

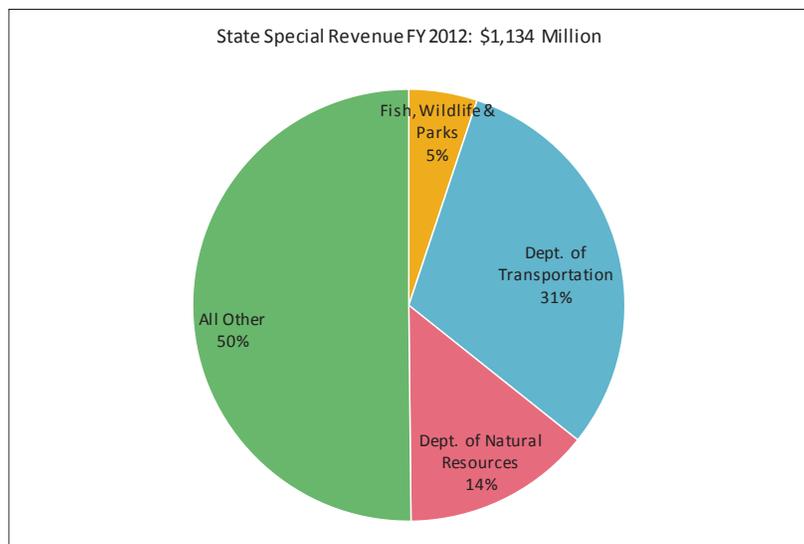
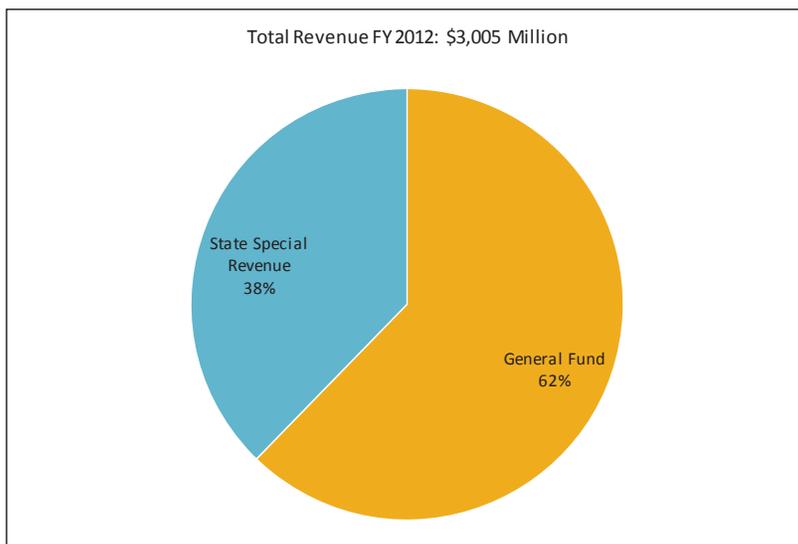
# REVENUE

Most general taxes are deposited in the state general fund. The general fund is used for most broad purposes of state government; education, health, and corrections are the predominant uses of this fund. State special fund revenues are raised and used for specific purposes. For example the state levies a gas tax that is dedicated for use on state roads and highways. Details of all general fund and most major state special fund revenue distributions and allocations are contained in the Legislative Fiscal Division's revenue estimate analysis.

## GENERAL FUND AND OTHER STATE REVENUE SOURCES

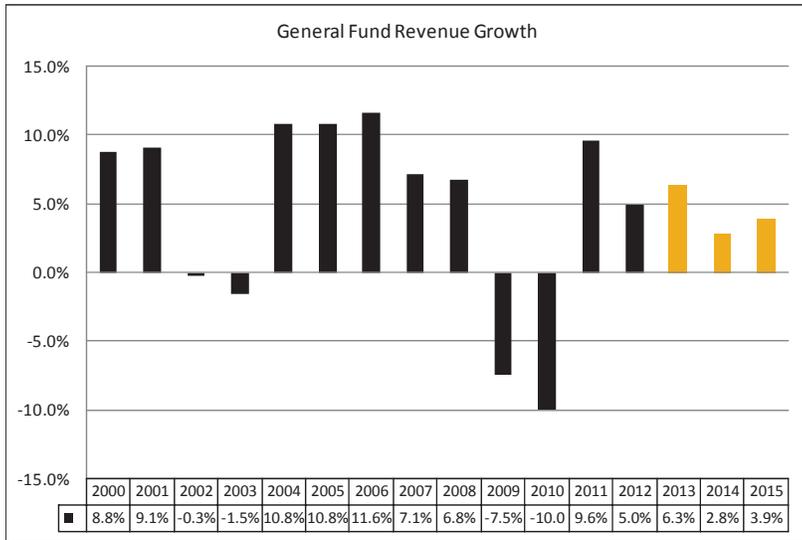
Most of the focus during session tends to be on the state general fund which accounts for 62% of total share revenue. Note that trusts or direct services funds such as unemployment insurance and workers' compensation insurance are not included in the adjacent chart. In addition, there is limited double counting as some sources of revenues are transferred between funds.

The largest sources of state special revenue are gasoline tax, which is collected by the Department of Transportation; natural resource revenue, which is mostly collected by the Department of Revenue; and hunting and fishing fees, which are collected by the Department of Fish, Wildlife & Parks.

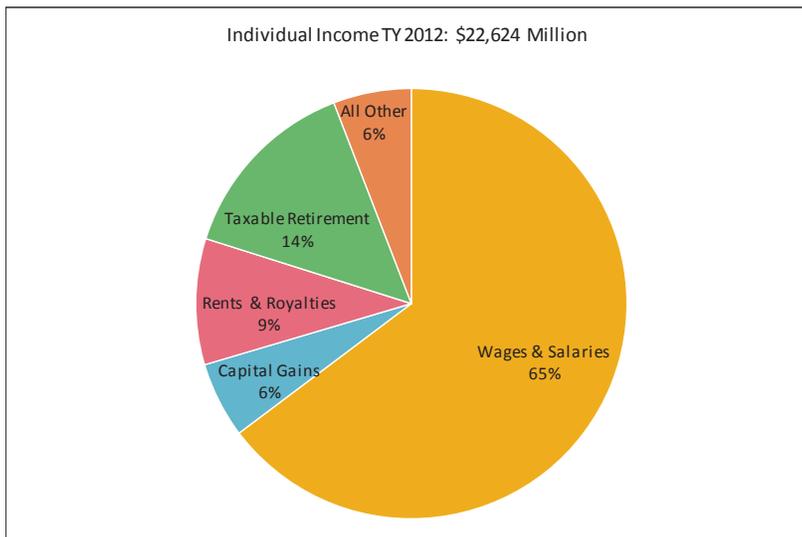
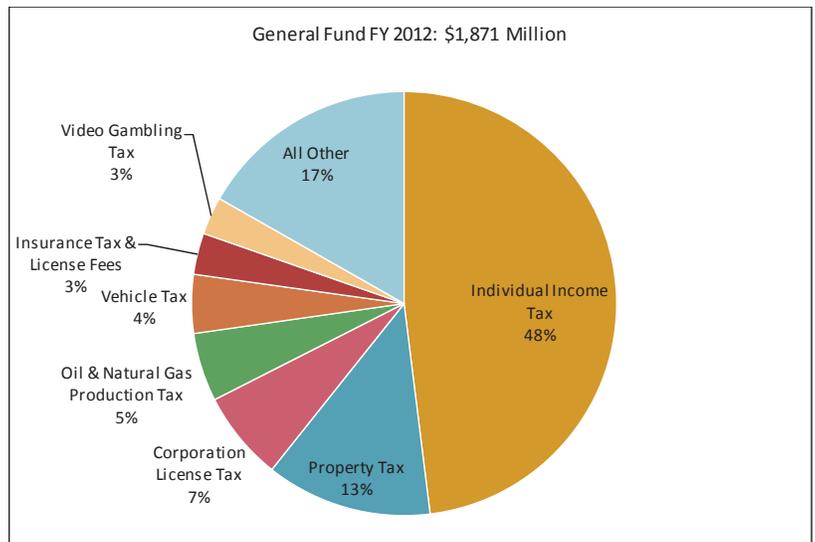


In the past several years, the general fund revenue has been relatively volatile as revenues fell nearly 17% from the historic high of \$1,954 million in FY 2008. In FY 2013, revenues are expected to exceed the FY 2008 high and reach \$1,989 million. The chart on the next page shows the annual percent change in revenue. FY 2013-2015 shows estimated revenues contained the LFD revenue estimates. Estimated annual growth in general fund revenue for FY 2013 is 6.3%, for FY 2014 is 2.8% and for FY 2015 is 3.9%. The forecasted slow revenue growth reflects the anticipated slow growth in the national economy.

The estimate of general fund revenue is derived from estimating the underlying sources of revenue and the economic drivers of those sources. The methodology of estimating each source of revenue is reviewed each biennium to determine if another method could be more accurate. Each biennium, improvements are made to the analysis. During session, the current FY 2013 year to date revenues will be examined. If significant difference occurs between the FY 2013 estimate and the actual revenues received, updates will be provided to the legislature.



A summary of the major sources, the significant economic drivers and their influence on the general fund is outlined in the next section. More details on all sources of revenue can be found in the Legislative Fiscal Division's revenue estimates.

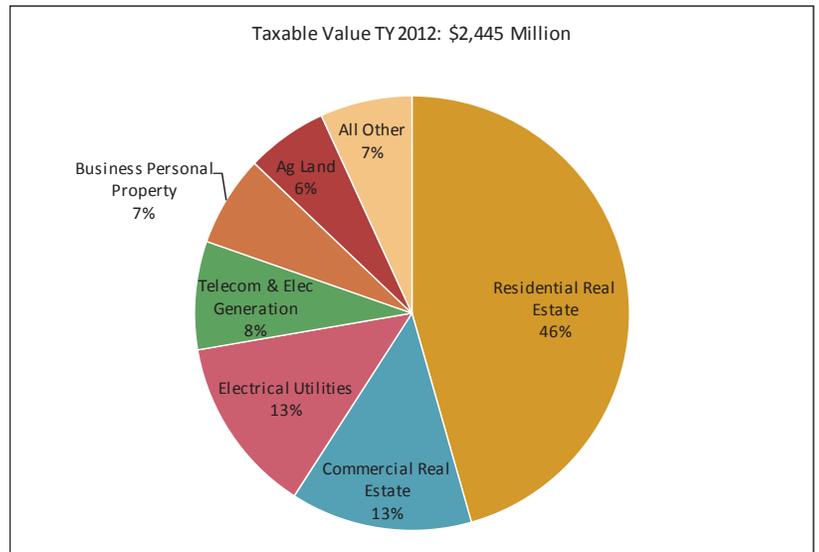


## INDIVIDUAL INCOME TAX

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. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result, the tax rate on capital gains income is less than the tax rate on ordinary income by 2% in tax year 2007 and beyond.

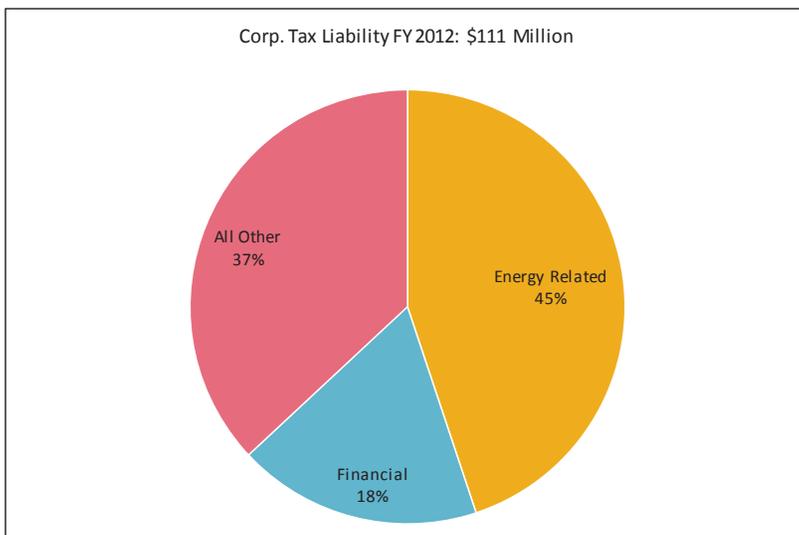
## PROPERTY TAX

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 (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate.



## CORPORATE LICENSE TAX

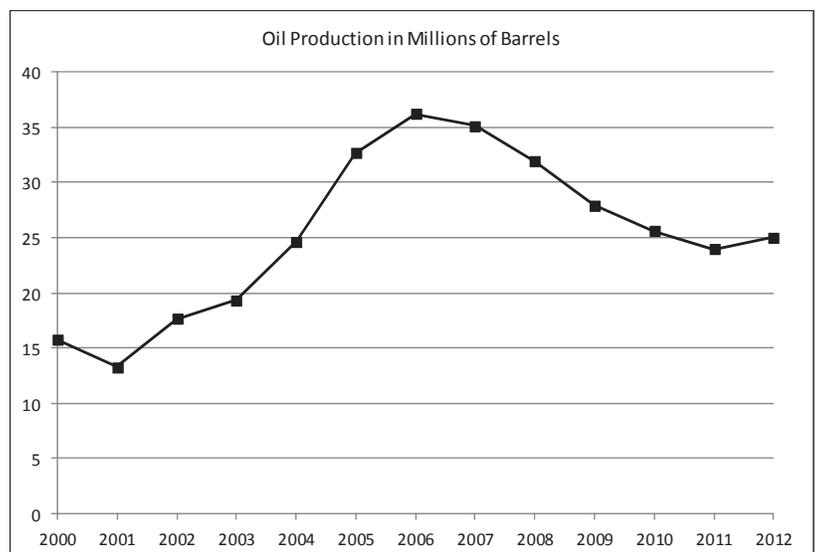
The corporation license tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is

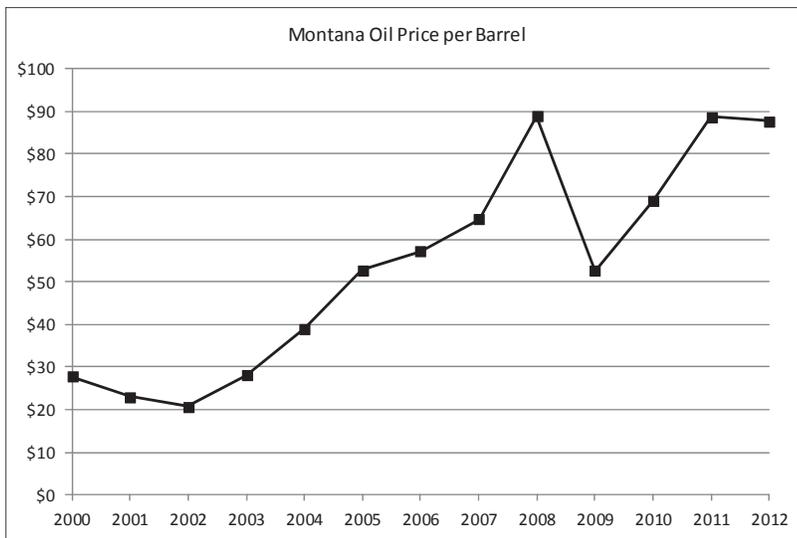


imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all tax liability is adjusted for allowable credits. The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

## 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.





Oil production peaked in Montana in 2006 and fell 34% by 2011. Recent drilling has stopped the production decline. Production is anticipated to increase gradually as additional new drilling offsets the decline in production from older wells.

The price of oil produced in Montana is less than the most quoted prices, like the West Texas Intermediate price due to transportation costs to major markets. The price of oil is expected to decline slightly over the next several years.

These larger sources are combined with all other sources to develop the overall general

fund revenue estimate. For more information please see the revenue estimates.

## SUMMARY AND COMPARISON TO THE EXECUTIVE REVENUE ESTIMATE

Revenue estimates for the general fund were calculated in November of 2012. These estimates will be updated throughout the legislative session using a monthly review of year-to-date revenue collections and updating models with new economic data from IHS Global Insight and other sources. Information from IHS Global Insight will include updated impacts from the Federal fiscal cliff decisions anticipated in coming weeks and months. Other information includes current activity on natural resource production.

Legislative Fiscal Division revenue estimates for the general fund were calculated in November of 2012. These estimates will be updated throughout the legislative session using a monthly review of year-to-date revenue collections and updating models with new economic data from IHS Global Insight and other sources. Information from IHS Global Insight will include updated impacts from the Federal fiscal cliff decisions anticipated in coming weeks and months. Other economic information includes current activity on natural resource production.

The table on the following page outlines the differences between the LFD and Governor Bullock's revenue estimates, and includes the two revenue source updates made by the Executive in January. Over the three-year period and in total, the Executive general fund revenues are only 1.5% higher than the LFD estimate; however, individual estimates are materially different. These differences will be considered by House and Senate Tax as they review both revenue estimates. The legislature sets the level of revenue that will be used throughout session for the purposes of balancing the budget.

The two revenue sources that were updated by the Executive were made in the areas of Individual Income Tax and U.S. Mineral Royalties. The updates, based on new data available for both sources and a couple of small model changes for Individual Income Tax, resulted in a three-year increase in general fund revenue of \$96.2 million.

	Estimate Comparison by Year			
	(\$ Millions)			
	FY 2013	FY 2014	FY 2015	3-Year Total
LFD November Estimate	\$1,988.7	\$2,044.6	\$2,124.2	\$6,157.5
OBPP November Estimate	\$1,978.8	\$2,056.5	\$2,119.0	\$6,154.2
Gov. Bullock Individual Income Update	\$15.1	\$26.6	\$37.4	\$79.2
Gov. Bullock U.S. Mineral Royalties Update	\$0.9	\$6.6	\$9.6	\$17.1
Governor Bullock Estimate	\$1,994.8	\$2,089.6	\$2,166.1	\$6,250.5
Executive-LFD Difference	\$6.0	\$45.1	\$41.9	\$93.0
Executive-LFD % Difference	0.3%	2.2%	2.0%	1.5%

General Fund Estimate Comparison for Total FY 2013-2015				
(in Millions)				
Source of Revenue	LFD	OBPP	Difference	% Difference
Individual Income Tax	\$3,107.2	\$3,121.1	\$13.9	0.4%
Property Tax	\$743.0	\$734.2	-\$8.8	-1.2%
Corporation License Tax	\$456.1	\$533.8	\$77.7	17.0%
Vehicle Tax	\$304.2	\$308.5	\$4.3	1.4%
Insurance Tax & License Fees	\$162.8	\$168.1	\$5.3	3.3%
Coal Trust Interest	\$73.4	\$72.2	-\$1.2	-1.6%
US Mineral Royalty	\$91.3	\$107.7	\$16.4	17.9%
All Other Revenue	\$97.6	\$99.6	\$2.0	2.0%
Tobacco Settlement	\$10.6	\$9.9	-\$0.7	-6.3%
Telecommunications Excise Tax	\$69.7	\$65.1	-\$4.7	-6.7%
Video Gambling Tax	\$179.8	\$173.2	-\$6.5	-3.6%
Treasury Cash Account Interest	\$10.5	\$9.2	-\$1.3	-12.3%
Oil & Natural Gas Production Tax	\$296.3	\$295.0	-\$1.4	-0.5%
Public Institution Reimbursements	\$52.3	\$46.8	-\$5.5	-10.5%
Lodging Facility Use Tax	\$55.1	\$52.5	-\$2.7	-4.8%
Coal Severance Tax	\$43.6	\$49.2	\$5.6	12.8%
Liquor Excise & License Tax	\$57.9	\$56.3	-\$1.6	-2.8%
Cigarette Tax	\$89.4	\$94.4	\$5.0	5.6%
Investment License Fee	\$22.3	\$22.3	\$0.0	-0.1%
Lottery Profits	\$44.4	\$41.9	-\$2.5	-5.5%
Liquor Profits	\$33.2	\$30.0	-\$3.2	-9.6%
Nursing Facilities Fee	\$14.2	\$14.2	\$0.0	-0.3%
Electrical Energy Tax	\$13.5	\$13.7	\$0.2	1.2%
Metalliferous Mines Tax	\$31.5	\$31.6	\$0.0	0.1%
Highway Patrol Fines	\$13.4	\$14.0	\$0.6	4.6%
Public Contractors Tax	\$7.7	\$10.2	\$2.5	32.5%
Wholesale Energy Tax	\$12.4	\$10.5	-\$1.9	-15.6%
Tobacco Tax	\$18.0	\$17.9	-\$0.2	-0.9%
Driver's License Fee	\$12.2	\$13.6	\$1.4	11.2%
Rental Car Sales Tax	\$11.0	\$11.7	\$0.6	5.8%
Railroad Car Tax	\$6.9	\$6.5	-\$0.4	-6.1%
Wine Tax	\$6.7	\$6.8	\$0.1	1.6%
Beer Tax	\$9.2	\$9.2	-\$0.1	-0.7%
<b>Total General Fund</b>	<b>\$6,157.5</b>	<b>\$6,250.5</b>	<b>\$93.0</b>	<b>1.5%</b>

In addition to the general fund revenue projections, estimates of other major sources of revenue are tracked. In particular, those sources that have indirect impacts on the general fund. The most significant of these sources is the Guarantee Account for school funding. The LFD revenue estimate for this fund exceeds the Governor Bullock Office of Budget and Program Planning (OBPP) estimate by \$7.2 million over the 3 years FY 2013 through FY 2015. Most of that amount can be attributed to four factors: 1) \$5.7 million more in investment earnings due to lower OBPP interest rates; 2) \$6.3 million more by the LFD in agricultural, grazing, and other leases; 3) lower LFD amounts of \$2.2 million from SB 329 and river leases; and 4) \$2.6 million lower in the 5% distribution.

## **EXECUTIVE LEGISLATION**

The Executive Budget contains several proposals that would impact state general fund revenue, totaling between \$60-64 million per year using the Governor's revenue estimates. The largest impact is from the proposal to address the unfunded liability and actuarial soundness of the PERS defined benefit plan by directing all non-dedicated revenue from coal severance taxes to the pension trust fund, plus statutorily appropriating interest income from the coal severance tax permanent fund. The impact to the general fund related to these two redirections is between \$36-38 million per year.

A second Executive proposal redirects lottery revenues from the state general fund, to the Quality Schools Facility Program. The impact to the general fund related to this redirection is between \$14-16 million per year.

And a third Executive proposal raises the exemption threshold for business equipment from \$20,000 to \$100,000 starting in tax year 2014. Approximately 11,000 business equipment owners would owe no business equipment tax under the proposal. The proposal would lower revenue to the general fund and reimburse local governments and schools for the lost revenue. The cost of the proposal is approximately \$10.4 million during the 2015 biennium of which approximately 80% is for reimbursements to local governments and 20% is for reductions in state revenues.