

Revenue Estimate Recommendations

Fiscal Years 2005, 2006 and 2007



Prepared by the
Legislative Fiscal Division

November 16, 2004



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MONTANA LEGISLATIVE BRANCH

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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 2005, 2006, and 2007. I am providing this information in advance of the November 16 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 2007 biennium.

As directed by Chairman Story, the revenue staffs of the Governor’s Budget Office and the Legislative Fiscal Division will work together to reconcile and explain significant differences prior to the RTIC meeting. These differences will be explained in a working document prepared by your LFD staff, and will be provided to the committee at the November 16 meeting.

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 2005 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 5-18-107(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(7) 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 provide the RTIC with Legislative Fiscal Division (LFD) recommendations regarding anticipated revenues for fiscal 2005 through 2007. 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 of the LFD.

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, and population levels, inflation rates, corporate profits, property values, interest rates, and energy prices. A more detailed economic outlook will be presented to the committee on November 16, 2004.

As shown in the following figure, individual income tax, corporation income tax, property tax, vehicle tax, and investment earnings are expected to contribute over 64 percent to the total general fund revenue stream during the 2007 biennium. Total general fund revenues for the 2007 biennium are projected to increase 4.6 percent over the 2005 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.

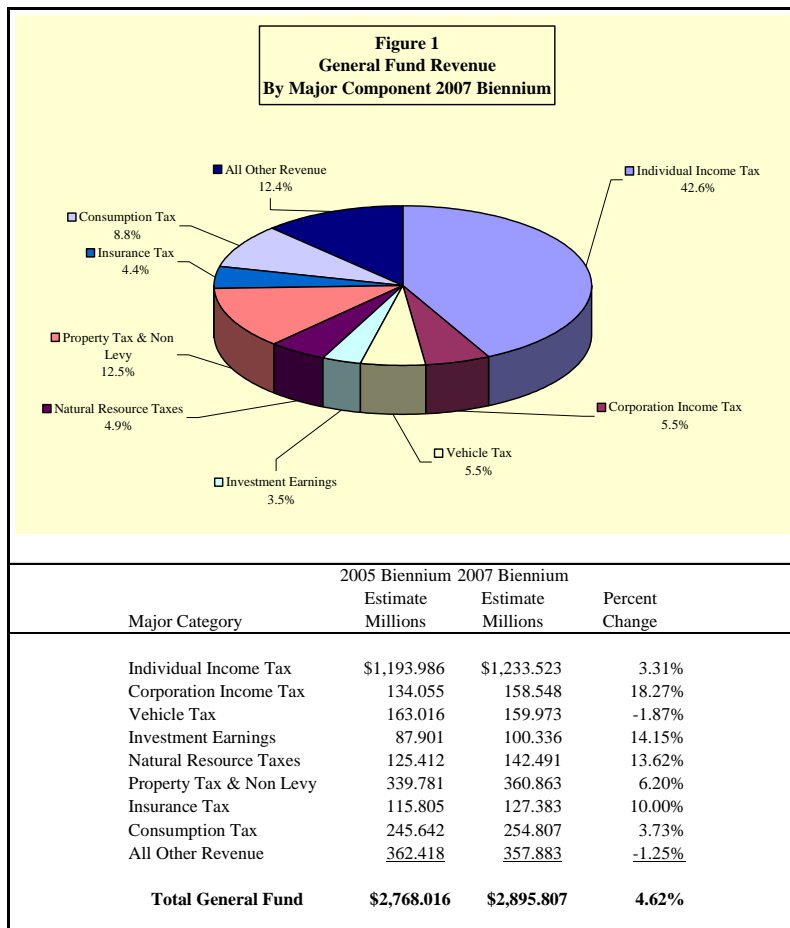


Figure 2
Legislative Fiscal Division Recommendations
General Fund Revenue Estimates
In Millions

Source of Revenue	Percent of 2004	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
1 Individual Income Tax	43.82%	\$605.348	\$588.638	\$605.029	\$628.494	\$1,193.986	\$1,233.523	42.60%
2 Property Tax	12.27%	169.531	170.250	176.736	184.127	339.781	360.863	55.06%
3 Corporation Income Tax	4.90%	67.723	66.332	80.621	77.927	134.055	158.548	60.53%
4 Vehicle Tax	6.05%	83.607	79.409	79.026	80.947	163.016	159.973	66.06%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	66.06%
6 Insurance Tax & License Fees	4.09%	56.533	59.272	62.163	65.220	115.805	127.383	70.46%
7 Coal Trust Interest	2.53%	34.907	35.999	36.790	37.244	70.906	74.034	73.01%
8 US Mineral Royalty	2.08%	28.736	34.933	33.765	33.558	63.669	67.323	75.34%
9 All Other Revenue	2.19%	30.242	28.504	25.620	25.776	58.746	51.396	77.11%
10 Tobacco Settlement	0.21%	2.934	2.906	2.876	2.871	5.840	5.747	77.31%
11 Telecommunications Excise Tax	1.51%	20.890	20.605	20.605	20.605	41.495	41.210	78.73%
12 Video Gambling Tax	3.67%	50.749	52.173	54.511	56.953	102.922	111.464	82.58%
13 Treasury Cash Account Interest	0.46%	6.393	10.602	13.287	13.015	16.995	26.302	83.49%
14 Estate Tax	0.83%	11.431	3.701	1.950	0.939	15.132	2.889	83.59%
15 Oil & Natural Gas Production Tax	2.99%	41.324	58.912	59.238	55.568	100.236	114.806	87.56%
16 Motor Vehicle Fee	2.22%	30.724	30.924	37.982	36.287	61.648	74.269	90.12%
17 Public Institution Reimbursements	1.31%	18.110	16.032	14.900	14.900	34.142	29.800	91.15%
18 Lodging Facility Use Tax	0.67%	9.279	9.678	10.094	10.528	18.957	20.622	91.86%
19 Coal Severance Tax	0.63%	8.643	9.105	8.659	8.841	17.748	17.500	92.47%
20 Liquor Excise & License Tax	0.78%	10.718	10.946	11.384	11.817	21.664	23.201	93.27%
21 Cigarette Tax	2.61%	36.002	40.102	38.009	36.670	76.104	74.679	95.85%
22 Investment License Fee	0.35%	4.834	4.464	4.598	4.736	9.298	9.334	96.17%
23 Lottery Profits	0.59%	8.116	7.273	7.288	7.953	15.389	15.241	96.70%
24 Liquor Profits	0.47%	6.500	6.285	6.399	6.549	12.785	12.948	97.14%
25 Nursing Facilities Fee	0.43%	5.916	5.833	5.793	5.757	11.749	11.550	97.54%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.54%
27 Electrical Energy Tax	0.34%	4.661	4.295	4.276	4.270	8.956	8.546	97.84%
28 Metalliferous Mines Tax	0.23%	3.232	4.196	4.872	5.313	7.428	10.185	98.19%
29 Highway Patrol Fines	0.30%	4.084	4.104	4.125	4.143	8.188	8.268	98.47%
30 Public Contractors Tax	0.15%	2.120	1.748	3.030	2.872	3.868	5.902	98.68%
31 Wholesale Energy Tax	0.24%	3.293	3.158	3.166	3.172	6.451	6.338	98.90%
32 Tobacco Tax	0.26%	3.562	4.528	4.088	4.136	8.090	8.224	99.18%
33 Driver's License Fee	0.22%	3.021	2.997	3.011	3.018	6.018	6.029	99.39%
34 Rental Car Sales Tax	0.18%	2.486	2.593	2.704	2.820	5.079	5.524	99.58%
35 Railroad Car Tax	0.11%	1.568	1.585	1.574	1.562	3.153	3.136	99.69%
36 Wine Tax	0.10%	1.423	1.436	1.487	1.538	2.859	3.025	99.79%
37 Beer Tax	0.21%	2.897	2.933	2.986	3.039	5.830	6.025	100.00%
38 Telephone License Tax	0.00%	0.029	-	-	-	0.029	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,381.565</u>	<u>\$1,386.451</u>	<u>\$1,432.642</u>	<u>\$1,463.165</u>	<u>\$2,768.016</u>	<u>\$2,895.807</u>	100.00%

Figure 3
Legislative Fiscal Division Recommendations
Non-General Fund Revenue Estimates
 In Millions

Source of Revenue	Percent of 2004	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
1 Diesel Tax	18.00%	\$63.181	\$65.819	\$68.567	\$71.430	\$129.000	\$139.997	18.99%
2 Federal Forest Receipts	3.56%	12.491	12.654	12.795	12.878	25.145	25.673	22.47%
3 Gasoline Tax	37.87%	132.962	133.577	134.177	134.774	266.539	268.951	58.96%
4 GVW and Other Fees	7.83%	27.500	27.896	28.287	28.732	55.396	57.019	66.69%
5 Lodging Facility Use Tax	6.51%	22.848	23.831	24.856	25.925	46.679	50.781	73.58%
6 Resource Indemnity Tax	0.36%	1.251	1.229	1.176	1.323	2.480	2.499	73.92%
7 Arts Trust Interest	0.09%	0.326	0.338	0.351	0.364	0.664	0.715	74.01%
8 Capital Land Grant Interest and Income	0.69%	2.413	0.820	0.939	0.943	3.233	1.882	74.27%
9 Deaf & Blind Interest and Income	0.09%	0.299	0.304	0.305	0.306	0.603	0.611	74.35%
10 Parks Trust Interest	0.32%	1.140	1.163	1.191	1.217	2.303	2.408	74.68%
11 Pine Hills Interest and Income	0.11%	0.394	0.388	0.388	0.389	0.782	0.777	74.78%
12 RIT Trust Interest	2.10%	7.380	7.401	7.417	7.420	14.781	14.837	76.80%
13 TSE Trust Interest	2.38%	8.349	9.094	9.704	10.230	17.443	19.934	79.50%
14 Property Tax: 6 Mill	3.14%	11.012	10.704	11.027	11.357	21.716	22.384	82.54%
15 Property Tax: 9 Mill	0.00%	-	-	-	-	-	-	82.54%
16 Tobacco Trust Interest	0.76%	2.670	3.125	3.739	4.381	5.795	8.120	83.64%
17 Regional Water Trust Interest	0.34%	1.201	1.487	1.757	2.007	2.688	3.764	84.15%
18 Common School Interest and Income	<u>15.85%</u>	<u>55.663</u>	<u>60.374</u>	<u>59.387</u>	<u>57.463</u>	<u>116.037</u>	<u>116.850</u>	<u>100.00%</u>
Total Non-General Fund	100.00%	\$351.080	\$360.204	\$366.063	\$371.139	\$711.284	\$737.202	100.00%

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 seven 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

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. 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.

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.

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.

Major Drivers: The major components that impact a specific revenue source are listed.

Potential Factors Influencing Change: The factors that can influence change to the specific revenue source are listed.

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.

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.

% of Total FY 2004 General Fund Revenue: To give the reader an idea of the size of a particular revenue source, its percentage of total fiscal 2004 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.

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 2005, 2006, and 2007. 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 1983 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal 2005, 2006, and 2007; and 4) the yearly percentage change in general fund.

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

Distribution Methodology: This section includes a flow chart illustrating a simplified diagram of how the revenue received from the source is distributed in the state accounting system.

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.

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

LEGISLATIVE FISCAL DIVISION

Revenue Estimate Recommendations

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