

# LEGISLATIVE FISCAL DIVISION 2019 BIENNIUM REVENUE ESTIMATE AND COMPARISON TO THE EXECUTIVE

A Report Prepared for the  
Revenue & Transportation Interim Committee

By  
LFD Revenue Team

November 17, 2016





## INTRODUCTION

This report provides a summary of the Legislative Fiscal Division (LFD) revenue estimate recommendations for the upcoming 2019 biennium. Full detail on each of the general fund revenue sources and selected non-general fund revenue sources will soon be available online in the LFD's [2019 Biennium Budget Analysis: Volume 2](#). The revenue estimates for each source reflect a combination of changes in base year data, revised assumptions, modeling adjustments, and new IHS forecasts since the production of the current official revenue estimate contained in HJ 2. The body of this report is organized into the following sections:

- 2019 Biennium Revenue Overview
- 2019 Biennium Revenue Estimate Recommendations
- 2019 Biennium Guarantee Fund Estimate Recommendation
- Appendix

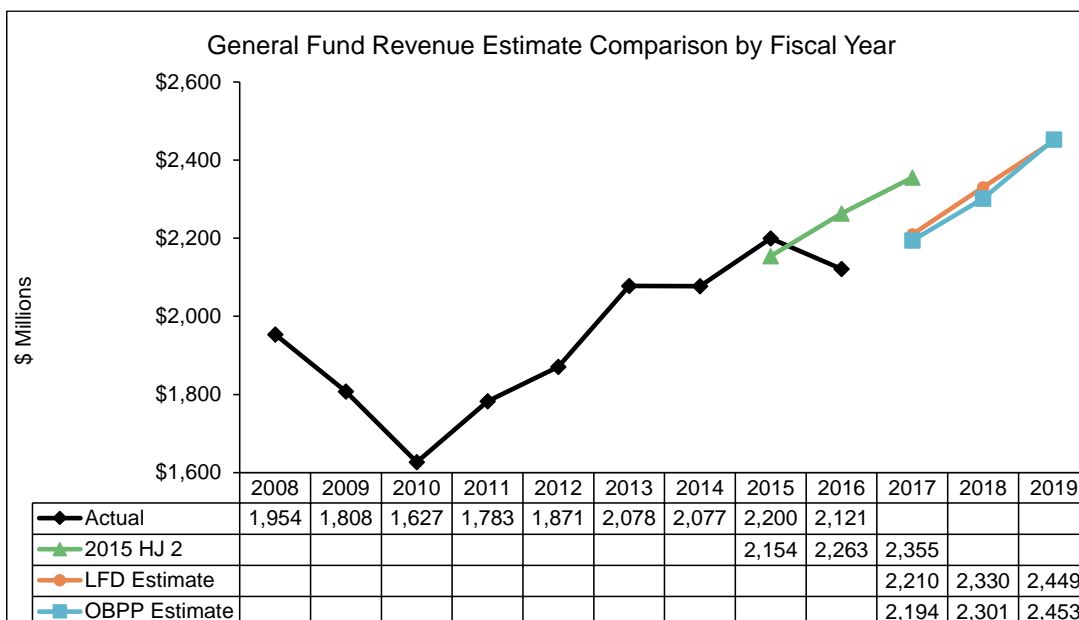
The new data available since the adoption of HJ 2 includes the following sources:

- FY 2015 and FY 2016 revenue collections
- Two additional years of individual and corporate tax return data, and property valuation data
- Two additional years of oil and natural gas production data
- Revised coal production estimates from surveys
- Updated IHS forecasts

Changes to modeling methodologies since the production of HJ 2 vary by source, and in most cases are very similar to the changes described in the LFD's September 2016 [Updated Trend Report](#).

## 2019 BIENNIUM REVENUE OVERVIEW

The estimate recommendation for annual growth in general fund revenue for FY 2017 is 4.2%, for FY 2018 is 5.4% and for FY 2019 is 5.1%. These growth rates are lower than the growth rates contained in the September 2016 [Updated Trend Report](#), primarily due to the lower outlook for individual income tax. Comparison of actual collections since FY 2008, estimates contained in [HJ 2 \(2015 Session\)](#), the LFD 2019 biennium estimate recommendation, and the executive estimate recommendation are shown in the chart below.



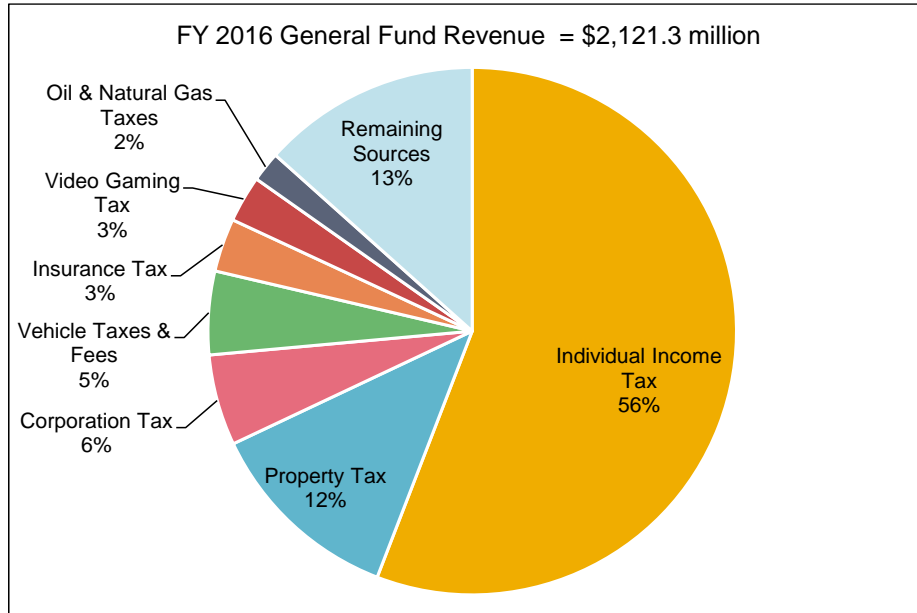
The 2019 biennium revenue estimates produced by the LFD and year-over-year growth rates are detailed in the following table:

| LFD General Fund Revenue Estimate Recommendation |                    |                    |                    |                    |             |             |             |
|--|--------------------|--------------------|--------------------|--------------------|-------------|-------------|-------------|
| (\$ Millions)                                    |                    |                    |                    |                    |             |             |             |
| Revenue Source                                   | Actual<br>FY 2016  | LFD                |                    |                    | % Growth    |             |             |
|  |                    | FY 2017            | FY 2018            | FY 2019            | FY 2017     | FY 2018     | FY 2019     |
| <b>Largest Seven Sources</b>                     |                    |                    |                    |                    |             |             |             |
| Individual Income Tax                            | \$1,184.828        | \$1,230.687        | \$1,305.751        | \$1,393.201        | 3.9%        | 6.1%        | 6.7%        |
| Property Tax                                     | 257.100            | 261.003            | 276.759            | 284.662            | 1.5%        | 6.0%        | 2.9%        |
| Corporation Tax                                  | 118.387            | 145.116            | 161.604            | 167.071            | 22.6%       | 11.4%       | 3.4%        |
| Vehicle Taxes & Fees                             | 108.480            | 111.026            | 112.966            | 114.525            | 2.3%        | 1.7%        | 1.4%        |
| Oil & Natural Gas Production Tax                 | 39.083             | 46.009             | 47.660             | 47.833             | 17.7%       | 3.6%        | 0.4%        |
| Insurance Tax                                    | 69.255             | 70.983             | 73.227             | 76.044             | 2.5%        | 3.2%        | 3.8%        |
| Video Gaming Tax                                 | 60.554             | 62.259             | 64.512             | 67.096             | 2.8%        | 3.6%        | 4.0%        |
| <b>Other Business Taxes</b>                      |                    |                    |                    |                    |             |             |             |
| Drivers License Fee                              | 4.345              | 4.931              | 4.336              | 4.997              | 13.5%       | -12.1%      | 15.2%       |
| Investment Licenses                              | 7.212              | 7.431              | 7.603              | 7.831              | 3.0%        | 2.3%        | 3.0%        |
| Lodging Facilities Sales Tax                     | 21.493             | 22.667             | 23.837             | 24.837             | 5.5%        | 5.2%        | 4.2%        |
| Public Contractor's Tax                          | 2.397              | 2.552              | 2.540              | 2.527              | 6.5%        | -0.5%       | -0.5%       |
| Railroad Car Tax                                 | 3.594              | 3.387              | 3.644              | 3.791              | -5.8%       | 7.6%        | 4.0%        |
| Rental Car Sales Tax                             | 3.878              | 3.229              | 3.277              | 3.576              | -16.7%      | 1.5%        | 9.1%        |
| Retail Telecom Excise Tax                        | 16.775             | 16.078             | 15.552             | 14.946             | -4.2%       | -3.3%       | -3.9%       |
| <b>Other Natural Resource Taxes</b>              |                    |                    |                    |                    |             |             |             |
| Coal Severance Tax                               | 14.236             | 12.939             | 14.701             | 15.147             | -9.1%       | 13.6%       | 3.0%        |
| Electrical Energy Tax                            | 4.536              | 4.448              | 4.439              | 4.524              | -1.9%       | -0.2%       | 1.9%        |
| Metal Mines Tax                                  | 4.221              | 4.410              | 4.274              | 4.156              | 4.5%        | -3.1%       | -2.7%       |
| U.S. Mineral Royalties                           | 16.759             | 20.400             | 20.493             | 20.814             | 21.7%       | 0.5%        | 1.6%        |
| Wholesale Energy Trans Tax                       | 3.516              | 3.539              | 3.505              | 3.537              | 0.6%        | -0.9%       | 0.9%        |
| <b>Other Interest Earnings</b>                   |                    |                    |                    |                    |             |             |             |
| Coal Trust Interest Earnings                     | 20.722             | 18.708             | 20.489             | 22.107             | -9.7%       | 9.5%        | 7.9%        |
| TCA Interest Earnings                            | 3.961              | 3.322              | 4.059              | 8.304              | -16.1%      | 22.2%       | 104.6%      |
| <b>Other Consumption Taxes</b>                   |                    |                    |                    |                    |             |             |             |
| Beer Tax   | 3.027              | 3.046              | 3.053              | 3.057              | 0.6%        | 0.2%        | 0.1%        |
| Cigarette Tax                                    | 31.103             | 30.901             | 30.689             | 30.503             | -0.6%       | -0.7%       | -0.6%       |
| Liquor Excise Tax                                | 19.776             | 21.316             | 22.160             | 23.036             | 7.8%        | 4.0%        | 4.0%        |
| Liquor Profits                                   | 11.000             | 11.500             | 12.000             | 12.500             | 4.5%        | 4.3%        | 4.2%        |
| Lottery Profits                                  | 11.963             | 12.363             | 12.363             | 12.363             | 3.3%        | 0.0%        | 0.0%        |
| Tobacco Tax                                      | 6.184              | 6.582              | 6.754              | 6.920              | 6.4%        | 2.6%        | 2.5%        |
| Wine Tax   | 2.373              | 2.477              | 2.570              | 2.656              | 4.3%        | 3.8%        | 3.3%        |
| <b>Other Sources</b>                             |                    |                    |                    |                    |             |             |             |
| All Other Revenue                                | 41.443             | 40.611             | 41.610             | 42.657             | -2.0%       | 2.5%        | 2.5%        |
| Highway Patrol Fines                             | 4.040              | 4.101              | 4.155              | 4.193              | 1.5%        | 1.3%        | 0.9%        |
| Nursing Facilities Fee                           | 4.764              | 4.589              | 4.277              | 4.181              | -3.7%       | -6.8%       | -2.2%       |
| Public Institution Reimb.                        | 16.910             | 14.162             | 12.694             | 12.725             | -16.3%      | -10.4%      | 0.2%        |
| Tobacco Settlement                               | 3.371              | 3.101              | 2.622              | 2.599              | -8.0%       | -15.4%      | -0.9%       |
| <b>Total General Fund</b>                        | <b>\$2,121.288</b> | <b>\$2,209.874</b> | <b>\$2,330.176</b> | <b>\$2,448.916</b> | <b>4.2%</b> | <b>5.4%</b> | <b>5.1%</b> |
| Guarantee Account                                | 47.053             | 42.663             | 40.722             | 41.786             | -9.3%       | -4.5%       | 2.6%        |
| <b>Total General Fund &amp; Guarantee</b>        | <b>\$2,168.342</b> | <b>\$2,252.537</b> | <b>\$2,370.898</b> | <b>\$2,490.702</b> | <b>3.9%</b> | <b>5.3%</b> | <b>5.1%</b> |

# 2019 BIENNIUM REVENUE ESTIMATE RECOMMENDATIONS

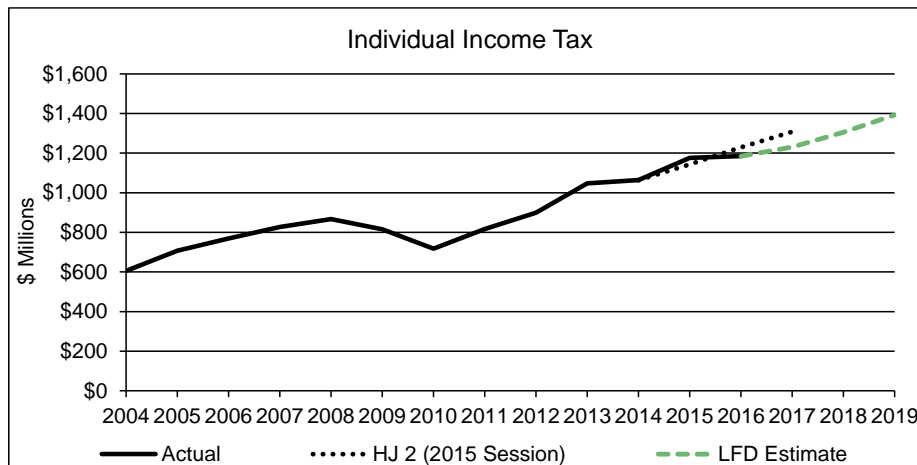
## Large Revenue Sources

In FY 2016, the largest seven revenue sources accounted for 87% of total general fund revenue; since 2004, these sources have on average accounted for nearly 84% of total general fund revenue. Due to the relative importance of these sources, particular attention is given to important underlying economic indicators each source.



## Individual Income Tax

Individual income tax came in above the official estimate in FY 2015 and below it in FY 2016. The 2019 biennium estimate based on the new data and revised modeling is below the estimate contained in HJ 2 for FY 2017, with moderate growth thereafter.



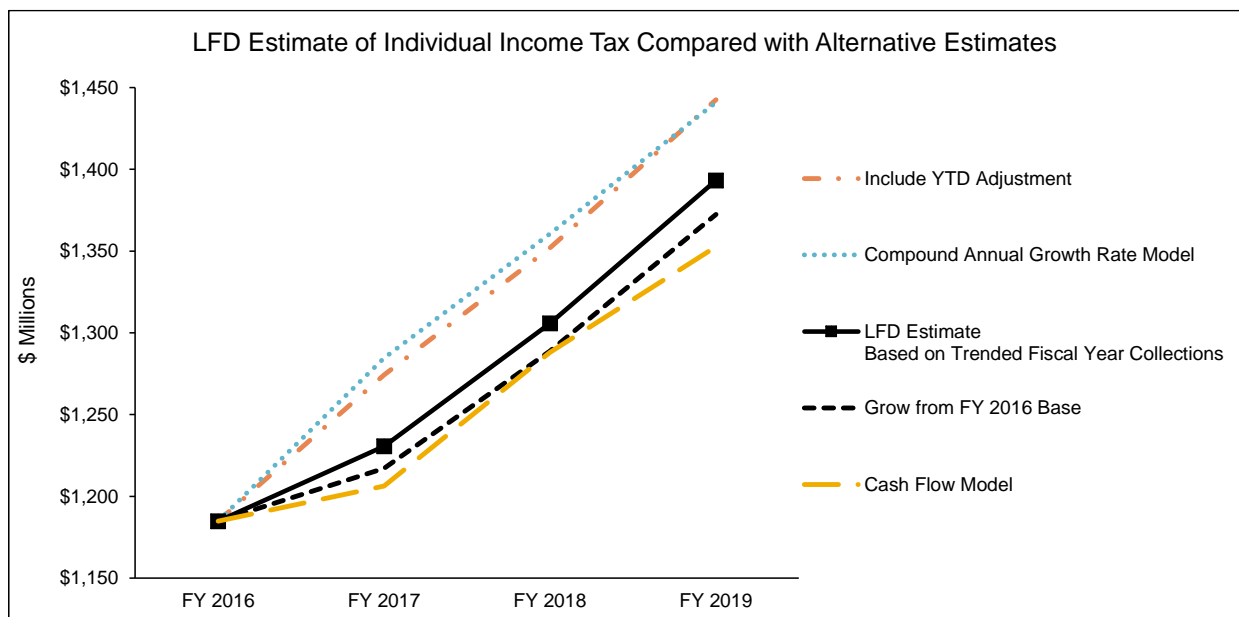
An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all full year residents (FYR). The model is updated each year by the Department of Revenue (DOR) to incorporate the changes in federal and state tax law. The accuracy of the model in applying the tax laws correctly can be measured in the most recent year by comparing the output of the model for that year with the line item totals provided by DOR.

The calendar year state tax liability forecast is developed by applying modeled growth rates to each FYR taxpayer's income and deduction items. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which produces a statewide forecast of FYR individual income tax liability for each year. The table below shows the actual income contained on FYR 2015 tax returns and forecast growth rates through the outlook period.

| CY 2015 Income Levels & Estimate Growth Rates |                   |             |             |             |             |              |
|---|-------------------|-------------|-------------|-------------|-------------|--------------|
| (\$ Millions)                                 |                   |             |             |             |             |              |
|   | 2015              | 2016        | 2017        | 2018        | 2019        | 10-Year Avg. |
| Wage Income                                   | \$16,520.0        | 3.2%        | 4.0%        | 5.1%        | 5.0%        | 4.3%         |
| Interest Income                               | 264.0             | 0.3%        | 2.3%        | 11.2%       | 18.9%       | -4.5%        |
| Dividend Income                               | 658.9             | -4.5%       | 1.1%        | 3.8%        | 2.5%        | 4.8%         |
| Net Business                                  | 883.9             | 3.1%        | -2.2%       | 4.4%        | 2.6%        | 1.8%         |
| Cap. Gains                                    | 1,617.3           | -2.9%       | -1.4%       | 0.2%        | 3.5%        | 4.2%         |
| Sup. Gains                                    | 118.2             | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 15.1%        |
| Rents & Royalties                             | 2,993.4           | 5.0%        | 5.0%        | 5.0%        | 5.0%        | 6.4%         |
| IRA Income                                    | 728.9             | 7.4%        | 8.0%        | 6.8%        | 6.1%        | 9.6%         |
| Taxable Pensions                              | 2,138.8           | 6.1%        | 6.2%        | 5.7%        | 5.2%        | 5.8%         |
| Taxable Soc. Sec.                             | 941.2             | 10.0%       | 10.0%       | 10.0%       | 10.0%       | 10.2%        |
| Farm Income                                   | (150.8)           | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 4.0%         |
| Other Income                                  | (310.6)           | 0.0%        | 0.0%        | 0.0%        | 0.0%        | -42.0%       |
| <b>Total</b>                                  | <b>\$26,403.4</b> | <b>3.5%</b> | <b>4.1%</b> | <b>5.2%</b> | <b>5.2%</b> | <b>4.4%</b>  |

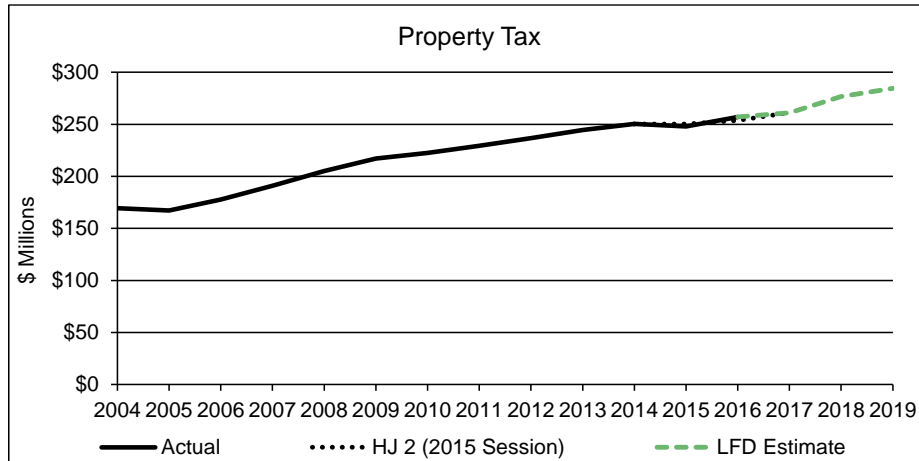
The statewide forecast of resident liability is adjusted for the growth in resident taxpayers, and multiplied by an all-filers percentage to include the tax liability for nonresidents and partial-year residents. This results in a forecast of total calendar year individual income tax liability before credits.

Fiscal year collections before audit, penalty, and interest income are modeled on total calendar year liability before credits, and forecast fiscal year collections are then augmented by expected future audit, penalty and interest collections to produce the total individual income tax revenue estimate. The LFD estimate is shown in the chart below, along with several alternative estimates based on 2017 interim research. The chart shows that the LFD estimate is about the midpoint of the range of alternative estimates.



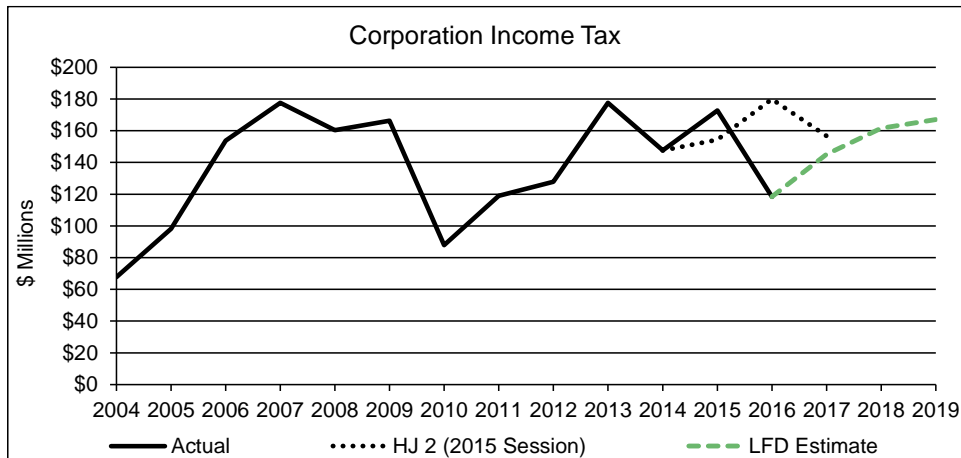
## Property Tax

Property taxes came in below the HJ 2 estimate in FY 2015 and above estimate in FY 2016. The slightly stronger growth will likely continue in FY 2017. The biggest change beyond FY 2017 is the inclusion of two year reappraisal impacts on class 4 residential and commercial property, resulting in valuation bumps every other year.

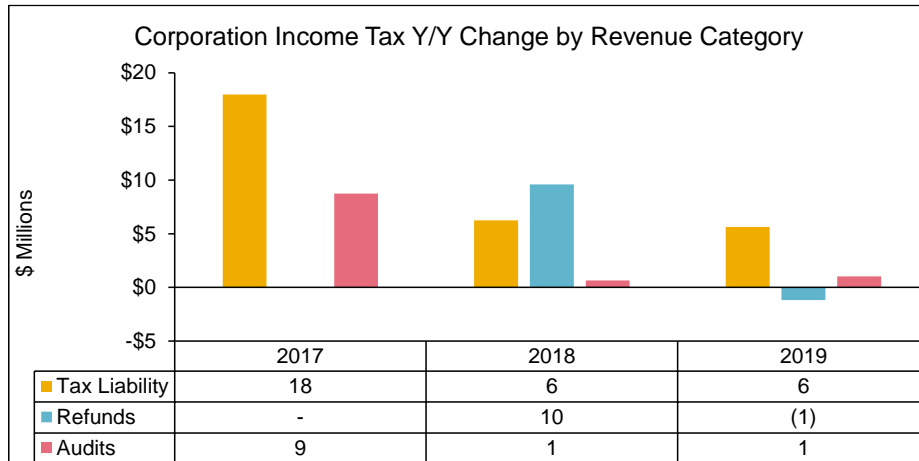


## Corporation Income Tax

Corporation income tax collections were higher than HJ 2 in FY 2015 but were less than anticipated in FY 2016. The drop in FY 2016 was due to higher-than-expected refunds, lower-than-expected audits, and a large drop in estimated payments beginning in April 2016. Moving into FY 2017, collections are expected to remain below HJ 2 as the possibility of high refund levels persists.



The LFD estimate recommendation incorporates a growing tax liability produced using the LFD sector-based approach with a model bias adjustment included per the research detailed in the LFD's [Standard Error Analysis](#). In addition, audit, penalty & interest revenue is anticipated to increase to traditional levels in FY 2017, and refunds are expected to decline to historical levels in FY 2018. The impacts of the assumptions are shown in the chart below:

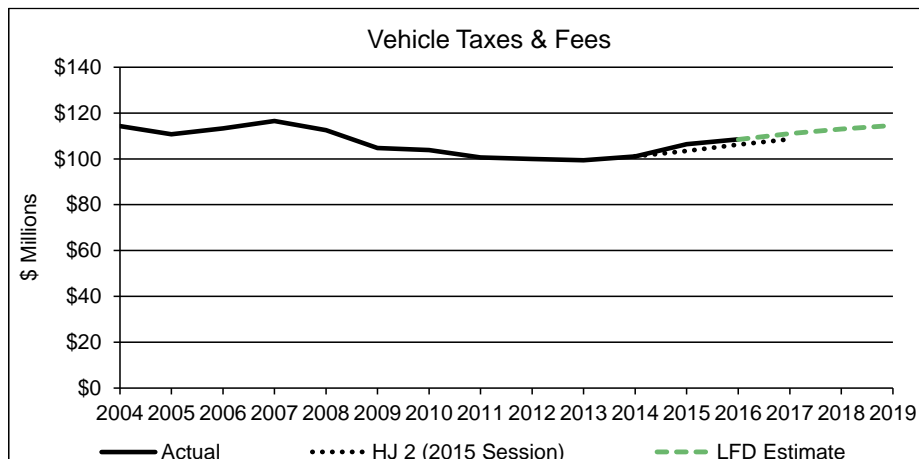


The CY 2014 tax liability by sector is shown in the adjacent table. This is the most readily available detailed tax liability data and is used as the base year of the current forecast. Calendar year data is forecast on a sector-by-sector basis then converted to a fiscal year estimate using historical trends. As the table shows, the actual CY 2014 liability was 4.3% higher than the estimated liability.

| CY 2014 Tax Liability<br>(\$ Millions) |                |                |              |             |
|--|----------------|----------------|--------------|-------------|
| Sector                                 | Actual         | HJ 2           | \$ Diff      | % Diff      |
| Agriculture                            | \$6.7          | \$3.9          | \$2.9        | 73.8%       |
| Mining                                 | 4.0            | 13.5           | (9.5)        | -70.3%      |
| Utilities                              | 1.5            | 1.7            | (0.1)        | -7.7%       |
| Construction                           | 1.8            | 3.5            | (1.7)        | -49.3%      |
| Manufacturing                          | 29.8           | 40.5           | (10.7)       | -26.5%      |
| Wholesale & Retail Trade               | 24.9           | 22.9           | 2.1          | 9.1%        |
| Transportation                         | 18.8           | 12.5           | 6.3          | 50.6%       |
| Information                            | 6.5            | 3.2            | 3.3          | 105.9%      |
| Professional                           | 10.4           | 7.6            | 2.8          | 37.1%       |
| Large Banks & Holding Companies        | 37.2           | 30.5           | 6.7          | 21.8%       |
| Social                                 | 5.0            | 1.7            | 3.4          | 199.6%      |
| Unknown                                | 0.7            | 0.0            | 0.6          | 12900.0%    |
| <b>Total</b>                           | <b>\$147.3</b> | <b>\$141.3</b> | <b>\$6.0</b> | <b>4.3%</b> |

## Vehicle Taxes & Fees

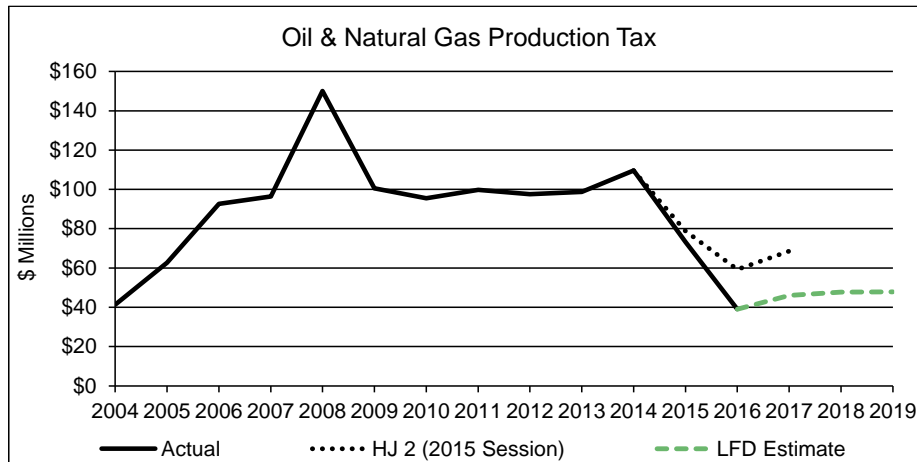
Vehicle taxes and fees collections were slightly higher than expected in HJ 2 in both FY 2015 and FY 2016. Revenue from this source is forecast to be higher than HJ 2 in FY 2017 before flattening out in the 2019 biennium as vehicle sales growth slows.



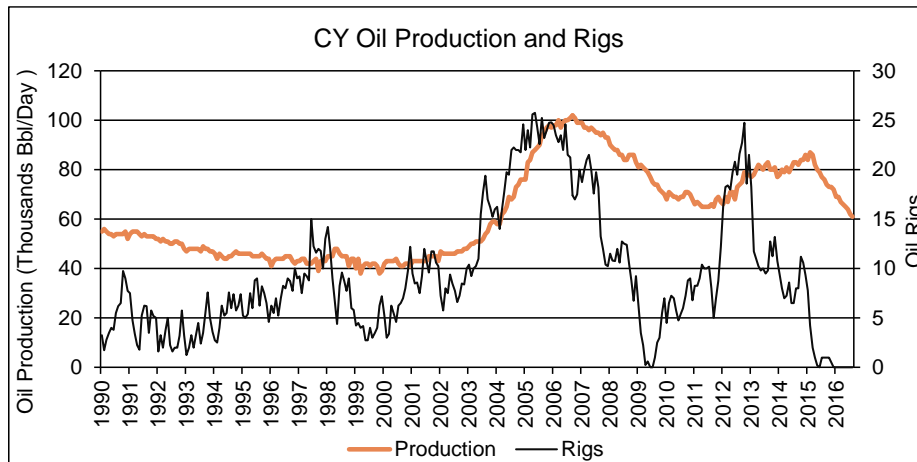


## Oil & Natural Gas Severance Tax

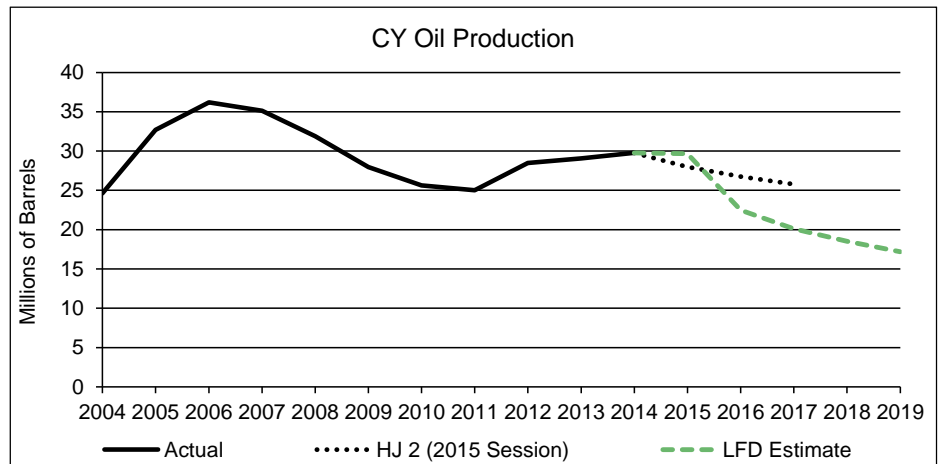
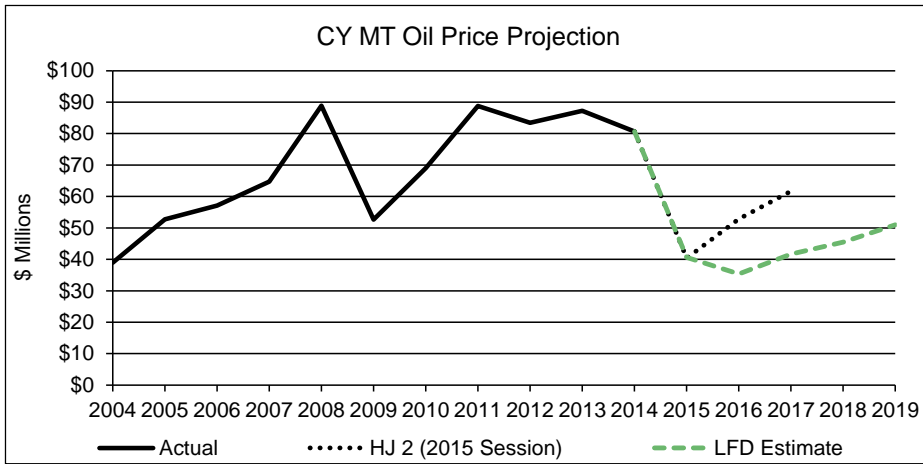
Oil and natural gas production tax collections were below projections in HJ 2 in FY 2015 and even more so in FY 2016. The drop in collections was due to prolonged low oil prices and declining production.



Since the beginning of FY 2016, there has only been at most one drilling rig operating in the state, as shown in the chart below. The reduction in the number of active rigs is having an effect on the expected future production compared to HJ 2.

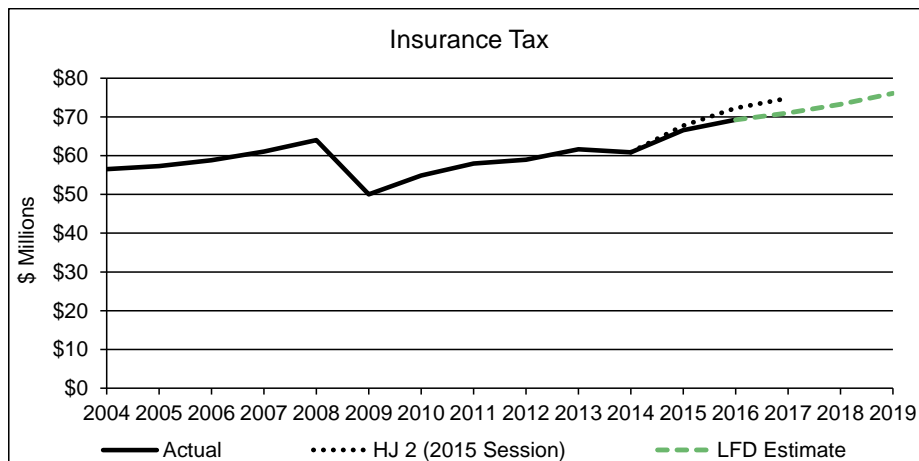


In FY 2017, revenue from this source is forecast to increase but remain below the HJ 2 projections. The year-over-year projected increase is due to higher prices and an increase in taxable production. Moving into FY 2018 and FY 2019, this source is forecast to grow slowly, as declining production will be offset by increased prices.



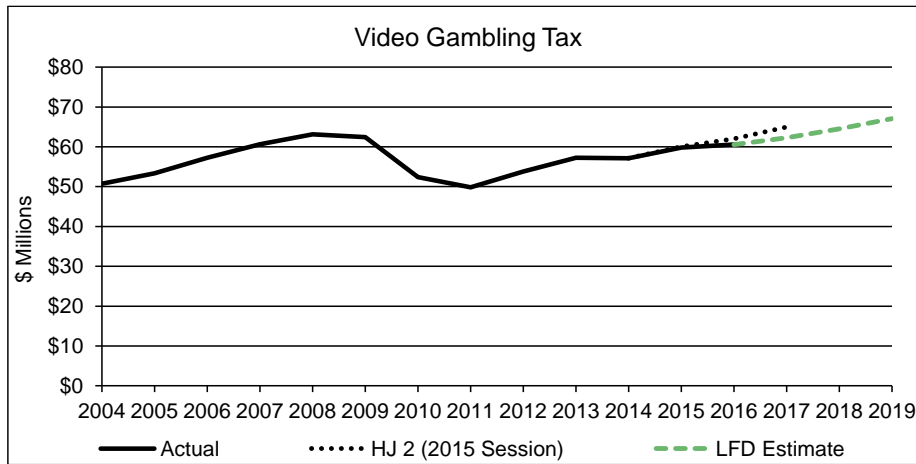
## Insurance Tax

Insurance tax collections came in below the HJ 2 estimate in FY 2015 and FY 2016, with the discrepancy increasing over time. The model for this source has changed since the production of HJ 2, with premium taxes forecast with a regression model using the independent, IHS-provided values for the Montana personal consumption expenditure (PCE) series for finance and insurance.



## Video Gambling Tax

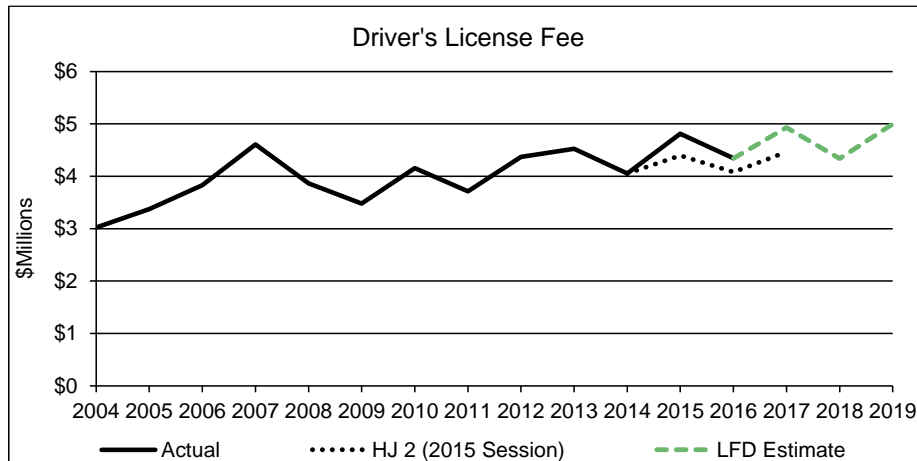
Combined video gambling revenue in FY 2015 and 2016 was very close to what was projected in HJ 2. This revenue source is modeled entirely on Montana personal income. The slight decrease in the LFD estimate is due to the lower-than-expected actual collections in FY 2016.



## Other Business Taxes

### Driver's License Fee

Total driver's license revenue exceeded the estimate contained in HJ 2 in both FY 2015 and FY 2016. The increase was primarily due to a larger-than-expected number of Class D (standard) driver's license purchases as well as increased Type 1 Commercial Driver's Licenses (CDL).

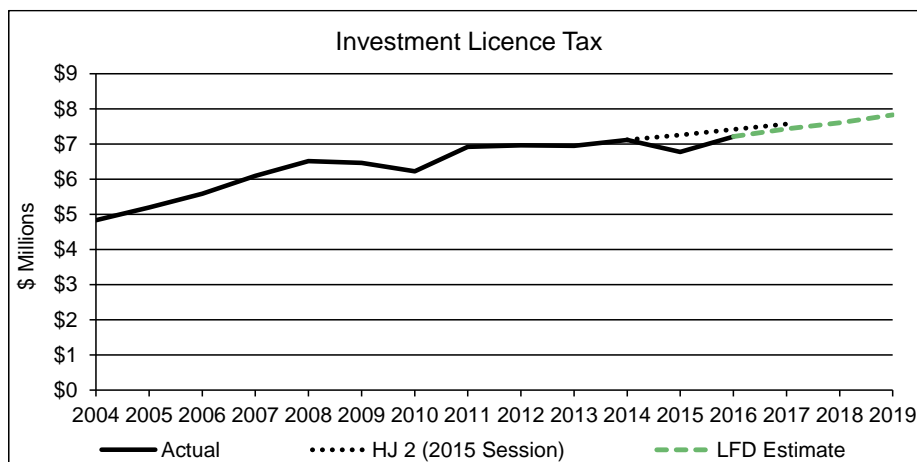


Due to higher-than-expected revenues in FY 2016, the FY 2017 estimate is larger than the estimate contained in HJ 2. Actual ratios of revenues to the driver-eligible MT population from the most recent fiscal years are applied accordingly to forecast years to produce this estimate.

### Investment License Fee

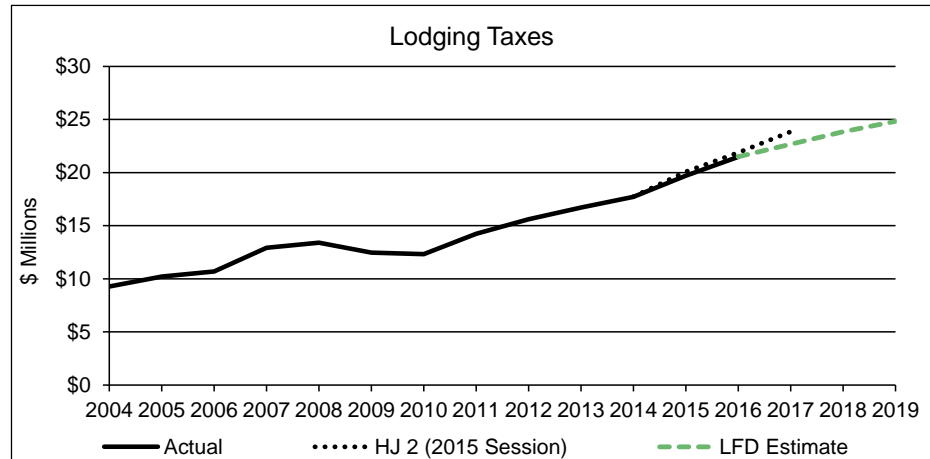
Investment license fee collections were below HJ 2 in FY 2015 and FY 2016, with the difference decreasing over time. In HJ 2, this source was modeled on the number of individual, firm and dual registrations, as well as S&P 500 and CPI, with estimated values were equal to the values generated by the model. A better approach, and one that would have been more accurate in FY 2015 and FY 2016, is to apply the model-generated growth rates to the last known actual collections.

Revised modeling is based on the personal consumption expenditure series for finance & insurance from IHS; modeled growth rates are now applied to the last known collections.



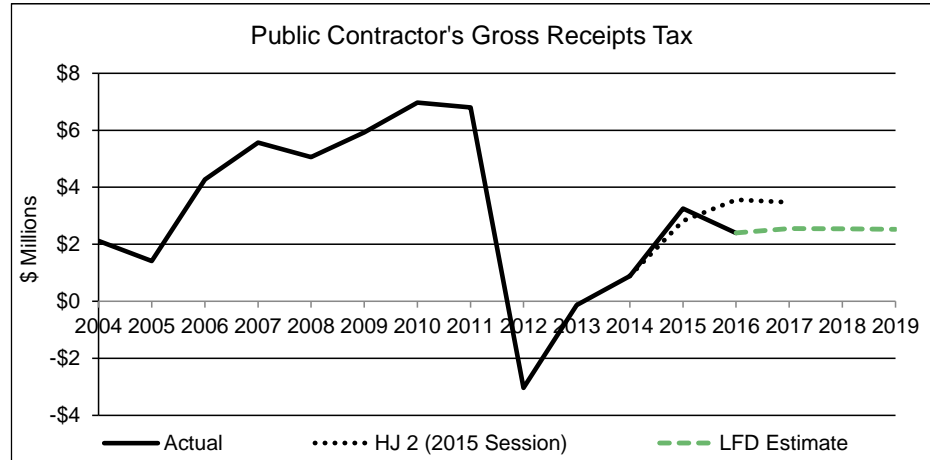
## Lodging Facilities Sales Tax

Lodging facilities sales tax collections were below the estimate contained in HJ 2 for FY 2015 and FY 2016, with the difference increasing over time. This revenue source was forecast in HJ 2 based on national consumer spending on accommodations. The LFD estimate is based on the same model, and adjusts for additional revenues due to online travel companies.



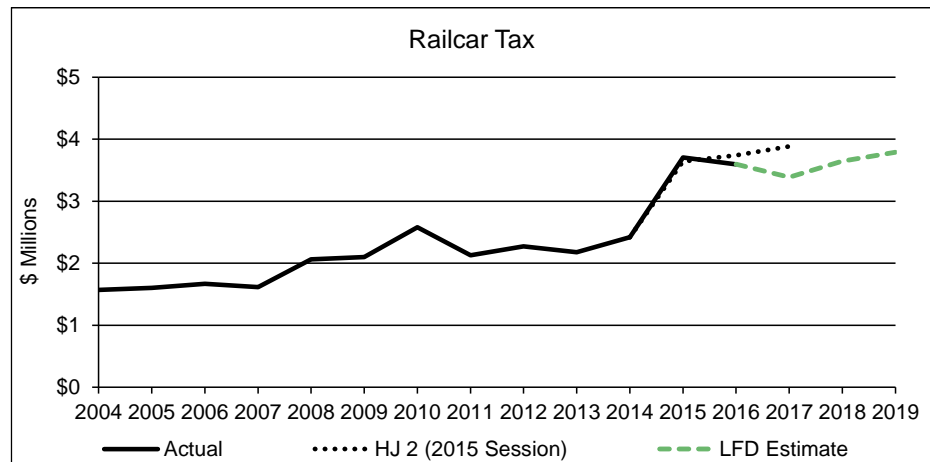
## Public Contractor's Tax

Public contractors' gross receipts tax collections were above the HJ 2 estimate in FY 2015 and below it in FY 2016. The HJ 2 forecast was based on a time trend of highway spending and a higher level of all other construction than in recent years. The LFD estimate continues the time-series forecast of highway construction used in HJ 2, but focusses on more recent trends in other construction.



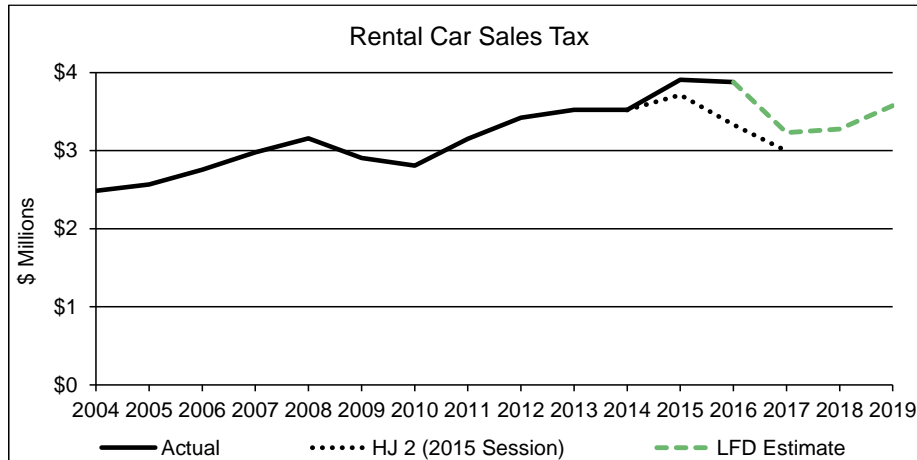
## Railroad Car Tax

Railroad car tax revenue was slightly above estimate in FY 2015 and slightly below it in FY 2016, resulting in an almost exact match to the two-year HJ 2 estimate. Given known tax assessment data for FY 2016, it is expected that FY 2017 collections will come in below the HJ 2 estimate, after which railcar tax is expected to revert to more historical levels of growth.



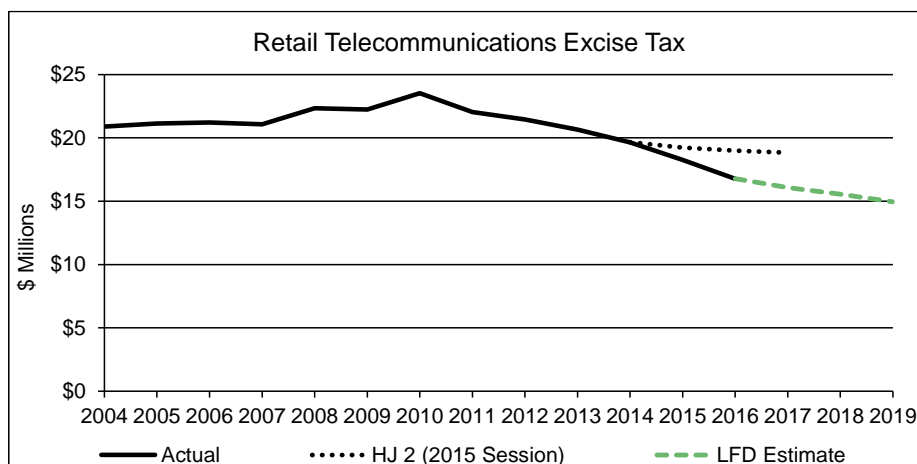
## Rental Car Sales Tax

Rental car sales tax collections were above the HJ 2 estimate in FY 2015 and FY 2016. FY 2016 collections were augmented by \$0.3 million from online travel companies as a result of litigation by DOR. Moving forward, the additional revenues due to online travel companies are anticipated to be about \$0.1 million per year. Rental car sales tax was forecast in HJ 2 based on Montana retail sales. Modeling has been revised to replace retail sales with the personal consumption expenditure series for transportation. This source was impacted by [SB 180 \(2015 Session\)](#) which allocated a portion of the rental car sales tax to the senior citizens transportation services fund.



## Retail Telecommunications Excise Tax

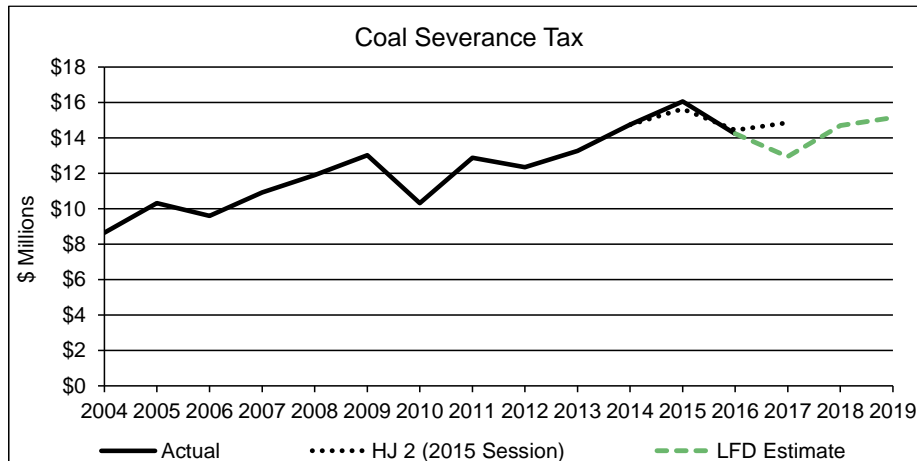
Retail telecommunications excise tax collections were below the estimate contained in HJ 2 in FY 2015 and FY 2016. The estimate was based on U.S. Census Bureau data for landline and cell phone use, other sources of cell phone statistics, and the IHS forecast of Montana population. Modeling for the LFD estimate assumes a faster decline in the use of landlines, and starts from the lower FY 2016 base.



## Other Natural Resource Taxes

### Coal Severance Tax

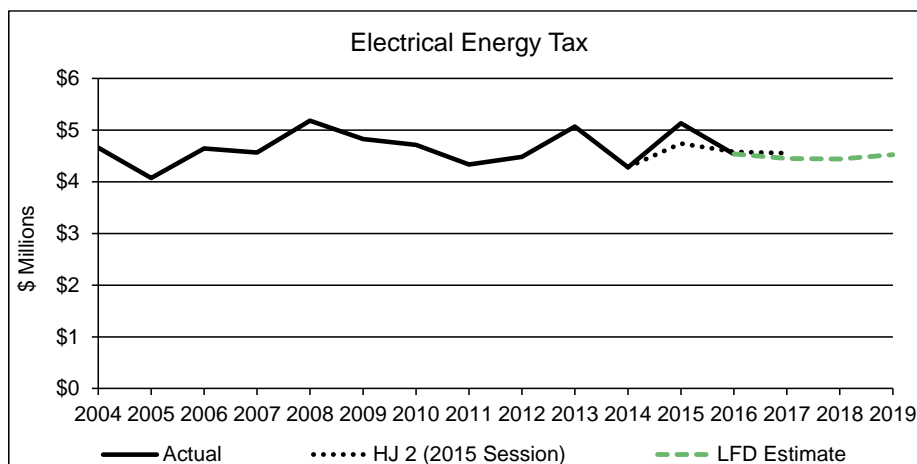
The combined coal severance tax collections for FY 2015 and FY 2016 were very close to the combined estimate contained in HJ 2. The LFD estimate FY 2017 is expected to be below HJ 2 due to decreased production.



The increase in projected general fund coal revenue in FY 2018 and FY 2019 is due to [HB 228 \(2015 Session\)](#) which increased funding to the Coal Natural Resources Account from 2.9% to 5.8% in FY 2016 and 2017. The additional 2.9% reverts back to the general fund in FY 2018.

### Electrical Energy Tax

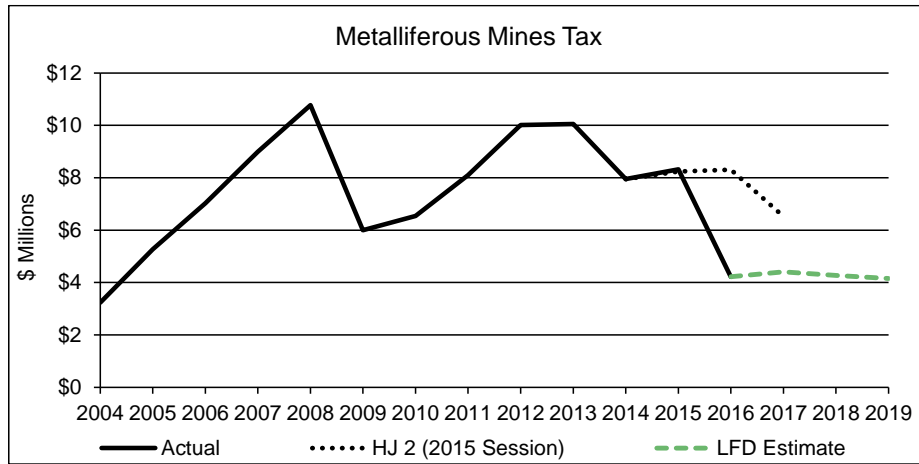
Electrical energy tax collections were above the HJ 2 estimate in FY 2015 and nearly identical to the FY 2016 projection. This source is modeled on past average collections, so the increase over the forecast period reflects the 8.3% increase in FY 2015 collections compared to HJ 2.



### Metalliferous Mines Tax

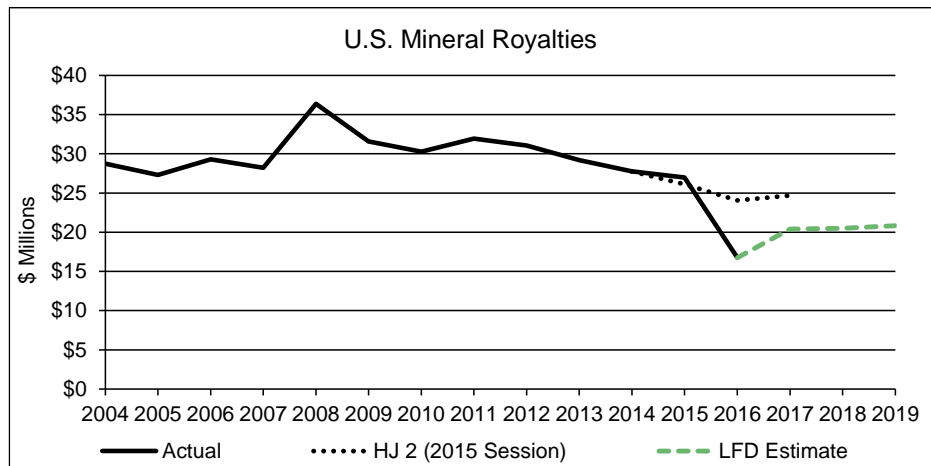
FY 2016 metal mines tax collections were well below the estimate contained in HJ 2, after coming in quite close to HJ 2 in FY 2015. The decline is primarily attributable to lower metal prices in CY 2015 than anticipated in HJ 2, although gold production was substantially lower than anticipated in HJ 2. Metal prices for CY 2016 are currently lower than the estimates contained in HJ 2. The LFD estimate

includes revised price outlooks for most metals and production forecasts by metal type based on a five-year moving average.



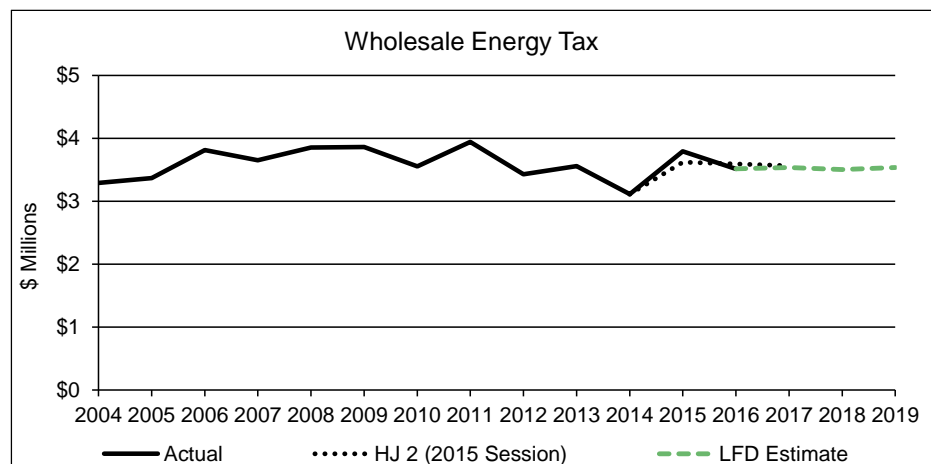
### U.S. Mineral Royalties

FY 2015 U.S. mineral royalties came in on track with the HJ 2 estimate but decreased substantially in FY 2016. The reason for the decreased estimate relative to HJ 2 is due to projected declines in oil price and production, as well as lower coal production. Oil and coal are the top two revenue sources for U.S. mineral royalties.



### Wholesale Energy Transaction Tax

Wholesale energy transaction tax, imposed on transmission services providers, was above HJ 2 in FY 2015 and slightly below HJ 2 in FY 2016. This source was estimated in HJ 2 based on historical trends and the modeling for the LFD estimate has not changed, although it includes data from the most recent years.

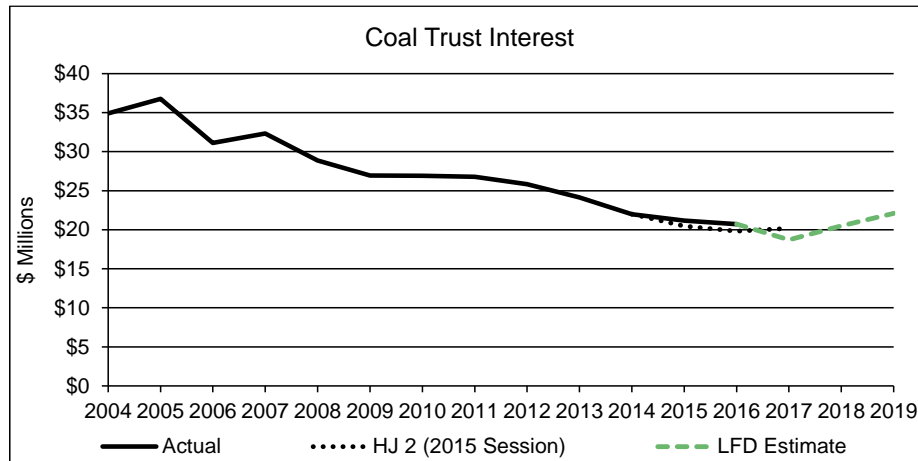




## Other Interest Earnings

### Coal Trust Interest Earnings

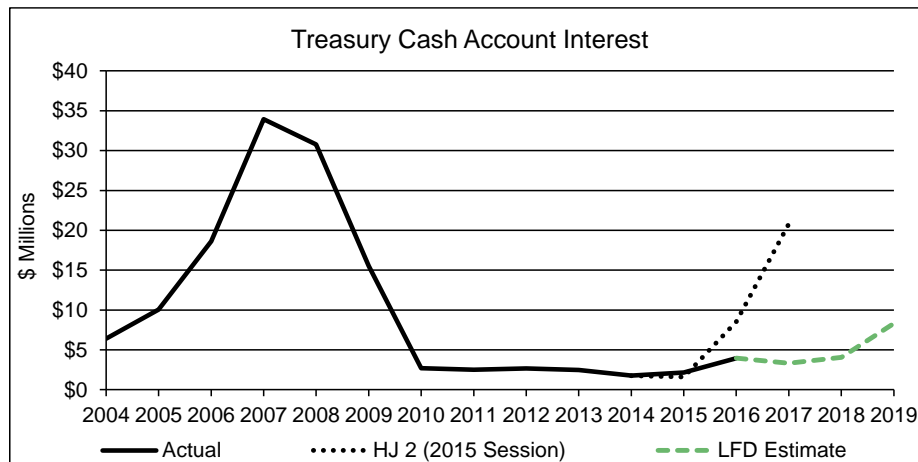
Coal trust earnings were above the estimate contained in HJ 2 by in both FY 2015 and FY 2016. Revenue from this source was estimated in HJ 2 using projected trust balance amounts and forecast interest rates based on suggestions from the Board of Investments (BOI).



The LFD estimate is slightly below the HJ 2 estimate for FY 2017 due to a small downward revision to the in-state investment return rate. Moving into the next biennium, this source is projected to grow due to slight increases in the return rate and an influx of new distributions of the coal severance tax into the trust balance.

### Treasury Cash Account Interest

TCA interest earnings in FY 2015 came in above HJ 2 but were below projections in FY 2016. IHS continues to forecast an increase in short-term interest rates; to date, these increases have not materialized. The interest rates used in the LFD estimate are adjusted for the historical IHS estimating error and are therefore below the HJ 2 projection for FY 2017, and grow slowly throughout the 2019 biennium. In addition, the average treasury cash account balance is anticipated to be lower than recent years, contributing to lower interest earnings.

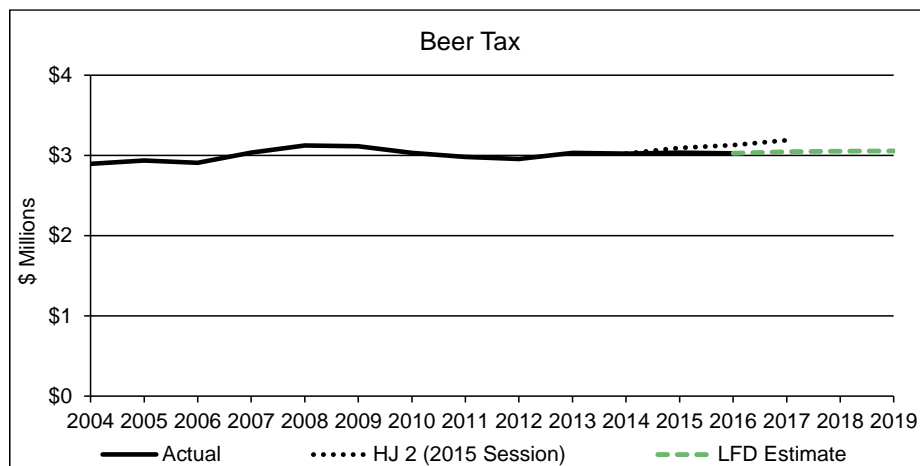


## Other Consumption Taxes

### Beer Tax

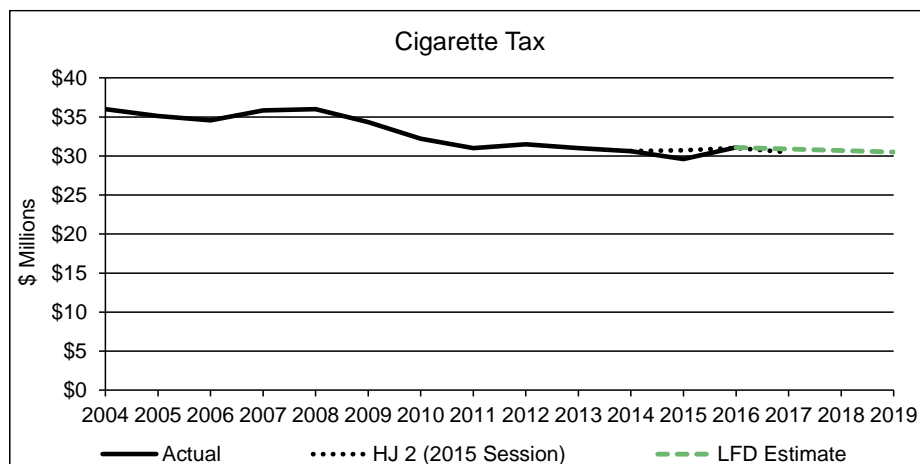
Beer tax revenue came in below the HJ 2 estimate in FY 2015 and FY 2016, with the difference growing over time. The HJ 2 estimate was based on several Montana-specific indicators from IHS: retail sales, population over age 21, and per capita income. Modeling has been simplified and now relies on population over age 21 and the Montana personal consumption expenditure series for food.

This model also forecasts an effective tax rate based on growth trends for the various distributor sizes, which is applied to the total forecast consumption. The tax rate for distributors moving less than 5000 barrels per year is only \$1.30 per barrel, and for those distributing between 5,001 and 10,000 the rate is \$2.30, much less than the nominal \$4.30 for larger distributors. There is a small but steady decline in effective tax rate as the number of smaller breweries, and therefore smaller distributors, increases.



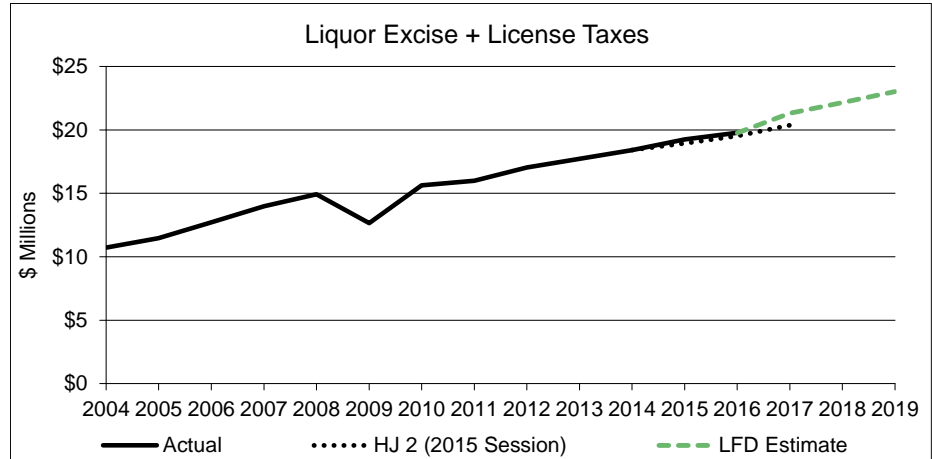
### Cigarette Tax

Cigarette tax collections were below the HJ 2 revenue estimate in FY 2015 and slightly above it in FY 2016. The HJ 2 forecast for this source was based on the IHS series for consumer price index for tobacco and consumer spending on tobacco products. Updated modeling also includes the population over age 18.



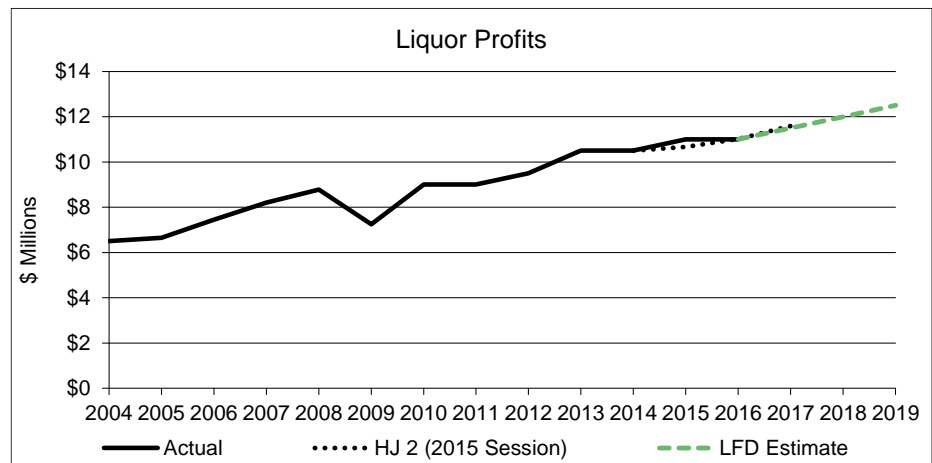
## Liquor Excise & License Tax

Liquor excise tax revenue came in above the official projection in FY 2015 and FY 2016. The IHS forecast for the growth of CPI was used as an input for this source in HJ 2; modeling has been changed to incorporate the Montana personal consumption expenditure series for food.



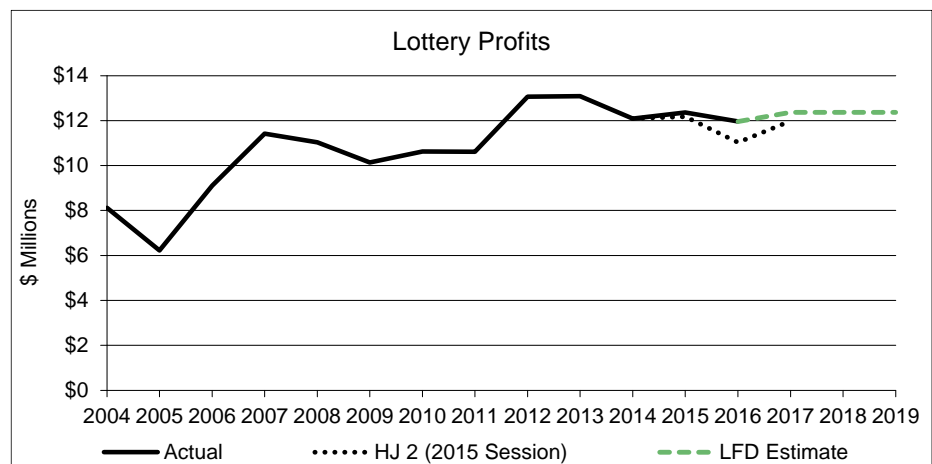
## Liquor Profits

Liquor profits came in above the HJ 2 estimate in FY 2015 and slightly below it in FY 2016. The estimate in HJ 2 did not account for the rounding that is made prior to the transfer to the general fund. Current modeling attempts to capture the rounding.



## Lottery Profits

Lottery profits were higher than forecast in HJ 2 in FY 2015 and FY 2016, primarily due to higher ticket sales than anticipated. In HJ 2, the IHS forecast short-term interest rates and Montana retail sales were used as inputs for this source; modeling has been adjusted to replace retail sales with the population over age 18.

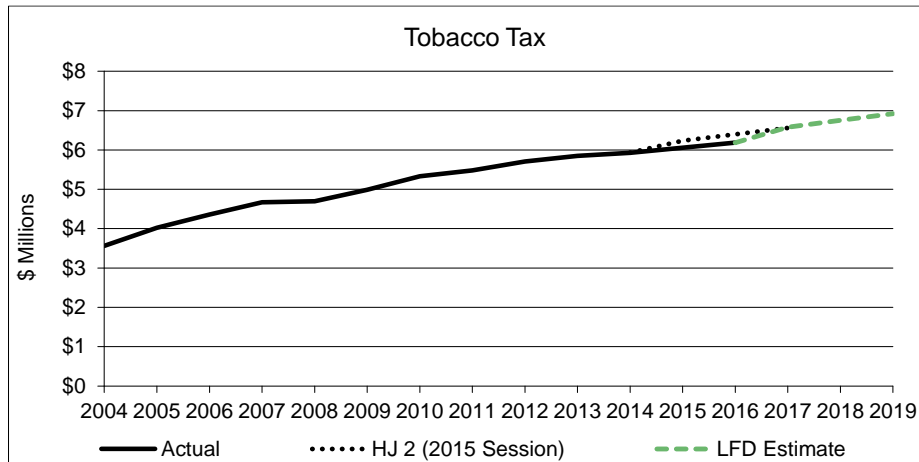


### [HB 617 \(2015 Session\)](#)

established a cap on the general fund transfer of lottery revenue at the FY 2015 amount, with any increases to be transferred to a special revenue account to provided college scholarships for Science, Technology, Engineering and Math (STEM) students.

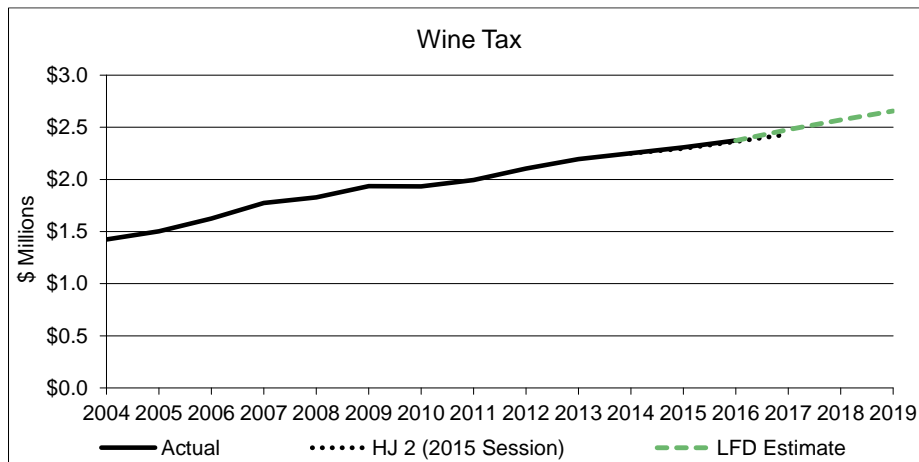
## Tobacco Tax

Tobacco tax revenue came in below the official projection for FY 2015 and FY 2016. The HJ 2 estimate was based on IHS forecasts of Montana retail sales and Montana population over age 18. Modeling has been revised to replace retail sales with Montana personal consumption expenditures.



## Wine Tax

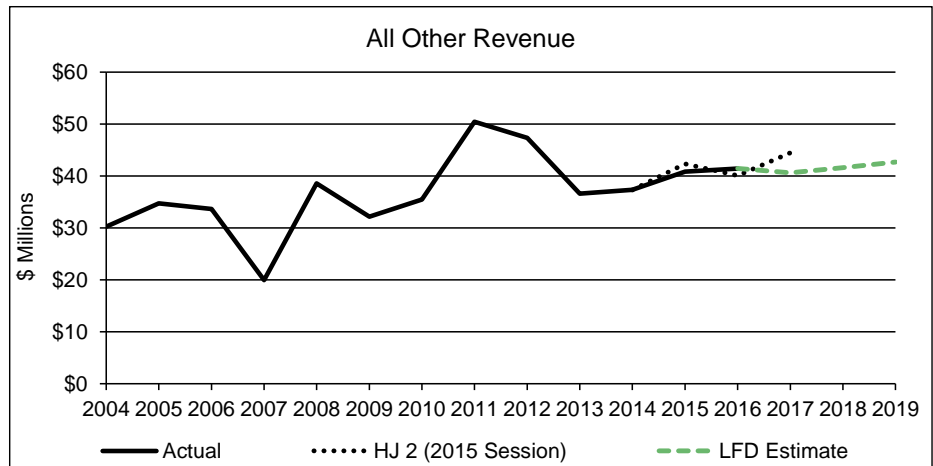
Wine tax revenue came in very close to the official estimate in FY 2015 and FY 2016. The HJ 2 estimate was based on the IHS forecast of Montana population over age 21; modeling for this source has not changed, but incorporates the most recent collections.



## Other Sources

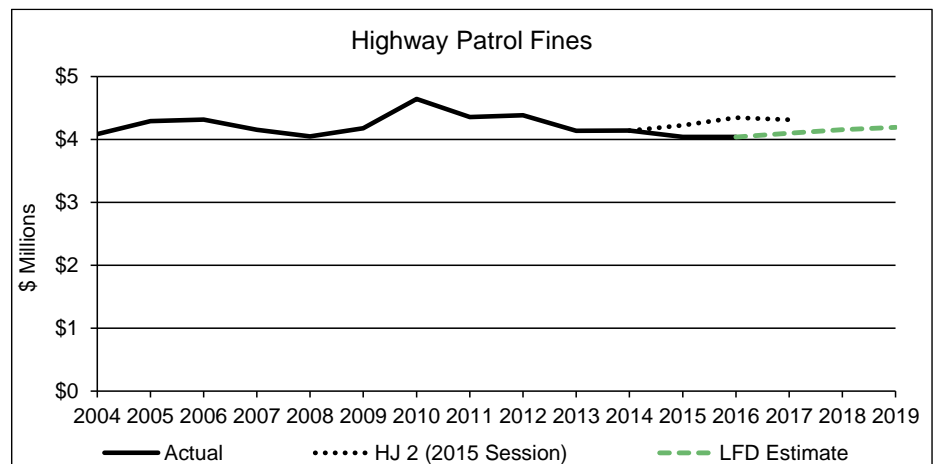
### All Other Revenue

All other revenue collections were very close to the HJ 2 estimate for both FY 2015 and FY 2016. This source is forecast to be lower than HJ 2 projections in FY 2017 but experience slow growth into FY 2018 and FY 2019.



### Highway Patrol Fines

Highway patrol fines were lower than forecast in both FY 2015 and FY 2016. Due to these lower-than-expected collections the future forecast is slightly lower than what is contained in HJ 2 for FY 2017. Slow growth is expected in the next biennium.



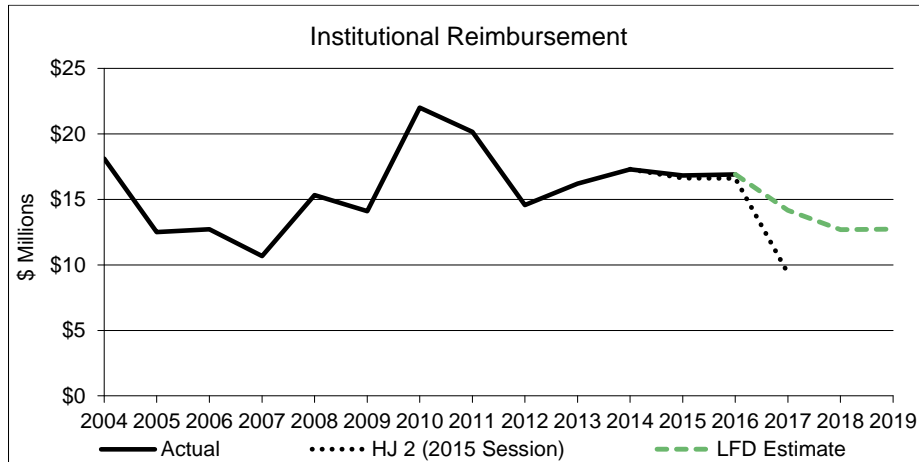
### Nursing Facilities Fee

Nursing facilities fees came in very close to the HJ 2 revenue estimate in FY 2015 and FY 2016. This source has declined most years since inception, and is forecast primarily based on a time series of proxy bed days.



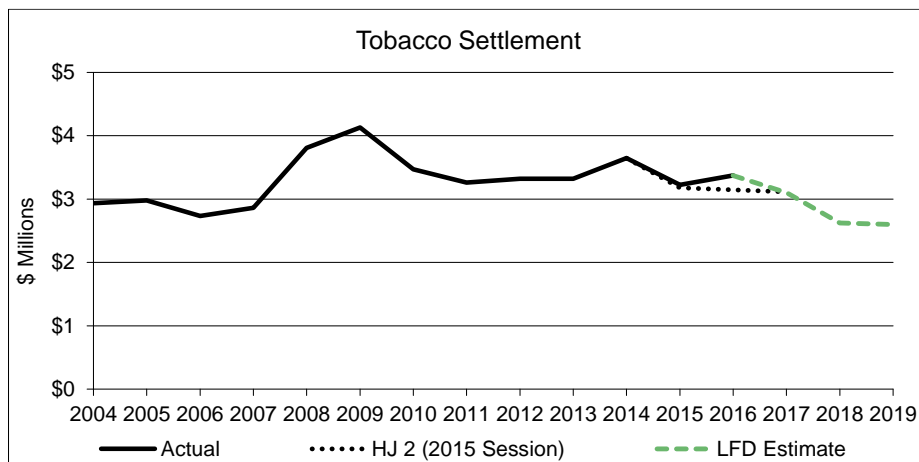
## Public Institution Reimbursements

Public institution reimbursements were slightly above the HJ 2 revenue estimate in FY 2015 and FY 2016. This source has a history of fluctuating collections primarily due to timing of federal payments. Modeling for this source has been simplified since the estimate contained in HJ 2, and now relies primarily on a time trend of nursing facility residents. The LFD estimate includes the impact of [SB 411 \(2015 Session\)](#), the bill closing the Montana Developmental Center (MDC). MDC is one of five state facilities from which the general fund receives reimbursement.



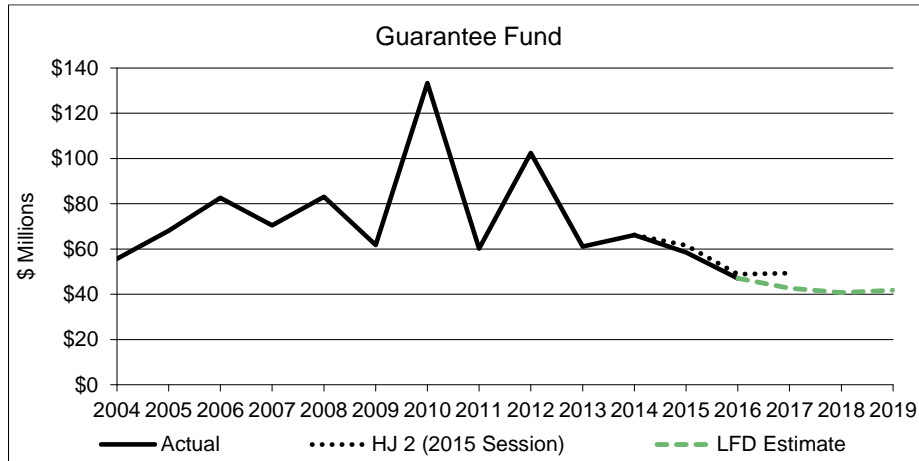
## Tobacco Settlement

Tobacco settlement revenue was above the HJ 2 estimate in FY 2015 and FY 2016, with the difference increasing over time. Fluctuations in this revenue source are generally due to disputes and litigation by attorneys representing the cigarette companies, and the states that delay or mildly adjust the amount of the settlement. These changes are not captured in the revenue model and are likely to continue to contribute to discrepancies between estimates and actuals.



## 2019 BIENNIUM GUARANTEE FUND REVENUE ESTIMATE

The guarantee fund is a state special revenue fund dedicated as the first source of school funding. Since the available funds from the guarantee fund directly offset general fund spending, the LFD revenue estimate recommendation is included for informational purposes. The guarantee fund primarily receives revenue generated from common school state land and the subsequent interest on the common school trust account.



Guarantee account revenues are anticipated to be lower in the 2019 biennium. This is primarily due to lower anticipated collections from grazing leases.

# APPENDIX

## DETAILED COMPARISON WITH EXECUTIVE ESTIMATE

| General Fund Revenue Estimate Overview & Comparison<br>(\$ Millions) |                    |                    |                    |                    |                    |                    |                    |                    |                   |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|
| Revenue Source   | Actual<br>FY 2016  | OBPP<br>FY 2017    | FY 2018            | FY 2019            | LFD<br>FY 2017     | FY 2018            | FY 2019            | 3-Year<br>\$ Diff. | 3-Year<br>% Diff. |
| <b>Largest Seven Sources</b>   |                    |                    |                    |                    |                    |                    |                    |                    |                   |
| Individual Income Tax  | \$1,184.828        | \$1,219.776        | \$1,291.208        | \$1,378.482        | \$1,230.687        | \$1,305.751        | \$1,393.201        | (\$40.173)         | -1.0%             |
| Property Tax   | 257.100            | 260.150            | 279.620            | 286.088            | 261.003            | 276.759            | 284.662            | 3.435              | 0.4%              |
| Corporation Tax  | 118.387            | 140.308            | 134.346            | 164.575            | 145.116            | 161.604            | 167.071            | (34.562)           | -7.3%             |
| Vehicle Taxes & Fees   | 108.480            | 109.200            | 112.700            | 117.500            | 111.026            | 112.966            | 114.525            | 0.883              | 0.3%              |
| Oil & Natural Gas Production Tax                                     | 39.083             | 44.821             | 49.533             | 54.875             | 46.009             | 47.660             | 47.833             | 7.727              | 5.5%              |
| Insurance Tax  | 69.255             | 71.102             | 72.951             | 74.800             | 70.983             | 73.227             | 76.044             | (1.402)            | -0.6%             |
| Video Gaming Tax   | 60.554             | 62.522             | 64.546             | 65.801             | 62.259             | 64.512             | 67.096             | (0.997)            | -0.5%             |
| <b>Other Business Taxes</b>  |                    |                    |                    |                    |                    |                    |                    |                    |                   |
| Drivers License Fee  | 4.345              | 4.539              | 4.370              | 4.598              | 4.931              | 4.336              | 4.997              | (0.757)            | -5.3%             |
| Investment Licenses  | 7.212              | 7.433              | 7.750              | 8.007              | 7.431              | 7.603              | 7.831              | 0.325              | 1.4%              |
| Lodging Facilities Sales Tax   | 21.493             | 22.978             | 25.249             | 27.659             | 22.667             | 23.837             | 24.837             | 4.546              | 6.4%              |
| Public Contractor's Tax  | 2.397              | 2.510              | 2.580              | 2.664              | 2.552              | 2.540              | 2.527              | 0.134              | 1.8%              |
| Railroad Car Tax   | 3.594              | 3.437              | 3.457              | 3.487              | 3.387              | 3.644              | 3.791              | (0.441)            | -4.1%             |
| Rental Car Sales Tax   | 3.878              | 3.282              | 3.379              | 3.473              | 3.229              | 3.277              | 3.576              | 0.052              | 0.5%              |
| Retail Telecom Excise Tax  | 16.775             | 16.165             | 15.576             | 15.009             | 16.078             | 15.552             | 14.946             | 0.174              | 0.4%              |
| <b>Other Natural Resource Taxes</b>                                  |                    |                    |                    |                    |                    |                    |                    |                    |                   |
| Coal Severance Tax   | 14.236             | 13.225             | 15.650             | 15.724             | 12.939             | 14.701             | 15.147             | 1.812              | 4.2%              |
| Electrical Energy Tax  | 4.536              | 4.595              | 4.709              | 4.634              | 4.448              | 4.439              | 4.524              | 0.525              | 3.9%              |
| Metal Mines Tax  | 4.221              | 4.129              | 4.160              | 4.314              | 4.410              | 4.274              | 4.156              | (0.237)            | -1.8%             |
| U.S. Mineral Royalties   | 16.759             | 19.610             | 20.391             | 20.924             | 20.400             | 20.493             | 20.814             | (0.781)            | -1.3%             |
| Wholesale Energy Trans Tax   | 3.516              | 3.502              | 3.406              | 3.366              | 3.539              | 3.505              | 3.537              | (0.307)            | -2.9%             |
| <b>Other Interest Earnings</b>                                       |                    |                    |                    |                    |                    |                    |                    |                    |                   |
| Coal Trust Interest Earnings   | 20.722             | 19.893             | 20.451             | 20.955             | 18.708             | 20.489             | 22.107             | (0.006)            | 0.0%              |
| TCA Interest Earnings  | 3.961              | 5.802              | 10.487             | 18.286             | 3.322              | 4.059              | 8.304              | 18.890             | 120.4%            |
| <b>Other Consumption Taxes</b>                                       |                    |                    |                    |                    |                    |                    |                    |                    |                   |
| Beer Tax   | 3.027              | 3.029              | 3.030              | 3.028              | 3.046              | 3.053              | 3.057              | (0.071)            | -0.8%             |
| Cigarette Tax  | 31.103             | 30.980             | 30.768             | 30.534             | 30.901             | 30.689             | 30.503             | 0.188              | 0.2%              |
| Liquor Excise Tax  | 19.776             | 20.596             | 21.677             | 22.683             | 21.316             | 22.160             | 23.036             | (1.557)            | -2.3%             |
| Liquor Profits   | 11.000             | 11.777             | 12.435             | 13.085             | 11.500             | 12.000             | 12.500             | 1.297              | 3.6%              |
| Lottery Profits  | 11.963             | 11.549             | 11.728             | 12.188             | 12.363             | 12.363             | 12.363             | (1.625)            | -4.4%             |
| Tobacco Tax  | 6.184              | 6.329              | 6.461              | 6.593              | 6.582              | 6.754              | 6.920              | (0.873)            | -4.3%             |
| Wine Tax   | 2.373              | 2.412              | 2.479              | 2.547              | 2.477              | 2.570              | 2.656              | (0.264)            | -3.4%             |
| <b>Other Sources</b>   |                    |                    |                    |                    |                    |                    |                    |                    |                   |
| All Other Revenue  | 41.443             | 42.518             | 43.292             | 43.679             | 40.611             | 41.610             | 42.657             | 4.611              | 3.7%              |
| Highway Patrol Fines   | 4.040              | 4.187              | 4.244              | 4.293              | 4.101              | 4.155              | 4.193              | 0.275              | 2.2%              |
| Nursing Facilities Fee   | 4.764              | 4.526              | 4.276              | 4.244              | 4.589              | 4.277              | 4.181              | (0.001)            | 0.0%              |
| Public Institution Reimb.  | 16.910             | 14.083             | 11.915             | 12.017             | 14.162             | 12.694             | 12.725             | (1.567)            | -4.0%             |
| Tobacco Settlement   | 3.371              | 3.371              | 2.561              | 2.500              | 3.101              | 2.622              | 2.599              | 0.111              | 1.3%              |
| <b>Total General Fund</b>  | <b>\$2,121.288</b> | <b>\$2,194.337</b> | <b>\$2,301.383</b> | <b>\$2,452.612</b> | <b>\$2,209.874</b> | <b>\$2,330.176</b> | <b>\$2,448.916</b> | <b>(\$40.633)</b>  | <b>-0.6%</b>      |
| Guarantee Account  | 47.053             |                    |                    |                    | 42.663             | 40.722             | 41.786             |                    |                   |
| <b>Total General Fund &amp; Guarantee</b>                            | <b>\$2,168.342</b> | <b>\$2,194.337</b> | <b>\$2,301.383</b> | <b>\$2,452.612</b> | <b>\$2,252.537</b> | <b>\$2,370.898</b> | <b>\$2,490.702</b> | <b>(\$40.633)</b>  | <b>-0.6%</b>      |



# GENERAL FUND REVENUE COLLECTIONS THROUGH OCTOBER

| General Fund Revenue Monitoring Report<br>(\$ Millions) |                    |                      |                       |                  |                  |                   |                 |
|---|--------------------|----------------------|-----------------------|------------------|------------------|-------------------|-----------------|
| Revenue Source  | Actual<br>FY 2016  | HJ 2 Est.<br>FY 2017 | HJ 2 Est.<br>% Change | YTD<br>FY 2016   | YTD<br>FY 2017   | YTD<br>Difference | YTD<br>% Change |
| <b>Largest Seven Sources</b>                            |                    |                      |                       |                  |                  |                   |                 |
| Individual Income Tax                                   | \$1,184.828        | \$1,307.356          | 10.3%                 | \$484.920        | \$490.101        | \$5.181           | 1.1%            |
| Property Tax  | 257.100            | 261.421              | 1.7%                  | 6.668            | 6.447            | (0.221)           | -3.3%           |
| Corporation Tax   | 118.387            | 156.751              | 32.4%                 | 42.974           | 41.729           | (1.245)           | -2.9%           |
| Vehicle Taxes & Fees                                    | 108.480            | 108.599              | 0.1%                  | 29.859           | 27.223           | (2.636)           | -8.8%           |
| Oil & Natural Gas Taxes                                 | 39.083             | 68.589               | 75.5%                 | -                | -                | -                 |                 |
| Insurance Tax   | 69.255             | 74.832               | 8.1%                  | 13.902           | 16.487           | 2.586             | 18.6%           |
| Video Gaming Tax  | 60.554             | 64.966               | 7.3%                  | 15.219           | 14.899           | (0.320)           | -2.1%           |
| <b>Other Business Taxes</b>                             |                    |                      |                       |                  |                  |                   |                 |
| Drivers License Fee                                     | 4.345              | 4.465                | 2.8%                  | 1.564            | 1.036            | (0.528)           | -33.7%          |
| Investment Licenses                                     | 7.212              | 7.567                | 4.9%                  | 0.506            | 0.559            | 0.053             | 10.5%           |
| Lodging Facilities Sales Tax                            | 21.493             | 23.835               | 10.9%                 | 5.044            | 4.826            | (0.218)           | -4.3%           |
| Public Contractor's Tax                                 | 2.397              | 3.476                | 45.0%                 | 1.531            | 1.819            | 0.288             | 18.8%           |
| Railroad Car Tax  | 3.594              | 3.883                | 8.0%                  | 0.051            | 0.090            | 0.039             | 75.5%           |
| Rental Car Sales Tax                                    | 3.878              | 2.994                | -22.8%                | 0.964            | 0.668            | (0.296)           | -30.7%          |
| Retail Telecom Excise Tax                               | 16.775             | 18.842               | 12.3%                 | 0.764            | 1.773            | 1.009             | 132.2%          |
| <b>Other Natural Resource Taxes</b>                     |                    |                      |                       |                  |                  |                   |                 |
| Coal Severance Tax                                      | 14.236             | 14.858               | 4.4%                  | 2.328            | 5.375            | 3.047             | 130.9%          |
| Electrical Energy Tax                                   | 4.536              | 4.553                | 0.4%                  | 0.582            | 0.216            | (0.366)           | -62.8%          |
| Metal Mines Tax   | 4.221              | 6.529                | 54.7%                 | 0.000            | (0.103)          | (0.103)           | -21994.3%       |
| U.S. Mineral Leasing                                    | 16.759             | 24.675               | 47.2%                 | 1.859            | 4.486            | 2.626             | 141.2%          |
| Wholesale Energy Trans Tax                              | 3.516              | 3.565                | 1.4%                  | 0.726            | 0.588            | (0.138)           | -19.0%          |
| <b>Other Interest Earnings</b>                          |                    |                      |                       |                  |                  |                   |                 |
| Coal Trust Interest Earnings                            | 20.722             | 20.159               | -2.7%                 | 4.218            | 4.724            | 0.505             | 12.0%           |
| TCA Interest Earnings                                   | 3.961              | 20.786               | 424.8%                | 0.830            | 1.348            | 0.518             | 62.3%           |
| <b>Other Consumption Taxes</b>                          |                    |                      |                       |                  |                  |                   |                 |
| Beer Tax  | 3.027              | 3.189                | 5.3%                  | 0.868            | 0.856            | (0.012)           | -1.4%           |
| Cigarette Tax   | 31.103             | 30.453               | -2.1%                 | 9.824            | 9.404            | (0.420)           | -4.3%           |
| Liquor Excise Tax                                       | 19.776             | 20.377               | 3.0%                  | 5.030            | 5.211            | 0.181             | 3.6%            |
| Liquor Profits  | 11.000             | 11.591               | 5.4%                  | -                | -                | -                 |                 |
| Lottery Profits   | 11.963             | 11.977               | 0.1%                  | -                | -                | -                 |                 |
| Tobacco Tax   | 6.184              | 6.559                | 6.1%                  | 1.662            | 1.668            | 0.006             | 0.4%            |
| Wine Tax  | 2.373              | 2.434                | 2.5%                  | 0.625            | 0.644            | 0.019             | 3.0%            |
| <b>Other Sources</b>                                    |                    |                      |                       |                  |                  |                   |                 |
| All Other Revenue                                       | 41.420             | 44.469               | 7.4%                  | 8.017            | 10.666           | 2.649             | 33.0%           |
| Highway Patrol Fines                                    | 4.040              | 4.316                | 6.8%                  | 0.952            | 1.004            | 0.052             | 5.5%            |
| Nursing Facilities Fee                                  | 4.764              | 4.490                | -5.8%                 | 0.843            | 0.464            | (0.379)           | -44.9%          |
| Public Institution Reimbursement:                       | 16.910             | 9.377                | -44.5%                | 0.502            | 1.122            | 0.620             | 123.6%          |
| Tobacco Settlement                                      | 3.394              | 3.115                | -8.2%                 | -                | 0.010            | 0.010             |                 |
| Largest Seven Subtotal                                  | 1,837.687          | 2,042.513            | 11.1%                 | 593.541          | 596.887          | 3.346             | 0.6%            |
| Remaining Sources Subtotal                              | 283.601            | 312.534              | 10.2%                 | 49.291           | 58.453           | 9.162             | 18.6%           |
| <b>Grand Total</b>                                      | <b>\$2,121.288</b> | <b>\$2,355.047</b>   | <b>11.0%</b>          | <b>\$642.832</b> | <b>\$655.340</b> | <b>\$12.507</b>   | <b>1.9%</b>     |

## Individual Income Collections by Account

| Individual Income Tax<br>(\$ Millions) |                |                |               |              |
|--|----------------|----------------|---------------|--------------|
|  | YTD 2017       | YTD 2016       | \$ Difference | % Difference |
| Withholding                            | \$283.0        | \$270.3        | \$12.7        | 4.7%         |
| Estimated Payments                     | 90.7           | 88.4           | 2.4           | 2.7%         |
| Current Year Payments                  | 17.3           | 23.5           | (6.2)         | -26.2%       |
| Audit, P&I, Amended                    | 8.0            | 8.4            | (0.4)         | -4.4%        |
| Refunds                                | (56.3)         | (51.0)         | (5.2)         | 10.2%        |
| Refund Accrual Reversal                | 143.0          | 140.0          | 2.9           | 2.1%         |
| Partnership Income Tax                 | 2.9            | 3.5            | (0.6)         | -18.2%       |
| Mineral Royalties                      | 1.4            | 1.8            | (0.4)         | -23.3%       |
| <b>Total</b>                           | <b>\$490.1</b> | <b>\$484.9</b> | <b>\$5.2</b>  | <b>1.1%</b>  |

## Corporation Income Collections by Account

| Corporation Income Tax<br>(\$ Millions) |               |               |                |              |
|---|---------------|---------------|----------------|--------------|
| Account                                 | YTD 2017      | YTD 2016      | \$ Difference  | % Difference |
| Corporation Tax                         | \$8.2         | \$5.5         | \$2.7          | 48.7%        |
| Estimated Payments                      | 28.1          | 36.6          | (8.5)          | -23.2%       |
| Refunds                                 | (3.2)         | (4.8)         | 1.5            | -32.1%       |
| Refund Accrual Reversal                 | 3.8           | 4.3           | (0.5)          | -12.1%       |
| Audit, P&I, Amended                     | 4.9           | 1.3           | 3.6            | 265.1%       |
| <b>Total</b>                            | <b>\$41.7</b> | <b>\$43.0</b> | <b>(\$1.2)</b> | <b>-2.9%</b> |