

DATE: April 7, 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 #4

PURPOSE OF REPORT

This is the fourth 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 \$119.5 million or 9.0% ahead of FY 2014 amounts, and are currently above the overall growth estimate contained in HJ 2.

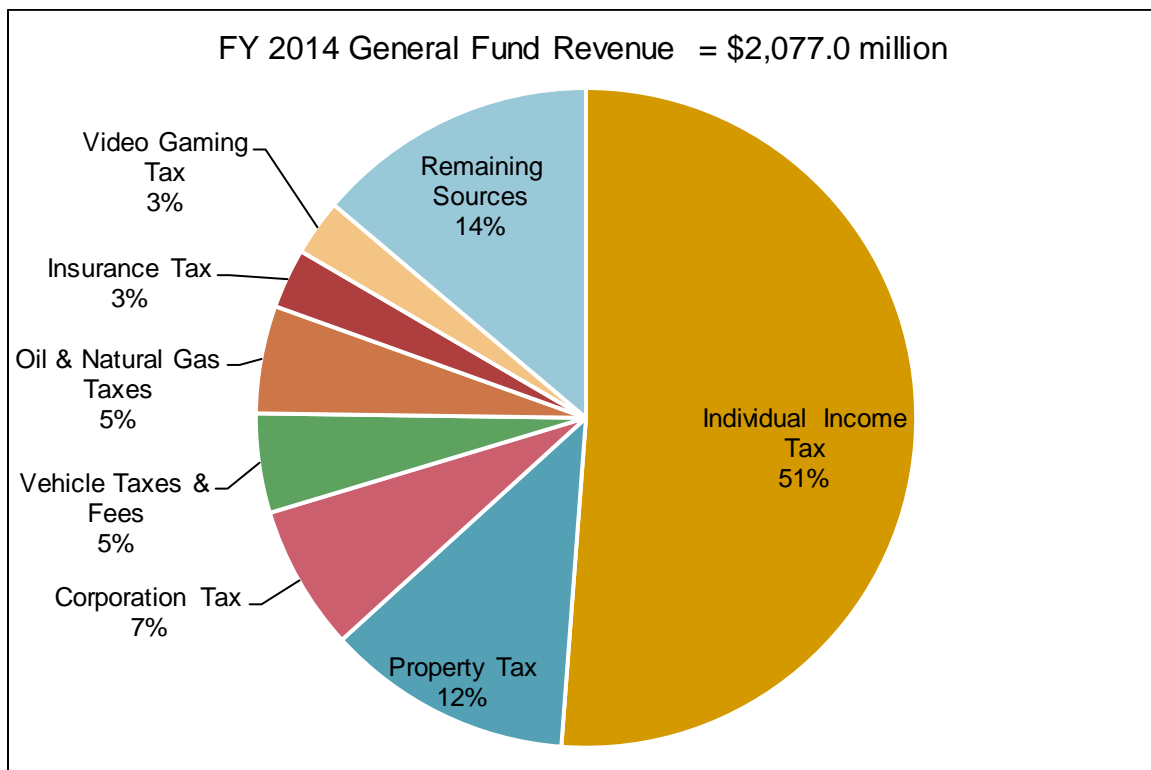
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2015 general fund revenues through the end of March are \$119.5 million or 9.0% 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 following sections.

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2014	HJ 2 Est. FY 2015	HJ 2 Est. % Change	3/31/2014 FY 2014	3/31/2015 FY 2015	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,063.284	\$1,108.333	4.2%	\$795.316	\$855.579	\$60.263	7.6%
Property Tax	250.344	249.834	-0.2%	142.188	142.696	0.508	0.4%
Corporation Tax	147.548	157.683	6.9%	81.817	115.143	33.326	40.7%
Vehicle Taxes & Fees	101.088	102.290	1.2%	62.893	70.103	7.210	11.5%
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%	23.366	32.747	9.381	40.2%
Video Gaming Tax	57.147	60.423	5.7%	28.095	29.614	1.519	5.4%
Other Business Taxes							
Drivers License Fee	4.051	4.397	8.6%	2.833	3.266	0.433	15.3%
Investment Licenses	7.115	7.257	2.0%	6.699	6.339	(0.361)	-5.4%
Lodging Facilities Sales Tax	17.725	19.169	8.1%	10.300	11.318	1.017	9.9%
Public Contractor's Tax	0.887	2.817	217.6%	0.228	3.148	2.920	1278.3%
Railroad Car Tax	2.418	3.641	50.6%	1.692	2.847	1.155	68.3%
Rental Car Sales Tax	3.521	3.749	6.5%	2.185	2.347	0.162	7.4%
Retail Telecom Excise Tax	19.657	20.186	2.7%	9.929	9.500	(0.429)	-4.3%
Other Natural Resource Taxes							
Coal Severance Tax	14.745	15.427	4.6%	7.684	8.713	1.030	13.4%
Electrical Energy Tax	4.280	4.721	10.3%	2.018	2.653	0.634	31.4%
Metal Mines Tax	7.948	8.004	0.7%	0.510	0.392	(0.118)	-23.2%
U.S. Mineral Leasing	27.744	26.888	-3.1%	17.308	17.723	0.415	2.4%
Wholesale Energy Trans Tax	3.112	3.652	17.4%	1.470	1.948	0.478	32.6%
Other Interest Earnings							
Coal Trust Interest Earnings	21.996	20.473	-6.9%	13.000	12.784	(0.216)	-1.7%
TCA Interest Earnings	1.756	1.605	-8.6%	1.225	1.350	0.125	10.2%
Other Consumption Taxes							
Beer Tax	3.023	3.110	2.9%	2.015	2.000	(0.015)	-0.8%
Cigarette Tax	30.623	30.363	-0.8%	21.626	21.236	(0.390)	-1.8%
Liquor Excise Tax	18.418	19.086	3.6%	12.338	12.803	0.466	3.8%
Liquor Profits	10.500	10.744	2.3%	-	-	-	-
Lottery Profits	12.091	12.596	4.2%	3.068	6.575	3.507	114.3%
Tobacco Tax	5.929	6.235	5.2%	4.042	4.095	0.053	1.3%
Wine Tax	2.250	2.299	2.2%	1.525	1.573	0.048	3.1%
Other Sources							
All Other Revenue	37.320	39.492	5.8%	23.726	23.318	(0.408)	-1.7%
Highway Patrol Fines	4.142	4.224	2.0%	2.681	2.516	(0.165)	-6.1%
Nursing Facilities Fee	4.961	4.859	-2.1%	2.487	2.424	(0.063)	-2.5%
Public Institution Reimbursement	17.298	17.123	-1.0%	8.743	8.736	(0.008)	-0.1%
Tobacco Settlement	3.646	3.176	-12.9%	-	-	-	-
Largest Seven Subtotal	1,789.890	1,837.724	2.7%	1,162.875	1,272.065	109.189	9.4%
Remaining Sources Subtotal	287.155	295.294	2.8%	159.331	169.602	10.271	6.4%
Grand Total	\$2,077.044	\$2,133.018	2.7%	\$1,322.206	\$1,441.667	\$119.461	9.0%

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 Primarily Due to Strong Withholding

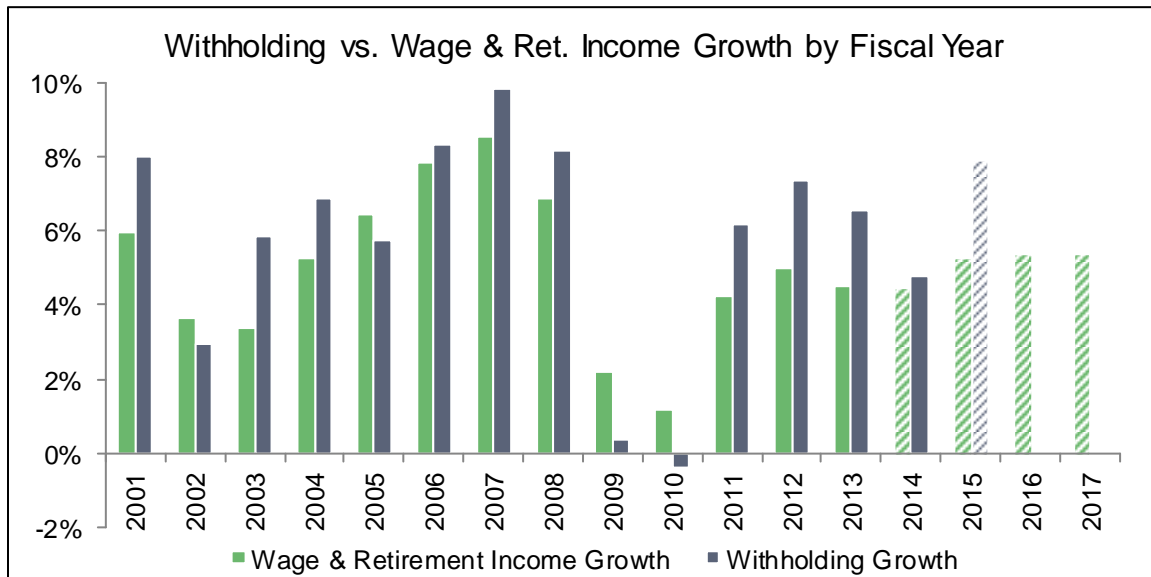
Individual income tax collections are \$60.3 million or 7.6% above last year, and above the anticipated growth of 4.2% contained in HJ 2. Total growth was driven by withholding tax collections' continued growth of 8.0% over last year.

Individual Income Tax (\$ Millions)				
	YTD 2015	YTD 2014	\$ Difference	% Difference
Withholding	\$634.1	\$587.3	\$46.8	8.0%
Estimated Payments	177.3	162.8	14.5	8.9%
Current Year Payments	39.0	39.2	(0.3)	-0.7%
Audit, P&I, Amended	26.5	24.1	2.4	10.0%
Refunds	(172.9)	(166.2)	(6.7)	4.0%
Refund Accrual Reversal	132.6	129.1	3.5	2.7%
Partnership Income Tax	8.6	8.1	0.5	6.8%
Mineral Royalties	10.4	10.9	(0.5)	-4.6%
Total	\$855.6	\$795.3	\$60.3	7.6%

Withholding tax growth reflects wage and retirement income growth. 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. 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: Slightly Up

Property tax collections are above last year by \$0.5 million or 0.4%, and above the decline of 0.2% anticipated in HJ 2. The timing issues from last month have been resolved and year-to-date collections have moved close to expectations. Total collections are still expected to decline very slightly 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. There is discussion at the federal level of the higher federal forest payments being reinstated. If that occurs through federal legislation it will push property tax collections above FY 2014.

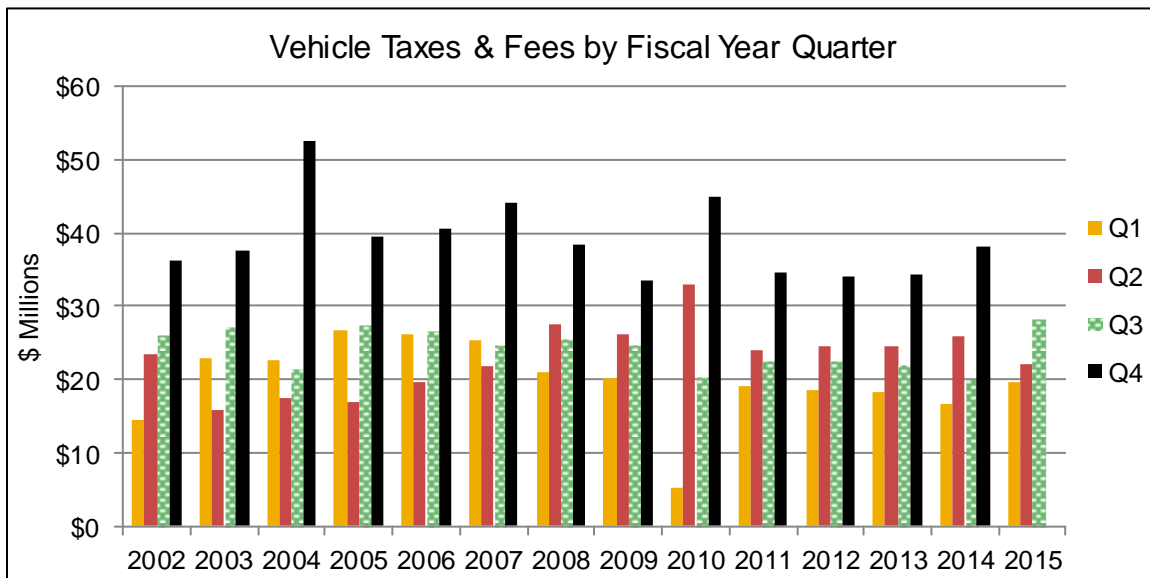
Corporation Income Tax: Above Estimate Primarily Due to Large Audit

Corporation income tax collections through the end of March are \$33.3 million or 40.7% above last year, and above the anticipated growth of 6.9% contained in HJ 2. Much of the increase is driven by a large audit collection.

Corporation Income Tax (\$ Millions)				
Account	YTD 2015	YTD 2014	\$ Difference	% Difference
Corporation Tax	\$19.2	\$16.7	\$2.5	14.9%
Estimated Payments	79.9	68.9	11.0	15.9%
Refunds	(18.0)	(15.8)	(2.2)	13.7%
Refund Accrual Reversal	8.1	5.6	2.5	44.0%
Audit, P&I, Amended	25.9	6.4	19.6	307.5%
Total	\$115.1	\$81.8	\$33.3	40.7%

Vehicle Fees & Taxes: Above Estimate

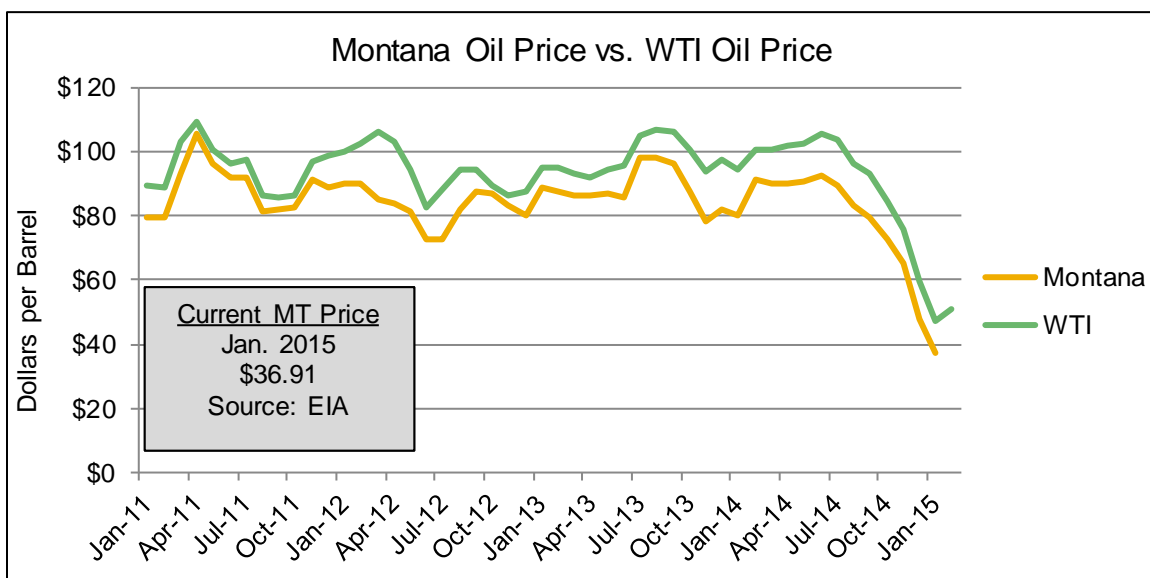
Vehicle taxes and fees through the end of February are 11.5% above collections from last year. The HJ 2 estimate assumed a growth of 1.2%. The increase was driven by strong light vehicle registration growth in February.



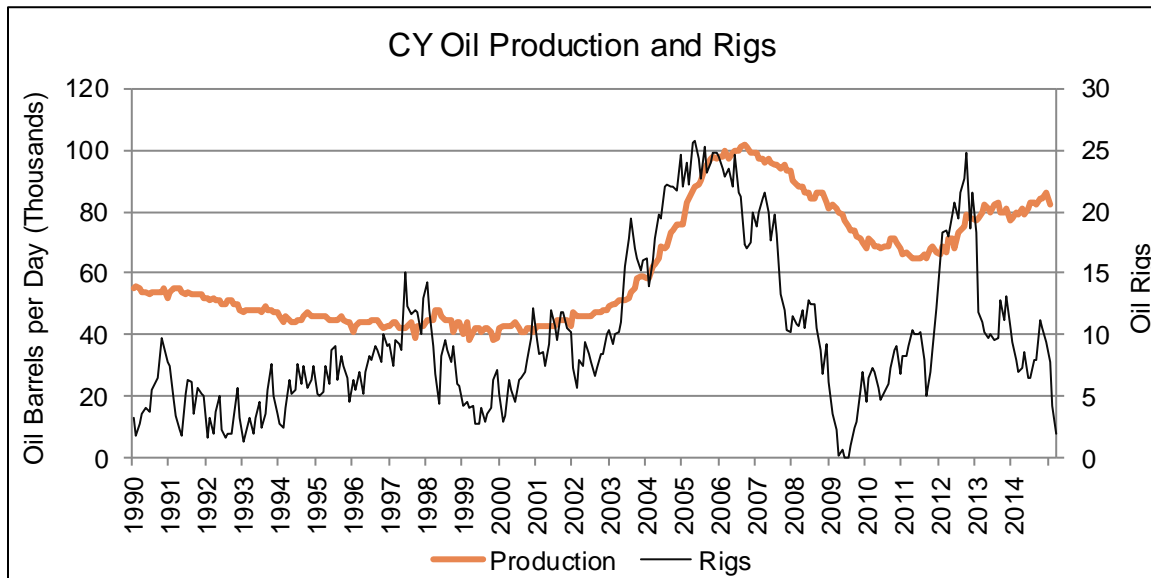
Oil & Natural Gas Production Tax: Decline Continues

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 still only represents the first quarter of FY 2015 when oil prices first started dropping. Looking at the monthly collection reports it seems that next quarter will be around 14% below year-to-date, with FY 2015 on the way towards what we currently believe will be close to 28% below FY 2014.

Price reductions remain the big story. The following chart shows 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. February WTI shows the first increase since the fall in price began in July. With next month's data, it is expected that Montana price will follow this slight increase.



Production has remained fairly stable, with a slight uptick in the past few months. Rigs, however, continue to decline; as of the beginning of April, there is only one rig operating in the state. Rigs in the chart below are shown as monthly averages. Note that about an average of 10 rigs has resulted in a relatively stable production of around 80 thousand barrels per day since CY 2013.



Source : Rigs-Baker Hughes / EIA

Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$1.5 million or 5.4% 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 Additional Health Premiums

Current insurance tax collections are 40.2% or \$9.4 million above FY 2014 year-to-date. More current estimates (March update) include additional revenue accounting for increased health insurance premiums associated with the Affordable Care Act (ACA) and are more in line with current collections. However, even accounting for the estimated increase, these values are somewhat high.

Another reason for the large increase over FY 2014 year-to-date is that at this time in FY 2014, no revenue had been realized from either the Health Care Services Corporation buyout of Blue Cross Blue Shield 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.

OTHER KEY DIFFERENCES

Lodging Facilities Sales Tax: Above Estimate

Lodging facilities sales tax is up \$1.0 million or 9.9% compared to this time last year, and above the anticipated growth of 8.1% contained in HJ 2. More recent estimates (March update) suggest that there may be more travel-related spending due to lower fuel prices and the corresponding increase in disposable income.

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

Public contractors' tax collections are \$2.9 million or 1278.3% above last year, and above 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.

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

Railroad car tax remains up \$1.2 million or 68.2% 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 remain, due to quarterly payments, \$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 quarter was 19.8% compared to this quarter'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 and move closer to the estimate in HJ 2.

Lottery Profits: Above Estimate, Due to Timing

Through March, lottery profits are 114.3% or \$3.5 million above last year. This is primarily due to payment timing. The March payment for FY 2014 was not received until April.