

DATE: January 8, 2016

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 2016 General Fund Revenue Update #1

## **PURPOSE OF REPORT**

This is the first of six monthly revenue updates throughout second half of FY 2016 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2016 relative to the revenue estimate contained in HJ 2. As requested by the Revenue & Transportation Interim Committee, these reports will now include a section of leading economic indicators.

## **SUMMARY**

General fund revenue collections are \$40.3 million or 4.1% ahead of FY 2015 amounts, and are currently above the overall growth estimate contained in HJ 2. The higher-than-anticipated growth is partially due to a couple of timing issues that should clear up by next month's update. Other items to watch for in future updates include oil & natural gas tax revenue, which is not yet recorded; and individual income quarterly estimated tax payments, which may change with a potentially changing outlook on capital gains income.

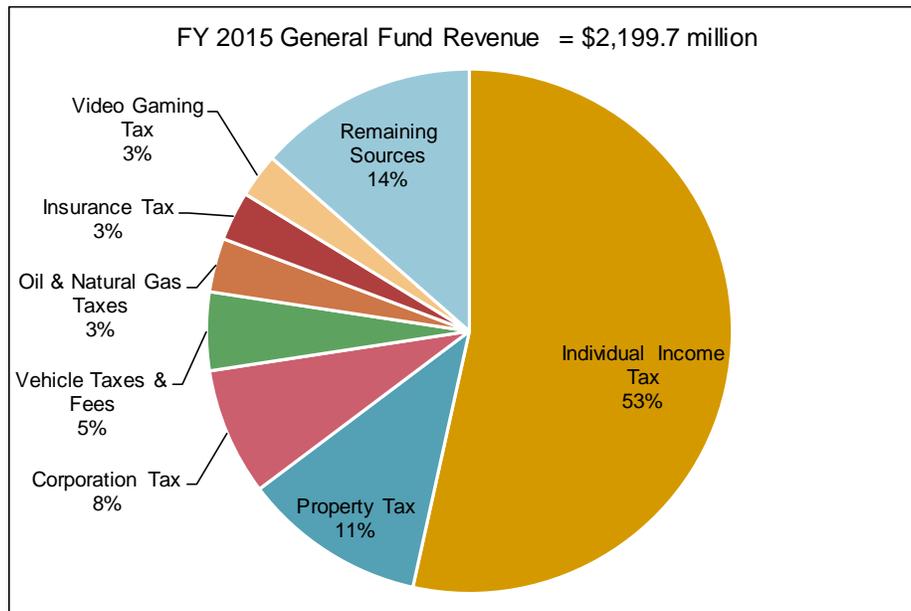
## YEAR-TO-DATE GENERAL FUND REVENUE

FY 2016 general fund revenues through the end of December are \$40.3 million or 4.1% ahead of FY 2015 revenues through the same period; this increase is above the HJ 2 estimated growth of 2.9%. 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 FY 2015	HJ 2 Est. FY 2016	HJ 2 Est. % Change	12/31/2014 FY 2015	12/31/2015 FY 2016	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,175.745	\$1,229.616	4.6%	\$630.162	\$658.968	\$28.805	4.6%
Property Tax	247.881	253.799	2.4%	91.681	111.096	19.414	21.2%
Corporation Tax	172.729	179.898	4.2%	94.935	72.319	(22.616)	-23.8%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	41.764	46.644	4.880	11.7%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	-	-	-	
Insurance Tax	66.582	72.279	8.6%	13.625	27.962	14.337	105.2%
Video Gaming Tax	59.799	62.007	3.7%	14.802	15.438	0.636	4.3%
<b>Other Business Taxes</b>							
Drivers License Fee	4.811	4.081	-15.2%	2.073	2.242	0.168	8.1%
Investment Licenses	6.773	7.412	9.4%	0.594	0.770	0.176	29.6%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	8.225	9.965	1.739	21.1%
Public Contractor's Tax	3.257	3.560	9.3%	3.743	2.920	(0.823)	-22.0%
Railroad Car Tax	3.706	3.741	0.9%	2.838	3.110	0.271	9.5%
Rental Car Sales Tax	3.907	3.486	-10.8%	1.703	1.995	0.292	17.2%
Retail Telecom Excise Tax	18.257	18.999	4.1%	4.714	4.399	(0.315)	-6.7%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	16.063	14.434	-10.1%	4.507	4.366	(0.142)	-3.1%
Electrical Energy Tax	5.133	4.580	-10.8%	1.326	1.192	(0.134)	-10.1%
Metal Mines Tax	8.320	8.311	-0.1%	0.000	0.000	(0.000)	-51.0%
U.S. Mineral Leasing	26.960	24.069	-10.7%	12.255	10.022	(2.233)	-18.2%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	0.983	0.913	(0.070)	-7.1%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	7.213	7.263	0.050	0.7%
TCA Interest Earnings	2.164	8.527	294.0%	0.805	1.320	0.515	64.0%
<b>Other Consumption Taxes</b>							
Beer Tax	3.034	3.129	3.1%	1.359	1.331	(0.028)	-2.1%
Cigarette Tax	29.604	31.036	4.8%	14.686	15.360	0.674	4.6%
Liquor Excise Tax	19.257	19.521	1.4%	8.229	8.372	0.142	1.7%
Liquor Profits	11.000	11.021	0.2%	-	-	-	
Lottery Profits	12.363	11.031	-10.8%	2.555	2.417	(0.138)	-5.4%
Tobacco Tax	6.056	6.396	5.6%	2.721	2.736	0.015	0.6%
Wine Tax	2.307	2.363	2.4%	1.017	1.029	0.012	1.2%
<b>Other Sources</b>							
All Other Revenue	40.822	40.060	-1.9%	17.607	14.586	(3.021)	-17.2%
Highway Patrol Fines	4.042	4.349	7.6%	1.605	1.628	0.023	1.4%
Nursing Facilities Fee	4.810	4.756	-1.1%	1.199	1.188	(0.012)	-1.0%
Public Institution Reimbursement	16.819	16.606	-1.3%	4.967	2.647	(2.320)	-46.7%
Tobacco Settlement	3.225	3.145	-2.5%	-	0.023	0.023	
Largest Seven Subtotal	1,902.301	1,963.049	3.2%	886.970	932.428	45.458	5.1%
Remaining Sources Subtotal	297.352	299.883	0.9%	106.926	101.792	(5.134)	-4.8%
<b>Grand Total</b>	<b>\$2,199.653</b>	<b>\$2,262.932</b>	<b>2.9%</b>	<b>\$993.896</b>	<b>\$1,034.220</b>	<b>\$40.324</b>	<b>4.1%</b>

## MAJOR SOURCES

In FY 2015, 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.

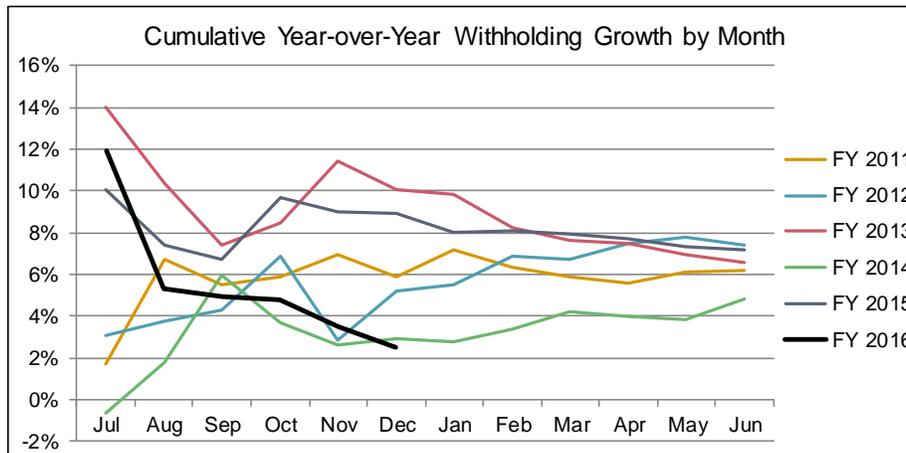


### Individual Income Tax: On Track with HJ 2 despite Slowing Withholding

Individual income tax collections are \$28.8 million or 4.6% above last year, consistent with the anticipated growth of 4.6% contained in HJ 2. Withholding tax collections are posting a tepid growth of 2.5% over last year and will continue to be monitored closely as the year progresses.

Individual Income Tax (\$ Millions)				
	YTD 2016	YTD 2015	\$ Difference	% Difference
Withholding	\$415.7	\$405.5	\$10.2	2.5%
Estimated Payments	131.1	116.7	14.4	12.3%
Current Year Payments	19.4	18.0	1.4	7.9%
Audit, P&I, Amended	19.9	14.9	5.0	33.4%
Refunds	(75.3)	(66.3)	(9.0)	13.6%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	5.3	3.8	1.5	39.6%
Mineral Royalties	2.8	4.9	(2.1)	-42.3%
<b>Total</b>	<b>\$659.0</b>	<b>\$630.2</b>	<b>\$28.8</b>	<b>4.6%</b>

The withholding shows weak growth when compared to FY 2015 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 2016 withholding growth.



### Property Tax: Know More by End of January

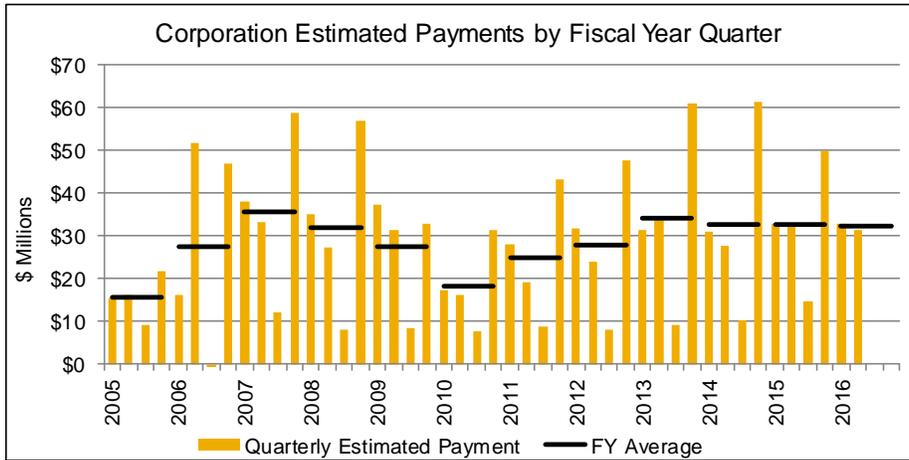
Property tax collections are above last year by \$19.4 million or 21.2%. The proportion of fall property tax payments that are remitted to the state varies between December and January, so the report next month will be able to give more clarity to the year-to-date position of property tax revenue. Total collections are only expected to increase from FY 2015 by 2.4%.

### Corporation Income Tax: Below Estimate, Perhaps Due to Unrealized Shift

Corporation income tax collections through the end of December are \$22.6 million or 23.8% below last year, and far below the anticipated growth rate of 4.2% contained in HJ 2. The year-over-year decrease is primarily due to a large one-time audit that occurred in FY 2015. HJ 2 assumed a \$25 million revenue shift from FY 2015 to FY 2016 due taxpayer behavior. The shift appeared to have not materialized in FY 2015; therefore, the additional revenue is unlikely to appear in FY 2016.

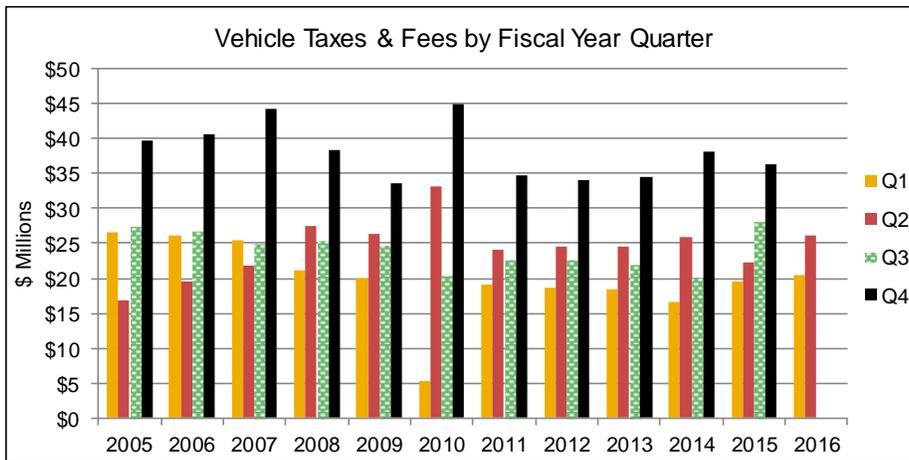
Corporation Income Tax					
(\$ Millions)					
Account	YTD 2016	YTD 2015	\$ Difference	% Difference	
Corporation Tax	\$10.6	\$28.0	(\$17.4)	-62.1%	
Estimated Payments	64.2	65.1	(0.9)	-1.4%	
Refunds	(9.1)	(12.3)	3.3	-26.5%	
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%	
Audit, P&I, Amended	2.3	6.1	(3.8)	-62.5%	
<b>Total</b>	<b>\$72.3</b>	<b>\$94.9</b>	<b>(\$22.6)</b>	<b>-23.8%</b>	

The best indicator for corporation license tax collections is estimated payments, which account for nearly 80% of total corporation tax collections on average. As shown in the figure below, estimated payments have been quite volatile from year-to-year and quarter-to-quarter. Current estimated payments through six months of FY 2016 are nearly identical to the same time period in FY 2015.



### Vehicle Fees & Taxes: Above Estimate

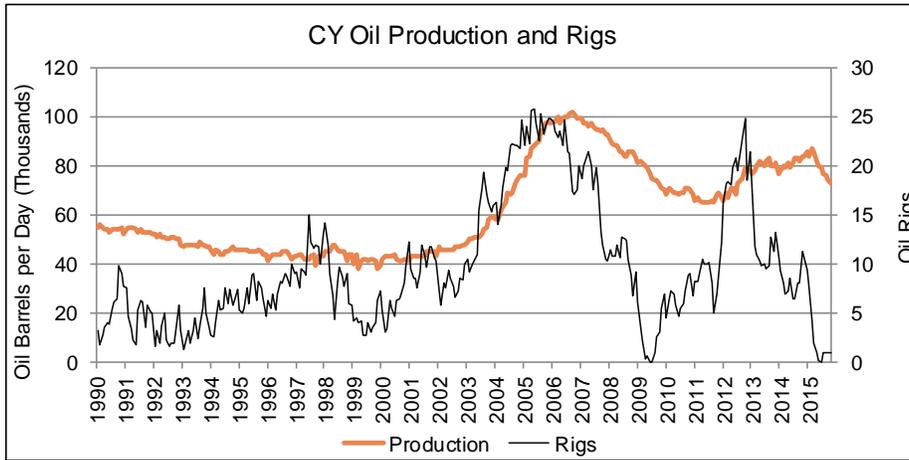
Six months into FY 2016, vehicle taxes and fees are 11.7% or \$4.9 million above collections compared to last year at this time. Compared to HJ 2, collections to date are also high, as HJ 2 projected a -0.2% growth. The year-to-year growth was driven by light vehicle registration growth in November and December. The chart below illustrates quarterly collections since 2005, with FY 2016 showing strong second quarter growth.



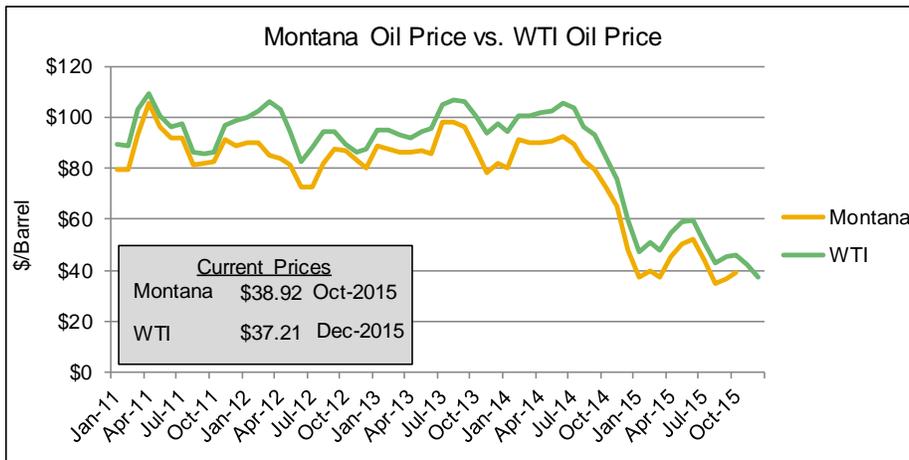
### Oil & Natural Gas Production Tax: Data Not In, But Likely Below Estimate

Oil and natural gas production tax collections show zero through December. This is expected due to the statutory requirement of when taxes are due and the time allowed for the Department of Revenue (DOR) to determine the distribution of taxes to local governments. Preliminary data from DOR suggests that collections for the first quarter of FY 2016 will be about half of collections from the first quarter of FY 2015, for a decrease of nearly \$30 million.

Production has started to decline, as shown in the following chart, and there has only been between zero and one rig operating in the state since March of 2015.

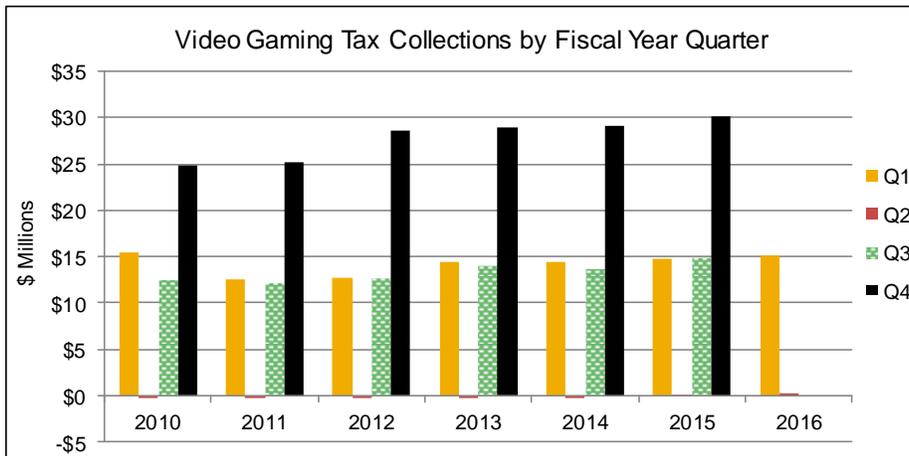


The decline in price is the primary driver in the reduced collections. The following chart compares the monthly average price for Montana oil with the WTI price. Although it has a two to three month lag, it clearly illustrates the relationship between WTI and Montana oil prices.



### Video Gaming Tax: Slightly Above HJ 2 Based on One Quarter of Revenue

Revenue from video gambling is currently \$0.6 million or 4.3% above collections from last year at this time. In HJ 2, FY 2016 video gambling revenue was forecast to grow by 3.7%. As shown in the following figure, only one quarter of revenues is received in the first six months due to the timing of payments.



## **Insurance Tax: Above Estimate, Largely Due to Timing**

Current insurance tax collections are 105.2% or \$14.3 million above FY 2014 year-to-date. Last year the December payment was not realized until January, and this year collections are back on the traditional historic pattern. The next monthly update will give a clearer picture of the actual change in collections.

## **OTHER KEY DIFFERENCES**

### **Lodging Facilities Sales Tax: Above Estimate Due to Online Travel Companies' Remittances**

Lodging facilities sales tax collections are \$1.7 million or 21.1% above last year, and above the anticipated growth of 11.0% contained in HJ 2. The growth is driven by \$1.1 million in payments made in November by online travel companies as a result of litigation with DOR. Going forward, the online travel companies are anticipated to remit about \$0.1 million per quarter. The litigation also impacted rental car sales taxes, with an additional \$0.3 million in payments by the online travel companies.

### **U.S. Mineral Royalties: Below Estimate, Likely Due to Oil**

U.S. mineral royalties are down 18.2% or \$2.2 million. This is more than the HJ 2 forecast of a 10.7% decrease. Mineral royalty payments can be sporadic, so this could be a timing issue; however, it may be that oil royalties are dragging down payments more than expected. The U.S. Department of the Interior's Office of Natural Resources Revenue releases the royalty payment category breakdowns at the end of the federal fiscal year, so detailed information will not be available until November 2016.

### **All Other Revenue: Below Estimate Due to Decline in Abandoned Property**

To date, all other revenue collections are 17.2% or \$3.0 million below last year's collections at this time. In HJ 2, collections were expected to decrease by only 1.9%. The year-to-date decrease is primarily due to a decrease in abandoned property collections.

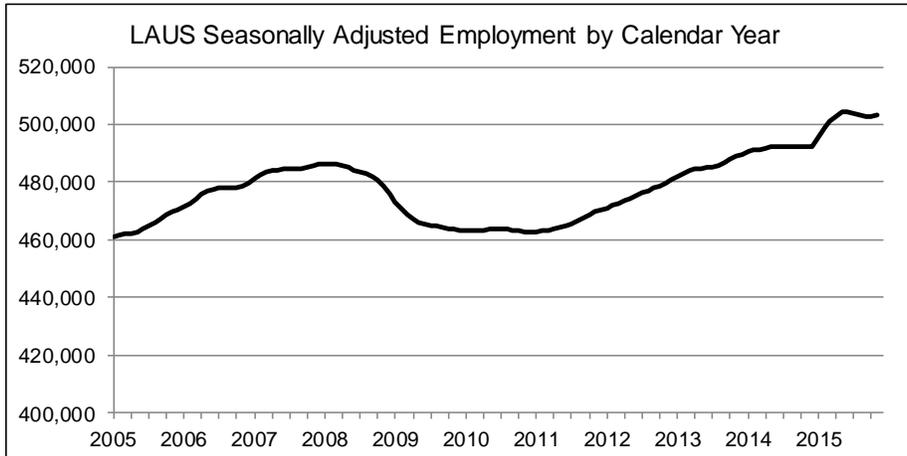
### **Public Institution Reimbursements: Below Estimate Due to Volatility**

Public institution reimbursements are currently 46.7% or \$2.3 million behind last fiscal year. Collections for this source are historically erratic, so this will likely even out by the end of the fiscal year. However, this source will be impacted by [SB 411](#) with the magnitude of the effect dependent upon the speed at which the closure of MDC moves forward.

# LEADING ECONOMIC INDICATORS

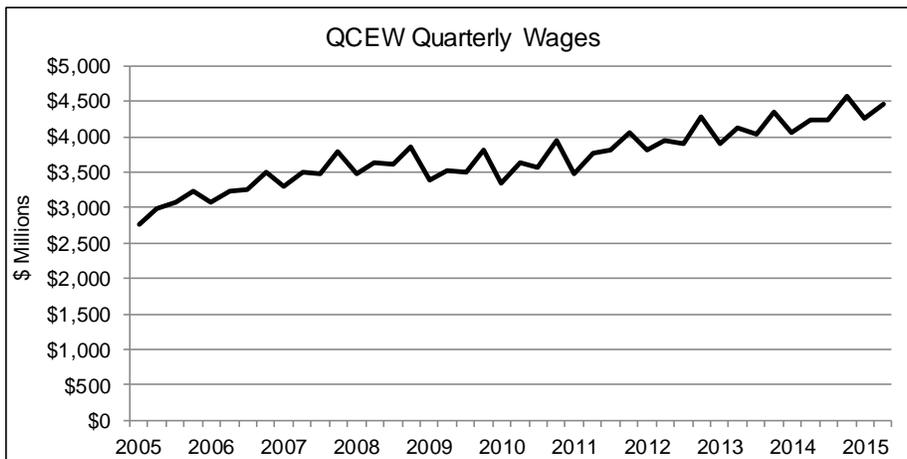
## Employment

The [Local Area Unemployment Statistics](#) (LAUS) program from the federal Bureau of Labor Statistics (BLS) provides a monthly estimate of an area's labor force, employment, unemployment, and unemployment rate. Data is taken from surveys and unemployment claims recorded during the monthly reference week, which is usually the week including the 12<sup>th</sup> day of each month. Statistics are an estimate of persons by place of residence, not jobs or where a person works. In order to be considered unemployed an individual must have had no employment during the reference week, been available for work, and have made an effort to find employment for four weeks leading up to the reference week. The chart below shows seasonally adjusted LAUS employment since CY 2005.



## Wages

Industry employment and wage data is collected through the [Quarterly Census of Employment and Wages](#) (QCEW) program from the BLS. The primary sources for the QCEW are the reports submitted by employers to the Montana Unemployment Insurance program. Employment data represents the number of workers on the payroll during the pay period including the 12<sup>th</sup> day of the month. Total wages include gross wages and salaries, bonuses, profit sharing, commissions, severance pay, and limited tips. Total wages are reported in quarter paid and not earned. The chart below shows QCEW total wages by quarter since CY 2005.

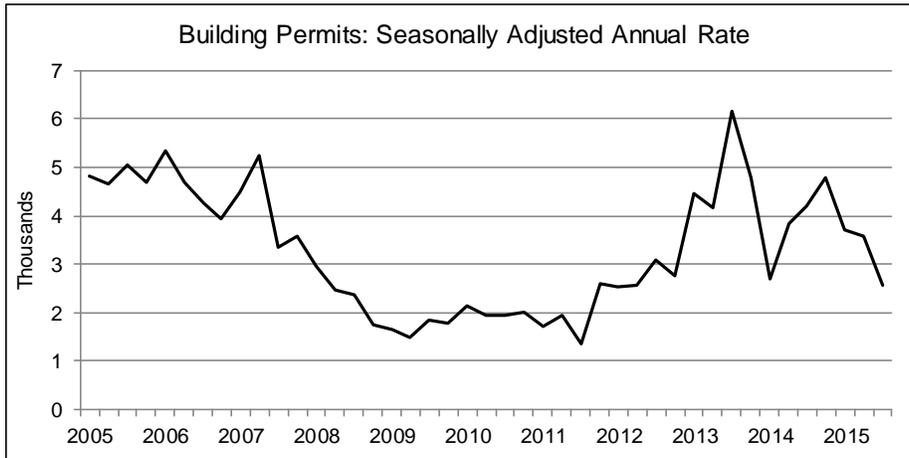


## Building Permits

The [Building Permits Survey](#) by the U.S. Census Bureau provides data on the number of new housing units authorized by building permits. Building permits data are collected from individual permit offices, most of

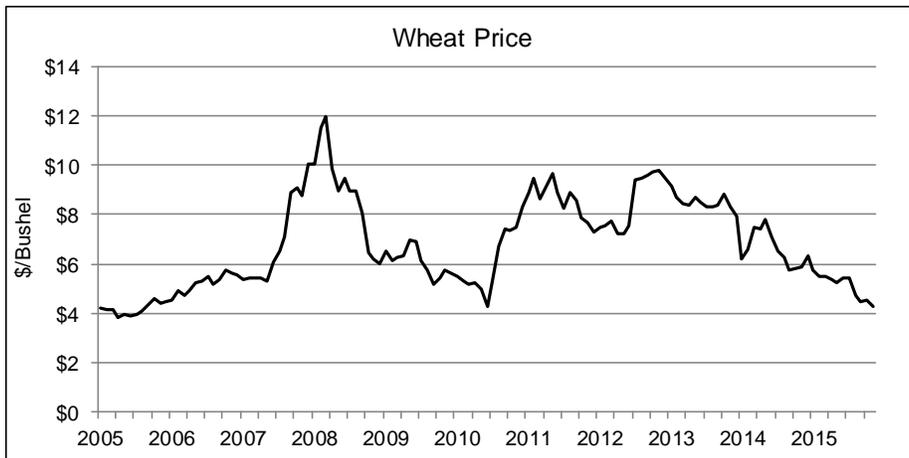
which are municipalities; the remainder are counties, townships, or towns. From local area data, estimates are tabulated for counties, states, metropolitan areas and other regions. The reliability of this data may be limited for Montana, as some counties do not require building permits. Unfortunately, data for other sources such as water and sewer hookups that may more accurately reflect new construction is not available as a database, and too much time would be required to compile the data into a useful format.

The Census Bureau building permits data is available online, but is not compiled into a useful database. Fortunately, the historical data has been assembled by IHS, and is shown in the chart below.

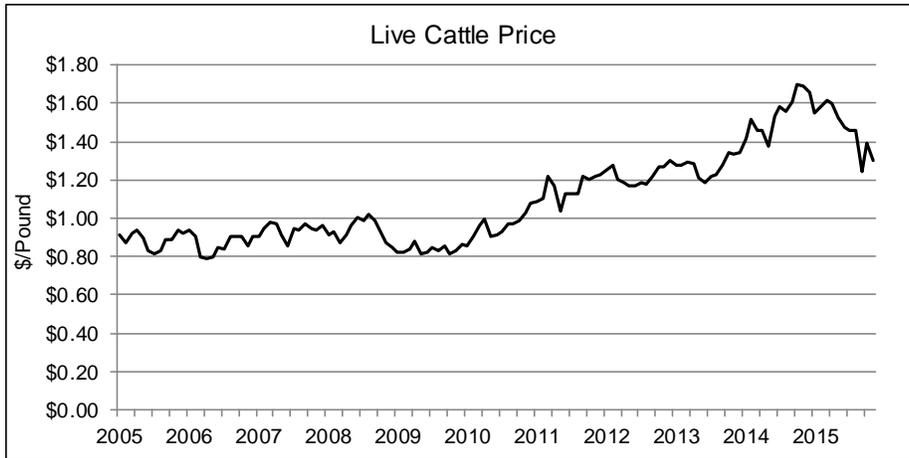


### Agricultural Prices

Historical wheat prices are based on hard red winter wheat from the USDA Market News as compiled by [index mundi](#).



Historical live cattle prices are compiled from [investing.com](http://investing.com).



## Drilling Permits

Drilling permits data obtained from the [Montana Board of Oil & Gas](http://montana.gov) are shown in the chart below. Due to a pre-regulatory period prior to the 1950s, the chart includes primarily drilled wells for those years as permits were not required. It is important to note that not all permits result in completed wells. As shown below, 2015 had the lowest number of permits since 1919.

