EXHIBIT 1
DATE 2/16/09
HB 2

MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Legislative Fiscal Analyst
CLAYTON SCHENCK

DATE: February 13, 2009

TO: Senator Bob Story, Senate President
Rep. Bob Bergren, House Speaker
Senator Keith Bales, Chair, Senate Finance Committee
Rep. Jon Sesso, Chair, House Appropriations Committee
Senator Jeff Essmann, Chair, Senate Taxation
Rep. Bob Lake, Chair, House Taxation Committee
Senator Jim Peterson, Senate Majority Leader
Rep. Margaret Campbell, House Majority Floor Leader
Senator Carol Williams, Senate Minority Leader
Rep. Scott Sales, House Minority Leader

FROM: Terry W. Johnson, Principal Fiscal Analyst

RE: General Fund Revenue Update Number 2

PURPOSE OF REPORT

During a January meeting with House and Senate leadership, the Legislative Fiscal Division (LFD) told legislators that LFD staff would provide periodic updates on the rapidly changing economic conditions and the potential impact on general fund revenue estimates. It is critical for the legislature to be apprised of these impacts in order to craft a state budget that is balanced as required by the constitution. The estimates provided in this report are based on economic conditions and trends observed at this time and are subject to change as more information becomes available.

This is the second report designed to update the legislature on recent economic trends and the corresponding outlook for FY 2009, 2010, and 2011 general fund revenue estimates. This analysis is based on data received through early February 2009 and includes potential economic impacts of the proposed federal economic stimulus package as incorporated by HIS Global Insight (IHS) into their economic forecasts. This report is presented in three sections. The first section summarizes the type of new information that has become available to the LFD since our revised revenue estimate recommendations were prepared in mid-January, 2009. The second section summarizes the results of our analysis and the impact on anticipated general fund revenue collections. And the third section, provides a "what to watch for" in the next update of this report expected to be issued in mid-March.

THE BOTTOM LINE

The LFD estimates used in our pre-session budget analysis were based on data received as of early December 2008. At that time, the revised LFD recommendations were $135 million below the RTIC November estimate for FY 2009, 2010, and 2011. Further analysis in January showed that there was an additional $85 million below the RTIC estimates for a total reduction of $220 million for the three year period. This analysis shows that economic conditions have not improved and that further adjustments of $30.9 million are necessary at this time. This brings the total recommended reduction from the HJ2 estimate to $250.9 million for the three year period, FY 2009, 2010, and 2011. The next section of the report summarizes the results of our analysis.

NEW INFORMATION

Each month, the Legislative Fiscal Division (LFD) receives a revised national economic outlook from IHS. This is the economic forecasting company that Montana has a contract with to provide national and regional economic forecasting services. This service includes written material as well as a variety of economic forecasts for "hundreds" of economic variables. The information received from IHS in early February reflects their forecasts as of January 2009 for both the national and Montana economies.

The statewide budgeting and accounting system (SABHRS) produces a "snapshot" of accounting transactions on the last day of each month. The LFD has internal computer processes to download this data and produce a variety of reports and spreadsheets. While this data is critical in monitoring year to date collection trends, this system does not contain any tax return or economic information such as individual and corporate income components, oil and gas production, and prevailing interest rates. This type of detailed data must be extracted from other sources provided the information is available. The accounting transaction detail that is available to the LFD reflects revenue collections through January 2009. Historical collection data by month are available back to FY 2000.

The LFD, in cooperation with the Department of Revenue (DOR), developed a process whereby the DOR sends the LFD tax return data for fifty different tax types at the beginning of each month. This data is extremely helpful in analyzing various trends that may be occurring within a given tax type. For example, the DOR data show oil production by calendar quarter as reported by the taxpayer. This data is invaluable in tracking production trends throughout the year. It should be noted, however, that since oil production taxes are payable sixty days after the end of quarter, there is a considerable lag time before the LFD can analyze the data. Nonetheless, this new data was received February 1 and included return information captured in the DOR system as of January 30, 2009.

Late October, 2008, the DOR provided our office with a detailed file of all individual income taxpayers for tax year 2007. This information has been the database used for our income tax simulation model and the resulting revenue estimates presented to the RTIC in November and the revised estimates provided in these monthly revenue updates. On the afternoon of February 12, the DOR delivered an updated file of all income taxpayers for tax year 2007. The department has indicated this new file includes additional resident and non-resident taxpayers. Since our office was committed to having this report to the legislature by February 13th, this new data has not been included in this analysis.

During each month, there are numerous articles and economic reports that are produced by newspapers, economic websites, and federal entities. To the extent possible, this information is reviewed for relevancy to Montana's economy and the impact it may have on state revenues. Usually this information is for reference and does not necessarily have a quantifiable impact on our revenue outlook. This type of information is received and reviewed daily throughout the month. Appendix A shows a high level summarization of the printed material we have been tracking since October, 2008.

Based on this new information, the following section of the report highlights our analysis of the new data and summarizes the total LFD recommended changes to the general fund revenue estimates for FY 2009, 2010, and 2011.

RESULTS OF LFD ANALYSIS

The primary components of total general fund revenues are individual and corporate income taxes, property taxes, investment earnings, and natural resource taxes. If all of these components are added together, almost 75 percent of total general fund revenues are produced from these sources. The analysis discussed in this report focuses on these key sources but also includes some additional information relevant to some of the smaller revenue sources.

The first general fund revenue update report issued on January 23 focused on key economic assumptions and the potential impacts on general fund revenue estimates for FY 2009, 2010, and 2011. This report is prepared in a similar format with an additional section that discusses collection data through January 2009 compared with collections through January 2008. This type of comparison can provide insight to the strengths or weaknesses of year to date collections and can help identify trends that may be indicative of collections for the remainder of the fiscal 2009.

YEAR TO DATE COLLECTIONS

Figure 1 shows general revenue collections by individual revenue source. This table is produced monthly based on the revenue transactions recorded on SABHRS. The information shown in Figure 1 represents revenue collections for the first seven months of FY 2008 compared to the first seven months of FY 2009. As shown at the bottom of Figure 1, total general fund collections are $67.4 million (7.0 percent) above last year. The HJ2 total general fund revenue estimate as adopted by RTIC on November 18, 2008, expected revenues to be 1.9 percent below FY 2008 collections.

This information indicates that overall general fund revenue collections are on pace to exceed the HJ2 estimate by a significant amount. However, there are several issues that will change this outlook as we proceed through the remainder of FY 2009. Some of the more significant issues are highlighted in the next section of the report.

Figure 1

General Fund Revenue Monitoring Report							
Revenue Source	Actual Fiscal 2008	HJ2 Estimate Fiscal 2009	Through 1/31/08	Through 1/31/09	Difference	% Change	HJ2 Estimate % Change
GF0100 Drivers License Fee	3,865,872	4,667,000	2,348,758.95	1,486,094.76	(862,664.19)	-36.73%	20.72%
GF0200 Insurance Tax	64,003,987	49,769,000	22,277,064.44	14,110,211.35	(8,166,853.09)	-36.66%	-22.24%
GF0300 Investment Licenses	6,513,962	6,127,000	1,231,981.12	5,207,366.80	3,975,385.68	322.68%	-5.94%
GF0400 Vehicle License Fee	93,493,069	95,014,000	45,249,632.90	45,200,579.00	(49,053.90)	-0.11%	1.63%
GF0500 Vehicle Registration Fee	18,992,762	19,227,000	10,491,592.58	8,202,762.80	(2,288,829.78)	-21.82%	1.23%
GF0600 Nursing Facilities Fee	5,610,099	5,318,000	2,105,581.61	1,924,646.22	(180,935.39)	-8.59%	-5.21%
GF0700 Beer Tax	3,124,238	3,160,000	1,621,750.34	1,647,564.42	25,814.08	1.59%	1.14%
GF0800 Cigarette Tax	36,004,249	36,373,000	20,617,136.79	19,818,032.24	(799,104.55)	-3.88%	1.02%
GF0900 Coal Severance Tax	11,894,408	12,410,000	6,025,888.91	5,596,594.99	(429,293.92)	-7.12%	4.33%
GF1000 Corporation Tax	160,341,787	156,132,000	71,579,774.97	93,785,752.25	22,205,977.28	31.02%	-2.63%
GF1100 Electrical Energy Tax	5,179,013	4,707,000	2,636,177.69	1,648,606.18	(987,571.51)	-37.46%	-9.11%
GF1150 Wholesale Energy Trans Tax	3,856,112	3,870,000	1,880,567.88	1,501,731.34	(378,836.54)	-20.14%	0.36%
GF1200 Railroad Car Tax	2,063,981	2,166,000	1,517,042.70	1,574,554.79	57,512.09	3.79%	4.94%
GF1300 Individual Income Tax	866,658,538	871,653,000	496,104,416.81	526,260,865.31	30,156,448.50	6.08%	0.58%
GF1400 Inheritance Tax	122,148	113,000	87,142.39	107,885.06	20,742.67	23.80%	-7.49%
GF1500 Metal Mines Tax	10,774,242	9,854,000	0.01	(0.01)	(0.02)	-200.00%	-8.54%
GF1700 Oil Severance Tax	149,993,826	116,771,000	29,480,096.10	44,535,368.05	15,055,271.95	51.07%	-22.15%
GF1800 Public Contractor's Tax	5,062,659	4,058,000	3,147,956.55	3,839,207.10	691,250.55	21.96%	-19.84%
GF1850 Rental Car Sales Tax	3,157,239	3,173,000	1,572,110.77	1,452,338.66	(119,772.11)	-7.62%	0.50%
GFxxxx Property Tax	205,043,752	211,495,000	108,624,986.69	114,739,052.20	6,114,065.51	5.63%	3.15%
GF2150 Lodging Facilities Sales Tax	13,389,534	13,339,000	6,408,896.98	5,823,051.29	(585,845.69)	-9.14%	-0.38%
GF2200 Telephone Tax	-	-	-	-	-		
GF2250 Retail Telecom Excise Tax	22,350,323	21,614,000	6,271,244.81	5,788,012.69	(483,232.12)	-7.71%	-3.29%
GF2300 Tobacco Tax	4,698,888	4,710,000	2,401,659.68	2,379,240.25	(22,419.43)	-0.93%	0.24%
GF2400 Video Gaming Tax	63,134,000	66,554,000	31,295,647.88	47,053,337.60	15,757,689.72	50.35%	5.42%
GF2500 Wine Tax	1,829,311	1,942,000	973,349.39	1,046,434.40	73,085.01	7.51%	6.16%
GF2600 Institution Reimbursements	15,334,683	13,658,000	4,476,978.33	6,972,379.55	2,495,401.22	55.74%	-10.93%
GF2650 Highway Patrol Fines	4,049,390	4,052,000	2,030,403.72	2,108,202.32	77,798.60	3.83%	0.06%
GF2700 TCA Interest Earnings	30,782,748	11,107,000	18,857,003.13	10,487,043.40	(8,369,959.73)	-44.39%	-63.92%
GF2900 Liquor Excise Tax	14,925,057	15,845,000	7,932,431.07	8,268,719.38	336,288.31	4.24%	6.16%
GF3000 Liquor Profits	8,775,000	8,894,000	-	-	-		1.36%
GF3100 Coal Trust Interest Earnings	28,854,611	29,392,000	11,308,494.76	10,984,120.10	(324,374.66)	-2.87%	1.86%
GF3300 Lottery Profits	11,028,563	10,516,000	2,778,754.00	2,743,202.00	(35,552.00)	-1.28%	-4.65%
GF3450 Tobacco Settlement	3,807,570	3,962,000	-	-	-		4.06%
GF3500 U.S. Mineral Leasing	36,388,559	28,259,000	14,239,670.27	16,552,667.97	2,312,997.70	16.24%	-22.34%
GF3600 All Other Revenue	38,435,655	65,749,000	21,821,285.34	13,995,198.44	(7,826,086.90)	-35.86%	71.06%
Grand Total	1,953,539,835	1,915,650,000	959,395,479.56	1,026,840,822.90	67,445,343.34	7.03%	-1.94%

Insurance Tax

Insurance tax revenues are $8.2 million (36.7 percent) below last year as of the end of January. This decline is due to a revenue deposit schedule that is inconsistent with historical patterns and the anticipated impacts of Initiative 155. Based on information from the State Auditor's office, the department will be depositing in February $9.4 million to the general fund and $4.6 million to the Montana Healthy Kids Plan account, the fund created by the passage of Initiative 155. When these deposits are combined with year to date collections through January, it appears that insurance tax collections may be showing signs of weakness. Since some insurance coverage may be viewed as discretionary combined with reduced new car sales and housing starts, it would not be unreasonable to expect insurance tax revenues to decline during an economic recession. Further collection data in subsequent months are necessary to confirm this trend.

Individual Income Tax

Figure 2 shows more detailed individual income tax collection data for the first seven months of FY 2009 compared to the same period of FY 2008. As shown in the figure, total individual income tax collections are $30.2 million (6.1 percent) above last year. This amount would suggest that individual income tax collections are doing well and that income taxes are holding up under the pressures of an economic recession. There are three items, however, that are worthy of note.

First, a mineral royalty withholding process was adopted by the last legislature which skews collection data between fiscal years. Since the legislation was effective January 1, 2008, no royalty withholding collections were received at this time last year. If these collections are removed from FY 2009 (for comparison purposes), total individual income tax collections are up about 3.8 percent instead of the 6.1 percent shown in Figure 2.

Second, wage and salary income is the largest income component of individual income taxes. Withholding tax can be a good indicator of the growth in wage and salary income for Montana. As shown in Figure 2, withholding taxes are up $5.1 million (1.4 percent) over last year. While this is still a positive amount, it may be an indication that wage and salary growth may be slowing significantly in Montana. The rate of growth in withholding tax collections has been dropping each month since September when the rate was slightly above 5 percent. The assumption in HJ2 was for wage and salary income to increase by 5 percent.

Third, estimated payments are $18.2 million (10.2 percent) above last year. Review of this data by quarter shows strong growth in estimated payments between the third and fourth quarters of calendar 2008. While withholding tax collections are showing signs of weakness, estimated payments are not, at least not by the end of January. With a substantial drop in the equity markets, historical low interest rates, reductions in corporate profitability, and the beginning of a new calendar year (a new reporting period for the taxpayer) the next quarterly payments should show an entirely different trend when compared to the calendar 2008 3rd and 4th quarterly payments. The next quarterly payment is due April 15, 2009 and represents the first payment for calendar 2009. Information from the Montana Society of Certified Public Accountants reinforces this assertion.

Figure 2

Individual Income Tax Comparison				
Revenue Code & Description	Through 1/31/2008 Fiscal 2008	Through 1/31/2009 Fiscal 2009	Difference	Percent Change
510101 Withholding Tax	360,303,778.96	365,400,636.39	5,096,857.43	1.39%
510482 Mineral Royalty WH Tax	0.00	11,284,045.09	11,284,045.09	100.00%
510102 Estimated Tax	159,247,721.57	177,402,743.66	18,155,022.09	10.23%
510103 Current Year I/T	15,323,676.91	13,404,496.28	(1,919,180.63)	-14.32%
510105 Income Tax - Audit Collections	15,220,408.00	14,697,649.00	(522,759.00)	-3.56%
510106 Income Tax Refunds	(53,991,168.63)	(55,928,705.11)	(1,937,536.48)	3.46%
Totals	$496,104,416.81	$526,260,865.31	$30,156,448.50	6.08%
Percent of Actual/Estimated	57.24%	61.87%		

Corporation Income Tax

Figure 3 shows more detailed corporation income tax collection data for the first seven months of FY 2009 compared to the same period of FY 2008. As shown in the figure, total corporation income tax collections are $22.2 million (31.0 percent) above last year. This amount would suggest that corporation income tax collections are doing well and that corporations are holding up under the pressures of an economic recession. Further review of tax payment detail by corporation provides some additional insight to estimated payments. This data shows only minor changes in the estimated payments between the third and fourth quarters of calendar 2008. Unlike individual income tax collections, revenue collections data for corporation income taxes do not show any signs of weakening as of January 31. With announced job layoffs, business closures and/or cutbacks, significant consumer spending reductions, and construction plummeting, the next quarterly payments should show an entirely different trend when compared to the calendar 2008 3rd and 4th quarterly payments. The next quarterly payment is due April 15, 2009.

Figure 3

Corporation Income Tax Comparison				
Revenue Code & Description	Through 1/31/08 Fiscal 2008	Through 01/31/09 Fiscal 2009	Difference	Percent Change
510501 Corporation Tax	10,310,777.23	19,543,431.48	9,232,654.25	89.54%
510505 Corporation Tax Estimated Paym	66,503,339.50	71,730,544.33	5,227,204.83	7.86%
510502 Corporation Tax Refunds	(16,789,387.76)	(11,734,805.56)	5,054,582.20	-30.11%
510503 Corporation Tax-Audit Collect.	11,555,046.00	14,246,582.00	2,691,536.00	23.29%
Totals	$71,579,774.97	$93,785,752.25	$22,205,977.28	31.02%
Percent of Actual/Estimated	44.64%	56.14%		

Oil and Gas Production Tax

Total oil and gas production tax collections are $15.1 million (51.1 percent) above last year as of the end of January. These collections represent economic conditions for the 3rd quarter of calendar 2008 as compared to the 3rd quarter of calendar 2007. This increase was not unexpected since Montana oil prices averaged $108.27 per barrel for the 3rd quarter of calendar 2008 versus $70.14 per barrel for the 3rd quarter of calendar 2007. Fourth quarter calendar 2008 collections are expected to drop significantly as Montana oil prices are expected to average $44.25 per barrel during the quarter, well below the $79.85 per barrel average during the 4th quarter calendar 2007. The next payment of oil and gas production taxes will be processed by late April.

Video Gaming Tax

Video gaming taxes are $15.8 million (50.4 percent) above last year as of the end of January. This increase is not due to any underlying economic trend and merely reflects an accounting error that has been corrected in February. With the correcting entry, video gaming tax collections may be lagging the HJ2 revenue estimate. Further collection data in subsequent months are necessary to confirm this trend.

TCA Interest Earnings

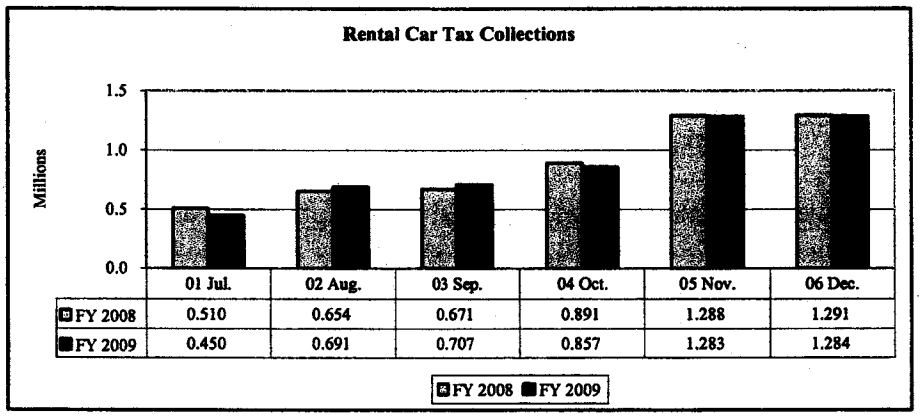
Treasury cash account (TCA) interest earnings are $8.4 million (44.4 percent) below last year as of the end of January. This decrease is due to the significant reduction in short-term interest rates that have occurred during FY 2008. According to the Montana Board of Investments, the

short-term investment portfolio (STIP) yield averaged 1.5 percent for January, 2009. This compares to 4.4 percent average during January 2008.

Rental Car Sales Tax and Lodging Sales Tax

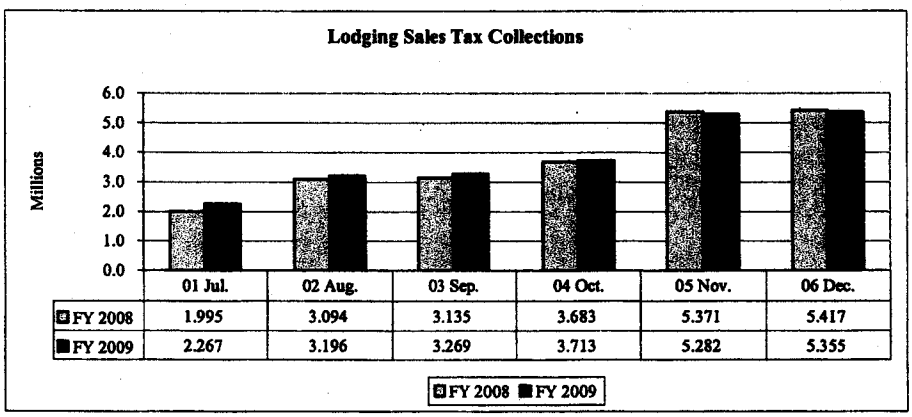
Combined, these two sources contribute about $16.5 million to the general fund account. As shown in Figures 4 and 5, both of these tax sources are slightly below the collections through December 2008 compared to December 2009. While this trend does not substantially change the current general fund revenue outlook, the economic conditions that may be causing the slowdown in these revenue collections may be significant. According to the Institute for Tourism and Recreation Research, University of Montana, "Montana can expect to see another decline in nonresident travel of 2 percent in 2009". This decline is in addition to the 3.7 percent decline (preliminary) observed during 2008. Since tourism is a vital component of Montana's economy, those businesses dependent on tourism dollars could be impacted resulting in reduced state revenues.

Figure 4



	01 Jul.	02 Aug.	03 Sep.	04 Oct.	05 Nov.	06 Dec.
FY 2008	0.510	0.654	0.671	0.891	1.288	1.291
FY 2009	0.450	0.691	0.707	0.857	1.283	1.284

Figure 5



	01 Jul.	02 Aug.	03 Sep.	04 Oct.	05 Nov.	06 Dec.
FY 2008	1.995	3.094	3.135	3.683	5.371	5.417
FY 2009	2.267	3.196	3.269	3.713	5.282	5.355

ANALYSIS OF ECONOMIC CONDITIONS

Individual Income Tax

Individual income tax assumptions for selected income components were analyzed and changed based on new IHS data. These components were wage and salary, capital gains, interest, dividend, rent, royalty and partnership incomes. Unlike the January analysis, this analysis also examined business and retirement income. The consumer price index forecasts of IHS were also reviewed. Based on this data, the individual income tax estimates are shown in Figure 6. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 6

Individual Income Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$871.653	$884.934	$908.994	$2,665.581
December	LFD Recommendations	854.823	856.291	880.781	2,591.895
January	LFD Analysis	851.275	839.189	860.512	2,550.976
February	LFD Analysis	856.506	845.333	859.007	2,560.846
	Change Amount (HJ2 to LFD Analysis)	**($15.147)**	**($39.601)**	**($49.987)**	**($104.735)**

In general, most income components showed minimal change or further decline from the January IHS forecasts. The February amounts in Figure 6 however, show a modest improvement over the January amounts. This improvement is primarily due to the slower growth in inflation anticipated by IHS when compared to the January estimates. Because the federal and state's tax structures are adjusted for the effects of inflation, lower inflation has the effect of increasing a taxpayer's liability and thus state revenues. This occurs because tax brackets, personal exemptions, and standard deduction amounts are increased by a lesser amount when inflation is low.

Corporation Income Tax

Corporation income tax assumptions for selected economic variables were analyzed and changed based on new IHS data. These variables were consumer consumption expenditures, US pre-tax profits, financial sector data (loans, interest rates, etc.) and commodity prices. Based on this data, the corporation income tax estimates are shown in Figure 7. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 7

Corporation Income Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$156.132	$136.293	$149.352	$441.777
December	LFD Recommendations	154.838	125.911	133.674	414.423
January	LFD Analysis	150.760	119.115	128.571	398.446
February	LFD Analysis	157.715	117.579	124.250	399.544
	Change Amount (HJ2 to LFD Analysis)	**$1.583**	**($18.714)**	**($25.102)**	**($42.233)**

The February LFD analysis amount for FY 2009 has been adjusted for an unusually large audit collection covering several previous tax periods. This one audit increased FY 2009 collections by $7.5 million but is not expected to impact collections in subsequent years.

Oil and Gas Production Tax

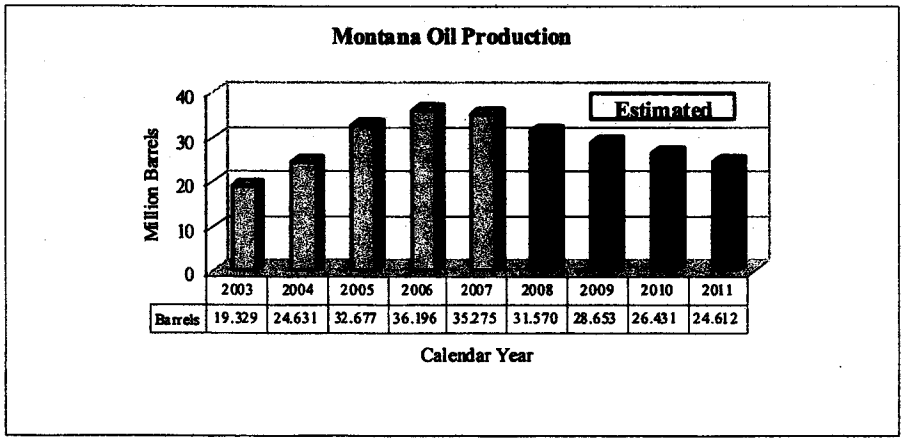
Both oil and gas production and price assumptions were analyzed and changed based on new IHS and DOR data. Based on this data, the oil and gas production general fund estimates are shown in Figure 8. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 8

Oil & Gas Production Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$116.771	$100.066	$105.177	$322.014
December	LFD Recommendations	106.600	84.323	102.825	293.748
January	LFD Analysis	96.342	69.921	94.393	260.656
February	LFD Analysis	94.641	69.831	85.220	249.692
	Change Amount (HJ2 to LFD Analysis)	**($22.130)**	**($30.235)**	**($19.957)**	**($72.322)**

Figures 8A and 8B show the underlying assumptions for Montana's oil production and price. As seen from Figure 8A, total production is expected to decline significantly, over thirty percent from calendar 2007 to estimated calendar 2011. This trend is based on tax return data for the first three quarters of calendar 2008 compared to the same period of calendar 2007. With the outlook for prices to remain well below previous levels and the limited number of oil rigs in Montana, the probability of this production decline abating is very low.

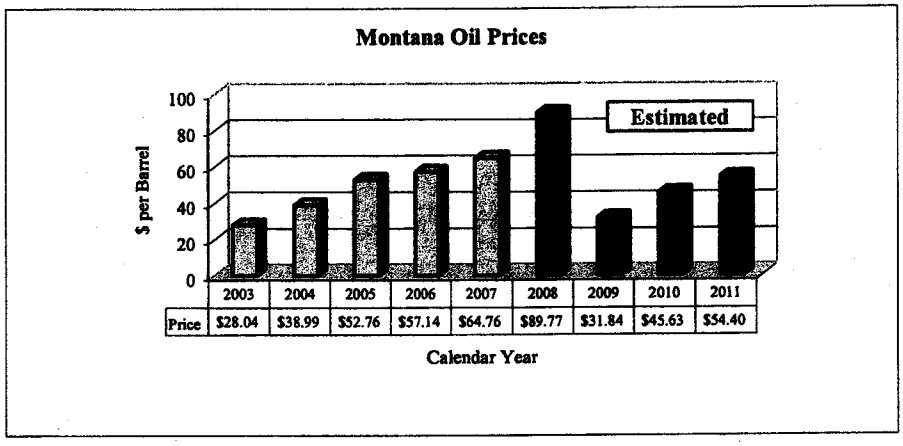
Figure 8A



As shown in Figure 8B, Montana oil prices are expected to average slightly under $32 per barrel during calendar 2009. While staff has received several comments about Montana oil selling for far less than this amount, it should be pointed out that this is an average price for all grades of oil and represents an

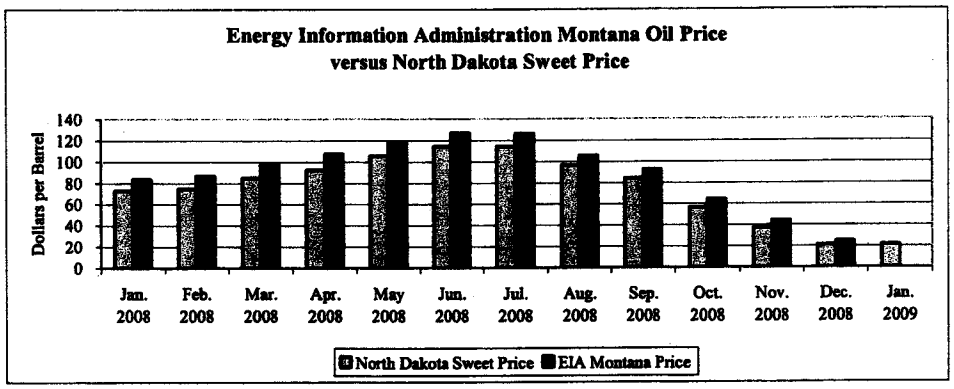
average price for the entire calendar year. Oil prices are expected to edge upward in calendar 2010 and 2011 as the nation begins to recover from the economic recession.

Figure 8B



After the January report was issued, some legislators suggested we review the oil price listings posted by SemCrude, L.P., a crude oil purchaser. SemCrude posts, on a daily basis, a number of prices for a variety of oil types. Figure 8C shows the correlation between the North Dakota Sweet price as compared to the Energy Information Administration (EIA) price for Montana. Our analysis showed there is a correlation between these prices and that, on average, Montana's well head price is higher than the North Dakota Sweet price. Since this data is posted daily, this provides staff an additional tool to more closely monitor Montana oil prices. EIA data are usually three months behind and tax return data filed with the DOR are also lagged.

Figure 8C



US Mineral Royalty

The adjustment to the US mineral royalty estimate is the result of the changes in the assumptions for oil and gas production and price. Based on this data, the US mineral royalty estimates are shown in Figure 9. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2

estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 9

US Mineral Royalties (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$28.259	$31.518	$32.505	$92.282
December	LFD Recommendations	26.311	29.641	32.113	88.065
January	LFD Analysis	24.953	28.457	32.861	86.271
February	LFD Analysis	24.986	28.374	31.061	84.421
	Change Amount (HJ2 to LFD Analysis)	**($3.273)**	**($3.144)**	**($1.444)**	**($7.861)**

Metalliferous Mines Tax

This source was not changed from the January LFD analysis. The following discussion is the same written text provided in the January report.

The metalliferous mines tax was adjusted to reflect the significant drop in several metal prices. Reductions in the price estimates were made for the following commodities: copper, silver, lead, zinc, platinum, palladium, and molybdenum. Adjustments for calendar 2008 prices were based on return data for the first six months combined with estimated prices for the remainder of calendar 2008. Estimates for calendar 2009 through 2011 were based on current prices. Based on this data, the metalliferous mines tax estimates are shown in Figure 10. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

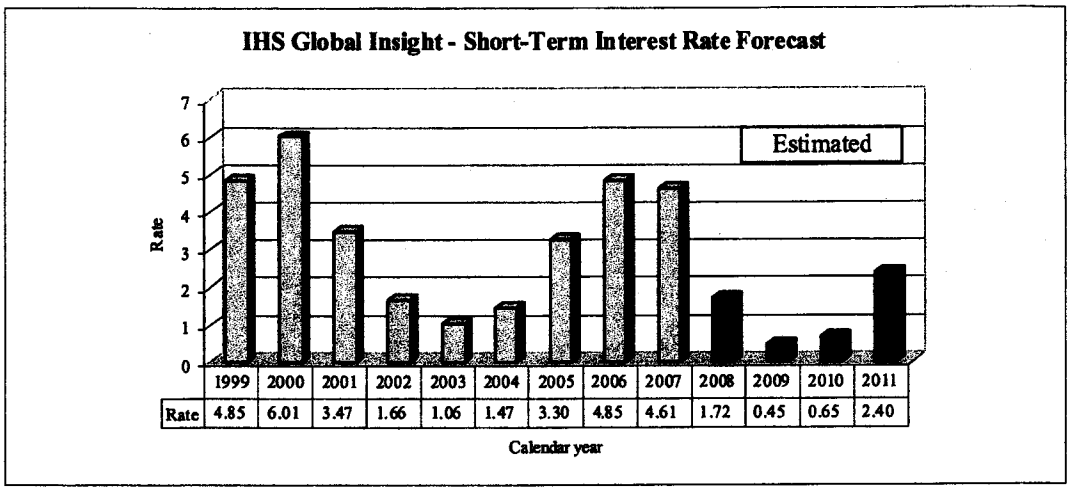
Figure 10

Metalliferous Mines Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$9.854	$8.085	$8.066	$26.005
December	LFD Recommendations	8.666	5.294	5.278	19.238
January	LFD Analysis	6.777	3.248	3.279	13.304
February	LFD Analysis	6.777	3.248	3.279	13.304
	Change Amount (HJ2 to LFD Analysis)	**($3.077)**	**($4.837)**	**($4.787)**	**($12.701)**

Treasury Cash Account Interest

The treasury cash account interest estimate is impacted by the underlying assumptions for short-tem interest rates and cash available for investment. Short-term interest rates as estimated by IHS are at historically low levels for calendar 2009 with little change in 2010 and a modest improvement by calendar 2011. Figure 11 shows the historical and forecast rates as prepared by IHS.

Figure 11



After a review of current investment income and the average daily cash balance in the treasury cash account, the average cash balance was adjusted upward to reflect current trends as well as the legislature's desire to maintain an ending fund balance consistent with the level recommended by the executive. Based on this data, the treasury cash account interest estimates are shown in Figure 11A. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

Figure 11A

Treasury Cash Account Interest (in millions)		Estimated	Estimated	Estimated	Estimated
Month	General Fund Revenue Estimate	FY 2009	FY 2010	FY 2011	3 Year Total
November	Rev. & Transportation Committee (HJ2)	$11.107	$10.185	$19.381	$40.673
December	LFD Recommendations	9.541	8.905	19.265	37.711
January	LFD Analysis	16.341	11.178	25.124	52.643
February	LFD Analysis	16.673	7.899	15.596	40.168
	Change Amount (HJ2 to LFD Analysis)	**$5.566**	**($2.286)**	**($3.785)**	**($0.505)**

Property Tax

This source was not changed from the January LFD analysis. The following discussion is the same written text provided in the January report.

Since the RTIC meeting in November, revised property tax values from the DOR were received for FY 2009. These new values were incorporated into the estimates. In addition, two court cases were resolved that impacted property tax estimates. Northwestern settled its case with the state and the Montana Supreme Court ruled in favor of Omimex over the proper classification of its pipeline properties. The impacts of these cases have been incorporated into the estimates. Based on this data, property tax estimates are shown in Figure 12. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A positive number means our new estimate is above the amount contained in HJ2.

Figure 12

Property Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$211.495	$222.983	$228.933	$663.411
December	LFD Recommendations	214.615	226.382	230.363	671.360
January	LFD Analysis	214.615	225.628	229.428	669.671
February	LFD Analysis	214.615	225.628	229.428	669.671
	Change Amount (HJ2 to LFD Analysis)	**$3.120**	**$2.645**	**$0.495**	**$6.260**

Cigarette Tax

The federal cigarette tax will increase from $0.39 per pack to $1.00 per pack on April 1, 2009. This adjustment plus increases for other tobacco products is designed to fund an expansion of SCHIP (State Children's Health Insurance Program). Based on recent consumption studies as well as Montana's experience with previous cigarette tax increases, state cigarette tax revenues are expected to decline by $11.3 million over the three year period due to the federal tax increase. This decline is based on a price elasticity factor of 0.44 which equates to a 5.89 percent decrease in consumption due to the price increase. A further adjustment of 2.3 percent was made for the year to date decline in consumption from FY 2008 to FY 2009. Based on this data, the cigarette estimates are shown in Figure 13. The impact of the federal tax increase on other tobacco products is being researched and is not included in Figure 13. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

Figure 13

Cigarette Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$37.696	$40.474	$41.078	$119.248
December	LFD Recommendations	37.696	40.474	41.078	119.248
January	LFD Analysis	37.696	40.474	41.078	119.248
February	LFD Analysis	35.554	36.050	36.308	107.912
	Change Amount (HJ2 to LFD Analysis)	**($2.142)**	**($4.424)**	**($4.770)**	**($11.336)**

Vehicle Tax/Fee

Revenue collections through January 2009 compared to the same period of FY 2008 show that collections from vehicle tax/fee revenue are below expectations after seven months of collections. Based on data from the Department of Justice on vehicle counts by age, it appears there is a significant trend towards permanently registering older vehicles. This trend, combined with reduced new car sales forecast by IHS warrants an adjustment to the vehicle revenue estimate. Based on this data, the vehicle tax/fee estimates are shown in Figure 14. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

Figure 14

Vehicle Tax/Fees Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$114.241	$113.717	$111.330	$339.288
December	LFD Recommendations	114.241	113.717	111.330	339.288
January	LFD Analysis	114.241	113.717	111.330	339.288
February	LFD Analysis	112.419	111.919	109.574	333.912
	Change Amount (HJ2 to LFD Analysis)	**($1.822)**	**($1.798)**	**($1.756)**	**($5.376)**

Summary of LFD Analysis

Based on our analysis of the new data received from all the sources mentioned previously, the information indicates that total general fund revenue estimates could be overstated by $250.8 million as compared to the revenue estimates contained in HJ2. A majority of this amount is due to the changes in the underlying assumptions for individual income tax, corporation income tax, and oil and gas production tax. A new adjustment was required for cigarette taxes because of the impacts of the federal tax increase and also for vehicle tax/fee revenue because of lagging year to date collections.

Figure 15

Totals For Selected Sources (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$1,557.208	$1,548.255	$1,604.816	$4,710.279
December	LFD Recommendations	1,527.331	1,490.938	1,556.707	4,574.976
January	LFD Analysis	1,513.000	1,450.927	1,526.576	4,490.503
February	LFD Analysis	1,519.886	1,445.861	1,493.723	4,459.470
	Change Amount (HJ2 to LFD Analysis)	**($37.322)**	**($102.394)**	**($111.093)**	**($250.809)**

The LFD estimates used for our pre-session budget analysis were $135 million below the RTIC November estimate. This revised analysis shows an additional $116 million below the RTIC estimates for a total change of $251 million.

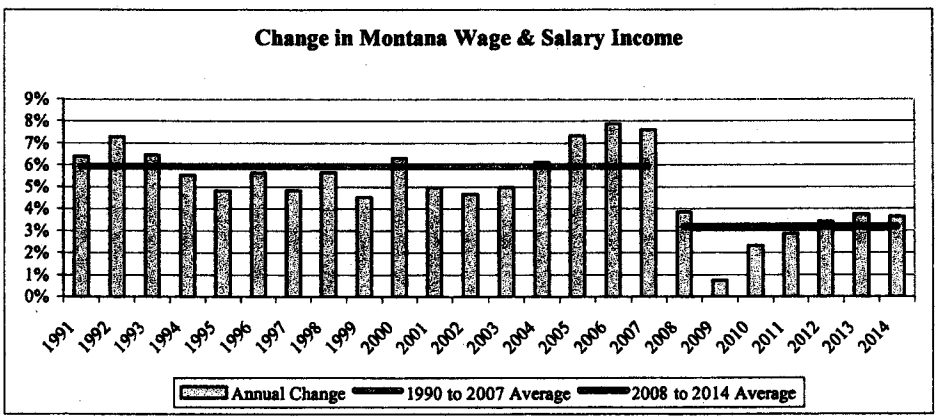
The legislature is faced with an extremely difficult task of developing a 2011 biennium budget in light of current economic conditions and how these conditions will affect future revenue collections. The duration and the intensity of the current economic recession not only will affect the 2011 biennium revenues and disbursements, it more than likely will have a significant "drag" on the 2013 biennium outlook. As the new data were reviewed and analyzed by staff, two key points need to be stressed.

First, with receipt of year to date collections and revised economic data, it is difficult to extract any positive news from the data. Revenue receipts, while currently strong, there are legitimate reasons to explain why this should be occurring. As pointed out by the Bureau of Business and Economic Research, Montana's economy did not show any significant signs of a slowdown until late last fall. For the most part, current revenue collections are a reflection of the pre-slowdown period and do not reflect the effects of the economic recession. For individual and corporation income taxes, year to date collection trends should not be viewed as an indication of future collections.

Second, the immediate task for the legislature is to adopt a balanced 2011 biennium budget. Economic uncertainty combined with an infusion of significant federal stimulus dollars, (to be used for one-time

only spending) make the job of maintaining structural balance as well as an adequate ending fund balance a difficult job. As shown in Figure 15, the legislature should focus on the 2011 biennium but be mindful of the 2013 biennium. Figure 16 shows percentage change in actual and forecast amounts for Montana wage and salary income as developed by IHS. As shown in the figure, the increase in Montana's wage and salary income has averaged almost six percent from calendar 1990 to 2007. However, the IHS forecast amounts from calendar 2008 to 2014 average slightly above three percent. If these forecasts are correct, the prospects for a return to robust revenue growth during the 2013 biennium may be unlikely.

Figure 16



WHAT TO WATCH FOR NEXT MONTH

This section of the report highlights the new data available between now and mid-March. This data should help staff and the legislature assess any new trends that may be developing with general fund revenue estimates.

Data to be Received

Early March

IHS Global Insight, Nation economic forecast
Written report and data tables

SABHRS month-end data
General fund revenue monitoring report – revenue collections through February

DOR selected tax return data
- Second quarter (FY 2009) coal severance tax payment
- Second quarter (FY 2009) electrical energy tax payment
- Second quarter (FY 2009) wholesale energy tax payment

APPENDIX A.

ECONOMIC LITERATURE TRACKING

- Summer 2008, Global Insight: "The Montana economy has benefited from high prices for its energy resouces and agricultural commodities." "In the near term, national economic issues (the housing crisis and reduced consumer spending) will cause growth to slow." "Over the longer term, lack of economic diversity and an aging population will remain key challenges."
- Fall 2008, Global Insight: "The U.S. economy was already heading into at least a mild recession as the summer ended. It is now clear that we are heading into a deep recession, comparable to that of 1980-82."
- October 2008, Energy Information Administration: "Oil markets are expected to remain tight over the next 6 months because of sluggish production growth, which will help push WTI crude oil prices to $120 per barrel by April 2009, before declining to $106 per barrel by years' end."
- November 2008, Global Insight: "The recession is deepening. The economy [will] contract 1.0% in 2009." "The worst recession since 1982."
- December 2008, Global Insight: "The recession continues to deepen. The economy [will] contract 1.8% in 2009." "After the dismal November employment report, we have raised the probability of our pessimistic scenario from 25% to 40%. It incorporates by far the worst recession in the postwar era." "Global economy in free-fall." "Commodity prices are diving."
- December 1, 2008, Billings Gazette: "Helena employers slow to add seasonal help."
- December 3, 2008, Global Insight: "We are 12 months into this recession and the economy's rate of decline has worsened dramatically. We expect real GDP to drop 5.0% in the fourth quarter."
- December 3, 2008, Helena Independent Record: "Montanans among least delinquent in mortgages", but "increased in the third quarter".
- December 4, 2008, Billings Gazette: "65-plus population to double by 2030." "State and local governments will face challenges as the state's population ages over the next two decades."
- December 4, 2008, Billings Gazette: "A natural gas producer [Omimex Canada] with several properties in north-central Montana has won a property tax case before the state Supreme Court."
- December 5, 2008, Helena Independent Record: "An economic stimulus package proposed in Washington, D.C., would be good for Montana and the City of Helena."
- December 5, 2008, Global Insight: "Payroll employment fell 533,000 in November – the steepest decline in 34 years. The economy is in free fall."
- December 5, 2008, Billings Gazette: "The global recession has already smacked Montana, although the state should fare better than the nation," "We will outperform the United States, but the bad news is we're still going to feel a lot of pain."
- December 8, 2008, Billings Gazette: "Gasoline use dropped slightly in Montana for the 12 months ending in June. That means a loss of around $600,000 in gas tax collections."

- December 10, 2008, Billings Gazette: "Fiscal analysts reported that the state's budget picture is getting worse saying projections could drop by at least $50 million."
- December 10, 2008, Helena Independent Record: "Semitool, Inc. said it would effectively shut down for three weeks and cut back to a skeleton production crew because of lagging customer orders."
- December 11, 2008, Global Insight: "The macroeconomic outlook has grown darker in December." "Expects real GDP to decline in four consecutive quarters." "Employment will climb to 8.7% in early 2010."
- December 11, 2008, Billings Gazette: "Stillwater Mining Company's East Boulder mine is back in operation, with its staff cut in half and its production targets shaved by a third."
- December 12, 2008, Missoulian: "Semitool., which laid off 100 workers in early November, announced the temporary closure citing poor market conditions an a drop-off in customer orders."
- December 12, 2008, Billings Gazette: "Facing more grim national economic forecasts, Governor Brian Schweitzer is rewriting his budget proposal for the 2009 Legislature."
- December 15, 2008, Billings Gazette: "Managers at Troy Mine are preparing for a complete shutdown, as profits disappear amid plunging metals prices." "Mine ownership issued a 60-day warning to employees, saying that if market conditions do not improve, the mine will close on February 12, 2009."
- December 16, 2008, Billings Gazette: "The legislature and the state have made a "good-faith attempt" to tackle glaring shortfalls in public school funding existing four years ago, a state judge said." But "if the state backs away from its commitment of the past four years to bolster state funding of schools, his decision could be reversed in the future."
- December 16, 2008, Billings Gazette: "Governor Brian Schweitzer issued a revised state budget that cuts general fund spending by $144 million over the next three years from what he recommended in November."
- December 16, 2008, Billings Gazette: "A major Flathead Valley contractor [Goose Bay Equipment] will lay off its 58 employees and close in mid-February because of the faltering economy."
- December 18, 2008, Billings Gazette: "A spokesman for the exclusive Yellowstone Club said that a dozen people who worked in construction and operations-related jobs were load off this week."
- December 18, 2008, Great Falls Tribune: "The economic downturn will continue in 2009 in the Upper Plains, with unemployment rates rising and recovery in the residential real estate market expected to take more than a year, the Federal Reserve Bank of Minneapolis said."
- December 22, 2008, Billings Gazette: "Montana's unemployment rate rose slightly to 4.9 percent in November but is still below the national average of 6.7 percent."
- December 23, 2008, Associated Press: "The Commerce Department reported that the gross domestic product declined at an annual rate of 0.5 percent in the July-September quarter, while corporate profits fell 1.2 percent."
- December 25, 2008, Great Falls Tribune: "The Montana Public Service Commission will seek fines of more than $750,000 against Northwestern Corp., alleging the company violated terms of a 2004 bankruptcy stipulation."

- December 26, 2008, Billings Gazette: "The Columbia Falls Aluminum Company gave employees 60 days notice that the plant will be shut down, eliminating about 200 jobs, the Flathead Beacon reported." In July, Columbia Falls Aluminum Company shut down one of its pot lines and laid off 125 employees."
- January 2009, IHS Global Insight: "U.S. and global economies are in steep decline, in what is the most severe synchronized global Downturn of recent times." "We are not looking for signs of recovery yet, merely for signs that the rate of decline is becoming less severe – but cannot find them."
- January 2009, IHS Global Insight: "The U.S. and world economies are about to suffer through some of the worst recessions in the postwar period. Most measures of economic and financial activity look lie they fell off a cliff in September and October, and have been deteriorating at an alarming rate ever since."
- January 6, 2009, CNNMoney.com: "The U.S. economy is likely to deteriorate further this year and unemployment will rise into 2010, according to the latest forecasts of the Federal Reserve." "The central bank is now predicting that gross domestic project will fall in 2009." "Employers cut 1.9 million jobs over the first 11 months of 2008, which took the unemployment rate up to 6.7%."
- January 6, 2009, Western Wood Products Association: "Western mills are experiencing the largest downturn in lumber demand ever recorded. The downward trend is forecast to continue through 2009 before beginning recovery in 2010."
- January 8, 2009, Billings Gazette: "Peabody Energy said it will slow coal production at its Powder River Basin mines in Wyoming this year in response to he global economic recession." "It plans to reduce production in the northeastern Wyoming coal reserve by about 10 million tons."
- January 9, 2009, Billings Gazette: "Plum Creek Timber Company said it will close a sawmill, idle three others and reduce production at a fiberboard plant in Montana in response to the week housing market and less demand for wood products. The company said the moves would eliminate 145 jobs."
- January 9, 2009, Helena Independent Record: "Semitool announced the layoffs of 280 employees, including about 200 in the Kalispell and Libby offices." "Last November, Semitool laid off about 100 workers at it plants in Kalispell and Libby."
- January 9, 2009, Daily Inter Lake: "Plum Creek Timber Company is telling logging contractors to stop work in the woods." "Over 50 percent of the contracting work force will be impacted temporarily."
- January 12, 2009, CNNMoney.com: "Amid all the anticipation of Obama's stimulus package, Americans should realize that its effects aren't likely to be felt until the economy is already rebounding on its own."
- January 13, 2009, Billings Gazette: "The Billings Gazette announced it has laid off four full-time and four part-time employees as part of a work force reduction." "The slowdown in the local and national economies prompted the decision to reduce expenses."
- January 14, 2009, Billings Gazette: "American Crystal Sugar announce in 2008 that it would have to shut its Sidney refinery down if area farmers didn't produce more beets. The factory was short several thousand acres last year as farmers opted for more lucrative crops such as wheat."

- January 14, 2009, IHS Global Insight: "The American Economic Association held its annual convention on January 3-5 and a number of top economists weighed in on the financial crisis. For the most part, the research presented was sobering."
- January 15, 2008, Helena Independent Record: "USA Today publisher Gannett Company imposed one-week unpaid furloughs for most of its U.S. employees saying the move could help minimize the need for further layoffs amid a severe advertising downturn." "Gannett owns the Great Falls Tribune."
- January 15, 2009, Billings Gazette: In Wyoming, "The state's Consensus Revenue Estimating Group last week sharply reduced its projection of how much the state will have to spend in the coming fiscal year. The revised report cut the group's October projection of $900 million to just under $260 million. That money is in addition to the $8 billion, two-year state budget approved early last year."
- January 20, 2009, The New York Times: Concerning the economic stimulus - "House plans for infrastructure disappoints advocates for major projects" "As the details of the plan come into focus, big transformative building projects seem unlikely."
- January 21, 2009, Billings Gazette: "Managers at F.H. Stoltze Land and Timber Company said they plan to temporary shut down the company's Columbia Falls sawmill amid a national housing slump. The closure, which will begin February 2 and last at least six weeks, is expected to put about 50 employees out of work."
- January 23, 2009, Associated Press: "Crude prices continue to fall this year as a recession spreads across the globe, forcing oil and gas producers to cut costs." "Companies throughout the oil industry – producers, service providers, drillers and others – are expected to post mostly lower results for the final three months of 2008 because of the collapse of oil prices." "In the wake of crude's plunge and amid a painful recession, oil and gas companies have scrapped exploration and production projects and slashed capital spending for 2009. That reduces work for companies which provide clients a variety of well-site services such as seismic tests, directional drilling and reservoir management."
- January 27, 2009, Billings Gazette – "In their memo, Bales and Sesso noted that the reduced revenue estimates, which were lowered Friday by $85 million more for the three years, confirmed their fears. They warned that the estimates might be cut again." "Terry Johnson...earlier trimmed the projected revenues by $135 million in December".
- January 27, 2009, Billings Gazette – "The Montana Standard has laid off two full-time and four part-time employees..." "The Independent Record recently announced two layoffs..."
- January 28, 2009, Billings Gazette – "Montana's unemployment rate rose to 5.4 percent in December, up from 4.9 percent in November."
- January 28, 2009, Billings Gazette – "The Missoulian laid off four employees and two others were told their jobs will end Feb. 13 as part of a work force reduction."
- January 30, 2009, Billings Gazette – "The Gazette State Bureau asked Terry Johnson, the chief revenue forecaster for the non-artisan Legislative Fiscal Division, whether hew would categorize the Schweitzer-Vann Dyk proposal as a tax. "Yes", Johnson said. "For starters, you have an existing production tax, and it's an additional tax."
- January 30, 2009, Billings Gazette – "A spokeswoman for [Cabelas's] who is opening its first Montana location this spring says more than 200 employees will be hired in coming months."

- January 30, 2009, Helena Independent Record – "The Starbucks Corp. announcement Wednesday that it would slash 6,700 jobs and close 300 stores will affect Montana." "We do know our Montana stores will be impacted."
- February 2, 2009, CNN Money – "Oil fell below $41 on Monday as a deepening U.S. recession shrank demand in the word's top fuel burner and evidence mounted of global downturn."
- February 2, 2009, CNN Money – "Slim chance of a turnaround in 2009' "Consumers and businesses have retrenched so deeply that it will take a long time for the economy to stage a meaningful comeback."
- February 3, 2009, CNN Money – "Oil prices rose as signs of OPEC production cuts began to emerge. But gains were tempered as the group fell short of its pledge and the economy continued to show weakness."
- February 3, 2009, Helena Independent Record – "82 employees are off the payroll at Montana Tunnels Mine in Jefferson City at the end of the day on Tuesday..."
- February 4, 2009, Billings Gazette – "An Australian company is proposing a $375 million coal plant in southeastern Montana that would produce high-efficiency coal and synthetic crude oil." "We can take coal worth $10 a ton and make it worth $200 a ton."
- February 4, 2009, Billings Gazette – "The Montana Tunnels metal mine ... laid off 88 workers Tuesday, following through on 60-dat layoff notices issued in early December." "That will keep 104 people working, but it is likely they soon will get the 60-day notices..."
- February 4, 2009, Senator Tester's website – "The U.S. Senate version of the Jobs Bill will help rebuild the struggling economy by investing more than $687 million in Montana."
- February 4, 2009, IHS Global Insight – "Oil inventories climbed once again, with total stocks up 1.4 million barrels and crude up by 7.2 million barrels. Crude imports remained high. Initial reaction on the futures market to the report was negative, but prices firmed after it had been absorbed."
- February 2009, NCSL State Legislatures – "Rising unemployment, dropping income tax revenue, the ongoing foreclosure debacle and a deep crisis in consumer confidence leave states facing the worst fiscal crisis in more than 50 year." "A survey [of 26 states]... came up with sobering figures that could easily worsen as the recession continues to unfold." "On the spending side, states face grim choices." "...that the numbers look so bad at this point is a harbinger of an even worse recession." "Based on my analysis of the last several downturns ... this one is likely to be worse than the previous ones".
- February 11, 2009, Billings Gazette – "the governor [of Wyoming] intends to ask the state's Consensus Revenue Estimating Group to hold a special meeting this spring to develop new state revenue projections". "The House and Senate appropriations committees are warning state lawmakers to save as much money as possible to try to avoid program cuts in the coming year". "Freudenthal will direct state agencies to make specific plans for cutting their general fund spending by 5 percent in the coming fiscal year". "the governor will also direct them to indentify how they could make 10 percent cuts". "Indicator after indicator suggests that we're heading for a very tough time in the state." "Wyoming has received a range of bad economic news recently...that includes falling energy prices, stagnant numbers of rigs drilling for minerals, more new applications for unemployment and lower use tax collections". "The bottom line is that

the national recession and global economic retraction is already impacting the state. In the next several months, the impact will also become noticeable in the state's employment and consumer/business spending numbers"

- February 12, 2009, Billings Gazette – "Three people in the city's Building Division were notified that their last day of work is May 29".
- February 13, 2009, Billing Gazette – "A shortage of money forced the Crow Tribe to layoff 180 seasonal workers."

EXHIBIT 1
DATE 2/16/09
HB 2

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

DATE: February 13, 2009

TO: Senator Bob Story, Senate President
Rep. Bob Bergren, House Speaker
Senator Keith Bales, Chair, Senate Finance Committee
Rep. Jon Sesso, Chair, House Appropriations Committee
Senator Jeff Essmann, Chair, Senate Taxation
Rep. Bob Lake, Chair, House Taxation Committee
Senator Jim Peterson, Senate Majority Leader
Rep. Margaret Campbell, House Majority Floor Leader
Senator Carol Williams, Senate Minority Leader
Rep. Scott Sales, House Minority Leader

FROM: Terry W. Johnson, Principal Fiscal Analyst

RE: General Fund Revenue Update Number 2

PURPOSE OF REPORT

During a January meeting with House and Senate leadership, the Legislative Fiscal Division (LFD) told legislators that LFD staff would provide periodic updates on the rapidly changing economic conditions and the potential impact on general fund revenue estimates. It is critical for the legislature to be apprised of these impacts in order to craft a state budget that is balanced as required by the constitution. The estimates provided in this report are based on economic conditions and trends observed at this time and are subject to change as more information becomes available.

This is the second report designed to update the legislature on recent economic trends and the corresponding outlook for FY 2009, 2010, and 2011 general fund revenue estimates. This analysis is based on data received through early February 2009 and includes potential economic impacts of the proposed federal economic stimulus package as incorporated by HIS Global Insight (IHS) into their economic forecasts. This report is presented in three sections. The first section summarizes the type of new information that has become available to the LFD since our revised revenue estimate recommendations were prepared in mid-January, 2009. The second section summarizes the results of our analysis and the impact on anticipated general fund revenue collections. And the third section, provides a "what to watch for" in the next update of this report expected to be issued in mid-March.

THE BOTTOM LINE

The LFD estimates used in our pre-session budget analysis were based on data received as of early December 2008. At that time, the revised LFD recommendations were $135 million below the RTIC November estimate for FY 2009, 2010, and 2011. Further analysis in January showed that there was an additional $85 million below the RTIC estimates for a total reduction of $220 million for the three year period. This analysis shows that economic conditions have not improved and that further adjustments of $30.9 million are necessary at this time. This brings the total recommended reduction from the HJ2 estimate to $250.9 million for the three year period, FY 2009, 2010, and 2011. The next section of the report summarizes the results of our analysis.

NEW INFORMATION

Each month, the Legislative Fiscal Division (LFD) receives a revised national economic outlook from IHS. This is the economic forecasting company that Montana has a contract with to provide national and regional economic forecasting services. This service includes written material as well as a variety of economic forecasts for "hundreds" of economic variables. The information received from IHS in early February reflects their forecasts as of January 2009 for both the national and Montana economies.

The statewide budgeting and accounting system (SABHRS) produces a "snapshot" of accounting transactions on the last day of each month. The LFD has internal computer processes to download this data and produce a variety of reports and spreadsheets. While this data is critical in monitoring year to date collection trends, this system does not contain any tax return or economic information such as individual and corporate income components, oil and gas production, and prevailing interest rates. This type of detailed data must be extracted from other sources provided the information is available. The accounting transaction detail that is available to the LFD reflects revenue collections through January 2009. Historical collection data by month are available back to FY 2000.

The LFD, in cooperation with the Department of Revenue (DOR), developed a process whereby the DOR sends the LFD tax return data for fifty different tax types at the beginning of each month. This data is extremely helpful in analyzing various trends that may be occurring within a given tax type. For example, the DOR data show oil production by calendar quarter as reported by the taxpayer. This data is invaluable in tracking production trends throughout the year. It should be noted, however, that since oil production taxes are payable sixty days after the end of quarter, there is a considerable lag time before the LFD can analyze the data. Nonetheless, this new data was received February 1 and included return information captured in the DOR system as of January 30, 2009.

Late October, 2008, the DOR provided our office with a detailed file of all individual income taxpayers for tax year 2007. This information has been the database used for our income tax simulation model and the resulting revenue estimates presented to the RTIC in November and the revised estimates provided in these monthly revenue updates. On the afternoon of February 12, the DOR delivered an updated file of all income taxpayers for tax year 2007. The department has indicated this new file includes additional resident and non-resident taxpayers. Since our office was committed to having this report to the legislature by February 13th, this new data has not been included in this analysis.

During each month, there are numerous articles and economic reports that are produced by newspapers, economic websites, and federal entities. To the extent possible, this information is reviewed for relevancy to Montana's economy and the impact it may have on state revenues. Usually this information is for reference and does not necessarily have a quantifiable impact on our revenue outlook. This type of information is received and reviewed daily throughout the month. Appendix A shows a high level summarization of the printed material we have been tracking since October, 2008.

Based on this new information, the following section of the report highlights our analysis of the new data and summarizes the total LFD recommended changes to the general fund revenue estimates for FY 2009, 2010, and 2011.

RESULTS OF LFD ANALYSIS

The primary components of total general fund revenues are individual and corporate income taxes, property taxes, investment earnings, and natural resource taxes. If all of these components are added together, almost 75 percent of total general fund revenues are produced from these sources. The analysis discussed in this report focuses on these key sources but also includes some additional information relevant to some of the smaller revenue sources.

The first general fund revenue update report issued on January 23 focused on key economic assumptions and the potential impacts on general fund revenue estimates for FY 2009, 2010, and 2011. This report is prepared in a similar format with an additional section that discusses collection data through January 2009 compared with collections through January 2008. This type of comparison can provide insight to the strengths or weaknesses of year to date collections and can help identify trends that may be indicative of collections for the remainder of the fiscal 2009.

YEAR TO DATE COLLECTIONS

Figure 1 shows general revenue collections by individual revenue source. This table is produced monthly based on the revenue transactions recorded on SABHRS. The information shown in Figure 1 represents revenue collections for the first seven months of FY 2008 compared to the first seven months of FY 2009. As shown at the bottom of Figure 1, total general fund collections are $67.4 million (7.0 percent) above last year. The HJ2 total general fund revenue estimate as adopted by RTIC on November 18, 2008, expected revenues to be 1.9 percent below FY 2008 collections.

This information indicates that overall general fund revenue collections are on pace to exceed the HJ2 estimate by a significant amount. However, there are several issues that will change this outlook as we proceed through the remainder of FY 2009. Some of the more significant issues are highlighted in the next section of the report.

Figure 1

General Fund Revenue Monitoring Report							
Revenue Source	Actual Fiscal 2008	HJ2 Estimate Fiscal 2009	Through 1/31/08	Through 1/31/09	Difference	% Change	HJ2 Estimate % Change
GF0100 Drivers License Fee	3,865,872	4,667,000	2,348,758.95	1,486,094.76	(862,664.19)	-36.73%	20.72%
GF0200 Insurance Tax	64,003,987	49,769,000	22,277,064.44	14,110,211.35	(8,166,853.09)	-36.66%	-22.24%
GF0300 Investment Licenses	6,513,962	6,127,000	1,231,981.12	5,207,366.80	3,975,385.68	322.68%	-5.94%
GF0400 Vehicle License Fee	93,493,069	95,014,000	45,249,632.90	45,200,579.00	(49,053.90)	-0.11%	1.63%
GF0500 Vehicle Registration Fee	18,992,762	19,227,000	10,491,592.58	8,202,762.80	(2,288,829.78)	-21.82%	1.23%
GF0600 Nursing Facilities Fee	5,610,099	5,318,000	2,105,581.61	1,924,646.22	(180,935.39)	-8.59%	-5.21%
GF0700 Beer Tax	3,124,238	3,160,000	1,621,750.34	1,647,564.42	25,814.08	1.59%	1.14%
GF0800 Cigarette Tax	36,004,249	36,373,000	20,617,136.79	19,818,032.24	(799,104.55)	-3.88%	1.02%
GF0900 Coal Severance Tax	11,894,408	12,410,000	6,025,888.91	5,596,594.99	(429,293.92)	-7.12%	4.33%
GF1000 Corporation Tax	160,341,787	156,132,000	71,579,774.97	93,785,752.25	22,205,977.28	31.02%	-2.63%
GF1100 Electrical Energy Tax	5,179,013	4,707,000	2,636,177.69	1,648,606.18	(987,571.51)	-37.46%	-9.11%
GF1150 Wholesale Energy Trans Tax	3,856,112	3,870,000	1,880,567.88	1,501,731.34	(378,836.54)	-20.14%	0.36%
GF1200 Railroad Car Tax	2,063,981	2,166,000	1,517,042.70	1,574,554.79	57,512.09	3.79%	4.94%
GF1300 Individual Income Tax	866,658,538	871,653,000	496,104,416.81	526,260,865.31	30,156,448.50	6.08%	0.58%
GF1400 Inheritance Tax	122,148	113,000	87,142.39	107,885.06	20,742.67	23.80%	-7.49%
GF1500 Metal Mines Tax	10,774,242	9,854,000	0.01	(0.01)	(0.02)	-200.00%	-8.54%
GF1700 Oil Severance Tax	149,993,826	116,771,000	29,480,096.10	44,535,368.05	15,055,271.95	51.07%	-22.15%
GF1800 Public Contractor's Tax	5,062,659	4,058,000	3,147,956.55	3,839,207.10	691,250.55	21.96%	-19.84%
GF1850 Rental Car Sales Tax	3,157,239	3,173,000	1,572,110.77	1,452,338.66	(119,772.11)	-7.62%	0.50%
GFxxxx Property Tax	205,043,752	211,495,000	108,624,986.69	114,739,052.20	6,114,065.51	5.63%	3.15%
GF2150 Lodging Facilities Sales Tax	13,389,534	13,339,000	6,408,896.98	5,823,051.29	(585,845.69)	-9.14%	-0.38%
GF2200 Telephone Tax	-	-	-	-	-		
GF2250 Retail Telecom Excise Tax	22,350,323	21,614,000	6,271,244.81	5,788,012.69	(483,232.12)	-7.71%	-3.29%
GF2300 Tobacco Tax	4,698,888	4,710,000	2,401,659.68	2,379,240.25	(22,419.43)	-0.93%	0.24%
GF2400 Video Gaming Tax	63,134,000	66,554,000	31,295,647.88	47,053,337.60	15,757,689.72	50.35%	5.42%
GF2500 Wine Tax	1,829,311	1,942,000	973,349.39	1,046,434.40	73,085.01	7.51%	6.16%
GF2600 Institution Reimbursements	15,334,683	13,658,000	4,476,978.33	6,972,379.55	2,495,401.22	55.74%	-10.93%
GF2650 Highway Patrol Fines	4,049,390	4,052,000	2,030,403.72	2,108,202.32	77,798.60	3.83%	0.06%
GF2700 TCA Interest Earnings	30,782,748	11,107,000	18,857,003.13	10,487,043.40	(8,369,959.73)	-44.39%	-63.92%
GF2900 Liquor Excise Tax	14,925,057	15,845,000	7,932,431.07	8,268,719.38	336,288.31	4.24%	6.16%
GF3000 Liquor Profits	8,775,000	8,894,000	-	-	-		1.36%
GF3100 Coal Trust Interest Earnings	28,854,611	29,392,000	11,308,494.76	10,984,120.10	(324,374.66)	-2.87%	1.86%
GF3300 Lottery Profits	11,028,563	10,516,000	2,778,754.00	2,743,202.00	(35,552.00)	-1.28%	-4.65%
GF3450 Tobacco Settlement	3,807,570	3,962,000	-	-	-		4.06%
GF3500 U.S. Mineral Leasing	36,388,559	28,259,000	14,239,670.27	16,552,667.97	2,312,997.70	16.24%	-22.34%
GF3600 All Other Revenue	38,435,655	65,749,000	21,821,285.34	13,995,198.44	(7,826,086.90)	-35.86%	71.06%
Grand Total	1,953,539,835	1,915,650,000	959,395,479.56	1,026,840,822.90	67,445,343.34	7.03%	-1.94%

Insurance Tax

Insurance tax revenues are $8.2 million (36.7 percent) below last year as of the end of January. This decline is due to a revenue deposit schedule that is inconsistent with historical patterns and the anticipated impacts of Initiative 155. Based on information from the State Auditor's office, the department will be depositing in February $9.4 million to the general fund and $4.6 million to the Montana Healthy Kids Plan account, the fund created by the passage of Initiative 155. When these deposits are combined with year to date collections through January, it appears that insurance tax collections may be showing signs of weakness. Since some insurance coverage may be viewed as discretionary combined with reduced new car sales and housing starts, it would not be unreasonable to expect insurance tax revenues to decline during an economic recession. Further collection data in subsequent months are necessary to confirm this trend.

Individual Income Tax

Figure 2 shows more detailed individual income tax collection data for the first seven months of FY 2009 compared to the same period of FY 2008. As shown in the figure, total individual income tax collections are $30.2 million (6.1 percent) above last year. This amount would suggest that individual income tax collections are doing well and that income taxes are holding up under the pressures of an economic recession. There are three items, however, that are worthy of note.

First, a mineral royalty withholding process was adopted by the last legislature which skews collection data between fiscal years. Since the legislation was effective January 1, 2008, no royalty withholding collections were received at this time last year. If these collections are removed from FY 2009 (for comparison purposes), total individual income tax collections are up about 3.8 percent instead of the 6.1 percent shown in Figure 2.

Second, wage and salary income is the largest income component of individual income taxes. Withholding tax can be a good indicator of the growth in wage and salary income for Montana. As shown in Figure 2, withholding taxes are up $5.1 million (1.4 percent) over last year. While this is still a positive amount, it may be an indication that wage and salary growth may be slowing significantly in Montana. The rate of growth in withholding tax collections has been dropping each month since September when the rate was slightly above 5 percent. The assumption in HJ2 was for wage and salary income to increase by 5 percent.

Third, estimated payments are $18.2 million (10.2 percent) above last year. Review of this data by quarter shows strong growth in estimated payments between the third and fourth quarters of calendar 2008. While withholding tax collections are showing signs of weakness, estimated payments are not, at least not by the end of January. With a substantial drop in the equity markets, historical low interest rates, reductions in corporate profitability, and the beginning of a new calendar year (a new reporting period for the taxpayer) the next quarterly payments should show an entirely different trend when compared to the calendar 2008 3rd and 4th quarterly payments. The next quarterly payment is due April 15, 2009 and represents the first payment for calendar 2009. Information from the Montana Society of Certified Public Accountants reinforces this assertion.

Figure 2

Individual Income Tax Comparison

Revenue Code & Description	Through 1/31/2008 Fiscal 2008	Through 1/31/2009 Fiscal 2009	Difference	Percent Change
510101 Withholding Tax	360,303,778.96	365,400,636.39	5,096,857.43	1.39%
510482 Mineral Royalty WH Tax	0.00	11,284,045.09	11,284,045.09	100.00%
510102 Estimated Tax	159,247,721.57	177,402,743.66	18,155,022.09	10.23%
510103 Current Year I/T	15,323,676.91	13,404,496.28	(1,919,180.63)	-14.32%
510105 Income Tax - Audit Collections	15,220,408.00	14,697,649.00	(522,759.00)	-3.56%
510106 Income Tax Refunds	(53,991,168.63)	(55,928,705.11)	(1,937,536.48)	3.46%
Totals	$496,104,416.81	$526,260,865.31	$30,156,448.50	6.08%
Percent of Actual/Estimated	57.24%	61.87%		

Corporation Income Tax

Figure 3 shows more detailed corporation income tax collection data for the first seven months of FY 2009 compared to the same period of FY 2008. As shown in the figure, total corporation income tax collections are $22.2 million (31.0 percent) above last year. This amount would suggest that corporation income tax collections are doing well and that corporations are holding up under the pressures of an economic recession. Further review of tax payment detail by corporation provides some additional insight to estimated payments. This data shows only minor changes in the estimated payments between the third and fourth quarters of calendar 2008. Unlike individual income tax collections, revenue collections data for corporation income taxes do not show any signs of weakening as of January 31. With announced job layoffs, business closures and/or cutbacks, significant consumer spending reductions, and construction plummeting, the next quarterly payments should show an entirely different trend when compared to the calendar 2008 3rd and 4th quarterly payments. The next quarterly payment is due April 15, 2009.

Figure 3

Corporation Income Tax Comparison				
Revenue Code & Description	Through 1/31/08 Fiscal 2008	Through 01/31/09 Fiscal 2009	Difference	Percent Change
510501 Corporation Tax	10,310,777.23	19,543,431.48	9,232,654.25	89.54%
510505 Corporation Tax Estimated Paym	66,503,339.50	71,730,544.33	5,227,204.83	7.86%
510502 Corporation Tax Refunds	(16,789,387.76)	(11,734,805.56)	5,054,582.20	-30.11%
510503 Corporation Tax-Audit Collect.	11,555,046.00	14,246,582.00	2,691,536.00	23.29%
Totals	$71,579,774.97	$93,785,752.25	$22,205,977.28	31.02%
Percent of Actual/Estimated	44.64%	56.14%		

Oil and Gas Production Tax

Total oil and gas production tax collections are $15.1 million (51.1 percent) above last year as of the end of January. These collections represent economic conditions for the 3rd quarter of calendar 2008 as compared to the 3rd quarter of calendar 2007. This increase was not unexpected since Montana oil prices averaged $108.27 per barrel for the 3rd quarter of calendar 2008 versus $70.14 per barrel for the 3rd quarter of calendar 2007. Fourth quarter calendar 2008 collections are expected to drop significantly as Montana oil prices are expected to average $44.25 per barrel during the quarter, well below the $79.85 per barrel average during the 4th quarter calendar 2007. The next payment of oil and gas production taxes will be processed by late April.

Video Gaming Tax

Video gaming taxes are $15.8 million (50.4 percent) above last year as of the end of January. This increase is not due to any underlying economic trend and merely reflects an accounting error that has been corrected in February. With the correcting entry, video gaming tax collections may be lagging the HJ2 revenue estimate. Further collection data in subsequent months are necessary to confirm this trend.

TCA Interest Earnings

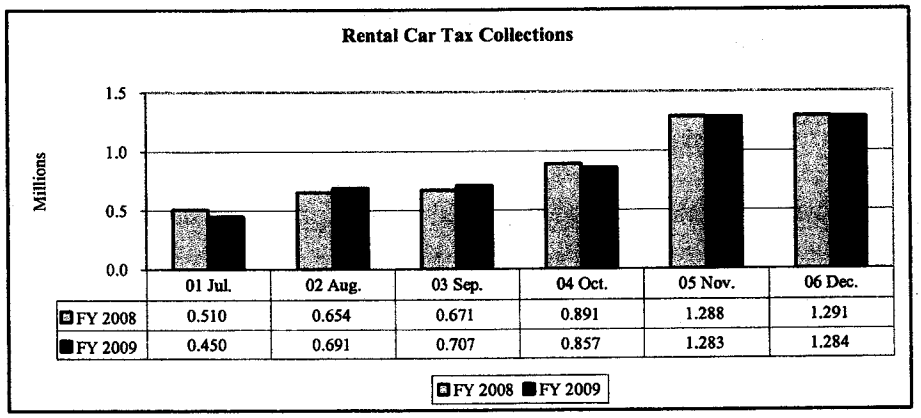
Treasury cash account (TCA) interest earnings are $8.4 million (44.4 percent) below last year as of the end of January. This decrease is due to the significant reduction in short-term interest rates that have occurred during FY 2008. According to the Montana Board of Investments, the

short-term investment portfolio (STIP) yield averaged 1.5 percent for January, 2009. This compares to 4.4 percent average during January 2008.

Rental Car Sales Tax and Lodging Sales Tax

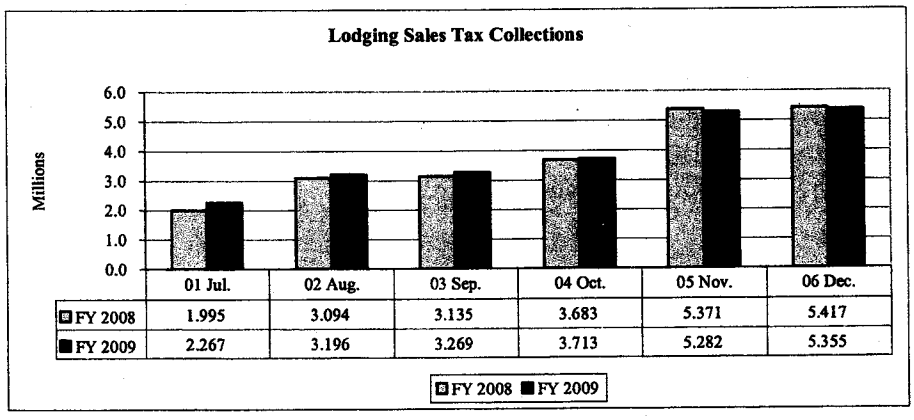
Combined, these two sources contribute about $16.5 million to the general fund account. As shown in Figures 4 and 5, both of these tax sources are slightly below the collections through December 2008 compared to December 2009. While this trend does not substantially change the current general fund revenue outlook, the economic conditions that may be causing the slowdown in these revenue collections may be significant. According to the Institute for Tourism and Recreation Research, University of Montana, "Montana can expect to see another decline in nonresident travel of 2 percent in 2009". This decline is in addition to the 3.7 percent decline (preliminary) observed during 2008. Since tourism is a vital component of Montana's economy, those businesses dependent on tourism dollars could be impacted resulting in reduced state revenues.

Figure 4



	01 Jul.	02 Aug.	03 Sep.	04 Oct.	05 Nov.	06 Dec.
FY 2008	0.510	0.654	0.671	0.891	1.288	1.291
FY 2009	0.450	0.691	0.707	0.857	1.283	1.284

Figure 5



	01 Jul.	02 Aug.	03 Sep.	04 Oct.	05 Nov.	06 Dec.
FY 2008	1.995	3.094	3.135	3.683	5.371	5.417
FY 2009	2.267	3.196	3.269	3.713	5.282	5.355

ANALYSIS OF ECONOMIC CONDITIONS

Individual Income Tax

Individual income tax assumptions for selected income components were analyzed and changed based on new IHS data. These components were wage and salary, capital gains, interest, dividend, rent, royalty and partnership incomes. Unlike the January analysis, this analysis also examined business and retirement income. The consumer price index forecasts of IHS were also reviewed. Based on this data, the individual income tax estimates are shown in Figure 6. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 6

Individual Income Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$871.653	$884.934	$908.994	$2,665.581
December	LFD Recommendations	854.823	856.291	880.781	2,591.895
January	LFD Analysis	851.275	839.189	860.512	2,550.976
February	LFD Analysis	856.506	845.333	859.007	2,560.846
	Change Amount (HJ2 to LFD Analysis)	**($15.147)**	**($39.601)**	**($49.987)**	**($104.735)**

In general, most income components showed minimal change or further decline from the January IHS forecasts. The February amounts in Figure 6 however, show a modest improvement over the January amounts. This improvement is primarily due to the slower growth in inflation anticipated by IHS when compared to the January estimates. Because the federal and state's tax structures are adjusted for the effects of inflation, lower inflation has the effect of increasing a taxpayer's liability and thus state revenues. This occurs because tax brackets, personal exemptions, and standard deduction amounts are increased by a lesser amount when inflation is low.

Corporation Income Tax

Corporation income tax assumptions for selected economic variables were analyzed and changed based on new IHS data. These variables were consumer consumption expenditures, US pre-tax profits, financial sector data (loans, interest rates, etc.) and commodity prices. Based on this data, the corporation income tax estimates are shown in Figure 7. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 7

Corporation Income Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$156.132	$136.293	$149.352	$441.777
December	LFD Recommendations	154.838	125.911	133.674	414.423
January	LFD Analysis	150.760	119.115	128.571	398.446
February	LFD Analysis	157.715	117.579	124.250	399.544
	Change Amount (HJ2 to LFD Analysis)	**$1.583**	**($18.714)**	**($25.102)**	**($42.233)**

The February LFD analysis amount for FY 2009 has been adjusted for an unusually large audit collection covering several previous tax periods. This one audit increased FY 2009 collections by $7.5 million but is not expected to impact collections in subsequent years.

Oil and Gas Production Tax

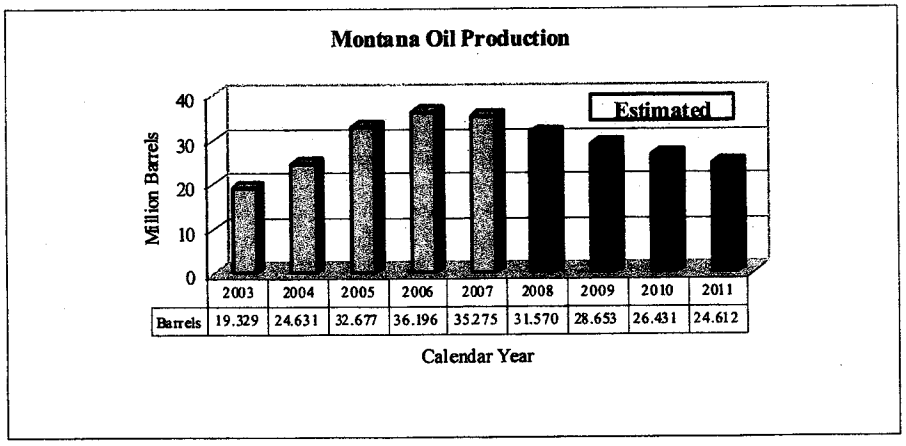
Both oil and gas production and price assumptions were analyzed and changed based on new IHS and DOR data. Based on this data, the oil and gas production general fund estimates are shown in Figure 8. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 8

Oil & Gas Production Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$116.771	$100.066	$105.177	$322.014
December	LFD Recommendations	106.600	84.323	102.825	293.748
January	LFD Analysis	96.342	69.921	94.393	260.656
February	LFD Analysis	94.641	69.831	85.220	249.692
	Change Amount (HJ2 to LFD Analysis)	**($22.130)**	**($30.235)**	**($19.957)**	**($72.322)**

Figures 8A and 8B show the underlying assumptions for Montana's oil production and price. As seen from Figure 8A, total production is expected to decline significantly, over thirty percent from calendar 2007 to estimated calendar 2011. This trend is based on tax return data for the first three quarters of calendar 2008 compared to the same period of calendar 2007. With the outlook for prices to remain well below previous levels and the limited number of oil rigs in Montana, the probability of this production decline abating is very low.

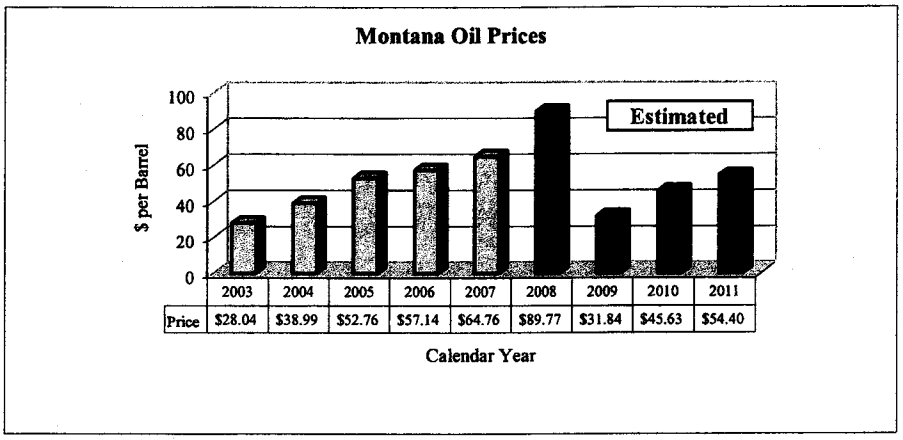
Figure 8A



As shown in Figure 8B, Montana oil prices are expected to average slightly under $32 per barrel during calendar 2009. While staff has received several comments about Montana oil selling for far less than this amount, it should be pointed out that this is an average price for all grades of oil and represents an

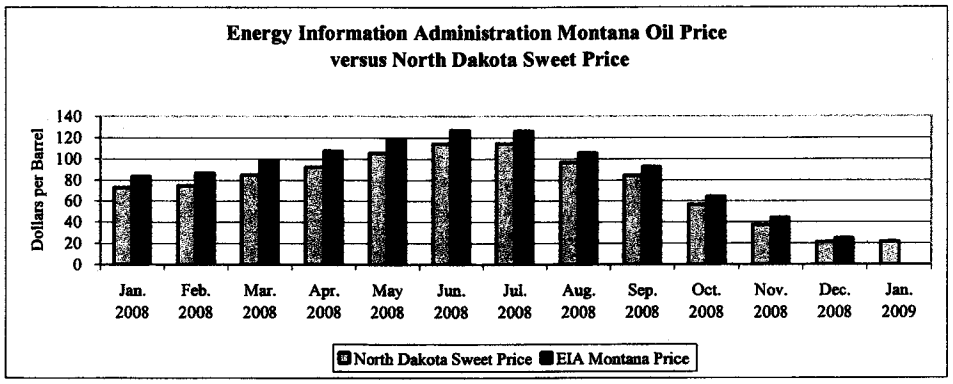
average price for the entire calendar year. Oil prices are expected to edge upward in calendar 2010 and 2011 as the nation begins to recover from the economic recession.

Figure 8B



After the January report was issued, some legislators suggested we review the oil price listings posted by SemCrude, L.P., a crude oil purchaser. SemCrude posts, on a daily basis, a number of prices for a variety of oil types. Figure 8C shows the correlation between the North Dakota Sweet price as compared to the Energy Information Administration (EIA) price for Montana. Our analysis showed there is a correlation between these prices and that, on average, Montana's well head price is higher than the North Dakota Sweet price. Since this data is posted daily, this provides staff an additional tool to more closely monitor Montana oil prices. EIA data are usually three months behind and tax return data filed with the DOR are also lagged.

Figure 8C



US Mineral Royalty

The adjustment to the US mineral royalty estimate is the result of the changes in the assumptions for oil and gas production and price. Based on this data, the US mineral royalty estimates are shown in Figure 9. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2

estimate with the February LFD analysis. A negative number means the new estimate is below the amount contained in HJ2.

Figure 9

US Mineral Royalties (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$28.259	$31.518	$32.505	$92.282
December	LFD Recommendations	26.311	29.641	32.113	88.065
January	LFD Analysis	24.953	28.457	32.861	86.271
February	LFD Analysis	24.986	28.374	31.061	84.421
	Change Amount (HJ2 to LFD Analysis)	**($3.273)**	**($3.144)**	**($1.444)**	**($7.861)**

Metalliferous Mines Tax

This source was not changed from the January LFD analysis. The following discussion is the same written text provided in the January report.

The metalliferous mines tax was adjusted to reflect the significant drop in several metal prices. Reductions in the price estimates were made for the following commodities: copper, silver, lead, zinc, platinum, palladium, and molybdenum. Adjustments for calendar 2008 prices were based on return data for the first six months combined with estimated prices for the remainder of calendar 2008. Estimates for calendar 2009 through 2011 were based on current prices. Based on this data, the metalliferous mines tax estimates are shown in Figure 10. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

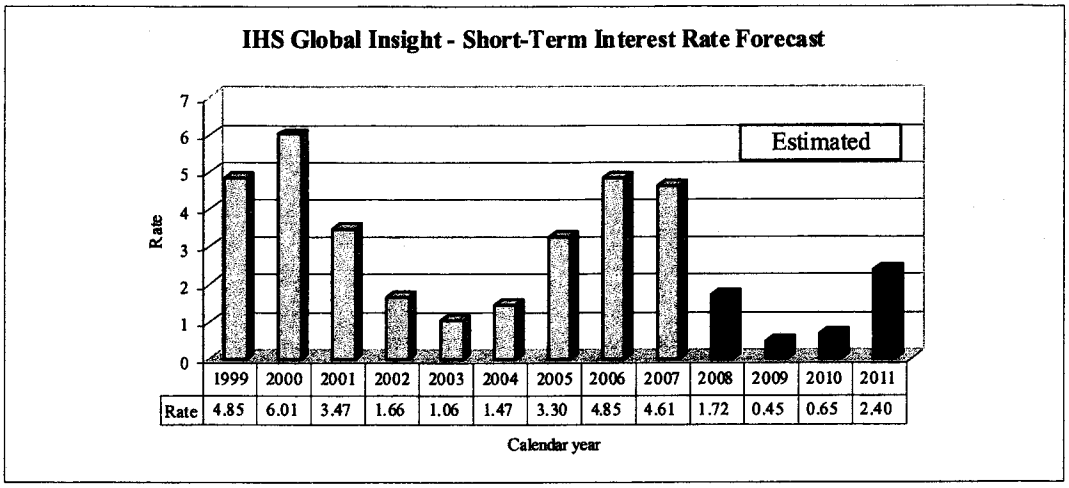
Figure 10

Metalliferous Mines Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$9.854	$8.085	$8.066	$26.005
December	LFD Recommendations	8.666	5.294	5.278	19.238
January	LFD Analysis	6.777	3.248	3.279	13.304
February	LFD Analysis	6.777	3.248	3.279	13.304
	Change Amount (HJ2 to LFD Analysis)	**($3.077)**	**($4.837)**	**($4.787)**	**($12.701)**

Treasury Cash Account Interest

The treasury cash account interest estimate is impacted by the underlying assumptions for short-tem interest rates and cash available for investment. Short-term interest rates as estimated by IHS are at historically low levels for calendar 2009 with little change in 2010 and a modest improvement by calendar 2011. Figure 11 shows the historical and forecast rates as prepared by IHS.

Figure 11



After a review of current investment income and the average daily cash balance in the treasury cash account, the average cash balance was adjusted upward to reflect current trends as well as the legislature's desire to maintain an ending fund balance consistent with the level recommended by the executive. Based on this data, the treasury cash account interest estimates are shown in Figure 11A. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

Figure 11A

Treasury Cash Account Interest (in millions)		Estimated	Estimated	Estimated	Estimated
Month	General Fund Revenue Estimate	FY 2009	FY 2010	FY 2011	3 Year Total
November	Rev. & Transportation Committee (HJ2)	$11.107	$10.185	$19.381	$40.673
December	LFD Recommendations	9.541	8.905	19.265	37.711
January	LFD Analysis	16.341	11.178	25.124	52.643
February	LFD Analysis	16.673	7.899	15.596	40.168
	Change Amount (HJ2 to LFD Analysis)	**$5.566**	**($2.286)**	**($3.785)**	**($0.505)**

Property Tax

This source was not changed from the January LFD analysis. The following discussion is the same written text provided in the January report.

Since the RTIC meeting in November, revised property tax values from the DOR were received for FY 2009. These new values were incorporated into the estimates. In addition, two court cases were resolved that impacted property tax estimates. Northwestern settled its case with the state and the Montana Supreme Court ruled in favor of Omimex over the proper classification of its pipeline properties. The impacts of these cases have been incorporated into the estimates. Based on this data, property tax estimates are shown in Figure 12. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A positive number means our new estimate is above the amount contained in HJ2.

Figure 12

Property Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$211.495	$222.983	$228.933	$663.411
December	LFD Recommendations	214.615	226.382	230.363	671.360
January	LFD Analysis	214.615	225.628	229.428	669.671
February	LFD Analysis	214.615	225.628	229.428	669.671
	Change Amount (HJ2 to LFD Analysis)	**$3.120**	**$2.645**	**$0.495**	**$6.260**

Cigarette Tax

The federal cigarette tax will increase from $0.39 per pack to $1.00 per pack on April 1, 2009. This adjustment plus increases for other tobacco products is designed to fund an expansion of SCHIP (State Children's Health Insurance Program). Based on recent consumption studies as well as Montana's experience with previous cigarette tax increases, state cigarette tax revenues are expected to decline by $11.3 million over the three year period due to the federal tax increase. This decline is based on a price elasticity factor of 0.44 which equates to a 5.89 percent decrease in consumption due to the price increase. A further adjustment of 2.3 percent was made for the year to date decline in consumption from FY 2008 to FY 2009. Based on this data, the cigarette estimates are shown in Figure 13. The impact of the federal tax increase on other tobacco products is being researched and is not included in Figure 13. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

Figure 13

Cigarette Tax (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$37.696	$40.474	$41.078	$119.248
December	LFD Recommendations	37.696	40.474	41.078	119.248
January	LFD Analysis	37.696	40.474	41.078	119.248
February	LFD Analysis	35.554	36.050	36.308	107.912
	Change Amount (HJ2 to LFD Analysis)	**($2.142)**	**($4.424)**	**($4.770)**	**($11.336)**

Vehicle Tax/Fee

Revenue collections through January 2009 compared to the same period of FY 2008 show that collections from vehicle tax/fee revenue are below expectations after seven months of collections. Based on data from the Department of Justice on vehicle counts by age, it appears there is a significant trend towards permanently registering older vehicles. This trend, combined with reduced new car sales forecast by IHS warrants an adjustment to the vehicle revenue estimate. Based on this data, the vehicle tax/fee estimates are shown in Figure 14. The estimates as adopted by RTIC on November 18 (HJ2) and the LFD recommendations developed in December and January are shown for reference. The change amount is calculated by comparing the HJ2 estimate with the February LFD analysis. A negative number means our new estimate is below the amount contained in HJ2.

Figure 14

Vehicle Tax/Fees Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$114.241	$113.717	$111.330	$339.288
December	LFD Recommendations	114.241	113.717	111.330	339.288
January	LFD Analysis	114.241	113.717	111.330	339.288
February	LFD Analysis	112.419	111.919	109.574	333.912
	Change Amount (HJ2 to LFD Analysis)	**($1.822)**	**($1.798)**	**($1.756)**	**($5.376)**

Summary of LFD Analysis

Based on our analysis of the new data received from all the sources mentioned previously, the information indicates that total general fund revenue estimates could be overstated by $250.8 million as compared to the revenue estimates contained in HJ2. A majority of this amount is due to the changes in the underlying assumptions for individual income tax, corporation income tax, and oil and gas production tax. A new adjustment was required for cigarette taxes because of the impacts of the federal tax increase and also for vehicle tax/fee revenue because of lagging year to date collections.

Figure 15

Totals For Selected Sources (in millions) Month	General Fund Revenue Estimate	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	Estimated 3 Year Total
November	Rev. & Transportation Committee (HJ2)	$1,557.208	$1,548.255	$1,604.816	$4,710.279
December	LFD Recommendations	1,527.331	1,490.938	1,556.707	4,574.976
January	LFD Analysis	1,513.000	1,450.927	1,526.576	4,490.503
February	LFD Analysis	1,519.886	1,445.861	1,493.723	4,459.470
	Change Amount (HJ2 to LFD Analysis)	**($37.322)**	**($102.394)**	**($111.093)**	**($250.809)**

The LFD estimates used for our pre-session budget analysis were $135 million below the RTIC November estimate. This revised analysis shows an additional $116 million below the RTIC estimates for a total change of $251 million.

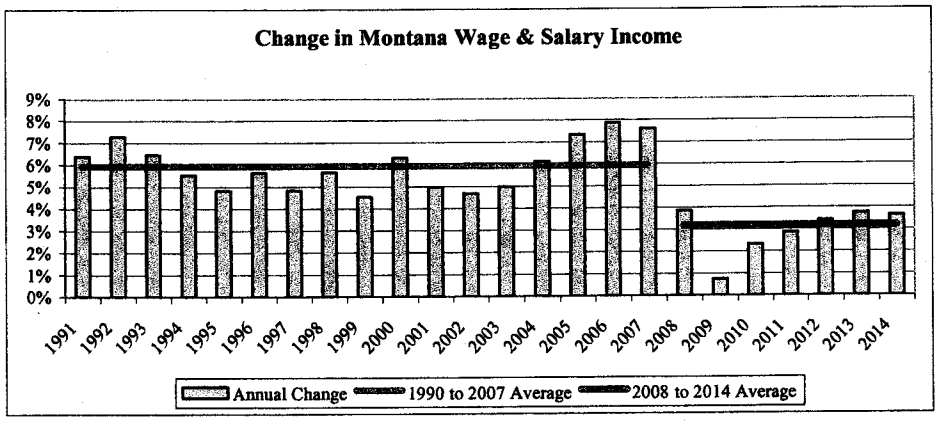
The legislature is faced with an extremely difficult task of developing a 2011 biennium budget in light of current economic conditions and how these conditions will affect future revenue collections. The duration and the intensity of the current economic recession not only will affect the 2011 biennium revenues and disbursements, it more than likely will have a significant "drag" on the 2013 biennium outlook. As the new data were reviewed and analyzed by staff, two key points need to be stressed.

First, with receipt of year to date collections and revised economic data, it is difficult to extract any positive news from the data. Revenue receipts, while currently strong, there are legitimate reasons to explain why this should be occurring. As pointed out by the Bureau of Business and Economic Research, Montana's economy did not show any significant signs of a slowdown until late last fall. For the most part, current revenue collections are a reflection of the pre-slowdown period and do not reflect the effects of the economic recession. For individual and corporation income taxes, year to date collection trends should not be viewed as an indication of future collections.

Second, the immediate task for the legislature is to adopt a balanced 2011 biennium budget. Economic uncertainty combined with an infusion of significant federal stimulus dollars, (to be used for one-time

only spending) make the job of maintaining structural balance as well as an adequate ending fund balance a difficult job. As shown in Figure 15, the legislature should focus on the 2011 biennium but be mindful of the 2013 biennium. Figure 16 shows percentage change in actual and forecast amounts for Montana wage and salary income as developed by IHS. As shown in the figure, the increase in Montana's wage and salary income has averaged almost six percent from calendar 1990 to 2007. However, the IHS forecast amounts from calendar 2008 to 2014 average slightly above three percent. If these forecasts are correct, the prospects for a return to robust revenue growth during the 2013 biennium may be unlikely.

Figure 16



WHAT TO WATCH FOR NEXT MONTH

This section of the report highlights the new data available between now and mid-March. This data should help staff and the legislature assess any new trends that may be developing with general fund revenue estimates.

Data to be Received

Early March

IHS Global Insight, Nation economic forecast
Written report and data tables

SABHRS month-end data
General fund revenue monitoring report – revenue collections through February

DOR selected tax return data
- Second quarter (FY 2009) coal severance tax payment
- Second quarter (FY 2009) electrical energy tax payment
- Second quarter (FY 2009) wholesale energy tax payment

APPENDIX A.

ECONOMIC LITERATURE TRACKING

- Summer 2008, Global Insight: "The Montana economy has benefited from high prices for its energy resouces and agricultural commodities." "In the near term, national economic issues (the housing crisis and reduced consumer spending) will cause growth to slow." "Over the longer term, lack of economic diversity and an aging population will remain key challenges."
- Fall 2008, Global Insight: "The U.S. economy was already heading into at least a mild recession as the summer ended. It is now clear that we are heading into a deep recession, comparable to that of 1980-82."
- October 2008, Energy Information Administration: "Oil markets are expected to remain tight over the next 6 months because of sluggish production growth, which will help push WTI crude oil prices to $120 per barrel by April 2009, before declining to $106 per barrel by years' end."
- November 2008, Global Insight: "The recession is deepening. The economy [will] contract 1.0% in 2009." "The worst recession since 1982."
- December 2008, Global Insight: "The recession continues to deepen. The economy [will] contract 1.8% in 2009." "After the dismal November employment report, we have raised the probability of our pessimistic scenario from 25% to 40%. It incorporates by far the worst recession in the postwar era." "Global economy in free-fall." "Commodity prices are diving."
- December 1, 2008, Billings Gazette: "Helena employers slow to add seasonal help."
- December 3, 2008, Global Insight: "We are 12 months into this recession and the economy's rate of decline has worsened dramatically. We expect real GDP to drop 5.0% in the fourth quarter."
- December 3, 2008, Helena Independent Record: "Montanans among least delinquent in mortgages", but "increased in the third quarter".
- December 4, 2008, Billings Gazette: "65-plus population to double by 2030." "State and local governments will face challenges as the state's population ages over the next two decades."
- December 4, 2008, Billings Gazette: "A natural gas producer [Omimex Canada] with several properties in north-central Montana has won a property tax case before the state Supreme Court."
- December 5, 2008, Helena Independent Record: "An economic stimulus package proposed in Washington, D.C., would be good for Montana and the City of Helena."
- December 5, 2008, Global Insight: "Payroll employment fell 533,000 in November – the steepest decline in 34 years. The economy is in free fall."
- December 5, 2008, Billings Gazette: "The global recession has already smacked Montana, although the state should fare better than the nation," "We will outperform the United States, but the bad news is we're still going to feel a lot of pain."
- December 8, 2008, Billings Gazette: "Gasoline use dropped slightly in Montana for the 12 months ending in June. That means a loss of around $600,000 in gas tax collections."

- December 10, 2008, Billings Gazette: "Fiscal analysts reported that the state's budget picture is getting worse saying projections could drop by at least $50 million."
- December 10, 2008, Helena Independent Record: "Semitool, Inc. said it would effectively shut down for three weeks and cut back to a skeleton production crew because of lagging customer orders."
- December 11, 2008, Global Insight: "The macroeconomic outlook has grown darker in December." "Expects real GDP to decline in four consecutive quarters." "Employment will climb to 8.7% in early 2010."
- December 11, 2008, Billings Gazette: "Stillwater Mining Company's East Boulder mine is back in operation, with its staff cut in half and its production targets shaved by a third."
- December 12, 2008, Missoulian: "Semitool., which laid off 100 workers in early November, announced the temporary closure citing poor market conditions an a drop-off in customer orders."
- December 12, 2008, Billings Gazette: "Facing more grim national economic forecasts, Governor Brian Schweitzer is rewriting his budget proposal for the 2009 Legislature."
- December 15, 2008, Billings Gazette: "Managers at Troy Mine are preparing for a complete shutdown, as profits disappear amid plunging metals prices." "Mine ownership issued a 60-day warning to employees, saying that if market conditions do not improve, the mine will close on February 12, 2009."
- December 16, 2008, Billings Gazette: "The legislature and the state have made a "good-faith attempt" to tackle glaring shortfalls in public school funding existing four years ago, a state judge said." But "if the state backs away from its commitment of the past four years to bolster state funding of schools, his decision could be reversed in the future."
- December 16, 2008, Billings Gazette: "Governor Brian Schweitzer issued a revised state budget that cuts general fund spending by $144 million over the next three years from what he recommended in November."
- December 16, 2008, Billings Gazette: "A major Flathead Valley contractor [Goose Bay Equipment] will lay off its 58 employees and close in mid-February because of the faltering economy."
- December 18, 2008, Billings Gazette: "A spokesman for the exclusive Yellowstone Club said that a dozen people who worked in construction and operations-related jobs were load off this week."
- December 18, 2008, Great Falls Tribune: "The economic downturn will continue in 2009 in the Upper Plains, with unemployment rates rising and recovery in the residential real estate market expected to take more than a year, the Federal Reserve Bank of Minneapolis said."
- December 22, 2008, Billings Gazette: "Montana's unemployment rate rose slightly to 4.9 percent in November but is still below the national average of 6.7 percent."
- December 23, 2008, Associated Press: "The Commerce Department reported that the gross domestic product declined at an annual rate of 0.5 percent in the July-September quarter, while corporate profits fell 1.2 percent."
- December 25, 2008, Great Falls Tribune: "The Montana Public Service Commission will seek fines of more than $750,000 against Northwestern Corp., alleging the company violated terms of a 2004 bankruptcy stipulation."

- December 26, 2008, Billings Gazette: "The Columbia Falls Aluminum Company gave employees 60 days notice that the plant will be shut down, eliminating about 200 jobs, the Flathead Beacon reported." In July, Columbia Falls Aluminum Company shut down one of its pot lines and laid off 125 employees."
- January 2009, IHS Global Insight: "U.S. and global economies are in steep decline, in what is the most severe synchronized global Downturn of recent times." "We are not looking for signs of recovery yet, merely for signs that the rate of decline is becoming less severe – but cannot find them."
- January 2009, IHS Global Insight: "The U.S. and world economies are about to suffer through some of the worst recessions in the postwar period. Most measures of economic and financial activity look lie they fell off a cliff in September and October, and have been deteriorating at an alarming rate ever since."
- January 6, 2009, CNNMoney.com: "The U.S. economy is likely to deteriorate further this year and unemployment will rise into 2010, according to the latest forecasts of the Federal Reserve." "The central bank is now predicting that gross domestic project will fall in 2009." "Employers cut 1.9 million jobs over the first 11 months of 2008, which took the unemployment rate up to 6.7%."
- January 6, 2009, Western Wood Products Association: "Western mills are experiencing the largest downturn in lumber demand ever recorded. The downward trend is forecast to continue through 2009 before beginning recovery in 2010."
- January 8, 2009, Billings Gazette: "Peabody Energy said it will slow coal production at its Powder River Basin mines in Wyoming this year in response to he global economic recession." "It plans to reduce production in the northeastern Wyoming coal reserve by about 10 million tons."
- January 9, 2009, Billings Gazette: "Plum Creek Timber Company said it will close a sawmill, idle three others and reduce production at a fiberboard plant in Montana in response to the week housing market and less demand for wood products. The company said the moves would eliminate 145 jobs."
- January 9, 2009, Helena Independent Record: "Semitool announced the layoffs of 280 employees, including about 200 in the Kalispell and Libby offices." "Last November, Semitool laid off about 100 workers at it plants in Kalispell and Libby."
- January 9, 2009, Daily Inter Lake: "Plum Creek Timber Company is telling logging contractors to stop work in the woods." "Over 50 percent of the contracting work force will be impacted temporarily."
- January 12, 2009, CNNMoney.com: "Amid all the anticipation of Obama's stimulus package, Americans should realize that its effects aren't likely to be felt until the economy is already rebounding on its own."
- January 13, 2009, Billings Gazette: "The Billings Gazette announced it has laid off four full-time and four part-time employees as part of a work force reduction." "The slowdown in the local and national economies prompted the decision to reduce expenses."
- January 14, 2009, Billings Gazette: "American Crystal Sugar announce in 2008 that it would have to shut its Sidney refinery down if area farmers didn't produce more beets. The factory was short several thousand acres last year as farmers opted for more lucrative crops such as wheat."

- January 14, 2009, IHS Global Insight: "The American Economic Association held its annual convention on January 3-5 and a number of top economists weighed in on the financial crisis. For the most part, the research presented was sobering."
- January 15, 2008, Helena Independent Record: "USA Today publisher Gannett Company imposed one-week unpaid furloughs for most of its U.S. employees saying the move could help minimize the need for further layoffs amid a severe advertising downturn." "Gannett owns the Great Falls Tribune."
- January 15, 2009, Billings Gazette: In Wyoming, "The state's Consensus Revenue Estimating Group last week sharply reduced its projection of how much the state will have to spend in the coming fiscal year. The revised report cut the group's October projection of $900 million to just under $260 million. That money is in addition to the $8 billion, two-year state budget approved early last year."
- January 20, 2009, The New York Times: Concerning the economic stimulus - "House plans for infrastructure disappoints advocates for major projects" "As the details of the plan come into focus, big transformative building projects seem unlikely."
- January 21, 2009, Billings Gazette: "Managers at F.H. Stoltze Land and Timber Company said they plan to temporary shut down the company's Columbia Falls sawmill amid a national housing slump. The closure, which will begin February 2 and last at least six weeks, is expected to put about 50 employees out of work."
- January 23, 2009, Associated Press: "Crude prices continue to fall this year as a recession spreads across the globe, forcing oil and gas producers to cut costs." "Companies throughout the oil industry – producers, service providers, drillers and others – are expected to post mostly lower results for the final three months of 2008 because of the collapse of oil prices." "In the wake of crude's plunge and amid a painful recession, oil and gas companies have scrapped exploration and production projects and slashed capital spending for 2009. That reduces work for companies which provide clients a variety of well-site services such as seismic tests, directional drilling and reservoir management."
- January 27, 2009, Billings Gazette – "In their memo, Bales and Sesso noted that the reduced revenue estimates, which were lowered Friday by $85 million more for the three years, confirmed their fears. They warned that the estimates might be cut again." "Terry Johnson...earlier trimmed the projected revenues by $135 million in December".
- January 27, 2009, Billings Gazette – "The Montana Standard has laid off two full-time and four part-time employees..." "The Independent Record recently announced two layoffs..."
- January 28, 2009, Billings Gazette – "Montana's unemployment rate rose to 5.4 percent in December, up from 4.9 percent in November."
- January 28, 2009, Billings Gazette – "The Missoulian laid off four employees and two others were told their jobs will end Feb. 13 as part of a work force reduction."
- January 30, 2009, Billings Gazette – "The Gazette State Bureau asked Terry Johnson, the chief revenue forecaster for the non-artisan Legislative Fiscal Division, whether hew would categorize the Schweitzer-Vann Dyk proposal as a tax. "Yes", Johnson said. "For starters, you have an existing production tax, and it's an additional tax."
- January 30, 2009, Billings Gazette – "A spokeswoman for [Cabelas's] who is opening its first Montana location this spring says more than 200 employees will be hired in coming months."

- January 30, 2009, Helena Independent Record – "The Starbucks Corp. announcement Wednesday that it would slash 6,700 jobs and close 300 stores will affect Montana." "We do know our Montana stores will be impacted."
- February 2, 2009, CNN Money – "Oil fell below $41 on Monday as a deepening U.S. recession shrank demand in the word's top fuel burner and evidence mounted of global downturn."
- February 2, 2009, CNN Money – "Slim chance of a turnaround in 2009' "Consumers and businesses have retrenched so deeply that it will take a long time for the economy to stage a meaningful comeback."
- February 3, 2009, CNN Money – "Oil prices rose as signs of OPEC production cuts began to emerge. But gains were tempered as the group fell short of its pledge and the economy continued to show weakness."
- February 3, 2009, Helena Independent Record – "82 employees are off the payroll at Montana Tunnels Mine in Jefferson City at the end of the day on Tuesday..."
- February 4, 2009, Billings Gazette – "An Australian company is proposing a $375 million coal plant in southeastern Montana that would produce high-efficiency coal and synthetic crude oil." "We can take coal worth $10 a ton and make it worth $200 a ton."
- February 4, 2009, Billings Gazette – "The Montana Tunnels metal mine ... laid off 88 workers Tuesday, following through on 60-dat layoff notices issued in early December." "That will keep 104 people working, but it is likely they soon will get the 60-day notices..."
- February 4, 2009, Senator Tester's website – "The U.S. Senate version of the Jobs Bill will help rebuild the struggling economy by investing more than $687 million in Montana."
- February 4, 2009, IHS Global Insight – "Oil inventories climbed once again, with total stocks up 1.4 million barrels and crude up by 7.2 million barrels. Crude imports remained high. Initial reaction on the futures market to the report was negative, but prices firmed after it had been absorbed."
- February 2009, NCSL State Legislatures – "Rising unemployment, dropping income tax revenue, the ongoing foreclosure debacle and a deep crisis in consumer confidence leave states facing the worst fiscal crisis in more than 50 year." "A survey [of 26 states]... came up with sobering figures that could easily worsen as the recession continues to unfold." "On the spending side, states face grim choices." "...that the numbers look so bad at this point is a harbinger of an even worse recession." "Based on my analysis of the last several downturns ... this one is likely to be worse than the previous ones".
- February 11, 2009, Billings Gazette – "the governor [of Wyoming] intends to ask the state's Consensus Revenue Estimating Group to hold a special meeting this spring to develop new state revenue projections". "The House and Senate appropriations committees are warning state lawmakers to save as much money as possible to try to avoid program cuts in the coming year". "Freudenthal will direct state agencies to make specific plans for cutting their general fund spending by 5 percent in the coming fiscal year". "the governor will also direct them to indentify how they could make 10 percent cuts". "Indicator after indicator suggests that we're heading for a very tough time in the state." "Wyoming has received a range of bad economic news recently...that includes falling energy prices, stagnant numbers of rigs drilling for minerals, more new applications for unemployment and lower use tax collections". "The bottom line is that

the national recession and global economic retraction is already impacting the state. In the next several months, the impact will also become noticeable in the state's employment and consumer/business spending numbers"

- February 12, 2009, Billings Gazette – "Three people in the city's Building Division were notified that their last day of work is May 29".
- February 13, 2009, Billing Gazette – "A shortage of money forced the Crow Tribe to layoff 180 seasonal workers."