment of $1.4 million to move the license plate inventory amount out of the general fund to a proprietary fund balance. This entry was required under legislation enacted by the 61st Legislature. These two entries amount to $3.3 million of the $5.9 million adjustment. Further research will be required to identify the specific reasons for the remaining adjustments.

SUMMARY OF FY 2011 INFORMATION

Figure 8

Reasons for General Fund Balance Change Fiscal 2011 (In Millions)		
Explanation of Fund Balance Change		Amount
Beginning Fund balance		$0.001
Revenue Collections (Actual - Estimated)		75.904
Disbursements (Budgeted - Actual)		46.413
Fund Balance Adjustments		(5.895)
Prior Year Revenue/Expenditure Adjustments	0.338	
Other Adjustments	(6.233)	
Total Change		**$116.423**
Unanticipated Continuing Authority		1.723
Impact on 2013 Biennium Fund Balance		**$114.700**

As stated earlier, the preliminary general fund account unreserved, undesignated ending balance for FY 2011 is $343.8 million, or $116.4 million above the level anticipated by the 62nd Legislature. The reasons, as previously discussed, are summarized in Figure 8. Although Figure 8 shows a general fund balance improvement for FY 2011 of $116.4 million it should be noted that $4.3 million of this balance is "reestablished" to be expended in FY 2011. Of this amount, $2.6 was anticipated by the 62nd Legislature and was included in the projected 2011 biennium budget and $1.7 million was not anticipated and was not included in the 2011 biennium balance sheet. This reauthorization to expend funds in subsequent years occurs whenever appropriations are specified for more than one year in HB 2 or other appropriation acts.

This means the preliminary FY 2011 ending general fund balance when adjusted for unanticipated continuing authority is $114.7 million (shown in Figure 8) greater than anticipated by the 62nd Legislature.

2013 BIENNIUM PROJECTION

Figure 9

Legislative Budget - General Fund Outlook
Figures in Millions

	Actual FY 2010	Preliminary FY 2011	Estimated FY 2012	Estimated FY 2013	2011 Biennium	2013 Biennium
Beginning Fund Balance	$396.334	$314.880	$343.762	$303.610	$396.334	$343.762
Revenue						
HJ2 Revenue Estimate	1,627.145	1,782.559	1,785.623	1,853.138	3,409.703	3,638.761
Total Funds Available	$2,023.478	$2,097.439	$2,129.385	$2,156.748	$3,806.037	$3,982.523
Disbursements						
General Appropriations - HB2	1,575.921	1,697.805	1,601.307	1,648.383	3,273.726	3,249.690
Statutory Appropriations	169.872	170.849	184.532	195.170	340.721	379.702
Transfers	88.877	46.639	17.122	12.898	135.516	30.020
Other Appropriations	-	-	2.384	1.822	-	4.206
Supplementals	-	-	23.344	30.070	-	53.414
Feed Bill	-	-	2.469	10.009	-	12.478
Reversions	(117.960)	(167.976)	(5.383)	(6.686)	(285.936)	(12.069)
Total Disbursements	$1,716.710	$1,747.317	$1,825.775	$1,891.666	$3,464.027	$3,717.441
Fund Balance Adjustments	8.112	(6.360)	-	-	1.752	-
Ending Fund Balance	$314.880	$343.762	$303.610	$265.082	$343.762	$265.082

Figure 9 shows the projected general fund balance for the 2013 biennium. Amounts shown include the revenue estimates included in HJ 2 plus legislation impacts and the cost of operating state government based on appropriations adopted by the 61st and 62nd Legislatures during the regular legislative sessions. Also included in this figure are estimated amounts for statutory appropriations, budgeted transfers, statutorily required supplemental appropriations, and reversions.

As Figure 9 shows, the 2013 biennium ending general fund balance is projected to be $265.1 million without any revisions to the 2013 biennium revenue estimates for revenue trends observed in FY 2011. Also reflected in Figure 9 is the inclusion of actual revenue and disbursement amounts recorded in FY 2011 and the inclusion of continuing appropriations. It should be noted that this balance is based on an assumption of a public school supplemental appropriation for the 2013 biennium and includes $16.5 million for emergency appropriations.

FINANCIAL CONSIDERATION SB 426

Senate Bill 426, by Senator Balyeat, was enacted by the 62nd Legislature. This legislation created the "Treasure State Taxpayer Dividend Program" with the provision the act be submitted to the qualified electors on the November 2012 ballot. This legislation is designed to refund surplus state government general fund balance through an income tax credit mechanism. If approved by the electors, the legislation would be applicable to fiscal years 2013 and beyond.

The Department of Administration is required to certify to the budget director, by August 1 of each year, the amount of the unaudited general fund balance for the previous fiscal year. If this balance exceeds the budgeted balance by 125%, then tax credits for individual income and property taxes paid are allowed to be claimed on subsequent tax return filings. It should be noted, however, that the excess balance must be at least $5.0 million otherwise no tax credits are allowed. The legislation also specifies that one-half of the excess balance must be distributed "in the form of individual income tax credits related to property taxes paid on the taxpayer's principal residence and related to the taxpayer's individual income tax paid." The remaining one-half of the excess balance remains in the general fund ending fund balance.

The legislation defines the procedures to be used by the Department of Revenue to determine how much of the excess fund balance is to be used for residential property tax and individual income tax relief. This calculation is based on the ratio of the total amount to be refunded divided by the sum of total residential property and total individual income taxes. For example, if residential property tax collections were $600 million and individual income tax collections were $800 million and the excess amount was $114.7 million, then residential property and individual income taxpayers would be allowed to claim an income tax credit in the subsequent year equivalent to 4.1% ($114.7 million times 50% divided by ($600 plus $800 million) of their residential property and individual income taxes paid in the previous year. This tax credit is a refundable tax credit that applies to only the subsequent tax return filed. Any potential future tax credits are determined annually based on whether there is excess fund balance above the projected amount.

This is an important financial consideration for the 63rd Legislature. If the 2013 biennium general fund budget adopted by the 62nd Legislature develops as intended, then 50% of the FY 2011 additional estimated revenue (50% of $114.7 million = $57.4 million) discussed in this report would be used for residential property and individual income tax relief (assuming the referendum is approved by the voters in November 2012). Because taxpayers would claim the tax credit when filing their tax year 2013 return, the impact of tax relief would not be realized until FY 2014.