



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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

Director
AMY CARLSON

DATE: February 7, 2018

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 2018 General Fund Revenue Update #2

PURPOSE OF THIS REPORT

This is the second of six monthly revenue updates throughout the second half of FY 2018 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2018 relative to the revenue estimate contained in HJ 2.

GENERAL FUND REVENUE SUMMARY

The executive's general fund revenue estimate used to call 2017 November Special Session Legislature was below HJ 2 by \$137 million in FY 2018. Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns indicate total general fund collections of \$2,412 million, about \$22 million less than the HJ 2 estimate for FY 2018. Using the cash concept model described in the appendix, current collections suggest a potential revenue shortfall of about \$7 million.

Although year-to-date estimates through January are suggesting final revenue collections similar to HJ 2, this may overstate revenue due to timing of tax payments. Under the Tax Cuts and Jobs Act of 2017, the federal deduction for state and local taxes is limited to \$10,000 starting in 2018. Taxpayers may have made individual income and property tax payments earlier in the fiscal year to maximize federal deductibility.

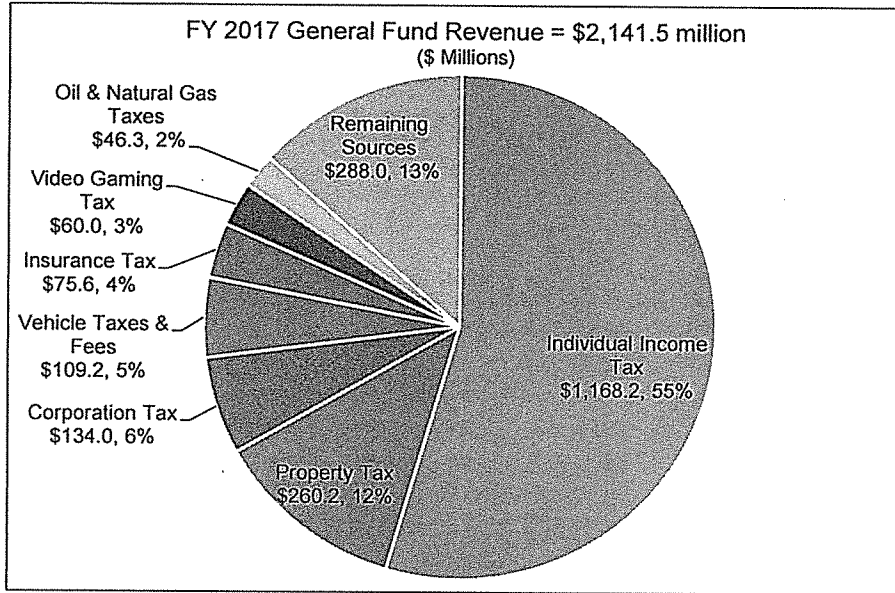
The year-to-date analyses are above the range of LFD revenue analysis provided to the September 2017 Legislative Finance Committee—\$42 million to \$100 million below HJ 2 in FY 2018—and are above the Special Session executive revenue assumption of \$137 million below HJ 2.

Estimate*	Range of Revenue Options		
	(\$ Millions)		
	FY 2018	FY 2019	Notes
HJ 2	\$2,435	\$2,495	Official legislative revenue estimate
YTD Median Extrapolation	2,412		Based on total general fund collection patterns since FY 2002
Cash Concept Model	2,427		Based on collection patterns of large revenue sources since FY 2002
Executive Estimate for 2017 Special Session	2,297	2,352	Used to balance GF budget during 2017 Special Session, but not adopted

*Estimates have been adjusted for all enacted legislation. Note that the revenue from SB 4 (2017 Special Session) is currently under litigation.

MAJOR SOURCES

In FY 2017, the largest seven revenue sources accounted for 87% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.



Individual Income Tax: Strong YTD Growth, but Currently Below HJ 2

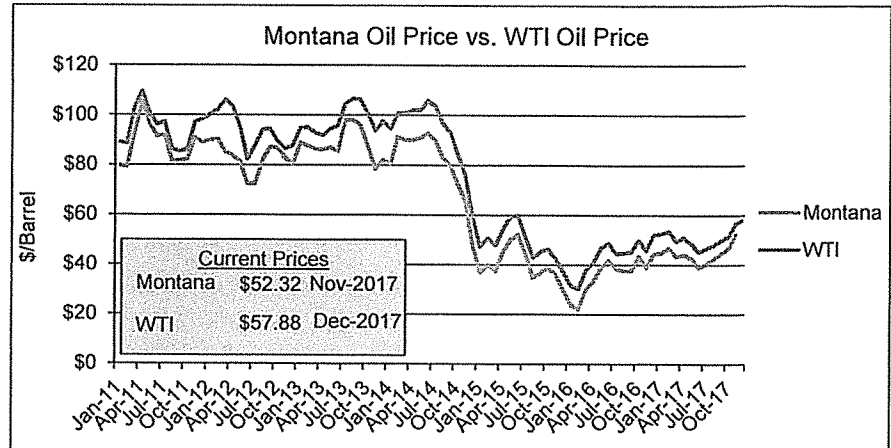
Individual income tax collections through the end of January are \$86.2 million or 10.7% above the year-to-date collections in FY 2017, but below the 13.1% growth anticipated in HJ 2. The increase is primarily due to strong withholding growth, and high December and January estimated payments. Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and will be monitored closely as the year progresses.

Individual Income Tax (\$ Millions)				
	YTD 2018	YTD 2017	\$ Difference	% Difference
Withholding	\$560.6	\$525.5	\$35.1	6.7%
Estimated Payments	206.9	169.4	37.4	22.1%
Current Year Payments	21.2	19.9	1.3	6.6%
Audit, P&I, Amended	20.4	18.6	1.8	9.6%
Refunds	(82.3)	(79.9)	(2.4)	3.0%
Refund Accrual Reversal	153.2	143.0	10.3	7.2%
Partnership Income Tax	8.2	6.1	2.0	33.3%
Mineral Royalties	4.2	3.6	0.7	18.1%
Total	\$892.5	\$806.2	\$86.2	10.7%

Property Tax: YTD Increase Likely Due to Payment Shifts

Property tax collections are above last year by \$18.4 million or 13.6%, compared to 6.5% in HJ 2. Property tax is still expected to come in around HJ 2. The increase compared to last year may be due to some people paying the full property tax bill in calendar 2017 to take advantage of current federal tax deduction rules. Under the Tax Cuts and Jobs Act of 2017, the federal deduction on state and local taxes is limited to \$10,000 starting in 2018.

As the chart at the bottom of the previous page shows, oil production has been declining since the beginning of 2015, as there has been at most two rigs 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 Below Estimate

Current insurance tax collections are 7.0% or \$2.2 million below FY 2017 through January, and below the 0.6% growth anticipated in HJ 2. The majority of the difference—\$1.7 million—is due to one-time fire marshal tax collections at the beginning of FY 2017 due to a rule change; the remainder of the difference is primarily due to lower insurance premiums tax collections. Research is ongoing with the State Auditor's Office to determine whether the decline in insurance premiums tax collections is due to timing or a reduction in premiums.

Insurance Premiums Tax (\$ Millions)				
Account	YTD 2018	YTD 2017	\$ Difference	% Difference
Insurance Licences & Permits	\$0.0	\$0.0	\$0.0	1.4%
Premium Insurance Tax	28.8	29.2	(0.4)	-1.5%
Fire Marshall Taxes	0.1	1.8	(1.7)	-94.8%
Premium Insurance Tax	0.0	0.0	(0.0)	-57.8%
Surplus Lines Premium Tax	0.0	0.0	(0.0)	-85.5%
Captive Premium Insurance Tax	0.0	0.1	(0.0)	-55.6%
Total	\$28.9	\$31.1	(\$2.2)	-7.0%

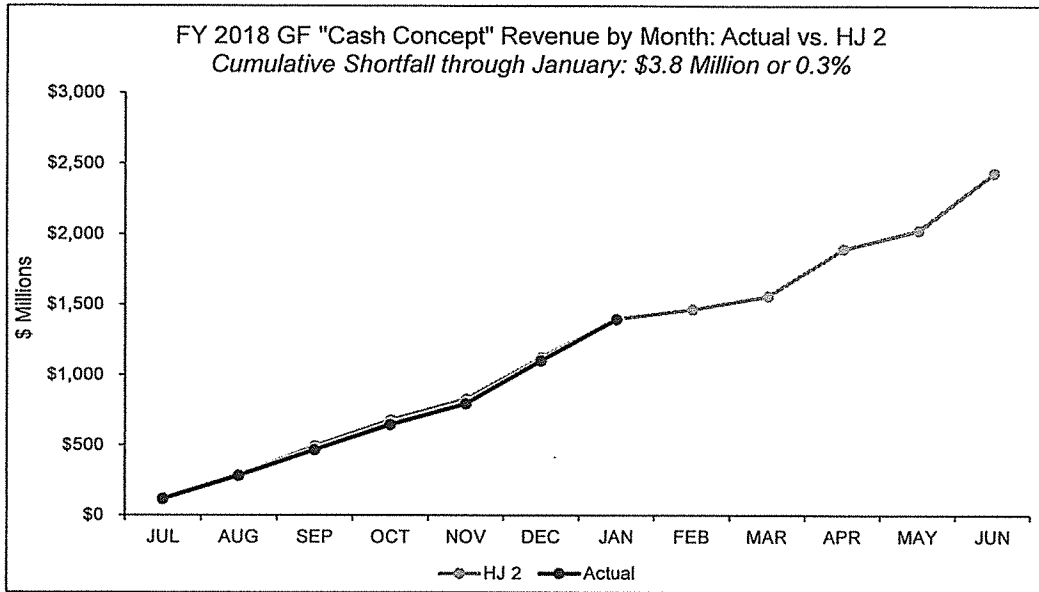
Video Gaming Tax: Below Estimate

Revenue from video gambling is currently \$0.2 million or 0.8% above collections from last year at this time, but below the anticipated growth of 3.2%.

APPENDIX

The monthly cash flow model is based on state accounting (SABHRS) revenue data by month from FY 2002 to FY 2017, with accruals and subsequent accrual reversals removed. The top seven revenue sources and general fund transfers are modeled separately, with the remaining sources estimated as a group.

The chart below shows modeled cumulative HJ 2 (adjusted for the enacted legislation of the 2017 regular and special sessions) by month with the blue line, and actual collections with the black line. Through January, the cash concept model suggests general fund revenue is below what would be expected based on the official revenue estimate by \$3.8 million or 0.3%. If revenue continues to be below HJ 2 by 0.3% through FY 2018, final collections could be \$6.6 million lower than expected.



Individual income tax has the largest difference with respect to the estimate in HJ 2; based on the cash flow model, individual income tax through January is \$21.4 million below the HJ 2 estimate.

