

DATE: June 5, 2014

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 2014 General Fund Revenue Update #6

PURPOSE OF REPORT

This is the final of six monthly revenue updates throughout second half of FY 2014 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2014 relative to the official estimate contained in SJ 2.

SUMMARY

General fund revenue collections are below FY 2013 amounts through the end of May, and are below the overall growth estimate contained in SJ 2. Total individual and corporation income tax collections in FY 2013 included one-time activity that is not expected to continue in FY 2014. As a result, collections from these two sources—as well as total general fund collections—are estimated in SJ 2 to decrease from the FY 2013 level.

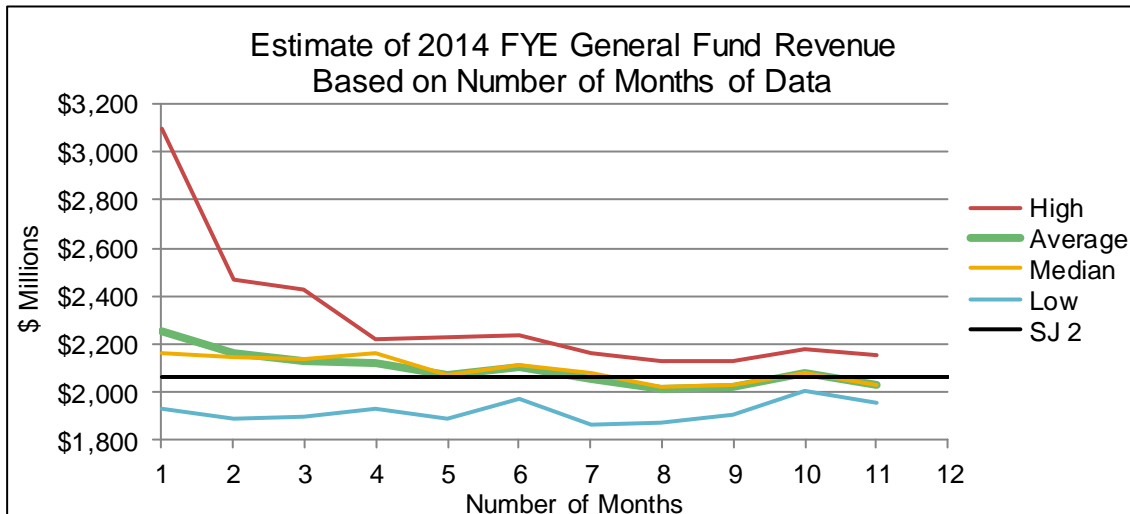
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2014 general fund revenues through the end of May are \$25.4 million or 1.4% below FY 2013 revenues through the same period; this decrease is more than the anticipated decline of 1.0%. All major revenue sources and any other sources with significant differences will be discussed in further detail in the remainder of this report.

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2013	SJ2 Est.* FY 2014	SJ2 Estimate % Change	5/31/2013 FY 2013	5/31/2014 FY 2014	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,047.790	\$1,039.082	-0.8%	\$1,026.982	\$1,037.432	\$10.450	1.0%
Property Tax	244.607	245.287	0.3%	147.278	149.642	2.364	1.6%
Corporation Tax	177.497	154.096	-13.2%	156.056	117.621	(38.434)	-24.6%
Vehicle Taxes & Fees	99.352	102.659	3.3%	81.575	81.869	0.293	0.4%
Oil Severance Tax	98.683	99.336	0.7%	47.444	53.026	5.582	11.8%
Insurance Tax	61.678	52.021	-15.7%	46.901	46.762	(0.139)	-0.3%
Video Gaming Tax	57.261	59.929	4.7%	42.784	42.338	(0.446)	-1.0%
Other Business Taxes							
Drivers License Fee	4.527	4.435	-2.0%	3.961	3.546	(0.415)	-10.5%
Investment Licenses	6.951	7.457	7.3%	6.724	6.951	0.227	3.4%
Lodging Facilities Sales Tax	16.720	18.365	9.8%	12.616	13.206	0.590	4.7%
Public Contractor's Tax	(0.138)	3.259	-2468.7%	(1.075)	(0.733)	0.342	-31.8%
Railroad Car Tax	2.179	2.320	6.5%	2.150	2.326	0.175	8.1%
Rental Car Sales Tax	3.523	3.632	3.1%	2.739	2.837	0.098	3.6%
Retail Telecom Excise Tax	20.652	23.236	12.5%	15.249	13.997	(1.253)	-8.2%
Other Natural Resource Taxes							
Coal Severance Tax	13.265	14.857	12.0%	10.377	10.923	0.546	5.3%
Electrical Energy Tax	5.067	4.521	-10.8%	3.756	3.194	(0.562)	-15.0%
Metal Mines Tax	10.049	10.595	5.4%	5.155	3.905	(1.250)	-24.2%
U.S. Mineral Royalties	29.205	30.953	6.0%	21.901	21.183	(0.718)	-3.3%
Wholesale Energy Trans Tax	3.558	4.140	16.4%	2.869	2.318	(0.551)	-19.2%
Other Interest Earnings							
Coal Trust Interest Earnings	24.153	24.354	0.8%	18.671	16.671	(2.000)	-10.7%
TCA Interest Earnings	2.465	2.346	-4.8%	2.113	1.468	(0.646)	-30.6%
Other Consumption Taxes							
Beer Tax	3.033	3.067	1.1%	2.471	2.463	(0.009)	-0.3%
Cigarette Tax	31.011	30.433	-1.9%	27.571	26.518	(1.053)	-3.8%
Liquor Excise Tax	17.724	19.284	8.8%	14.809	15.180	0.371	2.5%
Liquor Profits	10.500	11.080	5.5%	-	-	-	-
Lottery Profits	13.084	14.342	9.6%	7.142	7.062	(0.079)	-1.1%
Tobacco Tax	5.853	6.005	2.6%	4.826	4.944	0.118	2.5%
Wine Tax	2.195	2.218	1.0%	1.813	1.870	0.057	3.2%
Other Sources							
All Other Revenue	36.578	32.548	-11.0%	23.973	27.872	3.898	16.3%
Highway Patrol Fines	4.140	4.467	7.9%	3.388	3.329	(0.059)	-1.7%
Nursing Facilities Fee	4.928	4.740	-3.8%	3.775	3.700	(0.076)	-2.0%
Public Institution Reimbursemer	16.212	17.802	9.8%	13.378	10.202	(3.176)	-23.7%
Tobacco Settlement	3.321	3.519	6.0%	3.321	3.646	0.324	9.8%
Largest Seven Subtotal	\$1,786.868	\$1,752.411	-1.9%	\$1,549.021	\$1,528.692	(\$20.329)	-1.3%
Remaining Sources Subtotal	290.754	303.974	4.5%	213.673	208.577	(5.097)	-2.4%
Grand Total	\$2,077.622	\$2,056.385	-1.0%	\$1,762.694	\$1,737.268	(\$25.426)	-1.4%
* SJ 2, Adjusted for Legislative Impacts							

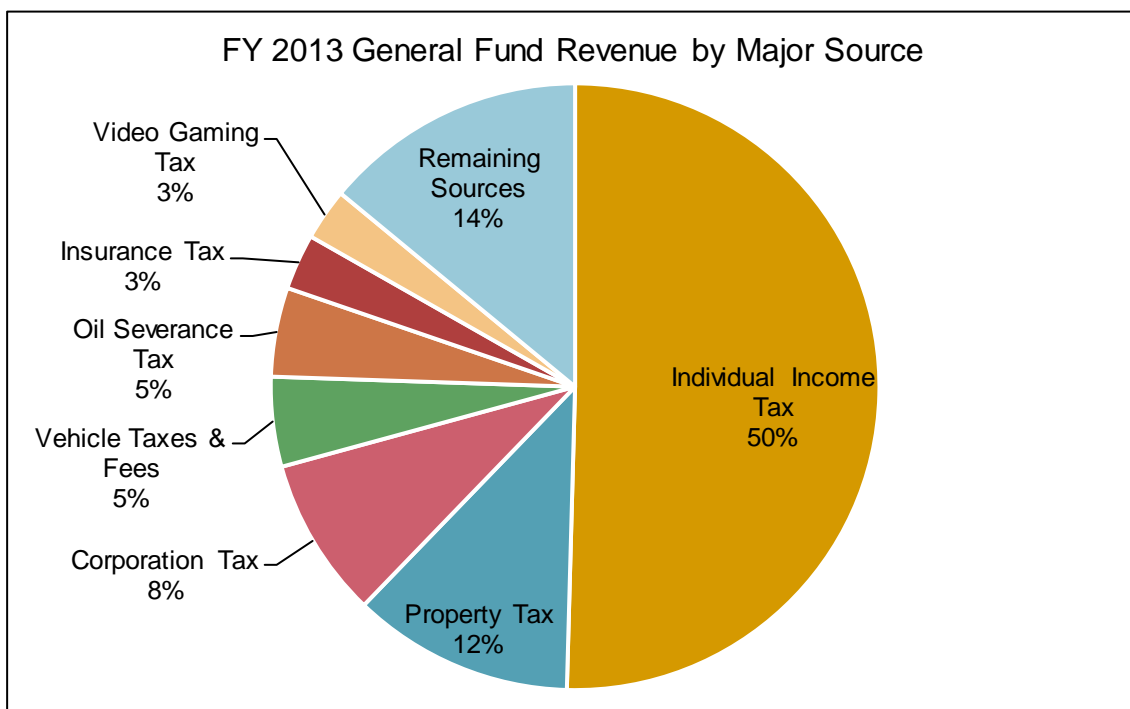
Year-to-Date Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2014 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Note that the difference between the high and low is less than \$200 million, with the average and median values just under the SJ 2 estimate.



MAJOR SOURCES

In FY 2013, the largest seven revenue sources accounted for 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



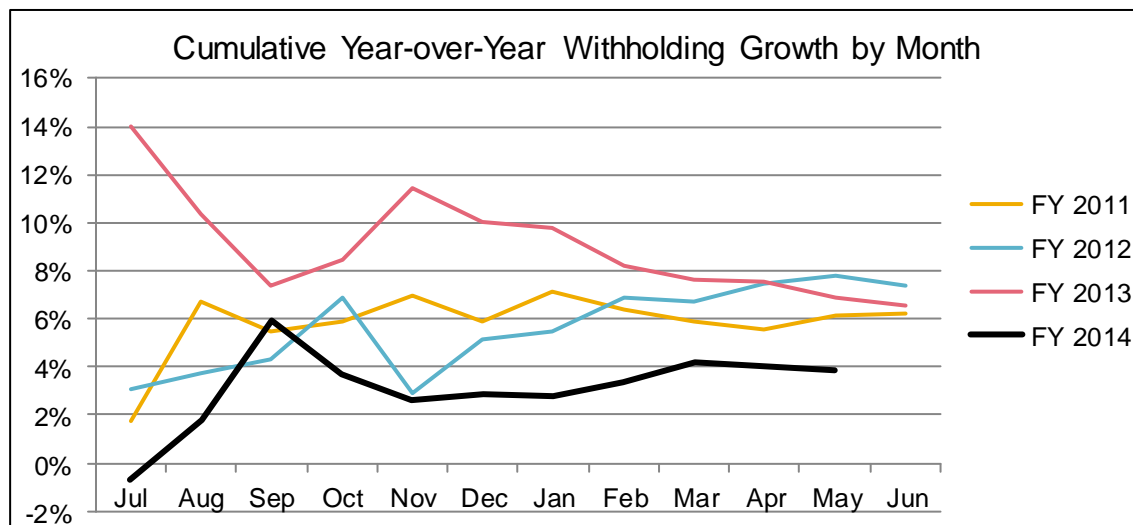
Individual Income Tax: Close to Estimate

Individual income tax collections are \$10.4 million or 1.0% above last year, and above the anticipated decline of 0.8% contained in the official estimate. Cumulative withholding tax growth—highlighted in earlier reports because of unusually slow growth—appears to be holding steady around 4%.

Year-to-Date Individual Income Tax (\$ Millions)				
	FY 2014	FY 2013	Difference	% Difference
Withholding	\$719.2	\$692.6	\$26.6	3.8%
Estimated Payments	203.5	194.8	8.7	4.4%
Current Year Payments	164.4	197.2	(32.9)	-16.7%
Audit, P&I, Amended	32.2	25.7	6.5	25.3%
Refunds	(242.9)	(233.2)	(9.7)	4.2%
Refund Accrual Reversal	129.1	124.8	4.3	3.4%
Partnership Income Tax	16.0	12.4	3.6	29.3%
Mineral Royalties	16.0	12.6	3.4	27.0%
Total	\$1,037.4	\$1,027.0	\$10.4	1.0%

The decline in current year payments has been anticipated; the high level of current year payments through April 2013 likely reflect the increased capital gains realizations due to the uncertainty in federal tax policy at the end of CY 2012, and that level of realizations was not expected to be sustained.

The graph below illustrates the slow growth of withholding tax in FY 2014 when compared to the other post-recession years. The volatility of the first months of the fiscal year is expected; however, by February, the year-over-year growth seems to stabilize. This year, collections continued the upward trend from January through March, then appear to have stabilized. Although collections through the end of the fiscal year may still not attain the 6-8% growth of the last three years, the outlook for final collections has improved from January. On average, individual income withholding tax accounts for about a third of all general fund revenue.



Property Tax: Slightly Higher than Estimated

With the second of two property tax payments not yet in, property tax collections are above FY 2013 year-to-date by \$2.4 million or 1.6%. More will be known once the second property tax payment comes

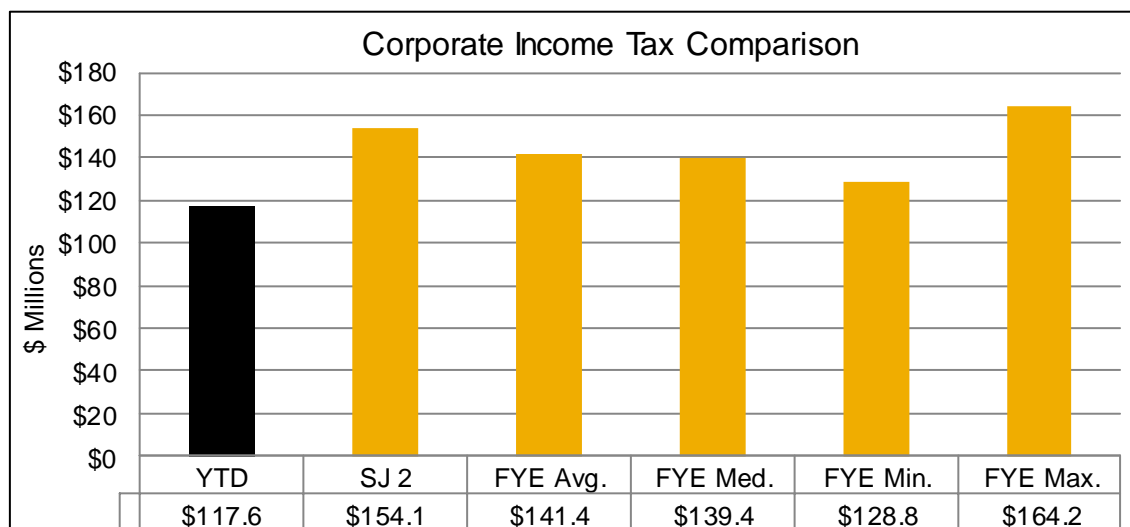
in, but it appears as though the revenues are on track to likely be just slightly higher than the SJ 2 estimate.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of May are \$38.4 million or 24.6% below last year. All accounts are contributing to the reduction, as shown in the following table:

Year-to-Date Corporation Income Tax (\$ Millions)				
Account	FY 2014	FY 2013	Difference	% Difference
Corporation Tax	\$26.9	\$43.6	(\$16.7)	-38.4%
Estimated Payments	96.3	102.1	(5.7)	-5.6%
Refunds	(19.0)	(17.6)	(1.4)	7.8%
Refund Accrual Reversal	5.6	12.8	(7.2)	-56.0%
Audit, P&I, Amended	7.8	15.3	(7.4)	-48.7%
Total	\$117.6	\$156.1	(\$38.4)	-24.6%

Total collections are likely to end up below the FY 2013 level. The chart below shows year-to-date collections, the estimate contained in SJ 2, and four potential FY 2014 totals, based on year-to-date collection patterns since FY 2000. Notice that both the average and median collection patterns suggest that total collections for this year may end up below the estimate contained in SJ 2.

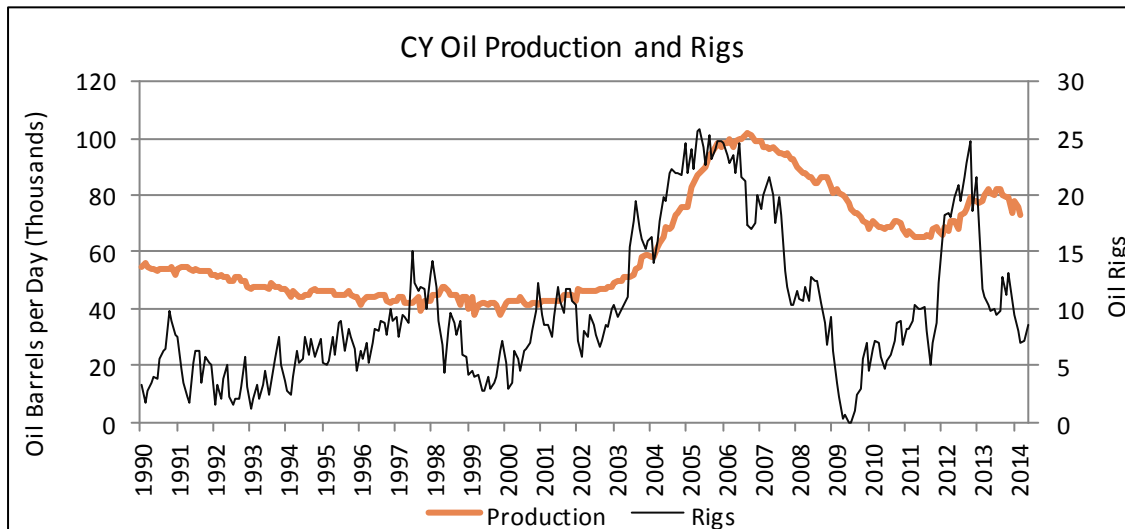


Vehicle Fees & Taxes: Slightly Below Estimate

With one month remaining in FY 2014, vehicle taxes and fees have generated \$81.9 million in revenue. This is a 0.4% increase from this time last year. Given past years' trends, this indicates that year-end revenue will be about \$3.0 million less than what was anticipated in SJ 2.

Oil & Natural Gas Production Tax: Currently Stronger-than-Expected Growth

Revenue from the oil and natural gas production tax is above the SJ 2 estimate by \$5.6 million or 11.8%. These are the same values as last month's year-to-date values because the data is reported quarterly and this report falls in the middle of a quarter. The increase is due primarily to higher-than-expected production in CY 2013, which was a result of exploratory drilling in CY 2012. The increased rig count and subsequent increase in production are shown below.



While this is strong growth, it happened primarily in the first quarter, which was up by \$5.5 million. Second quarter collections for FY 2014 are very close to what second quarter FY 2013 collections were. It is expected that the remaining quarters will remain similar to FY 2013 revenues and SJ 2 estimates, bringing year-end collections to about \$5 million above the SJ 2 estimate, due basically to the higher-than-expected amount which came in during the first quarter.

Insurance Tax: Above Estimate Due to BCBS Buyout

Current insurance tax collections are 0.3% or \$0.1 million below FY 2013 year-to-date. This is 15.4% ahead of the 15.7% decrease anticipated in SJ 2. The expected decline incorporated into the official SJ 2 estimate is due to the increased allocation to the Healthy Montana Kids state special revenue fund (increased to 33.3% from 16.7%).

At the time of the estimate, it was not known that Blue Cross Blue Shield (BCBS) would be bought out by Health Care Services Corporation (HCSC) and would be required to pay insurance tax from which it has previously been exempt. These new taxes came in during April with the filing of the company's 2013 tax return.

Due to the timing of tax collections, any impact on this revenue source as a result of the Affordable Care Act is not likely to appear until the last quarter of FY 2015.

Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is 1.0% less than this time last year. Current revenue in FY 2014 generated from video gambling taxes is \$42.3 million, compared to \$42.8 million at this time last year. Using past years' trends, year-end revenue from this source will likely finish around \$2.5 million less than was estimated in SJ 2.

OTHER KEY DIFFERENCES

Retail Telecommunications Excise Tax: Appears Low Due to Timing Issue

Retail telecommunication excise tax is down 8.2% or almost \$1.3 million. This appears to be a timing issue and should be resolved by the end of the month.

Metal Mines Tax: Below Estimate Due to Lower Prices & Production

Metal mines tax collections are below those of FY 2013 by \$1.3 million or 24.2%. As highlighted in the December [Revenue Trend Update Report](#), metal mines tax collections are expected to be below the SJ 2

estimate for the remainder of the biennium. The primary reason for the reduction is lower levels of production than anticipated in SJ 2.

Coal Trust Interest Earnings: Below Estimate

Coal trust interest earnings are currently \$2.0 million, or 10.7% less than this time last year. Estimates contained in SJ 2 predicted that coal trust earnings would remain virtually unchanged from FY 2013 to FY 2014. However, due to the current low yields in the bond market, this source will likely finish approximately \$2.0 million below the SJ 2 estimate.

Cigarette Tax: Below Estimate

SJ 2 estimated a decrease of \$0.6 million or 1.9% from FY 2013 collections. At this time, cigarette tax is 3.8% or \$1.1 million behind year-to-date FY 2013. Based on historic collection trends, it is likely that this source will come in near the SJ 2 estimate. Any discrepancy can likely be partially attributed to the increase in popularity of untaxed e-cigarettes.

All Other Revenue: Stronger-than-Expected Growth

In SJ 2, revenue from this source was expected to decrease by 11.0% from FY 2013 to FY 2014. To date, collections from all other revenue are \$3.9 million or 16.3% greater than last year. This increase in revenue is due primarily to increases in abandoned property collections. Most of the remaining growth can be attributed to fund transfers from the Department of Natural Resources and Conservation. These transfers were from the coal shared fund balances that were deposited into the general fund following the close of FY 2013.

Public Institution Reimbursements: Below Estimate Due to Bookkeeping

Public institution reimbursements are 23.7% or \$3.2 million below year-to-date FY 2013. This is a volatile source with collections based on bed days used in state facilities, and payments received for various services rendered. At this time, there is four months' worth of transfers to the general fund that have not been processed. With this volume of missingness it is hard to estimate what the final collections will be, but they should be much nearer the SJ 2 estimate.