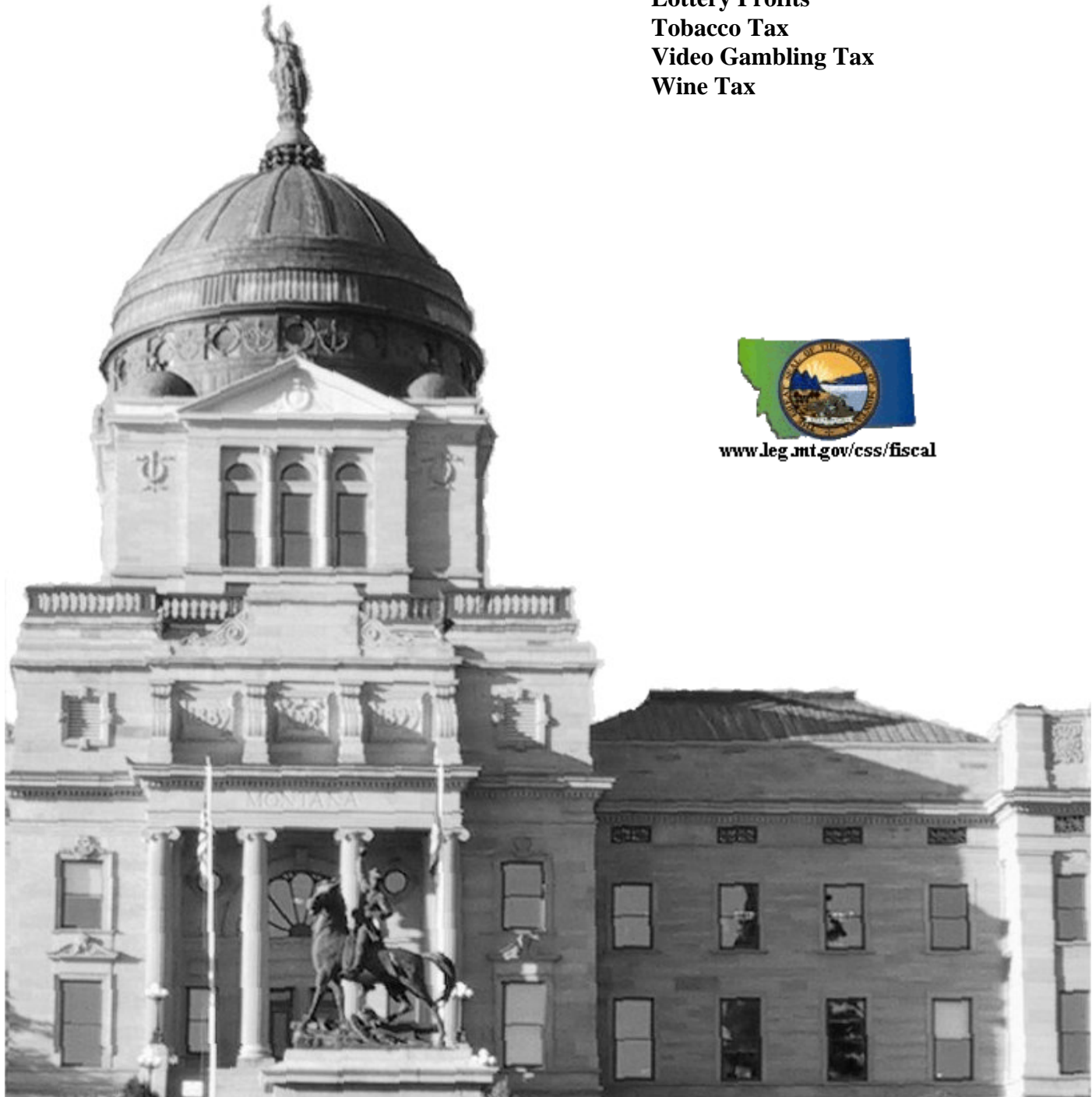


Consumption Taxes

Beer Tax
Cigarette Tax
Diesel Tax
Gasoline Tax
GVW & Other Fees
Liquor Excise & License Tax
Liquor Profits
Lottery Profits
Tobacco Tax
Video Gambling Tax
Wine Tax



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Legislative Fiscal Division

Revenue Estimate Profile

Beer Tax

Revenue Description: A tax is levied on each barrel of beer (31 gallons) produced in or imported into Montana based on the amount produced. A portion of the revenue from the beer tax is returned to Indian tribes per an agreement between the Department of Revenue and the tribes.

Statutory Reference:

Tax Rate (MCA) – 16-1-406

Distribution (MCA) – 16-1-406

Date Due – end of the month and collected in the next month (16-1-406(2))

Applicable Tax Rate(s): The per barrel tax varies based on barrels of production:

up to 5,000 barrels - \$1.30

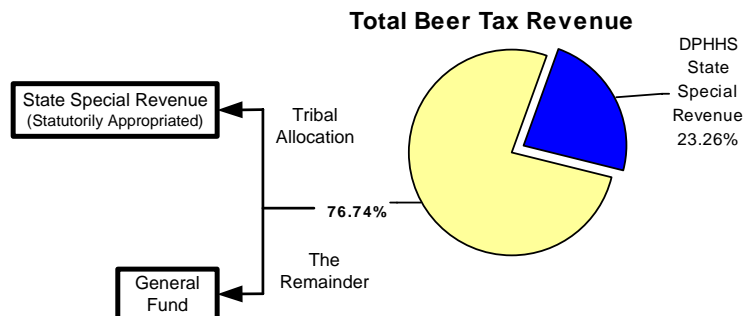
5,001 to 10,000 barrels - \$2.30

10,001 to 20,000 barrels - \$3.30

over 20,000 barrels - \$4.30

Distribution: Beer tax revenue is distributed 76.74 percent to the general fund and 23.26 percent to the DPHHS state special revenue alcohol account. The general fund portion is reduced by the amount of the tribal distribution.

Distribution Chart:



Summary of Legislative Action:

Senate Bill 438 – In addition reducing beer tax revenue, the legislation also increases liquor excise and license tax revenue and liquor profits revenue. The revenue effects and details of these latter changes are shown in the “Liquor Excise and License Tax” and “Liquor Profits” revenue source sections. This legislation reclassifies malt beverages with caffeine or other stimulants as liquor and taxes the beverages at the same rate as liquor, based on the wholesale price. Under previous law, malt beverages were taxed as beer and were estimated to account for about 1/8 of 1 percent of beer tax revenue. General fund revenue declines \$3,150 in FY 2010 and \$4,280 in FY 2011 and state special revenue declines \$955 in FY 2010 and \$1,297 in FY 2011. Since the legislation does not include an effective date, it becomes effective October 1, 2009.

| Beer Tax -- Legislation Passed by 61st Legislature | | | |
|---|-------------|------------------|------------------|
| Estimated General Fund Impact for Fiscal 2009,2010,2011 | | | |
| Bill Number and Short Title | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
| SB0438 Regulate sale of alcoholic energy drinks | | (3,150) | (4,280) |
| Total Estimated General Fund Impact | <u>\$0</u> | <u>(\$3,150)</u> | <u>(\$4,280)</u> |

% of Total General Fund Revenue:

FY 2004 – 0.21%

FY 2007 – 0.17%

Legislative Fiscal Division

Revenue Estimate Profile

Beer Tax

FY 2005 – 0.19%
FY 2006 – 0.17%

FY 2008 – 0.16%

Revenue Estimate Methodology:

Data

To create the beer estimate, data are obtained from the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides the details of taxes paid at each of the four incremental tax rates and information on tribal distributions. SABHRS shows total fiscal year tax collections.

DOR provides data detailing the tax paid at each of the four tax rates. A more accurate calculation of the number of barrels of beer taxed in each fiscal year can be produced using the detailed data. Because the beer tax rate is applied incrementally based on the number of barrels each brewer produces in a year, the number of barrels taxed each year cannot be accurately determined without this information.

The DOR data are used to determine a “proxy” for barrels of beer consumed in Montana. Besides providing the means to measure the taxable barrels of beer sold by wholesalers and producers in Montana, DOR data are used to develop an effective tax rate. The effective rate is created with a weighted average of beer sales by tax rate. The calculation for the weighted average effective rate is as follows:

$$\text{ETR} = (\text{Rate}_{\$4.30} * \% \text{Taxed}_{\$4.30}) + (\text{Rate}_{\$3.30} * \% \text{Taxed}_{\$3.30}) + (\text{Rate}_{\$2.30} * \% \text{Taxed}_{\$2.30}) + (\text{Rate}_{\$1.30} * \% \text{Taxed}_{\$1.30})$$

Where:

ETR is the effective tax rate.

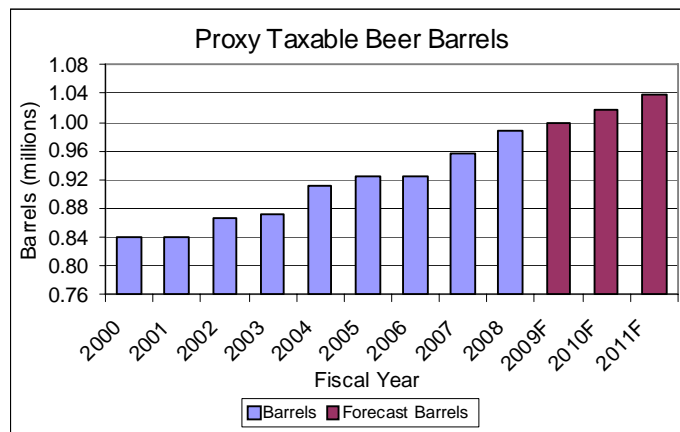
In the estimated period, the effective tax rate is \$4.20 per barrel.

SABHRS data are used in conjunction with the DOR data to derive the number of taxable barrels sold in the state. To calculate taxable barrels, the total tax collected in each fiscal year is divided by the effective tax rate.

Analysis

Analysis of the beer data shows a constant trend for taxable barrels sold in Montana, as demonstrated in the figure below. Consequently, the proxy of taxable barrels sold is regressed in a linear trend model to determine the future taxable barrels of beer that will be sold in Montana. The trend is based on the series of proxy barrels beginning in fiscal 1997.

The statistics of fit show that a linear trend accurately measures the rate of growth in the number of taxable barrels of beer sold in Montana. The model provides an R^2 rating of 0.976. This means that the linear trend explains 97.6 percent of the variability of the number of barrels sold in Montana, when all other impacts are held constant.* The model provides a rate of growth of 19,418 barrels per fiscal year.



The rate of growth developed in the trend model is 5.48 percent annually. The rate of growth is applied to the most recent actual fiscal year data available, or base year fiscal 2006. As seen in the figure above, the projection for beer consumed in Montana is 998,720 barrels, 1,018,138 barrels, and 1,037,556 barrels for fiscal years 2009 through 2011, respectively. Finally, the effective tax rate is

Legislative Fiscal Division

Revenue Estimate Profile

Beer Tax

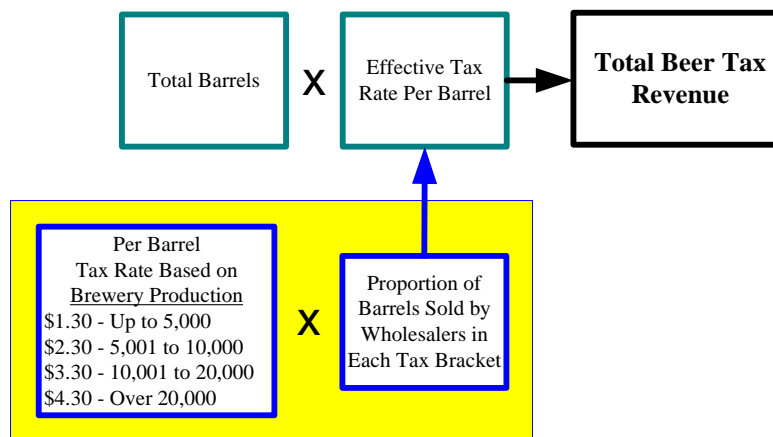
applied to the proxy of barrels developed above. This step produces total tax estimates of \$4.2 million in fiscal 2009, \$4.3 million in fiscal 2010, and \$4.4 million in fiscal 2011.

Adjustment and Distribution

The last step in producing the estimate for beer tax collections is to calculate the tax distributions. Beer taxes are distributed between two funds, the general fund, 76.74 percent, and the Department of Health and Human Services alcohol state special revenue account, 23.26 percent. Finally, the general fund distribution is reduced by tribal reimbursements. At this time, three of the seven tribal governments receive beer tax dollars, Blackfeet, Fort Belknap, and Fort Peck. These tribal governments adhere to the Montana beer tax laws. The state of Montana collects the tribes' portion of the beer tax and quarterly distributes those collections based on a formula (per capita beer consumption times tribal membership times the Montana tax rate).

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

| | t | Total Tax | GF Tax | Barrels | Tax Rate | Effective | GF Allocation | Tribal |
|----------|--------|-----------|----------|----------|---------------|---------------------------|---------------|----------|
| | Fiscal | Millions | Millions | Millions | \$ Per Barrel | Tax Rate \$ Per Barrel | Percent | Millions |
| Actual | 2000 | 3.613076 | 0.370418 | 0.840250 | 4.300000 | | 0.116283 | 0.049723 |
| Actual | 2001 | 3.614271 | 0.384630 | 0.840528 | 4.300000 | | 0.116300 | 0.035710 |
| Actual | 2002 | 3.673818 | 2.783903 | 0.867120 | 4.300000 | 4.236803 | 0.767400 | 0.035385 |
| Actual | 2003 | 3.680560 | 2.771455 | 0.870776 | 4.300000 | 4.226759 | 0.767400 | 0.053007 |
| Actual | 2004 | 3.852303 | 2.896797 | 0.912591 | 4.300000 | 4.221281 | 0.767400 | 0.059460 |
| Actual | 2005 | 3.903377 | 2.936880 | 0.924338 | 4.300000 | 4.222887 | 0.767402 | 0.058580 |
| Actual | 2006 | 3.866023 | 2.907718 | 0.924681 | 4.300000 | 4.180928 | 0.767400 | 0.059068 |
| Actual | 2007 | 4.030525 | 3.034266 | 0.956529 | 4.300000 | 4.213697 | 0.767400 | 0.058759 |
| Actual | 2008 | 4.150714 | 3.124238 | 0.987403 | 4.300000 | 4.203668 | 0.767397 | 0.061007 |
| Forecast | 2009 | 4.198000 | 3.160000 | 0.998720 | 4.300000 | 4.203668 | 0.767400 | 0.062000 |
| Forecast | 2010 | 4.280000 | 3.221000 | 1.018138 | 4.300000 | 4.203668 | 0.767400 | 0.063000 |
| Forecast | 2011 | 4.362000 | 3.282000 | 1.037556 | 4.300000 | 4.203668 | 0.767400 | 0.065000 |

Total Tax = Barrels * Effective Tax Rate

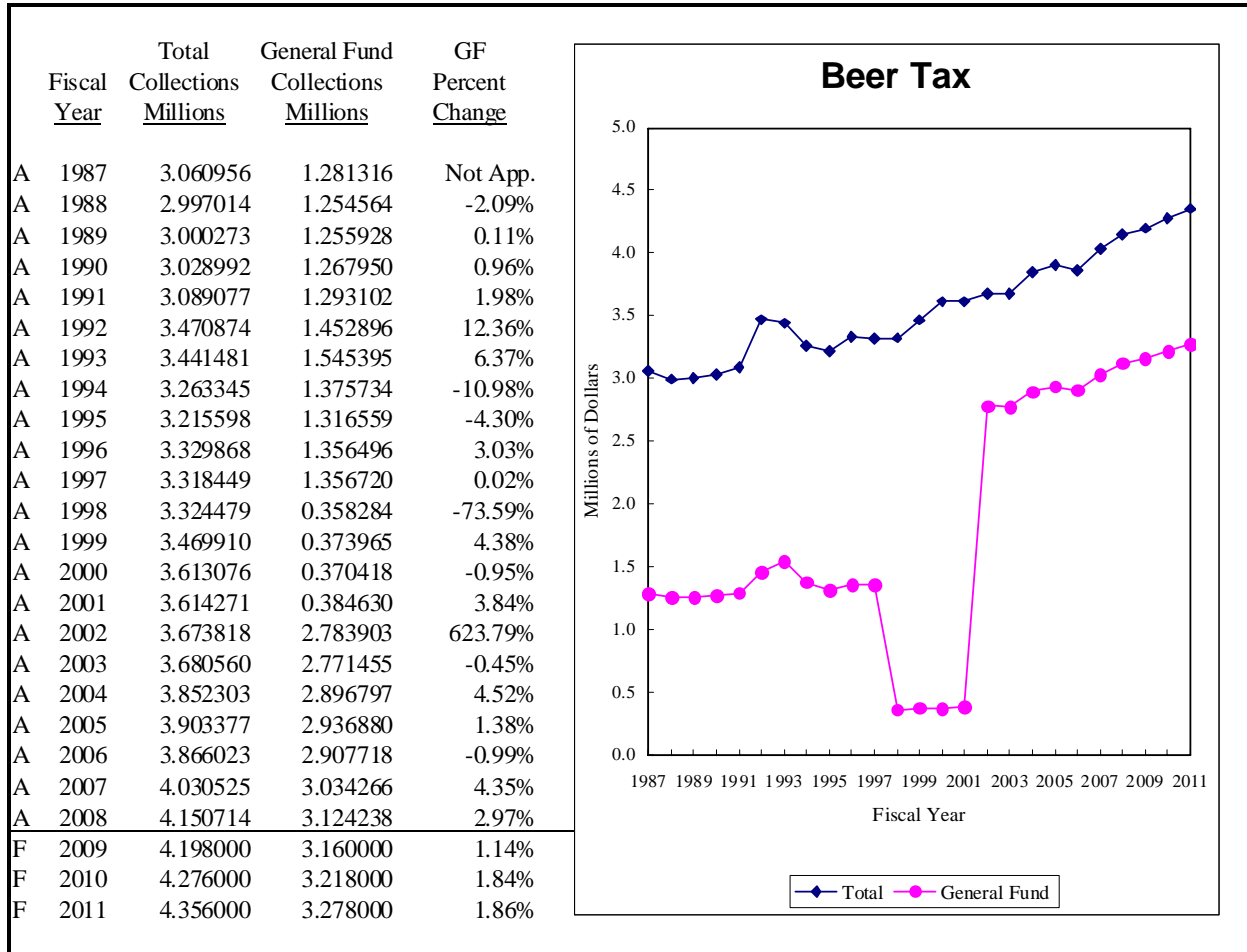
GF Tax = Barrels * Effective Tax Rate * GF Allocation - Tribal

Legislative Fiscal Division

Revenue Estimate Profile

Beer Tax

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Cigarette Tax

Revenue Description: The cigarette tax is an excise tax imposed on all cigarettes sold or possessed in Montana. The tax is imposed on the retail consumer, but is collected by wholesalers or retailers through the use of tax insignia. The insignias are purchased from the state and affixed to each package of cigarettes. The tax does not apply to quota cigarettes sold on an Indian reservation. In practice, the tax is levied on all cigarettes and the wholesaler receives a refund for the amount within the quota that has been sold within the boundaries of an Indian reservation. Each tribe's quota is equal to 150.0 percent of Montana's per capita general fund cigarette tax revenue multiplied by the enrolled tribal member population, or any other amount agreed to in a state-tribal agreement. The state has agreements with five tribes in Montana.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 increasing the tax on cigarettes to \$0.70 per 20-cigarette package, a 289 percent increase from the previous \$0.18 tax. Shortly thereafter, the electorate approved I-149 that raised the tax on packs of 20 cigarettes by \$1.00 to \$1.70, beginning January 1, 2005, an increase of 143 percent. Both SB 407 and I-149 changed the distributor percentage discounts, but the amounts that distributors are allowed to retain for administration of the tax stayed relatively constant. SB 407 changed the distribution of the tax revenues to increase the amount deposited into the state general fund. I-149 increased tax revenues for veterans' nursing home operation and maintenance and provided revenue to a new state special revenue fund for health and Medicaid initiatives. The 2009 Legislature enacted HB 213 and temporarily established a new 1.2 percent distribution only for the 2011 biennium to fund a state veterans' home in southwestern Montana. The distribution to the general fund is reduced by 1.2 percent.

Note: If the money in the veteran's cigarette account at the end of a fiscal year exceeds \$2.0 million, after reductions for budgeted present law amounts for each fiscal year, the excess is transferred to the general fund as a revenue transfer to the "All Other Revenues" source.

Statutory Reference:

Tax Rate (MCA) – 16-11-111

Tax Distribution (MCA) – 16-11-119

Date Due – within 30 days after purchase of the insignia (16-11-117)

Applicable Tax Rate(s):

- Beginning January 2005, the excise tax on cigarettes is \$1.70 per package of 20 cigarettes, prorated for packages that differ from 20 cigarettes.
- Wholesalers pay a license fee of \$50.00 and each retailer pays a license fee of \$5.00. License fees are renewable each year and are non-transferable. Revenue from these fees is shown in "All Other General Fund Revenue".

Distribution: All wholesaler and retailer license fees are deposited in the general fund. After deductions for tribal refunds, the cigarette tax revenue is distributed:

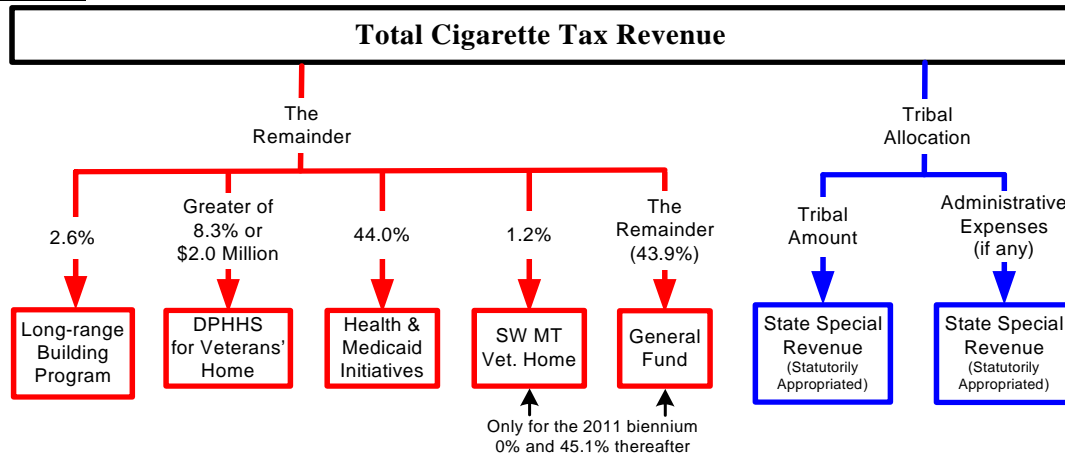
- The greater of 8.3% or \$2.0 million to DPHHS for veterans' nursing home operation and maintenance
- 2.6% to the long-range building program
- 44.0% for health and Medicaid initiatives and children health insurance
- 1.2% for a veterans' home in southwestern Montana (only for the 2011 biennium, 0% thereafter)
- The remainder (43.9%) to the general fund (only for the 2011 biennium, 45.1% thereafter)

Legislative Fiscal Division

Revenue Estimate Profile

Cigarette Tax

Distribution Chart



Summary of Legislative Action:

House Bill 213 – This legislation diverts 1.2 percent of the cigarette tax revenue only in FY 2010 and FY 2011 to a new state special revenue account to fund the future construction of a new veteran’s home, located in southwestern Montana. Under the previous law, this revenue was deposited to the general fund. Reductions to the general fund are \$977,029 in FY 2010 and \$986,661 in FY 2011. State special revenue increases by the same amounts. The bill generally is effective on passage and approval, but the change in the distribution takes effect July 1, 2009.

| Cigarette Tax -- Legislation Passed by 61st Legislature | | | |
|---|-------------|--------------------|--------------------|
| Estimated General Fund Impact for Fiscal 2009,2010,2011 | | | |
| Bill Number and Short Title | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
| HB0213 Establish SW Montana veteran's home | | (977,029) | (986,661) |
| Total Estimated General Fund Impact | <u>\$0</u> | <u>(\$977,029)</u> | <u>(\$986,661)</u> |

% of Total General Fund Revenue:

| | |
|-----------------|-----------------|
| FY 2004 – 2.61% | FY 2007 – 1.95% |
| FY 2005 – 2.29% | FY 2008 – 1.83% |
| FY 2006 – 2.02% | |

Revenue Estimate Methodology:

Data

Data from the state accounting system (SABHRS) and the Department of Revenue (DOR) are used to forecast cigarette tax revenues. The DOR provides information on the number of cigarette insignias (stamps) sold in each month and the amount of discounts given to cigarette distributors. Historic observations of tax collections are available through SABHRS.

DOR provides detailed information on the sales of tax insignias by pack size, company, Tribal, and month. To prepare the raw data for analysis, the total number of insignia sales is reduced by discounts and refunds given to the distributor. The resulting amount serves as a proxy for the number of taxable cigarette packs consumed in Montana in a year. The actual SABHRS data serves as a check against the number of proxy packs of cigarettes calculated by this method.

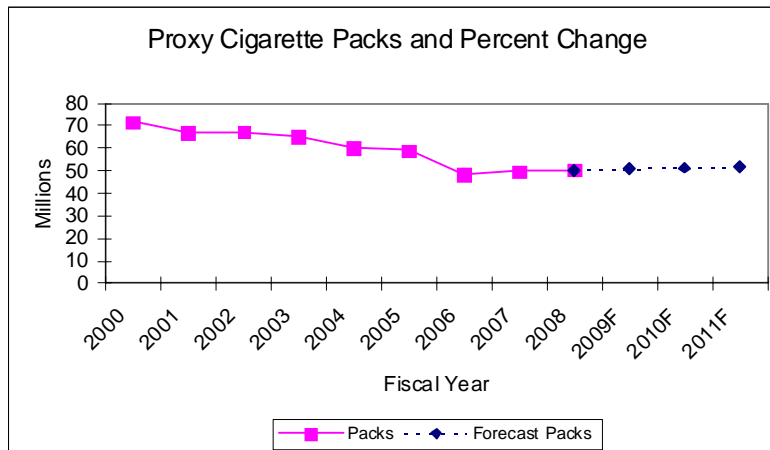
Analysis

In 1982, the consumption of cigarettes began to decrease as a result of an increased awareness of the health risks associated with smoking. Between 1982 and 2002, cigarette consumption decreased at a rate of almost 2 percent annually. Each of the two recent tax increases caused consumption to decrease at a greater rate for two years. These decreases forced downward shifts in Montana’s consumption curve. The shifts are evident in the figure below between fiscal years 2003 and 2004, -7.7 percent, and between fiscal years 2005 and 2006, -21.7 percent.

Legislative Fiscal Division

Revenue Estimate Profile

Cigarette Tax



Experts in the field of cigarette consumption find that following the initial consumption response to the price adjustment of a tax increase, the consumption decline should return to the normal pattern. However, cigarette consumption in Montana has rebounded following the initial price related decline. As shown in the figure above, the number of packs consumed increases between fiscal 2006 and fiscal 2008 by a rate of 2.2 percent annually. A portion of the increased consumption might be attributed to heightened efforts to capture the tax on internet sales of cigarettes.

Because of the recent trend in positive growth in cigarette packs consumed, the estimate of taxable cigarette pack sales for the forecast period is calculated by applying a growth rate of 1.0 percent to the base year, fiscal 2008, proxy for taxable packs. The estimates of proxy taxable cigarette packs are 50.8 million, 51.3 million, and 51.9 million for fiscal years 2009 through 2011, respectively. Finally, the current tax rate is applied to the proxy for taxable packs to determine the estimate for gross cigarette tax collections.

Adjustment and Distribution

After estimating the gross cigarette tax collections, the estimates are reduced by the discounts and credits passed on to distributors. The last step in producing the estimate for the cigarette tax is to calculate the tax distributions. First, cigarette tax revenue is reduced by tribal distributions. At this time, five of the seven tribal governments receive cigarette tax dollars, Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow. These tribal governments adhere to Montana cigarette tax laws. The state of Montana collects the tribes' portion of the tax and quarterly distributes the collections based on a formula (per capita cigarette consumption times tribal membership times the Montana tax rate). Finally, the remaining tax revenues are distributed proportionally to the programs funded with cigarette tax revenues and to the general fund.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Cigarette Tax

| | <u>t</u> <u>Fiscal</u> | <u>Total Tax</u> <u>Millions</u> | <u>GF Tax</u> <u>Millions</u> | <u>Pack</u> <u>Millions</u> | <u>Tax Rate</u> <u>Per Pack</u> | <u>GF Percent</u> <u>Allocation</u> | <u>Tribal</u> <u>Millions</u> |
|----------|---------------------------|-------------------------------------|----------------------------------|--------------------------------|------------------------------------|--|----------------------------------|
| Actual | 2000 | 11.766271 | 8.463793 | | 0.180000 | 0.719327 | 0.178384 |
| Actual | 2001 | 11.628459 | 8.284722 | | 0.180000 | 0.712452 | 0.285740 |
| Actual | 2002 | 11.052174 | 7.886903 | | 0.180000 | 0.713606 | 0.254115 |
| Actual | 2003 | 16.093023 | 12.576306 | | 0.266667 | 0.781476 | 0.285856 |
| Actual | 2004 | 41.582824 | 36.001502 | 60.906841 | 0.700000 | 0.865778 | 0.396269 |
| Actual | 2005 | 54.765357 | 35.116847 | 59.042888 | 1.200000 | 0.641224 | 0.841913 |
| Actual | 2006 | 80.180236 | 34.573004 | 48.148988 | 1.700000 | 0.431191 | 3.521691 |
| Actual | 2007 | 83.380418 | 35.829932 | 49.800300 | 1.700000 | 0.429716 | 3.934892 |
| Actual | 2008 | 83.882749 | 36.004249 | 50.306100 | 1.700000 | 0.429221 | 4.050712 |
| Forecast | 2009 | 80.630000 | 34.564000 | 48.415426 | 1.700000 | 0.451000 | 3.992000 |
| Forecast | 2010 | 77.025000 | 32.984000 | 46.244711 | 1.700000 | 0.451000 | 3.889000 |
| Forecast | 2011 | 77.025000 | 33.053000 | 46.244711 | 1.700000 | 0.451000 | 3.737000 |

| | <u>t</u> <u>Fiscal</u> | <u>Discounts</u> <u>Millions</u> | <u>Refunds</u> <u>Millions</u> | <u>Internet</u> <u>Sales</u> <u>Millions</u> | <u>Tribal</u> <u>Exempt</u> <u>Millions</u> |
|----------|---------------------------|-------------------------------------|-----------------------------------|--|---|
| Actual | 2000 | | | | |
| Actual | 2001 | | | | |
| Actual | 2002 | | | | |
| Actual | 2003 | | | | |
| Actual | 2004 | 0.392806 | 0.659160 | | |
| Actual | 2005 | 0.427635 | 3.156340 | | |
| Actual | 2006 | 0.419742 | 0.416996 | 0.060974 | 1.302281 |
| Actual | 2007 | 0.427631 | 0.342696 | 0.750231 | 1.183071 |
| Actual | 2008 | 0.429383 | 0.425500 | 0.253421 | 1.128854 |
| Forecast | 2009 | 0.413246 | 0.409508 | 0.232615 | 1.086428 |
| Forecast | 2010 | 0.394718 | 0.391148 | 0.232615 | 1.037718 |
| Forecast | 2011 | 0.394718 | 0.391148 | 0.232615 | 1.037718 |

Total Tax = Packs * Tax Rate - Discounts - Refunds + Internet Sales - Tribal Exempt

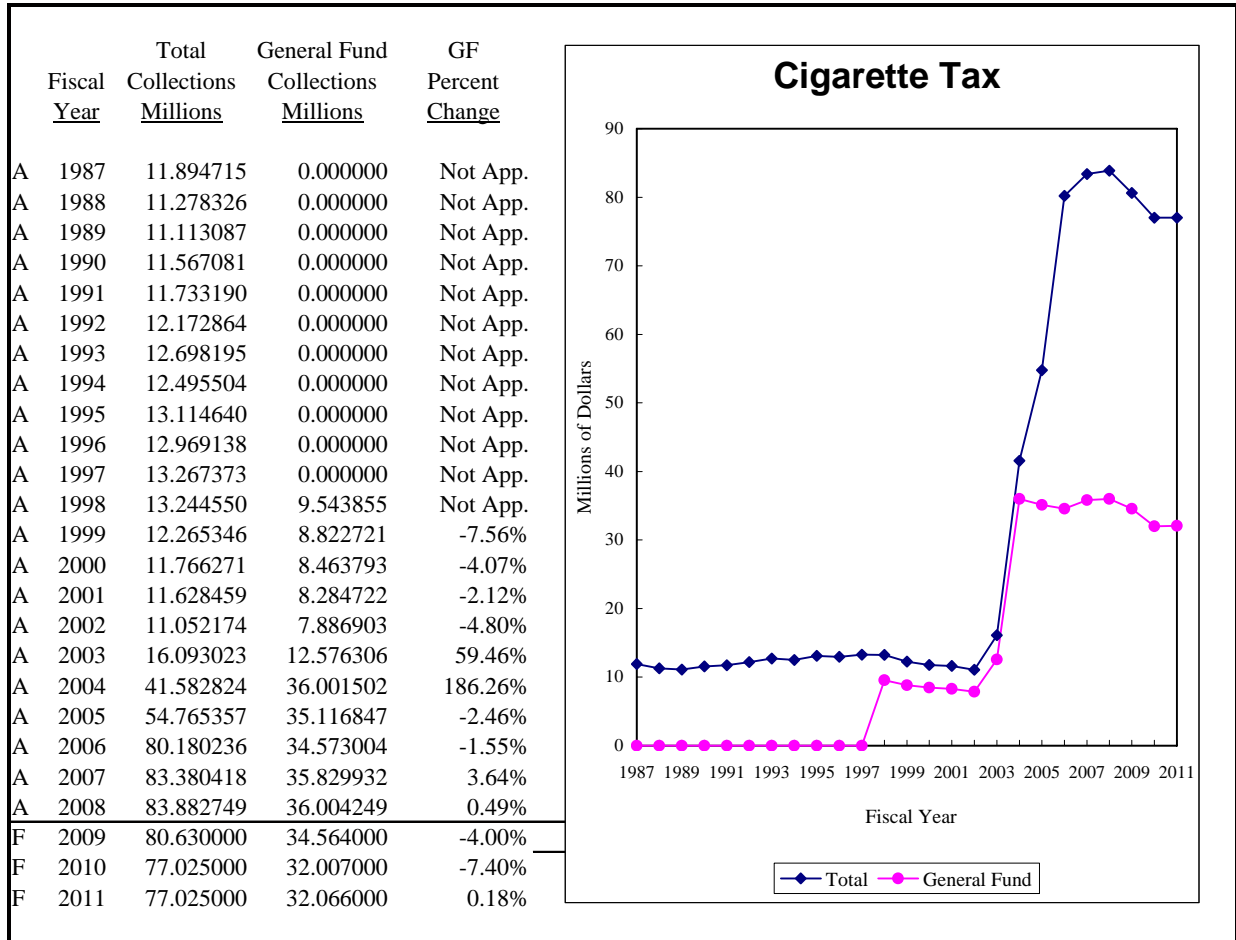
GF Tax = (Total Tax - Tribal) * GF Allocation

Legislative Fiscal Division

Revenue Estimate Profile

Cigarette Tax

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Diesel Tax

Revenue Description: The Montana Constitution (Article VIII, Section 6) provides that money from taxes on vehicle fuel be used solely for: 1) payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; 2) payment of county, city, and town obligations on streets roads, and bridges; and 3) enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

There are two sources of revenue associated with the taxation of special fuels (primarily diesel): 1) the main source of revenue is a diesel tax of \$0.2775 per gallon paid to the Department of Transportation (DOT) for every gallon of diesel sold or used in the state; and 2) a tax of \$0.0075 assessed on each gallon of diesel fuel for the purpose of funding petroleum storage tank cleanup.

Distributors are allowed to withhold 1.0 percent of the diesel tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, DOT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for commercial vehicle use other than for use on public highways and streets, governmental use, and nonpublic school use for the transportation of pupils.

Statutory Reference:

Tax Rate (MCA) – 15-70-321(2), 75-11-313 (storage tank cleanup)

Tax Distribution (MCA) – 15-70-101(1), 75-11-314 (storage tank cleanup)

Date Due – 25th of the following month (15-70-344(1))

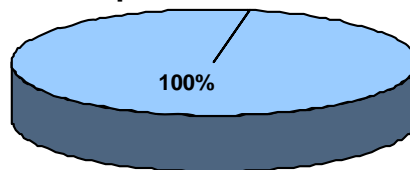
Applicable Tax Rate(s):

1. Diesel (Special) Fuel Tax - \$0.2775 per gallon
2. Petroleum Storage Tank Cleanup Tax - \$0.0075

Distribution: After reductions for: 1) the 1.0 percent withheld by distributors; 2) administrative expenses and refund amounts deducted by DOT under a tribal agreement (if any) that are deposited in the tribal motor fuels administration account and statutorily appropriated; 3) diesel tax refunds; and 4) amounts refunded through the international fuel tax agreement, diesel tax proceeds are distributed to DOT. Of that amount, 1/4 of \$0.01 per gallon is allocated specifically to the funding of highway system maintenance.

Distribution Chart:

State Special Revenue Fund



Summary of Legislative Action:

House Bill 416 – An exemption from the 27.75 cent tax on diesel is provided to a producer of biodiesel produced from waste vegetable oil feedstock. State special revenue decreases \$88,126 in FY 2010 and \$88,126 in FY 2011. The legislation is effective July 1, 2009.

| Diesel Tax -- Legislation Passed by 61st Legislature | | | |
|--|--------------------|--------------------|--------------------|
| Estimated State Special Revenue Impact for Fiscal 2009,2010,2011 | | | |
| <u>Bill Number and Short Title</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> |
| HB0416 Exempt certain biodiesel from state tax | | (88,126) | (88,126) |
| Total Estimated State Special Revenue Fund Impact | <u>\$0</u> | <u>(\$88,126)</u> | <u>(\$88,126)</u> |

Legislative Fiscal Division

Revenue Estimate Profile

Diesel Tax

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

Data

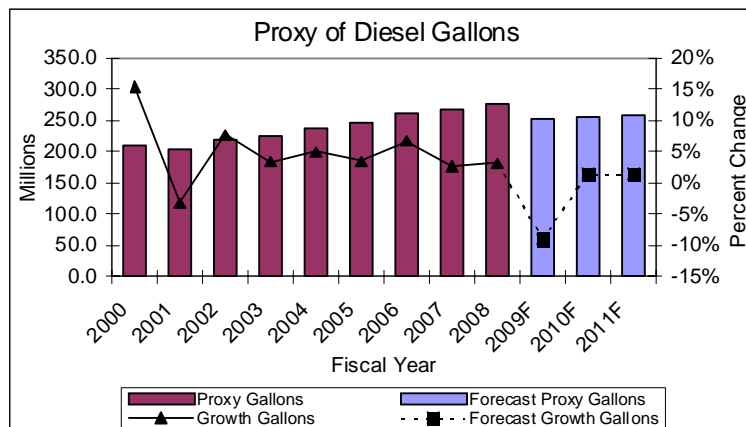
The data used in the diesel fuel tax estimate are obtained from the state accounting system (SABHRS). The SABHRS data includes a historic series of diesel tax revenues and is used to produce a proxy amount for taxable gallons of diesel sold in Montana.

Total diesel taxes are composed of two distinct taxes, the diesel tax and the diesel petroleum storage tank cleanup tax (imposed to cover the cost of storage tank cleanup). Each rate is applied to a proxy for taxable diesel gallons. To create the proxy, the actual tax revenues are increased by refunds and then divided by the “effective tax rate”. The effective tax rate is created in recognition of the statutory credit provided to diesel distributors for collection and payment of the tax. Under current law, diesel distributors are allowed to keep 1 percent of the tax on all diesel receipts and must pay 99 percent of the tax receipts to the state. The effective rate for the forecast period is \$0.274725. After calculating the proxy taxable gallons, the data can be analyzed.

Analysis

Diesel fuel taxes are estimated as separate taxes. First, the diesel tax is imposed on each gallon of diesel sold in the state. A second tax is imposed on all diesel fuel distributed in the state for the purpose of diesel storage tank clean-up costs (storage tank tax). The two taxes are applied to different bases, because the diesel fuel tax provides credits against the cost of the tax to consumers who use the diesel “off highway”.

Diesel fuel sales may be considered a function of the price per gallon of diesel and are highly susceptible to economic activity. Because diesel fuel sales have been significantly impacted by the dramatic increases in price per-gallon in 2008, diesel fuel consumption has not been consistent with the historic trend. Diesel prices are expected to be volatile over the next three years, and in consideration of the volatility, consumption is expected to decline in the near future, fiscal year 2009, and resume a more normal pattern of growth for the remainder of the upcoming biennium, fiscal years 2010 and 2011. To determine the future consumption of diesel fuel, the change in consumption experienced in fiscal year 2008 is duplicated in fiscal 2009. The growth for fiscal years 2010 and 2011 is developed using an average historic rate of growth. The storage tank tax is expected to follow the same patterns as the diesel fuel tax.



The figure above shows the actual gallons of diesel fuel sold in Montana between fiscal years 2000 and 2008 and the expected sales of diesel fuel for fiscal years 2009 through 2011, along with the expected change between the years. In determining future consumption, the growth rates described above are applied to the base year (fiscal 2008). The results of the method provide an overall average growth in the proxy of diesel fuel gallons consumed in Montana of negative 2.2 percent for each year of the analysis. The same rate of growth is next applied to the base year of the proxy for the storage tank gallons. Finally, the effective diesel fuel tax rates are applied to the estimates to produce the estimate for gross tax revenues.

Adjustments

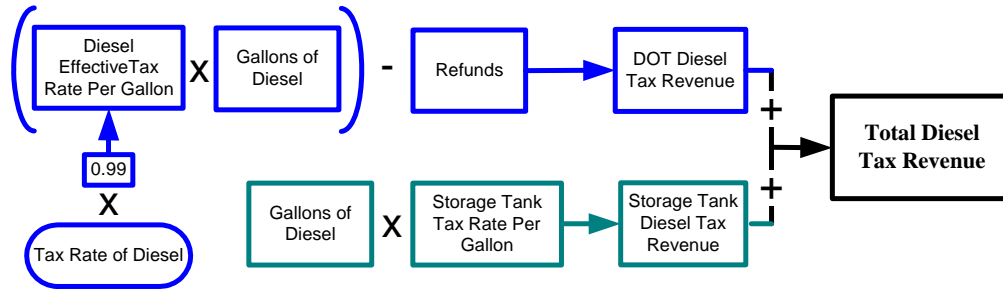
Several adjustments are made to the expected gross diesel fuel tax revenues. Gross tax revenues are reduced by refunds, incentives, DOT administrative costs, and tribal agreements, resulting in the estimate for net diesel fuel tax revenue. No adjustments are required for the storage tank tax. Next, the net tax revenues of the two taxes are combined to determine the estimate for total diesel fuel tax revenue. Finally, the tax revenues are distributed to the various state special revenue accounts as described above.

Legislative Fiscal Division

Revenue Estimate Profile

Diesel Tax

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Diesel Tax

| | <u>t</u> | <u>Total Tax</u> | <u>GF Tax</u> | <u>Gross</u> | <u>Diesel Tax</u> | <u>Tank Tax</u> |
|----------|---------------|------------------|-----------------|-----------------|-------------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 56.454757 | 0.000000 | 59.780702 | 54.259213 | 2.195544 |
| Actual | 2001 | 54.048082 | 0.000000 | 57.941310 | 51.861214 | 2.186868 |
| Actual | 2002 | 58.260741 | 0.000000 | 62.220598 | 56.094333 | 2.166408 |
| Actual | 2003 | 60.133456 | 0.000000 | 64.332478 | 57.901809 | 2.231647 |
| Actual | 2004 | 63.181143 | 0.000000 | 67.600256 | 60.750470 | 2.430673 |
| Actual | 2005 | 65.366712 | 0.000000 | 70.069177 | 62.722690 | 2.644022 |
| Actual | 2006 | 70.594582 | 0.000000 | 74.766720 | 67.780065 | 2.814517 |
| Actual | 2007 | 71.019832 | 0.000000 | 76.686649 | 68.184559 | 2.835273 |
| Actual | 2008 | 74.301658 | 0.000000 | 79.004093 | 71.487860 | 2.813798 |
| Forecast | 2009 | 67.750000 | 0.000000 | 72.030809 | 65.084891 | 2.664667 |
| Forecast | 2010 | 68.721000 | 0.000000 | 73.063337 | 66.017853 | 2.702863 |
| Forecast | 2011 | 69.692000 | 0.000000 | 74.095864 | 66.950814 | 2.741060 |

| | <u>t</u> | <u>Refunds</u> | <u>Diesel</u> | <u>Tank</u> | <u>Diesel</u> | <u>Tank</u> |
|----------|---------------|-----------------|------------------|------------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Effective</u> | <u>Effective</u> | <u>Gallons</u> | <u>Gallons</u> |
| | | | <u>Rate</u> | <u>Rate</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | -3.325945 | 0.274725 | 0.007500 | 209.610185 | 292.739200 |
| Actual | 2001 | -3.893228 | 0.274725 | 0.007500 | 202.946372 | 291.582400 |
| Actual | 2002 | -3.959857 | 0.274725 | 0.007500 | 218.597470 | 288.854400 |
| Actual | 2003 | -4.199022 | 0.274725 | 0.007500 | 226.047251 | 297.552933 |
| Actual | 2004 | -4.419113 | 0.274725 | 0.007500 | 237.217519 | 324.089733 |
| Actual | 2005 | -4.702465 | 0.274725 | 0.007500 | 245.427810 | 352.536267 |
| Actual | 2006 | -4.172138 | 0.274725 | 0.007500 | 261.906281 | 375.268933 |
| Actual | 2007 | -5.666817 | 0.274725 | 0.007500 | 268.819277 | 378.036400 |
| Actual | 2008 | -4.702435 | 0.274725 | 0.007500 | 277.332951 | 375.173067 |
| Forecast | 2009 | -4.281251 | 0.274725 | 0.007500 | 252.493012 | 355.288894 |
| Forecast | 2010 | -4.342621 | 0.274725 | 0.007500 | 256.112379 | 360.381791 |
| Forecast | 2011 | -4.403990 | 0.274725 | 0.007500 | 259.731746 | 365.474688 |

| | <u>t</u> | <u>GF</u> | <u>DOT</u> | <u>GF</u> | <u>DOT</u> |
|----------|---------------|----------------|----------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Percent</u> | <u>Percent</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 0.0000% | 100.0000% | 0.000000 | 54.259213 |
| Actual | 2001 | 0.0000% | 100.0000% | 0.000000 | 51.861214 |
| Actual | 2002 | 0.0000% | 100.0000% | 0.000000 | 56.094333 |
| Actual | 2003 | 0.0000% | 100.0000% | 0.000000 | 57.901809 |
| Actual | 2004 | 0.0000% | 100.0000% | 0.000000 | 60.750470 |
| Actual | 2005 | 0.0000% | 100.0000% | 0.000000 | 62.722690 |
| Actual | 2006 | 0.0000% | 100.0000% | 0.000000 | 67.780065 |
| Actual | 2007 | 0.0000% | 100.0000% | 0.000000 | 68.184559 |
| Actual | 2008 | 0.0000% | 100.0000% | 0.000000 | 71.487860 |
| Forecast | 2009 | 0.0000% | 100.0000% | 0.000000 | 65.085000 |
| Forecast | 2010 | 0.0000% | 100.0000% | 0.000000 | 66.018000 |
| Forecast | 2011 | 0.0000% | 100.0000% | 0.000000 | 66.951000 |

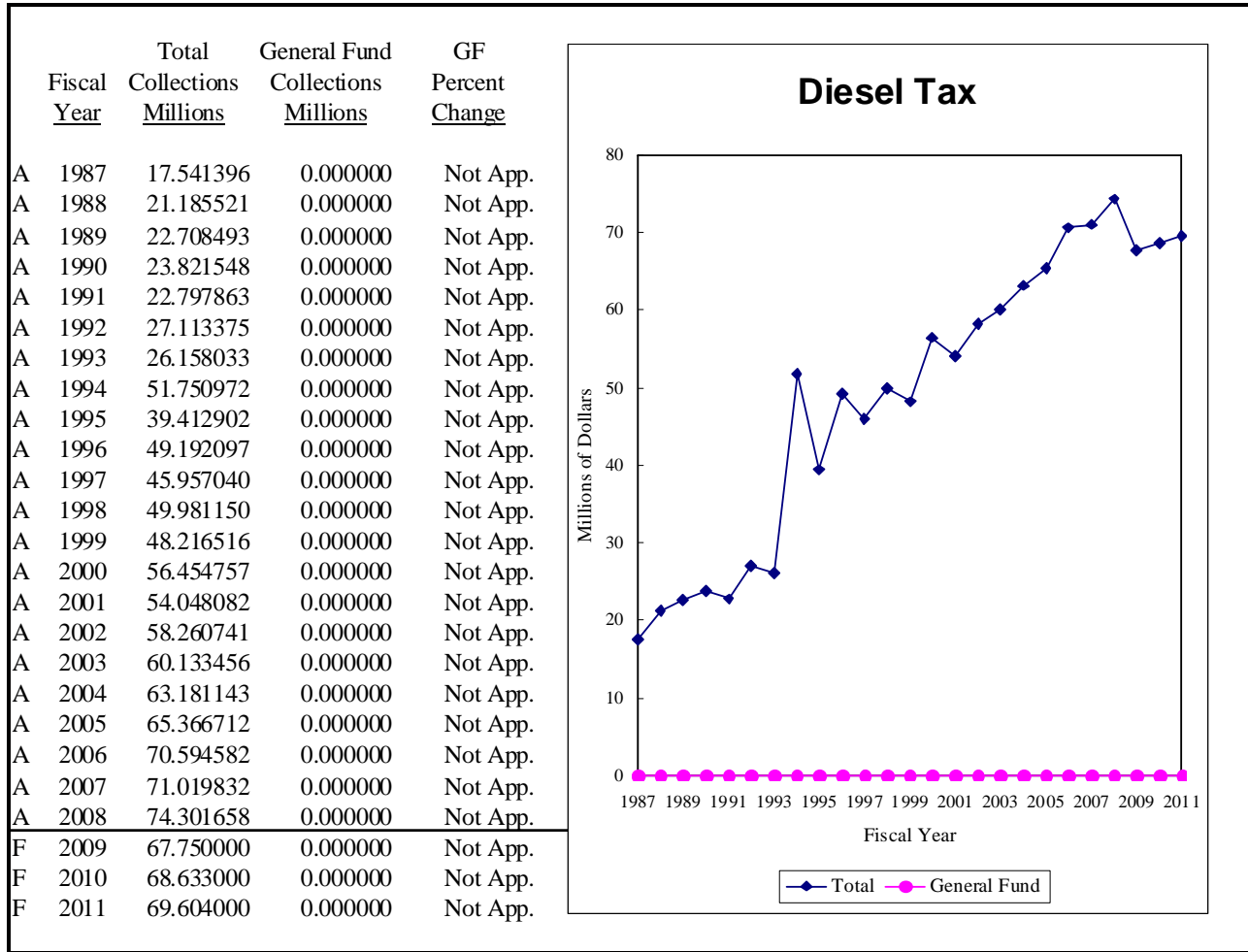
Total Tax = Diesel Effective * Diesel Gallons + Tank Effective * Tank Gallons + Refunds

Legislative Fiscal Division

Revenue Estimate Profile

Diesel Tax

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

Revenue Description: The constitution of the state (Article VIII, Section 6) provides that money from taxes on vehicle fuel be used solely for: 1) payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; 2) payment of county, city, and town obligations on streets roads, and bridges; and 3) enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

There are two sources of revenue associated with the taxation of gasoline: 1) the primary source of revenue is a gasoline license tax of \$0.27 per gallon paid to the Department of Transportation (DOT) by every distributor for the privilege of selling gasoline; and 2) a tax of \$.0075 assessed on each gallon of gasoline for the purpose of funding petroleum storage tank cleanup.

Distributors are allowed to withhold 1.0 percent of the gasoline tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, DOT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for denaturing alcohol used in gasohol, stationary gasoline engines used off public highways and streets, and commercial vehicle use other than for use on public highways and streets.

Statutory Reference:

Tax Rate (MCA) – 15-70-204(1), 75-11-314 (storage tank cleanup)

Distribution (MCA) – 15-70-101(1), 60-3-201(1), 75-11-313 (storage tank cleanup)

Date Due – 25th of the following month (15-70-205(1))

Applicable Tax Rate(s):

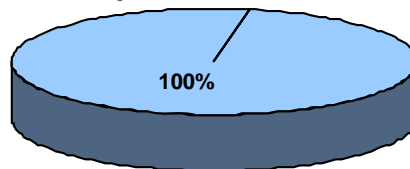
1. Gasoline License Tax - \$0.27 per gallon
2. Petroleum Storage Tank Cleanup Tax - \$.0075

Distribution: After reductions for: 1) the 1.0 percent withheld by distributors; 2) administrative expenses and refund amounts deducted by DOT under a tribal agreement that are deposited in the tribal motor fuels administration account and statutorily appropriated; 3) gasoline tax refunds; and 4) amounts refunded through the international fuel tax agreement, the remainder of the gasoline tax is allocated as follows:

- 9/10 of 1.0% to the state park account
- 15/28 of 1.0% to a snowmobile account in the state special revenue fund. This amount is further allocated 86.0% for general use, 4.33% for enforcement, 8.67% for safety and education, and 1.0% to the noxious weed trust.
- 1/8 of 1.0% to an off-highway vehicle account in the state special revenue fund. This amount is further allocated 90% for general use (including repair of damaged areas) and 10% for safety.
- 1/25 of 1.0% to the aeronautics revenue fund of the Department of Transportation
- 98.3993% to DOT to be used for highway-related purposes, primarily construction projects and administrative costs. One-fourth of \$.01 per gallon is allocated specifically to the funding of highway system maintenance.

Distribution Chart:

State Special Revenue Fund



Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

Summary of Legislative Action:

Senate Bill 353 – Under previous law, ethanol-blended fuel was taxed at a rate 15 percent lower than gasoline. The legislation eliminates the 15 percent reduction and taxes ethanol-blended gasoline taxed at the same rate as non-blended gasoline. The gasoline tax revenue is deposited in the Department of Transportation state special revenue fund. Gasoline tax revenue increase \$6,368,789 in FY 2010 and \$6,335,353 in FY 2011. The legislation is effective July 1, 2009.

| Gasoline Tax -- Legislation Passed by 61st Legislature | | | |
|--|--------------------|--------------------|--------------------|
| Estimated State Special Revenue Impact for Fiscal 2009,2010,2011 | | | |
| <u>Bill Number and Short Title</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> |
| SB0353 Remove license tax incentive for ethanol | | 6,368,789 | 6,335,353 |
| Total Estimated State Special Revenue Fund Impact | <u>\$0</u> | <u>\$6,368,789</u> | <u>\$6,335,353</u> |

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

Data

The data used in the gasoline tax estimate are obtained from the state accounting system (SABHRS). The SABHRS data includes a historic series of gasoline tax revenues and is used to produce a proxy amount for taxable gallons of gasoline sold in Montana.

Total gasoline taxes are made up of two distinct taxes, the gasoline tax and the gasoline petroleum storage tank cleanup tax (imposed to cover the cost of storage tank cleanup). Each rate is applied to a proxy for taxable gasoline gallons. To create the proxy, the actual tax revenues are increased by refunds and then divided by the “effective tax rate”. The effective tax rate is created in recognition of the statutory credit provided to gasoline distributors for collection and payment of the tax. Under current law, gasoline distributors are allowed to keep 1 percent of the tax on all gasoline receipts and must pay 99 percent of the tax receipts to the state. The effective rate for the forecast period is \$0.2673. After calculating the proxy taxable gallons, the data can be analyzed.

Analysis

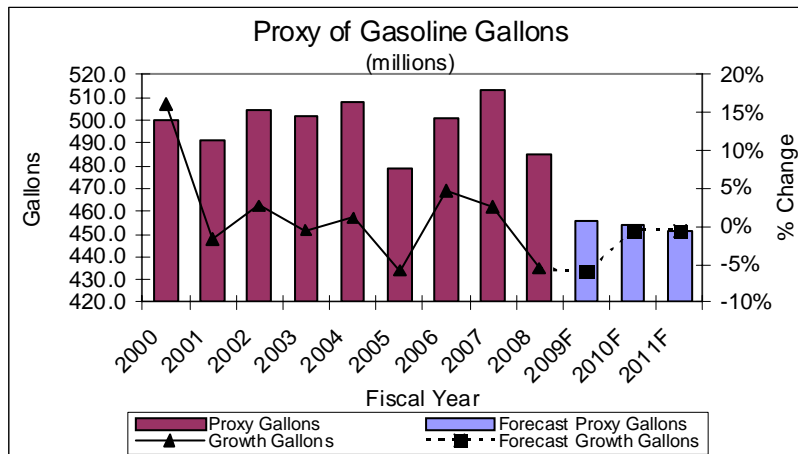
Gasoline taxes are estimated as separate taxes. First, the gasoline tax is imposed on each gallon of gasoline sold in the state. A second tax is imposed on all gasoline distributed in the state for the purpose of gasoline storage tank clean-up costs (storage tank tax). The two taxes are applied to different bases, because the gasoline tax provides credits against the cost of the tax to consumers who use the gasoline “off highway”.

Gasoline sales may be considered a function of the price per gallon of gasoline and are highly susceptible to economic activity. Because gasoline sales have been significantly impacted by the dramatic increases in price per-gallon in 2008, gasoline consumption has not been consistent with the historic trend. Gasoline prices are expected to be volatile over the next three years, and in consideration of the volatility, consumption is expected to decline in the near future, fiscal year 2009, and resume a more normal pattern of growth for the remainder of the upcoming biennium, fiscal years 2010 and 2011. To determine the future consumption of gasoline, the change in consumption experienced in fiscal year 2008 is duplicated in fiscal 2009. The growth for fiscal years 2010 and 2011 is developed using an average historic rate of growth. The storage tank tax is expected to follow the same patterns as the gasoline tax.

Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

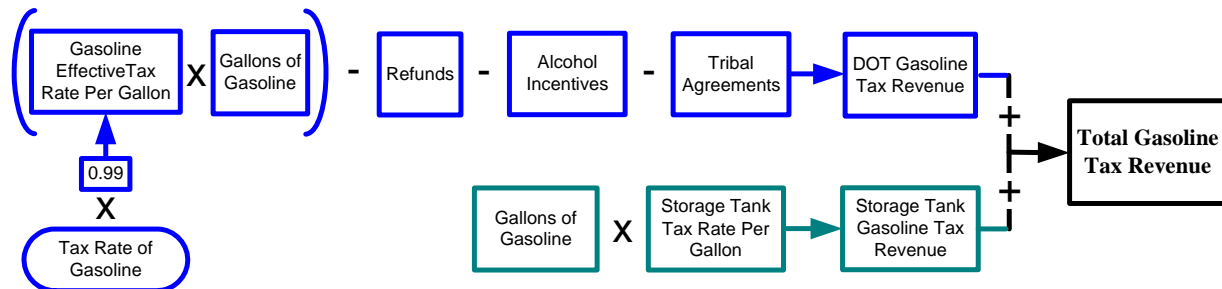


The figure above shows the actual gallons of gasoline sold in Montana between fiscal years 2000 and 2008 and the expected sales of gasoline for fiscal years 2009 through 2011, along with the expected change between the years. In determining future consumption, the growth rates described above are applied to the base year (fiscal 2008). The results of the method provide an overall average growth in the proxy of gasoline gallons consumed in Montana of negative 2.2 percent for each year of the analysis. The same rate of growth is next applied to the base year of the proxy for the storage tank gallons. Finally, the effective gasoline tax rates are applied to the estimates to produce the estimate for gross tax revenues.

Adjustments

Several adjustments are made to the expected gross gasoline tax revenues. Gross tax revenues are reduced by refunds, incentives, DOT administrative costs, and tribal agreements, resulting in the estimate for net gasoline tax revenue. No adjustments are required for the storage tank tax. Next, the net tax revenues of the two taxes are combined to determine the estimate for total gasoline tax revenue. Finally, the tax revenues are distributed to the various state special revenue accounts as described above.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

| | <u>t</u> | <u>Total Tax</u> | <u>GF Tax</u> | <u>Gross Tax</u> | <u>Gas Tax</u> | <u>Tank Tax</u> |
|----------|---------------|------------------|-----------------|------------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 130.551884 | 0.000000 | 137.379589 | 126.764307 | 3.787577 |
| Actual | 2001 | 127.754608 | 0.000000 | 134.969262 | 124.059136 | 3.695472 |
| Actual | 2002 | 131.730649 | 0.000000 | 138.612875 | 128.001188 | 3.729461 |
| Actual | 2003 | 131.269072 | 0.000000 | 137.967329 | 127.490014 | 3.779058 |
| Actual | 2004 | 132.962343 | 0.000000 | 139.553197 | 129.154089 | 3.808254 |
| Actual | 2005 | 125.076432 | 0.000000 | 131.616384 | 121.342893 | 3.733539 |
| Actual | 2006 | 135.191541 | 0.000000 | 137.651975 | 131.464648 | 3.726893 |
| Actual | 2007 | 138.761662 | 0.000000 | 141.013167 | 135.041978 | 3.719684 |
| Actual | 2008 | 131.146993 | 0.000000 | 133.429102 | 127.432645 | 3.714348 |
| Forecast | 2009 | 123.278000 | 0.000000 | 125.423356 | 119.786687 | 3.491487 |
| Forecast | 2010 | 122.634000 | 0.000000 | 124.768395 | 119.161160 | 3.473255 |
| Forecast | 2011 | 121.990000 | 0.000000 | 124.113361 | 118.535564 | 3.455020 |

| | <u>t</u> | <u>Refunds</u> | <u>Alcohol</u> | | <u>Gas</u> | <u>Tank</u> | <u>Gas</u> | <u>Tank</u> |
|----------|---------------|-----------------|-------------------|-----------------|------------------|------------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Incentives</u> | <u>Tribal</u> | <u>Effective</u> | <u>Effective</u> | <u>Gallons</u> | <u>Gallons</u> |
| | | | <u>Millions</u> | <u>Millions</u> | <u>Rate</u> | <u>Rate</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | -3.267807 | 0.000000 | -3.559898 | 0.267300 | 0.007500 | 499.783060 | 505.01027 |
| Actual | 2001 | -3.458208 | 0.000000 | -3.756446 | 0.267300 | 0.007500 | 491.110325 | 492.72960 |
| Actual | 2002 | -3.152765 | 0.000000 | -3.729461 | 0.267300 | 0.007500 | 504.614343 | 497.26147 |
| Actual | 2003 | -2.985118 | 0.000000 | -3.713139 | 0.267300 | 0.007500 | 502.013734 | 503.87440 |
| Actual | 2004 | -2.829688 | 0.000000 | -3.761166 | 0.267300 | 0.007500 | 507.837422 | 507.76720 |
| Actual | 2005 | -2.786979 | 0.000000 | -3.752973 | 0.267300 | 0.007500 | 478.424411 | 497.80520 |
| Actual | 2006 | -2.460434 | 0.000000 | -3.784988 | 0.267300 | 0.007500 | 501.029113 | 496.91907 |
| Actual | 2007 | -2.251505 | 0.000000 | -0.046398 | 0.267300 | 0.007500 | 513.630688 | 495.95787 |
| Actual | 2008 | -2.282109 | 0.000000 | 0.000000 | 0.267300 | 0.007500 | 485.277793 | 495.24640 |
| Forecast | 2009 | -2.145182 | 0.000000 | 0.000000 | 0.267300 | 0.007500 | 456.161125 | 465.53162 |
| Forecast | 2010 | -2.133980 | 0.000000 | 0.000000 | 0.267300 | 0.007500 | 453.779052 | 463.10061 |
| Forecast | 2011 | -2.122777 | 0.000000 | 0.000000 | 0.267300 | 0.007500 | 451.396712 | 460.66933 |

Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

| | <u>t</u> | <u>GF</u> | <u>DOT</u> | <u>FWP Snow</u> | <u>FWP Boat</u> | <u>Aeronautics</u> | <u>Off Highway</u> |
|----------|---------------|----------------|----------------|-----------------|-----------------|--------------------|--------------------|
| | <u>Fiscal</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> |
| Actual | 2000 | 0.0000% | 98.3551% | 0.4729% | 0.9253% | 0.0411% | 0.0000% |
| Actual | 2001 | 0.0000% | 98.3544% | 0.4698% | 0.9272% | 0.0418% | 0.0000% |
| Actual | 2002 | 0.0000% | 98.3640% | 0.4711% | 0.9227% | 0.0411% | 0.0000% |
| Actual | 2003 | 0.0000% | 98.3533% | 0.4734% | 0.9262% | 0.0412% | 0.0000% |
| Actual | 2004 | 0.0000% | 98.3535% | 0.4734% | 0.9262% | 0.0412% | 0.0000% |
| Actual | 2005 | 0.0000% | 98.3480% | 0.4746% | 0.9283% | 0.0412% | 0.0000% |
| Actual | 2006 | 0.0000% | 98.3800% | 0.4657% | 0.9111% | 0.0405% | 0.0000% |
| Actual | 2007 | 0.0000% | 98.4017% | 0.4597% | 0.8997% | 0.0400% | 0.0000% |
| Actual | 2008 | 0.0000% | 98.3672% | 0.4603% | 0.9003% | 0.0400% | 0.0000% |
| Forecast | 2009 | 0.0000% | 98.3800% | 0.4657% | 0.9111% | 0.0405% | 0.0000% |
| Forecast | 2010 | 0.0000% | 98.3800% | 0.4657% | 0.9111% | 0.0405% | 0.0000% |
| Forecast | 2011 | 0.0000% | 98.3800% | 0.4657% | 0.9111% | 0.0405% | 0.0000% |

| | <u>t</u> | <u>DOT</u> | <u>FWP Snow</u> | <u>FWP Boat</u> | <u>Aeronautics</u> |
|----------|---------------|----------------|-----------------|-----------------|--------------------|
| | <u>Fiscal</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> |
| Actual | 2000 | 0.01030% | 0.02060% | 0.05140% | 0.01030% |
| Actual | 2001 | 0.01030% | 0.02050% | 0.05140% | 0.01030% |
| Actual | 2002 | 0.01030% | 0.01950% | 0.04920% | 0.01030% |
| Actual | 2003 | 0.01030% | 0.02060% | 0.05150% | 0.01030% |
| Actual | 2004 | 0.01030% | 0.02060% | 0.05140% | 0.01030% |
| Actual | 2005 | 0.01030% | 0.02100% | 0.05240% | 0.01030% |
| Actual | 2006 | 0.01010% | 0.02030% | 0.05080% | 0.01010% |
| Actual | 2007 | 0.01000% | 0.01970% | 0.04950% | 0.01000% |
| Actual | 2008 | 0.01000% | 0.02030% | 0.05050% | 0.01000% |
| Forecast | 2009 | 0.01010% | 0.02030% | 0.05080% | 0.01010% |
| Forecast | 2010 | 0.01010% | 0.02030% | 0.05080% | 0.01010% |
| Forecast | 2011 | 0.01010% | 0.02030% | 0.05080% | 0.01010% |

Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

| | <u>t</u> | <u>GF</u> | <u>DOT</u> | <u>FWP Snow</u> | <u>FWP Boat</u> | <u>Aeronautics</u> | <u>Off Highway</u> |
|----------|---------------|-----------------|-----------------|-----------------|-----------------|--------------------|--------------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 0.000000 | 124.679120 | 0.599491 | 1.172918 | 0.052130 | 0.143357 |
| Actual | 2001 | 0.000000 | 122.017676 | 0.582819 | 1.150251 | 0.051863 | 0.141735 |
| Actual | 2002 | 0.000000 | 125.907096 | 0.603018 | 1.181094 | 0.052552 | 0.143185 |
| Actual | 2003 | 0.000000 | 125.390592 | 0.603563 | 1.180857 | 0.052481 | 0.144352 |
| Actual | 2004 | 0.000000 | 127.027523 | 0.611397 | 1.196224 | 0.053166 | 0.146194 |
| Actual | 2005 | 0.000000 | 119.338308 | 0.575949 | 1.126371 | 0.050038 | 0.138114 |
| Actual | 2006 | 0.000000 | 129.396116 | 0.594629 | 1.163307 | 0.051698 | 0.142272 |
| Actual | 2007 | 0.000000 | 132.884183 | 0.620624 | 1.214605 | 0.053998 | 0.148138 |
| Actual | 2008 | 0.000000 | 125.352083 | 0.586531 | 1.147236 | 0.050969 | 0.140516 |
| Forecast | 2009 | 0.000000 | 117.847000 | 0.558000 | 1.091000 | 0.049000 | 0.133000 |
| Forecast | 2010 | 0.000000 | 117.230000 | 0.555000 | 1.086000 | 0.048000 | 0.133000 |
| Forecast | 2011 | 0.000000 | 116.615000 | 0.552000 | 1.080000 | 0.048000 | 0.132000 |

| | <u>t</u> | <u>Weed</u> | <u>Snow Enforce.</u> | <u>Snow Con-Ed.</u> | <u>OHV Con-Ed.</u> |
|----------|---------------|-----------------|----------------------|---------------------|--------------------|
| | <u>Fiscal</u> | <u>Gasoline</u> | <u>Gasoline</u> | <u>Gasoline</u> | <u>Gasoline</u> |
| | | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 0.013032 | 0.026065 | 0.065162 | 0.013032 |
| Actual | 2001 | 0.012782 | 0.025441 | 0.063787 | 0.012782 |
| Actual | 2002 | 0.013138 | 0.024943 | 0.063024 | 0.013138 |
| Actual | 2003 | 0.013120 | 0.026270 | 0.065659 | 0.013120 |
| Actual | 2004 | 0.013299 | 0.026570 | 0.066424 | 0.013292 |
| Actual | 2005 | 0.012510 | 0.025528 | 0.063565 | 0.012510 |
| Actual | 2006 | 0.012924 | 0.025951 | 0.064827 | 0.012924 |
| Actual | 2007 | 0.013500 | 0.026643 | 0.066787 | 0.013500 |
| Actual | 2008 | 0.012737 | 0.025826 | 0.064399 | 0.012739 |
| Forecast | 2009 | 0.012000 | 0.024000 | 0.061000 | 0.012000 |
| Forecast | 2010 | 0.012000 | 0.024000 | 0.061000 | 0.012000 |
| Forecast | 2011 | 0.012000 | 0.024000 | 0.060000 | 0.012000 |

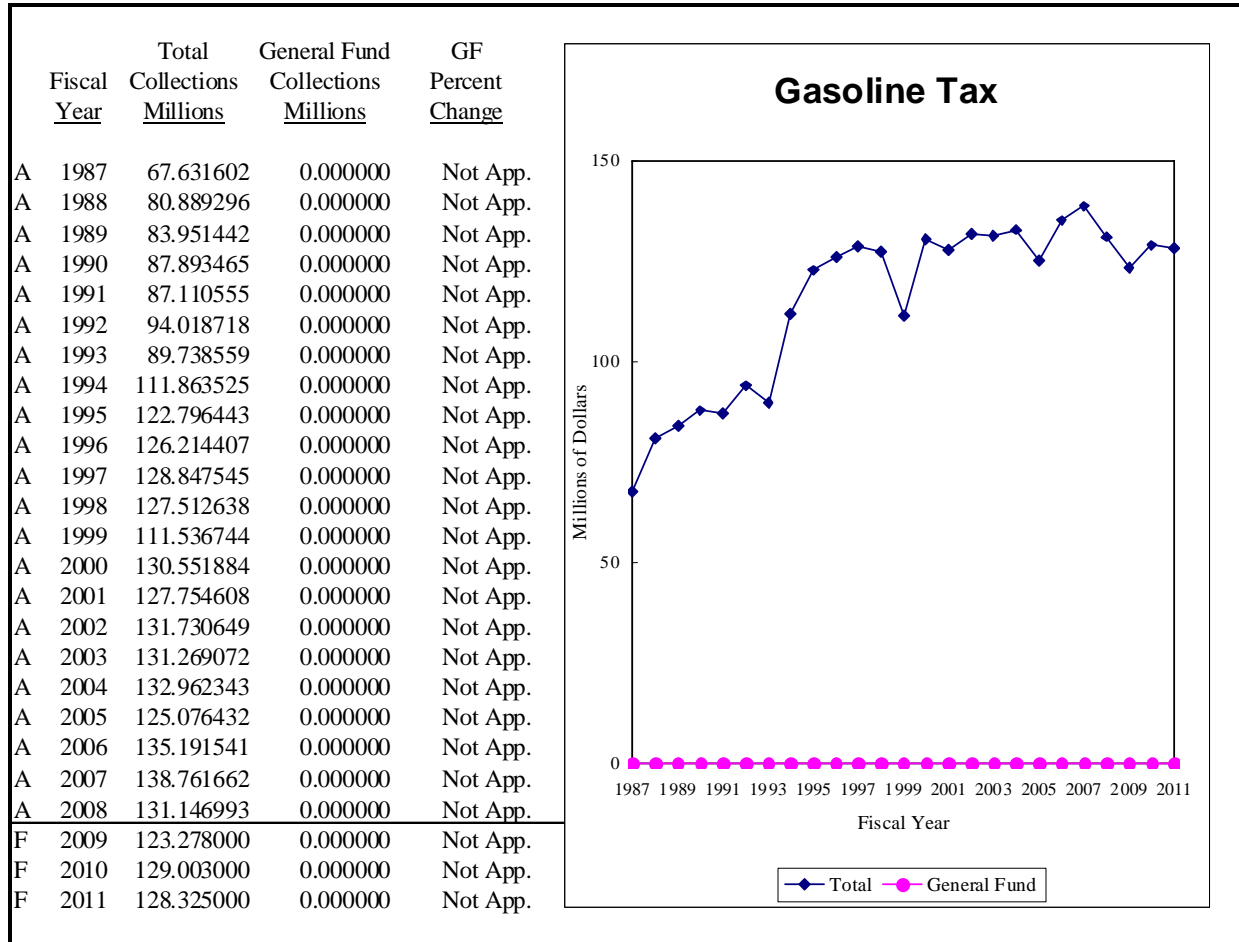
Total Tax = Gas Effective * Gas Gallons + Tank Effective * Tank Gallons + Refunds

Legislative Fiscal Division

Revenue Estimate Profile

Gasoline Tax

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

GVW and Other Fees

Revenue Description: There are two types of revenue derived from over 20 different sources classified under gross vehicle weight (GVW) and other income: fee revenue and permit revenue. The majority of revenue is derived from a variety of GVW fees, including those fees collected by counties when vehicles are registered. Miscellaneous permits comprise the second income component under this source. Enactment of the federal “Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users” replaces the single state registration system (SSRS) with a new uniform carrier registration program. Elimination of the SSRS (effective January 1, 2007) eliminates the \$5 state fee that is deposited to the general fund. The revenue is replaced with revenue from a federal fee. Montana is expected to receive revenue from this fee in the same amount of the lost SSRS revenue.

Statutory Reference:

Tax Rate – Multiple (Administrative Rules 18.8.202)

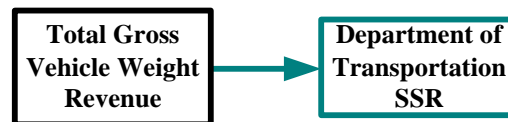
Tax Distribution (MCA) – Multiple

Applicable Tax Rate(s): Various

Distribution: The majority of GVW revenue is allocated to the Department of Transportation.

Distribution Chart:

Beginning January 1, 2007



Summary of Legislative Action: The 61st Legislature did not enact legislation that impacted this general fund revenue source.

% of Total General Fund Revenue: 0.00% (the general portion is included in “All Other General Fund”)

Revenue Estimate Methodology:

Data

The data used in the gross weight vehicle (GVW) tax estimate are obtained from the state accounting system (SABHRS) and the Department of Transportation (DOT). The SABHRS data provides the historic collection data for the 13 different types of fees and permits. The DOT provides statistics on the number of gross weight vehicle licenses for use in Montana. No adjustments are required on the raw data in preparation for analysis.

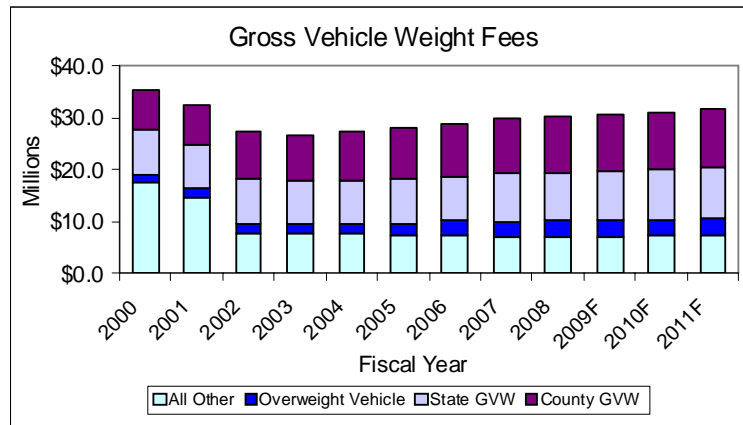
Analysis

The state of Montana imposes many fees and requires several types of permits based on the gross weight of commercial and large privately owned vehicles. In preparing the GVW estimate, 13 sources of fees and permit revenues are analyzed. Most of the sources demonstrate a payment history that can be adequately measured by applying a growth rate to a base year (fiscal 2006). The largest sources of revenue in the GVW are the gross vehicle weight fees collected by both counties and the state. The figure below demonstrates the relative importance of these two sources to the overall GVW collections.

Legislative Fiscal Division

Revenue Estimate Profile

GVW and Other Fees



Both county and state GVW fees are forecast with a compound growth rate and are expected to grow by 1.6 percent over the next biennium. Applying the growth rate to fiscal 2006 revenues, the resulting estimates for county GVW are \$11.0 million in fiscal 2009, \$11.2 million in fiscal 2010, and \$11.4 million in fiscal 2011. The estimates for state GVW are \$9.4 million, \$9.6 million, and \$9.7 million for fiscal 2009 through fiscal 2011, respectively. Another large source of revenue included in the GVW is the fee for overweight vehicles. This fee is estimated with a three-year moving average growth rate. When applied to the base, collections of overweight vehicle fees are expected to be \$3.2 million over the biennium. The all other GVW fees, as shown in the figure above, are a collection of 10 different fees and permit types. While each of these fees is estimated separately, in combination the fees are expected to increase at an annual rate of 1.9 percent during the biennium. When summed, all other fees are expected to be \$7.1 million in fiscal 2009, \$7.2 million in fiscal 2010, and \$7.4 million in fiscal 2011. Finally, the estimates for each of the GVW fees and permit collections are combined to produce the total estimate for GVW fees, \$30.7 million, \$31.2 million, and \$31.7 million in fiscal 2009 through fiscal 2011.

Forecast Methodology:

Summed for each
GVW fee type



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

GVW and Other Fees

| | <u>t</u> | <u>Total Tax</u> | <u>GF Tax</u> | <u>GVW</u> | <u>SSRS</u> | <u>Form 3</u> | <u>Trip</u> | <u>County</u> |
|----------|---------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 35.210631 | 1.275935 | 8.852775 | 1.275935 | 0.855910 | 0.880540 | 7.321056 |
| Actual | 2001 | 32.377206 | 1.252221 | 8.363842 | 1.252221 | 0.812782 | 0.844991 | 7.681434 |
| Actual | 2002 | 27.265844 | 1.044512 | 8.813717 | 1.044512 | 0.859843 | 0.440875 | 8.933475 |
| Actual | 2003 | 26.818248 | 1.183822 | 8.503261 | 1.183822 | 1.043854 | 0.441475 | 8.800388 |
| Actual | 2004 | 27.499842 | 1.215079 | 8.586289 | 1.215080 | 1.006892 | 0.455112 | 9.397954 |
| Actual | 2005 | 28.149492 | 1.168512 | 8.690129 | 1.168512 | 0.992080 | 0.514477 | 9.919972 |
| Actual | 2006 | 28.916122 | 1.330190 | 8.554869 | 1.336310 | 1.059142 | 0.541849 | 10.242789 |
| Actual | 2007 | 29.760940 | 0.109577 | 9.256911 | 0.109573 | 1.133481 | 0.583472 | 10.543860 |
| Actual | 2008 | 30.237842 | -0.034714 | 9.266031 | -0.034714 | 1.137243 | 0.642334 | 10.827437 |
| Forecast | 2009 | 30.727000 | 0.000000 | 9.411795 | 0.000000 | 1.141018 | 0.684470 | 10.997763 |
| Forecast | 2010 | 31.192000 | 0.000000 | 9.559908 | 0.000000 | 1.144805 | 0.729371 | 11.170835 |
| Forecast | 2011 | 31.672000 | 0.000000 | 9.713316 | 0.000000 | 1.148605 | 0.777217 | 11.350093 |

| | <u>t</u> | <u>Sales</u> | <u>Overweight</u> | <u>Special</u> | <u>Restricted</u> | <u>Fuel</u> | <u>LPG</u> | <u>Other</u> |
|----------|---------------|-----------------|-------------------|-----------------|-------------------|-----------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 12.533721 | 1.459102 | 0.918654 | 0.000000 | 0.105370 | 0.000000 | 1.007568 |
| Actual | 2001 | 9.923131 | 1.768619 | 0.953853 | 0.000000 | 0.124626 | 0.000000 | 0.651707 |
| Actual | 2002 | -0.639815 | 1.845340 | 0.902845 | 0.000000 | 0.107580 | 0.000000 | 4.957472 |
| Actual | 2003 | 0.000000 | 1.815747 | 0.921775 | 0.000000 | 0.105750 | 0.000000 | 4.002176 |
| Actual | 2004 | 0.000000 | 1.902635 | 0.977915 | 0.000000 | 0.108120 | 0.000000 | 3.849845 |
| Actual | 2005 | 0.000000 | 2.075045 | 1.029744 | 0.000000 | 0.110360 | 0.000000 | 3.649173 |
| Actual | 2006 | 0.000000 | 2.645635 | 1.104107 | 0.000000 | 0.117720 | 0.000000 | 3.313701 |
| Actual | 2007 | 0.000000 | 2.778511 | 1.169869 | 0.000000 | 0.125966 | 0.000000 | 4.059297 |
| Actual | 2008 | 0.000000 | 3.185475 | 1.229064 | 0.000000 | 0.150660 | 0.000000 | 3.834312 |
| Forecast | 2009 | 0.000000 | 3.204817 | 1.242188 | 0.000000 | 0.156639 | 0.000000 | 3.888309 |
| Forecast | 2010 | 0.000000 | 3.224277 | 1.255452 | 0.000000 | 0.164376 | 0.000000 | 3.943176 |
| Forecast | 2011 | 0.000000 | 3.243855 | 1.268858 | 0.000000 | 0.170060 | 0.000000 | 4.000004 |

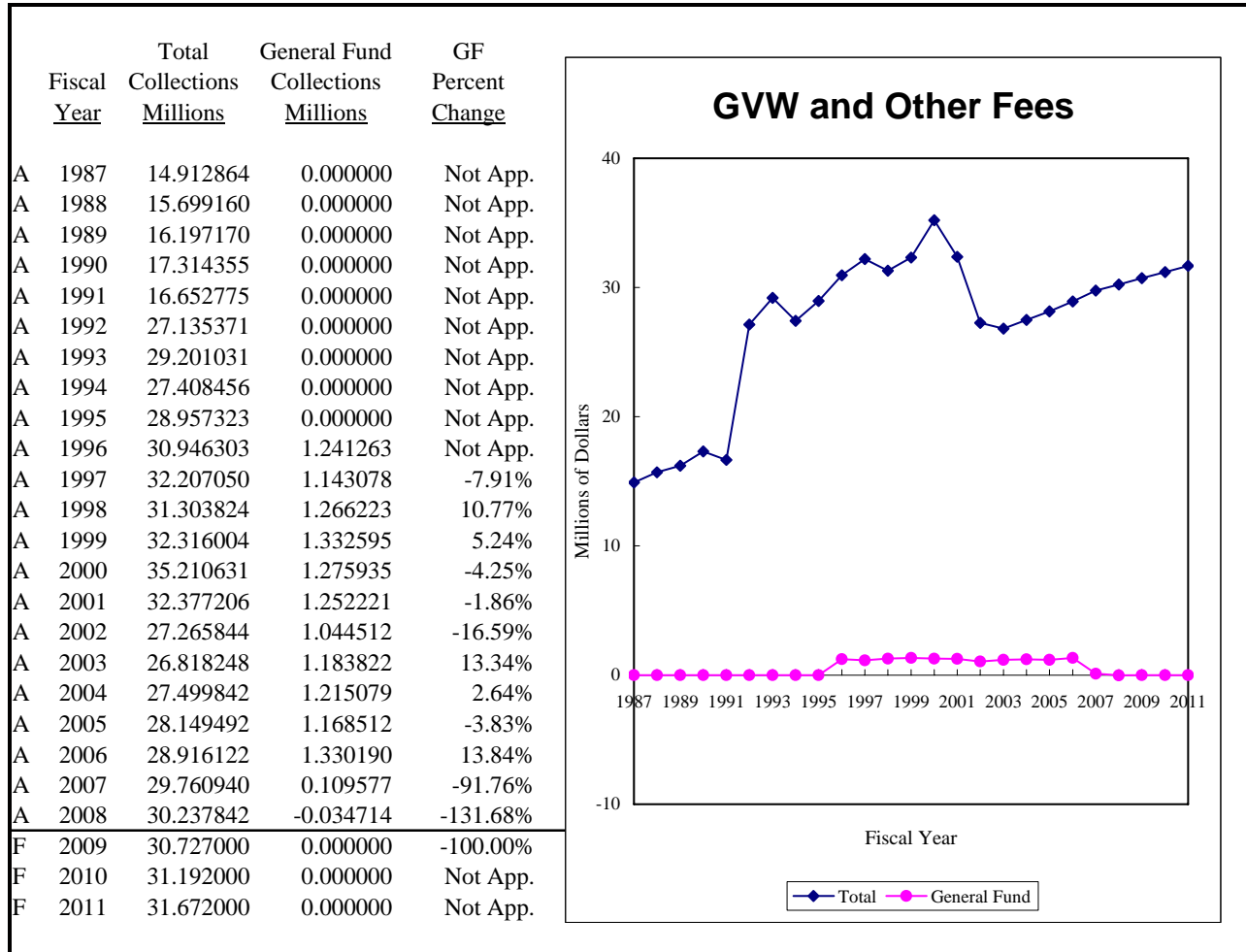
Total Tax = GVW + SSRS + Form 3 + Trip + County + Sales + Overweight + Special + Restricted +
Fuel + LPG + Other

Legislative Fiscal Division

Revenue Estimate Profile

GVW and Other Fees

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Liquor Excise and License Tax

Revenue Description: The Department of Revenue (DOR) is authorized to sell liquor to retail liquor establishments throughout the state. These sales result in profits and taxes that are deposited in various state accounts. An excise tax is collected both on liquor sold by DOR and for liquor purchased outside the state, by airlines and railroads (carriers), for consumption within the state. The department also collects a license tax on the sale of liquor. A portion of the excise tax revenue is returned to Indian tribes through an agreement with the department.

Statutory Reference:

Tax Rate (MCA) – Excise tax (16-1-401), License tax (16-1-404)

Tax Distribution (MCA) – Excise tax (16-1-401 & 16-2-108), License tax (16-1-404)

Date Due – Excise tax is collected at the time of sale and distributed by the 10th day of each month. License tax is collected at the time of sale.

Applicable Tax Rate(s):

Excise Tax Rate

All liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed the liquor is taxed a percentage rate on the retail selling price based on the following number of proof gallons of liquor nationwide in the calendar year preceding imposition of the tax:

- 3.0% - < 20,000 proof gallons
- 8.0% - 20,000 to 50,000 proof gallons
- 13.8% - 50,001 to 200,000 proof gallons
- 16.0% - Over 200,000 proof gallons

The amount of excise taxes paid by carriers includes additional factors related to departures and passenger miles.

License Tax Rate

- 10.0% of the retail selling price on all liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed and that sold more than 200,000 proof gallons of liquor nationwide in the calendar year preceding imposition of the tax
- 8.6% of the retail selling price on all liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed and that sold not more than 200,000 proof gallons of liquor nationwide in the calendar year preceding imposition of the tax

The license tax must be charged and collected on all liquor brought into the state and taxed by DOR. The retail selling price must be computed by adding to the cost of the liquor the state markup as designated by the department. The license tax must be figured in the same manner as the state excise tax and is in addition to the state excise tax.

Distribution:

Excise tax revenue, less amounts distributed to Indian tribes, is deposited in the enterprise fund for transfer to the general fund.

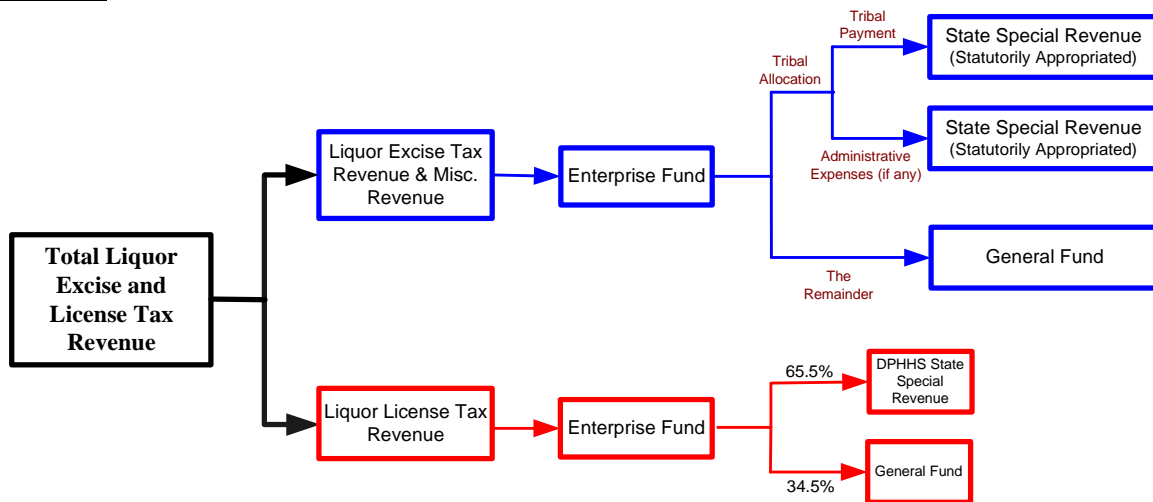
License tax revenue is allocated to the enterprise fund for transfer 34.5 % to the general fund and 65.5% to the Department of Public Health and Human Services for alcohol treatment and rehabilitation programs.

Legislative Fiscal Division

Revenue Estimate Profile

Liquor Excise and License Tax

Distribution Chart:



Summary of Legislative Action:

House Bill 412 – The legislation reduces the liquor excise tax rate for producers that produce less than 50,000 proof gallons of liquor annually. Under previous law, the liquor excise tax rate was 16 percent of the retail selling price for producers that produce 200,000 or more proof gallons annually and 13.8 percent of the retail selling price for producers that produce less than 200,000 proof gallons annually. Under this legislation, if nationwide production is: 1) less than 20,000 gallons the tax rate is 3 percent; 2) between 20,001 and 50,000 gallons the rate is 8 percent; 3) between 50,001 and 200,000 gallons the rate is 13.8 percent; and 4) over 200,000 gallons the rate is 16 percent. Since the liquor control division does not currently carry any products from producers that produce less than 50,000 proof gallons of liquor annually, no fiscal impact is anticipated. The legislation is effective on passage and approval and the new rates apply to liquor sold and delivered after July 1, 2009.

Senate Bill 438 – In addition to increasing liquor excise and license tax revenue, the legislation also changes beer and liquor profit revenues. The revenue effects and details of these latter changes are shown in the “Beer Tax” and “Liquor Profits” revenue source sections. This legislation reclassifies malt beverages with caffeine or other stimulants as liquor and taxes the beverages at the same rate as liquor, based on the wholesale price. Under previous law, malt beverages were taxed as beer. General fund revenue increases \$23,201 in FY 2010 and \$31,524 in FY 2011 and state special revenue increases \$31,070 in FY 2010 and \$42,216 in FY 2011. Since the legislation does not include an effective date, it is effective October 1, 2009.

| Liquor Excise & License Tax -- Legislation Passed by 61st Legislature | | | |
|---|-------------|-----------------|-----------------|
| Estimated General Fund Impact for Fiscal 2009,2010,2011 | | | |
| Bill Number and Short Title | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
| HB0412 Revise liquor excise tax rates for smaller producers | | | |
| SB0438 Regulate sale of alcoholic energy drinks | | 23,201 | 31,524 |
| Total Estimated General Fund Impact | <u>\$0</u> | <u>\$23,201</u> | <u>\$31,524</u> |

% of Total General Fund Revenue:

| | |
|-----------------|-----------------|
| FY 2004 – 0.78% | FY 2007 – 0.76% |
| FY 2005 – 0.75% | FY 2008 – 0.76% |
| FY 2006 – 0.74% | |

Revenue Estimate Methodology:

Data

To create the liquor excise and the liquor license tax projections, the data are obtained from the Department of Revenue (DOR), Global Insight, and the state accounting system (SABHRS). The DOR data provides the details of monthly liquor sales and costs. Global Insight provides estimates for the change in the consumer price index (CPI), and historic tax revenue data from SABHRS are used to confirm the adequacy of the estimates.

Legislative Fiscal Division

Revenue Estimate Profile

Liquor Excise and License Tax

Total liquor taxes are made up of two taxes, an excise tax and a license tax. While each tax has a different rate, both taxes are assessed on the retail sales price of the commodity. The tax rate is lower for companies that produce less than 200,000 gallons. However, for the purpose of estimating future liquor taxes, the tax rates for liquor sales by companies who produce less than 200,000 gallons of liquor are not considered. Consequently, the rate of the excise tax is estimated at 16 percent of the price, and the license tax is estimated at 10 percent of the price.

Analysis

Analysis shows a constant upward trend in liquor sales in Montana, as shown in the figure below.

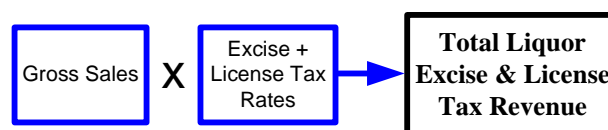


The estimate of liquor taxes is calculated by applying growth rates to base year values of both the amount of liquor units sold and the per unit price of liquor. The expected sales of liquor units are estimated by applying a five-year average growth factor. The annual growth factor for the forecast period is 6.5 percent, annually. The growth rate for the price per liquor unit is estimated using the past year price as the base. This price is adjusted in subsequent years by the change in the CPI, as estimated by Global Insight, adjusted by the long term ratio of the change in the cost of liquor units to the change in the CPI. The calculated growth rates are 2.2 percent in fiscal 2009, 1.3 percent in fiscal 2010, and 1.8 percent in fiscal 2011. When total units and sales per unit are multiplied, total estimated gross liquor sales in Montana are estimated to be \$83.6 million, \$88.8 million, and \$94.6 million for fiscal years 2009 through 2011, respectively. The final step is to apply both tax rates to the estimate of liquor sales to determine the estimate for the combined liquor excise and license taxes.

Adjustment and Distribution

The last step in producing the estimate for liquor taxes is to calculate the tax distributions. Liquor taxes are distributed to the general fund after a reduction for tribal reimbursements. At this time, three of the seven tribal governments receive liquor tax dollars, Blackfeet, Fort Belknap, and Fort Peck. These tribal governments adhere to the Montana liquor tax laws. The state of Montana collects the tribes' portion of the liquor taxes and quarterly distributes those collections based on a formula (per capita liquor consumption times tribal membership times the Montana tax rate). After reducing the excise tax revenue by the tribal distribution, the revenue is distributed to the enterprise fund and then to the general fund. The license tax is distributed to the enterprise fund and then to the general fund and the Department of Public Health and Human Services.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

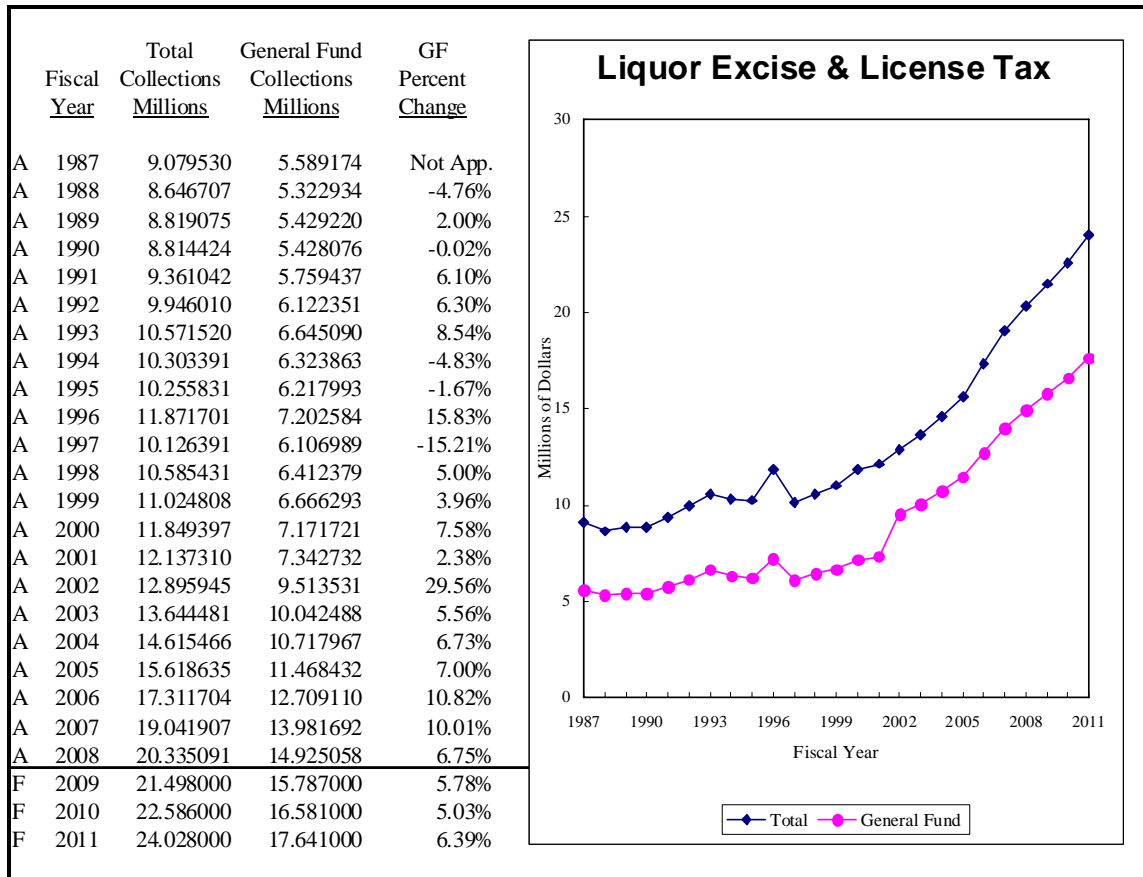
Liquor Excise and License Tax

| | <u>t</u> | <u>Total Tax</u> | <u>GF Tax</u> | <u>Tribal</u> | <u>Gross</u> | <u>Excise</u> | <u>License</u> | <u>GF License</u> |
|----------|---------------|------------------|-----------------|-----------------|----------------------|----------------|----------------|-------------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Sales - Taxes</u> | <u>Rate</u> | <u>Rate</u> | <u>Allocation</u> |
| | | | | | <u>Millions</u> | <u>Percent</u> | <u>Percent</u> | <u>Percent</u> |
| Actual | 2000 | 11.849397 | 7.171721 | 0.118276 | 45.609283 | 0.160000 | 0.100000 | |
| Actual | 2001 | 12.137310 | 7.342732 | 0.126171 | 46.701813 | 0.160000 | 0.100000 | |
| Actual | 2002 | 12.895945 | 9.513531 | 0.133456 | 49.615021 | 0.160000 | 0.100000 | 0.344908 |
| Actual | 2003 | 13.644481 | 10.042488 | 0.165323 | 52.479352 | 0.160000 | 0.100000 | 0.345000 |
| Actual | 2004 | 14.615466 | 10.717967 | 0.216395 | 56.212333 | 0.160000 | 0.100000 | 0.345000 |
| Actual | 2005 | 15.618635 | 11.468432 | 0.216693 | 60.068788 | 0.160000 | 0.100000 | 0.345000 |
| Actual | 2006 | 17.311704 | 12.709110 | 0.242086 | 66.600387 | 0.160000 | 0.100000 | 0.345000 |
| Actual | 2007 | 19.041907 | 13.981692 | 0.263726 | 73.255070 | 0.160000 | 0.100000 | 0.345000 |
| Actual | 2008 | 20.335091 | 14.925058 | 0.287605 | 78.249724 | 0.160000 | 0.100000 | 0.345000 |
| Forecast | 2009 | 21.498000 | 15.787000 | 0.295000 | 82.677501 | 0.160000 | 0.100000 | 0.345000 |
| Forecast | 2010 | 22.572000 | 16.570000 | 0.316000 | 86.743869 | 0.160000 | 0.100000 | 0.345000 |
| Forecast | 2011 | 24.010000 | 17.627000 | 0.335000 | 92.245980 | 0.160000 | 0.100000 | 0.345000 |

Total Tax = Gross Sales * Excise Rate + Gross Sales * License Rate

GF Tax = Gross Sales * Excise Rate - Tribal + Gross Sales * License Rate * GF License Allocation

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Liquor Profits

Revenue Description: The Department of Revenue (DOR) is authorized to sell liquor and fortified wine to retail liquor establishments throughout the state. These sales result in profits that are deposited in the general fund. Tax revenues generated from liquor excise and license taxes, as well as wine taxes, are estimated under separate methodologies.

Liquor profits received by the state are primarily generated by a mark-up on the sale of liquor and fortified wine, less costs such as commissions and discounts. House Bill 348 enacted by the 2001 Legislature phased-in liquor store commission increases based on sales volume over a three-year period beginning fiscal 2003. A 40.0 percent mark-up is added to the state's base cost for liquor. The state's mark-up percentage on the base cost of fortified wine (more than 16% but no greater than 24% alcohol by volume) is 51%. The mark-up percentage for both liquor and wine is determined by administrative rule (see ARM 42.11.104).

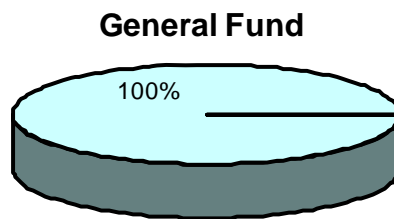
Statutory Reference:

Tax Rate – Authority to markup the price is found in 16-1-404(2) and ARM 42.11.104
Tax Distribution (MCA) – 16-2-108(4)
Date Due – NA

Applicable Tax Rate(s): N/A

Distribution: Liquor profits are deposited in the general fund annually.

Distribution Chart:



Summary of Legislative Action:

House Bill 2 – The money appropriated from certain accounts impacts the amount of general fund revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the executive budget and finalized in HJ 2, final appropriations set by the legislature (such as those in HB 2 and HB 5) may differ and, thus, may affect revenue. Revenue changes due to changes in appropriations occur in the liquor division account (DOR) and reduce the liquor profits deposited in the general fund by \$35,117 in FY 2010 and \$34,790 in FY 2011. The legislation is effective June 1, 2009.

House Bill 5 – The money appropriated from certain accounts impacts the amount of general fund revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the executive budget and finalized in HJ 2, final appropriations set by the legislature (such as those in HB 2 and HB 5) may differ and, thus, may affect revenue. The legislation reduces liquor profits in the 2011 biennium by appropriating \$1,750,000 from the liquor enterprise fund for deferred maintenance and energy upgrades at the state liquor warehouse. The reduction of liquor profits transferred to the general fund is \$1,750,000 in FY 2010. The legislation is effective on passage and approval.

House Bill 656 – The legislation allows agency liquor stores to purchase products at sale prices for an additional two weeks prior to the beginning of the sale. Given the increased timing of sale priced goods, the volume of liquor sales is expected to increase, thus increasing commissions paid by the state to liquor stores. The increased commissions reduce liquor profits that are transferred to the general fund. General fund revenue is reduced \$30,062 in FY 2010 and \$32,556 in FY 2011. Since the legislation does not include an effective date, the legislation is effective October 1, 2009.

Senate Bill 438 – In addition to increasing liquor profits, the legislation also reduces beer tax revenues and increases liquor excise and license tax revenues. The revenue effects and details of these latter changes are shown in the “Beer Tax” and “Liquor Excise and License Tax” revenue source sections. The legislation reclassifies malt beverages with caffeine or other stimulants as liquor

Legislative Fiscal Division

Revenue Estimate Profile

Liquor Profits

and taxes the beverages at the same rate as liquor, based on the wholesale price. Under previous law, malt beverages were taxed as beer. Liquor profits transferred to the general fund increase \$16,156 in FY 2010 and \$21,952 in FY 2011. Since the legislation does not include an effective date, it becomes effective October 1, 2009.

Senate Bill 511 - The legislation establishes a sacramental wine license which allows the licensee to sell wine to rabbis, priests, pastors, ministers or other religious officials. There is an application fee of \$200 and an annual license renewal fee of \$100 (three licenses are assumed). It is assumed that 450 cases with 12 bottles each of sacramental wine will be sold each year, generating an additional \$540 in liquor profit revenue transferred to the general fund. General fund revenue increases \$1,140 in FY 2010 and \$840 in FY 2011. The legislation is effective on passage and approval.

Liquor Profits -- Legislation Passed by 61st Legislature Estimated General Fund Impact for Fiscal 2009,2010,2011

| <u>Bill Number and Short Title</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> |
|--|--------------------|----------------------|--------------------|
| HB0002 General appropriations act | | (35,117) | (34,790) |
| HB0005 Long-range building appropriations -- include energy conservation | | (1,750,000) | |
| HB0656 Revise liquor store commissions | | (30,062) | (32,556) |
| SB0438 Regulate sale of alcoholic energy drinks | | 16,156 | 21,952 |
| SB0511 Retail license to sell table wine for sacramental purposes | | 1,140 | 840 |
| Total Estimated General Fund Impact | <u>\$0</u> | <u>(\$1,797,883)</u> | <u>(\$44,554)</u> |

% of Total General Fund Revenue:

| | |
|-----------------|-----------------|
| FY 2004 – 0.47% | FY 2007 – 0.45% |
| FY 2005 – 0.43% | FY 2008 – 0.45% |
| FY 2006 – 0.44% | |

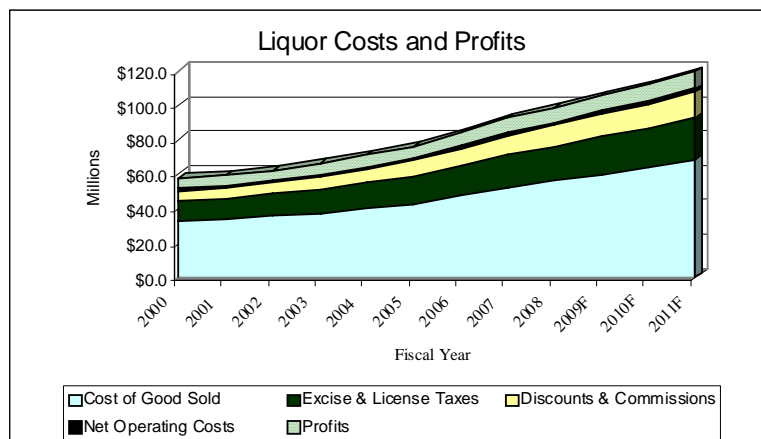
Revenue Estimate Methodology:

Data

The estimate for the liquor profits is dependent on total liquor sales, the cost of goods sold, and other operational expenditures. Data are obtained from the Department of Revenue (DOR), the state budget system (MBARS), and the state accounting system (SABHRS). DOR provides monthly historical data for the total liquor sales, the number of units of liquor sold, and the average price for each unit of liquor. MBARS provides the present law operational budget for the DOR liquor division. SABHRS data provides a historic breakout of liquor expenses and is used as a comparison to check the adequacy of the estimate.

Analysis

As seen in the figure below, the profits are a small part of the total liquor sales. Since fiscal 2000, profits have averaged about 9.2 percent of total tax included liquor sales. In the forecast period, profits are expected to be approximately 8.1 percent of total tax included sales.



Legislative Fiscal Division

Revenue Estimate Profile

Liquor Profits

The starting point in estimating liquor profits is the gross sales of liquor. The steps in determining the liquor profits are as follows:

- Determine units
- Determine total sales value (units * price per unit)
- Determine costs of goods sold (units * cost per unit)
- Calculate discounts and commissions
- Obtain operating budgets
- Calculate taxes

Liquor profits are estimated by reducing total tax included liquor sales (for the methodology of total liquor sales, see the “Liquor Excise and License Tax” revenue section) by all the costs of doing business. For the purpose of estimating liquor profits, the cost of doing business includes the cost of the goods sold (cost of liquor and transportation), the taxes (excise and license), discounts and commissions, and net operating costs (program administration). These costs historically represent 91.1 percent of the cost of a unit of liquor. When costs are subtracted from total sales, the resulting amount is the estimate for liquor profits.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

| | t | GF Profit | Gross | Excise | Discount | Cost of | Operation | Other |
|----------|---------------|-----------------|----------------------|--------------------|-------------------|-----------------|-----------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Sales + Taxes</u> | <u>License Tax</u> | <u>Commission</u> | <u>Goods</u> | <u>Costs</u> | <u>Income</u> |
| | | | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 5.900000 | 57.467696 | 11.853082 | 6.003244 | 32.318259 | 1.202429 | 0.039667 |
| Actual | 2001 | 5.900000 | 58.844284 | 12.141061 | 6.134579 | 33.666541 | 1.301124 | 0.003416 |
| Actual | 2002 | 5.600000 | 62.514926 | 12.898347 | 6.797458 | 35.279453 | 1.477563 | 0.008387 |
| Actual | 2003 | 6.000000 | 66.123983 | 13.643474 | 7.432835 | 37.321005 | 1.484600 | 0.007831 |
| Actual | 2004 | 6.500000 | 70.827539 | 14.613826 | 8.165280 | 39.933421 | 1.506793 | 0.009589 |
| Actual | 2005 | 6.650000 | 75.686673 | 15.616350 | 9.161860 | 42.693308 | 1.553030 | 0.000000 |
| Actual | 2006 | 7.450000 | 83.916488 | 17.309889 | 10.147568 | 47.306545 | 1.691865 | 0.000000 |
| Actual | 2007 | 8.200000 | 92.301388 | 19.039498 | 11.130789 | 52.142312 | 1.736389 | 0.000000 |
| Actual | 2008 | 8.775000 | 98.594652 | 20.333301 | 12.114487 | 55.687736 | 1.683323 | 0.000000 |
| Forecast | 2009 | 8.910000 | 104.173651 | 21.496150 | 12.799984 | 58.927877 | 2.298217 | 0.000000 |
| Forecast | 2010 | 9.237000 | 109.297275 | 22.553406 | 13.429532 | 61.807000 | 2.669799 | 0.000000 |
| Forecast | 2011 | 9.749000 | 116.229935 | 23.983955 | 14.281359 | 65.936209 | 2.833902 | 0.000000 |

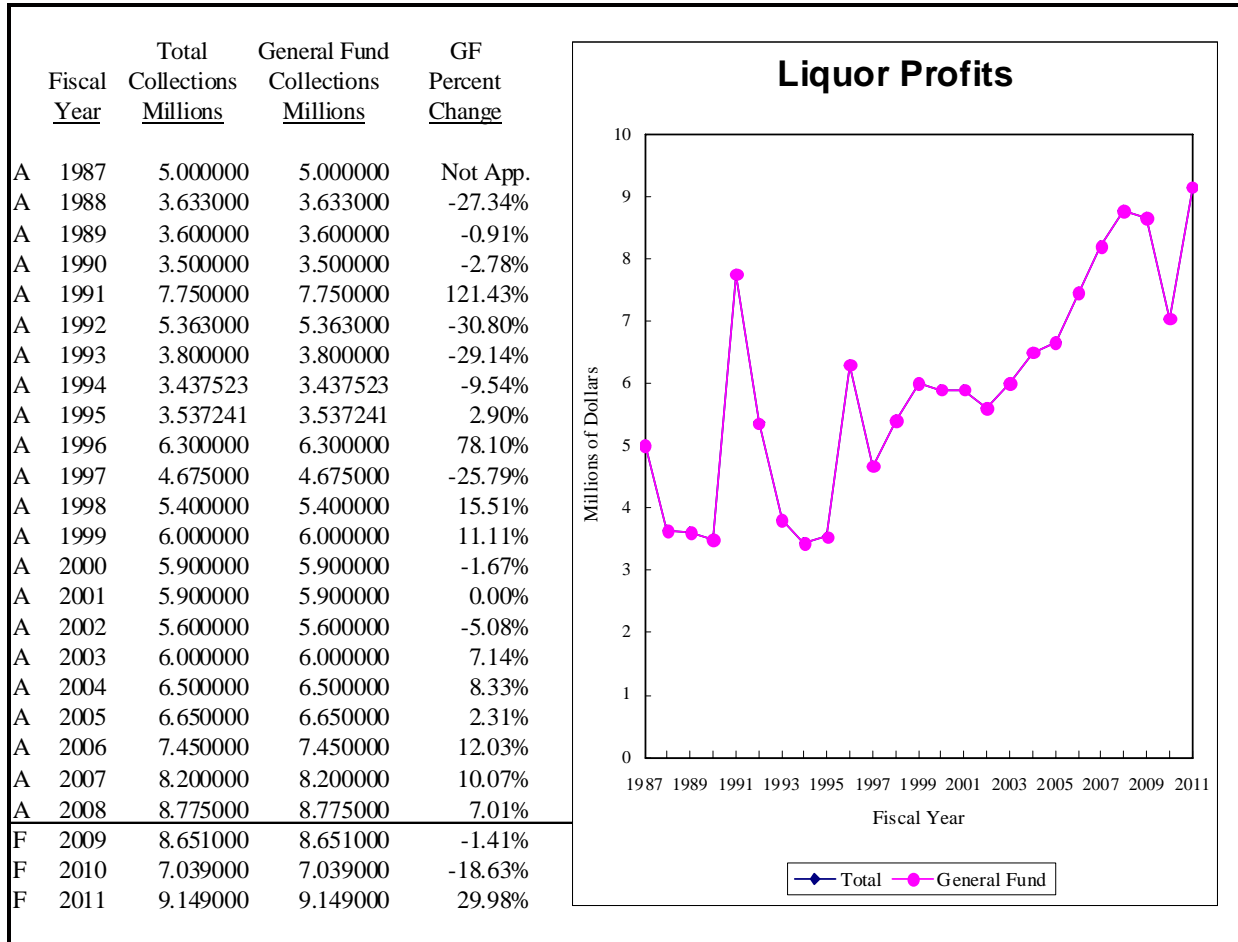
GF Profits = Gross Sales - Excise/License Tax - Discount/Commission - Cost of Goods - Operation Costs + Other

Legislative Fiscal Division

Revenue Estimate Profile

Liquor Profits

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Lottery Profits

Revenue Description: The Montana state lottery was enacted by legislative referendum and became effective January 1, 1987. The first lottery game began in June 1987. A lottery is generally defined as “any procedure in which one or more prizes are distributed among persons who have paid for a chance to win a prize”. The games are administered by the Department of Administration. By law, a minimum of 45.0 percent of the money paid for tickets or chances must be paid out as prizes.

Lottery revenue is derived from ticket sales, sales agents license fees, and unclaimed prizes. Sales revenue is initially deposited into an enterprise fund known as the state lottery fund. After paying prizes, ticket costs, commissions, and other operating costs, any profits are transferred to the general fund.

Statutory Reference:

Tax Rate – NA

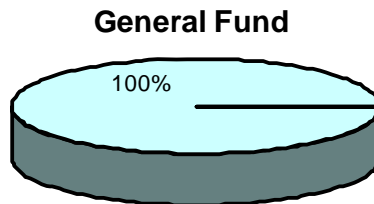
Distribution (MCA) – 23-7-402(3)

Date Due – quarterly (23-7-402(3))

Applicable Tax Rate(s): There is no actual tax rate involved. However, applicants for sales agent licenses are charged a \$50.00 fee to cover the cost of investigating and processing the applications.

Distribution: All gross lottery revenue not used for prizes, commissions, administration, and operating expenses, together with the interest earned (on the gross revenue while the gross revenue is in the enterprise fund), is considered net revenue. This net revenue is transferred to the general fund. Senate Bill 55, passed by the 1999 Legislature, requires the Department of Commerce to submit a biennium budget for the state lottery fund for appropriation by the legislature. By determining the amount appropriated, the legislature has better control over the amount transferred to the general fund.

Distribution Chart:



Summary of Legislative Action:

House Bill 2 – The money appropriated from certain accounts impacts the amount of general fund revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the executive budget and finalized in HJ 2, final appropriations set by the legislature (such as those in HB 2 and HB 5) may differ and, thus, may affect revenue. Revenue changes due to decreases in appropriations occur in the lottery division lottery enterprise fund (DofA) and increase lottery profits transferred to the general fund. General fund revenue increases \$62,654 in FY 2010 and \$63,990 in FY 2011. The legislation is effective July 1, 2009.

| Lottery Profits -- Legislation Passed by 61st Legislature | | | |
|---|-------------|-----------------|-----------------|
| Estimated General Fund Impact for Fiscal 2009,2010,2011 | | | |
| Bill Number and Short Title | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 |
| HB0002 General appropriations act | | 62,654 | 63,990 |
| Total Estimated General Fund Impact | \$0 | <u>\$62,654</u> | <u>\$63,990</u> |

% of Total General Fund Revenue:

FY 2004 – 0.59%

FY 2007 – 0.62%

Legislative Fiscal Division

Revenue Estimate Profile

Lottery Profits

FY 2005 – 0.41%
FY 2006 – 0.53%

FY 2008 – 0.56%

Revenue Estimate Methodology:

The estimate for lottery profits is derived by estimating the various sources of revenue to the enterprise fund and then estimating the various expenses of the fund. Revenues less expenses are considered net revenue (profits).

Data

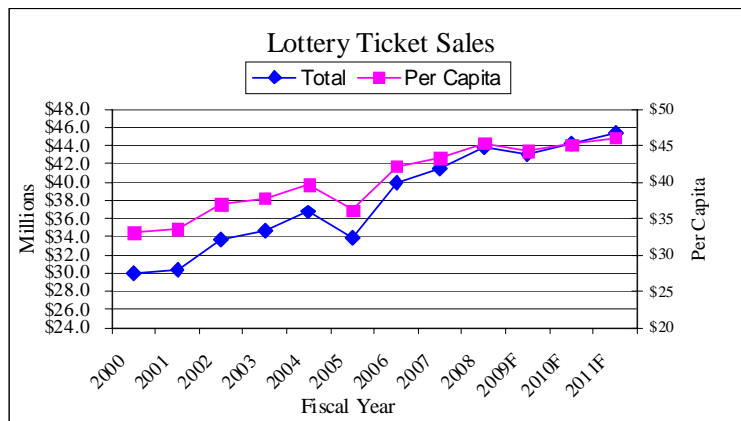
Data from SABHRS provide a history of the enterprise fund revenues and expenditures. Annual reports received from the Montana Lottery Commission provide additional financial information about the fund. Lottery personnel are contacted for their views on trends in lottery tickets sale and other factors that may influence revenues or expenditures. The state budgeting system is used to obtain estimates of appropriated administrative expenses. Montana population statistics from Global Insight (see “Montana Population” in the Overview section) are used to derive per capita ticket sales.

Analysis

The estimate for lottery profits is derived by first estimating the four revenue components and then the two expenditure components.

Revenue

1. Ticket sales – This component comprises the large majority of lottery revenue. To derive this estimate, a per capita ticket sales amount is multiplied by the estimate of Montana’s population. Since lottery personnel state that FY 2008 was an unusual year, the estimate for per capita ticket sales for FY 2009 is based on FY 2007 per capita sales multiplied by an historic average rate of growth in per capita sales. Estimates for FY 2010 and FY 2011 are based on the previous fiscal year.

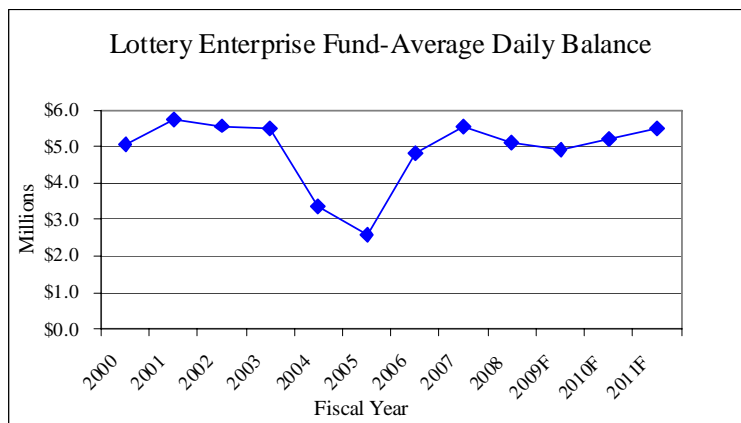


2. Licenses – Applicants who apply for a sales agent license pay a \$50 license fee. To estimate this revenue component, the amount from the last known fiscal year is used for all subsequent years.
3. Interest earnings – Money in the lottery enterprise fund as well as Montana’s share of money held by the Multi-State Lottery Association, earns interest at the short-term interest rate and is deposited to the enterprise fund. To estimate interest earnings, the average daily balance is multiplied by the short-term interest rate. The average daily balance is determined by: a) first, deriving the balance for the last known fiscal year by dividing known interest earnings by the known short-term interest rate; b) second, developing a balance ratio between the balance derived from (a) above and ticket sales from the last known fiscal year; c) multiplying this ratio by the ticket sales estimate (from number 1 above) for each subsequent year to derive the average daily balance. Once the balance has been estimated, it is multiplied by the applicable short-term interest rate (see the “Treasury Cash Account” revenue source for details on the development of this rate).

Legislative Fiscal Division

Revenue Estimate Profile

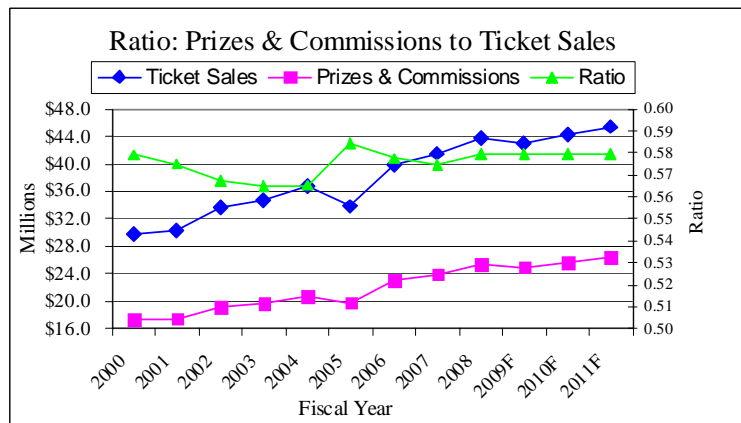
Lottery Profits



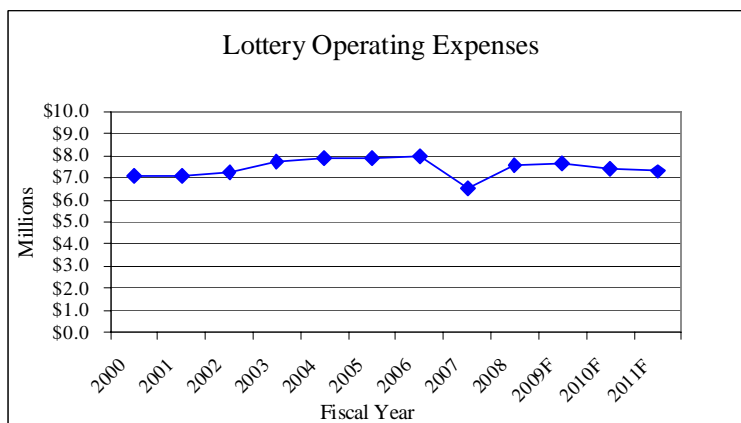
4. Other – The small amounts of miscellaneous revenue from the last known fiscal year is used for all subsequent years.

Expenditures

1. Prizes and Commissions – Since the ratio of prizes and commissions to ticket sales is relative constant, this ratio is computed for all years with actual data. The ratio from the last known year is multiplied by the estimated amount of ticket sales (see above) for each subsequent fiscal year to derive the estimate of prizes and commissions.



2. Operations – To estimate the operational costs for the three fiscal years in question, budget submissions by the Lottery Commission, as shown on the state budgeting system, are used.



Legislative Fiscal Division

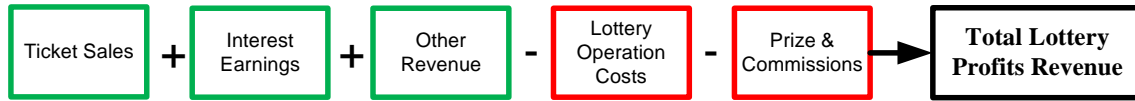
Revenue Estimate Profile

Lottery Profits

Adjustments and Distribution

Once total revenue and total expenditures have been estimated, the difference is the expected profit. All profits are deposited to the general fund.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

| | t Fiscal | Total Profit Millions | GF Profits Millions | Sales Millions | Interest Millions | Other Millions | Operating Millions | Prizes Millions |
|----------|-------------|--------------------------|------------------------|-------------------|----------------------|-------------------|-----------------------|--------------------|
| Actual | 2000 | 5.840985 | 5.840985 | 29.899809 | 0.278620 | 0.075465 | 7.091950 | 17.320959 |
| Actual | 2001 | 6.137493 | 6.137493 | 30.366526 | 0.275320 | 0.056324 | 7.098631 | 17.462046 |
| Actual | 2002 | 7.467030 | 7.467030 | 33.632276 | 0.145685 | 0.039096 | 7.264246 | 19.085781 |
| Actual | 2003 | 7.453281 | 7.453281 | 34.682494 | 0.077164 | 0.014065 | 7.721733 | 19.598709 |
| Actual | 2004 | 8.115602 | 8.115602 | 36.737657 | 0.043993 | 0.002536 | 7.897710 | 20.770874 |
| Actual | 2005 | 6.222555 | 6.222555 | 33.811245 | 0.063414 | 0.030023 | 7.912905 | 19.769222 |
| Actual | 2006 | 9.110455 | 9.110455 | 39.918414 | 0.199918 | 0.010548 | 7.962362 | 23.056063 |
| Actual | 2007 | 11.420242 | 11.420242 | 41.564591 | 0.267020 | 0.004138 | 6.529164 | 23.886343 |
| Actual | 2008 | 11.028563 | 11.028563 | 43.821752 | 0.179433 | 0.005517 | 7.575481 | 25.402658 |
| Forecast | 2009 | 10.494000 | 10.494000 | 43.040624 | 0.057589 | 0.005517 | 7.878792 | 24.949832 |
| Forecast | 2010 | 11.244000 | 11.244000 | 44.243479 | 0.032478 | 0.005517 | 7.728213 | 25.647104 |
| Forecast | 2011 | 11.921000 | 11.921000 | 45.477625 | 0.095556 | 0.005517 | 7.762852 | 26.362515 |

Total Profits = Sales + Interest + Other - Operating - Prizes

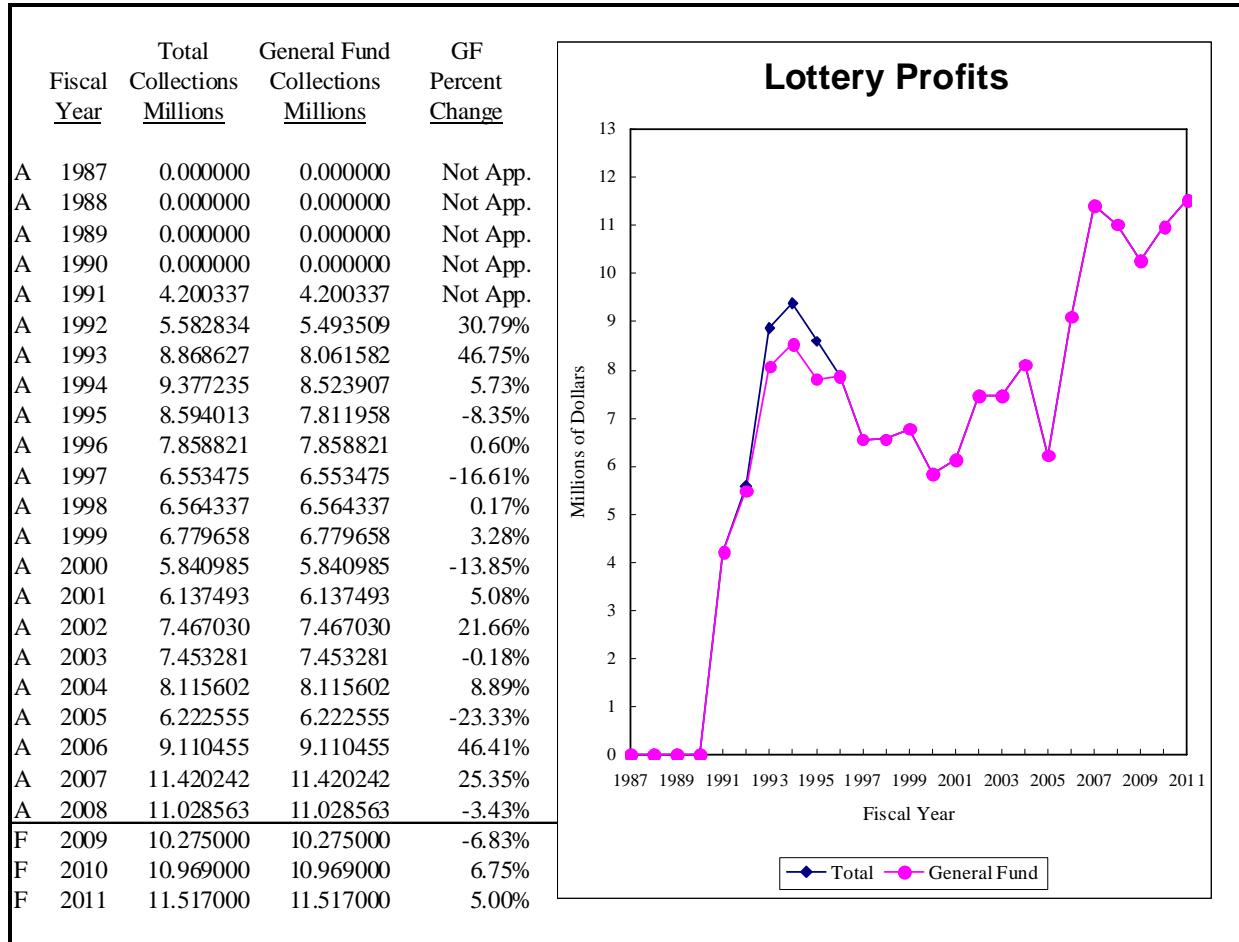
GF Profits = Total Profits

Legislative Fiscal Division

Revenue Estimate Profile

Lottery Profits

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Tax

Revenue Description: The tobacco tax is an excise tax on tobacco products sold in Montana. Cigarettes are not subject to the tobacco tax. The tax is considered a direct tax on retail consumers, but is collected by the wholesaler. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to the tax.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 that doubled the tax on all tobacco products other than cigarettes and moist snuff from 12.5 percent to 25.0 percent of the wholesale price. Furthermore, moist snuff is now taxed individually, increasing the rate from the equivalent of \$0.28 an ounce to \$0.35 an ounce. Beginning January 1, 2005, the electorate approved I-149 that raised the tax on other tobacco products to 50 percent of the wholesale price and moist snuff to \$0.85 per ounce. Wholesalers are allowed a discount of 2.5 percent, until January 1, 2005 when the discount will be reduced to 1.5 percent, to cover collection and administrative expenses. The wholesaler is entitled to a refund for tobacco products that remain unsold. I-149 adjusted distributions to allow half of the tax revenues to flow into the state general fund and half to flow into a new state special revenue fund for health and Medicaid initiatives.

The state has tobacco revenue sharing agreements with five tribes in Montana. In the agreements with the Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow tribes, the state collects the tax imposed by the tribes and distributes the revenue to the tribes on a quarterly basis. Indian consumers of tobacco on other reservations are exempt from paying the tobacco tax.

Statutory Reference:

Tax Rate (MCA) – 16-11-111(7)

Tax Distribution (MCA) – 16-11-114(2), 16-11-119(3)

Date Due (MCA) – 16-11-111(8)

Applicable Tax Rate(s):

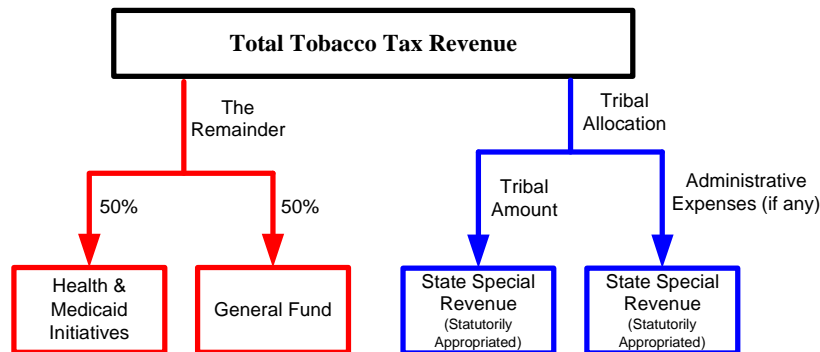
- Tobacco products - 50.0 percent of the wholesale price
- Moist snuff - \$0.85 per ounce

Distribution:

After amounts allocated for expenses and tribal distributions:

- 50% to a state special revenue fund to be used of health and Medicaid initiatives
- 50% to the general fund

Distribution Chart:



Summary of Legislative Action: The 61st Legislature did not enact legislation that impacted this general fund revenue source.

% of Total General Fund Revenue:

FY 2004 – 0.26%

FY 2007 – 0.25%

FY 2005 – 0.26%

FY 2008 – 0.24%

FY 2006 – 0.26%

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Tax

Revenue Estimate Methodology:

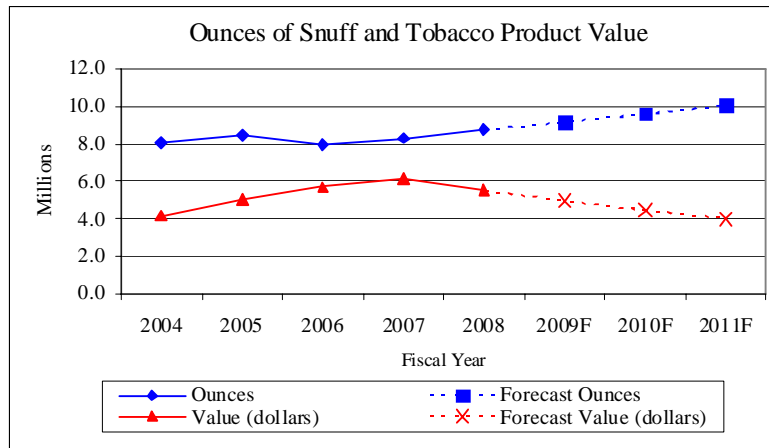
Data

Data are obtained from the state accounting system (SABHRS), the Department of Revenue (DOR), U.S. Census Bureau, and Global Insight is used to forecast tobacco tax revenues. The tobacco tax is made up of two taxes on the consumption of tobacco products. The tax on snuff (most tobacco) is assessed on the number of ounces sold, and the tax on all other tobacco products (not including cigarettes) is assessed on the wholesale value of the product. The DOR provides information, by distributor and month, on the number of ounces of snuff and the value of the tobacco products sold in each month and the records of tribal distributions. Other data provided by DOR include the amount of discounts and credits given to tobacco distributors. Historic observations of tax collections are available through SABHRS, projections for Montana population greater than or equal to 21 years of age are supplied by the Census Bureau, and Global Insight supplies projections of the consumer price index (CPI).

DOR provides monthly data on the sales of snuff, in ounces, and the wholesale value of the sales of other tobacco products purchased in Montana. To prepare the data for analysis, the monthly data is summed across all distributor purchases and over the fiscal years. For the estimate of moist snuff tax, the data is divided by the estimate of the Montana population of ages 21 or greater. The per-capita consumption estimate is then used later to determine the total taxes paid on moist snuff. DOR data includes administrative discounts and credits, provided to the distributors for collecting the tax, which is used later in the process. The actual SABHRS data serves as a comparative check against the collection data provided by the DOR.

Analysis

For the first full year in fiscal 2004, the tobacco tax assessment distinguished between moist snuff and other tobacco products. In the 58th Legislature, the taxation of moist snuff was changed. A new tax rate is now imposed on the ounces of snuff sold instead of on value, as other tobacco products are taxed. Consequently, the method used to estimate tobacco tax collections was changed to reflect the changes in the law. The figure below shows the number of ounces of moist snuff sold to wholesalers since fiscal 2004 and the projected sales of ounces through the forecast period. Additionally, the figure shows the wholesaler sales and projected sales of other tobacco products over the same period.



Analysis shows that sales of moist snuff and other tobacco products are not consistent. The sales of moist snuff in Montana have increased over time while the sales of other tobacco products have declined. Consequently, the estimate for the tobacco taxes is derived by unique growth factors to the proxy of each moist snuff and other tobacco products.

The forecast for the consumption of moist snuff is obtained by holding per-capita consumption of moist snuff constant and allowing the consumption to grow only as the population grows. The number of ounces of snuff sold in Montana is expected to be 9.2 million in fiscal 2009, 9.6 million in fiscal 2010, and 10.1 million in fiscal 2011.

The forecast for the value of other tobacco products sold in Montana is obtained by applying a two year compound rate of growth to the base year beginning in fiscal 2008. The value of the sales of tobacco products is expected to be \$4.9 million in fiscal 2009, \$4.5 million in fiscal 2010, and \$4.0 million in fiscal 2011.

Legislative Fiscal Division

Revenue Estimate Profile

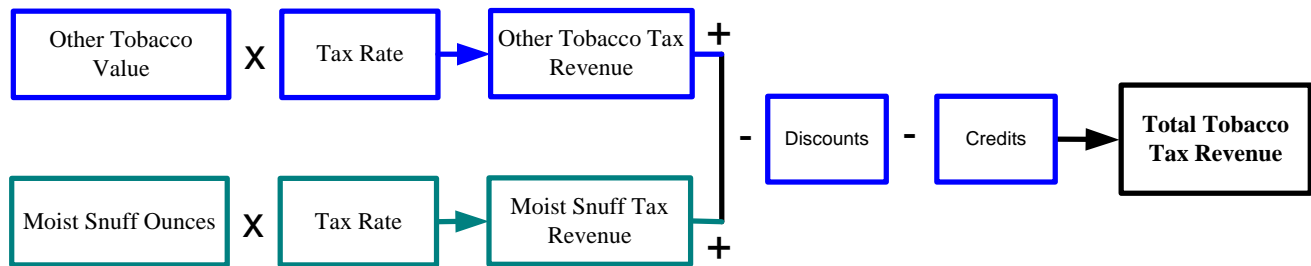
Tobacco Tax

To finish the estimate, the individual tax rates are applied to the consumption/sales forecasts to create a gross tax estimate. This methodology produces gross tax estimates of total tobacco tax collections of \$10.4 million in fiscal 2009, \$10.6 million in fiscal 2010, and \$10.8 million in fiscal 2011.

Adjustment and Distribution

The estimates for gross collections of the tobacco taxes are adjusted for discounts and credits provided to the distributors. Finally, calculations are made for the distribution of the tobacco tax. Tobacco taxes are distributed 50 percent to a state special revenue fund to be used of health and Medicaid initiatives and 50 percent to the general fund. The general fund distribution is then reduced by tribal reimbursements. At this time, five of the seven tribal governments receive tobacco tax dollars: Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow. These tribal governments adhere to Montana tobacco tax laws. The state of Montana collects the tribes' portion of the tax and quarterly distributes the collections based on a formula (per capita tobacco products consumption times tribal membership times the Montana tax rate).

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Tax

| | <u>t</u> | <u>Total Tax</u> | <u>GF Tax</u> | <u>Tribal</u> | <u>Other Value</u> | <u>Tax Rate</u> | <u>Snuff Ounces</u> | <u>Tax Rate</u> |
|----------|---------------|------------------|-----------------|-----------------|--------------------|-----------------|---------------------|------------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Percent</u> | <u>Millions</u> | <u>Per Ounce</u> |
| Actual | 2000 | 2.042241 | 2.016799 | 0.025442 | 16.337928 | 12.5000% | | |
| Actual | 2001 | 2.097590 | 2.047995 | 0.049595 | 16.780720 | 12.5000% | | |
| Actual | 2002 | 2.228525 | 2.182827 | 0.045698 | 17.828200 | 12.5000% | | |
| Actual | 2003 | 2.360471 | 2.304532 | 0.055939 | 18.883768 | 12.5000% | | |
| Actual | 2004 | 3.625894 | 3.561574 | 0.064320 | 4.160119 | 25.0000% | 8.079726 | 0.350000 |
| Actual | 2005 | 6.452428 | 4.024017 | 0.087097 | 4.999756 | 37.5000% | 8.460370 | 0.600000 |
| Actual | 2006 | 9.118758 | 4.359968 | 0.398823 | 5.696871 | 50.0000% | 7.981529 | 0.850000 |
| Actual | 2007 | 9.810138 | 4.669627 | 0.470885 | 6.128741 | 50.0000% | 8.304687 | 0.850000 |
| Actual | 2008 | 9.872434 | 4.698888 | 0.474658 | 5.509016 | 50.0000% | 8.759337 | 0.850000 |
| Forecast | 2009 | 9.890000 | 4.710000 | 0.470000 | 4.951956 | 50.0000% | 9.160785 | 0.850000 |
| Forecast | 2010 | 9.953000 | 4.738000 | 0.477000 | 4.424518 | 50.0000% | 9.548258 | 0.850000 |
| Forecast | 2011 | 10.075000 | 4.796000 | 0.483000 | 3.977120 | 50.0000% | 9.960308 | 0.850000 |

| | <u>t</u> | <u>Discount</u> | <u>Credits</u> | <u>GF Allocation</u> |
|----------|---------------|-----------------|-----------------|----------------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Percent</u> |
| Actual | 2000 | | | |
| Actual | 2001 | | | |
| Actual | 2002 | | | |
| Actual | 2003 | | | |
| Actual | 2004 | 0.096438 | 0.091947 | 0.982261 |
| Actual | 2005 | 0.120156 | 0.097616 | 0.623644 |
| Actual | 2006 | 0.144491 | 0.424804 | 0.478132 |
| Actual | 2007 | 0.152426 | 0.222095 | 0.476000 |
| Actual | 2008 | 0.152992 | 0.218958 | 0.475960 |
| Forecast | 2009 | 0.153262 | 0.219344 | 0.500000 |
| Forecast | 2010 | 0.154243 | 0.220746 | 0.500000 |
| Forecast | 2011 | 0.156132 | 0.223451 | 0.500000 |

Total Tax = Snuff Ounces * Tax Rate Per Ounce + Other Value * Tax Rate Percent -
Discount - Credit

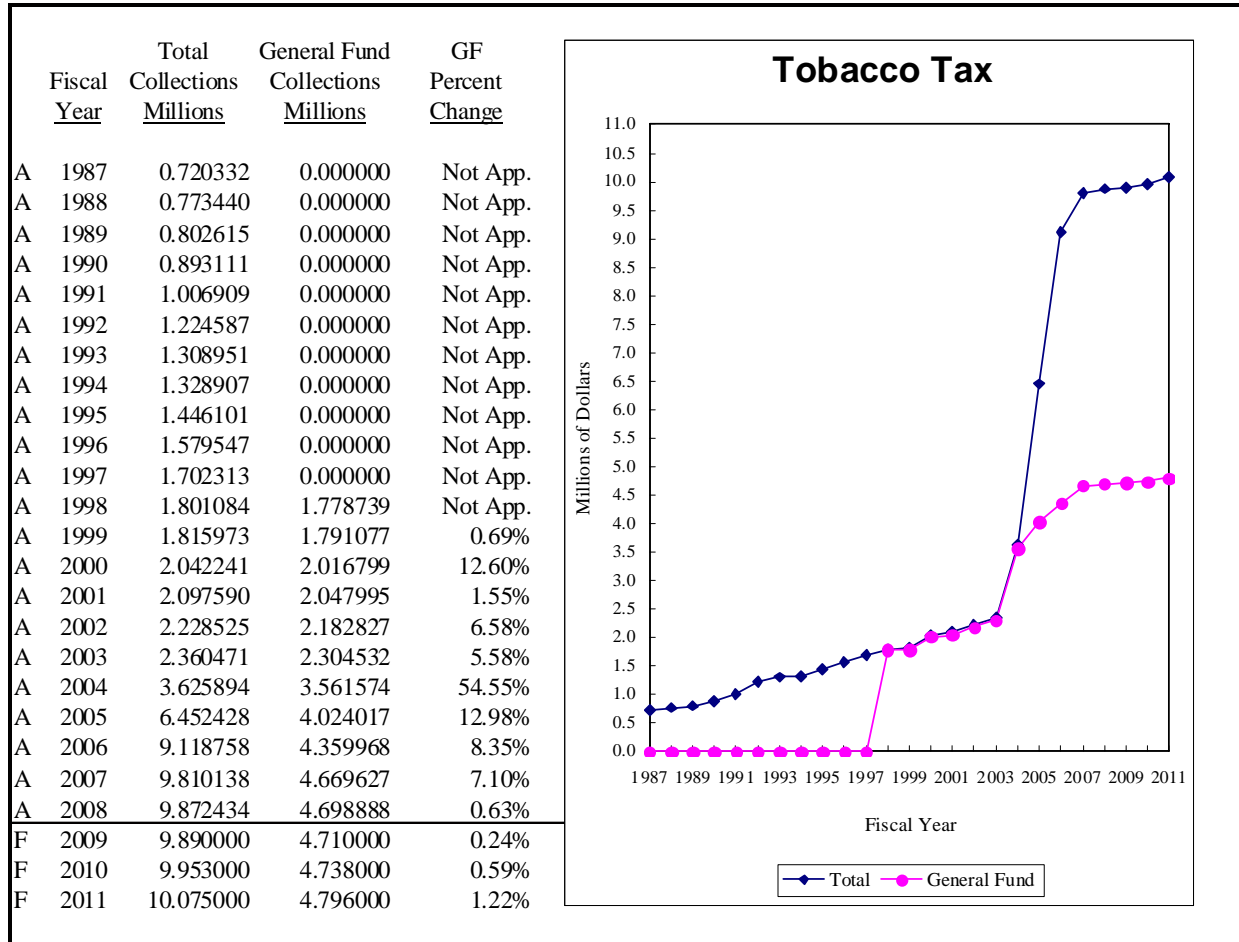
GF Tax = (Total Tax - Tribal) * GF Allocation

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Tax

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Video Gambling Tax

Revenue Description: Video gambling income is derived from two sources: license fees and video gambling taxes. There are three types of license fees that generate revenue. Numerous fees are paid by operators for both video gambling machines and for non-video games such as poker. In addition, persons pay an annual fee for the right to assemble, produce, or manufacture video gambling machines or associated equipment. The video gambling tax is paid by licensed video gambling machine operators. License holders are charged a tax of 15.0 percent of the gross income (defined as net of payouts) from each licensed video gambling machine. The Department of Justice (DOJ) issues video gambling licenses and permits and collects the fees and taxes. All video gambling tax revenue is deposited into the general fund.

Statutory Reference:

Tax Rate (MCA) – route operator license (23-5-129), gambling establishment operator license (23-5-177), card table fee (23-5-306(2)), bingo/keno permit (23-5-407), sports tab tax (23-5-502), video tax (23-5-610(1)), machine permit fee (23-5-612(2))
Tax Distribution (MCA) – card table fee (23-5-306(3&4)), bingo and keno tax (23-5-409), sports tab tax (23-5-502), video (23-5-610(6)), machine permit fee (23-5-612(3))
Date Due – card table fees due annually and distributed quarterly to local governments (23-5-306(1&4)), video tax due 15 and 25 days after the end of the quarter (23-5-610(5)(a&b)), machine permit fees due annually prorated on a quarterly basis (23-5-612(2a)), bingo and keno taxes due July 31.

Applicable Tax Rate(s):

License Fees

- Video Gambling Machine Permit - \$220 annually (prorated basis), \$25 machine transfer processing fee
- Video Gambling Manufacturer License - \$1,000 annually. An additional application fee is charged manufacturers to cover processing costs of the initial application. The manufacture license may be waived by the DOJ if the manufacture is also a licensed distributor or route operator.
- Video Gambling Machine Examination Fee – An amount equal to actual DOJ costs of examining the electronic equipment
- Distributor License - \$1,000 annually. The distributor license may be waived by the DOJ if the distributor is also a licensed operator or manufacturer. An additional application fee is charged distributors to cover processing costs of the initial application.
- Route Operator License - \$1,000 annually. The operator license may be waived by the DOJ if the operator is also a licensed distributor or manufacturer. An additional application fee is charged operators to cover processing costs of the initial application.
- Bingo/Keno Manufacture License - \$1,000 annually. An additional application fee is charged manufacturers to cover processing costs of the initial application.
- Gambling Establishment Operator License – An amount equal to the actual DOJ costs of determining licensure qualifications
- Antique Slot Machine Seller Permit - \$50 annually
- Live Card Game Table - \$250 annually for the first table and \$500 for each additional table
- Card Game Dealer License - \$75 for the first year, \$25 for each subsequent year
- Pinochle Tournament Permit - \$25
- Card Room Contractor License - \$150 annually
- Bingo/Keno Permit - \$250 annually
- Bingo/Keno Examination Fee – An amount equal to actual DOJ costs of examining the electronic equipment
- Sports Tab Game Seller License - \$100 annually. An additional application fee is charged to cover processing costs of the initial application.
- Casino Night Permit - \$25
- Associated Business - \$100

Gambling Taxes

- Video – 15.0% of gross income (defined as net of payouts) per video gambling machine
- Bingo/Keno – 1.0% of gross proceeds
- Sport Tabs – \$1.00 for each 100 sport tabs sold

Distribution:

License Fees

1. \$100 of the live card game table fee and \$100 of the video gambling machine permit fee (prorated basis) are statutorily appropriated

Legislative Fiscal Division

Revenue Estimate Profile

Video Gambling Tax

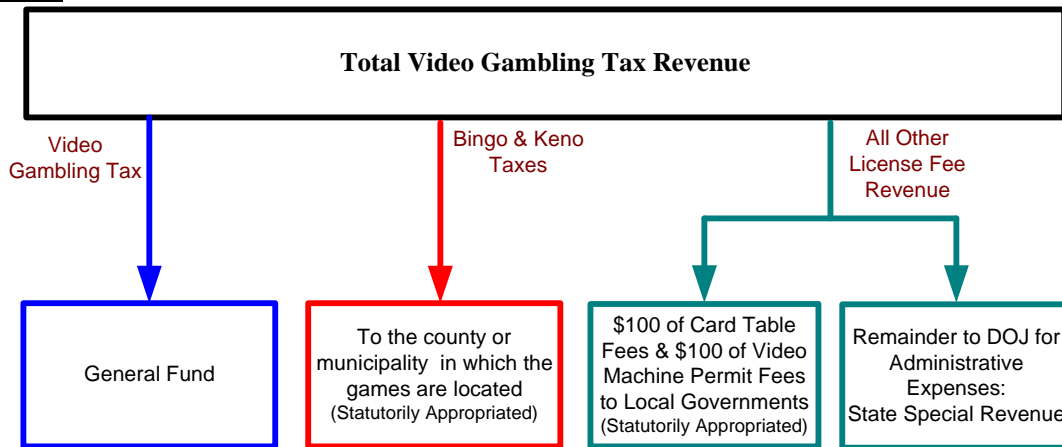
for distribution to local governments.

2. All other license fee revenue is retained by DOJ to cover administrative costs.

Gambling Taxes

1. Video – All of video gambling tax receipts are deposited into the general fund.
2. Bingo/Keno – All collections are statutorily appropriated for distribution to the municipality or county in which the game is located.
3. Sport Tabs – All collections are retained by DOJ for administration purposes.

Distribution Chart:



Summary of Legislative Action:

Senate Bill 86 – The legislation establishes an associated gambling business license of \$100 for providers of a product or service to a licensed gambling business. State special revenue increases \$400 in FY 2010 and \$400 in FY 2011. The legislation is effective on passage and approval.

| Video Gambling Tax -- Legislation Passed by 61st Legislature | | | |
|--|--------------------|--------------------|--------------------|
| Estimated General Fund Impact for Fiscal 2009,2010,2011 | | | |
| <u>Bill Number and Short Title</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> |
| SB0086 Revise gambling laws | | | |
| Total Estimated General Fund Impact | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

% of Total General Fund Revenue:

| | |
|-----------------|-----------------|
| FY 2004 - 3.69% | FY 2007 - 3.30% |
| FY 2005 - 3.49% | FY 2008 - 3.22% |
| FY 2006 - 3.35% | |

Revenue Estimate Methodology:

Video gambling revenue is comprised of many components. Because these components have separate distributions, the estimating methodology incorporates separate estimates for the components based on the type of revenue, either tax revenue or permit revenue.

Data

Monthly reports are no longer provided from the Department of Justice. Limited applicable data is available from the department's web site. Historic and current revenue collections are obtained from SABHRS. The Department of Justice provides quarterly statewide net income and average daily income by machine type (poker, keno, and multi-game). Montana population statistics are used to derive per capita video gambling machine gross income.

Analysis

The revenue estimate is determined in a three-step process:

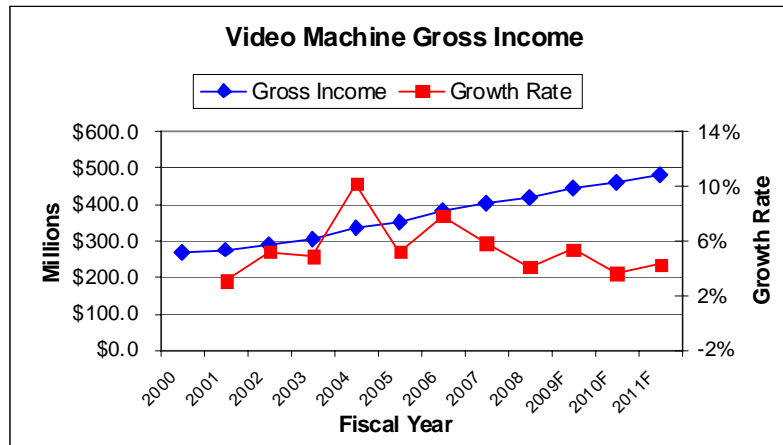
1. Revenue from the tax on video gambling machine gross income (defined as net of payouts) is the largest component of this revenue

Legislative Fiscal Division

Revenue Estimate Profile

Video Gambling Tax

source and all revenue from this tax is distributed to the general fund. To determine total gross income, gross income for poker, keno, and multiple-game machines are calculated from revenue collections. The amount from the most recently completed fiscal year and the estimates for each succeeding fiscal year are multiplied by a growth factor based on Montana personal income. The growth factor represents the rate of increase of per capita gross revenue between fiscal 1995 and fiscal 2008. Once total gross income is estimated, the revenue estimate for this component is determined by multiplying total gross income by the tax rate. The total gross income and growth rates are shown in the chart below.



2. Permit and license fees are the second component to this revenue source, the revenue from which is deposited to the state special revenue fund and distributed to the Department of Justice to pay administrative costs and to local governments. There are three separate estimates for permit and license fees:

- a. Video gambling manufacturing license – The number of licenses from the last known fiscal year (2007) is multiplied by the \$1,000 license fee and the product used as the estimate for all subsequent fiscal years.

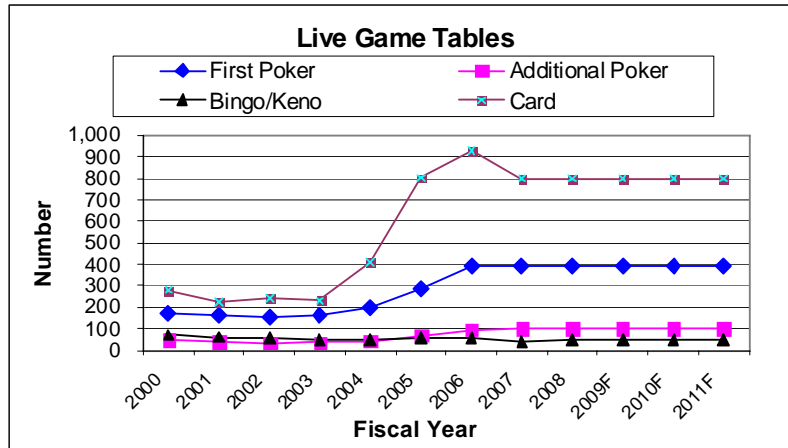


- b. Live game permit/license fees – The estimated numbers of “first” poker tables, “additional” poker tables, bingo/keno, and card game tables are those from the last known fiscal year (2007). The numbers are multiplied by the applicable fees of \$250, \$500, \$250, and \$75 respectively, and the product used for all subsequent fiscal years for each type.

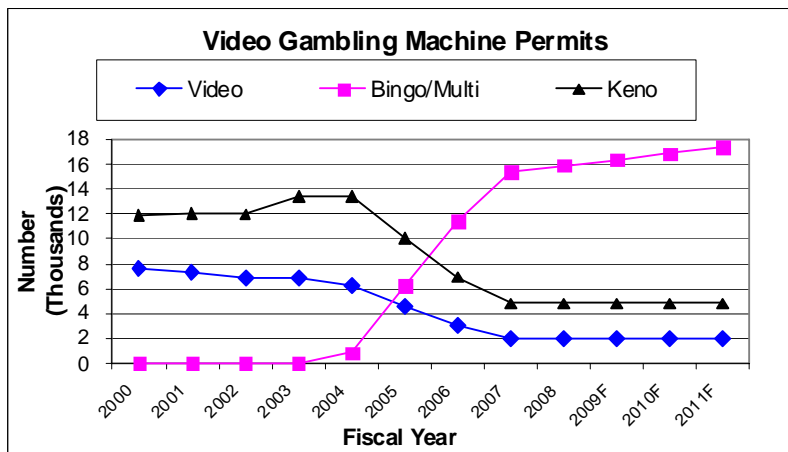
Legislative Fiscal Division

Revenue Estimate Profile

Video Gambling Tax



- c. Video gambling machine permit fees – The numbers of video, bingo/multi game, and keno machine permits for the last known fiscal year (2007) are summed. The sum is multiplied by the ratio of the amount of revenue deposited to DOJ gambling license account to the total amount of permit fee revenue for the last known fiscal year (this ratio is less than 1 and so reduces the total machine permit fees). This is done to adjust for discrepancies in the last known fiscal year between actual collections and totals derived by multiplying number of permits by the applicable permit/license fee. Once the total adjusted number of permits has been estimated, it is multiplied by the \$220 fee.



3. Bingo and keno taxes – The total amount of revenue received in the last known fiscal year is carried forward for all subsequent fiscal years.

Adjustments and Distribution

Since the general fund and the state special revenue component are estimated under separate methodologies, the distribution of the revenue has already been done.

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Video Gambling Tax

Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

| | | | | | Net Income | | | |
|----------|---------------|-----------------|-----------------|-----------------|-------------|-----------------|-----------------|-----------------|
| | t | Total Tax | GF Tax | Net Income | Tax | Tax | Non GF Fee | Surtax |
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>Rate</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> |
| Actual | 2000 | 45.426465 | 13.850821 | 268.285033 | 0.150000 | 41.431382 | 3.995083 | |
| Actual | 2001 | 45.427406 | 20.891449 | 276.680087 | 0.150000 | 41.502013 | 3.925393 | |
| Actual | 2002 | 47.597125 | 43.666145 | 291.123027 | 0.150000 | 43.668454 | 3.928671 | |
| Actual | 2003 | 49.942010 | 45.794025 | 305.442527 | 0.150000 | 45.816379 | 4.125631 | |
| Actual | 2004 | 55.323853 | 50.748949 | 336.637647 | 0.150000 | 50.768922 | 4.554931 | 0.273275 |
| Actual | 2005 | 58.038258 | 53.361007 | 354.176273 | 0.150000 | 53.400781 | 4.637477 | 0.274340 |
| Actual | 2006 | 62.128935 | 57.277216 | 381.981440 | 0.150000 | 57.297216 | 4.831719 | 0.000000 |
| Actual | 2007 | 65.684155 | 60.641063 | 404.274320 | 0.150000 | 60.641148 | 5.043007 | 0.000000 |
| Actual | 2008 | 71.606752 | 63.134000 | 420.985420 | 0.150000 | 63.147813 | 8.458939 | 0.000000 |
| Forecast | 2009 | 71.809000 | 66.554000 | 443.698330 | 0.150000 | 66.554000 | 5.255000 | 0.000000 |
| Forecast | 2010 | 74.363000 | 69.003000 | 460.021634 | 0.150000 | 69.003000 | 5.360000 | 0.000000 |
| Forecast | 2011 | 77.440000 | 71.973000 | 479.820255 | 0.150000 | 71.973000 | 5.467000 | 0.000000 |

Total Tax = Net Income * Tax Rate + Non GF Fee + Surtax

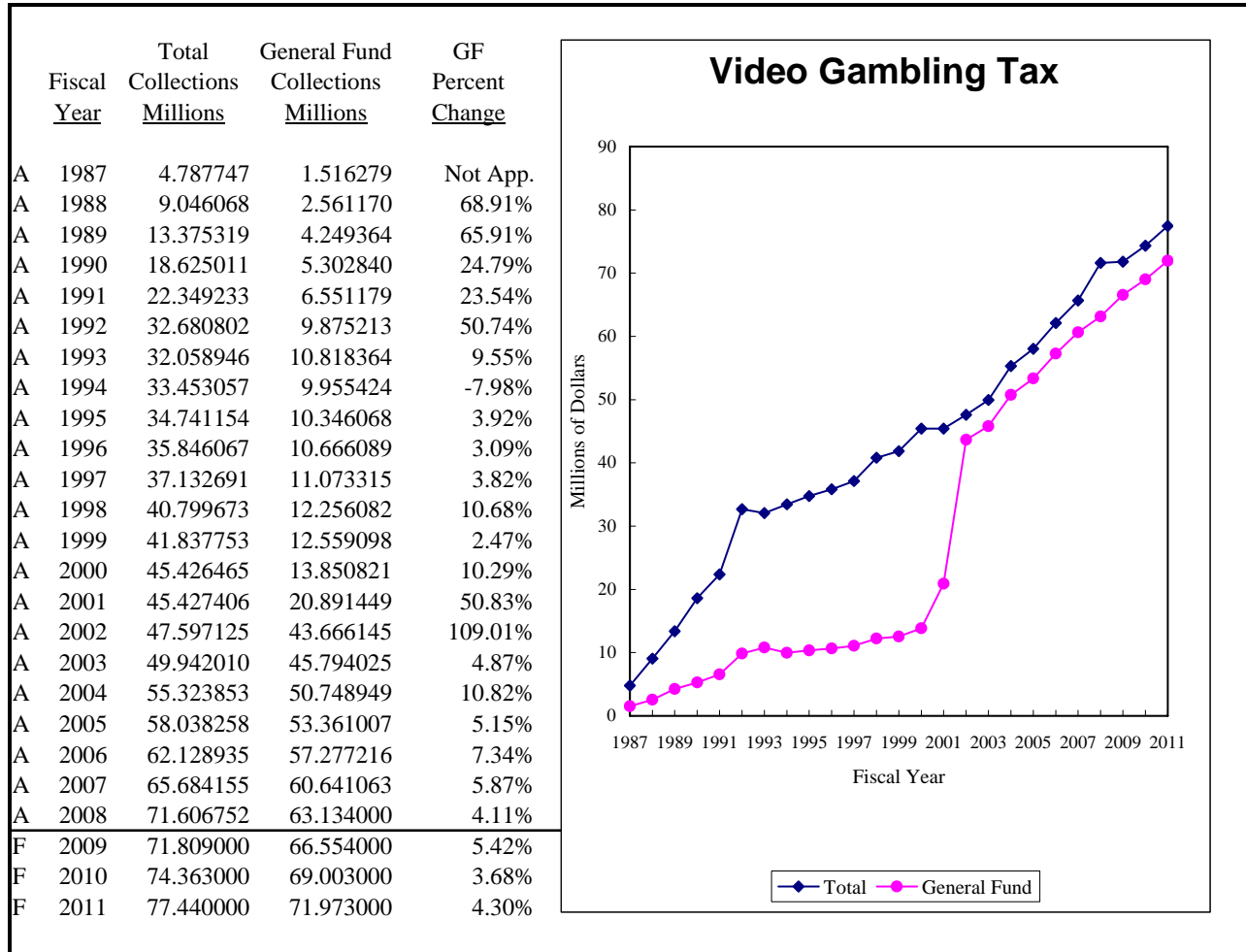
GF Tax = Net Income * Tax Rate

Legislative Fiscal Division

Revenue Estimate Profile

Video Gambling Tax

Revenue Projection:



Legislative Fiscal Division

Revenue Estimate Profile

Wine Tax

Revenue Description: A wine tax is levied on table wines imported into Montana by wine distributors or by the Department of Revenue (DOR), who is authorized to sell wines to retail liquor establishments throughout the state. A tax is also imposed on hard cider imported by a table wine distributor or DOR. A portion of wine tax revenue is returned to Indian tribes per an agreement between DOR and the tribes.

Statutory Reference:

Tax Rate (MCA) – 16-1-411(1), 16-2-301(2)

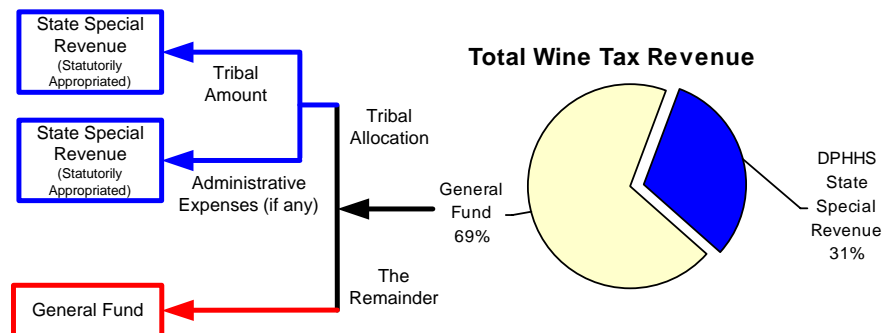
Tax Distribution (MCA) – 16-1-411(3), 16-2-301(2)

Date Due – 15th day of the month following the sale from the distributor's warehouse (16-1-411(2))

Applicable Tax Rate(s): A tax of \$0.27 is imposed per liter of wine and a tax of \$0.037 per liter is imposed on hard cider. An additional tax of \$0.01 per liter is imposed on table wine sold by a table wine distributor to an agent.

Distribution: The \$0.01 per liter tax is deposited into the general fund. After expenses and tribal allocations, other wine tax revenue is distributed 69.0% to the general fund and 31.0% to the DPHHS alcohol account. The general fund distribution is reduced by the amount of the tribal agreements.

Distribution Chart:



Summary of Legislative Action: The 61st Legislature did not enact legislation that impacted this general fund revenue source.

% of Total General Fund Revenue:

FY 2004 – 0.10%

FY 2007 – 0.10%

FY 2005 – 0.10%

FY 2008 – 0.09%

FY 2006 – 0.10%

Revenue Estimate Methodology:

Data

The state accounting system (SABHRS) and the Department of Revenue (DOR) provide data for the wine tax estimates. The SABHRS data includes total fiscal year tax collection data. The DOR data provides the information related to historic tribal distributions.

Wine tax collections are made up of the collections of two taxes, the wine tax and the hard cider tax. Although each tax is individually established in statute, no distinction between the taxes is made when preparing the estimates. In the past several years, the cider tax has contributed no more than 0.09 percent of the total wine tax collections. In the future, if cider tax collections become more significant the wine tax methodology will be adapted to forecast hard cider tax.

Only one data transformation is required to forecast the future collections of the wine tax. Because wine projections are based on the number of liters of wine consumed in Montana, the data obtained through SABHRS must be used. This task is accomplished by

Legislative Fiscal Division

Revenue Estimate Profile

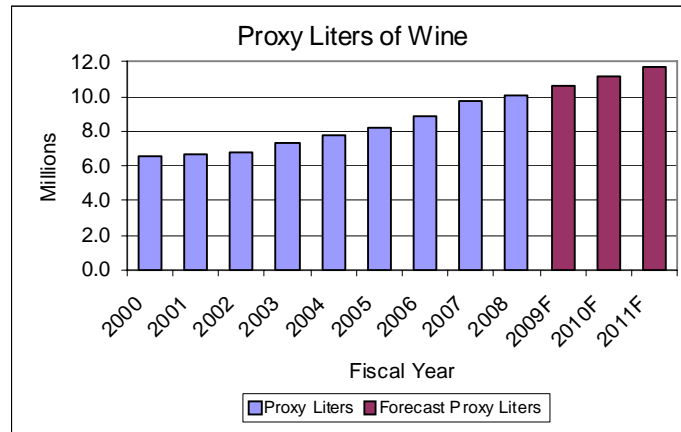
Wine Tax

dividing the total tax receipts by the wine tax rate, producing a proxy number of liters of wine.

The total tax receipts include those taxes that will be distributed to tribal governments.

Analysis

Growth in wine tax collections, measured in liters of wine, has followed a consistent upward trend through time. The trend is apparent in the figure below. Consequently, liters of wine are forecast using a linear regression model.



The model provides a good fit as shown by a R^2 rating of 0.991. This measure means that 99.1 percent of the variability in the change in liters of wine consumed in Montana can be explained by the passage of time, holding all other impacts constant.*

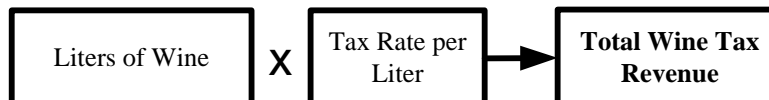
The model predicts that each year the consumption of wine in Montana will increase by approximately 5.5 percent, holding all other impacts constant. The growth rate developed in the model is then applied to the most recent actual wine consumption data available or base year fiscal 2006. Total wine consumption is expected to be 10.6 million liters in fiscal 2009, 11.2 million liters in fiscal 2010, and 11.7 million liters in fiscal 2011. Finally, the tax rate is applied to the estimate of proxy liters to determine the total expected wine tax collections, which results in estimates of \$2.9 million, \$ 3.0 million, and \$3.2 million for fiscal years 2009 through 2011, respectively.

Adjustment and Distribution

The last step in producing the estimate of the wine tax collections is to calculate the tax distributions. The wine taxes are distributed between two funds. The general fund receives 69 percent and the Department of Health and Human Services alcohol state special revenue account receives 31 percent. The general fund distribution is reduced by tribal reimbursements. At this time, three of the seven tribal governments receive wine tax dollars, Blackfeet, Fort Belknap, and Fort Peck. These tribal governments adhere to Montana wine tax laws. The state of Montana collects the tribes' portion of the tax, and quarterly distributes the collections based on a formula (per capita wine consumption times tribal membership times the Montana tax rate).

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2009 Legislature that may affect future estimates of this revenue source.

Legislative Fiscal Division

Revenue Estimate Profile

Wine Tax

| | <u>t</u> | <u>Total Tax</u> | <u>GF Tax</u> | <u>Liters</u> | <u>Tax Rate</u> | <u>Gf Allocation</u> | <u>Tribal</u> |
|----------|---------------|------------------|-----------------|-----------------|---------------------|----------------------|-----------------|
| | <u>Fiscal</u> | <u>Millions</u> | <u>Millions</u> | <u>Millions</u> | <u>\$ Per Liter</u> | <u>Percent</u> | <u>Millions</u> |
| Actual | 2000 | 1.767653 | 1.016538 | 6.546863 | 0.270000 | 0.590200 | 0.026730 |
| Actual | 2001 | 1.786403 | 1.032812 | 6.616307 | 0.270000 | 0.590257 | 0.021624 |
| Actual | 2002 | 1.815798 | 1.231862 | 6.725178 | 0.270000 | 0.690186 | 0.021376 |
| Actual | 2003 | 1.976257 | 1.339799 | 7.319470 | 0.270000 | 0.690196 | 0.024205 |
| Actual | 2004 | 2.104357 | 1.423463 | 7.793915 | 0.270000 | 0.690253 | 0.029075 |
| Actual | 2005 | 2.217968 | 1.502601 | 8.214696 | 0.270000 | 0.690319 | 0.028505 |
| Actual | 2006 | 2.397695 | 1.623980 | 8.880352 | 0.270000 | 0.690329 | 0.031219 |
| Actual | 2007 | 2.619912 | 1.774838 | 9.703378 | 0.270000 | 0.690325 | 0.033752 |
| Actual | 2008 | 2.701397 | 1.829311 | 10.005174 | 0.270000 | 0.690329 | 0.035542 |
| Forecast | 2009 | 2.867000 | 1.942000 | 10.619486 | 0.270000 | 0.690000 | 0.036000 |
| Forecast | 2010 | 3.018000 | 2.043000 | 11.179995 | 0.270000 | 0.690000 | 0.039000 |
| Forecast | 2011 | 3.169000 | 2.146000 | 11.740503 | 0.270000 | 0.690000 | 0.041000 |

Total Tax = Liters * Tax Rate

GF Tax = Liters * Tax Rate * GF Allocation - Tribal

Revenue Projection:

