



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: March 1, 2019

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

FROM: LFD Revenue Team

RE: FY 2019 General Fund Revenue Update #3

GENERAL FUND REVENUE SUMMARY

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

FY 2019 general fund revenues through the end of February are \$7.1 million or 0.5% above FY 2018 revenues through the same period. Note that total year-to-date growth of 0.5% is influenced by the timing of one-time-only transfers in FY 2018. When one-time-only transfers and revenue is excluded, the ongoing revenue is above last year by 2.7%, but below the anticipated growth of 3.4%.

Two analyses of possible fiscal-year-end revenue collections based year-to-date revenue are provided in an appendix. Based on data through February, the median values suggest final revenue collections in the range of \$2 million to \$8 million below HJ 2.

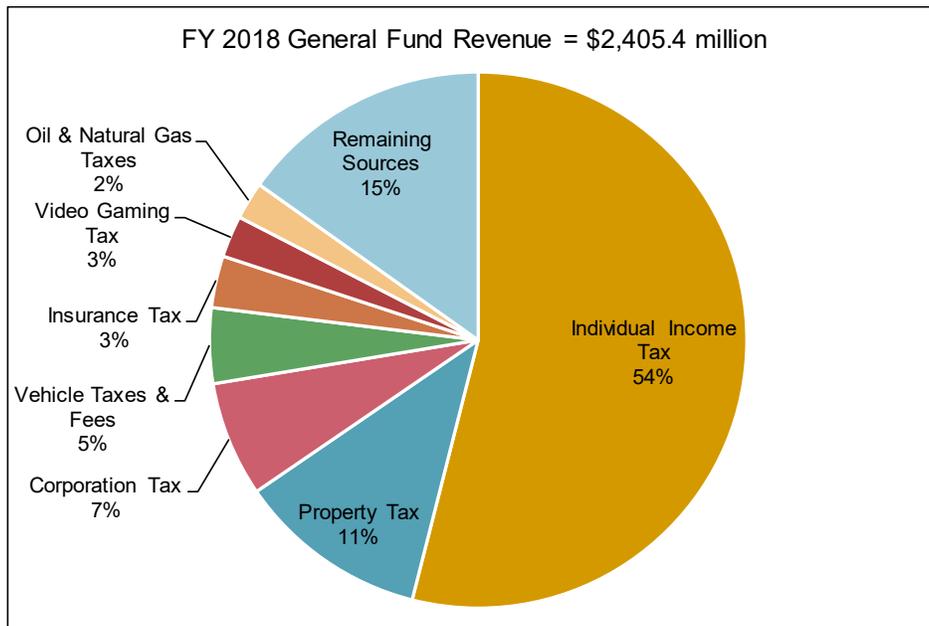
The current schedule for the release of LFD revenue estimate update is March 21st. The update will include the most recent IHS economic forecast and relevant year-to-date collection information.

YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2018	HJ 2 FY 2019	HJ 2 Est. % Change	Feb FY 2018	Feb FY 2019	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,297.777	\$1,359.066	4.7%	\$929.174	\$951.517	\$22.342	2.4%
Property Tax	276.414	283.225	2.5%	157.652	165.288	7.636	4.8%
Corporation Tax	167.100	160.824	-3.8%	102.365	100.166	(2.199)	-2.1%
Vehicle Taxes & Fees	109.540	111.525	1.8%	64.877	62.720	(2.157)	-3.3%
Oil & Natural Gas Taxes	54.508	60.049	10.2%	12.075	15.805	3.729	30.9%
Insurance Tax	75.273	77.475	2.9%	35.853	36.720	0.867	2.4%
Video Gaming Tax	60.324	60.158	-0.3%	29.676	31.440	1.764	5.9%
Other Business Taxes							
Drivers License Fee	4.581	4.342	-5.2%	2.899	2.574	(0.325)	-11.2%
Investment Licenses	7.683	7.963	3.6%	7.041	7.328	0.287	4.1%
Lodging Facilities Sales Tax	24.091	25.218	4.7%	13.636	14.575	0.939	6.9%
Public Contractor's Tax	4.267	3.503	-17.9%	4.224	4.224	(0.000)	0.0%
Railroad Car Tax	3.649	3.492	-4.3%	3.352	3.083	(0.269)	-8.0%
Rental Car Sales Tax	3.719	3.730	0.3%	2.155	2.589	0.434	20.1%
Retail Telecom Excise Tax	13.726	12.889	-6.1%	7.003	6.667	(0.335)	-4.8%
Other Natural Resource Taxes							
Coal Severance Tax	14.107	13.555	-3.9%	7.518	7.836	0.317	4.2%
Electrical Energy Tax	4.302	4.547	5.7%	2.155	2.106	(0.049)	-2.3%
Metal Mines Tax	6.291	6.749	7.3%	0.000	0.154	0.154	654630.4%
U.S. Mineral Leasing	20.139	20.934	3.9%	9.473	10.136	0.663	7.0%
Wholesale Energy Trans Tax	3.628	3.516	-3.1%	1.354	1.740	0.387	28.6%
Other Interest Earnings							
Coal Trust Interest Earnings	17.938	17.088	-4.7%	10.189	9.938	(0.251)	-2.5%
TCA Interest Earnings	10.888	21.514	97.6%	4.970	11.308	6.338	127.5%
Other Consumption Taxes							
Beer Tax	3.002	3.074	2.4%	1.754	1.800	0.046	2.6%
Cigarette Tax	27.755	27.313	-1.6%	17.551	17.732	0.182	1.0%
Liquor Excise Tax	21.007	22.884	8.9%	12.366	12.851	0.485	3.9%
Liquor Profits	12.200	12.900	5.7%	-	-	-	-
Lottery Profits	10.699	11.510	7.6%	3.362	2.684	(0.678)	-20.2%
Tobacco Tax	6.058	6.273	3.6%	3.592	3.553	(0.039)	-1.1%
Wine Tax	2.446	2.461	0.6%	1.464	1.494	0.030	2.0%
Other Sources							
All Other Revenue	117.645	90.686	-22.9%	89.634	56.607	(33.027)	-36.8%
Highway Patrol Fines	3.754	3.907	4.1%	2.080	2.201	0.120	5.8%
Nursing Facilities Fee	4.405	4.275	-3.0%	2.213	2.101	(0.112)	-5.1%
Public Institution Reimbursement	13.754	13.887	1.0%	7.510	7.028	(0.482)	-6.4%
Tobacco Settlement	2.778	2.996	7.9%	0.006	0.337	0.331	5464.5%
Ongoing Revenue Subtotal	2,333.618	2,412.503	3.4%	1,480.181	1,520.039	39.858	2.7%
OTO Revenue & Transfers Subtotal	71.829	51.024		68.992	36.263	(32.730)	
Grand Total	\$2,405.447	\$2,463.527	2.4%	\$1,549.173	\$1,556.301	\$7.128	0.5%

MAJOR SOURCES

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

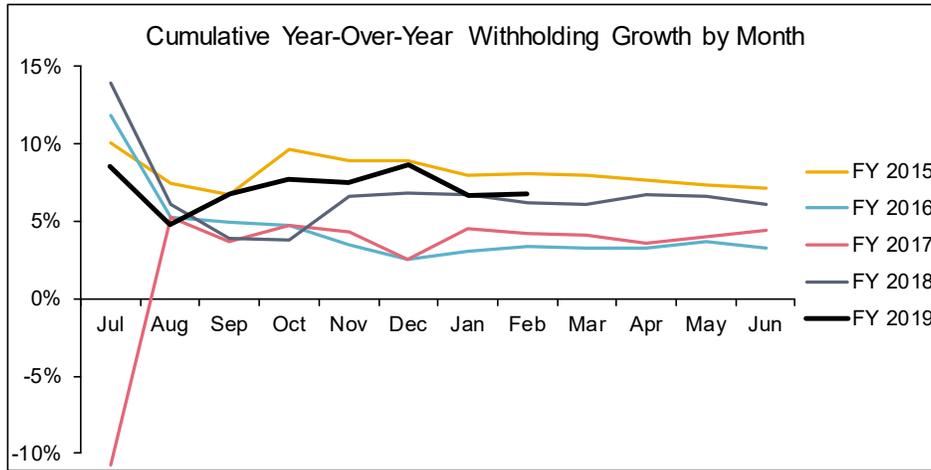


Individual Income Tax: May End Up Below HJ 2

Individual income tax collections through the end of February are \$22.3 million or 2.4% above the year-to-date collections in FY 2018, but below the 4.7% growth anticipated in HJ 2. The year-over-year increase is primarily due to continued withholding growth, which offset the decline in December and January estimated payments.

Individual Income Tax (\$ Millions)				
	YTD 2019	YTD 2018	\$ Difference	% Difference
Withholding	\$683.4	\$640.1	\$43.3	6.8%
Estimated Payments	178.2	210.3	(32.2)	-15.3%
Current Year Payments	25.4	23.3	2.1	8.9%
Audit, P&I, Amended	25.8	25.0	0.8	3.2%
Refunds	(136.2)	(137.1)	0.9	-0.6%
Refund Accrual Reversal	161.9	153.2	8.7	5.7%
Partnership Income Tax	7.7	8.9	(1.2)	-13.1%
Mineral Royalties	5.3	5.4	(0.1)	-1.0%
Total	\$951.5	\$929.2	\$22.3	2.4%

Withholding, which accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, is holding strong despite recent cumulative year-over-year fluctuations. 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.



Property Tax: YTD Increase Due to Protested and Non-Levy Revenue

Property tax collections are above last year by \$7.6 million or 4.8%, and above the increase of 2.5% anticipated in HJ 2. While this is still above the estimate in HJ 2, it moved closer than last month. Both protested taxes and non-levy revenue appear to be currently bolstering collections, but it is still expected to come in close to estimate.

Corporation Income Tax: On Track with Estimate

Corporation income tax collections through the end of February are 2.1% or \$2.2 million below this time in FY 2018. As the table below shows, corporation tax payments and estimated payments have shown strong growth in FY 2019. However, the comparison to a large one-time audit in FY 2018 has offset the growth in those accounts. Estimated payments typically make up 80% of total corporation income tax collections. Therefore, if the current estimated payments growth rate continues throughout FY 2019, final collections will likely come in above HJ 2 and perhaps slightly above last year's collections.

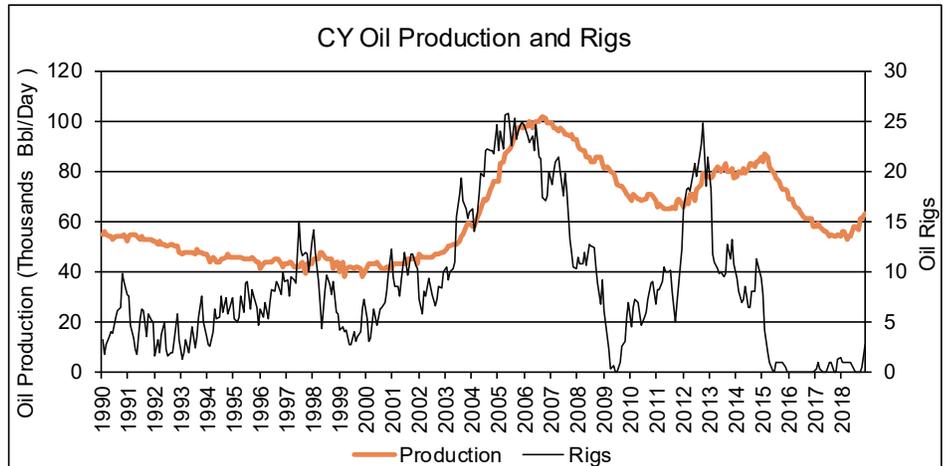
Corporation Income Tax (\$ Millions)				
Account	YTD 2019	YTD 2018	\$ Difference	% Difference
Corporation Tax	\$15.1	\$10.2	\$4.9	48.6%
Estimated Payments	78.1	72.0	6.1	8.5%
Refunds	(7.2)	(7.1)	(0.0)	0.4%
Refund Accrual Reversal	4.9	3.3	1.6	46.7%
Audit, P&I, Amended	9.2	24.0	(14.8)	-61.8%
Total	\$100.2	\$102.4	(\$2.2)	-2.1%

Vehicle Fees & Taxes: Slightly Below Estimate

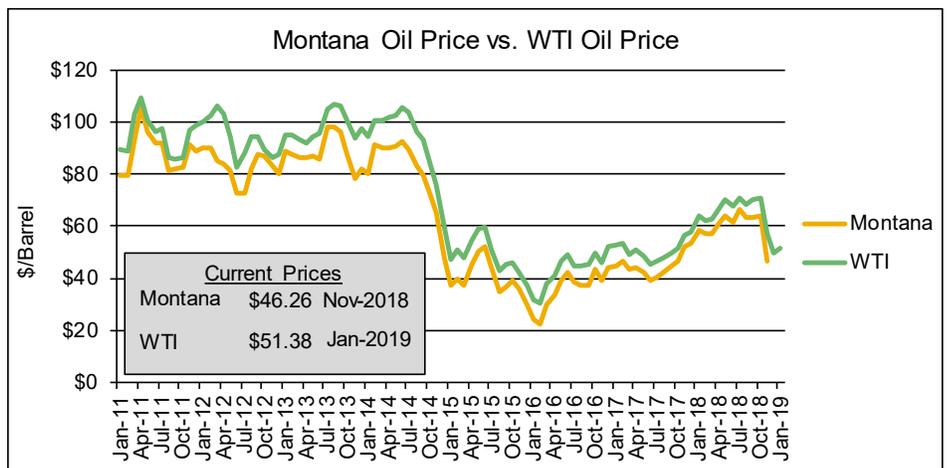
Eight months into FY 2019, vehicle taxes and fees are 3.3% or \$2.2 million below collections last year. In HJ 2, this source was expected to grow by 1.8%. This source tends to have sporadic changes each month, but typically ends up close to HJ 2.

Oil & Natural Gas Production Tax: Strong First Quarter Growth

In January, the first oil and natural gas payment was booked to the accounting system. High prices in the first quarter of FY 2019 caused this source to grow by 30.9% compared to the first quarter of FY 2018. In HJ 2 this source was expected to grow by 10.2%. Prices have since fallen compared to their first quarter levels, suggesting that the robust growth of 30.9% will not continue but should instead gradually approach the HJ 2 estimate.



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



Insurance Tax: In Line with Estimate

Current insurance tax collections are 2.4% or \$0.9 million above FY 2018 through February, and in line with the 2.9% growth anticipated in HJ 2.

Video Gaming Tax: Currently Above Estimate

Revenue from video gambling is currently \$1.8 million or 5.9% above collections from last year. This source was expected to remain flat in HJ 2.

OTHER KEY DIFFERENCES:

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

Treasury cash account interest earnings are \$6.3 million or 127.5% above collections last year at this time, and above the HJ 2 anticipated growth of 97.6%. The increase has been driven by the continued rise in short-term interest rates.

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

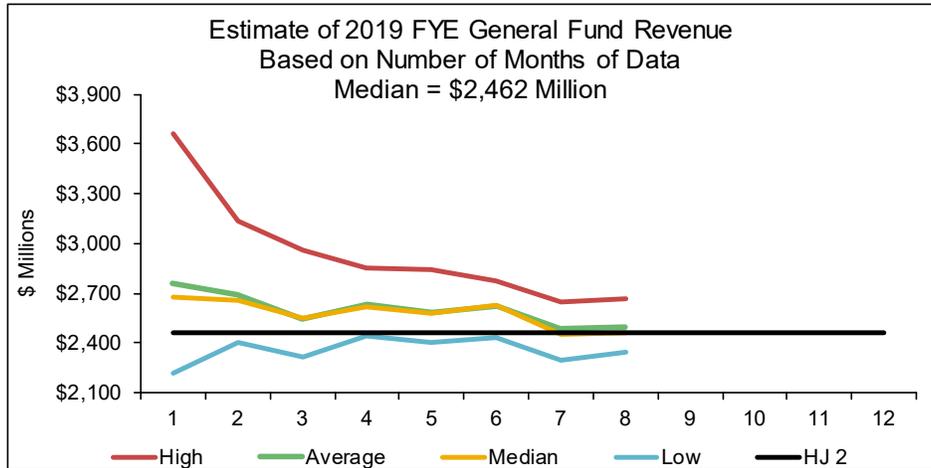
To date, all other revenue collections are 36.8% or \$33.0 million below last year's collections. The decrease is due to legislatively authorized transfers from [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) that were made in the first half of FY 2018. These have been partially offset by transfers from the same legislation that have now occurred in FY 2019.

APPENDIX

Based on data through February, two analyses of possible fiscal-year-end revenue collections based year-to-date revenue suggest final revenue collections in the range of \$2 million to \$8 million below HJ 2.

Year-to-Date Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2019 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Based on collections through the end of January, the difference between the high and low amounts is about \$320 million, with the average and median values very close to the HJ 2 estimate.

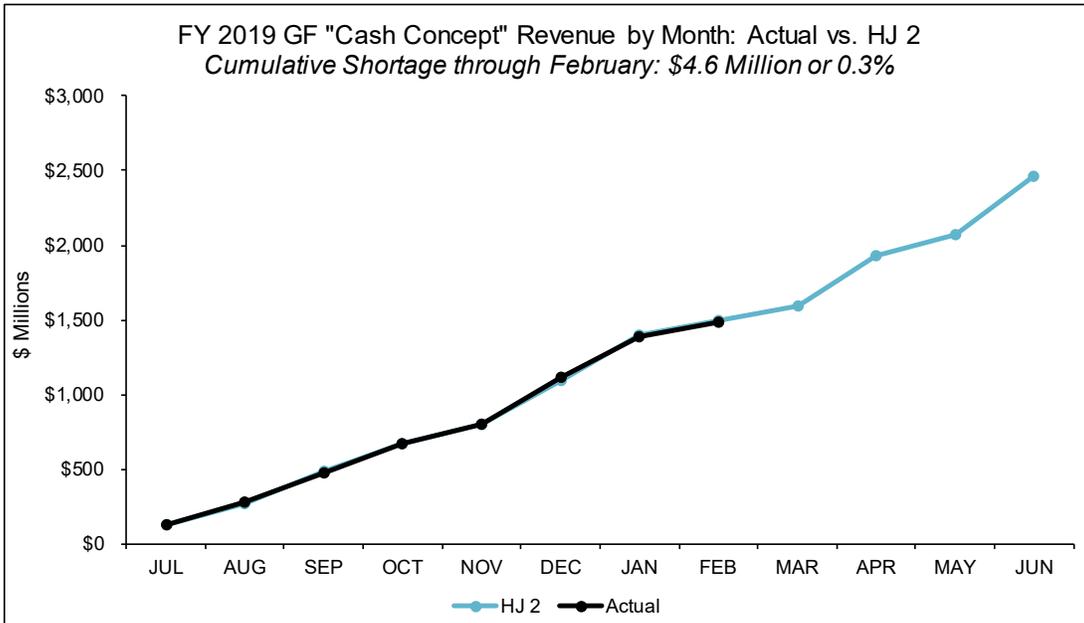


Potential total general fund collections range from a low of \$2,348 million to a high of \$2,668 million, with a median amount of \$2,462 million and average of \$2,490 million. The FY 2019 forecast for total general fund in HJ 2 is \$2,464 million.

Cash Flow Model

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

The following chart shows modeled cumulative HJ 2 by month with the blue line, and actual collections with the black line. Through February, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$4.6 million or 0.3%. If revenue continues to be below HJ 2 by 0.3% through FY 2019, final collections could be \$7.7 million lower than expected.



Individual income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, individual income tax through January is \$16.8 million below the HJ 2 estimate.

