



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Legislative Fiscal Analyst
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DATE: September 28, 1999

TO: Legislative Finance Committee
Revenue and Taxation Committee

FROM: Terry W. Johnson
Principal Fiscal Analyst

RE: General Fund Status: Fiscal Year End 1999

INTRODUCTION

The purpose of this report is to provide the committees with preliminary fiscal 1999 ending fund balance data for the general fund account. Although the revenue and disbursement data for the account have been finalized on the Statewide Budgeting and Accounting System (SBAS), the GAAP (Generally Accepted Accounting Principles) balance shown in this report reflects only the adjustments made to date by the Department of Administration. 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 55th and 56th Legislatures and what actually occurred in fiscal 1999. Aggregate information is provided on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2001 biennium. A more detailed analysis on revenue trends and the implications for the 2001 biennium is currently underway and will be completed in January 2000.

FUND BALANCE DISCUSSION

The general fund account balance at the beginning of fiscal 1999 was \$44.3 million. Based on House Joint Resolution 2 (HJR 2) revenue estimates and disbursement budgets adopted during the 55th and 56th legislative sessions, this balance was forecast to increase to \$72.0 million by the end of fiscal 1999¹. Total revenues (including one-time transfers) were expected to exceed total expenditures by approximately \$24.7 million.

As shown in Table 1, the preliminary general fund account unreserved, undesignated balance for fiscal 1999 was \$110.5 million or \$38.5 million above the level anticipated by the 56th Legislature. Table 1 also shows the differences between budgeted and actual amounts for revenues, disbursements, and other adjustments.

¹See Legislative Fiscal Report, 2001 Biennium Overview June 1999, page 8.

Table 1
General Fund Account (Preliminary)
Fiscal 1999 Budgeted Versus Actual
Fund Balance Detail

	Budgeted Amount ¹	Actual FYE 1999	Over (Under) Estimate
Beginning GAAP Balance	\$44,309,000	\$44,308,699	(301)
General Fund Receipts	1,068,111,000	1,069,981,501	1,870,501
Prior Year Rev. Adjustments	0	20,897,909	20,897,909
Residual Equity Transfers	<u>2,951,000</u>	<u>60</u>	<u>(2,950,940)</u>
Total Revenue	\$1,071,062,000	\$1,090,879,470	\$19,817,470
General Fund Disbursements	1,043,418,000	1,037,930,918	(5,487,082)
Non-Budgeted Disbursements	0	(29,667)	(29,667)
Prior Year Exp. Adjustments	<u>0</u>	<u>891,342</u>	<u>891,342</u>
Total Disbursements	\$1,043,418,000	\$1,038,792,593	(\$4,625,407)
Fund Balance Designated	0	4,435,885	4,435,885
Other Fund Balance Adjustments	<u>0</u>	<u>10,217,632</u>	<u>10,217,632</u>
Total Adjustments	0	14,653,517	14,653,517
Ending Balance (Before Adjustments)	\$71,953,000	\$111,049,093	\$39,096,093
Adjustments Anticipated By DOA			
Remove Designated Funds	0	(4,435,885)	(4,435,885)
Inheritance Tax Correction	<u>0</u>	<u>3,853,502</u>	<u>3,853,502</u>
Unreserved, Undesignated Balance	\$71,953,000	\$110,466,710	\$38,513,710

¹ Legislative Fiscal Report, 2001 Biennium Overview, June 1999

REASONS FOR DIFFERENCES

Revenue Estimates and Collections

Column 1 of Table 2 shows the fiscal 1999 revenue estimates for the general fund account as adopted in HJR 2 during the 1999 legislative session. The adjacent columns in the table show actual collections, the amount collections were over or (under) the estimate, the estimation difference percentage, and the contribution percent. The contribution percent signifies the importance of each revenue component to the general fund account. For example, individual income taxes were 44.3 percent of the total general fund collections while wine taxes accounted

for only 0.09 percent during fiscal 1999. This column of information shows that over 70.0 percent of general fund revenue collections in fiscal 1999 came from individual (44.3%), property (18.5%), and corporate (7.4%) taxes.

Table 2
General Fund Receipts By Major Component
Fiscal 1999

SBAS Code	Revenue Category	Estimated 1999 Receipts ₁	Actual 1999 Receipts	Over(Under) Estimate	Percent of Est. 1999	Contribution Percent
0215	Drivers License Fee	\$2,846,000	\$3,233,718	\$387,718	113.62%	0.30%
0260	Insurance Tax	37,445,000	38,137,472	692,472	101.85%	3.50%
0265	Investment Licenses	4,393,000	4,413,311	20,311	100.46%	0.40%
0405	Vehicle License Fee	0	0	0		0.00%
0405	Vehicle Registration Fee	10,957,000	11,053,035	96,035	100.88%	1.01%
0517	Nursing Facilities Fee	6,090,000	5,713,357	(376,643)	93.82%	0.52%
0700	Beer Tax	358,000	373,965	15,965	104.46%	0.03%
0710	Cigarette Tax	9,676,000	8,822,721	(853,279)	91.18%	0.81%
0715	Coal Severance Tax	8,854,000	9,283,791	429,791	104.85%	0.85%
0720	Corporation Tax	67,380,000	80,142,416	12,762,416	118.94%	7.35%
0725	Electrical Energy Tax	4,564,000	4,618,433	54,433	101.19%	0.42%
0730	Railroad Car Tax	2,110,000	2,073,619	(36,381)	98.28%	0.19%
0740	Individual Income Tax	472,703,000	483,031,571	10,328,571	102.19%	44.28%
0745	Inheritance Tax	17,679,000	18,301,680	622,680	103.52%	1.68%
0770	Metal Mines Tax	2,869,000	3,305,971	436,971	115.23%	0.30%
0780	Natural Gas Severance Tax	1,100,000	1,024,279	(75,721)	93.12%	0.09%
0795	Oil Severance Tax	6,392,000	6,481,338	89,338	101.40%	0.59%
0815	Public Contractor's Tax	2,573,000	3,320,401	747,401	129.05%	0.30%
081x	Property Tax	205,536,000	201,759,085	(3,776,915)	98.16%	18.50%
0830	Telephone Tax	6,052,000	6,036,769	(15,231)	99.75%	0.55%
0860	Tobacco Tax	1,882,000	1,791,077	(90,923)	95.17%	0.16%
0887	Video Gaming Tax	12,748,000	12,559,098	(188,902)	98.52%	1.15%
0890	Wine Tax	982,000	964,974	(17,026)	98.27%	0.09%
1196	Institution Reimbursements	11,314,000	11,135,977	(178,023)	98.43%	1.02%
1300	TCA Interest Earnings	17,425,000	17,920,344	495,344	102.84%	1.64%
3205	Liquor Excise Tax	6,517,000	6,666,293	149,293	102.29%	0.61%
3207	Liquor Profits	5,582,000	6,000,000	418,000	107.49%	0.55%
3209	Coal Trust Interest Earnings	40,528,000	16,697,583	(23,830,417)	41.20%	1.53%
3210	Interest & Income	41,437,000	41,432,733	(4,267)	99.99%	3.80%
3210	Lottery Profits	5,424,000	6,779,694	1,355,694	124.99%	0.62%
3215	Long Range Bond Excess	456,000	386,244	(69,756)	84.70%	0.04%
4575	U.S. Mineral Leasing	19,039,000	17,650,315	(1,388,685)	92.71%	1.62%
9999	Other Revenue	<u>35,200,000</u>	<u>38,870,237</u>	<u>3,670,237</u>	<u>110.43%</u>	<u>3.56%</u>
	Total Current Year Revenue	\$1,068,111,000	\$1,069,981,501	\$1,870,501	100.18%	98.08%
	Prior Year Adjustments	0	20,897,909	20,897,909		1.92%
	Residual Equity Transfers	<u>2,951,000</u>	<u>60</u>	<u>(2,950,940)</u>	<u>0.00%</u>	<u>0.00%</u>
	Total Revenue	\$1,071,062,000	\$1,090,879,470	\$19,817,470	101.85%	100.00%

₁ House Joint Resolution 2 estimates as adjusted for enacted legislation.

At the end of Table 2, prior year adjustments and residual equity transfers are shown, providing a complete picture of the total revenue flow in the account. When revenues are received by the state, agency personnel have three ways to account for collections on SBAS:

- 1) If the tax or fee remitted by the taxpayer is for the current year tax liability, the revenue recorded as current year collections.
- 2) If the tax or fee is due for the previous years' tax liability, the revenue is recorded as a prior year revenue adjustment. Current and prior year revenue amounts are maintained and reported separately on SBAS.
- 3) The third way revenues are deposited (transferred) to an account is by a transaction called a residual equity transfer. This type of transaction allows an agency to transfer monies from one account to another when the revenue has been previously recorded in the original account.

Table 3 shows aggregate revenue estimates and collections for the general fund account. The 56th Legislature adopted a total fiscal 1999 general fund account revenue estimate of \$1,071.1 million, including anticipated prior year adjustments and residual equity transfers. Total collections were \$1,090.9 million or \$19.8 million (1.9 percent) above the estimated amount.

SBAS Code	Revenue Category	Estimated Receipts	FYE 1999 Receipts	Over (Under) Estimate	Diff. Percent
01100	General Fund Receipts	\$1,068,111,000	\$1,069,981,501	\$1,870,501	0.18%
	Totals Before Adj. & Trsf.	\$1,068,111,000	\$1,069,981,501	\$1,870,501	0.18%
---	Prior Year Adjustments	0	20,897,909	20,897,909	
---	Residual Equity Transfers	<u>2,951,000</u>	<u>60</u>	<u>(2,950,940)</u>	<u>-100.00%</u>
	Totals After Adj. & Trsf.	\$1,071,062,000	\$1,090,879,470	\$19,817,470	1.85%

House Joint Resolution 2 estimates as adjusted for enacted legislation.

Although the actual for total revenues was \$19.8 million above the level budgeted by the 56th Legislature, there are two sources that explain the majority of this unanticipated amount. Individual income taxes exceeded expectations by \$10.3 million and corporation income taxes were \$12.8 million above estimates. As mentioned in the introduction of this report, a more detailed analysis on these revenue trends is currently underway. Individual tax year data for

calendar 1998, which will be available later this fall, will assist in explaining where the unanticipated revenue is coming from. Strong growth in the equity markets and the resulting growth in capital gains income is suspected to be a major contributor to the greater individual income tax revenue collections.

As shown in Tables 2 and 3, the 56th Legislature anticipated there would be two residual equity transfers in fiscal 1999 for a total of \$2.9 million. These transfers were estimated to be \$0.7 million from the coal tax shared account and \$2.2 million from the state auditors' investment license account. In both instances, the legislative auditor (per appropriate accounting principles) directed the respective agency personnel to record these revenues as current year receipts and not as residual equity transfers. This directive had no impact on the ending fund balance and merely increased current year receipts and reduced residual equity transfers. It should be noted that revenues from the coal tax shared account were \$1.6 million more than budgeted.

The 56th Legislature did not include any prior year revenue adjustments in HJR2. Since this type of revenue is the result of uncollected previous years' activity, it would be difficult to estimate and fiscally unsound to include an estimated amount in the state budget. As shown in Tables 2 and 3, however, prior year revenue adjustments were \$20.9 million. Most of this adjustment was due to reduction of fiscal 1999 coal trust interest earnings and a correspondingly increase to prior year receipts. This transaction was the result of an accounting change related to Government Auditing Standards Board (GASB) statement 31. (See Fund Balance Adjustment section for further detail)

Disbursements and Reversions

Table 4 shows general fund account disbursements and reversions for fiscal 1999. General fund disbursements (excluding non-budgeted and prior year activity) were \$21.1 million lower than anticipated. Total reversions including non-budgeted disbursements and prior year expenditure adjustments were \$20.2 million. This means total general fund reversions were \$4.6 million above the budgeted reversion amount of \$15.6 million anticipated by the 56th Legislature.

Table 4
General Fund Account
Disbursements and Reversions
Fiscal 1999

SBAS Code	Category	Budgeted Amount	FYE 1999 Disburse.	Over (Under) Budget	Diff. Percent
01100	General Fund Disbursements	\$1,058,997,000 ¹	\$1,037,930,918	(\$21,066,082)	-1.99%
---	Non-Budgeted Disbursements	0	(29,667)	(29,667)	NA
---	Prior Year Exp. Adjustments	<u>0</u>	<u>891,342</u>	<u>891,342</u>	<u>NA</u>
	Total Disbursements	\$1,058,997,000	\$1,038,792,593	(\$20,204,407)	-1.91%
---	Reversions	(\$15,579,000)	(\$20,204,407)	(\$4,625,407)	

¹ General fund disbursements are before adjustments for budgeted reversions of \$15.6 million. Total reversions were \$20.2 million or \$4.6 million more than budgeted.

Fund Balance Adjustments

During fiscal 1999, there were adjustments to the fund balance, reserve for advances, inventory reserves, and other SBAS to GAAP reconciliation items. In total, these adjustments increased the general fund account ending fund balance by about \$10.2 million (shown in Table 1). A majority of this amount was due to expenditure accrual reversals and the recording of unrealized investment income that is recognized for appreciation or depreciation of the fair market value of investments of non-expendable trust funds.

The recording of unrealized investment income is the result of GASB statement 31. In essence, this statement requires that most investments be reported on a “fair value” basis and that the resulting appreciation/depreciation in the valuation be recognized as a component of investment income. Since all investment income from the permanent coal tax trust fund is deposited in the general fund account, GASB statement 31 had a one-time effect of increasing the general fund balance in fiscal 1999 by about \$10.1 million. This one-time effect should not occur in subsequent years because of the unique accounting entries that were required in fiscal 1999, the implementation year for this statement on SBAS.

This statement also allows for the designation of the fund balance for the portion attributable to unrealized investment income. For example, in fiscal 1998 the designated fund balance was \$29.0 million. Because of the change in interest rates, this designation dropped to \$4.4 million in fiscal 1999. The designated fund balance has not been included in the legislative budgeting process.

Summary

As stated earlier, the preliminary general fund account unreserved, undesignated balance for fiscal 1999 was \$110.5 million, or \$38.5 million above the level anticipated by the 56th Legislature. The reasons for the increase are summarized in Table 5.

Table 5 shows the cause and the associated dollar impact for the general fund balance change by fiscal year. For example, revenue collections were under the legislative estimate by \$6.1 million in fiscal 1997 and over the estimate by \$19.8 million in fiscal 1999. The total change in the general fund balance due to revenue estimate variations was \$24.1 million (including inheritance tax correction) for the three-year period. Correspondingly, the general fund balance for the same period increased by \$24.7 million due to unanticipated reversions and fund balance adjustments.

Explanation of Fund Balance Change	Fiscal 1997	Fiscal 1998	Fiscal 1999
Beginning Balance	\$0.0	\$5.5	\$0.0
Revenue Collections (Actual - Estimated)	(6.1)	6.5	19.8
Disbursements (Budgeted - Actual)	6.9	(3.6)	4.6
Fund Balance Adjustments	4.7	1.9	10.2
Inheritance Tax Correction			3.9
Revenue Events Unknown By 55th Legislature ¹			
Federal Tax Reform		6.5	
Columbia Falls Aluminum Plant Settlement	—	<u>6.0</u>	—
Total Change	\$5.5	\$22.8	\$38.5
¹ Estimated Amounts			

After the preliminary unreserved, undesignated general fund balance was announced, this office received a number of inquires about the makeup and magnitude of the unexpected surplus. Table 6 shows the total unexpected balance and whether the components contributing to the additional balance could be considered one-time or ongoing. As our fiscal analysis work proceeds this fall, the one-time versus ongoing designation could change depending on the results of the analysis. Table 6 shows that of the \$38.5 million in unexpected balance, approximately \$23.7 million could be considered ongoing and \$14.8 million should not occur again.

Table 6
Unexpected General Fund Balance
 In Millions

Explanation of Fund Balance Change	Ongoing	One-Time	Total
Revenue Collections	\$19.8		\$19.8
Reversions		4.6	4.6
Fund Balance Adjustments		10.2	10.2
Inheritance Tax Correction	<u>3.9</u>	—	<u>3.9</u>
Totals	\$23.7	\$14.8	\$38.5

1999 BIENNIUM BUDGET

Table 7 shows the revised 2001 biennium estimated ending fund balance for the general fund account. It should be noted that beginning in fiscal 1996, actual amounts for total revenues and disbursements increase significantly. This change is due to the passage of Senate Bill 83 during the 1995 session, in which revenues and disbursements related to the school equalization aid account are now "de-earmarked" and are included in the general fund account.

The projected general fund ending fund balance for the 2001 biennium (\$90.0 million) is \$38.5 million more than the amount estimated at the end of the 56th legislative session. This balance incorporates actual revenue and disbursement data for fiscal 1999, and includes revenue and expenditure estimates for the 2001 biennium as budgeted by the 56th Legislature. This projected balance is the beginning balance to be used in the General Fund Preliminary Budget Projections for the 2003 biennium.

Table 7
Estimated General Fund Balance
Based on Action By The 56th Legislature (In Millions)

	Actual Fiscal 1998	Actual Fiscal 1999	Estimated Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 98-99	Estimated Fiscal 00-01
Beginning Fund Balance	\$30.315	\$44.309	\$110.467	\$143.001	\$30.315	\$110.467
Receipts						
Estimated Receipts	1,034.382	1,069.982	1,128.363	1,125.835	2,104.364	2,254.198
Legislation Impacts			(5.366)	(24.245)		(29.611)
Total Available	\$1,064.697	\$1,114.291	\$1,233.464	\$1,244.591	\$2,134.679	\$2,335.054
Disbursements						
General Appropriations	985.281	1,019.452	1,033.020	1,035.355	2,004.733	2,068.375
Public School Support						
Language Appropriations						
Pay Plan Appropriations			6.758	15.145		21.903
Statutory Appropriations						
Income Tax Refund						
Property Tax Reimbursement	12.843	12.843	11.559	10.274	25.686	21.833
Debt Service	4.632	9.431	14.053	16.868	14.063	30.921
TRANS Interest	3.897	1.625	2.435	2.479	5.522	4.914
District Court Reimbursement						
Depository Banking Services	0.737	0.797	0.737	0.737	1.534	1.474
Disaster/Emergency	0.369	0.720			1.089	
Cash Management	0.055	0.078	0.055	0.055	0.133	0.110
State Lands Equalization Payments	0.551	0.561	0.570	0.579	1.112	1.149
GABA Local Government	0.301	0.344	0.962	1.006	0.645	1.968
Police & Firemen Retirement	11.384	12.000	12.010	12.650	23.384	24.660
Highway Patrol Retirement	0.281	0.284	0.281	0.281	0.565	0.562
Miscellaneous Appropriations			3.372	0.421		3.793
Local Assistance Appropriations			17.880	54.934		72.814
Supplementals						
Feed Bill				5.438		5.438
Reversions	0.260	(20.204)	(1.573)	(1.562)	(19.944)	(3.135)
Anticipated Disbursements	\$1,020.591	\$1,037.931	\$1,102.119	\$1,154.660	\$2,058.522	\$2,256.779
Adjustments	(2.233)	34.107	9.931		31.874	9.931
Residual Equity Transfer	2.436		1.725	0.115	2.436	1.840
Ending Fund Balance	<u>\$44.309</u>	<u>\$110.467</u>	<u>\$143.001</u>	<u>\$90.046</u>	<u>\$110.467</u>	<u>\$90.046</u>