

DATE: April 4, 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 #4

## **PURPOSE OF REPORT**

This is the fourth 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 nearly even with FY 2013 amounts, and are slightly above 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

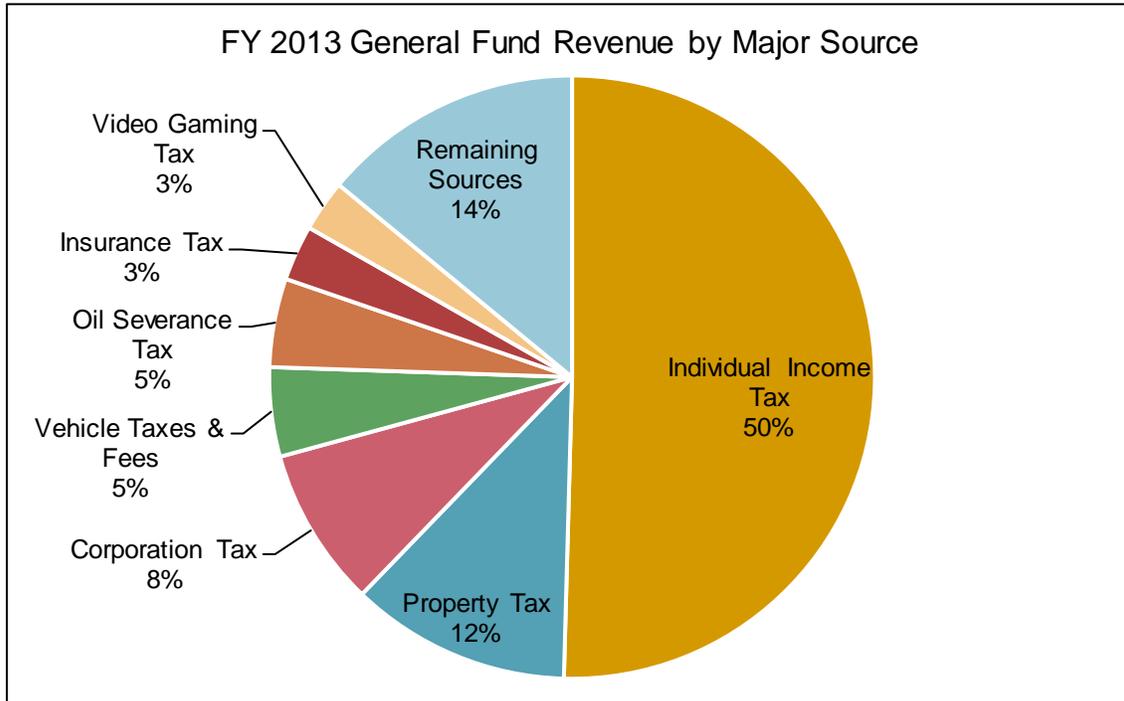
FY 2014 general fund revenues through the end of March are \$3.4 million or 0.3% ahead of FY 2013 revenues through the same period; this increase is above the anticipated decline of 1.0%. All major revenue sources and any other sources with significant differences will be discussed in further detail in the next section.

General Fund Revenue Monitoring Report (in Millions)							
Revenue Source	Actual FY 2013	SJ2 Est.* FY 2014	SJ2 Estimate % Change	3/31/2013 FY 2013	3/31/2014 FY 2014	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,047.790	\$1,039.082	-0.8%	\$749.634	\$795.316	\$45.682	6.1%
Property Tax	244.607	245.287	0.3%	138.633	142.188	3.555	2.6%
Corporation Tax	177.497	154.096	-13.2%	117.711	81.817	(35.894)	-30.5%
Vehicle Taxes & Fees	99.352	102.659	3.3%	64.899	62.953	(1.946)	-3.0%
Oil Severance Tax	98.683	99.336	0.7%	23.736	29.201	5.465	23.0%
Insurance Tax	61.678	52.021	-15.7%	28.830	23.366	(5.464)	-19.0%
Video Gaming Tax	57.261	59.929	4.7%	28.292	28.095	(0.197)	-0.7%
<b>Other Business Taxes</b>							
Drivers License Fee	4.527	4.435	-2.0%	3.207	2.833	(0.375)	-11.7%
Investment Licenses	6.951	7.457	7.3%	6.393	6.699	0.306	4.8%
Lodging Facilities Sales Tax	16.720	18.365	9.8%	9.831	10.300	0.469	4.8%
Public Contractor's Tax	(0.138)	3.259	-2468.7%	0.037	0.228	0.191	514.9%
Railroad Car Tax	2.179	2.320	6.5%	1.667	1.692	0.024	1.5%
Rental Car Sales Tax	3.523	3.632	3.1%	2.175	2.185	0.010	0.5%
Retail Telecom Excise Tax	20.652	23.236	12.5%	10.509	9.929	(0.580)	-5.5%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	13.265	14.857	12.0%	7.674	7.684	0.009	0.1%
Electrical Energy Tax	5.067	4.521	-10.8%	2.404	2.018	(0.386)	-16.1%
Metal Mines Tax	10.049	10.595	5.4%	3.222	0.510	(2.712)	-84.2%
U.S. Mineral Royalties	29.205	30.953	6.0%	18.236	17.308	(0.928)	-5.1%
Wholesale Energy Trans Tax	3.558	4.140	16.4%	1.862	1.470	(0.393)	-21.1%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	24.153	24.354	0.8%	14.818	13.000	(1.818)	-12.3%
TCA Interest Earnings	2.465	2.346	-4.8%	1.734	1.214	(0.520)	-30.0%
<b>Other Consumption Taxes</b>							
Beer Tax	3.033	3.067	1.1%	2.018	2.015	(0.004)	-0.2%
Cigarette Tax	31.011	30.433	-1.9%	22.375	21.626	(0.750)	-3.3%
Liquor Excise Tax	17.724	19.284	8.8%	11.997	12.338	0.341	2.8%
Liquor Profits	10.500	11.080	5.5%	-	-	-	-
Lottery Profits	13.084	14.342	9.6%	7.142	3.068	(4.074)	-57.0%
Tobacco Tax	5.853	6.005	2.6%	3.948	4.042	0.095	2.4%
Wine Tax	2.195	2.218	1.0%	1.482	1.525	0.043	2.9%
<b>Other Sources</b>							
All Other Revenue	36.578	32.548	-11.0%	19.191	23.676	4.486	23.4%
Highway Patrol Fines	4.140	4.467	7.9%	2.587	2.681	0.093	3.6%
Nursing Facilities Fee	4.928	4.740	-3.8%	2.529	2.487	(0.042)	-1.7%
Public Institution Reimbursemer	16.212	17.802	9.8%	10.055	8.743	(1.312)	-13.0%
Tobacco Settlement	3.321	3.519	6.0%	-	-	-	-
Largest Seven Subtotal	\$1,786.868	\$1,752.411	-1.9%	\$1,151.734	\$1,162.936	\$11.202	1.0%
Remaining Sources Subtotal	290.754	303.974	4.5%	167.094	159.270	(7.824)	-4.7%
<b>Grand Total</b>	<b>\$2,077.622</b>	<b>\$2,056.385</b>	<b>-1.0%</b>	<b>\$1,318.828</b>	<b>\$1,322.206</b>	<b>\$3.378</b>	<b>0.3%</b>

\* SJ 2, Adjusted for Legislative Impacts

## 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.

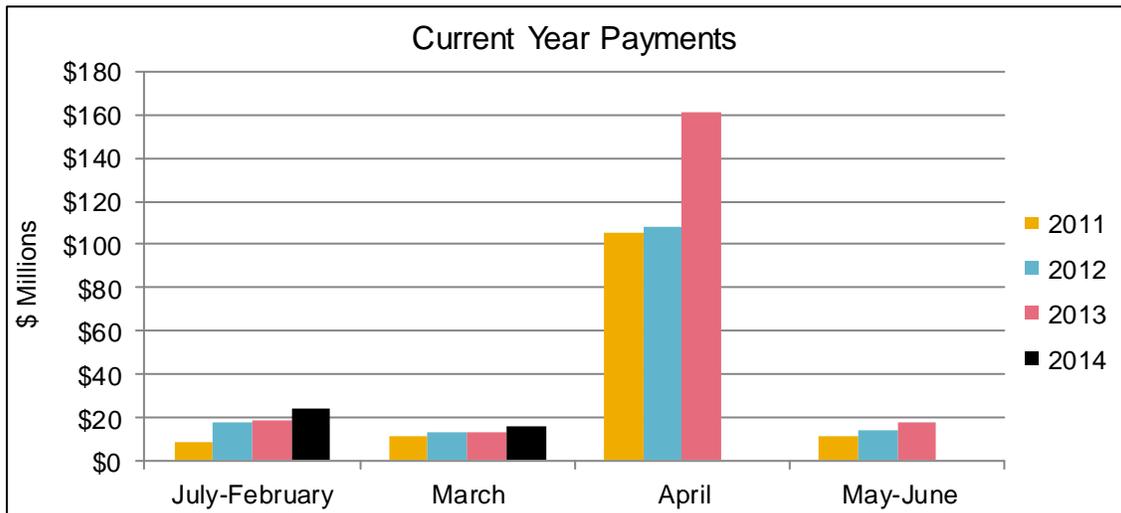


### Individual Income Tax: Above Estimate; Withholding Growth Up

Individual income tax collections are \$45.7 million or 6.1% above last year, and above the anticipated decline of 0.8% contained in the official estimate. Withholding tax collections—noted in the past two reports for unusually slow growth—posted strong growth in March, resulting in a year-to-date growth of 4.2%.

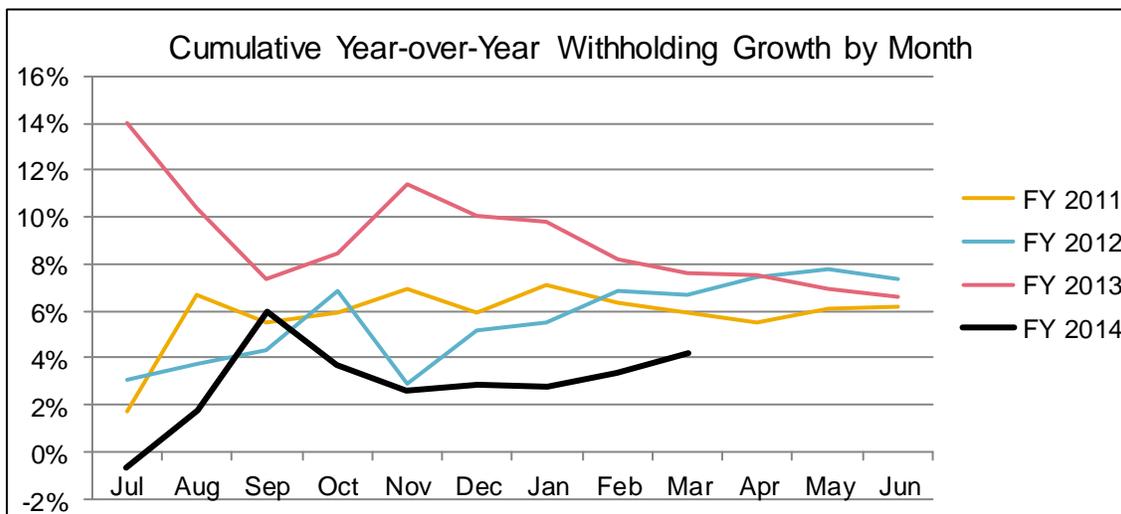
Year-to-Date Individual Income Tax				
<i>(in Millions)</i>				
	FY 2014	FY 2013	Difference	% Difference
Withholding	\$587.3	\$563.6	\$23.7	4.2%
Estimated Payments	162.8	157.6	5.2	3.3%
Current Year Payments	39.2	31.6	7.6	24.1%
Audit, P&I, Amended	24.1	19.8	4.3	21.7%
Refunds	(166.2)	(163.5)	(2.8)	1.7%
Refund Accrual Reversal	129.1	124.8	4.3	3.4%
Partnership Income Tax	8.1	7.2	0.9	12.7%
Mineral Royalties	10.9	8.5	2.4	28.5%
<b>Total</b>	<b>\$795.3</b>	<b>\$749.6</b>	<b>\$45.7</b>	<b>6.1%</b>

Most of the increase in current year payments reflects the tax due by tax year 2012 extension filers, rather than that of tax year 2013 filers. About three-quarters of total current year payments are received in April, as shown in the following graph:



The increased level of current year payments in April 2013 likely reflects the increased capital gains realizations due to the uncertainty in federal tax policy at the end of CY 2012. It is anticipated that this level will not 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. 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. On average, individual income withholding tax accounts for about a third of all general fund revenue.



### Property Tax: Slightly Higher than Estimated

With the first of two property tax payments in, property tax collections are above FY 2013 year-to-date by \$3.5 million or 2.6%. The shift to being slightly above year-to-date numbers, compared to being slightly below year-to-date numbers last month comes predominantly from the late Ravalli County payment of \$4.3 million. Total collections are on track to likely be slightly higher than the SJ 2 estimate.

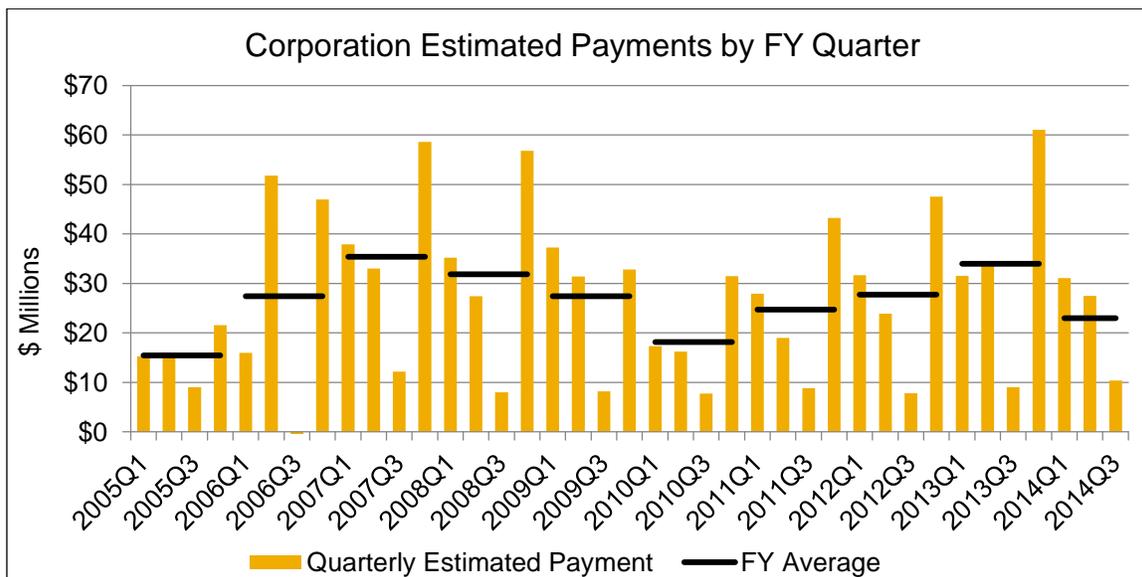
## Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of March are \$35.9 million or 30.5% below last year. All accounts are contributing to the reduction, as shown in the following table:

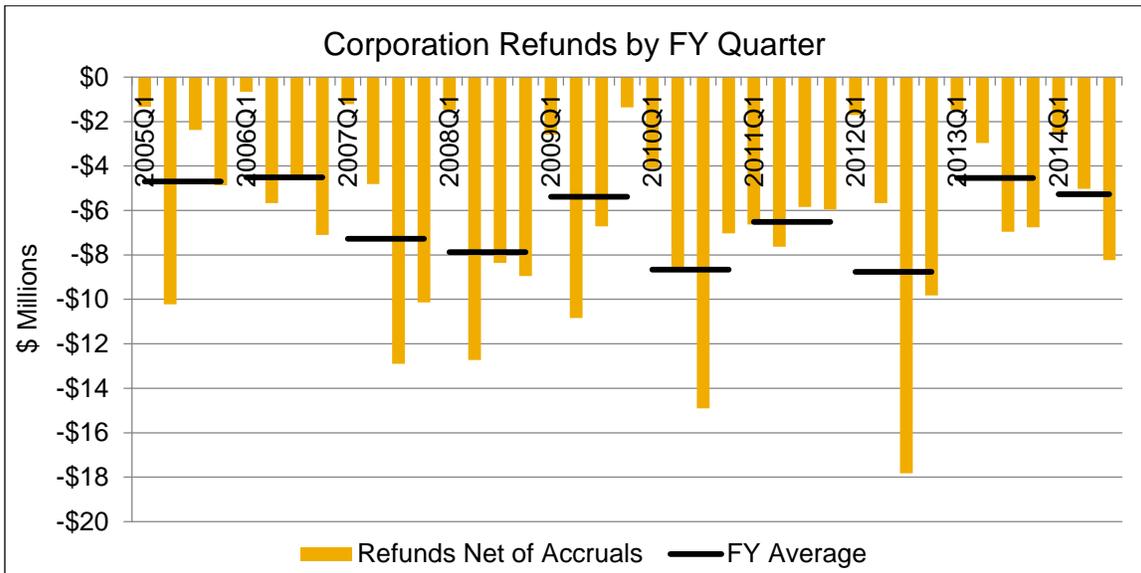
Year-to-Date Corporation Income Tax (in Millions)				
Account	FY 2014	FY 2013	Difference	% Difference
Corporation Tax	\$16.7	\$27.7	(\$11.0)	-39.6%
Estimated Payments	68.9	74.7	(5.8)	-7.8%
Refunds	(15.8)	(11.4)	(4.4)	38.6%
Refund Accrual Reversal	5.6	12.8	(7.2)	-56.0%
Audit, P&I, Amended	6.4	13.9	(7.6)	-54.3%
<b>Total</b>	<b>\$81.8</b>	<b>\$117.7</b>	<b>(\$35.9)</b>	<b>-30.5%</b>

It appears that total collections are likely to end up below the FY 2013 level and may end up below the SJ 2 estimate.

The best indicator for corporation income 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. Since the low point during FY 2010, estimated payments have (on average) been increasing. FY 2014 estimated payments through the third quarter are somewhat lower than the first three quarters of FY 2013, but could potentially recover in the last quarter.



Also having a negative impact on collections is the increased refund activity. Corporation refunds net of accruals are shown in the chart below. Although the FY 2014 refund amount is currently more negative than the FY 2013 amount, it's fairly moderate compared to the recession years' refunds.

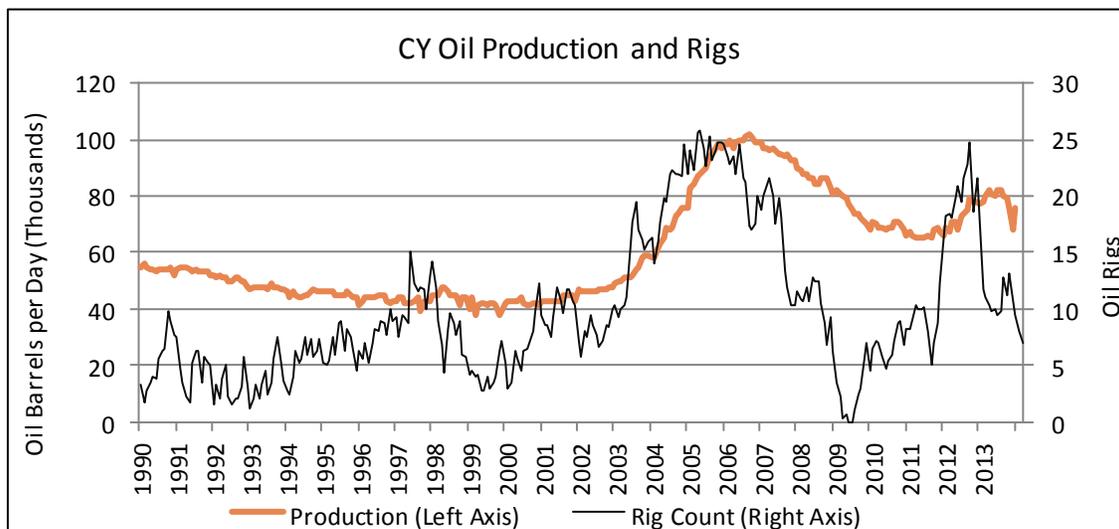


### Vehicle Fees & Taxes: Slightly Below Estimate

Nine months into FY 2014, vehicle taxes and fees have generated \$63.0 million in revenue. This is a 3.0% decrease 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: Stronger-than-Expected Growth

Revenue from the oil and natural gas production tax for the first quarter of FY 2014 was 23% or \$5.5 million higher than the first quarter of FY 2013, for a general fund total of \$29.2 million. Second quarter data will not be available until next month, but collection data suggests that second quarter general fund revenue will be very close to what was seen in second quarter FY 2013, putting the two quarter general fund collections around \$54 million. While only one full quarter and one preliminary quarter of data is available, growth in revenue is still expected to push oil and natural gas production tax revenue above the SJ 2 estimate for FY 2014. However that strong growth may not continue: declines have occurred in recent months both in rigs and production, as shown below.



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

Revenue from video gambling is 0.7% less than this time last year. Current revenue in FY 2014 generated from video gambling taxes is \$28.1 million, compared to \$28.3 million at this time last year. Using past years' trends, year-end revenue from this source will likely finish around \$3.0 million less than was estimated in SJ 2.

## **Insurance Tax: Currently Below Estimate, but Expected to Increase**

Current insurance tax collections are 19.0% or \$5.5 million below FY 2013 year-to-date. This is 3.3% lower than the 15.7% decrease anticipated in SJ 2. The expected decline incorporated into the official SJ 2 estimate for FY 2014 general fund 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 have not yet come in, but are anticipated at any time. Total insurance tax is anticipated to exceed the SJ 2 estimate once the additional revenue is realized.

## **OTHER KEY DIFFERENCES**

### **Metal Mines Tax: Below Estimate Primarily due to a Timing Issue**

Metal mines tax collections are below those of FY 2013 by \$2.7 million or 84.2%. Although reduced production will likely result in total collections coming in below SJ 2, the primary reason for the current reduction appears to be timing related. The tax for the period ending December 31, 2013 was due March 31, 2014. It appears that a number of returns have not yet been processed.

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

Coal trust interest earnings are currently \$1.8 million, or 12.3% 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.

### **Lottery Profits: Below Estimate Due to Timing**

Lottery profits are 57.0% or \$4.1 million below this time in FY 2013. This source is generally realized quarterly and the usual March collections have not yet come through. It is expected that the quarterly profits will come in during April.

### **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 \$4.5 million or 23.4% greater than this time 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; Further Research Needed**

Public institution reimbursements are 13.9% or \$1.3 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, data for facilities usage are unavailable so an annual comparison cannot be made to pinpoint the cause of the difference.