

DATE: June 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 #6

## **PURPOSE OF REPORT**

This is the last 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.

The fiscal year end closes around the third week of July; the report that details final collections for each revenue source and compares to the revenue anticipated in HJ 2 will be presented to the Revenue & Transportation Interim Committee (RTIC) at the September meeting. The report will be emailed to all members who receive these year-to-date reports in addition to the RTIC members.

## **SUMMARY**

General fund revenue collections are \$151.8 million or 8.7% ahead of FY 2014 amounts, and are currently above the overall growth estimate contained in HJ 2.

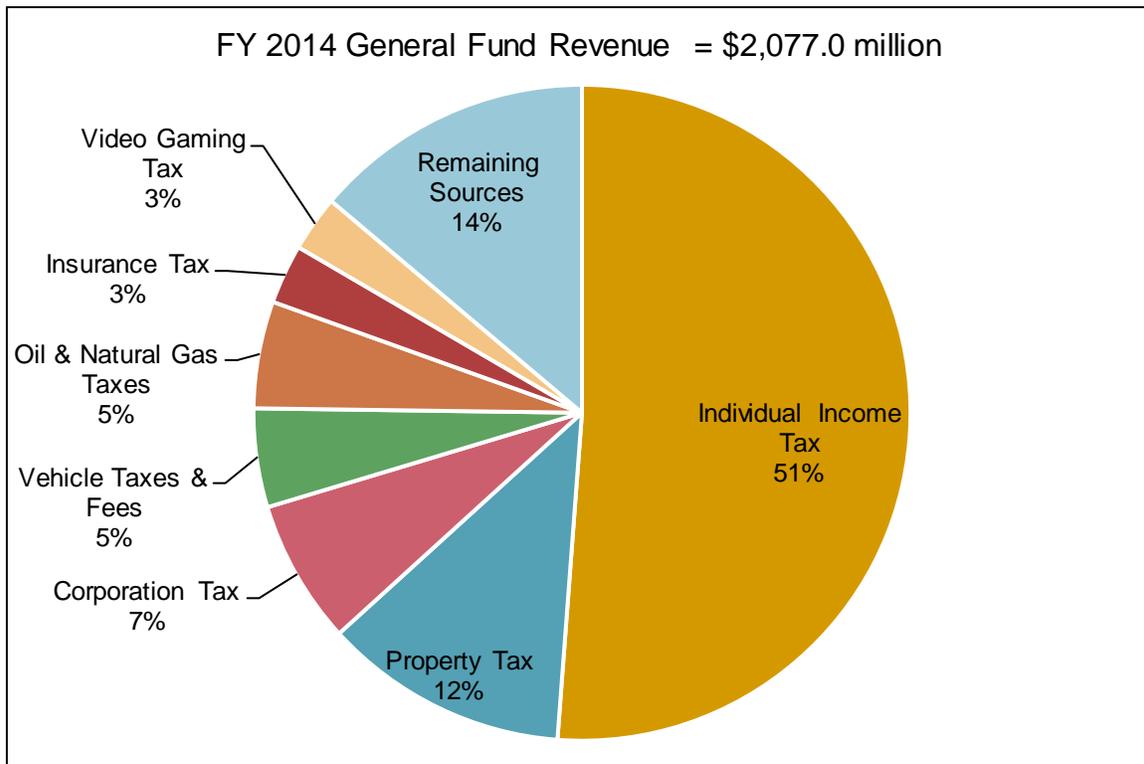
## YEAR-TO-DATE GENERAL FUND REVENUE

FY 2015 general fund revenues through the end of April are \$151.8 million or 8.7% 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	5/31/2014 FY 2014	5/31/2015 FY 2015	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,063.284	\$1,142.481	7.4%	\$1,037.432	\$1,142.097	\$104.665	10.1%
Property Tax	250.344	250.239	0.0%	149.642	148.299	(1.344)	-0.9%
Corporation Tax	147.548	154.272	4.6%	117.621	150.983	33.361	28.4%
Vehicle Taxes & Fees	101.088	103.500	2.4%	81.789	86.666	4.878	6.0%
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%	46.762	53.269	6.506	13.9%
Video Gaming Tax	57.147	60.029	5.0%	42.338	44.699	2.360	5.6%
<b>Other Business Taxes</b>							
Drivers License Fee	4.051	4.395	8.5%	3.546	4.191	0.645	18.2%
Investment Licenses	7.115	7.257	2.0%	6.951	6.604	(0.347)	-5.0%
Lodging Facilities Sales Tax	17.725	20.079	13.3%	13.206	14.478	1.272	9.6%
Public Contractor's Tax	0.887	2.817	217.6%	(0.733)	2.337	3.070	-418.8%
Railroad Car Tax	2.418	3.641	50.6%	2.326	3.672	1.346	57.9%
Rental Car Sales Tax	3.521	3.714	5.5%	2.837	3.028	0.191	6.7%
Retail Telecom Excise Tax	19.657	19.239	-2.1%	13.997	13.227	(0.770)	-5.5%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	14.745	15.629	6.0%	10.923	12.282	1.359	12.4%
Electrical Energy Tax	4.280	4.738	10.7%	3.194	3.900	0.705	22.1%
Metal Mines Tax	7.948	8.238	3.7%	3.905	3.854	(0.051)	-1.3%
U.S. Mineral Leasing	27.744	26.109	-5.9%	21.183	20.927	(0.256)	-1.2%
Wholesale Energy Trans Tax	3.112	3.623	16.4%	2.318	2.871	0.553	23.8%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	21.996	20.470	-6.9%	16.671	16.293	(0.378)	-2.3%
TCA Interest Earnings	1.756	1.605	-8.6%	1.482	1.743	0.261	17.6%
<b>Other Consumption Taxes</b>							
Beer Tax	3.023	3.095	2.4%	2.463	2.463	0.001	0.0%
Cigarette Tax	30.623	30.713	0.3%	26.518	25.940	(0.578)	-2.2%
Liquor Excise Tax	18.418	18.950	2.9%	15.180	15.773	0.593	3.9%
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%	4.944	5.072	0.128	2.6%
Wine Tax	2.250	2.298	2.1%	1.870	1.927	0.057	3.1%
<b>Other Sources</b>							
All Other Revenue	37.320	40.096	7.4%	27.908	26.658	(1.250)	-4.5%
Highway Patrol Fines	4.142	4.224	2.0%	3.329	3.202	(0.127)	-3.8%
Nursing Facilities Fee	4.961	4.859	-2.1%	3.700	3.637	(0.062)	-1.7%
Public Institution Reimbursement	17.298	16.630	-3.9%	10.202	12.890	2.688	26.3%
Tobacco Settlement	3.646	3.176	-12.9%	3.646	3.225	(0.421)	-11.5%
<b>Largest Seven Subtotal</b>	<b>1,789.890</b>	<b>1,857.118</b>	<b>3.8%</b>	<b>1,528.612</b>	<b>1,672.269</b>	<b>143.657</b>	<b>9.4%</b>
<b>Remaining Sources Subtotal</b>	<b>287.155</b>	<b>294.668</b>	<b>2.6%</b>	<b>208.627</b>	<b>216.770</b>	<b>8.143</b>	<b>3.9%</b>
<b>Grand Total</b>	<b>\$2,077.044</b>	<b>\$2,151.786</b>	<b>3.6%</b>	<b>\$1,737.239</b>	<b>\$1,889.039</b>	<b>\$151.800</b>	<b>8.7%</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 Due to Strong Current Year Payments

Individual income tax collections are \$104.7 million or 10.1% above last year, and above the anticipated growth of 7.4% contained in HJ 2. Total growth was driven by the level of current year payments made with April tax returns.

Individual Income Tax				
(\$ Millions)				
	YTD 2015	YTD 2014	\$ Difference	% Difference
Withholding	\$771.8	\$719.2	\$52.6	7.3%
Estimated Payments	219.6	203.5	16.1	7.9%
Current Year Payments	197.1	164.4	32.8	19.9%
Audit, P&I, Amended	33.1	32.2	0.9	2.8%
Refunds	(247.4)	(242.9)	(4.5)	1.8%
Refund Accrual Reversal	132.6	129.1	3.5	2.7%
Partnership Income Tax	21.4	16.0	5.4	33.8%
Mineral Royalties	13.9	16.0	(2.2)	-13.6%
<b>Total</b>	<b>\$1,142.1</b>	<b>\$1,037.4</b>	<b>\$104.7</b>	<b>10.1%</b>

Current year tax payments came in quite strong with April tax returns, and potentially higher than anticipated when extrapolated fiscal year end collections are compared to the HJ 2 estimates of business and investment income. One possible explanation is that the rent, royalties and partnership income sub-

estimate relied too heavily on oil prices; if true, the low oil price forecast would have had an unnecessarily dampening effect on this sub-model.

The Department of Revenue’s [Biennial Report](#) has a section on pass-through income (pages 68 through 78); the table on page 76 shows that the financial activities sector accounts for nearly 96% of total net Montana source income from partnerships, while the natural resources & mining sector accounted for less than 1% of the total. Based on this information, using oil price as an indicator at all doesn’t make sense; on-going research will compare a variety of possible modeling methods based more closely on the relevant sectors.

### Property Tax: Slightly Down, Expected to Increase

Property tax collections are below last year at this time by \$1.3 million or 0.9%, and slightly below the expected outcome of collection steadiness in HJ 2. An extension of the [Secure Rural Schools Act](#) that was signed into law by the president on April 16, 2015 increases the federal forest payments and should push property tax collections up by \$3.1 million.

### Corporation Income Tax: Above Estimate Primarily Due to Large Audit

Corporation income tax collections through the end of May are \$33.4 million or 28.4% 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	\$29.9	\$26.9	\$3.0	11.4%
Estimated Payments	107.1	96.3	10.8	11.2%
Refunds	(21.4)	(19.0)	(2.4)	12.7%
Refund Accrual Reversal	8.1	5.6	2.5	44.0%
Audit, P&I, Amended	27.3	7.8	19.4	248.5%
<b>Total</b>	<b>\$151.0</b>	<b>\$117.6</b>	<b>\$33.4</b>	<b>28.4%</b>

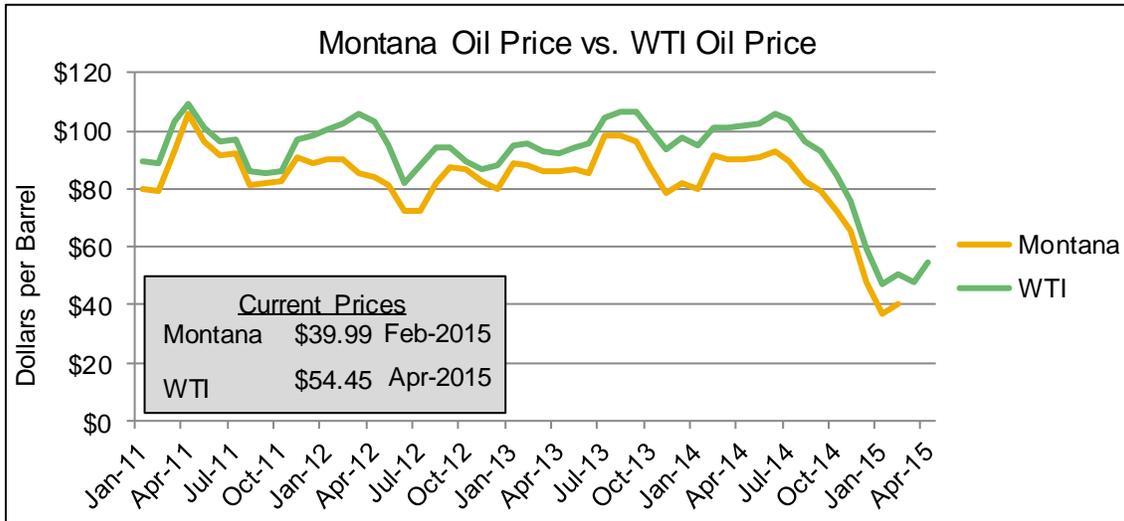
### Vehicle Fees & Taxes: Above Estimate

Vehicle taxes and fees through the end of April are 6.0% or \$4.9 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

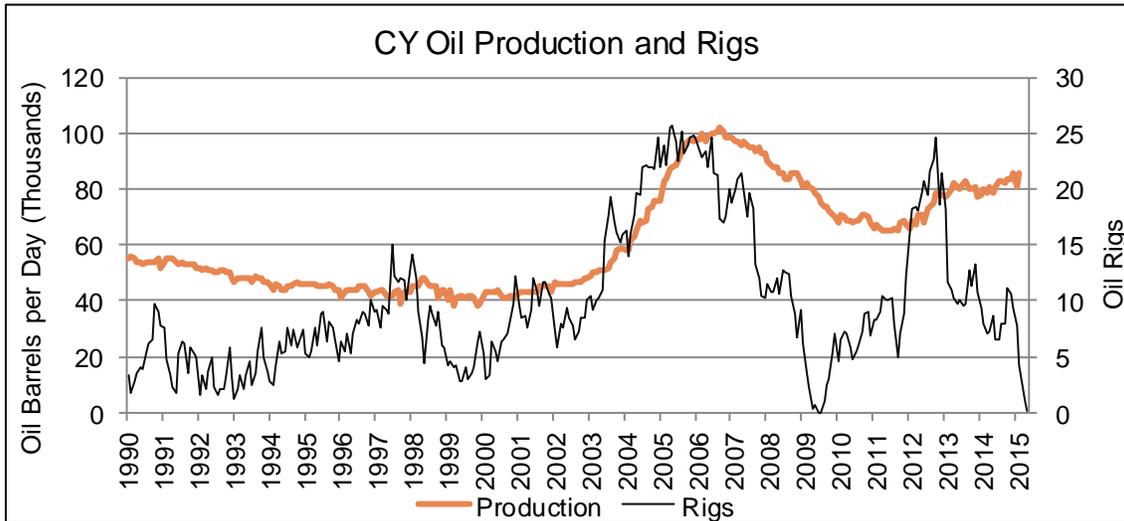
Oil and natural gas production tax collections are down \$6.8 million or 12.8% below this time last year, with the second quarter of data available. It is expected that year-to-date declines will continue to be larger with each quarter and FY 2015 will be on the way toward an anticipated decline of about 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 through April 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, even increased some. Rigs, however, continue to decline; as of May, there are no rigs operating in the state. Rigs in the chart below are shown as monthly averages.



Source : Rigs-Baker Hughes / EIA

### Video Gaming Tax: Slightly Above Estimate

Revenue from video gambling is currently \$2.4 million or 5.6% 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 13.9% or \$6.5 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.

## **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: Up and on Track with Estimate**

Railroad car tax is up \$1.3 million or 57.9% compared to this time last year. This is getting close to the anticipated 50.6% increase in HJ 2.

### **Coal Severance Tax: Stronger-than-Expected Growth with a Distribution Issue**

General fund coal severance tax collections are \$1.4 million or 12.4% above last year, and above the anticipated growth of 6.0% in HJ2. Higher general fund collections were anticipated in HJ 2, partly due to a distribution change that occurred at the end of the first quarter of FY 2014, which would amount to about \$0.4 million of this increase. Real growth was also expected, but collections year-to-date are stronger than estimated.

### **All Other Revenue: Below Estimate**

All other revenue is 4.5% or \$1.3 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%.

### **Public Institution Reimbursements: Above Estimate**

Public institution reimbursements are currently 26.3% or \$2.7 million above last fiscal year, and above the anticipated decline of 3.9% contained in HJ 2. At this time, it is hard to say whether the increase is meaningful as collections for this source are historically erratic.