

DATE: May 5, 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 #5

PURPOSE OF REPORT

This is the fifth 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 \$161.3 million or 9.9% ahead of FY 2014 amounts, and are currently above the overall growth estimate contained in HJ 2.

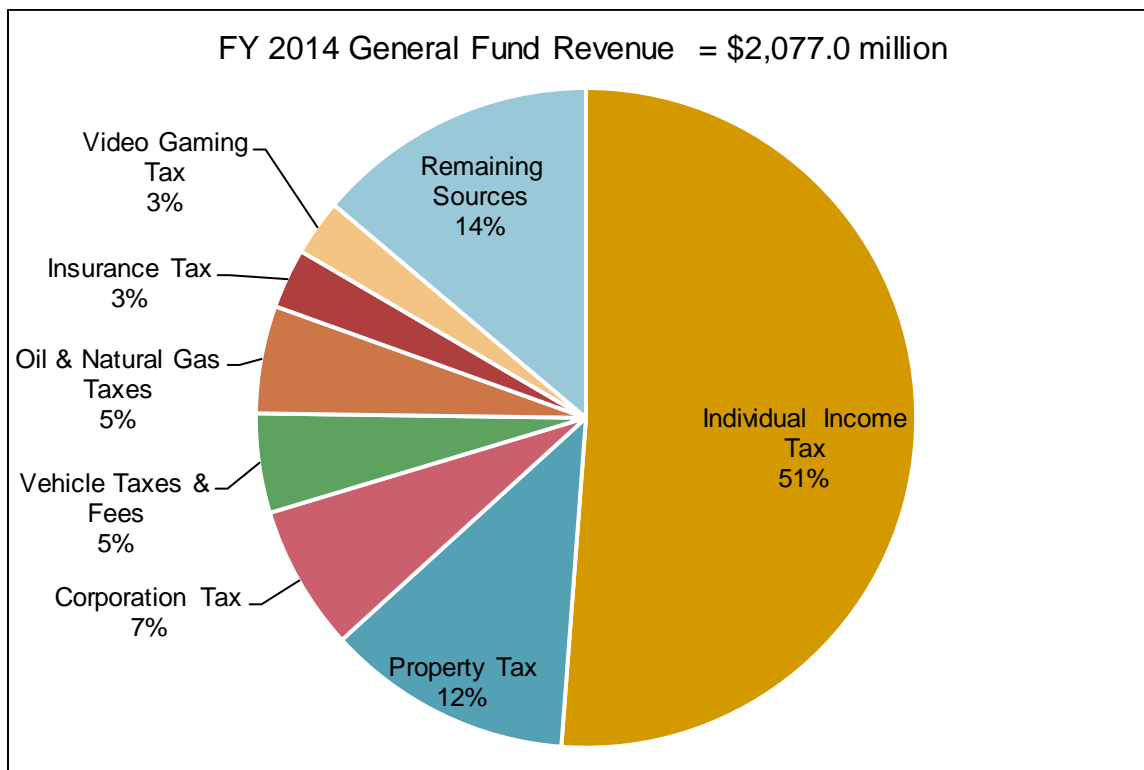
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2015 general fund revenues through the end of April are \$161.3 million or 9.9% ahead of FY 2014 revenues through the same period; this increase is above the HJ 2 estimated growth of 3.6%. 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	4/30/2014 FY 2014	4/30/2015 FY 2015	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,063.284	\$1,142.481	7.4%	\$976.012	\$1,082.904	\$106.892	11.0%
Property Tax	250.344	250.239	0.0%	143.676	144.272	0.596	0.4%
Corporation Tax	147.548	154.272	4.6%	105.759	141.825	36.066	34.1%
Vehicle Taxes & Fees	101.088	103.500	2.4%	73.676	78.631	4.955	6.7%
Oil & Natural Gas Taxes	109.606	78.811	-28.1%	53.026	46.256	(6.770)	-12.8%
Insurance Tax	60.873	67.787	11.4%	42.420	49.765	7.345	17.3%
Video Gaming Tax	57.147	60.029	5.0%	42.313	44.659	2.346	5.5%
Other Business Taxes							
Drivers License Fee	4.051	4.395	8.5%	3.251	3.758	0.507	15.6%
Investment Licenses	7.115	7.257	2.0%	6.835	6.453	(0.382)	-5.6%
Lodging Facilities Sales Tax	17.725	20.079	13.3%	11.336	12.590	1.254	11.1%
Public Contractor's Tax	0.887	2.817	217.6%	(0.858)	2.236	3.094	-360.6%
Railroad Car Tax	2.418	3.641	50.6%	1.692	2.850	1.159	68.5%
Rental Car Sales Tax	3.521	3.714	5.5%	2.471	2.851	0.380	15.4%
Retail Telecom Excise Tax	19.657	19.239	-2.1%	10.901	10.528	(0.373)	-3.4%
Other Natural Resource Taxes							
Coal Severance Tax	14.745	15.629	6.0%	9.426	12.223	2.797	29.7%
Electrical Energy Tax	4.280	4.738	10.7%	2.373	3.505	1.132	47.7%
Metal Mines Tax	7.948	8.238	3.7%	3.911	3.850	(0.061)	-1.5%
U.S. Mineral Leasing	27.744	26.109	-5.9%	17.308	19.349	2.041	11.8%
Wholesale Energy Trans Tax	3.112	3.623	16.4%	2.053	2.999	0.946	46.1%
Other Interest Earnings							
Coal Trust Interest Earnings	21.996	20.470	-6.9%	14.876	14.297	(0.580)	-3.9%
TCA Interest Earnings	1.756	1.605	-8.6%	1.363	1.546	0.184	13.5%
Other Consumption Taxes							
Beer Tax	3.023	3.095	2.4%	2.217	2.213	(0.004)	-0.2%
Cigarette Tax	30.623	30.713	0.3%	23.869	23.318	(0.551)	-2.3%
Liquor Excise Tax	18.418	18.950	2.9%	13.683	14.315	0.632	4.6%
Liquor Profits	10.500	10.663	1.6%	-	-	-	-
Lottery Profits	12.091	12.177	0.7%	7.062	6.575	(0.487)	-6.9%
Tobacco Tax	5.929	6.233	5.1%	4.426	4.520	0.094	2.1%
Wine Tax	2.250	2.298	2.1%	1.683	1.745	0.062	3.7%
Other Sources							
All Other Revenue	37.320	40.096	7.4%	26.724	24.937	(1.787)	-6.7%
Highway Patrol Fines	4.142	4.224	2.0%	3.027	2.840	(0.187)	-6.2%
Nursing Facilities Fee	4.961	4.859	-2.1%	3.225	3.094	(0.131)	-4.1%
Public Institution Reimbursement	17.298	16.630	-3.9%	9.389	10.323	0.934	9.9%
Tobacco Settlement	3.646	3.176	-12.9%	3.646	2.852	(0.793)	-21.8%
Largest Seven Subtotal	1,789.890	1,857.118	3.8%	1,436.882	1,588.312	151.431	10.5%
Remaining Sources Subtotal	287.155	294.668	2.6%	185.890	195.770	9.880	5.3%
Grand Total	\$2,077.044	\$2,151.786	3.6%	\$1,622.772	\$1,784.082	\$161.310	9.9%

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.



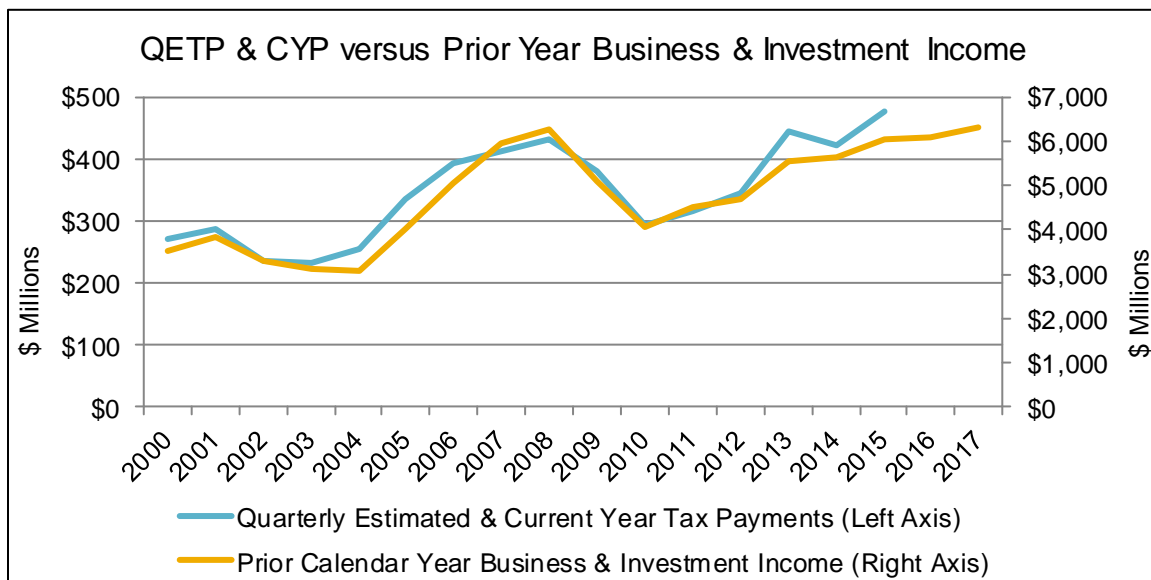
Individual Income Tax: Above Estimate Due to Strong Withholding & Current Year Payments Growth

Individual income tax collections are \$106.9 million or 11.0% 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 7.7% over last year and an elevated level of current year payments made with April tax returns.

Individual Income Tax (\$ Millions)				
	YTD 2015	YTD 2014	\$ Difference	% Difference
Withholding	\$705.3	\$654.8	\$50.5	7.7%
Estimated Payments	215.2	198.3	16.9	8.5%
Current Year Payments	194.3	161.4	32.8	20.3%
Audit, P&I, Amended	29.9	28.1	1.8	6.2%
Refunds	(228.7)	(225.6)	(3.1)	1.4%
Refund Accrual Reversal	132.6	129.1	3.5	2.7%
Partnership Income Tax	21.2	15.8	5.5	34.7%
Mineral Royalties	13.2	14.1	(0.9)	-6.5%
Total	\$1,082.9	\$976.0	\$106.9	11.0%

Current year tax payments came in quite strong, and potentially higher than anticipated when extrapolated fiscal year end collections are compared to the HJ 2 estimates of business and investment income. The

sum of prior year business and investment income is shown with the sum of estimated and current year tax payments in the chart below:



One possible explanation is that the rent, royalties and partnership income sub-estimate relies too heavily on oil prices; if true, the low oil price forecast would have had an unnecessarily dampening effect on this sub-model. This prospect was investigated toward the end of session, and will be looked into in more detail over the interim.

Property Tax: Slightly Up

Property tax collections are above last year by \$0.6 million or 0.4%, and slightly above the expected outcome of collection steadiness in HJ 2. Total collections are expected to be almost exactly what they were in 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 counteracting existing growth. It is looking increasingly likely that the higher federal forest payments will be reinstated. If that occurs through federal legislation it will push property tax collections above FY 2014

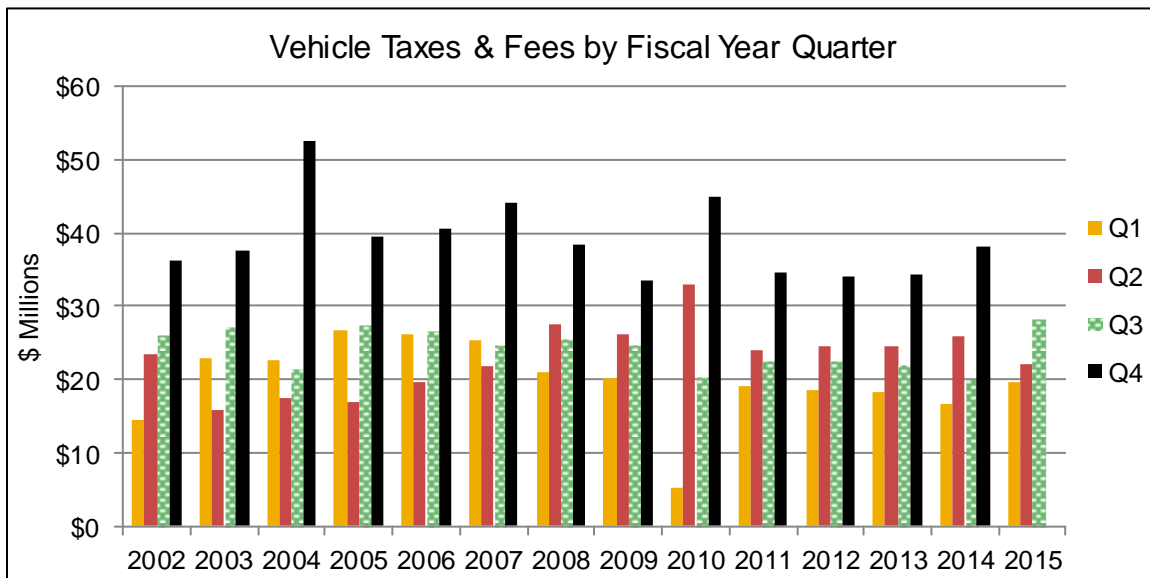
Corporation Income Tax: Above Estimate Primarily Due to Large Audit

Corporation income tax collections through the end of April are \$36.1 million or 34.1% above last year, and above the anticipated growth of 4.6% 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	\$23.7	\$22.3	\$1.4	6.2%
Estimated Payments	103.4	88.0	15.4	17.5%
Refunds	(19.7)	(16.9)	(2.8)	16.5%
Refund Accrual Reversal	8.1	5.6	2.5	44.0%
Audit, P&I, Amended	26.3	6.7	19.6	294.1%
Total	\$141.8	\$105.8	\$36.1	34.1%

Vehicle Fees & Taxes: Above Estimate

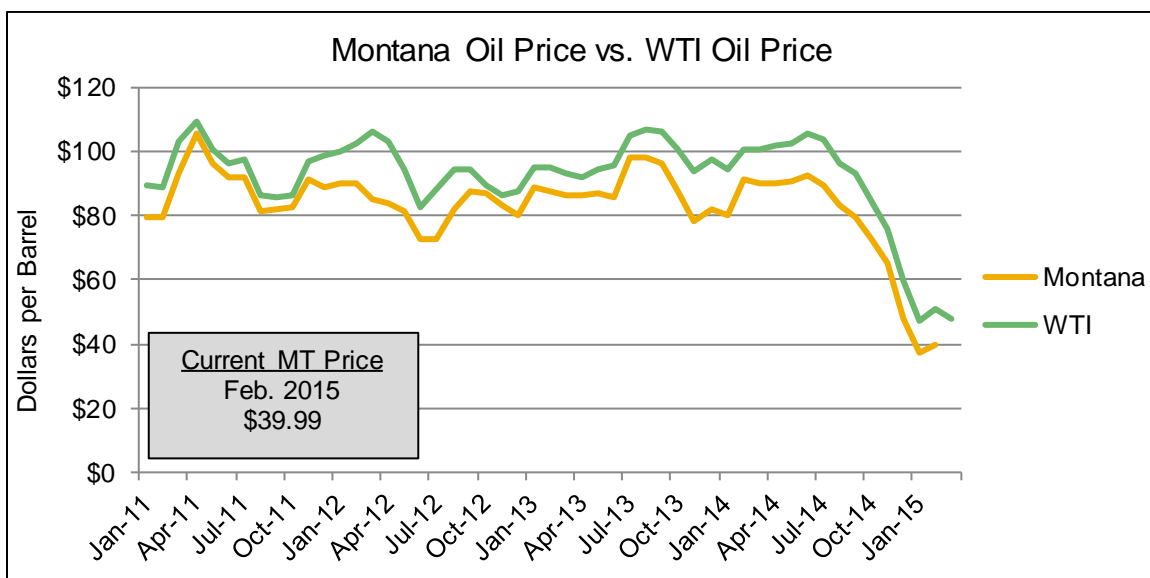
Vehicle taxes and fees through the end of April are 6.7% or \$5.0 million above collections from last year. The HJ 2 estimate assumed a growth of 2.4%. The increase was driven by strong light vehicle registration growth in February.



Oil & Natural Gas Production Tax: Decline Continues

Oil and natural gas production tax collections are down \$6.8 million or 12.8% below this time last year, with the second quarter of data in. It is expected that year-to-date declines will continue to be larger with each quarter with FY 2015 on the way toward an anticipated decline of about 28% from FY 2014.

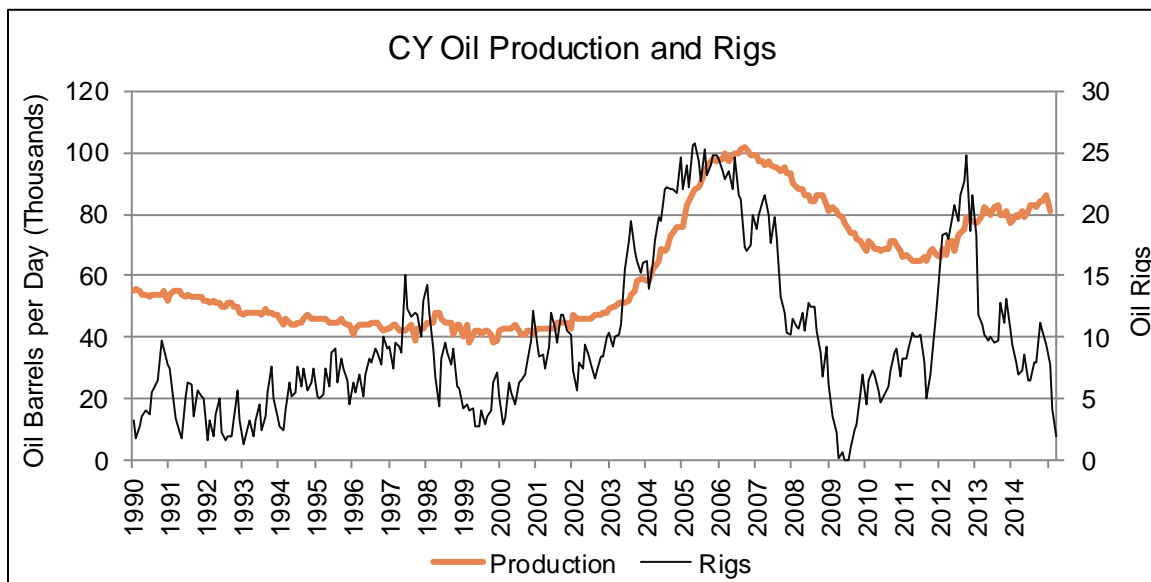
The following chart shows monthly average price for Montana. Although it has a two to three month lag, it clearly illustrates the relationship between WTI and Montana oil prices. February and March data for WTI and MT shows the first signs of stability since the fall in price began in July.



Source : EIA

Production has remained fairly stable. 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 Above Estimate

Revenue from video gambling is currently \$2.3 million or 5.5% above collections from last year. In HJ 2, FY 2015 video gambling revenue was forecast to grow by 5.0%, so this seems to be tracking well.

Insurance Tax: Above Estimate

Current insurance tax collections are 17.3% or \$7.3 million above FY 2014 year-to-date; HJ 2 estimates a year-over-year increase of 11.4% for total collections in FY 2015. Current collections indicate the potential for higher year-end values than those included in the HJ 2 estimate. However, without final numbers on additional policies sold on the FY 2015 exchange, and taking into account the sporadic pattern of collections this fiscal year, it is hard to say where year-end collections will fall.

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: Below Estimate

Lodging facilities sales tax is up \$1.3 million or 11.1% compared to this time last year, but below the anticipated growth of 13.3% contained in HJ 2. The HJ 2 estimate included modeling changes in an attempt to account for the growth in consumer spending on accommodations. At this time, it appears revenue collections may not attain the forecast amount.

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

Public contractors' tax collections are \$3.1 million above last year, and above the anticipated growth 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 68.5% 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: Stronger-than-Expected Growth with a Distribution Issue

General fund coal severance tax collections are \$2.8 million or 29.7% above last year, and above the anticipated growth of 6.0% in HJ2. The high general fund collections are due stronger-than-expected growth, as well as 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. While this is a year-to-date report so projections must be extrapolated, it seems that of the \$2.8 million growth, \$0.4 is due to the distribution change, and \$0.8 is growth above what was anticipated in HJ2.

Electrical Energy Tax: Above Estimate

Electrical energy tax is 47.7%, or \$1.1 million above last year's year-to-date collections. Both wholesale and electrical energy were expected to increase as a result of one of Colstrip's generators being offline in FY 2014. Both sources are up significantly more than expected, likely due to the additive nature of this generator coming back online and FY 2015 being a higher production year in general.

U.S. Mineral Royalties: Up, Likely due to Timing

U.S. mineral royalties are up \$2.0 million or 11.8% above this time last year, and above the HJ 2 decrease 5.9%. This revenue source often bounces around in year-to-date reports as monthly payments tend to come in double in some months and then not at all other months. This increase is likely a timing issue; however, there could be some real growth considering the unanticipated growth in the coal severance tax.

Wholesale Energy Transaction Tax: Above Estimate

Wholesale energy transaction tax is 46.1%, or \$0.9 million above last year's year-to-date collections. Both wholesale and electrical energy were expected to increase as a result of one of Colstrip's generators being offline in FY 2014. Both sources are up significantly more than expected, likely due to the additive nature of this generator coming back online and FY 2015 being a higher production year in general.

All Other Revenue: Below Estimate

All other revenue is 6.7% or \$1.8 million lower than this time last year. The majority of this decrease is due to much smaller year-to-date transfers from the coal shared account. In HJ 2, this source was expected to grow by 7.4%.