

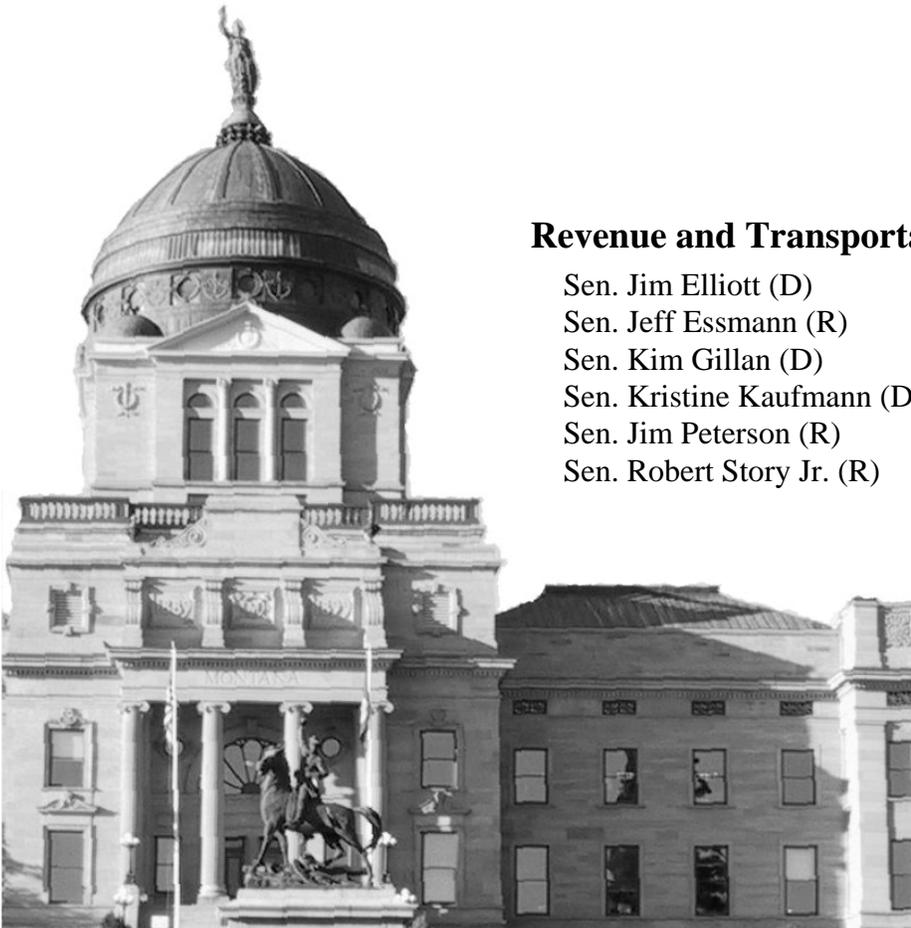
Legislative Fiscal Report

2009 Biennium



Volume 2 – Revenue Estimates

Presented to the Sixtieth Legislature



Revenue and Transportation Interim Committee

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**Legislative Fiscal Division
Revenue Staff**

Terry Johnson

Catherine Duncan Roger Lloyd
Mike Allen Jim Standaert

Legislative Fiscal Division



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Revenue Estimates

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How to Use This Report

The following report provides a detailed profile of the revenue estimates used by the 2007 legislature for the 2009 biennium. It is arranged into six main revenue sections. Each section contains profiles of revenue sources that share common characteristics, have many of the same assumptions, and have common estimating methodologies. The six sections are:

1. Business Taxes
2. Natural Resource Taxes
3. Interest Earnings
4. Consumption Taxes
5. Property Taxes
6. Other General Fund Revenue

The sections are marked by divider pages that list each revenue source within that section. The sources are arranged alphabetically within each section.

The report contains profiles of each revenue source estimated by the 60th Legislature. Ten categories of information are provided for each source. These categories and a short description of each follow:

Revenue Description: A brief description of the source is provided including the origin of the revenue and, in the case of taxes and fees, the item that is taxed.

Statutory Reference: These are the citations from the Montana Code Annotated (MCA) applicable to the revenue source and include citations for the tax rate, the distribution, and when the tax is due.

Applicable Tax Rate(s): This section provides an explanation of the tax rate or license fee, more detail on the items that are taxed, and other information such as exemptions, minimums, initial versus annual fees, etc.

Distribution: This section shows how the revenue is distributed. In cases where uses or entities other than general fund receive a portion of the revenue, percentage distribution or the dollar amount is shown for each recipient. Also included in this section is a flow chart illustrating a simplified diagram of how the revenue received from the source is distributed in the state accounting system.

Summary of Legislative Action: Legislation affecting the revenue source and/or distribution is noted and explained. A table is provided showing the revenue impact of each piece of legislation.

% of Total General Fund Revenue: To give the reader an idea of the size of a particular revenue source, the percentages of total general fund revenue for FY 2004, 2005, and 2006 are included.

Revenue Estimate Methodology: A detailed explanation of the methodology used to derive assumptions for the revenue source is included. Methods differ between sources and may change each biennium depending on circumstances. Specific information on the type and source of the data that was used, analytical techniques, and any adjustments are provided along with charts showing major assumptions or components of the revenue source.

Forecast Methodology: This section includes a flow chart illustrating a simplified diagram of the methodology used to determine the revenue estimate.

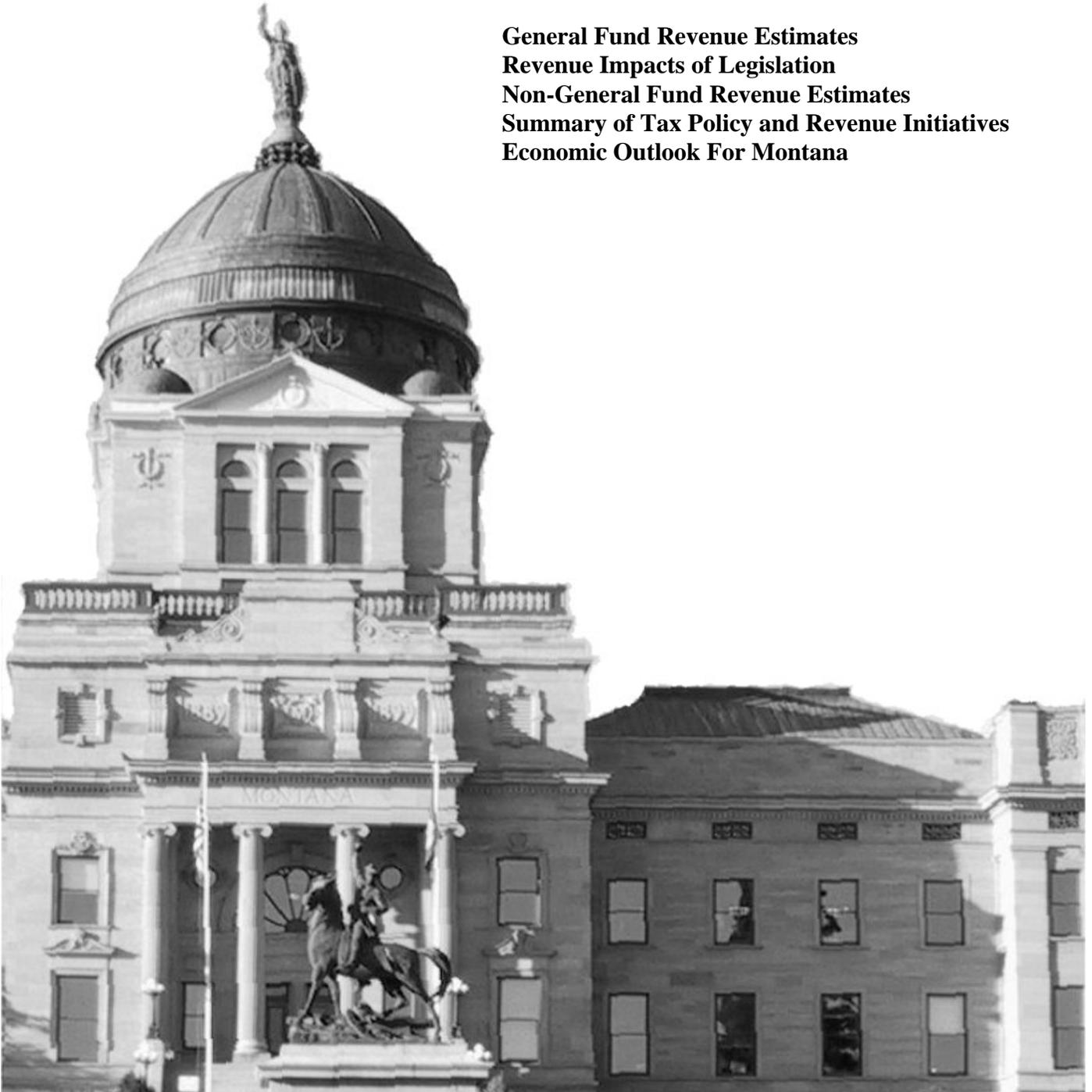
Revenue Estimate Assumptions: The data provided in these tables are used to derive the revenue estimate and do not reflect changes, if any, enacted by the 2007 legislature that may affect future estimates of the revenue source. The tables also show the revenue estimates for fiscal years 2007, 2008, and 2009, the estimated general fund amount, and, if applicable, distributions to other funds or uses.

Revenue Projection: This section consists of a graph and accompanying data table. The line graph shows the amount of actual collections and the projected amounts for fiscal years 2007, 2008, and 2009. Total collections are depicted by a dark line while general fund collections are shown by a lighter line. The data table contains historic information about this data source since 1985 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal 2007, 2008, and 2009; and 4) the yearly percentage change in general fund.

The remaining portion of this document is the legislature's revenue estimates by revenue source.

Overview

General Fund Revenue Estimates
Revenue Impacts of Legislation
Non-General Fund Revenue Estimates
Summary of Tax Policy and Revenue Initiatives
Economic Outlook For Montana



General Fund Revenue Estimates

House Joint Resolution 2

On November 16, 2006, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2007, 2008 and 2009. The actions of the committee were formalized by directing staff to prepare a bill draft, HJ 2, the revenue estimate resolution. This process is in accordance with 5-18-107, MCA, which states that these estimates “constitute the legislature’s current revenue estimates until amended or until final adoption of the estimates by both houses.” HJ 2 was drafted by staff and was introduced by Representative Lake at the beginning of the 60th Legislature. During the legislative process, the legislature chose not to amend HJ 2. Although the resolution was not formally adopted by the legislature, the estimates contained within the resolution were used to balance the state’s general fund budget.

Figure 1 shows the total general fund revenue estimates as recommended by the RTIC. For the three-year period, fiscal 2007 through 2009, total general fund revenue estimates were estimated to be \$5.435 billion.

Figure 1

Revenue Estimate Adjustments by 60th Legislature General Fund In Millions				
Revenue Issue	Fiscal 2007	Fiscal 2008	Fiscal 2009	3-Year Total
Revenue and Transportation Committee	\$1,762.355	\$1,797.764	\$1,875.209	\$5,435.328
House Taxation Committee Adjustments	0.000	0.000	0.000	0.000
Senate Taxation Committee Adjustments	0.000	0.000	0.000	0.000
Revised HJR2 Revenue Estimates	\$1,762.355	\$1,797.764	\$1,875.209	\$5,435.328

Figure 2 shows the current law general fund estimates by revenue source as contained in HJ 2. Actual fiscal 2006 collections are shown, along with projections for fiscal 2007 through 2009.

Figure 2

House Joint Resolution 2								
General Fund Revenue Estimates								
In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$797.035	\$851.111	\$1,562.769	\$1,648.146	44.87%
2 Property Tax	10.40%	177.639	189.282	198.124	206.794	366.921	404.918	55.90%
3 Corporation Income Tax	9.00%	153.675	161.057	161.301	167.267	314.732	328.568	64.84%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.85%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.85%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.129	64.071	119.036	126.200	74.29%
7 Coal Trust Interest	1.82%	31.106	29.959	29.927	29.945	61.065	59.872	75.92%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.58%
9 All Other Revenue	1.87%	31.867	31.542	30.877	31.550	63.409	62.427	79.28%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.49%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.65%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.23%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.40%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.41%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.224	101.288	178.804	202.512	90.92%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.201	9.394	31.808	18.595	91.43%
17 Public Institution Reimbursements	0.75%	12.728	11.451	12.742	12.810	24.179	25.552	92.12%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.79%
19 Coal Severance Tax	0.56%	9.597	9.813	10.114	9.688	19.410	19.802	93.33%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.15%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	95.97%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.34%
23 Lottery Profits	0.53%	9.110	8.345	8.838	9.414	17.455	18.252	96.84%
24 Liquor Profits	0.44%	7.450	7.593	8.047	8.515	15.043	16.562	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.60%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.60%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.86%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.82%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,708.166</u>	<u>\$1,762.355</u>	<u>\$1,797.764</u>	<u>\$1,875.209</u>	<u>\$3,470.521</u>	<u>\$3,672.973</u>	100.00%

Revenue Impacts of Legislation

Figure 3 shows the general fund revenue impacts of legislation enacted by the 60th Legislature. If more than one bill were enacted that impacts a particular revenue source, the cumulative impact of the bills is shown for each revenue source.

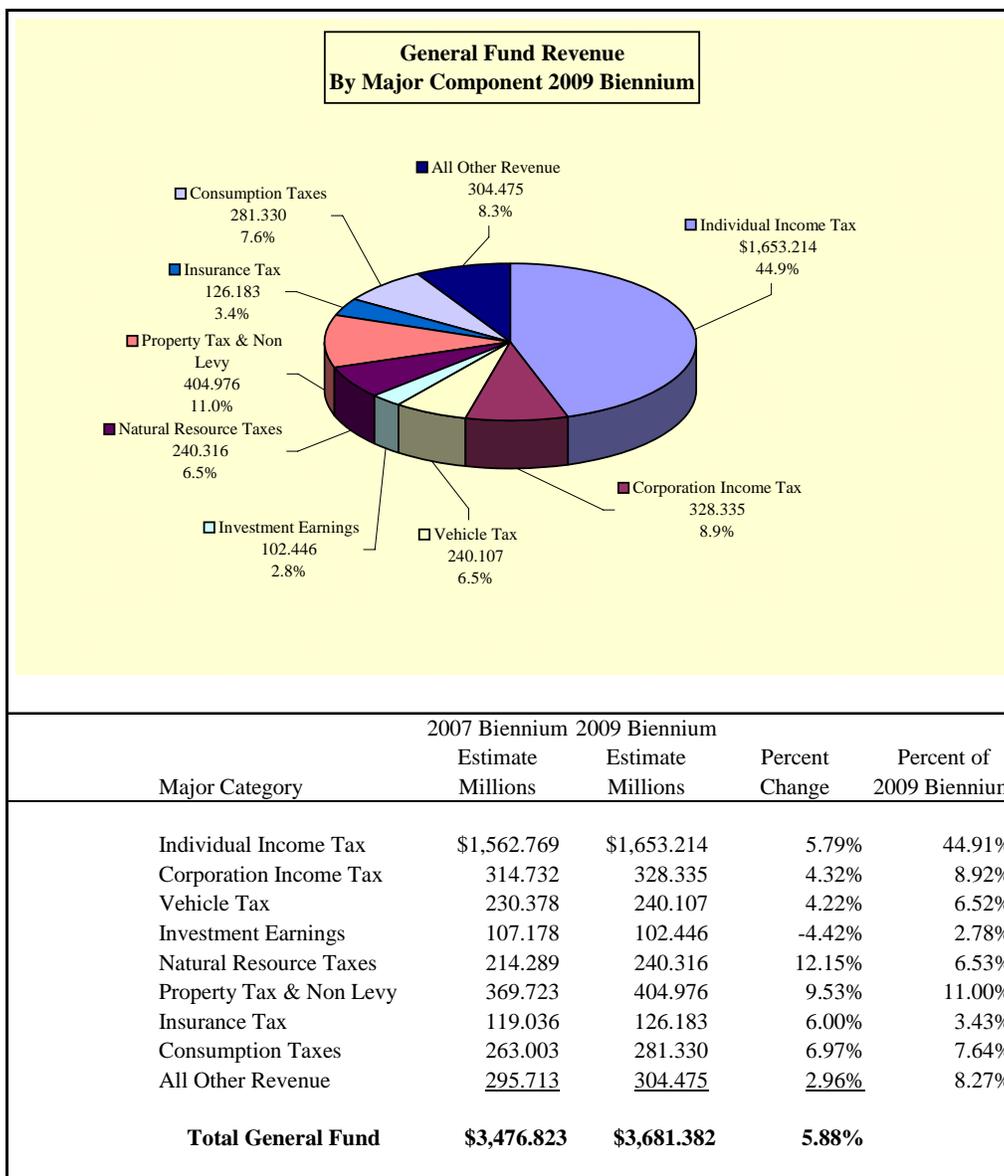
Figure 3						
Revenue Legislation Impacts of 60th Legislature						
Total General Fund						
In Millions						
Source of Revenue	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Estimated 07,08,09
1 Individual Income Tax	\$0.000	\$5.531	(\$0.463)	\$0.000	\$5.068	\$5.068
2 Property Tax	2.802	(0.007)	0.065	2.802	0.058	2.860
3 Corporation Income Tax	-	(0.030)	(0.203)	-	(0.233)	(0.233)
4 Vehicle Tax	-	-	-	-	-	-
5 Common School Interest and Income	-	-	-	-	-	-
6 Insurance Tax & License Fees	-	(0.008)	(0.009)	-	(0.017)	(0.017)
7 Coal Trust Interest	-	(0.011)	(0.315)	-	(0.326)	(0.326)
8 US Mineral Royalty	-	-	-	-	-	-
9 All Other Revenue	3.500	1.916	1.323	3.500	3.239	6.739
10 Tobacco Settlement	-	-	-	-	-	-
11 Telecommunications Excise Tax	-	-	-	-	-	-
12 Video Gambling Tax	-	-	-	-	-	-
13 Treasury Cash Account Interest	-	-	-	-	-	-
14 Estate Tax	-	-	-	-	-	-
15 Oil & Natural Gas Production Tax	-	0.011	0.011	-	0.022	0.022
16 Motor Vehicle Fee	-	0.406	0.433	-	0.839	0.839
17 Public Institution Reimbursements	-	0.765	-	-	0.765	0.765
18 Lodging Facility Use Tax	-	-	-	-	-	-
19 Coal Severance Tax	-	(0.250)	(0.250)	-	(0.500)	(0.500)
20 Liquor Excise & License Tax	-	-	-	-	-	-
21 Cigarette Tax	-	-	-	-	-	-
22 Investment License Fee	-	-	-	-	-	-
23 Lottery Profits	-	(0.044)	(0.114)	-	(0.158)	(0.158)
24 Liquor Profits	-	(0.140)	(0.208)	-	(0.348)	(0.348)
25 Nursing Facilities Fee	-	-	-	-	-	-
26 Foreign Capital Depository Tax	-	-	-	-	-	-
27 Electrical Energy Tax	-	-	-	-	-	-
28 Metalliferous Mines Tax	-	-	-	-	-	-
29 Highway Patrol Fines	-	-	-	-	-	-
30 Public Contractors Tax	-	-	-	-	-	-
31 Wholesale Energy Tax	-	-	-	-	-	-
32 Tobacco Tax	-	-	-	-	-	-
33 Driver's License Fee	-	-	-	-	-	-
34 Rental Car Sales Tax	-	-	-	-	-	-
35 Railroad Car Tax	-	-	-	-	-	-
36 Wine Tax	-	-	-	-	-	-
37 Beer Tax	-	-	-	-	-	-
38 Telephone License Tax	-	-	-	-	-	-
39 Long Range Bond Excess	-	-	-	-	-	-
Total General Fund	<u>\$6.302</u>	<u>\$8.139</u>	<u>\$0.270</u>	<u>\$6.302</u>	<u>\$8.409</u>	<u>\$14.711</u>

Figure 4 shows the revised total general fund revenue estimates by source which is the sum of HJ 2 estimates and the impacts of all enacted legislation. These revised estimates are used in this volume to determine the overall financial condition of the general fund for the 2007 and 2009 biennia.

Figure 4

House Joint Resolution 2 Plus Legislation Impacts								
General Fund Revenue Estimates								
In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$802.566	\$850.648	\$1,562.769	\$1,653.214	44.91%
2 Property Tax	10.40%	177.639	192.084	198.117	206.859	369.723	404.976	55.91%
3 Corporation Income Tax	9.00%	153.675	161.057	161.271	167.064	314.732	328.335	64.83%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.82%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.82%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.121	64.062	119.036	126.183	74.25%
7 Coal Trust Interest	1.82%	31.106	29.959	29.916	29.630	61.065	59.546	75.87%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.53%
9 All Other Revenue	1.87%	31.867	35.042	32.793	32.873	66.909	65.666	79.31%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.52%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.68%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.25%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.41%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.42%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.235	101.299	178.804	202.534	90.93%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.607	9.827	31.808	19.434	91.45%
17 Public Institution Reimbursements	0.75%	12.728	11.451	13.507	12.810	24.179	26.317	92.17%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.83%
19 Coal Severance Tax	0.56%	9.597	9.813	9.864	9.438	19.410	19.302	93.36%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.17%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	96.00%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.36%
23 Lottery Profits	0.53%	9.110	8.345	8.794	9.300	17.455	18.094	96.85%
24 Liquor Profits	0.44%	7.450	7.593	7.907	8.307	15.043	16.214	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.61%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.61%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.87%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.83%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,708.166</u>	<u>\$1,768.657</u>	<u>\$1,805.903</u>	<u>\$1,875.479</u>	<u>\$3,476.823</u>	<u>\$3,681.382</u>	100.00%

Figure 5 shows the revenue contribution to the general fund account by the most significant revenue components. During the 2009 biennium, over 71 percent of total general fund revenue comes from income, property, and vehicle taxes, while about 3 percent is generated from investment earnings. Natural resource taxes are estimated to produce about 7 percent of total general fund revenue during the 2009 biennium. The information shown in Figure 5 illustrates the significant dependence the state has on income, property, and vehicle taxes to fund general government operations. In addition, Figure 5 shows the general fund will receive an estimated \$102 million in the 2009 biennium from investment earnings. Although these revenues are due to the investment by the state of taxpayer dollars, they can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or do a combination of both.



Total general fund revenues for the 2009 biennium are projected to increase \$204.6 million or 5.9 percent over the 2007 biennium projections. The comparative change by major revenue category is shown at the bottom of Figure 5. Included in this increase is \$8.4 million of increased revenue in the 2009 biennium due to the enactment of the legislation shown in Figure 7.

Non-General Fund Revenue Estimates

Figure 6 shows estimates for selected non-general fund revenue for fiscal years 2007, 2008, and 2009 in HJ 2, plus changes made by enacted legislation. These estimates were included because of their importance in the budgeting process.

Figure 6 House Joint Resolution 2 Plus Legislation Impacts Non-General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Diesel Tax	19.22%	\$70.595	\$74.285	\$78.147	\$82.210	\$144.880	\$160.357	21.23%
2 Federal Forest Receipts	3.49%	12.800	13.006	13.148	13.282	25.806	26.430	24.72%
3 Gasoline Tax	36.81%	135.192	135.742	136.295	136.850	270.934	273.145	60.88%
4 GVW and Other Fees	7.87%	28.916	28.693	28.497	28.982	57.609	57.479	68.49%
5 Resource Indemnity Tax	0.40%	1.456	1.307	1.335	1.290	2.763	2.625	68.84%
6 Arts Trust Interest	0.12%	0.447	0.483	0.579	0.593	0.930	1.172	68.99%
7 Capital Land Grant Interest and Income	0.43%	1.590	1.072	1.157	1.217	2.662	2.374	69.30%
8 Deaf & Blind Interest and Income	0.08%	0.291	0.284	0.286	0.287	0.575	0.573	69.38%
9 Parks Trust Interest	0.26%	0.972	0.983	1.009	1.036	1.955	2.045	69.65%
10 Pine Hills Interest and Income	0.11%	0.397	0.387	0.389	0.391	0.784	0.780	69.75%
11 RIT Trust Interest	1.61%	5.916	5.645	5.646	5.658	11.561	11.304	71.25%
12 TSE Trust Interest	2.19%	8.039	8.434	8.950	9.489	16.473	18.439	73.69%
13 Economic Development Trust	0.33%	1.194	1.455	1.716	1.982	2.649	3.698	74.18%
14 Tobacco Trust Interest	0.92%	3.388	3.939	4.567	5.413	7.327	9.980	75.50%
15 Regional Water Trust Interest	0.42%	1.527	1.823	2.082	2.348	3.350	4.430	76.09%
16 Property Tax: 6 Mill	3.25%	11.952	12.505	12.971	13.363	24.457	26.334	79.57%
17 Common School Interest and Income	22.49%	<u>82.606</u>	<u>75.414</u>	<u>77.653</u>	<u>76.661</u>	<u>158.020</u>	<u>154.314</u>	100.00%
Total Non-General Fund	100.00%	\$367.275	\$365.457	\$374.427	\$381.052	\$732.732	\$755.479	100.00%

Summary of Tax Policy and Revenue Initiatives

Figure 7 shows the revenue impacts of legislation enacted by the 60th Legislature summarized by bill number. For the three-year period, fiscal 2007 through 2009, total general fund revenues were increased by \$ 14.7 million. There were numerous bills that decreased revenue as well as others that increased revenue. The net impact of all the decreases combined with the increases was a net increase of \$14.7 million. Figure 7 summarizes the impacts of each bill by fiscal year for bills enacted during the regular legislative session and those passed during the special session.

Figure 7

**Impact of Enacted Legislation By Bill Number
General Fund and Total Funds**

Bill Number and Short Description	General Fund Impact Fiscal 2007	General Fund Impact Fiscal 2008	General Fund Impact Fiscal 2009	General Fund Impact 07,08,09	Total Funds Impact 07,08,09
Regular Session Legislation					
HB0003 Supplemental appropriations	\$2,802,315	\$765,000	\$0	\$3,567,315	\$3,567,315
HB0008 Renewable resource bonds and loans	-	-	-	-	28,679,448
HB0009 Cultural and aesthetic grants	-	-	-	-	1,666,411
HB0019 Prohibit diversion of Morrill Act land revenue for administrative costs	-	-	-	-	160,000
HB0027 Establish wireless enhanced 9-1-1 system	-	274,049	292,602	566,651	15,151,103
HB0037 Weed control on state land	-	-	-	-	15,000
HB0039 Ownership update for water rights	-	-	-	-	(260,500)
HB0040 Revise state movie incentive laws	-	-	-	-	(27,000)
HB0057 Foster parent liability insurance	-	-	-	-	140,000
HB0063 Actuarially fund teacher retirement system	-	-	-	-	77,906,428
HB0069 Licensure and regulation for certain residential mortgage lenders	-	-	-	-	1,156,500
HB0090 Increase loan authority for MT enhanced registration & license info. network	-	-	-	-	-
HB0099 Increase fees for weighing device licenses	-	-	-	-	206,990
HB0116 Revise RIT funding laws	-	11,220	11,227	22,447	4,100,000
HB0131 Actuarial funding for MPERA retirement systems	-	-	-	-	3,054,164
HB0139 Establish legislative branch retirement termination pay account	-	-	-	-	400,000
HB0141 Generally revise Montana consumer loan act	-	-	-	-	290,500
HB0148 Pool inspection fee	-	-	-	-	102,400
HB0155 Extend National Guard life insurance reimbursement	-	-	-	-	260,000
HB0160 Repay land trusts for prior diversions	-	-	-	-	595,889
HB0166 Extend biodiesel tax credit	-	-	(67,500)	(67,500)	(67,500)
HB0179 Create Montana military family relief fund	-	-	-	-	1,134,186
HB0198 Increase CHIP dental benefit	-	-	-	-	708,281
HB0240 Short-term emergency lodging tax credit	-	(60,000)	(60,000)	(120,000)	(120,000)
HB0278 Continue genetics program and fee	-	-	-	-	567,620
HB0298 Reauthorize natural resource damages program	-	(11,320)	(22,640)	(33,960)	(33,960)
HB0348 Increase out-of-state snowmobile fees	-	-	-	-	211,460
HB0362 Authorize cancellation of certain delinquent real property taxes	-	-	-	-	-
HB0364 Establish board and fund to compensate livestock owners for wolf predation	-	-	-	-	-
HB0378 Revise nursing home administration laws	-	-	-	-	2,376
HB0390 Telephone account wagering on internet horseracing	-	-	-	-	364,000
HB0402 Revise fees collected by supreme court	-	8,127	8,127	16,254	16,254
HB0406 Montana community health center support	-	-	-	-	1,399,346
HB0461 Cigarette fire safety standards	-	-	-	-	132,000
HB0473 Eliminate water adjudication fee	-	-	-	-	20,957,951
HB0487 Revise threshold for local government audit	-	-	-	-	(28,000)
HB0490 Adoption tax credit	-	(225,426)	(278,492)	(503,918)	(503,918)
HB0569 Generally revise nursery laws	-	(2,100)	(2,100)	(4,200)	70,220
HB0583 Revise opencut mining law	-	-	-	-	(7,650)
HB0608 Transfer general fund to children's trust fund	-	-	-	-	1,112,500
HB0616 Allow parimutuel wagering on fantasy sports leagues	-	-	-	-	4,201,520

Figure 7 continued on next page

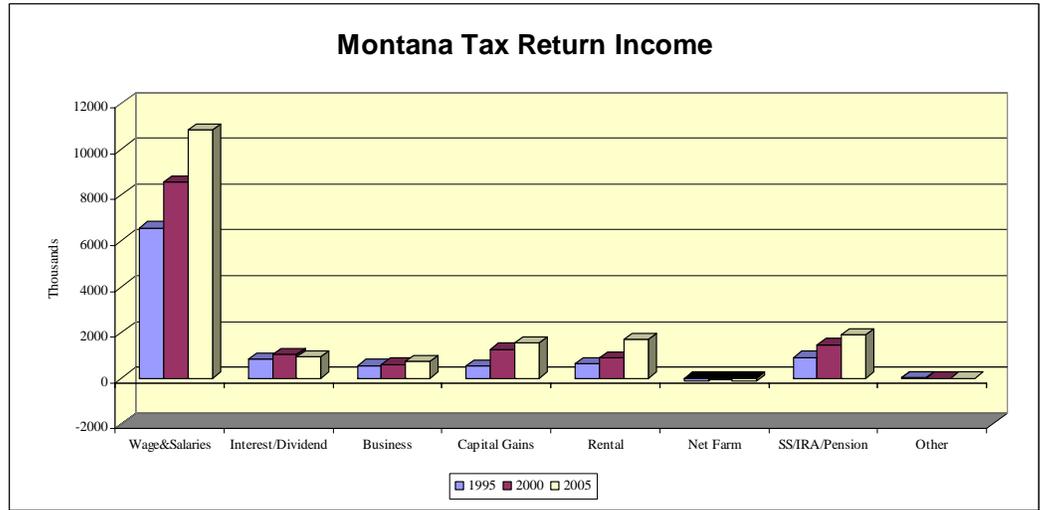
Figure 7 (continued)
Impact of Enacted Legislation By Bill Number
General Fund and total Funds

HB0634	Increase bonding authority of facility finance authority	-	(20,719)	(78,937)	(99,656)	(99,656)
HB0665	License and regulate athletic trainers	-	-	-	-	127,500
HB0680	Revise tax laws to authorize department of revenue to collect out-of-state debt	-	1,255,102	1,255,102	2,510,204	2,510,204
HB0688	Provide an allocation of coal severance taxes to DEQ for certain mines programs	-	(250,000)	(250,000)	(500,000)	-
HB0737	Revise motor vehicle law	-	361,350	361,350	722,700	722,700
HB0755	Exempt certain gift certificate from abandoned property law	-	(9,750)	(15,572)	(25,322)	(38,957)
HB0769	Require registration of alternative adolescent programs and rules for regulation	-	-	-	-	16,182
HB0790	Revise unemployment insurance contribution rates & admin. assessments	-	-	-	-	(15,101,705)
HB0811	Traditional arts and crafts state special revenue account	-	-	-	-	1,015
HB0831	Revise water use laws in closed basins	-	-	-	-	36,000
HB0840	Revise license plate laws	-	21,173	42,350	63,523	63,523
SB0004	Procurement rebate regulation	-	169,876	170,048	339,924	933,541
SB0008	Independent staff for Board of Land Commissioners	-	-	-	-	149,950
SB0025	Revise contract timber harvest laws	-	-	-	-	325,000
SB0044	Expand hunting "super tag" to lion, antelope, and buffalo	-	-	-	-	167,490
SB0069	Revise value-added loan program laws	-	-	(292,050)	(292,050)	(292,050)
SB0084	Transfer forest reserve fund administration to DOA	-	-	-	-	-
SB0088	Extend indefinitely funding to heritage preservation and development account	-	-	-	-	-
SB0115	Revise allocation of wildlife crime restitution penalties to FWP	-	(67,956)	(67,956)	(135,912)	-
SB0118	Eliminate sunset for hospital bed tax	-	-	-	-	120,233,380
SB0127	Revise out-of-state winery access to Montana retailers	-	100,325	142,850	243,175	486,350
SB0131	Revise land banking laws	-	-	-	-	12,889,960
SB0150	Exclude property contributions from qualified endowment credit and extend credit	-	-	(3,012,189)	(3,012,189)	(3,012,189)
SB0158	Revise laws on transportation reciprocity agreements	-	-	-	-	979,990
SB0161	Revise captive insurance laws	-	(8,000)	(9,250)	(17,250)	-
SB0162	Revise genetics program laws	-	-	-	-	111,850
SB0165	Revise deferred deposit loan act	-	-	-	-	158,374
SB0166	Family and purple heart recipients fish and hunt game birds for free	-	-	-	-	(273,630)
SB0168	Transfer public employee accrued leave into post-retirement health care account	-	-	-	-	37,584
SB0185	Provide for medium speed electric vehicles	-	5,600	11,025	16,625	16,875
SB0209	Transfer registered process servers to Board of Private Security Patrol Officers	-	(2,500)	(2,800)	(5,300)	(3,840)
SB0243	Revise military special hunting and fishing license	-	-	-	-	107,168
SB0248	Ratify USFS water compact	-	-	-	-	16,000
SB0281	Simplify income taxation for married couples filing individually	-	(502,000)	(502,000)	(1,004,000)	(1,004,000)
SB0296	Revise beer and wine licensing laws	-	717,000	32,400	749,400	1,498,800
SB0314	Revise warm water fishing stamp law	-	-	-	-	27,972
SB0316	Clarify taxation of agricultural parcels reduced by public use by government	-	(105)	(135)	(240)	(240)
SB0321	Authorize business and industrial development corporations	-	-	-	-	14,431
SB0354	Revise physician medicaid reimbursement conversion factor	-	-	-	-	-
SB0372	Create wolf licenses and authorize wolf and grizzly bear lottery or auction	-	-	-	-	882,186
SB0403	Revise property tax exemption for disabled veterans	-	(6,737)	(7,002)	(13,739)	(14,602)
SB0439	Withholding for natural resource royalty payments	-	1,497,868	2,494,183	3,992,051	3,992,051
SB0448	Ratepayer fiscal analysis for new power and transmission projects	-	-	-	-	105,000
SB0485	Revise prohibition on mailing lists for certain professions and occupations	-	-	-	-	26,480
SB0532	Revise firefighter retirement laws	-	-	-	-	2,375,763
SB0544	Montana certified natural beef cattle marketing program	-	-	-	-	5,000
SB0553	Revise incentives for certain physicians	-	-	63,100	63,100	326,200
Special Session Legislation						
HB0002	General appropriations act	-	97,138	(18,144)	78,994	(780,928)
HB0003	Tax incentives for energy development	-	-	72,000	72,000	76,600
HB0004	Long-range building bill	3,500,000	-	-	3,500,000	3,500,000
HB0009	\$400 rebate for property taxes paid, tax relief	-	4,021,685	-	4,021,685	4,021,685
SB0002	Revise education laws	-	-	-	-	40,756,019
Total Impact of Legislation Listed Above			\$6,302,315	\$8,138,900	\$269,597	\$14,710,812
					\$344,358,360	

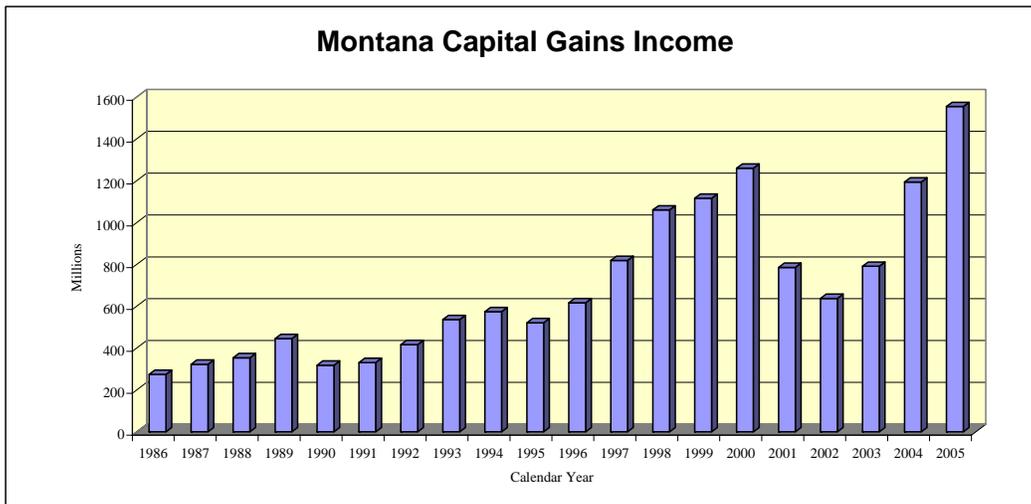
Economic Outlook For Montana

Montana Total Income

The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2005, it contributed 61.7 percent, or \$10.8 billion. The average compounded growth from calendar 1990 to 2005 has been 5.3 percent.

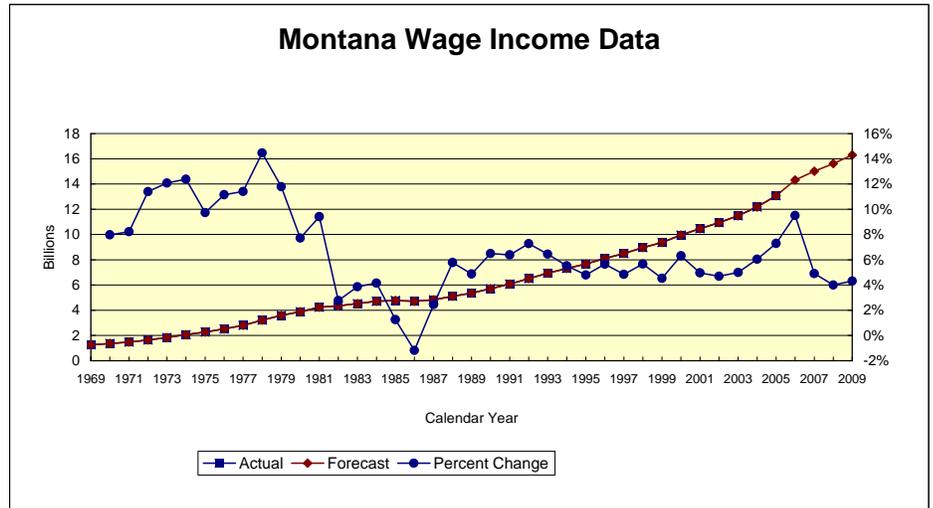


In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of \$318 million. In 2001, capital gains receded to 5.7 percent of total income, with income at \$786 million, a reduction of over 37.6 percent over the previous year. In 2005, capital gains income was \$ 1,554 million and increased to nearly 8.9 percent of total income. In 2002 capital gains income fell by \$622.3 million from the 2000 level, but rebounded in calendar 2003 through 2005. Capital gains are projected to remain constant between 2006 and 2009.



Montana Wages

The average annual growth in Montana wages and salaries has been 5.5 percent between 1990 and 2005. Lower wage growth has been experienced in the latter half (5.1 percent) of this period than in first half (5.8 percent). This is due to lower growth in employment and lower inflation since 1997. Somewhat countervailing these trends has been an increase in real wage per worker since 1997. The average annual growth in real wage per worker was -0.2 percent between 1990 and 1997, but has averaged 1.2 percent since then. It appears that growth in real wage per worker may reach 3.9 percent in calendar 2004.



Wage and Salary Income Growth					
Calendar Year	Employment Growth	Inflation	Real Wage Per Worker	Wage Growth	
A 1991	2.1%	4.8%	-0.6%	6.4%	
A 1992	4.3%	3.6%	-0.7%	7.3%	
A 1993	2.9%	3.0%	0.5%	6.5%	
A 1994	4.5%	2.8%	-1.7%	5.5%	
A 1995	3.1%	2.7%	-1.0%	4.8%	
A 1996	2.8%	2.9%	-0.1%	5.6%	
A 1997	1.3%	2.6%	0.9%	4.8%	
A 1998	2.2%	1.9%	1.5%	5.7%	
A 1999	2.0%	1.9%	0.6%	4.5%	
A 2000	1.9%	2.8%	1.4%	6.3%	
A 2001	1.2%	3.1%	0.7%	5.0%	
A 2002	1.1%	2.2%	1.3%	4.7%	
A 2003	1.2%	2.0%	1.8%	5.0%	
A 2004	2.7%	2.5%	0.8%	6.0%	
A 2005	2.2%	3.0%	1.9%	7.3%	
F 2006	2.0%	3.3%	3.9%	9.50%	
F 2007	1.6%	2.7%	0.5%	4.91%	
F 2008	1.4%	2.1%	0.5%	4.00%	
F 2009	1.2%	1.9%	1.1%	4.31%	

The forecast for inflation between calendar years 2005 and 2009 is the same as used by the Congressional Budget Office for the federal budget. Employment is expected to grow 2.0 percent in calendar year 2006, 1.6 percent in 2007, 1.4 percent in 2008 and 1.2 percent in calendar year 2009.

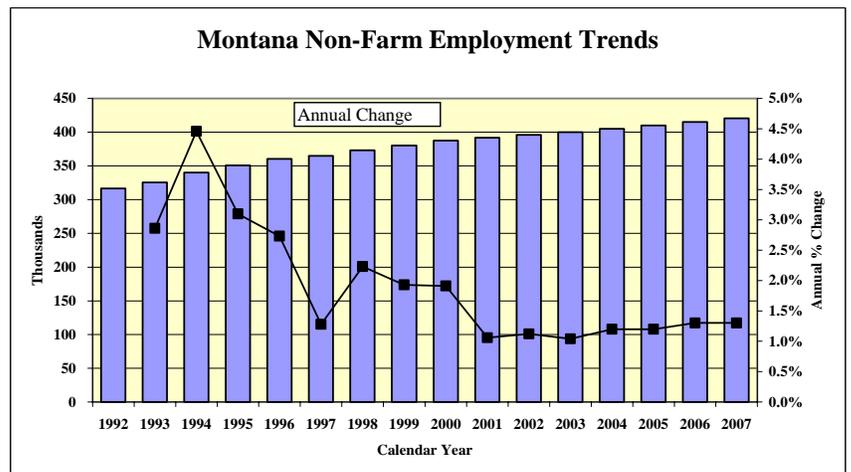
The growth in real wage per worker is forecast to decline to between 0.5 percent and 1 percent in calendar years 2007 through 2009 from its current high levels, above at the long run average, but below levels seen recently.

The growth in wages and salaries, unadjusted for inflation, is expected to grow by 9.5 percent in calendar 2006. First half growth in calendar 2006 is 9.9 percent, but second half growth is usually lower than first half growth when first half growth exceeds the long run average.

The growth in wages and salaries is expected to be 4.9 percent in calendar year 2007, 4.0 percent in 2008 and 4.3 percent in 2009.

Montana Employment

Average annual growth in total employment between 1990 and 2005 has been 2.4 percent, although since 2000 the average rate of growth has been 1.7 percent. It is expected that employment growth through 2006 will be 2.0 percent and grow by about 1.4 percent in calendar years 2007, 2008, and 2009. Since 1990, the fastest growing sector in terms of employment has been construction, which experienced a 6.6 percent annual increase in employment. Other fast growing sectors have been professional and business services (5.5 percent annual growth), education and health services (3.2 percent annual growth), accommodation and food services (3.1 percent annual growth). Sectors that have experienced reduced or stable employment since 1990 are mining and manufacturing. Mining employment is expected to increase during the forecast period.

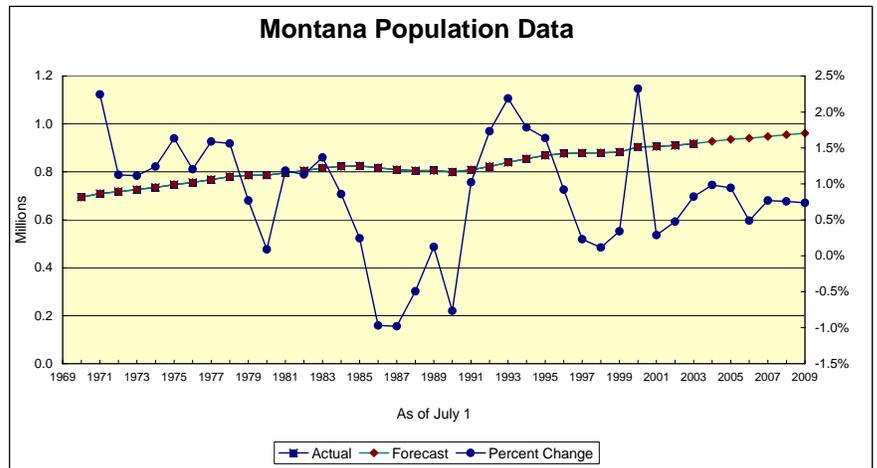


Montana Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

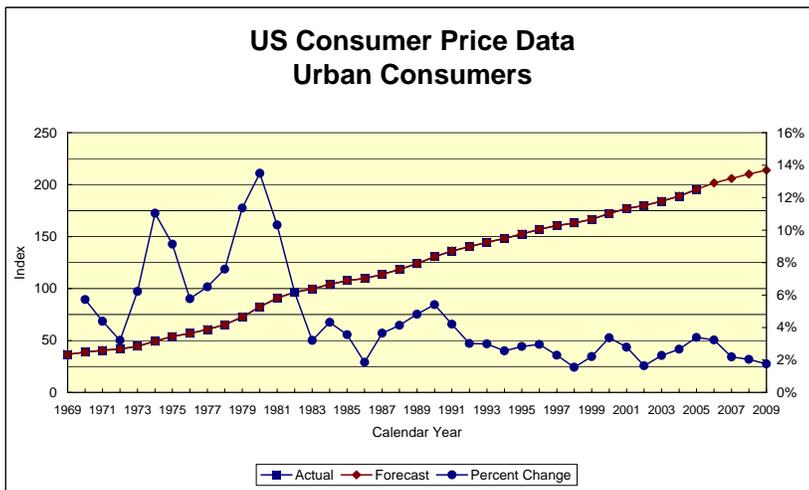
Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above.

Historic population data is gathered from the U.S. Census department while projections are obtained from Global Insight. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at about 0.7 percent annually.



Inflation Rates

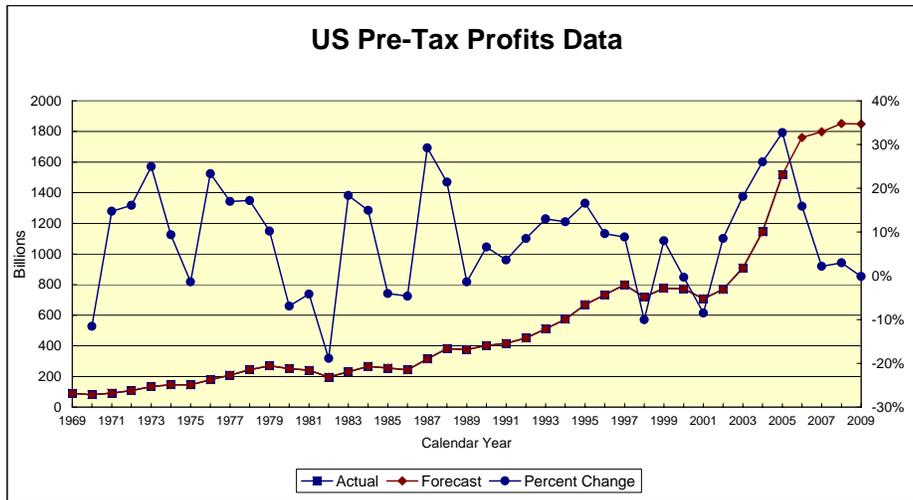
The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.



Since Montana's individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 3.3 percent. Global Insight forecasts inflation at 2.3 percent (November 2004). The average forecast used by the Congressional Budget Office and other private economists is 2.2 percent per year though calendar 2009. The forecast is 2.2 percent through 2009.

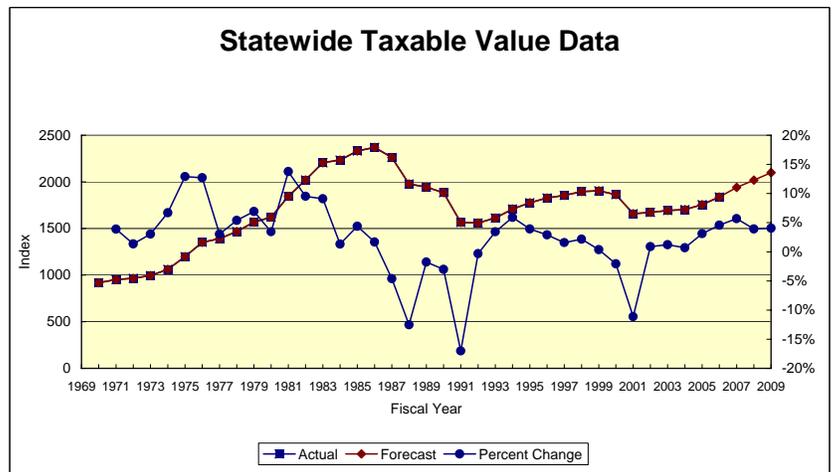
Corporate Profits

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 10.3 percent. However, from 1997 through 2001, profits decreased by an average of 3.0 percent, the greatest decrease of 14.2 percent occurring in 2001. In 2004 and 2005, corporate profitability increased by 26.0 percent and 32.7 percent respectively. That trend is not expected to continue with projected average annual increases of approximately 1.7 percent between 2007 and 2009.

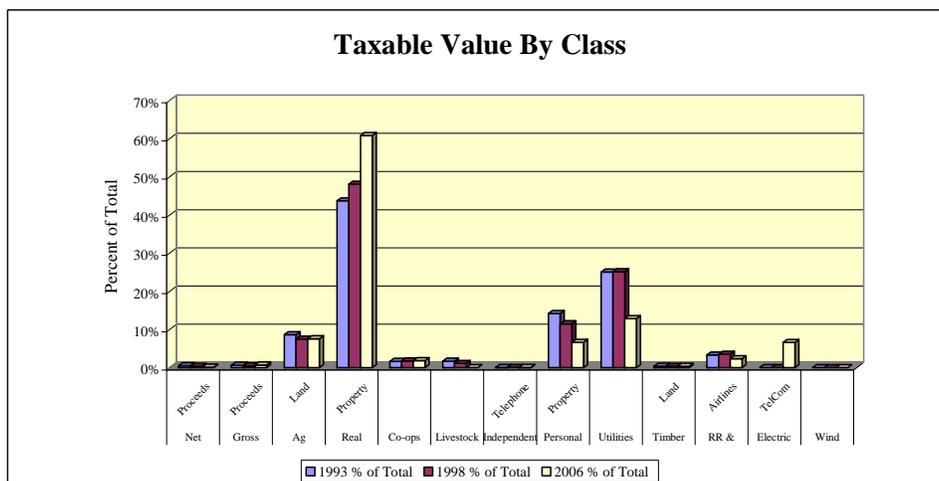


Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of the 1990's but fell in fiscal 2000. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Property values resumed an upward trend in 2001 and have increased every year since that time. That trend is expected to continue through the next biennium with an average annual growth of about 3.9 percent.

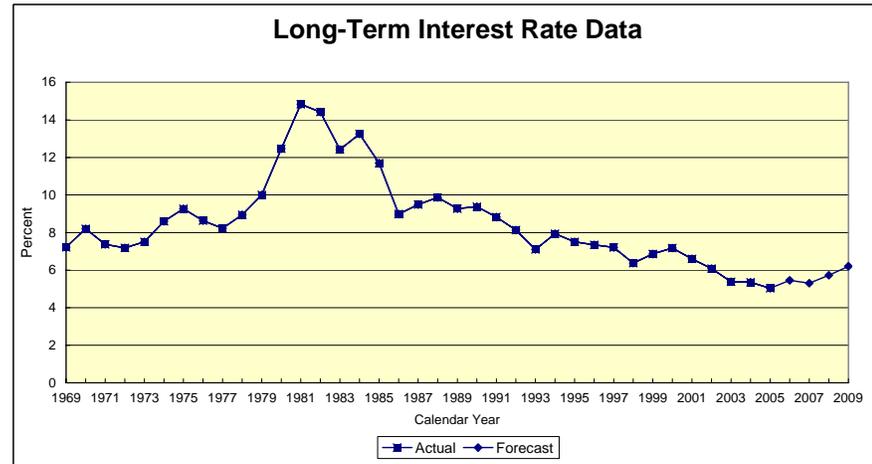
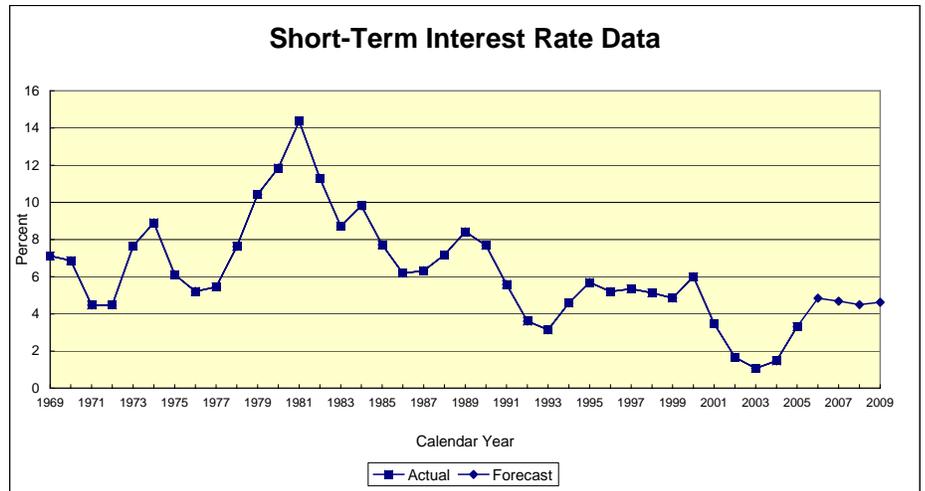


Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2006, the class 4 taxable value was 60.8 percent of the total property tax base, while class 8 was only 6.6 percent of the base.



Interest Rates

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues. In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments.



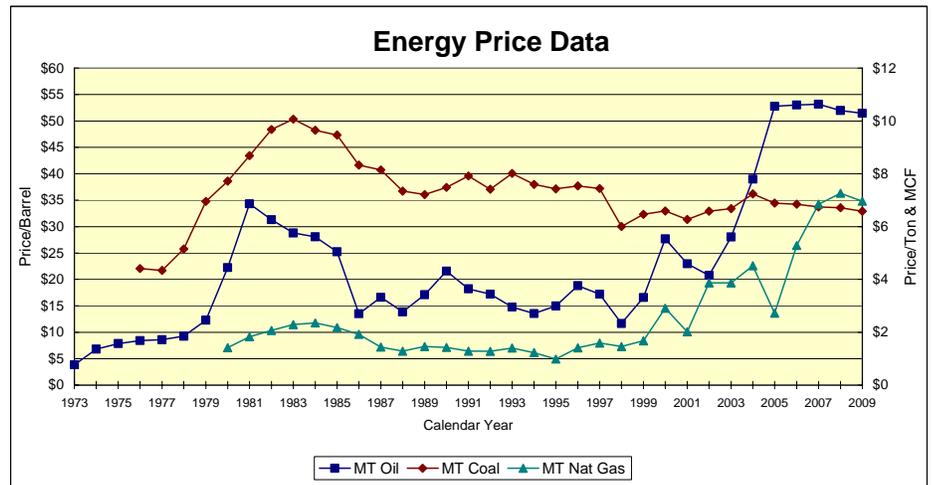
The forecasted rates are obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. Short-term rates are an average of 3-month Corporate paper and 3 and 6-month T bills. The fiscal year computation of short-term interest rates reached an unprecedented low in 2004. However, as the economy began to regain strength in calendar year 2004, the Federal Reserve began increasing the discount rate. Global Insight projects short-term interest rates will remain stable at current rates through the 2009 biennium. Long-term rates are expected to increase through the 2009 biennium.

Energy Prices

West Texas Intermediate spot oil prices averaged \$26.11 per barrel in calendar 2002, rose to \$31.12 in calendar 2003, and averaged \$56.55 in calendar 2005. Global Insight forecasts WTI oil prices to increase to \$67.00 in calendar 2006, and then drop to \$65.62 in calendar 2007. A further drop to \$64.75 and \$63.87 in calendar 2008 and 2009, respectively, is anticipated. While Montana wellhead prices are considerably lower than the WTI price, Montana prices are expected to follow a similar trend.

Natural gas prices at the wellhead in the US averaged \$2.87 per million cubic feet in calendar 2002, rose to \$4.84 in calendar 2003, and averaged \$7.31 in calendar 2004. Global Insight is forecasting average Henry Hub natural gas prices at \$8.41 in calendar 2007, \$9.09 in calendar 2008, and \$8.81 in calendar 2009. While Montana wellhead prices are considerably lower than the Henry Hub price, Montana prices are expected to follow a similar trend.

After decades long reductions in oil production – from a peak in 1973 of 34 million barrels to a trough in 1999 of 15 million barrels – recent Montana production has increased. New drilling activity increased 75 percent in 2003, and has increased nearly the same amount in 2004. In calendar 2005, production was over 32 million barrels and will probably be near 35 million barrels in calendar 2006. Montana oil production is expected to be just over 38 million barrels in calendar 2007, just over 36 million barrels in calendar 2008 and 32 million barrels in calendar 2009.



In response to higher prices, natural gas production in Montana doubled between 1981 and 2003, from 40 million MCF to 80 million MCF, with 75 percent of that increase since 1997. Newly drilled wells have contributed around 20 percent to total production since calendar 2000. As in the oil market, new drilling activity was up substantially in calendar 2003 and 2004. Montana natural gas production is expected to be 107 million MCF in calendar 2006, 107 million MCF in calendar 2007, 104 million MCF in calendar 2008, and 100 million MCF in calendar 2009.

Summary

A complete summary of each general fund and selected non-general fund revenue source follows. Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, and distribution mechanisms. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue.

It should be noted that the revenue projection table and graph are based on HJR2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption tables reflect only assumptions pertinent to the HJR2 revenue estimates and have not been updated for the impacts of enacted legislation.