



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: January 10, 2018

TO: Revenue & Transportation Interim Committee Members
House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2018 General Fund Revenue Update #1

PURPOSE OF THIS REPORT

This is the first of six monthly revenue updates throughout the second half of FY 2018 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2018 relative to the revenue estimate contained in HJ 2.

GENERAL FUND REVENUE SUMMARY

The executive's general fund revenue estimate used to call 2017 November Special Session Legislature was below HJ 2 by \$137 million in FY 2018. Current revenue trends¹ calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,357 million, about \$77 million less than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue shortfall of about \$52 million. The various year-to-date analyses fall within the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session revenue assumption of \$137 million below HJ 2.

FY 2018 general fund revenue through the end of December is \$180.8 million or 18.2% ahead of FY 2017 revenue through the same period. The increase is due to several factors:

- Legislatively authorized transfers of \$63.0 million currently posted to All Other Revenue; without the transfers, YTD growth would be 11.9% compared to HJ 2 growth of 10.7%
- Timing of property tax collections
- Corporation income tax audit activity and strong growth in estimated payments
- Strong growth in individual income tax

¹ Note that current revenue trends based on year-to-date median collections and cash concept model were adjusted to account for \$63 million in legislatively authorized transfers made in the fall and \$10 million of potentially higher-than-anticipated property tax collections in December.

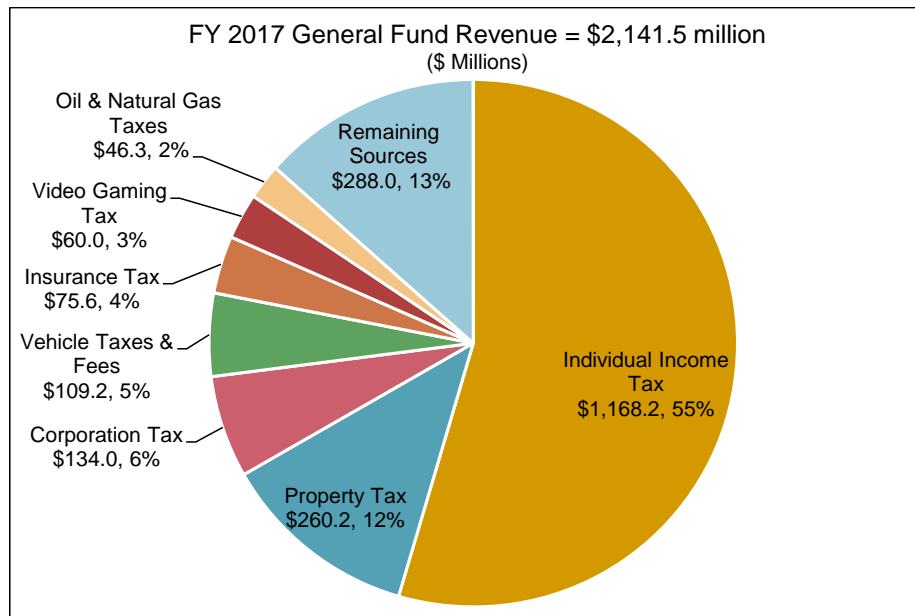
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of December are \$180.8 million or 18.2% greater than FY 2017 revenues through the same period; this increase is above the HJ 2 estimated growth of 13.7%. The increase is primarily due to legislatively authorized transfers of \$63.0 million currently posted to All Other Revenue, as well as large year-to-date growth in property tax due to a timing issue.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2017	HJ 2/SS FY 2018	HJ 2 Est. % Change	YTD FY 2017	YTD FY 2018	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,168.225	\$1,320.808	13.1%	\$652.708	\$710.439	\$57.731	8.8%
Property Tax	260.224	277.119	6.5%	75.401	115.890	40.490	53.7%
Corporation Tax	133.992	168.763	26.0%	67.427	91.703	24.276	36.0%
Vehicle Taxes & Fees	109.197	112.956	3.4%	46.586	44.367	(2.219)	-4.8%
Oil & Natural Gas Taxes	46.334	49.939	7.8%	-	-	-	
Insurance Tax	75.558	76.003	0.6%	31.790	25.365	(6.425)	-20.2%
Video Gaming Tax	59.956	61.904	3.2%	14.902	14.947	0.045	0.3%
Other Business Taxes							
Drivers License Fee	4.308	4.341	0.8%	1.735	2.128	0.393	22.7%
Investment Licenses	7.327	7.660	4.5%	0.804	0.844	0.040	5.0%
Lodging Facilities Sales Tax	21.780	23.399	7.4%	9.482	10.178	0.696	7.3%
Public Contractor's Tax	3.078	2.540	-17.5%	3.198	4.079	0.881	27.6%
Railroad Car Tax	3.790	3.642	-3.9%	4.235	3.341	(0.894)	-21.1%
Rental Car Sales Tax	3.402	3.357	-1.3%	1.394	1.587	0.193	13.8%
Retail Telecom Excise Tax	15.603	15.570	-0.2%	3.827	3.546	(0.281)	-7.3%
Other Natural Resource Taxes							
Coal Severance Tax	13.799	13.811	0.1%	5.795	3.978	(1.817)	-31.4%
Electrical Energy Tax	4.314	4.439	2.9%	1.167	1.130	(0.037)	-3.2%
Metal Mines Tax	4.839	4.274	-11.7%	(0.103)	0.000	0.103	-100.0%
U.S. Mineral Leasing	17.322	20.497	18.3%	5.618	6.919	1.301	23.2%
Wholesale Energy Trans Tax	3.464	3.505	1.2%	0.915	0.901	(0.014)	-1.5%
Other Interest Earnings							
Coal Trust Interest Earnings	19.799	19.829	0.1%	8.785	7.083	(1.703)	-19.4%
TCA Interest Earnings	5.692	7.577	33.1%	2.200	3.312	1.112	50.5%
Other Consumption Taxes							
Beer Tax	2.998	3.072	2.5%	1.320	1.325	0.005	0.4%
Cigarette Tax	30.558	30.652	0.3%	14.527	13.380	(1.147)	-7.9%
Liquor Excise Tax	20.366	22.265	9.3%	8.766	9.155	0.388	4.4%
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%	2.763	2.728	(0.036)	-1.3%
Wine Tax	2.429	2.584	6.4%	1.069	1.069	(0.000)	0.0%
Other Sources							
All Other Revenue	49.336	112.865	128.8%	16.809	86.039	69.230	411.9%
Highway Patrol Fines	3.927	4.152	5.7%	1.675	1.549	(0.127)	-7.6%
Nursing Facilities Fee	4.635	4.305	-7.1%	1.140	1.108	(0.032)	-2.8%
Public Institution Reimbursement	14.264	15.718	10.2%	5.814	4.384	(1.430)	-24.6%
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%	888.813	1,002.711	113.898	12.8%
Remaining Sources Subtotal	287.994	366.467	27.2%	106.213	173.129	66.917	63.0%
Grand Total	\$2,141.479	\$2,433.958	13.7%	\$995.026	\$1,175.841	\$180.815	18.2%

MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87% 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 December are \$57.7 million or 8.8% 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 estimated payments. The timing of estimated payments can fluctuate between December and January, so next month's report should clarify expectations for FY 2018. Through the first week of January 2018, estimated payment collections are nearly equal to estimated payment collections for all of January 2017. Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and will be monitored closely as the year progresses.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$455.0	\$426.1	\$28.9	6.8%
Estimated Payments	135.3	118.8	16.5	13.9%
Current Year Payments	19.5	19.2	0.3	1.5%
Audit, P&I, Amended	16.6	15.0	1.5	10.2%
Refunds	(77.8)	(76.4)	(1.3)	1.8%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	6.4	4.9	1.5	31.2%
Mineral Royalties	2.1	2.1	0.0	0.6%
Total	\$710.4	\$652.7	\$57.7	8.8%

Property Tax: YTD Increase Due to Timing

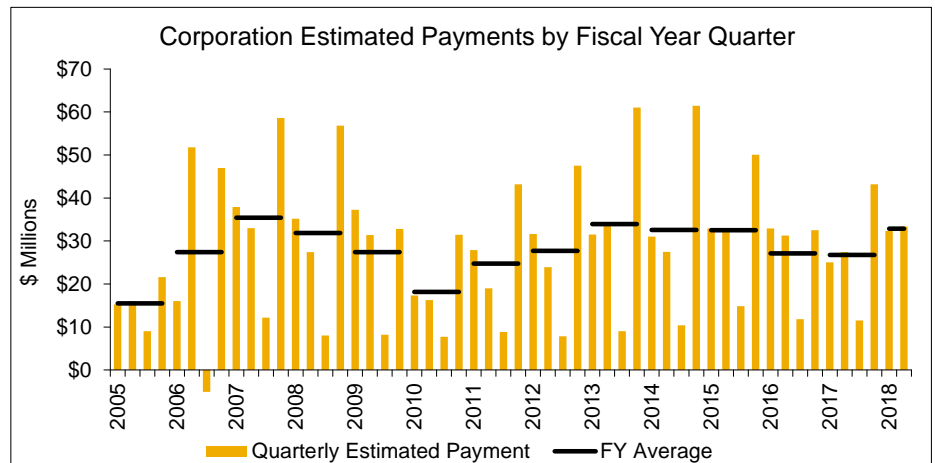
Property tax collections are above last year by \$40.5 million or 53.7%, due to a timing issue that will be cleared up by the end of January. Property tax is still expected to come in around HJ 2. While every December/January collection period has variability due to when the payments are booked, this year is particularly large due to December payments being low last year with the lag in payments that occurred with the NorthWestern Energy settlement.

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

Corporation income tax collections through the end of December are 36.0% or \$24.3 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments and a large, one-time audit that is currently booked in the corporation tax account.

Corporation Income Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Corporation Tax	\$26.2	\$12.1	\$14.1	116.0%
Estimated Payments	65.7	52.5	13.2	25.2%
Refunds	(5.4)	(7.4)	2.0	-26.8%
Refund Accrual Reversal	3.3	3.8	(0.4)	-11.3%
Audit, P&I, Amended	1.9	6.5	(4.6)	-70.8%
Total	\$91.7	\$67.4	\$24.3	36.0%

The adjacent chart shows that estimated payments in the first two quarters of FY 2018 are significantly above the estimated payments collected in the first two quarters of FY 2017. Estimated payments typically make up 80% of total corporation income tax collections, so if this strong growth continues this source is likely to end up near the HJ 2 estimate.

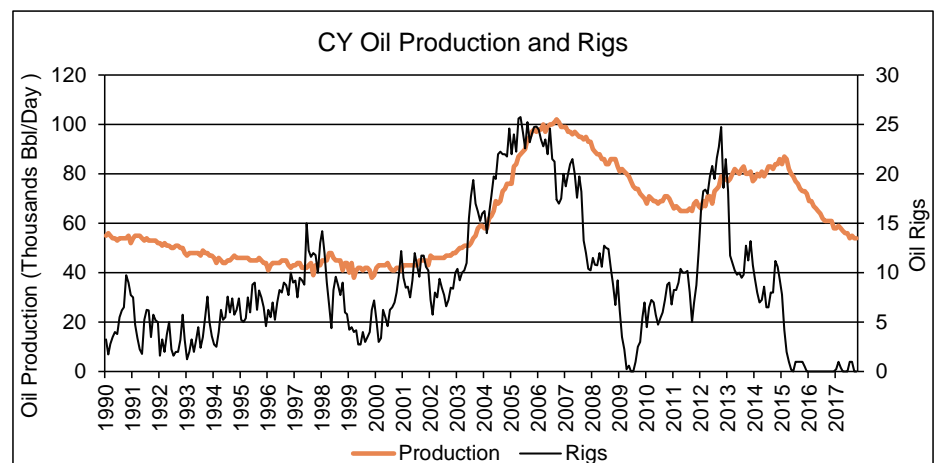


Vehicle Fees & Taxes: Below Estimate

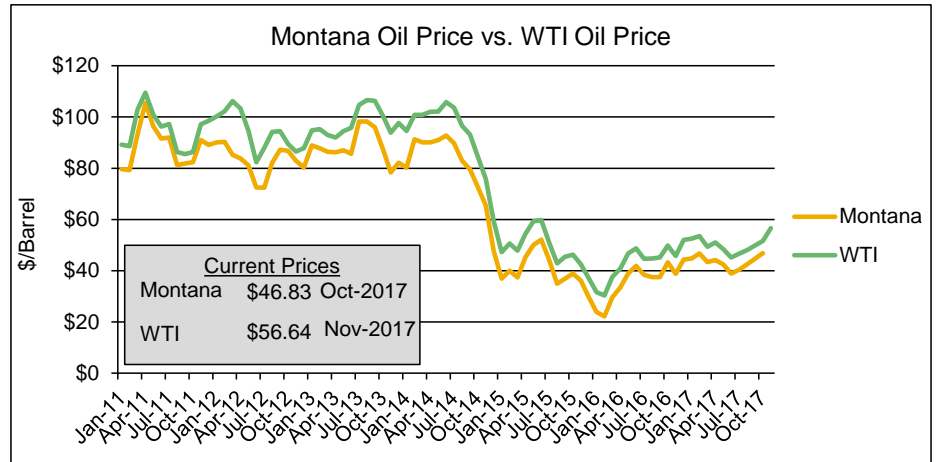
Six months into FY 2018, vehicle taxes and fees are 4.8% or \$2.2 million below collections last year at this time. In HJ 2, this source was expected to grow by 3.4%. The decrease is driven by a year-to-date decline in light vehicle registrations. Some of the decrease may be due to timing, as December collections in FY 2018 were uncharacteristically low and may show up in January.

Oil & Natural Gas Production Tax: No Data, But Likely Above Last Year

Oil and natural gas production tax collections currently shows no data. 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 and production data suggests that collections for the first quarter of FY 2018 may be slightly larger than FY 2017, and thus far similar patterns have been seen for the second quarter.



As the chart at the bottom of the previous page 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 adjacent figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Currently Below Estimate

Current insurance tax collections are 20.2% or \$6.4 million below FY 2017 through December, and below the 0.6% growth anticipated in HJ 2. About a quarter of the difference—\$1.7 million—is due to one-time fire marshal tax collections at the beginning of FY 2017 due to a rule change; the remainder of the difference is due to lower insurance premiums tax collections. Insurance premiums tax accounts for over 80% of total insurance tax, and research is ongoing with the State Auditor's Office to determine whether the decline in insurance premiums tax collections is due to timing or a reduction in premiums.

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$45,000 or 0.3% above collections from last year at this time, but below the anticipated growth of 3.2%.

OTHER KEY DIFFERENCES:

Coal Severance Tax: Likely On Track with HJ 2

Coal severance tax revenue is \$1.8 million or 31.4% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unseasonably high for this time of the year. This source is expected to end up near the estimate contained in HJ 2.

U.S. Mineral Royalties: Currently Above Estimate

U.S. mineral royalties are up 23.2% or \$1.3 million compared to FY 2017 levels at this time. Mineral royalty payments can be sporadic, and it appears that a portion of the increase may be due to timing. In HJ 2 this source was expected to grow by 18.3%.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.7 million or 19.4% 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 a low June collection. The additional payment in August of last year explains the year-to-date decline. Final collections were forecast in HJ 2 to be nearly identical to last year, and as the year progresses collections should end up near the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$1.1 million or 50.5% 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 Estimate

Cigarette tax collections are 7.9% or \$1.5 million below this time last year, and below the HJ 2 anticipated growth of 0.3%.

All Other Revenue: Above Last Year and HJ 2 Due to Transfers

To date, all other revenue collections are \$69.2 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$63.0 million of the year-over-year difference.

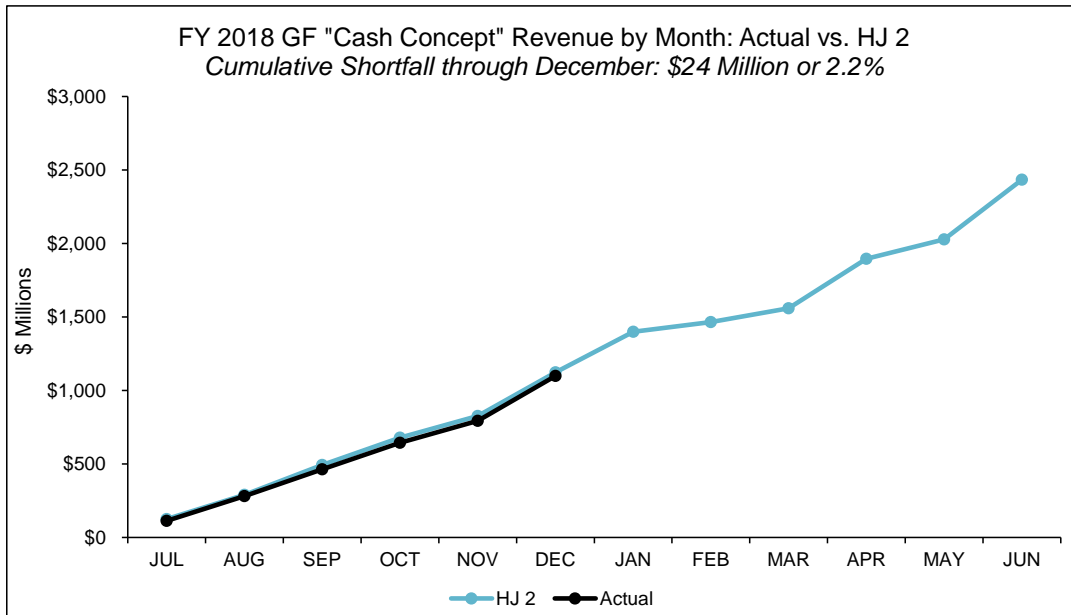
Public Institution Reimbursements: Below Last Year

Public institution reimbursements are currently 24.6% or \$1.1 million below last fiscal year. Collections for this source are historically erratic, and may even out by the end of the fiscal year. However, this source is impacted by [SB 411 \(2015 Session\)](#) with the magnitude of the effect dependent upon the speed at which the closure of MDC moves forward. The closure process is going more slowly than anticipated and the final details have yet to be ironed out.

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 December, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$24.2 million or 2.2%, after adjusting for \$10 million of potentially higher than anticipated property tax collections in December. If revenue continues to be below HJ 2 by 2.2% through FY 2018, final collections could be \$52.4 million lower than expected.



Individual income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, individual income tax through December is \$39.5 million below the HJ 2 estimate.

