GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

SALES REVENUE
SECTION 8

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

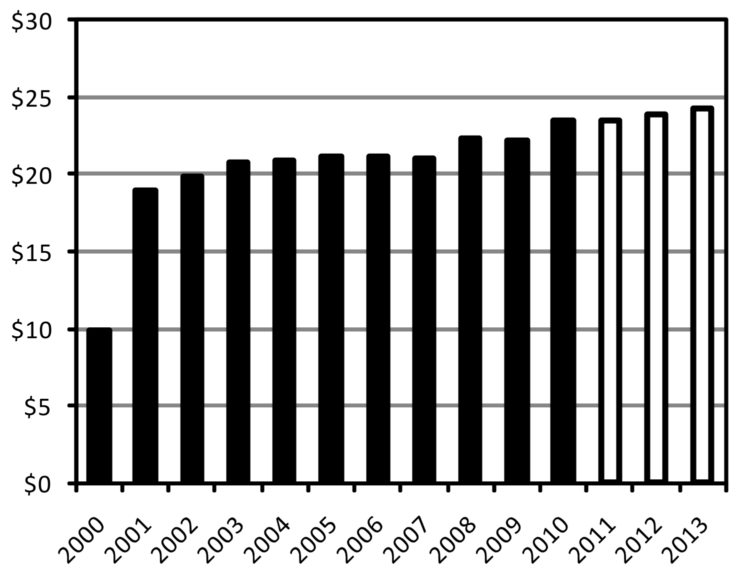
Revenue Description

Under 15-53-130, MCA, a 3.75% excise tax is assessed on retail telecommunications services. Telecommunications services are defined as two-way transmission of information over a telecommunications network that originates or terminates in the state and are billed to a customer with a Montana service address. Telecommunications service providers are required to collect the tax and make quarterly payments within 60 days after the end of each quarter

Table 1 shows general fund revenue from retail telecommunications excise tax collections for FY 2000 through FY 2010 and forecast revenue for FY 2011 through FY 2013.

Table 1
Telecommunications Excise Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2000	$9.857	63.28%
A	2001	$18.972	92.47%
A	2002	$19.806	4.40%
A	2003	$20.838	5.21%
A	2004	$20.919	0.39%
A	2005	$21.176	1.23%
A	2006	$21.226	0.23%
A	2007	$21.066	-0.75%
A	2008	$22.350	6.10%
A	2009	$22.250	-0.45%
A	2010	$23.523	5.72%
F	**2011**	**$23.489**	**-0.15%**
F	**2012**	**$23.881**	**1.67%**
F	**2013**	**$24.280**	**1.67%**



Risks and Significant Factors

- Audit collections and penalties introduce significant variation in annual collections masking underlying trends. Timing issues affect the fiscal year attribution of audit collections. In particular, FY 2009 audit assessments were not resolved and collected until FY 2010, understating FY 2009 revenue and overstating FY 2010 revenue. The magnitude of audit assessments appears to be rising. For FY 2011, they are approaching $5 million. However, these assessments have been appealed and may not be decided until late FY 2012.
- The telecommunications excise tax replaced the telephone company license tax on January 1, 2000. Before FY 2000, annual revenues averaged $6 million. The large increases in FY 2000 and FY 2001 reflect the transition from the telephone company license tax to the retail telecommunications excise tax.

Forecast Methodology

Step 1. Calculate the average annual trend growth rate of tax collections. The compounded annual growth rate between FY 2004 to FY 2008 of 1.67% best represents the trend in revenues, as timing of the posting of audit revenues skew the data in FY 2009 (down) and FY 2010 (up).

Step 2. The selected growth rate (1.67%) is used to project total collections through FY 2013 starting from the FY 2008 collections base. The table presents actual collections for FY 2009 and FY 2010 creating the appearance of a lower growth rate (less than the 1.67%) in FY 2011.

Table 2 illustrates the trends in actual revenue collections for the excise tax, and audit and penalty collections. The forecast of total collections for FY 2011, FY 2012 and FY 2013 is also presented with associated implied growth rates.

Table 2
Total Collections
($ millions)

	Fiscal Year	Excise Tax		Audits & Penalties		General Fund	Percent Change
A	2003	$20.294	+	$0.544	=	$20.838	
A	2004	$20.081	+	$0.838	=	$20.919	0.39%
A	2005	$21.173	+	$0.003	=	$21.176	1.23%
A	2006	$21.226	+	$0.166	=	$21.392	1.02%
A	2007	$21.066	+	$0.697	=	$21.762	1.73%
A	2008	$21.128	+	$1.223	=	$22.350	2.70%
A	2009	$21.905	+	$0.345	=	$22.250	-0.45%
A	2010	$21.121	+	$2.402	=	$23.523	5.72%
F	**2011**					**$23.489**	-0.15%
F	**2012**					**$23.881**	1.67%
F	**2013**					**$24.280**	1.67%

Distribution

All telecommunications excise tax collections are allocated to the general fund pursuant to 15-53-156, MCA.

Data Sources

Revenue data is compiled from SABHRS, tax report data provided by the Department of Revenue.

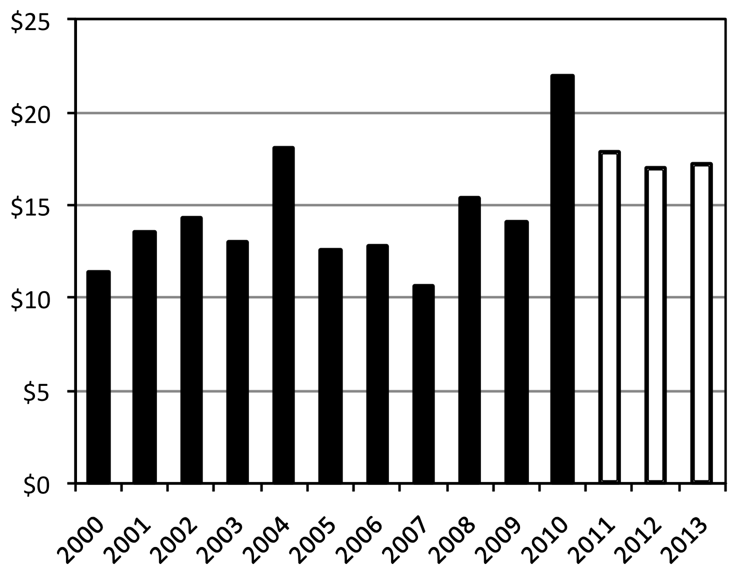
Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operates facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay debt service obligations associated with the institutions' mortgages (90-7-220 and 221, MCA). After the debt service obligations are met, payments for care at the institutions are deposited in the general fund.

Table 1
Institutional Reimbursements
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2000	$11.345	1.88%
A	2001	$13.554	19.47%
A	2002	$14.283	5.38%
A	2003	$13.043	-8.68%
A	2004	$18.110	38.86%
A	2005	$12.509	-30.93%
A	2006	$12.728	1.75%
A	2007	$10.669	-16.17%
A	2008	$15.335	43.73%
A	2009	$14.101	-8.05%
A	2010	$22.000	56.02%
F	**2011**	**$17.813**	**-19.03%**
F	**2012**	**$16.949**	**-4.85%**
F	**2013**	**$17.151**	**1.19%**



There have been significant changes in both the infrastructure and operation of the institutional facilities. These changes have affected the way expenses were paid at each institution and have affected general fund reimbursement. A brief summary of these changes follow.

New facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC and in 1997 for MSH. Institutional reimbursement revenue is reduced by the amount of the mortgage payments.

The MSH became Medicare-certified. This allows MSH to bill Medicare for a greater portion of eligible residents' expenses than in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001. In FY 2004, the department received additional revenue from billing Medicare for services in previous years. However, in FY 2005, the Medicare reimbursement formula for MSH was changed and the department was required to refund some payments it had received in FY 2004.

Average populations have changed at some of the institutions. DPHHS moved some residents from one institution to another and moved some residents back into their communities in assisted-living programs or other arrangements. At the same time, court-ordered admissions have increased in recent years. As part of a lawsuit settlement, DPHHS agreed to move some MDC residents to assisted-living facilities in their communities. Since these facilities are not state institutions, the state does not receive reimbursement for services at these assisted-living facilities. Also a separate, secure unit has been established at MDC. Services provided through this unit are not eligible for federal reimbursement through Medicaid.

Legislation passed by the 2003 Legislature (HB 722 and HB 743) significantly affected reimbursements by making state institutions subject to state health care facility taxes. These taxes, which are part of the cost allowance for Medicaid reimbursement, increased reimbursements. Also, HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 now requires that they be deposited in the general fund.

Risks and Significant Factors

- DPHHS expects the average daily number of residents at the three state-run facilities to remain steady for FY2011 through FY 2013.
- The increased revenue received in FY 2010 is primarily due to the enhanced FMAP rate resulting from the American Recovery and Reinvestment Act (ARRA).

Forecast Methodology

There are four steps to estimating general fund receipts:

Step 1. Estimate daily reimbursement rates for each type of reimbursement at each institution.

- The primary reimbursement sources are payments from patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income (SSI) disability payments. Private and SSI reimbursement rates are based upon estimates provided by DPHHS.
- Insurance rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage.
- Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Medicare payments per day are based upon information provided by DPHHS.
- Medicaid pays costs that residents cannot. Therefore, the Medicaid daily rate is equal to the full cost rate less the patient/family and SSI reimbursements per day. Medicaid is a joint federal-state program so only the federal portion comes to the state as net reimbursement. Medicaid also pays some ancillary service costs that are not on a daily basis, such as medications and laboratory work. Historically, the variability in Medicaid payment rates can be attributed to, in part, changes in the Federal Medical Assistance percentage (FMAP) rates.

Step 2. Estimate the population and number of care days for which each institution will be reimbursed.

Step 3. Multiply the reimbursement rates by the number of care days to obtain reimbursement revenue.

- Private reimbursement for a fiscal year is the average daily reimbursement times the number of care days. Medicaid reimbursement for a fiscal year is the average daily reimbursement times the number of Medicaid eligible residents. Care days are based on the average number of (eligible Medicaid) residents times 365 days in a year (366 in leap years).

Step 4. Subtract the institution’s mortgage payments to derive the general fund revenue.

- General fund revenue is total reimbursements for MDC, MSH and MMHNCC minus debt service payments for MDC and MSH. Debt service payments are provided by DPHHS and are shown in Table 2.

Distribution

Table 2 shows the calculation of forecast general fund revenue from institutional reimbursements in FY 2011 through FY 2013.

Table 2
Institutional Reimbursements to the General Fund
($ millions)

Fiscal	------------Reimbursements------------						----Debt Service----			General
Year	MDC		MSH		MMHNCC		MDC		MSH		Fund
F 2011	$9.981	+	$7.008	+	$3.751	-	$1.017	-	$1.910	=	$17.813
F 2012	$9.126	+	$7.214	+	$3.531	-	$1.014	-	$1.909	=	$16.949
F 2013	$9.362	+	$7.196	+	$3.514	-	$1.014	-	$1.908	=	$17.151

Data Sources

DPHHS provided actual and projected per day reimbursement rates and care days, as well as information regarding debt service for the facilities. FMAP percentages are based on OBPP estimates.

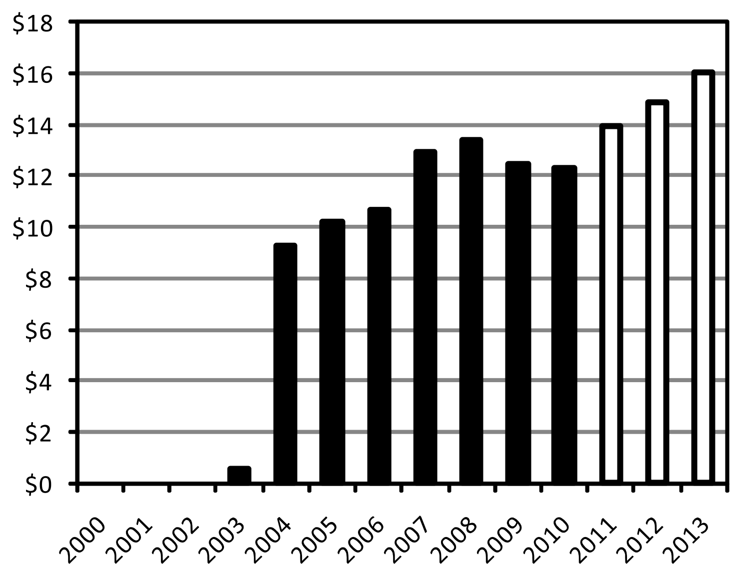
Revenue Description

In accordance with 15-68-102, MCA, a 3% **sales** tax is levied on all charges for accommodations at lodging facilities and campgrounds in the state. All of this revenue is deposited in the Montana general fund. In addition to the 3% **sales** tax, Montana also charges a **use** tax of 4% on all accommodations. Revenue from the lodging facility **use** tax is distributed to various entities after the Department of Revenue (DOR) deducts administration costs and the portion of the tax paid by state government agencies for state employee lodging is remitted to the agencies. This revenue is principally used for the purposes of promoting tourism.

Table 1 shows actual revenue for the accommodations **sales** tax distributed to the general fund for FY 2000 though FY 2010 and forecast values for FY 2011 through FY 2013.

Table 1
Accommodations Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2000	-	-
A	2001	-	-
A	2002	-	-
A	2003	$0.571	-
A	2004	$9.279	1524.3%
A	2005	$10.201	9.94%
A	2006	$10.679	4.69%
A	2007	$12.916	20.95%
A	2008	$13.390	3.67%
A	2009	$12.477	-6.81%
A	2010	$12.331	-1.18%
F	**2011**	**$13.926**	**12.94%**
F	**2012**	**$14.891**	**6.93%**
F	**2013**	**$16.049**	**7.77%**



Only revenue from the lodging facility **sales** tax is deposited in the general fund, while revenue from the **use** tax is distributed to various other funds. SB 407 (2003 session) enacted the 3% **sales** tax on accommodations. The general fund received no revenue from accommodation taxes before FY 2003. The lodging facility **sales** tax was collected for only one month in FY 2003. The first full year of collections is FY 2004. As disposable income fell in FY 2009 and FY 2010, both in Montana and in the U.S., people spent less on lodging facilities and as a result, tax revenue saw declines in those years.

Forecast Methodology

There are three steps in forecasting lodging facility **sales** tax:

Step 1. Estimate lodging receipts.

Step 2. Estimate vendor allowances. There is a vendor allowance of 5% for filing in a timely manner, but may not exceed $1,000 for the **sales** tax.

Step 3. The lodging facility **use** tax is 4% of the taxable value of accommodations charges and the **sales** tax is 3% of the accommodations charges.

Table 2 shows the actual **use** tax, the **sales** tax, the vendor allowance, and the sum of these three numbers divided by the total tax rate of 7% yields taxable accommodations receipts.

Table 2
Accommodation Taxes
($ millions)

Fiscal Year	Taxable Receipts	Use Tax (4%)	Vendor Allowance	Sales Tax (3%)	Total Tax
A 2008	$473.036	$18.921	$0.708	$13.483	$32.405
A 2009	$442.383	$17.695	$0.123	$13.148	$30.844
A 2010	$433.106	$17.324	$0.521	$12.978	$30.302
F 2011	**$464.726**	**$18.589**	**$0.521**	**$13.926**	**$32.515**
F 2012	**$496.894**	**$19.876**	**$0.521**	**$14.891**	**$34.767**
F 2013	**$535.475**	**$21.419**	**$0.521**	**$16.049**	**$37.468**

Table 3 summarizes the actual distribution of the **use** tax.

Table 3
Accommodations Use Tax Distribution
($ millions)

	FY 2011	FY 2012	FY 2013
DOR Tax Administration	**$0.141**	**$0.141**	**$0.142**
State Agency Reimbursements	**$0.203**	**$0.203**	**$0.203**
MT Heritage Preservation Society	**$0.400**	**$0.400**	**$0.400**
Montana Historical Society	**$0.178**	**$0.191**	**$0.207**
University System	**$0.446**	**$0.478**	**$0.517**
Fish, Wildlife, & Park	**$1.160**	**$1.244**	**$1.344**
Commerce	**$12.236**	**$13.104**	**$14.147**
Regional Travel Promotion	**$4.015**	**$4.305**	**$4.652**
Total Use Tax Revenue[1]	**$18.589**	**$19.876**	**$21.419**

[1]Table 3 does not match Table 2 due to accrual reversals and amended returns.

Distribution

After the DOR administration and agency reimbursements are made, the remainder is distributed as follows:

1. The Montana heritage preservation and development account receives $400,000.
2. The remainder is distributed as follows:
   a. 1.0% to the Montana Historical Society for roadside historic sites and signs;
   b. 2.5% to the university system for tourism research;
   c. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance;
   d. 67.5% to the Department of Commerce for statewide tourism promotion; and
   e. 22.5% to regional tourism promotion agencies.

Data Sources

Fiscal year end revenues are from SABHRS MTGL0109 report. Additional data was provided by DOR's GENTAX system.

Health Care Facility Utilization Fees

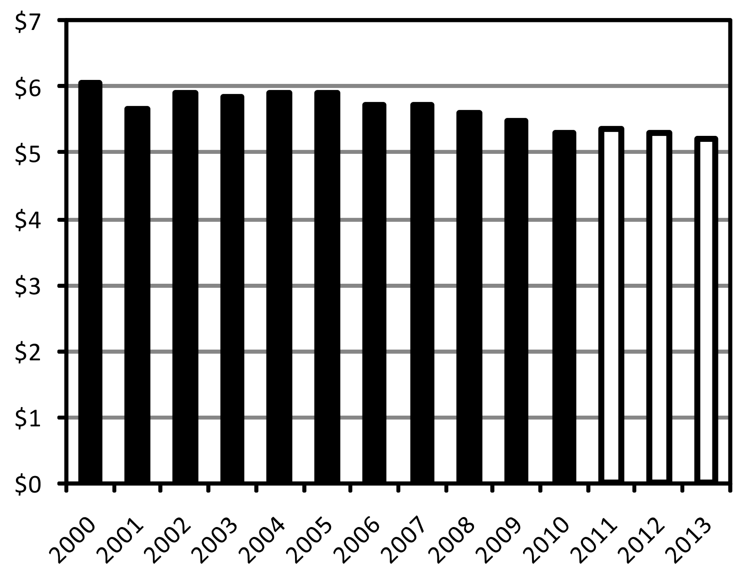
Revenue Description

Per 15-60-102, MCA, Montana imposes a per bed day fee on nursing facilities and intermediate care facilities for the developmentally disabled. The fee for nursing facilities was $2.80 per bed day through FY 2002. The fee was raised to $4.50 in FY 2003, to $5.30 in FY 2005, and to $7.05 in FY 2006. In FY 2007 it was raised to $8.30 (15-60-102, MCA). Through FY 2002, all fees were allocated to the general fund. Beginning in FY 2003, $2.80 of the fee per day is allocated to the general fund and the remainder is allocated to a state special revenue fund.

The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). Fees collected from the facilities operated by the Department of Public Health and Human Services (DPHHS) are allocated 30% to the general fund and 70% to the prevention and stabilization special revenue fund.

Table 1
Health Care Facility Utilization Fees
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2000	$6.055	5.98%
A	2001	$5.656	-6.59%
A	2002	$5.918	4.64%
A	2003	$5.860	-0.99%
A	2004	$5.916	0.96%
A	2005	$5.912	-0.06%
A	2006	$5.712	-3.39%
A	2007	$5.717	0.09%
A	2008	$5.610	-1.87%
A	2009	$5.469	-2.52%
A	2010	$5.300	-3.08%
F	**2011**	**$5.371**	**1.34%**
F	**2012**	**$5.291**	**-1.50%**
F	**2013**	**$5.212**	**-1.51%**



Nursing facility fees were enacted in HB 93 of the 1991 Session. The fee was $1 per bed day for FY 1992 and $2 per bed day for FY 1993 and applied only to bed days reimbursed by a third-party payer, such as insurance or a public assistance program. All revenue was deposited in the general fund. HB 333 (1993 Session) applied the fee to all bed days beginning in FY 1994. HB 333 also raised the fee to $2.80 beginning in FY 1995, and allocated all revenue to the nursing facilities fee state special revenue account. SB 83 (1995 Session) allocated all revenue to the general fund beginning in FY 1996.

The 2003 Legislature passed three bills that changed health care facility fees. HB 705 set the nursing facilities fee at $4.50 in FY 2004 and $5.30 beginning in FY 2005, and allocated the additional revenue to the nursing facilities fee account. HB 743 made the Montana Mental Health Nursing Care Center (MMHNCC) subject to the nursing facility fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization account. HB 722 created a new fee equal to 5% of charges for care that applied only to the Montana Developmental Center (MDC). The revenue from the new fee is allocated 30% to the general fund and 70% to the prevention and stabilization fund.

In 2005, the Legislature passed two bills, HB 749 and SB 82, which changed health care facility fees. HB 749 increased the facility bed tax to $7.05 per day in FY 2006 and to $8.30 per day in FY 2007. The increased revenue from fees collected from non-state facilities is allocated to the nursing facilities fee account. SB 82 increased the bed tax on intermediate facilities for the developmentally disabled from 5% to 6% and amended the definition of facilities to which the 6% bed tax applies to include intermediate care facilities for the mentally retarded. SB 82 was effective immediately on passage and was retroactive in its effect, back to the beginning of tax year 2005.

Risks and Significant Factors

- Taxable bed days at non-state facilities declined at an average rate of 1.63% over the past five years. Bed days are projected to continue to decline at that rate in FY 2011 through FY 2013. Revenue from non-state facilities is declining over the forecast period because fewer bed days are estimated.

Forecast Methodology

Revenue is estimated separately for fees from private nursing homes, the MMHNCC, and the MDC. The estimate is based on forecast bed days for the MMHNCC and budget estimates for the MDC. Forecast bed days for non-state owned facilities are based on the historic trend.

Step 1. Bed days for FY 2011 through FY 2013 for the MMHNCC are forecast by DPHHS, which operates the facility. Total collections equal the number of bed days multiplied by the fee per bed day of $8.30. Thirty percent of collections are allocated to the general fund and seventy percent are allocated to the prevention and stabilization account. For the period of FY 2011 through FY 2013, bed days at MMHNCC are estimated to average 29,957.

Step 2. MDC is the only facility subject to the intermediate care facility utilization fee. The fee is 6% of the cost of care billed to residents and third parties. The cost of care for FY 2011 through FY 2013 is estimated by DPHHS, which operates the facility, and is based on planned numbers of residents and expected costs. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization account.

Distribution

Total collections for each fund are calculated by summing the collections from non-state facilities and collections from the two state facilities. Table 2 shows total projected collections for each fund and the total projected collections for all funds for FY 2011 through FY 2013.

Table 2
Total Health Care Facilities Utilization Fee Collections and Distribution
($ millions)

Fiscal Year	General Fund (30% of Total Collections)		Nursing Facility Utilization Fee Account		Prevention and Stabilization Account		Total Collections
F 2011	**$5.371**	+	$9.862	+	$0.818	=	**$16.052**
F 2012	**$5.291**	+	$9.701	+	$0.822	=	**$15.815**
F 2013	**$5.212**	+	$9.543	+	$0.824	=	**$15.579**

Data Sources

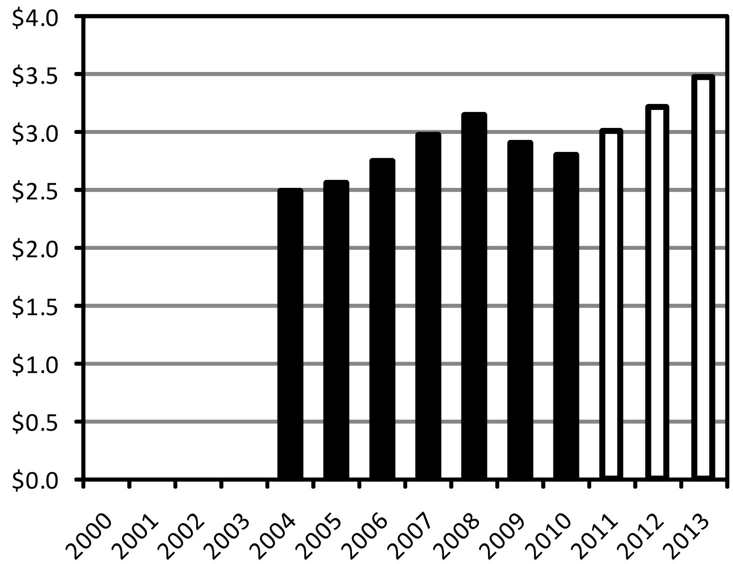
Past collections are from SABHRS Data Mine. Past bed days are from the Department of Revenue as reported on tax returns. Future bed days and cost of care at MMHNCC and MDC are from DPHHS.

Revenue Description

Montana levies a 4% tax on base rental charge on rental vehicle sales per 15-68-102 (1b), MCA. The rental vehicle sales tax collections began in FY 2004. Table 1 shows actual revenue for the rental car sales tax for FY 2004 through FY 2010 and projected revenue for FY 2011 through FY 2013.

Table 1
Rental Car SalesTax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2000	-	-
A	2001	-	-
A	2002	-	-
A	2003	-	-
A	2004	$2.486	-
A	2005	$2.566	3.20%
A	2006	$2.755	7.39%
A	2007	$2.976	8.03%
A	2008	$3.157	6.08%
A	2009	$2.904	-8.01%
A	2010	$2.807	-3.34%
F	**2011**	**$3.012**	**7.30%**
F	**2012**	**$3.221**	**6.92%**
F	**2013**	**$3.471**	**7.76%**



Risks and Significant Factors

- Rental car sales tax revenue is highly reliant on the tourism and business travel. A downturn in the national economy could result in a decline in revenue.
- An increase in business travel and increased visits by foreign and out-of-state tourists increases collections.

Forecast Methodology

There are two steps to calculate rental car sales tax

Step 1. Calculate an average growth rate.

Step 2. Apply the growth rate to project revenues from the FY 2010 collections base.

Due to the limited number of years this tax has been levied, the growth rate for tax revenue is linked to the forecast of accommodations tax, using the growth in Montana taxable accommodations receipts.

Distribution

This tax is 100% distributed to the general fund

Data Sources

General fund collections as reported in SABHRS.