



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: January 14, 2020

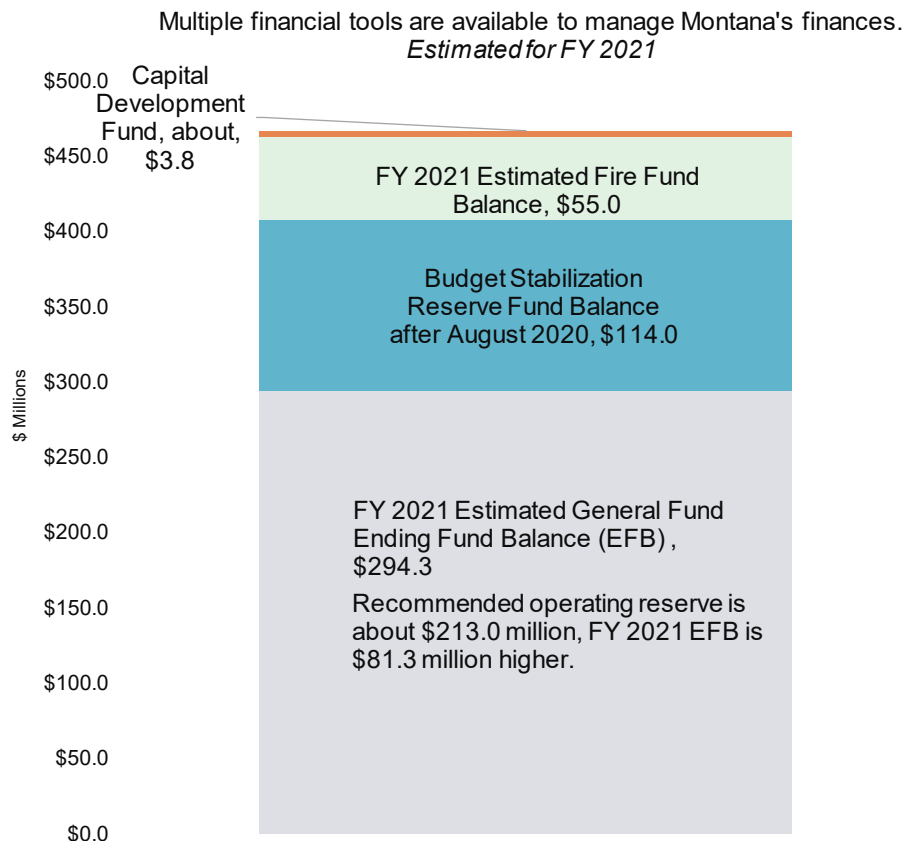
TO: House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2020 General Fund Revenue Update #2

GENERAL FUND BALANCE AND RESERVE SUMMARY

The projected general fund ending balance for FY 2021 is \$294.3 million, which is above the suggested operating reserve by \$81.3 million. In addition to the solid projected ending fund balance, revenue transfers filled up the budget stabilization reserve fund and will allow a small transfer to the capital development fund in August 2020. The following figure shows the estimated Montana financial reserves.



GENERAL FUND REVENUE SUMMARY

This is the second of seven monthly revenue updates beginning last month, and continuing throughout the second half of FY 2020. These updates are designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2020 relative to the revenue estimate contained in HJ 2.

Year-to-date general fund collections are stronger than estimated in HJ 2. FY 2020 general fund revenues through the end of December are \$89.4 million or 7.6% above FY 2019 revenues through the same period. At this point in FY 2019 there was \$4.0 million of one-time-only (OTO) revenues, compared to \$4.1 million in FY 2020. When these are excluded the ongoing year-over-year growth is still 7.6%.

Two analyses of possible fiscal-year-end revenue collections based on year-to-date revenue are provided in an appendix. However, given the significant variability between December and January individual income tax estimated payments and property tax remissions by counties to the state, the extrapolations are particularly variable until January collections are complete.

Property tax collections appear to be higher than HJ 2 compared to prior 18-year collection patterns. This is causing a higher extrapolation for fiscal year end than can be expected.

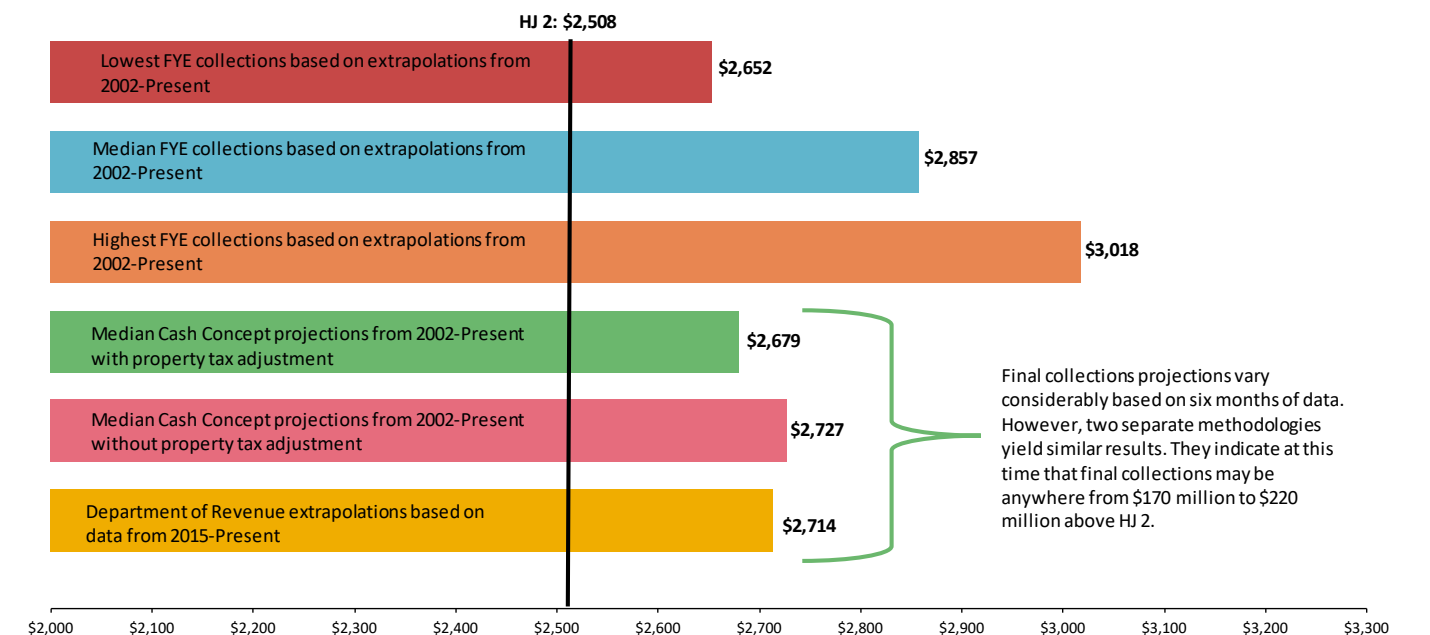
The 18-year extrapolations would conclude revenue to be between \$200 and \$350 million higher than HJ 2.

Using more recent fiscal year revenue collection patterns yields a lower extrapolation. The Department of Revenue [monitoring report](#) provides a fiscal year extrapolation based on a five-year collection history, and yields an expected general fund revenue of \$2,714 million or \$209 above HJ 2.

After adjusting for property taxes and recent collection patterns, some of the items above would lower the extrapolations so that the expected revenue collections would be between \$170 and \$220 million higher than HJ 2.

The LFD will evaluate collection pattern changes to determine if the 18-year collection pattern is no longer useful. If collection patterns have changed over time, a shorter time window may be more useful in evaluating year-to-date collections.

FY 2020 Year-End Revenue Extrapolations Based on Data Through December (\$ Millions)



YEAR-TO-DATE GENERAL FUND REVENUE

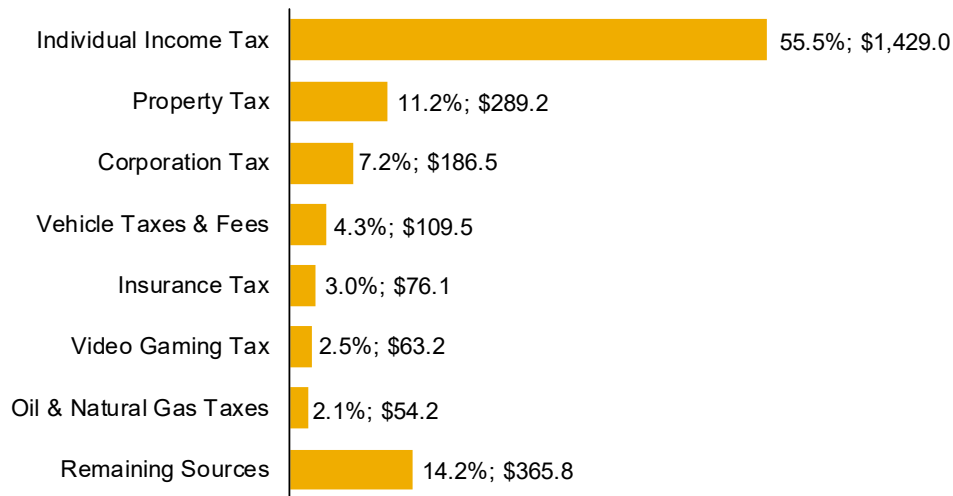
General Fund Revenue Monitoring Report (\$ Millions)								
Revenue Source	Actual FY 2019	HJ 2 FY 2020	HJ 2 Est. % Change	Dec FY 2019	Dec FY 2020	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,429.010	\$1,410.943	-1.3%	\$741.702	\$801.227	\$59.525	8.0%	
Property Tax	289.212	302.470	4.6%	139.010	139.664	0.654	0.5%	
Corporation Tax	186.536	165.893	-11.1%	92.402	108.926	16.524	17.9%	
Vehicle Taxes & Fees	109.508	112.953	3.1%	46.747	50.253	3.506	7.5%	
Oil & Natural Gas Taxes	54.178	56.639	4.5%	-	-	-	-	
Insurance Tax	76.141	81.158	6.6%	29.936	30.854	0.918	3.1%	
Video Gaming Tax	63.228	60.248	-4.7%	15.821	16.285	0.464	2.9%	
Other Business Taxes								
Drivers License Fee	3.976	4.370	9.9%	2.039	1.987	(0.052)	-2.6%	
Investment Licenses	8.182	16.040	96.0%	0.895	1.548	0.653	73.0%	
Lodging Facilities Sales Tax	26.703	26.380	-1.2%	10.523	11.882	1.359	12.9%	
Public Contractor's Tax	3.597	3.579	-0.5%	4.639	5.259	0.620	13.4%	
Railroad Car Tax	3.594	3.878	7.9%	3.076	3.326	0.250	8.1%	
Rental Car Sales Tax	4.431	4.039	-8.8%	1.923	1.998	0.076	3.9%	
Retail Telecom Excise Tax	13.224	11.927	-9.8%	3.419	3.041	(0.377)	-11.0%	
Other Natural Resource Taxes								
Coal Severance Tax	14.091	13.731	-2.6%	3.971	3.207	(0.764)	-19.2%	
Electrical Energy Tax	4.185	4.416	5.5%	0.888	1.161	0.273	30.7%	
Metal Mines Tax	6.907	6.767	-2.0%	0.016	0.049	0.033	205.7%	
U.S. Mineral Leasing	21.570	20.891	-3.1%	8.372	6.891	(1.481)	-17.7%	
Wholesale Energy Trans Tax	3.490	3.464	-0.8%	0.773	0.911	0.138	17.9%	
Other Interest Earnings								
Coal Trust Interest Earnings	18.172	17.315	-4.7%	7.139	7.000	(0.139)	-1.9%	
TCA Interest Earnings	22.036	27.318	24.0%	7.775	9.854	2.080	26.7%	
Other Consumption Taxes								
Beer Tax	3.041	3.074	1.1%	1.359	1.393	0.034	2.5%	
Cigarette Tax	27.500	26.687	-3.0%	14.298	14.099	(0.199)	-1.4%	
Liquor Excise Tax	21.946	24.153	10.1%	9.275	10.029	0.754	8.1%	
Liquor Profits	12.500	13.506	8.0%	-	-	-	-	
Lottery Profits	12.215	14.603	19.6%	2.684	1.806	(0.878)	-32.7%	
Tobacco Tax	5.869	6.279	7.0%	2.676	2.637	(0.038)	-1.4%	
Wine Tax	2.478	2.554	3.1%	1.092	1.102	0.011	1.0%	
Other Sources								
All Other Revenue	98.800	41.259	-58.2%	24.054	28.661	4.607	19.2%	
Highway Patrol Fines	3.862	3.848	-0.4%	1.611	1.565	(0.046)	-2.8%	
Nursing Facilities Fee	4.416	4.087	-7.5%	1.055	1.041	(0.014)	-1.3%	
Public Institution Reimbursement	15.991	11.396	-28.7%	3.205	4.454	1.249	39.0%	
Tobacco Settlement	3.034	2.603	-14.2%	0.337	-	(0.337)	-100.0%	
Ongoing Revenue Subtotal	2,519.566	2,508.465	-0.4%	1,178.710	1,268.011	89.302	7.6%	
OTO Revenue & Transfers Subtotal	54.055			4.000	4.100	0.100		
Grand Total	\$2,573.621	\$2,508.465	-2.5%	\$1,182.710	\$1,272.111	\$89.402	7.6%	

The next section provides an update on the state's top seven general fund sources as well as those remaining sources that show a difference of at least \$1.0 million from last year.

MAJOR SOURCES

In FY 2020, the largest seven revenue sources accounted for 86% of total general fund revenue, with individual income taxes accounting for 55.5% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

Individual income tax accounted for over half of FY 2019 general fund revenue; total = \$2,573.6 million.



INDIVIDUAL INCOME TAX: CURRENTLY ABOVE ESTIMATE

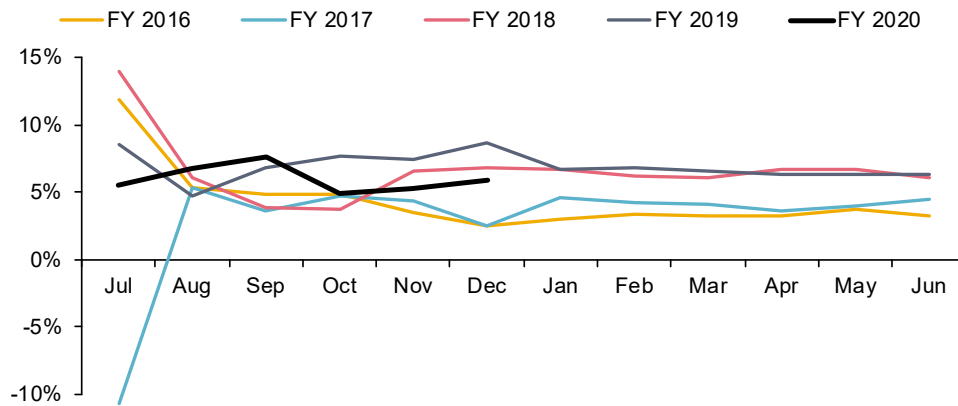
Individual income tax collections through the end of December are \$59.5 million or 8.0% above the year-to-date collections in FY 2019, far above the -1.3% growth anticipated in HJ 2. The year-over-year increase has been driven by strong withholding and estimated payments, as well as fewer refunds.

Individual Income Tax (\$ Millions)

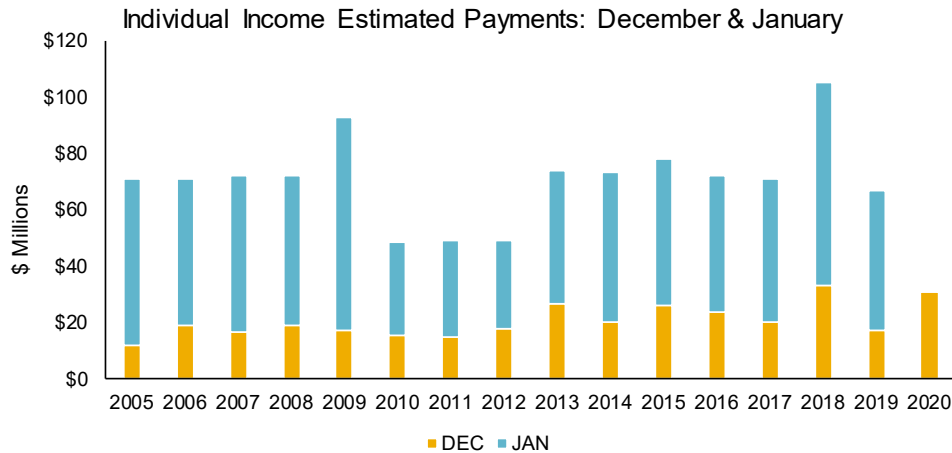
Account	YTD 2020	YTD 2019	\$ Difference	% Difference
Withholding	\$523.8	\$494.5	\$29.3	5.9%
Estimated Payments	145.0	125.6	19.4	15.4%
Current Year Payments	25.5	19.9	5.6	27.9%
Audit, P&I, Amended	18.5	17.8	0.7	4.0%
Refunds	(82.9)	(86.3)	3.4	-3.9%
Refund Accrual Reversal	152.8	161.9	(9.1)	-5.6%
Partnership Income Tax	8.4	5.6	2.8	49.6%
Mineral Royalties	10.2	2.6	7.6	290.7%
Total	\$801.2	\$741.7	\$59.5	8.0%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to increase compared to FY 2019 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 stabilizes by February, allowing for potential assessments of fiscal year withholding growth.



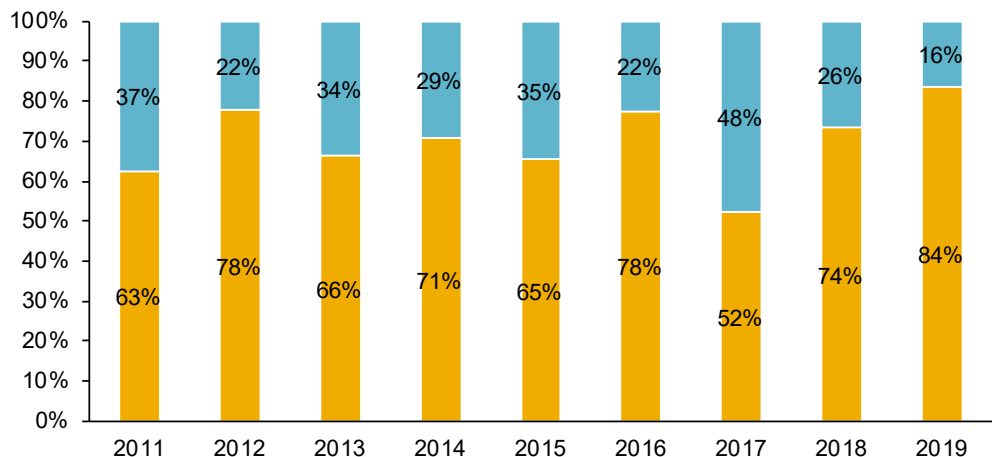
The timing of estimated payments can fluctuate between December and January, so next month's report should help clarify some expectations for FY 2020. Estimated payments in December and January in FY 2018 were extremely high, likely in response to federal tax reform. In FY 2019 these payments returned to more traditional levels. Though not as high as FY 2018, December payments have been high compared to historical levels.



PROPERTY TAX: YTD INCREASE, NOT MUCH KNOWN UNTIL END OF JANUARY

Property tax collections are above last year by \$0.5 million or 0.6%. The divergence from estimate is due to neither of the two major payments booking. Even though the first large payment from November has occurred, there is a timing issue that occurs from the November payment being booked partially in December and partially in January. This uneven split of the November payment being

The November property tax payment is split unevenly between December & January



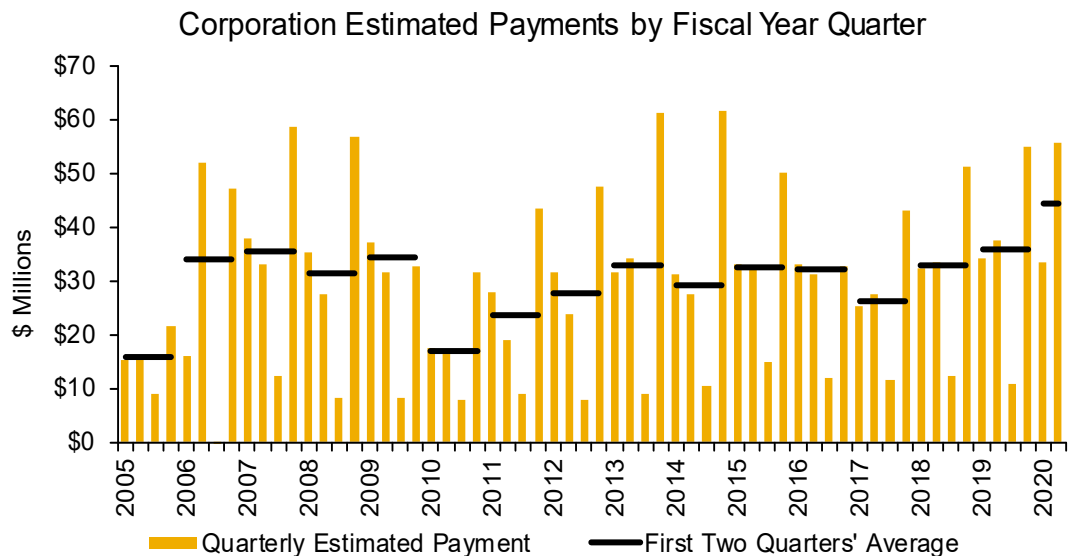
booked in either December or January in past years is shown in the chart. Because of this, year-to-date on property tax does not mean much until the end of January. Property tax is still anticipated to come in close to HJ 2 estimates.

CORPORATION INCOME TAX: CURRENTLY ABOVE ESTIMATE

Corporation income tax collections through the end of December are 17.9% or \$16.5 million above this time in FY 2019. As the chart below shows, current payments and estimated payments have seen extremely strong year-to-date growth, and have more than offset the declines in other corporation income tax accounts.

Corporation Income Tax (\$ Millions)				
Account	YTD 2020	YTD 2019	\$ Difference	% Difference
Corporation Tax	\$22.0	\$12.7	\$9.2	72.6%
Estimated Payments	88.9	71.5	17.4	24.3%
Refunds	(11.5)	(4.4)	(7.0)	158.3%
Refund Accrual Reversal	4.0	4.9	(0.9)	-18.7%
Audit, P&I, Amended	5.5	7.7	(2.2)	-28.6%
Total	\$108.9	\$92.4	\$16.5	17.9%

The adjacent chart shows that estimated payments in the first two quarters of FY 2020 are significantly above the estimated payments collected in recent years. Estimated payments typically make up 80% of total corporation income tax collections, so if this strong growth continues this source is likely to end up well above the HJ 2 estimate.



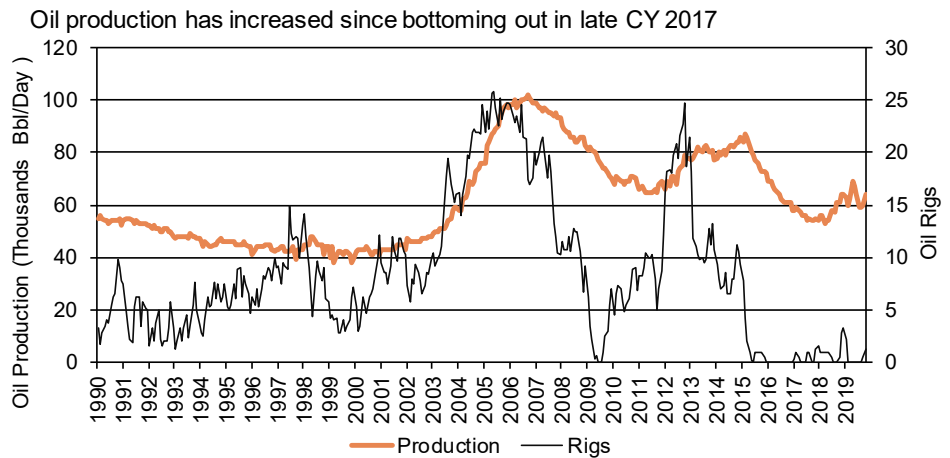
VEHICLE FEES & TAXES: SLIGHTLY ABOVE ESTIMATE

Six months into FY 2020, vehicle taxes and fees are 7.5% or \$3.5 million above collections from last year. In HJ 2 this source was expected to grow by 3.1%, so thus far this source is tracking above estimate. This source often has large swings from month to month in the accounting system, so it is possible that timing is responsible for some of the growth above and beyond the HJ 2 estimate.

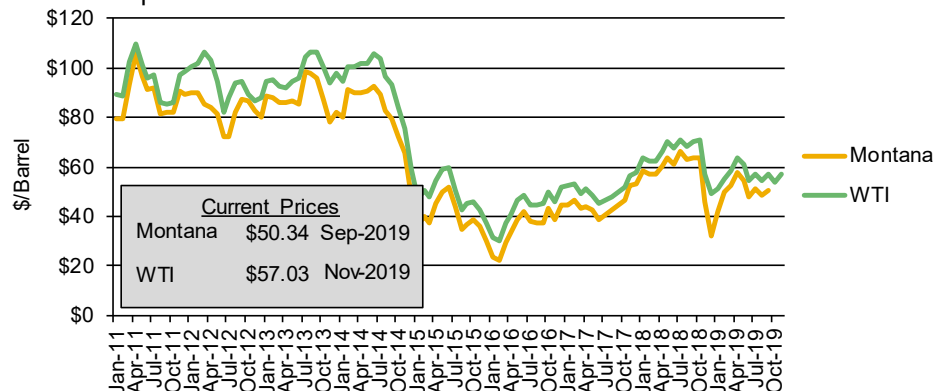
OIL & NATURAL GAS PRODUCTION TAX: NO DATA, BUT LIKELY SLIGHTLY BELOW LAST

Oil and natural gas production tax collections currently shows no data. This is expected due to the statutory requirement of when taxes are due, and the time allowed for the Department of Revenue to determine the distribution of taxes to local governments. Through the first quarter of FY 2020, production data has mirrored that of FY 2019.

As the chart to the upper-right shows, oil production bottomed out at the end of CY 2017, and has increased since then. As the chart to the right shows, in the first quarter of FY 2019, prices were higher than FY 2020's first quarter. As a result, the first posting in the accounting system will likely be slightly lower than last year, given similar production.



In CY 2019, Montana oil prices have been about 11% lower than WTI prices



INSURANCE TAX: ON TRACK

Year-to-date insurance tax collections are 3.1% or \$0.9 million above last December. The level of growth is currently positive, but below the level predicted in HJ 2 when compared with the previous year. This source had unusually high collections at this time last year due to timing of collections. This year the collections pattern appears to have returned to normal.

VIDEO GAMING TAX: CURRENTLY ABOVE ESTIMATE

Revenue from video gambling is currently \$0.5 million or 2.9% above collections from last year. This source was expected to remain flat throughout the biennium, but FY 2019 saw growth of 4.8%. As a result, even if this source remains flat it will come in above estimate.

OTHER KEY DIFFERENCES:

LODGING FACILITIES SALES TAX: CURRENTLY ABOVE ESTIMATE

Through December, lodging facilities sales tax collections have grown by 12.9% or \$1.4 million. This is coming off of a strong FY 2019, in which collections grew by 10.8%. As a result, year-to-date collections are above the HJ 2 estimate, which anticipated a drop of 1.2%.

U.S. MINERAL ROYALTIES: CURRENTLY BELOW ESTIMATE

U.S. mineral royalties are down 17.7%, or \$1.5 million compared to FY 2019 levels at this time. Mineral royalty payments can be sporadic from month-to-month, so it is difficult to get a clear picture of collections at this time. In HJ 2 this source was expected to decline by 3.1%.

TCA INTEREST EARNINGS: STRONG YTD GROWTH LIKELY DRIVEN BY LARGER CASH BALANCES

Treasury cash account interest earnings are \$2.1 million or 26.7% above collections last year at this time, and slightly above the HJ 2 anticipated growth of 24.0%. Short-term interest rates are currently lower than what was anticipated in HJ 2. Therefore, the daily cash balance that earns interest must be larger than estimated, due to the increase above HJ 2.

ALL OTHER REVENUE: ABOVE ESTIMATE

To date, all other revenue collections are 19.2% or \$4.6 million above last year's collections. This source was expected to decrease by 58.2% in HJ 2. This will ultimately materialize, as [HB 6 \(2017 Special Session\)](#) authorized numerous one-time-only transfers that occurred in the second half of FY 2019. This will begin to be reflected in the February data, when the first of the major transfers occurred in FY 2019.

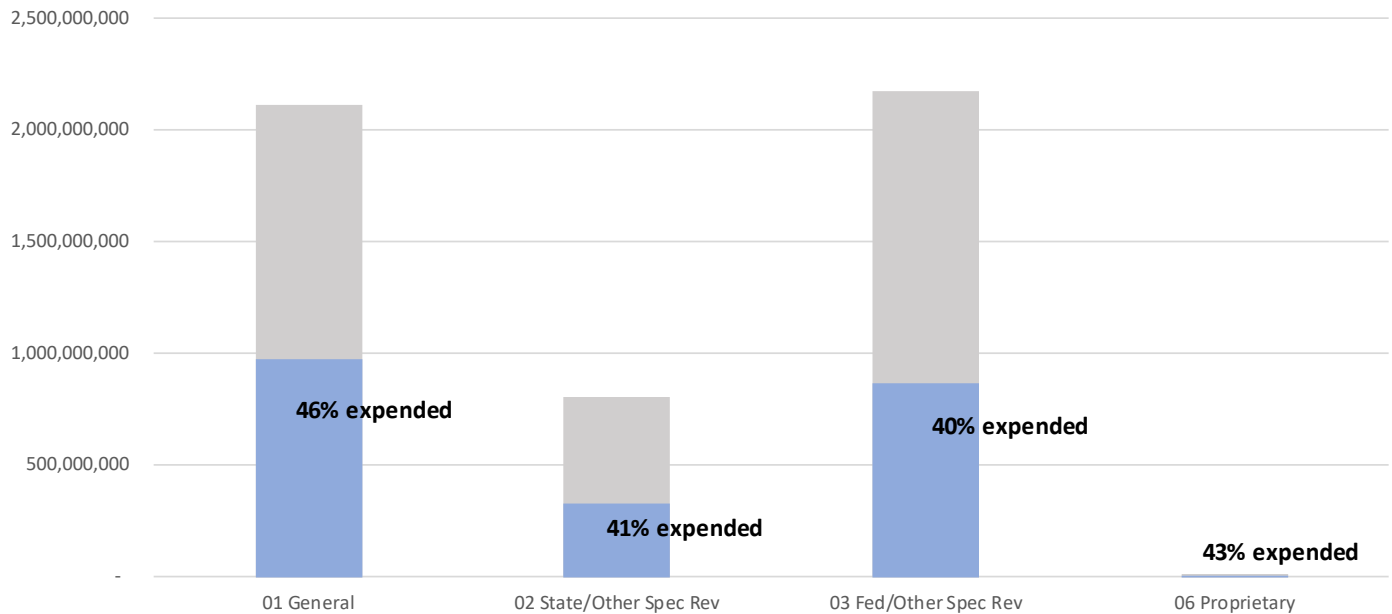
HB 2 EXPENDITURE SUMMARY

Agency year-to-date budget expenditures are 43% expended six months through the year, which is lower than 50%, but consistent with typical expenditure patterns. The 5 year average is 44%. Federally funded grants typically lag other expenditure types and can be seen to be the case in the following figure. Grants are 31% expended and federal funding is 40% expended. Additional information on the budget will be provided to the March Legislative Finance Committee.

All Agency HB 2 Expenditures

Budgeted vs. Expended

by fund type



Expenditure Account	Budgeted	Expended	% Exp.	5 Yr Avg % Exp.
Personal Services	932,946,774	420,099,746	45%	45%
Operating Expenses	986,150,102	463,225,957	47%	52%
Equipment & Intangible Assets	18,356,885	5,871,498	32%	34%
Capital Outlay	13,009,170	8,571,285	66%	42%
Local Assistance	842,119,489	378,707,630	45%	48%
Grants	335,318,677	104,045,562	31%	34%
Benefits & Claims	1,714,338,761	642,317,890	37%	40%
Transfers-out	258,399,224	144,875,875	56%	48%
Debt Service	3,384,661	2,617,598	77%	68%
Total	5,104,023,743	2,170,333,041	43%	44%
General Fund	2,116,179,446	974,108,866	46%	47%
State/Other Spec Rev Fund	802,955,287	325,326,847	41%	40%
Fed/Other Spec Rev Fund	2,171,978,732	865,312,402	40%	43%
Proprietary Fund	12,910,278	5,579,411	43%	43%
Total	5,104,023,743	2,170,327,526	43%	44%