

DATE: February 6, 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 #2

## **PURPOSE OF REPORT**

This is the second 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 \$81.2 million or 6.9% ahead of FY 2014 amounts, and are currently above the overall growth estimate contained in HJ 2.

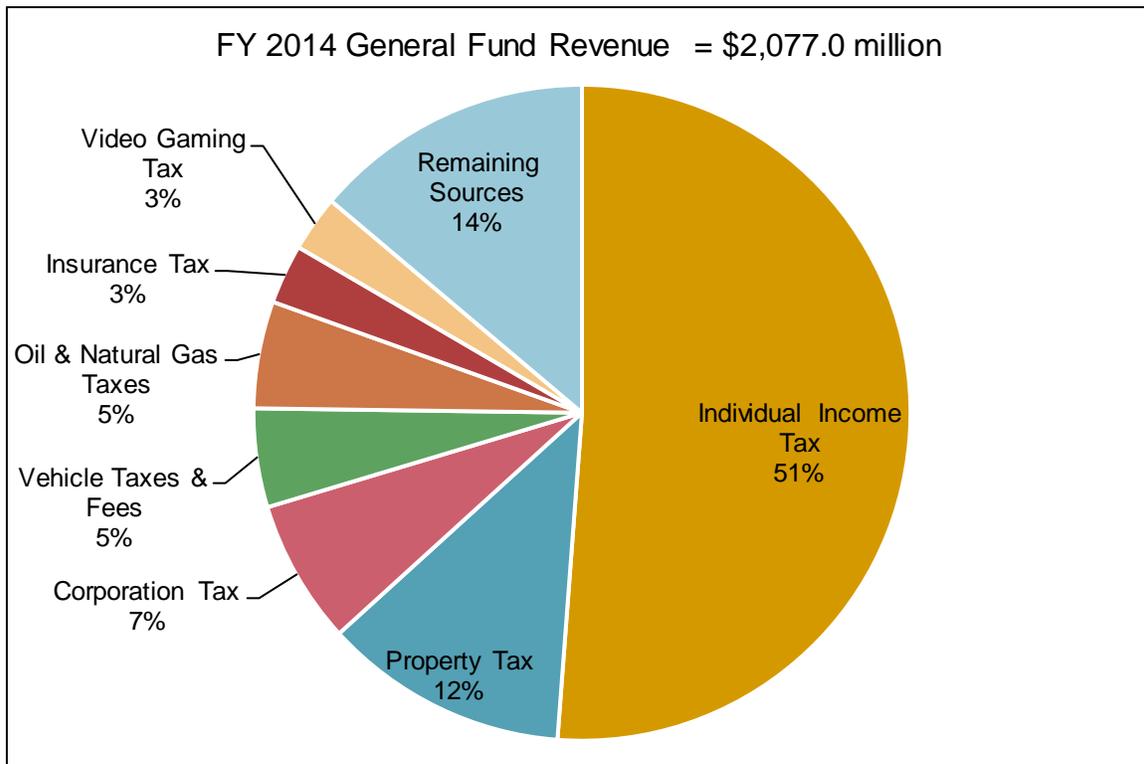
## YEAR-TO-DATE GENERAL FUND REVENUE

FY 2015 general fund revenues through the end of January are \$81.2 million or 6.9% 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<br>FY 2014  | HJ 2 Est.<br>FY 2015 | HJ 2 Est.<br>% Change | 1/31/2014<br>FY 2014 | 1/31/2015<br>FY 2015 | YTD<br>Difference | YTD<br>% Change |
| <b>Largest Seven Sources</b>           |                    |                      |                       |                      |                      |                   |                 |
| Individual Income Tax                  | \$1,063.284        | \$1,108.333          | 4.2%                  | \$728.534            | \$763.655            | \$35.121          | 4.8%            |
| Property Tax                           | 250.344            | 249.834              | -0.2%                 | 129.955              | 133.921              | 3.966             | 3.1%            |
| Corporation Tax                        | 147.548            | 157.683              | 6.9%                  | 65.716               | 100.217              | 34.501            | 52.5%           |
| Vehicle Taxes & Fees                   | 101.088            | 102.290              | 1.2%                  | 50.226               | 48.628               | (1.598)           | -3.2%           |
| Oil & Natural Gas Taxes                | 109.606            | 95.233               | -13.1%                | 29.201               | 26.182               | (3.020)           | -10.3%          |
| Insurance Tax                          | 60.873             | 63.928               | 5.0%                  | 20.648               | 26.128               | 5.480             | 26.5%           |
| Video Gaming Tax                       | 57.147             | 60.423               | 5.7%                  | 27.975               | 29.520               | 1.545             | 5.5%            |
| <b>Other Business Taxes</b>            |                    |                      |                       |                      |                      |                   |                 |
| Drivers License Fee                    | 4.051              | 4.397                | 8.6%                  | 2.167                | 2.373                | 0.206             | 9.5%            |
| Investment Licenses                    | 7.115              | 7.257                | 2.0%                  | 6.363                | 6.079                | (0.284)           | -4.5%           |
| Lodging Facilities Sales Tax           | 17.725             | 19.169               | 8.1%                  | 9.146                | 9.637                | 0.492             | 5.4%            |
| Public Contractor's Tax                | 0.887              | 2.817                | 217.6%                | 1.990                | 3.688                | 1.698             | 85.3%           |
| Railroad Car Tax                       | 2.418              | 3.641                | 50.6%                 | 1.624                | 2.839                | 1.215             | 74.8%           |
| Rental Car Sales Tax                   | 3.521              | 3.749                | 6.5%                  | 1.794                | 2.086                | 0.292             | 16.3%           |
| Retail Telecom Excise Tax              | 19.657             | 20.186               | 2.7%                  | 5.968                | 5.444                | (0.524)           | -8.8%           |
| <b>Other Natural Resource Taxes</b>    |                    |                      |                       |                      |                      |                   |                 |
| Coal Severance Tax                     | 14.745             | 15.427               | 4.6%                  | 7.614                | 8.636                | 1.022             | 13.4%           |
| Electrical Energy Tax                  | 4.280              | 4.721                | 10.3%                 | 1.920                | 2.384                | 0.464             | 24.2%           |
| Metal Mines Tax                        | 7.948              | 8.004                | 0.7%                  | 0.019                | 0.000                | (0.019)           | -99.4%          |
| U.S. Mineral Leasing                   | 27.744             | 26.888               | -3.1%                 | 13.294               | 14.239               | 0.945             | 7.1%            |
| Wholesale Energy Trans Tax             | 3.112              | 3.652                | 17.4%                 | 1.436                | 1.824                | 0.387             | 27.0%           |
| <b>Other Interest Earnings</b>         |                    |                      |                       |                      |                      |                   |                 |
| Coal Trust Interest Earnings           | 21.996             | 20.473               | -6.9%                 | 9.180                | 9.157                | (0.023)           | -0.3%           |
| TCA Interest Earnings                  | 1.756              | 1.605                | -8.6%                 | 0.985                | 0.981                | (0.003)           | -0.3%           |
| <b>Other Consumption Taxes</b>         |                    |                      |                       |                      |                      |                   |                 |
| Beer Tax                               | 3.023              | 3.110                | 2.9%                  | 1.599                | 1.584                | (0.015)           | -1.0%           |
| Cigarette Tax                          | 30.623             | 30.363               | -0.8%                 | 17.267               | 16.691               | (0.576)           | -3.3%           |
| Liquor Excise Tax                      | 18.418             | 19.086               | 3.6%                  | 9.847                | 10.200               | 0.353             | 3.6%            |
| 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%                  | 3.107                | 3.163                | 0.057             | 1.8%            |
| Wine Tax                               | 2.250              | 2.299                | 2.2%                  | 1.209                | 1.252                | 0.043             | 3.6%            |
| <b>Other Sources</b>                   |                    |                      |                       |                      |                      |                   |                 |
| All Other Revenue                      | 37.320             | 39.492               | 5.8%                  | 19.886               | 21.260               | 1.374             | 6.9%            |
| Highway Patrol Fines                   | 4.142              | 4.224                | 2.0%                  | 1.980                | 1.909                | (0.071)           | -3.6%           |
| Nursing Facilities Fee                 | 4.961              | 4.859                | -2.1%                 | 2.101                | 1.932                | (0.169)           | -8.0%           |
| Public Institution Reimbursement       | 17.298             | 17.123               | -1.0%                 | 6.133                | 4.954                | (1.179)           | -19.2%          |
| Tobacco Settlement                     | 3.646              | 3.176                | -12.9%                | -                    | -                    | -                 | -               |
| Largest Seven Subtotal                 | 1,789.890          | 1,837.724            | 2.7%                  | 1,052.255            | 1,128.251            | 75.996            | 7.2%            |
| Remaining Sources Subtotal             | 287.155            | 295.294              | 2.8%                  | 129.698              | 134.870              | 5.172             | 4.0%            |
| <b>Grand Total</b>                     | <b>\$2,077.044</b> | <b>\$2,133.018</b>   | <b>2.7%</b>           | <b>\$1,181.953</b>   | <b>\$1,263.120</b>   | <b>\$81.168</b>   | <b>6.9%</b>     |

## 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 \$35.1 million or 4.8% above last year, and above the anticipated growth of 4.2% contained in HJ 2. Withholding tax collections slowed somewhat from last month to growth of 8.0% over last year, and combined estimated and current year payments are above last year's amounts by 5.8%.

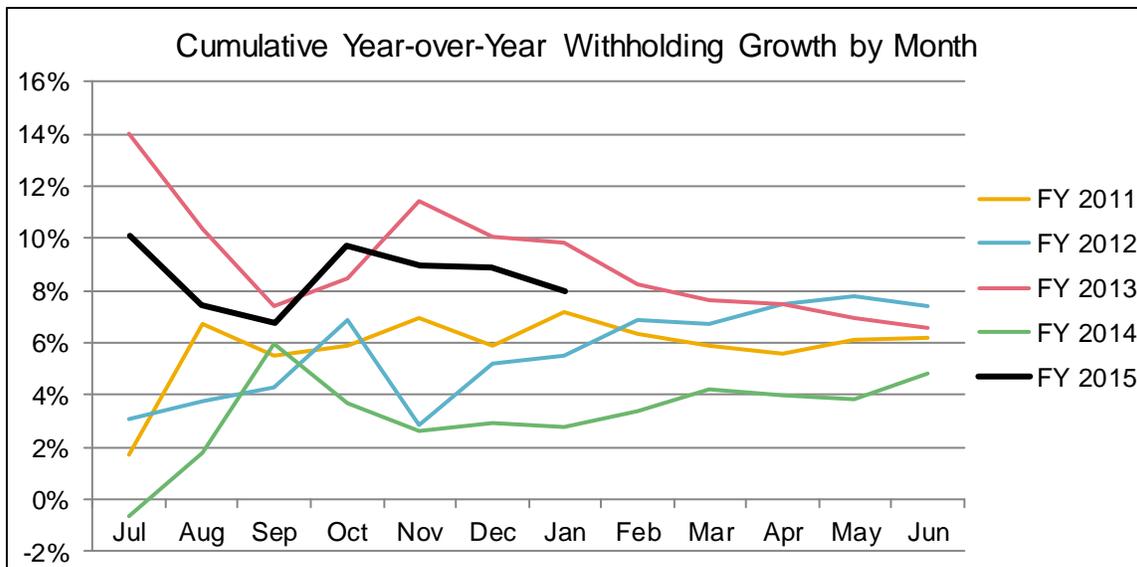
| Individual Income Tax   |                |                |               |              |
|-------------------------|----------------|----------------|---------------|--------------|
| (\$ Millions)           |                |                |               |              |
|                         | YTD 2015       | YTD 2014       | \$ Difference | % Difference |
| Withholding             | \$487.6        | \$451.5        | \$36.1        | 8.0%         |
| Estimated Payments      | 169.0          | 154.9          | 14.1          | 9.1%         |
| Current Year Payments   | 18.4           | 22.3           | (3.9)         | -17.5%       |
| Audit, P&I, Amended     | 19.0           | 16.7           | 2.3           | 13.9%        |
| Refunds                 | (75.4)         | (59.7)         | (15.7)        | 26.3%        |
| Refund Accrual Reversal | 132.6          | 129.1          | 3.5           | 2.7%         |
| Partnership Income Tax  | 4.2            | 4.4            | (0.2)         | -3.4%        |
| Mineral Royalties       | 8.1            | 9.3            | (1.2)         | -12.5%       |
| <b>Total</b>            | <b>\$763.7</b> | <b>\$728.5</b> | <b>\$35.1</b> | <b>4.8%</b>  |

Last month, additional information was requested regarding the refund accrual reversal. According to the Department of Revenue,

*At the end of each fiscal year, the Department of Revenue calculates the amount of individual income tax and corporation tax refunds it will issue in the next fiscal year that pertain to individual income tax and corporation tax payments received during the fiscal year. In October of the next fiscal year, the refund accruals are reversed and the estimated refund payable accrual amounts are moved from the current fiscal year to the prior fiscal year. This way, the refunds attributed to the prior fiscal year are reflected as prior year refunds. The purpose of these entries is the match expenses (refunds) against revenues in the year they are received.*

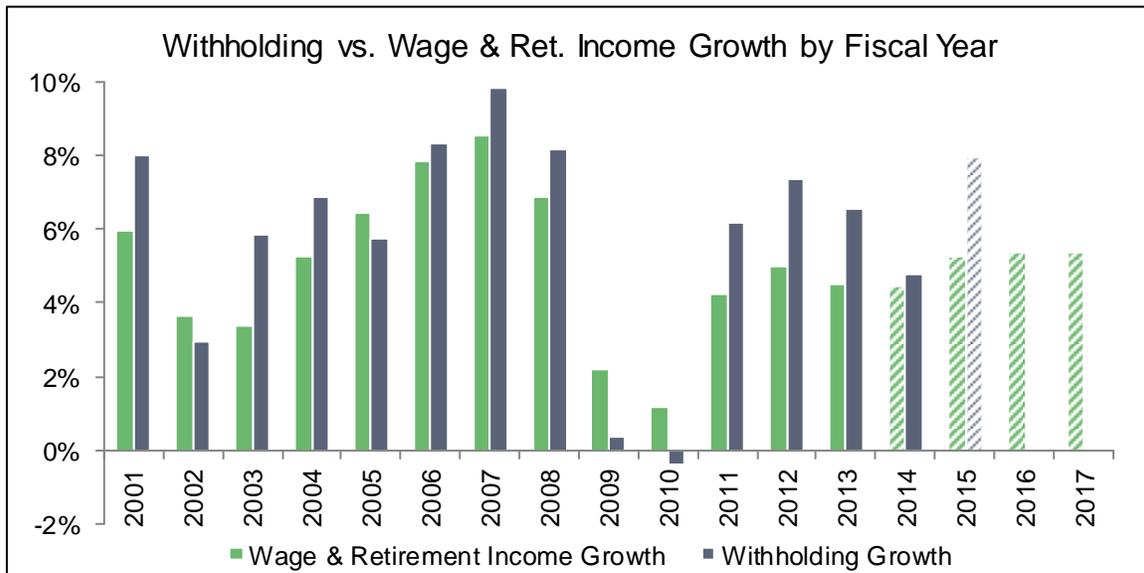
If the refund accrual reversal is not separated out from the refunds total, then net refunds is a positive number—which is not illustrative of the amount of money that is going back to taxpayers. It is for this reason that the accrual reversal portion is shown on a separate line.

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. Note that the slower growth in FY 2014 positively impacts the withholding growth of FY 2015.



Withholding tax growth reflects wage and retirement income growth, and taxpayer behavior changes. The following chart 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, in part due to taxpayer behavior. 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.



**Property Tax: Above Estimate, Likely due to Timing**

Property tax collections are above last year by \$4.0 million or 3.1%, and above the decline of 0.2% anticipated in HJ 2. While year-to-date collections have bounced from below estimate last month to above this month, it is still early in the year. Total collections are still 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 Income Tax: Above Estimate Primarily Due to Large Audit**

Corporation income tax collections through the end of January are \$34.5 million or 52.5% above last year, and above the anticipated growth of 6.9% contained in HJ 2. The increase is driven by a large audit collection.

| Corporation Income Tax  |                |               |               |              |
|-------------------------|----------------|---------------|---------------|--------------|
| (\$ Millions)           |                |               |               |              |
| Account                 | YTD 2015       | YTD 2014      | \$ Difference | % Difference |
| Corporation Tax         | \$12.1         | \$6.2         | \$5.9         | 94.5%        |
| Estimated Payments      | 70.6           | 62.2          | 8.4           | 13.5%        |
| Refunds                 | (14.1)         | (12.8)        | (1.3)         | 10.0%        |
| Refund Accrual Reversal | 8.1            | 5.6           | 2.5           | 44.0%        |
| Audit, P&I, Amended     | 23.5           | 4.5           | 19.0          | 425.0%       |
| <b>Total</b>            | <b>\$100.2</b> | <b>\$65.7</b> | <b>\$34.5</b> | <b>52.5%</b> |

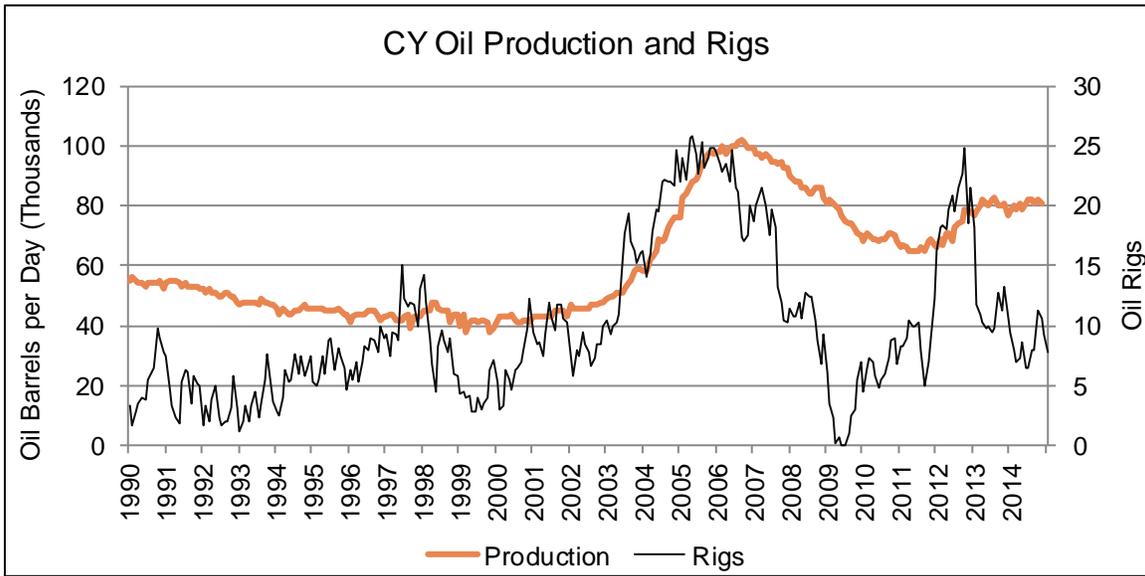
**Vehicle Fees & Taxes: Slightly Below Estimate**

Vehicle taxes and fees through the end of January are 3.2% below this time last year. The HJ 2 estimate assumed a growth of 1.2%. The decrease in revenue is primarily due to light vehicle registration revenue, which is 5.4% below last year’s collections.

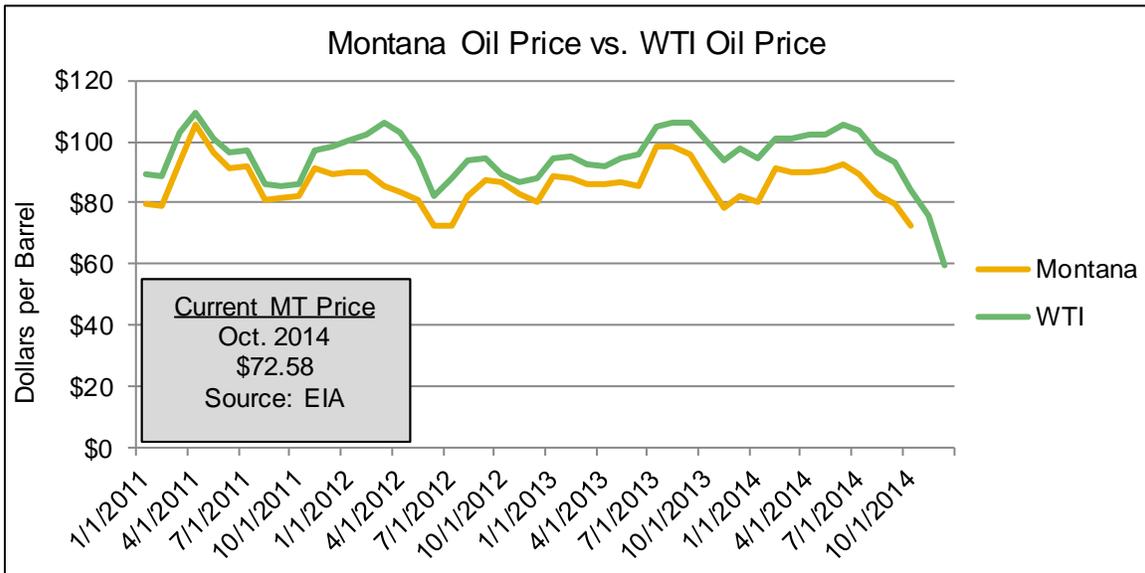
**Oil & Natural Gas Production Tax: Starting to Decline**

Oil and natural gas production tax collections are down \$3.0 million or 10.3% below this time last year. While this is a significant decline, this represents the first quarter of FY 2015 when oil prices first started dropping. Thus it likely represents stronger collections that are expected in subsequent FY 2015 quarters. In

addition, the number of oil rigs in Montana has fallen from ten in November to five in the most recent weekly count. Rigs in the chart below are shown as monthly averages.



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



### Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$1.5 million or 5.5% above collections from last year. In HJ 2, FY 2015 video gambling revenue was forecast to grow by 5.7%, so this seems to be tracking well.

### Insurance Tax: Above Estimate due to Last Year's Timing Issues

Current insurance tax collections are 26.5% or \$5.5 million above FY 2013 year-to-date. At this time in FY 2014, no revenue had been realized from either the HCSC buyout of BCBS or additional policies purchased in accordance with the ACA. Some of that calendar year 2013 revenue was paid in April 2014 in addition to

that quarter's expected payments. That additional lump sum was around \$5.0 million; accounting for that payment would put collections almost exactly in line with the estimate.

## **OTHER KEY DIFFERENCES**

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

Public contractors' tax collections are \$1.7 million or 85.3% 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 remains the same as last month, 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 \$1.0 million or 13.4% 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. The year-to-date difference last month was 19.8% compared to this month's 13.4%, due to the distribution shift in the first quarter only, this year-to-date percentage difference is expected to continue to decline.

### **All Other Revenue: Slightly Above Estimate**

Through January, all other revenue is 6.9% or \$1.4 million above last year. This is also slightly above the HJ 2 estimate of a growth of 5.8%. The primary driver of this growth is an increase in year-to-date abandoned property collections of \$2.4 million.

### **Public Institution Reimbursements: Below Estimate, Likely to Rebound**

Public institution reimbursements are currently 19.2% or \$1.2 million behind last fiscal year. At this time, it is hard to say whether this is meaningful as collections for this source are historically erratic.