



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: January 20, 2022
TO: Revenue Interim Committee
FROM: LFD Revenue Team
RE: FY 2022 January General Fund Revenue Update

GENERAL FUND REVENUE SUMMARY

This monthly revenue update analyzes revenue collections through the end of December 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 December are \$148.4 million or 10.8% above FY 2021 revenues through the same period. Ongoing revenue growth, which excludes one-time-only revenues is currently 11.6% above the FY 2021 values through the same time period. While revenue growth has been strong thus far, it is possible that it may slow throughout the remainder of the fiscal year because revenues in the second half of FY 2021 were extremely strong.

Revenue growth at the end of November was 15.0% but slowed to 10.8% at the end of December. Revenue growth is still expected to occur in FY 2022. Multiple methods of forecasting final revenues suggest that final collections will end up far above the estimate contained in HJ 2, as seen in the following section.

While FY 2021 was \$402 million above HJ 2 and FY 2022 appears to be well above HJ 2 as well, a material amount of these funds could be temporary as the federal stimulus payments move through the economy. The LFD will publish an updated forecast in June of 2022. Furthermore, in March, the LFD will publish a study analyzing the impacts on revenues of new residents.

High inflation will also 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. In addition, certain 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

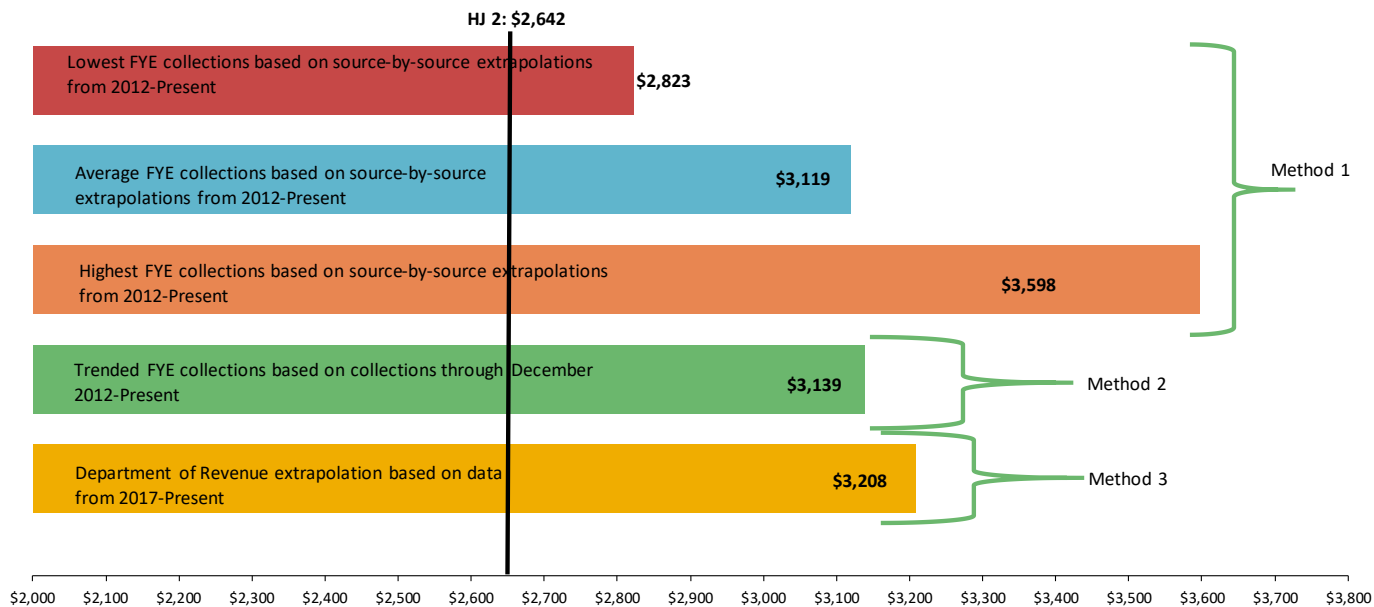
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through December was calculated for the last ten years. Collections through December for each source were then divided by the average collection percentage of the last ten years. Each source's estimate was then added to create a final year-end collection amount. Using this method, fiscal year end revenue is estimated to be \$3,119 million. The lowest and highest growth through December by revenue source was also applied to year-to-date collections to provide an upper (\$3,598 million) and lower (\$2,823 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through December 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 \$3,139 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 \$3,208 million.

All methods described above produce estimates greater than the HJ 2 estimate of \$2,642 million. The estimates range from \$181 million above HJ 2 to \$956 million above HJ 2. Method 1 (\$3,119 million) and Method 2 (\$3,139 million) yield similar estimates using differing methodologies. The midpoint of these two methods estimates final collections of \$3,129 million, which is \$487 million above HJ 2, and growth of 5.6% from FY 2021 revenue collections.

FY 2022 Year-End Revenue Extrapolations Based on Data Through December (\$ 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	Dec FY 2021	Dec FY 2022	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,765.418	\$1,539.141	-12.8%	\$897.160	\$1,011.325	\$114.165	12.7%	
Property Tax	310.682	331.451	6.7%	137.115	143.686	6.572	4.8%	
Corporate Income Tax	266.506	161.443	-39.4%	116.864	150.785	33.921	29.0%	
Vehicle Taxes & Fees	117.791	110.949	-5.8%	48.888	52.423	3.535	7.2%	
Oil & Natural Gas Taxes	39.540	43.973	11.2%	-	-	-	-	
Insurance Tax	87.297	92.000	5.4%	32.765	34.015	1.250	3.8%	
Video Gaming Tax	74.917	63.336	-15.5%	18.115	20.024	1.909	10.5%	
Other Business Taxes								
Drivers License Fee	4.698	4.446	-5.4%	2.002	2.709	0.707	35.3%	
Investment Licenses	17.020	16.361	-3.9%	1.623	2.466	0.843	52.0%	
Lodging Facilities Sales Tax	25.874	28.337	9.5%	9.983	16.229	6.246	62.6%	
Public Contractor's Tax	3.897	5.083	30.4%	4.186	1.643	(2.543)	-60.8%	
Railroad Car Tax	5.187	4.391	-15.3%	3.711	3.171	(0.540)	-14.5%	
Rental Car Sales Tax	3.916	4.681	19.6%	1.471	2.795	1.324	90.0%	
Retail Telecom Excise Tax	8.814	10.168	15.4%	2.616	2.231	(0.385)	-14.7%	
Other Natural Resource Taxes								
Coal Severance Tax	10.084	8.697	-13.8%	2.147	3.745	1.597	74.4%	
Electrical Energy Tax	3.298	3.759	14.0%	0.770	0.906	0.136	17.7%	
Metal Mines Tax	12.136	8.038	-33.8%	0.000	-	(0.000)	-100.0%	
U.S. Mineral Leasing	12.082	16.196	34.1%	4.296	4.206	(0.090)	-2.1%	
Wholesale Energy Trans Tax	2.981	3.460	16.1%	0.717	0.791	0.074	10.3%	
Other Interest Earnings								
Coal Trust Interest Earnings	15.967	16.813	5.3%	6.416	6.106	(0.310)	-4.8%	
TCA Interest Earnings	3.410	1.002	-70.6%	1.864	1.354	(0.510)	-27.4%	
Other Consumption Taxes								
Marijuana Tax	-	6.286	-	-	-	-	-	
Beer Tax	3.315	3.133	-5.5%	1.450	1.450	0.000	0.0%	
Cigarette Tax	27.887	26.542	-4.8%	15.130	12.171	(2.959)	-19.6%	
Liquor Excise Tax	27.823	26.486	-4.8%	11.707	12.306	0.599	5.1%	
Liquor Profits	13.256	15.800	19.2%	-	-	-	-	
Lottery Profits	12.300	13.180	7.2%	2.647	2.484	(0.163)	-6.2%	
Tobacco Tax	5.611	5.617	0.1%	2.543	2.525	(0.018)	-0.7%	
Wine Tax	2.679	2.634	-1.7%	1.182	1.150	(0.032)	-2.7%	
Other Sources								
All Other Revenue	45.607	46.151	1.2%	27.558	21.850	(5.708)	-20.7%	
Highway Patrol Fines	3.517	3.640	3.5%	1.293	1.376	0.082	6.4%	
Nursing Facilities Fee	3.400	3.896	14.6%	0.962	0.862	(0.100)	-10.4%	
Public Institution Reimbursements	13.739	12.382	-9.9%	5.099	3.729	(1.370)	-26.9%	
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%	1,362.301	1,520.516	158.214	11.6%	
OTO Revenue & Transfers Subtotal	9.843	-	-	9.843	-	(9.843)	-100.0%	
Grand Total	\$2,963.847	\$2,642.499	-10.8%	\$1,372.144	\$1,520.516	\$148.372	10.8%	

MAJOR SOURCES

Individual Income Tax: Above Estimate

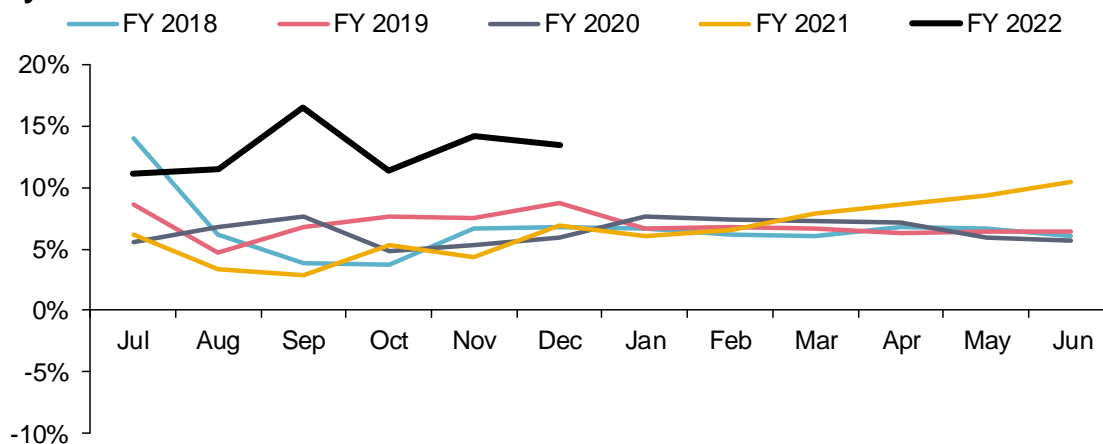
Individual income tax collections through the end of December are \$114.2 million or 12.7% above the year-to-date collections in FY 2021 and is currently above the level anticipated in HJ 2. Withholding growth continues to remain strong at 13.5% and is down slightly from last month's figure of 14.1%.

Individual Income Tax (\$ Millions)

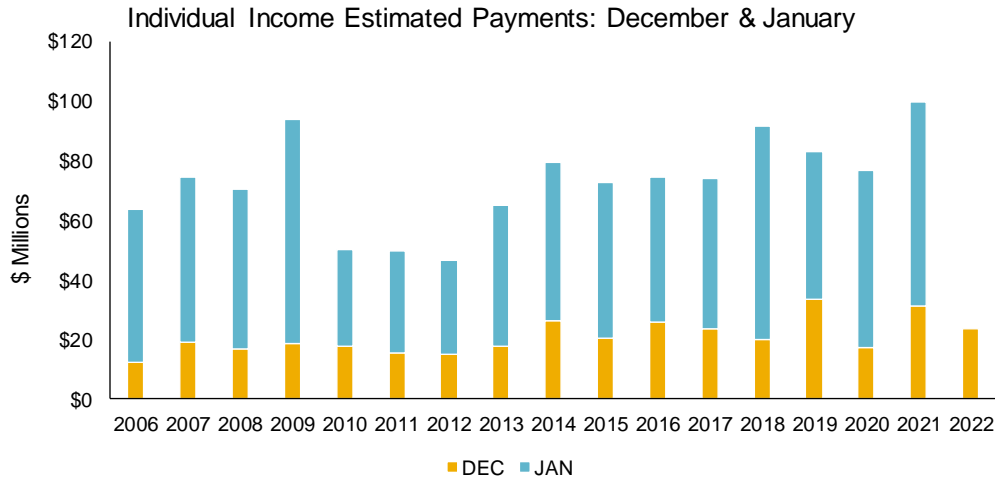
Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Withholding	\$635.3	\$560.0	\$75.4	13.5%
Estimated Payments	192.9	204.3	(11.4)	-5.6%
Current Year Payments	30.1	29.2	0.9	3.1%
Audit, P&I, Amended	25.2	21.9	3.3	15.3%
Refunds	110.7	64.4	46.3	72.0%
Partnership Income Tax	13.8	15.6	(1.8)	-11.8%
Mineral Royalties	3.3	1.9	1.5	77.8%
Total	1,011.3	897.2	114.2	12.7%

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 continue to slow, but still be positive.

Cumulative year-over-year withholding growth is strong this early in the year

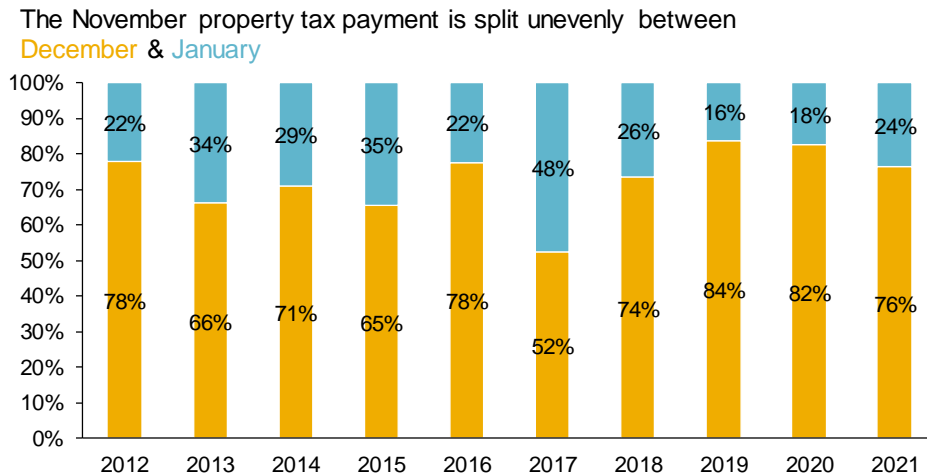


The timing of estimated payments can fluctuate between December and January, so next month's report should help clarify some expectations for FY 2022. Nonetheless, after accounting for the additional estimated payment in FY 2021 that was a result of an extension of when taxes were due, estimated payment growth is extremely strong thus far, approximately 25%.



Property Tax: Near Estimate

Property tax collections have grown 4.8% or \$6.6 million compared to collections through the same period last year. In HJ 2 this source was expected to grow by 6.7%. There is a timing issue that occurs from the November payment being booked partially in December and partially in January. This uneven split of the November payment being booked in either December or January in past years is shown in the following chart. Property tax is still anticipated to come in close to the estimate in HJ 2, as it is a source that can be estimated with far more certainty than other sources.



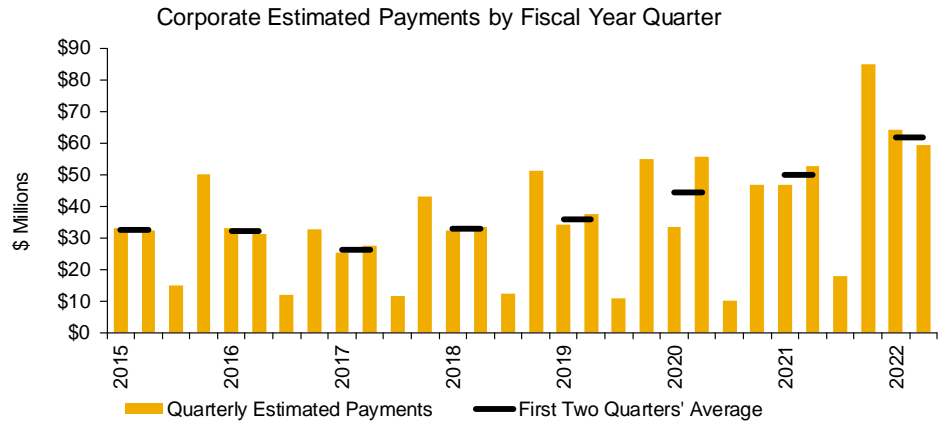
Corporate Income Tax: Above Estimate

Corporate income tax collections through the end of December are 29.0% or \$33.9 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 second half of FY 2021, and as a result growth may slow throughout the remainder of the fiscal year, but collections will likely be far above the HJ 2 estimate.

Corporate Income Tax (\$ Millions)

Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Corporation Tax	\$17.8	\$16.7	\$1.0	6.2%
Estimated Payments	\$123.3	\$99.5	23.8	24.0%
Refunds	(1.4)	(3.2)	1.8	-56.5%
Audit, P&I, Amended	11.1	3.9	7.2	187.5%
Total	\$150.8	\$116.9	\$33.9	29.0%

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.

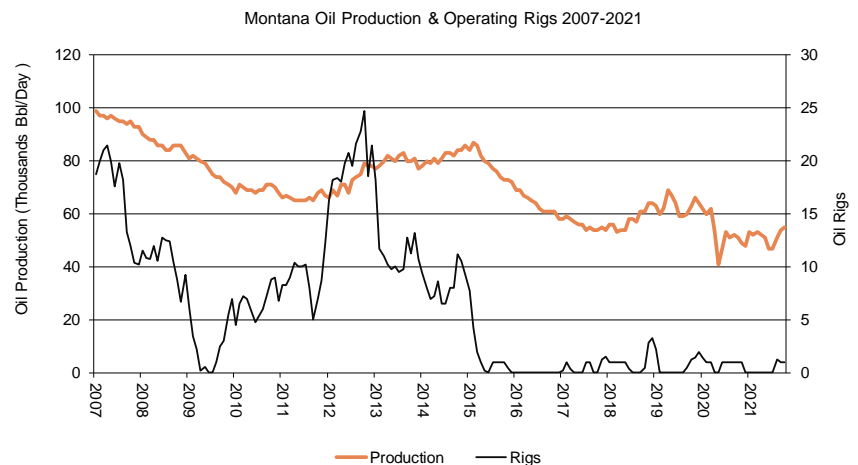


Vehicle Fees & Taxes: Above Estimate

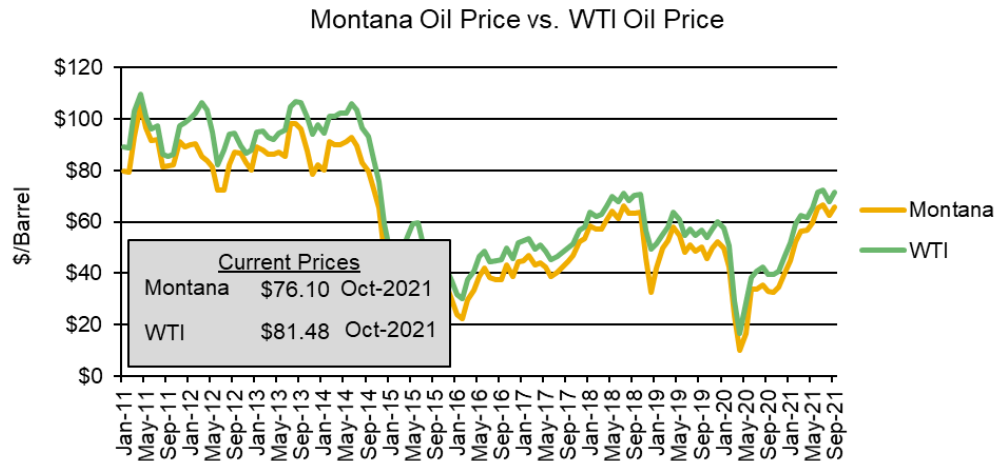
As of December, vehicle taxes & fees are up 7.2% or \$3.5 million from FY 2021 collections. HJ 2 expected this source to decrease by 5.8%. Most of this growth is in light motor vehicle registrations which have seen a \$2.1 million increase since this time last year, an increase of about 6%. Combined, light vehicle permanent registrations, recreation and small trailer registrations, and large vehicle registrations also account for about \$1 million in increased revenue from last year.

Oil & Natural Gas Production Tax: Near Estimate

While oil and natural gas production taxes have been collected since the start of the fiscal, they have not yet been deposited into the general fund. This is expected due to the statutory requirement of when taxes are due and the time allowed for the Department of Revenue to determine the distribution of taxes to local governments. Higher prices and relatively stable production indicate that once collections are posted they will be higher than last year.



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, though notably, production has not yet returned to pre-2020 levels.



Insurance Tax: Slightly below HJ 2

Current insurance tax collections are 3.8% or \$1.3 million above FY 2021 through December. This is below the 5.4% growth anticipated in HJ 2. Currently, all growth in the source is due to premium insurance tax revenues, which as of this time have increased 4.0% over the previous fiscal year. Several of the accounts that comprise this source such as the fire marshal tax and the surplus lines premium tax do not receive much revenue before the beginning of the calendar year. Between January and March most of the annual revenue to these accounts will be realized and a clearer picture will emerge.

Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$1.9 million or 10.5% above collections from this time last year. This source experienced growth far beyond the HJ 2 estimate in the last fiscal year and appears poised to continue.

OTHER KEY DIFFERENCES:

Coal Severance Tax: Above Estimate

Year-to-date coal severance tax collections are currently \$1.6 million, or 74.4% above collections from last year. This large year-over-year increase is likely a result of both timing of payments and increased production. Small discrepancies in when taxes are paid and when revenues are posted to the accounting system can cause large swings this early in the fiscal year. However, production in the current fiscal year is nearly 22% higher than last year through the same period.

Lodging Facilities Sales Tax: Above Estimate

While lodging facilities sales tax collections are \$16.2 million or 62.6% above collections at this point last year, due to the weak collections in the first half of FY 2021 the comparison has little meaning. Current year collections are 57% of the HJ anticipated \$28.3 million collections for the year. Typically, at this point in the fiscal year 44% of the final year collections have been received. If the typical pattern holds, then the source will end above the estimate.

Cigarette Tax: Below Estimate

Year-to-date cigarette tax collections came in \$3.0 million or 19.6% lower than this time last year and is below the estimate contained in HJ 2. Tobacco usage increased early on in the pandemic and has since declined. However, collections timing may be an issue as the current decline in collections is material.