

# GENERAL FUND REVENUE UPDATE 2013 BIENNIUM

A Report Prepared for the  
**Revenue & Transportation Interim Committee**

By  
Terry W. Johnson  
Principal Fiscal Analyst

April 26, 2012

Legislative Fiscal Division



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)

## INTRODUCTION

The purpose of this report is to provide the committee with general fund revenue collection data through March FY 2011 compared to March FY 2012. Future updates will provide the most recent information on general fund revenue collections as we proceed through the 2013 biennium. Most of the time, these reports will only highlight the significant revenue sources with a brief explanation of what trends may be developing. It should be noted that these reports are designed to be similar in content and structure from issue to issue so new readers will have the benefit of the historical information provided. The revenue estimates used by the 62<sup>nd</sup> Legislature to balance the budget for the 2013 biennium have been incorporated into this report.

## THE BOTTOM LINE

Total general fund revenue collections through March are exceeding HJ2 revenue estimates used by the 62<sup>nd</sup> Legislature for FY 2012. As reported in the December 2011 revenue update, total general fund revenues for FY 2012 were forecast to be \$61.9 million more than anticipated in HJ2 (revenue estimating resolution) and \$76.0 million more in FY 2013. Individual income, corporation license, oil and gas production, and insurance taxes were anticipated to be higher. Vehicle fees/taxes and some smaller sources were expected to be less than anticipated in HJ2. Property taxes appeared to be on track with HJ2 taxable value estimates although there was some weakness in collections at that time. Total general fund revenue collection data through the end of March indicates a potential improvement of an additional \$30 million over the 2013 biennium from the forecasts mentioned above. Since this new trend began to develop in February and is primarily due to individual and corporate taxes, it is still premature to speculate on whether this will continue in subsequent months.

## GENERAL FUND REVENUE UPDATE

### FISCAL 2012 REVENUE COLLECTIONS

Based on information recorded on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), total general fund receipts through March for FY 2012 were \$1,215.5 million as shown in Figure 1. This compares to \$1,123.7 million collected through March for FY 2011. This is an increase in collections from FY 2011 of \$91.8 million or an 8.2% increase.

Total general fund collections as estimated by the legislature for FY 2012 were expected to be \$3.1 million (0.17%) above the FY 2011 actual collections. These estimates were used by the 62<sup>nd</sup> Legislature and are contained in the adjusted HJ2 (revenue estimate resolution plus impacts of enacted legislation) estimates. The reason for such a small increase was because the collections received in FY 2011 were \$75.9 million more than anticipated in HJ2. This means the HJ2 estimate for FY 2012 is now compared to the actual collections received in FY 2011 versus the FY 2011 estimate used during the legislative session. Most major sources of revenue contained in HJ2 were expected to increase from FY 2011 to FY 2012. The two exceptions were vehicle fees/taxes and oil and gas production taxes. Oil and gas production collections were expected to decline because of reduced production levels while vehicle fees/taxes were expected to decline because the distribution of vehicles was expected to be weighted more heavily towards older vehicles.

Figure 1 shows revenue collection and estimate data by major revenue category. The last three columns in the figure compare collections from each revenue source to the estimate contained in HJ2. For example, corporation license tax (10<sup>th</sup> line) shows \$17.2 million in the "Difference" column. This means collections through March of this year are \$17.2 million more than the amount received through March of FY 2011 for a 26.4% difference shown in the "% Change" column. The legislature assumed collections would be down by 3.3% shown in the last column. This means collections are exceeding the legislative estimate and will surpass the HJ2 estimate if these trends continue.

Figure 1

| Revenue Source                      | Actual Fiscal 2011 | HJ2 Estimate Fiscal 2012 * | Through 3/31/11  | Through 3/31/12  | Difference     | % Change | HJ2 Estimate % Change |
|-------------------------------------|--------------------|----------------------------|------------------|------------------|----------------|----------|-----------------------|
| GF0100 Drivers License Fee          | 3,710,998          | 4,173,000                  | 2,818,953.68     | 3,031,627.91     | 212,674.23     | 7.54%    | 12.45%                |
| GF0200 Insurance Tax                | 57,963,581         | 57,372,000                 | 26,643,442.89    | 27,854,455.21    | 1,211,012.32   | 4.55%    | -1.02%                |
| GF0300 Investment Licenses          | 6,922,143          | 6,838,000                  | 6,258,312.21     | 6,205,599.22     | (52,712.99)    | -0.84%   | -1.22%                |
| GF0400 Vehicle License Fee          | 85,762,322         | 91,945,000                 | 56,763,489.92    | 55,994,454.43    | (769,035.49)   | -1.35%   | 7.21%                 |
| GF0500 Vehicle Registration Fee     | 14,814,333         | 14,771,000                 | 9,140,072.21     | 9,963,682.77     | 823,610.56     | 9.01%    | -0.29%                |
| GF0600 Nursing Facilities Fee       | 5,197,229          | 4,876,000                  | 2,632,975.95     | 2,542,056.42     | (90,919.53)    | -3.45%   | -6.18%                |
| GF0700 Beer Tax                     | 2,981,809          | 3,239,000                  | 1,967,585.04     | 2,001,921.99     | 34,336.95      | 1.75%    | 8.63%                 |
| GF0800 Cigarette Tax                | 30,991,570         | 30,763,000                 | 22,362,755.59    | 22,465,968.96    | 103,213.37     | 0.46%    | -0.74%                |
| GF0900 Coal Severance Tax           | 12,882,504         | 12,257,000                 | 6,678,713.94     | 7,450,045.86     | 771,331.92     | 11.55%   | -4.86%                |
| GF1000 Corporation Tax              | 119,043,890        | 115,086,000                | 65,006,785.26    | 82,177,900.47    | 17,171,115.21  | 26.41%   | -3.32%                |
| GF1100 Electrical Energy Tax        | 4,332,363          | 4,480,000                  | 2,507,248.52     | 2,482,796.36     | (24,452.16)    | -0.98%   | 3.41%                 |
| GF1150 Wholesale Energy Trans Tax   | 3,945,547          | 3,738,000                  | 2,024,000.13     | 1,897,667.73     | (126,332.40)   | -6.24%   | -5.26%                |
| GF1200 Railroad Car Tax             | 2,130,192          | 2,095,000                  | 1,674,825.79     | 1,789,589.93     | 114,764.14     | 6.85%    | -1.65%                |
| GF1300 Individual Income Tax        | 816,089,973        | 809,322,000                | 612,941,685.87   | 680,207,287.05   | 67,265,601.18  | 10.97%   | -0.83%                |
| GF1400 Inheritance Tax              | 43,165             | -                          | 43,164.57        | 58,282.28        | 15,117.71      | 35.02%   | -100.00%              |
| GF1500 Metal Mines Tax              | 8,096,531          | 10,037,000                 | 2,095,001.72     | 1,087,607.05     | (1,007,394.67) | -48.09%  | 23.97%                |
| GF1700 Oil Severance Tax            | 99,763,712         | 102,996,000                | 23,061,185.87    | 25,507,663.44    | 2,446,477.57   | 10.61%   | 3.24%                 |
| GF1800 Public Contractor's Tax      | 6,803,285          | 5,716,000                  | 6,034,701.75     | (2,074,923.53)   | (8,109,625.28) | -134.38% | -15.98%               |
| GF1850 Rental Car Sales Tax         | 3,149,201          | 3,326,000                  | 1,874,822.89     | 2,128,943.55     | 254,120.66     | 13.55%   | 5.61%                 |
| GFxxxx Property Tax                 | 229,351,961        | 237,188,000                | 133,804,705.67   | 133,001,929.68   | (802,775.99)   | -0.60%   | 3.42%                 |
| GF2150 Lodging Facilities Sales Tax | 14,240,586         | 13,952,000                 | 8,119,173.06     | 9,155,632.87     | 1,036,459.81   | 12.77%   | -2.03%                |
| GF2200 Telephone Tax                | -                  | -                          | -                | -                | -              | -        | -                     |
| GF2250 Retail Telecom Excise Tax    | 22,049,967         | 21,759,000                 | 10,936,851.51    | 10,797,362.23    | (139,489.28)   | -1.28%   | -1.32%                |
| GF2300 Tobacco Tax                  | 5,477,308          | 6,016,000                  | 3,638,574.70     | 3,812,360.08     | 173,785.38     | 4.78%    | 9.83%                 |
| GF2400 Video Gaming Tax             | 49,824,310         | 52,776,000                 | 24,672,302.13    | 25,190,960.00    | 518,657.87     | 2.10%    | 5.92%                 |
| GF2500 Wine Tax                     | 1,993,659          | 2,131,000                  | 1,331,273.17     | 1,433,981.21     | 102,708.04     | 7.72%    | 6.89%                 |
| GF2600 Institution Reimbursements   | 20,158,177         | 17,125,000                 | 12,923,328.38    | 8,794,365.81     | (4,128,962.57) | -31.95%  | -15.05%               |
| GF2650 Highway Patrol Fines         | 4,359,203          | 4,725,000                  | 2,844,422.20     | 2,891,350.37     | 46,928.17      | 1.65%    | 8.39%                 |
| GF2700 TCA Interest Earnings        | 2,518,853          | 6,717,000                  | 1,727,980.61     | 1,734,767.65     | 6,787.04       | 0.39%    | 166.67%               |
| GF2900 Liquor Excise Tax            | 15,989,480         | 16,822,000                 | 10,589,621.54    | 11,311,705.32    | 722,083.78     | 6.82%    | 5.21%                 |
| GF3000 Liquor Profits               | 9,000,000          | 9,733,000                  | -                | -                | -              | -        | 8.14%                 |
| GF3100 Coal Trust Interest Earnings | 26,783,197         | 27,084,000                 | 16,053,078.82    | 15,577,862.37    | (475,216.45)   | -2.96%   | 1.12%                 |
| GF3300 Lottery Profits              | 10,611,184         | 10,950,000                 | 5,332,464.00     | 5,822,389.00     | 489,925.00     | 9.19%    | 3.19%                 |
| GF3450 Tobacco Settlement           | 3,258,739          | 3,564,000                  | -                | -                | -              | -        | 9.37%                 |
| GF3500 U.S. Mineral Leasing         | 31,923,308         | 29,400,000                 | 18,789,627.73    | 16,927,609.05    | (1,862,018.68) | -9.91%   | -7.90%                |
| GF3600 All Other Revenue            | 50,393,275         | 42,650,000                 | 20,374,135.45    | 36,249,584.68    | 15,875,449.23  | 77.92%   | -15.37%               |
| Grand Total                         | 1,782,557,555      | 1,785,622,000              | 1,123,667,262.77 | 1,215,474,487.42 | 91,807,224.65  | 8.17%    | 0.17%                 |

\* Plus impacts of enacted legislation

## DISCUSSION OF SELECTED SOURCES FOR FISCAL 2012 AND FISCAL 2013

The following section of the report addresses the six largest general fund revenue sources. These sources are individual income tax, property tax, corporation license tax, vehicle fee/tax, oil and gas production tax, and insurance tax. These sources are estimated to contribute 80.0% of total general fund revenue in FY 2012. This section of the report also includes a brief discussion on sources that are showing very unusual collection patterns. These sources are highlighted in the "Remaining Sources" category of the report.

### Individual Income Tax

Based on March accounting data, net individual income tax collections for FY 2012 (gross collections less refunds) were 11.0% above net collections for FY 2011 or an increase of \$67.3 million. The 62<sup>nd</sup> Legislature assumed that revenues would increase by 5.9% from the estimated FY 2011 amount or an increase of \$44.7 million. This increase was anticipated because the impacts of the economic recession were anticipated to be over and Montana was expected to begin a slow, modest recovery. It should be noted that actual FY 2011 collections were higher than estimated in HJ2 which means collections would have to decline from the FY 2011 amount to achieve the HJ2 estimate for FY 2012.

Figure 2 shows the accounting details through March of individual income tax collections for FY 2012 compared to the same period for FY 2011. As shown, individual income tax collections were \$67.3 million above the same period for FY 2011.

Since withholding tax collections are generally accepted as a proxy for total wage growth plus some non-wage income components, the 6.7% growth from last year indicates that this component of individual income tax collections is doing well when compared to last year. Withholding taxes are approximately 65% of total individual income taxes before refunds or almost 40% of total general fund revenue collections. For a summary of the results of our previous research on withholding tax collections, see the section titled “Individual Income Tax Research Results” in the December 2011 report.

Figure 2

| Individual Income Tax Comparison      |                          |                          |                 |                   |
|---------------------------------------|--------------------------|--------------------------|-----------------|-------------------|
| Revenue Code & Description            | 3/31/2011<br>Fiscal 2011 | 3/31/2012<br>Fiscal 2012 | Difference      | Percent<br>Change |
| 510101 Withholding Tax                | 490,718,185.33           | 523,561,154.48           | 32,842,969.15   | 6.69%             |
| 510482 Mineral Royalty WH Tax         | 7,355,843.04             | 9,376,420.89             | 2,020,577.85    | 27.47%            |
| 510111 Fiduciary Estimated Income Tax | 4,688,494.12             | 4,685,478.48             | (3,015.64)      | -0.06%            |
| 510102 Estimated Tax                  | 115,004,986.79           | 124,101,581.78           | 9,096,594.99    | 7.91%             |
| 510103 Current Year I/T               | 19,220,351.69            | 31,206,461.08            | 11,986,109.39   | 62.36%            |
| 510105 Income Tax - Audit Collections | 20,716,924.00            | 18,646,180.00            | (2,070,744.00)  | -10.00%           |
| 510106 Income Tax Refunds             | (44,763,099.10)          | (31,369,989.66)          | 13,393,109.44   | -29.92%           |
| Income Tax Refunds Adjustment         | <u>0.00</u>              | <u>0.00</u>              | <u>0.00</u>     | 0.00%             |
| Totals                                | \$612,941,685.87         | \$680,207,287.05         | \$67,265,601.18 | 10.97%            |
| Percent of Actual/Estimated           | 75.11%                   | 84.05%                   |                 |                   |

Figure 2 also shows that estimated tax payments are up \$9.1 million or 7.9% over last year at the same time. This indicates that non-wage components of individual incomes are also improving. While current year payments are up significantly (62.4%), it is too early in the tax year 2011 tax season to determine what this trend may mean. This same issue is true for refunds issued – down 29.9% over last year. Collection data through the end of April will provide a much clearer picture of the trends for these two components.

## Property Tax

As shown in Figure 1, property tax collections are \$0.8 million or 0.6% below last year through the end of March. Although there appears to be some weakness at this time, the preliminary taxable value numbers from the DOR for tax year 2011 (FY 2012) show no significant change from the HJ2 revenue estimate assumptions. This means the HJ2 property tax estimate should be on track.

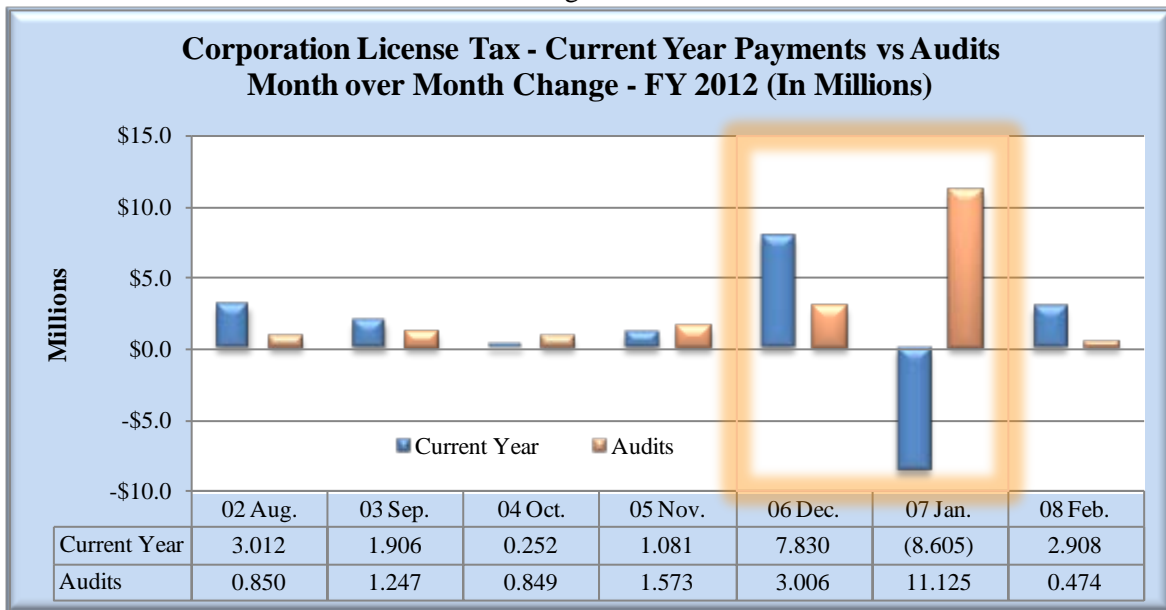
## Corporation License Tax

Based on March accounting data, net corporation license tax collections for FY 2012 (gross collections less refunds) were 26.4% above net collections for FY 2011 or an increase of \$17.2 million (Figure 1). The 62<sup>nd</sup> Legislature assumed that revenues would increase by 18.1% from the FY 2011 amount or an increase of \$17.7 million. This increase was anticipated because the impacts of the economic recession were anticipated to be over and corporate profitability for both state and national corporations was expected to begin a recovery. It should be noted that FY 2011 collections were higher than estimated in HJ2 which means collections would actually have to decline from the FY 2011 amount to achieve the HJ2 estimate for FY 2012.

As pointed out in previous reports, part of the strength in FY 2011 collections was explained by the auditing efforts of the DOR and the resulting unusual high audit collections. Total audit collections were \$26.1 million in FY 2011 compared to \$15.4 million in FY 2010. When audit collections are removed from FY 2010 and FY 2011 totals, then the growth for the remaining collections are 10.1%. The growth rate assumed in HJ2 for FY 2012 was 18.2%. At this time, audit collections in FY 2012 are above last year by \$11.6 million, or 119.0%. The DOR received a significant audit payment in December that was distributed in January.

Figure 3 illustrates the accounting process DOR uses in recording corporate audit receipts. As the figure shows, corporation license tax current year payments increased by \$7.8 million in December. However, current year payments declined by \$8.6 million in January. This is because the department records audit receipts as current year payments when the audit payment is received and then reclassifies the receipts as audit revenue usually by the middle of the following month. This means that current year payments are over stated and audit receipts are under stated until the following month. This issue is problematic for assessing year to date trends because of the differences between the volatility of audit collections and current year payments. In this situation, current year payments were showing an increase of \$7.8 million from November to December. By mid January (after the reclassification), the trend showed a decline of \$8.6 million from the December amount. Because audit payments are recorded in the “GenTax” system by taxpayer identification, the department needs adequate time to determine the details of the audit receipt and how the collections are to be distributed. This process gives the department time to do this work. Nonetheless, this is a variation that could lead to an erroneous conclusion about current year payments and audit payments without detailed research.

Figure 3



Estimated payments that were due September 15<sup>th</sup> and December 15<sup>th</sup> are \$7.6 million or 13.6% above last year. Since most corporations make quarterly estimated payments, directional change in this category can be used as an indicator of the profitability of corporations.

Figure 4

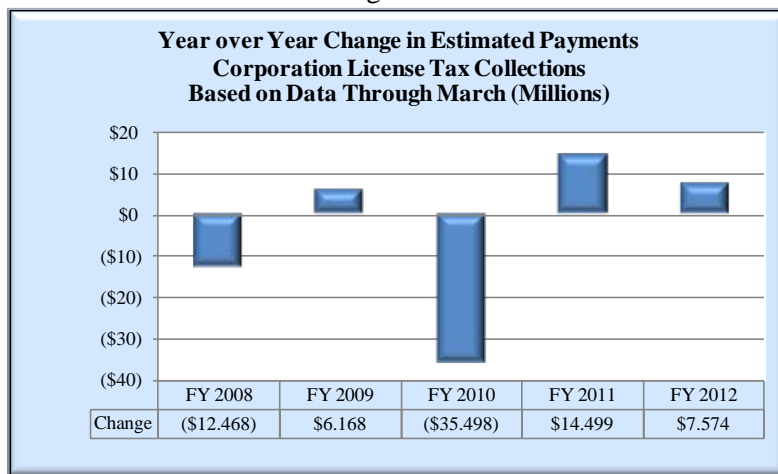
| Corporation License Tax Comparison    |                          |                          |                 |                   |
|---------------------------------------|--------------------------|--------------------------|-----------------|-------------------|
| Revenue Code & Description            | 3/31/2011<br>Fiscal 2011 | 3/31/2012<br>Fiscal 2012 | Difference      | Percent<br>Change |
| 510501 Corporation Tax                | 14,290,437.47            | 13,670,401.54            | (620,035.93)    | -4.34%            |
| 510505 Corporation Tax Estimated Paym | 55,778,567.44            | 63,352,861.27            | 7,574,293.83    | 13.58%            |
| 510502 Corporation Tax Refunds        | (14,800,033.65)          | (16,167,620.34)          | (1,367,586.69)  | 9.24%             |
| 510503 Corporation Tax-Audit Collect. | 9,737,814.00             | 21,322,258.00            | 11,584,444.00   | 118.96%           |
| Corporation Tax Refunds Adjustment    | <u>0.00</u>              | <u>0.00</u>              | <u>0.00</u>     | 0.00%             |
| Totals                                | \$65,006,785.26          | \$82,177,900.47          | \$17,171,115.21 | 26.41%            |
| Percent of Actual/Estimated           | 54.61%                   | 71.41%                   |                 |                   |

Figure 4a shows year over year change in estimated payments from FY 2008 to FY 2012. As shown, estimated payments for FY 2011 and FY 2012 have improved when compared to FY 2010. The next payment, due on April 15<sup>th</sup> and usually recorded by the end of April will provide further insight on whether corporations expect their profits to improve in FY 2012 as compared to FY 2011.

Figure 4a

### Vehicle Fee/Tax

As shown in Figure 5, total vehicle fees/taxes as recorded on SABHRS were \$55 thousand above last year's amount as of the end of March. Because of the economic recession and the reluctance of individuals to purchase newer vehicles, the distribution of vehicles by age group may have changed and is weighted more heavily to older age vehicles. The vehicle age distribution is relevant because light vehicle taxes are based on the age of the vehicle and not on the value (\$195 for 0 to 4 years old, \$65 for 5 to 10 years old, and \$6 over 10 years old). Therefore, the longer an individual keeps a vehicle, the taxes due will be reduced over time.



The Department of Justice (DOJ) indicated they too were seeing a slowdown in collections and that the vehicle counts for permanent registrations and older vehicles were both up slightly. This information was based on data extracted from the motor vehicle division's computer system (MERLIN). The department also verified that there were no processing delays. This trend is a slight improvement over what was observed in February. At that time, total vehicle fee/tax was down by \$0.9 million through February.

Figure 5

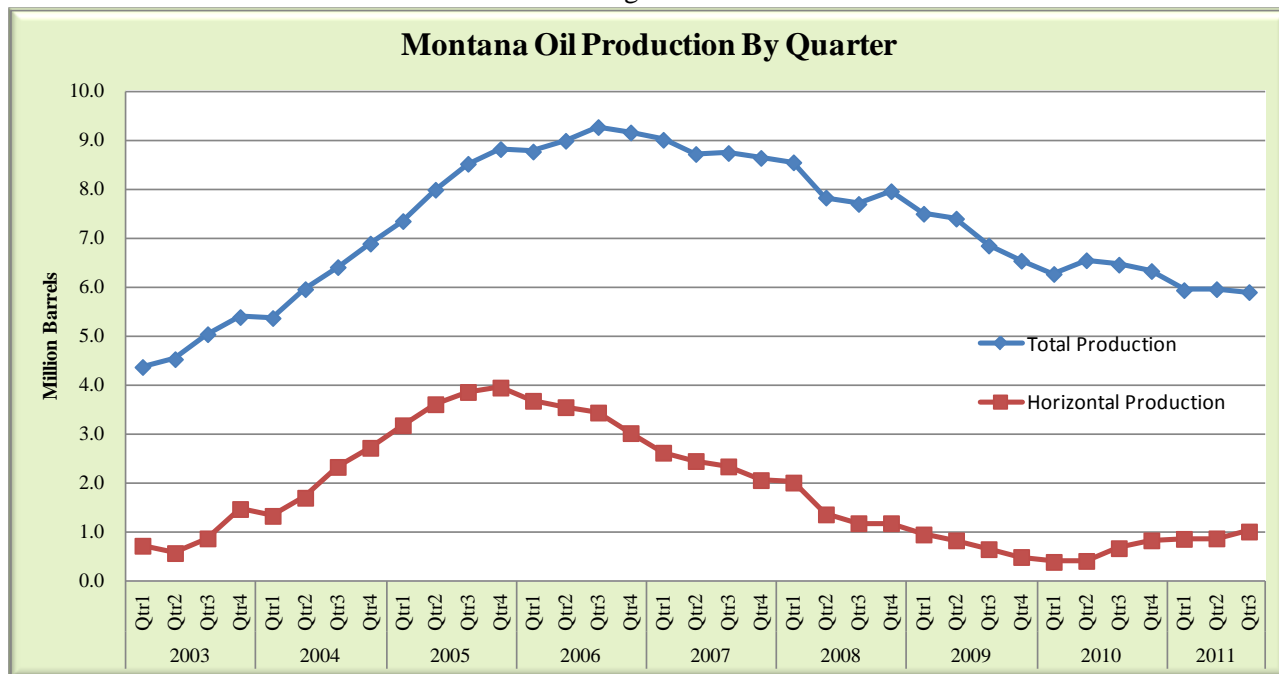
| Vehicle Fee/Tax Collections and Estimates |                      |                          |                     |                     |                  |                   |
|---|----------------------|--------------------------|---------------------|---------------------|------------------|-------------------|
| Revenue Category                          | Actual<br>FY 2011    | HJ 2 Estimate<br>FY 2012 | Mar.<br>FY 2011     | Mar.<br>FY 2012     | Dollar<br>Change | Percent<br>Change |
| Vehicle License Fee                       | 85,762,322           | 91,945,000               | 56,763,490          | 55,994,454          | (769,035)        | -1.35%            |
| Vehicle Registration Fee                  | <u>14,814,333</u>    | <u>14,771,000</u>        | <u>9,140,072</u>    | <u>9,963,683</u>    | <u>823,611</u>   | 9.01%             |
| <b>Total Vehicle Fees/Taxes</b>           | <b>\$100,576,655</b> | <b>\$106,716,000</b>     | <b>\$65,903,562</b> | <b>\$65,958,137</b> | <b>\$54,575</b>  | <b>0.08%</b>      |

## Oil and Gas Production Tax

Oil and natural gas production taxes are one of the major sources of revenue that is extremely difficult to forecast. As shown in Figure 1, oil and gas production tax collections through March of FY 2012 are \$2.4 million or 10.6 % over the same period in FY 2011. Information from the DOR, which is extracted from oil and gas production tax returns submitted by the producers, shows that oil prices increased by \$18.44 per barrel or 27.7% from the fourth quarter of calendar 2010 to the third quarter of calendar 2011.

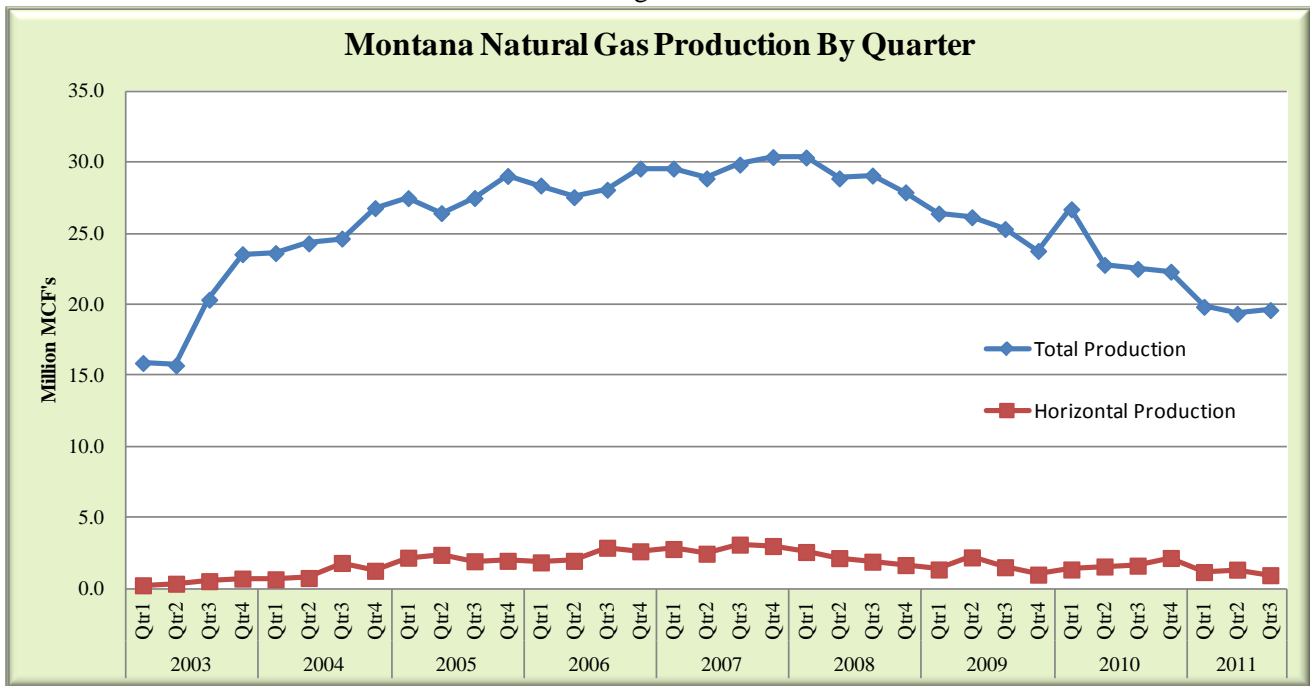
As shown in Figure 6, oil production in Montana has flattened for the last three quarters of calendar 2011 at about 5.9 million barrels per quarter. If this trend continues, the HJ2 assumption for FY 2012 oil production may be understated. The estimates contained in HJ2 were for production to be 22.3 million barrels at an average price of \$82.24 per barrel.

Figure 6



As shown in Figure 7, natural gas production in Montana has stabilized for the last three reporting quarters. If this trend continues, the HJ2 assumption for FY 2012 natural gas production may be overstated. The estimates contained in HJ2 were for production to be 102.0 million MCF's at an average price of \$3.19 per MCF. For the last three quarters production has averaged 19.6 million MCF's per quarter at an average price of \$3.54 per MCF.

Figure 7



### Insurance Tax

As shown in Figure 8, insurance tax collections are up 4.6% from last year as of the end of March. Figure 8 also shows that the HJ2 estimate for FY 2012 is slightly below actual collections for FY 2011. This is not an indication that collections from this source were expected to decline but is because collections for FY 2011 were higher than estimated in HJ2 for FY 2011. This trend through March is a slight improvement from February when insurance collections were up 4.5% over last year.

Figure 8

| Insurance Tax Collections and Estimates |                |                       |                      |                      |               |                |
|---|----------------|-----------------------|----------------------|----------------------|---------------|----------------|
| Revenue Category                        | Actual FY 2011 | HJ 2 Estimate FY 2012 | Through Mar. FY 2011 | Through Mar. FY 2012 | Dollar Change | Percent Change |
| Insurance Premiums Tax                  | \$57,963,581   | \$57,372,000          | 26,643,442.89        | 27,854,455.21        | \$1,211,012   | 4.55%          |

### Remaining Sources

As shown in Figure 1, several sources of revenue are showing unusual collection patterns other than those sources previously discussed. Some of the larger sources are treasury cash account interest earnings and the public contractors gross receipts tax. These two sources are discussed below.

#### Treasury Cash Account (TCA) Interest Earnings

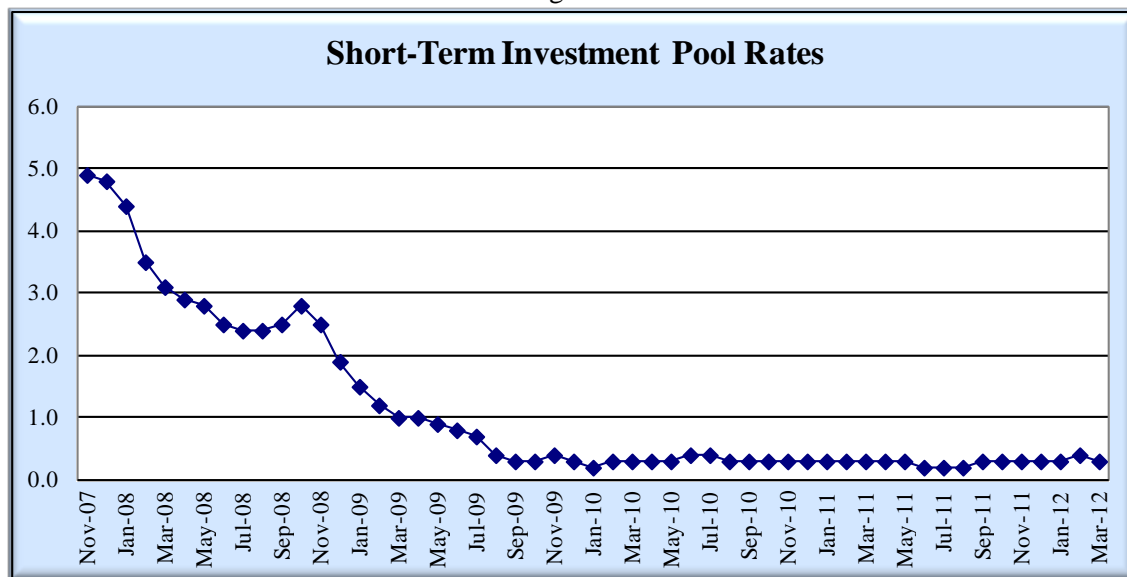
Based on March accounting data, TCA interest earnings for FY 2012 were 0.4% above collections for FY 2011 or an increase of \$7 thousand. This is not a large dollar increase but the 62<sup>nd</sup> Legislature assumed that revenues would increase by 166.7% from the FY 2011 amount or an increase of \$4.2 million. This increase was anticipated because of the higher rate of return anticipated on short-term securities.

TCA interest earnings are based on cash available for investment and the rate of return for short-term securities. Reduced earnings this year are the result of lower short-term rates and not on the investable balances. Figure 9 shows the average monthly rate of return received on the short-term investment pool (STIP) as published by the Board of



Investments since March 2007. Short-term rates have plummeted from 4.9% in March 2007 to 0.3% in September 2009 and have remained close to this level since that time.

Figure 9



### ***Public Contractors Gross Receipts Tax***

As shown in Figure 1, public contractor’s gross receipts tax is showing a negative collection amount for FY 2012 of \$2.1 million. Discussions with the DOR indicate that refunds are currently being issued to Montana contractors for projects that were funded with federal stimulus monies. This refund activity is only expected to occur in FY 2012 with collections returning to a more normal trend by FY 2013.

### **PUBLIC SCHOOL FUNDING - INTEREST AND INCOME ADJUSTMENTS**

Public schools are funded with a combination of general fund, state special (guarantee account), and federal monies. When additional revenues, above the budgeted amounts, are deposited in the guarantee account, the amount of general fund spending is reduced accordingly. One of the key components of guarantee account revenue is collections from oil and gas bonus payments. The first, second, and third lease sales in FY 2012 produced \$13.8 million in oil and gas bonus payments. The HJ2 estimate for each year of the 2013 biennium was \$2.1 million. This means that bonus payments after three sales in FY 2012 are already \$9.6 million more than anticipated for the entire biennium.

Based on discussions with staff from the Department of Natural Resources, state lands to be leased are nominated by prospective producers or speculators for a lease auction. This limits our ability to determine the potential revenue from bonus payments. The renewed interest in the Bakken formation in eastern Montana may continue to produce high lease sales in forthcoming auctions.

Our office will continue to monitor these issues further as well as any new issues before the next report is issued.

### **SUMMARY**

Total general fund revenue collections through March are exceeding HJ2 revenue estimates used by the 62<sup>nd</sup> Legislature for FY 2012. As reported in the December 2011 revenue update, total general fund revenues for FY 2012 are forecast to be \$61.9 million more than anticipated in HJ2 (revenue estimating resolution) and \$76.0 million more in FY 2013. Individual income, corporation license, oil and gas production, and insurance taxes are anticipated to be higher. Vehicle fees/taxes and some smaller sources are expected to be less than anticipated in HJ2. Property taxes appear to be on track with HJ2 taxable value estimates although there appears to be some weakness in collections at this time. Total general fund revenue collection data through the end of March indicates a potential improvement of

\$30 million over the 2013 biennium from the forecasts mentioned above. Since this new trend has developed in February and March, it is still too early speculate on whether this will continue in subsequent months.

Figure 10

| <b>2013 Biennium General Fund Revenue Estimates</b>  |                         |               |                       |                       |                             |  |
|--|-------------------------|---------------|-----------------------|-----------------------|-----------------------------|--|
| <b>Anticipated Revenue Adjustments - In Millions</b> |                         |               |                       |                       |                             |  |
| Tax Source   | FY 2012<br>HJ2 Estimate | % of<br>Total | Adjustment<br>FY 2012 | Adjustment<br>FY 2013 | Adjustment<br>2013 Biennium |  |
| 1 Individual Income Tax                              | \$809.322               | 45.3%         | \$56.861              | \$60.411              | \$117.272                   |  |
| 2 Property Tax                                       | 237.188                 | 13.3%         | No Chg.               | No Chg.               | No Chg.                     |  |
| 3 Corporation License Tax                            | 115.086                 | 6.5%          | 15.079                | 16.777                | 31.856                      |  |
| 4 Vehicle Fee/Tax                                    | 106.716                 | 6.0%          | (7.775)               | (7.807)               | (15.582)                    |  |
| 5 Oil & Gas Production Tax                           | 102.996                 | 5.8%          | 5.329                 | 19.917                | 25.245                      |  |
| 6 Insurance Tax                                      | 57.372                  | 3.2%          | 1.878                 | 1.982                 | 3.860                       |  |
| Remaining  | <u>356.942</u>          | 20.0%         | <u>(9.495)</u>        | <u>(15.327)</u>       | <u>(24.822)</u>             |  |
| Totals   | \$1,785.622             |               | \$61.877              | \$75.953              | \$137.829                   |  |

As shown in Figure 10, the potential 2013 biennium revenue adjustment is \$137.8 million. This represents a 3.8% upward adjustment to the revenue estimates contained in HJ2. The 62<sup>nd</sup> Legislature budgeted for an ending fund balance of \$150.4 million by the end of the 2013 biennium. Figure 11 shows the general fund balance sheet that incorporates the preliminary FY 2011 amounts and the anticipated revenue improvements as discussed in December. The December projected balance of \$426.7 million includes the anticipated supplemental appropriations of \$29.6 million for public schools. The supplemental appropriation amount has been decreased from the post-session estimate because of the potential additional revenue collections from interest and income bonus payments.

Figure 11

| <b>Legislative Budget - General Fund Outlook</b> |                   |                        |                      |                      |                  |                  |
|--|-------------------|------------------------|----------------------|----------------------|------------------|------------------|
| Figures in Millions                              |                   |                        |                      |                      |                  |                  |
|  | Actual<br>FY 2010 | Preliminary<br>FY 2011 | Estimated<br>FY 2012 | Estimated<br>FY 2013 | 2011<br>Biennium | 2013<br>Biennium |
| Beginning Fund Balance                           | \$396.334         | \$314.880              | \$343.762            | \$382.887            | \$396.334        | \$343.762        |
| Revenue  |                   |                        |                      |                      |                  |                  |
| HJ2 Revenue Estimate                             | 1,627.145         | 1,782.559              | 1,785.623            | 1,853.138            | 3,409.703        | 3,638.761        |
| Anticipated Adjustments                          |                   |                        | 61.877               | 75.953               | -                | 137.829          |
| Total Funds Available                            | \$2,023.478       | \$2,097.439            | \$2,191.262          | \$2,311.978          | \$3,806.037      | \$4,120.353      |
| Disbursements                                    |                   |                        |                      |                      |                  |                  |
| General Appropriations - HB2                     | 1,575.921         | 1,697.805              | 1,601.307            | 1,648.383            | 3,273.726        | 3,249.690        |
| Statutory Appropriations                         | 169.872           | 170.849                | 184.532              | 195.170              | 340.721          | 379.702          |
| Transfers  | 88.877            | 46.639                 | 17.122               | 12.898               | 135.516          | 30.020           |
| Other Appropriations                             | -                 | -                      | 2.384                | 1.822                | -                | 4.206            |
| Supplementals                                    | -                 | -                      | 5.944                | 23.670               | -                | 29.614           |
| Feed Bill  | -                 | -                      | 2.469                | 10.009               | -                | 12.478           |
| Reversions                                       | (117.960)         | (167.976)              | (5.383)              | (6.686)              | (285.936)        | (12.069)         |
| Total Disbursements                              | \$1,716.710       | \$1,747.317            | \$1,808.375          | \$1,885.266          | \$3,464.027      | \$3,693.641      |
| Fund Balance Adjustments                         | 8.112             | (6.360)                | -                    | -                    | 1.752            | -                |
| Ending Fund Balance                              | \$314.880         | \$343.762              | \$382.887            | \$426.712            | \$343.762        | \$426.712        |

The projected balance of \$426.7 million is a total improvement of \$276.3 million as compared to the 62<sup>nd</sup> Legislature budgeted balance. This projected balance is 11.6% of biennial disbursements.

Attachment 1 shows a variety of important economic and revenue indicators for Montana. For example, pertinent price and production statistics for Montana's natural resource industry (oil, coal, and natural gas) are shown for the last completed two years. For each statistic shown, the data source, measurement unit, whether the information is by calendar or fiscal year, an amount for 2010 and 2011, change amount, and percentage change is provided. The purpose of this information is to provide the reader with some relevant data on Montana's economic climate.

### Attachment 1 – Economic and Revenue Indicators

| Group                             | Statistic   | Source*  | Unit      | Year Type | 2010            | 2011            | Change Amount  | Percent Change |
|-----------------------------------|---|----------|-----------|-----------|-----------------|-----------------|----------------|----------------|
| <b>General Economy Indicators</b> |   |          |           |           |                 |                 |                |                |
|                                   | MT Wage and Salary Income (Q <sub>1-2</sub> to Q <sub>1-2</sub> )                           | BEA      | Dollars   | Calendar  | \$15,656,000    | \$16,031,000    | \$375,000      | 2.40%          |
|                                   | MT Non-Farm Employment (Q <sub>3</sub> <sub>2010</sub> to Q <sub>3</sub> <sub>2011</sub> )  | DOL      | Count     | Calendar  | 428,500         | 434,767         | 6,267          | 1.46%          |
|                                   | US Consumer Price Index (Q <sub>3</sub> <sub>2010</sub> to Q <sub>3</sub> <sub>2011</sub> ) | DOL      | Index     | Calendar  | 218.0           | 226.2           | 8.2            | 3.76%          |
|                                   | MT Housing Starts (SAAR) (Q <sub>1-3</sub> to Q <sub>1-3</sub> )                            | IHS      | Count     | Calendar  | 1,330           | 1,280           | (50)           | -3.76%         |
|                                   | MT Existing Home Sales (Q <sub>2</sub> <sub>2010</sub> to Q <sub>2</sub> <sub>2011</sub> )  | IHS      | Count     | Calendar  | 23,200          | 20,000          | (3,200)        | -13.79%        |
|                                   | MT Agricultural Cash Receipts (2009 to 2010)  | BEA      | Dollars   | Calendar  | \$2,831,196,000 | \$3,162,545,000 | \$331,349,000  | 11.70%         |
|                                   | MT Statewide Taxable Values (2010 to 2011)  | DOR      | Dollars   | Fiscal    | \$2,234,603,497 | \$2,325,021,202 | \$90,417,706   | 4.05%          |
|                                   | MT Short-Term Investment Pool (STIP) Rate   | BOI      | Percent   | Fiscal    | 0.34%           | 0.31%           | -0.03%         | -8.82%         |
| <b>Natural Resources</b>          |   |          |           |           |                 |                 |                |                |
|                                   | Montana Oil Production (Taxable)  | DOR      | Barrels   | Fiscal    | 26,211,799      | 24,707,503      | (\$1,504,296)  | -5.74%         |
|                                   | Montana Oil Wellhead Price  | DOR      | \$/Barrel | Fiscal    | \$65.27         | \$80.61         | \$15.34        | 23.50%         |
|                                   | Montana Coal Production (Taxable)   | DOR      | Tons      | Fiscal    | 34,714,320      | 36,318,866      | 1,604,547      | 4.62%          |
|                                   | Montana Coal Price (Contract Price)   | DOR      | \$/Ton    | Fiscal    | \$9.78          | \$10.92         | \$1.14         | 11.66%         |
|                                   | Montana Coal Price (Free on Board)  | DOR      | \$/Ton    | Fiscal    | \$13.66         | \$15.03         | \$1.37         | 10.03%         |
|                                   | Montana Natural Gas Production (Taxable)  | DOR      | MCF's     | Fiscal    | 98,561,962      | 84,007,213      | (14,554,749)   | -14.77%        |
|                                   | Montana Natural Gas Wellhead Price  | DOR      | \$/MCF    | Fiscal    | \$3.24          | \$3.38          | \$0.14         | 4.32%          |
| <b>Consumption</b>                |   |          |           |           |                 |                 |                |                |
|                                   | Cigarettes Sold (Taxable)   | DOR      | Packs     | Fiscal    | 46,158,900      | 44,946,750      | (1,212,150)    | -2.63%         |
|                                   | Other Tobacco Products (Value)  | DOR      | Dollars   | Fiscal    | 6,964,334       | 6,631,728       | (\$332,607)    | -4.78%         |
|                                   | Other Tobacco Products (Roll)   | DOR      | Ounces    | Fiscal    | 849,398         | 535,514         | (313,884)      | -36.95%        |
|                                   | Other Tobacco Products (Moist)  | DOR      | Ounces    | Fiscal    | 9,452,007       | 9,923,938       | 471,931        | 4.99%          |
|                                   | Lottery Ticket Sales  | SABHRS   | Dollars   | Fiscal    | \$45,192,762    | \$46,035,297    | \$842,535      | 1.86%          |
|                                   | Video Gaming Net Income   | Computed | Dollars   | Fiscal    | \$349,306,657   | \$332,162,069   | (\$17,144,588) | -4.91%         |
|                                   | Liquor Sales  | DOR      | Dollars   | Fiscal    | \$90,117,585    | \$92,955,786    | \$2,838,201    | 3.15%          |
|                                   | Beer Produced/Imported  | DOR      | Barrels   | Fiscal    | 969,379         | 951,728         | (17,651)       | -1.82%         |
|                                   | Wine Imports  | DOR      | Liters    | Fiscal    | 10,574,996      | 11,103,984      | 528,988        | 5.00%          |
|                                   | Rental Vehicle Sales (Taxable)  | DOR      | Dollars   | Fiscal    | \$73,278,756    | \$81,696,925    | \$8,418,169    | 11.49%         |
|                                   | Lodging Facility Sales (Taxable)  | DOR      | Dollars   | Fiscal    | \$438,052,856   | \$481,639,618   | \$43,586,762   | 9.95%          |
|                                   | Gasoline Gallons (Taxable)  | DOT      | Gallons   | Fiscal    | 492,223,774     | 498,312,840     | 6,089,066      | 1.24%          |
|                                   | Diesel Gallons (Taxable)  | DOT      | Gallons   | Fiscal    | 252,134,082     | 268,209,992     | 16,075,910     | 6.38%          |

**Source \***

BEA - US Department of Commerce, Bureau of Economic Analysis  
DOL - Montana Department of Labor and Industry  
IHS - IHS Global Insight  
BOI - Board of Investments  
LFD - Legislative Fiscal Division  
DOR - Montana Department of Revenue  
SABHRS - Statewide Accounting, Budgeting, Human Resource System  
Computed - Computed using collections and tax rate  
DOT - Montana Department of Transportation