

Revenue Estimate Recommendations

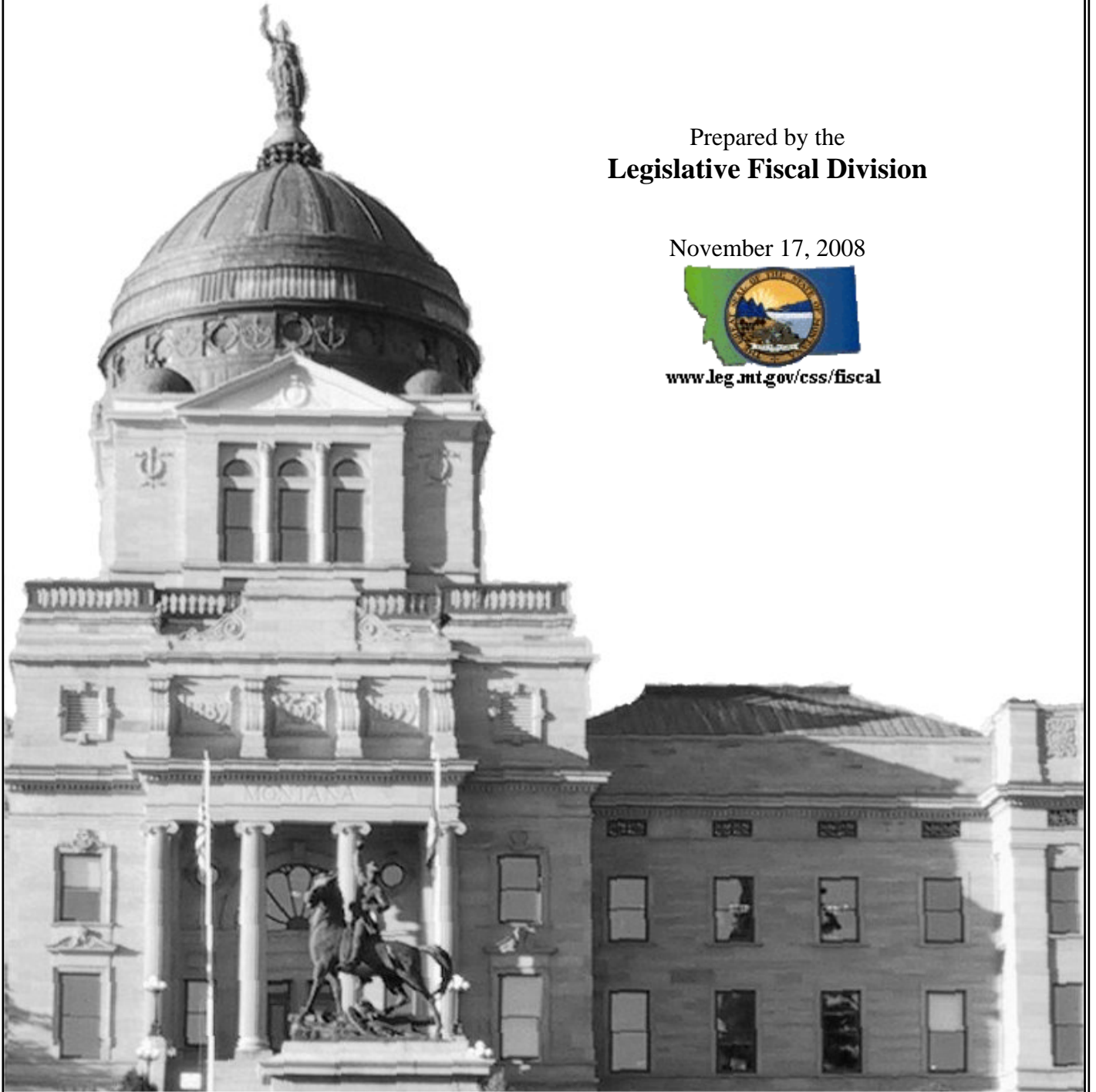
Fiscal Years 2009, 2010, and 2011

Prepared by the
Legislative Fiscal Division

November 17, 2008



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MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Legislative Fiscal Analyst
CLAYTON SCHENCK

November 12, 2008

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 periods 2009, 2010, and 2011. I am providing this information in advance of the November 17th 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 2011 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 2009 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 interim committee in performing its revenue estimating duties...”.

The purpose of this report is to document the LFD recommendations regarding anticipated revenues for fiscal 2009 through 2011. 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. Beginning in fiscal 2004, general fund revenues began a period of unprecedented growth increasing by 9.4 percent annually from fiscal 2003 to fiscal 2008.

The three income sources primarily responsible for Montana’s revenue reversal were 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 rent, royalty, and partnership income; and a higher capital gains base in 2004, 2005, 2006, and 2007. 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 increased 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 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

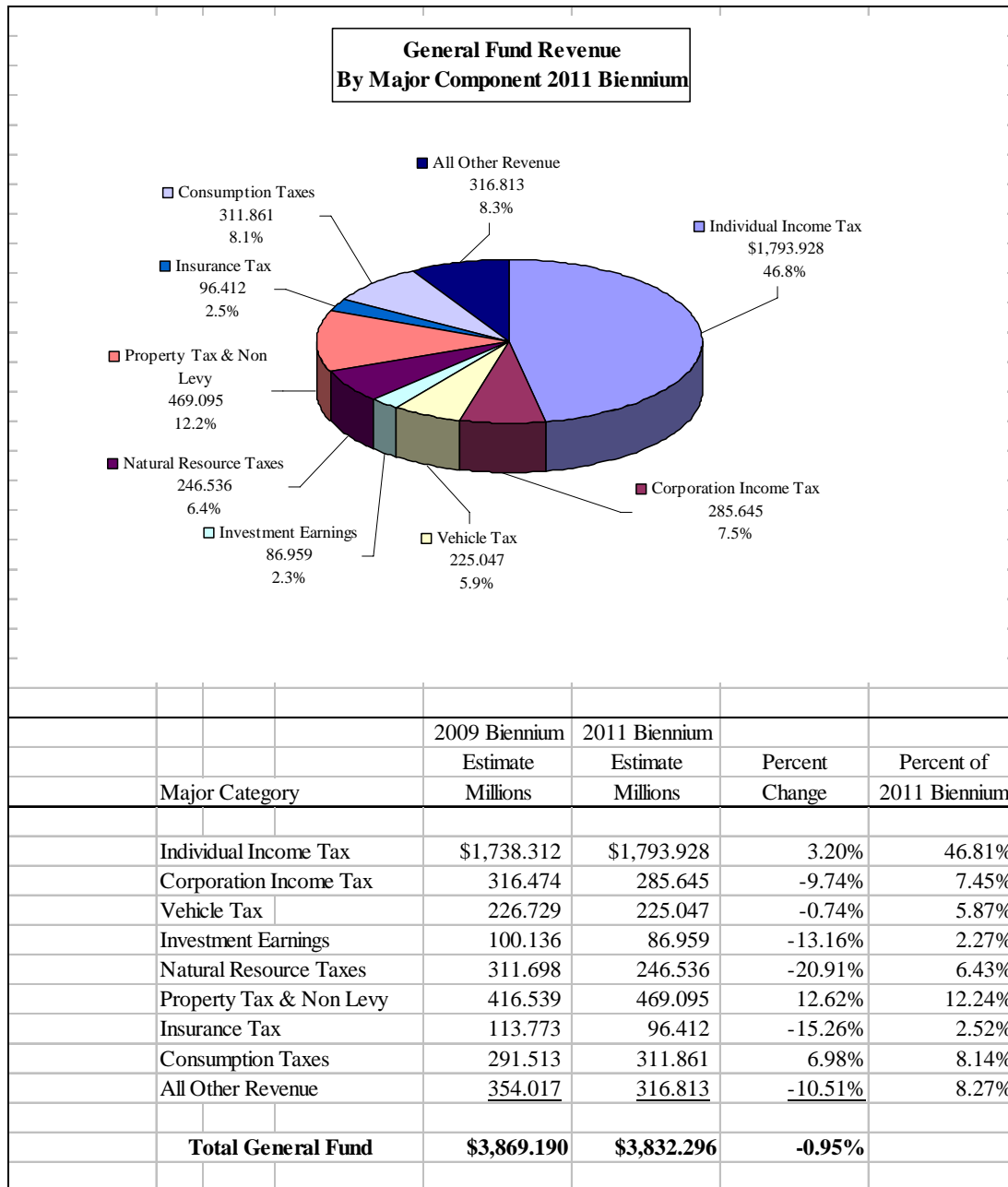
supplies. Because oil and natural gas production tax rates are based on the value of the commodity, higher prices have caused a surge in revenues from this source. Additionally, higher prices have stimulated new drilling activity for both commodities.

The legislature faces a significantly different financial picture than just two years ago. Total general fund revenues have increased substantially during the fiscal periods 2004 through 2008. Greater revenues combined with disbursement budgets as adopted by the 60th Legislature have produced a fund balance larger than anticipated for fiscal 2008. The ending fund balance for fiscal 2009, however, is expected to decline from the fiscal 2008 level as estimated revenues are expected to decline due to the U.S. and world economic conditions. Even with declining revenues, the 61st Legislature should have sufficient funds available to fund a present law budget. The 61st Legislature should carefully craft the 2011 biennium budget and be cognizant of the potential downside risks associated with the current economic climate. At this time, it is unclear how wage growth, capital gains income, corporate profitability, and energy prices may change in the future. The 61st Legislature should not build a general fund budget that is greater than a sustainable revenue base for the 2011 biennium as well as the 2013 biennium.

General Fund Revenue Implications

Montana's fiscal outlook for revenue growth is less 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.

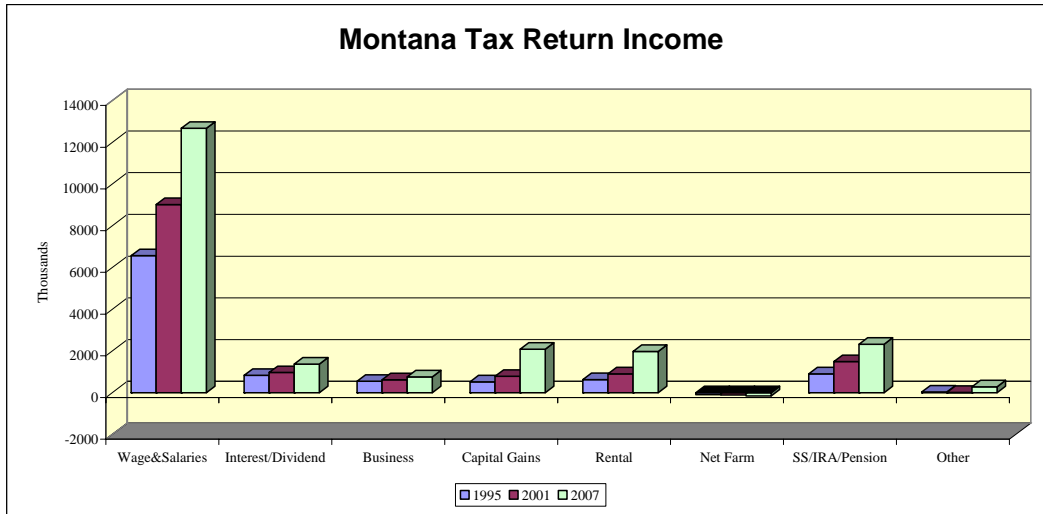
As shown in the following figure, individual income tax, corporation income tax, property tax, vehicle tax, and natural resource taxes are expected to contribute almost 79 percent to the total general fund revenue stream during the 2011 biennium. Total general fund revenues for the 2011 biennium are projected to decrease 0.95 percent over the 2009 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.



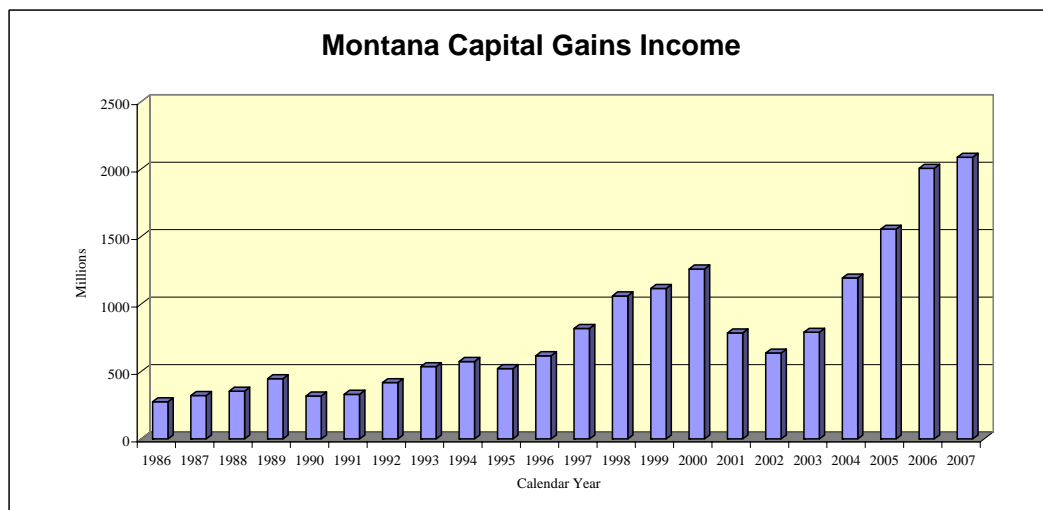
The next section of the report highlights the significant economic assumptions used by the LFD to develop the revenue estimate recommendations contained in this document. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast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

Montana Total Income

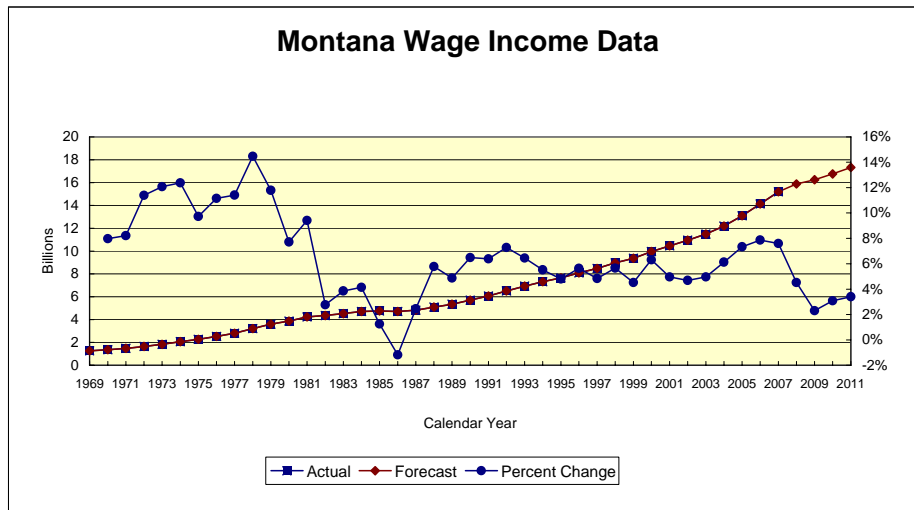
The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA 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 64.1 percent of total income. In calendar 2007, it contributed 59.4 percent, or \$12.7 billion. The average compounded growth from calendar 1990 to 2007 has been 5.6 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 2007, capital gains income was \$ 2,089 million and increased to nearly 9.9 percent of total income.



In 2002 capital gains income fell by \$622.3 million from the 2000 level, but rebounded in calendar 2003 through 2007. Capital gains are projected to decline between 2008 and 2011.



Montana Wages

The average annual growth in Montana Wages and Salaries has been 5.9 percent between 1991 and 2007. Wage growth exceeding this average occurred in the early nineties and again in the last four years, 2004-2007. In both these periods inflation was relatively high, i.e. greater than 2.5 percent, and employment growth was relatively high.

The forecast for inflation for calendar years 2008 through 2011 is as provided by Global Insight in the November issue of forecasts. Inflation for 2008 is forecast to be at 4.0 percent and then turn negative in 2009, to negative 0.9 percent as the national and world economies slow down and perhaps enter a recession. Inflation is expected to increase to 2.4 percent in 2010 and 3.0 percent in 2011.

The growth in wages for calendar 2008 through 2011 is provided by Global Insight in their October Montana-specific report. In calendar 2005 through 2007, wages on average grew at an historically high rate of around 7.5 percent. For 2008 growth of only 4.5 percent is expected, dropping to 2.3 percent in 2009, and rising somewhat to 3.1 percent in 2010 and 3.4 percent in 2011.

Employment is also expected to slow down in 2008 through 2011. Employment growth since 2003 has been between 2.2 percent and 3 percent. Forecasts from Global Insight for Montana employment have Montana's employment growth at 1.2 percent for 2008, negative 0.6 percent for 2009, 0.9 percent for 2010 and 1.3 percent for 2011. Negative growth in employment is expected in almost all sectors in 2009 except in education and health services.

All sectors are expected to rebound somewhat in 2010 and 2011 as the national economy comes out the 2008 and 2009 slowdown.

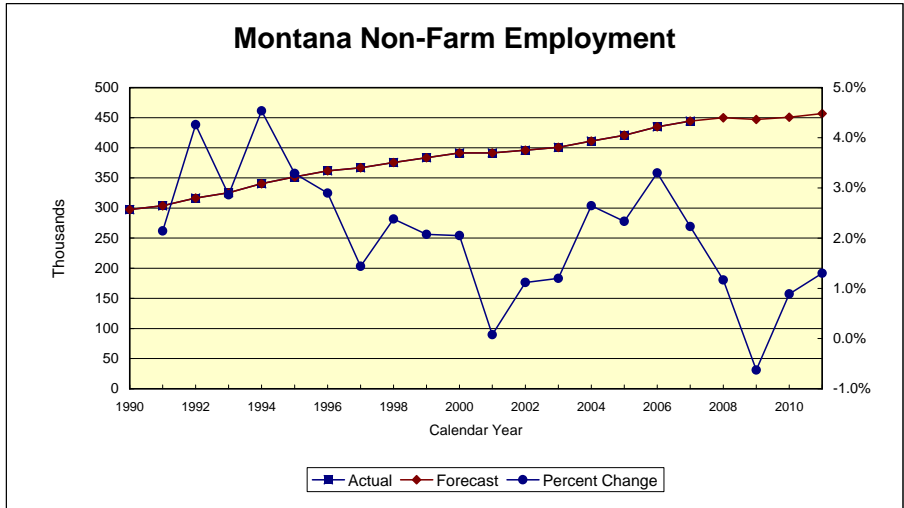
Growth in real wages per worker, defined as wages per worker adjusted for inflation, was low in the early nineties but has been above the 1991-2007 average of 0.6 percent growth since 1997. Because of the assumptions on growth in wages, employment, and inflation for 2008 and 2009, it is expected that wages per worker adjusted for inflation will turn negative in 2008, 2010 and 2011, a situation that has not been seen since the early nineties. Growth in real wages per worker is expected to be positive in fiscal 2009 because inflation is expected to be negative.

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%	1.7%	5.0%
A	2004	2.7%	2.5%	0.9%	6.1%
A	2005	2.2%	3.0%	1.9%	7.3%
A	2006	3.4%	3.3%	1.0%	7.9%
A	2007	2.2%	2.7%	2.5%	7.6%
F	2008	1.2%	4.0%	-0.6%	4.5%
F	2009	-0.6%	-0.9%	3.9%	2.3%
F	2010	0.9%	2.4%	-0.2%	3.1%
F	2011	1.3%	3.0%	-0.9%	3.4%

Montana Employment

Average annual growth in total employment between 1990 and 2007 has been 2.6 percent, although since 2000 the average rate of growth has been 1.4 percent. It is expected that employment growth through 2006 will be 2.0 percent and grow by about 1.2 percent in calendar 2008. 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), and 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.

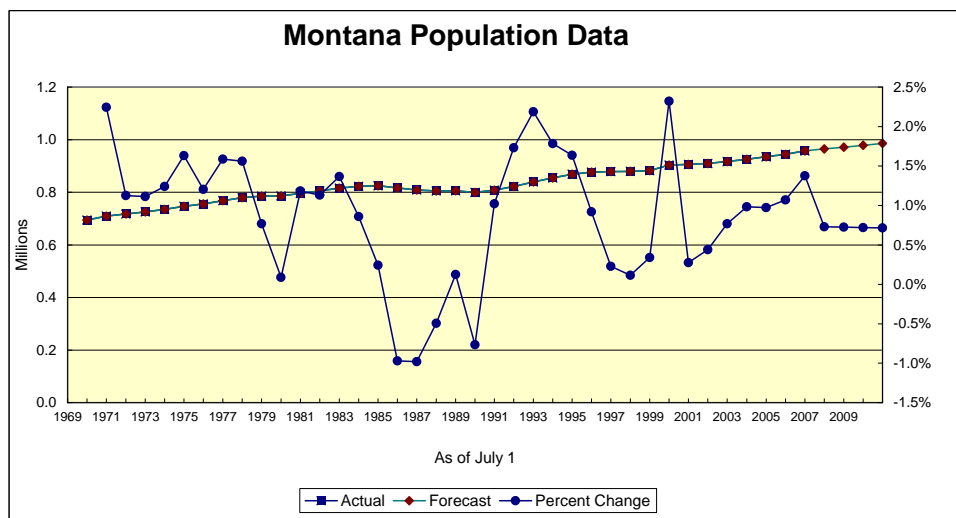
Employment is expected to decline in calendar 2009 by 0.6 percent and then increase moderately in calendar 2010 and 2011 by 0.9 and 1.3 percent, respectively.



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.

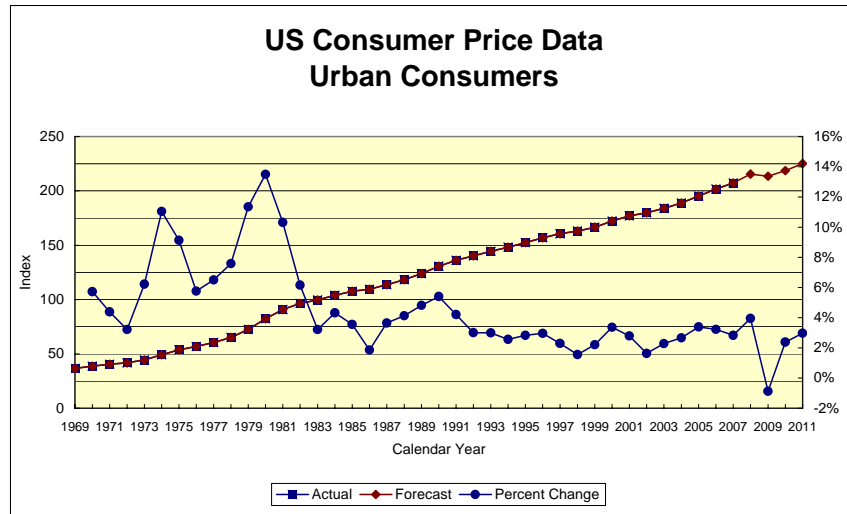


Inflation Rates

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.

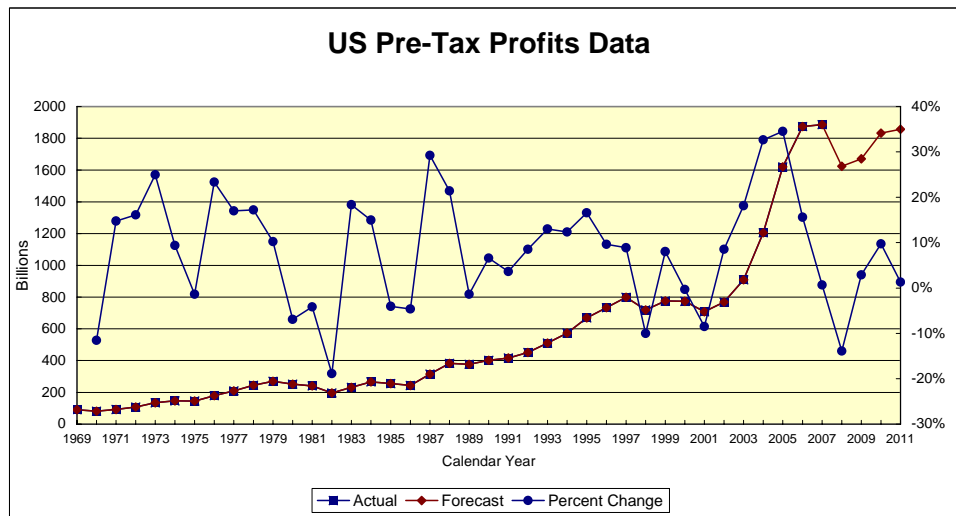
Since Montana’s individual income tax structure is fully indexed by changes in the consumer price index, this assumption is

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 2.8 percent. Global Insight forecasts inflation at 4.0 percent for calendar 2008, a negative 0.9 percent for calendar 2009, and 2.4 and 2.9 for calendar 2010 and 2011, respectively.



Corporate Profits

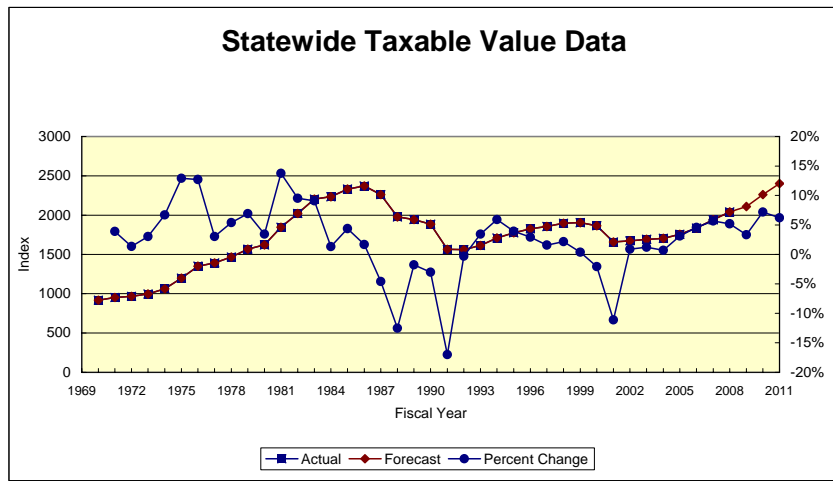
The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. 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 8.5 percent occurring in 2001. In 2004 and 2005, corporate profitability increased by 32.7 percent and 34.5 percent respectively. That trend is not expected to continue, however, as Global Insight is estimating profits to decline by 13.9 percent in calendar 2009 and then grow moderately at 5.4 percent annually through 2011.



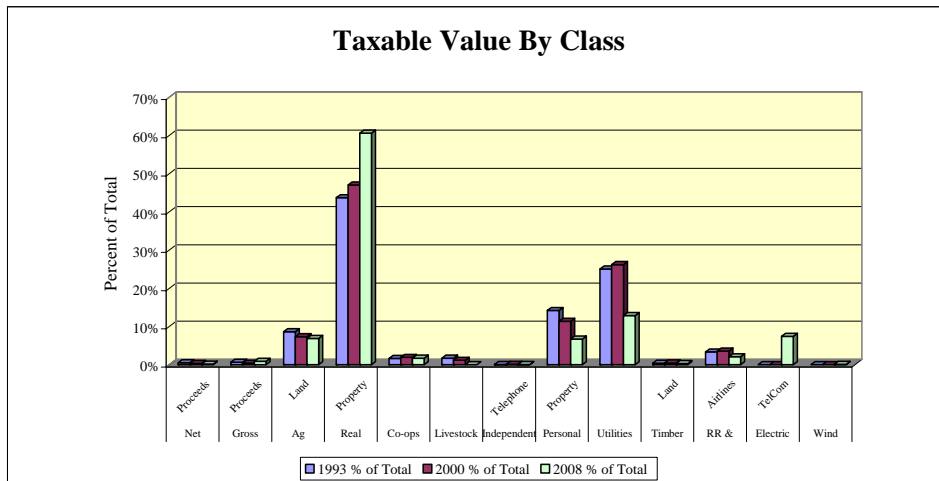
Property Values

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 not expected to continue through the next biennium because of the effects of the statewide reappraisal cycle. Taxable values are expected to increase at an annual average of 6.7 percent.



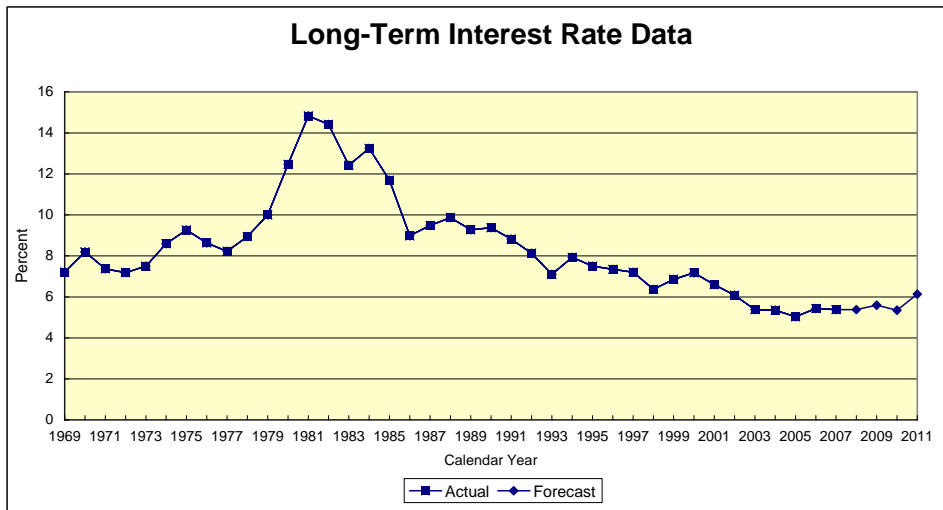
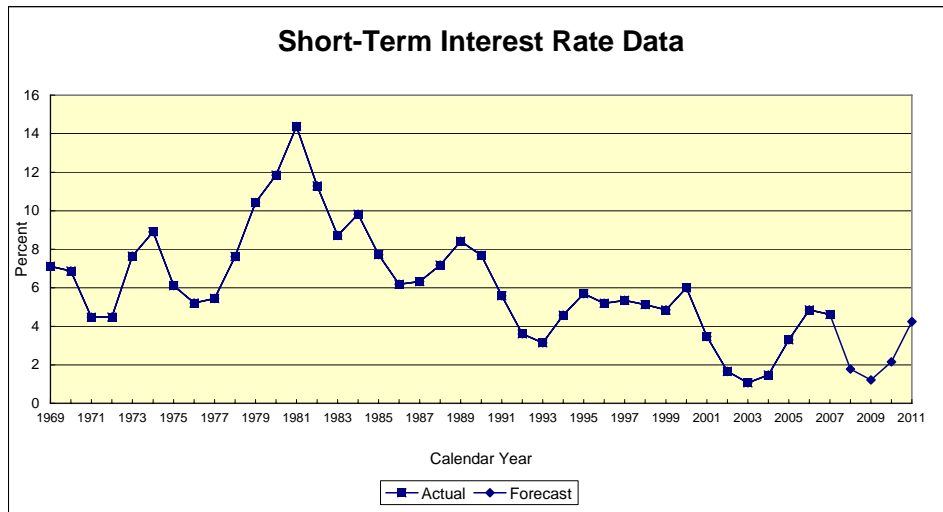
Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2008, the class 4 taxable value was 60.6 percent of the total property tax base, while class 8 was only 6.8 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 forecaste 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 decline sharply to about 1.0 percent and then rebound to 3.2 percent by fiscal 2009. Long-term rates are expected to remain stable through the 2011 biennium with a modest increase by fiscal 2011.



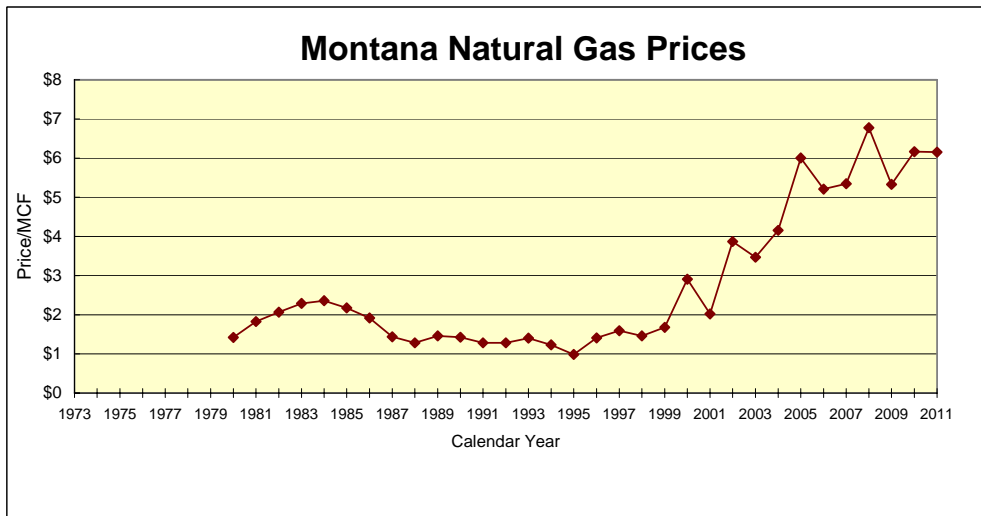
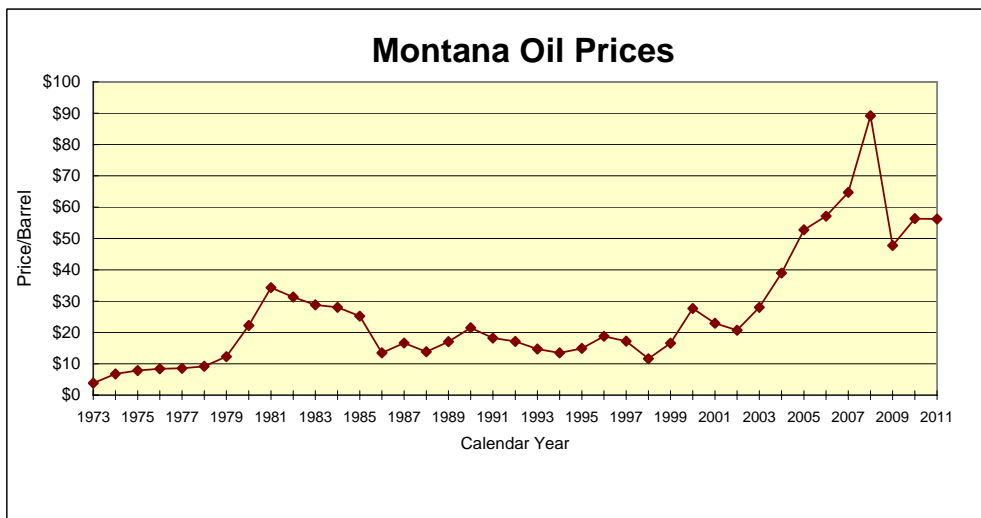
Energy Prices and Consumption

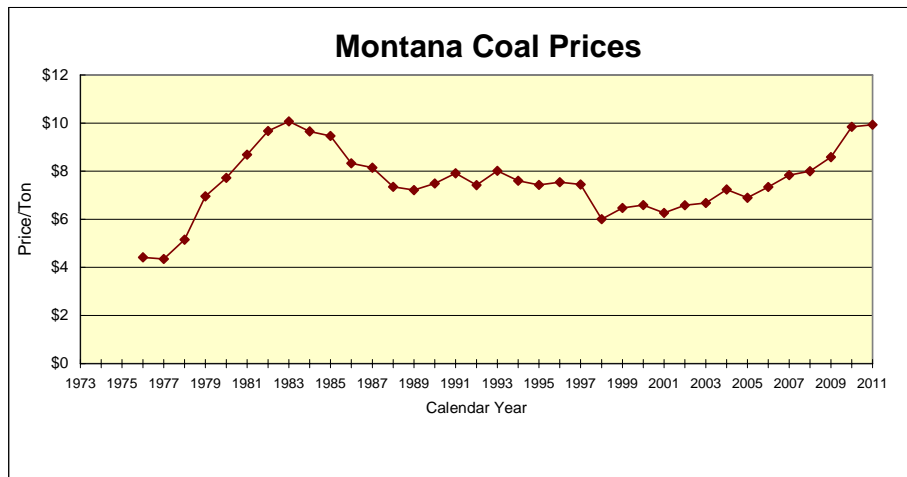
West Texas Intermediate (WTI) spot oil prices averaged \$25.96 per barrel in calendar 2001 and increased every year through 2007. Global Insight forecasts WTI oil prices to increase to \$101.36 in calendar 2008, and then drop to \$52.75 in calendar 2009. WTI prices are expected to increase to \$61.75 and \$65.00 per barrel for calendar 2010 and 2011, respectively. 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 \$4.00 per MCF in calendar 2001 and have increased to \$6.22 by calendar 2007. Global Insight is forecasting average well head natural gas prices at \$7.81 in calendar 2008, \$6.45 in calendar 2009, \$7.49 in calendar 2010, and \$7.76 in calendar 2016. While Montana wellhead prices are usually lower than the US average well head price, Montana prices are expected to follow a similar trend.

After a period of decline 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 increased nearly the same amount in 2004. In calendar 2006, production was over 36 million barrels and is estimated to be near 34 million barrels in calendar 2008. Montana oil production is expected to decline further to 33 million barrels in calendar 2009, 31 million barrels in calendar 2010, and to 28 million barrels in calendar 2011.

Natural gas production in Montana almost tripled between 1981 and 2007, from 40 million MCF to 119 million MCF. 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 122 million MCF in calendar 2008, 123 million MCF in calendar 2009, 124 million MCF in calendar 2009, 124 million MCF in calendar 2010, and 120 million MCF in calendar 2011.





Legislative Fiscal Division General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2008	Actual Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 2010	Estimated Fiscal 2011	Estimated Fiscal 08-09	Estimated Fiscal 10-11	Cumulative % of Total
1 Individual Income Tax	44.36%	\$866.659	\$871.653	\$884.934	\$908.994	\$1,738.312	\$1,793.928	46.81%
2 Property Tax	10.50%	205.044	211.495	228.173	240.922	416.539	469.095	59.05%
3 Corporation Income Tax	8.21%	160.342	156.132	136.293	149.352	316.474	285.645	66.50%
4 Vehicle Tax	4.79%	93.493	95.014	93.748	91.559	188.507	185.307	71.34%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	71.34%
6 Insurance Tax & License Fees	3.28%	64.004	49.769	47.144	49.268	113.773	96.412	73.86%
7 Coal Trust Interest	1.48%	28.855	29.392	28.787	28.606	58.247	57.393	75.35%
8 US Mineral Royalty	1.86%	36.389	28.259	31.518	32.505	64.648	64.023	77.02%
9 All Other Revenue	1.97%	38.434	65.749	32.816	33.575	104.183	66.391	78.76%
10 Tobacco Settlement	0.19%	3.808	3.962	4.013	4.077	7.770	8.090	78.97%
11 Telecommunications Excise Tax	1.14%	22.350	21.614	21.701	21.798	43.964	43.499	80.10%
12 Video Gambling Tax	3.23%	63.134	66.554	69.003	71.973	129.688	140.976	83.78%
13 Treasury Cash Account Interest	1.58%	30.783	11.107	10.185	19.381	41.890	29.566	84.55%
14 Estate Tax	0.01%	0.122	0.113	0.029	0.005	0.235	0.034	84.55%
15 Oil & Natural Gas Production Tax	7.68%	149.994	116.771	100.066	105.177	266.765	205.243	89.91%
16 Motor Vehicle Fee	0.97%	18.995	19.227	19.969	19.771	38.222	39.740	90.95%
17 Public Institution Reimbursements	0.78%	15.335	13.658	14.412	14.675	28.993	29.087	91.71%
18 Lodging Facility Use Tax	0.69%	13.390	13.339	13.796	14.382	26.729	28.178	92.44%
19 Coal Severance Tax	0.61%	11.894	12.410	12.183	12.959	24.304	25.142	93.10%
20 Liquor Excise & License Tax	0.76%	14.925	15.845	16.717	17.859	30.770	34.576	94.00%
21 Cigarette Tax	1.84%	36.004	36.373	36.720	37.082	72.377	73.802	95.92%
22 Investment License Fee	0.33%	6.514	6.127	6.210	6.825	12.641	13.035	96.27%
23 Lottery Profits	0.56%	11.029	10.516	11.309	12.022	21.545	23.331	96.87%
24 Liquor Profits	0.45%	8.775	8.894	9.197	9.682	17.669	18.879	97.37%
25 Nursing Facilities Fee	0.29%	5.610	5.318	5.213	5.109	10.928	10.322	97.64%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.64%
27 Electrical Energy Tax	0.27%	5.179	4.707	4.717	4.727	9.886	9.444	97.88%
28 Metalliferous Mines Tax	0.55%	10.774	9.854	8.085	8.066	20.628	16.151	98.30%
29 Highway Patrol Fines	0.21%	4.049	4.052	4.055	4.058	8.101	8.113	98.52%
30 Public Contractors Tax	0.26%	5.063	4.058	4.322	4.357	9.121	8.679	98.74%
31 Wholesale Energy Tax	0.20%	3.856	3.870	3.931	3.993	7.726	7.924	98.95%
32 Tobacco Tax	0.24%	4.699	4.710	4.768	4.837	9.409	9.605	99.20%
33 Driver's License Fee	0.20%	3.866	4.667	3.920	4.739	8.533	8.659	99.43%
34 Rental Car Sales Tax	0.16%	3.157	3.173	3.282	3.422	6.330	6.704	99.60%
35 Railroad Car Tax	0.11%	2.064	2.166	2.295	2.336	4.230	4.631	99.72%
36 Wine Tax	0.09%	1.829	1.942	2.043	2.146	3.771	4.189	99.83%
37 Beer Tax	0.16%	3.124	3.160	3.221	3.282	6.284	6.503	100.00%
38 Telephone License Tax	0.00%	-	-	-	-	-	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	\$1,953.540	\$1,915.651	\$1,878.775	\$1,953.521	\$3,869.190	\$3,832.296	100.00%

Legislative Fiscal Division
Non-General Fund Revenue Estimates
In Millions

Source of Revenue	Percent of 2008	Actual Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 2010	Estimated Fiscal 2011	Estimated Fiscal 08-09	Estimated Fiscal 10-11	Cumulative % of Total
1 Diesel Tax	19.87%	\$74.302	\$67.750	\$68.721	\$69.692	\$142.052	\$138.413	19.33%
2 Federal Forest Receipts	3.48%	13.028	26.953	24.258	21.832	39.981	46.090	25.76%
3 Gasoline Tax	35.08%	131.147	123.278	122.634	121.990	254.425	244.624	59.92%
4 GVW and Other Fees	8.09%	30.238	30.727	31.192	31.672	60.965	62.864	68.70%
5 Resource Indemnity Tax	0.52%	1.926	1.987	2.019	2.587	3.913	4.606	69.34%
6 Arts Trust Interest	0.16%	0.584	0.634	0.650	0.671	1.218	1.321	69.53%
7 Capital Land Grant Interest and Income	0.26%	0.983	0.898	0.966	0.617	1.881	1.583	69.75%
8 Deaf & Blind Interest and Income	0.09%	0.334	0.334	0.338	0.347	0.668	0.685	69.85%
9 Parks Trust Interest	0.27%	1.025	1.053	1.085	1.122	2.078	2.207	70.15%
10 Pine Hills Interest and Income	0.12%	0.435	0.443	0.451	0.465	0.878	0.916	70.28%
11 RIT Trust Interest	1.55%	5.801	5.582	5.584	5.594	11.383	11.178	71.84%
12 TSE Trust Interest	2.46%	9.194	9.339	9.989	10.938	18.533	20.927	74.76%
13 Economic Development Trust	0.48%	1.801	2.117	2.431	2.830	3.918	5.261	75.50%
14 Tobacco Trust Interest	1.22%	4.546	5.299	6.121	6.987	9.845	13.108	77.33%
15 Regional Water Trust Interest	0.58%	2.175	2.369	2.690	3.136	4.544	5.826	78.14%
16 Property Tax: 6 Mill	3.56%	13.313	13.658	14.927	15.742	26.971	30.669	82.43%
17 Common School Interest and Income	22.21%	83.026	88.354	70.091	55.764	171.380	125.855	100.00%
Total Non-General Fund	100.00%	\$373.856	\$380.775	\$364.147	\$351.986	\$754.631	\$716.133	100.00%

How to Use This Report

The following report is arranged into six main revenue sections and a comparison section. 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 main sections of the report 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

The sections are marked by tabed 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 LFD staff. Fifteen 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 explains 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 discussed. This section contains a simplified 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 General Fund Revenue: To give the reader an idea of the importance of a particular revenue source, its percentage of total general fund revenue for FY 2004 - FY 2008 is included.

Revenue Estimate Methodology: A general description of the revenue estimating methods is provided followed by a more detailed explanation of the methodology used to derive assumptions for the revenue source. Methods differ between sources and may change each biennium depending on circumstances. Specific information on the type and source of the data used, analytical techniques, and any adjustments are also provided. Charts are included to show major assumptions.

Forecast Methodology: This section includes a simplified 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 at the bottom of the tables in the “Forecast Methodology” to derive the revenue estimate. The tables 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 from FY 1987 and the projected amounts for fiscal years 2009, 2010, and 2011. 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 1987 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal 2009, 2010, and 2011; 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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