



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: January 23, 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 #1

## GENERAL FUND REVENUE SUMMARY

This is the first 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 December 2022 and updated national and Montana forecasts from IHS.

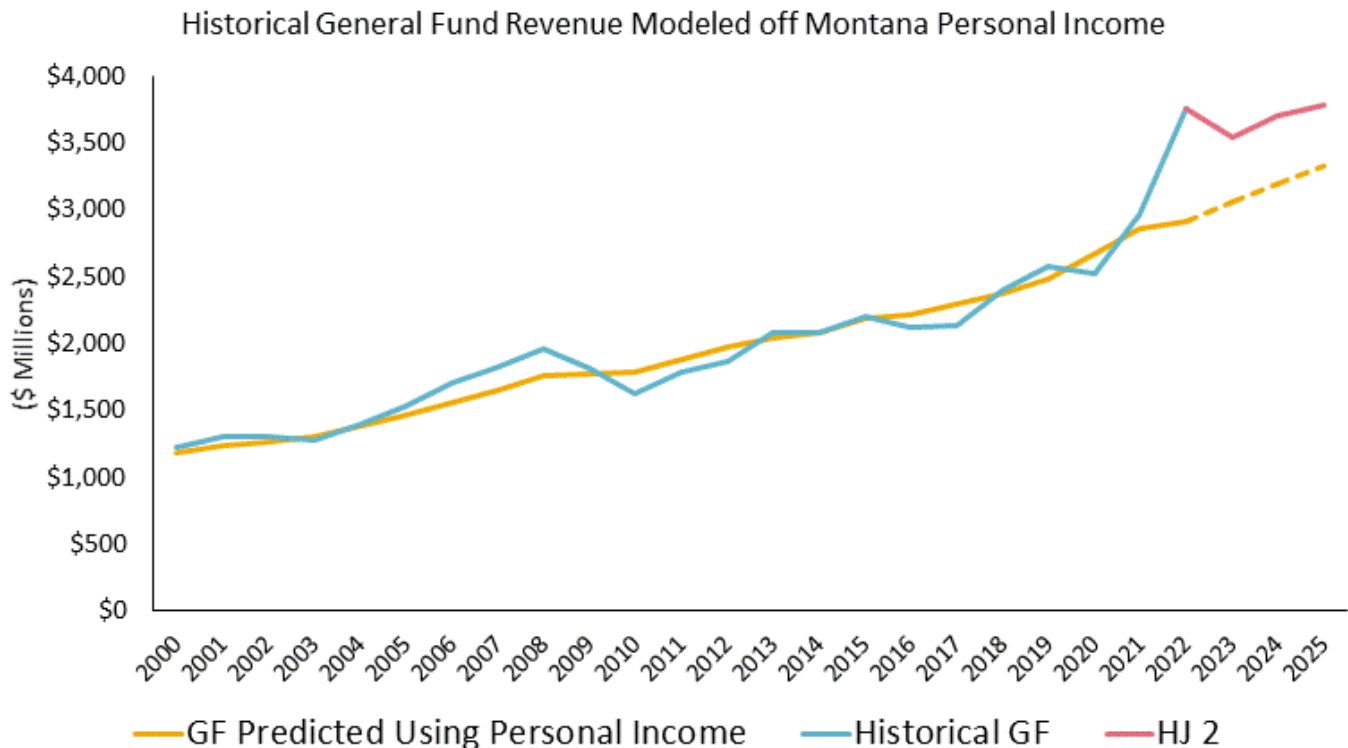
## Forecast Update Based on New Data

The January economic forecasts from IHS combined with LFD revenue models generates a general fund revenue forecast that is \$18.5 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 January update based on revised assumptions.

January LFD Ongoing General Fund Revenue Estimate Update (\$ Millions)					
FY	HJ 2	January Update	\$ Difference	HJ 2 Growth	January Update Growth
2022	\$3,755.7	\$3,755.7			
2023	3,539.5	3,549.2	9.7	-5.8%	-5.5%
2024	3,710.0	3,704.0	-6.0	4.8%	4.4%
2025	3,782.7	3,760.4	-22.2	2.0%	1.5%
3-Year	\$11,032.2	\$11,013.7	-\$18.5		

When looking at the 2025 Biennium, the updated forecasts produce a biennial estimate that is \$28.3 million or 0.4% below the biennial numbers adopted in HJ 2.

However, even though the most recent economic data produces very similar estimates to HJ 2, the chart below illustrates downside risk that is possible in the upcoming biennium. The red line represents the adopted HJ 2 estimates, while the yellow line uses Montana personal income to model general fund revenues. As seen below, personal income has historically been a good predictor of general fund revenues. This would suggest that on average there is approximately \$480 million in annual risk between the adopted HJ 2 estimates and the personal income model's estimates.



## **Next Steps**

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

In addition, new data will be available and incorporated into the LFD February 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 January
- Board of Oil & Gas production data
- Department of Revenue detailed collection data through January

# Appendix

## 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	Dec FY 2022	Dec FY 2023	YTD Difference	YTD % Change	YTD % Change
<b>Largest Seven Sources</b>								
Individual Income Tax	\$2,393.807	\$2,033.784	-15.0%	\$1,011.325	\$1,172.953	\$161.628	16.0%	
Property Tax	335.114	351.821	5.0%	143.686	148.843	5.156	3.6%	
Corporate Income Tax	293.683	284.335	-3.2%	150.785	159.226	8.441	5.6%	
Vehicle Taxes & Fees	121.138	121.546	0.3%	52.423	52.690	0.267	0.5%	
Oil & Natural Gas Taxes	70.510	78.712	11.6%	-	-	-	-	
Insurance Tax	97.940	101.387	3.5%	34.015	18.579	(15.436)	-45.4%	
Video Gaming Tax	77.881	80.185	3.0%	20.024	20.142	0.118	0.6%	
<b>Other Business Taxes</b>								
Drivers License Fee	6.171	5.854	-5.1%	2.709	2.729	0.020	0.7%	
Investment Licenses	19.535	20.182	3.3%	2.466	2.305	(0.160)	-6.5%	
Lodging Facilities Sales Tax	46.175	51.124	10.7%	16.229	15.724	(0.505)	-3.1%	
Public Contractor's Tax	2.840	4.196	47.7%	1.643	4.572	2.929	178.3%	
Railroad Car Tax	4.020	4.799	19.4%	3.171	3.122	(0.049)	-1.5%	
Rental Car Sales Tax	6.823	8.114	18.9%	2.795	2.748	(0.048)	-1.7%	
Retail Telecom Excise Tax	8.571	7.891	-7.9%	2.231	2.178	(0.053)	-2.4%	
<b>Other Natural Resource Taxes</b>								
Coal Severance Tax	15.359	21.374	39.2%	3.745	5.565	1.820	48.6%	
Electrical Energy Tax	3.930	3.841	-2.3%	0.906	0.978	0.071	7.9%	
Metal Mines Tax	12.210	11.254	-7.8%	-	0.002	0.002	-	
U.S. Mineral Leasing	19.464	28.143	44.6%	4.206	18.380	14.175	337.0%	
Wholesale Energy Trans Tax	3.352	3.427	2.2%	0.791	0.892	0.101	12.8%	
<b>Other Interest Earnings</b>								
Coal Trust Interest Earnings	16.561	17.947	8.4%	6.106	7.068	0.962	15.8%	
TCA Interest Earnings	11.776	101.367	760.8%	1.354	40.439	39.085	2887.3%	
<b>Other Consumption Taxes</b>								
Beer Tax	3.202	3.294	2.9%	1.450	1.443	(0.007)	-0.5%	
Cigarette Tax	27.993	27.517	-1.7%	12.171	9.333	(2.839)	-23.3%	
Liquor Excise Tax	32.545	31.241	-4.0%	12.306	12.869	0.563	4.6%	
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%	2.525	2.453	(0.072)	-2.9%	
Wine Tax	2.573	2.641	2.7%	1.150	1.128	(0.023)	-2.0%	
<b>Other Sources</b>								
All Other Revenue	180.512	305.512	69.2%	21.850	282.379	260.529	1192.4%	
Highway Patrol Fines	3.533	3.503	-0.8%	1.376	1.458	0.082	6.0%	
Nursing Facilities Fee	3.447	3.153	-8.5%	0.862	0.828	(0.034)	-3.9%	
Public Institution Reimbursements	13.933	8.070	-42.1%	3.729	0.044	(3.685)	-98.8%	
Tobacco Settlement	3.426	3.342	-2.4%	-	0.157	0.157	-	
Ongoing Revenue Subtotal	3,755.727	3,539.484	-5.8%	1,520.516	1,736.500	215.984	14.2%	
OTO Revenue & Transfers Subtotal	135.914	260.789	-	-	260.789	260.789	-	
<b>Grand Total</b>	<b>\$3,891.640</b>	<b>\$3,800.273</b>	<b>-2.3%</b>	<b>\$1,520.516</b>	<b>\$1,997.289</b>	<b>\$476.773</b>	<b>31.4%</b>	

# MAJOR SOURCES

## Individual Income Tax: Above Estimate

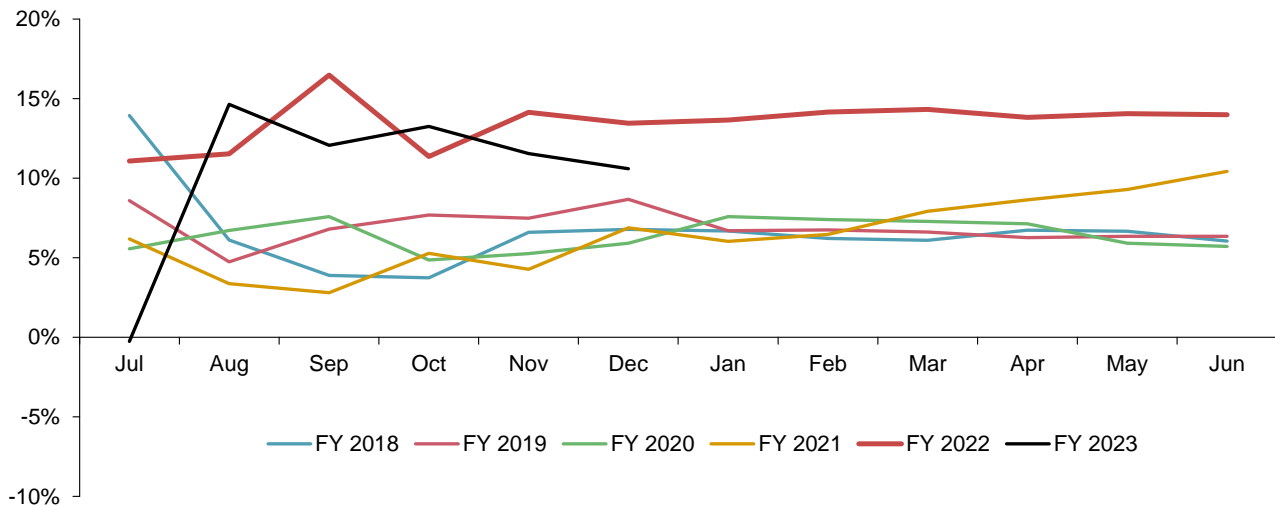
Individual income tax collections through the end of December are \$161.6 million or 16.0% above the year-to-date collections in FY 2022 and is currently above the level anticipated in HJ 2. The chart below shows the year-over-year individual income tax growth by account.

Individual Income Tax (\$ Millions)

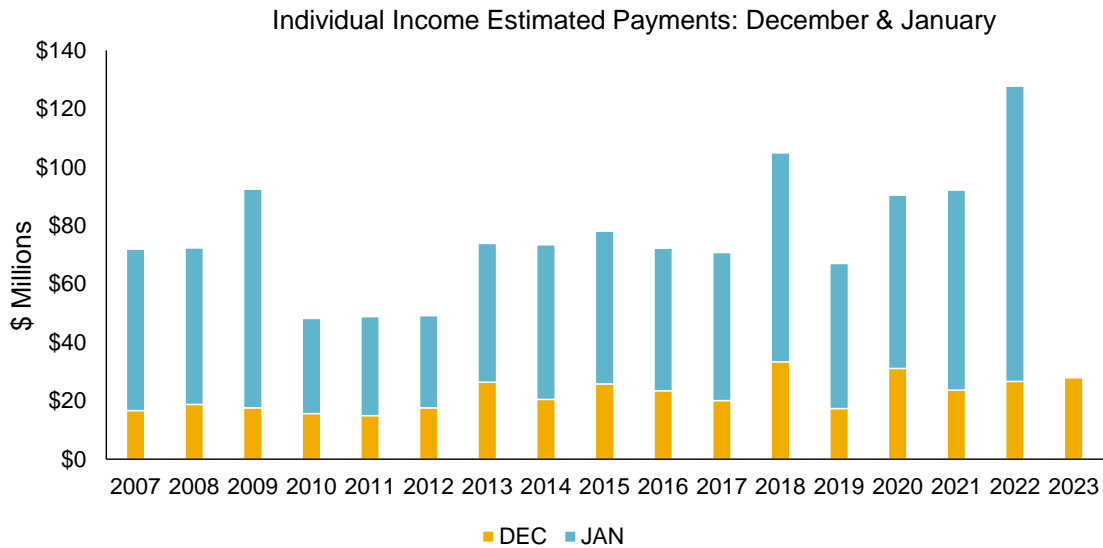
Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Withholding	\$702.6	\$635.3	\$67.3	10.6%
Estimated Payments	229.6	192.9	36.7	19.0%
Current Year Payments	68.9	30.1	38.8	128.9%
Audit, P&I, Amended	25.8	25.2	0.6	2.4%
Refunds	91.5	110.7	(19.2)	-17.3%
Partnership Income Tax	50.0	13.8	36.2	263.5%
Mineral Royalties	4.5	3.3	1.2	36.9%
<b>Total</b>	<b>1,173.0</b>	<b>1,011.3</b>	<b>161.6</b>	<b>16.0%</b>

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 10.6% and has been decreasing since a high of 14.7% in August.

Cumulative Year-over-Year Withholding

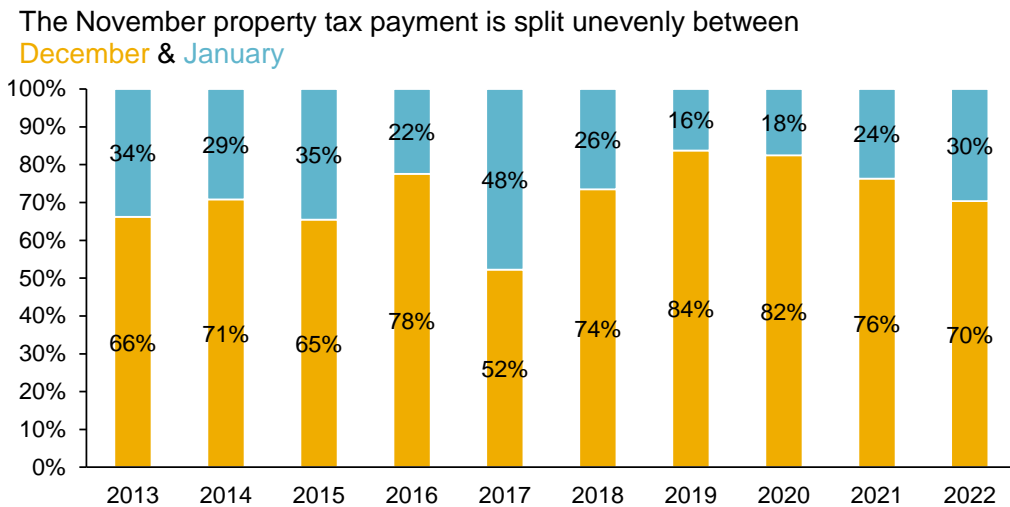


The timing of estimated payments can fluctuate between December and January, so next month's report should help clarify some expectations for FY 2023. Nonetheless, year-over-year estimated payment growth is extremely strong thus far at 19.0%, driven by strong collections in September and October.



### Property Tax: Slightly Below Estimate

Property tax collections have grown 3.6% or \$5.2 million compared to collections through the same period last year. In HJ 2 this source was expected to grow by 5.0%. 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 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

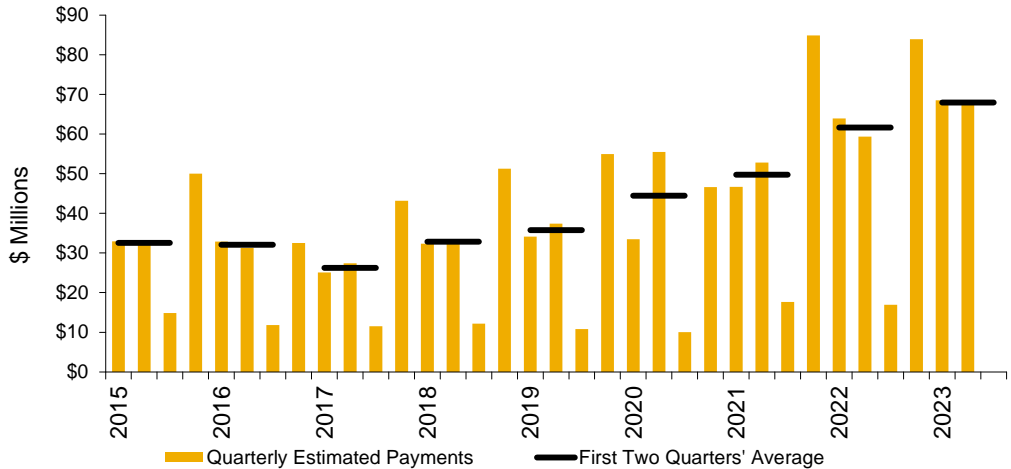
Corporate income tax collections through the end of December are 5.6% or \$8.4 million above this time in FY 2022. This is above the HJ 2 estimate which projected a decline of 3.2%. The chart below shows the year-over-year corporate income tax growth by account. As the chart shows, most of the growth has been in the form of strong quarterly estimated payments.

## Corporate Income Tax (\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Corporation Tax	\$20.9	\$17.8	\$3.1	17.6%
Estimated Payments	\$136.0	\$123.3	12.6	10.2%
Refunds	(1.0)	(1.4)	0.4	-30.8%
Audit, P&I, Amended	3.3	11.1	(7.7)	-69.8%
<b>Total</b>	<b>\$159.2</b>	<b>\$150.8</b>	<b>\$8.4</b>	<b>5.6%</b>

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



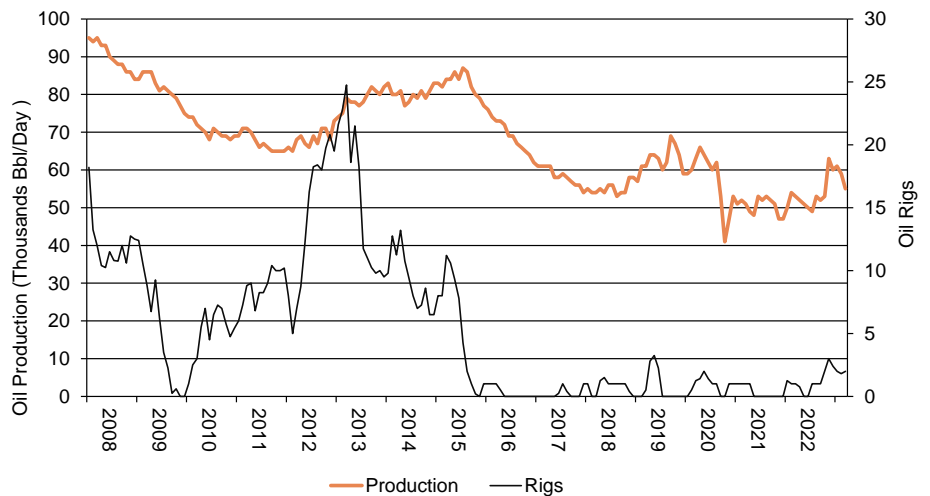
### Vehicle Fees & Taxes: Near Estimate

As of December, vehicle taxes & fees are up 0.5% or \$0.3 million from FY 2022 collections. This is consistent with the estimated growth of 0.3% in HJ 2.

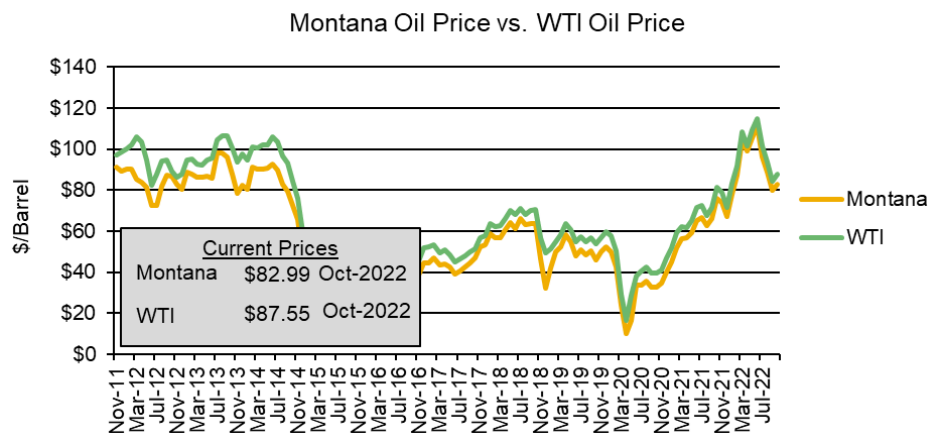
### Oil & Natural Gas Production Tax: No Data Yet

While oil and natural gas production taxes have been collected since the start of the fiscal year, 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. Continued strong prices and relatively stable production indicate that once collections are posted they will be higher than last year.

Montana Oil Production & Operating Rigs



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 with a weekly average of 2 during calendar year 2022. 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: Below Estimate due to Timing of Payments

Current insurance tax collections through December are 45.4% or \$15.4 million below FY 2022 collections through the same period. This is due to a timing issue as December payments were recorded at the beginning of January, as opposed to during December. However, at the time of this report payments have been received and will be reflected in next month's update.

### Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$0.1 million or 0.6% above collections from this time last year. In HJ 2 this source was 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:

### Coal Severance Tax: Above Estimate

Year-to-date coal severance tax collections are currently \$1.8 million, or 48.6% 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, contributing to the year-over-year growth.

### U.S. Mineral Leasing: Above Estimate

Current U.S. mineral leasing collections through December are 337% or \$14.2 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.

### TCA Interest Earnings: Above Estimate

Current TCA interest earnings through December are 2,887% or \$39.1 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 continue to rise 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.