



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: February 20, 2023

TO: Sen. Senator Ellsworth, Senate President
Rep. Matt Regier, House Speaker
Sen. Greg Hertz, Chair, Senate Tax Committee
Rep. Paul Fielder, Chair, House Tax Committee
Sen. Steve Fitzpatrick, Senate Majority Leader
Rep. Sue Vinton, House Majority Leader
Sen. Pat Flowers, Senate Minority Leader
Rep. Kim Abbott, House Minority Leader
Sen. Kenneth Bogner, Senate President Pro Tempore
Rep. Rhonda Knudsen, House Speaker Pro Tempore
Sen. John Esp, Chair, Senate Finance and Claims
Rep. Llew Jones, Chair, House Appropriations

FROM: LFD Revenue Team

RE: General Fund Revenue Forecast Update #2

GENERAL FUND REVENUE SUMMARY

This is the second of the monthly revenue forecast updates throughout the 2023 Session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2025 Biennium general fund revenue estimate. This update is based on actual revenue collections received through the end of January 2023 and updated national and Montana forecasts from IHS.

Forecast Update Based on New Data

The February economic forecasts from IHS combined with LFD revenue models generates a general fund revenue forecast that is \$37.6 million lower than the official estimate in HJ 2 over the three-year forecast period. The table below shows the HJ 2 estimate and the LFD February update based on revised assumptions.

February LFD General Fund Revenue Estimate Update							
FY	HJ 2	February Update	\$ Difference	OTO Transfers	OTO TCA Interest	HJ 2 Growth	Update Growth
2022	\$3,891.6	\$3,891.6	\$0.0	\$135.9			
2023	3,800.3	3,787.5	-\$12.8	260.8	49.4	-2.3%	-2.7%
2024	3,710.0	3,708.1	-\$2.0		74.7	-2.4%	-2.1%
2025	3,782.7	3,759.8	-\$22.8		46.6	2.0%	1.4%
3-Year	\$11,293.0	\$11,255.4	-\$37.6	\$260.8	\$170.7		

When looking at the 2025 Biennium, the updated forecasts produce a biennial estimate that is \$24.8 million or 0.3% below the biennial numbers adopted in HJ 2. The table below shows a summary by source of changes compared to HJ 2.

February LFD Update Summary of Changes from HJ 2 (\$ Millions)				
	FY 2023	FY 2024	FY 2025	3-Year Total
Individual Income Tax	\$ (20.0)	\$ (11.6)	\$ (24.8)	-\$56.5
Property Tax	-	-	-	-
Corporate Income Tax	(0.9)	(0.5)	(0.7)	(2.1)
Vehicle Taxes & Fees	0.3	0.2	0.3	0.8
Oil & Natural Gas Tax	(0.8)	3.7	4.0	6.9
Insurance Tax	2.0	2.5	1.0	5.5
Video Gaming Tax	(0.6)	(1.6)	(2.1)	(4.2)
TCA Interest Earnings	8.4	10.1	6.0	24.4
Lodging Sales Tax	(1.5)	(5.8)	(7.8)	
Remaining Sources	0.3	1.0	1.2	2.5
General Fund Total	-\$12.8	-\$2.0	-\$22.8	-\$37.6

Marijuana Tax Revenue

Through January, marijuana tax revenues have not been transferred to the general fund but have been collected. In HJ 2, it was assumed that total marijuana revenue collections would total \$51.2 million with a transfer to the general fund of \$27.4 million. The table below shows total collections through January, as well as an extrapolation for final collections based upon year-to-date data. Based upon year-to-date data it is expected that total marijuana collections will end up slightly higher than HJ 2, and about \$11 million higher than what was anticipated in the fiscal note from the 2021 Legislative Session.

Marijuana Tax Collections (\$Millions)	FY	Total Marijuana Tax	General Fund Marijuana Tax
HB 701 Fiscal Note	2023	\$42.45	\$21.62
HJ 2	2023	50.95	27.40
Collections Through January	2023	38.69	N/A
YTD Extrapolation (DOR)	2023	53.58	29.19
Difference from Fiscal Note		\$11.13	\$7.57
Difference from HJ 2		\$2.63	\$1.79

Next Steps

Updated revenue forecasts will be published monthly throughout the 2023 Session. The next report will be available in the second half of March.

New data will be available and incorporated into the LFD March general fund revenue forecast update. Key sources of new data include the following:

- IHS National & Montana economic forecasts
- IHS reports and analysis
- SABHRS revenue collection data through February
- Board of Oil & Gas production data
- Department of Revenue detailed collection data through February

General Fund Year-to-Date Revenues

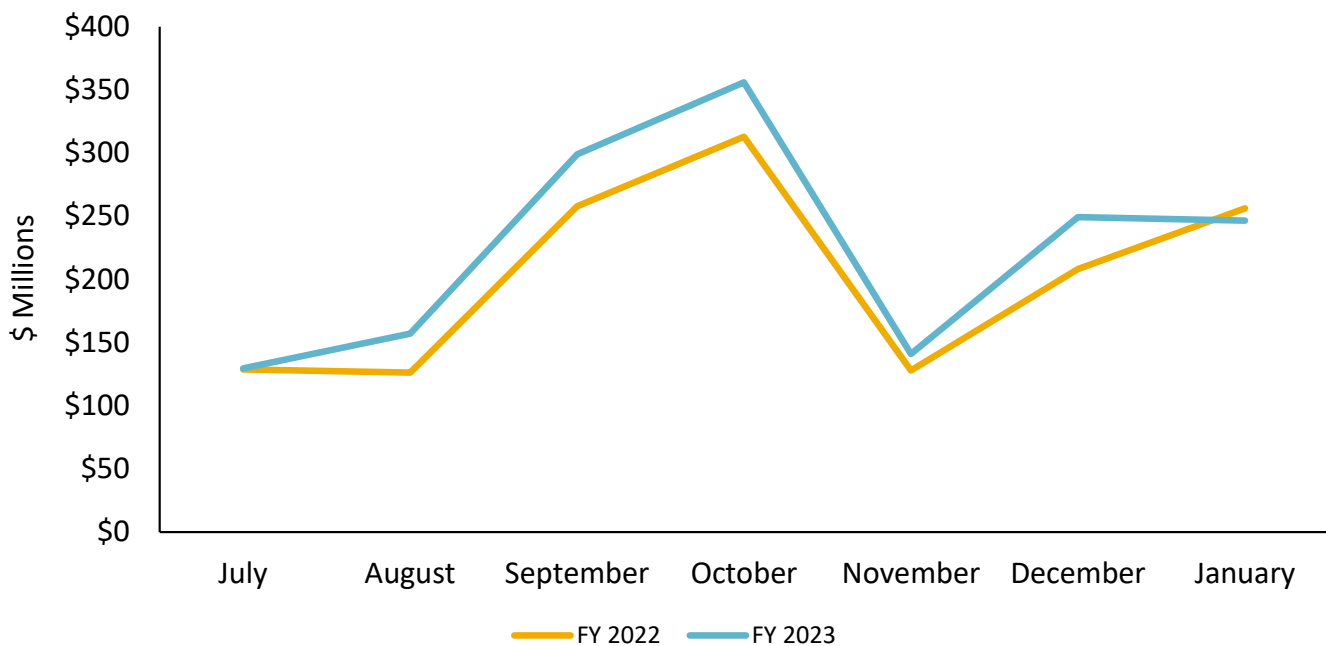
This monthly revenue update analyzes revenue collections through the end of January and is designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2023 relative to the revenue estimate contained in HJ 2.

FY 2023 general fund revenues through the end of January are \$500.0 million or 26.3% above FY 2022 revenues through the same period. **Ongoing revenue growth, which excludes a one-time-only general fund revenue transfer, is currently 12.6% above the FY 2022 values through the same time.**

While revenue growth has been strong, it is anticipated to slow throughout the remainder of the fiscal year. The second half of FY 2022 saw extremely strong collections across multiple revenue sources. Current levels of growth will be difficult to maintain compared to those strong collections. In addition, the LFD believes that a large portion of individual income tax collections in April of FY 2022 were of the one-time-only nature, and as a result will not show up in the current fiscal year, further contributing to slowed growth.

Finally, as the chart below shows, January was the first month in which income taxes (both individual and corporate) were lower than last year's monthly total.

Monthly Individual & Corporate Income Tax Collections



Throughout the Legislative Session the LFD will continue to monitor year-to-date collections and update the forecast models used to generate the estimate contained in HJ 2.

END OF YEAR EXTRAPOLATIONS

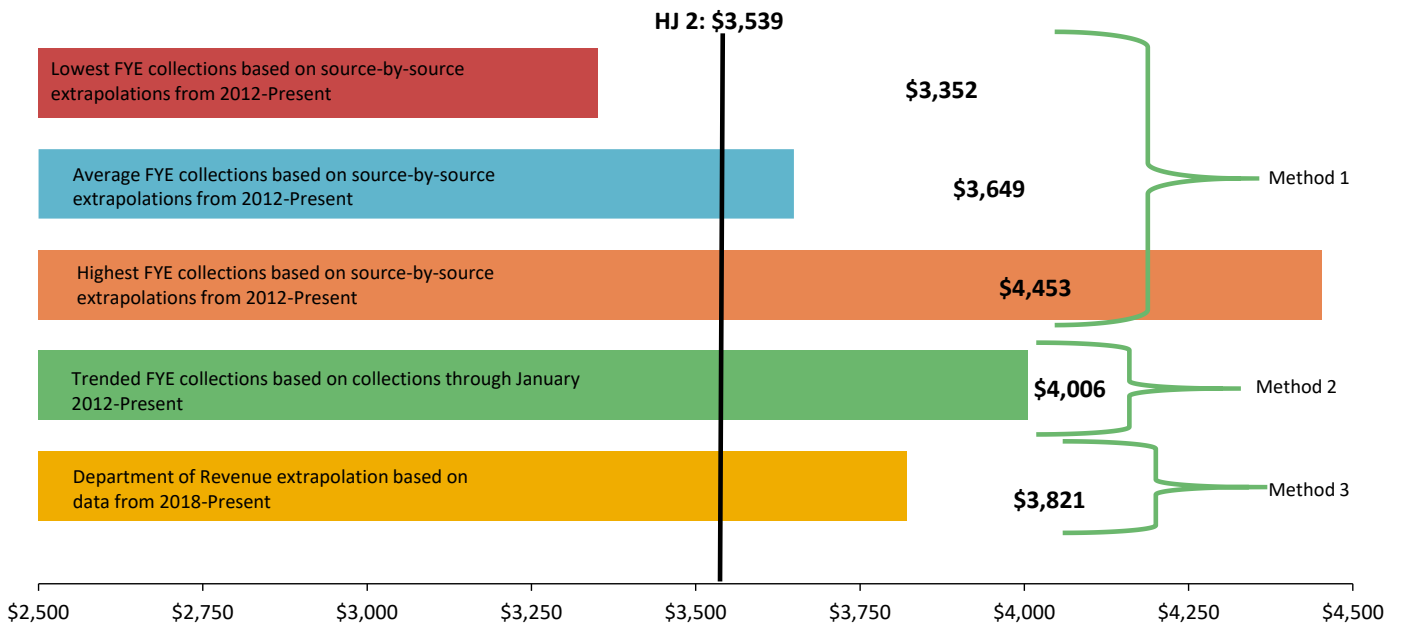
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through January was calculated dating back to FY 2012. Collections through January for each source were then divided by the average collection percentage since FY 2012. Each source’s estimate was then added to create a final year-end collection amount. Using this method, ongoing fiscal year end revenue is estimated to be \$3,649 million. The lowest and highest growth through January by revenue source was also applied to year-to-date collections to provide an upper (\$4,453 million) and lower (\$3,352 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through January to predict year-end collections using historical trends. Like Method 1, it utilizes collection patterns since FY 2012. This method predicted final collections of \$4,006 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 \$3,821 million.

The estimates above range from \$913 million above HJ 2 to \$188 million below HJ 2. At this point in the fiscal year, Method 1 (blue box below), has historically been a sufficient extrapolation method to predict year end revenues. Currently, that extrapolation is \$110 million higher than HJ 2.

FY 2023 Year-End Ongoing Revenue Extrapolations Based on Data Through January (\$ 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	Jan FY 2022	Jan FY 2023	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$2,393.807	\$2,033.784	-15.0%	\$1,262.164	\$1,420.958	\$158.793	12.6%	
Property Tax	335.114	351.821	5.0%	198.531	187.015	(11.517)	-5.8%	
Corporate Income Tax	293.683	284.335	-3.2%	156.069	157.638	1.569	1.0%	
Vehicle Taxes & Fees	121.138	121.546	0.3%	63.002	60.874	(2.128)	-3.4%	
Oil & Natural Gas Taxes	70.510	78.712	11.6%	14.939	20.820	5.880	39.4%	
Insurance Tax	97.940	101.387	3.5%	34.015	36.251	2.236	6.6%	
Video Gaming Tax	77.881	80.185	3.0%	39.135	39.547	0.412	1.1%	
Other Business Taxes								
Drivers License Fee	6.171	5.854	-5.1%	3.242	3.143	(0.098)	-3.0%	
Investment Licenses	19.535	20.182	3.3%	2.465	18.792	16.327	662.3%	
Lodging Facilities Sales Tax	46.175	51.124	10.7%	19.806	20.079	0.273	1.4%	
Public Contractor's Tax	2.840	4.196	47.7%	1.642	4.994	3.352	204.2%	
Railroad Car Tax	4.020	4.799	19.4%	3.397	3.123	(0.274)	-8.1%	
Rental Car Sales Tax	6.823	8.114	18.9%	3.479	3.518	0.039	1.1%	
Retail Telecom Excise Tax	8.571	7.891	-7.9%	3.553	3.555	0.002	0.1%	
Other Natural Resource Taxes								
Coal Severance Tax	15.359	21.374	39.2%	6.888	8.375	1.488	21.6%	
Electrical Energy Tax	3.930	3.841	-2.3%	1.214	1.787	0.573	47.3%	
Metal Mines Tax	12.210	11.254	-7.8%	-	0.002	0.002		
U.S. Mineral Leasing	19.464	28.143	44.6%	8.338	20.537	12.199	146.3%	
Wholesale Energy Trans Tax	3.352	3.427	2.2%	1.351	1.667	0.316	23.4%	
Other Interest Earnings								
Coal Trust Interest Earnings	16.561	17.947	8.4%	7.365	8.429	1.064	14.4%	
TCA Interest Earnings	11.776	101.367	760.8%	1.688	52.803	51.115	3027.9%	
Other Consumption Taxes								
Beer Tax	3.202	3.294	2.9%	1.695	1.662	(0.033)	-1.9%	
Cigarette Tax	27.993	27.517	-1.7%	14.517	10.630	(3.887)	-26.8%	
Liquor Excise Tax	32.545	31.241	-4.0%	14.971	15.602	0.631	4.2%	
Liquor Profits	18.500	22.600	22.2%	-	-	-		
Lottery Profits	15.311	15.264	-0.3%	2.484	6.061	3.577	144.0%	
Marijuana Tax	14.238	27.401	92.4%	-	-	-		
Tobacco Tax	5.565	5.451	-2.0%	2.898	2.806	(0.092)	-3.2%	
Wine Tax	2.573	2.641	2.7%	1.390	1.352	(0.038)	-2.7%	
Other Sources								
All Other Revenue	180.512	305.512	69.2%	24.136	284.197	260.060	1077.5%	
Highway Patrol Fines	3.533	3.503	-0.8%	1.711	1.704	(0.007)	-0.4%	
Nursing Facilities Fee	3.447	3.153	-8.5%	1.274	1.296	0.022	1.7%	
Public Institution Reimbursements	13.933	8.070	-42.1%	3.736	1.706	(2.030)	-54.3%	
Tobacco Settlement	3.426	3.342	-2.4%	-	0.157	0.157		
Ongoing Revenue Subtotal	3,755.727	3,539.484	-5.8%	1,901.094	2,140.288	239.194	12.6%	
OTO Revenue & Transfers Subtotal	135.914	260.789			260.789	260.789		
Grand Total	\$3,891.640	\$3,800.273	-2.3%	\$1,901.094	\$2,401.077	\$499.983	26.3%	

MAJOR SOURCES

Individual Income Tax: Above Estimate

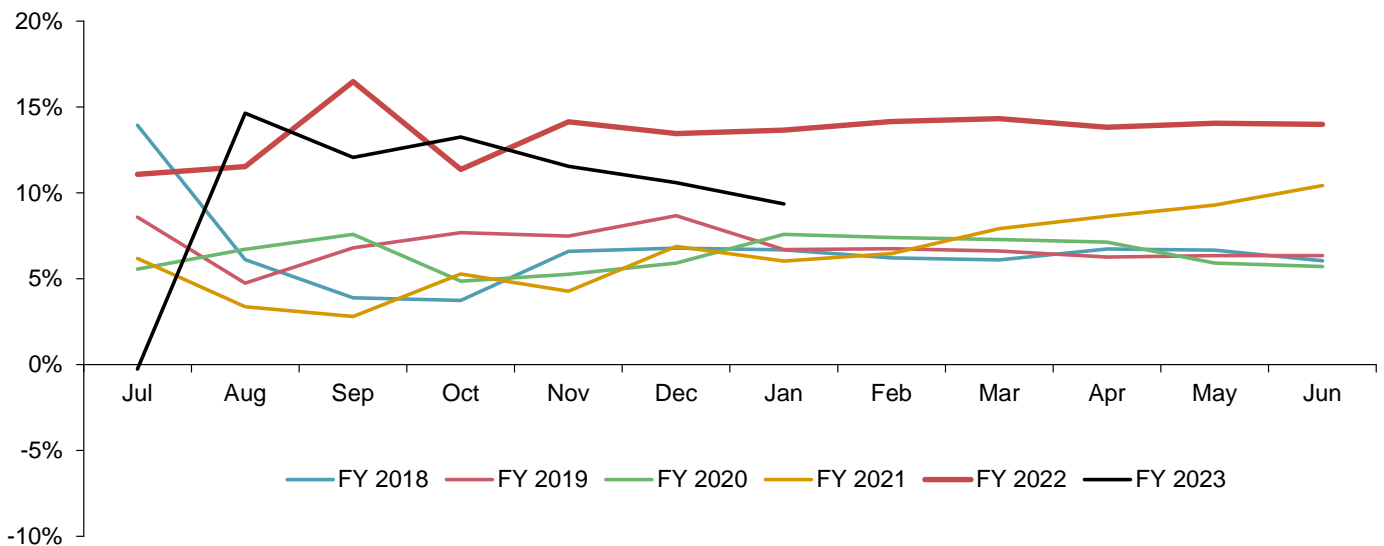
Individual income tax collections through the end of January are \$158.8 million or 12.6% above the year-to-date collections in FY 2022 and is currently above the level anticipated in HJ 2. The chart below shows the year-over-year individual income tax growth by account.

Individual Income Tax (\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Withholding	\$848.3	\$775.7	\$72.6	9.4%
Estimated Payments	331.4	294.1	37.4	12.7%
Current Year Payments	71.9	33.8	38.1	112.8%
Audit, P&I, Amended	31.2	31.0	0.2	0.5%
Refunds	73.1	105.5	(32.5)	-30.8%
Partnership Income Tax	57.9	17.8	40.1	224.9%
Mineral Royalties	7.0	4.2	2.9	68.4%
Total	1,421.0	1,262.2	158.8	12.6%

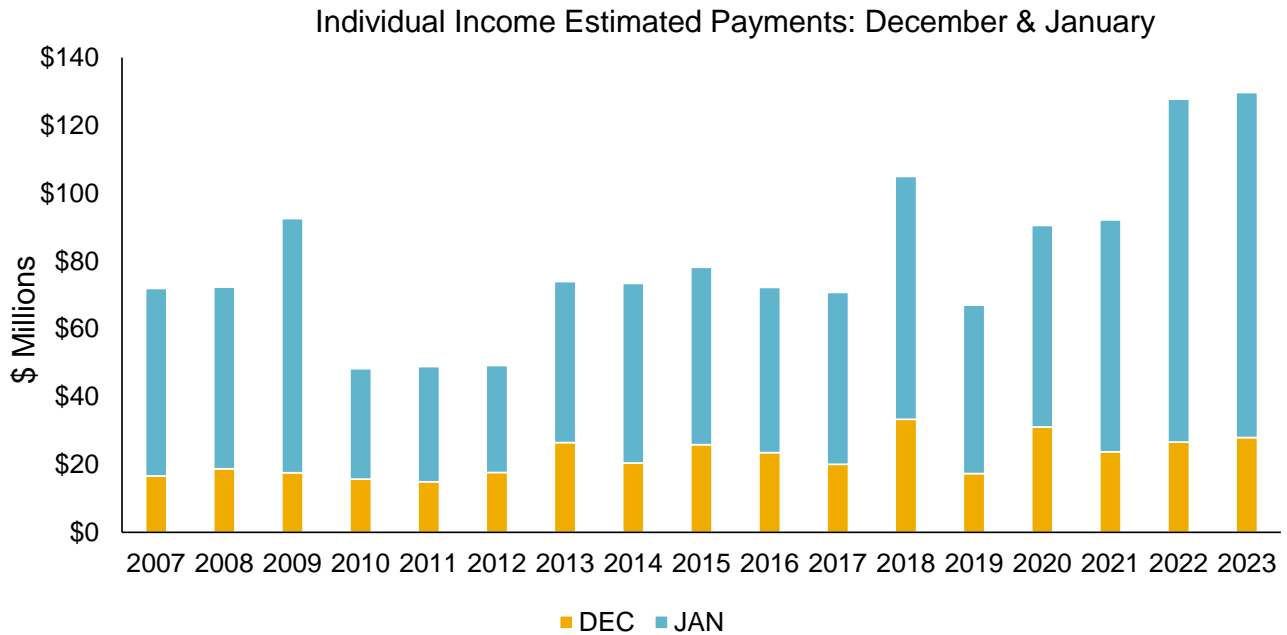
Withholding typically accounts for two-thirds of individual income tax and about one-third of total general fund revenue, though it has been an even larger share in recent years. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes 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. Year-over-year withholding is currently 9.4% and has been decreasing since a high of 14.7% in August.

Cumulative Year-over-Year Withholding



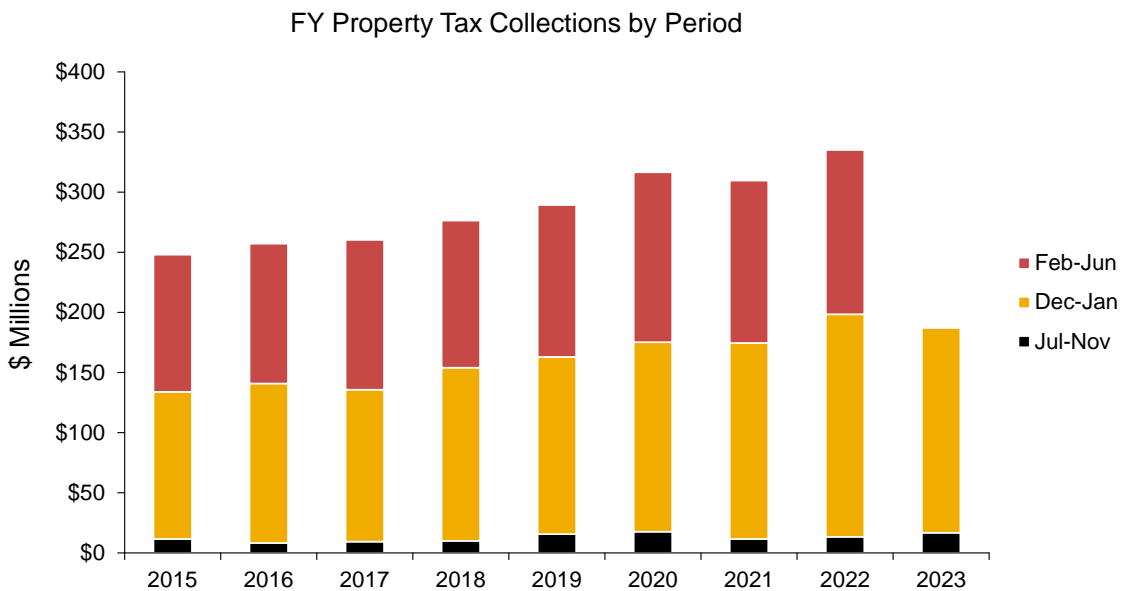
Estimated payments growth continues to be strong. However, similar to withholding growth, the rate of growth has continued to decline throughout the fiscal year. At the end of the first quarter year-over-year growth was 27.9%. As the table at the top shows, by the end of January this growth has decreased to 12.7%. The figure

below shows that the second quarter estimated payment, which is collected in December and January was only slightly above last year's levels.



Property Tax: Below Estimate

Property tax collections are currently 5.8% or \$11.5 million below last year's collections through January. 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 current collections to show a decline, as shown in the chart below. 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.



Corporate Income Tax: Above Estimate

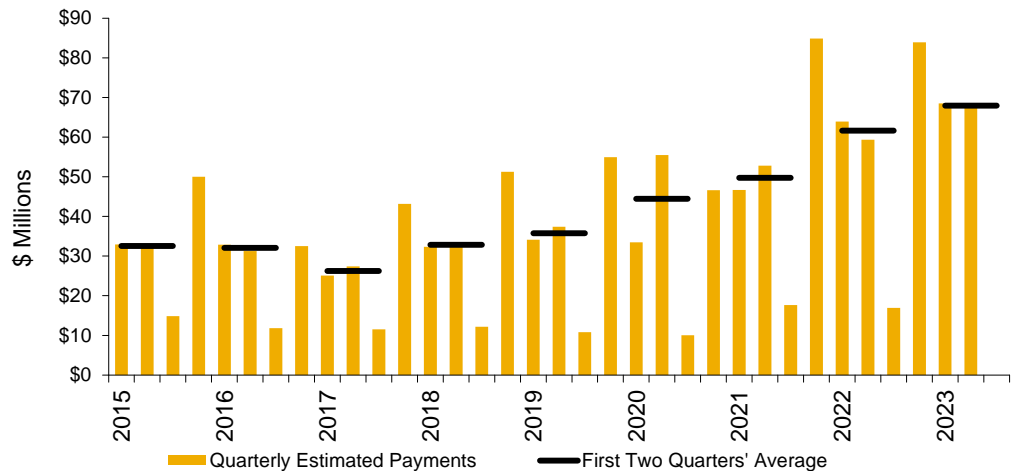
Corporate income tax collections through the end of January are 1.0% or \$1.6 million above this time in FY 2022. This is above the HJ 2 estimate which contains a projected decline of 3.2%. The chart below shows the year-over-year corporate income tax growth by account. As the chart shows, most of the growth has been in the form of strong quarterly estimated payments, but refunds and audit collections in the current year have offset the growth in estimated payments, resulting in total growth of 1.0% compared to last year.

Corporate Income Tax
(\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Corporation Tax	\$21.9	\$19.4	\$2.5	12.8%
Estimated Payments	\$143.1	\$129.2	13.9	10.8%
Refunds	(12.0)	(4.3)	(7.6)	177.0%
Audit, P&I, Amended	4.6	11.8	(7.2)	-61.3%
Total	\$157.6	\$156.1	\$1.6	1.0%

The adjacent chart shows that estimated payments in the first two 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



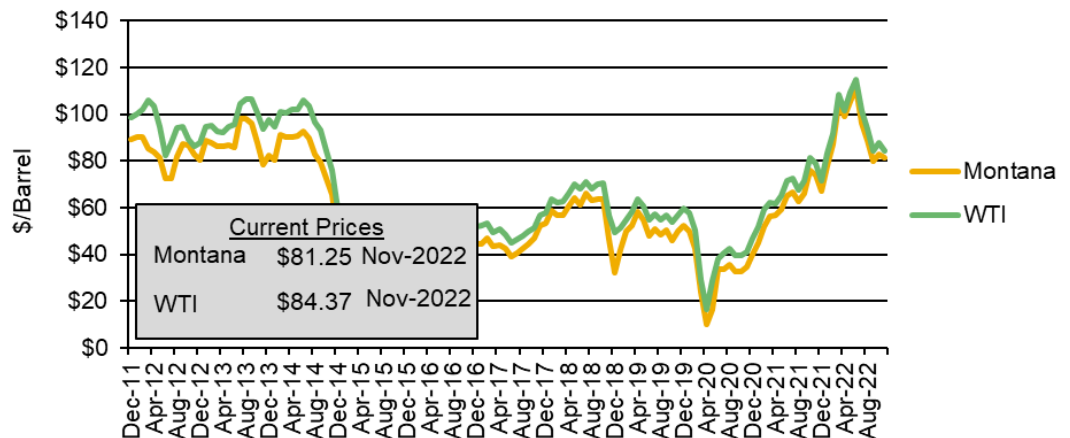
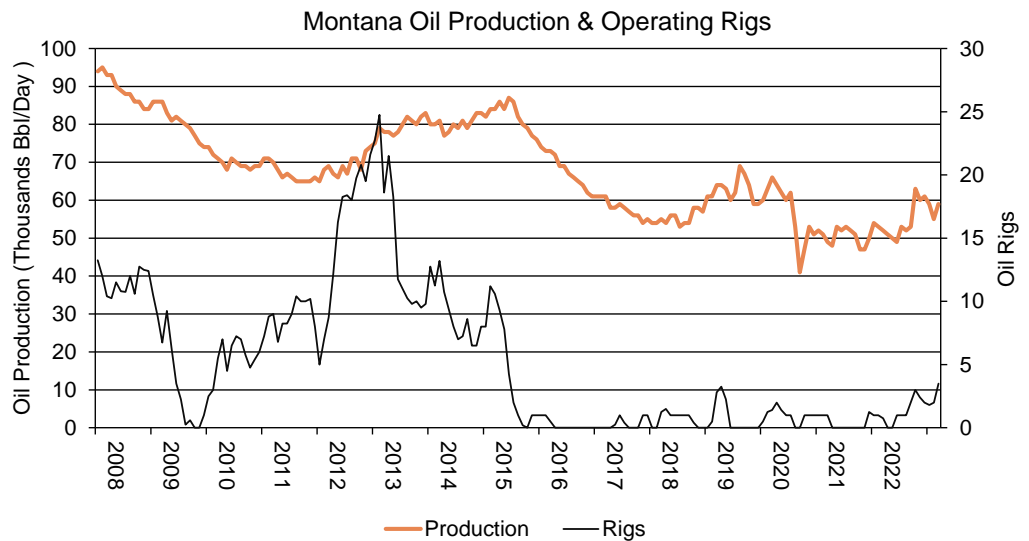
Vehicle Fees & Taxes: Below Estimate

As of January, vehicle taxes & fees are down 3.4% or \$2.1 million from 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, and this source is still expected to end near the estimate.

Oil & Natural Gas Production Tax: Above Estimate

The first quarter's payment for oil and natural gas taxes was posted to the state accounting system in January. The first quarter's collections were \$5.9 million or 39.4% above the first quarter of FY 2022. The growth is primarily due to higher oil prices in the first quarter of FY 2023 compared to the first quarter of FY 2022.

Although oil prices have been very volatile over the last three years, there has been an increase in the number of oil rigs operating in Montana that has seemed to stabilize. The chart to the right shows that while prices are not as high as last summer, they are still significantly higher than what has been experienced over the better part of the last decade.



Insurance Tax: Above Estimate

Current insurance tax collections through January are 6.6% or \$2.2 million above FY 2022 collections through the same period. Currently this source is on track to meet or exceed HJ 2.

Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$0.4 million or 1.1% above collections from this time last year. In HJ 2 this source is expected to grow by 3.0%. After two years of strong growth, this source may have returned to its prior pattern of very little, if any growth, year-over-year.

OTHER KEY DIFFERENCES:

Investment Licenses: Above Estimate

Year-to-date investment licenses collections are \$16.3 million or 662.3% above collections through January of last year. Historically a large payment is posted to the accounting system in either January or February. In the current fiscal year this payment was posted in January, whereas last year it was not posted until February. The year-to-date discrepancy will be resolved in next month's report.

Cigarette Tax: Below Estimate

Year-to-date cigarette tax collections are \$3.9 million or 26.8% below last year's collections. Currently the variation seems to be a timing issue as month-to-month collections can be inconsistent.

Coal Severance Tax: Below Estimate

Year-to-date coal severance tax collections are currently \$1.5 million, or 21.6% above collections from last year. In HJ 2, this source was expected to grow by 39.2%. Production has declined slightly compared to last year, however, prices remain high. This source is ultimately expected to end up near the HJ 2 estimate.

U.S. Mineral Leasing: Above Estimate

Current U.S. mineral leasing collections through January are 146.3% 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 January are 3027.9% or \$51.1 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 unchanged, this source will continue to return much higher monthly interest revenue than previous years. This source will be directly impacted by any legislative action that reduces the general fund ending fund balance.