

FY 2018 STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division

March 12, 2018



INTRODUCTION

The purpose of this report is to provide a summary of revenues and budget changes since the 2017 November Special Session. Included in the report are an updated HJ 2 general fund balance sheet; year-to-date general fund revenues as compared to FY 2017; and agency budget and expenditure modifications since the completion of the special session.

GENERAL FUND BALANCE SHEET

GENERAL FUND BALANCE SUMMARY

The [FY 2017 Montana Comprehensive Annual Financial Report \(CAFR\)](#) was published in February 2018. Final adjustments reported in the CAFR were \$368,633 to FY 2017, which included a fund balance adjustment of stale dated warrants and a few reclassifications. This adjustment resulted in an official ending fund balance for FYE 2017 of \$47.9 million. In addition, the Legislative Fiscal Division corrected an error that was made on the December HJ 2 balance sheet by \$687,391. This increased FY 2018 transfer in revenue. After the adjustments, the ending fund balance for FY 2019 is projected to be \$304.1 million.

General Fund Balance Sheet - HJ 2 Revenues March 2018				
(\$ Millions)				
	Actual FY 2016	Actual FY 2017	Estimated FY 2018	Estimated FY 2019
Beginning Fund Balance	\$455.436	\$256.478	\$47.933	\$211.657
Revenues				
Actual/HJ 2	2,121.288	2,141.479	2,359.345	2,476.395
Ongoing Revenue			0.929	0.011
Fire suppression fund transfer in, August 15, 2017			30.000	
SB 261 Triggered Revenue - 2019 biennium distribution change for accomodations tax			1.640	1.640
OTO Revenue (2017 reg. session)			10.421	4.351
2017 November Special Session OTO Revenue (assumed SB 9 Section 5)			32.311	13.044
Prior Year Adjustments - revenue	(3.667)	(1.932)		
Total Revenue Funds Available	2,573.057	2,396.025	2,482.578	2,707.097
Expenditures - Ongoing				
Statutory Appropriations (updated since 10/2017)	265.168	291.065	320.830	326.632
SB 261 Statutory Approp Reduction (TPA)			(2.000)	(2.000)
General Fund Transfers (adjusted for SB 261 Old Fund)	29.254	20.668	19.483	20.068
HB 2 Language Appropriations			0.050	0.050
HB 2 Agency Budgets*	1,908.415	1,957.389	1,918.732	1,949.376
HB 2 Special Session Additional Authority (assuming SB 9, section 5 (3)(c))				45.721
HB 1 (estimates adjusted for special session)	5.025	8.239	2.586	10.172
Other Appropriations		3.417	2.698	1.154
Continuing Authority (excludes HB 1)			2.570	
Special Session Reductions, not impacted by SB 9 (Section 5(3)(c))			(2.928)	(1.417)
Reversions			(6.786)	(6.912)
Ongoing Expenditures	2,207.861	2,280.778	2,255.234	2,342.845
OTO				
HB 2 Agency Budgets *	64.519	47.185	15.158	14.393
HB 2 Appropriation Transfers and Other		0.433		
HB 3 Supplemental Appropriations		23.167		
Special Session SB 9 Budget Stabilization Transfer				45.721
Fire Fund Transfers	50.310	11.422		
Other Appropriations			0.528	
Other, including carry forward	1.147	1.752		
Prior Year Adjustments				
Total Expenditures	2,323.836	2,364.737	2,270.921	2,402.960
Other adjustments	5.888	12.217		
Adjustments - Prior Year		(4.058)		
CAFR Adjustments	1.368	0.369		
Ending Fund Balance	\$256.478	\$47.933	\$211.657	\$304.138
Structural Balance (ongoing revenues minus ongoing expenditures)	(\$86.573)	(\$139.299)	\$105.040	\$133.560

* The balance sheet and Appendix A tie in the following manner: Appendix A HB 2 general fund total includes other authority, primarily SB 294 (pay plan). The balance sheet shows SB 294 authority in other appropriations. Also, an estimated higher ending fund balance of \$314.0 may occur for FY 2019 if the following occur: contract negotiations, public sale of abandoned property, and additional non-HB 2 additional expenditure reductions.

GENERAL FUND REVENUE SUMMARY

The executive's general fund revenue estimate used to call the 2017 November Special Session of the Legislature was below HJ 2 by \$137.0 million in FY 2018. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,439 million, about \$4.0 million more than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue overage of about \$13.0 million.

Although year-to-date estimates through February are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made individual income and property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42.0 million to \$100.0 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137.0 million below HJ 2.

Range of Revenue Options (\$ Millions)			
Estimate*	FY 2018	FY 2019	Notes
HJ 2	\$2,435	\$2,495	Official legislative revenue estimate
YTD Median Extrapolation	2,439		Based on total general fund collection patterns since FY 2002
Cash Concept Model	2,448		Based on collection patterns of large revenue sources since FY 2002
Executive Estimate for 2017 Special Session	2,297	2,352	Used to balance GF budget during 2017 Special Session, but not adopted

*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

YEAR-TO-DATE GENERAL FUND REVENUE

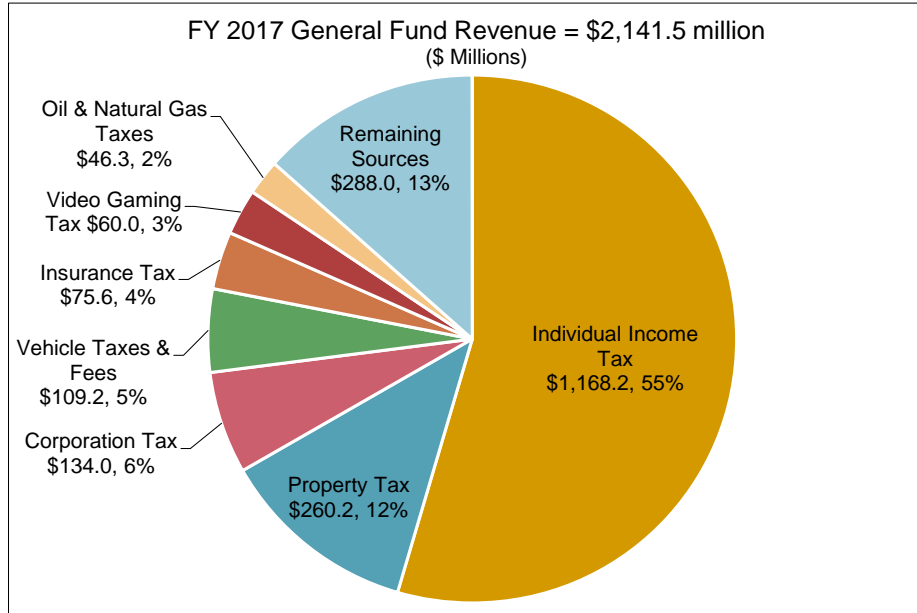
FY 2018 general fund revenues through the end of February are \$189.0 million or 13.9% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Note that the increase is in part due to legislatively authorized transfers of \$67.1 million posted to All Other Revenue.

General Fund Revenue Monitoring Report
(\$ Millions)

Revenue Source	Actual FY 2017	HJ 2/SS FY 2018	HJ 2 Est. % Change	February FY 2017	February FY 2018	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,168.225	\$1,320.808	13.1%	\$856.836	\$929.174	\$72.338	8.4%
Property Tax	260.224	277.119	6.5%	142.061	157.652	15.591	11.0%
Corporation Tax	133.992	168.763	26.0%	74.151	102.365	28.214	38.0%
Vehicle Taxes & Fees	109.197	112.956	3.4%	63.660	64.877	1.216	1.9%
Oil & Natural Gas Taxes	46.334	49.939	7.8%	10.932	12.075	1.144	10.5%
Insurance Tax	75.558	76.003	0.6%	34.774	35.853	1.079	3.1%
Video Gaming Tax	59.956	61.904	3.2%	29.458	29.676	0.217	0.7%
Other Business Taxes							
Drivers License Fee	4.308	4.341	0.8%	2.679	2.899	0.220	8.2%
Investment Licenses	7.327	7.660	4.5%	6.733	7.041	0.308	4.6%
Lodging Facilities Sales Tax	21.780	23.399	7.4%	12.628	13.636	1.008	8.0%
Public Contractor's Tax	3.078	2.540	-17.5%	2.980	4.224	1.244	41.7%
Railroad Car Tax	3.790	3.642	-3.9%	3.528	3.352	(0.176)	-5.0%
Rental Car Sales Tax	3.402	3.357	-1.3%	1.944	2.155	0.211	10.8%
Retail Telecom Excise Tax	15.603	15.570	-0.2%	7.610	7.003	(0.608)	-8.0%
Other Natural Resource Taxes							
Coal Severance Tax	13.799	13.811	0.1%	8.798	7.518	(1.279)	-14.5%
Electrical Energy Tax	4.314	4.439	2.9%	2.332	2.155	(0.178)	-7.6%
Metal Mines Tax	4.839	4.274	-11.7%	0.095	0.000	(0.095)	-100.0%
U.S. Mineral Leasing	17.322	20.497	18.3%	9.204	9.473	0.269	2.9%
Wholesale Energy Trans Tax	3.464	3.505	1.2%	1.831	1.354	(0.477)	-26.0%
Other Interest Earnings							
Coal Trust Interest Earnings	19.799	19.829	0.1%	11.782	10.189	(1.593)	-13.5%
TCA Interest Earnings	5.692	7.577	33.1%	3.095	4.970	1.875	60.6%
Other Consumption Taxes							
Beer Tax	2.998	3.072	2.5%	1.722	1.754	0.032	1.8%
Cigarette Tax	30.558	30.652	0.3%	18.649	17.551	(1.098)	-5.9%
Liquor Excise Tax	20.366	22.265	9.3%	11.971	12.366	0.395	3.3%
Liquor Profits	11.750	14.614	24.4%	-	-	-	-
Lottery Profits	9.624	12.365	28.5%	3.267	3.362	0.095	2.9%
Tobacco Tax	6.247	6.815	9.1%	3.663	3.592	(0.070)	-1.9%
Wine Tax	2.429	2.584	6.4%	1.446	1.464	0.018	1.3%
Other Sources							
All Other Revenue	49.336	113.552	130.2%	20.338	89.634	69.296	340.7%
Highway Patrol Fines	3.927	4.152	5.7%	2.222	2.080	(0.142)	-6.4%
Nursing Facilities Fee	4.635	4.305	-7.1%	2.313	2.213	(0.100)	-4.3%
Public Institution Reimbursement	14.264	15.718	10.2%	7.448	7.510	0.062	0.8%
Tobacco Settlement	3.343	2.622	-21.6%	0.010	0.006	(0.004)	-37.5%
Largest Seven Subtotal	1,853.485	2,067.491	11.5%	1,211.871	1,331.672	119.800	9.9%
Remaining Sources Subtotal	287.994	367.154	27.5%	148.288	217.501	69.213	46.7%
Grand Total	\$2,141.479	\$2,434.645	13.7%	\$1,360.160	\$1,549.173	\$189.013	13.9%

MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87.0% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

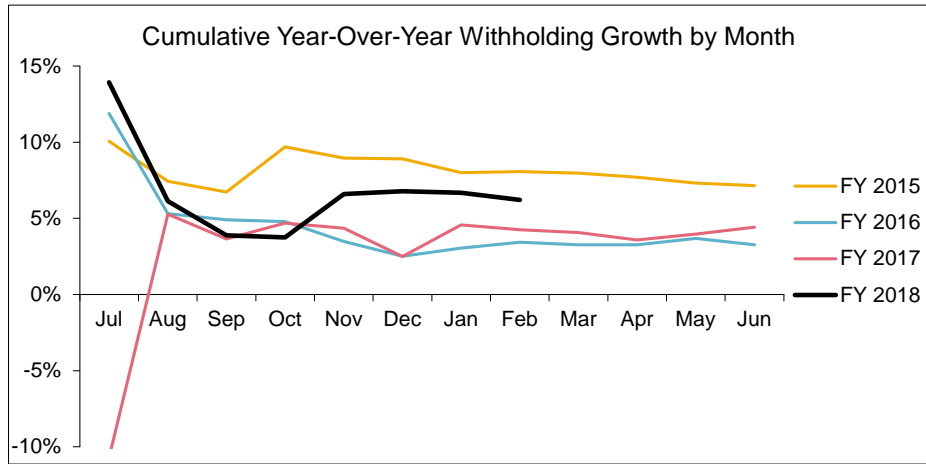


Individual Income Tax: Strong YTD Growth, but Currently Below HJ 2

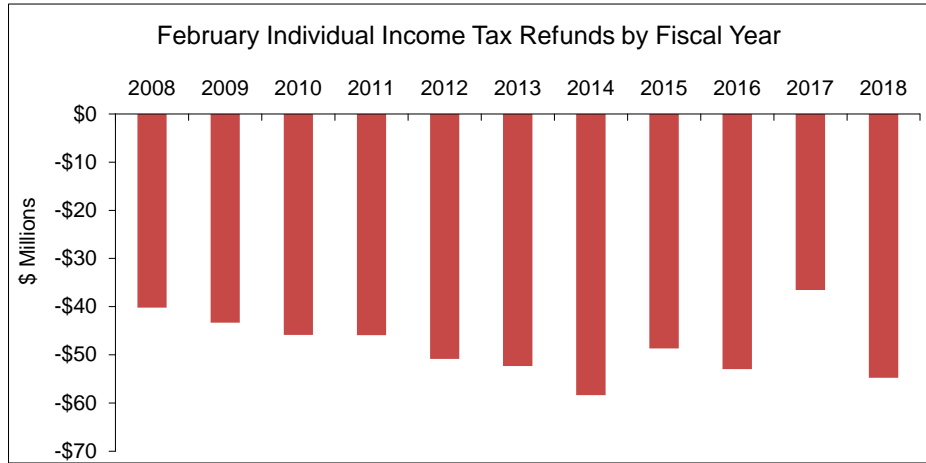
Individual income tax collections through the end of January are \$72.3 million or 8.4% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, and high December and January estimated payments; however, the increase was somewhat offset by higher year-to-date refunds.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$640.1	\$602.6	\$37.5	6.2%
Estimated Payments	210.3	171.7	38.6	22.5%
Current Year Payments	23.3	23.0	0.4	1.5%
Audit, P&I, Amended	25.0	22.1	2.9	12.9%
Refunds	(137.1)	(116.5)	(20.6)	17.7%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	8.9	6.8	2.1	31.7%
Mineral Royalties	5.4	4.1	1.2	30.1%
Total	\$929.2	\$856.8	\$72.3	8.4%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to maintain growth above 6% compared to FY 2017 collections. As shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.



The higher level of year-to-date refunds appears to be due to a timing issue from FY 2017 when February refunds were unusually low; year-to-date comparisons should even out in the next report.



Property Tax: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$15.6 million or 11.0%, compared to 6.5% in HJ 2. Property tax is still expected to come in around HJ 2. The increase compared to last year may be due to some people paying the full property tax bill in calendar 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of January are 38.0% or \$28.2 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments, lower refunds, and a large, one-time audit.

Corporation Income Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Corporation Tax	\$10.2	\$11.5	(\$1.4)	-11.7%
Estimated Payments	72.0	60.3	11.7	19.4%
Refunds	(7.1)	(12.1)	5.0	-41.0%
Refund Accrual Reversal	3.3	3.8	(0.4)	-11.3%
Audit, P&I, Amended	24.0	10.6	13.3	125.5%
Total	\$102.4	\$74.2	\$28.2	38.0%

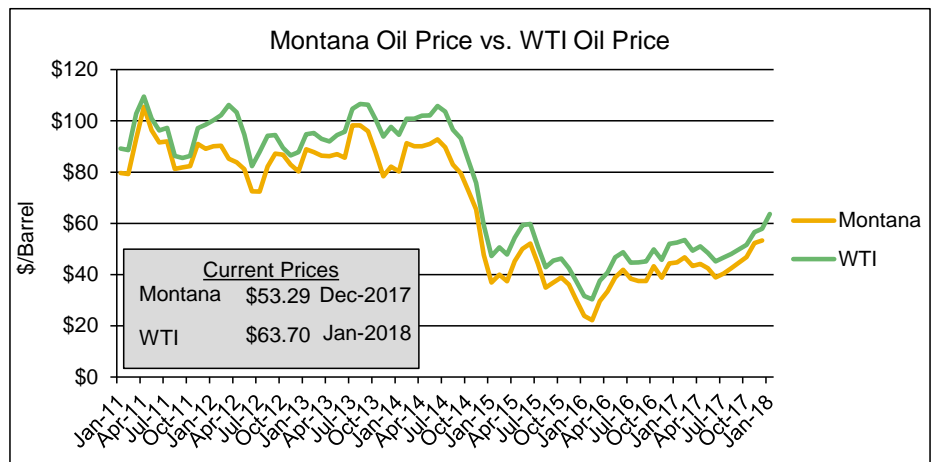
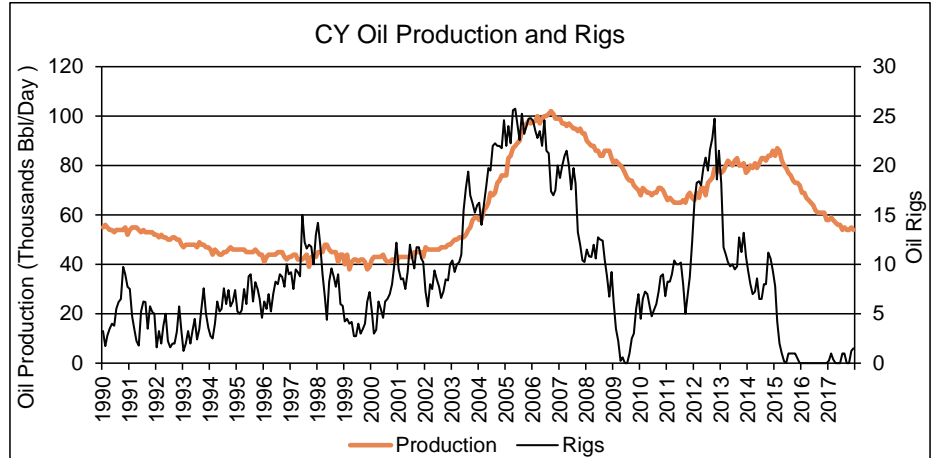
Vehicle Fees & Taxes: Slightly Below HJ 2

Eight months into FY 2018, vehicle taxes and fees are 1.9% or \$1.2 million above collections last year at this time. In HJ 2, this source was expected to grow by 3.4%, so collections are coming slightly lower than estimated.

Oil & Natural Gas Production Tax: Currently Above HJ 2

In January, the first oil and natural gas payment was booked to the accounting system. Price increases have offset decreased production, and as a result collections are higher than last year. Specifically, collections are 10.5% or \$1.1 million above last year through February. The year-to-date growth of 10.5% is above the assumed growth of 7.8% in HJ 2.

As the upper chart shows, oil production has been declining since the beginning of 2015, as there has been at most two rigs operating in the state since early 2015. The bottom figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Back on Track

Current insurance tax collections are 3.1% or \$1.1 million above FY 2017 through February. Both fire marshal taxes and premium insurance tax showed growth over the previous year.

Insurance Premiums Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Insurance Licences & Permits	\$0.0	\$0.0	\$0.0	14.7%
Premium Insurance Tax	30.5	30.1	0.4	1.4%
Fire Marshall Taxes	5.0	4.1	0.9	23.0%
Premium Insurance Tax	0.0	0.0	(0.0)	-57.7%
Surplus Lines Premium Tax	0.0	0.2	(0.2)	-99.0%
Captive Premium Insurance Tax	0.3	0.4	(0.1)	-24.7%
Total	\$35.9	\$34.8	\$1.1	3.1%

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$0.2 million or 0.7% above collections from last year at this time, but below the anticipated growth of 3.2%.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Slightly Above HJ 2

Lodging tax revenue is \$1.0 million or 8.0% above year-to-date collections in FY 2017, and above the HJ 2 estimate growth of 7.4%. Year-over-year quarterly tax payments in CY 2017 ranged from 6.9% to 7.5% above the corresponding quarter in CY 2016, so final fiscal year collections are likely to end up close to HJ 2.

Public Contractors' Tax: Above HJ 2

Public contractors' tax is \$1.2 million or 41.7% above year-to-date collections in FY 2017, and above the 17.5% decline anticipated in HJ 2. There can be a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects have produced unusual future collection patterns in the past.

Coal Severance Tax: Likely On Track with HJ 2

Coal severance tax revenue is \$1.3 million or 14.5% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unusually high. This source is expected to end up near the estimate contained in HJ 2.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.6 million or 13.5% below collections from one year ago. In FY 2017, \$2.0 million was booked in this account in August, when typically the first large collection doesn't occur until September. This was ultimately offset by low June collections. Final collections should end up near the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$1.9 million or 60.6% above collections last year at this time, and above the HJ 2 anticipated growth of 33.1%. Short-term interest rates in FY 2018 are slightly lower than expected, so the increase relative to HJ 2 is due to a larger-than-expected daily cash balance.

Cigarette Tax: Below HJ 2 Estimate

Cigarette tax revenue is \$1.1 million or 5.9% below year-to-date collections in FY 2017. This may be attributable to changing consumer preferences.

All Other Revenue: Above Last Year Due to Transfers

To date, all other revenue collections are \$69.3 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$67.1 million of the year-over-year difference.

BUDGET AND EXPENDITURES

FY 2018 APPROPRIATIONS AND EXPENDITURES

This section of the report discusses the FY 2018 appropriations¹ and related expenditures by budget section including:

- Modifications to FY 2018 appropriations that have been made to the HB 2 FY 2018 budget between July 1, 2017 through February 28, 2018 including reductions recommended under 17-7-140, MCA and those adopted by the legislature during the November 2017 Special Session
- Expenditure patterns through February 2018 relative to FY 2018 appropriations
- Other appropriation authority granted to state agencies
- Statutory appropriations

To provide a more complete picture of agency resources, Appendix B summarizes total appropriation authority provided to an agency including HB 2, HB 2 language appropriations, non-budgeted proprietary funds, statutory appropriations, budget amendments, carry-forward authority, continuing appropriations, and other appropriation bills. Appendix A summarizes HB 2 appropriations, budget modifications, and expenditures.

FY 2018 LEGISLATIVE AND EXECUTIVE BUDGET CHANGES

The executive announced a potential general fund budget deficit in August 2017, submitted a spending reduction plan as recommended by 17-7-140, MCA in September, and subsequently called a special legislative session for November 2017 to address the executive's projected general fund budget shortfall. During the November 2017 Special Session the legislature:

- Adopted the general fund reductions recommended by the Governor under 17-7-140, MCA and codified these changes in HB 2
- Implemented other reductions through changes in statute, many recommended by the Governor, including:
 - Suspending the Judges Retirement System contribution between January 2018 and June 2019
 - Reducing school block grants and other reimbursement payments
 - Suspending state share contributions to state employee insurance for two months
 - Switching funding for the school facility and technology account
 - Reducing the State Information Technology Services Division state agency rate for services by 6.61%
 - Reducing general fund appropriations for the Legislative and Judicial Branches
 - Shifting costs for the statewide accounting, budgeting, and human resource system (SABHRS) from the general fund to the proprietary fund
 - Reducing appropriations for the Public Service Commission, the State Auditor's Office, and the Secretary of State and transferring state special revenues to the general fund
- Established two mechanisms through which a portion of agency HB 2 budget reductions may be mitigated, under certain circumstances. The mechanisms, established in SB 9 of the November 2017 Special Session:
 - In coordination with HB 2 (November 2017 Special Session), provide appropriation authority for any funds that accumulate as a result of contract renegotiations between the state and private correctional facility contractors for the purpose of mitigating HB 2 appropriation reductions to essential services. These funds are OTO, restricted, and may not be used to

¹ HB 2 appropriation changes resulting from coordinating various bill requirements at the beginning of FY 2018 including additional appropriations for state employee pay plan (SB 294), general fund reductions required in SB 261, and other reductions or increases based on bills passed in the 2017 Legislative Session were included in the 2019 Biennium Budget Update. The October modified budget includes these changes. These changes are not included in the budget modifications discussed in this report. In addition, language appropriations included in HB 2 are not part of the October modified budget but are shown in Appendix B.

fund governmental services for an appropriation in an amount greater than the introduced version of HB 2.

- o Directs FY 2018 revenues exceeding \$2,264.9 million, which will be determined by the state treasurer on or before August 15, 2018, to mitigate agency FY 2019 reductions. The first \$20 million of excess revenues are directed to the general fund ending fund balance. Then 50% of the excess revenues above the first \$20 million is allocated to state agencies to offset reductions to general fund appropriations made in HB 2, up to a maximum offset of \$45.7 million. Total amounts of potential funds are shown by agency in HB 9, and excess revenues below the maximum offset will be allocated to agencies on a pro-rated basis.

FISCAL YEAR TRANSFER SUPPLEMENTAL REQUEST

On March 8, 2018, the Legislative Fiscal Analyst received notification from the Governor's Budget Director that ten state agencies requested fiscal year transfers. More information may be found later in this report, in the agency narratives, and the budget director's memorandum.

SECTION B, PUBLIC HEALTH AND HUMAN SERVICES (DPHHS)

The Department of Public Health and Human Services is projecting a \$21.8 million general fund shortfall. Due to the significance of the \$20.6 million supplemental request for funding, the LFD has varied the presentation of the Budget Status Report placing the DPHHS discussion at the beginning of the report, prior to further discussion on budget changes and spending for all other sections.

HB 2 Budget Reductions

DPHHS finalized the implementation of the Governor's recommended reductions of \$18.7 million in general fund, \$0.3 million in state special, and \$20.7 million in federal special revenues in February and March 2018. Savings include such items as reducing additional targeted case management services for both children and adults, eliminating dental services for dentures, crowns, and bridges, and limiting services for meal preparation, exercise, and other activities of daily living for disabled individuals. For additional information on other savings, see the agency narrative.

Other budget modifications are discussed in the agency narrative.

HB 2 General Fund Expenditures

DPHHS has expended 53.8% of its total state resources while being 66.7% of the way through the budget year, with 59.0% of its general fund expended at the end of February. However, DPPHS is projecting an agency-wide general fund shortfall of \$21.8 million (after accounting for \$5.3 million general fund in additional contingency funds). Figure 1 shows the areas of higher spending for general fund as forecasted in the DPPHS budget status report.

Figure 1

DPHHS - Key Areas of General Fund Projected Shortfalls			
Appropriation Authority	Current Budget	Projected Expenditures	Projected Shortfall
Total Medicaid Budget	\$287,614,121	\$296,041,252	(\$8,427,131)
Montana State Hospital Operations	39,405,559	45,662,147	(6,256,588)
Child Family Services Admin	16,971,631	21,487,794	(4,516,163)
Vocational Rehab	5,349,754	9,086,300	(3,736,546)
Foster Care Benefits	10,720,524	13,223,276	(2,502,752)
Other ¹	\$137,019,222	\$133,371,936	\$3,647,286
TOTAL	\$497,080,811	\$518,872,705	(\$21,791,894)

¹Reflects February modified budget

The largest projected general fund deficits are in the Health Resources, Disability Services, and Senior and Long-term Care Divisions. Within Health Resources Division the largest projected general fund shortfalls are in hospital and clinical services (\$7.4 million), Medicare buy-in (\$2.8 million), and managed care (\$1.5 million). Disability Services Division is projecting shortfalls in children’s mental health services (\$1.9 million) and developmentally disabled waivers (\$3.3 million). Senior and Long-term Care Division includes Community First Choice benefits (\$4.9 million) and nursing homes (\$1.8 million). These shortfalls are partially offset by projected surpluses in other service categories. The shortfall in the Medicaid budget of \$8.4 million considers the \$5.3 million in general fund that was contingent on the passage of HB 639, which contained restrictions that provide for funding if the actual HB 2 non-restricted general fund expenditures exceed the HB 2 non-restricted general fund appropriation.

The Montana State Hospital (MSH) was found in January of 2017 by the Centers of Medicare and Medicaid (CMS) to have severe staffing shortages. According to CMS, MSH corrected the staffing deficiencies which were related to a shortage of nurses and direct-care staff. Since January 2017 expenditures for professional and consulting services at MSH have increased from a monthly average of \$417,875 in FY 2016 to a monthly average of \$759,137 in FY 2018. These additional costs are driving the projected shortfall in the Montana State Hospital budget.

The Vocational Rehabilitation Program is projecting higher general fund costs associated with benefits and claims for participants in the program. Figure 2 shows the expenditures for benefits and claims in the Vocational Rehabilitation Program for FY 2016, FY 2017, and FY 2018 through the end of February.

Figure 2

Department of Public Health and Human Services Vocational Rehabilitation			
			FY 2018
Benefits and Claims	FY 2016	FY 2017	Through February
General Fund	\$4,385,458	\$9,500,800	\$5,342,611
Federal Special Revenue	10,991,852	8,191,952	1,943,979
Total Benefits and Claims	\$15,377,310	\$17,692,751	\$7,286,590

DPHHS reported to the LFD in FY 2017 that, as a result of the changes in the federal program, and the “stay put” provision of the Rehabilitation Act, the federal grant award was insufficient to meet the obligations of the program, therefore additional general fund was necessary to meet those obligations and stay in compliance with federal rules and regulations. DPHHS further explained that the reason for the shortfall was three fold:

- Federal mandates required a minimum of 15% of total program expenditures be utilized for pre-employment transition services, however no additional federal funds were received. The delivery of these services also increased the number of clients requesting vocational rehabilitation services
- Cost control is limited, as once individuals are identified as eligible for services those services are required to be maintained
- Increased system costs to comply with new reporting requirements in the Workforce Innovation and Opportunity Act

The Vocational Rehabilitation Program has a state match of 21.3% but it must also meet a maintenance of effort (MOE) equal to the amount of state funds expended in the two previous years. As shown in Figure 2, in FY 2017 the Vocational Rehabilitation Program increased its general fund spending by 116.6%, thereby increasing the required MOE for state funds.

DPPHS views the grant program as an entitlement once an individual enters the program, with the only point of control being category closures. All three service categories are now closed, and will remain closed until caseload is reduced through case closure and spending comes back in line with the federal grant

award. Additionally, all program expenditures are being closely monitored, reviewed, and approved at the senior management level.

Child and Family Services Division administration (which includes caseworkers) and foster care benefits both have high caseloads that are driving the projected shortfalls.

The remainder of the report discusses the HB 2 budget reductions, other budget modifications, and expenditures for the remaining sections of the budget.

OTHER BUDGET SECTIONS

HB 2 Budget Reductions

During the November 2017 Special Session the legislature reduced HB 2 appropriations, including those proposed by the Governor, by 1.6% in general fund and 1.8% in total state resources. The following are highlights of the reductions made in certain budget areas.

Section A, General Government

Department of Revenue (DOR)

The Department of Revenue implemented the Governor's recommended reductions authorized under 17-7-140, MCA including:

- Director's Office: \$1.0 million in general fund savings generated by not replacing computers for the biennium and a 10% reduction has been requested of all IT contracts, with a portion of those contracts being renegotiated at the lower level
- Citizen's Services & Resource Management: \$0.6 million generated through not mailing paper forms, including personal property forms; DOR sent letters with instructions to their website
- Property Assessment Division: \$0.7 million generated through rent savings from closing selected county offices, and further rent savings as a result of asking for a 10% reduction in current rent and discontinued inflation adjustments on leases
- Agency-wide adjustments include reduced training and travel

Section E, Education

Office of Public Instruction (OPI)

The HB 2 budget for OPI was reduced by \$6.1 million through the Governor's recommended reductions and legislative reductions from the November 2017 Special Session. Budget modifications in the Local Education Activities Program which fund local school districts included:

- \$1.7 million reduction to school transportation
- \$3.4 million to debt service assistance

As part of the reductions, the legislature temporarily required school districts to transfer revenue from certain funds to the transportation fund to offset the potential of property tax increases at the local level. The reduction could have an effect on local school budgets if offsetting transfers were not available.

For additional information on the impacts of the HB 2 reductions on each state agency see the Narrative Appendix and Appendix A.

Other HB 2 Budget Changes

Section A, General Government

Department of Military Affairs (DMA)

DMA is proposing a budget change in the Veterans Affairs Program. This change is related to the biennial/one-time-only funding for grants to be awarded to organizations for the purchase of vehicles used to transport Montana veterans to medical appointments. The proposed change is requesting to move the \$100,000 appropriation from grants to personal services and operating expenses. The reason provided is “to fund Veterans Service Program outreach operational expenses; to include, but not limited to: leased state vehicles (travel to outreach locations), payment of outreach operations travel and per diem expenses, and information presentations to and coordination activities with entities associated with veterans services and issues statewide.”

This proposed budget change is (as defined in 17-7-138, MCA) considered significant due to the change being greater than \$75,000 and greater than 25% of a budget category. While this appropriation is not a restricted appropriation, this budget change does not violate statute.

Section C, Natural Resources and Transportation

Department of Environmental Quality (DEQ)

DEQ reorganized functions within the agency, transferring 13.73 FTE, \$522,436 in general fund, \$482,091 in state special revenue, and \$373,448 in federal revenue from the Enforcement Division to the Centralized Services Division. The change allowed the agency to eliminate the positions of division administrator and fiscal manager for the enforcement division.

Section D, Judicial Branch, Law Enforcement, and Justice

Board of Crime Control (BOCC)

HB 650, enacted by the 2017 Legislature, allocated the BOCC to the Department of Corrections for administrative purposes. It was previously administratively attached to the Department of Justice. The transition was completed in October 2017. In total, BOCC transferred \$1.2 million in general fund, \$0.2 million in state special revenues, and \$14.3 million in federal funds to the Director's Office in the Department of Corrections.

Department of Corrections

HB 2 language directed the Department of Corrections to reduce county jail holds by placing offenders in community facilities, the legislature provided a \$3.0 million general fund appropriation in HB 2 for this in the Probation and Parole Division. The Department of Corrections transferred an additional \$8.5 million in general fund from the Secure Custody Facilities Division to the Probation and Parole Division. According to the Department of Corrections, the appropriation was transferred due to a change in coding expenses for the county jail holds.

HB 2 GENERAL FUND EXPENDITURES BY AGENCY

The budget reductions implemented during the special session impacted the level of HB 2 expenditures in most state agencies. The following sections discuss FY 2018 expenditures for general fund and total state resources when compared to the February modified budget.

Figure 3 illustrates the budgeted and actual expenditures of general fund for HB 2 through the end of February. The budgeted number reflects the modified budget previously discussed. A summary of expenditures by

agency and program can be found in the agency narratives and Appendix A along with related budget modifications.

Through February, state agencies expended 60.2% of HB 2 general fund appropriations compared to the February modified budget leaving \$771.5 million in general fund appropriations remaining for the next four months of the fiscal year.

Figure 3

Comparison of February Modified Budget to Year To Date Expenditures FY 2018 HB 2 General Fund Only				
State Agency	February Modified HB 2 Budget	Year to Date Expenditures	HB 2 Budget Remaining	% Expended
Section A - General Government				
Legislative Branch	\$12,588,880	7,749,090	\$4,839,790	61.6%
Consumer Counsel	0	0	0	0.0%
Governor's Office	6,909,714	3,828,561	3,081,153	55.4%
Commissioner of Political Practices	670,126	374,216	295,910	55.8%
State Auditor's Office	0	0	0	0.0%
Department of Revenue	49,334,221	30,877,927	18,456,294	62.6%
Department of Administration	6,456,152	4,177,952	2,278,200	64.7%
Department of Commerce	3,214,192	1,846,117	1,368,075	57.4%
Department of Labor and Industry	1,566,994	919,961	647,033	58.7%
Department of Military Affairs	<u>5,935,830</u>	<u>3,447,739</u>	<u>2,488,091</u>	<u>58.1%</u>
Section A Total	86,676,109	53,221,564	33,454,545	61.4%
Section B - Public Health & Human Services				
Department of Public Health and Human Services	<u>497,080,811</u>	<u>293,056,134</u>	<u>204,024,677</u>	<u>59.0%</u>
Section B Total	497,080,811	293,056,134	204,024,677	59.0%
Section C - Natural Resources and Transportation				
Department of Fish, Wildlife, and Parks	0	0	0	0.0%
Department of Environmental Quality	4,566,124	2,739,201	1,826,923	60.0%
Department of Transportation	0	0	0	0.0%
Department of Livestock	2,242,608	1,691,588	551,020	75.4%
Department of Natural Resources and Conservation	24,981,293	15,944,119	9,037,174	63.8%
Department of Agriculture	<u>679,829</u>	<u>423,920</u>	<u>255,909</u>	<u>62.4%</u>
Section C Total	32,469,854	20,798,828	11,671,026	64.1%
Section D - Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	45,113,996	25,556,853	19,557,143	56.6%
Board of Crime Control	829,975	829,975	0	100.0%
Department of Justice	31,530,081	18,756,342	12,773,739	59.5%
Public Service Commission	0	0	0	0.0%
Office of the Public Defender	32,033,734	21,756,815	10,276,919	67.9%
Department of Corrections	<u>196,994,856</u>	<u>123,988,116</u>	<u>73,006,740</u>	<u>62.9%</u>
Section D Total	306,502,642	190,888,101	115,614,542	62.3%
Section E - Education				
Office of Public Instruction	779,283,557	449,333,504	329,950,053	57.7%
Board of Public Education	136,811	108,102	28,709	79.0%
Office of the Commissioner of Higher Education	222,857,734	150,476,354	72,381,380	67.5%
School for the Deaf and Blind	6,757,028	3,919,099	2,837,929	58.0%
Montana Arts Council	479,042	385,846	93,196	80.5%
Montana State Library	2,148,954	1,433,261	715,693	66.7%
Montana Historical Society	<u>2,593,159</u>	<u>1,829,306</u>	<u>763,853</u>	<u>70.5%</u>
Section E Total	1,014,256,285	607,485,472	406,770,813	59.9%
Total	\$1,936,985,701	\$1,165,450,098	\$771,535,603	60.2%

HB 2 ALL STATE RESOURCE EXPENDITURES BY AGENCY

Figure 4 illustrates the budgeted and actual expenditures for all state resources appropriated in HB 2 through the end of February 2018. This includes general fund, state and federal special revenue, and budgeted proprietary funds. Agencies expended 60.2% of general fund, 52.4% of state special revenue, and 51.6% of federal special revenue. Further detail of specific agencies may be found in the agency narratives.

Figure 4

Comparison of February Modified Budget to Year To Date Expenditures
 FY 2018
 HB 2 - State Resources

State Agency	February Modified HB 2 Budget	Year to Date Expenditures	HB 2 Budget Remaining	% Expended
Section A - General Government				
Legislative Branch	\$14,789,095	\$9,048,428	\$5,740,667	61.2%
Consumer Counsel	1,621,359	723,902	897,457	44.6%
Governor's Office	7,534,714	3,882,780	3,651,934	51.5%
Commissioner of Political Practices	670,126	374,216	295,910	55.8%
State Auditor's Office	8,213,426	4,544,690	3,668,736	55.3%
Department of Revenue	53,822,265	34,035,252	19,787,013	63.2%
Department of Administration	19,180,046	10,864,933	8,315,113	56.6%
Department of Commerce	30,114,659	5,450,607	24,664,052	18.1%
Department of Labor and Industry	80,066,349	43,549,735	36,516,614	54.4%
Department of Military Affairs	47,997,670	18,564,596	29,433,074	38.7%
Section A Total	264,009,709	131,039,139	132,970,570	49.6%
Section B - Public Health & Human Services				
Department of Public Health and Human Services	2,043,440,339	1,099,243,581	944,196,758	53.8%
Section B Total	2,043,440,339	1,099,243,581	944,196,758	53.8%
Section C - Natural Resources and Transportation				
Department of Fish, Wildlife, and Parks	93,586,724	54,517,175	39,069,549	58.3%
Department of Environmental Quality	62,219,437	30,782,155	31,437,282	49.5%
Department of Transportation	673,116,239	378,299,821	294,816,418	56.2%
Department of Livestock	11,195,393	7,435,970	3,759,423	66.4%
Department of Natural Resources and Conservation	63,957,944	33,531,536	30,426,408	52.4%
Department of Agriculture	19,144,397	7,568,383	11,576,014	39.5%
Section C Total	923,220,134	512,135,039	411,085,094	55.5%
Section D - Judicial Branch, Law Enforcement, and Justice				
Judicial Branch	47,057,804	26,609,268	20,448,536	56.5%
Board of Crime Control	2,435,117	2,435,117	0	100.0%
Department of Justice	98,156,067	56,020,859	42,135,208	57.1%
Public Service Commission	3,983,726	2,416,575	1,567,151	60.7%
Office of the Public Defender	32,033,734	21,756,815	10,276,919	67.9%
Department of Corrections	216,758,793	129,740,483	87,018,310	59.9%
Section D Total	400,425,241	238,979,116	161,446,125	59.7%
Section E - Education				
Office of Public Instruction	958,416,211	537,610,469	420,805,742	56.1%
Board of Public Education	353,097	196,545	156,552	55.7%
Office of the Commissioner of Higher Education	314,502,388	182,415,880	132,086,508	58.0%
School for the Deaf and Blind	7,224,651	4,204,990	3,019,661	58.2%
Montana Arts Council	1,411,450	978,169	433,281	69.3%
Montana State Library	5,085,537	2,724,927	2,360,610	53.6%
Montana Historical Society	4,856,547	3,160,986	1,695,561	65.1%
Section E Total	1,291,849,881	731,291,966	560,557,914	56.6%
Total	\$4,922,945,303	\$2,712,688,841	\$2,210,256,462	55.1%

Section A, General Government

Department of Commerce

The Montana Office of Tourism and Business Development expended 46.9% of its HB 2 modified budget as of the end of February 2018, mainly in state special revenue. The state special revenue for the Primary Sector Training Program and the private support for promotional activities are lower due to timing of activities and grant reimbursements. An increase in the interest rate on Microbusiness Development Centers could result in funds reverting back to the department prior to fiscal year end. This may require the use of up to \$380,000 state special revenue appropriation to redisperse the funds.

The Community Development Division expended 6.5% of its HB 2 modified budget as of the end of February 2018. The low percentage expended is primarily related to Community Development Block Grants and HOME Grants. Several factors contribute to lower expenditures from these two grants, which include:

- The actual amount of federal funds received fluctuates
- The timing of the federal funds awarded can be outside of the state fiscal year
- The rate at which individual projects expend funds can vary

The Housing Division expended 23.3% of its HB 2 modified budget as of the end of February 2018. The Shelter Plus Care program is contributing to the lower percentage expended. The Housing Division was awarded a grant to address chronic homelessness in scattered sites in Cascade, Flathead, and Yellowstone counties. The program is in the process of being closed out (October 2018) which is causing the decline in expenditures.

Department of Military Affairs

There are three divisions within the Department of Military Affairs that have a lower percentage expended as of the end of February 2018.

- The Scholarship Program has expended 51.0% of its \$187,000 HB 2 modified budget. This slightly lower percentage expended is due to scholarship requests not coming in at a steady pace. This appropriation is biennial so any unexpended appropriation will carry forward into FY 2019
- The Army National Guard has expended 41.4% of its \$18.2 million HB 2 modified budget. Most of the funding for this program is associated with maintenance and construction projects. The department anticipates that projects will increase in number and productivity during the upcoming spring and summer months
- Disaster and Emergency Services has expended 18.8% of its \$16.9 million HB 2 modified budget. The lower percentage expended is due to the department receiving authority for the entirety of grants received. Since these grants are expended over several fiscal years, budgeted authority is typically higher than expenditures

There is one division in the department that has a higher percent expended as of the end of February 2018. STARBASE has expended 76.2% of its \$339,000 HB 2 modified budget. This federally funded program has expanded into middle schools and Tribal communities. This expansion has resulted in additional expenses. Additional federal funds, greater than shown in the numbers above, have already been received by the department as a budget amendment (and are not reflected in the HB 2 modified budget). The department anticipates that these additional funds will be sufficient for the operations of STARBASE through the end of the fiscal year.

Section C, Natural Resources and Transportation Expenditures

Department of Transportation (DOT)

DOT has expended \$98.1 million or 62.3% of their \$157.5 million HB 2 personal services authority through February. Personal services are budgeted to be 69.2% expended through the end of February. The percentage that DOT has expended in FY 2018 is higher than the nine year average (2009-2017) of 58.4%. With the personal services budget reductions applied in the 2017 legislative session, the higher use of budget authority indicates that there is less excess authority than was available in past years.

Department of Natural Resources and Conservation

Fire Fund

Figure 5 below shows the anticipated fire costs as of January 2018 and the revenue streams authorized by the 2017 November Special Session Legislature. The estimated cost for FY 2019 is the average historical fire cost. Should the state see an average fire year in the second year of the biennium it is anticipated that the agency will have a shortfall of \$20.1 million in fire suppression funding. It should be noted that historically, fire suppression costs vary widely.

Figure 5

Estimated Fire Suppression Costs 2019 Biennium (\$ millions)			
Expenditures	FY 2018	FY 2019	Biennium
Fire Cost (01/04/2018) with updated FEMA ¹	\$69.4	-	\$69.4
Estimated Dept. of Military Affairs Expense	7.0	-	7.0
Additional Estimated Fire Cost	0.5	22.5	23.0
Total Expenditures	\$76.9	\$22.5	\$99.4
Appropriations			
Fire Fund Statutory Appropriation (02847)	\$32.3	-	\$32.3
Governor's Emergency Funds for Military Affairs	7.0	-	7.0
Additional Revenue Streams ²	40.0	-	40.0
Total Funding	\$79.3	\$0.0	\$79.3
Net Balance	\$2.4	(\$22.5)	(\$20.1)

¹ Total cost of \$88.3 million less federal reimbursement of \$18.9 million
² 2017 November special session legislation

Included in the additional revenue streams is a 3% management rate. As part of the November 2017 Special Session, the legislature enacted SB 4 to provide for a 3% management rate on portfolios managed by the Board of Investments that have an average asset balance greater than \$1.0 billion and with sufficient funds to offset all liabilities as determined by the most recent actuarial study. The Montana State Fund's (MSF) new fund qualifies for the management rate. The 3% management fee, estimated at \$14.6 million in FY 2018, is to be transferred to the fire suppression fund by April 1.

In January 2018 a group of employers that purchase workers' compensation coverage from MSF filed suit over the 3% management rate calling the rate an "improper taking" of assets to help pay the costs of fighting fires.

Section D, Judicial Branch, Law Enforcement, and Justice

Judicial Branch

The Judicial Branch has implemented various cost control measures including eliminating judge training and the use of retired judges for trials during FY 2018. A trial judge has been selected to review asbestos claims and determine the most cost effective means of proceeding with these claims – this may have budget

implications as the current court docket is full and this would be an additional case load to an already high level of cases being reviewed.

Office of the Public Defender (OPD)

The Office of the Public Defender has requested a fiscal year transfer supplemental of \$3.0 million from FY 2019 to FY 2018. A new death penalty case has the possibility to increase expenditures by \$1.2 million for the biennium. According to OPD, as of February 2018 they have spent about \$281,000 on one case that prosecutors plan to ask for the death penalty if the defendant is found guilty.

OPD also indicated additional reasons for the supplemental including:

- Expected growth in dependent and neglect cases is estimated to increase expenditures by \$800,000
- An additional \$600,000 may be needed for anticipated leave payouts. Retirement of senior staff may increase expenditures, but the agency has been aware of certain senior staff that intended to retire for some time
- Court ordered costs are estimated by OPD to increase and OPD thinks a further \$500,000 may be needed

OPD has proposed new contract rates for attorneys, investigators, and administrative support specialists. OPD issued a notice on the new contract rates to interested parties on January 29th with a comment period through March 1st and rates effective April 1st. If fully adopted, the change could save up to \$1.5 million in general fund each year. Since OPD extended the comment period for the notice beyond March 1st the implementation date is extended. As the new rates have not yet been implemented, OPD may not realize savings in contracted services in FY 2018.

A new death penalty case may increase expenditures for OPD by \$1.2 million over the biennium.

Section E, Education

Office of Public Instruction

Spending and income from the Guarantee Fund are on track. A supplemental for BASE Aid is not expected at this time.

Office of the Commissioner of Higher Education (OCHE)

Prior to special session, the Board of Regents approved tuition increases across the Montana University System (MUS) to offset the reductions previously applied to the appropriation distribution program. This action mitigated most of the impacts of the special session, the educational units will continue to reduce expenditures and will experience performance funding reductions.

The Guaranteed Student Loan Program is continuing its transition from loan servicing, thus this program budget is only 22.3% expended.

The \$2.0 million one-time-only general fund appropriation for the voluntary incentive retirement program is fully expended. The funds were used to incentivize retirement or provide severance offers to 98 employees at the University of Montana. The legislative funding will produce approximately \$4.0 million in salary and benefits savings in FY 2019.

Montana Historical Society (MHS)

MHS is projecting an approximate shortfall of \$270,000 in personal services supported by the general fund. MHS is working with the Office of Budget and Program Planning to address the shortfall.

Section F, Long-Range Planning

Seven Long-Range Planning (LRP) Programs were provided appropriation authority in the 2017 Legislative session. Through February, the programs have expended \$26.3 million of their \$135.4 million appropriation and non-state authority. Because LRP Programs generally take two or more biennia to complete, it is not unusual at this point in the biennium to have few expenditures. Of the 2019 biennium expenditures, \$21.9 million, or 83.2%, has been expended (or accrued) for Montana University System building projects. As of the end of February, two of the six programs with new appropriations in the 2019 biennium have not started to expend their 2019 appropriations.

The legislature authorized \$15.0 million of transfers from LRP program funds to the general fund, but did not eliminate any projects or reduce appropriations as a part of that action. Given the nature of the LRP (projects take a long time to complete), it was demonstrated that all the programs where transfers would result in a negative program account balance in the 2019 biennium would be able to cash flow projects through the biennium based on historic spending patterns. However, most of the programs have indicated that their management principles preclude entering into contracts for projects without having the funding on hand (or based on future revenues), or in effect disallowing the ability to cash flow. Ultimately, the LRP subcommittee will be working with \$15.0 million less revenue available for new projects in the 2021 biennium.

STATUTORY APPROPRIATIONS

Over 70.0% of the statutory appropriations for the Department of Transportation distribute fuel taxes to local government entities, which include city, county, and tribal governments. In March, the first distributions of the increase in the gas tax (HB 473 Bridge and Road Safety and Accountability Act, or BaRSAA) will be available for distribution to the cities and counties. The money generated will provide an overall increase of 37.2% for local government bridge and road projects above the calendar year 2017 distributions. Since the distributions only included a half year's tax revenues, the expected increase in CY 2018 are expected to be double that amount.

To obtain the projected \$6.2 million of funding, local governments must request funding for their project or maintenance funding needs as provided in administrative rules (and HB 473). Local governments must provide matching funds at the rate of \$1 of local government funds to \$20 of BaRSAA funds. A complete list of the local government funding is available upon request and is included in the Additional Discussion section of this report.

STATUTORILY REQUIRED REPORTS

BUDGET AMENDMENT ACTIVITY

As of February 28, 2018 the Legislative Fiscal Division received notification of 57 budget amendments impacting the 2019 biennium and certified by the Governor since November 30th.

These amendments increase total funds \$23.8 million in FY 2018. An additional 12.52 FTE in FY 2018 and 10.50 FTE in FY 2019 in modified positions have also been added. Four amendments transfer existing authority between expenditure categories or between organizational units. The following figure summarizes the budget amendments certified by the Governor from the period December 1, 2017 through February 28, 2018.

Budget Amendment Summary (since last LFC meeting)		
Component	FY 2018	FY 2019
Number of Amendments	57	0
FTE Added	12.52	10.50
State Special Revenue	\$253,279	\$0
Federal Revenue	23,456,371	0
Proprietary Fund	68,000	0
Total	\$23,777,650	\$0

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

The following figure summarizes the budget amendments that were certified for the 2019 biennium. The various approving authorities have added a total of \$104.0 million primarily in federal special revenue in the 2019 biennium.

Budget Amendment Cumulative Summary 2019 Biennium				
LFC Meeting 2019 Biennium	Number of Amendments	FY 2018	FY 2019	Biennial Total
October 5, 2017	38	\$20,973,751	\$266,447	\$21,240,198
December 11, 2017	44	58,950,778	0	58,950,778
March 1, 2018	57	23,777,650	0	23,777,650
December 1, 2018	0	0	0	0
Total	139	\$103,702,179	\$266,447	\$103,968,626

The following figure reflects the additional budget authority provided to each agency through the budget amendment process in the 2019 biennium compared to the FY 2018 HB 2 February modified budget reflected in Appendix A.

**Budget Amendment Authority Comparison
with HB 2 Total Funds
By State Agency**

State Agency	FY 2018 Budget HB 2	Budget Amendment	% of Modified Budget
Department of Agriculture	\$19,144,397	\$1,726,460	9.02%
Department of Commerce	30,114,659	526,818	1.75%
Department of Corrections	\$216,758,793	3,610,393	1.67%
Department of Environmental Quality	62,219,437	1,548,000	2.49%
Department of Fish, Wildlife, and Parks	93,586,724	18,621,152	19.90%
Department of Justice	98,156,067	1,001,896	1.02%
Department of Labor and Industry	80,066,349	2,336,575	2.92%
Department of Livestock	11,195,393	365,322	3.26%
Department of Military Affairs	47,997,670	81,000	0.17%
Department of Natural Resources and Conservation	63,957,944	8,839,466	13.82%
Department of Public Health and Human Services	2,043,440,339	12,717,318	0.62%
Department of Revenue	53,822,265	410,903	0.76%
Department of Transportation	673,116,239	35,213,008	5.23%
Judicial Branch	47,057,804	1,226,921	2.61%
Montana Arts Council	1,411,450	71,257	5.05%
Montana State Library	5,085,537	140,000	2.75%
Montana Historical Society	4,856,547	517,318	10.65%
Office of Public Instruction	958,416,211	14,748,372	1.54%
Total	\$4,510,403,825	\$103,702,179	2.30%

OPERATING PLAN CHANGES AND PROGRAM TRANSFERS

OBPP submitted a total of 8 operating plan changes and program transfers that met statutory criteria for LFC review and comment. Staff have reviewed the budget changes. One of the changes, transferring \$100,000 in state special revenue from a line item appropriation for a grant program to purchase vehicles to transport veterans to medical facilities to personal services and operating expenses. See the discussion on page x of the narrative. Staff have raised no issues with the remaining proposed changes. A summary of the changes from OBPP can be found in Appendix D.

OTHER AGENCY REPORTS

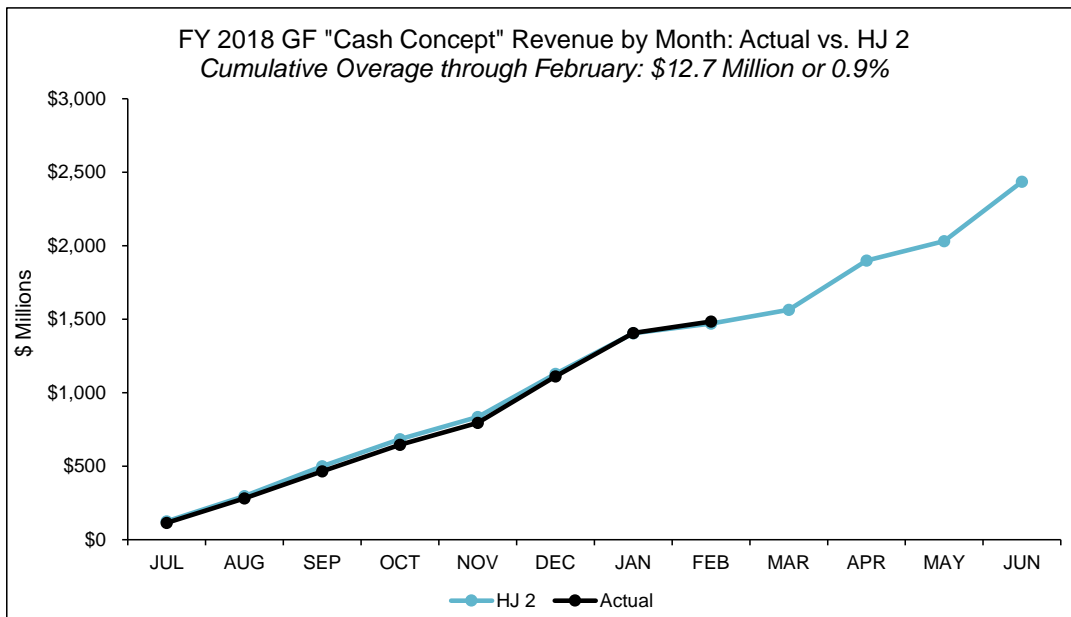
Other agency required reports have been received and are posted on the LFC website. The required reports can be found on the LFC webpage at:

<http://leg.mt.gov/css/Committees/Administration/Finance/2018-19/Report-Pages/Dec-2017.asp>

APPENDIX

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2017, with accruals and subsequent accrual reversals removed. The top seven revenue sources and general fund transfers are modeled separately, with the remaining sources estimated as a group.

The chart below shows modeled cumulative HJ 2 (adjusted for the enacted legislation of the 2017 regular and special sessions) by month with the blue line, and actual collections with the black line. Through February, the cash concept model suggests general fund revenue is above what would be expected based on the official revenue estimate by \$12.7 million or 0.9%. Since the difference is primarily due to the currently high level of corporation income tax audit collections, which is unlikely to be replicated in the remainder of the fiscal year, the revenue overage is not annualized.



Corporation income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, corporation income tax through February is \$21.1 million above the HJ 2 estimate.

