

DATE: January 9, 2015

TO: House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2015 General Fund Revenue Update #1

PURPOSE OF REPORT

This is the first of six monthly revenue updates throughout second half of FY 2015 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2015 relative to the revenue estimate contained in HJ 2.

SUMMARY

General fund revenue collections are \$62.9 million or 6.8% ahead of FY 2014 amounts, and are currently above the overall growth estimate contained in HJ 2.

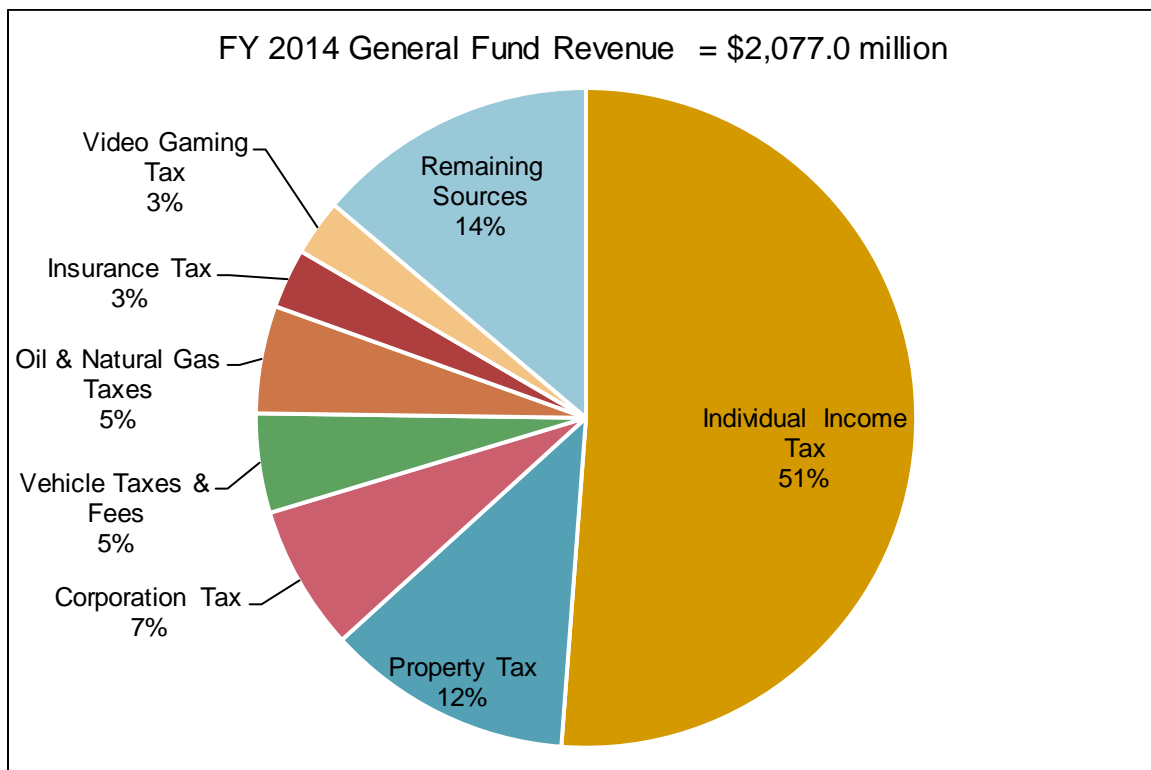
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2015 general fund revenues through the end of December are \$62.9 million or 6.8% ahead of FY 2014 revenues through the same period; this increase is above the HJ 2 estimated growth of 2.7%. All major revenue sources and any other sources with significant differences will be discussed in further detail in the next section.

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2014	HJ 2 Est. FY 2015	HJ 2 Est. % Change	12/31/2013 FY 2014	12/31/2014 FY 2015	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,063.284	\$1,108.333	4.2%	\$590.563	\$630.162	\$39.599	6.7%
Property Tax	250.344	249.834	-0.2%	95.350	91.681	(3.669)	-3.8%
Corporation Tax	147.548	157.683	6.9%	65.901	94.935	29.034	44.1%
Vehicle Taxes & Fees	101.088	102.290	1.2%	42.528	41.764	(0.764)	-1.8%
Oil & Natural Gas Taxes	109.606	95.233	-13.1%	-	-	-	-
Insurance Tax	60.873	63.928	5.0%	20.607	13.625	(6.982)	-33.9%
Video Gaming Tax	57.147	60.423	5.7%	14.350	14.802	0.452	3.2%
Other Business Taxes							
Drivers License Fee	4.051	4.397	8.6%	1.881	2.073	0.193	10.2%
Investment Licenses	7.115	7.257	2.0%	1.119	0.594	(0.526)	-47.0%
Lodging Facilities Sales Tax	17.725	19.169	8.1%	7.544	8.225	0.681	9.0%
Public Contractor's Tax	0.887	2.817	217.6%	2.103	3.743	1.640	78.0%
Railroad Car Tax	2.418	3.641	50.6%	1.623	2.838	1.215	74.8%
Rental Car Sales Tax	3.521	3.749	6.5%	1.539	1.703	0.164	10.6%
Retail Telecom Excise Tax	19.657	20.186	2.7%	4.999	4.714	(0.285)	-5.7%
Other Natural Resource Taxes							
Coal Severance Tax	14.745	15.427	4.6%	3.763	4.507	0.744	19.8%
Electrical Energy Tax	4.280	4.721	10.3%	0.971	1.326	0.355	36.5%
Metal Mines Tax	7.948	8.004	0.7%	0.012	0.000	(0.012)	-99.2%
U.S. Mineral Leasing	27.744	26.888	-3.1%	11.045	12.255	1.210	11.0%
Wholesale Energy Trans Tax	3.112	3.652	17.4%	0.733	0.983	0.250	34.1%
Other Interest Earnings							
Coal Trust Interest Earnings	21.996	20.473	-6.9%	7.482	7.213	(0.269)	-3.6%
TCA Interest Earnings	1.756	1.605	-8.6%	0.852	0.820	(0.032)	-3.7%
Other Consumption Taxes							
Beer Tax	3.023	3.110	2.9%	1.377	1.359	(0.017)	-1.3%
Cigarette Tax	30.623	30.363	-0.8%	15.478	14.686	(0.793)	-5.1%
Liquor Excise Tax	18.418	19.086	3.6%	7.960	8.229	0.270	3.4%
Liquor Profits	10.500	10.744	2.3%	-	-	-	-
Lottery Profits	12.091	12.596	4.2%	3.068	2.555	(0.513)	-16.7%
Tobacco Tax	5.929	6.235	5.2%	2.687	2.721	0.034	1.3%
Wine Tax	2.250	2.299	2.2%	0.990	1.017	0.027	2.7%
Other Sources							
All Other Revenue	37.320	39.492	5.8%	17.389	17.592	0.203	1.2%
Highway Patrol Fines	4.142	4.224	2.0%	1.674	1.605	(0.069)	-4.1%
Nursing Facilities Fee	4.961	4.859	-2.1%	1.228	1.199	(0.029)	-2.3%
Public Institution Reimbursement	17.298	17.123	-1.0%	4.220	4.967	0.747	17.7%
Tobacco Settlement	3.646	3.176	-12.9%	-	-	-	-
Largest Seven Subtotal	1,789.890	1,837.724	2.7%	829.298	886.970	57.672	7.0%
Remaining Sources Subtotal	287.155	295.294	2.8%	101.739	106.926	5.187	5.1%
Grand Total	\$2,077.044	\$2,133.018	2.7%	\$931.038	\$993.896	\$62.859	6.8%

MAJOR SOURCES

In FY 2014, the largest seven revenue sources accounted for just over 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



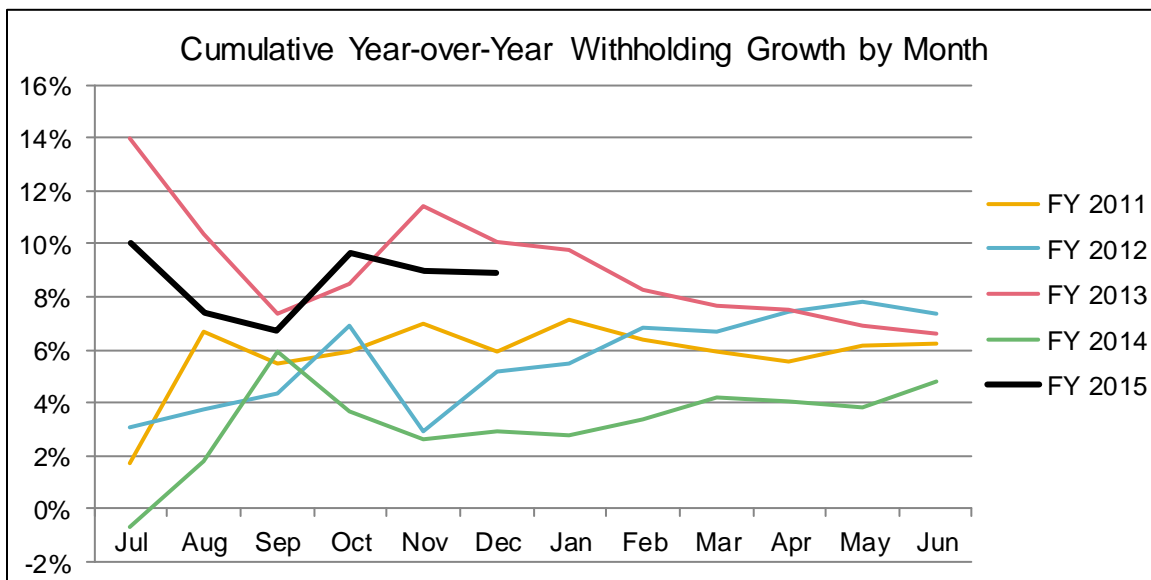
Individual Income Tax: Above Estimate; Growth Driven by Strong Withholding

Individual income tax collections are \$39.6 million or 6.7% above last year, and above the anticipated growth of 4.2% contained in HJ 2. Withholding tax collections are posting robust growth of 8.9% over last year, and combined estimated and current year payments are above last year's amounts by 9.7%.

Individual Income Tax (\$ Millions)				
	YTD 2015	YTD 2014	\$ Difference	% Difference
Withholding	\$405.5	\$372.3	\$33.2	8.9%
Estimated Payments	116.7	101.9	14.8	14.5%
Current Year Payments	18.0	20.9	(3.0)	-14.2%
Audit, P&I, Amended	14.9	12.8	2.2	16.9%
Refunds	(66.3)	(56.0)	(10.3)	18.3%
Refund Accrual Reversal	132.6	129.1	3.5	2.7%
Partnership Income Tax	3.8	3.5	0.3	8.0%
Mineral Royalties	4.9	6.0	(1.1)	-18.2%
Total	\$630.2	\$590.6	\$39.6	6.7%

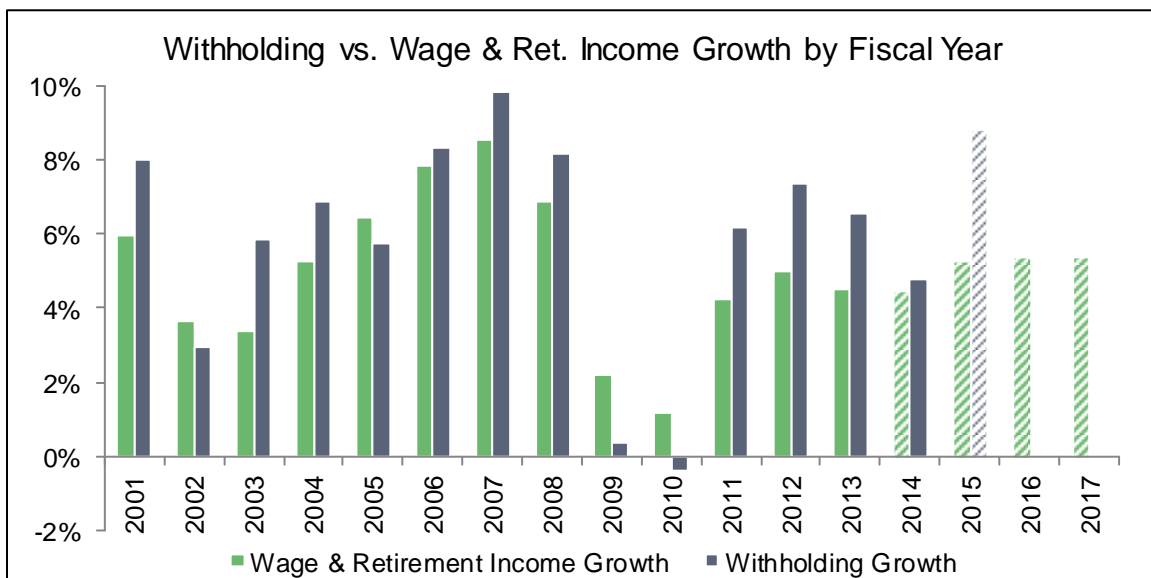
The withholding shows strong growth when compared FY 2014 collections; however, as shown in the chart below, withholding growth tends to be relatively volatile in the first half of the year. By February, the year-

over-year growth seems to stabilize, along with potential assessments of overall FY 2015 withholding growth.



Withholding tax growth reflects wage and retirement income growth. The chart below illustrates the annual withholding growth by fiscal year, and an approximation of fiscal year wages and retirement income growth. Income information provided on tax forms is on a calendar year basis; the transformation to a fiscal year basis assumes that wages and retirement income are earned equally throughout the year.

It is clear from the chart that withholding is not an exact predictor of the corresponding income growth. Withholding growth has come in higher than combined wages and retirement income growth in the past four years, though the difference between the two growth rates varies. The lighter green bars to the right show the growth of wage and retirement income as included in HJ 2. The light gray bar is the current year-to-date withholding growth. If this level of growth is sustained through February, it may suggest that CY 2014 and CY 2015 growth assumptions in HJ 2 are low.



Property Tax: Know More by End of January

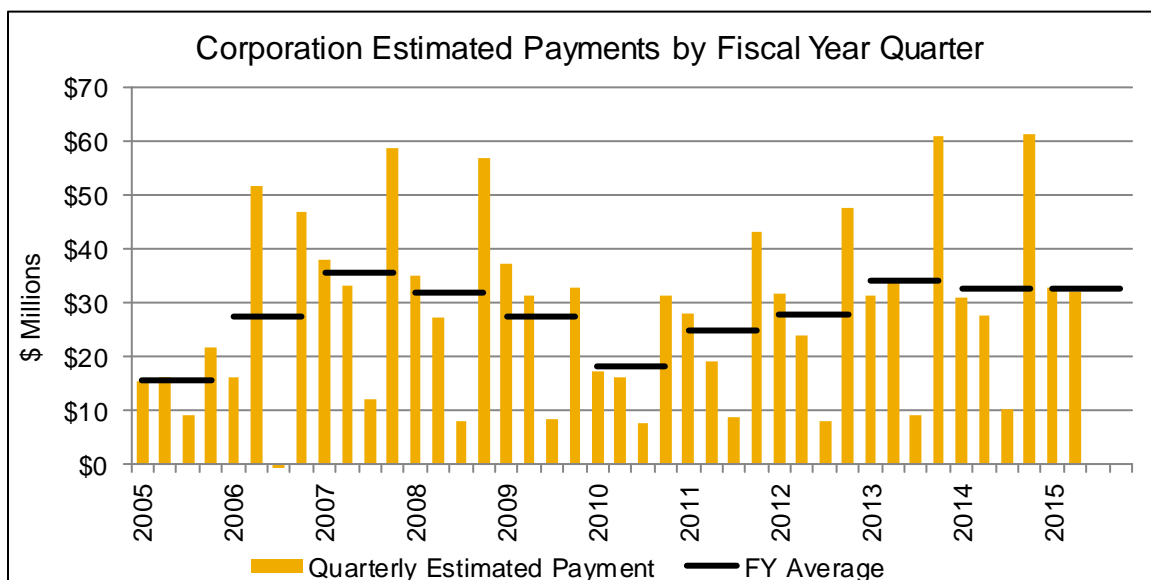
Property tax collections are below last year by \$3.7 million or 3.8%, and below the decline of 0.2% anticipated in HJ 2. The proportion of fall property tax payments that are remitted to the state varies between December and January, so the report next month will be able to give more clarity to the year-to-date position of property tax revenue. Total collections are expected to decline from FY 2014 due in large part to decreases in class 8 business equipment property as the result of [SB 96 \(2013 Session\)](#) as well as changes in federal forest payments.

Corporation License Tax: Above Estimate Primarily Due to Large Audit

Corporation income tax collections through the end of December are \$29.0 million or 44.1% above last year, and above the anticipated growth of 6.9% contained in HJ 2. The increase is driven by a large audit collection in December, which is currently shown in the corporation tax account in the table below; it will be distributed to the appropriate accounts in coming months.

Year-to-Date Corporation Income Tax (\$ Millions)				
Account	YTD 2015	YTD 2014	\$ Difference	% Difference
Corporation Tax	\$28.0	\$5.4	\$22.6	417.5%
Estimated Payments	65.1	58.5	6.5	11.1%
Refunds	(12.3)	(7.6)	(4.8)	62.9%
Refund Accrual Reversal	8.1	5.6	2.5	44.0%
Audit, P&I, Amended	6.1	3.9	2.2	56.9%
Total	\$94.9	\$65.9	\$29.0	44.1%

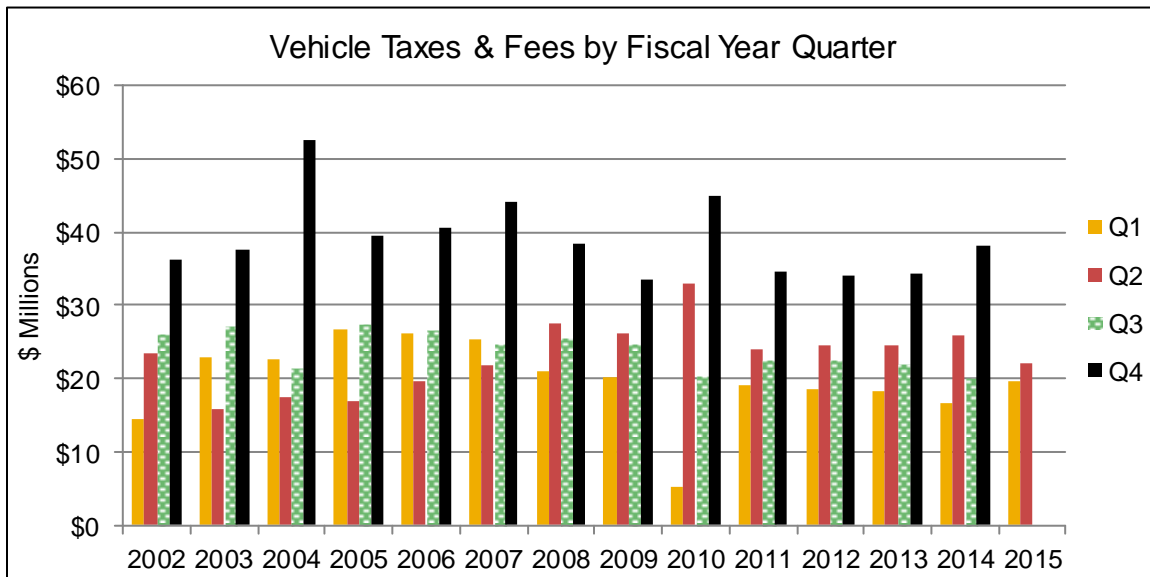
The best indicator for corporation license tax collections is estimated payments, which account for nearly 80% of total corporation tax collections on average. As shown in the figure below, estimated payments have been quite volatile from year-to-year and quarter-to-quarter. FY 2015 estimated payments through the second quarter are above the first two quarters of FY 2014.



Vehicle Fees & Taxes: Slightly Below Estimate

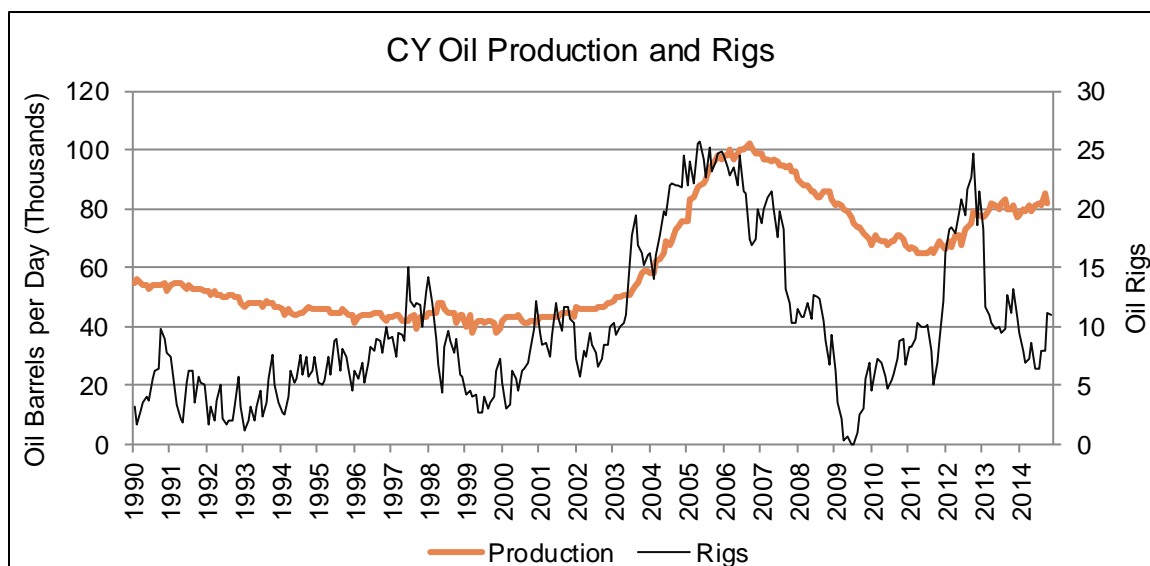
Six months into FY 2015, vehicle taxes and fees are 1.8% or \$0.8 million below collections last year at this time. The decline appears to be a result of lower collections in November and December. The chart below

illustrates quarterly collections since 2002; although first quarter FY 2015 collections increased for the first time since FY 2011, the decline in the second quarter offset that increase. Collections are below the anticipated growth rate of 1.2% contained in HJ 2.

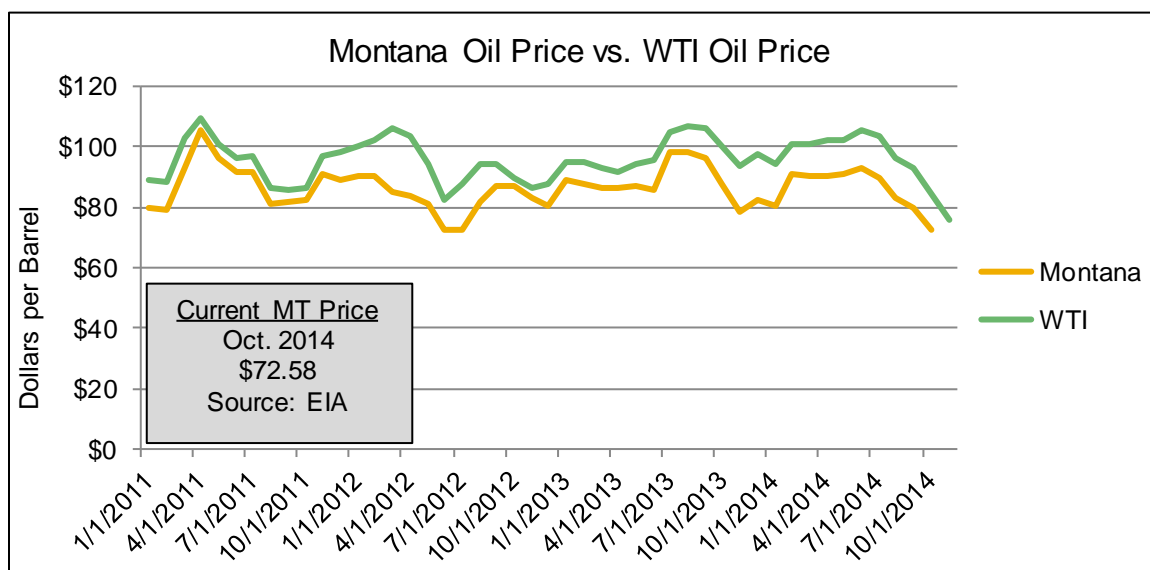


Oil & Natural Gas Production Tax: Too Soon to Tell, But Likely Down

Oil and natural gas production tax collections show zero through December. 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. Preliminary data from the Department of Revenue suggests that collections for the first quarter of FY 2015 will be somewhat below FY 2014, but as this represents the first quarter of FY 2015 when oil prices first started dropping, collections will likely be stronger than in subsequent FY 2015 quarters. Montana has yet to see a reduction in rigs or monthly production, as shown in the following chart.



Price reductions remain the big story. The following chart shows are monthly average price for Montana. Although there it has a two to three month lag, it clearly illustrates the relationship between WTI and Montana oil prices. During the beginning of January 2015, WTI was close to \$50 a barrel.



Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$0.5 million or 3.2% above collections from last year. In HJ 2, FY 2015 video gambling revenue was forecast to grow by 5.7%.

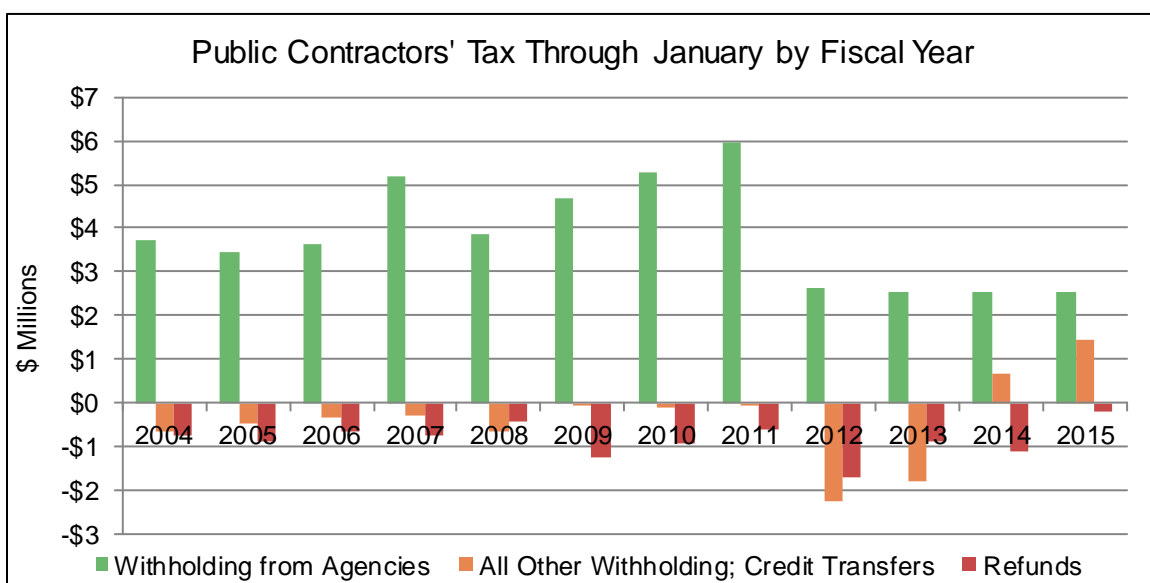
Insurance Tax: Slightly Below Estimate due to Timing

Current insurance tax collections are 33.9% or \$7.0 million below FY 2013 year-to-date. Payments historically received at the end of December have this year come in at the beginning of January. The next monthly update will give a clearer picture of the actual change in collections.

OTHER KEY DIFFERENCES

Public Contractors' Tax: Lower-than-Estimated Growth due to Volatility

Public contractors' tax collections are \$1.6 million or 78.0% above last year, though still below the anticipated growth of 217.6% contained in HJ 2. There can be a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects have produced unusual future collection patterns in the past. At this time, the Department of Revenue is caught up with processing and anticipates an average time lag of 45 days.



Railroad Car Tax: Potential Timing Issue; Likely on Track with Estimate

Railroad car tax is up \$1.2 million or 74.8% compared to this time last year. There are likely some timing issues with this as it was estimated from tax bills that railroad car tax will be up 50.6% this year.

Coal Severance Tax: Strong Growth Due to Distribution Change

General fund collections for coal severance tax are \$0.7 million or 19.8% above year-to-date collections from FY 2014. The main reason for this is a distribution change that occurred at the end of the first quarter of FY 2014. The Coal Natural Resource account had been receiving 5.8% during this period in FY 2014 but only received 2.9% in FY 2015, the remainder diverted to the general fund. This change accounts for \$0.5 million of the general fund growth.

U.S. Mineral Royalties: Timing Issues

U.S. mineral royalties are up \$1.2 million or 11% from this time last year; this is likely due to timing given the historical volatility of the payments. More will be known when data comes in next month.