



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: June 15, 2021

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

FROM: LFD Revenue Team

RE: FY 2021 General Fund Revenue Update #5

GENERAL FUND REVENUE SUMMARY

This is the fifth of six monthly revenue updates throughout the second half of FY 2021 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2021 relative to the revenue estimate contained in HJ 2.

Using year-over-year growth as a metric for comparisons is not useful right now, due to the discrepancy in tax due dates. Tax Day this year was extended to May 17, while last year taxes were not due until July 15th. As a result, a significant amount of revenue was collected in June and July of CY 2020, whereas that will not be expected to occur this year.

However, revenues are still expected to finalize above the estimate adopted in HJ 2, and perhaps by a large margin. While it will take time to understand why this happened, the sheer magnitude of federal stimulus was likely the main contributing factor. Multiple methods for estimating final collections are described below, providing a range of expected final collections.

End of Year Extrapolation

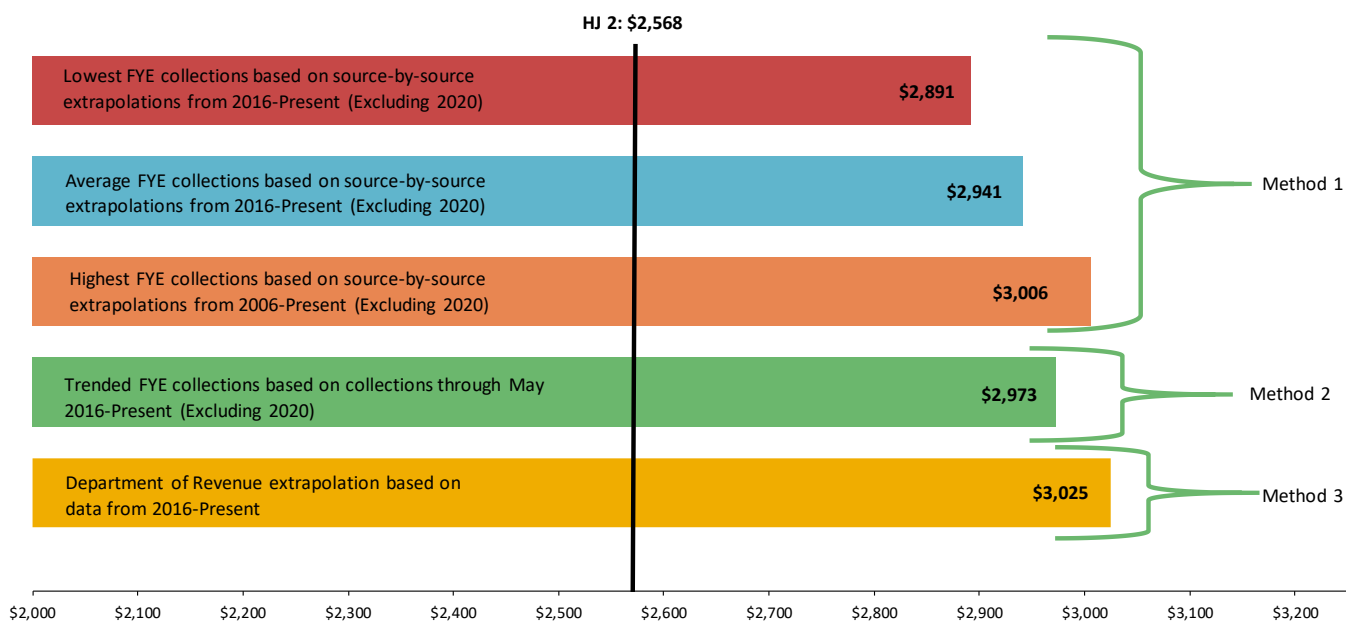
Method 1: To estimate fiscal year end general fund revenue, average growth in June by revenue source from FY's 2016-2019 was found (FY 2020 was removed due to Tax Day extensions). The average revenue growth in June was then multiplied by the current YTD balance for each respective revenue source to get final estimates for fiscal year end general fund revenue. By this method, fiscal year end revenue is estimated to be \$2,941 million. The lowest and highest growth in June by revenue source was also applied to collections through May to provide an upper (\$3,006 million) and lower (\$2,891 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through May to predict year-end collections using historical trends. Like Method 1, FY's 2016-2019 were used. This method predicted final collections of \$2,973 million.

Method 3: The Department of Revenue publishes monthly monitoring reports and provides an extrapolation for final collections. The report uses the last five years of collection data, including FY 2020, when significant revenue was booked in June due to the extension of Tax Day. This method produces a year-end estimate of \$3,025 million.

All methods described above produce estimates far greater than the HJ 2 estimate of \$2,562 million. The estimates range from \$324 million above HJ 2 to \$457 million above HJ 2.

FY 2021 Year-End Revenue Extrapolations Based on Data Through May (\$ Millions)



YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2020	HJ 2 FY 2021	HJ 2 Est. % Change	May FY 2020	May FY 2021	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,435.240	\$1,505.449	4.9%	\$1,302.381	\$1,723.098	\$420.717	32.3%	
Property Tax	308.610	313.430	1.6%	181.496	190.669	9.173	5.1%	
Corporate Income Tax	187.358	149.420	-20.2%	160.269	221.247	60.978	38.0%	
Vehicle Taxes & Fees	108.482	109.320	0.8%	89.525	96.995	7.470	8.3%	
Oil & Natural Gas Taxes	38.380	40.367	5.2%	23.700	15.113	(8.588)	-36.2%	
Insurance Tax	82.489	88.450	7.2%	67.171	70.048	2.877	4.3%	
Video Gaming Tax	57.447	60.320	5.0%	45.707	54.008	8.301	18.2%	
Other Business Taxes								
Drivers License Fee	4.410	4.041	-8.4%	3.746	3.866	0.120	3.2%	
Investment Licenses	15.711	16.385	4.3%	15.349	16.461	1.112	7.2%	
Lodging Facilities Sales Tax	25.058	21.494	-14.2%	19.758	19.845	0.086	0.4%	
Public Contractor's Tax	6.729	4.985	-25.9%	4.723	2.348	(2.375)	-50.3%	
Railroad Car Tax	4.294	4.305	0.3%	3.605	4.392	0.787	21.8%	
Rental Car Sales Tax	4.224	3.571	-15.5%	3.451	3.056	(0.395)	-11.4%	
Retail Telecom Excise Tax	11.788	11.004	-6.7%	8.892	6.719	(2.173)	-24.4%	
Other Natural Resource Taxes								
Coal Severance Tax	10.920	9.553	-12.5%	8.540	8.057	(0.484)	-5.7%	
Electrical Energy Tax	3.910	3.987	2.0%	3.237	2.514	(0.724)	-22.4%	
Metal Mines Tax	8.724	9.922	13.7%	4.615	5.925	1.311	28.4%	
U.S. Mineral Leasing	18.527	17.619	-4.9%	14.505	10.047	(4.459)	-30.7%	
Wholesale Energy Trans Tax	3.351	3.467	3.4%	2.659	2.275	(0.385)	-14.5%	
Other Interest Earnings								
Coal Trust Interest Earnings	21.600	17.896	-17.2%	18.649	12.800	(5.849)	-31.4%	
TCA Interest Earnings	18.597	2.392	-87.1%	17.395	2.991	(14.405)	-82.8%	
Other Consumption Taxes								
Beer Tax	3.167	3.119	-1.5%	2.540	2.678	0.138	5.4%	
Cigarette Tax	26.983	27.080	0.4%	23.585	23.572	(0.013)	-0.1%	
Liquor Excise Tax	23.786	24.960	4.9%	19.172	22.665	3.492	18.2%	
Liquor Profits	18.080	15.800	-12.6%	-	-	-	-	
Lottery Profits	8.073	13.224	63.8%	4.658	6.061	1.403	30.1%	
Tobacco Tax	5.754	5.646	-1.9%	4.851	4.660	(0.191)	-3.9%	
Wine Tax	2.522	2.577	2.2%	2.081	2.226	0.145	7.0%	
Other Sources								
All Other Revenue	46.062	45.100	-2.1%	31.074	28.241	(2.833)	-9.1%	
Highway Patrol Fines	3.458	3.691	6.7%	2.828	2.838	0.010	0.3%	
Nursing Facilities Fee	4.188	3.992	-4.7%	3.105	2.575	(0.530)	-17.1%	
Public Institution Reimbursements	12.745	12.555	-1.5%	10.520	9.723	(0.797)	-7.6%	
Tobacco Settlement	2.654	12.517	371.6%	2.654	13.196	10.542	397.2%	
Ongoing Revenue Subtotal	2,529.221	2,557.797	1.1%	2,102.344	2,581.063	478.719	22.8%	
OTO Revenue & Transfers Subtotal	4.100	9.843		4.100	9.843	5.743		
Grand Total	\$2,533.321	\$2,567.639	1.4%	\$2,106.444	\$2,590.906	\$484.462	23.0%	

MAJOR SOURCES

Individual Income Tax: YTD Above Estimate, but Comparisons Difficult due to Tax Day Anomalies

Individual income tax collections through the end of May are \$420.7 million or 32.3% above the year-to-date collections in FY 2020, and currently far above the growth of 4.9% anticipated in HJ 2. Withholding growth continues to increase and is now 9.3% compared to 8.6% at the end of April (a result of business closures throughout the same period last year).

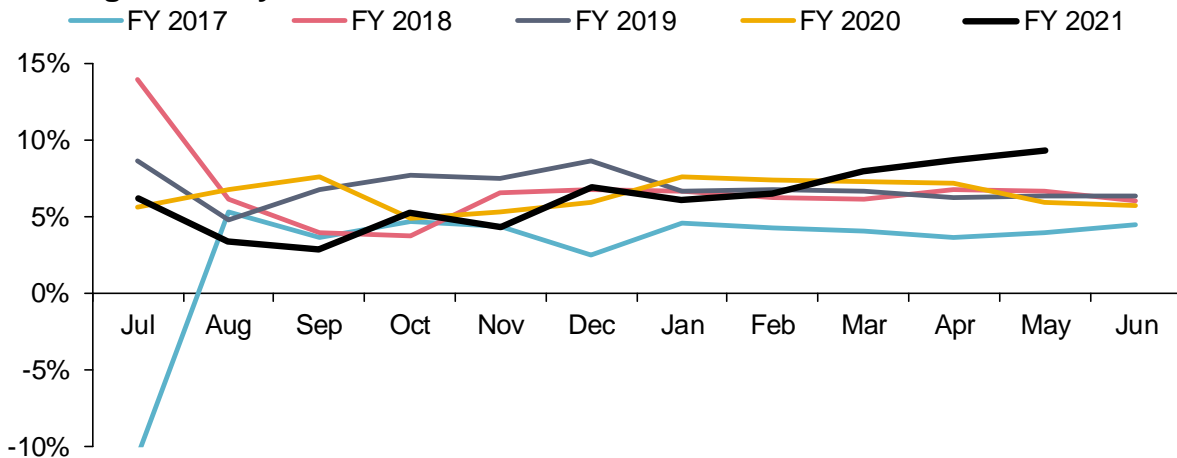
The significant growth in both estimated payments and current year payments is a product of the significant extension to Tax Day in CY 2020. In a typical April, the majority of current year payments are collected as well as one quarter of estimated payments. In CY 2020, these were both extended to July 15th. This year, quarterly estimated payments were made in April, but Tax Day was extended to May 17th. As a result, year-over-year growth rates are not indicative of where one would expect final collections to materialize, as a significant amount of income tax revenue was collected at the close of FY 2020 and into July of FY 2021. That being said, final year-end collections are still expected to come in significantly above HJ 2 at this point.

Individual Income Tax (\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Withholding	\$1,092.8	\$999.8	\$93.0	9.3%
Estimated Payments	368.5	243.1	125.4	51.6%
Current Year Payments	291.2	91.0	200.1	219.8%
Audit, P&I, Amended	47.0	40.9	6.1	14.9%
Refunds	(152.0)	(122.9)	(29.1)	23.7%
Partnership Income Tax	69.5	41.4	28.1	67.9%
Mineral Royalties	6.2	9.1	(2.9)	-31.6%
Total	1,723.1	1,302.4	420.7	32.3%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue and is continuing to show year-over-year growth compared to FY 2020 collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but typically stabilizes by February. This year however, growth has continued beyond February, likely due to the closures of businesses in the spring of CY 2020.

Cumulative year-over-year withholding growth has remained strong throughout the year



Property Tax: Currently Above Estimate

Property tax collections are above last year by \$9.2 million or 5.1%, and above the increase of 1.6% anticipated in HJ 2. The second of two large property tax payments were due to counties at the end of May, but may not have completely posted to the state accounting system yet. There may be some upside risk, but property tax is still expected to come in close to the HJ 2 estimate.

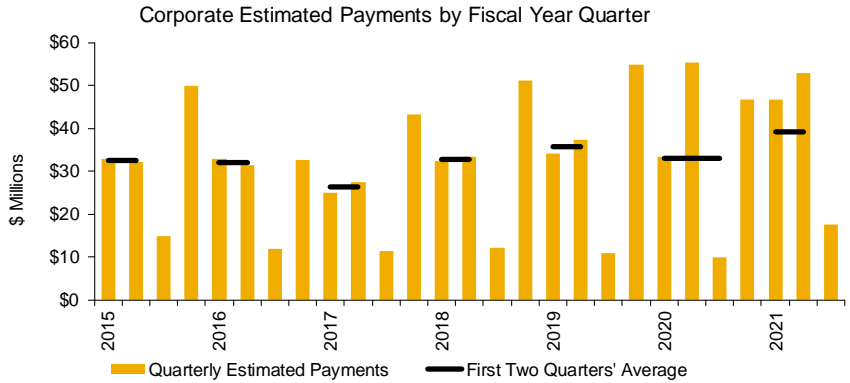
Corporate Income Tax: YTD Above Estimate

Corporate income tax collections through the end of May are 38.0% or \$60.1 million above this time in FY 2020. This is far above the expected decline of 20.2% contained in the HJ 2 estimate. In HJ 2 it was expected that corporations would take advantage of several provisions contained in multiple federal relief packages. These provisions allowed them to deduct payroll funds received from the federal government as expenses, and this would offset any taxable income they would have reported. However, it is beginning to seem like many of Montana's larger corporations may not have seen any losses, and instead have had a strong year, buoyed by the large amount of federal funds sent to individuals, small businesses, and corporations.

Corporate Income Tax (\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Corporation Tax	\$75.8	\$47.2	\$28.6	60.7%
Estimated Payments	\$155.0	\$118.6	36.3	30.6%
Refunds	(19.3)	(14.9)	(4.4)	29.3%
Audit, P&I, Amended	9.7	9.4	0.3	3.7%
Total	\$221.2	\$160.3	\$61.0	38.0%

The adjacent chart shows that estimated payments in the first three quarters of FY 2021 have been larger than any prior years. Estimated payments typically make up nearly 80% of total corporation income tax collections and are typically the ultimate driver of where final collections end.

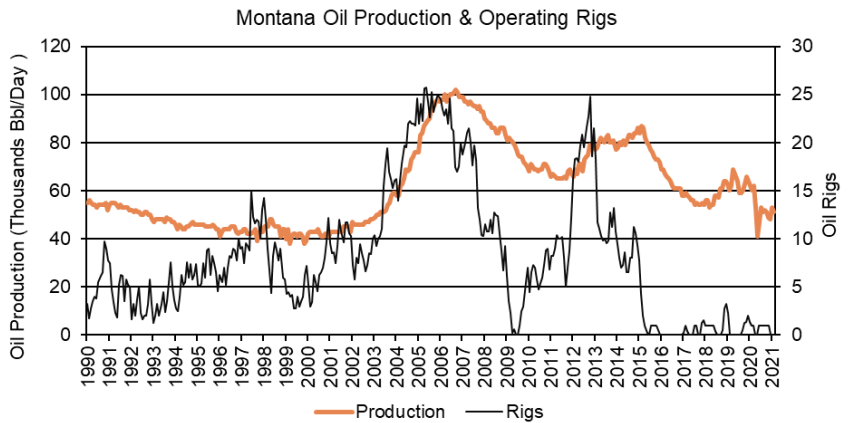


Vehicle Fees & Taxes: Above Estimate

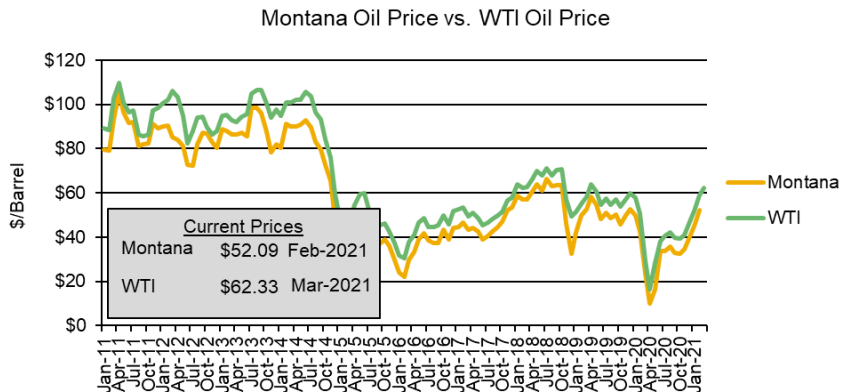
Vehicle taxes and fees are 8.3% or \$7.47 million above collections at this time last year. In HJ 2, this source was expected to grow by 0.8%. This is a stable revenue source and it is likely that final collections will end up above HJ 2 after recently strong collections.

Oil & Natural Gas Production Tax: Currently Below Estimate

Oil and natural gas production tax collections remain well below (36.2% or \$8.6 million) collections at this time last year and are lower than the HJ 2 estimated 4.9% decline as well. The primary driver behind this is the combination of a substantial decline in oil prices in Q1 of FY 2021 compared to the same period of FY 2020, and a similar decline in production over this period as well.



There is a delay in when data and payments are collected and posted to the state accounting system, therefore the effects of the price shock referenced above is still reflected in current collections. Recent higher prices will be reflected in tax collection data in a couple months and will likely push actual revenues closer to the HJ 2 estimate.



Insurance Tax: Currently Above Estimate

Current insurance tax collections are 4.3% or \$2.9 million above FY 2020 through May. This source has followed a steady pattern of growth over the past few years and is currently anticipated to come in near the HJ 2 estimate.

Video Gaming Tax: Currently Above Estimate

Revenue from video gambling is currently \$8.3 million or 18.2% above collections from the same time last year. The increase is primarily due to last year's shutdown of non-essential businesses due to COVID-19. Revenue from this source was originally forecast to remain fairly flat throughout the 2021 biennium. However, the source experienced strong growth through the first half of the fiscal year and will likely finish the year over the estimate.

OTHER KEY DIFFERENCES:

Public Contractor's Tax: Currently Below Estimate

Public contractor's tax collections are currently \$2.375 million or 50.3% below collections at this time last year. This source can experience large fluctuations in collections due to the contractor's fee being able to be refunded through class 8 property taxes or claimed as a credit on individual or corporate income tax returns.

Retail Telecom Excise Tax: Currently Below Estimate

Revenue from the retail telecommunications excise tax is currently down \$2.2 million or 24.4% from this point last year. Lower payments than normal were posted to the state accounting system in both February and May, which is what is contributing to the decline. Timing may play a role, however, this source was expected to decline in HJ 2 by 6.7%.

Coal Trust Interest Earnings: Currently Below Estimate

Year-to-date coal trust interest earnings are currently \$5.8 million, or 31.4% below collections from last year. In the last few months of FY 2020, the trust sold bonds that increased final collections above what would usually be expected. Those increased collections late in FY 2020 explain the year-to-date decline.

Metal Mines Tax: Currently Above Estimate

Revenue from the metal mines tax is currently \$1.3 million or 28.4% above collections last year, and well above the HJ 2 estimated increase of 13.7%. Tax collections were expected to rise slightly due to high palladium prices. Recently however, increased demand for both palladium and copper (which are heavily used in vehicle production) has pushed prices higher than were forecast in HJ 2. In the near term, prices will likely remain high, thus leading to higher metal mines tax collections.

U.S. Mineral Royalties: Currently Below Estimate

U.S. mineral royalties are down 30.7% or \$4.5 million compared to FY 2020 levels at this time. This source was expected to decline by 4.9% in HJ 2. The primary reason for the lower royalty revenue is due to declines in the coal industry, however, timing may also play a slight role in current revenue collections.

TCA Interest Earnings: Lower and Consistent with Estimate

Treasury cash account interest earnings are \$14.5 million or 82.8% below collections last year at this time, but slightly above the HJ 2 anticipated decline of 87.1%. The decline has been driven by short term interest rates that are near zero. Interest rates are expected to remain at these low levels so this source will likely finish close to the HJ 2 estimate.

Liquor Excise Tax: Above Estimate

Liquor excise tax year-to-date collections are currently 18.2% or \$3.5 million above this time last year. The growth in this source is comparable to national patterns of liquor sales during the COVID-19 pandemic.

All Other Revenue: Slightly Below Estimate

All other revenue collections are currently \$2.8 million or 9.1% lower than collections at this point last year. This is likely due to variations in timing of collections for the accounts that make up this revenue source. Final collections are expected to end close to HJ 2.

Tobacco Settlement: One Time Windfall and Consistent with Estimate

Year-to-date collections of \$13.2 million are \$10.5 million or 397.2% greater than this time last year. Due to a legal settlement in December the state received payment for all disputed payments withheld by tobacco companies since the inception of the settlement. Of the total recovery of \$53.7 million in withheld payments, the general fund received its typical disbursement of 11%, plus all interest accrued on the withheld payments. The state received the normal payment in mid-April adding an additional \$3.3 million to the general fund.