Revenue Estimates

2015 Biennium

Submitted by

Governor's Office of
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TABLE OF CONTENTS

GOVERNOR
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STATE OF MONTANA

ECONOMIC OVERVIEW
SECTION 1

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Adam Anfinson	444-3110
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Ralph Franklin	444-1337
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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Economic Overview

Introduction

The executive budget is based on assumptions about economic conditions through the 2015 biennium. This section describes the key economic assumptions that are common to all of the revenue estimates. It also provides background information describing long-term trends in the state economy. Each particular estimate describes how the individual revenue forecast is related to these economic conditions, as well as any assumptions that are unique to the specific revenue source.

Conditions in the National Economy

The national economy went through a mild recession in calendar years (CY) 2000 and 2001; impact on a fiscal year (FY) basis was muted by its short duration. The national economy recovered steadily through FY 2007 with accelerating growth in the gross domestic product (GDP). Much of the growth in the 2003 – 2008 period is attributable to the twin financial and housing "bubbles". The bursting of these "bubbles" generated the most significant recession since the Great Depression—the so-called "Great Recession". The National Bureau of Economic Research states while the nation has emerged from its most severe post-war (WWII) economic downturn, growth has been sluggish with the recovery being only slightly more rapid than the previous three recessions. However, since the depth of the "Great Recession" far exceeded other more recent recessions, many economic indicators have only recently approached or exceeded the pre-bust peaks of 2007-2008.

Table 1 summarizes three key national economic indicators for fiscal years 2002 through 2012 and IHS Global Insight's forecasts for FY 2013 through FY 2015.

Table 1
Gross Domestic Product, National Employment, and Inflation

Fiscal Year	Gross Domestic Product ($billions)	Percent Change	Employment (millions)	Percent Change	Inflation Rate
2002	$10,445	2.9%	130.877	-1.0%	1.8%
2003	$10,842	3.8%	130.117	-0.6%	2.2%
2004	$11,506	6.1%	130.473	0.3%	2.2%
2005	$12,231	6.3%	132.469	1.5%	3.0%
2006	$13,030	6.5%	135.010	1.9%	3.8%
2007	$13,688	5.0%	136.971	1.5%	2.6%
2008	$14,267	4.2%	137.731	0.6%	3.7%
2009	$14,071	-1.4%	133.889	-2.8%	1.4%
2010	$14,192	0.9%	129.667	-3.2%	1.0%
2011	$14,783	4.2%	130.517	0.7%	2.0%
2012	$15,387	4.1%	132.300	1.4%	2.9%
2013	**$15,944**	**3.6%**	**133.921**	**1.2%**	**1.5%**
2014	**$16,550**	**3.8%**	**136.001**	**1.6%**	**1.5%**
2015	**$17,381**	**5.0%**	**138.619**	**1.9%**	**1.8%**

U.S. Corporate Sector

Table 2 presents the developments in the United States corporate sector, as represented by corporate profits and the path of the Standard & Poor's 500 stock index (S&P 500), for FY 2002 through FY 2012 and the IHS Global Insight baseline forecast for FY 2013, FY 2014, and FY 2015. The table shows that as the national economy went through the

2001/2002 recession, corporate profits declined in FY 2002. With the current recession, corporate profits slowed in FY 2007 and then declined rapidly until FY 2010 when they bounced back strongly, recovering most of the decline of the prior two years.

Table 2
Corporate Profits and
Standard & Poor's 500 Stock Index

Fiscal Year	Corporate Profits ($ billions)	Percent Change	S&P 500 Index	Percent Change
2002	$689	-8.7%	1,115	-16.6%
2003	$837	21.5%	895	-19.7%
2004	$1,064	27.0%	1,078	20.5%
2005	$1,436	35.0%	1,160	7.6%
2006	$1,756	22.3%	1,255	8.2%
2007	$1,794	2.2%	1,400	11.6%
2008	$1,632	-9.1%	1,427	1.9%
2009	$1,224	-25.0%	966	-32.3%
2010	$1,687	37.8%	1,086	12.4%
2011	$1,841	9.1%	1,231	13.4%
2012	$2,002	8.7%	1,288	4.7%
2013	**$2,206**	**10.2%**	**1,401**	**8.7%**
2014	**$2,277**	**3.2%**	**1,451**	**3.6%**
2015	**$2,241**	**-1.6%**	**1,518**	**4.6%**

The forecast for corporate profits anticipates that they will remain on an upward trend. The S&P 500 index forecast reflects those trends as well. While the corporate profits forecast in Table 2 are estimates of large national firm profits, Montana participates in this national activity. In fact, the largest 20 Montana corporate license tax filers (of over 13,000 total filers) generally pay over 50% of Montana's annual corporate tax receipts. Thus, the bulk of corporate license tax revenues are better reflected in the national corporation profits and S&P 500 index trends. Income from "main street" Montana businesses is principally reflected in Montana personal income with taxes on those incomes reported on individual income tax returns, as these firms file partnership and "S" corporation returns. As discussed (below), the Montana personal income statistics are anticipated to sustain year-over-year growth.

Montana Production and Income

The impact on the Montana economy of national economic events can be seen in Table 3, which presents the evolution of Montana's gross state product (GSP) and personal income over time. The Montana economy grew more slowly than the national economy through the 2001 recession but outpaced the national economy between FY 2003 and FY 2009. IHS Global Insight forecasts this broad measure of state economic activity to pick up at a pace similar to the national economy as a whole. The projection for FY 2013 through FY 2015 is for a slower recovery (averaging 3.9% GSP growth per year) than is typical following a significant recession. During the previous comparable post-recession period of recovery (FY 2005 – 2007), GSP growth averaged 7.8% per year.

Montana personal income is a good summary indicator of economic impact on state revenues as it is the product of the interaction of multiple variables (wages and salaries, capital gains, transfers, proprietors' incomes, inflation, etc.) with high incidence on state revenue. Personal income in Montana grew rapidly during the FY 2000 through FY 2009 period (5.6% per year on average). The effect of the national economic downturn in CY 2001/2002 is seen in much slower growth during FY 2002 and FY 2003 than in the years preceding or following the recessionary period. IHS Global Insight forecasts Montana personal incomes in Montana to grow at approximately 63.4% of the rate of the previous expansion (5.6%) as the projected average growth rate for FY 2013 and the 2015 biennium is 3.6%.

Table 3
Gross State Product and Personal Income
($ millions)

Fiscal Year	Gross State Product	Percent Change	Personal Income	Percent Change
2000	$21,142	4.72%	$20,412	4.52%
2001	$22,379	5.8%	$22,142	8.5%
2002	$23,427	4.7%	$23,112	4.4%
2003	$24,553	4.8%	$23,971	3.7%
2004	$26,799	9.1%	$25,651	7.0%
2005	$28,910	7.9%	$27,245	6.2%
2006	$31,199	7.9%	$29,306	7.6%
2007	$33,599	7.7%	$31,488	7.4%
2008	$35,844	6.7%	$33,729	7.1%
2009	$35,055	-2.2%	$33,679	-0.1%
2010	$35,668	1.8%	$33,278	-1.2%
2011	$37,266	4.5%	$35,067	5.4%
2012	$38,720	3.9%	$36,820	5.0%
2013	**$40,091**	**3.5%**	**$38,022**	**3.3%**
2014	**$41,505**	**3.5%**	**$39,190**	**3.1%**
2015	**$43,476**	**4.7%**	**$40,904**	**4.4%**

Montana Employment and Population

Montana non-farm employment and population for FY 2002 through FY 2012 is presented in Table 4 along with IHS Global Insight's forecasts through FY 2015. The recession of 2001 slowed Montana's labor market growth, although total employment did not decline. The post-2007 recession, however, has resulted in the largest decline in overall employment since 1976 (when the current employment series began) and has been marked by three fiscal years of declining employment. Employment has begun to recover slowly from the depths of the "Great Recession" but is not projected to return to the rapid growth of the FY 2005 to FY 2007 period until after the 2015 biennium. However, employment growth is expected to continue to pick-up at an increasing rate during the biennium.

Table 4
Montana Employment and Population

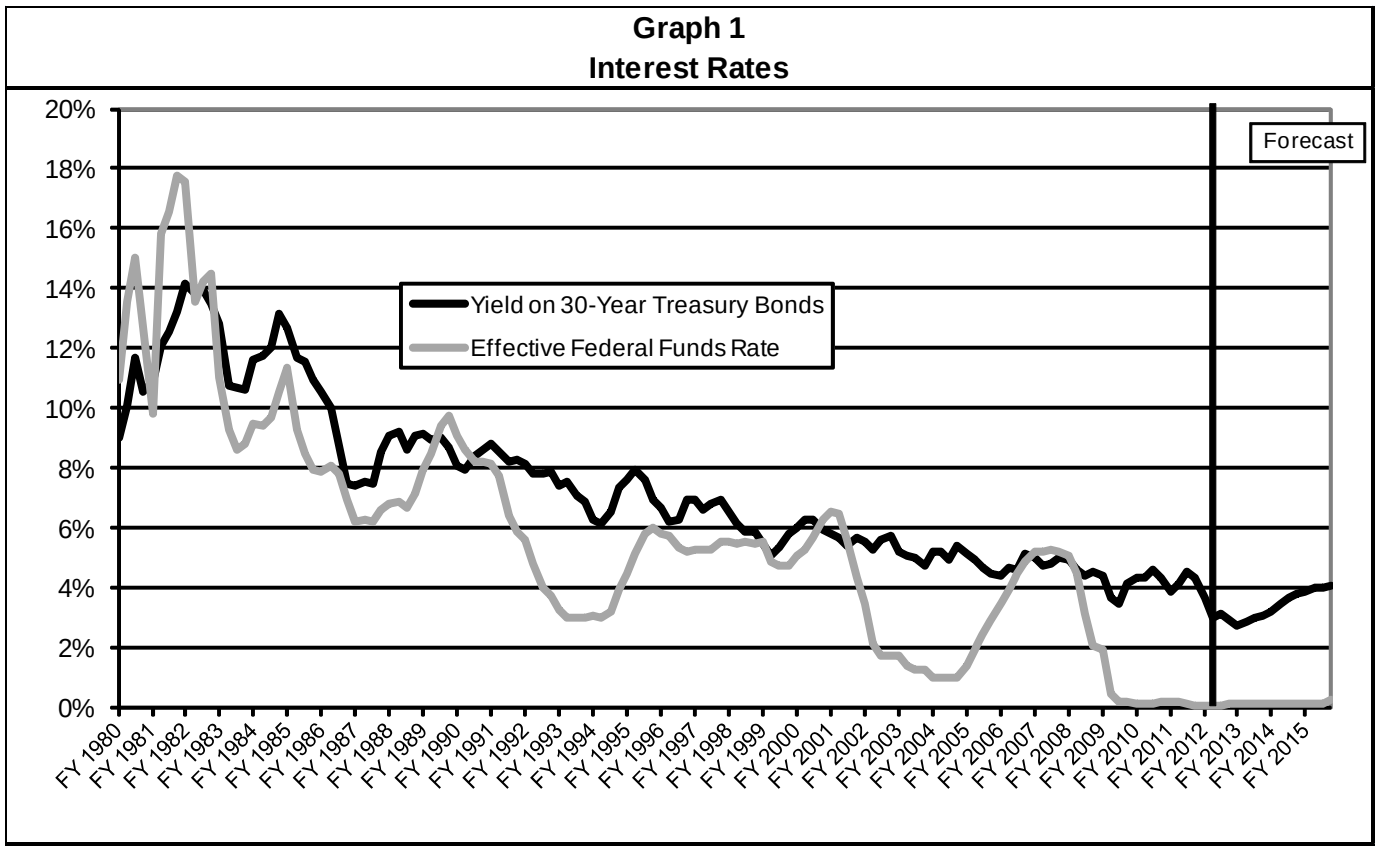
Fiscal Year	Employment	Percent Change	Population	Percent Change
2002	392.684	0.2%	911.279	0.5%
2003	398.275	1.4%	918.779	0.8%
2004	404.850	1.7%	928.685	1.1%
2005	414.934	2.5%	938.987	1.1%
2006	427.858	3.1%	951.070	1.3%
2007	439.492	2.7%	963.174	1.3%
2008	446.034	1.5%	974.683	1.2%
2009	436.658	-2.1%	983.013	0.9%
2010	427.575	-2.1%	990.186	0.7%
2011	428.534	0.2%	997.308	0.7%
2012	427.434	-0.3%	1,004.863	0.8%
2013	**434.984**	**1.8%**	**1,012.876**	**0.8%**
2014	**442.193**	**1.66%**	**1,021.419**	**0.84%**
2015	**451.435**	**2.09%**	**1,030.304**	**0.87%**

In the second half of the decade, Montana's population grew at over one percent (1.1%) per year. Population grew as the economy attracted returning Montanans and migrants from the rest of the United States. The table shows that even as population growth continues in Montana, it will be below FY 2005 to FY 2008 rates. It is believed that mobility is limited by effects of the collapse of the housing bubble.

Interest Rates

The state earns interest on trust funds, such as the coal severance tax trust fund, the school trust, and the tobacco settlement trust, and on short-term cash holdings in the general fund and other state funds. The state also pays interest on funds it borrows. Trust fund interest earnings and payments on debt are affected by changes in long-term interest rates. Most bonds held by the state trust funds are kept for several years; consequently, trust fund interest earnings are affected more by long-term trends than year-to-year variations. On the other hand, interest earnings on cash balances and interest payments on short-term debt are affected by short term interest rates.

Graph 1 shows the effective federal funds rate and the annualized yield on 30-year U.S. Treasury obligations from FY 1980 through the first quarter of FY 2013 and IHS Global Insight's forecast through FY 2015.

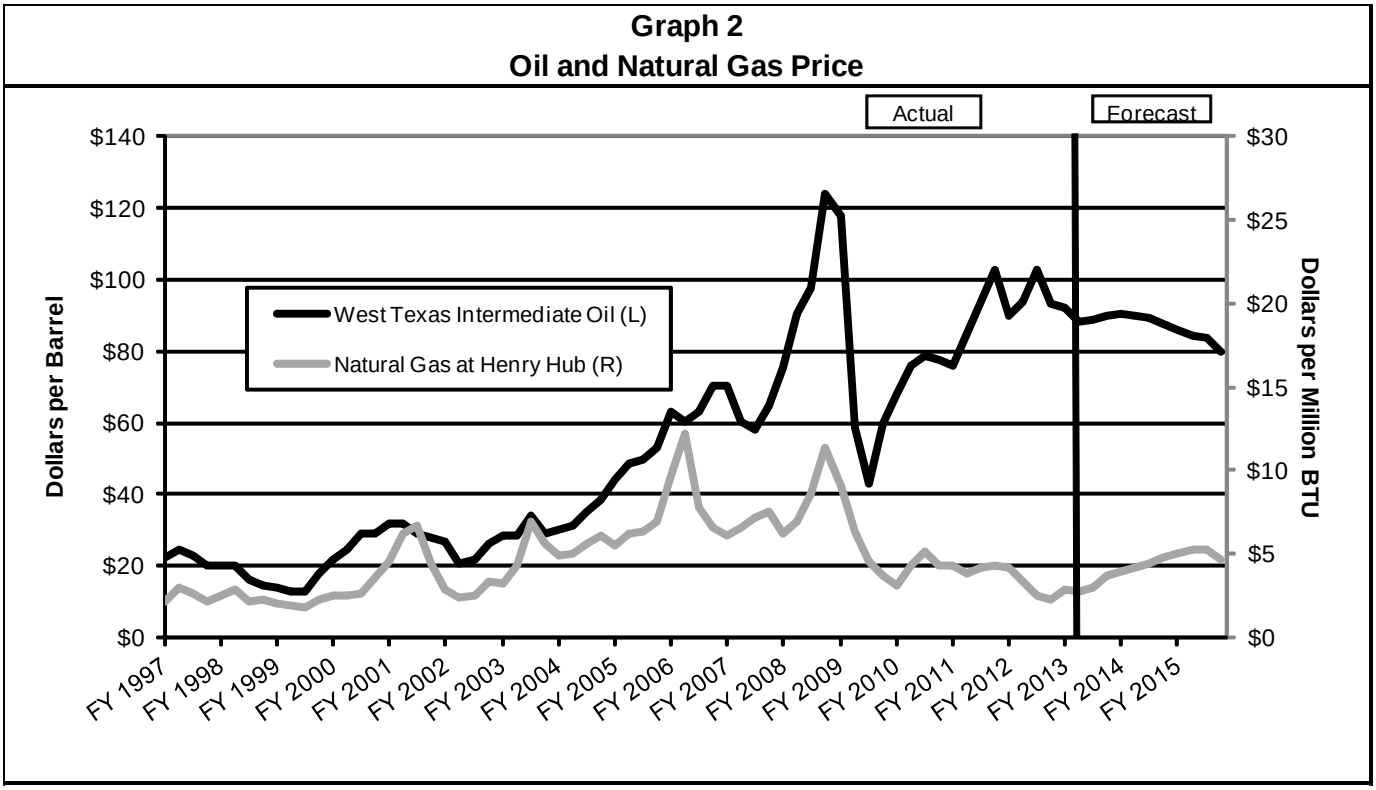


Interest rates hit historic highs in 1981, with both short-term and long-term interest rates hovering at over 14%. Interest rates have decreased since 1981 to recent unprecedented lows as the Federal Reserve Open Market Committee (FOMC) moved to stem the decline in the economy in the fall of 2008. The FOMC decreased the target federal funds rate (the rate banks charge each other to meet overnight reserve requirements) to near zero and worked to increase the money supply as financial markets locked-up by purchasing government and private sector bonds (so-called "Quantitative Easing"). The graph shows that short-term interest rates are more volatile than long-term rates. When the FOMC wants to dampen inflationary expectations, it acts by increasing the target federal funds rate and short-term interest rates rise. This is expected to happen late in FY 2015 once the economy is seen to be growing more rapidly.

Oil and Natural Gas Prices

Oil and natural gas prices have an impact on the state budget through several channels. The state taxes oil and natural gas production, receives royalties from production on state lands, shares the royalties from production on federal land located in the state, and taxes the income from production. Energy prices are transmitted through the state economy in general, with higher prices translating into higher incomes for the energy producers and higher costs for consumers.

Graph 2 shows national oil and natural gas prices from FY 1997 through the first quarter of FY 2013, and IHS Global Insight's forecasts through FY 2015. It shows the price of a standard grade of a barrel of West Texas Intermediate crude oil measured on the left axis, and the price of natural gas per million BTU at Henry Hub (a common benchmark market) on the right axis.



Oil and natural gas prices have become more volatile since 1995. Energy consumption is relatively insensitive to prices in the short-run. As a result, near-term changes in supplies can produce large price swings. In the long-run, energy users respond to higher prices by conserving and using energy more efficiently. Oil and gas producers respond to sustained higher prices by increasing exploration and development activities which tend to increase production as once-marginal plays become economically viable.

From about 1987 through 1999, oil and natural gas prices were relatively low as world supplies were plentiful. However, for several reasons, oil and natural gas prices have risen significantly since 1999. First, world supplies have been stagnant. Oil and gas fields developed in the 1970s are being depleted and relatively low oil prices limited exploration. Second, world demand has steadily grown as income growth in developing countries, particularly China, has enabled consumers to afford cars, appliances, and other energy-using consumer goods. Third, short-term supply disruptions such as wars, political instability in producing regions, and other natural disasters like hurricanes, flooding, and earthquakes, have led to short-term price spikes.

Both oil and natural gas prices peaked during FY 2008 and have dropped until recently. Oil prices are forecast to remain in the mid $80s per barrel throughout the 2015 biennium as new world-wide production helps offset increased global demand.

Age Structure of the Montana Population

Table 5 shows, the 1990, 2000, and 2010 census counts, and IHS Global Insight's 2015 population forecast grouped into ten-year age groups (cohorts) and the percent of the total population in each group.

Table 5
Age Structure of Montana Population

	1990 Census		2000 Census		2010 Census		**2015 Forecast**	
Age	Persons	%	Persons	%	Persons	%	**Persons**	**%**
0-9	125,603	15.7%	116,089	12.8%	123,704	12.5%	**129,925**	**12.6%**
10-19	120,285	15.0%	140,909	15.6%	127,889	12.9%	**126,031**	**12.2%**
20-29	104,491	13.0%	109,265	12.1%	131,855	13.3%	**135,298**	**13.1%**
30-39	134,798	16.8%	118,049	13.1%	114,818	11.6%	**122,758**	**11.9%**
40-49	104,085	13.0%	149,556	16.5%	128,082	12.9%	**121,170**	**11.7%**
50-59	71,729	8.9%	110,877	12.3%	155,426	15.7%	**151,941**	**14.7%**
60-69	66,959	8.3%	70,587	7.8%	110,585	11.1%	**128,611**	**12.5%**
70-79	49,789	6.2%	54,715	6.1%	59,732	6.0%	**73,794**	**7.1%**
80+	24,201	3.0%	34,324	3.8%	39,840	4.0%	**43,020**	**4.2%**
Total	801,939	100.0%	904,371	100.0%	991,930	100.0%	**1,032,547**	**100.0%**

The table shows that the cohort over the age of 60 is growing as a share of the population. By the 2000 census, this group represented 17.7% of the population and grew to 21.2% by 2010. By 2015 it is expected to include 23.8% of the state's population. This aging of the population mirrors national trends and is expected to continue. In 2015, the 40 and over age group is forecast to contain over 50% of the population.

Economic Structure

Table 6 shows Montana's GSP divided into eleven sectors. Actual GSP, divided by sector, is shown for CY 2004 and CY 2008, and forecast amounts are shown for CY 2012 and CY 2016. For sectors that have grown faster than the economy as a whole, the percent of total output has increased over time. For sectors that have not grown as fast as the economy, the percent has decreased.

Table 6
Montana Gross State Product by Sector
($ millions)

	CY 2004		CY 2008		**CY 2012**		**CY 2016**	
Economic Sector	$	%	$	**%**	$	%	$	%
Other Services	$6,604	23.7%	$8,641	24.1%	**$10,087**	**25.6%**	**$11,778**	**25.5%**
Finance, Insurance, & Real Estate	$4,402	15.8%	$6,271	17.5%	**$6,577**	**16.7%**	**$7,734**	**16.7%**
Transp., Comm., & Util.	$2,762	9.9%	$3,461	9.7%	**$3,624**	**9.2%**	**$4,348**	**9.4%**
State and Local Govt, Schools	$3,042	10.9%	$3,885	10.9%	**$4,089**	**10.4%**	**$4,536**	**9.8%**
Retail Trade	$2,090	7.5%	$2,424	6.8%	**$2,829**	**7.2%**	**$3,250**	**7.0%**
Manufacturing	$1,804	6.5%	$2,061	5.8%	**$2,407**	**6.1%**	**$2,999**	**6.5%**
Wholesale Trade	$1,543	5.5%	$1,843	5.1%	**$2,053**	**5.2%**	**$2,598**	**5.6%**
Construction	$1,715	6.2%	$2,137	6.0%	**$1,879**	**4.8%**	**$2,633**	**5.7%**
Federal Government	$1,140	4.1%	$1,232	3.4%	**$1,432**	**3.6%**	**$1,420**	**3.1%**
Agriculture, Forestry, & Fishing	$1,260	4.5%	$1,389	3.9%	**$1,751**	**4.4%**	**$2,097**	**4.5%**
Mining	$989	3.6%	$1,894	5.3%	**$2,093**	**5.3%**	**$2,128**	**4.6%**
Military	$481	1.7%	$563	1.6%	**$603**	**1.5%**	**$727**	**1.6%**
Total	$27,831	100.0%	$35,802	100.0%	**$39,424**	**100.0%**	**$46,249**	**100.0%**

The Montana economy has increasingly become less of a primary goods-producing economy. Due to high prices, the agriculture, forestry, fishing, and mining industries boomed in 2008, comprising 9.2% of the economy; expectations are that this trend will continue throughout the forecast period. Services are expected to continue to expand. The following four sectors produce services almost exclusively: 1) finance, insurance, and real estate; 2) retail trade; 3) wholesale trade; and 4) other services. The following four sectors produce physical goods almost exclusively: 1) manufacturing; 2) agriculture, forestry, and fishing; 3) mining; and 4) construction. The other four sectors produce a mix of goods and services. Together, the services only sectors accounted for 53.6% of state product in 2008, and they are forecast to account for 54.7% of state product in 2012 and 54.8% in 2016. The goods-producing sectors accounted for 20.9% of state product in 2008 and are forecast to make-up 20.6% of state product in 2012 and 21.3% in 2016. The mixed sectors accounted for 25.5% of state product in 2008 and are forecast to account for 24.7% of state product in 2012 and 23.9% in 2016.

Table 7 shows actual Montana wage and salaries divided into fifteen sectors[1] for CY 2004 and CY 2008, and IHS Global Insight's forecast for CY 2012 and CY 2016.

Table 7
Montana Wage and Salary Income by Economic Sector
($ millions)

	2004		2008		**2012**		**2016**	
Economic Sector	$	%	$	%	$	%	$	%
Educational & Health Svcs	$1,631	13.5%	$2,162	13.8%	**$2,546**	**15.0%**	**$3,089**	**15.2%**
State & Local Government, Schools	$1,965	16.2%	$2,451	15.7%	**$2,635**	**15.5%**	**$3,044**	**15.0%**
Professional & Business Svcs	$1,003	8.3%	$1,501	9.6%	**$1,962**	**11.5%**	**$2,504**	**12.3%**
Construction and Mining	$1,168	9.7%	$1,749	11.2%	**$1,704**	**10.0%**	**$2,327**	**11.5%**
Retail Trade	$1,147	9.5%	$1,401	9.0%	**$1,416**	**8.3%**	**$1,606**	**7.9%**
Financial Activities	$742	6.1%	$954	6.1%	**$979**	**5.8%**	**$1,139**	**5.6%**
Leisure & Hospitality	$698	5.8%	$914	5.8%	**$1,013**	**6.0%**	**$1,162**	**5.7%**
Manufacturing	$677	5.6%	$810	5.2%	**$739**	**4.3%**	**$913**	**4.5%**
Transportation, Warehousing & Utilities	$651	5.4%	$798	5.1%	**$964**	**5.7%**	**$1,086**	**5.4%**
Federal Government	$690	5.7%	$786	5.0%	**$814**	**4.8%**	**$819**	**4.0%**
Wholesale Trade	$583	4.8%	$761	4.9%	**$825**	**4.9%**	**$953**	**4.7%**
Other Services	$402	3.3%	$505	3.2%	**$552**	**3.2%**	**$626**	**3.1%**
Agriculture, Forestry & Fishing	$213	1.8%	$258	1.6%	**$271**	**1.6%**	**$325**	**1.6%**
Military	$257	2.1%	$287	1.8%	**$294**	**1.7%**	**$355**	**1.7%**
Information	$273	2.3%	$304	1.9%	**$290**	**1.7%**	**$333**	**1.6%**

Wages and salaries for professional and business services have consistently grown faster than wages in the economy as a whole, and are expected to continue along this trend. As the population ages, health services are expected to drive continued growth in the education and health service group. State and local governments as well as local schools are expected to slightly reduce their share of personal income. Construction and mining will drop slightly in 2012 from their 2008 peak, but are expected to rebound by 2016.

Assessment of Alternative of Forecast Service Projections

In September 2010, the Revenue and Transportations Interim Committee directed that a subscription to Moody's Analytics be used by the Legislative Fiscal Division. The Office of Budget and Program Planning (OBPP) also paid for access to Moody's Analytics and analyzed and assessed the data provided by Moody's during the preparation of OBPP's revenue estimates for the 2013 biennium (last legislative session). As a carryover from the process used during the last biennium, OBPP has again assessed the forecast data that Moody's has made public. Generally, much like last

[1] The growth in total wages and salaries for a sector is due to a combination of growth in employment in the sector and growth of wages. These differ between sectors.

biennium, Moody's appears to have a more optimistic forecast for the national economy. An example of this is the table below which compares IHS Global Insight and Moody's estimates of GDP for the forecast period. GDP is a good summary indicator of economic impact on state revenues as it is the product of the interaction of multiple variables (wages and salaries, employment, corporate profits, capital gains, transfers, proprietors' incomes, inflation, etc.) with high incidence on state revenue. Although OBPP has used only IHS Global Insight data as variable inputs into its models, OBPP feels more confident in its estimates as conservative or "middle-of-the-road", as Moody's forecast exceeds the optimism of IHS Global Insight.

As can be seen in Table 8 below, Moody's projects similar GDP growth in short-term, but the Moody's estimates begins to exceed the IHS Global Insight's estimates of GDP growth, thereby suggesting greater economic growth than the IHS Global Insight estimates variables used in our models.

Table 8
Comparison of Moody's Analytics and IHS Global Insight
October Forecasts of U.S. Real GDP Growth

	CY 2012	CY 2013	CY 2014	CY 2015
Moody's Analytics	Near 2.0%	2.20%	3.00%	4.50%
IHS Global Insight	2.10%	1.80%	2.90%	3.40%

Risks and Opportunities

In summary, the executive budget is based on assumptions about economic conditions through the 2015 biennium. The wake of the last prior two biennia of extraordinary economic turmoil makes clear that uncertainty presents inherent risks that have to be accounted for in selecting forecasts on which to base revenue estimates. Prior to the 2013 biennium, the consensus of forecasters correctly forecasted the economy avoiding a "double-dip" recession but growing slowly. In the near-term (through FY 2013), the general consensus of forecasters is for slow growth on par with the last two years. In the longer term, IHS Global Insight and the U.S. Federal Reserve Bank forecasts point to modest real growth that slowly accelerates through CY 2015.

Caution also needs to be taken in assuming a repeat of the October 2008 to April 2009 plunge in economic output. The "Great Recession's" unprecedented declines had signals that began to unfold between August 2007 and October 2008, after imbalances developed over the housing and finance bubbles of 2003 to 2007. The recession also exposed other structural weaknesses in the economy which by their very nature of being exposed means they can be addressed or their risks evaluated. Forecasters, having been challenged by the "Great Recession," appear to be better conditioned to look for "black swans" (extremely rare and unanticipated events) and appear to be more conservative in their outlooks. This should limit downside forecasting risk.

Uncertainties remain, as always, as forecasters try to identify the source for the next economic "shock" and how that might work through the economy. Currently, optimistic scenarios point to increased consumer savings and pent-up demand leading to increased economic activity. Pessimistic scenarios see the risk of sovereign debt default rising, fiscal cliff implications, and the emergence of trade disputes holding back growth. Most forecasters recognize the "working out" of the housing bubble with household's and financial sector firm's rebuilding of balance sheets leading to a slower than usual post-recession economic recovery. These scenarios also recognize that federal fiscal issues will need to be addressed in the mid-term

OBPP has taken a reasonable but conservative approach to revenue estimating for the biennium and has reason to believe that the estimates derived leave upside risk for increased revenue collections. Specific examples of caution built into OBPP's estimates include, but are not limited to:

Corporation License Tax

When making the corporation license tax estimate, OBPP explicitly used the pessimistic outlook for U.S. Corporate profits in its model to address the ability of firms to carry-forward losses for up to seven years. Additionally, the model

incorporated the reported U.S. corporate profits for each of the prior three years, individually, to try to capture the three-year claw-back behavior of corporate tax strategy. Further, the record tax collections of FY 2009 were explicitly accounted for (essentially excluded) in the corporation license tax model. All three of these strategies accounting for risk were taken despite recent reports of very high corporation tax revenue growth in major corporate domicile states such as Delaware, and corporation profits significantly exceeding the levels present during the state's previous record collections.

Personal Income Tax

In the income tax model, the principle source of tax revenue is based on wages and salary payments. The national forecasting companies, in their state models, rely heavily on the employment, and wage and salary information reported through the Current Employment Statistics system which surveys establishments. The forecasting firms do so because the reporting establishments are classified by their sector of economic activity which permits disaggregated economic sector estimates driven by sectoral labor market activity. The CES employment numbers at the state level have been showing discrepancies (lower employment gains in some sectors) with the Local Area Unemployment Statistics system which form the basis for calculating the broader measures of unemployment rate, employment, and unemployment levels. These discrepancies are reconciled with the Quarterly Census of Employment and Wages (QCEW) and in the annual labor statistics benchmarking (January and February every year). However, the QCEW reconciliation is done with a six to nine month lag. Current analysis by several states reported at on the Federation of Tax Administrators Revenue Estimating Conference website show a pattern that has also been noted in Montana's labor statistics. These suggest that the base data being used by all forecasters is likely to be revised upward. In fact, the Bureau of Labor Statistics has recently published preliminary estimates of the magnitude of likely national revisions by economic sector and the impact of these revisions for Montana could be significant.

Oil and Gas

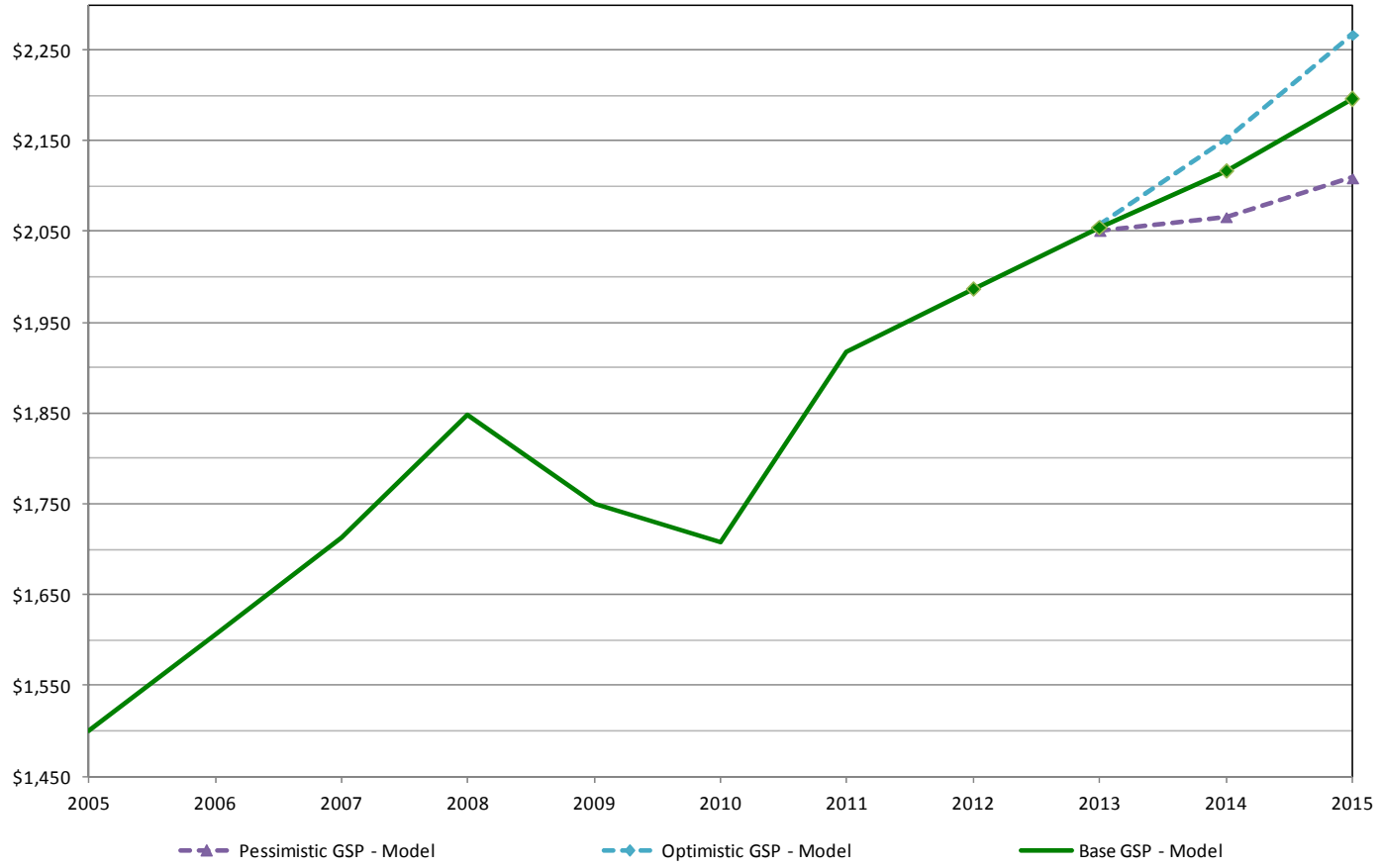
Despite the increase in oil drilling activity in the eastern part of Montana (namely in the Bakken formation), actual production has only marginally increased over the past year and a half. While extraction activity in North Dakota's portion of the Bakken is high, differences in geology are limiting extraction activity in Montana even with tax policy that is more favorable to oil producers here than in North Dakota. Oil and gas production is also greatly affected by prices, which have been volatile and are not forecast to rebound to their historical high levels. However, there is potential for upside risk. Exploratory rig activity is high, which could translate into greater production levels. If this is the case, however, any new production will benefit from the 18 month tax holiday and subsequently won't affect tax revenues until the end of the forecast period. Montana also is more limited than North Dakota in its ability to transport its oil to market. If the Keystone XL pipeline is approved and is constructed during the forecast period, the discount received on Montana oil will be reduced which would result in greater tax revenues as a result of the higher prices received, and as a result of production becoming more lucrative. This forecast assumes that the Keystone XL pipeline will not be constructed during the forecast period. Upside risk for natural gas collections could occur if excessive supplies are reduced by more than what is currently expected, or if demand for natural gas were to increase as either scenario would result in price increases.

Sensitivity of Revenue Estimates to Economic Scenarios

In order to develop an estimate of the sensitivity of OBPP's estimates to the IHS Global Insight scenarios, and to evaluate the reasonableness of the estimate derived by aggregating the 33 independent tax type estimates, expected general fund revenue with respect to prior year Montana GSP was examined. This simple model generates an expected revenue path based on the baseline, optimistic, and pessimistic GSP estimates using the historical pattern of general fund revenue to GSP that applied to the FY 1969 through FY 2012 period. There were some adjustments that need to be made to the time-series to help ensure comparability over the period, specifically to address the change in the national income and product accounts classification system, as well as the treatment of School Equalization Account revenue as "general fund" revenue.

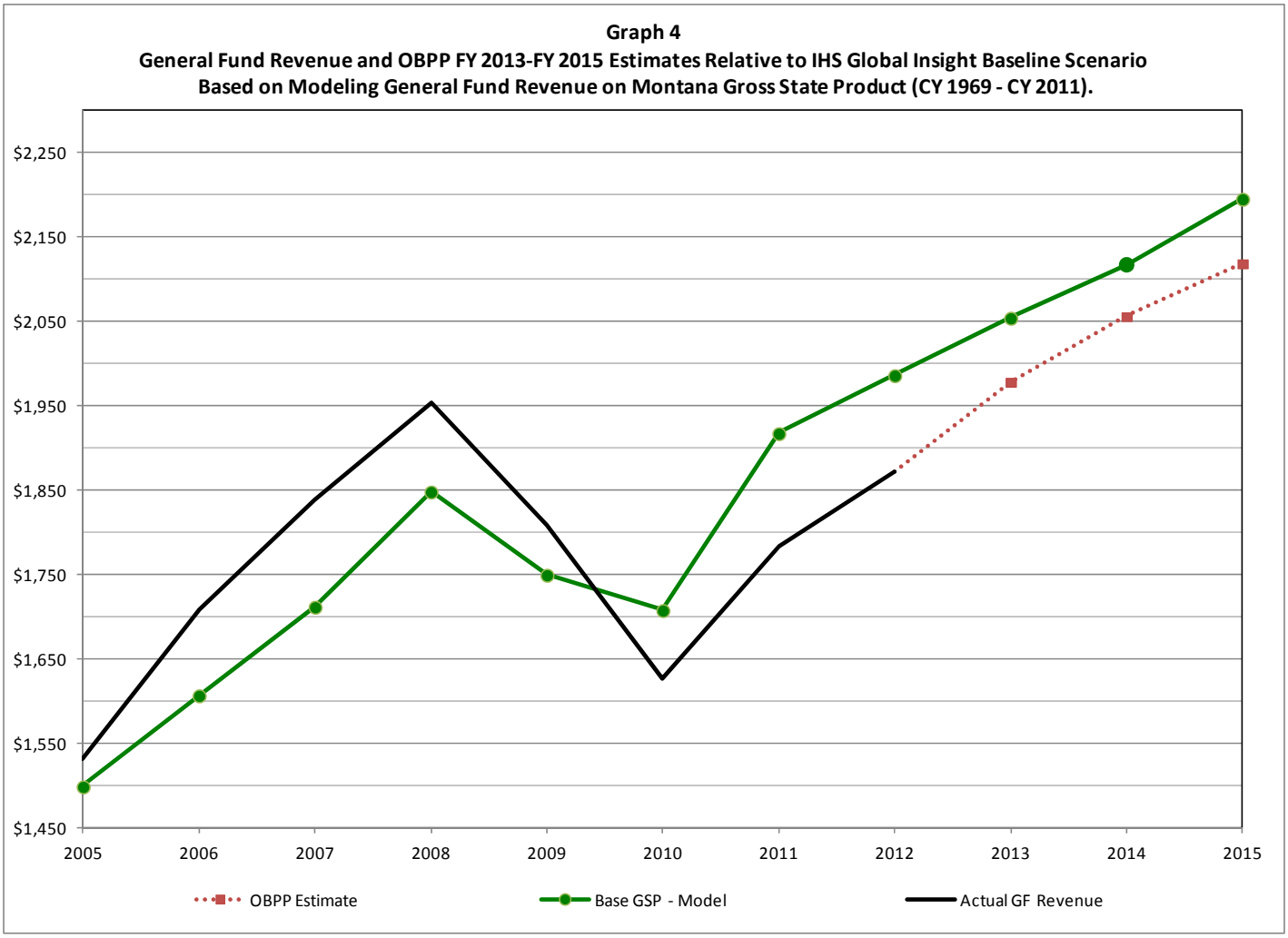
The expected revenue paths are presented in Graph 3. The graph shows the level of general fund revenue that would be expected under each scenario. Because of the one calendar year lag in the model, the estimates for FY 2013 show no significant difference. The optimistic model renders approximately $35 million more in FY 2014 than the baseline estimate and approximately $ 70 million more than baseline in FY 2015 for a biennial total of $105 million. The pessimistic model in turn shows a reduction from the baseline of $ 50 million in FY 2014 and $87 million in FY 2015.

Graph 3
Predicted General Fund Revenue based on IHS Global Insight
Montana Gross State Product Scenarios



To evaluate the reasonableness of OBPP revenue estimates, the model output was then compared to the output of the summed individual tax type estimates. These are presented in Graph 4. The comparison shows that the estimate for FY 2013 is approximately $ 75 million below the baseline model. In FY 2014, it is $61 million below and in FY 2015 it is $76 million below. These estimates are below or are consistent with the IHS Global Insight's pessimistic scenario for Montana. While this is a very simple model and basis for comparison, it reflects the behavior of tax collections over a long and varied economic trajectory. It is also apparent that the model tends to somewhat undershoot periods of rapid growth, catch turns well (if the forecast catches the turn), and underestimates declines to some degree. This likely reflects the progressive nature of the income tax system in that, under periods of rapidly rising income, the average tax rate rises rapidly as well (and vice versa). Nonetheless, these estimates suggest that OBPP has reasonable and conservative revenue estimates that leave room for normal timing anomalies.

Graph 4
General Fund Revenue and OBPP FY 2013-FY 2015 Estimates Relative to IHS Global Insight Baseline Scenario Based on Modeling General Fund Revenue on Montana Gross State Product (CY 1969 - CY 2011).



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STATE OF MONTANA

GENERAL FUND REVENUE SUMMARY SECTION 2

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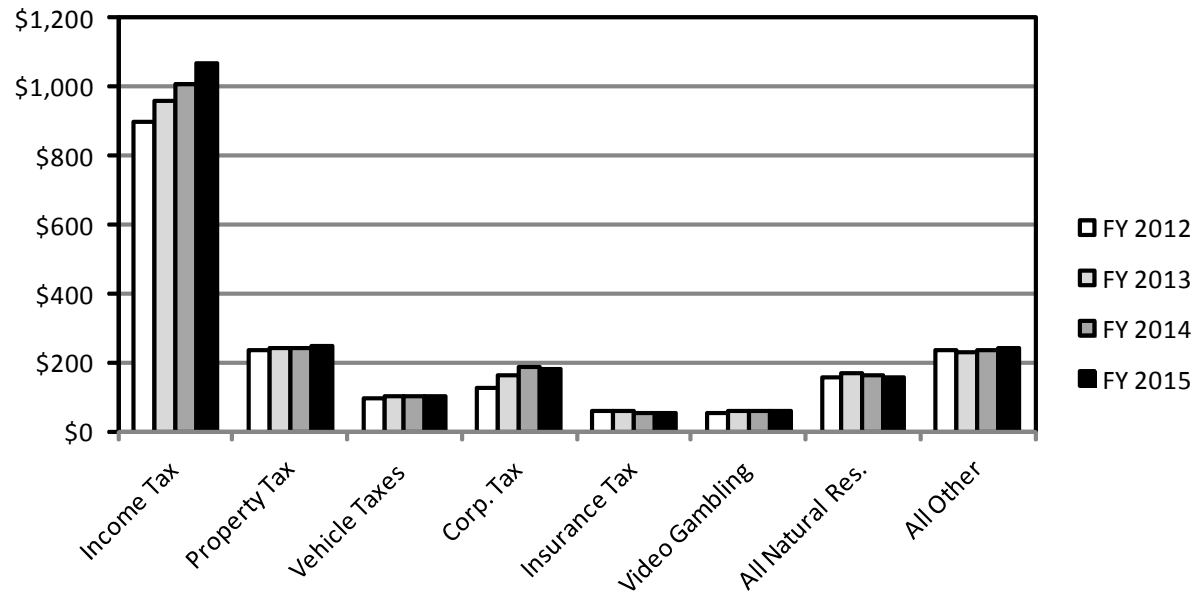
GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

General Fund Revenue Summary

2015 Biennium

The state general fund accounts for all the state's financial resources, except for those legally mandated to be accounted for in another fund. Chart 1 divides general fund revenue into eight groups. The six largest taxes and the group of natural resource taxes groups accounted for 87.4% of general fund revenue in FY 2012, with each source contributing in excess of $50 million.

Chart 1
General Fund Revenue
($ millions)



Individual income tax is the largest revenue source. Individual income tax revenue is forecast to be $2,081 million in the 2015 biennium, accounting for 49.8% of general fund revenue. Property tax revenue is forecast to be $494.7 million, representing 11.8% of general fund revenue. Corporate license tax revenue is forecast to be $371.0 million in the 2015 biennium, representing 8.9% of general fund revenue. Vehicle revenue includes vehicle taxes and registration fees and is estimated to bring in $205.5 million in general fund revenue and represent 4.9% of biennium revenue. The natural resource category is comprised of oil and natural gas production taxes, U.S. mineral royalties, coal severance tax, metal mines tax, electrical energy tax, and wholesale energy transaction taxes, and as a whole are expected to generate $323.6 million in revenue, representing 7.8% of 2015 biennium general fund revenue.

Table 1 on the following page shows the 33 general fund revenue categories (including the catch all group called all other revenue). The six major taxes, which each bring in more than $50 million per year, are estimated to be 80.8% of general fund revenue in 2015 biennium. All other revenue groups combined are forecast to contribute 11.4% of total general fund revenue in the 2015 biennium.

Table 1
General Fund Revenue

Revenue Category	Actual FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Biennial Share
MAJOR TAXES					
Individual Income Tax	898.85	960.51	1,011.16	1,070.24	49.8%
Property Tax	236.66	239.54	245.02	249.67	11.8%
Vehicle Taxes and Fees	99.76	103.00	102.80	102.70	4.9%
Corporation License Tax	127.77	162.88	187.38	183.56	8.9%
Insurance Premiums Tax	58.95	60.73	52.66	54.72	2.6%
Video Gambling Tax	53.82	57.36	57.73	58.14	2.8%
Total Major Taxes	**1,475.82**	**1,584.01**	**1,656.74**	**1,719.03**	**80.8%**
NATURAL RESOURCE TAXES					
Oil and Gas Production Taxes	97.56	99.35	99.60	96.03	4.7%
U.S. Mineral Royalties	31.06	35.23	29.25	26.08	1.3%
Coal Severance Tax	12.35	14.32	16.87	17.97	0.8%
Metalliferous Mines Tax	10.01	10.15	10.56	10.85	0.5%
Electrical Energy Tax	4.48	4.38	4.56	4.75	0.2%
Wholesale Energy Transactions Tax	3.43	3.35	3.48	3.63	0.2%
Total Natural Resource Taxes	**158.89**	**166.79**	**164.32**	**159.30**	**7.8%**
INTEREST EARNINGS					
Coal Trust Interest Earnings	25.84	24.01	24.05	24.12	1.2%
Treasury Cash Account Interest	2.65	2.96	2.69	3.57	0.2%
Total Interest Earnings	**28.49**	**26.97**	**26.74**	**27.69**	**1.3%**
LIQUOR TAXES					
Liquor Excise and License Taxes	17.04	17.87	18.71	19.72	0.9%
Liquor Profits	9.50	9.72	9.91	10.37	0.5%
Beer Tax	2.96	3.05	3.05	3.05	0.1%
Wine Tax	2.10	2.18	2.26	2.35	0.1%
Total Liquor Taxes	**31.60**	**32.82**	**33.93**	**35.49**	**1.7%**
TOBACCO TAXES					
Cigarette Tax	31.48	31.52	31.47	31.42	1.5%
Tobacco Products Tax	5.71	5.77	5.96	6.15	0.3%
Tobacco Settlement	3.32	3.31	3.30	3.28	0.2%
Total Tobacco Taxes	**40.51**	**40.61**	**40.73**	**40.85**	**2.0%**
SALES TAXES					
Telecommunications Excise Tax	21.46	21.52	21.69	21.86	1.0%
Institutional Reimbursements	14.56	15.35	15.62	15.83	0.8%
Health Care Facility Utilization Fees	5.08	4.85	4.73	4.60	0.2%
Accommodations Tax	15.61	16.07	17.41	18.98	0.9%
Rental Car Sales Tax	3.42	3.58	3.87	4.22	0.2%
Total Sales Taxes	**60.12**	**61.36**	**63.31**	**65.49**	**3.1%**
OTHER TAXES AND REVENUES					
Lottery Profits	13.09	11.32	14.90	15.69	0.7%
Highway Patrol Fines	4.38	4.51	4.71	4.81	0.2%
Investment Licenses and Permits	6.96	7.21	7.43	7.67	0.4%
Contractors' Gross Receipts Tax	-3.04	1.87	4.18	4.10	0.2%
Driver's License Fee	4.37	5.20	4.60	3.76	0.2%
Rail Car Tax	2.27	2.16	2.17	2.18	0.1%
Other Revenue	47.49	33.93	32.67	32.95	1.6%
Total Other Taxes	**75.52**	**66.19**	**70.67**	**71.16**	**3.4%**
TOTAL GENERAL FUND REVENUE	**$1,870.95**	**$1,978.75**	**$2,056.45**	**$2,119.02**	**100.0%**

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STATE OF MONTANA

MAJOR REVENUE
SECTION 3

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Individual Income Tax

2015 Biennium

Revenue Description

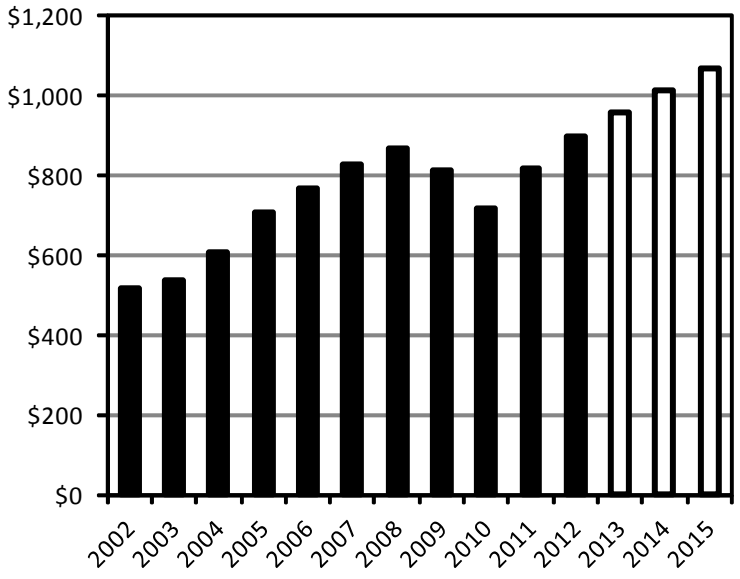
Title 15, Chapter 30, MCA, imposes a graduated individual income tax ranging from 1% to 6.9% on gross income, less exemptions and deductions. Taxpayers' Montana adjusted gross income is based on their federal adjusted gross income, but may be higher or lower because some types of income are taxed differently 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 48.0% of total general fund revenue in FY 2012. 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 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015. Revenues are expected to slow gradually toward (but remain above) trend rates from FY 2013 through FY 2015. This reflects a continuation of the trend from the very high FY 2011 "bounce back" rate and FY 2012 strong growth rate. Personal income tax revenues exceeded their FY 2008 peak levels in FY 2012.

Table 1
Individual Income Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$517.568	-6.91%
A	2003	$535.831	3.53%
A	2004	$605.348	12.97%
A	2005	$706.218	16.66%
A	2006	$768.912	8.88%
A	2007	$827.095	7.57%
A	2008	$866.638	4.78%
A	2009	$815.138	-5.94%
A	2010	$717.834	-11.94%
A	2011	$816.090	13.69%
A	2012	$898.851	10.14%
F	**2013**	**$960.510**	**6.86%**
F	**2014**	**$1,011.160**	**5.27%**
F	**2015**	**$1,070.241**	**5.84%**



Risks and Significant Factors

- The estimate presented represents an implementation of present law tax policy which includes the expiration of the various changes in federal tax policy enacted in 2001 and 2003.
- This estimate relies on the IHS Global Insight baseline forecast for much of the data used in the model. The base assumption in the IHS Global Insight forecast assumes that federal policymakers will "smooth" the pace of tax increases of the so-called "Fiscal Cliff" and automatic expenditure reductions of "sequestration". This transition will happen over CY 2013 and CY 2014 and by CY 2015/CY 2016 some modified version of tax increases and expenditure cuts become fully binding.
- Due to the interdependence of Montana adjusted gross income with federal adjusted gross income, changes in the federal tax code could have a significant effect on Montana income tax receipts. Holding all other factors constant, lower federal tax rates (and higher deductions) result in higher state tax collections, while higher

federal tax rates (and lower deductions) reduce state tax collections. The state's negative exposure to these fluctuations is dampened due to the cap on deductable federal income tax expenditures.

- IHS Global Insight relies heavily on Bureau of Economic Analysis and Bureau of Labor Statistics data for the recent past. These agencies have several standard scheduled revision points when preliminary data is often revised and updated. Significant revisions, measured changes in economic conditions, and/or major economic policy changes can, and will, change IHS Global Insight's forecast.
- Montana has an important independent way to track and evaluate these data. Montana individual income tax withholding data (as opposed to federal income statistics that rely heavily in the near-term on federal withholding) is directly tied to over 75% of personal income reported on state tax forms and is reported with roughly no more than a one-month lag (some withholding filers pay quarterly, others annually, but the vast majority file weekly, bi-weekly or monthly reports).
- The Office of Budget and Program Planning monitors the changes in forecasts and collections closely – but as a general rule, monthly changes to the IHS Global Insight forecasts tend to have only minor impact on the revenue estimates (roughly +/- $5 to $10 million per year), particularly in the near-term (6 to 12 months). Major quarterly updates that use changes in the BEA's National Income and Product Accounts data can have a larger impact. That impact is more noticeable two years or more into the future (roughly +/- $25 million per year). The general trend of the IHS Global Insight forecasts over the last 6 months has been stable. Naturally, more significant economic events can change the forecast to a greater degree and on a faster time scale.

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.

Graph 1
Personal Income Reported By Full Year Residents for Tax Year 2011

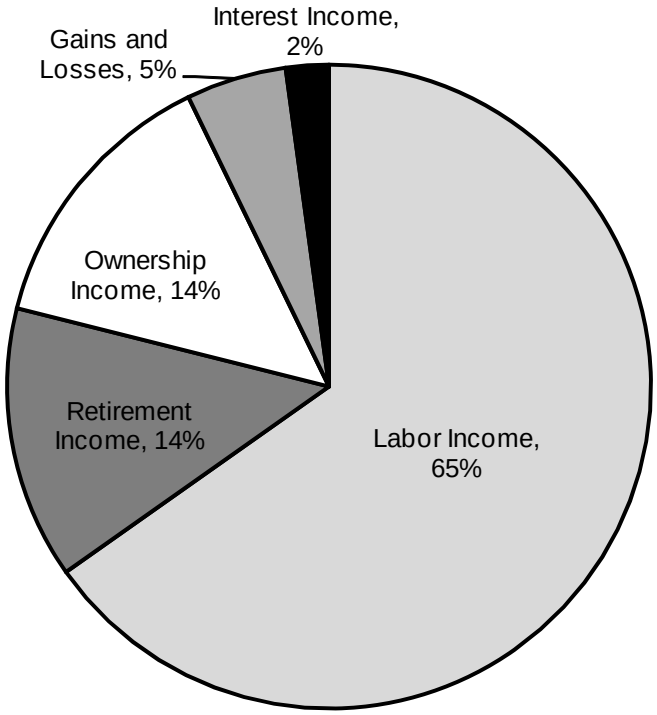


Table 2 provides more detail by showing the amount of income reported for CY 2011 by full-year residents and the percent of total reported income that category represents. The last column gives the average percent of total reported income for each category for CY 2001 through CY 2011.

Table 2
Calendar Year Income
($ millions)

Type of Income	CY 2011 Income	% CY 2011 Income	% CY 01-11 Income
Labor Income			
Wages, salaries, tips, etc.	**$13,389.962**	**65.23%**	**64.15%**
Ownership Income			
Rents, royalties, partnerships, etc.	$1,823.263	8.88%	8.45%
Net business income	$690.830	3.37%	3.90%
Dividend income	$504.422	2.46%	2.50%
Net farm income	-$145.068	-0.71%	-0.88%
Other income	-$23.266	-0.11%	-0.08%
	$2,850.181	**13.88%**	**13.89%**
Retirement Income			
Taxable portion of Soc. Sec.	$603.827	2.94%	2.30%
Taxable Pensions, IRAs	$2,206.826	10.75%	9.25%
	$2,810.653	**13.69%**	**11.55%**
Gains and Losses			
Capital gain or (loss)	$992.632	4.84%	6.96%
Supplemental gains or (losses)	$42.064	0.20%	0.30%
	$1,034.695	**5.04%**	**7.26%**
Interest Income	**$442.983**	**2.16%**	**3.15%**
Total	**$20,528.474**	**100.00%**	**100.00%**

Tables 3 through 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 reduction, and credits are summarized in Table 12. All charts depict income reported by full-year residents. With the exception of the principal individual income tax income source, wages and salaries, the vertical scale is held constant at a range of $0 to $3 billion in taxpayer received income. This representation better reflects the relative importance of each revenue stream. The vertical scale for wages and salary income is nine times the range of the other sources of income. The reader is cautioned that Table 2 through Table 12 present total income before taxes.

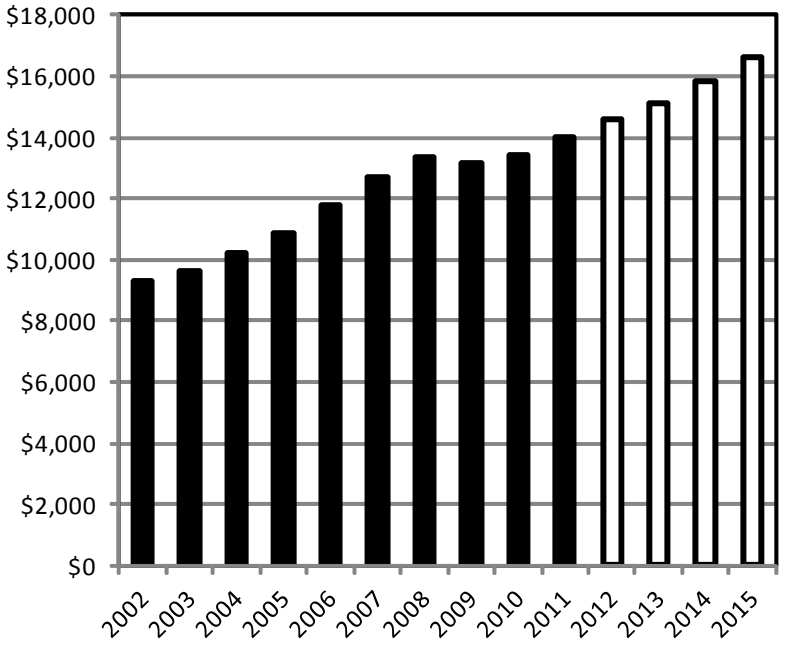
In TY 2011, on average, every $10,000 of this income attributable to individual income taxpayers' generated roughly $358 in state individual income tax receipts.

Labor Income

Expenditure of wage and salary payments represents the largest single component in Montana gross state product. Individual income taxes on wages and salary earnings are the principal source of state government tax revenue.

Table 3
Wages, Tips, and Salary Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$9,266	15.44%
A 2003	$9,650	4.14%
A 2004	$10,210	5.81%
A 2005	$10,841	6.18%
A 2006	$11,780	8.66%
A 2007	$12,670	7.56%
A 2008	$13,352	5.38%
A 2009	$13,137	-1.61%
A 2010	$13,390	1.93%
A 2011	$13,996	4.53%
F 2012	**$14,609**	**4.38%**
F 2013	**$15,135**	**3.60%**
F 2014	**$15,809**	**4.45%**
F 2015	**$16,604**	**5.03%**



Risks and Significant Factors

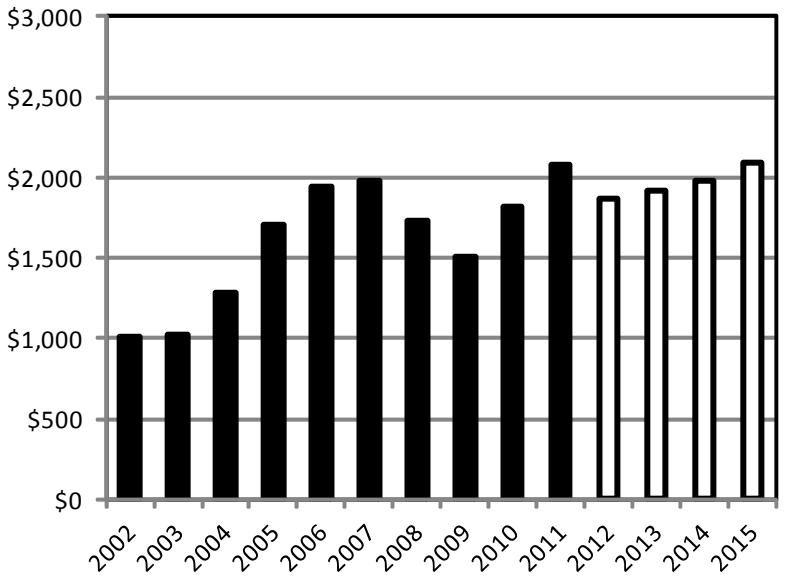
- The level of total Montana employment has a large effect on labor income. If the level of unemployment does not decrease at the rate anticipated, then labor income will be lower than forecast.
- Average annual wages received by Montanans has a direct effect on the total level of taxable labor income.
- The combined effects of employment growth and increasing wages and salaries are expected to raise total income and wages modestly over the forecast period.

Ownership Income

Returns from owning property, businesses, farms, ranches, royalty rights or working interests in natural resources, processes, techniques, other intellectual property, or stock in companies and other non-financial instrument property generates significant revenue. Principal among these are rents, royalties and partnership income. This followed by net business income, dividend income, net farm income, and other miscellaneous sources of income.

Table 4
Rents, Royalties, and Partnership Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$1,014.59	24.76%
A 2003	$1,019.72	0.51%
A 2004	$1,283.27	25.84%
A 2005	$1,704.63	32.83%
A 2006	$1,945.00	14.10%
A 2007	$1,976.85	1.64%
A 2008	$1,735.15	-12.23%
A 2009	$1,508.40	-13.07%
A 2010	$1,823.26	20.87%
A 2011	$2,075.87	13.85%
F 2012	**$1,870.78**	**-9.88%**
F 2013	**$1,916.78**	**2.46%**
F 2014	**$1,984.71**	**3.54%**
F 2015	**$2,088.66**	**5.24%**

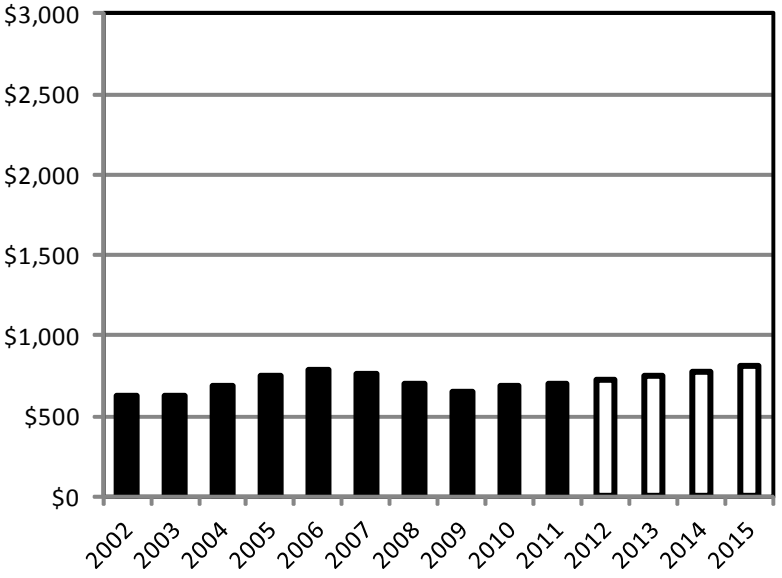


Risks and Significant Factors

- The recent relative decline in natural resource prices is thought to be driving the decline in this income source in TY 2012. These prices are expected to stabilize or recover. Property values are also recovering, contributing to anticipated gains after TY 2012.
- The growth rate of rents and royalties income shows a strong relationship with national proprietors' income. If the economic recovery accelerates more than (less than) expected, this income source would increase (decrease).
- Mineral royalties have generally been reported in this income category, and higher mineral, oil, and natural gas prices, as well as production would increase growth of this income source.

Table 5
Net Business Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$620.57	3.57%
A 2003	$629.70	1.47%
A 2004	$680.79	8.11%
A 2005	$749.59	10.11%
A 2006	$785.30	4.76%
A 2007	$762.06	-2.96%
A 2008	$701.31	-7.97%
A 2009	$648.19	-7.57%
A 2010	$690.83	6.58%
A 2011	$702.19	1.64%
F 2012	**$720.93**	**2.67%**
F 2013	**$742.55**	**3.00%**
F 2014	**$775.92**	**4.49%**
F 2015	**$811.34**	**4.56%**

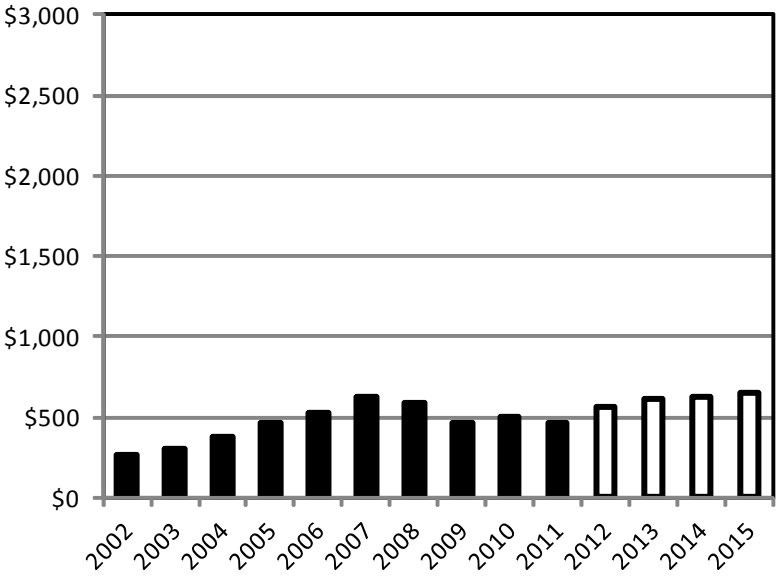


Risks and Significant Factors

- The growth in national proprietors' income is highly correlated with Montana net business income. Changes in national business income will have an impact on this source of income.

Table 6
Dividend Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$264.88	-22.11%
A 2003	$297.42	12.29%
A 2004	$379.39	27.56%
A 2005	$463.03	22.05%
A 2006	$521.73	12.68%
A 2007	$619.82	18.80%
A 2008	$592.11	-4.47%
A 2009	$462.42	-21.90%
A 2010	$504.42	9.08%
A 2011	$465.23	-7.77%
F 2012	**$564.92**	**21.43%**
F 2013	**$608.07**	**7.64%**
F 2014	**$628.06**	**3.29%**
F 2015	**$647.92**	**3.16%**



Risks and 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 change accordingly.

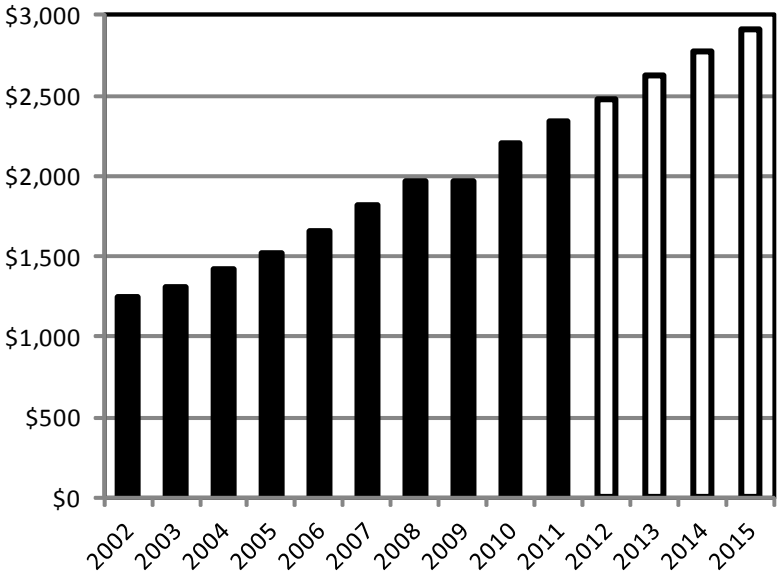
- Corporations have been increasing their cash reserves. If corporate behavior changes toward increasing dividends and payments to individuals, this may increase Montana dividend income.

Retirement income

The main components of retirement income are pension and IRA income, and the taxable portion of social security income. Pension and IRA income exceeds social security income but is more volatile. As the share of the population eligible for social security income grows, and workers retire and claim pensions and retirement savings, this income accelerates.

Table 7
Pensions and IRA Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$1,250.39	12.90%
A 2003	$1,307.74	4.59%
A 2004	$1,417.52	8.40%
A 2005	$1,524.80	7.57%
A 2006	$1,657.86	8.73%
A 2007	$1,812.79	9.34%
A 2008	$1,960.74	8.16%
A 2009	$1,963.91	0.16%
A 2010	$2,206.83	12.37%
A 2011	$2,345.00	6.26%
F 2012	**$2,474.59**	**5.53%**
F 2013	**$2,621.04**	**5.92%**
F 2014	**$2,767.88**	**5.60%**
F 2015	**$2,905.46**	**4.97%**

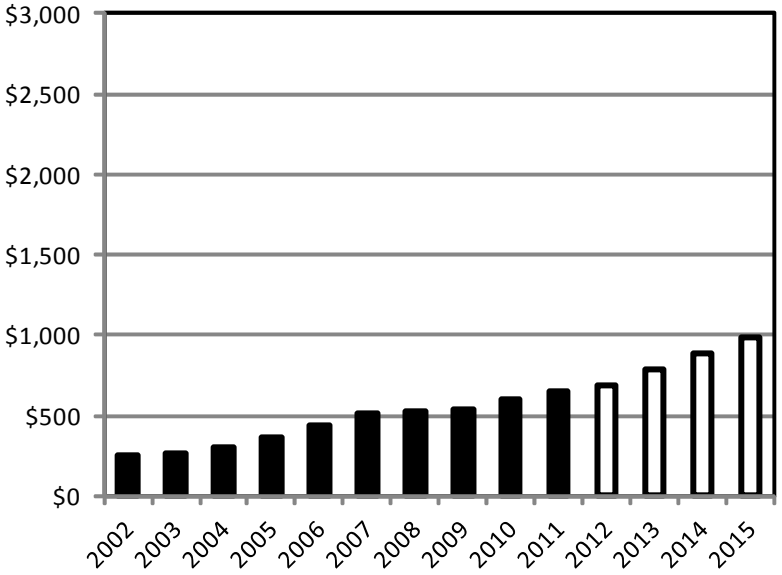


Risks and Significant Factors

- Prior years' S&P 500 stock price index and change in the population over age 65 is well correlated with pension and IRA income. As the stock market increases, returns from retirement savings and the number of retirees' increases, taxable payments from pensions and IRA's are expected to increase.

Table 8
Social Security Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$254.25	15.66%
A 2003	$267.29	5.13%
A 2004	$305.54	14.31%
A 2005	$359.18	17.56%
A 2006	$434.52	20.97%
A 2007	$508.64	17.06%
A 2008	$527.63	3.73%
A 2009	$540.62	2.46%
A 2010	$603.83	11.69%
A 2011	$651.77	7.94%
F 2012	**$683.84**	**4.92%**
F 2013	**$782.15**	**14.38%**
F 2014	**$886.33**	**13.32%**
F 2015	**$989.78**	**11.67%**



Risks and Significant Factors

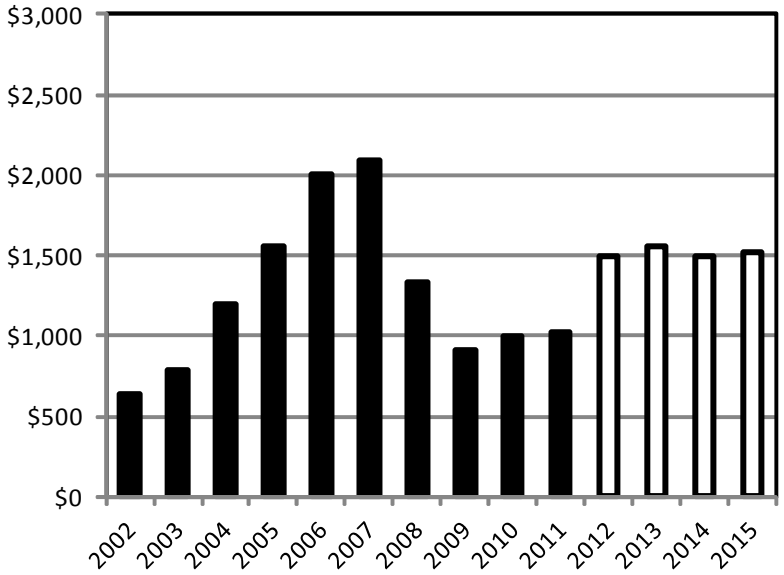
- Social security is indexed for inflation. If inflation remains low, this will have a negative effect on the growth of social security income.
- Montana population age 65 and older also increases the total amount of social security income. As the population of Montanans 65 and older increases, total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

Gains and Losses

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

Table 9
Capital Gains and Losses Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$637.44	-42.87%
A 2003	$790.91	24.08%
A 2004	$1,193.18	50.86%
A 2005	$1,554.05	30.25%
A 2006	$2,006.02	29.08%
A 2007	$2,088.58	4.12%
A 2008	$1,337.81	-35.95%
A 2009	$912.04	-31.83%
A 2010	$992.63	8.84%
A 2011	$1,015.75	2.33%
F 2012	**$1,495.08**	**47.19%**
F 2013	**$1,555.84**	**4.06%**
F 2014	**$1,495.16**	**-3.90%**
F 2015	**$1,517.84**	**1.52%**

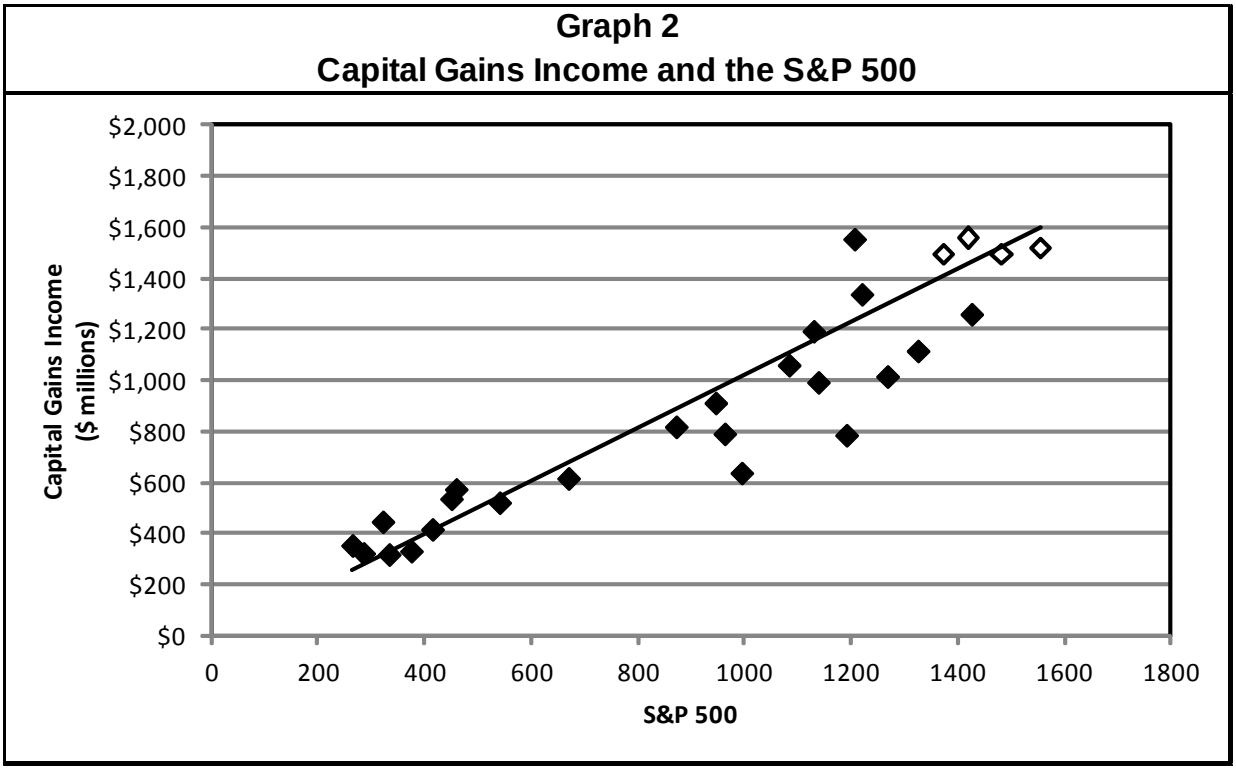


Risks and Significant Factors

- 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 assets for which reliable price data is available.

In Table 9, note the decline in capital gains income following the stock declines of CY 2000, CY 2008, and CY 2009. The relationship between stock prices and capital gains is depicted in Graph 2. The relationship relative to the forecast is presented with the white diamonds:

Graph 2
Capital Gains Income and the S&P 500

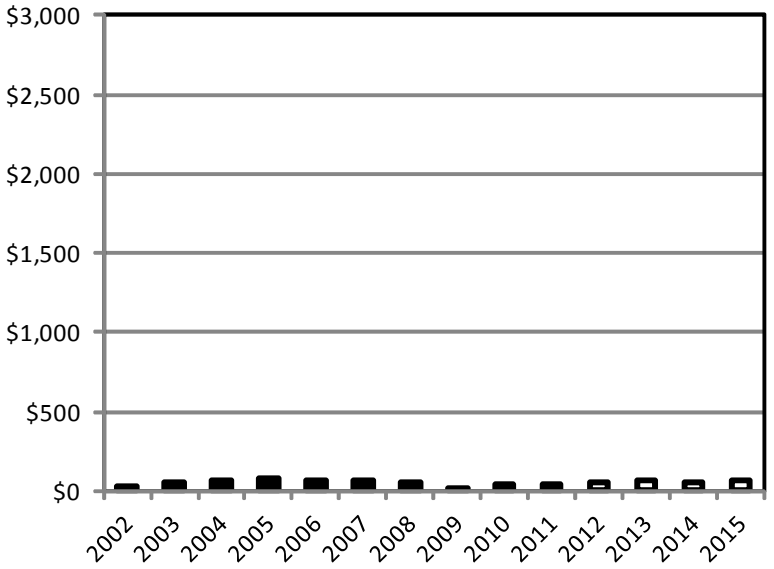


The Jobs and Growth Tax Relief Reconciliation Act of 2003 included changes affecting long-term capital gains from sales on or after May 6, 2003, reducing the rates on many types of gains from asset sales. The legislation included language which sunset these lower capital gains rates in 2008 unless extended by Congress. In May 2006, Congress passed legislation extending the lower capital gains rates through 2010. These were again extended through CY 2012.

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. Part of the increase in capital gains in 2003 through 2005 reflects a one-time turnover of assets following tax rate cuts in order to realize the gains. This phenomenon may be seen again with the planned expiration of the Bush tax cuts in TY 2012.

Table 10
Supplemental Gains Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$32.57	-26.64%
A 2003	$55.55	70.57%
A 2004	$69.72	25.52%
A 2005	$77.63	11.34%
A 2006	$67.79	-12.67%
A 2007	$66.37	-2.10%
A 2008	$56.74	-14.51%
A 2009	$19.04	-66.4%
A 2010	$42.06	121.0%
A 2011	$41.88	-0.43%
F 2012	**$58.88**	**40.58%**
F 2013	**$60.34**	**2.48%**
F 2014	**$58.88**	**-2.42%**
F 2015	**$59.43**	**0.93%**



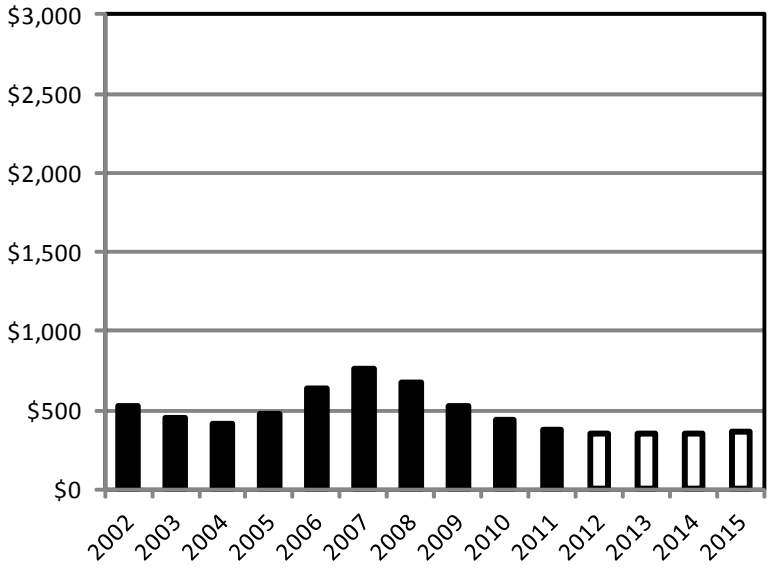
Risks and Significant Factors

- 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

Table 11
Interest Income
($ millions)

Calendar Year	Income	Percent Change
A 2002	$528.96	-12.22%
A 2003	$453.03	-14.36%
A 2004	$411.89	-9.08%
A 2005	$480.09	16.56%
A 2006	$636.78	32.64%
A 2007	$756.83	18.85%
A 2008	$674.05	-10.94%
A 2009	$519.76	-22.89%
A 2010	$442.98	-14.77%
A 2011	$376.78	-14.95%
F 2012	**$347.10**	**-7.88%**
F 2013	**$346.84**	**-0.08%**
F 2014	**$355.94**	**2.63%**
F 2015	**$366.13**	**2.86%**



Risks and 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.
- Very low interest rates will reduce 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 IHS 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 in the other categories. 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. Baseline assumptions are listed in Table 12 at the end of this report.

Before program implementation:
- Growth rates for income and deductions must be estimated; and
- 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 tax simulation program is run to project tax liability, it does so by:
- Reading 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; and
- Repeat the 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; and
- 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. 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 IHS Global Insight (October 2012).

Table 12
Historic and Projected Growth Rates for Line Items

INCOME ITEMS	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Actual CY 2010	Actual CY 2011	Forecast CY 2012	Forecast CY 2013	Forecast CY 2014	Forecast CY 2015
Federal Adjusted Gross Income Items												
Wages, salaries, tips, etc.	5.8%	6.2%	4.1%	4.3%	6.3%	5.9%	8.0%	4.6%	5.4%	4.4%	6.0%	4.3%
Interest income	-9.1%	16.6%	32.6%	18.9%	-10.9%	-22.9%	-14.8%	-14.9%	-7.9%	-0.1%	2.6%	2.9%
Dividend income	27.6%	22.0%	12.7%	18.8%	-4.5%	-21.9%	9.1%	-7.8%	21.4%	7.6%	3.3%	3.2%
Net business income	8.1%	10.1%	4.8%	-3.0%	-8.0%	-7.6%	6.6%	1.6%	2.7%	3.0%	4.5%	4.6%
Capital gain or (loss)	50.9%	30.2%	29.1%	4.1%	-35.9%	-31.8%	8.8%	2.3%	47.2%	4.1%	-3.9%	1.5%
Supplemental gains or (losses)	25.5%	11.3%	-12.7%	-2.1%	-14.5%	-66.4%	121.0%	-0.4%	40.6%	2.5%	-2.4%	0.9%
Rents, royalties, partnerships, etc.	25.8%	32.8%	14.1%	1.6%	-12.2%	-13.1%	20.9%	13.9%	-9.9%	2.5%	3.5%	5.2%
Taxable IRAs and pensions	8.4%	7.6%	8.7%	9.3%	8.2%	0.2%	12.4%	6.3%	5.5%	5.9%	5.6%	5.0%
Taxable portion of Soc. Sec.	14.3%	17.6%	21.0%	17.1%	3.7%	2.5%	11.7%	7.9%	4.9%	14.4%	13.3%	11.7%
Net farm income	4.5%	9.8%	39.9%	-11.4%	34.7%	-12.6%	-21.0%	-12.3%	81.9%	6.0%	6.4%	6.5%
Other income	-7.0%	-3.3%	-30.6%	-479.5%	-98.6%	-1043.6%	-6.7%	806.2%	-83.3%	0.0%	0.0%	0.0%
Adjustments to Income	7.3%	7.3%	5.7%	9.8%	-1.6%	-9.5%	10.8%	3.7%	19.1%	7.4%	7.4%	7.4%

ADDITIONS:	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Actual CY 2010	Actual CY 2011	Forecast CY 2012	Forecast CY 2013	Forecast CY 2014	Forecast CY 2015
Interest on state, county, bonds	6.5%	-0.1%	50.4%	11.0%	18.2%	-2.3%	24.7%	-10.5%	-2.0%	1.5%	0.7%	0.2%
Federal income tax refunds	5.7%	-7.0%	-41.5%	-0.9%	-16.2%	0.3%	3.0%	-12.0%	2.3%	1.9%	2.5%	2.8%
Other additions	15.7%	-25.3%	30.6%	-0.7%	-2.8%	25.3%	25.0%	-29.0%	4.8%	1.9%	2.2%	2.9%

REDUCTIONS:	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Actual CY 2010	Actual CY 2011	Forecast CY 2012	Forecast CY 2013	Forecast CY 2014	Forecast CY 2015
Farm risk management account	-98.9%	-100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Elderly interest exclusion	-5.2%	5.0%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Exclusion for savings bonds	-7.7%	12.9%	37.5%	14.0%	-32.6%	-27.8%	-17.1%	-16.9%	24.2%	-0.1%	3.9%	4.2%
Exempt pension income	1.0%	1.0%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Unemployment income	-21.4%	-16.2%	4.0%	7.1%	58.7%	70.2%	58.2%	-28.1%	9.0%	-1.6%	-2.2%	-2.0%
Medical savings account excl.	21.7%	3.4%	10.0%	5.4%	2.0%	3.0%	7.1%	3.5%	6.3%	5.9%	5.6%	5.3%
Family education account excl.	13.5%	-6.6%	7.6%	6.6%	-14.4%	-3.8%	-0.7%	-0.3%	1.8%	1.8%	1.7%	1.7%
First-time homebuyers acct. excl.	-18.8%	4.4%	-19.8%	-8.3%	0.0%	31.9%	-49.6%	10.4%	3.2%	3.2%	3.2%	3.2%
Loan Repayments Taxed to Health Care Prof.	-13.4%	-21.8%	-2.9%	2.4%	14.9%	25.8%	28.5%	39.8%	-24.3%	13.2%	16.6%	-12.1%
Other reductions	10.5%	12.1%	17.3%	9.1%	6.1%	14.4%	11.8%	14.6%	6.6%	6.6%	6.6%	6.6%

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

ITEMIZED DEDUCTIONS:	Actual CY 2004	Actual CY 2005	Actual CY 2006	Actual CY 2007	Actual CY 2008	Actual CY 2009	Actual CY 2010	Actual CY 2011	Forecast CY 2012	Forecast CY 2013	Forecast CY 2014	Forecast CY 2015
Medical insurance premiums	7.3%	6.0%	11.5%	3.1%	4.5%	5.0%	2.6%	3.0%	5.6%	5.6%	5.6%	5.6%
Medical deduction	9.3%	5.7%	2.7%	4.9%	7.5%	-0.4%	-1.1%	-1.0%	3.1%	3.1%	3.1%	3.1%
Long-term care insurance	6.8%	3.5%	12.7%	13.9%	8.1%	-1.3%	4.2%	24.5%	5.4%	4.1%	3.9%	3.8%
Balance of federal tax	-11.0%	5.2%	86.9%	23.5%	6.2%	-22.4%	-17.5%	20.7%	0.0%	0.0%	0.0%	0.0%
Additional federal tax	0.5%	-20.2%	33.7%	6.0%	30.2%	63.1%	-48.3%	18.8%	4.7%	4.7%	4.7%	4.7%
Property taxes	7.4%	0.0%	7.5%	4.3%	5.8%	3.3%	2.0%	2.4%	3.6%	3.4%	2.9%	2.9%
Motor veh. and other deductible taxes	10.2%	26.7%	-0.4%	-20.5%	1.0%	2.7%	17.8%	-9.6%	-2.6%	0.0%	0.0%	0.0%
Home mortgage interest	4.2%	9.8%	15.6%	14.5%	2.0%	-3.1%	-3.5%	-6.2%	3.7%	3.4%	3.4%	3.8%
Deductible investment interest	12.3%	38.2%	42.3%	9.9%	-17.0%	-36.5%	18.2%	-10.0%	42.1%	5.0%	6.4%	6.8%
Contributions	11.2%	6.5%	3.8%	41.8%	-19.2%	-3.8%	5.3%	3.4%	6.1%	6.1%	6.1%	6.1%
Child/dependent care expenses	-9.4%	-3.2%	-6.9%	5.7%	-6.1%	15.8%	-8.3%	9.5%	-0.1%	-0.1%	-0.1%	-0.1%
Casualty and theft losses	-11.9%	23.7%	64.7%	-36.6%	19.1%	24.1%	-28.7%	97.9%	-30.3%	6.8%	7.1%	1.0%
Tier I - Miscellaneous	9.1%	8.5%	53.5%	10.6%	-27.6%	-10.6%	3.9%	10.5%	15.2%	6.2%	5.8%	1.2%
Tier II - Miscellaneous	-31.0%	7.2%	46.6%	-40.4%	48.6%	115.4%	-55.5%	-26.3%	3.7%	4.1%	3.3%	-1.2%
Gambling Losses	23.0%	28.2%	7.4%	12.6%	22.7%	-0.2%	-1.3%	14.2%	8.1%	8.1%	8.1%	8.1%
CREDITS	**Actual CY 2004**	**Actual CY 2005**	**Actual CY 2006**	**Actual CY 2007**	**Actual CY 2008**	**Actual CY 2009**	**Actual CY 2010**	**Actual CY 2011**	**Forecast CY 2012**	**Forecast CY 2013**	**Forecast CY 2014**	**Forecast CY 2015**
Capital gains tax credit	0.0%	0.0%	27.6%	104.2%	-34.7%	-85.8%	255.2%	-97.5%	32.1%	5.5%	5.5%	5.5%
Elderly homeowner/renter tax credit	0.0%	0.0%	-4.7%	1.4%	8.7%	2.6%	0.0%	-3.5%	32.1%	5.5%	5.5%	5.5%
Physician credit for rural practice	-0.5%	-25.1%	-17.2%	10.3%	-30.5%	-43.7%	-42.7%	-100.0%	32.1%	5.5%	5.5%	5.5%
College contribution credit	15.8%	20.4%	19.2%	-3.0%	-5.8%	5.3%	6.7%	-5.9%	32.1%	5.5%	5.5%	5.5%
Charitable endowment credit	17.0%	-0.4%	27.0%	-11.9%	-31.1%	-9.0%	-0.5%	-100.0%	32.1%	5.5%	5.5%	5.5%
Elderly care credit	32.7%	98.0%	-3.2%	-6.6%	-3.9%	-6.2%	68.5%	2.0%	32.1%	5.5%	5.5%	5.5%
Other state/foreign tax credit	20.2%	8.3%	22.2%	-12.0%	3.2%	-18.9%	21.4%	-7.4%	32.1%	5.5%	5.5%	5.5%
Contractor's gross receipts credit	3.6%	27.2%	61.8%	7.1%	-2.1%	53.9%	45.3%	13.8%	32.1%	5.5%	5.5%	5.5%
Investment credit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	32.1%	5.5%	5.5%	5.5%
Alternative energy systems credit	48.4%	43.6%	5.8%	5.2%	40.1%	50.7%	0.2%	-37.6%	32.1%	5.5%	5.5%	5.5%
Energy conservation credit	26.9%	81.5%	41.1%	2.0%	-2.9%	27.3%	2.3%	-45.4%	32.1%	5.5%	5.5%	5.5%
Alternative energy production credit	52.0%	-34.7%	88.1%	92.3%	-79.3%	297.9%	-65.7%	-35.8%	32.1%	5.5%	5.5%	5.5%
Recycling credit	153.6%	33.5%	84.4%	-49.0%	36.7%	-16.8%	12.1%	9.2%	32.1%	5.5%	5.5%	5.5%
Alternative fuels credit	0.0%	0.0%	-24.4%	32.0%	8.7%	25.4%	-35.8%	213.6%	32.1%	5.5%	5.5%	5.5%
Montana capital company credit	0.0%	0.0%	-49.0%	-40.0%	-100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dependent care assistance credit	-26.8%	42.0%	10.6%	37.7%	79.6%	-67.8%	87.9%	78.4%	32.1%	5.5%	5.5%	5.5%
Employee health insurance credit	211.1%	21.0%	8.1%	-6.0%	-21.2%	-28.9%	0.0%	0.0%	32.1%	5.5%	5.5%	5.5%
Infrastructure users fee credit	0.0%	0.0%	-8.6%	-96.9%	24.9%	-8.8%	63.4%	-46.1%	32.1%	5.5%	5.5%	5.5%
Historic building preservation credit	448.8%	-47.5%	291.2%	11.0%	-73.0%	123.8%	268.4%	-78.8%	32.1%	5.5%	5.5%	5.5%
Developmental disability account credit	0.0%	158.6%	-63.2%	811.0%	-100.0%	-28.9%	-6.2%	-30.2%	32.1%	5.5%	5.5%	5.5%
Empowerment zone credit	0.0%	165.5%	1675.1%	-97.1%	-100.0%	0.0%	0.0%	-20.8%	32.1%	5.5%	5.5%	5.5%
Insure Montana small business health ins credit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	32.1%	5.5%	5.5%	5.5%
Other Credits	0.0%	0.0%	0.0%	19.5%	8.7%	5.6%	5.6%	15.0%	32.1%	5.5%	5.5%	5.5%

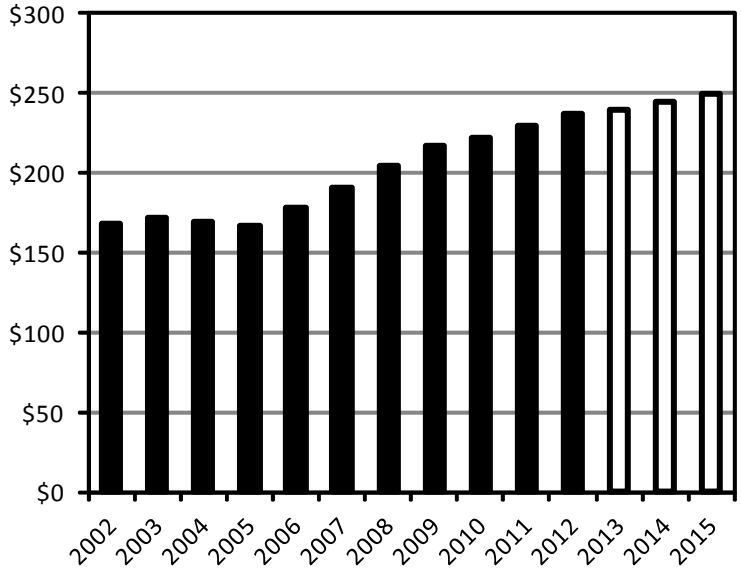
Revenue Description

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).

Table 1 shows general fund property tax collections for FY 2002 through FY 2010 and forecast revenue for FY 2013, FY 2014, and FY 2015.

Table 1
Property Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$167.617	-6.91%
A	2003	$171.657	2.41%
A	2004	$169.531	-1.24%
A	2005	$167.270	-1.33%
A	2006	$177.639	6.20%
A	2007	$190.982	7.51%
A	2008	$205.036	7.36%
A	2009	$217.042	5.86%
A	2010	$222.510	2.52%
A	2011	$229.352	3.08%
A	2012	$236.662	3.19%
F	**2013**	**$239.538**	**1.22%**
F	**2014**	**$245.020**	**2.29%**
F	**2015**	**$249.665**	**1.90%**



Risks and Significant Factors

- Property taxes constitute the largest statewide tax source – the state, local governments, schools, and special districts collected over $1.449 billion in property taxes and fees in TY 2011 (FY 2012).
- In the 2011 session, SB 372 lowered the tax rate on business equipment (class 8) from 3.0% to 2.0% for the first $2 million of market value of class 8 property. The $2 million tax bracket threshold is raised to $3 million and the tax rate is reduced to 1.5% the first tax year after corporation license and individual income tax collections exceed the prior year's collection by more than 4.0%. All class 8 property above these thresholds continues to pay the current law tax rate of 3.0%. This estimate assumes the threshold is raised and tax rate is reduced in TY 2014.
- Other major 2011 session legislation that had an impact on property taxes was SB 266 which decreased the coal gross proceeds production tax rate from 5% to 2.5% for ten years for existing and new underground coal mines starting with CY 2011 production (FY 2013 tax collections).

- 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.
- The federal Secure Rural Schools and Communities Act was reauthorized for one year (through FY 2013). The expiration will lower the state share of these non-levy revenue by $3.3 million as payments revert to federal forest receipts rules for FY 2014.
- 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.
- FY 2015 is the last year of the current six-year reappraisal cycle.
- Unanticipated growth in tax increment financing districts (TIFs) could lower state, schools, and local jurisdiction property tax collections.
- The expiration of federal accelerated bonus depreciation and expensing rules enacted under economic recovery measures may reduce the pace of investment in business, and other industrial plant and equipment.
- Continued expansion in wind (and renewable) power may slow with the expiration of the federal renewable electricity production tax credit (PTC) in CY 2012.

Estimate Summary

The presentation of this forecast starts with a summary estimate of general fund property tax revenue, non-levy revenue, 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 ---	---------- Forecast ----------		
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**
Property Tax - 95 Mill Levy	$226.277	**$230.159**	**$237.715**	**$241.919**
Property Tax - 1.5 Mill Levy	$1.163	**$1.205**	**$1.250**	**$1.296**
Protested Property Taxes	-$2.400	**-$2.400**	**-$2.400**	**-$2.400**
Net Property Mill Levy Revenue	$225.039	**$228.964**	**$236.565**	**$240.815**
Non-Levy Revenue:				
Coal Gross Proceeds	$7.118	**$6.424**	**$6.502**	**$7.011**
Federal Forest Reserves	$4.146	**$3.770**	**$0.424**	**$0.357**
All Other (ratio of last known year)	$0.379	**$0.379**	**$0.379**	**$0.379**
Subtotal Non-Levy Revenue	$11.643	**$10.574**	**$7.305**	**$7.747**
Total Property Tax Revenue	$236.682	**$239.538**	**$245.020**	**$249.665**

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 school 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 CO_2 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 classes 15 and 16 have been assigned no value or growth during the forecast period as the creation of any new property in this class is currently unknown.

Of note in Table 3 (below):

- **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 IHS Global Insight projection for the producer price for metals and current production. 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. The statutory rate for class 8 was reduced by SB 372 in TY 2011 and is anticipated to drop again in TY 2014.
- **Class 14,** (formerly wind generation property) is expanding rapidly. The forecast includes major projects that are operational that will appear on the TY 2013 tax rolls. The growth also includes Montana Alberta tie-line property currently valued at reduced construction rates that is anticipated to be on TY 2013 tax rolls at full value.

Table 3
Summary of Assessed Market Value
($ millions)

	Class 1 Net Proceeds		Class 2 Gross Proceeds		Class 5 Rural Co-Op & Pollution Control		Class 7 Locally Assessed Utilities		Class 8 Business Equipment (FY adjusted)	
Tax Year	Adjusted Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change
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%	$13.045	25.1%	$1,154.284	1.8%	$11.918	-2.1%	$4,064.047	1.9%
A 2006	$3.252	20.7%	$21.106	61.8%	$1,170.571	1.4%	$13.354	12.1%	$4,359.340	7.3%
A 2007	$3.840	18.1%	$28.347	34.3%	$1,181.927	1.0%	$13.698	2.6%	$4,772.181	9.5%
A 2008	$4.013	4.5%	$34.858	23.0%	$1,170.260	-1.0%	$15.179	10.8%	$5,248.938	10.0%
A 2009	$4.002	-0.3%	$31.019	-11.0%	$1,251.525	6.9%	$15.822	4.2%	$5,745.932	9.5%
A 2010	$3.181	-20.5%	$20.850	-32.8%	$1,299.811	3.9%	$16.229	2.6%	$6,022.510	4.8%
A 2011	$3.931	23.6%	$25.303	21.4%	$1,354.726	4.2%	$14.930	-8.0%	$6,238.758	3.6%
A 2012	$4.189	6.6%	$32.804	29.6%	$1,522.562	12.4%	$14.631	-2.0%	$6,464.672	3.6%
F 2013	$4.335	**3.5%**	**$30.903**	**-5.8%**	**$1,566.716**	**2.9%**	**$14.897**	**1.8%**	**$6,950.564**	**7.5%**
F 2014	$4.487	**3.5%**	**$29.534**	**-4.4%**	**$1,612.151**	**2.9%**	**$15.168**	**1.8%**	**$7,268.578**	**4.6%**
F 2015	$4.644	**3.5%**	**$31.326**	**6.1%**	**$1,658.903**	**2.9%**	**$15.444**	**1.8%**	**$7,601.857**	**4.6%**

	Class 9 Pipelines & Electricity Transmission		Class 12 Airlines & Railroads		Class 13 Telecommunication & Electrical Generation		Class 14 Renewable Energy Production & Transmission		Class 15 CO2/Qualifying Liquid Pipeline Property	
Tax Year	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change
A 2002	$1,767.717	2.8%	$1,161.405		$2,286.414				**Class 16 High Voltage DC Converter**	
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		Net Assessed Value	Percent Change
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%	No Property identified in Class 15 or Class 16 in the FY 2013 through FY 2015 time horizon.	
A 2010	$2,338.609	10.3%	$1,524.594	12.1%	$2,904.257	12.6%	$596.308	37.1%		
A 2011	$2,535.219	8.4%	$2,067.948	35.6%	$3,427.557	18.0%	$571.444	-4.2%		
A 2012	$2,687.917	6.0%	$2,097.157	1.4%	$3,492.135	1.9%	$550.740	-3.6%		
F 2013	**$2,853.656**	**6.2%**	**$2,153.392**	**2.7%**	**$3,607.376**	**3.3%**	**$1,065.024**	**93.4%**		
F 2014	**$2,977.593**	**4.3%**	**$2,211.134**	**2.7%**	**$3,726.419**	**3.3%**	**$1,070.349**	**0.5%**		
F 2015	**$3,106.914**	**4.3%**	**$2,270.425**	**2.7%**	**$3,849.391**	**3.3%**	**$1,081.620**	**1.1%**		

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. The reduction in tax rates offsets 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 property is higher than the statutory rate because small agricultural parcels that do not meet an income threshold have a higher tax rate as non-qualified agricultural land.

Table 4
Class 3 Agricultural Land
($ millions)

	TY 2011	TY 2012	**TY 2013**	**TY 2014**
Productivity Value	$5,233.723	$5,309.496	**$5,358.202**	**$5,406.834**
Statutory Tax Rate	2.72%	2.63%	**2.54%**	**2.47%**
(Aplicable tax rate)	*2.87%*	*2.78%*	*2.69%*	*2.61%*
Total Taxable Value	$150.429	$147.792	**$144.044**	**$141.346**
Base Growth (w/o) Phase-in	0.3%	0.4%	-0.15%	-0.15%
Taxable Value Percent Change	-2.0%	-1.8%	-2.5%	-1.9%

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 1.0% in TY 2013 and 1.5% in TY 2014 (TY 2012 is known). 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 2011	TY 2012	**TY 2013**	**TY 2014**
Market Value	$67,311.580	$73,651.831	**$79,799.039**	**$86,433.500**
Homestead Rate	41.8%	44.0%	**45.5%**	**47.0%**
Taxable Market Value	$39,175.340	$41,245.025	**$43,490**	**$45,810**
Tax Rate	2.72%	2.63%	**2.54%**	**2.47%**
Taxable Value	$1,065.569	$1,084.744	**$1,104.658**	**$1,131.501**
Est. PTAP/EPTAP/DAV Reductions	($13.808)	($14.500)	($14.766)	($15.125)
Total Taxable Value	$1,051.761	$1,070.244	**$1,089.892**	**$1,116.376**
Base Growth (w/o Phase-in)	1.22%	1.46%	1.07%	1.60%
Taxable Value Percent Change	1.78%	**1.76%**	**1.84%**	**2.43%**

The difference between the standard rate taxable value and the actual taxable value is due to the reduction in taxable value under the property tax assistance program (PTAP), disabled American veterans (DAV) property tax assistance program, and the extended property tax assistance program for properties with extraordinary increases in reappraisal value. 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 0.6% per year from a TY 2013 estimate of 0.8% during the forecast period. Due to reappraisal, the market value of property grows by a phase-in reappraisal increment of approximately $173.5 million per year. The increasing "homestead" exemption rate and the phase-down of the tax rate offset 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) Multifamily
($ millions)

	TY 2011	TY 2012	**TY 2013**	**TY 2014**
Market Value	$2,775.611	$3,004.609	**$3,196.537**	**$3,396.993**
Homestead Rate	41.8%	44.0%	**45.5%**	**47.0%**
Taxable Market Value	$1,615.406	$1,682.581	**$1,742.113**	**$1,800.406**
Tax Rate	2.72%	2.63%	**2.54%**	**2.47%**
Taxable Value	$43.939	$44.252	**$44.250**	**$44.470**
Base Growth (w/o Phase-in)	0.19%	2.00%	0.61%	0.84%
Taxable Value Percent Change	-0.83%	0.71%	0.00%	0.50%

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 2013 and 2.0% in TY 2014 during the forecast period. Due to reappraisal, the market value of property grows by a phase-in reappraisal increment of $938 million per year. The "comstead" exemption grows each year. This, coupled with declining tax rates, offsets most of the reappraisal growth.

Table 7
Class 4 Commercial Real Property
($ millions)

	TY 2011	TY 2012	**TY 2013**	**TY 2014**
Market Value	$14,504.193	$15,689.819	**$16,960.786**	**$18,257.173**
Comstead Rate	17.5%	19.0%	**20.3%**	**21.5%**
Taxable Market Value	$11,965.959	$12,708.753	**$13,517.747**	**$14,331.881**
Tax Rate	2.72%	2.63%	**2.54%**	**2.47%**
Calculated Taxable Value	$325.474	$334.240	**$343.351**	**$353.997**
Reductions	($4.101)	($3.950)	($4.058)	($4.184)
Total Taxable Value	$321.373	$330.290	**$339.293**	**$349.814**
Base Growth (w/o increment)	0.33%	1.70%	2.12%	2.11%
Taxable Value Percent Change	1.50%	2.69%	2.73%	3.10%

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 essentially hold taxable value growth to be negative 0.15% in TY 2013 and negative 0.3% in TY 2014 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 Forestland
($ millions)

	TY 2011	TY 2012	**TY 2013**	**TY 2014**
Productivity Value	$2,008.898	$2,060.401	**$2,126.350**	**$2,193.124**
Tax Rate	0.32%	0.31%	**0.30%**	**0.29%**
Taxable Value	$6.390	$6.387	**$6.379**	**$6.360**
Base Growth (w/o Increment)	-0.93%	0.59%	1.27%	1.27%
Taxable Value Growth	-1.97%	-0.04%	-0.13%	-0.30%

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 of this the applicable rate is higher than the standard tax rate. The prior year's ratio of applicable to statutory tax rate is used to forecast the applicable tax rate (as can be seen in Table 4).

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). Additionally, residential property valued at over $1.5 million has the homestead exemption capped at that level, increasing the effective taxable value for these properties. 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). Under SB 372, the class 8 property has a tiered tax rate. The class 8 effective statutory weighted average rate before local abatements is presented. Table 9 summarizes standard statutory property tax rates for TY 2011 through TY 2014 for all classes of property. The table illustrates that class 3, 4, 8, 10 and 12 properties have changing tax rates.

Table 9
Statutory Tax Rates by Class of Property

Tax Year	Class 1 Mine Net Proceeds	Class 2 Mine Gross Proceeds	Class 3 Ag Land[1]	Class 4 Residential & Commercial	Class 5 Co-op & Pollution Control	Class 7 Locally Assessed Utilities	Class 8 Business Equipment[3]	Class 9 Pipelines, Utility Non-Generating	Class 10 Forestland	Class 12 Airlines & Railroads[2]	Class 13 Telecomm & Electrical Generation	Class 14 Renewable Energy & Transmission	Class 15 CO_2/ Cert.Liquid Pipeline	Class 16 High Voltage DC
2007	3.0%	3.0%	3.07%	3.07%	3.0%	8.0%	3.00%	12.0%	0.35%	3.52%	6.0%	3.0%		
2008	3.0%	3.0%	3.01%	3.01%	3.0%	8.0%	3.00%	12.0%	0.35%	3.44%	6.0%	3.0%	3.0%	2.25%
2009	3.0%	3.0%	2.93%	2.93%	3.0%	8.0%	3.00%	12.0%	0.34%	3.45%	6.0%	3.0%	3.0%	2.25%
2010	3.0%	3.0%	2.82%	2.82%	3.0%	8.0%	3.00%	12.0%	0.33%	3.40%	6.0%	3.0%	3.0%	2.25%
2011	3.0%	3.0%	2.82%	2.82%	3.0%	8.0%	3.00%	12.0%	0.32%	3.45%	6.0%	3.0%	3.0%	2.25%
2012	3.0%	3.0%	2.63%	2.63%	3.0%	8.0%	2.56%	12.0%	0.31%	3.45%	6.0%	3.0%	3.0%	2.25%
2013	**3.0%**	**3.0%**	**2.54%**	**2.54%**	**3.0%**	**8.0%**	**2.56%**	**12.0%**	**0.30%**	**3.43%**	**6.0%**	**3.0%**	**3.0%**	**2.25%**
2014	**3.0%**	**3.0%**	**2.47%**	**2.47%**	**3.0%**	**8.0%**	**2.23%**	**12.0%**	**0.29%**	**3.43%**	**6.0%**	**3.0%**	**3.0%**	**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

[3] Blended rate -- Tax is 2.0% on the first $2 million in property in TY 2012 & 2013 and expected to be 1.5% on first $ 3 million in TY 2014 on. Tax is 3.0% on all property in excess of threshold.

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 2013 and TY 2014 (the tax rate for TY 2012 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. Because class 8 consists of two types of property with different billing cycles, class 8 taxable value needs to be adjusted for the timing of payments. Personal property not liened-to-real property (about 44% of the class by value) is taxed in the spring of the calendar year and bills are expected be paid in the current fiscal year (during the month of May when the tax year and the fiscal year coincide). Class 8 real property, and class 8 personal property liened-to-real property (secured permanently or legally to real property) represents 56% of the value of the class have tax payments due in November and May. Therefore, FY 2013 taxable value is 56% of TY 2012 taxable value and 44% of TY 2013 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
Calculated Statewide Fiscal Year Taxable Value Summary
($ millions)

Class & Property Description	FY 2012	FY 2013	FY 2014	FY 2015
1. Net Proceeds	$3.931	**$4.189**	**$4.335**	**$4.487**
2. Gross Proceeds (w/o Abatements)	$25.303	**$32.804**	**$30.903**	**$29.534**
3. Agricultural Land	$150.429	**$147.792**	**$144.044**	**$141.346**
4. Res./Comm... Real Property	$1,417.073	**$1,444.786**	**$1,473.434**	**$1,510.660**
5. Rural Co-Op/Poll. Control	$40.642	**$45.677**	**$47.001**	**$48.365**
7. Non-centrally Assessed Util.	$1.194	**$1.170**	**$1.192**	**$1.213**
8. Business Equipment (FY adjusted)	$187.163	**$165.226**	**$177.645**	**$162.137**
9. Pipelines, Electrical Transmission	$304.226	**$322.550**	**$342.439**	**$357.311**
10. Forest Land	$6.390	**$6.387**	**$6.379**	**$6.360**
12. Airlines/Railroads	$71.414	**$72.422**	**$73.861**	**$75.842**
13. Telecomm./Elec Generation	$205.653	**$209.528**	**$216.443**	**$223.585**
14. Renewable Energy Prod.& Trans.	$17.143	**$15.549**	**$31.951**	**$32.110**
15. CO2/Qualifying Liquid Pipelines	$0.000	**$0.000**	**$0.000**	**$0.000**
16. High Voltage DC Converter	$0.000	**$0.000**	**$0.000**	**$0.000**
Statewide Taxable Value	$2,430.561	**$2,468.081**	**$2,549.627**	**$2,592.950**

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 2012	FY 2013	FY 2014	FY 2015
1. Net Proceeds	23.6%	**6.6%**	**3.5%**	**3.5%**
2. Gross Proceeds	21.4%	**29.6%**	**-5.8%**	**-4.4%**
3. Agricultural Land	-2.0%	**-1.8%**	**-2.5%**	**-1.9%**
4. Res./Comm.. Real Property	1.6%	**2.0%**	**2.0%**	**2.5%**
5. Rural Co-Op/Poll. Control	4.2%	**12.4%**	**2.9%**	**2.9%**
7. Non-centrally Assessed Util.	-8.0%	**-2.0%**	**1.8%**	**1.8%**
8. Business Equipment	3.6%	**-11.7%**	**7.5%**	**-8.7%**
9. Pipelines, Elec. Trans.	8.4%	**6.0%**	**6.2%**	**4.3%**
10. Forest Land	-2.0%	**0.0%**	**-0.1%**	**-0.3%**
12. Airlines/Railroads	38.0%	**1.4%**	**2.0%**	**2.7%**
13. Telecomm./Elec Generation	18.0%	**1.9%**	**3.3%**	**3.3%**
14. Renewable & Alternative Power	-4.2%	**-9.3%**	**105.5%**	**0.5%**
15. CO2/Qualifying Liquid Pipeline Property				
16. High Voltage DC Converter Property				
Statewide Taxable Value Growth	4.6%	**1.5%**	**3.3%**	**1.7%**

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 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. This estimate grows TY 2011 TIF incremental taxable value by the TIF property class-weighted average annual percent changes. During the forecast period, three TIF districts are scheduled to expire; one each in Silver Bow, Chouteau, and Lincoln counties.

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 11 displays the calculation of state revenue generated from the 95 mill levies.

Table 11
Calculation of General Fund Revenue from 95 Mill Levy
($ millions)

Calculation	FY 2012	FY 2013	FY 2014	FY 2015
Statewide Taxable Value	**$2,430.561**	**$2,468.081**	**$2,549.627**	**$2,592.950**
Subtract TIF Value	**($48.702)**	**($45.355)**	**($47.367)**	**($46.440)**
Add Abated Property Value	$0.000	$0.000	$0.000	$0.000
Taxable Value for 95 Mills	**$2,381.859**	**$2,422.726**	**$2,502.260**	**$2,546.511**
Apply 95 Mills	**0.095**	**0.095**	**0.095**	**0.095**
State Revenue from 95 Mills	**$226.277**	**$230.159**	**$237.715**	**$241.919**

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 12 shows the estimated revenue generated by the 1.5 mill levy.

Table 12
Property Tax 1.5 Mill Levy General Fund Revenue
($ millions)

	FY 2012	FY 2013	FY 2014	FY 2015
COT County Taxable Value	$822.479	**$852.969**	**$884.696**	**$917.717**
COT County TIF Value	($18.824)	**($19.726)**	**($20.671)**	**($21.661)**
Taxable Value for 1.5 Mills	$803.655	**$833.243**	**$864.025**	**$896.055**
Apply 1.5 Mills	0.0015	**0.0015**	**0.0015**	**0.0015**
1.5 Mill Levy Revenue	$1.205	**$1.250**	**$1.296**	**$1.344**

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.

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. Under SB 266, the coal gross proceeds tax rate for underground mines was reduced to 2.5% for an initial period of ten years. The reduced tax rate would be available to any new underground mine for the first 10 years of production. The bill also granted counties the ability to abate up to 50% of local coal gross proceeds distributions.

Beginning in FY 2009, the federal Secure Rural Schools and Communities Act (SRS) was reauthorized and fully funded through FY 2012 under the Emergency Economic Stabilization Act of 2008. The Act was reauthorized and funded for federal fiscal year 2012 by Public Law 112-141 in July 2012. 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 20.8% of all Title I payments accrue to the state due to the proportion share of school equalization mills.

All other non-levy revenues are calculated as the proportions share of the last known year's total.

Table 13 combines the 95 mills and 1.5 mill revenue (net of TY 2011 $2.4 million in centrally assessed protested property tax that is allocated to a reserved account) and non-levy revenues.

Table 13
Summary of General Fund Property Tax Revenue
($ millions)

	--- Actual ---	---------- Forecast ----------		
	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**
Property Tax - 95 Mill Levy	$226.277	**$230.159**	**$237.715**	**$241.919**
Property Tax - 1.5 Mill Levy	$1.163	**$1.205**	**$1.250**	**$1.296**
Protested Property Taxes	-$2.400	**-$2.400**	**-$2.400**	**-$2.400**
Net Property Mill Levy Revenue	$225.039	**$228.964**	**$236.565**	**$240.815**
Non-Levy Revenue:				
Coal Gross Proceeds	$7.118	**$6.424**	**$6.502**	**$7.011**
Federal Forest Reserves	$4.146	**$3.770**	**$0.424**	**$0.357**
All Other (last known year)	$0.379	**$0.379**	**$0.379**	**$0.379**
Subtotal Non-Levy Revenue	$11.643	**$10.574**	**$7.305**	**$7.747**
Total Property Tax Revenue	$236.682	**$239.538**	**$245.020**	**$249.665**

Distribution

The general fund receives 100% of the 33 mill, 22 mill, 40 mill levies, as well as the1.5 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 IHS Global Insight October 2012 National Forecast.

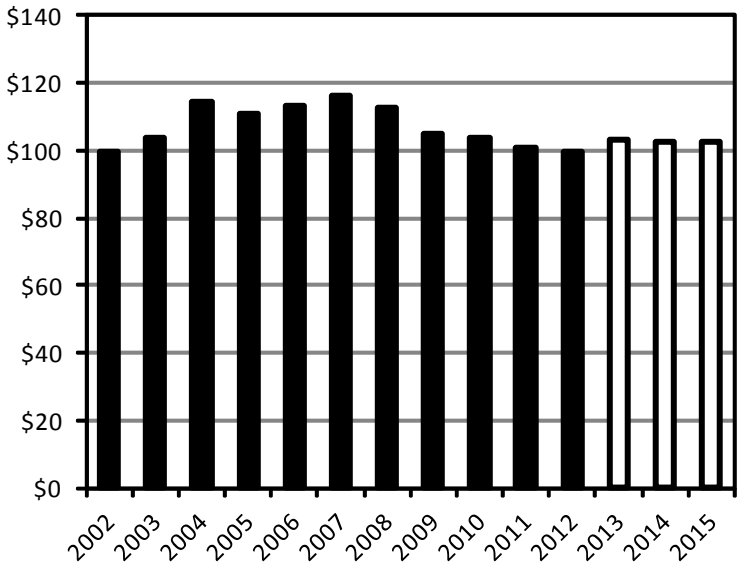
Revenue Description

Title 23 and Section 61-3-221 and 61-3-562, 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 77.1% of general fund vehicle taxes and fees.

Table 1 shows actual revenue for vehicle taxes and fees to the general fund for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 1
Vehicle Taxes and Fees
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$99.505	693.87%
A	2003	$103.538	4.05%
A	2004	$114.331	10.42%
A	2005	$110.772	-3.11%
A	2006	$113.292	2.28%
A	2007	$116.455	2.79%
A	2008	$112.486	-3.41%
A	2009	$104.678	-6.94%
A	2010	$103.858	-0.78%
A	2011	$100.569	-3.17%
A	2012	$99.763	-0.80%
F	**2013**	**$103.000**	**3.24%**
F	**2014**	**$102.800**	**-0.19%**
F	**2015**	**$102.700**	**-0.10%**



Since FY 2002, motor vehicle revenue has been deposited to the general fund. Fluctuations in revenue since FY 2002 are the result of legislation. Major reforms in motor vehicle tax legislation by the 2005 Legislature resulted in accounting and registration changes. There is relatively little change in overall revenue because the number of automobiles and light trucks is large (over one million vehicles) and annual new vehicle registrations are relatively few. The vehicle stock changes only to the extent that new registrations are greater (or fewer) than the net number of vehicles that are moved out of state or are taken out of service. However, new light vehicles (those less than five years old) have a disproportionate revenue effect as their registration fee is 2.5 times higher than those vehicles that are 5 to 10 years old, and 7.75 times higher than light vehicles over 10 years old.

Risks and Significant Factors

- Revenue has declined significantly, and more than expected in recent years.
- The reduction in new vehicle registrations with the economic slowdown coincided with the MERLIN system registration transition. The conversion to the MERLIN system previously reduced the data available to identify underlying vehicle trends however; the Motor Vehicle Division now provides large datasets of detailed monthly transaction information. Filtering this data, appropriately, presents a new challenge.
- This estimate uses a vehicle stock-and-flow estimate as the new data is not fully understood at this time.

- While only vehicles over 10 years old can register permanently, in recent years, around 3.5% of all annual light vehicle registration revenue was collected from vehicles that were registered permanently. Permanent registration of eligible (older) vehicles lowers future vehicle collections. This now appears to be a cumulative function as permanently registered vehicles only re-enter the vehicle tax collection system upon a change of ownership. A significant portion of prior revenue forecast error appears to be related to this function. This has coincided with the general trend of an increasing average age of the vehicle fleet.

Forecast Methodology

Currently there are 29 separate general fund accounts for which vehicle taxes and fee revenues are recorded (down from 54 accounts in FY 2010). Table 2 sums revenue by functional category 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 taxes and fees revenue.

It is important to note that for this estimate, adjusted fiscal year light vehicle revenue is used rather than current year revenue found 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 timing effects by using 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.

Table 2
Vehicle Taxes and Fee Revenue by Grouped SABHRS Accounts
($ millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Light Vehicle Registrations	$87.944	$87.637	$85.179	$83.157	$78.443	$76.880
Other Vehicle Registrations	$14.761	$14.493	$13.191	$12.287	$12.406	$13.791
Other Fees	$8.761	$7.305	$6.365	$5.910	$5.212	$5.564
of which "other fees" revenue from:						
Generic Specialty Plates	*$0.494*	*$0.459*	*$0.436*	*$0.313*	*$0.191*	*$0.195*
New Plates	*$3.037*	*$1.493*	*$1.308*	*$0.990*	*$0.529*	*$0.554*
Specialty Plates	*$1.334*	*$1.336*	*$1.251*	*$1.232*	*$1.230*	*$1.250*
Titles	*$2.444*	*$2.464*	*$2.165*	*$2.156*	*$2.286*	*$2.387*
Other	*$1.452*	*$1.553*	*$1.205*	*$1.219*	*$0.977*	*$1.177*
Permanent Registrations	$2.465	$3.015	$2.982	$2.849	$3.000	$3.421
Total	**$113.931**	**$112.449**	**$107.717**	**$104.203**	**$99.061**	**$99.656**
Reverse Prior Year Adj.	*$2.539*	*$0.027*	*($3.042)*	*$0.005*	*$1.507*	*unknown*
Fiscal Year Revenue	*$116.470*	*$112.477*	*$104.675*	*$104.208*	*$100.569*	*$99.656*

Step 1. Current Stock. Table 3 presents the actual and forecast number of new car and light truck registrations and the estimated distribution of vehicles by age class. Montana FY 2012 registrations are consistent with reports of increasing new light vehicle sales nationally. In order to estimate the stock of Montana vehicles, the Motor Vehicle Division FY 2010 data on the number and distribution of active vehicle registrations by vehicle age in Montana is used to set the base number of cars and light trucks. The forecast estimates the number of vehicles registered in Montana by adding the new vehicles (registrations) reported for FY 2011 and FY 2012, as well as the IHS Global Insight forecast of new vehicles (registrations) for FY 2013 through FY 2015. From this pool is subtracted an estimate of vehicles that are retired. The "scrappage rate" is based on the estimated percent of

apparent vehicle disappearance from the national stock of light vehicles using data from IHS Global Insight's estimates of national vehicle stock and new vehicles.

Table 3
Estimated Light Motor Vehicle Stock and the Number of Vehicles Eligible for Permanent Registration

Fiscal Year	New Light Vehicles		Estimated Population of Vehicle by Age					Estimated Registration Distribution -- Vehicles over 10 years old		
	Registrations	Percent Change	0 to 4 Years	5 to 10 Years	Over 10 Years	All	Percent Change	Annual Permanent Registrations	Cumulative Permanent Registrations	Annual Registrations Vehicles over 10 Years Old
A 2010	38,060	14.9%	184,355	284,190	330,034	798,579	-5.2%	32,012	79,790	218,231
E 2011	42,550	11.8%	188,845	290,187	333,416	812,448	1.7%	33,705	89,559	210,152
E 2012	46,117	8.4%	192,412	300,570	330,747	823,729	1.4%	38,442	101,133	191,172
F 2013	**52,214**	**13.2%**	**198,509**	**307,407**	**334,457**	**840,373**	**2.0%**	**38,440**	109,233	**186,780**
F 2014	**54,752**	**4.9%**	**201,047**	**301,832**	**331,639**	**834,517**	**-0.7%**	**38,440**	114,903	**178,300**
F 2015	**56,848**	**3.8%**	**203,143**	**294,067**	**338,771**	**836,372**	**0.2%**	**38,440**	118,872	**181,460**

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 10 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 are 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.

In order to account for the fact that permanently registered vehicles "disappear" from the annual registration pool of vehicles (unless there is a change of ownership requiring re-registration), but remain in the vehicle stock estimate, a cumulative function is assumed with 30% of vehicles falling out of the cumulative pool each year. The remainder is assumed to be older vehicles that continue to register annually.

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 and 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. The prior two-year average "turnover" rate is assumed for FY 2013 through FY 2015.

Table 4
Estimate of Light Motor Vehicle Registration Revenue by Age Class
($ millions)

Fiscal Year	0 to 4 Years $217 Fee	5 to 10 Years $87 Fee	Over 10 Years $28 Fee	Annual Light Vehicle Revenue	Estimated Change in Ownership	Annual Light Vehicle Revenue
A 2011	*$40.979*	*$25.246*	*$5.884*	*$72.110*	*8.8%*	*$78.443*
A 2012	*$41.753*	*$26.150*	*$5.353*	*$73.256*	*4.9%*	*$76.880*
F 2013	**$43.077**	**$26.744**	**$5.230**	**$75.051**	**6.9%**	**$80.203**
F 2014	**$43.627**	**$26.259**	**$4.992**	**$74.879**	**6.9%**	**$80.019**
F 2015	**$44.082**	**$25.584**	**$5.081**	**$74.747**	**6.9%**	**$79.878**

Step 4. Project growth of the other revenue aggregates. This is calculated for other registrations, licensing and plating, and titling and other fees. After examining the revenue trends over time by revenue group, it was determined these revenues will track total annual light vehicle registration, and in keeping with stable relative

revenue shares, these revenues are anticipated to remain essentially the same as FY 2012. This is consistent with the fact that the relative shares are stable but can vary with significant changes in legislation. The results are presented in Table 5.

Table 5
Total Vehicle Revenue Net of Permanent Registration
($ millions)

Fiscal Year	Light Vehicle Revenue	Growth	Other Vehicle Registration Revenue	Growth	All Other Fees	Growth	Total (Before Permanent Registrations)	Percent Change
A 2011	$78.443	-5.7%	$12.406	1.0%	$5.212	-11.8%	$96.061	-5.2%
A 2012	$76.880	-2.0%	$13.791	11.2%	$5.564	6.7%	$96.235	0.2%
F 2013	**$80.203**	4.3%	**$13.800**	**0.1%**	**$5.600**	**0.0%**	**$99.603**	**3.5%**
F 2014	**$80.019**	-0.2%	**$13.800**	**0.0%**	**$5.600**	**0.0%**	**$99.419**	**-0.2%**
F 2015	**$79.878**	-0.2%	**$13.800**	**0.0%**	**$5.600**	**0.0%**	**$99.278**	**-0.1%**

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. The results are presented in Table 6. The increase in FY 2013 is due to the continued increase in new vehicle registrations that is anticipated in the IHS Global Insight forecast. This surge in registrations is consistent with reports of increases in national new vehicle sales.

Table 6
All Vehicle Taxes and Fees Revenue
($ millions)

Fiscal Year	Total Collections Net of Permanent Registrations	Permanent Registration Estimate	Total Revenue	Percent Change
A 2010	$101.354	$2.849	$104.203	-3.3%
A 2011	$96.061	$2.949	$99.011	-5.0%
A 2012	$96.235	$3.364	$99.598	0.6%
F 2013	**$99.600**	**$3.400**	**$103.000**	**3.4%**
F 2014	**$99.400**	**$3.400**	**$102.800**	**-0.2%**
F 2015	**$99.300**	**$3.400**	**$102.700**	**-0.1%**

Distribution

- SB 508 (2009 Legislature) instituted a five-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 IHS Global Insight (October 2012).

Corporation License Tax

2015 Biennium

Revenue Description

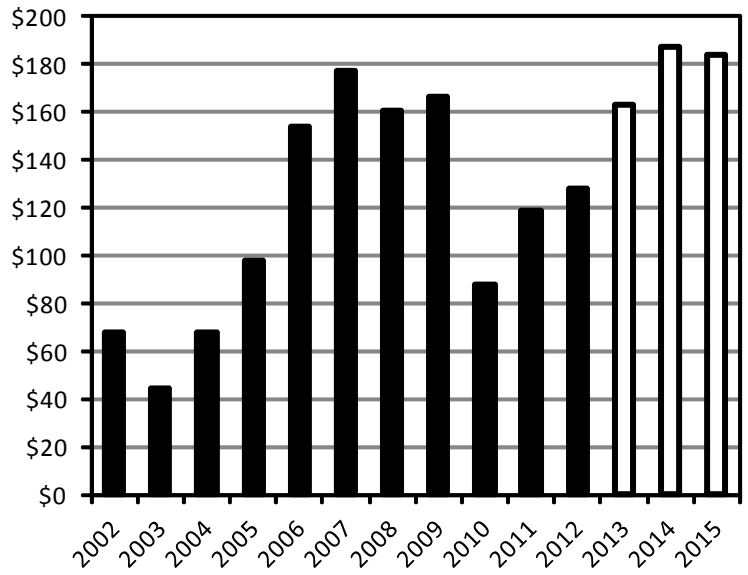
In accordance with 15-31-121, MCA, the State of Montana imposes a corporation license tax on corporate income apportioned to Montana. The tax is levied at a flat rate of 6.75% of net income; however, corporations making a "water's edge" election are taxed at 7%. Since FY 2006, revenues have been deposited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

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 general fund revenue from corporation license taxes for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015. Corporate profits declined sharply in FY 2010 as a result of the "Great Recession," and the freezing of corporate bond and financial instrument markets.

Table 1
Corporation License Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$68.173	-34.24%
A	2003	$44.138	-35.26%
A	2004	$67.723	53.44%
A	2005	$98.214	45.02%
A	2006	$153.675	56.47%
A	2007	$177.504	15.51%
A	2008	$160.342	-9.67%
A	2009	$166.355	3.75%
A	2010	$87.901	-47.16%
A	2011	$119.044	35.43%
A	2012	$127.771	7.33%
F	**2013**	**$162.900**	**27.49%**
F	**2014**	**$187.400**	**15.04%**
F	**2015**	**$183.600**	**-2.03%**



Corporate tax revenue fell by more than 47% in FY 2010, the largest annual decline in over 20 years. Forecast corporate profits show strong growth relative to their FY 2007 peak levels. As result of these high levels and the expiration of bonus deprecation rules, corporate tax revenue is anticipated to increase at a higher than average rate in FY 2013, slowing in FY 2014, and stabilizing in FY 2015.

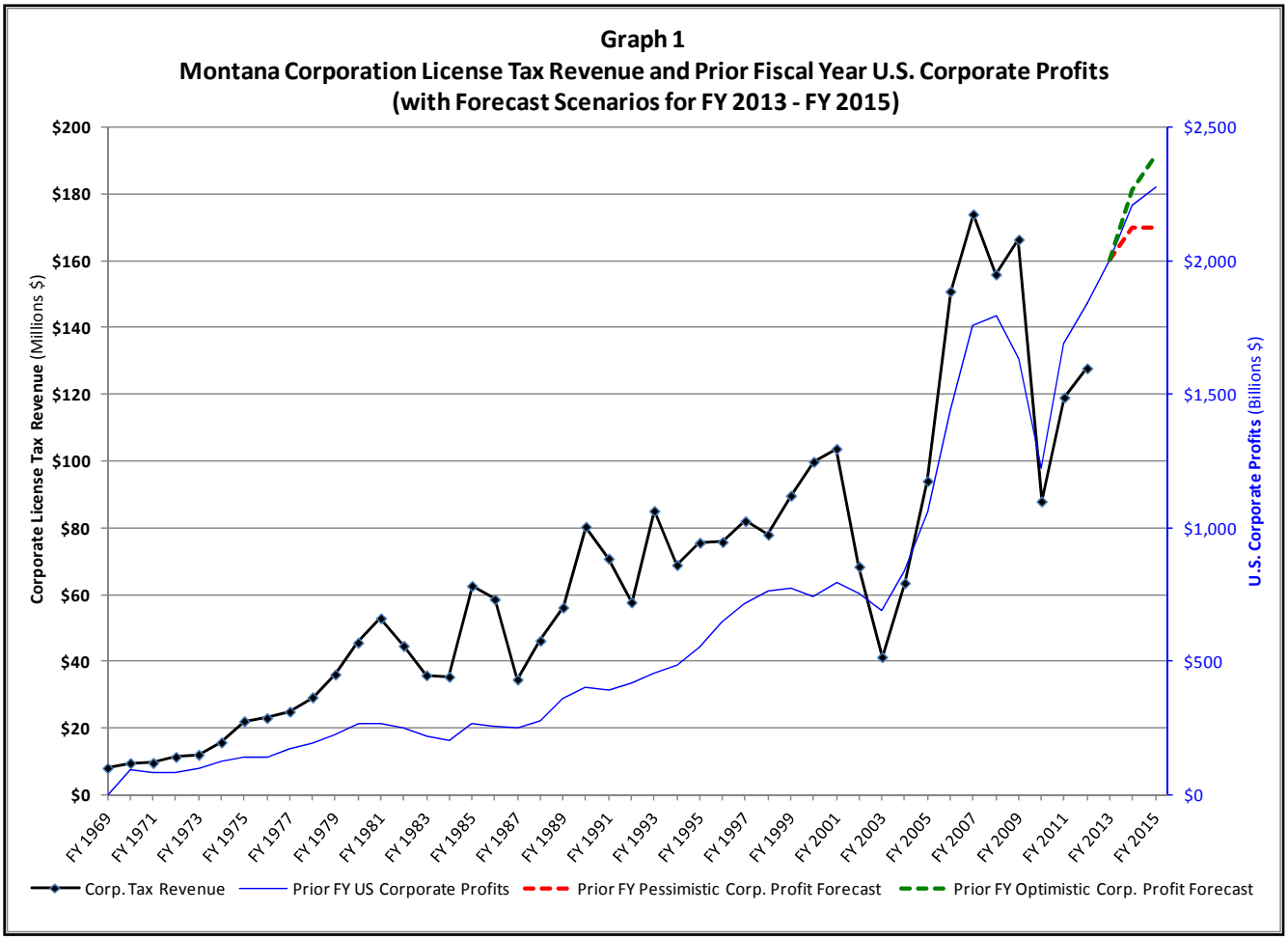
Risks and Significant Factors

- Corporate tax revenue is highly correlated with the profitability of corporations doing business in the United States
- The variation in corporate tax revenue can be much greater than that of corporate profits as Montana allows:
  - Firms to deduct losses from up to seven years in the past to offset current taxable income.
  - Corporations may amend past returns (back three years) and use current losses to offset past profits.
- The Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed for 30% depreciation for purchases between September 10, 2001, and May 5, 2003, and 50%

depreciation between May 6, 2003, and December 31, 2004. In 2008, under the Bush Administration's Economic Stimulus Act of 2008, 50% depreciation was instituted for CY 2008 and extended under the American Recovery and Reinvestment Act of 2009 (for CY 2009). The Small Business Jobs Act of 2010 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, again extended 50% bonus depreciation (through CY 2012). The second 2010 act also provided for 100% expensing for most property put in service before the end of CY 2011. Additionally, 50% depreciation for certain "long-production period" property was allowed through CY 2013 and 100% expensing if the property is placed in service by the end of CY 2012.

- These temporary changes in accounting rules shift corporate profits and taxes to later years. The expiration of special depreciation and expensing rules should generate additional revenue in the forecast period.
- There are approximately 13,000 companies that pay Montana corporate license tax. However, the largest 15 filers tend to pay over 50% of the total tax, and the top 100 filers pay over 75% of the total tax. If one of these top tax paying companies earns significantly more or less than expected, it could have a large impact on collections.
- The true stock of carry-forward losses is not known with precision. The extent that firms are able to use these losses to offset recent profits is also therefore not well known. Greater than historical trend use of these accumulated losses may lower corporation license tax collections.

Graph 1 displays the relationship between corporate license tax revenue and U.S. corporate profits (lagged one fiscal year). Montana corporate tax collections are presented on the left axis (note markers) in millions of dollars, and U.S. corporate profits (and IHS baseline projection) is displayed on the right axis (thin line) in billions of dollars. The graph also shows the IHS Global Insight optimistic (upper dashed line) and pessimistic (lower dashed line) scenario forecasts for U.S. corporate profits. This relationship is modeled to project Montana corporate license tax revenue.

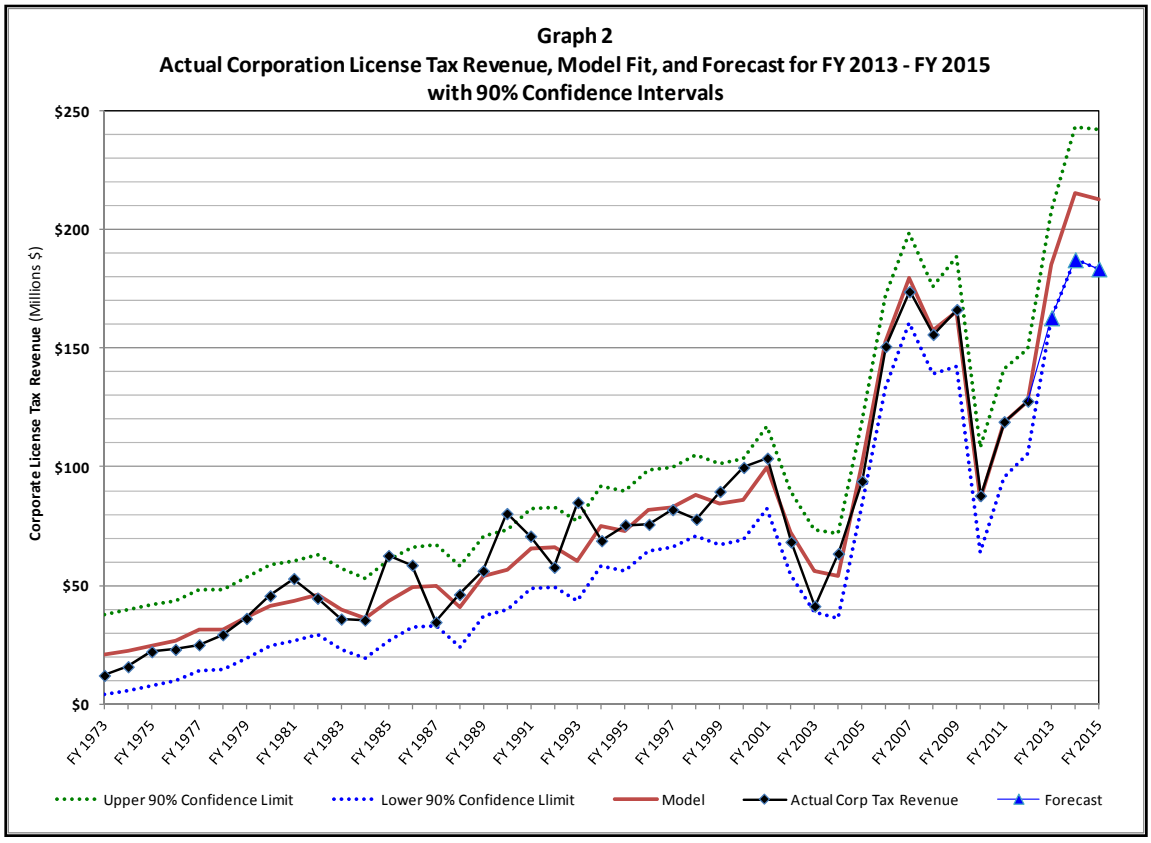


Forecast Methodology

Step 1. Total corporate license tax collections, including both general fund and non-general fund revenues, for FY 1969 through FY 2012 were regressed against the three prior fiscal years of national corporate profits(before taxes), to produce an estimate of the relationship between total corporation license tax collections and U.S. corporate profits. The regression model also incorporates a variable indicating the level of accelerated depreciation and a dummy variable to capture the extraordinary effects of FY 2009. The model was checked for serial auto correlation and autoregressive lag functions. Residuals and model fit were compared for the pre-1992 and post-FY 1992 periods and were found to be very similar, providing support for the use of the longer time series, despite historical tax policy changes.

Step 2. The model, using the IHS Global Insight pessimistic model estimates of U.S. corporate profits was used to project tax revenue. Since current carry-forward losses firms are likely to claim is not known and since the model projects very rapid increases in revenue in the near-term, the lower 90% confidence interval estimate is used to project FY 2013, FY 2014, and FY 2015 tax collections. It also bears mentioning that FY 2012 (and FY 2011, and FY 2010) U.S. corporate profits are essentially known, setting the basis for FY 2013 collections. The tax strategies of U.S. corporations that do business in Montana are unknown, but assumed to comport with historical averages.

Graph 2 shows actual collections compared to the model estimates of corporation license tax collections. The graph includes the upper and lower 90% confidence intervals. The model fits the past very well given the volatility of these revenues – approximately plus or minus $15 million in recent years. The model also tends to underestimate revenues when profits are rising rapidly.



Distribution

All of the corporation license tax revenue collected is distributed to the general fund.

Data Sources

Data was obtained from SABHRS, revenues prior to FY 1993 were provided by the LFD, and U.S. corporation profits and forecasts are from IHS Global Insight (October 2012).

Insurance Premiums Tax

2015 Biennium

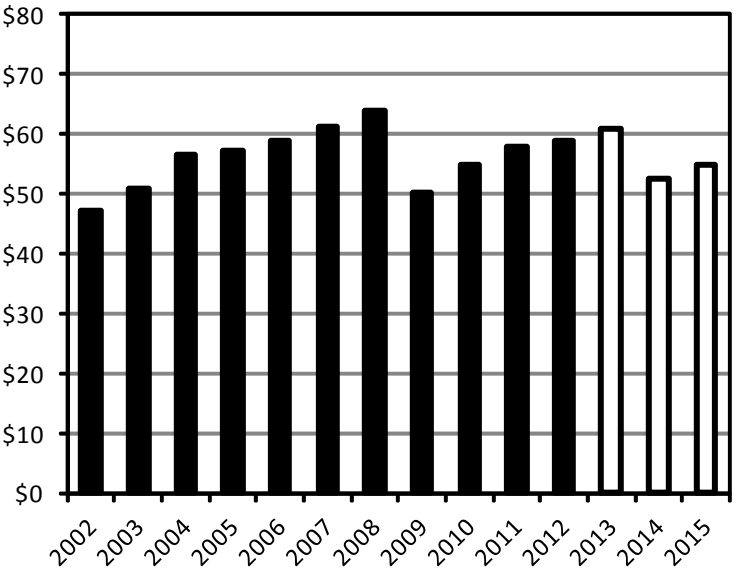
Revenue Description

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 reduced the transfer to 16.67% for the 2011 and 2013 biennia, but the transfer returns to 33% for the 2015 biennium and beyond. The State Auditor's Office (SAO) administers the collection of these taxes.

Table 1 presents the actual general fund receipts from insurance premium taxes for FY 2002 through FY 2012 as well as the forecast for FY 2013 through FY 2015.

Table 1
Insurance Premiums Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$47.291	11.80%
A	2003	$50.810	7.44%
A	2004	$56.527	11.25%
A	2005	$57.308	1.38%
A	2006	$58.795	2.59%
A	2007	$61.074	3.88%
A	2008	$64.004	4.80%
A	2009	$50.038	-21.82%
A	2010	$54.892	9.70%
A	2011	$57.964	5.59%
A	2012	$58.951	1.70%
F	**2013**	**$60.731**	**3.02%**
F	**2014**	**$52.656**	**-13.30%**
F	**2015**	**$54.720**	**3.92%**

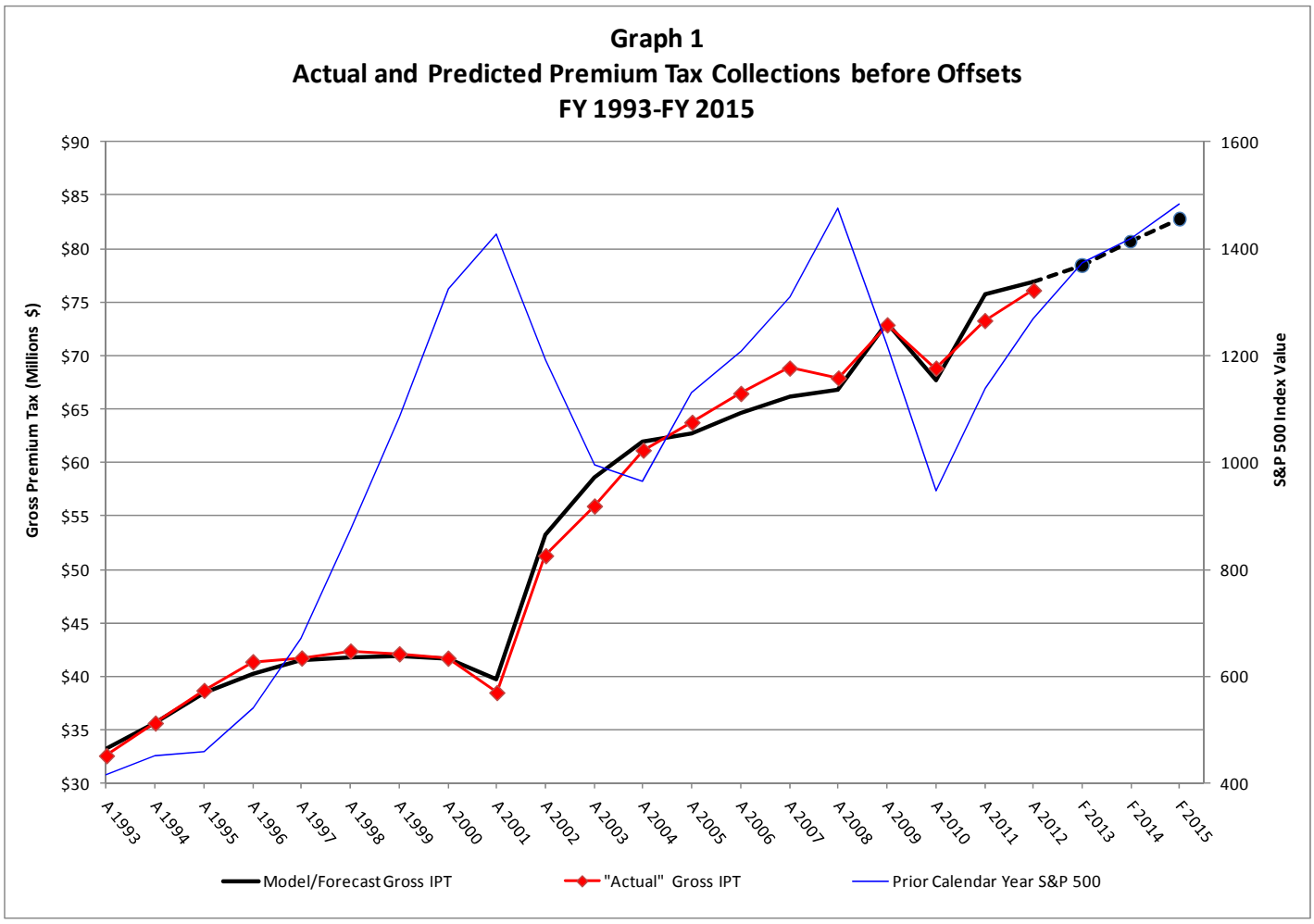


Risks and Significant Factors

- Potential changes in insurance premium tax collections due to the mandate to purchase insurance through health insurance exchanges beginning on January 1, 2014, are not included in this estimate.
- 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, $1.87 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 premiums taxes, before offsets, are projected from a model of the relationship of insurance premium tax collections with respect to the average Standard and Poor's 500 stock index value for the prior calendar year. The effect of modeling FY 1993 through FY 2012 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 an average of $1.7 million a year over the previous four fiscal years. Offsets are forecast based on prior trends and SAO estimates. MLHIGA assessments are projected to be zero for the forecast period. Table 2 lists claimed premium tax offsets through FY 2012 and estimates of future offsets. The MCHA assessments fluctuate and tend to grow in biennial jumps. However, the SAO office estimates MCHA assessments to be zero in FY 2015 and beyond.

Additionally, captive insurance company premiums taxes, 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 2012, nearly $800,000 in premium taxes were collected from captive insurance companies and nearly $40,000 was directed to the state special revenue account for supervising captive insurance companies. 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 premium 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. Surtax collections represented 5.34% of gross premium taxes in FY 2012, and this percentage is held constant during the forecast period.

Step 4. Calculate insurance licenses and permits revenue. Revenue from insurance licenses and permits represented 5.72% of gross premium taxes in FY 2012, and this percentage is held constant during the forecast period.

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 2013, FY 2014, and FY 2015.

Distribution

- Distributions to the general fund, Healthy Montana Kids' fund, SAO Insurance Operations, and the Captive Insurance fund are presented in table 2.

Table 2
Distribution of Insurance Taxes by Type and Fund
($ millions)

Tax/Fund	Fund	FY 2012	FY 2013	FY 2014	FY 2015
Captive Premium Tax		**$0.793**	**$0.919**	**$1.046**	**$1.172**
General Fund (95%)	01100	*$0.753*	*$0.873*	*$0.993*	*$1.113*
Captive Insurance Operations (5%)	02528	*$0.040*	*$0.046*	*$0.052*	*$0.059*
Other Insurance Taxes		**$4.354**	**$4.486**	**$4.615**	**$4.733**
Retaliation Tax	02235	*$0.112*	*$0.115*	*$0.118*	*$0.121*
Insurance Licenses & Permits		**$4.242**	**$4.371**	**$4.497**	**$4.612**
Of which:					
General Fund (est. 0.65%)	01100	*$0.028*	*$0.028*	*$0.029*	*$0.030*
SAO Insurance Operations (est. 98.45%)	02235	*$4.177*	*$4.303*	*$4.427*	*$4.540*
Captive Insurance Operations (est. 0.90%)	02528	*$0.037*	*$0.039*	*$0.040*	*$0.042*
Insurance Taxes and Offsets		**$8.600**	**$8.888**	**$7.772**	**$6.940**
Fire & Casualty Surtax (GF)	01100	$4.061	$4.184	$4.305	$4.415
MLHIGA & MCHA Offsets/[Credits]	Credit	$2.400	$2.500	$1.200	$0.200
Surplus Lines Tax	01100	$1.987	$2.048	$2.107	$2.161
Insurance Premium Tax - Yearly (GF)	01100	$0.151	$0.156	$0.160	$0.165
I-155 Premium Insurance Tax		**$62.370**	**$64.132**	**$67.255**	**$69.905**
Healthy Montana Kids Fund (16.67% / 33%)	02597	$10.401	10.691	22.194	23.069
General Fund (83.33% / 67%)	01100	$51.970	53.441	45.061	46.836
Gross Insurance Taxes, Licenses, & Fees	All Funds	**$76.117**	**$78.425**	**$80.688**	**$82.750**

Fund Distribution of All Insurance Taxes, Licenses and Fees

Fund	Fund	FY 2012	FY 2013	FY 2014	FY 2015
General Fund	01100	$58.951	$60.731	$52.656	$54.720
SAO Insurance Operations	02235	$4.289	$4.418	$4.545	$4.662
Captive Insurance Operations	02528	$0.077	$0.085	$0.093	$0.100
Healthy Montana Kids Fund	02597	$10.401	$10.691	$22.194	$23.069
MLHIGA & MCHA Offsets/[Credits]	Credit	$2.400	$2.500	$1.200	$0.200
Gross Insurance Taxes, Licenses, & Fees	All Funds	**$76.117**	**$78.425**	**$80.688**	**$82.750**

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 is from IHS Global Insight (October 2012).

Video Gambling Tax

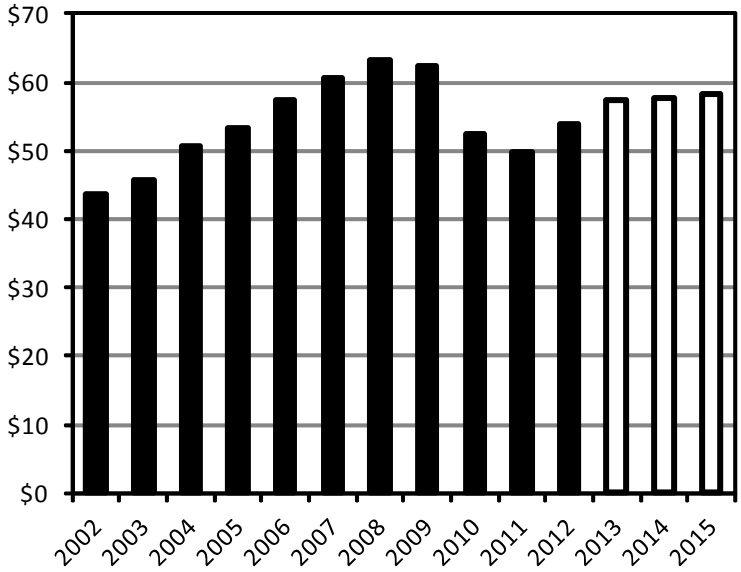
Revenue Description

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 general fund.

Table 1 shows actual video gambling revenue to the general fund for FY 2002 through FY 2012 and projected revenue for FY 2013 through FY 2015.

Table 1
Video Gambling Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$43.666	109.01%
A	2003	$45.794	4.87%
A	2004	$50.749	10.82%
A	2005	$53.361	5.15%
A	2006	$57.277	7.34%
A	2007	$60.641	5.87%
A	2008	$63.134	4.11%
A	2009	$62.458	-1.07%
A	2010	$52.396	-16.11%
A	2011	$49.824	-4.91%
A	2012	$53.824	8.03%
F	**2013**	**$57.361**	**6.57%**
F	**2014**	**$57.728**	**0.64%**
F	**2015**	**$58.143**	**0.72%**



Revenue decreased in FY 2010 and then again in FY 2011. This is believed to be an effect of two separate phenomena. First, disposable income in Montana decreased during this period, and as a result, people had less income to spend on video gambling. Second, the full implementation of the Montana Clean Indoor Air Act occurred on October 1, 2009, which required casinos and bars to fully implement the no smoking policy. As a probable consequence, quarterly gambling revenue fell relative to previous fiscal years. Revenues increased during the last two quarters of FY 2012 and are expected to increase during the forecast period due to SB 361, allowing video line games, which took effect January 1, 2012.

Risks and Significant Factors

- The two main factors affecting video gambling tax revenue are total personal income for the state as a whole, and video gambling participation rates. Increases in disposable income imply that individuals will allocate more money towards gambling.
- The implementation of the Montana Clean Indoor Air Act initially appears to have had a negative effect on gambling activity. This effect has either reversed or been negated by increased gambling activity corresponding to the increase in disposable personal income.

Forecast Methodology

There are three steps used to forecast 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 a 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 2002 through FY 2012 and estimates for FY 2013 though FY 2015.

Table 2
Video Gambling Trends
($ millions)

Fiscal Year	Personal Income		Machine Inc.		% of Income	Tax Revenue[1]
A 2002	$23,112.250	÷	$291.367	=	1.26%	$43.705
A 2003	$23,970.750	÷	$307.558	=	1.28%	$46.134
A 2004	$25,651.000	÷	$333.828	=	1.30%	$50.074
A 2005	$27,244.750	÷	$355.812	=	1.31%	$53.372
A 2006	$29,306.250	÷	$379.416	=	1.29%	$56.912
A 2007	$31,488.250	÷	$405.073	=	1.29%	$60.761
A 2008	$33,728.500	÷	$422.829	=	1.25%	$63.424
A 2009	$33,679.250	÷	$413.771	=	1.23%	$62.066
A 2010	$33,277.500	÷	$349.260	=	1.05%	$52.389
A 2011	$35,066.500	÷	$329.559	=	0.94%	$49.434
A 2012	$36,819.500	÷	$358.219	=	0.97%	$53.733
F 2013	**$38,022.045**	**÷**	**$382.404**	**=**	**1.01%**	**$57.361**
F 2014	**$39,190.131**	**÷**	**$384.854**	**=**	**0.98%**	**$57.728**
F 2015	**$40,904.113**	**÷**	**$387.622**	**=**	**0.95%**	**$58.143**

[1]Does 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.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Oil and Natural Gas Severance Tax

2015 Biennium

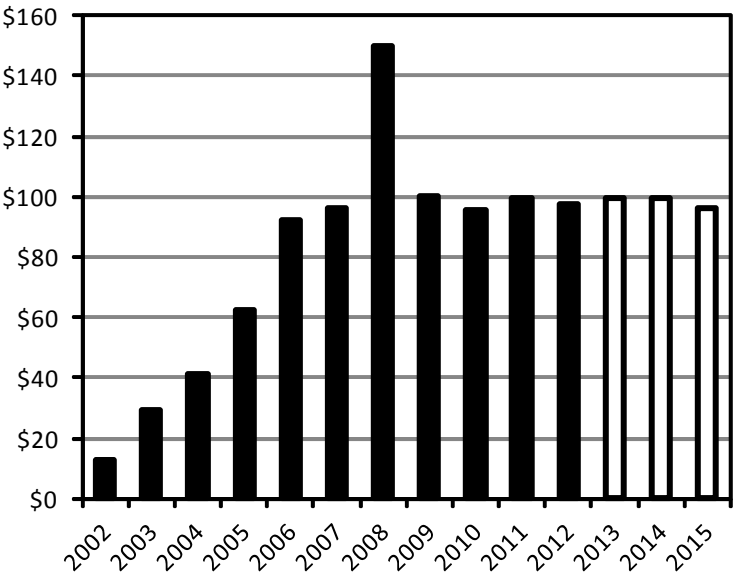
Revenue Description

In accordance with 15-36-304, MCA, Montana taxes the gross value of oil and natural gas production. The tax rates can vary depending on the product being produced, method of production, age of the well, previous year's production, and the price of oil. Working interest owners who share in a well's costs pay lower rates than royalty recipients who do not. Revenues are distributed to a variety of state, county, and school accounts. In FY 2012, approximately 46% of revenue from the oil and natural gas production tax was deposited into the general fund.

Table 1 shows actual general fund revenue from the oil and natural gas severance tax for FY 2002 through FY 2012 and projected revenues for FY 2013 through FY 2015.

Table 1
Oil and Gas Production Taxes
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$12.902	-49.97%
A	2003	$29.086	125.43%
A	2004	$41.324	42.07%
A	2005	$62.626	51.55%
A	2006	$92.563	47.80%
A	2007	$96.335	4.08%
A	2008	$149.994	55.70%
A	2009	$100.491	-33.00%
A	2010	$95.491	-4.98%
A	2011	$99.764	4.47%
A	2012	$97.560	-2.21%
F	**2013**	**$99.354**	**1.84%**
F	**2014**	**$99.602**	**0.25%**
F	**2015**	**$96.031**	**-3.59%**



The increases in general fund revenue beginning in FY 2003 are attributable to the large increase in volume of oil and natural gas being produced, and to the historically high oil and natural gas prices that were received during the spring and summer of 2008 before they began falling substantially late in 2008.

The varying tax rates for oil and natural gas production established in 15-36-304, MCA, are listed in Table 2.

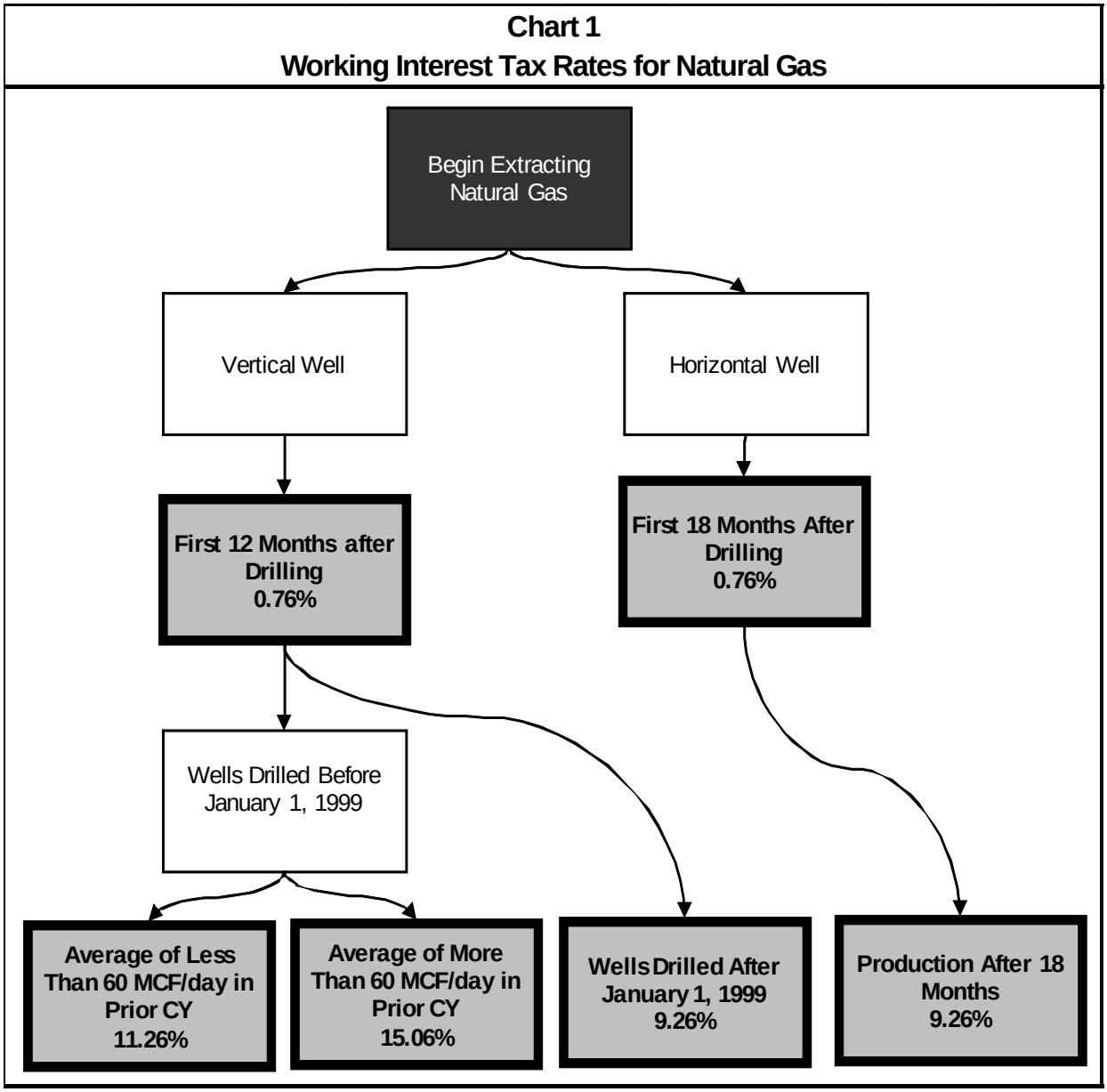
Table 2
Oil and Natural Gas Tax Rates by Well Category and Interest

		Working Interest		Royalty Interest	
Product	Well Category	Production Tax	Total Tax	Production Tax	Total Tax
Gas	New Horizontal 0-18 Months ----------	0.50%	0.76%	14.80%	15.06%
	After 18 Months----------	9.00%	9.26%	14.80%	15.06%
	New Vertical 0-12 Months ----------	0.50%	0.76%	14.80%	15.06%
	Vertical Post-1999----------	9.00%	9.26%	14.80%	15.06%
	Vertical Pre-1999 Stripper ----------	11.00%	11.26%	14.80%	15.06%
	Vertical Pre-1999 Regular ----------	14.80%	15.06%	14.80%	15.06%
Oil	New Vertical 0-12 Months ----------	0.50%	0.76%	14.80%	15.06%
	New Horizontal 0-18 Months ----------	0.50%	0.76%	14.80%	15.06%
	Horizontal Recompletion 0-18 Months ---	5.50%	5.76%	14.80%	15.06%
	Post-1999 Regular ----------	9.00%	9.26%	14.80%	15.06%
	Pre-1999 Regular ----------	12.50%	12.76%	14.80%	15.06%
	Stripper Exemption (WTI < $38/bbl) ------	0.50%	0.76%	14.80%	15.06%
	Stripper Exemption (WTI > $38/bbl) ------	6.00%	6.26%	14.80%	15.06%
	Stripper[1] ----------	5.50%	5.76%	14.80%	15.06%
	Stripper[1] 10-15 Bbl/Day----------	9.00%	9.26%	14.80%	15.06%
	Incremental Secondary[1&2] ----------	8.50%	8.76%	14.80%	15.06%
	Incremental Tertiary[1&2] ----------	5.80%	6.06%	14.80%	15.06%

1 Applies only when average price of WTI < $30/bbl
2 Applies only to increment of increased production

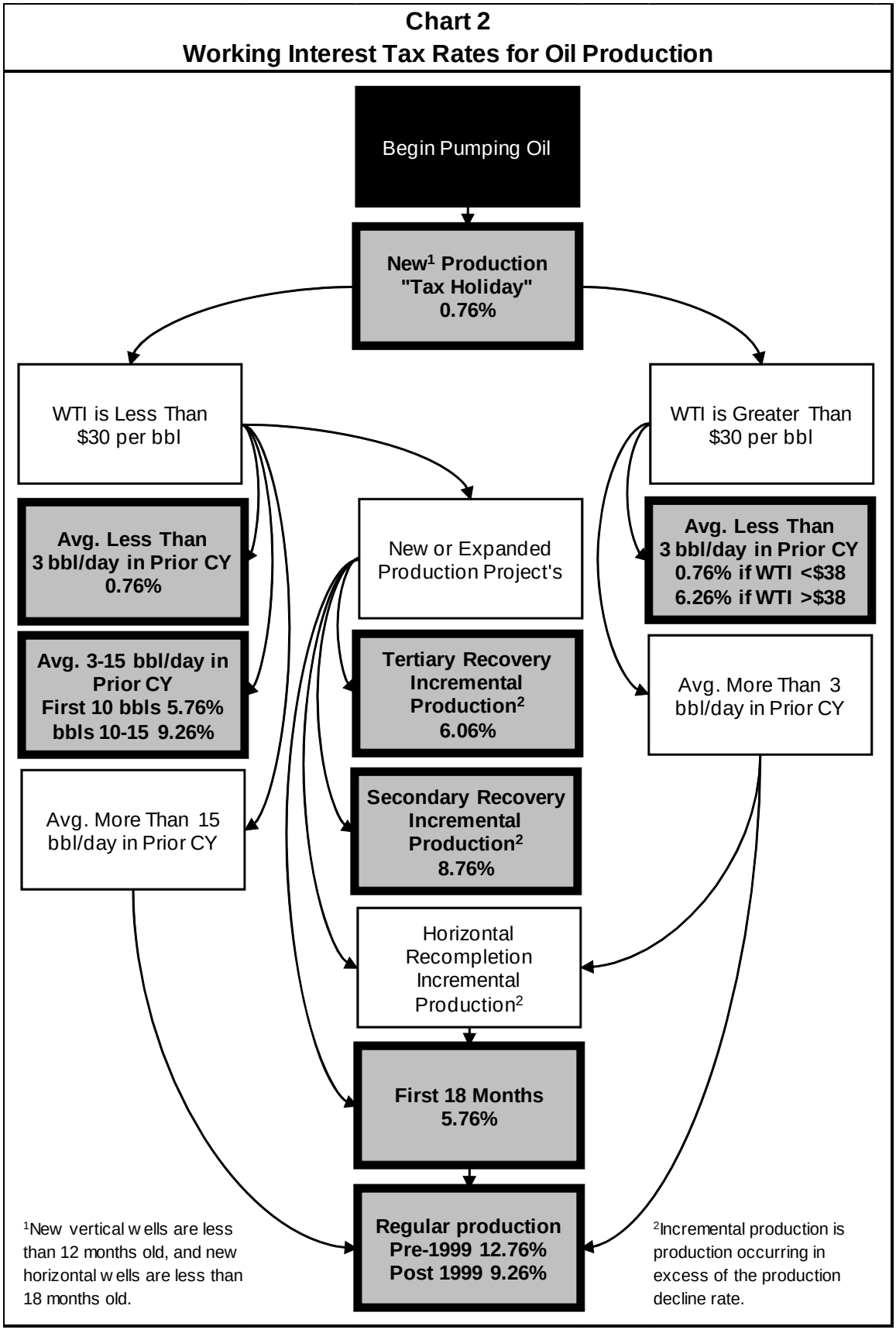
Table 2 shows the production tax rate as well as the combined tax rate when the Board of Oil and Gas Conservation's (BOGC) privilege and license tax of 0.09% and the tax of 0.17% distributed to the Oil & Gas Natural Resource Account are added. The tax rate on royalties is constant, regardless of the working interest tax rate. The working interest tax rates, however, have many stipulations that can affect the actual tax rate. The following charts illustrate these stipulations for each of the working interest tax rates for both oil and natural gas.

Chart 1 illustrates the different total tax rates for working interest natural gas extraction.



The grey boxes indicate tax rates, while the white boxes represent criteria that must be achieved in order to reach the particular tax rates.

Chart 2 illustrates the working interest rates for oil producers in the state.



Risks and Significant Factors

- Price
  - The prices received by Montana oil producers are not the same as the national or international prices, although the prices are related and move together. Oil prices have been very volatile, and continued variation will have a direct effect on the revenues received by the state.
  - Natural gas prices have also been very volatile, declining to their lowest levels of the decade during Q4 of FY 2012. Excess supply, mild winters, and the potential for federal approval of natural gas export could all affect prices.
- Production
  - According to Montana Board of Oil and Gas Conservation data, oil production increased substantially over the past decade, peaking in FY 2007 at nearly 215% of FY 2002 production.
  - Production has declined since FY 2007, mostly due to the maturity of the Elm Coulee field, which lies within the Bakken formation.
  - Interest in the Bakken formation by producers is substantial, which is evident by historically high drilling rig activity. However, producers who win bids for leases do not necessarily intend to extract oil in the short run. In addition, extraction in the North Dakota portion of the Bakken is greater due to geological differences and transportation advantages.
  - In April of 2008, the United States Geological Service (USGS) increased its estimate of the potentially recoverable oil in the Bakken formation located in North Dakota and Montana to over three billion barrels, one billion of which are in Montana.
  - The following analysis uses conservative short-term production rates that account for the maturing nature of the Elm Coulee field, although the potential for increased revenue, given the USGS's findings, could be substantial over the long run.
  - Natural gas production has been steadily declining since mid-FY 2009, which is most likely due to excess supply and the resulting lower prices received for natural gas.
- Pipeline Constraints
  - Beginning around FY 2006, the increased production in the Bakken formation led to overcrowded pipelines in the area. Consequently, there has frequently been a large differential in the average price received by Montana producers relative to a national benchmark price. The mid-May 2012 reversal of the Seaway pipeline appears to have alleviated much of this supply glut of oil in Cushing, OK, thereby reducing the large discount received by Montana producers.
  - President Obama postponed making a decision on whether to issue a permit for the construction of the Keystone XL pipeline until 2013 due to environmental and other concerns. If the permit is ultimately approved, Keystone XL would facilitate the more efficient transport of Montana oil to market, which could positively impact oil production tax revenue. This estimate does not factor in the potential impact of Keystone XL.

Forecast Methodology

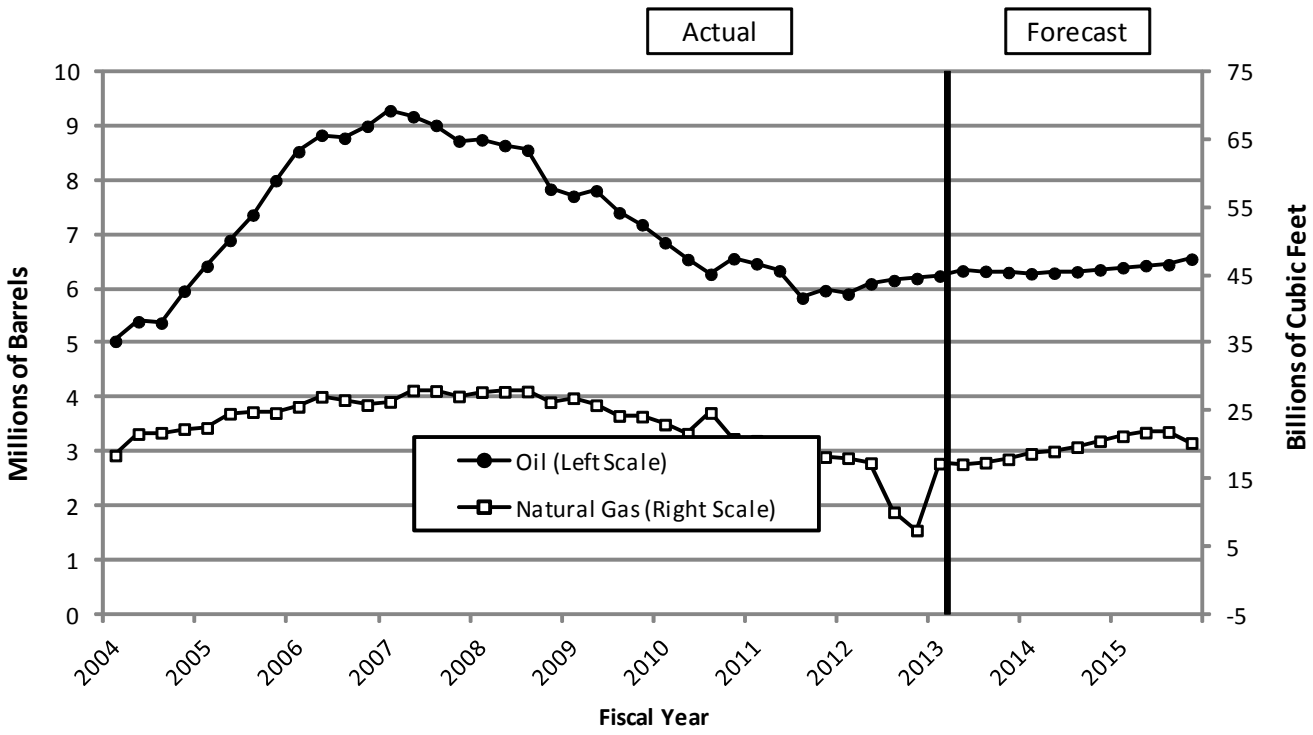
The oil and natural gas tax revenue is forecast in three main steps:

Step 1. Estimate production.

- Estimate oil production by using an ordinary least squares regression model with inflation-indexed WTI price as the explanatory variable.
- Estimate natural gas production by using an ordinary least squares regression model with Montana average natural gas price as the explanatory variable.

Graph 1 shows the actual and projected quarterly production levels of oil and natural gas in Montana from FY 2004 through FY 2015.

Graph 1
Montana Oil and Natural Gas Quarterly Production



As Graph 1 shows, oil production has been leveling off since mid-2006 with the maturation of the Elm Coulee field. However, oil production is expected to increase modestly, particularly in the Bakken formation. Current exploratory drilling activity is high, which may indicate greater future production increases.

Step 2. Estimate price of oil and natural gas.

There are many factors that affect the prices received by oil producers. Oil prices vary across the state, as the quality and access to infrastructure are not uniform statewide. Montana oil prices were estimated using an ordinary least squares regression model, where Montana weighted average oil prices were predicted using West Texas Intermediate (WTI) prices. Table 3 shows the actual weighted average price received by Montana oil producers for FY 2004 through FY 2012 and forecast prices for FY 2013 through FY 2015. The table also shows the average WTI price for the same period and the IHS Global Insight forecast values for FY 2013 through FY 2015.

Oil

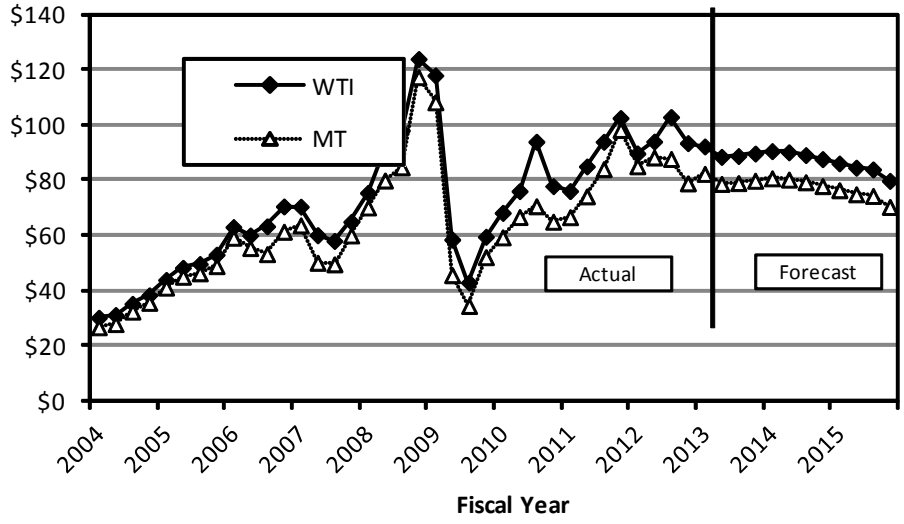
- Estimate the relationship between prices received in Montana and the WTI price, and then assume the relationship will remain the same
- Apply the estimated Montana price derived from IHS Global Insight's forecasted WTI prices to the oil production estimate to calculate gross value.

Natural Gas

- Estimate the relationship between prices received in Montana and the price received by national producers of natural gas, and assume the relationship will continue in the future.
- Apply the estimated Montana price derived from IHS Global Insight's forecasted national gas prices to the natural gas estimate to calculate gross value.

Table 3
Montana and West Texas Intermediate Oil Prices
(Dollars per Barrel)

Fiscal Year	Montana Price	WTI Price
A 2004	$30.65	$33.75
A 2005	$45.34	$48.73
A 2006	$57.32	$64.25
A 2007	$55.84	$63.38
A 2008	$88.03	$97.01
A 2009	$60.12	$69.76
A 2010	$65.40	$79.04
A 2011	$80.78	$89.42
A 2012	$84.99	$95.04
F 2013	**$79.97**	**$89.82**
F 2014	**$79.55**	**$89.38**
F 2015	**$74.01**	**$83.61**

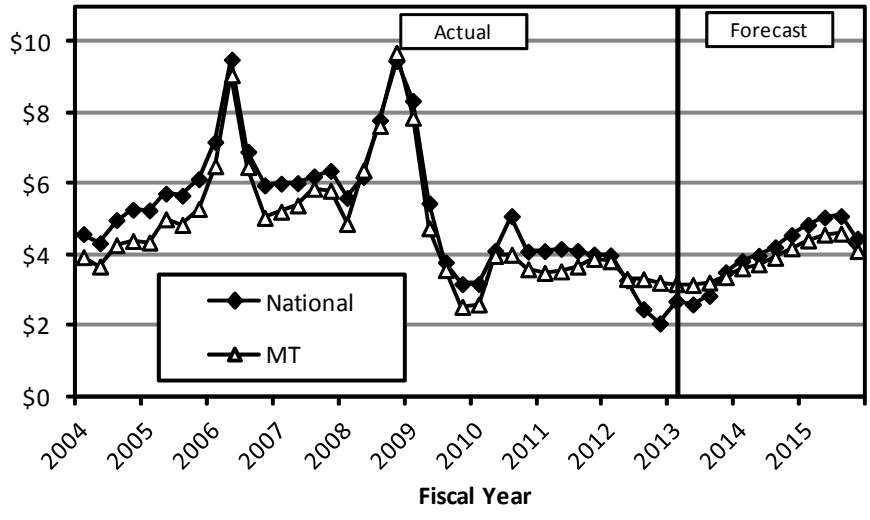


The graph on the right in Table 3 shows the quarterly relationship between Montana oil prices and the WTI price.

Table 4 shows the actual average price per thousand cubic feet (MCF) received by Montana natural gas producers for FY 2004 through FY 2012 and forecast values for FY 2013 through FY 2015. Table 4 also shows the national price per MCF, as well as forecasted prices for FY 2013 through FY 2015.

Table 4
Montana and National Natural Gas Prices
(Dollars per MCF)

Fiscal Year	Montana Price	National Price
A 2004	$4.06	$4.79
A 2005	$4.87	$5.69
A 2006	$6.77	$7.38
A 2007	$5.57	$6.15
A 2008	$7.14	$7.26
A 2009	$4.68	$5.19
A 2010	$3.54	$4.12
A 2011	$3.64	$4.10
A 2012	$3.41	$2.95
F 2013	**$3.23**	**$2.91**
F 2014	**$3.86**	**$4.14**
F 2015	**$4.42**	**$4.86**



Step 3. Determine tax revenue.

- Determine the previous four years' average tax rate and apply it to the estimated gross value of oil production. This calculation is the forecasted oil production tax revenue.
- Determine the previous four years' average tax rate and apply it to the estimated gross value of gas production. This calculation is the forecasted gas production tax revenue.

Table 5 through Table 7 show the forecast and actual production of oil and natural gas; the gross value of that production; the average tax rate; and the total revenue generated from the combined oil and natural gas severance tax for FY 2004 through FY 2015.

Table 5
Montana Oil Revenue
($ millions)

Fiscal Year	Millions of Barrels of Oil	Gross Value		Average Tax Rate		Tax Revenue
A 2004	21.755	$649.382	X	9.01%	=	$58.480
A 2005	28.649	$1,270.369	X	7.87%	=	$100.032
A 2006	35.102	$1,961.331	X	7.44%	=	$145.941
A 2007	36.161	$1,968.255	X	8.21%	=	$161.683
A 2008	33.753	$2,870.909	X	9.13%	=	$262.008
A 2009	30.077	$1,770.800	X	9.74%	=	$172.518
A 2010	26.205	$1,663.574	X	10.33%	=	$171.921
A 2011	24.583	$1,924.333	X	9.93%	=	$191.135
A 2012	24.333	$2,013.798	X	9.49%	=	$191.034
F 2013	**25.181**	**$2,013.372**	**X**	**9.62%**	**=**	**$193.763**
F 2014	**25.224**	**$2,006.374**	**X**	**9.62%**	**=**	**$193.090**
F 2015	**25.801**	**$1,908.882**	**X**	**9.62%**	**=**	**$183.707**

Table 6
Natural Gas Production Revenue
($ millions)

Fiscal Year	Billions of cubic Feet of Gas[1]	Gross Value[2]		Average Tax Rate		Tax Revenue
A 2004	84.251	$326.870	X	9.37%	=	$30.613
A 2005	96.663	$448.915	X	8.91%	=	$39.995
A 2006	105.239	$680.440	X	8.68%	=	$59.044
A 2007	109.496	$582.417	X	8.34%	=	$48.558
A 2008	109.821	$748.177	X	8.12%	=	$60.718
A 2009	101.207	$459.422	X	9.14%	=	$41.971
A 2010	90.315	$305.038	X	9.96%	=	$30.381
A 2011	77.934	$269.898	X	9.78%	=	$26.386
A 2012	52.926	$176.575	X	9.96%	=	$17.581
F 2013	**69.719**	**$225.028**	**X**	**9.45%**	**=**	**$21.262**
F 2014	**78.014**	**$237.871**	**X**	**9.45%**	**=**	**$22.476**
F 2015	**85.340**	**$254.980**	**X**	**9.45%**	**=**	**$24.092**

[1] Includes non-taxable royalty production such as production from federal leases.

[2] Includes both taxable and non-taxable production

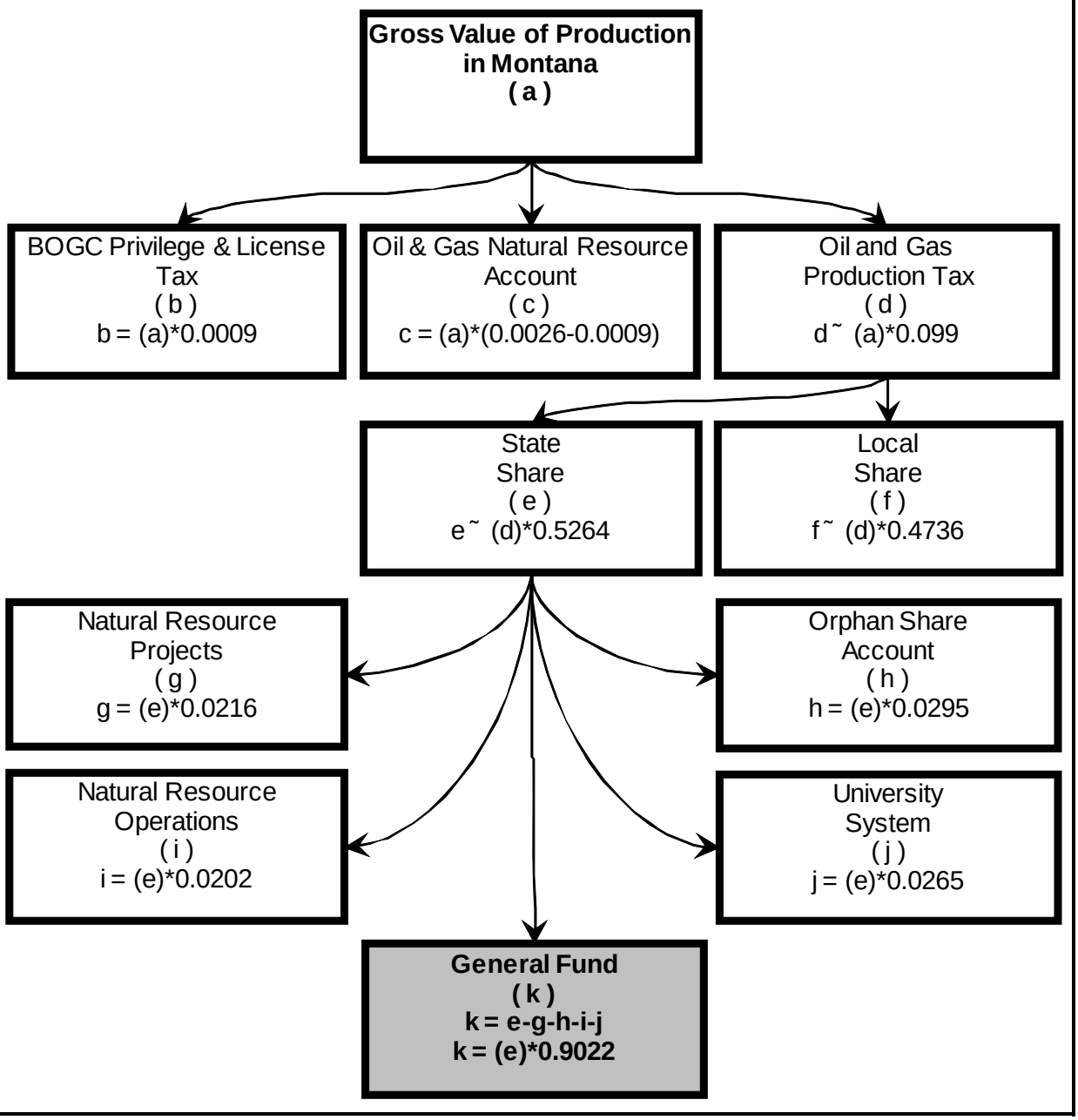
Table 7
Montana Oil and Gas Tax Revenue
($ millions)

Fiscal Year	Oil Revenue		Natural Gas Revenue		Audits, Penalties, & Interest		Total Revenue
A 2004	$58.480	+	$30.613	+	$1.688	=	$90.780
A 2005	$100.032	+	$39.995	+	$1.127	=	$141.155
A 2006	$145.941	+	$59.044	+	$1.429	=	$206.414
A 2007	$161.683	+	$48.558	+	$1.242	=	$211.483
A 2008	$262.008	+	$60.718	+	$3.168	=	$325.894
A 2009	$172.518	+	$41.971	+	$5.221	=	$219.710
A 2010	$171.921	+	$30.381	+	$1.395	=	$203.697
A 2011	$191.135	+	$26.386	+	$1.254	=	$218.775
A 2012	$191.034	+	$17.581	+	$0.737	=	$209.352
F 2013	**$193.763**	**+**	**$21.262**	**+**	**$0.995**	**=**	**$216.021**
F 2014	**$193.090**	**+**	**$22.476**	**+**	**$0.995**	**=**	**$216.561**
F 2015	**$183.707**	**+**	**$24.092**	**+**	**$0.995**	**=**	**$208.795**

Distribution

Oil and natural gas revenue is distributed in accordance with 15-36-331, MCA. Chart 3 is a graphic illustration of how the revenues are distributed.

Chart 3
Oil and Gas Severance Tax Revenue Distribution



The Board of Oil and Gas Conservation (BOGC) Privilege and License tax is currently set at 0.09% of the gross value of oil and natural gas production. The tax rate for the tax revenue that goes to the Oil & Gas Natural Resource Account is equal to the difference between 0.26% and the rate set by the BOGC, or in this case 0.17%. The tax revenue that goes to the state depends on the type of tax rate applied to the production. In FY 2012, the average severance tax rate (excluding the revenue for the BOCG and the Oil and Gas Natural Resource accounts, and not including audit collections) was 9.5%. The revenue is then divided between the state and the producing counties. Prior to HB 748 (2003 session), the distribution was based primarily on property tax mill levies. After HB 748, the counties and schools

were each assigned a percentage of the severance tax revenue generated in their county that they would receive. Beginning in FY 2012, SB 329 (2011 session) caps the amount of oil and gas receipts distributed to a school district at 130% of a district's maximum general fund budget, and distributes any excess revenues to the state's guarantee account and to the county oil and gas impact fund. Throughout the forecast period, the state share is then divided as follows:

- 2.16% to the Natural Resource Projects State Special Revenue Account
- 2.02% to the Natural Resource Operations State Special Revenue Account
- 2.95% to the Orphan Share Account
- 2.65% to the University System
- The remainder, 90.22%, is to be distributed to the general fund.

Table 8 shows the actual distribution of the oil and natural gas severance tax revenues for FY 2012 and forecast distributions for FY 2013 through FY 2015.

Table 8
Oil and Gas Tax Revenue Distribution
($ millions)

Entity	Fiscal Year 2012[1]	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Tax Revenue	**$209.352**	**$216.021**	**$216.561**	**$208.795**
BOGC	$1.988	$2.015	$2.020	$1.947
Oil & Gas Natural Resource Acct.	$3.754	$3.805	$3.815	$3.679
County Oil & Gas Impact Fund	$0.683	-	-	-
Guarantee Fund	$12.336			
Local Share	$83.611	$100.076	$100.326	$96.728
State Share	$106.981	$110.125	$110.399	$106.440
Coal Bed Methane Protection Acct. (0.0%)	$0.000	$0.000	$0.000	$0.000
Natural Resource Projects Acct. (2.16%)	$2.472	$2.379	$2.385	$2.299
Natural Resource Operations Acct. (2.02%)	$2.184	$2.225	$2.230	$2.150
Orphan Share Acct. (2.95%)	$3.190	$3.249	$3.257	$3.140
University System (2.65%)	$2.866	$2.918	$2.926	$2.821
General Fund Share (90.22%)	**$97.560**	**$99.354**	**$99.602**	**$96.031**

[1]Total revenue for FY 2012 does not match Table 7 due to accrual reversals and amended tax returns.

Data Sources

Montana oil and natural gas tax data was supplied by the Montana Department of Revenue's GENTAX system. Historic and forecast WTI prices, as well as historic and projected wellhead prices for natural gas are from IHS Global Insight's October National Forecast. Supplemental data was obtained from the Board of Oil and Gas Conservation's website at http://bogc.dnrc.mt.gov/default.asp, and from the US. Energy Information Administration's website at http://www.eia.gov.

U.S. Mineral Royalties

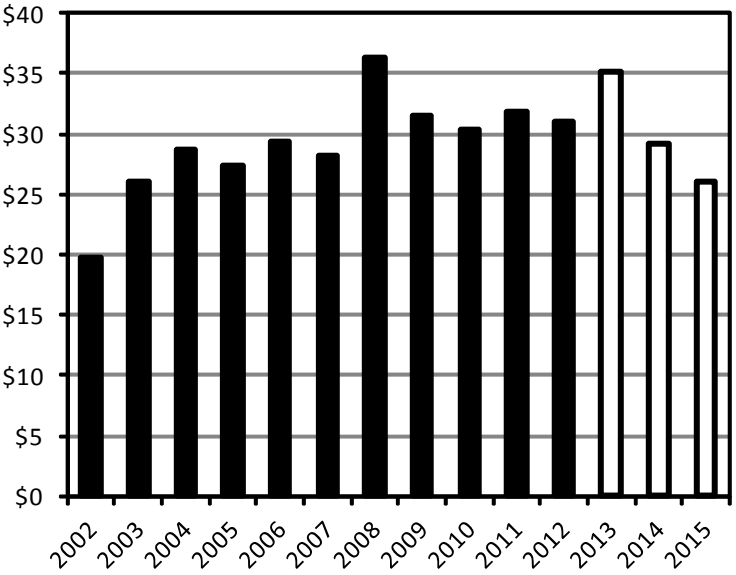
Revenue Description

In accordance with 30 USC, Sections 191, a portion of the revenue from minerals produced in Montana on federal land must be shared with the State of Montana. When the U.S. Government leases public lands for mineral production, it pays part of the income to the state where the leased land is located. In the past, Montana received 50% of the royalty revenue from coal, oil, and natural gas production on federal lands within the state. With the passage of the federal budget for FY 2009, the federal government increased their share to 52% and effectively decreased the state share to 48%. From the state share, 75% is deposited in the general fund and 25% is deposited in a state special revenue fund for mineral impacts in accordance with 17-3-240, MCA.

Table 1 shows revenue to the general fund from U.S. mineral royalties.

Table 1
U.S. Mineral Royalties
($ millions)

Fiscal Year	General Fund	Percent Change
A 2002	$19.772	-36.23%
A 2003	$25.990	31.45%
A 2004	$28.736	10.57%
A 2005	$27.294	-5.02%
A 2006	$29.304	7.36%
A 2007	$28.221	-3.70%
A 2008	$36.389	28.94%
A 2009	$31.573	-13.23%
A 2010	$30.288	-4.07%
A 2011	$31.923	5.40%
A 2012	$31.057	-2.71%
F 2013	**$35.234**	**13.45%**
F 2014	**$29.248**	**-16.99%**
F 2015	**$26.085**	**-10.81%**



FY 2002 receipts were $1.7 million lower than they should have been due to a late payment of royalties. This amount was recorded as an adjustment to the general fund ending fund balance rather than revenue.

Prior to FY 2005, 12.5% of U.S. mineral royalty revenue was allocated to counties. Currently, 25% of the U.S. mineral royalty revenue is allocated to counties. General fund revenue from U.S. mineral royalties fluctuates as mineral prices and production levels change. Changes in revenue in recent years are primarily attributable to price changes.

Risks and Significant Factors

- Most royalty revenue is calculated as a percentage of the gross value of the minerals produced. As prices fluctuate, so will royalty revenue.
- As became apparent with the passage of the FY 2009 federal budget, Congress can change the amount of revenue that gets distributed to the state. Also, changes to the federal Mineral Management Service may affect the timing of some of the revenue flows from year to year.

Forecast Methodology

U.S. mineral royalty revenue is calculated in four steps.

Step 1. Forecast the gross value of production on federal land using growth rates from other natural resource tax estimates.

The income generated from coal revenue is estimated using the growth rate of the gross coal income from the *Coal Severance Tax* revenue estimate. The oil and natural gas income is also estimated using the growth rate estimated for oil and natural gas gross income in the *Oil and Gas Severance Tax* revenue estimate. Other income includes royalty income from sulfur and other types of mineral extraction, and is estimated by taking the average of FY 2006 through FY 2011 (excluding FY 2009 due to its deviation from trend). Rents and bonus payments are estimated by taking the average of FY 2006 through FY 2011.

Step 2. Estimate the average royalty rate for the production of each type of mineral. Multiply the gross value by the estimated royalty rate to yield the total royalty revenue obtained from federal lands.

Step 3. Estimate the average percentage of receipts that are remitted by the federal government to the state for each type of commodity. Although the federal government is required to remit 48% of the revenue to the state, there are exceptions that may reduce the actual percentage to less than 48%. This is primarily dependent on the nature of the property where the federal lease is issued. For example, a federal lease could be on General Services Administration (GSA) land, in which case 100% of the revenue would be distributed to the U.S. Treasury. Federal leases on Indian reservations and timing issues between fiscal years can also contribute to variation. The average percentage of total receipts distributed by the federal government to the state over the last six years was used to estimate revenue for FY 2013 through FY 2015.

Step 4. Multiply the total royalty revenue by the state's share to yield total state revenue.

Table 2 shows the actual and forecast revenues, royalty rates, and state revenue from federal mineral royalties for FY2003 through FY 2015. Due to the federal fiscal year, FY 2012 data is not available; therefore FY 2012 is also estimated.

Table 2
U.S. Mineral Royalty Revenue
($ millions)

Fiscal Year[1]	Coal Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue	Oil Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue	Natural Gas Income	Royalty Rate	Royalty Revenue	State Percentage	State Revenue
A 2003	$280.725	12.44%	$34.918	36.74%	12.828	$94.936	10.74%	$10.196	47.20%	$4.812	$72.056	12.00%	$8.647	39.98%	$3.457
A 2004	$251.710	12.33%	$31.027	50.67%	15.722	$121.388	10.63%	$12.910	46.40%	$5.990	$98.045	11.74%	$11.508	44.91%	$5.168
A 2005	$274.574	11.98%	$32.896	49.27%	16.208	$194.277	11.46%	$22.255	37.59%	$8.365	$150.990	11.82%	$17.843	41.01%	$7.318
A 2006	$326.726	10.62%	$34.695	42.65%	14.798	$232.786	11.78%	$27.433	38.43%	$10.542	$211.256	11.77%	$24.875	42.11%	$10.475
A 2007	$290.008	12.10%	$35.084	47.96%	16.827	$206.960	10.91%	$22.569	46.59%	$10.515	$167.103	10.73%	$17.922	47.03%	$8.428
A 2008	$281.414	12.15%	$34.201	50.85%	$17.393	$354.921	10.62%	$37.685	44.99%	$16.955	$186.180	10.96%	$20.414	51.23%	$10.458
A 2009	$262.330	11.96%	$31.366	62.23%	$19.518	$180.710	10.87%	$19.648	51.67%	$10.153	$120.850	10.94%	$13.226	47.95%	$6.342
A 2010	$358.895	11.61%	$41.675	49.80%	$20.754	$223.490	10.59%	$23.657	46.72%	$11.053	$91.138	11.76%	$10.721	44.85%	$4.808
A 2011	$377.500	11.62%	$43.867	49.12%	$21.546	$244.195	10.86%	$26.520	52.01%	$13.793	$68.875	11.46%	$7.895	-17.10%	-$1.350
F 2012	**$381.642**	**11.62%**	**$44.348**	**49.12%**	**$21.783**	**$266.877**	**10.86%**	**$28.983**	**52.01%**	**$15.075**	**$39.404**	**11.46%**	**$4.517**	**-17.10%**	**-$0.772**
F 2013	**$359.491**	**11.62%**	**$41.774**	**49.12%**	**$20.518**	**$216.198**	**10.86%**	**$23.479**	**52.01%**	**$12.212**	**$38.369**	**11.46%**	**$4.398**	**-17.10%**	**-$0.752**
F 2014	**$361.731**	**11.62%**	**$42.035**	**49.12%**	**$20.646**	**$191.007**	**10.86%**	**$20.743**	**52.01%**	**$10.789**	**$47.837**	**11.46%**	**$5.483**	**-17.10%**	**-$0.937**
F 2015	**$368.535**	**11.62%**	**$42.825**	**49.12%**	**$21.035**	**$161.566**	**10.86%**	**$17.546**	**52.01%**	**$9.126**	**$45.687**	**11.46%**	**$5.237**	**-17.10%**	**-$0.895**

Fiscal Year[1]	Rentals and Bonuses	Royalty Rate	Revenue	State Percentage	State Revenue	Other Revenue	Royalty Rate	Other Revenue	State Percentage	State Revenue	**State Coal Revenue**	**State Oil Revenue**	**State Gas Revenue**	**Rents, Bonuses, & Other State Revenue**		**Total State Revenue**
A 2003	$7.026	100%	$7.026	40.16%	2.822	$2.576	NA	$2.576	51.10%	$1.316	$12.828 +	$4.812 +	$3.457 +	$4.138	=	$25.235
A 2004	$4.905	100%	$4.905	61.18%	3.001	$0.661	NA	$0.661	62.58%	$0.414	$15.722 +	$5.990 +	$5.168 +	$3.415	=	$30.295
A 2005	$4.870	100%	$4.870	42.53%	2.071	$3.395	NA	$3.395	47.16%	$1.601	$16.208 +	$8.365 +	$7.318 +	$3.672	=	$35.562
A 2006	$4.653	100%	$4.653	39.56%	1.841	$2.785	NA	$2.785	20.85%	$0.581	$14.798 +	$10.542 +	$10.475 +	$2.422	=	$38.236
A 2007	$5.084	100%	$5.084	42.47%	2.159	$2.720	NA	$2.720	45.20%	$1.230	$16.827 +	$10.515 +	$8.428 +	$3.389	=	$39.158
A 2008	$8.786	100%	$8.786	44.72%	3.929	$2.154	NA	$2.154	9.71%	$0.209	$17.393 +	$16.955 +	$10.458 +	$4.138	=	$48.944
A 2009	$8.906	100%	$8.906	45.11%	$4.018	$14.798	NA	$14.798	44.11%	$6.527	$19.518 +	$10.153 +	$6.342 +	$10.545	=	$46.559
A 2010	$14.046	100%	$14.046	48.18%	$6.767	$1.994	NA	$1.994	19.19%	$0.383	$20.754 +	$11.053 +	$4.808 +	$7.149	=	$43.765
A 2011	$11.954	100%	$11.954	48.11%	$5.751	$2.487	NA	$2.487	136.08%	$3.384	$21.546 +	$13.793 +	-$1.350 +	$9.134	=	$43.125
F 2012	**$8.905**	**100%**	**$8.905**	**48.11%**	**$4.284**	**$2.428**	**NA**	**$2.428**	**37.99%**	**$0.922**	**$21.783 +**	**$15.075 +**	**-$0.772 +**	**$5.206**	**=**	**$41.291**
F 2013	**$33.205**	**100%**	**$33.205**	**48.11%**	**$15.974**	**$2.428**	**NA**	**$2.428**	**37.99%**	**$0.922**	**$20.518 +**	**$12.212 +**	**-$0.752 +**	**$16.896**	**=**	**$48.875**
F 2014	**$8.905**	**100%**	**$8.905**	**48.11%**	**$4.284**	**$2.428**	**NA**	**$2.428**	**37.99%**	**$0.922**	**$20.646 +**	**$10.789 +**	**-$0.937 +**	**$5.206**	**=**	**$35.704**
F 2015	**$8.905**	**100%**	**$8.905**	**48.11%**	**$4.284**	**$2.428**	**NA**	**$2.428**	**37.99%**	**$0.922**	**$21.035 +**	**$9.126 +**	**-$0.895 +**	**$5.206**	**=**	**$34.472**

[1]Fiscal year refers to the federal fiscal year from Oct. 1 to Sep. 30 of the following year.

The bottom right corner shows the actual summation of state revenue from the five sources for FY 2003 through FY 2011 and forecast values for FY 2012 through FY 2015.

Distribution

U.S. mineral royalties are distributed to both the general fund and the Mineral Impact Account in accordance with 17-3-240, MCA. Table 3 shows the estimated distribution of U.S. mineral royalty revenue to the State of Montana for FY 2013 through FY 2015.

Table 3
U.S. Mineral Royalty Revenue Distribution
($ millions)

Fiscal Year	General Fund (75%)	Mineral Impact (25%)	Total[1]
F 2013	**$35.234**	**$11.745**	**$46.979**
F 2014	**$29.248**	**$9.749**	**$38.997**
F 2015	**$26.085**	**$8.695**	**$34.780**

[1]Totals do not correspond with those in Table 2 due to the conversion of annual data from the federal fiscal year to the state fiscal year.

Data Sources

Historic general fund and mineral impact account amounts are from SABHRS. Federal mineral statistics are available at http://www.mrm.mms.gov/MRMWebStats/Home.aspx.

Coal Severance Tax

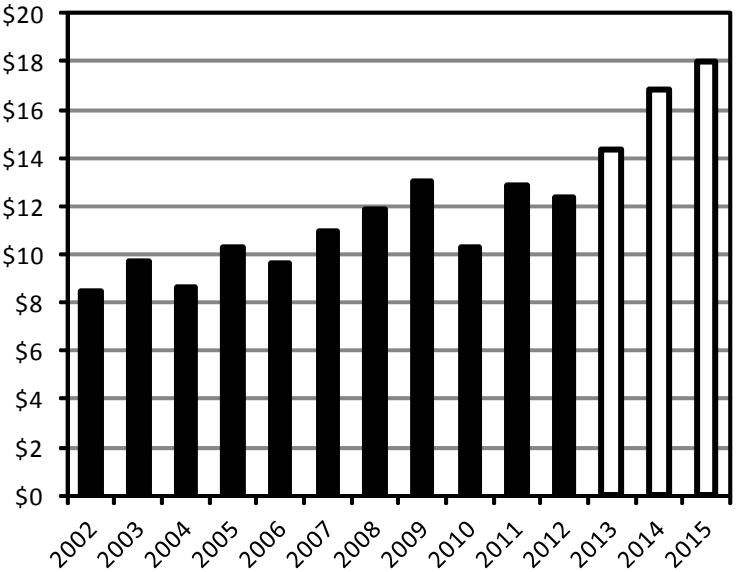
Revenue Description

In accordance with 15-35-103, MCA, Montana levies a tax on the value of coal produced in Montana. The tax rate on coal varies with heat content of the coal and the type of mine (open pit, auger, or underground). Each producer is exempt from tax on 20,000 tons per year and mines producing less than 50,000 tons per year are exempt from the tax.

Table 1 shows actual coal severance tax revenue to the general fund for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 1
Coal Severance Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$8.469	-2.24%
A	2003	$9.722	14.78%
A	2004	$8.643	-11.09%
A	2005	$10.312	19.31%
A	2006	$9.597	-6.94%
A	2007	$10.919	13.78%
A	2008	$11.894	8.93%
A	2009	$13.028	9.53%
A	2010	$10.322	-20.77%
A	2011	$12.883	24.81%
A	2012	$12.350	-4.13%
F	**2013**	**$14.325**	**15.99%**
F	**2014**	**$16.874**	**17.80%**
F	**2015**	**$17.968**	**6.48%**



Under the provisions of HB 10 (2002 August special session) the general fund received 33.04% of the coal severance tax revenue. In FY 2004 and FY 2005, the general fund allocation changed to 27.4% under HB 18 (2002 August special session). HB 688 (2007 session) established that $250,000 would be allocated to the coal and uranium mine permitting and reclamation program beginning in FY 2008. Starting in FY 2010 through the first quarter of FY 2014, SB 100 (2009 session) increased the percentage to the coal natural resource account from 2.9% to 5.8%. After the first quarter of FY 2014, the percentage reverts to 2.9%

Risks and Significant Factors

- In FY 2010, Arch Coal Company purchased the leasing rights to the Otter Creek coal tracks near Ashland, Montana, with the intent to develop a new coal mine. It is estimated that the new coal mine will pay over $2 billion in severance taxes over the life of the mine. However, it is not anticipated that the mine will be producing coal during the forecast period, and as a result it is not included in the revenue estimate. If the mine is developed sooner than anticipated, this could significantly increase revenues.
- One of the primary uses for coal is in the production of electricity at coal-fired power plants. If the federal government were to pass cap and trade legislation, coal prices could be negatively affected, as could severance tax revenue. This possibility was not incorporated into the current revenue estimate.

Forecast Methodology

There are four main steps in forecasting coal severance tax revenue:

Step 1. Estimate quarterly prices using IHS Global Insight's forecast for determining the rate at which coal prices will increase. The heating quality of coal produced in Montana varies by mine. Coal with higher heating qualities receives a higher market price and is taxed at a higher rate.

Step 2. Estimate coal production by using coal survey responses that were submitted by coal producers who are currently paying the severance tax.

Step 3. Estimate the deductions and exemptions to determine taxable coal production. Deductions and exemptions include the first 20,000 tons produced in a year, and the deductions for other state and federal tax liabilities related to coal production including the black lung tax, the coal gross proceeds tax, etc.

Step 4. Apply the appropriate tax rate to yield total coal severance tax revenue. The tax rate is dependent on the properties of the coal and the type of production. If the average tax rate declines, it could have a negative effect on tax revenue and vice versa.

Table 2 shows the actual coal production, average price per ton, total deductions, taxable revenue, average tax rate, and total tax revenue for FY 2010 through FY 2012 and the estimated values for FY 2013 through FY 2015.

Table 2
Coal Severance Tax
(millions)

	FY2010	FY 2011	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**
Tons Produced	34.809	36.305	36.740	**39.256**	**41.433**	**42.157**
Average FOB Price	x $13.66	x $15.10	x $15.81	**x $16.18**	**x $16.51**	**x $16.83**
Gross Revenue	$475.576	$548.233	$581.026	**$635.036**	**$684.064**	**$709.548**
Exemptions	- $135.033	- $150.049	- $150.355	**- $173.807**	**- $187.226**	**- $194.201**
Taxable Revenue	$340.543	$398.183	$430.671	**$461.229**	**$496.838**	**$515.347**
Average Tax Rate	x 14.10%	x 13.36%	x 12.38%	**x 13.23%**	**x 13.22%**	**x 13.20%**
Tax Revenue	$48.002	$53.179	$53.332	**$61.008**	**$65.698**	**$68.002**

Distribution

Coal Severance tax is distributed in accordance with 15-35-108, MCA. Table 3 shows the distribution of actual and estimated coal severance tax revenue for FY 2012 through FY 2015.

Table 3
Coal Severance Tax Revenue Allocation by Fund
($ millions)

Entity	Percent Allocation	FY 2012 Actual[1]	FY 2013 Projected	FY 2014 Projected	FY 2015 Projected
Coal Tax Trust Fund (50%)	50.00%	$26.371	**$30.504**	**$32.849**	**$34.001**
Long Range Building Program Account	12.00%	$6.329	**$7.321**	**$7.884**	**$8.160**
Local Impacts (Shared Account)	5.46%	$2.880	**$3.331**	**$3.587**	**$3.713**
Coal Natural Resource Account (5.80% to 9/2013)	2.90%	$0.000	**$0.000**	**$0.000**	**$0.000**
Coal Board (5.8% to 9/2013)	2.90%	$3.059	**$3.538**	**$2.382**	**$1.972**
Parks Trust Fund	1.27%	$0.670	**$0.775**	**$0.834**	**$0.864**
Renewable Resource Loan Debt Service Fund	0.95%	$0.501	**$0.580**	**$0.624**	**$0.646**
Capitol Art Protection Trust Fund	0.63%	$0.332	**$0.384**	**$0.414**	**$0.428**
DEQ Mine Permitting and Restoration	$250k	$0.250	**$0.250**	**$0.250**	**$0.250**
General Fund	Remainder	$12.350	**$14.325**	**$16.874**	**$17.968**
Total Coal Severance Tax		**$52.743**	**$61.008**	**$65.698**	**$68.002**

[1]Total revenue does not match table 2 due to accrual adjustments

Data Sources

Historical coal statistics were obtained for the Department of Revenue coal severance tax returns. Forecast production levels come from survey responses that were completed by the coal companies that pay the coal severance tax. Forecast coal inflation factors were obtained from IHS Global Insight (October 2012).

Metalliferous Mines License Tax

2015 Biennium

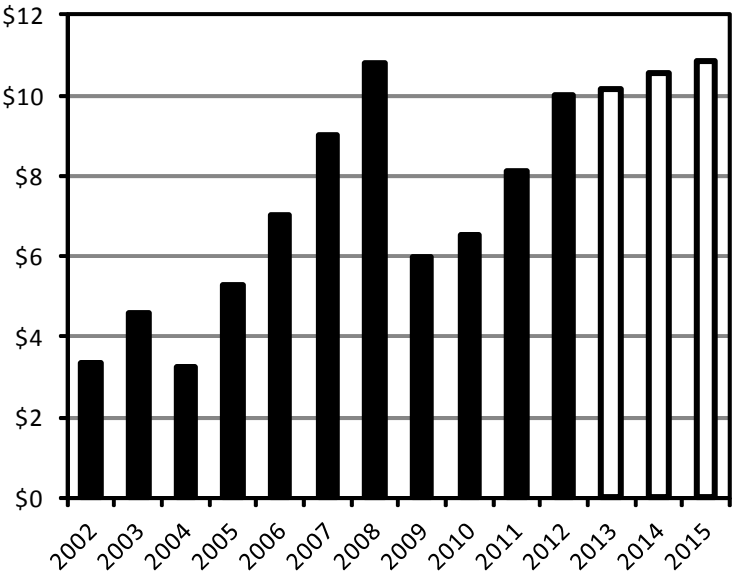
Revenue Description

Montana levies a tax on the gross value of metals mined in the state under 15-37-101, MCA. Gross value, as defined in 15-23-801, MCA, is the market value of the refined product, less the costs of transporting the unrefined product and refining it. The first $250,000 of gross value is not taxed; this effectively exempts small mines from this tax. The tax rate for production beyond $250,000 depends on the mineral and the amount of processing at the mine. Concentrate, which is non-smelted ore that may have undergone mechanical processing, has a tax rate of 1.81%. Metals that have been partially or completely separated from impurities by smelting, but may not have had the individual metals separated, have a tax rate of 1.6% (15-37-103, MCA).

Revenues from the metalliferous mines license tax are divided between the state and counties that have fiscal or economic impacts from large-scale mining. The state general fund currently receives 57% of the revenue. Table 1 shows general fund revenue or FY 2002 through FY 2012, and projected revenue for FY 2013 through FY 2015.

Table 1
Metalliferous Mines Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$3.329	-2.58%
A	2003	$4.586	37.76%
A	2004	$3.232	-29.53%
A	2005	$5.264	62.89%
A	2006	$7.028	33.51%
A	2007	$8.991	27.93%
A	2008	$10.774	19.83%
A	2009	$5.993	-44.38%
A	2010	$6.541	9.15%
A	2011	$8.097	23.77%
A	2012	$10.010	23.64%
F	**2013**	**$10.148**	**1.38%**
F	**2014**	**$10.562**	**4.07%**
F	**2015**	**$10.845**	**2.68%**



Prior to FY 2006 the general fund received 58%, except in FY 2003 when the general fund received 65% of the tax revenue.

Revenue from the metal mines tax has varied because of changes in the tax payment due date, changes in production, and price variation. Through CY 2002, the tax was paid annually. Since CY 2003, the tax is paid semiannually. This resulted in taxes on eighteen months of production being recorded as revenue in FY 2003. Revenue increased from FY 2004 through FY 2008 due to production increases with significant price increases in FY 2006 through FY 2008. Price declines and mine closures during FY 2009 and FY 2010 significantly reduced revenues. Relatively stable prices and current levels of production are assumed to increase tax revenue modestly during the forecast period.

Risks and Significant Factors

- The price of metals and other natural resources has varied substantially in recent years. Price increases will generate greater revenues and price decreases will result in less revenue.

- Production by the major companies that pay the tax has varied over the years. New discoveries, new mining ventures, and management decisions by current producing firms, all influence production levels with corresponding impacts on tax revenues.
- There are significant financing deals that would reopen old mines, as well as new investments in mine expansions currently in the works. If these deals were to bring production online within the forecast period revenues would increase. This new production is not contemplated in this estimate.
- There are four main factors in determining the revenue from metal mines.
  1. The relative proportion of the share of each type of metal in the gross value of production will have an impact on overall revenue. Currently, most Montana producers concentrate their production on gold, silver, platinum, palladium, rhodium, copper, and molybdenum.
  2. The price of each of these metals is positively related to the total tax revenue.
  3. The amount of each metal produced is also positively related to total tax revenue.
  4. Allowable deductions reduce total tax revenue. Metal producers are allowed to deduct transportation, treatment, and refining costs from the gross value of production to yield taxable value of production. As deductions rise, tax revenue will go down, and vice versa.
- This estimate implicitly assumes that the production mix of metals will remain as it was in FY 2012.

Forecast Methodology

There are three steps in estimating metal mines tax revenue:

Step 1. FY 2012 production and prices serve as the base for this revenue estimate. Total revenue is projected based on the change in the IHS Global Insight forecast of the producer price sub-index for metal products.

Step 2. The transportation, and refining and treatment costs deductions are assumed to maintain their share of the total value of production during the forecast period. These are deducted from the gross value of the minerals.

Step 3. The estimated average tax rate that applied during FY 2011 and FY 2012 is applied to the total net value of production to yield fiscal year tax liability.

Table 2 shows the gross value of all metal products in Montana, deductions taken by the metal producers, the average tax rate, and the total tax revenue generated for the metal mines license tax.

Table 2
Metal Mines Production Forecast
($ millions)

Fiscal Year	Gross Value		Deductions			Average Tax Rate		Tax Revenue
A 2011	($980.203	-	$66.036	)	X	1.70%	=	$15.58
A 2012	($1,122.463	-	$79.305	)	X	1.68%	=	$17.53
F 2013	**($1,128.110**	**-**	**$76.147**	**)**	**X**	**1.69%**	**=**	**$17.80**
F 2014	**($1,178.142**	**-**	**$79.525**	**)**	**X**	**1.69%**	**=**	**$18.53**
F 2015	**($1,207.673**	**-**	**$81.518**	**)**	**X**	**1.69%**	**=**	**$19.03**

Distribution

Table 3 shows the distribution of the metal mines tax to the various entities in accordance with 15-37-117, MCA.

Table 3
Total Collections and Allocation of Metal Mines Tax
($ millions)

Entity	Allocation Percentage	Actual FY 2012	**Projected FY 2013**	**Projected FY 2014**	**Projected FY 2015**
General Fund (57%)	57.0%	$10.010	$10.148	$10.562	$10.845
Hard-Rock Mining Impact Trust (2.5%)	2.5%	$0.439	$0.445	$0.463	$0.476
Impacted Counties (25.0%)	25.0%	$4.391	$4.451	$4.632	$4.757
Natural Resource Operations (7.0%)	7.0%	$1.229	$1.246	$1.297	$1.332
Hard-Rock Mining Reclamation Debt Service (8.5%)	8.5%	$1.493	$1.513	$1.575	$1.617
Total Collections	100.0%	**$17.562**	**$17.804**	**$18.529**	**$19.027**

Data Sources

Historic Montana production, value, and deduction data was obtained from Department of Revenue tax records. Price forecasts are based on IHS Global Insight's October 2012 producer price sub-index for metals.

Electrical Energy Producer's License Tax

2015 Biennium

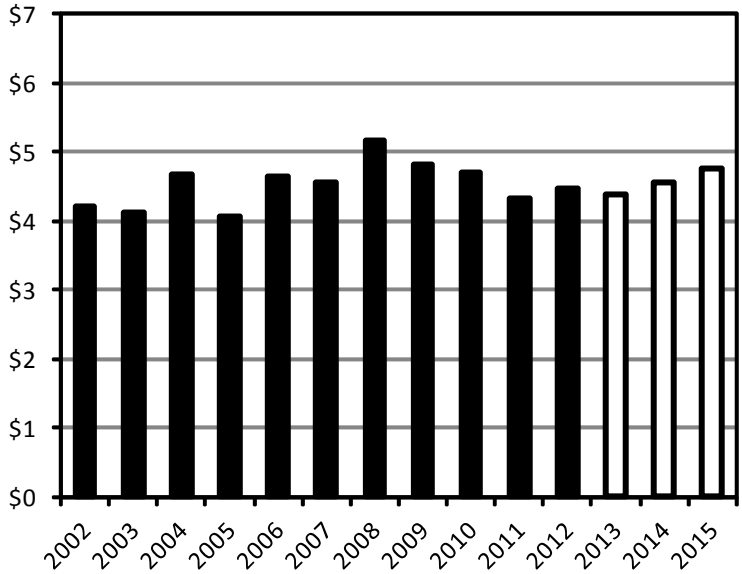
Revenue Description

In accordance with 15-51-101, MCA, Montana levies an electrical energy producer's license tax at a rate of $0.0002 per kilowatt-hour (kWh). The tax applies to all electricity generated, manufactured, or produced in Montana for barter, sale, or exchange. Electricity generated for plant use is excluded from the tax. All electrical energy producer's license tax revenue is allocated to the general fund.

Table 1 shows actual general fund revenue collections from the electrical energy producer's license tax for FY 2002 through FY 2012 and the forecast for FY 2013 through FY 2015.

Table 1
Electrical Energy Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$4.197	3.44%
A	2003	$4.130	-1.61%
A	2004	$4.661	12.85%
A	2005	$4.074	-12.59%
A	2006	$4.645	14.00%
A	2007	$4.564	-1.72%
A	2008	$5.179	13.47%
A	2009	$4.825	-6.84%
A	2010	$4.713	-2.31%
A	2011	$4.332	-8.08%
A	2012	$4.481	3.44%
F	**2013**	**$4.384**	**-2.18%**
F	**2014**	**$4.556**	**3.93%**
F	**2015**	**$4.749**	**4.23%**



Risk and Significant Factors

- The greater the amount of electricity produced in the state, the greater the tax revenue.
- Accrual adjustments made at the end of the fiscal year have the potential to skew revenues. In FY 2002, accruals understated revenues by $0.131 million. In FY 2004, accruals overstated revenues by $0.198 million.
- There is significant new capacity coming online with five power plants either completed or under construction between Q3 FY 2011 and Q4 FY 2012. While the basis for increases in collections is well established, the challenge is specific timing. This estimate does not include this newly installed capacity explicitly, which is not anticipated to have a great effect on tax collections.
- Electrical production increases with increased economic activity.

Forecast Methodology

The electrical energy tax is forecast in two steps:

Step 1. Estimate total taxable electricity production using both Department of Revenue tax records, and projections based on changes in IHS Global Insight's estimate of the industrial production index for utilities in Montana.

Step 2. Multiply the tax rate of $0.0002 per KWH by the estimated amount of taxable electricity produced in the state to yield total tax revenue.

Table 2 shows the actual electricity production and tax revenue for FY 2007 through FY 2012, and forecast values for FY 2013 through FY 2015.

Table 2
Electricity Production Tax Revenue
($ millions)

Fiscal Year	kWh (millions)		Tax Rate		Tax Revenue[1]
A 2007	23,160.458	X	$0.00019997	=	$4.631
A 2008	24,081.011	X	$0.00021507	=	$5.179
A 2009	23,872.111	X	$0.00020210	=	$4.825
A 2010	23,078.519	X	$0.00020423	=	$4.713
A 2011	23,221.915	X	$0.00018656	=	$4.332
A 2012	21,624.098	X	$0.00020724	=	$4.481
F 2013	**21,918.029**	**X**	**$0.00020000**	**=**	**$4.384**
F 2014	**22,780.077**	**X**	**$0.00020000**	**=**	**$4.556**
F 2015	**23,744.205**	**X**	**$0.00020000**	**=**	**$4.749**

[1]Total Revenue does not match table 1 due to accrual adjustments and amended returns.

Data Sources

Historical electricity data was provided by the Department of Revenue. Information on new energy projects was obtained from the Department of Commerce. IHS Global Insight's October 2012 forecast of industrial production index for utilities is used to forecast electricity production in the state.

Wholesale Energy Transaction Tax

2015 Biennium

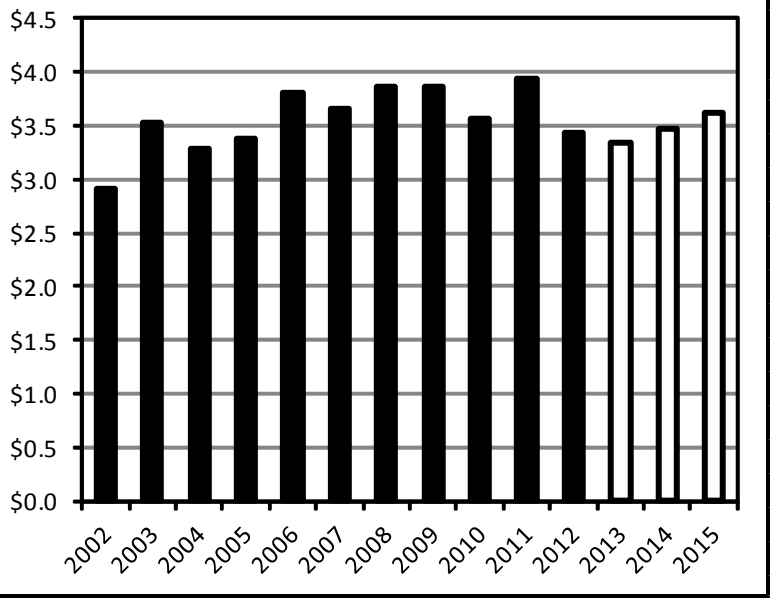
Revenue Description

In accordance with 15-72-104, MCA, Montana levies a wholesale energy transaction (WET) tax at a rate of $0.00015 per kilowatt-hour (kWh) on electricity transmitted by a transmission service provider in the state. This became effective January 1, 2000.

Table 1 shows actual general fund collections from the WET tax for FY 2002 through FY 2012 and the projected values for FY 2013 through FY 2015.

Table 1
Wholesale Energy Transaction Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$2.906	-
A	2003	$3.532	21.53%
A	2004	$3.293	-6.78%
A	2005	$3.370	2.35%
A	2006	$3.813	13.16%
A	2007	$3.651	-4.26%
A	2008	$3.856	5.62%
A	2009	$3.865	0.22%
A	2010	$3.556	-7.99%
A	2011	$3.946	10.95%
A	2012	$3.427	-13.13%
F	**2013**	**$3.348**	**-2.30%**
F	**2014**	**$3.480**	**3.93%**
F	**2015**	**$3.627**	**4.23%**



Risks and Significant Factors

- There has been an increased investment in electricity transmission infrastructure in Montana. Currently, the Montana Alberta Tie Ltd. (MATL) is under construction with an expected completion date by the end of CY 2012. MATL will link Montana to Canadian electricity markets and provide a conduit for wind generation infrastructure.
- New transmission projects and generation capacity are being developed and should increase electricity transmission and tax revenue.

Forecast Methodology

The WET tax revenue is forecast in two major steps:

Step 1. Estimate total taxable electricity production base from Department of Revenue tax records and projections based on the change in IHS Global Insight's estimate of the industrial production index for utilities in Montana.

Step 2. Multiply the tax rate of $0.00015 per KWH by the estimated amount of taxable electricity transmitted in the state to yield total tax revenue.

Table 2 shows actual taxable electricity produced and the tax revenue generated for FY 2002 through FY 2012 and forecast for FY 2013 through FY 2015.

Table 2
Taxable kWh for Wholesale Energy Tax
($ millions)

Fiscal Year	Taxable KWH (million)		Tax Rate		Tax Revenue[1]
A 2002	22,077.361	x	0.00015	=	$3.312
A 2003	22,474.593	x	0.00015	=	$3.371
A 2004	23,235.939	x	0.00015	=	$3.485
A 2005	23,576.673	x	0.00015	=	$3.537
A 2006	24,112.351	x	0.00015	=	$3.617
A 2007	24,609.110	x	0.00015	=	$3.691
A 2008	24,883.201	x	0.00015	=	$3.732
A 2009	24,704.406	x	0.00015	=	$3.706
A 2010	24,269.078	x	0.00015	=	$3.640
A 2011	23,978.549	x	0.00015	=	$3.597
A 2012	22,023.555	x	0.00015	=	$3.304
F 2013	**22,322.915**	**x**	**0.00015**	**=**	**$3.348**
F 2014	**23,200.889**	**x**	**0.00015**	**=**	**$3.480**
F 2015	**24,182.826**	**x**	**0.00015**	**=**	**$3.627**

[1] Historical revenues do not match Table 1 due to accrual adjustments and amended returns.

Distribution

Pursuant to 15-72-106, MCA, the general fund receives 100% of the WET tax.

Data Sources

Historical electricity data was provided by the Department of Revenue. IHS Global Insight's October 2012 Montana forecast of the industrial production index for utilities is used to project electricity transmission in the state.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

INTEREST REVENUE
SECTION 5

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

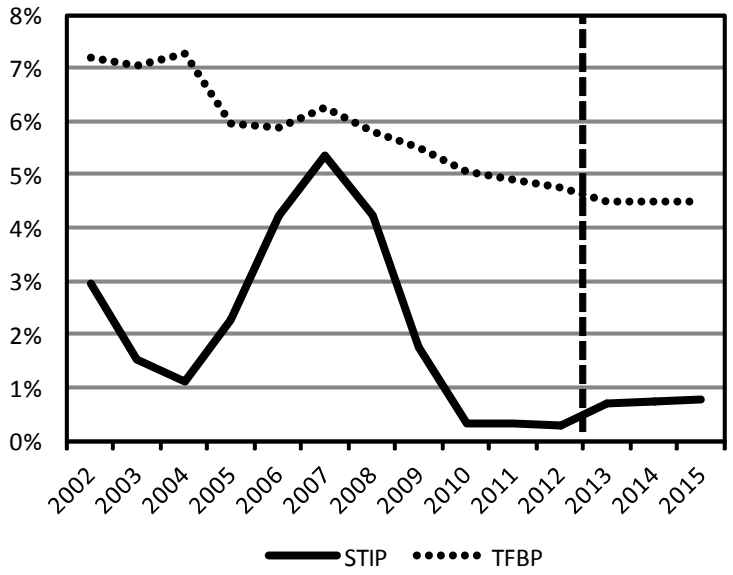
Revenue Description

The Board of Investments (BOI) manages trust fund balances and invests agency cash balances for the state. The board invests most of the agency cash and a small portion of fund balances in the short-term investment pool (STIP). The STIP is managed like a money market account so that daily withdrawals and deposits are allowed and the pool continues to earn interest. The board also manages trust fund balances in the Trust Fund Bond Pool (TFBP). The TFBP's portfolio is mainly comprised of long-term bonds and is managed in a way so as to provide consistent interest earnings. The estimates for the rates of return are used to forecast revenue earnings for the treasury cash account, the common school trust, the various coal trusts, and several other funds.

Table 1 shows actual annual percentage interest rates for both STIP and TFBP in FY 2002 through FY 2012, and projections for FY 2013 through FY 2015.

Table 1
Short Term Investment Pool and Trust Fund Bond Pool
Annual Rates of Return

	Fiscal Year	STIP	TFBP
A	2002	2.95%	7.19%
A	2003	1.52%	7.06%
A	2004	1.10%	7.28%
A	2005	2.28%	5.97%
A	2006	4.25%	5.89%
A	2007	5.34%	6.25%
A	2008	4.24%	5.81%
A	2009	1.73%	5.49%
A	2010	0.34%	5.04%
A	2011	0.31%	4.91%
A	2012	0.30%	4.75%
F	**2013**	**0.70%**	**4.47%**
F	**2014**	**0.74%**	**4.48%**
F	**2015**	**0.77%**	**4.50%**



Turmoil in the national economy, beginning in FY 2008, caused the Federal Open Market Committee (FOMC) to cut their target federal funds rate in order to help stimulate the economy. The federal funds rate is the rate at which banks lend to each other overnight to meet daily reserve requirements and is a benchmark for many other types of short-term interest rates. The FOMC is expected to keep their target rate between 0.00% and 0.29% until the end of FY 2015.

The TFBP yield has been slowly decreasing since FY 1998. This is primarily due to the replacement of older bonds with newer bonds, which have relatively lower rates of return. The TFBP rate increase in FY 2004 was largely caused by the sale of these older bonds with higher interest rates. The unusually large decrease in TFBP yield in FY 2005 was largely caused by a large capital loss. TFBP yields are anticipated to continue declining throughout the forecast period.

Risks and Significant Factors

- The FOMC may raise or lower interest rates faster or slower than anticipated based on volatile financial market predictions, although it is worth noting that these rates are currently near zero.
- If the national economy were to enter another deep recession, there would be an increased likelihood that some of the investments could default, significantly reducing the total investment's rate of return.

Forecast Methodology

There are two steps used in calculating the STIP rate of return:

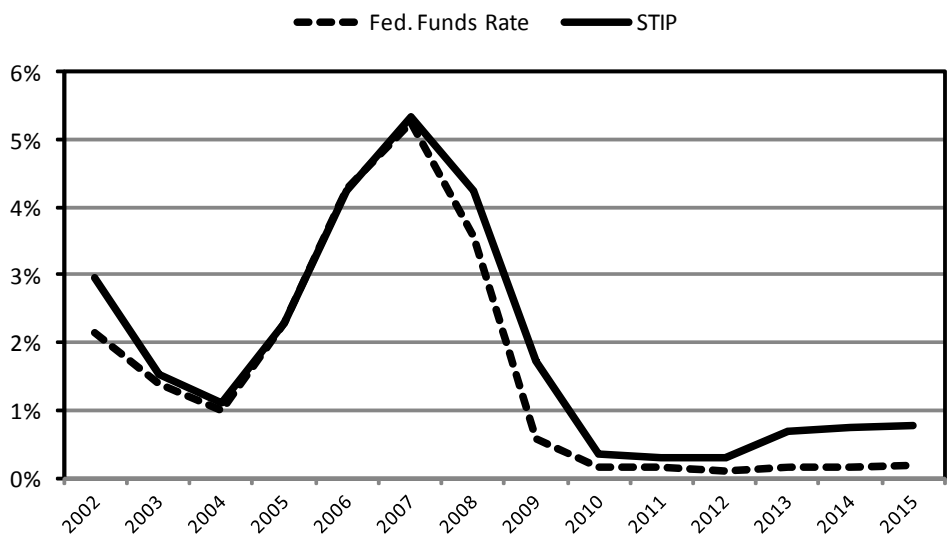
Step 1. Examine the relationship between the federal fund rate and the STIP rate of return using a statistical regression model.

Step 2. Apply this relationship to IHS Global Insight's forecast for the federal funds rate.

Table 2 shows the actual annual average STIP and federal funds rate for FY 2002 through FY 2012 and forecast values for FY 2013 though FY 2015.

Table 2
STIP and Federal Funds Rates of Return
FY 2002 Through FY 2015

Fiscal Year	Fed. Funds Rate	STIP
A 2002	2.14%	2.95%
A 2003	1.39%	1.52%
A 2004	1.01%	1.10%
A 2005	2.28%	2.28%
A 2006	4.29%	4.25%
A 2007	5.25%	5.34%
A 2008	3.57%	4.24%
A 2009	0.58%	1.73%
A 2010	0.15%	0.34%
A 2011	0.16%	0.31%
A 2012	0.10%	0.30%
F 2013	**0.16%**	**0.70%**
F 2014	**0.16%**	**0.74%**
F 2015	**0.19%**	**0.77%**



There are four steps used in calculating the TFBP rate of return:

Step 1. Determine which bonds will mature.

Step 2. Estimate the return on new bonds under the assumption that they will be reinvested in similar bonds, and that they will receive a return equal to IHS Global Insight's forecast.

Step 3. Estimate the return on current bonds under the assumption that they have not yet matured will continue to receive their current returns.

Step 4. Calculate the total rate of return for the TFBP.

Table 3 shows the estimated book value, income, and rate of return for both the non-maturing bonds and the new bonds being purchased.

Table 3
Trust Fund Bond Pool Forecast
($ millions)

TFBP Components	FY 2013	FY 2014	FY 2015
Non Maturing Bonds			
Book Value[1]	$1,776.0	$1,767.0	$1,751.1
Income	$79.4	$79.1	$78.5
Rate of Return	4.47%	4.48%	4.48%
New Bonds			
Book Value	$0.8	$9.7	$25.7
Income	$0.0	$0.5	$1.5
Rate of Return	5.05%	5.39%	5.79%
Total			
Book Value	**$1,776.7**	**$1,776.7**	**$1,776.7**
Income	**$79.5**	**$79.6**	**$80.0**
Rate of Return	**4.47%**	**4.48%**	**4.50%**

[1]This amount does not include CRP, a small amount of STIP, and six investments that have a different structure, but are assumed to have comparable yields.

Data Sources

The State Street Bank and BOI provide monthly reports on STIP and TFBP investment earnings and balances. TFBP specific data were obtained from the Board of Investment's website at http://www.investmentmt.com. Historic Federal Funds Rate can be found at http://www.federalreserve.gov/releases/h15/data.htm. Forecasted Baa corporate bond and federal funds rates of return are from IHS Global Insight's October U.S. Economic Outlook.

Coal Trust Interest Earnings

2015 Biennium

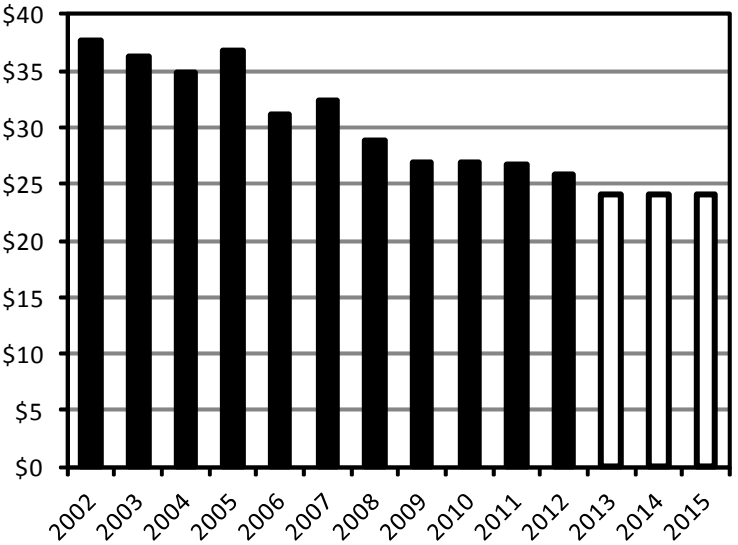
Revenue Description

Article IX, Section 5 of the Montana Constitution established the coal severance tax permanent trust fund into which at least half of coal severance tax revenue must be deposited. Under current law, half of the severance tax revenue is deposited into the trust fund and is then subdivided into several other funds. The trust funds are described in more detail in the *Introduction to the Coal Trusts*. Interest earnings from the coal severance tax permanent fund and the coal severance tax bond fund are allocated to the general fund. SB 326 (2011 session) diverts $6,986 in FY 2012 and $14,347 in FY 2012 from the general fund to the Montana Veteran's Home Loan Mortgage Program.

Table 1 shows actual interest earnings allocated from the coal severance tax permanent fund and the coal severance tax bond fund to the general fund from FY 2002 through FY 2012 and the revenue forecast for FY 2013 through FY 2015.

Table 1
Coal Trust Interest Earnings
($ millions)

	Year	Fund	Change
A	2002	$37.605	-0.14%
A	2003	$36.298	-3.48%
A	2004	$34.907	-3.83%
A	2005	$36.752	5.28%
A	2006	$31.106	-15.36%
A	2007	$32.335	3.95%
A	2008	$28.855	-10.76%
A	2009	$26.958	-6.57%
A	2010	$26.914	-0.16%
A	2011	$26.783	-0.49%
A	2012	$25.840	-3.52%
F	**2013**	**$24.014**	**-7.07%**
F	**2014**	**$24.050**	**0.15%**
F	**2015**	**$24.120**	**0.29%**



General fund revenue from the coal severance tax permanent fund fell every year from FY 1998 through FY 2004. This was primarily caused by declining long-term interest rates. In FY 2005, revenue from the coal trust increased because there were capital gains of $0.9 million, and an increase of $1.5 million in loan interest income, which offset declines in bond interest income. A $20 million in-fund balance transfer to the big sky economic development fund decreased income in FY 2006. Coal trust interest revenue is projected to fall due to low interest rates, which are expected to remain low through FY 2014.

Risks and Significant Factors

- The Federal Open Market Committee (FOMC) may suddenly change interest rates based on volatile financial market predictions and the overall health of the economy.
- If the national economy were to enter another deep recession, there would be an increased likelihood some of the investments could default, significantly reducing the rate of return on the total investment.

Forecast Methodology

The interest earnings are forecast in three main steps:

Step 1. Estimate the composition of the assets in the fund. The fund is invested primarily in the trust fund bond pool (TFBP), but it is also partially invested in the short-term investment pool (STIP) and commercial loans.

Step 2. Apply the forecast rates of return for each type of investment.

Step 3. Estimate other income and administrative costs and calculate the net earnings.

The permanent fund is invested in commercial loans, the TFBP, and the STIP. Table 2 shows the actual average balance, income, and rate of return for each type of investment as well as the fund totals for FY 2010 through FY 2012, and forecast values for FY 2013 through FY 2015.

Table 2
Coal Trust Interest Income
($ millions)

Loan Income				TFBP Income			
Fiscal Year	Balance[1]	Interest Rate	Income[2]	Fiscal Year	Balance[1]	Interest Rate	Income[2]
A 2010	$206.201	5.23%	$10.791	A 2010	$312.515	5.15%	$16.102
A 2011	$187.554	5.37%	$10.076	A 2011	$329.973	5.06%	$16.687
A 2012	$162.712	5.26%	$8.554	A 2012	$355.140	4.96%	$17.622
F 2013	**$155.943**	**5.22%**	**$8.141**	**F 2013**	**$360.765**	**4.48%**	**$16.166**
F 2014	**$155.943**	**5.22%**	**$8.141**	**F 2014**	**$360.765**	**4.49%**	**$16.198**
F 2015	**$155.943**	**5.22%**	**$8.141**	**F 2015**	**$360.765**	**4.51%**	**$16.265**

Stip Income				Trust Fund Total			
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 2010	$12.482	0.33%	$0.042	A 2010	$531.198	5.07%	$26.934
A 2011	$13.607	0.29%	$0.040	A 2011	$531.134	5.05%	$26.802
A 2012	$11.006	0.28%	$0.031	A 2012	$528.857	4.96%	$26.207
F 2013	**$10.529**	**0.70%**	**$0.074**	**F 2013**	**$527.237**	**4.62%**	**$24.381**
F 2014	**$10.529**	**0.74%**	**$0.078**	**F 2014**	**$527.237**	**4.63%**	**$24.417**
F 2015	**$10.529**	**0.77%**	**$0.081**	**F 2015**	**$527.237**	**4.64%**	**$24.488**

[1]Balances are adjusted for SB495 loan to common schools.
[2]Income amount are adjusted for SB495 loan payments from the common schools.

Although the Montana Constitution states that one half of revenue from the coal severance tax is to be deposited into a trust fund, there are four coal trust sub-funds that receive revenue from the coal severance tax. Besides the coal severance tax permanent fund that benefits the state general fund, there is also the treasure state endowment fund, the treasure state endowment regional water systems fund, and the big sky economic development fund. Currently, the three sub-funds receive the 50% of the coal severance tax revenue as established in Article IX, Section 5 of the Montana Constitution. No new money is deposited in the coal severance tax permanent fund from the coal severance tax until FY 2016.

Loan rates have remained relatively stable as interest rates have fluctuated and are projected to remain relatively stable in FY 2013 through FY 2015. These interest rates have not fluctuated primarily because many of the loans are economic development loans that include rate reductions. The TFBP and STIP rates are forecast in the *Interest Rate Introduction* section.

Table 3 shows actual administrative expenses, other income, and interest income for FY 2010 through FY 2012 and forecast income for FY 2013 through FY 2015. The last column also shows the total revenue for the coal severance tax permanent trust fund.

Table 3
Coal Trust Total General Fund Revenue
($ millions)

Fiscal Year	Interest Income		Other Income		Admin. Expense		Total Revenue
A 2008	$28.871	+	$0.371	+	($0.387)	=	$28.855
A 2009	$26.957	+	$0.403	+	($0.402)	=	$26.958
A 2010	$26.934	+	$0.399	+	($0.419)	=	$26.914
A 2011	$26.802	+	$0.381	+	($0.400)	=	$26.783
A 2012	$26.207	+	$0.114	+	($0.482)	=	$25.840
F 2013	**$24.381**	+	**$0.114**	+	**($0.482)**	=	**$24.014**
F 2014	**$24.417**	+	**$0.114**	+	**($0.482)**	=	**$24.050**
F 2015	**$24.488**	+	**$0.114**	+	**($0.482)**	=	**$24.120**

Occasionally, permanent fund TFBP shares are sold. An example of this is the shares sold to finance the Big Sky economic development fund transfer in FY 2005. About 186,000 shares were sold for a capital gain of $0.86 million. The capital gain occurred because the TFBP share price at the time of sale was more than the average price paid for TFBP shares in the permanent fund. No capital gains are forecast for FY 2013 through FY 2015.

Other income is derived primarily from the following two sources: 1) Interest earned on a bond fund that provides debt security for coal severance tax bonds; 2) Interest earned on the short-term investment of the coal tax income fund, which comes from the deposit of interest earnings from both the permanent fund and the bond fund into the coal tax income fund. Although this income fund balance is swept monthly into the general fund, it is invested in STIP during the interim. The income from this investment is returned to the income fund before being deposited into the general fund. These two combined sources of revenue are forecast using the average for FY 2010 through FY 2012.

The administrative expenses are forecast to remain at their FY 2012 levels for FY 2013 through FY 2015.

Data Sources

The State Street Bank and BOI provide monthly reports on the trust fund balances and income. Fiscal year end revenues and administrative expenses were obtained from SABHRS.

Treasury Cash Account (TCA) Interest

2015 Biennium

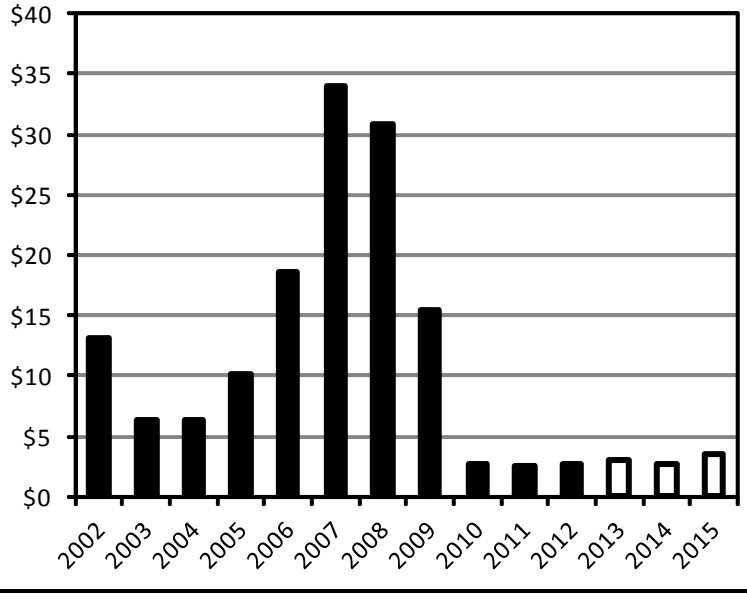
Revenue Description

The treasury cash account (TCA) contains general fund cash balances and cash balances from several other funds invested by the Board of Investments (BOI), whose interest earnings are deposited into the general fund. In some years, the state borrows money to maintain a positive balance in the general fund by issuing tax or revenue anticipation notes (TRANS). TRANS are short-term bonds that are repaid in the same fiscal year that they are issued. Issuing TRANS increases the average balance in the TCA and, therefore, increases the interest earned on the account. However, the state pays interest on the TRANS. TRANS have not been issued since FY 2004 and are not anticipated for the forecast period.

Table 1 shows actual revenue generated from TCA interest for FY 2002 though FY 2012 and projected revenues for FY 2013 through FY 2015.

Table 1
Treasury Cash Account Interest
($ millions)

Fiscal Year	General Fund	Percent Change
A 2002	$13.192	-38.73%
A 2003	$6.366	-51.74%
A 2004	$6.393	0.42%
A 2005	$10.068	57.49%
A 2006	$18.631	85.05%
A 2007	$33.951	82.23%
A 2008	$30.783	-9.33%
A 2009	$15.507	-49.62%
A 2010	$2.692	-82.64%
A 2011	$2.519	-6.44%
A 2012	$2.653	5.31%
F 2013	**$2.956**	**11.46%**
F 2014	**$2.693**	**-8.90%**
F 2015	**$3.574**	**32.70%**



In FY 2003 and FY 2004, short-term interest rates were very low and TCA interest earnings fell below $6.4 million per year. Interest earnings increased in FY 2005 through FY 2007 due to increased balances and higher short-term interest rates. Both the average balance and short-term interest rates declined between FY 2008 and FY 2010, causing interest earnings to decline. Short-term interest rates are not expected to begin increasing until the end of FY 2014.

Risks and Significant Factors

- Short-term and medium-term interest rates can be very volatile, and continued volatility could affect TCA revenues.
- The average fund balance in FY 2007 and FY 2008 was much higher than anticipated. If the average balance differs significantly, then the actual revenue may also differ from the estimate. If total state revenue is lower than expected, or if expenditures are greater than anticipated, then the TCA balance will likely be lower than anticipated in this estimate.

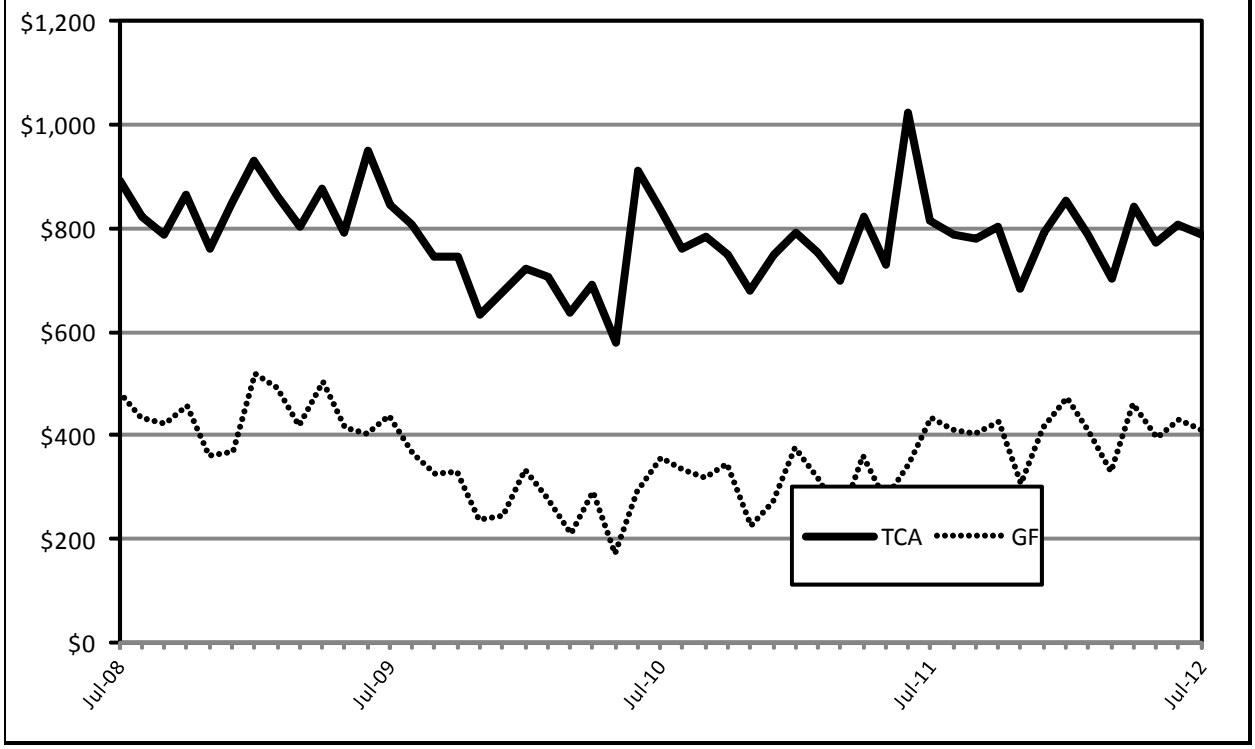
Forecast Methodology

There are two steps used to calculate TCA earnings:

Step 1. Determine the average balance. The average general fund balance is projected to slowly decrease during the forecast period using executive budget recommendations of ending fund balance.

Graph 1 shows the monthly balance for TCA and the average general fund balance from the beginning of FY 2008 to the end of FY 2012.

Graph 1
Average TCA and General Fund Balance
($ millions)



Although there are many funds contributing to the TCA balance, the general fund is the largest source of the account.

Table 2 shows the annual average historical or forecast balances of the general fund and the TCA and the general fund percentage of the total.

Table 2
General Fund and TCA Balances
($ millions)

Fiscal Year	General Fund	TCA	GF Percent
A 2008	$379.713	$750.831	50.57%
A 2009	$440.334	$849.272	51.85%
A 2010	$293.291	$725.340	40.43%
A 2011	$314.332	$781.875	40.20%
A 2012	$408.331	$785.344	51.99%
F 2013	**$363.390**	**$739.325**	**49.15%**
F 2014	**$340.678**	**$716.068**	**47.58%**
F 2015	**$317.966**	**$692.811**	**45.90%**

Step 2. Determine the appropriate rate of return and calculate the income. TCA balances are invested in overnight repurchase agreements, the short-term investment pool (STIP), and medium-term bonds. Table 3 shows the average balance, rate of return, and income for these investments from FY 2010 to FY 2012, and forecast values for FY 2013 through FY 2015.

Table 3
TCA Rates of Return by Investment Type
($ millions)

	Cash				STIP		
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 2010	$52.50	0.24%	$0.13	A 2010	$610.15	0.34%	$2.10
A 2011	$44.10	0.30%	$0.13	A 2011	$689.57	0.29%	$1.99
A 2012	$14.25	0.03%	$0.00	A 2012	$828.31	0.29%	$2.41
F 2013	**$4.30**	**0.14%**	**$0.01**	**F 2013**	**$750.11**	**0.30%**	**$2.24**
F 2014	**$4.30**	**0.16%**	**$0.01**	**F 2014**	**$677.23**	**0.29%**	**$1.98**
F 2015	**$4.30**	**0.19%**	**$0.01**	**F 2015**	**$653.97**	**0.44%**	**$2.86**

	Medium Term Bonds				Total		
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 2010	$62.69	2.62%	$0.42	A 2010	$725.34	0.37%	$2.65
A 2011	$48.20	2.03%	$0.37	A 2011	$781.88	0.32%	$2.49
A 2012	$38.43	2.04%	$0.22	A 2012	$880.99	0.30%	$2.63
F 2013	**$34.54**	**2.14%**	**$0.74**	**F 2013**	**$788.95**	**0.38%**	**$2.99**
F 2014	**$34.54**	**2.14%**	**$0.74**	**F 2014**	**$716.07**	**0.38%**	**$2.72**
F 2015	**$34.54**	**2.14%**	**$0.74**	**F 2015**	**$692.81**	**0.52%**	**$3.60**

The majority of the overall TCA fund balance has been invested in STIP. Changes to the total fund balance will result in changes to the portion invested in STIP. Cash balances fluctuate immensely on a monthly basis but have been declining significantly in recent years.

The STIP rate of return can vary for different investments, and differs from that found in the *Interest Rate Introduction* section. In this case, the rate has hovered around .3% over the past three years and is assumed to remain there until late in FY 2015. The interest rate on cash invested in overnight repurchase agreements is generally the effective federal funds rate. IHS Global Insight forecasts the federal funds rate which is used as the cash investment interest rate.

The medium-term interest rates are calculated by first determining the maturity dates of the bonds then assuming new investments will earn a rate of return equal to what IHS Global Insight has forecast for investments of similar risk and maturity and calculate an overall rate of return. Since FY 2010, the rate of return has been below average, and this trend is expected to continue through FY 2014.

Step 3. Calculate general fund TCA earnings and deduct administrative expenses. Table 4 shows the administrative expenses from FY 2010 to FY 2012 and estimated values for FY 2013 through FY 2015.

Table 4
Net TCA Income
($ millions)

Fiscal Year	Gross Income		Expenses		Net Income
A 2010	$2.65	+	($0.04)	=	$2.69
A 2011	$2.49	+	($0.03)	=	$2.52
A 2012	$2.63	+	($0.02)	=	$2.65
F 2013	**$2.99**	+	**($0.03)**	=	**$2.96**
F 2014	**$2.72**	+	**($0.03)**	=	**$2.69**
F 2015	**$3.60**	+	**($0.03)**	=	**$3.57**

Expenses are projected using the average for FY 2010 through FY 2012.

Data Sources

Fiscal year end revenues are from SABHRS. The State Street Bank and BOI provide monthly reports on TCA investment earnings and balances. Forecast rates of return are from IHS Global Insight's U.S. Economic Outlook. General fund balances were provided by the Department of Administration.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

ALCOHOL REVENUE
SECTION 6

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Liquor Excise and License Tax

2015 Biennium

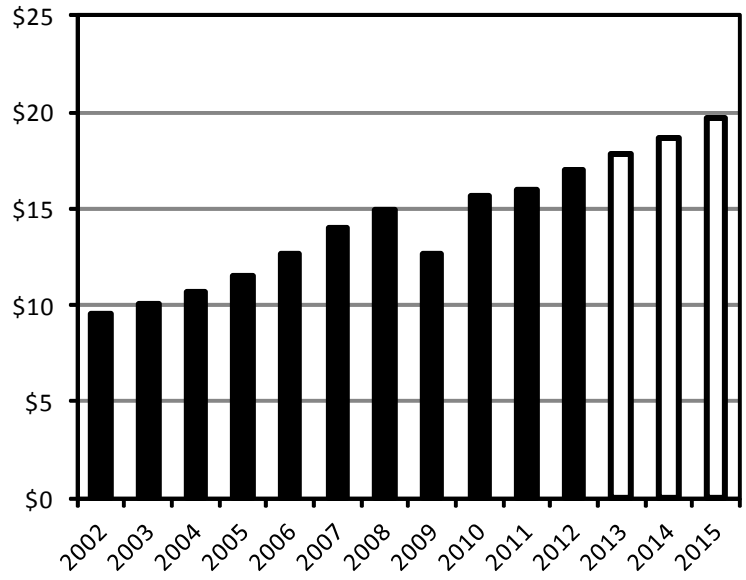
Revenue Description

According to 16-1-401 and 16-1-404, MCA, the Department of Revenue is directed to collect an ***excise*** tax of 16% and a ***license*** tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. Currently, the majority of the distilled spirits sold in the State of Montana are acquired from vendors that produce more than 200,000 proof gallons annually.

Section 16-1-404, MCA, states that 65.5% of the liquor ***license*** tax is deposited to the Department of Public Health and Human Services (DPHHS) to fund treatment, rehabilitation, and prevention of alcoholism and chemical dependency. Three Indian tribes have an agreement with the state, and a portion of the remaining revenue from both the excise and license tax is shared with tribes that have a revenue sharing agreement with the state. The remaining revenue is deposited to the general fund.

Table 1
Liquor Excise and License Taxes
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$9.514	29.56%
A	2003	$10.042	5.56%
A	2004	$10.718	6.73%
A	2005	$11.468	7.00%
A	2006	$12.709	10.82%
A	2007	$13.982	10.01%
A	2008	$14.925	6.75%
A	2009	$12.651	-15.24%
A	2010	$15.626	23.52%
A	2011	$15.989	2.33%
A	2012	$17.037	6.55%
F	**2013**	**$17.871**	**4.89%**
F	**2014**	**$18.706**	**4.67%**
F	**2015**	**$19.722**	**5.43%**



Risk and Significant Factors

- Liquor bottles sold experienced an average annual increase of 3.49% between FY 2008 and FY 2012.
- Cost per liquor bottle sold experienced an average annual increase of 0.66% between FY 2008 and FY 2012.
- The Fort Peck, Fort Belknap, and Blackfeet Indian Reservations have a revenue sharing agreement with the state. The revenue sharing agreement distributes revenues to the tribes based on the per capita general fund revenue multiplied by the number of enrolled tribal members. Tribal revenue is estimated to be 1.97% of the non-DPHHS liquor revenue for FY 2013 through FY 2015.

Forecast Methodology

The general fund share of the liquor excise and license tax is prepared in five steps:

Step 1. Calculate gross sales.

Step 2. Calculate retail selling value.

Step 3. Calculate gross liquor excise and license tax collections.

Step 4. Calculate tribal portion of revenue.

Step 5. Calculate liquor excise and license tax general fund revenue.

Distribution

Table 2 shows liquor license tax is first distributed to DPHHS, and then revenue from the liquor excise tax is added. Finally, tribal revenues are subtracted to obtain general fund revenue.

Table 2
Liquor Excise and License Tax Revenue Allocation

Description	Actual FY 2012	Projected FY 2013	Projected FY 2014	Projected FY 2015
Liquor License Tax	$8,931,554	$9,368,456	$9,806,154	$10,338,887
Less DPHHS Share (65.5%)	$5,850,168	$6,136,338	$6,423,031	$6,771,971
	$3,081,386	$3,232,117	$3,383,123	$3,566,916
Liquor Excise Tax	$14,290,765	$14,990,334	$15,690,688	$16,543,108
Non DPHHS Liquor Tax Revenue	$17,372,151	$18,222,451	$19,073,812	$20,110,024
Less Tribal Share (1.97%)	$335,116	$351,516	$367,939	$387,928
General Fund Revenue	**$17,037,035**	**$17,870,935**	**$18,705,873**	**$19,722,096**

Data Sources

Data is from the Department of Revenue monthly cost of sales report, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS.

Liquor Profits

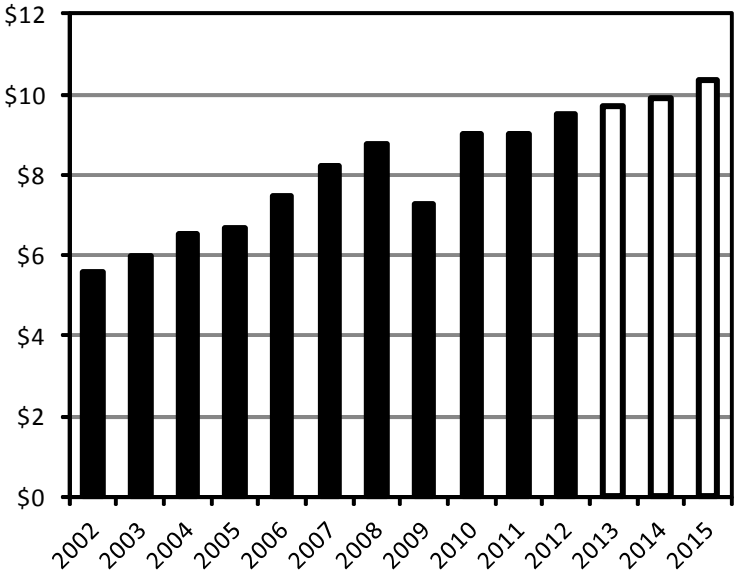
2015 Biennium

Revenue Description

Title 16, chapters 1 through 6, MCA, directs the Department of Revenue to administer liquor laws relating to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers. Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit net revenue is transferred to the general fund at fiscal year end.

Table 1
Liquor Profits
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$5.600	-5.08%
A	2003	$6.000	7.14%
A	2004	$6.500	8.33%
A	2005	$6.650	2.31%
A	2006	$7.450	12.03%
A	2007	$8.200	10.07%
A	2008	$8.775	7.01%
A	2009	$7.250	-17.38%
A	2010	$9.000	24.14%
A	2011	$9.000	0.00%
A	2012	$9.500	5.56%
F	**2013**	**$9.715**	**2.27%**
F	**2014**	**$9.913**	**2.04%**
F	**2015**	**$10.372**	**4.63%**



The state privatized liquor retailing operations in FY 1996. Liquor profit transfers to the general fund have gradually increased since that time. The decreased general fund transfer in FY 2009 is attributable to a one-time transfer of $1.75 million for renovation of the State Liquor Warehouse, approved in HB 5 by the 2009 Legislature.

Risks and Significant Factors

- Liquor gross sales have experienced an average annual increase of 6.18% between 2002 and 2012.
- Sale commissions and discounts are paid to liquor store owners by the State of Montana in the form of a reduction to their purchases. The main commission rates were determined by a bidding process for stores in communities with populations over 3,000 and a proposal process for store in communities of population under 3,000 when privatization occurred in 1996, and varies among store owners. In compliance with the law, the commission rates are reviewed and adjusted up to average every three years. In FY 2008, the average commission rates increased to 9.40% (from 9.15%) for FY 2008 through FY 2010. In FY 2011, the average commission rates increased to 9.5% (from 9.40%) for FY 2011 through FY 2013. Commission rates will be reviewed again in FY 2013 with an expected average rate of 9.75% which will be effective FY 2014.
- In addition to the commission rates, HB 348 (2001 session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. Stores above $500,000 in sales are awarded an additional .875% and stores below $500,000 in sales are awarded an additional 1.5%. In 2007, the $500,000 cut-off was adjusted based on legislative action to $560,000 and requires an inflation factor for subsequent years. This commission is referred to as the "sales volume discount" and is adjusted every fiscal year.

Forecast Methodology

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year.

Step 1. Net income from liquor operations is calculated as gross liquor sales *less* the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), commissions, discounts, and liquor operating expenses.

Step 2. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are ascertained through the process of forecasting *Liquor Excise and License Tax General Fund Revenue*.

Table 2 summarizes the calculations of commissions, discounts, operating expenses, and profits.

Distributions

Table 2 shows the actual liquor profit transfer for FY 2012 and projections for FY 2013 through FY 2015. Gross liquor sales are added to a small amount of other revenue. The profits are then adjusted for the changes to the net assets of the Liquor Control Division, and the remainder is transferred to the general fund.

Table 2
Distribution of Forecast Liquor Profits
($ millions)

Fiscal Year	Gross Sales		License Fees/Other Revenue		Commissions		Discounts		Cost of Goods Sold		Liquor Taxes		Operating Expenses		Profit		Change in Net Assets		Transfer to Genral Fund	Percent Change
A 2012	$113.424	+	$0.831	-	$10.797	-	$3.216	-	$63.924	-	$23.232	-	$2.754	►	$10.332	-	$0.832	=	$9.500	5.56%
F 2013	**$118.876**	**+**	**$0.744**	**-**	**$11.412**	**-**	**$3.390**	**-**	**$66.991**	**-**	**$24.369**	**-**	**$2.891**	**►**	**$10.566**	**-**	**$0.851**	**=**	**$9.715**	**2.27%**
F 2014	**$124.430**	**+**	**$0.696**	**-**	**$12.132**	**-**	**$3.549**	**-**	**$70.121**	**-**	**$25.507**	**-**	**$3.036**	**►**	**$10.782**	**-**	**$0.868**	**=**	**$9.913**	**2.04%**
F 2015	**$131.190**	**+**	**$0.633**	**-**	**$12.791**	**-**	**$3.741**	**-**	**$73.930**	**-**	**$26.892**	**-**	**$3.188**	**►**	**$11.281**	**-**	**$0.909**	**=**	**$10.372**	**4.63%**

Data Sources

Gross liquor sales data and other related data comes from the Department of Revenue Liquor Services Division Annual Financial Report. Other data is from SABHRS and MBARS.

Beer Tax

Revenue Description

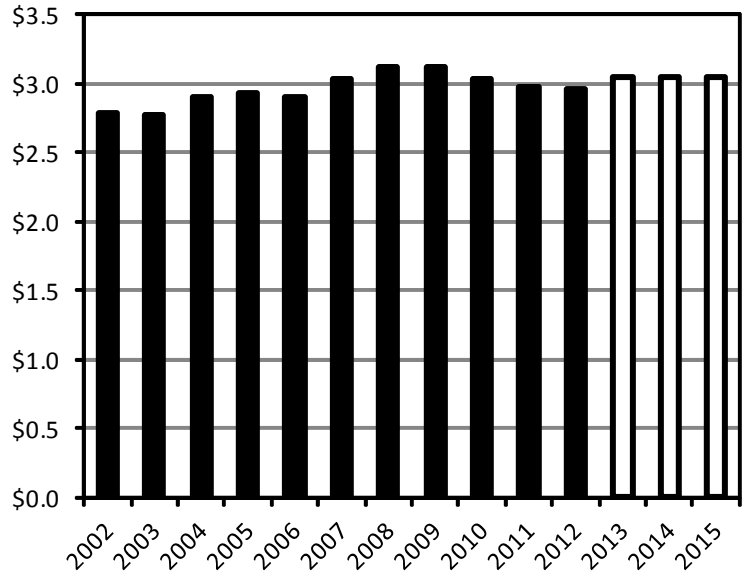
According to 16-1-406, MCA, the Department of Revenue is directed to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rates:

Barrels Produced by a Brewer	Tax Rate Per Barrel
Less than or equal to 5,000	$1.30
5,001 to 10,000	$2.30
10,001 to 20,000	$3.30
Greater than 20,000	$4.30

From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services (DPHHS) to fund alcohol treatment programs. A small portion of the beer tax revenue allocated to the general fund (approximately 2.0%) is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.

Table 1
Beer Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2002	$2.784	623.79%
A 2003	$2.771	-0.45%
A 2004	$2.897	4.52%
A 2005	$2.937	1.38%
A 2006	$2.908	-0.99%
A 2007	$3.034	4.35%
A 2008	$3.124	2.97%
A 2009	$3.115	-0.30%
A 2010	$3.032	-2.66%
A 2011	$2.982	-1.65%
A 2012	$2.956	-0.86%
F 2013	**$3.046**	**3.05%**
F 2014	**$3.047**	**0.03%**
F 2015	**$3.047**	**0.00%**



The significant increase in general fund beer tax revenue in FY 2002 is due to HB 124 (2001 session), which raised the general fund share of beer tax revenue from 11.63% to 76.74%.

Risks and Significant Factors

- Per capita beer consumption decreased at an annual average of -0.67% between FY 2008 and FY 2012.
- The average tax rate per barrel decreased at an annual average of -0.31% between FY 2008 and FY 2012, due to an increased proportion of total barrel production by brewers producing less than 20,000 barrels annually, which are taxed at a lower rate.
- Montana population age 20 and over experienced an average annual increase of 1.10% between FY 2008 and FY 2012.

- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total beer consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.
- Tribal revenue is estimated to be 2.04% of the non DPHHS liquor revenue for FY 2013 through FY 2015.

Forecast Methodology

The general fund share of the beer tax is prepared in three steps:

Step 1. Calculate per capita consumption of beer.

Step 2. Total revenue is projected by multiplying the number of barrels sold by the average tax rate per barrel.

Step 3. Total revenue is allocated to the general fund, DPHHS, and the tribes, per the revenue sharing agreements.

Distribution

Table 2 shows the actual allocation for FY 2012 and the projected allocation of beer tax revenue to the general fund, DPHHS, and the tribes for FY 2013 through FY 2015. DPHHS revenue allocation is subtracted from total beer tax revenue to obtain total general fund and tribe share. Tribe share is then calculated and subtracted to obtain estimated beer tax revenue for the general fund.

Table 2
Beer Tax Revenue Allocation
($ Millions)

Description	FY 2012	FY 2013	FY 2014	FY 2015
Total Revenue	$ 3.935	$ 4.052	$ 4.053	$ 4.053
Less DPHHS Share (23.26%)	$ 0.915	$ 0.943	$ 0.943	$ 0.943
General Fund and Tribes' Share	$ 3.020	$ 3.110	$ 3.110	$ 3.110
Less Tribes' Share (2.04%)	$ 0.063	$ 0.063	$ 0.063	$ 0.063
General Fund*	**$ 2.956**	**$ 3.046**	**$ 3.047**	**$ 3.047**

*FY 2012 and FY 2013 Differences are due to rounding

Data Sources

Department of Revenue GENTAX reports provided historical information on the number of total production by producer type. SABHRS provided historical beer tax revenue and allocation information. IHS Global Insight provided historical and projected Montana population data.

Wine Tax

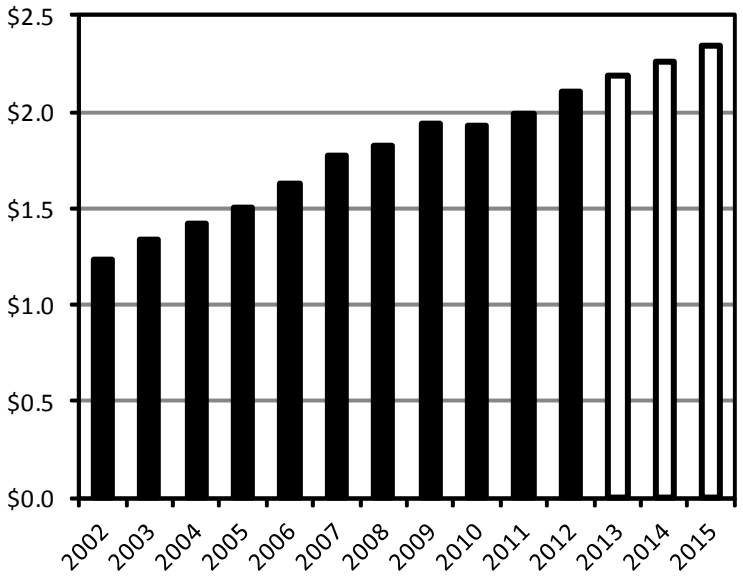
Revenue Description

According to 16-1-411, MCA, the Department of Revenue is directed to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent, pursuant to 16-2-301, MCA.

Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services (DPHHS) for the treatment, rehabilitation, and prevention of alcoholism and chemical dependency. Approximately 2% of the wine tax revenue allocated to the general fund is remitted to the Blackfeet, Fort Peck, and Fort Belknap Reservations in compliance with revenue sharing agreements with the tribes.

Table 1
Wine Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2002	$1.232	19.27%
A 2003	$1.340	8.76%
A 2004	$1.423	6.24%
A 2005	$1.503	5.56%
A 2006	$1.624	8.08%
A 2007	$1.775	9.29%
A 2008	$1.829	3.07%
A 2009	$1.936	5.84%
A 2010	$1.933	-0.17%
A 2011	$1.994	3.16%
A 2012	$2.104	5.55%
F 2013	**$2.184**	**3.81%**
F 2014	**$2.264**	**3.64%**
F 2015	**$2.346**	**3.61%**



FY 2002 wine tax revenue increased 19.27% due to HB 124 (2001 session), which increased the general fund share of wine tax revenue from 59% to 69%. This forecast projects the per capita consumption of wine in Montana will increase at an annual rate of 0.41 liters per person between FY 2013 and FY 2015.

Risks and Significant Factors

- Per capita consumption experienced an average annual increase of 2.6% between FY 2009 and FY 2012.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total wine consumption over time better than changes in other age demographics such as total population or the population between 30 and 60 years old.
- Montana population age 20 and over experienced an average annual increase of 1.0% between FY 2009 and FY 2012.

Forecast Methodology

The general fund share of the wine tax is prepared in three steps:

Step 1. Estimate liters of per capita wine consumption for FY 2013 through FY 2015 using average per capita consumption growth from FY 2009 through FY 2012.

Step 2. Multiply the estimates of per capita consumption by population and the tax rate ($0.27/liter) to obtain estimates of total tax revenue through FY 2015.

Step 3. Determine the wine tax allocation to the general fund.

Distribution

Table 2 shows the actual allocation for FY 2012 and the projected allocation for FY 2013 through FY 2015. Of the total revenue, 31% is first distributed to the DPHHS. The tribal revenue allocation payment (1.98%) is then subtracted from the remaining revenue for FY 2013 through FY 2015. All revenue which remains after DPHHS and tribal payments have been subtracted is deposited to the general fund.

Table 2
Wine Tax Revenue Allocation
($ millions)

Description	FY 2012	FY 2013	FY 2014	FY 2015
Total Revenue	$3.109	$3.229	$3.346	$3.467
Less DPHHS Share (31%)	$0.963	$1.001	$1.037	$1.075
General Fund and Tribes' Share	$2.146	$2.228	$2.309	$2.392
Less Tribes' Share (1.98%)	$0.042	$0.043	$0.045	$0.046
General Fund*	**$2.104**	**$2.184**	**$2.264**	**$2.346**

*FY 2013 Difference due to rounding

Data Sources

Department of Revenue GEN TAX reports provided historical information on the number of wine liters sold. SABHRS provided historical wine tax revenue and allocation information. IHS Global Insight Research Service provided historical and projected Montana population data.

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TOBACCO REVENUE
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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Cigarette Tax

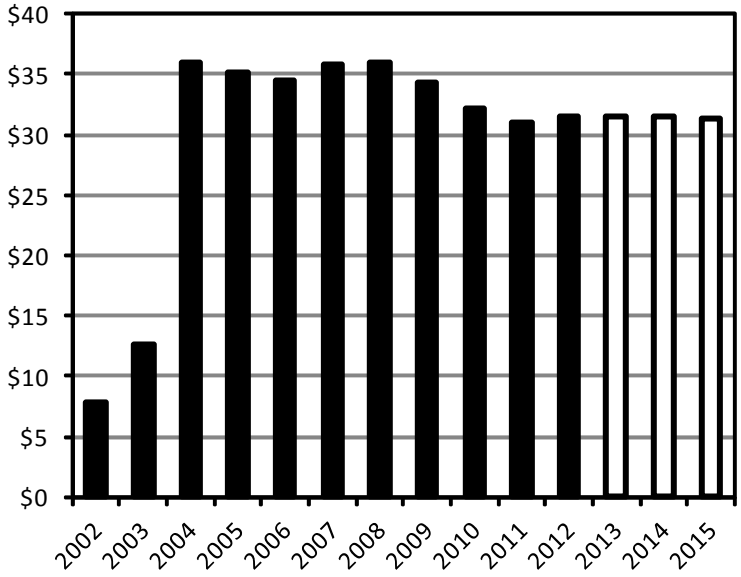
2015 Biennium

Revenue Description

According to 16-11-111, MCA, a specific tax of $1.70 is imposed on each pack of 20 cigarettes. If a pack contains more than 20 cigarettes, the tax is pro-rated by 1/20th of the $1.70 tax for each cigarette exceeding 20 cigarettes. Currently, revenue generated from the cigarette tax is distributed as follows: 43.9% to the general fund (through FY 2015); 44.0% to the health and Medicaid initiatives account; 2.6% to the long-range building account; the greater of 8.3% or $2 million for operation of state veterans' nursing homes; and 1.2% to the SW Montana Veterans Home account (through FY 2015).

Table 1
Cigarette Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$7.887	-4.80%
A	2003	$12.576	59.46%
A	2004	$36.002	186.26%
A	2005	$35.117	-2.46%
A	2006	$34.573	-1.55%
A	2007	$35.830	3.64%
A	2008	$36.004	0.49%
A	2009	$34.320	-4.68%
A	2010	$32.218	-6.13%
A	2011	$30.992	-3.81%
A	2012	$31.483	1.59%
F	**2013**	**$31.522**	**0.13%**
F	**2014**	**$31.472**	**-0.16%**
F	**2015**	**$31.418**	**-0.17%**



Beginning May 1, 2003, SB 407 (2003 session) increased the tax on cigarettes from $0.18 to $0.70 per pack. SB 407 also changed the distribution of cigarette taxes, increasing the general fund portion to 87.40%, the long-range building account to 4.3%, and the DPHHS portion to the greater of 8.3% or $2.0 million. The tax increase under SB 407 explains the FY 2003 and FY 2004 increase in cigarette tax revenue shown in Table 1.

Initiative 149 (I-149) further increased the tax on each pack of cigarettes to $1.70 as of January 1, 2005. I-149 also changed the allocation of total collections as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiatives account; 2.6% to the long-range building account; and the greater of 8.3% or $2 million for operation of state veterans' nursing homes.

For FY 2010 through FY 2015, 1.2% of the general fund portion is designated for the Southwest Montana Veterans' Home, reducing the general fund portion to 43.9%. In FY 2016, the general fund distribution returns to 45.1%.

Risks and Significant Factors

- Per capita consumption has experienced an average annual decrease of 2.67% between FY 2008 and FY 2012; however, consumption increased 0.32% in FY 2012.
- Montana population age 15 and over, which experienced an average annual increase of 0.91% between FY 2008 and FY 2012, was used for this forecast because, according to statistical analysis, this demographic tracked total cigarette consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.

- Although national trends indicate an overall downward trend for cigarette consumption, the rate at which consumption declines is also declining. According to the Center for Disease Control, the national prevalence of cigarette smoking has resumed a slow decline after stalling for several years. This model assumes a 1% annual decrease in per capita consumption during the forecast period.
- There are three types of arrangements for cigarette taxes with the seven Indian reservations in Montana:
  1. Currently, no Indian reservations have a tax-free quota agreement with the state.
  2. The Flathead Reservation abides by the tax-free quota law with no specific agreement with the state.
  3. The Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, Crow, and Northern Cheyenne Reservations have a revenue sharing agreement with the state.
- Tribes in categories 1 and 2 receive cigarettes tax free for the enrolled tribal members residing on the reservation. Under the revenue sharing agreements, the tribe and state cigarette tax rates are the same. The tribe's share of the tax revenue is 150% of the per capita cigarette tax collected for each of the tribes' enrolled members residing on the reservation.

Forecast Methodology

The general fund share of the cigarette tax is prepared in four steps:

Step 1. Estimate taxable per capita cigarette consumption.

Step 2. Estimate cigarette tax revenue.

Step 3. Calculate tribal revenue sharing agreement payments.

Step 4. Calculate distributable state cigarette tax revenue and allocation.

Distributions

Table 2 shows the actual allocation for FY 2012 and projected state cigarette tax revenue/allocation for FY 2013 through FY 2015. The tribes' revenue allocations are subtracted from the gross cigarette tax revenue to yield total state cigarette tax revenue. Revenue is allocated to each fund by multiplying state cigarette tax revenue by the fund's share.

Table 2
Distribution of Cigarette Tax Revenue
($ million)

Calculation	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Gross Cigarette Tax Revenue	$75.533	$75.944	$75.821	$75.692
Subtract Tribal Payments	$3.818	$4.139	$4.132	$4.125
Total Distributable State Cigarette Tax Revenue	$71.715	$71.805	$71.689	$71.567
Allocation				
Health and Medicaid (44.0%)	$31.555	$31.594	$31.543	$31.489
Long Range Building Fund (2.6%)	$1.865	$1.867	$1.864	$1.861
State Veterans' Nursing Homes (8.3%)	$5.952	$5.960	$5.950	$5.940
SW Veteran's Home (1.2% through FY 2015)	$0.861	$0.862	$0.860	$0.859
General Fund (43.9% through FY 2015)	**$31.483**	**$31.522**	**$31.472**	**$31.418**

Data Sources

Department of Revenue GEN TAX reports provided historical information on the number of cigarette packs sold. The general fund revenue data was obtained from SABHRS. Current tribal payments are provided by DOR Revenue Sharing Agreement Quarterly Reports. Population data forecasts are provided by IHS Global Insight.

Tobacco Products Tax

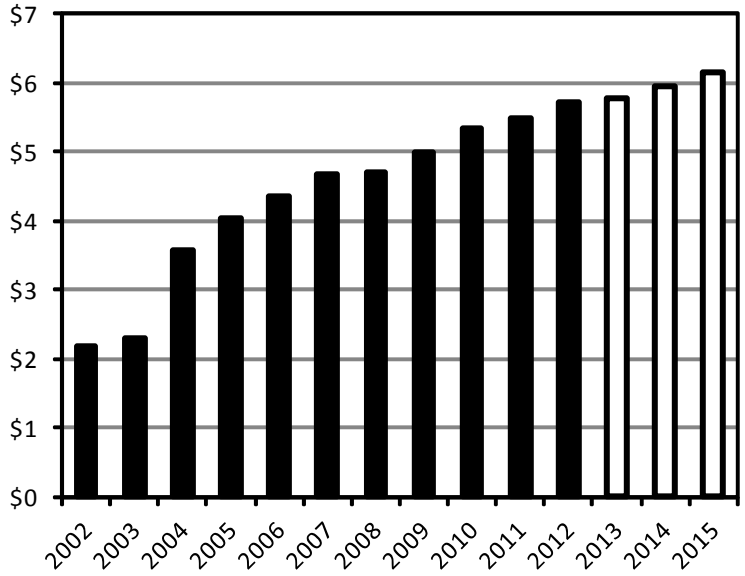
2015 Biennium

Revenue Description

According to 16-11-111, MCA, the Department of Revenue (DOR) is directed to collect a tax of 85 cents per ounce of moist snuff and 50% of the wholesale price of all other tobacco products (OTP), excluding cigarettes. Tobacco products destined for retail sale and consumption outside Montana are not subject to this tax. The general fund and the health and Medicaid initiatives account each receive 50% of the tobacco products tax revenue after payments are made as per tribal revenue sharing agreements.

Table 1
Tobacco Products Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$2.183	6.58%
A	2003	$2.305	5.58%
A	2004	$3.562	54.55%
A	2005	$4.024	12.98%
A	2006	$4.360	8.35%
A	2007	$4.670	7.10%
A	2008	$4.699	0.63%
A	2009	$4.990	6.21%
A	2010	$5.334	6.89%
A	2011	$5.477	2.68%
A	2012	$5.709	4.24%
F	**2013**	**$5.774**	**1.14%**
F	**2014**	**$5.960**	**3.22%**
F	**2015**	**$6.154**	**3.25%**



In FY 2004, there was a 54.5% increase in tobacco tax revenue due to SB 407 (2003 session). On May 1, 2003, SB 407 changed the tax on moist snuff from 12.5% of the wholesale price to 35 cents per ounce, an effective increase of 7 cents per ounce. SB 407 also increased the tax on all other tobacco from 12.5% of the wholesale price to 25% of the wholesale price.

On January 1, 2005, Initiative 149 (I-149) changed the tax on moist snuff to 85 cents per ounce and increased the tax on all other tobacco products to 50% of the wholesale price. This tax increase explains the increase in total tobacco tax revenue in FY 2005 and FY 2006.

Risks and Significant Factors

- Montana population age 15 and over has experienced an average annual increase of 0.81% between FY 2009 and FY 2012. This demographic was used for this forecast because, according to statistical analysis, this demographic tracked total tobacco consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.
- Moist snuff per capita consumption has experienced an average annual increase of 3.56% from FY 2009 to FY 2012. Per capita OTP consumption is projected to decrease 0.98% per year.
- The excise tax on tobacco products is imposed on retail consumers, but the tax is collected by wholesalers. In accordance with 16-11-112, MCA, wholesalers are allowed a discount equal to 1.5% of total tax collections to defray collection and administrative costs.

- Tobacco product sellers can obtain a refund credit for tobacco products that could not be sold due to defect. The average percentage of defective product credits of total collections in FY 2009 through FY 2012 was 1.17% and is used to forecast refund credits for FY 2013 through FY 2015.
- Six Indian reservations in Montana have a tobacco revenue sharing agreement with the state: Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, Crow, and Northern Cheyenne Reservations. Under the revenue sharing agreements, the tribe tobacco tax and the state tobacco tax are the same. The tribe's share of the tax revenue is 150% of the per capita state tobacco tax collected for each of the tribes' enrolled members residing on the reservation.

Forecast Methodology

The tobacco tax revenue is comprised of two taxes: (1) moist snuff tax of 85 cents per ounce; and (2) other tobacco products tax of 50% of the wholesale price. The six steps in estimating tobacco tax revenues are:

Step 1: Estimate per capita moist snuff consumption and the per capita consumption of other tobacco products.

Step 2: Estimate projected gross tobacco tax revenue by multiplying the per capita consumption times the population over 15 times the tax rate.

Step 3: Calculate wholesaler discounts at 1.5% of total tobacco tax revenue.

Step 4: Calculate refunds for unsalable product.

Step 5: Calculate tribes' revenue allocation.

Step 6: Calculate state tobacco tax revenue and allocation.

Distribution

Wholesaler discounts and refund credits are subtracted from total tobacco tax revenue and tribal allocation payments are subtracted from net revenue to determine total state other tobacco tax revenue. Fifty percent of the state tobacco tax revenue goes to the general fund and 50% goes to the health and Medicaid initiatives account.

Table 2
Distribution of Tobacco Products Tax
($ million)

Calculation	FY 2012	FY 2013	FY 2014	FY 2015
Total Tobacco Tax Revenue	$12.332	$12.550	$12.954	$13.375
Subtract Discounts/Refund Credits	$0.308	$0.335	$0.346	$0.357
Subtract Tribal Payments	$0.606	$0.666	$0.687	$0.709
Total State Tobacco Tax Revenue	$11.419	$11.549	$11.921	$12.309
Allocation				
Total to Health and Medicaid (50%)	$5.709	$5.774	$5.960	$6.154
Total to General Fund (50%)	**$5.709**	**$5.774**	**$5.960**	**$6.154**

Data Sources

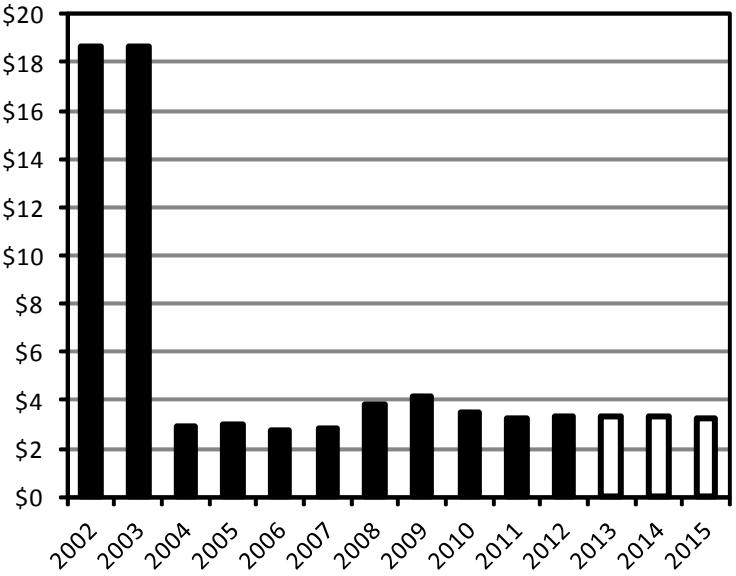
Department of Revenue GEN TAX reports provided historical information on the amount of moist snuff ounces sold and the price of other tobacco products sold. General fund revenue data is from SABHRS. Current tribal payments are provided by DOR Revenue Sharing Agreement Quarterly Reports. Other data provided by DOR includes the amount of discounts and credits applied to distributors of other tobacco products. Population data is provided by IHS Global Insight.

Revenue Description

In 1998, Montana, along with 45 other states, signed a settlement agreement with major tobacco companies. Pursuant to the agreement, Montana will receive approximately $832 million by the year 2025. Payments are made annually beginning in FY 2000. The schedule of payments provided for under the settlement agreement is subject to change depending on adjustment criteria specified in the agreement.

Table 1
Tobacco Settlement
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$18.647	-
A	2003	$18.700	0.28%
A	2004	$2.934	-84.31%
A	2005	$2.978	1.50%
A	2006	$2.734	-8.21%
A	2007	$2.861	4.67%
A	2008	$3.808	33.07%
A	2009	$4.128	8.41%
A	2010	$3.469	-15.97%
A	2011	$3.259	-6.05%
A	2012	$3.322	1.95%
F	**2013**	**$3.314**	**-0.26%**
F	**2014**	**$3.297**	**-0.49%**
F	**2015**	**$3.281**	**-0.48%**



In FY 2008, the base payment paid to states increased from $8 billion to $9 billion. This accounts for the large percentage increase from FY 2007 to FY 2008. However, the forecast payments, when adjusted for inflation, are decreasing or flat because cigarette consumption per capita (nationwide) has slightly decreased. Further, additional adjustments to the annual payments have been made since FY 2005 to compensate for changes in market share among the participating and non-participating manufacturers. These market share adjustments are forecast to continue through FY 2015.

Two major arrangements in the allocation of the tobacco settlement revenue have existed since the first payment was received in FY 2000. First, in November 2000, Montana's electorate passed Constitutional Amendment 35. The amendment required no less than 40% of tobacco settlement revenue to be deposited in a trust fund, with the remaining money deposited in the state general fund. The trust fund was established to provide a permanent source of revenue to fund the costs associated with programs for tobacco disease prevention and healthcare benefits, services, or coverage. The amendment further stated that 90% of the interest income from the trust fund could be appropriated; with 10% of the interest income from the trust fund to be deposited in the trust fund on or after January 1, 2001. The principal of the trust fund and 10% of the interest income was to be deposited in the trust fund and remain forever inviolate unless appropriated by a vote of two-thirds of the members of each house of the Legislature.

Second, in the November 2002 election, Initiative 146 (I-146) was passed. I-146 required the tobacco settlement payments received after June 30, 2003, be deposited as follows: 32% in a state special revenue account for tobacco prevention; 17% in a state special revenue account for health insurance benefits; 40% in the trust fund; and 11% in the state general fund.

Risks and Significant Factors

If Original Participating Manufacturer's (OPMs) and Subsequent Participating Manufacturer's (SPMs) lose market share to Non-Participating Manufacturer's (NPMs), OPMs and SPMs may be entitled to pay less by means of an NPM adjustment. The NPM adjustment is conditional upon two factors: (1) whether there has been a loss in market share by participating manufacturers to NPMs; and (2) whether that loss is attributable to disadvantages resultant from the tobacco settlement.

A specific provision of the Master Settlement Agreement (MSA), referred to as the safe harbor provision, is relevant to this adjustment. Under the safe harbor provision, a state can avoid a payment reduction due to the NPM adjustment if a qualifying statute is enacted and "diligently enforced". The qualifying statute provides for an amount to be paid into an escrow account for each cigarette sold by NPMs in the state that is equivalent to the amount that would have been paid had the NPMs participated in the settlement.

An independent auditor determined that, beginning in 2003, participating manufacturers started losing market share to NPMs. Pursuant to this finding, OPMs and SPMs can pay a portion of their tobacco settlement payments into a disputed payments account (DPA), and have routinely done so beginning in FY 2006. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved.

There are numerous possible outcomes to the dispute over the NPM adjustment. The following is a short list of possible outcomes over this disputed money.

- Litigation/arbitration may extend beyond FY 2015. If this is the case, then it is likely that OPMs and SPMs will continue to place the disputed money in the separate dispute account.
- If it is found that the loss in market share for participating manufacturers was not due to disadvantages resulting from the tobacco settlement, then the monies withheld would likely be distributed to the states immediately.
- If a settlement is reached between the states and the participating manufacturers, payments could be reduced by some amount, the safe harbor statute could be revised, or some combination of the two. The fiscal impacts of such a settlement are unknown because the terms of such a settlement are uncertain.
- It may be found that the loss in market share is due to disadvantages as a result of the tobacco settlement and that every state did not "diligently enforce" their safe harbor statutes. This finding would mean that states would likely face an undetermined reduction to the settlement funds they receive.
- Many possible outcomes exist and it is unknown at this time which scenarios are more likely. However, for purposes of this estimate, it is assumed that the dispute over the NPM adjustment will not be resolved prior to the FY 2013 payment, and that for FY 2013 through FY 2015, the participating manufacturers will continue to withhold NPM adjustment amounts proportional to those withheld in FY 2010 through FY 2012.

Forecast Methodology

The MSA provides for complex methods and formulas to calculate annual payments made by the settling tobacco companies to each state. Several clauses in the tobacco settlement set forth the precise calculations for the adjustments to the payments due from the two categories of settling companies: (1) OPMs and (2) SPMs.

Seven major steps are used to calculate the annual amount due to Montana from tobacco companies which are parties to the MSA. These calculations are completed for both the non-strategic and strategic payments and are summarized in Table 2:

Step 1. The inflation adjustment;

Step 2. The volume adjustment to the base payment;

Step 3. The volume adjustment to the base operating income (This adjustment has not taken place since 2000)

Step 4. Previously settled states' reduction;

Step 5. SPM payments;

Step 6. Montana's share of the total payment; and

Step 7. Adjustments for NPM and other payment disputes.

Table 2
Summary Calculation of Tobacco Settlement Revenue
($ millions)

Description	FY 2012	FY 2013	FY 2014	FY 2015
Non-Strategic Base Payment	$8,139.000	$8,139.000	$8,139.000	$8,139.000
Inflation Adjustment	$4,063.352	$4,429.422	$4,806.475	$5,194.839
Net Volume Adjustment	($5,661.551)	($6,059.916)	($6,468.797)	($6,888.514)
Previously Settled States Reduction	($800.422)	($796.470)	($792.575)	($788.739)
Adjusted OPM Base Payment	**$5,740.379**	**$5,712.035**	**$5,684.102**	**$5,656.586**
Adjusted SPM Base Payment	**$445.389**	**$473.696**	**$471.380**	**$469.098**
Adjustments	$10.775	$6.741	$6.741	$6.741
Sub-total Adjusted Base Payment	$6,196.543	$6,192.473	$6,162.224	$6,132.426
Montana's Percentage	0.4247591%	0.4247591%	0.4247591%	0.4247591%
Total Adjusted Non-Strategic Payment (IX)(c)(1)	**$26.320**	**$26.303**	**$26.175**	**$26.048**
Strategic Base Payment	$861.000	$861.000	$861.000	$861.000
Inflation Adjustment	$429.850	$468.575	$508.462	$549.546
Volume Adjustment	($598.918)	($641.060)	($684.314)	($728.715)
Adjusted OPM Base Payment	**$691.931**	**$688.515**	**$685.148**	**$681.831**
Adjusted SPM Base Payment	**$47.116**	**$50.111**	**$49.866**	**$49.624**
Adjustments	($0.089)	($0.040)	($0.040)	($0.040)
Sub-total Adjusted Base Payment	$738.959	$738.586	$734.974	$731.416
Montana's Percentage	1.0447501%	1.0447501%	1.0447501%	1.0447501%
Total Adjusted Strategic Payment (IX)(c)(2)	**$7.720**	**$7.716**	**$7.679**	**$7.641**
Total MT Payment	**$34.041**	**$34.019**	**$33.853**	**$33.690**
Total of NPM and Other Adjustment	($3.838)	($3.896)	($3.877)	($3.858)
Adjusted MT Payment	**$30.203**	**$30.124**	**$29.977**	**$29.832**

Distributions

Table 3 shows the actual allocation for FY 2012 and the projected distribution of Montana's share of the Tobacco Master Settlement Agreement for FY 2013 through FY 2015.

Table 3
Tobacco Settlement Payment Distributions
($ millions)

	FY 2012	FY 2013	FY 2014	FY 2015
Tobacco Trust Fund (40%)	12.081	12.049	11.991	11.933
Tobacco Prevention Account (32%)	9.665	9.640	9.592	9.546
Health Insurance Benefits Acc. (17%)	5.134	5.121	5.096	5.071
General Fund (11%)	3.322	3.314	3.297	3.281
Total MT Payment	**30.203**	**30.124**	**29.977**	**29.832**

Data Sources

Tobacco Settlement data was obtained from SABHRS, Price Waterhouse Coopers Tobacco Master Litigation Master Settlement website, and the Tobacco Master Settlement Agreement (MSA). Historical inflation data was obtained from the Bureau of Labor Statistics, and forecasted inflation was derived from IHS Global Insight.

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STATE OF MONTANA

SALES REVENUE
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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Telecommunications Excise Tax

2015 Biennium

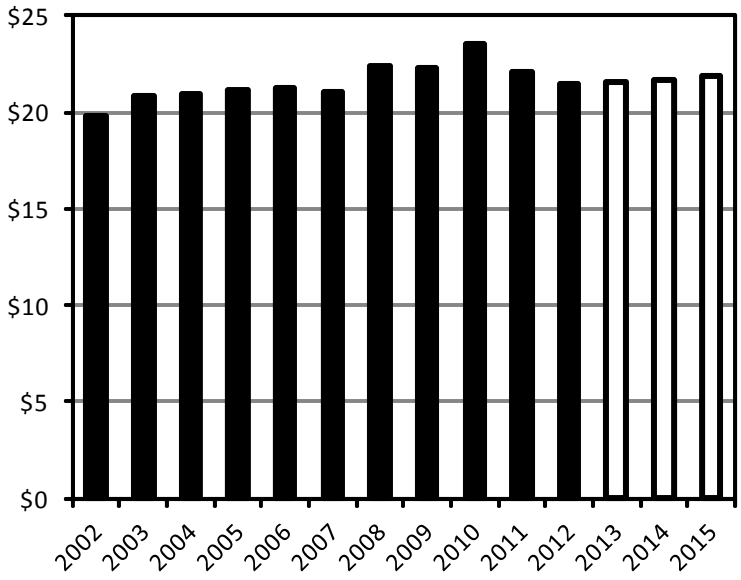
Revenue Description

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 (RTE) collections for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 1
Telecommunications Excise Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
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%
A	2011	$22.050	-6.26%
A	2012	$21.459	-2.68%
F	**2013**	**$21.520**	**0.28%**
F	**2014**	**$21.690**	**0.79%**
F	**2015**	**$21.860**	**0.78%**



Risks and Significant Factors

- The telecommunications excise tax replaced the telephone company license tax on January 1, 2000.
- In the past, audit and penalty collections introduced significant variation in total collections that masked underlying trends. Additionally, there are timing issues with the attribution of audit collections -- FY 2009 audit assessments were not resolved and collected until FY 2010, understating FY 2009 revenue and overstating FY 2010 revenue.
- A recent ruling from the State Tax Appeal Board (STAB) has determined that the RTE tax does not apply to the sale of mobile telecommunications services paid for with prepaid calling cards sold by third party retailers.
- The expiration of the federal Internet Tax Freedom Act, currently scheduled for November 2014, could increase telecommunications excise tax collections – this potential growth is not included in this estimate.
- Continued reduction in wire-line services used by households and businesses could erode this tax base.
- It is assumed that telecommunication tax collections will not keep up with inflation.

Forecast Methodology

Step 1. Calculate the average annual trend growth rate of tax collections before audits. The non-compounding annual growth rate between FY 2004 to FY 2012 was 0.8%. Audit revenues were assumed to remain fixed at rounded FY 2012 levels ($0.150 million).

Step 2. The selected growth rate (0.80%) is used to project total collections through FY 2015 starting from the FY 2012 collections base.

Table 2 illustrates the trends in actual revenue collections for the excise tax, as well as audit and penalty collections for FY 2003 through FY 2012. The forecast of total collections for FY 2013, FY 2014, and FY 2015 is presented with associated audit revenue and the implied growth rate of the tax.

Table 2
Total Collections
($ millions)

	Fiscal Year	Excise Tax		Audits, Penalties & Interest		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%
A	2011	$21.950	+	$0.100	=	$22.050	-6.26%
A	2012	$21.199	+	$0.148	=	$21.347	-3.19%
F	**2013**	**$21.370**	**+**	**$0.150**	**=**	**$21.520**	**0.81%**
F	**2014**	**$21.540**	**+**	**$0.150**	**=**	**$21.690**	**0.79%**
F	**2015**	**$21.710**	**+**	**$0.150**	**=**	**$21.860**	**0.78%**

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 and GENTAX data provided by the Department of Revenue.

Accommodations Tax

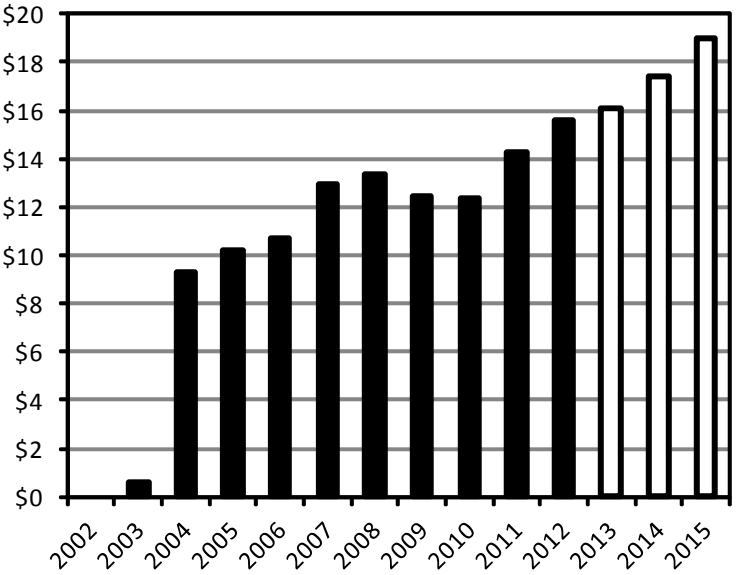
Revenue Description

In accordance with 15-68-102, MCA, a 3% accommodations **sales** tax is levied on all charges for accommodations at lodging facilities and campgrounds in the state. In accordance with 15-65-111, MCA, Montana charges a lodging facility **use** tax of 4% on all accommodations. All revenue from the **sales** tax and a portion of the **use** tax is distributed to the general fund. The majority of the **use** tax is distributed to other funds.

Table 1 shows actual revenue for the accommodations **sales** tax distributed to the general fund for FY 2002 though FY 2012 and forecast values for FY 2013 through FY 2015.

Table 1
Accommodations Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	-	-
A	2003	$0.571	-
A	2004	$9.279	1524.3%
A	2005	$10.201	9.9%
A	2006	$10.679	4.7%
A	2007	$12.916	20.95%
A	2008	$13.390	3.67%
A	2009	$12.477	-6.81%
A	2010	$12.331	-1.18%
A	2011	$14.241	15.49%
A	2012	$15.606	9.59%
F	**2013**	**$16.066**	**2.94%**
F	**2014**	**$17.406**	**8.34%**
F	**2015**	**$18.978**	**9.03%**



The accommodations **sales** tax was enacted in the 2003 session in SB 407 and was only collected for one month in FY 2003. The first full year of collections was FY 2004. As disposable income fell in FY 2009 and FY 2010, both in Montana and in the US, people spent less on accommodations and as a result, tax revenue declined during those years.

Forecast Methodology

There are three steps used when forecasting the accommodations **sales** and **use** taxes:

Step 1. Estimate lodging receipts.

Step 2. Estimate vendor allowances. A 5% vendor allowance is permitted, up to $1,000 for accommodations sales tax.

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

Distribution

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

1. 30% of the use tax revenue generated by state employees goes to the general fund.
2. The Montana heritage preservation and development account receives $400,000.
3. 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. 64.9% to the Department of Commerce for statewide tourism promotion;
    e. 22.5% to regional tourism promotion agencies; and
    f. 2.6% to the Montana historical interpretation state special revenue account.

Table 2 summarizes the actual distribution of the lodging facility **use** tax. HB 111 in the 2011 session changed the allocation of the lodging facility **use** taxes collected from state agencies and formerly redistributed to agencies to now be deposited 30% plus the equivalent of the federal funds paid for this tax to the general fund. The remainder of the funds paid by state agencies for lodging facility **use** taxes is to be distributed to the funds in 15-65-121, MCA.

HB 477 in the 2011 session changed the distribution of the lodging facility **use** tax reducing the amount distributed to the Department of Commerce by 2.6% and allocating 2.6% to Montana Historical Interpretation.

Table 2
Lodging Use Tax Distribution
($ millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
DOR Tax Administration	$0.131	$0.132	$0.136	**$0.137**	**$0.138**	**$0.140**
State Agency Reimbursements	$0.198	$0.216	$0.000	**$0.000**	**$0.000**	**$0.000**
MT Heritage Preservation Society	$0.400	$0.400	$0.400	**$0.400**	**$0.400**	**$0.400**
Montana Historical Society	$0.164	$0.190	$0.217	**$0.234**	**$0.254**	**$0.277**
University System	$0.410	$0.476	$0.541	**$0.584**	**$0.634**	**$0.692**
Fish, Wildlife, & Park	$1.066	$1.237	$1.408	**$1.519**	**$1.648**	**$1.799**
Commerce	$11.072	$12.850	$14.060	**$15.166**	**$16.454**	**$17.965**
Regional Travel Promotion	$3.691	$4.283	$4.873	**$5.258**	**$5.704**	**$6.228**
Montana Historical Interpretation			$0.558	**$0.608**	**$0.659**	**$0.720**
Total Use Tax Revenue	$17.132	$19.785	$22.192	**$23.906**	**$25.891**	**$28.220**

Data Sources

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

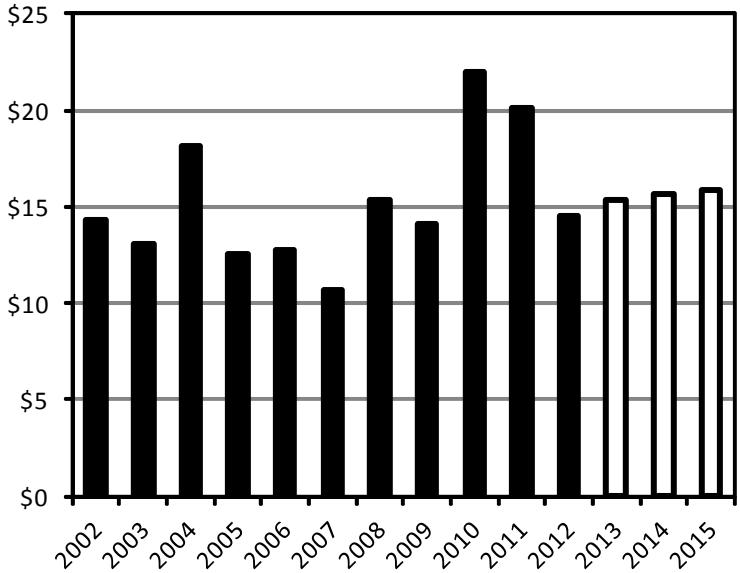
Revenue Description

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. Payments go first to repay MDC and MSH 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 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%
A 2011	$20.158	-8.37%
A 2012	$14.562	-27.76%
F 2013	**$15.347**	**5.40%**
F 2014	**$15.616**	**1.75%**
F 2015	**$15.827**	**1.35%**



Risks and Significant Factors

- DPHHS expects the average daily number of residents at the three state-run facilities to remain relatively steady for FY 2013 through FY 2015.
- The increased revenue received in FY 2010 and FY 2011 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 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 FMAP rates.

Step 2. Estimate the average daily population and the 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 times the number of days.

Step 4. Subtract the institution's debt service payments to derive the general fund revenue.

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

Distributions

Table 2 shows the actual reimbursements for FY 2012 and the projection of general fund revenue from institutional reimbursements in FY 2013 through FY 2015.

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

	Fiscal	----------Reimbursements----------								----------Debt Service----------				General
	Year	MDC		MSH		MMHNCC		Other Receipts		MDC		MSH		Fund
A	2012	$7.144	+	$6.832	+	$3.383	+	$0.020	-	$0.984	-	$1.834	=	$14.562
F	**2013**	**$6.889**	**+**	**$7.815**	**+**	**$3.368**	**+**	**$0.026**	**-**	**$0.968**	**-**	**$1.756**	**=**	**$15.347**
F	**2014**	**$7.120**	**+**	**$7.829**	**+**	**$3.396**	**+**	**$0.026**	**-**	**$0.972**	**-**	**$1.756**	**=**	**$15.616**
F	**2015**	**$7.325**	**+**	**$7.836**	**+**	**$3.394**	**+**	**$0.026**	**-**	**$0.969**	**-**	**$1.760**	**=**	**$15.827**

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.

Health Care Facility Utilization Fees

2015 Biennium

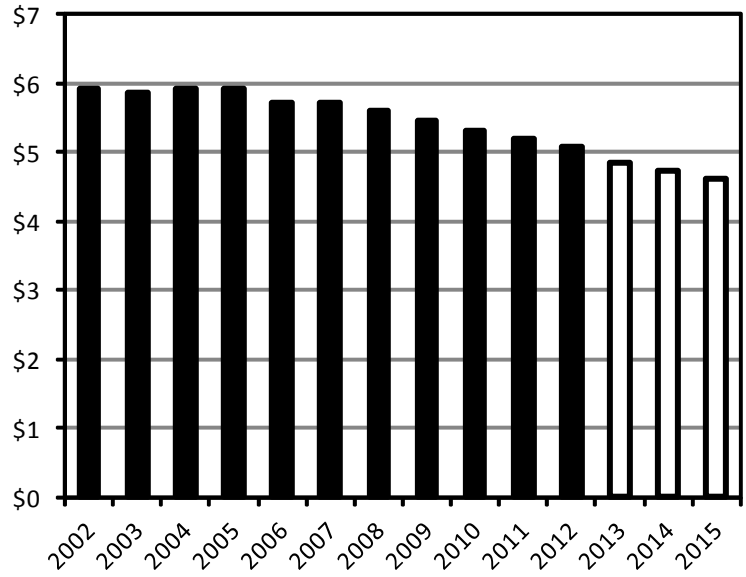
Revenue Description

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. Currently, $2.80 of the fee is allocated to the general fund and the remaining $5.50 is allocated to the nursing facility utilization fee special revenue account.

The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). The only facility in Montana currently meeting this definition is the Montana Developmental Center. 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 account.

Table 1
Health Care Facility Utilization Fees
($ millions)

	Fiscal Year	General Fund	Percent Change
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%
A	2011	$5.197	-1.94%
A	2012	$5.077	-2.32%
F	**2013**	**$4.850**	**-4.46%**
F	**2014**	**$4.728**	**-2.53%**
F	**2015**	**$4.605**	**-2.60%**



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 facility utilization fee account. HB 743 made the Montana Mental Health Nursing Care Center (MMHNCC) subject to the nursing facility utilization fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization special revenue 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 special revenue account.

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 facility utilization 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 2.80% between FY 2009 and FY 2012. Bed days are projected to continue to decline at that rate in FY 2013 through FY 2015. 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.

- Bed days for FY 2013 through FY 2015 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 2013 through FY 2015, bed days at MMHNCC are estimated to average 30,693 per year.

- MDC is the only facility in Montana 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 2013 through FY 2015 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.

Distributions

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 the actual allocation for FY 2012 and the projected allocation for FY 2013 through FY 2015.

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

	FY 2012	FY 2013	FY 2014	FY 2015
Nursing Facility Utilization Fee Account	9.304	8.845	8.597	8.356
Prevention and Stabilization Account	0.795	0.811	0.819	0.818
General Fund	5.077	4.850	4.728	4.605
Total Collections	**15.176**	**14.506**	**14.144**	**13.779**

Data Sources

Department of Revenue GENTAX reports provided historical information on the number of taxable bed days. SABHRS provided historical tax revenue and allocation information. Future bed days and cost of care at MMHNCC and MDC are from DPHHS.

Rental Car Sales Tax

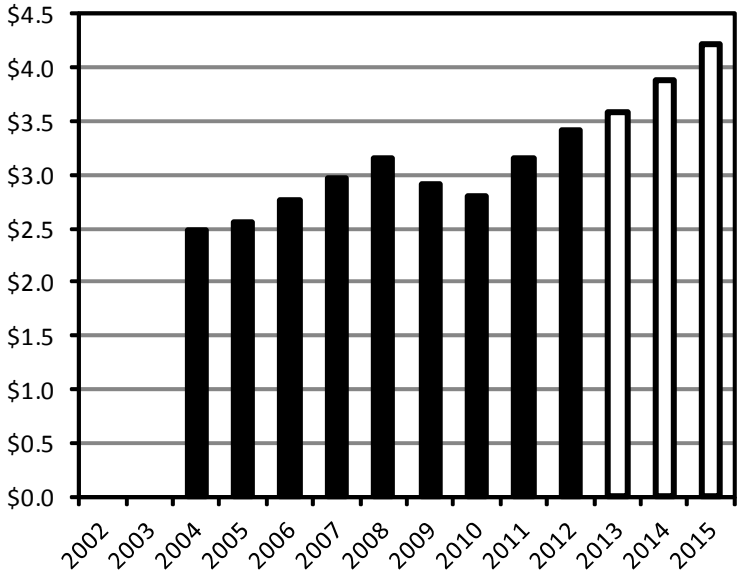
2015 Biennium

Revenue Description

Montana levies a 4% tax on base rental charges 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 2012 and projected revenue for FY 2013 through FY 2015.

Table 1
Rental Car Sales Tax
($ millions)

Fiscal Year	General Fund	Percent Change
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%
A 2011	$3.149	12.17%
A 2012	$3.420	8.59%
F 2013	**$3.577**	**4.58%**
F 2014	**$3.873**	**8.28%**
F 2015	**$4.220**	**8.97%**



Risks and Significant Factors

- Rental car sales tax revenue is highly reliant on 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 2012 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 distributed 100% to the general fund

Data Sources

General fund collections as reported in SABHRS.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Lottery Profits

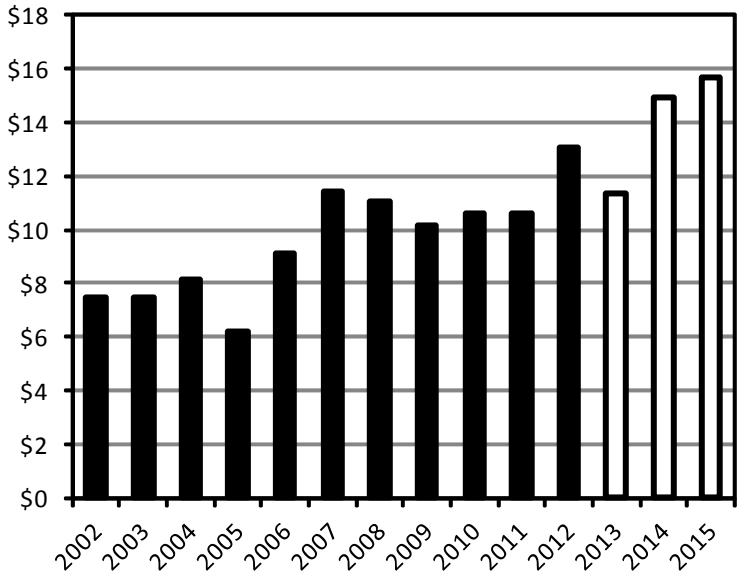
Revenue Description

In accordance with 23-7-402, MCA, net revenue from the operation of the lottery is to be deposited quarterly in the general fund. Net revenue from the lottery includes the sum of ticket sales, short-term investment pool (STIP) and Multi-State Lottery Association interest, and miscellaneous income, less payment of prizes, commissions, and operating expenses.

Table 1 shows actual lottery revenue transferred to the general fund for FY 2002 to FY 2012 and forecast revenues for FY 2013 through FY 2015.

Table 1
Lottery Profits
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$7.467	21.66%
A	2003	$7.453	-0.18%
A	2004	$8.116	8.89%
A	2005	$6.223	-23.33%
A	2006	$9.110	46.41%
A	2007	$11.420	25.35%
A	2008	$11.029	-3.43%
A	2009	$10.136	-8.09%
A	2010	$10.631	4.88%
A	2011	$10.636	0.05%
A	2012	$13.086	23.03%
F	**2013**	**$11.316**	**-13.53%**
F	**2014**	**$14.897**	**31.65%**
F	**2015**	**$15.692**	**5.34%**



Lower than usual Powerball jackpots are the main reason for the large decrease in revenues from FY 2004 to FY 2005. Beginning in FY 2006, the chances of winning the Powerball were decreased in order to increase the jackpot levels, and this increased player participation for FY 2006 and FY 2007. In FY 2008, lottery sales continued to rise, however, lottery expenses rose slightly faster resulting in a net decrease to the general fund. In FY 2011, the supplemental appropriation of $950,000 from the lottery enterprise fund reduced profits deposited into the general fund by the same amount. Beginning in FY 2012, the Legislative Audit Division stopped witnessing lottery drawings, which results in a slight positive effect on deposits made to the general fund due to the elimination of this auditing expense. In FY 2012, there was an unprecedentedly large Mega Millions jackpot, which appeared to increase ticket sales, along with the new placement of lottery WinStation machines in some grocery stores, and the simultaneous doubling of Powerball minimum jackpots and ticket prices.

Forecast Methodology

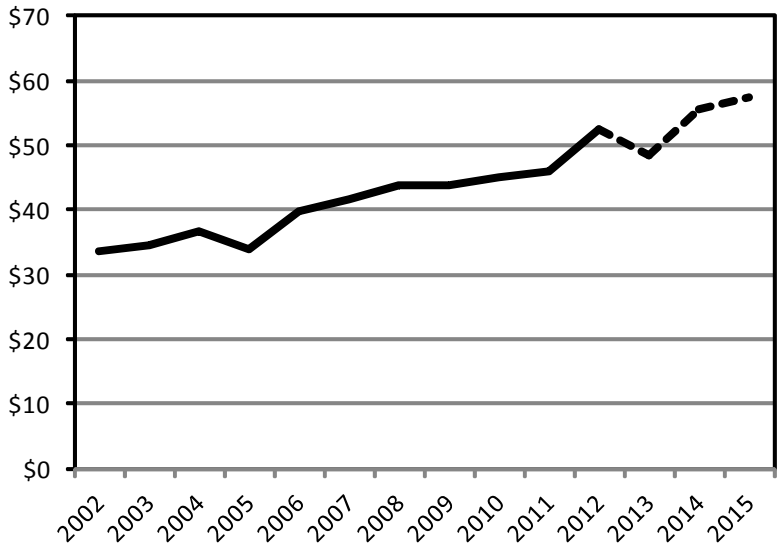
Lottery revenue is forecast using three main steps:

Step 1. Forecast the amount of prizes and commissions paid out from the gross receipts.

Table 2 shows actual gross receipts for FY 2002 through FY 2012 and forecast receipts for FY 2013 through FY 2015.

Table 2
Lottery Gross Receipts
($ millions)

Fiscal Year	Gross Receipts
A 2002	$33.632
A 2003	$34.682
A 2004	$36.738
A 2005	$33.811
A 2006	$39.918
A 2007	$41.565
A 2008	$43.822
A 2009	$43.827
A 2010	$45.193
A 2011	$46.035
A 2012	$52.602
F 2013	**$48.600**
F 2014	**$55.640**
F 2015	**$57.309**



Step 2. Estimate the prizes and commissions as a percentage of gross receipts. There is a clear upward trend in gross receipts other than those estimated for FY 2013, which were pulled from SABHRS. An econometric regression is used to forecast gross receipts for FY 2014 and FY 2015.

Table 3 shows actual prizes and commission, the ratio of prizes and commission to gross receipts for FY 2002 through FY 2012 and forecast values for FY 2013 through FY 2015.

Table 3
Prizes and Commissions
($ millions)

Fiscal Year	Gross Receipts		Prizes and Comm.		% of Gross Receipts
A 2002	$33.632	÷	$19.277	=	57.32%
A 2003	$34.682	÷	$19.599	=	56.51%
A 2004	$36.738	÷	$20.771	=	56.54%
A 2005	$33.811	÷	$19.769	=	58.47%
A 2006	$39.918	÷	$23.056	=	57.76%
A 2007	$41.565	÷	$23.886	=	57.47%
A 2008	$43.822	÷	$25.403	=	57.97%
A 2009	$43.827	÷	$25.598	=	58.41%
A 2010	$45.193	÷	$28.279	=	62.57%
A 2011	$46.035	÷	$27.494	=	59.72%
A 2012	$52.602	÷	$31.761	=	60.38%
F 2013	**$48.600**	÷	**$27.597**	=	**56.78%**
F 2014	**$55.640**	÷	**$32.807**	=	**58.96%**
F 2015	**$57.309**	÷	**$33.791**	=	**58.96%**

Step 3. Deduct budgeted operating expenses. Operating expenses and other revenues are forecast in order to determine the net distribution to the general fund.

Table 4 shows the breakdown of income minus expenditures to yield the total revenue distributed into the general fund.

Table 4
Total General Fund Revenue
($ millions)

Fiscal Year	Gross Receipts		Other Income		Prizes & Comm.		Expenses		General Fund Revenue
A 2002	$33.632	+	$0.185	-	$19.277	-	$7.264	=	$7.467
A 2003	$34.682	+	$0.091	-	$19.599	-	$7.722	=	$7.453
A 2004	$36.738	+	$0.047	-	$20.771	-	$7.898	=	$8.116
A 2005	$33.811	+	$0.093	-	$19.769	-	$7.913	=	$6.223
A 2006	$39.918	+	$0.210	-	$23.056	-	$7.962	=	$9.110
A 2007	$41.565	+	$0.271	-	$23.886	-	$6.529	=	$11.420
A 2008	$43.822	+	$0.185	-	$25.403	-	$7.575	=	$11.029
A 2009	$43.827	+	$0.084	-	$25.598	-	$8.177	=	$10.136
A 2010	$45.193	+	$0.038	-	$28.279	-	$6.321	=	$10.631
A 2011	$46.035	+	$1.647	-	$27.494	-	$9.577	=	$10.611
A 2012	$52.602	+	$0.027	-	$31.761	-	$7.782	=	$13.086
F 2013	**$48.600**	**+**	**$0.027**	**-**	**$27.597**	**-**	**$9.714**	**=**	**$11.316**
F 2014	**$55.640**	**+**	**$0.027**	**-**	**$32.807**	**-**	**$7.962**	**=**	**$14.897**
F 2015	**$57.309**	**+**	**$0.027**	**-**	**$33.791**	**-**	**$7.852**	**=**	**$15.692**

There is a small portion of other revenue, mainly attributable to the short-term interest earnings of prize money. Other revenue is expected to remain at the FY 2012 levels for FY 2013 through FY 2015.

Data Sources

Fiscal year-end revenues were obtained from SABHRS MTGL0109 report, and other lottery figures were provided by the Montana State Lottery and through the web site http://www.montanalottery.com/annualreports.xsp .

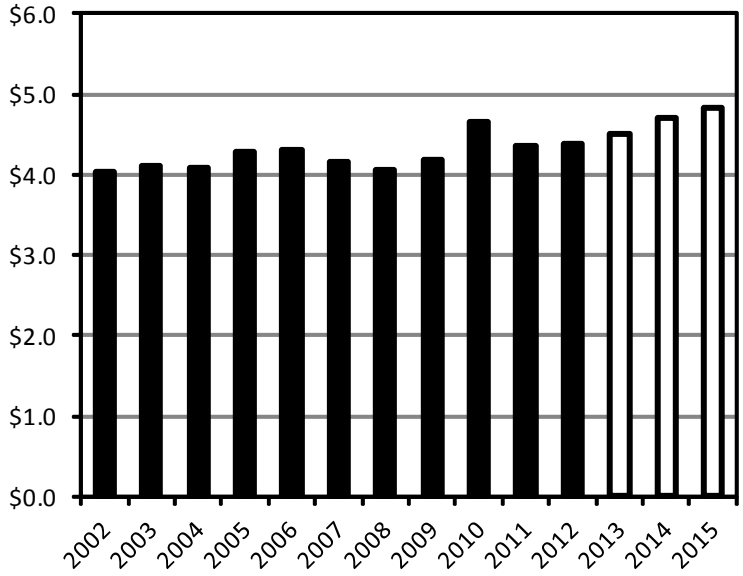
Revenue Description

Highway patrol fines are provided for in Title 61, Chapter 8, parts 3 and 7, MCA. Citation fines are collected in justice courts. Highway patrol fines are distributed 50% to the county general fund and 50% to the state general fund, pursuant to 3-10-601, MCA. One-hundred percent of fines resulting from highway patrol officer stops for highway use or vehicle violations processed in any other court are paid into the state general fund (61-12-701, MCA).

Table 1 shows general fund revenue from highway patrol fines for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 1
Highway Patrol Fines
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$4.030	1.24%
A	2003	$4.110	1.98%
A	2004	$4.084	-0.62%
A	2005	$4.293	5.10%
A	2006	$4.316	0.55%
A	2007	$4.155	-3.74%
A	2008	$4.049	-2.55%
A	2009	$4.180	3.22%
A	2010	$4.646	11.16%
A	2011	$4.359	-6.18%
A	2012	$4.385	0.59%
F	**2013**	**$4.506**	**2.75%**
F	**2014**	**$4.705**	**4.43%**
F	**2015**	**$4.815**	**2.34%**



The table shows that fine collections demonstrate occasional sharp increases (FY 2005 and FY 2010) followed by several years of modest growth or decline. Recent declines in revenue are attributable to the combined effects of higher fuel prices and 2005 session SB 264 (anti-quota bill) which introduced highway patrol officer management changes. Highway patrol fine collections are forecast to gradually increase during the forecast period.

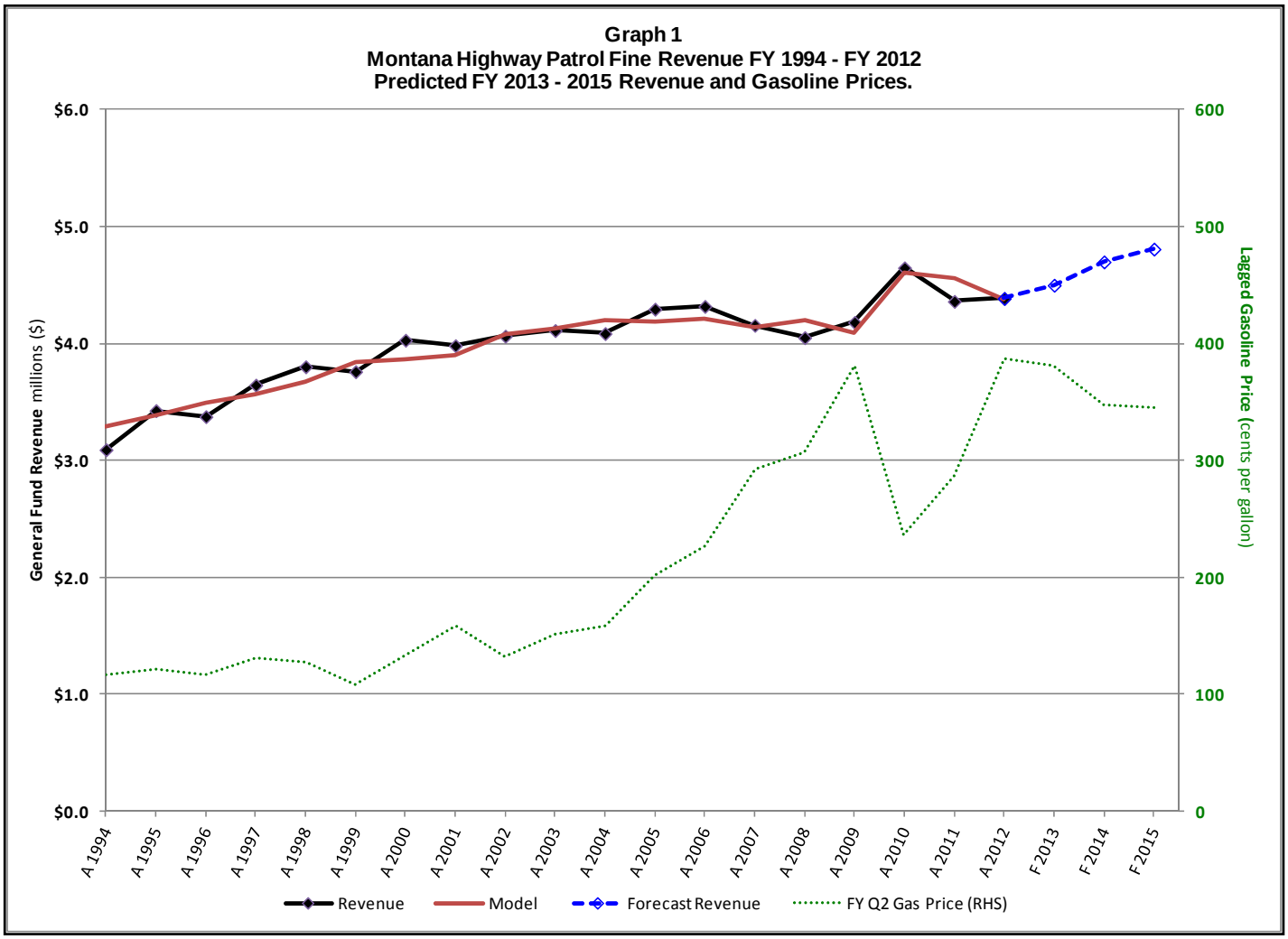
Risks and Significant Factors

- Significant revenue peaks are attributable to major changes in traffic laws. In FY 2005, implementation of HB 195 (2003 session) which raised penalties for driving under the influence (DUI) and SB 13, which lowered legal blood alcohol thresholds, generated revenue increases.
- Prior to FY 2006, a simple time trend analysis of revenue collected would produce good estimates. Revenue declined in FY 2007 and FY 2008 despite legislation thought to increase revenue.
- The most significant 2011 session legislation with highway patrol fine revenue impact was SB 15 which made fines mandatory (and increased their level) for DUI when the blood alcohol content is found to be 0.20 or above.
- A review of Highway Patrol operations reports show that enforcement effort, as measured by patrol miles covered, was maintained despite the impact of gasoline price spikes. In recent years, patrol mileage has increased above trend.
- Recent decreases in collections appear to be related to increases in gasoline prices and lower highway traffic volumes. Recent increases in revenue appear to follow decreasing fuel prices.

Forecast Methodology

The estimate is based on a regression model of revenue based on time trend, and actual and forecast 2nd fiscal quarter (fall) gasoline prices. Including gasoline prices in the model improved the model fit and accounted for recent declines and increases in revenue.

The model fit and forecast is presented in Graph 1. The graph illustrates that revenue tends to increase over time, but revenue growth slows (or declines) when gasoline prices rise rapidly.



Distribution:

All highway patrol fines received by the state are directed to the general fund.

Data Sources

SABHRS provided historical tax revenue. Highway Patrol headquarters staff provided information on trooper management changes and fiscal year operations reports. Gasoline prices and forecasts were obtained from the IHS Global Insight September 2012 national forecast.

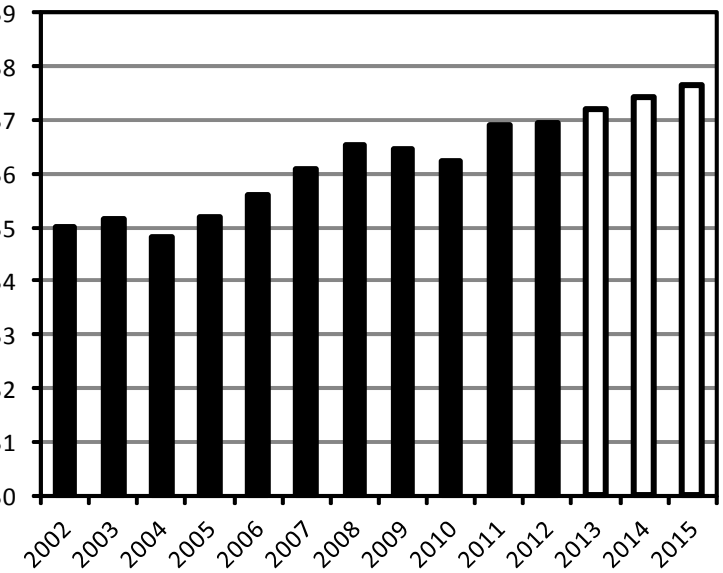
Revenue Description

Individuals and firms who plan to sell securities in Montana must register with the State Auditor and pay fees as specified in 33-10-209, MCA. The fee to register as a broker-dealer or investment advisor is $200 a year. The fee for salespersons and representatives working for a broker-dealer or investment advisor is $50.

Newly issued securities not regulated at the federal level, or traded on regulated or self-regulating exchanges, or otherwise exempt from state regulation, must be registered with the State Auditor's Office (SAO). The first year registration fees are $200 plus 0.1% of the issue value over $100,000, up to a maximum fee of $1,000. In succeeding years, the registration may be renewed for a fee of 0.1% of the value of securities to be offered that year with a minimum fee of $200 and a maximum fee of $1,000

Table 1
Investment Licenses and Permits
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$4.992	-15.23%
A	2003	$5.142	3.00%
A	2004	$4.834	-5.98%
A	2005	$5.192	7.41%
A	2006	$5.584	7.55%
A	2007	$6.095	9.15%
A	2008	$6.514	6.88%
A	2009	$6.461	-0.81%
A	2010	$6.225	-3.66%
A	2011	$6.922	11.21%
A	2012	$6.961	0.56%
F	**2013**	**$7.213**	**3.62%**
F	**2014**	**$7.433**	**3.05%**
F	**2015**	**$7.668**	**3.17%**



Risks and Significant Factors

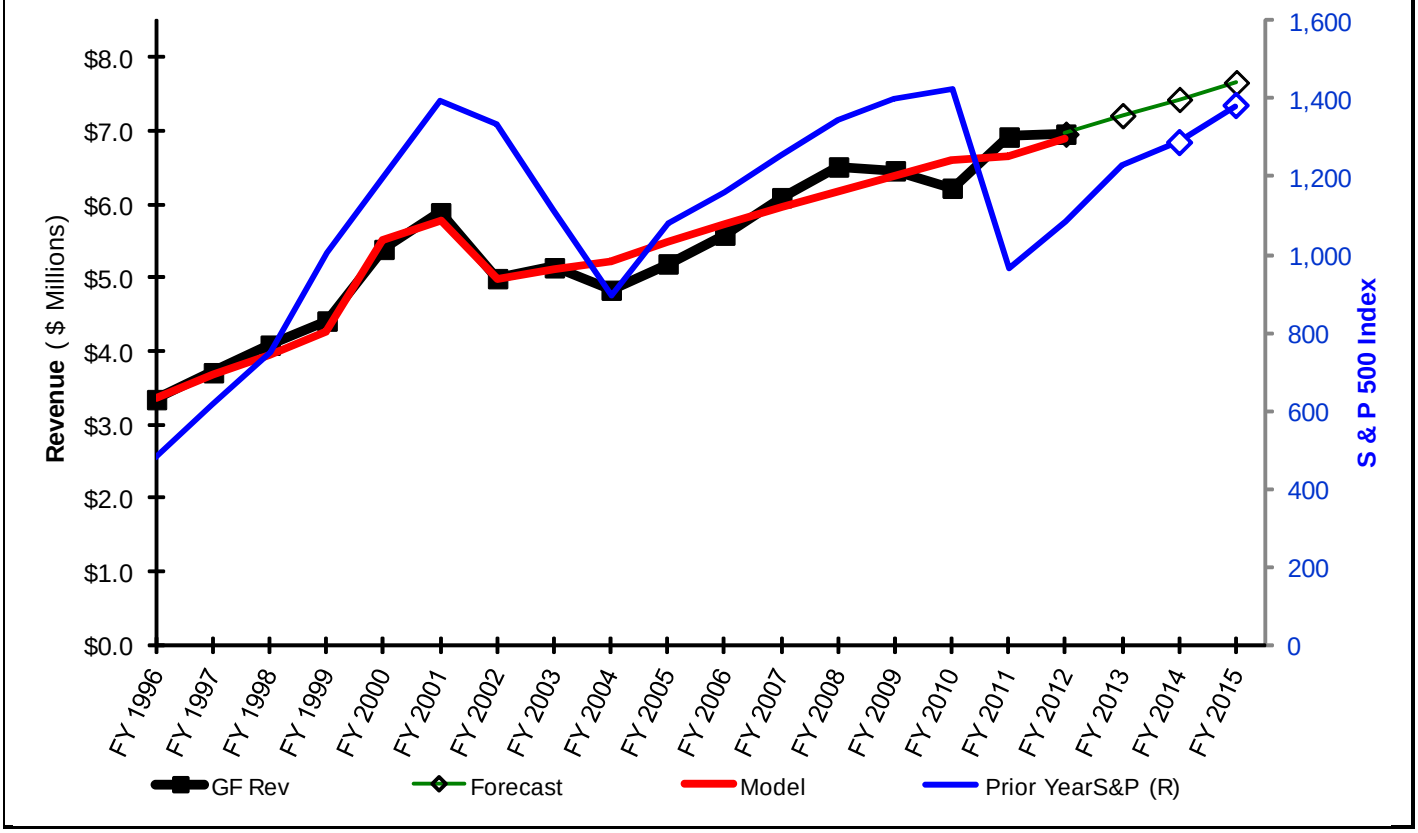
- Despite an increase in market volatility and a decline in financial sector jobs, securities brokers-dealers and their sales representatives continue to register to do business in Montana in increasing numbers. This is thought to be precautionary registration to avoid unlicensed securities dealing. This trend may end.
- Most securities agents and sales representatives registered in Montana do not operate in the state but register via the (national) Financial Industry Regulatory Authority (FINRA) which became mandatory in CY 2003 after an initial phase-in period. This registration appears to have accelerated revenue growth during the FY 1997 to FY 2004 period. Since FY 2005 revenues have more closely tracked nationwide employment in the finance and insurance sector and the Standard & Poor's 500 (S&P 500) index.
- Two pieces of 2011 session legislation have indirect effects on this revenue source. HB 125 clarified that securities notice fees apply to each class of securities offered in a portfolio. This has raised notice fee collections by approximately $1.5 million per year. To the extent these collections exceed appropriated SAO expenditures, they are transferred to the general fund (and recorded in Other Revenue) at fiscal year end. HB 81 created a state special revenue fund for securities fraud settlement restitution payments. These payments are returned to victims of securities fraud subject to application, a cap, and review by a SAO panel.

Forecast Methodology

Step 1. Insurance license and permit revenue is estimated using a regression model of time and prior fiscal year performance of the S&P 500 index, with an adjustment for the transition to mandatory FINRA registration.

The model fit and forecast are presented in Graph 1. The graph shows that revenues move in concordance with financial markets.

Graph 1
Investment License Revenue and Prior Year S&P 500 Average
FY 1996-2012 and Forecast for FY 2013-2015



Data Sources

Historical tax revenue is extracted from SABHRS. The Securities Department of the State Auditor's Office provided information on law changes, counts of securities broker-dealers, securities sales representatives, investment advisors, and investment advisor sales representative registrations. The S&P 500 stock index and forecast is from the IHS Global Insight (October 2012) national forecast.

Public Contractors' Gross Receipts Tax

2015 Biennium

Revenue Description

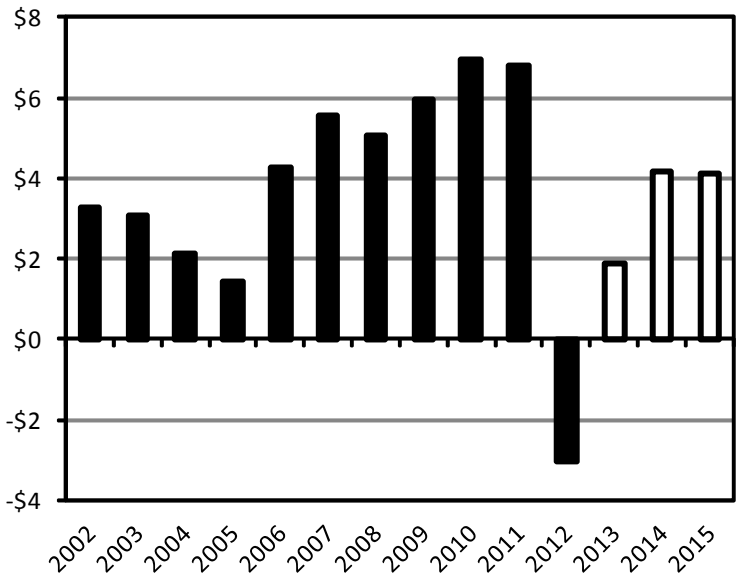
In accordance with 15-50-205, MCA, a 1% tax is assessed on the gross receipts contractors receive for construction work within the state for federal, state, or local governments. Contractors may use the amount of gross receipts tax paid as an offset or credit against either their corporation license tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractors' gross receipts taxes paid. Any tax not credited or refunded is allocated to the general fund.

Table 1 shows general fund revenue from the contractor's gross receipts tax. General fund revenue greatly increased in FY 2009 through FY 2011 before plummeting in FY 2012. This is believed to be due to funds generated by the America Recovery and Reinvestment Act, also known as the Federal Stimulus. As the stimulus money runs out, it is estimated that general fund revenue will decrease in the forecast period relative to recent years.

SB 323 (2005 session) allows public contractors to carry forward individual income or corporate license tax credits for up to five years.

Table 1
Contractors' Gross Receipts Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$3.267	312.74%
A	2003	$3.082	-5.69%
A	2004	$2.120	-31.19%
A	2005	$1.411	-33.46%
A	2006	$4.275	202.95%
A	2007	$5.567	30.23%
A	2008	$5.063	-9.06%
A	2009	$5.930	17.13%
A	2010	$6.969	17.53%
A	2011	$6.803	-2.38%
A	2012	-$3.042	n/a
F	**2013**	**$1.873**	**161.56%**
F	**2014**	**$4.183**	**123.36%**
F	**2015**	**$4.096**	**-2.07%**



Risks and Significant Factors

- Some of the variation in revenue is largely the result of refund processing fluctuations. Due to administrative and technological changes, backlogs of refunds accumulated in fiscal years 2002, 2003, and 2006. The high gross receipts of FY 2007 resulted in increased revenue despite the large number of refunds processed. Following the completion of administrative changes in FY 2006, and the processing of the ensuing backlog through FY 2008, the Department of Revenue (DOR) expects all future backlog amounts will be processed in the following year.
- Federal contracts are taxable, and if federal dollars were to decrease, then public contractors' gross receipts revenue is also likely to decrease.

Forecast Methodology

There are three steps used when calculating public contractor's gross receipts tax revenue:

Step 1. Estimate gross tax receipts based on the expected volume of public contracts. Montana Department of Transportation (MDT) contracts are estimated based on the budget prepared by OBPP. Other contractor payments historically fluctuate but appear to have been heavily influenced by stimulus funds; therefore, other contractor payments for FY 2013 through FY 2015 are estimated by averaging FY 2004 through FY 2008 and FY 2012, and then applying an inflation index.

Step 2. Forecast total tax credits and refunds. The gross value of the estimated public contracts for FY 2013 through FY 2015 are multiplied by the ratio of the averaged credits and refunds to the averaged gross value of public contracts for FY 2004 through FY 2012.

Step 3. Calculate the tax liability for the previous fiscal year and subtract the current fiscal year's credits and refunds to obtain the general fund revenue.

Table 2 shows actual gross receipts from MDT, other contractors' gross receipts, credits and refunds, the general fund estimate from FY 2004 through FY 2012, and forecast values for FY 2013 through FY 2015.

Table 2
Gross Receipts, Refunds, and Credits
($ millions)

Fiscal Year	MDT	Other	Credits and Refunds	General Fund
A 2002	$217.23	$288.11	($1.79)	$3.27
A 2003	$226.11	$344.53	($2.62)	$3.08
A 2004	$241.63	$358.78	($3.88)	$2.12
A 2005	$239.25	$335.96	($4.34)	$1.41
A 2006	$254.39	$361.38	($1.88)	$4.27
A 2007	$262.78	$570.78	($2.77)	$5.57
A 2008	$271.91	$424.51	($1.90)	$5.06
A 2009	$290.29	$538.45	($2.36)	$5.93
A 2010	$327.79	$560.46	($1.91)	$6.97
A 2011	$329.75	$350.58	$0.00	$6.80
A 2012	$368.23	$138.58	($8.11)	($3.04)
F 2013	**$362.00**	**$370.46**	**($3.20)**	**$1.87**
F 2014	**$350.54**	**$376.11**	**($3.14)**	**$4.18**
F 2015	**$350.54**	**$382.72**	**($3.17)**	**$4.10**

Data Sources

Gross tax receipts, tax credits, property refunds, and net general fund collections by month were obtained from DOR and SABHRS. MDT budgeted amounts were obtained from OBPP and inflation estimates are from IHS Global Insight.

Driver's License Fees

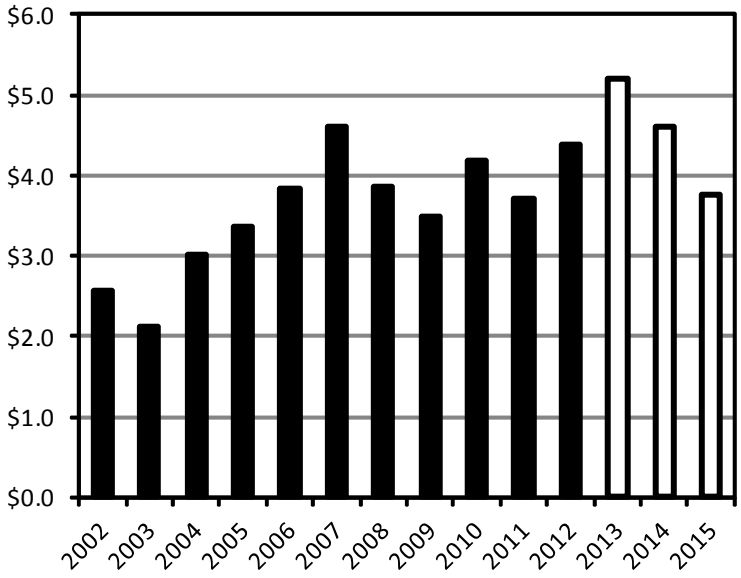
Revenue Description

Fees for driver's licenses, commercial driver's licenses, and motorcycle endorsements are set in 61-5-111, MCA. The fee for replacing a lost or destroyed license is set in 61-5-114, MCA. The distribution of revenue from driver's license fees is set in 61-5-121, MCA. Counties retain a small percentage of the fees that they collect.

Table 1 shows general fund revenue from driver's license fees for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 1
Driver's License Fees
($ millions)

Fiscal Year	General Fund	Percent Change
A 2002	$2.571	35.63%
A 2003	$2.119	-17.56%
A 2004	$3.021	42.55%
A 2005	$3.373	11.64%
A 2006	$3.828	13.50%
A 2007	$4.611	20.43%
A 2008	$3.866	-16.15%
A 2009	$3.478	-10.02%
A 2010	$4.169	19.86%
A 2011	$3.711	-10.99%
A 2012	$4.369	**17.72%**
F 2013	**$5.195**	**18.92%**
F 2014	**$4.604**	**-11.39%**
F 2015	**$3.762**	**-18.29%**



Basic fees for driver's licenses are five dollars per year of validity. Additional fees are charged for motorcycle endorsements ($0.50 per year). Commercial driver's licenses ($10 per year for inter-state and $8.50 per year for intra-state licenses) are valid for a five-year period and include basic driving privileges that run concurrently with the commercial license. Reduced fees are available to active military personnel for basic driver's licenses and motorcycle endorsements. Replacement licenses are $10. A $0.50 renewal notice fee is charged at issue of a license. Most license fees were revised by the 2003 Legislature. Commercial drivers licenses were reduced to 5 years and the fees were revised by HB 192 (2005 session). The distribution of fees was corrected by the 2007 Legislature in HB 23.
In the 2011 session, only minor changes in drivers' licensing regulations were enacted. None had significant revenue impacts.

Risks and Significant Factors

- Revenue swings between fiscal years are principally due to the transitions from four-year to eight-year licensing. While transition rules were put in place to reduce large declines in revenue, peak-to-trough variations emerged as drivers' apparently actively sought eight-year licenses. Variations grew with fee changes in FY 2003. This has persisted despite the completion of the first full eight-year cycle of license renewal in 2007.
- Too few years of detailed counts of licenses issued by fiscal year, term, and type are readily available to permit direct modeling of expected revenue. Past license issuance is determined by dividing collections by license type (reported in SABHRS) by the estimated weighted age-adjusted average licensing fee.

- First year restrictions for drivers 18 years of age and under, which began in FY 2006, have lengthened the transition to full licensure and reduced the number of drivers 16 and under. However, data from the Motor Vehicles Division suggests that by age 17, the proportion of 17 year olds with licenses is likely to be equal to that of the recent past and has not materially reduced driver's license revenue.

Forecast Methodology

Forecasting general fund driver's license fee revenue:

Step 1: Calculating the average licensing fee for basic licenses by applying statutory fees to the distribution of licensed drivers at renewal age, by license term. Prior to FY 2012, these rates were calculated from Federal Highway Administration (FHWA) licensure reports and "aged". For FY 2012 through FY 2015, the weighted average driver's license fee by fiscal year was calculated using the Motor Vehicle Division's CY 2011 data file provided to the FHWA.

Step2: Estimate the number of driver's licenses issued. The apparent number of driver's licenses issued each fiscal year from 2000 through 2012 is calculated by dividing the SABHRS reported total basic driver's license collections by the expected age-weighted average fees.

Step 3: Forecast the number of licenses to be issued. The estimate of fiscal year driver's licenses' to be issued is calculated by taking the average of the prior seventh and eighth year of the licensing cycle.

Step 4: Estimate total basic driver's license revenue. Multiply projected driver's licenses by expected fees.

The results of Steps 1 through 4 are summarized in Table 2:

Table 2
Estimate of Basic Driver's License Collections

Fiscal Year	Standard Driver's License Fees		Age Adj. Average Fee		Estimated Number of Licenses		Forecast Std. License Total Revenue
A 2006	$3,899,811	÷	$32.25	=	120,931		
A 2007	$4,764,769	÷	$32.49	=	146,656		
A 2008	$3,961,623	÷	$37.12	=	106,722		
A 2009	$3,542,739	÷	$35.97	=	98,480		
A 2010	$4,238,408	÷	$35.86	=	118,200		
A 2011	$3,579,561	÷	$32.37	=	110,577		
A 2012	$4,157,011	÷	$36.84	=	112,828		
F 2013			**$36.91**	**x**	**133,794**	**=**	**$4,937,894**
F 2014			**$36.19**	**x**	**126,689**	**=**	**$4,584,337**
F 2015			**$36.51**	**x**	**102,601**	**=**	**$3,745,916**

Step 5: Estimate revenue from other licenses. Commercial driver's license, motorcycle endorsement, and replacement license revenue is projected based on their respective five-year weighted average proportion relative to basic driver's license revenue. These estimates are reported in Table 3. Because a few counties retain a portion of the driver's license fee when they issue driver's licenses on behalf of the Motor Vehicles Division, and this retention is not reported in SABHRS, the amount is estimated and added back to the calculation of total license and fee revenue.

Table 3
Driver's License Total Revenue by Fee Type
($ millions)

Fiscal Year	Basic Driver's Licenses	Commercial Licenses	Motorcycle Endorsements	Replacement Licenses	Renewal Fee	Revenue	Estimate of county retention
A 2008	$3.962	$0.438	$0.039	$0.326	$0.058	**$4.822**	$0.011
A 2009	$3.543	$0.384	$0.035	$0.320	$0.054	**$4.335**	$0.010
A 2010	$4.238	$0.529	$0.050	$0.309	$0.065	**$5.192**	$0.013
A 2011	$3.580	$0.627	$0.041	$0.315	$0.058	**$4.620**	$0.013
A 2012	$4.157	$0.841	$0.050	$0.328	$0.068	**$5.444**	$0.018
Relative Proportion							
A 2008	1.000	0.110	0.010	0.082	0.015	1.217	0.0028
A 2009	1.000	0.108	0.010	0.090	0.015	1.224	0.0028
A 2010	1.000	0.125	0.012	0.073	0.015	1.225	0.0031
A 2011	1.000	0.175	0.011	0.088	0.016	1.291	0.0037
A 2012	1.000	0.202	0.012	0.079	0.016	1.310	0.0044
Wt. Avg. Proportion		**0.145**	**0.011**	**0.082**	**0.016**	**1.253**	**0.0034**
Revenue by License Type							
A 2012	$4.157	$0.841	$0.050	$0.328	$0.068	$5.444	$0.018
F 2013	**$4.938**	**$0.999**	**$0.055**	**$0.405**	**$0.077**	**$6.473**	$0.017
F 2014	**$4.584**	**$0.663**	**$0.051**	**$0.376**	**$0.071**	**$5.746**	$0.015
F 2015	**$3.746**	**$0.542**	**$0.041**	**$0.307**	**$0.058**	**$4.695**	$0.013

Step 6: Allocate statutory distributions of revenue to the state traffic education and state motorcycle safety accounts, by type of licensing revenue. The remainder is distributed to county or state general funds. The basis for distributing fees for each license is shown in Table 4 as set by 61-5-121, MCA.

Table 4
Driver's License Fee Allocation

	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Replacement License
State General Fund (remainder)	76.80%	80.56%	33.20%	87.50%
State or County General Fund[1]	2.50%	2.50%	3.34%	3.75%
Traffic Safety Education	20.70%	16.94%	0.00%	8.75%
Motorcycle Safety Training	0.00%	0.00%	63.46%	0.00%
	100.00%	100.00%	100.00%	100.00%

[1] County general fund receives the distribution if the license is issued at a county office (vs. a MVD office).

The estimates from the bottom of Table 3 are multiplied by the corresponding distribution percentage listed in Table 4 to estimate driver's license receipts allocated to the state special revenue accounts and to the state general fund. Counties only receive a distribution if they issue the license. Only a small portion of total collections is directed to the county general fund (approximately 0.344% in FY 2012). Based on SABHRS data for FY 2012, less than 9.5% of all licenses are issued by counties. The state special revenue and general fund estimates as presented in Table 5 have been adjusted for the share of licenses issued at county offices. The general fund portion is also presented in Table 1.

Table 5
Allocation of Driver's License Fee Revenue
($ millions)

Fiscal Year	General Fund	Traffic Safety Education	Motorcycle Safety Training	County Retention	Total
A 2012	$4.362	$1.032	$0.032	$0.018	$5.444
F 2013	$5.195	**$1.227**	**$0.035**	$0.017	**$6.473**
F 2014	$4.604	**$1.094**	**$0.032**	$0.015	**$5.746**
F 2015	$3.762	**$0.894**	**$0.026**	$0.013	**$4.695**

Data Sources

SABHRS provided historical revenue data by license type. State licensed drivers, by age group, from the Federal Highway Administration (FHWA) website, are based on form FHWA-562 submissions by the state. The FHWA form 562 reports for FY 2006 through FY 2008 were provided by the Motor Vehicles Division of the Department of Justice directly. For CY 2011, the Motor Vehicles Division provided a redacted copy of the data file transmitted to the FHWA. Montana population estimates are from IHS Global Insight.

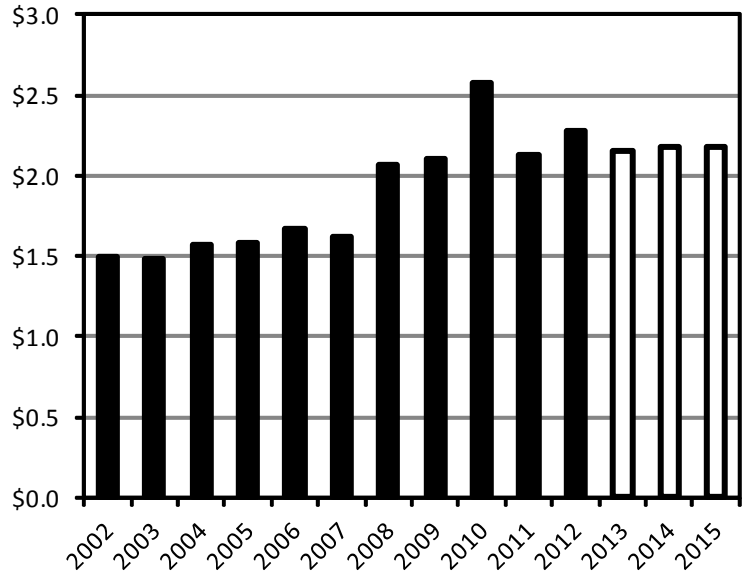
Revenue Description

Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The tax is computed by multiplying the taxable value of Montana property by the average statewide mill levy for commercial and industrial property defined in 15-23-211, MCA.

Table 1 presents actual general fund revenue from the rail car tax for FY 2002 though FY 2012 and forecast for FY 2013 through FY 2015.

Table 1
Rail Car Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2002	$1.490	-4.24%
A 2003	$1.484	-0.37%
A 2004	$1.568	5.63%
A 2005	$1.585	1.10%
A 2006	$1.667	5.20%
A 2007	$1.615	-3.17%
A 2008	$2.064	27.84%
A 2009	$2.099	1.72%
A 2010	$2.579	22.85%
A 2011	$2.130	-17.41%
A 2012	$2.273	6.72%
F 2013	**$2.158**	**-5.09%**
F 2014	**$2.172**	**0.67%**
F 2015	**$2.179**	**0.32%**



Risks and Significant Factors

- A continued (albeit slow) national economic recovery will continue to change rail car traffic patterns. This is evidenced by the reduction in the number of parked rail cars on Montana sidings; this will lower the Montana allocation of the national rail car fleet. Rail car company billings for FY 2011 reflected the bulk of this change.
- Reduced commercial and industrial property growth may raise statewide average commercial and industrial mill rates more than anticipated, paradoxically increasing state general fund rail car tax revenue.
- Because tax year (TY) 2012 rail car tax bills have been mailed out by the Department of Revenue, anticipated tax liability due in FY 2013 is known.
- Trend mill growth is expected to resume in FY 2014 but is offset by a gradually declining Class 12 tax rate.
- Increased use of double-stack container cars coupled with improvements in the rail lines may result in the retirement of older single stack container cars parked on Montana sidings and lower average fees.

Forecast Methodology

Step 1. Forecast the allocated market value of rail car companies operating in Montana. The Montana allocated market value of rail cars is expected to resume its slow (outlier adjusted) trend growth rate as average car transit times fall to normal rates, parked rail cars are brought into service, and fewer cars pay (higher) default rates.

Step 2. Apply the estimates of class 12 tax rates developed as part of the property tax estimate. The rate incorporates the effective weighted average of the property tax rates that apply to all commercial and industrial property statewide. A modest reduction in the tax rate is anticipated over the forecast period as the effective class 8 and commercial class 4 property tax rates are reduced due to SB 372 (2011 session class 8 rate reduction), and HB 658 (2009 session reappraisal).

Step 3. Estimate the average statewide mill levy for commercial and industrial property. Mills are expected to grow at trend rates in the future

Step 4. Calculate general fund revenue. Table 2 presents the forecast of allocated market value, Class 12 tax rate, the estimated statewide average commercial and industrial property mill levy, and the resulting general fund tax revenue forecast. Rail car tax collections hold essentially level at just under $2.2 million over the forecast period.

Table 2
Calculation of Rail Car Tax Revenue
($ millions)

Description	FY 2011 Actual	FY 2012 Actual	FY 2013 Billed	FY 2014 Projected	FY 2015 Projected
Total Montana Allocated Value	$115.205	$123.766	**$117.899**	**$118.606**	**$119.318**
Multiplied by Class 12 Tax Rate	3.40%	3.45%	3.45%	**3.43%**	**3.42%**
Taxable Value	$3.912	$4.270	**$4.068**	**$4.071**	**$4.075**
Multiplied by Mill Levy	517.31	532.89	530.42	**533.51**	**534.68**
General Fund Revenue	$2.130	$2.273	$2.158	**$2.172**	**$2.179**

Distribution

The general fund receives 100% of rail car tax revenue.

Data Sources

Historical tax revenue is from SABHRS. The summary rail car tax database (TY 2003 – TY 2012), class 12 tax rates for TY 2003 –TY 2012, and statewide average commercial and industrial mill levies for TY 2003 – TY 2012 were provided by the Department of Revenue.

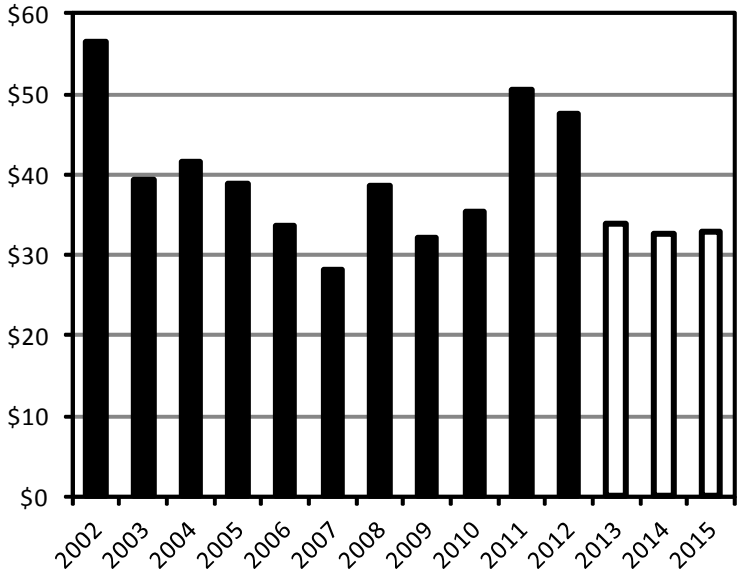
Revenue Description

Other revenue represents the sources of general fund revenue that do not have an individual line item in the revenue estimating resolution. Other revenue includes some one-time revenues that have been as large as $16.3 million in FY 2011 and $8.4 million in FY 2008 but average $1.5 million per year.

Table 1 shows actual general fund other revenue from FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 1
Other Revenue
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2002	$56.348	18.05%
A	2003	$39.201	-30.43%
A	2004	$41.679	6.32%
A	2005	$38.893	-6.68%
A	2006	$33.640	-13.51%
A	2007	$28.177	-16.24%
A	2008	$38.566	36.87%
A	2009	$32.141	-16.66%
A	2010	$35.454	10.31%
A	2011	$50.420	42.21%
A	2012	$47.486	-5.82%
F	**2013**	**$33.928**	**-28.55%**
F	**2014**	**$32.671**	**-3.70%**
F	**2015**	**$32.947**	**0.84%**



Risks and Significant Factors

- State legislative and national congressional action may have a significant impact on "other revenue".
- Many small variances over a large number of revenue categories may have a significant aggregate effect.

Forecast Methodology and Projection Calculation

The general fund "other revenue" is forecast in four steps:

Step 1. Estimate future one-time revenue.

- One-time revenue exceptions in FY 2003 and FY 2005 were primarily due to legislative action. In FY 2008, the sale of the armory in Missoula for $3.5 million; unused funds from the *Jobs and Growth Tax Relief Act* totaling $2.5 million, and HB 4 (May 2007 special session) funded $2.5 million for the Miles City Readiness Center from the long range building fund. The Department of Military Affairs received funding from the federal government, and as a result of specific wording in HB 4, $2.4 million was returned to the general fund in FY 2008. In FY 2010, there was a non-budgeted transfer from the Department of Administration for $0.371 million. However, this transfer was largely overshadowed by a negative $1.2 million accounting correction made by the Department of Justice related to the implementation of the MERLIN system.

Step 2. Isolate and estimate large sources of other revenue.

- The veterans home transfer is the cigarette tax allocated to the state veterans home in excess of appropriations. This revenue is forecast using the cigarette tax revenue projections from the OBPP and the executive budget appropriation recommendation for the veteran's home.
- The bentonite tax is revenue based on the weight of bentonite production in the State of Montana. Revenue is split between the counties of production, the university system, and the general fund. Bentonite production is estimated to be similar to 2012, and the total revenue is distributed in accordance with 15-39-110, MCA.
- The sale of abandoned property is from financial accounts that have gone dormant and are forwarded to the state. In both FY 2010 and FY 2012, there was a large sale of abandoned property that was anomalous to normal fiscal years. This is not expected to continue.

Step 3. Isolate and estimate smaller sources of revenue.

- There are many small sources of revenue that are forecast individually. These sources are projected like the larger sources of revenue; they are assessed for law changes and forecast based on trends or discussions with agencies.

Step 4. Estimate the remaining revenue as a group and sum the four categories. The general fund revenue that is not classified in one of the three previous groups is estimated as a single group.

Table 2 shows revenue to the general fund that is categorized as one-time revenue.

Table 2
One Time General Fund Revenue
($ millions)

Fiscal Year	One Time Revenue	Percent Change
A 2002	$0.564	17.83%
A 2003	$2.300	308.11%
A 2004	$0.917	-60.13%
A 2005	$4.634	405.36%
A 2006	$1.061	-77.09%
A 2007	$0.097	-90.89%
A 2008	$8.387	8570.78%
A 2009	$0.464	-94.47%
A 2010	-$0.863	-285.94%
A 2011	$16.324	1991.41%
F 2012	$3.450	-78.87%
F 2013	**$1.000**	**-71.01%**
F 2014	**$1.000**	**0.00%**
F 2015	**$1.000**	**0.00%**

No extraordinary events are forecast at this time and one-time revenue is anticipated to be $1 million each year for FY 2013 through FY 2015.

Table 3 shows additional large sources of other revenue. Collections are projected by examining historical deposits to determine whether there is a trend or other pattern in receipts.

Table 3
Large Individual Sources of Other Revenue
($ millions)

Source of Revenue	FY 2010	FY 2011	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**
Fire Reimbursement	$0.028	$0.096	$0.000	**$0.000**	**$0.000**	**$0.000**
Abandoned Property	$8.503	$3.756	$6.305	**$3.234**	**$3.298**	**$3.364**
Clerk of Court Fees	$3.481	$3.596	$3.434	**$3.539**	**$3.646**	**$3.756**
Vet's Home Transfer	$1.590	$3.905	$3.676	**$3.676**	**$3.676**	**$3.676**
Portfolio Transfer	$2.995	$3.299	$5.016	**$4.813**	**$4.670**	**$4.536**
Vehicle and Driving Records	$1.852	$2.045	$2.321	**$2.321**	**$2.321**	**$2.321**
SWCAP	$3.938	$3.931	$3.980	**$4.368**	**$3.001**	**$3.152**
HB 536 Criminal Surcharge	$1.692	$1.663	$1.585	**$1.585**	**$1.585**	**$1.585**
Bentonite Production	$0.244	$0.376	$0.456	**$0.423**	**$0.423**	**$0.423**
Estate Tax	$0.091	$0.043	$0.060	**$0.030**	**$0.015**	**$0.007**
Driver's License Reinstatement	$1.138	$1.234	$1.266	**$1.302**	**$1.374**	**$1.450**
Implementation of Stimulus	$2.785	$2.001	$0.000	**$0.000**	**$0.000**	**$0.000**
DOA Administrative Expense	$1.554	$1.570	$1.595	**$1.595**	**$1.595**	**$1.595**
Total	$29.890	$27.516	$29.693	**$26.885**	**$25.604**	**$25.866**

Table 4 shows the four different revenue categories that make up general fund other revenue for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

Table 4
All Other Revenue Sources
($ millions)

Fiscal Year	One Time	Large Sources	Smaller Sources	Estimated as a group	Total
A 2002	$0.564	$28.021	$11.328	$0.389	$40.301
A 2003	$2.300	$25.320	$11.316	$0.265	$39.201
A 2004	$0.917	$26.066	$13.535	$0.345	$40.863
A 2005	$4.634	$27.109	$6.794	$0.204	$38.742
A 2006	$1.061	$24.440	$7.799	$0.445	$33.745
A 2007	$0.097	$21.616	$5.882	$0.582	$28.177
A 2008	$8.387	$22.873	$6.935	$0.371	$38.566
A 2009	$0.464	$24.401	$6.652	$0.623	$32.141
A 2010	($0.863)	$29.890	$5.679	$0.749	$35.454
A 2011	$16.324	$27.516	$3.934	$2.661	$50.434
A 2012	$3.450	$29.693	$4.862	$1.677	$39.682
F 2013	**$1.000**	**$26.885**	**$4.615**	**$1.428**	**$33.928**
F 2014	**$1.000**	**$25.604**	**$4.639**	**$1.428**	**$32.671**
F 2015	**$1.000**	**$25.866**	**$4.654**	**$1.428**	**$32.947**

Data Sources

SABHRS Report MTGL0109 and SABHRS Date Mine provided historical revenue. IHS Global Insight provided forecast numbers for state population, income, and various statistics used in estimating other sources of revenue.

GOVERNOR
BRIAN SCHWEITZER

STATE OF MONTANA

NON-GENERAL FUND REVENUE SECTION 10

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

School Trust Land Interest and Income

2015 Biennium

Revenue Description

The United States Congress granted public lands to the State of Montana by the Enabling Act in 1889 to provide income to support public schools. The Enabling Act also granted smaller amounts of land to other state institutions. The land grants have been supplemented over time through gifts to the state, reversions of unclaimed property, and subsequent acts.

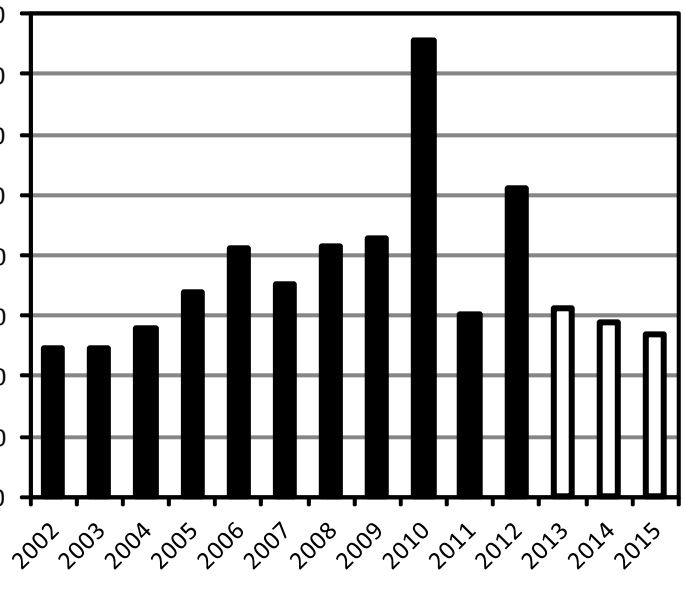
Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus, the proceeds are non-distributable. The trust fund is invested, almost exclusively, in the Trust Fund Bond Pool (TFBP). Of the interest income, 5% percent is retained by the trust fund corpus, and 95% of the interest earned by the trust fund, along with other income from the trust lands, is considered distributable. The distributable income from the common school trust land is deposited in the guarantee account for spending on public schools. The distributable income from the other trust lands goes to state special revenue accounts. Costs of administering state lands are deducted from allocations of the income. An amount is also deducted and put into a reserve fund in the event revenues do not meet the required expenses in a given fiscal year, but will be greater than the costs given a longer time period.

Table 1 shows actual distributable income from the Common School Trust for FY 2002 through FY 2012 and forecast revenue for FY 2013 through FY 2015.

The large increase in revenue in FY 2010 is due to the bonus payment of the Otter Creek coal tracks. The lower level in FY 2011 is due to the changing distribution of mineral royalties to the trust fund corpus rather than common schools. This change became effective toward the end of FY 2010.

Table 1
School Trust Land Interest and Income
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2002	$48.938	4.47%
A	2003	$48.977	0.08%
A	2004	$55.663	13.65%
A	2005	$68.036	22.23%
A	2006	$82.606	21.41%
A	2007	$70.429	-14.74%
A	2008	$83.026	17.89%
A	2009	$85.385	2.84%
A	2010	$151.034	76.88%
A	2011	$60.144	-60.18%
A	2012	$102.391	70.24%
F	**2013**	**$62.569**	**-38.89%**
F	**2014**	**$57.665**	**-7.84%**
F	**2015**	**$53.512**	**-7.20%**



School interest and income was deposited in the general fund through FY 2001. Because of SB 495 (2001 session) and HB 7 (2002 special session) a new special revenue account, the guarantee account, was created. Beginning in FY 2002, school trust interest and income is deposited in the guarantee account rather than the general fund.

Revenue increased in FY 2002, because SB 495 resulted in a loan of $46 million from the coal trust to the school trust fund. The higher school trust fund balance increased interest earnings. SB 495 also allowed $138.9 million in net mineral royalties to be distributed to common schools rather than to the trust fund corpus. That limit was reached in FY 2010, and mineral royalty revenue will be deposited into the trust fund corpus to generate interest revenue.

After HB 152 (2009 session) was passed, all of the revenue generated from timber harvested in the state over 18 million board feet, as well as 95% of the revenue from river bed leases, will be deposited in the school facility and technology improvement account. However, the change in distribution of the revenue from riverbed rents does not take effect until FY 2015.

SB 65 (2009 session) consolidated four accounts that were used to pay for the administration of the trust fund into a single account. It also allowed for the diversion of up to 25% of the prior year's distributable revenue to be deposited into the trust administration account (TAC) for the Department of Natural Resources and Conservation (DNRC) administrative costs. In the event costs were less than what was distributed to the TAC, then up to 1/3 of the excess would be deposited into a newly created reserve account. Money in the reserve account would then be used to cover administrative costs in the event there were inadequate funds in the TAC to cover all of the costs. The remaining revenue would be deposited in the trust fund corpus to generate interest. The balance in the earnings reserve fund may not exceed 200% of the appropriation to the TAC from the prior fiscal year.

Risks and Significant Factors

- In FY 2008, the State of Montana reached an agreement in settlement of litigation under Montana's Hydroelectric Resources Act. The annual fees represent the state's share of net benefits the trust land riverbeds contribute to the hydroelectric project as a whole. Two lease agreements were executed. One agreement is currently being contested and the case is working through the court systems.
- In FY 2010, the state negotiated the leasing right for the Otter Creek coal tracks. This forecast assumes a coal mine at Otter Creek will not be fully developed during the forecast period. If the coal mine is fully developed then the common school trust fund would receive additional royalty revenue that would be deposited into the trust's corpus and generate more interest revenue.
- Trust revenue is net of administration costs of DNRC. If DNRC's costs vary from expectations, then common school revenue could also be greater or less than anticipated.

Forecast Methodology

Step 1. Total interest earnings from the trust and legacy fund are based on interest rate forecasts described in the *Interest Rate Introduction* section.

Step 2. The Common School portion of the total trust fund is then estimated and applied to yield interest income.

Step 3. Agricultural and grazing rentals are determined based on the estimated value of wheat in Montana and trends in revenue collections for these types of rentals.

Step 4. School trust non-royalty mineral income is based on projections provided by the DNRC and historical projection patterns.

Step 5. Timber revenue is based on projections by DNRC, long-term trends, and executive budget recommendations. The price of timber, along with decisions about the amount of land to be harvested, could have an effect on trust land revenues.

Step 6. Mineral royalties are calculated based on projections for DNRC and price estimates based on IHS Global Insight forecasts.

Step 7. All other revenue to the common school trust is forecast based on communication with DNRC and long-term trends.

Step 8. All the pieces are added together and distributed appropriately.

Table 2 shows forecast gross revenue, estimated administrative expenses, allocation, and net revenue to schools for FY 2013 through FY 2015. In addition several bills in the 2011 Legislative Session were allocated to the guarantee account and show at the bottom of the table.

Table 2
School Trust Income Allocation and Distribution
($ millions)

Fiscal Year	FY 2013	FY 2014	FY 2015
Distributable Income			
Investment Income	$22.430	$19.017	$17.627
Agriculture and Grazing Rents	$20.623	$20.950	$20.270
Mineral Management	$12.291	$6.797	$8.964
Forest Management	$2.438	$2.753	$2.793
River Lease Revenue	$4.484	$4.559	$0.000
Licenses and Other Income	$2.608	$2.654	$2.739
Subtotal	**$64.875**	**$56.729**	**$52.392**
Expenses			
Trust Land Administration Account	$9.203	$9.085	$9.073
Subtotal	**$55.672**	**$47.644**	**$43.320**
Permanent Fund			
5% to permanent fund	$2.784	$2.382	$2.166
Total Common Schools Distribution	**$52.889**	**$45.262**	**$41.154**
Other Revenue to Guarantee Account			
Excess Oil and Gas (SB 329)	$9.337	$12.183	$12.134
Other Revenue (HB 604, HB 2, SB 409, SB 410)	$0.343	$0.221	$0.225
Total Other Revenue Sources	**$9.680**	**$12.403**	**$12.359**
Total Revenue to Guarantee Account	$62.569	$57.665	$53.512

Data Sources

Historical interest income information was provided by the State Street Bank and BOI monthly reports. Historical wheat data is from the USDA's website at http://www.nass.usda.gov/Statistics_by_State/Montana/. Forecasts for wheat prices were obtained from the USDA's August 2010 Long-Term Projections available at http://usda.mannlib.cornell.edu/MannUsda/viewStaticPage.do?url=http://usda.mannlib.cornell.edu/usda/ers/94005.

Tobacco Settlement Trust Interest

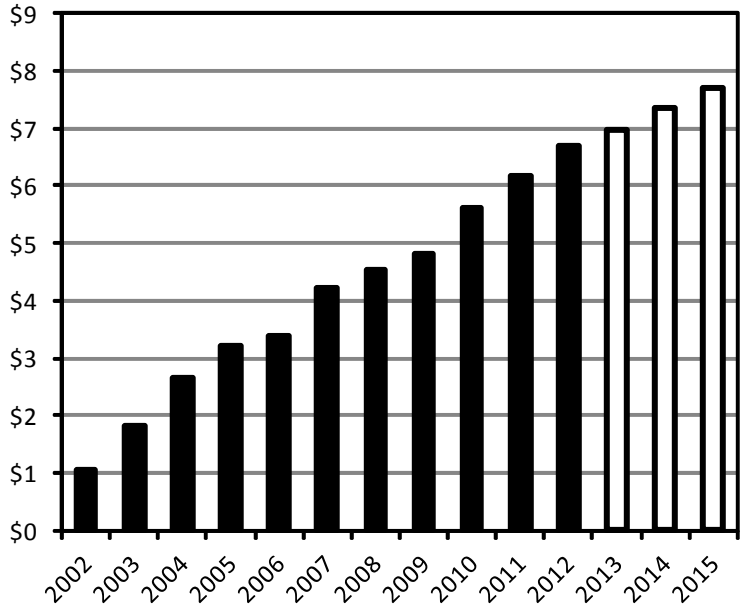
2015 Biennium

Revenue Description

Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest earnings from this trust fund are retained in the trust and 90% are deposited in a special revenue account and may be appropriated by the Legislature for tobacco prevention and health care programs (17-6-603, MCA).

Table 1
Tobacco Settlement Trust Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2001	$0.170	
A	2002	$1.038	-
A	2003	$1.808	-
A	2004	$2.670	47.7%
A	2005	$3.202	19.9%
A	2006	$3.388	5.8%
A	2007	$4.208	24.2%
A	2008	$4.546	8.0%
A	2009	$4.825	6.1%
A	2010	$5.599	16.0%
A	2011	$6.173	10.3%
A	2012	$6.701	8.6%
F	**2013**	**$6.986**	**4.3%**
F	**2014**	**$7.362**	**5.4%**
F	**2015**	**$7.706**	**4.7%**



The tobacco settlement trust was established in January 2001, following passage of Constitutional Amendment 35 in the November 2000 election. Spendable interest is the portion of tobacco trust interest that is not retained by the trust. Tobacco trust interest revenue grows because the trust fund balance increases with the settlement payments made each year.

Forecast Methodology and Significant Factors

There are three steps to forecasting interest revenue from the tobacco trust fund:

Step 1. The annual average balance of the fund is projected. The fund balance increases yearly as 40% of the tobacco settlement payments and 10% of the interest earned on the fund balance are deposited into the trust fund.

Step 2. The annual average balance by investment type is projected. The fund balance is invested in the short-term investment pool (STIP) and the trust fund bond pool (TFBP). STIP and TFBP are managed by the Board of Investments and forecasts of annual rates of return for STIP and TFBP are explained in the *Interest Rate Introduction*.

Step 3. Interest earnings are forecast by multiplying the tobacco trust fund balance by the projected average interest rate. The STIP and TFBP interest rates are expected to change throughout the 2015 biennium, as described in the *Interest Rate Introduction*. However, total tobacco trust fund income will continue to increase each year

because the increasing trust fund balance offsets lower interest rates, to the extent that lower interest rates are realized.

Distributions

Table 2 summarizes actual and projected interest earnings and the allocation of interest earnings from FY 2005 through FY 2015. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account.

Table 2
Tobacco Trust Interest Revenue Distribution
($ millions)

Fiscal Year	Reinvested Revenue (10%)		Remaining Revenue (90%)		Total Interest Revenue
A 2005	$0.320	+	$2.882	=	$3.202
A 2006	$0.339	+	$3.049	=	$3.388
A 2007	$0.421	+	$3.787	=	$4.208
A 2008	$0.455	+	$4.091	=	$4.546
A 2009	$0.483	+	$4.343	=	$4.825
A 2010	$0.560	+	$5.039	=	$5.599
A 2011	$0.617	+	$5.556	=	$6.173
A 2012	$0.670	**+**	$6.031	**=**	$6.701
F 2013	**$0.699**	**+**	**$6.287**	**=**	**$6.986**
F 2014	**$0.736**	**+**	**$6.626**	**=**	**$7.362**
F 2015	**$0.771**	**+**	**$6.936**	**=**	**$7.706**

Data Sources

Tobacco trust balances and earnings are obtained from the Board of Investments (BOI) and SABHRS. Projections of tobacco settlement deposits are from the *Tobacco Master Settlement Agreement Revenue* estimate. Projections of the STIP and TFBP interest rates are from *Interest Rate Introduction.*

Introduction to Coal Trust Interests

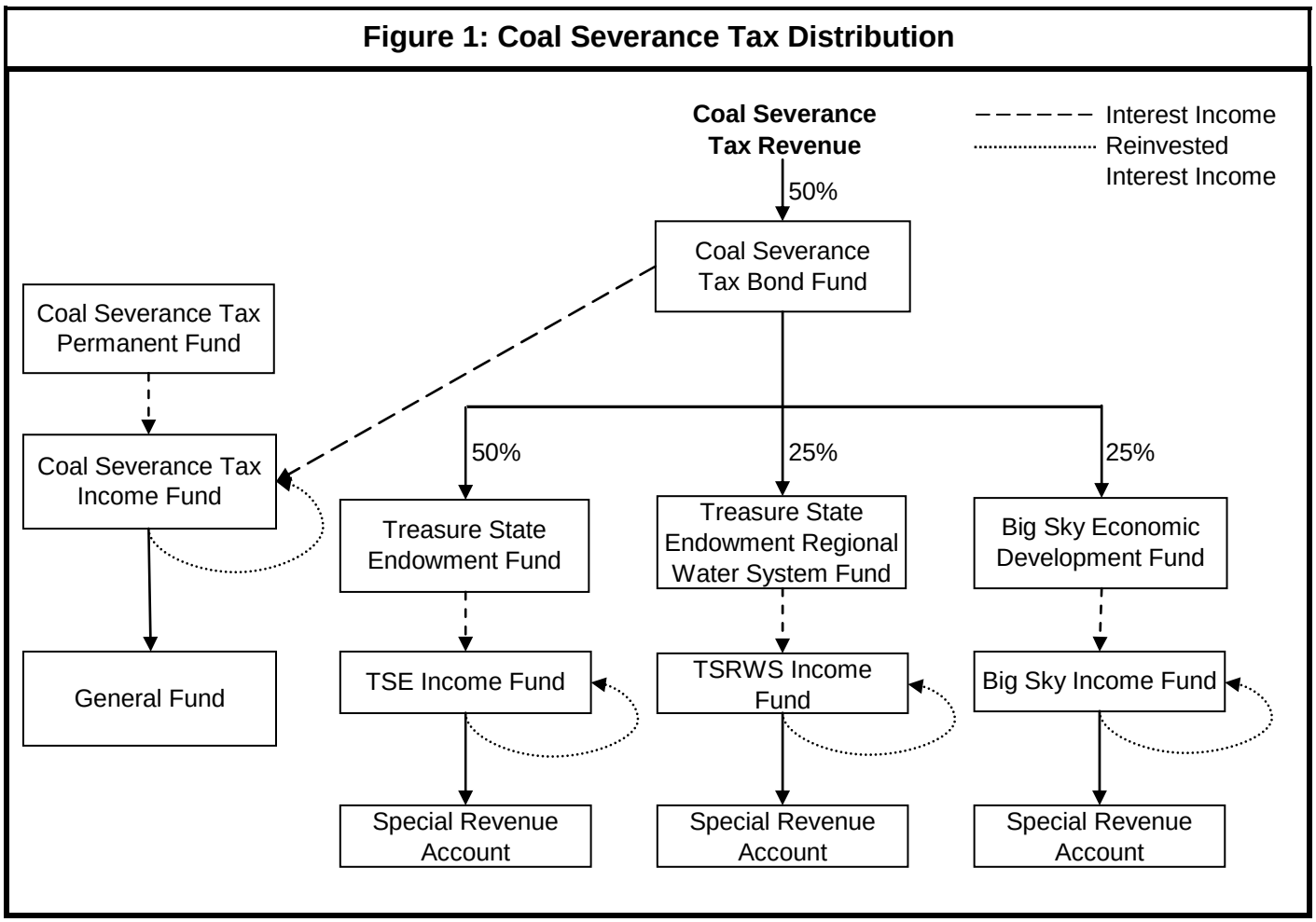
Revenue Description

Article IX, Section 5 of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited as principal. Interest income from this principal may be appropriated, but the principal itself is inviolate unless approved by ¾ of the members of each house in the legislature. Under current law, 50% of coal severance tax revenue is deposited in the trust fund, which is divided into the following permanent funds. (17-5-703, MCA)

- coal severance tax bond fund
- coal severance tax permanent fund
- treasure state endowment fund (TSE)
- treasure state endowment regional water system fund (TSRWS)
- big sky economic development fund (Big Sky)

The coal severance tax revenue allocated to the trust is initially deposited in the coal severance tax bond fund. The revenue is then distributed to the various accounts as shown in Figure 1.

Figure 1: Coal Severance Tax Distribution



Coal Severance Tax Bond Fund

The coal severance tax revenue deposited into the coal severance tax bond fund (bond fund) secures state issued bonds, called coal severance tax bonds. The tax bonds are issued to finance loans through the Department of Natural Resources and Conservation (DNRC). The Department of Revenue (DOR) administers the bond fund, and at the beginning of a fiscal year, DNRC informs DOR of the amount necessary to meet all principal and interest payments on coal severance tax bonds in the next twelve months. This amount is maintained as a reserve balance in the bond fund.

A portion of the reserve balance in the bond fund is invested in the short-term investment pool (STIP). This investment averages about $6 million per year, and the interest earnings are deposited in the coal severance tax income fund. The coal severance tax income fund balance is transferred monthly to the general fund, but the balance is invested in STIP during the interim with the reinvested interest income returning to the fund.

The coal severance tax revenue that is not reserved in the bond fund is allocated 50% to the Treasure State Endowment fund, 25% to the Treasure State Endowment Regional Water System fund, and 25% to the Big Sky Economic Development fund.

Risks and Significant Factors

- The Federal Open Market Committee (FOMC) may decide to keep interest low as a way to encourage economic growth.
- It is possible the FOMC will begin to increase the federal funds rate more rapidly than anticipated if they feel inflation threatens the health of the national economy.
- If the national economy were to enter another deep recession, there will be an increased likelihood some of the investments could default, significantly reducing the rates of return on the total investment.
- The amount of coal severance tax revenue deposited into the balance of the fund will have an effect on the interest earnings.

Forecast Methodology

Revenue for the three trust funds is forecast in two main steps.

Step 1. Estimate the composition of the trusts investments

Step 2. Apply the appropriate interest rate to the different investments. The different rates of return are forecast in the *Interest Rate Introduction* section.

The following sections discuss the revenue for each individual trust.

Coal Severance Tax Permanent Fund

The coal severance tax permanent fund (permanent fund) is the original coal tax trust fund. The permanent fund does not currently receive any coal severance tax revenue, but it earns interest income. The permanent fund balance in FY 2010 was $531 million and 39% was invested in loans, 2% was invested in STIP, and the remaining 59% was invested in the Trust Fund Bond Pool (TFBP). The interest earnings from the permanent fund are deposited into the coal severance tax income fund. General fund interest earning is discussed in the *Coal Trust Interest Earning* section.

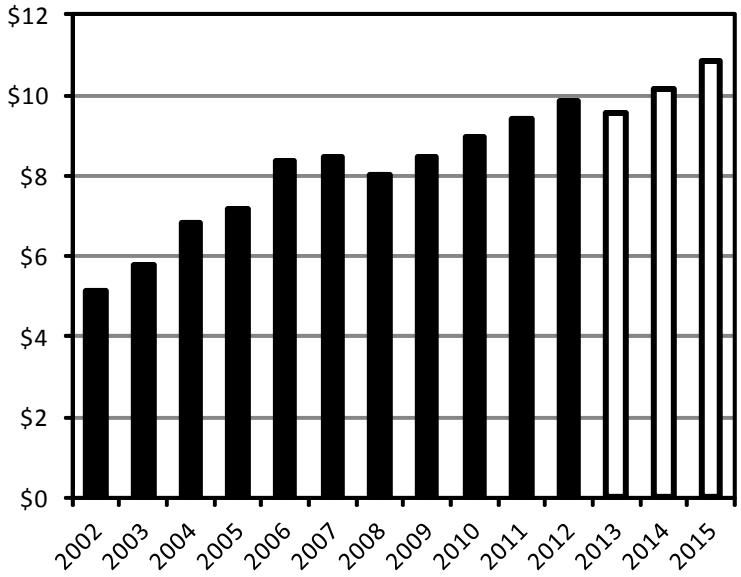
Treasure State Endowment Fund

The TSE fund is used for local government projects improving drinking water systems, wastewater treatment facilities, sewer systems, solid waste disposal systems, and bridges.

The coal tax contributions to the TSE have varied across years. In FY 2002 and FY 2003, the trust fund received 37.5% of net coal tax collections. Deposits to the trust fund fell in FY 2004 because the TSE fund allocation dropped to 25% of net coal tax collections (SB 10, 2003 session).

Table 1
Treasure State Endowment Fund Interest
($ millions)

Fiscal Year		Revenue	Percent Change
A	2002	$5.123	7.4%
A	2003	$5.802	13.2%
A	2004	$6.805	17.3%
A	2005	$7.175	5.4%
A	2006	$8.349	16.4%
A	2007	$8.482	1.6%
A	2008	$8.039	-5.2%
A	2009	$8.450	5.1%
A	2010	$8.940	5.8%
A	2011	$9.416	5.3%
A	2012	$9.866	4.8%
F	**2013**	**$9.559**	**-3.1%**
F	**2014**	**$10.146**	**6.1%**
F	**2015**	**$10.857**	**7.0%**



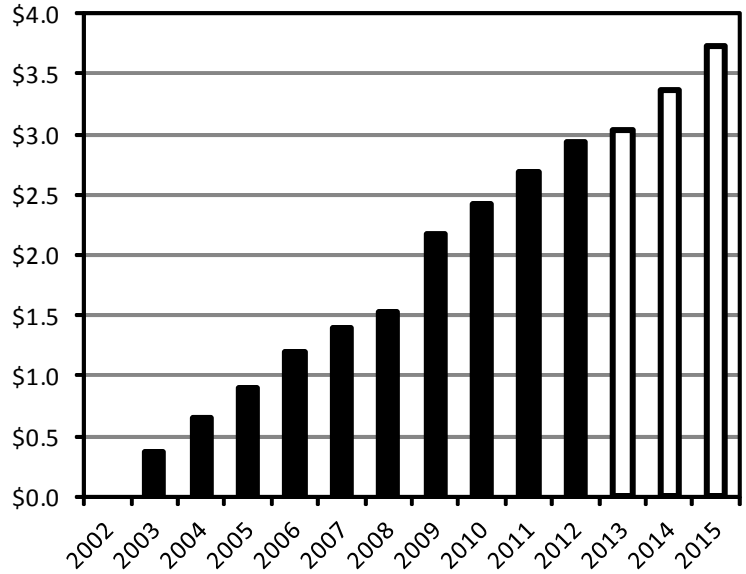
The TSE fund receives 50% of the coal severance tax transfers from the bond fund, or 25% of coal severance tax revenue. The fund balance at the end of FY 2012 was $209 million with 97.6% of the balance invested in TFBP, half a percent in loans, and 1.9% invested in STIP. The interest income from the TSE fund is deposited in the TSE income fund, which earns reinvested interest income from STIP investments. The money needed for local government projects is transferred from the income fund to a special revenue account for distribution.

Treasure State Endowment Regional Water System Fund

The TSRWS provides funding for regional water projects. Funds may be used to match funds for construction of water systems, pay debt service on water system bond issues, pay administrative expenses of state and local entities, and provide interim funding to state or local entities pending receipt of grants or loans.

Table 2
Treasure State Endowment Regional Water System Fund Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2002	-	-
A	2003	$0.370	-
A	2004	$0.643	73.7%
A	2005	$0.894	39.0%
A	2006	$1.201	34.3%
A	2007	$1.396	16.3%
A	2008	$1.527	9.4%
A	2009	$2.179	42.6%
A	2010	$2.419	11.0%
A	2011	$2.685	11.0%
A	2012	$2.937	9.4%
F	**2013**	**$3.041**	**3.5%**
F	**2014**	**$3.366**	**10.7%**
F	**2015**	**$3.729**	**10.8%**



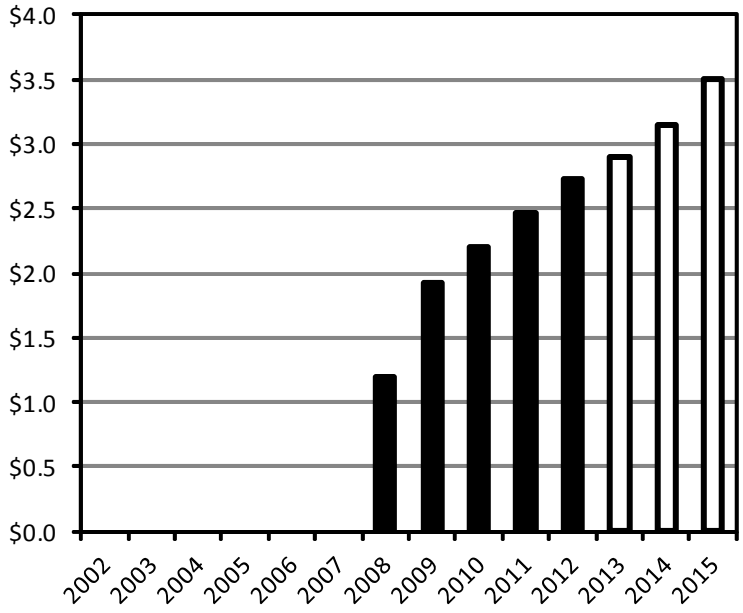
TSRWS receives 25% of the coal severance tax transfers from the bond fund, or about 12.5% of coal severance tax receipts. The fund balance at the end of FY 2012 was $61.7 million, which was invested 97% in TFBP and 3% in STIP. The interest income from TSRWS is deposited in the TSRWS income fund, which is invested in STIP. Funds needed for projects are transferred to a special revenue account for distribution.

Big Sky Economic Development Fund

On July 8, 2005, $20 million was taken from the permanent fund to create the Big Sky Fund. The interest income from the Big Sky Fund provides financial assistance for economic development to local governments and certified regional development corporations.

Table 3
Big Sky Economic Development Fund Interest
($ millions)

Fiscal Year	Revenue	Percent Change
A 2001		
A 2002	-	-
A 2003	-	-
A 2004	-	-
A 2005	-	-
A 2006	-	-
A 2007	-	-
A 2008	$1.194	-
A 2009	$1.925	61.3%
A 2010	$2.196	14.1%
A 2011	$2.472	12.6%
A 2012	$2.731	10.5%
F 2013	**$2.904**	**6.3%**
F 2014	**$3.141**	**8.2%**
F 2015	**$3.497**	**11.3%**



The Big Sky Fund will receive 25% of the coal severance tax transfers from the bond fund. The year end fund balance in FY 2012 was $60 million. This balance was invested 96.6% in TFBP and less than 3.4% in STIP. Income from this investment is transferred to a state special revenue account to fund program expenditures. Income not needed for program expenditures remains in the Big Sky Fund and earns interest.

Data Sources

Trust fund balances and earnings were obtained from the Board of Investments and SABHRS. Establishment and legal description of the coal trusts is discussed in 17-5-701 through 17-5-731, MCA. The Department of Natural Resources and Conservation Annual Report (2005) provided information on the Coal Severance Tax Bond Fund and debt service account.

Resource Indemnity Tax

2015 Biennium

Revenue Description

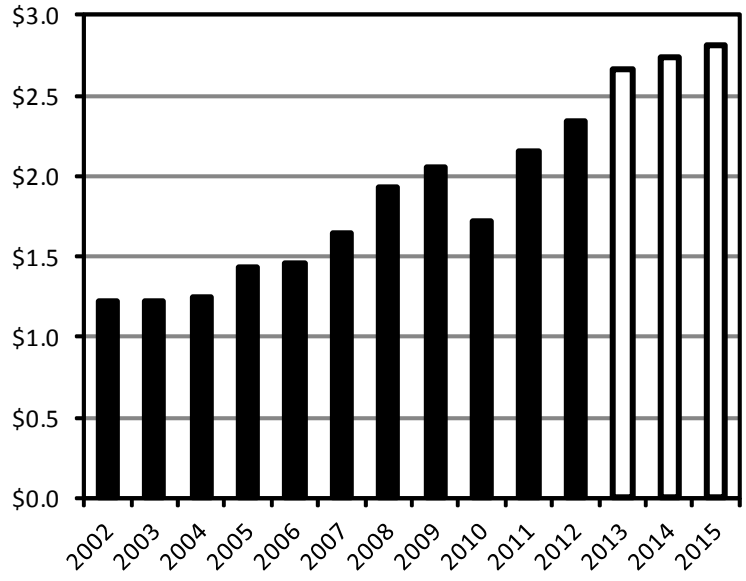
Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The tax (also called the Resource Indemnity Tax or RIT) funds the Resource Indemnity Trust. The tax also provides revenues for groundwater assessment and resource development programs to benefit the state and its citizens. The purpose of the trust and other programs is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

Until the Resource Indemnity Trust Fund balance reached $100 million, 50% of the Resource Indemnity Tax was deposited in the trust fund. The fund balance reached $100 million in December 2001, and this allocation ceased. Under current law, the tax is deposited into several state special revenue accounts.

Table 1 shows actual Resource Indemnity Tax revenues for FY 2002 through FY 2012 and forecast revenue for FY 2013 though FY 2015.

Table 1
Resource Indemnity Tax
($ millions)

Fiscal Year		Revenue	Percent Change
A	2002	$1.224	-47.5%
A	2003	$1.226	0.1%
A	2004	$1.251	2.0%
A	2005	$1.436	14.9%
A	2006	$1.456	1.4%
A	2007	$1.647	13.1%
A	2008	$1.926	16.9%
A	2009	$2.054	6.6%
A	2010	$1.712	-16.7%
A	2011	$2.147	25.4%
A	2012	$2.344	9.2%
F	**2013**	**$2.659**	**13.4%**
F	**2014**	**$2.742**	**3.1%**
F	**2015**	**$2.817**	**2.7%**



The tax rates for RIT vary depending on the type of mineral being extracted.

- Talc's tax rate is $25 plus an additional 4% of the gross value of the talc produced in excess of $625 in the prior calendar year.
- Coal's tax rate is $25 plus an additional 0.4% of the gross value of the coal produced in excess of $6,250 in the prior calendar year.
- Vermiculite's tax rate is $25 plus an additional 2% of the gross value of the vermiculite produced in excess of $1,250 in the prior calendar year.
- Limestone's tax rate is $25 plus an additional 10% of the gross value of the limestone produced in excess of $250 in the prior calendar year.
- Industrial garnets and its associated byproducts tax rate is $25 plus an additional 1% of the gross value of product in excess of $2,500 in the prior calendar year.
- All other mineral's tax rate (excluding metals, oil, and natural gas) is $25 and an additional 0.5% of the gross value of the product in excess of $5,000 in the prior calendar year.

Forecast Methodology

There are 2 steps in forecasting RIT revenues:

Step 1. Estimate the amount of revenue from coal production. Coal production is increased proportionally by the same amount as the forecast coal production in the *Coal Severance Tax Revenue* estimate.

Step 2. All other minerals that pay the Coal Severance Tax are projected to increase at the same rate as the IHS Global Insight forecast for minerals and mineral product's producer price index.

Table 2 shows the actual and forecast RIT revenues from coal production and other mineral production.

Table 2
Resource Indemnity Tax
($ millions)

Fiscal Year	Coal Tax Revenue		Other Minerals Tax Revenue		Total
A 2002	$0.999	+	$0.225	=	$1.224
A 2003	$0.963	+	$0.262	=	$1.226
A 2004	$0.966	+	$0.285	=	$1.251
A 2005	$1.109	+	$0.328	=	$1.436
A 2006	$1.087	+	$0.370	=	$1.456
A 2007	$1.212	+	$0.435	=	$1.647
A 2008	$1.215	+	$0.711	=	$1.926
A 2009	$1.262	+	$0.792	=	$2.054
A 2010	$1.362	+	$0.350	=	$1.712
A 2011	$1.598	+	$0.549	=	$2.147
A 2012	$1.728	+	$0.616	=	$2.344
F 2013	**$2.061**	**+**	**$0.598**	**=**	**$2.659**
F 2014	**$2.132**	**+**	**$0.610**	**=**	**$2.742**
F 2015	**$2.185**	**+**	**$0.632**	**=**	**$2.817**

Distribution

The Resource Indemnity Tax revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the water storage account (85-1-631, MCA), the Hazardous Waste/CERCLA state special revenue account (75-10-621, MCA), the Environmental Quality Protection Fund (75-10-704, MCA), and the Natural Resource Projects state special revenue account (15-38-302, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund must allocate the required amount to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA).

Second, $0.366 million is distributed to the groundwater assessment account. In FY 2003, the groundwater assessment account allocation increased from $0.300 million to $0.366 million (SB 322, 2001 session). In FY 2005, the groundwater assessment account received only $0.114 million due to a correction from a previous error in distribution.

Third, at the beginning of the biennium (even numbered years), $0.150 million is allocated to the water storage state special revenue account.

Fourth, 25% of the remaining revenue is distributed to the Hazardous Waste /CERCLA state special revenue account, 25% is distributed to the Environmental Quality Protection Fund, and 50% to the Natural Resource Projects state special revenue account.
Table 3 shows the actual and forecast distribution of the RIT revenue for FY 2010 through FY 2015.

Table 3
Resource Indemnity Tax Revenue Allocation
($ millions)

Fiscal Year	CERCLA match debt service fund	Groundwater Assessment	Water Storage	Environmental Quality Protection	Hazardous Waste / CERCLA	Natural Resources Projects	Total
A 2010	$0.272	$0.366	$0.150	$0.231	$0.231	$0.462	$1.712
A 2011	$0.274	$0.366	$0.000	$0.377	$0.377	$0.753	$2.147
A 2012	$0.267	$0.366	$0.150	$0.390	$0.390	$0.780	$2.344
F 2013	**$0.267**	**$0.366**	**$0.000**	**$0.506**	**$0.506**	**$1.013**	**$2.659**
F 2014	**$0.267**	**$0.366**	**$0.150**	**$0.490**	**$0.490**	**$0.980**	**$2.742**
F 2015	**$0.267**	**$0.366**	**$0.000**	**$0.546**	**$0.546**	**$1.092**	**$2.817**

Data Sources

Historical allocations were obtained from SABHRS MTGL0109 report, historical RIT production was obtained from a Department of Revenue GENTAX data extract, and price forecasts were from IHS Global Insight's National Economic Forecast.

Resource Indemnity Trust Interest

2015 Biennium

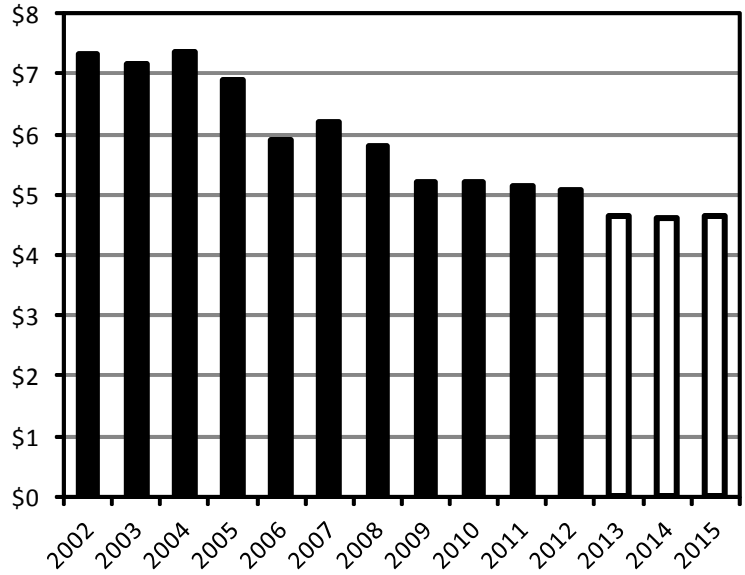
Revenue Description

Title 15, Chapter 38, MCA, created a Resource Indemnity Trust (RIT) fund to indemnify the citizens of Montana for depletion of the state's natural resources and for the environmental damage due to mineral development. The trust was to be funded with proceeds from the Resource Indemnity Tax until the trust balance reached $100 million, which occurred in December 2001. Deposits from the Resource Indemnity Tax ceased at that point, and the balance has remained at $100 million. Income from the trust fund is used to fund environmental and natural resource programs.

Table 1 shows actual interest income from the RIT trust fund from FY 2002 to FY 2012 and forecast income for FY 2013 through FY 2015.

Table 1
Resource Indemnity Trust Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2002	$7.321	-2.8%
A	2003	$7.174	-2.0%
A	2004	$7.380	2.9%
A	2005	$6.902	-6.5%
A	2006	$5.916	-14.3%
A	2007	$6.220	5.2%
A	2008	$5.801	-6.7%
A	2009	$5.197	-10.4%
A	2010	$5.213	0.3%
A	2011	$5.135	-1.5%
A	2012	$5.064	-1.4%
F	**2013**	**$4.654**	**-8.1%**
F	**2014**	**$4.626**	**-0.6%**
F	**2015**	**$4.644**	**0.4%**



Forecast Methodology

The interest income is forecast in two steps:

Step 1. Estimate the balance of the RIT fund.

Step 2. Apply the appropriate interest rates forecast in the *Interest Rates Introduction* section.

Distribution

The revenue distribution of the RIT interest revenue is defined in section 15-38-202, MCA. Some of the accounts receive a fixed allocation per biennium, some accounts receive a fixed allocation per fiscal year, some accounts receive a percentage each fiscal year of remaining revenue after the fixed allocations have been made, and some accounts receive both a fixed and a percentage allocation.

In the first year of each biennium the following accounts receive these fixed allocations:

- $50,000 to the oil and gas production damage mitigation account until the account balance reaches $200,000 (82-11-161, MCA);
- $500,000 to the water storage account (85-1-631, MCA), and
- $175,000 to the environmental contingency account until the account balance reaches $750,000 (75-1-1101, MCA).

Each fiscal year the following accounts receive these fixed allocations:

- $3.5 million to the natural resource projects account for grants (15-38-302, MCA);
- $300,000 to the groundwater assessment account (85-2-905, MCA); and
- $500,000 to the Department of Fish, Wildlife and Parks for the trout habitat enhancement program (87-1-283, MCA). HB 9 (2002 special session) reduced the FY 2005 allocation to $350,000.

Each fiscal year any funds remaining after all fixed allocations have been made are distributed to the following accounts in these proportions:

- 65% to the natural resource operation account;
- 26% to the hazardous waste/CERCLA account (75-10-621, MCA); and
- 9% to the environmental quality protection fund (75-10-704, MCA).

Table 2 shows the distribution of RIT interest for FY 2012 and the forecast distribution for FY 2013 through FY 2015.

Table 2
Resource Indemnity Trust Interest Allocation
($ millions)

Entity	FY 2012	FY 2013	FY 2014	FY 2015
Total Revenue	**$5.064**	**$4.654**	**$4.626**	**$4.644**
Biennial Fixed Allocations				
Oil & Gas Damage Mitigation	$0.050	$0.000	$0.050	$0.000
Environmental Contingency	$0.028	$0.000	$0.175	$0.000
Water Storage	$0.500	$0.000	$0.500	$0.000
Annual Fixed Allocation				
Natural Resources Projects	$3.500	$3.500	$3.500	$3.500
Ground Water Assessment	$0.300	$0.300	$0.300	$0.300
Future Fisheries	$0.500	$0.500	$0.101	$0.500
Remainder	**$0.185**	**$0.354**	**$0.000**	**$0.344**
Annual Percentage Allocations				
Natural Resource Operations (65%)	$0.121	$0.230	$0.000	$0.224
Hazardous Wast/CERCLA (26%)	$0.048	$0.092	$0.000	$0.090
Environmental Quality Protection (9%)	$0.017	$0.032	$0.000	$0.031

Data Sources

Investment balances and interest earnings data was obtained from the Board of Investments (BOI) and SABHRS.

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INDEX

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GOVERNOR'S OFFICE OF
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INDEX