



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 6, 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 #5

GENERAL FUND YEAR-TO-DATE REVENUE SUMMARY

This is the fifth 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 April are \$124.0 million or 6.3% above FY 2018 revenues through the same period. Note that total year-to-date growth of 6.3% 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 8.1% and above the anticipated growth of 3.3%.

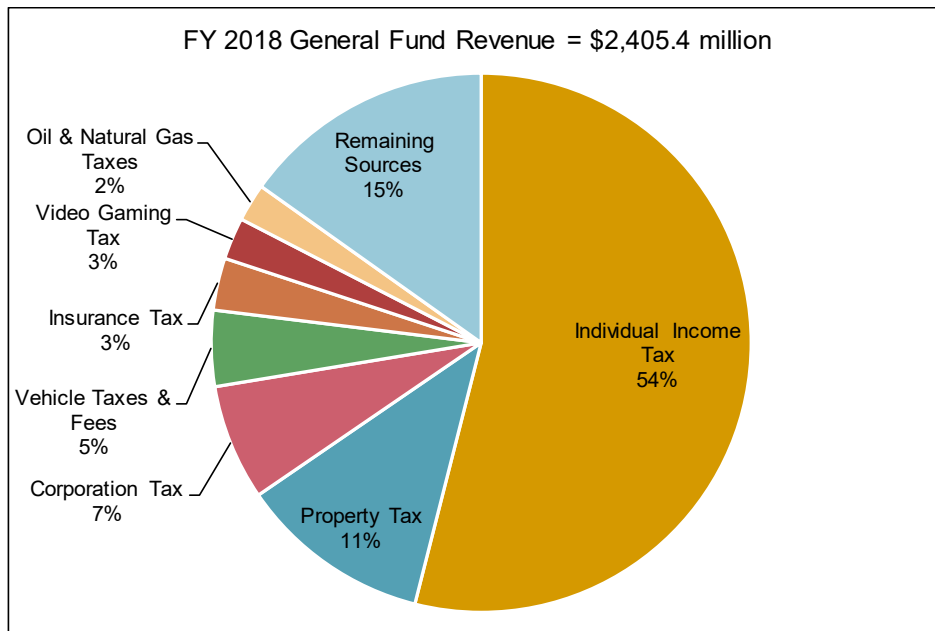
Two analyses of possible fiscal-year-end revenue collections based on year-to-date revenue are provided in an appendix. Based on data through April, the median values suggest final revenue collections in the range of \$108 million to \$169 million above HJ 2. As articulated in a previous report, the fiscal year end revenue extrapolations are sensitive to unusual timing or accounting anomalies—even when the calculations include adjustments for known timing issues—and should be viewed with caution. FY 2019 revenue is on track to be above HJ 2, but the final difference won't be known until the end of July, when the accrual process is complete.

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	Apr FY 2018	Apr FY 2019	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,297.777	\$1,356.966	4.6%	\$1,203.725	\$1,301.096	\$97.371	8.1%
Property Tax	276.414	283.225	2.5%	161.932	170.859	8.927	5.5%
Corporation Tax	167.100	160.824	-3.8%	133.392	148.685	15.294	11.5%
Vehicle Taxes & Fees	109.540	111.525	1.8%	80.133	81.121	0.988	1.2%
Oil & Natural Gas Taxes	54.508	60.049	10.2%	25.171	28.441	3.270	13.0%
Insurance Tax	75.273	77.475	2.9%	54.987	60.898	5.911	10.8%
Video Gaming Tax	60.324	60.158	-0.3%	46.632	47.050	0.418	0.9%
Other Business Taxes							
Drivers License Fee	4.581	4.342	-5.2%	3.671	3.241	(0.430)	-11.7%
Investment Licenses	7.683	7.963	3.6%	7.297	7.654	0.358	4.9%
Lodging Facilities Sales Tax	24.091	25.218	4.7%	14.922	17.359	2.437	16.3%
Public Contractor's Tax	4.267	3.503	-17.9%	3.464	3.616	0.152	4.4%
Railroad Car Tax	3.649	3.492	-4.3%	3.329	3.087	(0.242)	-7.3%
Rental Car Sales Tax	3.719	3.730	0.3%	2.597	3.266	0.669	25.8%
Retail Telecom Excise Tax	13.726	12.889	-6.1%	8.075	7.652	(0.423)	-5.2%
Other Natural Resource Taxes							
Coal Severance Tax	14.107	13.555	-3.9%	10.491	10.411	(0.079)	-0.8%
Electrical Energy Tax	4.302	4.547	5.7%	2.958	3.617	0.659	22.3%
Metal Mines Tax	6.291	6.749	7.3%	3.332	3.524	0.193	5.8%
U.S. Mineral Leasing	20.139	20.934	3.9%	12.155	15.050	2.895	23.8%
Wholesale Energy Trans Tax	3.628	3.516	-3.1%	2.407	2.657	0.249	10.3%
Other Interest Earnings							
Coal Trust Interest Earnings	17.938	17.088	-4.7%	12.827	12.912	0.085	0.7%
TCA Interest Earnings	10.888	21.514	97.6%	6.947	15.249	8.302	119.5%
Other Consumption Taxes							
Beer Tax	3.002	3.074	2.4%	2.163	2.206	0.043	2.0%
Cigarette Tax	27.755	27.313	-1.6%	21.802	21.813	0.012	0.1%
Liquor Excise Tax	21.007	22.884	8.9%	15.570	16.325	0.755	4.9%
Liquor Profits	12.200	12.900	5.7%	-	-	-	-
Lottery Profits	10.699	11.510	7.6%	6.639	7.292	0.653	9.8%
Tobacco Tax	6.058	6.273	3.6%	4.476	4.384	(0.092)	-2.1%
Wine Tax	2.446	2.461	0.6%	1.826	1.846	0.019	1.1%
Other Sources							
All Other Revenue	117.645	90.686	-22.9%	95.007	69.784	(25.224)	-26.5%
Highway Patrol Fines	3.754	3.907	4.1%	2.709	2.868	0.159	5.9%
Nursing Facilities Fee	4.405	4.275	-3.0%	2.617	2.702	0.085	3.3%
Public Institution Reimbursement	13.754	13.887	1.0%	8.875	9.159	0.284	3.2%
Tobacco Settlement	2.778	2.996	7.9%	2.768	3.025	0.257	9.3%
Ongoing Revenue Subtotal	2,333.618	2,410.403	3.3%	1,894.298	2,046.896	152.598	8.1%
OTO Revenue & Transfers Subtotal	71.829	51.024		70.595	41.954	(28.642)	
Grand Total	\$2,405.447	\$2,461.427	2.3%	\$1,964.893	\$2,088.850	\$123.956	6.3%

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.

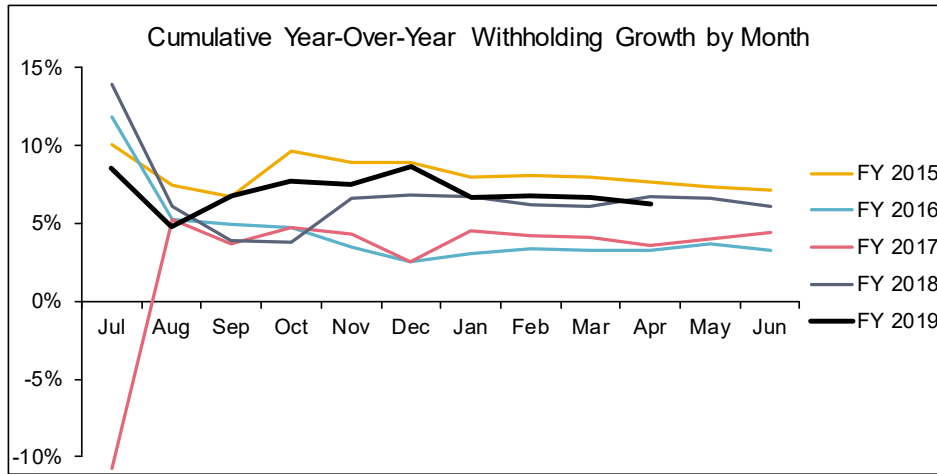


Individual Income Tax: Above HJ 2 Primarily Due to Strong April Collections

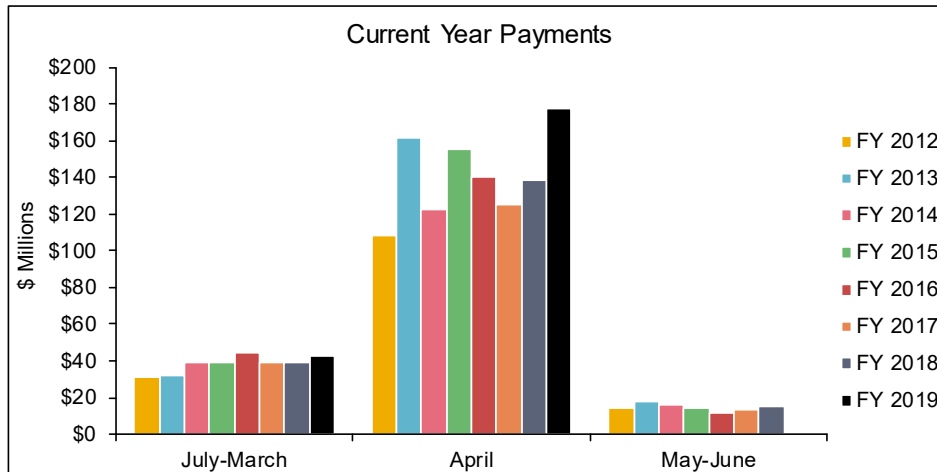
Individual income tax collections through the end of April are \$97.4 million or 8.1% above the year-to-date collections in FY 2018, and somewhat above the 4.7% growth anticipated in HJ 2. Total growth was driven by withholding tax collections' continued growth of 6.3% over last year and a record level of current year payments made with April tax returns.

Individual Income Tax (\$ Millions)				
	YTD 2019	YTD 2018	\$ Difference	% Difference
Withholding	\$855.7	\$805.2	\$50.5	6.3%
Estimated Payments	240.7	260.8	(20.1)	-7.7%
Current Year Payments	220.8	177.5	43.2	24.4%
Audit, P&I, Amended	35.2	32.9	2.3	7.0%
Refunds	(258.7)	(266.8)	8.0	-3.0%
Refund Accrual Reversal	161.9	153.2	8.7	5.7%
Partnership Income Tax	39.0	33.5	5.6	16.6%
Mineral Royalties	6.5	7.4	(0.9)	-11.8%
Total	\$1,301.1	\$1,203.7	\$97.4	8.1%

Withholding, which accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, is continuing to hold at above 6% year-over-year growth. 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.



FY 2019 current year payments of \$178 million in April were above FY 2018 by 28.5%, and above the previous highest collections of \$161 million in FY 2013. The following chart shows recent years' current year payments, with FY 2019 collections depicted in black.



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

Property tax collections are above last year by \$8.9 million or 5.5%, and above the increase of 2.5% anticipated in HJ 2. There have been only one of two large property tax payments made, but protested taxes and non-levy revenue appear to be bolstering collections compared to HJ 2. There may be some upside risk, but property tax is still expected to come in close to estimate.

Corporation Income Tax: Above Estimate

Corporation income tax collections through the end of April are 11.5% or \$15.3 million above this time in FY 2018. As the table on the next page shows, corporation tax payments and estimated payments have shown strong growth in FY 2019. Audit collections have not been as strong as last year, but the relative decline has been partially offset by a lower level of refunds. It is expected that the final quarter will see continued growth in corporation tax and estimated payments. Given the continued strong year-to-date growth this late in the fiscal year, this source is expected to surpass the HJ 2 estimate.

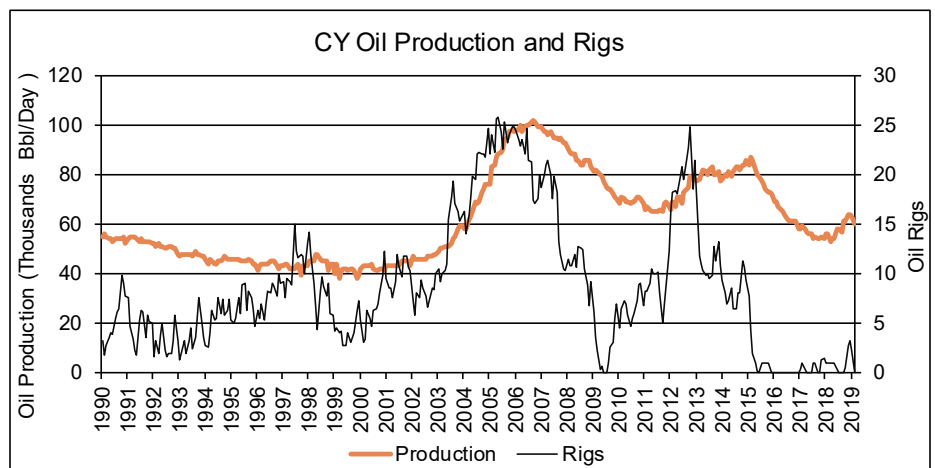
Corporation Income Tax				
(\$ Millions)				
Account	YTD 2019	YTD 2018	\$ Difference	% Difference
Corporation Tax	\$43.2	\$26.3	\$16.9	64.3%
Estimated Payments	99.2	95.3	3.9	4.1%
Refunds	(11.2)	(16.5)	5.2	-31.7%
Refund Accrual Reversal	4.9	3.3	1.6	46.7%
Audit, P&I, Amended	12.6	24.9	(12.3)	-49.4%
Total	\$148.7	\$133.4	\$15.3	11.5%

Vehicle Fees & Taxes: Slightly Below Estimate

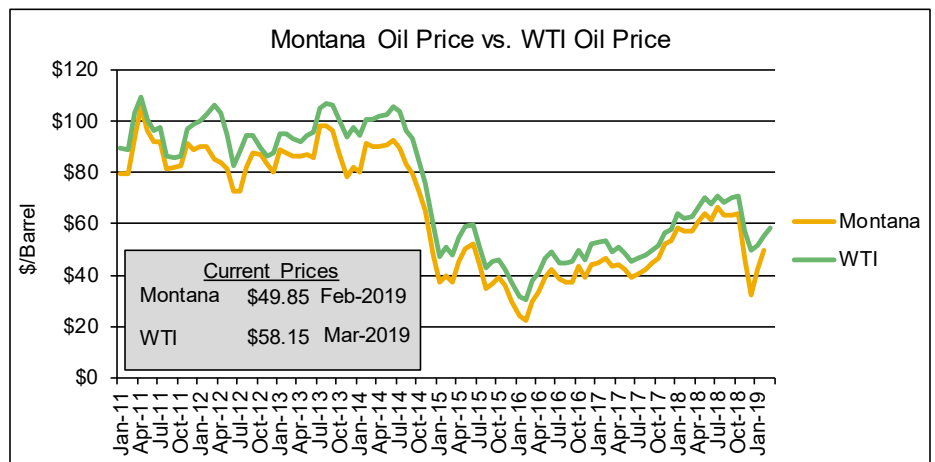
Ten months into FY 2019, vehicle taxes and fees are 1.2% or \$1.0 million above collections last year. In HJ 2, this source was expected to grow by 1.8%. As of now, this source appears that it will end up close to HJ 2.

Oil & Natural Gas Production Tax: Above Estimate

Through April, the first two oil and natural gas payments have been booked in the accounting system. Prices in the first quarter of FY 2019 were higher than in the first quarter of FY 2018, but dropped in the second quarter. However, the prices in aggregate in the first half of the fiscal year were high enough to produce year-over-year growth. Specifically, this source has grown by 13.0%, compared to 10.2% in HJ 2.



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. These prices dropped in the fall of 2018, but have recently begun to rebound.



Insurance Tax: Strong YTD Increase Partially Due To Timing

Current insurance tax collections are 10.8% or \$5.9 million above FY 2018 through April. Half of the difference is due to a 6% increase in premium tax collections and an 8% increase in fire marshal tax collections over this time last year. The other half of the difference is a increase in surplus lines premium tax collections over this time last year, which appears to be a timing issue. Most of surplus lines payments in FY 2018 did not come in until May.

Video Gaming Tax: Slightly Above Estimate

Revenue from video gambling is currently \$0.4 million or 0.9% above collections from last year. This source was expected to decrease by 0.3% in HJ 2.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Strong YTD Growth Appears to be Partially Due to Timing Issue

Lodging facilities sales tax collections are \$2.4 million or 16.3% above collections last year through April, and above the HJ 2 anticipated growth of 4.7%. About half of the growth appears to be due to a timing issue, while the remaining growth is driven by strong third quarter collections. Detailed data from the Department of Revenue—although incomplete for the third quarter of FY 2019—suggests that resort areas had a very successful winter season.

U.S. Mineral Leasing: Strong YTD Growth Likely Driven by Timing

U.S. mineral leasing collections are currently 23.8% or \$2.9 million above last year's collections. In HJ 2 this source was expected to grow by 3.9%. The timing of when these payments show up in the accounting system can be sporadic, and that's likely contributing to the discrepancy between the estimate in HJ 2 and current collections.

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

Treasury cash account interest earnings are \$8.3 million or 119.5% above collections last year at this time, and above the HJ 2 anticipated growth of 97.6%. The increase has been driven by the rise in short-term interest rates.

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

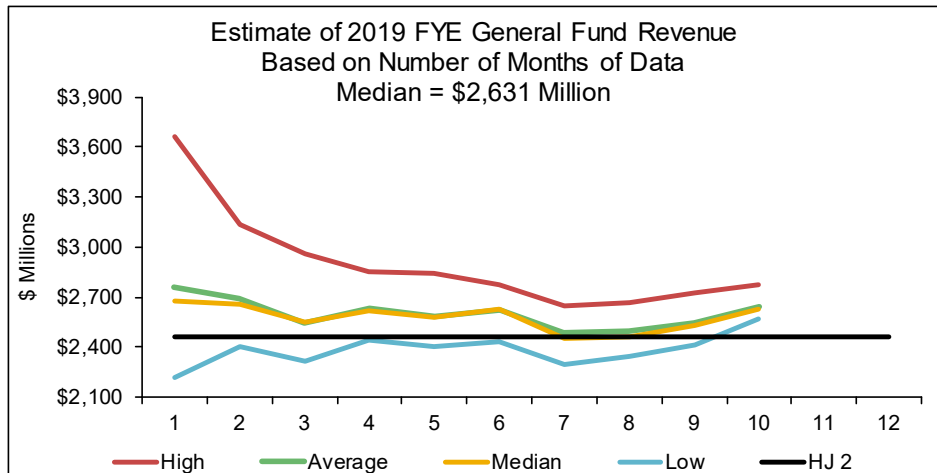
To date, all other revenue collections are 25.2% or \$26.5 million below last year's collections. The decrease is due to legislatively authorized transfers from [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) that were made in the first half of FY 2018. These have been partially offset by transfers from the same legislation that have now occurred in FY 2019.

APPENDIX

Based on data through April, two analyses of possible fiscal-year-end revenue collections based year-to-date revenue suggest final revenue collections in the range of \$108 million to \$169 million above 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 April, the difference between the high and low amounts is about \$198 million, and median value is \$169 million above the HJ 2 estimate.

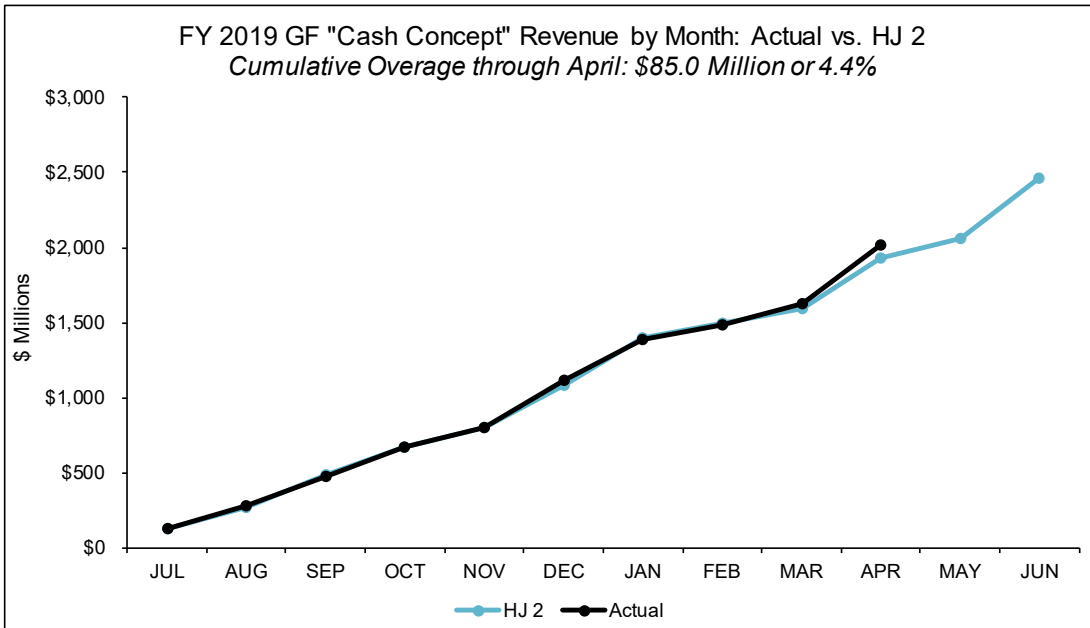


Potential total general fund collections range from a low of \$2,572 million to a high of \$2,770 million, with a median amount of \$2,631 million and average of \$2,638 million. The FY 2019 forecast for total general fund in HJ 2 is \$2,461 million.

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 April, the cash concept model suggests general fund revenue is above what would be expected based on the official revenue estimate by \$85.0 million or 4.4%. If revenue continues to be above HJ 2 by 4.4% through FY 2019, final collections could be \$108.4 million more 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 April is \$50.0 million above the HJ 2 estimate.

