

# **FY 2013 GENERAL FUND REVENUE AND 2015 BIENNIUM UPDATE**

A Report Prepared for the  
**Revenue & Transportation Interim Committee**

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## INTRODUCTION

The purpose of the report is to provide the committee with the preliminary FY 2013 ending fund balance and revenue collection information. Although the revenue and disbursement data for the fund have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the Generally Accepted Accounting Principles (GAAP) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund account has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

This report provides a comparison between budgeted data as presented during the 63<sup>rd</sup> Legislature and actual data from SABHRS for FY 2013, and the impact the differences had on the anticipated fund balance. In addition, the report provides detailed information on revenue collections by source.

### FUND BALANCE CHANGES

Following the 2013 Legislature, the estimated general fund balance at the end of FY 2013 was \$434.9 million. This estimate was based on Senate Joint Resolution 2 (SJ 2) revenue estimates of the 63<sup>rd</sup> Legislature, disbursement budgets adopted during the 62<sup>nd</sup> and 63<sup>rd</sup> legislative sessions, and reversion estimates.

As shown in the table below, the preliminary general fund account unassigned balance for FY 2013 was \$537.3 million, or \$102.4 million above the level anticipated by the 63<sup>rd</sup> Legislature. The increase is attributable to additional revenue of \$82.4 million, reduced spending by \$14.9 million, and an additional \$5.2 million in prior year revenue and other adjustments.

General Fund Update FY 2013 Actual			
(in Millions)			
	Estimated FY 2013	Actual FY 2013	Difference
<b>Beginning Fund Balance</b>	\$452.4	\$452.4	\$0.0
Revenue	<u>1,995.2</u>	<u>2,077.6</u>	<u>82.4</u>
<b>Total Funds Available</b>	\$2,447.6	\$2,530.0	\$82.4
Disbursements			
Ongoing			
HB 2	\$1,628.7	\$1,613.5	(\$15.2)
Statutory	200.9	199.7	(1.3)
Other	67.5	76.2	8.7
OTO	<u>115.6</u>	<u>108.5</u>	<u>(7.1)</u>
<b>Total Disbursements</b>	\$2,012.7	\$1,997.9	(\$14.9)
Adjustments		\$5.2	\$5.2
<b>Ending Fund Balance (Unassigned)</b>	<b>\$434.9</b>	<b>\$537.3</b>	<b>\$102.4</b>

### Reasons for Higher FY 2013 Ending Fund Balance

The largest component of this increase is \$82.4 million in higher-than-anticipated revenues. Differences by source are explained in a later section; however, the main contributors to the revenue increase are higher individual income tax receipts (\$63.8 million) and increased corporation tax revenues (\$26.8 million). Also increasing ending fund balance are nearly \$15 million in higher-than-anticipated net reversions and \$5.2 million in prior year revenue and other adjustments.

## Anticipated 2015 Biennium Ending Fund Balance Update

Although the ending fund balance for FY 2013 is \$102.4 million higher than anticipated, not all of that increased fund balance will be added to the 2015 Biennium anticipated ending fund balance. Two bills, HB 3 (supplemental appropriations) and HB 354 (establish a wildfire project suppression fund), contained provisions for transfers to occur in FY 2014 based on specific conditions in FY 2013. These transfers decrease the amount of the FY 2013 increase that will be added to the anticipated 2015 biennium ending fund balance.

### *Impact of Fire Suppression Transfers*

HB 3, the supplemental appropriations bill, required a FY 2014 transfer from the general fund to the state special fire suppression fund of any remaining appropriation authority from the fire supplemental. The amount of reversion in FY 2013 and thus the transfer from HB 3 was \$11.9 million in FY 2014.

HB 354, the wildfire project suppression fund bill, required transfers based on two items:

1. Reversions of general fund appropriations: Reversions greater than 0.5% of the total general fund money appropriated for each fiscal year must be transferred to the wildfire project suppression fund. The Governor's Budget Office (OBPP) calculated this number to be \$14.3 million by using the actual reversion of appropriation journals in the SABHRS accounting system.
2. Corporation tax revenue in excess of \$152.0 million: Corporation tax revenue in FY 2013 was \$177.5 million or \$25.5 million greater than the threshold, causing a transfer of a like amount into the wildfire project suppression fund.

Fire Transfer Summary (in Millions)	
HB 3: Remaining from \$50 million fire supplemental	\$11.9
HB 354: Reversion of general fund authority above 0.5%	14.3
HB 354: Corporation tax in excess of threshold	<u>25.5</u>
Total transfer to wildfire project suppression fund	\$51.7

## Summary 2015 Biennium Impacts

In early FY 2014, the total transfer from the general fund to the wildfire project suppression fund was \$51.7 million. This reduces the amount that the 2015 biennium general fund ending fund increases from \$102.4 million by \$51.7 million for an estimated \$50.7 million increase in the 2015 biennium ending fund balance. The following table summarizes these calculations.

General Fund Update FY 2013 Actual						
(in Millions)						
	Actual FY 2012	Estimated FY 2013	Actual FY 2013	FY 2013 Difference	Legislative FY 2014	Legislative FY 2015
<b>Beginning Fund Balance</b>	\$341.9	\$452.4	\$452.4	\$0.0	\$537.3	\$388.5
Revenue	<u>1,871.0</u>	<u>1,995.2</u>	<u>2,077.6</u>	<u>82.4</u>	<u>2,056.4</u>	<u>2,136.6</u>
<b>Total Funds Available</b>	\$2,212.8	\$2,447.6	\$2,530.0	\$82.4	\$2,593.7	\$2,525.1
Disbursements						
Ongoing						
HB 2	\$1,577.9	\$1,628.7	\$1,613.5	(\$15.2)	\$1,734.6	\$1,786.2
Statutory	171.2	200.9	199.7	(1.3)	199.8	214.1
Other	16.8	78.6	76.2	(2.4)	107.4	148.8
Reversions		(11.1)		11.1	(7.8)	(8.1)
OTO						
HB 2	10.06	13.61	13.45	(0.2)	20.80	23.20
Other	<u>3.7</u>	<u>102.0</u>	<u>95.0</u>	<u>(6.9)</u>	<u>98.6</u>	<u>12.3</u>
<b>Total Disbursements</b>	\$1,779.6	\$2,012.7	\$1,997.9	(\$14.9)	\$2,153.5	\$2,176.6
Wildfire Project Suppression Fund Transfers						
Transfers from HB 3 remaining supplemental					(\$11.9)	
Transfers from HB 354 Corp Tax, Reversions					(39.8)	
Adjustments	\$19.2		\$5.2	\$5.2		
<b>Ending Fund Balance (Unassigned)</b>	<b>\$452.4</b>	<b>\$434.9</b>	<b>\$537.3</b>	<b>\$102.4</b>	<b>\$388.5</b>	<b>\$348.6</b>
<b>Summary of final impacts to ending fund balance</b>						
FY 2013 Higher revenues				\$82.4		
FY 2013 Less spending				14.9		
FY 2013 Adjustments				5.2		
FY 2014 Transfers to the Wildfire Project Suppression Fund					(\$51.7)	
<b>Total Impact to ending fund balance</b>						<b>\$50.7</b>

Note that the estimated revenues from SJ 2 for FY 2014 are less than the actual general fund revenue in FY 2013. As described in further detail in the revenue analysis section of this report, much of the higher-than-anticipated revenue in FY 2013 is from one-time sources. The Legislative Fiscal Division interim analysis of FY 2014 and FY 2015 revenue will be complete and reported in December 2013. Details on spending changes in FY 2013 can be found on page 16 of the [FYE Report](#).

## FY 2013 REVENUE COLLECTIONS

In summary, actual FY 2013 general fund revenues were \$82.4 million or 4.1% ahead of the SJ 2 estimate. The difference can almost entirely be attributed strong growth in individual income and corporate license tax collections, and a sharp decrease in U.S. mineral royalties. The remaining sources combined were very close to the official estimate.

Summary of FY 2013 Changes from SJ 2				
(in Millions)				
	Estimate	Actual	\$ Difference	% Difference
Individual Income Tax	\$984.0	\$1,047.8	\$63.8	6.5%
Corporation Tax	150.7	177.5	26.8	17.8%
U.S. Mineral Royalties	37.0	29.2	-7.8	-21.0%
Remaining Sources	<u>823.6</u>	<u>823.1</u>	<u>-0.5</u>	-0.1%
Total	\$1,995.2	\$2,077.6	\$82.4	4.1%

The table on the following page shows actual FY 2012 revenues in the first numerical column, followed by estimated and actual FY 2013 revenues. The next two columns show the estimated and actual growth in FY 2013 from FY 2012. The last two columns compare the actual FY 2013 revenue to the estimate, showing the difference as an amount and as a percentage. Summaries of each of the revenue sources and differences from the estimate are organized in the order of the revenue list on the table.

General Fund Revenue--FY 2013 Actuals Compared to SJ 2 Estimate  
(in Millions)

Revenue Source	Actual FY 2012	SJ2 Estimate* FY 2013	Actual FY 2013	SJ2 Estimate % Change	Actual % Change	Est. - Act. \$ Difference	Est./Act. % Difference
<b>Largest Seven Sources</b>							
Individual Income Tax	\$898.851	\$983.953	\$1,047.790	9.5%	16.6%	\$63.837	6.5%
Property Tax	236.662	241.741	244.607	2.1%	3.4%	2.866	1.2%
Corporation Tax	127.771	150.658	177.497	17.9%	38.9%	26.839	17.8%
Vehicle Taxes & Fees	99.954	100.836	99.352	0.9%	-0.6%	(1.484)	-1.5%
Oil Severance Tax	97.560	98.750	98.683	1.2%	1.2%	(0.067)	-0.1%
Insurance Tax	58.951	59.932	61.678	1.7%	4.6%	1.746	2.9%
Video Gaming Tax	53.824	57.706	57.261	7.2%	6.4%	(0.445)	-0.8%
<b>Other Business Taxes</b>							
Drivers License Fee	4.369	3.867	4.527	-11.5%	3.6%	0.660	17.1%
Estate Tax	0.060	0.000	0.002	-100.0%	-97.2%	0.002	
Investment Licenses	6.961	7.210	6.951	3.6%	-0.1%	(0.259)	-3.6%
Lodging Facilities Sales Tax	15.606	17.314	16.720	10.9%	7.1%	(0.594)	-3.4%
Public Contractor's Tax	(3.042)	1.140	(0.138)	-137.5%	-95.5%	(1.278)	-112.1%
Railroad Car Tax	2.273	2.157	2.179	-5.1%	-4.2%	0.022	1.0%
Rental Car Sales Tax	3.420	3.539	3.523	3.5%	3.0%	(0.016)	-0.4%
Retail Telecom Excise Tax	21.459	22.606	20.652	5.3%	-3.8%	(1.954)	-8.6%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	12.350	12.864	13.265	4.2%	7.4%	0.401	3.1%
Electrical Energy Tax	4.481	4.442	5.067	-0.9%	13.1%	0.625	14.1%
Metal Mines Tax	10.010	10.904	10.049	8.9%	0.4%	(0.855)	-7.8%
U.S. Mineral Royalties	31.057	36.989	29.205	19.1%	-6.0%	(7.784)	-21.0%
Wholesale Energy Trans Tax	3.427	4.038	3.558	17.8%	3.8%	(0.480)	-11.9%
<b>Other Interest Earnings</b>							
Coal Trust Interest Earnings	25.840	24.451	24.153	-5.4%	-6.5%	(0.298)	-1.2%
TCA Interest Earnings	2.654	2.779	2.465	4.7%	-7.1%	(0.314)	-11.3%
<b>Other Consumption Taxes</b>							
Beer Tax	2.956	3.052	3.033	3.2%	2.6%	(0.019)	-0.6%
Cigarette Tax	31.483	30.991	31.011	-1.6%	-1.5%	0.020	0.1%
Liquor Excise Tax	17.037	18.206	17.724	6.9%	4.0%	(0.482)	-2.6%
Liquor Profits	9.500	10.604	10.500	11.6%	10.5%	(0.104)	-1.0%
Lottery Profits	13.061	14.477	13.084	10.8%	0.2%	(1.393)	-9.6%
Tobacco Tax	5.709	5.821	5.853	2.0%	2.5%	0.032	0.5%
Wine Tax	2.104	2.144	2.195	1.9%	4.3%	0.051	2.4%
<b>Other Sources</b>							
All Other Revenue	47.258	32.864	36.576	-31.0%	-22.6%	3.712	11.3%
Highway Patrol Fines	4.385	4.427	4.140	1.0%	-5.6%	(0.287)	-6.5%
Nursing Facilities Fee	5.077	4.876	4.928	-4.0%	-2.9%	0.052	1.1%
Public Institution Reimbursements	14.562	16.332	16.212	12.2%	11.3%	(0.120)	-0.7%
Tobacco Settlement	3.322	3.552	3.321	6.9%	0.0%	(0.231)	-6.5%
<b>Largest Seven Subtotal</b>	<b>\$1,573.574</b>	<b>\$1,693.576</b>	<b>\$1,786.868</b>	<b>7.6%</b>	<b>13.6%</b>	<b>\$93.292</b>	<b>5.5%</b>
<b>Remaining Sources Subtotal</b>	<b>297.380</b>	<b>301.646</b>	<b>290.754</b>	<b>1.3%</b>	<b>-2.2%</b>	<b>(10.892)</b>	<b>-3.6%</b>
<b>Grand Total</b>	<b>\$1,870.954</b>	<b>\$1,995.222</b>	<b>\$2,077.622</b>	<b>6.6%</b>	<b>11.0%</b>	<b>\$82.400</b>	<b>4.1%</b>

\*SJ 2, Adjusted for Legislative Impacts

## Large Revenue Sources

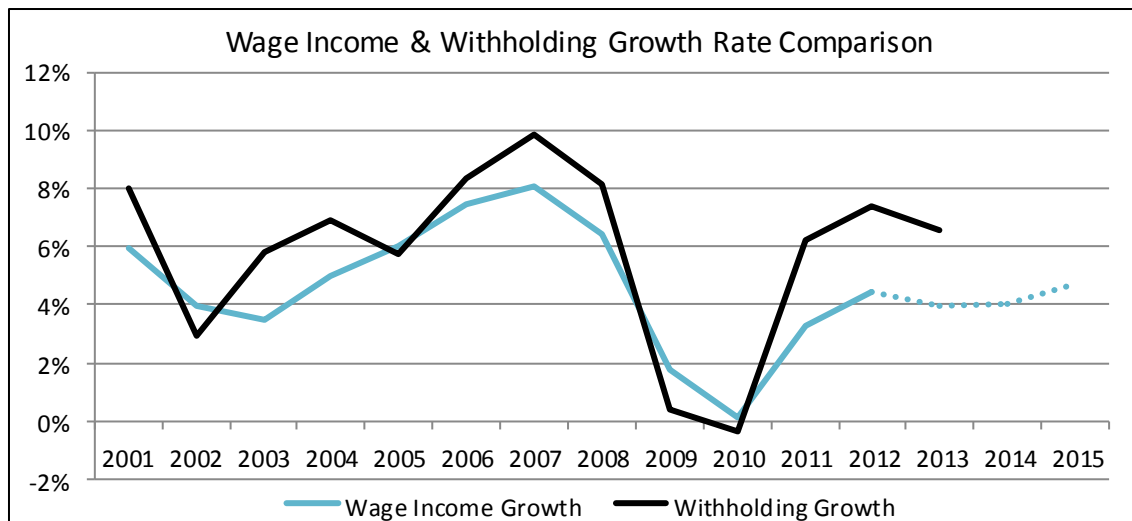
### *Individual Income Tax: \$63.8 million*

Individual income tax collections were \$63.8 million or 6.5% above the estimate contained in SJ 2. The difference was driven by robust withholding growth—a proxy for wage and retirement income—and higher-than-expected estimated and current year payments—a proxy for all other non-wage income. The table below shows the accounting level detail for FY 2013 compared to FY 2012.

Individual Income Tax (\$ millions)				
	YTD FY 2013	YTD FY 2012	Difference	% Difference
Withholding	\$783.6	\$734.2	\$49.4	6.7%
Estimated Payments	233.7	189.5	44.2	23.4%
Current Year Payments	211.2	153.8	57.4	37.3%
Audit, P&I, Amended	31.8	28.3	3.5	12.4%
Refunds	(244.0)	(235.1)	(8.9)	3.8%
Partnership Income Tax	14.0	9.7	4.3	44.1%
Mineral Royalties	17.4	18.4	(1.0)	-5.3%
<b>Total</b>	<b>\$1,047.8</b>	<b>\$898.9</b>	<b>\$148.9</b>	<b>16.6%</b>

### Wage Income

There is a correlation between withholding growth and wage income growth; however, the correlation is not particularly strong, as shown in the graph below:



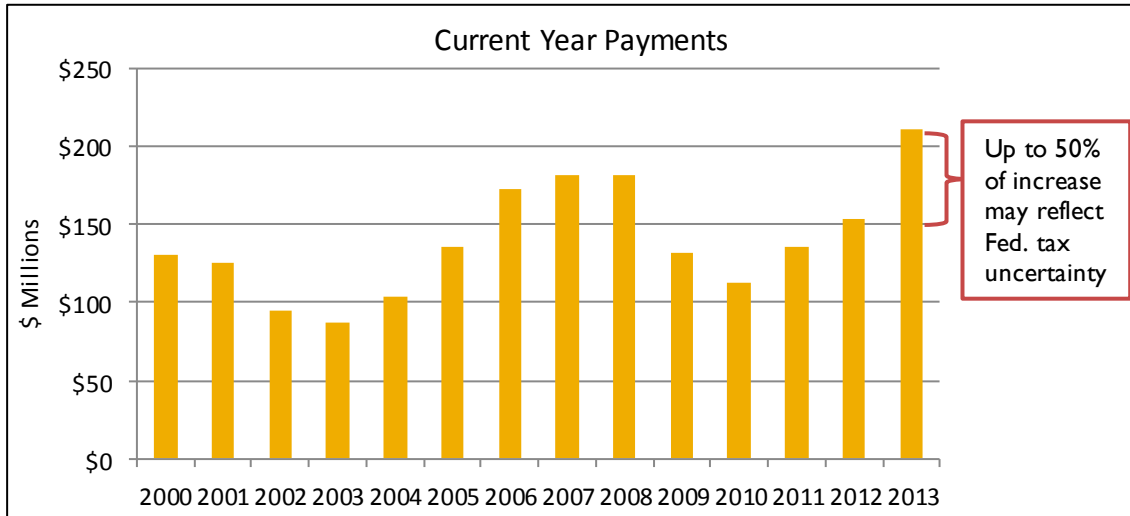
Actual wage income growth for calendar year 2012 won't be available until early November, and even then data won't be available with which to approximate FY 2013 wage income growth. The strong withholding growth suggests that wage income growth was stronger than estimated in SJ 2. Since wage income accounts for approximately 65% of total individual income, even a small increase over expected growth would have a significant impact on tax collections.

### Non-Wage Income: \$40 million potentially due to Federal Tax Uncertainty

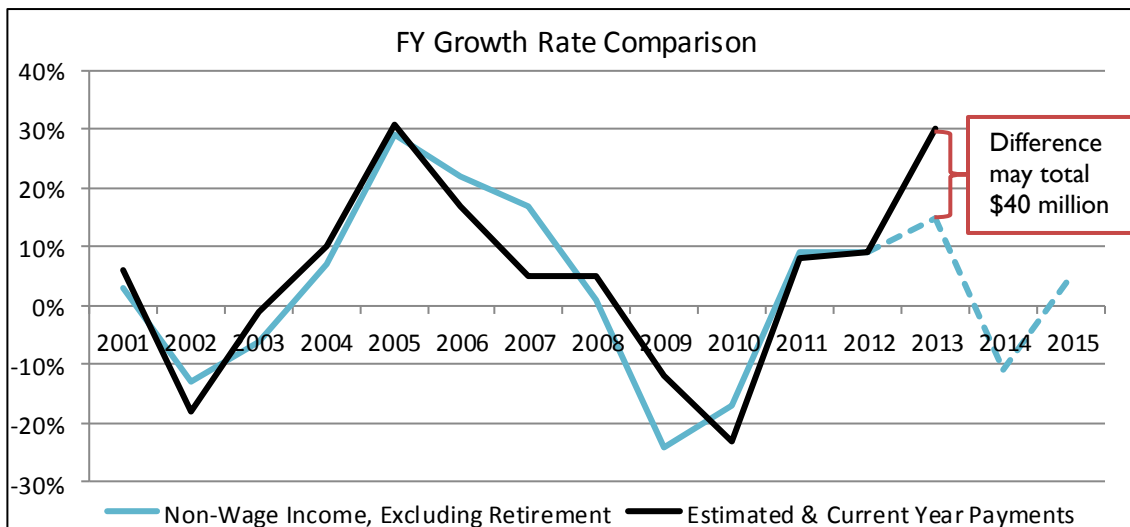
High estimated and current year payments were significant contributors to the increase in total collections; both of these revenue streams were likely impacted by taxpayers' response to the federal tax uncertainty at the end of



calendar year 2012. Current year payments totaled \$161.6 million for the month of April, far exceeding the previous high of \$135.5 million in FY 2008, as shown in the chart below:



The extent to which increased current year payments may reflect last year’s tax uncertainty rather than continued income growth cannot be estimated until CY 2012 return information is available; even then, the data will likely not provide a strong indicator of taxpayer behavior change versus normal growth. However, if the forecast growth in all non-wage income excluding retirement is compared to the growth in estimated and current year tax payments, a sharp difference appears in FY 2013:



The difference in growth rates in FY 2013 suggests that about \$40 million of the unexpected increase may be due to growth in non-wage income.

Audit, Penalty & Interest, and Amended: (\$4.4 million)

Audit, penalty and interest, and amended collections are forecast explicitly in SJ 2; combined collections in FY 2013 were lower than expected by \$4.4 million.

**Property Tax: \$2.9 million**

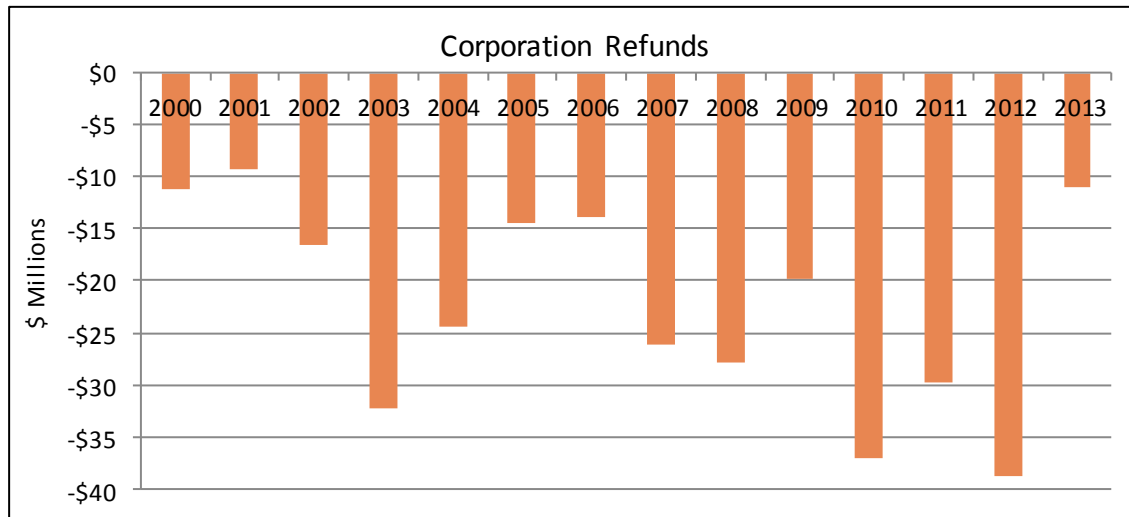
General fund property tax revenue was \$2.9 million or 1.2% above the SJ 2 estimate. The primary reason for the difference has to do with protested taxes, both FY 2013 protested taxes being lower than anticipated, and about \$2.5 million of previously protested taxes coming in due to a settlement with Puget Sound Energy (DOR Press Release June, 2013). Detailed tax data will be available in October, at which point a comprehensive analysis of the difference can be performed.

**Corporation Tax: \$26.8 million**

Corporation income tax collections were \$26.8 million or 17.8% above SJ 2 primarily due to an increase in payments and a reduction in refunds. The increase in payments was in part due to a large one-time payment from a corporation that reorganized as an LLC. This change in filing status may impact future corporation and individual income tax collections.

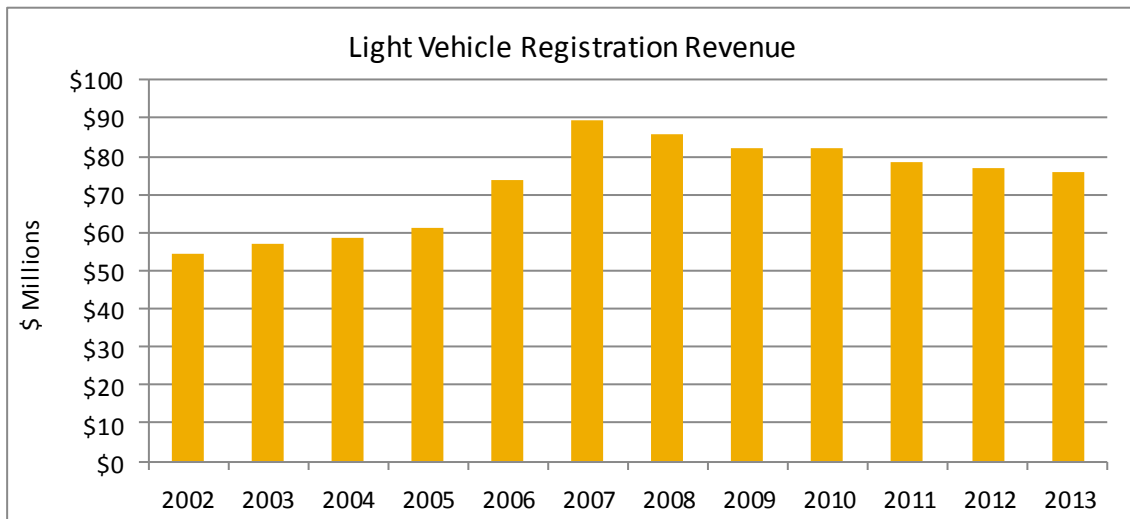
Corporation Income Tax--FY 2013 Actuals versus SJ 2			
(in Millions)			
	SJ 2	Actual	Difference
Tax Liability & Adjustment	\$153.0	\$172.2	\$19.2
Refunds	-24.6	-11.0	13.6
Audit, Penalty & Interest	22.3	16.3	-6.0
Total	\$150.7	\$177.5	\$26.8

Refunds were unusually low in FY 2013, as show below:



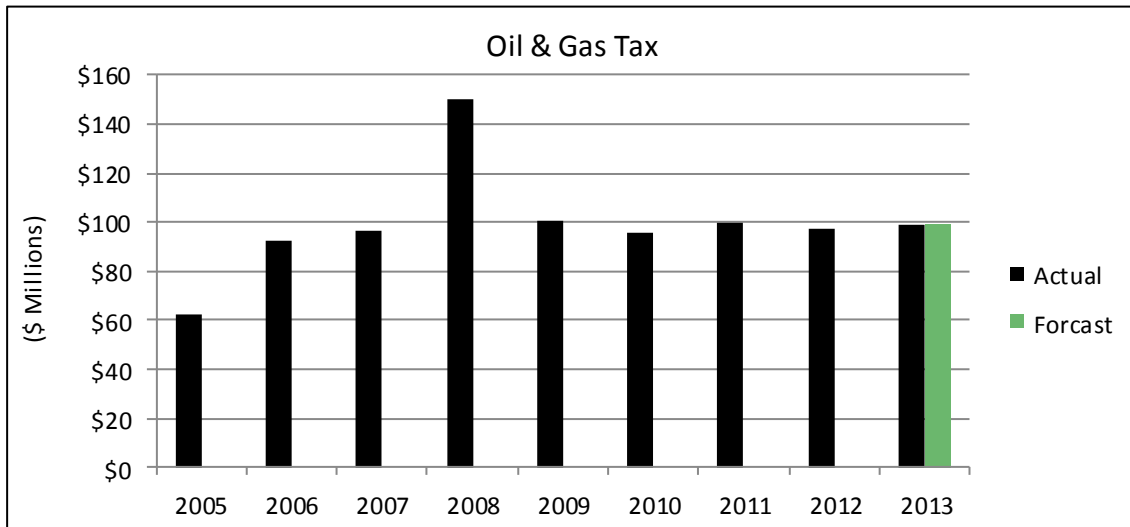
**Vehicle Taxes & Fees: (\$1.5 million)**

Combined revenue collections from vehicle fees and taxes were 1.5% or \$1.5 million less than anticipated in SJ 2. Furthermore, FY 2013 revenue was \$0.6 million less than collections in FY 2012. While large vehicle and watercraft registrations increased in FY 2013 compared to FY 2012, motor home and light vehicle registrations continued to decrease in FY 2013. This decrease occurred even though new car sales increased from 46,000 to 55,000 from FY 2012 to FY 2013, an increase of nearly 20%. Revenue generated from light vehicle registration was \$2.0 million less than the SJ 2 estimate. Further research is needed to understand the contradictory decline in revenue.

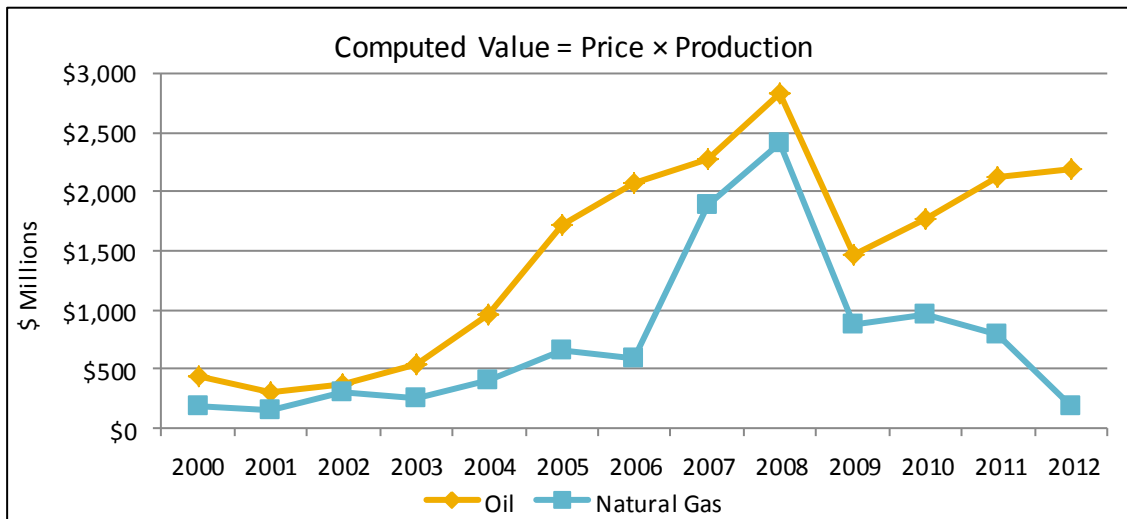


***Oil & Gas Severance Tax: (\$0.1 million)***

Oil and natural gas contributions to the general fund have been fairly consistent in the state since the Elm Coulee increase which peaked in FY 2008. This trend continued in FY 2013 allowing for a very close estimate. General fund revenue amounted to \$98.7 million in FY 2013, 0.1% below the estimate.



The consistency of the revenue collections masks changes that are happening with the mix of oil and gas production and price. From the peak value in FY 2008, there was an overall decline in both oil and gas; however, in the last three years, the consistent revenue has been achieved by an increase in oil value that offsets the continuing decline of natural gas value, as illustrated in the chart below:

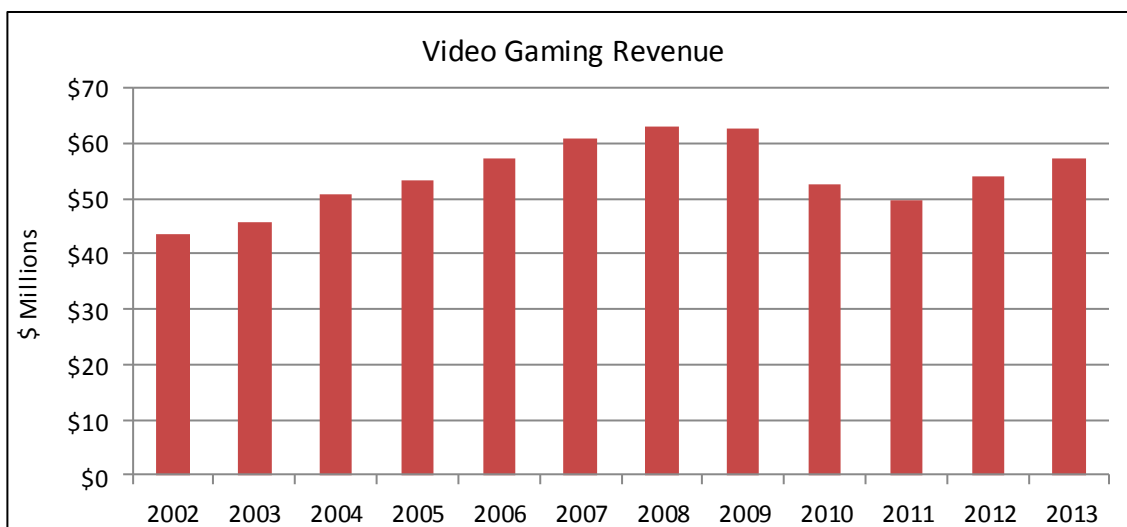


***Insurance Tax: \$1.8 million***

FY 2013 insurance taxes totaled 2.9% above the SJ 2 revenue estimate, bringing in an additional \$1.8 million. This increase is mostly associated with higher-than-projected insurance premiums. Insurance tax growth has been stronger than expected throughout the fiscal year. According to the Bureau of Business and Economic Research at the University of Montana, the IHS Global Insight forecast significantly under-represents new housing growth in rural areas, which is where most of the change is occurring. If so, this may account for much of the difference between estimated and actual collections. Further analysis will be possible when more data are available by the State Auditor’s office.

***Video Gaming Tax: (\$0.4 million)***

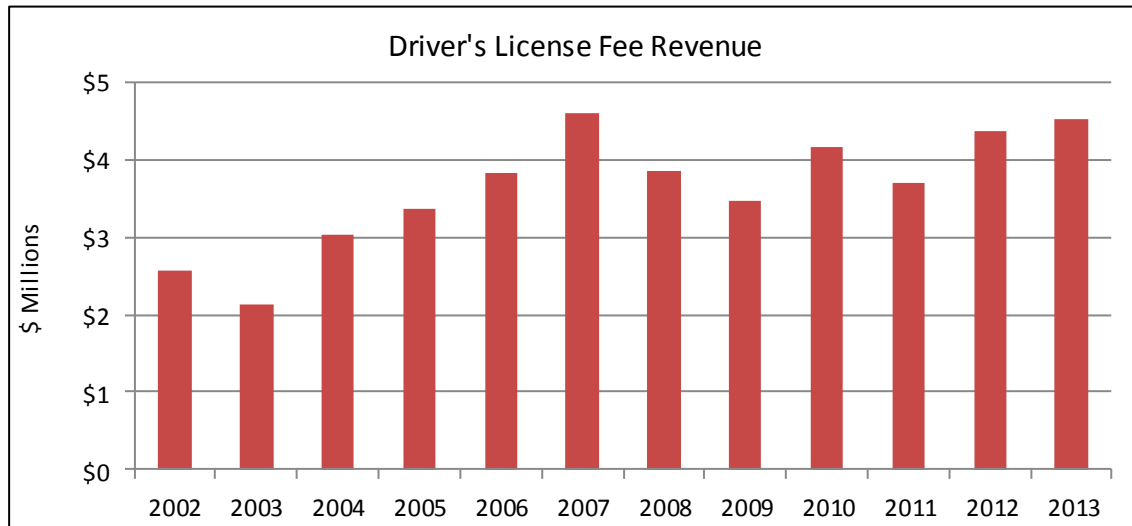
Video gaming revenue was a mere 0.8% or \$0.4 million less than anticipated in SJ 2. The general fund revenue for FY 2013 was \$3.4 million more than the generated revenue from FY 2012. The increase in video gaming revenue from FY 2012 to FY 2013 is likely due to SB 361, which allowed video line games in licensed establishments.



## Other Business Taxes

### ***Driver's License Fee: \$0.7 million***

Total driver's license revenue exceeded SJ 2 revenue estimates by 17.1% or \$0.7 million. Since fees are fixed, this increase was caused by a larger-than-expected number of Class D (standard) driver's license purchases. Revenue from Class D licenses was approximately \$0.7 million more than expected. The SJ 2 estimate predicted a decrease of 11.5% from FY 2012. However, general fund revenue from Class D license fees increased by \$0.2 million from FY 2012, or 1.6%. FY 2013 increased in revenue collected from Class D driver's licenses, duplicate licenses, license renewal notices, and motorcycle endorsements. The only major decreases from FY 2012 to FY 2013 were seen in commercial vehicle endorsements and CDL type 2 fees.

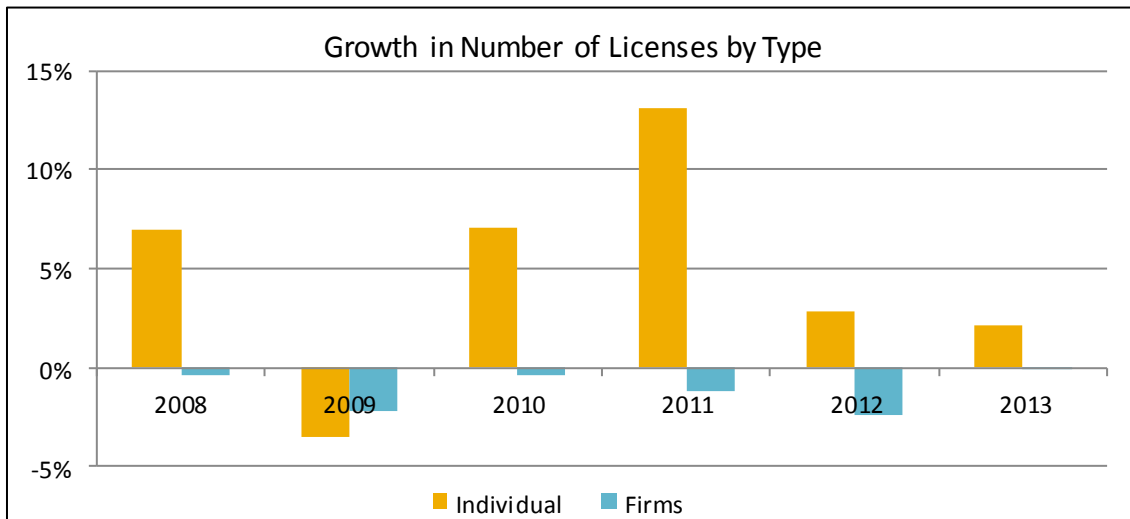


### ***Estate Tax: \$0.0 million***

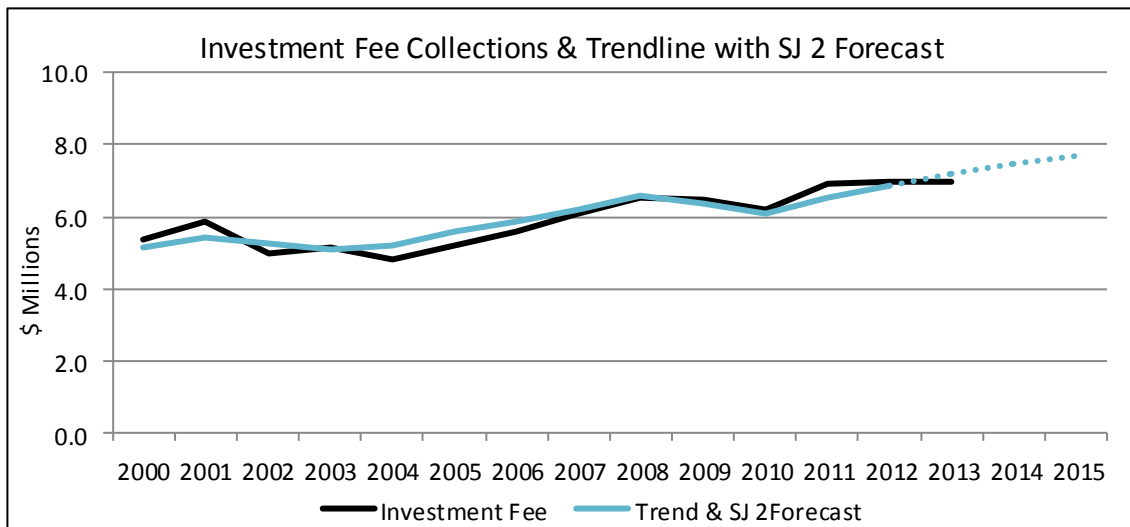
This revenue source is now so small that in all future reports it will be included in "All Other Revenue."

### ***Investment License Fee: (\$0.3 million)***

Investment license fee collections were \$0.3 million or 3.6% below the estimate contained in SJ 2. According to Lynne Egan, the Deputy Securities Commissioner at the State Auditor's Office (SAO), the reduction in revenue is a reflection of broader changes in the investment industry. As larger investment firms continue to acquire smaller firms, and the large firms merge, the total number of firms has been steadily declining. This trend is expected to continue. The growth in the number of individual brokers had been offsetting the reduction in revenue; however, this growth has slowed recently, resulting in the investment fee decline.

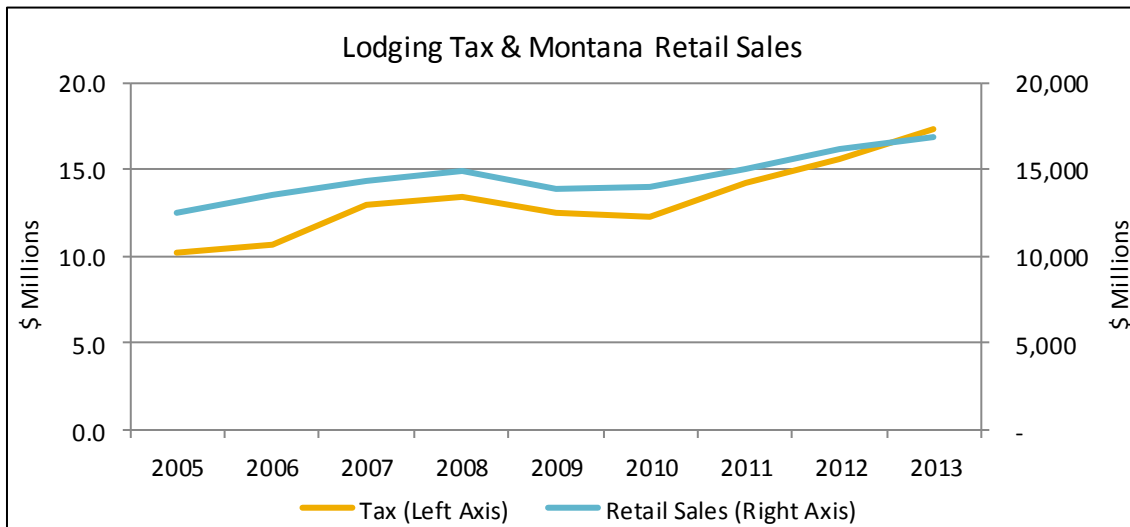


Collections were forecast in SJ 2 based on the S&P 500 Index. Based on the information from SAO, future models will account for the declining number of firms.



***Lodging Facilities Sales Tax: (\$0.6 million)***

Lodging facilities sales tax collections were \$0.6 million or 3.4% below the estimate contained in SJ 2. This revenue source was forecast in SJ 2 based on Montana retail sales.



The graph shown above suggests that accommodations spending is growing more quickly than overall retail sales; increased tourism and high demand in Eastern Montana may explain this elevated growth.

**Public Contractors’ Gross Receipts Tax: (\$1.3 million)**

Public contractors’ gross receipts tax collections were negative for the second year in a row, and \$1.3 million below the estimate contained in SJ 2. Higher levels of credits & refunds due to the increased number of public projects funded through the American Recovery & Reinvestment Act (ARRA) in 2009 and 2010, coupled with the subsequent decrease in publicly funded projects may account for a large share of the net negative income. There is a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects will produce unusual future collection patterns.

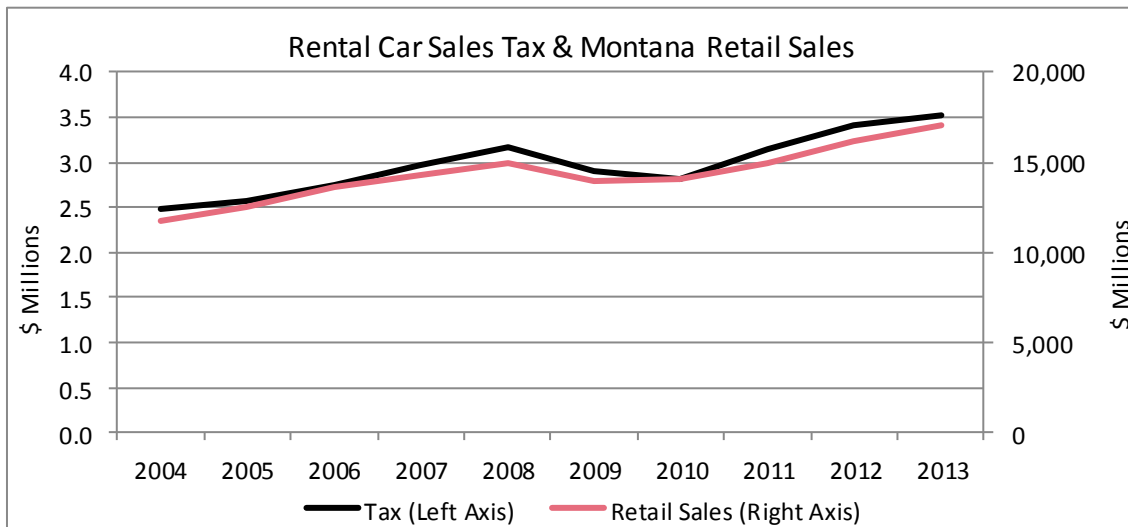


**Railroad Car Tax: \$0.0 million**

Railroad car tax revenue has been reasonably consistent over the last several years, and FY 2013 is not an exception. Actual FY 2013 collections were less than 1% above the SJ 2 estimate.

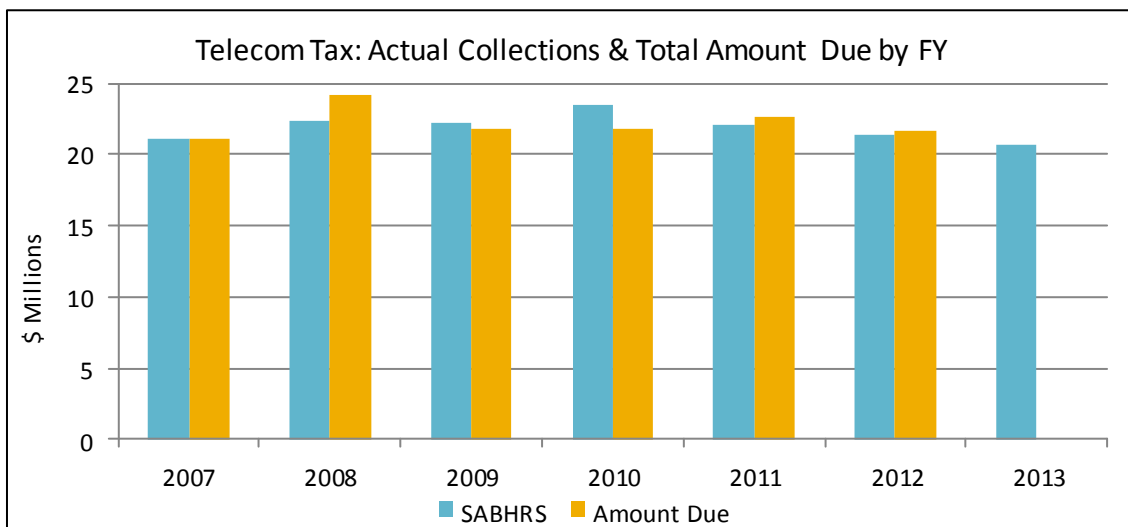
**Rental Car Sales Tax: (\$0.0 million)**

Rental car sales tax collections were very close to the estimate contained in SJ 2. Rental car sales tax was forecast in SJ 2 based on Montana retail sales.



**Retail Telecommunications Excise Tax: (\$2.0 million)**

Retail telecommunications excise tax collections were \$2.0 million or 8.6% below the estimate contained in SJ 2. The primary reason for the decline in revenue since FY 2011 is the DOR’s loss of the pre-paid wireless case in 2011. The impact of the case is an annual reduction in revenue of about \$1.0 million. Collections were forecast in SJ 2 based on Gross State Product for the information sector.



**Other Natural Resource Taxes**

**Coal Severance Tax: \$0.4 million**

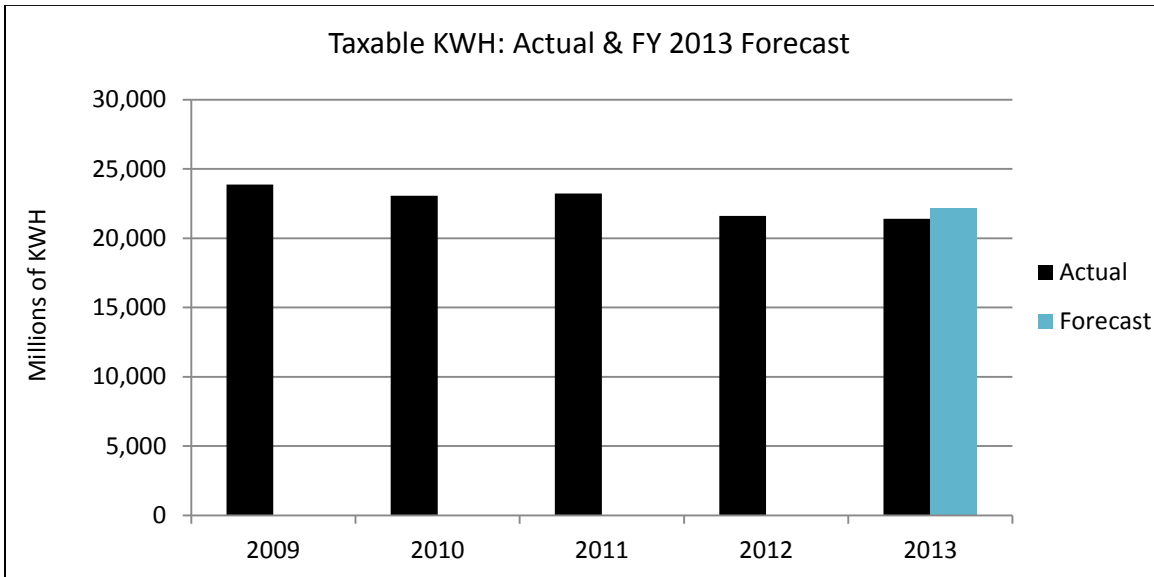
Coal severance tax collections were higher than the SJ 2 estimate by \$0.4 million or 3.1%. There are two factors that affect the estimate: the number of tons of coal produced and the contract sales price (CSP) of coal. Actual tonnage production of coal was down from the estimate by 0.6 million tons, for a total of 33.9 million



tons for CY 2012. This drop has a small negative impact; however the CSP increased more than expected, by \$0.06 to \$11.28 for CY 2012, and had a much larger effect.

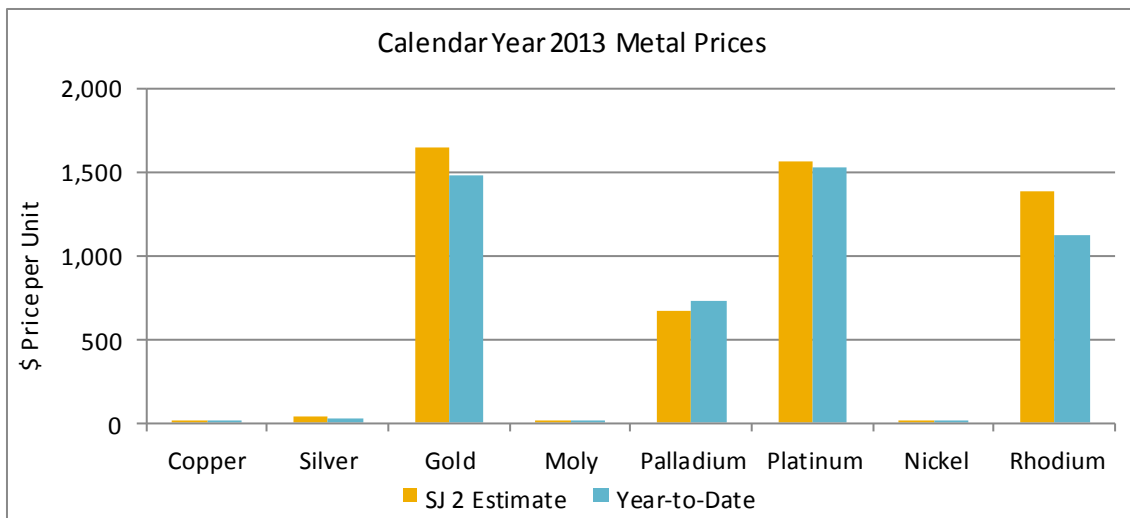
**Electrical Energy Tax: \$0.6 million**

Taxable energy production was below forecast; however, the general fund tax revenue was \$0.6 million (14.1%) above forecast. This is due to a larger than usual accrual which was calculated based on actual FY 2013 April, May, and June collections that were 15% higher than FY 2012 April, May, and June collections.



**Metalliferous Mines Tax: (\$0.9 million)**

Metal mines tax collections were \$0.9 million or 7.8% below the estimate contained in SJ 2. Commodity prices are lower than forecast for most metals, as shown in the chart below:



Assuming the production levels contained in SJ 2, the decrease in prices result in an 11% reduction in total commodity value.

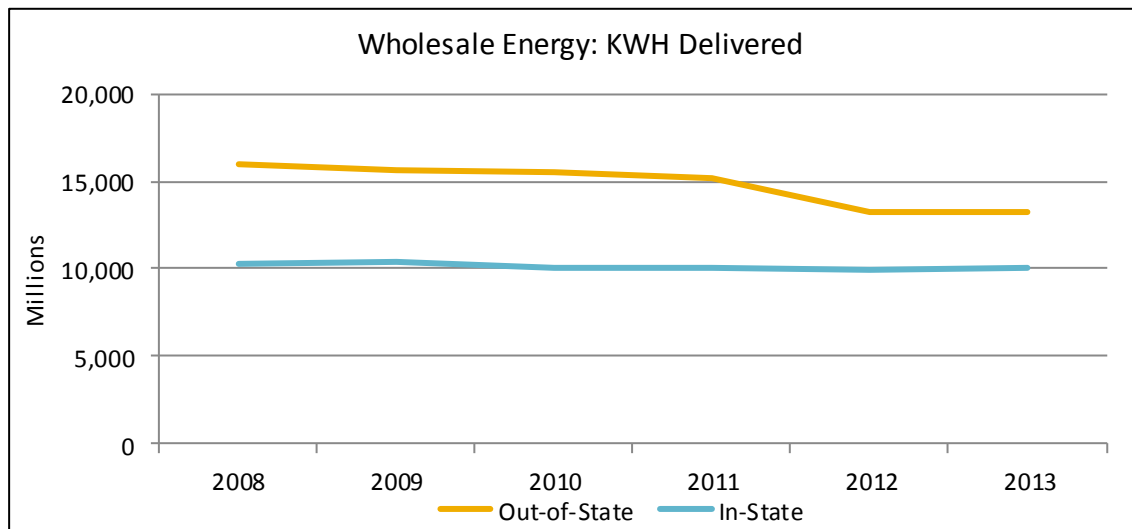
### ***U.S. Mineral Royalties: (\$7.8 million)***

Revenue from U.S. mineral leases in the state declined from \$31.1 million in FY 2012 to \$29.2 in FY 2013. The SJ 2 estimate for FY 2013 anticipated revenue increasing to \$37.0 million. While data from the Federal Office of Natural Resources Revenue is not yet available, the decline is primarily due to two factors: a \$2 million decrease in payments due to the sequestration and the loss of the Montana portion of a large oil and gas lease that failed to materialize in McCone County. Donco Inc. paid \$13.3 million for the lease (Billings Gazette 10/24/2012) which was subsequently included in the FY 2013 forecast. The company later backed out of the lease, forgoing a deposit of \$0.3 million (Petroleum News Bakken 05/26/2013).

The lost revenue due to the sequester is expected to be paid in FY 2014, as the Department of the Interior reversed its decision to withhold U.S. mineral royalties from the states.

### ***Wholesale Energy Transaction Tax: (\$0.5 million)***

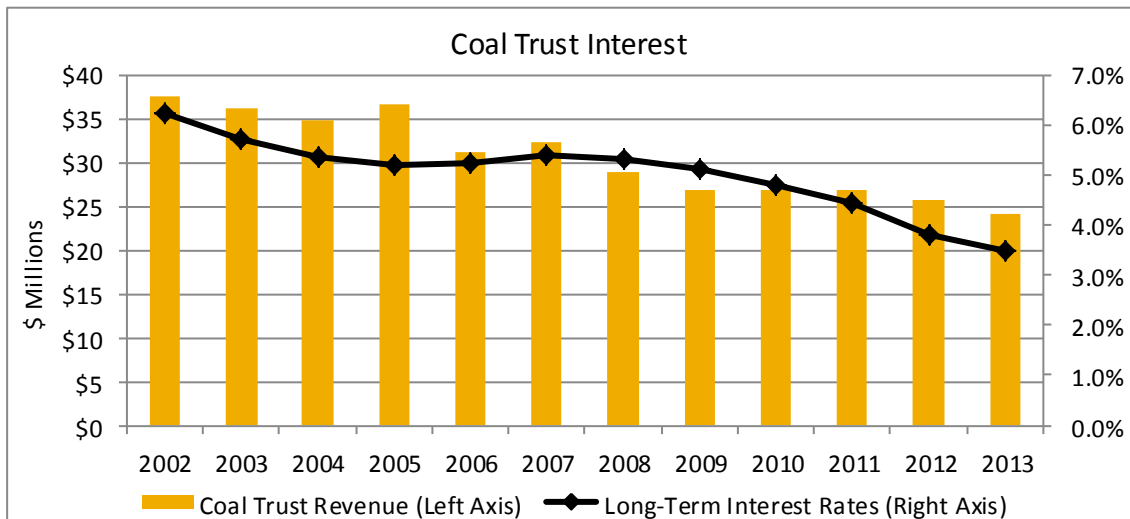
Wholesale energy transaction tax increased slightly between FY 2012 and FY 2013, from \$3.4 million to \$3.6 million, but was below the estimate by \$0.5 million or 11.9%. This is attributable primarily to changes in delivery of out-of-state kilowatt hours, as in-state kilowatt hours delivered has remained fairly constant. There was a drop in FY 2012 in out-of-state kilowatt hours delivered to Montana from the seven year average. It was assumed in the forecasting model that this was an anomaly and FY 2013 numbers would return to seven year average levels. The assumed return to normal levels did not occur and FY 2013 out-of-state numbers are similar to FY 2012 numbers. The cause of this reduction is unclear and needs further research.



### **Other Interest Earnings**

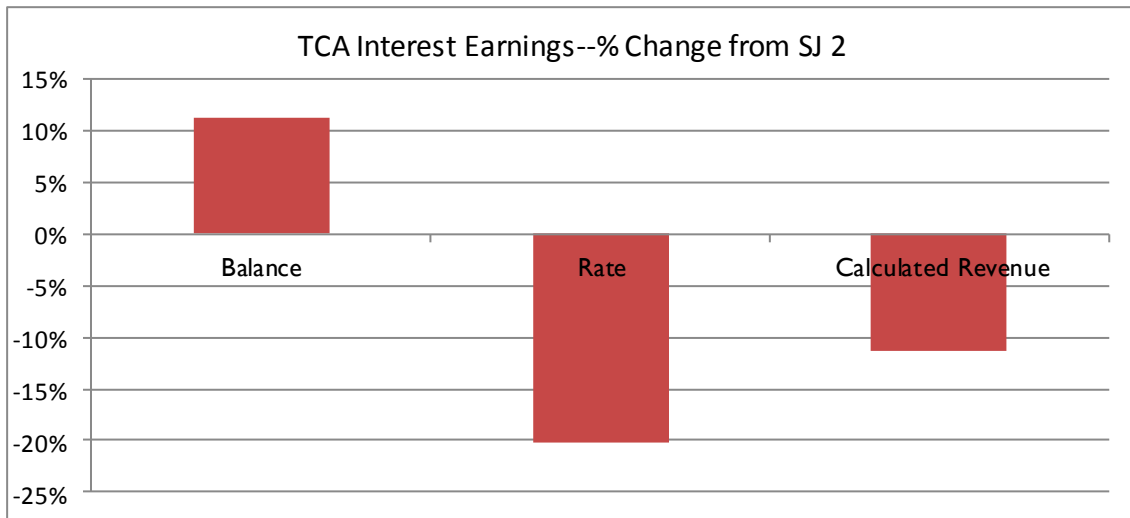
#### ***Coal Trust Interest Earnings: (\$0.3 million)***

Coal trust interest earnings fell below the revenue estimate in SJ 2 by 1.2% or \$0.3 million. The reason for this underestimate is unclear, as calculated long-term interest rates are above those included in SJ 2. A meeting is planned with the Board of Investments to better understand the decrease.



**Treasury Cash Account Interest Earnings: (\$0.3 million)**

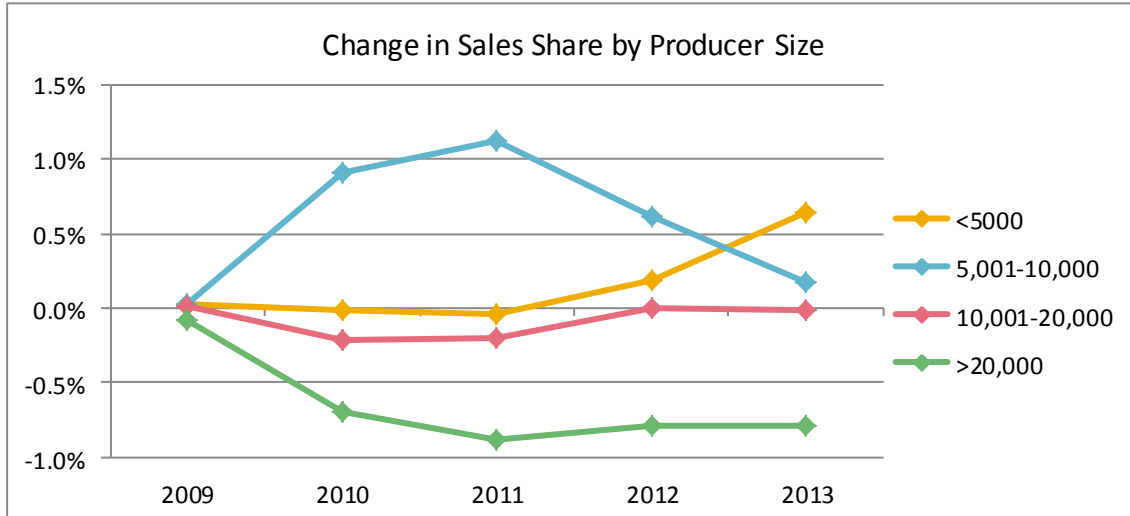
Based on year-end data for FY 2013, the TCA interest earnings were 11.3% or \$0.3 million below the SJ 2 estimate. Earnings are dependent on the average balance and rate of return. The chart below shows the percentage difference between actual values and those forecast in SJ 2. The higher-than-expected average balance was not large enough to offset the decreased average rate of return; therefore, interest earnings were lower than forecast.



**Other Consumption Taxes**

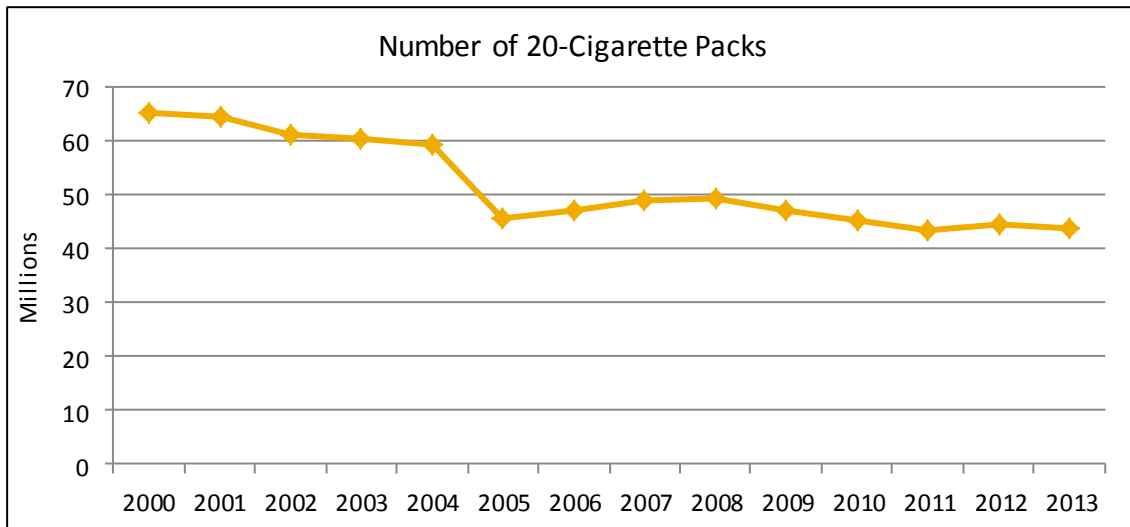
**Beer Tax: (\$0.0 million)**

Beer tax revenue was slightly below the SJ 2 estimate by 0.6% or \$0.0 million. Although the number of barrels sold continues to increase, the effective tax rate has been decreasing as a larger proportion of barrels sold comes from small breweries. As shown in the graph below, the change in proportion of barrels sold by large breweries has been negative every year since 2009, while the sales share of small breweries has been increasing. The tax rate for breweries producing less than 5000 barrels per year is only \$1.30 per barrel, and for those producing between 5,001 and 10,000 barrels, the rate is \$2.30. The rate for larger breweries is \$4.30 per barrel.



***Cigarette Tax: \$0.0 million***

Cigarette taxes exceeded the SJ 2 revenue estimates by 0.1% or \$0.0 million. It was expected that revenues would decline by 1.6% from FY 2012, but the actual decline was slower than expected. Cigarette sales dropped steadily between FY 2008 and FY 2011, but in the past three fiscal years sales and revenues seem to have stabilized.



***Liquor Excise & License Tax: (\$0.5 million)***

Liquor excise tax revenue was overestimated in SJ 2; actuals came in 2.6% or \$0.5 million under the estimate. Growth was estimated to bring revenue to 6.9% higher than in FY 2012. In the end, the increase in revenue was only 4.0% from FY 2012.

***Liquor Profits: (\$0.1 million)***

The SJ 2 revenue projection was \$10.6 million. Actual collections came in very close to the estimate at \$0.1 million or 1.0% below the estimated revenue.

### ***Lottery Profits: (\$1.4 million)***

Lottery profits for FY 2013 came in 9.6%, or \$1.4 million, under the SJ 2 revenue estimate. This under-performance is primarily due to increased spending. In FY 2012, there was a transfer of \$0.5 million in appropriation authority from FY 2013 to supplement operating expenses, and in FY 2013, Lottery received authority for an additional \$2.2 million of which it spent \$0.8 million. These amounts sum to \$1.3 million, accounting for nearly all of the discrepancy between FY 2013 actuals and the SJ 2 forecast. The annual report by the Lottery is published in October, at which point more comprehensive analysis will be possible.

### ***Tobacco Tax: \$0.0 million***

Tobacco tax revenue came in over the SJ 2 estimate by 0.5% or \$0.0 million. The estimate for moist snuff was low, with actual sales about 0.3 million ounces more than expected. The value of other non-cigarette tobacco products was over-estimated by about \$0.3 million.

### ***Wine Tax: \$0.1 million***

Wine tax revenue came in with growth of 2.4% more than expected, translating to unexpected revenue of \$0.1 million. Wine consumption is growing at approximately twice the rate of the over-21 population, and has been since the mid-1990s.

## **Other Sources**

### ***All Other Revenue: \$3.7 million***

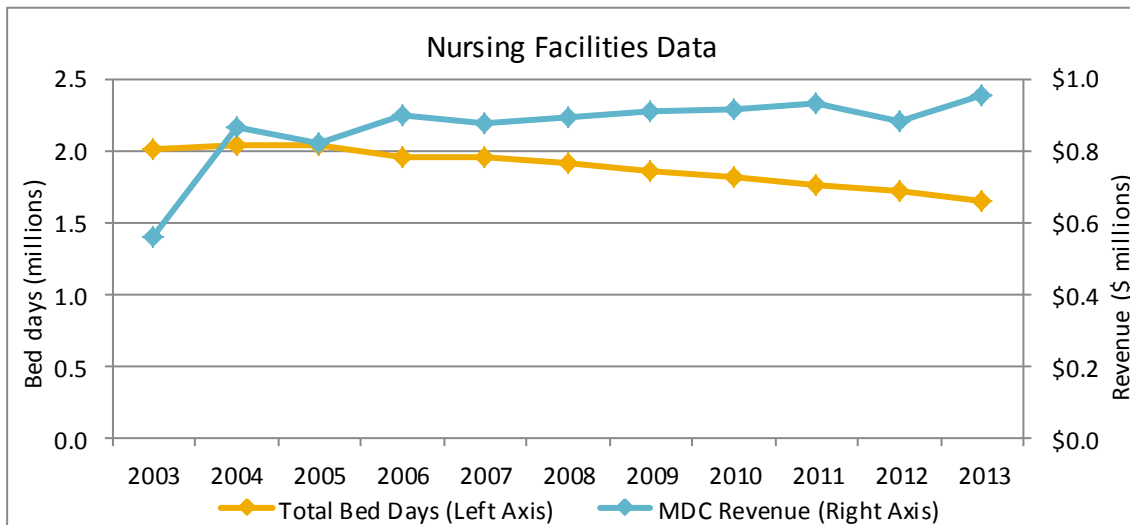
The combined revenue from all other general fund sources exceeded the SJ 2 estimate by 11.3% or \$3.7 million, primarily due to increased general fund transfers. In SJ 2, on-going transfers were anticipated to grow at 2%; FY 2013 transfers exceeded expectations. FY 2013 saw an unusually high \$4.3 million in abandoned property collections, most likely reflecting the changes made to SB 335 which reduced the amount of time needed for the DOA to replace a stale-dated warrant. The increase in abandoned property collections offset the decline in SWCAP fees.

### ***Highway Patrol Fines: (\$0.3 million)***

Total revenue generated from highway patrol fines in FY 2013 was 6.5% or \$0.3 million less than the SJ 2 estimate. This was due to a fine growth rate in FY 2013 that was lower than the growth rate developed for use by the forecasting model. Patrol fines in FY 2013 were \$0.2 million or 5.6% less than FY 2012.

### ***Nursing Facilities Fees: \$0.1 million***

Nursing facilities fees came in at 1.1% or \$0.1 million over the SJ 2 revenue estimate. Revenue did decline from FY 2012, simply not as much as the estimate indicated. Since 2002, the number of bed days used in Montana's nursing facilities has steadily declined. However, the revenue from the state's intermediate care facility – the Montana Developmental Center – was much higher than expected, which increased overall revenue to \$0.1 million more than forecast.



**Public Institution Reimbursements: (\$0.1 million)**

Public institution reimbursements were 0.7% or \$0.1 million less than SJ 2 revenue estimates, due to a larger Montana State Hospital debt service payment and smaller revenues than were forecast.

Bed days were significantly over-estimated in the forecast, but increases in contributions from Medicare and Medicaid made up for much of the discrepancy. Even as overall bed days decreased in every facility, three of the five facilities saw increases in Medicaid- or Medicare-eligible bed days. FMAP rates have not changed substantially, but changes in coverage led to higher per-bed-day contributions from Medicaid and Medicare than were indicated in the forecast. Combined increases in Medicaid- and Medicare-eligible bed days and corresponding increases in contributions per bed day from those sources nearly offset the overall decline in bed days.

Although revenue was close to the SJ 2 estimate, these detailed interactions suggest that forecast bed days may not be the optimal predictor in future estimates.

**Tobacco Settlement: (\$0.2 million)**

Tobacco settlement revenue was below the SJ 2 estimate by 6.5% or \$0.2 million for FY 2013. Growth was estimated at 6.9%, but in the end there was no real change in revenue from FY 2012. To identify potential reasons for the difference, data from PriceWaterhouseCoopers on market share and volume of sold cigarettes are needed.