



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Director  
AMY CARLSON

DATE: June 6, 2017  
TO: House and Senate Tax Members  
House Appropriations Members  
Senate Finance and Claims Members  
FROM: LFD Revenue Team  
RE: FY 2017 General Fund Revenue Update #6

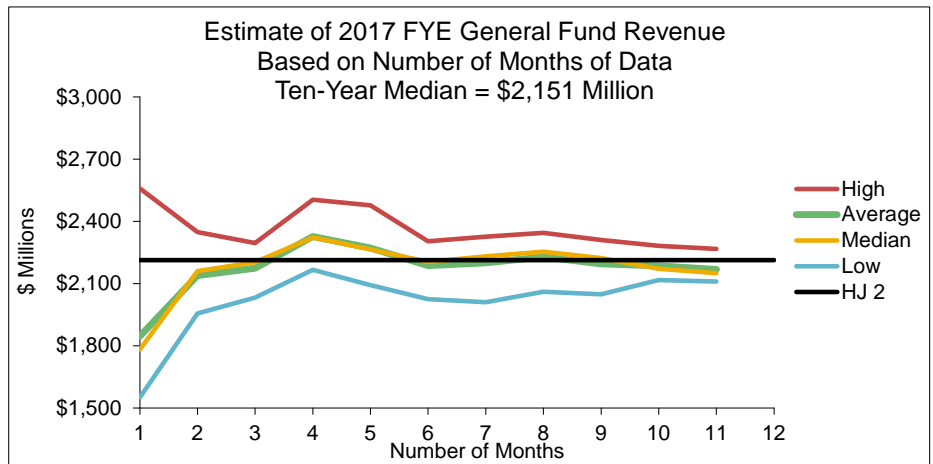
### GENERAL FUND REVENUE SUMMARY

This is the last of six monthly revenue updates throughout the second half of FY 2017 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2017 relative to the revenue estimate contained in HJ 2.

FY 2017 general fund revenues through the end of May are \$3.2 million or 0.2% higher than FY 2016 revenues through the same period; this increase is below the anticipated growth of 4.3%. Individual income current year payments (which reflect taxpayers' CY 2016 liability) came in lower than expected in April—this trend was observed at the national level and may be due to taxpayers shifting income to later years in anticipation of lower federal tax rates. Corporation income and oil & natural gas taxes are anticipated to have strong final quarter collections relative to FY 2016. Including all other sources, total FY 2017 collections may end up somewhat below the estimate contained in HJ 2.

### 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 2017 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2007. The results are shown in the adjacent chart. Based on collections through the end of May, the difference between the high and low amounts is about \$151 million, with the median value about \$62 million below the HJ 2 estimate.



## YEAR-TO-DATE GENERAL FUND REVENUE

FY 2017 general fund revenues through the end of May are \$3.2 million or 0.2% above FY 2016 revenues through the same period; this increase is below the HJ 2 estimated growth of 4.3%.

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2016	HJ 2 Est. FY 2017	HJ 2 Est. % Change	YTD FY 2016	YTD FY 2017	YTD Difference	YTD % Change
<b>Largest Seven Sources</b>							
Individual Income Tax	\$1,184.828	\$1,238.516	4.5%	\$1,168.623	\$1,153.084	(\$15.539)	-1.3%
Property Tax	257.100	261.003	1.5%	152.953	153.089	0.136	0.1%
Corporation Tax	118.387	139.952	18.2%	100.094	109.419	9.325	9.3%
Vehicle Taxes & Fees	108.480	110.844	2.2%	89.318	88.890	(0.428)	-0.5%
Oil & Natural Gas Taxes	39.083	45.289	15.9%	21.571	22.490	0.919	4.3%
Insurance Tax	69.255	73.414	6.0%	53.710	61.260	7.550	14.1%
Video Gaming Tax	60.554	59.280	-2.1%	45.319	44.665	(0.654)	-1.4%
<b>Other Business Taxes</b>							
Drivers License Fee	4.345	4.938	13.7%	3.858	3.785	(0.072)	-1.9%
Investment Licenses	7.212	7.454	3.4%	7.035	7.172	0.137	1.9%
Lodging Facilities Sales Tax	21.493	22.196	3.3%	16.311	16.429	0.118	0.7%
Public Contractor's Tax	2.397	2.552	6.5%	1.230	1.968	0.738	60.0%
Railroad Car Tax	3.594	3.387	-5.8%	3.500	3.790	0.290	8.3%
Rental Car Sales Tax	3.878	3.310	-14.6%	3.227	2.563	(0.664)	-20.6%
Retail Telecom Excise Tax	16.775	16.089	-4.1%	12.653	11.688	(0.965)	-7.6%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	14.236	13.577	-4.6%	10.199	11.581	1.383	13.6%
Electrical Energy Tax	4.536	4.448	-1.9%	3.458	3.442	(0.016)	-0.5%
Metal Mines Tax	4.221	4.410	4.5%	2.012	2.346	0.334	16.6%
U.S. Mineral Leasing	16.759	19.249	14.9%	14.799	11.756	(3.043)	-20.6%
Wholesale Energy Trans Tax	3.516	3.539	0.6%	2.704	2.721	0.017	0.6%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	20.722	19.963	-3.7%	14.888	16.391	1.504	10.1%
TCA Interest Earnings	3.961	4.274	7.9%	3.134	4.557	1.424	45.4%
<b>Other Consumption Taxes</b>							
Beer Tax	3.027	3.051	0.8%	2.442	2.389	(0.052)	-2.1%
Cigarette Tax	31.103	30.924	-0.6%	26.822	25.594	(1.227)	-4.6%
Liquor Excise Tax	19.776	21.359	8.0%	16.049	16.501	0.453	2.8%
Liquor Profits	11.000	11.500	4.5%	-	-	-	-
Lottery Profits	11.963	12.363	3.3%	5.471	6.472	1.001	18.3%
Tobacco Tax	6.184	6.623	7.1%	5.104	5.104	(0.000)	0.0%
Wine Tax	2.373	2.484	4.7%	1.970	2.004	0.035	1.8%
<b>Other Sources</b>							
All Other Revenue	41.420	40.650	-1.9%	24.571	27.961	3.389	13.8%
Highway Patrol Fines	4.040	4.101	1.5%	3.324	3.147	(0.177)	-5.3%
Nursing Facilities Fee	4.764	4.589	-3.7%	3.575	3.404	(0.171)	-4.8%
Public Institution Reimbursement	16.910	14.162	-16.3%	11.948	9.401	(2.547)	-21.3%
Tobacco Settlement	3.394	3.101	-8.7%	3.371	3.343	(0.028)	-0.8%
Largest Seven Subtotal	1,837.687	1,928.299	4.9%	1,631.589	1,632.898	1.310	0.1%
Remaining Sources Subtotal	283.601	284.293	0.2%	203.653	205.510	1.857	0.9%
<b>Grand Total</b>	<b>\$2,121.288</b>	<b>\$2,212.592</b>	<b>4.3%</b>	<b>\$1,835.241</b>	<b>\$1,838.408</b>	<b>\$3.167</b>	<b>0.2%</b>

## Individual Income Tax: Below HJ 2 Primarily due to Low Current Year Payments

Individual income tax collections through the end of May are \$15.5 million or 1.3% below the year-to-date collections in FY 2016, primarily due to lower-than-anticipated current year payments. Current year payments are primarily from tax liability for calendar year 2016 non-wage income. The decline is unusual given the stock market gains in 2016 and continued economic expansion.

According to a recent report by the Congressional Budget Office (see <https://www.cbo.gov/publication/52692>), Montana is not alone in experiencing lower payments. The report speculates the reason that payments “were smaller than anticipated may be that income growth was weaker than expected in calendar year 2016, or that taxpayers shifted more income than projected from 2016 to later years, expecting legislation to reduce tax rates to be enacted this year.”

If taxpayer timing is the main cause of lagging revenue, there could be some recovery in FY 2018, especially if lower federal tax rates are enacted and taxpayers realize an unusually high level of capital gains income.

Individual Income Tax (\$ Millions)				
	YTD 2017	YTD 2016	\$ Difference	% Difference
Withholding	\$831.9	\$800.2	\$31.7	4.0%
Estimated Payments	224.5	233.3	(8.8)	-3.8%
Current Year Payments	167.8	186.5	(18.7)	-10.0%
Audit, P&I, Amended	32.8	43.3	(10.4)	-24.1%
Refunds	(279.1)	(266.3)	(12.8)	4.8%
Refund Accrual Reversal	143.0	140.0	2.9	2.1%
Partnership Income Tax	26.3	20.4	5.9	29.1%
Mineral Royalties	5.8	11.3	(5.4)	-48.3%
<b>Total</b>	<b>\$1,153.1</b>	<b>\$1,168.6</b>	<b>(\$15.5)</b>	<b>-1.3%</b>

Combined audit, penalty & interest, and amended return revenue collections may also come in below the HJ 2 estimate. The FY 2016 combined amount was abnormally high, which was accounted for in HJ 2 with an anticipated 11% reduction in FY 2017. Year-to-date collections suggest the final amount may be about \$5 million below the combined \$46 million estimated in HJ 2.

## Property Tax: Slightly Below Estimate, Waiting for Second Payment

Property tax collections are above last year by \$0.1 million or 0.1%. This is less than the estimated increase of 1.5%. The second large property tax payment will occur in June, with final collections anticipated to come in close to the HJ 2 estimate.

## Corporation Income Tax: Somewhat Below HJ 2

Corporation income tax collections through the end of May are 9.3% or \$9.3 million above this time in FY 2016. The growth is due to higher collections in the corporation tax account and audits coupled with lower refunds. In HJ 2, this source was estimated to grow by 18.2%. The YTD growth is expected to continue through the remainder of the fiscal year and it is likely that final collections will be slightly below HJ 2.

Corporation Income Tax (\$ Millions)				
Account	YTD 2017	YTD 2016	\$ Difference	% Difference
Corporation Tax	\$30.1	\$27.7	\$2.5	8.9%
Estimated Payments	89.6	91.4	(1.8)	-1.9%
Refunds	(26.0)	(31.1)	5.0	-16.2%
Refund Accrual Reversal	3.8	4.3	(0.5)	-12.1%
Audit, P&I, Amended	11.9	7.8	4.1	53.0%
<b>Total</b>	<b>\$109.4</b>	<b>\$100.1</b>	<b>\$9.3</b>	<b>9.3%</b>

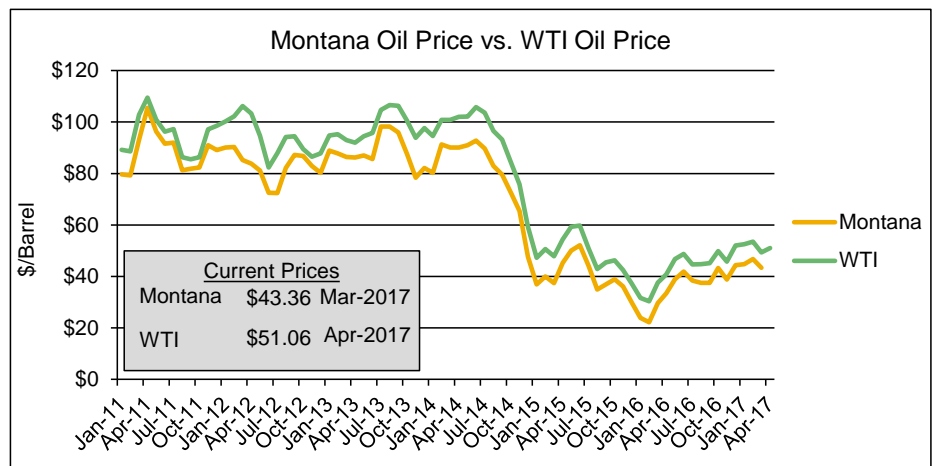
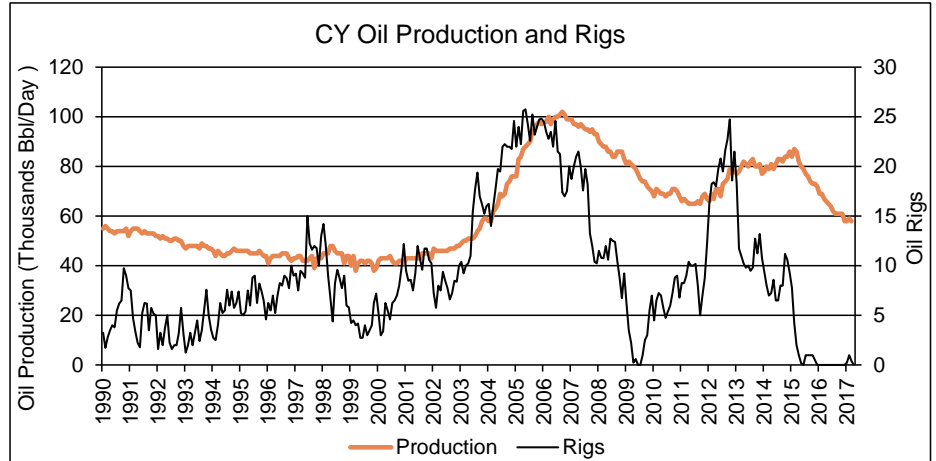
## Vehicle Fees & Taxes: Slightly Below Last Year; May End Up Below HJ 2

Through May, vehicle taxes and fees are 0.5% below collections from last year at this time. In HJ 2, this source is expected to grow by 2.2%. June typically has the largest collections so this month will ultimately decide how close collections are to HJ 2.

## Oil & Natural Gas Production Tax: On Track with HJ 2

Through May, oil and natural gas production taxes are 4.3% or \$0.9 million above last year's collections, but below the projected growth in HJ 2 of 15.9%. However, moving forward, tax collections are expected to further exceed FY 2016 collections as prices for the last two quarters of FY 2017 should be significantly above those in the last two quarters of FY 2016.

As the top right chart shows, oil production has been declining since the beginning of 2015, as there has been at most one rig 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 Above HJ 2

Current insurance tax collections are 14.1% or \$7.6 million above FY 2016 through May. Most of the increase is due to strong growth in collections of fire marshal taxes. There may be about \$4.0 million of additional fire marshal tax in FY 2017, with a portion of the increase likely to be ongoing new revenue.

## Video Gaming Tax: On Track with HJ 2

Revenue from video gambling is currently \$0.7 million or 1.4% below collections from last year. The decline is right in line with the 2.1% decline anticipated in HJ 2.

## OTHER KEY DIFFERENCES:

### Coal Severance Tax: Growth Due to Large Audit

Coal severance tax revenue is \$1.4 million or 13.6% above year-to-date collections in FY 2016. Large audit collections and increased coal prices are responsible for the year-over-year increase.

## U.S. Mineral Royalties: Below Estimate Due to Timing & Lower Coal Production

U.S. mineral royalties are down 20.6% or \$3.0 million compared to FY 2016 levels at this time. Timing may be partially responsible for the decrease as payment timing can vary; however, since both coal and oil prices are higher than last year, the decline is attributable to lower production.

## Coal Trust Interest Earnings: Currently Above Estimate, Likely Due to Timing

To date, coal trust interest earnings are \$1.5 million or 10.1% above last year, primarily due to timing.

## Treasury Cash Account Interest Earnings: Above HJ 2

To date, TCA interest earnings are \$1.4 million or 45.4% above collections from one year ago. The year-over-year increase is due to increased short-term interest rates.

## Cigarette Tax: Below HJ 2, Current Decline May Include Some Timing Issues

To date, cigarette tax collections are \$1.2 million or 4.6% below last year. The HJ 2 estimate assumed a decline of 0.6%. Cumulative monthly collections suggest an annual decline between \$0.7 and \$0.9 million by fiscal year end which is below HJ 2 but suggests some recovery from the current \$1.2 million shortfall.

## Lottery Profits: Back to Normal Following FY 2016 Drop

To date, lottery profits are \$1.0 million or 18.3% above collections from one year ago. Ticket sales dropped off in FY 2016 following a record Powerball jackpot, leaving the revenue last year at this time lower than the year before. Current revenue is back on track with the level seen in FY 2015.

## All Other Revenue: Above HJ 2

To date, all other revenue collections are 13.8% or \$3.4 million above last year's collections. The increase is primarily driven by HELP Act premium collections that resulted from the passage of [SB 405 \(2015 Session\)](#). While this increase in HELP Act premium collections was expected, an offsetting decrease was anticipated for a large group of other small sources. These other sources are coming in similar to last year and will likely result in all other revenue collections ending above the estimate contained in HJ 2.

## Public Institution Reimbursements: On Track with HJ 2

Public institution reimbursements are currently 21.3% or \$2.5 million below last year. The decline is likely due to the remaining MDC population receiving services that are ineligible for Medicaid reimbursement.

## GENERAL FUND CASH BALANCE

At the end of May, the balance was \$76 million. The chart below shows the month-end cash balance for the past several years. The current year is depicted with the black line, and May amounts for all years are detailed.

