MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
Amy Carlson

DATE: February 17, 2011

TO: Senator Jim Peterson, Senate President
Rep. Mike Milburn, House Speaker
Senator Bruce Tutvedt, Chair, Senate Taxation
Rep. Mark Blasdel, Chair, House Taxation Committee
Senator Jeff Essmann, Senate Majority Leader
Rep. Tom McGillvray, House Majority Floor Leader
Senator Carol Williams, Senate Minority Leader
Rep. Jon Sesso, House Minority Leader

FROM: Terry W. Johnson, Principal Fiscal Analyst

RE: General Fund Revenue Update Number 1

PURPOSE OF REPORT

This is the first revenue update report designed to brief the legislature on recent economic trends and the corresponding outlook for FY 2011, 2012, and 2013 general fund revenue estimates. This analysis is based on collection data received through the end of January 2011 and includes economic forecasts by IHS Global Insight (IHS) for both the national and state economies. This report is presented in three sections: the first section summarizes the new information that has become available to the LFD since our revenue estimate recommendations to the Revenue and Transportation Interim Committee (RTIC) were prepared in mid-November, 2010; the second section summarizes the results of our analysis and the impact on anticipated general fund revenue collections; and the third section provides a "what to watch for" in the next update of this report expected to be issued in mid-March.

It is critical for the legislature to be apprised of current economic conditions and the potential general fund revenue impacts in order to craft a state budget that is balanced as required by the Montana Constitution. This report shows revised LFD estimates that are recommended to be incorporated into HJ2, the revenue estimating resolution.

THE BOTTOM LINE

This analysis shows that general fund revenue collections have improved as compared to the RTIC revenue estimates approved in November 2010. Although year to date revenue collections appear to be quite strong, there are a number of timing and accounting issues that have contributed to this growth. A more thorough analysis on several of the revenue sources that appeared to be exceeding the HJ2 revenue estimate has been prepared. As discussed later in this report, the only major source of revenue that is showing significant improvement over our November 2010 recommendations is individual income tax. Other sources that are showing some improvement are corporation income tax and oil and natural gas production tax. Figure 1 shows the recommended changes to the HJ2 revenue estimates.

Figure 1

Recommended Adjustments to HJ2
Figures in Millions

Revenue Category	Revision FY 2011	Revision FY 2012	Revision FY 2013	Biennium 2012-13
Individual Income Tax	25.895	28.950	32.154	61.104
Corporation Income Tax	2.106	0.134	(0.152)	(0.018)
Oil & Gas Production Tax	4.690	1.804	1.478	3.282
All Other Categories	1.706	0.101	(1.884)	(1.783)
Total	**$34.397**	**$30.990**	**$31.596**	**$62.586**

The analysis also shows the major economic assumptions used to develop the RTIC estimates have not changed materially. What has changed is individual income tax refund assumption and the impact this will have on the timing of future tax receipts.

The LFD recommends the HJ2 general fund revenue estimates be increased by $34.4 million for FY 2011 and $62.6 million for the 2013 biennium. The revenue improvement for FY 2011 will increase the beginning general fund balance for the 2013 biennium. Because the 2013 biennium revenue improvement is expected to be on-going, the $62.6 million could be incorporated into the 2013 biennium budget plan on an on-going basis. The next section of the report summarizes the results of our analysis.

NEW INFORMATION

Each month, the LFD receives a revised national economic outlook from IHS. This is the economic forecasting company that Montana has a contract with to provide national and regional economic forecasting services. This service includes written material as well as a variety of economic forecasts for hundreds of economic variables. The information received from IHS in early February reflects their forecasts as of January 2011 for the state and national economies.

The statewide budgeting and accounting system (SABHRS) produces a snapshot of accounting transactions on the last day of each month. The LFD has internal computer processes to

download this data and produce a variety of reports and spreadsheets. While this data is critical in monitoring year to date collection trends, this system does not contain any tax return or economic information such as individual and corporate income components, oil and gas production, or prevailing interest rates. This type of detailed data must be extracted from other sources provided the information is available. The accounting transaction detail that is available to the LFD reflects revenue collections through January 2011. Historical collection data by month are available back to FY 2000.

The LFD, in cooperation with the Department of Revenue (DOR), developed a process whereby the DOR sends the LFD tax return data for fifty different tax types at the beginning of each month. This data is extremely helpful in analyzing various trends that may be occurring within a given tax type. For example, the DOR data show oil production by calendar quarter as reported by the taxpayer. This data are invaluable in tracking production trends throughout the year. It should be noted, however, that since oil production taxes are payable sixty days after the end of each quarter, there is a considerable lag time before the LFD can analyze the data. Nonetheless, this new data were received February 1 and included return information captured in the DOR system as of January 31, 2011.

During each month, there are numerous articles and economic reports that are produced by newspapers, economic websites, and federal entities. To the extent possible, this information is reviewed for relevancy to Montana's economy and the impact it may have on state revenues. Usually this information is for reference and does not have a quantifiable impact on our revenue outlook. This type of information is received and reviewed daily throughout the month.

Based on this new information, the following section of the report highlights our analysis of the new data and summarizes the total LFD recommended changes to the general fund revenue estimates for FY 2011, 2012, and 2013.

RESULTS OF LFD ANALYSIS

The primary components of total general fund revenues are individual and corporate income taxes, property taxes, motor vehicle fees/taxes, and natural resource taxes. If all of these components are added together, over 78 percent of total general fund revenues are produced from these sources. The analysis discussed in this report focuses on the larger revenue sources but also includes some additional information relevant to some of the smaller revenue sources.

This general fund revenue update report will focus on key economic assumptions and the potential impacts on general fund revenue estimates for FY 2011, 2012, and 2013. This report is prepared in a format that discusses collection data through January 2011 compared with collections through January 2010. This type of comparison can provide insight to the strengths or weaknesses of year to date collections and can help identify trends that may be indicative of collections for the remainder of FY 2011. This information can then be used to research the economic conditions that have changed to impact the collection patterns. Economic conditions determine revenue trends - collections do not produce economic activity.

ANALYSIS OF ECONOMIC CONDITIONS

In general, most economic conditions showed minimal change or a slight improvement from the November 2010 IHS forecasts. The following tables show the change in the economic assumptions as prepared by IHS for both the national and state economies. As shown in Figure 2, inflation and interest rates have remained virtually unchanged. Oil and natural gas prices have changed – oil prices are up and natural gas prices are down. The S&P index has improved while national corporate profits have slowed. The changes shown are in relation to the IHS November 2010 forecasts.

Figure 2

National Economic Indicators (IHS)

	Gross Domestic Product			Consumer Price Index			Short-term Interest Rate			Long-term Interest Rate		
	Nov	Feb	Change	Nov	Feb	Change	Nov	Feb	Change	Nov	Feb	Change
2009	14,119	14,119	0.000	2.145	2.145	0.000	0.567	0.567	0.000	5.037	5.037	0.000
2010	14,630	14,660	29.878	2.180	2.181	0.000	0.312	0.309	-0.003	4.657	4.695	0.037
2011	15,164	15,331	166.605	2.215	2.222	0.007	0.432	0.445	0.013	4.204	4.803	0.599
2012	15,836	15,972	135.577	2.256	2.259	0.003	1.839	1.870	0.031	4.770	5.041	0.271
2013	16,516	16,715	198.973	2.301	2.302	0.001	3.950	3.953	0.003	6.094	6.057	-0.037

	West Texas Oil Price			Henry Hubb Natural Gas Price			S&P 500 Index			Corporate Profits ($ billion)		
	Nov	Feb	% Chg.	Nov	Feb	% Chg.	Nov	Feb	% Chg.	Nov	Feb	% Chg.
2009	61.767	61.767	0.00%	3.917	3.919	0.06%	947	947	0.00%	1,317	1,317	0.00%
2010	77.452	79.450	2.58%	4.465	4.379	-1.91%	1,117	1,139	2.02%	1,770	1,796	1.44%
2011	82.583	90.868	10.03%	4.181	3.972	-5.00%	1,166	1,319	13.08%	1,824	1,658	-9.08%
2012	89.163	95.164	6.73%	5.238	4.820	-7.98%	1,261	1,406	11.48%	1,883	1,669	-11.37%
2013	93.015	99.015	6.45%	5.573	5.367	-3.69%	1,342	1,487	10.78%	1,861	2,023	8.73%

Figure 3 shows the forecasts specific to Montana. Wage disbursements and nonfarm employment have remained nearly unchanged, while gross state product and retail sales have shown some improvement. Conversely, housing starts and median house prices show further weakness. The changes shown are in relation to the IHS November 2010 forecast.

Figure 3

Montana Economic Indicators (IHS)									
	Gross State Product ($ million)			Wage Disbursements ($ million)			Non Farm Employment		
	Nov	Feb	% Chg.	Nov	Feb	% Chg.	Nov	Feb	% Chg.
2009	35,102	35,955	2.43%	15,327	15,327	0.00%	429,200	429,200	0.00%
2010	36,349	37,447	3.02%	15,689	15,676	-0.08%	425,777	425,517	-0.06%
2011	37,725	38,994	3.36%	16,263	16,274	0.06%	428,022	427,909	-0.03%
2012	39,331	40,574	3.16%	16,986	17,064	0.46%	435,747	435,300	-0.10%
2013	40,936	42,398	3.57%	17,698	17,858	0.90%	442,766	443,362	0.13%
	Retail Sales ($ million)			Housing Starts			Median House Price		
	Nov	Feb	% Chg.	Nov	Feb	% Chg.	Nov	Feb	% Chg.
2009	13,902	13,892	-0.07%	1,321	1,321	0.04%	168,660	169,141	0.29%
2010	14,721	14,892	1.17%	1,307	1,230	-5.95%	165,709	165,395	-0.19%
2011	15,432	15,934	3.26%	1,244	1,101	-11.48%	165,332	163,447	-1.14%
2012	16,210	16,707	3.06%	1,716	1,526	-11.04%	172,336	169,829	-1.45%
2013	16,675	17,348	4.03%	1,984	2,042	2.93%	181,008	178,005	-1.66%

YEAR TO DATE COLLECTIONS

As discussed in the previous section, there have been some minor changes to the November forecasts of the key economic assumptions at both the national and state levels. Since economic conditions drive revenue receipts there should be a consistency with year to date collection patterns. If a consistency does not exist, then an analysis between economic conditions and actual collections should be prepared to determine what may be causing the variation. This section of the report discusses our analysis of year to date collection trends.

Figure 4 shows general fund revenue collections by individual revenue source. This table is produced monthly based on the revenue transactions recorded on SABHRS. The information shown in Figure 4 represents revenue collections for the first seven months of FY 2010 compared to the first seven months of FY 2011. As shown at the bottom of Figure 4, total general fund collections are $95.8 million (10.5 percent) above last year. The HJ2 total general fund revenue estimate as adopted by RTIC on November 19th, 2010, expected revenues to be 2.8 percent above FY 2010 collections.

This information seems to indicate that overall, general fund revenue collections are on pace to exceed the HJ2 estimate. However, other than individual income tax, several accounting and timing issues change this perspective. Some of the more significant issues are highlighted in the next section of the report.

Figure 4

Legislative Fiscal Division

General Fund Revenue Monitoring Report

Revenue Source	Actual Fiscal 2010	HJ2 Estimate Fiscal 2011	Through 1/31/10	Through 2/1/11	Difference	% Change	HJ2 Estimate % Change
GF0100 Drivers License Fee	4,156,003	3,561,000	2,121,188.52	2,317,899.27	196,710.75	9.27%	-14.32%
GF0200 Insurance Tax	54,892,354	54,587,000	23,859,301.82	24,129,403.53	270,101.71	1.13%	-0.56%
GF0300 Investment Licenses	6,224,662	6,008,000	5,642,258.04	5,835,265.08	193,007.04	3.42%	-3.48%
GF0400 Vehicle License Fee	89,484,621	92,210,000	32,536,723.42	42,870,602.76	10,333,879.34	31.76%	3.05%
GF0500 Vehicle Registration Fee	14,376,928	14,815,000	5,239,748.89	7,202,866.11	1,963,117.22	37.47%	3.05%
GF0600 Nursing Facilities Fee	5,300,229	5,039,000	1,984,978.20	2,234,450.92	249,472.72	12.57%	-4.93%
GF0700 Beer Tax	3,031,854	3,142,000	1,621,153.34	1,582,715.96	(38,437.38)	**-2.37%**	3.63%
GF0800 Cigarette Tax	32,217,914	31,029,000	18,552,709.86	17,576,635.65	(976,074.21)	**-5.26%**	-3.69%
GF0900 Coal Severance Tax	10,321,853	14,848,000	6,008,878.77	6,552,788.63	543,909.86	**9.05%**	43.85%
GF1000 Corporation Tax	87,900,911	103,320,000	30,071,089.21	52,353,293.00	22,282,203.79	74.10%	17.54%
GF1100 Electrical Energy Tax	4,713,429	4,452,000	1,220,218.98	2,483,213.97	1,262,994.99	103.51%	-5.55%
GF1150 Wholesale Energy Trans Tax	3,556,056	3,657,000	1,462,446.10	2,024,000.13	561,554.03	38.40%	2.84%
GF1200 Railroad Car Tax	2,579,263	2,031,000	1,977,026.66	1,674,773.50	(302,253.16)	-15.29%	-21.26%
GF1300 Individual Income Tax	717,834,371	738,761,000	528,620,614.41	573,979,153.67	45,358,539.26	8.58%	2.92%
GF1400 Inheritance Tax	90,544	5,000	47,486.95	31,617.67	(15,869.28)	-33.42%	-94.48%
GF1500 Metal Mines Tax	6,541,391	6,481,000	2,899.99	991.48	(1,908.51)	**-65.81%**	-0.92%
GF1700 Oil Severance Tax	95,490,812	101,421,000	21,314,801.54	23,061,185.87	1,746,384.33	8.19%	6.21%
GF1800 Public Contractor's Tax	6,969,395	6,477,000	5,236,458.45	6,005,664.66	769,206.21	14.69%	-7.07%
GF1850 Rental Car Sales Tax	2,807,415	2,999,000	1,480,427.25	1,730,869.83	250,442.58	16.92%	6.82%
GFxxxx Property Tax	222,509,767	229,084,000	123,374,537.00	127,518,637.58	4,144,100.58	3.36%	2.95%
GF2150 Lodging Facilities Sales Tax	12,330,846	12,852,000	5,815,572.08	7,145,362.72	1,329,790.64	22.87%	4.23%
GF2200 Telephone Tax	-	-	-	-	-		
GF2250 Retail Telecom Excise Tax	23,523,474	21,772,000	5,528,852.08	6,544,685.74	1,015,833.66	18.37%	-7.45%
GF2300 Tobacco Tax	5,334,499	5,680,000	2,784,933.32	2,822,608.37	37,675.05	**1.35%**	6.48%
GF2400 Video Gaming Tax	52,395,999	55,340,000	27,481,710.94	24,547,062.08	(2,934,648.86)	**-10.68%**	5.62%
GF2500 Wine Tax	1,932,669	2,098,000	1,038,492.19	1,053,216.30	14,724.11	**1.42%**	8.55%
GF2600 Institution Reimbursements	22,000,354	17,555,000	8,920,672.08	9,024,031.41	103,359.33	1.16%	-20.21%
GF2650 Highway Patrol Fines	4,646,462	4,666,000	2,222,991.90	2,199,062.80	(23,929.10)	**-1.08%**	0.42%
GF2700 TCA Interest Earnings	2,692,285	1,666,000	1,551,896.01	1,343,491.31	(208,404.70)	-13.43%	-38.12%
GF2900 Liquor Excise Tax	15,626,091	16,104,000	5,466,805.25	8,459,457.77	2,992,652.52	54.74%	3.06%
GF3000 Liquor Profits	9,000,000	9,511,000	-	-	-		5.68%
GF3100 Coal Trust Interest Earnings	26,914,102	26,512,000	11,268,340.31	11,586,387.77	318,047.46	2.82%	-1.49%
GF3300 Lottery Profits	10,631,304	12,327,000	2,794,584.00	2,251,281.00	(543,303.00)	**-19.44%**	15.95%
GF3450 Tobacco Settlement	3,468,623	3,565,000	-	-	-		2.78%
GF3500 U.S. Mineral Leasing	30,287,794	29,674,000	13,036,796.74	14,032,275.16	995,478.42	7.64%	-2.03%
GF3600 All Other Revenue	35,360,264	28,883,000	13,773,558.83	17,727,576.11	3,954,017.28	28.71%	-18.32%
Grand Total	1,627,144,538	1,672,132,000	914,060,153.13	1,009,902,527.81	95,842,374.68	10.49%	2.76%

Figure 5 shows a summarization of the data from Figure 1 by two groupings. The first group (Group 1) shows the larger general fund revenue sources. These are the revenue components that are primarily responsible for the increase in year to date collections. The second group (Group 2) shows those revenue categories that are showing significant variations from trends when compared to FY 2010 amounts. Both of these groupings are discussed in the following section.

Figure 5

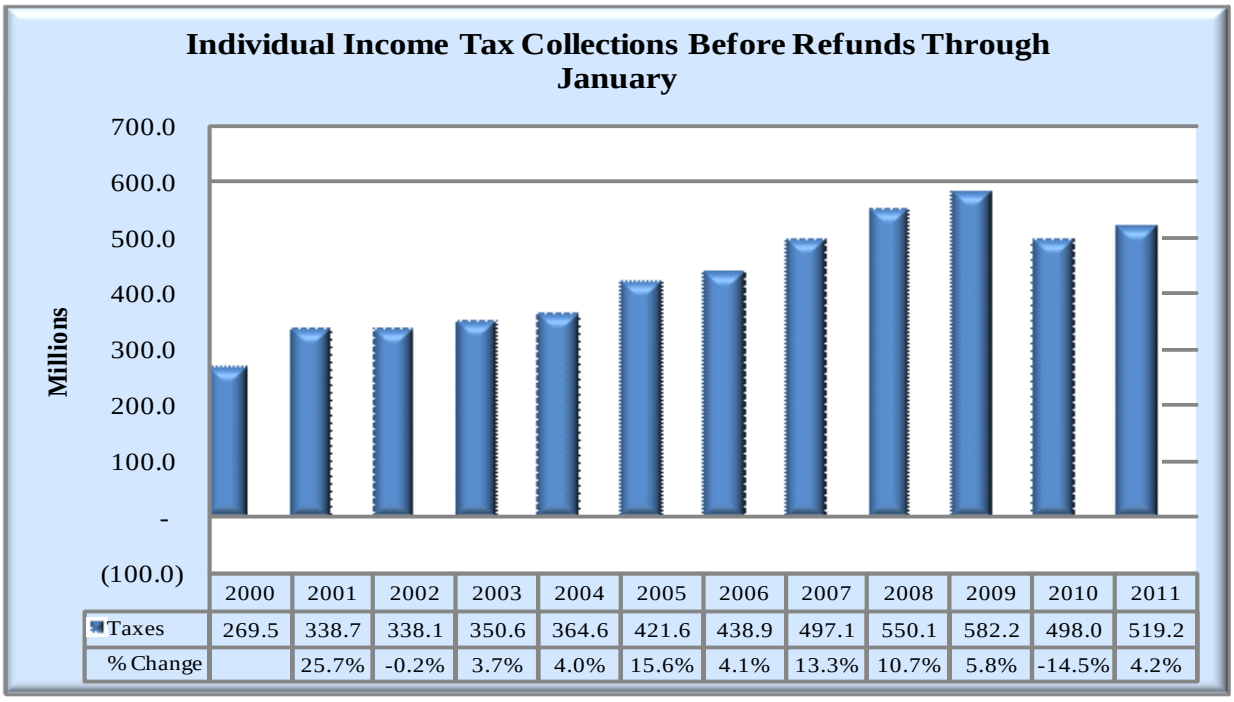
Summary of Revenue Categories With Significant Collection Variations
Fiscal 2010 versus Fiscal 2011 Through January

Revenue Category	Actual FY 2010	HJ2 Estimate FY 2011	Thru Jan. FY 2010	Thru Jan. FY 2011	Dollar Change	% Change	HJ2 % Change
Group 1							
Individual Income Tax	717,834,371	738,761,000	528,620,614	573,979,154	45,358,539	8.58%	2.92%
Corporation Tax	87,900,911	103,320,000	30,071,089	52,353,293	22,282,204	74.10%	17.54%
Oil & Gas Production Tax	95,490,812	101,421,000	21,314,802	23,061,186	1,746,384	8.19%	6.21%
Total	**$901,226,094**	**$943,502,000**	**$580,006,505**	**$649,393,633**	**$69,387,127**	**11.96%**	**4.69%**
Group 2							
Vehicle Fees/Taxes	103,861,549	107,025,000	37,776,472	50,073,469	12,296,997	32.55%	3.05%
Property Tax	222,509,767	229,084,000	123,374,537	127,518,638	4,144,101	3.36%	2.95%
Liquor Excise Tax	15,626,091	16,104,000	5,466,805	8,459,458	2,992,653	54.74%	3.06%
Lodging Facilities Sales Tax	12,330,846	12,852,000	5,815,572	7,145,363	1,329,791	22.87%	4.23%
Retail Telecommunications Tax	23,523,474	21,772,000	5,528,852	6,544,686	1,015,834	18.37%	-7.45%
Electrical Energy Tax	4,713,429	4,452,000	1,220,219	2,483,214	1,262,995	103.51%	-5.55%
Other Revenue	35,360,264	28,883,000	13,773,559	17,727,576	3,954,017	28.71%	-18.32%
All Other Categories	307,993,024	308,458,000	141,097,631	140,556,493	(541,139)	-0.38%	0.15%
Total	**$725,918,444**	**$728,630,000**	**$334,053,648**	**$360,508,895**	**$26,455,247**	**7.92%**	**0.37%**
Grand Total	**$1,627,144,538**	**$1,672,132,000**	**$914,060,153**	**$1,009,902,528**	**$95,842,375**	**10.49%**	**2.76%**

Individual Income Tax (Group 1)

Figure 6 shows individual income tax collection data (less refunds) for the first 7 months of FY 2011 compared to the same period of FY 2010. Other fiscal years are shown for reference. As shown in the figure, total individual income tax collections less refunds are 4.2 percent ($21.2 million) above last year.

Figure 6

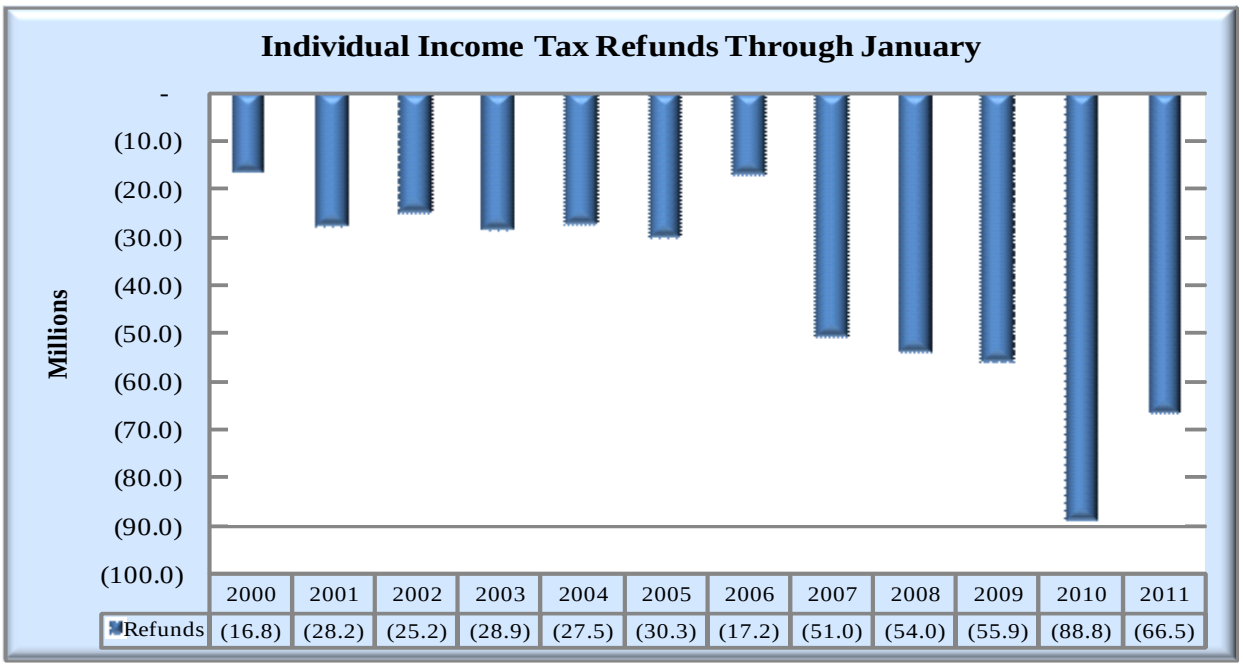


The increase suggests that individual income tax collections less refunds are improving and that

economic conditions must be recovering from the "Great Recession". This is good news and is consistent with the economic assumptions approved by the RTIC in November 2010.

As shown in Figure 5, individual income tax collections are up 8.6 percent over last year at this time. If economic growth is doing as expected, then what is causing total individual income tax collections to be growing even faster than expected in HJ2? Figure 7 shows refund activity through January of each year since 2000.

Figure 7

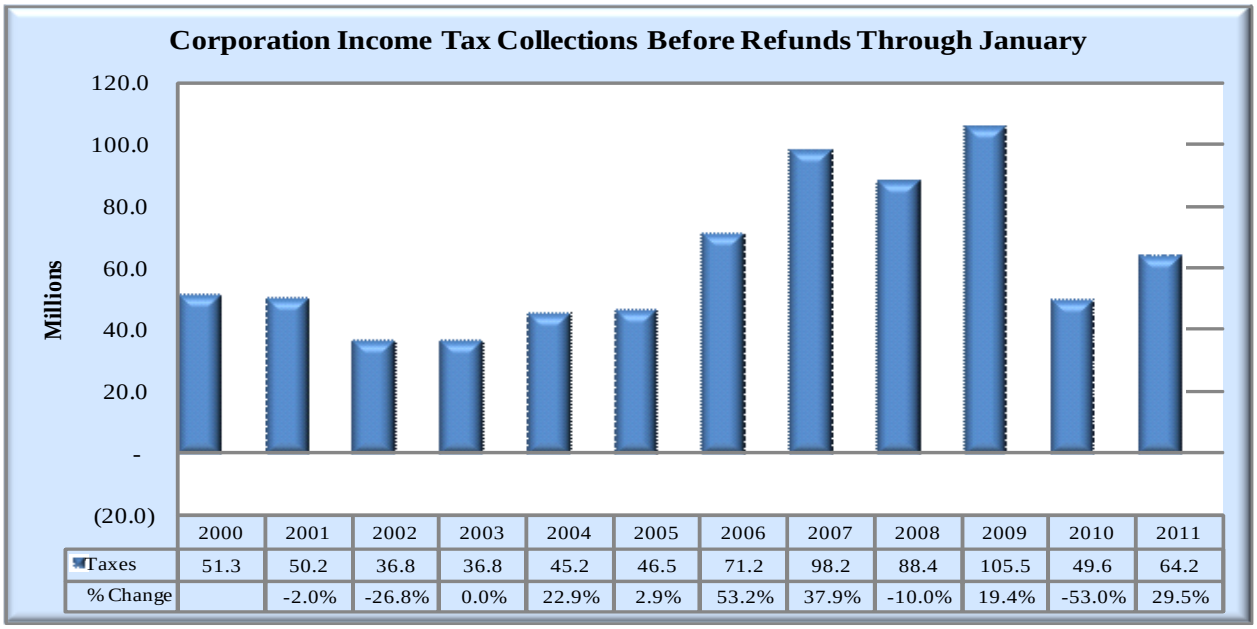


As the figure shows, refunds issued through January of FY 2010 were considerably higher than through January of FY 2011. Revenue estimate recommendations approved by RTIC in November 2010 assumed a higher level of refund activity would continue for all of FY 2011. Since RTIC did not have the benefit of knowing what refunds would be issued in November, December, and January, our analysis suggests there were unusually high refunds in FY 2010 that will not continue into FY 2011. Our revised recommendations are based on refunds returning to a more normal pattern and that the spike observed in FY 2010 will not reoccur. This refund adjustment is the primary reason for the higher individual income tax estimates. The original income growth assumptions approved by RTIC in November have not changed significantly.

Corporation Income Tax (Group 1)

Figure 8 shows more detailed corporation income tax collection data (less refunds) for the first 7 months of FY 2011 compared to the same period of FY 2010. Other years are shown for reference. As shown in the figure, total corporation income tax collections less refunds are 29.5 percent ($14.6 million) above last year. This growth rate is well above the assumed growth rate in HJ2.

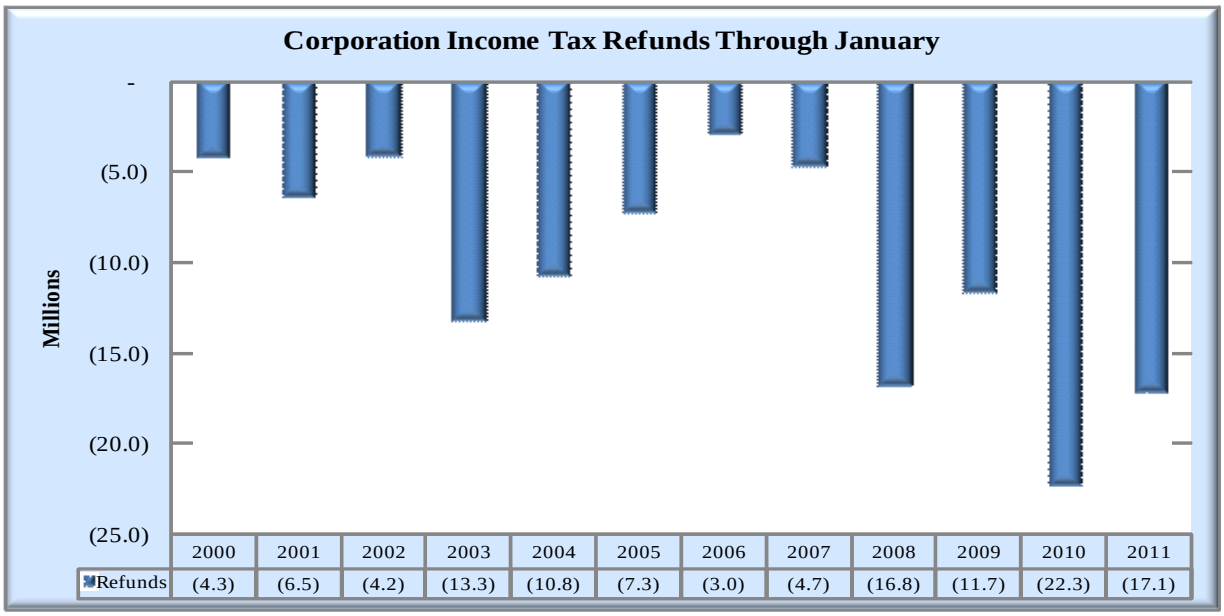
Figure 8



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Taxes	51.3	50.2	36.8	36.8	45.2	46.5	71.2	98.2	88.4	105.5	49.6	64.2
% Change		-2.0%	-26.8%	0.0%	22.9%	2.9%	53.2%	37.9%	-10.0%	19.4%	-53.0%	29.5%

This amount suggests that corporation income tax collections are improving and that economic conditions must be recovering from the "Great Recession". However, an analysis of historical collection trends shows that FY 2010 collection patterns were abnormal. Part of last year's fluctuations can be explained by the high level of refunds issued. Figure 9 shows the refund activity through January of the respective fiscal years. As the figure shows, refunds through January of last year were considerably higher than previous years. If an extrapolation of current corporation tax collections (including refunds) is compared to other fiscal years, then year to date collections are on target with the estimates contained in HJ2. A comparison to FY 2010 collections produces an inappropriate conclusion.

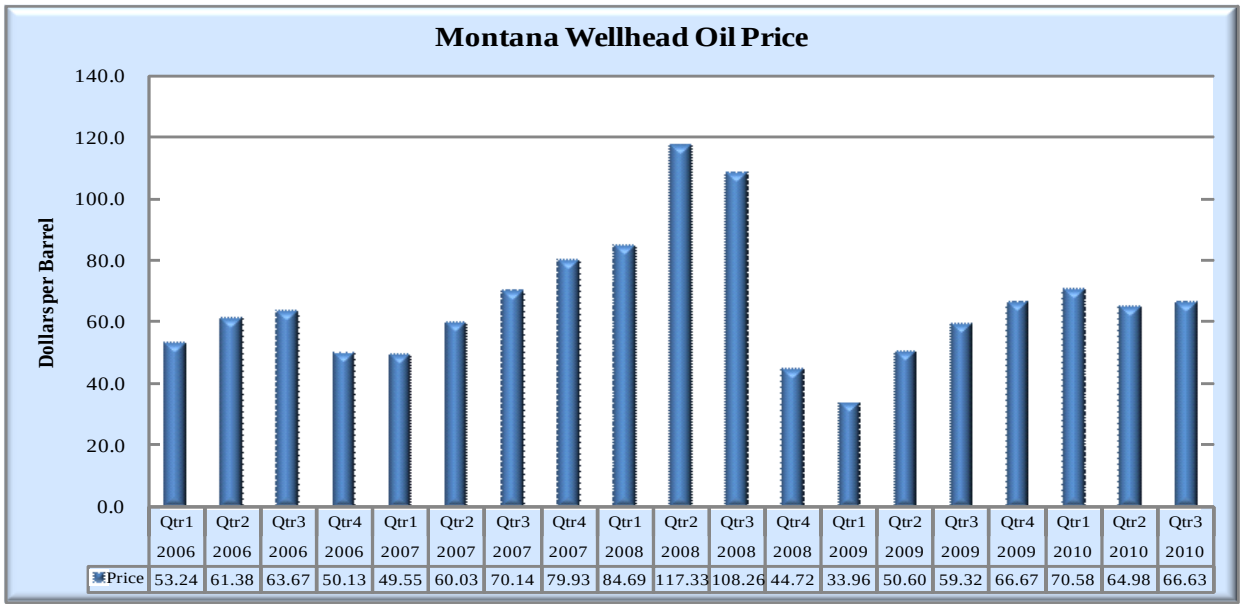
Figure 9



Oil and Gas Production Tax (Group 1)

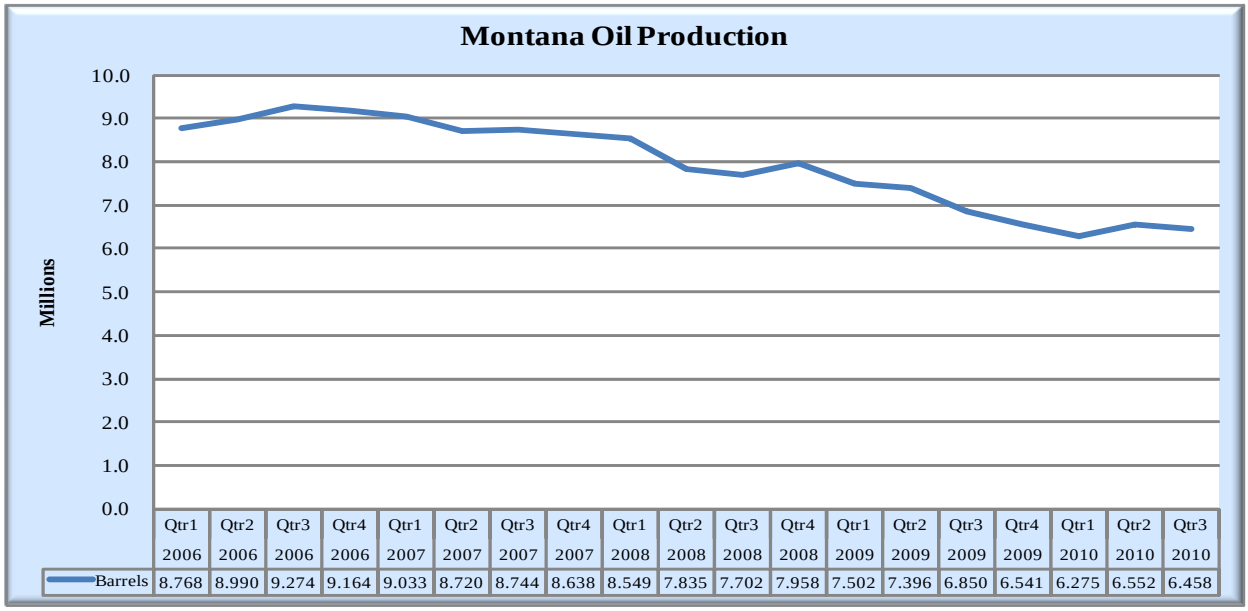
Total oil and gas production tax collections are $1.7 million (8.2 percent) above last year as of the end of January. These collections represent economic conditions through the 3rd quarter of calendar 2010 as compared to the 3rd quarter of calendar 2009. This increase was not unexpected since Montana oil prices averaged $66.63 per barrel for the 3rd quarter of calendar 2010 versus $59.32 per barrel for the 3rd quarter of calendar 2009. Fourth quarter calendar 2010 collections are expected to increase as Montana oil prices are expected to average close to $75 per barrel during the quarter, well above the $66.67 per barrel average during the 4th quarter of calendar 2009. The next payment of oil and gas production taxes will be processed by late April.

Figure 10



Although the average wellhead price continues to be at high levels, total production in Montana continues to decline as shown in Figure 11. Production is expected to be about 25.7 million barrels for calendar 2010.

Figure 11



	Qtr1 2006	Qtr2 2006	Qtr3 2006	Qtr4 2006	Qtr1 2007	Qtr2 2007	Qtr3 2007	Qtr4 2007	Qtr1 2008	Qtr2 2008	Qtr3 2008	Qtr4 2008	Qtr1 2009	Qtr2 2009	Qtr3 2009	Qtr4 2009	Qtr1 2010	Qtr2 2010	Qtr3 2010
Barrels	8.768	8.990	9.274	9.164	9.033	8.720	8.744	8.638	8.549	7.835	7.702	7.958	7.502	7.396	6.850	6.541	6.275	6.552	6.458

There appears to be some stability in production emerging during the last three quarters of calendar 2010. Further data will be necessary to identify whether a new production pattern is occurring.

The following section of the report addresses those sources shown in Group 2 of Figure 5. All of these sources except for the "All Other Categories" are showing collections patterns that are exceeding the HJ2 revenue estimate. None of these increases are due to changes in economic conditions but are merely due to computer system issues, accounting changes, or timing patterns between fiscal years.

Vehicle Fees/Taxes (Group 2)

The Department of Justice implemented the MERLIN system to process vehicle fees/taxes. During FY 2010, the system continued to have production issues that were eventually resolved by the end of the fiscal year. Because of these problems and the impact it had on collection trends, a comparison between fiscal years would be erroneous. This means the $12.3 million increase shown between fiscal years is not due to improved economic conditions but merely reflects the accounting problems that were evident in FY 2010.

Property Tax (Group 2)

Property tax revenues are up slightly in FY 2011 when compared to the same period for FY 2010. This increase amounts to $4.1 million but is probably due to timing issues and not due to higher property tax collections. The revenue estimates adopted by RTIC in November were based on certified taxable values from DOR for FY 2011. Since this is the value the 95 mills is

assessed against, the timing of taxpayer payments between November and May is probably the reason for the small improvement in these revenue collections.

Liquor Excise Tax (Group 2)

The liquor excise tax is the 16 percent tax assessed on the value of liquor sold in Montana. Two years ago, the Legislative Auditor recommended the DOR change their accounting procedures regarding deposits from this tax. This change was implemented in FY 2010 which had the effect of temporarily understating current year collections in FY 2010. Because this accounting change resulted in an understatement of collections in FY 2010, a comparison to this year is inappropriate.

Lodging Facilities Sales Tax (Group 2)

The lodging facilities sales tax is due the last day of the month following the end of the calendar year. Historically, these payments are deposited in January and February with the largest portion being deposited in February. This fiscal year, the larger portion was recorded in January instead of February. Because of this timing issue, collections appear to be exceeding HJ2 estimates.

Electrical Energy Tax (Group 2)

The electrical energy tax is due 30 days after the end of the quarter. In previous years, these deposits have shown up in January and February. This fiscal year, the deposit was all made in the month of January. Because of this timing issue, collections appear to be exceeding HJ2 estimates.

Retail Telecommunications Tax (Group 2)

The retail telecommunications tax is due 30 days after the end of the quarter. In previous years, these deposits spanned across January and February. This fiscal year, the deposit was made in January. Collections by the end of December were on track with the HJ2 estimate. Because of this timing issue, collections appear to be exceeding HJ2 estimates.

Other Revenue (Group 2)

For revenue estimation purposes, there is a revenue source called “All Other Revenue”. This particular source is the summation of numerous smaller sources that are estimated separately and combined together for presentation purposes. This source is above last year by $3.9 million but this increase is due to unexpected deposits from the Natural Resource Damage program ($1.3 million) and acceleration in abandoned property collections ($1.6 million). These two components account for $2.9 million of the $3.9 million improvement. Revenue from both of these sources are one-time-only.

All Other Categories (Group 2)

All of the remaining revenue sources not mentioned above were combined together. Collectively, the total for all these sources are slightly below the anticipated amount contained in HJ2. A detailed analysis was not prepared for this grouping.

SUMMARY OF LFD ANALYSIS

Based on our analysis of the new data received from all the sources mentioned previously, the information indicates that total general fund revenue estimates could be understated by $34.4 million in FY 2011 and $62.6 million in the 2013 biennium as compared to the revenue estimates contained in HJ2. A majority of these amounts is due to changes in the underlying assumptions for individual income tax refunds and oil and natural gas prices.

Other adjustments are recommended for several other sources because of the interrelationship with the various economic assumptions provided by IHS. In total these changes are small and do not change the revenue outlook significantly.

The total recommended adjustments in general fund revenue estimates are shown in Figure 12. The estimates as adopted by RTIC on November 19 (HJ2) and the LFD recommendations developed in February are shown. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A positive number means our new estimate is above the amount contained in HJ2.

Figure 12

Recommended Adjustments to HJ2
Figures in Millions

Revenue Category	Revision FY 2011	Revision FY 2012	Revision FY 2013	Biennium 2012-13
Individual Income Tax	25.895	28.950	32.154	61.104
Corporation Income Tax	2.106	0.134	(0.152)	(0.018)
Oil & Gas Production Tax	4.690	1.804	1.478	3.282
All Other Categories	1.706	0.101	(1.884)	(1.783)
Total	**$34.397**	**$30.990**	**$31.596**	**$62.586**

The legislature is faced with an extremely difficult task of developing a 2013 biennium budget in light of current economic conditions and how these conditions will affect future revenue collections. The duration and intensity of the "Great Recession" was not anticipated and had a profound impact on state general fund revenues. Even with these revised upward recommendations, it will take several years before revenues return to the peak level observed in FY 2008. As the new data were reviewed and analyzed by staff, two key points were noted.

First, with receipt of year to date collections and revised economic data, anticipated revenues are performing as expected except for the significant change in refunds issued and the wellhead price of oil. Without these adjustments, revenue collections would be close to being on target with the HJ2 estimates. Computer system issues, accounting changes, and collection timing patterns explain why other sources are showing improvement over FY 2010 collections and do not reflect changing economic conditions.

Second, the immediate task for the legislature is to adopt a balanced 2013 biennium budget. The major issue the legislature must face is the risk associated with the revised LFD recommendations. There is a distinct possibility that refunds issued may be higher than anticipated when the peak refund season occurs in April and May. However, there is also the possibility that refunds will occur at the new anticipated amounts but estimated payments will spike beginning in April. As the economy recovers there is a good chance that taxpayers may adjust their estimated payments upward to reflect the improvement in their income levels. If those taxpayers do not adjust their estimated payments, then there is a good chance that refunds issued a year from now will be significantly reduced. Regardless, there are risks – risks that could impact the revenue estimates negatively or positively. The LFD recommends the legislature discuss and debate revenue estimates to ensure the best possible numbers are used to balance the 2013 biennium budget.

WHAT TO WATCH FOR NEXT MONTH

This section of the report highlights the new data available between now and mid-March. This data should help staff and the legislature assess any new trends that may be developing that affect general fund revenue estimates.

Data to be Received

Early March	IHS Global Insight, National economic forecast IHS Global Insight, State economic forecast Written report and data tables
	SABHRS month-end data General fund revenue monitoring report – revenue collections through February
	DOR selected tax return data