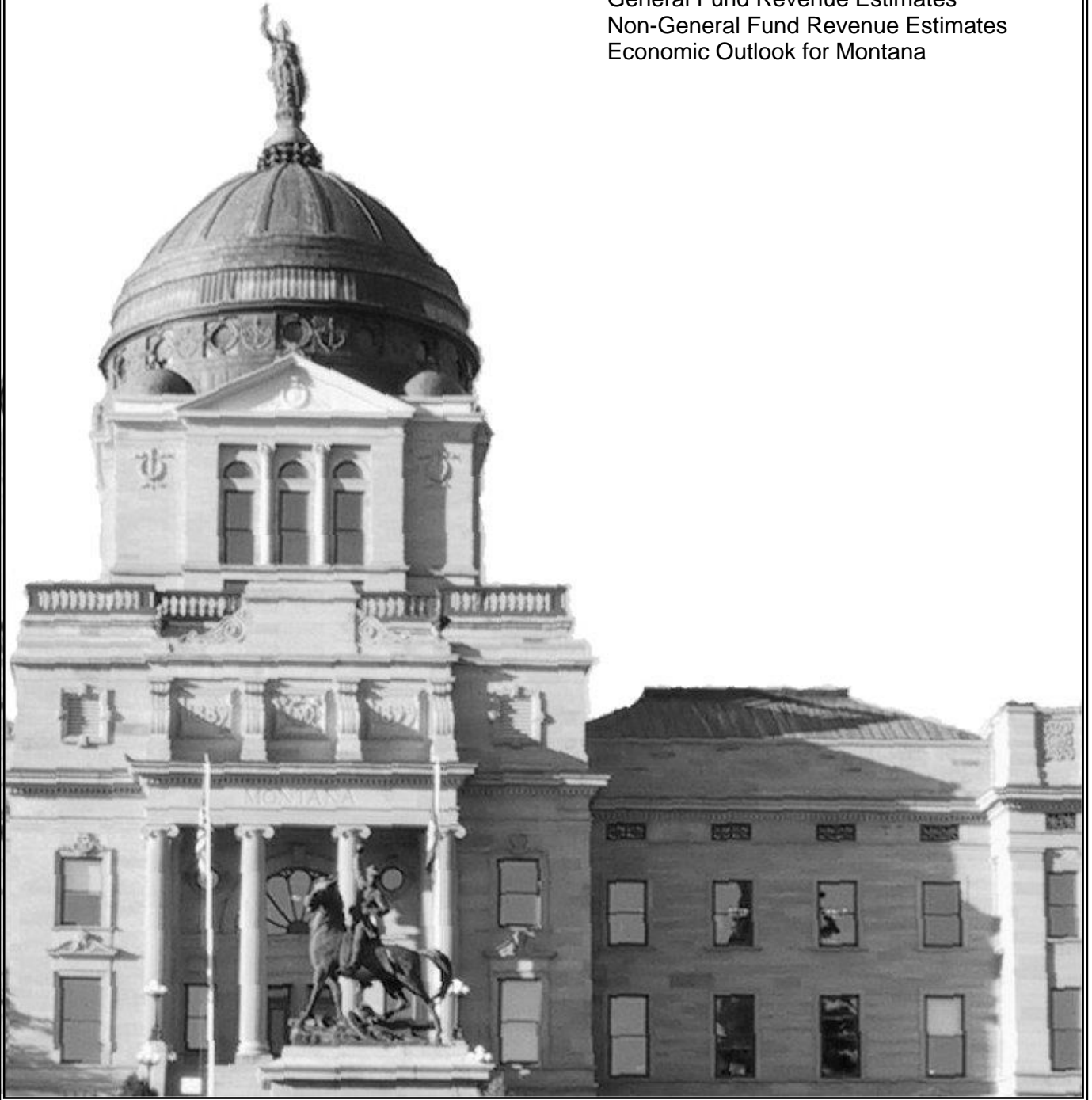


# OVERVIEW

Purpose of the Report  
History  
General Fund Revenue Estimates  
Non-General Fund Revenue Estimates  
Economic Outlook for Montana





## **Overview**

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### **Purpose of the Report**

As delineated in [5-5-227\(2\)\(a\), MCA](#), the Revenue Interim Committee (RIC) is required to prepare an estimate of the amount of revenue projected to be available for legislative appropriation. In addition, [5-12-302, MCA](#) specifically requires the Legislative Fiscal Analyst (LFA) to estimate revenue from existing and proposed taxes and also requires the LFA to assist RIC in performing its revenue estimating duties.

The purpose of this report is to document the Legislative Fiscal Division (LFD) recommendations for anticipated revenues for FY 2021 through 2023. In almost all cases, estimates are based on current federal and state laws and do not include estimates for revenues due to litigation or any other pending legal issues. This position is consistent with past recommendations to RTIC.

### **History**

In 1989, the Montana Legislature established a process for the Legislature to develop revenue estimates for legislative appropriation. SB 341 (1989 Session) directed the then-Revenue Oversight Committee to prepare the revenue estimates. The legislation also provided that the revenue estimating resolution introduced by the Committee and subsequent periodic reports issued by the Committee constitute the Legislature's current revenue estimate until final adoption of the resolution by both houses of the Legislature.

In 1991, the Legislature revised the procedures of estimating revenue by inserting the language that is now contained in [5-5-227\(2\)\(a\) and \(3\), MCA](#), including the language that the Committee's revenue estimates and underlying assumptions should be used by state agencies in the preparation of fiscal notes (Chapter 603, Laws 1991).

Because of disparities in the revenue estimates between the LFD and the Department of Revenue (DOR) during the 1997 session, House leadership requested that the Revenue Oversight Committee work with LFD and DOR to develop a process to resolve differences in revenue estimates before the 1999 legislative session.

### **Recent Process**

In 1999, the Legislature revised the structure of interim committees and assigned the revenue estimating responsibilities to RTIC (Chapter 19, Laws 1999). Since then, the RTIC has adopted the revenue estimates in November of the year proceeding the next regular session. As a practical matter, the Committee cannot adopt the estimates much earlier than mid-November because the DOR income tax data is not available until November 1 (October 15 is the general deadline for taxpayers who requested an extension of time for filing an income tax return).

Staff of the LFD and the Governor's Office of Budget and Program Planning (OBPP) each present assumptions and corresponding revenue estimates for the Committee's consideration. In the past, the Committee has initially adopted the revenue estimates of the LFD and may make changes to those estimates based on information presented by OBPP, economists from the Montana university system, and other experts.

Finally, the resolution containing the Committee's revenue estimates must be pre-introduced by December 15th (see Rules of the Montana Legislature, Joint Rules 40-40(5)(a)). The Committee's estimate, as introduced in the Legislature, constitutes the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses.

### **Path through the Legislature**

In 2007, the resolution died in the House Taxation Committee. Therefore, the RTIC estimates were the Legislature's current revenue estimates.

## **Overview**

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In February 2009, the House Taxation Committee amended HJR 2 and adopted a committee report. The resolution was referred to the Committee. In March, the Committee again amended the resolution and adopted a committee report. In each instance, the House Taxation Committee estimates became the Legislature's current revenue estimate. The resolution died in the process.

In March 2011, the House Taxation Committee amended HJR 2 and adopted a committee report. The resolution was referred to the Committee, where it died in process.

In November 2012, RTIC met to review and adopt a revenue estimate recommendation, but were unable to agree on the estimate. Therefore, the committee did not introduce a resolution with the Committee's estimate. The Rules Committee subsequently met and adopted rules for the 63<sup>rd</sup> Legislative Session, including a requirement that the chair of the Senate Taxation Committee prepare a revenue estimate to be introduced in the Senate. The estimate contained in SJR 2, along with an initial set of amendments passed both houses by early February 2013. A revised estimate contained in SJR 27 was introduced in early April; however, due to missing the transmittal deadline for revenue bills, it ultimately failed to pass both houses.

In November 2014, RTIC met to review and adopt a revenue estimate recommendation. The OBPP recommendation was \$295.4 million above the LFD recommendation. The committee ultimately adopted the LFD recommendations, with total adjustments in individual income tax and oil & natural gas tax equal to half of the total difference between the OBPP and LFD recommendations for individual income tax, corporation income tax, and oil & natural gas tax.

In January 2015, OBPP and LFD presented updated revenue estimates to a joint meeting of the House and Senate Tax Committees. At this time, the OBPP estimate was above the LFD estimate by \$358.6 million. The two tax committees formed a joint subcommittee to understand the revenue estimates and the corresponding differences in more detail and make a recommendation to the House Tax Committee. The joint subcommittee met weekly throughout February and March, and ultimately made a recommendation to the House Tax Committee based on the LFD estimate, with a variety of alternative assumptions that increased the three-year estimate to \$232 million above the LFD estimate.

OBPP presented a revenue estimate recommendation to the November 2016 meeting of RTIC that was below the LFD recommendation by \$40.6 million to the three-year forecast. The committee adopted LFD assumptions, but included a general fund adjustment to each source so that the overall amount was equal to the OBPP estimate. In April, the House Taxation Committee amended HJR 2 based on the LFD March updated recommendation and adopted a committee report. The resolution was rereferred to the Committee, where it died in process.

In November 2018, RTIC heard the revenue estimate recommendations from OBPP and LFD, which were quite close: the OBPP recommendation was \$46.3 million or 0.6% below LFD over the three-year forecast. The committee adopted the LFD estimate and corresponding assumptions, with an adjustment in corporate tax that essentially resulted in an average of the two estimate recommendations. The RTIC revenue estimate was incorporated into HJ 2 as the official revenue estimate of the legislature for the beginning of the session.

In November 2020, RIC heard the revenue estimate from both OBPP and the LFD. The revenue estimates were quite close, as the LFD estimate was only \$65.7 million, or 0.9% greater than the OBPP estimate over the three-year forecast. Ultimately, the committee adopted the LFD estimate and corresponding assumptions. The adopted estimate was established as HJ 2 as the official revenue estimate of the legislature for the beginning of the session.

## Overview

### General Fund Revenue Estimate

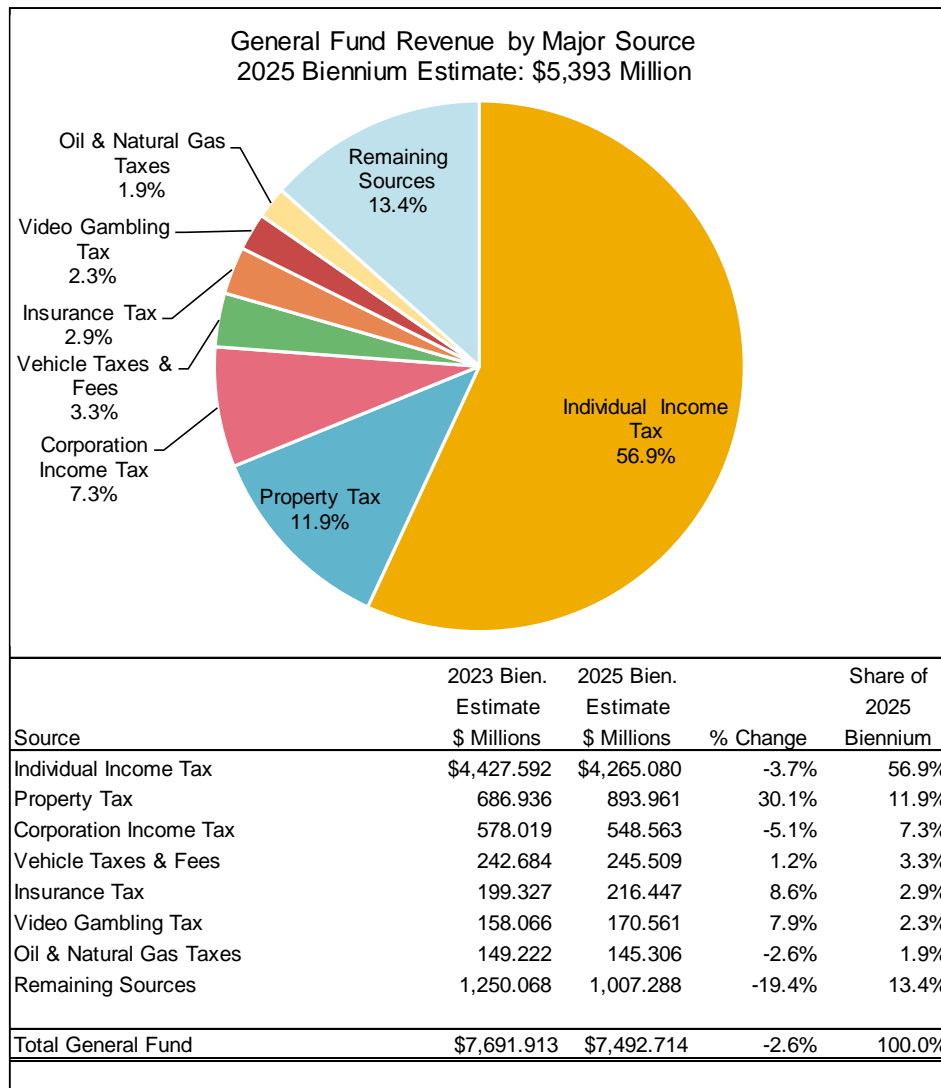
The table below shows the adopted general fund revenue estimate. Actual FY 2022 collections are shown, along with the adopted projections for FY 2023 through 2025.

General Fund HJ 2 Estimate as Adopted by RIC						
(\$ Millions)						
Source of Revenue	Actual FY 2022	Estimated FY 2023	Estimated FY 2024	Estimated FY 2025	Estimated 2023 Bien	Estimated 2025 Bien
<b>Largest Seven Sources</b>						
Individual Income Tax	\$2,393.807	\$2,033.784	\$2,086.756	\$2,178.325	\$4,427.592	\$4,265.080
Property Tax	335.114	351.821	443.144	450.817	686.936	893.961
Corporation Income Tax	293.683	284.335	277.207	271.356	578.019	548.563
Vehicle Taxes & Fees	121.138	121.546	122.263	123.246	242.684	245.509
Oil & Natural Gas Production Tax	70.510	78.712	73.262	72.045	149.222	145.306
Insurance Tax & License Fees	97.940	101.387	105.838	110.608	199.327	216.447
Video Gambling Tax	77.881	80.185	83.666	86.895	158.066	170.561
<b>Other Business Taxes</b>						
Driver's License Fee	6.171	5.854	5.919	5.972	12.025	11.890
Investment License Fee	19.535	20.182	20.741	21.314	39.717	42.056
Lodging Taxes	46.175	51.124	57.476	61.792	97.299	119.268
Public Contractors Tax	2.840	4.196	4.300	4.396	7.036	8.697
Railroad Car Tax	4.020	4.799	5.496	5.534	8.819	11.029
Rental Car Sales Tax	6.823	8.114	7.978	8.250	14.937	16.228
Telecommunications Excise Tax	8.571	7.891	5.631	4.634	16.462	10.265
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	15.359	21.374	20.644	17.218	36.733	37.862
Electrical Energy Tax	3.930	3.841	3.536	3.383	7.771	6.919
Metalliferous Mines Tax	12.210	11.254	11.363	11.369	23.464	22.732
US Mineral Royalty	19.464	28.143	24.212	20.291	47.607	44.503
Wholesale Energy Tax	3.352	3.427	3.410	3.398	6.779	6.808
<b>Other Interest Earnings</b>						
Coal Trust Interest	16.561	17.947	18.857	19.657	34.509	38.514
Treasury Cash Account Interest	11.776	101.367	126.591	98.569	113.143	225.159
<b>Other Consumption Taxes</b>						
Beer Tax	3.202	3.294	3.329	3.362	6.496	6.691
Cigarette Tax	27.993	27.517	26.889	26.069	55.510	52.958
Liquor Excise & License Tax	29.166	31.241	32.282	33.409	60.407	65.691
Liquor Profits	21.879	22.600	23.700	24.300	44.479	48.000
Lottery Profits	15.311	15.264	15.508	15.683	30.575	31.191
Marijuana Tax	14.238	27.401	27.975	29.107	41.639	57.082
Tobacco Tax	5.565	5.451	5.366	5.253	11.016	10.619
Wine Tax	2.573	2.641	2.699	2.760	5.214	5.459
<b>Other Sources</b>						
All Other Revenue <sup>1</sup>	180.512	305.512	46.451	46.662	486.024	93.113
Highway Patrol Fines	3.533	3.503	3.518	3.518	7.036	7.036
Nursing Facilities Fee	3.447	3.153	2.942	2.731	6.600	5.673
Public Institution Reimbursements	13.933	8.070	7.758	7.446	22.003	15.204
Tobacco Settlement	3.426	3.342	3.327	3.312	6.768	6.638
Ongoing Revenue Subtotal	3,755.727	3,539.484	3,710.034	3,782.680	7,295.211	7,492.714
OTO & Transfers Subtotal	135.914	260.789				
<b>Total General Fund</b>	<b>\$3,891.640</b>	<b>\$3,800.273</b>	<b>\$3,710.034</b>	<b>\$3,782.680</b>	<b>\$7,691.913</b>	<b>\$7,492.714</b>
<b>Ongoing General Fund Growth</b>		<b>-5.8%</b>	<b>4.8%</b>	<b>2.0%</b>		<b>2.7%</b>

<sup>1</sup>In FY 2022, All Other Revenue includes a transfer of \$115 million from the BSRF back to the General Fund. In FY 2023 this transfer is \$260.8 million.

**Overview**

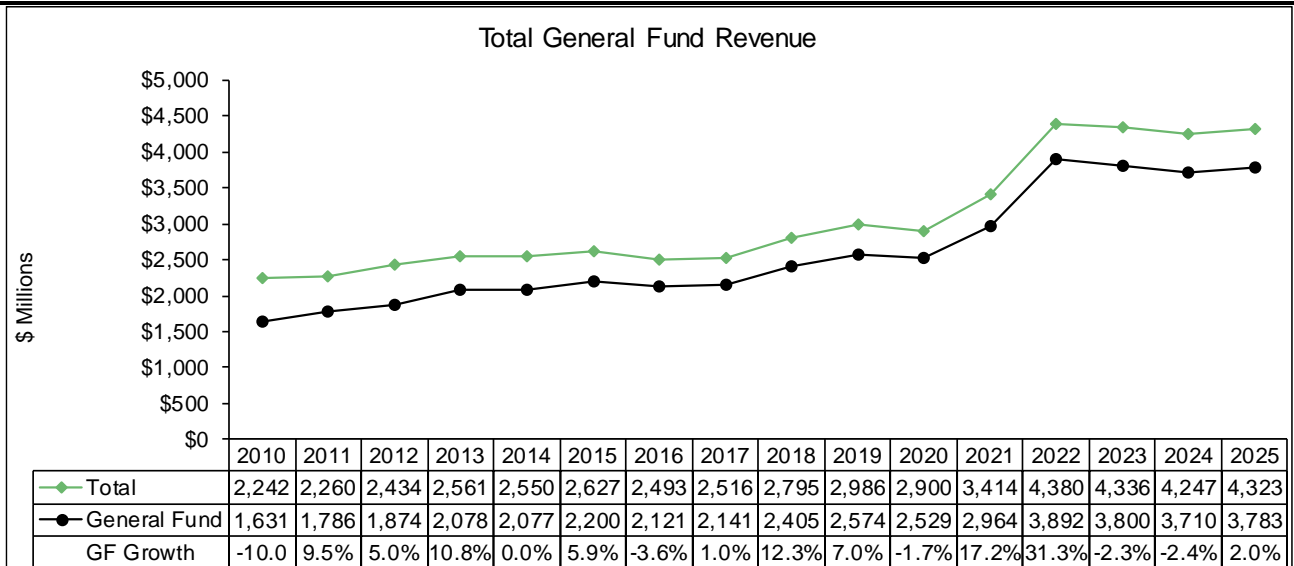
General fund revenue for the 2025 biennium is projected to decrease by 2.6% over the 2023 biennium projection. **When one-time-only transfers are removed from FY 2023, revenues are expected to grow 2.7% in the upcoming biennium.** As shown in the pie chart below, the largest seven revenue sources are anticipated to account for approximately 87% of general fund revenue in the 2025 biennium; since 2004, these sources have on average accounted for 85% of general fund revenue.



**General Fund History and Estimate Recommendation**

The graph below shows actual total general fund collections from FY 2010 to FY 2022 and includes the HJ 2 estimate for FY 2023 through FY 2025.

# Overview



## Overview

### Select Non-General Fund Revenue Estimates

The adopted estimate recommendations for selected non-general fund revenue sources are shown in the table below. These estimates are included because of their importance in the budgeting process.

Selected Non-General Revenue Estimates Summary (\$ Millions)						
Source of Revenue	Actual FY 2022	Estimated FY 2023	Estimated FY 2024	Estimated FY 2025	Estimated 2023 Bien	Estimated 2025 Bien
Property Tax: 6 Mill	\$21.921	\$22.661	\$28.750	\$29.335	\$44.581	\$58.085
Natural Resource Taxes						
Federal Forest Receipts	14.383	19.831	19.831	4.682	34.214	24.513
Resource Indemnity Tax	2.471	3.923	5.426	4.150	6.394	9.576
Interest Earnings						
Capital Land Grant Interest and Income	1.341	1.596	1.428	1.435	2.937	2.864
Common School Interest and Income	46.366	49.476	53.185	55.802	95.842	108.987
Cultural Trust Interest	0.468	0.539	0.596	0.642	1.008	1.237
Deaf & Blind Interest and Income	0.254	0.282	0.311	0.327	0.537	0.638
Economic Development Trust	4.034	4.737	5.434	5.935	8.771	11.369
Parks Trust Interest	0.898	1.023	1.133	1.203	1.920	2.336
Pine Hills Interest and Income	0.317	0.357	0.365	0.402	0.674	0.767
Regional Water Trust Interest	3.136	3.338	3.627	3.873	6.474	7.500
RIT Trust Interest	3.563	3.692	3.930	4.167	7.254	8.097
School Facilities Trust	2.579	3.475	5.001	6.490	6.054	11.491
Montana Coal Endowment Trust Interest	9.091	10.795	11.722	12.307	19.886	24.029
Tobacco Trust Interest	10.284	9.993	11.482	12.955	20.276	24.437
Consumption Taxes						
Diesel Tax	114.137	112.658	113.902	117.168	226.795	231.070
Gasoline Tax	187.681	186.293	188.211	190.131	373.974	378.342
GVW and Other Fees	41.058	39.740	40.721	41.812	80.798	82.533
<b>Total Selected Non-General Fund</b>	<b>\$463.981</b>	<b>\$474.408</b>	<b>\$495.056</b>	<b>\$492.815</b>	<b>\$938.389</b>	<b>\$987.871</b>



## Overview

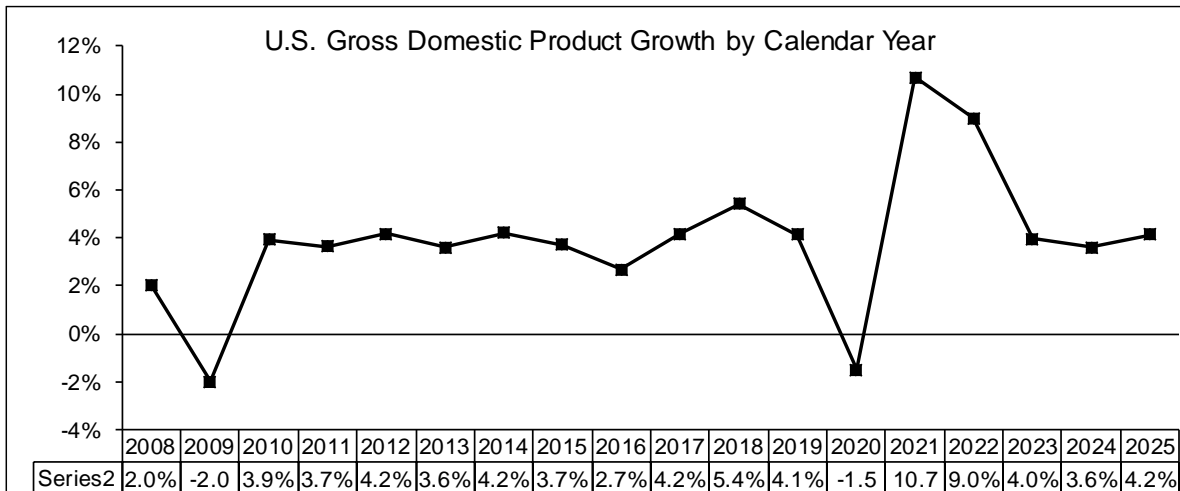
### Economic Outlook for Montana

This section highlights a few of the key national and state-specific economic variables that are used in the revenue estimate. The forecasts for each of these economic indicators—and many others that are also used in the revenue estimate—are provided by IHS.

#### U.S. Economic Indicators

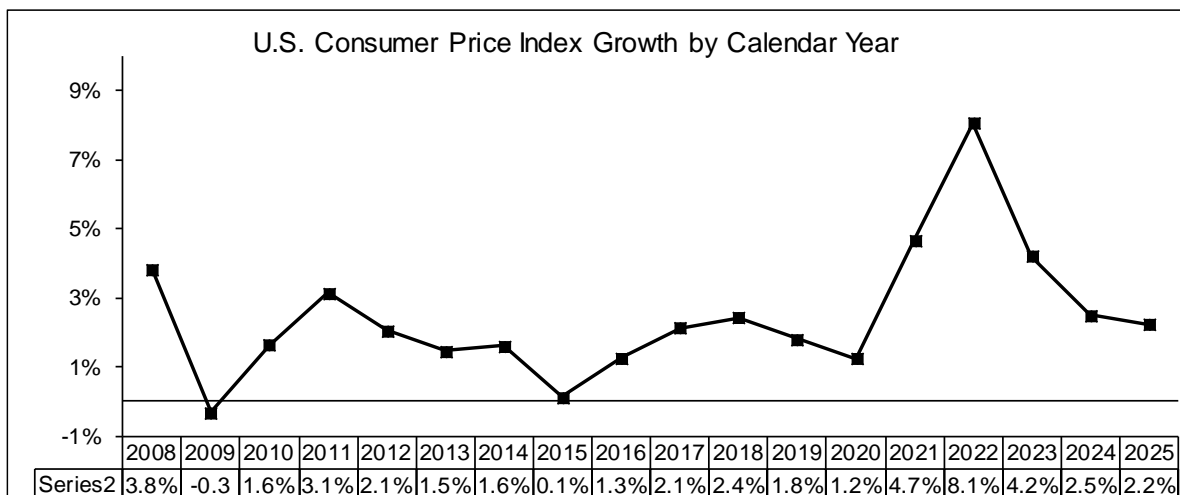
##### Gross Domestic Product (GDP)

GDP is one of the most comprehensive national economic statistics. As noted by the Bureau of Economic Analysis (BEA), GDP is used by the White House and Congress to prepare the Federal budget, by the Federal Reserve to formulate monetary policy, by Wall Street as an indicator of economic activity, and by the business community to prepare forecasts of economic performance that provide the basis for production, investment, and employment planning.



##### Consumer Price Index (CPI)

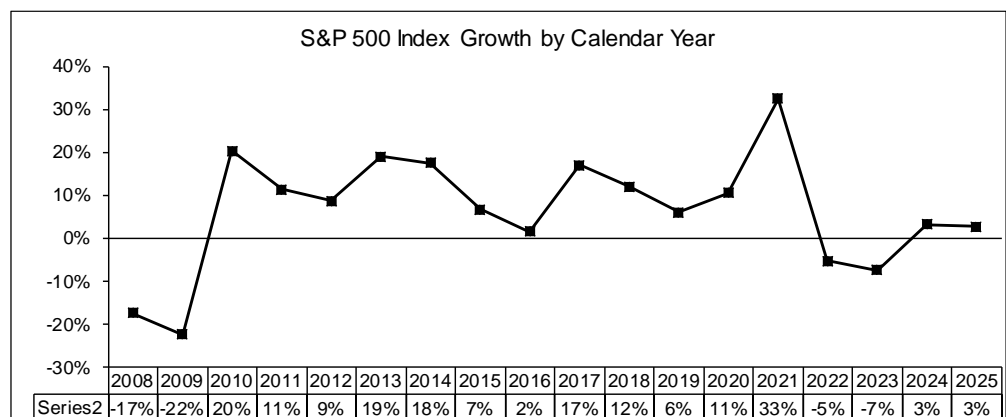
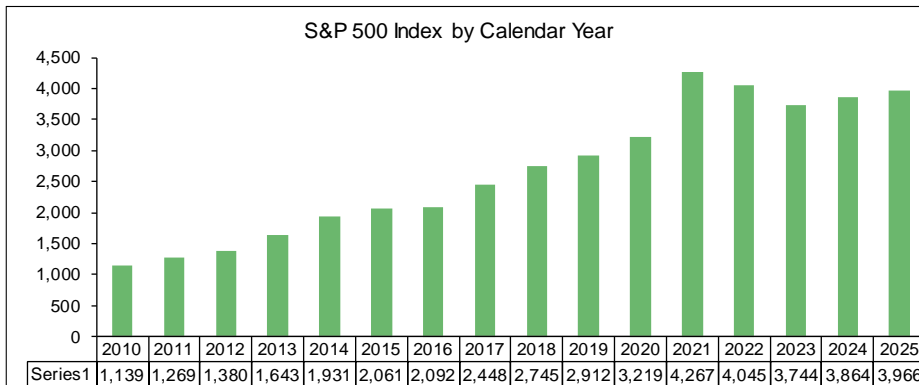
The inflation rate is measured by the price change of the CPI “shopping basket” of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less.



##### S&P 500 Stock Market Index

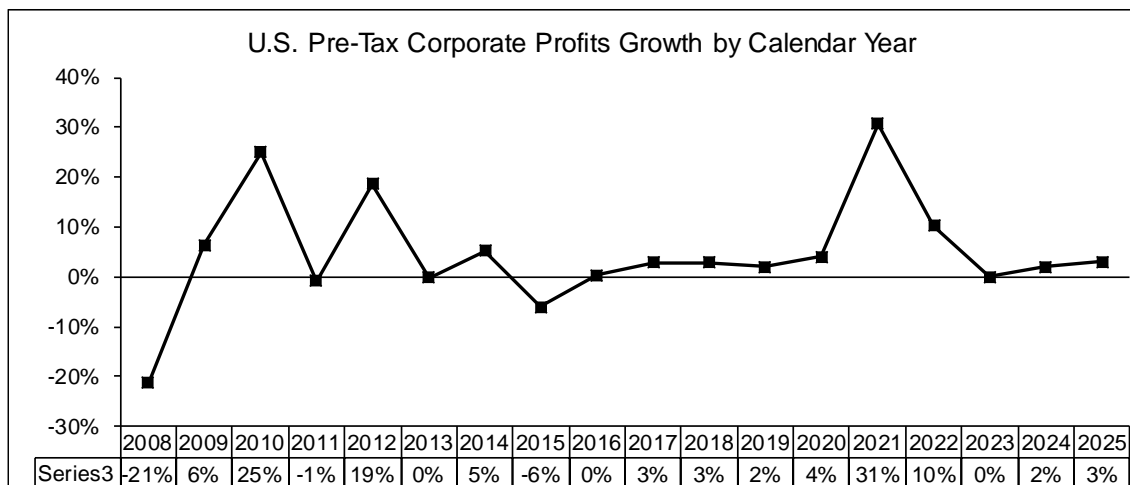
## Overview

The S&P 500 is a stock market index based on the market capitalizations of 500 large companies. Due to the diversity of companies, it is a broad representation of the U.S. stock market and is a good indicator for investment income.



## U.S. Corporate Profits

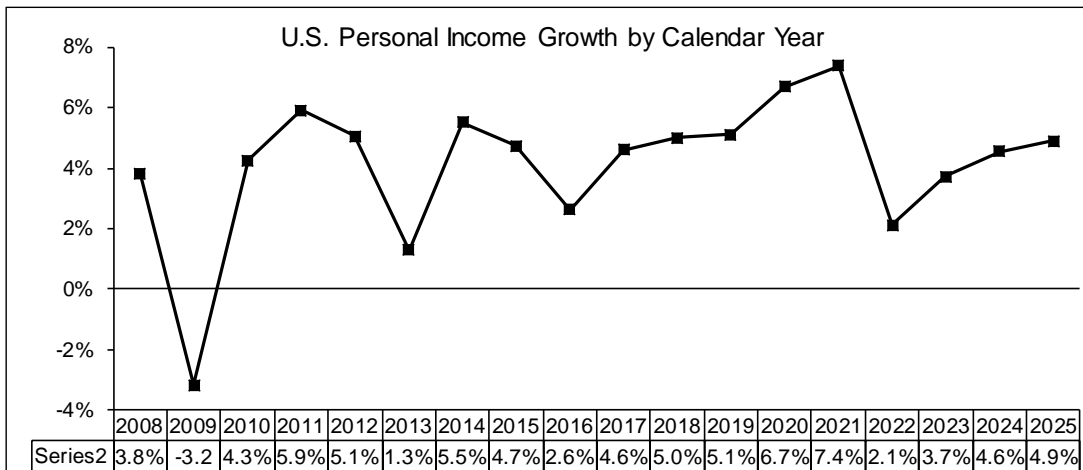
Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments.



## U.S. Personal Income

Growth in Montana's tourism industry is related to growth in U.S. personal income. In addition, the outlook for U.S. personal income likely impacts the outlook for Montana personal income.

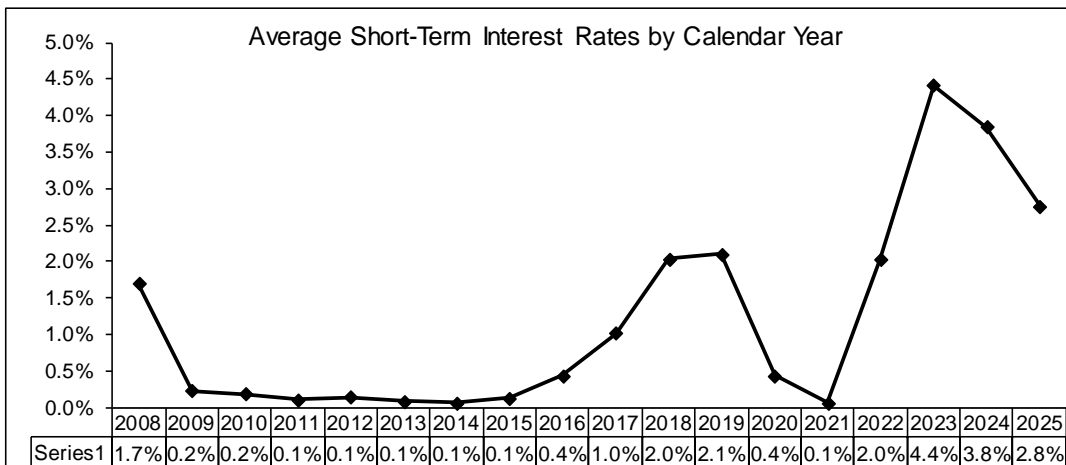
## Overview



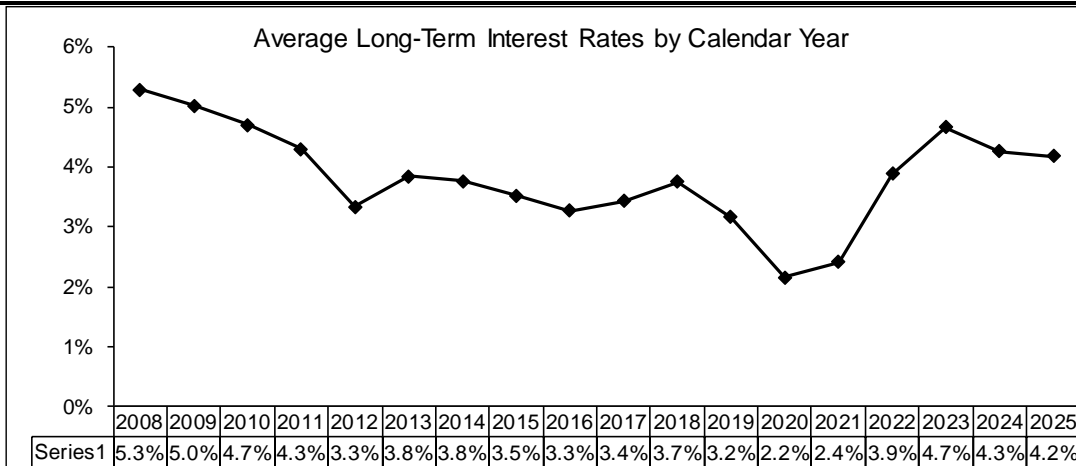
### Long & Short Term Interest Rates

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. In addition to the state revenue impact, interest rates impact the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase.

Short-term rates are an average of 3-month corporate paper and 3 and 6-month Treasury bills. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year Treasury bonds, and 30-year Treasury bonds.



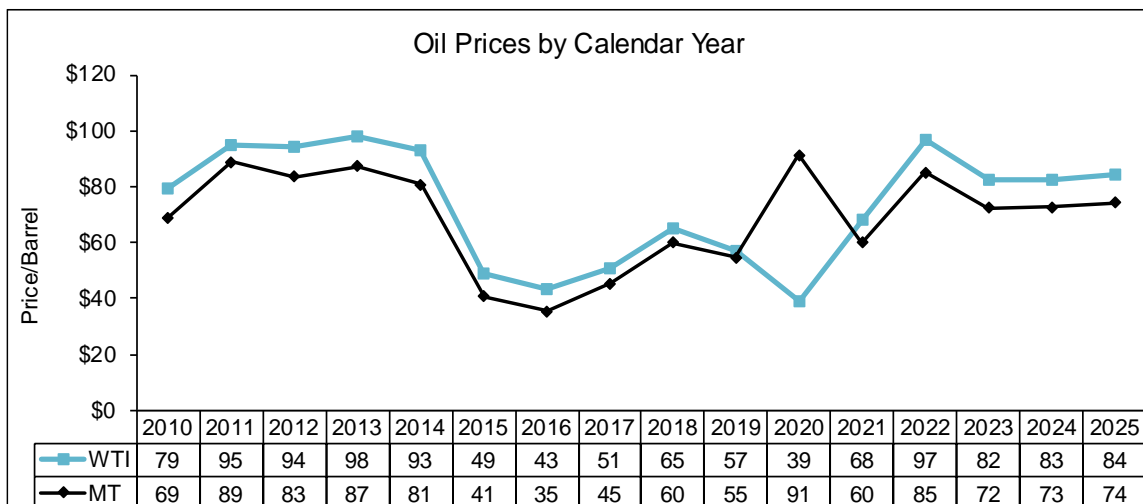
## Overview



### Oil Price: West Texas Intermediate (WTI)

At the national level, lower oil prices tend to correspond with a better economic outlook; manufacturing and transportation costs are lower, and consumers have more income to spend on goods and services. However, the impact on Montana revenue is more nuanced, although overall consumer activity may increase with lower prices, natural resource extraction and related industry activity may also decline, resulting in lower individual, corporation and natural resource tax collections.

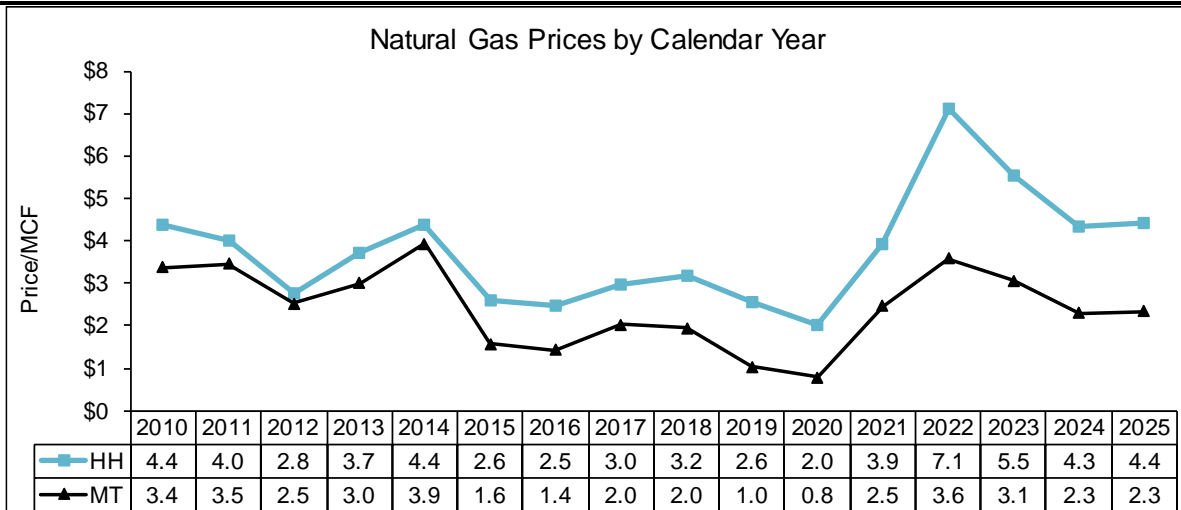
Montana oil price tracks closely with WTI, with an approximate 12% reduction to account for transportation costs.



### Natural Gas Price: Henry Hub

Montana natural gas price tracks the national Henry Hub price, with an average 37% deduction for transportation costs.

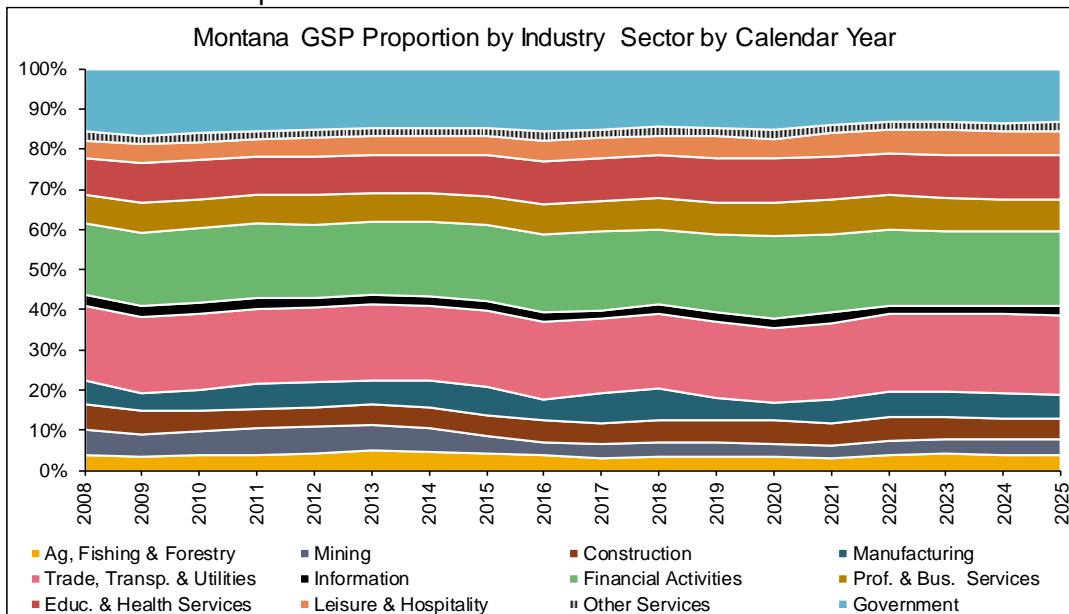
## Overview



## Montana Economic Indicators

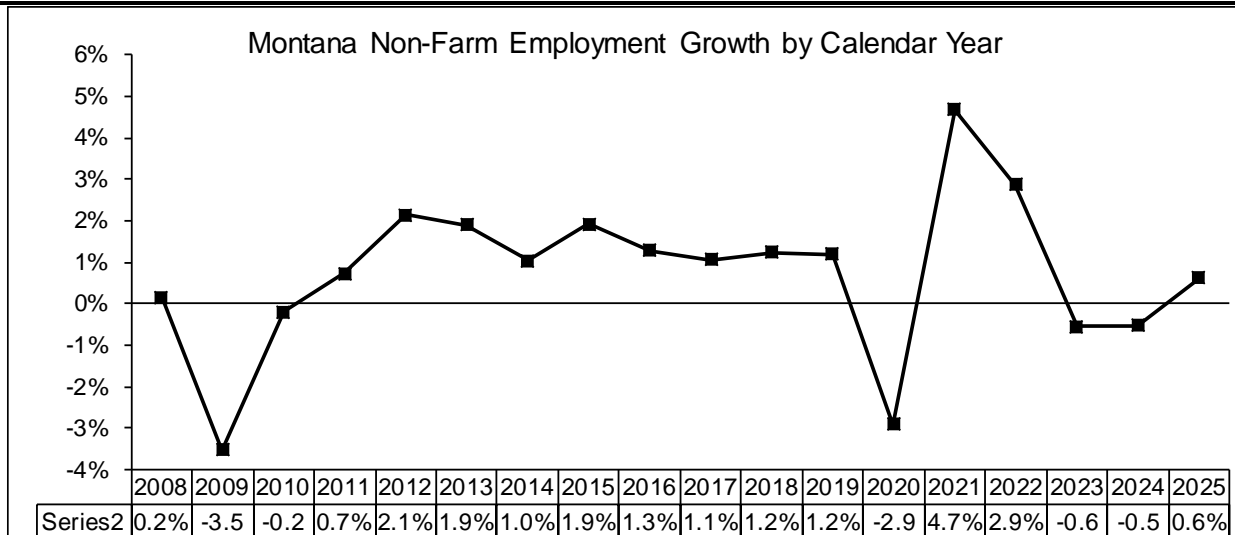
### Gross State Product (GSP)

All broad industry categories as measured by GSP grew between CY 2000 and CY 2015, the last year of actual data, although most didn't change significantly as a share of the total, as indicated in the next graph. Just over half of GSP is due to three industry super sectors: trade, transportation & utilities; financial activities (which includes real estate); and government. Mining, including oil extraction and related activities, grew as a share of total GSP after CY 2004, but is expected to return to a pre-2004 share of GSP in the forecast period.



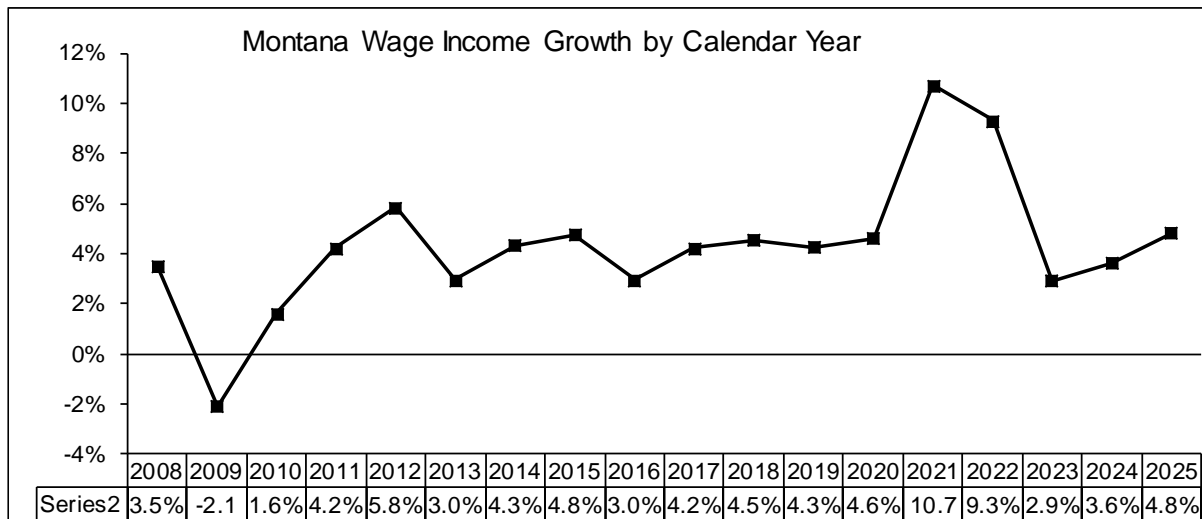
## Employment

## Overview



### Wages

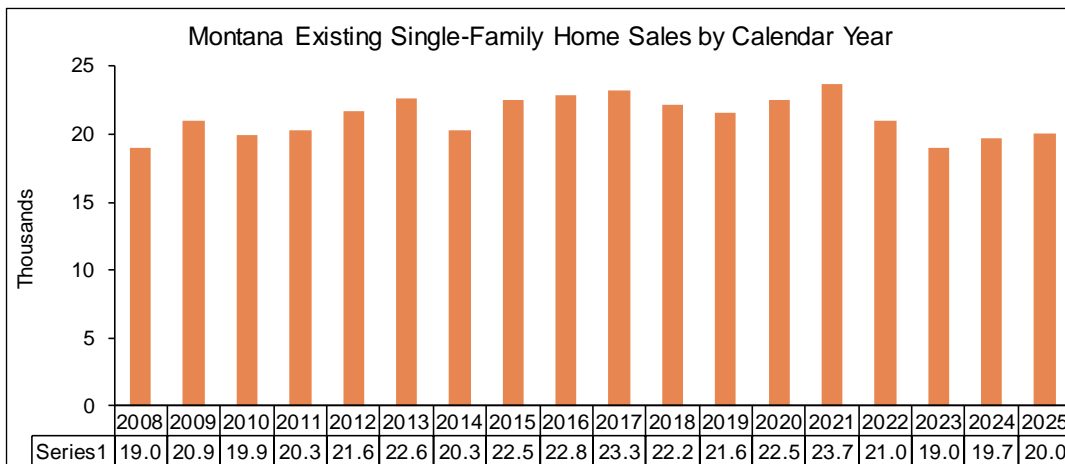
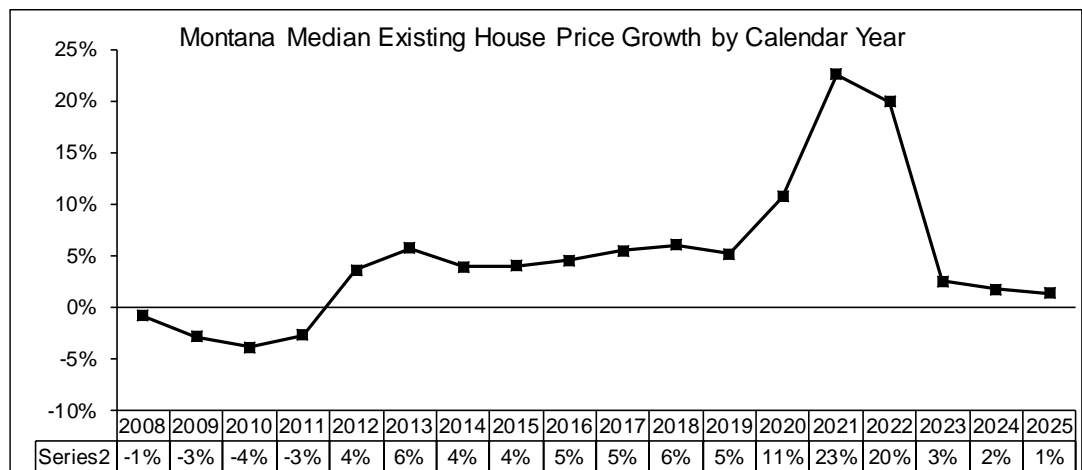
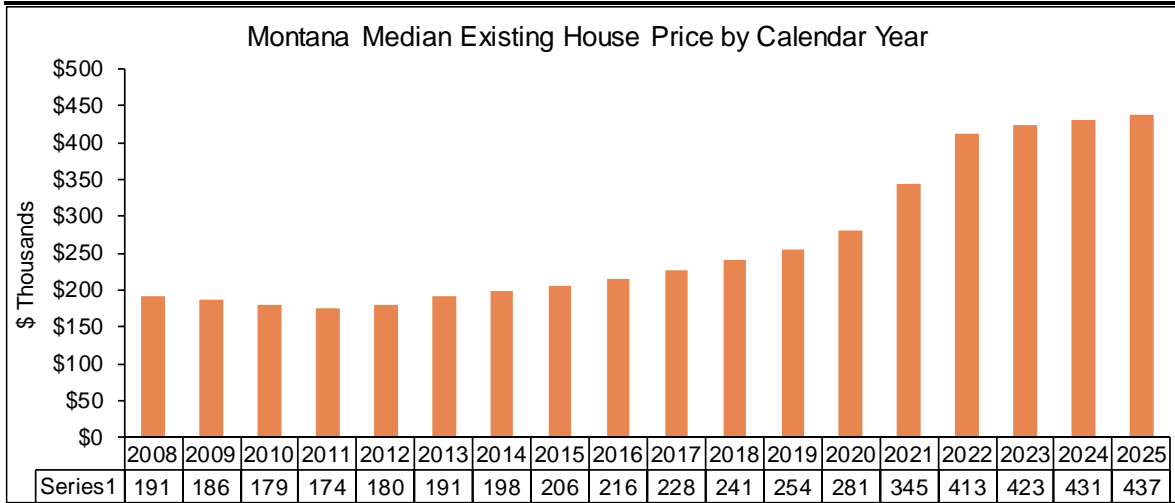
Wage income accounts for nearly two-thirds of individual income, and individual income tax accounts for over half of general fund revenue. Although wage income is not as volatile as several other income or revenue sources, even small changes in the outlook for wage income can produce large swings in the revenue estimate. The IHS wage disbursements variable for Montana is probably the single most important underlying indicator in the entire general fund revenue estimate.



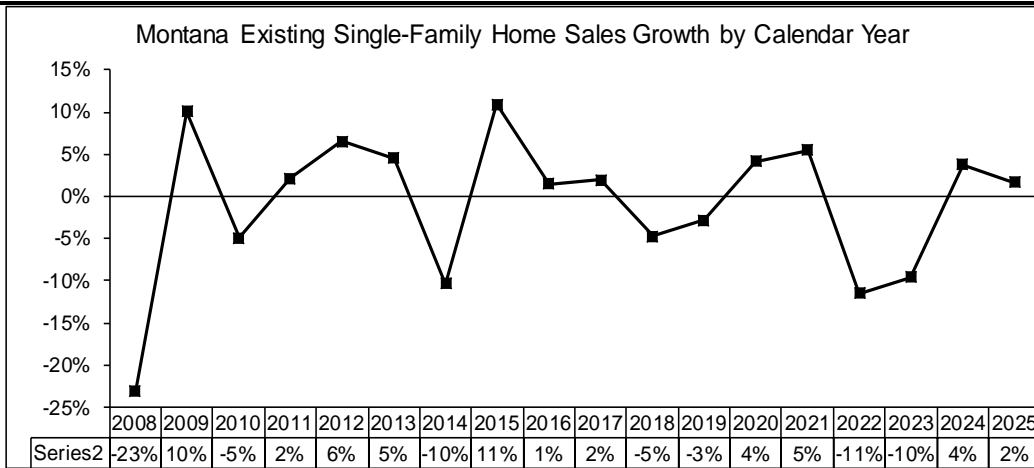
### Housing

The health of the housing market can be measured by median house price and annual sales. Housing is an important—and leading—measure of economic activity: it drives construction and related industry growth, and reflects household formation and asset accumulation. Housing indicators are used in the individual and corporation income tax estimates.

## Overview

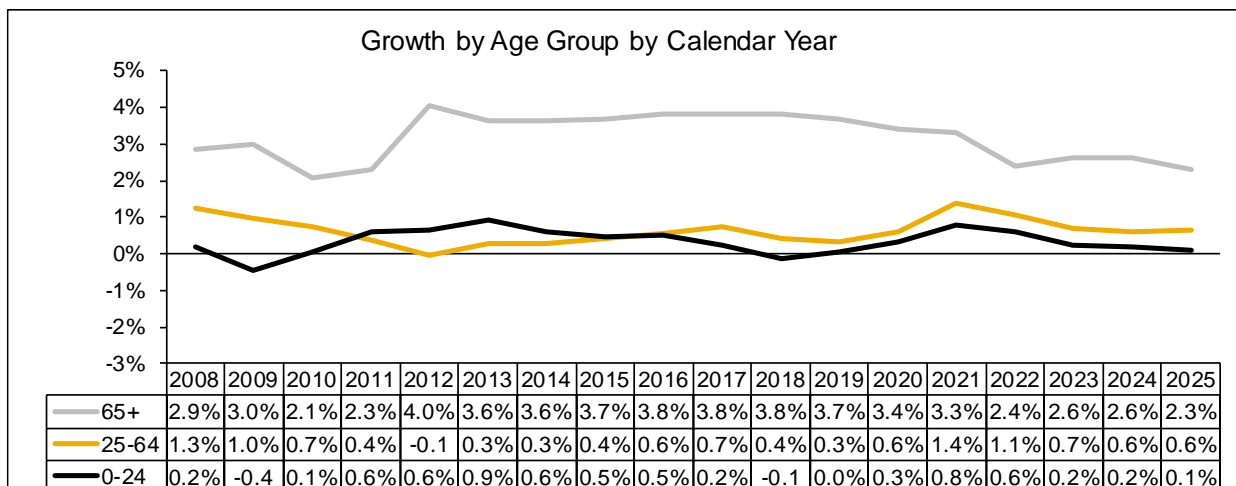
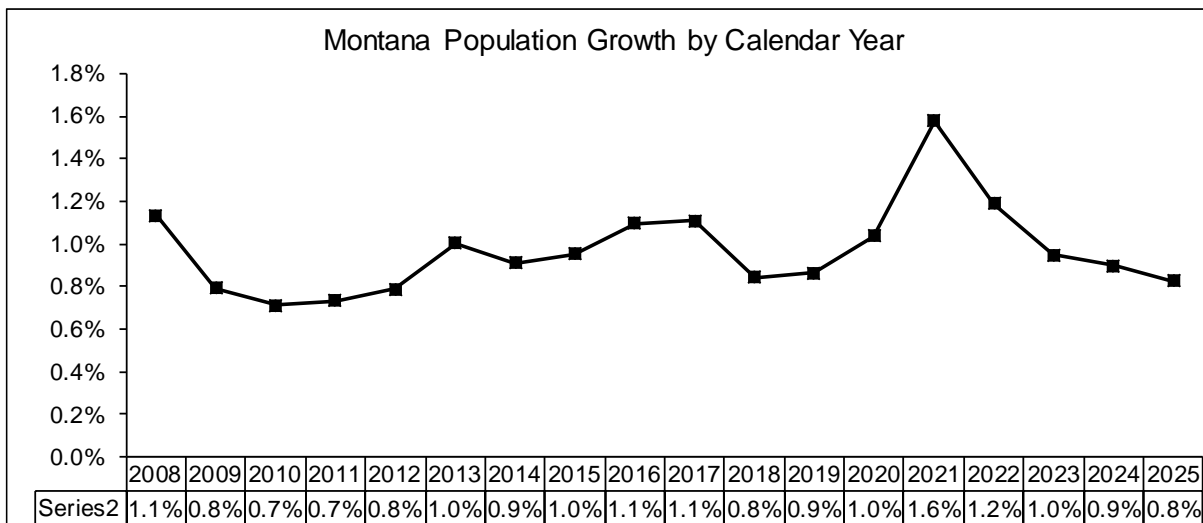


## Overview



## Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide.





## **Overview**

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### **Summary**

A complete summary of each general fund and selected non-general fund revenue sources follows. Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, and distribution mechanisms.

Throughout the document, the state accounting system—Statewide Accounting, Budgeting and Human Resources System—is referred to only by its acronym, SABHRS. Likewise, the Department of Revenue is simply referred to as DOR.