

GENERAL FUND REVENUE UPDATE FISCAL 2010

A Report Prepared for the
Revenue and Transportation Interim Committee
Legislative Finance Committee

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INTRODUCTION

The purpose of this report is to provide the committees with general fund revenue collection data through August FY 2009 compared to August FY 2010. This and future updates are intended to provide the most recent information on general fund revenue collections as we proceed through the 2011 biennium. These reports, most of the time, will only highlight the significant revenue sources with a brief explanation of what trends may be developing.

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 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 August for FY 2010 were \$163.7 million as shown in Figure 1. This compares to \$206.9 million collected through August for FY 2009. This is a decline in collections from FY 2009 of \$43.2 million or a 20.9 percent decrease. To be on target with the estimates used by the 61st Legislature, collections should have been down by only 1.9 percent or \$3.9 million.

Total general fund collections as estimated by the legislature 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 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 economic recession impacts 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.

Figure 1 shows revenue collection and estimate data by major revenue category. The last three columns in the figure show how collections from the revenue source compare to the estimate contained in HJ 2. For example, corporation income tax (10th line) shows a negative \$4.7 million in the "Difference" column. This means collections through August of this year are \$4.7 million less than the amount received through August of FY 2009 for a 53.0 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 will need to accelerate in subsequent months otherwise receipts will be less than anticipated by the legislature.

Figure 1

General Fund Revenue Monitoring Report							
Revenue Source	Actual Fiscal 2009	HJ2 Estimate Fiscal 2010	Through 8/31/08	Through 8/31/09	Difference	% Change	HJ2 Estimate % Change
GF0100 Drivers License Fee	3,478,285	3,920,000	337,879.22	575,047.84	237,168.62	70.19%	12.70%
GF0200 Insurance Tax	50,038,468	58,762,000	(66,186.21)	511,593.66	577,779.87	-872.96%	17.43%
GF0300 Investment Licenses	6,461,446	6,210,000	(1,100.00)	336,189.51	337,289.51	-30662.68%	-3.89%
GF0400 Vehicle License Fee	89,334,878	92,247,000	8,245,207.41	-	(8,245,207.41)	-100.00%	3.26%
GF0500 Vehicle Registration Fee	15,344,744	17,970,000	1,904,087.76	2,978.50	(1,901,109.26)	-99.84%	17.11%
GF0600 Nursing Facilities Fee	5,468,766	5,213,000	1,237,173.63	1,210,621.46	(26,552.17)	-2.15%	-4.68%
GF0700 Beer Tax	3,114,729	3,218,000	645,984.60	665,167.24	19,182.64	2.97%	3.32%
GF0800 Cigarette Tax	34,320,412	32,007,000	6,927,677.51	5,199,891.90	(1,727,785.61)	-24.94%	-6.74%
GF0900 Coal Severance Tax	13,028,228	10,846,000	2,801,674.77	2,731,709.02	(69,965.75)	-2.50%	-16.75%
GF1000 Corporation Tax	166,354,514	115,638,000	8,845,333.07	4,157,672.48	(4,687,660.59)	-53.00%	-30.49%
GF1100 Electrical Energy Tax	4,824,659	4,717,000	1,100,403.47	932,276.66	(168,126.81)	-15.28%	-2.23%
GF1150 Wholesale Energy Trans Tax	3,864,771	3,931,000	844,721.66	782,222.28	(62,499.38)	-7.40%	1.71%
GF1200 Railroad Car Tax	2,099,454	2,295,000	-	74.41	74.41	-	9.31%
GF1300 Individual Income Tax	815,138,193	840,263,000	115,062,804.54	103,783,335.20	(11,279,469.34)	-9.80%	3.08%
GF1400 Inheritance Tax	217,097	29,000	3,636.01	29,120.70	25,484.69	700.90%	-86.64%
GF1500 Metal Mines Tax	5,992,923	3,248,000	5,535,304.35	2,716,914.78	(2,818,389.57)	-50.92%	-45.80%
GF1700 Oil Severance Tax	100,490,971	66,930,000	-	-	-	-	-33.40%
GF1800 Public Contractor's Tax	5,929,999	4,322,000	610,472.64	538,303.95	(72,168.69)	-11.82%	-27.12%
GF1850 Rental Car Sales Tax	2,904,340	3,182,000	691,377.14	605,199.43	(86,177.71)	-12.46%	9.56%
GFxxxx Property Tax	217,042,057	228,853,000	11,490,275.73	8,971,984.57	(2,518,291.16)	-21.92%	5.44%
GF2150 Lodging Facilities Sales Tax	12,477,461	13,376,000	3,196,128.71	2,989,167.40	(206,961.31)	-6.48%	7.20%
GF2200 Telephone Tax	-	-	-	-	-	-	-
GF2250 Retail Telecom Excise Tax	22,250,383	21,672,000	5,285,501.21	5,020,937.52	(264,563.69)	-5.01%	-2.60%
GF2300 Tobacco Tax	4,990,497	4,738,000	954,820.19	1,030,551.65	75,731.46	7.93%	-5.06%
GF2400 Video Gaming Tax	62,458,106	69,003,000	15,990,531.39	15,342,309.11	(648,222.28)	-4.05%	10.48%
GF2500 Wine Tax	1,936,052	2,043,000	339,913.42	367,021.09	27,107.67	7.97%	5.52%
GF2600 Institution Reimbursements	14,100,804	16,047,000	-	-	-	-	13.80%
GF2650 Highway Patrol Fines	4,179,882	4,055,000	526,877.32	508,489.05	(18,388.27)	-3.49%	-2.99%
GF2700 TCA Interest Earnings	15,506,889	7,967,000	1,833,778.67	471,285.65	(1,362,493.02)	-74.30%	-48.62%
GF2900 Liquor Excise Tax	12,650,902	16,581,000	1,495,747.27	-	(1,495,747.27)	-100.00%	31.07%
GF3000 Liquor Profits	7,250,000	7,039,000	-	-	-	-	-2.91%
GF3100 Coal Trust Interest Earnings	26,958,378	28,574,000	184,271.76	-	(184,271.76)	-100.00%	5.99%
GF3300 Lottery Profits	10,136,213	10,969,000	-	-	-	-	8.22%
GF3450 Tobacco Settlement	4,127,609	4,007,000	-	-	-	-	-2.92%
GF3500 U.S. Mineral Leasing	31,573,364	27,796,000	6,364,462.54	1,601,813.12	(4,762,649.42)	-74.83%	-11.96%
GF3600 All Other Revenue	31,922,159	35,247,000	4,526,041.97	2,654,232.94	(1,871,809.03)	-41.36%	10.42%
Grand Total	1,807,967,633	1,772,915,000	206,914,801.75	163,736,111.12	(43,178,690.63)	-20.87%	-1.94%

* plus impacts of enacted legislation

DISCUSSION OF SELECTED SOURCES FOR FISCAL 2010

The following section of the report addresses some of the key general fund revenue sources that were monitored closely during the regular session. These sources are individual income tax, corporation income tax, and video gaming tax. These sources were chosen because of their vulnerability to the economic recession and the discussion these sources received during the past legislative session. This section also includes a discussion about sources that are showing very unusual collection patterns. These sources are vehicle fees/taxes, cigarette taxes, liquor excise taxes, and US mineral leasing revenues.

Individual Income Tax

Based on August accounting data, net individual income tax collections for FY 2010 (gross collections less refunds) were 9.8 percent below net collections for FY 2009 or a decrease of \$11.3 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 collections received in FY 2009 were below the HJ 2 estimate.

Figure 2 shows the August accounting details of individual income tax collections of FY 2010 compared to the same period for FY 2009. Since withholding tax collections are a proxy of total wage growth, the negative 2.6 percent growth from last year indicates total wages have declined from the level observed a year ago. Withholding payments for mineral royalties have declined by \$4.7 million or 67.6 percent. This decline was anticipated because of the significant reduction in Montana's wellhead oil price.

Figure 2

Individual Income Tax Comparison				
Revenue Code & Description	Through 8/31/2008	Through 8/31/2009	Difference	Percent
	Fiscal 2009	Fiscal 2010		Change
510101 Withholding Tax	104,688,892.64	101,935,886.33	(2,753,006.31)	-2.63%
510482 Mineral Royalty WH Tax	6,969,548.75	2,261,885.93	(4,707,662.82)	-67.55%
510102 Estimated Tax	8,282,621.05	6,541,871.59	(1,740,749.46)	-21.02%
510103 Current Year I/T	2,234,927.05	347,230.05	(1,887,697.00)	-84.46%
510105 Income Tax - Audit Collections	4,528,170.00	6,515,651.00	1,987,481.00	43.89%
510106 Income Tax Refunds	<u>(11,641,354.95)</u>	<u>(13,819,189.70)</u>	<u>(2,177,834.75)</u>	<u>18.71%</u>
Totals	\$115,062,804.54	\$103,783,335.20	(\$11,279,469.34)	-9.80%
Percent of Actual/Estimated	13.28%	12.35%		

Estimated payments were \$1.7 million (21.0 percent) below last year. Since the first estimated payment for the fiscal year is not due until September 15, current collections are of little value at this time. The same can be said for current year payments.

Refunds issued between now and the end of October will be monitored closely. If refunds during this period are unusually high, this will indicate taxpayers overpaid during FY 2009 thereby inflating actual receipts for FY 2009. Conversely, if refunds are unusually low, taxpayers underpaid during FY 2009 which would mean FY 2009 receipts were understated. As of the end of August, refunds were \$2.2 million or 18.7 percent above the same period for FY 2009. This trend would indicate that taxpayers may have overpaid their taxes during FY 2009 thereby overstating FY 2009 total collections. This is an unfavorable trend for FY 2010 that will require close monitoring in subsequent months.

When all of the accounting categories are added together, total individual income tax collections through August are \$11.3 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 may be too high. Since there is only two months of accounting information available, it would be premature to speculate on how much the estimate could be off from the HJ 2 estimate.

Corporation Income Tax

Based on August accounting data, net corporation income tax collections for FY 2010 (gross collections less refunds) were 53.0 percent below net collections for FY 2009 or a decrease of \$4.7 million. 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 collections received in FY 2009 were above the HJ 2 estimate.

As pointed out in the August report, 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.

As with individual income tax collections, the first estimated payment for the fiscal year is not due until September 15. This payment schedule makes current estimated payment collections of little value at this time. The same can be said for current year payments.

Figure 3

Corporation Income Tax Comparison				
Revenue Code & Description	Through 8/31/2008 Fiscal 2009	Through 08/31/09 Fiscal 2010	Difference	Percent Change
510501 Corporation Tax	3,980,548.15	2,219,204.60	(1,761,343.55)	-44.25%
510505 Corporation Tax Estimated Paym	3,767,186.20	3,425,949.02	(341,237.18)	-9.06%
510502 Corporation Tax Refunds	(2,093,670.28)	(2,045,395.14)	48,275.14	-2.31%
510503 Corporation Tax-Audit Collect.	<u>3,191,269.00</u>	<u>557,914.00</u>	<u>(2,633,355.00)</u>	-82.52%
Totals	\$8,845,333.07	\$4,157,672.48	(\$4,687,660.59)	-53.00%
Percent of Actual/Estimated	5.52%	3.60%		

When all of the accounting categories are added together, total corporation income tax collections through August are \$4.7 million below FY 2009 amounts (53.0 percent). 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 may be too high. Since there is only two months of accounting information available, it would be premature to speculate on how much the estimate could be off from the HJ 2 estimate.

Video Gaming Tax

Based on August accounting data, video gaming tax collections for FY 2010 were 4.1 percent below collections for FY 2009 or a decrease of \$0.6 million. The 61st Legislature assumed that revenues would increase by 10.5 percent from the FY 2009 amount or an increase of \$6.5 million. This increase was anticipated because collections received in FY 2009 were below the HJ 2 estimate.

As mentioned in the August report, this decrease was noted during the session but it was premature to assess the trend until further collection activity was received. For FY 2009, collections from this source were below estimate by \$4.1 million or 6.2 percent. This trend appears to be continuing into FY 2010 as collections are down 4.1 percent when August's collections of FY 2009 are compared to the same period of FY 2010. Since video gaming tax revenues are based on gross income (defined as net of payouts), reduced tax revenues are due to less machine play. This would indicate that individuals have less to spend or are choosing to spend their disposable income on other items or to save it.

Unusual Collection Patterns

As shown in Figure 1, several sources of revenue are showing unusual collection patterns. Some of the larger sources are vehicle fees/taxes, cigarette taxes, liquor excise taxes, and US mineral leasing revenues. Our office has contacted the Department of Justice (DOJ) twice regarding vehicle fees/taxes. At the time of this report, DOJ has not provided an explanation for the lag in vehicle fees/taxes receipts. This issue will be pursued further during September.

It is unknown at this time what may be causing the lag in cigarette tax revenues. Discussions with the DOR will be required to identify the lag in collections. This discussion has not occurred at this point but will occur in September.

Liquor excise tax collections through August 2009 are not comparable to the same period of 2008. This is due to an accounting change implemented by the DOR. Our office has requested the Legislative Auditors Office (LAO) to review the new accounting procedures implemented by the department to determine whether these changes conform to appropriate accounting principles. LAO is scheduled to review these procedures this week.

US mineral leasing revenues through August 2009 are identical to the collections through July 2009. Since these revenues are usually received on the last day of the month, the lag in collections could be merely a timing issue. This will be verified with the state treasurer immediately.

In aggregate, the lag in collections from these sources could account for \$15 to \$20 million through August. If the lag is due to accounting, timing, and computer system issues and not economic reasons, then total general fund collections would be more in line with HJ 2 expectations. Our office will continue to research each of these issues further before the next report is issued in early October.

SUMMARY

Total general fund revenue collections through August for FY 2010 are below the same period of FY 2009 by \$43.2 million or 20.9 percent. The 61st Legislature assumed revenue would decline by only 1.9 percent from FY 2009 to FY 2010 or \$25.1 million. The focus of this analysis was on individual income tax, corporation income tax, video gaming tax, and sources with unusual collections patterns. 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, collection data for two months of the fiscal year is inadequate to draw any conclusions on the future collection patterns for FY 2010. The information does suggest, however, that close monitoring is imperative to insure that the legislature remains fully informed of any significant revenue trends.

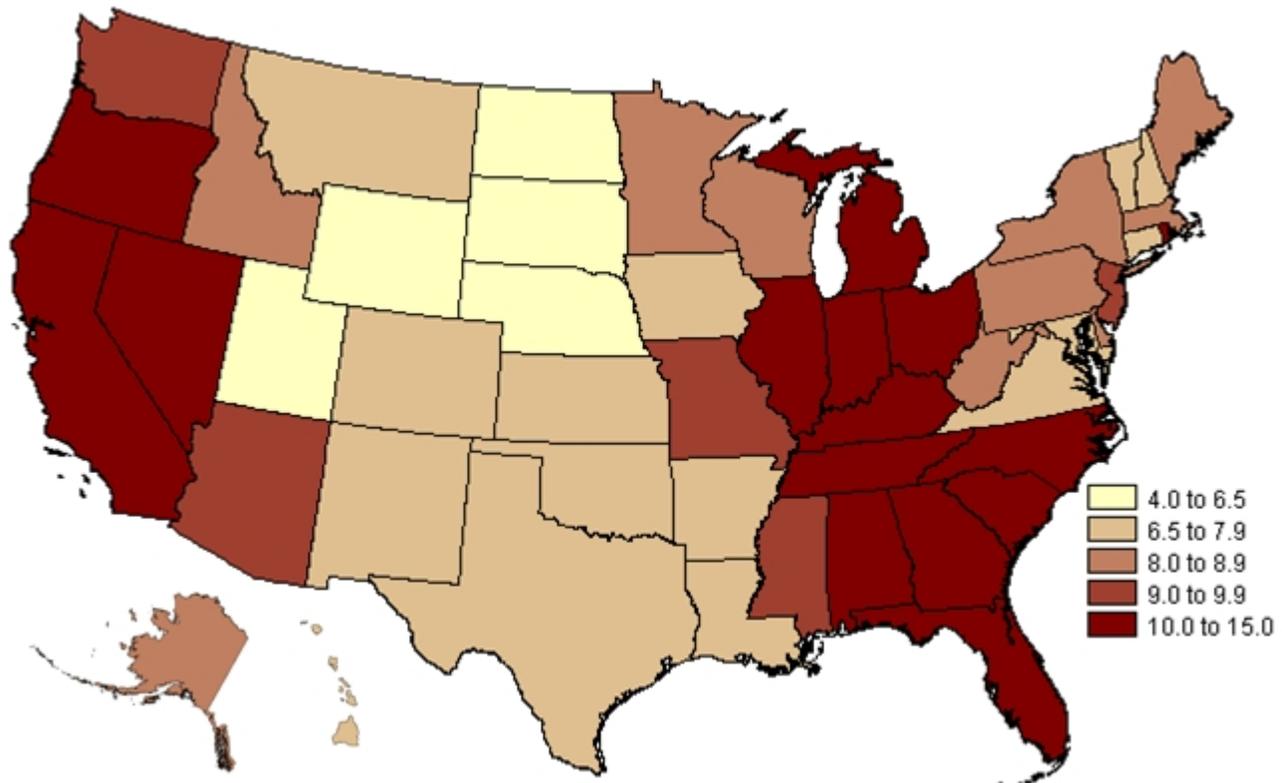
The July report indicated that collections were lagging expectations and that the lag in collections would have to be “made up” in subsequent months in order to achieve the HJ 2 estimated level. Collections through August have not improved and are considerably worse than the July totals indicated. It should be noted however, that the lag in collections from vehicle fees/taxes, cigarette taxes, liquor excise taxes, and US mineral leasing revenues could account for \$15 to \$20 million of the reduced collections. If this reduction is due to accounting, timing, and computer system issues and not economic reasons, then total general fund collections would be closer to HJ 2 expectations. Our office will continue to research each of these issues and any other issues further before the next report is issued in early October. That report will highlight collections through the end of September.

Attached is a graphic showing the July unemployment rate by state prepared by IHS Global Insight (GI). As you may recall, GI is the national economic forecasting firm the state is on contract with to provide economic forecasts.

Map of the Week

July Unemployment Rate Tops 10% in 15 States

In Percentage Terms



There is a clear regional divide when it comes to unemployment. The "housing bust" states—California, Florida, and Nevada—currently have double-digit unemployment rates, as do the manufacturing-heavy East North Central and the Southeast. States in the central United States have traditionally low jobless rates, but have still experienced a more tepid rise in unemployment this recession because they generally have been isolated from the housing/financial crisis, are less reliant on manufacturing (especially automotive), and possess major commodity or farming-related industries.

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