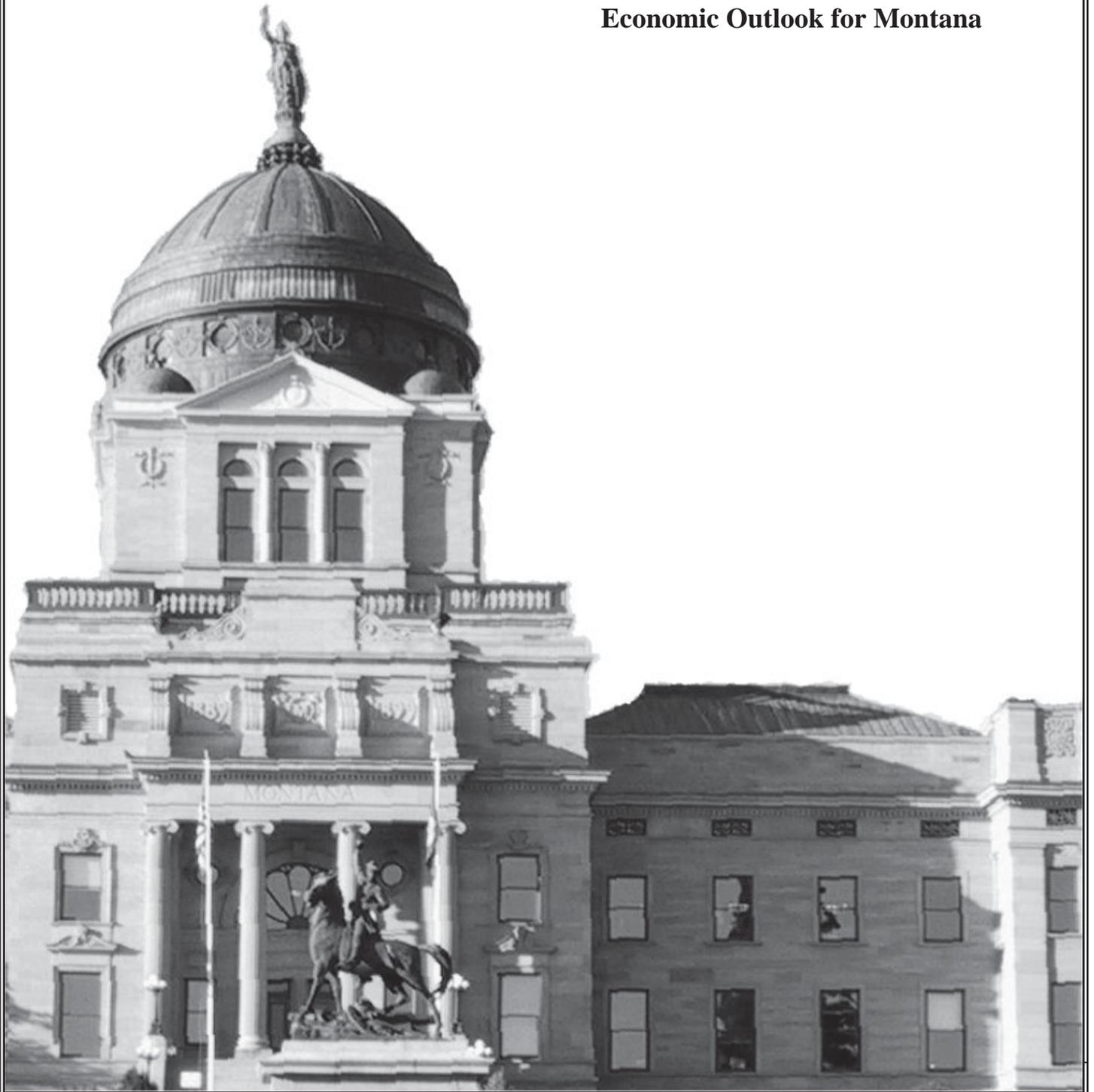


# Overview

**General Fund Revenue Estimates**  
**Revenue Impacts of Legislation**  
**Non-General Fund Revenue Estimates**  
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**Economic Outlook for Montana**



## General Fund Revenue Estimates

### History

In 1989, the Montana Legislature established a process for the Legislature to develop revenue estimates for legislative appropriation. Senate Bill No. 341 directed the then-Revenue Oversight Committee to prepare the revenue estimates. The legislation also provided that the revenue estimating resolution introduced by the Committee and subsequent periodic reports issued by the Committee constitute the Legislature's current revenue estimate until final adoption of the resolution by both houses of the Legislature.

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

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

### Recent Process

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

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

Finally, the resolution containing the Committee's revenue estimates must be pre-introduced by December 15, 2010 (see Rules of the Montana Legislature, Joint Rules 40-40(5)(a)). The Committee's estimate, as introduced in the Legislature, constituted the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses.

### Path through the Legislature

In the 1999 through 2003 legislative sessions, both houses of the Legislature adopted the resolution, and it was filed with the Secretary of State. During the last four sessions, the resolution has stalled at various stages of the legislative process:

- In 2005, the House of Representatives did not concur in the Senate amendments to the resolution, and the resolution died in the process. As such, the Senate estimates were the Legislature's current revenue estimates.
- In 2007, the resolution died in the House Taxation Committee. As such, the Revenue and Transportation Interim Committee's estimates were the Legislature's current revenue estimates.
- On February 18, 2009, the House Taxation Committee amended House Joint Resolution 2 and adopted a committee report. The resolution was rereferred to the Committee. On March 21, 2009, the Committee again amended the resolution and adopted a committee report. In each instance, the House Taxation Committee estimates became the Legislature's current revenue estimate. The resolution died in the process.
- On March 23, 2011, the House Taxation Committee amended House Joint Resolution 2 and adopted a committee report. The resolution was rereferred to the Committee on March 28th, where it died in process.

### 2013 Legislative Session Process

On November 19th, 2012, the Revenue and Transportation Interim Committee met to review and adopt a revenue estimate recommendation, but were unable to agree on the estimate. Therefore, the committee did not introduce a resolution with the Committee's estimate. The Rules Committee subsequently met and adopted rules for the 63rd Legislative Session, including a requirement that the chair of the Senate Taxation Committee prepare a revenue estimate to be introduced in the Senate. The rules also provide that the Senate transmit the revenue estimate to the House no later than the 15th legislative day and that the Senate

Joint Resolution does not constitute the Legislature's revenue estimate until passed by the House and any House amendments are concurred in by the Senate.

The estimate contained in Senate Joint Resolution 2, along with an initial set of amendments passed both houses by early February of the 2013 Legislative Session. A revised estimate contained in Senate Joint Resolution 27 was introduced in early April; however, due to missing the transmittal deadline for revenue bills, it ultimately failed to pass both houses.

Figure 1

General Fund Revenue Estimates & Adjustments by the 63rd Legislature (\$ Millions)			
	FY 2013	FY 2014	FY 2015
Senate Joint Resolution 2	\$1,988.8	\$2,044.6	\$2,124.2
Senate Taxation Committee Adjustments	6.2	11.7	13.2
House Taxation Committee Adjustments	0.0	0.0	0.0
<b>Final Revenue Estimates</b>	<b>\$1,995.0</b>	<b>\$2,056.3</b>	<b>\$2,137.4</b>

Figure 2 shows the amended current law general fund estimates by revenue category as contained in SJR 2. Actual FY 2012 collections are shown, along with projections for FY 2013 through 2015.

Figure 2

Senate Joint Resolution 2							
General Fund Revenue Estimates							
(\$ Millions)							
Source of Revenue	Actual FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 12-13	Estimated FY 14-15	Cumulative % of Total
<b>Large Sources</b>							
Individual Income Tax	\$898.851	\$983.953	\$1,039.160	\$1,104.898	\$1,882.804	\$2,144.058	51.1%
Property Tax	236.662	241.741	246.621	254.664	478.403	501.285	63.1%
Corporation Income Tax	127.771	150.658	154.096	155.022	278.429	309.118	70.5%
Vehicle Taxes & Fees	99.954	100.833	101.384	102.076	200.787	203.460	75.3%
Oil & Natural Gas Production Tax	97.560	98.750	99.336	97.427	196.310	196.763	80.0%
Insurance Tax & License Fees	58.951	59.932	52.021	54.052	118.883	106.073	82.5%
Video Gambling Tax	53.824	57.706	59.929	62.117	111.530	122.046	85.4%
<b>Other Business Taxes</b>							
Driver's License Fee	4.369	3.867	4.389	3.923	8.236	8.312	85.6%
Estate Tax	0.060	-	-	-	0.060	-	
Investment License Fee	6.961	7.210	7.457	7.714	14.171	15.171	86.0%
Lodging Facility Use Tax	15.606	17.314	18.365	19.477	32.920	37.842	86.9%
Public Contractors Tax	(3.042)	1.140	3.259	3.259	(1.902)	6.518	87.1%
Railroad Car Tax	2.273	2.157	2.320	2.437	4.430	4.757	87.2%
Rental Car Sales Tax	3.420	3.539	3.632	3.744	6.959	7.376	87.3%
Telecommunications Excise Tax	21.459	22.606	23.236	23.823	44.065	47.059	88.5%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	12.350	12.864	14.857	15.906	25.214	30.763	89.2%
Electrical Energy Tax	4.481	4.442	4.521	4.565	8.923	9.086	89.4%
Metalliferous Mines Tax	10.010	10.904	10.595	10.039	20.914	20.634	89.9%
US Mineral Royalty	31.057	36.989	30.953	29.009	68.046	59.962	91.3%
Wholesale Energy Tax	3.427	4.038	4.140	4.217	7.465	8.357	91.5%
<b>Other Interest Earnings</b>							
Coal Trust Interest	25.840	24.451	24.424	24.411	50.291	48.835	92.7%
Treasury Cash Account Interest	2.654	2.779	2.346	2.778	5.433	5.124	92.8%
<b>Other Consumption Taxes</b>							
Beer Tax	2.956	3.052	3.067	3.085	6.008	6.152	93.0%
Cigarette Tax	31.483	30.991	30.433	29.499	62.474	59.932	94.4%
Liquor Excise & License Tax	17.037	18.206	19.284	20.431	35.243	39.715	95.3%
Liquor Profits	9.500	10.604	10.985	11.602	20.104	22.587	95.9%
Lottery Profits	13.061	14.477	14.342	15.076	27.538	29.418	96.6%
Tobacco Tax	5.709	5.821	6.005	6.197	11.530	12.202	96.9%
Wine Tax	2.104	2.144	2.218	2.291	4.248	4.509	97.0%
<b>Other Sources</b>							
All Other Revenue	47.258	32.595	32.488	32.773	79.853	65.261	98.5%
Highway Patrol Fines	4.385	4.427	4.467	4.508	8.812	8.975	98.8%
Nursing Facilities Fee	5.077	4.876	4.740	4.603	9.953	9.343	99.0%
Public Institution Reimbursements	14.562	16.332	17.663	18.301	30.894	35.964	99.8%
Tobacco Settlement	3.322	3.552	3.519	3.486	6.874	7.005	100.0%
<b>Total General Fund</b>	<b>\$1,870.954</b>	<b>\$1,994.950</b>	<b>\$2,056.252</b>	<b>\$2,137.410</b>	<b>\$3,865.904</b>	<b>\$4,193.662</b>	<b>100.0%</b>

## Revenue Impacts of Legislation

Figure 3 shows the revenue impacts of legislation enacted by the 63<sup>rd</sup> Legislature. If more than one bill was enacted that impact a certain revenue source, the cumulative impact of the bills is shown for each revenue source.

Figure 3

Revenue Legislation Impacts of 63rd Legislature						
General Fund Revenue						
(\$ Millions)						
Source of Revenue	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 12-13	Estimated FY 14-15	Estimated 3-Yr Total
<b>Large Sources</b>						
Individual Income Tax	\$0.000	(\$0.078)	(\$0.104)	\$0.000	(\$0.182)	(\$0.182)
Property Tax	-	(1.334)	(2.248)	-	(3.582)	(3.582)
Corporation Income Tax	-	-	-	-	-	-
Vehicle Taxes & Fees	0.003	1.275	1.266	0.003	2.542	2.544
Oil & Natural Gas Production Tax	-	-	-	-	-	-
Insurance Tax & License Fees	-	-	-	-	-	-
Video Gambling Tax	-	-	-	-	-	-
<b>Other Business Taxes</b>						
Driver's License Fee	-	0.046	0.046	-	0.091	0.091
Estate Tax	-	-	-	-	-	-
Investment License Fee	-	-	-	-	-	-
Lodging Facility Use Tax	-	-	-	-	-	-
Public Contractors Tax	-	-	-	-	-	-
Railroad Car Tax	-	-	-	-	-	-
Rental Car Sales Tax	-	-	-	-	-	-
Telecommunications Excise Tax	-	-	-	-	-	-
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	-	-	-	-	-	-
Electrical Energy Tax	-	-	-	-	-	-
Metalliferous Mines Tax	-	-	-	-	-	-
US Mineral Royalty	-	-	-	-	-	-
Wholesale Energy Tax	-	-	-	-	-	-
<b>Other Interest Earnings</b>						
Coal Trust Interest	-	(0.070)	(0.149)	-	(0.220)	(0.220)
Treasury Cash Account Interest	-	-	-	-	-	-
<b>Other Consumption Taxes</b>						
Beer Tax	-	-	-	-	-	-
Cigarette Tax	-	-	-	-	-	-
Liquor Excise & License Tax	-	-	-	-	-	-
Liquor Profits	-	0.095	0.158	-	0.252	0.252
Lottery Profits	-	-	-	-	-	-
Tobacco Tax	-	-	-	-	-	-
Wine Tax	-	-	-	-	-	-
<b>Other Sources</b>						
All Other Revenue	0.269	0.060	0.083	0.269	0.143	0.412
Highway Patrol Fines	-	-	-	-	-	-
Nursing Facilities Fee	-	-	-	-	-	-
Public Institution Reimbursements	-	0.139	0.139	-	0.279	0.279
Tobacco Settlement	-	-	-	-	-	-
<b>Total General Fund</b>	<b>\$0.272</b>	<b>\$0.133</b>	<b>(\$0.809)</b>	<b>\$0.272</b>	<b>(\$0.676)</b>	<b>(\$0.404)</b>

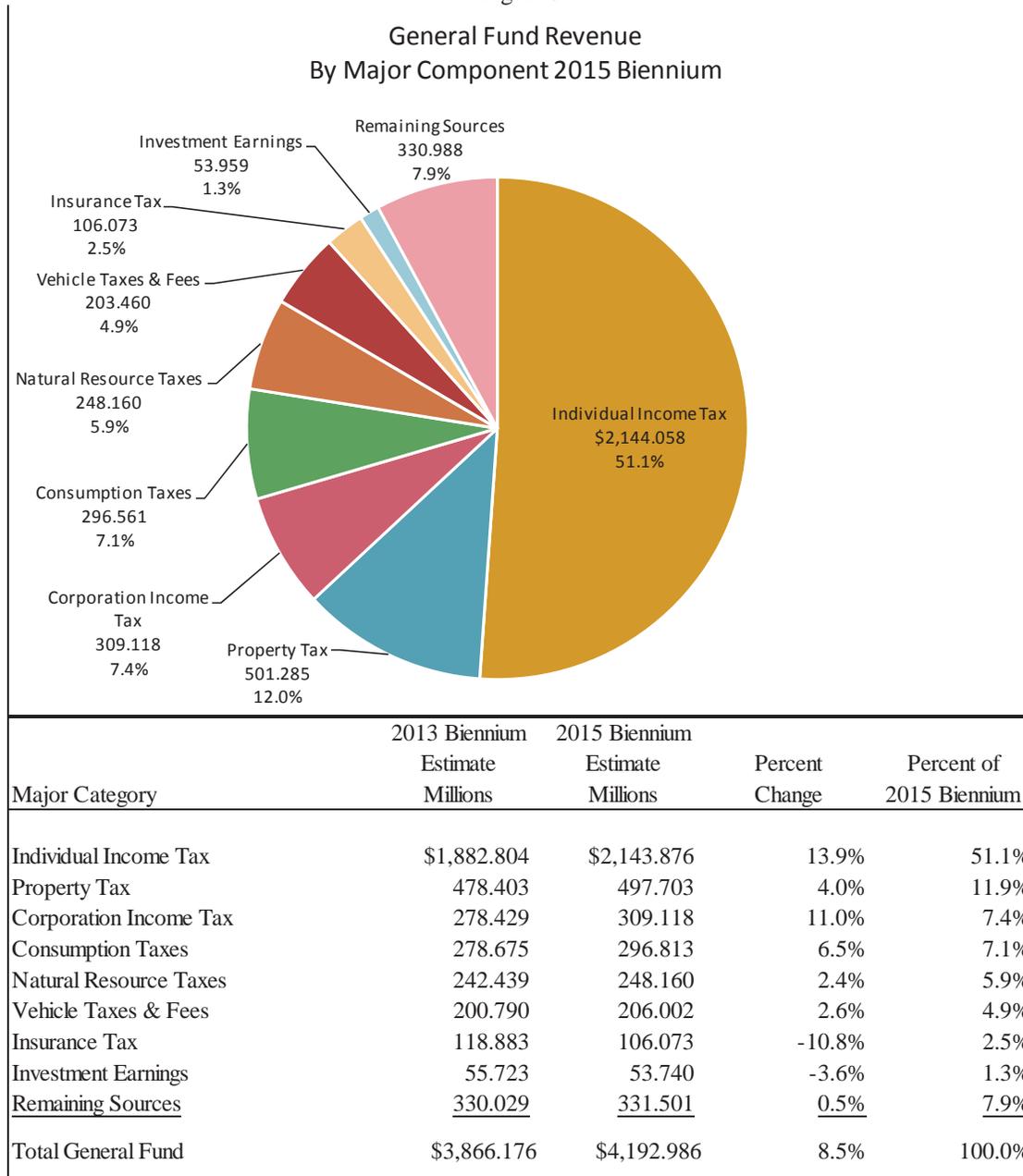
Figure 4 shows the revised general fund revenue estimates by source which is the sum of SJR 2 estimates and all enacted legislation impacts. These revised estimates are used in “Volume 1 – Statewide Perspectives” to determine the overall financial condition of the general fund for the 2015 biennium.

Figure 4

Senate Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates (\$ Millions)							
Source of Revenue	Actual FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 12-13	Estimated FY 14-15	Cumulative % of Total
<b>Large Sources</b>							
Individual Income Tax	\$898.851	\$983.953	\$1,039.082	\$1,104.794	\$1,882.804	\$2,143.876	51.1%
Property Tax	236.662	241.741	245.287	252.416	478.403	497.703	63.0%
Corporation Income Tax	127.771	150.658	154.096	155.022	278.429	309.118	70.4%
Vehicle Taxes & Fees	99.954	100.836	102.659	103.342	200.790	206.002	75.3%
Oil & Natural Gas Production Tax	97.560	98.750	99.336	97.427	196.310	196.763	80.0%
Insurance Tax & License Fees	58.951	59.932	52.021	54.052	118.883	106.073	82.5%
Video Gambling Tax	53.824	57.706	59.929	62.117	111.530	122.046	85.4%
<b>Other Business Taxes</b>							
Driver's License Fee	4.369	3.867	4.435	3.969	8.236	8.403	85.6%
Estate Tax	0.060	-	-	-	0.060	-	85.6%
Investment License Fee	6.961	7.210	7.457	7.714	14.171	15.171	86.0%
Lodging Facility Use Tax	15.606	17.314	18.365	19.477	32.920	37.842	86.9%
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Telecommunications Excise Tax	21.459	22.606	23.236	23.823	44.065	47.059	88.5%
<b>Other Natural Resource Taxes</b>							
Coal Severance Tax	12.350	12.864	14.857	15.906	25.214	30.763	89.2%
Electrical Energy Tax	4.481	4.442	4.521	4.565	8.923	9.086	89.4%
Metalliferous Mines Tax	10.010	10.904	10.595	10.039	20.914	20.634	89.9%
US Mineral Royalty	31.057	36.989	30.953	29.009	68.046	59.962	91.3%
Wholesale Energy Tax	3.427	4.038	4.140	4.217	7.465	8.357	91.5%
<b>Other Interest Earnings</b>							
Coal Trust Interest	25.840	24.451	24.354	24.262	50.291	48.616	92.7%
Treasury Cash Account Interest	2.654	2.779	2.346	2.778	5.433	5.124	92.8%
<b>Other Consumption Taxes</b>							
Beer Tax	2.956	3.052	3.067	3.085	6.008	6.152	93.0%
Cigarette Tax	31.483	30.991	30.433	29.499	62.474	59.932	94.4%
Liquor Excise & License Tax	17.037	18.206	19.284	20.431	35.243	39.715	95.3%
Liquor Profits	9.500	10.604	11.080	11.760	20.104	22.839	95.9%
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Wine Tax	2.104	2.144	2.218	2.291	4.248	4.509	97.0%
<b>Other Sources</b>							
All Other Revenue	47.258	32.864	32.548	32.856	80.123	65.404	98.5%
Highway Patrol Fines	4.385	4.427	4.467	4.508	8.812	8.975	98.8%
Nursing Facilities Fee	5.077	4.876	4.740	4.603	9.953	9.343	99.0%
Public Institution Reimbursements	14.562	16.332	17.802	18.440	30.894	36.243	99.8%
Tobacco Settlement	3.322	3.552	3.519	3.486	6.874	7.005	100.0%
<b>Total General Fund</b>	<b>\$1,870.954</b>	<b>\$1,995.222</b>	<b>\$2,056.385</b>	<b>\$2,136.601</b>	<b>\$3,866.176</b>	<b>\$4,192.986</b>	<b>100.0%</b>

Figure 5 shows the revenue contribution to the general fund account by the most significant revenue components. During the 2015 biennium, over 75% of total general fund revenue comes from income, property and vehicle taxes. Natural resource taxes are estimated to produce about 6% of total general fund revenue during the 2015 biennium. Figure 5 shows the general fund will receive an estimated \$54 million in the 2015 biennium from investment earnings. These revenues are due to the state investment of state trust fund or cash balances.

Figure 5



Total general fund revenues for the 2015 biennium are projected to increase 8.5% over the 2013 biennium projections. The comparative changes by major revenue category are shown at the bottom of Figure 5. Included in these amounts is the \$0.4 million reduction in revenue over the three-year period due to the enactment of the legislation shown in Figure 3.

## Non-General Fund Revenue Estimates

Figure 6 shows estimates for selected non-general fund revenue for FY 2013, 2014 and 2015 as contained in SJR 2 and from enacted legislation. These estimates are included because of their importance in the budgeting process.

Figure 6

Senate Joint Resolution 2 Plus Legislation Impacts							
Non-General Fund Revenue Estimates							
(\$ Millions)							
Source of Revenue	Actual FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 12-13	Estimated FY 14-15	Cumulative % of Total
Diesel Tax	\$74.292	\$76.300	\$78.350	\$80.466	\$150.592	\$158.816	21.4%
Federal Forest Receipts	20.487	18.101	2.284	2.138	38.588	4.422	22.0%
Gasoline Tax	136.661	137.161	137.663	138.166	273.822	275.829	59.3%
GVW and Other Fees	34.745	33.969	34.707	35.486	68.714	70.193	68.8%
Resource Indemnity Tax	2.344	2.210	2.541	2.620	4.554	5.161	69.5%
Arts Trust Interest	0.568	0.580	0.593	0.608	1.148	1.201	69.6%
Capital Land Grant Interest and Income	0.610	0.232	0.647	0.997	0.842	1.644	69.8%
Deaf & Blind Interest and Income	0.242	0.288	0.246	0.264	0.530	0.510	69.9%
Parks Trust Interest	1.034	1.063	1.089	1.119	2.097	2.208	70.2%
Pine Hills Interest and Income	0.393	0.302	0.370	0.392	0.695	0.762	70.3%
RIT Trust Interest	5.064	4.661	4.661	4.662	9.725	9.323	71.6%
TSE Trust Interest	9.866	9.873	10.383	10.998	19.739	21.381	74.5%
Economic Development Trust	2.731	2.858	3.113	3.419	5.589	6.532	75.3%
Tobacco Trust Interest	6.701	6.825	7.298	7.821	13.526	15.119	77.4%
Regional Water Trust Interest	2.937	3.032	3.287	3.591	5.969	6.878	78.3%
Property Tax: 6 Mill	15.325	15.815	16.451	16.848	31.140	33.299	82.8%
Common School Interest and Income	102.391	68.129	65.609	61.819	170.520	127.428	100.0%
<b>Total Non-General Fund</b>	<b>\$416.389</b>	<b>\$381.399</b>	<b>\$369.292</b>	<b>\$371.414</b>	<b>\$797.788</b>	<b>\$740.706</b>	<b>100.0%</b>

## Revenue Legislation of the 2013 Session

Figure 7 shows the revenue impacts of legislation enacted by the 63<sup>rd</sup> Legislature summarized by bill number. For the three-year period—FY 2013 through 2015—total general fund revenues decreased \$0.4 million.

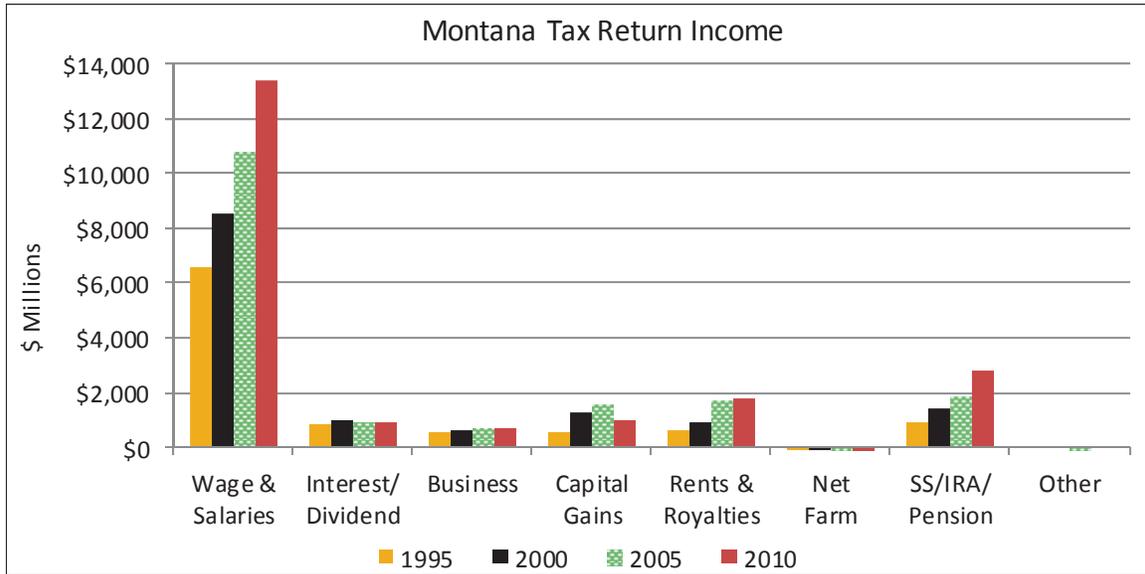
Figure 7

Impact of Enacted Legislation by Bill Number General Fund & Total Funds (\$ Millions)						
Bill No	Short Title	General Fund FY 2013	General Fund FY 2014	General Fund FY 2015	3-Year General Fund	3-Year Total Funds
HB0006	Renewable resource grants	\$0.000	\$0.000	\$0.000	\$0.000	\$37.724
HB0010	Long-range information technology appropriations	-	-	-	-	-
HB0011	Treasure state endowment program	-	-	-	-	21.700
HB0016	Revise involuntary commitment and emergency detention laws	-	0.139	0.139	0.279	0.279
HB0037	Allow temporary leasing of water rights	-	-	-	-	0.020
HB0039	Revise school finance laws to correct implementation problems	-	-	-	-	-
HB0073	Revise wolf hunting laws	-	-	-	-	0.189
HB0081	Revise securities restitution assistance fund laws	(0.272)	(0.272)	(0.272)	(0.817)	-
HB0089	Allow de minimus refund of abandoned property or closed estates	-	(0.005)	(0.005)	(0.011)	(0.011)
HB0095	Require contributions on working retiree compensation	-	-	-	-	-
HB0141	Revise gambling control laws	-	-	-	-	0.754
HB0163	Eliminate trophy fees for mountain lions	-	-	-	-	(0.040)
HB0170	Authorize a 3-day nonresident upland bird license	-	-	-	-	0.197
HB0189	Revise hail insurance maximum	-	-	-	-	-
HB0250	Require navigator, insurance producer certification for exchanges	-	-	-	-	0.008
HB0256	Revise landowner notification requirements under MFSA	-	-	-	-	0.068
HB0273	Remove sunset on allowing nonresidents to hunt with sponsor or family	-	-	-	-	0.132
HB0274	Revise laws related to licensing of outfitters and guides	-	-	-	-	(0.050)
HB0336	Generally revise highway patrol retirement system laws	-	-	-	-	-
HB0354	Establish a wildfire project suppression fund	-	-	-	-	1.000
HB0355	Eliminate the 5-year look back for alcohol and drug driving offenses	0.042	0.246	0.246	0.533	0.533
HB0377	Increase contributions and funding for TRS, revise GABA	-	-	-	-	-
HB0401	Revising certain hunting license application fees	-	-	-	-	2.519
HB0402	License and regulate wineries selling and shipping wine directly to MT consumers	-	(0.008)	0.017	0.009	0.009
HB0403	Revising fees collected by district court clerks	-	-	-	-	0.029
HB0414	Permit registration of motor vehicle to those having interest in real property	-	1.243	1.243	2.486	2.765
HB0444	Provide tax credit for access to state lands	-	-	(0.015)	(0.015)	(0.015)
HB0454	Provide funding for PERS defined benefit plan, revise GABA	-	-	-	-	-
HB0498	Generally revise state issued id requirements	-	0.092	0.100	0.192	0.192
HB0524	Removing grocery, pharmacy requirement on off-premises beer, wine license	-	0.103	0.141	0.244	0.244
HB0545	Allow employer to fund total cost of qualifying employee's health insurance	-	-	(0.010)	(0.010)	(0.010)
HB0559	Generally revise motor vehicle laws	0.003	0.032	0.023	0.058	0.067
HB0591	Increase the fees for licensing of commodity weighing devices	-	-	-	-	0.245
HB0605	Generally revise resort district laws	-	0.000	0.000	0.001	0.001
HB0607	Expand electronic title, lien filing, and registration pilot program	-	-	-	-	0.020
HB0626	Increase percentage of motor vehicle revenue for veterans' accounts	-	-	-	-	0.346
SB0047	Revise mine safety training and inspections laws	-	-	-	-	0.160
SB0096	Lower the business and equipment tax	-	(1.331)	(2.245)	(3.576)	(3.576)
SB0117	Allow deductions for other state college savings plans	-	(0.078)	(0.079)	(0.157)	(0.157)
SB0123	Provide for hunters against hunger	-	-	-	-	0.293
SB0136	Revise veterans home loan program laws	-	(0.070)	(0.149)	(0.220)	(0.220)
SB0162	Transfer hail insurance program from D of Revenue to the D of Agriculture	-	(0.007)	(0.007)	(0.014)	(0.194)
SB0175	Generally revise public education funding	-	-	-	-	45.900
SB0178	Allow FWP to retain percentage of Class B-10 license fee when portion returned	-	-	-	-	0.096
SB0183	Revise licensing laws regarding military service experience	-	-	-	-	0.006
SB0215	Move board of horseracing to the department of commerce	-	-	-	-	-
SB0226	Revise laws relating to dyed diesel and vehicles dedicated to animal husbandry	-	-	-	-	(0.025)
SB0231	Revise tax exemption laws regarding tribal recreational property	-	(0.003)	(0.003)	(0.006)	(0.006)
SB0264	Revise laws related to portable electronics insurance	-	-	-	-	0.012
SB0275	Revise driver license laws related to veteran status	-	0.048	0.048	0.095	0.104
SB0280	Allow mediation for dispute of property valuation	-	0.002	0.017	0.019	0.019
SB0355	Water court review of claims exempt from filing	-	-	-	-	1.200
SB0364	Generally revise laws related to solid waste management	-	-	-	-	0.025
SB0369	Revise state cabin site leasing laws	-	-	-	-	0.188
SB0392	Increase authority of commissioner of political practices for noncompliance	-	0.002	0.002	0.005	0.005
SB0410	Authorizing transfers to implement provisions of House Bill 2	0.500	-	-	0.500	14.000
<b>Total Impact</b>		<b>\$0.272</b>	<b>\$0.133</b>	<b>(\$0.809)</b>	<b>(\$0.404)</b>	<b>\$126.743</b>

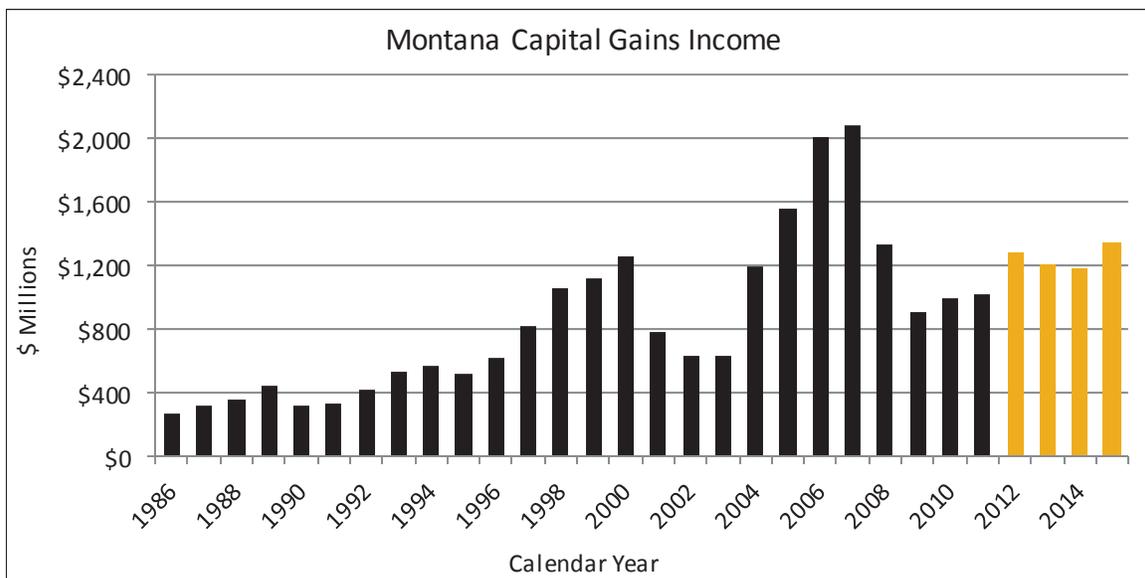
## Economic Outlook for Montana

### Individual Income

The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 64.9% of total income. In 2011, it contributed 65.6%, or \$14.0 billion. The average compounded growth from 1990 to 2011 is 5.0%.



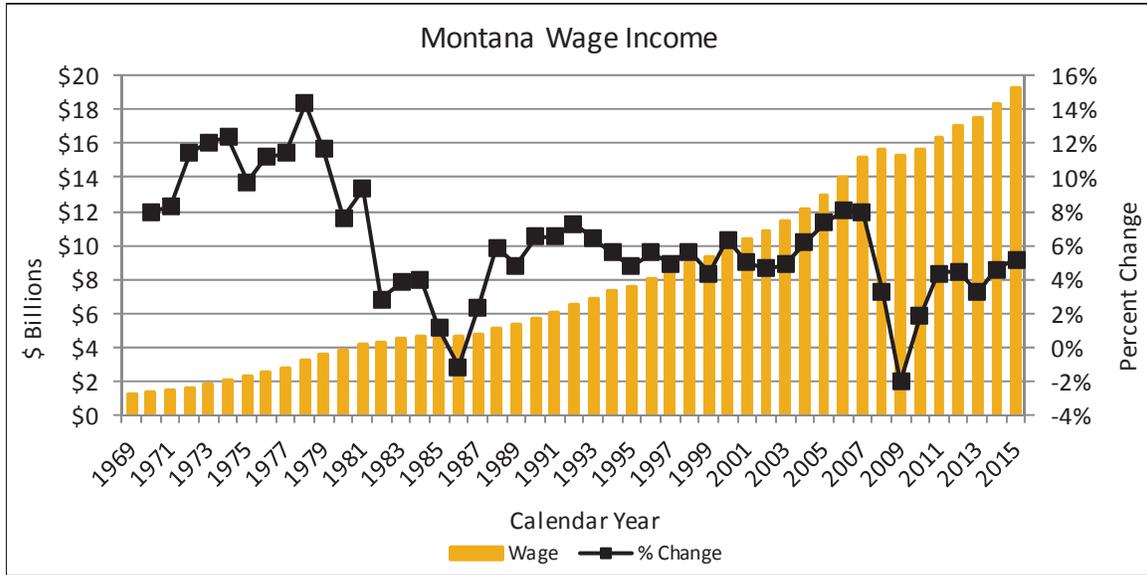
In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2% of total income, with reported income of \$318 million. Capital gains income grew moderately through the decade, when in 2001 a significant decline occurred, coinciding with the recession. Rapid growth followed in the later part of the 2000 decade, and by 2007 capital gains had grown to 9.7% of total income, with income at \$2,088.6 million. However, in 2008, capital gains income was again influenced by a recession and declined by over 35%. In 2009, capital gains income declined by almost 32% reaching the amount of \$912 million. Projections based on IHS indicators suggest that capital gains income will increase moderately annually between 2012 and 2015.



### Wages

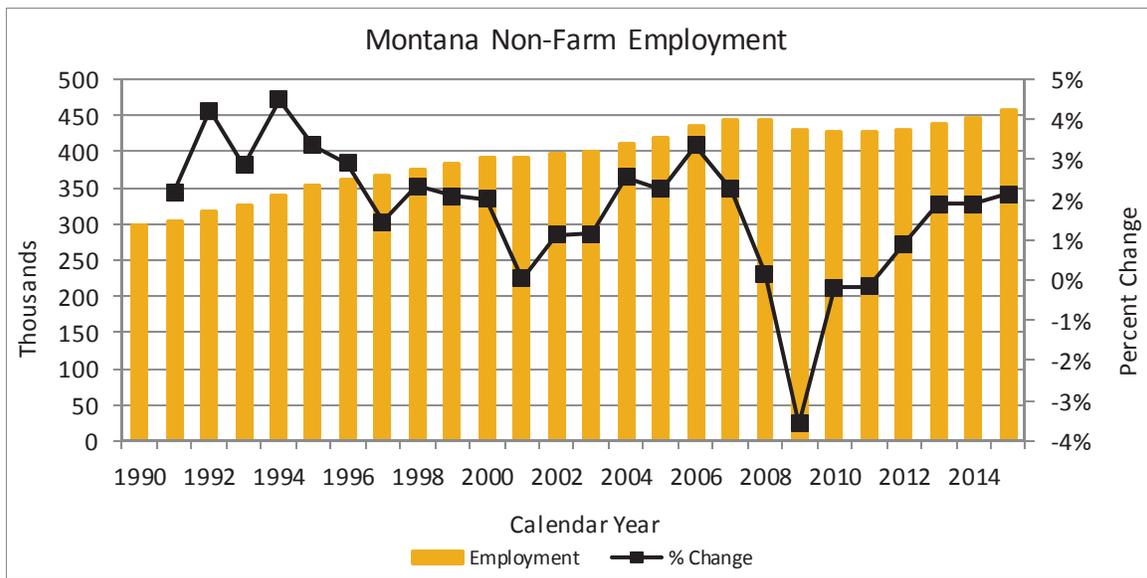
The average annual growth in Montana wages and salaries income is 5.1% between 1990 and 2011. Wage growth exceeding this average occurred in the early nineties and again in 2004-2007. In both these periods inflation was relatively high, i.e. greater than

2.5%, and employment growth was relatively high. During the recession, the growth of wages declined sharply to rates of -2.1% and 1.8% in 2010 and 2011 respectively. The growth in wages between 2012 through 2015 is modeled on IHS Montana wage and salary projections. Wage income is expected to increase throughout the forecast period.



Employment

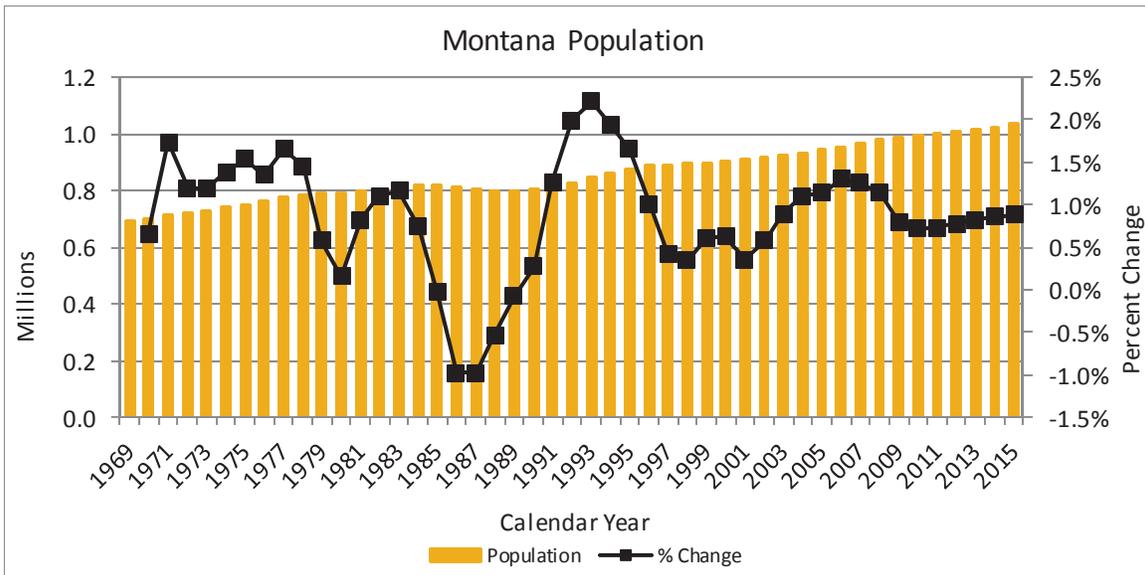
Average annual growth in total Montana employment between 1990 and 2011 is 1.7%. It is expected that total non-farm employment growth through 2012 will be 0.9%, and continue to grow slowly in the forecast period.



Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

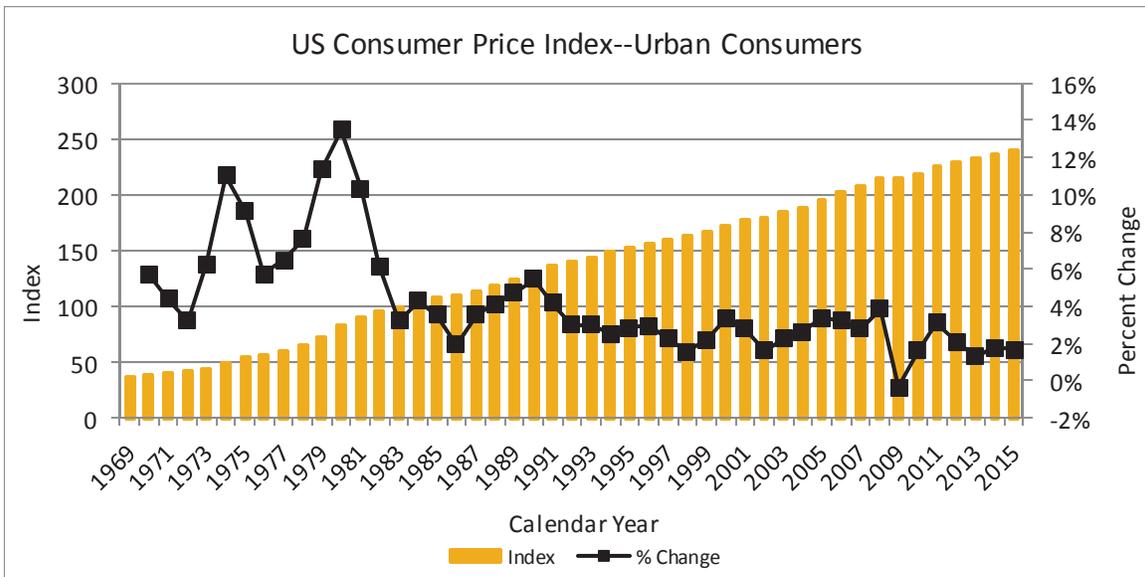
Historic population data is gathered from the U.S. Census department while projections are obtained from IHS. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1% in 1998 to 2.3% in 1994. Growth in recent years has been slow, averaging 0.8% growth annually from 2007 to 2010. Growth through the next biennium is expected to continue this trend.



**Inflation Rates**

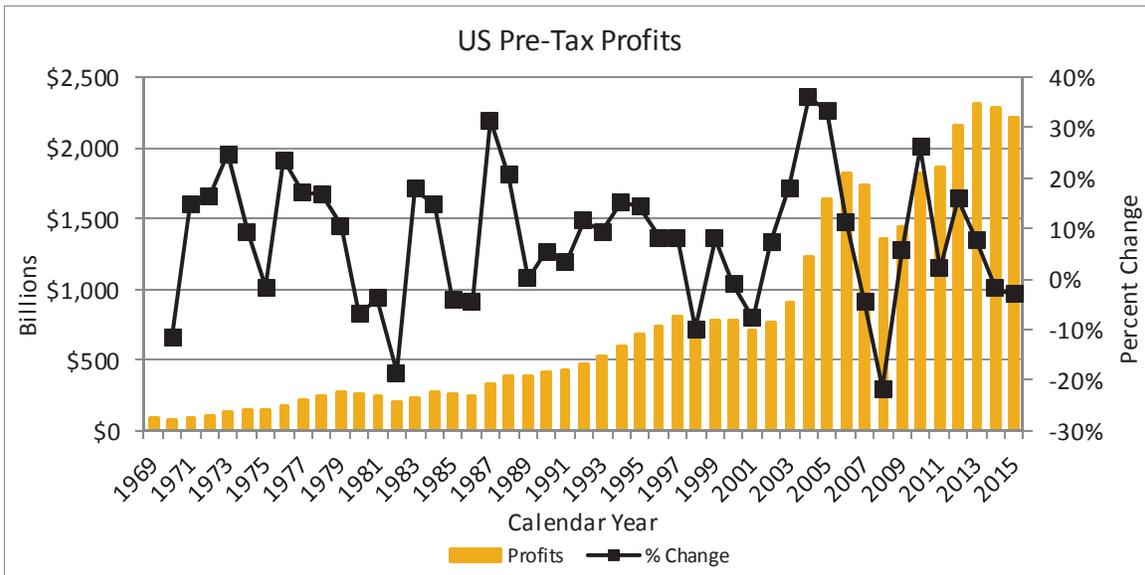
The inflation rate is measured by the price change of the Consumer Price Index (CPI) “shopping basket” of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a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

Since Montana’s individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the historical CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 2.6%. The IHS forecasts suggest inflation will remain low through the forecast biennium.



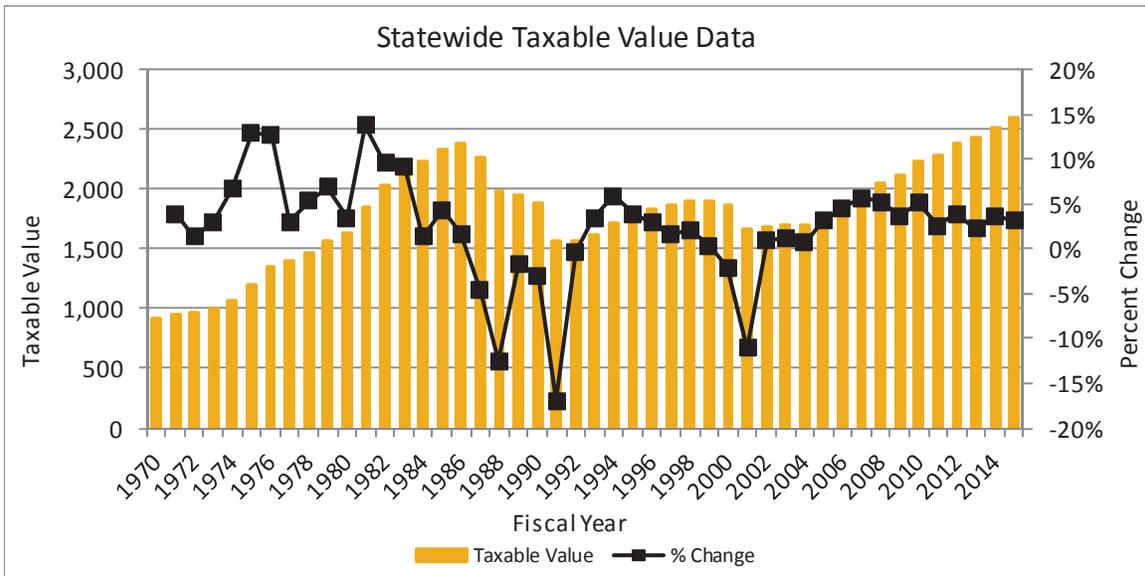
**Corporate Profits**

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to IHS, between 1990 and 1997, U.S. corporation pre-tax profits increased by an annual average of 10.3%. However, from 1997 through 2001, profits decreased by an average of 3.0%, the greatest decrease of 8.5% occurring in 2001. Between 2006 and 2011, corporate profitability grew an average annual rate of 0.3%. During the forecast period, corporation profits are expected to grow slowly, then decline slightly.

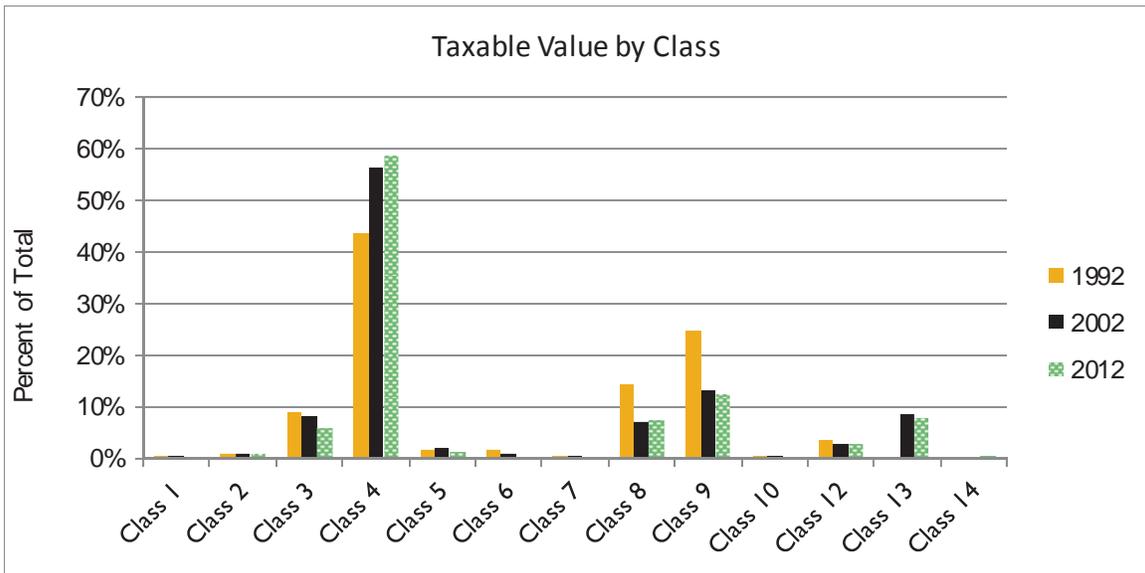


Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's, but fell in FY 2000. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Property values resumed an upward trend in 2001 and have increased every year since that time. On January 1, 2009, new reappraisal values were placed on residential, commercial, agricultural land and timber land. The 2009 legislature mitigated these increases by continuing to phase in assessed values and providing a schedule over the following six years by which tax rates are decreased and homestead and comstead exemptions are increased. Taxable values are expected to increase throughout the biennium in line with recent historical trends.



Significant changes have taken place in statewide property values since FY 1998. In that year, 48.0% of total statewide value was in class 4, residential and commercial property, and 11.5% of total value was in class 8, business equipment personal property. In FY 2012, the class 4 taxable value was 58.7% of the total property tax base, while class 8 was only 7.7% of the base.

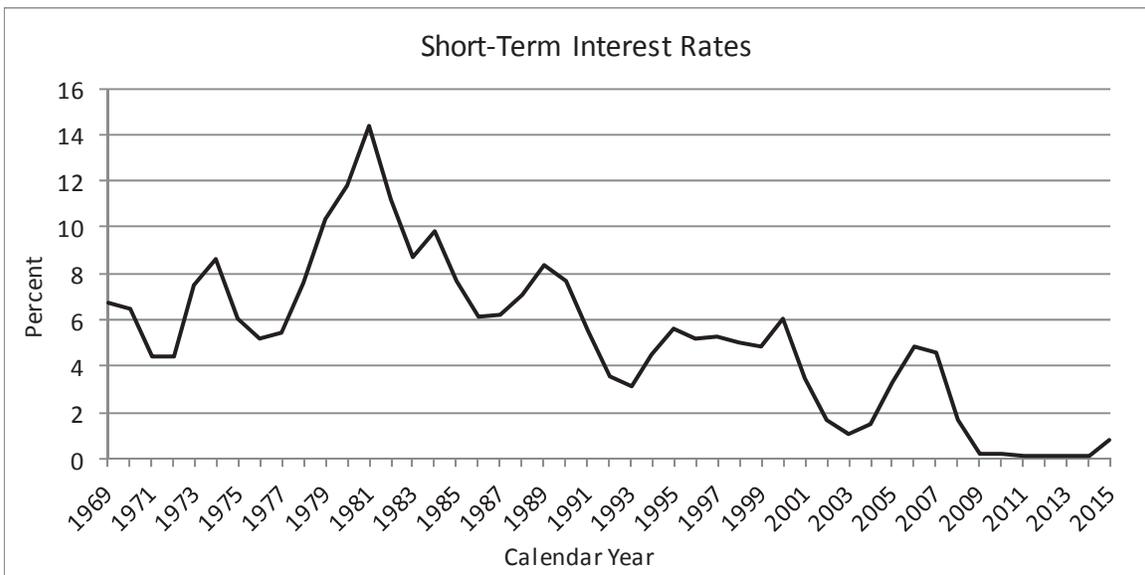


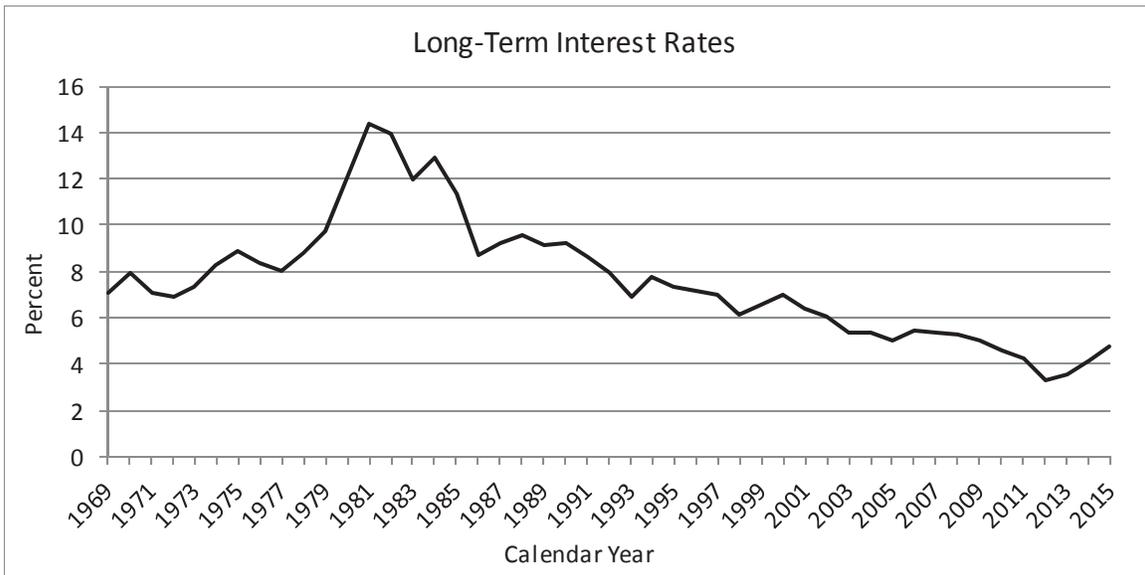
**Interest Rates**

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

In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana’s trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase.

Two types of interest rates, long and short-term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecast rates are obtained from IHS. Short-term rates are an average of 3-month corporate paper and 3 and 6-month T-bills. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. The fiscal year computation of short-term interest rates reached unprecedented low rate of 0.1% in 2011. The future short-term interest rates are expected to remain at historic lows, while long-term rates are expected to recover slightly through 2015.





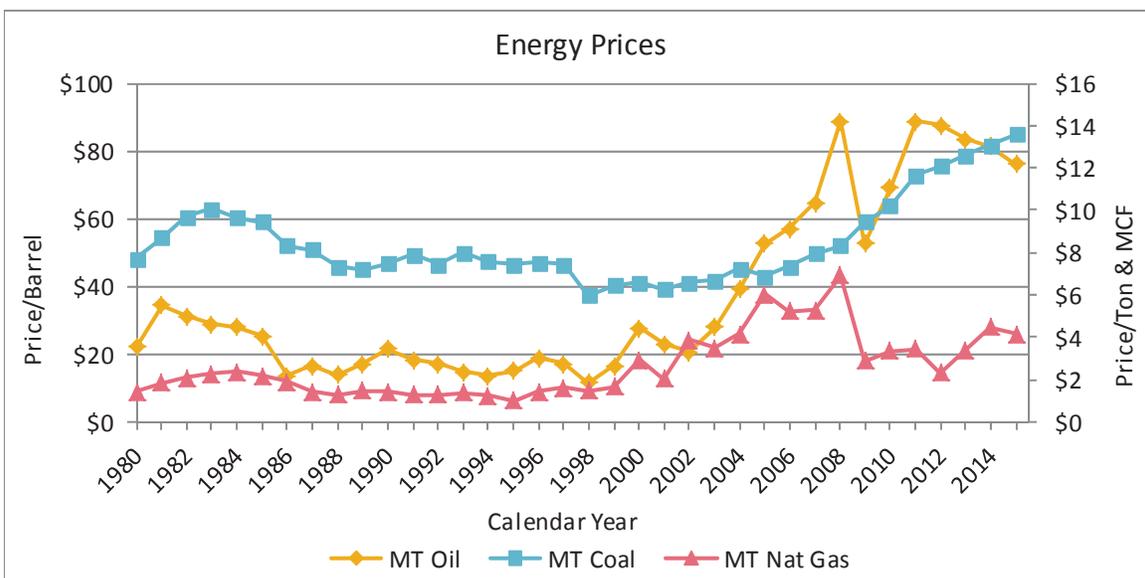
**Energy Prices and Consumption**

West Texas Intermediate (WTI) spot oil prices are a good indicator of Montana oil prices, and are expected to decline slowly throughout the forecast period.

After a period of decline in oil production, from a peak in 1974 of 34 million barrels to a trough in 1999 of 15 million barrels, the discovery of new oil fields and advances in technologies increased oil production in Montana. New drilling activity increased 75% in 2003, and increased nearly the same amount in 2004. In 2006, the new production hit a peak, with production of over 36 million barrels. Since 2006, oil production has declined but has stabilized at about 6 million barrels per quarter since the first quarter of 2011. That trend is expected to change with a modest improvement in total production through 2015. Montana oil production is expected to increase gradually through 2015.

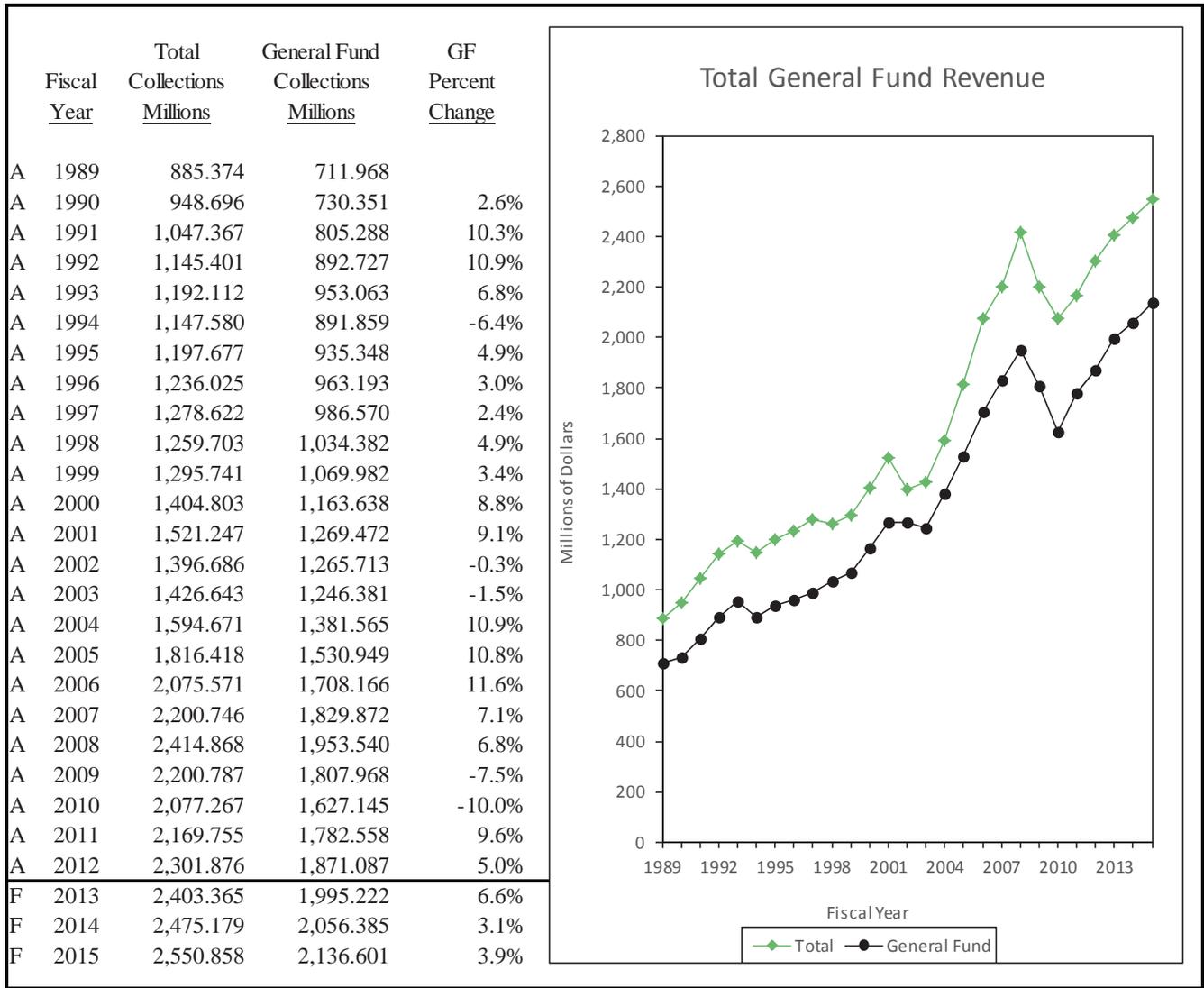
Natural gas prices at the wellhead in the U.S. reached as high as \$8.84 per MCF in 2008, but the prices have declined significantly since then. The average price in 2012 is expected to be \$2.67 per MCF. IHS is forecasting a small average growth throughout the forecast period. 2015. Montana prices are expected to follow a similar trend.

Natural gas production in Montana almost tripled between 1981 and 2007, from 40 million MCF to 119 million MCF. Production has increased around 70% since 2000. As in the oil market, new drilling activity was up substantially in 2003 and 2004, but production has started to drop and that trend is expected through 2015.



**Total General Fund**

The graph below shows actual total general fund collections from FY 1989 to FY 2012 and includes FY 2013 through FY 2015 projected collections as adopted by the 63<sup>rd</sup> Legislature.



**Summary**

A complete summary of each general fund and selected non-general fund revenue sources follows. Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, and distribution mechanisms. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue.

It should be noted that the revenue projection table and graph are based on SJR2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption tables reflect only assumptions pertinent to the SJR2 revenue estimates and have not been updated for the impacts of enacted legislation.