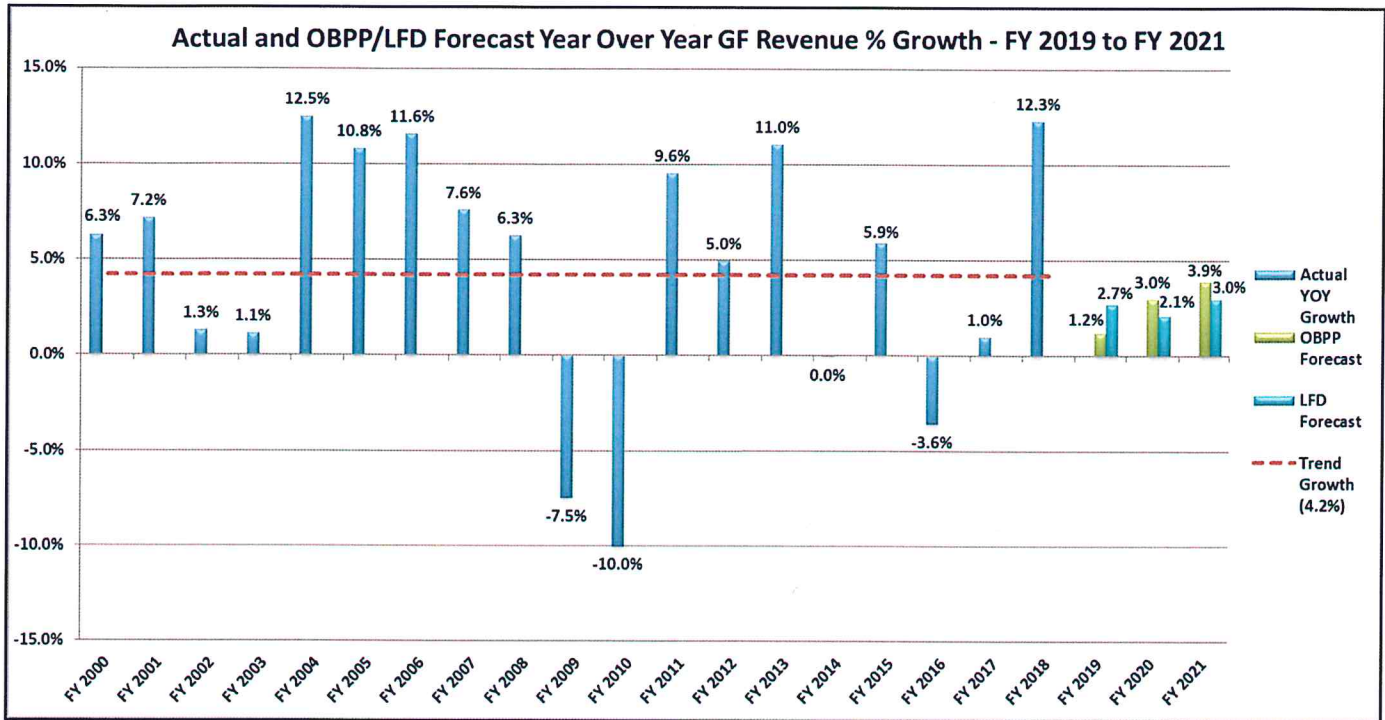


The task at hand - What are reasonable expectations for total general fund revenue for next three years

- Smaller individual estimate errors tend to cancel out.
- Variation tends to be in larger tax types.
- Our collective task is not to predict economic variables (i.e. GDP, unemployment, etc.), but to synthesize that information and formulate its incidence on GF revenue.

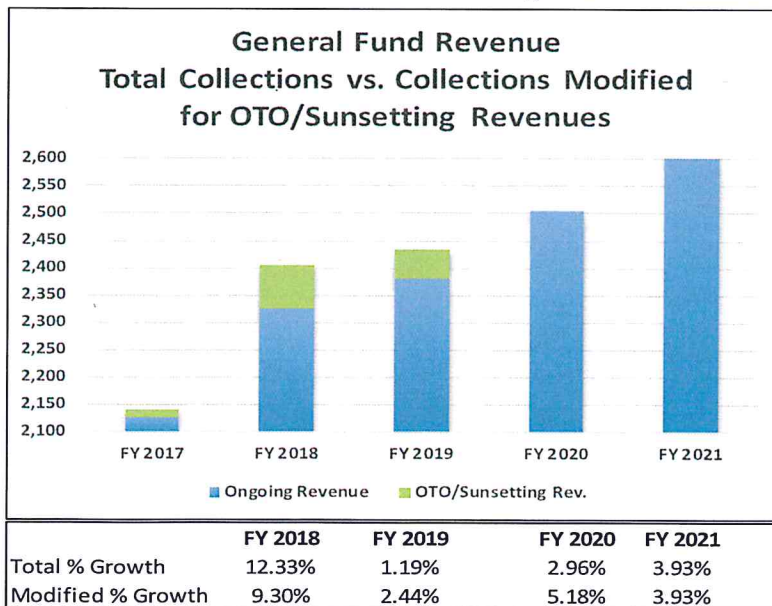
Comparing to trend revenue collections (%)

- Average trend is a result of many years of “above trend growth” and “below trend growth”.



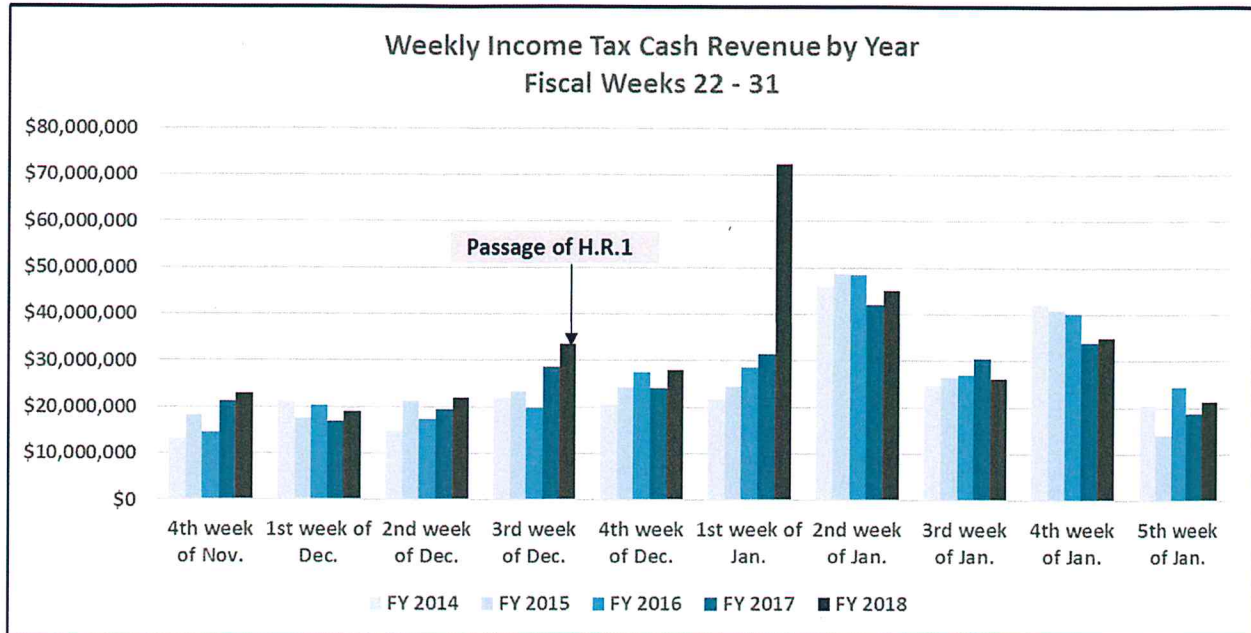
Revenue Growth Modified for OTO and Sunsetting Revenues

- Anticipated collections - modified for known OTO and sunsetting revenue - are at or near trend growth.

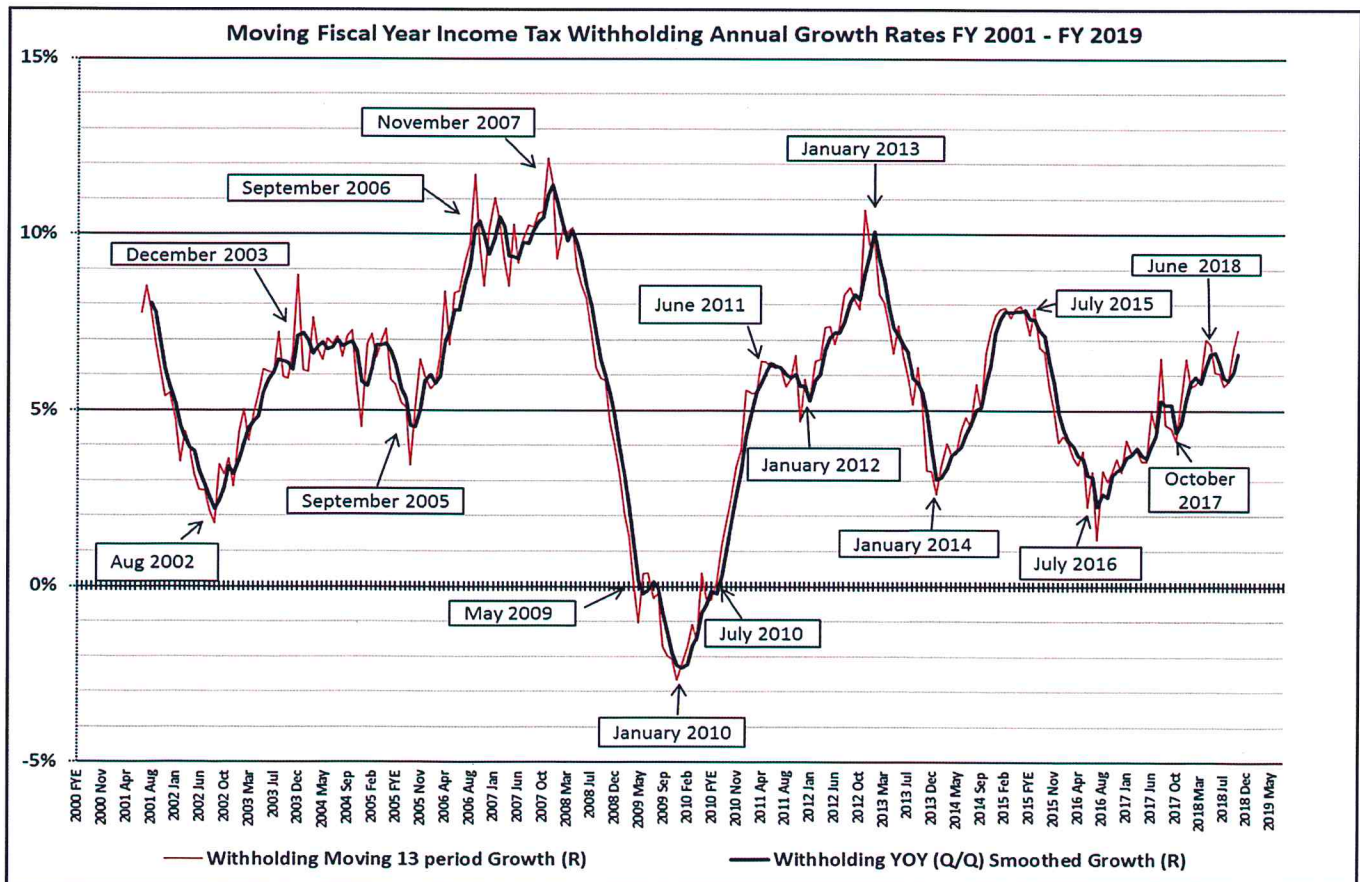


Timing Considerations and Taxpayer Behavior

- What are the implications of the new federal tax bill and was the spike in FY 18 a sign of things to come, or simply taxpayer timing?
- Last year's surge in Dec./Jan. may impact the apparent growth rate of Income Tax collections during session.



Wage Withholding as a Leading Indicator



Specific Considerations by Tax Type

Individual Income Tax

- The TCJA created one-time incentives to advance payment of state and local taxes in CY 2017 when they would normally be paid more uniformly across late CY 2017 and early CY 2018. This did not change tax year liability as much as the payment timing shifted, however if this resulted in pre-payment of TY 2018 taxes, this may lower FY 2019 receipts.
- The Montana economy appears to be at full-employment, while anticipated labor force growth is low. The two conditions should generate more rapid wage increases for existing employees, but there will be little boost from growth in the number of employees.
- Demographically, the populations age 65 and older is growing more rapidly than the working age population. People over age 64 receive additional tax advantages. This may limit relative upside growth in income tax collections.

Corporate Income Tax

- Changes in federal tax law promoted repatriation of profits formerly held overseas. Because of the federal treatment of these profits, they do not enter the Montana tax base, or are offset by relative changes in apportionment factors if they do get counted.
- Moving from 40% bonus depreciation to 100% depreciation will increase the deductibility of investment expense as plant and equipment is put into place. This will depend, in part, on depreciation use strategies firms choose. For activities already under construction or planning before the tax law change, this change is an unanticipated tax savings. This may have resulted in earlier over-payments of taxes.
- SB 550 (2017) limitation on the use net operating losses (NOL's) in prior years, do not limit claw backs during the 21 biennia as firms can still recoup taxes paid for TY 2015, TY 2016, and TY 2017 with their TY 2018 (FY 2020) filings. The fact that the limitation exists, creates incentives for firms to exhaust as much of their prior year NOLs as profits permit.

Vehicles

- Declining new vehicle sales.
- Number of vehicles aging out of the new cohort and into the mid cohort reduce new cohort population and increase mid cohort population.
- Recessionary effect of low vehicle purchases in 2009 and 2010 impacts old cohort population and permanent registrations.

Video Gambling

- Pick up in disposable income growth increases spending on video gambling.
- Total video gambling expenditures maintain a steady share of Montana disposable income.

Oil and Gas

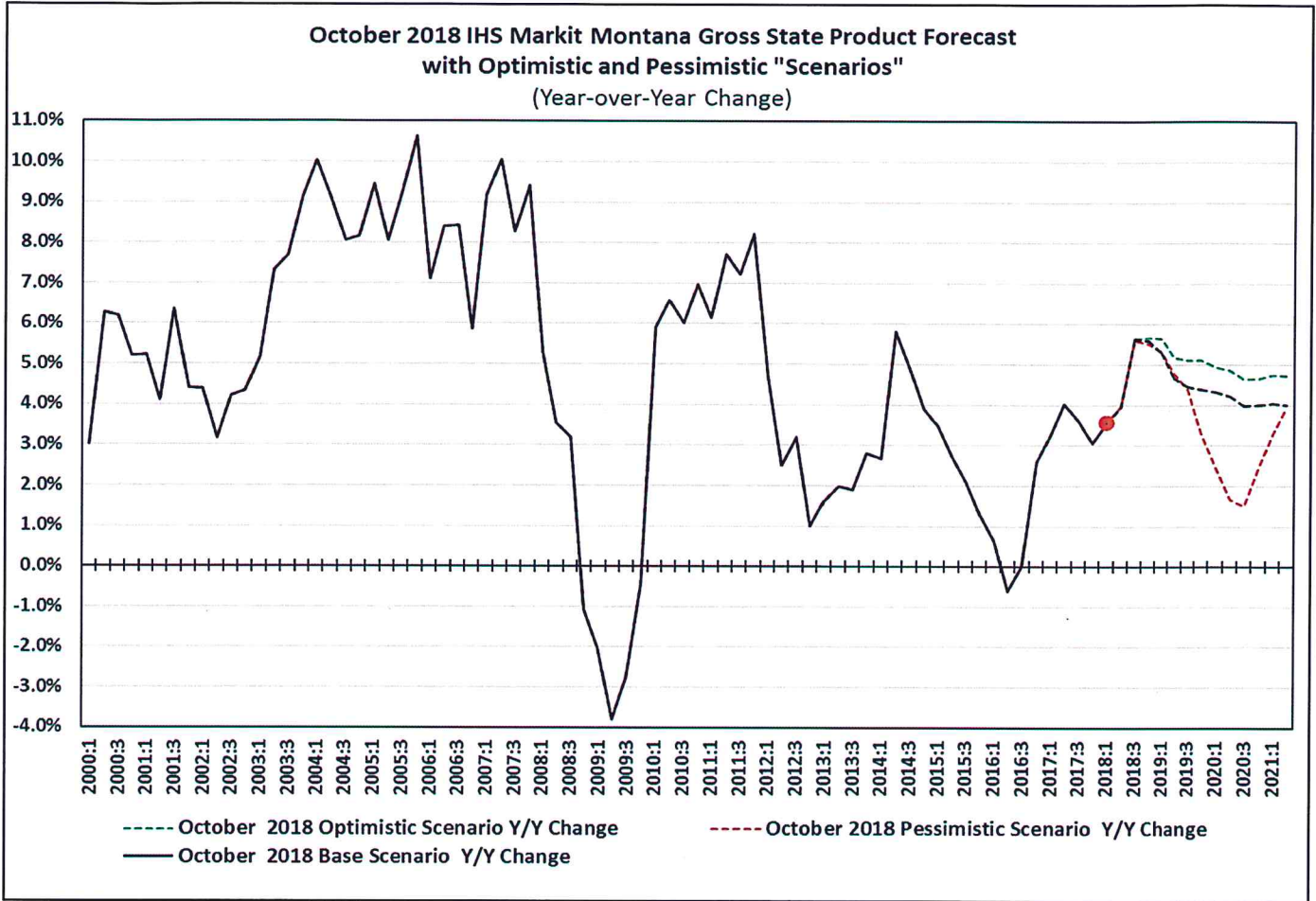
- Steadily declining oil production due to lack of new drilling.
 - Only a handful of new wells completed in the past few years.
- Project gently rising oil prices over forecast period.
- Current global oversupply concerns have been pushing oil prices downward lately.
- Softer sanctions on Iran contributed to downward movement in global oil prices.
 - Took the market a bit by surprise.
- Rising U.S. output could spur OPEC to cut production to stabilize the market.

Interest Rates

- Assume continually rising short term interest rates as Fed pursues tighter monetary policy.
- Long term rates increase gradually.
- Returns on both STIP and TFIP investments increase over the forecast period.
- Coal trust fund balance stays stable because no distribution into the permanent fund.
- The TCA balance rises over the forecast period helped along by growing general fund cash balances.

The Path of Growth will Influence Revenue Collections

- Near term risks (both upside and downside) with even pessimistic scenarios pointing towards growth.
- Upside risks equate to \$45 - \$97 million, whereas downside risks equate to \$69 to \$132 million.



Comparison of OBPP and LFD Estimates

Comparison of the General Fund Revenue Estimates by the LFD and OBPP for the 21 Biennium (Million \$)				
Estimate	FY 2019	FY 2020	FY 2021	3 Yr. Total
LFD	\$2,470.6	\$2,522.3	\$2,598.3	\$7,591.2
OBPP	\$2,434.2	\$2,506.2	\$2,604.6	\$7,544.9
Difference	\$36.4	\$16.2	-\$6.3	\$46.3

Looking Forward

- What comes next for Income Tax estimated payments, withholding, and the beginning of tax season; as well as the performance of year-over-year growth rates, particularly in December – February?
- What comes next after the recent volatility in oil and gas prices?
- What happens to corporation tax year-over-year growth in the second half of FY 19?
- How will IHS-Markit’s forecast change in the next 3 to 6 months?