



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: March 6, 2018

TO: Revenue & Transportation Interim Committee Members  
House and Senate Tax Members  
House Appropriations Members  
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2018 General Fund Revenue Update #3

### PURPOSE OF THIS REPORT

This is the third of six monthly revenue updates throughout the second half of FY 2018 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2018 relative to the revenue estimate contained in HJ 2.

### GENERAL FUND REVENUE SUMMARY

The executive's general fund revenue estimate used to call the 2017 November Special Session of the Legislature was below HJ 2 by \$137 million in FY 2018. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,439 million, about \$4 million more than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue overage of about \$13 million.

Although year-to-date estimates through February are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made individual income and property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

Range of Revenue Options			
(\$ Millions)			
Estimate*	FY 2018	FY 2019	Notes
HJ 2	\$2,435	\$2,495	Official legislative revenue estimate
YTD Median Extrapolation	2,439		Based on total general fund collection patterns since FY 2002
Cash Concept Model	2,448		Based on collection patterns of large revenue sources since FY 2002
Executive Estimate for 2017 Special Session	2,297	2,352	Used to balance GF budget during 2017 Special Session, but not adopted

\*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

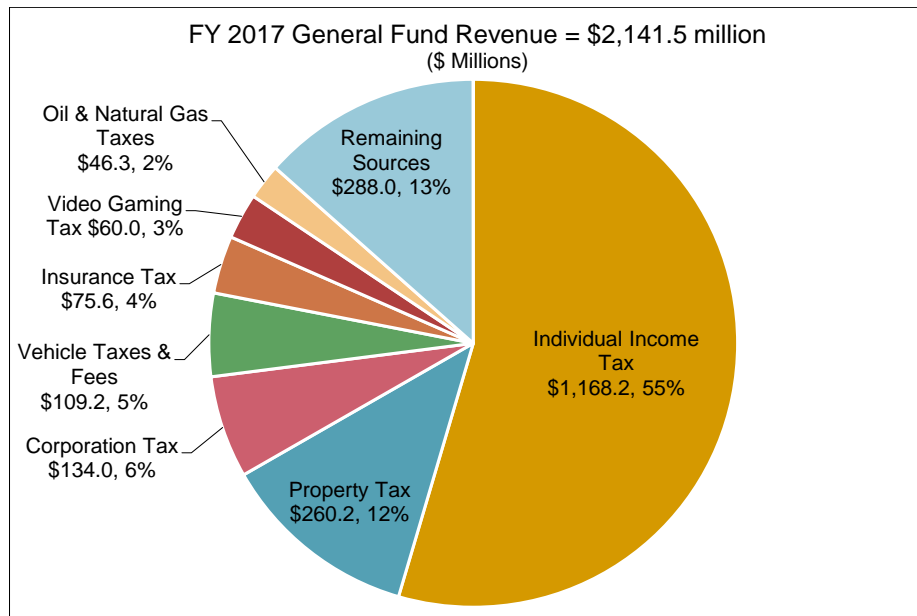
## YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of February are \$189.0 million or 13.9% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Note that the increase is in part due to legislatively authorized transfers of \$67.1 million posted to All Other Revenue.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2017	HJ 2/SS FY 2018	HJ 2 Est. % Change	February FY 2017	February FY 2018	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,168.225	\$1,320.808	13.1%	\$856.836	\$929.174	\$72.338	8.4%
Property Tax	260.224	277.119	6.5%	142.061	157.652	15.591	11.0%
Corporation Tax	133.992	168.763	26.0%	74.151	102.365	28.214	38.0%
Vehicle Taxes & Fees	109.197	112.956	3.4%	63.660	64.877	1.216	1.9%
Oil & Natural Gas Taxes	46.334	49.939	7.8%	10.932	12.075	1.144	10.5%
Insurance Tax	75.558	76.003	0.6%	34.774	35.853	1.079	3.1%
Video Gaming Tax	59.956	61.904	3.2%	29.458	29.676	0.217	0.7%
<b>Other Business Taxes</b>							
Drivers License Fee	4.308	4.341	0.8%	2.679	2.899	0.220	8.2%
Investment Licenses	7.327	7.660	4.5%	6.733	7.041	0.308	4.6%
Lodging Facilities Sales Tax	21.780	23.399	7.4%	12.628	13.636	1.008	8.0%
Public Contractor's Tax	3.078	2.540	-17.5%	2.980	4.224	1.244	41.7%
Railroad Car Tax	3.790	3.642	-3.9%	3.528	3.352	(0.176)	-5.0%
Rental Car Sales Tax	3.402	3.357	-1.3%	1.944	2.155	0.211	10.8%
Retail Telecom Excise Tax	15.603	15.570	-0.2%	7.610	7.003	(0.608)	-8.0%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	13.799	13.811	0.1%	8.798	7.518	(1.279)	-14.5%
Electrical Energy Tax	4.314	4.439	2.9%	2.332	2.155	(0.178)	-7.6%
Metal Mines Tax	4.839	4.274	-11.7%	0.095	0.000	(0.095)	-100.0%
U.S. Mineral Leasing	17.322	20.497	18.3%	9.204	9.473	0.269	2.9%
Wholesale Energy Trans Tax	3.464	3.505	1.2%	1.831	1.354	(0.477)	-26.0%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	19.799	19.829	0.1%	11.782	10.189	(1.593)	-13.5%
TCA Interest Earnings	5.692	7.577	33.1%	3.095	4.970	1.875	60.6%
<b>Other Consumption Taxes</b>							
Beer Tax	2.998	3.072	2.5%	1.722	1.754	0.032	1.8%
Cigarette Tax	30.558	30.652	0.3%	18.649	17.551	(1.098)	-5.9%
Liquor Excise Tax	20.366	22.265	9.3%	11.971	12.366	0.395	3.3%
Liquor Profits	11.750	14.614	24.4%	-	-	-	-
Lottery Profits	9.624	12.365	28.5%	3.267	3.362	0.095	2.9%
Tobacco Tax	6.247	6.815	9.1%	3.663	3.592	(0.070)	-1.9%
Wine Tax	2.429	2.584	6.4%	1.446	1.464	0.018	1.3%
<b>Other Sources</b>							
All Other Revenue	49.336	113.552	130.2%	20.338	89.634	69.296	340.7%
Highway Patrol Fines	3.927	4.152	5.7%	2.222	2.080	(0.142)	-6.4%
Nursing Facilities Fee	4.635	4.305	-7.1%	2.313	2.213	(0.100)	-4.3%
Public Institution Reimbursement	14.264	15.718	10.2%	7.448	7.510	0.062	0.8%
Tobacco Settlement	3.343	2.622	-21.6%	0.010	0.006	(0.004)	-37.5%
Largest Seven Subtotal	1,853.485	2,067.491	11.5%	1,211.871	1,331.672	119.800	9.9%
Remaining Sources Subtotal	287.994	367.154	27.5%	148.288	217.501	69.213	46.7%
<b>Grand Total</b>	<b>\$2,141.479</b>	<b>\$2,434.645</b>	<b>13.7%</b>	<b>\$1,360.160</b>	<b>\$1,549.173</b>	<b>\$189.013</b>	<b>13.9%</b>

## MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

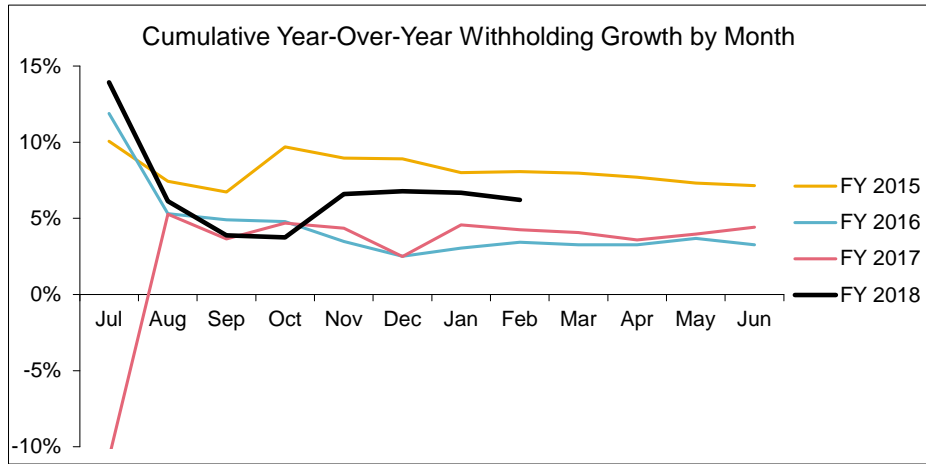


### Individual Income Tax: Strong YTD Growth, but Currently Below HJ 2

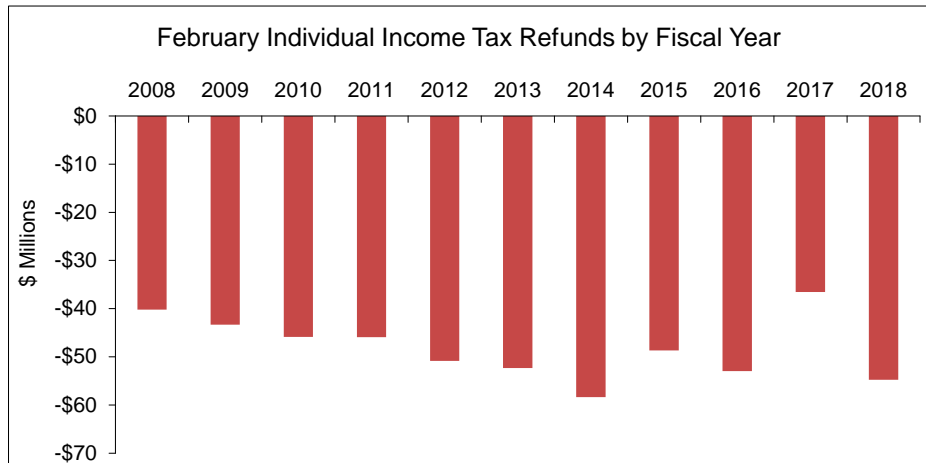
Individual income tax collections through the end of January are \$72.3 million or 8.4% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, and high December and January estimated payments; however, the increase was somewhat offset by higher year-to-date refunds.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$640.1	\$602.6	\$37.5	6.2%
Estimated Payments	210.3	171.7	38.6	22.5%
Current Year Payments	23.3	23.0	0.4	1.5%
Audit, P&I, Amended	25.0	22.1	2.9	12.9%
Refunds	(137.1)	(116.5)	(20.6)	17.7%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	8.9	6.8	2.1	31.7%
Mineral Royalties	5.4	4.1	1.2	30.1%
<b>Total</b>	<b>\$929.2</b>	<b>\$856.8</b>	<b>\$72.3</b>	<b>8.4%</b>

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to maintain growth above 6% compared to FY 2017 collections. As shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.



The higher level of year-to-date refunds appears to be due to a timing issue from FY 2017 when February refunds were unusually low; year-to-date comparisons should even out in the next report.



### Property Tax: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$15.6 million or 11.0%, compared to 6.5% in HJ 2. Property tax is still expected to come in around HJ 2. The increase compared to last year may be due to some people paying the full property tax bill in calendar 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

### Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of January are 38.0% or \$28.2 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments, lower refunds, and a large, one-time audit.

Corporation Income Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Corporation Tax	\$10.2	\$11.5	(\$1.4)	-11.7%
Estimated Payments	72.0	60.3	11.7	19.4%
Refunds	(7.1)	(12.1)	5.0	-41.0%
Refund Accrual Reversal	3.3	3.8	(0.4)	-11.3%
Audit, P&I, Amended	24.0	10.6	13.3	125.5%
<b>Total</b>	<b>\$102.4</b>	<b>\$74.2</b>	<b>\$28.2</b>	<b>38.0%</b>

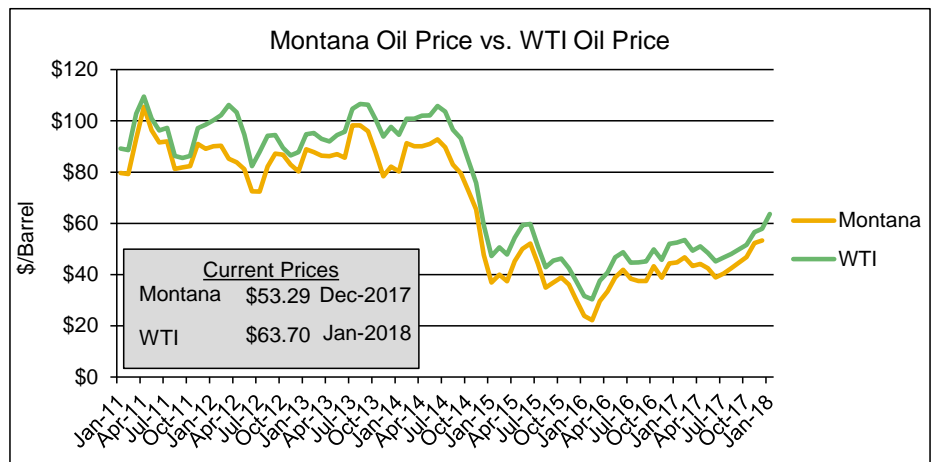
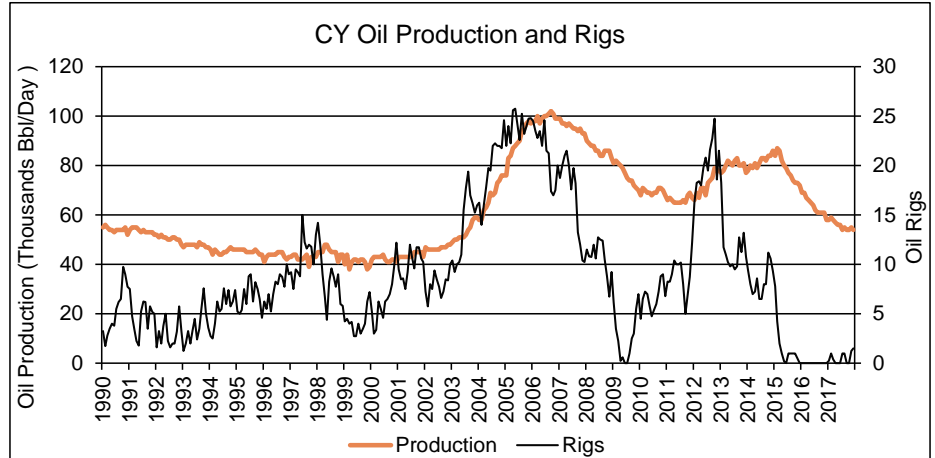
## Vehicle Fees & Taxes: Slightly Below HJ 2

Eight months into FY 2018, vehicle taxes and fees are 1.9% or \$1.2 million above collections last year at this time. In HJ 2, this source was expected to grow by 3.4%, so collections are coming slightly lower than estimated.

## Oil & Natural Gas Production Tax: Currently Above HJ 2

In January, the first oil and natural gas payment was booked to the accounting system. Price increases have offset decreased production, and as a result collections are higher than last year. Specifically, collections are 10.5% or \$1.1 million above last year through February. The year-to-date growth of 10.5% is above the assumed growth of 7.8% in HJ 2.

As the upper chart shows, oil production has been declining since the beginning of 2015, as there has been at most two rigs operating in the state since early 2015. The bottom figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



## Insurance Tax: Back on Track

Current insurance tax collections are 3.1% or \$1.1 million above FY 2017 through February. Both fire marshal taxes and premium insurance tax showed growth over the previous year.

Insurance Premiums Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Insurance Licences & Permits	\$0.0	\$0.0	\$0.0	14.7%
Premium Insurance Tax	30.5	30.1	0.4	1.4%
Fire Marshall Taxes	5.0	4.1	0.9	23.0%
Premium Insurance Tax	0.0	0.0	(0.0)	-57.7%
Surplus Lines Premium Tax	0.0	0.2	(0.2)	-99.0%
Captive Premium Insurance Tax	0.3	0.4	(0.1)	-24.7%
<b>Total</b>	<b>\$35.9</b>	<b>\$34.8</b>	<b>\$1.1</b>	<b>3.1%</b>

## **Video Gaming Tax: Below Estimate**

Revenue from video gambling is currently \$0.2 million or 0.7% above collections from last year at this time, but below the anticipated growth of 3.2%.

## **OTHER KEY DIFFERENCES:**

### **Lodging Facilities Sales Tax: Slightly Above HJ 2**

Lodging tax revenue is \$1.0 million or 8.0% above year-to-date collections in FY 2017, and above the HJ 2 estimate growth of 7.4%. Year-over-year quarterly tax payments in CY 2017 ranged from 6.9% to 7.5% above the corresponding quarter in CY 2016, so final fiscal year collections are likely to end up close to HJ 2.

### **Public Contractors' Tax: Above HJ 2**

Public contractors' tax is \$1.2 million or 41.7% above year-to-date collections in FY 2017, and above the 17.5% decline anticipated 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.

### **Coal Severance Tax: Likely On Track with HJ 2**

Coal severance tax revenue is \$1.3 million or 14.5% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unusually high. This source is expected to end up near the estimate contained in HJ 2.

### **Coal Trust Interest Earnings: Currently Below Estimate**

To date, coal trust interest earnings are \$1.6 million or 13.5% below collections from one year ago. In FY 2017, \$2.0 million was booked in this account in August, when typically the first large collection doesn't occur until September. This was ultimately offset by low June collections. Final collections should end up near the forecast.

### **TCA Interest Earnings: Above Estimate**

Treasury cash account interest earnings are \$1.9 million or 60.6% above collections last year at this time, and above the HJ 2 anticipated growth of 33.1%. Short-term interest rates in FY 2018 are slightly lower than expected, so the increase relative to HJ 2 is due to a larger-than-expected daily cash balance.

### **Cigarette Tax: Below HJ 2 Estimate**

Cigarette tax revenue is \$1.1 million or 5.9% below year-to-date collections in FY 2017. This may be attributable to changing consumer preferences.

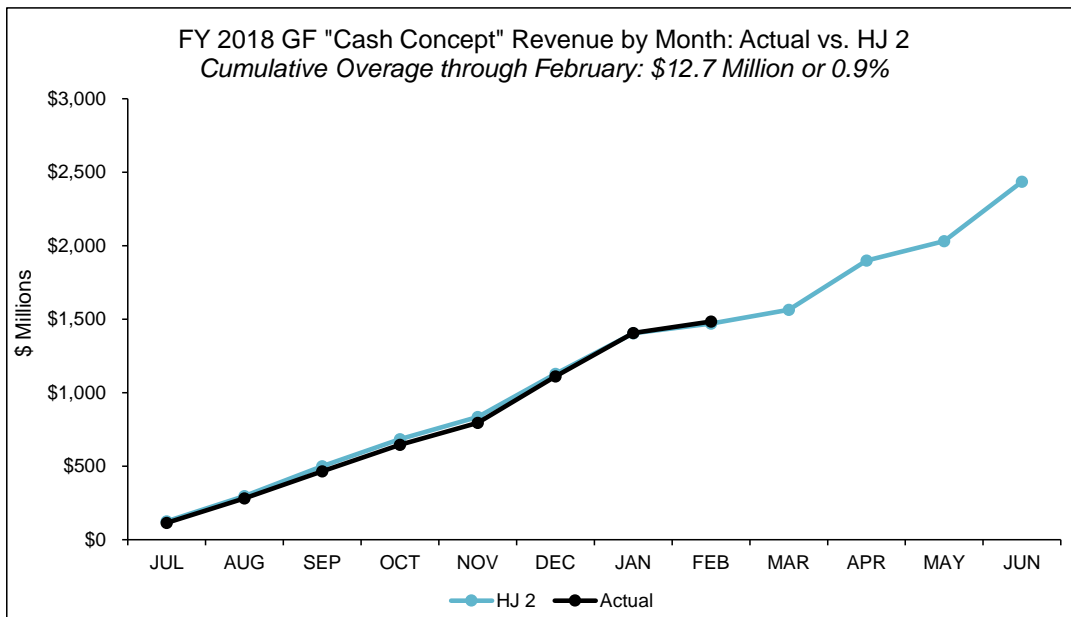
### **All Other Revenue: Above Last Year Due to Transfers**

To date, all other revenue collections are \$69.3million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$67.1 million of the year-over-year difference.

# APPENDIX

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2017, with accruals and subsequent accrual reversals removed. The top seven revenue sources and general fund transfers are modeled separately, with the remaining sources estimated as a group.

The chart below shows modeled cumulative HJ 2 (adjusted for the enacted legislation of the 2017 regular and special sessions) by month with the blue line, and actual collections with the black line. Through February, the cash concept model suggests general fund revenue is above what would be expected based on the official revenue estimate by \$12.7 million or 0.9%. Since the difference is primarily due to the currently high level of corporation income tax audit collections, which is unlikely to be replicated in the remainder of the fiscal year, the revenue overage is not annualized.



Corporation income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, corporation income tax through February is \$21.1 million above the HJ 2 estimate.

