

# Revenue Estimate Recommendations

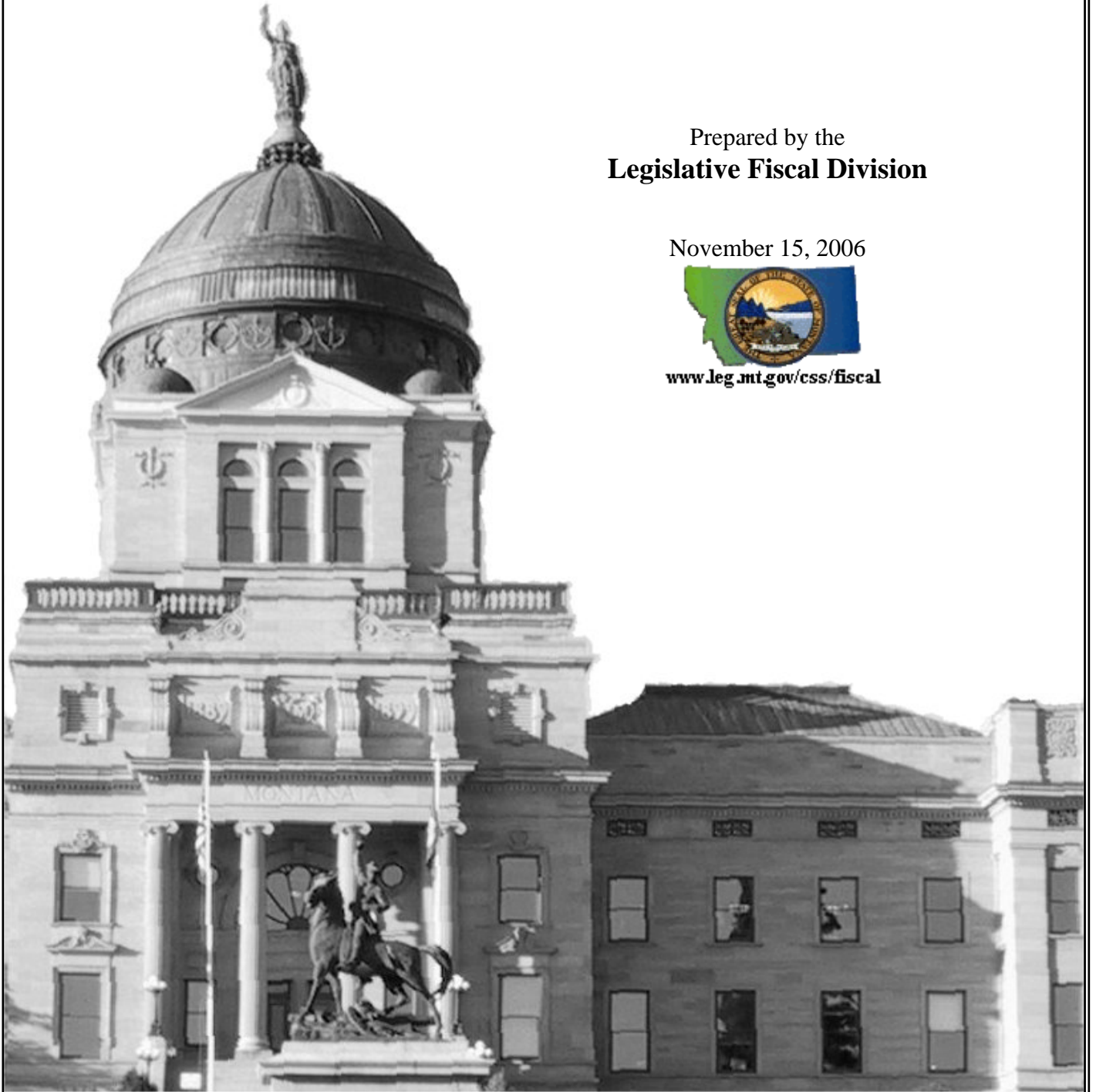
*Fiscal Years 2007, 2008, and 2009*

Prepared by the  
**Legislative Fiscal Division**

November 15, 2006



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# MONTANA LEGISLATIVE BRANCH

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## Legislative Fiscal Division

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**Legislative Fiscal Analyst**  
CLAYTON SCHENCK

November 10, 2004

Members of the Revenue and Transportation Interim Committee (RTIC):

In accordance with the provisions of Section 5-12-302, MCA, I am submitting the Legislative Fiscal Division revenue estimate recommendations for the fiscal period 2007, 2008, and 2009. I am providing this information in advance of the November 15 RTIC meeting to provide an opportunity for committee members to study the estimates and assumptions used in developing the estimates.

This report provides a “profile” of each major general fund revenue source, with specific detail on the methodology and assumptions used to develop these recommendations. Please note that in addition to the general fund components, the LFD report also contains recommendations for some specific non-general fund revenue sources that are significant in the development of the state budget for the 2009 biennium.

Since this report will be utilized extensively during the committee meeting, please be sure to bring it with you to the meeting.

We believe this document and the process outlined above will serve as an effective tool as you carry out your statutory responsibility to develop revenue estimates for the 2007 legislative session. My staff and I look forward to assisting in this task.

Respectfully submitted,

Clayton Schenck  
Legislative Fiscal Analyst

Attachments



## **Purpose of the Report**

As delineated in Section 5-5-227(1) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare “an estimate of the amount of revenue projected to be available for legislative appropriation.” In addition, sections 5-12-302(2) and 5-12-307(6) specifically require the Legislative Fiscal Analyst (LFA) to “estimate revenue from existing and proposed taxes” and also requires the LFA to “assist the revenue and transportation committee in performing its revenue estimating duties...”.

The purpose of this report is to document the RTIC recommendations regarding anticipated revenues for fiscal 2007 through 2009. It should be noted that the accompanying LFD estimates are based on current federal and state laws and do not include estimates for revenues due to litigation or any other pending legal issues. This position is consistent with past recommendations to the RTIC.

## **Montana Economic Outlook**

Montana state government, like any other business, is influenced by economic and demographic developments. For example, Montana’s economic base as well as the strength of the U.S. economy determines the level of revenues collected from personal and corporate income taxes, property taxes, natural resource taxes, and investment earnings. Similarly, both economic and demographic variables affect state government disbursements for education, human services, corrections, and other governmental services.

Montana’s total revenue base is comprised of a number of taxes and fees plus numerous federal reimbursements or grants. Revenues are further enhanced from the investment of trust monies and idle cash pending disbursement from the state treasury. Since individual income tax is the state’s largest general fund tax source, economic developments or trends in the areas of employment and income levels significantly influence available revenues to fund governmental services. Federal revenue correspondingly is used to fund a number of human service, transportation, and educational services. In a number of instances, general or state special revenue fund dollars are required to provide a state match before the federal funds can be disbursed.

Conversely, Montana’s total expenditure base is targeted toward educational and human service programs with a significant allocation to highway construction. Education and human service costs are driven by some of the same economic and demographic conditions that influence state revenues. If employment levels increase, this usually translates to an increase in population or a reduction in unemployment levels. With population increases comes a corresponding increase in educational and human service costs. A greater population requires a better transportation system not only for the general populace but also for the businesses that expect to expand to meet the needs of an ever-growing population.

Over the past 15 years, Montana has experienced a myriad of economic conditions. The 1990’s were generally good years for Montana’s economy. With a few exceptions, Montana experienced above average employment and wage levels that translated into strong tax revenue growth. This revenue growth was further enhanced by the significant increase in the equity markets and the resulting growth in capital gains income. In 2001 and 2002, the nation was faced with a recession. Montana’s revenue stream was harmed by the same factors that had earlier created extraordinary growth. Yet at this time, the state’s revenues are again increasing.

The three income sources primarily responsible for Montana’s revenue reversal are individual income tax, corporation income tax, and oil and natural gas production taxes. Individual income tax has experienced increased growth resulting in large part from federal tax reform, increases in wage growth (especially in real wage growth per worker), higher royalty income, and a higher capital gains base in 2004 and 2005. These increases in individual income tax revenues occurred even with the implementation of SB407, the state individual income tax reform legislation enacted by the 2003 Legislature. SB 407 reduced tax rates on income and instituted a new capital gains credit of 1 percent beginning January 1, 2005. The capital gains credit increases to 2 percent on January 1, 2007. The corporation income tax revenues have rebounded as Montana corporations have recovered from the recession of 2001 and the effects of “9/11”. Additionally, the natural resource boom that is currently underway in Montana has dramatically increased corporate profitability for energy companies and its residual industries. Finally, both oil and natural gas prices have increased significantly in response to the war in Iraq and the uncertainty about future supplies. Because oil and natural gas tax rates are based on the value of the commodity, higher prices have caused a surge in revenues from this source. Additionally, higher prices have stimulated new drilling activity for both commodities..

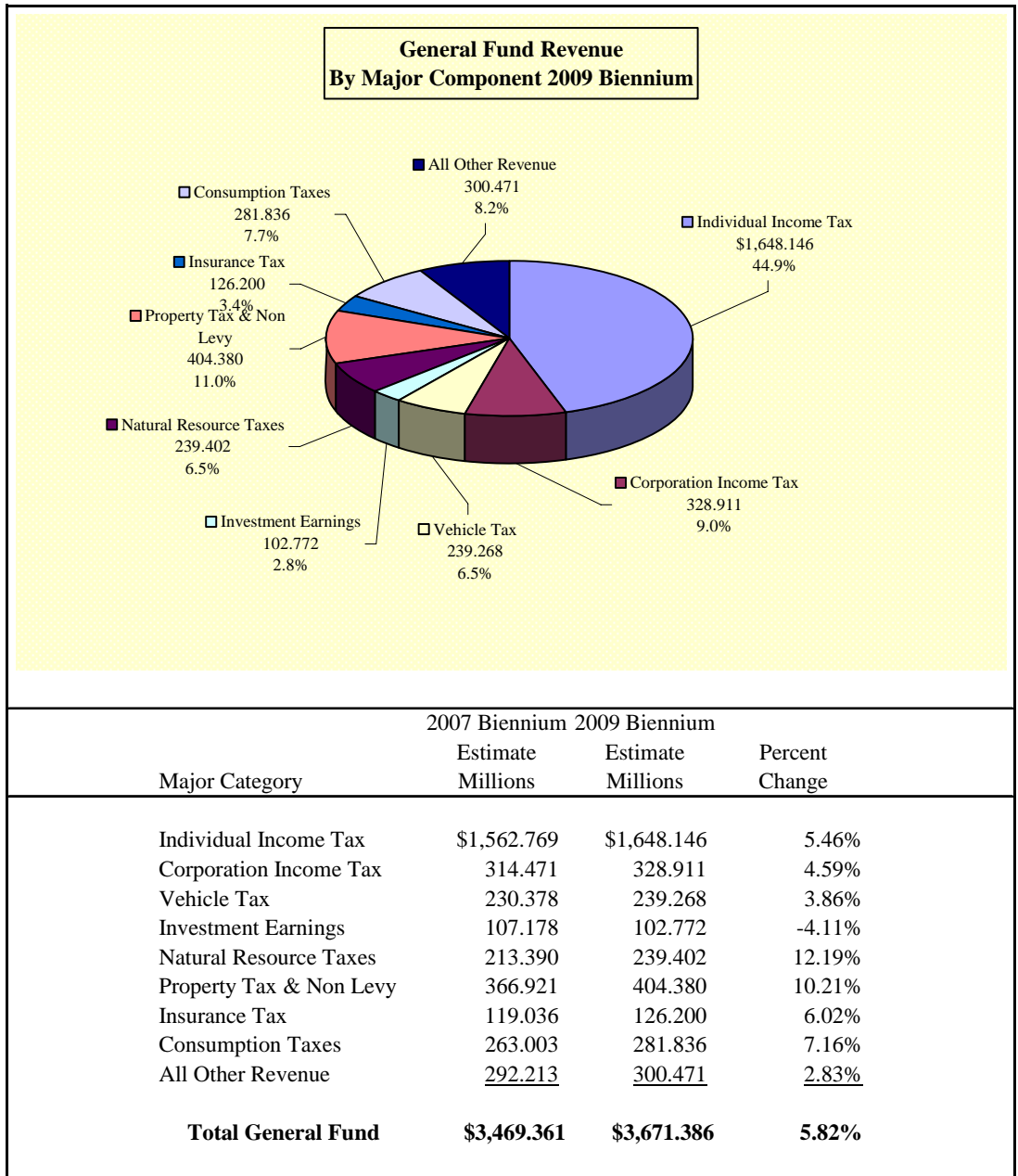
The legislature faces a brighter financial picture than just two years ago. Total general fund revenues have increased substantially during the fiscal periods 2004 through 2006. Greater revenues combined with disbursement budgets as adopted by the 59 Legislature have produced a record fund balance for FY 2006 with another record year anticipated for FY 2007. Nonetheless, the 60<sup>th</sup> Legislature should carefully craft the 2009 biennium budget and be cognizant of the potential one-time characteristics of the revenue base.

At this time, it is unclear whether current wage growth, capital gains income, corporate profitability, and oil and gas production and price levels are sustainable into the future. The 60<sup>th</sup> Legislature should not build a general fund budget that utilizes potential one-time revenue as a permanent source of funding for future budgets.

### General Fund Revenue Implications

Montana’s fiscal outlook for revenue growth is more optimistic than the last biennium. The key economic assumptions targeted as most affecting state government receipts are Montana total income, employment, population levels, inflation rates, corporate profits, property values, interest rates, and energy prices.

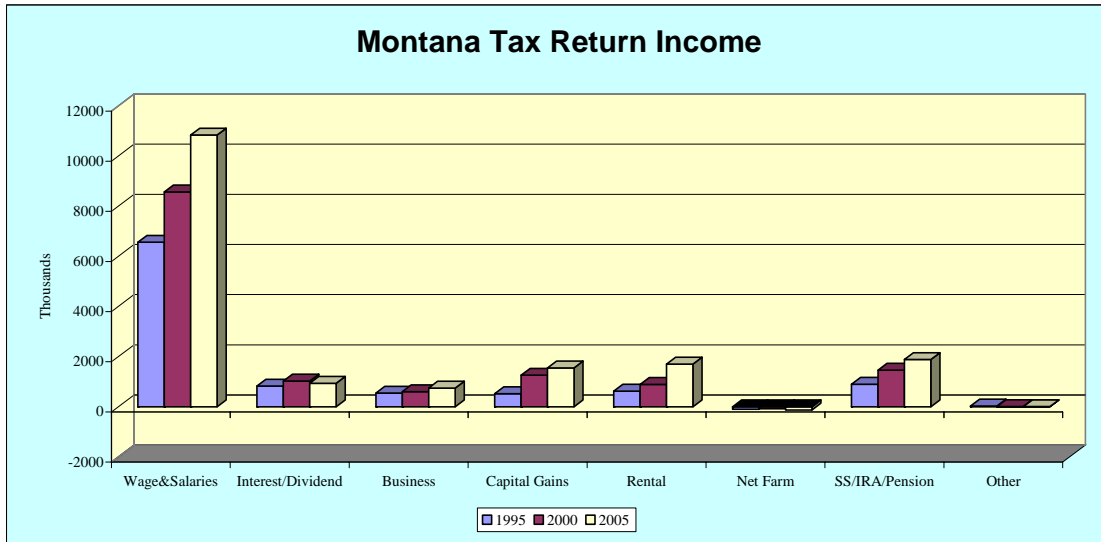
As shown in the following figure, individual income tax, corporation income tax, property tax, vehicle tax, and investment earnings are expected to contribute over 74 percent to the total general fund revenue stream during the 2009 biennium. Total general fund revenues for the 2009 biennium are projected to increase 5.8 percent over the 2007 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.



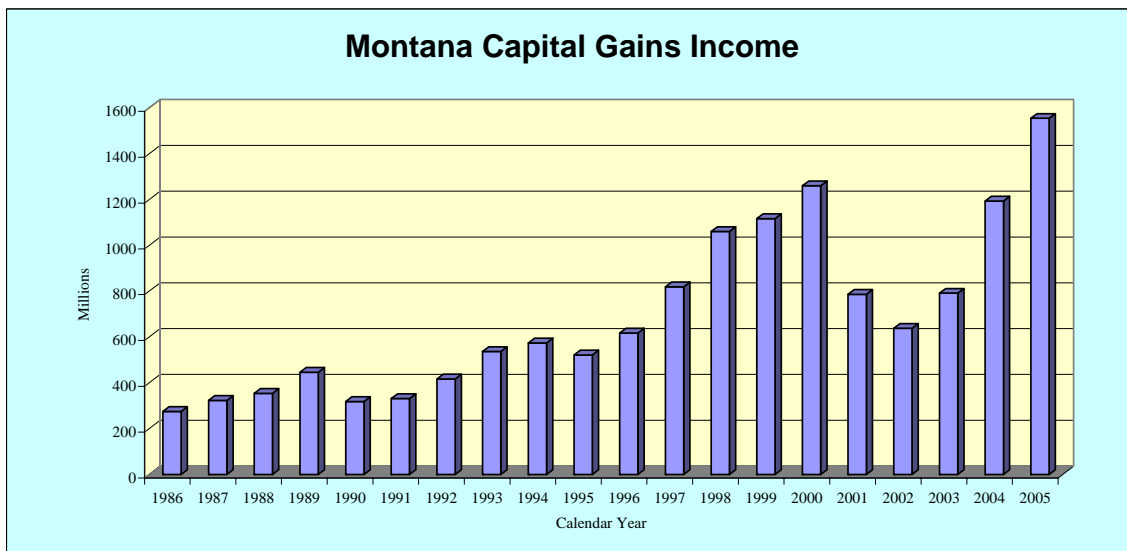
The next section of the report highlights the significant economic assumptions used by the LFD to develop the revenue estimate recommendations contained in this document. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast amount.

## Montana Total Income

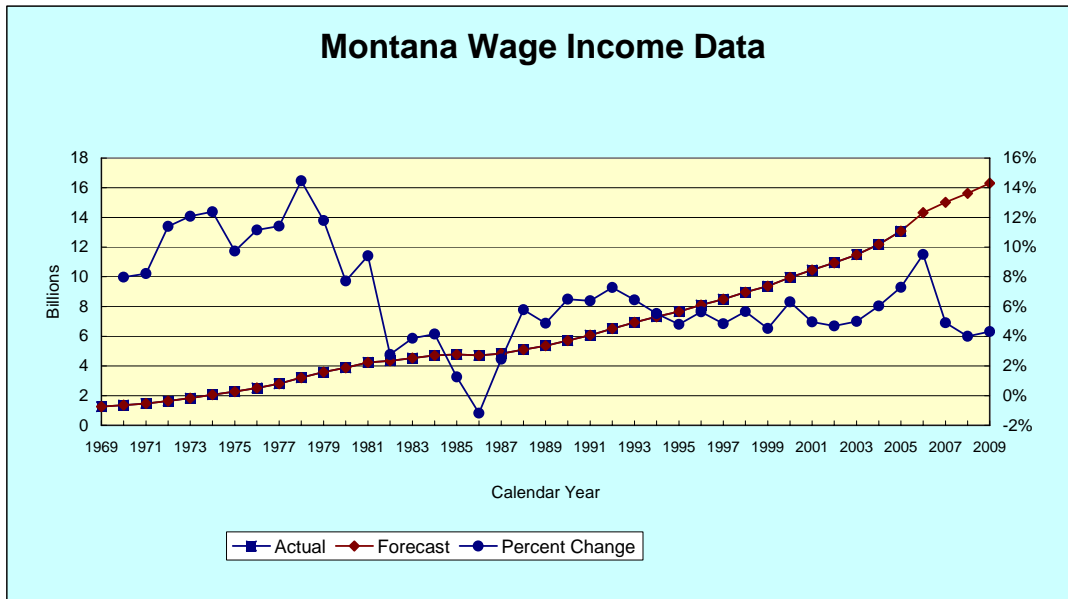
The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2005, it contributed 61.7 percent, or \$10.8 billion. The average compounded growth from calendar 1990 to 2005 has been 5.3 percent



In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of \$318 million. In 2001, capital gains receded to 5.7 percent of total income, with income at \$786 million, a reduction of over 37.6 percent over the previous year. In 2005, capital gains income was \$ 1,554 million and increased to nearly 8.9 percent of total income.



In 2002 capital gains income fell by \$622.3 million from the 2000 level, but rebounded in calendar 2003 through 2005.. Capital gains are projected to remain constant between 2006 and 2009.



### Montana Wages

The average annual growth in Montana wages and salaries has been 5.5 percent between 1990 and 2005. Lower wage growth has been experienced in the latter half (5.1 percent) of this period than in first half (5.8 percent). This is due to lower growth in employment and lower inflation since 1997. Somewhat countervailing these trends has been an increase in real wage per worker since 1997. The average annual growth in real wage per worker was -0.2 percent between 1990 and 1997, but has averaged 1.2 percent since then. It appears that growth in real wage per worker may reach 3.9 percent in calendar 2004.

The forecast for inflation between calendar years 2005 and 2009 is the same as used by the Congressional Budget Office for the federal budget. Employment is expected to grow 2.0 percent in calendar year 2006, 1.6 percent in 2007, 1.4 percent in 2008 and 1.2 percent in calendar year 2009.

The growth in real wage per worker is forecast to decline to between 0.5 percent and 1 percent in calendar years 2007 through 2009 from its current high levels, above at the long run average, but below levels seen recently.

The growth in wages and salaries, unadjusted for inflation, is expected to grow by 9.5 percent in calendar 2006. First half growth in calendar 2006 is 9.9 percent, but second half growth is usually lower than first half growth when first half growth exceeds the long run average.

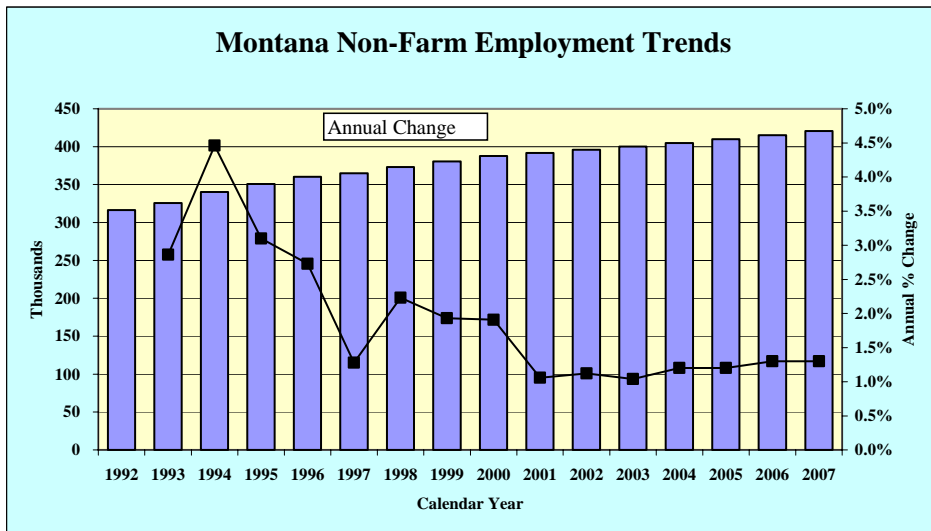
The growth in wages and salaries is expected to be 4.9 percent in calendar year 2007, 4.0 percent in 2008 and 4.3 percent in 2009.

Wage and Salary Income Growth					
	Calendar Year	Employment Growth	Inflation	Real Wage Per Worker	Wage Growth
A	1991	2.1%	4.8%	-0.6%	6.4%
A	1992	4.3%	3.6%	-0.7%	7.3%
A	1993	2.9%	3.0%	0.5%	6.5%
A	1994	4.5%	2.8%	-1.7%	5.5%
A	1995	3.1%	2.7%	-1.0%	4.8%
A	1996	2.8%	2.9%	-0.1%	5.6%
A	1997	1.3%	2.6%	0.9%	4.8%
A	1998	2.2%	1.9%	1.5%	5.7%
A	1999	2.0%	1.9%	0.6%	4.5%
A	2000	1.9%	2.8%	1.4%	6.3%
A	2001	1.2%	3.1%	0.7%	5.0%
A	2002	1.1%	2.2%	1.3%	4.7%
A	2003	1.2%	2.0%	1.8%	5.0%
A	2004	2.7%	2.5%	0.8%	6.0%
A	2005	2.2%	3.0%	1.9%	7.3%
F	2006	2.0%	3.3%	3.9%	9.50%
F	2007	1.6%	2.7%	0.5%	4.91%
F	2008	1.4%	2.1%	0.5%	4.00%
F	2009	1.2%	1.9%	1.1%	4.31%

### Montana Employment

Average annual growth in total employment between 1990 and 2005 has been 2.4 percent, although since 2000 the average rate of growth has been 1.7 percent. It is expected that employment growth through 2006 will be 2.0 percent and grow by about 1.4 percent in calendar years 2007, 2008, and 2009. Since 1990, the fastest growing sector in terms of employment has been construction, which experienced a 6.6 percent annual increase in employment. Other fast growing sectors have been professional and business services (5.5 percent annual growth), education and health services (3.2 percent annual growth), accommodation and food services (3.1 percent annual growth). Sectors that have experienced reduced or stable employment since 1990 are mining and manufacturing. Mining employment is expected to increase during the forecast period.

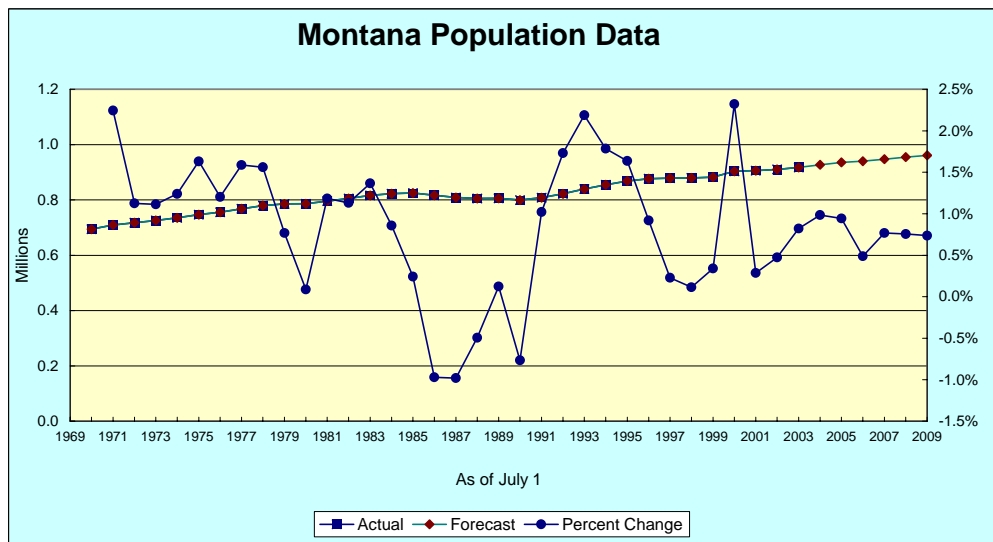




## Montana Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above. Historic population data is gathered from the U.S. Census department while projections are obtained from Global Insight. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at about 0.7 percent annually.

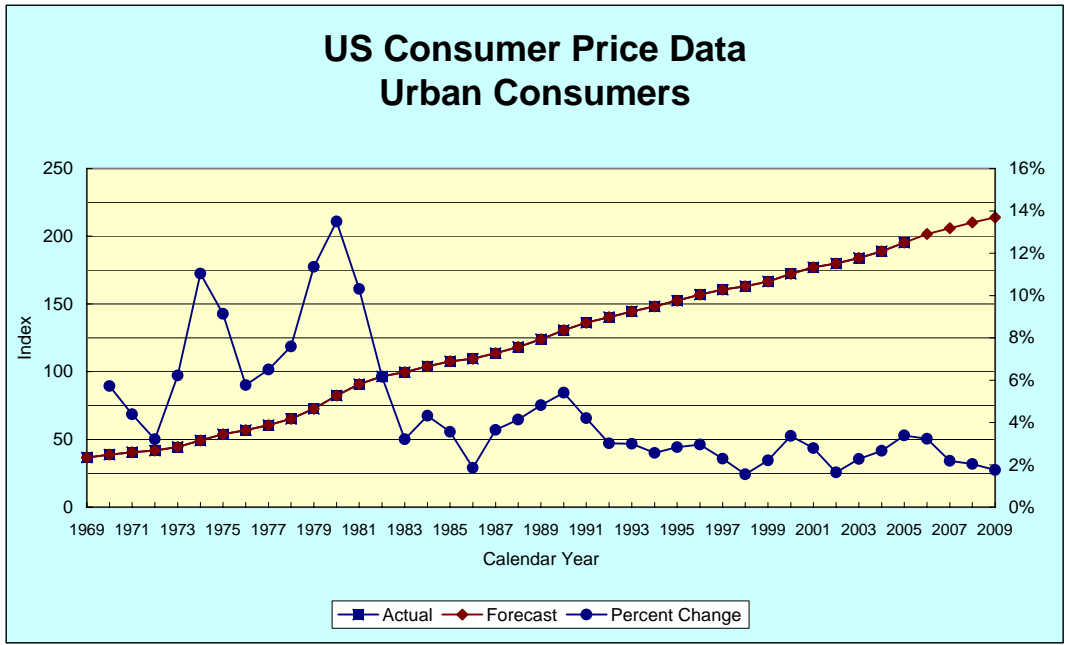


## Inflation Rates

The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.

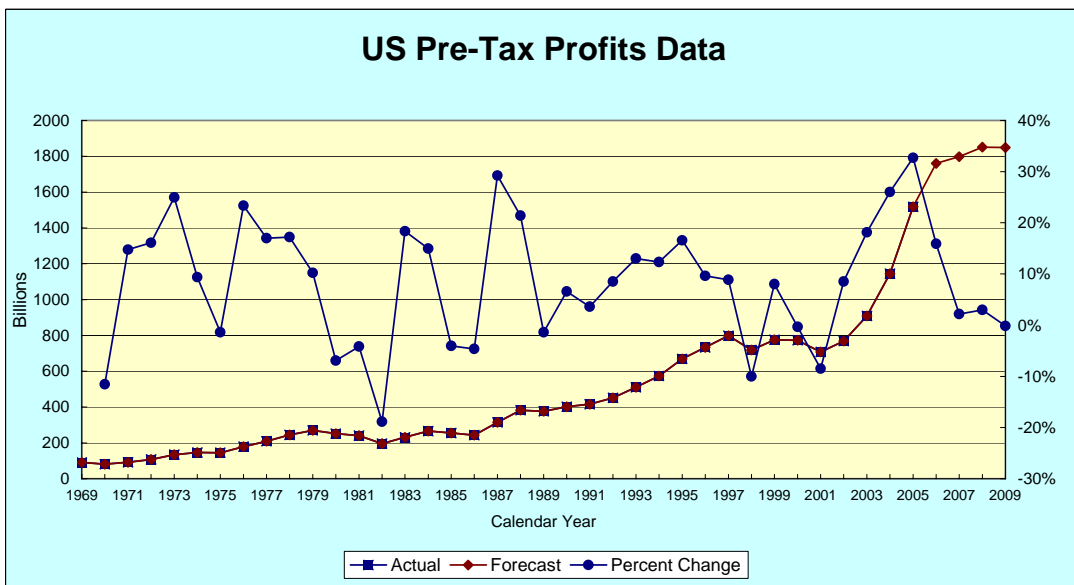
Since Montana's individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI

data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 3.3 percent. Global Insights forecasts inflation at 2.3 percent (November 2004). The average forecast used by the Congressional Budget Office and other private economists is 2.2 percent per year through calendar 2009. Our forecast is 2.2 percent through 2009.



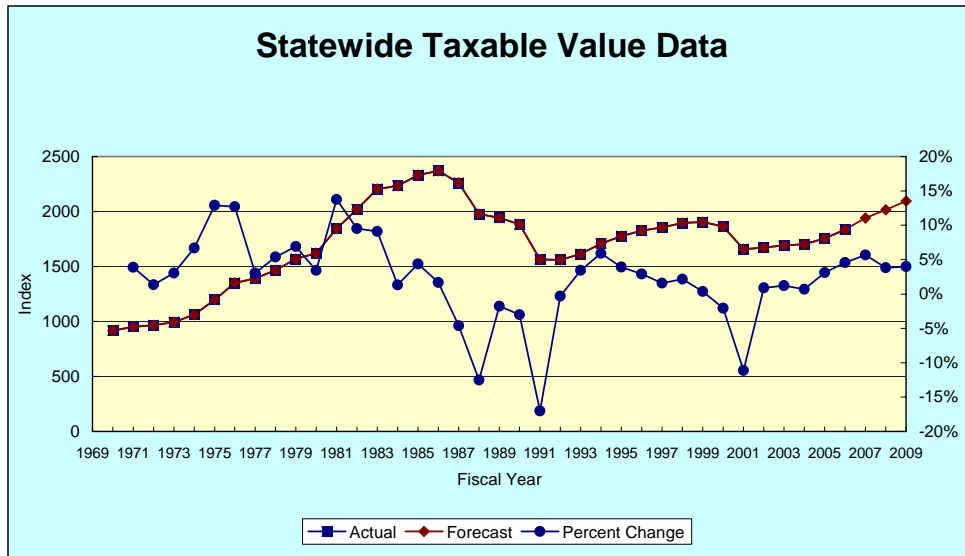
### Corporate Profits

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability effects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 10.3 percent. However, from 1997 through 2001, profits decreased by an average of 3.0 percent, the greatest decrease of 14.2 percent occurring in 2001. In 2004 and 2005, corporate profitability increased by 26.0 percent and 32.7 percent respectively. That trend is not expected to continue with projected average annual increases of approximately 1.7 percent between 2007 and 2009.

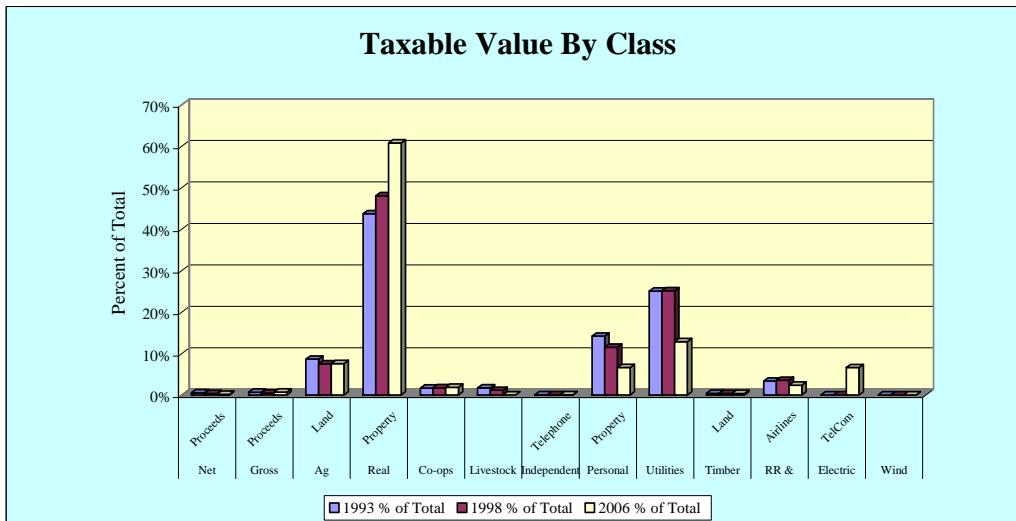


## Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's but fell in fiscal 2000. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Property values resumed an upward trend in 2001 and have increased every year since that time. That trend is expected to continue through the next biennium with an average annual growth of about 3.9 percent.



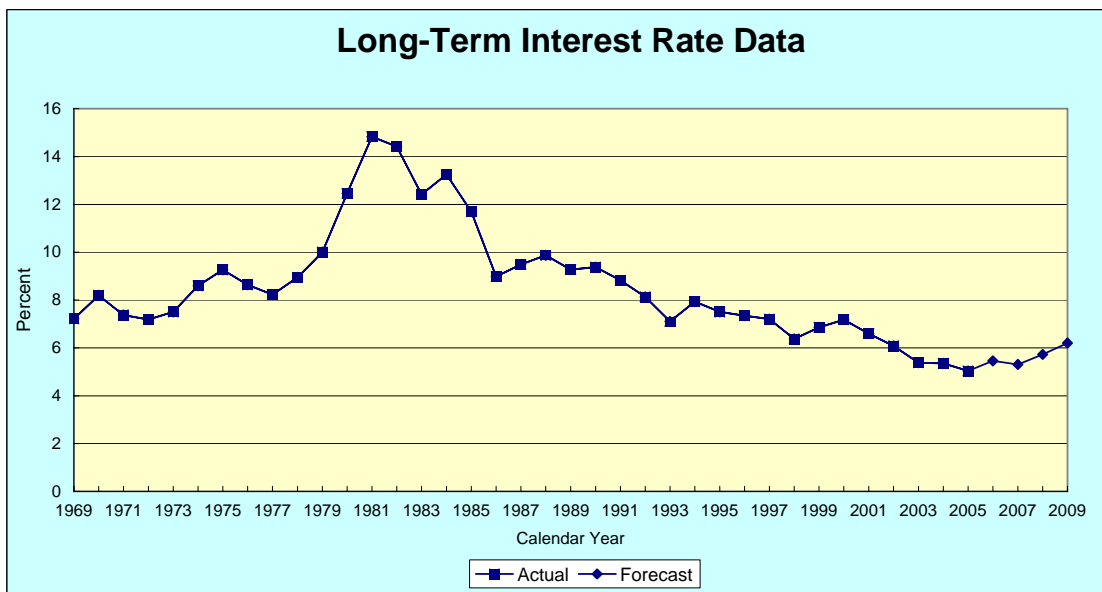
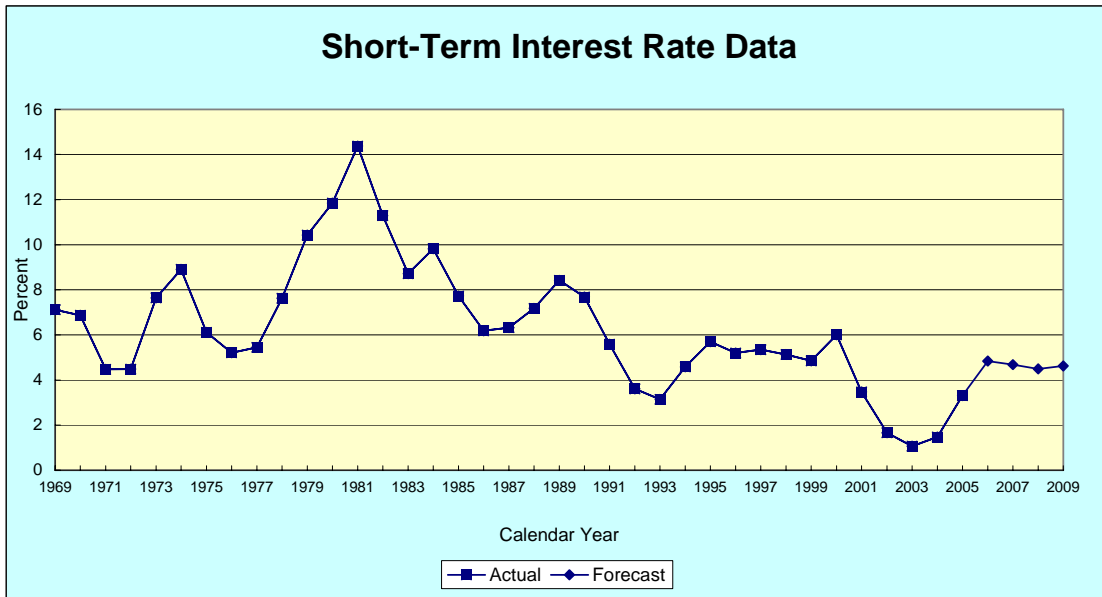
Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2006, the class 4 taxable value was 60.8 percent of the total property tax base, while class 8 was only 6.6 percent of the base.



## Interest Rates

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecasted rates are obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. Short-term rates are an average of 3 month Corporate paper and 3 and 6 month T-bills. The fiscal year computation of short-term interest rates reached an unprecedented low in 2004. However, as the economy began to regain strength in calendar year 2004, the Federal Reserve began increasing the discount rate. Global Insight projects short-term interest rates will remain stable at current rates through the 2009 biennium. Long-term rates are expected to increase through the 2009 biennium.



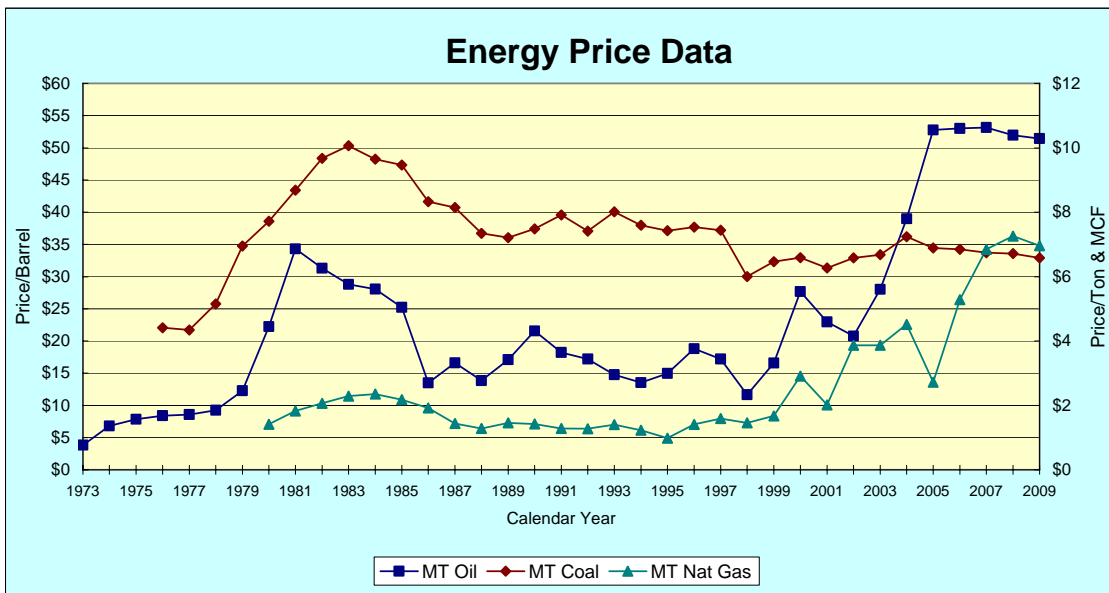
### Energy Prices and Consumption

West Texas Intermediate spot oil prices averaged \$26.11 per barrel in calendar 2002, rose to \$31.12 in calendar 2003, and averaged \$56.55 in calendar 2005. Global Insights forecasts WTI oil prices to increase to \$67.00 in calendar 2006, and then drop to \$65.62 in calendar 2007. A further drop to \$64.75 and \$63.87 in calendar 2008 and 2009, respectively is anticipated. While Montana wellhead prices are considerably lower than the WTI price, Montana prices are expected to follow a similar trend.

Natural gas prices at the wellhead in the US averaged \$2.87 per million cubic feet in calendar 2002, rose to \$4.84 in calendar 2003, and averaged \$7.31 in calendar 2004. Global Insights is forecasting average Henry Hub natural gas prices at \$8.41 in calendar 2007, \$9.09 in calendar 2008, and \$8.81 in calendar 2009. While Montana wellhead prices are considerably lower than the Henry Hub price, Montana prices are expected to follow a similar trend.

After decades long reductions in oil production – from a peak in 1973 of 34 million barrels to a trough in 1999 of 15 million barrels – recent Montana production has increased. New drilling activity increased 75 percent in 2003, and has increased nearly the same amount in 2004. In calendar 2005, production was over 32 million barrels and will probably be near 35 million barrels in calendar 2006. Montana oil production is expected to be just over 38 million barrels in calendar 2007, just over 36 million barrels in calendar 2008 and to 32 million barrels in calendar 2009.

Natural gas production in Montana doubled between 1981 and 2003, from 40 million MCF to 80 million MCF, with 75 percent of that increase since 1997, in response to higher prices. Newly drilled wells have contributed around 20 percent to total production since calendar 2000. As in the oil market, new drilling activity was up substantially in calendar 2003 and 2004. Montana natural gas production is expected to be 107 million MCF in calendar 2006, 107 million MCF in calendar 2007, 104 million MCF in calendar 2008, and 100 million in calendar 2009.



**Legislative Fiscal Division**  
**General Fund Revenue Estimates**  
In Millions

Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$797.035	\$851.111	\$1,562.769	\$1,648.146	44.87%
2 Property Tax	10.40%	177.639	189.282	198.124	206.794	366.921	404.918	55.90%
3 Corporation Income Tax	9.00%	153.675	161.057	161.301	167.267	314.732	328.568	64.84%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.85%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.85%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.129	64.071	119.036	126.200	74.29%
7 Coal Trust Interest	1.82%	31.106	29.959	29.927	29.945	61.065	59.872	75.92%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.58%
9 All Other Revenue	1.87%	31.867	31.542	30.877	31.550	63.409	62.427	79.28%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.49%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.65%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.23%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.40%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.41%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.224	101.288	178.804	202.512	90.92%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.201	9.394	31.808	18.595	91.43%
17 Public Institution Reimbursements	0.75%	12.728	11.451	12.742	12.810	24.179	25.552	92.12%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.79%
19 Coal Severance Tax	0.56%	9.597	9.813	10.114	9.688	19.410	19.802	93.33%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.15%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	95.97%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.34%
23 Lottery Profits	0.53%	9.110	8.345	8.838	9.414	17.455	18.252	96.84%
24 Liquor Profits	0.44%	7.450	7.593	8.047	8.515	15.043	16.562	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.60%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.60%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.86%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.82%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
<b>Total General Fund</b>	<b>100.00%</b>	<b><u>\$1,708.166</u></b>	<b><u>\$1,762.355</u></b>	<b><u>\$1,797.764</u></b>	<b><u>\$1,875.209</u></b>	<b><u>\$3,470.521</u></b>	<b><u>\$3,672.973</u></b>	<b>100.00%</b>

**Legislative Fiscal Division**  
**Non-General Fund Revenue Estimates**  
In Millions

Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Diesel Tax	19.22%	\$70.595	\$74.285	\$78.147	\$82.210	\$144.880	\$160.357	21.12%
2 Federal Forest Receipts	3.49%	12.800	13.006	13.148	13.282	25.806	26.430	24.61%
3 Gasoline Tax	36.81%	135.192	135.742	136.295	136.850	270.934	273.145	60.59%
4 GVW and Other Fees	7.87%	28.916	28.693	28.497	28.982	57.609	57.479	68.16%
5 Resource Indemnity Tax	0.40%	1.456	1.307	1.335	1.290	2.763	2.625	68.50%
6 Arts Trust Interest	0.12%	0.447	0.483	0.496	0.510	0.930	1.006	68.64%
7 Capital Land Grant Interest and Income	0.43%	1.590	1.184	1.457	1.470	2.774	2.927	69.02%
8 Deaf & Blind Interest and Income	0.08%	0.291	0.284	0.286	0.287	0.575	0.573	69.10%
9 Parks Trust Interest	0.26%	0.972	0.983	1.009	1.036	1.955	2.045	69.37%
10 Pine Hills Interest and Income	0.11%	0.397	0.387	0.389	0.391	0.784	0.780	69.47%
11 RIT Trust Interest	1.61%	5.916	5.645	5.646	5.658	11.561	11.304	70.96%
12 TSE Trust Interest	2.19%	8.039	8.434	8.950	9.489	16.473	18.439	73.39%
13 Economic Development Trust	0.33%	1.194	1.455	1.716	1.982	2.649	3.698	73.88%
14 Tobacco Trust Interest	0.92%	3.388	3.939	4.567	5.413	7.327	9.980	75.19%
15 Regional Water Trust Interest	0.42%	1.527	1.823	2.082	2.348	3.350	4.430	75.77%
16 Property Tax: 6 Mill	3.25%	11.952	12.505	12.971	13.359	24.457	26.330	79.24%
17 Common School Interest and Income	22.49%	<u>82.606</u>	<u>76.238</u>	<u>79.498</u>	<u>78.076</u>	<u>158.844</u>	<u>157.574</u>	100.00%
<b>Total Non-General Fund</b>	<b>100.00%</b>	<b>\$367.275</b>	<b>\$366.393</b>	<b>\$376.489</b>	<b>\$382.633</b>	<b>\$733.668</b>	<b>\$759.122</b>	<b>100.00%</b>

## How To Use This Report

The following report is arranged into seven main revenue sections. Each section contains revenue sources that share common characteristics, have many of the same assumptions, and have common estimating methodologies. The committee's time can be more efficiently used by considering those sources by section due to their commonalities. The eight main sections are:

1. Business Taxes
2. Natural Resource Taxes
3. Interest Earnings
4. Consumption
5. Property Taxes
6. Other General Fund Revenue
7. Comparison to Executive
8. Appendix

The sections are marked by tabbed divider pages that list each revenue source within that section. The sources are arranged alphabetically within each section. Section 7 includes a comparison between the LFD revenue estimates and those of the executive.

The report contains profiles of each revenue source estimated by the RTIC. Thirteen categories of information are provided for each source. These categories and a short description of each follow:

**Revenue Description:** A brief description of the source is provided including the origin of the revenue and, in the case of taxes and fees, the item that is taxed.

**Statutory Reference:** These are the citations from the Montana Code Annotated (MCA) applicable to the revenue source and include citations for the tax rate, the distribution, and when the tax is due.

**Applicable Tax Rate(s):** This section provides an explanation of the tax rate or license fee, more detail on the items that are taxed, and other information such as exemptions, minimums, initial versus annual fees, etc.

**Distribution:** This section shows how the revenue is distributed. In cases where uses or entities other than general fund receive a portion of the revenue, percentage distribution or the dollar amount is shown for each recipient. Also included in this section is a flow chart illustrating a simplified diagram of how the revenue received from the source is distributed in the state accounting system.

**Collection Frequency:** Timing of the revenue deposited in the state treasury may affect the revenue estimate. Most revenue is usually received on a quarterly or monthly basis.

**% of Total FY 2006 General Fund Revenue:** To give the reader an idea of the size of a particular revenue source, its percentage of total fiscal 2006 general fund revenue.

**Revenue Estimate Methodology:** A general description of the revenue estimating methods and philosophy of the LFD is provided followed by a more detailed explanation of the methodology used to derive assumptions for the revenue source. Legislative impacts that have not been reflected in the tax base or the methodology are included. Methods differ between sources and may change each biennium depending on circumstances.

**Forecast Methodology:** This section includes a flow chart illustrating a simplified diagram of the methodology used to determine the revenue estimates.



**Revenue Estimate Assumptions:** In most cases, the data provided in these tables can be used in the formulas shown in the “Forecast Methodology” to derive the revenue estimate. The tables also show the revenue estimates for fiscal years 2005, 2006, and 2007, the estimated general fund amount, and, if applicable, distributions to other funds or uses.

**Revenue Projection:** This section consists of a graph and accompanying data table. The line graph shows the amount of actual collections and the projected amounts for fiscal years 2007, 2008, and 2009. Total collections are depicted by a dark line while general fund collections are shown by a lighter line. The data table contains historic information about this data source since 1985 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal 2007, 2008, and 2009; and 4) the yearly percentage change in general fund.

**Data Source(s):** The various state agencies, federal agencies, companies, information systems, publications, fiscal notes, etc., that were consulted or reviewed in the estimation process are listed.

**Contacts:** The reader may contact these entities for more information about the revenue source.

The remaining portion of this document is the LFD revenue estimates by revenue source.



# LEGISLATIVE FISCAL DIVISION

## Revenue Estimate Recommendations

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