



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: February 15, 2024

TO: Revenue Interim Committee Members
House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2024 February Year-to-Date Revenue Update

GENERAL FUND REVENUE SUMMARY

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 2024 relative to the revenue estimate contained in HJ 2.

FY 2024 is on track to be near the HJ 2 revenue estimate adopted by the Legislature. However, several factors complicate this analysis:

- When HJ 2 was adopted in November 2022, the estimate contained statewide 95 mills and TCA interest earnings for the general fund. The 2023 Legislative Session moved the statewide 95 mills and TCA interest earnings (highlighted in green in the following table) from the general fund to newly created state special revenue funds. If you compare FY 2024 general fund revenues through the end of January to FY 2023 through the same period, then revenues are \$330.0 million or 14.1%% below FY 2023. This is in comparison to the estimate adopted in HJ 2, which projects a decline of 20.8%.
- For a more accurate picture of revenue growth, it makes sense to include both the state-levied 95 mills as well as TCA interest earnings. When these are included, FY 2024 revenues are \$126.4 million, or 5.9% above collections from last year at this time. This is above the projected decrease adopted in HJ 2 of 3.3%. However, the majority of the growth is attributable to the unique timing of collection patterns in individual income taxes, due to the passage of [SB 554](#) during the 2023 Legislative Session. More detail on this can be seen in the individual income tax section of this report.

Current indications are that collections will be close to the HJ 2 estimate, but as always, the LFD will continue to monitor year-to-date collections and update the legislature as collections are posted to the accounting system.

Year-to-Date Revenues

General Fund, School Equalization, Debt & Liability Free Account Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2023	HJ 2 FY 2024	HJ 2 Est. % Change	Jan FY 2023	Jan FY 2024	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$2,254.305	\$2,054.152	-8.9%	\$1,420.958	\$1,507.152	\$86.194	6.1%	
Property Tax (General Fund)	355.982	15.861	23.8%	187.015	8.845	(1.521)	-0.8%	
Property Tax (School Equalization)		424.826			176.648			
Corporate Income Tax	309.884	275.821	-11.0%	157.638	178.760	21.122	13.4%	
Vehicle Taxes & Fees	123.005	122.221	-0.6%	60.874	63.848	2.975	4.9%	
Oil & Natural Gas Taxes	71.039	73.229	3.1%	20.820	17.235	(3.584)	-17.2%	
Insurance Tax	106.196	105.838	-0.3%	36.251	38.348	2.097	5.8%	
Video Gaming Tax	80.105	83.264	3.9%	39.547	41.515	1.968	5.0%	
Other Business Taxes								
Drivers License Fee	6.601	5.919	-10.3%	3.143	3.351	0.208	6.6%	
Investment Licenses	20.942	20.741	-1.0%	18.792	18.698	(0.094)	-0.5%	
Lodging Facilities Sales Tax	42.338	57.476	35.8%	20.079	21.992	1.914	9.5%	
Public Contractor's Tax	6.733	4.203	-37.6%	4.994	6.954	1.959	39.2%	
Railroad Car Tax	4.012	5.496	37.0%	3.123	3.140	0.016	0.5%	
Rental Car Sales Tax	7.270	7.978	9.7%	3.518	3.878	0.360	10.2%	
Retail Telecom Excise Tax	8.436	5.631	-33.3%	3.555	3.383	(0.172)	-4.9%	
Other Natural Resource Taxes								
Coal Severance Tax	20.879	18.420	-11.8%	8.375	7.639	(0.736)	-8.8%	
Electrical Energy Tax	4.004	3.536	-11.7%	1.787	1.683	(0.104)	-5.8%	
Metal Mines Tax	7.251	11.363	56.7%	0.002	-	(0.002)	-100.0%	
U.S. Mineral Leasing	37.508	24.212	-35.4%	20.537	7.089	(13.449)	-65.5%	
Wholesale Energy Trans Tax	3.455	3.410	-1.3%	1.667	1.527	(0.140)	-8.4%	
Other Interest Earnings								
Coal Trust Interest Earnings	18.105	18.857	4.2%	8.429	8.945	0.515	6.1%	
TCA Interest Earnings (Now SSR)	118.389	126.591	6.9%	52.803	71.707	18.905	35.8%	
Other Consumption Taxes								
Beer Tax	3.188	3.329	4.4%	1.662	1.576	(0.086)	-5.2%	
Cigarette Tax	20.797	26.889	29.3%	10.630	12.043	1.413	13.3%	
Liquor Excise Tax	32.705	32.298	-1.2%	15.602	16.140	0.538	3.5%	
Liquor Profits	19.000	23.700	24.7%	-	-	-	-	
Lottery Profits	22.657	15.508	-31.6%	6.061	6.368	0.307	5.1%	
Marijuana Tax	29.423	30.681	4.3%	-	-	-	-	
Tobacco Tax	5.358	5.320	-0.7%	2.806	2.632	(0.174)	-6.2%	
Wine Tax	2.528	2.696	6.6%	1.352	1.327	(0.025)	-1.9%	
Other Sources								
All Other Revenue	304.813	46.544	-84.7%	284.197	28.514	(255.683)	-90.0%	
Highway Patrol Fines	3.587	3.953	10.2%	1.704	1.582	(0.122)	-7.1%	
Nursing Facilities Fee	3.542	2.942	-16.9%	1.296	1.303	0.007	0.5%	
Public Institution Reimbursements	4.308	7.758	80.1%	1.706	2.854	1.148	67.3%	
Tobacco Settlement	3.466	3.327	-4.0%	0.157	-	(0.157)	-100.0%	
Ongoing GF Revenue Subtotal	3,682.630	3,178.074	-13.7%	2,087.486	2,018.319	(69.167)	-3.3%	
Ongoing GF & SSR Subtotal	3,801.019	3,673.991	-3.3%	2,140.288	2,266.675	126.386	5.9%	
OTO Revenue & Transfers Subtotal	260.789	(55.500)		260.789		(260.789)	-100.0%	
Grand Total General Fund	\$3,943.420	\$3,122.574	-20.8%	\$2,348.275	\$2,018.319	(\$329.956)	-14.1%	

Major Sources

Individual Income Tax: Likely on target to meet HJ 2. Current growth is strong due to SB 554 but is anticipated to decrease towards HJ 2 through the remainder of the fiscal year.

While several factors complicate the analysis, individual income tax collections are anticipated to be close to the HJ 2 estimate adopted by the 2023 Legislative Session, or 8.9% less than FY 2023 actual collections.

Individual income tax collections through the end of January are \$86.2 million or 6.1% above the year-to-date collections in FY 2023. While this is above the anticipated decline of 8.9% adopted in HJ 2, most of this growth is a timing issue associated with [SB 554](#) (more on this below). In addition, due to the passage of [SB 121](#), withholding growth rates are expected to continue to decline throughout the remainder of the fiscal year.

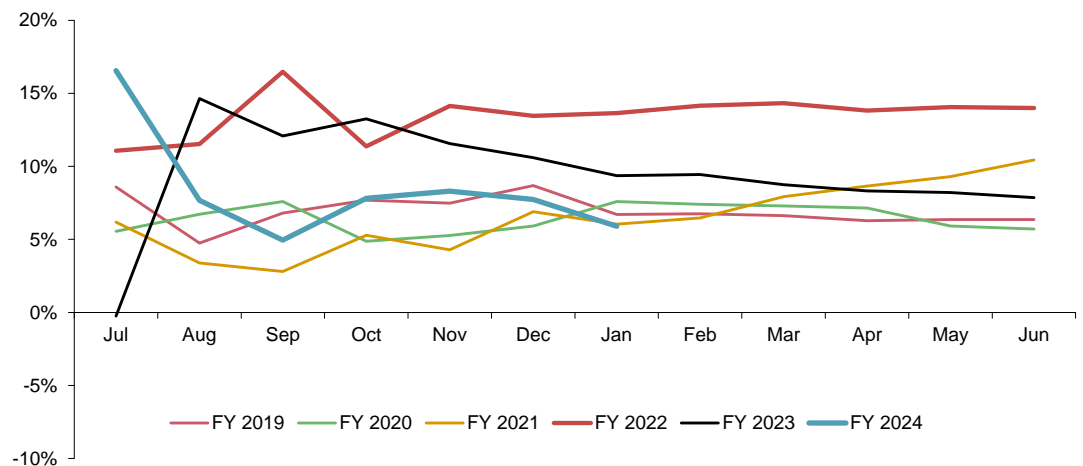
The chart below shows the year-over-year individual income tax collections by type of revenue (account).

Individual Income Tax (\$ Millions)

Account	YTD 2024	YTD 2023	\$ Difference	% Difference
Withholding	\$898.4	\$848.3	\$50.1	5.9%
Estimated Payments	279.3	331.4	(52.2)	-15.7%
Current Year Payments	66.0	71.9	(5.9)	-8.2%
Audit, P&I, Amended	33.0	31.2	1.8	5.9%
Refunds	11.6	73.1	(61.5)	-84.1%
Partnership Income Tax	213.0	57.9	155.1	267.7%
Mineral Royalties	5.8	7.0	(1.3)	-18.1%
Total	1,507.2	1,421.0	86.2	6.1%

Withholding typically accounts for two-thirds of individual income tax and about 40% of total general fund revenue. Currently, withholding growth is 5.9% above last year's collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes in the second half of the fiscal year. This year however, it is anticipated that withholding growth will continue to decline throughout the remainder of the current fiscal year due to the passage of [SB 121](#) in the 2023 Legislative Session. Prior to the passage of SB 121, the top marginal rate was set to decrease from 6.75% to 6.5% on January 1, 2024. With the passage of SB 121, the top rate decreased instead to 5.9% on January 1, 2024.

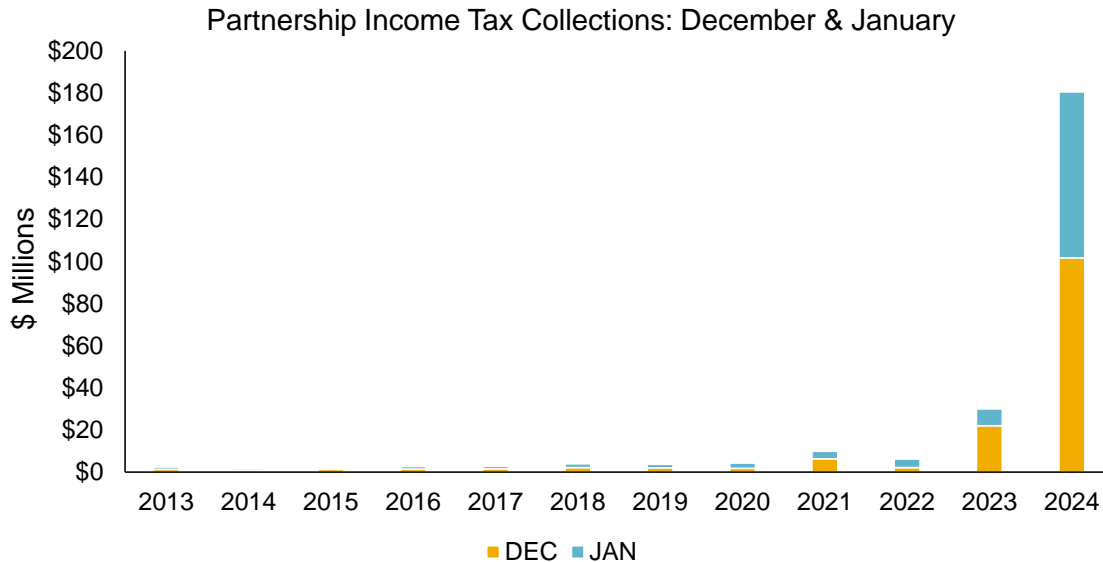
Cumulative Year-over-Year Withholding



The reduced top marginal rate is reflected in the decreased withholding growth experienced from December to January in the figure to the right.

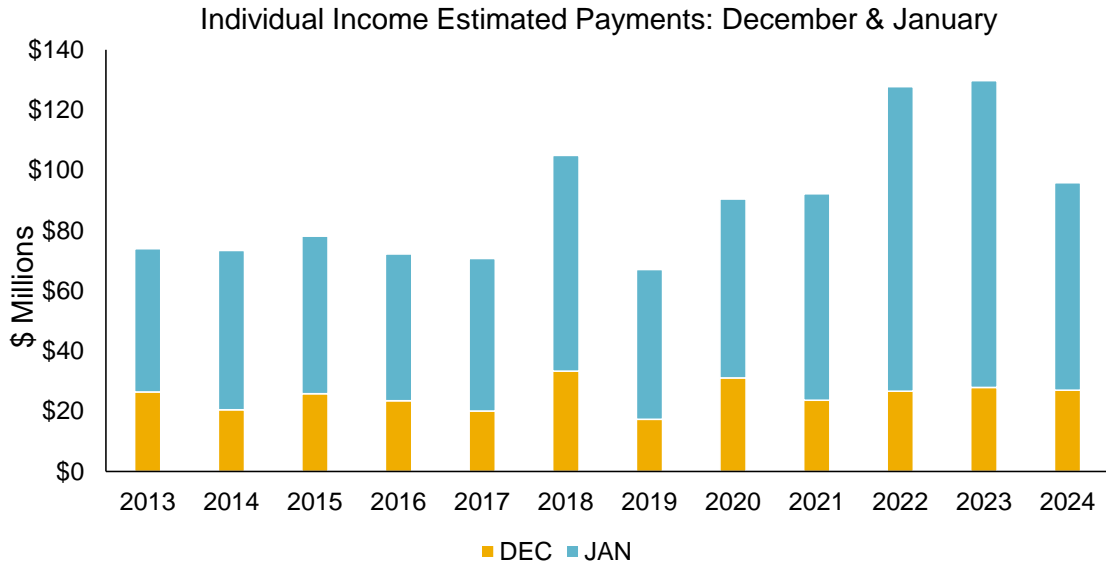
SB 554 (2023 Session)

The largest source of growth in individual income taxes through the end of January is in the form of partnership income taxes. Through January, these collections are up \$155.1 million, or 267.7% compared to last year. The strong growth was observed almost entirely in December and January and was expected with the passage of [SB 554](#) in the 2023 Legislative Session. The figure below shows partnership income tax collections in December and January compared to previous years.



SB 554 created an optional pass-through entity tax. The fiscal note for this bill estimated that there would be no impact to the state in the long-term. However, it is possible that the timing and collection/issuing of both payments and refunds could be shifted from one fiscal year to the next.

At the federal level, state tax liabilities for a pass-through entity are classified as a business expense, and therefore not subject to the \$10,000 state and local tax (SALT) itemized deduction cap. As a result, it is likely that many taxpayers in Montana paid state liabilities as a pass-through entity at the end of CY 2023 to lower their federal tax liability. It is anticipated that these pre-paid, or overpayment, of state tax liabilities will be mostly offset in the second half of FY 2024 in the form of lower quarterly estimated payments or refunds. As the graph below shows, it appears that some of the offset already began in the form of decreased January estimated payment collections.

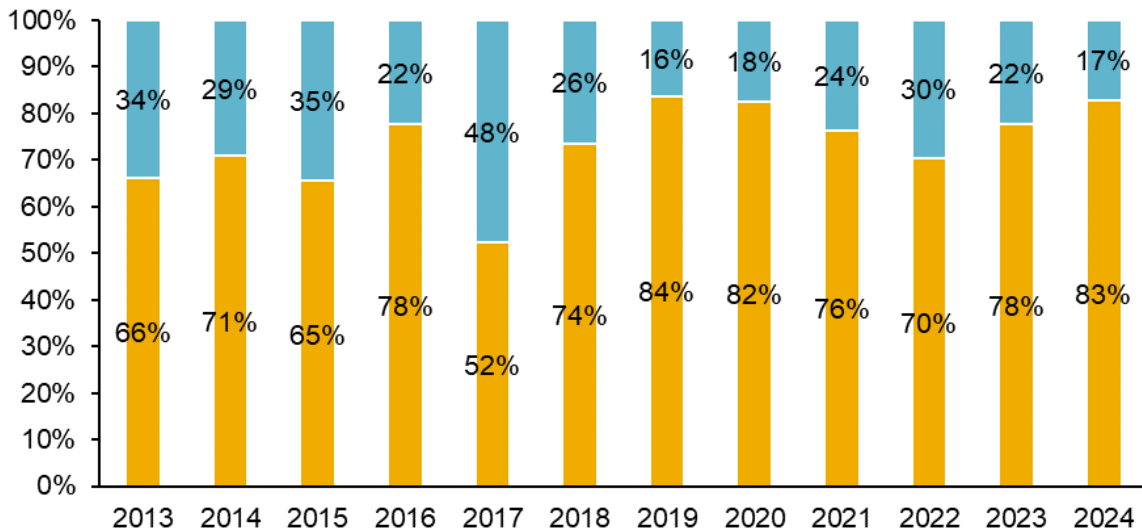


Volatility alert: It is possible however, that some of these offsetting refunds may not be issued until the fall of FY 2025 if some of these taxpayers file on extension. If this happens, FY 2024 income tax revenues could be much higher than expected.

Property Tax: On target to meet HJ 2

Property tax collections have decreased by 0.8% or \$1.5 million compared to collections through the same period last year. In HJ 2, this source was expected to grow by 23.8%. The low collections this year are due to lower collections from the November tax payment because of a dispute over the number of mills owed to the state. Most counties levied 77.9 mills instead of 95. This difference is expected to be made up for in the May payment, when counties collect the mills missing from the November payment. As a result, 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.

The November property tax payment is split unevenly between **December** & **January**

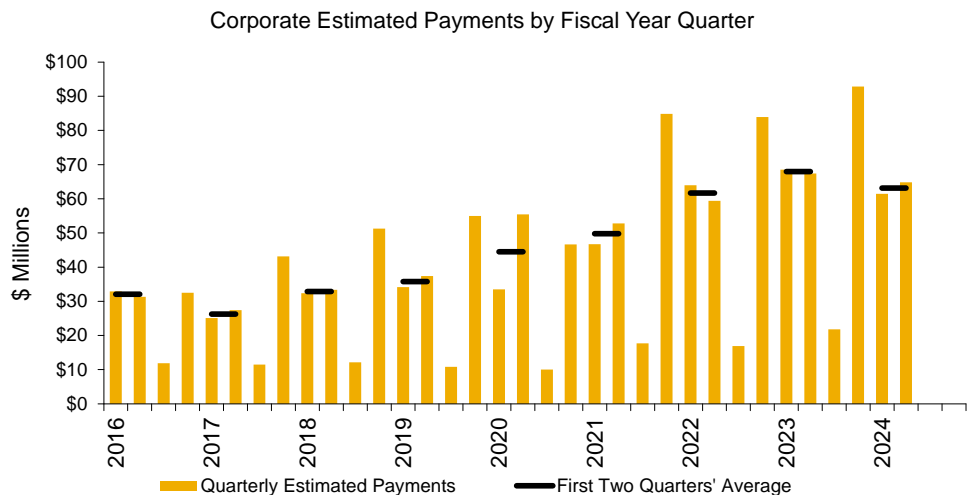


Corporate Income Tax: Anticipated to end up above HJ 2 estimate.

Corporate income tax collections through the end of January are 13.4% or \$21.1 million above this time in FY 2023. This is above the HJ 2 estimate which projected a decline of 11.0%. 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 corporation tax account, which are payments that come in with filed returns. However, both higher audit collections and fewer refunds issued have also contributed to the growth.

Account	YTD 2024	YTD 2023	\$ Difference	% Difference
Corporation Tax	\$35.1	\$21.9	\$13.2	60.1%
Estimated Payments	\$140.1	\$143.1	(3.0)	-2.1%
Refunds	(4.6)	(12.0)	7.4	-61.9%
Audit, P&I, Amended	8.1	4.6	3.5	76.9%
Total	178.8	\$157.6	\$21.1	13.4%

The adjacent chart shows that estimated payments in the first two quarters of FY 2024 are below last year's levels but still strong. Estimated payments typically make up 80% of total corporate income tax collections, so they're the ultimate driver of where final collections end up. As of now, estimated payments are only slightly below last year. If this continues, coupled with growth in the other corporate tax accounts, final collections are likely to end up above HJ 2.



Vehicle Fees & Taxes: Anticipated to be near the HJ 2 estimate by FYE.

Through the end of January, vehicle taxes & fees are up 4.9% or \$3.0 million from FY 2023 collections. Growth in this source has primarily been driven by an increase in light vehicle registration revenues. This is above the estimated decrease of 0.6% in HJ 2. Revenues posted to the accounting system for this source can be sporadic from month-to-month, but it is ultimately expected to come in near HJ 2.

Oil & Natural Gas Production Tax: Anticipated to be close to the HJ 2 estimate.

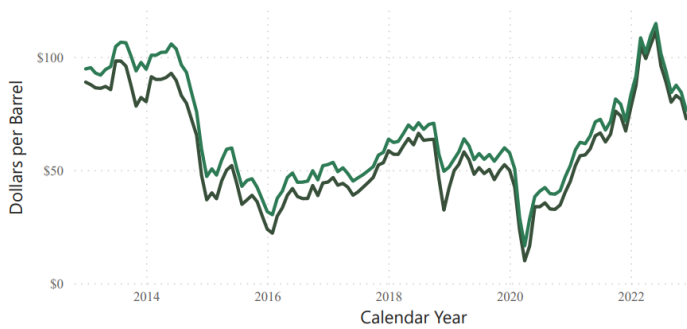
Combined oil and gas production tax collections are 17.2% or \$3.6 million below FY 2023 collections. Compared to FY 2023, the first quarter saw a price decrease in oil of about 12%, which accounts for most of this decrease. Collections are still expected to come in near the estimate, as collections at this time last year were still coming down from ten-year highs in oil prices.

Although oil prices have been very volatile over the last three years, there has been an increase in the average number of oil rigs operating in Montana. The chart below shows the last available price per barrel in Montana and is from an interactive tool published on the [LFD's website here](#).

Price, Rigs, & Production

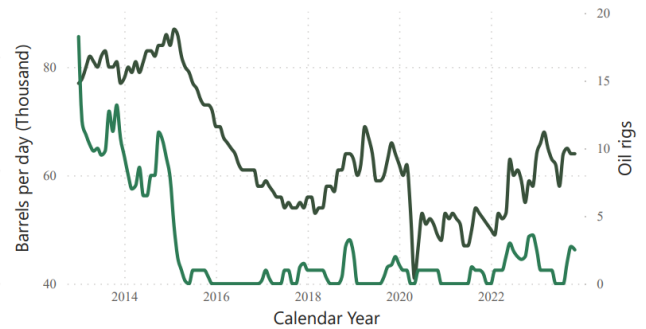
Average of oil price per barrel

● Average of MT price ● Average of WTI price



Average Oil production and rigs in Montana

● Production ● Average rigs in operation



Year	Average of MT price	Average of Brent price	Average of WTI price	Average of Retail gas price
2013	\$88.54	\$108.64	\$97.91	\$3.51
2014	\$81.13	\$99.02	\$93.26	\$3.36
2015	\$40.21	\$52.35	\$48.69	\$2.42
2016	\$35.80	\$43.55	\$43.15	\$2.15
2017	\$45.03	\$54.25	\$50.88	\$2.41
2018	\$57.83	\$71.06	\$64.94	\$2.72
2019	\$50.28	\$64.36	\$56.98	\$2.60
2020	\$32.20	\$41.76	\$39.24	\$2.23
2021	\$62.26	\$70.68	\$67.99	\$3.00
2022	\$90.67	\$100.78	\$94.79	\$3.96
2023	\$73.83	\$82.91	\$78.16	\$3.55
Total	\$59.69	\$71.67	\$66.82	\$2.90

Year	Average of Rigs	Production (Thou. Barrels per day)
2013	11.53	961
2014	8.37	980
2015	1.65	943
2016	0.00	764
2017	0.53	670
2018	1.00	696
2019	0.62	756
2020	0.78	629
2021	0.33	615
2022	1.94	672
2023	1.21	703
Total	2.55	8389

Last available data

November
\$72.46
MT price per barrel
64
Production (Thou. Barrels per day)
2.50
Rigs

Insurance Tax: Expected to be above the HJ 2 estimate.

Current insurance tax collections through January are 5.8% or \$2.1 million above FY 2023 collections through the same period. This is due to strong collections of premium insurance tax, which is up 7.9% from last year. This may be due to increases in property values or an increase in the number of policies written. The increase in premium taxes offsets small decreases in captive insurance tax and insurance licenses and permits.

Video Gaming Tax: On track to end up near the HJ 2 estimate.

Revenue from video gambling is currently \$2.0 million or 5.0% above collections from this time last year. In HJ 2 this source was expected to grow by 3.9%. After growth of 30.4% in FY 2021, this source appears to have settled in to a stable 3.0% to 5.0% growth rate per year.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Strong growth but not anticipated to reach HJ 2

Lodging facilities sales tax collections through January are \$1.9 million or 9.5% above FY 2023. This is below the estimated growth of 35.8%. Collections are still higher than both FY 2022 and FY 2023, which were both strong years, and this is likely a plateauing of strong growth from the last few fiscal years.

U.S. Mineral Leasing: Anticipated to end the year below the HJ 2 estimate.

Current U.S. mineral leasing collections through January are 65.5% or \$13.5 million below FY 2023 collections. The estimate contained in HJ 2 has a year-over-year decrease of 35.4% for this source. Possible contributions to this decrease are lower commodity prices from an early FY 2023 peak, specifically coal and oil, and likely decreases in production on federal lands.

Treasury Cash Account (TCA) Interest Earnings: Expected to end up near HJ 2

Current TCA interest earnings are 35.8% or \$18.9 million above FY 2023 collections through the same period. This source is affected by interest rates and the Treasury Cash Account's current cash balance. Monthly revenues from this source were higher in the beginning half of the fiscal year, due to larger cash balances. As various legislation enacted by the 2023 Legislative Session has taken effect, this balance has decreased compared to the early months of the fiscal year. As a result, growth in this account should continue to slow closer to the 6.9% growth contained in HJ 2.

Marijuana Tax: Near Estimate, General Fund Transfer Occurs at FYE

Adult use marijuana tax collections are about 4.5% or \$964,800 above FY 2023 collections through January. License fees are also slightly above FY 2023 collections, while medical collections are about \$572,700 below last fiscal year. Total marijuana tax collections are on track to grow by 4.1% in FY 2024, which is consistent with the estimate of 4.3% growth contained in HJ 2. The transfer to the general fund occurs at the end of the fiscal year.