

**SPECIAL SESSION TAX POLICY
LEGISLATION AND
FISCAL 2003 REVENUE UPDATE
OCTOBER 2002**

A Report Prepared for the
Legislative Finance Committee

By the
Legislative Fiscal Division

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INTRODUCTION

The purpose of this report is to provide the committee with a summary of revenue and tax policy legislation enacted by the special session legislature and to discuss general fund revenue collections for the first three months of fiscal 2003. The report also outlines some of the significant economic trends that may indicate the outlook for general fund revenue for the remainder of the year. This report is based on information received through the end of September 2002.

This report is organized in three relevant sections. The first section summarizes the actions of the special session legislature as it pertains to general fund revenue estimates and relevant tax policy legislation. An updated general fund balance sheet for the 2003 biennium is provided which includes all revenue and appropriation actions by the legislature. Section 2 discusses fiscal 2003 general fund revenue trends and is further subdivided into "Fiscal 2003 To Date Collections" and "Significant Economic Trends components. Section 3 provides a summarization of the information presented.

SPECIAL SESSION REVENUE LEGISLATION

The special session legislature adopted general fund revenue estimates contained in HJR 1 (revenue estimate resolution) of \$2.525 billion for the 2003 biennium. This estimate is the sum of actual collections for fiscal 2002 and a revised estimate for fiscal 2003. For the two-year period, total general fund revenues are expected to be \$152.8 million less than the estimates adopted by the legislature during the regular session of January 2001. Not included in the HJR 1 estimates is the impact of all legislation that either increased or decreased general fund revenues. The cumulative impact of these revenue measures totaled a negative \$30.7 million for fiscal 2003. The following discussion is a summary of the revenue estimates and tax policy legislation adopted by the special session legislature.

HOUSE JOINT RESOLUTION 1

Prior to the convening of the special session legislature, the House Taxation Committee (HTAX) formally adopted revenue estimates for fiscal 2002 and 2003. The HTAX estimates were incorporated into HJR 1 and were introduced and debated by the special session legislature. These estimates as adopted by the committee were \$3.7 million higher than the recommendations of the Legislative Fiscal Division (LFD) and \$2.7 million higher than the Executive recommendations.

Throughout the entire legislative process, the legislature approved HJR 1 with only one adjustment to the estimates adopted by the HTAX committee. The House of Representatives reduced the individual income tax estimate by \$3.5 million for fiscal 2003. Figure 1 shows the general fund revenue estimates as adopted by the special session legislature in HJR 1.

Figure 1
House Joint Resolution 1
General Fund Revenue Estimates
In Millions

Source of Revenue	Percent of Total	Adj. Actual Fiscal 2000	Adj. Actual Fiscal 2001	Adj. Actual Fiscal 2002	Estimated Fiscal 2003	Adj. Actual Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Individual Income Tax	41.93%	\$516,262	\$556,015	\$517,568	\$527,919	\$1,072,277	\$1,045,487	41.93%
2 Property Tax	13.84%	194,197	180,050	169,339	174,297	374,247	343,636	55.77%
3 Corporation Income Tax	5.01%	90,683	103,670	68,173	63,095	194,353	131,268	60.79%
4 Vehicle Tax	5.90%	0,000	0,000	73,127	74,224	0,000	147,351	66.68%
5 Common School Interest and Income	3.88%	44,296	46,846	48,938	48,801	91,142	97,739	70.56%
6 Insurance Tax & License Fees	3.80%	39,334	42,298	47,291	47,793	81,632	95,084	74.35%
7 Coal Trust Interest	2.99%	39,195	37,660	37,605	37,640	76,855	75,245	77.34%
8 US Mineral Royalty	1.63%	19,243	31,008	19,772	20,474	50,251	40,246	78.97%
9 All Other Revenue	1.62%	20,488	51,836	42,439	20,358	72,324	62,797	80.59%
10 Tobacco Settlement	1.50%	34,804	15,989	18,647	18,854	50,793	37,501	82.08%
11 Telecommunications Excise Tax	1.70%	6,366	18,838	19,594	21,379	25,204	40,973	83.78%
12 Video Gambling Tax	3.61%	13,851	20,891	43,666	45,413	34,742	89,079	87.39%
13 Treasury Cash Account Interest	1.14%	16,088	21,532	13,191	14,316	37,620	27,507	88.53%
14 Estate Tax	0.74%	19,039	20,286	13,816	9,299	39,325	23,115	89.26%
15 Oil & Natural Gas Production Tax	1.10%	11,363	25,792	12,902	13,819	37,155	26,721	90.36%
16 Motor Vehicle Fee	2.20%	11,716	12,534	27,271	27,680	24,250	54,951	92.56%
17 Public Institution Reimbursements	1.30%	11,345	13,554	14,283	16,332	24,899	30,615	93.86%
18 Coal Severance Tax	0.67%	9,502	8,663	8,469	8,460	18,165	16,929	94.53%
19 Liquor Excise & License Tax	0.79%	7,172	7,343	9,514	9,990	14,515	19,504	95.32%
20 Cigarette Tax	0.61%	8,464	8,285	7,887	7,722	16,749	15,609	95.94%
21 Investment License Fee	0.40%	5,390	5,889	4,992	5,067	11,279	10,059	96.34%
22 Lottery Profits	0.54%	5,841	6,137	7,467	6,800	11,978	14,267	96.88%
23 Liquor Profits	0.45%	5,900	5,900	5,600	5,713	11,800	11,313	97.33%
24 Nursing Facilities Fee	0.47%	6,055	5,656	5,918	5,968	11,711	11,886	97.81%
25 Foreign Capital Depository Tax	0.00%	0,000	0,000	0,000	0,000	0,000	0,000	97.81%
26 Electrical Energy Tax	0.33%	4,829	4,058	4,197	4,217	8,887	8,414	98.14%
27 Metalliferous Mines Tax	0.25%	2,703	3,417	3,329	3,176	6,120	6,505	98.39%
28 Highway Patrol Fines	0.33%	4,028	3,981	4,062	4,130	8,009	8,192	98.72%
29 Public Contractors Tax	0.18%	2,162	0,792	3,267	2,275	2,954	5,542	98.90%
30 Wholesale Energy Tax	0.25%	1,895	3,503	2,906	3,143	5,398	6,049	99.15%
31 Tobacco Tax	0.18%	2,017	2,048	2,183	2,319	4,065	4,502	99.34%
32 Driver's License Fee	0.21%	2,333	1,896	2,580	2,592	4,229	5,172	99.54%
33 Railroad Car Tax	0.12%	2,101	1,556	1,490	1,537	3,657	3,027	99.66%
34 Wine Tax	0.10%	1,017	1,033	1,232	1,265	2,050	2,497	99.77%
35 Beer Tax	0.24%	0,370	0,385	2,784	2,960	0,755	5,744	100.00%
36 Telephone License Tax	0.00%	3,491	0,133	0,212	0,000	3,624	0,212	100.00%
37 Long Range Bond Excess	0.00%	<u>0,101</u>	<u>0,000</u>	<u>0,000</u>	<u>0,000</u>	<u>0,101</u>	<u>0,000</u>	100.00%
Total General Fund	100.00%	\$1,163,641	\$1,269,472	\$1,265,711	\$1,259,027	\$2,433,113	\$2,524,738	

REVENUE IMPACTS OF TAX POLICY LEGISLATION

Figure 2 shows the general fund revenue impacts of tax policy legislation enacted by the special session legislature. If more than one bill was enacted that impacted a particular revenue source, the cumulative impact of the bills is shown for each revenue component.

The following section of the report briefly describes the purpose of the adopted legislation and the associated impact on state revenues.

It organized by the revenue categories and associated legislation provided in Figure 2.

Figure 2
Revenue Legislation Impacts of Special Legislative Session
Total General Fund
In Millions

Source of Revenue	Estimated Fiscal 2003	Enacted Legislation
1 Individual Income Tax	\$3,701	HB2,SB15
5 Common School Interest and Income	(48,779)	HB4,HB7
8 US Mineral Royalty	1,197	HB11
9 All Other Revenue	6,457	HB2,HB9,HB13,HB18,HB21,SB19,SB26,SB27
13 Treasury Cash Account Interest	0,856	HB16
15 Oil & Natural Gas Production Tax	1,516	HB10
18 Coal Severance Tax	1,974	HB10
22 Lottery Profits	0,190	HB2
27 Metalliferous Mines Tax	<u>2,210</u>	HB10,SB30
Total General Fund	(\$30,678)	

Individual Income Tax

House Bill 2 - The legislature appropriated \$813,784 general fund to the Department of Revenue to hire 13.3 FTE compliance staff and to eliminate vacancy savings in existing staff. It is anticipated that the additional staff will collect \$1,862,000 in additional tax revenues in fiscal 2003.

Senate Bill 15 – The legislation temporarily reduces the income and corporate tax credit for gifts to charitable endowments and also temporarily increases the credit for a similar period of time. Beginning upon passage and approval until July 1, 2003, Senate Bill 15 reduces the income and corporate tax credit maximum credit amount from \$10,000 to \$6,600. The portion of the gift amount that qualifies for the income tax credit is reduced from 40 percent to 30 percent, and for the corporate income tax the percentage drops from 20 percent to 13.3 percent. Beginning July 1, 2003 until April 30, 2004, the endowment credit cap for both taxes increases to \$13,400. The percentage allowable as a credit is increased to 50 percent for income taxpayers and to 26.7 percent for corporate taxpayers. In fiscal 2003, it is estimated that income tax revenues will increase by \$1.839 million, although the estimate is highly uncertain. No estimate of the revenue decline in fiscal 2004 and 2005 is available.

Common School Interest and Income

House Bill 7 – A new state special guarantee account is created that will receive deposits of interest and income from school lands, as well as timber revenue previously used to pay for school district technology purchases. The guarantee account will be used to pay for a portion BASE aid in fiscal 2003. The account will receive \$48.8 million in interest and income and \$2.9 million in timber revenue in fiscal 2003. Revenue to the general fund will be reduced by \$48.8 million in fiscal 2003.

US Mineral Royalty

House Bill 11 - As enacted by House Bill 226 in the 2001 legislative session, revenues from U.S. mineral royalties received in fiscal 2003 in excess of \$20,474,000 were to be distributed to eligible counties. Since this limit was the amount of the HJR 2 revenue estimate, no excess money was anticipated. House Bill 11 increased this limit to \$21,671,000 which, when coupled with a new revenue estimate of \$21,738,000, will result in \$1,197,000 of general fund revenue (that would have been distributed to eligible counties before House Bill 11) and a \$67,000 distribution to eligible counties.

All Other Revenue

House Bill 2 - The amount of money appropriated from certain accounts inversely impacts the amount of general fund revenue from certain sources. Based on revenue estimates contained in HJR 1 (as adjusted for legislation impacts) and appropriations set by the legislature, a change in revenue occurs in transfers from the shared coal tax account. Although the legislature reduced appropriations from the shared coal tax account by \$488,096, revenue reductions to this account by House Bill 10 result in no fund balance anticipated to be transferred to the general fund. Prior to the session, this transfer was estimated to be \$241,942.

House Bill 9 - In addition to changing allocations of resource indemnity trust fund interest, transfers from the resource indemnity trust fund, and appropriations from the reclamation and development

account, House Bill 9 transfers \$1.0 million from the orphan share account to the general fund in fiscal 2003 if sufficient funds are available.

House Bill 13 - The Department of Revenue is authorized to collect money owed to agencies and to retain a determined amount for deposit to an internal service fund. The department may spend money from this account for collection purposes without an appropriation. At the end of fiscal 2002, this fund had a balance of \$485,848. House Bill 13 transfers \$400,000 from this fund to the general fund.

House Bill 18 – The legislation transfers \$1.7 million in accommodations tax reserves from the state special accommodations tax account to the general fund in fiscal 2003. House Bill 18 also increases general fund revenue by \$69,300 by eliminating the 50 percent distribution of gambling fines and penalties (23-5-123, MCA) to counties' general fund, beginning in fiscal 2003. Entitlement share payments will not be adjusted. Beginning in fiscal 2004, House Bill 18 deposits the \$0.25 marriage recording fee (50-15-301, MCA) in the state general fund (about \$1,500). An adjustment to the county entitlement share will be made in fiscal 2004. House Bill 18 deposits probationary supervisory fees (46-23-101, MCA) in the state special revenue account for these fees beginning in fiscal 2004 (\$77,000). Counties entitlement shares will be adjusted in fiscal 2004 for this change. Beginning in fiscal 2004, the coal tax allocation to the shared account will be 7.25 percent.

House Bill 21 – The legislation requires agencies to recover all indirect costs that are allowable for grant and contract proposals and distributed through the Statewide Cost Allocation Plan (SWCAP). Additionally, the Department of Administration (DOA) must provide technical assistance to enable the agency to build the indirect costs into the grant proposals. The university system is exempt from this bill. The DOA finds that \$2.8 million in indirect costs were expensed for services provided under SWCAP by the DOA and the Office of Budget and Program Planning in fiscal 2002. Of those indirect costs, approximately \$1.1 million was remitted from various agencies and programs. The actions required by House Bill 21 are expected to increase the ability of the DOA to collect these costs. The DOA estimates the increased collections of past and current indirect costs will add over \$1.5 million to the general fund for fiscal 2003.

Senate Bill 19 - In addition to authorizing a transfer of \$2.1 million from the old state fund to the school flexibility fund, Senate Bill 19 authorized the transfer of \$1.9 million from the old state fund to the general fund. The general fund money is to be used for state library equipment and appropriations for the Montana university system and the Department of Public Health and Human Services. The legislation also authorizes a transfer from the general fund to the old state fund in any amount necessary to pay claims for injuries incurred before July 1990 if those claims are not adequately funded.

Senate Bill 26 - The universal access account received money from an interim surcharge on retail intrastate telecommunications services in Montana and was set to raise \$250,000 in fiscal 1998 and \$500,000 in fiscal 1999. The money was to be used to reimburse telecommunications carriers for advanced services provided to eligible users at a discount. At the end of fiscal 2002, the account had a fund balance of \$657,715. Senate Bill 26 transfers the balance of the account: 1) 90 percent to the Department of Public Health and Human Services to provide social services; and 2) 10 percent to the general fund.

Senate Bill 27 - The telecommunications services account receives money from a 10-cent assessment on each telephone line. The money is used to provide specialized telecommunications equipment and services to persons with disabilities. At the end of fiscal 2002, the account had a fund balance of

\$566,295. Senate Bill 27 transfers \$56,995 from the account to the general fund and earmarks it for use by the Montana School for the Deaf and Blind.

Treasury Cash Account Interest

House Bill 16 - State agencies that have federal and other third party programs are allowed to borrow money from the general fund to operate until reimbursements are received. House Bill 16 requires borrowers to certify that all loans are billed at the earliest date possible and that the agency will continue a timely billing status, on a monthly basis, through the term of the loan. Additionally, the borrower must certify that federal or third party programs will be billed for the costs to the agency. Costs will be recovered with interest charged on the loans to the federal or other third party programs. During fiscal 2002, the general fund had approximately \$42.8 million of interentity loans outstanding. Using the same level of interentity loans and a 2 percent interest rate, an increase of \$855,705 to the general fund is expected in fiscal 2003.

Oil & Natural Gas Production Tax

House Bill 10 - The allocations of oil and natural gas revenue to the orphan share and the reclamation and development accounts were eliminated and the allocation to the general fund was increased by the same amount for an additional \$1,516,000 in general fund revenue.

Coal Severance Tax

House Bill 10 - In addition to reducing capital project appropriations by \$644,000 and temporarily reducing general fund statutory appropriations by \$925,000, House Bill 10 changes the allocations of coal, oil and natural gas, and metalliferous mines tax revenue. For fiscal 2003 only, allocations of coal tax revenue to the long-range building program and the coal tax shared account were reduced and allocations to the parks acquisition and cultural trusts were eliminated. As a result, the general fund percentage of coal tax revenue increase 6.25 percentage points for an additional \$1,974,000 in general fund revenue.

Lottery Profits

House Bill 2 - The amount of money appropriated from certain accounts inversely impacts the amount of general fund revenue from certain sources. Based on revenue estimates contained in HJR 1 (as adjusted for legislation impacts) and appropriations set by the legislature, a revenue change occurs in lottery profits. The legislature reduced proprietary appropriations for the state lottery by \$190,000, thus increasing anticipated deposits of lottery profits to the general fund by the same amount.

Metalliferous Mines Tax

House Bill 10 - In addition to reducing capital project appropriations by \$644,000 and temporarily reducing general fund statutory appropriations by \$925,000, House Bill 10 changes the allocations of coal, oil and natural gas, and metalliferous mines tax revenue. The 7 percent allocation of metalliferous mine tax revenue to the reclamation and development account was eliminated and the allocation to the general fund was increased by the same amount for an additional \$383,000 in general fund revenue.

Senate Bill 30 - Prior to the August 2002 special legislative session, metalliferous mine taxes were collected annually on a calendar year basis. Senate Bill 30 provides for tax payments semiannually for periods ending June 30 and December 31 with the first semiannual payment to be for the last half of

fiscal 2003. This results in a one-time acceleration of one-half year's tax collections in fiscal 2003 (estimated to be \$2,811,000) that is in addition to the calendar year 2002 payment also due in fiscal 2003. In coordination with House Bill 10 (see above), Senate Bill 30 is expected to result in a fiscal 2003 increase in general fund of \$1,827,150 plus increases to the hard rock mining impact account - \$70,275, hard rock mining reclamation debt service account - \$238,935, and statutorily appropriated distributions to counties - \$674,640.

GENERAL FUND REVENUE ESTIMATES INCLUDING LEGISLATION IMPACTS

Figure 3 shows the revised general fund revenue estimates by source, which is the sum of HJR 1 estimates and all tax policy legislation impacts. These estimates are used in Figure 4 in determining the ending general fund balance for the 2003 biennium.

Figure 3								
House Joint Resolution 1 Plus Legislation Impacts								
General Fund Revenue Estimates								
In Millions								
Source of Revenue	Percent of Total	Adj. Actual Fiscal 2000	Adj. Actual Fiscal 2001	Adj. Actual Fiscal 2002	Estimated Fiscal 2003	Adj. Actual Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Individual Income Tax	43.28%	\$516.262	\$556.015	\$517.568	\$531.620	\$1,072.277	\$1,049.188	43.28%
2 Property Tax	14.19%	194.197	180.050	169.339	174.297	374.247	343.636	57.47%
3 Corporation Income Tax	5.14%	90.683	103.670	68.173	63.095	194.353	131.268	62.61%
4 Vehicle Tax	6.04%	0.000	0.000	73.127	74.224	0.000	147.351	68.65%
5 Common School Interest and Income	0.00%	44.296	46.846	48.938	0.022	91.142	48.960	68.65%
6 Insurance Tax & License Fees	3.89%	39.334	42.298	47.291	47.793	81.632	95.084	72.54%
7 Coal Trust Interest	3.06%	39.195	37.660	37.605	37.640	76.855	75.245	75.60%
8 US Mineral Royalty	1.76%	19.243	31.008	19.772	21.671	50.251	41.443	77.37%
9 All Other Revenue	2.18%	20.488	51.836	42.439	26.815	72.324	69.254	79.55%
10 Tobacco Settlement	1.53%	34.804	15.989	18.647	18.854	50.793	37.501	81.09%
11 Telecommunications Excise Tax	1.74%	6.366	18.838	19.594	21.379	25.204	40.973	82.83%
12 Video Gambling Tax	3.70%	13.851	20.891	43.666	45.413	34.742	89.079	86.52%
13 Treasury Cash Account Interest	1.24%	16.088	21.532	13.191	15.172	37.620	28.363	87.76%
14 Estate Tax	0.76%	19.039	20.286	13.816	9.299	39.325	23.115	88.52%
15 Oil & Natural Gas Production Tax	1.25%	11.363	25.792	12.902	15.335	37.155	28.237	89.77%
16 Motor Vehicle Fee	2.25%	11.716	12.534	27.271	27.680	24.250	54.951	92.02%
17 Public Institution Reimbursements	1.33%	11.345	13.554	14.283	16.332	24.899	30.615	93.35%
18 Coal Severance Tax	0.85%	9.502	8.663	8.469	10.434	18.165	18.903	94.20%
19 Liquor Excise & License Tax	0.81%	7.172	7.343	9.514	9.990	14.515	19.504	95.01%
20 Cigarette Tax	0.63%	8.464	8.285	7.887	7.722	16.749	15.609	95.64%
21 Investment License Fee	0.41%	5.390	5.889	4.992	5.067	11.279	10.059	96.05%
22 Lottery Profits	0.57%	5.841	6.137	7.467	6.990	11.978	14.457	96.62%
23 Liquor Profits	0.47%	5.900	5.900	5.600	5.713	11.800	11.313	97.09%
24 Nursing Facilities Fee	0.49%	6.055	5.656	5.918	5.968	11.711	11.886	97.57%
25 Foreign Capital Depository Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	97.57%
26 Electrical Energy Tax	0.34%	4.829	4.058	4.197	4.217	8.887	8.414	97.92%
27 Metalliferous Mines Tax	0.44%	2.703	3.417	3.329	5.386	6.120	8.715	98.35%
28 Highway Patrol Fines	0.34%	4.028	3.981	4.062	4.130	8.009	8.192	98.69%
29 Public Contractors Tax	0.19%	2.162	0.792	3.267	2.275	2.954	5.542	98.88%
30 Wholesale Energy Tax	0.26%	1.895	3.503	2.906	3.143	5.398	6.049	99.13%
31 Tobacco Tax	0.19%	2.017	2.048	2.183	2.319	4.065	4.502	99.32%
32 Driver's License Fee	0.21%	2.333	1.896	2.580	2.592	4.229	5.172	99.53%
33 Railroad Car Tax	0.13%	2.101	1.556	1.490	1.537	3.657	3.027	99.66%
34 Wine Tax	0.10%	1.017	1.033	1.232	1.265	2.050	2.497	99.76%
35 Beer Tax	0.24%	0.370	0.385	2.784	2.960	0.755	5.744	100.00%
36 Telephone License Tax	0.00%	3.491	0.133	0.212	0.000	3.624	0.212	100.00%
37 Long Range Bond Excess	0.00%	0.101	0.000	0.000	0.000	0.101	0.000	100.00%
Total General Fund	100.00%	\$1,163.641	\$1,269.472	\$1,265.711	\$1,228.349	\$2,433.113	\$2,494.060	

GENERAL FUND BALANCE SHEET

Figure 4 shows the detailed general fund balance sheet for the 2003 biennium. The projected unreserved ending fund balance of \$27.2 million is based on all actions by the regular and special session legislatures and also includes the Executive expenditure reductions implemented under the provisions of 17-7-140, MCA.

Figure 4						
2003 Biennium General Fund Balance						
Based on Action By the 57th Legislature and Special Session						
In Millions						
	Actual Fiscal 2000	Actual Fiscal 2001	Actual Fiscal 2002	Estimated Fiscal 2003	Actual 2001 Biennium	Estimated 2003 Biennium
Beginning Fund Balance	\$109.673	\$176.000	\$172.897	\$81.542	\$109.673	\$172.897
Revenues						
Current Law Revenue	1,163.641	1,269.472	1,265.711	1,259.027	2,433.113	2,524.738
Legislation Impacts				(30.679)		(30.679)
Residual Transfers	0.725	0.501			1.226	
 Total Funds Available	\$1,274.039	\$1,445.973	\$1,438.608	\$1,309.890	\$2,544.012	\$2,666.956
Disbursements						
General Appropriations	1,046.100	1,140.620	1,123.187	1,058.069	2,186.720	2,181.256
Statutory Appropriations	39.950	76.219	149.108	129.450	116.169	278.558
Local Assistance Appropriations	13.813	56.772			70.585	
Miscellaneous Appropriations	3.890	7.408	68.016	83.142	11.298	151.158
Language Appropriations						
Non-Budgeted Transfers	2.350	3.227	18.768	11.365	5.577	30.133
Continuing Appropriations				9.262		9.262
Supplemental Appropriations						
FEMA Wildfire Costs						
Feed Bill Appropriations				0.498		0.498
Executive Reductions				(16.148)		(16.148)
Legislative Reductions				(0.350)		(0.350)
Anticipated Reversions	(0.505)	(15.321)	(3.176)	(5.330)	(15.826)	(8.506)
 Total Disbursements	\$1,105.598	\$1,268.925	\$1,355.903	\$1,269.958	\$2,374.523	\$2,625.861
Adjustments	7.559	(4.151)	(1.163)		3.408	(1.163)
Reserved Ending Fund Balance	\$176.000	\$172.897	\$81.542	\$39.932	\$172.897	\$39.932
2003 Session Feed Bill Reserve				7.200		7.200
2003 Session Supplemental Reserve				5.580		5.580
Unreserved Ending Fund Balance	<u>\$176.000</u>	<u>\$172.897</u>	<u>\$81.542</u>	<u>\$27.152</u>	<u>\$172.897</u>	<u>\$27.152</u>
Net Operations	\$58.768	\$1.048	(\$90.192)	(\$54.390)	\$59.816	(\$144.582)

FISCAL 2003 TO DATE COLLECTIONS AND ECONOMIC TRENDS

Based on information recorded through the end of September 2002 on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), total general fund receipts for fiscal 2003 were \$219.4 million as shown in Figure 5. This compares to \$207.4 million collected for the same period of fiscal 2002. Total general fund collections are \$12.0 million above last year's amount, which represents a 5.8 percent increase.

Figure 5							
General Fund Revenue Monitoring Report For September							
Revenue Source	Estimated Fiscal 2003	Thru Sep Fiscal 2002	Thru Sep Fiscal 2003	Dollar Change	Percent Difference	% Actual Fiscal 2002	% Estimate Fiscal 2003
Driver's License Fee	2,592,000	316,782	464,050	147,268	46.49%	12.28%	17.90%
Insurance Tax & License Fees	47,793,000	576,649	462,923	-113,726	-19.72%	1.22%	0.97%
Investment License Fee	5,067,000	407,734	336,845	-70,889	-17.39%	8.17%	6.65%
Vehicle Tax	74,224,000	10,247,613	16,612,130	6,364,517	62.11%	14.01%	22.38%
Motor Vehicle Fee	27,680,000	4,314,653	6,201,575	1,886,922	43.73%	15.82%	22.40%
Nursing Facilities Fee	5,968,000	1,435,470	1,405,072	-30,398	-2.12%	24.17%	23.54%
Beer Tax	2,960,000	587,879	838,377	250,498	42.61%	21.12%	28.32%
Cigarette Tax	7,722,000	2,327,983	2,172,444	-155,539	-6.68%	29.52%	28.13%
Coal Severance Tax	10,434,000	1,853,939	2,001,252	147,313	7.95%	21.89%	19.18%
Corporation Income Tax	63,095,000	16,952,791	13,352,999	-3,599,792	-21.23%	24.79%	21.16%
Electrical Energy Tax	4,217,000	919,357	1,081,334	161,977	17.62%	21.90%	25.64%
Wholesale Energy Tax	3,143,000	622,862	836,434	213,572	34.29%	21.43%	26.61%
Railroad Car Tax	1,537,000	10,551	3,709	-6,842	-64.85%	0.71%	0.24%
Individual Income Tax	531,620,000	125,686,540	130,547,086	4,860,546	3.87%	24.13%	24.56%
Estate Tax	9,299,000	3,898,010	2,867,023	-1,030,987	-26.45%	26.01%	30.83%
Metalliferous Mines Tax	5,386,000	0	0	0	#N/A	0.00%	0.00%
Natural Gas Production Tax	0	0	0	0	#N/A	#N/A	#N/A
Oil Production Tax	15,335,000	0	0	0	#N/A	0.00%	0.00%
Public Contractors Tax	2,275,000	1,240,076	761,058	-479,018	-38.63%	37.95%	33.45%
Property Tax: 1.5 Mill	0	64,671	45,581	-19,090	-29.52%	7.04%	#N/A
Property Tax: 40 Mill	0	4,878,420	4,292,848	-585,572	-12.00%	7.74%	#N/A
Property Tax: 55 Mill	174,297,000	8,766,240	7,149,452	-1,616,788	-18.44%	8.32%	4.10%
Telephone License Tax	0	0	33,498	33,498	#N/A	0.00%	#N/A
Telecommunications Excise Tax	21,379,000	4,717,035	5,330,770	613,735	13.01%	24.07%	24.93%
Tobacco Tax	2,319,000	525,086	571,516	46,430	8.84%	24.06%	24.64%
Video Gambling Tax	45,413,000	3,284	3,245	-39	-1.19%	0.01%	0.01%
Wine Tax	1,265,000	191,793	349,125	157,332	82.03%	15.57%	27.60%
Public Institution Reimbursements	16,332,000	1,684,302	1,369,214	-315,088	-18.71%	11.79%	8.38%
Highway Patrol Fines	4,130,000	801,180	897,374	96,194	12.01%	19.73%	21.73%
Treasury Cash Account Interest	15,172,000	3,143,437	1,698,761	-1,444,676	-45.96%	23.84%	11.20%
Local Impact Interest	0	0	0	0	#N/A	#N/A	#N/A
Liquor Excise & License Tax	9,990,000	1,746,468	1,855,589	109,121	6.25%	18.36%	18.57%
Liquor Profits	5,713,000	0	0	0	#N/A	0.00%	0.00%
Coal Trust Interest	37,640,000	3,851,939	3,294,374	-557,565	-14.47%	10.24%	8.75%
Common School Interest and Income	22,000	571,704	550,000	-21,704	-3.80%	1.17%	2500.00%
Lottery Profits	6,990,000	0	0	0	#N/A	0.00%	0.00%
Long Range Bond Excess	0	0	0	0	#N/A	#N/A	#N/A
Tobacco Settlement	18,854,000	0	0	0	#N/A	0.00%	0.00%
US Mineral Royalty	21,671,000	4,114,591	7,527,584	3,412,993	82.95%	20.81%	34.74%
All Other Revenue	26,815,000	984,502	4,533,103	3,548,601	360.45%	2.32%	16.91%
Grand Total	<u>\$1,228,349,000</u>	<u>\$207,443,541</u>	<u>\$219,446,345</u>	<u>\$12,002,804</u>	<u>5.79%</u>	<u>16.33%</u>	<u>17.87%</u>

This trend by itself indicates that general fund revenue growth may be above expectations since total revenues are expected to decrease by \$37.3 million from fiscal 2002 actual amounts. However, there are various factors that refute this simplistic approach to assessing the current general fund revenue condition.

The aggregate growth trends mentioned above can be misleading when there have been significant statutory changes such as the implementation of HB 124 (The Big Bill). The following is a list of revenue sources that were impacted by the enactment of HB 124

- Beer Tax
- Wine Tax
- Liquor Excise Tax
- Video Gambling Tax
- Property Tax
- Vehicle Tax
- Motor Vehicle Fee

Since HB 124 was effective July 1, 2001, revenues for the first three months of fiscal 2002 are not comparable to the first three months of fiscal 2003. This is because of the “tax due date lag” that occurs whenever the statutory tax allocation or distribution mechanism is amended by the legislature. This “lag” effect will be reduced by October after the Department of Revenue reverses fiscal 2002 revenue accruals. Thus, the revenue categories listed above are not comparable with last years collection patterns.

Changes in general economic conditions can also skew aggregate growth trends especially when the change occurs gradually throughout the year. During fiscal 2002, several economic assumptions adopted by the 57th Legislature showed progressive weakening. Although the revenues associated with these economic assumptions may have appeared to be within forecasts early in the fiscal year, collections in the later part of the year showed signs of slower growth. This is due to the time lag between the impacts of economic changes and when tax revenues are actually received.

Although collection data through the end of August showed signs of slower growth, September data indicates that this trend may be changing. It should be noted that one month of new data does not necessarily mean a permanent change for the remainder of the fiscal year. A number of timing factors could contribute to this change that may not occur in subsequent months. Even if these trends do continue for the rest of the year, total general fund collections would be on target with HJR 1 revenue estimates and would have no affect on the projected deficit for the 2005 biennium. The following section of the report discusses collection detail for individual and corporation income revenues.

Corporation Income Tax

As shown in Figure 6, total corporation income taxes through September of fiscal 2003 are \$3.6 million below collections as compared to the same period for fiscal 2002. As Figure 6 indicates, current year

and estimated payments are significantly below last year's amount while refunds issued are up significantly. Audit collections are higher but this is because fiscal 2002 was the first year under the

Revenue Code & Description	Through Sept. Fiscal 2002	Through Sept. Fiscal 2003	Difference	Percent Change
510501 Corporation Tax	3,810,613.86	2,539,322.22	(1,271,291.64)	-33.36%
510505 Corporation Tax Estimated Paym	14,775,934.86	13,162,554.61	(1,613,380.25)	-10.92%
510502 Corporation Tax Refunds	(1,870,409.62)	(3,347,975.78)	(1,477,566.16)	79.00%
510503 Corporation Tax-Audit Collect.	<u>236,652.00</u>	<u>999,098.00</u>	<u>762,446.00</u>	<u>322.18%</u>
Totals	\$16,952,791.10	\$13,352,999.05	(\$3,599,792.05)	-21.23%
% of Actual/Estimated	24.87%	21.15%		

Department of Revenue POINTS system that audit collections were recorded separately on SABHRS. Prior to this time, audit collections were included in the other categories of corporation income tax.

The special session legislature assumed that corporation income tax revenues would decline from \$68.2 million in fiscal 2002 to \$63.1 million in fiscal 2003. This represents a \$5.1 million decline or 7.5 percent. Obviously, if the trend portrayed in Figure 6 would prevail for all of fiscal 2003, the corporation income tax estimate adopted by the special session legislature would not materialize. Since the DOR issued an unusually large refund in July, the extrapolation of this amount would overstate potential refund activity for fiscal 2003. Adjusting to date collections for this refund amount shows that total corporation income tax revenues are close to being on target with the legislature's HJR 1 estimate.

Individual Income Tax

As shown in Figure 7, total individual income taxes through September of fiscal 2003 are \$4.9 million above collections as compared to the same period for fiscal 2002. As Figure 7 indicates, withholding payments are above last year's amount while estimated and current year payments are below the comparable period.

Refunds issued are up significantly. Audit collections are higher but this is because fiscal 2002 was the first year under the Department of Revenue POINTS system that audit

Revenue Code & Description	Through Sept. Fiscal 2002	Through Sept. Fiscal 2003	Difference	Percent Change
510101 Withholding Tax	97,697,037.07	105,295,485.13	7,598,448.06	7.78%
510102 Estimated Tax	30,771,366.26	30,069,287.62	(702,078.64)	-2.28%
510103 Current Year I/T	5,760,310.21	5,043,868.38	(716,441.83)	-12.44%
510106 Income Tax Refunds	(9,750,468.74)	(12,088,576.65)	(2,338,107.91)	23.98%
510105 Income Tax - Audit Collections	<u>1,208,295.00</u>	<u>2,227,022.00</u>	<u>1,018,727.00</u>	<u>84.31%</u>
Totals	\$125,686,539.80	\$130,547,086.48	\$4,860,546.68	3.87%
% of Actual/Estimated	24.28%	24.64%		

collections were recorded separately on SABHRS. Prior to this time, audit collections were included in the other categories of individual income tax.

The special session legislature assumed that individual income tax revenues would increase from \$517.6 million in fiscal 2002 to \$531.6 million in fiscal 2003. This represents a \$14.0 million increase or 2.7 percent. If the trend portrayed in Figure 7 would prevail for all of fiscal 2003, the individual income tax estimate adopted by the special session legislature would be on target with the HR1 revenue estimate.

SIGNIFICANT ECONOMIC TRENDS

Since adjournment of the special session legislature, there have been numerous articles that depict the status of various national economic indicators. Although Dr. Paul Polzin of the Bureau of Business and Economic Research has indicated Montana's economy is doing well when compared to other states, it should be noted that state government revenues are not totally driven by employment and income levels. Montana revenues are extremely sensitive to many other factors such as corporate profitability, prevailing interest rates, capital gains/losses, and energy prices. The following is a brief summary of relevant articles that may illustrate the vulnerability of the national economy. Over the past several weeks many economists have adopted a more optimistic outlook, however national economic growth remains weak.

The National Economy

- Consumer confidence index continues downward trend (September 24, 2002). Consumer confidence has continued to fall since May and in September hit its lowest level since November 2001. This index measures the consumer's expectations of economic conditions for the upcoming six months and predicts a slower economic recovery. In September, consumer confidence fell for the fourth straight month to 93.3. This measure is down from the revised August index of 94.5. In the opinion of many economists, the current level is a good sign; the index was expected to drop to 92.4.
- Consumer spending falls below expectations (September 30,2002). A recent report by CNN tells that overall consumer spending, which accounts for two-thirds of the total economic activity, rose by only 0.3 percent in August. This figure is below the 0.5 percent increase expected by the Commerce Department. Analysts believe that consumer uncertainty will continue to impact spending
- GDP growth projections may be reduced (September 12, 2002). Alan Greenspan reports that economic growth has slowed and the July estimate of GDP may need to be lowered. In July, Greenspan testified before Congress that GDP growth was expected between 3.5 and 4.0 percent in 2003. GDP was measured at 5 percent during the first quarter of 2002 but has slowed to 1.3 percent in the second quarter.

Federal Budget Deficit

Deterioration of the federal budget surplus (August 28, 2002). Until July, the federal government was estimating a surplus in the federal budget. New projections show the government in deficit spending through 2005. The cause of this change is a dramatic reduction in tax revenues, which has cut budget surplus estimates by 60 percent over the next 10 years. This year's federal tax revenues have plunged by \$131 billion, and the Congressional Budget Office's projection of a \$5.6 trillion surplus between 2002 and 2011 has been reduced to \$336 billion. The reduced surplus does not include increases in health insurance, senior citizen prescription drug assistance, or increased costs associated with military engagements.

Deficit projections by Congressional Budget Office (September 12, 2002). The Congressional Budget Office (CBO) has reported that the difference between government spending and income will be \$300 billion greater in 2002 than projected one year ago. The CBO also projects that the estimated 10-year surplus has fallen from \$5.6 trillion in 2001 to \$300 billion this year. The White House Office of Management and Budget projects a deficit of nearly \$150 billion this year, the largest since 1994, and the Senate Budget Committee expects that the deficit will expand to \$200 billion in 2003. Alan Greenspan warns that erosion of the federal budget discipline could raise long-term interest rates, hamper the ability of business to borrow money, and push mortgage rates higher.

SUMMARY

In summary, the special session legislature adopted revised general fund revenue estimates for the 2003 biennium that were \$152.8 million less than the revenue estimates of the January 2001 regular legislative session. Fourteen separate revenue bills were enacted that reduced general fund revenues by \$30.7 million for the 2003 biennium. Based on these actions and other legislation, the general fund account is expected to end fiscal 2003 with an unreserved ending fund balance of \$27.2 million.

Information from SABHRS as of September 30, 2002, indicates total general fund revenues are slightly ahead of collections for the same period of fiscal 2002. However, because of legislation changes, aggregate comparisons do not portray an accurate picture of general fund collection trends. When combined, individual and corporation income taxes are on target with HJR 1 revenue estimates as adopted by the special session legislature. Even if these trends do continue for the rest of the year, the \$250 million projected deficit for the 2005 biennium (see "Big Picture Report 2005 Biennium", October 2002) would not change. This is because year to date trends support the revenue estimates as adopted by the Special Session legislature.

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