



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: June 3, 2016

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 2016 General Fund Revenue Update #6

PURPOSE OF REPORT

This report is the last of six monthly revenue updates throughout the second half of FY 2016 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2016 relative to the official revenue estimate contained in HJ 2. The fiscal year end closes the last week of July. A detailed report on final FY 2016 revenue collections will be presented at the September Revenue & Transportation Interim Committee meeting.

SUMMARY

General fund revenue collections are \$54.0 million or 2.9% less than FY 2015 amounts through May, and are currently below the overall estimate of a 2.9% increase contained in HJ 2.

Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns (see page 3) indicate total general fund collections of \$2,136 million, about \$127 million less than the HJ 2 estimate. Detailed analysis by source suggests that FY 2016 collections will be \$2,166 million, or about \$97 million below the HJ 2 estimate. The volatility of capital gains income, oil price and production, and corporation income may result in total revenue collections that are higher or lower than what current collections suggest for FY 2016; in addition, the accruals posted at the close of FY 2016 may impact the final growth rates of several sources.

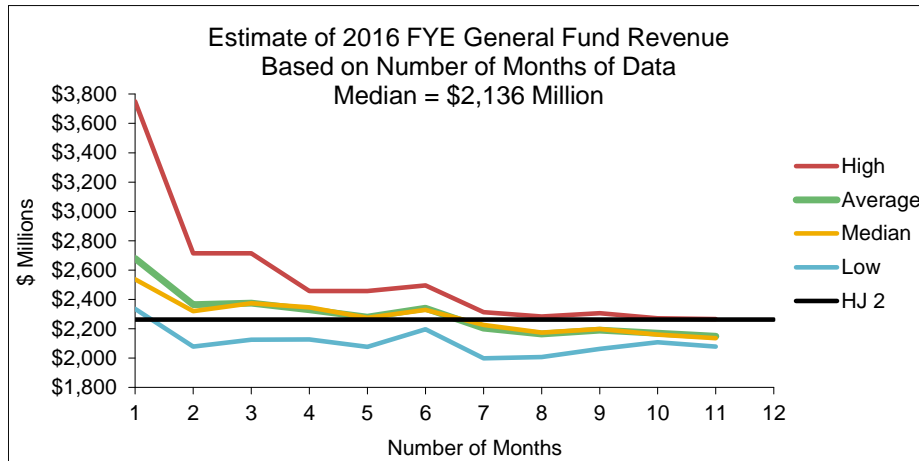
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2016 general fund revenues through the end of May are \$54.0 million or 2.9% less than FY 2015 revenues through the same period; this decrease is below the HJ 2 estimated increase of 2.9%. 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							
(\$ Millions)							
Revenue Source	Actual FY 2015	HJ 2 Est. FY 2016	HJ 2 Est. % Change	5/31/2015 FY 2015	5/31/2016 FY 2016	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,175.745	\$1,229.616	4.6%	\$1,142.097	\$1,168.623	\$26.526	2.3%
Property Tax	247.881	253.799	2.4%	148.299	152.953	4.654	3.1%
Corporation Tax	172.729	179.898	4.2%	150.983	100.094	(50.888)	-33.7%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	86.666	89.318	2.652	3.1%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	46.256	21.571	(24.685)	-53.4%
Insurance Tax	66.582	72.279	8.6%	53.269	53.710	0.441	0.8%
Video Gaming Tax	59.799	62.007	3.7%	44.699	45.319	0.620	1.4%
Other Business Taxes							
Drivers License Fee	4.811	4.081	-15.2%	4.191	3.858	(0.333)	-8.0%
Investment Licenses	6.773	7.412	9.4%	6.604	7.035	0.430	6.5%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	14.478	16.311	1.833	12.7%
Public Contractor's Tax	3.257	3.560	9.3%	2.337	1.230	(1.107)	-47.4%
Railroad Car Tax	3.706	3.741	0.9%	3.672	3.500	(0.172)	-4.7%
Rental Car Sales Tax	3.907	3.331	-14.7%	3.028	3.227	0.199	6.6%
Retail Telecom Excise Tax	18.257	18.999	4.1%	13.227	12.653	(0.574)	-4.3%
Other Natural Resource Taxes							
Coal Severance Tax	16.063	14.434	-10.1%	12.282	10.199	(2.083)	-17.0%
Electrical Energy Tax	5.133	4.580	-10.8%	3.900	3.458	(0.442)	-11.3%
Metal Mines Tax	8.320	8.311	-0.1%	3.854	2.012	(1.842)	-47.8%
U.S. Mineral Leasing	26.960	24.069	-10.7%	20.927	14.799	(6.128)	-29.3%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	2.871	2.704	(0.168)	-5.8%
Other Interest Earnings							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	16.293	14.888	(1.405)	-8.6%
TCA Interest Earnings	2.164	8.527	294.0%	1.743	3.134	1.391	79.8%
Other Consumption Taxes							
Beer Tax	3.034	3.129	3.1%	2.463	2.442	(0.022)	-0.9%
Cigarette Tax	29.604	31.036	4.8%	25.940	26.822	0.882	3.4%
Liquor Excise Tax	19.257	19.521	1.4%	15.773	16.049	0.276	1.7%
Liquor Profits	11.000	11.021	0.2%	-	-	-	-
Lottery Profits	12.363	11.031	-10.8%	6.575	5.471	(1.104)	-16.8%
Tobacco Tax	6.056	6.396	5.6%	5.072	5.104	0.032	0.6%
Wine Tax	2.307	2.363	2.4%	1.927	1.970	0.042	2.2%
Other Sources							
All Other Revenue	40.822	40.060	-1.9%	26.659	24.380	(2.279)	-8.5%
Highway Patrol Fines	4.042	4.349	7.6%	3.202	3.324	0.122	3.8%
Nursing Facilities Fee	4.810	4.756	-1.1%	3.637	3.575	(0.062)	-1.7%
Public Institution Reimbursement	16.819	16.606	-1.3%	12.890	11.948	(0.942)	-7.3%
Tobacco Settlement	3.225	3.145	-2.5%	3.225	3.394	0.169	5.3%
Largest Seven Subtotal	1,902.301	1,963.049	3.2%	1,672.269	1,631.589	(40.680)	-2.4%
Remaining Sources Subtotal	297.352	299.728	0.8%	216.771	203.484	(13.287)	-6.1%
Grand Total	\$2,199.653	\$2,262.777	2.9%	\$1,889.040	\$1,835.073	(\$53.967)	-2.9%

Year-to-Date Relative to Historical Collection Patterns

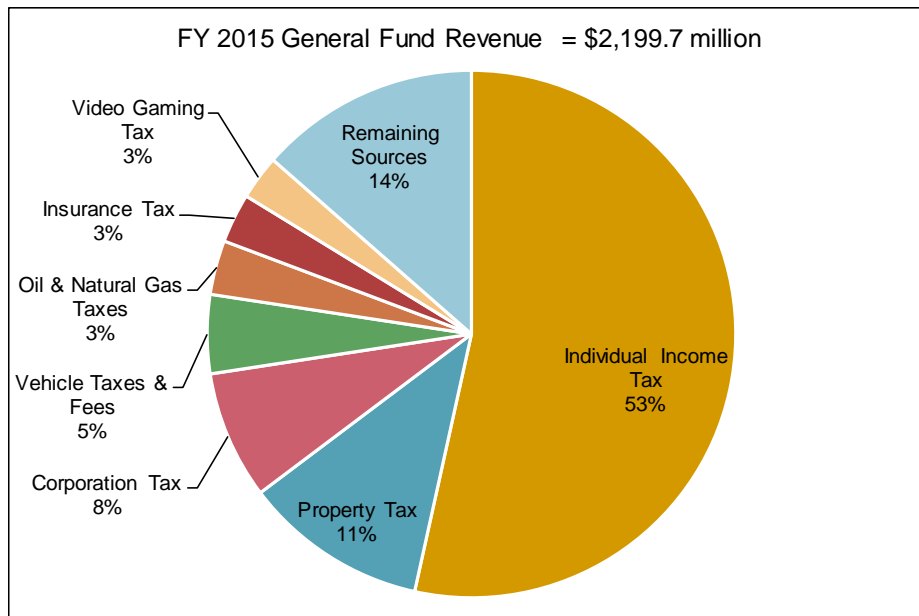
As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2016 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Based on collections through the end of May, the difference between the high and low amounts is about \$190 million, with the average and median values below the HJ 2 estimate.



Potential total general fund collections range from a low of \$2,079 million to a high of \$2,266 million, with a median value of \$2,136 million and an average value of \$2,149 million. The FY 2016 forecast for total general fund in HJ 2 is \$2,263 million.

MAJOR SOURCES

In FY 2015, the largest seven revenue sources accounted for just over 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



Individual Income Tax: Currently Below HJ 2

Individual income tax collections are \$26.5 million or 2.3% above last year, which is below the anticipated growth of 4.6% contained in HJ 2. Cumulative withholding growth through May increased to 3.7%, which is above the growth of 3.3% through April. Withholding tax accounts for about one-third of general fund revenue.

Individual Income Tax (\$ Millions)				
	YTD 2016	YTD 2015	\$ Difference	% Difference
Withholding	\$800.2	\$771.8	\$28.4	3.7%
Estimated Payments	233.3	219.6	13.7	6.3%
Current Year Payments	186.5	197.1	(10.6)	-5.4%
Audit, P&I, Amended	43.3	33.1	10.2	30.7%
Refunds	(266.3)	(247.4)	(18.9)	7.6%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	20.4	21.4	(1.0)	-4.8%
Mineral Royalties	11.3	13.9	(2.6)	-18.7%
Total	\$1,168.6	\$1,142.1	\$26.5	2.3%

Property Tax: In Line with Estimate

Property tax collections are above last year by \$4.7 million or 3.1%, and currently above the HJ 2 estimated growth of 2.4%. The second large property tax payment will occur in June. Final collections will likely come in close to HJ 2 estimates, and perhaps slightly above due to strong growth in Class 9 pipeline property.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of May are \$50.9 million or 33.7% below last year, and below the anticipated increase of 4.2% contained in HJ 2.

Corporation Income Tax (\$ Millions)				
Account	YTD 2016	YTD 2015	\$ Difference	% Difference
Corporation Tax	\$27.7	\$29.9	(\$2.2)	-7.5%
Estimated Payments	91.4	107.1	(15.8)	-14.7%
Refunds	(31.1)	(21.4)	(9.6)	45.0%
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%
Audit, P&I, Amended	7.8	27.3	(19.5)	-71.4%
Total	\$100.1	\$151.0	(\$50.9)	-33.7%

The year-over-year decrease is due to a variety of reasons:

- There was a large one-time audit in FY 2015 that contributed to the large discrepancy in audit collections from FY 2015 to FY 2016
- A monthly record level of refunds was distributed in April of FY 2016—just over \$16 million
- FY 2016 April estimated payments were \$11.8 million less than the corresponding FY 2015 payments

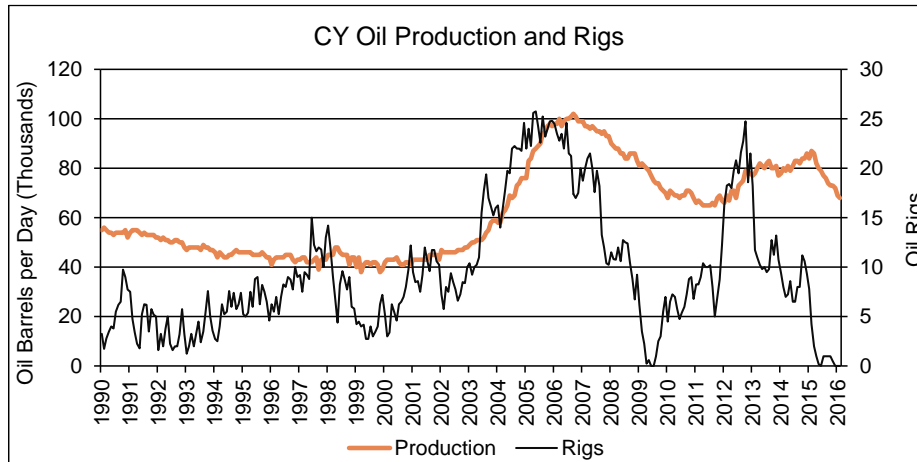
On average, estimated payments account for about 80% of total corporation tax revenue. If the decline in estimated payments continues, FY 2016 total estimated payments could come in about 20% below FY 2015.

Vehicle Fees & Taxes: Above Estimate

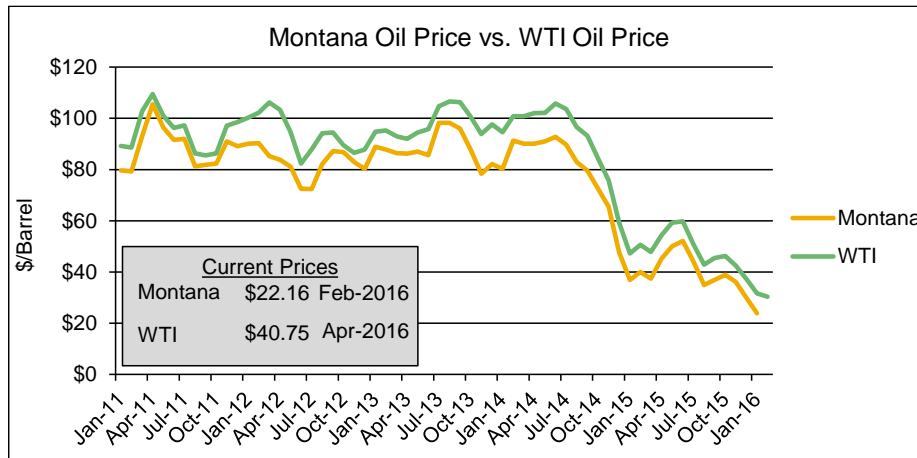
Through May of FY 2016, vehicle taxes and fees are 3.1% or \$2.7 million above collections from last year. In HJ 2, this source was expected to decline by 0.2% from the FY 2015 collections. This source is expected to slowly continue to grow throughout the remainder of the fiscal year.

Oil & Natural Gas Production Tax: Below Estimate

With the first and second quarter collections posted, oil and natural gas tax is below last year's collections by 53.4% or \$24.7 million, and below the HJ 2 anticipated decline of 19.0%. The amount of difference will continue to increase but the percentage difference should move somewhat closer to HJ 2 as the fiscal year closes, because the first quarter contained the biggest discrepancy in oil prices from FY 2015 to FY 2016. Production continues to decline as shown in the chart below, and there has only been at most one rig operating in the state since March 2015.



The decline in price is the primary driver in the reduced revenue collections. The following chart compares the monthly average price for Montana oil with the WTI price. There is a two-to-three month lag in available monthly price data.



Insurance Tax: Slower-than-Expected Growth

Current insurance tax collections are 0.8% or \$0.4 million above FY 2015 year-to-date. HJ 2 anticipates growth of 8.6% at fiscal year end. The third quarter payments that were due in April came in \$3.1 million below the previous year. Research is ongoing with the State Auditor's Office to understand the discrepancy.

Video Gaming Tax: Slightly Below HJ 2

Revenue from video gambling is currently \$0.6 million or 1.4% above collections from last year at this time. In HJ 2, FY 2016 video gambling revenue was forecast to grow by 3.7%.

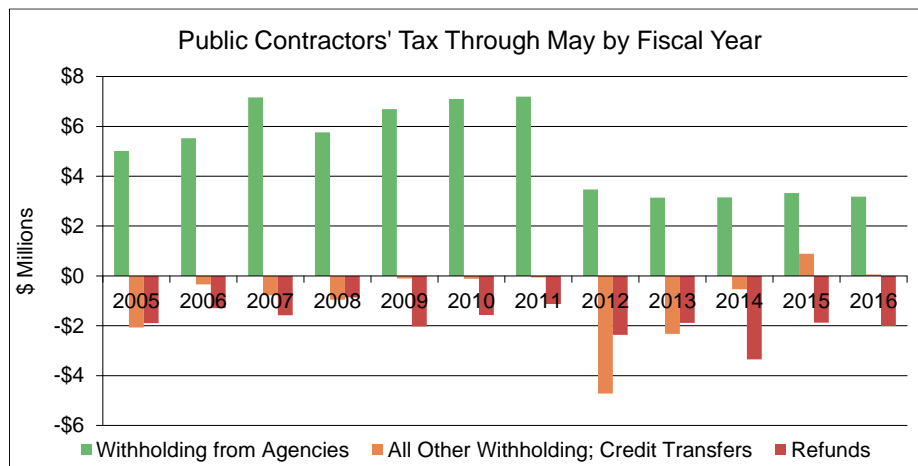
OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Above Estimate Due to Online Travel Companies' Remittances

Lodging facilities sales tax collections are \$1.8 million or 12.7% above last year, and above the anticipated growth of 11.0% contained in HJ 2. The growth is driven by \$1.1 million in payments made in November by online travel companies as a result of litigation with DOR. Going forward, the online travel companies are anticipated to remit about \$0.1 million per quarter. The litigation also impacted rental car sales taxes, with an additional \$0.3 million in payments by the online travel companies.

Public Contractors' Tax: Below Estimate

Public contractors' tax collections are \$1.1 million or 47.4% lower than last year, and below the anticipated growth 9.3% contained in HJ 2. Most of the difference is due to unusually high other withholding through May FY 2015. However, the remaining net tax is still below FY 2015 by 20% and unlikely to reach the estimate contained in HJ 2.



Coal Severance Tax: Below Estimate Due to Lower Production

Coal severance tax revenue is \$2.1 million or 17.0% below year-to-date collections in FY 2015, and below the HJ 2 estimated decline of 10.1%. General fund collections were expected to decrease primarily due to [HB 228](#) which shifted coal distribution from the general fund to the coal board account; however, total coal collections were expected to stay flat. A decrease in production is responsible for the additional year-to-date decline.

Metal Mines Tax: Below Estimate Primarily Due to Lower Commodity Prices

Metal mines tax revenue through May is \$1.8 million or 47.8% below last year, and below the anticipated decline of 0.1% in HJ 2. The reduced revenue is primarily driven by lower metal prices; for several metals, production has increased from last year, while for the remaining metals, the decline in production is not as significant as the drop in price.

U.S. Mineral Royalties: Below Estimate, Likely Due to Oil

U.S. mineral royalties are down year-to-date 29.3% or \$6.1 million, and below the HJ 2 forecast decrease of 10.7%. The larger-than-expected decrease is likely due to lower oil royalties; however, the U.S. Department of the Interior's Office of Natural Resources Revenue does not release the royalty payment category breakdowns until the end of the federal fiscal year, so detailed information by revenue type will not be available until November 2016.

Coal Trust Interest Earnings: Slightly Below Estimate

To date, coal trust interest earnings are \$1.4 million or 8.6% below collections from one year ago. The year-to-date decline is due to a lower rate of return on the coal permanent trust. In HJ 2, collections were expected to decline by 6.4%, so this source is tracking slightly lower than expected.

TCA Interest Earnings: Below Estimate Due to Lower Interest Rates

To date, TCA interest earnings are trending below the estimate contained in HJ 2 due to continued low interest rates. While interest rates are low, they have increased from last year as year-to-date collections are up 79.8% or \$1.4 million. However, in HJ 2 collections were expected to grow by \$6.4 million.

Lottery Profits: Currently Below Estimate Due to Large Payouts

Lottery profits are 16.8% or \$1.1 million behind last fiscal year. Prior research indicated that as of the end of March, lottery prize payouts were up \$3.8 million over FY 2015, a year-to-date record of \$26.6 million.

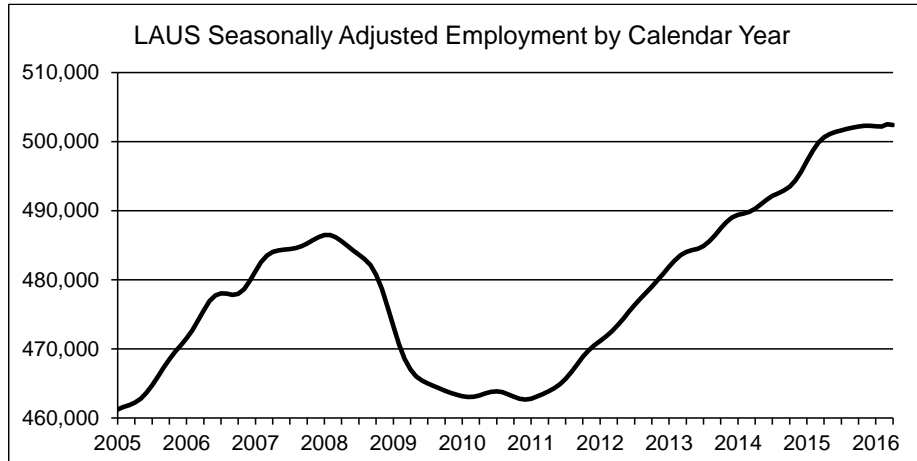
All Other Revenue: Below Estimate Due to SB 405 Premiums

To date, all other revenue collections are 8.5% or \$2.3 million below last year's collections, primarily due to a decrease in abandoned property collections. In HJ 2, collections were expected to decrease by 1.9%. In addition, the official estimate included nearly \$3.0 million in premium collections from [SB 405](#) and to date, only \$1.0 million has been collected.

LEADING ECONOMIC INDICATORS

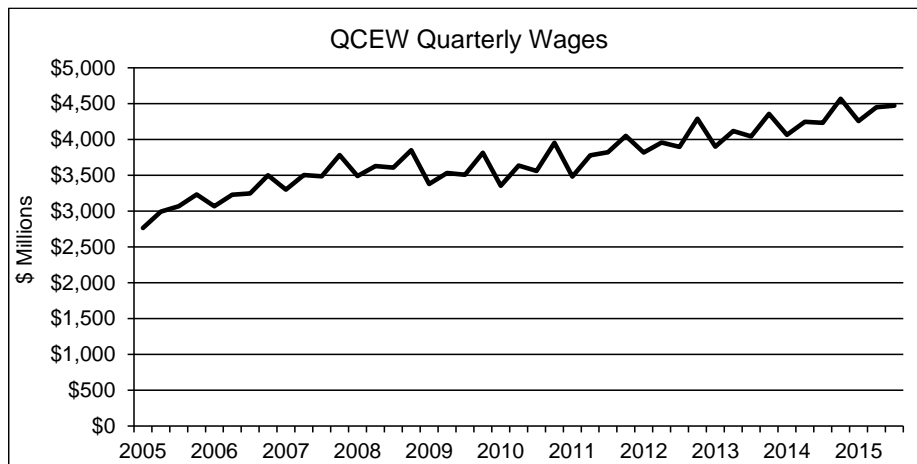
Employment

The [Local Area Unemployment Statistics](#) (LAUS) program from the federal Bureau of Labor Statistics (BLS) provides a monthly estimate of an area's labor force, employment, unemployment, and unemployment rate. Data is taken from surveys and unemployment claims recorded during the monthly reference week, which is usually the week including the 12th day of each month. Statistics are an estimate of persons by place of residence, not jobs or where a person works. In order to be considered unemployed an individual must have had no employment during the reference week, been available for work, and have made an effort to find employment for four weeks leading up to the reference week. The chart below shows seasonally adjusted LAUS employment since CY 2005.



Wages

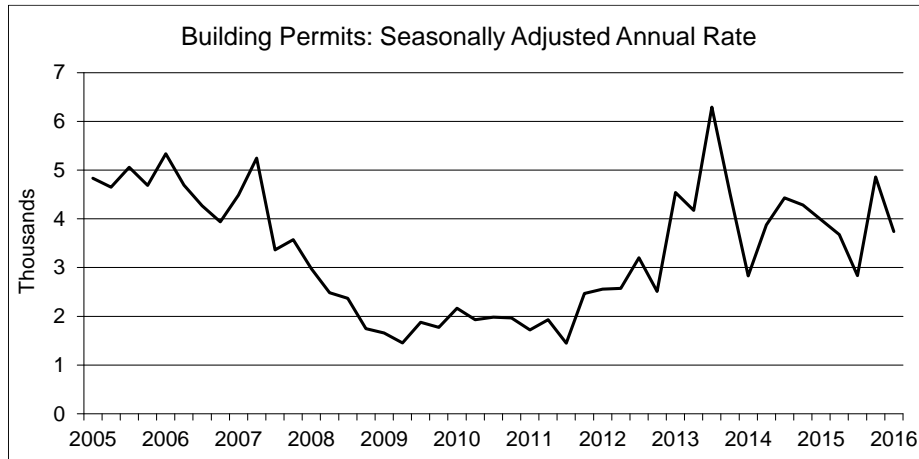
Industry employment and wage data is collected through the [Quarterly Census of Employment and Wages](#) (QCEW) program from the BLS. The primary sources for the QCEW are the reports submitted by employers to the Montana Unemployment Insurance program. Employment data represents the number of workers on the payroll during the pay period including the 12th day of the month. Total wages include gross wages and salaries, bonuses, profit sharing, commissions, severance pay, and limited tips. Total wages are reported in quarter paid and not earned. The chart below shows QCEW total wages by quarter since CY 2005.



Building Permits

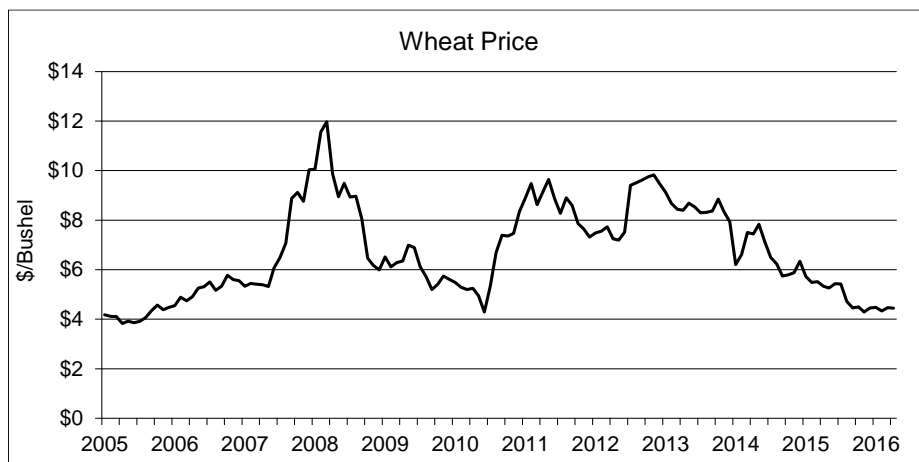
The [Building Permits Survey](#) by the U.S. Census Bureau provides data on the number of new housing units authorized by building permits. Building permits data are collected from individual permit offices, most of which are municipalities; the remainder are counties, townships, or towns. From local area data, estimates are tabulated for counties, states, metropolitan areas and other regions. The reliability of this data may be limited for Montana, as some counties do not require building permits. Unfortunately, data for other sources such as water and sewer hookups that may more accurately reflect new construction is not available as a database, and too much time would be required to compile the data into a useful format.

The Census Bureau building permits data is available online, but is not compiled into a useful database. Fortunately, the historical data has been assembled by IHS, and is shown in the chart below.

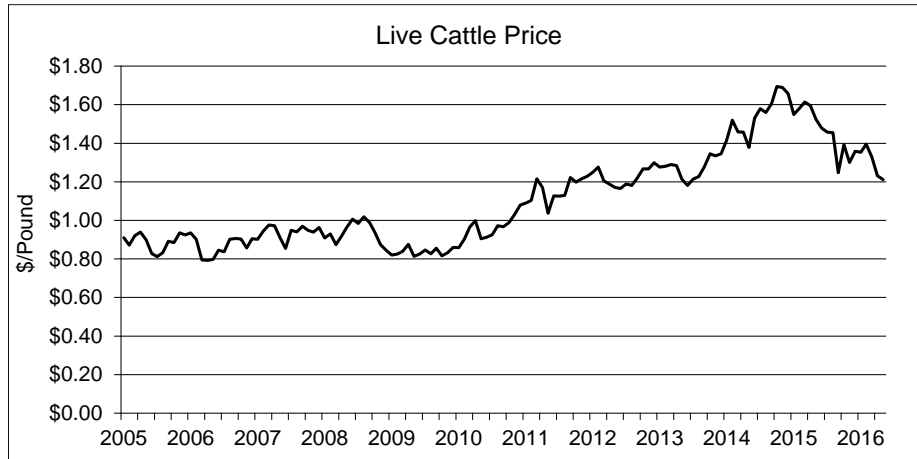


Agricultural Prices

Historical wheat prices are based on hard red winter wheat from the USDA Market News as compiled by [index mundi](#).



Historical live cattle prices are compiled from investing.com.



Drilling Permits

Drilling permits data obtained from the [Montana Board of Oil & Gas](http://montana.gov) are shown in the chart below. Due to a pre-regulatory period prior to the 1950s, the chart includes primarily drilled wells for those years as permits were not required. It is important to note that not all permits result in completed wells. As shown below, 2015 had the lowest number of permits since 1919.

