

DATE: May 6, 2014

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 2014 General Fund Revenue Update #5

## **PURPOSE OF REPORT**

This is the fifth of six monthly revenue updates throughout second half of FY 2014 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2014 relative to the official estimate contained in SJ 2.

## **SUMMARY**

General fund revenue collections are below FY 2013 amounts through the end of April, and are below the overall growth estimate contained in SJ 2. Total individual and corporation income tax collections in FY 2013 included one-time activity that is not expected to continue in FY 2014. As a result, collections from these two sources—as well as total general fund collections—are estimated in SJ 2 to decrease from the FY 2013 level.

# YEAR-TO-DATE GENERAL FUND REVENUE

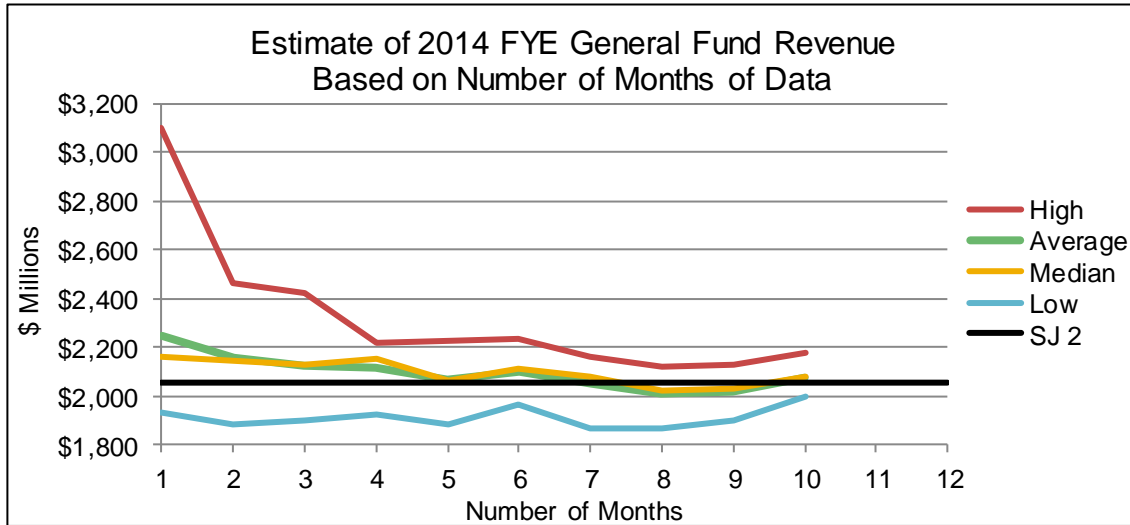
FY 2014 general fund revenues through the end of April are \$27.4 million or 1.7% below of FY 2013 revenues through the same period; this decrease is more than the anticipated decline of 1.0%. All major revenue sources and any other sources with significant differences will be discussed in further detail in the remainder of this report.

General Fund Revenue Monitoring Report							
(\$ Millions)							
Revenue Source	Actual FY 2013	SJ2 Est.* FY 2014	SJ2 Estimate % Change	4/30/2013 FY 2013	4/30/2014 FY 2014	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,047.790	\$1,039.082	-0.8%	\$968.044	\$976.012	\$7.968	0.8%
Property Tax	244.607	245.287	0.3%	142.523	143.676	1.154	0.8%
Corporation Tax	177.497	154.096	-13.2%	141.404	105.759	(35.645)	-25.2%
Vehicle Taxes & Fees	99.352	102.659	3.3%	73.071	73.748	0.677	0.9%
Oil Severance Tax	98.683	99.336	0.7%	47.444	53.026	5.582	11.8%
Insurance Tax	61.678	52.021	-15.7%	43.823	42.420	(1.404)	-3.2%
Video Gaming Tax	57.261	59.929	4.7%	42.756	42.313	(0.443)	-1.0%
<b>Other Business Taxes</b>							
Drivers License Fee	4.527	4.435	-2.0%	3.641	3.251	(0.389)	-10.7%
Investment Licenses	6.951	7.457	7.3%	6.539	6.835	0.297	4.5%
Lodging Facilities Sales Tax	16.720	18.365	9.8%	10.952	11.336	0.384	3.5%
Public Contractor's Tax	(0.138)	3.259	-2468.7%	(0.881)	(0.858)	0.023	-2.6%
Railroad Car Tax	2.179	2.320	6.5%	1.729	1.692	(0.037)	-2.1%
Rental Car Sales Tax	3.523	3.632	3.1%	2.527	2.471	(0.056)	-2.2%
Retail Telecom Excise Tax	20.652	23.236	12.5%	11.376	10.901	(0.475)	-4.2%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	13.265	14.857	12.0%	10.382	9.426	(0.955)	-9.2%
Electrical Energy Tax	5.067	4.521	-10.8%	3.665	2.373	(1.292)	-35.2%
Metal Mines Tax	10.049	10.595	5.4%	5.129	3.911	(1.218)	-23.8%
U.S. Mineral Royalties	29.205	30.953	6.0%	18.242	17.308	(0.934)	-5.1%
Wholesale Energy Trans Tax	3.558	4.140	16.4%	2.820	2.053	(0.767)	-27.2%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	24.153	24.354	0.8%	16.737	14.876	(1.860)	-11.1%
TCA Interest Earnings	2.465	2.346	-4.8%	1.936	1.350	(0.586)	-30.3%
<b>Other Consumption Taxes</b>							
Beer Tax	3.033	3.067	1.1%	2.233	2.217	(0.016)	-0.7%
Cigarette Tax	31.011	30.433	-1.9%	24.837	23.869	(0.968)	-3.9%
Liquor Excise Tax	17.724	19.284	8.8%	13.315	13.683	0.367	2.8%
Liquor Profits	10.500	11.080	5.5%	-	-	-	-
Lottery Profits	13.084	14.342	9.6%	7.142	7.062	(0.079)	-1.1%
Tobacco Tax	5.853	6.005	2.6%	4.163	4.426	0.264	6.3%
Wine Tax	2.195	2.218	1.0%	1.643	1.683	0.040	2.4%
<b>Other Sources</b>							
All Other Revenue	36.578	32.548	-11.0%	22.106	26.664	4.558	20.6%
Highway Patrol Fines	4.140	4.467	7.9%	3.037	3.027	(0.009)	-0.3%
Nursing Facilities Fee	4.928	4.740	-3.8%	3.455	3.225	(0.230)	-6.7%
Public Institution Reimbursemer	16.212	17.802	9.8%	11.050	9.389	(1.661)	-15.0%
Tobacco Settlement	3.321	3.519	6.0%	3.321	3.646	0.324	9.8%
Largest Seven Subtotal	\$1,786.868	\$1,752.411	-1.9%	\$1,459.064	\$1,436.954	(\$22.111)	-1.5%
Remaining Sources Subtotal	290.754	303.974	4.5%	191.095	185.818	(5.277)	-2.8%
<b>Grand Total</b>	<b>\$2,077.622</b>	<b>\$2,056.385</b>	<b>-1.0%</b>	<b>\$1,650.160</b>	<b>\$1,622.772</b>	<b>(\$27.388)</b>	<b>-1.7%</b>

\* SJ 2, Adjusted for Legislative Impacts

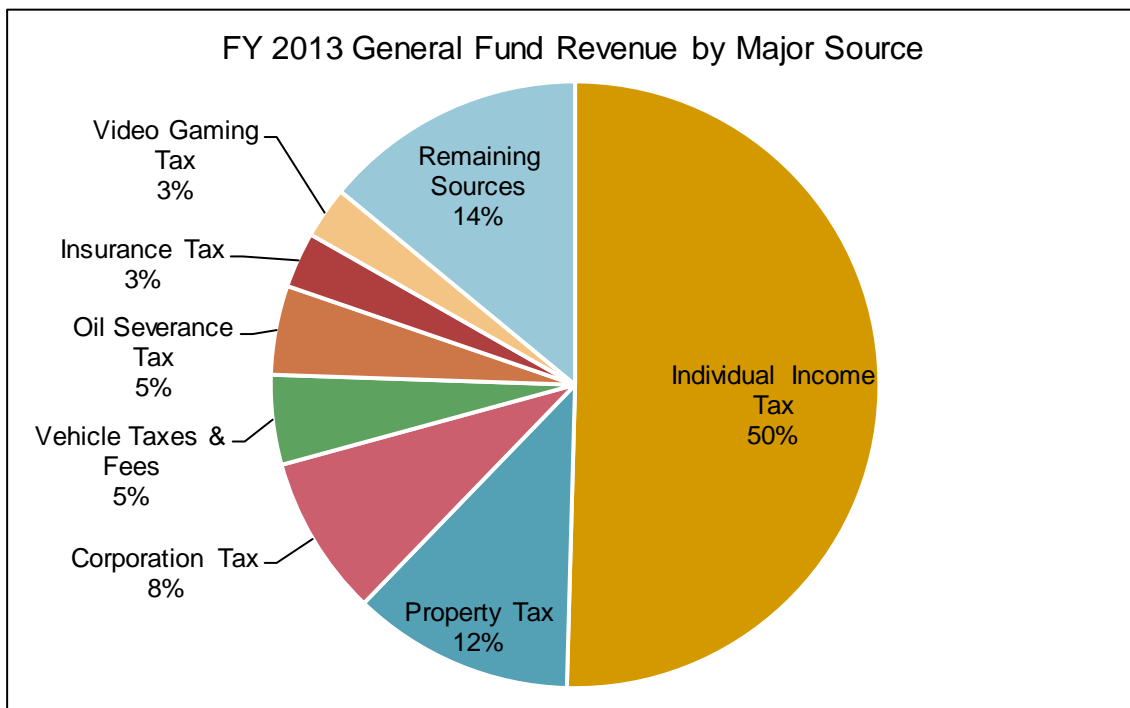
## Year-to-Date Relative to Historical Collection Patterns

As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2014 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Note that the difference between the high and low is less than \$200 million, with the average and median values just above the SJ 2 estimate.



## MAJOR SOURCES

In FY 2013, the largest seven revenue sources accounted for 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



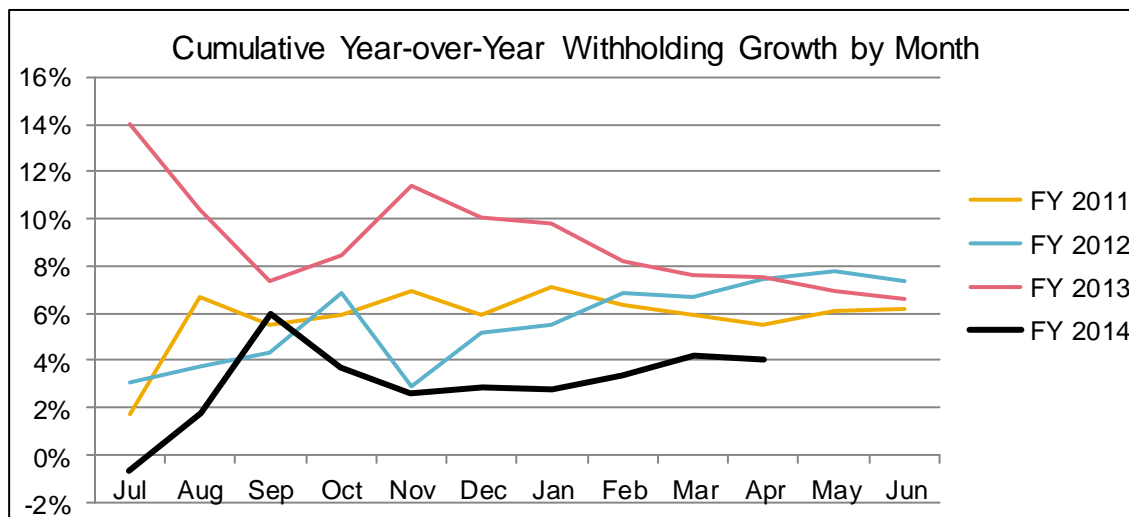
## Individual Income Tax: Close to Estimate

Individual income tax collections are \$8.0 million or 0.8% above last year, and above the anticipated decline of 0.8% contained in the official estimate. Cumulative withholding tax growth—highlighted in the past couple of reports because of unusually slow growth—appears to be holding steady around 4%.

Year-to-Date Individual Income Tax				
(\$ Millions)				
	FY 2014	FY 2013	Difference	% Difference
Withholding	\$654.8	\$629.6	\$25.2	4.0%
Estimated Payments	198.3	191.4	6.9	3.6%
Current Year Payments	161.4	193.2	(31.8)	-16.5%
Audit, P&I, Amended	28.1	22.7	5.4	24.0%
Refunds	(225.6)	(217.0)	(8.6)	4.0%
Refund Accrual Reversal	129.1	124.8	4.3	3.4%
Partnership Income Tax	15.8	12.3	3.5	28.1%
Mineral Royalties	14.1	11.0	3.1	28.0%
<b>Total</b>	<b>\$976.0</b>	<b>\$968.0</b>	<b>\$8.0</b>	<b>0.8%</b>

The decline in current year payments has been anticipated; the high level of current year payments through April 2013 likely reflect the increased capital gains realizations due to the uncertainty in federal tax policy at the end of CY 2012, and that level of realizations was not expected to be sustained.

The graph below illustrates the slow growth of withholding tax in FY 2014 when compared to the other post-recession years. The volatility of the first months of the fiscal year is expected; however, by February, the year-over-year growth seems to stabilize. This year, collections continued the upward trend from January through April. Although collections through the end of the fiscal year may still not attain the 6-8% growth of the last three years, the outlook for final collections has improved from January. On average, individual income withholding tax accounts for about a third of all general fund revenue.



## Property Tax: Slightly Higher than Estimated

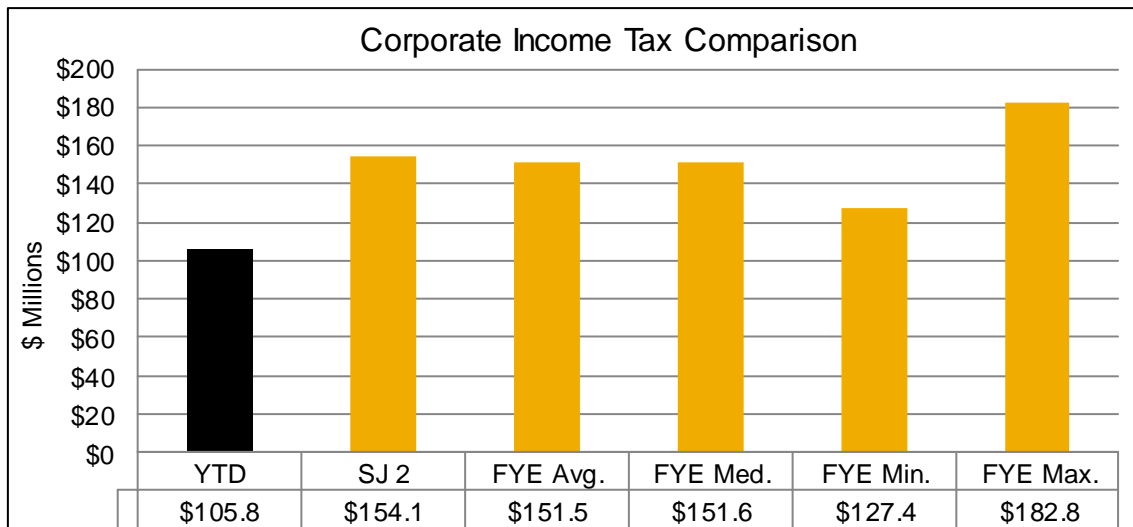
With the first of two property tax payments in, property tax collections are above FY 2013 year-to-date by \$1.2 million or 0.8%. The timing and payment issues have mostly been sorted out and total collections are on track to likely be slightly higher than the SJ 2 estimate.

## Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of April are \$35.6 million or 25.2% below last year. All accounts are contributing to the reduction, as shown in the following table:

Year-to-Date Corporation Income Tax				
(\$ Millions)				
Account	FY 2014	FY 2013	Difference	% Difference
Corporation Tax	\$22.3	\$37.8	(\$15.5)	-41.0%
Estimated Payments	88.0	92.4	(4.4)	-4.7%
Refunds	(16.9)	(16.1)	(0.8)	5.1%
Refund Accrual Reversal	5.6	12.8	(7.2)	-56.0%
Audit, P&I, Amended	6.7	14.5	(7.8)	-53.9%
<b>Total</b>	<b>\$105.8</b>	<b>\$141.4</b>	<b>(\$35.6)</b>	<b>-25.2%</b>

Total collections are likely to end up below the FY 2013 level; however, they could end up close to the SJ 2 estimate, based on historical collection patterns. The chart below shows year-to-date collections, the estimate contained in SJ 2, and four potential FY 2014 totals, based on year-to-date collection patterns since FY 2000. Notice that both the average and median collection patterns suggest that total collections for this year may end up slightly lower—but close to—the estimate contained in SJ 2.

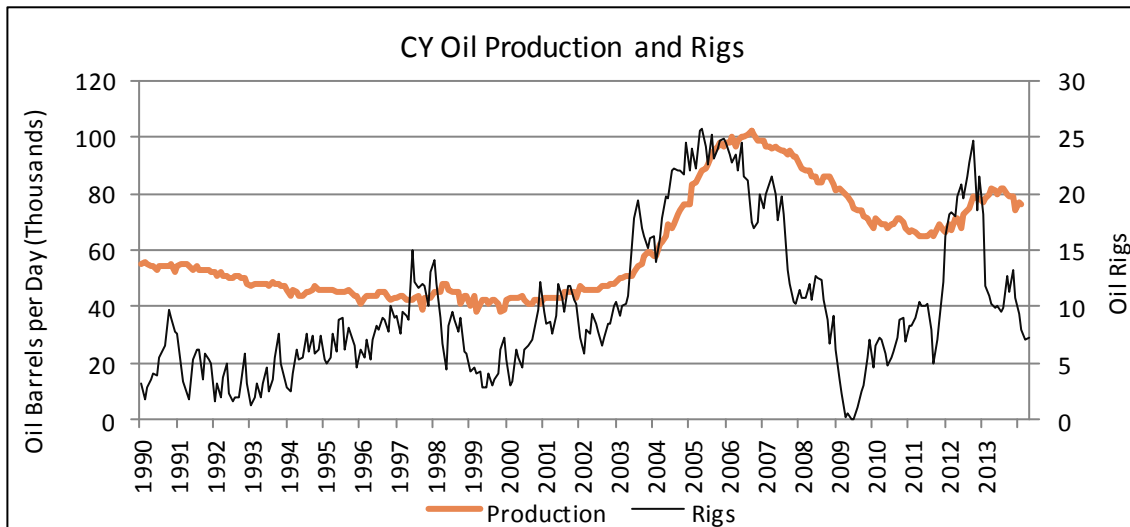


## Vehicle Fees & Taxes: Slightly Below Estimate

Ten months into FY 2014, vehicle taxes and fees have generated \$73.7 million in revenue. This is a 1.0% increase from this time last year. Given past years' trends, this indicates that year-end revenue will be about \$3.0 million less than what was anticipated in SJ 2.

## Oil & Natural Gas Production Tax: Currently Stronger-than-Expected Growth

Revenue from the oil and natural gas production tax is above the SJ 2 estimate by \$5.6 million or 11.8%. This increase is due primarily to higher-than-expected production in CY 2013, which was a result of exploratory drilling in CY 2012. The increased rig count and subsequent increase in production are shown below.



While this is strong growth, it happened primarily in the first quarter, which was up by \$5.5 million. Second quarter collections for FY 2014 are very close to what second quarter FY 2013 collections were. It is expected that the remaining quarters will remain similar to FY 2013 revenues and SJ 2 estimates, bringing year-end collections to about \$5 million above the SJ 2 estimate, basically due to the higher-than-expected amount which came in during the first quarter.

### **Insurance Tax: Above Estimate Due to BCBS Buyout**

Current insurance tax collections are 3.2% or \$1.4 million below FY 2013 year-to-date. This is 12.5% ahead of the 15.7% decrease anticipated in SJ 2. The expected decline incorporated into the official SJ 2 estimate is due to the increased allocation to the Healthy Montana Kids state special revenue fund (increased to 33.3% from 16.7%).

At the time of the estimate, it was not known that Blue Cross Blue Shield (BCBS) would be bought out by Health Care Services Corporation (HCSC) and would be required to pay insurance tax from which it has previously been exempt. These new taxes came in during April with the filing of the company's 2013 tax return.

Due to the timing of tax collections, any impact on this revenue source as a result of the Affordable Care Act is not likely to appear until the last quarter of FY 2015.

### **Video Gaming Tax: Slightly Below Estimate**

Revenue from video gambling is 1.0% less than this time last year. Current revenue in FY 2014 generated from video gambling taxes is \$42.3 million, compared to \$42.8 million at this time last year. Using past years' trends, year-end revenue from this source will likely finish around \$2.5 million less than was estimated in SJ 2.

## **OTHER KEY DIFFERENCES**

### **Coal Severance Tax: Appears Low Due to Missing Payment**

Coal severance tax is down 9.2% or almost \$1.0 million. This is due primarily to a missing payment that is expected to come in. When all payments come in, total collections should be slightly above the SJ 2 estimate of \$14.9 million.

## **Electrical Energy Tax: Appears Low Due to Timing and High FY 2013 Values**

Electrical energy, and subsequently the wholesale energy transmission tax, is lower than FY 2013 year-to-date numbers for two reasons. First, there is a timing issue with a large payment that has not come in soon enough to be processed by month-end. Second, FY 2013 had a particularly high first quarter. FY 2014 collections are on track to hit the SJ2 estimate, which is lower than the unusually high FY 2013.

## **Metal Mines Tax: Below Estimate Due to Lower Prices & Production**

Metal mines tax collections are below those of FY 2013 by \$1.2 million or 23.8%. As highlighted in the December [Revenue Trend Update Report](#), metal mines tax collections are expected to be below the SJ 2 estimate for the remainder of the biennium. The primary reason for the reduction is lower levels of production than anticipated in SJ 2.

## **U.S. Mineral Royalties: Below Estimate Primarily Due to Timing**

U.S. Mineral Royalties are down 5.1% or \$0.9 million year-to-date. This is due in some part to slightly lower collections, such as natural gas collections, which will likely push the year-end total to just under SJ 2. A large portion of the lower year-to-date revenue, however, has to do with a timing issue in the April payment which had not been fully processed by the end of the month.

## **Coal Trust Interest Earnings: Below Estimate**

Coal trust interest earnings are currently \$1.9 million, or 11.1%, less than this time last year. Estimates contained in SJ 2 predicted that coal trust earnings would remain virtually unchanged from FY 2013 to FY 2014. However, due to the current low yields in the bond market, this source will likely finish approximately \$2.0 million below the SJ 2 estimate.

## **All Other Revenue: Stronger-than-Expected Growth**

In SJ 2, revenue from this source was expected to decrease by 11.0% from FY 2013 to FY 2014. To date, collections from all other revenue are \$4.6 million or 20.6% greater than last year. This increase in revenue is due primarily to increases in abandoned property collections. Most of the remaining growth can be attributed to fund transfers from the Department of Natural Resources and Conservation. These transfers were from the coal shared fund balances that were deposited into the general fund following the close of FY 2013.

## **Public Institution Reimbursements: Below Estimate**

Public institution reimbursements are 15.0% or \$1.7 million below year-to-date FY 2013. This is a volatile source with collections based on bed days used in state facilities, and payments received for various services rendered. At this time, data for facilities usage are unavailable so an annual comparison cannot be made to pinpoint the cause of the difference.