



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: March 11, 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 #4

GENERAL FUND REVENUE SUMMARY

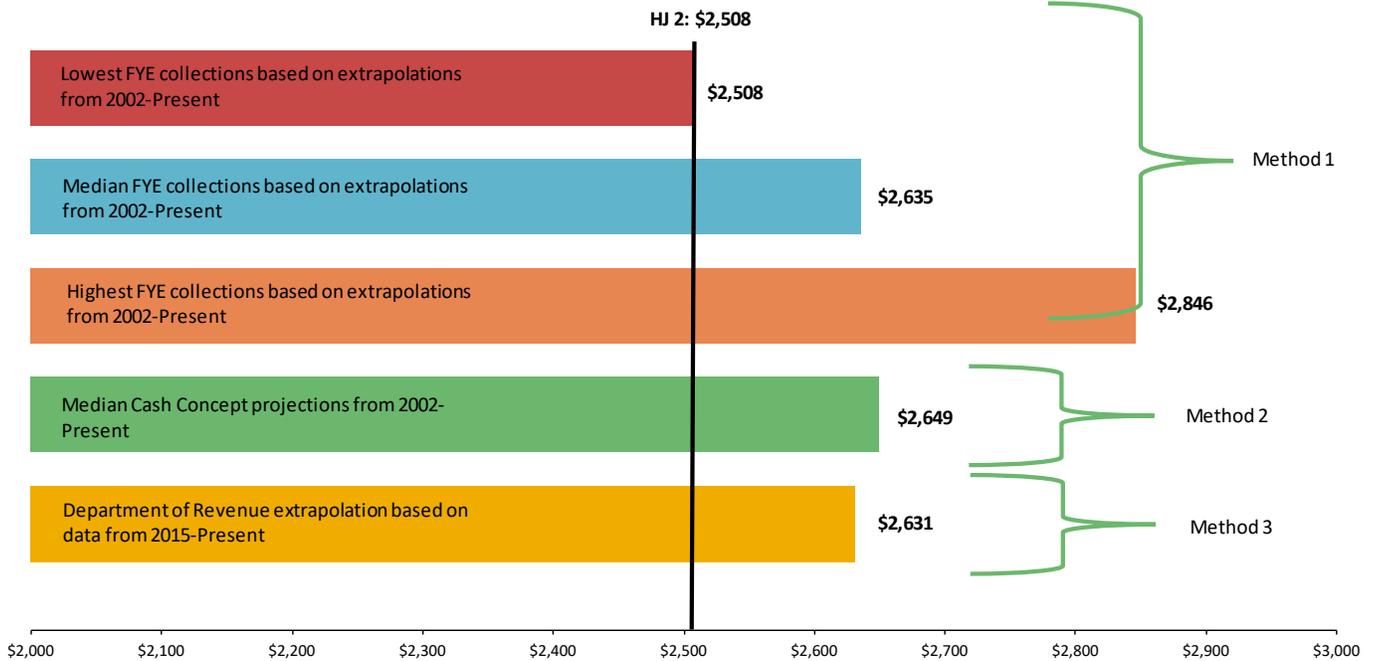
This is the third of seven monthly revenue updates beginning in December, and continuing throughout the second half of FY 2020. These updates are designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY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

Year-to-date general fund collections continue to be stronger than the estimate contained in HJ 2. FY 2020 general fund revenues through the end of January are \$105.7 million or 5.0% above FY 2019 revenues through the same period. At this point in FY 2019 there was \$32.6 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 6.9%.

Two separate analyses were examined to predict possible year-end collections based on data through February. The two methods employed here as well as that used by the Department of Revenue (DOR) are all beginning to be in more agreement than previous months, as variability between collection months in December and January has concluded.

As shown in the graph on the next page, current estimates of fiscal year final collections indicate collections will exceed HJ 2 by over \$100 million.

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



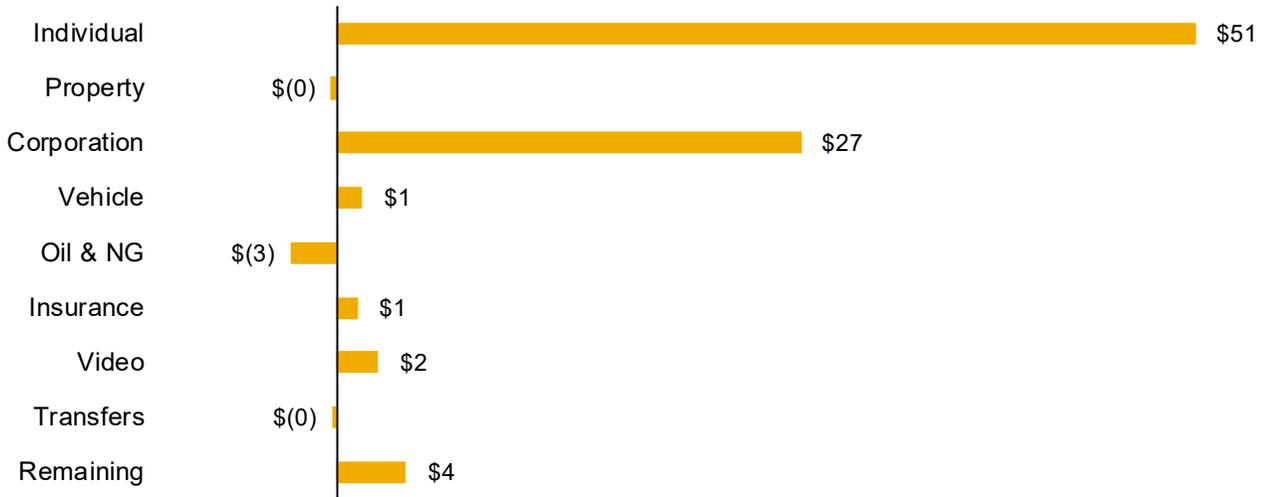
The median extrapolation calculation (Method 1) suggests that final collections will be \$2,635 million. This represents final collections of 5.1% above HJ 2. The possible high and low extrapolations yield 13.5% above HJ 2 and exactly HJ 2 respectively. In dollar amounts, the high extrapolation would be \$338 million above HJ 2.

The cash-concept model (Method 2) currently suggests final collections will be 5.6% above HJ 2 or \$141 million above HJ 2.

The extrapolation from the DOR monitoring report (Method 3) estimates final collections at \$123 million or 4.9% above HJ 2. The DOR extrapolation uses the last five years' collection patterns to extrapolate year-end results, while the two LFD analyses use patterns dating back to 2002. The difference the two median extrapolations done by the LFD and the DOR analysis has decreased in recent months. The range of the three medians suggest a midpoint range from a low of \$123 million to a high of \$141 million above HJ 2.

The following graph shows a breakdown of what sources are responsible for growth above HJ 2 in the cash-concept model.

Individual and corporation income account for 93%, or \$83.8 million of the total general fund revenue difference relative to HJ 2.



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	Feb FY 2019	Feb FY 2020	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,429.010	\$1,410.943	-1.3%	\$951.517	\$1,027.633	\$76.117	8.0%	
Property Tax	289.212	302.470	4.6%	165.288	172.879	7.591	4.6%	
Corporation Tax	186.536	165.893	-11.1%	100.166	116.442	16.276	16.2%	
Vehicle Taxes & Fees	109.508	112.953	3.1%	62.720	68.528	5.808	9.3%	
Oil & Natural Gas Taxes	54.178	56.639	4.5%	15.805	11.291	(4.514)	-28.6%	
Insurance Tax	76.141	81.158	6.6%	36.720	36.275	(0.445)	-1.2%	
Video Gaming Tax	63.228	60.248	-4.7%	31.440	32.296	0.856	2.7%	
Other Business Taxes								
Drivers License Fee	3.976	4.370	9.9%	2.574	2.818	0.243	9.5%	
Investment Licenses	8.182	16.040	96.0%	7.328	14.623	7.295	99.6%	
Lodging Facilities Sales Tax	26.703	26.380	-1.2%	14.575	15.754	1.180	8.1%	
Public Contractor's Tax	3.597	3.579	-0.5%	4.224	4.905	0.682	16.1%	
Railroad Car Tax	3.594	3.878	7.9%	3.083	3.331	0.248	8.1%	
Rental Car Sales Tax	4.431	4.039	-8.8%	2.589	2.693	0.104	4.0%	
Retail Telecom Excise Tax	13.224	11.927	-9.8%	6.667	6.008	(0.660)	-9.9%	
Other Natural Resource Taxes								
Coal Severance Tax	14.091	13.731	-2.6%	7.836	5.862	(1.973)	-25.2%	
Electrical Energy Tax	4.185	4.416	5.5%	2.106	2.287	0.181	8.6%	
Metal Mines Tax	6.907	6.767	-2.0%	0.154	0.070	(0.083)	-54.2%	
U.S. Mineral Leasing	21.570	20.891	-3.1%	10.136	10.313	0.177	1.7%	
Wholesale Energy Trans Tax	3.490	3.464	-0.8%	1.740	1.819	0.078	4.5%	
Other Interest Earnings								
Coal Trust Interest Earnings	18.172	17.315	-4.7%	9.938	9.858	(0.081)	-0.8%	
TCA Interest Earnings	22.036	27.318	24.0%	11.308	13.216	1.908	16.9%	
Other Consumption Taxes								
Beer Tax	3.041	3.074	1.1%	1.800	1.859	0.059	3.3%	
Cigarette Tax	27.500	26.687	-3.0%	17.732	16.931	(0.801)	-4.5%	
Liquor Excise Tax	21.946	24.153	10.1%	12.851	13.808	0.956	7.4%	
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%	3.553	3.517	(0.036)	-1.0%	
Wine Tax	2.478	2.554	3.1%	1.494	1.506	0.012	0.8%	
Other Sources								
All Other Revenue	98.800	41.259	-58.2%	56.607	24.181	(32.426)	-57.3%	
Highway Patrol Fines	3.862	3.848	-0.4%	2.201	2.097	(0.104)	-4.7%	
Nursing Facilities Fee	4.416	4.087	-7.5%	2.101	2.012	(0.089)	-4.3%	
Public Institution Reimbursement	15.991	11.396	-28.7%	7.028	6.946	(0.082)	-1.2%	
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%	1,523.749	1,629.463	105.714	6.9%	
OTO Revenue & Transfers Subtotal	54.055			32.552	4.100	(28.452)		
Grand Total	\$2,573.621	\$2,508.465	-2.5%	\$1,556.301	\$1,633.563	\$77.262	5.0%	

MAJOR SOURCES

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

INDIVIDUAL INCOME TAX: CURRENTLY ABOVE ESTIMATE

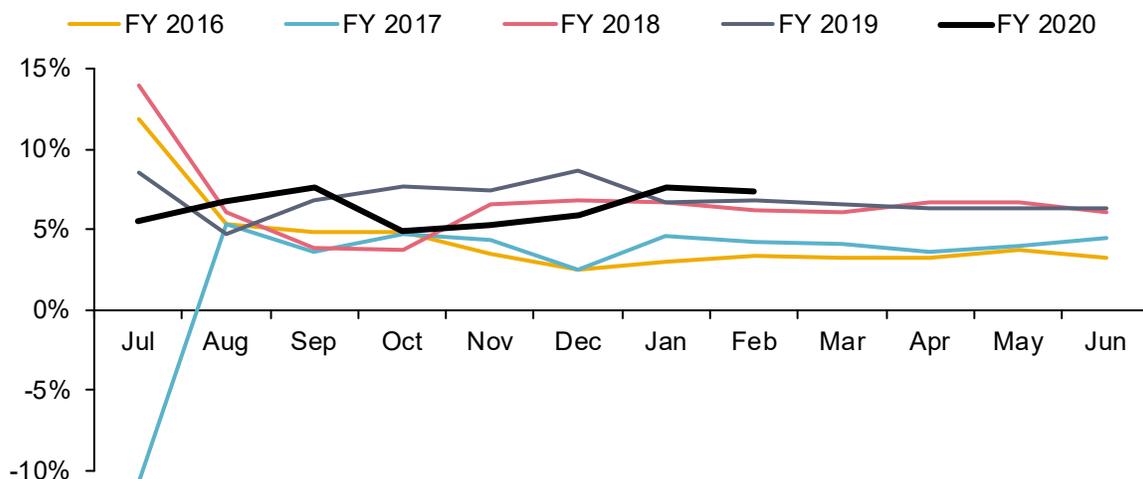
Individual income tax collections through the end of February are \$76.1 million or 8.0% above the year-to-date collections in FY 2019, far above the -1.3% growth anticipated in HJ 2. The year-over-year increase has been driven by strong withholding and estimated payments.

Individual Income Tax (\$ Millions)

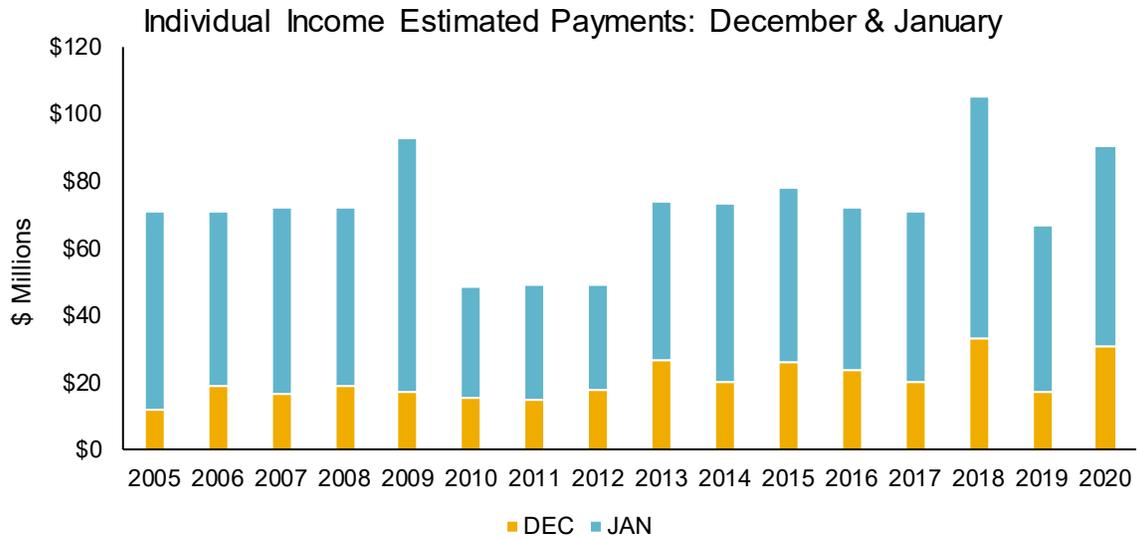
Account	YTD 2020	YTD 2019	\$ Difference	% Difference
Withholding	\$734.0	\$683.4	\$50.6	7.4%
Estimated Payments	208.0	178.2	29.8	16.7%
Current Year Payments	31.6	25.4	6.3	24.6%
Audit, P&I, Amended	28.1	25.8	2.3	8.9%
Refunds	(144.9)	(136.2)	(8.7)	6.4%
Refund Accrual Reversal	152.8	161.9	(9.1)	-5.6%
Partnership Income Tax	12.1	7.7	4.4	56.5%
Mineral Royalties	6.0	5.3	0.7	12.5%
Total	\$1,027.6	\$951.5	\$76.1	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, and this year's January payments were quite strong. 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.



PROPERTY TAX: ON TRACK

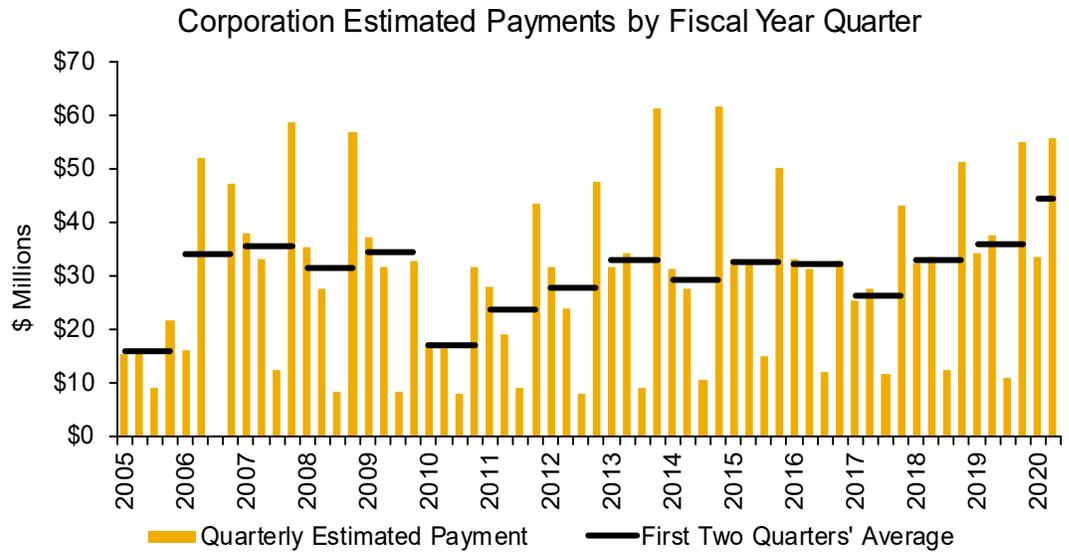
Property tax collections are above last year by \$7.6 million or 4.6%, and the increase anticipated in HJ 2 is also 4.6%. There has been only one of two large property tax payments made, but property tax is a relatively stable source of revenue for the state. Property tax is on track to come in close to the HJ 2 estimate.

CORPORATION INCOME TAX: CURRENTLY ABOVE ESTIMATE

Corporation income tax collections through the end of February are 16.2% or \$16.3 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.

Account	YTD 2020	YTD 2019	\$ Difference	% Difference
Corporation Tax	\$25.4	\$15.1	\$10.3	68.2%
Estimated Payments	94.8	78.1	16.6	21.3%
Refunds	(14.5)	(7.2)	(7.3)	101.7%
Refund Accrual Reversal	4.0	4.9	(0.9)	-18.7%
Audit, P&I, Amended	6.7	9.2	(2.4)	-26.7%
Total	\$116.4	\$100.2	\$16.3	16.2%

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

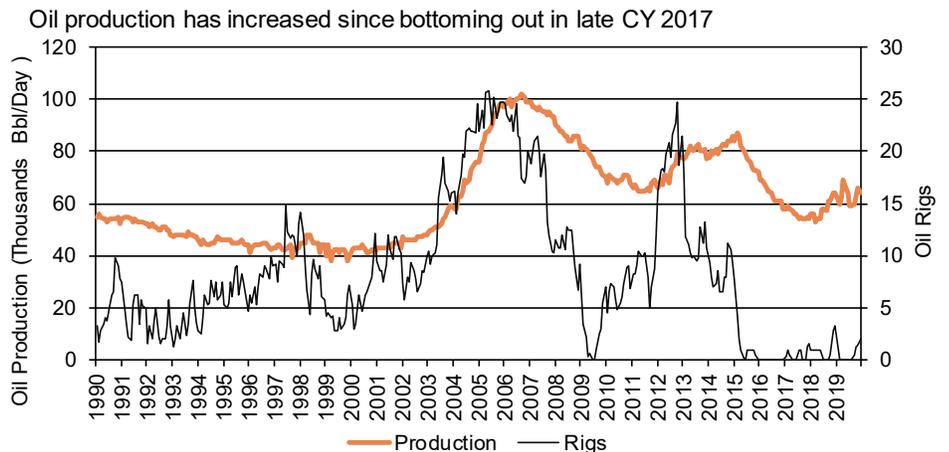
Eight months into FY 2020, vehicle taxes and fees are 9.3% or \$5.8 million above collections from last year. In HJ 2 this source was expected to grow by 3.1%. Such a large increase above HJ 2 is likely due to timing, as last month the year-to-date growth was only 4.0%.

OIL & NATURAL GAS PRODUCTION TAX: BELOW ESTIMATE

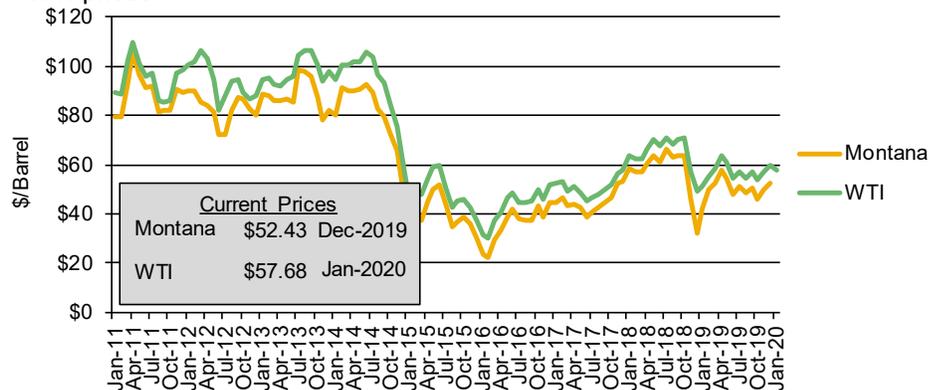
At the end of January, the first quarter of oil and gas production taxes was posted to the state accounting system. Compared to the first quarter last year, collections were down \$4.5 million. This was expected due to the price differences between the two quarters, as seen in the chart below. However, prices in the second quarter last fiscal year dropped, so this year's second payment will likely be larger than last year's. 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.

If the recent drop in oil prices does not rebound, it is likely that this source will end up significantly below HJ 2.



In CY 2019, Montana oil prices have averaged 12% lower than WTI prices



INSURANCE TAX: MODEST DIP IN FIRE MARSHAL TAXES

Year-to-date insurance tax collections are 1.2% or \$0.4 million below last February. This is due primarily to lower Fire Marshal tax collections which were \$0.6 million below this time last year. Fire Marshal taxes have been higher for the last 2 years as the State Auditor's Office collected back taxes that were owed for the fire portion of insurance premiums. This source of insurance taxes may be stabilizing. The dip was partially offset by increases in premium insurance tax and surplus lines premium tax.

VIDEO GAMING TAX: CURRENTLY ABOVE ESTIMATE

Revenue from video gambling is currently \$0.9 million or 2.7% 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:

INVESTMENT LICENSES: ON TRACK WITH ESTIMATE

Currently, investment license revenues are \$7.3 million or 99.6% above last year's collections. The increase was anticipated due to the passage of [HB 694](#), which increased fees paid by investment firms.

LODGING FACILITIES SALES TAX: CURRENTLY ABOVE ESTIMATE

Through February, lodging facilities sales tax collections have grown by 8.1% or \$1.2 million. This is coming off 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%.

COAL SEVERANCE TAX: CURRENTLY BELOW ESTIMATE

Coal severance tax collections through February are \$1.8 million or 25.2% below last year's collections, and below HJ 2 which anticipated a decline of 2.6%. Production has decreased this fiscal year, but not in the amounts reflected in the tax collections. There is likely an issue with the timing of payments to further explain the decline.

TCA INTEREST EARNINGS: BELOW ESTIMATE BUT STRONG YTD GROWTH

Treasury cash account interest earnings are \$1.9 million or 16.9% above collections last year, and below the HJ 2 anticipated growth of 24.0%. Short-term interest rates are currently lower than what was anticipated in HJ 2, likely explaining the small deviation from HJ 2.

ALL OTHER REVENUE: ON TRACK WITH ESTIMATE

To date, all other revenue collections are 57.3% or \$32.4 million below last year's collections. This source was expected to decrease by 58.2% in HJ 2. The expected decrease is due to the passage of [HB 6 \(2017 Special Session\)](#), which authorized numerous one-time-only transfers that occurred in the second half of FY 2019.