

DATE: February 5, 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 #2

## **PURPOSE OF REPORT**

This report is the second of six monthly revenue updates throughout the 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 official 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 \$3.6 million or 0.3% ahead of FY 2015 amounts, and are currently below the overall growth estimate of 2.9% contained in HJ 2. If the year-to-date growth of 0.3% continued through the end of the fiscal year, general fund revenue collections would be below HJ 2 by \$57 million.

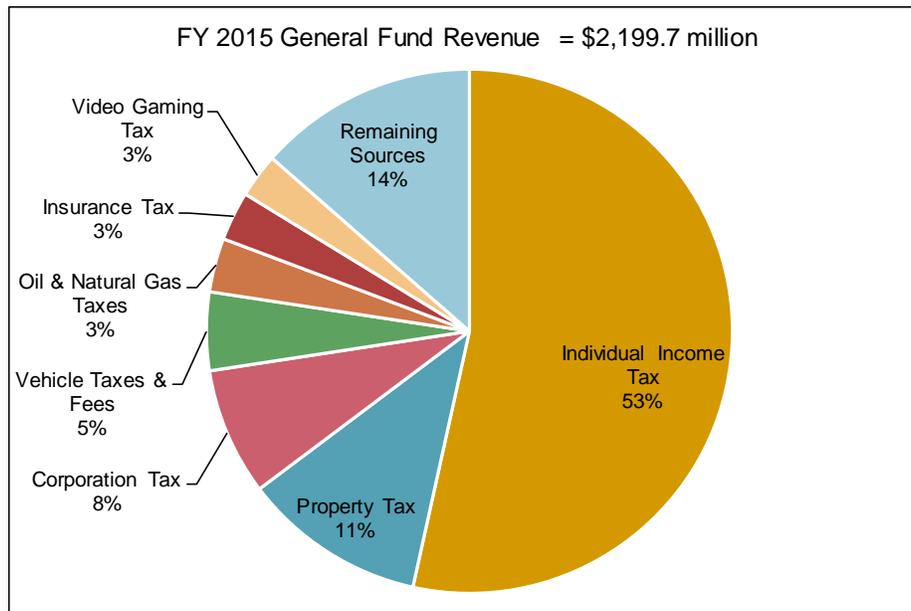
## YEAR-TO-DATE GENERAL FUND REVENUE

FY 2016 general fund revenues through the end of January are \$3.6 million or 0.3% ahead of FY 2015 revenues through the same period; this increase is below 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	1/31/2015 FY 2015	1/31/2016 FY 2016	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,175.745	\$1,229.616	4.6%	\$763.655	\$799.926	\$36.272	4.7%
Property Tax	247.881	253.799	2.4%	133.921	140.799	6.878	5.1%
Corporation Tax	172.729	179.898	4.2%	100.217	74.569	(25.648)	-25.6%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	48.628	54.848	6.221	12.8%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	26.182	11.260	(14.922)	-57.0%
Insurance Tax	66.582	72.279	8.6%	26.128	27.807	1.678	6.4%
Video Gaming Tax	59.799	62.007	3.7%	29.520	30.014	0.494	1.7%
<b>Other Business Taxes</b>							
Drivers License Fee	4.811	4.081	-15.2%	2.373	2.580	0.207	8.7%
Investment Licenses	6.773	7.412	9.4%	6.079	6.473	0.393	6.5%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	9.637	11.161	1.524	15.8%
Public Contractor's Tax	3.257	3.560	9.3%	3.688	3.026	(0.662)	-18.0%
Railroad Car Tax	3.706	3.741	0.9%	2.839	3.110	0.271	9.5%
Rental Car Sales Tax	3.907	3.486	-10.8%	2.086	2.426	0.340	16.3%
Retail Telecom Excise Tax	18.257	18.999	4.1%	5.444	5.041	(0.403)	-7.4%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	16.063	14.434	-10.1%	8.636	6.998	(1.638)	-19.0%
Electrical Energy Tax	5.133	4.580	-10.8%	2.384	1.766	(0.618)	-25.9%
Metal Mines Tax	8.320	8.311	-0.1%	0.000	0.000	(0.000)	-60.1%
U.S. Mineral Leasing	26.960	24.069	-10.7%	14.239	11.249	(2.990)	-21.0%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	1.824	1.597	(0.226)	-12.4%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	9.157	8.706	(0.451)	-4.9%
TCA Interest Earnings	2.164	8.527	294.0%	0.963	1.587	0.624	64.8%
<b>Other Consumption Taxes</b>							
Beer Tax	3.034	3.129	3.1%	1.584	1.569	(0.014)	-0.9%
Cigarette Tax	29.604	31.036	4.8%	16.691	17.659	0.968	5.8%
Liquor Excise Tax	19.257	19.521	1.4%	10.200	10.324	0.124	1.2%
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%	3.163	3.178	0.014	0.5%
Wine Tax	2.307	2.363	2.4%	1.252	1.268	0.016	1.3%
<b>Other Sources</b>							
All Other Revenue	40.822	40.060	-1.9%	21.278	19.898	(1.380)	-6.5%
Highway Patrol Fines	4.042	4.349	7.6%	1.909	1.946	0.037	1.9%
Nursing Facilities Fee	4.810	4.756	-1.1%	1.932	1.796	(0.136)	-7.0%
Public Institution Reimbursement	16.819	16.606	-1.3%	4.954	1.677	(3.277)	-66.2%
Tobacco Settlement	3.225	3.145	-2.5%	-	0.023	0.023	
Largest Seven Subtotal	1,902.301	1,963.049	3.2%	1,128.251	1,139.224	10.973	1.0%
Remaining Sources Subtotal	297.352	299.883	0.9%	134.870	127.477	(7.392)	-5.5%
<b>Grand Total</b>	<b>\$2,199.653</b>	<b>\$2,262.932</b>	<b>2.9%</b>	<b>\$1,263.120</b>	<b>\$1,266.701</b>	<b>\$3.580</b>	<b>0.3%</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.

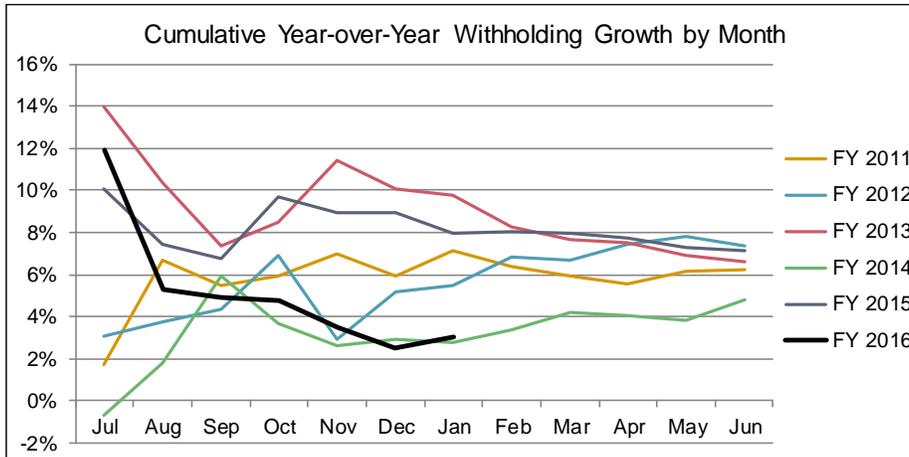


### Individual Income Tax: On Track with HJ 2

Individual income tax collections are \$36.3 million or 4.7% above last year, consistent with the anticipated growth of 4.6% contained in HJ 2. Withholding tax collections picked up a bit to 3.0% 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	\$502.5	\$487.6	\$14.9	3.0%
Estimated Payments	179.9	169.0	10.8	6.4%
Current Year Payments	26.4	18.4	7.9	43.2%
Audit, P&I, Amended	24.2	19.0	5.2	27.3%
Refunds	(84.0)	(75.4)	(8.6)	11.4%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	6.5	4.2	2.2	52.3%
Mineral Royalties	4.5	8.1	(3.6)	-44.2%
<b>Total</b>	<b>\$799.9</b>	<b>\$763.7</b>	<b>\$36.3</b>	<b>4.7%</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: Above Estimate Due to Timing & Higher Class 9 Growth**

Property tax collections are above last year by \$6.9 million or 5.1%—a smaller gap than the \$19.4 million or 21.2% of last month. While the collections may continue to move closer to the expected HJ 2 estimate, some of 5.1% increase is due to Class 9, which came in stronger than expected as a result of growth in pipelines.

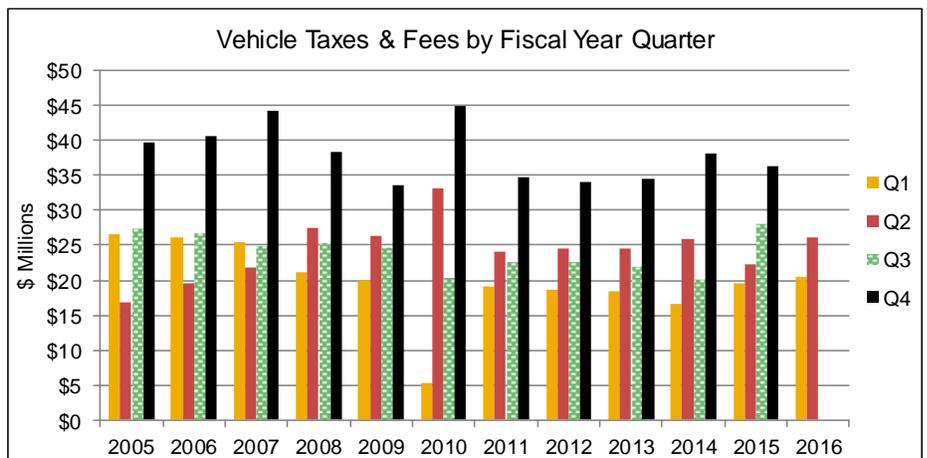
**Corporation Income Tax: Below Estimate, Perhaps Due to Unrealized Shift**

Corporation income tax collections through the end of January are \$25.6 million or 25.6% below last year, and below the anticipated increase 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	\$9.9	\$12.1	(\$2.3)	-18.8%
Estimated Payments	67.3	70.6	(3.3)	-4.6%
Refunds	(11.2)	(14.1)	2.9	-20.3%
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%
Audit, P&I, Amended	4.3	23.5	(19.2)	-81.5%
<b>Total</b>	<b>\$74.6</b>	<b>\$100.2</b>	<b>(\$25.6)</b>	<b>-25.6%</b>

**Vehicle Fees & Taxes: Above Estimate**

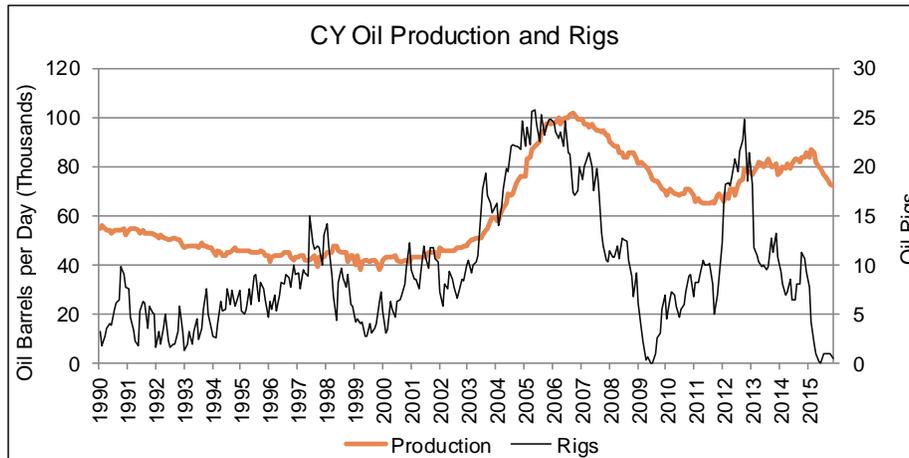
Through January of FY 2016, vehicle taxes and fees are 12.8% or \$6.2 million above collections last year at this time. Collections-to-date are also above the HJ 2 projected decline of 0.2%. The year-over-year growth was driven by light vehicle registration growth in November through January. The adjacent chart illustrates quarterly collections since 2005, with FY 2016 showing strong second quarter growth.



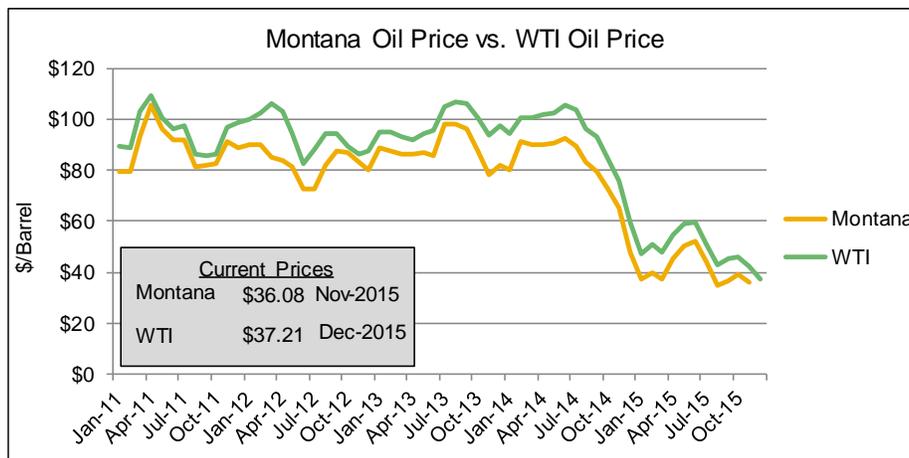
## Oil & Natural Gas Production Tax: Below Estimate

With first quarter collections posted, oil and natural gas tax is below last year 57.0% or 14.9 million, and below the HJ 2 anticipated decline of 19.0%. The dollar difference will continue to increase but the percentage difference should move somewhat closer to HJ 2 as the first quarter compares to the first quarter of FY 2015, which was the strongest quarter that year.

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



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



## Video Gaming Tax: Slightly Below HJ 2

Revenue from video gambling is currently \$0.5 million or 1.7% above collections from last year at this time. In HJ 2, FY 2016 video gambling revenue was forecast to grow by 3.7%. In the prior month's report, collections had a year-to-date growth of 4.3%. One conjecture is that disposable income used on gambling was switched from video gaming to the lottery this past January due to the presence of an extremely large lottery jackpot.

## **Insurance Tax: On Track with HJ 2**

Current insurance tax collections are 6.4% or \$1.7 million above FY 2015 year-to-date. HJ 2 anticipates growth of 8.6% at fiscal year end. The expected growth includes additional health insurance policies for calendar year 2016 which should increase collections beginning with the March/April payment.

## **OTHER KEY DIFFERENCES**

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

Lodging facilities sales tax collections are \$1.5 million or 15.8% 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.

### **Coal Severance Tax: Below Estimate Due to Lower Production**

Coal severance tax revenue is \$1.6 million or 19% below year-to-date collections in FY 2015, and below the HJ 2 estimated decline of 10.1%. The difference is primarily due to FY 2016 Q2 production, which was weaker than expected. Quarterly production tends to be cyclical; however, current data suggests that coal severance tax will come in below estimate.

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

U.S. mineral royalties are down year-to-date 21.0% or \$3.0 million, and below the HJ 2 forecast decrease of 10.7%. Mineral royalty payments can be sporadic, so this could be a timing issue; however, it is likely that oil royalties are lower 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 by revenue type 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 6.5% or \$1.4 million below last year's collections, primarily due to a decrease in abandoned property collections. In HJ 2, collections were expected to decrease by 1.9%.

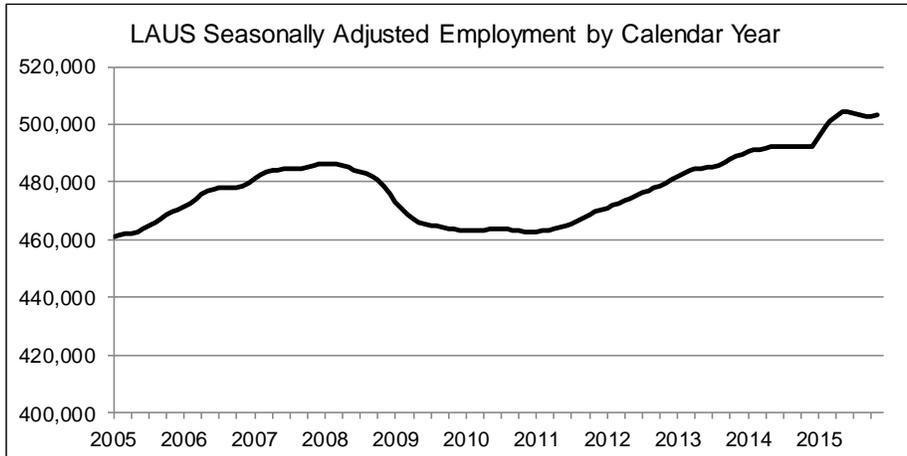
### **Public Institution Reimbursements: Below Estimate Due to Volatility**

Public institution reimbursements are currently 66.2% or \$3.3 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

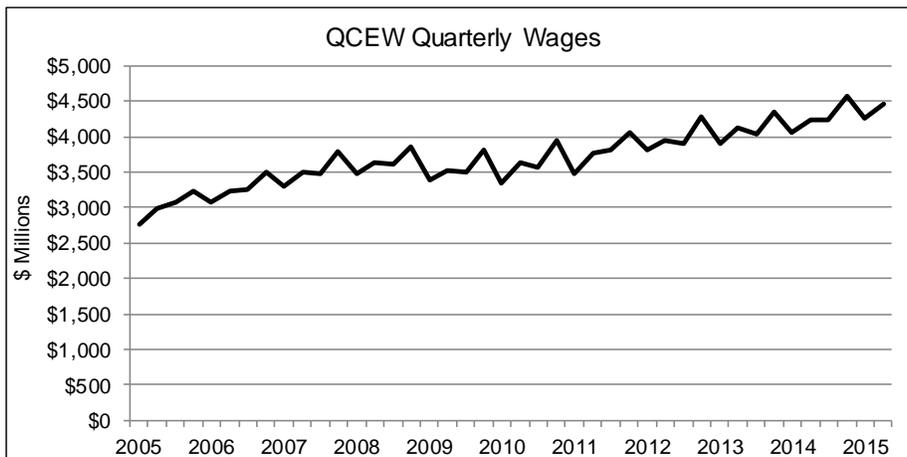
## Employment

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.

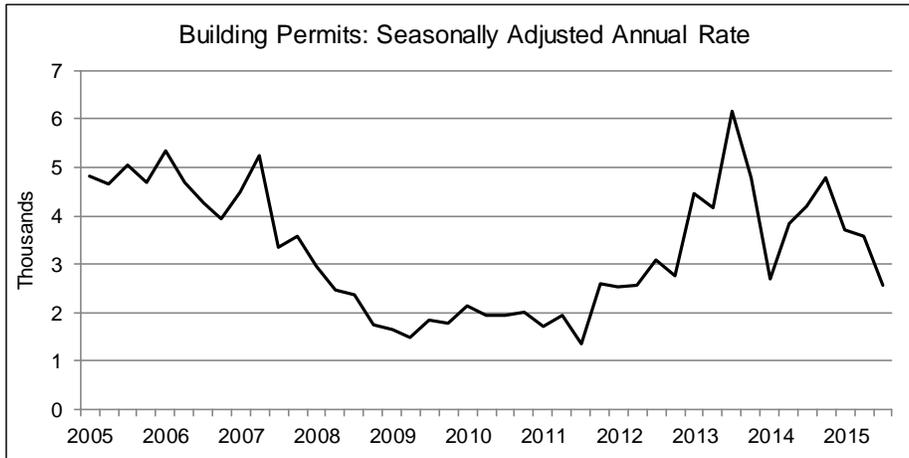


## Building Permits

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

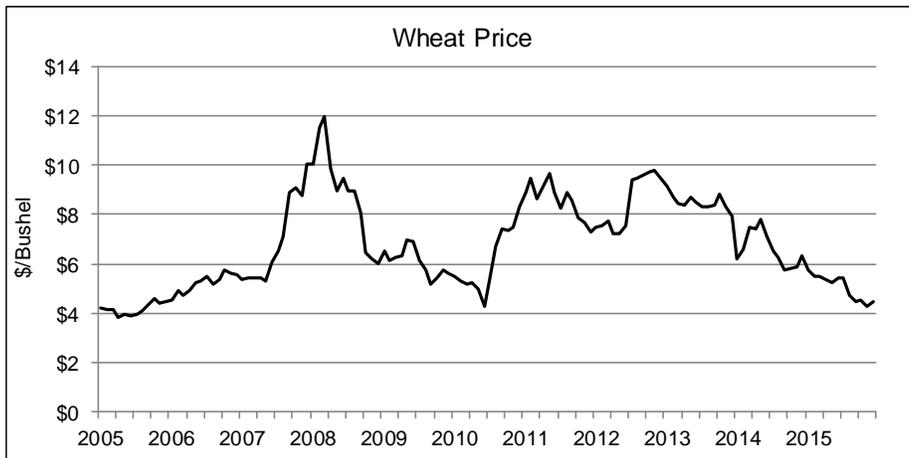
which are municipalities; the remainder are counties, townships, or towns. From local area data, estimates are tabulated for counties, states, metropolitan areas and other regions. The reliability of this data may be limited for Montana, as some counties do not require building permits. Unfortunately, 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.

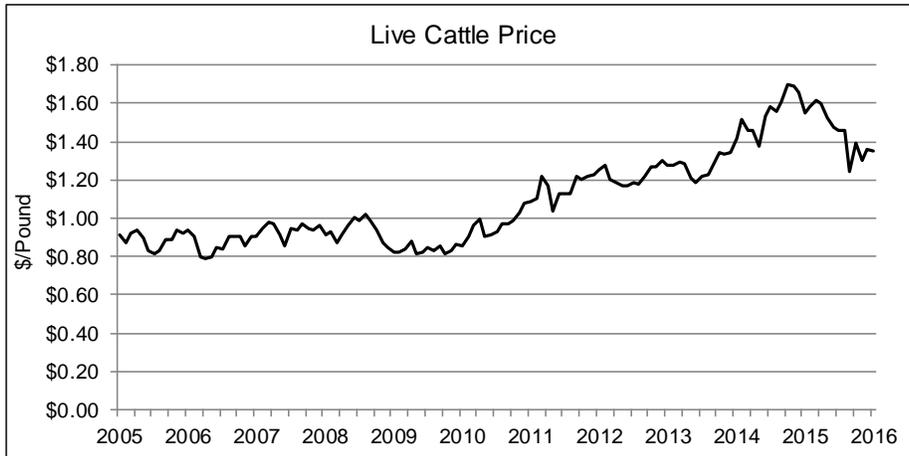


### Agricultural Prices

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.

