EXHIBIT 5
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HB

MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: March 18, 2013

TO: Sen. Jeff Essmann, Senate President
Rep. Mark Blasdel, House Speaker
Sen. Bruce Tutvedt, Chair, Senate Tax Committee
Rep. Mike Miller, Chair, House Tax Committee
Sen. Art Wittich, Senate Majority Leader
Rep. Gordon Vance, House Majority Leader
Sen. Jon Sesso, Senate Minority Leader
Rep. Chuck Hunter, House Minority Leader

FROM: Amy Carlson, Legislative Fiscal Analyst
Stephanie Morrison, Revenue Analyst

RE: General Fund Revenue Update #2

PURPOSE OF REPORT

This is the second of the monthly revenue updates throughout the session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2015 biennium General Fund revenue estimate. This update is based on actual revenue collections received through the end of February 2013, and the March update of national and Montana forecasts from IHS Global Insight (IHS).

SUMMARY

General fund revenue collections continue to show strong growth over FY 2012 amounts, and are currently somewhat above the overall growth contained in SJ 2. Underlying economic indicators have improved slightly since the IHS January forecasts were used to develop the estimate contained in SJ 2. Most of the higher-than-anticipated growth in year-to-date collections may be a result of revenue shifting due to the uncertainty in future federal tax rates at the end of CY 2012.

If the IHS March forecasts and an adjustment for revenue shifting into calendar year 2012 are used in the LFD revenue models, total general fund revenue estimates increase by $48.9 million over the three-year forecast period. The table below shows the Legislature's official total general fund estimate as contained in SJ 2 and the model output based on the February and March revised assumptions. The table also compares the year-to-date growth in collections with the growth rate contained in SJ 2 and the growth rate based on the March update.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$1,871.0	$1,871.0	$1,871.0				
2013	1,995.0	2,021.5	2,017.8	$22.8	7.9%	6.6%	7.8%
2014	2,056.3	2,074.9	2,066.5	10.3		3.1%	2.4%
2015	2,137.4	2,157.7	2,153.2	15.8		3.9%	4.2%
3-YR	$6,188.6	$6,254.2	$6,237.5	$48.9			

The March revised national forecast from IHS is based on the following key assumptions:

- Improving economy fundamentals, particularly in housing, but federal policy headwinds still a drag
- Rebounding GDP growth in the first quarter 2013 after the small decline in the fourth quarter 2012, but slowing due to the sequester
- The sequester remains in effect until the end of June, taking 0.3 percentage point off 2013 growth
- Continued quantitative easing by the Federal Reserve into 2014, with the federal funds rate near zero until late 2015
- Decreased West Texas Intermediate oil price by just over $4 per barrel in FY 2013

The change in the FY 2013 oil price is the primary driver behind the differences between this revenue update and the February revenue update. A comparison of the forecast price from January (used in SJ2), February and March is shown in the table below.

West Texas Intermediate Oil Price					
CY	January	February	March	Mar-Jan	Mar-Feb
2013	$89.64	$94.88	$90.70	$1.06	-$4.18
2014	86.26	89.54	88.14	1.88	-1.40
2015	81.60	84.79	84.79	3.19	0.00

The summary of changes in the March update relative to SJ 2 by income source is shown in the table below. The improvement in the overall estimate is being driven primarily by the increase in individual income tax, with the higher corporate license tax estimate being offset by the lower oil & natural gas production tax estimate.

Summary of March Update Relative to SJ 2				
	FY 2013	FY 2014	FY 2015	Total
Individual Income Tax	$26.1	$10.5	$13.5	$50.1
Property Tax	-	-	-	-
Corporation License Tax	1.3	2.1	2.5	5.9
Vehicle Taxes & Fees	0.0	0.1	0.1	0.2
Oil & Natural Gas Tax	(4.3)	(1.8)	0.3	(5.9)
Insurance Tax	(0.2)	(0.2)	(0.2)	(0.6)
Video Gaming Tax	-	-	-	-
Remaining Sources	0.0	(0.3)	(0.5)	(0.8)
General Fund Total	$22.8	$10.3	$15.8	$48.9
Guarantee Account	(2.6)	(8.2)	(7.3)	(18.2)
Total General Fund & Guarantee	$20.2	$2.0	$8.4	$30.7

YEAR-TO-DATE COLLECTIONS

FY 2013 general fund revenues through the end of February are $90.4 million or 7.9% ahead of FY 2012 revenues through the same period; this increase is above the forecast growth of 6.6% contained in SJ 2. The difference can almost entirely be attributed to strong growth in individual income and corporate license tax collections.

General Fund Revenue Monitoring Report
(in Millions)

Revenue Source	Actual FY 2012	SJ2 Estimate FY 2013	SJ2 Estimate % Change	2/29/2012 FY 2012	2/28/2013 FY 2013	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	$898.851	$983.953	9.5%	$642.476	$712.025	$69.549	10.8%
Property Tax	236.662	241.741	2.1%	131.062	137.125	$6.063	4.6%
Corporation Tax	127.771	150.658	17.9%	73.073	100.136	$27.063	37.0%
Vehicle Taxes & Fees	99.954	100.833	0.9%	58.337	56.066	($2.271)	-3.9%
Oil Severance Tax	97.560	98.750	1.2%	25.508	23.736	(1.771)	-6.9%
Insurance Tax	58.951	59.932	1.7%	25.542	25.729	$0.187	0.7%
Video Gaming Tax	53.824	57.706	7.2%	25.121	28.211	$3.090	12.3%
Other Business Taxes							
Drivers License Fee	4.369	3.867	-11.5%	2.594	2.875	0.281	10.8%
Estate Tax	0.060	0.000	-100.0%	0.058	0.001	(0.058)	-99.0%
Investment Licenses	6.961	7.210	3.6%	6.206	6.181	(0.025)	-0.4%
Lodging Facilities Sales Tax	15.606	17.314	10.9%	8.948	9.686	0.738	8.3%
Public Contractor's Tax	(3.042)	1.140	-137.5%	(0.975)	0.114	1.089	-111.7%
Railroad Car Tax	2.273	2.157	-5.1%	1.790	1.654	(0.136)	-7.6%
Rental Car Sales Tax	3.420	3.539	3.5%	2.129	2.173	0.045	2.1%
Retail Telecom Excise Tax	21.459	22.606	5.3%	10.551	9.294	(1.257)	-11.9%
Other Natural Resource Taxes							
Coal Severance Tax	12.350	12.864	4.2%	7.450	7.674	0.224	3.0%
Electrical Energy Tax	4.481	4.442	-0.9%	2.483	2.404	(0.078)	-3.2%
Metal Mines Tax	10.010	10.904	8.9%	0.002	0.040	0.037	1551.0%
U.S. Mineral Royalties	31.057	36.989	19.1%	14.427	14.201	(0.226)	-1.6%
Wholesale Energy Trans Tax	3.427	4.038	17.8%	1.898	1.862	(0.035)	-1.9%
Other Interest Earnings							
Coal Trust Interest Earnings	25.840	24.451	-5.4%	13.178	12.737	(0.442)	-3.4%
TCA Interest Earnings	2.654	2.779	4.7%	1.426	1.562	0.136	9.5%
Other Consumption Taxes							
Beer Tax	2.956	3.052	3.2%	1.796	1.820	0.023	1.3%
Cigarette Tax	31.483	30.991	-1.6%	20.210	20.201	(0.009)	0.0%
Liquor Excise Tax	17.037	18.206	6.9%	10.041	10.700	0.659	6.6%
Liquor Profits	9.500	10.604	11.6%	-	-	-	
Lottery Profits	13.061	14.477	10.8%	2.369	2.685	0.316	13.3%
Tobacco Tax	5.709	5.821	2.0%	3.366	3.513	0.147	4.4%
Wine Tax	2.104	2.144	1.9%	1.271	1.335	0.064	5.1%
Other Sources							
All Other Revenue	47.258	32.595	-31.0%	33.532	18.272	(15.260)	-45.5%
Highway Patrol Fines	4.385	4.427	1.0%	2.522	2.333	(0.189)	-7.5%
Nursing Facilities Fee	5.077	4.876	-4.0%	2.542	3.495	0.953	37.5%
Public Institution Reimbursements	14.562	16.332	12.2%	7.193	8.674	1.480	20.6%
Tobacco Settlement	3.322	3.552	6.9%	-	-	-	
Largest Seven Subtotal	$1,573.574	$1,693.573	7.6%	$981.119	$1,083.029	$101.910	10.4%
Remaining Sources Subtotal	297.380	301.377	1.3%	157.008	145.486	(11.522)	-7.3%
Grand Total	$1,870.954	$1,994.950	6.6%	$1,138.127	$1,228.515	$90.388	7.9%

Individual Income Tax

Individual income tax collections are $69.5 million or 10.8% above last year. The estimate contained in SJ 2 forecasts a FY 2013 growth of 9.5%.

The IHS March forecast revision of oil prices decreased the model output slightly from the February update. However, the increased wage disbursements and larger elderly population, as well the adjustment for federal tax uncertainty, kept the March update above the estimate contained in SJ 2.

As with the February update, the March individual income tax model output shown below contains a FY 2013 adjustment of $20 million to account for an expected change in taxpayer behavior. No reduction in FY 2014 and FY 2015 capital gains income is included since it is assumed the accelerated realization of gains would have otherwise been spread over several years in the future. Because no reduction is included for FY 2014 and FY 2015, there may be a small downside risk to the estimate in those years.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$898.9	$898.9	$898.9				
2013	984.0	1,010.7	1,010.0	$26.1	10.8%	9.5%	12.4%
2014	1,039.2	1,052.1	1,049.6	10.5		5.6%	3.9%
2015	1,104.9	1,121.0	1,118.4	13.5		6.3%	6.6%
3-YR	$3,128.0	$3,183.9	$3,178.1	$50.1			

The detailed collection information for individual income tax is show below. Withholding tax is continuing a strong growth at 8.2% above last year's collections and estimated payments continue to show double-digit growth. The $20 million adjustment for response to federal tax uncertainty will be accounted for in estimated and current year payments.

Individual Income Tax	YTD FY 2013	YTD FY 2012	Difference	% Difference
Withholding	$500.3	$462.3	$38.0	8.2%
Estimated Payments	153.5	120.2	33.3	27.7%
Current Year Payments	18.4	17.9	0.5	2.7%
Audit, P&I, Amended	17.1	16.5	0.6	3.7%
Refunds	(114.0)	(108.5)	(5.5)	5.0%
Refund Accrual Reversal	124.8	121.9	2.9	2.4%
Partnership Income Tax	4.3	2.9	1.4	47.2%
Mineral Royalties	7.5	9.3	(1.7)	-18.8%
Total	$712.0	$642.5	$69.5	10.8%

Property Tax

The property tax estimate is based on the taxable value data for tax year 2012 (FY 2013) obtained from the Department of Revenue, which suggest FY 2013 growth will be close to the estimate of 2.1% contained in SJ 2. The property tax estimate does not use IHS data, so there is no change in the model output.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$236.7	$236.7	$236.7				
2013	241.7	241.7	241.7	$0.0	4.6%	2.1%	2.1%
2014	246.6	246.6	246.6	-		2.0%	2.0%
2015	254.7	254.7	254.7	-		3.3%	3.3%
3-YR	$743.0	$743.0	$743.0	$0.0			

Corporation License Tax

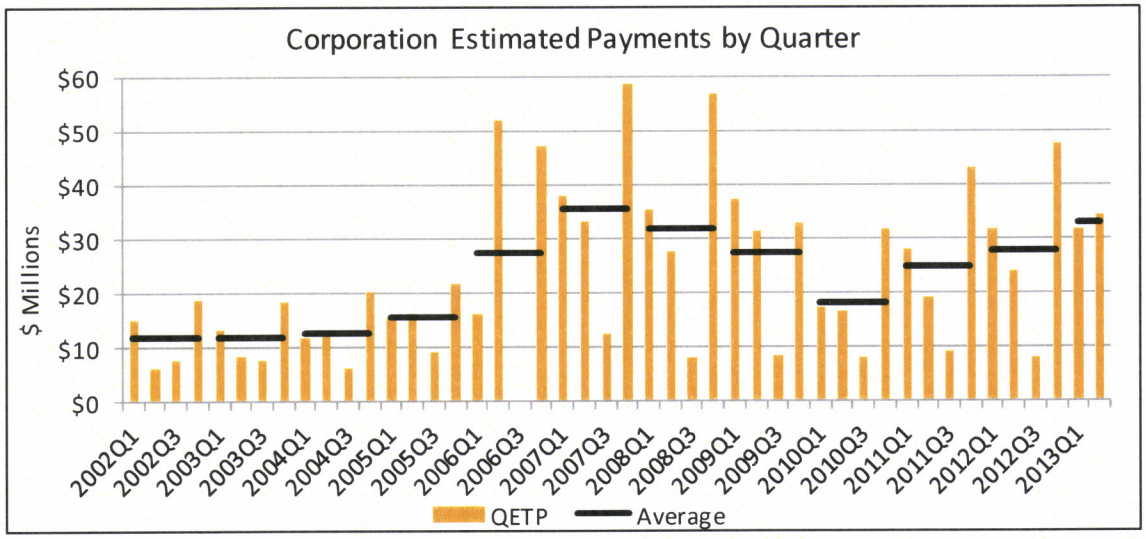
Corporation license tax collections are $27.1 million or 37.0% above last year primarily due to an increase in estimated payments and a reduction in refunds. The estimate contained in SJ 2 forecasts a FY 2013 growth of 17.9%.

The lower oil price contained in the IHS March forecast resulted in a small decrease from the February update. However, the three-year estimate is still above the official estimate by about $6 million. Refunds are unusually low, and if this pattern continues, total collections may be even higher than anticipated. Based on historical collection averages, there is not a compelling case to change the refund estimate; however, there are likely more upside risks than downside risks to the overall estimate.

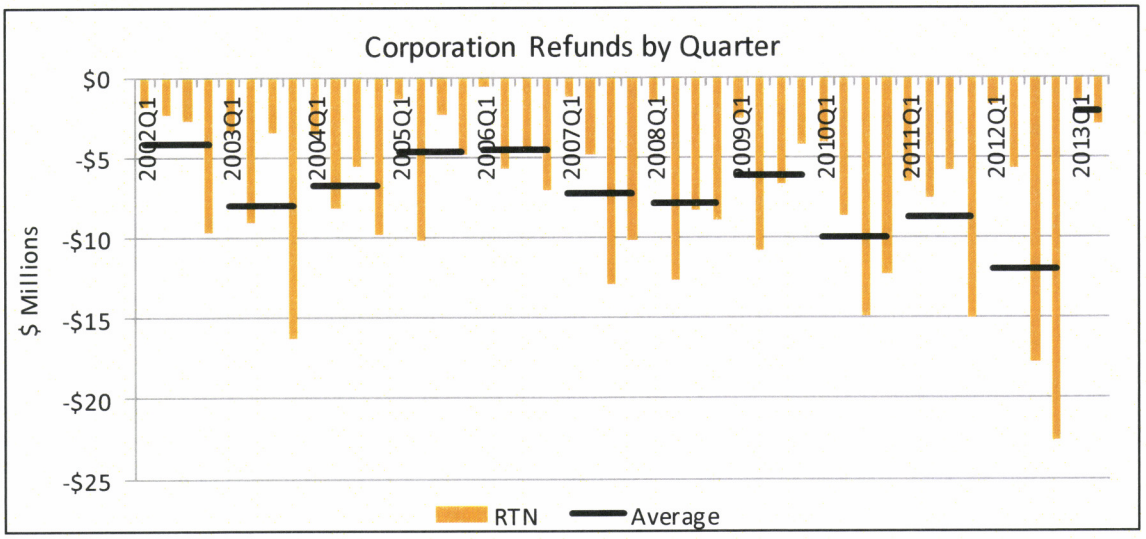
FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$127.8	$127.8	$127.8				
2013	150.7	153.8	151.9	$1.3	37.0%	17.9%	18.9%
2014	154.1	157.4	156.2	2.1		2.3%	2.8%
2015	155.0	157.7	157.5	2.5		0.6%	0.9%
3-YR	$459.8	$468.9	$465.6	$5.9			

Corporation License Tax	YTD FY 2013	YTD FY 2012	Difference	% Difference
Corporation Tax	$10.7	$9.7	$1.1	11.2%
Estimated Payments	$74.4	$59.6	$14.8	24.8%
Refunds	($10.6)	($24.3)	$13.7	-56.5%
Refund Accrual Reversal	$12.8	$9.0	$3.7	41.3%
Audit, P&I, Amended	$12.8	$19.1	($6.3)	-32.8%
Total	$100.1	$73.1	$27.1	37.0%

The best indicator for corporation license tax collections is estimated payments. As shown in the figure below, estimated payments are volatile from year-to-year and quarter-to-quarter. Since the low point during FY 2010, estimated payments have (on average) been increasing. FY 2013 estimated payments through the second quarter at the end of December show a continuation of this trend.



Refunds through the first two quarters of the fiscal year are typically not a reliable indicator of total refunds for the year, as shown in the chart below. According to the Department of Revenue, in FY 2012, there were five large refunds totaling nearly $11 million due to changes in filing methods, factor changes, and net operating loss carrybacks. If these refunds are excluded from the year-to-date comparison, refunds are similar to typical historical amounts.



Vehicle Tax & Fees

Vehicle fees and taxes are currently below last year's amount by $2.3 million or 3.9%. The estimate contained in SJ 2 forecasts a growth of 0.9% in FY 2013.

The IHS March forecast did not change significantly in its estimate of Montana vehicle stock; therefore the revenue is consistent with the previous update.

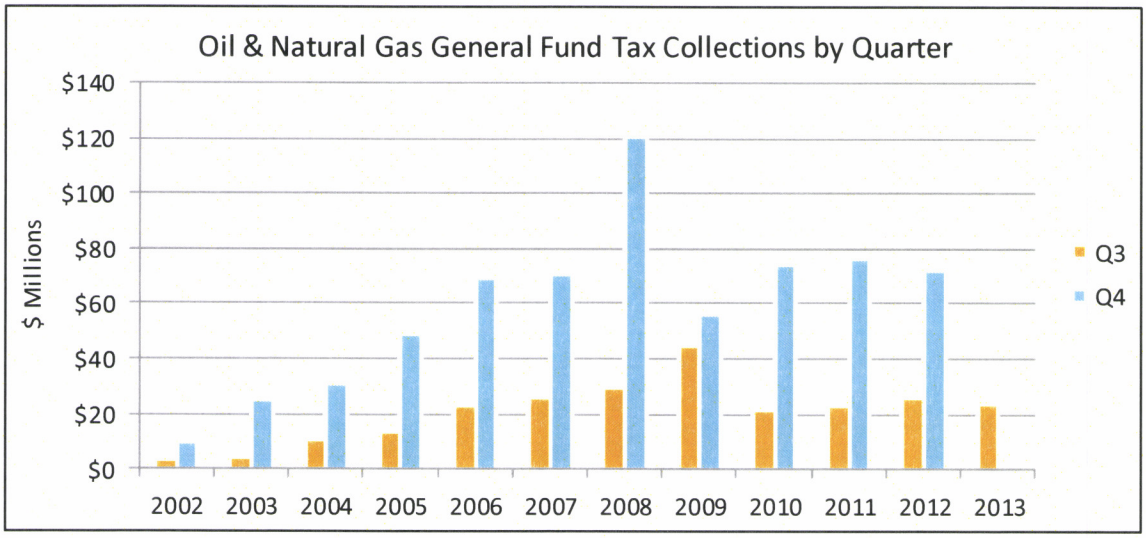
FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$100.0	$100.0	$100.0				
2013	100.8	100.9	100.8	$0.0	-3.9%	0.9%	0.9%
2014	101.4	101.5	101.5	0.1		0.5%	0.6%
2015	102.1	102.2	102.2	0.1		0.7%	0.7%
3-YR	$304.3	$304.5	$304.5	$0.2			

Oil & Natural Gas Production Tax

Oil and natural gas production tax collections are $1.8 million or 6.9% below last year as of the end of January. These revenue collections represent the taxes on production from the first quarter of FY 2013. The estimate contained in SJ 2 forecasts a FY 2013 growth of 1.2%.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$97.6	$97.6	$97.6				
2013	98.8	95.8	94.4	($4.3)	-6.9%	1.2%	-3.2%
2014	99.3	102.3	97.5	(1.8)		0.6%	3.3%
2015	97.4	99.6	97.7	0.3		-1.9%	0.2%
3-YR	$295.5	$297.7	$289.6	($5.9)			

Due to the time lag between production and when the taxes are distributed to the general fund, it can be difficult to draw conclusions from year-to-date activity. The chart below shows fiscal year collections by quarter. As shown in the chart, the first quarter of production taxes are remitted to the general fund in the third quarter, while the production taxes for the three remaining quarters are collected (or accrued, as in the case of the fourth quarter of production) in the last quarter of the fiscal year.

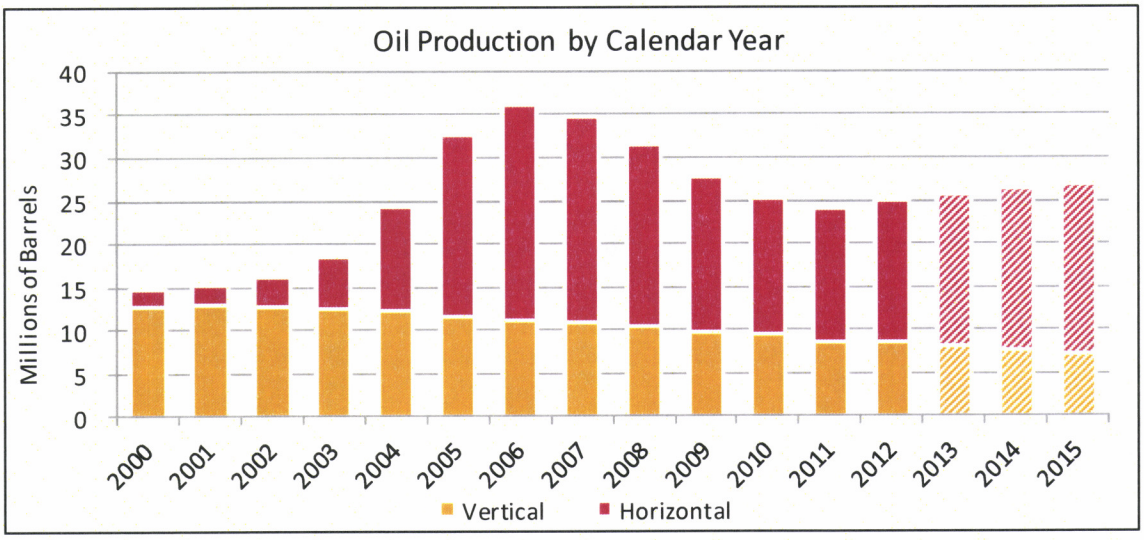


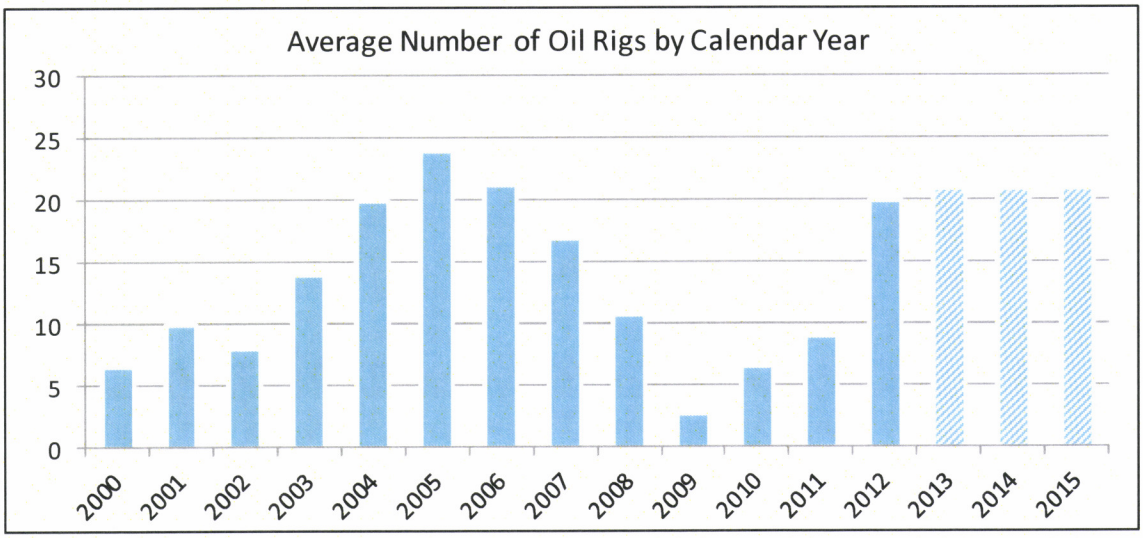
Oil Production

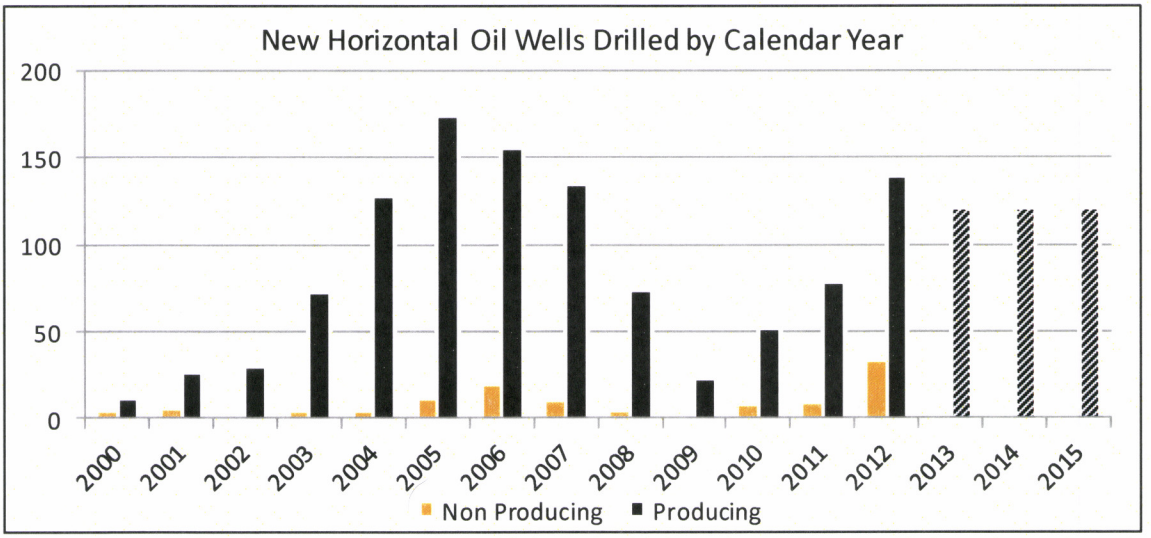
The slow growth in overall oil production is attributable to the continuing decline of production from vertical wells; horizontal production appears to be growing again after five consecutive years of decline following the 2006 peak.

Forecast Oil Production by Month of Estimate (in Millions of Barrels)					
CY	January	February	March	Mar-Jan	Mar-Feb
2013	25.7	28.0	27.3	1.6	(0.7)
2014	26.3	28.4	27.9	1.6	(0.5)
2015	26.8	28.7	28.4	1.6	(0.3)

The oil and natural gas production tax estimate contained SJ 2 was based on January price data, but the most recent production data came from June 2012. The March estimated production shown in the table above is based data through January 2013. The charts below illustrate the historical trends; forecast values are based on SJ 2.

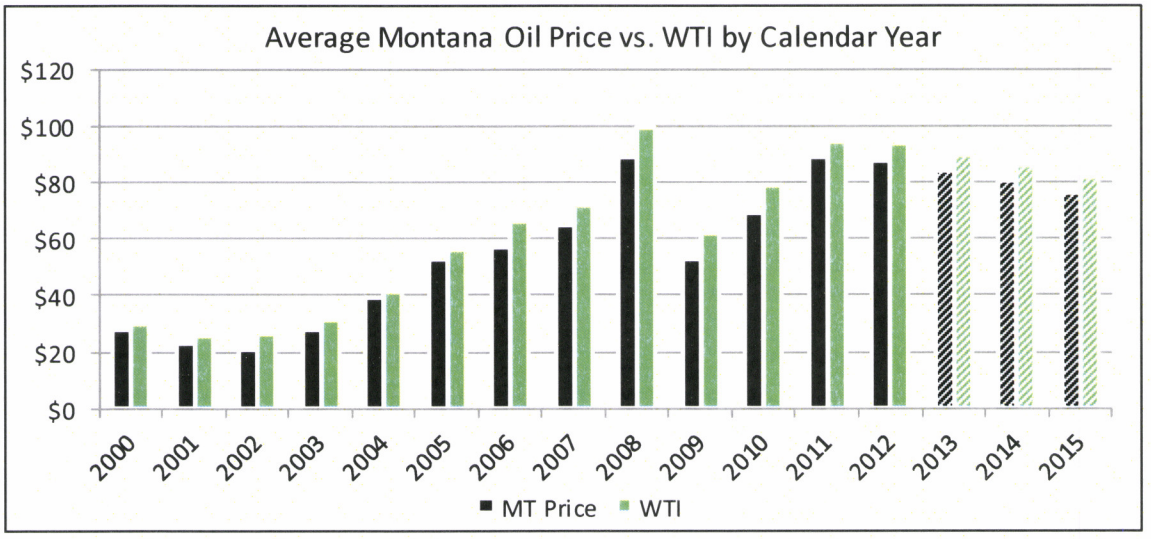






Oil Price

The forecast oil prices shown in the graph below are those contained in SJ 2.



Insurance Tax

Insurance tax collections are up $0.2 million or 0.7% over last year. The estimate contained in SJ 2 forecasts a growth of 1.7% in FY 2013. After several months of elevated collections, year-to-date revenue growth was actually lower than the official forecast. This change may be a temporary fluctuation due to unusually high collections in February 2012.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$59.0	$59.0	$59.0				
2013	59.9	59.7	59.7	($0.2)	0.7%	1.7%	1.3%
2014	52.0	51.8	51.8	(0.2)		-13.2%	-13.2%
2015	54.1	53.9	53.9	(0.2)		3.9%	4.0%
3-YR	$166.0	$165.5	$165.4	($0.6)			

Video Gambling Tax

Video gaming tax collections are up $3.1 million or 12.3% over last year, primarily due to the addition of video line games approved by the 62nd Legislature. The positive impact of this legislation is expected to continue with some modest improvement in overall machine play. The estimate contained in SJ 2 forecasts a growth of 7.2% in FY 2013.

The IHS March forecast did not change Montana per capita personal income significantly; therefore the model output remained the same.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$53.8	$53.8	$53.8				
2013	57.7	57.7	57.7	$0.0	12.3%	7.2%	7.2%
2014	59.9	59.9	59.9	-		3.9%	3.9%
2015	62.1	62.1	62.1	0.0		3.7%	3.7%
3-YR	$179.8	$179.8	$179.8	$0.0			

Remaining Sources

Revenue from the remaining sources was 7.3% below FY 2012, primarily due to timing in all other revenue. All other revenue collections are $15.3 million below last year at this time due to fund transfers in HB 604 and revised laws regarding stale-dated warrants in SB 335, both passed by the 62nd Legislature. In FY 2012, $10.9 million was transferred to the general fund per HB 604, and the unusually high $3.2 million in abandoned property transfer reflected the changes due to SB 335.

The IHS March forecast resulted is very small changes—both positive and negative—to most of the remaining sources. In aggregate, this resulted in slightly decreased model output, as shown the table below.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	YTD Revenue Growth	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$297.4	$297.4	$297.4				
2013	301.4	301.2	301.4	$0.0	-7.3%	1.3%	1.4%
2014	303.7	303.3	303.4	(0.3)		0.8%	0.7%
2015	307.2	306.5	306.6	(0.5)		1.1%	1.1%
3-YR	$912.2	$911.0	$911.4	($0.8)			

Guarantee Account

The guarantee account is used to pay BASE aid to school districts. It is the first source of funding for BASE aid and is statutorily appropriated. The amount of BASE aid not paid for by the guarantee account is paid for from the general fund. Revenue in the guarantee account includes distributable interest from the investments at the Board of Investments, income from state trust lands, and excess oil and gas revenue from school districts.

The changes shown in the table below between the March and February versions are due to small changes in interest rates, as forecast by IHS.

FY	SJ 2 Official Estimates	Feb 25 Model Output	Mar 15 Model Output	$ Difference	SJ 2 Estimated Growth	Mar 15 Model Growth
2012	$102.4	$102.4	$102.4			
2013	68.1	65.5	65.5	($2.6)	-33.5%	-36.1%
2014	65.7	57.5	57.4	(8.3)	-3.5%	-12.3%
2015	62.0	54.7	54.6	(7.4)	-5.6%	-4.9%
3-YR	$195.8	$177.6	$177.5	($18.3)		

WHAT TO WATCH FOR NEXT MONTH

New data will be released between now and the next report in mid-April. This data will be used to highlight changing economic trends and the corresponding impacts those changes may have on the general fund revenue estimate.

DATA SOURCES

- IHS national & Montana economic forecasts
- IHS reports and analysis
- SABHRS month-end data through March
- Board of Oil & Gas production data
- DOR selected tax return data