



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: April 12, 2022

TO: House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2022 General Fund Revenue Update #5

GENERAL FUND REVENUE SUMMARY

This monthly revenue update analyzes revenue collections through the end of March and is designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2022 relative to the revenue estimate contained in HJ 2.

FY 2022 general fund revenues through the end of March are \$332.8 million or 17.0% above FY 2021 revenues through the same period. Revenue growth has remained strong through the third quarter of FY 2022 and has yet to show signs of slowing. Collections in the fourth quarter of FY 2021 were strong, so in the final three months of FY 2022 revenue growth may finally slow, though collections are still expected to finalize above the estimate contained in HJ 2.

High inflation, with the most recent figures at 8.5% (year-over-year), will continue to contribute to increased revenue collections, as revenues are collected in nominal dollars. For instance, as increased prices of goods drive wages higher, these higher wages will result in higher income taxes, likely in the form of withholding taxes. In addition, many taxes such as oil severance taxes and lodging taxes are taxed on their values, so as their values increase, revenues will increase as well.

End of Year Extrapolation

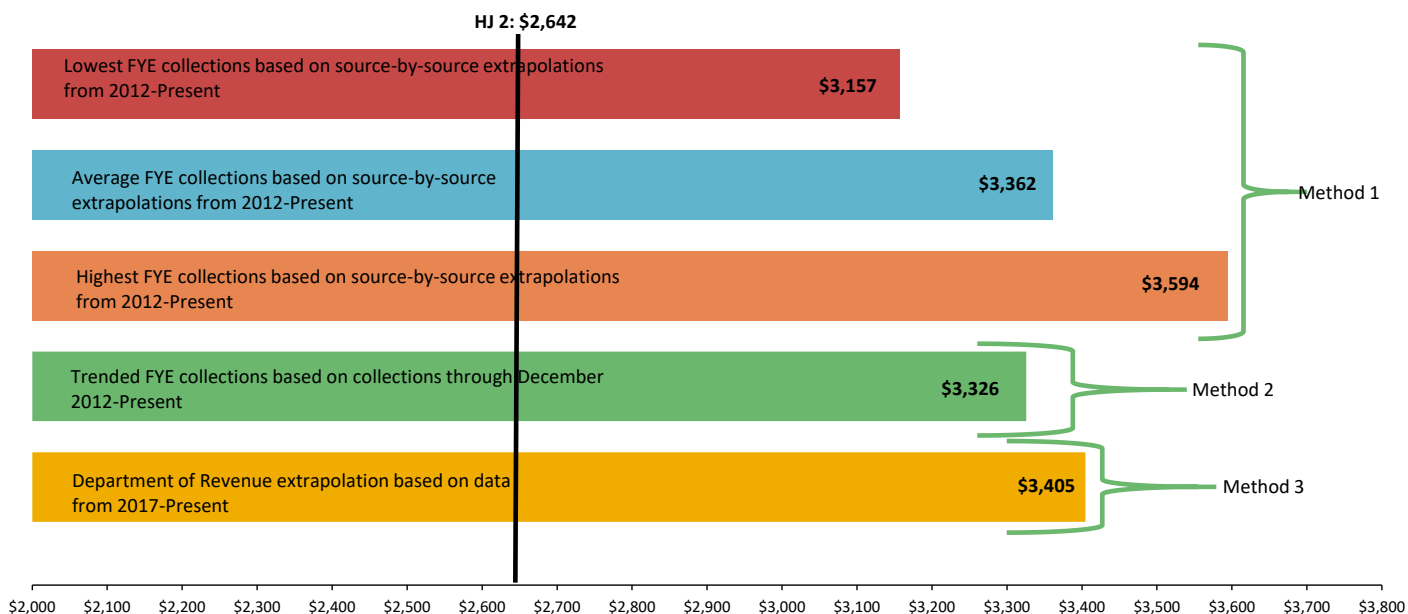
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through March was calculated for the last ten years. Collections through March for each source were then divided by the average collection percentage of the last ten years. Each source's estimate was then added to create a final year-end collection amount. Using this method, fiscal year end revenue is estimated to be \$3,362 million. The lowest and highest growth through March by revenue source was also applied to year-to-date collections to provide an upper (\$3,594 million) and lower (\$3,157 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through March to predict year-end collections using historical trends. Like Method 1, the last ten years of collection patterns were used. This method predicted final collections of \$3,326 million.

Method 3: The Department of Revenue publishes monthly revenue monitoring reports and provides an extrapolation for final collections. The report uses the last five years of collection data. This method produces a year-end estimate of \$3,405 million.

All methods described above produce estimates greater than the HJ 2 estimate of \$2,642 million. The estimates range from \$515 million above HJ 2 to \$952 million above HJ 2. Methods 1 (\$3,362 million), Method 2 (\$3,226), and Method 3 (\$3,405 million) yield similar estimates using differing methodologies. The average of these three methods estimates final collections of \$3,364 million, which is \$722 million above HJ 2, and growth of 13.5% from FY 2021 revenue collections.

FY 2022 Year-End Revenue Extrapolations Based on Data Through March (\$ Millions)



YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2021	HJ 2 FY 2022	HJ 2 Est. % Change	March FY 2021	March FY 2022	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,765.418	\$1,539.141	-12.8%	\$1,290.840	\$1,562.062	\$271.221	21.0%	
Property Tax	310.682	331.451	6.7%	180.792	206.159	25.366	14.0%	
Corporate Income Tax	266.506	161.443	-39.4%	137.885	169.685	31.801	23.1%	
Vehicle Taxes & Fees	117.791	110.949	-5.8%	76.584	81.436	4.852	6.3%	
Oil & Natural Gas Taxes	39.540	43.973	11.2%	7.272	14.939	7.667	105.4%	
Insurance Tax	87.297	92.000	5.4%	53.789	34.058	(19.731)	-36.7%	
Video Gaming Tax	74.917	63.336	-15.5%	34.277	39.186	4.909	14.3%	
Other Business Taxes								
Drivers License Fee	4.698	4.446	-5.4%	3.043	4.240	1.197	39.4%	
Investment Licenses	17.020	16.361	-3.9%	15.770	17.237	1.467	9.3%	
Lodging Facilities Sales Tax	25.874	28.337	9.5%	14.306	22.409	8.103	56.6%	
Public Contractor's Tax	3.897	5.083	30.4%	3.871	1.650	(2.221)	-57.4%	
Railroad Car Tax	5.187	4.391	-15.3%	3.720	3.398	(0.322)	-8.6%	
Rental Car Sales Tax	3.916	4.681	19.6%	2.193	3.770	1.577	71.9%	
Retail Telecom Excise Tax	8.814	10.168	15.4%	4.751	4.376	(0.375)	-7.9%	
Other Natural Resource Taxes								
Coal Severance Tax	10.084	8.697	-13.8%	4.467	7.664	3.197	71.6%	
Electrical Energy Tax	3.298	3.759	14.0%	1.547	1.925	0.378	24.4%	
Metal Mines Tax	12.136	8.038	-33.8%	0.001	0.002	0.000	14.7%	
U.S. Mineral Leasing	12.082	16.196	34.1%	7.350	11.066	3.716	50.6%	
Wholesale Energy Trans Tax	2.981	3.460	16.1%	1.427	1.645	0.219	15.3%	
Other Interest Earnings								
Coal Trust Interest Earnings	15.967	16.813	5.3%	10.195	9.844	(0.351)	-3.4%	
TCA Interest Earnings	3.410	1.002	-70.6%	2.598	2.658	0.059	2.3%	
Other Consumption Taxes								
Marijuana Tax	-	6.286						
Beer Tax	3.315	3.133	-5.5%	2.155	2.118	(0.037)	-1.7%	
Cigarette Tax	27.887	26.542	-4.8%	20.711	17.670	(3.041)	-14.7%	
Liquor Excise Tax	27.823	26.486	-4.8%	18.170	19.391	1.222	6.7%	
Liquor Profits	13.256	15.800	19.2%	-	-	-		
Lottery Profits	12.300	13.180	7.2%	6.061	6.779	0.717	11.8%	
Tobacco Tax	5.611	5.617	0.1%	3.796	3.747	(0.049)	-1.3%	
Wine Tax	2.679	2.634	-1.7%	1.807	1.752	(0.056)	-3.1%	
Other Sources								
All Other Revenue	45.607	46.151	1.2%	24.833	27.216	2.384	9.6%	
Highway Patrol Fines	3.517	3.640	3.5%	2.168	2.188	0.020	0.9%	
Nursing Facilities Fee	3.400	3.896	14.6%	1.811	1.711	(0.100)	-5.5%	
Public Institution Reimbursements	13.739	12.382	-9.9%	8.782	7.663	(1.119)	-12.7%	
Tobacco Settlement	13.196	3.028	-77.1%	9.860	-	(9.860)	-100.0%	
Ongoing Revenue Subtotal	2,954.004	2,642.499	-10.5%	1,946.991	2,289.643	342.652	17.6%	
OTO Revenue & Transfers Subtotal	9.843	-		9.843	-	(9.843)	-100.0%	
Grand Total	\$2,963.847	\$2,642.499	-10.8%	\$1,956.834	\$2,289.643	\$332.809	17.0%	

MAJOR SOURCES

Individual Income Tax: Above Estimate

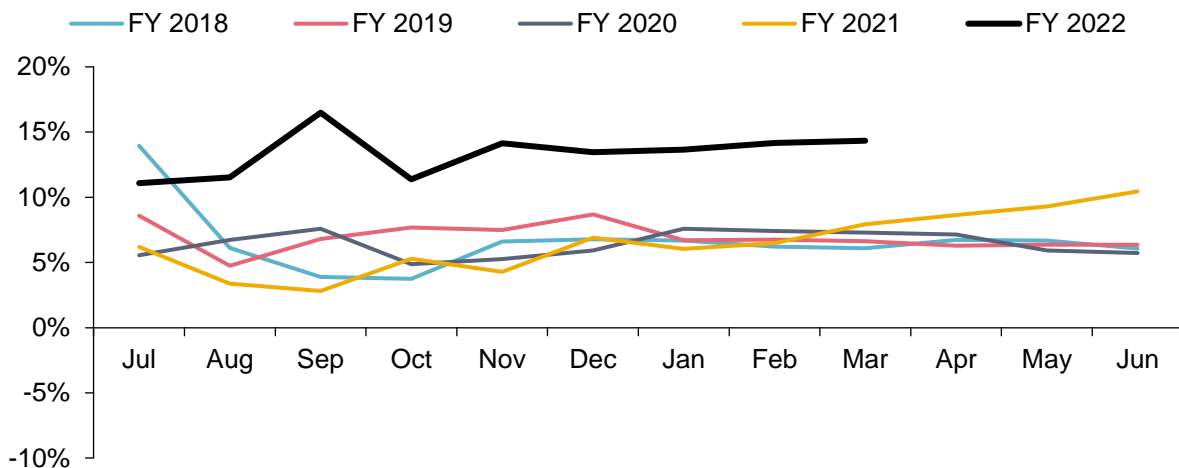
Individual income tax collections through the end of March are \$271.2 million or 21.0% above the year-to-date collections in FY 2021 and is currently above the level anticipated in HJ 2. Withholding growth continues to remain strong at 14.3% and is up slightly from last month's figure of 14.2%.

Individual Income Tax (\$ Millions)

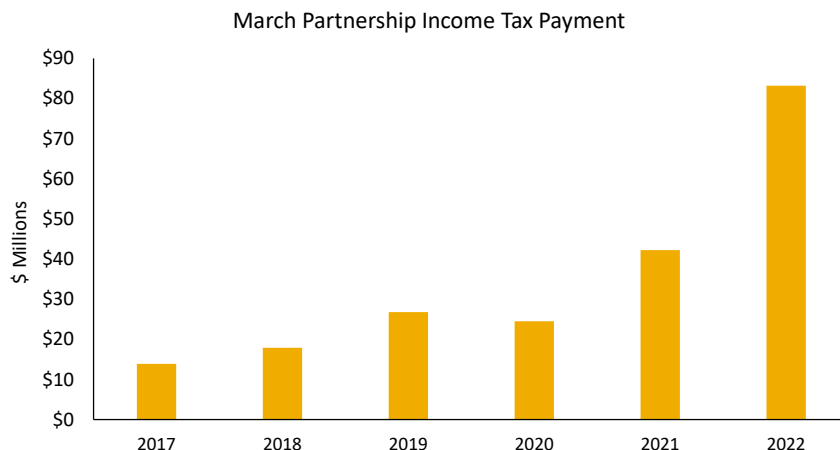
Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Withholding	\$1,020.5	\$892.6	\$127.9	14.3%
Estimated Payments	309.4	286.9	22.5	7.8%
Current Year Payments	75.1	57.3	17.8	31.0%
Audit, P&I, Amended	43.1	36.3	6.8	18.8%
Refunds	3.9	(48.2)	52.1	-108.1%
Partnership Income Tax	102.9	61.8	41.1	66.5%
Mineral Royalties	7.2	4.2	3.0	72.2%
Total	1,562.1	1,290.8	271.2	21.0%

Withholding typically accounts for two-thirds of individual income tax and about one-third of total general fund revenue, though it has been an even larger share in recent years. In FY 2021, withholding revenue accounted for 42% of total general fund revenues. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February. However, in FY 2021, withholding growth did not stabilize in the second half of the fiscal year, but instead grew considerably. Due to withholding's strong growth in the second half of FY 2021, it is likely that growth this year may slow, but still be positive.

Cumulative year-over-year withholding growth continues to be strong



In addition to withholding, estimated payments year-over-year growth has also been strong, at 7.8%. After accounting for the additional estimated payment in FY 2021 that was a result of an extension of when taxes were due, a more accurate comparison of estimated payment growth is 28%. Finally, the largest partnership income tax payment was posted in March, as is usually the case. This year's payment was especially strong, totaling \$83.2 million. This is far greater than previous years' March payments as the chart below shows, and has likely been driven by larger volumes of business and higher profits.



Property Tax: Above Estimate

Property tax collections have grown 14.0% or \$25.4 million compared to collections through the same period last year. In HJ 2 this source was expected to grow by 6.7%. The first of two large property tax payments was made in November, and the second large payment will be made in May. Based upon mills and taxable values it is anticipated that final collections for FY 2022 will be closer to 8.7% above FY 2021 levels after May payments are booked, as it is possible that individuals overpaid on their November payments. The LFD will continue to monitor and evaluate this revenue source to better understand if growth in new properties, non-levy revenue, or other factors may be influencing these values.

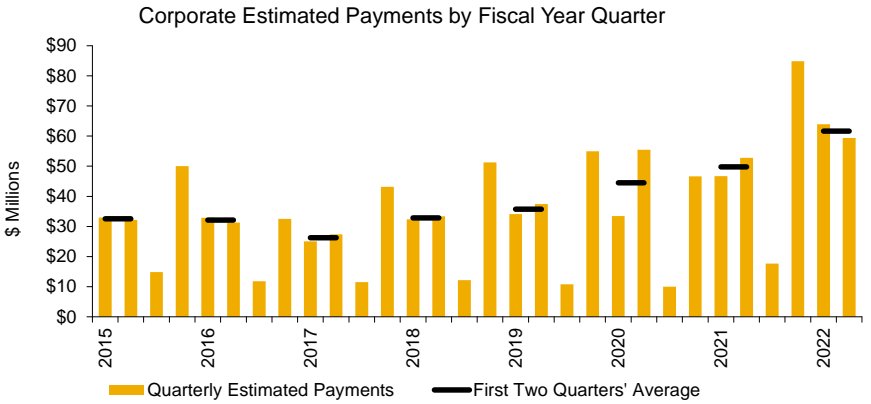
Corporate Income Tax: Above Estimate

Corporate income tax collections through the end of March are 23.1% or \$31.8 million above this time in FY 2021. This is far above the HJ 2 estimate. Like individual income tax, this source experienced very strong growth in the final quarter of FY 2021, and as a result growth may slow throughout the remainder of the fiscal year, but collections will likely be above the HJ 2 estimate.

Corporate Income Tax (\$ Millions)

Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Corporation Tax	\$26.4	\$29.3	(\$2.8)	-9.6%
Estimated Payments	\$140.3	\$117.2	23.1	19.7%
Refunds	(10.0)	(14.7)	4.7	-31.8%
Audit, P&I, Amended	13.0	6.1	6.9	111.9%
Total	\$169.7	\$137.9	\$31.8	23.1%

The adjacent chart shows that estimated payments in the first two quarters of FY 2022 are the highest they have ever been. Estimated payments typically make up 80% of total corporate income tax collections, so they're the ultimate driver of where final collections end up. The third large, estimated payment is posted to the accounting system in April and the fourth in June.

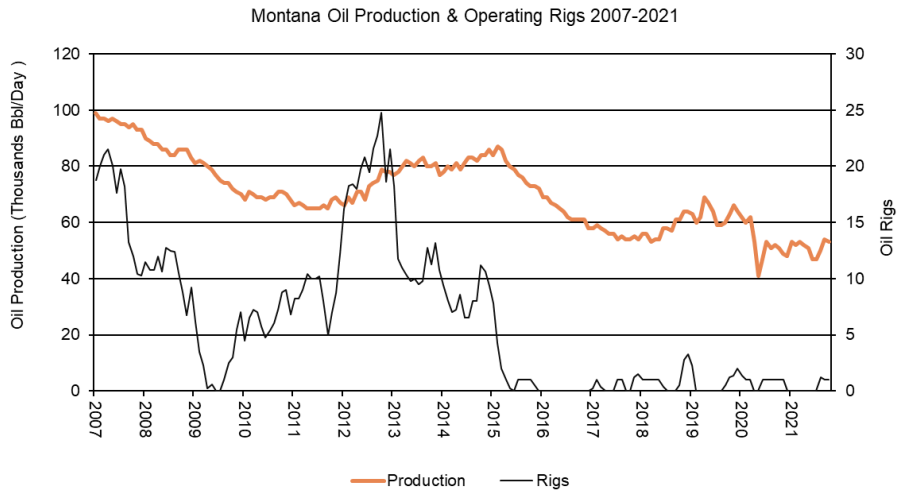


Vehicle Fees & Taxes: Above Estimate

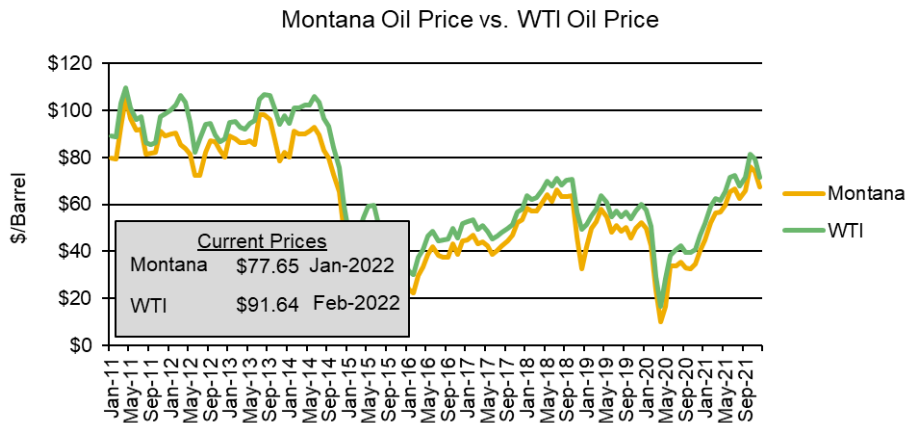
Through March, vehicle taxes & fees are up 6.3% or \$4.9 million from FY 2021 collections. FY 2021 collections surpassed the FY 2022 HJ 2 estimate and as a result, collections would need to decrease by 5.8% to reach HJ 2. Most of this growth is in light vehicle permanent registrations, recreation and small trailer registrations, and large vehicle registrations. The continued growth in this source is likely a result of new residents registering their vehicles in the state.

Oil & Natural Gas Production Tax: Above Estimate

The first payment for Oil and natural gas collections was recorded in January. So far \$14.9 million has been received. This is a 105% increase since this time last year. The main driver of this change is a large increase in oil prices with Montana oil seeing about a \$40 increase per barrel. If strong prices continue, it is expected that collections will end up higher than what was anticipated in HJ 2.



As the chart to the upper-right indicates, there was a significant decline in production in early 2020 which was the result of a sharp decline in prices due to the economic impacts of the Covid-19 pandemic (shown in the lower-right portion of the chart). Prices and production bounced back through the latter half of CY 2020. This trend has mostly continued, and while production has not yet returned to pre-2020 levels, it has remained fairly stable.



Insurance Tax: Below Estimate due to Timing

Current insurance tax collections are 36.7% or \$19.7 million below FY 2021 through March. This is a result of a large payment that usually occurs in March that has not yet been posted in the accounting system. This discrepancy should be eliminated by next month's report and it is expected that this source will ultimately end up near the HJ 2 estimate.

Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$4.9 million or 14.3% above collections from this time last year. Last year's growth was far greater than both last year's and this year's HJ 2 estimates, and as a result, final collections for FY 2022 will likely end up far above the estimate in HJ 2.

OTHER KEY DIFFERENCES:

Investment Licenses: Above Estimate

Through March, investment license collections are up 9.3% from this time last year. Total collections are \$17.2 million which is about \$1.4 million higher than last year, and about \$1 million more than estimated in HJ 2. Any more collections this FY are not expected.

Coal Severance Tax: Above Estimate

Year-to-date coal severance tax collections are currently \$3.2 million, or 71.6% above collections from last year. This large year-over-year increase is a result increased price and production. Production in the current fiscal year is 12% higher than last year through the same period. Furthermore, prices for Powder River Basin coal in FY 2022 have been at least twice as high as they were in FY 2021 for much of the year.

U.S. Mineral Leasing: Above Estimate

U.S. mineral leasing collections through March are about \$11 million, or 50.6% above last year. This source is driven primarily by coal and oil value/production on federal lands within the state of Montana. Increased prices for both coal and oil compared to last year have contributed to the increased collections this year.

Rental Car Sales Tax: Above Estimate

Rental car sales tax collections are \$3.7 million, or 71.9% larger than last year. This is likely driven by both increased tourism in the state as well as increased rental car rates. If this trend continues, this source will end above the estimate contained in HJ 2 of about \$4.6 million.

Lodging Facilities Sales Tax: Above Estimate

Lodging facilities sales tax collections are \$22.4 million or 56.6% above collections at this from point last year. If this pattern holds, then the source will end above the estimate. Like rental cars, this increase is primarily driven by increased lodging rates.

Public Contractor's Tax: Below Estimate

The public contractor's tax is a 1% license fee paid on gross receipts of public contracts by contractors. Collections are currently \$2.2 million or 57.4% below last year's collections. This difference is not unexpected, as this source is usually quite volatile on a year-to-year basis.

Cigarette Tax: Below Estimate

Cigarette taxes are currently \$3.0 million or \$14.7% below collections from last year at this time. This source has been decreasing for years and the trend appears to be continuing, and faster than expected in the current fiscal year. In HJ 2 it was expected that this source would decrease by only 4.8%.