



GOVERNOR
BRIAN SCHWEITZER
STATE OF MONTANA

MAJOR REVENUE SECTION 3

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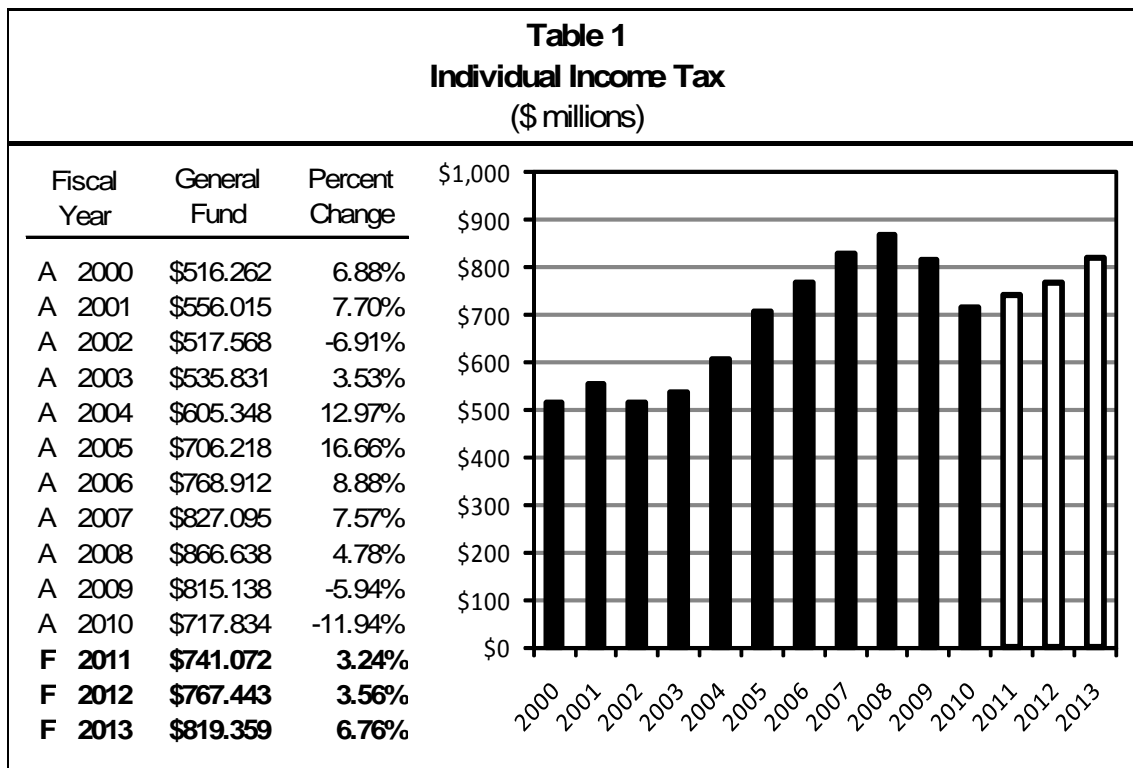
GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Revenue Description

Title 15, Chapter 30, MCA, imposes a graduated individual income tax ranging from 1% to 6.9% on gross income, less exemptions and deductions. Taxpayers' Montana adjusted gross income is based on their federal adjusted gross income, but may be higher or lower because some types of income are taxed differently by the state and federal government. Itemized deductions for federal and state income tax are similar; however, while all state income tax may be deducted in calculating federal taxable income, the amount of federal income tax that may be deducted in calculating state taxable income is limited. Montana also allows a number of credits that may reduce taxpayers' liabilities.

Individual income tax is the largest source of revenue to the general fund, accounting for 44.11% of total general fund revenue in FY 2010. With the exception of FY 2005, all individual income tax revenue is allocated to the general fund. In FY 2005, about \$1.1 million was allocated to pay for the Department of Revenue's new data processing system.

Table 1 shows actual individual income tax revenue for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013. Revenues are expected to increase gradually in FY 2012 through FY 2013. Although growth is expected, it is forecast to be relatively low. Personal income tax revenues are expected to remain lower than FY 2008 peak levels for the forecast period.



Risks and Significant Factors

- The estimate relies on the Global Insight forecasts for much of the data used in the model. If economic conditions change significantly over the next months, Global Insight's forecast will likely change as well.
- Due to the dependence of Montana adjusted gross income on Federal adjusted gross income, changes in the federal tax code could have a significant effect on Montana income tax receipts. With the makeup of congress changing in the midterm elections of 2010, federal tax changes for individual income taxes are probable. Holding all other factors constant, lower federal taxes result in higher state tax collections, while higher federal taxes reduce state tax collections. However the state's exposure to such fluctuations is somewhat limited due to the cap on deductible federal income tax expenditures.

Income by Category

Taxpayers report income on eleven lines on the tax return and these eleven income types are forecast separately. They can be organized into five general categories: wage, salary and tip income; ownership income; taxable retirement income; gains and losses; and interest income. Graph 1 shows these categories and their relative proportion of total taxable income.

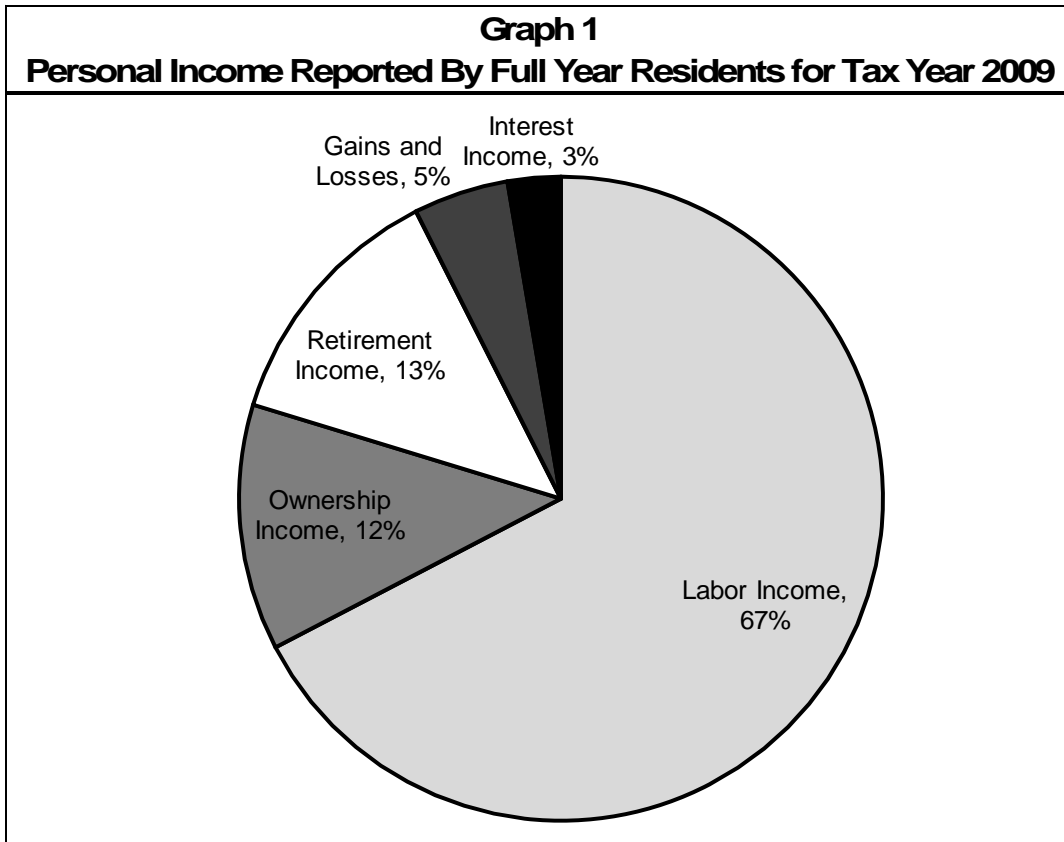
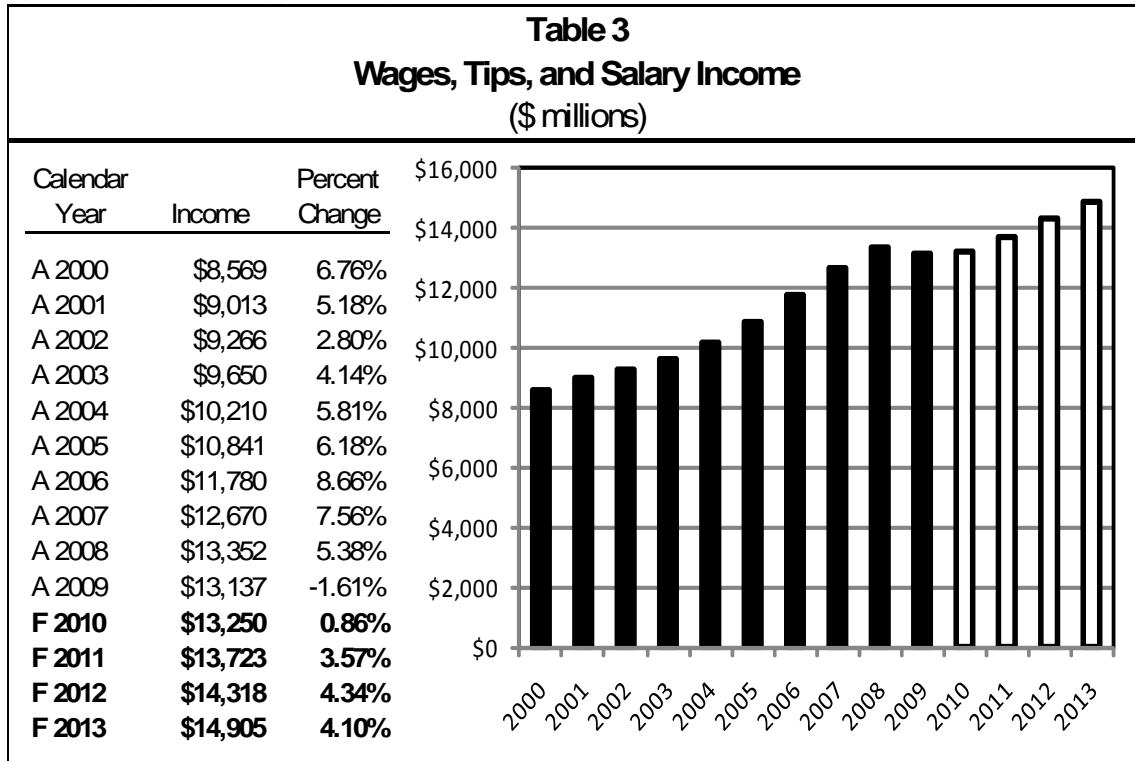


Table 2 provides more detail by showing the amount of income reported for CY 2009 by full-year residents and the percent of total reported income that category represents. The last column gives the average percent of total reported income for each category for the prior CY 1997 through CY 2007.

Table 2			
Calendar Year Income			
(\$ millions)			
Type of Income	CY 2009 Income	% CY 2009 Income	% CY 97-07 Income
Labor Income			
Wages, salaries, tips, etc.	\$13,136.979	67.36%	63.49%
	\$13,136.979	67.36%	63.49%
Ownership Income			
Rents, royalties, partnerships, etc.	\$1,508.400	7.73%	7.87%
Net business income	\$648.187	3.32%	4.23%
Dividend income	\$462.423	2.37%	2.57%
Net farm income	-\$183.602	-0.94%	-0.86%
Other income	-\$24.924	-0.13%	-0.13%
	\$2,410.484	12.36%	13.68%
Retirement			
Taxable portion of Soc. Sec.	\$540.620	2.77%	2.02%
Taxable Pensions, IRAs	\$1,963.910	10.07%	8.80%
	\$2,504.530	12.84%	10.82%
Gains and Losses			
Capital gain or (loss)	\$912.041	4.68%	7.86%
Supplemental gains or (losses)	\$19.035	0.10%	0.35%
	\$931.076	4.77%	8.21%
Interest			
Interest income	\$519.760	2.67%	3.80%
	\$519.760	2.67%	3.80%
Total	\$19,502.829	100.00%	100.00%

Tables 3-11 show historical and forecast income for most of the sub-categories above. At the end of each table, the risks and significant factors for the forecast are listed. Forecast growth rates for the income sources, and deductions, reductions and credits are summarized in Table 12. All charts depict income reported by full-year residents.

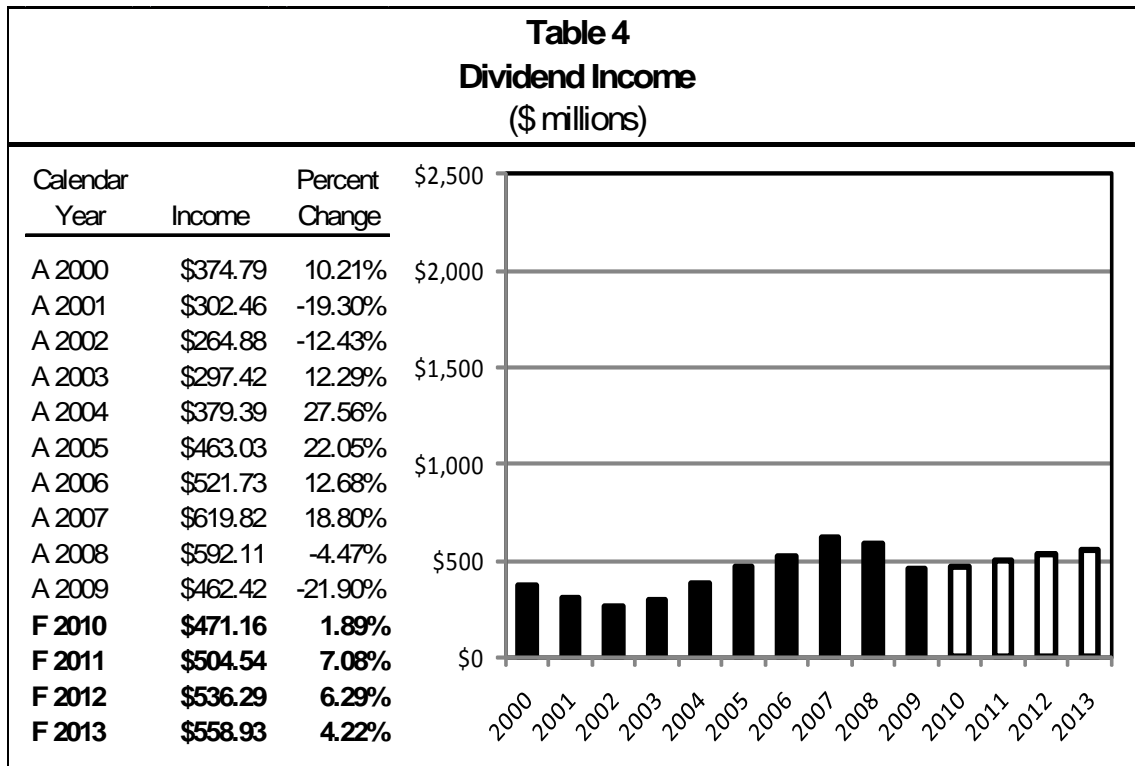
Labor Income



Risks and Significant Factors

- Projected increases are considerably lower than previous increases that occurred following less severe recessions.
- There may be more upside potential here.

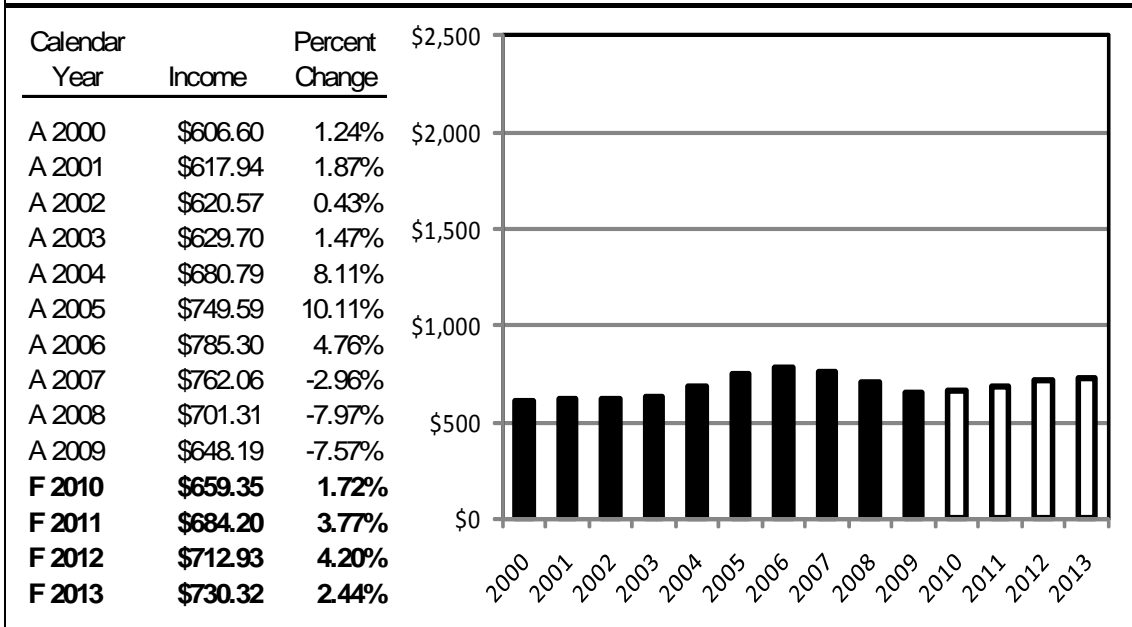
Ownership Income



Significant Factors

- Montana dividend income is highly correlated with the national level of dividend income, and if corporate profits are significantly different than forecast, dividend income will be effected.
- After the economy began recovering from the recession, corporations began stockpiling cash reserves, as opposed to paying them out. If corporate attitudes in this regard change dramatically, this will potentially affect Montana dividend income.

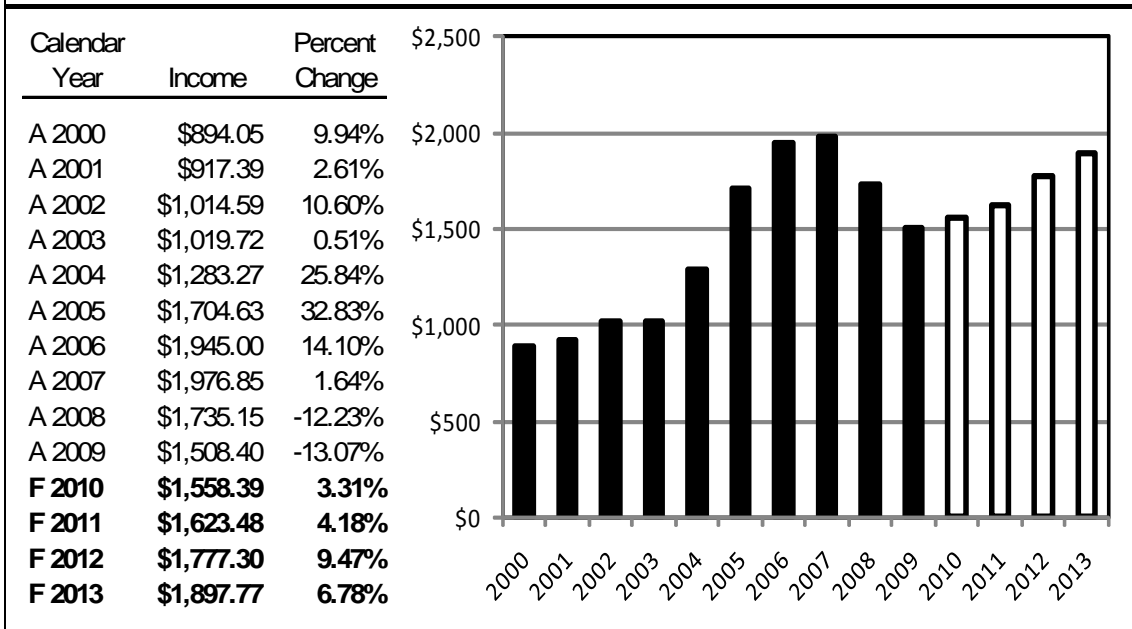
Table 5
Net Business Income
(\$ millions)



Significant Factors

- Growth rate of national proprietors' income will have an effect on Montana net business income.
- Montana net business income is highly correlated with its national equivalent, so a change in the national business income will have an effect on this source of income.

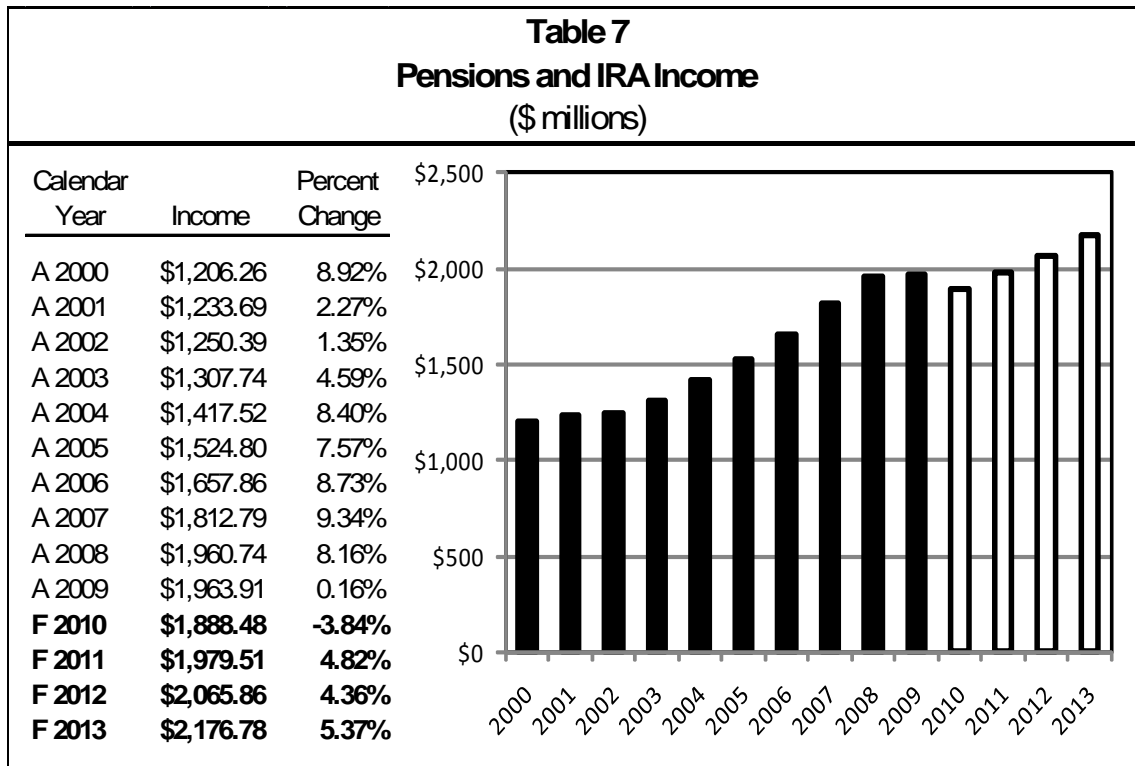
Table 6
Rents, Royalties, and Partnership Income
(\$ millions)



Risks and Significant Factors

- The growth rate of rents and royalties income shows a strong relationship with national proprietors' income. If the national economy's recovery is greater, or less than expected, this will likely have a direct effect on this income source.
- Mineral royalties have generally been reported in this category, and higher mineral, oil, and natural gas prices, as well as production have contributed to recent growth of income.
- By SB 439 (2007 session), withholdings are required for mineral royalty payments; this is likely to increase revenue because of increased compliance from non-resident mineral royalty owners.

Retirement income

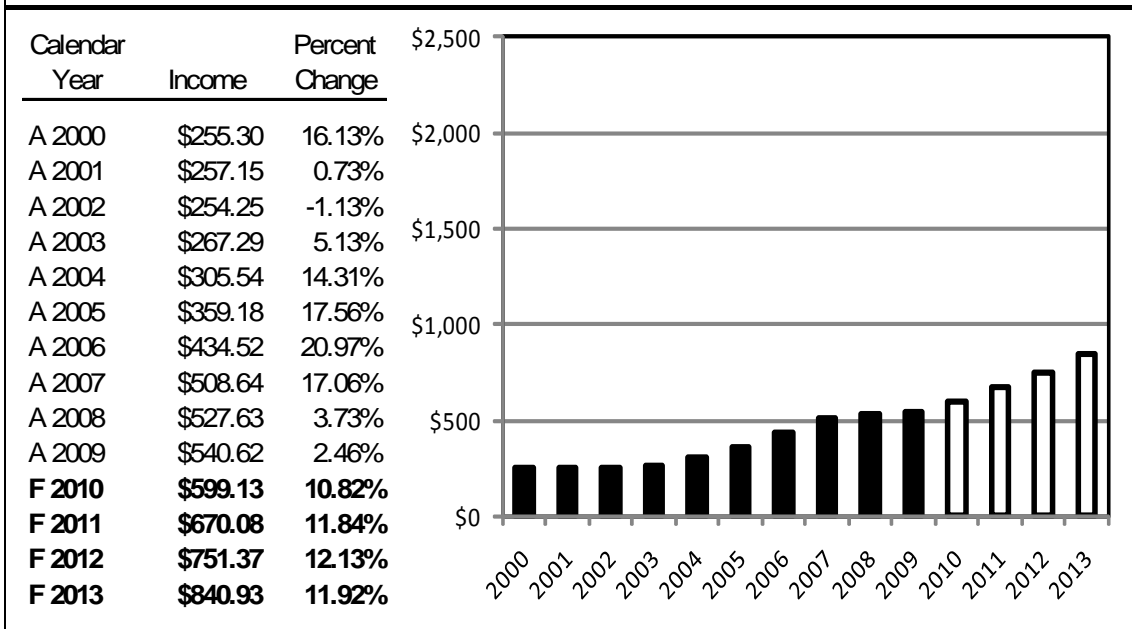


Risks and Significant Factors

- Prior years' S&P 500 stock price index can have an effect on pension and IRA income. As the stock market increases, returns from retirement savings, such as pensions and IRA's will also increase.
- Last year's U.S. gross domestic product is also used to forecast this source of revenue. As the economy grows, it is also estimated that this source of income will grow as well.

Growth of pension and IRA income slowed during the recession of 2000, but is predicted to decline in nominal terms for the first time in over ten years in CY 2010.

Table 8
Social Security Income
(\$ millions)

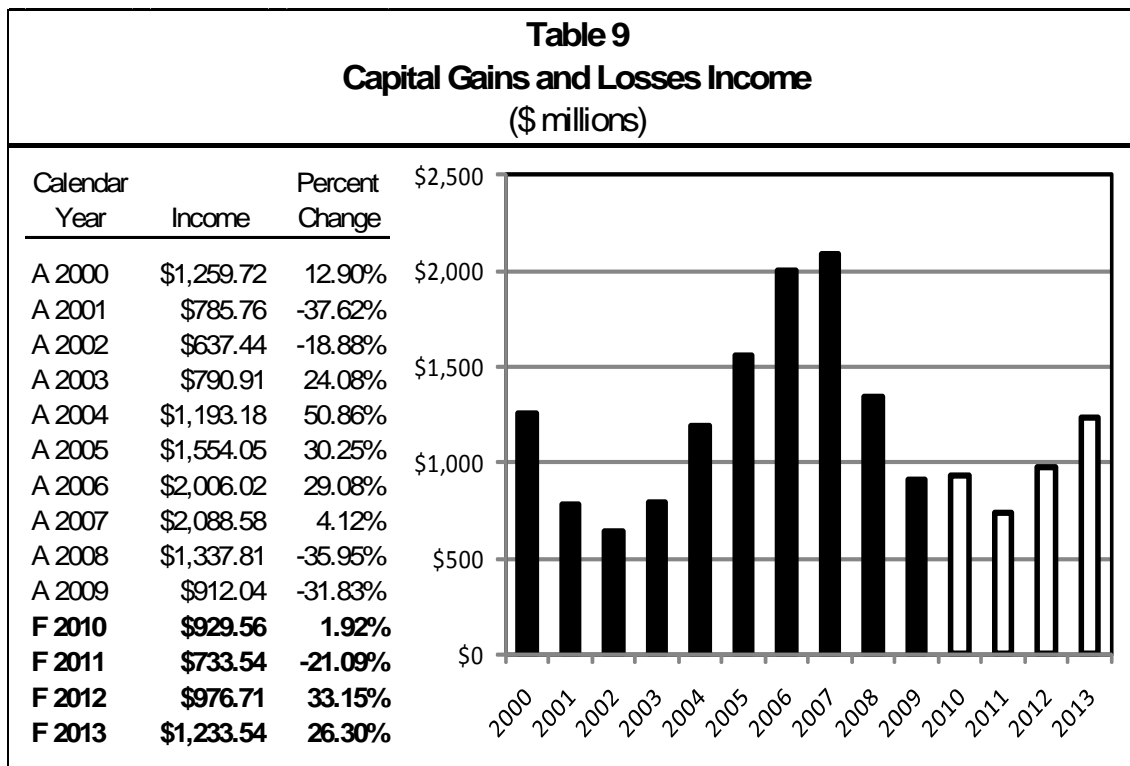


Risks and Significant Factors

- Social security is indexed for inflation. If inflation remains low, this will have a negative effect on the growth of social security income.
- Montana population age 65 and older effect the total amount of social security income. As the population of Montana 65 and older increases, total social security income will also increase.

Gains and Losses

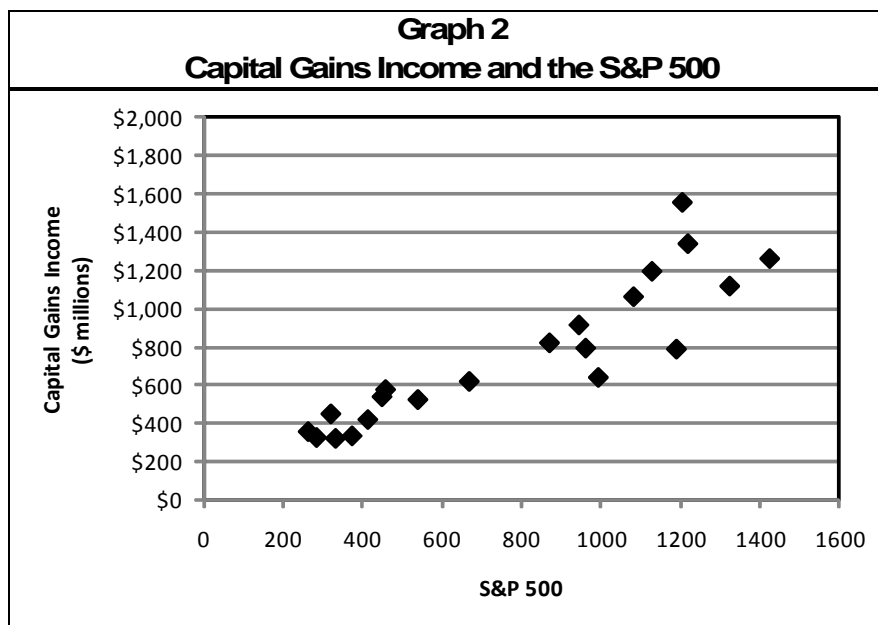
Capital gains and supplemental gains are gains or losses from the sale of assets.



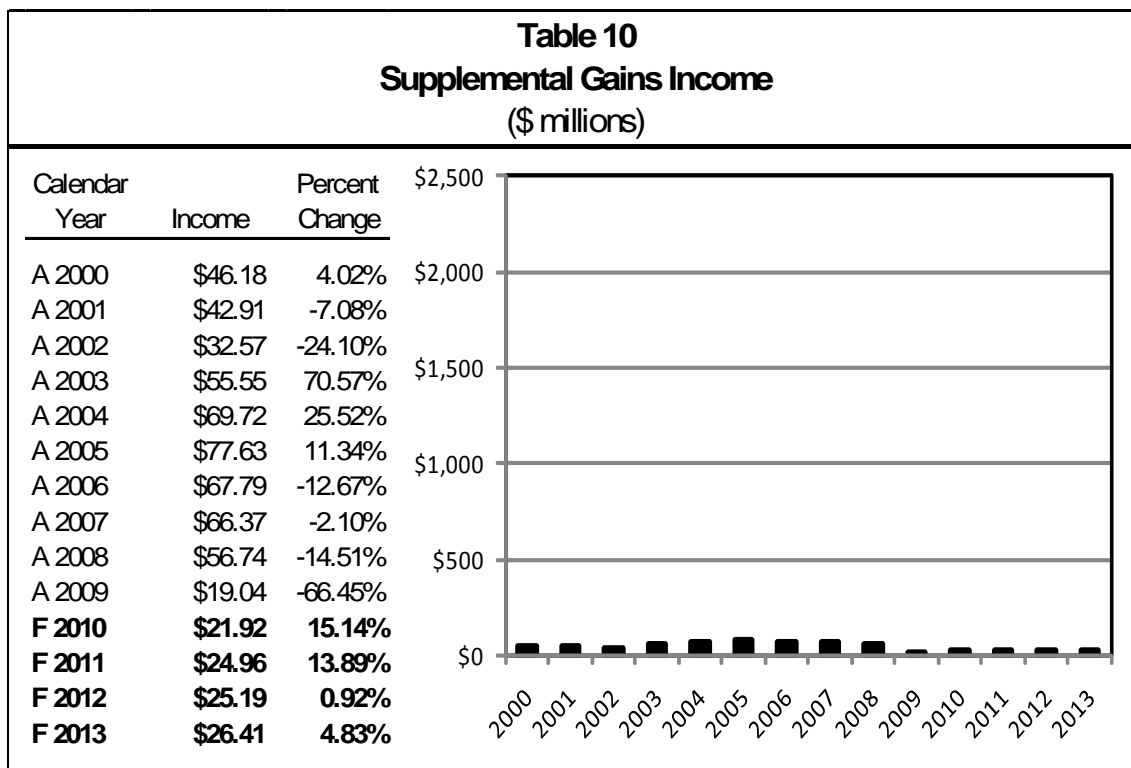
Risks and Significant Factors

- Stock prices serve as a general indicator of the value of assets; only a portion of capital gains are from sales of stocks, but stocks are the only assets for which reliable price data is available.

In Table 9, note the decline in capital gains income following the stock market crash of CY 2000. The relationship between stock prices and capital gains is depicted in Graph 2:

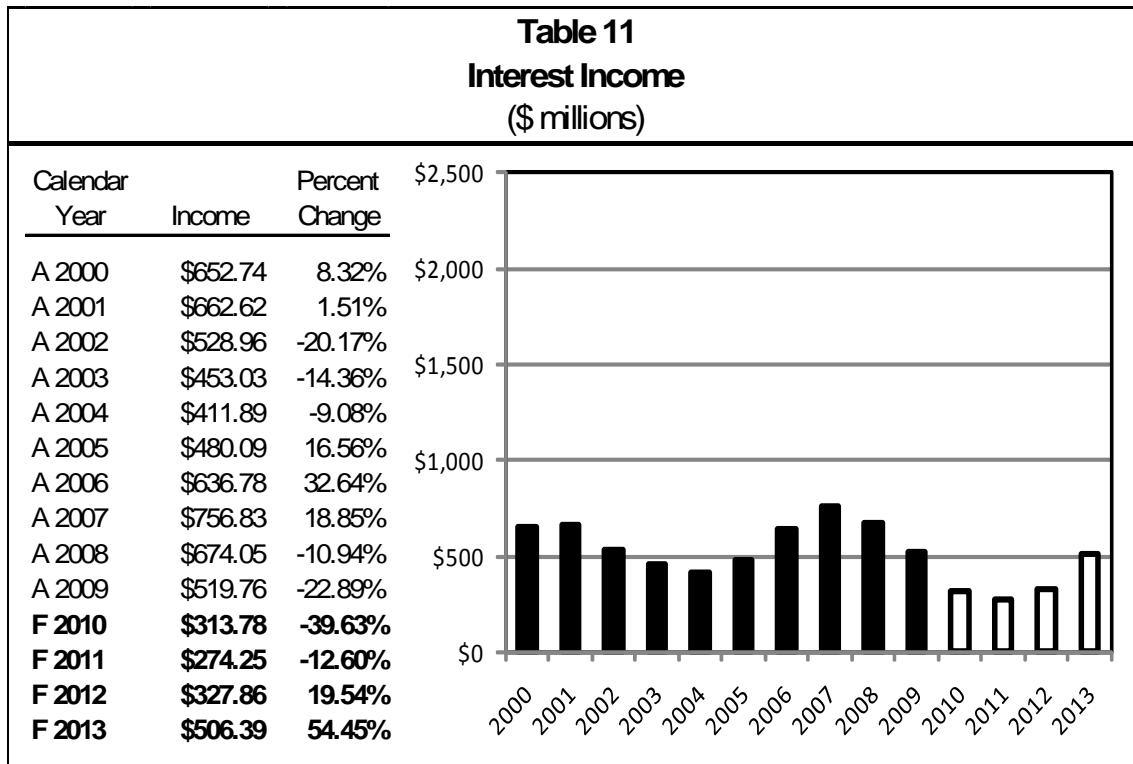


The Jobs and Growth Tax Relief Reconciliation Act of 2003 included changes affecting long-term capital gains from sales on or after May 6, 2003, reducing the rates on many types of gains from asset sales. The legislation included language which sunset these lower capital gains rates in 2008 unless extended by Congress. In May 2006, Congress passed legislation extending the lower capital gains rates through 2010. In the past, people with assets that have appreciated have responded to changes in capital gains rates by selling assets to realize gains during periods when tax rates are lower. This is almost certain to have happened again, and part of the increase in capital gains in 2003 through 2005 reflects a one-time turnover of assets following the tax rate cuts in order to realize the gains. This phenomenon may be seen again with the possible expiration of the Bush tax cuts in tax year 2010.



The swings in growth of supplemental gains income are tempered by the fact that it is small, contributing approximately one tenth of a percent of the overall income.

Interest Income



Significant Factors

- Growth in taxpayers' savings rates will increase overall interest income.
- The current and last year's average rates on three-month certificates of deposits are used to forecast interest income for individual income tax revenue.
- Abnormally low interest rates will negatively affect the overall level of interest income.

Other Sources of Income

Net farm income has been negative in recent years and is expected to stay negative. It is projected using Global Insight's forecast for Montana's agricultural, forestry, and fishing gross state product.

The other income line is a catch-all for income that does not fit on the other lines. It is usually small and is forecast to grow at a rate based on historic trends.

Forecast Methodology

Income tax revenue estimates are based on a computer program that calculates tax liability for individual income tax returns. Base line assumptions are listed in Table 12.

Before program implementation

- Growth rates for income and deductions must be estimated
- Future tax parameters, such as rate brackets and caps on deductions, must be calculated based on forecasts of inflation and any changes in state or federal law

The operating program

- Reads each full-year resident return in the latest year's income tax returns database
- Calculates current year's tax liability for each return

- Applies an annual growth rate to each of the income and deduction line items and calculates the next year's tax liability
- Repeats process, growing income and deductions and calculating tax liability, for each year of the forecast period.

Once the simulation program has estimated future years' tax liability for full-year resident taxpayers who filed in the past year, adjustments are made to produce projected fiscal year collections for all filers.

Adjustments are made for

- Projected population growth
- Changes to state and federal tax law
- Calendar year tax liability and additional revenue from less than full-time residents
- Reduced revenue due to tax credits
- Conversion from calendar year to fiscal year collections
- Accounting for revenue from audits, penalties and interest not already included in the base calculations
- Other adjustments, such as additional refunds

Distribution

All individual income tax revenue is distributed to the general fund.

Data Sources

Revenue data is from SABHRS and the Department of Revenue. Estimated audit revenue for future years is from the Department of Revenue. Past employment and wage data is from the Bureau of Labor Statistics, U.S. Department of Labor. Commodity market estimates for future years is from the Economic Research Service, U.S. Department of Agriculture. Inflation estimates used in estimating certain future tax bracket and other tax data were from the Congressional Budget Office. Employment, wage, interest rates, and other economic data forecasts are from Global Insight's October 2010 forecast.

Table 12
Historic and Projected Growth Rates for Line Items

INCOME ITEMS	Actual CY 2002	Actual CY 2003	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Forecast CY 2010	Forecast CY 2011	Forecast CY 2012	Forecast CY 2013
Federal Adjusted Gross Income Items												
Wages, salaries, tips, etc.	2.80%	4.14%	5.81%	6.18%	8.66%	7.56%	5.38%	-1.61%	0.86%	3.57%	4.34%	4.10%
Interest income	-20.17%	-14.36%	-9.08%	16.56%	32.64%	18.85%	-10.94%	-22.89%	-39.63%	-12.60%	19.54%	54.45%
Dividend income	-12.43%	12.29%	27.56%	22.05%	12.68%	18.80%	-4.47%	-21.90%	1.89%	7.08%	6.29%	4.22%
Net business income	0.43%	1.47%	8.11%	10.11%	4.76%	-2.96%	-7.97%	-7.57%	1.72%	3.77%	4.20%	2.44%
Capital gain or (loss)	-18.88%	24.08%	50.86%	30.25%	29.08%	4.12%	-35.95%	-31.83%	1.92%	-21.09%	33.15%	26.30%
Supplemental gains or (losses)	-24.10%	70.57%	25.52%	11.34%	-12.67%	-2.10%	-14.51%	-66.45%	15.14%	13.89%	0.92%	4.83%
Rents, royalties, partnerships, etc.	10.60%	0.51%	25.84%	32.83%	14.10%	1.64%	-12.23%	-13.07%	3.31%	4.18%	9.47%	6.78%
Taxable IRAs and pensions	1.35%	4.59%	8.40%	7.57%	8.73%	9.34%	8.16%	0.16%	-3.84%	4.82%	4.36%	5.37%
Taxable portion of Soc. Sec.	-1.13%	5.13%	14.31%	17.56%	20.97%	17.06%	3.73%	2.46%	10.82%	11.84%	12.13%	11.92%
Net farm income	-39.86%	7.18%	4.51%	9.80%	39.87%	-11.44%	34.71%	-12.62%	-6.91%	2.18%	4.16%	4.52%
Other income	6.45%	-20.06%	-7.02%	-3.32%	-30.63%	-479.53%	-98.59%	-1043.61%	0.00%	0.00%	0.00%	0.00%
Adjustments to Income	23.21%	0.156871	7.28%	7.28%	5.74%	9.79%	-1.58%	-9.50%	22.76%	7.59%	7.59%	7.59%
ADDITIONS:												
Interest on state, county, bonds	-2.97%	4.01%	6.47%	-0.07%	50.43%	10.98%	18.17%	-2.30%	-21.49%	4.65%	3.09%	1.24%
Federal income tax refunds	21.34%	3.88%	5.72%	-7.04%	-41.50%	-0.93%	-16.18%	0.26%	65.18%	2.52%	3.09%	2.96%
Other additions	2.63%	18.14%	15.70%	-25.27%	30.65%	-0.65%	-2.77%	0.00%	0.00%	0.00%	0.00%	0.00%
REDUCTIONS:												
Farm risk management account	0.00%	1309.10%	-98.89%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	-7.40%	-7.41%	-5.24%	4.97%	NA	NA	NA	NA	NA	NA	NA	NA
Exclusion for savings bonds	-30.61%	-20.93%	-7.70%	12.93%	37.46%	13.96%	-32.64%	-27.85%	41.80%	0.65%	7.57%	10.55%
Exempt pension income	2.98%	0.96%	0.96%	0.96%	NA	NA	NA	NA	NA	NA	NA	NA
Unemployment income	31.53%	9.50%	-21.39%	-16.24%	4.02%	7.12%	58.65%	70.24%	7.77%	-1.37%	-3.10%	-2.68%
Medical savings account excl.	20.56%	14.70%	21.74%	3.43%	10.03%	5.36%	1.98%	3.04%	7.34%	6.84%	6.40%	6.02%
Family education account excl.	60.42%	20.15%	13.52%	-6.55%	7.60%	6.57%	-14.42%	-3.82%	9.41%	8.60%	7.92%	7.34%
First-time homebuyers acct. excl.	1.76%	14.94%	-18.84%	4.42%	-19.78%	-8.29%	-0.03%	31.90%	0.28%	0.28%	0.28%	0.28%
Loan Repayments Taxed to Health Care Prof.	NA	NA	-13.39%	-21.80%	-2.93%	2.37%	14.91%	25.84%	-17.50%	0.00%	0.00%	0.00%
Other reductions	5.44%	6.83%	10.51%	12.06%	17.25%	9.15%	6.14%	14.37%	6.34%	6.34%	6.34%	6.34%

Table 12 (Cont.)
Historic and Projected Growth Rates for Line Items

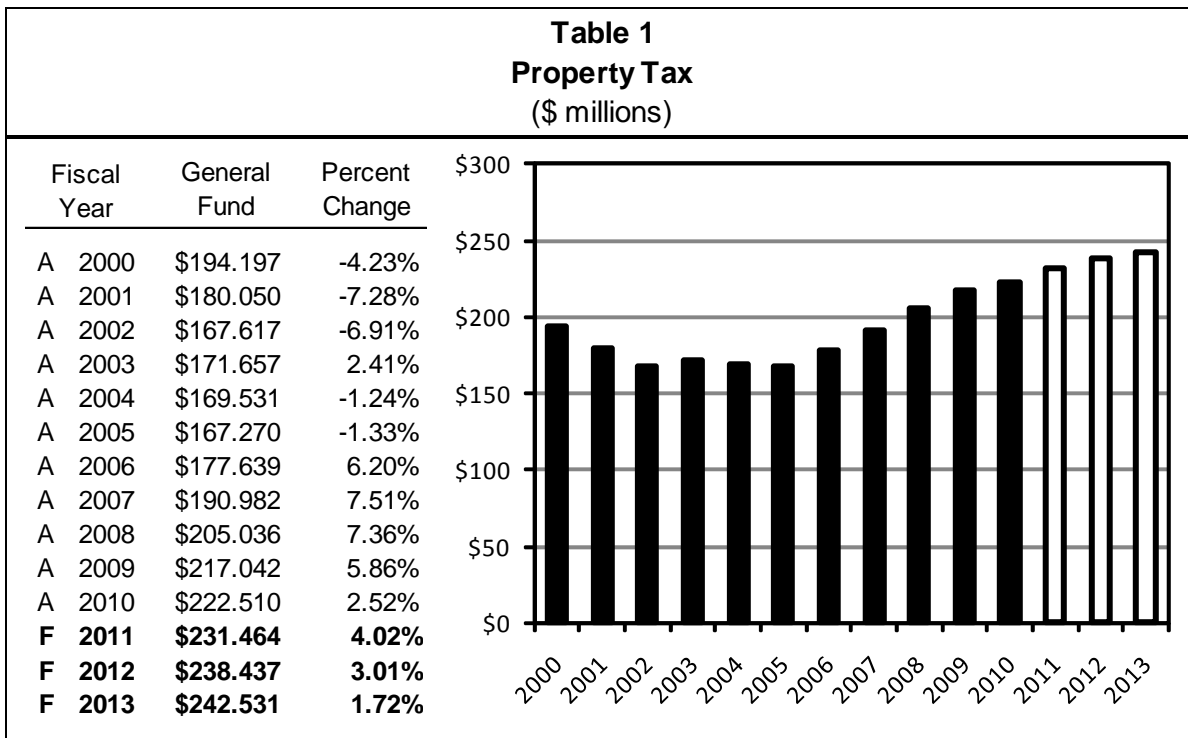
ITEMIZED DEDUCTIONS:	Actual CY 2002	Actual CY 2003	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Forecast CY 2010	Forecast CY 2011	Forecast CY 2012	Forecast CY 2013
Medical insurance premiums	9.89%	-1.99%	7.25%	6.03%	11.55%	3.15%	4.47%	5.01%	6.53%	6.53%	6.53%	6.53%
Medical deduction	9.71%	6.12%	9.27%	5.73%	2.67%	4.87%	7.52%	-0.38%	6.20%	6.20%	6.20%	6.20%
Long-term care insurance	12.98%	8.86%	6.81%	3.53%	12.69%	13.92%	8.15%	-1.34%	5.67%	5.36%	5.09%	4.84%
Balance of federal tax	-21.55%	-5.09%	-11.00%	5.21%	86.93%	23.55%	6.19%	-22.36%	0.00%	0.00%	0.00%	0.00%
Additional federal tax	-31.92%	17.64%	0.55%	-20.23%	33.73%	6.00%	30.21%	63.08%	10.90%	10.90%	10.90%	10.90%
Property taxes	10.66%	5.99%	7.44%	0.05%	7.46%	4.34%	5.78%	3.33%	6.39%	6.39%	6.39%	6.39%
Motor veh. and other deductible taxes	11.63%	3.00%	10.16%	26.69%	-0.40%	-20.46%	0.98%	2.75%	0.00%	0.00%	0.00%	0.00%
Home mortgage interest	4.15%	-1.05%	4.24%	9.81%	15.61%	14.52%	2.05%	-3.14%	6.08%	6.08%	6.08%	6.08%
Deductible investment interest	-22.57%	-12.23%	12.34%	38.17%	42.27%	9.89%	-16.98%	-36.50%	11.95%	7.50%	13.26%	9.99%
Contributions	13.05%	-2.26%	11.23%	6.55%	3.77%	41.75%	-19.22%	-3.84%	6.40%	6.40%	6.40%	6.40%
Child/dependent care expenses	1.57%	2.18%	-9.36%	-3.22%	-6.91%	5.73%	-6.06%	15.80%	-0.11%	-0.11%	-0.11%	-0.11%
Casualty and theft losses	41.33%	-8.03%	-11.86%	23.74%	64.67%	-36.59%	19.05%	24.08%	8.49%	8.49%	8.49%	8.49%
Tier I - Miscellaneous	3.81%	0.45%	9.13%	8.53%	53.45%	10.58%	-27.62%	-10.62%	1.92%	1.92%	1.92%	1.92%
Tier II - Miscellaneous	13.45%	67.50%	-31.04%	7.25%	46.57%	-40.36%	48.64%	115.45%	18.85%	18.85%	18.85%	18.85%
Gambling Losses	0.14%	-3.55%	22.97%	28.25%	7.39%	12.62%	22.68%	-0.19%	9.13%	9.13%	9.13%	9.13%
CREDITS	Actual CY 2002	Actual CY 2003	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Forecast CY 2010	Forecast CY 2011	Forecast CY 2012	Forecast CY 2013
Capital gains tax credit	0.00%	0.00%	0.00%	0.00%	27.58%	104.22%	-34.66%	-31.27%	18.14%	6.57%	6.57%	6.57%
Elderly homeowner/renter tax credit	0.00%	0.00%	0.00%	0.00%	-4.73%	1.43%	8.74%	2.58%	18.14%	6.57%	6.57%	6.57%
Physician credit for rural practice	42.80%	-16.52%	-0.54%	-25.07%	-17.20%	10.34%	-30.49%	-43.66%	18.14%	6.57%	6.57%	6.57%
College contribution credit	0.55%	-10.76%	15.78%	20.35%	19.16%	-3.03%	-5.79%	5.31%	18.14%	6.57%	6.57%	6.57%
Charitable endowment credit	-78.27%	32.79%	17.02%	-0.45%	27.03%	-11.94%	-31.14%	-9.00%	18.14%	6.57%	6.57%	6.57%
Elderly care credit	-57.21%	-23.47%	32.65%	97.98%	-3.19%	-6.60%	-3.88%	-6.18%	18.14%	6.57%	6.57%	6.57%
Other state/foreign tax credit	3.79%	3.33%	20.22%	8.31%	22.22%	-12.00%	3.22%	-18.90%	18.14%	6.57%	6.57%	6.57%
Contractor's gross receipts credit	-5.61%	26.66%	3.63%	27.24%	61.85%	7.13%	-2.10%	53.94%	18.14%	6.57%	6.57%	6.57%
Investment credit	-63.15%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	18.14%	6.57%	6.57%	6.57%
Alternative energy systems credit	467.97%	31.63%	48.41%	43.61%	5.76%	5.16%	40.07%	30.59%	18.14%	6.57%	6.57%	6.57%
Energy conservation credit	548.21%	86.93%	26.94%	81.49%	41.07%	1.99%	-2.93%	27.31%	18.14%	6.57%	6.57%	6.57%
Alternative energy production credit	313.42%	-16.06%	51.98%	-34.70%	88.08%	92.31%	-79.27%	297.91%	18.14%	6.57%	6.57%	6.57%
Recycling credit	-34.98%	82.78%	153.63%	33.52%	84.40%	-49.03%	36.72%	-16.79%	18.14%	6.57%	6.57%	6.57%
Alternative fuels credit	202.50%	-100.00%	0.00%	0.00%	-24.42%	31.97%	8.66%	39.31%	18.14%	6.57%	6.57%	6.57%
Montana capital company credit	-6.30%	-100.00%	0.00%	0.00%	-48.98%	-40.00%	-100.00%	0.00%	18.14%	6.57%	6.57%	6.57%
Dependent care assistance credit	624.35%	117.71%	-26.83%	42.04%	10.63%	37.67%	79.57%	-67.78%	18.14%	6.57%	6.57%	6.57%
Employee health insurance credit	-34.72%	124.83%	211.11%	20.97%	8.11%	-6.00%	-21.22%	-28.88%	18.14%	6.57%	6.57%	6.57%
Infrastructure users fee credit	0.00%	0.00%	0.00%	0.00%	-8.65%	-96.88%	24.93%	-8.80%	18.14%	6.57%	6.57%	6.57%
Historic building preservation credit	3.89%	-76.18%	448.84%	-47.52%	291.19%	11.02%	-73.02%	123.81%	18.14%	6.57%	6.57%	6.57%
Developmental disability account credit	0.00%	0.00%	0.00%	158.57%	-63.17%	811.00%	-100.00%	0.00%	18.14%	6.57%	6.57%	6.57%
Empowerment zone credit	0.00%	0.00%	0.00%	165.48%	1675.13%	-97.09%	-100.00%	0.00%	18.14%	6.57%	6.57%	6.57%
Insure Montana small business health ins credit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	18.14%	6.57%	6.57%	6.57%
Other Credits	0.00%	0.00%	0.00%	0.00%	0.00%	19.49%	8.70%	5.59%	18.14%	6.57%	6.57%	6.57%

Revenue Description

Title 15, Chapter 6, Part 1, MCA, identifies the classes of property subject to taxation and the applicable tax rate. Property tax revenue is collected directly from mills levied on property, and indirectly from non-levy revenue sources. Non-levy revenues are shared with local taxing jurisdictions based on the proportion of state to local mills levied in the respective taxing jurisdictions (coal gross proceeds and federal forest receipts). The state general fund receives property tax revenue from statewide levies for: elementary school BASE funding of 33 mills (20-9-331, MCA), high school BASE funding of 22 mills (20-9-333, MCA), and the 40 mill state equalization aid levy (20-9-360, MCA), commonly referred to collectively as the 95 mill levy. In addition there is a 1.5 mill levy on property in counties with colleges of technology (20-25-439, MCA).

TY 2009 (FY 2010) was the first year of a new six-year periodic revaluation cycle for agricultural land (class 3 property), commercial and residential real property (class 4 property), and forest land (class 10 property). All other property is assessed annually. The increment in market value, due solely to reappraisal, is added to the tax rolls in one-sixth increments (phased-in) each year (15-7-11, MCA), all other value changes (up or down) are applied in the first year of the new appraisal cycle. HB 658 (2009 session) raised exemptions and lowered tax rates, progressively throughout the cycle, to accommodate this increase due to reappraisal.

Table 1 shows general fund property tax collections for FY 2000 through FY 2010 and forecast revenue for FY 2011, FY 2012, and FY 2013.



Risks and Significant Factors

- Property tax appeal processes and property tax assistance programs may lower revenue more than anticipated.
- Litigation challenging the implementation of reappraisal and protested property taxes could lower collections.
- Unanticipated growth in tax increment financing districts (TIFs) could lower state, schools, and local jurisdiction property tax collections.

- Property taxes constitute the largest statewide tax source – the state, local governments, schools and special districts collected over \$1.181 billion in property taxes and fees in TY 2009 (FY 2010).
- The expiration of the Secure Rural Schools and Communities Act in FY 2013 lowers state non-levy revenue by \$3.8 million as payments revert to federal forest reserve payments.
- The misclassification of non-levy revenues on county collection reports leads to inconsistencies in the allocation of these revenues in the state accounting system (SABHRS) accounts.

Estimate Summary

The presentation of this forecast starts with a summary estimate of general fund property tax revenue, non-levy revenue and adjustments for the class 4 extended property tax assistance program (EPTAP) and centrally assessed protested property taxes that accrue to the state (Table 2). The summary is followed by a step-by-step presentation of methodology.

Table 2				
Summary of General Fund Property Tax Revenue				
(\$ millions)				
	Actual FY 2010	----- FY 2011	Forecast FY 2012	----- FY 2013
Property Tax - 95 Mill Levy	\$210.211	\$219.448	\$226.954	\$235.239
Property Tax - 1.5 Mill Levy	\$1.096	\$1.115	\$1.163	\$1.205
Protested Property Taxes	(\$1.183)	(\$1.183)	(\$1.183)	(\$1.183)
Adjustment for EPTAP	(\$0.134)	(\$0.192)	(\$0.227)	(\$0.236)
Net Property Mill Levy Revenue	\$209.990	\$219.189	\$226.707	\$235.025
Non-Levy Revenue:				
Coal Gross Proceeds	\$6.741	\$6.580	\$6.522	\$6.065
Federal Forest Reserves	\$4.986	\$4.891	\$4.403	\$0.636
All other (by residual FY 2010)	\$0.793	\$0.805	\$0.805	\$0.805
Subtotal Non-Levy Revenue	\$12.519	\$12.276	\$11.730	\$7.506
Total Property Tax Revenue	\$222.510	\$231.464	\$238.437	\$242.531

Forecast Methodology

The property tax forecast is built by estimating growth rates for tax year (TY) assessed market value by property class and converting the assessed market value into taxable value by applying statutory tax rates and exemptions. This method minimizes the need for adjustments for local property tax abatements. Adjustments are made for tax increment financing districts, which do not pay equalization, elementary, and high school mill levies to the state. Revenue accruing to the state is then estimated for the fiscal year of receipt. A separate forecast is made for each non-levy revenue source. These estimates are summed to form the general fund property tax revenue estimate.

There are six main steps followed to calculate the property tax revenue generated from the 95 mill levy and the 1.5 mill levy:

Step 1. Estimate the growth rate for the assessed value of each class of property.

Historical trends in valuation are generally used as the foundation for estimating future property value growth; adjustments are made for major new investments and the effects of known changes in tax rates or valuation. Growth rates are determined independently for each class of property.

Table 3 is a summary of assessed market value and market value growth for all property classes except 3 (agricultural land), 4 (residential and commercial real property), 10 (forest property), 15 (qualifying CO₂ sequestration and liquids pipelines) and 16 (qualifying high-voltage direct current converter property). Classes 3, 4 and 10 will be presented in

the section on cyclically reappraised property to address phase-in of market value, underlying real growth, changes in exemptions and tax rates in greater detail following the summary of all other classes of property. New tax class 15 has been assigned no value or growth during the forecast period as the creation any new property in this class is currently unknown. New class 16 may include some value entering the class in TY 2012 with the initiation of the Montana Alberta Tie-Line (MATL). If the MATL property does not qualify under class 16, this same property would qualify as class 14 at a slightly higher tax rate (raising general fund revenue by \$32,000).

Table 3
Summary of Assessed Market Value
(\$ millions)

Tax Year	Class 1 Net Proceeds		Class 2 Gross Proceeds		Class 5 Rural Co-Op & Pollution Control		Class 7 Locally Assessed Utilities		Class 8 Business Equipment	
	Adjusted Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change
A 2000			\$8.461	2.2%			\$1.948	-91.7%	\$3,727.546	11.5%
A 2001	\$2.129		\$11.015	30.2%			\$2.363	21.3%	\$3,943.691	5.8%
A 2002	\$3.903	83.3%	\$10.669	-3.1%	\$1,180.182		\$2.705	14.5%	\$4,012.213	1.7%
A 2003	\$3.071	-21.3%	\$8.800	-17.5%	\$1,090.984	-7.6%	\$12.439	359.8%	\$3,995.585	-0.4%
A 2004	\$2.974	-3.2%	\$10.428	18.5%	\$1,134.277	4.0%	\$12.179	-2.1%	\$3,989.982	-0.1%
A 2005	\$2.694	-9.4%	\$19.265	84.7%	\$1,154.284	1.8%	\$11.918	-2.1%	\$4,184.891	4.9%
A 2006	\$3.252	20.7%	\$21.106	9.6%	\$1,170.571	1.4%	\$13.354	12.1%	\$4,643.968	11.0%
A 2007	\$3.840	18.1%	\$28.347	34.3%	\$1,181.927	1.0%	\$13.698	2.6%	\$4,981.371	7.3%
A 2008	\$4.013	4.5%	\$34.858	23.0%	\$1,170.260	-1.0%	\$15.179	10.8%	\$5,685.496	14.1%
A 2009	\$4.002	-0.3%	\$31.019	-11.0%	\$1,251.525	6.9%	\$15.822	4.2%	\$5,822.852	2.4%
A 2010	\$3.181	-20.5%	\$18.291	-41.0%	\$1,299.811	3.9%	\$16.229	2.6%	\$6,276.622	7.8%
F 2011	\$3.233	1.6%	\$28.347	55.0%	\$1,404.811	8.1%	\$16.858	3.9%	\$6,574.435	4.7%
F 2012	\$3.285	1.6%	\$30.255	6.7%	\$1,457.311	3.7%	\$17.511	3.9%	\$6,887.139	4.8%
F 2013	\$3.337	1.6%	\$33.396	10.4%	\$1,509.811	3.6%	\$18.189	3.9%	\$7,215.478	4.8%
Tax Year	Class 9 Pipelines & Electricity Transmission		Class 12 Airlines & Railroads		Class 13 Telecommunication & Electrical Generation		Class 14 Renewable Energy Production & Transmission		Class 16 High Voltage DC Converter Property	
	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change
A 2000	\$1,938.782	-0.1%								
A 2001	\$1,719.851	-11.3%								
A 2002	\$1,767.717	2.8%	\$1,161.405		\$2,286.414					
A 2003	\$1,833.334	3.7%	\$1,176.038	1.3%	\$2,041.207	-10.7%				
A 2004	\$1,990.999	8.6%	\$1,183.046	0.6%	\$2,008.084	-1.6%				
A 2005	\$2,070.805	4.0%	\$1,183.616	0.0%	\$2,048.766	2.0%				
A 2006	\$2,204.148	6.4%	\$1,171.178	-1.1%	\$2,354.749	14.9%	\$170.379			
A 2007	\$2,204.148	0.0%	\$1,221.693	4.3%	\$2,550.499	8.3%	\$172.664	1.3%		
A 2008	\$2,193.812	-0.5%	\$1,246.504	2.0%	\$2,583.395	1.3%	\$196.252	13.7%		
A 2009	\$2,120.180	-3.4%	\$1,359.438	9.1%	\$2,578.848	-0.2%	\$434.939	121.6%		
A 2010	\$2,338.609	10.3%	\$1,524.594	12.1%	\$2,904.257	12.6%	\$596.308	37.1%		
F 2011	\$2,434.004	4.1%	\$1,542.669	1.2%	\$3,019.661	4.0%	\$803.287	34.7%		
F 2012	\$2,597.339	6.7%	\$1,560.958	1.2%	\$3,139.650	4.0%	\$934.542	16.3%	\$71.166	
F 2013	\$2,859.287	10.1%	\$1,579.463	1.2%	\$3,264.408	4.0%	\$1,205.886	29.0%	\$72.945	2.5%

Of note in Table 3:

- **Class 1**, net proceeds of all mines (except metal mines and bentonite) assessed value is highly dependent on construction; value dropped in TY 2010 but is expected to recover at its long-run growth rate from the low TY 2010 base. The series presented is adjusted for the removal of bentonite from the class in TY 2005.
- The forecast for **Class 2**, net proceeds of metal mines, is based on the Global Insight projection for the producer price for metals and a return to trend levels of production as suspended mining operations resume at an existing mine. Metal mines property taxes are based on the prior calendar year's production value.
- Two new gas power plants are expected to be added to the tax rolls in the forecast period in **Class 5**.
- **Class 8** growth is based on underlying property value growth after adjusting for large one-time investments.
- **Class 9** property includes one-half of the Montana Alberta Tie-Line (MATL) starting in TY 2012 and anticipated pipeline expansions.
- **Class 13** fully incorporates the Mill Creek power plant in TY 2011.
- **Class 14**, (formerly wind generation property) is expanding rapidly. The forecast is based on an assessment of recent growth and reports of new projects that have broken ground.
- New **Class 16** includes the 50% of the MATL that is likely to qualify in the class. It is assumed that this value goes on the property tax rolls in TY 2012.

Step 2. Estimate the growth of classes of property subject to reappraisal (classes 3, 4 and 10).

For classes 3, 4 and 10, growth is derived by calculating the interaction of long-run trends new property growth, estimated future (annual) reappraisal increments (phase-in), the effects of declining tax rates, and progressively increasing "homestead" and "comstead" exemption rates. The Class 3 and Class 4 property receive the same tax rate which declines each year of the reappraisal cycle.

Class 3 – Agricultural Land

Agricultural land is assessed base on the productive value of the property instead of market value. Table 4 presents the estimate of class 3 productivity value and the resulting taxable value growth. The base growth rate of agricultural property is assumed to be negative 0.15 % during the forecast period. The negative growth rate is appropriate as property is converted to commercial and residential parcels over time. Due to reappraisal, the assessed value grows by a phase-in increment in addition to base growth. Reduction in tax rates offset the reappraisal increment. Negative growth and declining tax rates result in a falling taxable value in each subsequent year of the reappraisal cycle. The applicable tax for agricultural rate is higher than the statutory rate because small agricultural parcels that do not meet and income threshold receive a higher tax rate as non-qualified agricultural land.

	TY 2010	TY 2011	TY 2012
Productivity Value	\$5,160.919	\$5,195.642	\$5,230.313
Statutory Tax Rate	2.82%	2.72%	2.63%
<i>(Applicable tax rate)</i>	2.98%	2.87%	2.78%
Total Taxable Value	\$153.566	\$149.117	\$145.145
Base Growth		-0.15%	-0.15%
Taxable Value Percent Change	-4.7%	-2.9%	-2.7%

Class 4 – Residential and Commercial Real Property

Because exemptions for commercial and residential property are different for each subclass; estimates of taxable value growth are presented separately for residential, multi-family commercial property and commercial property, as they each receive different exemptions (multi-family commercial property receives the residential "homestead" exemption). The presentation starts with residential property.

Class 4 Residential Real Property

Table 5 presents the forecast of taxable value for residential class 4 property. The forecast is based on underlying residential property growth of 2.0% in TY 2011, 2.5% in TY 2012. Due to reappraisal, the market value of this property grows by a phase-in reappraisal increment each year, the increase in the homestead exemption and the reduction in the tax rate offset this change in taxable value due to reappraisal.

Table 5			
Class 4 Residential Real Property			
(\$ millions)			
	TY 2010	TY 2011	TY 2012
Market Value	\$61,372.661	\$68,008.063	\$75,142.724
Homestead Rate	39.5%	41.8%	44.0%
<u>Taxable</u> Market Value	\$37,130.460	\$39,580.693	\$42,079.925
Tax Rate	2.82%	2.72%	2.63%
Taxable Value	\$1,047.079	\$1,076.595	\$1,106.702
Minus PTAP/DAV Reductions	(\$13.734)	(\$13.734)	(\$13.734)
Total Taxable Value	\$1,033.345	\$1,062.861	\$1,092.968
Base Growth		2.0%	2.5%
Taxable Value Percent Change	1.9%	2.9%	2.8%

An adjustment is made for the reduction in taxable value due to the Property Tax Assistance Program (PTAP) and Disabled American Veterans (DAV) property tax assistance programs, as these programs reduce taxable value by reducing the standard tax rate for qualifying residential properties. The revenue effects of these programs, unlike local property tax abatements, reduce state mill collections.

Class 4 Multi-family Commercial Real Property

Table 6 displays the calculation of taxable value and the growth rate for commercial multi-family property. The base growth rate of this property is assumed to grow by 0.5% per year from a TY 2011 estimate of 2.0% during the forecast period. Due to reappraisal, the market value of property grows by a phase-in reappraisal increment of approximately \$189 million per year. The increasing "homestead" exemption rate and the phase-down of the tax rate offsets the reappraisal increment. The two factors combined result in a slow growth in taxable value in each subsequent year of the reappraisal cycle.

Table 6			
Class 4 (Commercial) Multi-family			
(\$ millions)			
	TY 2010	TY 2011	TY 2012
Market Value	\$2,597.068	\$2,841.971	\$3,106.927
Homestead Rate	39.5%	41.8%	44.0%
<u>Taxable</u> Market Value	\$1,571.226	\$1,654.027	\$1,739.879
Tax Rate	2.82%	2.72%	2.63%
Taxable Value	\$44.309	\$44.990	\$45.759
Base Growth		2.0%	2.5%
Taxable Value Percent Change	-1.0%	1.5%	1.7%

Class 4 Commercial Real Property

Table 7 presents the development of taxable value on commercial real property. The based growth rate for this property is assumed to be 2.0% in TY 2011 and 2.5% in TY 2012 during the forecast period. Due to reappraisal, the market value of property grows by a phase-in reappraisal increment of nearly \$1,152 million per year. The “comstead” exemption grows each year coupled and with declining tax rates, offset most of the reappraisal growth.

Table 7			
Class 4 Commercial Real Property			
(\$ millions)			
	TY 2010	TY 2011	TY 2012
Market Value	\$13,521.318	\$14,966.971	\$16,522.132
Comstead Rate	15.9%	17.5%	19.0%
<u>Taxable</u> Market Value	\$11,371.428	\$12,347.751	\$13,382.927
Tax Rate	2.82%	2.72%	2.63%
Taxable Value	\$320.674	\$335.859	\$351.971
Base Growth		2.0%	2.5%
Taxable Value Percent Change	2.5%	4.7%	4.8%

Class 10 Forest Land

Forest land, like agricultural, land is assessed based on its productivity value. Table 8 presents the estimate of class 10 growth. The base growth rate of forest land is assumed to be negative 0.80% during the forecast period as the value of Class 10 property is reduced when land is converted to commercial and residential parcels. Due to reappraisal, the assessed value grows by a phase-in reappraisal increment of nearly \$40 million per year. The reduction in tax rates offsets the reappraisal increment. Negative growth and declining tax rates reduce taxable value in each subsequent year of the forecast period.

Table 8			
Class 10 Forest Land			
(\$ millions)			
	TY 2010	TY 2011	TY 2012
Productivity Value	\$1,987.606	\$2,011.085	\$2,034.377
Tax Rate	0.33%	0.32%	0.31%
Taxable Value	\$6.519	\$6.435	\$6.307
Base Growth		-0.8%	-0.8%
Taxable Value Growth	-6.7%	-1.3%	-2.0%

Step 3. Determine the tax rate for each class of property.

As stated previously, tax rates for each class of property are set in statute. However, classes 3 and 4 have special rates which apply to sub-categories of property. In class 3, parcels of agricultural land that are less than 160 acres in size that do not generate at least \$1,500 in agricultural production per year are considered “non-qualified agricultural land” and have a tax rate seven times the standard class 3 rate. Because the non-qualified agriculture tax rate is higher than the standard class 3 tax rate, the applicable tax rate is higher than the standard tax rate. The prior year’s ratio of effective to statutory rate is used to forecast the average tax rate (as can be seen in Table 5).

In class 4, residential properties of individuals who meet statutory residence, income, and qualifying conditions, receive reduced tax rates (property tax assistance programs, disabled American veterans programs, and extended property tax assistance programs). Some commercial properties are taxed at a lower than standard rate – examples are properties that receive new and expanding industry property (local) abatements, and commercial golf courses (lower statutory

class 4 rate). Table 9 summarizes standard statutory property tax rates for TY 2009 through TY 2012 for all classes of property. The table illustrates that class 3, 4, 10 and 12 properties have changing tax rates.

Tax Year	Class 1 Mine Net Proceeds	Class 2 Mine Gross Proceeds	Class 3 Agric. Land¹	Class 4 Residential & Commercial Property	Class 5 Co-op & Pollution Control	Class 7 Locally Assessed Utilities	Class 8 Business Equipment	Class 9 Pipelines, NonGenerating Utility Prop.	Class 10 Forest Land	Class 12 Airlines & Railroads²	Class 13 Telecomm & Electrical Generation	Class 14 Renewable Energy & Transmission	Class 15 CO₂ & Cert. Liquid Pipeline	Class 16 High Voltage DC
2009	3.00%	3.00%	2.93%	2.93%	3.00%	8.00%	3.00%	12.00%	0.34%	3.45%	6.00%	3.00%	3.00%	2.25%
2010	3.00%	3.00%	2.82%	2.82%	3.00%	8.00%	3.00%	12.00%	0.33%	3.40%	6.00%	3.00%	3.00%	2.25%
2011	3.00%	3.00%	2.72%	2.72%	3.00%	8.00%	3.00%	12.00%	0.32%	3.42%	6.00%	3.00%	3.00%	2.25%
2012	3.00%	3.00%	2.63%	2.63%	3.00%	8.00%	3.00%	12.00%	0.31%	3.34%	6.00%	3.00%	3.00%	2.25%
2013	3.00%	3.00%	2.54%	2.54%	3.00%	8.00%	3.00%	12.00%	0.30%	3.29%	6.00%	3.00%	3.00%	2.25%

¹ Actual rate is higher due non-qualified Ag land rate ² Class 12 rates is calculated on the weighed average of all commercial and industrial property

The reappraised classes (classes 3, 4, and 10) had their rates set as part of HB 658 reappraisal mitigation. The class 12 tax rate is calculated under the provisions of the federal 4-R Act. The specific provisions of the act prohibits state, county, and local taxing jurisdictions from assessing rail transportation property at a higher ratio of assessed value to true market value than other commercial and industrial property within the jurisdiction. Class 12 property is assessed annually at the weighted average tax rate for all commercial and industrial property in the state. Class 4 commercial property represents over half of statewide commercial and industrial property and is assessed on a six-year cycle. In order to comply with the 4-R Act, the Department of Revenue uses commercial property sales to calculate the required adjustment to the class 4 commercial tax rate used in the class 12 weighted average tax rate. This revenue estimate uses the forecast of market and taxable values for all commercial and industrial property to calculate the likely class 12 rate for TY 2011 and TY 2012 (the tax rate for TY 2010 is known). These rates are presented in Table 9.

Step 4. Calculate the statewide fiscal year taxable value for each class of property.

For all classes of property except class 8, the tax collected on the calendar year taxable value is the next fiscal year's revenue. Tax year class 8 assessed value needs to be adjusted for the billing cycle for personal property not liened-to-real property. Class 8 property not liened-to-real property (about 44% of the class by value) is taxed in the spring of the calendar year and is therefore paid in the current fiscal year (during the month of May). Class 8 property liened-to-real property (56%) is collected in the following fiscal year when real property tax payments are made in November and May. Therefore, FY 2010 taxable value is 56% of TY 2009 taxable value and 44% of TY 2010 taxable value. This adjustment is made to the class 8 property presented in the summary of taxable value (table 10). The discussion from this point forward will focus on fiscal year outcomes.

Table 10 presents the result of applying statutory tax rates (table 9) to tax year assessed values adjusted for the expected timing of property tax receipts by the state.

Table 10			
Statewide Taxable Value Summary			
(\$ millions)			
Class & Property Description	FY 2011	FY 2012	FY 2013
1. Net Proceeds	\$3.181	\$3.233	\$3.285
2. Gross Proceeds (w/o Abatements)	\$28.347	\$30.255	\$33.396
3. Agricultural Land	\$153.566	\$149.117	\$145.145
4. Res. & Comm. Real Property	\$1,398.328	\$1,443.710	\$1,490.698
5. Rural Co-Op/Poll. Control	\$38.994	\$42.144	\$43.719
7. Non-centrally Assessed Util.	\$1.298	\$1.349	\$1.401
8. Business Equipment (FY adjusted)	\$188.299	\$197.233	\$206.614
9. Pipelines, Electrical Transmission	\$280.633	\$292.080	\$311.681
10. Forest Land	\$6.519	\$6.435	\$6.307
12. Airlines/Railroads	\$51.765	\$52.736	\$52.155
13. Telecomm./Electrical Generation	\$174.255	\$181.180	\$188.379
14. Renewable Energy Prod. & Trans.	\$17.889	\$24.099	\$28.036
15. CO ₂ /Qualifying Liquid Pipelines			
16. High Voltage DC Converter			\$1.601
Statewide Taxable Value	\$2,343.074	\$2,423.571	\$2,512.418

Table 11 presents the annual change in the forecast taxable values in table 10, by class, to facilitate comparability to the estimates presented by the Legislative Finance Division. These growth rates are important in estimating taxable value changes needed to estimate the fiscal impact of proposed legislation affecting the property tax system.

Table 11			
Forecast Annual Percent Change in Taxable Value			
Class & Property Description	FY 2011	FY 2012	FY 2013
1. Net Proceeds	-20.5%	1.6%	1.6%
2. Gross Proceeds (w/o Abatements)	55.0%	6.7%	10.4%
3. Agricultural Land	-4.7%	-2.9%	-2.7%
4. Res. & Comm. Real Property	1.9%	3.2%	3.3%
5. Rural Co-Op/Poll. Control	3.9%	8.1%	3.7%
7. Non-centrally Assessed Util.	2.6%	3.9%	3.9%
8. Business Equipment (FY adjusted)	7.8%	4.7%	4.8%
9. Pipelines, Electrical Transmission	10.3%	4.1%	6.7%
10. Forest Land	-6.7%	-1.3%	-2.0%
12. Airlines/Railroads	10.4%	1.9%	-1.1%
13. Telecomm./Electrical Generation	12.6%	4.0%	4.0%
14. Renewable Energy Prod. & Trans.	37.1%	34.7%	16.3%
15. CO ₂ /Qualifying Liquid Pipelines			
16. High Voltage DC Converter			
Statewide Taxable Value Growth	4.4%	3.4%	3.7%

Step 5. Determine the taxable value base for statewide mill levies.

In order to calculate the 95 mill revenue due the state, adjustments need to be made for TIFs. TIFs do not transfer all of the 95 mill revenue generated in the district to the state. TIF districts (authorized under Title 7, chapter 14, part 42, MCA.) retain the taxes generated from all millage in the district (except the 6 mill university levies) on the taxable value greater than the taxable value existing in the district when it was created, commonly referred to as the "TIF incremental value". The 95 mill revenue, generated from these increments must be deducted from the estimate of state property tax revenue. The estimate grows TIF incremental taxable value by the TIF property class-weighted average annual percent changes. During the forecast period three TIF districts in Dear Lodge county and two TIF districts in Flathead county are scheduled to expire.

Because the calculation of total property tax revenue is estimated by applying the standard statutory tax rates to the assessed market value property base, no adjustment is needed for locally abated property. Table 12 displays the calculation of state revenue generated from the 95 mill levies.

Calculation	FY 2010	FY 2011	FY 2012	FY 2013
Statewide Taxable Value	\$2,244.764	\$2,343.074	\$2,423.571	\$2,512.418
Subtract TIF Value	(\$32.014)	(\$33.092)	(\$34.579)	(\$36.219)
Add Abated Property Value	\$0.000	\$0.000	\$0.000	\$0.000
Taxable Value for 95 Mills	\$2,212.749	\$2,309.982	\$2,388.992	\$2,476.199
Apply 95 Mills	0.095	0.095	0.095	0.095
State Revenue from 95 Mills	\$210.211	\$219.448	\$226.954	\$235.239

The 1.5 mill levy revenue for colleges of technology is estimated based on the taxable value in counties with colleges of technology adjusted for county TIFs. Table 13 shows the estimated revenue generated by the 1.5 mill levy

	FY 2010	FY 2011	FY 2012	FY 2013
COT County Taxable Value	\$764.748	\$793.177	\$822.479	\$852.969
COT County TIF Value	(\$17.181)	(\$17.985)	(\$18.824)	(\$19.726)
Taxable Value for 1.5 Mills	\$747.567	\$775.192	\$803.655	\$833.243
Apply 1.5 Mills	0.0015	0.0015	0.0015	0.0015
1.5 Mill Levy Revenue	\$1.115	\$1.163	\$1.205	\$1.250

Step 6. Calculate total general fund property tax revenue due from mill levies and non-levy revenues.

The main non-levy revenues that are shared by counties and the state based on the relative distribution of state and local mills are coal gross proceeds (in counties that have coal production), and federal forest receipts (in counties that have national forest acreage). Additionally there is an assortment of small miscellaneous revenues that counties and the state share.

Beginning in FY 2009, the Secure Rural Schools and Communities Act (SRS) was reauthorized and fully funded under the Emergency Economic Stabilization Act of 2008. The SRS uses the federal forest receipts distribution formula. The state receives the 55 mill share of one-third of Title I funds allocated to countywide school levies. In recent years, that

has meant approximately 21.3% of all Title I payments accrue to the state due to proportion share of school equalization mills.

The base for coal gross proceeds non-levy revenue is the coal severance tax forecast. The coal gross proceeds tax is a 5% levy on the gross value of coal produced. The state receives the TY 1989, elementary and high school mills (45 mill) share of the coal gross proceeds tax collections based on the TY 1989 state to local education mill distribution shares.

Table 14 combines the 95 mills and 1.5 mill revenue (net of an estimated \$1.615 million in anticipated centrally assessed protested property tax that is allocated to a reserved account) and non-levy revenues. The specific taxable values reductions due to the extended property tax assistance program (EPTAP) were not available for this estimate as the “taxes levied” report was still being compiled from county reports. The calculations presented in the fiscal note for HB 658 were used for the likely revenue reductions due to the program.

	Actual FY 2010	----- FY 2011	Forecast FY 2012	----- FY 2013
Property Tax - 95 Mill Levy	\$210.211	\$219.448	\$226.954	\$235.239
Property Tax - 1.5 Mill Levy	\$1.096	\$1.115	\$1.163	\$1.205
Protested Property Taxes	(\$1.183)	(\$1.183)	(\$1.183)	(\$1.183)
Adjustment for EPTAP	(\$0.134)	(\$0.192)	(\$0.227)	(\$0.236)
Net Property Mill Levy Revenue	\$209.990	\$219.189	\$226.707	\$235.025
Non-Levy Revenue:				
Coal Gross Proceeds	\$6.741	\$6.580	\$6.522	\$6.065
Federal Forest Reserves	\$4.986	\$4.891	\$4.403	\$0.636
All other (by residual FY 2010)	\$0.793	\$0.805	\$0.805	\$0.805
Subtotal Non-Levy Revenue	\$12.519	\$12.276	\$11.730	\$7.506
Total Property Tax Revenue	\$222.510	\$231.464	\$238.437	\$242.531

Distribution

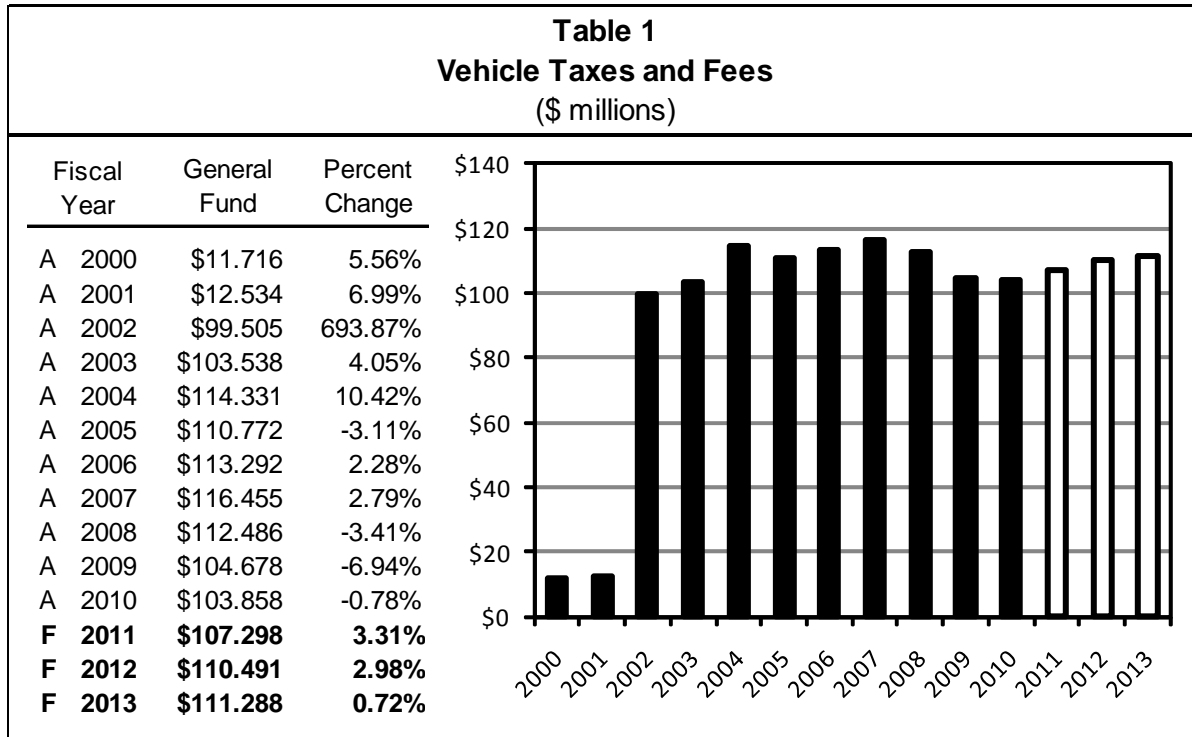
The general fund receives 100% of the 33 mill, 22 mill, 40 mill levies, as well as the 1.5 mill levy. Only the general fund portion of non-levy revenues collected by counties that are distributed to the state, are presented.

Data Sources

Tax collections are extracted from the state accounting system (SABHRS). The summary property tax database and other property tax reports were provided by the Department of Revenue. The Office of Public Instruction prepares the FP6b summary of county school revenues used in the estimates of “all other” non-levy revenue. The producer price index for metals is from the Global Insight October 2010 National Forecast.

Revenue Description

Titles 23 and 61, MCA, provide for multiple fees and fees-in-lieu of taxes on motor vehicles. Such vehicles include light vehicles, heavy vehicles weighing more than one ton, motor homes, trailers, travel trailers, watercraft, motorcycles, snowmobiles, and off-highway vehicles. Fees are based on one or a combination of the following criteria: age, weight, size, or vehicle type. Light vehicles (cars, light trucks, and sports utility vehicles) registration fees-in-lieu of taxes represent nearly 80% of vehicle taxes and fees.



Since FY 2002, motor vehicle revenue has been deposited to the general fund. Fluctuations in revenue since FY 2002 result from legislation. There is little change in overall revenue because the number of automobiles and light trucks is large (over 850,000 vehicles) and annual new vehicle registrations are relatively few (30,000-50,000). The stock vehicles changes only to the extent that new registrations are greater (or fewer) than the number of vehicles sold out of state or are taken out of service. However, new light vehicles (those less than 5 years old) have a disproportionate revenue effect as their registration fees are 2.5 times higher than cars 5 to 10 years old, and 7.75 times higher than light vehicles over 10 years old.

Risks and Significant Factors

- Revenue has been reduced more than expected in recent years.
- The reduction in new vehicle registrations with the economic slowdown coincided with the MERLIN system registration delays. The conversion to the MERLIN system, until recently, reduced the data available to identify underlying vehicle trends.
- Approximately 6% of all light vehicles are registered permanently. Permanent registration of eligible (older) vehicles lowers future vehicle collections. A permanent registered vehicle only re-enters the vehicle tax collection system on a change of ownership.

Forecast Methodology

Major reforms in motor vehicle tax legislation by the 2005 Legislature resulted in accounting and registration changes.

The forecast of general fund vehicle license tax revenue is prepared in the following steps:

- Step 1.** Project the stock of Montana light vehicles using new vehicle registrations, an estimate of the current age distribution of registered light vehicles, and estimated changes in ownership by residual from SABHRS registration revenue.
- Step 2.** Estimate the number of light vehicles registering permanently and forecast permanent registration revenue
- Step 3.** Estimate annual registration revenue from light vehicles
- Step 4.** Collections from other vehicles types, license plates, and other fees are projected using historical ratios of these revenues with respect to light vehicles collections
- Step 5.** Estimate total collections by adding total annual registrations, collections for other vehicle, license plates and other fees, as well as projected permanent registration revenue.

There are currently 54 separate accounts for which vehicle taxes and fee revenues are recorded. Table 2 groups revenue by functional categories or vehicle type. These groupings are used to estimate total revenue. The estimate builds on the number of cars and light trucks which generate nearly 80% of all general fund vehicle tax and fee revenue.

It is important to note that for this estimate adjusted fiscal year light vehicle revenue is used, not current year revenue presented in SABHRS because of accounting delays related to timing of Motor Vehicle Division (MVD) recording of revenue. An October 2008 Legislative Audit Division report of the Department of Justice documents some of the challenges the department faces in recording fiscal year-end revenues received from counties. These estimates minimize these effects by use prior year adjustments to estimate underlying "real" fiscal year activity. Additionally, with the advent of the MERLIN system, several revenue accounts have been added, while others have been consolidated. In order to preserve comparability, only data since FY 2007 is used to form account "cohorts". These aggregates are presented in Table 2.

	FY 2007	FY 2008	FY 2009	FY 2010
Light Vehicle Registrations	\$87.944	\$87.637	\$85.179	\$83.157
Other Vehicle Registrations	\$14.761	\$14.493	\$13.191	\$12.287
Other Fees	\$8.761	\$7.305	\$6.365	\$5.910
<i>of which "other fees" reveue from:</i>				
<i>Generic Specialty Plates</i>	\$0.494	\$0.459	\$0.436	\$0.313
<i>New Plates</i>	\$3.037	\$1.493	\$1.308	\$0.990
<i>Specialty Plates</i>	\$1.334	\$1.336	\$1.251	\$1.232
<i>Titles</i>	\$2.444	\$2.464	\$2.165	\$2.156
<i>Other</i>	\$1.452	\$1.553	\$1.205	\$1.219
Permanent Registrations	\$2.465	\$3.015	\$2.982	\$2.849
Total	\$113.931	\$112.449	\$107.717	\$104.203
<i>Reverse Prior Year Adj.</i>	\$2.539	\$0.027	<i>(\$3.042)</i>	<i>Not Avail</i>
<i>Fiscal Year Revenue</i>	\$116.470	\$112.477	\$104.675	\$104.203

Step 1. Current Stock. Table 3 presents the actual and forecast number of new car and light truck registrations. Montana FY 2010 registrations are consistent with reports that show a significant drop in new car sales nationally. In order to estimate the stock of Montana vehicles, FY 2010 data on the number and distribution of active vehicle registrations, by vehicle age, in Montana are used to set the base number of cars and light trucks. The forecast projects the number of vehicles registered in Montana by adding Global Insight forecast new vehicles (registrations). From this pool is subtracted an estimate of vehicle that are retired. The “scrapage rate” is based on the estimated percent of apparent disappearance vehicles from national stock of light vehicles using data from Global Insight national vehicle stock estimates and estimates of new vehicles.

Fiscal Year	New Light Vehicles		Estimated Population of Vehicle by Age					Permanent Registrations	
	Registrations	Percent Change	0 to 4 Years	5 to 10 Years	Over 10 Years	All	Percent Change	Number	Share (10+)
A 2010	43,891	23.9%	184,335	308,748	399,062	892,145	1.2%	32,373	8.1%
F 2011	48,985	11.6%	189,429	315,511	402,444	907,384	1.7%	34,208	8.5%
F 2012	55,278	12.8%	195,722	328,312	399,775	923,809	1.8%	33,981	8.5%
F 2013	58,887	6.5%	199,331	325,745	400,351	925,427	0.2%	34,030	8.5%

Step 2. Permanent Registrations. The right side of Table 3 presents the estimate of the share of vehicles that are eligible for permanent registration (vehicles over 10 years of age). Montana registered vehicles that are over ten years old can be registered permanently for a fixed fee of \$87.50 (approximately three-times the annual registration fee for the same vehicles). Based on these fees the number of vehicles that registered permanently in any given year can be calculated from accounting data. These permanently registered vehicles generate no future revenue unless they change ownership. As such, they lower the number of vehicles that register and pay fees annually. The current estimate assumes that the share of vehicles that will be permanently registered has stabilized at about 8.5% of the eligible vehicle stock.

Step 3. Annual Registrations. Table 4 presents the estimated revenue from light vehicle registrations by age class. The number of cars and light trucks that are likely to register annually are based on the new registrations forecast. The difference between the revenue from the count of individual light vehicles by age/fee class is assumed to represent revenue from registrations on the transfer of ownership. Implicit in this assumption is that changes in ownership are distributed uniformly by vehicle age.

Fiscal Year	0 to 4 Years \$217 Fee	5 to 10 Years \$87 Fee	Over 10 Years \$28 Fee	Total with No Change of Ownership	Estimated Change in Ownership	Annual Light Vehicle Revenue
A 2007	\$45.505	\$25.055	\$10.062	\$80.622	9.1%	\$87.944
A 2008	\$44.057	\$25.154	\$9.964	\$79.174	10.7%	\$87.637
A 2009	\$41.631	\$25.883	\$10.018	\$77.531	9.9%	\$85.179
A 2010	\$40.001	\$26.861	\$10.267	\$77.129	7.8%	\$83.157
F 2011	\$41.106	\$27.449	\$10.311	\$78.866	9.3%	\$86.201
F 2012	\$42.472	\$28.563	\$10.242	\$81.277	9.3%	\$88.836
F 2013	\$43.255	\$28.340	\$10.257	\$81.852	9.3%	\$89.464

Step 4. Apply Historical Ratios. Based on light vehicle revenue, Table 5 uses vehicle registration revenue by group to estimate the revenue from all other vehicles and estimates the increment due to licensing, plating, registration, and titling fees. The ratios are stable but vary with significant changes in legislation. Forecasts are based on the ratios experienced during the last two fiscal years as these ratios reflect the current law. Growth rates for each group are assumed to match the change in light vehicle revenue.

Fiscal Year	Light Vehicle Revenue	Ratio	Other Vehicle Registration Revenue	Ratio	All Other Fees	Total (Before Permanent Registrations)	Percent Change
A 2007	\$87.944	0.168	\$14.761	0.593	\$8.761	\$111.466	-1.9%
A 2008	\$87.637	0.165	\$14.493	0.504	\$7.305	\$109.434	-1.8%
A 2009	\$85.179	0.155	\$13.191	0.483	\$6.365	\$104.736	-4.3%
A 2010	\$83.157	0.148	\$12.287	0.481	\$5.910	\$101.354	-3.2%
F 2011	\$86.201	0.145	\$12.499	0.450	\$5.625	\$104.324	2.9%
F 2012	\$88.836	0.145	\$12.881	0.450	\$5.797	\$107.514	3.1%
F 2013	\$89.464	0.145	\$12.972	0.450	\$5.838	\$108.274	0.7%

Step 5. Combine All Estimates. The final step of the estimate is to combine the estimate of revenue from permanent registrations with all other vehicle taxes and fees. These are presented in Table 6.

Fiscal Year	Total Collections Net of Permanent Registrations	Permanent Registration Estimate	Total Revenue	Projected Growth
A 2007	\$111.466	\$2.465	\$113.931	0.6%
A 2008	\$109.434	\$3.015	\$112.449	-1.3%
A 2009	\$104.736	\$2.982	\$107.717	-4.2%
A 2010	\$101.354	\$2.849	\$104.203	-3.3%
F 2011	\$104.324	\$2.973	\$107.298	3.0%
F 2012	\$107.514	\$2.978	\$110.491	3.0%
F 2013	\$108.274	\$3.014	\$111.288	0.7%

Distribution

SB 508 (2009 Legislature) instituted a 5-year rolling re-issue process for new license plates effective January 1, 2010. The bill also changed the distribution of new plate fees directing \$2 to the general fund and \$8 to a state special revenue fund to be used to develop an insurance coverage verification system. SB 508 reduces general fund revenue by approximately \$660,000 per year

Data Sources

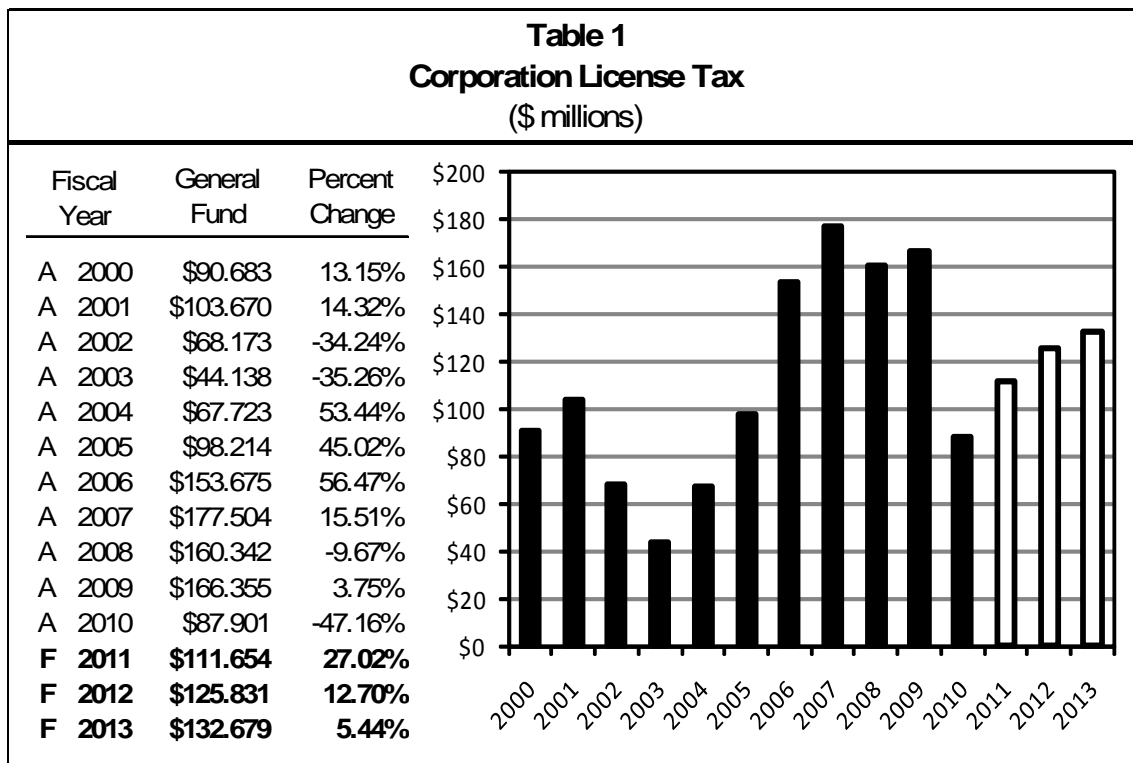
Tax revenue data are from SABHRS. Montana vehicles stock and age distribution for FY 2010 is from the Department of Justice's Motor Vehicles Division. The light vehicle registration forecast is from Global Insight (October 2010).

Revenue Description

In accordance with 15-31-121, MCA, Montana imposes a corporation license tax on corporate income apportioned to Montana. The tax is levied at a flat rate of 6.75% of net income; however, corporations making a “water’s edge” election are taxed at 7%. Since FY 2006, revenues have been deposited 100% in the general fund (15-31-121, MCA).

Corporations expecting to have tax liability of at least \$5,000 are required to make quarterly estimated payments. Returns are due five months after the end of the tax year, but a corporation may have an automatic six-month extension and the Department of Revenue may grant additional extensions. Corporations taking an extension and expecting to have tax liability greater than their estimated payments generally make a tentative payment when their return is due. The minimum corporation tax payment for a year is \$50.

Table 1 shows total and general fund revenue from corporation license taxes for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013. Corporate profits declined sharply during FY 2009 as a result of the “Great Recession,” and as a result, corporate tax revenue fell sharply in FY 2010.



Corporate tax revenue fell by more than 47% in FY 2010, the largest annual decline in over 20 years. It is estimated corporate profits will show strong growth relative to their FY 2010 levels and as a result corporate tax revenue will increase at a higher than average growth rate in FY 2011 and FY 2012 before resuming a more modest growth rate in FY 2013. It is also important to note that we will not see corporate tax revenue peak levels in the forecast period.

Risks and Significant Factors

- Corporate tax revenue is highly correlated with the health of the overall US economy. If the economy were to experience a “double dip” recession, then corporate tax revenue would be much lower than anticipated.
- Montana allows corporations to deduct business losses from past years against current year’s taxable income. Montana also allows corporations to amend past returns to deduct current losses. Corporations are permitted to carry losses three years into the past and seven years into the future. As a result, the variation in corporate

tax revenue can be much greater than that of corporate profits.

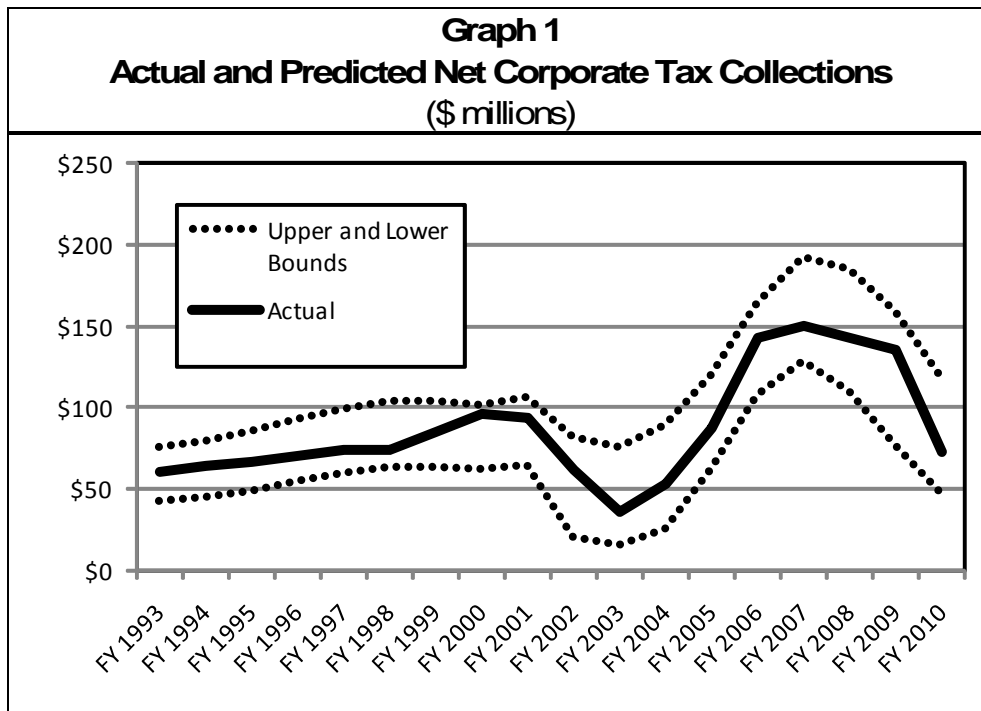
- The Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed first year depreciation to be increased by 30% for purchases between September 10, 2001, and May 5, 2003, and by up to 50% for purchases between May 6, 2003, and December 31, 2004. This temporary change in accounting rules shifts corporate profits and taxes from calendar years 2001 through 2004 to later years. Any new legislation allowing for bonus depreciation would have the same effect.
- In tax year 2008, the most current data available, there were nearly 13,000 companies that paid Montana corporate income tax. However, the largest 15 filers paid over 50% of the total tax, and the top 100 filers paid over 75% of the total tax. If one of these top companies earns significantly more or less than expected, this could have a large impact on corporate profits.

Forecast Methodology

Step 1. Net corporate license tax collections, including both general fund and non-general fund revenues, for FY 1993 through FY 2010 were regressed against prior year national corporate profits before taxes to produce an estimate of the relationship. The regression model also incorporates a time trend and variable indicating times of national economic downturn. Table 3 shows actual net collections for FY 2000 through FY 2010 and forecast collections for FY 2011 through FY 2013.

Table 2	
Net Collections	
(\$ millions)	
Fiscal Year	Net Collections
A 2000	\$96.794
A 2001	\$93.993
A 2002	\$62.257
A 2003	\$36.060
A 2004	\$53.549
A 2005	\$87.617
A 2006	\$142.845
A 2007	\$150.690
A 2008	\$143.467
A 2009	\$135.313
A 2010	\$72.521
F 2011	\$103.533
F 2012	\$114.237
F 2013	\$119.886

Graph 1 shows the actual collections as well as the upper and lower confidence intervals of the predicted collections for FY 1993 through 2010. At no time were the actual collections greater or less than the upper and lower confidence intervals, which would indicate a fairly accurate estimation model. However, the model does not account for inaccurate forecast of before-tax corporate profits from Global Insight or other forecasting companies. Any error in the Global Insight forecast will have a direct impact on estimated corporate tax collections.



Step 2. Audit and penalty and interest collections are estimated conservatively based on a five-year minimum percentage of the net collections of the previous year.

Table 3
Audits, Penalties, and Interest
(\$ millions)

Fiscal Year	PY Net Collections	Audits, Penalties, and Interest	Percent of PY Collections
A 2006	\$87.617	\$10.830	12.36%
A 2007	\$142.845	\$26.814	18.77%
A 2008	\$150.690	\$16.875	11.20%
A 2009	\$143.467	\$31.041	21.64%
A 2010	\$135.313	\$15.380	11.37%
F 2011	\$72.521	\$8.121	11.20%
F 2012	\$103.533	\$11.594	11.20%
F 2013	\$114.237	\$12.792	11.20%

Step 3. Total collections are the sum of the net collections, audit, penalty, and interest collections. The calculation is shown in Table 4.

Table 4					
Total Collections					
(\$ millions)					
Fiscal Year	Net Collections	Audits, Penalties, and Interest	Total Revenue		
A 2000	\$96.794 +	\$2.295	=	\$99.089	
A 2001	\$93.993 +	\$9.677	=	\$103.670	
A 2002	\$62.257 +	\$5.916	=	\$68.173	
A 2003	\$36.060 +	\$8.078	=	\$44.138	
A 2004	\$53.549 +	\$14.174	=	\$67.723	
A 2005	\$87.617 +	\$10.597	=	\$98.214	
A 2006	\$142.845 +	\$10.830	=	\$153.675	
A 2007	\$150.690 +	\$26.814	=	\$177.504	
A 2008	\$143.467 +	\$16.875	=	\$160.342	
A 2009	\$135.313 +	\$31.041	=	\$166.355	
A 2010	\$72.521 +	\$15.380	=	\$87.901	
F 2011	\$103.533 +	\$8.121	=	\$111.654	
F 2012	\$114.237 +	\$11.594	=	\$125.831	
F 2013	\$119.886 +	\$12.792	=	\$132.679	

Distribution

All of the revenue collected for the video gambling tax is distributed to the general fund.

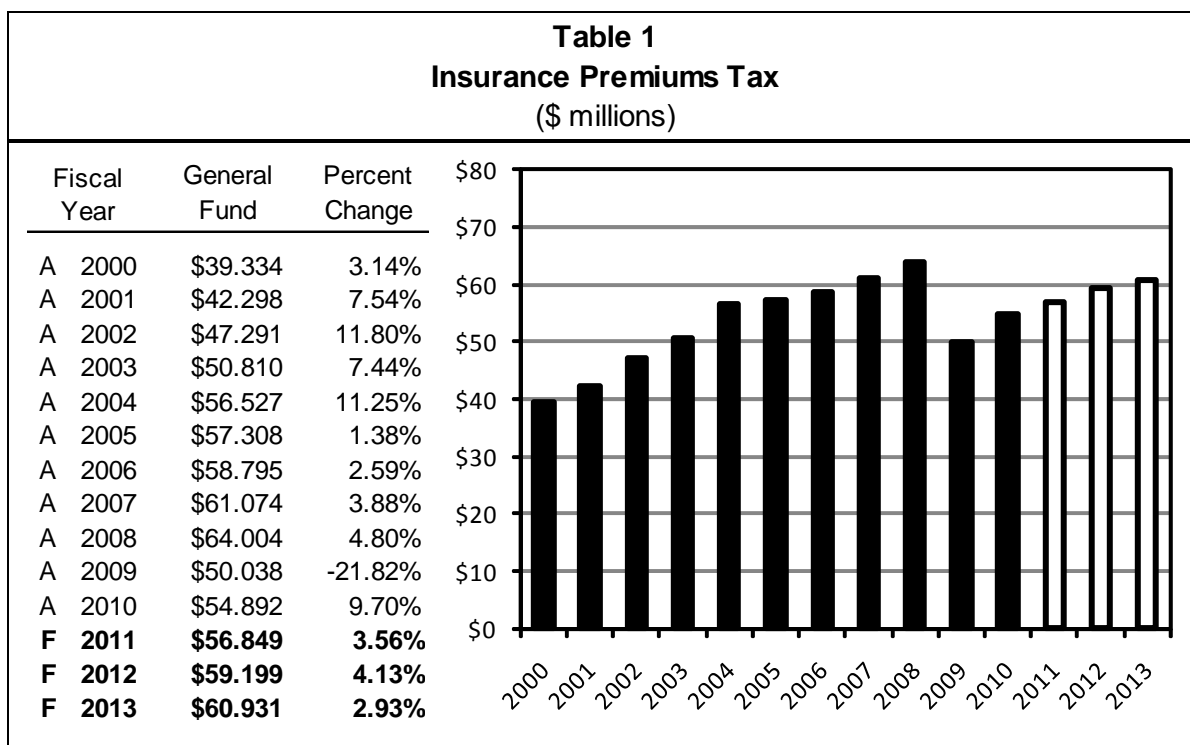
Data Sources

Data was obtained from SABHRS and the October 2010 Global Insight forecast.

Revenue Description

Per 33-2-705, MCA, Montana levies a tax of 2.75% on net premiums on all insurance policies except those issued by health service corporations (HSCs). HSCs are exempt from all premium taxes under 33-30-203, MCA. An additional surcharge of 2.5% on premiums is collected for fire and casualty insurance on property (50-3-109, MCA). There is also a premium insurance tax for captive insurance companies levied under 33-28-201, MCA. Starting in November 2008, Initiative 155 transfers 33% of insurance premium taxes collected (under 33-2-705, MCA) to a state special revenue fund for the Healthy Montana Kids Plan Act (53-4-1101, MCA). HB 676 of the 2009 session reduces the transfer to 16.67% for the 2011 and 2013 biennia. The State Auditor’s Office (SAO) administers the collection of these taxes.

Table 1 presents the general fund receipts from insurance premium taxes for FY 2000 through FY 2010 as well as the forecast for FY 2011 through FY 2013.

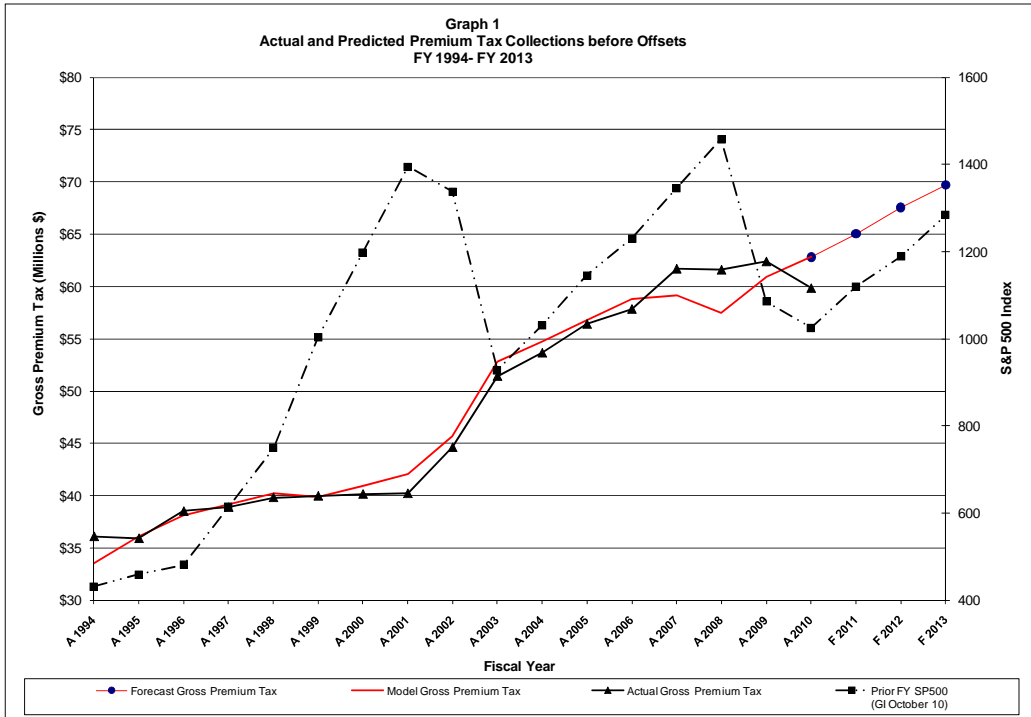


Risks and Significant Factors

- Financial or other turmoil raises insurer’s costs; slow wage growth may reduce insurance purchases.
- Revenues may be reduced if consumers choose insurance coverage provided by HSCs or public plans.
- Premium tax collections tend to move counter cyclically with financial markets as companies collect premiums from policy holders and pay claims from premiums and investment earnings. When investment earnings are high, insurance companies can reduce premiums charged to clients.
- Excess credit carryover balances due to insurance companies, accumulated since FY 2000, were returned to companies in FY 2010 per a Legislative Audit Division recommendation. For FY 2010 this was just over \$663,000 in premium taxes, for FY 2009 nearly \$350,000, and for the period FY 2008 through FY 2001, \$1.870 million was returned to insurance companies.
- Accounting changes in the past have masked underlying real consumer behavior and tax collections.

Forecast Methodology

Step 1. Insurance premium taxes forecast. Insurance premium taxes, before offsets, are projected from a model of relationship of insurance premium tax collections with respect to the average Standard and Poor's 500 stock index value for the prior fiscal year, and the Montana unemployment rate. The effect of modeling FY 1994 through FY 2010 is presented in Graph 1. A portion of the model error in recent years may be due to the refund of insurance company credit carryover balances. Because of this, the forecast is based on the model as the effective "actuals" are distorted by these after-the-fact refunds.



Step 2. Calculate offsets and insurance tax bases for distributions. Insurance companies are allowed to offset some of their premium taxes for other statutory mandates. These programs are: the Montana Life and Health Insurance Guarantee Association (MLHIGA) and the Montana Comprehensive Health Association (MCHA). The collective impacts of these programs have reduced state general fund receipts by approximately \$2 million a year. Offsets are forecast based on prior trends and SAO estimates. Table 2 lists claimed premium tax offsets through FY 2010 and estimates of future offsets. The MLHIGA assessments are approaching zero. The MCHA assessments fluctuate and tend to grow in biennial jumps.

Additionally, captive insurance company premiums tax, yearly insurance premium taxes, and surplus lines taxes need to be estimated and excluded from insurance premium taxes that are the base for distributions to the Healthy Montana Kids' fund. This also allows for the calculation of captive insurance company insurance premium taxes that are directed to the captive insurance company administration fund.

Captive insurance companies are regulated under Title 33, Chapter 28 of the Montana Code, (SB 373 of the 2001 Legislature). Captive insurance firms pay tax on premiums collected under 33-28-201, MCA, and were recorded in the same account as premium taxes collected under 33-2-705, MCA, until FY 2010. The 2007 Legislature, through SB 161 reserved five percent (5%) of the tax paid by captive insurance companies for the oversight of captive insurance companies'. HB 160 of the 2009 session reduced the number of tax rate bands from four to two (with no revenue effects) and allowed for quarterly proration of initial year fees. In FY 2010, nearly \$420,000 in premium taxes were collected from captive insurance companies and nearly \$21,000 was directed to the state special revenue account for supervising captive insurance companies. Presently, premium tax collections from captive insurance companies represent a small but rapidly growing fraction of total premium tax collections.

In FY 2011, there has been a change in the allocation of some surplus lines premiums taxes from a multi-state distribution formula to a formula more heavily weighted by the domicile of the insurance company collecting surplus lines premiums. This is expected to reduce revenue by approximately \$500,000 per year. The rest of premiums taxes that are excluded from I-155 distribution are calculated by residual for FY 2010. The proportion of these taxes relative to gross insurance premiums taxes are used to project these collections.

Step 3. Calculate fire surtax. The Fire Marshal surtax on fire and casualty insurance is projected using the historical proportion of these taxes with respect to base insurance premium tax collections (before offsets). Table 2 lists the actual fire/casualty (or Fire Marshall tax) and forecast collections. The FY 2008 estimate includes a FY 2009 prior year adjustment (for FY 2008 transactions). Surtax collection shares have remained steady between 5.7% and 6.5% of gross premium taxes since FY 2003. The five-year average of 6.23% of gross premium taxes is used to project Fire Marshal tax collections.

Step 4. Calculate insurance licenses and permits revenue. Revenue from insurance licenses and permits are projected based on a three-year moving average.

Step 5. Total the estimates. Total general fund insurance premiums tax revenue (net of offsets and I-155 distributions), fire/casualty insurance surtax, and licenses and permits fees are summed to determine the estimate of insurance premiums tax collections for FY 2011, FY 2012, and FY 2013. Table 5 sums all the estimates the distributions for the Healthy Montana Kids' fund (I-155) with the impact of HB 676 changes to the I-155 distributions as well as the SB 161 captive insurance company administration account.

Fiscal Year	Estimated Gross Insurance Premium Tax	Of which:			Offsets & Refunds	Fire & Casualty Surtax	Licenses & Permits	Adjusted General Fund Revenue	Healthy Montana Kids' Fund	Captive Insurance Admin Fund					
		Captive Premium Tax	Surplus Lines Tax	Other GF Insurance Taxes											
A 2000	\$40.160	-			\$2.083	+	\$2.033	+	\$0.252	=	\$40.362				
A 2001	\$40.218	-			\$0.861	+	\$2.185	+	(\$0.286)	=	\$41.256				
A 2002	\$44.628	-			\$0.740	+	\$2.429	+	\$0.246	=	\$46.563				
A 2003	\$51.445	-			\$1.463	+	\$2.921	+	\$0.359	=	\$53.261				
A 2004	\$53.672	-			\$1.161	+	\$3.210	+	\$0.543	=	\$56.264				
A 2005	\$56.428	-		\$1.249	\$2.218	+	\$3.416	+	(\$0.404)	=	\$57.222				
A 2006	\$57.859	-		\$1.778	\$1.469	+	\$3.597	+	\$0.184	=	\$60.172				
A 2007	\$61.707	-		\$1.806	\$1.807	+	\$3.831	+	\$0.002	=	\$63.733				
A 2008	\$61.609	-	\$0.226	\$1.819	\$1.757	+	\$3.998	+	\$0.068	=	\$63.907		\$0.011		
A 2009	\$62.407	-	\$0.340	\$1.572	\$1.877	+	\$3.928	+	\$0.055	=	\$50.111	\$14.385	\$0.017		
A 2010	\$62.822	-	\$0.419	\$2.009	\$0.422		\$2.016	+	\$4.023	+	\$0.024	=	\$55.171	\$9.661	\$0.021
F 2011	\$65.041	-	\$0.524	\$1.500	\$0.439		\$2.187	+	\$4.051	+	\$0.037	=	\$56.849	\$10.067	\$0.026
F 2012	\$67.562	-	\$0.629	\$1.757	\$0.456		\$2.146	+	\$4.208	+	\$0.037	=	\$59.199	\$10.431	\$0.031
F 2013	\$69.689	-	\$0.724	\$1.603	\$0.470		\$2.339	+	\$4.341	+	\$0.037	=	\$60.931	\$10.761	\$0.036

Distribution

Distributions to the Healthy Montana Kids' fund and the Captive Insurance fund are presented in table 2. Currently, 16.67% of insurance premiums tax (33-2-705, MCA) collections are distributed to the Healthy Montana Kid's state special revenue fund. Per HB 676 (2009 session) the distribution changes to 33% after FY 2013. A distribution for 5% of the insurance premium taxes collected under 33-28-201, MCA, helps fund the costs of administering the captive insurance company program at the State Auditor's Office

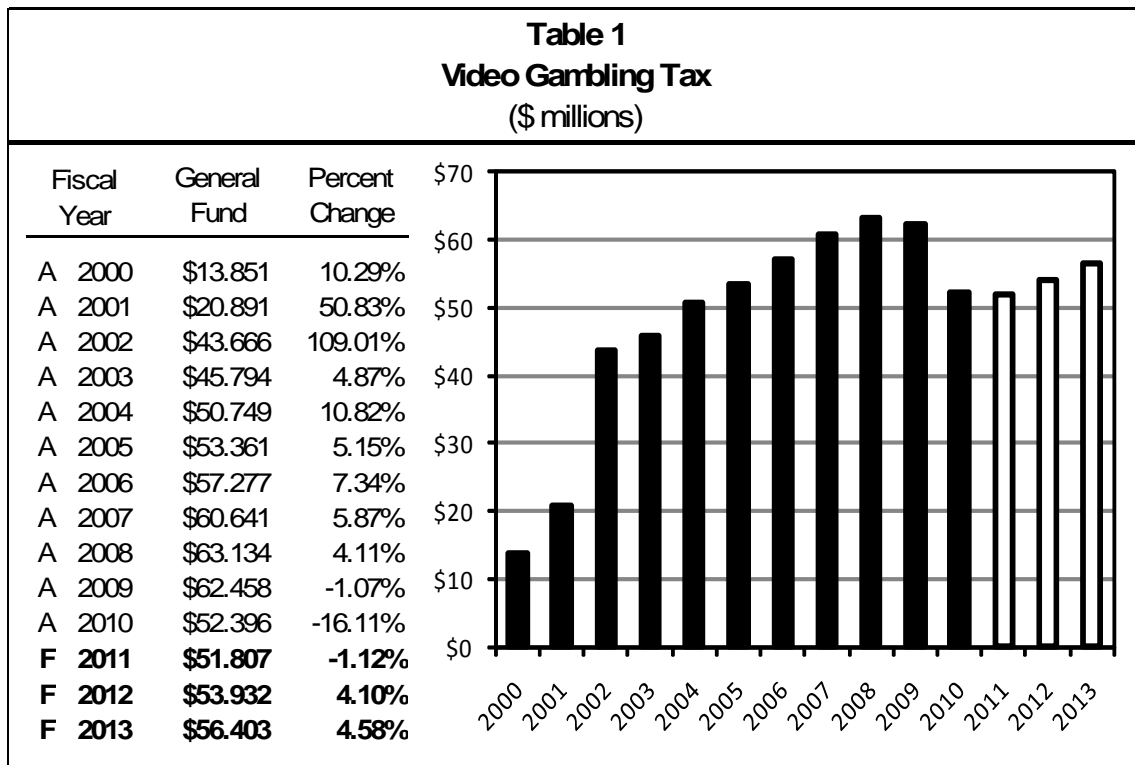
Data Sources

Tax collections are from SABHRS. The Insurance Division of the State Auditor's Office provided historical data on offsets, estimates of future offsets, and provided information regarding changes in the allocation of surplus lines taxes. The Standard & Poor's 500-stock index and Montana unemployment rate are from IHS Global Insight October 2010.

Revenue Description

In accordance with 23-5-610, MCA, a 15% tax is imposed on the gross machine income received from video gambling machines in the State of Montana. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the state general fund.

Table 1 shows actual video gambling revenue to the general fund for FY 2000 through FY 2010, and forecast revenue for FY 2011 through FY 2013.



HB 124 (2001 session) changed the distribution of the video gambling tax. Prior to the fourth quarter of FY 2001, two-thirds of the video gambling tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning in fourth quarter FY 2001, all video gambling tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue between FY 2001 and FY 2002.

Revenue decreased in FY 2009 and then again in FY 2010. This is believed to be an effect of two separate phenomena. The first is disposable income in Montana decreased during this period, and as a result, people had less income to spend on video gambling. The other factor affecting video gambling tax collections was the full implementation of the Montana Clean Indoor Air Act. Casinos and bars were required to fully implement the no smoking legislation on October 1, 2009, and since then the quarterly gambling revenue has seen smaller tax collections relative to previous fiscal years.

Risks and Significant Factors

- The two main factors effecting tax revenue are total personal income for the state as a whole and peoples' participation rates in video gambling. If peoples' income goes down they will have less money to spend on gambling, and vice-versa.

- The implementation of banning indoor smoking appears to have had a negative effect on gambling activity recently. However, as time passes this effect may become smaller and perhaps video gambling receipts may grow by more than previously anticipated.

Forecast Methodology

There are three steps in forecasting video gambling revenue:

Step 1. Forecast income in Montana,

Step 2. Determine the percentage of income that will be spent on video gambling in order to estimate gross machine income.

Step 3. Apply 15% tax rate to the gross machine income.

Table 2 shows actual total disposable income for Montana, net machine income, the percent of personal income spent on video gambling, and tax revenue for FY 2000 through FY 2010 and estimates for FY 2011 through FY 2013.

Fiscal Year	Personal Income	Net Machine Inc.	% of Income	Tax Revenue ¹
A 2000	\$20,411.500 ÷	\$270.481 =	1.33%	\$40.572
A 2001	\$22,142.250 ÷	\$277.166 =	1.25%	\$41.575
A 2002	\$23,112.250 ÷	\$291.367 =	1.26%	\$43.705
A 2003	\$23,971.000 ÷	\$307.558 =	1.28%	\$46.134
A 2004	\$25,651.250 ÷	\$333.828 =	1.30%	\$50.074
A 2005	\$27,245.250 ÷	\$355.812 =	1.31%	\$53.372
A 2006	\$29,306.250 ÷	\$379.416 =	1.29%	\$56.912
A 2007	\$31,480.500 ÷	\$405.073 =	1.29%	\$60.761
A 2008	\$33,476.000 ÷	\$422.829 =	1.26%	\$63.424
A 2009	\$33,980.000 ÷	\$413.771 =	1.22%	\$62.066
A 2010	\$34,415.500 ÷	\$366.242 =	1.06%	\$54.936
F 2011	\$35,675.472 ÷	\$345.380 =	0.97%	\$51.807
F 2012	\$36,882.493 ÷	\$359.549 =	0.97%	\$53.932
F 2013	\$38,285.737 ÷	\$376.021 =	0.98%	\$56.403

¹Does not include surcharge fees in FY 2004 and FY 2005

Distribution

All of the revenue collected for the video gambling tax is distributed to the general fund.

Data Sources

Historic video gambling revenues were obtained from SABHRS MTGL0109 report and the Department of Justice website, <http://www.doj.mt.gov/gaming/statisticsreports.asp>. Historic and forecast values for Montana's total disposable income were obtained from IHS-Global Insight.