



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

**Director**  
AMY CARLSON

DATE: January 25, 2021

TO:

Sen. Senator Blasdel, Senate President  
Rep. Wylie Galt, House Speaker  
Sen. Brian Hoven, Chair, Senate Tax Committee  
Rep. Becky Beard, Chair, House Tax Committee  
Sen. Cary Smith, Senate Majority Leader  
Rep. Sue Vinton, House Majority Leader  
Sen. Jill Cohenour, Senate Minority Leader  
Rep. Kim Abbott, House Minority Leader

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 2021 Session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2023 Biennium general fund revenue estimate. This update is based on actual revenue collections received through the end of December 2020 and updated national and Montana forecasts from IHS Markit.

## Forecast Update Based on New Data

The January economic forecasts from IHS Markit and changes in federal tax law combined with LFD revenue models generates a general fund revenue forecast that is \$279.8 million higher 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.

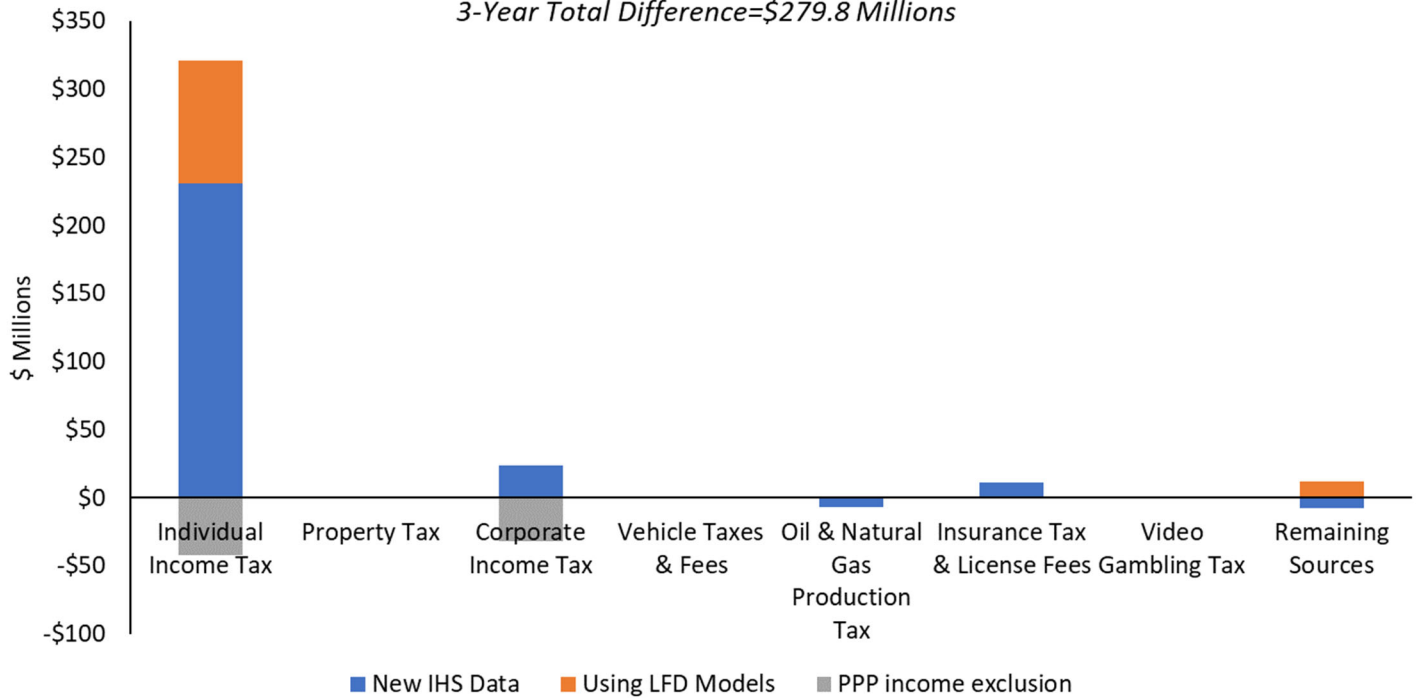
January LFD General Fund Revenue Estimate Update (\$ Millions)					
FY	HJ 2	January Update	\$ Difference	HJ 2 Growth	January Update Growth
2020	\$2,533.3	\$2,533.3			
2021	2,469.2	2,493.1	23.8	-2.5%	-1.6%
2022	2,537.7	2,677.1	139.4	2.8%	7.4%
2023	2,647.7	2,764.3	116.6	4.3%	3.3%
3-Year	\$7,654.6	\$7,934.4	\$279.8		

The revised forecast incorporates the following key assumptions:

- IHS Markit Update: The anticipated general fund revenue impact from the economic forecast update over the 3-year forecast period is an increase of \$279.8 million.
  - A second round of stimulus, as well as the approval of vaccine candidates was not included in the October IHS forecast, which was used to develop the HJ 2 estimate. The new January update includes these events, which improved the economic outlook in the coming years.
  - The primary driver from the updated IHS economic forecast is an improved wage outlook for Montana. CY 2020 wage growth increased from -0.6% to 3.8%, CY 2021 increased from 4.3% to 6.4%, and finally CY's 2022 and 2023 wage growth each decreased by 0.7%.
  - This significant of a revision in IHS Markit data often results in fine tuning of the IHS Markit forecast over the next couple of months. It is advisable to continue to review this analysis over the coming months and before finalizing a revenue estimate for the 3-year period.
- Change in federal tax law:
  - In December the federal government passed The Consolidated Appropriations Act. As part of this legislation, Payment Protection Program (PPP) forgiven loans will not be counted as revenue, while the associated expenses may be deducted as a normal business expense. Prior to this legislation the Internal Revenue Service (IRS) had ruled that the forgiven loans proceeds would be counted as revenue. This new provision is anticipated to result in individuals and corporations filing for refunds in the coming months. The current estimate for this provision over the 3-year forecast period is a reduction of \$73.9 million.
  - This estimate does not include loans to corporations that pay income taxes in Montana but are not based in the state. This could further reduce revenues beyond the \$73.9 million in the update. The full impact is currently estimated in FY 2021 but will likely be split between FY 2021 and FY 2022. Further research in coming months may change the estimated impact.
- In November, the Revenue Interim Committee reduced the LFD's baseline recommendation by \$34.1 million per year. This reduction is not included in the LFD's updated forecast, which increases revenues by \$102.3 million over the three-year period.

The LFD January update changes compared to HJ 2 are shown in the graph below, with fiscal year detail provided in the following table. Since HJ 2 was based on the LFD estimate with an adjustment to individual income tax and liquor and lottery profits, a portion of the increase is due to the removal of these negative adjustments, coupled with an improved IHS economic outlook and offsetting federal tax law changes.

January LFD General Fund Revenue Update Compared to HJ 2  
 3-Year Total Difference= \$279.8 Millions

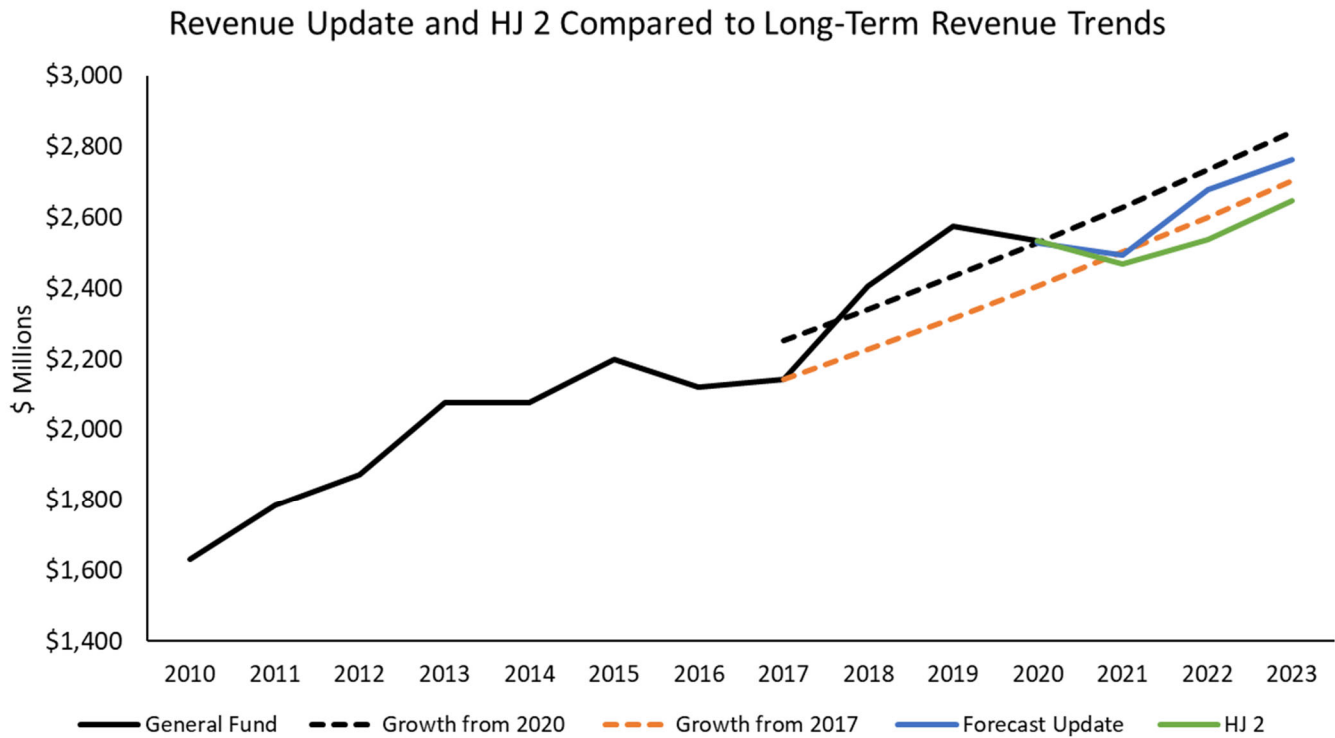


January LFD Update Summary of Changes from HJ 2 (\$ Millions)				
	FY 2021	FY 2022	FY 2023	3-Year Total
Individual Income Tax	\$46.3	\$127.9	\$104.7	\$278.9
Property Tax	-	-	-	-
Corporate Income Tax	(24.2)	8.7	7.3	(8.2)
Vehicle Taxes & Fees	(0.0)	0.3	0.5	0.8
Oil & Natural Gas Tax	(1.5)	(2.8)	(2.8)	(7.1)
Insurance Tax	1.5	4.7	5.3	11.5
Video Gaming Tax	-	-	-	-
Remaining Sources	1.7	0.7	1.6	3.9
<b>General Fund Total</b>	<b>\$23.8</b>	<b>\$139.4</b>	<b>\$116.6</b>	<b>\$279.8</b>

The chart below shows how the updated forecast (blue) compares to historical revenues (black), the long-term general fund revenue trends (dashed), and HJ 2 (green).

Long-term revenue trend comparisons vary if the trend lines begin at a low or a high year. FY 2017 was a relatively low revenue year compared to recent years. If the historic growth rate of 4.0% is applied to FY 2017 the result is the gold dashed line below. FY 2020 was a relatively high year compared to recent years. If the historic growth rate of 4% is applied to FY 2020 the result is the black dashed line.

HJ 2 included an IHS Markit forecast with markedly lower economic estimates, thus the updated forecast or the blue line is significantly higher than HJ 2, but within the range demonstrated by recent trends.



The FY 2020 through FY 2023 values for the above graph are shown in the following table.

January LFD General Fund Revenue Estimate Update (\$ Millions)				
FY	HJ 2	January Update	Long-Term Trend 2020 Base	Long-Term Trend 2017 Base
2020	\$2,533.3	\$2,533.3	\$2,533.3	\$2,533.3
2021	2,469.2	2,493.1	2,633.7	2,501.5
2022	2,537.7	2,677.1	2,738.0	2,600.6
2023	2,647.7	2,764.3	2,846.5	2,703.6
3-Year	\$7,654.6	\$7,934.4	\$8,218.2	\$7,805.8

## **Revenue Implications to the BSRF**

The growth of revenue under both HJ 2 and the revised forecast result in transfers to the Budget Stabilization Reserve Fund (BSRF). Under the adopted HJ 2, a transfer of \$9 million would be made into the BSRF upon completion of FY 2023 in FY 2024. Under the forecast update, a transfer would be made upon completion of FY 2022 totaling \$43 million in FY 2023.

## **Next Steps**

Updated revenue forecasts will be published monthly throughout the 2021 Session. The next report will be available sometime after February 20th. 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