

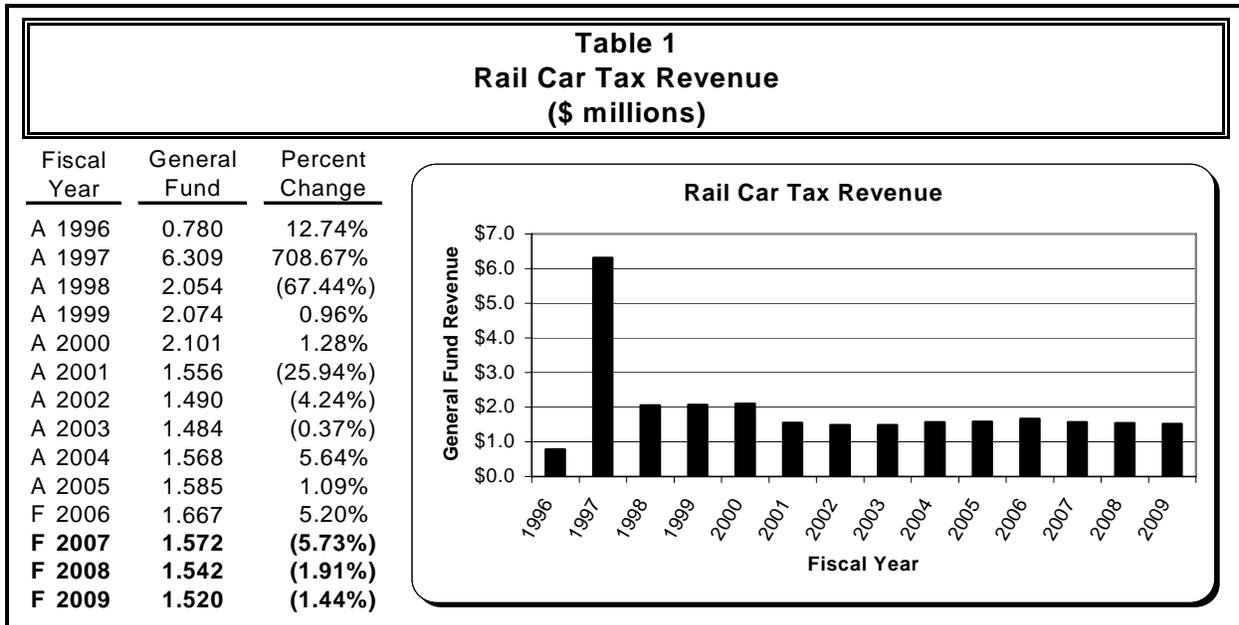
RAIL CAR TAX

Revenue Description

Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The rail car tax is assessed based on the taxable value of the rolling stock of freight line companies. Section 15-23-214, MCA, states that the tax shall be computed by multiplying the taxable value of the property by the average statewide mill levy for commercial and industrial property. Section 15-23-211, MCA, defines the average statewide mill levy. The general fund receives 100% of the rail car tax revenue.

Historical and Projected Revenue

Table 1 shows actual general fund revenue from the rail car tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.



The large increase in general fund collections in FY 1997 stems from a settlement agreement reached with a group of rail car companies for back taxes. HB 128, HB 174, SB 111, and SB 200, passed during the 1999 Legislative Session, decreased the class 12 tax rate, causing a decline in FY 2001 revenue. The forecast decline of approximately 5.7% for FY 2007 is due to a 4% decline in the Montana market value of rail car companies and to class 4 commercial property values increasing significantly above the property system market value established on January 1, 2002. The FY 2008 and FY 2009 revenue decline of 1.91% and 1.44% respectively is less than the FY 2007

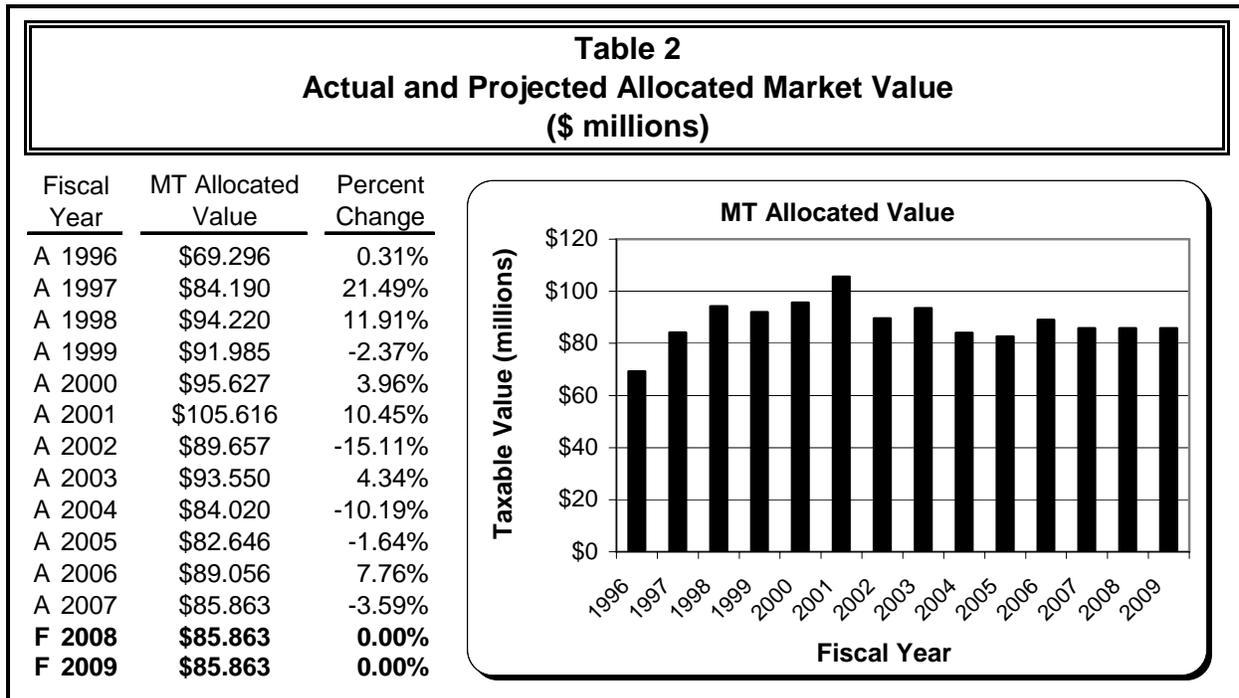
decline because it is estimated that the market value will remain the same and that the growth in class 4 commercial property will moderate.

Forecast Methodology and Projection Calculation

The primary steps in estimating rail car tax revenue are as follows: 1) estimate the allocated market value of rail car companies operating in Montana; 2) calculate and apply the class 12 taxable valuation rate; 3) calculate and apply the average statewide mill levy for commercial and industrial property; and 4) calculate general fund revenue.

Step 1: Estimate Allocated Market Value of Rail Car Companies

As Table 2 shows, the allocated market value of Montana rail car companies has fluctuated in recent years. This forecast projects the allocated market values to remain at the FY 2007 level of \$85.863 million for FY 2008 and FY 2009.

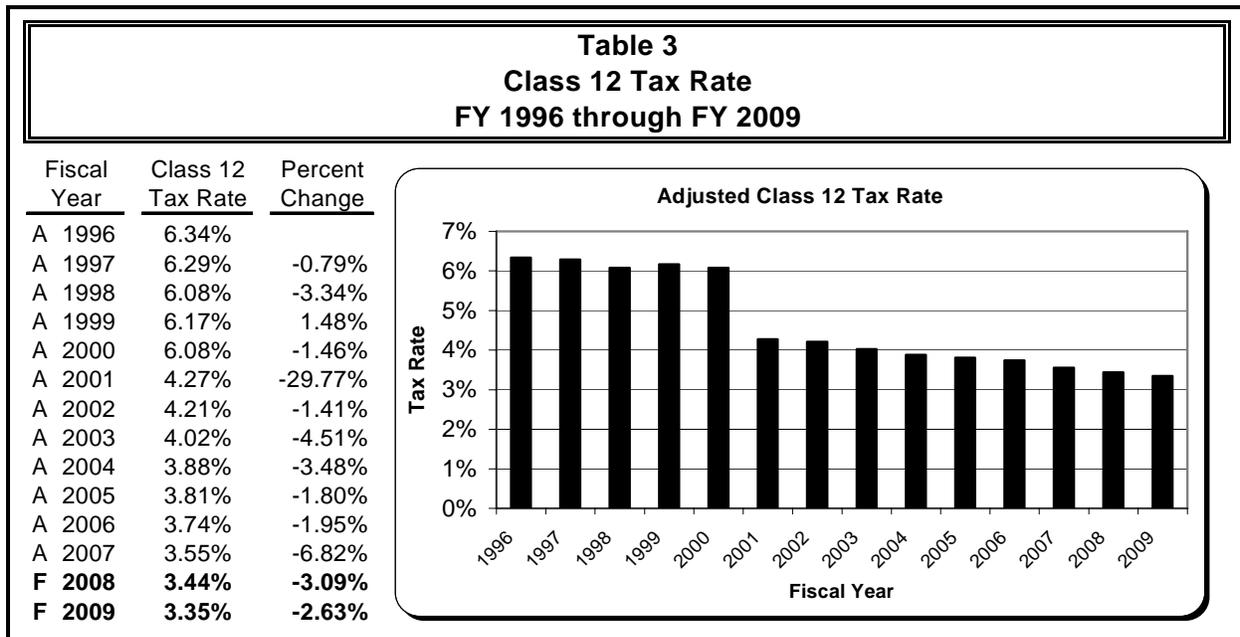


Step 2: Calculate and Apply Class 12 Taxable Valuation Rate

The class 12 taxable valuation rate, which applies to railroad and airline property, is a composite rate reflective of the weighted average tax rate applied to all other commercial and industrial property in the state. Class 4 commercial property is appraised every six years, rather than annually as is other commercial and industrial property. Therefore, the class 12 tax rate includes an adjustment to class 4 commercial

property based on the ratio of sales price to market value of class 4 commercial property.

The class 12 taxable valuation rate has significantly decreased since FY 2000 due to the impacts of HB 128, HB 174, and SB 200 on taxable valuations of classes 7, 8, and 9 properties. Table 3 shows actual class 12 tax rates for FY 1996 through FY 2007 and forecast rates for FY 2008 and FY 2009.



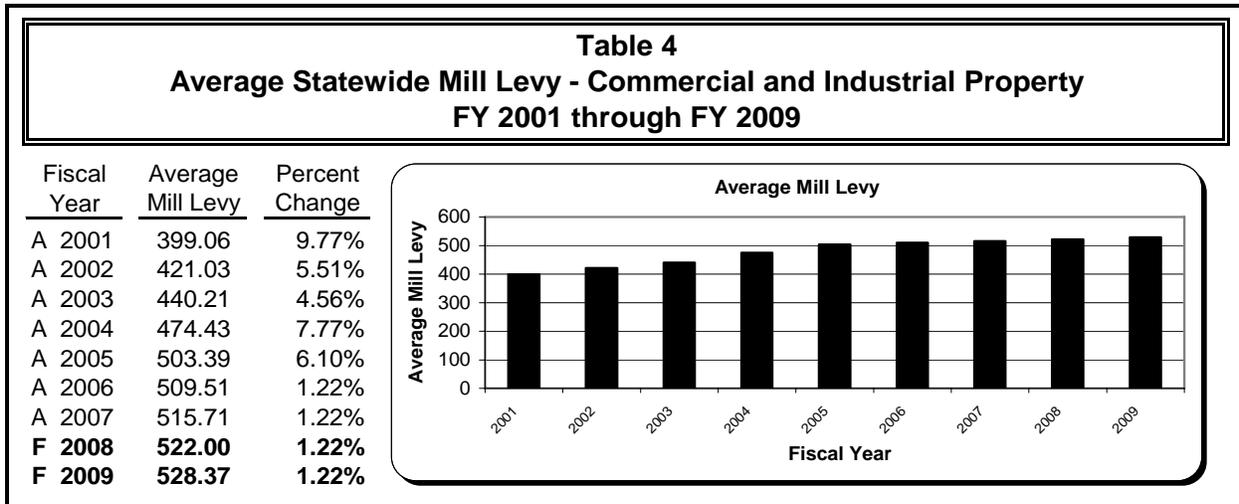
The class 12 tax rate declined by 6.82% in FY 2007 primarily due to three factors. First, the ratio of the property system’s market value of commercial and industrial property to actual market value is wider because prices for class 4 commercial property have increased rapidly since the January 1, 2003 class 4 reappraisal. Second, there is an annual decrease in the class 4 tax rate as the January 1, 2003 values are phased-in over six years. Third, a number of properties were reclassified under a lower tax rate. The economy is expected to slow, lessening the growth rate of the disparity between the property system’s market value and the actual market price. Additionally, the reclassification of certain properties under a lower tax rate was a one-time impact. Therefore, the decline of the class 12 valuation rate is expected to be -3.09% in FY 2008 and -2.63% in FY 2009, as determined using respective commercial property valuation estimates.

Step 3: Calculate Average Statewide Mill Levy for Commercial and Industrial Property

The mill levy applied to class 12 property is the average statewide mill levy for commercial and industrial property. Section 15-23-211, MCA, provides a definition of the “average mill levy.” This definition is used in calculating the average statewide mill levy for commercial and industrial property.

As shown in Table 4, average statewide mill levies for commercial and industrial property have increased since FY 2001. Table 4 shows the actual average statewide commercial and industrial property mill levies for FY 2001 through FY 2006 and forecast mill levies for FY 2008 through FY 2009.

The average statewide mill levy for FY 2008 and FY 2009 is estimated to grow at 1.22%, which is the average annual growth rate of the average statewide commercial and industrial mill levy for FY 2006 and FY 2007. The increases in property values in calendar years 2005 and 2006 slowed mill levy growth. It is anticipated that this mill levy trend will continue through FY 2009.



Step 4: Calculate General Fund Revenue

As shown in Table 5, rail car tax revenue is determined by multiplying Montana's allocated rail car market value by the class 12 tax rate, then multiplying by the average statewide commercial and industrial property mill levy. General fund revenue is estimated at \$1.572 million in FY 2007, \$1.542 million in FY 2008, and \$1.520 million in FY 2009.

Table 5
Calculation of Rail Car Tax General Fund Revenue
FY 2007 through FY 2009

| Description | FY 2007 | FY 2008 | FY 2009 |
|-------------------------------|--------------------|--------------------|--------------------|
| Total Montana Allocated Value | \$85,863,000 | \$85,863,000 | \$85,863,000 |
| Multiply by Class 12 Tax Rate | 3.55% | 3.44% | 3.35% |
| Taxable Value | \$3,048,137 | \$2,953,870 | \$2,876,244 |
| Multiply by Mill Levy | 0.51570 | 0.52200 | 0.52837 |
| General Fund Revenue | \$1,571,924 | \$1,541,925 | \$1,519,721 |

Data Sources

The general fund revenue is from SBAS Report 635 and SABHRS Report MTGL0109. DOR provided the average statewide mill levies for commercial and industrial property, and Montana allocated rail car fleet market values.