



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

**Director**  
AMY CARLSON

DATE: February 10, 2022

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

FROM: LFD Revenue Team

RE: FY 2022 General Fund Revenue Update #3

## GENERAL FUND REVENUE SUMMARY

This monthly revenue update analyzes revenue collections through the end of January and is designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2022 relative to the revenue estimate contained in HJ 2.

FY 2022 general fund revenues through the end of January are \$227.8 million or 13.6% above FY 2021 revenues through the same period. Ongoing revenue growth, which excludes one-time-only revenues is currently 14.3% above the FY 2021 values through the same time period. While revenue growth has been strong thus far, it is likely that it may slow throughout the remainder of the fiscal year because revenues in the second half of FY 2021 were extremely strong.

While growth may slow in the last two quarters of FY 2022, significant revenue growth is still expected to occur in FY 2022. Multiple methods of forecasting final revenues suggest that final collections will end up far above the estimate contained in HJ 2, as seen in the following section.

While FY 2021 was \$402 million above HJ 2 and FY 2022 appears to be well above HJ 2 as well, a material amount of these funds could be temporary as the federal stimulus payments move through the economy. The LFD will publish an updated forecast through FY 2025 in June of 2022. Furthermore, in March, the LFD will publish a study analyzing the impacts on revenues of new residents.

High inflation will also contribute to increased revenue collections, as revenues are collected in nominal dollars. For instance, as increased prices of goods drive wages higher, these higher wages will result in higher income taxes. In addition, certain taxes such as oil severance taxes and lodging taxes are taxed on their values, so as their values increase, revenues will increase as well.

## End of Year Extrapolation

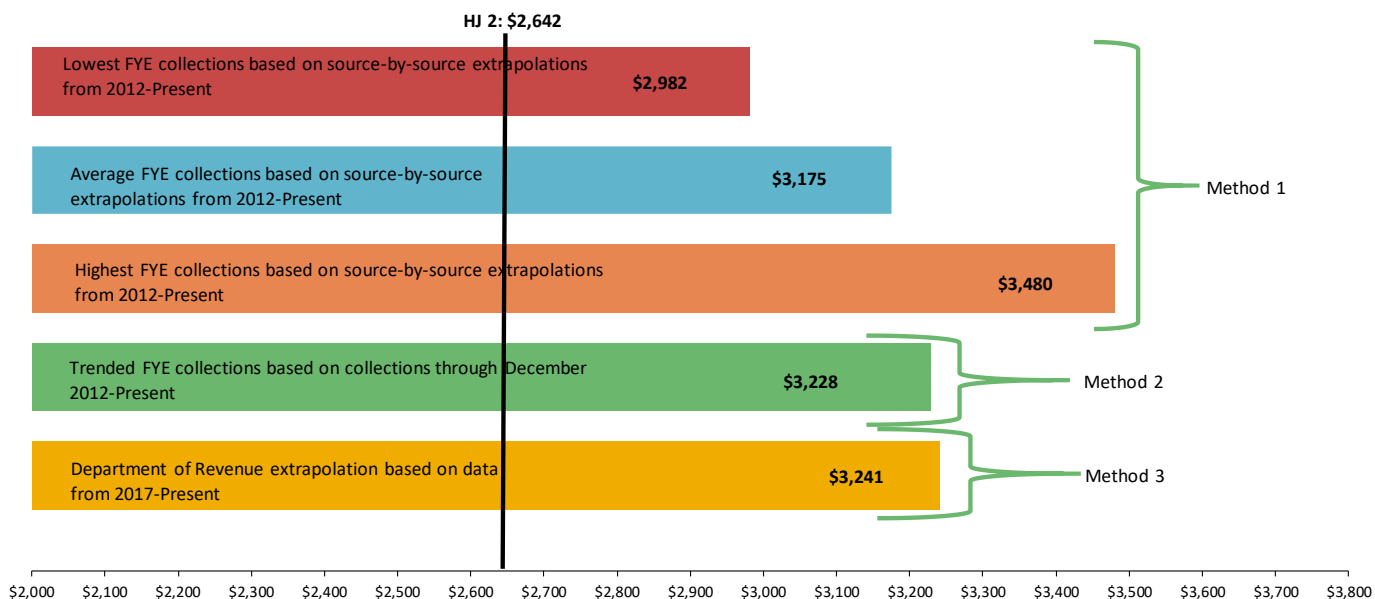
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through January was calculated for the last ten years. Collections through January for each source were then divided by the average collection percentage of the last ten years. Each source's estimate was then added to create a final year-end collection amount. Using this method, fiscal year end revenue is estimated to be \$3,175 million. The lowest and highest growth through January by revenue source was also applied to year-to-date collections to provide an upper (\$3,480 million) and lower (\$2,982 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through January to predict year-end collections using historical trends. Like Method 1, the last ten years of collection patterns were used. This method predicted final collections of \$3,228 million.

Method 3: The Department of Revenue publishes monthly revenue monitoring reports and provides an extrapolation for final collections. The report uses the last five years of collection data. This method produces a year-end estimate of \$3,241 million.

All methods described above produce estimates greater than the HJ 2 estimate of \$2,642 million. The estimates range from \$340 million above HJ 2 to \$838 million above HJ 2. Methods 1 (\$3,175 million), Method 2 (\$3,228), and Method 3 (\$3,241 million) yield similar estimates using differing methodologies. The average of these three methods estimates final collections of \$3,215 million, which is \$573 million above HJ 2, and growth of 8.5% from FY 2021 revenue collections.

FY 2022 Year-End Revenue Extrapolations Based on Data Through January (\$ Millions)



# YEAR-TO-DATE GENERAL FUND REVENUE

## General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2021	HJ 2 FY 2022	HJ 2 Est. % Change	Jan FY 2021	Jan FY 2022	YTD Difference	YTD % Change	YTD % Change
<b>Largest Seven Sources</b>								
Individual Income Tax	\$1,765.418	\$1,539.141	-12.8%	\$1,098.060	\$1,262.164	\$164.104	14.9%	
Property Tax	310.682	331.451	6.7%	175.743	198.531	22.788	13.0%	
Corporate Income Tax	266.506	161.443	-39.4%	122.522	156.069	33.547	27.4%	
Vehicle Taxes & Fees	117.791	110.949	-5.8%	59.116	63.002	3.886	6.6%	
Oil & Natural Gas Taxes	39.540	43.973	11.2%	7.272	14.939	7.667	105.4%	
Insurance Tax	87.297	92.000	5.4%	32.846	34.015	1.169	3.6%	
Video Gaming Tax	74.917	63.336	-15.5%	31.358	39.135	7.776	24.8%	
<b>Other Business Taxes</b>								
Drivers License Fee	4.698	4.446	-5.4%	2.383	3.242	0.858	36.0%	
Investment Licenses	17.020	16.361	-3.9%	15.058	2.465	(12.593)	-83.6%	
Lodging Facilities Sales Tax	25.874	28.337	9.5%	12.474	19.806	7.332	58.8%	
Public Contractor's Tax	3.897	5.083	30.4%	4.138	1.642	(2.496)	-60.3%	
Railroad Car Tax	5.187	4.391	-15.3%	3.712	3.397	(0.315)	-8.5%	
Rental Car Sales Tax	3.916	4.681	19.6%	2.003	3.479	1.476	73.7%	
Retail Telecom Excise Tax	8.814	10.168	15.4%	3.987	3.553	(0.434)	-10.9%	
<b>Other Natural Resource Taxes</b>								
Coal Severance Tax	10.084	8.697	-13.8%	3.395	6.888	3.493	102.9%	
Electrical Energy Tax	3.298	3.759	14.0%	1.370	1.214	(0.156)	-11.4%	
Metal Mines Tax	12.136	8.038	-33.8%	0.000	-	(0.000)	-100.0%	
U.S. Mineral Leasing	12.082	16.196	34.1%	5.434	8.338	2.905	53.5%	
Wholesale Energy Trans Tax	2.981	3.460	16.1%	1.344	1.351	0.007	0.5%	
<b>Other Interest Earnings</b>								
Coal Trust Interest Earnings	15.967	16.813	5.3%	7.645	7.365	(0.280)	-3.7%	
TCA Interest Earnings	3.410	1.002	-70.6%	2.109	1.688	(0.421)	-20.0%	
<b>Other Consumption Taxes</b>								
Marijuana Tax	-	6.286	-	-	-	-	-	
Beer Tax	3.315	3.133	-5.5%	1.703	1.695	(0.008)	-0.5%	
Cigarette Tax	27.887	26.542	-4.8%	16.847	14.517	(2.331)	-13.8%	
Liquor Excise Tax	27.823	26.486	-4.8%	14.593	14.971	0.378	2.6%	
Liquor Profits	13.256	15.800	19.2%	-	-	-	-	
Lottery Profits	12.300	13.180	7.2%	2.647	2.484	(0.163)	-6.2%	
Tobacco Tax	5.611	5.617	0.1%	2.960	2.898	(0.063)	-2.1%	
Wine Tax	2.679	2.634	-1.7%	1.432	1.390	(0.042)	-2.9%	
<b>Other Sources</b>								
All Other Revenue	45.607	46.151	1.2%	21.880	24.136	2.257	10.3%	
Highway Patrol Fines	3.517	3.640	3.5%	1.642	1.711	0.069	4.2%	
Nursing Facilities Fee	3.400	3.896	14.6%	1.434	1.274	(0.161)	-11.2%	
Public Institution Reimbursements	13.739	12.382	-9.9%	6.312	3.736	(2.576)	-40.8%	
Tobacco Settlement	13.196	3.028	-77.1%	9.860	-	(9.860)	-100.0%	
Ongoing Revenue Subtotal	2,954.004	2,642.499	-10.5%	1,663.437	1,901.094	237.657	14.3%	
OTO Revenue & Transfers Subtotal	9.843	-	-	9.843	-	(9.843)	-100.0%	
<b>Grand Total</b>	<b>\$2,963.847</b>	<b>\$2,642.499</b>	<b>-10.8%</b>	<b>\$1,673.279</b>	<b>\$1,901.094</b>	<b>\$227.815</b>	<b>13.6%</b>	

## MAJOR SOURCES

### Individual Income Tax: Above Estimate

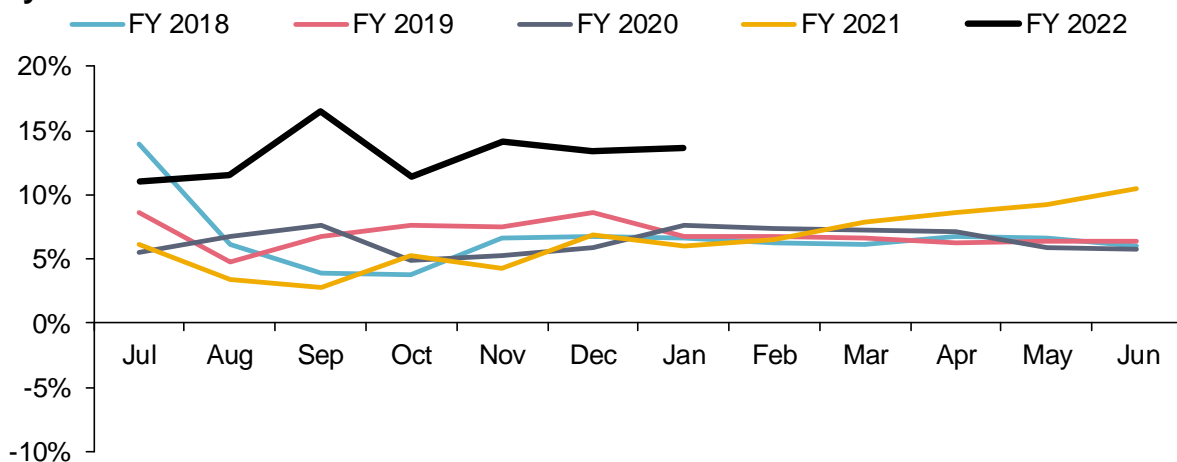
Individual income tax collections through the end of January are \$164.1 million or 14.9% above the year-to-date collections in FY 2021 and is currently above the level anticipated in HJ 2. Withholding growth continues to remain strong at 13.7% and is up slightly from last month's figure of 13.5%.

#### Individual Income Tax (\$ Millions)

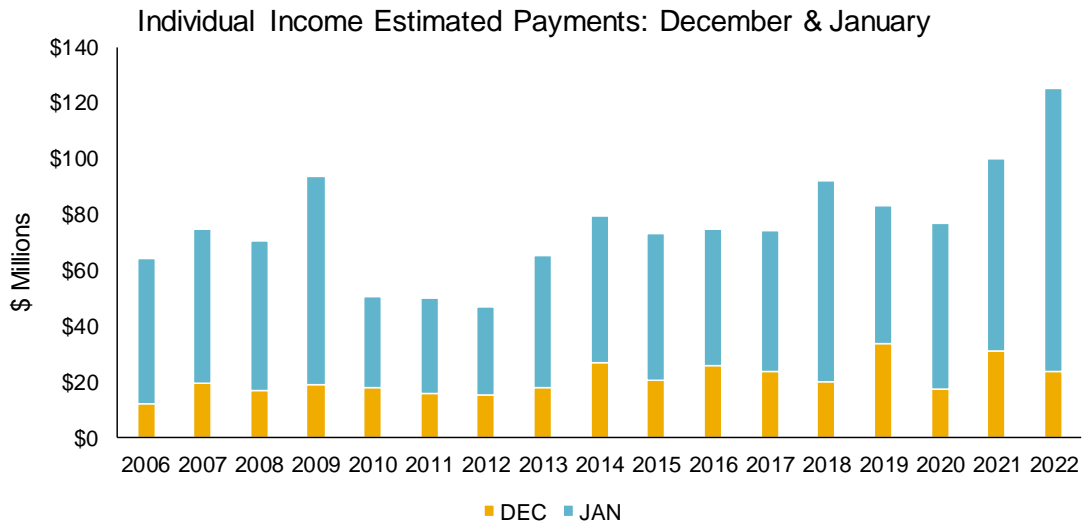
Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Withholding	\$775.7	\$682.5	\$93.2	13.7%
Estimated Payments	294.1	272.8	21.3	7.8%
Current Year Payments	33.8	31.1	2.7	8.7%
Audit, P&I, Amended	31.0	26.7	4.4	16.4%
Refunds	105.5	62.6	42.9	68.5%
Partnership Income Tax	17.8	19.2	(1.4)	-7.1%
Mineral Royalties	4.2	3.2	1.0	30.3%
<b>Total</b>	<b>1,262.2</b>	<b>1,098.1</b>	<b>164.1</b>	<b>14.9%</b>

Withholding typically accounts for two-thirds of individual income tax and about one-third of total general fund revenue, though it has been an even larger share in recent years. In FY 2021, withholding revenue accounted for 42% of total general fund revenues. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February. However, in FY 2021, withholding growth did not stabilize in the second half of the fiscal year, but instead grew considerably. Due to withholding's strong growth in the second half of FY 2021, it is likely that growth this year may slow, but still be positive.

#### Cumulative year-over-year withholding growth is strong this early in the year

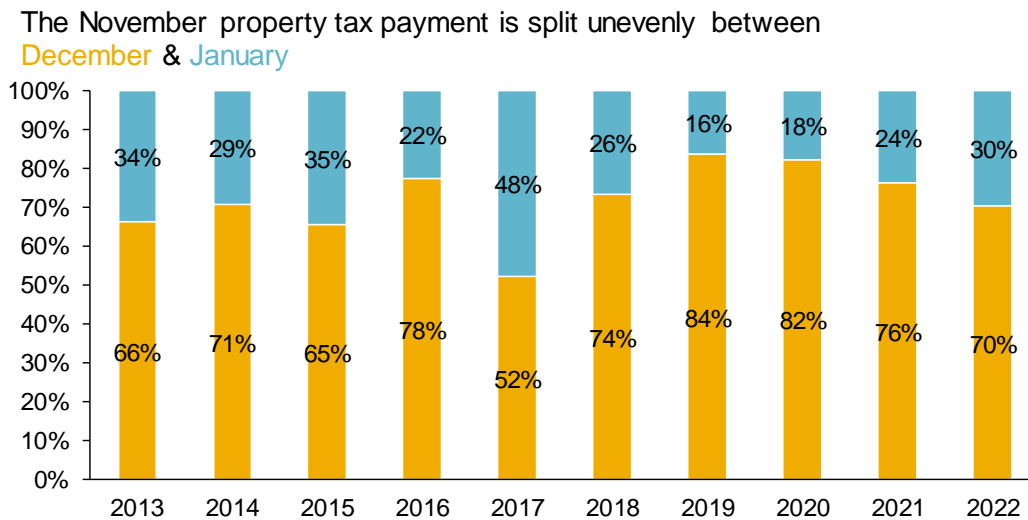


The timing of estimated payments can fluctuate between December and January, and January payments were extremely strong in FY 2022. Year-to-date growth is 7.8%, but after accounting for the additional estimated payment in FY 2021 that was a result of an extension of when taxes were due, a more accurate comparison of estimated payment growth is 32%.



### Property Tax: Above Estimate

Property tax collections have grown 13.0% or \$22.8 million compared to collections through the same period last year. In HJ 2 this source was expected to grow by 6.7%. There is a timing issue that occurs from the November payment being booked partially in December and partially in January. This uneven split of the November payment being booked in either December or January in past years is shown in the following chart. Based upon mills and taxable values it is anticipated that final collections for FY 2022 will be closer to 8.7% above FY 2021 levels after May payments are booked. The LFD will continue to monitor and evaluate this revenue source to better understand if growth in new properties, non-levy revenue, or other factors may be influencing these values.



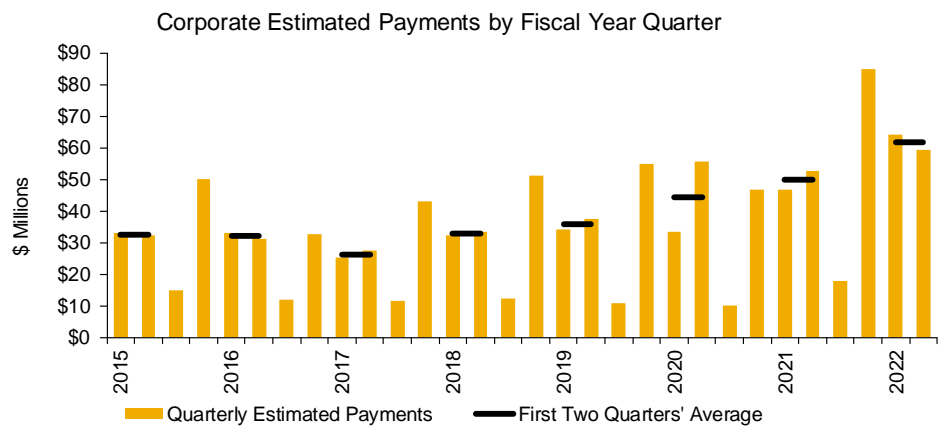
## Corporate Income Tax: Above Estimate

Corporate income tax collections through the end of December are 27.4% or \$33.5 million above this time in FY 2021. This is far above the HJ 2 estimate. Like individual income tax, this source experienced very strong growth in the second half of FY 2021, and as a result growth may slow throughout the remainder of the fiscal year, but collections will likely be far above the HJ 2 estimate.

Corporate Income Tax  
(\$ Millions)

Account	YTD 2022	YTD 2021	\$ Difference	% Difference
Corporation Tax	\$19.4	\$20.2	(\$0.8)	-3.8%
Estimated Payments	\$129.2	\$103.7	25.4	24.5%
Refunds	(4.3)	(6.4)	2.1	-33.0%
Audit, P&I, Amended	11.8	5.0	6.7	133.7%
<b>Total</b>	<b>\$156.1</b>	<b>\$122.5</b>	<b>\$33.5</b>	<b>27.4%</b>

The adjacent chart shows that estimated payments in the first two quarters of FY 2022 are the highest they have ever been. Estimated payments typically make up 80% of total corporate income tax collections, so they're the ultimate driver of where final collections end up.

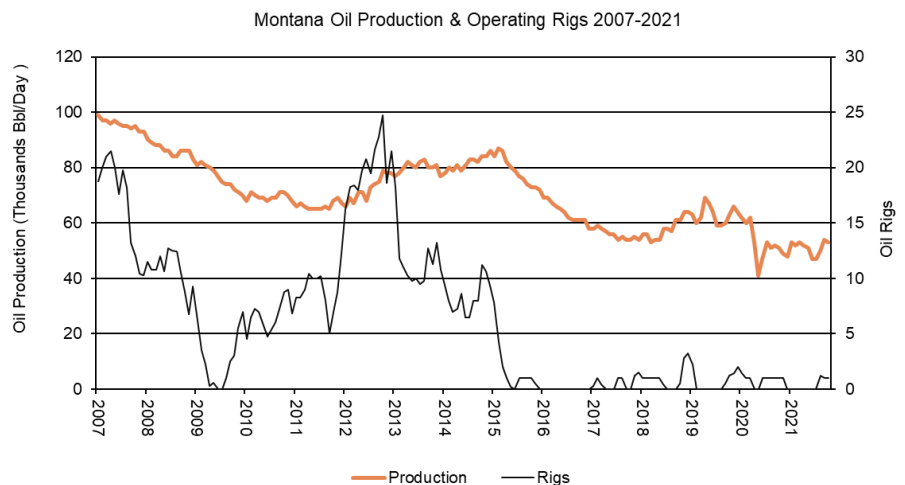


## Vehicle Fees & Taxes: Above Estimate

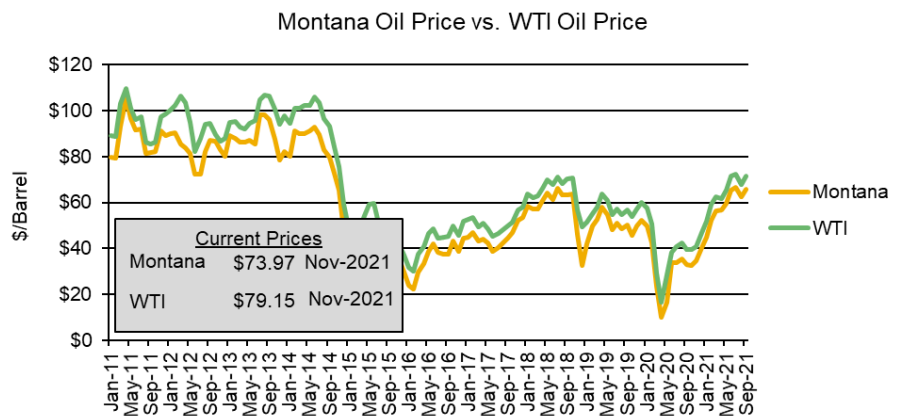
As of December, vehicle taxes & fees are up 6.6% or \$3.9 million from FY 2021 collections. HJ 2 expected this source to decrease by 5.8%. Most of this growth is in light vehicle permanent registrations, recreation and small trailer registrations, and large vehicle registrations.

## Oil & Natural Gas Production Tax: Above Estimate

Oil and natural gas collections have now been recorded as of January. So far \$14.9 million has been received. This is a 105% increase since this time last year. The main driver of this change is a large increase in oil prices with Montana oil seeing about a \$40 increase per barrel. If strong prices continue, it is expected that collections will end up higher than what was anticipated in HJ 2.



As the chart to the upper-right indicates, there was a significant decline in production in early 2020 which was the result of a sharp decline in prices due to the economic impacts of the Covid-19 pandemic (shown in the lower-right portion of the chart). Prices and production bounced back through the latter half of CY 2020. This trend has mostly continued, and while production has not yet returned to pre-2020 levels, it has remained fairly stable.



### Insurance Tax: Below Estimate

Current insurance tax collections are 3.6% or \$1.2 million above FY 2021 through January. This is below the 5.4% growth anticipated in HJ 2. Several of the accounts that comprise this source such as the fire marshal tax and the surplus lines premium tax do not receive material amounts of revenue until later in the fiscal year. Between now and March most of the annual revenue to these accounts will be realized and a clearer picture will emerge.

### Video Gaming Tax: Above Estimate

Revenue from video gambling is currently \$7.8 million or 24.8% above collections from this time last year. This source experienced growth far beyond the HJ 2 estimate in the last fiscal year and appears poised to continue.

### OTHER KEY DIFFERENCES:

#### Investment Licenses: Below Estimate

Through January, investment license collections are down 83.6% from this time last year. However, looking over the last five years, these licenses are collected in a lump sum that sometimes occurs in January or February. For example, in FY 2020 only about \$1.5 million had been reported through January, compared to \$2.5 million this year.

#### Coal Severance Tax: Above Estimate

Year-to-date coal severance tax collections are currently \$3.5 million, or 102.9% above collections from last year. This large year-over-year increase is a result of both timing of payments and increased price and production. Production in the current fiscal year is 15% higher than last year through the same period. Furthermore, small discrepancies in when taxes are paid and when revenues are posted to the accounting system can cause large swings throughout the fiscal year.

#### U.S. Mineral Leasing: Above Estimate

U.S. mineral leasing collections through January are about \$2.9 million, or 53.5% above last year. This source is driven primarily by coal and oil value/production on federal lands within the state of Montana. Increased prices for both coal and oil compared to last year has contributed to the increased collections this year.

#### Rental Car Sales Tax: Above Estimate

Rental car sales tax collections are \$1.5 million, or 73.7% larger than last year. This is likely driven by both increased tourism in the state as well as increased rental car rates. If this trend continues, this source will end above the estimate contained in HJ 2.

### **Lodging Facilities Sales Tax: Above Estimate**

Lodging facilities sales tax collections are \$19.8 million or 58.8% above collections at this point last year. Currently, collections are 69% of the HJ 2 anticipated \$28.3 million for the year. At this time last year only 48% of the final year collections had been received. If this pattern holds, then the source will end above the estimate. Like rental cars, this increase is primarily driven by increased lodging rates.

### **Cigarette Tax: Below Estimate**

Year-to-date cigarette tax collections came in \$2.3 million or 13.8% lower than this time last year. This is an improvement over last month when YTD collections were \$3.0 million and 19.6% below previous year collections. However, collections are still lower than the estimate contained in HJ 2. Tobacco usage increased early in the pandemic and has since declined.