

2017 BIENNIUM BUDGET STATUS REPORT

A Report Prepared for the
Legislative Finance Committee

By
Legislative Fiscal Division Staff

December 6, 2016

GENERAL FUND BALANCE SHEET

Please refer to Volume 1 Preliminary 2019 Budget Analysis for balance sheet information.

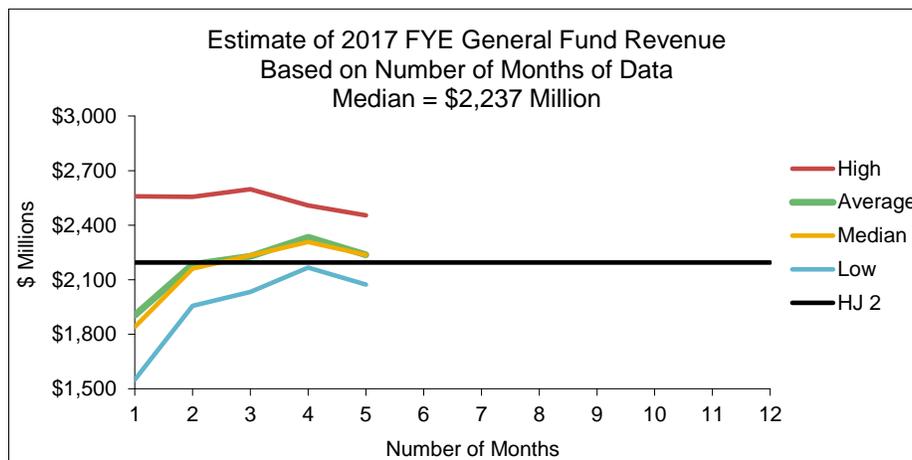
GENERAL FUND REVENUE

Fiscal year 2017 general fund revenues through the end of November are \$7.1 million or 0.9% ahead of FY 2016 revenues through the same period; this increase is below the anticipated growth of 3.4%. The growth in revenue is somewhat inflated due to a posting error of \$5.8 million in individual income tax which has already been reversed. Adjusting for the error produces a year-to-date growth of \$1.3 million or 0.2%. Note that YTD comparisons to FY 2016 will likely have lower growth rates than HJ 2 due to the odd collection patterns of FY 2016. By the end of February, relative growth should be in line with HJ 2 expectations.

Most of the other unusual differences relative to last year are due to timing or accounting differences, and do not reflect changes in revenue collections compared to the official revenue estimate contained in HJ 2. Monthly revenue collection reports will be provided throughout the legislative session which will highlight potential differences, if any, in expected revenue collections.

Year-to-Date Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2017 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. Note that an adjustment has been made for the individual income tax posting error discussed later in this report. The results are shown in the graph below. Based on collections through the end of November, the difference between the high and low amounts is about \$381 million, with the average and median values above the HJ 2 estimate.



Potential total general fund collections range from a low of \$2,073 million to a high of \$2,454 million, with median and average values of \$2,237 million. The FY 2017 forecast for total general fund in HJ 2 is \$2,194 million.

The table on the following page is the general fund revenue monitoring report.

General Fund Revenue Monitoring Report
(\$ Millions)

Revenue Source	Actual FY 2016	HJ 2 Est. FY 2017	HJ 2 Est. % Change	YTD FY 2016	YTD FY 2017	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,184.828	\$1,219.776	2.9%	\$553.784	\$563.045	\$9.261	1.7%
Property Tax	257.100	260.150	1.2%	8.320	9.459	1.138	13.7%
Corporation Tax	118.387	140.308	18.5%	46.536	45.865	(0.670)	-1.4%
Vehicle Taxes & Fees	108.480	109.200	0.7%	38.838	31.147	(7.691)	-19.8%
Oil & Natural Gas Taxes	39.083	44.821	14.7%	-	-	-	
Insurance Tax	69.255	71.102	2.7%	14.524	17.962	3.438	23.7%
Video Gaming Tax	60.554	62.522	3.3%	15.252	14.900	(0.352)	-2.3%
Other Business Taxes							
Drivers License Fee	4.345	4.539	4.5%	1.894	1.231	(0.663)	-35.0%
Investment Licenses	7.212	7.433	3.1%	0.623	0.694	0.072	11.5%
Lodging Facilities Sales Tax	21.493	22.978	6.9%	9.742	9.226	(0.516)	-5.3%
Public Contractor's Tax	2.397	2.510	4.7%	2.102	2.367	0.264	12.6%
Railroad Car Tax	3.594	3.437	-4.4%	2.375	2.130	(0.245)	-10.3%
Rental Car Sales Tax	3.878	3.282	-15.4%	1.987	1.391	(0.596)	-30.0%
Retail Telecom Excise Tax	16.775	16.165	-3.6%	4.233	3.818	(0.415)	-9.8%
Other Natural Resource Taxes							
Coal Severance Tax	14.236	13.225	-7.1%	4.366	5.795	1.429	32.7%
Electrical Energy Tax	4.536	4.595	1.3%	1.192	1.167	(0.025)	-2.1%
Metal Mines Tax	4.221	4.129	-2.2%	0.000	(0.103)	(0.103)	-219946.3%
U.S. Mineral Leasing	16.759	19.610	17.0%	7.830	4.486	(3.344)	-42.7%
Wholesale Energy Trans Tax	3.516	3.502	-0.4%	0.913	0.915	0.002	0.2%
Other Interest Earnings							
Coal Trust Interest Earnings	20.722	19.893	-4.0%	4.218	7.457	3.238	76.8%
TCA Interest Earnings	3.961	5.802	46.5%	1.078	1.773	0.695	64.5%
Other Consumption Taxes							
Beer Tax	3.027	3.029	0.0%	1.117	1.071	(0.047)	-4.2%
Cigarette Tax	31.103	30.980	-0.4%	12.706	11.819	(0.887)	-7.0%
Liquor Excise Tax	19.776	20.596	4.1%	6.648	6.873	0.226	3.4%
Liquor Profits	11.000	11.777	7.1%	-	-	-	
Lottery Profits	11.963	11.549	-3.5%	-	0.400	0.400	
Tobacco Tax	6.184	6.329	2.4%	2.219	2.243	0.025	1.1%
Wine Tax	2.373	2.412	1.6%	0.825	0.848	0.023	2.8%
Other Sources							
All Other Revenue	41.420	42.518	2.7%	13.767	15.606	1.839	13.4%
Highway Patrol Fines	4.040	4.187	3.6%	1.344	1.351	0.007	0.5%
Nursing Facilities Fee	4.764	4.526	-5.0%	1.183	1.124	(0.059)	-5.0%
Public Institution Reimbursement	16.910	14.083	-16.7%	0.502	1.129	0.628	125.1%
Tobacco Settlement	<u>3.394</u>	<u>3.371</u>	-0.7%	<u>-</u>	<u>0.010</u>	<u>0.010</u>	
Largest Seven Subtotal	1,837.687	1,907.880	3.8%	677.254	682.378	5.124	0.8%
Remaining Sources Subtotal	283.601	286.457	1.0%	82.864	84.821	1.957	2.4%
Grand Total	\$2,121.288	\$2,194.337	3.4%	\$760.118	\$767.198	\$7.081	0.9%

Individual Income Tax: Slow Growth Due to Decline in Estimated Payments

Individual income tax collections through the end of November are \$9.3 million or 1.7% above the year-to-date collections in FY 2016. The decline in estimated payments likely reflects the lower CY 2015 capital gains income relative to CY 2014. There was a payment of \$5.8 million that was mistakenly posted to the mineral royalties withholding account that should have been posted to the oil and natural gas clearing account. Accounting for this correction in the table below would result in mineral royalties decline of 25.4%, and total growth of \$3.5 million or 0.6% above this time last year.

Individual Income Tax (\$ Millions)				
	YTD 2017	YTD 2016	\$ Difference	% Difference
Withholding	\$351.1	\$336.4	\$14.6	4.4%
Estimated Payments	98.7	107.6	(8.9)	-8.3%
Current Year Payments	18.8	18.0	0.8	4.5%
Audit, P&I, Amended	11.5	15.4	(3.8)	-25.0%
Refunds	(71.3)	(70.3)	(1.0)	1.4%
Refund Accrual Reversal	143.0	140.0	2.9	2.1%
Partnership Income Tax	3.4	3.8	(0.4)	-11.6%
Mineral Royalties	7.9	2.8	5.1	178.8%
Total	\$563.0	\$553.8	\$9.3	1.7%

Property Tax: Know More by End of January

Property tax collections are above last year by \$1.1 million or 13.7%. Fall property tax payments are due by the end of November, and are remitted to the state in December and January; the report at the end of January will be able to give more clarity to the year-to-date position of property tax revenue.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of November are nearly identical to collections at this time in FY 2016. Lower estimated in payments in FY 2017 have been partially offset by higher audits as shown in the table below.

Corporation Income Tax (\$ Millions)				
Account	YTD 2017	YTD 2016	\$ Difference	% Difference
Corporation Tax	\$10.1	\$7.0	\$3.1	44.4%
Estimated Payments	31.1	39.1	(8.0)	-20.5%
Refunds	(4.8)	(5.6)	0.8	-15.1%
Refund Accrual Reversal	3.8	4.3	(0.5)	-12.1%
Audit, P&I, Amended	5.7	1.8	3.9	215.8%
Total	\$45.9	\$46.5	(\$0.7)	-1.4%

Vehicle Fees & Taxes: Below Estimate, Likely Due to Timing

Five months into FY 2017, vehicle taxes and fees are 19.8% or \$7.7 million below collections last year at this time. The decrease is likely due to timing, as November light vehicle registrations in FY 2017 were less than half of the collections in November of FY 2016.

Oil & Natural Gas Production Tax: No Data, But Likely near Last Year's Levels

Oil and natural gas production tax collections show zero through November. This is expected due to the statutory requirement of when taxes are due and the time allowed for the Department of Revenue to determine the distribution of taxes to local governments. Known price data suggests that

collections for the first quarter of FY 2017 will be slightly below levels in FY 2016. Forecasts suggest that there will be slightly more taxable production to offset this small decrease in price.

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$0.4 million or 2.3% below collections from last year.

Insurance Tax: Increased Collections Appears to be Due to Growth & Timing

Current insurance tax collections are 23.7% or \$3.4 million above FY 2016 through November. About half of the increase is from the premiums insurance account, in which collections are growing—5.2% over FY 2016 through the first quarter—although there may be a timing issue in the posting of second quarter payments that is causing an appearance of higher growth. The other half of the increase is due to two large monthly collections in fire marshal taxes; this account typically doesn't receive significant revenue until after January. Research is ongoing with the State Auditor's Office to determine whether the timing change is temporary or ongoing.

Coal Severance Tax: Strong Growth Due to Large Audit

Coal severance tax revenue is \$1.4 million or 32.7% above year-to-date collections in FY 2016. Large audit collections are responsible for the year-over-year increase, as total collections excluding the audit are slightly below last year.

U.S. Mineral Royalties: Below Estimate, Likely Due to Timing

U.S. mineral royalties are down 42.7% or \$3.3 million compared to FY 2016 levels at this time. Mineral royalty payments can be sporadic, so this could be a timing issue, as currently there is no November payment in the accounting system.

Coal Trust Interest Earnings: Above Estimate, Due to Timing

To date, coal trust interest earnings are \$3.2 million or 76.8% above collections from one year ago. This large year-to-date increase is primarily due to timing, with the actual increase likely closer to \$1.0 million.

All Other Revenue: Increased Collections Primarily Due to HELP Act Premiums

To date, all other revenue collections are 13.4% or \$1.8 million above last year's collections. The increase is driven by premium collections that resulted from the passage of SB 405 (HELP Act) in the 2015 legislative session. At this time last year, these premiums had not yet been collected.

BUDGET AND EXPENDITURES

FY 2017 APPROPRIATIONS AND EXPENDITURES

This portion of the report discusses the FY 2017 appropriations and related expenditures by budget section including:

- Modifications to FY 2017 that have been made to the HB 2 FY 2017 budget between July 1, 2016 and November 30, 2016
- Expenditure and spending patterns relative to FY 2017 appropriations
- Non-budgeted proprietary funds
- Statutory appropriations
- Budget amendments
- Carry forward authority
- Other appropriation authority granted to state agencies

As used in the report the following definitions apply:

Allocated Budget – HB 2 appropriations provided by the legislature including allocations of appropriation authority between state agencies made by the executive in accordance with legislative intent as directed in HB 2 and companion legislation. Allocated budgets include pay plan distributions and transfers of contingency funds to various state agencies. Changes that do not modify the legislative budget by first level expenditure or funding category are also included.

Modified Budget – HB 2 allocated budget as modified by the Executive, Legislative, or Judicial Branch for transfer of authority between programs, changes between expenditure categories, or transfer of appropriation authority and FTE to restructure agency functions. Statute provides for the Executive, Legislative, and Judicial Branches to make these types of budget modifications when the legislature is not in session.

The LFD has developed a guide to the transactions included in each budget type. LFD staff included a detailed discussion on transfers of agency pay plan distributions and allocation of contingency funds in the 2017 Biennium Budget Status Report provided in December 2015 to the LFC.

Modifications for reorganizations, program transfers, and operating plan changes that occurred between July 1 and November 30, 2016 are included. These modifications establish the modified budget used to compare budgeted appropriations to actual fiscal year expenditures and to determine the remaining, unspent budget authority. Note that for the purposes of this report:

- Appropriations provided as one-time-only are included as part of total appropriations and expenditure
- Unspent authority from FY 2016 that was designated as biennial is included as part of the total FY 2017 budget

Typically, through November 30 of each year personal service costs for the first 10 pay periods and five months of other costs are normally what has been disbursed at this point in the fiscal year, leaving between 61.6% and 58.3% respectively in remaining authority.

To provide a more complete picture of agency resources, Appendix B summarizes appropriation authority provided through non-budgeted proprietary funds, statutory appropriations, budget amendments, and carry forward authority. It should be noted that budget amendments and carry forward authority that have been “continued” from a previous fiscal year are included along with Long-Range Building and Information Technology Program projects approved by previous legislatures under continuing appropriations.

Required Reports and Budget Amendments

The LFC receives a number of reports from various state agencies including:

- Budget amendments increasing agency appropriations for state or federal special revenues or proprietary funds between July 1 and November 30, 2016. Details on budget amendments and a summary of changes are provided in Appendix C
- Operating plan changes and program transfers meeting requirements for LFC review received July 1 – November 30, 2016. A memorandum received from the Office of Budget and Program Planning outlining these proposed changes is included in Appendix D
- Other agency reports statutorily required to be provided to the LFC. Included in the required reports section of the meeting materials on the LFC webpage

LFC Review

Staff reviewed budget amendments, operating plan changes, and program transfers and have raised no concerns with transactions meeting statutory criteria. The LFC may wish to comment on the transactions during its review and discussion of the FY 2017 Budget Status Report.

FY 2017 HB 2 BUDGET CHANGES

For the FY 2017 budget the executive allocated \$39.0 million for the pay plan, \$5.7 million for personal services base contingency, and \$10.7 million for contingency base funding to the various state agencies at the beginning of the 2017 biennium.

In addition conditional language, HB 2 language, and other legislation impacted the 2017 budget including:

- Movement of \$5.0 million for sage grouse management included in HB 2 as it was also appropriated in SB 261 within the Department of Natural Resources and Conservation
- Reduction of \$999,190 of general fund in HB 2 appropriations for the Department of Public Health and Human Services as \$1.0 million in general fund was appropriated for the same purpose in HB 33. The \$1.0 million appropriation is required to be added to the base budget for the 2019 biennium
- An additional \$0.5 million in general fund for the Department of Public Health and Human Services (DPHHS) as language increased the funding if HB 305 failed
- Reduction of \$1.2 million in general fund in the Office of Public Instruction due to the passage and approval of SB 157
- An additional \$0.3 million in general fund for the Department of Revenue due to the passage of SB 405
- Reduction of \$2.8 million in general fund for the Department of Public Health and Human Services related to the closing of the Montana Developmental Center required in SB 411
- An additional \$1.7 million in state special revenue for the Department of Justice as the funding was contingent on the passage and approval of HB 628

Language appropriations that are reflected in the other change categories in Appendix A include:

- \$147.0 million in proprietary funds for Department of Revenue
- \$0.3 million in for the Department of Revenue
- \$0.9 million in state special revenue for DPHHS
- \$0.2 million in federal special revenue for DPHHS

Seven state agencies either consolidated biennial appropriations or transferred funding between fiscal years. The following chart shows the changes in the FY 2017 funding as a result of the transfers.

Fiscal Transfers FY 2017				
State Agency	General Fund	State Special	Federal Special	Total
Department of Labor and Industry	\$0	\$899,690	\$0	\$899,690
Department of Fish, Wildlife, and Parks	0	(210,000)	0	(210,000)
Department of Justice	(150,000)	0	0	(150,000)
Office of the Public Defender	(600,000)	0	0	(600,000)
Department of Corrections	(2,000,000)	0	0	(2,000,000)
Office of Public Instruction	(3,500,000)	0	0	(3,500,000)
Commissioner of Higher Education	(7,600,000)	(100,000)	(2,300,000)	(10,000,000)
Total Fiscal Transfers	(\$13,850,000)	\$589,690	(\$2,300,000)	(\$15,560,310)

Other changes such as program transfers or operating plan changes are reflect by agency and program in Appendix A.

HB 2 GENERAL FUND BY AGENCY

The following table illustrates the budgeted and actual expenditures of general fund for HB 2 through November 30, 2016. The budgeted number reflects the November modified budget, as previously discussed. A summary of budgetary changes by section, agency, and program can be found in Appendix A.

Comparison of Modified Budget to Year to Date Expenditures				
FY 2017				
HB 2 - General Fund Only				
	Modified Budget	Actuals and Accruals	Budget Remaining	% Expended
General Government				
11040 Legislative Branch	\$14,041,981	\$4,952,481	\$9,089,500	35.3%
31010 Governor's Office	7,343,278	2,464,726	4,878,551	33.6%
32020 Commissioner of Political Practices	693,636	206,643	486,992	29.8%
58010 Department of Revenue	56,014,962	20,248,757	35,766,204	36.1%
61010 Department of Administration	7,835,023	2,635,303	5,199,720	33.6%
65010 Department of Commerce	7,478,738	2,707,914	4,770,824	36.2%
66020 Department of Labor and Industry	1,940,776	761,384	1,179,392	39.2%
67010 Department of Military Affairs	<u>6,663,330</u>	<u>2,349,894</u>	<u>4,313,436</u>	<u>35.3%</u>
Subtotal General Government	102,011,723	36,327,104	65,684,619	35.6%
Health and Human Services				
69010 Department of Public Health & Human Services	<u>523,829,919</u>	<u>192,470,506</u>	<u>331,359,413</u>	<u>36.7%</u>
Subtotal Health and Human Services	523,829,919	192,470,506	331,359,413	36.7%
Natural Resources and Transportation				
52010 Department of Fish, Wildlife, and Parks	974,000	459,042	514,958	47.1%
53010 Department of Environmental Quality	5,946,019	1,781,448	4,164,571	30.0%
56030 Department of Livestock	2,763,068	615,098	2,147,970	22.3%
57060 Department of Natural Resources & Conservation	30,507,448	14,014,451	16,492,996	45.9%
62010 Department of Agriculture	<u>977,548</u>	<u>322,463</u>	<u>655,085</u>	<u>33.0%</u>
Subtotal Natural Resources and Transportation	41,168,083	17,192,503	23,975,581	41.8%
Judicial Branch, Law Enforcement, and Justice				
21100 Judicial Branch	49,361,725	16,571,948	32,789,778	33.6%
41070 Crime Control Division	2,513,078	993,761	1,519,317	39.5%
41100 Department of Justice	35,841,937	12,103,657	23,738,280	33.8%
61080 Office of the Public Defender	35,040,418	13,109,524	21,930,895	37.4%
64010 Department of Corrections	<u>201,211,937</u>	<u>71,774,834</u>	<u>129,437,103</u>	<u>35.7%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	323,969,096	114,553,723	209,415,373	35.4%
Education				
35010 Office of Public Instruction	797,265,085	328,404,087	468,860,998	41.2%
51010 Board of Public Education	187,381	10,350	177,031	5.5%
51020 Office of the Commissioner of Higher Education	232,318,850	99,130,848	133,188,001	42.7%
51130 School for the Deaf and Blind	7,260,778	2,542,173	4,718,605	35.0%
51140 Montana Arts Council	542,039	344,393	197,646	63.5%
51150 Montana State Library	3,111,173	1,228,922	1,882,250	39.5%
51170 Montana Historical Society	<u>3,562,113</u>	<u>1,398,410</u>	<u>2,163,703</u>	<u>39.3%</u>
Subtotal Education	1,044,247,418	433,059,183	611,188,235	41.5%
Grand Total	\$2,035,226,239	\$793,603,018	\$1,241,623,221	39.0%

FY 2017 Supplemental Requests

The executive estimates that three state agencies will require supplemental appropriation authority from the general fund in FY 2017 including:

- Office of Public Instruction - \$16.5 million
- Department of Corrections - \$3.1 million
- Commissioner of Higher Education - \$0.4 million

Further information on this can be found in Volume 1.

Statutory Appropriations

On November 30, 2016 Governor Bullock declared an invasive species emergency exists in Montana due to the discovery of zebra and quagga mussels detected in Montana waters. The declaration allows the Governor to spend from the \$16.0 million general fund statutory appropriation for emergencies. As of the end of November the unspent balance in the appropriation was \$15.2 million.

HB 2 STATE RESOURCES BY AGENCY

The following table illustrates the budgeted and actual FY 2017 expenditures for all state resources appropriated to state agencies through HB 2. This includes general fund, state and federal special revenue, and budgeted proprietary funds.

The table on the following page shows a comparison of the modified budget to year-to-date expenditures:

Comparison of Modified Budget to Year to Date Expenditures
FY 2017
HB 2 - State Resources

	FY 2017			
	Modified Budget	Actuals and Accruals	Budget Remaining	% Expended
General Government				
11040 Legislative Branch	\$16,597,674	\$5,484,008	\$11,113,666	33.0%
11120 Consumer Counsel	1,733,284	347,856	1,385,428	20.1%
31010 Governor's Office	8,071,043	2,464,726	5,606,316	30.5%
32010 Secretary of State	105,000	34,325	70,675	32.7%
32020 Commissioner of Political Practices	693,636	206,643	486,992	29.8%
34010 State Auditor's Office	8,644,559	3,007,427	5,637,132	34.8%
58010 Department of Revenue	205,693,570	58,596,724	147,096,846	28.5%
61010 Department of Administration	22,522,987	6,636,284	15,886,702	29.5%
65010 Department of Commerce	33,646,092	4,879,408	28,766,684	14.5%
66020 Department of Labor and Industry	87,160,267	26,496,857	60,663,410	30.4%
67010 Department of Military Affairs	<u>49,682,347</u>	<u>12,771,933</u>	<u>36,910,414</u>	<u>25.7%</u>
Subtotal General Government	434,550,457	120,926,192	313,624,265	27.8%
Health and Human Services				
69010 Department of Public Health & Human Services	<u>2,182,931,804</u>	<u>654,718,627</u>	<u>1,528,213,177</u>	<u>30.0%</u>
Subtotal Health and Human Services	2,182,931,804	654,718,627	1,528,213,177	30.0%
Natural Resources and Transportation				
52010 Department of Fish, Wildlife, and Parks	85,294,590	26,998,782	58,295,808	31.7%
53010 Department of Environmental Quality	67,564,384	20,764,537	46,799,847	30.7%
54010 Department of Transportation	728,790,756	254,509,683	474,281,073	34.9%
56030 Department of Livestock	13,394,403	4,291,718	9,102,685	32.0%
57060 Department of Natural Resources & Conservation	74,979,763	23,825,834	51,153,929	31.8%
62010 Department of Agriculture	<u>18,118,331</u>	<u>4,870,696</u>	<u>13,247,636</u>	<u>26.9%</u>
Subtotal Natural Resources and Transportation	988,142,227	335,261,250	652,880,977	33.9%
Judicial Branch, Law Enforcement, and Justice				
21100 Judicial Branch	51,309,794	17,159,619	34,150,176	33.4%
41070 Crime Control Division	12,020,121	2,382,387	9,637,734	19.8%
41100 Department of Justice	101,400,301	35,463,209	65,937,093	35.0%
42010 Public Service Commission	4,116,838	1,411,302	2,705,536	34.3%
61080 Office of the Public Defender	35,314,344	13,181,710	22,132,634	37.3%
64010 Department of Corrections	<u>206,038,655</u>	<u>73,233,248</u>	<u>132,805,407</u>	<u>35.5%</u>
Subtotal Judicial Branch, Law Enforcement, and Justice	410,200,054	142,831,474	267,368,580	34.8%
Education				
35010 Office of Public Instruction	985,801,459	371,552,515	614,248,943	37.7%
51010 Board of Public Education	366,588	127,049	239,539	34.7%
51020 Office of the Commissioner of Higher Education	347,835,831	115,741,108	232,094,723	33.3%
51130 School for the Deaf and Blind	7,589,622	2,586,670	5,002,953	34.1%
51140 Montana Arts Council	1,473,570	845,316	628,255	57.4%
51150 Montana State Library	6,027,067	2,241,008	3,786,058	37.2%
51170 Montana Historical Society	<u>5,811,933</u>	<u>2,237,708</u>	<u>3,574,225</u>	<u>38.5%</u>
Subtotal Education	1,354,906,069	495,331,374	859,574,695	36.6%
Grand Total	\$5,370,730,611	\$1,749,068,917	\$3,621,661,694	32.6%