



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: March 23, 2023

TO: Sen. Senator Ellsworth, Senate President  
Rep. Matt Regier, House Speaker  
Sen. Greg Hertz, Chair, Senate Tax Committee  
Rep. Paul Fielder, Chair, House Tax Committee  
Sen. Steve Fitzpatrick, Senate Majority Leader  
Rep. Sue Vinton, House Majority Leader  
Sen. Pat Flowers, Senate Minority Leader  
Rep. Kim Abbott, House Minority Leader  
Sen. Kenneth Bogner, Senate President Pro Tempore  
Rep. Rhonda Knudsen, House Speaker Pro Tempore  
Sen. John Esp, Chair, Senate Finance and Claims  
Sen. Janet Ellis, Vice Chair, Senate Finance and Claims  
Rep. Llew Jones, Chair, House Appropriations  
Rep. Mary Caferro, Vice Chair, House Appropriations

FROM: LFD Revenue Team

RE: General Fund Revenue Forecast Update #3

## GENERAL FUND REVENUE SUMMARY

This is the third of the monthly revenue forecast updates throughout the 2023 Session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2025 Biennium general fund revenue estimate. This update is based on actual revenue collections received through the end of February 2023 and updated national and Montana forecasts from IHS.

## Forecast Update Based on New Data

The March economic forecasts from IHS combined with LFD revenue models generates a general fund revenue forecast that is \$10.5 million higher than the official estimate in HJ 2 over the three-year forecast period. The table below shows the HJ 2 estimate and the LFD March update based on revised assumptions.

March LFD General Fund Revenue Estimate Update							
FY	HJ 2	March Update	\$ Difference	OTO Transfers	OTO TCA Interest	HJ 2 Growth	Update Growth
2022	\$3,891.6	\$3,891.6	\$0.0	\$135.9			
2023	3,800.3	3,792.0	-\$8.3	260.8	49.4	-2.3%	-2.6%
2024	3,710.0	3,726.1	\$16.1		74.7	-2.4%	-1.7%
2025	3,782.7	3,785.5	\$2.8		46.6	2.0%	1.6%
3-Year	\$11,293.0	\$11,303.5	\$10.5	\$260.8	\$170.7		

When looking at the 2025 Biennium, the updated forecasts produce a biennial estimate that is \$18.8 million or 0.25% above the biennial numbers adopted in HJ 2. The table below shows a summary by source of changes compared to HJ 2.

February LFD Update Summary of Changes from HJ 2 (\$ Millions)				
	FY 2023	FY 2024	FY 2025	3-Year Total
Individual Income Tax	\$ (19.3)	\$ (9.5)	\$ (15.6)	\$ (44.4)
Property Tax	-	-	-	-
Corporate Income Tax	0.1	8.0	8.0	16.1
Vehicle Taxes & Fees	0.5	0.3	0.3	1.1
Oil & Natural Gas Tax	(0.8)	3.7	4.0	6.9
Insurance Tax	2.3	3.8	2.3	8.5
Video Gaming Tax	(0.6)	(1.6)	(2.1)	(4.2)
TCA Interest Earnings	10.8	15.9	12.2	38.9
Lodging Sales Tax	(1.5)	(5.8)	(7.8)	(15.0)
Remaining Sources	0.2	1.2	1.2	2.6
<b>General Fund Total</b>	<b>-\$8.3</b>	<b>\$16.1</b>	<b>\$2.8</b>	<b>\$10.5</b>

## Marijuana Tax Revenue

Through February, marijuana tax revenues have not been transferred to the general fund but have been collected. In HJ 2, it was assumed that total marijuana revenue collections would total \$51.2 million with a transfer to the general fund of \$27.4 million. The table below shows total collections through February, as well as an extrapolation for final collections based upon year-to-date data. Based upon year-to-date data it is expected that total marijuana collections will end up slightly higher than HJ 2, and about \$11 million higher than what was anticipated in the fiscal note from the 2021 Legislative Session.

Marijuana Tax Collections (\$Millions)	FY	Total Marijuana Tax	General Fund Marijuana Tax
HB 701 Fiscal Note	2023	\$42.45	\$21.62
HJ 2	2023	50.95	27.40
Collections Through February	2023	39.94	N/A
YTD Extrapolation (DOR)	2023	54.21	29.62
Difference from Fiscal Note		\$11.76	\$8.00
Difference from HJ 2		\$3.26	\$2.22

## General Fund Year-to-Date Revenues

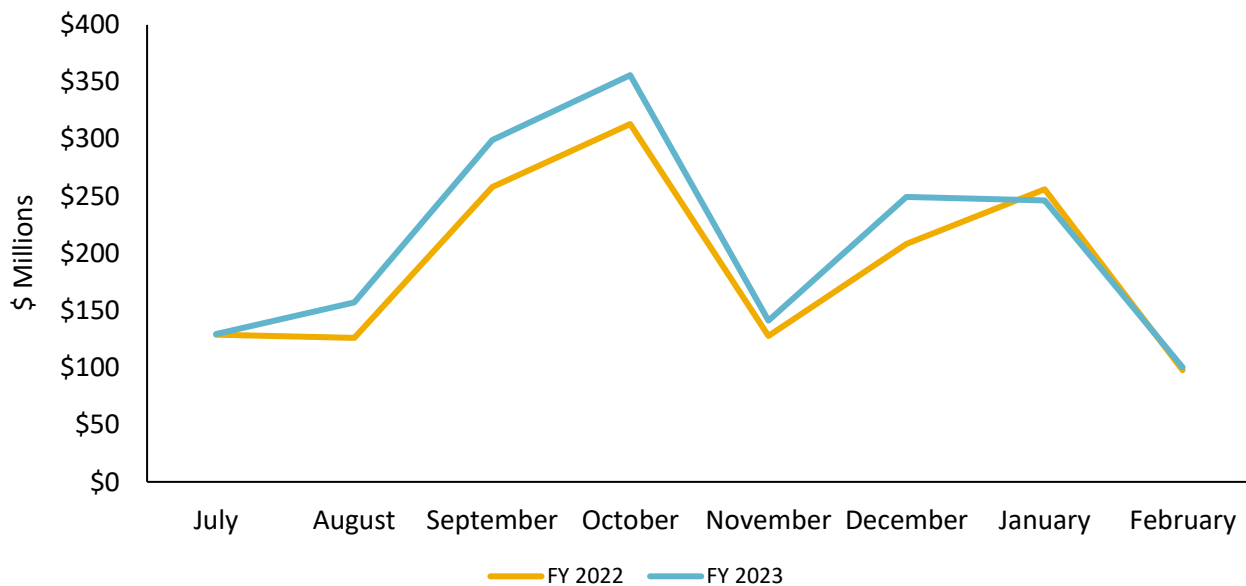
This monthly revenue update analyzes revenue collections through the end of February and is designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2023 relative to the revenue estimate contained in HJ 2.

FY 2023 general fund revenues through the end of February are \$526.8 million or 25.8% above FY 2022 revenues through the same period. **Ongoing revenue growth, which excludes a one-time-only general fund revenue transfer, is currently 13.0% above the FY 2022 values through the same time.**

While revenue growth has been strong, it is anticipated to slow in the final four months of the fiscal year. The last quarter of FY 2022 saw extremely strong collections across multiple revenue sources. Current levels of growth will be difficult to maintain compared to those strong collections. In addition, the LFD believes that a large portion of individual income tax collections in April of FY 2022 were of the one-time-only nature, and as a result will not show up in the current fiscal year, further contributing to slowed growth.

Finally, as the chart below shows, the last two months' income tax collections (both individual and corporate) were nearly identical to last year's, compared to the first six months when they were significantly higher.

Monthly Individual & Corporate Income Tax Collections



Throughout the Legislative Session the LFD will continue to monitor year-to-date collections and update the forecast models used to generate the estimate contained in HJ 2.

# END OF YEAR EXTRAPOLATIONS

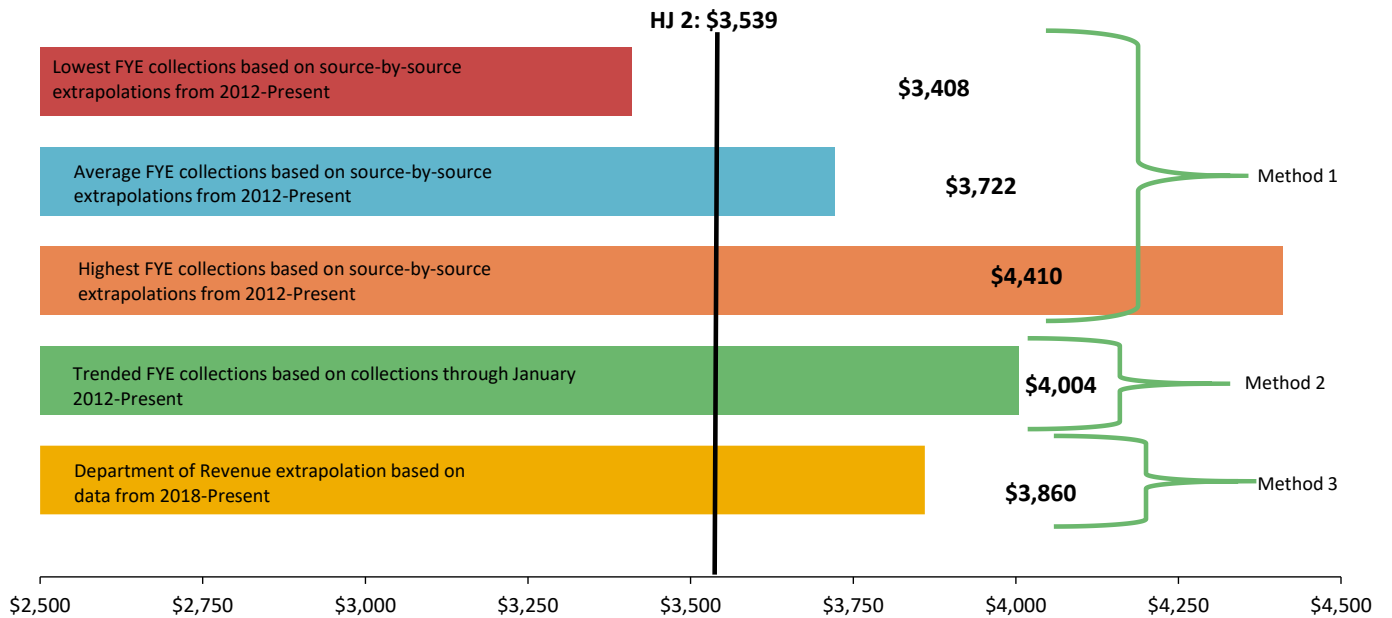
Method 1: For the top sources, and the sum of the remaining sources, the percent of total revenues collected through February was calculated dating back to FY 2012. Collections through February for each source were then divided by the average collection percentage since FY 2012. Each source’s estimate was then added to create a final year-end collection amount. Using this method, ongoing fiscal year end revenue is estimated to be \$3,722 million. The lowest and highest growth through February by revenue source was also applied to year-to-date collections to provide an upper (\$4,410 million) and lower (\$3,408 million) limit for this methodology.

Method 2: This method uses aggregate collections across all sources through February to predict year-end collections using historical trends. Like Method 1, it utilizes collection patterns since FY 2012. This method predicted final collections of \$4,004 million.

Method 3: The Department of Revenue publishes monthly revenue monitoring reports and provides an extrapolation for final collections. The report uses the last five years of collection data. This method produces a year-end estimate of \$3,860 million.

The estimates above range from \$871 million above HJ 2 to \$131 million below HJ 2. At this point in the fiscal year, Method 1 (blue box below), has historically been a sufficient extrapolation method to predict year end revenues. Currently, that extrapolation is \$183 million higher than HJ 2.

FY 2023 Year-End Ongoing Revenue Extrapolations Based on Data Through February (\$ Millions)



# YEAR-TO-DATE GENERAL FUND REVENUE

## General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2022	HJ 2 FY 2023	HJ 2 Est. % Change	Feb FY 2022	Feb FY 2023	YTD Difference	YTD % Change	YTD % Change
<b>Largest Seven Sources</b>								
Individual Income Tax	\$2,393.807	\$2,033.784	-15.0%	\$1,358.478	\$1,513.598	\$155.120	11.4%	
Property Tax	335.114	351.821	5.0%	201.742	205.911	4.169	2.1%	
Corporate Income Tax	293.683	284.335	-3.2%	157.564	165.436	7.871	5.0%	
Vehicle Taxes & Fees	121.138	121.546	0.3%	71.111	71.701	0.590	0.8%	
Oil & Natural Gas Taxes	70.510	78.712	11.6%	14.939	20.820	5.880	39.4%	
Insurance Tax	97.940	101.387	3.5%	34.058	46.236	12.178	35.8%	
Video Gaming Tax	77.881	80.185	3.0%	39.135	39.450	0.315	0.8%	
<b>Other Business Taxes</b>								
Drivers License Fee	6.171	5.854	-5.1%	3.698	3.942	0.244	6.6%	
Investment Licenses	19.535	20.182	3.3%	17.236	19.128	1.891	11.0%	
Lodging Facilities Sales Tax	46.175	51.124	10.7%	22.250	22.796	0.546	2.5%	
Public Contractor's Tax	2.840	4.196	47.7%	1.990	4.509	2.519	126.6%	
Railroad Car Tax	4.020	4.799	19.4%	3.397	3.124	(0.273)	-8.0%	
Rental Car Sales Tax	6.823	8.114	18.9%	3.702	3.652	(0.050)	-1.4%	
Retail Telecom Excise Tax	8.571	7.891	-7.9%	4.374	4.318	(0.057)	-1.3%	
<b>Other Natural Resource Taxes</b>								
Coal Severance Tax	15.359	21.374	39.2%	7.639	9.734	2.095	27.4%	
Electrical Energy Tax	3.930	3.841	-2.3%	1.925	2.028	0.103	5.4%	
Metal Mines Tax	12.210	11.254	-7.8%	0.002	0.003	0.001	72.0%	
U.S. Mineral Leasing	19.464	28.143	44.6%	8.338	20.547	12.209	146.4%	
Wholesale Energy Trans Tax	3.352	3.427	2.2%	1.663	1.778	0.115	6.9%	
<b>Other Interest Earnings</b>								
Coal Trust Interest Earnings	16.561	17.947	8.4%	8.759	9.977	1.218	13.9%	
TCA Interest Earnings	11.776	101.367	760.8%	2.154	66.493	64.338	2986.6%	
<b>Other Consumption Taxes</b>								
Beer Tax	3.202	3.294	2.9%	1.897	1.883	(0.014)	-0.8%	
Cigarette Tax	27.993	27.517	-1.7%	15.662	12.453	(3.208)	-20.5%	
Liquor Excise Tax	32.545	31.241	-4.0%	16.840	17.530	0.690	4.1%	
Liquor Profits	18.500	22.600	22.2%	-	-	-	-	
Lottery Profits	15.311	15.264	-0.3%	2.484	6.061	3.577	144.0%	
Marijuana Tax	14.238	27.401	92.4%	-	-	-	-	
Tobacco Tax	5.565	5.451	-2.0%	3.335	3.217	(0.117)	-3.5%	
Wine Tax	2.573	2.641	2.7%	1.563	1.539	(0.024)	-1.5%	
<b>Other Sources</b>								
All Other Revenue	180.512	305.512	69.2%	25.962	284.749	258.787	996.8%	
Highway Patrol Fines	3.533	3.503	-0.8%	1.934	1.928	(0.006)	-0.3%	
Nursing Facilities Fee	3.447	3.153	-8.5%	1.711	1.653	(0.058)	-3.4%	
Public Institution Reimbursements	13.933	8.070	-42.1%	5.270	1.244	(4.026)	-76.4%	
Tobacco Settlement	3.426	3.342	-2.4%	-	0.157	0.157	-	
Ongoing Revenue Subtotal	3,755.727	3,539.484	-5.8%	2,040.812	2,306.804	265.993	13.0%	
OTO Revenue & Transfers Subtotal	135.914	260.789			260.789	260.789		
<b>Grand Total</b>	<b>\$3,891.640</b>	<b>\$3,800.273</b>	<b>-2.3%</b>	<b>\$2,040.812</b>	<b>\$2,567.594</b>	<b>\$526.782</b>	<b>25.8%</b>	

# MAJOR SOURCES

## Individual Income Tax: Above Estimate

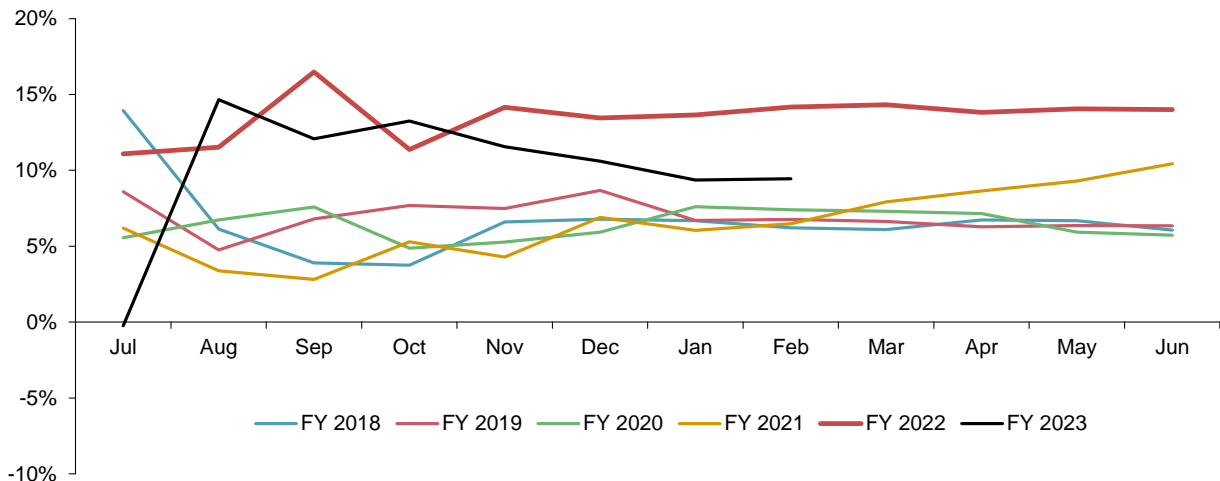
Individual income tax collections through the end of February are \$155.1 million or 11.4% above the year-to-date collections in FY 2022 and is currently above the level anticipated in HJ 2. The chart below shows the year-over-year individual income tax growth by account.

Individual Income Tax (\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Withholding	\$976.4	\$892.2	\$84.2	9.4%
Estimated Payments	338.7	299.0	39.6	13.3%
Current Year Payments	77.6	39.0	38.6	99.0%
Audit, P&I, Amended	38.2	37.3	0.9	2.3%
Refunds	15.0	64.7	(49.7)	-76.8%
Partnership Income Tax	59.3	19.8	39.5	200.0%
Mineral Royalties	8.4	6.5	1.9	29.4%
<b>Total</b>	<b>1,513.6</b>	<b>1,358.5</b>	<b>155.1</b>	<b>11.4%</b>

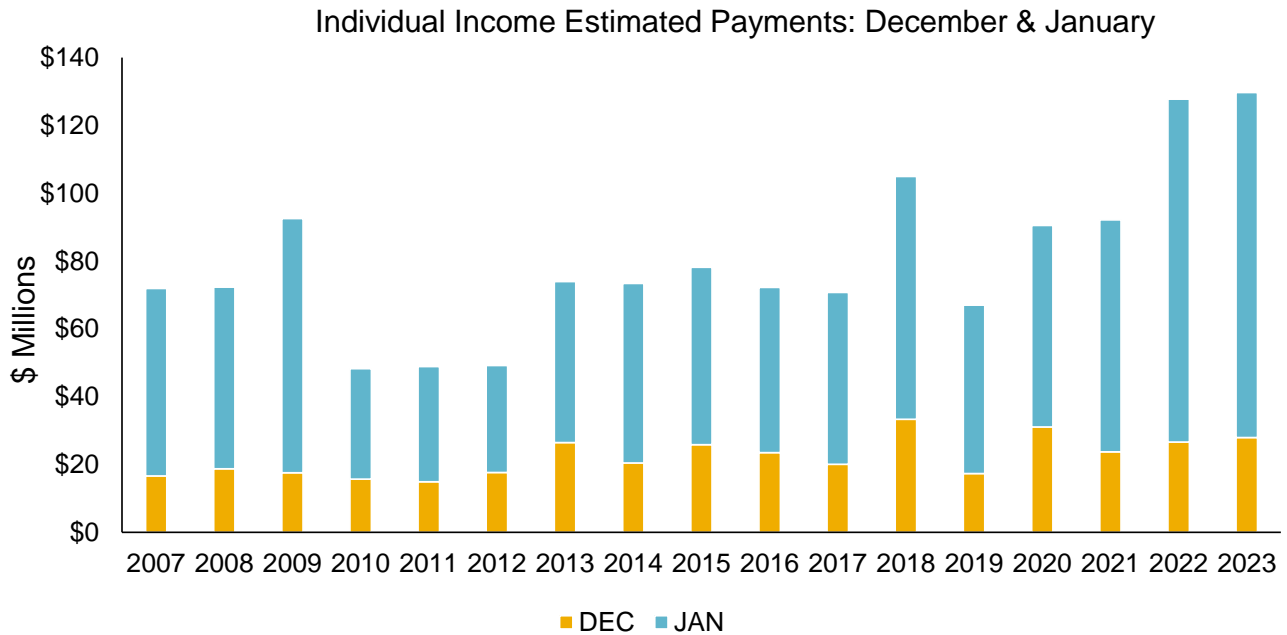
Withholding typically accounts for two-thirds of individual income tax and about one-third of total general fund revenue, though it has been an even larger share in recent years. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February. However, in FY 2021, withholding growth did not stabilize in the second half of the fiscal year, but instead grew considerably. FY 2022 saw withholding growth stabilize at a high level by November. Year-over-year withholding is remained flat this month, after decreasing throughout the course of the fiscal year. As mentioned earlier, typical patterns would suggest it stabilizes at this level, but collection behavior in recent years has been anything but “normal”.

Cumulative Year-over-Year Withholding



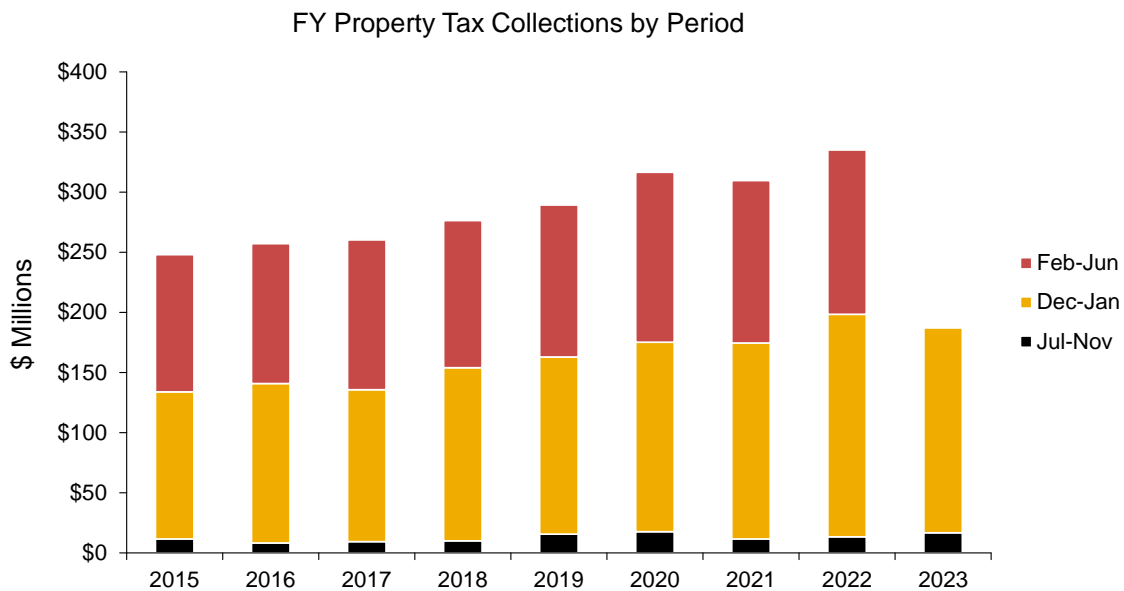
Estimated payment growth continues to be strong. However, like withholding growth, the rate of growth has declined throughout the fiscal year. At the end of the first quarter year-over-year growth was 27.9%. As the table at the top shows, by the end of February this growth has decreased to 13.3%. The figure below shows

that the second quarter estimated payment, which is collected in December and January was only slightly above last year's levels.



### Property Tax: Slightly Below Estimate

Property tax collections are currently 2.1% or \$4.2 million above last year's collections through February. In HJ 2 this source was expected to grow by 5.0%. The first payment last year had larger-than-expected growth, which is causing the year-to-date growth to be slightly lower than expected. It is not uncommon for there to be a discrepancy between year-to-date collections and HJ 2 after the first payment is collected. After the second major property tax payment is booked in June; collections are likely to end up near HJ 2 as this source is typically estimated with a high level of certainty.





## Corporate Income Tax: Above Estimate

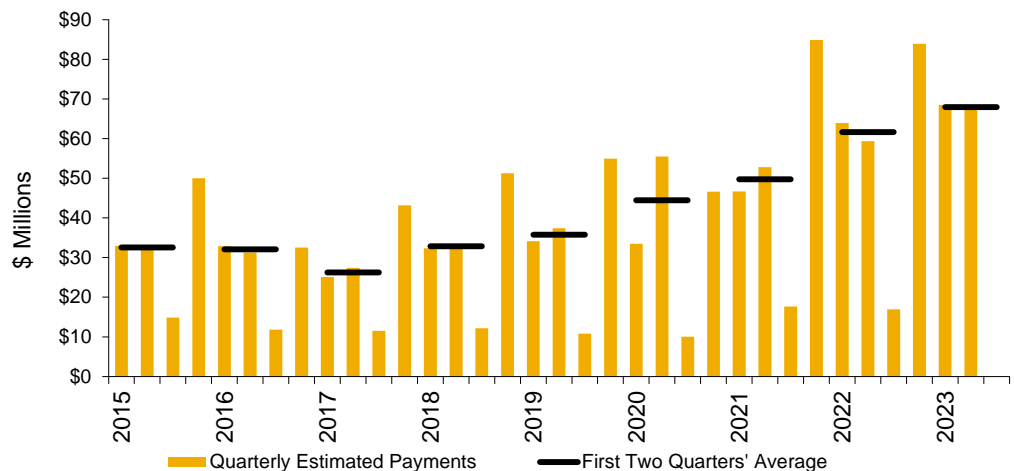
Corporate income tax collections through the end of February are 5.0% or \$7.9 million above this time in FY 2022. This is above the HJ 2 estimate which contains a projected decline of 3.2%. The chart below shows the year-over-year corporate income tax growth by account. As the chart shows, most of the growth has been in the form of strong quarterly estimated payments and has been partially offset by refunds and audit collections.

Corporate Income Tax  
(\$ Millions)

Account	YTD 2023	YTD 2022	\$ Difference	% Difference
Corporation Tax	\$24.6	\$21.5	\$3.1	14.6%
Estimated Payments	\$148.7	\$132.3	16.4	12.4%
Refunds	(12.7)	(8.6)	(4.1)	48.2%
Audit, P&I, Amended	4.8	12.4	(7.5)	-61.0%
<b>Total</b>	<b>\$165.4</b>	<b>\$157.6</b>	<b>\$7.9</b>	<b>5.0%</b>

The adjacent chart shows that estimated payments in the first two quarters of FY 2023 are the highest they have ever been. Estimated payments typically make up 80% of total corporate income tax collections, so they're the ultimate driver of where final collections end up.

Corporate Estimated Payments by Fiscal Year Quarter



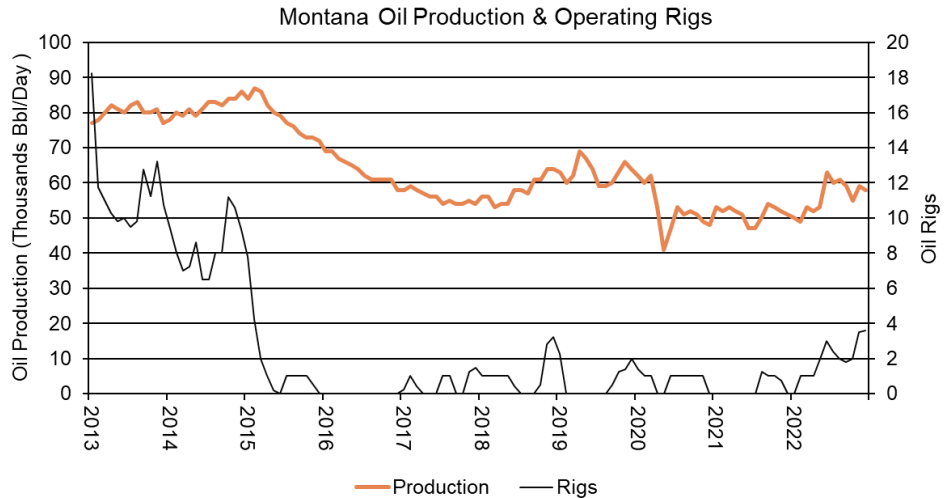
## Vehicle Fees & Taxes: Near Estimate

As of February, vehicle taxes & fees are 0.8% or \$0.6 million above FY 2022 collections. The estimate contained within HJ 2 has this source growing by 0.3% in FY 2023. As most of this source's revenue is from vehicle registrations, month to month volatility is not uncommon, but as of now this source is expected to track near and ultimately end up close to the estimate.

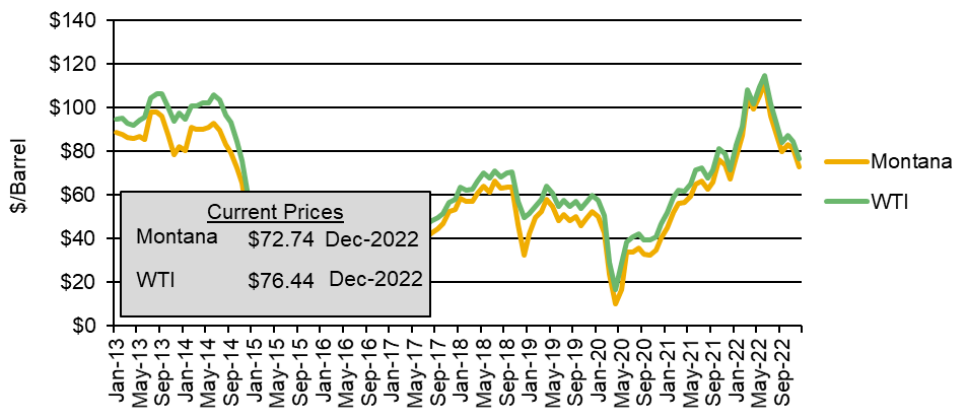
## Oil & Natural Gas Production Tax: Above Estimate

The first quarter's payment for oil and natural gas taxes was posted to the state accounting system in January. The first quarter's collections were \$5.9 million or 39.4% above the first quarter of FY 2022. The growth is primarily due to higher oil prices in the first quarter of FY 2023 compared to the first quarter of FY 2022.

Although oil prices have been very volatile over the last three years, production has remained relatively stable throughout the past year. The chart to the right shows that while prices are not as high as last summer, they are still significantly higher than what has been experienced over the better part of the last decade.



Montana Oil Price vs. WTI Oil Price



## Insurance Tax: Above Estimate

Current insurance tax collections through February are 35.8% or \$12.2 million above FY 2022 collections through the same period. In February payment timing seemed to be ahead of a typical year. In February, \$6.6 million in Fire Marshall Tax collections were received, while last year no payments were recorded until April. Year to date premium payments are currently 15.4% above this time last year. It is possible this increase could be a timing issue. However, this source appears is on track to meet or exceed HJ 2.

## Video Gaming Tax: Slightly Below Estimate

Revenue from video gambling is currently \$0.3 million or 0.8% above collections from this time last year. Quarterly collections are nearly identical to FY 2022. In HJ 2 this source is expected to grow by 3.0%. After two years of strong growth, this source may have returned to its prior pattern of very little, if any growth, year-over-year.

## OTHER KEY DIFFERENCES:

### Cigarette Tax: Below Estimate

Year-to-date cigarette tax collections are \$3.2 million or 20.5% below last year's collections. Currently the variation seems to be a timing issue as month-to-month collections can be inconsistent. However, this source is expected to decline as e-cigarettes which are not taxed gain in popularity.

### **Coal Severance Tax: Below Estimate**

Year-to-date coal severance tax collections are currently \$2.1 million or 27.4% above collections from last year. In HJ 2, this source was expected to grow by 39.2%. Production has declined 6.6% compared to last year, however, increased prices have more than offset the production decline. This source is ultimately expected to end up near the HJ 2 estimate.

### **U.S. Mineral Leasing: Above Estimate**

Current U.S. mineral leasing collections through February are 146.4% or \$12.2 million above FY 2022 collections. The estimate contained in HJ 2 has a year-over-year increase of 44.6% for this source. This strong growth is due to continued strong commodity prices, specifically energy commodities such as coal and oil. Much of this year over year increase in collections is likely due to high coal prices early in FY 2023.

### **TCA Interest Earnings: Above Estimate**

Current TCA interest earnings through February are 2986.6% or \$64.3 million above FY 2022 collections through the same period. This source is affected by rising interest rates and the Treasury Cash Account's current cash balance. If short-term interest rates remain high and if the TCA's cash balance remains unchanged, this source will continue to return much higher monthly interest revenue than previous years. This source will be directly impacted by any legislative action that reduces the general fund ending fund balance.