



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: January 10, 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 #1

PURPOSE OF THIS REPORT

This is the first 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

The executive's general fund revenue estimate used to call 2017 November Special Session Legislature was below HJ 2 by \$137 million in FY 2018. Current revenue trends¹ calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,357 million, about \$77 million less than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue shortfall of about \$52 million. The various year-to-date analyses fall within the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session revenue assumption of \$137 million below HJ 2.

FY 2018 general fund revenue through the end of December is \$180.8 million or 18.2% ahead of FY 2017 revenue through the same period. The increase is due to several factors:

- Legislatively authorized transfers of \$63.0 million currently posted to All Other Revenue; without the transfers, YTD growth would be 11.9% compared to HJ 2 growth of 10.7%
- Timing of property tax collections
- Corporation income tax audit activity and strong growth in estimated payments
- Strong growth in individual income tax

¹ Note that current revenue trends based on year-to-date median collections and cash concept model were adjusted to account for \$63 million in legislatively authorized transfers made in the fall and \$10 million of potentially higher-than-anticipated property tax collections in December.

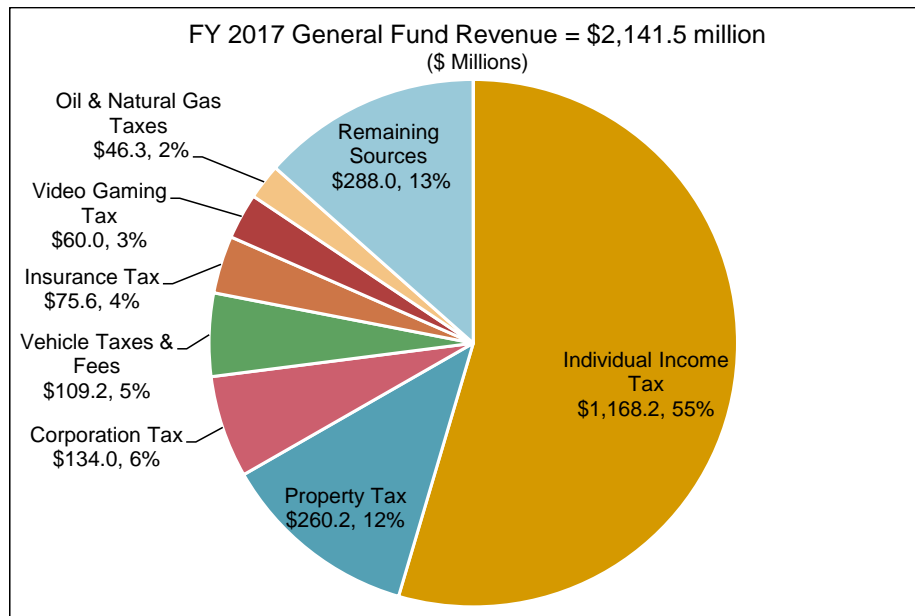
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of December are \$180.8 million or 18.2% greater than FY 2017 revenues through the same period; this increase is above the HJ 2 estimated growth of 13.7%. The increase is primarily due to legislatively authorized transfers of \$63.0 million currently posted to All Other Revenue, as well as large year-to-date growth in property tax due to a timing issue.

| General Fund Revenue Monitoring Report | | | | | | | |
|--|--------------------|--------------------|-----------------------|------------------|--------------------|-------------------|-----------------|
| (\$ Millions) | | | | | | | |
| Revenue Source | Actual FY 2017 | HJ 2/SS FY 2018 | HJ 2 Est. % Change | YTD FY 2017 | YTD FY 2018 | YTD Difference | YTD % Change |
| Largest Seven Sources | | | | | | | |
| Individual Income Tax | \$1,168.225 | \$1,320.808 | 13.1% | \$652.708 | \$710.439 | \$57.731 | 8.8% |
| Property Tax | 260.224 | 277.119 | 6.5% | 75.401 | 115.890 | 40.490 | 53.7% |
| Corporation Tax | 133.992 | 168.763 | 26.0% | 67.427 | 91.703 | 24.276 | 36.0% |
| Vehicle Taxes & Fees | 109.197 | 112.956 | 3.4% | 46.586 | 44.367 | (2.219) | -4.8% |
| Oil & Natural Gas Taxes | 46.334 | 49.939 | 7.8% | - | - | - | |
| Insurance Tax | 75.558 | 76.003 | 0.6% | 31.790 | 25.365 | (6.425) | -20.2% |
| Video Gaming Tax | 59.956 | 61.904 | 3.2% | 14.902 | 14.947 | 0.045 | 0.3% |
| Other Business Taxes | | | | | | | |
| Drivers License Fee | 4.308 | 4.341 | 0.8% | 1.735 | 2.128 | 0.393 | 22.7% |
| Investment Licenses | 7.327 | 7.660 | 4.5% | 0.804 | 0.844 | 0.040 | 5.0% |
| Lodging Facilities Sales Tax | 21.780 | 23.399 | 7.4% | 9.482 | 10.178 | 0.696 | 7.3% |
| Public Contractor's Tax | 3.078 | 2.540 | -17.5% | 3.198 | 4.079 | 0.881 | 27.6% |
| Railroad Car Tax | 3.790 | 3.642 | -3.9% | 4.235 | 3.341 | (0.894) | -21.1% |
| Rental Car Sales Tax | 3.402 | 3.357 | -1.3% | 1.394 | 1.587 | 0.193 | 13.8% |
| Retail Telecom Excise Tax | 15.603 | 15.570 | -0.2% | 3.827 | 3.546 | (0.281) | -7.3% |
| Other Natural Resource Taxes | | | | | | | |
| Coal Severance Tax | 13.799 | 13.811 | 0.1% | 5.795 | 3.978 | (1.817) | -31.4% |
| Electrical Energy Tax | 4.314 | 4.439 | 2.9% | 1.167 | 1.130 | (0.037) | -3.2% |
| Metal Mines Tax | 4.839 | 4.274 | -11.7% | (0.103) | 0.000 | 0.103 | -100.0% |
| U.S. Mineral Leasing | 17.322 | 20.497 | 18.3% | 5.618 | 6.919 | 1.301 | 23.2% |
| Wholesale Energy Trans Tax | 3.464 | 3.505 | 1.2% | 0.915 | 0.901 | (0.014) | -1.5% |
| Other Interest Earnings | | | | | | | |
| Coal Trust Interest Earnings | 19.799 | 19.829 | 0.1% | 8.785 | 7.083 | (1.703) | -19.4% |
| TCA Interest Earnings | 5.692 | 7.577 | 33.1% | 2.200 | 3.312 | 1.112 | 50.5% |
| Other Consumption Taxes | | | | | | | |
| Beer Tax | 2.998 | 3.072 | 2.5% | 1.320 | 1.325 | 0.005 | 0.4% |
| Cigarette Tax | 30.558 | 30.652 | 0.3% | 14.527 | 13.380 | (1.147) | -7.9% |
| Liquor Excise Tax | 20.366 | 22.265 | 9.3% | 8.766 | 9.155 | 0.388 | 4.4% |
| Liquor Profits | 11.750 | 14.614 | 24.4% | - | - | - | |
| Lottery Profits | 9.624 | 12.365 | 28.5% | 3.267 | 3.362 | 0.095 | 2.9% |
| Tobacco Tax | 6.247 | 6.815 | 9.1% | 2.763 | 2.728 | (0.036) | -1.3% |
| Wine Tax | 2.429 | 2.584 | 6.4% | 1.069 | 1.069 | (0.000) | 0.0% |
| Other Sources | | | | | | | |
| All Other Revenue | 49.336 | 112.865 | 128.8% | 16.809 | 86.039 | 69.230 | 411.9% |
| Highway Patrol Fines | 3.927 | 4.152 | 5.7% | 1.675 | 1.549 | (0.127) | -7.6% |
| Nursing Facilities Fee | 4.635 | 4.305 | -7.1% | 1.140 | 1.108 | (0.032) | -2.8% |
| Public Institution Reimbursement | 14.264 | 15.718 | 10.2% | 5.814 | 4.384 | (1.430) | -24.6% |
| Tobacco Settlement | 3.343 | 2.622 | -21.6% | 0.010 | 0.006 | (0.004) | -37.5% |
| Largest Seven Subtotal | 1,853.485 | 2,067.491 | 11.5% | 888.813 | 1,002.711 | 113.898 | 12.8% |
| Remaining Sources Subtotal | 287.994 | 366.467 | 27.2% | 106.213 | 173.129 | 66.917 | 63.0% |
| Grand Total | \$2,141.479 | \$2,433.958 | 13.7% | \$995.026 | \$1,175.841 | \$180.815 | 18.2% |

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: Strong YTD Growth, but Currently Below HJ 2

Individual income tax collections through the end of December are \$57.7 million or 8.8% 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 and high December estimated payments. The timing of estimated payments can fluctuate between December and January, so next month's report should clarify expectations for FY 2018. Through the first week of January 2018, estimated payment collections are nearly equal to estimated payment collections for all of January 2017. Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and will be monitored closely as the year progresses.

| Individual Income Tax (\$ Millions) | | | | |
|--|----------------|----------------|---------------|--------------|
| | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Withholding | \$455.0 | \$426.1 | \$28.9 | 6.8% |
| Estimated Payments | 135.3 | 118.8 | 16.5 | 13.9% |
| Current Year Payments | 19.5 | 19.2 | 0.3 | 1.5% |
| Audit, P&I, Amended | 16.6 | 15.0 | 1.5 | 10.2% |
| Refunds | (77.8) | (76.4) | (1.3) | 1.8% |
| Refund Accrual Reversal | 153.2 | 143.0 | 10.3 | 7.2% |
| Partnership Income Tax | 6.4 | 4.9 | 1.5 | 31.2% |
| Mineral Royalties | 2.1 | 2.1 | 0.0 | 0.6% |
| Total | \$710.4 | \$652.7 | \$57.7 | 8.8% |

Property Tax: YTD Increase Due to Timing

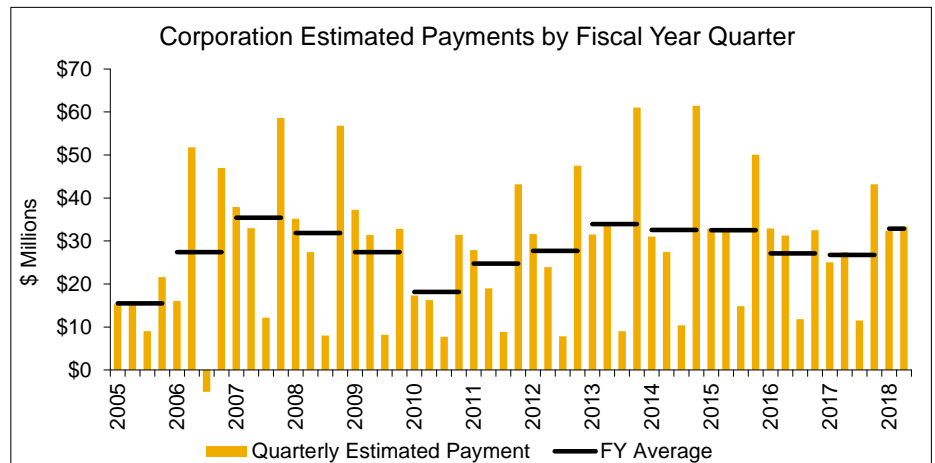
Property tax collections are above last year by \$40.5 million or 53.7%, due to a timing issue that will be cleared up by the end of January. Property tax is still expected to come in around HJ 2. While every December/January collection period has variability due to when the payments are booked, this year is particularly large due to December payments being low last year with the lag in payments that occurred with the NorthWestern Energy settlement.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of December are 36.0% or \$24.3 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments and a large, one-time audit that is currently booked in the corporation tax account.

| Corporation Income Tax (\$ Millions) | | | | |
|---|---------------|---------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Corporation Tax | \$26.2 | \$12.1 | \$14.1 | 116.0% |
| Estimated Payments | 65.7 | 52.5 | 13.2 | 25.2% |
| Refunds | (5.4) | (7.4) | 2.0 | -26.8% |
| Refund Accrual Reversal | 3.3 | 3.8 | (0.4) | -11.3% |
| Audit, P&I, Amended | 1.9 | 6.5 | (4.6) | -70.8% |
| Total | \$91.7 | \$67.4 | \$24.3 | 36.0% |

The adjacent chart shows that estimated payments in the first two quarters of FY 2018 are significantly above the estimated payments collected in the first two quarters of FY 2017. 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 near the HJ 2 estimate.

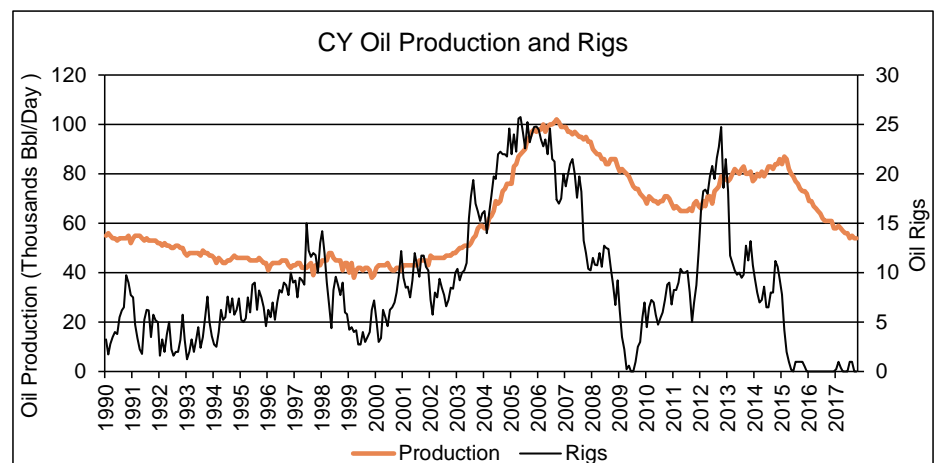


Vehicle Fees & Taxes: Below Estimate

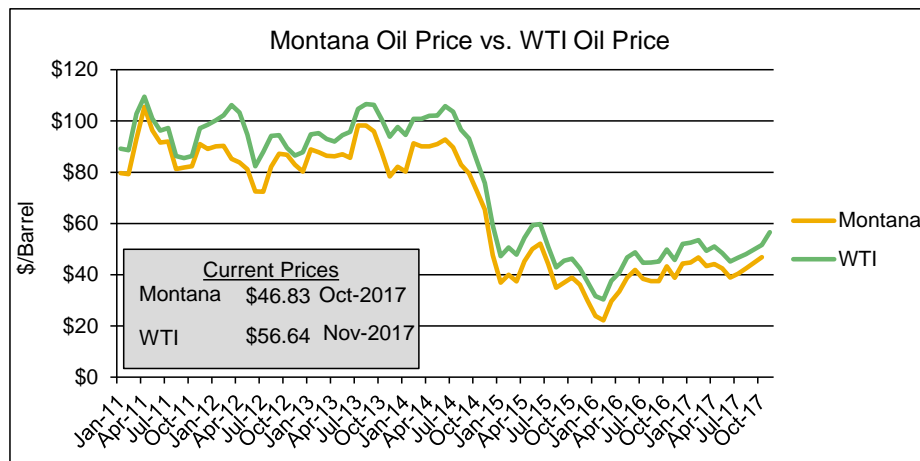
Six months into FY 2018, vehicle taxes and fees are 4.8% or \$2.2 million below collections last year at this time. In HJ 2, this source was expected to grow by 3.4%. The decrease is driven by a year-to-date decline in light vehicle registrations. Some of the decrease may be due to timing, as December collections in FY 2018 were uncharacteristically low and may show up in January.

Oil & Natural Gas Production Tax: No Data, But Likely Above Last Year

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. Known price and production data suggests that collections for the first quarter of FY 2018 may be slightly larger than FY 2017, and thus far similar patterns have been seen for the second quarter.



As the chart at the bottom of the previous page shows, oil production has been declining since the beginning of 2015, as there has been at most two rigs operating in the state since early 2015. The adjacent figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Currently Below Estimate

Current insurance tax collections are 20.2% or \$6.4 million below FY 2017 through December, and below the 0.6% growth anticipated in HJ 2. About a quarter of the difference—\$1.7 million—is due to one-time fire marshal tax collections at the beginning of FY 2017 due to a rule change; the remainder of the difference is due to lower insurance premiums tax collections. Insurance premiums tax accounts for over 80% of total insurance tax, and research is ongoing with the State Auditor's Office to determine whether the decline in insurance premiums tax collections is due to timing or a reduction in premiums.

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$45,000 or 0.3% above collections from last year at this time, but below the anticipated growth of 3.2%.

OTHER KEY DIFFERENCES:

Coal Severance Tax: Likely On Track with HJ 2

Coal severance tax revenue is \$1.8 million or 31.4% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unseasonably high for this time of the year. This source is expected to end up near the estimate contained in HJ 2.

U.S. Mineral Royalties: Currently Above Estimate

U.S. mineral royalties are up 23.2% or \$1.3 million compared to FY 2017 levels at this time. Mineral royalty payments can be sporadic, and it appears that a portion of the increase may be due to timing. In HJ 2 this source was expected to grow by 18.3%.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.7 million or 19.4% 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 a low June collection. The additional payment in August of last year explains the year-to-date decline. Final collections were forecast in HJ 2 to be nearly identical to last year, and as the year progresses collections should end up near the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$1.1 million or 50.5% 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 collections are 7.9% or \$1.5 million below this time last year, and below the HJ 2 anticipated growth of 0.3%.

All Other Revenue: Above Last Year and HJ 2 Due to Transfers

To date, all other revenue collections are \$69.2 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$63.0 million of the year-over-year difference.

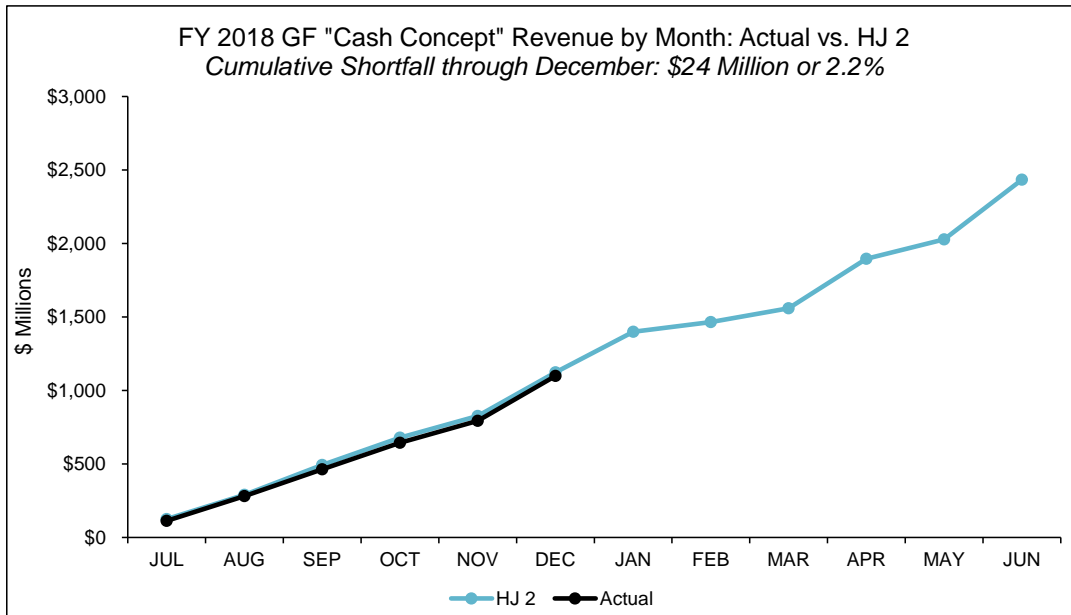
Public Institution Reimbursements: Below Last Year

Public institution reimbursements are currently 24.6% or \$1.1 million below 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.

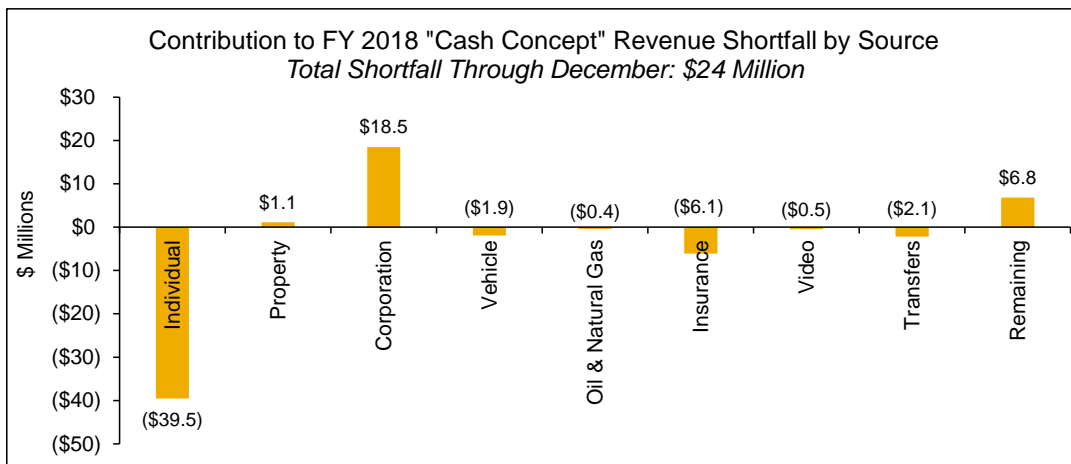
APPENDIX

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 December, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$24.2 million or 2.2%, after adjusting for \$10 million of potentially higher than anticipated property tax collections in December. If revenue continues to be below HJ 2 by 2.2% through FY 2018, final collections could be \$52.4 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 December is \$39.5 million below the HJ 2 estimate.





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Director
AMY CARLSON

DATE: February 7, 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 #2

PURPOSE OF THIS REPORT

This is the second 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

The executive’s general fund revenue estimate used to call 2017 November Special Session Legislature was below HJ 2 by \$137 million in FY 2018. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,412 million, about \$22 million less than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue shortfall of about \$7 million.

Although year-to-date estimates through January are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made individual income and property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

| Estimate* | Range of Revenue Options | | Notes |
|---|--------------------------|---------|--|
| | FY 2018 | FY 2019 | |
| HJ 2 | \$2,435 | \$2,495 | Official legislative revenue estimate |
| YTD Median Extrapolation | 2,412 | | 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 |

*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

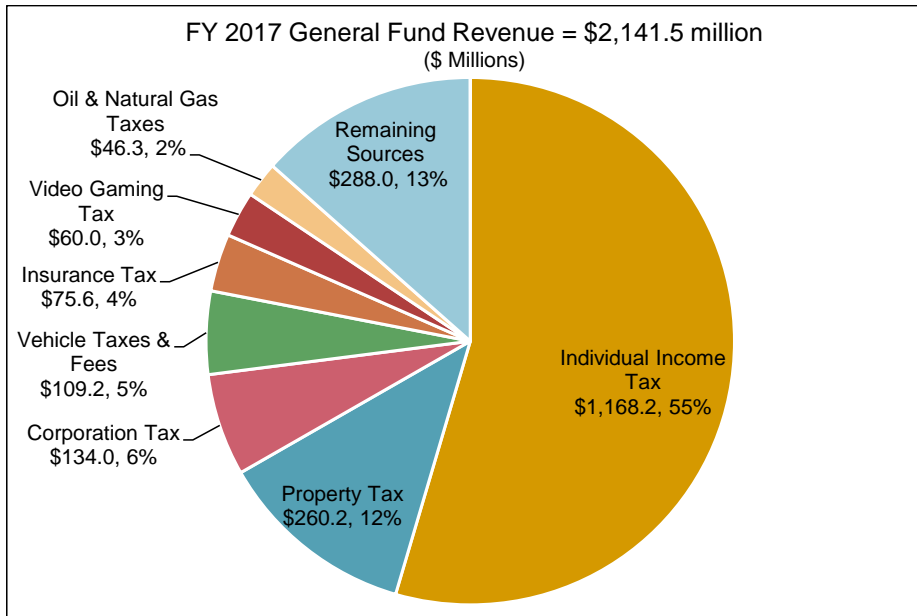
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of January are \$195.4 million or 15.3% greater than FY 2017 revenues through the same period; this increase is above the HJ 2 estimated growth of 13.7%. Note that the increase is in part due to legislatively authorized transfers of \$67.1 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 | January FY 2017 | January FY 2018 | YTD Difference | YTD % Change |
| Largest Seven Sources | | | | | | | |
| Individual Income Tax | \$1,168.225 | \$1,320.808 | 13.1% | \$806.224 | \$892.468 | \$86.244 | 10.7% |
| Property Tax | 260.224 | 277.119 | 6.5% | 135.607 | 154.045 | 18.438 | 13.6% |
| Corporation Tax | 133.992 | 168.763 | 26.0% | 73.718 | 99.018 | 25.299 | 34.3% |
| Vehicle Taxes & Fees | 109.197 | 112.956 | 3.4% | 54.359 | 56.136 | 1.777 | 3.3% |
| Oil & Natural Gas Taxes | 46.334 | 49.939 | 7.8% | 10.932 | 12.075 | 1.144 | 10.5% |
| Insurance Tax | 75.558 | 76.003 | 0.6% | 31.132 | 28.937 | (2.195) | -7.0% |
| Video Gaming Tax | 59.956 | 61.904 | 3.2% | 29.444 | 29.666 | 0.222 | 0.8% |
| Other Business Taxes | | | | | | | |
| Drivers License Fee | 4.308 | 4.341 | 0.8% | 2.325 | 2.561 | 0.236 | 10.2% |
| Investment Licenses | 7.327 | 7.660 | 4.5% | 6.576 | 6.934 | 0.359 | 5.5% |
| Lodging Facilities Sales Tax | 21.780 | 23.399 | 7.4% | 11.054 | 11.631 | 0.576 | 5.2% |
| Public Contractor's Tax | 3.078 | 2.540 | -17.5% | 3.767 | 4.644 | 0.877 | 23.3% |
| Railroad Car Tax | 3.790 | 3.642 | -3.9% | 4.235 | 3.358 | (0.878) | -20.7% |
| Rental Car Sales Tax | 3.402 | 3.357 | -1.3% | 1.583 | 2.016 | 0.433 | 27.3% |
| Retail Telecom Excise Tax | 15.603 | 15.570 | -0.2% | 4.845 | 4.567 | (0.278) | -5.7% |
| Other Natural Resource Taxes | | | | | | | |
| Coal Severance Tax | 13.799 | 13.811 | 0.1% | 8.467 | 5.247 | (3.219) | -38.0% |
| Electrical Energy Tax | 4.314 | 4.439 | 2.9% | 1.892 | 2.220 | 0.327 | 17.3% |
| Metal Mines Tax | 4.839 | 4.274 | -11.7% | (0.103) | 0.000 | 0.103 | -100.0% |
| U.S. Mineral Leasing | 17.322 | 20.497 | 18.3% | 8.021 | 8.183 | 0.161 | 2.0% |
| Wholesale Energy Trans Tax | 3.464 | 3.505 | 1.2% | 1.709 | 1.265 | (0.444) | -26.0% |
| Other Interest Earnings | | | | | | | |
| Coal Trust Interest Earnings | 19.799 | 19.829 | 0.1% | 10.091 | 8.581 | (1.509) | -15.0% |
| TCA Interest Earnings | 5.692 | 7.577 | 33.1% | 2.599 | 4.010 | 1.411 | 54.3% |
| Other Consumption Taxes | | | | | | | |
| Beer Tax | 2.998 | 3.072 | 2.5% | 1.534 | 1.538 | 0.004 | 0.3% |
| Cigarette Tax | 30.558 | 30.652 | 0.3% | 17.002 | 16.071 | (0.930) | -5.5% |
| Liquor Excise Tax | 20.366 | 22.265 | 9.3% | 10.780 | 11.011 | 0.231 | 2.1% |
| Liquor Profits | 11.750 | 14.614 | 24.4% | - | - | - | - |
| Lottery Profits | 9.624 | 12.365 | 28.5% | 3.267 | 3.362 | 0.095 | 2.9% |
| Tobacco Tax | 6.247 | 6.815 | 9.1% | 3.173 | 3.101 | (0.072) | -2.3% |
| Wine Tax | 2.429 | 2.584 | 6.4% | 1.296 | 1.290 | (0.006) | -0.5% |
| Other Sources | | | | | | | |
| All Other Revenue | 49.336 | 113.552 | 130.2% | 18.901 | 87.621 | 68.719 | 363.6% |
| Highway Patrol Fines | 3.927 | 4.152 | 5.7% | 1.957 | 1.839 | (0.118) | -6.0% |
| Nursing Facilities Fee | 4.635 | 4.305 | -7.1% | 1.775 | 2.013 | 0.238 | 13.4% |
| Public Institution Reimbursement | 14.264 | 15.718 | 10.2% | 7.680 | 5.794 | (1.885) | -24.5% |
| Tobacco Settlement | 3.343 | 2.622 | -21.6% | 0.010 | 0.006 | (0.004) | -37.5% |
| Largest Seven Subtotal | | | | | | | |
| | 1,853.485 | 2,067.491 | 11.5% | 1,141.416 | 1,272.345 | 130.929 | 11.5% |
| Remaining Sources Subtotal | | | | | | | |
| | 287.994 | 367.154 | 27.5% | 134.434 | 198.862 | 64.428 | 47.9% |
| Grand Total | | | | | | | |
| | \$2,141.479 | \$2,434.645 | 13.7% | \$1,275.850 | \$1,471.207 | \$195.357 | 15.3% |

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: Strong YTD Growth, but Currently Below HJ 2

Individual income tax collections through the end of January are \$86.2 million or 10.7% 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, and high December and January estimated payments. Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and will be monitored closely as the year progresses.

| | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
|-------------------------|----------------|----------------|---------------|--------------|
| Withholding | \$560.6 | \$525.5 | \$35.1 | 6.7% |
| Estimated Payments | 206.9 | 169.4 | 37.4 | 22.1% |
| Current Year Payments | 21.2 | 19.9 | 1.3 | 6.6% |
| Audit, P&I, Amended | 20.4 | 18.6 | 1.8 | 9.6% |
| Refunds | (82.3) | (79.9) | (2.4) | 3.0% |
| Refund Accrual Reversal | 153.2 | 143.0 | 10.3 | 7.2% |
| Partnership Income Tax | 8.2 | 6.1 | 2.0 | 33.3% |
| Mineral Royalties | 4.2 | 3.6 | 0.7 | 18.1% |
| Total | \$892.5 | \$806.2 | \$86.2 | 10.7% |

Property Tax: YTD Increase Likely Due to Payment Shifts

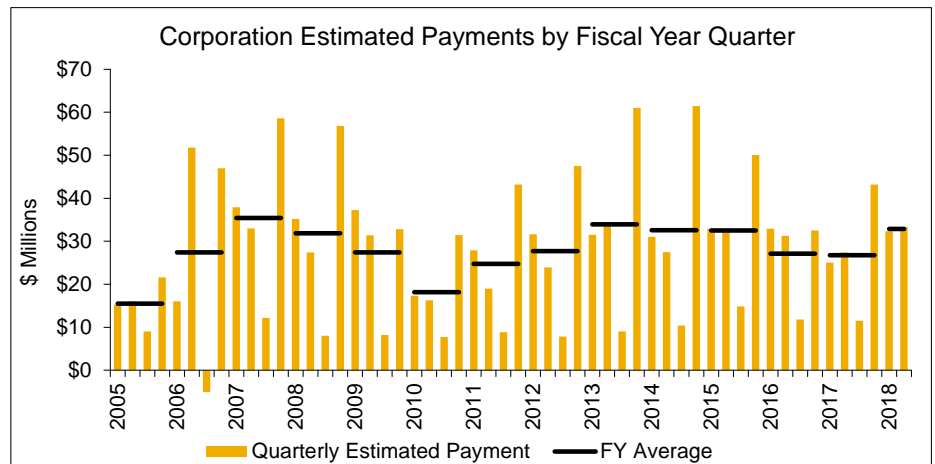
Property tax collections are above last year by \$18.4 million or 13.6%, compared to 6.5% in HJ 2. Property tax is still expected to come in around HJ 2. The increase compared to last year may be due to some people paying the full property tax bill in calendar 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of January are 34.3% or \$25.3 million above this time in FY 2017. The large year-over-year growth has been a result of increased estimated payments and a large, one-time audit.

| Corporation Income Tax (\$ Millions) | | | | |
|---|---------------|---------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Corporation Tax | \$11.8 | \$10.7 | \$1.1 | 9.9% |
| Estimated Payments | 69.1 | 57.6 | 11.5 | 19.9% |
| Refunds | (6.3) | (8.1) | 1.7 | -21.2% |
| Refund Accrual Reversal | 3.3 | 3.8 | (0.4) | -11.3% |
| Audit, P&I, Amended | 21.2 | 9.7 | 11.5 | 118.3% |
| Total | \$99.0 | \$73.7 | \$25.3 | 34.3% |

The adjacent chart shows that estimated payments in the first two quarters of FY 2018 are significantly above the estimated payments collected in the first two quarters of FY 2017. 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 near, if not above the HJ 2 estimate.

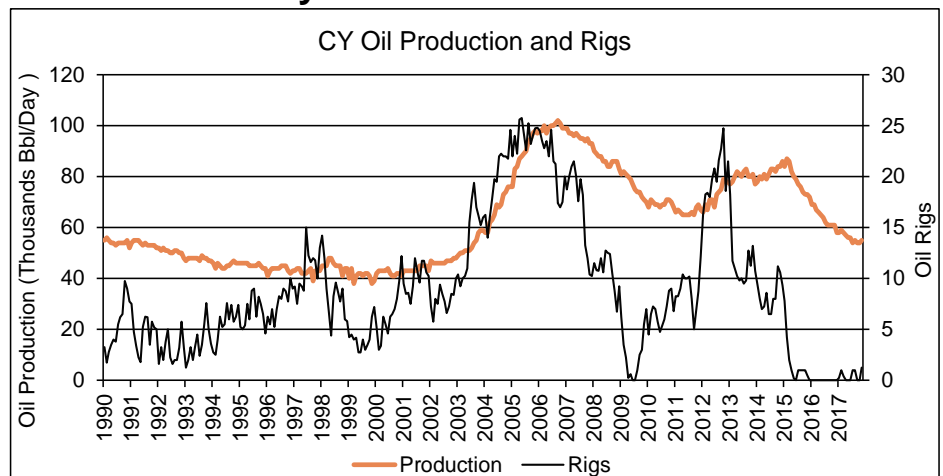


Vehicle Fees & Taxes: On Track with HJ 2

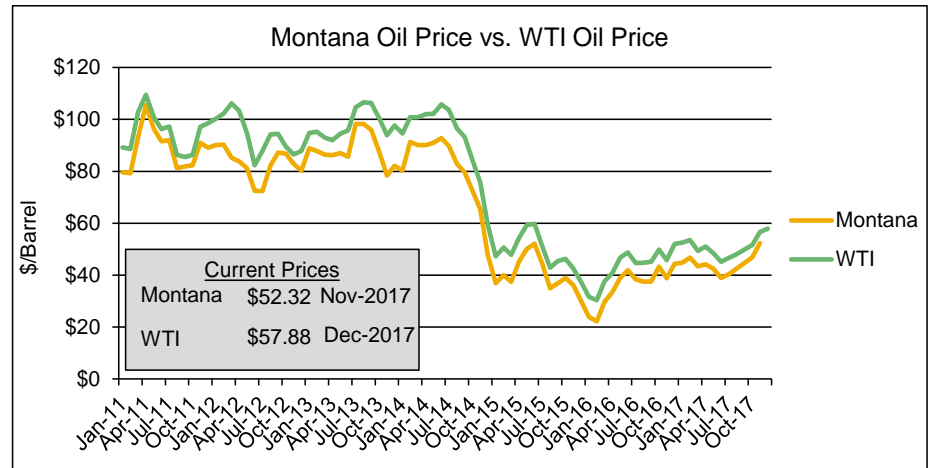
Seven months into FY 2018, vehicle taxes and fees are 3.3% or \$1.8 million above collections last year at this time. In HJ 2, this source was expected to grow by 3.4%, so collections are coming in as estimated.

Oil & Natural Gas Production Tax: Currently Above HJ 2

In January, the first oil and natural gas payment was booked to the accounting system. Price increases have offset decreased production, and as a result collections are higher than last year. Specifically, collections are 10.5% or \$1.1 million above last year through January. The year-to-date growth of 10.5% is above the assumed growth of 7.8% in HJ 2.



As the chart at the bottom of the previous page shows, oil production has been declining since the beginning of 2015, as there has been at most two rigs operating in the state since early 2015. The adjacent figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Currently Below Estimate

Current insurance tax collections are 7.0% or \$2.2 million below FY 2017 through January, and below the 0.6% growth anticipated in HJ 2. The majority of the difference—\$1.7 million—is due to one-time fire marshal tax collections at the beginning of FY 2017 due to a rule change; the remainder of the difference is primarily due to lower insurance premiums tax collections. Research is ongoing with the State Auditor's Office to determine whether the decline in insurance premiums tax collections is due to timing or a reduction in premiums.

| Insurance Premiums Tax (\$ Millions) | | | | |
|---|---------------|---------------|----------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Insurance Licenses & Permits | \$0.0 | \$0.0 | \$0.0 | 1.4% |
| Premium Insurance Tax | 28.8 | 29.2 | (0.4) | -1.5% |
| Fire Marshall Taxes | 0.1 | 1.8 | (1.7) | -94.8% |
| Premium Insurance Tax | 0.0 | 0.0 | (0.0) | -57.8% |
| Surplus Lines Premium Tax | 0.0 | 0.0 | (0.0) | -85.5% |
| Captive Premium Insurance Tax | 0.0 | 0.1 | (0.0) | -55.6% |
| Total | \$28.9 | \$31.1 | (\$2.2) | -7.0% |

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$0.2 million or 0.8% above collections from last year at this time, but below the anticipated growth of 3.2%.

OTHER KEY DIFFERENCES:

Coal Severance Tax: Likely On Track with HJ 2

Coal severance tax revenue is \$3.2 million or 38.0% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unusually high. This source is expected to end up near the estimate contained in HJ 2.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.5 million or 15.0% 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 the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$1.4 million or 54.3% 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.

All Other Revenue: Above Last Year Due to Transfers

To date, all other revenue collections are \$68.7 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$67.1 million of the year-over-year difference.

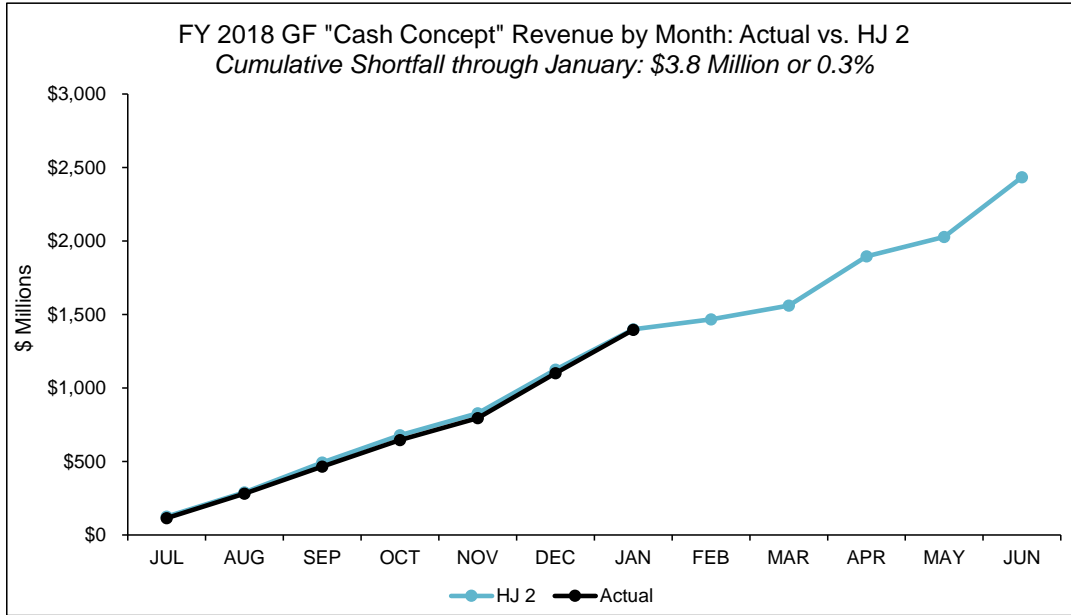
Public Institution Reimbursements: Below Last Year

Public institution reimbursements are currently 24.5% or \$1.9 million below 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.

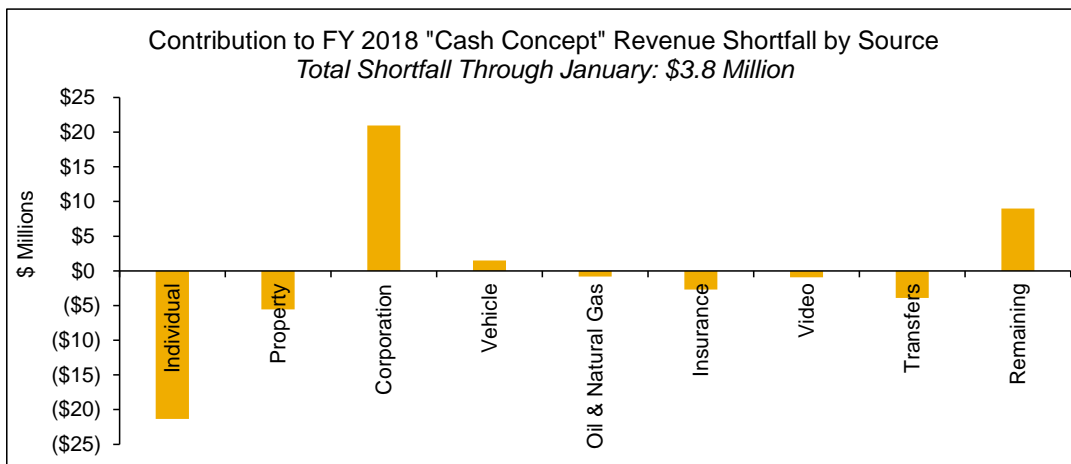
APPENDIX

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 January, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$3.8 million or 0.3%. If revenue continues to be below HJ 2 by 0.3% through FY 2018, final collections could be \$6.6 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 \$21.4 million below the HJ 2 estimate.





MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: March 6, 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 #3

PURPOSE OF THIS REPORT

This is the third 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

The executive's general fund revenue estimate used to call the 2017 November Special Session of the Legislature was below HJ 2 by \$137 million in FY 2018. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,439 million, about \$4 million more than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue overage of about \$13 million.

Although year-to-date estimates through February are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made individual income and property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

| Range of Revenue Options | | | |
|---|---------|---------|--|
| (\$ Millions) | | | |
| Estimate* | FY 2018 | FY 2019 | Notes |
| HJ 2 | \$2,435 | \$2,495 | Official legislative revenue estimate |
| YTD Median Extrapolation | 2,439 | | Based on total general fund collection patterns since FY 2002 |
| Cash Concept Model | 2,448 | | 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 |

*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

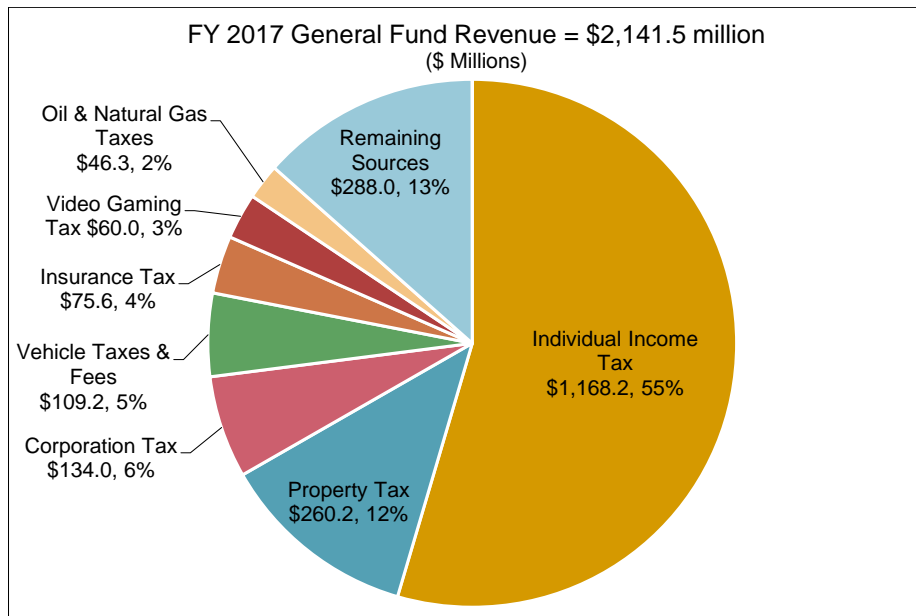
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of February are \$189.0 million or 13.9% 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 \$67.1 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 | February FY 2017 | February FY 2018 | YTD Difference | YTD % Change |
| Largest Seven Sources | | | | | | | |
| Individual Income Tax | \$1,168.225 | \$1,320.808 | 13.1% | \$856.836 | \$929.174 | \$72.338 | 8.4% |
| Property Tax | 260.224 | 277.119 | 6.5% | 142.061 | 157.652 | 15.591 | 11.0% |
| Corporation Tax | 133.992 | 168.763 | 26.0% | 74.151 | 102.365 | 28.214 | 38.0% |
| Vehicle Taxes & Fees | 109.197 | 112.956 | 3.4% | 63.660 | 64.877 | 1.216 | 1.9% |
| Oil & Natural Gas Taxes | 46.334 | 49.939 | 7.8% | 10.932 | 12.075 | 1.144 | 10.5% |
| Insurance Tax | 75.558 | 76.003 | 0.6% | 34.774 | 35.853 | 1.079 | 3.1% |
| Video Gaming Tax | 59.956 | 61.904 | 3.2% | 29.458 | 29.676 | 0.217 | 0.7% |
| Other Business Taxes | | | | | | | |
| Drivers License Fee | 4.308 | 4.341 | 0.8% | 2.679 | 2.899 | 0.220 | 8.2% |
| Investment Licenses | 7.327 | 7.660 | 4.5% | 6.733 | 7.041 | 0.308 | 4.6% |
| Lodging Facilities Sales Tax | 21.780 | 23.399 | 7.4% | 12.628 | 13.636 | 1.008 | 8.0% |
| Public Contractor's Tax | 3.078 | 2.540 | -17.5% | 2.980 | 4.224 | 1.244 | 41.7% |
| Railroad Car Tax | 3.790 | 3.642 | -3.9% | 3.528 | 3.352 | (0.176) | -5.0% |
| Rental Car Sales Tax | 3.402 | 3.357 | -1.3% | 1.944 | 2.155 | 0.211 | 10.8% |
| Retail Telecom Excise Tax | 15.603 | 15.570 | -0.2% | 7.610 | 7.003 | (0.608) | -8.0% |
| Other Natural Resource Taxes | | | | | | | |
| Coal Severance Tax | 13.799 | 13.811 | 0.1% | 8.798 | 7.518 | (1.279) | -14.5% |
| Electrical Energy Tax | 4.314 | 4.439 | 2.9% | 2.332 | 2.155 | (0.178) | -7.6% |
| Metal Mines Tax | 4.839 | 4.274 | -11.7% | 0.095 | 0.000 | (0.095) | -100.0% |
| U.S. Mineral Leasing | 17.322 | 20.497 | 18.3% | 9.204 | 9.473 | 0.269 | 2.9% |
| Wholesale Energy Trans Tax | 3.464 | 3.505 | 1.2% | 1.831 | 1.354 | (0.477) | -26.0% |
| Other Interest Earnings | | | | | | | |
| Coal Trust Interest Earnings | 19.799 | 19.829 | 0.1% | 11.782 | 10.189 | (1.593) | -13.5% |
| TCA Interest Earnings | 5.692 | 7.577 | 33.1% | 3.095 | 4.970 | 1.875 | 60.6% |
| Other Consumption Taxes | | | | | | | |
| Beer Tax | 2.998 | 3.072 | 2.5% | 1.722 | 1.754 | 0.032 | 1.8% |
| Cigarette Tax | 30.558 | 30.652 | 0.3% | 18.649 | 17.551 | (1.098) | -5.9% |
| Liquor Excise Tax | 20.366 | 22.265 | 9.3% | 11.971 | 12.366 | 0.395 | 3.3% |
| Liquor Profits | 11.750 | 14.614 | 24.4% | - | - | - | - |
| Lottery Profits | 9.624 | 12.365 | 28.5% | 3.267 | 3.362 | 0.095 | 2.9% |
| Tobacco Tax | 6.247 | 6.815 | 9.1% | 3.663 | 3.592 | (0.070) | -1.9% |
| Wine Tax | 2.429 | 2.584 | 6.4% | 1.446 | 1.464 | 0.018 | 1.3% |
| Other Sources | | | | | | | |
| All Other Revenue | 49.336 | 113.552 | 130.2% | 20.338 | 89.634 | 69.296 | 340.7% |
| Highway Patrol Fines | 3.927 | 4.152 | 5.7% | 2.222 | 2.080 | (0.142) | -6.4% |
| Nursing Facilities Fee | 4.635 | 4.305 | -7.1% | 2.313 | 2.213 | (0.100) | -4.3% |
| Public Institution Reimbursement | 14.264 | 15.718 | 10.2% | 7.448 | 7.510 | 0.062 | 0.8% |
| Tobacco Settlement | 3.343 | 2.622 | -21.6% | 0.010 | 0.006 | (0.004) | -37.5% |
| Largest Seven Subtotal | | | | | | | |
| | 1,853.485 | 2,067.491 | 11.5% | 1,211.871 | 1,331.672 | 119.800 | 9.9% |
| Remaining Sources Subtotal | | | | | | | |
| | 287.994 | 367.154 | 27.5% | 148.288 | 217.501 | 69.213 | 46.7% |
| Grand Total | | | | | | | |
| | \$2,141.479 | \$2,434.645 | 13.7% | \$1,360.160 | \$1,549.173 | \$189.013 | 13.9% |

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.

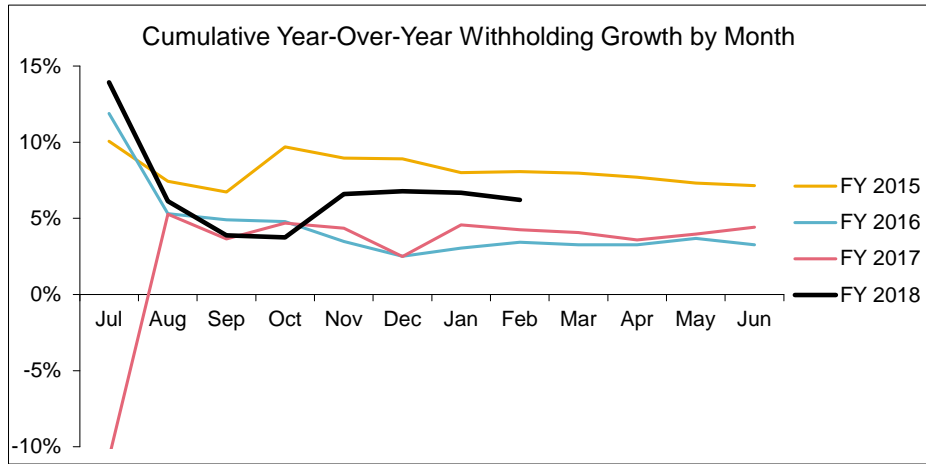


Individual Income Tax: Strong YTD Growth, but Currently Below HJ 2

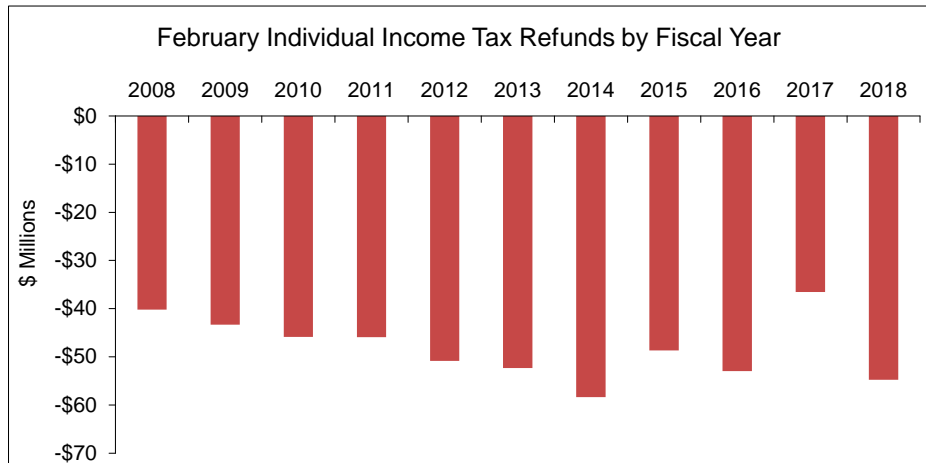
Individual income tax collections through the end of January are \$72.3 million or 8.4% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, and high December and January estimated payments; however, the increase was somewhat offset by higher year-to-date refunds.

| Individual Income Tax (\$ Millions) | | | | |
|--|----------------|----------------|---------------|--------------|
| | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Withholding | \$640.1 | \$602.6 | \$37.5 | 6.2% |
| Estimated Payments | 210.3 | 171.7 | 38.6 | 22.5% |
| Current Year Payments | 23.3 | 23.0 | 0.4 | 1.5% |
| Audit, P&I, Amended | 25.0 | 22.1 | 2.9 | 12.9% |
| Refunds | (137.1) | (116.5) | (20.6) | 17.7% |
| Refund Accrual Reversal | 153.2 | 143.0 | 10.3 | 7.2% |
| Partnership Income Tax | 8.9 | 6.8 | 2.1 | 31.7% |
| Mineral Royalties | 5.4 | 4.1 | 1.2 | 30.1% |
| Total | \$929.2 | \$856.8 | \$72.3 | 8.4% |

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.



The higher level of year-to-date refunds appears to be due to a timing issue from FY 2017 when February refunds were unusually low; year-to-date comparisons should even out in the next report.



Property Tax: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$15.6 million or 11.0%, compared to 6.5% in HJ 2. Property tax is still expected to come in around HJ 2. The increase compared to last year may be due to some people paying the full property tax bill in calendar 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of January are 38.0% or \$28.2 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.

| Corporation Income Tax (\$ Millions) | | | | |
|---|----------------|---------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Corporation Tax | \$10.2 | \$11.5 | (\$1.4) | -11.7% |
| Estimated Payments | 72.0 | 60.3 | 11.7 | 19.4% |
| Refunds | (7.1) | (12.1) | 5.0 | -41.0% |
| Refund Accrual Reversal | 3.3 | 3.8 | (0.4) | -11.3% |
| Audit, P&I, Amended | 24.0 | 10.6 | 13.3 | 125.5% |
| Total | \$102.4 | \$74.2 | \$28.2 | 38.0% |

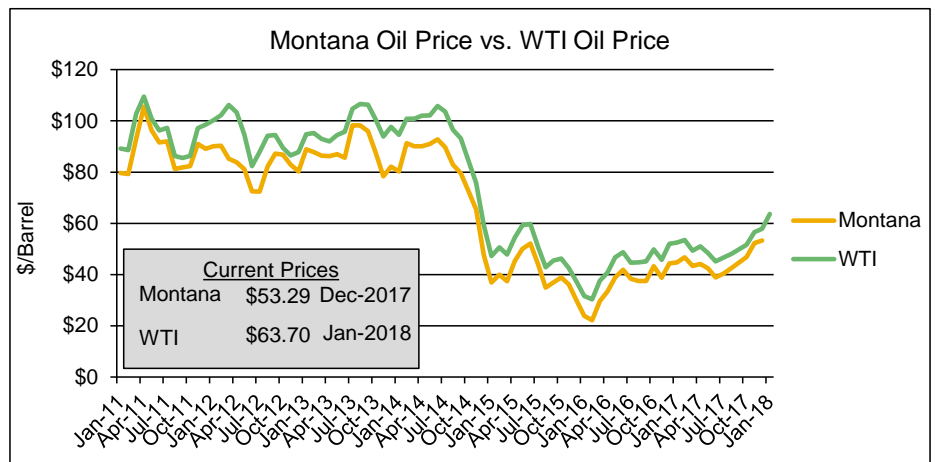
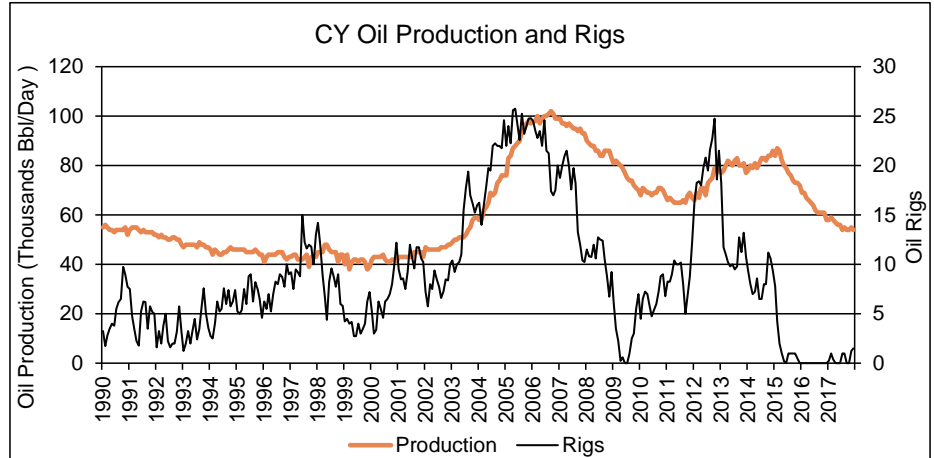
Vehicle Fees & Taxes: Slightly Below HJ 2

Eight months into FY 2018, vehicle taxes and fees are 1.9% or \$1.2 million above collections last year at this time. In HJ 2, this source was expected to grow by 3.4%, so collections are coming slightly lower than estimated.

Oil & Natural Gas Production Tax: Currently Above HJ 2

In January, the first oil and natural gas payment was booked to the accounting system. Price increases have offset decreased production, and as a result collections are higher than last year. Specifically, collections are 10.5% or \$1.1 million above last year through February. The year-to-date growth of 10.5% is above the assumed growth of 7.8% in HJ 2.

As the upper chart shows, oil production has been declining since the beginning of 2015, as there has been at most two rigs operating in the state since early 2015. The bottom figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Back on Track

Current insurance tax collections are 3.1% or \$1.1 million above FY 2017 through February. Both fire marshal taxes and premium insurance tax showed growth over the previous year.

| Insurance Premiums Tax (\$ Millions) | | | | |
|---|---------------|---------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Insurance Licences & Permits | \$0.0 | \$0.0 | \$0.0 | 14.7% |
| Premium Insurance Tax | 30.5 | 30.1 | 0.4 | 1.4% |
| Fire Marshall Taxes | 5.0 | 4.1 | 0.9 | 23.0% |
| Premium Insurance Tax | 0.0 | 0.0 | (0.0) | -57.7% |
| Surplus Lines Premium Tax | 0.0 | 0.2 | (0.2) | -99.0% |
| Captive Premium Insurance Tax | 0.3 | 0.4 | (0.1) | -24.7% |
| Total | \$35.9 | \$34.8 | \$1.1 | 3.1% |

Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$0.2 million or 0.7% above collections from last year at this time, but below the anticipated growth of 3.2%.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Slightly Above HJ 2

Lodging tax revenue is \$1.0 million or 8.0% above year-to-date collections in FY 2017, and above the HJ 2 estimate growth of 7.4%. Year-over-year quarterly tax payments in CY 2017 ranged from 6.9% to 7.5% above the corresponding quarter in CY 2016, so final fiscal year collections are likely to end up close to HJ 2.

Public Contractors' Tax: Above HJ 2

Public contractors' tax is \$1.2 million or 41.7% 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.

Coal Severance Tax: Likely On Track with HJ 2

Coal severance tax revenue is \$1.3 million or 14.5% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unusually high. This source is expected to end up near the estimate contained in HJ 2.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.6 million or 13.5% 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 the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$1.9 million or 60.6% 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 HJ 2 Estimate

Cigarette tax revenue is \$1.1 million or 5.9% below year-to-date collections in FY 2017. This may be attributable to changing consumer preferences.

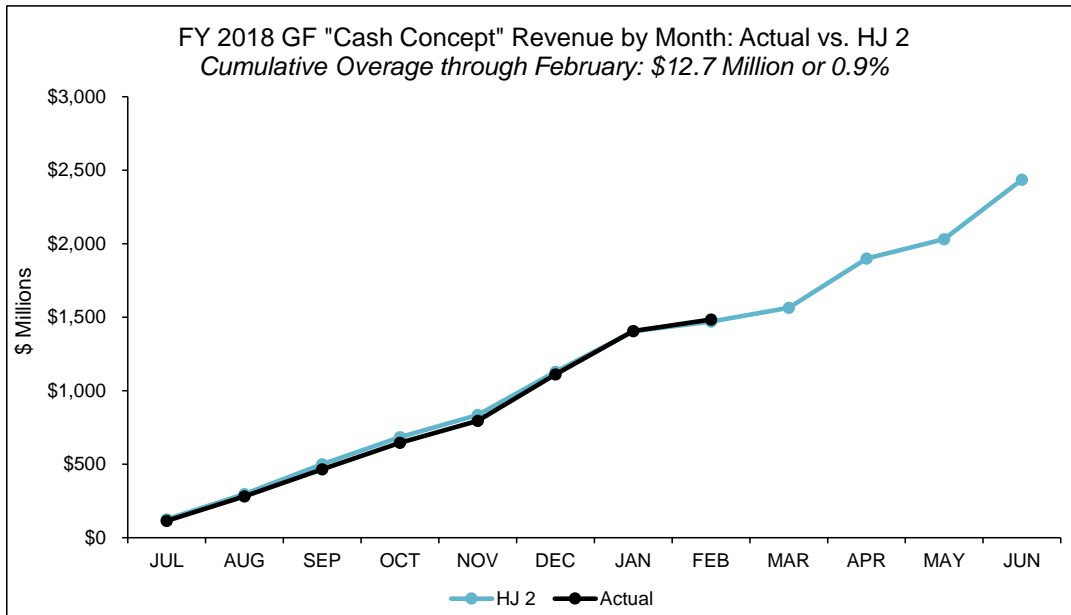
All Other Revenue: Above Last Year Due to Transfers

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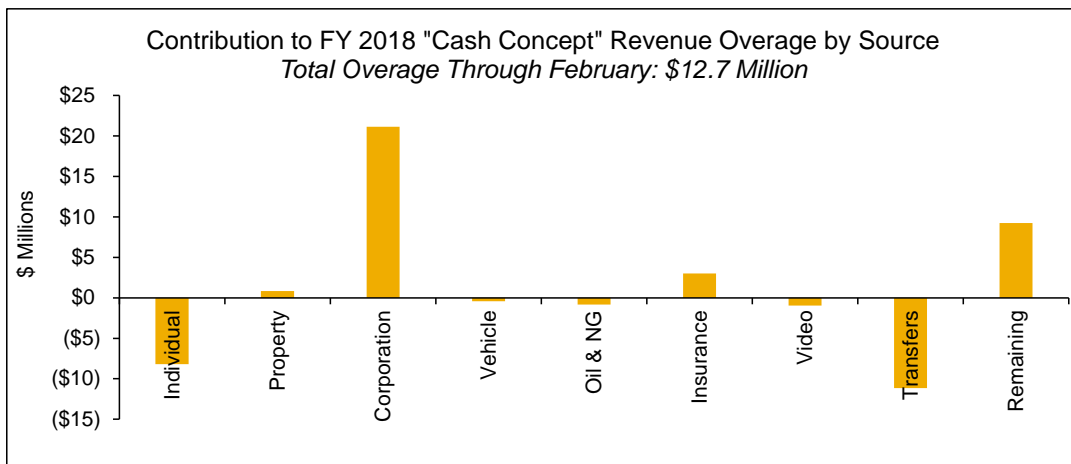
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The chart below shows modeled cumulative HJ 2 (adjusted for the enacted legislation of the 2017 regular and special sessions) by month with the blue line, and actual collections with the black line. Through February, the cash concept model suggests general fund revenue is above what would be expected based on the official revenue estimate by \$12.7 million or 0.9%. Since the difference is primarily due to the currently high level of corporation income tax audit collections, which is unlikely to be replicated in the remainder of the fiscal year, the revenue overage is not annualized.



Corporation income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, corporation income tax through February is \$21.1 million above the HJ 2 estimate.





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Legislative Fiscal Division

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Director
AMY CARLSON

DATE: April 6, 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 #4

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Although year-to-date estimates through March are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made individual income and property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

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*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

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:

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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;
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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.

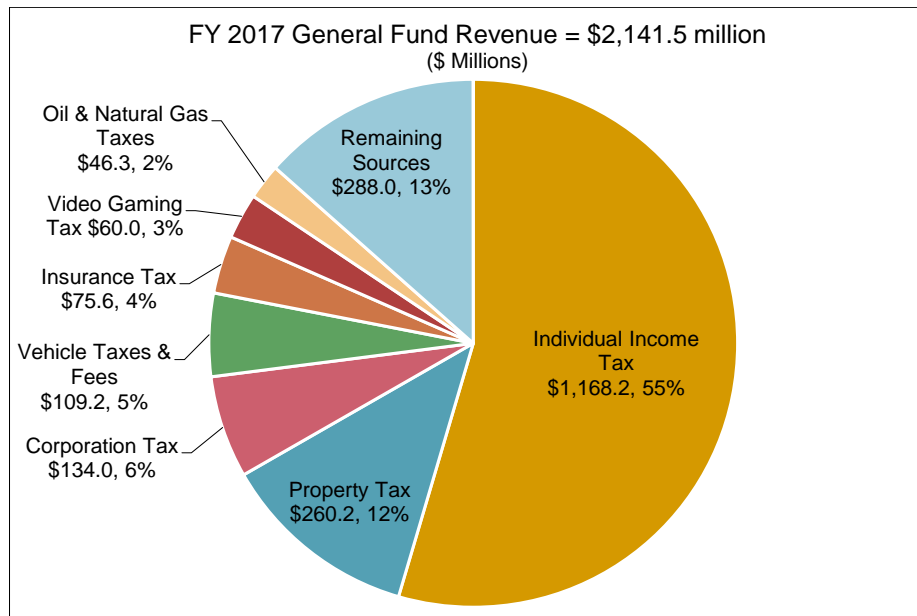
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2018 general fund revenues through the end of March are \$217.3 million or 15.1% 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 \$67.1 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 | March FY 2017 | March FY 2018 | YTD Difference | YTD % Change |
| Largest Seven Sources | | | | | | | |
| Individual Income Tax | \$1,168.225 | \$1,320.808 | 13.1% | \$898.935 | \$995.526 | \$96.591 | 10.7% |
| Property Tax | 260.224 | 277.119 | 6.5% | 145.962 | 160.385 | 14.423 | 9.9% |
| Corporation Tax | 133.992 | 168.763 | 26.0% | 72.152 | 105.118 | 32.966 | 45.7% |
| Vehicle Taxes & Fees | 109.197 | 112.956 | 3.4% | 70.918 | 72.294 | 1.377 | 1.9% |
| Oil & Natural Gas Taxes | 46.334 | 49.939 | 7.8% | 10.932 | 12.075 | 1.144 | 10.5% |
| Insurance Tax | 75.558 | 76.003 | 0.6% | 42.044 | 41.782 | (0.262) | -0.6% |
| Video Gaming Tax | 59.956 | 61.904 | 3.2% | 29.491 | 31.642 | 2.152 | 7.3% |
| Other Business Taxes | | | | | | | |
| Drivers License Fee | 4.308 | 4.341 | 0.8% | 3.079 | 3.292 | 0.214 | 6.9% |
| Investment Licenses | 7.327 | 7.660 | 4.5% | 6.856 | 7.184 | 0.328 | 4.8% |
| Lodging Facilities Sales Tax | 21.780 | 23.399 | 7.4% | 12.856 | 13.704 | 0.848 | 6.6% |
| Public Contractor's Tax | 3.078 | 2.540 | -17.5% | 2.968 | 3.990 | 1.022 | 34.4% |
| Railroad Car Tax | 3.790 | 3.642 | -3.9% | 3.530 | 3.356 | (0.174) | -4.9% |
| Rental Car Sales Tax | 3.402 | 3.357 | -1.3% | 1.947 | 2.156 | 0.209 | 10.8% |
| Retail Telecom Excise Tax | 15.603 | 15.570 | -0.2% | 7.666 | 7.041 | (0.625) | -8.2% |
| Other Natural Resource Taxes | | | | | | | |
| Coal Severance Tax | 13.799 | 13.811 | 0.1% | 8.791 | 7.518 | (1.273) | -14.5% |
| Electrical Energy Tax | 4.314 | 4.439 | 2.9% | 2.332 | 2.155 | (0.177) | -7.6% |
| Metal Mines Tax | 4.839 | 4.274 | -11.7% | 1.555 | 2.094 | 0.539 | 34.7% |
| U.S. Mineral Leasing | 17.322 | 20.497 | 18.3% | 10.678 | 9.473 | (1.205) | -11.3% |
| Wholesale Energy Trans Tax | 3.464 | 3.505 | 1.2% | 1.831 | 1.817 | (0.014) | -0.8% |
| Other Interest Earnings | | | | | | | |
| Coal Trust Interest Earnings | 19.799 | 19.829 | 0.1% | 13.394 | 11.417 | (1.978) | -14.8% |
| TCA Interest Earnings | 5.692 | 7.577 | 33.1% | 3.596 | 5.902 | 2.306 | 64.1% |
| Other Consumption Taxes | | | | | | | |
| Beer Tax | 2.998 | 3.072 | 2.5% | 1.938 | 1.947 | 0.010 | 0.5% |
| Cigarette Tax | 30.558 | 30.652 | 0.3% | 21.702 | 19.725 | (1.977) | -9.1% |
| Liquor Excise Tax | 20.366 | 22.265 | 9.3% | 13.491 | 13.976 | 0.485 | 3.6% |
| 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% | 4.110 | 4.047 | (0.062) | -1.5% |
| Wine Tax | 2.429 | 2.584 | 6.4% | 1.633 | 1.637 | 0.004 | 0.2% |
| Other Sources | | | | | | | |
| All Other Revenue | 49.336 | 113.552 | 130.2% | 22.399 | 91.369 | 68.971 | 307.9% |
| Highway Patrol Fines | 3.927 | 4.152 | 5.7% | 2.473 | 2.412 | (0.061) | -2.5% |
| Nursing Facilities Fee | 4.635 | 4.305 | -7.1% | 2.314 | 2.239 | (0.075) | -3.3% |
| Public Institution Reimbursement | 14.264 | 15.718 | 10.2% | 7.454 | 8.872 | 1.418 | 19.0% |
| Tobacco Settlement | 3.343 | 2.622 | -21.6% | 0.010 | 0.006 | (0.004) | -37.5% |
| Largest Seven Subtotal | | | | | | | |
| | 1,853.485 | 2,067.491 | 11.5% | 1,270.432 | 1,418.823 | 148.391 | 11.7% |
| Remaining Sources Subtotal | | | | | | | |
| | 287.994 | 367.154 | 27.5% | 165.075 | 233.970 | 68.895 | 41.7% |
| Grand Total | | | | | | | |
| | \$2,141.479 | \$2,434.645 | 13.7% | \$1,435.507 | \$1,652.793 | \$217.286 | 15.1% |

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.

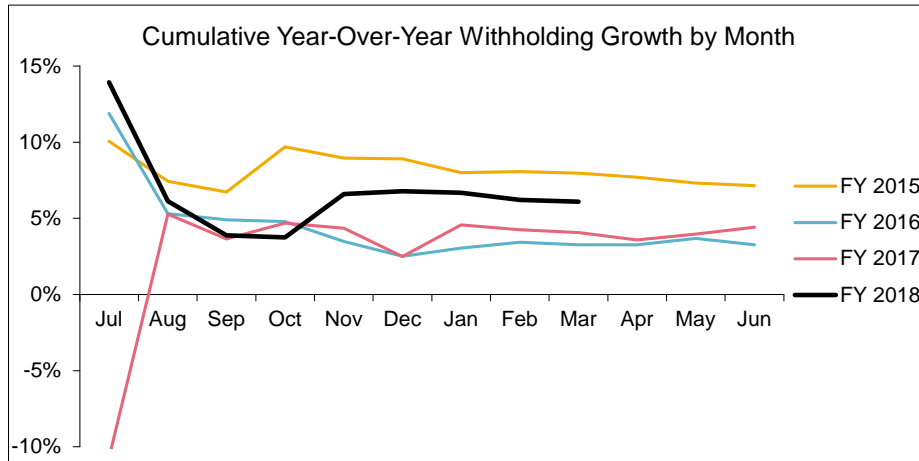


Individual Income Tax: Strong YTD Growth and a Timing Change, but Currently Below HJ 2

Individual income tax collections through the end of March are \$96.6 million or 10.7% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. A portion of the increase—about \$15 million—is attributable to the change in the filing deadline for partnerships as a result of [HB 42 \(2017 Session\)](#). The remaining increase is primarily due to strong withholding growth, and high December and January estimated payments.

| Individual Income Tax (\$ Millions) | | | | |
|--|----------------|----------------|---------------|--------------|
| | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Withholding | \$723.0 | \$681.4 | \$41.6 | 6.1% |
| Estimated Payments | 217.1 | 179.1 | 38.0 | 21.2% |
| Current Year Payments | 39.2 | 39.3 | (0.2) | -0.4% |
| Audit, P&I, Amended | 29.1 | 25.6 | 3.5 | 13.8% |
| Refunds | (198.1) | (184.9) | (13.2) | 7.2% |
| Refund Accrual Reversal | 153.2 | 143.0 | 10.3 | 7.2% |
| Partnership Income Tax | 26.8 | 11.5 | 15.3 | 133.4% |
| Mineral Royalties | 5.4 | 4.0 | 1.3 | 33.4% |
| Total | \$995.5 | \$898.9 | \$96.6 | 10.7% |

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: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$14.4 million or 9.9%, compared to 6.5% in HJ 2. Property tax is still expected to come in around HJ 2. The increase compared to last year may be due to some taxpayers paying the full property tax bill in CY 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of March are 45.7% or \$33.0 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.

| Corporation Income Tax (\$ Millions) | | | | |
|---|----------------|---------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Corporation Tax | \$13.7 | \$16.5 | (\$2.9) | -17.3% |
| Estimated Payments | 77.9 | 64.0 | 13.9 | 21.7% |
| Refunds | (14.1) | (23.2) | 9.1 | -39.3% |
| Refund Accrual Reversal | 3.3 | 3.8 | (0.4) | -11.3% |
| Audit, P&I, Amended | 24.4 | 10.6 | 13.7 | 129.0% |
| Total | \$105.1 | \$71.7 | \$33.4 | 46.7% |

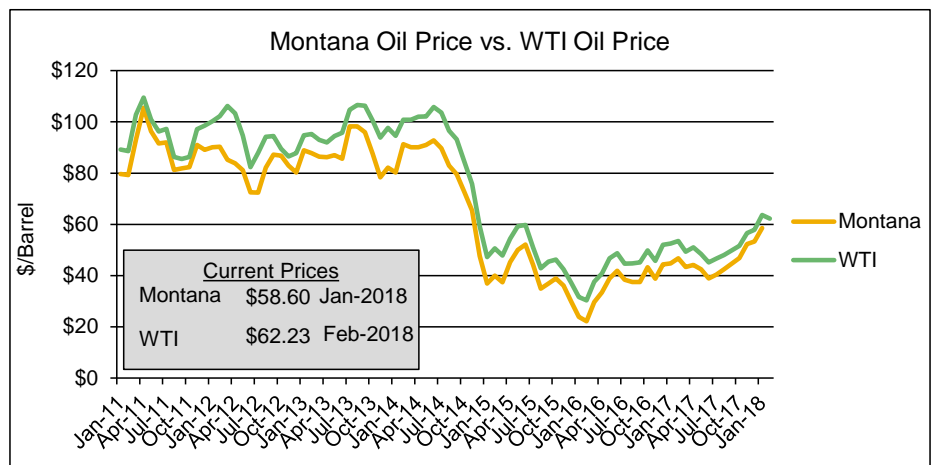
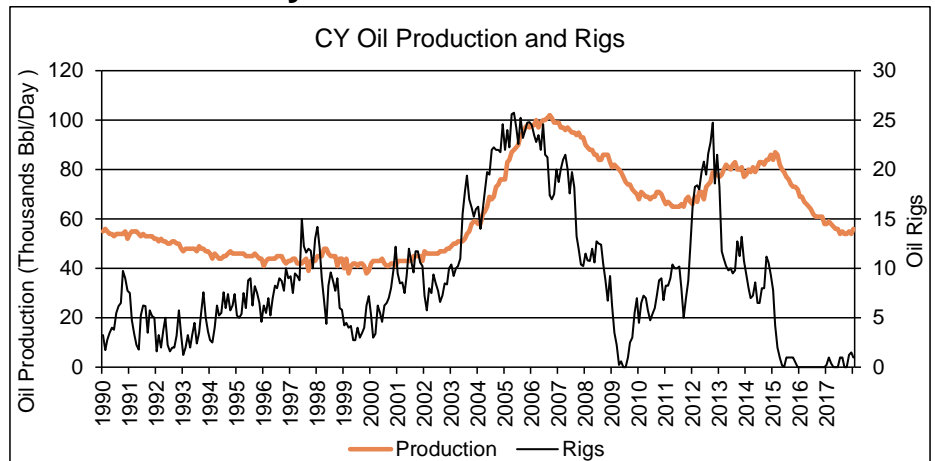
Vehicle Fees & Taxes: Slightly Below HJ 2

Through March, vehicle taxes and fees are 1.9% or \$1.4 million above collections last year at this time. In HJ 2, this source was expected to grow by 3.4%, so collections are coming slightly lower than estimated.

Oil & Natural Gas Production Tax: Currently Above HJ 2

In January, the first oil and natural gas payment was booked to the accounting system. Price increases have offset decreased production, and as a result collections are higher than last year. Specifically, collections are 10.5% or \$1.1 million above last year through March. The year-to-date growth of 10.5% is above the assumed growth of 7.8% in HJ 2.

As the upper chart 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 shown a small increase in recent months. The bottom figure shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Holding Steady

Current insurance tax collections are 0.6% or \$0.3 million below FY 2017 through March, likely due to a timing issue. This source is anticipated to grow by 0.6% in HJ 2.

| Insurance Premiums Tax (\$ Millions) | | | | |
|---|---------------|---------------|----------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Insurance Licenses & Permits | \$0.0 | \$0.0 | (\$0.0) | -13.7% |
| Premium Insurance Tax | 32.9 | 31.6 | 1.3 | 4.0% |
| Fire Marshall Taxes | 7.1 | 7.0 | 0.1 | 2.1% |
| Premium Insurance Tax | 0.0 | 0.0 | (0.0) | -56.5% |
| Surplus Lines Premium Tax | 0.3 | 1.9 | (1.7) | -86.5% |
| Captive Premium Insurance Tax | 1.5 | 1.5 | (0.0) | -1.1% |
| Total | \$41.8 | \$42.0 | (\$0.3) | -0.6% |

Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$2.2 million or 7.3% above collections from last year at this time and above the anticipated growth rate of 3.2%. Last month, year-to-date growth was only 0.7%, so the large month-over-month increase is likely due to a timing issue.

OTHER KEY DIFFERENCES:

Public Contractors' Tax: Above HJ 2

Public contractors' tax is \$1.0 million or 34.4% 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.

Coal Severance Tax: Likely On Track with HJ 2

Coal severance tax revenue is \$1.3 million or 14.5% below year-to-date collections in FY 2017. Last year at this time a large audit had occurred, causing contributions to be unusually high. This source is expected to end up near the estimate contained in HJ 2.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$2.0 million or 14.8% 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 the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$2.3 million or 64.1% 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 HJ 2 Estimate

Cigarette tax revenue is \$2.0 million or 9.1% below year-to-date collections in FY 2017. This may be attributable to changing consumer preferences.

All Other Revenue: Above Last Year Due to Transfers

To date, all other revenue collections are \$69.0 million above last year's collections. Legislatively authorized transfers contained in [SB 261 \(2017 Session\)](#) and [HB 6 \(2017 Special Session\)](#) account for \$67.1 million of the year-over-year difference.

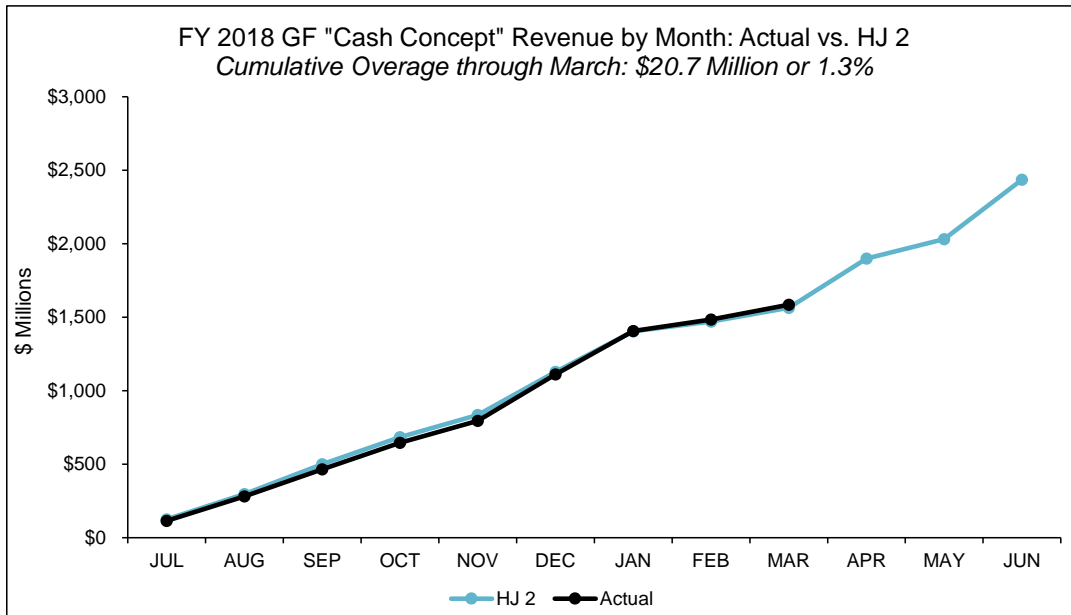
Public Institution Reimbursements: Above Last Year

Public institution reimbursements are currently 19.0% or \$1.4 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.

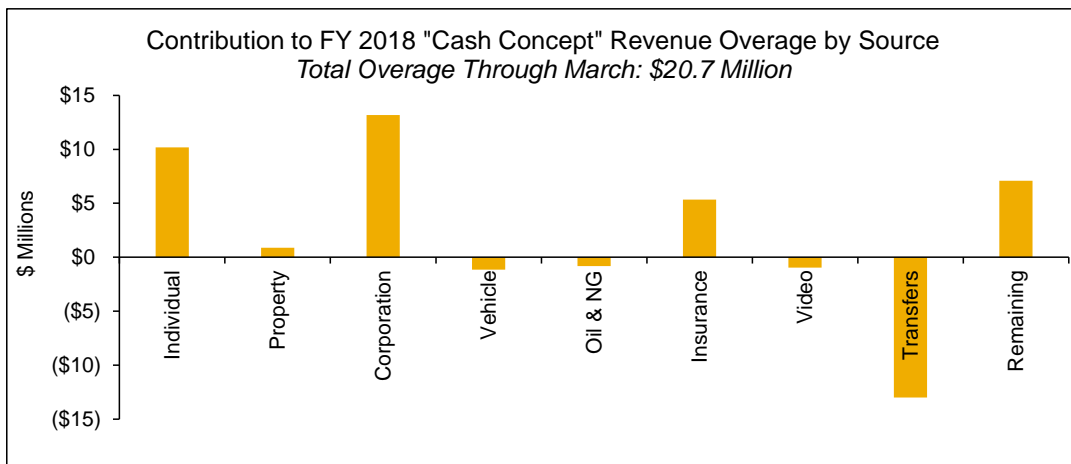
APPENDIX

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 March, the cash concept model suggests general fund revenue is above what would be expected based on the official revenue estimate by \$20.7 million or 1.3%. Since the year-to-date difference is primarily due to the deadline change for individual income partnership filing, the potential year-end revenue overage should be adjusted downward by \$15 million, and shown in the table on page 1 as \$6 million above HJ 2.



Corporation income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, corporation income tax through February is \$13.2 million above the HJ 2 estimate.





MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 2, 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 #5

PURPOSE OF THIS REPORT

This is the fifth 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 April are \$239.3 million or 13.9% 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 \$2,456 million, about \$21 million more 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 \$2 million.

Although year-to-date estimates through April are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made property tax payments earlier in the fiscal year to maximize federal deductibility.

The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

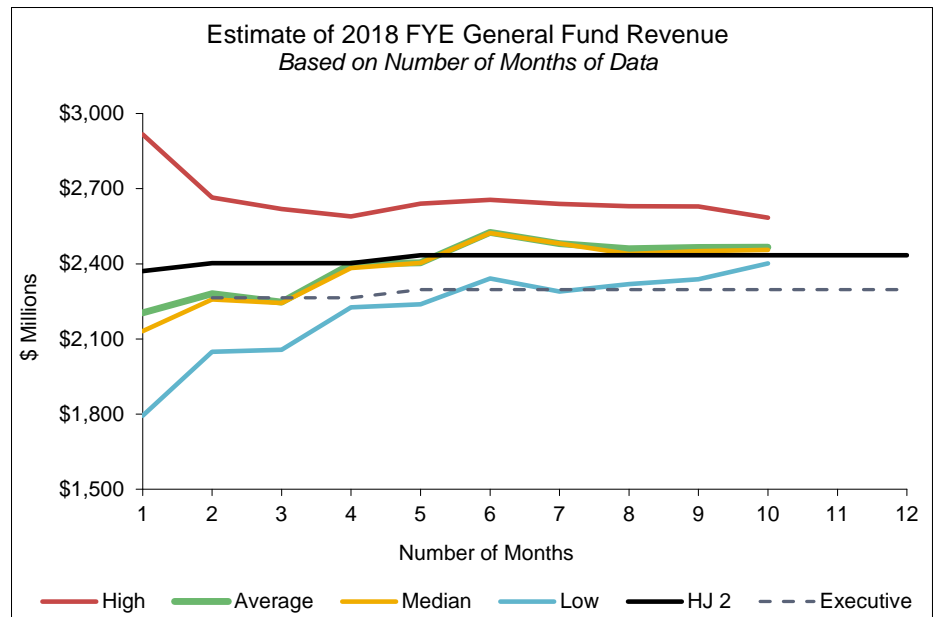
| Range of Revenue Options (\$ Millions) | | | |
|---|---------|---------|--|
| Estimate* | FY 2018 | FY 2019 | Notes |
| HJ 2 | \$2,435 | \$2,495 | Official legislative revenue estimate |
| YTD Median Extrapolation | 2,456 | | Based on total general fund collection patterns since FY 2002 |
| Cash Concept Model | 2,433 | | 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 |

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Back by Popular Demand: 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 April, the difference between the high and low amounts is about \$182 million, with the median value about \$21 million above 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:

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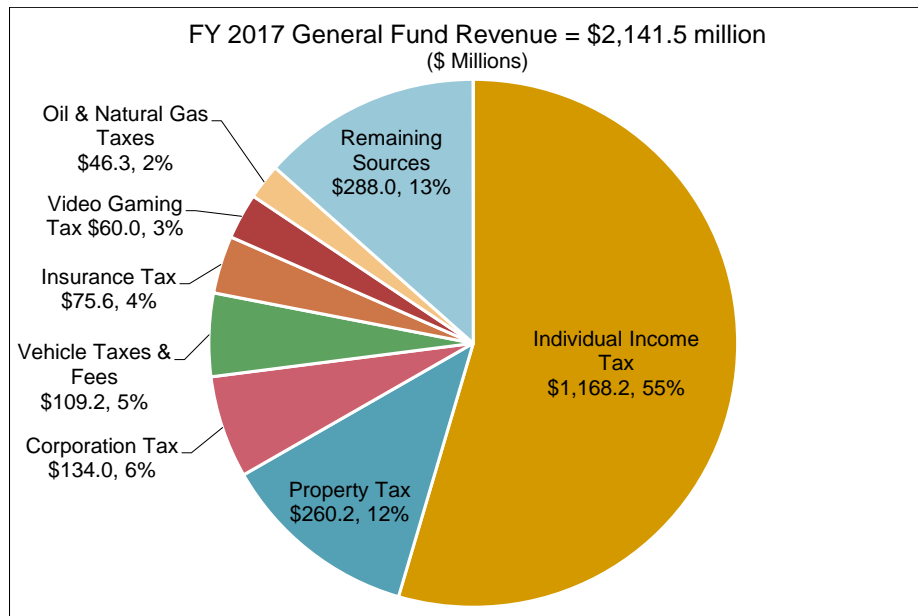
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| Property Tax | 260.224 | 277.119 | 6.5% | 148.557 | 161.932 | 13.375 | 9.0% |
| Corporation Tax | 133.992 | 168.763 | 26.0% | 95.090 | 133.392 | 38.302 | 40.3% |
| Vehicle Taxes & Fees | 109.197 | 112.956 | 3.4% | 80.386 | 80.133 | (0.253) | -0.3% |
| 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% | 59.186 | 54.987 | (4.199) | -7.1% |
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| Drivers License Fee | 4.308 | 4.341 | 0.8% | 3.441 | 3.671 | 0.230 | 6.7% |
| Investment Licenses | 7.327 | 7.660 | 4.5% | 6.981 | 7.297 | 0.315 | 4.5% |
| Lodging Facilities Sales Tax | 21.780 | 23.399 | 7.4% | 14.072 | 14.922 | 0.850 | 6.0% |
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| Railroad Car Tax | 3.790 | 3.642 | -3.9% | 3.530 | 3.329 | (0.201) | -5.7% |
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| Retail Telecom Excise Tax | 15.603 | 15.570 | -0.2% | 8.594 | 8.075 | (0.519) | -6.0% |
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| Wine Tax | 2.429 | 2.584 | 6.4% | 1.820 | 1.826 | 0.006 | 0.3% |
| Other Sources | | | | | | | |
| All Other Revenue | 49.336 | 113.552 | 130.2% | 25.783 | 95.007 | 69.224 | 268.5% |
| Highway Patrol Fines | 3.927 | 4.152 | 5.7% | 2.852 | 2.709 | (0.143) | -5.0% |
| Nursing Facilities Fee | 4.635 | 4.305 | -7.1% | 2.785 | 2.617 | (0.168) | -6.0% |
| Public Institution Reimbursement | 14.264 | 15.718 | 10.2% | 9.394 | 8.875 | (0.519) | -5.5% |
| 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% | 1,537.826 | 1,705.971 | 168.144 | 10.9% |
| Remaining Sources Subtotal | | | | | | | |
| | 287.994 | 367.154 | 27.5% | 187.759 | 258.923 | 71.164 | 37.9% |
| Grand Total | | | | | | | |
| | \$2,141.479 | \$2,434.645 | 13.7% | \$1,725.585 | \$1,964.893 | \$239.308 | 13.9% |

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.

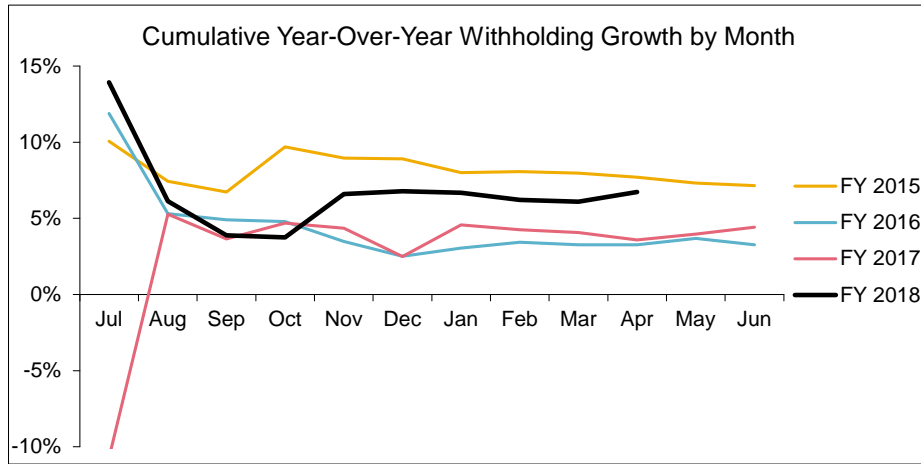


Individual Income Tax: Below Estimate

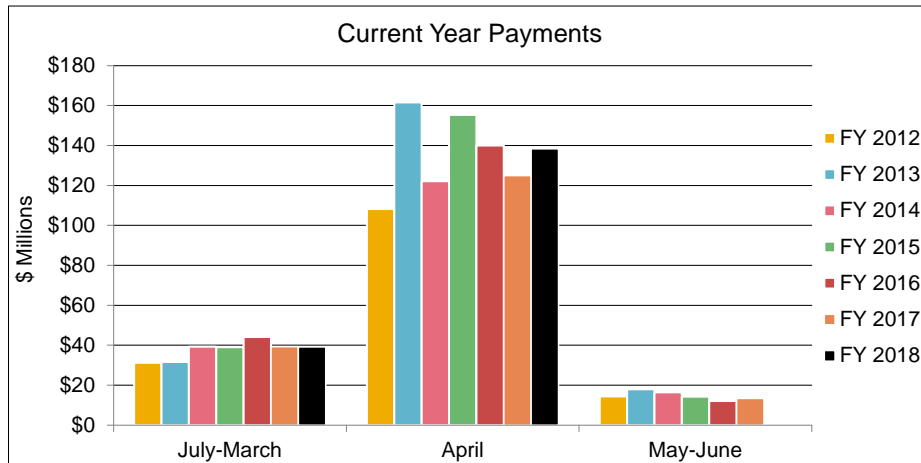
Individual income tax collections through the end of April are \$116.3 million or 10.7% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, high December and January estimated payments, and growth in April current year payments.

| Individual Income Tax (\$ Millions) | | | | |
|--|------------------|------------------|----------------|--------------|
| | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Withholding | \$805.2 | \$754.4 | \$50.8 | 6.7% |
| Estimated Payments | 260.8 | 219.6 | 41.1 | 18.7% |
| Current Year Payments | 177.5 | 164.2 | 13.3 | 8.1% |
| Audit, P&I, Amended | 32.9 | 29.5 | 3.4 | 11.6% |
| Refunds | (266.8) | (253.5) | (13.2) | 5.2% |
| Refund Accrual Reversal | 153.2 | 143.0 | 10.3 | 7.2% |
| Partnership Income Tax | 33.5 | 25.4 | 8.1 | 32.0% |
| Mineral Royalties | 7.4 | 4.9 | 2.4 | 49.6% |
| Total | \$1,203.7 | \$1,087.5 | \$116.3 | 10.7% |

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.



FY 2018 current year payments in April were above FY 2017 by 10.7%. The following chart shows recent years' current year payments, with FY 2018 collections depicted in black.



Property Tax: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$13.4 million or 9.0%, compared to 6.5% in HJ 2. Property tax has consistently been above HJ 2 year-to-date, but has been moving closer every month and is still expected to come in around HJ 2. The increase compared to last year may be due to some taxpayers paying the full property tax bill in CY 2017 to take advantage of current federal tax deduction rules. Under the [Tax Cuts and Jobs Act of 2017](#), the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

Corporation Income Tax: YTD Increase Driven by Higher Payments & Audits

Corporation income tax collections through the end of April are 40.3% or \$38.3 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.

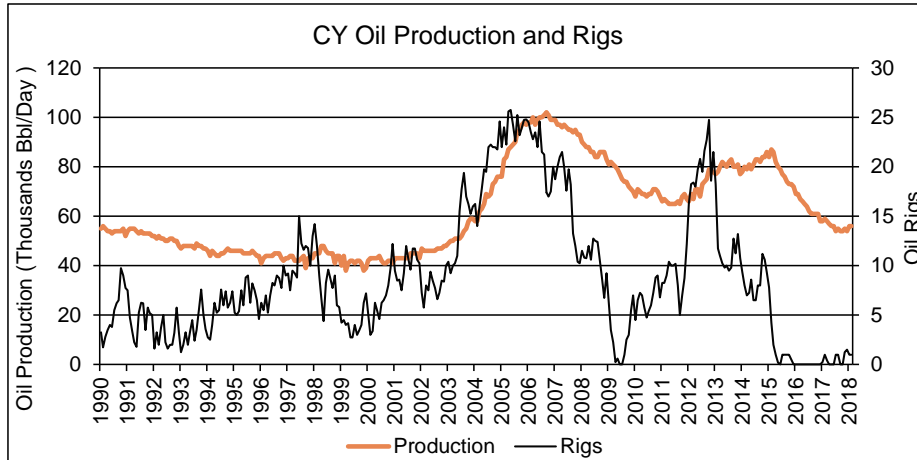
| Corporation Income Tax (\$ Millions) | | | | |
|---|----------------|---------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Corporation Tax | \$26.3 | \$25.6 | \$0.8 | 3.0% |
| Estimated Payments | 95.3 | 79.3 | 16.1 | 20.3% |
| Refunds | (16.5) | (25.3) | 8.8 | -34.9% |
| Refund Accrual Reversal | 3.3 | 3.8 | (0.4) | -11.3% |
| Audit, P&I, Amended | 24.9 | 11.8 | 13.1 | 110.6% |
| Total | \$133.4 | \$95.1 | \$38.3 | 40.3% |

Vehicle Fees & Taxes: Currently Below Estimate

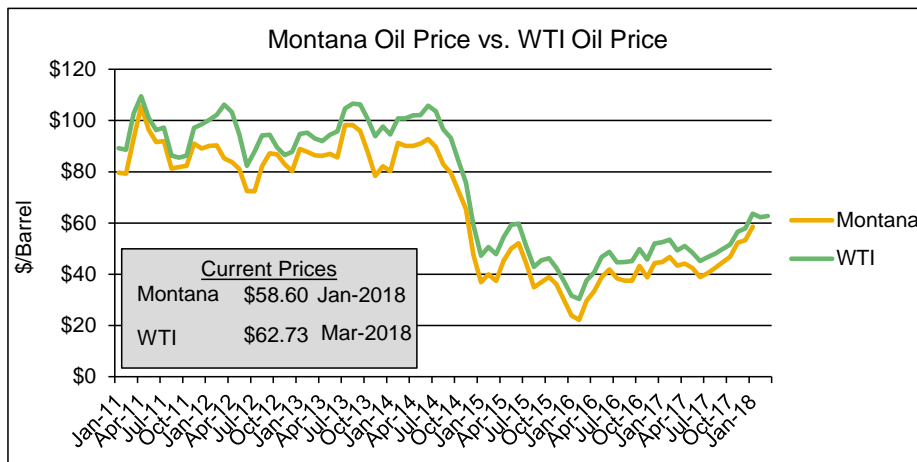
Through April, vehicle taxes and fees are 0.3% or \$0.3 million below collections last year at this time. The timing of payments into the accounting system has been sporadic from month to month; however, this source is expected to end up near HJ 2.

Oil & Natural Gas Production Tax: Above Estimate

Through April, 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, there been a small increase in recent months. The figure below shows Montana's historical oil price compared to West Texas Intermediate (WTI) oil price.



Insurance Tax: Currently Below Estimate Due to Late Posting

Insurance tax collections are 7.1% or \$4.2 million below FY 2017 through April. According to the State Auditor's Office, staff changes have led to delays in coding in recent payments. This source should be back to normal in the coming months.

| Insurance Premiums Tax (\$ Millions) | | | | |
|---|---------------|---------------|----------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Insurance Licenses & Permits | \$0.0 | \$0.0 | (\$0.0) | -28.7% |
| Premium Insurance Tax | 45.4 | 46.3 | (0.9) | -1.9% |
| Fire Marshall Taxes | 7.6 | 8.4 | (0.8) | -9.8% |
| Premium Insurance Tax-Yearly | 0.0 | 0.0 | (0.0) | -55.6% |
| Surplus Lines Premium Tax | 0.4 | 2.8 | (2.4) | -86.1% |
| Captive Premium Insurance Tax | 1.6 | 1.6 | (0.1) | -3.4% |
| Total | \$55.0 | \$59.2 | (\$4.2) | -7.1% |

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:

Public Contractors' Tax: Above Estimate

Public contractors' tax is \$1.5 million or 77.4% 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.

Coal Trust Interest Earnings: Currently Below Estimate

To date, coal trust interest earnings are \$1.9 million or 13.2% 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 the forecast.

TCA Interest Earnings: Above Estimate

Treasury cash account interest earnings are \$2.8 million or 69.5% 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 \$1.7 million or 7.2% below year-to-date collections in FY 2017. The decline may be attributable to changing consumer preferences.

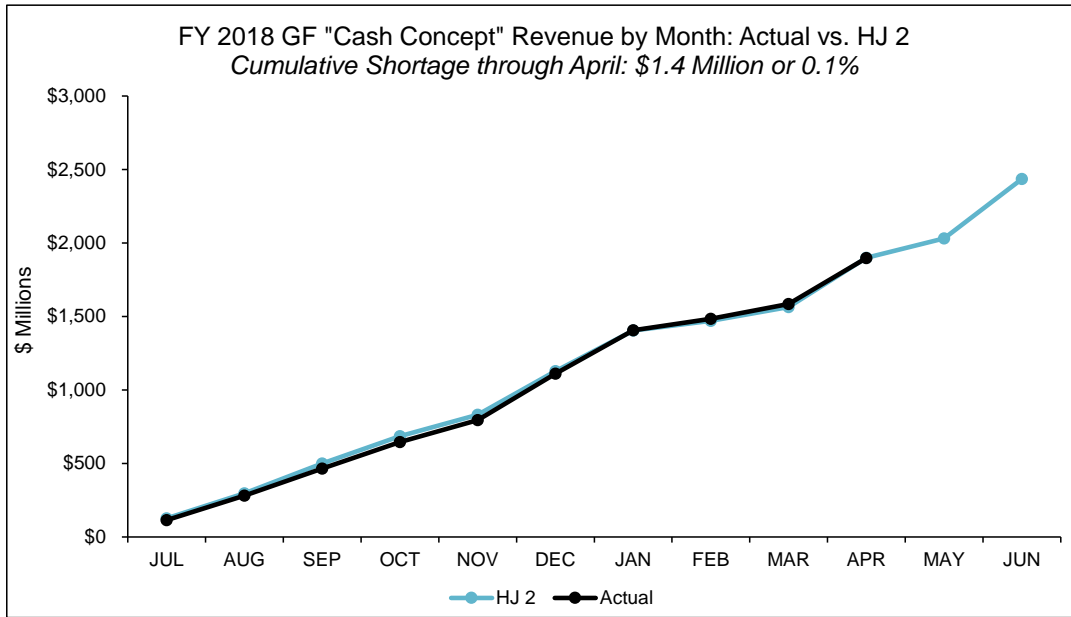
All Other Revenue: Above Last Year Due to Transfers

To date, all other revenue collections are \$69.2 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.

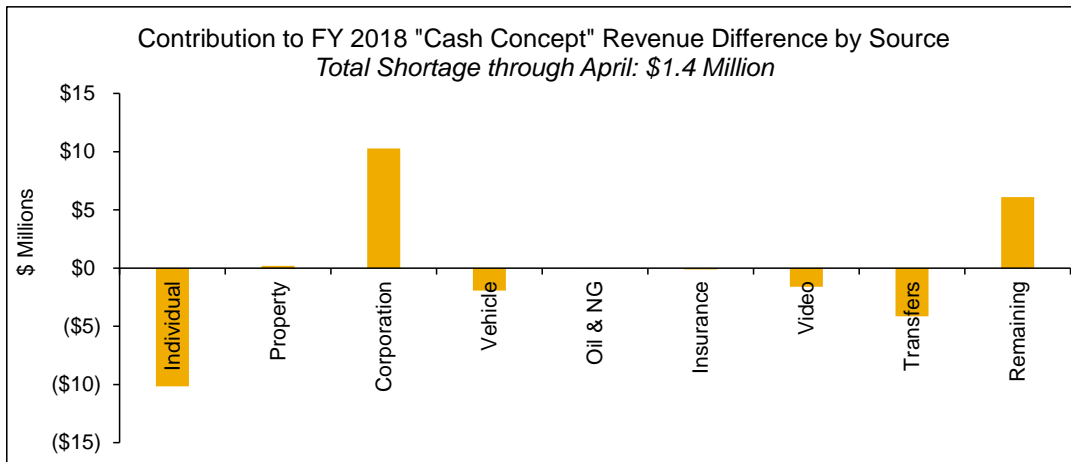
APPENDIX

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 April, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$1.4 million or 0.1%. If revenue continues to be below HJ 2 by 0.1% through FY 2018, final collections could be \$1.8 million lower than expected.



Corporation and individual income taxes had the largest differences with respect to the estimates in HJ 2; based on the cash flow model, corporation income tax through April is \$10.3 million above the HJ 2 estimate and nearly offset by individual income tax which is \$10.1 million below the estimate.





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.

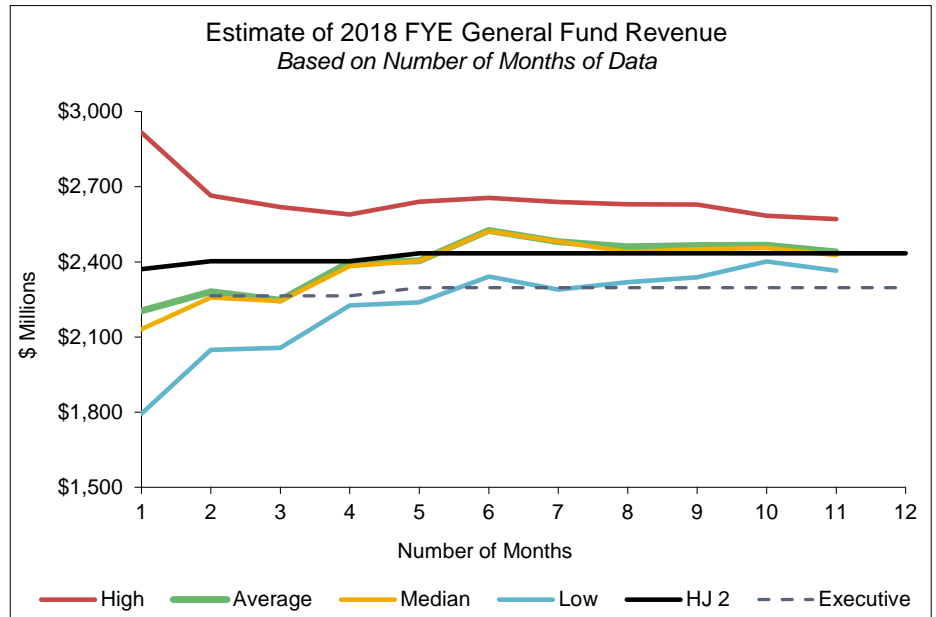
Finally, taxpayer timing changes as a result of [Tax Cuts and Jobs Act of 2017](#) could influence year-to-date extrapolations; however, the impact on corporation and individual income taxes appears minimal after April final payments, and the property tax impact may be partially offset by the federal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

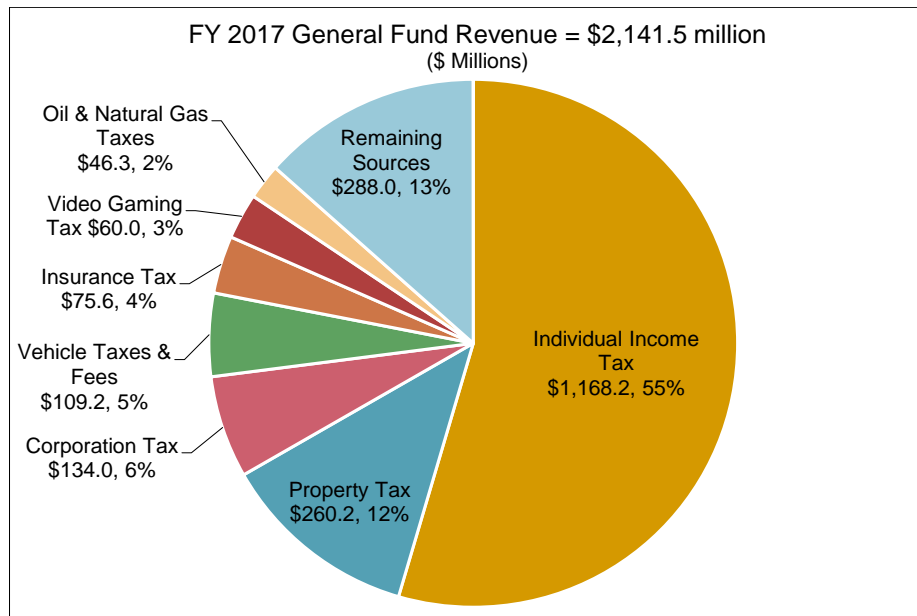
YEAR-TO-DATE GENERAL FUND REVENUE

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.

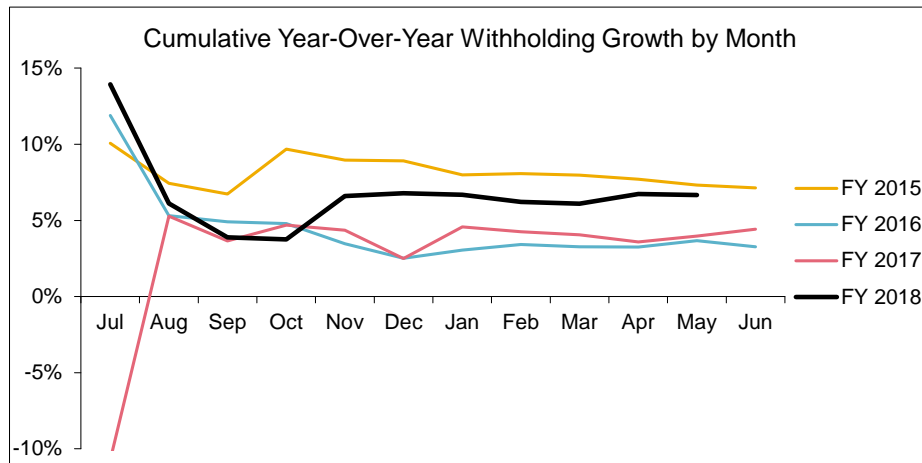


Individual Income Tax: Below Estimate

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%.

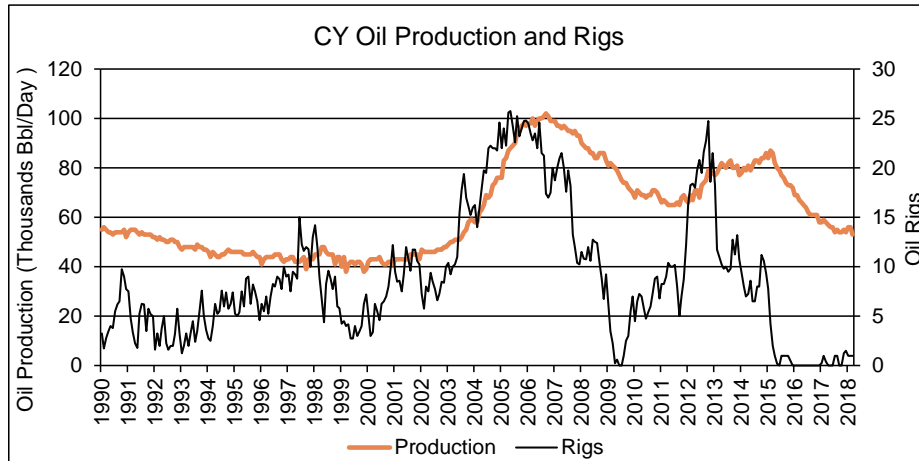
| Corporation Income Tax (\$ Millions) | | | | |
|---|----------------|----------------|---------------|--------------|
| Account | YTD 2018 | YTD 2017 | \$ Difference | % Difference |
| Corporation Tax | \$31.6 | \$30.1 | \$1.5 | 4.8% |
| Estimated Payments | 100.7 | 89.6 | 11.1 | 12.4% |
| Refunds | (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

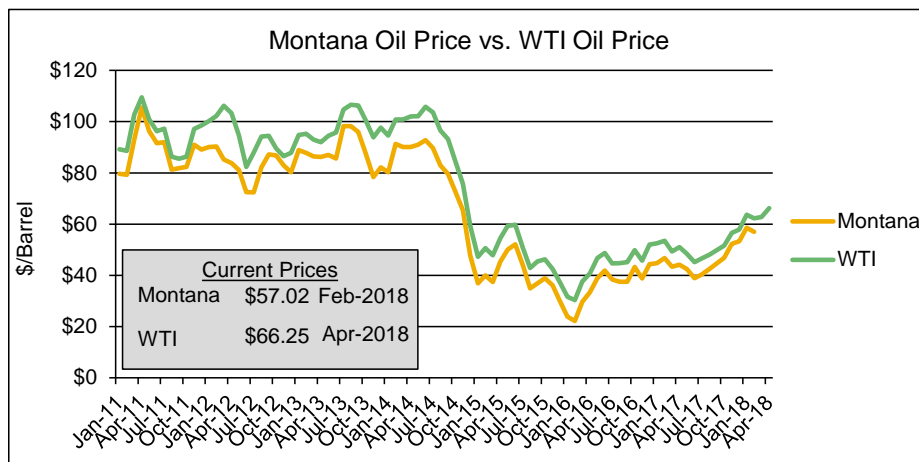
Through May, vehicle taxes and fees are 0.3% or \$0.3 million above collections last year at this time. The timing of payments into the accounting system has been sporadic from month to month; however, this source is expected to end up near HJ 2.

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.

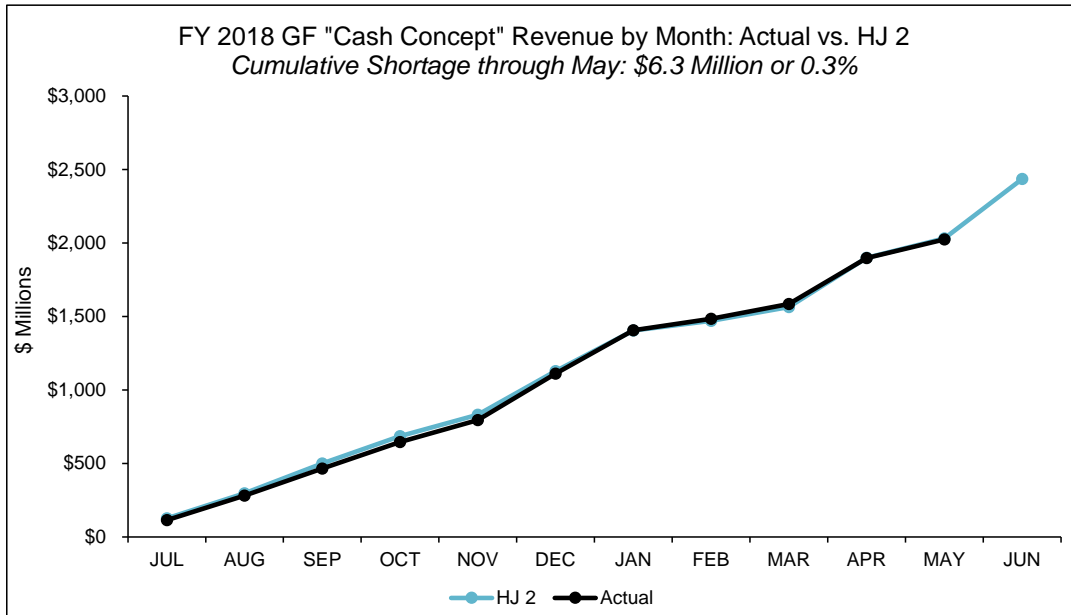
Public Institution Reimbursements: Above Last Year

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.

