

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.<sup>1</sup> This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.<sup>2</sup>



## Montana: Tools for Sustainable State Budgeting

<b>Long-term budget assessment:</b> ✓	<b>Budget stress test:</b> ✓
<b>Report:</b> "2025 Biennium Outlook Report" <sup>3</sup>	<b>Report:</b> "Managing Volatility, Part IV" <sup>4</sup>
<b>Office:</b> Legislative Fiscal Division	<b>Office:</b> Legislative Fiscal Division

### Analyses

In mid-2022, the Legislative Fiscal Division (LFD) published two reports that together illuminated Montana's fiscal strengths, risks, and upcoming decision points.<sup>5</sup>

The first, a "Biennium Outlook Report" published in June, projected baseline revenue and spending through fiscal year 2027 and discussed the trends driving the forecasts.<sup>6</sup> The projections presented multiple possibilities for revenue and spending levels because, as the LFD noted, unusual pandemic-era budget conditions had led to heightened uncertainty.<sup>7</sup> The division concluded that revenue was likely to exceed spending in the biennium that

ends June 30, 2025, but that the state faced more risk of a shortfall in the following biennium.<sup>8</sup> A key reason for this risk was inflation, a subject the LFD analyzed more thoroughly than did similar offices in other states. The LFD noted that the state government was struggling with elevated employee vacancy rates, creating pressure on the state to raise wages.<sup>9</sup>

The second, a stress test published in September, analyzed how frequently the state could expect revenue declines of various sizes.<sup>10</sup> For example, the report found that the state could expect a 5.3% shortfall once every four biennia, and a 13.6% shortfall once every 20.<sup>11</sup> Then the report explained the tools Montana uses to close shortfalls—such as several reserve accounts—and offered lawmakers options to strengthen these tools.<sup>12</sup>

## **Policy impact**

The LFD's stress test informed legislation that greatly enhanced Montana's reserves in 2023.<sup>13</sup> Legislators worked with the LFD to determine how much they should increase reserves to be prepared for a range of recession scenarios.<sup>14</sup> The centerpiece of the bill was a more-than-250% increase in the cap on the state's rainy day fund, marking a wholesale philosophical change for the state, which was one of the last in the country to create a formal rainy day fund.<sup>15</sup>

## **Next steps**

Montana could commit to producing stress tests regularly, given how valuable the LFD's 2022 analysis proved for informing decisions. Both the LFD and the Governor's Office of Budget and Program Planning have previously published analyses to assess the appropriate size of the state's reserves, but neither has done so on a consistent schedule.<sup>16</sup> Stress testing is especially important for Montana because the state's reliance on personal and corporate income taxes results in unusually volatile revenue collections.<sup>17</sup>

The LFD's "Outlook Report" proposed further study to determine long-term revenue and spending trends as temporary pandemic-related factors—including a large spike in revenue in 2021 and 2022—recede.<sup>18</sup> Such an analysis could help Montana policymakers determine whether the state budget will remain structurally balanced in the future.

# Endnotes

- 1 The Pew Charitable Trusts, “Tools for Sustainable State Budgeting” (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, “States’ Use of Sustainable Budgeting Tools” (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 Montana Legislative Fiscal Division, “2025 Biennium Outlook Report” (2022), <https://leg.mt.gov/content/publications/fiscal/2023-Interim/June-2022/Outlook-Report.pdf>.
- 4 Montana Legislative Fiscal Division, “Managing Volatility, Part IV: Updated Recommendations for Strengthening State Finances” (2022), <https://leg.mt.gov/content/Publications/fiscal/2023-Interim/LFC/Volatility-IV-FINAL.pdf>.
- 5 Montana Legislative Fiscal Division, “2025 Biennium Outlook Report”; Montana Legislative Fiscal Division, “Managing Volatility, Part IV.”
- 6 Montana Legislative Fiscal Division, “2025 Biennium Outlook Report.”
- 7 Ibid., 4-9.
- 8 Ibid., 8-9.
- 9 Ibid., 5-8.
- 10 Montana Legislative Fiscal Division, “Managing Volatility, Part IV.”
- 11 Ibid., 7-10.
- 12 Ibid.
- 13 Montana H.B. 424, 68th regular session of the Montana Legislature (2023), <https://leg.mt.gov/bills/2023/sesslaws/ch0722.pdf>.
- 14 A. Carlson (legislative fiscal analyst, division director, Montana Legislative Fiscal Division), interview with The Pew Charitable Trusts, Jan. 20, 2023.
- 15 Montana H.B. 424; R. Zahradnik (director, state fiscal health project, The Pew Charitable Trusts), testimony before the Montana House Committee on Appropriations (March 23, 2017), <https://www.pewtrusts.org/en/research-and-analysis/speeches-and-testimony/2017/03/pew-comments-montana-bill-to-create-state-rainy-day-fund>.
- 16 Montana Legislative Fiscal Division, “Budget Stabilization Reserve Fund, Part III: Recommendations for Strengthening State Finances” (2018), <https://leg.mt.gov/content/Publications/fiscal/interim/May-2018/BSRFIII-final.pdf>; Montana Governor’s Office of Budget and Program Planning, “Recommendations for the Structure of Montana’s Rainy Day Fund” (2018), <https://leg.mt.gov/content/Publications/fiscal/interim/June-2018/OBPP-Rainy-Day-Fund-Report-Final.pdf>.
- 17 Montana Legislative Fiscal Division, “Managing Volatility, Part IV,” 4-5.
- 18 Montana Legislative Fiscal Division, “2025 Biennium Outlook Report,” 31.

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**For more information, please visit: [pewtrusts.org/fiscaltools](https://pewtrusts.org/fiscaltools)**

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