

Other General Fund Revenue

All Other Revenue
Highway Patrol Fines
Nursing Facilities Fee
Public Institution Reimbursements
Tobacco Settlement



Legislative Fiscal Division



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Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

Revenue Description: There are a number of other taxes, fees, and fines that historically have generated less than \$2.5 million each in annual general fund revenue. In addition, the statutes governing these miscellaneous taxes, fees, and fines are frequently changed, making meaningful comparison between tax years impractical and accurate estimation of the revenue difficult.

“All Other Revenue” sources are estimated in aggregate except for the following: investment license transfers, liquor license fee transfers, civil fines, single state registration system fees, lodging facility use tax, Montana University System debt service deposits, transfer of excess cigarette tax revenue in the veterans account administered by DPHHS, deposits by state agencies for SWCAP/SFCAP, district court fees, BOI reimbursement of State Street Banking fees, and transfers of excess coal tax revenue in the shared account. In the past, wildfire cost reimbursements had been included in the revenue source, but beginning in fiscal 2003 they are now deposited to the federal special revenue fund.

From the fiscal 2004 base year, the following one-time revenue sources were removed: security fines - \$4,875,000; refunding of the 1992 bond issue - \$931,740; transfers from the state fund - \$815,605; proceeds from the sale of the Bozeman Armory - \$815,173; premiums for the issuance of TRANS - \$591,677; and fire suppression reimbursements - \$145,792.

One-time revenue adjustments were added in fiscal 2005 for: Transfer of money from DOJ motor vehicle information technology system account as authorized in SB 493 - \$3,300,000, and cost reimbursements from the NorthWestern Energy bankruptcy settlement - \$1,106,070.

Applicable Tax Rate(s): Various

Distribution: “All Other Revenue” is deposited in the general fund.

Collection Frequency: The various revenue sources are generally collected on a monthly basis.

Major Drivers:

- Investment license revenue and expenditures
- Liquor license revenue and expenditures
- Number of vehicles registered under the single state registration system
- Fixed costs appropriated for SWCAP/SFCAP
- District court fees
- Revenue and expenditures in the DPHHS cigarette account
- Civil fines
- State Street banking fees
- MSU-EMC debt service payments

Potential Factors Influencing Change:

- Economic Factors - Multiple
- Social Factors - Multiple
- Legislative Factors - Multiple

Data Source(s): SABHRS, Office of Budget and Program Planning, Department of Justice, Department of Public Health and Human Services, Department of Administration, Department of Revenue, and the State Auditor

Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

Contacts: Multiple state agencies

Statutory Reference: Various

% of Total FY 2004 General Fund Revenue: 2.19%

Revenue Estimate Methodology: The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

Determining total “All Other Revenue” is a multi-step process, as outlined below.

Investment License Transfers

Investment license revenue is determined by multiplying the anticipated number of licenses to be issued by the license fee. Estimated program costs are deducted from the total revenue. By statute, the remainder is transferred to the general fund. Investment license fee estimates and requested appropriations by the executive determine the amount of the transfer.

Liquor License Fee Transfers

Liquor license revenue deposited in the DOR liquor proprietary account in excess of licensing costs is transferred to the general fund. Liquor license fee estimates and requested appropriations by the executive determine the amount of the transfer.

Civil Fines

The estimate for civil fine income is derived by applying a growth rate to a base amount. This amount represents the last known amount for these fines, usually the prior fiscal year.

Gross Vehicle Weight

Fees from DOT single state registration system are estimated based on an historical average.

Lodging Facility Use Tax

The tax paid by state employees is reimbursed to the various funds from which the payments were made, including the general fund. Estimates of the tax are provided in “Lodging Taxes”.

Montana University System Debt Service

Payments from the Montana University System’s trustee are wired to the general fund to pay debt service on the 1992 refunding bond for debt at MSU and MSU-Eastern. Due to the structure of the payments, deposits to the general fund have exceeded debt service payments from the general fund since fiscal 1997.

Cigarette Account Transfers

Money in excess of \$2.0 million at the end of the fiscal year in the cigarette account administered by DPHHS is transferred to the general fund. The account receives the greater of \$2.0 million or 8.3 percent of cigarette tax revenue for use at the veterans home. Cigarette tax estimates (see “Cigarette Tax”) and appropriations requested by the executive determine the amount of the transfer.

SWCAP / SFCAP

Agencies pay a fixed amount from state special revenue funds for support of services provided statewide that are funded from the general fund. Estimates are derived from Executive requested fixed cost appropriations.

Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

District Court Fees

Since the passage of HB 124 by the 2001 legislature, fees collected at the district court are now deposited to the general fund. Historical trends in the number of district court cases are used to derive the revenue estimate.

State Street Banking Fees

The Department of Administration (Board of Investments) pays banking fees to State Street Banking through a statutory appropriation. These fees are reimbursed by the department and deposited to the general fund.

Coal Tax Shared Account

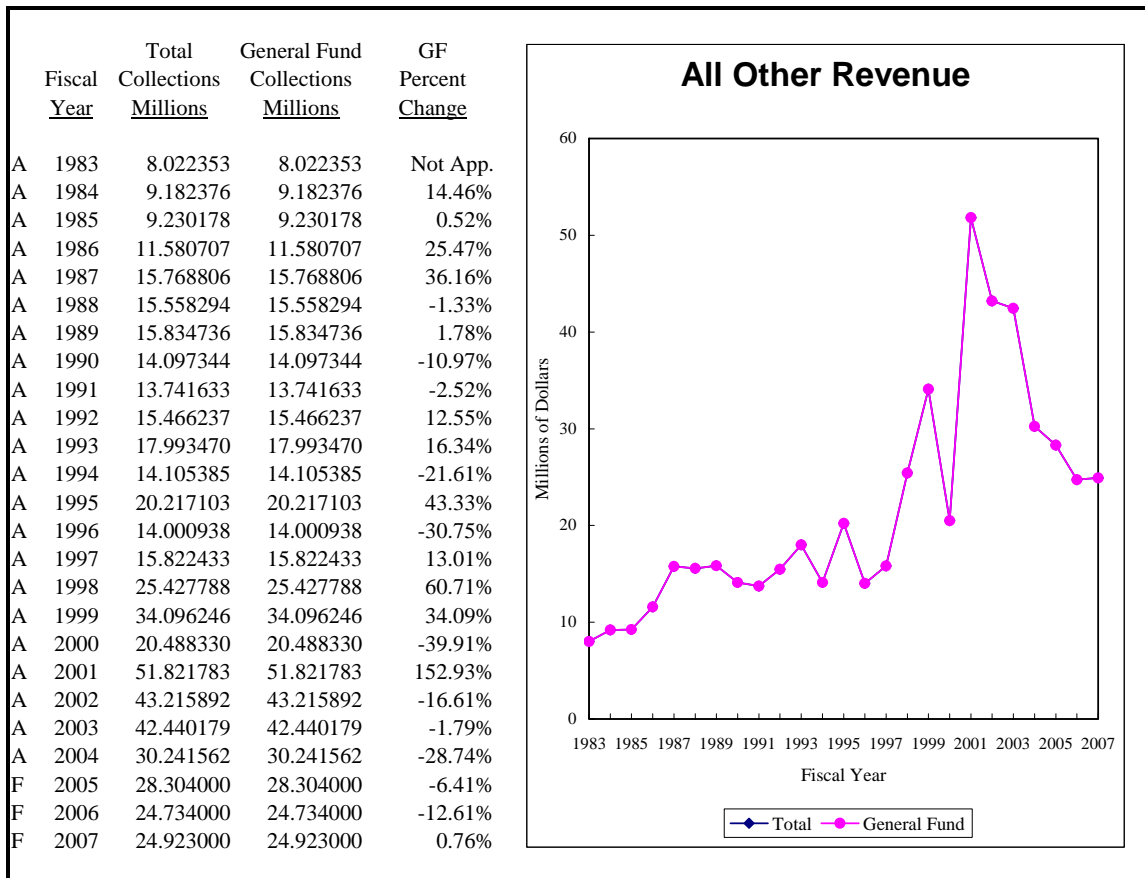
Any unreserved fund balance in the coal tax shared account is transferred to the general fund at the end of the fiscal year. Coal tax estimates and requested appropriations by the executive determine the amount of the transfer.

All Other Revenue Not Previously Defined

The minor components of "All Other Revenue" are calculated aggregately by applying a growth rate to the actual (prior) fiscal year collections adjusted for one-time events. Adjustments for any legislative action are included.

The total "All Other Revenue" is projected by adding the individual totals described above.

Revenue Projection:

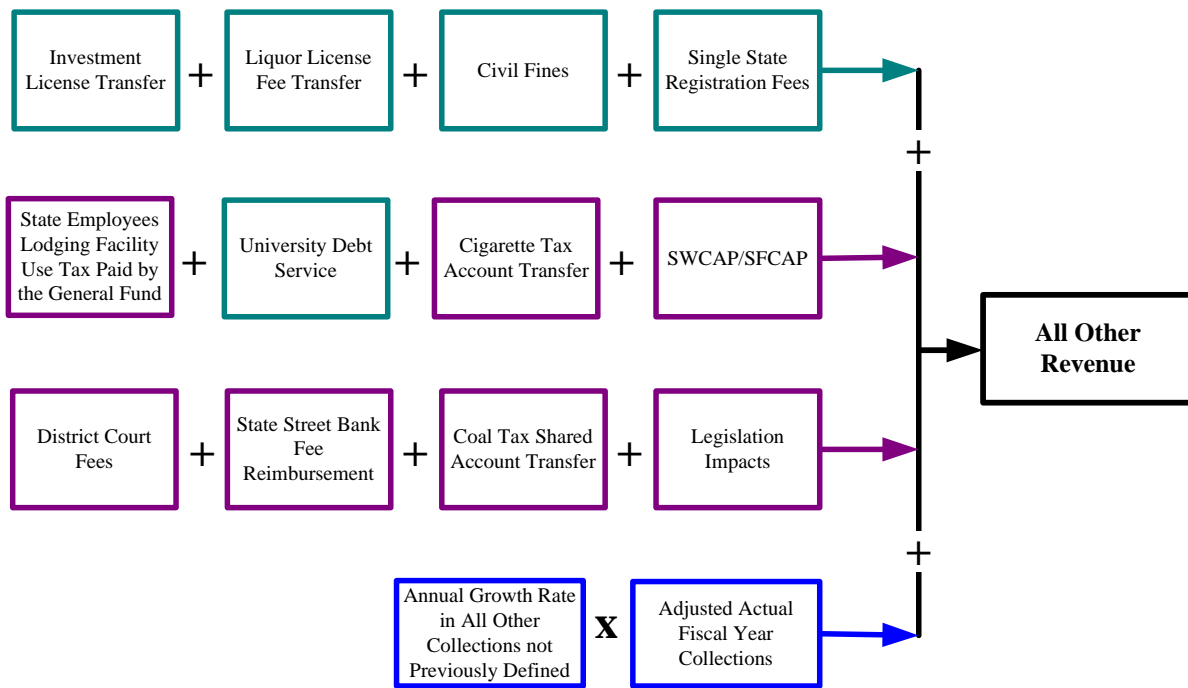


Legislative Fiscal Division

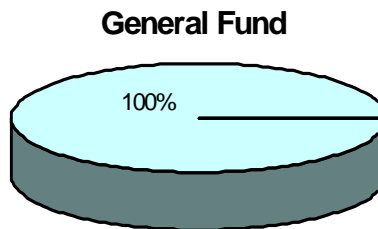
Revenue Estimate Profile

All Other Revenue

Forecast Methodology



Distribution Methodology



Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Base	Annual	Adjustments	Vet. Account	One-Time
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Growth</u>	<u>Millions</u>	<u>Transfer</u>	<u>Transfer</u>
							<u>Millions</u>	<u>Millions</u>
Actual	2000	20.488330	20.488330	9.216695	-24.5934%			
Actual	2001	51.821783	51.821783	11.509661	24.8784%			
Actual	2002	43.215892	43.215892	8.025926	-30.2679%	1.162288		
Actual	2003	42.440179	42.440179	9.474137	18.0442%	21.282497		
Actual	2004	30.241562	30.241562	9.736364	2.7678%	8.189612	1.054958	
Forecast	2005	28.304000	28.304000	9.736364	0.0000%	0.000000	2.890547	4.367070
Forecast	2006	24.734000	24.734000	9.736364	0.0000%	0.000000	3.948177	0.000000
Forecast	2007	24.923000	24.923000	9.736364	0.0000%	0.000000	3.800633	0.000000

		Investment					MSU&EMC	SABHRS
	t	Transfer	Land Grant	Civil Fines	GVW Fees	Accom. Tax	Debt	Debt
	<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	2.296258	0.086129	0.439498	1.275935	0.016878	0.495693	2.506520
Actual	2001	2.445000	0.091699	0.484739	1.252221	0.052215	0.837170	2.490067
Actual	2002	2.179165	0.000000	0.749382	1.044512	0.038912	0.839583	2.468857
Actual	2003	2.036200	0.000000	0.480945	1.071278	0.032547	0.838186	2.050913
Actual	2004	2.113000	0.000000	0.855870	1.067278	0.040021	0.837743	0.000000
Forecast	2005	2.044000	0.000000	0.571699	1.247000	0.041000	0.833016	0.000000
Forecast	2006	2.104000	0.000000	0.572054	1.280000	0.043000	0.831704	0.000000
Forecast	2007	2.183000	0.000000	0.571764	1.314000	0.046000	0.695734	0.000000

	t		Coal	SFCAP	Liquor License	District	Bank
	<u>Fiscal</u>	FEMA	Transfer	SWCAP	Transfer	Court	Charges
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000000	0.000000	2.486250	0.000000	0.000000	0.000000
Actual	2001	31.097802	0.611432	0.949777	0.000000	0.000000	0.000000
Actual	2002	23.246341	0.623227	1.023875	1.036184	0.000000	0.777640
Actual	2003	0.000000	0.000000	1.179279	0.558198	2.664891	0.771108
Actual	2004	0.000000	0.000000	2.214579	0.526827	2.839310	0.766000
Forecast	2005	0.000000	0.406344	1.836574	0.516730	3.025145	0.788000
Forecast	2006	0.000000	0.000000	1.836574	0.370141	3.223143	0.788000
Forecast	2007	0.000000	0.083925	1.836574	0.432019	3.434100	0.788000

GF Tax = Base + Vet. Account + One-time + Investment + Civil Fines + GVW Fees + Accom. Tax + MSU&EMC + Coal + SFCAP + Liquor + District + Bank

Legislative Fiscal Division

Revenue Estimate Profile

Highway Patrol Fines

Revenue Description: The Montana Highway Patrol issues citations for speeding, driving under the influence of alcohol or drugs, and other misdemeanors. The fines and forfeitures associated with these citations are collected by various state and local courts.

Applicable Tax Rate(s): Fines for citations are variable.

Distribution: All of Highway Patrol fines and forfeitures on all offenses that result from citations issued by the Highway Patrol, except those paid to a justices' court, received by the state are deposited in the general fund.

Collection Frequency: Monthly

Major Drivers:

- Number of citations
- Fine rate

Potential Factors Influencing Change:

- Economic Factors
 - Population change
 - Gas prices
- Social Factors
 - Public perception of drinking and driving
 - Public perception of youth drinking and youth driving
- Legislative Factors
 - State legislative impacts
 - Changes in driving rules
 - Changes in distribution of fee revenue
 - Federal legislative impacts
 - Changes in driving rules
 - Federal law compliance penalties

Data Source(s): Department of Justice, Highway Patrol, SABHRS

Contacts: Department of Justice, Highway Patrol

Statutory Reference:

Tax Rate (MCA)– general fines (61-3-601, 61-5-307, 61-7-118, 61-8-711, 61-9-511), multiple others

Tax Distribution (MCA) – 3-10-601 (fines collected in justice court are included in “All Other General Fund”), 61-10-148 (violations of vehicle size, weight & load), 61-12-701 (fines by Highway Patrol)

Date Due – upon conviction

% of Total FY 2004 General Fund Revenue: 0.30%

Legislative Fiscal Division

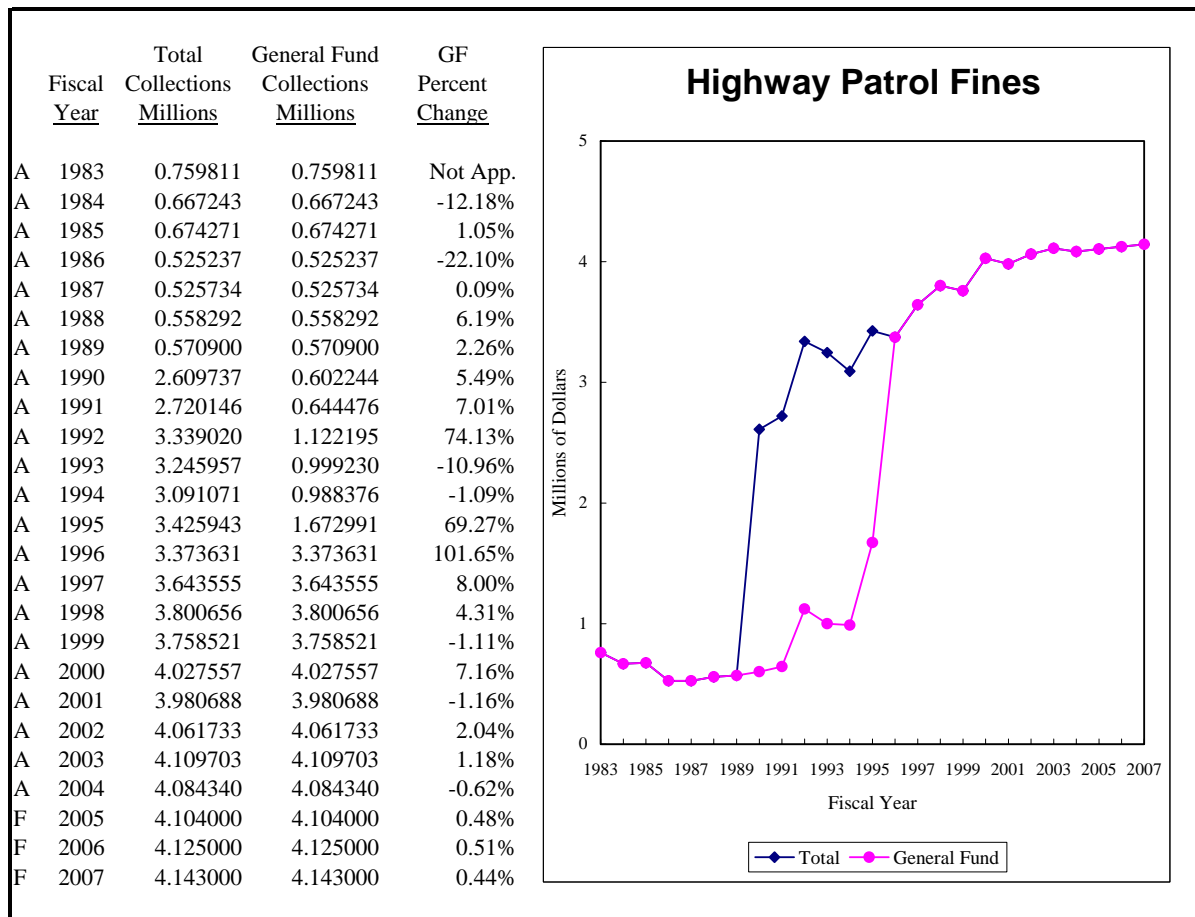
Revenue Estimate Profile

Highway Patrol Fines

Revenue Estimate Methodology: The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the "Revenue Estimate Assumptions" section of this document. The following summarizes the LFD process used to develop the revenue estimate.

In producing the estimate for highway patrol fines, the LFD contacts the Department of Justice, Highway Patrol Office for their evaluation for the potential for significant changes in the number of tickets to be issued over the next biennium. There is a relationship between the number of officers and the number of tickets issued in any year. With this information, the LFD establishes a growth rate for the revenues. The growth rate, is then applied to past years' revenues to determine the estimate for highway patrol fines.

Revenue Projection:



Forecast Methodology



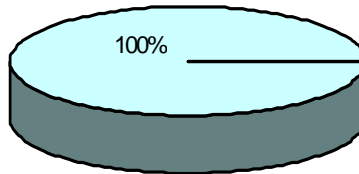
Legislative Fiscal Division

Revenue Estimate Profile

Highway Patrol Fines

Distribution Methodology

General Fund



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Fine
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Growth Rate</u>
Actual	2000	4.027557	4.027557	0.071580
Actual	2001	3.980688	3.980688	-0.011637
Actual	2002	4.061733	4.061733	0.020360
Actual	2003	4.109703	4.109703	0.011810
Actual	2004	4.084340	4.084340	-0.006171
Forecast	2005	4.104000	4.104000	0.004831
Forecast	2006	4.125000	4.125000	0.005030
Forecast	2007	4.143000	4.143000	0.004456

Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Revenue Description: This source consists of two similar utilization fees on nursing homes: 1) nursing facility utilization fee; and 2) intermediate care facility utilization fee.

Qualified nursing facilities are required to pay a nursing facility utilization fee of \$5.30 for each bed day in the facility. Nursing facilities are health care facilities licensed by the Department of Public Health and Human Services and include those operated for profit or non-profit, freestanding or part of another health facility, and publicly or privately owned. Specifically included by statute is the Montana Mental Health Nursing Care Center. According to federal definitions, nursing facilities do not include adult foster homes, retirement homes, and other alternative living arrangements. Bed days are defined as a 24-hour period in which a resident of a nursing facility is present in the facility or in which a bed is held for a resident while on temporary leave.

An intermediate care facility utilization fee is imposed on resident bed days of intermediate care facilities for the mentally retarded. The only qualifying facility is the Montana Developmental Center. The fee is five percent of a facility's quarterly revenue divided by the quarterly bed days.

Applicable Tax Rate(s): 1) Nursing facility utilization fee - \$5.30 per bed day; 2) Intermediate care facility utilization fee - 5 percent of a facility's quarterly revenue divided by the quarterly bed days

Distribution: Nursing facility utilization fee: 1) for the Montana Mental Health Nursing Care Center – 30 percent to the general fund and 70 percent to the prevention and stabilization account (for use by the Department of Public Health and Human Services to provide health and human services); 2) for all other facilities - \$2.80/bed day to the general fund and \$2.50/bed day to the nursing facility fee account (for use by the Department of Public Health and Human Services to increase the average price paid for Medicaid nursing home services). Intermediate care facility utilization fee: for the Montana Developmental Center - 30 percent to the general fund and 70 percent to the prevention and stabilization account.

Collection Frequency: Quarterly

Major Drivers:

- Residents in nursing homes
- Facility expenses at the Montana Developmental Center
- Fee rate

Potential Factors Influencing Change:

- Economic Factors
 - Change in MT population 65+
 - Available nursing facility beds
 - Long-term health coverage
 - Personal income change
- Social Factors
 - Elderly health conditions
- Legislative Factors
 - State legislative impacts
 -
 - Federal legislative impacts
 - Changes in Medicaid coverage
 - Changes in Medicaid match laws

Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Data Source(s): Department of Public Health and Human Services, Nursing Facilities

Contacts: Department of Public Health and Human Services

Statutory Reference:

Tax Rate (MCA) – Nursing facility utilization fee (15-60-102), intermediate care facility utilization fee (15-67-102(2))

Tax Distribution (MCA) - Nursing facility utilization fee (15-60-102 & 15-60-210), intermediate care facility utilization fee (15-67-102(3))

Date Due - Nursing facility utilization fee due the last day of the month following the close of the calendar quarter (15-60-201), intermediate care facility utilization fee due the month following the close of the calendar quarter (15-67-201(1))

% of Total FY 2004 General Fund Revenue: 0.43%

Revenue Estimate Methodology: The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document. The following summarizes the LFD process used to develop the revenue estimate.

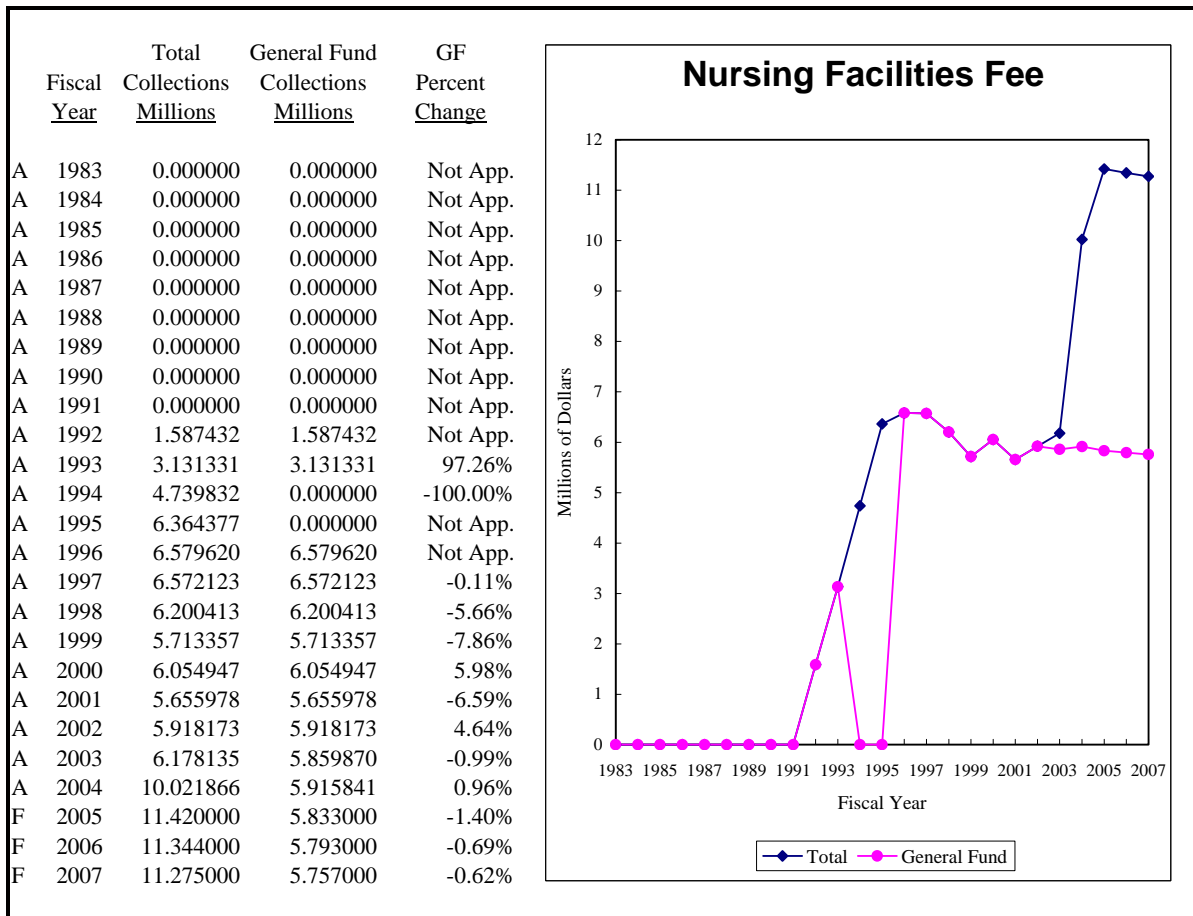
To estimate the revenues for the nursing facility fees the LFD uses a trend regression model. The model predicts the number of bed days expected in all nursing facilities in Montana. The LFD is provided historic bed days from the Department of Revenue for the development of the model. After determining the estimate for future bed days, the fee is applied to the number of bed days. To determine the estimate for the intermediate care facility utilization fee, DPHHS is consulted in determining growth in expenditures at Montana Developmental Center. The fee is then applied to the rate of expenditure for each fiscal year. Finally, the fees are combined to determine the total estimate for nursing facility fees..

Legislative Fiscal Division

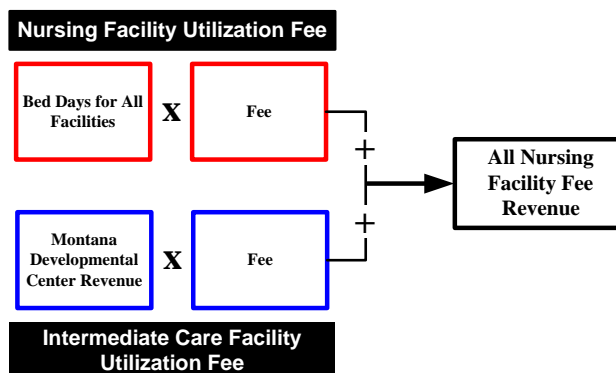
Revenue Estimate Profile

Nursing Facilities Fee

Revenue Projection:



Forecast Methodology

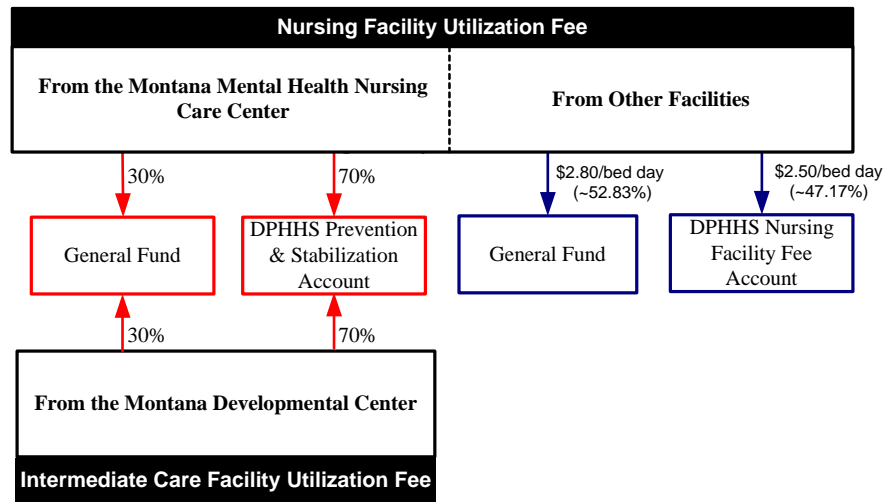


Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Distribution Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Facilities	Bed	Int. Care	Int. Care
	Fiscal	Millions	Millions	Fee	Days	Rate	Revenue
Actual	2000	6.054947	6.054947	2.800000	2.113805		
Actual	2001	5.655978	5.655978	2.800000	2.083501		
Actual	2002	5.918173	5.918173	2.800000	2.072696		
Actual	2003	6.178135	5.859870	2.800000	2.047881	5.0000%	9.093277
Actual	2004	10.021866	5.915841	4.500000	2.043377	5.0000%	17.262568
Forecast	2005	11.420000	5.833000	5.300000	2.015377	5.0000%	14.777145
Forecast	2006	11.344000	5.793000	5.300000	2.001048	5.0000%	14.777145
Forecast	2007	11.275000	5.757000	5.300000	1.988086	5.0000%	14.777145

$$\text{GF Tax} = (\text{Facilities} * \text{Bed}) + (\text{Int. Care Revenue} * \text{Rate})$$

Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Revenue Description: The Department of Public Health and Human Services receives reimbursement for the cost of sheltering and treating residents at the Montana Developmental Center (MDC), the Montana Mental Health Nursing Care Center, Montana State Hospital (MSH), Eastern Montana Veterans' Home, Montana Chemical Dependency Treatment Center, and the Montana Veterans' Home. There are four sources of reimbursement income: 1) state and federally matched Medicaid monies; 2) insurance proceeds from companies with whom the resident is insured; 3) payments by residents or persons legally responsible for them; and 4) federal Medicare funds. Most of the reimbursements come from federal Medicaid payments.

Three variables determine the level of Medicaid nursing home payments: 1) the number of patient days eligible for Medicaid reimbursement; 2) the reimbursement rate per patient day; and 3) the private resources of Medicaid patients.

Applicable Tax Rate(s): N/A

Distribution: Revenue collected from the above sources are deposited in the general fund with the following exceptions:

1. Reimbursements from MDC and MSH are first used to pay debt service on bonds issued to fund construction at these facilities. The remainder is deposited into the general fund.
2. Reimbursements received for the Veterans' Home and Montana Chemical Dependency Treatment Center are deposited into a state special revenue account and appropriated to the institutions.

Collection Frequency: Monthly

Major Drivers:

- Medicaid days
- Medicaid reimbursement rate (FMAP)
- Medical payments (private, insurance, Medicaid, Medicare)
- Debt service

Potential Factors Influencing Change:

- Economic Factors
 - Insurance eligibility of disabled
 - Number of state hospitals
 - Medicaid and Medicare laws
- Social Factors
 - Public perception of institutional care
 - Public desire for community care
 - Public perception of transfer payments, Medicaid and Medicare
- Legislative Factors
 - State legislative impacts
 - Change price/tax
 - Federal legislative impacts
 - Changes in FMAP rate
 - Changes in eligibility

Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Data Source(s): SABHRS, Department of Public Health and Human Services

Contacts: Department of Public Health and Human Services

Statutory Reference:

Tax Rate (MCA) – 53-1-402 (requirement to pay)

Tax Distribution (MCA) – 53-1-413

Date Due – monthly (53-1-405(3))

% of Total FY 2004 General Fund Revenue: 1.31%

Revenue Estimate Methodology: The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the “Revenue Estimate Assumptions” section of this document.

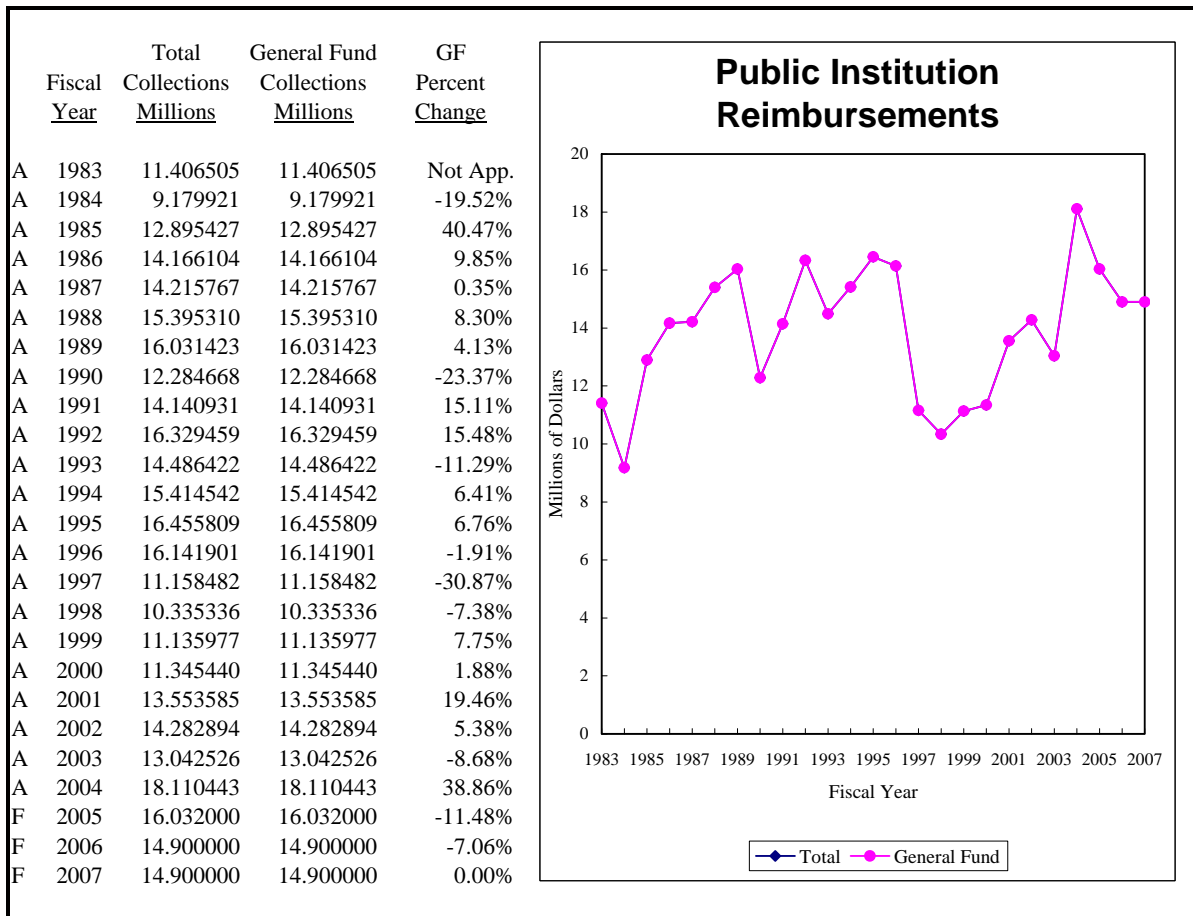
The LFD relies on the Department of Public Health and Human Services (DPHHS) to provide the assumptions for the future collections of public institution reimbursements. DPHHS has intimate knowledge of all circumstances related to the collections of the reimbursements. The methodology includes first multiplying the number of eligible Medicaid days by the reimbursement rate for each institution, then totaling those amounts to derive total Medicaid reimbursement revenue. Then, anticipated reimbursement revenue from private payments, insurance payments, and Medicare payments are added to the Medicaid reimbursements. Building debt service payments for the Montana Developmental Center and the Montana State Hospital are subtracted from total income. After receiving the estimate from DPHHS, the LFD researches particular facts associated with the estimate and makes any adjustments that may be required to determine the estimate for public institution reimbursements.

Legislative Fiscal Division

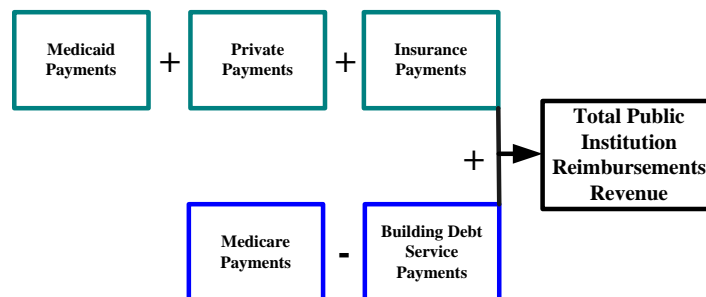
Revenue Estimate Profile

Public Institution Reimbursements

Revenue Projection:



Forecast Methodology

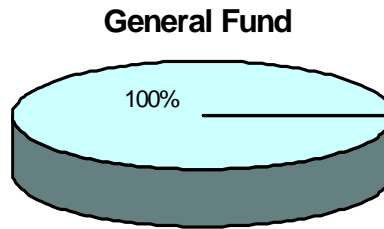


Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Distribution Methodology



Revenue Estimate Assumptions

	t	Total Rev.	GF Rev.	Private	Insurance	Medicaid	Medicare
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	11.345440	11.345440	0.512403	0.000257	12.490967	0.003044
Actual	2001	13.553585	13.553585	0.649965	0.000498	12.887899	0.015223
Actual	2002	14.282894	14.282894	1.483431	0.317047	10.994744	1.487671
Actual	2003	13.042526	13.042526	1.564208	0.451974	9.900342	1.126001
Actual	2004	18.110443	18.110443	1.424453	0.311203	14.336601	2.038187
Forecast	2005	16.032000	16.032000	2.679880	0.412385	14.159464	1.703181
Forecast	2006	14.900000	14.900000	2.671790	0.420305	12.999022	1.735736
Forecast	2007	14.900000	14.900000	2.700531	0.428635	12.929260	1.770020

	t	MDC Debt	MSH Debt	Adjustments
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	-0.965496	0.000000	
Actual	2001	-1.079220	-1.909252	0.000000
Actual	2002	-1.075405	-1.911032	0.000000
Actual	2003	-1.045873	-1.776461	-1.572893
Actual	2004	-0.868888	-1.752261	-3.180119
Forecast	2005	-1.013210	-1.909403	0.000000
Forecast	2006	-1.016710	-1.909403	0.000000
Forecast	2007	-1.014610	-1.913178	0.000000

$$\text{GF Rev.} = \text{Private} + \text{Insurance} + \text{Medicaid} + \text{Medicare} - \text{MDC Debt} - \text{MSH Debt}$$

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Revenue Description: Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with four original tobacco companies and 43 subsequent companies to end a four-year legal battle with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities).

Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (Two were received in fiscal 2000. One each year is expected in fiscal 2001, 2002, and 2003); 3) on-going, perpetual annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The MSA places no restrictions on how the settling parties spend the money.

The total amount of tobacco settlement funds available to Montana is affected by a number of adjustments. These may include inflation, sales volume changes, non-participating manufacturers (NPM) adjustment for the loss of market shares, operating income of the original four tobacco companies, number and operating income of subsequent participating manufactures, number of states reaching state specific finality, settlements reached by the four states not party to the agreement (Florida, Texas, Minnesota, and Mississippi), litigation offsets, disputed payments, and federal tobacco legislation offsets among others.

The adjustment for NPM is applied for the first time beginning fiscal 2006. Amounts paid by manufacturers who participate in the MSA may decrease if they have lost market shares and it is proven that a significant portion of the loss (to companies not participating in the MSA) is due to the disadvantages caused by the MSA. An economics firm must determine if this is the case. Although this has not yet been determined, it is expected that participating manufactures will withhold a portion of their payments in disputed escrow accounts until the matter is resolved, thus reducing payments to the settling entities.

Applicable Tax Rate(s): NA

Distribution: Due to passage of Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate no less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. For fiscal 2003, the remaining 60 percent of the money is deposited to the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the tobacco settlement money funds tobacco prevention programs and (due to the enactment of SB 485 by the 2003 legislature) human services programs, and 17 percent of the funds is used for the Children's Health Insurance Program and (due to the enactment of SB 485 by the 2003 legislature) match for federal Medicaid funds. The remaining 11 percent of the money is deposited to the general fund. The effects of SB 485 terminate at the end of fiscal 2005.

Collection Frequency: For fiscal 2003: The last initial payment is expected January 10, 2003 and the annual payment is expected April 15th 2003. Beginning fiscal 2004: Annual payments are expected each April 15th into perpetuity. General Tobacco, a new subsequent participating manufacturer, is required to make annual payments every August 30th through calendar 2016 for obligations incurred from 2000 to 2003.

Major Drivers:

- Base payments required in the Master Settlement Agreement
- Payments by subsequent participating manufacturers
- Quantity of cigarettes shipped nationally
- Inflation

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Potential Factors Influencing Change:

- Economic Factors
 - Price of cigarettes (influence on quantity purchased)
 - Financial health of tobacco companies
 - Inflation
 - Operating income of the participating tobacco companies
 - Population change
- Social Factors
 - Perception of health risks
 - Lawsuits against tobacco companies
 - Government or industry announcements
 - Demand of substitutes
- Legislative Factors
 - State legislative impacts
 - Montana's approval of the settlement agreement
 - Changes in cigarette tax (influence on quantity purchased)
 - Appropriations for anti-smoking advertisements
 - Appropriations for enforcement of Master Settlement Agreement provisions
 - Federal legislative impacts
 - Changes in federal cigarette tax

Data Source(s):

Master Settlement Agreement (as amended), Center for Disease Control and Prevention, National Council of State Legislatures, National Association of Attorneys General, Tobacco companies' 10Q report

Contacts: Department of Justice

Statutory Reference:

Tax Rate – NA

Tax Distribution (MCA) – Montana Constitution, Article X11, Section 4; 17-6-606; 53-4-1011

Date Due – annual payments from settling entities due April 15th (Master Settlement Agreement, Chapter IX(c)), General Tobacco annual payments through calendar 2016 due August 30th (General Tobacco Adherence Agreement)

% of Total FY 2004 General Fund Revenue: 0.21%

Revenue Estimate Methodology: The LFD uses a number of analytical techniques to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, and etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used by the LFD to develop a revenue estimate for this source are provided in the "Revenue Estimate Assumptions" section of this document. The following summarizes the LFD process used to develop the revenue estimate.

1. Annual Payments: The total settlement amount available each year from the original participating manufactures annual payment is adjusted by estimates for the inflation, volume, operating income, previously settled states, and NPM adjustments. The amount of the annual payment from subsequent participating manufactures is derived by adjusting the total settlement amount available each year from the original participating manufactures for volume, market share, inflation and NPM adjustments. These two annual payments are summed and then multiplied by the Montana's percentage share.

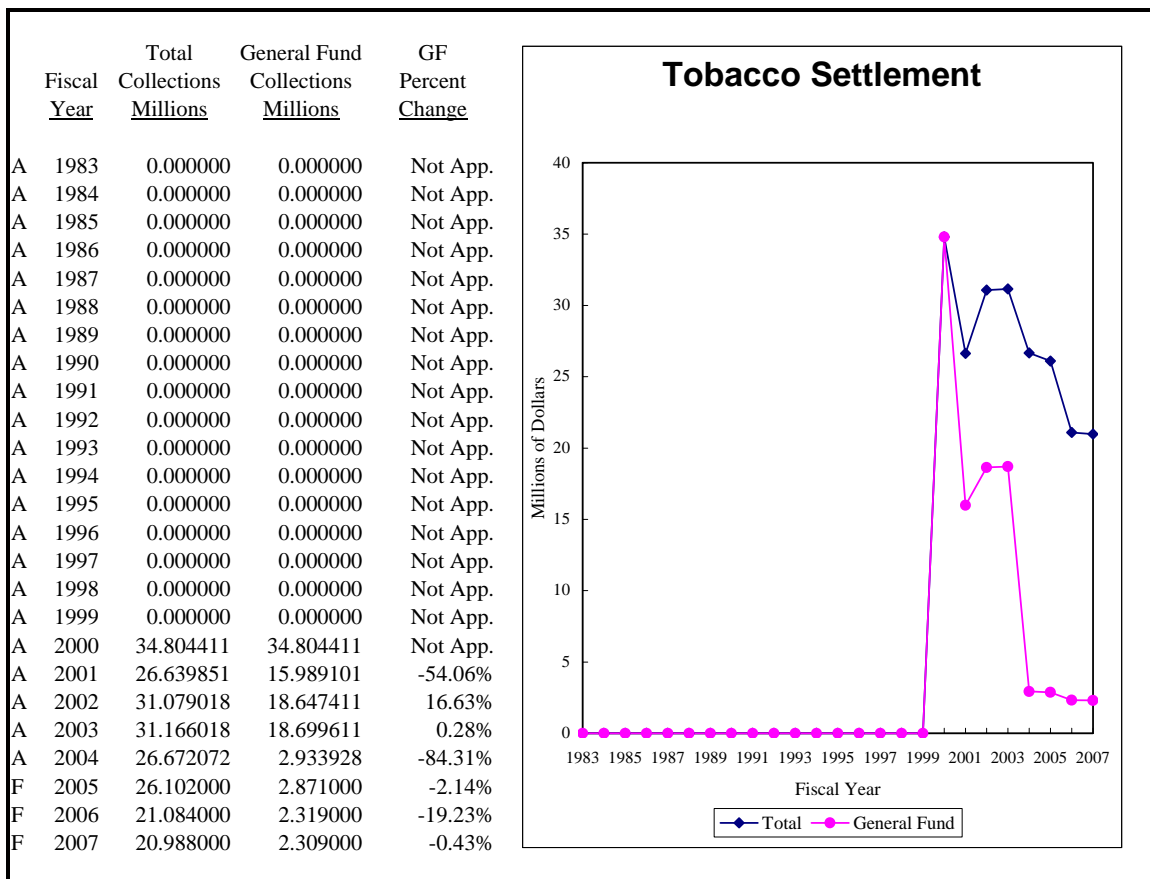
Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

2. Initial Payments the (last payment was received in fiscal 2003): The total settlement amount available each year from the initial payment is adjusted by an estimate for the volume adjustment then multiplied by the Montana's percentage share.
3. General Tobacco Annual Payments: For fiscal 2005 only, one-half of the company's calendar 2004 MSA obligation is estimated. Beginning fiscal 2006, net payment obligations (reduced by the amount of escrow funds released to the states) are added to certain accrued interest and an estimate of the other half of the company's calendar 2004 MSA obligation to equal the principal to be paid from fiscal 2006 to fiscal 2017. The applicable portion of the principal owed plus accrued interest earnings equal the total payment that is then multiplied by Montana's share.
4. Total: The sum of the annual payment, the initial payment, and General Tobacco payments equals the amount Montana will receive in that fiscal year.

Revenue Projection:

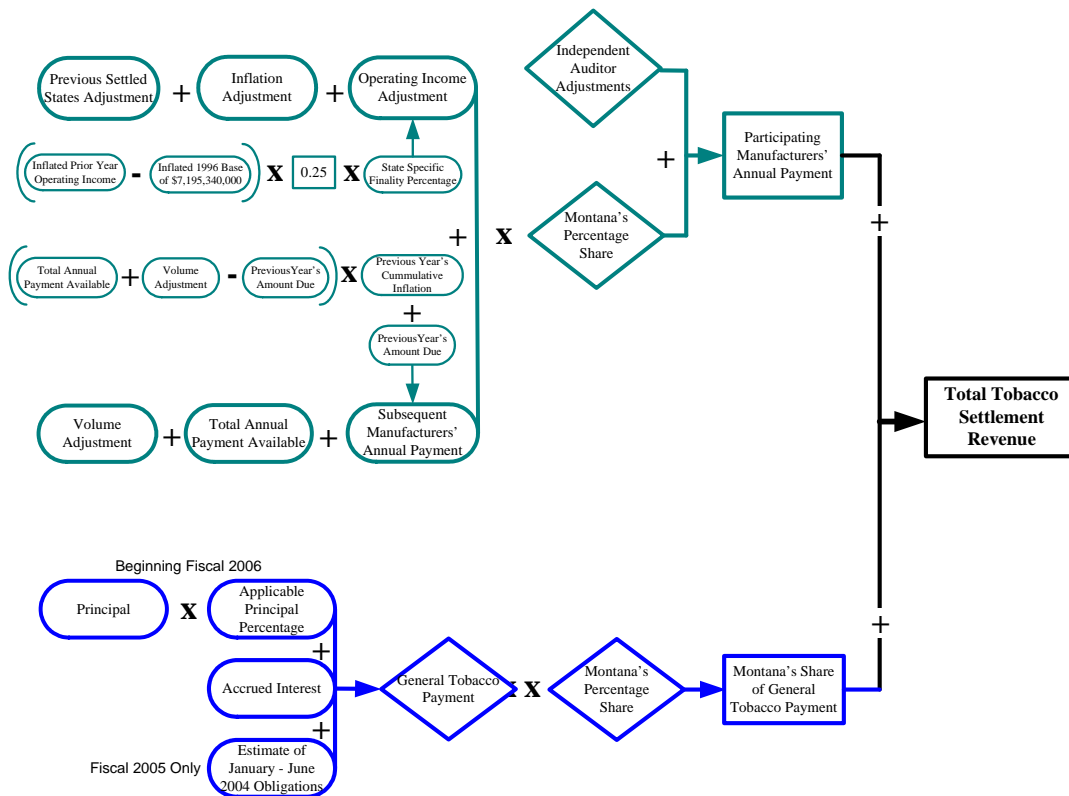


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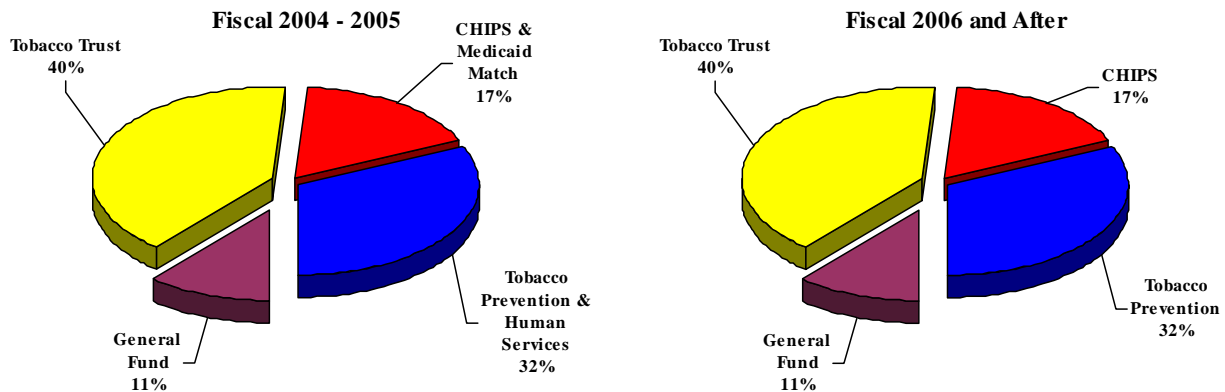
Revenue Estimate Profile

Tobacco Settlement

Forecast Methodology



Distribution Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Initial	Annual	Montana's	PSS
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Payment</u>	<u>Payment</u>	<u>Share</u>	<u>Reduction</u>
				<u>Millions</u>	<u>Millions</u>	<u>Percent</u>	<u>Percent</u>
Actual	2000	34.804411	34.804411	4872.000000	4500.000000	0.004247591	-0.124500000
Actual	2001	26.639851	15.989101	2546.160000	5000.000000	0.004247591	-0.124500000
Actual	2002	31.079018	18.647411	2622.544800	6500.000000	0.004247591	-0.124500000
Actual	2003	31.166018	18.699611	2701.221144	6500.000000	0.004247591	-0.124500000
Actual	2004	26.672072	2.933928	0.000000	8000.000000	0.004247591	-0.124500000
Forecast	2005	26.102000	2.871000	0.000000	8000.000000	0.004247591	-0.124500000
Forecast	2006	21.084000	2.319000	0.000000	8000.000000	0.004247591	-0.124500000
Forecast	2007	20.988000	2.309000	0.000000	8000.000000	0.004247591	-0.124500000

	t	Annual	Cummulative	Adjustment	Adjusted	Annual	Cummulative
	<u>Fiscal</u>	<u>Vol. Change</u>	<u>Vol. Change</u>	<u>Factor</u>	<u>Vol. Change</u>	<u>CPI Change</u>	<u>CPI Change</u>
		<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Actual	2000	-0.140094943	-0.140094943	0.980000000	-0.137293044	0.030000000	0.030000000
Actual	2001	-0.015542065	-0.153459643	0.980000000	-0.150390450	0.033868093	0.064884100
Actual	2002	-0.045780332	-0.192214542	0.980000000	-0.188370251	0.030000000	0.096830600
Actual	2003	-0.049400356	-0.232119431	0.980000000	-0.227477042	0.030000000	0.129735500
Actual	2004	-0.056361859	-0.275398607	0.980000000	-0.269890635	0.030000000	0.163627600
Forecast	2005	-0.056361859	-0.316238489	0.980000000	-0.309913719	0.030000000	0.198536400
Forecast	2006	-0.056361859	-0.354776559	0.980000000	-0.347681028	0.030000000	0.234492500
Forecast	2007	-0.056361859	-0.391142552	0.980000000	-0.383319701	0.030000000	0.271527300

	t	Op. Income	SPM	General	NPM
	<u>Fiscal</u>	<u>Adjustment</u>	<u>Payment</u>	<u>Tobacco</u>	<u>Adjustment</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	40.787986	46.446683		
Actual	2001	64.221594	78.134224		
Actual	2002	0.000000	144.417783		
Actual	2003	0.000000	240.733198		
Actual	2004	0.000000	293.806967		
Forecast	2005	0.000000	352.138345	0.000000	0.000000
Forecast	2006	0.000000	434.712146	0.072141	-4.791702
Forecast	2007	0.000000	552.748361	0.080386	-4.767922

Total Tax = [Annual * (1 + Value Change) * (1 + Cumulative CPI) * (1 + PSS) + Op. Income + SPM] * Montana's + General