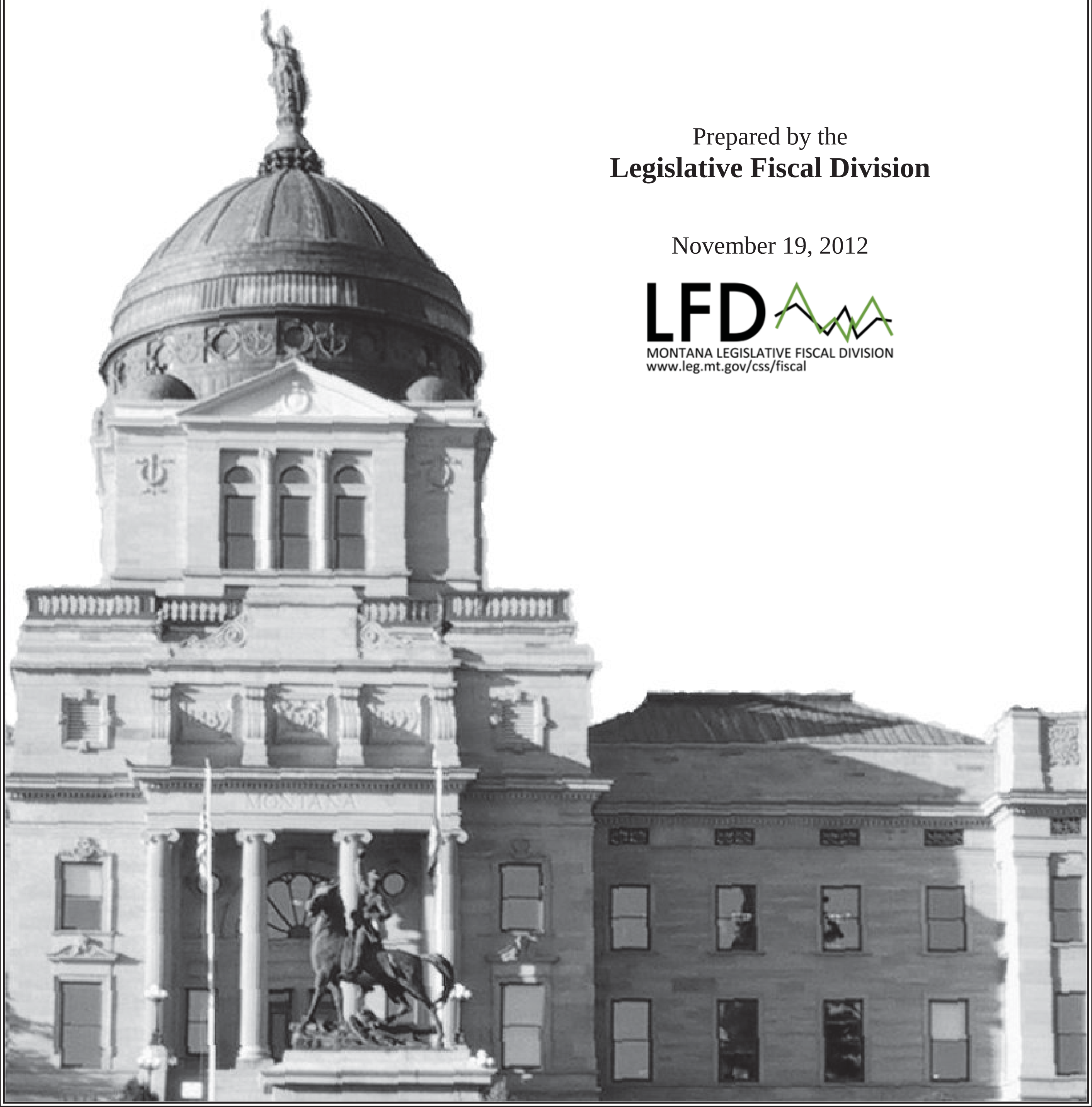
Revenue Estimate Recommendations

Fiscal Years ***2013, 2014,*** *and* ***2015***



Prepared by the
Legislative Fiscal Division

November 19, 2012

LFD
MONTANA LEGISLATIVE FISCAL DIVISION
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Legislative Fiscal Analyst
Amy Carlson

November 16, 2012

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

In accordance with the provisions of Section 5-12-302, MCA, I am submitting electronically the Legislative Fiscal Division revenue estimate recommendations for the fiscal years 2013, 2014, and 2015. I am providing this information in advance of the November 19th 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 2015 biennium.

A paper copy of this report will be provided during the committee 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 2013 legislative session. My staff and I look forward to assisting in this task.

Respectfully submitted,

Amy Carlson
Legislative Fiscal Analyst

Attachments

Purpose of the Report

As delineated in Section 5-5-227(2)(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 5-12-302(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 FY 2013 through 2015. 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 state government, like any other business, is influenced by economic and demographic developments. For example, Montana's economic base and the strength of the U.S. economy determines the level of revenues collected from personal income and corporate license 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.

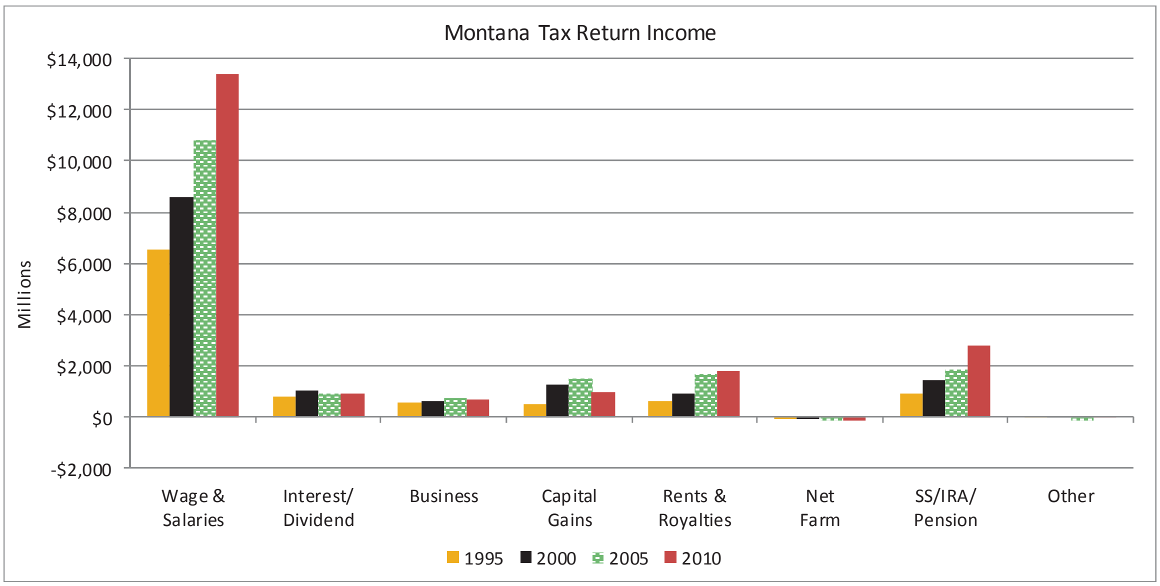
Montana's total expenditure base is targeted toward educational and human service programs with a significant allocation to highway construction. Education and human service costs are driven by some of the same economic and demographic conditions that influence state revenues. If employment levels increase, 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 20 years, Montana has experienced a wide variety 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 a significant increase in the equity markets and resulting growth in capital gains income. In 2001, the national economy went through a brief recession, which negatively impacted Montana's revenue stream by the same factors that had earlier created extraordinary growth. Beginning in FY 2004, general fund revenues began a period of unprecedented growth increasing by 9.4% annually from FY 2003 to FY 2008. At the beginning of FY 2008, the U.S. economy again slid into recession, led by the sub-prime mortgage crisis. Due to the high price of commodities, Montana's economy initially seemed unlikely to experience the same level of economic downturn; however, by FY 2009, it was apparent that general fund revenues were declining. Total general fund revenues declined 7.5% in FY 2009 and 10.0% in FY 2010. Similar to the anemic national growth following the "Great Recession," Montana general fund revenues have increased at 9.6% in FY 2011 and 5.0% in FY 2012.

The three income sources primarily responsible for Montana's revenue volatility are individual income tax, corporation income tax, and oil and natural gas production taxes. Individual income tax experienced increased growth from federal tax reform, and the housing and commodity bubbles; this led to increases in wage growth (especially in real wage growth per worker); higher rent, royalty, and partnership income; and higher capital gains income from 2004 through 2008. 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% beginning January 1, 2005. The capital gains credit increased to 2% on January 1, 2007. Conversely, it was the decline of housing and commodity prices, as well as the drop in the stock market, that produced sharply lower revenues in FY 2009-2010. The corporation income tax revenues rebounded as Montana corporations have recovered from the recession of 2001 and the effects of September 11, 2001; the revenues retracted as Montana started to feel the effects of the more recent recession. Although the natural resource boom in Montana increased corporate profitability for energy companies and its residual industries, the declining level of production will continue to negatively impact the industry.

Key Risks to Economic Assumptions

Income – As the unemployment rate increases or stabilizes, Montana wage and salary income may decline or increase only modestly. Since the taxes paid on wage and salary income is the largest component of individual income tax revenue (Montana's largest general fund revenue source), even a minimal decline in wage and salary income could have a negative impact on general fund revenue. The graph below shows the importance of wage and salary income compared to the other components of income.



Interest Rates – The federal funds rate set by the Federal Reserve is currently at historical lows. This rate cannot get much lower and may increase if inflation shows signs of life. Low interest rates are a double-edged sword in which low rates may stimulate economic activity which potentially increases wage and salary and business income. On the other hand, Montana's earnings from trust funds and excess investable cash decrease fairly quickly at reduced interest rates. Investment income reported for income tax purposes also declines, although this impact can be delayed.

Corporate Profits - In light of the current federal "fiscal cliff" issue, a significant risk to corporate profitability exists that could reduce corporation license tax receipts in the near term as well as the long term. Net operating loss (NOL) carry back provisions provided in 15-31-119, MCA occurs when deductions exceed gross income. If for any taxable period a net operating loss is sustained, the loss must first be accounted for as a carry back to each of the three taxable periods proceeding the taxable period of the loss. If the NOL deductions cannot be fully deducted from the prior years, the remaining deductions may be carried forward to each of the five taxable periods following the taxable period of the loss. Typically, the NOL can be fully deducted through the three period carry back. The loss is deducted against taxes that have usually been paid prior to the period of the loss and refunds are issued for the paid taxes. This situation makes the impact of corporate NOL's on total fiscal year collections appear even greater than they may have been because much of the effect is realized in the current fiscal year.

Energy Prices – If the global economic recovery continues to be gradual or even slows, the demand for energy commodities, primarily oil and natural gas, may be slow to recover. A current example is the retraction in oil prices and the continued weak price for natural gas. If a “double dip” recession were to occur because of the federal “fiscal cliff” reduced prices could prevail until an economic recovery occurs at a later date. Low energy prices could hamper further natural resource exploration and development efforts and would result in less revenue to state accounts.

Equities – The equity markets can play havoc on state general fund revenues. A significant portion of non-labor income is derived from net capital gains and interest and dividend income. Just because the equity markets are increasing does not necessarily mean state revenue will corresponding increase. In order for a gain to materialize, investors need to sell equities at a higher price than they paid for them. Conversely, investors may sell equities at a loss thereby offsetting other types of income. Losses can be carried forward at $3,000 per year until the loss is liquidated.

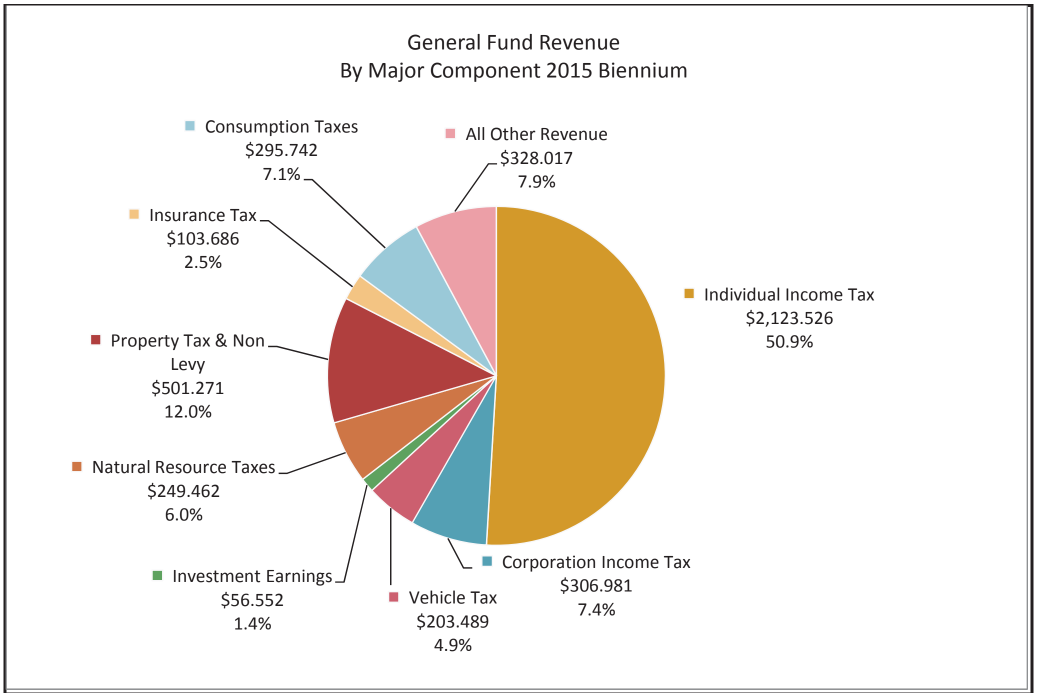
Federal “Fiscal Cliff” – Federal fiscal policy could impact state general fund revenues and force the legislature to decide whether to supplant loss federal funds or reduce state services. At this time, Congress has not taken any action on the expiration of the Economic Growth and Tax Relief Reconciliation Act of 2001, and the Jobs Growth Tax Relief and Reconciliation act of 2003 tax reductions, nor has it dealt with the automatic reductions in federal spending. Without Congressional action, the tax reductions will expire on January 1, 2011 and significant spending cuts with be implemented. Many economists have warned that no Congressional action will translate to a significant economic downturn. The current retreat in the equities market suggests that the U.S. and other countries are quite concerned about this issue. The current general fund estimates are based on the termination of the tax reductions but without the corresponding spending reductions.

Major revenue source contributors to the state general fund (and interrelated state special funds) are experiencing significant improvements from the FY 2009 and FY 2010 levels. These improvements began in FY 2011 and are expected to continue through FY 2015. Montana’s revenue recovery has been strong while the nation’s economic recovery has been slow. This disparity is highly correlated to Montana’s natural resource industry and the positive impacts of the developments in Eastern Montana.

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 natural resource taxes are expected to contribute 81% to the total general fund revenue stream during the 2015 biennium. Total general fund revenues for the 2015 biennium are projected to increase 8.0% over the 2013 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.

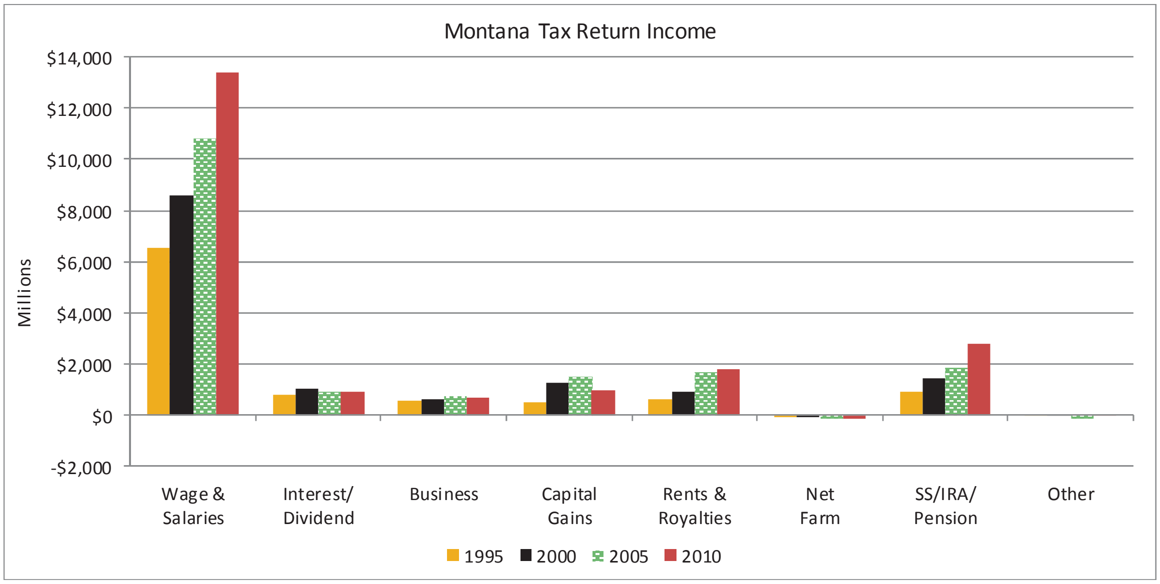


Major Category	2013 Biennium Estimate Millions	2015 Biennium Estimate Millions	Percent Change	Percent of 2015 Biennium
Individual Income Tax	$1,882.518	$2,123.526	12.8%	50.9%
Corporation Income Tax	276.929	$306.981	10.9%	7.4%
Vehicle Tax	200.655	$203.489	1.4%	4.9%
Investment Earnings	55.842	$56.552	1.3%	1.4%
Natural Resource Taxes	241.942	$249.462	3.1%	6.0%
Property Tax & Non Levy	478.403	$501.271	4.8%	12.0%
Insurance Tax	118.038	$103.686	-12.2%	2.5%
Consumption Taxes	278.465	$295.742	6.2%	7.1%
All Other Revenue	326.915	$328.017	0.3%	7.9%
Total General Fund	**$3,859.708**	**$4,168.726**	**8.0%**	

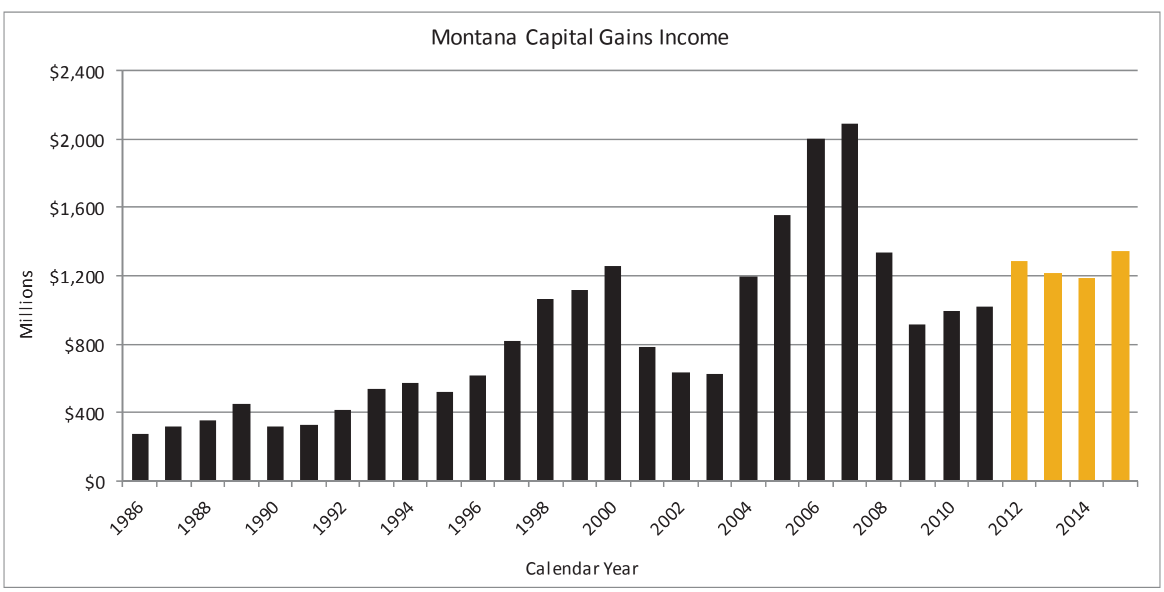
The next section of the report highlights the significant economic assumptions used by the LFD to develop the revenue estimate recommendations contained in this document. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast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

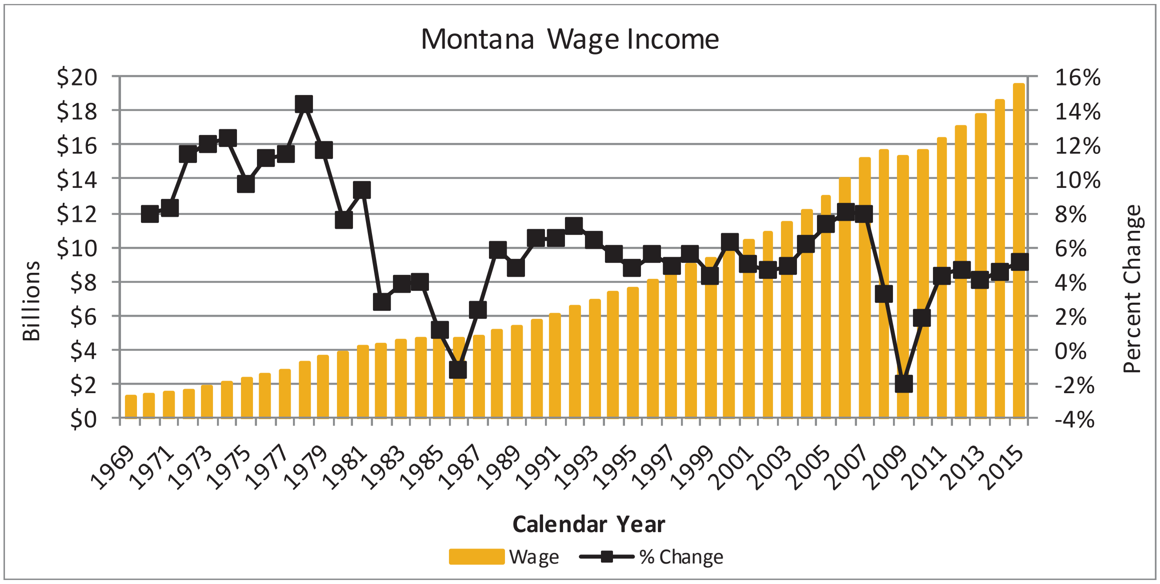
Montana Total Income

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 64.9% of total income. In 2011, it contributed 65.6%, or $14.0 billion. The average compounded growth from 1990 to 2011 is 5.0%.



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% of total income, with reported income of $318 million. Capital gains income grew moderately through the decade, when in 2001 a significant decline occurred, coinciding with the recession. Rapid growth followed in the later part of the 2000 decade, and by 2007 capital gains had grown to 9.7% of total income, with income at $2,088.6 million. However, in 2008, capital gains income was again influenced by a recession and declined by over 35%. In 2009, capital gains income declined by almost 32% reaching the amount of $912 million. Projections of IHS indicate that capital gains income will increase by 7.2% annually between 2012 and 2015.





Montana Wages

The average annual growth in Montana wages and salaries income is 5.1% between 1990 and 2011. Wage growth exceeding this average occurred in the early nineties and again in 2004-2007. In both of these periods inflation was relatively high, i.e. greater than 2.5%, and employment growth was relatively high. However, the growth of wages has declined sharply to rates of -2.1% and 1.8% in 2010 and 2011 respectively.

The following table displays the data considered in developing the forecast for the individual income tax. The Montana inflation forecast for 2012 through 2015, as provided by IHS in the November 2012 issue of forecasts, shows the rate of inflation remaining relatively low through the period of analysis. The state rate is expected to be 1.3% in 2013, 1.8% in 2014, and 1.6% in 2015.

The growth in wages between 2012 through 2015 is provided through the LFD wage and salary projections. From 2005 through 2007, wages on average grew at a rate of 7.6%. However in 2008 and 2009, wages grew at a rate of only 5.4% and -1.6% respectively. The state wages are expected to show moderate growth in the forecast period of 4.0% in 2013, 4.0% in 2014, and 4.5% in 2015.

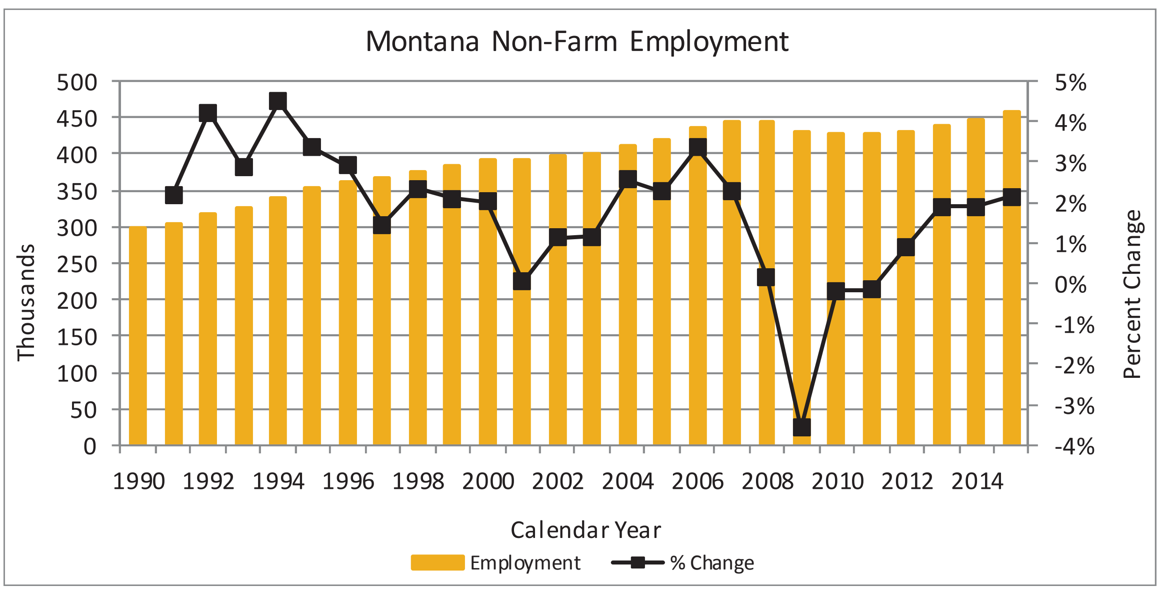
Employment growth is also expected to be modest in 2012 through 2015. Employment growth between 2003 and 2007 averaged 2.4%. However, in 2008 employment grew at only 0.2% and in 2009 it turned negative. Estimates for 2012 through 2015 project an average growth of 1.7% annually.

The average growth in real wages per worker, defined as wages per worker adjusted for inflation, since 1991 is 0.7%. Considering the assumptions on growth in wages, employment, and inflation, real wages are expected to increase slightly higher than average at around 1% through the forecast period.

Wage and Salary Income Growth				
CY	Employment Growth	State Inflation	Real Wage Per Worker	Wage Growth
1991	2.2%	4.7%	-0.4%	6.5%
1992	4.2%	3.1%	-0.2%	7.3%
1993	2.9%	3.0%	0.4%	6.4%
1994	4.5%	2.5%	-1.4%	5.6%
1995	3.4%	3.0%	-1.6%	4.8%
1996	2.9%	2.8%	-0.1%	5.6%
1997	1.5%	2.3%	1.1%	4.9%
1998	2.3%	1.7%	1.5%	5.6%
1999	2.1%	2.0%	0.2%	4.3%
2000	2.0%	3.7%	0.5%	6.4%
2001	0.0%	3.2%	1.7%	5.0%
2002	1.1%	1.1%	2.4%	4.6%
2003	1.2%	2.1%	1.5%	4.9%
2004	2.6%	3.3%	0.2%	6.1%
2005	2.3%	2.5%	2.3%	7.3%
2006	3.4%	4.3%	0.2%	8.0%
2007	2.3%	2.7%	2.8%	7.9%
2008	0.2%	5.0%	-1.8%	3.3%
2009	-3.6%	-1.4%	3.1%	-2.0%
2010	-0.2%	1.1%	0.9%	1.8%
2011	-0.2%	3.6%	0.9%	4.3%
2012	0.9%	1.7%	2.1%	4.7%
2013	1.9%	1.3%	0.8%	4.1%
2014	1.9%	1.8%	0.8%	4.6%
2015	2.1%	1.6%	1.3%	5.1%

Montana Employment

Average annual growth in total employment between 1990 and 2011 is 1.7%. It is expected that total non-farm employment growth through 2012 will be 0.9%, and continue to grow slowly in the forecast period with rates of 1.9% in 2013 and 2014, and 2.1% in 2015.

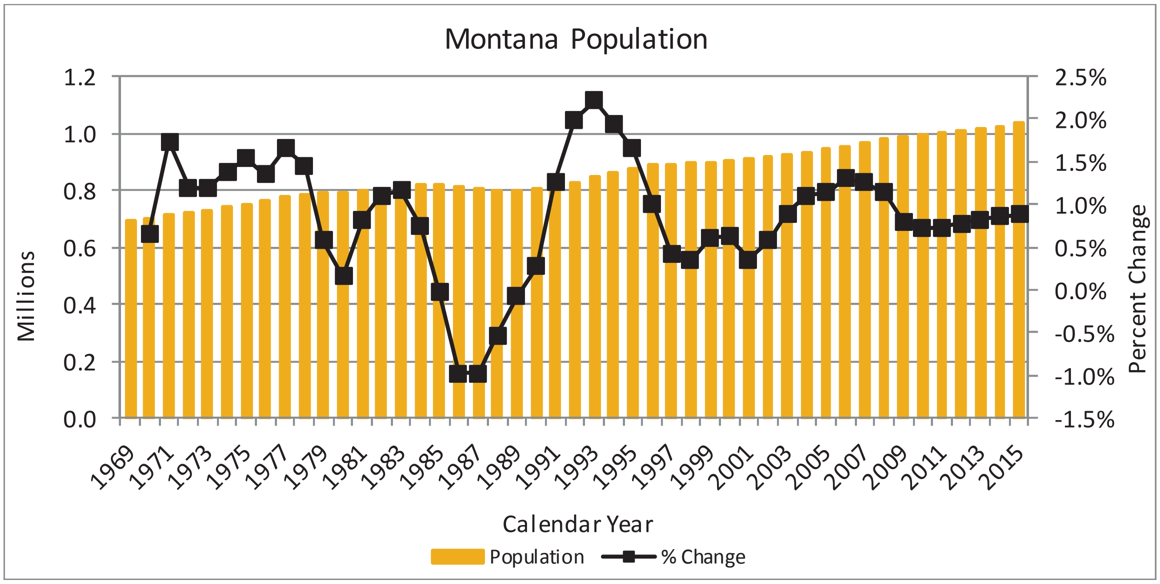


Montana Population

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.

Historic population data is gathered from the U.S. Census department while projections are obtained from IHS.

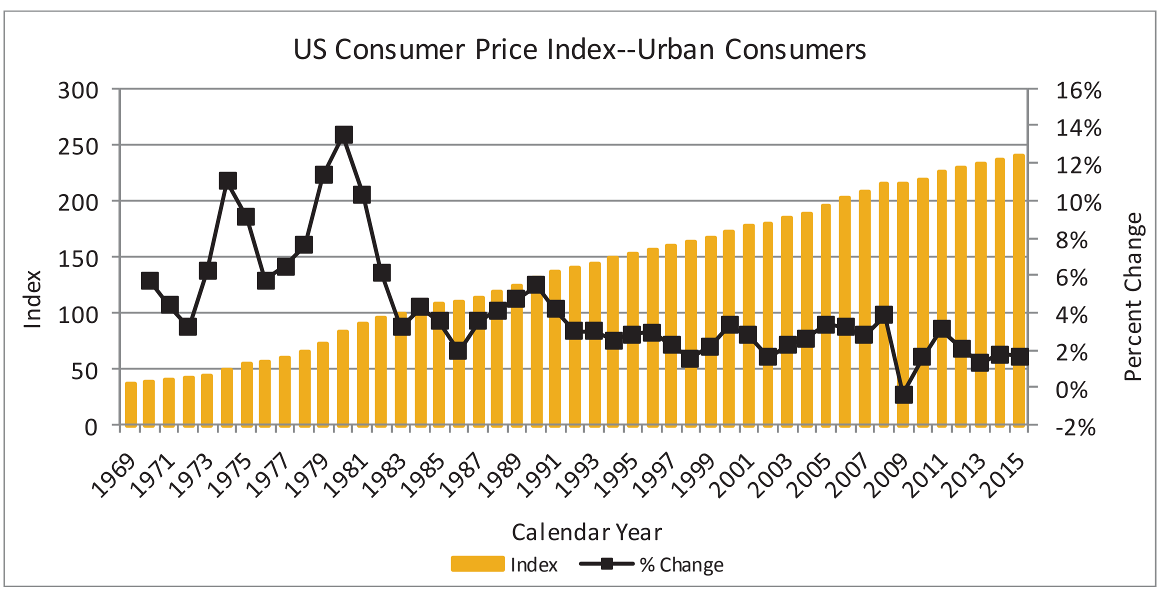
Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1% in 1998 to 2.3% in 1994. Growth in recent years has been slow, averaging 0.8% growth annually from 2007 to 2010. Growth through the next biennium is estimated at about 0.9% annually.



Inflation Rates

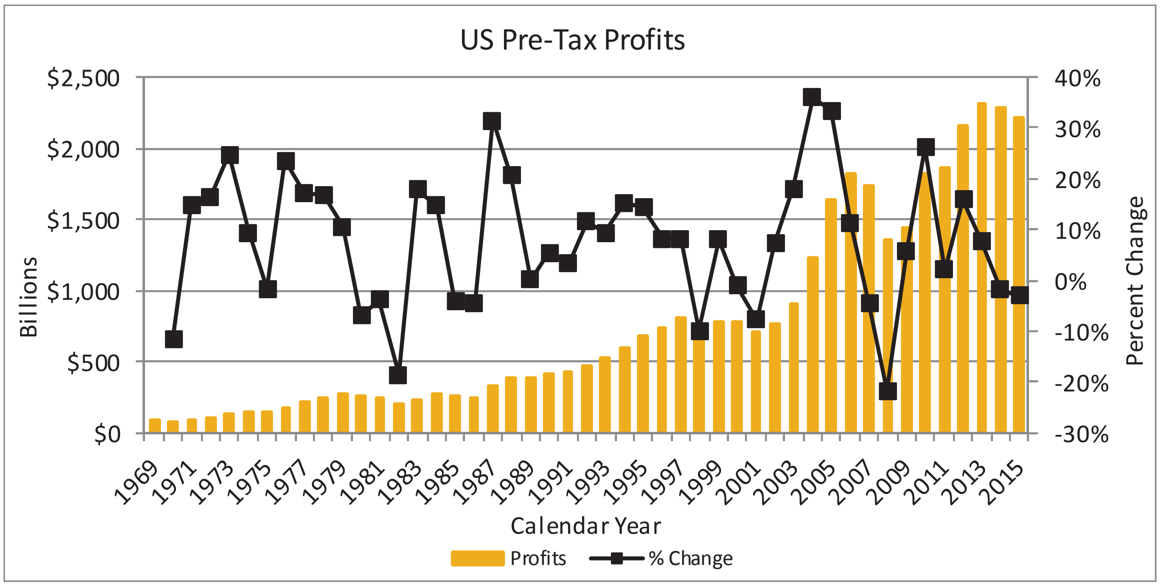
The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a 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 historical CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 2.6%. IHS forecasts inflation at 2.1% for 2012, 1.3% for 2013, 1.8% for 2014, and 1.7% in 2015.



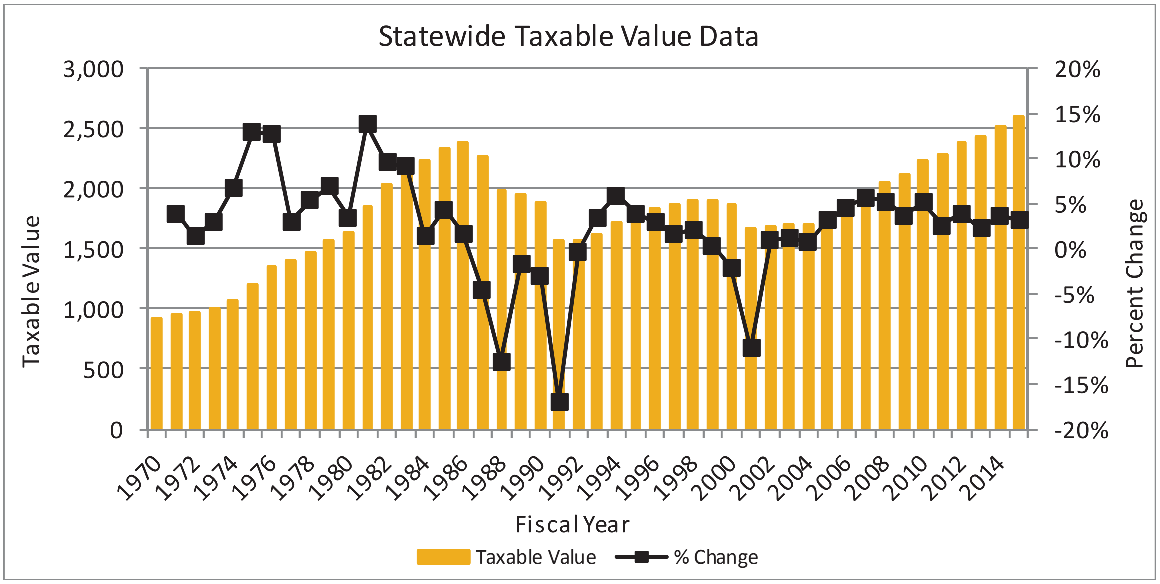
Corporate Profits

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 IHS, between 1990 and 1997, U.S. corporation pre-tax profits increased by an annual average of 10.3%. However, from 1997 through 2001, profits decreased by an average of 3.0%, the greatest decrease of 8.5% occurring in 2001. Between 2006 and 2011, corporate profitability grew an average annual rate of 0.3%. During the forecast period, corporation profits are expected to decline at an average rate of 2.4% annually.

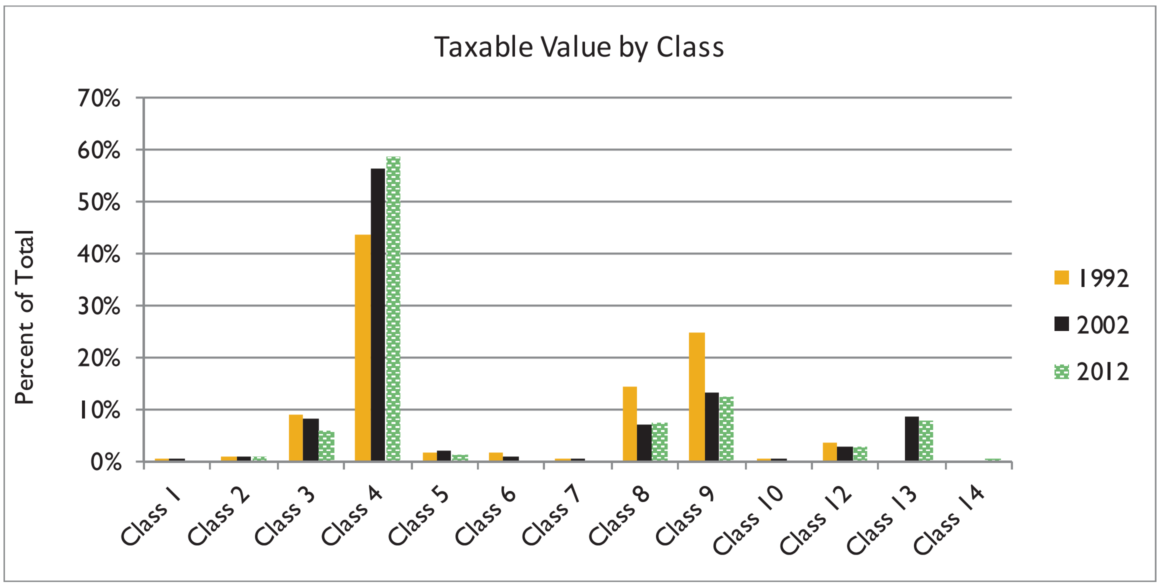


Property Values

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 FY 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. On January 1, 2009, new reappraisal values were placed on residential, commercial, agricultural land and timber land. The 2009 Legislature mitigated these increases by continuing to phase in assessed values and providing a schedule over the following six years by which tax rates are decreased and homestead and comstead exemptions are increased. Taxable values are expected to increase at an annual average of 3.0% between FY 2012 and FY 2015, compared with 4.5% per year between FY 2004 through FY 2010.



Significant changes have taken place in statewide property values since FY 1998. In that year, 48.0% of total statewide value was in class 4, residential and commercial property, and 11.5% of total value was in class 8, business equipment personal property. In FY 2012, the class 4 taxable value was 58.7% of the total property tax base, while class 8 was only 7.7% of the base.

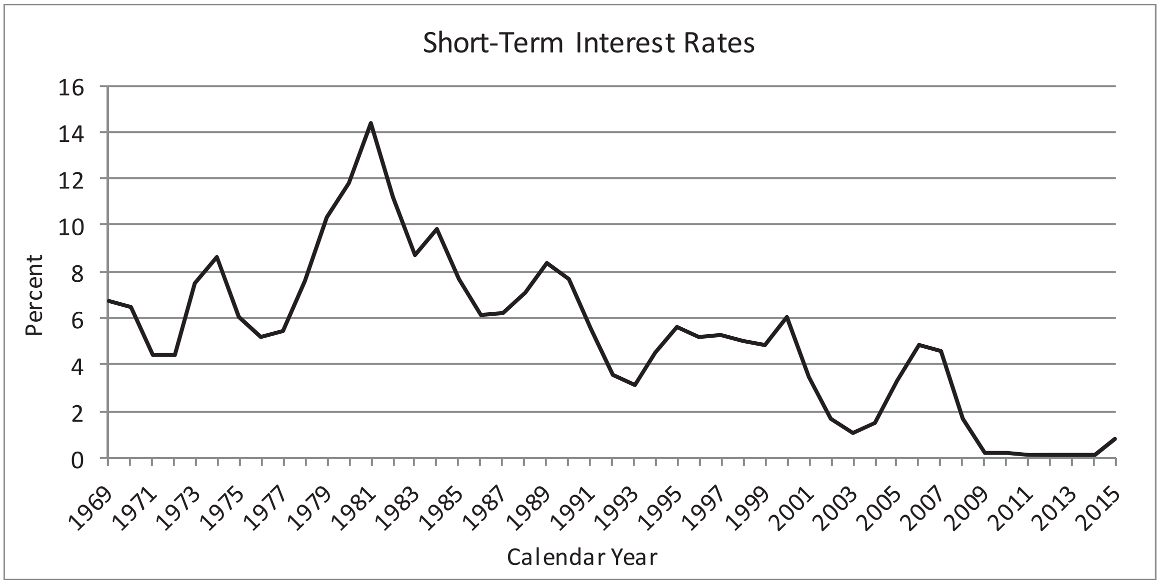


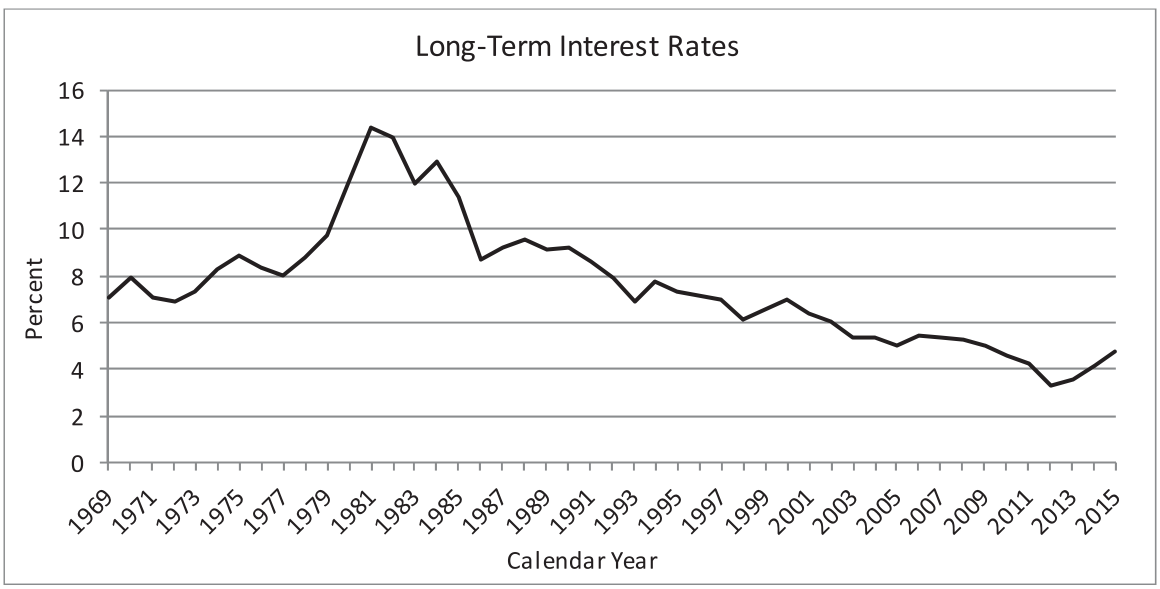
Interest Rates

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 forecast rates are obtained from IHS. Short-term rates are an average of 3-month corporate paper and 3 and 6-month T-bills. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. The fiscal year computation of short-term interest rates reached unprecedented low rate of 0.1% in 2011. The future short-term interest rates are expected to remain low at 0.1% in 2013, 0.2% in 2014, and 0.5% in 2015. Long-term rates are expected to be 3.5% in 2013, 3.9% in 2014, and 4.5% in 2015.





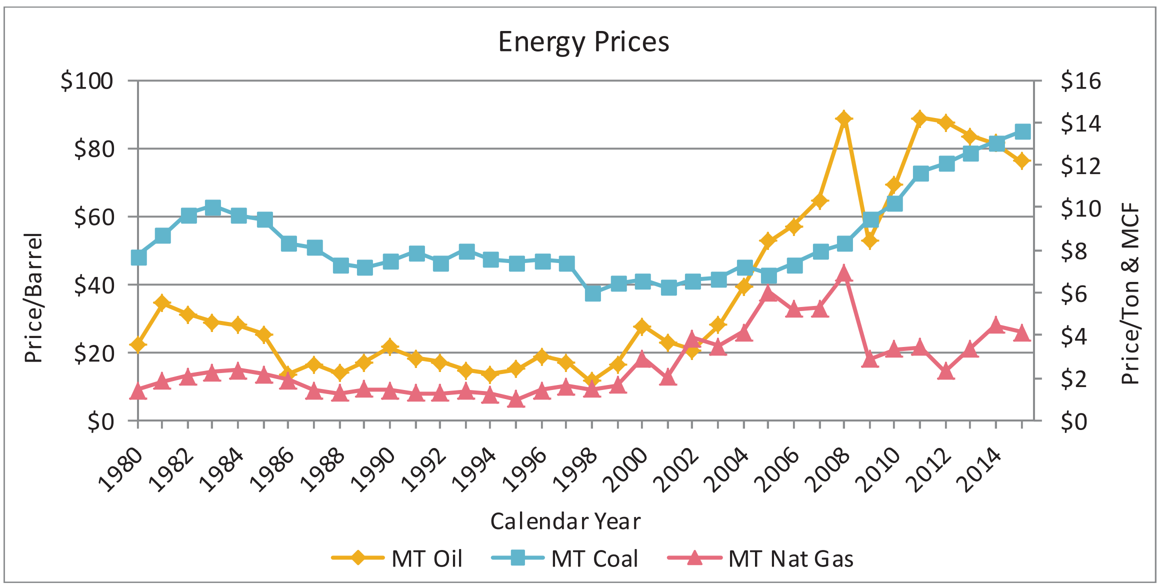
Energy Prices and Consumption

West Texas Intermediate (WTI) spot oil prices averaged $25.96 per barrel in 2001 and increased every year through 2008. In 2009, the WTI price dropped by 38.1% to $61.69 per barrel, and has subsequently increased to an estimated $93.88 per barrel in 2012. IHS forecasts WTI oil prices to be $89.45 in 2013, $87.22 in 2014, and $81.60 in 2015. Montana prices are expected to follow a similar trend.

Natural gas prices at the wellhead in the U.S. reached as high as $8.84 per MCF in 2008, but the prices have declined significantly since then. The average price in 2012 is expected to be $2.67 per MCF. IHS is forecasting average well head natural gas prices at $3.91 in 2013, $5.13 in 2014, and $4.78 in 2015. 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 1974 of 34 million barrels to a trough in 1999 of 15 million barrels, the discovery of new oil fields and advances in technologies increased oil production in Montana. New drilling activity increased 75% in 2003, and increased nearly the same amount in 2004. In 2006, the new production hit a peak, with production of over 36 million barrels. Since 2006, oil production has declined but has stabilized at about 6 million barrels per quarter since the first quarter of 2011. That trend is expected to change with a modest improvement in total production through 2015. Montana oil production is expected to increase at an annual rate of about 0.6 million barrels per year to 25.7 million barrels in 2013, 26.3 million barrels in 2014, and to 26.8 million barrels in 2015.

Natural gas production in Montana almost tripled between 1981 and 2007, from 40 million MCF to 119 million MCF. Production has increased around 70% since 2000. As in the oil market, new drilling activity was up substantially in 2003 and 2004, but production has started to drop and that trend is expected through 2015. Montana natural gas production is expected to be 75.6 million MCF in 2012, 68.4 million MCF in 2013, 61.5 million MCF in 2014, and 55.1 million MCF in 2015.



Legislative Fiscal Division
General Fund Revenue Estimates
In Millions

	Source of Revenue	Percent of 2012	Actual Fiscal 2012	Estimated Fiscal 2013	Estimated Fiscal 2014	Estimated Fiscal 2015	Estimated Fiscal 12-13	Estimated Fiscal 14-15	Cumulative % of Total
1	Individual Income Tax	48.04%	$898.851	$983.667	$1,031.320	$1,092.206	$1,882.518	$2,123.526	50.94%
2	Property Tax	12.65%	236.662	241.741	246.620	254.651	478.403	501.271	62.96%
3	Corporation License Tax	6.83%	127.771	149.158	152.832	154.149	276.929	306.981	70.33%
4	Vehicle Tax	4.48%	83.871	84.497	85.078	85.668	168.368	170.746	74.42%
5	Common School Interest and Income	0.00%	-	-	-	-	-	-	74.42%
6	Insurance Tax & License Fees	3.15%	58.951	59.087	50.817	52.869	118.038	103.686	76.91%
7	Coal Trust Interest	1.38%	25.840	24.455	24.431	24.498	50.295	48.929	78.08%
8	US Mineral Royalty	1.66%	31.057	34.286	29.368	27.645	65.343	57.013	79.45%
9	All Other Revenue	2.53%	47.258	32.536	32.373	32.644	79.794	65.017	81.01%
10	Tobacco Settlement	0.18%	3.322	3.552	3.519	3.486	6.874	7.005	81.18%
11	Telecommunications Excise Tax	1.15%	21.459	22.601	23.238	23.902	44.060	47.140	82.31%
12	Video Gambling Tax	2.88%	53.824	57.704	59.932	62.133	111.528	122.065	85.24%
13	Treasury Cash Account Interest	0.14%	2.654	2.894	2.533	5.090	5.548	7.623	85.42%
14	Estate Tax	0.00%	0.060	-	-	-	0.060	-	85.42%
15	Oil & Natural Gas Production Tax	5.21%	97.560	98.266	99.857	98.226	195.827	198.083	90.17%
16	Motor Vehicle Fee	0.86%	16.084	16.204	16.315	16.428	32.288	32.743	90.96%
17	Public Institution Reimbursements	0.78%	14.562	16.232	17.641	18.403	30.794	36.044	91.82%
18	Lodging Facility Use Tax	0.83%	15.606	17.309	18.356	19.467	32.915	37.823	92.73%
19	Coal Severance Tax	0.66%	12.350	12.851	14.842	15.903	25.201	30.745	93.47%
20	Liquor Excise & License Tax	0.91%	17.037	18.196	19.269	20.433	35.233	39.702	94.42%
21	Cigarette Tax	1.68%	31.483	30.680	29.844	28.847	62.163	58.691	95.83%
22	Investment License Fee	0.37%	6.961	7.204	7.440	7.689	14.165	15.129	96.19%
23	Lottery Profits	0.70%	13.061	14.563	14.518	15.283	27.624	29.801	96.91%
24	Liquor Profits	0.51%	9.500	10.606	10.988	11.601	20.106	22.589	97.45%
25	Nursing Facilities Fee	0.27%	5.077	4.876	4.740	4.603	9.953	9.343	97.67%
26	Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.67%
27	Electrical Energy Tax	0.24%	4.481	4.442	4.521	4.565	8.923	9.086	97.89%
28	Metalliferous Mines Tax	0.54%	10.010	10.904	10.595	10.039	20.914	20.634	98.39%
29	Highway Patrol Fines	0.23%	4.385	4.430	4.469	4.508	8.815	8.977	98.60%
30	Public Contractors Tax	-0.16%	(3.042)	1.140	3.259	3.259	(1.902)	6.518	98.76%
31	Wholesale Energy Tax	0.18%	3.427	4.038	4.140	4.217	7.465	8.357	98.96%
32	Tobacco Tax	0.31%	5.709	5.830	6.015	6.193	11.539	12.208	99.25%
33	Driver's License Fee	0.23%	4.369	3.873	4.394	3.930	8.242	8.324	99.45%
34	Rental Car Sales Tax	0.18%	3.420	3.563	3.679	3.788	6.983	7.467	99.63%
35	Railroad Car Tax	0.12%	2.273	2.157	2.322	2.452	4.430	4.774	99.74%
36	Wine Tax	0.11%	2.104	2.157	2.229	2.300	4.261	4.529	99.85%
37	Beer Tax	0.16%	2.956	3.055	3.070	3.087	6.011	6.157	100.00%
38	Telephone License Tax	0.00%	-	-	-	-	-	-	100.00%
39	Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
	Total General Fund	100.00%	$1,870.954	$1,988.754	$2,044.564	$2,124.162	$3,859.708	$4,168.726	100.00%

Legislative Fiscal Division
Non-General Fund Revenue Estimates
In Millions

	Source of Revenue	Percent of 2012	Actual Fiscal 2012	Estimated Fiscal 2013	Estimated Fiscal 2014	Estimated Fiscal 2015	Estimated Fiscal 12-13	Estimated Fiscal 14-15	Cumulative % of Total
1	Diesel Tax	17.84%	$74.292	$76.300	$78.362	$80.479	$150.592	$158.841	21.44%
2	Federal Forest Receipts	4.92%	20.487	18.101	2.284	2.138	38.588	4.422	22.04%
3	Gasoline Tax	32.82%	136.661	137.161	137.663	138.166	273.822	275.829	59.26%
4	GVW and Other Fees	8.34%	34.745	33.969	34.707	35.486	68.714	70.193	68.74%
5	Resource Indemnity Tax	0.56%	2.344	2.210	2.538	2.618	4.554	5.156	69.43%
6	Arts Trust Interest	0.14%	0.568	0.580	0.593	0.609	1.148	1.202	69.60%
7	Capital Land Grant Interest and Income	0.15%	0.610	0.232	0.664	1.022	0.842	1.686	69.82%
8	Deaf & Blind Interest and Income	0.06%	0.242	0.288	0.246	0.265	0.530	0.511	69.89%
9	Parks Trust Interest	0.25%	1.034	1.063	1.089	1.122	2.097	2.211	70.19%
10	Pine Hills Interest and Income	0.09%	0.393	0.302	0.370	0.392	0.695	0.762	70.29%
11	RIT Trust Interest	1.22%	5.064	4.661	4.661	4.664	9.725	9.325	71.55%
12	TSE Trust Interest	2.37%	9.866	9.881	10.403	11.155	19.747	21.558	74.46%
13	Economic Development Trust	0.66%	2.731	2.862	3.123	3.491	5.593	6.614	75.35%
14	Tobacco Trust Interest	1.61%	6.701	6.826	7.305	7.858	13.527	15.163	77.40%
15	Regional Water Trust Interest	0.71%	2.937	3.035	3.295	3.654	5.972	6.949	78.34%
16	Property Tax: 6 Mill	3.68%	15.325	15.815	16.535	16.989	31.140	33.524	82.86%
17	Common School Interest and Income	24.59%	102.391	67.668	65.272	61.693	170.059	126.966	100.00%
	Total Non-General Fund	100.00%	$416.389	$380.954	$369.110	$371.801	$797.343	$740.912	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 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. Twelve 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. 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, the percentage of total general fund revenue for FY 2004 - FY 2012 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 FY 2013, 2014, and 2015, 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 1989 and the projected amounts for FY 2013, 2014, and 2015. 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 1989 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for FY 2013, 2014, and 2015; 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.