



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

Financial Aspects to Consider

Ending fund balance:

Ending fund balance is the amount of fund balance at the end of the year. This is accrual accounting, meaning that at the end of the fiscal year the full expenditures obligated for the year and the revenues attributed to the fiscal year are included. At the end of the fiscal year, in recent years, the ending fund balance is typically lower than cash by \$20 to \$60 million.

Structural balance:

Structural balance is the ongoing revenue compared to the ongoing expenditures by fiscal year. This is important for the long term viability of base program funding in state government.

Cash flow and short term borrowing:

Cash flow is the change in cash balance over the course of the fiscal year. In the past 14 years, Montana has had high fund/cash general fund balances, so no cash flow short term borrowing was necessary. Currently, cash/fund balances are lower and Montana is anticipated to need a cash flow loan. Cash flow short term borrowing can come from either internal to state government funds called inter-entity borrowing, or from the market called Tax and Revenue Anticipation Notes or TRANS. Most businesses and governments get cash flow loans through some portion of their seasonal revenues and expenditures.

Expenditure Pressure:

Since the legislative session, there is more pressure for higher expenditures than anticipated during the legislative session. Expenditure pressure may lead to short falls in appropriation authority or cause higher than anticipated statutory appropriations.

Potential Appropriation Shortfall:

Only the legislature can appropriate. Appropriations must be used for the purpose that the appropriation was given by the legislature. If additional funding is required, such as for fires and no statutory appropriation exists, the legislature will need to appropriate funds. In most cases, appropriation shortfalls can be approved in the next legislative session. In rare circumstances, when all available appropriation authority is spent the legislature may need to be called into a special session to appropriate funds. The most common cause of this type of special session is for wildfire funding.

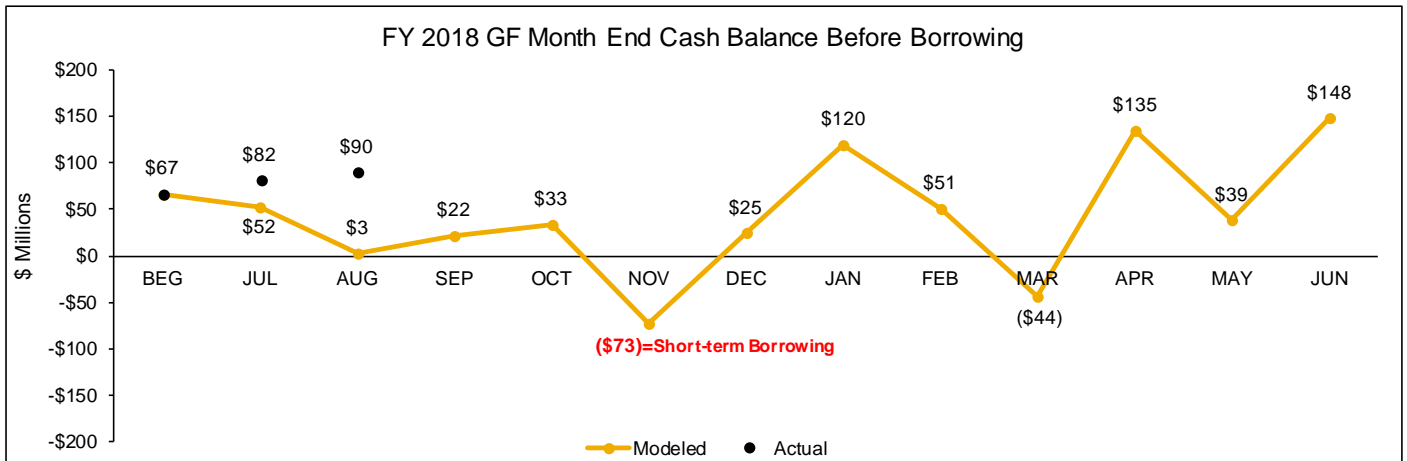
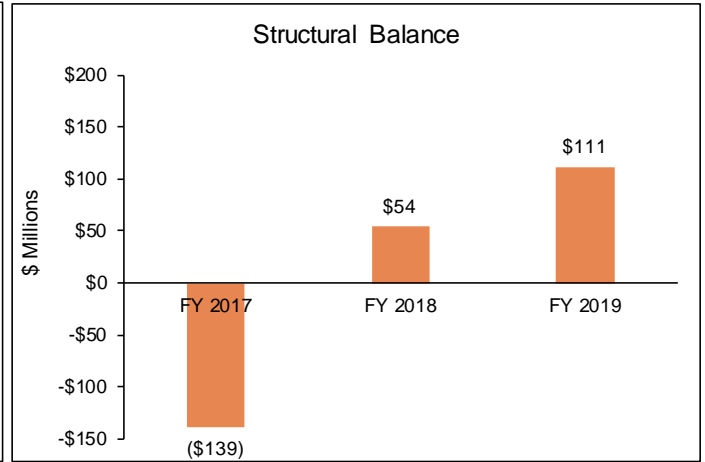
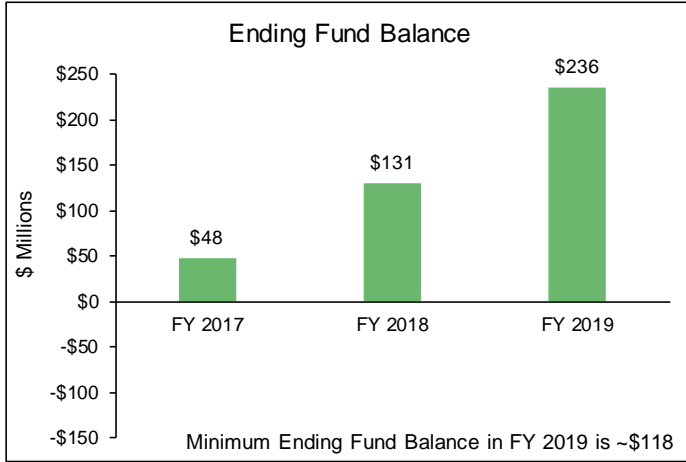
Assumptions in Financial Analysis

The assumptions used in the Financial Analysis cause substantial variation in the results.

The following five scenarios illustrate these variations.

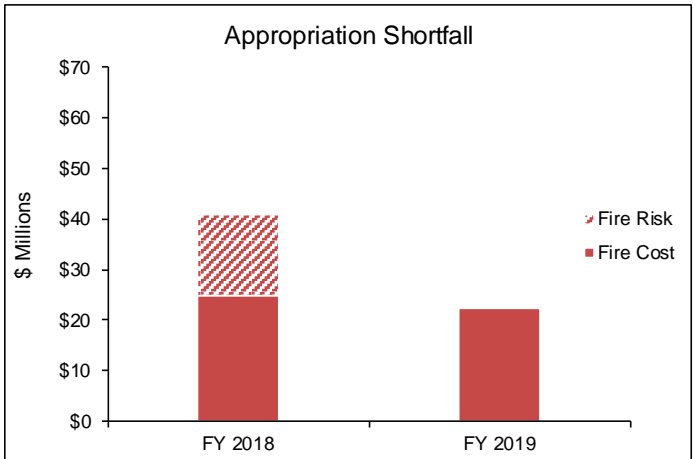
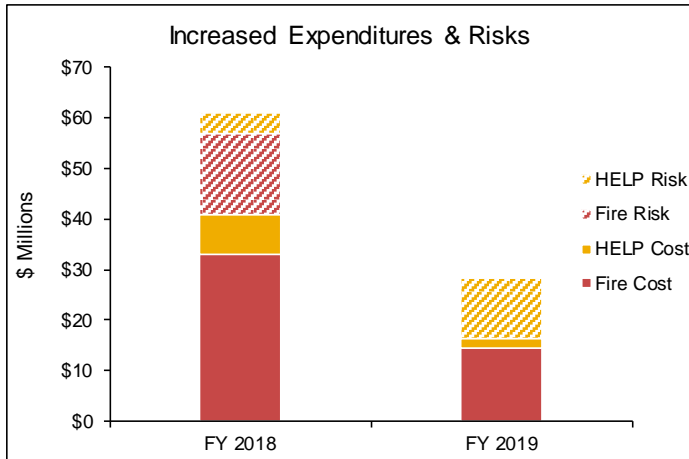
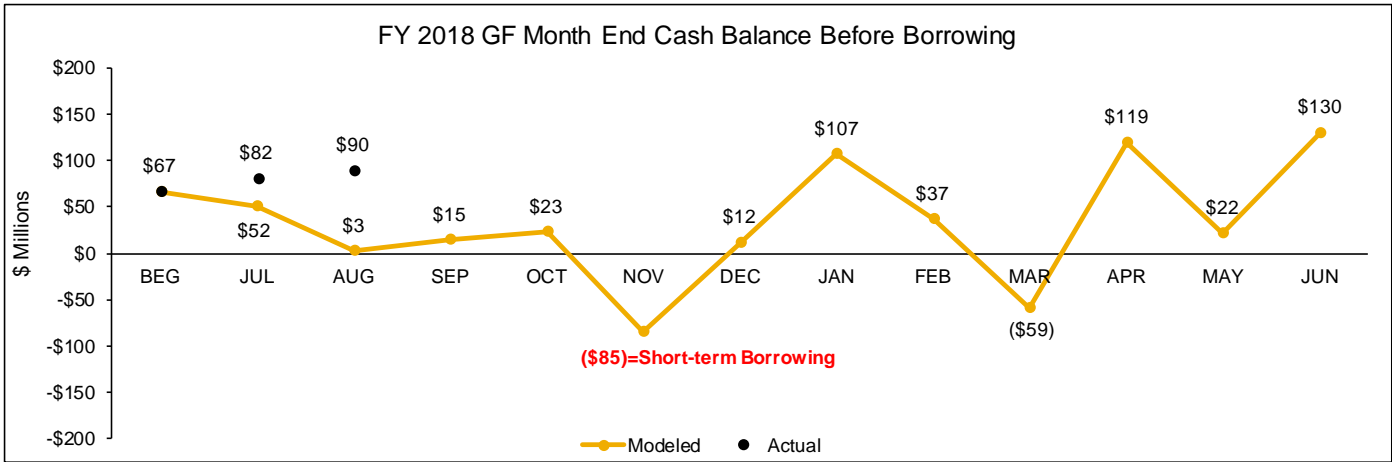
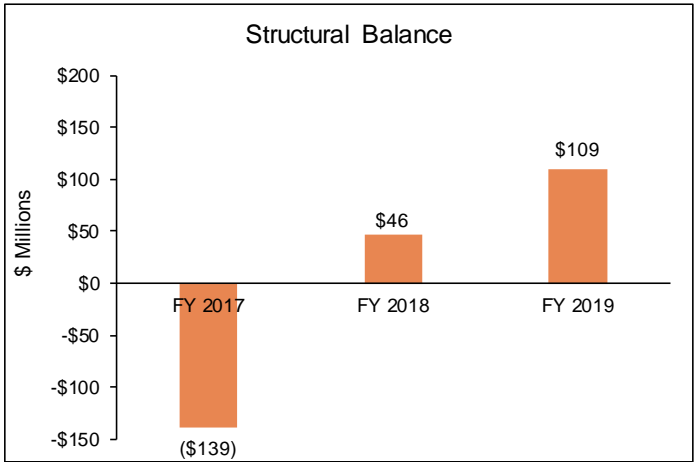
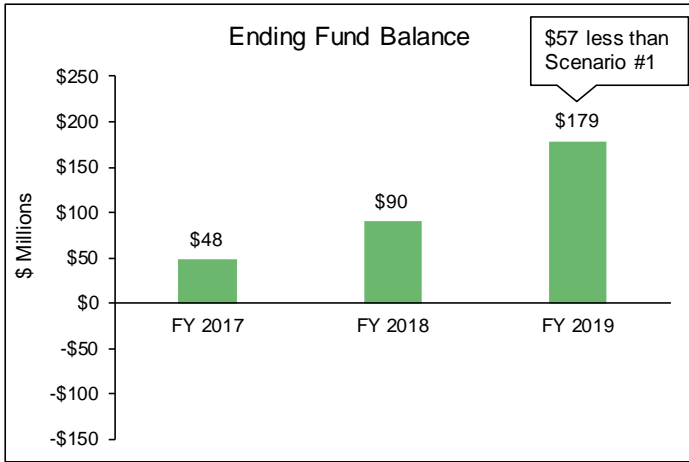
Scenario Highlights

- Incorporates FY 2017 actual revenues and expenditures
- Assumes 2019 biennium adjustments, with SB 261 implemented
- Assumes 2019 biennium revenues in HJ 2, adjusted for enacted legislation



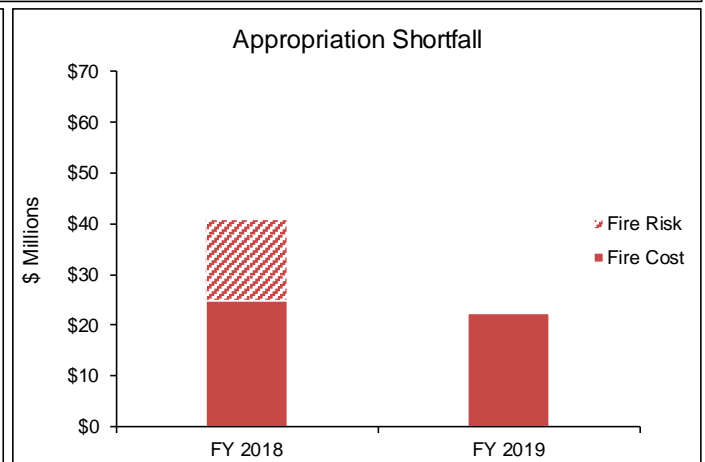
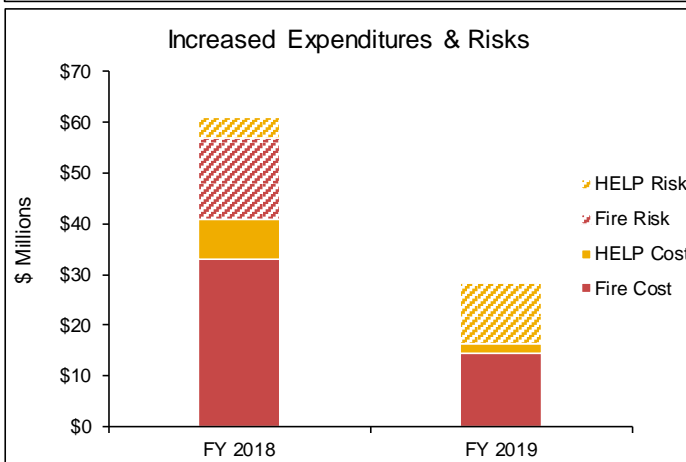
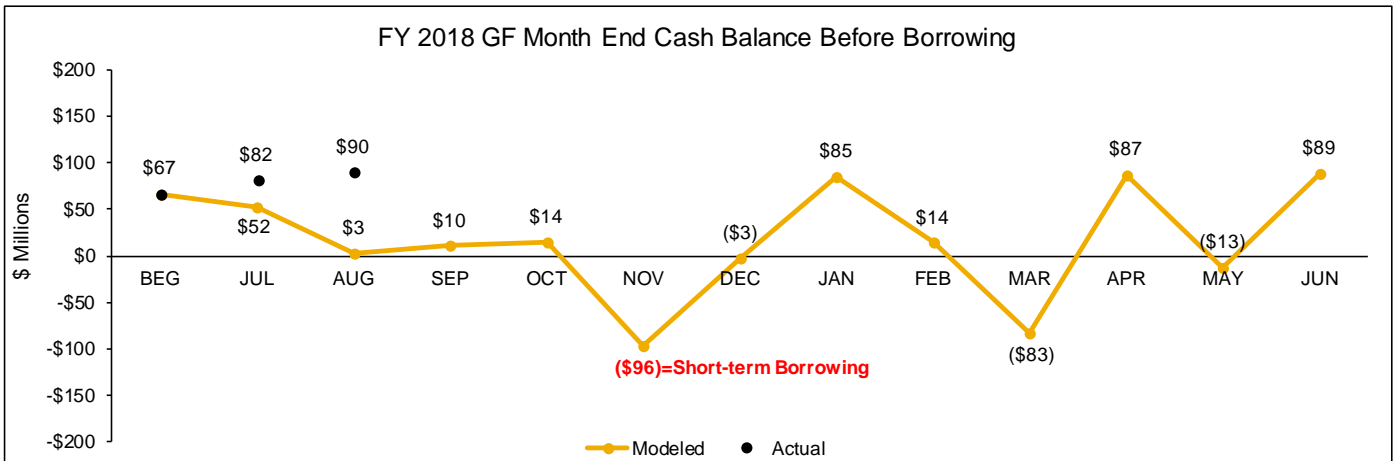
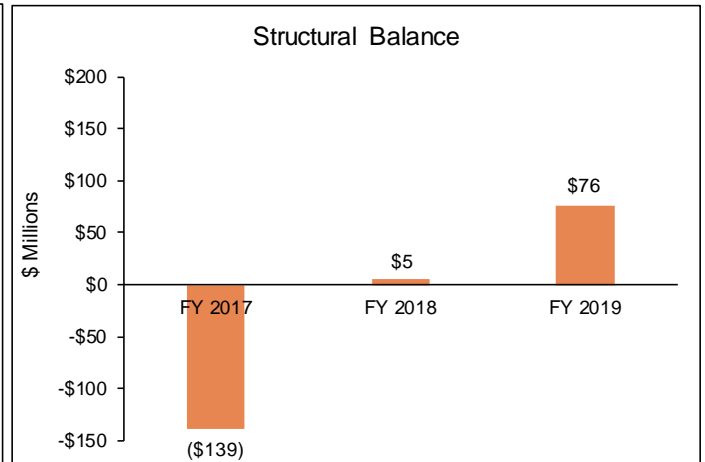
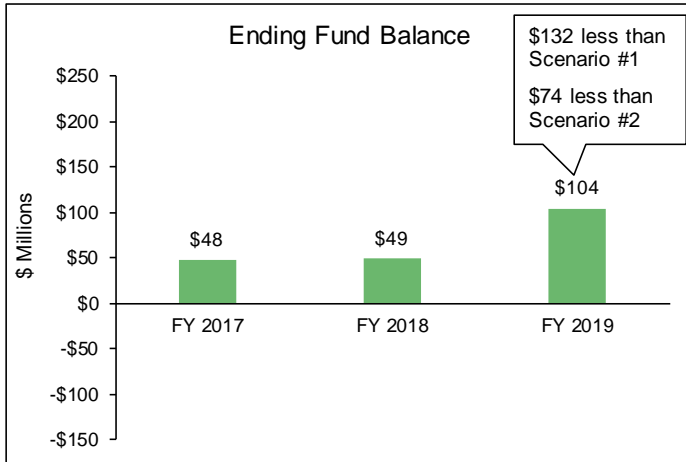
Scenario Highlights

- Scenario #1 plus additional 2019 biennium general fund costs
 - DNRC fire costs of \$70.3 million in FY 2018 & \$22.5 in FY 2019; see fire handout for details
 - HELP Act: \$9.8 million total: \$7.8 million FY 2018 and \$2 million in FY 2019
- Note expenditure assumptions are \$18.9 million higher than the executive balance sheet (08/30/2017): \$7.5 fires; \$11.4 other



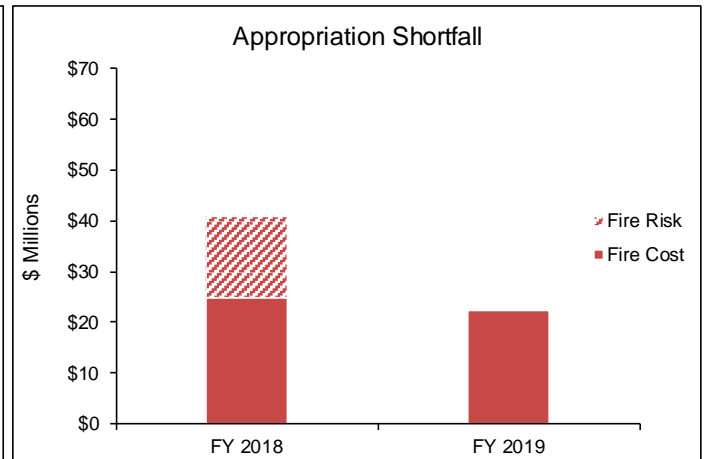
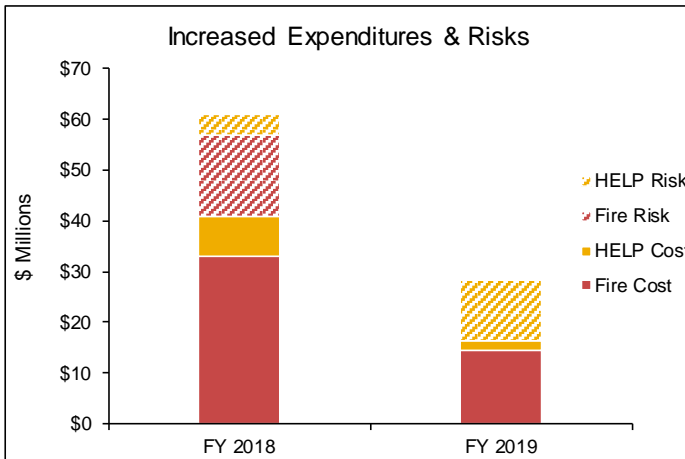
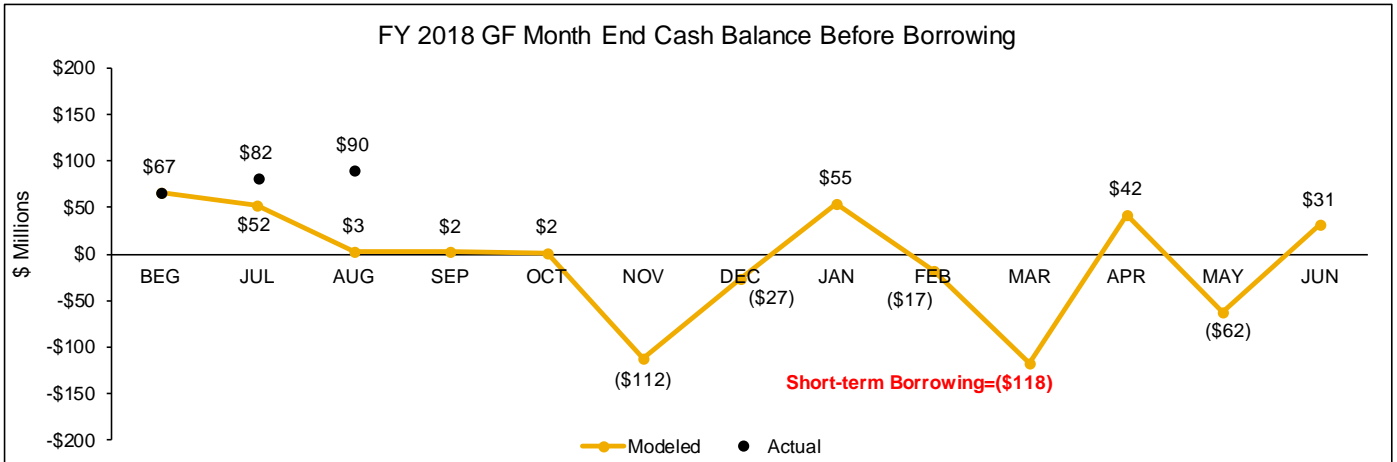
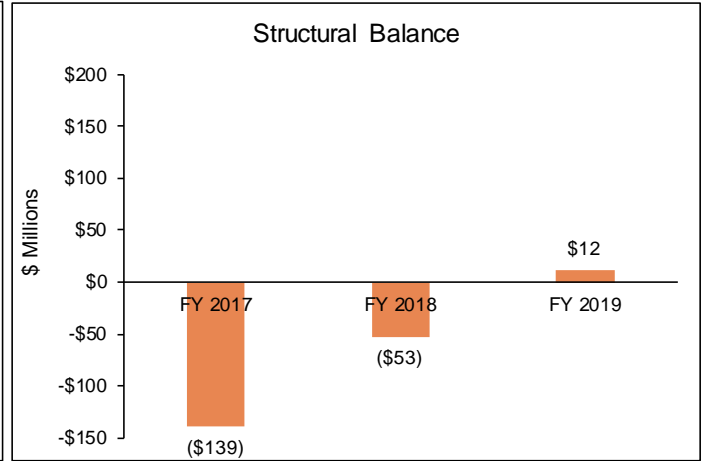
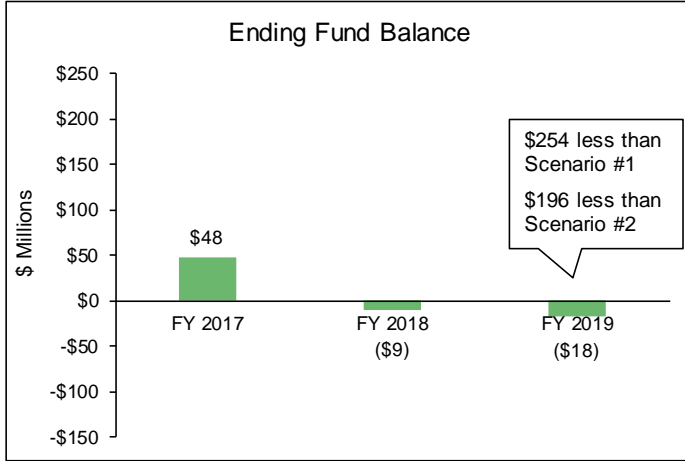
Scenario Highlights

- Expenditures same as Scenario #2 of 5
- Assumes 2019 biennium assumptions in HJ 2 with August economic updated data from IHS: \$41 million less in FY 2018 and \$33 million less in FY 2019 than HJ 2



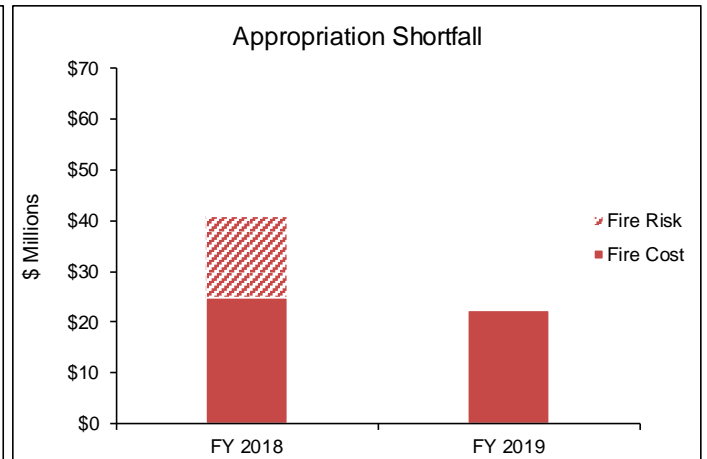
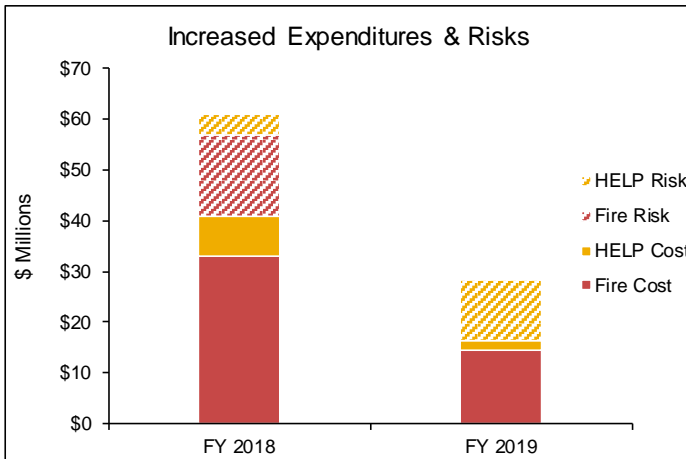
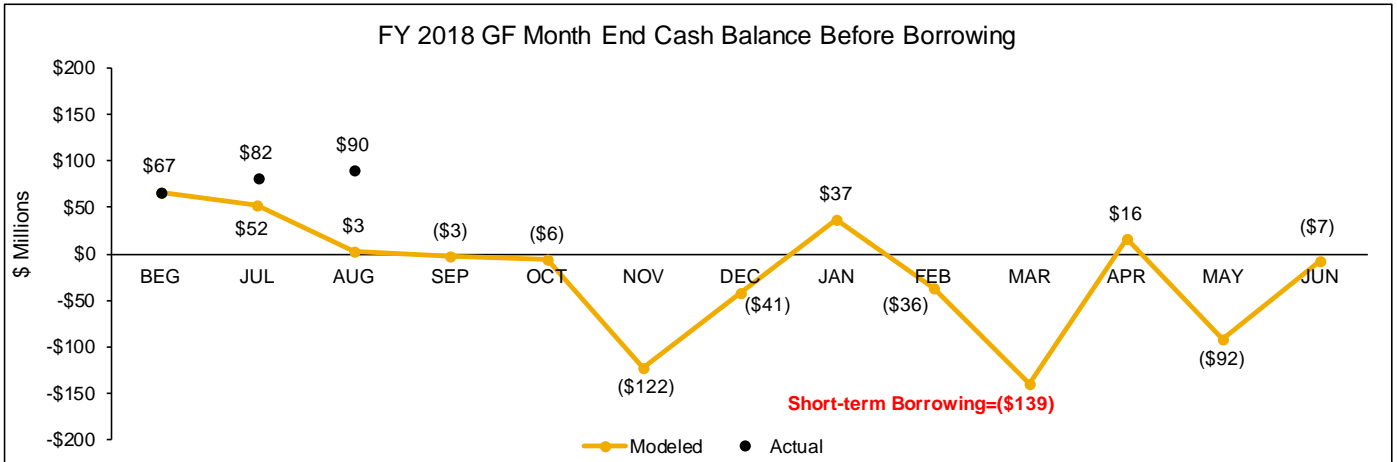
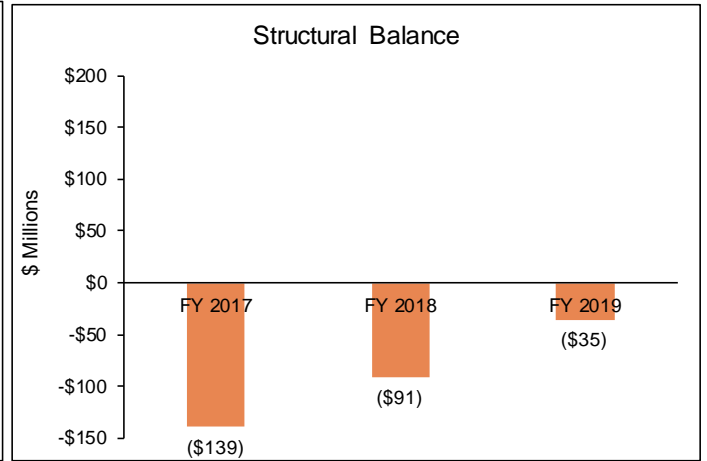
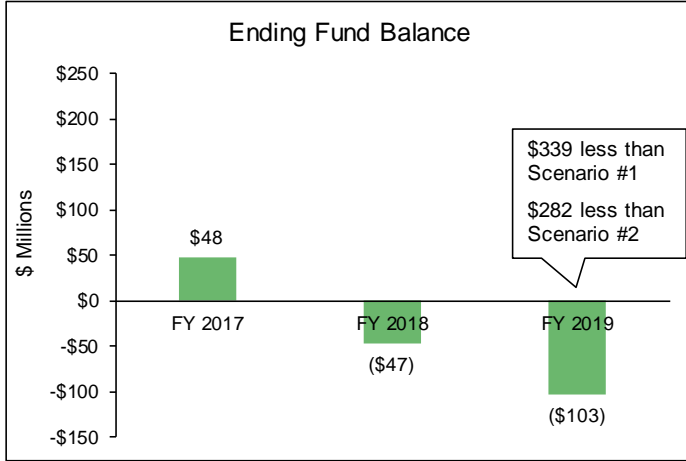
Scenario Highlights

- Expenditures same as Scenario #2 of 5
- Assumes conservative individual and corporation tax collections with August economic updated data from IHS: \$99 million less in FY 2018 and \$97 million less in FY 2019 than HJ 2
 - Individual income tax estimate grows from lower FY 2017 base
 - Corporation income tax estimate assumes FY 2017 lower audits and higher refunds continues, and removes an upward adjustment for IHS downward bias on WTI oil price estimates



Scenario Highlights

- Expenditures same as Scenario #2 of 5
- Assumes executive revenue estimate: \$137 million less in FY 2018 and \$145 million less in FY 2019 than HJ 2
- Adjustments needed to Scenario #4 estimates to reach executive estimate
 - Individual income tax estimate: assume somewhat lower audit revenue and higher refunds
 - Corporation tax estimate: use IHS pessimistic outlook



Range of Revenue Options (\$ Millions)				
Individual Income Tax				
			Alternative	
FY	HJ 2	HJ 2 Models, August IHS	Assumptions, August IHS	Executive
2017	\$1,168	\$1,168	\$1,168	\$1,168
2018	1,321	1,291	1,249	1,241
2019	1,404	1,387	1,338	1,312
Biennium	2,725	2,678	2,588	2,554
Biennial Change from HJ 2		(47)	(137)	(171)
Corporation Income Tax				
			Alternative	
FY	HJ 2	HJ 2 Models, August IHS	Assumptions, August IHS	Executive
2017	140	140	140	140
2018	169	166	150	132
2019	173	167	152	142
Biennium	342	333	301	274
Biennial Change from HJ 2		(9)	(40)	(68)
Total General Fund				
			Alternative	
FY	HJ 2	HJ 2 Models, August IHS	Assumptions, August IHS	Executive
2017	2,141	2,141	2,141	2,141
2018	2,371	2,329	2,271	2,233
2019	2,481	2,448	2,384	2,336
Biennium	\$4,851	\$4,777	\$4,655	\$4,570
Biennial Change from HJ 2		(74)	(196)	(282)
Individual Income Tax Growth				
2018	13.1%	10.5%	6.9%	6.3%
2019	6.3%	7.4%	7.1%	5.7%
Corporation Income Tax Growth				
2018	20.6%	18.6%	7.1%	-5.3%
2019	2.6%	0.6%	1.1%	6.8%
General Fund Growth				
2018	10.7%	8.8%	6.1%	4.3%
2019	4.6%	5.1%	5.0%	4.6%

Tools for Addressing the Concerns

After a decision is made as to which assumptions are accepted, various tools are available to resolve any concerns.

- Executive Tools
 - 17-7-140, MCA triggered spending reductions
 - Internal short term borrowing (borrowing from other funds within state government for a period of time), resolve cash flow shortages
 - External short term borrowing (TRANS), resolve cash flow shortages
 - Call a special session to engage the Legislature in resolving the issue

- Legislative Tools
 - Increase revenue through tax or fee increases
 - Change the allocation of revenue from a state special fund to the general fund
 - Transfer cash from other state funds to the general fund
 - Delay projects and transfer funds from these projects to the general fund
 - Policy changes that lead to either 1) expenditure/appropriation reductions that are not available to the Governor, like school funding and statutory appropriations or 2) revenue increases to the general fund
 - Change budget policy such as the minimum ending fund balance that causes triggered reductions in 17-7-140