

# GENERAL FUND BUDGET UPDATE

A Report Prepared for the  
**Legislative Finance Committee**

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## INTRODUCTION

The purpose of this report is to update the Legislative Finance Committee on the status of general fund revenue collections through the end of October FY 2013 as compared to the same period for FY 2012. As previously discussed in numerous other general fund revenue updates, there are about seven categories of revenue that contribute about 85% of the total revenue deposited to the state general fund. Figure 1 shows those sources of revenue and the amounts collected through the end of October for FY 2013 versus October 2012. Collections are \$28.6 million or 5.3% above last year at this time. The revenue estimates contained in HJ 2 of the 62<sup>nd</sup> Legislature assumed revenues would be above FY 2012 amounts by 3.8% for the entire year. It should be noted that FY 2012 collections were higher than anticipated in HJ 2. This is why the HJ 2 estimated amount for FY 2013 shown in Figure 1 is actually below the actual collections for FY 2012. This means that while the current growth rate is close to the anticipated rate, collections for the fiscal year will be higher than anticipated in HJ 2 for FY 2013.

**Figure 1**

<b>General Fund Revenue Collections Through October FY 2012 versus FY 2013</b>							
Revenue Category	Actual FY 2012	HJ2 Est. FY 2013	Thru Oct. * FY 2012	Thru Oct. FY 2013	Thru Oct. \$ Chg.	Thru Oct. % Chg.	HJ2 ** % Chg.
Individual Income Tax	898,851,201	859,849,000	369,661,101	402,188,734	32,527,632	8.80%	6.2%
Property Tax	236,662,434	240,636,000	5,607,420	7,350,843	1,743,423	31.09%	1.5%
Corporation Tax	127,770,592	128,042,000	47,911,956	57,954,395	10,042,440	20.96%	11.3%
Vehicle Fee/Tax	99,954,479	107,150,000	27,450,511	19,062,611	(8,387,900)	-30.56%	0.4%
Oil Severance Tax	97,560,324	97,538,000	0	0	0		-5.3%
Insurance Tax	58,950,923	60,550,000	12,156,758	12,576,862	420,104	3.46%	5.5%
Video Gaming Tax	53,823,548	57,676,000	12,441,844	14,034,792	1,592,949	12.80%	9.3%
All Other	297,380,267	301,699,000	60,956,229	51,596,268	(9,359,961)	-15.36%	-0.8%
<b>Totals</b>	<b>\$1,870,953,768</b>	<b>\$1,853,140,000</b>	<b>\$536,185,819</b>	<b>\$564,764,505</b>	<b>\$28,578,686</b>	<b>5.33%</b>	<b>3.8%</b>

\* Adjusted for late accrual posted in November 2011.

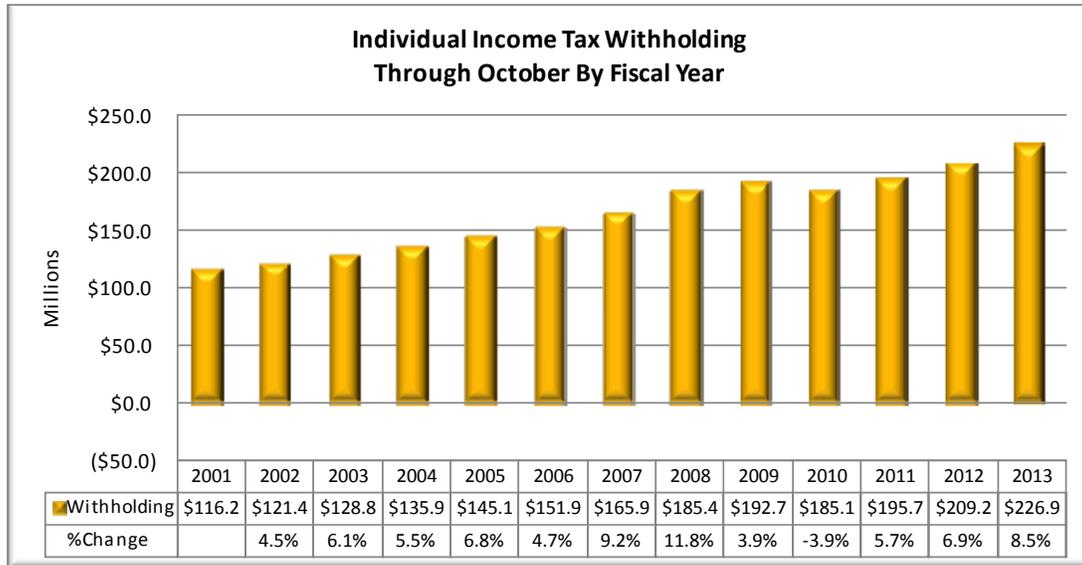
\*\* Percent change from HJ2 estimated FY 2012 to estimated FY 2013.

The next section of the report briefly discusses the top seven sources of revenue.

### INDIVIDUAL INCOME TAX

Individual income tax is the largest source of general fund revenue. As shown in Figure 1, this revenue source is \$32.5 million or 8.8% above last year at this time. Withholding tax collections is a key indicator for this source of revenue. As Figure 2 shows, withholding taxes are up 8.5% over last year. As has been pointed in other reports during the interim, these tax collections represent withholding on wages and other selected non-wage type incomes. For example, retirement and pension withholding payments are included in this collection stream. In total, individual income taxes were expected to increase by 6.2% as specified in HJ 2. The revenue estimate recommendations to be presented to the Revenue and Transportation Committee (RTIC) on Monday will include a discussion of this assumption in detail.

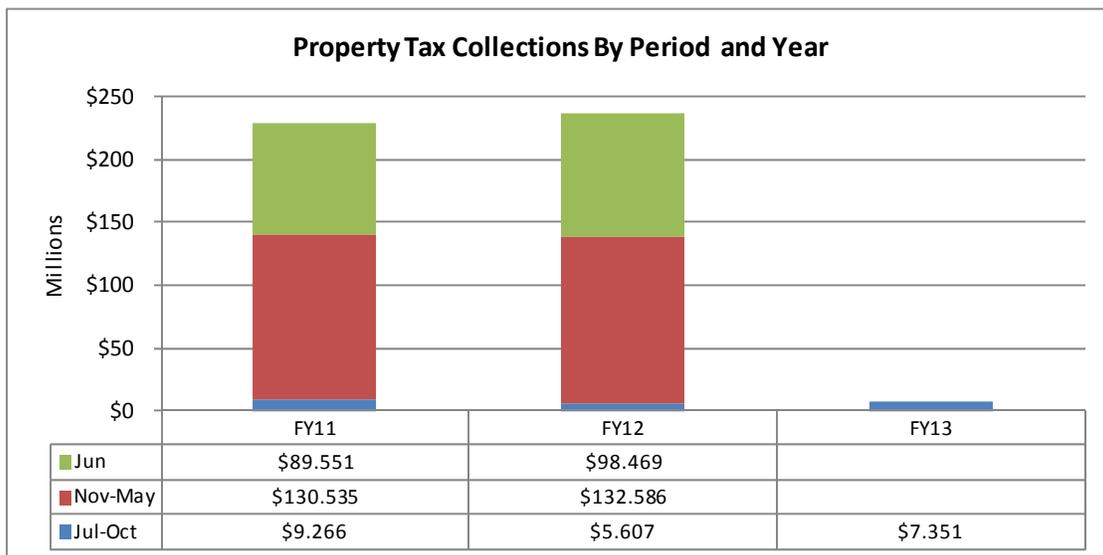
Figure 2



## PROPERTY TAX

Property tax collections are above last year by \$1.7 million or 31.1%. From a percentage vantage point, this would imply that collections are going to exceed the HJ 2 estimate significantly. However, as Figure 3 shows, a relative small amount of revenue is collected in the July through October time period. Property tax collections are significant during November and December and then again in June. Since the collections during the period July through October are quite small, it would be premature to speculate on this trend. In addition, the taxable value data for tax year 2012 (FY 2013) obtained from Department of Revenue supports the estimate contained in HJ 2.

Figure 3

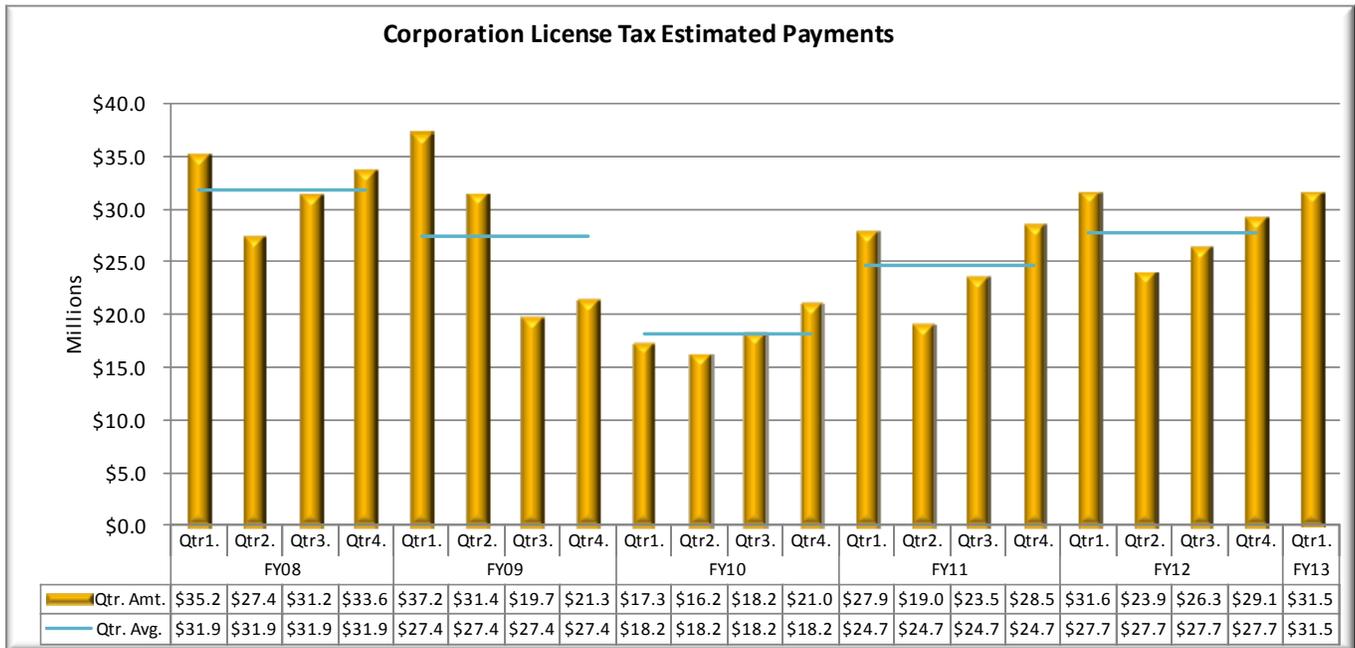


## CORPORATION LICENSE TAX

Corporation license tax collections are \$10.0 million or 21.0% above last year. This is higher than the rate anticipated in HJ 2. The best indicator for corporation license tax collections is estimated payments. As Figure 4 shows, estimated payments have been quite volatile from year-to-year and quarter-to-quarter. Since the low point during FY 2010, estimated payments have (on average) been increasing. The first quarter data for FY 2013 shows a continuation

of this trend. The revenue estimate recommendations to the Revenue and Transportation Interim Committee ( RTIC) will incorporate this trend in addition to a recommendation for anticipated audit collections.

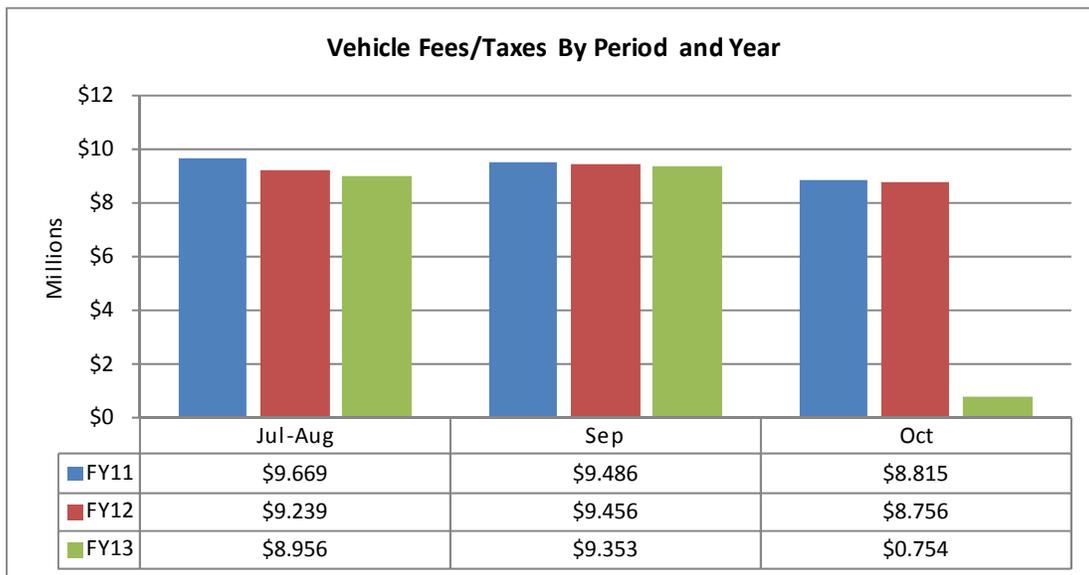
Figure 4



## VEHICLE FEE/TAX

Vehicle fees/taxes are currently below last years amount by \$8.4 million or 30.6%. This decline is probably not due to economic conditions. As shown in Figure 5, collections have been relatively stable for the last three years in the periods July-August and September. During October, FY 2013 collections declined significantly. Staff has contacted the Department of Justice to verify that a deposit delay has created this anomaly. Assuming this is the case, vehicle fees/taxes are remaining flat from year to year. As suggested in previous reports and subsequently verified, the age distribution of vehicles is shifting to older vehicles. Current fees are at lower rates on older age vehicles.

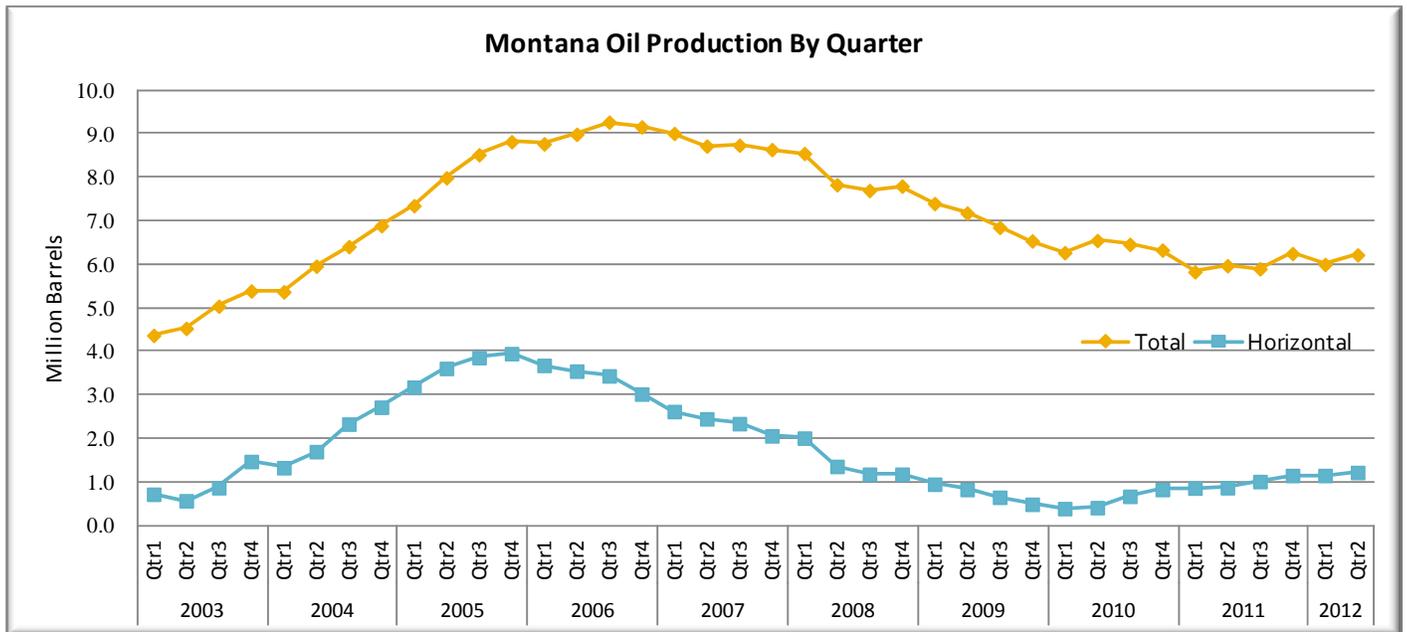
Figure 5



## OIL AND GAS PRODUCTION TAX

As shown in Figure 1, oil and gas production collections are zero through October. This is a normal collection pattern because of 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. Although current collections show zero, the tax returns filed by the oil companies provide insight to oil production trends. As shown in Figure 6, total oil production has remained flat at about 6 million barrels per quarter since the first quarter of 2011. Figure 6 also shows that production from horizontal wells is increasing at a modest rate. This means that older wells are continuing to decline and that new production from horizontal wells is replacing the decline from the older wells. Currently there are no signs that production is accelerating. Extensive analysis on oil and gas data has been prepared and will be discussed with the RTIC.

Figure 6



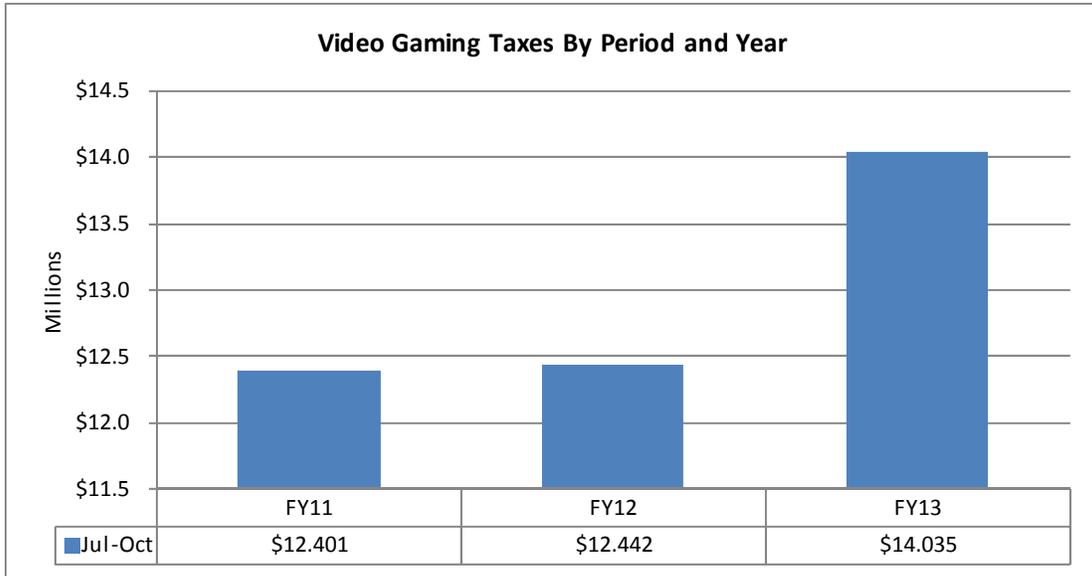
## INSURANCE TAX

Insurance tax collections are up \$0.4 million or 3.5% over last year. This rate is slightly below the rate anticipated in HJ 2 of 5.5%. Analysis of data from the state auditor’s office shows that insurance premiums are increasing but at a fairly modest rate. Weak housing starts and the reluctance of individuals to purchase new vehicles will probably keep the growth rate from returning to levels prior to the great recession.

## VIDEO GAMING TAX

Video gaming taxes are up \$1.6 million or 12.8% over last year. While this improvement is good news, the increased revenue is due primarily from the addition of “video line games” approved by the 62<sup>nd</sup> Legislature. The smoking ban and the great recession had a significant impact on this revenue source. As shown in Figure 7, collections for the period July through October has improved significantly in FY 2013 due to the addition of the new games. The positive impact of this legislation is expected to continue with some modest improvement in overall machine play.

Figure 7



## SUMMARY

In summary, general fund revenue collections continue to show strong growth over FY 2012 amounts. Since FY 2012 collections were above the HJ 2 estimate by \$85.3 million, the probability that this improvement will continue for FY 2013 is very high. There are currently no signs that revenue collections are softening and the seven major sources are doing as expected or better than originally anticipated in HJ 2. Without consideration of wildfire costs for the biennium, the general fund ending balance for the 2013 biennium could be in excess of \$475 million.