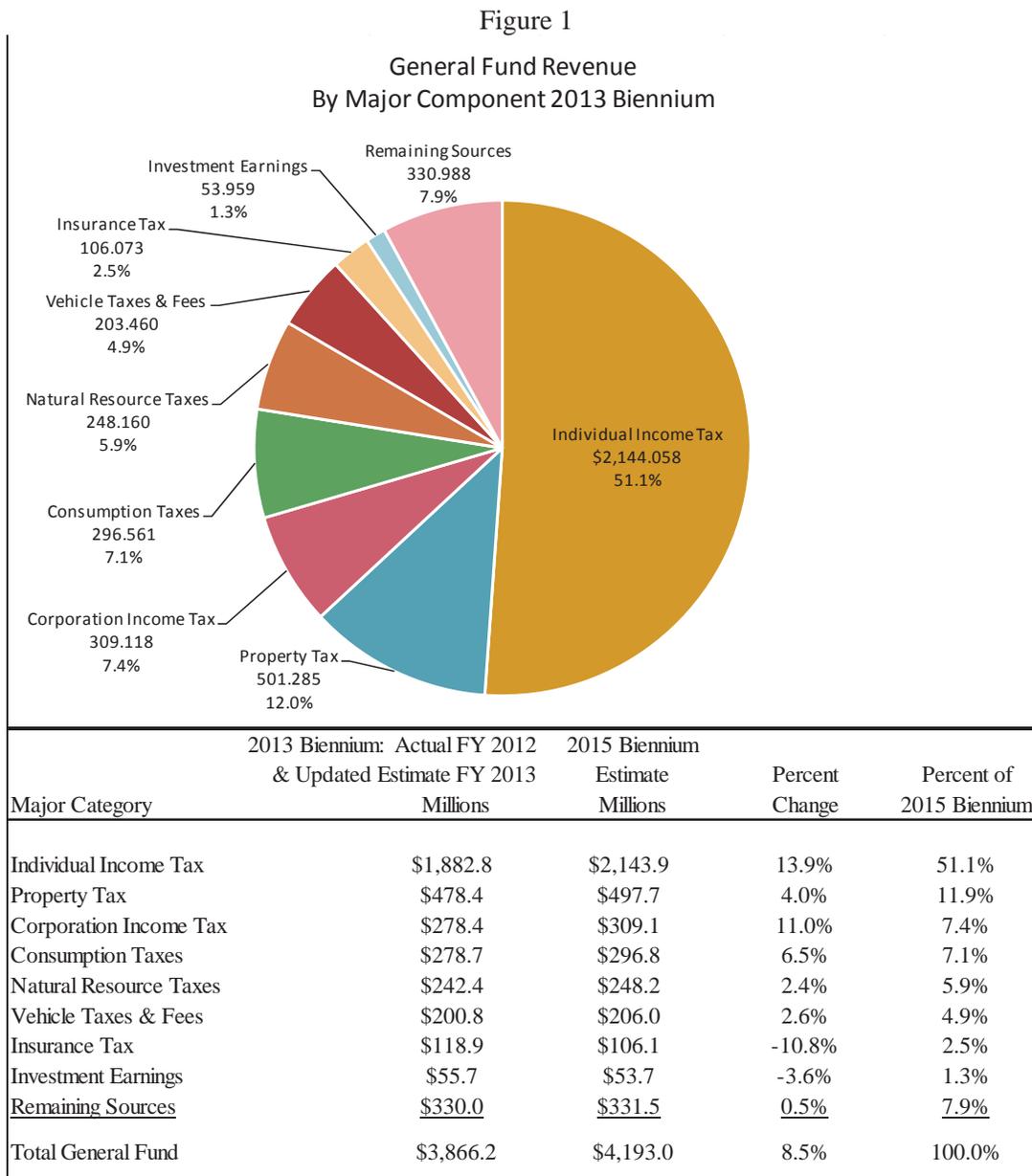


GENERAL FUND REVENUE OUTLOOK

The general fund revenue outlook has improved considerably over the past several years. During the 2011 session, the 2013 revenues were anticipated to be \$3.64 billion, the actual revenues for FY 2012 and current SJ 2 estimate for FY 2013 total \$3.87 billion or 6.2% greater than originally anticipated. The current SJ 2 estimate for the 2015 biennium is \$4.19 billion, 15.3% greater than the original estimate for the 2013 biennium.

Figure 1 shows the revenue contribution to the general fund account by the seven largest revenue components for the 2015 biennium, adjusted for enacted legislation. Individual income is largest source, accounting for over 50% of the expected revenue in the 2015 biennium.



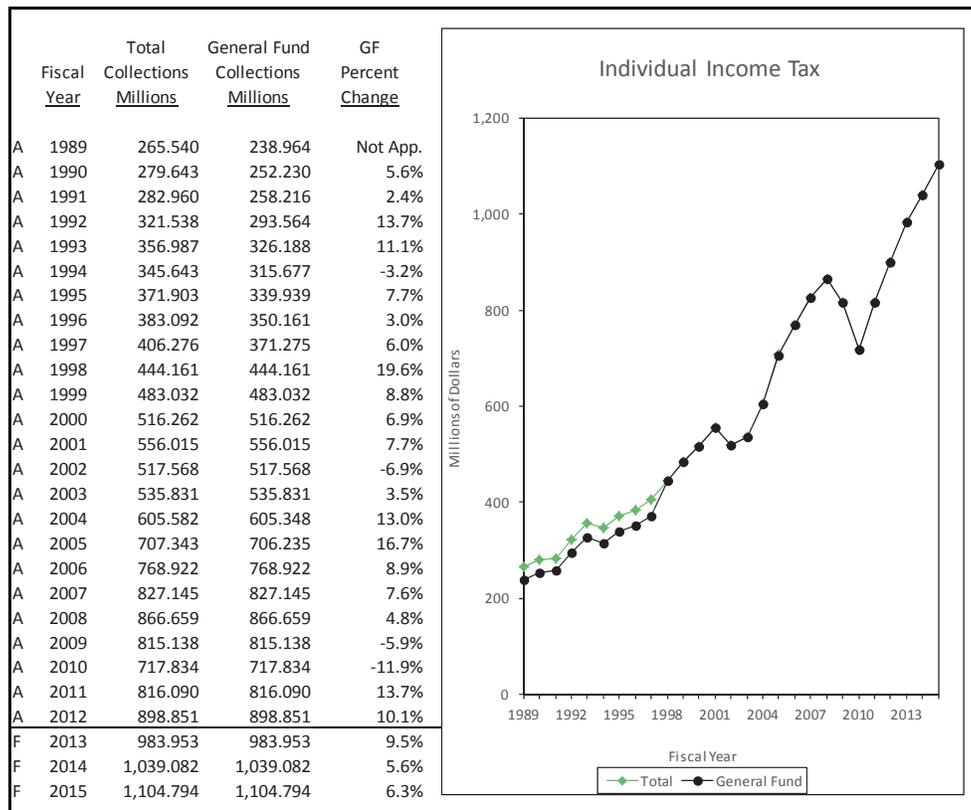
This section presents the details on seven of the major general fund revenue sources that comprise over 80% of total general fund revenue in the 2015 biennium. Additional details of these and other revenue sources, including assumptions and analytical methods used to estimate each source, can be found in the LFD *Legislative Fiscal Report 2015 Biennium, Volume 2 – Revenue Estimates*.

Individual Income Tax

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year.

An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all residents. The calendar year state tax liability forecast is developed by applying growth rates to each resident taxpayer’s income and deduction items. Growth rates are calculated for the forecast period and applied to the most recent year of tax return data which is available. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which produces a statewide forecast of individual income tax liability for each year. These forecasts are converted to fiscal year liability and are adjusted for audits, legislative impacts and one-time events.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.



Property Tax

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, and mineral net and gross proceeds. The assessed value of residential and commercial real estate is the market value phased in over the six-year reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. The last reappraisal cycle took effect January 1, 2009.

The latest year for which taxable value by class is available is the base from which future taxable values are derived. Growth rates are applied to the taxable value in each class of property and are generally based on historical growth and on expected changes in tax rates in upcoming fiscal years. Non-levy revenue forecasts are added property tax forecasts. Non-levy revenues come from coal gross proceeds, federal forest receipts and miscellaneous revenue (such as interest on investments, penalty and interest on delinquent taxes).

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

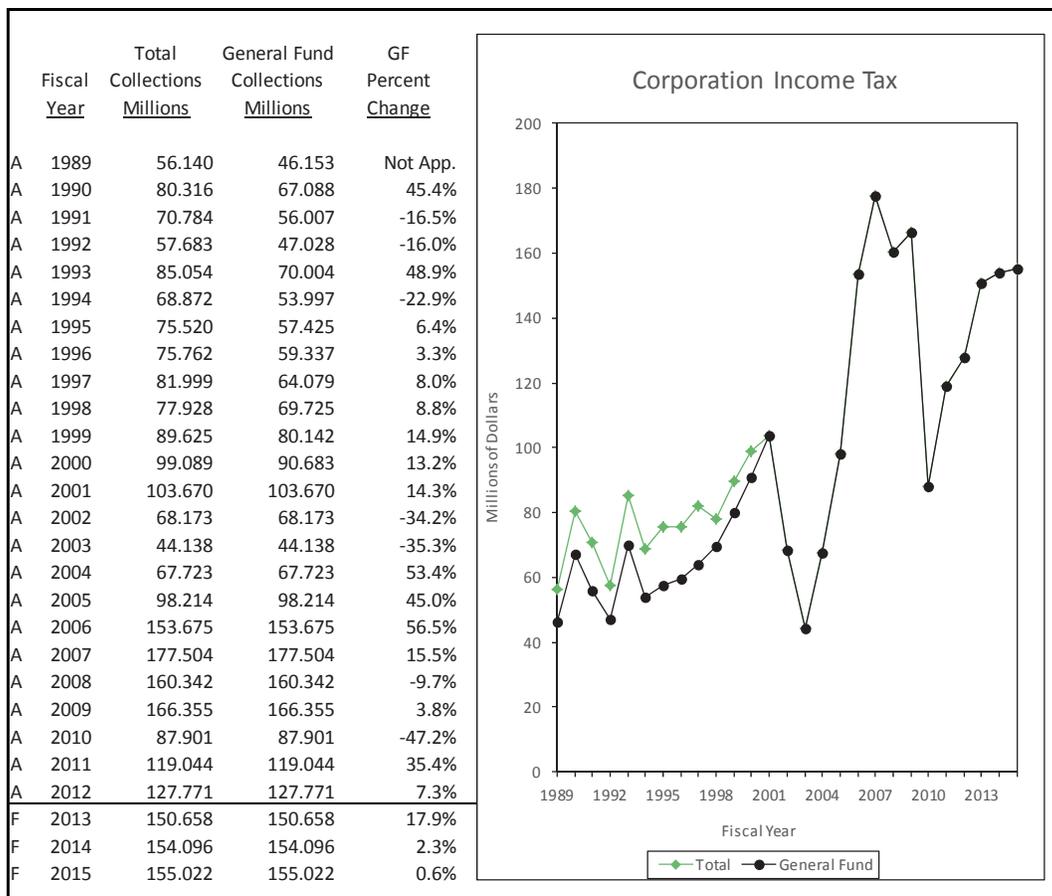


Corporation Income Tax

The corporation income tax is a tax levied against a corporation's net income earned in Montana. Factors that affect corporation license tax receipts include tax credits, audit efforts by the Department of Revenue (DOR), and federal legislation.

DOR now requires industry sector information on the corporate tax returns. Significant work has been done to apply the new sector information to prior years' return data. The result is a sixteen-year history of income and tax liability for each sector. The historical tax liability of each sector is modeled against characteristic national or Montana-specific economic variables from IHS to produce a forecast of calendar year tax liability. Energy related sectors account for nearly half of total tax liability. The underlying volatility of the energy industry is a large contributor to the overall volatility of this tax source.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.



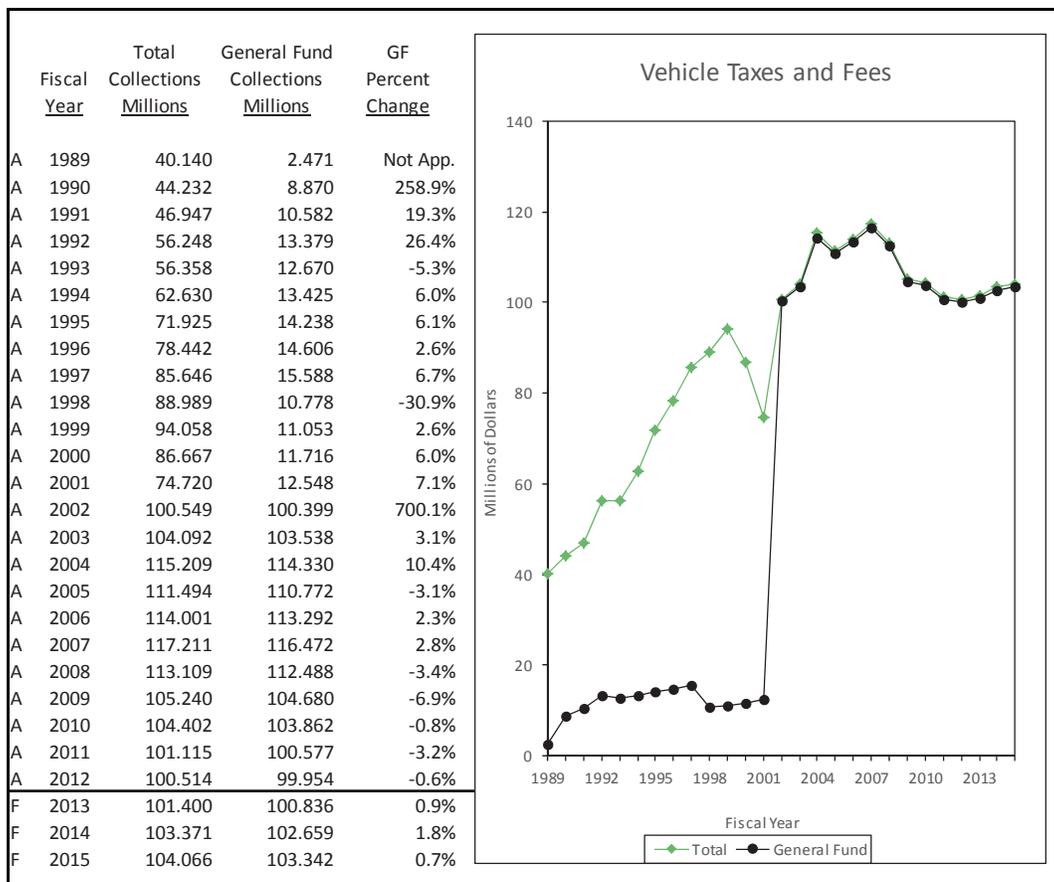
Vehicle Taxes & Fees

Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, and truck tractors having a manufacturer’s rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight.

The state assesses a variety of motor vehicle fees, including fees for the filing of motor vehicle liens, fees for new license plates, title fees, and annual and permanent registration fees. The fees vary according to the type of vehicle and the type of license plate. There are also Gross Vehicle Weight (GVW) fees on trucks and pickups, special fees for senior citizen transportation, veteran services, the highway patrol pension fund, salaries for the highway patrol, motorcycle safety, electronic commerce applications, and an optional \$4 registration fee on light vehicles for state parks and fishing access sites.

With constant fees, the future change in vehicle taxes & fees revenue results from change in the vehicle stock in Montana. Because taxes are directly connected to the number of vehicles in the state, estimates are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are modeled on IHS estimates for the national and Montana-specific vehicle stock and new car sales nationwide. The growth rate is applied to the base year revenues and projected forward at the same rate for the forecast period.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

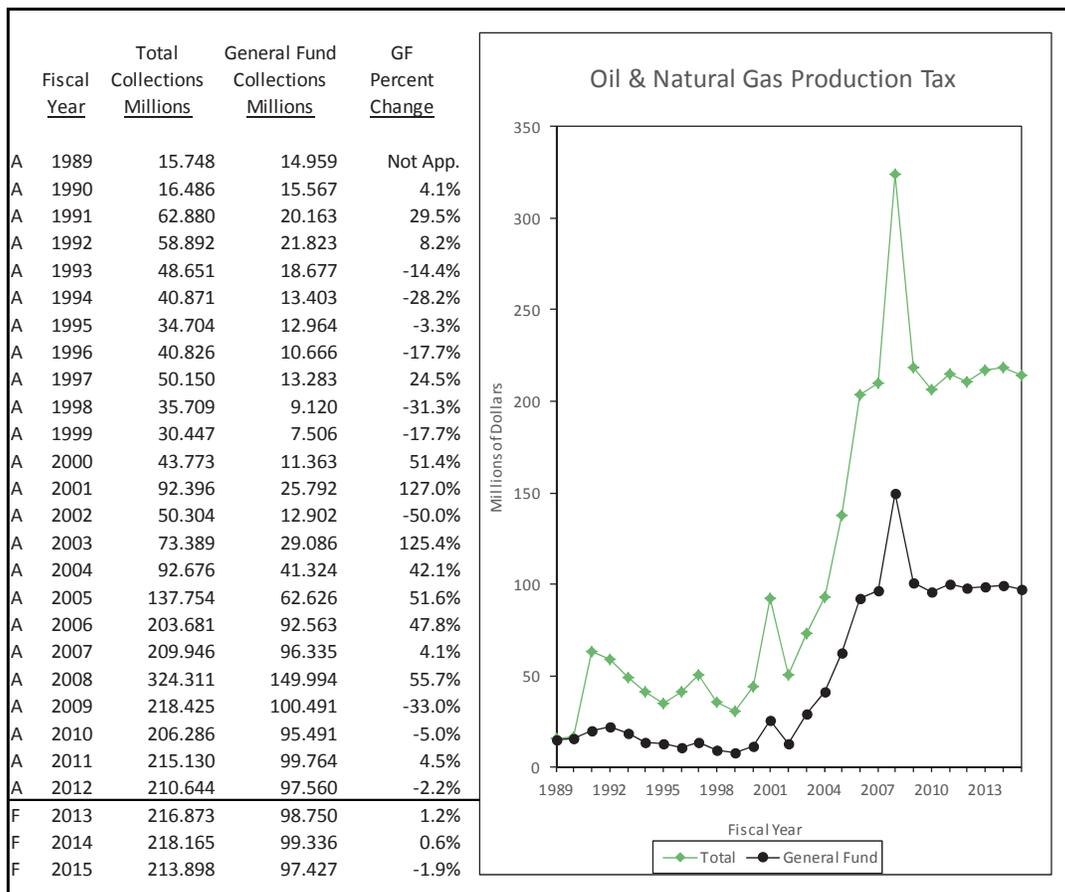


Oil & Natural Gas Production Tax

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production. The oil and natural gas production tax has numerous tax rates depending on several factors. These factors include whether the oil or gas is produced from a stripper well, a stripper incentive well, from a well initially drilled before 1999 or after, from a well newly drilled within the last year or 18 months, and whether the interest being taxed is the working interest or the royalty interest. The Board of Oil and Gas Conservation imposes an additional privilege and license (P & L) tax on all oil and natural gas tax rates.

Data from the Board of Oil and Gas Conservation are used extensively to isolate monthly historical production of oil and natural gas by field and by individual well; these resulting decline curves are used to forecast future production by well. IHS provides future estimates of West Texas Intermediate oil and national well head natural gas prices. Production, price, value, and revenue collections are provided on a quarterly basis by DOR.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

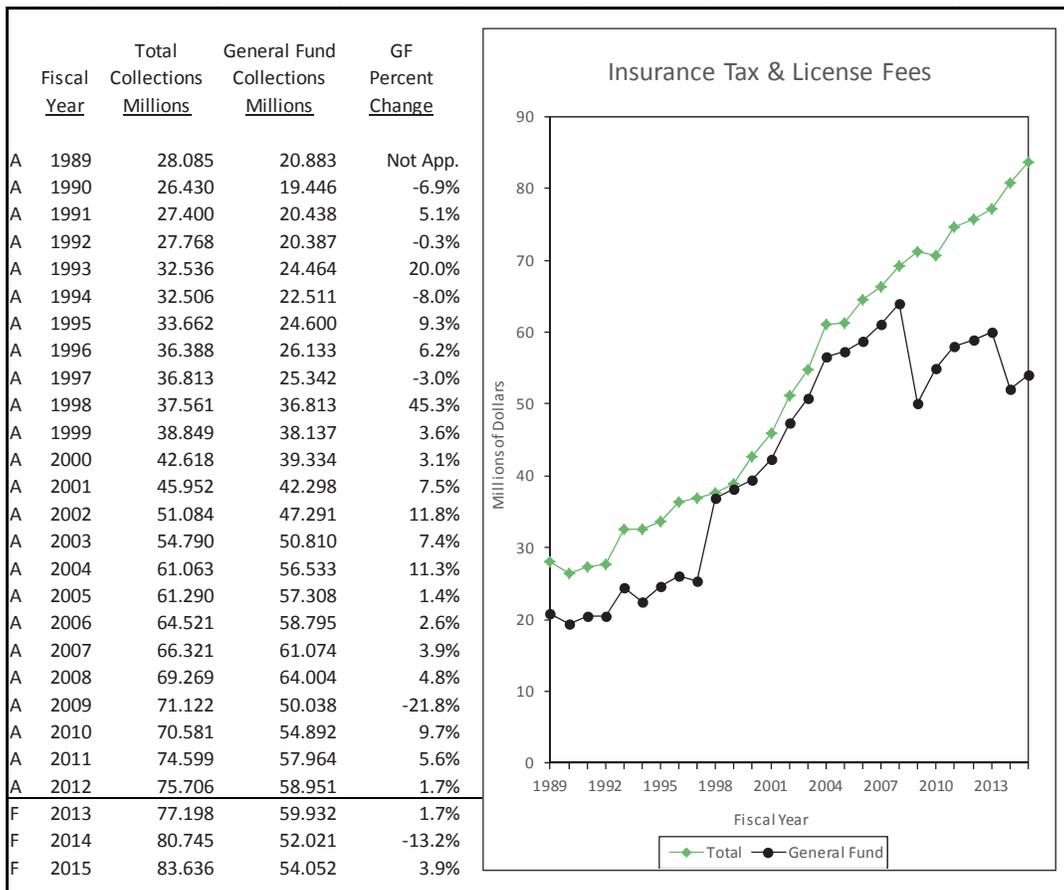


Insurance Tax

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Various insurance and license fees are also collected.

Total premium taxes are modeled against long-term interest rates, housing starts and the S&P 500 index. Because offsets and refunds can vary substantially, they are added to the amounts shown on the state accounting system to more accurately reflect total taxes. From the estimated amounts, offsets and refunds as estimated by the State Auditor’s Office are subtracted to produce the amount of net premium taxes expected to be received by the state.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.

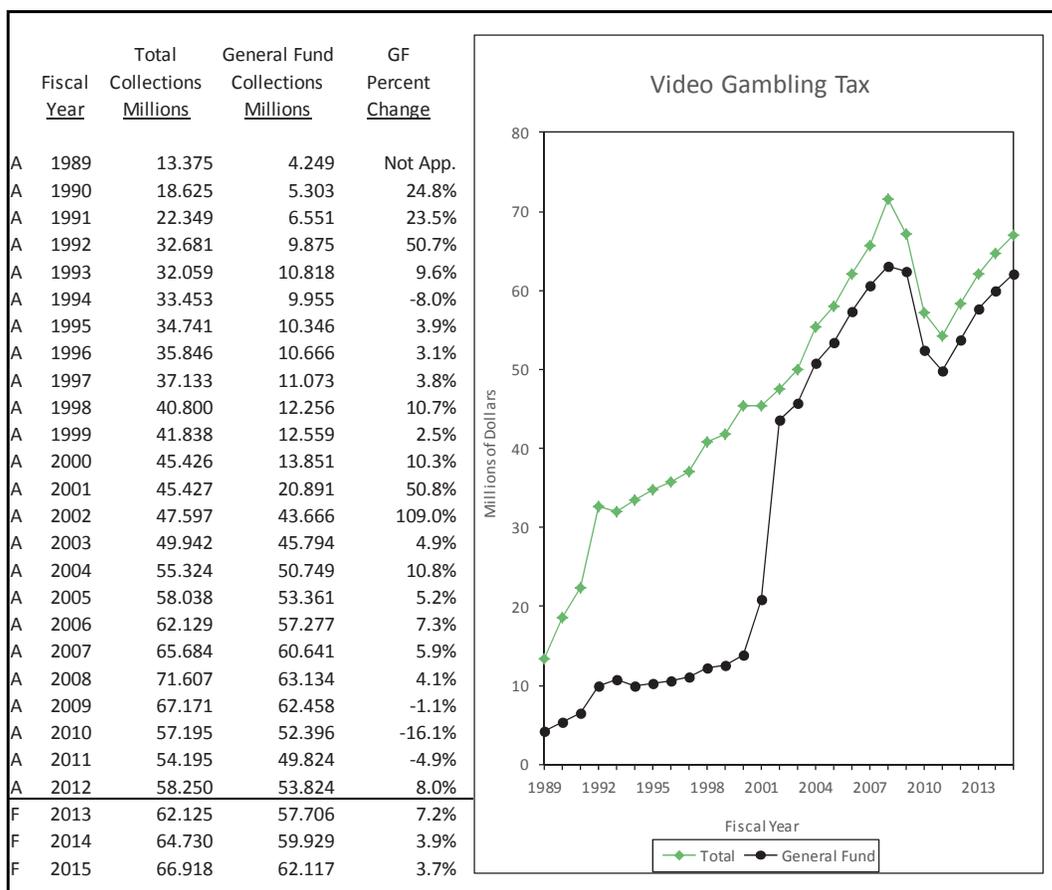


Video Gambling Taxes

Video gambling income is derived from two sources: license fees and video gambling taxes. There are three types of license fees that generate revenue; fees paid by operators for video gambling machines, fees paid by operators for non-video games such as poker, and annual fees for the right to assemble, produce, or manufacture video gambling machines or associated equipment. The video gambling tax is paid by licensed video gambling machine operators. License holders are charged a tax of 15.0% of the gross income (defined as net of payouts) from each licensed video gambling machine. The Department of Justice (DOJ) issues video gambling licenses and permits and collects the fees and taxes.

Historic and current revenue collections are modeled against Montana population and personal income to forecast per capita video gambling machine gross income.

The chart below illustrates the revenue estimate contained in SJ 2, with revenue changes, if any, enacted by the 2013 Legislature.



All Remaining General Fund Revenue

The remaining 2013 biennium general fund revenue sources constitute 14.6% of the total. For detailed information on all the remaining general fund and selected state special revenue sources, see the LFD *Legislative Fiscal Analysis 2015 Biennium, Volume 2 – Revenue Estimates*.