

Revenue Estimate Recommendations

Fiscal Years 2003, 2004 and 2005



Prepared by the
Legislative Fiscal Division

November 19, 2002



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MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building • P.O. Box 201711 • Helena, MT 59620-1711 • (406) 444-2986 • FAX (406) 444-3036

Legislative Fiscal Analyst
CLAYTON SCHENCK

November 13, 2002

Members of the Revenue and Transportation Interim Committee (RTIC):

In accordance with the provisions of Section 5-12-302, MCA, I am submitting the Legislative Fiscal Division revenue estimate recommendations for the fiscal period 2003, 2004, and 2005.

This report provides a "profile" of each major general fund revenue source, with specific detail on the methodology and assumptions used to develop these recommendations. Please note that in addition to the general fund components, the LFD report also contains recommendations for some specific non-general fund revenue sources that are significant in the development of the state budget for the 2005 biennium.

As agreed with the executive branch, the executive general fund estimates and underlying assumptions will also be provided to the committee. It was agreed that both parties would provide this information in advance of the scheduled November RTIC meeting on revenue estimates to provide an opportunity for the committee to study the estimates and assumptions used by each branch in developing their estimates.

Further, as directed by Chairman Erickson and the committee, and as agreed with the executive branch, the two branches have worked together to reconcile and explain significant differences prior to the RTIC meeting. These differences will be explained in a working document prepared by your LFD staff, and will be provided to the committee at the November 19 meeting.

We believe this document and the process agreed to as outlined above will serve as an effective tool as you carry out your statutory responsibility to develop revenue estimates for the 2003 legislative session. My staff and I look forward to assisting in this task.

Respectfully submitted,

Clayton Schenck
Legislative Fiscal Analyst

Attachments

Purpose of the Report

As delineated in Section 5-18-107(1) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare “an estimate of the amount of revenue projected to be available for legislative appropriation.” In addition, sections 5-12-302(2) and 5-12-307(7) specifically require the Legislative Fiscal Analyst (LFA) to “estimate revenue from existing and proposed taxes” and also requires the LFA to “assist the revenue and transportation committee in performing its revenue estimating duties...”.

The purpose of this report is to provide the RTIC with Legislative Fiscal Division (LFD) recommendations regarding anticipated revenues for fiscal 2003 through 2005. It should be noted that the accompanying LFD 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 of the LFD.

This upcoming legislative session is probably the most difficult budget situation the state has faced in a number of years. Not only are anticipated revenues significantly below the level of funding needed to fund “present law” services, the projected ending fund balance for the current biennium is very close to the statutory minimum as defined in 17-7-140, MCA. Because this balance is so low, the legislature will not be able to use previous excess fund balances to help balance the 2005 biennium budget.

In addition, the current economic uncertainty facing the national as well as world economies is significant. A sluggish national economy combined with the continued threat of terrorism attacks and a potential US war with Iraq makes the job of developing prudent revenue estimates an extremely difficult task. Artificially low estimates may cause the legislature to reduce state services that fall below the legislature’s priority line. Estimates that are too high may create the temptation for the legislature to fund state services that the state cannot afford. Obviously, the last scenario would result in spending reductions by the executive and/or a special session.

Montana Economic Outlook

Montana state government, like any other business, is influenced by economic and demographic developments. For example, Montana’s economic base as well as the strength of the U.S. economy determines the level of revenues collected from personal and corporate income taxes, property taxes, natural resource taxes, and investment earnings. Similarly, both economic and demographic variables affect state government disbursements for education, human services, corrections, and other governmental services.

Montana’s total revenue base is comprised of a number of taxes and fees plus numerous federal reimbursements or grants. Revenues are further enhanced from the investment of trust monies and idle cash pending disbursement from the state treasury. Since individual income tax is the state’s largest general fund tax source, economic developments or trends in the areas of employment and income levels significantly influence available revenues to fund governmental services. Federal revenue correspondingly is used to fund a number of human service, transportation, and educational services. In a number of instances, general or state special revenue fund dollars are required to provide a state match before the federal funds can be disbursed.

Conversely, Montana’s total expenditure base is targeted toward educational and human service programs with a significant allocation to highway construction. Education and human service costs are driven by some of the same economic and demographic conditions that influence state revenues. If employment levels increase, this usually translates to an increase in population or a reduction in unemployment levels. With population increases comes a corresponding increase in educational and human service costs. A greater population requires a better transportation system not only for the general populace but also for the businesses that expect to expand to meet the needs of an ever-growing population.

The 1990’s were generally good years for Montana’s economy. With a few exceptions, Montana experienced above average employment and wage levels that translated into strong tax revenue growth. This revenue growth was further enhanced by the significant increase in the equity markets and the resulting growth in capital gains income. The future, however, does not look as good as the effects of a national economic recession, terrorism

threats, and mid-east tensions play havoc on the US economy. All of these factors continue to weigh on the minds of investors, which are reflected by the bearish mood on Wall Street.

During calendar 2001, the Federal Reserve Board (FED) reduced increased interest rates 12 times in an attempt to stimulate the US economy. On November 6th, 2002, the FED reduced interest rates further by an additional basis points. Many economists are now suggesting that the interest rate reductions may have little affect on the economy, since many businesses are reluctant to invest in business expansion and have minimal ability to increase prices. Many of the earnings reports issued by major US companies show slow growth and reduced revenues as the result of a sluggish economy.

These trends translate to a similar slow-down in Montana's economy. Montana's economy is highly dependent on agriculture, tourism, natural resource extraction, and mining. All of these industries produce residual wholesale/retail trade and service sector jobs. If the basic industries are not flourishing, other sectors suffer as well. And if Montana's economy slows, tax revenue growth usually follows the trend because of the state's dependence on income tax revenues.

The irony of an economic slowdown is the inverse effect it may have on state expenditures. For example, if unemployment increases, this may translate into a greater demand for human service benefits and a greater need for correctional facilities and services. During a period when revenue growth is slowing, governmental service demands may actually increase at a faster rate.

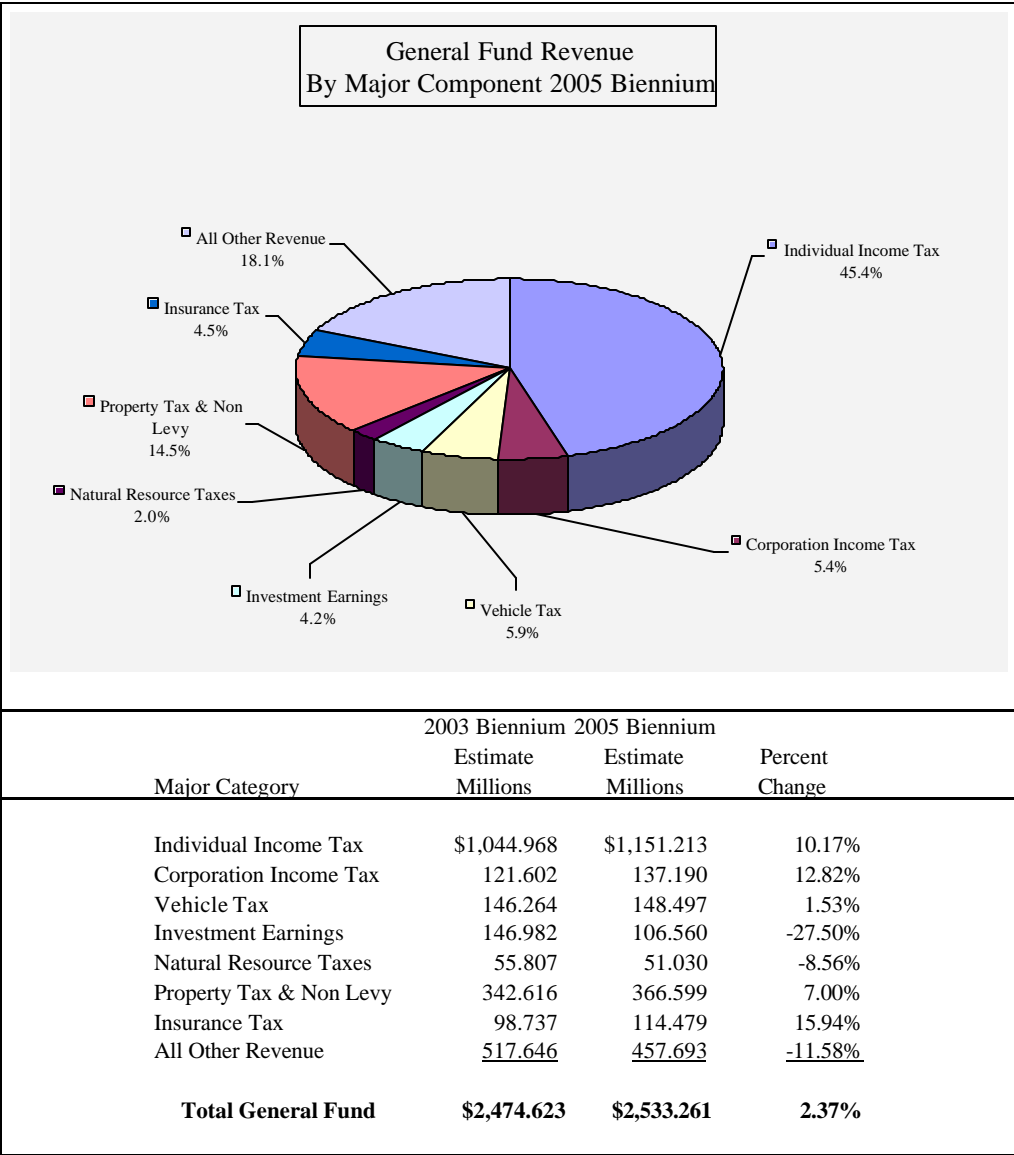
The revenue estimates as developed by the Legislative Fiscal Division (LFD) are based on a slowing economy through calendar 2003 with a gradual recovery by calendar 2005 at both the national and state levels. This general premise is supported by testimony to the Revenue and Transportation Interim Committee (RTIC) received on October 14, 2002. The RTIC set aside part of a scheduled meeting to hear from Andrew Hodge, Global Insight (DRI/WEFA), Dr. Paul Polzin, Bureau of Business and Economic Research, Dr. Myles Watts, Department of Agricultural Economics, Montana State University, and James Stack, Investor Broker with InvesTech Research. Each of these economic experts provided the committee with their outlook on various aspects of the state and national economies.

The economic outlook for the state is very fragile at this time. Employment and wage indicators continue to support slow growth in the near-term with the prospect of a gradual recovery by 2005. Capital gains income is expected to further erode during calendar 2002 and 2003 with a return to pre-technology exuberance trends for calendar 2004 and 2005. While interest rates are at historic lows, corporate profits are expected to remain soft. Property values are expected to increase due to reappraisal. The 58th Legislature, however, may need to address this issue depending on the magnitude of the increases. The effects of lower interest rates may have some beneficial impacts on economic growth at the expense of reduced state revenues from investments.

General Fund Revenue Implications

Montana's fiscal outlook for revenue growth is less optimistic than in previous biennia. The key economic assumptions that most affect state government receipts are Montana total income, employment, and population levels, inflation rates, corporate profits, property values, interest rates, and energy prices.

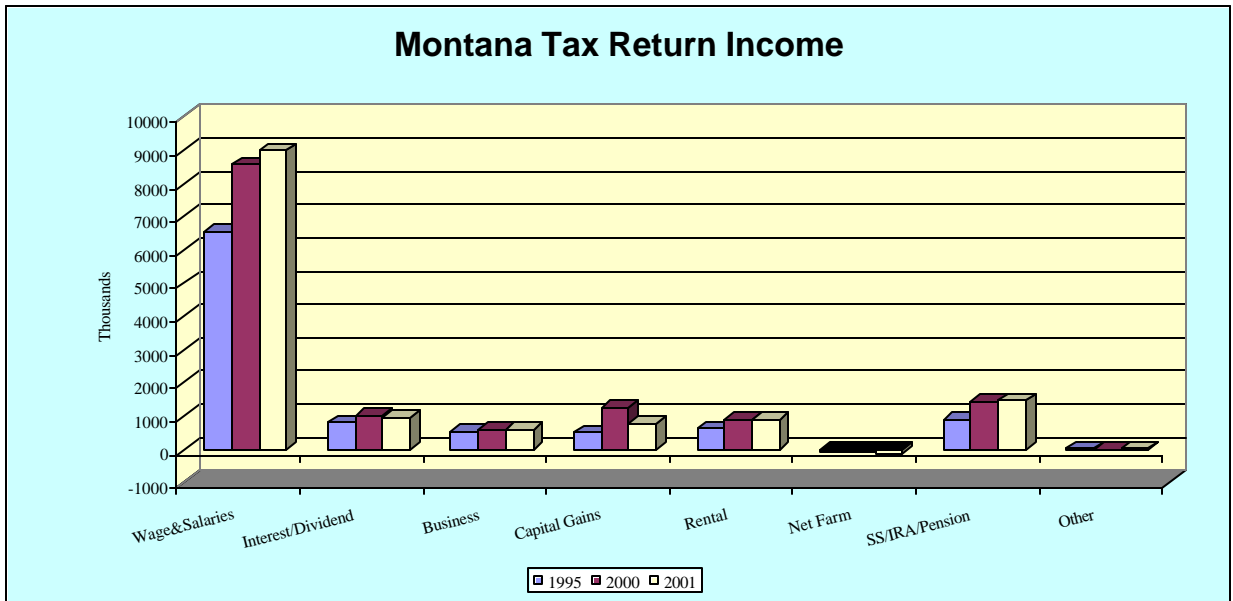
As shown in the following figure, individual income tax, corporation income tax, property tax, vehicle tax, and investment earnings are expected to contribute over 75 percent to the total general fund revenue stream during the 2005 biennium. Total general fund revenues for the 2005 biennium are projected to increase 2.4 percent over the 2003 biennium projections. The comparative change by major revenue category is shown at the bottom of the figure.



The next section of the report highlights the significant economic assumptions used by the LFD to develop the revenue estimate recommendations contained in this document. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast amount.

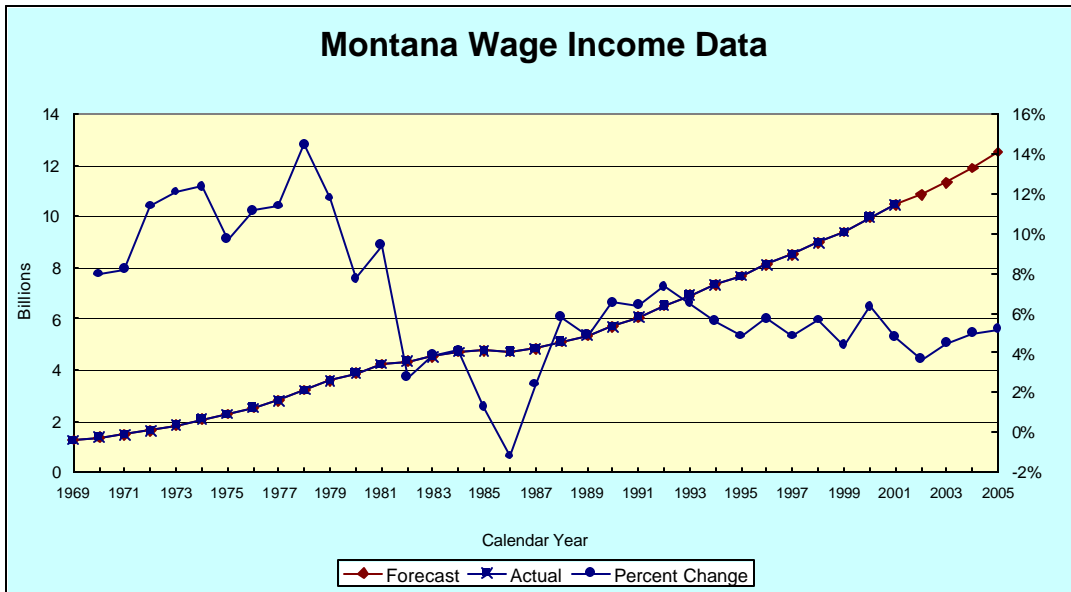
Montana Total Income

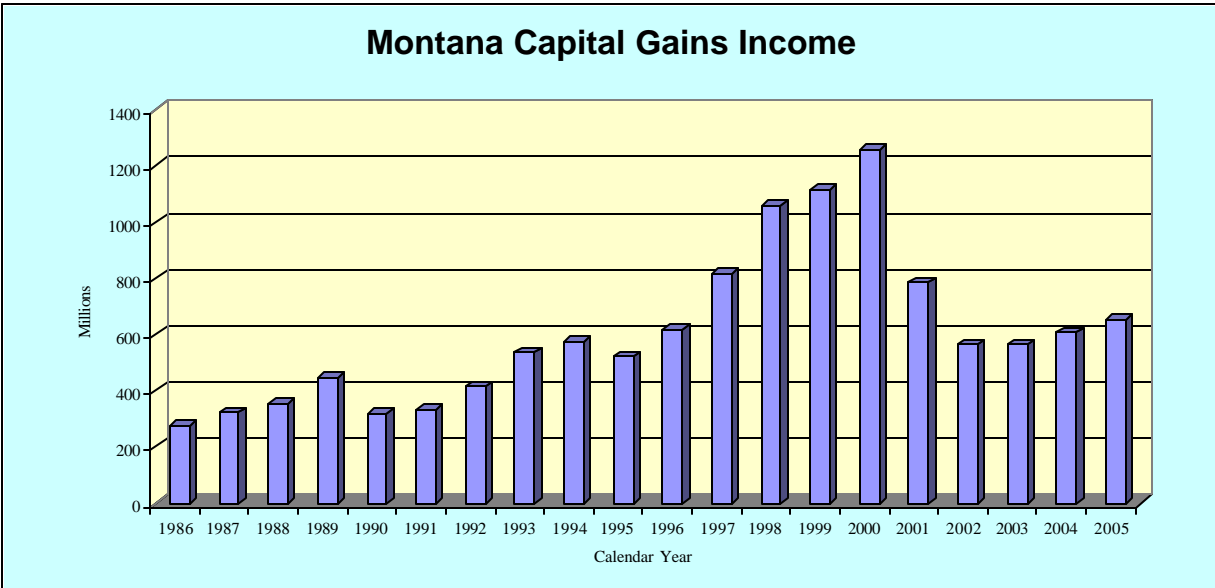
The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2001, it contributed 65.8 percent, or \$9.013 billion. The average annual growth from calendar 1990 to 2001 has been 5.5 percent.



In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of \$318 million. In 2000, capital gains contributed 9.2 percent of total income, at \$1.260 billion. In 2001, capital gains receded to 5.7 percent of total income, with income at \$786 million. That equates to a reduction of over 37.6 percent over the previous year, or \$474 million in income.

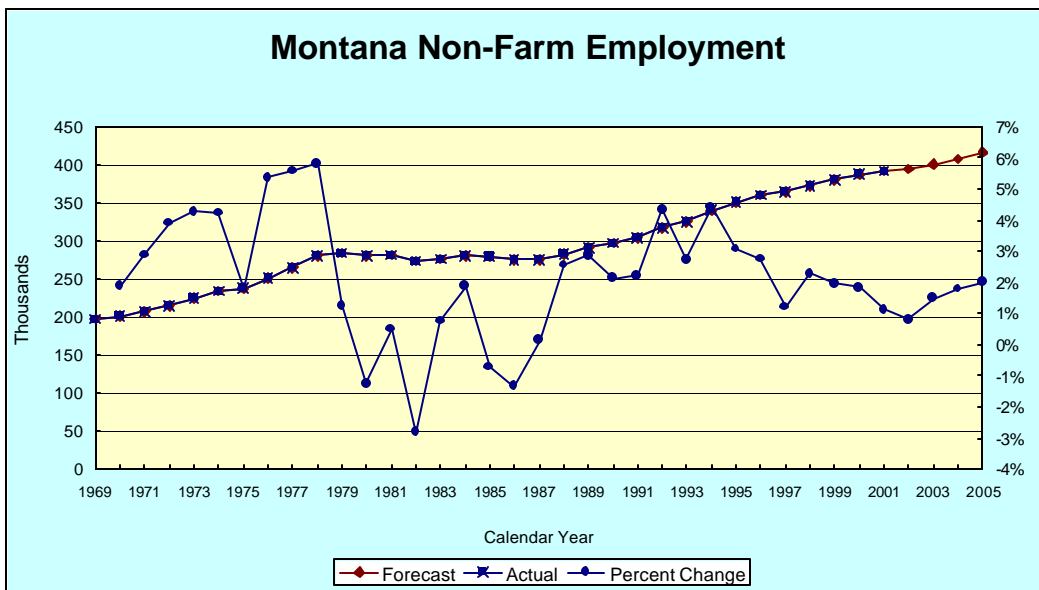
For the 2005 biennium, growth in wages and salaries is expected to be slow in calendar 2002 and 2003, while gradually increasing to about 5 percent by calendar 2005. Capital gains is projected to decline an additional 28 percent in calendar 2002 and remain flat in calendar 2003, For the last two years of the biennium, capital gains are estimated to rebound to a historic growth rate of 7.5 percent per year.





Montana Employment

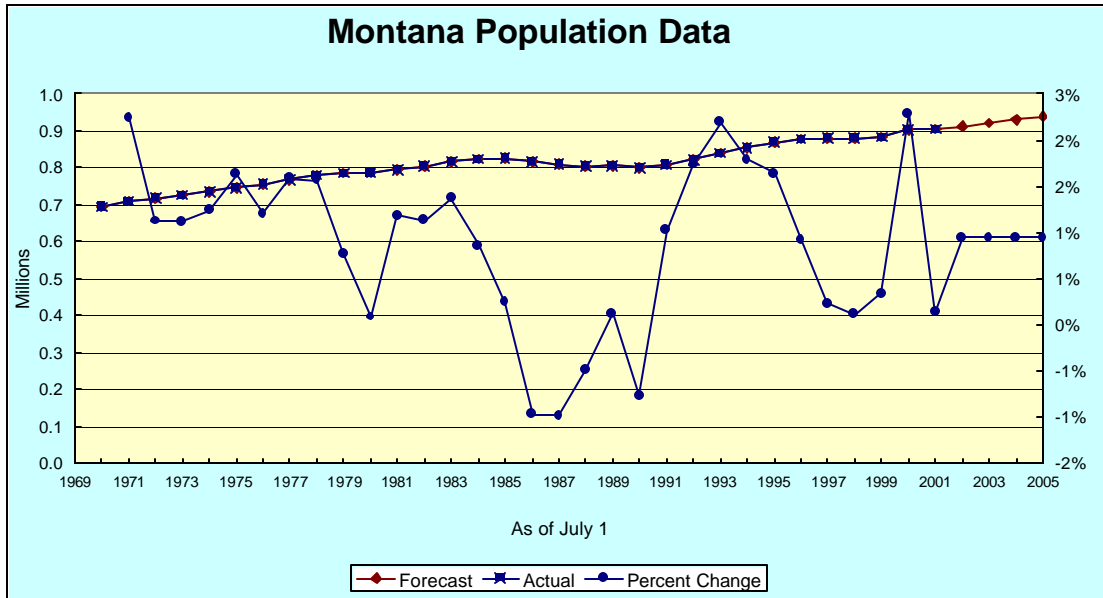
Like personal income, employment plays a key role in shaping the estimate of the individual income tax revenues. Furthermore, the information allows a view into the changing employment climate in Montana, where jobs are migrating, and how incomes might be altered. Dr. Paul Polzin, Director of the Montana Bureau of Business and Economic Research, is one of the several sources that provide information concerning the changing industrial make up of the state. Specific detailed data is gathered from the Montana Department of Labor, Research and Analysis Division. The statistics collected include employment in manufacturing, mining, construction, public utilities, whole and retail, finance, insurance, real estate, services, and government sectors. Average annual growth since 1996 has been 2.0 percent. The estimates for future growth, during the forecast period, reflects a gradual increase of 0.8 percent in calendar 2002 to 1.8 percent by calendar 2005. Over the past decade, the largest area of growth was seen in construction employment, which experienced 98.1 percent positive growth. The service sectors follows, experiencing 55.4 percent growth in the same period. Mining is the only area that saw negative growth, with a workforce reduction of 12.7 percent since 1990.



Montana 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. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

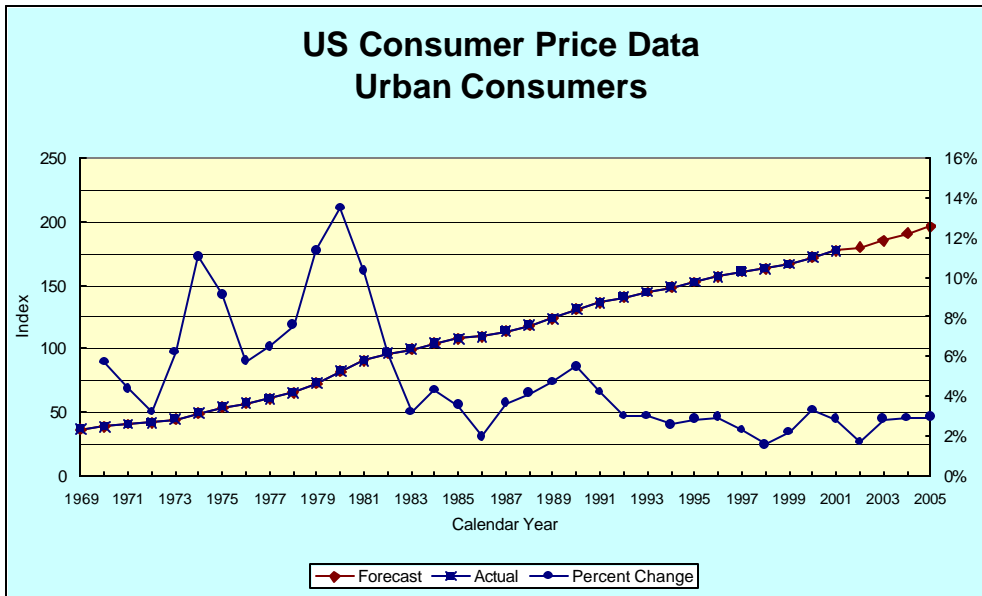
Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above. Historic population data is gathered from the U.S. Census department while projections are obtained from Woods and Poole Econometric Service. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at 0.9 percent annually.



Inflation Rates

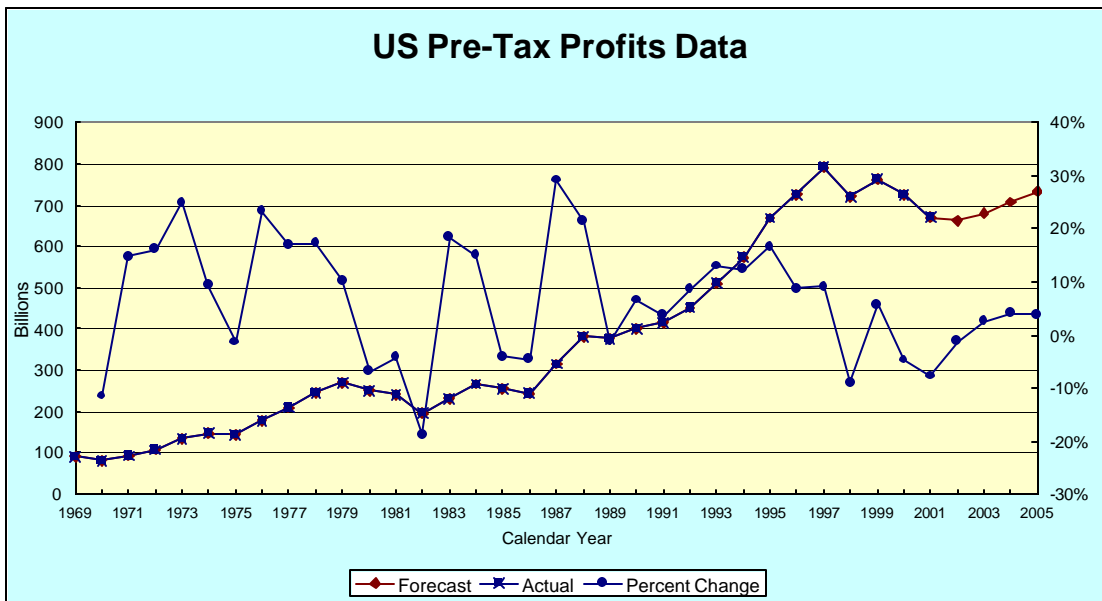
The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.

Since Montana's individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 3.0 percent. Global Insight Co. (formerly DRI-WEFA) estimates inflation during the next biennium at an average annual rate of 2.9 percent.



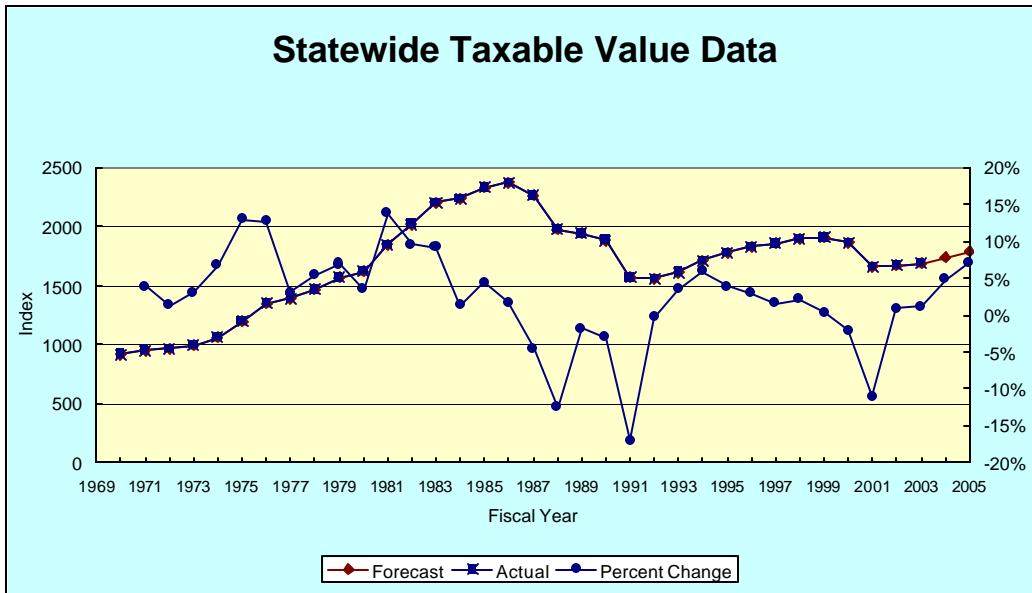
Corporate Profits

The profitability of corporate America is an important factor in estimating the revenues from the corporate license tax. There is a significant relationship between the profits reported by US corporations and those taxed in Montana. Many of the large corporations operating in Montana are multi-state entities. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 9.8 percent. However, from 1998 through 2001, profits have decreased by an average of 3.9 percent, the greatest decrease of 7.7 percent occurring in 2001. The reduction in corporate profits is projected to continue through 2002, at which time the outlook of corporate profitability is expected begin a phase of slow improvement.

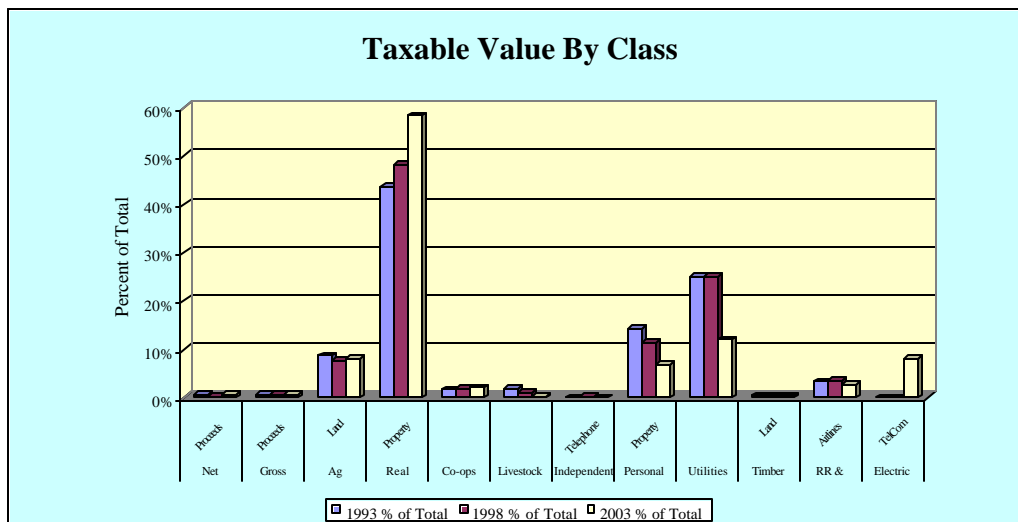


Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's but fell in both fiscal 2000 and 2001. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Estimates for the 2005 biennium show that statewide property values will resume a slow upward trend during the next biennium. Since detailed information on the effects of property reappraisal will not be available from the Department of Revenue until December, the 2005 biennium forecasts do not include the potential impacts of reappraisal.



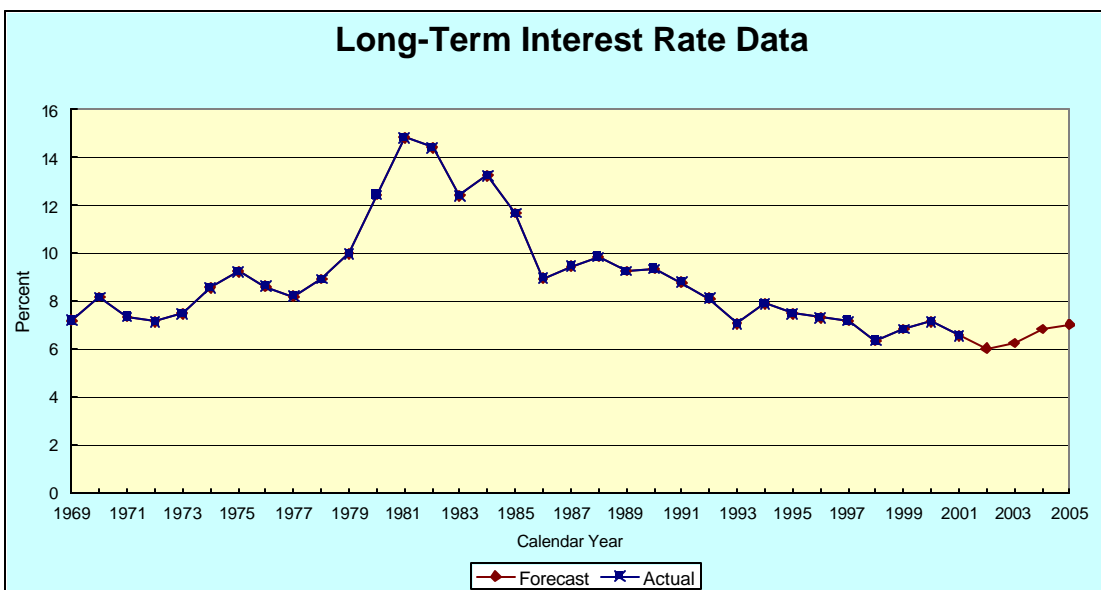
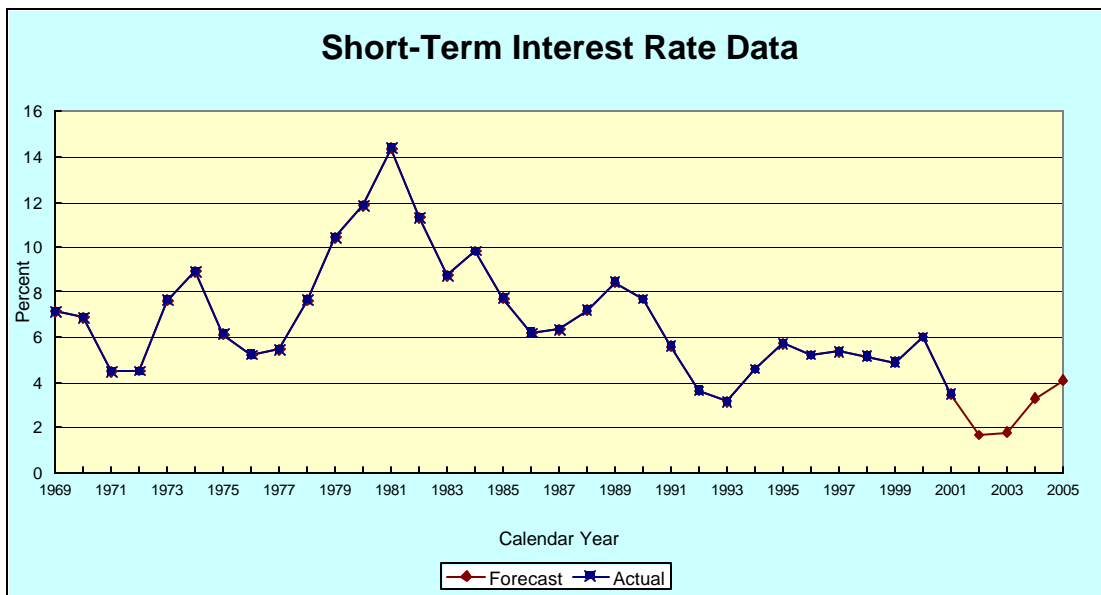
Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2003, the class 4 taxable value is expected to make up 58.4 percent of the total property tax base, while class 8 will be only 7.0 percent of the base.



Interest Rates

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

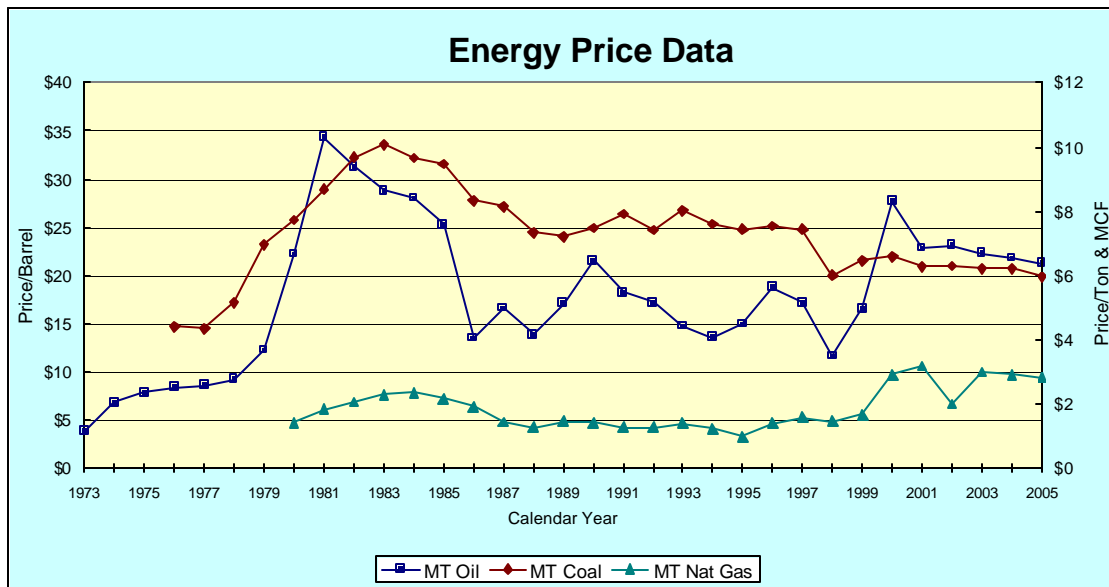
In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecasted rates are obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10 year T bonds, and 30 year T bonds. Short term rates are an average of 3 and 6 month Corporate paper and 3 and 6 month T bills. Long and short term interest rates have been on the decline since January 2001, when the Federal Reserve began reducing the discount rate. Rates are expected to reverse and begin an upward trend during the forecast period.



Energy Prices

Energy prices are very important to Montana's economy. Montana's abundance of energy land holdings plays an important part in the state's employment and economic stability. Additionally, the taxation of those commodities adds significant revenues to the state's coffers. Coal, oil, and natural gas production are each taxed on the value of production. Global Insight supplies information on coal, oil, and natural gas prices. Among the specific energy price indices forecast by Global Insight are the *U.S. Refiner's Acquisition Price*, the *U.S. Minemouth Coal Price* and the *West Texas Oil Price*. This information, plus conversations with industry experts, is used to develop Montana's energy prices.

Since 1990, the price of Montana coal has decreased 16.3 percent, oil has increased by 5.8 percent, and natural gas has increased by 123.5 percent. Estimates show a slow decline in the prices of all three of these commodities during the forecast period.



Figures 1 and 2 show the LFD general fund and non-general fund revenue recommendations for fiscal years 2003, 2004, and 2005. These recommendations are based on the major assumptions discussed above. From an economic perspective, these estimates reflect continuing slow growth in calendar 2002 and 2003 with a gradual recovery to more historic levels by calendar 2005.

Figure 1
Legislative Fiscal Division Recommendations
General Fund Revenue Estimates
In Millions

Source of Revenue	Percent of Total	Actual Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 02-03	Estimated Fiscal 04-05	Cumulative % of Total
1 Individual Income Tax	40.89%	\$517.568	\$527.400	\$556.874	\$594.339	\$1,044.968	\$1,151.213	42.23%
2 Property Tax	13.38%	169.339	173.277	180.179	186.420	342.616	366.599	56.07%
3 Corporation Income Tax	5.39%	68.173	53.429	65.811	71.379	121.602	137.190	60.99%
4 Vehicle Tax	5.78%	73.127	73.137	73.913	74.584	146.264	148.497	66.90%
5 Common School Interest and Income	3.87%	48.938	0.000	0.000	0.000	48.938	0.000	68.87%
6 Insurance Tax & License Fees	3.74%	47.291	51.446	56.038	58.441	98.737	114.479	72.86%
7 Coal Trust Interest	2.97%	37.605	36.825	37.249	37.920	74.430	75.169	75.87%
8 US Mineral Royalty	1.56%	19.772	22.715	23.469	22.980	42.487	46.449	77.59%
9 All Other Revenue	3.41%	43.216	25.808	18.783	18.877	69.024	37.660	80.38%
10 Tobacco Settlement	1.47%	18.647	19.025	3.105	3.182	37.672	6.287	81.90%
11 Telecommunications Excise Tax	1.55%	19.594	20.100	20.701	21.674	39.694	42.375	83.50%
12 Video Gambling Tax	3.45%	43.666	45.370	46.660	48.649	89.036	95.309	87.10%
13 Treasury Cash Account Interest	0.98%	12.414	11.200	14.060	17.331	23.614	31.391	88.06%
14 Estate Tax	1.09%	13.816	10.153	7.516	4.625	23.969	12.141	89.03%
15 Oil & Natural Gas Production Tax	1.02%	12.902	16.043	14.600	14.469	28.945	29.069	90.20%
16 Motor Vehicle Fee	2.15%	27.271	27.585	28.023	28.432	54.856	56.455	92.41%
17 Public Institution Reimbursements	1.13%	14.283	15.541	13.939	14.046	29.824	27.985	93.62%
18 Coal Severance Tax	0.67%	8.469	10.221	8.384	7.857	18.690	16.241	94.37%
19 Liquor Excise & License Tax	0.75%	9.514	9.854	10.239	10.624	19.368	20.863	95.16%
20 Cigarette Tax	0.62%	7.887	7.870	7.764	7.667	15.757	15.431	95.79%
21 Investment License Fee	0.39%	4.992	4.567	4.613	4.659	9.559	9.272	96.18%
22 Lottery Profits	0.59%	7.467	6.210	6.255	6.318	13.677	12.573	96.73%
23 Liquor Profits	0.44%	5.600	5.637	5.399	5.365	11.237	10.764	97.19%
24 Nursing Facilities Fee	0.47%	5.918	5.723	5.670	5.624	11.641	11.294	97.66%
25 Foreign Capital Depository Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	97.66%
26 Electrical Energy Tax	0.33%	4.197	4.329	4.408	4.483	8.526	8.891	98.00%
27 Metalliferous Mines Tax	0.26%	3.329	4.842	2.967	2.753	8.171	5.720	98.33%
28 Highway Patrol Fines	0.32%	4.062	4.142	4.224	4.308	8.204	8.532	98.66%
29 Public Contractors Tax	0.26%	3.267	2.679	3.354	3.356	5.946	6.710	98.90%
30 Wholesale Energy Tax	0.23%	2.906	3.373	3.432	3.492	6.279	6.924	99.16%
31 Tobacco Tax	0.17%	2.183	2.262	2.353	2.444	4.445	4.797	99.34%
32 Driver's License Fee	0.20%	2.580	2.355	2.373	2.391	4.935	4.764	99.53%
33 Railroad Car Tax	0.12%	1.490	1.577	1.688	1.681	3.067	3.369	99.66%
34 Wine Tax	0.10%	1.232	1.264	1.283	1.302	2.496	2.585	99.76%
35 Beer Tax	0.22%	2.784	2.918	3.058	3.205	5.702	6.263	99.99%
36 Telephone License Tax	0.02%	0.212	0.033	0.000	0.000	0.245	0.000	100.00%
37 Long Range Bond Excess	0.00%	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	0.000	<u>100.00%</u>
Total General Fund	100.00%	<u>\$1,265.713</u>	<u>\$1,208.910</u>	<u>\$1,238.384</u>	<u>\$1,294.877</u>	<u>\$2,474.623</u>	<u>\$2,533.261</u>	100.00%

Figure 2
Legislative Fiscal Division Recommendations
Non-General Fund Revenue Estimates
 In Millions

Source of Revenue	Percent of Total	Actual Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 02-03	Estimated Fiscal 04-05	Cumulative % of Total
¹ Diesel Tax	17.83%	\$58.261	\$59.180	\$60.041	\$60.903	\$117.441	\$120.944	18.14%
² Federal Forest Receipts	4.12%	13.475	13.583	13.775	13.976	27.058	27.751	22.30%
³ Gasoline Tax	40.32%	131.731	132.446	133.185	133.918	264.177	267.103	62.35%
⁴ GVW and Other Fees	8.35%	27.266	27.037	26.729	26.377	54.303	53.106	70.32%
⁵ Lodging Facility Use Tax	3.64%	11.901	12.441	13.005	13.595	24.342	26.600	74.30%
⁶ Resource Indemnity Tax	0.67%	2.201	1.080	1.055	1.062	3.281	2.117	74.62%
⁷ Arts Trust Interest	0.09%	0.305	0.314	0.322	0.337	0.619	0.659	74.72%
⁸ Capital Land Grant Interest and Income	0.34%	1.101	0.827	0.822	0.613	1.928	1.435	74.94%
⁹ Deaf & Blind Interest and Income	0.09%	0.284	0.292	0.295	0.298	0.576	0.593	75.02%
¹⁰ Parks Trust Interest	0.34%	1.106	1.114	1.127	1.153	2.220	2.280	75.37%
¹¹ Pine Hills Interest and Income	0.11%	0.355	0.348	0.358	0.363	0.703	0.721	75.47%
¹² RIT Trust Interest	2.24%	7.321	7.376	7.377	7.379	14.697	14.756	77.69%
¹³ TSE Trust Interest	2.08%	6.805	7.201	7.871	8.472	14.006	16.343	80.14%
¹⁴ Property Tax: 6 Mill	3.61%	11.806	11.627	11.989	12.292	23.433	24.281	83.78%
¹⁵ Property Tax: 9 Mill	0.09%	0.286	0.000	0.000	0.000	0.286	0.000	83.78%
¹⁶ Tobacco Trust Interest	0.30%	0.968	1.741	2.464	3.253	2.709	5.717	84.64%
¹⁷ Regional Water Trust Interest	0.20%	0.643	1.151	1.404	1.670	1.794	3.074	85.10%
¹⁸ Common School Interest and Income	15.57%	50.875	51.175	49.745	49.631	102.050	99.376	100.00%
Total Non-General Fund	100.00%	\$326.689	\$328.933	\$331.564	\$335.292	\$655.622	\$666.856	100.00%

How to Use This Report

The following report is arranged into six main revenue sections, a comparison to the executive, and an appendix. Each revenue section contains revenue sources that share common characteristics, have many of the same assumptions, and have common estimating methodologies. The committee's time can be more efficiently used by considering those sources by section due to their commonalities. The eight main sections are:

1. Business Taxes
2. Natural Resource Taxes
3. Interest Earnings
4. Consumption
5. Property Taxes
6. Other General Fund Revenue
7. Comparison to Executive
8. Appendix – Forecast & Distribution Methodology Formulae

The sections are marked by tabbed divider pages that list each revenue source within that section. The sources are arranged alphabetically within each section. Section 7 includes a comparison between the LFD revenue estimates and those of the executive. Section 8, the appendix, provides a listing by revenue source of the detailed forecast and distribution methodology formulae.

The report contains profiles of each revenue source estimated by the RTIC. Fourteen categories of information are provided for each source. These categories and a short description of each follow:

Revenue Description: A brief description of the source is provided including the origin of the revenue and, in the case of taxes and fees, the item that is taxed.

Applicable Tax Rate(s): This section provides an explanation of the tax rate or license fee, more detail on the items that are taxed, and other information such as exemptions, minimums, initial versus annual fees, etc.

Distribution: This section shows how the revenue is distributed. In cases where uses or entities other than general fund receive a portion of the revenue, percentage distribution or the dollar amount is shown for each recipient.

Collection Frequency: Timing of the revenue deposited in the state treasury may affect the revenue estimate. Most revenue is usually received on a quarterly or monthly basis.

Applicable Assumptions and/or Relevant Indicators: The various types of information used or considered in the estimation process are listed.

Data Source(s): The various state agencies, federal agencies, companies, information systems, publications, fiscal notes, etc., that were consulted or reviewed in the estimation process are listed.

Contacts: The reader may contact these entities for more information about the revenue source.

Statute: These are the citations from the Montana Code Annotated (MCA) applicable to the revenue source.

% of Total FY 2002 General Fund Revenue: To give the reader an idea of the size of a particular revenue source, its percentage of total fiscal 2000 general fund revenue is provided.

Revenue Estimate Methodology: A general description of the revenue estimating methods and philosophy of the LFD is provided followed by a more detailed explanation of the methodology used to derive assumptions for the revenue source. Legislative impacts that have not been reflected in the tax base or the methodology are included. Methods differ between sources and may change each biennium depending on circumstances.

Revenue Projection: This section consists of a graph and accompanying data table. The line graph shows the amount of actual collections and the projected amounts for fiscal years 2003, 2004, and 2005. Total collections are depicted by a dark line while general fund collections are shown by a lighter line. The data table contains historic information about this data source since 1979 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal 2003, 2004, and 2005; and 4) the yearly percentage change in general fund.

Forecast Methodology: This section includes a flow chart illustrating a simplified diagram of the methodology used to determine the revenue estimates.

Distribution Methodology: This section includes a flow chart illustrating a simplified diagram of how the revenue received from the source is distributed in the state accounting system.

Data Tables: In most cases, the data provided in these tables can be used in the formulas shown in the “Forecast Methodology” to derive the revenue estimate. The tables also show the revenue estimates for fiscal years 2003, 2004, and 2005, the estimated general fund amount, and, if applicable, distributions to other funds or uses.

**LFD
COMMENT**

Some revenue sources will have an “LFD Comment” shown in a table like this one. In those cases, the LFD has determined that issues related to the revenue source are significant enough to highlight the item for further committee discussion or potential action.

The remaining portion of this document is the LFD revenue estimates by revenue source.

LEGISLATIVE FISCAL DIVISION

Revenue Estimate Recommendations

Table of Contents

Purpose of the Report	5
Montana Economic Outlook	5
How to Use This Report	17
BUSINESS TAXES	23
Corporation Income Tax	25
Driver’s License Fees	28
Estate Tax	32
Individual Income Tax	35
Insurance Tax & License Fees	43
Investment License Fee.....	46
Lodging Facility Use Tax.....	49
Motor Vehicle Fee	53
Public Contractors Tax	57
Railroad Car Tax	60
Telecommunications Excise Tax	63
Vehicle Tax.....	66
NATURAL RESOURCE TAXES	71
Coal Severance Tax	73
Electrical Energy Tax.....	76
Metalliferous Mines Tax	79
Oil and Natural Gas Production Tax.....	84
Resource Indemnity Tax	88
US Mineral Royalty.....	91
Wholesale Energy Tax.....	95
INTEREST EARNINGS	99
Capital Land Grant Interest and Income	101
Coal Trust Interest.....	106
Common School Interest and Income	111
Cultural Trust Interest.....	118
Deaf and Blind Trust Interest and Income	122
Parks Trust Interest.....	128
Pine Hills Interest and Income.....	132
Regional Water Trust Interest	138
Resource Indemnity Trust Interest	142
Tobacco Trust Interest	147
Treasure State Endowment Trust Interest	151
Treasury Cash Account Interest.....	155

LEGISLATIVE FISCAL DIVISION
Revenue Estimate Recommendations
Table of Contents (continued)

CONSUMPTION TAXES	159
Beer Tax.....	161
Cigarette Tax	164
Diesel Tax	168
Gasoline Tax.....	172
GVW and Other Fees.....	177
Liquor Excise and License Tax.....	180
Liquor Profits.....	184
Lottery Profits.....	187
Tobacco Tax	191
Video Gambling Tax	194
Wine Tax.....	198
PROPERTY TAXES	201
Property Tax 55 Mill.....	203
Property Tax 40 Mill.....	209
Property Tax 6 Mill.....	215
Property Tax 1.5 Mill.....	221
Non Levy Revenue	225
OTHER GENERAL FUND REVENUE	234
All Other Revenue.....	236
Highway Patrol Fines	240
Nursing Facilities Fee.....	243
Public Institution Reimbursements.....	246
Tobacco Settlement	250
Appendix – Forecast and Distribution Methodology Formulae	256

