GENERAL FUND
UPDATED REVENUE TRENDS

A Report Prepared for the
Revenue & Transportation Interim Committee

By
LFD Staff

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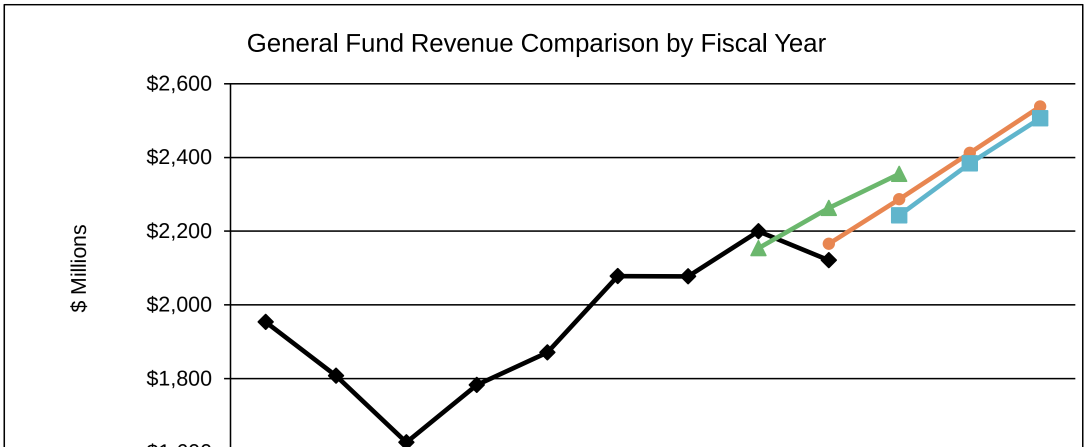
LFD
MONTANA LEGISLATIVE FISCAL DIVISION

INTRODUCTION

This report highlights actual FY 2016 revenue collections and provides an overview by revenue source of the impact of new data and revised modeling on revenue trends since the 2019 Biennium Outlook Report.

SUMMARY OF UPDATED REVENUE TRENDS: LOWER THAN 2019 BIENNIUM OUTLOOK REPORT AND BELOW HJ 2

The updated revenue trend for the 2019 biennium is in aggregate lower than the forecast contained in the 2019 Biennium Outlook Report, primarily due to lower-than-anticipated FY 2016 collections. It is also below the official revenue estimate contained in HJ 2 and could have a negative impact on the 2017 biennium ending fund balance. The table below shows the difference between the updated trend, 2019 Outlook, and HJ 2.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Actual	1,954	1,808	1,627	1,783	1,871	2,078	2,077	2,200	2,121			
2015 HJ 2								2,154	2,263	2,355		
2019 Outlook									2,166	2,287	2,412	2,538
Updated Trend										2,243	2,384	2,506

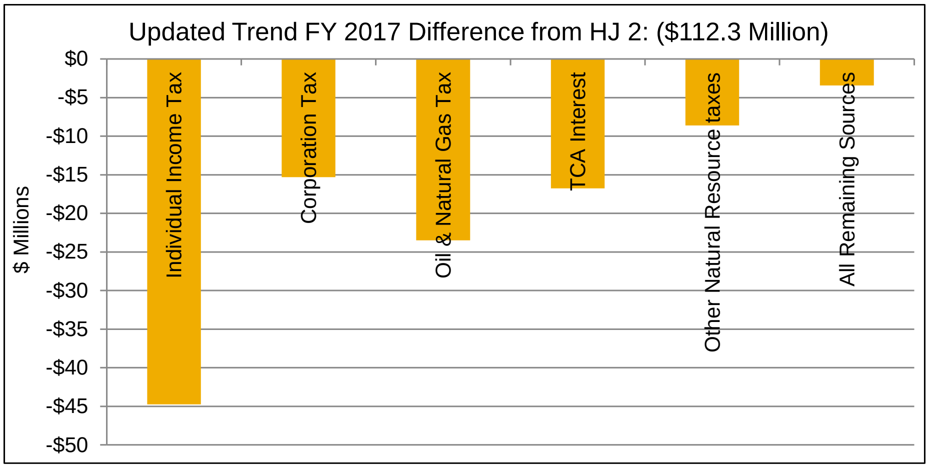
UPDATED REVENUE TRENDS

The updated revenue trends for each source reflect a combination of changes in base year data, revised assumptions, modeling adjustments, and new IHS forecasts. While it is instructive to see the impact of the new data on expected revenue trends, it is important to note that no changes have been made to the official estimate contained in HJ 2. The updated revenue trends in this report are informational only. The new data available since the 2019 Biennium Outlook forecast includes the following sources:

- FY 2016 revenue collections
- Tax year 2015 property valuation data
- New oil and natural gas production data
- Updated IHS forecasts

New individual and corporation income tax return data, and the updated IHS forecast will be available at the beginning of November. The new data could result in significantly revised estimates for some sources, and the total general fund revenue estimate. In addition, at the time of the revenue estimate presentation to the Revenue & Transportation Interim Committee (RTIC) in November, four months of year-to-date revenue collections will be available for FY 2017. Based on recent modeling changes for individual income tax, year-to-date withholding collections through October may adjust the expectation for the 2019 biennium forecast.

The major differences between the updated trends by revenue source compared to HJ 2 for FY 2017 are shown in the following chart. FY 2015 collections were higher than anticipated and FY 2016 collections were lower than anticipated; based on available data, the updated trend for FY 2017 is below HJ 2 estimate.

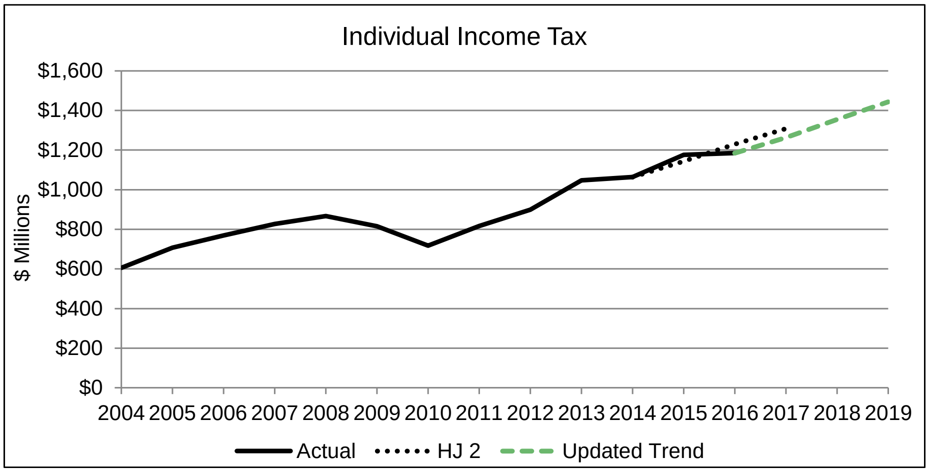


The revenue trend graphs in the remainder of the document shows actual collections from FY 2004 to FY 2016, the HJ 2 estimate for FY 2015 through FY 2017, and the updated trend for FY 2017 to FY 2019.

Large Revenue Sources

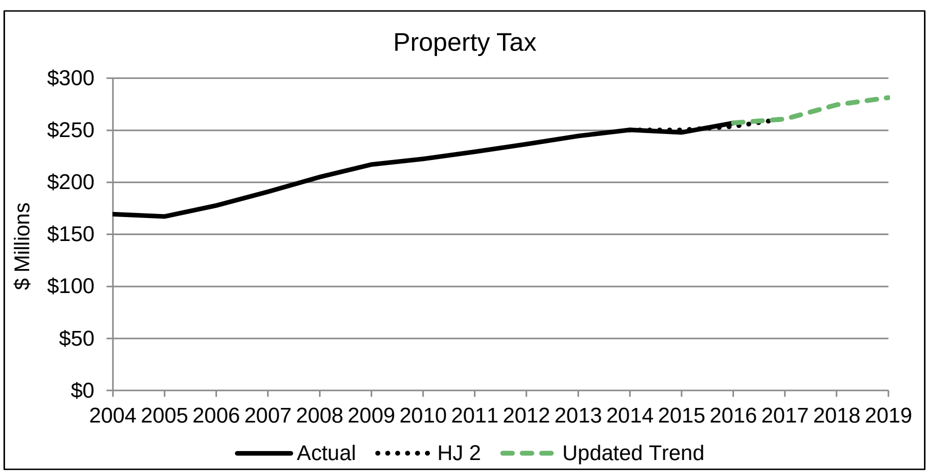
Individual Income Tax

Individual income tax collections were $44.8 million or 3.6% below the estimate contained in HJ 2 in FY 2016.The updated trend includes the FY 2016 actual collections, as well as CY 2014 tax data and data from the most recent IHS forecast. The updated trend does not include an adjustment for year-to-date withholding growth. Year-to-date revenue collections can vary substantially in the first few months of the fiscal year. The withholding growth through October that will be available for the revenue estimate produced in November may be used to adjust the revenue estimate.



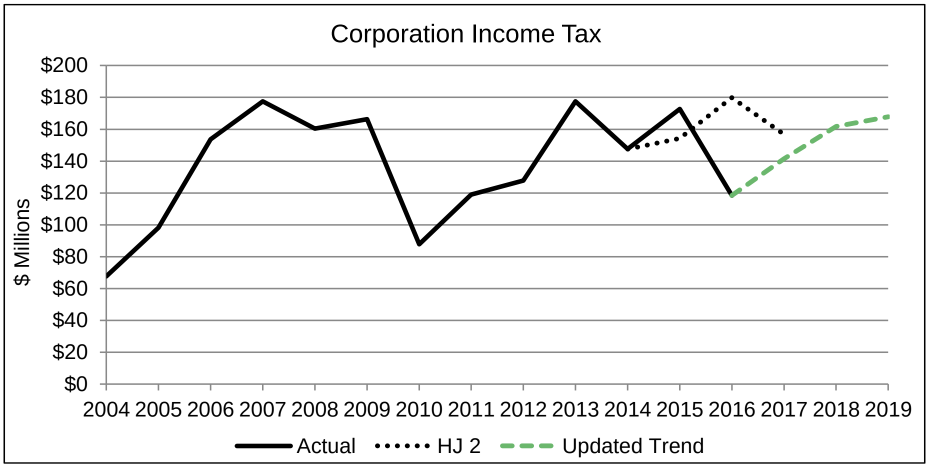
Property Tax

FY 2016 general fund property tax revenue was 1.3% or $3.3 million above the HJ 2 estimate, primarily due to growth in class 9 pipelines. The updated trend is very similar to previous estimates, adjusted slightly for FY 2016 actuals. While the modeling will stay the same, the estimate is subject to change with the inclusion of new taxable value data.



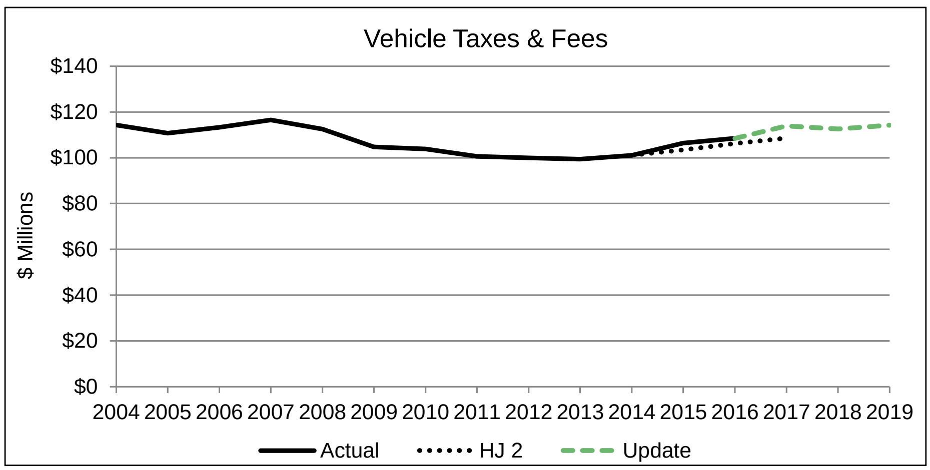
Corporation Income Tax

FY 2016 corporation income tax collections were $61.5 million or 34.2% lower than HJ 2, due to lower-than-projected audit collections and tax liability. In addition, refunds were higher than anticipated in HJ 2. The updated trend includes the FY 2016 actual collections, the most recent IHS forecast and a higher-than-average level of refunds in FY 2017 based on current payment information. The increased refund estimate is the primary reason for the difference between the updated trend and HJ 2.



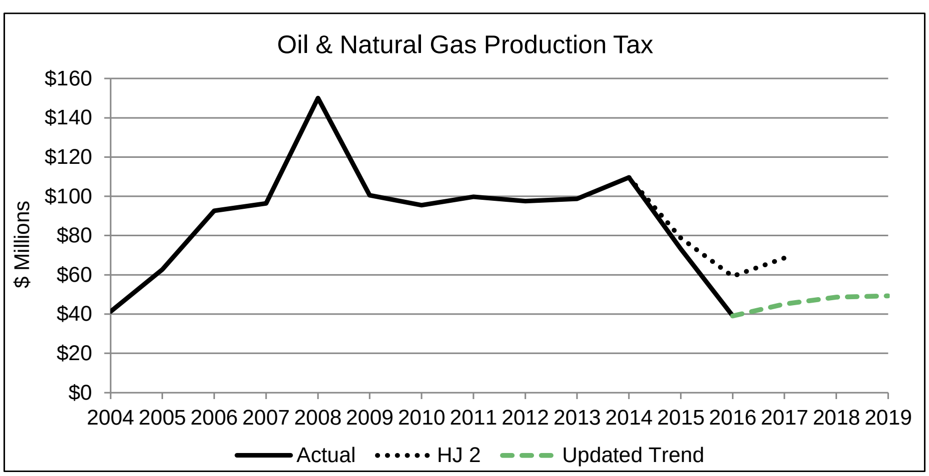
Vehicle Taxes & Fees

Combined FY 2016 revenue collections from vehicle taxes and fees were $2.3 million or 2.1% higher than anticipated in HJ 2. Revenue from this source is forecast based on IHS estimates for new and used Montana car sales. The updated trend is higher than HJ 2 in part due to the increased revenues in FY 2016.

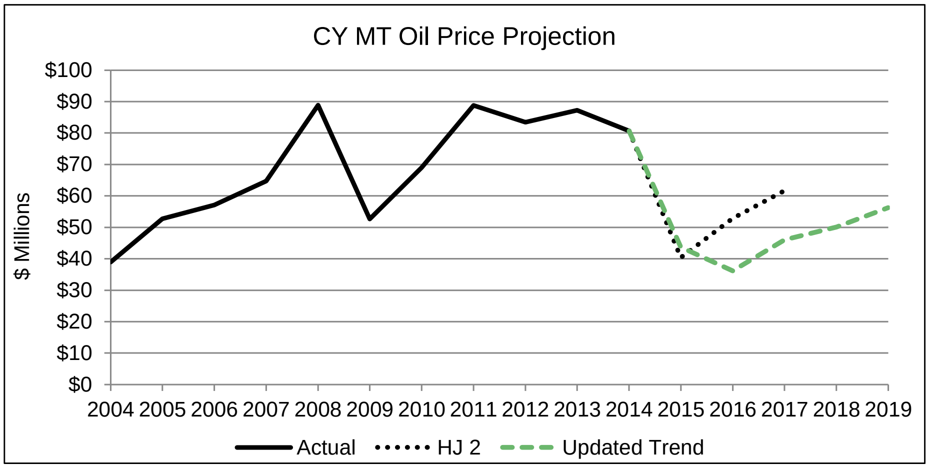


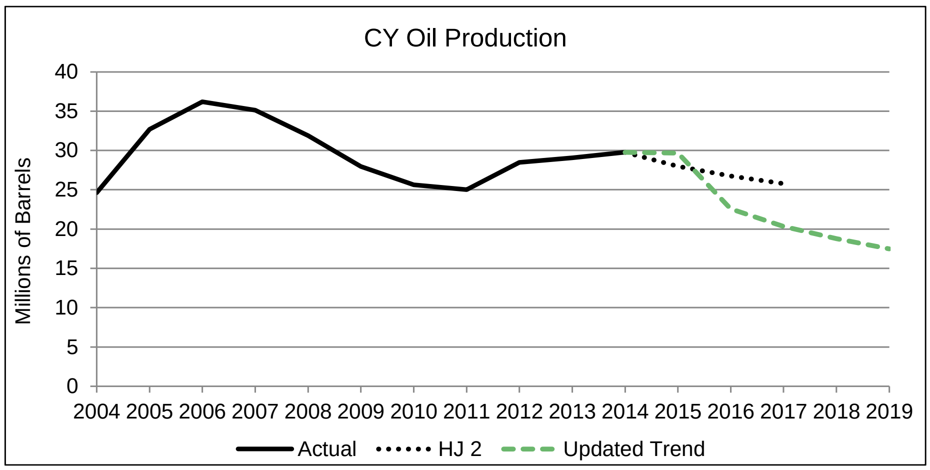
Oil & Natural Gas Severance Tax

Oil and natural gas production tax collections were $20.2 million below the HJ 2 estimate in FY 2016. Lower price and production forecasts result it the decrease in the updated trend relative to HJ 2.

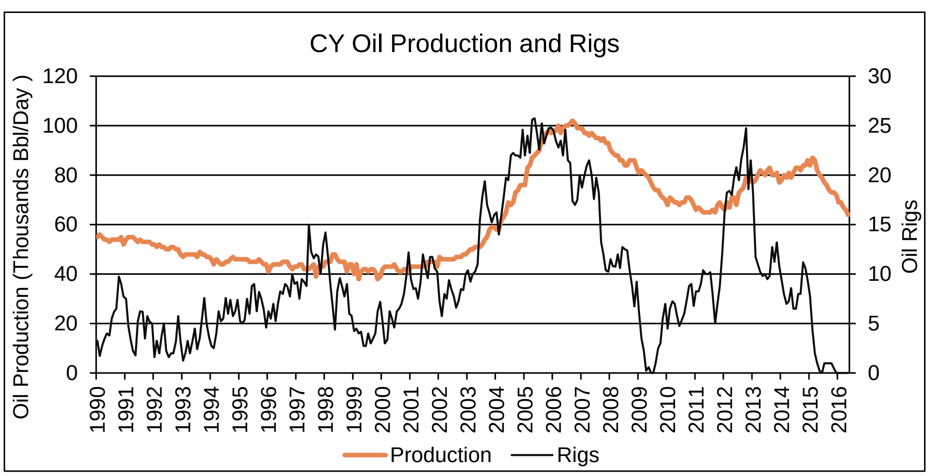


Since the beginning of FY 2016, there has only been at most one drilling rig operating in the state. The reduction in the number of active rigs is having an effect on the expected future production compared to HJ 2, as shown in the second figure below.



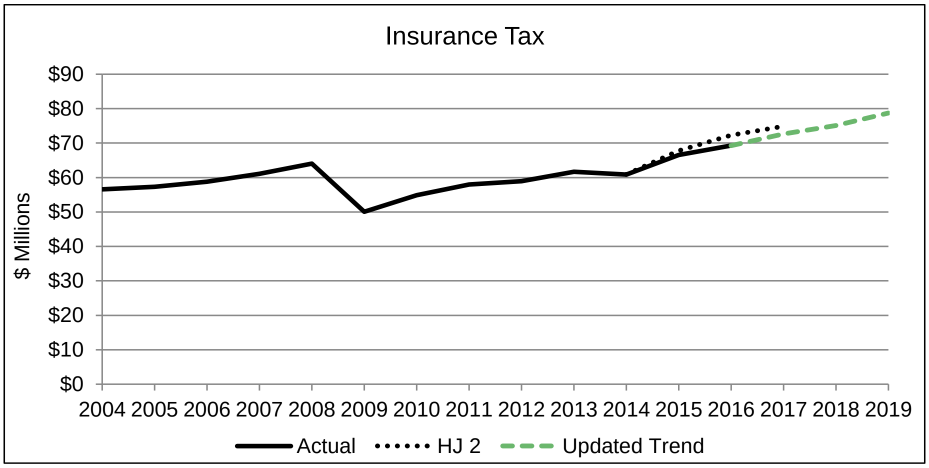


The following chart shows production and rigs by calendar year. Note that the production is depicted in daily barrels as opposed to annual barrels as above, but the peak in CY 2006 – CY 2007 can be compared for reference. The effect of oil rigs can also be seen in relation to production.



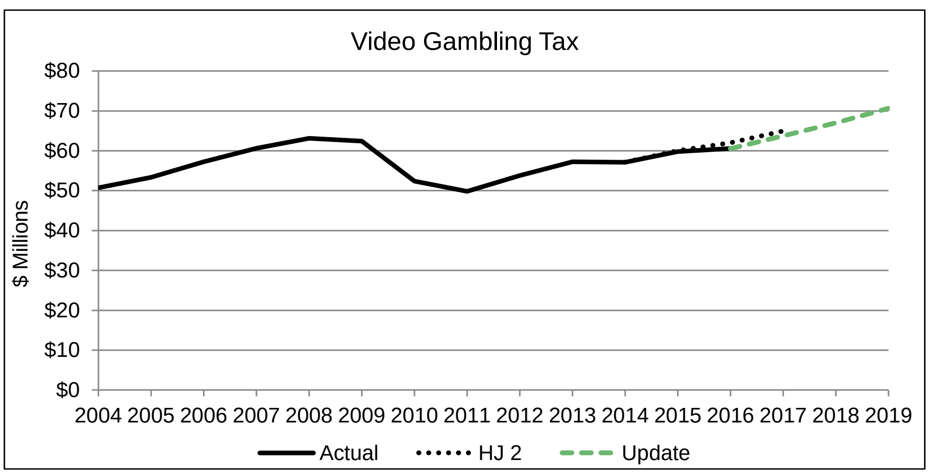
Insurance Tax

FY 2016 insurance tax came in $3.0 million or 4.2% below the final HJ 2 revenue estimate. At the time of the estimate, there were several unknown factors regarding the policy purchases on the 2015 exchange including the number of new vs. renewed policies, and the average cost of purchased policies from taxable companies. As new data from the exchanges becomes available from the State Auditor's Office, modeling for this source will be revised to account for the changes.



Video Gambling Tax

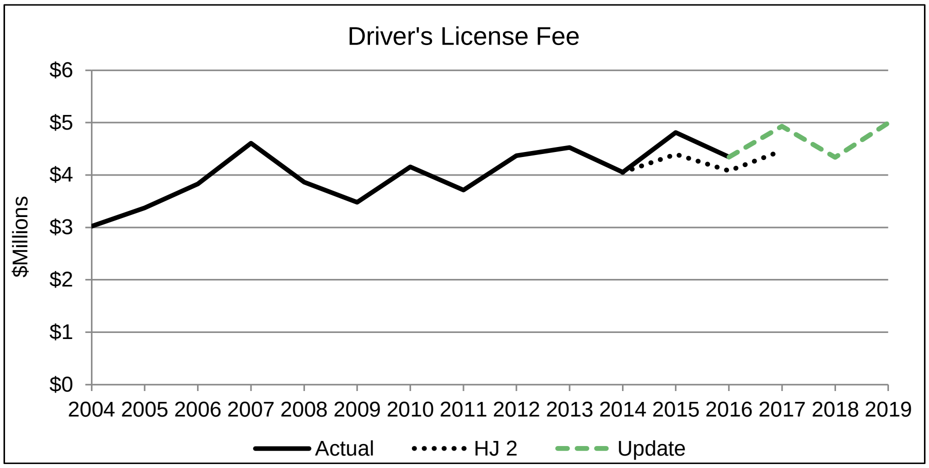
Video gambling revenue in FY 2016 was $1.5 million or 2.3% less than what was anticipated in HJ 2. This revenue source is modeled entirely on Montana personal income. The slight decrease in the updated trend is due to the lower-than-expected actual collections in FY 2016.



Other Business Taxes

Driver's License Fee

Total driver's license revenue exceeded the estimate contained in HJ 2 by $0.3 million for FY 2016. Since fees are fixed, this increase was caused by a larger-than-expected number of Class D (standard) driver's license purchases as well as increased Type 1 Commercial Driver's Licenses (CDL).

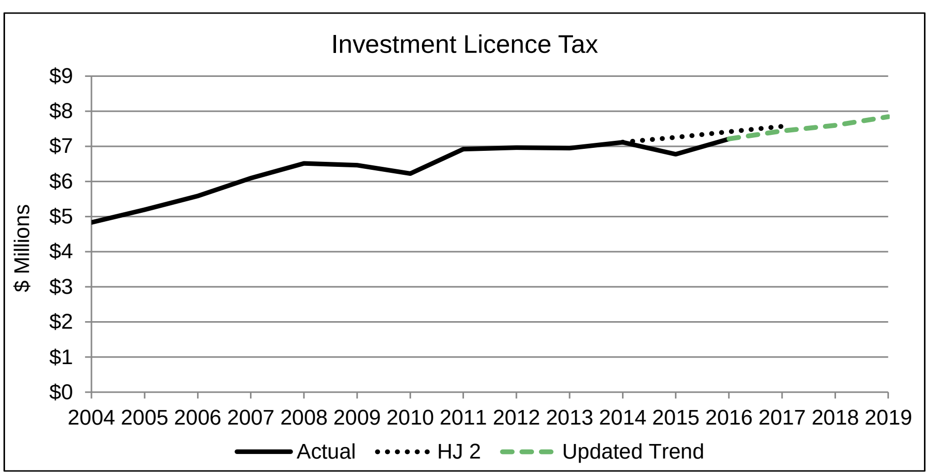


The updated trend is based on forecast population data and historical ratios between licenses and actual populations. Actual ratios from the most recent fiscal years are applied accordingly to forecast years. The increase is driven by the larger-than-expected collections in FY 2016, which now serves as the new base year.

Investment License Fee

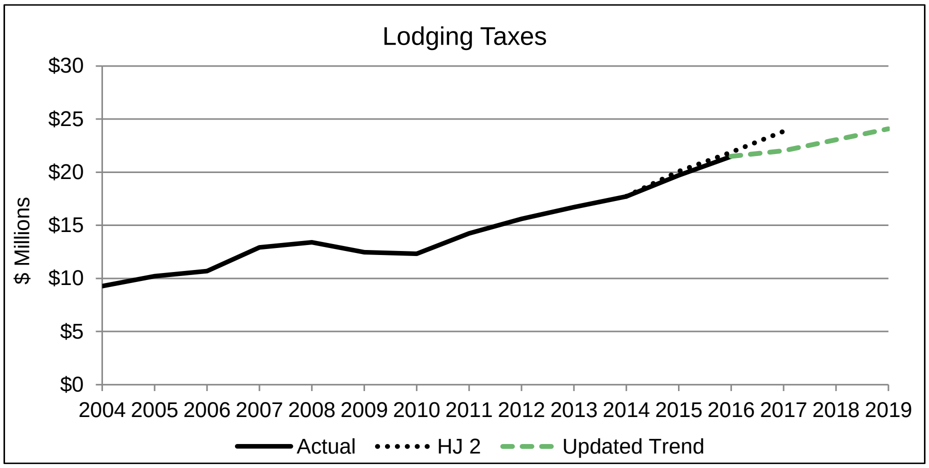
Investment license fee collections were $0.2 million, or 2.7% below the FY 2016 estimate contained in HJ 2. In HJ 2, this source was modeled on the number of individual, firm and dual registrations, as well as S&P 500 and CPI, with estimated values were equal to the values generated by the model. A better approach, and one that would have been more accurate in FY 2015 and FY 2016, is to apply the model-generated growth rates to the last known actual collections.

Revised modeling is based the personal consumption expenditure series for finance & insurance from IHS; modeled growth rates are now applied to the last known collections.



Lodging Facilities Sales Tax

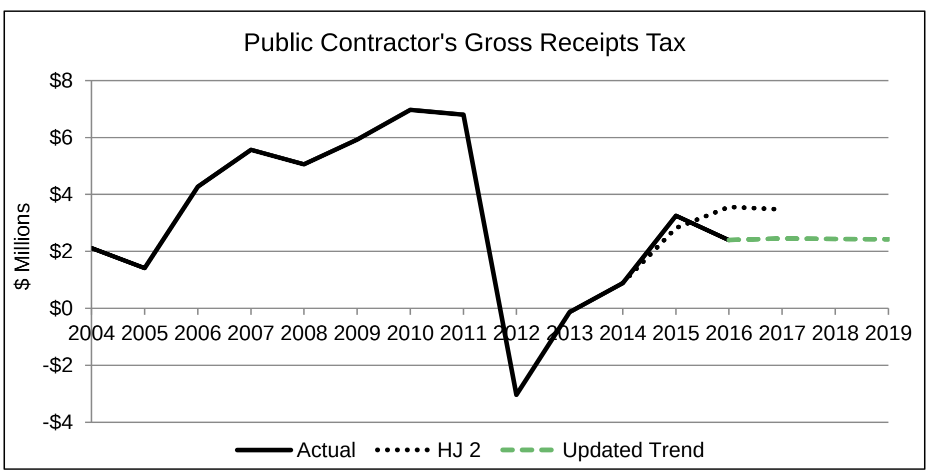
Lodging facilities sales tax collections were $0.4 million or 1.7% below the estimate contained in HJ 2 for FY 2016. The HJ 2 estimate contained an alternative assumption based on the recommendation of the Joint Tax Subcommittee that added $0.9 million to the estimated FY 2016 collections. FY 2016 collections were augmented by payments of $1.1 million from online travel companies as a result of litigation by DOR. Moving forward, the additional revenues due to online travel companies are anticipated to be about $0.3 million per year.



This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. The updated trend is based on the same model, and adjusts for the additional revenues due to online travel companies.

Public Contractor's Tax

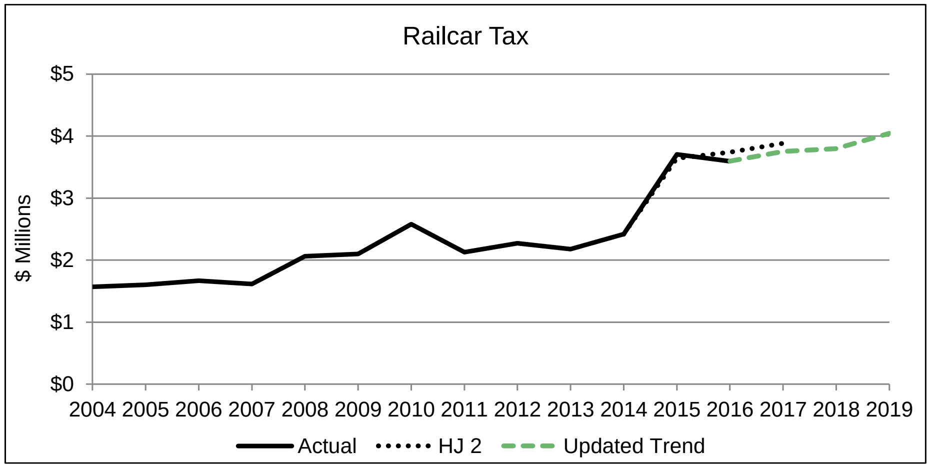
Public contractors' gross receipts tax collections were $1.2 million or 32.7% below the estimate contained in HJ 2. The HJ 2 forecast was based on a time trend of highway spending and a higher level of all other construction than in recent years. Highway construction came in 4% below FY 2015 projections and 18% below FY 2016 projections. All other construction came in at about half of the level anticipated in HJ 2, and was the primary driver in reduced public contractors' tax collections.



The updated trend continues the time-series forecast of highway construction used in HJ 2, but focusses on more recent trends in other construction.

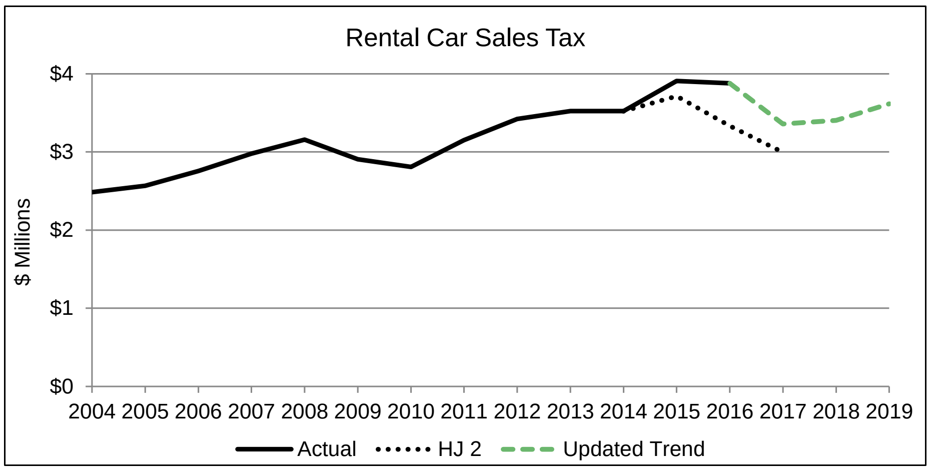
Railroad Car Tax

Railroad car tax revenue was $0.1 million, or 3.9% below the HJ 2 estimate for FY 2016. The lower FY 2016 base results in an updated trend that is below HJ 2. It is likely that slowdowns in the natural resource sector are impacting railroad car tax revenue, and this source could be adjusted further when rail car tax values are available in November.



Rental Car Sales Tax

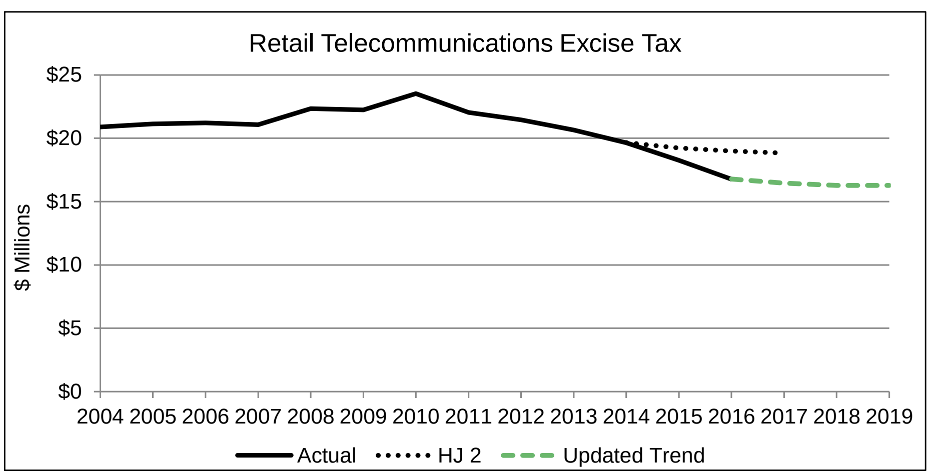
Rental car sales tax was $0.5 million or 16.4% above the FY 2016 estimate in HJ 2. FY 2016 collections were augmented by $0.3 million from online travel companies as a result of litigation by DOR. Moving forward, the additional revenues due to online travel companies are anticipated to be about $0.1 million per year.



Rental car sales tax was forecast in HJ 2 based on Montana retail sales. Modeling has been revised to replace retail sales with the personal consumption expenditure series for transportation. This source was impacted by [SB 180 (2015 Session)]() which allocated a portion of the rental car sales tax to the senior citizens transportation services fund.

Retail Telecommunications Excise Tax

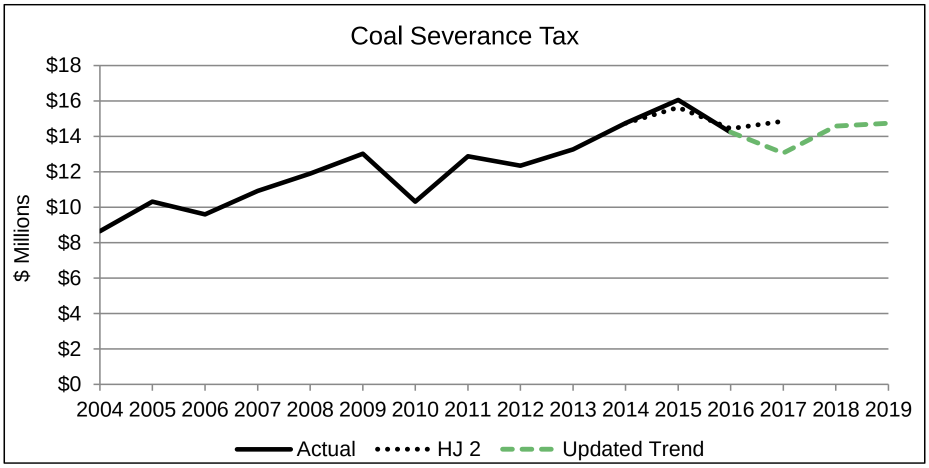
Retail telecommunications excise tax collections were $2.2 million or 11.7% below the estimate contained in HJ 2 for FY 2016. The estimate was based on U.S. Census Bureau data for landline and cell phone use, other sources of cell phone statistics, and the IHS forecast of Montana population. Faster transition to pre-paid smartphones, which are non-taxable, may be the reason for the stronger-than-expected decline in collections. Modeling for the updated trend has not changed, but starts from the lower FY 2016 base.



Other Natural Resource Taxes

Coal Severance Tax

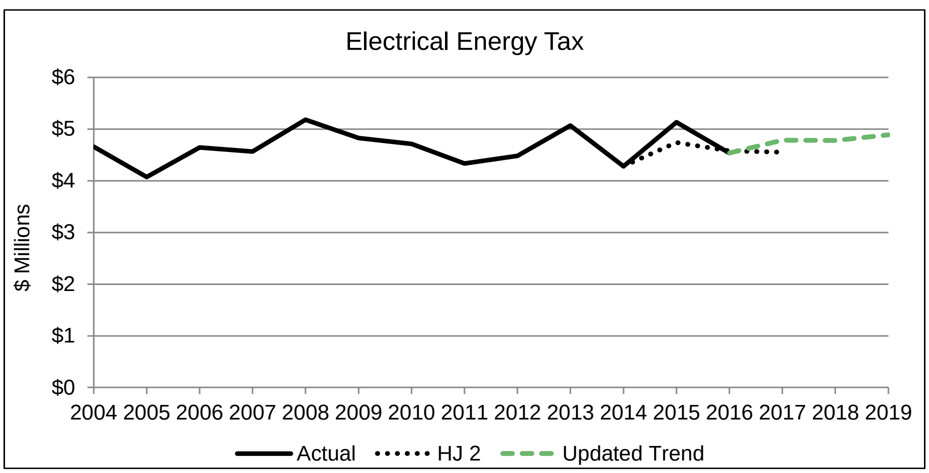
Coal severance tax collections were below the HJ 2 estimate by $0.2 million or 1.4% in FY 2016, despite unusually high audit collections; overall production in FY 2016 about 9% lower than forecast in HJ 2. The updated trend incorporates lower anticipated production.



The increase in projected general fund coal revenue in FY 2018 and FY 2019 is due to [HB 228 (2015 Session)](#) which increased funding to the Coal Natural Resources Account from 2.9% to 5.8% in FY 2016 and 2017. The additional 2.9% reverts back to the general fund in FY 2018.

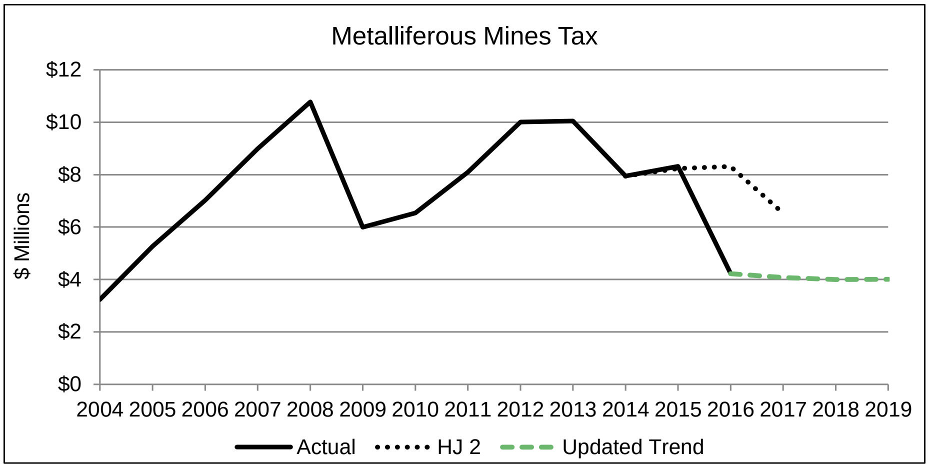
Electrical Energy Tax

Electrical energy tax collections were 0.9% lower than the HJ 2 estimate in FY 2016. This source is modeled on past average collections, so the increase in the updated trend reflects the 8.3% increase in FY 2015 collections compared to HJ 2.



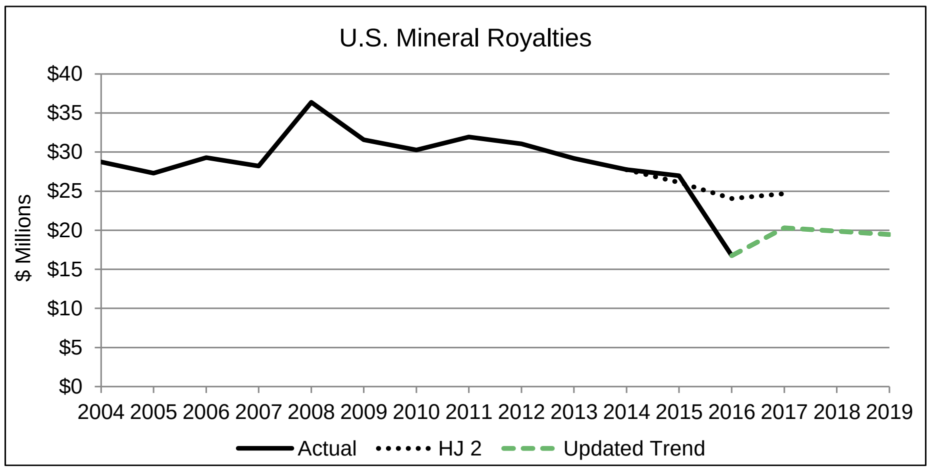
Metalliferous Mines Tax

FY 2016 metal mines tax collections were $4.1 million or 49.2% below the estimate contained in HJ 2. The decline is primarily attributable to lower metal prices in CY 2015 than anticipated in HJ 2, although gold production was substantially lower than anticipated in HJ 2. Metal prices for CY 2016 are currently lower than the estimates contained in HJ 2. The updated trend includes revised price outlooks for most metals, but contains the same production forecast as HJ 2.



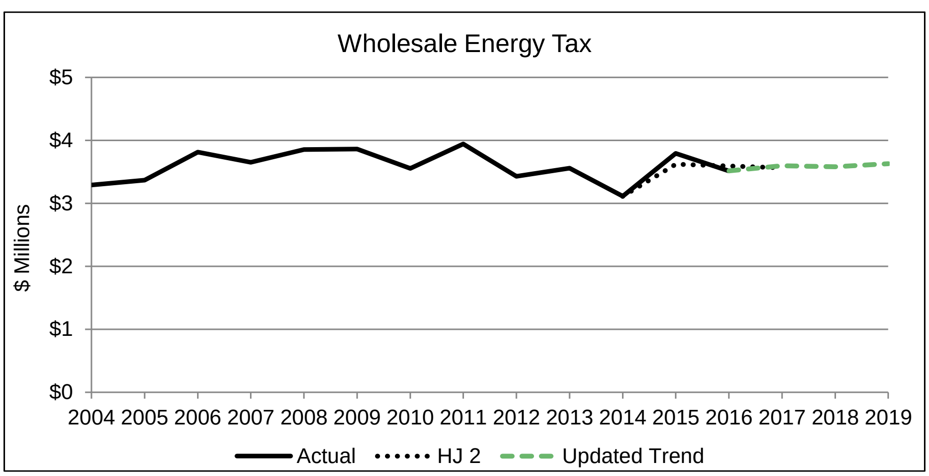
U.S. Mineral Royalties

FY 2016 U.S. mineral royalties came in $7.3 million or 30.4% below the HJ 2 estimate. The reason for the decreased updated trend relative to HJ 2 is projected declines in oil price and production, as well as lower coal production. Oil and coal are the top two revenue sources for U.S. mineral royalties.



Wholesale Energy Transaction Tax

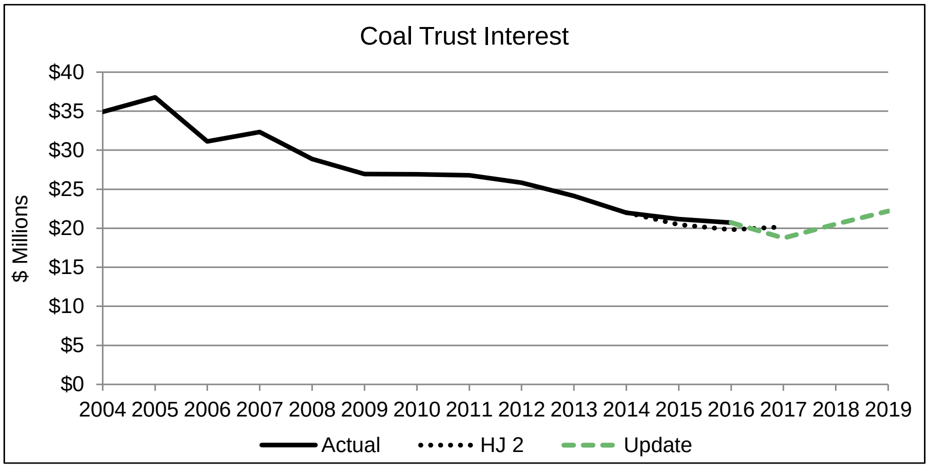
Wholesale energy transaction tax, imposed on transmission services providers, was $0.1 million below the HJ 2 forecast in FY 2016. This source was estimated in HJ 2 based on historical trends; the modeling for the updated trend has not changed, although it includes data from FY 2016.



Other Interest Earnings

Coal Trust Interest Earnings

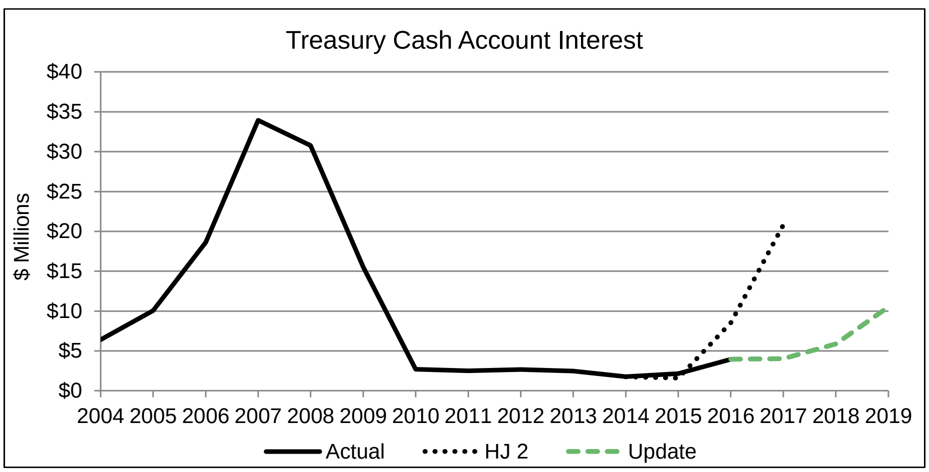
Coal trust earnings were above the estimate contained in HJ 2 by $0.9 million in FY 2016. Revenue from this source was estimated in HJ 2 using projected trust balance amounts and forecast interest rates based on suggestions from the Board of Investments (BOI).



The updated trend is slightly below the HJ 2 assumption due to a small downward revision to the in-state investment return rate.

Treasury Cash Account Interest

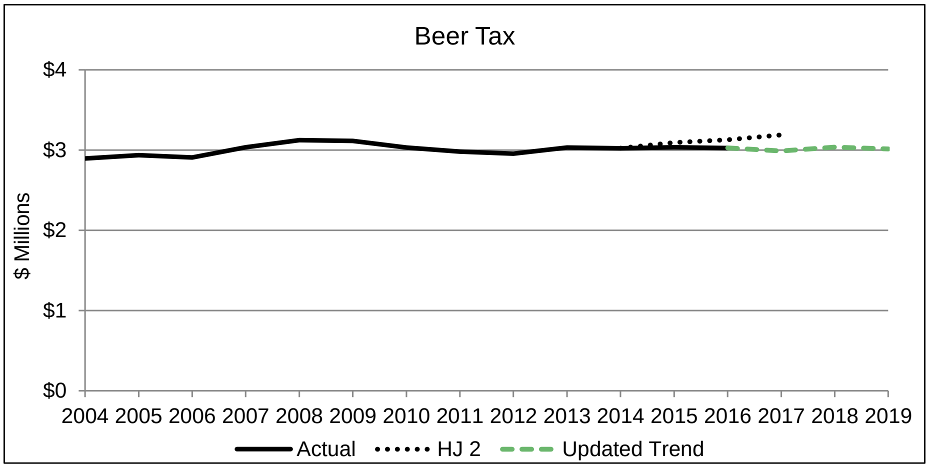
Based on year-end data for FY 2016, revenue from TCA interest earnings were $4.6 million below the estimate provided in HJ 2. IHS continues to forecast an increase in short-term interest rates, and to date these increases have not materialized. As a result, the interest rates used in the updated trend are adjusted for the historical IHS estimating error.



Other Consumption Taxes

Beer Tax

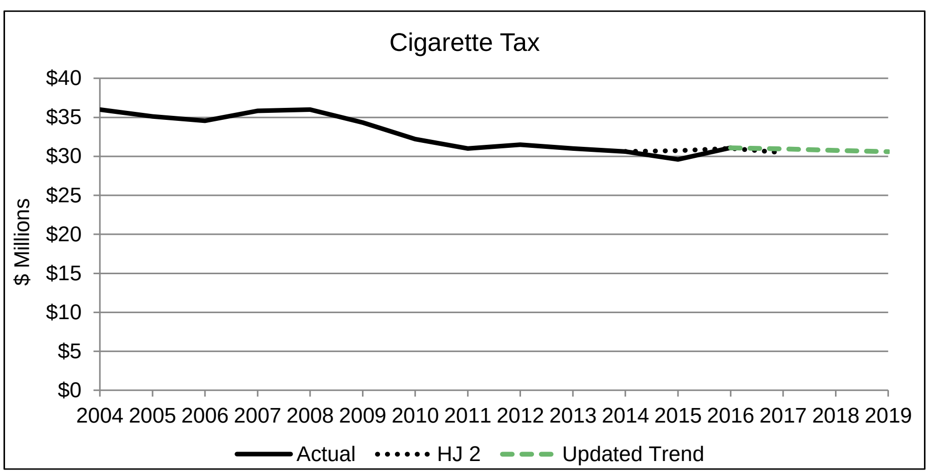
Beer tax revenue came in at 3.3% or $0.1 million below the official projection in FY 2016. The HJ 2 estimate was based on several Montana-specific indicators from IHS: retail sales, population over age 21, and per capita income. Modeling has been revised to replace retail sales with CPI.



This model also forecasts an effective tax rate based on growth trends for the various distributor sizes, which is applied to the total forecast consumption. The tax rate for distributors moving less than 5000 barrels per year is only $1.30 per barrel, and for those distributing between 5,001 and 10,000 the rate is $2.30, much less than the nominal $4.30 for larger distributors. There is a small but steady decline in effective tax rate as the number of smaller breweries, and therefore smaller distributors, increases.

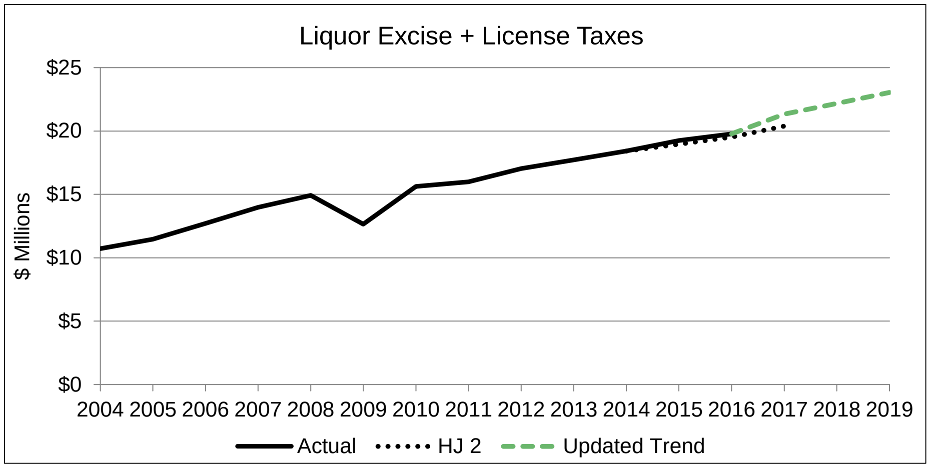
Cigarette Tax

FY 2016 cigarette tax collections were above the HJ 2 revenue estimates by 0.2% or $0.1 million. The forecast for this source was based on the IHS series for consumer price index for tobacco and consumer spending on tobacco products. Updated modeling also includes the population over age 18.



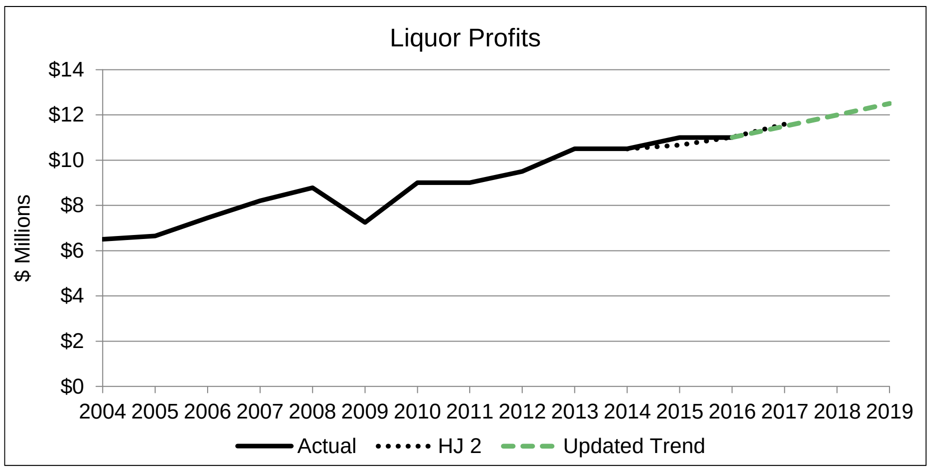
Liquor Excise & License Tax

Liquor excise tax actuals came in 1.3% or $0.3 million above the official projection in FY 2016. The IHS forecast for the growth of CPI was used as an input for this source in HJ 2; modeling has been changed to incorporate the Montana personal consumption series for food.



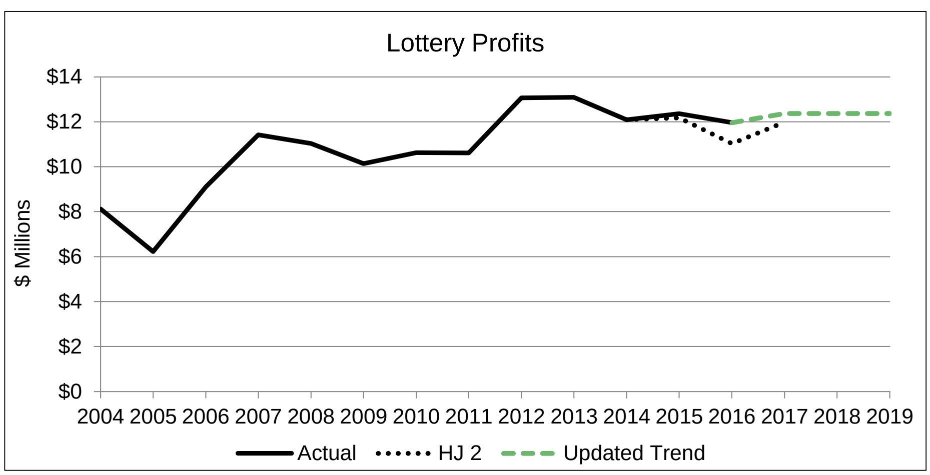
Liquor Profits

Liquor profits came in $0.0 million or 0.2% below the estimate contained in HJ 2 for FY 2016. The estimate in HJ 2 did not account for the rounding that is made prior to the transfer to the general fund. Current modeling attempts to capture the rounding.



Lottery Profits

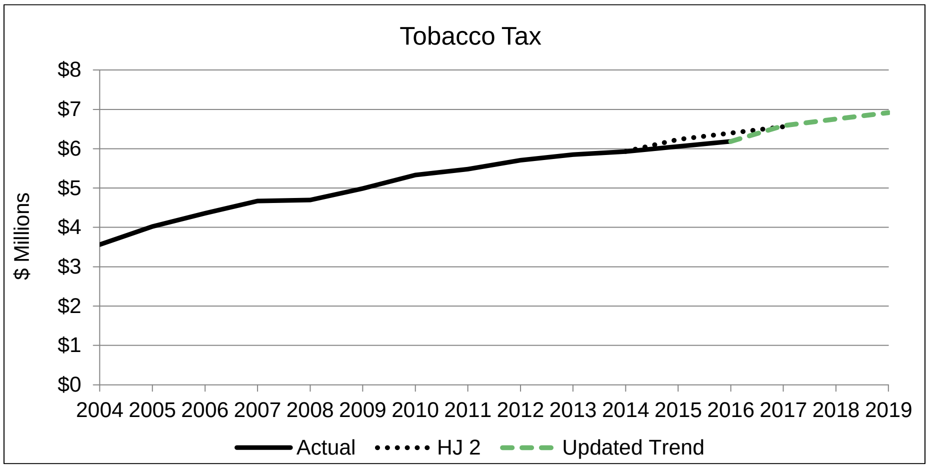
Lottery profits in FY 2016 were 8.4% or $0.9 million over the HJ 2 revenue estimate, primarily due to higher ticket sales than anticipated in HJ 2. In HJ 2, the IHS forecast short-term interest rates and Montana retail sales were used as inputs for this source; modeling has been adjusted to replace retail sales with the population over age 18.



HB 617 (2015 Session) established a cap on the general fund transfer of lottery revenue at the FY 2015 amount, with any increases to be transferred to a special revenue account to provided college scholarships for STEM students.

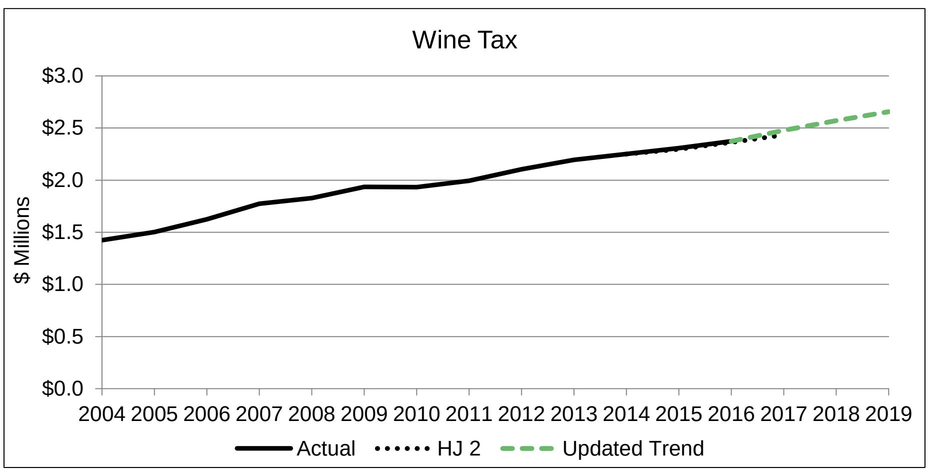
Tobacco Tax

Tobacco tax revenue came in 3.3% or $0.2 million below the official projection for FY 2016. The HJ 2 estimate was based on IHS forecasts of Montana retail sales and Montana population over age 18. Modeling has been revised to replace retail sales with Montana personal consumption expenditure series.



Wine Tax

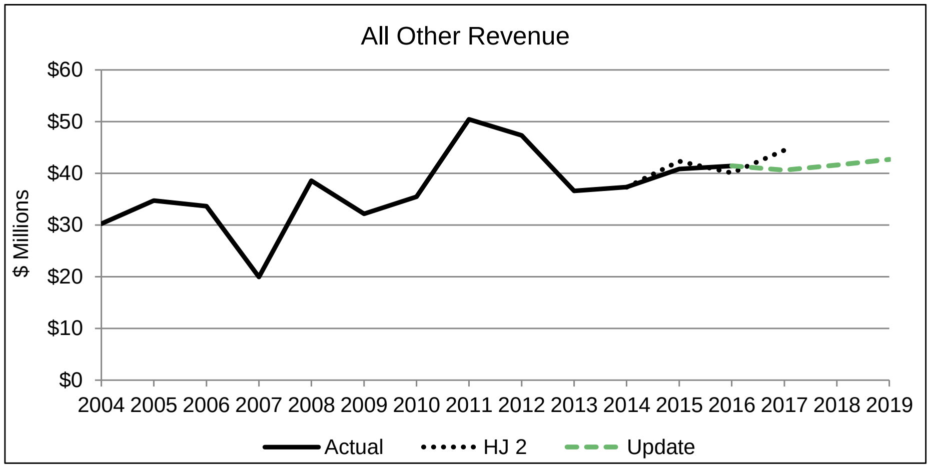
Wine tax revenue came in at 0.5% or $0.0 million above the official estimate in FY 2016. The HJ 2 estimate was based on the IHS forecast of Montana population over age 21; modeling for this source has not changed.



Other Sources

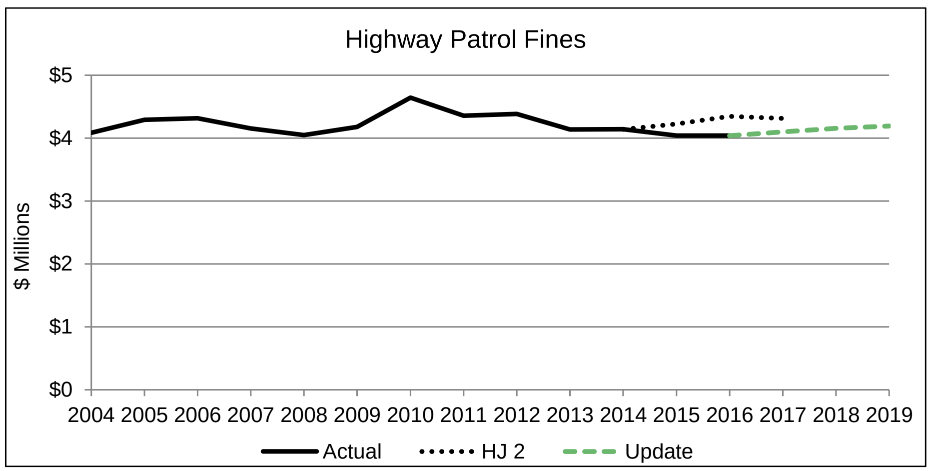
All Other Revenue

All other revenue collections were 3.5% or $1.4 million above the FY 2016 estimate contained in HJ 2. The difference is primarily attributable to higher-than-expected investment license fee transfers.



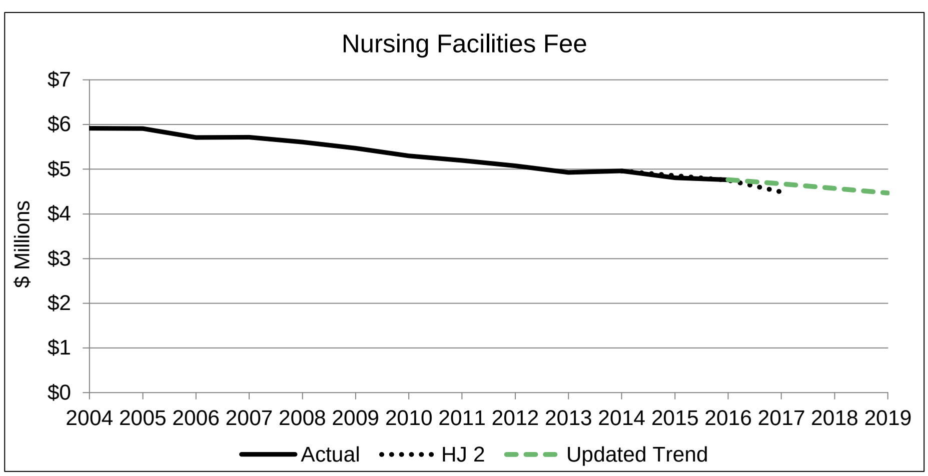
Highway Patrol Fines

Total revenue generated from highway patrol fines in FY 2016 was 7.1% or $0.3 million less than the HJ 2 estimate. This revenue source is modeled on a time series, which tends to capture the underlying trend, but is not exact.



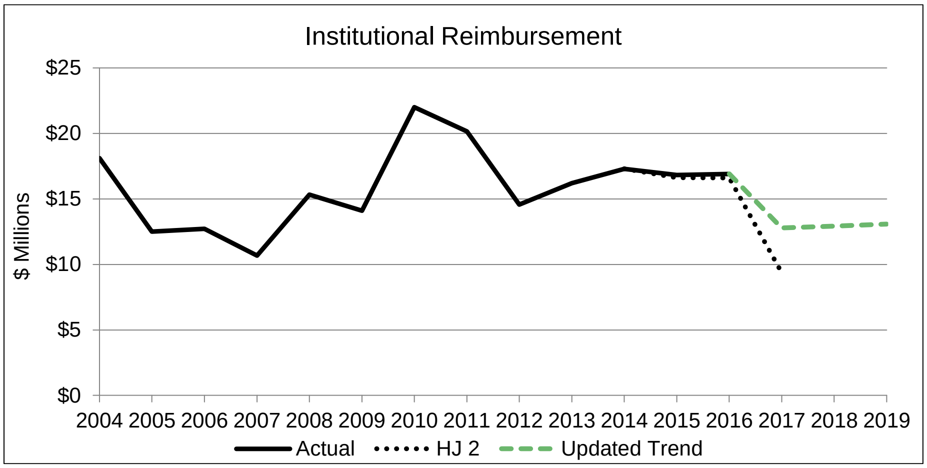
Nursing Facilities Fee

Nursing facilities fees came in 0.2% or $0.0 million over the HJ 2 revenue estimate in FY 2016. This source has declined most years since inception, and FY 2016 continued this trend with a 1% decline from FY 2015. It is forecast primarily based on a time series of proxy bed days.



Public Institution Reimbursements

Public institution reimbursements were 1.8% or $0.3 million more than HJ 2 revenue estimate for FY 2016. Note that this source has a history of fluctuating collections primarily due to timing of federal payments. Modeling for this source has been simplified since the estimate contained in HJ 2, and now relies primarily on a time trend of nursing facility residents.



This source is impacted by [SB 411 (2015 Session)](), the bill closing the Montana Developmental Center (MDC). MDC is one of five state facilities from which the general fund receives reimbursement. While this revenue reduction is anticipated, the bill is expected to reduce general fund expenditures to the facility by more than the reimbursement loss for a net gain in general fund.

Tobacco Settlement

Tobacco settlement revenue was above the HJ 2 estimate in FY 2016 by 7.2% or $0.2 million. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies, and the states that delay or mildly adjust the amount of the settlement. These changes are not captured in the revenue model and are likely to continue to contribute to discrepancies between estimates and actuals.