

LEGISLATIVE FISCAL DIVISION 2023 BIENNIUM REVENUE ESTIMATE AND COMPARISON TO THE EXECUTIVE

A Report Prepared for the
Revenue & Transportation Interim Committee

By
LFD Revenue Team

November 19, 2020

INTRODUCTION

This report provides a summary of the Legislative Fiscal Division (LFD) revenue estimate recommendations for the upcoming 2023 biennium. Full detail on each of the general fund revenue sources and selected non-general fund revenue sources are available online in the LFD's [2023 Biennium Budget Analysis: Volume 2](#). The revenue estimates for each source reflect a combination of changes in base year data, revised assumptions, modeling adjustments, and new IHS Markit forecasts since the production of the current official revenue estimate contained in HJ 2. The body of this report is organized into the following sections:

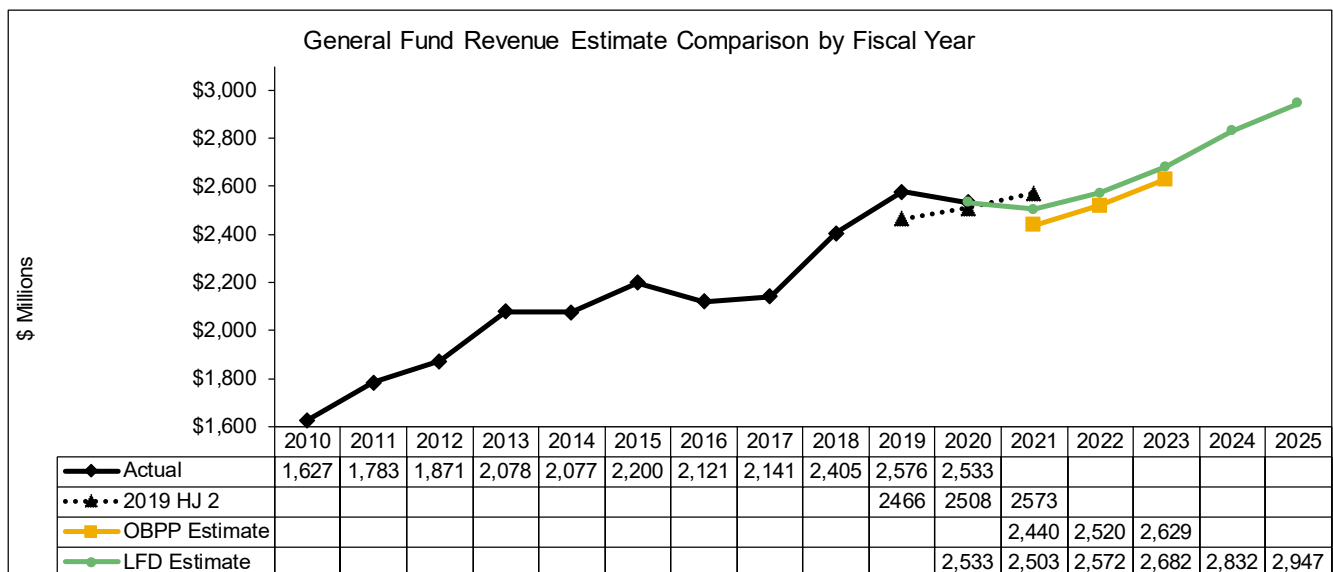
- 2023 Biennium Revenue Overview
- 2023 Biennium Comparison to the Executive
- 2023 Biennium LFD Recommendation
- Appendix (Includes analysis of differences in the estimates for individual income tax)

The new data available since the adoption of HJ 2 includes the following sources:

- FY 2019 and FY 2020 revenue collections
- Two additional years of individual and corporate income tax return data, and property valuation data
- Two additional years of oil and natural gas production data
- Updated IHS Markit forecasts

2023 BIENNIUM REVENUE OVERVIEW

The estimate recommendation for annual growth in general fund revenue for FY 2021 is -1.2%, for FY 2022 is 2.7%, and for FY 2023 is 4.3%. The three-year estimate has improved compared to what was anticipated in the [2023 Biennium Outlook](#). Comparison of actual collections since FY 2010, estimates contained in [HJ 2 \(2019 Session\)](#), the LFD 2021 biennium estimate recommendation, and the executive estimate recommendation are shown in the chart below.



The 2023 biennium revenue estimates produced by the LFD and corresponding year-over-year growth rates are detailed in the following table:

LFD General Fund Revenue Estimate Recommendation								
(\$ Millions)								
Revenue Source	Actual FY 2020	LFD			% Growth			
		FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023	
Largest Seven Sources								
Individual Income Tax	\$1,435.240	\$1,434.744	\$1,473.929	\$1,553.321	0.0%	2.7%	5.4%	
Property Tax	308.610	313.021	333.017	339.825	1.4%	6.4%	2.0%	
Corporation Tax	187.358	156.256	163.528	168.808	-16.6%	4.7%	3.2%	
Vehicle Taxes & Fees	108.482	109.273	110.402	111.384	0.7%	1.0%	0.9%	
Oil & Natural Gas Production Tax	38.380	36.488	40.402	41.002	-4.9%	10.7%	1.5%	
Insurance Tax	82.489	86.072	84.780	87.767	4.3%	-1.5%	3.5%	
Video Gaming Tax	57.447	60.320	63.336	66.503	5.0%	5.0%	5.0%	
Other Business Taxes								
Drivers License Fee	4.410	4.029	4.053	4.071	-8.6%	0.6%	0.5%	
Investment Licenses	15.711	16.385	16.524	16.866	4.3%	0.8%	2.1%	
Lodging Facilities Sales Tax	25.058	20.878	30.589	36.378	-16.7%	46.5%	18.9%	
Public Contractor's Tax	6.729	4.987	5.103	5.206	-25.9%	2.3%	2.0%	
Railroad Car Tax	4.294	4.305	4.393	5.140	0.3%	2.0%	17.0%	
Rental Car Sales Tax	4.224	3.823	4.727	5.219	-9.5%	23.6%	10.4%	
Retail Telecom Excise Tax	11.788	10.954	10.085	9.190	-7.1%	-7.9%	-8.9%	
Other Natural Resource Taxes								
Coal Severance Tax	10.920	10.966	10.812	10.648	0.4%	-1.4%	-1.5%	
Electrical Energy Tax	3.910	4.480	4.223	4.203	14.6%	-5.7%	-0.5%	
Metal Mines Tax	8.724	9.922	8.038	8.222	13.7%	-19.0%	2.3%	
U.S. Mineral Royalties	18.527	18.729	17.909	17.221	1.1%	-4.4%	-3.8%	
Wholesale Energy Trans Tax	3.351	3.467	3.460	3.466	3.4%	-0.2%	0.2%	
Other Interest Earnings								
Coal Trust Interest Earnings	0.000	21.600	17.904	16.828	15.700	-17.1%	-6.0%	-6.7%
TCA Interest Earnings	18.597	2.740	1.582	1.724	-85.3%	-42.3%	9.0%	
Other Consumption Taxes								
Beer Tax	3.167	3.102	3.111	3.117	-2.1%	0.3%	0.2%	
Cigarette Tax	26.983	27.045	26.558	26.113	0.2%	-1.8%	-1.7%	
Liquor Excise Tax	23.786	24.930	26.426	28.014	4.8%	6.0%	6.0%	
Liquor Profits	18.080	18.500	18.500	19.600	2.3%	0.0%	5.9%	
Lottery Profits	8.073	14.367	14.245	14.368	78.0%	-0.9%	0.9%	
Tobacco Tax	5.754	5.724	5.627	5.565	-0.5%	-1.7%	-1.1%	
Wine Tax	2.522	2.579	2.637	2.697	2.3%	2.2%	2.3%	
Other Sources								
All Other Revenue ¹	46.062	44.685	44.075	46.685	-3.0%	-1.4%	5.9%	
Highway Patrol Fines	3.458	3.691	3.670	3.607	6.7%	-0.6%	-1.7%	
Nursing Facilities Fee	4.188	3.992	3.896	3.799	-4.7%	-2.4%	-2.5%	
Public Institution Reimb.	12.745	12.555	12.382	13.410	-1.5%	-1.4%	8.3%	
Tobacco Settlement ²	2.654	12.406	2.936	2.912	367.4%	-76.3%	-0.8%	
Total General Fund	\$2,533.321	\$2,503.316	\$2,571.778	\$2,681.749	-1.2%	2.7%	4.3%	
Guarantee Account	42.452	42.914	42.406	42.845	1.1%	-1.2%	1.0%	
Total General Fund & Guarantee	\$2,575.774	\$2,546.231	\$2,614.184	\$2,724.594	-1.1%	2.7%	4.2%	

¹Includes ~\$2.2 million in revenue from I-190 (Marijuana Tax)

²Includes ~\$10 million in OTO revenues in FY 2021 from recent tobacco settlement

COMPARISON TO THE EXECUTIVE

General Fund Revenue Estimate Overview & Comparison									
(\$ Millions)									
Revenue Source	Actual FY 2020	LFD			OBPP			3-Year	3-Year
		FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023	\$ Diff.	% Diff.
Largest Seven Sources									
Individual Income Tax	\$1,435.240	\$1,434.744	\$1,473.929	1,553.321	\$1,400.933	\$1,421.595	\$1,515.175	\$124.291	2.9%
Property Tax	308.610	313.021	333.017	339.825	314.341	332.250	337.249	2.023	0.2%
Corporation Tax	187.358	156.256	163.528	168.808	158.763	175.480	169.983	(15.635)	-3.1%
Vehicle Taxes & Fees	108.482	109.273	110.402	111.384	110.200	113.700	116.600	(9.442)	-2.8%
Oil & Natural Gas Taxes	38.380	36.488	40.402	41.002	30.986	34.067	35.170	17.668	17.6%
Insurance Tax	82.489	86.072	84.780	87.767	85.221	87.693	90.237	(4.533)	-1.7%
Video Gaming Tax	57.447	60.320	63.336	66.503	60.240	65.292	66.958	(2.332)	-1.2%
Other Business Taxes									
Drivers License Fee	4.410	4.029	4.053	4.071	4.286	4.337	4.231	(0.701)	-5.5%
Investment Licenses	15.711	16.385	16.524	16.866	16.003	16.251	16.470	1.052	2.2%
Lodging Facilities Sales Tax	25.058	20.878	30.589	36.378	21.496	28.339	32.940	5.070	6.1%
Public Contractor's Tax	6.729	4.987	5.103	5.206	4.904	4.989	5.518	(0.116)	-0.8%
Railroad Car Tax	4.294	4.305	4.393	5.140	5.235	4.906	4.836	(1.138)	-7.6%
Rental Car Sales Tax	4.224	3.823	4.727	5.219	2.293	3.432	4.838	3.206	30.4%
Retail Telecom Excise Tax	11.788	10.954	10.085	9.190	10.831	9.948	9.137	0.313	1.0%
Other Natural Resource Taxes									
Coal Severance Tax	10.920	10.966	10.812	10.648	10.656	11.118	10.483	0.168	0.5%
Electrical Energy Tax	3.910	4.480	4.223	4.203	3.385	3.441	3.439	2.641	25.7%
Metal Mines Tax	8.724	9.922	8.038	8.222	9.087	9.297	9.501	(1.703)	-6.1%
U.S. Mineral Royalties	18.527	18.729	17.909	17.221	15.943	16.298	15.680	5.937	12.4%
Wholesale Energy Trans Tax	3.351	3.467	3.460	3.466	2.997	3.075	3.072	1.249	13.7%
Other Interest Earnings									
Coal Trust Interest Earnings	21.600	17.904	16.828	15.700	16.316	15.513	14.552	4.051	8.7%
TCA Interest Earnings	18.597	2.740	1.582	1.724	4.239	4.098	4.472	(6.762)	-52.8%
Other Consumption Taxes									
Beer Tax	3.167	3.102	3.111	3.117	3.181	3.199	3.218	(0.269)	-2.8%
Cigarette Tax	26.983	27.045	26.558	26.113	26.874	26.535	26.207	0.099	0.1%
Liquor Excise Tax	23.786	24.930	26.426	28.014	25.568	26.512	27.561	(0.271)	-0.3%
Liquor Profits	18.080	18.500	18.500	19.600	14.250	14.750	15.250	12.350	27.9%
Lottery Profits	8.073	14.367	14.245	14.368	9.230	11.839	13.103	8.807	25.8%
Tobacco Tax	5.754	5.724	5.627	5.565	5.611	5.553	5.435	0.315	1.9%
Wine Tax	2.522	2.579	2.637	2.697	2.522	2.568	2.615	0.207	2.7%
Other Sources									
All Other Revenue ¹	46.062	44.685	44.075	46.685	41.083	41.204	41.369	11.789	9.5%
Highway Patrol Fines	3.458	3.691	3.670	3.607	3.106	3.738	4.029	0.095	0.9%
Nursing Facilities Fee	4.188	3.992	3.896	3.799	4.148	4.076	4.004	(0.541)	-4.4%
Public Institution Reimb.	12.745	12.555	12.382	13.410	12.939	12.186	13.356	(0.136)	-0.4%
Tobacco Settlement ²	2.654	12.406	2.936	2.912	2.760	2.679	2.573	10.242	127.8%
Total General Fund	\$2,533.321	\$2,503.316	\$2,571.778	\$2,681.749	\$2,439.626	\$2,519.958	\$2,629.264	\$167.996	2.2%
Guarantee Account	42.452	42.914	42.406	42.845	41.033	42.230	42.567	2.3	1.8%
Total General Fund & Guarantee	\$2,575.774	\$2,546.231	\$2,614.184	\$2,724.594	\$2,480.659	\$2,562.188	\$2,671.831	\$170.331	2.2%

¹LFD estimate includes ~ \$2.2 million from I-190 (Marijuana Tax)

² LFD estimate includes ~ \$10 million of OTO revenue from recent tobacco settlement

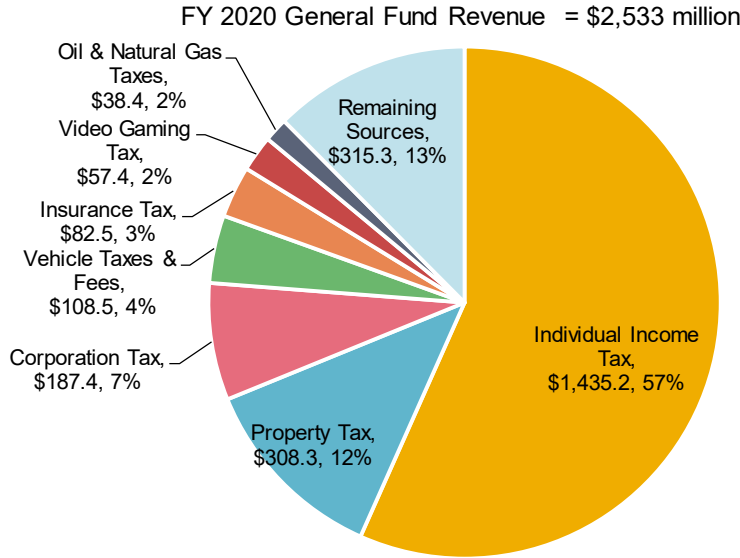
The three-year difference between the LFD and the Governor's Office of Budget and Program Planning (OBPP) is currently \$168 million or 2.2%. *When the LFD's inclusion of revenue from I-190 (marijuana tax) and a recent tobacco settlement is removed, the difference is approximately \$154 million, or 2.0%.*

An in-depth analysis of the individual income tax estimates is included in the Appendix.

2023 BIENNIUM REVENUE ESTIMATE RECOMMENDATIONS

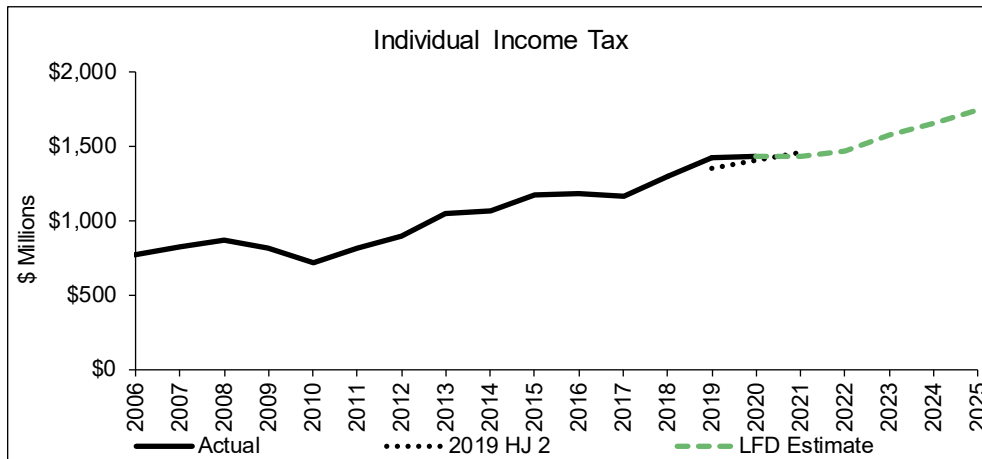
Large Revenue Sources

In FY 2020, the largest seven revenue sources accounted for 87.6% of total general fund revenue. Due to the relative importance of these sources, particular attention is given to important underlying economic indicators for each source.



Individual Income Tax

Individual income tax was higher than the official estimate in both FY 2019 and FY 2020, with the difference decreasing over time. The revised FY 2021 estimate based on the new data and revised CARES Act provision estimates is \$29.7 million below what was anticipated in HJ 2. Slow growth is then expected in FY 2022 before returning to long-term trend growth by FY 2023.



An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all full year residents (FYR). The model is updated each year by the Department of Revenue (DOR) to incorporate the changes in federal and state tax law.

The calendar year state tax liability forecast is developed by applying modeled growth rates to each FYR taxpayer's income and deduction items. The result is a forecast of calendar year state individual

income tax liability for each resident, the sum of which produces a statewide forecast of FYR individual income tax liability for each year. The table below shows the actual income contained on FYR 2019 tax returns and forecast growth rates through the forecast period.

CY 2019 Income Levels & Estimate Growth Rates						
(\$ Millions)						
	2019	2020	2021	2022	2023	10-Year Avg.
Wage Income	\$19,085.6	-0.6%	4.2%	3.6%	3.8%	3.8%
Interest Income	417.8	-2.8%	-1.2%	-0.1%	0.7%	-1.4%
Dividend Income	979.4	0.6%	-5.6%	1.4%	5.5%	8.5%
Net Business	974.4	0.5%	2.1%	-0.1%	2.3%	4.3%
Cap. Gains	2,491.7	-2.1%	-1.6%	-1.1%	1.8%	12.8%
Sup. Gains	150.1	0.0%	0.0%	0.0%	0.0%	29.7%
Rents & Royalties	3,072.1	-1.2%	3.1%	5.2%	6.7%	7.6%
IRA Income	1,060.9	-13.2%	29.5%	5.1%	4.9%	10.7%
Taxable Pensions	2,322.8	5.5%	5.0%	4.9%	4.5%	5.1%
Taxable Soc. Sec.	1,284.2	7.1%	6.1%	4.4%	4.3%	9.1%
Farm Income	(333.1)	0.0%	0.0%	0.0%	0.0%	8.4%
Other Income	(564.6)	0.0%	0.0%	0.0%	0.0%	7.0%
Total	\$30,941.4	-0.4%	4.2%	3.5%	4.1%	4.2%

The statewide forecast of resident liability is adjusted for the growth in resident taxpayers and multiplied by an all-filers percentage to include the tax liability for nonresidents and partial-year residents. This results in a forecast of total calendar year individual income tax liability before credits.

Fiscal year collections before audit, penalty, and interest income are modeled on total calendar year liability before credits, with forecast fiscal year collections then augmented by expected future audit, penalty and interest collections to produce the total individual income tax revenue estimate.

Outside-the-Model Assumption Changes Related to Taxpayer Behavior and the CARES ACT Since the September Forecast

	Changes to Individual Income Tax Baseline Estimate Assumptions Since September Update					
	September Forecast		November Forecast		Difference	
	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022
Taxpayers will maximize liquidity and opt to choose refunds as opposed to putting them towards future payments	(30.00)	-	(24.00)	(25.00)	6.00	(25.00)
The CARES Act suspended required minimum distributions from tax deferred retirement account.	(20.00)	-	(8.00)	-	12.00	-
The Federal Cares Act provides additional abilities for taxpayers to carryback Net-Operating Losses. In August it was assumed that this would reduce FY 2021 revenues by \$58 million and FY 2022 revenues by \$6.5 million	(43.50)	(4.85)	(11.11)	(1.20)	32.39	3.65
The Federal Cares Act provides additional abilities for taxpayers to offset non-business income with business losses. it was assumed that this would reduce FY 2021 revenues by \$63 million and FY 2022 by \$54 million	(47.37)	(40.81)	(18.77)	(16.17)	28.60	24.64
Total	(140.87)	(45.66)	(61.88)	(42.37)	78.99	3.29

1. Taxpayers will claim refunds as opposed to putting them towards future payments.
 - In September it was assumed that taxpayers would claim refunds in FY 2021 to maximize cash on hand. This lowered the baseline FY 2021 by approximately \$30 million. It is now assumed that this behavior may continue through FY 2022, lowering revenues by \$24 million in FY 2021 and \$25 million in FY 2022.
2. CARES Act suspension of required minimum distributions from tax deferred retirement accounts
 - For the September baseline, CY individual income tax return data were analyzed to predict an amount of tax filers who had enough other sources of income to defer current year distributions from retirement accounts. This estimate lowered FY 2021 collections by \$20 million. After discussions with both the federal Joint Committee on Taxation (JCT) staff and accountants from around the state it appears that this won't be as prevalent as initially believed. As a result, this provision is now expected to reduce revenues in FY 2021 by only \$8 million.
3. Carryback of Net-Operating Loss Provisions (CARES Act)
 - The CARES Act provided additional abilities for corporations and small businesses to carry back net operating losses. Previously, the LFD estimate for this provision was based on a fiscal note prepared by the JCT in April. After recent discussions with JCT staff, the LFD learned that a significant portion of this impact was in corporate income tax. Montana's corporate carryback laws prevent significant refunds from occurring due to the practice of moving losses to past years. Furthermore, the JCT estimate was an estimate of the direct fiscal impact of this provision and did not incorporate the effect of Payment Protection Program (PPP) loans possibly offsetting these losses. Given this new information the LFD has revised its estimated impact from this provision. In the September estimate a decrease of \$43.5 million and \$4.9 million was anticipated in FY 2021 and FY 2022 respectively. In the current forecast this provision is now expected to reduce revenues by \$11.1 million in FY 2021 and \$1.2 million in FY 2022.
4. Elimination of threshold on offsetting non-business income with business losses (CARES Act)
 - The CARES Act removed the threshold on the amount of non-business income that could be offset with business losses. Similarly to the carryback provisions, the initial LFD estimate was based on the JCT fiscal note adjusted for Montana's share of personal income and individual income tax rates. Upon further analysis of PPP loans sent to Montana and discussion with the JCT staff, the current estimate assumes a significant amount of losses will be offset by federal stimulus funds. As opposed to previously estimated reductions of \$47.4 million and \$40.8 million in FY's 2021 and 2022, the current assumption is that this provision will decrease revenues by \$18.8 million and \$16.2 million in FY 2021 and FY 2022, respectively.

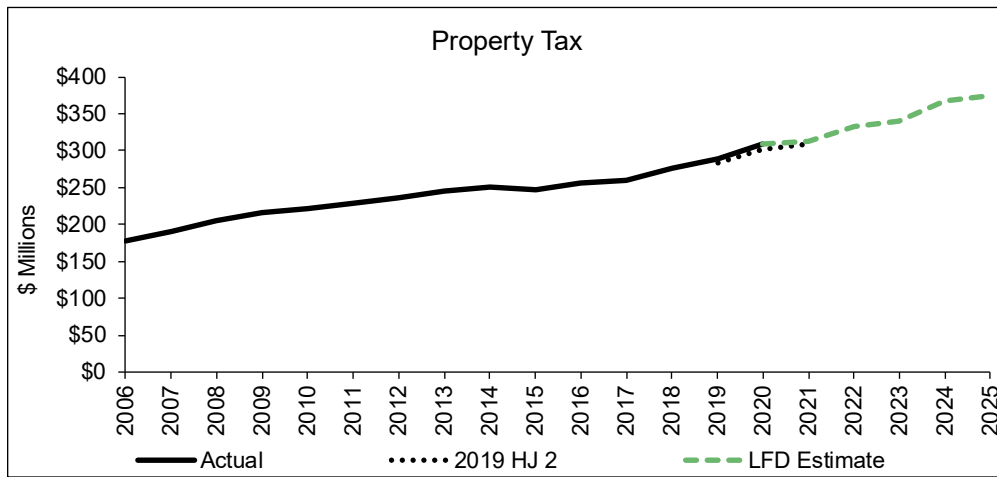
Finally, the CY 2019 base-year tax return data was \$25 million higher than what was estimated in the September baseline forecast. This, coupled with new IHS data, increased estimated CY tax liabilities in CY's 2020, 2021, 2022, and 2023 by \$31.7 million, \$52.2 million, \$41.3 million, and \$53.0 million respectively.

Property Tax

Property taxes came in above the HJ 2 estimate in both FY 2019 and FY 2020. Actual collections influence the updated forecast for FY 2021 but have less of an impact than the additional data for the two-year reappraisal impacts on class 4 residential and commercial property. The updated forecast for FY 2021 remains very close to the HJ 2 estimate, with moderate growth thereafter.

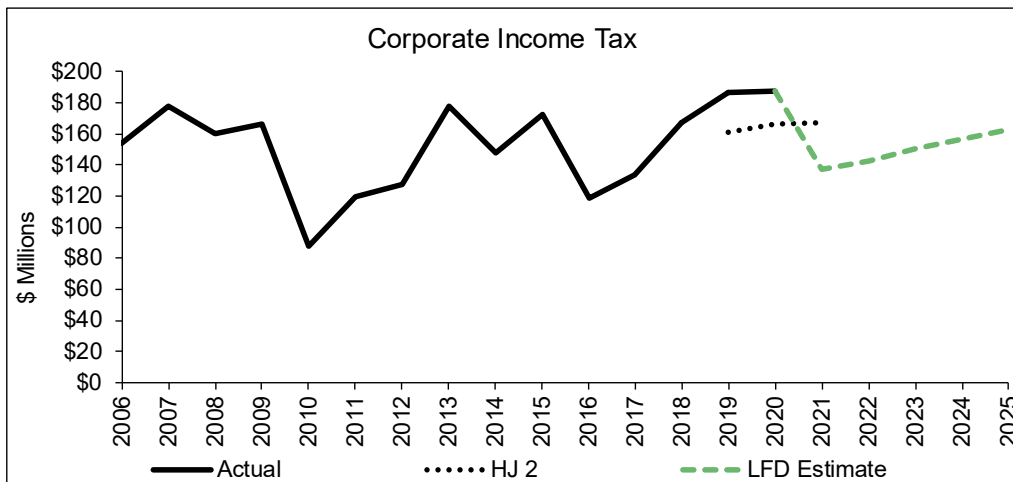
The estimate includes relatively small, but significant declines in both federal forest receipts and coal gross proceeds. These declines are due to the expiration of the federal authorization for the secure rural schools program at the end of the year and the retirement of Colstrip units 1 and 2. There is also

some potential for upside risk to property tax collections in the future, due to the rapidly growing housing market in Montana which is driven partially by the COVID-19 public health emergency.



Corporate Income Tax

Corporate income tax collections exceeded the amounts in HJ 2 over the past two years and was driven by extremely strong estimated payments, as refunds and audits mostly offset each other. Moving forward, this source is expected to decrease in FY 2021 as multiple sectors feel the impact of the pandemic, and then grow in the out years.



The LFD estimate recommendation is produced using the LFD sector-based approach with a model bias adjustment included per the research detailed in the LFD's [Standard Error Analysis](#). In addition, audit, penalty & interest revenue as well as refunds are anticipated to reflect historical levels.

The CY 2018 tax liability by sector is shown in the adjacent table. This is the most readily available detailed tax liability data and is used as the base year of the current forecast. Calendar year data is forecast by industry sector then converted to a fiscal year estimate using historical trends. As the table shows, the actual CY 2018 liability was 17.9% higher than the estimated liability contained in HJ 2. The growth above the estimate was driven by the transportation, information, and professional sectors.

CY 2018 Tax Liability (\$ Millions)				
Sector	Actual	HJ 2	\$ Diff	% Diff
Agriculture	\$4.2	\$4.1	\$0.1	2.4%
Mining	3.4	6.4	(3.0)	-46.9%
Utilities	2.0	0.5	1.5	300.0%
Construction	2.4	2.8	(0.4)	-14.3%
Manufacturing	31.2	28.4	2.8	9.9%
Wholesale & Retail Trade	25.6	28.0	(2.4)	-8.6%
Transportation	25.6	18.0	7.6	42.2%
Information	10.5	5.0	5.5	110.0%
Professional	20.9	10.4	10.5	101.0%
Large Banks & Holding Companies	36.8	34.5	2.3	6.7%
Social	4.1	4.0	0.1	2.5%
Other	1.6	0.7	0.9	128.6%
Total	\$168.3	\$142.8	\$25.5	17.9%

Moving forward, the manufacturing, transportation, and professional sectors are expected to experience the most significant declines in FY 2021, while most other sectors experience flat or slow growth.

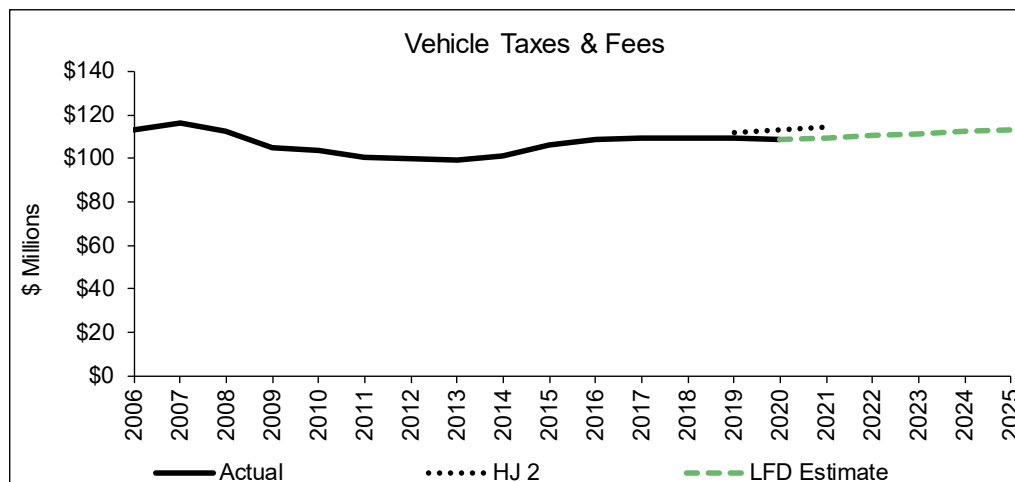
CARES Act Implications:

As noted in the individual income tax section, the CARES Act provides small businesses and corporations the ability to carry back net operating losses (NOL's) up to five years for losses incurred in CY's 2018, 2019, and 2020. Prior to the CARES Act, these losses could be used to offset 80% of taxable income but can now offset 100% of taxable income.

In the 2017 Legislative Session, [HB 550](#) was passed. This bill capped NOL carrybacks at \$500,000 while allowing corporations to move losses back three years and forward ten years. As a result, the CARES Act provisions will not be nearly as influential for corporate income tax in terms of refunds this fiscal year, as significant losses exceeding \$500,000 will need to be moved forward to future tax years.

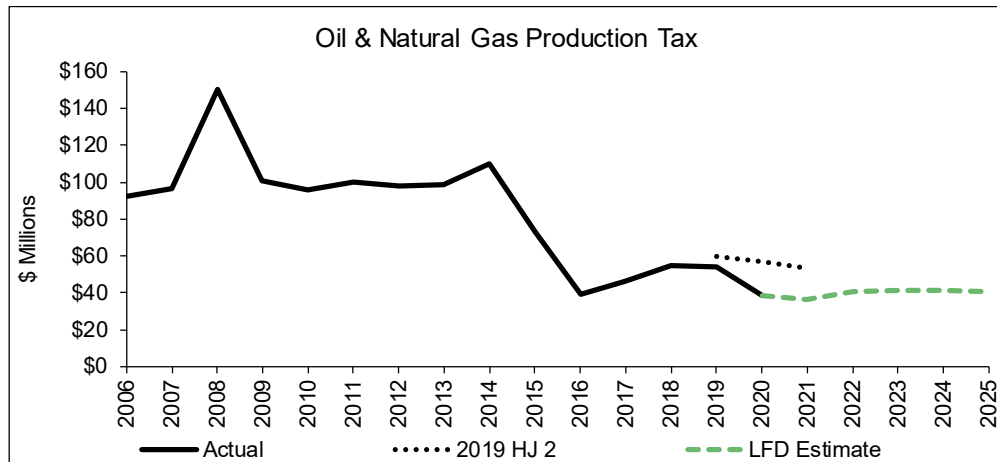
Vehicle Taxes & Fees

Vehicle taxes and fees collections were lower than expected in HJ 2 in FY 2020 by about \$4 million. Revenue from this source is forecast to experience slow growth through the 2023 biennium. The forecast for vehicle taxes and fees is based on calculated vehicle stock growth rates using IHS projections for total used vehicle stock in the US, and IHS Montana specific projections for new vehicle sales.

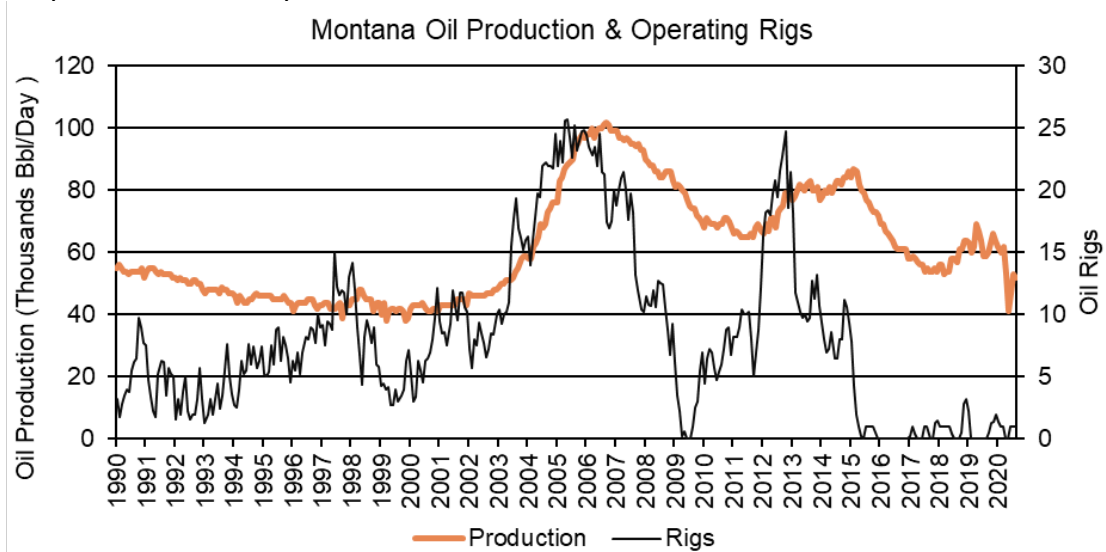


Oil & Natural Gas Production Tax

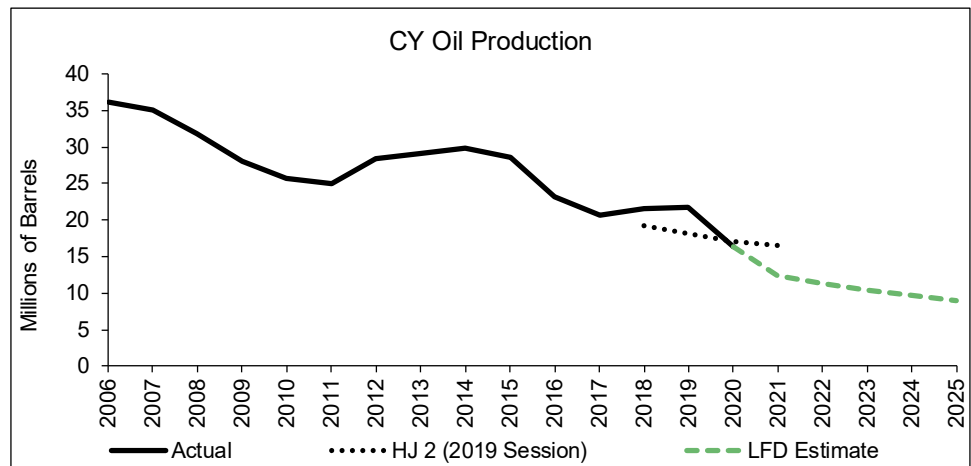
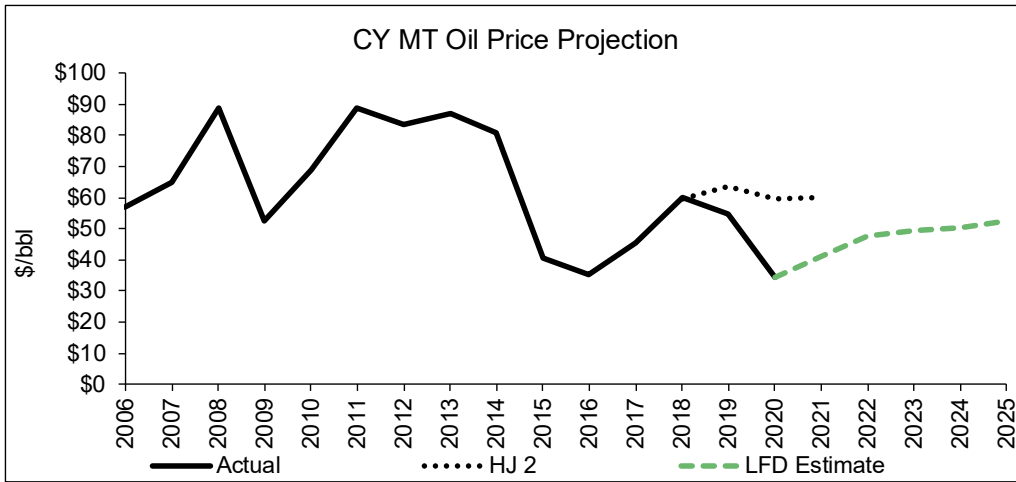
Oil and natural gas production tax collections were below projections in HJ 2 in FY 2020 by 32.2%. The large difference between actual collections and the forecast is due primarily to a sharp decline in oil prices in the spring of 2020 due to the economic impacts of the COVID-19 shutdown and an overseas price war. The forecast for this source is based on the IHS projection of West Texas Intermediate oil price and LFD modeled future production.



In recent years, as shown in the chart below, the number of active drilling rigs in the state has been minimal. In addition to low drilling activity, production has recently been down except for a slight increase and peak in FY 2019. The large drop in production seen in early 2020 is directly related to the sharp decline in price during the spring. Throughout the summer months, however, production began returning closer to its previous trend as prices have risen.

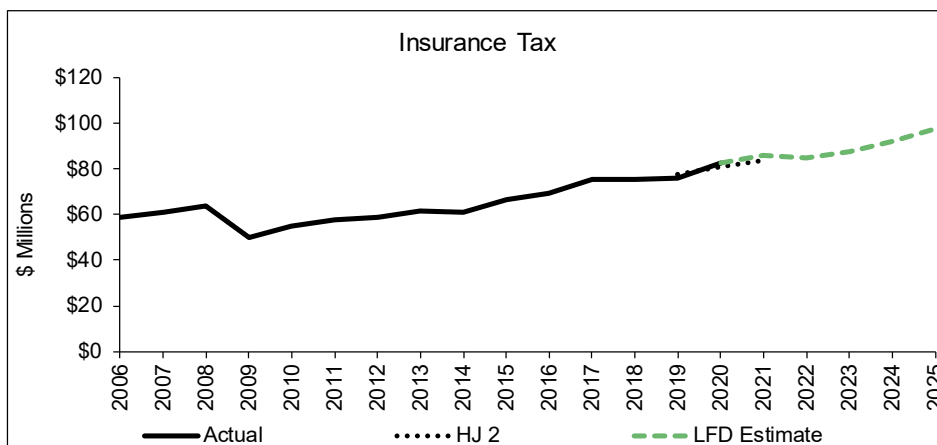


Oil & Natural Gas revenue is highly dependent on prices and production. The price of oil in FY 2020 was well below HJ 2 projections but is expected to rise through the next biennium. Oil production for FY 2020 nearly matched HJ 2, however, production is expected to continue a downward trend. Overall, revenue for this source is expected to drop slightly in FY 2021 and then flatten over the 2023 biennium, as the slow growth in prices are offset by the continual slow decline in production.



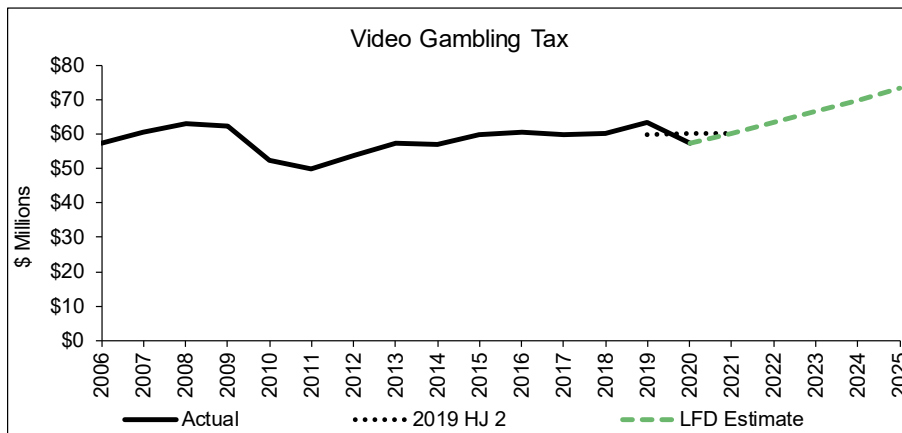
Insurance Tax

Insurance tax collections came in 1.0% below the HJ 2 estimate in FY 2019 and 1.0% above HJ 2 in FY 2020. The total revenue for the biennium is nearly identical to the HJ 2 total. This source is modeled based on the Montana personal consumption expenditure (PCE) series for finance and insurance from IHS Markit.



Video Gambling Tax

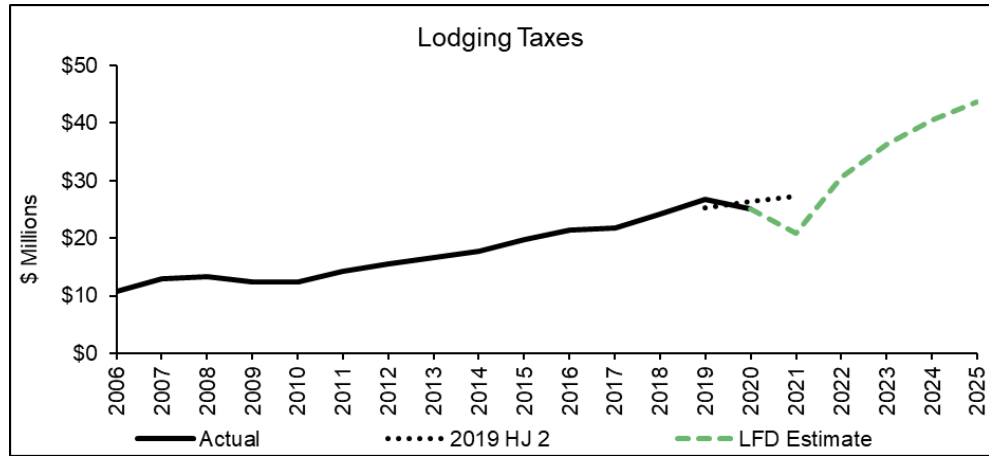
Combined video gambling revenue in FY 2020 was below the estimate contained in HJ 2. Closures due to COVID-19 had substantial impacts on this source. Precluding further closure of gaming outlets this source is expected to return to normal levels of revenue going forward.



SOURCES CHANGING FROM LONG TERM TRENDS

Lodging Facilities Sales Tax

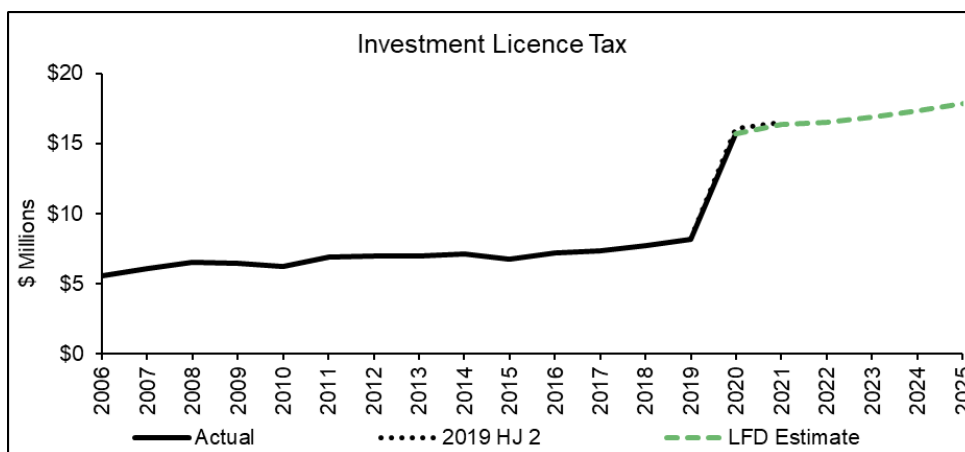
Lodging facilities sales tax collections were slightly above the HJ 2 estimate in FY 2019 and slightly below it in FY 2020. This revenue source is forecast in HJ 2 based on the IHS Markit projection of national consumer spending on accommodations. Due to travel restrictions and consumer caution



surrounding travel during the COVID-19 pandemic, this source is expected to see a substantial decrease in revenue in FY 2021. A strong response in the travel industry, and thus in lodging tax collections, are expected as recovery from the pandemic occurs through the latter part of the biennium.

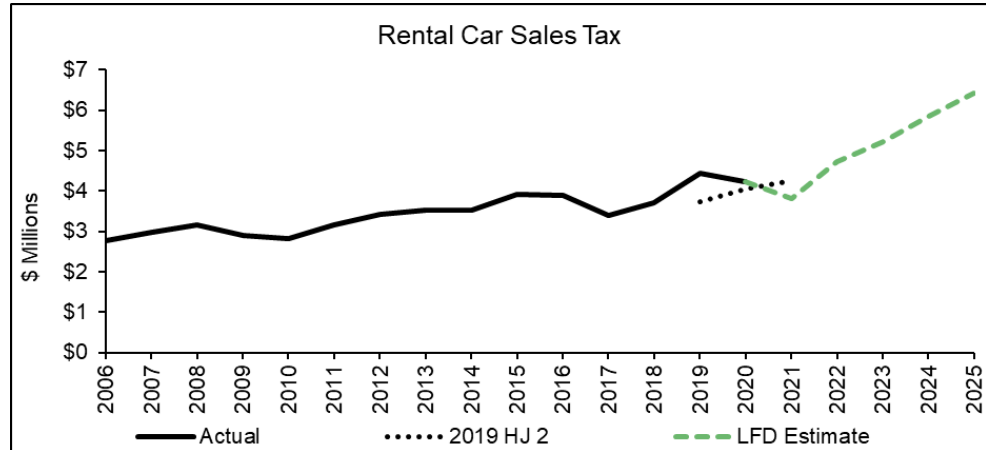
Investment License Fee

Investment license fee collections came in very close to the HJ 2 estimate in FY 2019 and FY 2020. In HJ 2, this source is modeled on the IHS Markit personal consumption expenditure series for finance & insurance and a forecast of investment firm licenses based on historical license data from the State Auditor's Office, with modeled growth rates applied to the last known collections. The large increase in revenue from FY 2019 to FY 2020 is due to the passage of HB 694 in the 2019 Legislative Session, which revised certain licensing fees for investment related advisors.



Rental Car Sales Tax

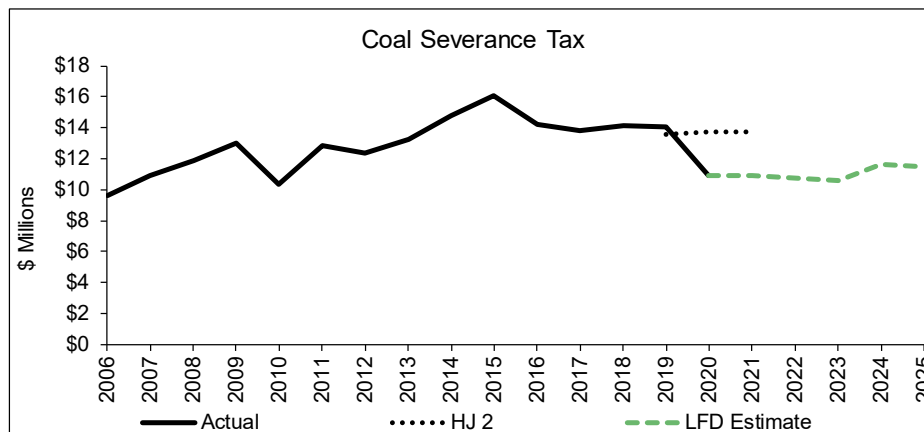
Rental car sales tax collections were above the HJ 2 estimate in FY 2019 and slightly below it in FY 2020. Revenue is expected to decrease in FY 2021 and then experience steady growth beyond that through the next biennium. Rental car sales tax was forecast in HJ 2 based on the



IHS Markit projection of Montana personal consumption expenditure series for transportation

Coal Severance Tax

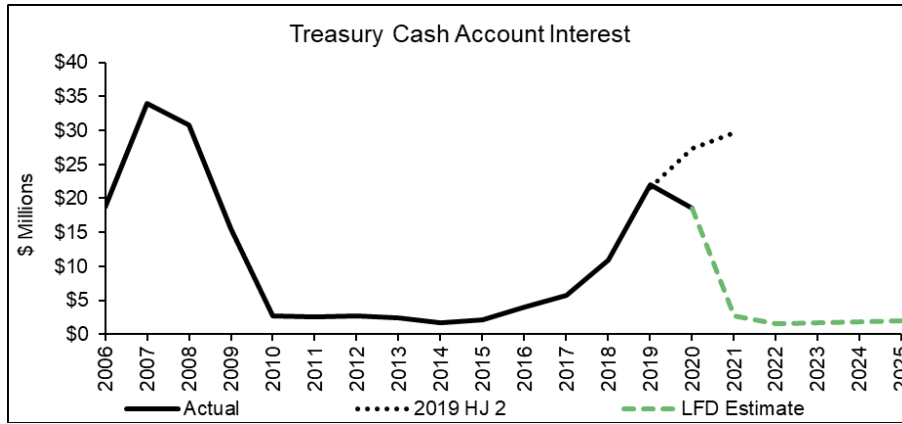
Coal severance tax collections were below the HJ 2 forecast in FY 2020. They are forecast to remain relatively flat throughout the forecast period.



Coal severance tax collections decreased substantially in FY 2020, primarily a result of the closure of Colstrip plants 1 & 2. Following the closures, production levels began dropping immediately, and without a new customer will not return to pre-closure levels.

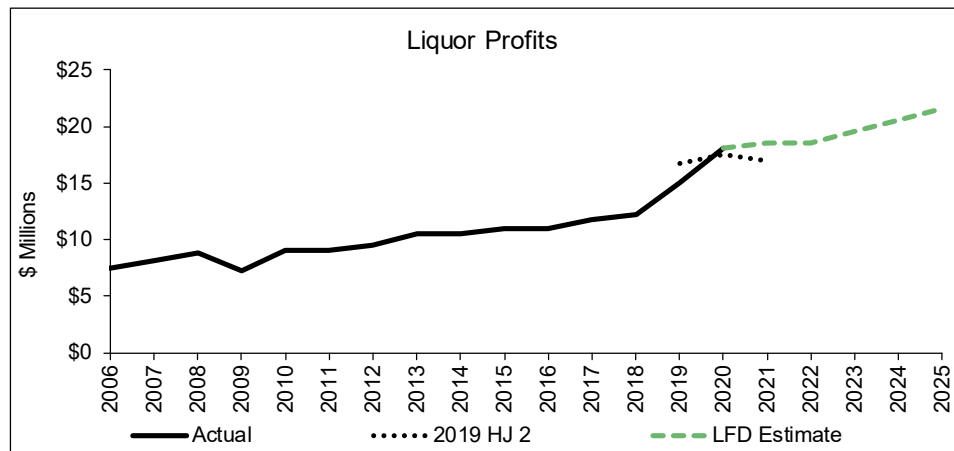
Treasury Cash Account Interest

TCA interest earnings nearly matched HJ 2 in FY 2019 but decreased significantly in FY 2020. The decrease below the original estimate was due to declines in short-term interest rates. With interest rates forecast to remain low through the next biennium, revenue from this source will also remain low.



Liquor Profits

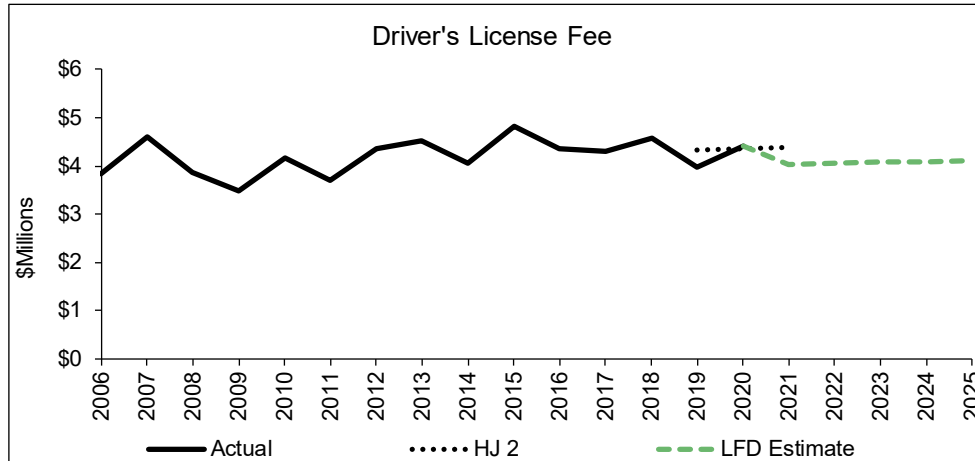
Liquor profits came in below the HJ 2 estimate in FY 2019 and above HJ 2 in FY 2020. The estimate in HJ 2 included \$0.5 million for the liquor license auction enacted in [SB 5 \(2017 November Special Session\)](#). Following delays in implementing the program, little data was available, therefore due to uncertainty a conservative estimate was included as a placeholder. Upon implementation of the program revenue was recorded within an account that has been historically part of “all other revenue”. In accordance with the original fiscal note and Volume 2, profits from competitive bids for liquor licensing have been recorded in this source. The first revenue from competitive bids was realized in late FY 2019 at roughly \$1.0 million and increased to \$2.8 million in FY 2020.



OTHER BUSINESS TAXES

Driver's License Fee

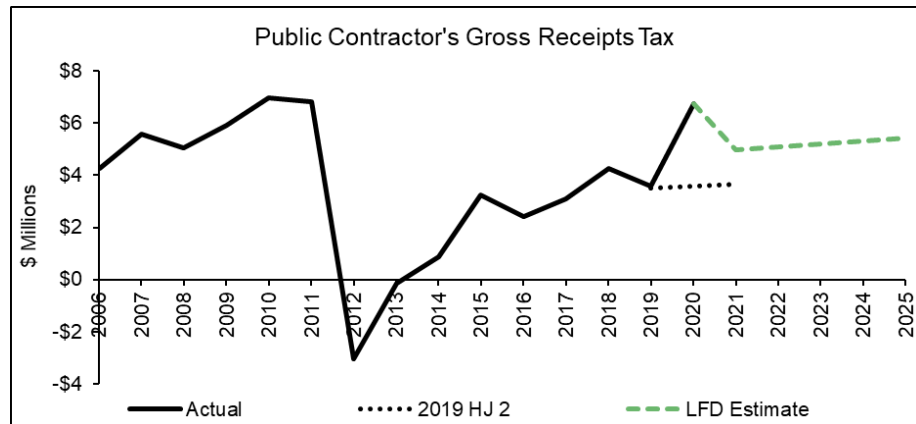
Total driver's license revenue was below HJ 2 in FY 2019 and slightly exceeded HJ 2 in FY 2020. A small decrease in revenue is expected in FY 2021, with relatively little growth through the next biennium.



Ratios of recent revenue collections to the license-eligible MT population projection from IHS Markit are applied accordingly to forecast years to produce this estimate.

Public Contractor's Tax

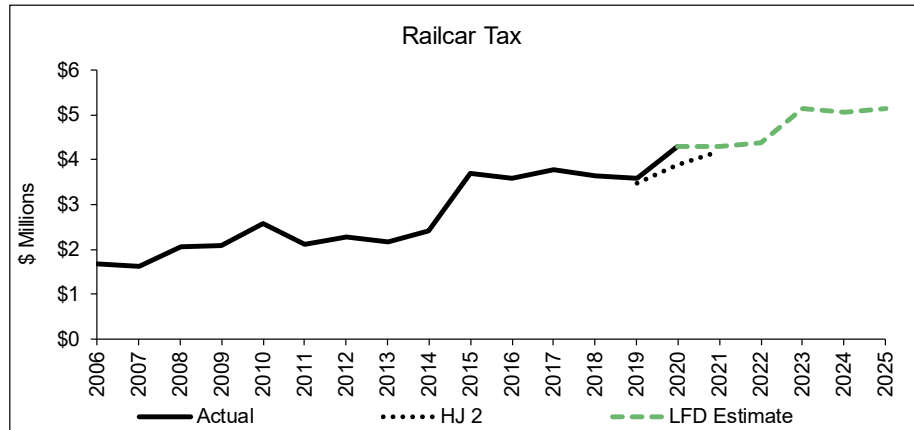
Public contractors' gross receipts tax collections were well above the HJ 2 estimate in FY 2020. The HJ 2 forecast is based on a time trend of highway spending and an average level of all other construction. Highway spending was significantly higher in FY 2020 than in previous years, leading to higher revenue in 2020.



Revenue is expected to decrease in FY 2021, and then experience slow growth through the next biennium.

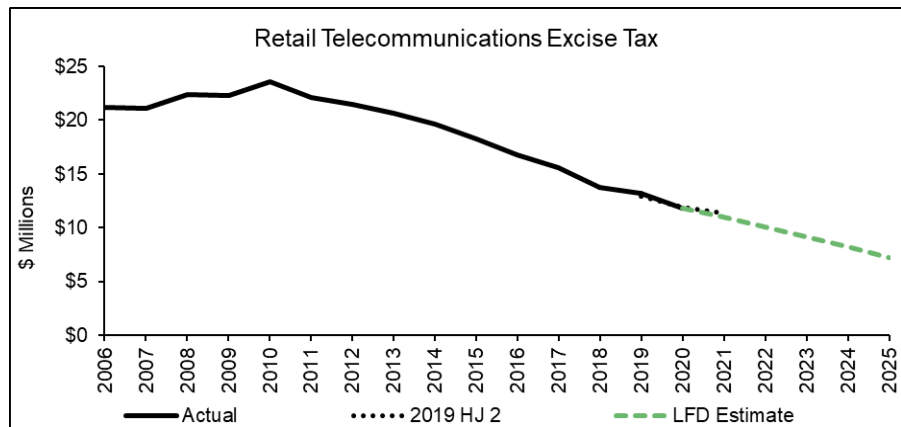
Railroad Car Tax

Railroad car tax revenue was very close to the estimate in FY 2019 and above the estimate in FY 2020. Given known tax assessment data for FY 2020, it is expected that FY 2021 collections will come in just above the HJ 2 estimate, after which railcar tax is expected to continue with historical levels of growth.



Retail Telecommunications Excise Tax

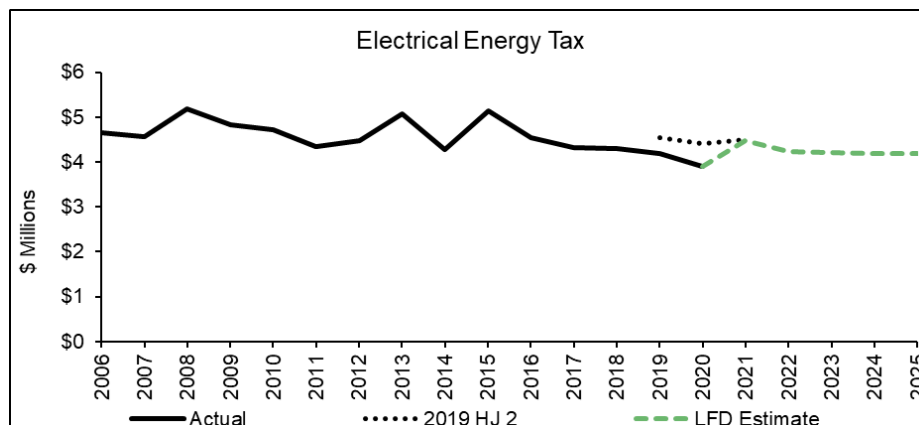
Retail telecommunications excise tax collections were close to the estimate contained in HJ 2 in FY 2019 and FY 2020. The estimate was based on U.S. Census Bureau data for landline and cell phone use, other sources of cell phone statistics, and the IHS forecast of Montana population. Modeling for the LFD estimate assumes a continuing decline in the use of landlines, which leads to a downward trend in revenue collections through the next biennium.



OTHER NATURAL RESOURCE TAXES

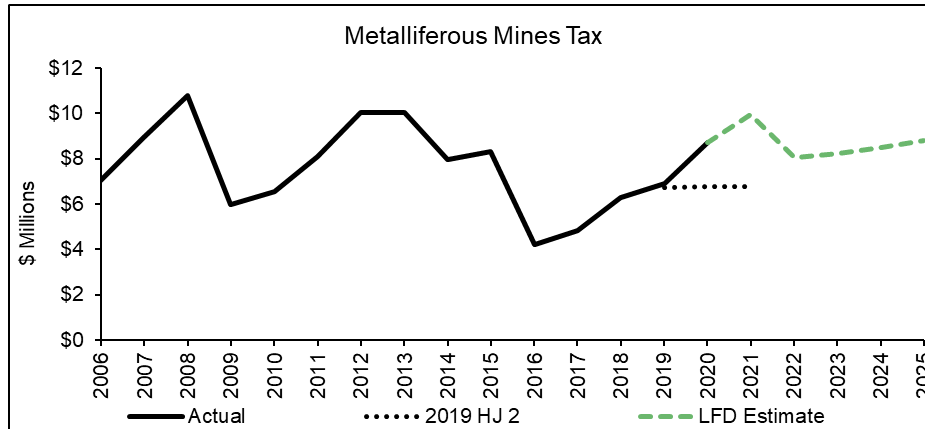
Electrical Energy Tax

Electrical energy tax collections were below the HJ 2 estimate in FY 2019 and FY 2020. This source is modeled on past average collections, so the forecast moving forward simply follows the long-term trend.



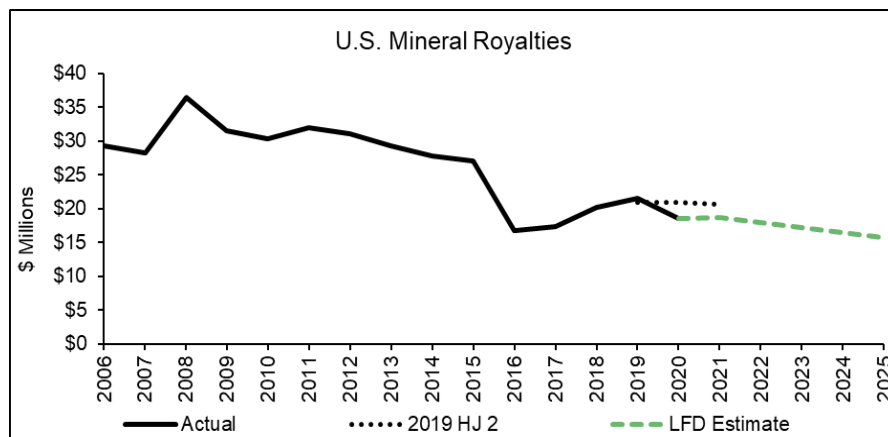
Metalliferous Mines Tax

FY 2020 metal mines tax collections were well above the estimate contained in HJ 2, after coming in quite close to HJ 2 in FY 2020. The increase is primarily attributable to higher metal prices, particularly palladium, than anticipated in HJ 2 in CY 2020. The LFD estimate includes revised price outlooks for most metals and production forecasts by metal type based on a five-year moving average.



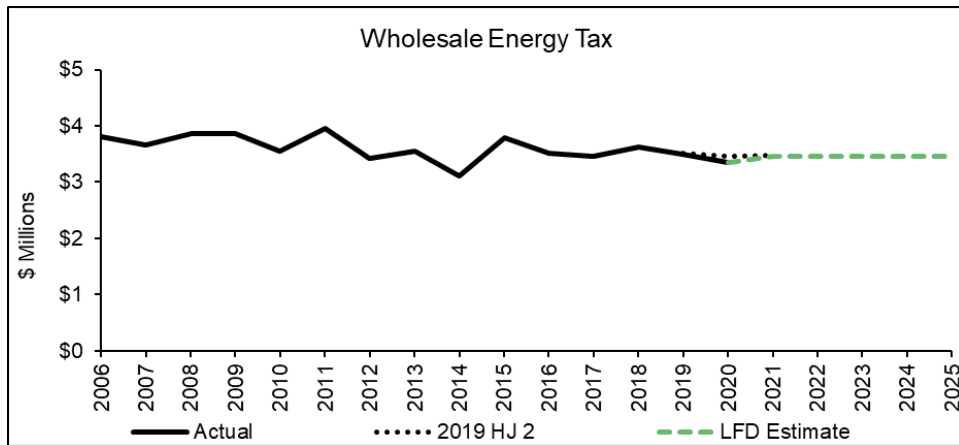
U.S. Mineral Royalties

U.S. mineral royalties were close to the HJ 2 estimate in FY 2019 and slightly lower than the estimate in FY 2020. The decrease in collections is primarily due to lower energy prices and lower production through the latter half of FY 2020. Royalty collections are expected to continue a slow decline moving forward.



Wholesale Energy Transaction Tax

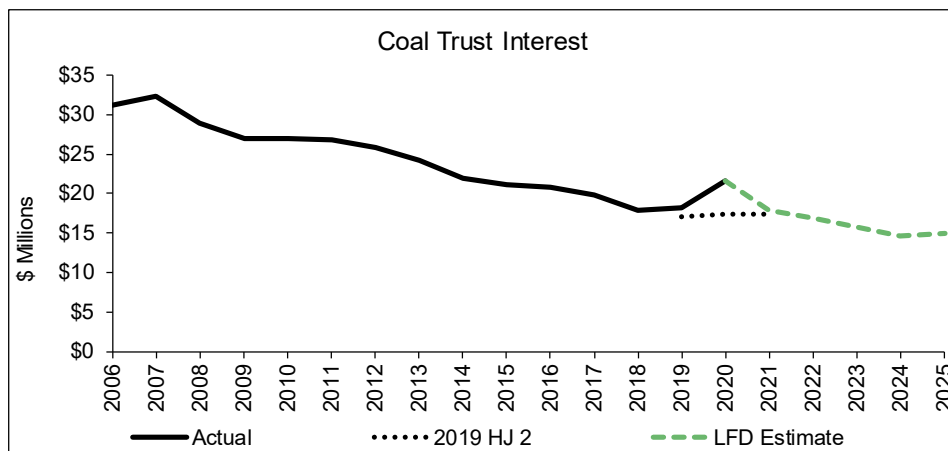
Wholesale energy transaction tax, imposed on transmission services providers, was very close to HJ 2 in FY 2019 and slightly below the FY 2020 collections. This source is estimated in HJ 2 based on historical trends of energy transmission.



Other Interest Earnings

Coal Trust Interest Earnings

Coal trust earnings were above the estimate contained in HJ 2 by in FY 2020. Revenue from this source is estimated using projected trust balance amounts and forecast interest rates based on suggestions from the Board of Investments (BOI).



The LFD estimate is above the HJ 2 estimate for FY 2021 but below FY 2020 numbers. The decrease from FY 2020 onward is due to a downward revision in the return rate. Return rates in the Trust Funds Bond Pool (TFBP) are expected to decrease throughout the forecast period

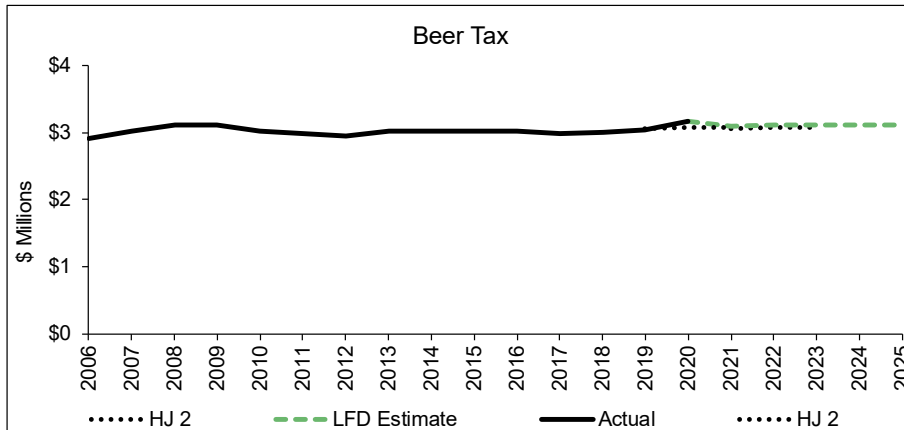
Other Consumption Taxes

Beer Tax

Beer tax revenue came in below the HJ 2 estimate in FY 2019 and above the HJ 2 estimate in FY 2020. The HJ 2 estimate was based on two Montana-specific indicators from IHS: the personal consumption expenditure series for food and population over age 21.

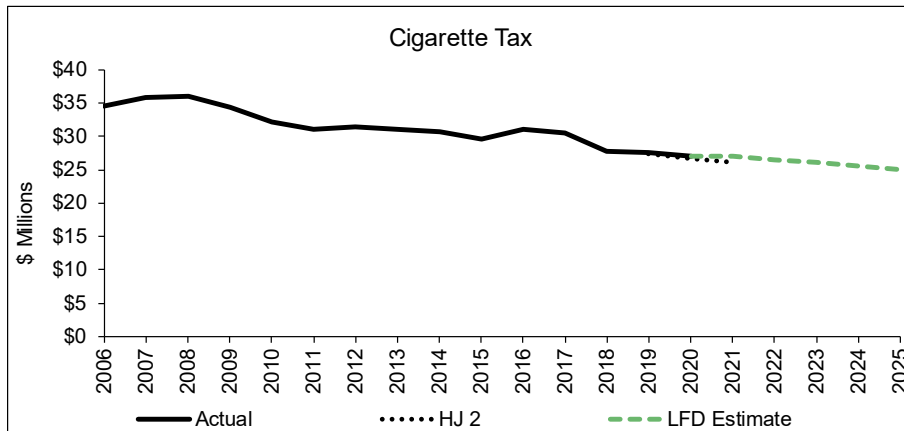
This model also forecasts an effective tax rate based on growth trends for the various distributor sizes, which is applied to the total forecast consumption. The tax rate for distributors moving less than 5000 barrels per year is \$1.30 per barrel, and for those distributing between 5,001 and 10,000 the rate is \$2.30, much less than the nominal \$4.30 for larger distributors. There has been a small but steady decline in effective tax rate over the last 20 years as the market share of small brewers increases. In

FY 2020 there was a small bump in effective tax rate likely due in part to a decrease in the market share of small producers during COVID-19 phase I restrictions.



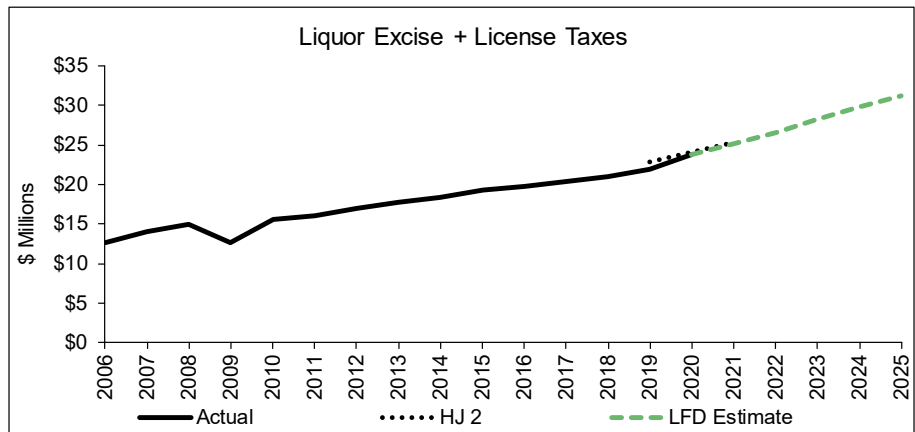
Cigarette Tax

Cigarette tax collections were slightly above the HJ 2 revenue estimate in both FY 2019 and FY 2020. The HJ 2 forecast for this source was based on the IHS Markit series for consumer price index for tobacco, consumer spending on tobacco products, and Montana population over age 18.



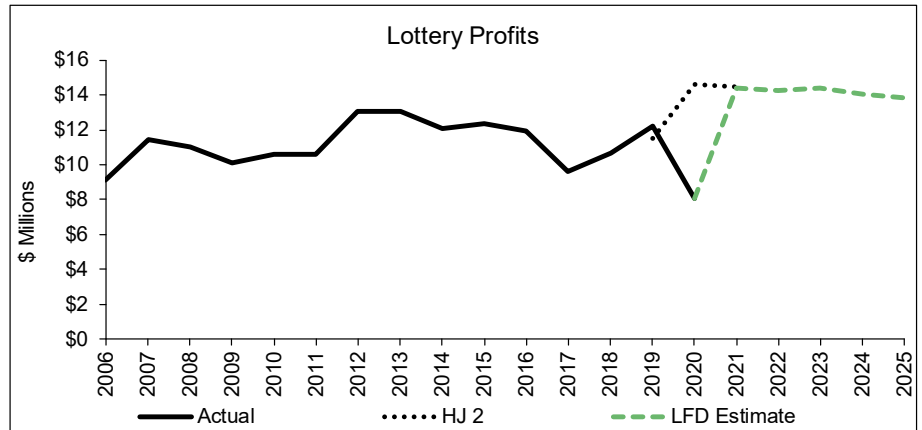
Liquor Excise & License Tax

Liquor excise tax revenue came in below the official projection in FY 2019 and FY 2020. The IHS Markit forecast of Montana personal consumption expenditure series for food was used as an input for this source in HJ 2. The IHS Markit outlook has declined since the original estimate. Additionally, the effective tax rate has been decreasing as smaller producers have increased their market share. Liquor license and excise tax rates are based on volume of production. The forecast has been revised to include effective tax rates going forward.



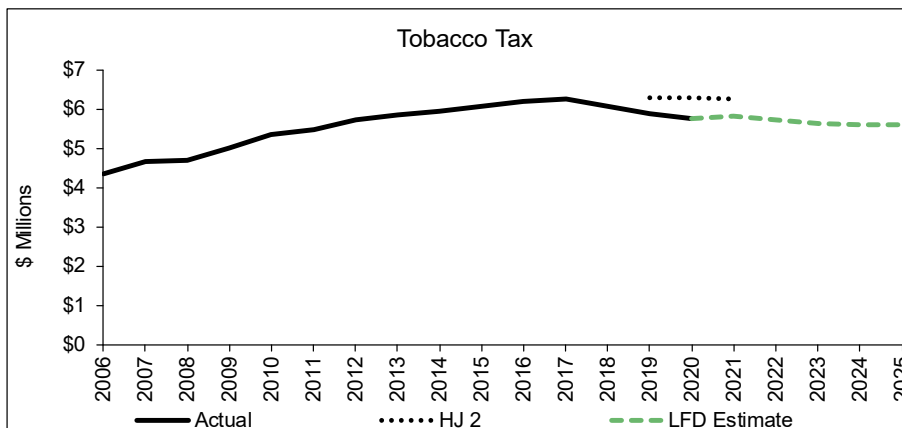
Lottery Profits

Lottery profits were greater than forecast in HJ 2 in FY 2019 and below the FY 2020 projection. The IHS Markit forecast short-term interest rates and Montana population over age 18 were used as inputs for this source. Lottery sales for FY 2020 were low as a result of COVID-19 closures. With the addition of sports wagering (HB 725, 2019) which was kicked off in the spring of 2020 the revenue for this source is expected to make moderate gains in the coming years.



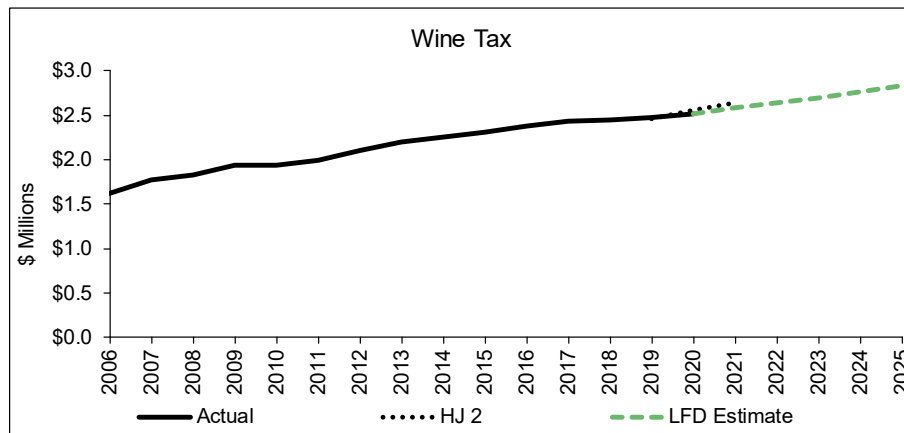
Tobacco Tax

Tobacco tax revenue came in below the official projection for FY 2019 and FY 2020. The HJ 2 estimate was based on IHS forecasts of Montana personal consumption expenditures and population over age 18. The model has not been changed but grows from the lower FY 2020 base.



Wine Tax

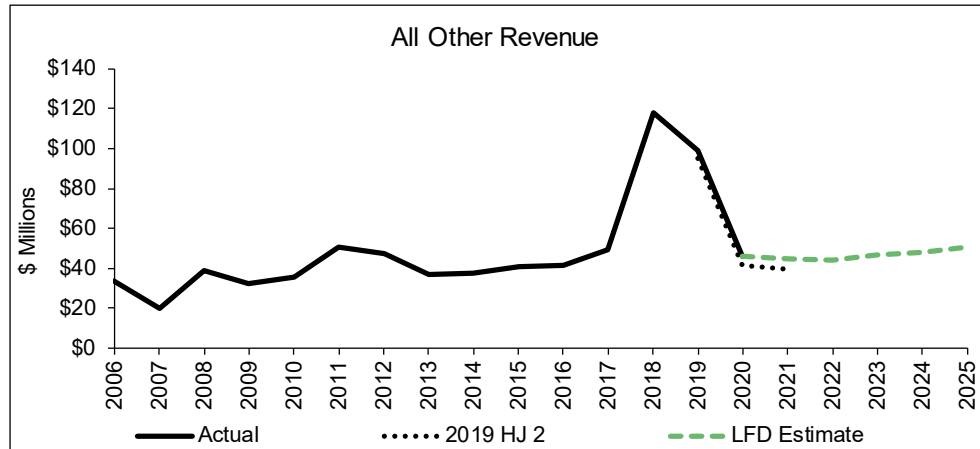
Wine tax revenue came in slightly above the official estimate in FY 2019 and a bit lower than HJ 2 in FY 2020. The HJ 2 estimate was based on the IHS forecast of Montana population over age 21; modeling for this source has not changed but incorporates the most recent collections.



Other Sources

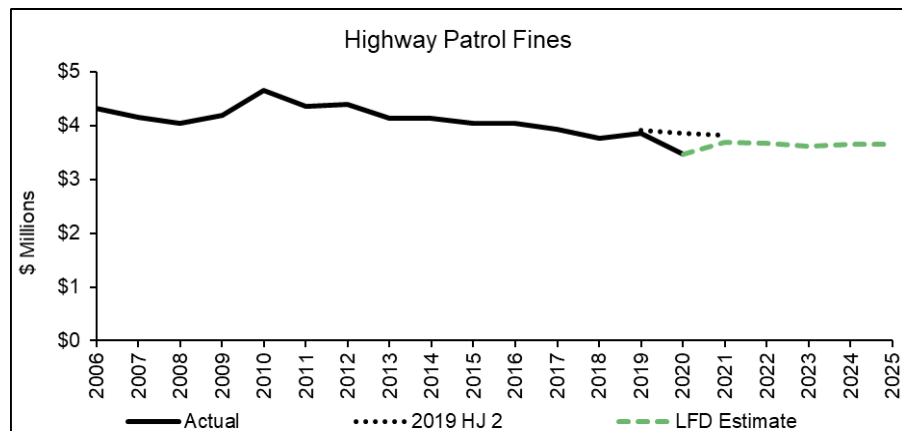
All Other Revenue

All other revenue collections were slightly higher than the HJ 2 estimate for FY 2020. The large jump in collections in FY 2018 and FY 2019 are due to one-time legislatively authorized transfers. This source has since returned to its historical level and is expected to remain relatively flat through the next biennium.



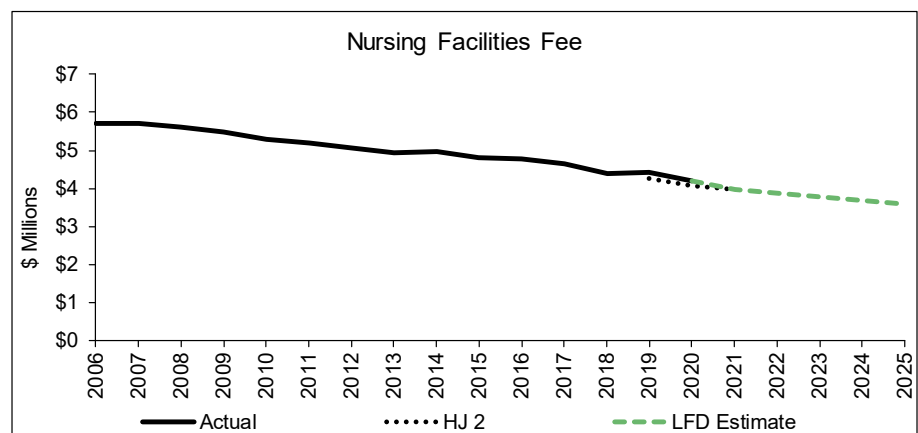
Highway Patrol Fines

Highway patrol fines were close to the official HJ 2 estimate in FY 2019 and below it in FY 2020. This source is expected to return to its previous trend in FY 2021 and experience very little growth into the future.



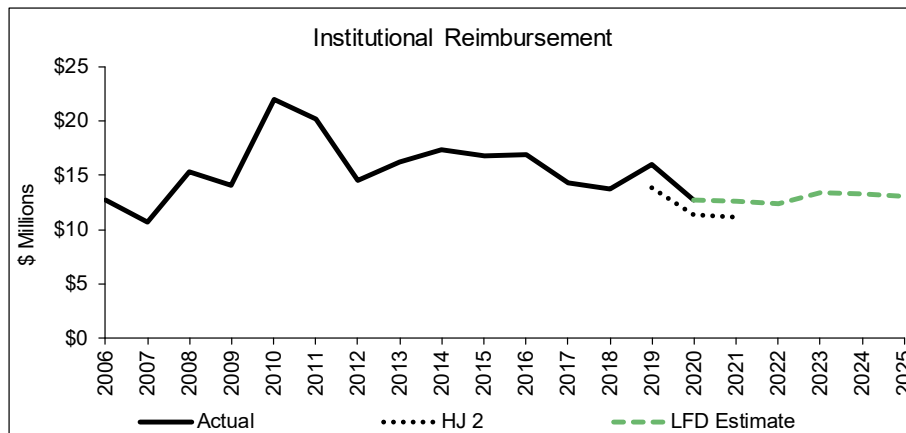
Nursing Facilities Fee

Nursing facilities fees came in very close to the HJ 2 revenue estimate in FY 2019 and FY 2020. This source has declined most years since inception and is forecast primarily based on a time series of proxy bed days.



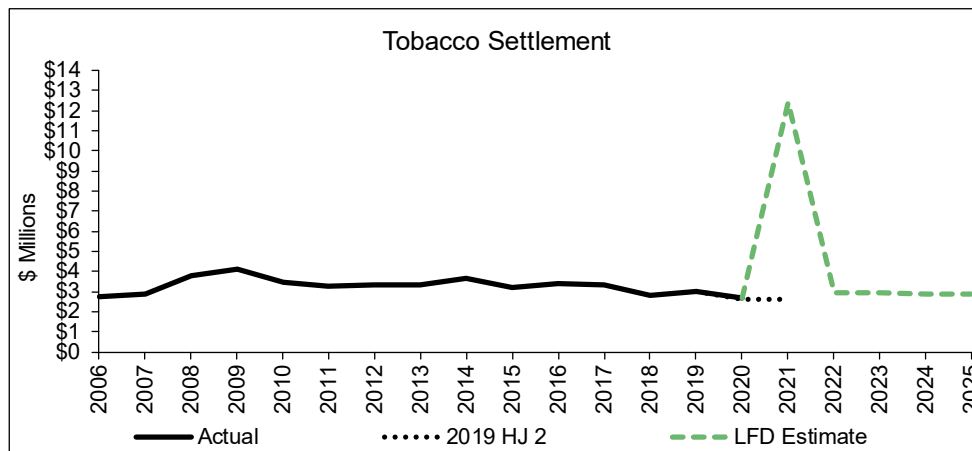
Public Institution Reimbursements

Public institution reimbursements were above the HJ 2 revenue estimate in FY 2019 and FY 2020. This source has a history of fluctuating collections primarily due to timing of federal payments. Modeling for this source relies primarily on a time trend of nursing facility residents.



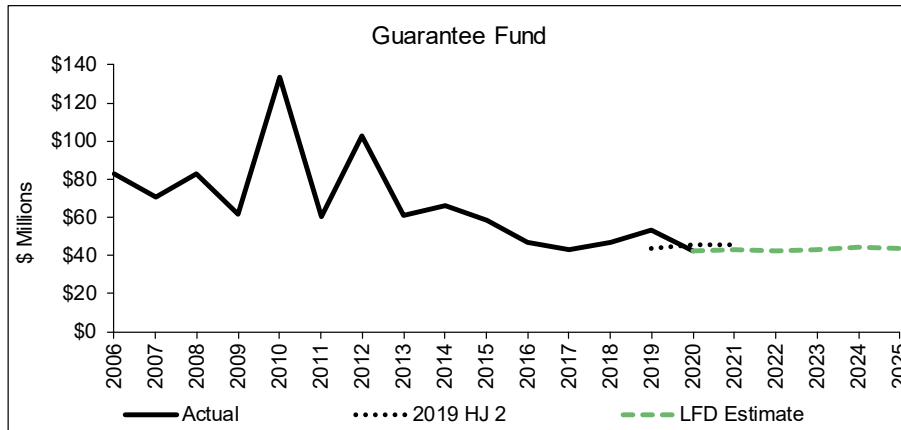
Tobacco Settlement

Tobacco settlement revenue was nearly identical to the HJ 2 estimate in FY 2019 and slightly above the estimate in FY 2020. As tobacco consumption has been trending downward for some time this source has declined. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies and the states. Since the early days of the Master Settlement Agreement (MSA) companies had been withholding \$3-5 million dollars from Montana each year in a “disputed payments account.” In November 2021 the state prevailed in receiving the entire disputed amount and all interest earned on the total, resulting in a large one-time only payment as well as preventing the companies from withholding a portion of the payment in future years.



2021 BIENNIUM GUARANTEE FUND REVENUE ESTIMATE

The guarantee fund is a state special revenue fund dedicated as the first source of school funding. Since the available funds from the guarantee fund directly offset general fund spending, the LFD revenue estimate recommendation is included for informational purposes. The guarantee fund primarily receives revenue generated from common school state land and the subsequent interest on the common school trust account. Guarantee account revenues are anticipated to increase slightly throughout the forecast period.



APPENDIX

Differences in Individual Income Tax Estimates:

Most of the discrepancy between the two forecasts comes from differences in the forecasts for individual income tax. Given that individual income tax accounts for 57% of general fund revenue, a small difference in percentages can yield a large dollar amount in comparison to other sources.

Note that dating back to FY 2014, the average error for individual income tax on the most recently adopted HJ 2 compared to final collections is +/- 3.5%.

Step 1: This step involves using IHS economic indicators to model growth rates for various sources of income. Similar growth rates are modeled for adjustments, additions, reductions, and deductions to income. This process provides an estimated calendar year liability for those years used in the forecast period.

Step 2: This step involves using the modeled calendar year liabilities to produce a final estimate for fiscal year collections. There is no proven method for this conversion. Even when calendar year liabilities are known from taxpayer data, there is still a discrepancy between the calendar year conversions and what is ultimately posted in the accounting system for the fiscal year.

Step 3: Estimate the impacts of net-operating loss provisions provided in the federal CARES Act. This is an extremely difficult task right now, with significant uncertainty attached to it.

Step 4: Combine the effects of Step 3 with the fiscal year estimates in Step 2.




































Individual Income Tax Modeling Steps and Differences Between the LFD and OBPP (\$Millions)						
	<u>LFD</u>		<u>OBPP</u>		<u>\$ Difference</u>	<u>% Difference</u>
Step 1: Model growth rates for income types, adjustments, additions, reductions, and deductions to estimate calendar year liabilities	CY 2020	\$1,335	CY 2020	\$1,304	\$31	2.4%
	CY 2021	1,407	CY 2021	1,381	26	1.9%
	CY 2022	1,464	CY 2022	1,455	9	0.6%
	CY 2023	1,536	CY 2023	1,516	20	1.3%
					<u>Total</u>	<u>Total %</u>
				\$86	1.5%	
Step 2: Estimate final fiscal year collections based upon modeled calendar year liabilities from above		<u>LFD</u>		<u>OBPP</u>	<u>\$ Difference</u>	<u>% Difference</u>
	FY 2021	\$1,464	FY 2021	\$1,448	\$16	1.1%
	FY 2022	1,490	FY 2022	1,460	30	2.1%
	FY 2023	1,553	FY 2023	1,515	38	2.5%
					<u>Total</u>	<u>Total %</u>
				\$84	1.9%	
Step 3: Estimate the impact of the net-operating loss provisions from the federal CARES Act		<u>LFD</u>		<u>OBPP</u>	<u>\$ Difference</u>	
	FY 2021	\$ (29.9)	FY 2021	\$ (48.0)	\$18	
	FY 2022	(17.4)	FY 2022	(39.0)	22	
	FY 2023	-	FY 2023	-	-	
					<u>Total</u>	
				\$40		
Step 4: Incorporate impact of CARES Act provisions into previously estimated fiscal year collections to produce final estimate		<u>LFD</u>		<u>OBPP</u>	<u>\$ Difference</u>	<u>% Difference</u>
	FY 2021	\$1,434	FY 2021	\$1,400	\$34	2.4%
	FY 2022	1,473	FY 2022	1,421	52	3.7%
	FY 2023	1,553	FY 2023	1,515	38	2.5%
					<u>Total</u>	<u>Total %</u>
				\$124	2.9%	

Summary of Differences from Remaining Sources:

While there are some large percentage differences with some of the smaller revenue sources, the dollar amount is quite small. This is due to the tendency of differences in either direction offsetting one another. To illustrate this point, when individual income tax, I-190 revenues, and the OTO tobacco settlement money is excluded, the three-year difference is only \$31.7 million out of \$3,283 million, or 0.97%.

GENERAL FUND REVENUE COLLECTIONS THROUGH OCTOBER

General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2020	HJ 2 FY 2021	HJ 2 Est. % Change	Oct FY 2020	Oct FY 2021	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,435.240	\$1,464.438	2.0%	\$576.644	\$650.885	\$74.240	12.9%	
Property Tax	308.610	308.944	0.1%	5.776	7.870	2.094	36.3%	
Corporation Tax	187.358	167.209	-10.8%	55.275	68.434	13.160	23.8%	
Vehicle Taxes & Fees	108.482	114.118	5.2%	30.527	31.792	1.265	4.1%	
Oil & Natural Gas Taxes	38.380	53.049	38.2%	-	-	-	-	
Insurance Tax	82.489	83.915	1.7%	15.470	16.128	0.658	4.3%	
Video Gaming Tax	57.447	60.172	4.7%	16.243	18.074	1.831	11.3%	
Other Business Taxes								
Drivers License Fee	4.410	4.394	-0.4%	1.275	1.403	0.128	10.0%	
Investment Licenses	15.711	16.473	4.9%	1.148	1.211	0.063	5.5%	
Lodging Facilities Sales Tax	25.058	27.287	8.9%	6.249	5.198	(1.052)	-16.8%	
Public Contractor's Tax	6.729	3.655	-45.7%	3.031	1.777	(1.254)	-41.4%	
Railroad Car Tax	4.294	4.196	-2.3%	0.761	0.033	(0.728)	-95.6%	
Rental Car Sales Tax	4.224	4.258	0.8%	0.844	1.025	0.181	21.4%	
Retail Telecom Excise Tax	11.788	11.370	-3.5%	0.799	1.458	0.660	82.6%	
Other Natural Resource Taxes								
Coal Severance Tax	10.920	13.756	26.0%	2.942	2.097	(0.845)	-28.7%	
Electrical Energy Tax	3.910	4.497	15.0%	1.649	0.276	(1.373)	-83.3%	
Metal Mines Tax	8.724	6.761	-22.5%	0.003	0.000	(0.003)	-99.1%	
U.S. Mineral Leasing	18.527	20.547	10.9%	5.410	2.572	(2.838)	-52.5%	
Wholesale Energy Trans Tax	3.351	3.485	4.0%	1.102	0.546	(0.556)	-50.5%	
Other Interest Earnings								
Coal Trust Interest Earnings	21.600	17.461	-19.2%	4.288	3.655	(0.634)	-14.8%	
TCA Interest Earnings	18.597	29.643	59.4%	6.538	1.226	(5.312)	-81.2%	
Other Consumption Taxes								
Beer Tax	3.167	3.075	-2.9%	0.899	0.958	0.058	6.5%	
Cigarette Tax	26.983	26.057	-3.4%	8.733	9.974	1.241	14.2%	
Liquor Excise Tax	23.786	25.346	6.6%	6.104	7.218	1.114	18.3%	
Liquor Profits	18.080	14.206	-21.4%	-	-	-	-	
Lottery Profits	8.073	14.462	79.1%	-	-	-	-	
Tobacco Tax	5.754	6.268	8.9%	1.610	1.533	(0.078)	-4.8%	
Wine Tax	2.522	2.644	4.8%	0.651	0.700	0.049	7.5%	
Other Sources								
All Other Revenue	46.062	39.588	-14.1%	24.093	17.011	(7.081)	-29.4%	
Highway Patrol Fines	3.458	3.827	10.7%	0.944	0.769	(0.175)	-18.5%	
Nursing Facilities Fee	4.188	3.990	-4.7%	0.455	0.611	0.156	34.3%	
Public Institution Reimbursements	12.745	11.197	-12.1%	2.363	2.345	(0.017)	-0.7%	
Tobacco Settlement	2.654	2.581	-2.8%	-	0.017	0.017	-	
Ongoing Revenue Subtotal	2,529.221	2,572.869	1.7%	777.726	852.695	74.970	9.6%	
OTO Revenue & Transfers Subtotal	4.100			4.100	4.100	-		
Grand Total	\$2,533.321	\$2,572.869	1.6%	\$781.826	\$856.795	\$74.970	9.6%	

Individual Income Collections by Account

Individual Income Tax (\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Withholding	\$349.1	\$331.6	\$17.5	5.3%
Estimated Payments	\$170.1	\$99.5	\$70.6	70.9%
Current Year Payments	\$26.8	\$26.0	\$0.8	3.0%
Audit, P&I, Amended	\$11.6	\$8.1	\$3.5	44.0%
Refunds	85.0	103.3	(\$18.2)	-17.7%
Partnership Income Tax	7.6	6.6	\$1.0	14.8%
Mineral Royalties	0.7	1.6	(\$0.9)	-56.4%
Total	650.9	576.6	74.2	12.9%

Corporation Income Collections by Account

Corporate Income Tax

(\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Corporation Tax	\$14.3	\$11.6	\$2.7	23.6%
Estimated Payments	\$52.0	\$42.0	10.0	23.9%
Refunds	(1.2)	(2.0)	0.8	-39.1%
Audit, P&I, Amended	3.3	3.7	(0.4)	-10.4%
Total	\$68.4	\$55.3	\$13.2	23.8%