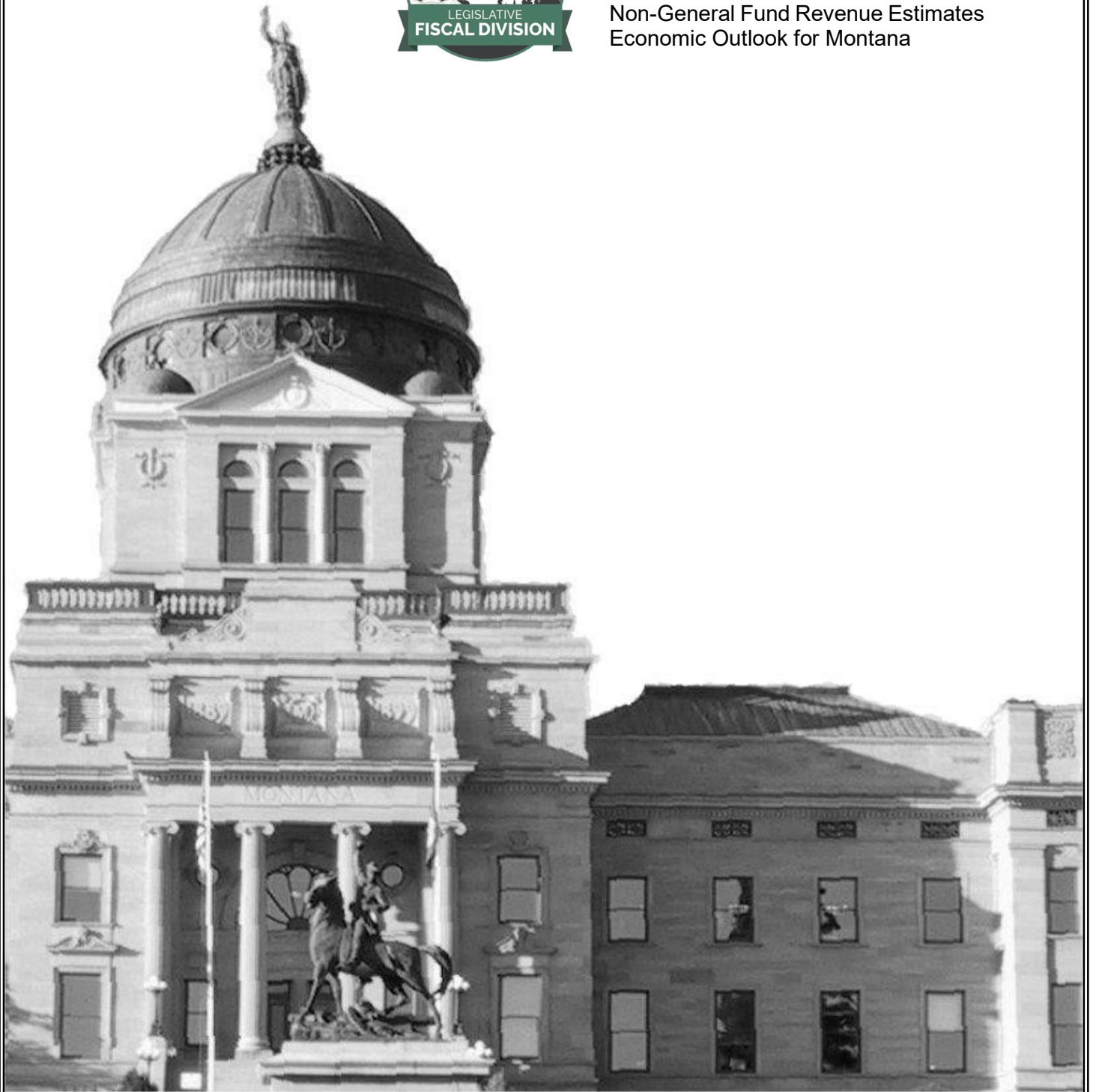


# OVERVIEW



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 2025 through 2027. 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 RIC.

### **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 Revenue & Transportation Interim Committee (RTIC) (Chapter 19, Laws 1999). Since then, the RTIC has adopted the revenue estimates in November of the year preceding 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 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.

## **Overview**

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.

In November 2022, RIC heard revenue estimate recommendations from both OBPP and the LFD. The two offices provided estimates that were close to one another, differing by \$101.7 million or 0.9% over the three-year period. Ultimately, the committee adopted the LFD recommendation, which was established as HJ 2 as the official revenue estimate used during the 2023 Legislative Session.

In November 2024, RIC heard revenue estimate recommendations from both OBPP and the LFD. The two offices provided general revenue estimates that were close to one another, differing by \$217.9 million or 1.8 % over the three-year period. Ultimately, RIC adopted an estimate that was \$108 million below the LFD recommendation over the three-year period.

## Overview

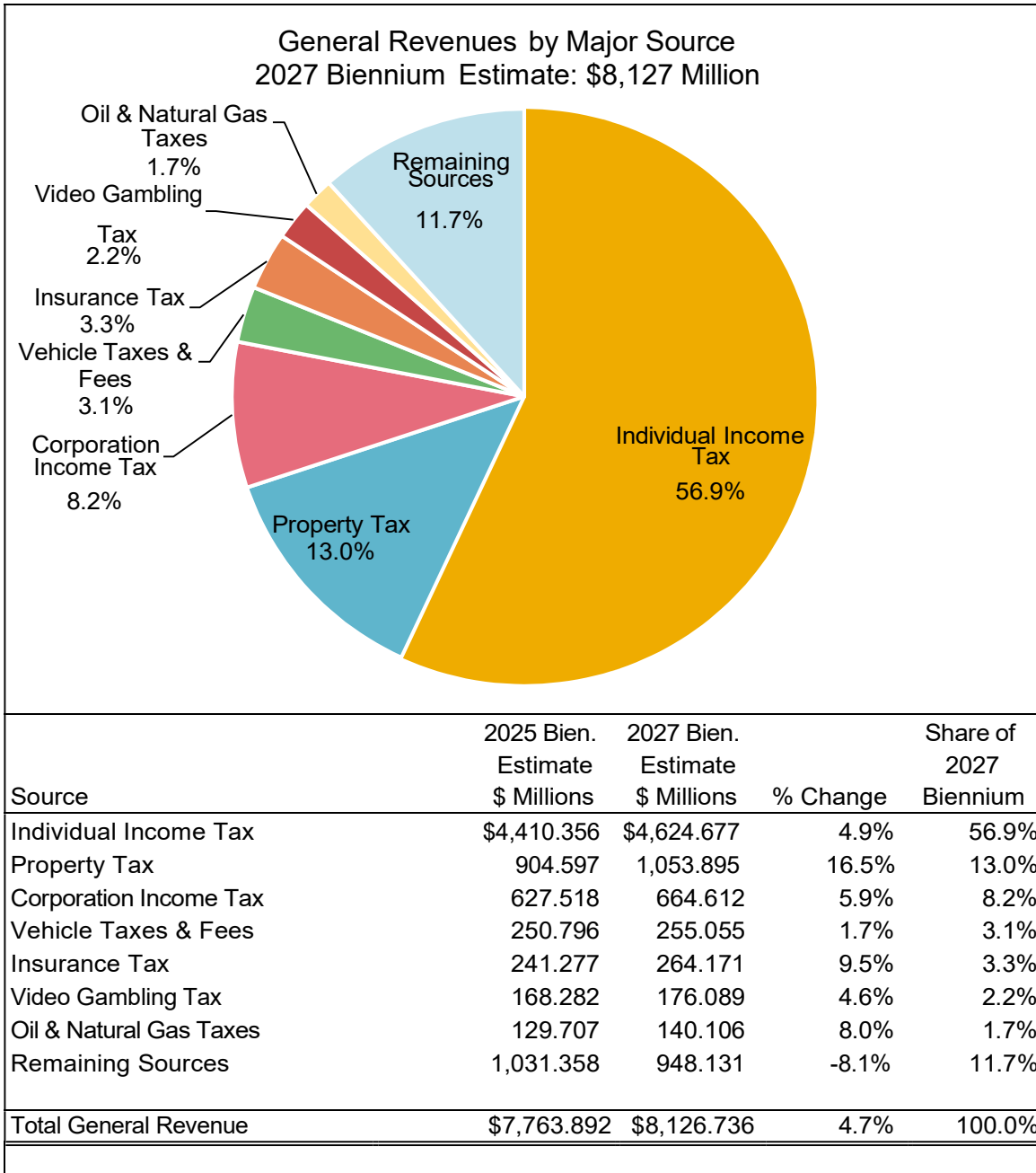
### General Revenue Estimate

The table below shows the adopted **general revenue (general fund revenue, the state-levied 95 mills, and treasury cash interest)** estimate. Actual FY 2024 collections are shown, along with projections for FY 2025 through 2027. The one-time-only revenues are primarily a portion of treasury cash interest that is not projected to be ongoing.

General Revenue HJ 2 Estimate as Adopted by RIC						
(\$ Millions)						
Source of Revenue	Actual FY 2024	Estimated FY 2025	Estimated FY 2026	Estimated FY 2027	Estimated 2025 Bien	Estimated 2027 Bien
<b>Largest Seven Sources</b>						
Individual Income Tax	\$2,243.946	\$2,166.409	\$2,284.365	\$2,340.312	\$4,410.356	\$4,624.677
Property Tax (General Fund)	17.222	14.938	13.334	12.605	32.160	25.939
Property Tax (School Equalization)	430.813	441.624	511.558	516.397	872.437	1,027.956
Corporate Income Tax	312.276	315.242	326.217	338.396	627.518	664.612
Vehicle Taxes & Fees	124.840	125.956	127.007	128.048	250.796	255.055
Oil & Natural Gas Production Tax	64.405	65.302	69.156	70.950	129.707	140.106
Insurance Tax & License Fees	115.075	126.202	129.818	134.354	241.277	264.171
Video Gambling Tax	83.385	84.897	86.903	89.186	168.282	176.089
<b>Other Business Taxes</b>						
Driver's License Fee	5.772	5.772	5.826	5.880	11.544	11.706
Investment License Fee	21.042	21.696	22.309	22.849	42.738	45.158
Lodging Taxes	44.750	46.711	48.108	50.080	91.460	98.188
Public Contractors Tax	9.125	5.163	4.812	4.231	14.288	9.043
Railroad Car Tax	3.645	3.920	3.931	4.054	7.565	7.986
Rental Car Sales Tax	6.972	7.827	8.007	8.049	14.799	16.056
Telecommunications Excise Tax	8.139	7.960	7.755	7.550	16.099	15.305
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	18.181	15.530	14.345	13.366	33.712	27.711
Electrical Energy Tax	4.090	5.603	5.543	5.512	9.693	11.055
Metalliferous Mines Tax	6.573	7.378	6.935	6.968	13.951	13.903
US Mineral Royalty	15.655	14.832	14.133	13.446	30.487	27.579
Wholesale Energy Tax	3.545	3.320	3.292	3.317	6.866	6.609
<b>Other Interest Earnings</b>						
Coal Trust Interest	19.139	19.681	19.827	20.289	38.819	40.116
Treasury Cash Account Interest (SSR until FY 2026)	163.738	138.908	104.283	79.005	302.647	183.288
<b>Other Consumption Taxes</b>						
Beer Tax	2.971	2.980	2.851	2.709	5.951	5.559
Cigarette Tax	20.919	19.658	19.231	18.188	40.578	37.418
Liquor Excise & License Tax	35.443	35.016	36.185	37.974	70.459	74.159
Liquor Profits	7.000	20.900	21.800	23.000	27.900	44.800
Lottery Profits	19.313	20.928	20.152	20.709	40.241	40.860
Marijuana Tax	31.804	32.903	34.380	35.858	64.707	70.238
Tobacco Tax	5.114	5.665	5.390	5.187	10.779	10.577
Wine Tax	2.504	2.558	2.575	2.582	5.061	5.157
<b>Other Sources</b>						
All Other Revenue	54.615	45.569	67.199	46.901	100.184	114.100
Highway Patrol Fines	3.474	3.531	3.531	3.512	7.005	7.043
Nursing Facilities Fee	3.535	3.558	3.609	3.644	7.093	7.253
Public Institution Reimbursements	4.903	5.919	5.927	5.936	10.822	11.863
Tobacco Settlement	2.999	2.910	2.776	2.622	5.909	5.398
Ongoing General Revenue Subtotal	3,809.960	3,764.837	3,974.318	4,061.437	7,574.798	8,035.755
OTO & Transfers Subtotal	106.962	82.132	68.752	22.229	189.094	90.981
<b>Total General Revenues</b>	<b>\$3,916.922</b>	<b>\$3,846.969</b>	<b>\$4,043.071</b>	<b>\$4,083.665</b>	<b>\$7,763.892</b>	<b>\$8,126.736</b>
Ongoing General Revenue Growth		-1.2%	5.6%	2.2%		6.1%

**Overview**

General revenues in the 2027 biennium, which include the school equalization mills and interest on the treasury cash, are projected to increase 4.7% over the 2025 biennium projection. As shown in the pie chart below, the largest seven revenue sources are anticipated to account for approximately 88% of general revenues in the 2027 biennium. Since 2005, these sources have on average accounted for 85% of general fund revenue. **Note that the figure below includes one-time-only revenues, whereas the previous table shows ongoing revenue growth rates.**



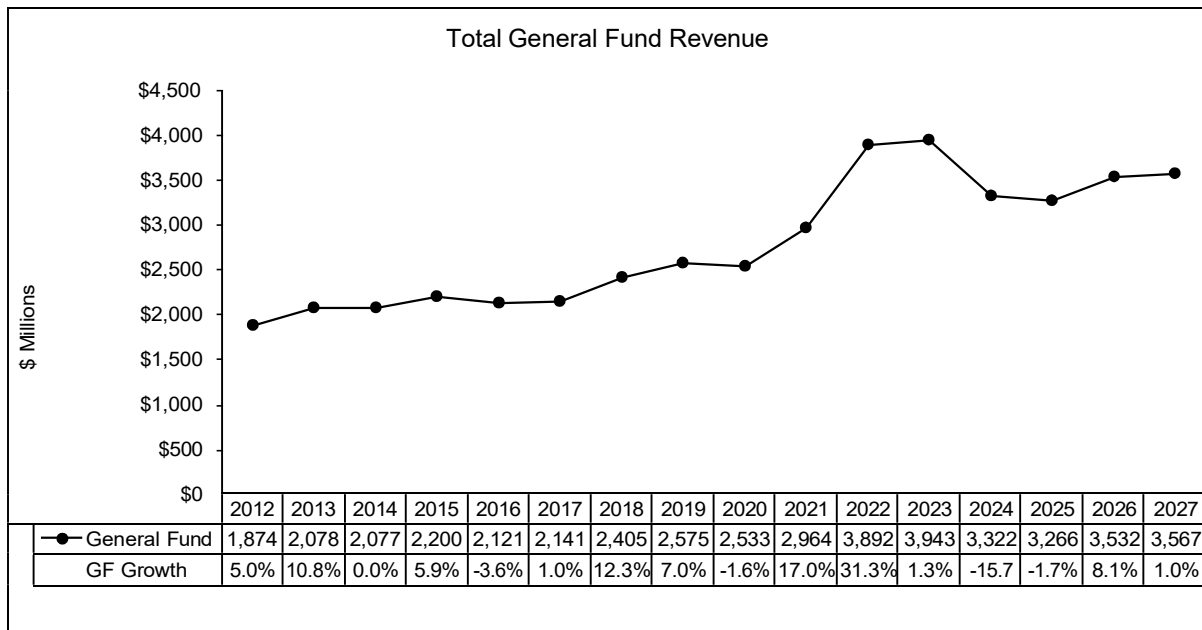
## Overview

### General Fund History and Adopted Estimate

The table and graph below show actual total general fund collections from FY 2012 to FY 2024 and includes the adopted HJ 2 estimate for FY 2025 through FY 2027. This differs from the previous table, which includes the state levied 95 mills, and TCA interest earnings. TCA interest earnings don't revert to the general fund until FY 2026.

General Fund HJ 2 Adopted Estimate (\$ Millions)						
Source of Revenue	Actual FY 2024	Estimated FY 2025	Estimated FY 2026	Estimated FY 2027	Estimated 2025 Bien	Estimated 2027 Bien
<b>Largest Six Sources &amp; Remaining Sources</b>						
Individual Income Tax	\$2,243.946	\$2,166.409	\$2,284.365	\$2,340.312	\$4,410.356	\$4,624.677
Corporate Income Tax	312.276	315.242	326.217	338.396	627.518	664.612
Vehicle Taxes & Fees	124.840	125.956	127.007	128.048	250.796	255.055
Oil & Natural Gas Production Tax	64.405	65.302	69.156	70.950	129.707	140.106
Insurance Tax & License Fees	115.075	126.202	129.818	134.354	241.277	264.171
Video Gambling Tax	83.385	84.897	86.903	89.186	168.282	176.089
Remaining Sources	378.444	382.428	508.047	466.023	760.872	974.070
Ongoing General Fund Subtotal	3,322.371	3,266.437	3,462.760	3,545.039	6,588.808	7,007.799
OTO & Transfers Subtotal			68.752	22.229	-	90.981
<b>Total General Fund</b>	<b>\$3,322.371</b>	<b>\$3,266.437</b>	<b>\$3,531.512</b>	<b>\$3,567.268</b>	<b>\$6,588.808</b>	<b>\$7,098.780</b>
Ongoing General Fund Growth		-1.7%	6.0%	2.4%		6.4%

The graph below shows total general fund revenue, including both ongoing and one-time-only revenue, as well as the total growth. **The growth rates above show ongoing growth, so they differ from the figures in the graph below.**



## Overview

### Select Non-General Fund Revenue Estimates

The adopted estimate for selected non-general fund revenue sources is 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 2024	Estimated FY 2025	Estimated FY 2026	Estimated FY 2027	Estimated 2025 Bien	Estimated 2027 Bien
Property Tax: 6 Mill	\$29.643	\$29.925	\$34.087	\$34.336	\$59.568	\$68.423
Natural Resource Taxes						
Federal Forest Receipts	13.397	4.682	4.802	4.958	18.079	9.760
Resource Indemnity Tax	5.198	4.425	3.562	3.132	9.623	6.694
Interest Earnings						
Capital Land Grant Interest and Income	4.343	1.649	1.507	1.446	5.992	2.953
Common School Interest and Income	59.473	55.032	57.702	60.635	114.505	118.337
Conservation Districts Trust	0.303	1.262	2.055	2.899	1.566	4.954
Cultural Trust Interest	0.648	0.652	0.682	0.717	1.300	1.399
Deaf & Blind Interest and Income	0.327	0.363	0.387	0.424	0.690	0.811
Economic Development Trust	6.176	6.460	6.775	7.156	12.636	13.930
Montana Coal Endowment Trust	12.036	11.550	11.854	12.223	23.586	24.077
Montana Coal Regional Water Trust	4.018	3.628	3.801	3.990	7.646	7.791
Parks Trust Interest	1.206	1.203	1.248	1.304	2.409	2.553
Pine Hills Interest and Income	0.455	0.442	0.464	0.475	0.897	0.939
RIT Trust Interest	4.096	3.811	4.011	4.221	7.908	8.232
School Facilities Trust	8.066	8.733	9.076	9.598	16.799	18.674
Tobacco Trust Interest	12.445	12.585	13.721	14.970	25.031	28.690
Consumption Taxes						
Diesel Tax	91.432	93.908	94.980	96.675	185.340	191.655
Gasoline Tax	195.654	195.796	199.208	202.815	391.450	402.023
GVW and Other Fees	41.604	41.599	42.794	43.968	83.203	86.762
<b>Total Selected Non-General Fund</b>	<b>\$490.520</b>	<b>\$477.706</b>	<b>\$492.715</b>	<b>\$505.941</b>	<b>\$968.226</b>	<b>\$998.656</b>

## Overview

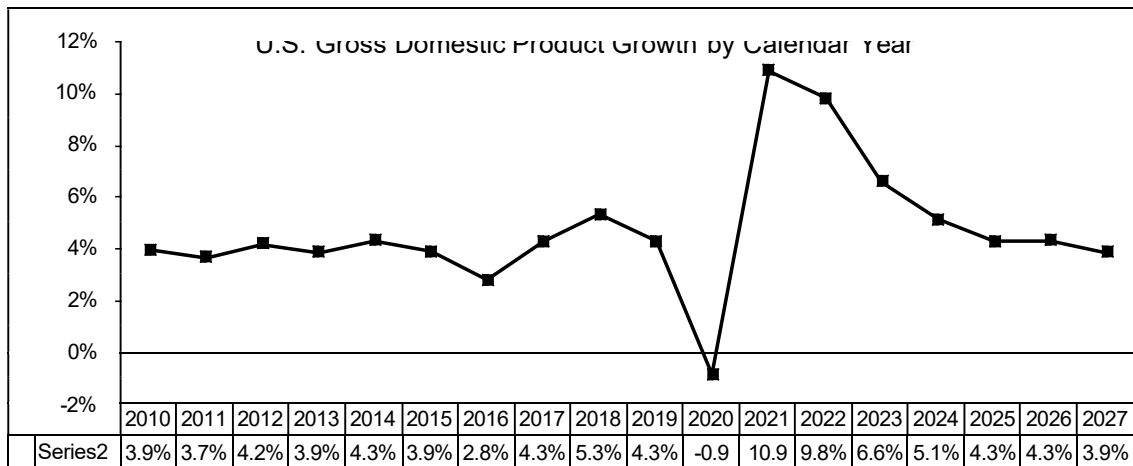
### Economic Outlook for Montana

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 S&P Global.

#### U.S. Economic Indicators

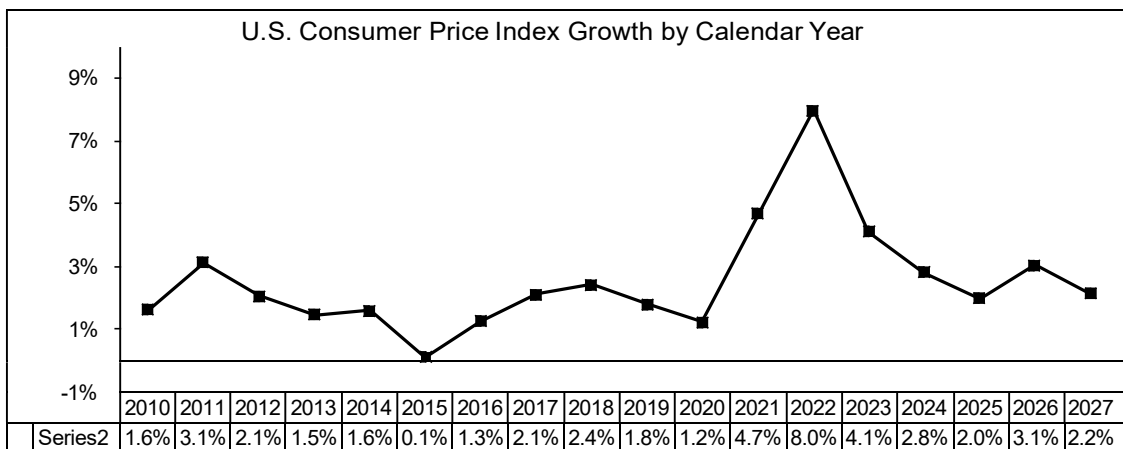
##### Gross Domestic Product (GDP)

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.

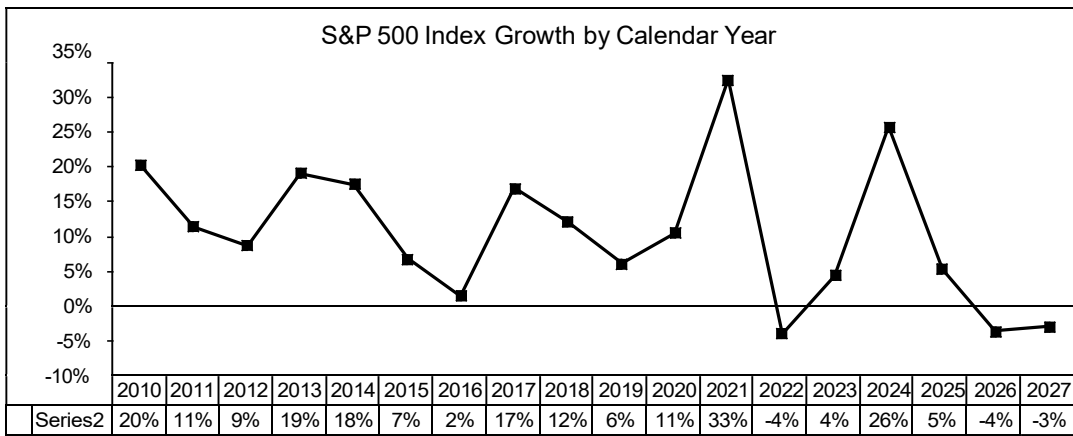
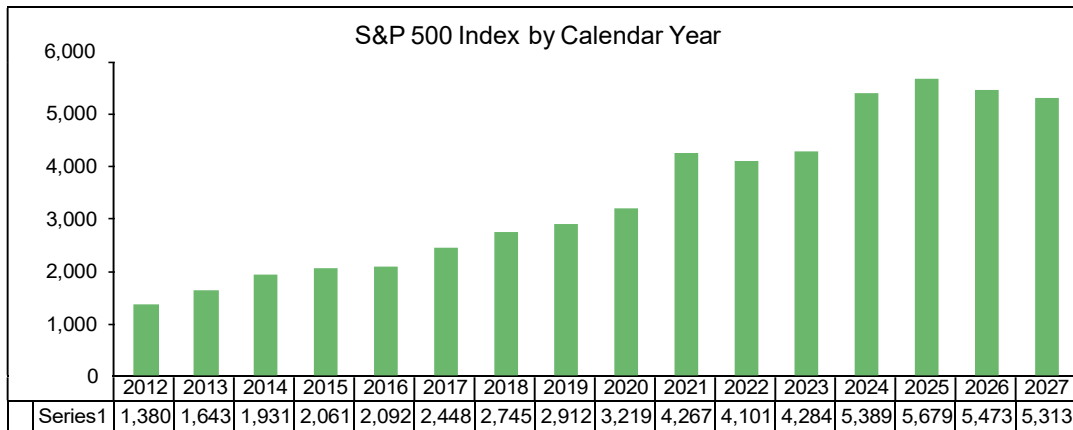


##### S&P 500 Stock Market Index

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.

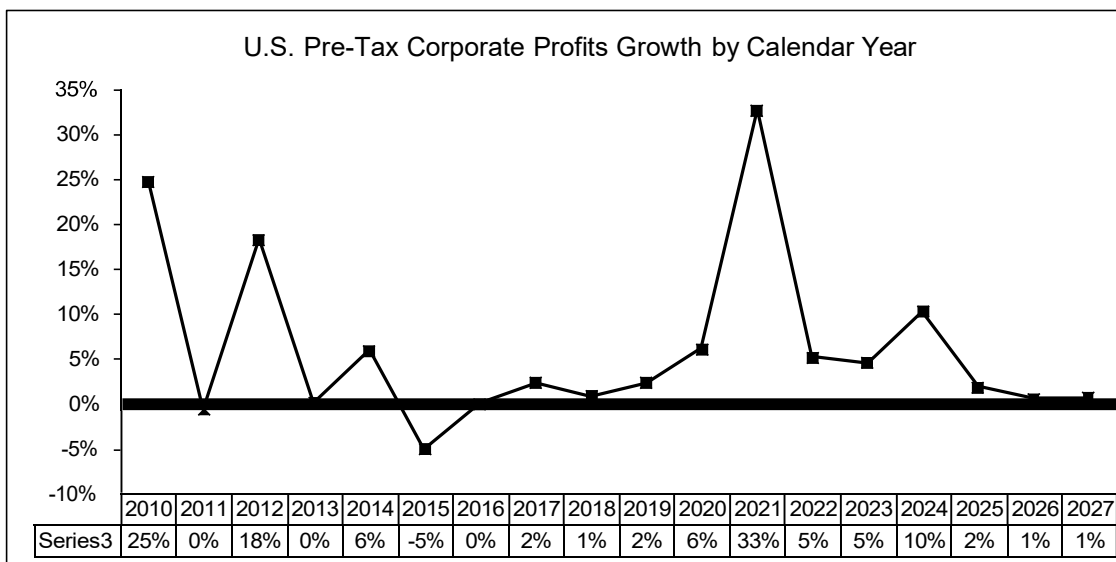


## Overview



### U.S. Corporate Profits

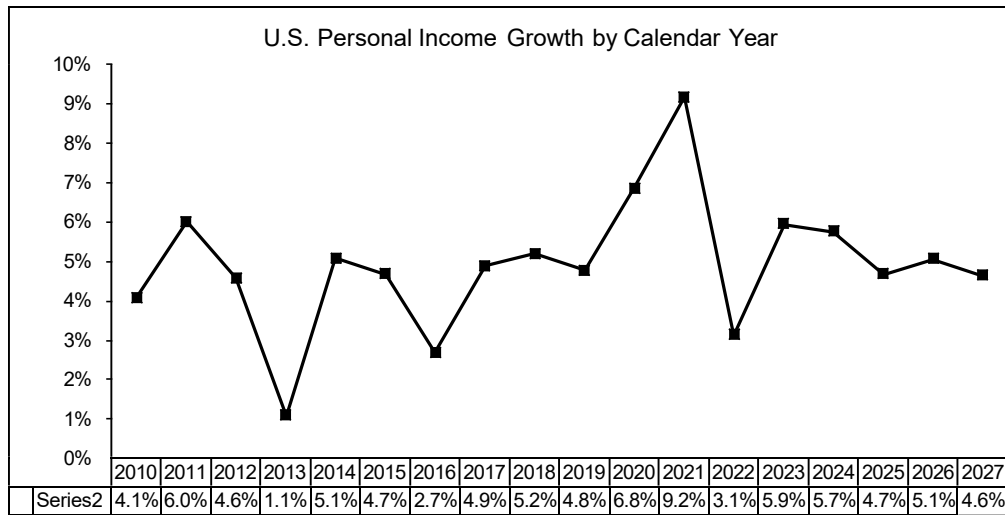
Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of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



**Overview**

*U.S. Personal Income*

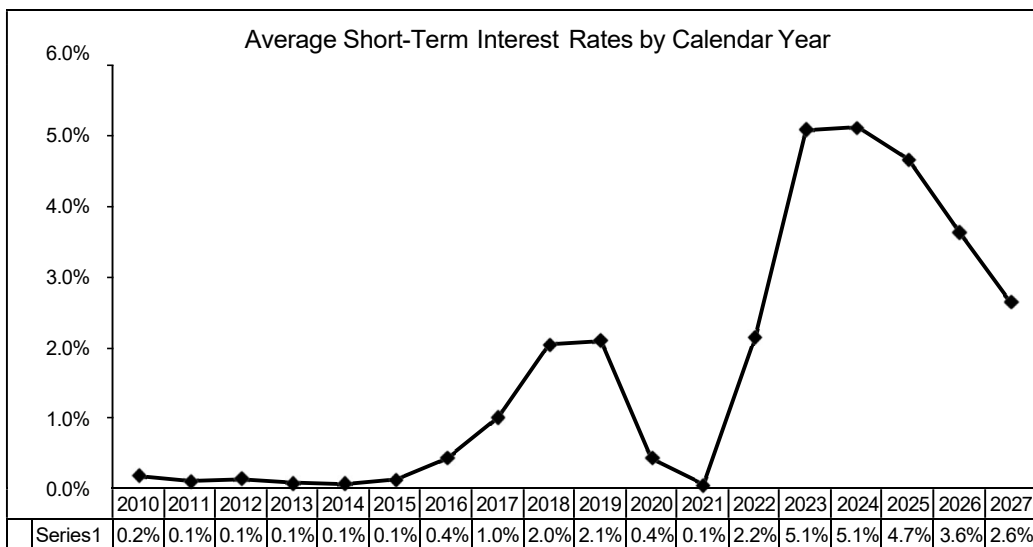
Growth in Montana’s tourism industry is related to growth in U.S. personal income. In addition, the outlook for U.S. personal income likely impacts the outlook for Montana personal income.



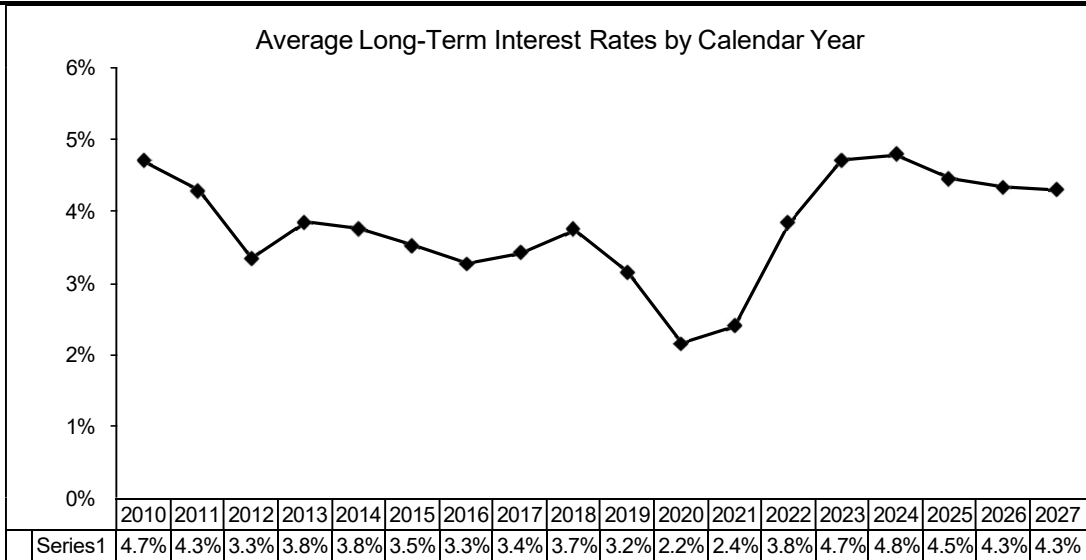
*Long & Short Term Interest Rates*

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.



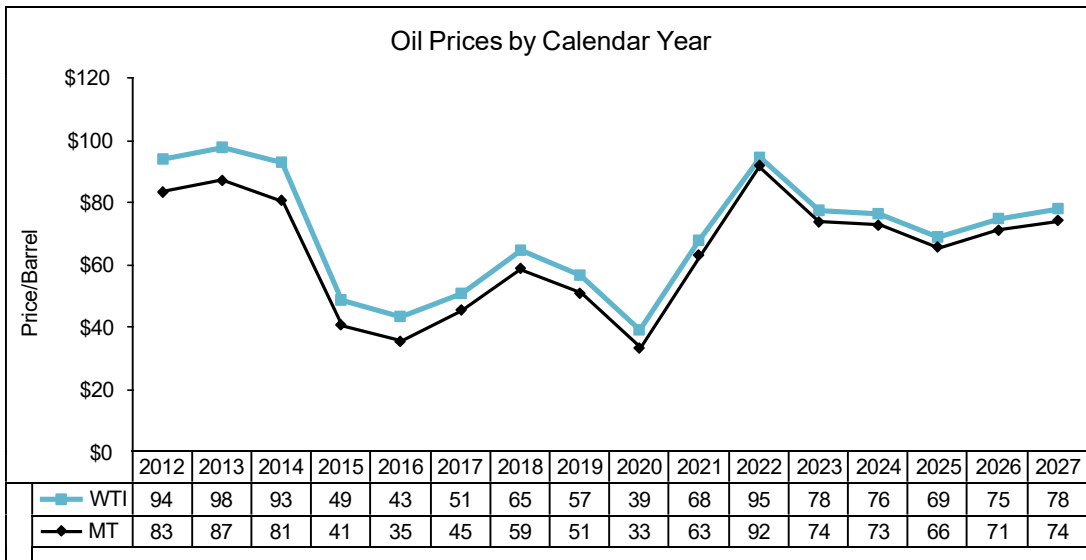
## Overview



### 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. The impact on Montana revenue is more nuanced, however—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.

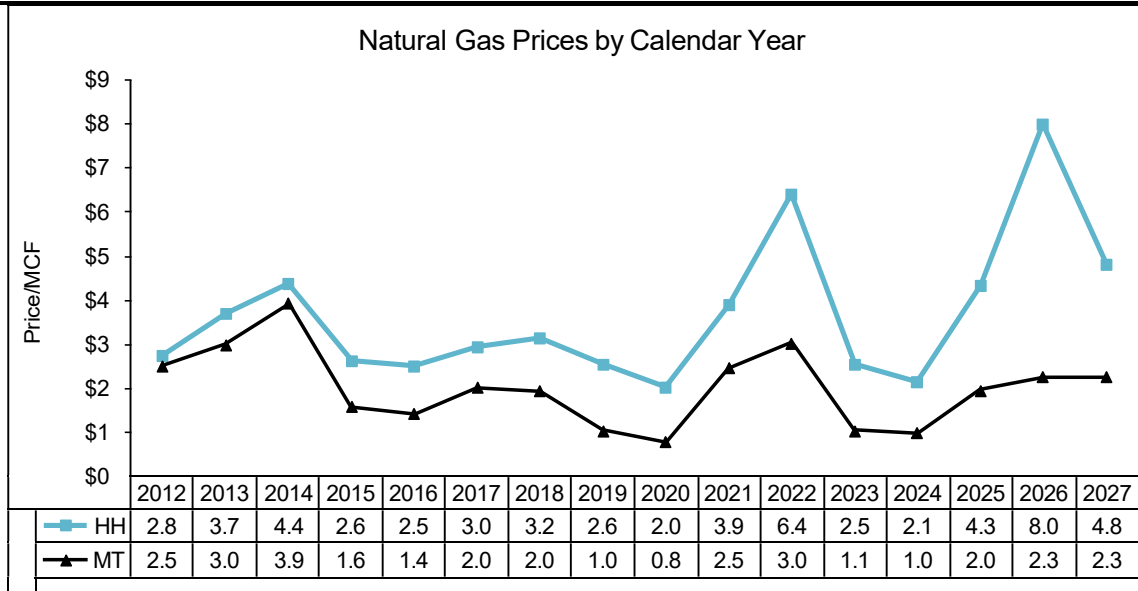
Montana oil price tracks closely with WTI, with an approximate 12% reduction to account for transportation costs.



### Natural Gas Price: Henry Hub

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

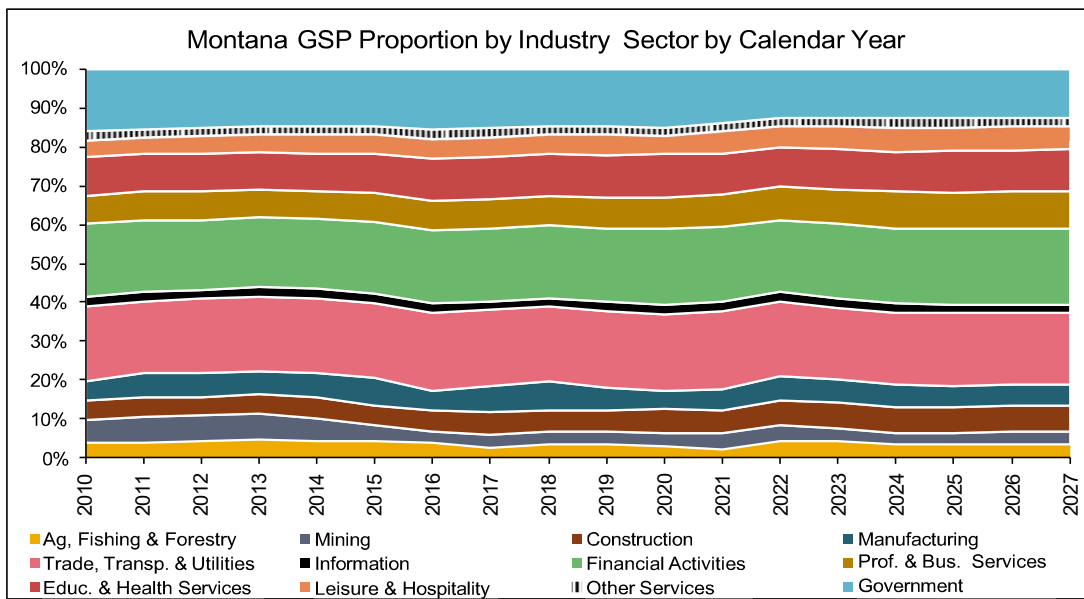
## Overview



## Montana Economic Indicators

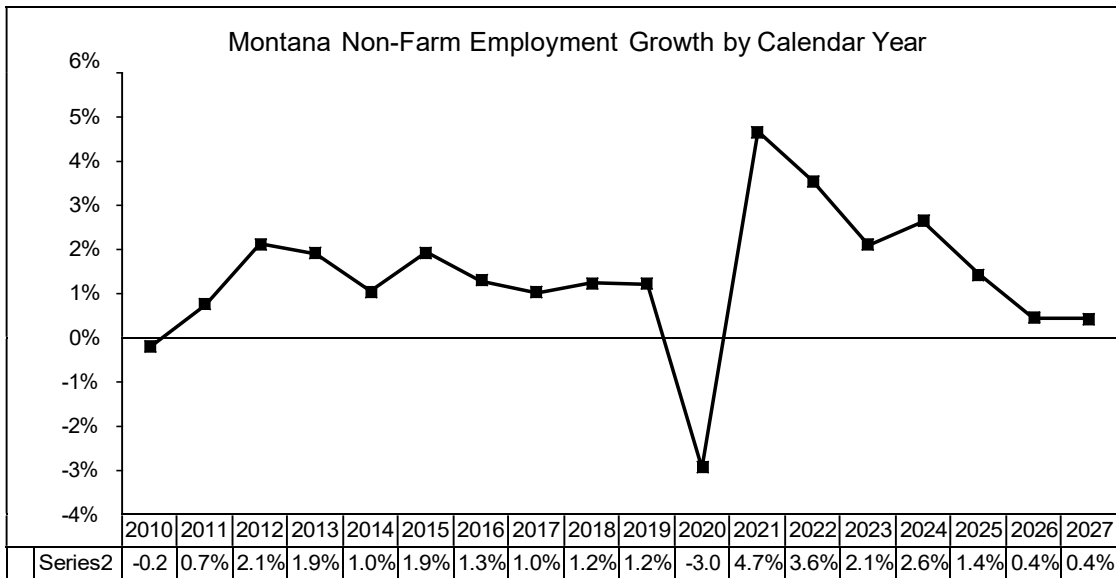
### Gross State Product (GSP)

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.



## Overview

### Employment



### Wages

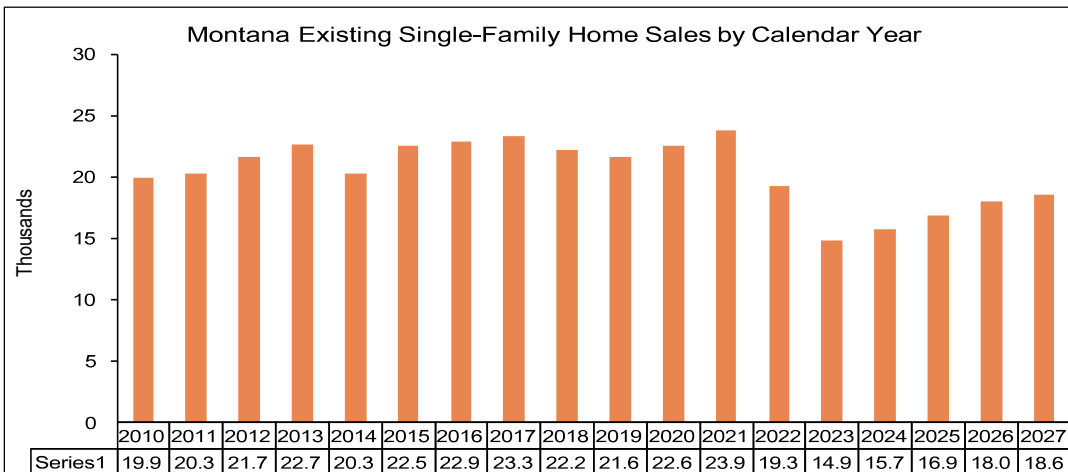
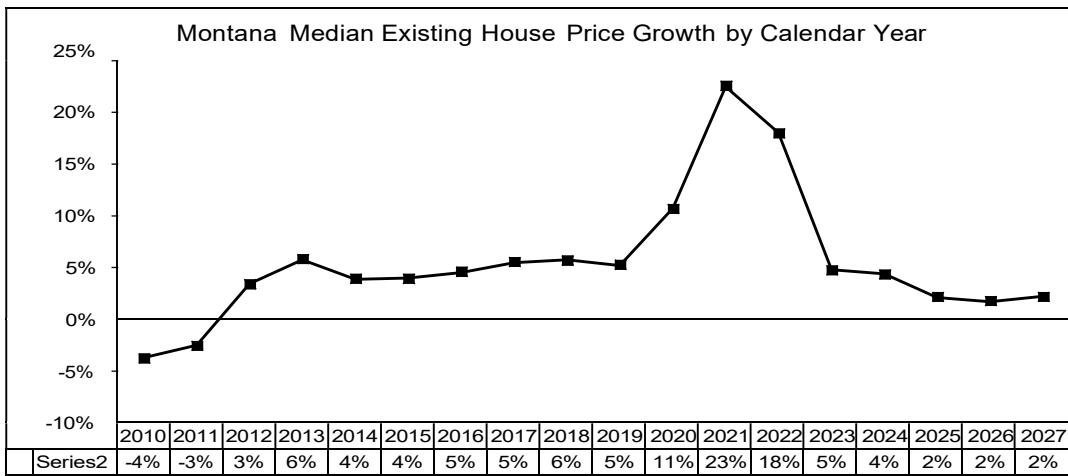
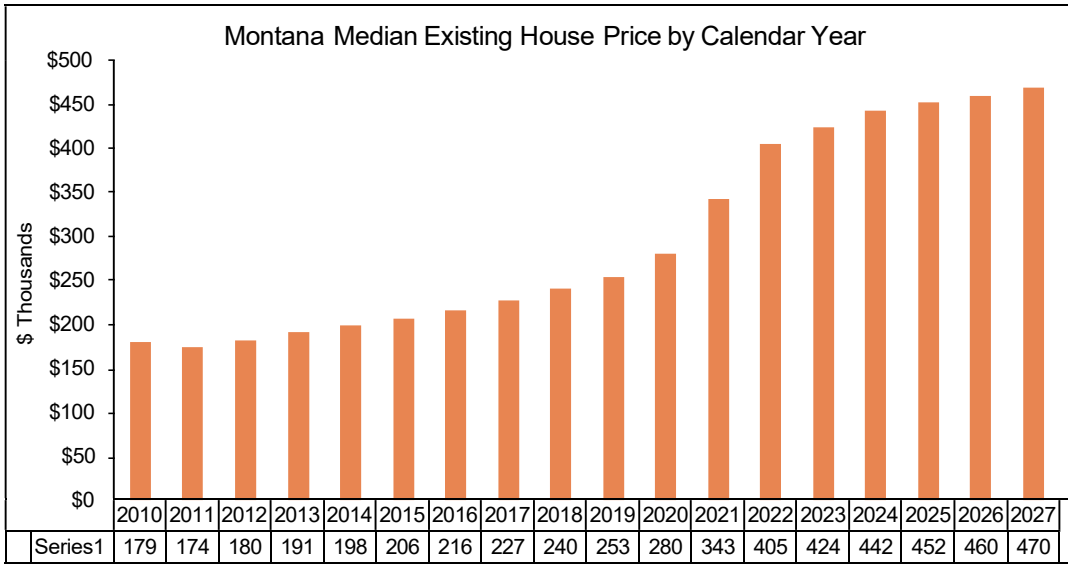
Wage income accounts for nearly two-thirds of individual income, and individual income tax accounts for over half of general fund revenue. Although wage income is not as volatile as several other income or revenue sources, even small changes in the outlook for wage income can produce large swings in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



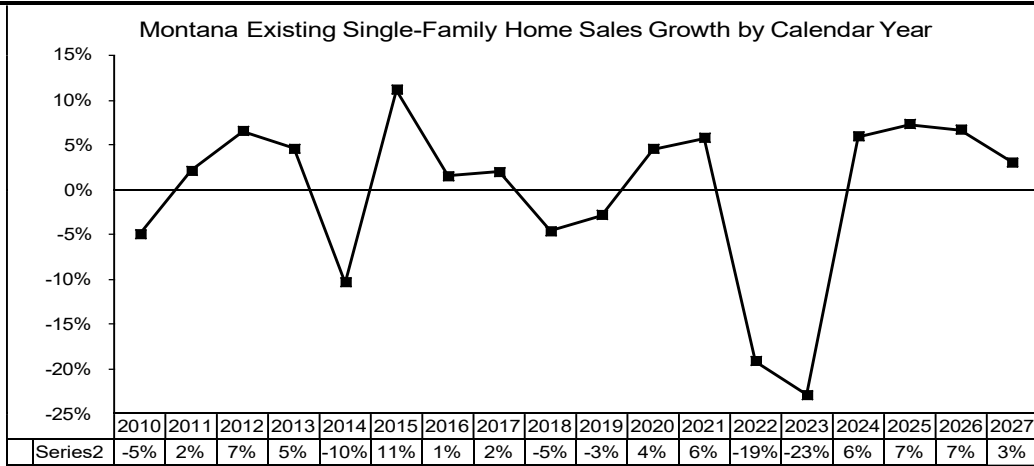
### Housing

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

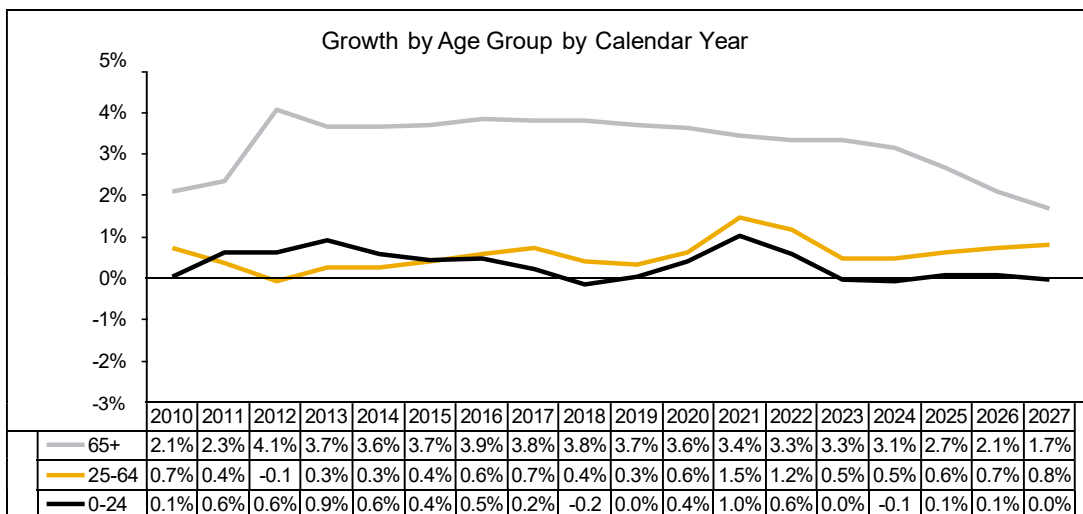
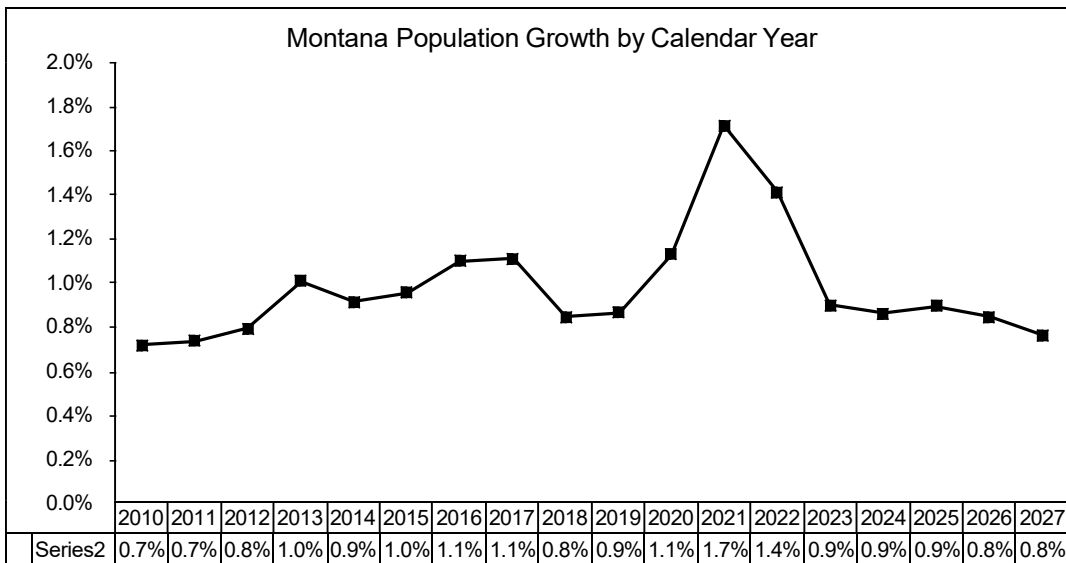


## Overview



## 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 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.