State Revenue Perspectives

SUMMARY

Major revenue source contributors to the state general fund (and interrelated state special funds) are experiencing deep declines from FY 2008 levels. These declines are expected to continue through FY 2010 before increasing, but will still be below the FY 2008 level by FY 2011. Rapidly deteriorating economic conditions statewide, nationwide, and worldwide bodes ill for the revenues that finance many state-provided services. Such unprecedented turmoil also complicates the accurate prediction of future revenues and hence complicates the budgeting process faced by the legislature. Throughout the 2009 legislative session, LFD revenue staff will periodically update the legislature on changing economic conditions and, if warranted, offer recommendations for amending HJ2, the official revenue estimates introduced by the Revenue and Taxation Interim Committee (RTIC). Revenue staff has already revised its revenue estimate assumptions and revenue estimates since the RTIC estimates were adopted, and will recommend these changes to the appropriate legislature committees.

In the sections that follow, the executive's general fund revenue estimates and proposed revenue-related changes are discussed. In addition, the LFD recommended revisions have been added to the estimates contained in HJ 2 and are presented in this section.

THE EXECUTIVE'S GENERAL FUND REVENUE FORECAST

EXECUTIVE BUDGET ASSUMPTIONS AND ESTIMATES

The executive has revised its revenue estimates from those presented to the RTIC in November. The revised executive budget assumptions and resulting revenue estimates are comprised of those adopted by RTIC plus changes in revenue from income taxes, oil and natural gas production taxes, and US mineral royalties. Because the executive did not provide the LFD with the changes in assumptions used to make these changes, an analysis of the differences between the respective offices' assumptions cannot be done for the legislature.

The *Governor's Executive Budget, Fiscal Years 2010 - 2011* projects that Montana state government will receive $3.711 billion in general fund revenue in the 2011 biennium, a decrease of $147.8 million, or 3.8 percent, from the 2009 biennium. The decrease is primarily driven by projected declining economic conditions and revisions to its revenue estimate assumptions. As shown in Figure 1, 76.1 percent of the executive's revenue estimate is comprised of revenue from five major sources.

Figure 1

Executive Revised Revenue Estimate Recommendations - General Fund
Figures in Millions

	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	2009 Biennium	2011 Biennium	Biennial $ Change	Biennial % Change
Individual Income Tax	$866.659	$868.303	$847.404	$855.264	$1,734.962	$1,702.668	($32.294)	-1.9%
Property Tax	205.044	211.495	222.983	228.933	416.539	451.916	35.377	8.5%
Corporation Income Tax	160.342	156.132	136.293	149.352	316.474	285.645	(30.829)	-9.7%
Vehicle Tax and Fees	93.493	95.014	93.748	91.559	188.507	185.307	(3.200)	-1.7%
Oil and Gas Production Tax	149.994	107.951	85.416	113.507	257.945	198.923	(59.022)	-22.9%
Remaining Sources	478.008	466.728	430.601	456.296	944.736	886.897	(57.839)	-6.1%
Total	**$1,953.540**	**$1,905.623**	**$1,816.445**	**$1,894.911**	**$3,859.163**	**$3,711.356**	**($147.807)**	**-3.8%**

PROPOSED REVENUE-RELATED CHANGES

Although the Executive Budget does not include any major tax reform proposals, it does contain proposals that would impact state general fund revenue. As shown in Figure 2 below, these proposals would reduce general fund in FY 2009 by $32.9 million and increase general fund by a net $3.5 million in the 2011 biennium. These proposals include:

- $1.1 million loss in revenue (on-going) due to the earmarking of 9-1-1 fees that would be used for the administration of 9-1-1 statutes. Currently, 3.74 percent of the fees are deposited to the general fund.
- $3.5 million in new revenues (beginning FY 2011) from proposed implementation of a data imaging system to make Department of Revenue's document handling processes more efficient. No details were provided on how the additional revenue would be generated. Efficiencies would save general fund only if the legislature reduced the department's present law appropriations in HB 2. However, as part of the revision to the executive budget, the $3.4 million general fund appropriation in HB 5 necessary to implement this new program was removed. Yet, the anticipated increase in revenue still remains in the budget. The executive's revenue estimates are overstated by $3.5 million.
- $1.1 million in new revenue (one-time) in the 2011 biennium transferred from the cigarette tax account to the general fund. By statute, any balance in the account over $2.0 million at the end of a fiscal year is transferred to the general fund. The revised executive budget removed $1.1 million of new capital projects that had been funded from this account in the original budget. Because of this, the executive assumed that an increase of $1.1 million would occur in the transfer to the general fund. However, since the executive's revised revenue estimates do not include a decrease in the transfer to the general fund due to the new projects, there cannot be an increase in the transfer when the projects are removed. The executive's revenue estimates are overstated by $1.1 million.

- $32.9 million (one-time) reduction in FY 2009. Under current law, the state special revenue fire suppression account established in the September 2007 special session terminates at the end of FY 2009. Any balance in an account terminated by the legislature accrues to the general fund (17-1-504(2), MCA) and the anticipated $32.9 million balance was included in the general fund revenue estimates. The executive proposes legislation to eliminate the termination date, thus eliminating the revenue accrual to the general fund.
- The executive budget includes revenue reductions totaling $17.4 million for the biennium due to property tax mitigation. However, the executive budget does not provide details of the proposal for the LFD to analyze. See "Undeveloped Budget Proposals", page 100.

Figure 2

Executive Tax and Revenue Proposals - General Fund
Figures in Millions

	Proposal	2009 Biennium	2011 Biennium
	Earmark 9-1-1 fees to state special revenue account - reduce general fund		($1.080)
*	Purchase data imagining system - improve DOR document handling		3.500
*	Remove veterans' capital projects - increase transfer from cigarette account		1.124
	Remove termination date from fire suppression account - decrease transfer to GF	($32.915)	
	Property tax mitigation - no proposal or details submitted to the LFD		
	Total	($32.915)	$3.544

* The executive revenues are overstated by these amounts.

THE LFD/RTIC GENERAL FUND REVENUE OUTLOOK

LFD/RTIC FORECAST IS LOWER THAN THE EXECUTIVE BUDGET

The Legislative Fiscal Division is recommending revised assumptions and revenue estimates to the legislature. Although many of the assumptions that were adopted by RITC (contained in HJ2) remain the same, a few major assumptions were changed. These assumptions are: long and short-term interest rates, oil and natural gas prices, corporation sector growth rates, metal prices and production estimates, and income tax factors such as wages and salaries, interest income, dividend income, and capital gains. The recommended revised estimates are lower than those in HJ2 by $29.9 million in the 2009 biennium and $105.2 million in the 2011 biennium. The revenue impacts from the revised assumptions are incorporated in Figure 3. The revised estimate for the 2011 biennium is $129.3 million less than the 2009 biennium estimate. Large decreases occur in the corporation tax, oil and gas production tax, and the remaining sources, but are tempered by increases in the income and property tax sources.

Figure 3

LFD Revised Revenue Estimate Recommendations - General Fund Figures in Millions								
	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	2009 Biennium	2011 Biennium	Biennial $ Change	Biennial % Change
Individual Income Tax	$866.659	$854.823	$856.291	$880.781	$1,721.482	$1,737.072	$15.590	0.9%
Property Tax	205.044	214.615	226.382	230.363	419.659	456.745	37.086	8.8%
Corporation Income Tax	160.342	154.838	125.911	133.674	315.180	259.585	(55.595)	-17.6%
Vehicle Tax and Fees	93.493	95.014	93.748	91.559	188.507	185.307	(3.200)	-1.7%
Oil and Gas Production Tax	149.994	106.600	84.323	102.825	256.594	187.148	(69.446)	-27.1%
Remaining Sources	478.008	459.851	429.797	454.288	937.859	884.085	(53.774)	-5.7%
Total	**$1,953.540**	**$1,885.741**	**$1,816.452**	**$1,893.490**	**$3,839.281**	**$3,709.942**	**($129.339)**	**-3.4%**

As shown in Figure 4, the LFD revised revenue estimates for the 2009 and 2011 biennia are $19.9 million and $1.4 million lower, respectively, than the revised executive estimates. This is due primarily to lower estimates in corporation income tax, oil and natural gas production taxes, and remaining sources. The remaining sources include LFD downward revisions in both biennia of $6.8 million in metal mines tax revenue and $3.0 million in TCA interest (not shown in the table), sources not revised by the executive. The LFD revised individual income tax revenues are higher than the executive in FY 2010 and FY 2011, but lower in FY 2009. Methodology differences between LFD and OBPP make it difficult to determine the cause of these differences. The executive also did not revise property tax revenue. The LFD revision of this source increased revenue in both biennia by a total of $7.9 million.

Figure 4

LFD vs. Executive Revised Revenue Estimate Recommendations - General Fund Figures in Millions						
	Actual FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011	2009 Biennium	2011 Biennium
Individual Income Tax	$0.000	($13.480)	$8.887	$25.517	($13.480)	$34.404
Property Tax	0.000	3.120	3.399	1.430	3.120	4.829
Corporation Income Tax	0.000	(1.294)	(10.382)	(15.678)	(1.294)	(26.060)
Vehicle Tax and Fees	0.000	0.000	0.000	0.000	0.000	0.000
Oil and Gas Production Tax	0.000	(1.351)	(1.093)	(10.682)	(1.351)	(11.775)
Remaining Sources	0.000	(6.877)	(0.804)	(2.008)	(6.877)	(2.812)
Total	**$0.000**	**($19.882)**	**$0.007**	**($1.421)**	**($19.882)**	**($1.414)**

LFD/RTIC FORECAST FOR MAJOR GENERAL FUND REVENUE SOURCES

This section presents the details on five of the major general fund revenue sources that comprise 76.2 percent of the total general fund revenue. Of these major sources, the LFD has revised assumptions for all but vehicle taxes and fees. These revisions are reflected in the information below. 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 Budget Analysis 2011 biennium, Volume 2 – Revenue Estimates.*

Individual Income Tax

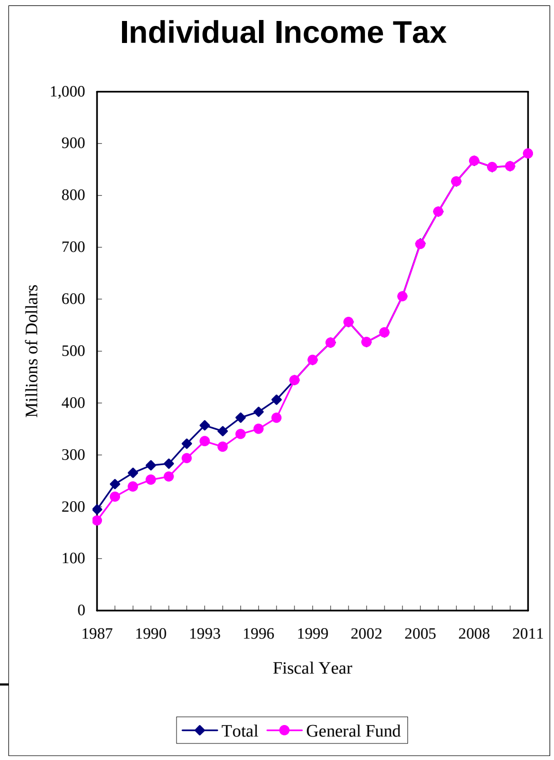
Background

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 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond. This source has contributed the following percentages of total general fund revenue:

FY 2004 – 43.82% FY 2007 – 45.04%
FY 2005 – 46.13% FY 2008 – 44.17%
FY 2006 – 45.01%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	194.676947	173.262483	Not App.
A	1988	243.768721	219.241292	26.54%
A	1989	265.539814	238.963596	9.00%
A	1990	279.642960	252.230465	5.55%
A	1991	282.960086	258.216424	2.37%
A	1992	321.538093	293.564151	13.69%
A	1993	356.986934	326.187735	11.11%
A	1994	345.643403	315.677433	-3.22%
A	1995	371.902909	339.939156	7.69%
A	1996	383.091612	350.161013	3.01%
A	1997	406.275740	371.275410	6.03%
A	1998	444.160729	444.160729	19.63%
A	1999	483.031571	483.031571	8.75%
A	2000	516.261912	516.261912	6.88%
A	2001	556.014554	556.014554	7.70%
A	2002	517.567691	517.567691	-6.91%
A	2003	535.830664	535.830664	3.53%
A	2004	605.582309	605.348420	12.97%
A	2005	707.343333	706.234579	16.67%
A	2006	768.922343	768.922343	8.88%
A	2007	827.145498	827.145498	7.57%
A	2008	866.659000	866.659000	4.78%
F	2009	854.823000	854.823000	-1.37%
F	2010	856.291000	856.291000	0.17%
F	2011	880.781000	880.781000	2.86%



Forecast Factors

The income tax forecast for fiscal years 2009 through 2011 is comprised of four steps: 1) collect calendar year 2007 income data from the tax returns, 2) develop calendar growth factors for each income and deduction component and apply to the base components in the 2007 income tax data, 3) convert calendar year data to fiscal year data, and 4) adjust the resulting fiscal year data for audits, credits, legislation and other special events.

In November 2008, the Revenue and Transportation Interim Committee met and developed the assumptions and the resulting revenue forecast for all state revenues. Many of the income tax growth factors were based on IHS Global Insight October forecasts for wages and salaries, interest income, dividend income, capital gains, retirement income, business income as well as other income tax items.

The forecast also contained estimates of income tax audits, credits and adjustments for: 1) the one-time $400 property tax rebate which occurred in 2007; 2) the one time $140 property tax credit which was claimed in April 2008; 3) excess refunds in FY 2008; 4) the acceleration of income revenues by the withholding of mineral royalties in FY 2008; and 5) other minor legislative impacts.

The November IHS Global Insight economic forecasts contained major downward revisions in the growth factors used to forecast Montana income tax. As a result the LFD applied some of these lowered growth rates to revise its estimate of individual income tax.

The latest income tax growth estimates reflect downward revisions in wage and salary income, interest income, dividend income, and capital gains. These revisions, compared to RTIC assumptions, are shown in the following table.

Figure 5

Revised Income Tax Growth Factors Compared with RTIC Growth Factors

	Wages and Salaries			Interest Income			Dividend Income			Capital Gains		
Calendar Year	RTIC	Revised	Difference	RTIC	Revised	Difference	RTIC	Revised	Difference	RTIC	Revised	Difference
2008	4.53%	2.90%	-1.63%	1.14%	0.53%	-0.61%	6.09%	6.68%	0.59%	-16.32%	-17.62%	-1.30%
2009	2.29%	0.43%	-1.86%	-1.46%	-3.91%	-2.45%	-1.18%	-0.57%	0.61%	-17.35%	-19.44%	-2.09%
2010	3.09%	2.32%	-0.77%	-1.42%	-1.00%	0.42%	1.33%	0.33%	-1.00%	11.63%	14.80%	3.17%
2011	3.41%	4.16%	0.75%	8.05%	9.44%	1.39%	3.06%	2.47%	-0.59%	13.60%	13.78%	0.18%

All other assumptions in developing the income tax forecast are the same as in the RTIC estimate in November. These can be found on page 41 in the LFD *Legislative Budget Analysis 2011 biennium, Volume 2 – Revenue Estimates*.

Property Tax

Background

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. 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 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, 2003 and the next reappraisal will take effect January 1, 2009. Beginning January 1, 2009, a new reappraisal of residential and commercial property, agricultural land and timberland will be available. As of this writing, the data on the new reappraisal are not available. The revenue estimate for property tax does not include an estimate for the change in market values due to reappraisal. The new reappraised values will be phased in over the next six years, FY 2010 through FY 2015. Unless changed by the legislature, the tax rates and exemptions will be constant at the levels for FY 2009.

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

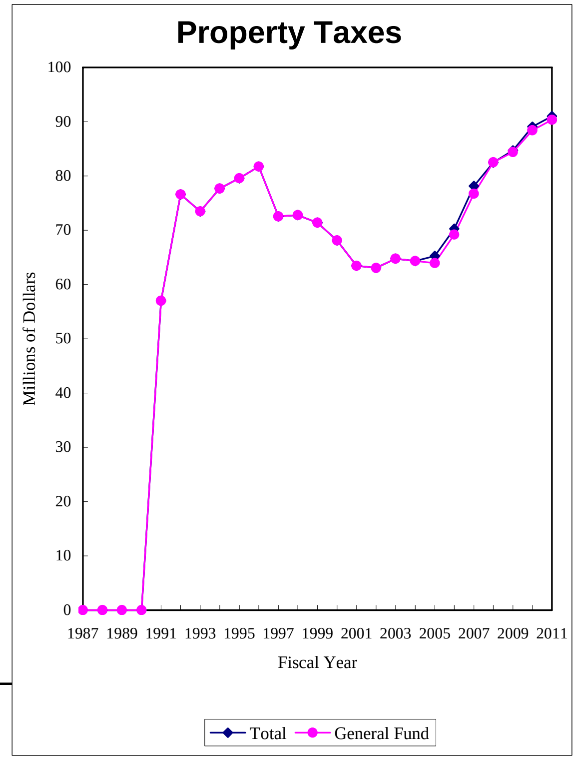
This source also includes the state’s share of protested taxes paid by centrally assessed companies. Should the state fail in defense of the taxation of these companies, the protested taxes must be returned to the taxpayer.

This source has contributed the following percentages of total general fund revenue:

FY 2004 – 12.27 %
FY 2005 – 10.93%
FY 2006 – 10.4%
FY 2007 – 10.74%
FY 2008 – 11.53%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	128.225413	128.225413	Not App.
A	1988	111.111138	111.111138	-13.35%
A	1989	114.444609	114.444609	3.00%
A	1990	133.619694	112.374543	-1.81%
A	1991	196.551532	176.154583	56.76%
A	1992	228.220531	206.138029	17.02%
A	1993	231.757476	207.646372	0.73%
A	1994	223.577122	202.381945	-2.54%
A	1995	226.944990	205.842671	1.71%
A	1996	226.234755	204.082588	-0.86%
A	1997	231.943080	209.284365	2.55%
A	1998	224.562154	202.350380	-3.31%
A	1999	225.681256	202.774979	0.21%
A	2000	215.866432	194.196158	-4.23%
A	2001	201.103545	180.050247	-7.28%
A	2002	181.923409	169.339388	-5.95%
A	2003	183.690786	171.679862	1.38%
A	2004	180.905286	169.530994	-1.25%
A	2005	182.587822	167.270350	-1.33%
A	2006	192.118042	177.639199	6.20%
A	2007	206.872427	190.981939	7.51%
A	2008	218.222981	205.043751	7.36%
F	2009	229.004000	214.615000	4.67%
F	2010	242.668000	226.382000	5.48%
F	2011	246.913000	230.363000	1.76%



Forecast Factors

The property tax forecast for fiscal years 2009 through 2011 is comprised of five steps: 1) collect the latest base year data, in this case FY 2009 taxable values, 2) apply taxable value growth rates to the base data for fiscal years 2010 and 2011 and sum across property classes, 3) forecast statewide tax increment financing values and abatement values and adjust the statewide taxable value forecast by these values, 4) for the general fund, apply the state 95 mills, to the net statewide taxable value and 5) subtract one-half of the forecast for protested taxes. The same procedure is applied for the 1.5 mill vo-tech levy which is also deposited in the general fund and the 6 mill university levy which is deposited in the university account. The 1.5 mill vo-tech levy is applied to the net taxable values in the five vo-tech counties.

In fiscal 2010, new reappraisal values for residential and commercial property, agricultural land, and timberland will be available. Preliminary estimates are that these properties will increase in value by anywhere from 35 percent to 56 percent above those in FY 2009, although the variation in individual jurisdictions may be much lower or higher.

Since the RTIC meeting in November, new FY 2009 property tax values have been received. Compared to the preliminary data, the new taxable values showed an increase in class 2, gross proceeds, and class 8, business equipment. In addition, two events impacted the level of protested taxes: 1) Northwestern settled its case with the state and the Supreme Court ruled for Omimex in its protested taxes suit over the proper classification of its pipeline properties. As a result of these two cases, the general fund in FY 2009 will receive increased revenue as a result of transfers from the protested account to the general fund in the Northwestern case, but will pay a refund out of the general fund to Omimex. For the 2011 biennium, protested taxes will be lower as each company is not expected to protest their taxes.

As a result of these changes, the current property tax revenue estimates for fiscal years 2009 through 2011 are $7.9 million above those adopted in November by the RTIC.

Corporation Income Tax

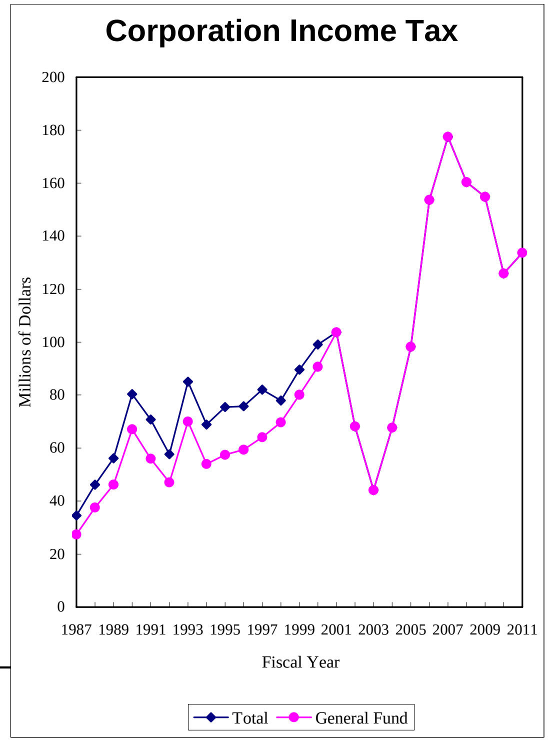
Background

The corporation income 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. This source has contributed the following percentages of total general fund revenue:

FY 2004 - 4.90%	FY 2007 - 9.67%
FY 2005 - 6.42%	FY 2008 - 8.17%
FY 2006 - 9.00%	

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	34.566361	27.371125	Not App.
A	1988	46.200104	37.584806	37.32%
A	1989	56.139749	46.152627	22.80%
A	1990	80.315504	67.087905	45.36%
A	1991	70.784279	56.006784	-16.52%
A	1992	57.682672	47.027797	-16.03%
A	1993	85.054483	70.003987	48.86%
A	1994	68.871909	53.996713	-22.87%
A	1995	75.519940	57.425136	6.35%
A	1996	75.761891	59.336677	3.33%
A	1997	81.999138	64.078549	7.99%
A	1998	77.928498	69.724680	8.81%
A	1999	89.624560	80.142416	14.94%
A	2000	99.088867	90.682672	13.15%
A	2001	103.670487	103.670487	14.32%
A	2002	68.173253	68.173253	-34.24%
A	2003	44.137518	44.137518	-35.26%
A	2004	67.722940	67.722940	53.44%
A	2005	98.213716	98.213716	45.02%
A	2006	153.675068	153.675068	56.47%
A	2007	177.503707	177.503707	15.51%
A	2008	160.341786	160.341786	-9.67%
F	2009	154.838000	154.838000	-3.43%
F	2010	125.911000	125.911000	-18.68%
F	2011	133.674000	133.674000	6.17%



Forecast Factors

The corporation tax is extremely reactive to national economic swings. Historic collection patterns demonstrate that in periods of national recession, Montana corporate tax revenues decline for two to three years. Through the 2011 biennium, with a national economy in the midst of recession, the Montana corporation tax is expected to experience significant declines. The current recession has created a significant level of uncertainty in the national economy, causing changes in the projections used in development of the estimates approved by the RTIC.

To estimate corporation tax collections, corporation tax payment data, provided by the Department of Revenue, is disaggregated based on corporate industrial sector, allowing analysis of specific components of the corporate landscape. Then, each sector can be analyzed, measured, and forecast individually. Through this methodology, the profitability changes inherent in highly volatile sectors can be captured. For example, the profitability of Montana's large and volatile natural resource corporations is highly reactive to commodity prices, and the volatility affects the corporation tax payments of oil and gas, energy, mining, and timber corporations.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent tax year collections, 2007. The industrial sectors are then summed to provide an estimate for the tax year corporation tax liabilities. Because the industrial sector estimates are based on a tax year analysis, but are paid in a state fiscal year, payment timing must be taken into consideration. The estimated tax year payments of two years are distributed between two fiscal years, 60:40, to obtain the fiscal year liability ($0.6 \times TY_1 + 0.4 \times TY_2 = FY_2$).

As implied above, the LFD has prepared a revised estimate of corporation tax collections. The revisions are less than the estimate approved by the RTIC by $1.3 million in the 2009 biennium and $26.1 million in the 2011 biennium.

Vehicle Tax

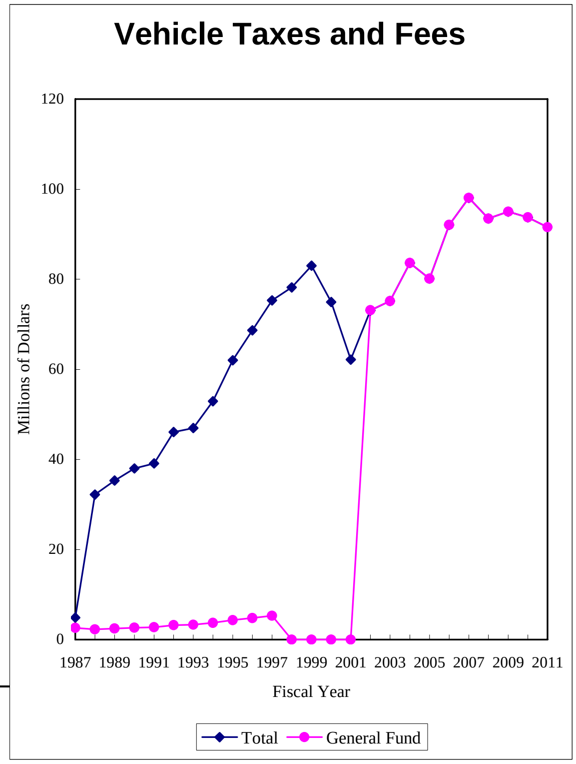
Background

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 fee for light vehicles is $195 for ages between zero and four years, $65 for vehicles between five and ten years of age, and $6 for vehicles over ten years old. Owners of vehicles greater than ten years old may pay $87.50 (plus other applicable fees) for a permanent registration. The fee schedule for trucks varies by age and weight capacity. The fees-in-lieu-of-tax on motorcycles and quadricycles, trailers and travel trailers, snowmobiles, watercraft, off-highway vehicles are one-time payments, except upon change of ownership. This source has contributed the following percentages of total general fund revenue:

FY 2004 – 6.05%
FY 2005 – 5.23%
FY 2006 – 5.39%
FY 2007 – 5.51%
FY 2008 – 5.26%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	8.213142	2.608426	Not App.
A	1988	36.271740	2.255149	-13.54%
A	1989	40.139702	2.471472	9.59%
A	1990	44.232002	8.869602	258.88%
A	1991	46.947105	10.582218	19.31%
A	1992	56.247735	13.378654	26.43%
A	1993	56.358436	12.670105	-5.30%
A	1994	62.629657	13.424539	5.95%
A	1995	71.925382	14.238226	6.06%
A	1996	78.442141	14.605759	2.58%
A	1997	85.645500	15.588374	6.73%
A	1998	88.988649	10.778306	-30.86%
A	1999	94.058206	11.053035	2.55%
A	2000	86.666587	11.715716	6.00%
A	2001	74.720471	12.548251	7.11%
A	2002	100.548823	100.398624	700.10%
A	2003	104.092316	103.537563	3.13%
A	2004	115.208780	114.330455	10.42%
A	2005	111.494279	110.771948	-3.11%
A	2006	114.000647	113.292384	2.28%
A	2007	117.211161	116.471506	2.81%
A	2008	113.108912	112.487931	-3.42%
F	2009	114.902000	114.241000	1.56%
F	2010	114.369000	113.717000	-0.46%
F	2011	111.967000	111.330000	-2.10%



Forecast Factors

With constant tax rates, the future change in vehicle tax revenue results from change in the vehicle stock in Montana. Because tax payments are directly connected to the number of vehicles in the state, estimates for the revenues are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are derived by obtaining IHS Global Insight estimates for the national vehicle stock and new car sales nationwide and for Montana. A ratio is then developed to project the stock of Montana vehicles. An average of the Montana stock in the current and previous years is used in this estimate from which growth between two years is calculated. For the estimated period, growth is expected to increase in FY 2009, but decline in the following years. The growth rate is applied to the base year (fiscal 2008) revenues of each tax category and projected for all estimated fiscal years based on the stock ratio for Montana.

Oil and Natural Gas Production Tax

Backgound

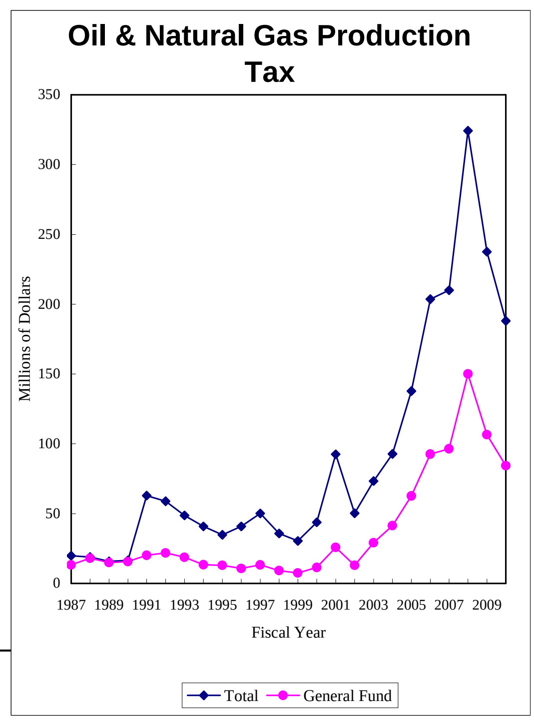
The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production.

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. Starting October 2006 as set by the Board, the P&L tax rate is 0.09 percent. Based on this rate, HB 758 enacted by the 2005 legislature allows an additional tax rate of 0.17 percent to generate revenue for local impacts for local governments. The two taxes may not exceed 0.3 percent. This source contributed the following percent of total general fund revenue:

FY 2004 – 2.99% FY 2007 – 5.25%
FY 2005 – 4.09% FY 2008 – 7.64%
FY 2006 – 5.42%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1987	19.904239	13.254877	Not App.
A	1988	18.913097	17.975582	35.61%
A	1989	15.748241	14.959251	-16.78%
A	1990	16.486405	15.567426	4.07%
A	1991	62.879742	20.163269	29.52%
A	1992	58.892324	21.822893	8.23%
A	1993	48.650604	18.676586	-14.42%
A	1994	40.871318	13.403408	-28.23%
A	1995	34.704332	12.963887	-3.28%
A	1996	40.826475	10.665986	-17.73%
A	1997	50.150068	13.283093	24.54%
A	1998	35.709042	9.120152	-31.34%
A	1999	30.446634	7.505617	-17.70%
A	2000	43.772950	11.362741	51.39%
A	2001	92.395790	25.791723	126.99%
A	2002	50.303610	12.902439	-49.97%
A	2003	73.389376	29.086038	125.43%
A	2004	92.676050	41.323718	42.07%
A	2005	137.754331	62.625939	51.55%
A	2006	203.681078	92.562800	47.80%
A	2007	209.946350	96.334992	4.08%
A	2008	324.311270	149.993826	55.70%
F	2009	237.622000	106.600000	-28.93%
F	2010	187.964000	84.323000	-20.90%
F	2011	229.208000	102.825000	21.94%



Forecast Factors – Oil

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. IHS Global Insight provides future estimates of West Texas Intermediate oil and national well head natural gas prices. Production, price, value, and revenue collections, by oil type, are provided on a quarterly basis by the Department of Revenue. The oil production estimate is developed on a quarterly basis with production from the Elm Coulee field separate from all other production. A normalized production decline curve from every producing well in the field is developed. Future production from completed wells is estimated by developing a curve that represents the average production of wells in the Elm Coulee field by month of production. Production from all other fields is also estimated on a quarterly basis and by the different taxation types based on historical production. The price for each quarter is estimated by adjusting the IHS Global Insight West Texas Intermediate oil price for that quarter by the ratio of the previous three year average Montana price to the three year average of the IHS Global Insight price.

Forecast Factors - Natural Gas

Similar to oil, a normalized production curve is developed for each of the major gas fields: St. Joe Road, Pennel, CX, Tiger Ridge, Bowdoin, and Cedar Creek. Future production from these fields can be estimated based on the resulting curve that represents the average production of wells by month of production. Production from all other fields is also estimated on a quarterly basis and by the different taxation types based on historical production. The price for each quarter is estimated by adjusting the IHS Global Insight national well head price for that quarter by the ratio of the previous three year average Montana price to the three year average of the IHS Global Insight price.

The LFD revisions to this source incorporate the latest IHS Global Insight prices for oil and natural gas adjusted to reflect Montana prices. The revisions are less than the estimate approved by the RTIC by $10.2 million in the 2009 biennium and $18.1 million in the 2011 biennium.

All Remaining General Fund Revenue

The remaining general fund revenue sources in the 2011 biennium constitute 23.8 percent of the total. For detailed information on all the remaining general fund and selected state special revenue sources, see the LFD *Legislative Budget Analysis 2011 biennium, Volume 2 – Revenue Estimates.*