



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: July 13, 2023
TO: Revenue Interim Committee
FROM: LFD Revenue Team
RE: General Fund Revenue Year-to-Date Update

GENERAL FUND REVENUE SUMMARY

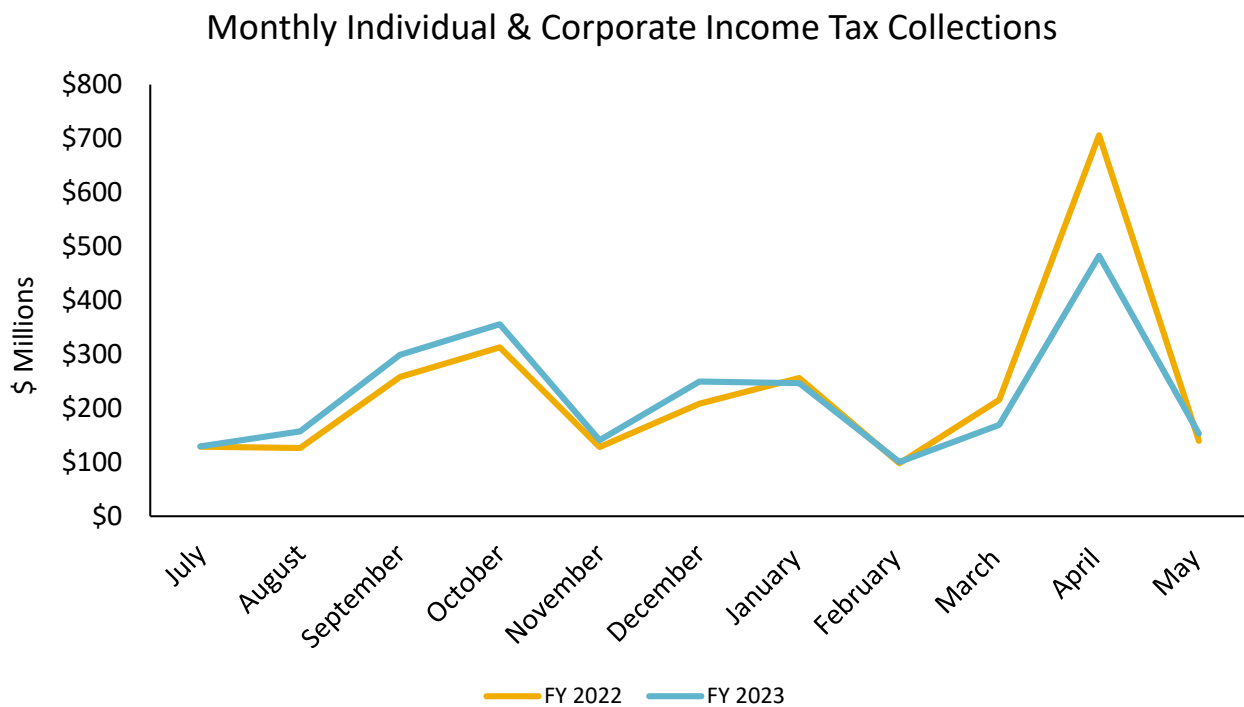
This monthly revenue update analyzes revenue collections through the end of May and is designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2023 relative to the revenue estimate contained in HJ 2.

General Fund Year-to-Date Revenues

FY 2023 general fund revenues through the end of May are \$285.6 million or 8.6% above FY 2022 revenues through the same period. **Ongoing revenue growth, which excludes a one-time-only general fund revenue transfer, is currently 0.7% above the FY 2022 values through the same time.**

While revenue growth had been strong throughout the first half of the fiscal year (14.2% growth in July through December), it is now virtually on par with last year's collections. The last quarter of FY 2022 saw extremely strong collections across multiple revenue sources, especially individual income taxes, particularly in April. This April however, individual income taxes were far below last year's April (a decrease of 35%), but still stronger than what was forecast in HJ 2.

Finally, as the chart below shows, the combined last five months' income tax collections (both individual and corporate) have been below last year's, compared to the first six months when they were significantly higher.



END OF YEAR EXTRAPOLATIONS

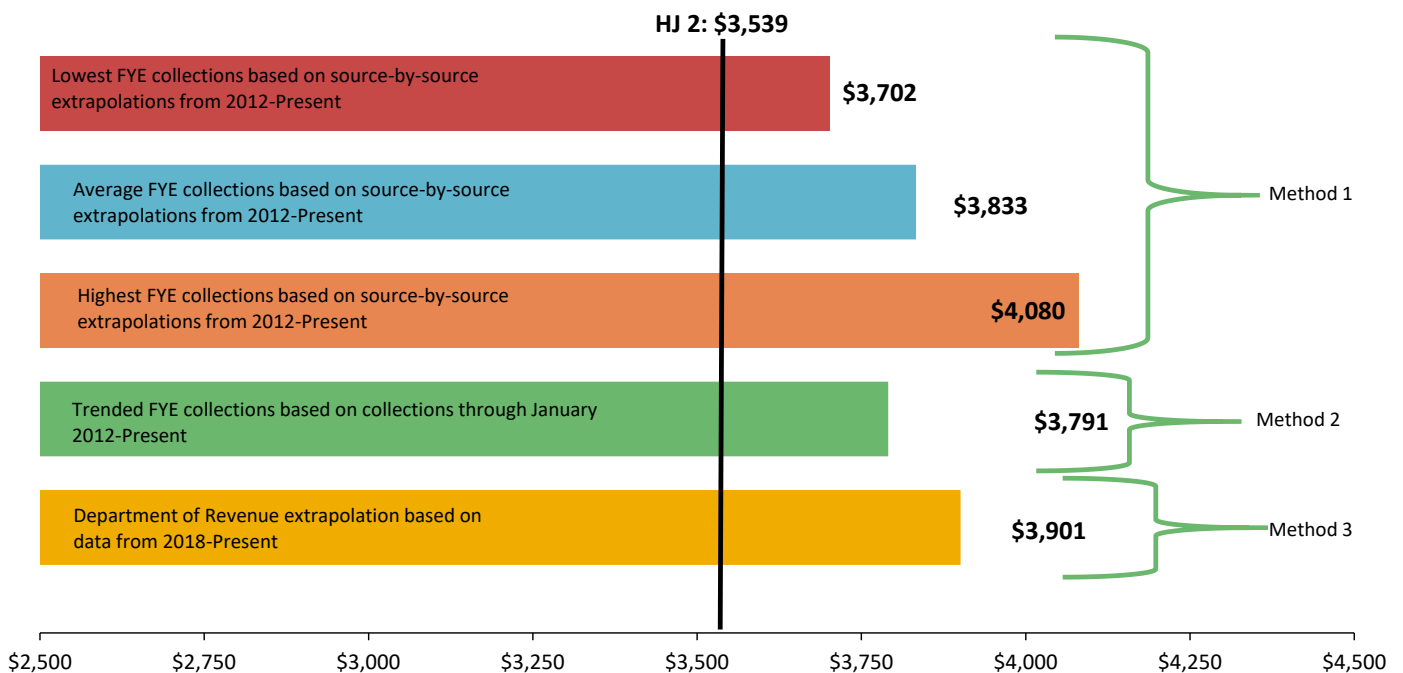
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through May was calculated dating back to FY 2012. Collections through May for each source were then divided by the average collection percentage since FY 2012. Each source’s estimate was then added to create a final year-end collection amount. Using this method, ongoing fiscal year end revenue is estimated to be \$3,833 million. The lowest and highest growth through May by revenue source was also applied to year-to-date collections to provide an upper (\$4,080 billion) and lower (\$3,702 billion) 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, it utilizes collection patterns since FY 2012. This method predicted final collections of \$3,791 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 \$3,901 million.

The estimates above range from \$541 million above HJ 2 to \$163 million above HJ 2. At this point in the fiscal year, Methods 1 (blue box below) and 2 (green box below), have historically been a sufficient extrapolation method to predict year end revenues. Currently, the midpoint of these two methods (\$3,812 million) would yield final collections that are \$273 million above HJ 2. However, with the recent decreasing trend in withholding seen on page 5 it could be lower.

FY 2023 Year-End Ongoing Revenue Extrapolations Based on Data Through May (\$ Millions)



YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2022	HJ 2 FY 2023	HJ 2 Est. % Change	May FY 2022	May FY 2023	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$2,393.807	\$2,033.784	-15.0%	\$2,324.246	\$2,221.253	(\$102.993)	-4.4%	
Property Tax	335.114	351.821	5.0%	216.498	217.956	1.458	0.7%	
Corporate Income Tax	293.683	284.335	-3.2%	253.386	262.857	9.471	3.7%	
Vehicle Taxes & Fees	121.138	121.546	0.3%	99.290	102.547	3.257	3.3%	
Oil & Natural Gas Taxes	70.510	78.712	11.6%	30.737	37.437	6.701	21.8%	
Insurance Tax	97.940	101.387	3.5%	80.262	87.731	7.469	9.3%	
Video Gaming Tax	77.881	80.185	3.0%	58.353	59.765	1.412	2.4%	
Other Business Taxes								
Drivers License Fee	6.171	5.854	-5.1%	5.092	5.666	0.573	11.3%	
Investment Licenses	19.535	20.182	3.3%	19.073	20.516	1.442	7.6%	
Lodging Facilities Sales Tax	46.175	51.124	10.7%	30.818	31.442	0.624	2.0%	
Public Contractor's Tax	2.840	4.196	47.7%	1.233	4.328	3.094	250.9%	
Railroad Car Tax	4.020	4.799	19.4%	4.012	4.011	(0.001)	0.0%	
Rental Car Sales Tax	6.823	8.114	18.9%	4.936	4.905	(0.031)	-0.6%	
Retail Telecom Excise Tax	8.571	7.891	-7.9%	6.457	6.380	(0.077)	-1.2%	
Other Natural Resource Taxes								
Coal Severance Tax	15.359	21.374	39.2%	11.694	14.997	3.303	28.2%	
Electrical Energy Tax	3.930	3.841	-2.3%	3.027	3.051	0.023	0.8%	
Metal Mines Tax	12.210	11.254	-7.8%	5.858	3.950	(1.908)	-32.6%	
U.S. Mineral Leasing	19.464	28.143	44.6%	14.511	26.690	12.179	83.9%	
Wholesale Energy Trans Tax	3.352	3.427	2.2%	2.562	2.645	0.083	3.3%	
Other Interest Earnings								
Coal Trust Interest Earnings	16.561	17.947	8.4%	12.699	14.784	2.085	16.4%	
TCA Interest Earnings	11.776	101.367	760.8%	4.956	111.587	106.631	2151.7%	
Other Consumption Taxes								
Beer Tax	3.202	3.294	2.9%	2.614	2.558	(0.057)	-2.2%	
Cigarette Tax	27.993	27.517	-1.7%	21.700	17.321	(4.379)	-20.2%	
Liquor Excise Tax	32.545	31.241	-4.0%	23.910	24.178	0.268	1.1%	
Liquor Profits	18.500	22.600	22.2%	-	-	-	-	
Lottery Profits	15.311	15.264	-0.3%	6.779	14.278	7.499	110.6%	
Marijuana Tax	14.238	27.401	92.4%	-	-	-	-	
Tobacco Tax	5.565	5.451	-2.0%	4.568	4.447	(0.121)	-2.6%	
Wine Tax	2.573	2.641	2.7%	2.144	2.083	(0.060)	-2.8%	
Other Sources								
All Other Revenue	180.512	305.512	69.2%	56.368	289.775	233.407	414.1%	
Highway Patrol Fines	3.533	3.503	-0.8%	2.850	2.906	0.056	2.0%	
Nursing Facilities Fee	3.447	3.153	-8.5%	2.475	2.563	0.089	3.6%	
Public Institution Reimbursement	13.933	8.070	-42.1%	9.209	3.294	(5.914)	-64.2%	
Tobacco Settlement	3.426	3.342	-2.4%	3.426	3.466	0.040	1.2%	
Ongoing Revenue Subtotal	3,755.727	3,539.484	-5.8%	3,325.743	3,350.579	24.836	0.7%	
OTO Revenue & Transfers Subtotal	135.914	260.789			260.789	260.789		
Grand Total	\$3,891.640	\$3,800.273	-2.3%	\$3,325.743	\$3,611.368	\$285.626	8.6%	

MAJOR SOURCES

Individual Income Tax: Above Estimate

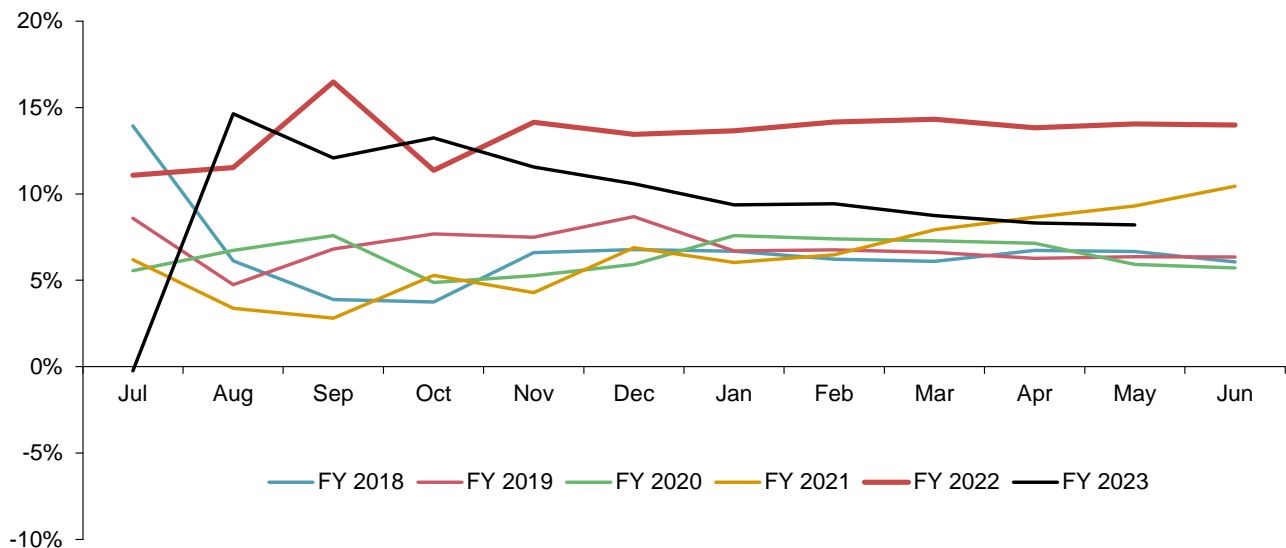
Individual income tax collections through the end of May are \$103.0 million or 4.4% below the year-to-date collections in FY 2022 but is currently above the level anticipated in HJ 2. At the beginning of this legislative session, this source’s growth was 16.0%. The chart below shows the year-over-year individual income tax growth by account.

Individual Income Tax (\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Withholding	\$1,348.7	\$1,246.4	\$102.3	8.2%
Estimated Payments	446.3	491.9	(45.6)	-9.3%
Current Year Payments	407.0	499.4	(92.4)	-18.5%
Audit, P&I, Amended	66.2	58.1	8.1	13.9%
Refunds	(199.6)	(96.4)	(103.2)	107.1%
Partnership Income Tax	142.5	114.4	28.1	24.6%
Mineral Royalties	10.1	10.5	(0.3)	-3.1%
Total	2,221.3	2,324.2	(103.0)	-4.4%

Withholding typically accounts for two-thirds of individual income taxes and about one-third of total general fund revenue, though it has been an even larger share in recent years. 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. FY 2022 saw withholding growth stabilize at a high level by November. This year, as opposed to stabilizing in February, it has continued its decreasing trend that it has experienced since October.

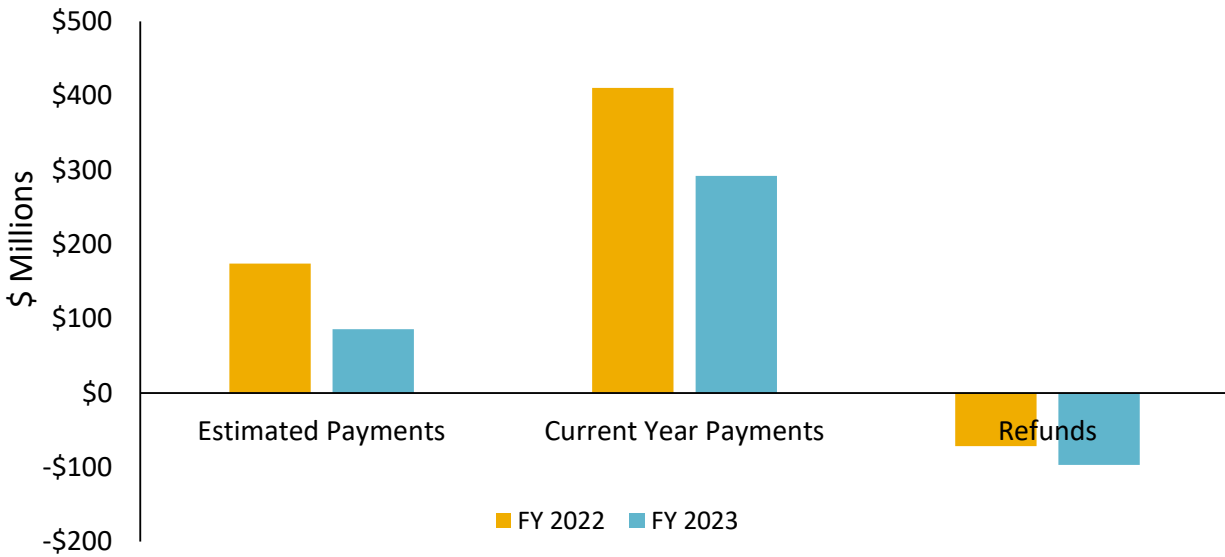
Cumulative Year-over-Year Withholding



At the beginning of April, individual income tax collections had a year-to-date growth of 7.2%. This was driven by strong withholding growth of 8.8%, estimated payment growth of 13.7%, and current year payment growth of 41.8%. However, in April, both estimated payments and current year payments were significantly lower

than last year's April collections. Furthermore, more refunds were also issued. These all contributed to individual income taxes declining from growth of 7.2% at the beginning of April to a decline of 4.4% by the end of May.

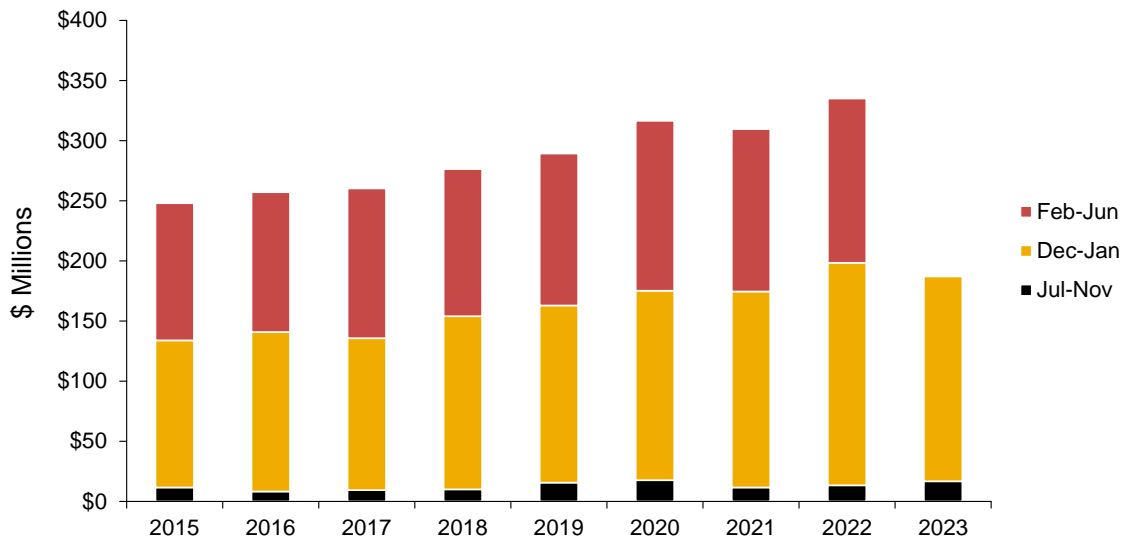
April Individual Income Taxes



Property Tax: Below Estimate

Property tax collections are currently 0.7% or \$1.5 million above last year's collections. In HJ 2 this source was expected to grow by 5.0%. The first payment last year had larger-than-expected growth, which is causing the year-to-date growth to be lower than expected. It is not uncommon for there to be a discrepancy between year-to-date collections and HJ 2 after the first payment is collected. After the second major property tax payment is booked in June; collections are likely to end up near HJ 2 as this source is typically estimated with a high level of certainty.

FY Property Tax Collections by Period



Corporate Income Tax: Above Estimate

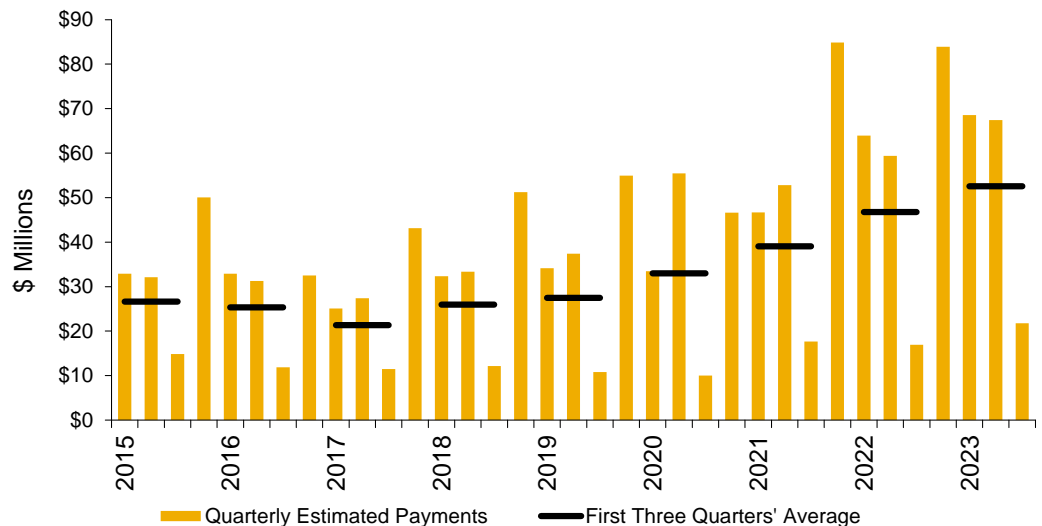
Corporate income tax collections through the end of May are 3.7% or \$9.5 million above this time in FY 2022. This is above the HJ 2 estimate which contains a projected decline of 3.2%. The chart below shows the year-over-year corporate income tax growth by account. As the chart shows, most of the growth has been in the form of strong quarterly estimated payments and has been partially offset by refunds.

Corporate Income Tax
(\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Corporation Tax	\$66.7	\$71.5	(\$4.8)	-6.8%
Estimated Payments	\$201.8	\$182.5	19.2	10.5%
Refunds	(23.6)	(15.9)	(7.8)	49.2%
Audit, P&I, Amended	18.1	15.2	2.9	18.8%
Total	\$262.9	\$253.4	\$9.5	3.7%

The adjacent chart shows that estimated payments in the first three quarters of FY 2023 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.

Corporate Estimated Payments by Fiscal Year Quarter

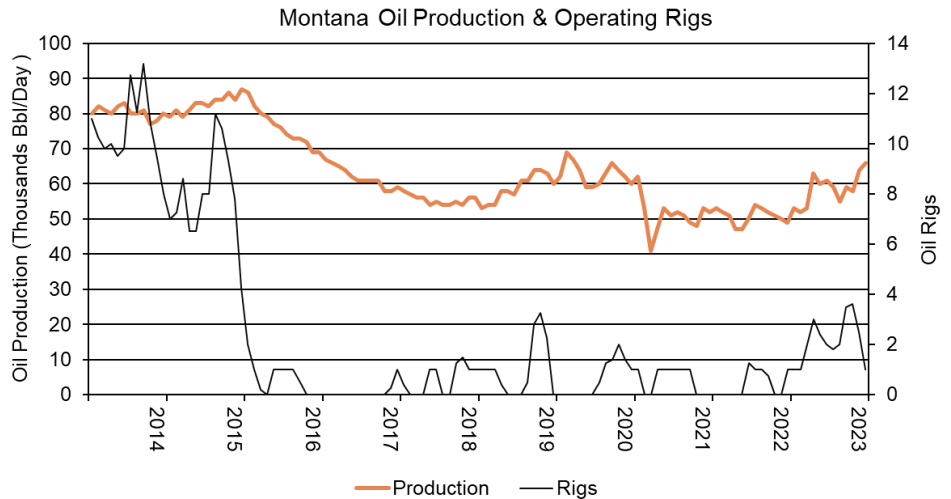


Vehicle Fees & Taxes: Above Estimate

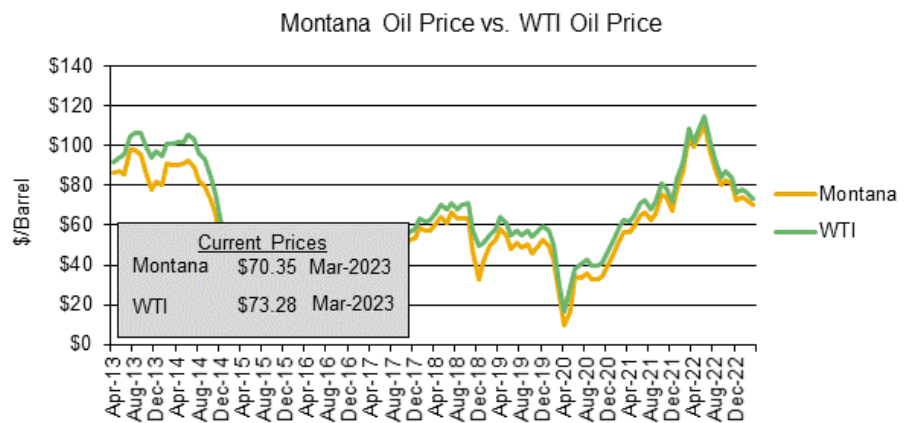
Through the end of May, vehicle taxes & fees are 3.3% or \$3.3 million above FY 2022 collections. The estimate contained within HJ 2 has this source growing by 0.3% in FY 2023. As most of this source's revenue is from vehicle registrations, month to month volatility is not uncommon, but this source is still expected to end up close to the estimate.

Oil & Natural Gas Production Tax: Above Estimate

The first two quarters' payments for oil and natural gas taxes have now been posted in the state accounting system. Through May, collections are \$6.7 million or 21.8% above FY 2022 collections through the same period. The growth is due to both higher oil prices and production in the first two quarters of FY 2023 compared to the first two quarters of FY 2022.



As the two charts to the right show, production has increased by approximately 20% compared to last fiscal year, and prices through the first half of the fiscal year were up 22%. However, prices right now are approximately 35% below those from a year ago, so the current growth in collections will likely slow and approach the estimate in HJ 2 by the end of the fiscal year.



Insurance Tax: Above Estimate

Current insurance tax collections through May are 9.3% or \$7.5 million above FY 2022 collections through the same period. This source is on track to meet or exceed HJ 2.

Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$1.4 million or 2.4% above collections from this time last year. After a slow start, quarterly collections are up 5.6% over the same quarter last year. In HJ 2 this source is expected to grow by 3.0%, which is consistent with the current year-to-date growth of 2.4%.

OTHER KEY DIFFERENCES:

Cigarette Tax: Below Estimate

Year-to-date cigarette tax collections are \$4.4 million or 20.2% below last year's collections. This has been a declining revenue source and the decline is expected to continue as e-cigarettes, which are not taxed, gain in popularity.

Coal Severance Tax: Below Estimate

Year-to-date coal severance tax collections are currently \$3.3 million or 28.2% above collections from last year. In HJ 2, this source was expected to grow by 39.2%. Production has declined 13.8% compared to last year, however, increased prices have more than offset the production decline. Even though increased prices

have caused the growth compared to last year, they have retreated from their levels in the first half of FY 2023 and as a result, final collections will likely be slightly below the HJ 2 estimate.

Metal Mines Tax: Below Estimate

Metal mines tax collections through April are currently \$1.9 million or 32.6% below last year's collections. Prices for both copper and palladium were extremely high in FY 2022, and thus far in FY 2023 prices have decreased from those high levels but are still stronger than prices preceding FY 2022.

U.S. Mineral Leasing: Above Estimate

Current U.S. mineral leasing collections through May are 83.9% or \$12.2 million above FY 2022 collections. The estimate contained in HJ 2 has a year-over-year increase of 44.6% for this source. This strong growth is due to continued strong commodity prices, specifically energy commodities such as coal and oil. Much of this year over year increase in collections is likely due to high coal prices early in FY 2023.

TCA Interest Earnings: Above Estimate

Current TCA interest earnings through May are 2151.7% or \$106.6 million above FY 2022 collections through the same period. This source is affected by rising interest rates and the Treasury Cash Account's current cash balance. If short-term interest rates remain high and if the TCA's cash balance remains high compared to prior years, this source will continue to return much higher monthly interest revenue than previous years.

Lottery Profits: Above Estimate

Lottery profits are currently 7.5 million or 110.6% above collections at this time last year. This is largely due to large jackpots in multiple games driving increased sales. Additionally, sports betting has shown strong growth this year. In a typical year with a nation-wide jackpot, sales usually decline sharply after the prize has been claimed, however sales have stayed strong in most games this fiscal year.

Public Institution Reimbursements: Below Estimate

Public institution reimbursements are currently \$5.9 million or 64.2% below collections at this time last year. Currently, Montana State Hospital is unable to recover reimbursements from Medicaid or Medicare which made up the bulk of income for the facility.