



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 2, 2018

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 2018 General Fund Revenue Update #5

PURPOSE OF THIS REPORT

This is the fifth of six monthly revenue updates throughout the second half of FY 2018 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2018 relative to the revenue estimate contained in HJ 2.

GENERAL FUND REVENUE SUMMARY

FY 2018 general fund revenues through the end of April are \$239.3 million or 13.9% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,456 million, about \$21 million more than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest potential revenue below HJ 2 by about \$2 million.

Although year-to-date estimates through April are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

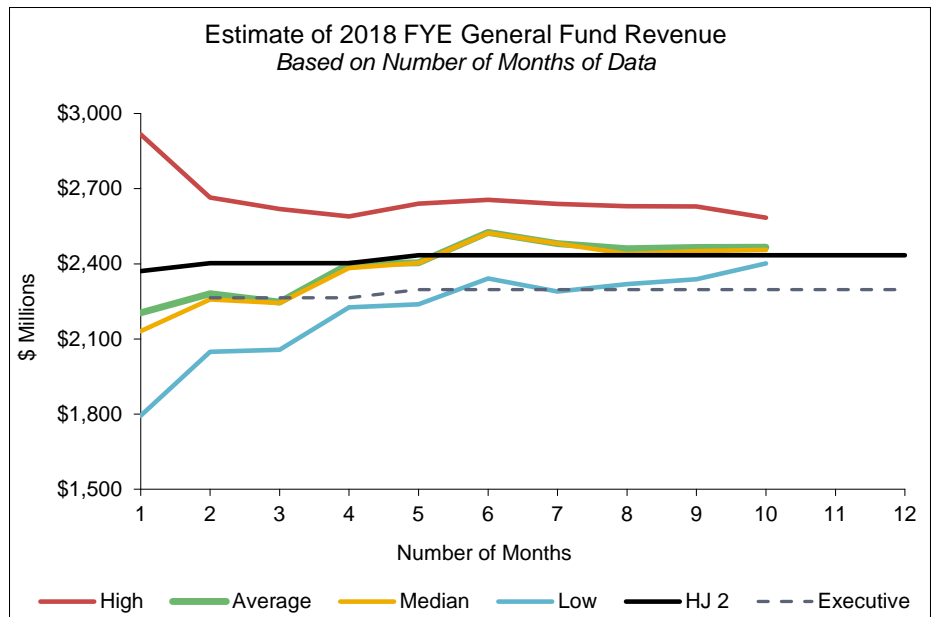
Range of Revenue Options (\$ Millions)			
Estimate*	FY 2018	FY 2019	Notes
HJ 2	\$2,435	\$2,495	Official legislative revenue estimate
YTD Median Extrapolation	2,456		Based on total general fund collection patterns since FY 2002
Cash Concept Model	2,433		Based on collection patterns of large revenue sources since FY 2002
Executive Estimate for 2017 Special Session	2,297	2,352	Used to balance GF budget during 2017 Special Session, but not adopted

*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

Back by Popular Demand: Year-to-Date Revenue 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 2018 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the adjacent chart.

Based on collections through April, the difference between the high and low amounts is about \$182 million, with the median value about \$21 million above the HJ 2 estimate.



SB 9 ALLOCATIONS & HB 2 APPROPRIATIONS TO STATE AGENCIES IN THE EVENT OF EXCESS REVENUES

Per [SB 9 \(2017 Special Session\)](#), if the amount of unaudited state general fund revenue and transfers into the general fund received at the end of FY 2018 is more than \$2,264.9 million, excluding transfers in [HB 6 \(2017 Special Session\)](#) and any revenue generated by [SB 5 \(2017 Special Session\)](#), then the state treasurer shall notify the Legislative Fiscal Analyst and others of the amount of excess revenue and the following actions will be taken:

1. If the excess revenue is less than \$20.0 million, it will remain in the general fund;
2. If the excess revenue is \$20.0 million or more, the transfers in HB 6 from the secretary of state enterprise fund and the public service commission state special revenue account are void. In addition, the State Auditor shall remit \$530,825 to the state treasurer by December 15, 2017;
3. If the excess revenue is at least \$20.0 million, but no more than \$111.4 million, the excess revenue will be as follows:
 - a. \$20.0 million will remain in general fund
 - b. 50% of the remainder will be transferred to the budget stabilization reserve fund established by [SB 261 \(2017 Regular Session\)](#)
 - c. 50% of the remainder will be prorated to agencies to proportionally offset the reductions in HB 2. A list of agencies and the amounts offset is provided in SB 9
4. If the excess revenue is more than \$111.4 million, all of the above will be followed, and the extra will remain in the general fund.

SB 9 Threshold Compared to HJ 2

Note that the \$2,264.9 million threshold in SB 9 is based on the executive's general fund revenue estimate used to call the 2017 November Special Session of the Legislature, which was below HJ 2 by \$137 million in FY 2018.

The HJ 2 estimate for FY 2018 including all enacted legislation from the 2017 regular and special sessions is \$2,434.6 million. If the transfers in HB 6 and revenue anticipated from SB 5 are excluded, the amount would be \$2,402.3 million, which is \$137.4 million above the SB 9 threshold.

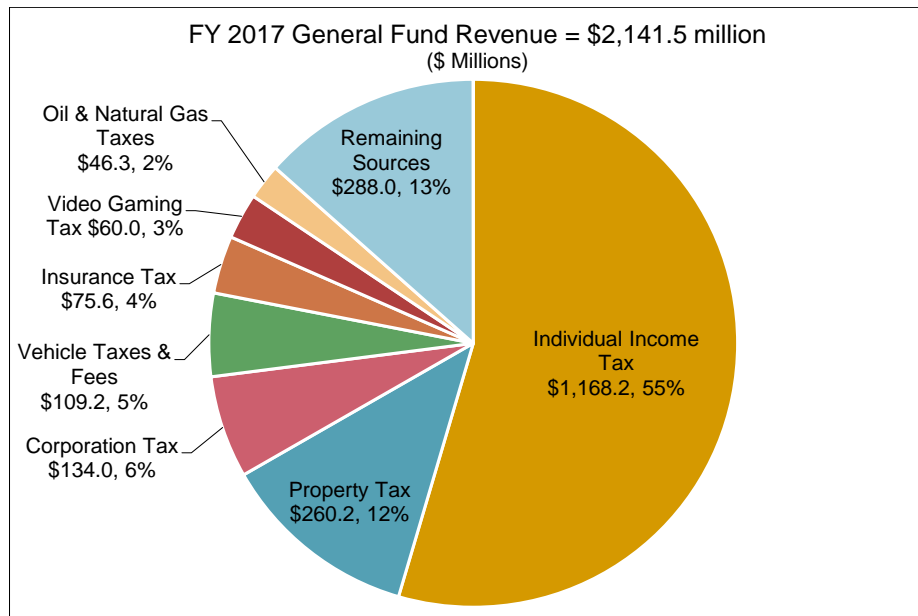
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of April are \$239.3 million or 13.9% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Note that the increase is in part due to legislatively authorized transfers of \$65.6 million posted to All Other Revenue.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2017	HJ 2/SS FY 2018	HJ 2 Est. % Change	April FY 2017	April FY 2018	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,168.225	\$1,320.808	13.1%	\$1,087.463	\$1,203.725	\$116.261	10.7%
Property Tax	260.224	277.119	6.5%	148.557	161.932	13.375	9.0%
Corporation Tax	133.992	168.763	26.0%	95.090	133.392	38.302	40.3%
Vehicle Taxes & Fees	109.197	112.956	3.4%	80.386	80.133	(0.253)	-0.3%
Oil & Natural Gas Taxes	46.334	49.939	7.8%	22.490	25.171	2.681	11.9%
Insurance Tax	75.558	76.003	0.6%	59.186	54.987	(4.199)	-7.1%
Video Gaming Tax	59.956	61.904	3.2%	44.654	46.632	1.978	4.4%
Other Business Taxes							
Drivers License Fee	4.308	4.341	0.8%	3.441	3.671	0.230	6.7%
Investment Licenses	7.327	7.660	4.5%	6.981	7.297	0.315	4.5%
Lodging Facilities Sales Tax	21.780	23.399	7.4%	14.072	14.922	0.850	6.0%
Public Contractor's Tax	3.078	2.540	-17.5%	1.953	3.464	1.511	77.4%
Railroad Car Tax	3.790	3.642	-3.9%	3.530	3.329	(0.201)	-5.7%
Rental Car Sales Tax	3.402	3.357	-1.3%	2.173	2.597	0.423	19.5%
Retail Telecom Excise Tax	15.603	15.570	-0.2%	8.594	8.075	(0.519)	-6.0%
Other Natural Resource Taxes							
Coal Severance Tax	13.799	13.811	0.1%	10.979	10.491	(0.488)	-4.4%
Electrical Energy Tax	4.314	4.439	2.9%	2.791	2.958	0.166	6.0%
Metal Mines Tax	4.839	4.274	-11.7%	2.346	3.332	0.986	42.0%
U.S. Mineral Leasing	17.322	20.497	18.3%	11.756	12.155	0.399	3.4%
Wholesale Energy Trans Tax	3.464	3.505	1.2%	2.413	2.407	(0.006)	-0.2%
Other Interest Earnings							
Coal Trust Interest Earnings	19.799	19.829	0.1%	14.770	12.827	(1.944)	-13.2%
TCA Interest Earnings	5.692	7.577	33.1%	4.099	6.947	2.848	69.5%
Other Consumption Taxes							
Beer Tax	2.998	3.072	2.5%	2.168	2.163	(0.005)	-0.2%
Cigarette Tax	30.558	30.652	0.3%	23.496	21.802	(1.694)	-7.2%
Liquor Excise Tax	20.366	22.265	9.3%	15.140	15.570	0.430	2.8%
Liquor Profits	11.750	14.614	24.4%	-	-	-	
Lottery Profits	9.624	12.365	28.5%	6.472	6.639	0.167	2.6%
Tobacco Tax	6.247	6.815	9.1%	4.605	4.476	(0.129)	-2.8%
Wine Tax	2.429	2.584	6.4%	1.820	1.826	0.006	0.3%
Other Sources							
All Other Revenue	49.336	113.552	130.2%	25.783	95.007	69.224	268.5%
Highway Patrol Fines	3.927	4.152	5.7%	2.852	2.709	(0.143)	-5.0%
Nursing Facilities Fee	4.635	4.305	-7.1%	2.785	2.617	(0.168)	-6.0%
Public Institution Reimbursement	14.264	15.718	10.2%	9.394	8.875	(0.519)	-5.5%
Tobacco Settlement	3.343	2.622	-21.6%	3.343	2.768	(0.575)	-17.2%
Largest Seven Subtotal							
	1,853.485	2,067.491	11.5%	1,537.826	1,705.971	168.144	10.9%
Remaining Sources Subtotal							
	287.994	367.154	27.5%	187.759	258.923	71.164	37.9%
Grand Total							
	\$2,141.479	\$2,434.645	13.7%	\$1,725.585	\$1,964.893	\$239.308	13.9%

MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

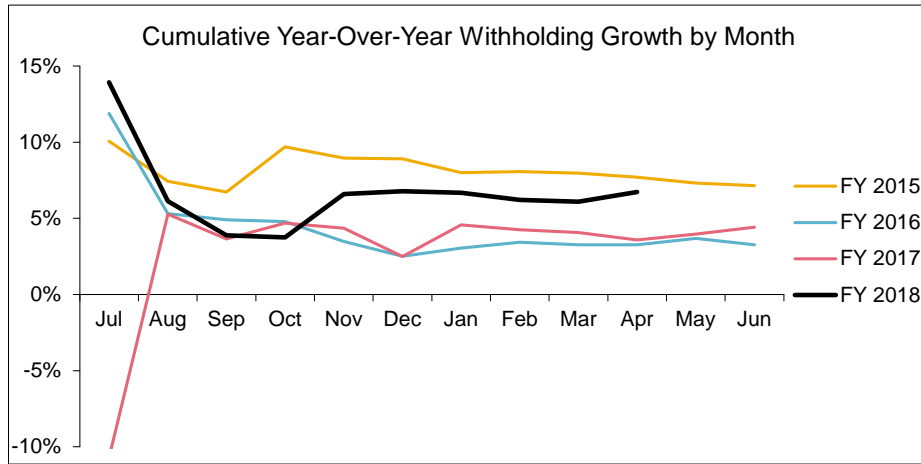


Individual Income Tax: Below Estimate

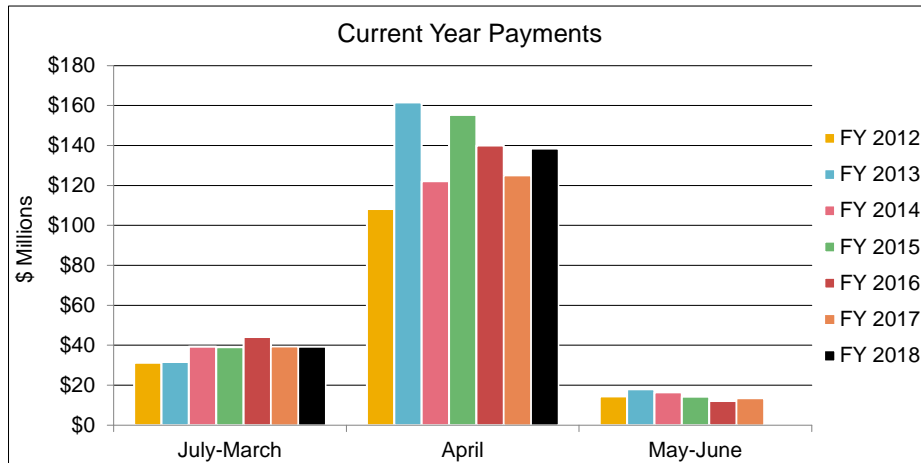
Individual income tax collections through the end of April are \$116.3 million or 10.7% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, high December and January estimated payments, and growth in April current year payments.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$805.2	\$754.4	\$50.8	6.7%
Estimated Payments	260.8	219.6	41.1	18.7%
Current Year Payments	177.5	164.2	13.3	8.1%
Audit, P&I, Amended	32.9	29.5	3.4	11.6%
Refunds	(266.8)	(253.5)	(13.2)	5.2%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	33.5	25.4	8.1	32.0%
Mineral Royalties	7.4	4.9	2.4	49.6%
Total	\$1,203.7	\$1,087.5	\$116.3	10.7%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to maintain growth above 6% compared to FY 2017 collections. As shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.



FY 2018 current year payments in April were above FY 2017 by 10.7%. The following chart shows recent years' current year payments, with FY 2018 collections depicted in black.



Property Tax: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$13.4 million or 9.0%, compared to 6.5% in HJ 2. Property tax has consistently been above HJ 2 year-to-date, but has been moving closer every month and is still expected to come in around HJ 2. The increase compared to last year may be due to some taxpayers paying the full property tax bill in CY 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of April are 40.3% or \$38.3 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments, lower refunds, and a large, one-time audit.

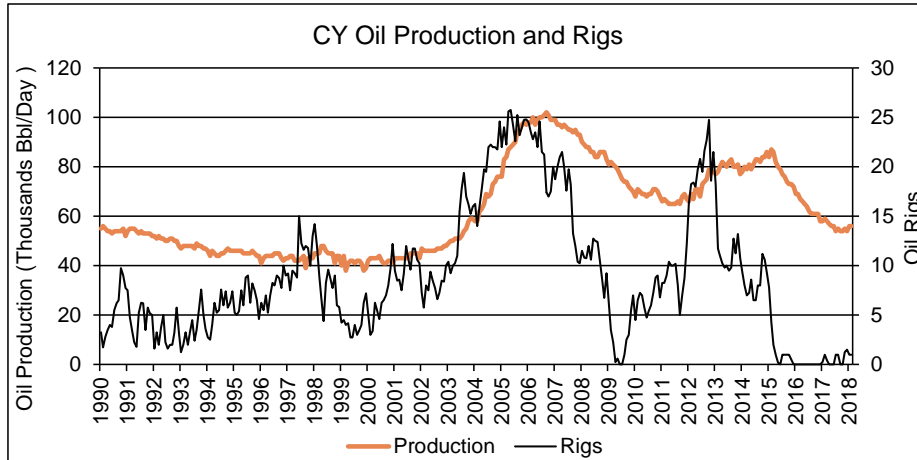
Corporation Income Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Corporation Tax	\$26.3	\$25.6	\$0.8	3.0%
Estimated Payments	95.3	79.3	16.1	20.3%
Refunds	(16.5)	(25.3)	8.8	-34.9%
Refund Accrual Reversal	3.3	3.8	(0.4)	-11.3%
Audit, P&I, Amended	24.9	11.8	13.1	110.6%
Total	\$133.4	\$95.1	\$38.3	40.3%

Vehicle Fees & Taxes: Currently Below Estimate

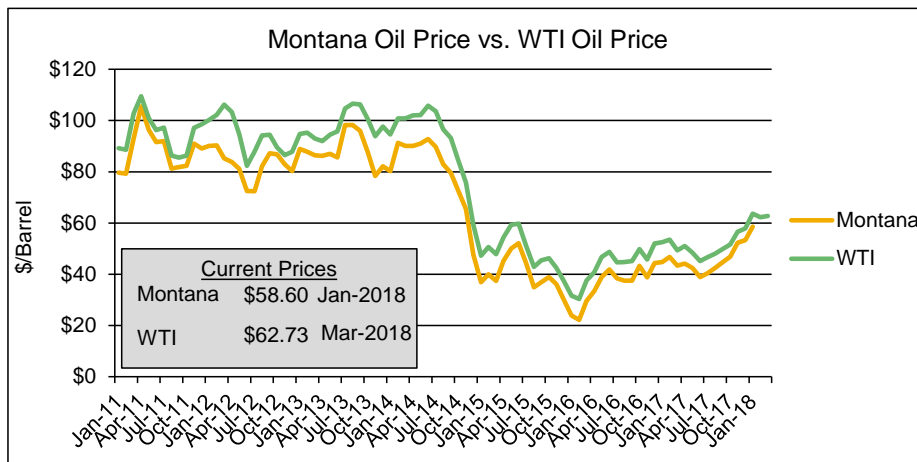
Through April, vehicle taxes and fees are 0.3% or \$0.3 million below collections last year at this time. The timing of payments into the accounting system has been sporadic from month to month; however, this source is expected to end up near HJ 2.

Oil & Natural Gas Production Tax: Above Estimate

Through April, two of the four oil & gas payments have been booked to the state accounting system. Price increases have offset small decreases in production, and as a result collections are higher than last year. Specifically, collections are 11.9% or \$2.7 million above last year. The year-to-date growth of 11.9% is above the assumed growth of 7.8% in HJ 2.



As the chart above shows, oil production had been declining since the beginning of 2015 through late 2017, as there was at most two rigs operating in the state since early 2015. However, there been a small increase in recent months. The figure below shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Currently Below Estimate Due to Late Posting

Insurance tax collections are 7.1% or \$4.2 million below FY 2017 through April. According to the State Auditor's Office, staff changes have led to delays in coding in recent payments. This source should be back to normal in the coming months.

Insurance Premiums Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Insurance Licenses & Permits	\$0.0	\$0.0	(\$0.0)	-28.7%
Premium Insurance Tax	45.4	46.3	(0.9)	-1.9%
Fire Marshall Taxes	7.6	8.4	(0.8)	-9.8%
Premium Insurance Tax-Yearly	0.0	0.0	(0.0)	-55.6%
Surplus Lines Premium Tax	0.4	2.8	(2.4)	-86.1%
Captive Premium Insurance Tax	1.6	1.6	(0.1)	-3.4%
Total	\$55.0	\$59.2	(\$4.2)	-7.1%

Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$2.0 million or 4.4% above collections from last year. This source was expected to grow by 3.2% so it is tracking slightly above the HJ 2 estimate.

OTHER KEY DIFFERENCES:

Public Contractors' Tax: Above Estimate

Public contractors' tax is \$1.5 million or 77.4% above year-to-date collections in FY 2017, and above the 17.5% decline anticipated in HJ 2. There can be a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects have produced unusual future collection patterns in the past.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.9 million or 13.2% below collections from one year ago. In FY 2017, \$2.0 million was booked in this account in August, when typically the first large collection doesn't occur until September. This was ultimately offset by low June collections. Final collections should end up near the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$2.8 million or 69.5% above collections last year at this time, and above the HJ 2 anticipated growth of 33.1%. Short-term interest rates in FY 2018 are slightly lower than expected, so the increase relative to HJ 2 is due to a larger-than-expected daily cash balance.

Cigarette Tax: Below Estimate

Cigarette tax revenue is \$1.7 million or 7.2% below year-to-date collections in FY 2017. The decline may be attributable to changing consumer preferences.

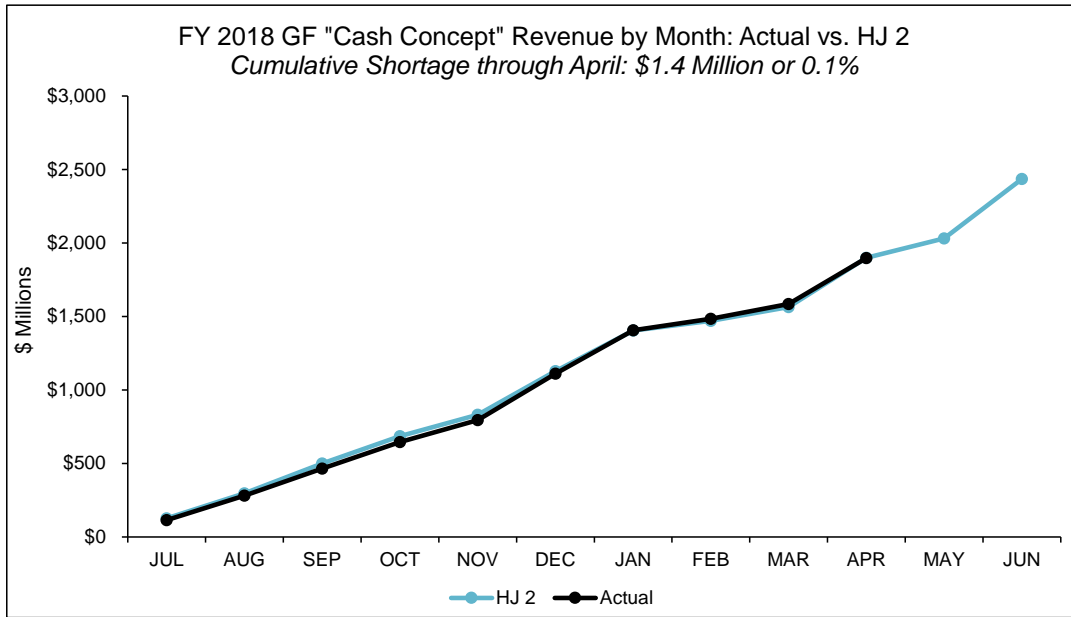
All Other Revenue: Above Last Year Due to Transfers

To date, all other revenue collections are \$69.2 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$65.6 million of the year-over-year difference.

APPENDIX

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2017, with accruals and subsequent accrual reversals removed. The top seven revenue sources and general fund transfers are modeled separately, with the remaining sources estimated as a group.

The chart below shows modeled cumulative HJ 2 (adjusted for the enacted legislation of the 2017 regular and special sessions) by month with the blue line, and actual collections with the black line. Through April, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$1.4 million or 0.1%. If revenue continues to be below HJ 2 by 0.1% through FY 2018, final collections could be \$1.8 million lower than expected.



Corporation and individual income taxes had the largest differences with respect to the estimates in HJ 2; based on the cash flow model, corporation income tax through April is \$10.3 million above the HJ 2 estimate and nearly offset by individual income tax which is \$10.1 million below the estimate.

