

GENERAL FUND REVENUE UPDATE FISCAL 2010

A Report Prepared for the
Revenue and Transportation Interim Committee

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INTRODUCTION

The purpose of this report is to provide the committee with general fund revenue collection data through April 30, 2009 compared to April 28, 2010. Since the committee was meeting two days prior to the end of April, staff felt current collection information before April month-end processing would be desirable. Therefore, the collections data shown in this report will change on May 1st when the final April collection amounts become available. This report highlights the two sources that are significantly contributing to the anticipated revenue shortfall for the 2011 biennium. These sources are individual and corporation income taxes.

Since April and May is the peak of the income and corporation income tax processing cycle, it would be premature to speculate on the trends that are occurring during this time. Each day there is significant collection and refund activity that can skew the underlying trends. Therefore, this report shows cumulative collection data through April 28th. There has been no attempt to extrapolate the data for the remainder of the fiscal year. It should also be noted that FY 2009 was a unique year. The first six months were quite strong when compared to the last six months. This means that current FY 2010 trends should be improving because the comparison is to the low point observed during FY 2009.

As a reminder, during the regular legislative session, our office recommended to the 61st Legislature that the general fund revenue estimates be decreased by \$292.6 million for fiscal 2009, 2010, and 2011. The House Taxation Committee adopted these recommendations and included the assumptions in HJ 2, the revenue estimating resolution. The reduced revenue was anticipated from major sources such as individual and corporation income taxes and oil and gas production taxes. The revenue estimates used by the legislature to balance the budget for the 2011 biennium have been incorporated into this report.

GENERAL FUND REVENUE UPDATE

FISCAL 2010 REVENUE COLLECTIONS

Based on information recorded on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), total general fund receipts through April 28, 2010 were \$1,108.9 million as shown in Figure 3. This compares to \$1,357.7 million collected through April 30, 2009. This is a decline in collections from FY 2009 of \$248.8 million or 18.3 percent.

Total general fund collections as estimated by the legislature for FY 2010 were expected to be \$35.1 million (1.9 percent) below the FY 2009 actual collections. These estimates were used by the 61st Legislature and are contained in the adjusted HJ 2 (revenue estimate resolution plus impacts of enacted legislation). Most of this reduction was expected from corporate income tax, oil and gas production tax, and TCA (treasury cash account) investment earnings. Corporation income tax collections were expected to decline because of the impacts of the economic recession on corporate profits. Oil and gas production collections were expected to decline because of significantly reduced commodity prices and reduced production levels. TCA investments earnings were expected to decline because of the historical low level for short-term interest rates. Individual income tax, the largest general fund revenue source, was expected to increase as the effects of the economic recession were expected to subside by the end of FY 2010.

Figure 3 shows revenue collection and estimate data by major revenue category. The last three columns in the figure compare collections from each revenue source to the estimate contained in HJ 2. For example, corporation income tax (10th line) shows a negative \$67.5 million in the "Difference" column. This means collections through April 28th of this year are \$67.5 million less than the amount received through April 30th of FY 2009 for a negative 53.6 percent difference shown in the "% Change" column. The legislature assumed collections would be down by 30.5 percent shown in the last column. This means collections are lagging the legislative estimate.

Figure 3

General Fund Revenue Monitoring Report							
Revenue Source	Actual Fiscal 2009	HJ2 Estimate Fiscal 2010	Through 4/30/09	Through 4/28/10	Difference	% Change	HJ2 Estimate % Change
GF0100 Drivers License Fee	3,478,285	3,920,000	2,158,094.45	3,282,814.06	1,124,719.61	52.12%	12.70%
GF0200 Insurance Tax	50,038,468	58,762,000	25,239,536.65	26,503,049.01	1,263,512.36	5.01%	17.43%
GF0300 Investment Licenses	6,461,446	6,210,000	5,681,092.21	5,557,298.11	(123,794.10)	-2.18%	-3.89%
GF0400 Vehicle License Fee	89,334,878	92,247,000	67,899,315.82	64,263,927.23	(3,635,388.59)	-5.35%	3.26%
GF0500 Vehicle Registration Fee	15,345,099	17,970,000	11,953,479.41	9,483,944.32	(2,469,535.09)	-20.66%	17.11%
GF0600 Nursing Facilities Fee	5,468,766	5,213,000	3,402,017.16	3,373,712.17	(28,304.99)	-0.83%	-4.68%
GF0700 Beer Tax	3,114,729	3,218,000	2,291,405.41	2,257,499.69	(33,905.72)	-1.48%	3.32%
GF0800 Cigarette Tax	34,320,412	32,007,000	27,004,758.02	25,068,051.43	(1,936,706.59)	-7.17%	-6.74%
GF0900 Coal Severance Tax	13,028,228	10,846,000	7,397,132.19	6,078,100.86	(1,319,031.33)	-17.83%	-16.75%
GF1000 Corporation Tax	166,354,514	115,638,000	125,922,275.53	58,383,904.48	(67,538,371.05)	-53.63%	-30.49%
GF1100 Electrical Energy Tax	4,824,659	4,717,000	3,155,206.56	2,245,761.84	(909,444.72)	-28.82%	-2.23%
GF1150 Wholesale Energy Trans Tax	3,864,771	3,931,000	2,721,366.86	1,791,514.48	(929,852.38)	-34.17%	1.71%
GF1200 Railroad Car Tax	2,099,454	2,295,000	1,574,971.58	1,977,856.00	402,884.42	25.58%	9.31%
GF1300 Individual Income Tax	815,138,193	840,263,000	683,186,478.27	550,113,738.63	(133,072,739.64)	-19.48%	3.08%
GF1400 Inheritance Tax	217,097	29,000	174,859.67	70,564.95	(104,294.72)	-59.64%	-86.64%
GF1500 Metal Mines Tax	5,992,923	3,248,000	2,818,391.21	3,456,374.78	637,983.57	22.64%	-45.80%
GF1700 Oil Severance Tax	100,490,971	66,930,000	65,055,130.93	45,506,077.61	(19,549,053.32)	-30.05%	-33.40%
GF1800 Public Contractor's Tax	5,929,999	4,322,000	4,504,098.41	5,882,490.50	1,378,392.09	30.60%	-27.12%
GF1850 Rental Car Sales Tax	2,904,340	3,182,000	2,022,461.55	1,837,057.28	(185,404.27)	-9.17%	9.56%
GFxxxx Property Tax	217,042,057	228,853,000	129,862,136.52	132,205,997.44	2,343,860.92	1.80%	5.44%
GF2150 Lodging Facilities Sales Tax	12,477,461	13,376,000	8,688,129.37	7,815,566.17	(872,563.20)	-10.04%	7.20%
GF2200 Telephone Tax	-	-	-	-	-	-	-
GF2250 Retail Telecom Excise Tax	22,250,383	21,672,000	11,588,991.09	12,954,942.42	1,365,951.33	11.79%	-2.60%
GF2300 Tobacco Tax	4,990,497	4,738,000	3,637,171.31	4,013,444.93	376,273.62	10.35%	-5.06%
GF2400 Video Gaming Tax	62,458,106	69,003,000	47,132,880.43	39,788,189.96	(7,344,690.47)	-15.58%	10.48%
GF2500 Wine Tax	1,936,052	2,043,000	1,468,681.90	1,456,788.60	(11,893.30)	-0.81%	5.52%
GF2600 Institution Reimbursements	14,100,804	16,047,000	12,377,982.80	12,830,446.10	452,463.30	3.66%	13.80%
GF2650 Highway Patrol Fines	4,179,882	4,055,000	3,168,602.88	3,459,735.06	291,132.18	9.19%	-2.99%
GF2700 TCA Interest Earnings	15,506,889	7,967,000	13,618,235.70	2,076,062.15	(11,542,173.55)	-84.76%	-48.62%
GF2900 Liquor Excise Tax	12,650,902	16,581,000	11,533,189.17	8,673,481.42	(2,859,707.75)	-24.80%	31.07%
GF3000 Liquor Profits	7,250,000	7,039,000	-	-	-	-	-2.91%
GF3100 Coal Trust Interest Earnings	26,958,378	28,574,000	17,866,454.41	18,127,510.76	261,056.35	1.46%	5.99%
GF3300 Lottery Profits	10,136,213	10,969,000	5,480,013.00	5,558,657.00	78,644.00	1.44%	8.22%
GF3450 Tobacco Settlement	4,127,609	4,007,000	4,127,609.08	3,468,623.20	(658,985.88)	-15.97%	-2.92%
GF3500 U.S. Mineral Leasing	31,573,364	27,796,000	23,053,757.59	17,293,517.71	(5,760,239.88)	-24.99%	-11.96%
GF3600 All Other Revenue	31,921,805	35,247,000	19,912,802.84	22,051,830.07	2,139,027.23	10.74%	10.42%
Grand Total	1,807,967,634	1,772,915,000	1,357,678,709.98	1,108,908,530.42	(248,770,179.56)	-18.32%	-1.94%

* Plus impacts of enacted legislation

DISCUSSION OF SELECTED SOURCES FOR FISCAL 2010 AND FISCAL 2011

The following section of the report addresses the individual and corporation income tax collections through April 28th of this year versus April 28th of last year. These two sources of revenue are both showing collection trends that are significantly below the amounts anticipated in HJ 2. The amounts shown in Figure 3 for FY 2009 are as of April 30th whereas the following figures compare the amounts as of April 28th for both years.

Individual Income Tax

Based on April 28th accounting data, net individual income tax collections for FY 2010 (gross collections less refunds) were 19.5 percent below net collections for FY 2009 or a decrease of \$133.1 million. The 61st Legislature assumed that revenues would increase by 3.1 percent from the FY 2009 amount or an increase of \$25.1 million. This increase was anticipated because the effects of the economic recession were expected to subside by the end of FY 2010.

Figure 4 shows the accounting details through April 28th of individual income tax collections for FY 2010 compared to the same period for FY 2009. Since withholding tax collections are a proxy of total wage growth, the negative 1.0 percent growth from last year indicates total wages have declined from the level observed a year ago. It should be noted, however, that the rate of decline has improved from last month (negative 1.5 percent). The most recent state unemployment rate has edged up slightly. This means the rate of decline in withholding payments will probably not

change significantly in the near term. Withholding payments for mineral royalties have declined by \$5.1 million or 36.5 percent. This decline was anticipated because of the significant reduction in Montana's wellhead oil price.

Figure 4

Individual Income Tax Comparison				
Accounting Detail	Through April 28 FY 2009	Through April 28 FY 2010	Dollar Difference	Percent Difference
Withholding Tax	514,479,615.43	509,559,870.08	(4,919,745.35)	-0.96%
Estimated Payments	206,225,567.66	145,939,603.15	(60,285,964.51)	-29.23%
Current Year Payments	103,399,146.11	101,889,197.38	(1,509,948.73)	-1.46%
Refunds	(207,479,753.19)	(242,278,524.60)	(34,798,771.41)	16.77%
Audits	21,699,381.00	26,185,323.00	4,485,942.00	20.67%
Mineral Withholding	<u>13,896,629.95</u>	<u>8,818,269.62</u>	<u>(5,078,360.33)</u>	-36.54%
Totals	\$652,220,586.96	\$550,113,738.63	(\$102,106,848.33)	-15.66%

Estimated payments, due October 15th, January 15th, and April 15th were \$60.3 million (29.2 percent) below last year. During the last two quarters of FY 2009, estimated payments declined by 14.5 and 33.6 percent, respectively. Review of the first, second, and third quarter FY 2010 payments shows a continuation of this trend. With a substantial drop in the equity markets during late 2008 and early 2009, historical low interest rates, and reductions in corporate profitability, it is not surprising to observe a significant reduction in estimated payments. Estimated payments and current year payments are a good indicator of how taxpayers' non-wage components of income are changing relative to economic conditions.

Figure 4a

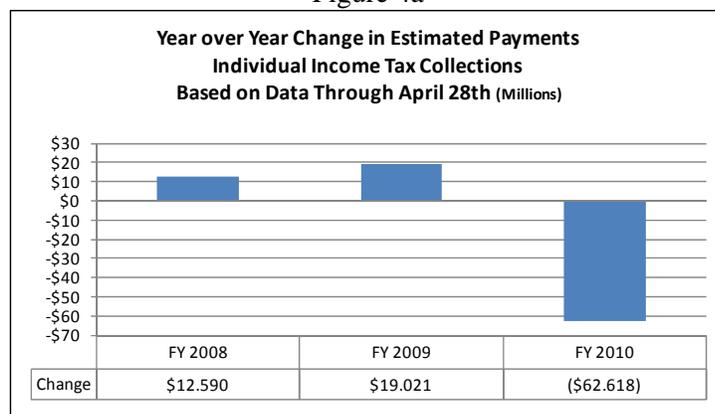
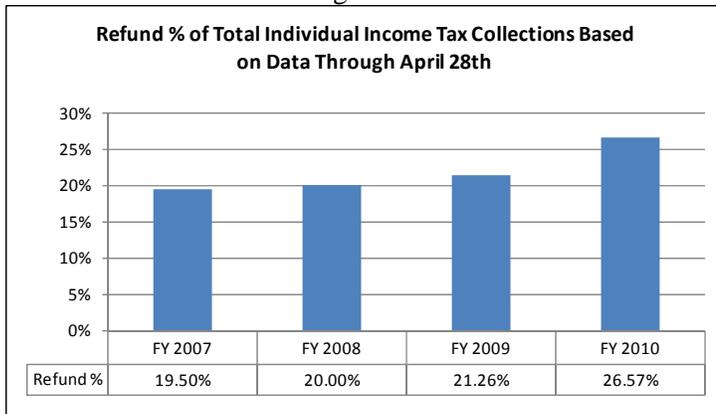


Figure 4a shows year over year change in estimated payments from FY 2008 to FY 2010. As shown, estimated payments have dropped off significantly when compared to the two previous years.

Since October 15, 2009 was the due date for tax returns that were extended beyond the April 15th due date, refunds issued by the end of April are an indication of under or overpayment of taxes during FY 2009 plus the trends for this current tax season. As stated in previous reports, if refunds issued by October 31st were unusually high, this would indicate taxpayers overpaid during FY 2009 thereby inflating actual receipts for FY 2009. Conversely, if refunds were unusually low, taxpayers underpaid during FY 2009 which would mean FY 2009 receipts were understated. As of the end of April, refunds were \$242.3 million or \$34.8 million (16.8 percent) above the same period for FY 2009. The data suggests that refunds are higher for this tax season and taxpayers overpaid their taxes during FY 2009, thereby overstating FY 2009 total collections. This is an unfavorable trend for FY 2010 since overpayments in FY 2009 mean the income base is lower than originally assumed by the legislature. Figure 4b shows refunds as a percent of total individual income tax collections. As shown, the refund percent has increased from previous years. It should be noted, however, that some of this increase could be due to economic conditions, taxpayers utilizing electronic filing, and the DOR's processing cycle. Most refunds should be issued by the end of May.

Figure 4b



When all of the accounting categories are added together, total individual income tax collections through April 28th are \$102.1 million below FY 2009 amounts. Since total FY 2010 collections were estimated to be \$25.1 million above FY 2009 amounts, the HJ 2 individual income tax estimate for FY 2010 is too optimistic. Based on almost ten months of accounting information and tax return data for calendar 2008, individual income tax revenues could be below the HJ 2 estimate by \$118 million in FY 2010 and \$95 million in FY 2011 – the same amounts estimated in the March report.

Corporation Income Tax

Based on April 28th accounting data, net corporation income tax collections for FY 2010 (gross collections less refunds) were 53.6 percent below net collections for FY 2009 or a decrease of \$67.5 million (Figure 5). The 61st Legislature assumed that revenues would decrease by 30.5 percent from the FY 2009 amount or a decrease of \$50.7 million. This decrease was anticipated because of the effects the economic recession on corporate profitability for both state and national corporations.

As pointed out in previous reports, part of the strength in FY 2009 collections was explained by the auditing efforts of the DOR and the resulting unusual high audit collections. Total audit collections were \$31.0 million in FY 2009 compared to \$16.9 million in FY 2008. When audit collections are removed from FY 2008 and 2009 totals, then the trend for the remaining collections are a negative 5.7 percent, a decline rate greater than estimated in HJ 2 for FY 2009. The good news is that audit collections in FY 2010 continue to be strong, \$10.1 million. This amount represents 17.4 percent of total corporation income tax collections through April, but is \$8.4 million less than received through April of FY 2009. An unusually large audit payment was received in April 2009.

Figure 5

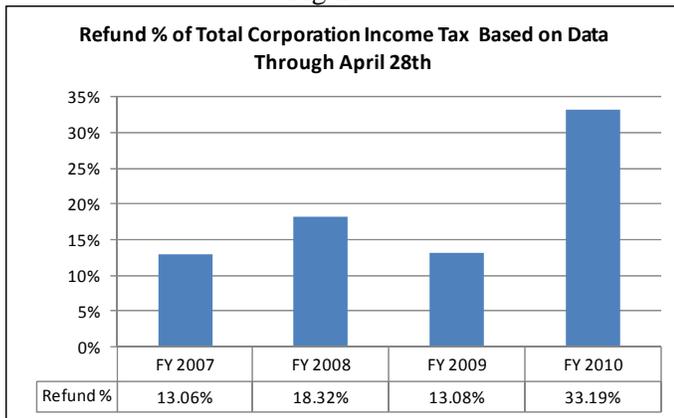
Accounting Detail	Through April 28 FY 2009	Through April 28 FY 2010	Dollar Difference	Percent Difference
Current Year Payments	36,307,291.95	25,583,285.04	(10,724,006.91)	-29.54%
Estimated Payments	84,299,213.51	51,668,718.01	(32,630,495.50)	-38.71%
Refunds	(17,459,325.65)	(29,000,435.57)	(11,541,109.92)	66.10%
Audits	<u>18,561,450.00</u>	<u>10,132,337.00</u>	<u>(8,429,113.00)</u>	-45.41%
Total	\$121,708,629.81	\$58,383,904.48	(\$63,324,725.33)	-52.03%

Estimated payments, due October 15th, December 15th, and April 15th were \$32.6 million (38.7 percent) below last year. Further review of tax payment detail by corporation provides some additional insight to estimated payments. Similar to individual income tax, estimated payments for the last two quarters of FY 2009 declined by 34.9 and 41.3 percent, respectively. Review of the first ten months of FY 2010 payments shows a continuation of this trend. With announced job layoffs, business closures and/or cutbacks, significant consumer spending reductions, and construction plummeting, it is not surprising to observe a significant reduction in estimated payments.

Figure 5a shows year over year change in estimated payments from FY 2008 to FY 2010. As shown, estimated payments have dropped off significantly when compared to the two previous years. The next payment, due on June 15th, will probably not change much from the April payment.

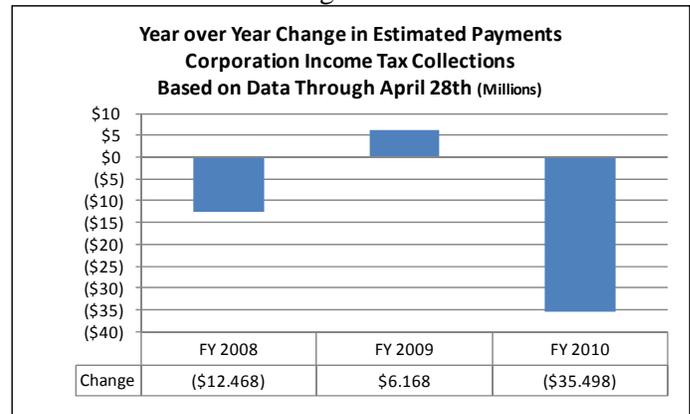
Refunds through April 28th are \$29.0 million or \$11.5 million more than through the same period of FY 2009. Total refunds have increased by 66.1 percent compared to last year. This suggests that corporate taxpayers may be carrying back losses that result in increased refunds. It may also indicate corporate taxpayers overpaid their taxes during FY 2009 thereby overstating FY 2009 total collections. Figure 5b shows refunds as a percent of total corporation income tax collections. As shown, the refund percent has increased significantly from previous years.

Figure 5b



received in March that normally would have been received in May.

Figure 5a



When all of the accounting categories are added together, total corporation income tax collections through April 28th are \$63.3 million or 52.0 percent below FY 2009. Since total FY 2010 collections were estimated to be \$50.7 million (30.5 percent) below FY 2009 amounts, the HJ 2 corporation income tax estimate for FY 2010 is too optimistic. Based on ten months of accounting information and tax payment data by corporation, corporation income tax revenues could be below the HJ 2 estimate by \$51 million in FY 2010 and \$53 million in FY 2011 - \$7 million less in FY 2010 than the amounts estimated in the March report. The \$7.0 million adjustment reflects an accelerated “tentative” payment

SUMMARY

Total general fund revenue collections through April for FY 2010 are below the same period of FY 2009 by \$248.8 million or 18.3 percent. The 61st Legislature assumed revenue would decline by only 1.9 percent from FY 2009 to FY 2010 or \$35.1 million. Obviously, after almost ten months of collection activity, the revenue estimate contained in HJ 2 will not be achieved.

The focus of this analysis was on individual income and corporation income tax. Since individual income tax is the predominate source of revenue in the general fund account, a small percentage change in this source can have a significant impact on total general fund revenues. As detailed in the report, however, accounting data for ten months of the fiscal year combined with new economic and tax return data show that individual and corporation income tax revenues will be below the HJ 2 estimate by as much as \$169.3 million for FY 2010 and an additional \$147.7 million for FY 2011. Conversely, oil and gas production tax revenue could exceed the HJ 2 estimate by as much as \$33.6 million for the biennium if prices exceed \$62.73 per barrel and production does not fall below the HJ 2 estimate.

Attachment 1 shows a summary of the general fund cash balance flow by month. This summary provides an insight to the fluctuations in cash balances. The beginning cash balance for FY 2010 was \$446.4 million. This balance has declined by \$181.1 million to \$265.3 million after ten months of FY 2010. Ending fund balance is always the focal point in budget deliberations, but it takes cash to pay for the services provided by state government. The cash balance is a key number to watch in subsequent monthly updates.

General Fund Cash Balance By Month - FY 2010			
Period	Cash In Bank Monthly Change	Cash In Bank Cumulative	Cash Variations * Current Year Only
Beginning	446,407,475.56	446,407,475.56	
07/30/09	(6,614,483.38)	439,792,992.18	(6,614,483.38)
08/31/09	(74,152,696.93)	365,640,295.25	(80,767,180.31)
09/30/09	(41,150,783.45)	324,489,511.80	(121,917,963.76)
10/31/09	5,562,359.78	330,051,871.58	(116,355,603.98)
11/30/09	(92,094,829.66)	237,957,041.92	(208,450,433.64)
12/31/09	6,989,272.24	244,946,314.16	(201,461,161.40)
01/31/10	88,502,097.97	333,448,412.13	(112,959,063.43)
02/28/10	(54,953,076.58)	278,495,335.55	(167,912,140.01)
03/31/10	(68,328,633.38)	210,166,702.17	(236,240,773.39)
04/29/10	55,145,586.29	265,312,288.46	(181,095,187.10)

* Cash variation represents the net change in cash for the year without including the carryover cash balance. As of the today, the state general fund has expended \$181.1 million more than deposited as revenue.