

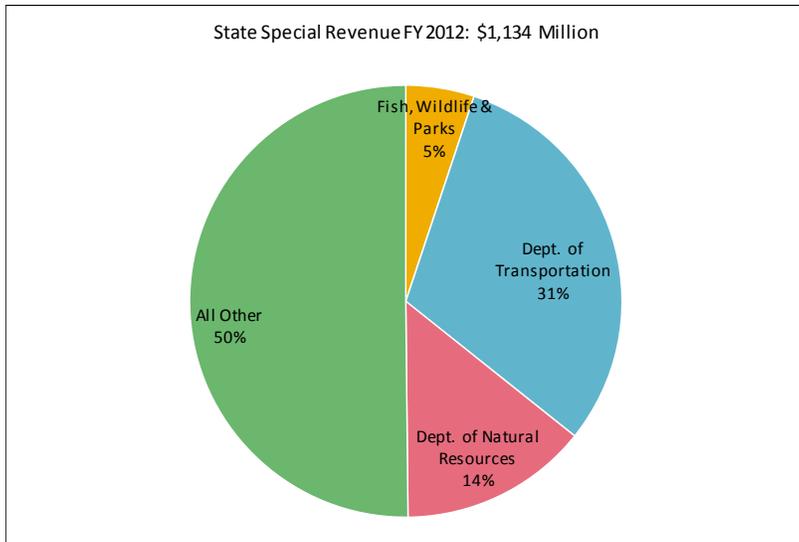
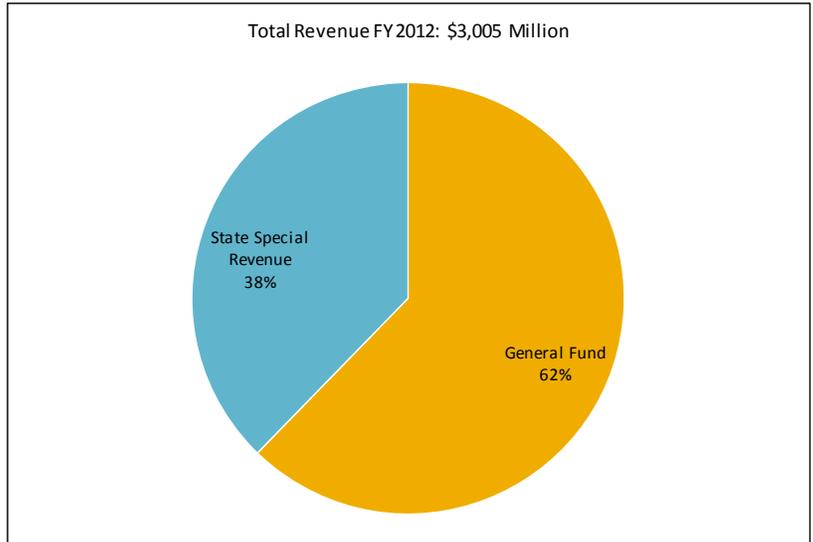
# REVENUE

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

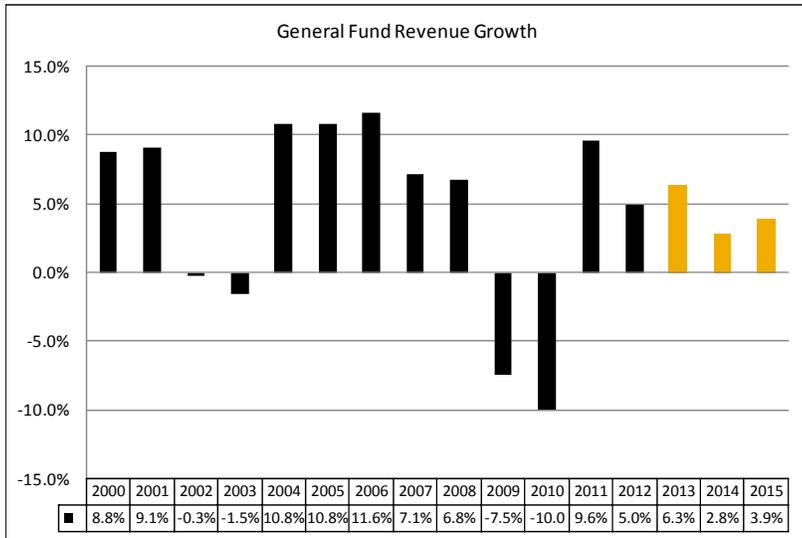
Most of the focus during session tends to be on the state general fund which accounts for 62% of total share revenue. Note that trusts or direct services funds such as unemployment insurance and workers’ compensation insurance are not included in the adjacent chart. In addition, there is limited double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

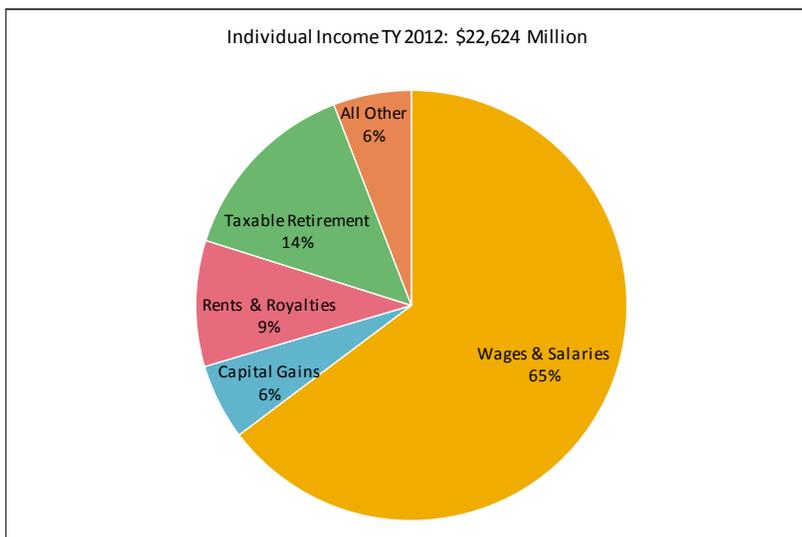
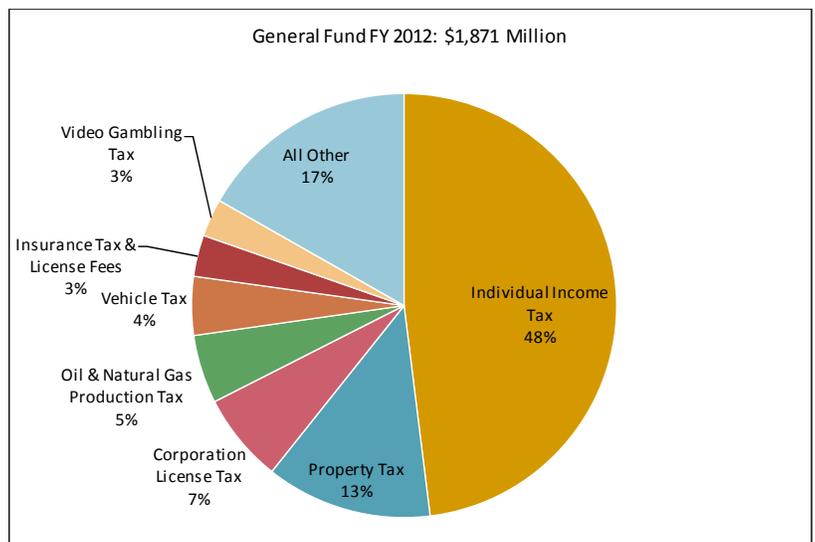


In the past several years, the general fund revenue has been relatively volatile as revenues fell nearly 17% from the historic high of \$1,954 million in FY 2008. In FY 2013, revenues are expected to exceed the FY 2008 high and reach \$1,989 million. The chart on the next page shows the annual percent 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.

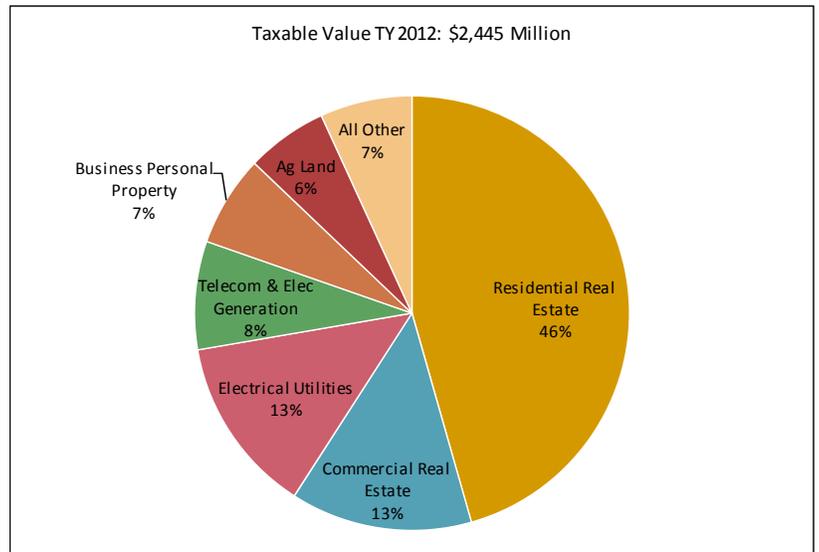


## INDIVIDUAL INCOME TAX

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.

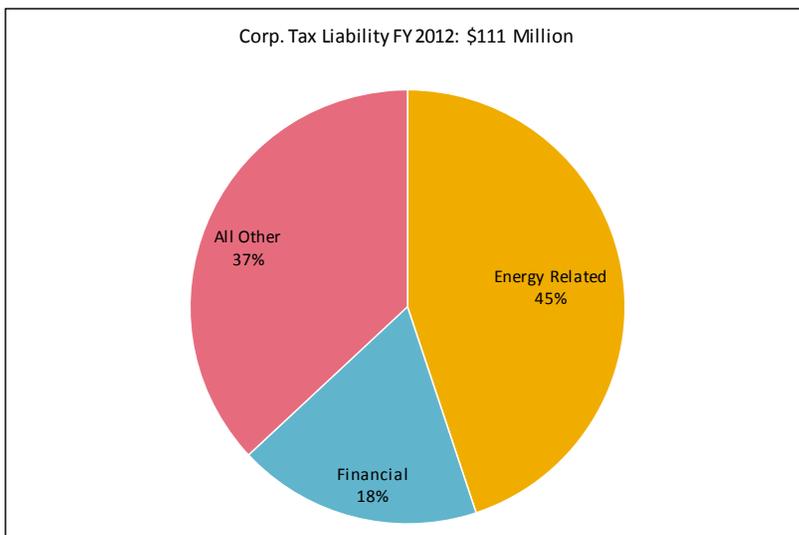
## PROPERTY TAX

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

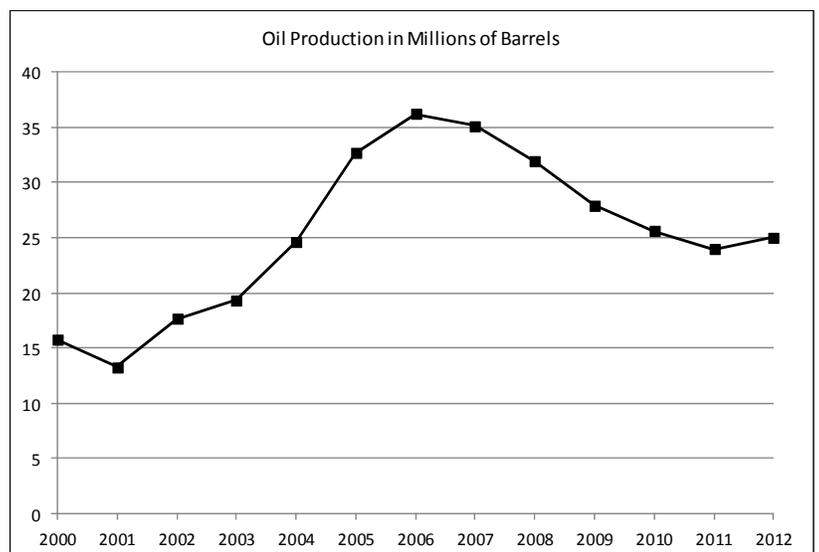
The corporation license tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is

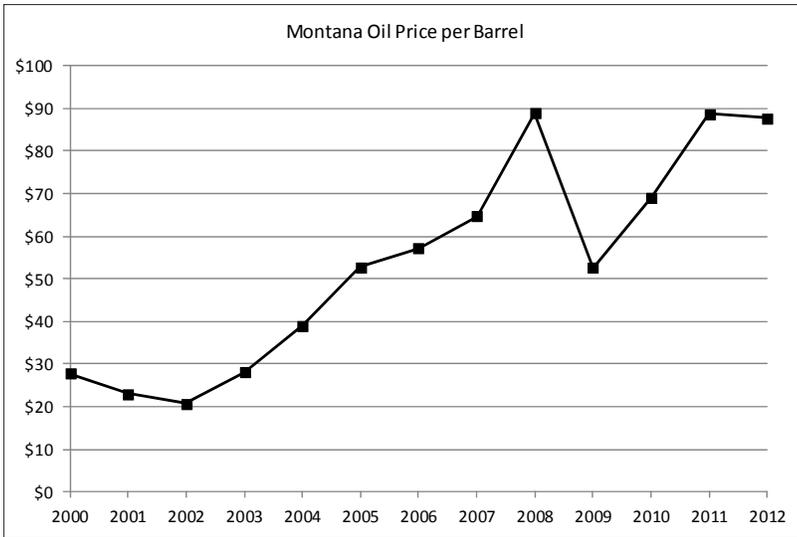


imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all tax liability is adjusted for allowable credits. 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.

The following table outlines the differences between the LFD and the Executive revenue estimates. Over the three year period and in total, general fund revenues are virtually identical; however, individual estimates are materially different. These differences will be considered by House and Senate Tax as these committees review both revenue estimates. The legislature sets the level of revenue that will be used throughout session for the purposes of balancing the budget.

Comparison of Estimates for Total FY 2013 through FY 2015 General Fund Revenue				
(in Millions)				
Source of Revenue	LFD	OBPP	Difference	% Difference
Individual Income Tax	\$3,107.193	\$3,041.910	\$65.283	2.1%
Property Tax	743.012	734.230	8.782	1.2%
Corporation License Tax	456.139	533.820	-77.681	-17.0%
Vehicle Tax	304.190	308.500	-4.310	-1.4%
Insurance Tax & License Fees	162.773	168.110	-5.337	-3.3%
Coal Trust Interest	73.384	72.180	1.204	1.6%
US Mineral Royalty	91.299	90.560	0.739	0.8%
All Other Revenue	97.553	99.550	-1.997	-2.0%
Tobacco Settlement	10.557	9.890	0.667	6.3%
Telecommunications Excise Tax	69.741	65.070	4.671	6.7%
Video Gambling Tax	179.769	173.230	6.539	3.6%
Treasury Cash Account Interest	10.517	9.220	1.297	12.3%
Oil & Natural Gas Production Tax	296.349	294.980	1.369	0.5%
Public Institution Reimbursements	52.276	46.800	5.476	10.5%
Lodging Facility Use Tax	55.132	52.460	2.672	4.8%
Coal Severance Tax	43.596	49.160	-5.564	-12.8%
Liquor Excise & License Tax	57.898	56.300	1.598	2.8%
Cigarette Tax	89.371	94.410	-5.039	-5.6%
Investment License Fee	22.333	22.310	0.023	0.1%
Lottery Profits	44.364	41.910	2.454	5.5%
Liquor Profits	33.195	30.000	3.195	9.6%
Nursing Facilities Fee	14.219	14.180	0.039	0.3%
Electrical Energy Tax	13.528	13.690	-0.162	-1.2%
Metalliferous Mines Tax	31.538	31.560	-0.022	-0.1%
Highway Patrol Fines	13.407	14.030	-0.623	-4.6%
Public Contractors Tax	7.658	10.150	-2.492	-32.5%
Wholesale Energy Tax	12.395	10.460	1.935	15.6%
Tobacco Tax	18.038	17.880	0.158	0.9%
Driver's License Fee	12.197	13.560	-1.363	-11.2%
Rental Car Sales Tax	11.030	11.670	-0.640	-5.8%
Railroad Car Tax	6.931	6.510	0.421	6.1%
Wine Tax	6.686	6.790	-0.104	-1.6%
Beer Tax	9.212	9.150	0.062	0.7%
<b>Total General Fund</b>	<b>\$6,157.480</b>	<b>\$6,154.230</b>	<b>\$3.250</b>	<b>0.1%</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 OBPP by \$20.9 million over the 3 years FY 2013 through FY 2015. Most of that amount can be attributed to four factors: 1) \$10.0 million more in interest earnings due to lower OBPP interest rates; 2) \$17.0 million more in oil & gas bonus payments; 3) \$6.5 million more by the LFD in agricultural and grazing leases; and 4) the prior amounts offset by \$9.0 million less in LFD SB 329 payments than OBPP estimated.

## EXECUTIVE LEGISLATION

The Executive Budget contains one proposal, which would impact state general fund revenue. This proposed legislation specifically addresses the unfunded liability and actuarial soundness of the PERS defined benefit plan (PERS-DB) by directing all non-dedicated revenue from coal severance taxes to the trust fund. The anticipated revenue impact of this proposal is \$17-18 million/per year using the Governor's revenue estimates.