



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: January 7, 2019

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

FROM: LFD Revenue Team

RE: FY 2019 General Fund Revenue Update #1

## GENERAL FUND REVENUE SUMMARY

This is the first of six monthly revenue updates throughout the second half of FY 2019 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2019 relative to the revenue estimate contained in HJ 2.

FY 2019 general fund revenues through the end of December are \$6.9 million or 0.6% above FY 2018 revenues through the same period. Note that total year-to-date growth of 0.6% is influenced by the timing of one-time-only transfers in FY 2018. When one-time-only transfers are excluded, the ongoing revenue is above last year by 6.1%, and above the anticipated growth of 3.4%. A portion of the 6.1% increase in ongoing revenue—about \$27 million—is due to a timing issue in property tax collections, which typically resolves by the next report. In addition, income tax payment timing may or may not be reducing year-to-date collections, which should also be clearer in the next report.

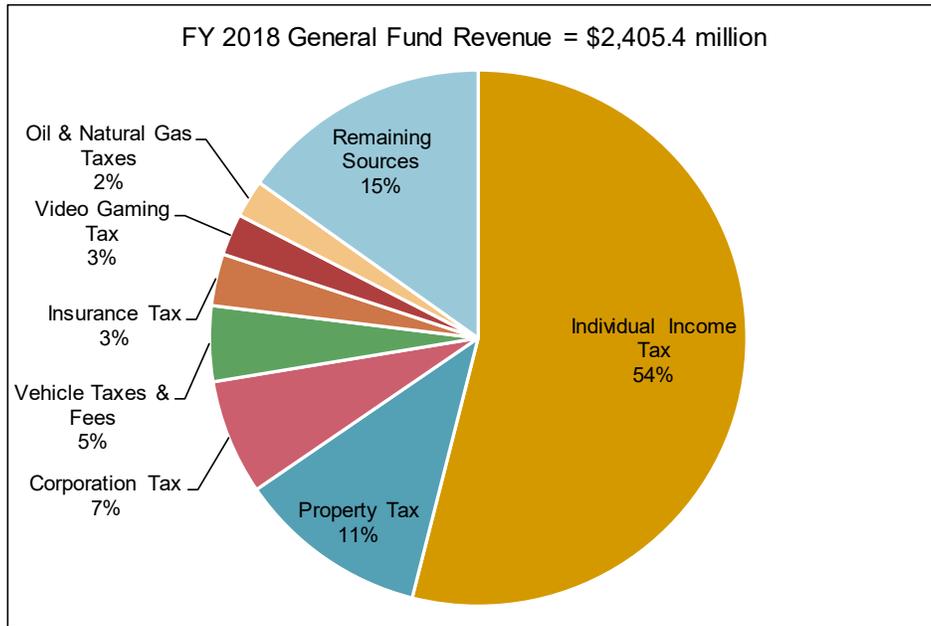
Two analyses of possible fiscal-year-end revenue collections based year-to-date revenue are provided in an appendix. However, given the significant variability between December and January individual income tax estimated payments and property tax remissions by counties to the state, the extrapolations are particularly variable until January collections are complete. Based on data through December, the median values suggest final revenue collections in the range of 0.1% below to 3.8% above HJ 2.

# YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2018	HJ 2 FY 2019	HJ 2 Est. % Change	Dec FY 2018	Dec FY 2019	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,297.777	\$1,359.066	4.7%	\$710.439	\$741.702	\$31.263	4.4%
Property Tax	276.414	283.225	2.5%	115.890	139.010	23.119	19.9%
Corporation Tax	167.100	160.824	-3.8%	91.703	92.402	0.699	0.8%
Vehicle Taxes & Fees	109.540	111.525	1.8%	44.367	46.747	2.380	5.4%
Oil & Natural Gas Taxes	54.508	60.049	10.2%	-	-	-	
Insurance Tax	75.273	77.475	2.9%	25.365	29.936	4.571	18.0%
Video Gaming Tax	60.324	60.158	-0.3%	14.947	15.821	0.874	5.8%
<b>Other Business Taxes</b>							
Drivers License Fee	4.581	4.342	-5.2%	2.128	2.039	(0.089)	-4.2%
Investment Licenses	7.683	7.963	3.6%	0.844	0.895	0.051	6.0%
Lodging Facilities Sales Tax	24.091	25.218	4.7%	10.178	10.523	0.345	3.4%
Public Contractor's Tax	4.267	3.503	-17.9%	4.079	4.639	0.560	13.7%
Railroad Car Tax	3.649	3.492	-4.3%	3.341	3.076	(0.264)	-7.9%
Rental Car Sales Tax	3.719	3.730	0.3%	1.587	1.923	0.336	21.2%
Retail Telecom Excise Tax	13.726	12.889	-6.1%	3.546	3.419	(0.127)	-3.6%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	14.107	13.555	-3.9%	3.978	3.971	(0.006)	-0.2%
Electrical Energy Tax	4.302	4.547	5.7%	1.130	0.888	(0.242)	-21.4%
Metal Mines Tax	6.291	6.749	7.3%	0.000	0.016	0.016	68591.6%
U.S. Mineral Leasing	20.139	20.934	3.9%	6.919	8.372	1.453	21.0%
Wholesale Energy Trans Tax	3.628	3.516	-3.1%	0.901	0.773	(0.128)	-14.2%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	17.938	17.088	-4.7%	7.083	7.139	0.056	0.8%
TCA Interest Earnings	10.888	21.514	97.6%	3.312	7.775	4.462	134.7%
<b>Other Consumption Taxes</b>							
Beer Tax	3.002	3.074	2.4%	1.325	1.359	0.034	2.5%
Cigarette Tax	27.755	27.313	-1.6%	13.380	14.298	0.918	6.9%
Liquor Excise Tax	21.007	22.884	8.9%	9.155	9.275	0.120	1.3%
Liquor Profits	12.200	12.900	5.7%	-	-	-	
Lottery Profits	10.699	11.510	7.6%	3.362	2.684	(0.678)	-20.2%
Tobacco Tax	6.058	6.273	3.6%	2.728	2.676	(0.052)	-1.9%
Wine Tax	2.446	2.461	0.6%	1.069	1.092	0.023	2.1%
<b>Other Sources</b>							
All Other Revenue	117.645	90.686	-22.9%	86.039	24.054	(61.985)	-72.0%
Highway Patrol Fines	3.754	3.907	4.1%	1.549	1.611	0.063	4.0%
Nursing Facilities Fee	4.405	4.275	-3.0%	1.108	1.055	(0.053)	-4.8%
Public Institution Reimbursement	13.754	13.887	1.0%	4.384	3.205	(1.179)	-26.9%
Tobacco Settlement	2.778	2.996	7.9%	0.006	0.337	0.331	5464.5%
Ongoing Revenue Subtotal	2,333.618	2,412.503	3.4%	1,107.799	1,175.917	68.117	6.1%
OTO Revenue & Transfers Subtotal	71.829	51.024		68.041	6.793	(61.248)	
<b>Grand Total</b>	<b>\$2,405.447</b>	<b>\$2,463.527</b>	<b>2.4%</b>	<b>\$1,175.841</b>	<b>\$1,182.710</b>	<b>\$6.869</b>	<b>0.6%</b>

# MAJOR SOURCES

In FY 2018, the largest seven revenue sources accounted for 85% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

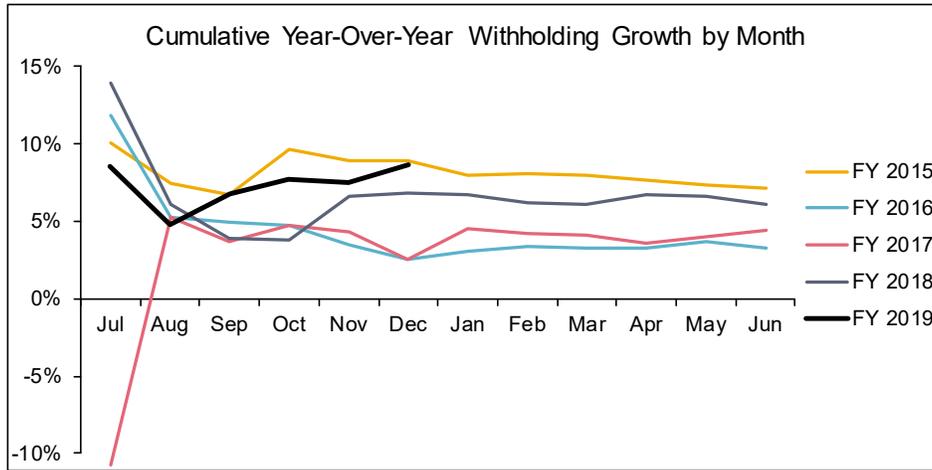


## Individual Income Tax: Withholding Growth Offsets Estimated Payment Decline

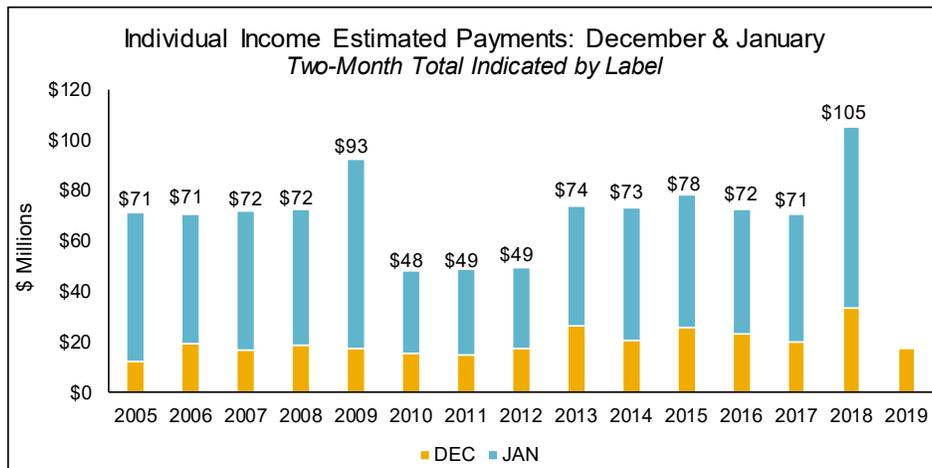
Individual income tax collections through the end of December are \$31.3 million or 4.4% above the year-to-date collections in FY 2018, but below the 4.7% growth anticipated in HJ 2. The year-over-year increase is primarily due to strong withholding growth, which more than offset the decline in December estimated payments.

Individual Income Tax (\$ Millions)				
	YTD 2019	YTD 2018	\$ Difference	% Difference
Withholding	\$494.5	\$455.0	\$39.5	8.7%
Estimated Payments	125.6	135.3	(9.7)	-7.2%
Current Year Payments	19.9	19.5	0.4	1.9%
Audit, P&I, Amended	17.8	16.6	1.2	7.4%
Refunds	(86.3)	(77.8)	(8.5)	11.0%
Refund Accrual Reversal	161.9	153.2	8.7	5.7%
Partnership Income Tax	5.6	6.4	(0.8)	-12.5%
Mineral Royalties	2.6	2.1	0.5	22.0%
<b>Total</b>	<b>\$741.7</b>	<b>\$710.4</b>	<b>\$31.3</b>	<b>4.4%</b>

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to increase year-over-year growth compared to FY 2018 collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.

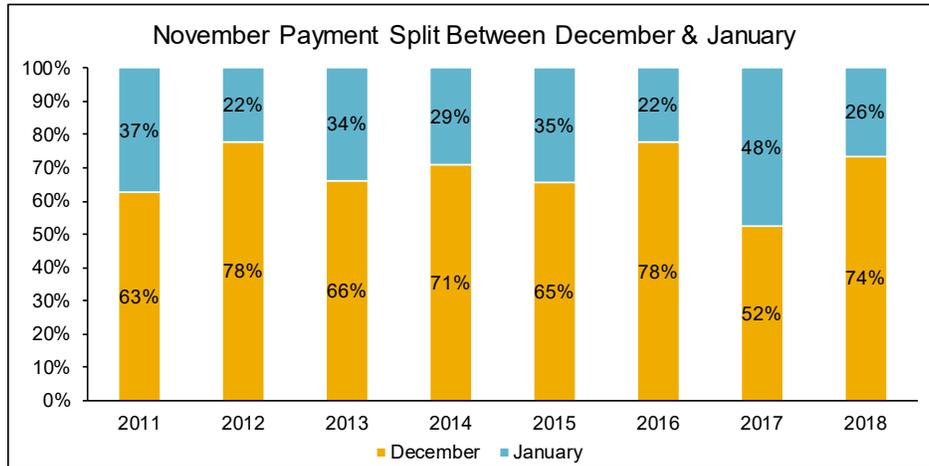


The timing of estimated payments can fluctuate between December and January, so next month's report should clarify expectations for FY 2019. The decline relative to the unusually high combined December and January estimated payments of last year—potentially due to advanced payments made at the end of CY 2017 by taxpayers in response to the new federal cap on state and local tax deductions starting in CY 2018—is not surprising. However, last month's estimated payments were below any December estimate payments amount since FY 2012, as illustrated in the following chart. Estimated payments will be monitored closely to determine whether timing appears to be the primary driver of the decline, or if taxpayers appear to be adjusting their income expectations.



### Property Tax: YTD Increase Due to Timing

Property tax collections are above last year by \$23.1 million or 19.9%. The strong growth is likely due to 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.

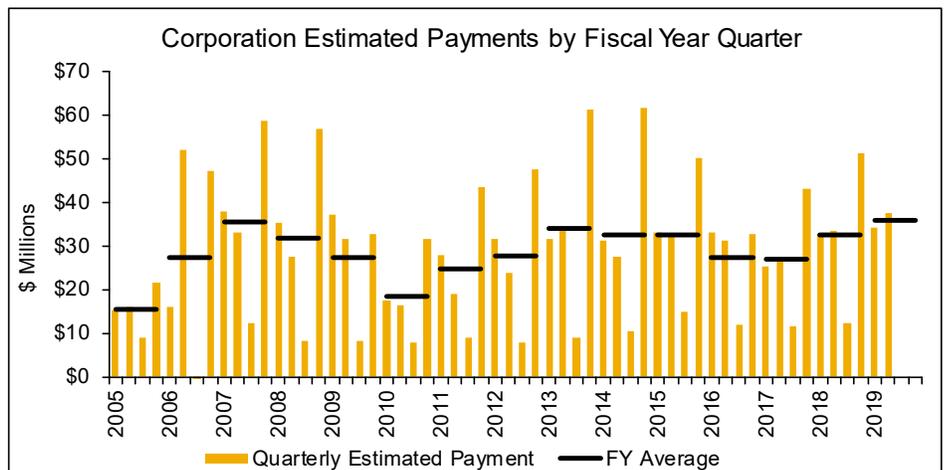


### Corporation Income Tax: Currently Above Estimate

Corporation income tax collections through the end of December are 0.8% or \$0.7 million above this time in FY 2018. As the chart below shows, higher corporation tax payments in FY 2018 were entirely offset by increases across all other accounts in FY 2019. Estimated payments, the main driver of corporation income tax, showed strong growth of 8.9%.

Corporation Income Tax (\$ Millions)				
Account	YTD 2019	YTD 2018	\$ Difference	% Difference
Corporation Tax	\$12.7	\$26.2	(\$13.4)	-51.3%
Estimated Payments	71.5	65.7	5.8	8.9%
Refunds	(4.4)	(5.4)	1.0	-17.7%
Refund Accrual Reversal	4.9	3.3	1.6	46.7%
Audit, P&I, Amended	7.7	1.9	5.8	307.2%
<b>Total</b>	<b>\$92.4</b>	<b>\$91.7</b>	<b>\$0.7</b>	<b>0.8%</b>

The adjacent chart shows that estimated payments in the first two quarters of FY 2019 are above the estimated payments collected in recent years. Estimated payments typically make up 80% of total corporation income tax collections, so if this strong growth continues this source is likely to end up above the HJ 2 estimate.

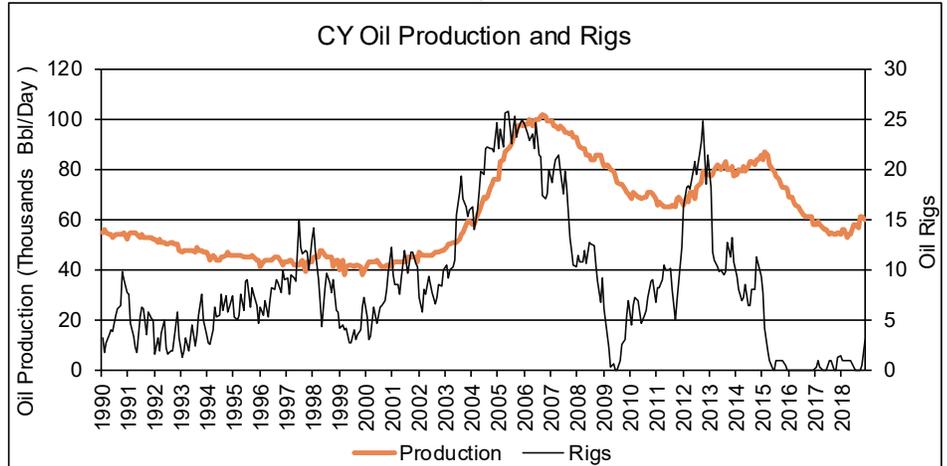


### Vehicle Fees & Taxes: Currently Above Estimate

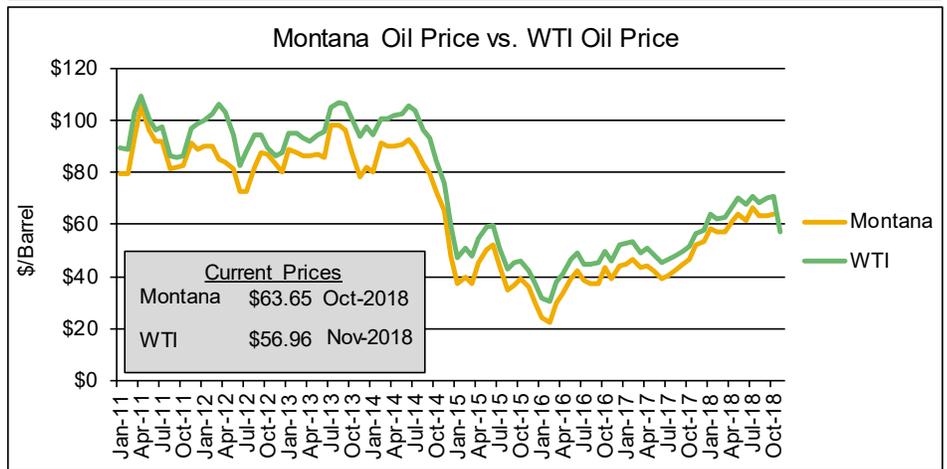
Six months into FY 2019, vehicle taxes and fees are 5.4% or \$2.4 million above collections last year. In HJ 2, this source was expected to grow by 1.8%. The increase is driven by a year-to-date increase in light vehicle registrations. It will be interesting to see if this increase continues throughout the fiscal year or if it is simply abnormal timing.

## Oil & Natural Gas Production Tax: No Data, But Likely Above Last Year

Oil and natural gas production tax collections currently shows no data. 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. Known price and production data suggests that collections for the first quarter of FY 2019 will be larger than FY 2018.



As the chart to the upper-right shows, oil production had been declining since the beginning of 2015, as there was at most two rigs operating in the state since early 2015. However, production has increased since the summer of 2018 as up to four rigs moved into the area for the second half of calendar 2018. The increased activity was likely spurred by increased prices, shown to the right.



## Insurance Tax: Currently Above Estimate

Current insurance tax collections are 18.0% or \$4.6 million above FY 2017 through December, and well above the 2.9% growth anticipated in HJ 2. This appears to be a timing issue, as year-to-date insurance premiums tax collections are at similar levels to FY 2016 and FY 2017. Total collections at this time in FY 2018 were abnormally low and later increased. Insurance premiums tax accounts for over 80% of total insurance tax, and research is ongoing with the State Auditor's Office to determine whether the increase in insurance premiums tax collections is due to timing or an increase in policies written.

## Video Gaming Tax: Currently Above Estimate

Revenue from video gambling is currently \$0.9 million or 5.8% above collections from last year. This source was expected to remain flat in HJ 2.

## OTHER KEY DIFFERENCES:

### U.S. Mineral Royalties: Currently Above Estimate

U.S. mineral royalties are up 21.0% or \$1.5 million compared to FY 2018 levels at this time. Mineral royalty payments can be sporadic, and it appears that a portion of the increase may be due to timing. In HJ 2, this source was expected to grow by 3.9%.

### **TCA Interest Earnings: Strong YTD Growth Driven by Increasing Interest Rates**

Treasury cash account interest earnings are \$4.5 million or 134.7% above collections last year at this time, and above the HJ 2 anticipated growth of 97.6%. The increase has been driven by the continued rise in short-term interest rates.

### **All Other Revenue: Decline Due to Timing of Transfers in FY 2018**

To date, all other revenue collections are 72.0% or \$62.0 million below last year's collections. The decrease is due to legislatively authorized transfers from [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) that were made in the first half of FY 2018.

### **Public Institution Reimbursements: Below Last Year**

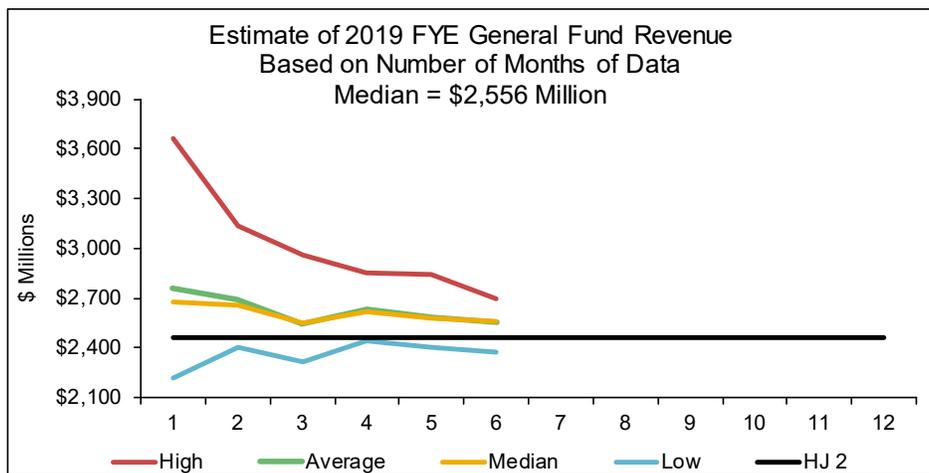
Public institution reimbursements are currently 26.9% or \$1.2 million below last fiscal year. Collections for this source are historically erratic, and may even out by the end of the fiscal year. However, this source is impacted by [SB 411 \(2015 Session\)](#) with the magnitude of the effect dependent upon the speed at which the closure of MDC moves forward.

# APPENDIX

As noted at the beginning of this report, the two analyses of possible fiscal-year-end revenue collections based year-to-date revenue produce different results. After January collections are complete, the two independent analyses should produce more similar results. Based on data through December, the median values suggest final revenue collections in the range of 0.1% below to 3.8% above HJ 2.

## Year-to-Date Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2019 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Based on collections through the end of November with a downward adjustment in property tax of \$27 million, the difference between the high and low amounts is about \$327 million, with the average and median values above the HJ 2 estimate.

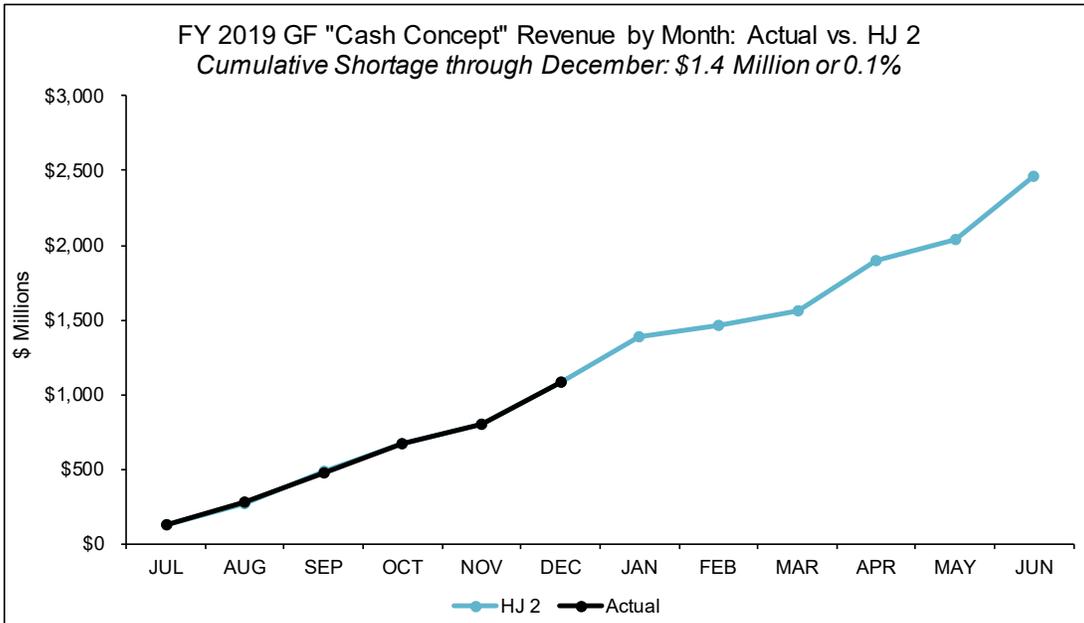


Potential total general fund collections range from a low of \$2,372 million to a high of \$2,699 million, with median and average values of \$2,556 million, or 3.8% above HJ 2. The FY 2019 forecast for total general fund in HJ 2 is \$2,464 million.

## Cash Flow Model

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2018, with accruals and subsequent accrual reversals removed. The top seven revenue sources and general fund transfers are modeled separately, with the remaining sources estimated as a group.

The chart below shows modeled cumulative HJ 2 by month with the blue line, and actual collections with the black line. Through December, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$1.4 million or 0.1%. If revenue continues to be below HJ 2 by 0.1% through FY 2019, final collections could be \$3.3 million lower than expected.



Individual income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, individual income tax through December is \$20.2 million below the HJ 2 estimate.

