



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: June 4, 2018

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

FROM: LFD Revenue Team

RE: FY 2018 General Fund Revenue Update #6

PURPOSE OF THIS REPORT

This is the last of six monthly revenue updates throughout the second half of FY 2018 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2018 relative to the revenue estimate contained in HJ 2.

GENERAL FUND REVENUE SUMMARY

FY 2018 general fund revenues through the end of May are \$253.4 million or 13.8% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,428 million, about \$7 million less than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest potential revenue below HJ 2 by about \$8 million.

Although year-to-date estimates through May are suggesting final revenue collections similar to HJ 2, the volatility of capital gains income, oil price, and corporation income may result in total revenue collections that are higher or lower than what current collections suggest for FY 2018; in addition, the accruals posted at the close of FY 2018 may impact the final growth rates of several sources.

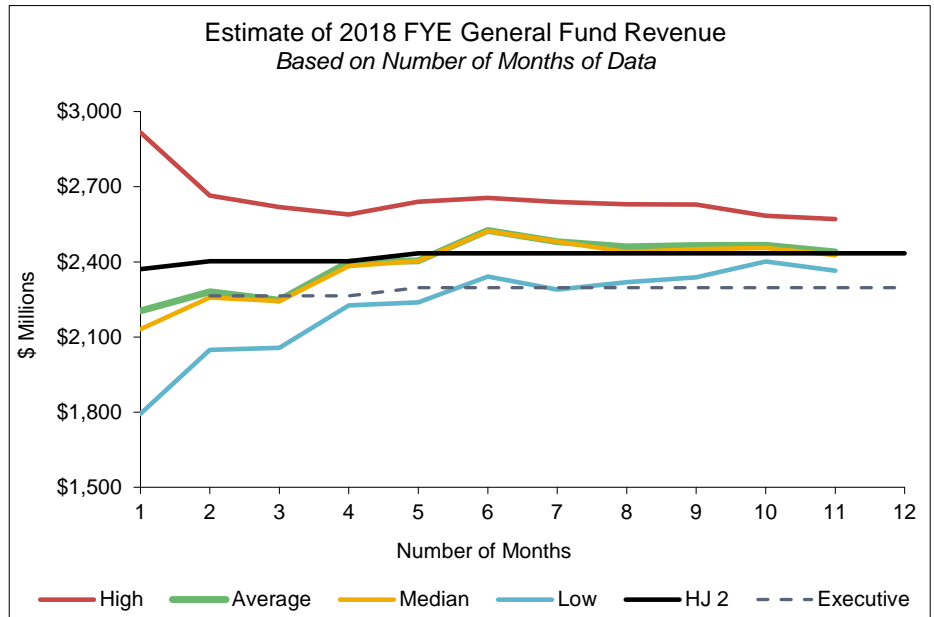
Finally, taxpayer timing changes as a result of [Tax Cuts and Jobs Act of 2017](#) could influence year-to-date extrapolations; however, the impact on corporation and individual income taxes appears minimal after April final payments, and the property tax impact may be partially offset by the federal reauthorization of the Secure Rural Schools Act.

Range of Revenue Options (\$ Millions)			
Estimate	FY 2018	FY 2019	Notes
HJ 2	\$2,435	\$2,495	Official legislative revenue estimate
YTD Median Extrapolation	2,428		Based on total general fund collection patterns since FY 2002
Cash Concept Model	2,427		Based on collection patterns of large revenue sources since FY 2002
Executive Estimate for 2017 Special Session	2,297	2,352	Used to balance GF budget during 2017 Special Session, but not adopted

Year-to-Date Revenue 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 2018 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the adjacent chart.

Based on collections through May, the difference between the high and low amounts is about \$207 million, with the median value about \$7 million below the HJ 2 estimate.



SB 9 ALLOCATIONS & HB 2 APPROPRIATIONS TO STATE AGENCIES IN THE EVENT OF EXCESS REVENUES

Per [SB 9 \(2017 Special Session\)](#), if the amount of unaudited state general fund revenue and transfers into the general fund received at the end of FY 2018 is more than \$2,264.9 million, excluding transfers in [HB 6 \(2017 Special Session\)](#) and any revenue generated by [SB 5 \(2017 Special Session\)](#), then the state treasurer shall notify the Legislative Fiscal Analyst and others of the amount of excess revenue and the following actions will be taken:

1. If the excess revenue is less than \$20.0 million, it will remain in the general fund;
2. If the excess revenue is \$20.0 million or more, the transfers in HB 6 from the secretary of state enterprise fund and the public service commission state special revenue account are void. In addition, the State Auditor shall remit \$530,825 to the state treasurer by December 15, 2017;
3. If the excess revenue is at least \$20.0 million, but no more than \$111.4 million, the excess revenue will be as follows:
 - a. \$20.0 million will remain in general fund
 - b. 50% of the remainder will be transferred to the budget stabilization reserve fund established by [SB 261 \(2017 Regular Session\)](#)
 - c. 50% of the remainder will be prorated to agencies to proportionally offset the reductions in HB 2. A list of agencies and the amounts offset is provided in SB 9
4. If the excess revenue is more than \$111.4 million, all of the above will be followed, and the extra will remain in the general fund.

SB 9 Threshold Compared to HJ 2

Note that the \$2,264.9 million threshold in SB 9 is based on the executive's general fund revenue estimate used to call the 2017 November Special Session of the Legislature, which was below HJ 2 by \$137 million in FY 2018.

The HJ 2 estimate for FY 2018 including all enacted legislation from the 2017 regular and special sessions is \$2,434.6 million. If the transfers in HB 6 and revenue anticipated from SB 5 are excluded, the amount would be \$2,402.3 million, which is \$137.4 million above the SB 9 threshold.

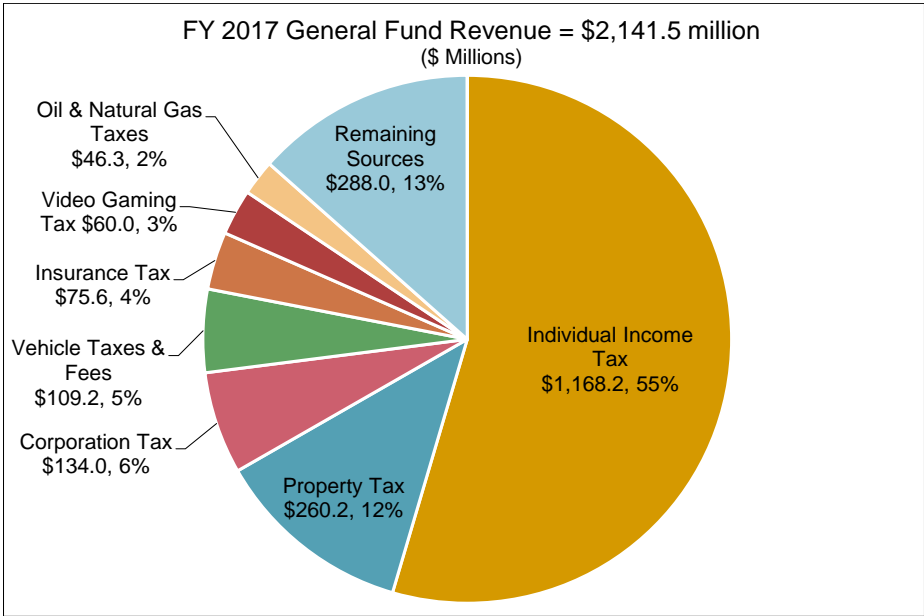
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of May are \$253.4 million or 13.8% greater than FY 2017 revenues through the same period, and above the HJ 2 estimated growth of 13.7%. Note that the increase is in part due to legislatively authorized transfers of \$65.6 million posted to All Other Revenue.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2017	HJ 2/SS FY 2018	HJ 2 Est. % Change	May FY 2017	May FY 2018	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,168.225	\$1,320.808	13.1%	\$1,153.084	\$1,281.971	\$128.887	11.2%
Property Tax	260.224	277.119	6.5%	153.089	166.209	13.120	8.6%
Corporation Tax	133.992	168.763	26.0%	109.419	138.954	29.535	27.0%
Vehicle Taxes & Fees	109.197	112.956	3.4%	88.890	89.161	0.271	0.3%
Oil & Natural Gas Taxes	46.334	49.939	7.8%	22.490	25.171	2.681	11.9%
Insurance Tax	75.558	76.003	0.6%	61.260	61.641	0.380	0.6%
Video Gaming Tax	59.956	61.904	3.2%	44.665	46.646	1.981	4.4%
Other Business Taxes							
Drivers License Fee	4.308	4.341	0.8%	3.785	3.946	0.161	4.2%
Investment Licenses	7.327	7.660	4.5%	7.172	7.498	0.327	4.6%
Lodging Facilities Sales Tax	21.780	23.399	7.4%	16.429	17.444	1.015	6.2%
Public Contractor's Tax	3.078	2.540	-17.5%	1.968	3.020	1.052	53.5%
Railroad Car Tax	3.790	3.642	-3.9%	3.790	3.649	(0.141)	-3.7%
Rental Car Sales Tax	3.402	3.357	-1.3%	2.563	2.843	0.280	10.9%
Retail Telecom Excise Tax	15.603	15.570	-0.2%	11.688	10.379	(1.309)	-11.2%
Other Natural Resource Taxes							
Coal Severance Tax	13.799	13.811	0.1%	11.581	10.896	(0.686)	-5.9%
Electrical Energy Tax	4.314	4.439	2.9%	3.442	3.310	(0.132)	-3.8%
Metal Mines Tax	4.839	4.274	-11.7%	2.346	3.332	0.986	42.0%
U.S. Mineral Leasing	17.322	20.497	18.3%	11.756	15.519	3.763	32.0%
Wholesale Energy Trans Tax	3.464	3.505	1.2%	2.721	2.753	0.032	1.2%
Other Interest Earnings							
Coal Trust Interest Earnings	19.799	19.829	0.1%	16.391	14.353	(2.038)	-12.4%
TCA Interest Earnings	5.692	7.577	33.1%	4.593	8.125	3.532	76.9%
Other Consumption Taxes							
Beer Tax	2.998	3.072	2.5%	2.389	2.391	0.002	0.1%
Cigarette Tax	30.558	30.652	0.3%	25.594	24.052	(1.542)	-6.0%
Liquor Excise Tax	20.366	22.265	9.3%	16.501	17.056	0.555	3.4%
Liquor Profits	11.750	14.614	24.4%	-	-	-	
Lottery Profits	9.624	12.365	28.5%	6.472	6.639	0.167	2.6%
Tobacco Tax	6.247	6.815	9.1%	5.104	4.991	(0.113)	-2.2%
Wine Tax	2.429	2.584	6.4%	2.004	2.009	0.005	0.3%
Other Sources							
All Other Revenue	49.336	113.552	130.2%	27.915	98.170	70.254	251.7%
Highway Patrol Fines	3.927	4.152	5.7%	3.147	3.054	(0.093)	-3.0%
Nursing Facilities Fee	4.635	4.305	-7.1%	3.404	3.226	(0.178)	-5.2%
Public Institution Reimbursement	14.264	15.718	10.2%	9.401	10.668	1.267	13.5%
Tobacco Settlement	3.343	2.622	-21.6%	3.343	2.768	(0.575)	-17.2%
Largest Seven Subtotal							
	1,853.485	2,067.491	11.5%	1,632.898	1,809.752	176.853	10.8%
Remaining Sources Subtotal							
	287.994	367.154	27.5%	205.500	282.090	76.590	37.3%
Grand Total							
	\$2,141.479	\$2,434.645	13.7%	\$1,838.398	\$2,091.842	\$253.444	13.8%

MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

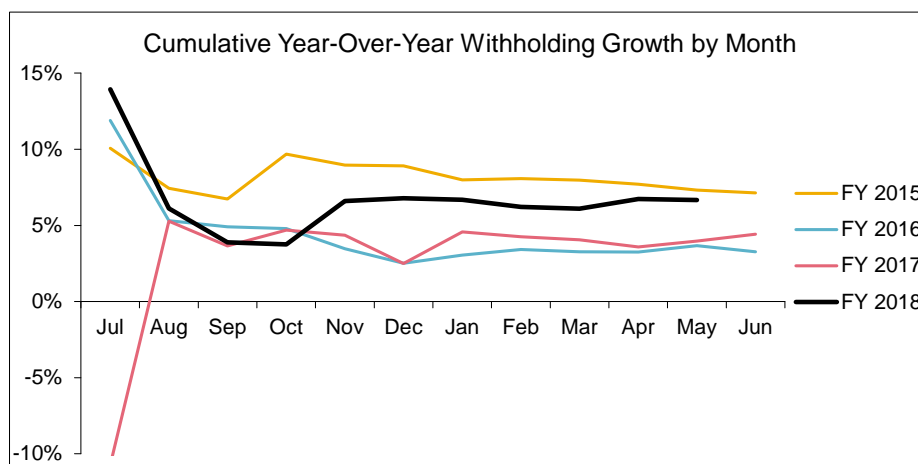


Individual Income Tax: Below Estimate

Individual income tax collections through the end of May are \$128.9 million or 11.2% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, high December and January estimated payments, and growth in April current year payments.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$887.4	\$831.9	\$55.5	6.7%
Estimated Payments	265.4	224.5	40.9	18.2%
Current Year Payments	182.3	167.8	14.5	8.6%
Audit, P&I, Amended	36.1	32.8	3.3	10.0%
Refunds	(284.1)	(279.1)	(5.1)	1.8%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	33.7	26.3	7.4	28.2%
Mineral Royalties	7.9	5.8	2.1	35.9%
Total	\$1,282.0	\$1,153.1	\$128.9	11.2%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to maintain growth above 6% compared to FY 2017 collections. As shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.



Property Tax: Above Estimate Due to Higher Taxable Value and Reauthorization of Secure Rural Schools Act

Property tax collections are above last year by \$13.1 million or 8.6%, compared to 6.5% in HJ 2. While the second payment has not been posted through this report, tax collections will likely come in above HJ 2. The increase is primarily driven by actual taxable value being about 1% above estimated taxable value, and the reauthorization of the Secure Rural Schools Act.

The reauthorization of the Secure Rural Schools Act by the federal government will likely cause property tax to come in higher than estimate by \$2.5 million. This is a payment to schools in federal timber areas that has a revenue share with the 55 mills that is distributed to the general fund. This combined with higher-than-estimated taxable value is will likely result in an increase relative to the HJ 2 estimate.

Corporation Income Tax: YTD on Track with HJ 2

Corporation income tax collections through the end of May are 27.0% or \$29.5 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments, lower refunds, and a large, one-time audit. In HJ 2, this source was expected to grow by 26.0%.

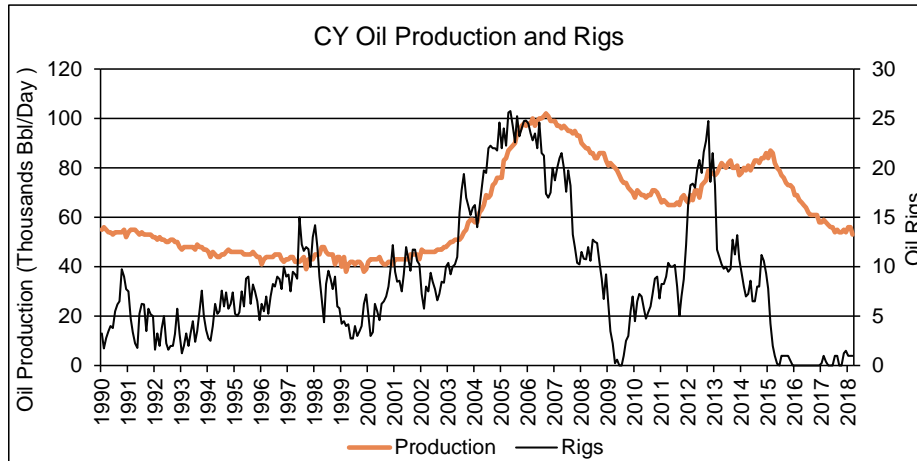
Corporation Income Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Corporation Tax	\$31.6	\$30.1	\$1.5	4.8%
Estimated Payments	100.7	89.6	11.1	12.4%
Refunds	(21.7)	(26.0)	4.3	-16.5%
Refund Accrual Reversal	3.3	3.8	(0.4)	-11.3%
Audit, P&I, Amended	25.0	11.9	13.1	109.6%
Total	\$139.0	\$109.4	\$29.5	27.0%

Vehicle Fees & Taxes: Currently Below Estimate

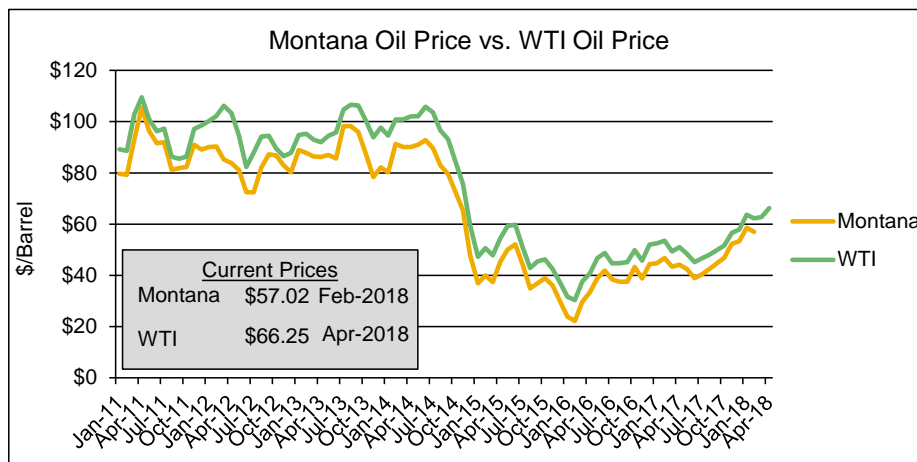
Through May, vehicle taxes and fees are 0.3% or \$0.3 million above collections last year at this time. The timing of payments into the accounting system has been sporadic from month to month; however, this source is expected to end up near HJ 2.

Oil & Natural Gas Production Tax: Above Estimate

Through May, two of the four oil & gas payments have been booked to the state accounting system. Price increases have offset small decreases in production, and as a result collections are higher than last year. Specifically, collections are 11.9% or \$2.7 million above last year. The year-to-date growth of 11.9% is above the assumed growth of 7.8% in HJ 2.



As the chart above shows, oil production had been declining since the beginning of 2015 through late 2017, as there was at most two rigs operating in the state since early 2015. However, it has remained relatively flat in recent months. The figure below shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Back on Track

Insurance tax collections are 0.6% or \$0.4 million above FY 2017 through May. Collections for this source are currently right in line with the level of growth anticipated in HJ 2.

Insurance Premiums Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Insurance Licenses & Permits	\$0.0	\$0.0	\$0.0	26.1%
Premium Insurance Tax	48.5	47.7	0.8	1.7%
Fire Marshall Taxes	8.5	9.0	(0.6)	-6.5%
Premium Insurance Tax-Yearly	0.0	0.0	(0.0)	-54.3%
Surplus Lines Premium Tax	3.1	2.9	0.3	8.9%
Captive Premium Insurance Tax	1.6	1.6	(0.1)	-3.7%
Total	\$61.6	\$61.3	\$0.4	0.6%

Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$2.0 million or 4.4% above collections from last year. This source was expected to grow by 3.2% so it is tracking slightly above the HJ 2 estimate.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Below Estimate

Lodging facilities sales tax is \$1.0 million or 6.2% above year-to-date collections in FY 2017, but below the 7.4% increase anticipated in HJ 2. Nearly 25% of this source is accrued at fiscal year end, so the final amount could end up close to HJ 2.

Public Contractors' Tax: Above Estimate

Public contractors' tax is \$1.1 million or 53.5% above year-to-date collections in FY 2017, and above the 17.5% decline anticipated in HJ 2. There can be a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects have produced unusual future collection patterns in the past.

Retail Telecommunications Excise Tax: Below Estimate

Retail telecommunications excise tax is \$1.3 million or 11.2% below year-to-date collections in FY 2017, and below the 0.2% decline anticipated in HJ 2. This source has been declining since FY 2010.

U.S. Mineral Leasing: Currently Above Estimate

To date, U.S. mineral leasing royalties are \$3.8 million or 32.0% above this time last year. In HJ 2 this source was expected to grow by 18.3%. Payments into this account are typically sporadic from month-to-month, so it makes it difficult to estimate where final collections will end up.

Coal Trust Interest Earnings: Below Last Year Due to Timing

To date, coal trust interest earnings are \$2.0 million or 12.4% below collections from one year ago. In FY 2017, \$2.0 million was booked in this account in August, when typically the first large collection doesn't occur until September. This was ultimately offset by low June collections. Final collections should end up near or slightly below the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$3.5 million or 76.9% above collections last year at this time, and above the HJ 2 anticipated growth of 33.1%. Short-term interest rates in FY 2018 are slightly lower than expected, so the increase relative to HJ 2 is due to a larger-than-expected daily cash balance.

Cigarette Tax: Below Estimate

Cigarette tax revenue is \$1.5 million or 6.0% below year-to-date collections in FY 2017. The decline may be attributable to changing consumer preferences.

All Other Revenue: Above Last Year Due to Transfers

To date, all other revenue collections are \$70.2 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$65.6 million of the year-over-year difference.

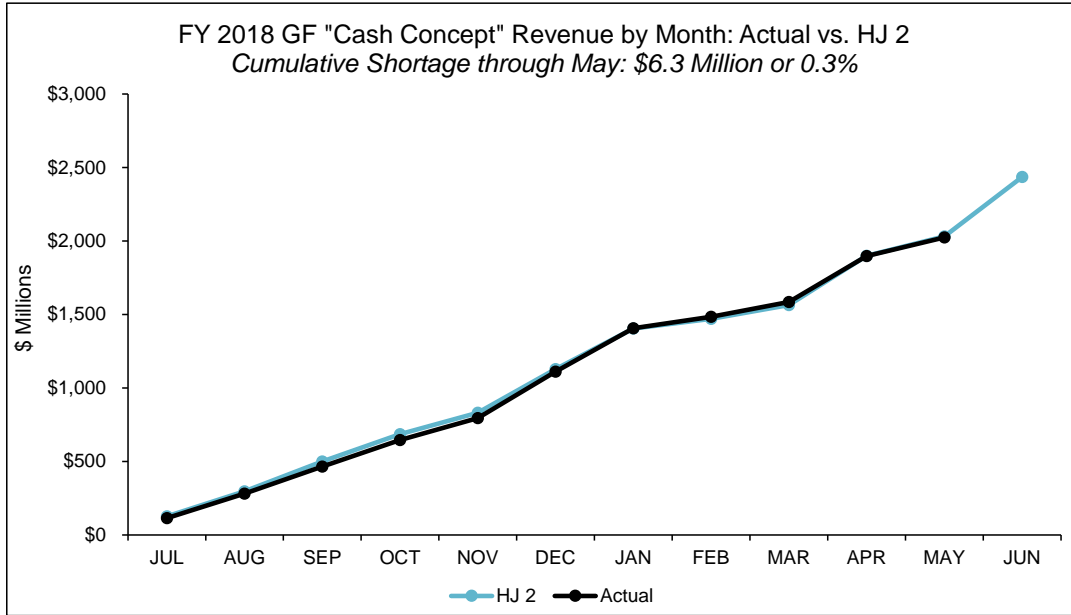
Public Institution Reimbursements: Above Last Year

Public institution reimbursements are currently 13.5% or \$1.3 million above 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. The closure process is going more slowly than anticipated and the final details have yet to be ironed out.

APPENDIX

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2017, 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 (adjusted for the enacted legislation of the 2017 regular and special sessions) by month with the blue line, and actual collections with the black line. Through May, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$6.3 million or 0.3%. If revenue continues to be below HJ 2 by 0.3% through FY 2018, final collections could be \$7.5 million lower than expected.



Individual income tax and remaining sources had the largest differences with respect to the estimates in HJ 2; based on the cash flow model, individual income tax through May is \$8.4 million below the HJ 2 estimate and nearly offset by the remaining sources which is \$8.0 million above the estimate.

