GENERAL FUND STATUS:

FISCAL 2012 ACTUAL / 2013 BIENNIUM PROJECTED

A Report Prepared for the

Revenue and Transportation Interim Committee

By

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LFD
MONTANA LEGISLATIVE FISCAL DIVISION

INTRODUCTION

The purpose of this report is to provide the committee with preliminary FY 2012 ending fund balance data for the general fund account. Although the revenue and disbursement data for the account 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 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 developed by the 61st and 62nd Legislature and what actually occurred in FY 2012. It also provides aggregate information on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2013 Biennium. A more detailed analysis of revenue trends and the implications for the current and subsequent biennia is currently underway by Legislative Fiscal Division (LFD) staff.

FUND BALANCE DISCUSSION

The general fund account unreserved unaudited GAAP balance[1] at the end of FY 2012 was projected to be $188.9 million. This estimate was based on House Joint Resolution 2 (HJ 2) revenue estimates (62nd Legislature) and disbursement budgets adopted during the 61st and 62nd legislative sessions[2]. Total revenues were expected to be less than total disbursements by approximately $38.4 million. For the fiscal year, this is a structural imbalance (disbursements greater than revenues). However, the legislature budgeted for a structural balance for the biennium where on-going appropriations for the 2013 biennium were expected to be about equal to the 2013 biennium on-going revenues.

As shown in Figure 1, the preliminary general fund account unreserved, undesignated balance for FY 2012 was $457.1 million, or $268.2 million above the level anticipated by the 62nd Legislature. Figure 1 also shows the differences between budgeted and actual amounts for aggregate revenues, disbursements, and other adjustments.

REASONS FOR DIFFERENCE

The next section of the report discusses the reasons for the difference in the ending fund balance. The first part addresses FY 2012 revenue estimates used by the 62nd Legislature, actual collections, and a brief explanation for the variation in revenue collections. The second part discusses appropriations, disbursements, and reversions. The third part briefly discusses fund balance adjustments followed by a summary of FY 2012. Finally, a projection of the 2013 biennium is provided.

Figure 1

General Fund Account
Fiscal 2012 Budgeted Versus Actual
Fund Balance Detail

	Budgeted Amount *	Actual Fiscal 2012 **	Over (Under) Estimate
Beginning Balance	$227,338,000	343,761,758	$116,423,758
General Fund Receipts	1,785,623,000	1,870,953,768	85,330,768
Residual Equity Transfers	0	0	0
Total Revenue	$1,785,623,000	$1,870,953,768	$85,330,768
General Fund Disbursements	1,824,052,000	1,779,569,490	(44,482,510)
Non-Budgeted Disbursements	0	0	0
Total Disbursements	$1,824,052,000	$1,779,569,490	($44,482,510)
Prior Year Rev. Adjustments	0	8,751,282	8,751,282
Prior Year Exp. Adjustments	0	5,126,871	5,126,871
Other Adjustments	0	8,042,955	8,042,955
Total Adjustments	$0	$21,921,108	$21,921,108
Ending Balance (Preliminary)	$188,909,000	$457,067,144	$268,158,144

* Legislative Fiscal Report, 2013 Biennium June 2011
** FY 2012 other adjustments include $5.2 million of non-spendable reserves

[1] Ending fund balance remaining after all accounting entries have been posted for the fiscal year. By state statute, the minimum threshold is 2% of annual spending or approximately $36.0 million.
[2] Legislative Fiscal Report, 2013 Biennium, June 2011

REVENUE ESTIMATES AND COLLECTIONS

The second column of Figure 2 shows the FY 2012 revenue estimates for the general fund account as adopted in HJ 2 during the 2011 regular legislative session including adjustments for enacted legislation. The adjacent columns in the figure show actual collections, the amount collections were over or (under) the estimate, the percent difference, and the contribution percent. The contribution percentage signifies the importance of each revenue component to the general fund account. For example, individual income taxes were 47.9% of the total general fund collections, while wine taxes accounted for only 0.1% during FY 2012. This column of information shows that about 77.9% of general fund revenue collections in FY 2012 came from individual (47.9%), property (12.6%), corporate (6.8%), oil and gas production (5.2%), and vehicle (5.3%) taxes.

At the bottom of Figure 2, prior year adjustments and residual equity transfers are shown, providing a complete picture of the total revenue flow to the account.

Figure 2

General Fund Receipts By Major Component
Fiscal 2012

Revenue Category	Estimated 2012 Receipts *	Actual 2012 Receipts	Over(Under) Estimate	Percent Difference	Contribution Percent
GF0100 Drivers License Fee	$4,173,000	$4,368,802	$195,802	4.69%	0.23%
GF0200 Insurance Tax	57,372,000	58,950,923	1,578,923	2.75%	3.14%
GF0300 Investment Licenses	6,838,000	6,960,822	122,822	1.80%	0.37%
GFxxxx Vehicle Fee/Tax	106,716,000	99,954,479	(6,761,521)	-6.34%	5.32%
GF0600 Nursing Facilities Fee	4,876,000	5,076,569	200,569	4.11%	0.27%
GF0700 Beer Tax	3,239,000	2,956,198	(282,802)	-8.73%	0.16%
GF0800 Cigarette Tax	30,763,000	31,482,846	719,846	2.34%	1.67%
GF0900 Coal Severance Tax	12,257,000	12,350,214	93,214	0.76%	0.66%
GF1000 Corporation Tax	115,086,000	127,770,592	12,684,592	11.02%	6.80%
GF1100 Electrical Energy Tax	4,480,000	4,481,361	1,361	0.03%	0.24%
GF1150 Wholesale Energy Trans Tax	3,738,000	3,427,411	(310,589)	-8.31%	0.18%
GF1200 Railroad Car Tax	2,095,000	2,273,412	178,412	8.52%	0.12%
GF1300 Individual Income Tax	809,322,000	898,851,201	89,529,201	11.06%	47.82%
GF1400 Inheritance Tax	0	59,718	59,718		0.00%
GF1500 Metal Mines Tax	10,037,000	10,010,350	(26,650)	-0.27%	0.53%
GF1700 Oil Severance Tax	102,996,000	97,560,324	(5,435,676)	-5.28%	5.19%
GF1800 Public Contractor's Tax	5,716,000	(3,041,921)	(8,757,921)	-153.22%	-0.16%
GF1850 Rental Car Sales Tax	3,326,000	3,419,763	93,763	2.82%	0.18%
GFxxxx Property Tax	237,188,000	236,662,434	(525,566)	-0.22%	12.59%
GF2150 Lodging Facilities Sales Tax	13,952,000	15,606,496	1,654,496	11.86%	0.83%
GF2250 Retail Telecom Excise Tax	21,759,000	21,459,017	(299,983)	-1.38%	1.14%
GF2300 Tobacco Tax	6,016,000	5,709,292	(306,708)	-5.10%	0.30%
GF2400 Video Gaming Tax	52,776,000	53,823,548	1,047,548	1.98%	2.86%
GF2500 Wine Tax	2,131,000	2,104,290	(26,710)	-1.25%	0.11%
GF2600 Institution Reimbursements	17,125,000	14,561,836	(2,563,164)	-14.97%	0.77%
GF2650 Highway Patrol Fines	4,725,000	4,384,961	(340,039)	-7.20%	0.23%
GF2700 TCA Interest Earnings	6,717,000	2,653,712	(4,063,288)	-60.49%	0.14%
GF2900 Liquor Excise Tax	16,822,000	17,037,035	215,035	1.28%	0.91%
GF3000 Liquor Profits	9,733,000	9,500,000	(233,000)	-2.39%	0.51%
GF3100 Coal Trust Interest Earnings	27,084,000	25,839,700	(1,244,300)	-4.59%	1.37%
GF3300 Lottery Profits	10,950,000	13,060,671	2,110,671	19.28%	0.69%
GF3450 Tobacco Settlement	3,564,000	3,322,301	(241,699)	-6.78%	0.18%
GF3500 U.S. Mineral Leasing	29,400,000	31,056,935	1,656,935	5.64%	1.65%
GF3600 All Other Revenue	42,650,000	47,258,475	4,608,475	10.81%	2.51%
Total Current Year Revenue	$1,785,623,000	$1,870,953,768	$85,331,768	4.78%	99.53%
Prior Year Adjustments	0	8,751,282	8,751,282		0.47%
Residual Equity Transfers	0	0	0		0.00%
Total Revenue	$1,785,623,000	$1,879,705,050	$94,083,050	5.27%	100.00%

* House Joint Resolution 2 Regular Session revenue estimates as adjusted for enacted legislation

Figure 3 shows aggregate revenue estimates and collections for the general fund account. The 62nd Legislature used a total FY 2012 general fund account revenue estimate of $1,785.6 million, but did not assume any prior year revenue adjustments or any residual equity transfers in HJ 2. Total collections (including adjustments and transfers) were $1,879.7 million or $94.1 million (5.3%) above the estimated amounts.

Figure 3

General Fund Revenue Summary Fiscal 2012					
Account	Revenue Category	Estimated Receipts	Fiscal 2012 Receipts	Over (Under) Estimate	Diff. Percent
01100	General Fund Receipts*	$1,785,623,000	$1,870,953,768	$85,330,768	4.78%
---	Prior Year Adjustments	0	8,751,282	8,751,282	
---	Residual Equity Transfers	0	0	0	
	Totals After Adj. & Trsf.	$1,785,623,000	$1,879,705,050	$94,082,050	5.27%

* House Joint Resolution 2 Regular Session revenue estimates adjusted for enacted legislation.

Total current year revenue collections (before prior year revenue adjustments) were $85.3 million above the amount anticipated by the 62nd Legislature. The legislature did not include any prior year revenue adjustments in HJ 2. Since this type of revenue is the result of revenue accruals and/or uncollected previous years' receipts, it is difficult to include an estimated amount by revenue source in the revenue estimate resolution. As shown in Figures 1, 2, and 3, however, prior year revenue adjustments were a positive $8.8 million. These adjustments were primarily due to actual revenues received in July and August of FY 2012 being higher than the accrued amounts recorded during fiscal year end 2011. Categories of revenue with significant positive accrual adjustments were property taxes ($4.4 million), oil and gas production taxes ($2.2 million), and U.S. mineral leasing ($1.6 million).

Figure 4 summarizes which major sources of revenue exceeded or were below the adjusted HJ 2 revenue estimate and provides a brief explanation of why collections were different than anticipated. As shown, individual and corporation income taxes were the primary sources responsible for increased revenue collections. Revenue sources that were above the HJ 2 revenue estimate totaled $113.0 million compared to $27.7 million from revenue sources that were below the revenue estimate. From an economic viewpoint, higher non-wage incomes, timing issues, and corporate audit activities were the drivers behind higher income sources. The next part of the report provides a more detailed explanation for the change in collections when compared to the HJ 2 adjusted estimates.

Figure 4

Reasons for Changed Revenue Receipts Fiscal 2012 (In Millions)			
Revenue Source	Amount	% Estimate	Preliminary Explanation
Individual Income Tax	$89.5	11.1%	Growth estimates, timing
Corporation Income Tax	12.8	11.0%	Audits
All Other	4.6	10.8%	Effects of SB 335, transfers
Lottery Profits	2.1	19.3%	Large jackpots, new EZPlay games
Lodging Facilities Tax	1.7	11.9%	Increased tourism
US Mineral Leasing	1.7	5.6%	Bonus payments?
Institution Reimbursements	(2.6)	-15.0%	Not known
Treasury Cash Interest	(4.1)	-60.5%	Lower interest rates
Oil & Gas Production Tax	(5.4)	-5.3%	Decreased gas production
Vehicle Fee/Tax	(6.8)	-6.3%	Older stock of vehicles
Public Contractors Tax	(8.8)	-153.2%	Lag in processing of credits & refunds
Remaining Revenue Sources	0.6		Numerous explanations
Total Change	$85.3	4.7%	

DISCUSSION BY REVENUE COMPONENT

Individual Income Tax: $89.5 million

Based on final accounting data for FY 2012, individual income tax collections were above adjusted estimates contained in HJ 2 by $89.5 million. Net collections (gross collections less refunds) were 10.0% above net collections for FY 2011, an increase of $82.8 million. The 62nd Legislature assumed FY 2012 collections would increase 6.2% ($46.9 million) from estimated FY 2011 collections. This estimate was based on the lingering effects of the “Great Recession” but with modest improvements in wage and salary income, capital gains, and other investment-sensitive incomes.

Figure 5 shows the accounting details of individual income tax collections for FY 2012 compared to the totals for FY 2011. The two components that caused individual income tax collections to be significantly higher than estimated were withholding taxes and current year payments.

Figure 5

Individual Income Tax Comparison

Revenue Code & Description	Final Fiscal 2011	Final Fiscal 2012	Difference	Percent Change
510101 Withholding Tax	685,192,810.47	734,240,351.27	49,047,540.80	7.16%
510482 Mineral Royalty WH Tax	15,837,758.63	18,355,681.39	2,517,922.76	15.90%
510111 Fiduciary Estimated Income Tax	9,414,305.62	9,706,771.69	292,466.07	3.11%
510102 Estimated Tax	180,099,320.21	189,494,479.79	9,395,159.58	5.22%
510103 Current Year I/T	136,010,810.44	153,821,127.51	17,810,317.07	13.09%
510105 Income Tax - Audit Collections	33,467,924.00	28,307,314.00	(5,160,610.00)	-15.42%
510106 Income Tax Refunds	(243,932,956.50)	(235,074,524.16)	8,858,432.34	-3.63%
Income Tax Refunds Adjustment	0.00	0.00	0.00	0.00%
Totals	$816,089,972.87	$898,851,201.49	$82,761,228.62	10.14%
Percent of Actual/Estimated	100.00%	111.06%		

Estimate error can be generated three ways in the individual income tax estimate:

- Growth rates
- Tax simulation model
- Fiscal year conversion

Growth rates

Growth rates for each type of income, addition, reduction, and itemized deduction are developed using the historical return data and various economic indicators. Estimate error can result from unusual historical data, use of incorrect economic indicators, and economic indicators that are themselves erroneous.

Growth rate estimates can be compared to actual growth from the tax return data. This data is lagged and tax year data for 2011 will not be available until November. Figure 6 on the next page compares the growth rate estimates contained in HJ 2 with actual growth rates from tax year 2010 data.

Figure 6

Comparison of Growth Rate Estimates with Tax Year 2010 Actual Growth
($ Millions)

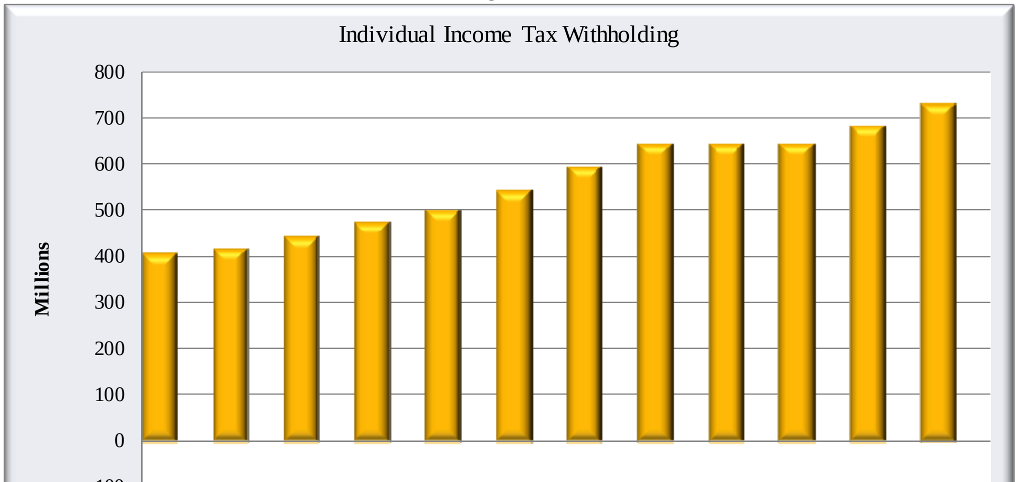
Source	2009 Actual	HJ 2 Estimate	2010 Actual	Act. - Est. Difference	Act. - Est % Diff.
Wage Income	$13,137.0	$13,431.1	$13,390.0	-$41.2	-0.3%
Interest Income	519.8	429.9	443.0	13.1	3.1%
Dividend Income	462.4	458.0	504.4	46.5	10.1%
Taxable Refunds	113.7	119.2	98.7	-20.5	-17.2%
Alimony Received	12.8	13.6	13.6	0.0	0.0%
Net Business	648.2	624.5	690.8	66.3	10.6%
Capital Gains	912.0	1,095.3	992.6	-102.7	-9.4%
Supplemental Gains	19.0	16.8	42.1	25.2	149.9%
Rents & Royalties	1,508.4	1,542.0	1,823.3	281.3	18.2%
IRA Income	396.7	433.2	548.6	115.4	26.6%
Taxable Pensions	1,567.2	1,640.6	1,658.2	17.6	1.1%
Taxable Soc. Sec.	540.6	592.4	603.8	11.4	1.9%
Farm Income	-183.6	-155.6	-145.1	10.5	-6.8%
Other Income	-326.3	-326.3	-408.8	-82.5	25.3%
Total Income	$19,328.0	$19,914.7	$20,255.2	$340.5	1.7%

The most significant source of error in the growth rates estimate was the underestimate of rents & royalties income growth. Further research is needed to determine the specific contributors to the growth in rents & royalties income. IRA income also grew at a much higher rate than expected; however, the sharp increase in IRA income was not matched by unusually strong growth in pension or social security income. Much of the spike could be due to one-time withdrawals from savings plans during the deepest part of the recession. The underestimate of these two sources combined is $396.7 million; at an average tax rate of 3.9%, this could account for about $15 million of the increased collections. For all other income and deduction assumptions accounted for an additional $15 million in increased collections.

The estimated growth for wages, which accounts for about 65% of total income, was nearly spot-on with a slight overestimate of 0.3% or $41.2 million. Wages are a good proxy for withholding collections; however, wage income is not the only source of income for which taxes are withheld.

Figure 7 shows individual income tax withholding collections since 2001. As shown in Figure 7, total individual income tax withholding collections were 7.2% ($49.0 million) above last year.

Figure 7



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Withholding	407.668	419.218	444.335	474.851	501.231	542.603	596.403	645.532	646.911	644.991	685.193	734.24
%Change		2.8%	6.0%	6.9%	5.6%	8.3%	9.9%	8.2%	0.2%	-0.3%	6.2%	7.2%

<u>Tax simulation model</u>
The tax simulation model forecasts calendar year full year resident tax liability by applying the growth rates discussed above to each resident taxpayer's income and deduction items. The model makes various determinations based on income type, income level, and filing status. These assumptions are used to assign tax rates and applicable deductions, and ultimately the amount of tax liability. The model aggregates all the individual taxpayer information for each income line to produce an estimate of full year resident calendar year tax liability.

<u>Fiscal year conversion</u>
The fiscal year conversion takes the calendar year full-year resident tax liability output of the model, adjusts for non-year resident liability and all credits other than the capital gains credit, and calculates fiscal year growth rates based on an assumption of equally spaced timing. These rates are applied to the last fiscal year total collections, excluding audit and penalty and interest collections. Estimated audit, penalty, and interest collections, as well as any other adjustments, are added back in to produce the final estimate.

Error may be introduced in the conversion process in a variety of ways:

- Calculation of credits
- Estimate of audits and penalty & interest income
- Other adjustments
- Timing

The timing is difficult to quantify. The other assumptions are compared with actuals in Figure 8 below:

Figure 8

Comparison of Conversion Assumptions with Actuals ($ Millions)			
Source	HJ 2 Estimate	Actual	$ Difference
Credits			
CY 2010	$45.9	$54.8	$8.9
Audits, penalty & interest, and amended income			
FY 2011	30.9	33.5	2.6
FY 2012	33.4	28.3	-5.1
Adjustments-Pass Through Entities			
FY 2011	4.5	9.4	5.0
FY 2012	4.5	9.7	5.2

The credits are entered into the conversion process prior to calculating the calendar year growth rates. Differences between forecast and actual amounts of credits claimed don't impact the later fiscal year growth rates significantly. Audit income and all other adjustments are direct additions to the forecast base income; however, it is not clear to what extent the differences in these sources have already been accounted for in the discussion of growth rates. For example, strong growth in pass-through entity income may be due to the strong growth in rents & royalties income.

More importantly from an accuracy perspective is the timing issue. Because calculated fiscal year growth rates are applied to the last known fiscal year, it matters a great deal if that base fiscal year is at a peak or trough. If, as in the case of the HJ 2 estimate, the base fiscal year was at the trough of the recession. With accurate growth rates but with a low base year, the result was low estimates. It appears that the error induced by growing off of a trough base year is about $50 million. Unfortunately, it is difficult to determine whether the base fiscal year is at the trough or peak until subsequent fiscal years. Further research on the timing of quarterly estimated payments and refunds will be done in subsequent months.

In summary, the difference between the individual income tax estimate contained in HJ 2 and actual collections is about 20% due to unanticipated growth in rents and royalties, and IRA income, as well as the high level of income from pass-through entities. The other 80% of the difference is related to timing issues. The Figure 9 details the sources of error and their corresponding amount:

Figure 9

Summary of Possible Error Sources ($ Millions)	
Source	Amount
Underestimate of two major growth rates	$15
Underestimate of other growth rates	15
Effect of trough base year	60
Total	$90

Corporation Income Tax: $12.7 million

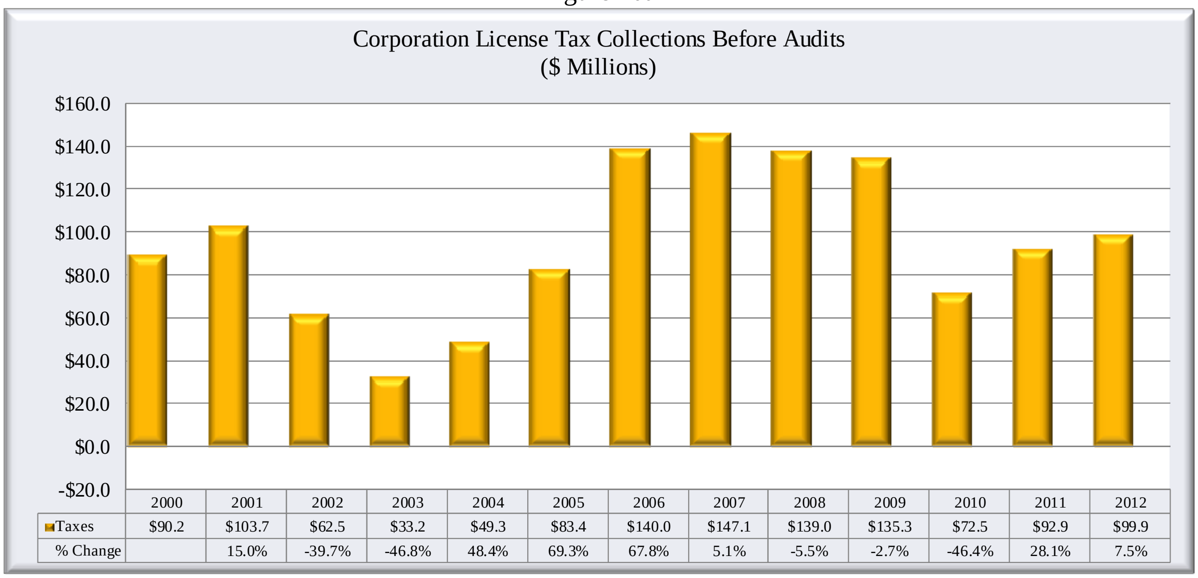
Corporation income tax receipts for FY 2012 were $12.7 million or 11.0% above the adjusted estimate contained in HJ 2. Net collections (gross collections less refunds) were 7.3% or $8.7 million above the net collections for FY 2011. The 62nd Legislature assumed the FY 2012 growth rate to be 18.2% or $17.7 million above the FY 2011 collections, but this growth assumption was based on lower collections in FY 2011 than were actually received. Figure 10 shows specific details of corporation income tax collections for FY 2012 compared to the FY 2011 amounts. As shown in Figure 10, estimated payments and audit collections were significantly higher than the amounts observed in FY 2011, as were refund amounts.

Figure 10

Corporation License Tax Comparison				
Revenue Code & Description	Final Fiscal 2011	Final Fiscal 2012	Difference	Percent Change
510501 Corporation Tax	$23,747,578.52	$27,777,649.06	$4,030,070.54	16.97%
510505 Corporation Tax Estimated Paym	98,979,556.35	110,864,885.73	11,885,329.38	12.01%
510502 Corporation Tax Refunds	(29,799,711.50)	(38,757,328.67)	(8,957,617.17)	30.06%
510503 Corporation Tax-Audit Collect.	26,116,467.00	27,885,386.00	1,768,919.00	6.77%
Corporation Tax Refunds Adjustment	0.00	0.00	0.00	0.00%
Totals	$119,043,890.37	$127,770,592.12	$8,726,701.75	7.33%
Percent of Actual/Estimated	100.00%	111.02%		

Figure 10a shows corporation income tax collection data less audits for FY 2000 through FY 2012. Total corporation income tax collections less audits were 7.5% ($7.0 million) above last year. By removing audit collections, the underlying growth in tax collections can be measured more accurately. These data suggest that underlying corporate profitability improved at a 7.5% rate instead of the 7.3% rate shown in Figure 10. Figure 10a also shows the variability in corporation taxes since FY 2000.

Figure 10a

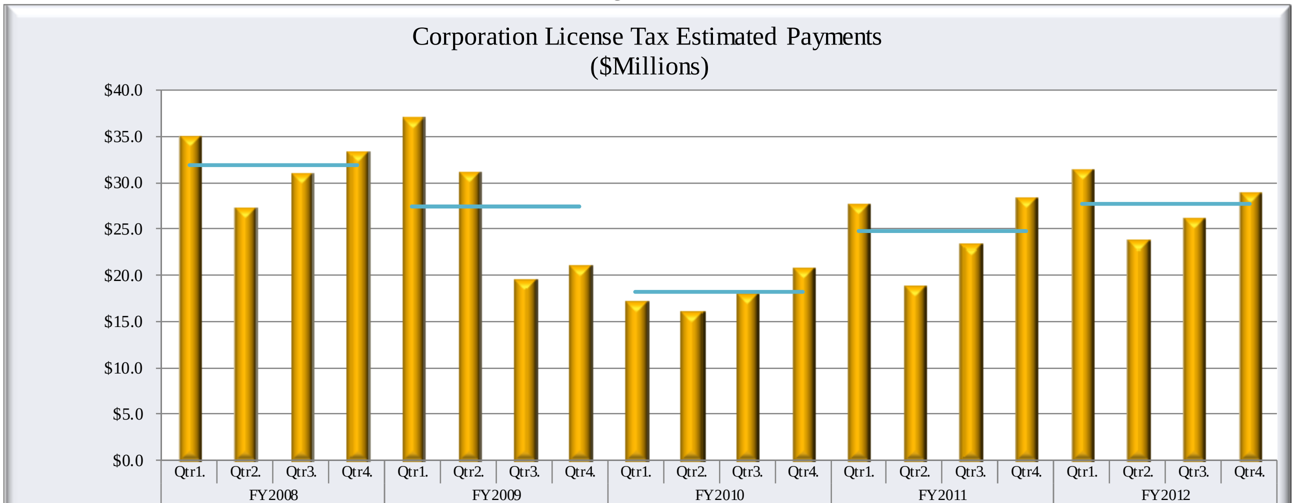


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes	$90.2	$103.7	$62.5	$33.2	$49.3	$83.4	$140.0	$147.1	$139.0	$135.3	$72.5	$92.9	$99.9
% Change		15.0%	-39.7%	-46.8%	48.4%	69.3%	67.8%	5.1%	-5.5%	-2.7%	-46.4%	28.1%	7.5%

A factor that added uncertainty to corporation income tax estimates was federal legislation (H.R. 4853). This bill allowed corporate taxpayers to expense depreciable assets placed in service between September 9, 2010 and the end of 2011 and also allowed a 50% bonus depreciation for depreciable assets placed in service in 2012. An analysis prepared during the session by DOR showed that corporate taxpayers were expected to take advantage of this legislation. The anticipated revenue reduction for FY 2011 was not expected to occur until corporations filed their annual return in May or their estimated payment due June 15th. As shown in Figure 10, the final estimated payment did not decline from the previous quarterly amounts. This could potentially explain the higher refund amounts in FY 2012. Discussions with DOR staff indicate that determining the collection impacts of H.R. 4853 would be difficult to assess.

Figure 10b shows corporation income tax estimated payments by fiscal quarter. As shown in the figure, the average estimated payments declined to just over $18 million in FY 2010 and then grew strongly in FY 2011 to an average of nearly $25 million. Since then, growth has moderated; the average FY 2012 quarterly estimated payment was just under $28 million.

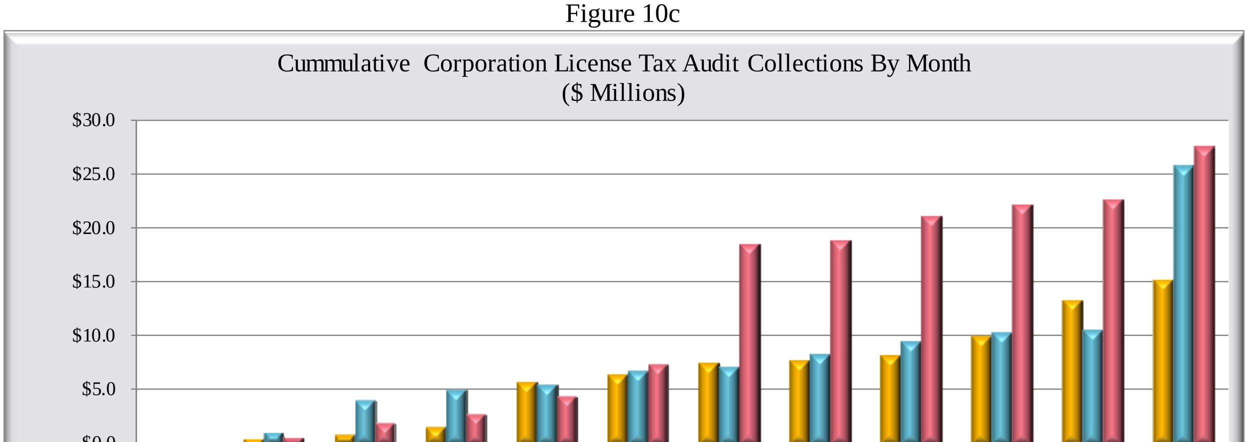
Figure 10b



	FY2008				FY2009				FY2010				FY2011				FY2012			
	Qtr1.	Qtr2.	Qtr3.	Qtr4.	Qtr1.	Qtr2.	Qtr3.	Qtr4.	Qtr1.	Qtr2.	Qtr3.	Qtr4.	Qtr1.	Qtr2.	Qtr3.	Qtr4.	Qtr1.	Qtr2.	Qtr3.	Qtr4.
Amount	$35.2	$27.4	$31.2	$33.6	$37.2	$31.4	$19.7	$21.3	$17.3	$16.2	$18.2	$21.0	$27.9	$19.0	$23.5	$28.5	$31.6	$23.9	$26.3	$29.1
Average	$31.9	$31.9	$31.9	$31.9	$27.4	$27.4	$27.4	$27.4	$18.2	$18.2	$18.2	$18.2	$24.7	$24.7	$24.7	$24.7	$27.7	$27.7	$27.7	$27.7

Figure 10c shows a comparison of corporate audit collections by month for FY 2010, FY 2011, and FY 2012. As shown in the figure, there were large audit collections in June FY 2011 and January FY 2012. Total audit collections were $27.9 million in FY 2012 and $26.1 million in FY 2011; both years were significantly elevated compared to the total audit collections of $15.4 million in FY 2010.

Figure 10c



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY2010	$0.0	$0.6	$1.0	$1.7	$5.9	$6.6	$7.6	$7.9	$8.4	$10.1	$13.5	$15.4
FY2011	$0.0	$1.2	$4.2	$5.2	$5.6	$6.9	$7.3	$8.5	$9.7	$10.5	$10.7	$26.1
FY2012	$0.0	$0.8	$2.1	$2.9	$4.5	$7.5	$18.7	$19.1	$21.3	$22.4	$22.9	$27.9

Based on the above information, collection data suggest that higher refunds balanced the improved estimated payment collection, leaving the continued high level of audit collections as the main contributor to the overall improvement in corporation income tax collections.

All Other: $4.6 million

Revenue from all other general fund sources increased $4.6 million or 10.8% over the estimate. There were three main sources of the increased revenue: larger-than-expected effects of SB 335, a repayment by the Department of Corrections, and higher transfers from the veteran's state special revenue account and the State Auditor's investment account.

SB 335 reduces the time for which the owner of a stale-dated warrant can claim payment from four years to one year. It was anticipated that $2.8 million would be transferred to the general fund. Actual collections were $4.1 million, $1.3 million more than what was expected. The Department of Corrections returned a capital contribution of $1.1 million which provided the startup funding for the license plate factory in 2010. The transfer of excess revenue from the Veteran's state special revenue account and the State Auditor's investment account exceeded the estimates by $1.4 million and $2.0 million respectively.

Lottery Profits: $2.1 million

Lottery profits exceeded the HJ 2 revenue estimates by 19.3% or $2.1 million. The higher growth in collections come primarily from stronger jackpots and EZPlay games. As lottery jackpots increase, so do the number of participants and the jackpot grows at increasing rates until there is a winner. In November of FY 2012, the Montana Lottery introduced EZPlay games. EZPlay allows consumers to purchase a game with predetermined odds and know instantly if they are a winner or a loser. EZPlay initially included four games; the most popular of which is Shake A Day. The Montana Lottery added two games in August of FY 2013.

Lodging Facilities: $1.7 million

Lodging facilities tax exceeded HJ 2 revenue estimates by 11.9% or $1.7 million. According to the University of Montana Institute for Tourism and Recreation Research, non-resident visitation to Montana increased by 6.1% or 239,000 visitors for the second half of FY 2012 compared to the same time period in FY 2011. During this period non-resident visitors stayed an additional 0.6 nights on average and spent 11.6% more time in hotels/motels. Increased tourism is most likely the driving factor in the increased tax receipts. Increased demand for temporary lodging in eastern Montana due to the Bakken development could also be a contributor to the increased collections; however, specific studies have not yet been conducted.

U.S. Mineral Leasing: $1.7 million

Data from the Bureau of Ocean Energy Management, Regulation and Enforcement are not yet available to compare the revenue estimate assumptions adopted by the 62nd Legislature. The data will be analyzed when it becomes available, which will probably be later this calendar year. Bonus payments for oil development on federal lands were more than likely higher than anticipated.

Public Institution Reimbursements: -$2.6 million

Public institution reimbursements for FY 2012 were $2.6 million or 15.0% below the estimate contained in HJ 2. The 62nd Legislature assumed the FY 2012 growth rate to be -2.5% or $0.4 million below the FY 2011 collections. Revenues from nearly every source were sharply below FY 2011 levels; the largest differences come from Medicaid payments to the Montana Developmental Center (-$2.6 million) and Medicare payments to Warm Springs (-$1.3 million). The Department of Public Health and Human Services (DPHHS) has been contacted regarding this issue, but has so far not responded to requests for information.

Treasury Cash Account: -$4.1 million

Based on year-end data for FY 2012, TCA interest earnings were 60.5% below the estimate for a decrease of $4.1 million. Although the average balance for FY 2012 ($880.3 million) exceeded the estimated balance ($656.9 million), the actual annual rate of return (0.3%) earned on the Treasury Cash Account was far less than the estimated 1.0% developed by IHS Global Insight.

Oil & Gas Production Tax: -$5.4 million

Oil and natural gas production taxes for FY 2012 were $5.4 million lower than anticipated in the HJ 2 adjusted estimate. At this time, limited data are available to determine the exact reason for the reduced collections. However, preliminary data from tax returns filed with the DOR indicate that Montana's natural gas production is about 72.9 million MCF's for FY 2012. The assumed production contained in HJ 2 was 105.4 million MCF's or a difference of about 32.5 million MCF's. This production differential could be the primary reason for the reduced collections. Preliminary oil price data shows Montana's oil price is about $87 per barrel or about $5 higher than anticipated in HJ 2. The higher oil price mitigates some of the lower natural gas collections. Fiscal year tax return data submitted to the DOR will be available later this fall for further analysis. These data will provide specific information on price and production for both oil and natural gas.

Vehicle Fee/Tax: -$6.8 million

Combined revenue collections from vehicle fees and taxes were $6.8 million less than anticipated in HJ2. The exact reason for this shortfall is unknown at this time, but with constant fees and tax rates, any change in revenue results from changes in Montana's stock and age distribution of vehicles. Lesser collections were evident in all types of vehicle licensing with the most notable decline in light vehicles. The reluctance of consumers to purchase new vehicles because of the "Great Recession" may have impacted revenue collections and resulted in a larger inventory of older cars which have a lower tax rate. The LFD is currently conducting research into the vehicle fees and taxes with a focus on the age distribution of vehicles.

Public Contractors Tax: -$8.8 million

Public contractors' gross receipts tax collections were actually negative for FY 2012; at -$3.0 million, total collections were $8.8 million below the HJ 2 estimate of $5.7 million.

There is an inherent lag of one to two years between when the tax revenues are collected, and the associated credits and refunds are claimed and processed. A portion of the shortfall in FY 2012 is likely due to the processing of credits and refunds of taxes that were collected on the American Recovery and Reinvestment Act of 2009. The large volume of public projects during that time resulted in increased tax collections quickly; the lagged nature of the credits and refunds process is just now affecting total collections.

Also a factor may be processing inconsistencies. For the past four biennia, the Department of Revenue has pointed to refund and credit processing inconsistencies as the main reason for this revenue source's volatility. In each case, the department forecasts an elimination of the additional backlog, which would lead to more consistent revenue growth in subsequent years.

Remaining Revenue Sources: $0.6 million

The combined change from the HJ 2 estimates for the remaining revenue sources is $0.6 million. Some revenue sources were above the HJ 2 estimate while others were below the estimate. In total, the net change was $0.6 million more than anticipated.

DISBURSEMENTS AND REVERSIONS

Figure 11 shows general fund account disbursements and reversions for FY 2012. General fund disbursements (excluding prior year disbursement adjustments) were $49.9 million less than authorized by the legislature. Since total reversions budgeted by the 62nd Legislature were $5.4 million, unanticipated reversions before adjusting for continuing authority and fiscal transfers were $44.5 million. This amount, however, needs to be increased by $29.2 million for fiscal transfers and decreased by $52.7 million to determine an accurate estimate of reversions. The true unanticipated reversion amount was $21.0 million with these adjustments.

Figure 11

General Fund Account Disbursements and Reversions Fiscal 2012			
Budgeted Disbursements	$1,829,435,000		
Actual Disbursements	1,779,569,490		
Total Unexpended Authority			$49,865,510
Budgeted Unexpended Authority			5,383,000
Total Less Budgeted Unexpended Authority			$44,482,510
Plus Fiscal Transfers (Net)			29,188,500
Anticipated Transfers *		23,344,000	
Actual Transfers		52,532,500	
Less Continuing Authority			52,671,629
Anticipated Continuing Authority		1,235,000	
Unanticipated Continuing Authority		51,436,629	
Total Unanticipated Reversions			$20,999,381

* HB2 authority for K-12 anticipated to be moved from FY 2013 to FY 2012

The primary agencies with significant reversions were DPHHS ($12.2 million) and Department of Natural Resources and Conservation ($1.0 million). There was also about $7.5 million of biennial emergency appropriation authority not spent. Continuing authority is a fiscal policy approved in enacting legislation and has the potential of reducing the ending fund balance when the funds are expended by an agency in a subsequent year. From a state accounting operational perspective, all appropriations are in a reverted status at the end of a fiscal year. This has the effect of temporarily increasing the fund balance by the amount of the continuing authority. If legislation authorizes the authority to continue, the remaining balance of the appropriation is reestablished in the subsequent year. LFD expenditure staff is currently examining in detail the reasons for the reversion amounts.

FUND BALANCE ADJUSTMENTS

During FY 2012, there were prior year revenue and disbursement adjustments, direct adjustments to fund balance, and SABHRS to GAAP reconciliation items. In total, these adjustments increased the general fund account ending fund balance by about $8.0 million more than anticipated by the legislature (shown in Figure 1). The majority of this adjustment was recorded by the DPHHS to correct for an accounting error processed during FY 2011. A similar adjustment should not be needed in FY 2013.

SUMMARY OF FY 2012 INFORMATION

Figure 12

Reasons for General Fund Balance Change Fiscal 2012 (In Millions)		
Explanation of Fund Balance Change		Amount
Beginning Fund Balance (Due to FY 2011 Activity)		$116.424
Revenue Collections (Actual - Estimated)		85.331
Disbursements (Budgeted - Actual)		44.483
Fund Balance Adjustments		21.921
Prior Year Revenue/Expenditure Adjustments	13.878	
Direct Fund Balance Adjustments	8.043	
Total Changes		**$268.159**
Continuing Authority		(51.438)
Adjusted Ending Fund Balance		**$216.721**

As stated earlier, the preliminary general fund account unreserved, undesignated ending balance for FY 2012 is $457.1 million, or $268.2 million above the level anticipated by the 62nd Legislature. The reasons are summarized in Figure 12. Although Figure 12 shows a general fund balance improvement for FY 2012 of $268.2 million it should be noted that $51.4 million of this balance is reestablished to be expended in FY 2013. This reauthorization to expend funds in subsequent years occurs whenever appropriations are specified for more than one year in HB 2 or other appropriation acts.

This means the preliminary FY 2012 ending general fund balance when adjusted for unanticipated continuing authority is $216.7 million (shown in Figure 12) greater than anticipated by the 62nd Legislature.

2013 BIENNIUM PROJECTION

Figure 13

Legislative Budget - General Fund Outlook Figures in Millions	Actual FY 2010	Actual FY 2011	Preliminary FY 2012	Budget FY 2013	2011 Biennium	2013 Biennium
Beginning Fund Balance	$396.334	$314.880	$343.762	$457.067	$396.334	$343.762
Revenue						
HJ2 Revenue Estimate	1,627.145	1,782.559	1,870.954	1,853.138	3,409.703	3,724.092
Anticipated Adjustments					-	-
Total Funds Available	$2,023.478	$2,097.439	$2,214.716	$2,310.205	$3,806.037	$4,067.854
Disbursements						
General Appropriations - HB2	1,575.921	1,697.805	1,613.870	1,595.850	3,273.726	3,209.720
Statutory Appropriations	169.872	170.849	171.229	195.170	340.721	366.399
Transfers	88.877	46.639	15.469	12.898	135.516	28.367
Other Appropriations	-	-	-	52.789	-	52.789
Supplementals	-	-	-	37.305	-	37.305
Feed Bill	-	-	-	10.479	-	10.479
Reversions	(117.960)	(167.976)	(20.999)	(6.686)	(285.936)	(27.685)
Total Disbursements	$1,716.710	$1,747.317	$1,779.569	$1,897.805	$3,464.027	$3,677.374
Fund Balance Adjustments	8.112	(6.360)	21.920	-	1.752	21.920
Ending Fund Balance	$314.880	$343.762	$457.067	$412.400	$343.762	$412.400

Figure 13 shows the projected general fund balance for the 2013 biennium. Amounts shown include the revenue estimates included in HJ 2 plus legislation impacts and the cost of operating state government based on appropriations adopted by the 61st and 62nd Legislatures during the regular legislative sessions. Also included in this figure are estimated amounts for statutory appropriations, budgeted transfers, statutorily required supplemental appropriations, and reversions.

As Figure 13 shows, the 2013 biennium ending general fund balance is projected to be $412.4 million without any revisions to the 2013 biennium revenue estimates for revenue trends observed in FY 2012. Also reflected in Figure 13 is the inclusion of actual revenue and disbursement amounts recorded in FY 2012 and the inclusion of continuing appropriations. It should be noted that this balance is based on an assumption of a public school supplemental appropriation of $37.3 million for the 2013 biennium and includes $8.3 million for emergency appropriations. No adjustment has been made for potential wildfire supplemental appropriations.