



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: March 18, 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 #3

## **GENERAL FUND REVENUE SUMMARY**

This is the third 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 February 2021 and updated national and Montana forecasts from IHS.

## Forecast Update Based on New Data

The March economic forecasts from IHS combined with LFD revenue models generates a general fund revenue forecast that is \$352.0 million higher than the official estimate in HJ 2 over the three-year forecast period. This is \$51.6 million higher than the February forecast update.

 General Fund Revenue Comparison: Update Compared to HJ 2 (\$ Millions)									
Revenue Source	Actual FY 2020	FY 2021	HJ 2 FY 2022	FY 2023	FY 2021	LFD Update FY 2022	FY 2023	3-Year \$ Difference	3-Year % Difference
<b>Largest Seven Sources</b>									
Individual Income Tax	\$1,435.240	\$1,404.584	\$1,443.769	\$1,523.161	\$1,516.129	\$1,558.980	\$1,643.578	\$347.173	7.9%
Property Tax	308.610	313.021	333.017	339.825	313.430	332.412	338.781	(1.241)	-0.1%
Corporation Tax	187.358	156.256	163.528	168.808	149.420	159.088	170.783	(9.300)	-1.9%
Vehicle Taxes & Fees	108.482	109.273	110.402	111.384	109.320	110.949	112.228	1.439	0.4%
Oil Severance Tax	38.380	36.488	40.402	41.002	40.367	44.353	40.826	7.654	6.5%
Insurance Tax	82.489	86.072	84.780	87.767	88.450	92.000	95.723	17.555	6.8%
Video Gaming Tax	57.447	60.320	63.336	66.503	60.320	63.336	66.503	0.000	0.0%
<b>Other Business Taxes</b>									
Drivers License Fee	4.410	4.029	4.053	4.071	4.041	4.073	4.097	0.058	0.5%
Investment Licenses	15.711	16.385	16.524	16.866	16.385	16.580	17.014	0.205	0.4%
Lodging Facilities Sales Tax	25.058	20.878	30.589	36.378	20.374	30.187	37.441	0.156	0.2%
Public Contractor's Tax	6.729	4.987	5.103	5.206	4.985	5.083	5.181	(0.046)	-0.3%
Railroad Car Tax	4.294	4.305	4.393	5.140	4.305	4.391	5.509	0.366	2.6%
Rental Car Sales Tax	4.224	3.823	4.727	5.219	3.571	4.681	5.212	(0.305)	-2.2%
Retail Telecom Excise Tax	11.788	10.954	10.085	9.190	11.004	10.168	9.287	0.231	0.8%
<b>Other Natural Resource Taxes</b>									
Coal Severance Tax	10.920	10.966	10.812	10.648	9.553	8.697	7.689	(6.487)	-20.0%
Electrical Energy Tax	3.910	4.480	4.223	4.203	3.987	3.759	3.741	(1.420)	-11.0%
Metal Mines Tax	8.724	9.922	8.038	8.222	9.922	8.038	8.222	0.000	0.0%
U.S. Mineral Royalties	18.527	18.729	17.909	17.221	17.619	16.196	14.526	(5.517)	-10.2%
Wholesale Energy Trans Tax	3.351	3.467	3.460	3.466	3.467	3.460	3.466	0.000	0.0%
<b>Other Interest Earnings</b>									
Coal Trust Interest Earnings	21.600	17.904	16.828	15.700	17.896	16.813	15.693	(0.030)	-0.1%
TCA Interest Earnings	18.597	2.740	1.582	1.724	2.392	1.002	1.440	(1.212)	-20.0%
<b>Other Consumption Taxes</b>									
Beer Tax	3.167	3.102	3.111	3.117	3.119	3.133	3.142	0.064	0.7%
Cigarette Tax	26.983	27.045	26.558	26.113	27.080	26.542	25.908	(0.185)	-0.2%
Liquor Excise Tax	23.786	24.930	26.426	28.014	24.960	26.436	27.901	(0.073)	-0.1%
Liquor Profits	18.080	15.800	15.800	16.900	15.800	15.800	16.800	(0.100)	-0.2%
Lottery Profits	8.073	13.144	13.021	13.145	13.224	13.122	13.259	0.296	0.8%
Tobacco Tax	5.754	5.724	5.627	5.565	5.646	5.534	5.472	(0.263)	-1.6%
Wine Tax	2.522	2.579	2.637	2.697	2.577	2.634	2.693	(0.008)	-0.1%
<b>Other Sources</b>									
All Other Revenue <sup>1</sup>	46.062	44.685	44.075	46.685	45.100	45.168	47.889	2.712	2.0%
Highway Patrol Fines	3.458	3.691	3.670	3.607	3.691	3.670	3.607	0.000	0.0%
Nursing Facilities Fee	4.188	3.992	3.896	3.799	3.992	3.896	3.799	0.000	0.0%
Public Institution Reimb.	12.745	12.555	12.382	13.410	12.555	12.382	13.410	0.000	0.0%
Tobacco Settlement <sup>2</sup>	2.654	12.406	2.936	2.912	12.517	3.028	3.007	0.297	1.6%
<b>Total General Fund</b>	<b>\$2,533.321</b>	<b>\$2,469.234</b>	<b>\$2,537.695</b>	<b>\$2,647.666</b>	<b>\$2,577.199</b>	<b>\$2,655.591</b>	<b>\$2,773.824</b>	<b>\$352.019</b>	<b>4.6%</b>
Guarantee Account	42.452	42.914	42.406	42.845	42.928	42.374	42.646	0.216	-0.2%
<b>Total General Fund &amp; Guarantee</b>	<b>\$2,575.774</b>	<b>\$2,512.148</b>	<b>\$2,580.101</b>	<b>\$2,690.511</b>	<b>\$2,620.127</b>	<b>\$2,697.965</b>	<b>\$2,816.470</b>	<b>\$352.236</b>	<b>4.5%</b>

<sup>1</sup>Includes fiscal note from I-190 (Marijuana Tax, \$2.2 million)

<sup>2</sup>Includes \$10 million in OTO revenues in FY 2021 from recent tobacco settlement

The HJ 2 estimate included an adjustment to individual income tax and liquor and lottery profits, totaling \$34.1 million per year, with \$30.1 million being in the form of an adjustment to individual income taxes. Based on YTD collections and other modeling, the LFD baseline estimate does not include the RIC adjustment to individual income taxes. The table below shows the LFD baseline estimate if all the RIC adjustments are incorporated.

March LFD General Fund Revenue Estimate Update (\$ Millions)						
FY	HJ 2	March Update	LFD Update with RIC Adjustments	HJ 2 Growth	March Update Growth	RIC Adjusted Growth
2020	\$2,533.3	\$2,533.3	\$2,533.3			
2021	2,469.2	2,577.2	2547.0	-2.5%	1.7%	0.5%
2022	2,537.7	2,655.6	2625.4	2.8%	3.0%	3.1%
2023	2,647.7	2,773.8	2743.7	4.3%	4.5%	4.5%
3-Year	\$7,654.6	\$8,006.6	\$7,916.1			

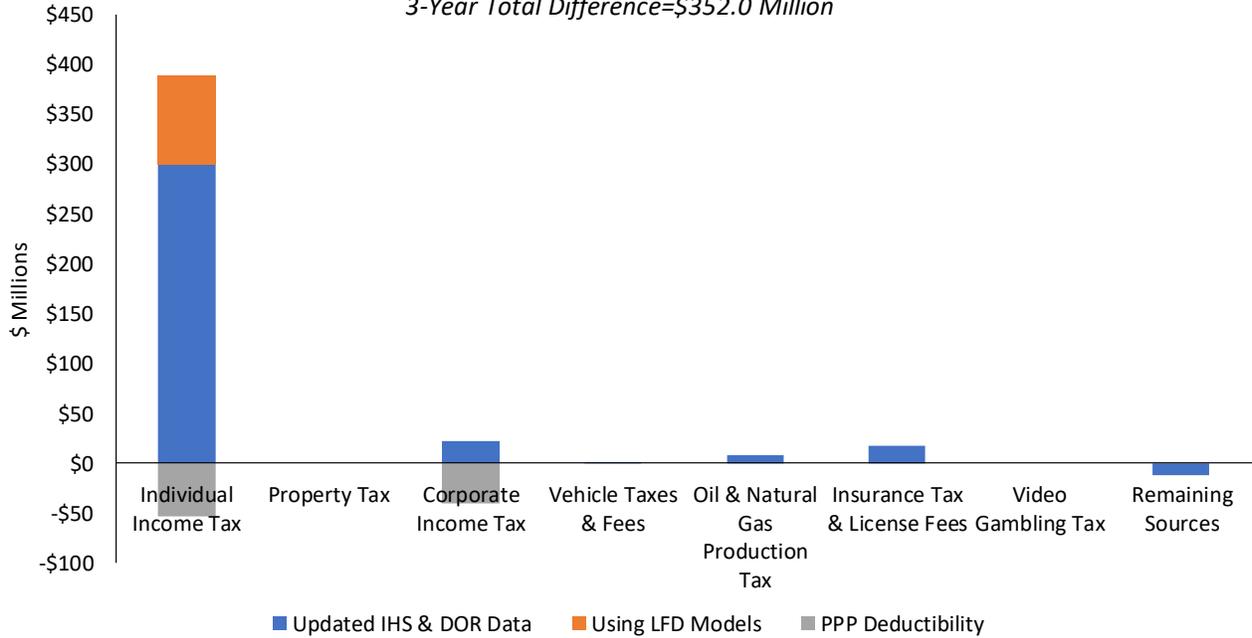
## Changes from February

The current forecast update over the three-year period is \$51.6 million above the update from last month, an increase of 0.7%. This increase primarily occurred in individual income taxes, corporate income taxes, and oil & natural gas taxes.

1. The LFD did not change the amount of revenue impact related to the federal CARES Act or the Consolidated Appropriations Act. The CARES Act relaxed net-operating loss provisions and also removed the threshold on non-business income that could be offset with business losses. The Consolidated Appropriations Act gave guidance that stated that Payment Protection Program (PPP) loans did not need to be included as gross income but could still be deducted as an expense. The LFD estimates that over the three-year period these two federal laws could reduce revenues by \$140 million. In previous updates, most of the impact was expected to occur in FY 2021 and FY 2022. In the March update it is assumed that these impacts will be spread out evenly over FY 2021, FY 2022, and FY 2023.
2. The updated March IHS data increased its forecast for oil prices over the forecast period. This increased the oil & natural gas forecast by \$10 million over the three-year period. Oil prices are a significant component of the corporate income model and contributed to the three-year forecast increasing by \$11.1 million. IHS also revised their assumption for the S&P 500 and corporate profits, especially for FY 2023. This increased the LFD growth rates for capital gains income and rents, royalties, and partnership income. This accounted for the majority of the remaining growth since last month's update.

The LFD March update changes compared to HJ 2 are shown in the graph below, with fiscal year detail provided in the table.

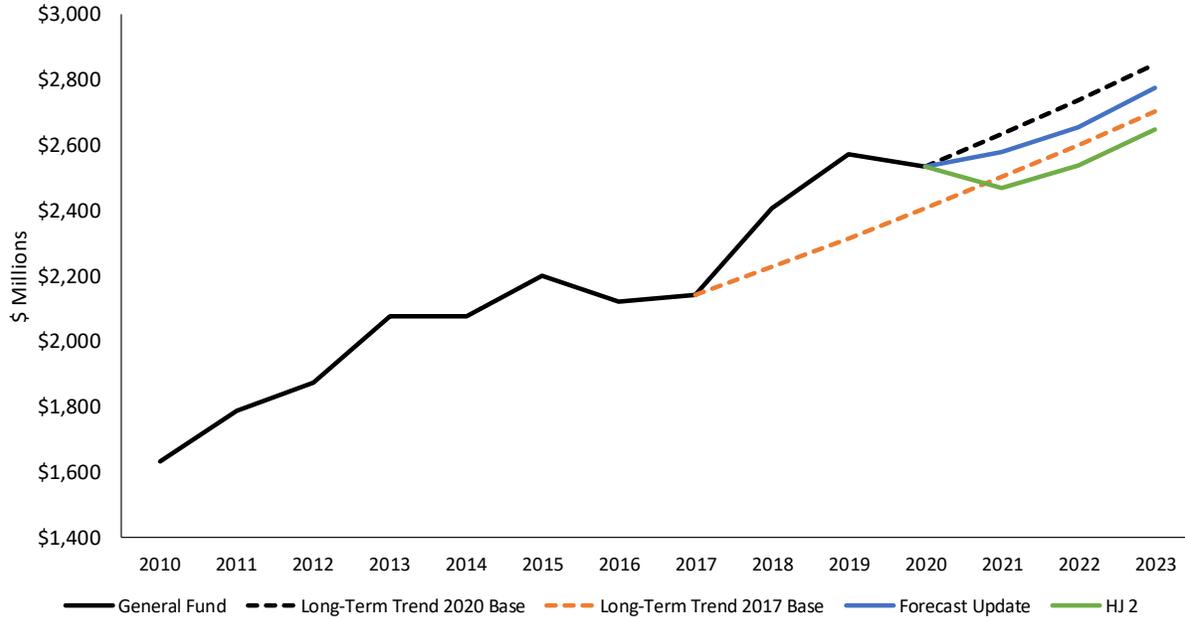
March LFD General Fund Revenue Update Compared to HJ 2  
 3-Year Total Difference=\$352.0 Million



March LFD Update Summary of Changes from HJ 2 (\$ Millions)				
	FY 2021	FY 2022	FY 2023	3-Year Total
Individual Income Tax	\$111.5	\$115.2	\$120.4	\$347.2
Property Tax	-	-	-	-
Corporate Income Tax	(6.8)	(4.4)	2.0	(9.3)
Vehicle Taxes & Fees	0.0	0.5	0.8	1.4
Oil & Natural Gas Tax	3.9	4.0	(0.2)	7.7
Insurance Tax	2.4	7.2	8.0	17.6
Video Gaming Tax	-	-	-	-
Remaining Sources	(3.0)	(4.6)	(4.9)	(12.5)
<b>General Fund Total</b>	<b>\$108.0</b>	<b>\$117.9</b>	<b>\$126.2</b>	<b>\$352.0</b>

The chart below shows how the updated forecast compares to historical revenues, the long-term general fund revenue trend starting at two different time points, and HJ 2.

Revenue Update and HJ 2 Compared to Long-Term Revenue Trends



March LFD General Fund Revenue Estimate Update (\$ Millions)				
FY	HJ 2	March 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	2,577.2	2,633.7	2,501.5
2022	2,537.7	2,655.6	2,738.0	2,600.6
2023	2,647.7	2,773.8	2,846.5	2,703.6
3-Year	\$7,654.6	\$8,006.6	\$8,218.2	\$7,805.8

## Next Steps

Updated revenue forecasts will be published monthly throughout the 2021 Session. If requested, the next report will be available in the second half of April.

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

# APPENDIX

## GENERAL FUND REVENUE SUMMARY

This is the third of six monthly revenue updates throughout the second half of FY 2021 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2021 relative to the revenue estimate contained in HJ 2.

FY 2021 general fund revenues through the end of February are \$173.3 million or 10.6% above FY 2020 revenues through the same period. Ongoing revenue growth, which excludes one-time-only revenues is currently 10.3% above the FY 2020 values through the same time period. While revenue growth has been strong thus far, it is likely that the state may issue a significant amount in refunds the coming months, as individuals recognize losses caused by the Covid-19 public health crisis.

# YEAR-TO-DATE GENERAL FUND REVENUE

## General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2020	HJ 2 FY 2021	HJ 2 Est. % Change	Feb FY 2020	Feb FY 2021	YTD Difference	YTD % Change	YTD % Change
<b>Largest Seven Sources</b>								
Individual Income Tax	\$1,435.240	\$1,404.584	-2.1%	\$1,027.633	\$1,197.286	\$169.652	16.5%	
Property Tax	308.610	313.021	1.4%	172.879	179.102	6.223	3.6%	
Corporate Income Tax	187.358	156.256	-16.6%	116.442	123.236	6.793	5.8%	
Vehicle Taxes & Fees	108.482	109.273	0.7%	68.528	68.852	0.325	0.5%	
Oil & Natural Gas Taxes	38.380	36.488	-4.9%	11.291	7.272	(4.018)	-35.6%	
Insurance Tax	82.489	86.072	4.3%	36.275	36.472	0.197	0.5%	
Video Gaming Tax	57.447	60.320	5.0%	32.296	34.298	2.003	6.2%	
<b>Other Business Taxes</b>								
Drivers License Fee	4.410	4.029	-8.6%	2.818	2.723	(0.094)	-3.3%	
Investment Licenses	15.711	16.385	4.3%	14.623	15.459	0.837	5.7%	
Lodging Facilities Sales Tax	25.058	20.878	-16.7%	15.754	14.181	(1.574)	-10.0%	
Public Contractor's Tax	6.729	4.987	-25.9%	4.905	3.980	(0.926)	-18.9%	
Railroad Car Tax	4.294	4.305	0.3%	3.331	3.717	0.385	11.6%	
Rental Car Sales Tax	4.224	3.823	-9.5%	2.693	2.191	(0.502)	-18.6%	
Retail Telecom Excise Tax	11.788	10.954	-7.1%	6.008	4.734	(1.274)	-21.2%	
<b>Other Natural Resource Taxes</b>								
Coal Severance Tax	10.920	10.966	0.4%	5.862	4.379	(1.483)	-25.3%	
Electrical Energy Tax	3.910	4.480	14.6%	2.287	1.487	(0.800)	-35.0%	
Metal Mines Tax	8.724	9.922	13.7%	0.070	0.001	(0.069)	-98.1%	
U.S. Mineral Leasing	18.527	18.729	1.1%	10.313	6.417	(3.896)	-37.8%	
Wholesale Energy Trans Tax	3.351	3.467	3.4%	1.819	1.427	(0.392)	-21.6%	
<b>Other Interest Earnings</b>								
Coal Trust Interest Earnings	21.600	17.904	-17.1%	9.858	9.166	(0.692)	-7.0%	
TCA Interest Earnings	18.597	2.740	-85.3%	13.216	2.377	(10.840)	-82.0%	
<b>Other Consumption Taxes</b>								
Beer Tax	3.167	3.102	-2.1%	1.859	1.941	0.082	4.4%	
Cigarette Tax	26.983	27.045	0.2%	16.931	18.066	1.135	6.7%	
Liquor Excise Tax	23.786	24.930	4.8%	13.808	16.105	2.297	16.6%	
Liquor Profits	18.080	15.800	-12.6%	-	-	-	-	
Lottery Profits	8.073	13.144	62.8%	1.806	2.647	0.841	46.6%	
Tobacco Tax	5.754	5.724	-0.5%	3.517	3.380	(0.137)	-3.9%	
Wine Tax	2.522	2.579	2.3%	1.506	1.619	0.113	7.5%	
<b>Other Sources</b>								
All Other Revenue	46.062	44.685	-3.0%	24.181	23.256	(0.926)	-3.8%	
Highway Patrol Fines	3.458	3.691	6.7%	2.097	1.910	(0.186)	-8.9%	
Nursing Facilities Fee	4.188	3.992	-4.7%	2.012	1.796	(0.216)	-10.7%	
Public Institution Reimbursements	12.745	12.555	-1.5%	6.946	7.499	0.553	8.0%	
Tobacco Settlement	2.654	12.406	367.4%	-	9.860	9.860	-	
Ongoing Revenue Subtotal	2,529.221	2,459.391	-2.8%	1,629.463	1,796.993	167.530	10.3%	
OTO Revenue & Transfers Subtotal	4.100	9.843	-	4.100	9.843	5.743	-	
<b>Grand Total</b>	<b>\$2,533.321</b>	<b>\$2,469.234</b>	<b>-2.5%</b>	<b>\$1,633.563</b>	<b>\$1,806.836</b>	<b>\$173.272</b>	<b>10.6%</b>	

## MAJOR SOURCES

### Individual Income Tax: YTD Above Estimate, but uncertainty in the next few months

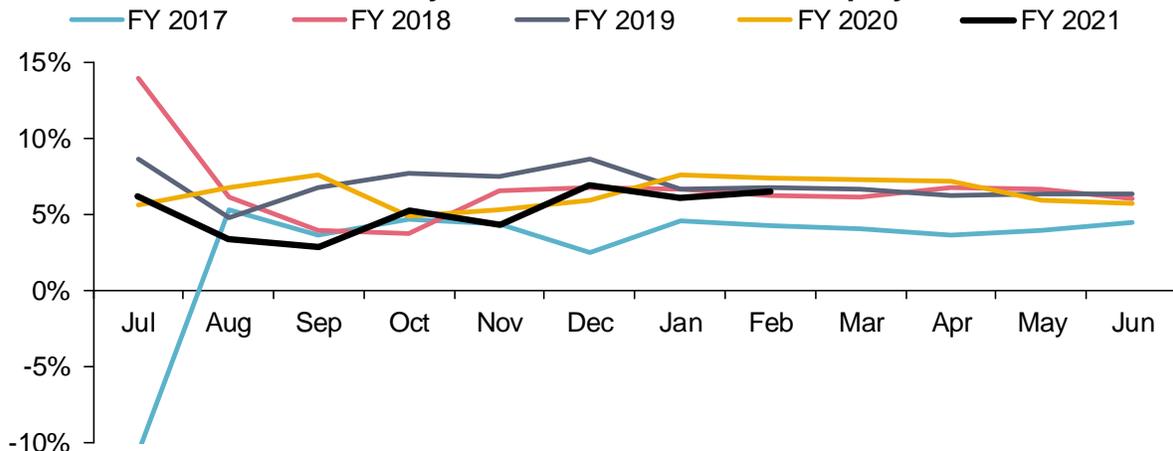
Individual income tax collections through the end of February are \$169.7 million or 16.5% above the year-to-date collections in FY 2020, and currently above the decline of 2.1% anticipated in HJ 2. Withholding growth has remained strong, but the growth of 32.8% in estimated payments is the result of an additional quarter of estimated payments from FY 2020 that was booked to FY 2021. This money will ultimately be attributed to FY 2021. but a true comparison, with this payment removed, shows 8.7% growth in estimated payments. Finally, the date to begin filing taxes this year was February 12<sup>th</sup>, which is about three weeks later than prior years. As a result, few refunds were filed in February, but are expected to increase in the coming months.

Individual Income Tax (\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Withholding	\$781.5	\$734.0	\$47.5	6.5%
Estimated Payments	276.1	208.0	68.1	32.8%
Current Year Payments	34.1	31.6	2.5	7.8%
Audit, P&I, Amended	31.4	28.1	3.3	11.8%
Refunds	(129.4)	(144.9)	15.5	-10.7%
Refund Accrual Reversal	179.9	152.8	27.1	0.0%
Partnership Income Tax	19.6	12.1	7.5	62.3%
Mineral Royalties	4.1	6.0	(1.9)	-31.7%
Total	\$1,197.3	\$1,027.6	\$169.7	16.5%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue and is continuing to show year-over-year growth compared to FY 2020 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.

### Cumulative year-over-year withholding growth may decrease throughout the remainder of the fiscal year due to increased unemployment.



## Property Tax: Currently Slightly Above Estimate

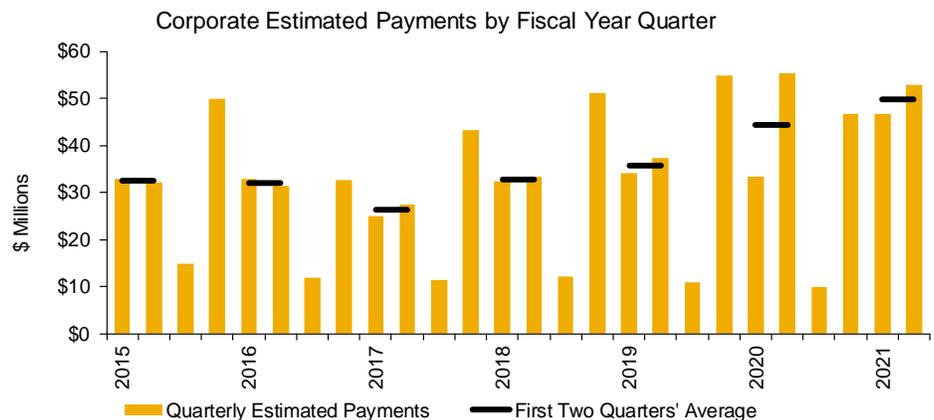
Property tax collections are above last year by \$6.2 million or 3.6%. Only one of two large property tax payments has been made, and property tax is still anticipated to come in close to the HJ 2 estimate.

## Corporate Income Tax: YTD Above Estimate, but uncertainty in the next few months

Corporate income tax collections through the end of February are 5.8% or \$6.8 million above this time in FY 2020. This is above the expected decline of 16.6% contained in the HJ 2 estimate. However, similarly to individual income tax, it is possible that significant refunds may be administered in the coming months if corporations overpaid on their estimated taxes during TY 2020.

Corporate Income Tax (\$ Millions)				
Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Corporation Tax	\$21.8	\$25.4	(\$3.6)	-14.2%
Estimated Payments	\$108.7	\$94.8	13.9	14.7%
Refunds	(13.0)	(10.5)	(2.6)	24.7%
Audit, P&I, Amended	5.8	6.7	(0.9)	-13.7%
<b>Total</b>	<b>\$123.2</b>	<b>\$116.4</b>	<b>\$6.8</b>	<b>5.8%</b>

The adjacent chart shows that estimated payments in the first two quarters of FY 2021 are above the estimated payments collected in recent years. Estimated payments typically make up 80% of total corporation income tax collections, so they're the ultimate driver of where final collections end up.

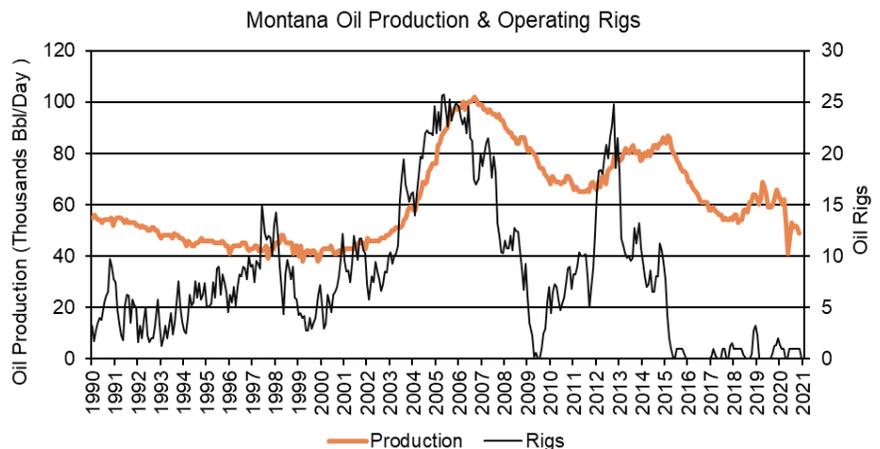


## Vehicle Fees & Taxes: Slightly Above Estimate, but expected to end the year near the estimate

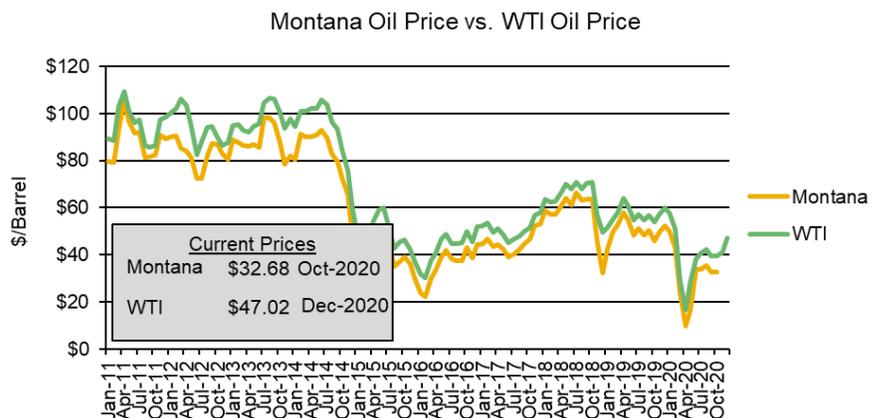
Vehicle taxes and fees are 0.5% or \$0.325 million above collections at this time last year. In HJ 2, this source was expected to grow by 0.7%. This is a stable revenue source and it is likely that final collections will end up relatively close to the HJ 2 estimate.

## Oil & Natural Gas Production Tax: Currently Below Estimate

After the first payment was posted to the state accounting system in January, Oil and natural gas production tax collections are currently 35.6% or \$4 million below collections at this time last year, which is tracking well below the HJ 2 estimated decline of 4.9%. The primary driver behind this is the combination of a substantial decline in oil prices in Q1 of FY 2021 compared to the same period of FY 2020, and a similar decline in production over this period as well. Although the decline is significant, there is positive news looking forward as WTI spot prices have reached into the low sixties over the past month.



As the chart on the previous page indicates, there was a significant decline in production in early 2020 which was the result of a sharp decline in prices due to the economic impacts of the Covid-19 pandemic (shown in the chart to the right). If prices continue on a positive trend, it is likely that final collections will approach the HJ 2 estimate.



## Insurance Tax: Currently Above Estimate

Current insurance tax collections are 0.5% or \$0.2 million above FY 2020 through February. This source has followed a steady pattern of growth over the past few years and is currently anticipated to come in above the HJ 2 estimate.

## Video Gaming Tax: Currently Above Estimate

Revenue from video gambling is currently \$2.0 million or 6.2% above collections from the same time last year. Revenue from this source was originally forecast to remain fairly flat throughout the 2021 biennium. However, the source experienced strong growth through the first half of the fiscal year and will likely finish the year over the estimate.

## OTHER KEY DIFFERENCES:

### Coal Severance Tax: Currently Below Estimate

Year-to-date coal severance tax collections are currently \$1.5 million, or 25.3% below collections from last year. Production continues to decline in the state, and this drop has been driven by the closures of Colstrip Units 1 & 2, though declined production has been seen statewide, not just at the mine that fuels Colstrip.

## **U.S. Mineral Royalties: Currently Well Below Estimate**

U.S. mineral royalties are down 37.8% or \$3.9 million compared to FY 2020 levels at this time. Mineral royalty payments can be sporadic, so a portion of this decrease may be due to timing. It is also likely that some of this decline from the previous year is also due to poor performance in the coal and oil industries, which contribute heavily to royalty collections. This source was expected to grow by 1.1% in the HJ 2 estimate.

## **TCA Interest Earnings: Lower and consistent with estimate**

Treasury cash account interest earnings are \$10.8 million or 82% below collections last year at this time, but slightly above the HJ 2 anticipated decline of 85.3%. The decline has been driven by short term interest rates that are near zero. Interest rates are expected to remain at these low levels so this source will likely finish close to the HJ 2 estimate.

## **Lodging Facilities Sales Tax: Lower than last year, but performing better than estimate**

Lodging facilities sales tax collections are currently \$1.574 million or 10.0% below collections at this time last year. This source was expected to decline by 16.7%, so current collections are performing slightly better than expected in HJ 2. Although lodging taxes are down overall throughout the state, areas that receive higher volumes of tourist visitation, such as the areas around Yellowstone and Glacier, have generally recovered more quickly than expected. It is likely that final collections will end around the HJ 2 forecast.

## **Retail Telecom Excise Tax: Currently Below Estimate**

Retail telecommunications excise tax collections are currently \$1.274 million or 21.2% lower than at this time last year. This source was expected to decline by 7.1% in HJ 2. The reason for the lower collections at this point is likely due to timing, as there was a smaller than normal payment posted in February.

## **Cigarette Tax: Currently Above Estimate**

Year-to-date cigarette tax collections came in \$1.1 million or 6.7% higher than this time last year. While most months resembled last year's collections, September collections during the current fiscal year were abnormally high and account for most of the growth in this source.

## **Liquor Excise Tax: Above Estimate**

Liquor excise tax actuals came in 16.6% or \$2.3 million above this time last year. The growth in this source is comparable to national patterns of liquor sales during the COVID-19 pandemic.

## **Tobacco Settlement: One Time Windfall and consistent with estimate**

Year-to-date collections are \$9.9 million greater than this time last year. Tobacco settlement revenue is usually not received until April. However, due to a legal settlement in December the state received payment for all disputed payments withheld by tobacco companies since the inception of the settlement. Of the total recovery of \$53.7 million in withheld payments the general fund received its typical disbursement of 11%, plus all interest accrued on the withheld payments. The state will still collect the normal payment in April and the general fund will likely receive approximately \$2.5 million more at that time.