



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: June 7, 2019

TO: Revenue Interim Committee Members
House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2019 General Fund Revenue Update #6

GENERAL FUND YEAR-TO-DATE REVENUE: ABOVE ANTICIPATED GROWTH

This is the last of six monthly revenue updates throughout the second half of FY 2019 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2019 relative to the revenue estimate contained in HJ 2.

FY 2019 general fund revenues through the end of May are \$132.7 million or 6.3% above FY 2018 revenues through the same period. Note that total year-to-date growth of 6.3% is influenced by the timing of one-time-only transfers in FY 2018. When one-time-only transfers and revenue is excluded, the ongoing revenue is above last year by 7.8% and above the anticipated growth of 3.3%.

Two analyses of possible fiscal-year-end revenue collections based on year-to-date revenue are provided in an appendix. Based on data through May, the median values suggest final revenue collections in the range of \$104 million to \$130 million above HJ 2. As articulated in a previous report, the fiscal year end revenue extrapolations are sensitive to unusual timing or accounting anomalies—even when the calculations include adjustments for known timing issues—and should be viewed with caution. FY 2019 revenue is on track to be above HJ 2, but the final difference won't be known until the end of July, when the accrual process is complete.

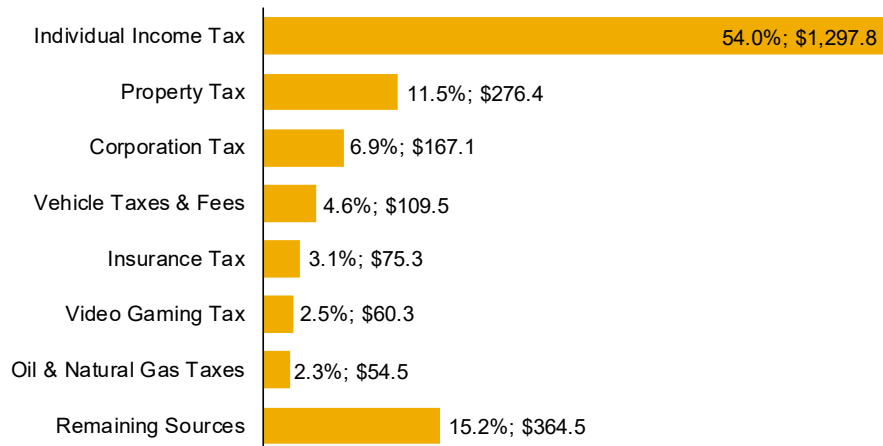
YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2018	HJ 2 FY 2019	HJ 2 Est. % Change	May FY 2018	May FY 2019	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,297.777	\$1,356.966	4.6%	\$1,281.971	\$1,389.116	\$107.145	8.4%
Property Tax	276.414	283.225	2.5%	166.209	177.481	11.273	6.8%
Corporation Tax	167.100	160.824	-3.8%	138.954	156.426	17.472	12.6%
Vehicle Taxes & Fees	109.540	111.525	1.8%	89.161	90.415	1.254	1.4%
Oil & Natural Gas Taxes	54.508	60.049	10.2%	25.171	28.441	3.270	13.0%
Insurance Tax	75.273	77.475	2.9%	61.641	62.796	1.155	1.9%
Video Gaming Tax	60.324	60.158	-0.3%	46.646	47.054	0.408	0.9%
Other Business Taxes							
Drivers License Fee	4.581	4.342	-5.2%	3.946	3.442	(0.504)	-12.8%
Investment Licenses	7.683	7.963	3.6%	7.498	7.928	0.430	5.7%
Lodging Facilities Sales Tax	24.091	25.218	4.7%	17.444	19.426	1.981	11.4%
Public Contractor's Tax	4.267	3.503	-17.9%	3.020	3.010	(0.010)	-0.3%
Railroad Car Tax	3.649	3.492	-4.3%	3.649	3.095	(0.554)	-15.2%
Rental Car Sales Tax	3.719	3.730	0.3%	2.843	3.413	0.570	20.1%
Retail Telecom Excise Tax	13.726	12.889	-6.1%	10.379	9.929	(0.450)	-4.3%
Other Natural Resource Taxes							
Coal Severance Tax	14.107	13.555	-3.9%	10.896	10.806	(0.090)	-0.8%
Electrical Energy Tax	4.302	4.547	5.7%	3.310	3.291	(0.019)	-0.6%
Metal Mines Tax	6.291	6.749	7.3%	3.332	3.524	0.193	5.8%
U.S. Mineral Leasing	20.139	20.934	3.9%	15.519	15.050	(0.469)	-3.0%
Wholesale Energy Trans Tax	3.628	3.516	-3.1%	2.753	2.694	(0.058)	-2.1%
Other Interest Earnings							
Coal Trust Interest Earnings	17.938	17.088	-4.7%	14.353	14.631	0.278	1.9%
TCA Interest Earnings	10.888	21.514	97.6%	8.125	17.352	9.227	113.6%
Other Consumption Taxes							
Beer Tax	3.002	3.074	2.4%	2.391	2.451	0.060	2.5%
Cigarette Tax	27.755	27.313	-1.6%	24.052	24.090	0.038	0.2%
Liquor Excise Tax	21.007	22.884	8.9%	17.056	18.007	0.951	5.6%
Liquor Profits	12.200	12.900	5.7%	-	-	-	-
Lottery Profits	10.699	11.510	7.6%	6.639	7.292	0.653	9.8%
Tobacco Tax	6.058	6.273	3.6%	4.991	4.887	(0.104)	-2.1%
Wine Tax	2.446	2.461	0.6%	2.009	2.049	0.040	2.0%
Other Sources							
All Other Revenue	117.645	90.686	-22.9%	98.170	76.730	(21.439)	-21.8%
Highway Patrol Fines	3.754	3.907	4.1%	3.054	3.200	0.146	4.8%
Nursing Facilities Fee	4.405	4.275	-3.0%	3.226	3.170	(0.056)	-1.7%
Public Institution Reimbursement	13.754	13.887	1.0%	10.668	10.308	(0.360)	-3.4%
Tobacco Settlement	2.778	2.996	7.9%	2.768	3.025	0.257	9.3%
Ongoing Revenue Subtotal	2,333.618	2,410.403	3.3%	2,020.626	2,177.745	157.119	7.8%
OTO Revenue & Transfers Subtotal	71.829	51.024		71.215	46.784	(24.431)	
Grand Total	\$2,405.447	\$2,461.427	2.3%	\$2,091.842	\$2,224.530	\$132.688	6.3%

MAJOR SOURCES

In FY 2018, the largest seven revenue sources accounted for 85% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

Individual income tax accounted for over half of FY 2018 general fund revenue; total = \$2,405.4 million.



Individual Income Tax: Above HJ 2 Primarily Due to Strong April Collections

Individual income tax collections through the end of May are \$107.1 million or 8.4% above the year-to-date collections in FY 2018, and above the 4.7% growth anticipated in HJ 2. Total growth was driven by withholding tax collections' growth of 6.4% over last year and a record level of current year payments made with April tax returns.

Individual Income Tax (\$ Millions)					
	YTD 2019	YTD 2018	\$ Difference	% Difference	
Withholding	\$943.9	\$887.4	\$56.4	6.4%	
Estimated Payments	246.7	265.4	(18.7)	-7.0%	
Current Year Payments	226.2	182.3	43.9	24.1%	
Audit, P&I, Amended	39.4	36.1	3.3	9.3%	
Refunds	(275.9)	(284.1)	8.2	-2.9%	
Refund Accrual Reversal	161.9	153.2	8.7	5.7%	
Partnership Income Tax	39.2	33.7	5.5	16.3%	
Mineral Royalties	7.6	7.9	(0.3)	-3.7%	
Total	\$1,389.1	\$1,282.0	\$107.1	8.4%	

Property Tax: YTD Increase Due to Protested and Non-Levy Revenue

Property tax collections are above last year by \$11.3 million or 6.8%, and above the increase of 2.5% anticipated in HJ 2. There has been only one of two large property tax payments made, but protested taxes and non-levy revenue appear to be bolstering collections compared to HJ 2. There may be some upside risk, but property tax is still expected to come in close to estimate.

Corporation Income Tax: Above Estimate

Corporation income tax collections through the end of May are 12.6% or \$17.5 million above this time in FY 2018. As the table on the next page shows, corporation tax payments and estimated payments have shown strong growth in FY 2019. From discussions with the Department of Revenue (DOR), some of this growth can be attributed to the repatriation of offshore profits, a provision that was incentivized in the Tax Cuts and Jobs Act (TCJA) of 2017. Audit collections have not been as strong as last year, but the relative decline has been

partially offset by a lower level of refunds. It is expected that the final quarter will see continued growth in corporation tax and estimated payments. Given the continued strong year-to-date growth this late in the fiscal year, final expected to surpass the HJ 2 estimate.

Corporation Income Tax (\$ Millions)				
Account	YTD 2019	YTD 2018	\$ Difference	% Difference
Corporation Tax	\$45.8	\$31.6	\$14.2	44.9%
Estimated Payments	108.3	100.7	7.5	7.5%
Refunds	(15.7)	(21.7)	6.1	-28.0%
Refund Accrual Reversal	4.9	3.3	1.6	46.7%
Audit, P&I, Amended	13.1	25.0	(11.9)	-47.6%
Total	\$156.4	\$139.0	\$17.5	12.6%

Vehicle Fees & Taxes: On Track with Estimate

Through the end of May, vehicle taxes and fees are 1.4% or \$1.3 million above collections last year. In HJ 2, this source was expected to grow by 1.8%. As of now, this source appears that it will end up close to HJ 2.

Oil & Natural Gas Production Tax: Above Estimate

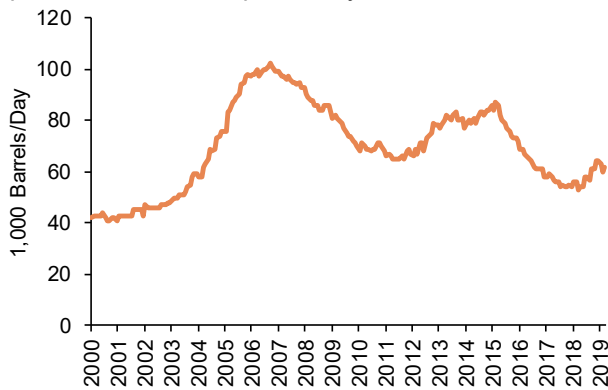
Through May, the first two oil and natural gas payments have been booked in the accounting system and are \$3.3 million or 13.0% above collections last year. Prices in the first quarter of FY 2019 were higher than in the first quarter of FY 2018, but dropped in the second quarter, as illustrated in the following chart. However, the prices in aggregate in the first half of the fiscal year were high enough to produce year-over-year growth.

Montana oil price is below West Texas Intermediate oil price by 12% on average, but the difference increased to 35% in December 2018.

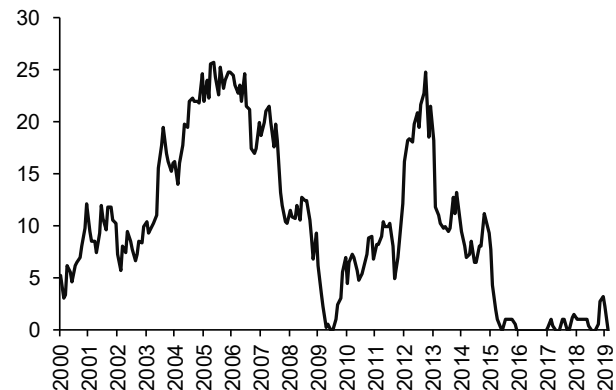


As depicted in the following charts, oil production had been declining since the beginning of 2015, as there was at most two rigs operating in the state since early 2015. However, production has increased since the summer of 2018 as up to four rigs moved into the area for the second half of 2018. The increased activity was likely spurred by increased prices. These prices dropped in the fall of 2018, but have recently begun to rebound.

Despite recent decline, 2019 average daily oil production is above past two years.



The number of oil rigs increased during the second half of 2018, likely in response to higher prices.



Insurance Tax: Slightly Above Estimate

Current insurance tax collections are 1.9% or \$1.2 million above FY 2018 through May. Year-to-date collections are on track to meet HJ 2 estimates for FY 2019 precluding unforeseen circumstances.

Video Gaming Tax: Slightly Above Estimate

Revenue from video gambling is currently \$0.4 million or 0.9% above collections from last year. This source was expected to decrease by 0.3% in HJ 2.

OTHER KEY DIFFERENCES

Lodging Facilities Sales Tax: YTD Growth Due to Strong Winter Season

Lodging facilities sales tax collections are \$2.0 million or 11.4% above collections last year through May, and above the HJ 2 anticipated growth of 4.7%. Detailed data from the Department of Revenue suggests resort areas had a very successful winter season.

TCA Interest Earnings: Strong YTD Growth Driven by Increasing Interest Rates

Treasury cash account interest earnings are \$9.2 million or 113.6% above collections last year, and above the HJ 2 anticipated growth of 97.6%. The increase has been driven by the rise in short-term interest rates.

All Other Revenue: Decline Due to Timing of Transfers in FY 2018

To date, all other revenue collections are 21.8% or \$21.4 million below last year's collections. The decrease is due to legislatively authorized transfers from [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) that were made in the first half of FY 2018. These have been partially offset by transfers from the same legislation that have now occurred in FY 2019.

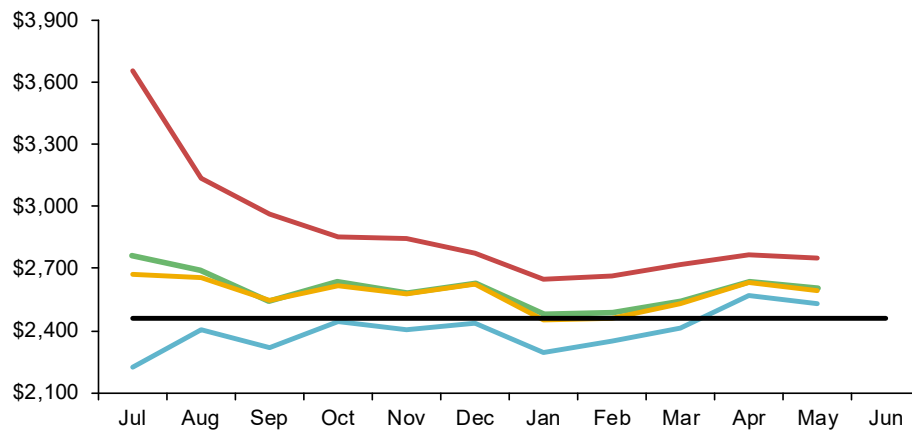
APPENDIX

Based on data through May, two analyses of possible fiscal-year-end revenue collections based year-to-date revenue suggest final revenue collections in the range of \$104 million to \$130 million above HJ 2.

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 2019 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 \$225 million, and median value is \$130 million above the HJ 2 estimate.

Potential FY 2019 general fund revenue ranges from a **low** of \$2,529 million to a **high** of \$2,753 million, with a **median** of \$2,591 million and **average** of \$2,609 million; all are above the **HJ 2** estimate of \$2,461 million.

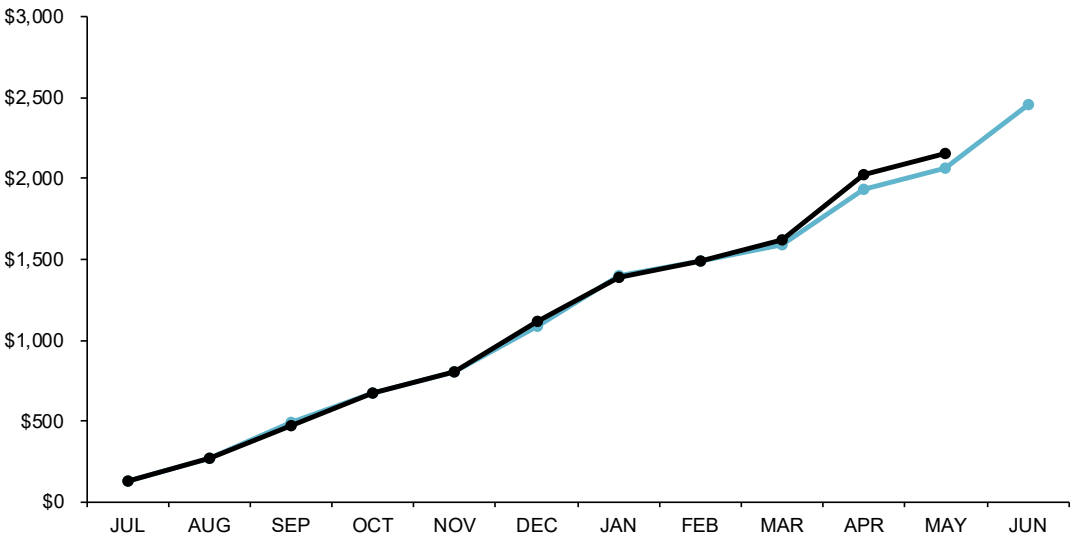


Cash Flow Model

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2018, 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 following chart shows modeled cumulative HJ 2 by month with the blue line, and actual collections with the black line. Through May, the cash concept model suggests general fund revenue is above what would be expected based on the official revenue estimate by \$87.6 million or 4.2%. If revenue continues to be above HJ 2 by 4.2% through FY 2019, final collections could be \$104.2 million more than expected.

FY 2019 cash concept general fund revenue comparison through May indicates **Actual Collections** are above **HJ 2** by \$87.6 Million or 4.2%.



Individual income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, individual income tax through May is \$62.1 million above the HJ 2 estimate.

Individual income tax accounts for nearly three-quarters of the total general fund revenue difference of \$87.6 million relative to HJ 2.

