

Additional General Revenue Information to the Financial Outlook

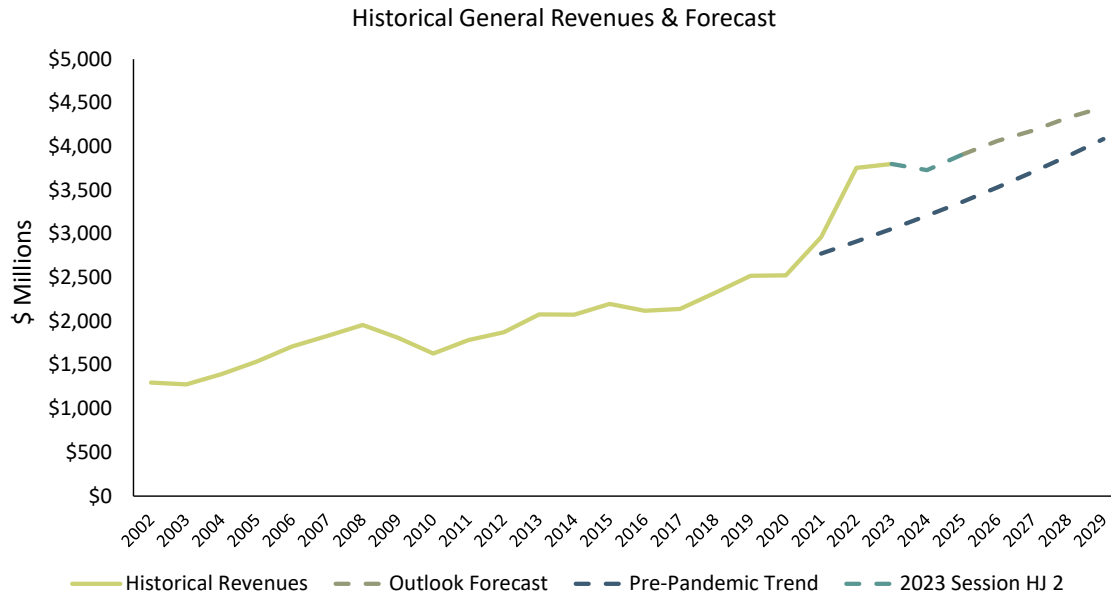
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OUTLOOK REVENUES SUMMARY

History and Current Biennium

The graph below shows historical general revenues (general fund, 95 mills, and TCA interest) back to FY 2002 and provides a forecast for the outlook period (FY 2025-FY 2029).



After a period of extremely strong growth from FY 2020 to FY 2022, in which revenues grew by 48.7%, revenues are now expected to revert to a trend slightly slower than what was experienced in the FY 2010-2019 period. *Note that the FY 2024 number indicates an expected decline, as this number was adopted during the 2023 Session, when forecasts were suggesting a mild recession may occur during the current biennium. As FY 2024 ends, it is now expected that FY 2024 will be relatively flat compared to FY 2023.* Overall, from FY 2022 to FY 2025 general revenues are expected to grow a combined 4.0%, a product of an end to the pandemic-driven federal stimulus as well as income tax reductions that the legislature passed in the 2021 and 2023 sessions.

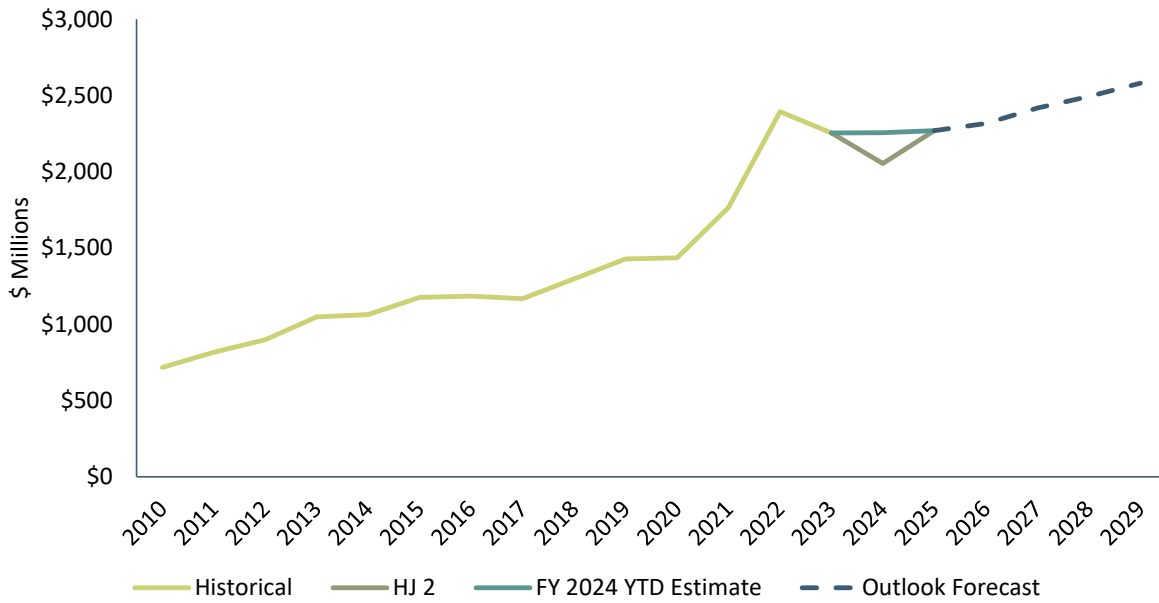
Moving Forward

From FY 2025 to FY 2029 general revenues are expected to grow at a compound average annual growth rate of 3.3%, far slower than the 5.0% growth that was experienced in the FY 2010-FY 2019 period. Persistently high interest rates are expected to keep US economic growth slow. In Montana, inflation-adjusted Gross State Product (GSP) is expected to average annual growth of 1.4% per year. Similarly, inflation-adjusted statewide personal income is expected to grow by an average of 2.4% per year.

Individual Income Tax

The main driver of revenues moving forward is individual income tax collections, which made up nearly 60% of ongoing general revenues in FY 2023. The graph below shows historical collections, the estimate adopted during the 2023 Session for FY 2024, a new estimate for FY 2024 based upon year-to-date collections, then finally the forecast for the outlook period.

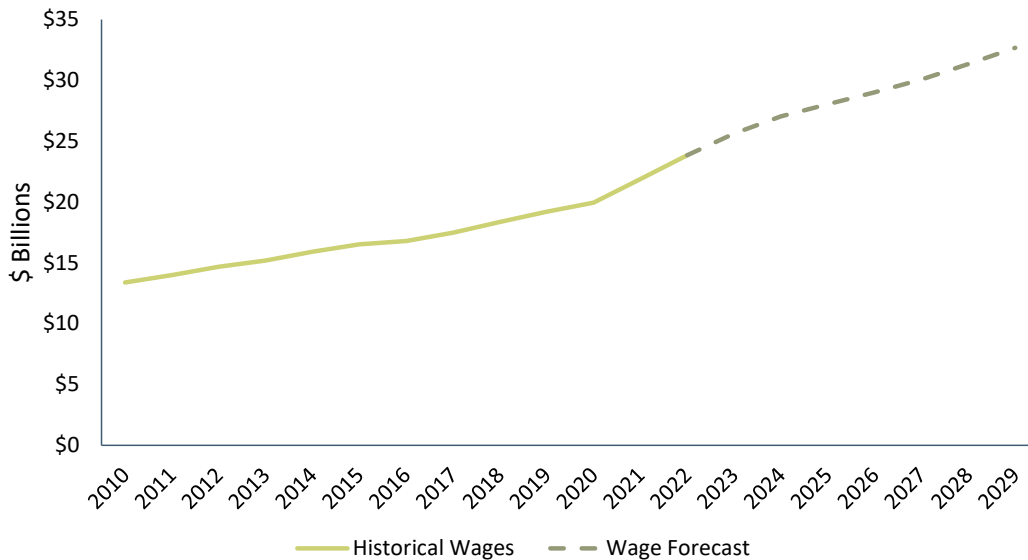
Individual Income Tax



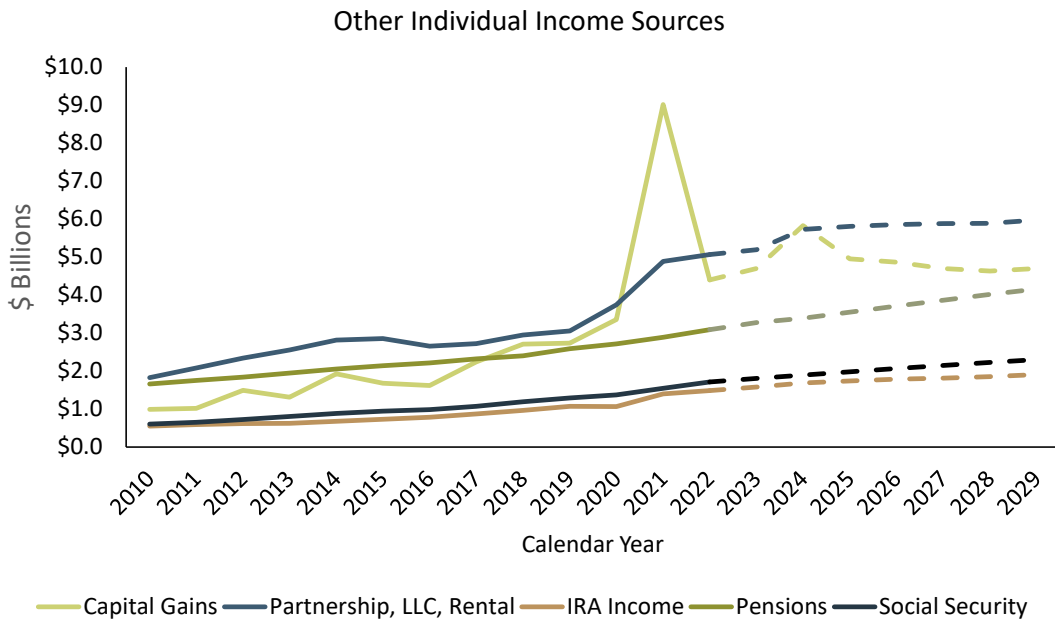
As mentioned earlier, current collections in FY 2024 are currently stronger than what was anticipated during the 2023 Legislative session. However, income tax collections are expected to grow slowly, and are not expected to reach the FY 2022 levels until FY 2027. This flat-to-slow growth is primarily due to income tax reductions that were passed in the 2021 and 2023 Legislative sessions.

The largest source of income in individual income taxes is wages. At this point, calendar year data is available through CY 2022. In CY 2022, wages made up 56% of total income claimed on state tax returns. Inflation, along with strong population growth caused wages to grow rapidly in the past few years. In the outlook period, wages are expected to return to growth patterns similar to what was experienced from CY 2010-CY 2019.

Historical Montana Wages & Wage Forecast



While wages are the largest source of income in individual income taxes, its share has been dropping as other sources have grown faster than wages. The graph below shows the remaining income sources and their forecasts that make up the majority of income claimed on state income tax returns.



Whereas IRA income, taxable pensions, and taxable social security income are relatively stable income sources, rental, partnership, and LLC income along with capital gains income are quite volatile. Current strong stock market levels suggest taxpayers will eventually realize these gains, and typically after strong realization years, they decrease. Unlike wages, the volatile nature of some of the sources above make them very difficult to forecast, nonetheless these are the background assumptions in the revenue forecast.

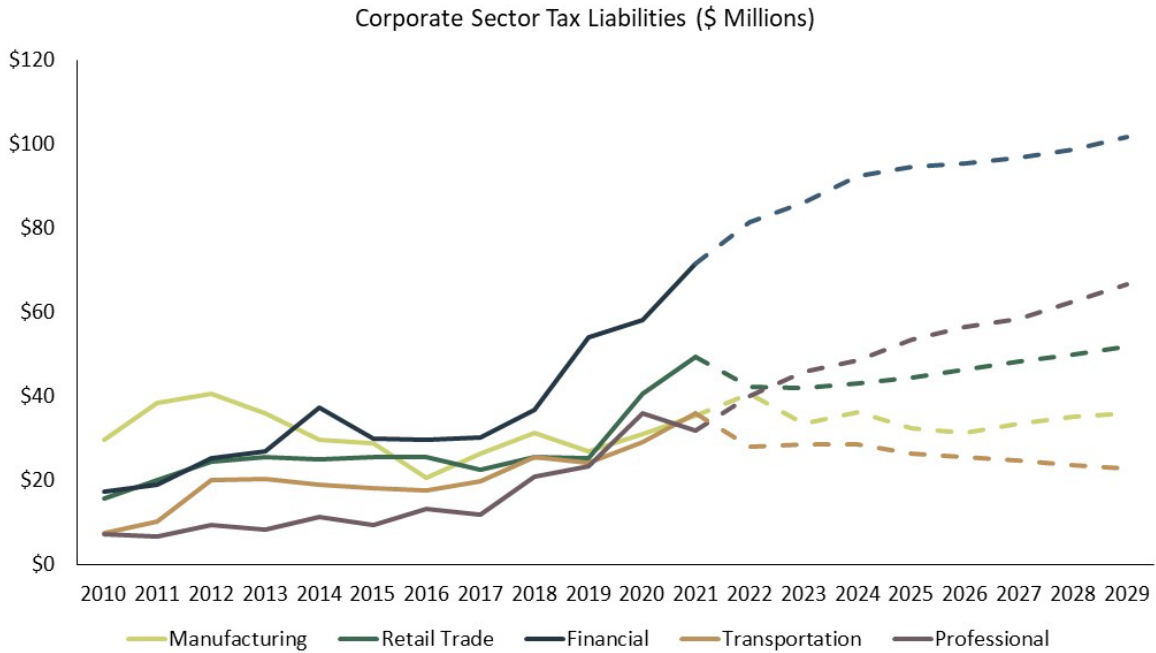
Corporate Income Tax

Montana also has a corporate income tax. Individual and corporate income taxes combined made up over two-thirds of total general revenues in FY 2023. Like many sources, corporate income tax saw extremely strong growth in FY 2021 and FY 2022. Like individual income tax, year-to-date collections are stronger than what was adopted



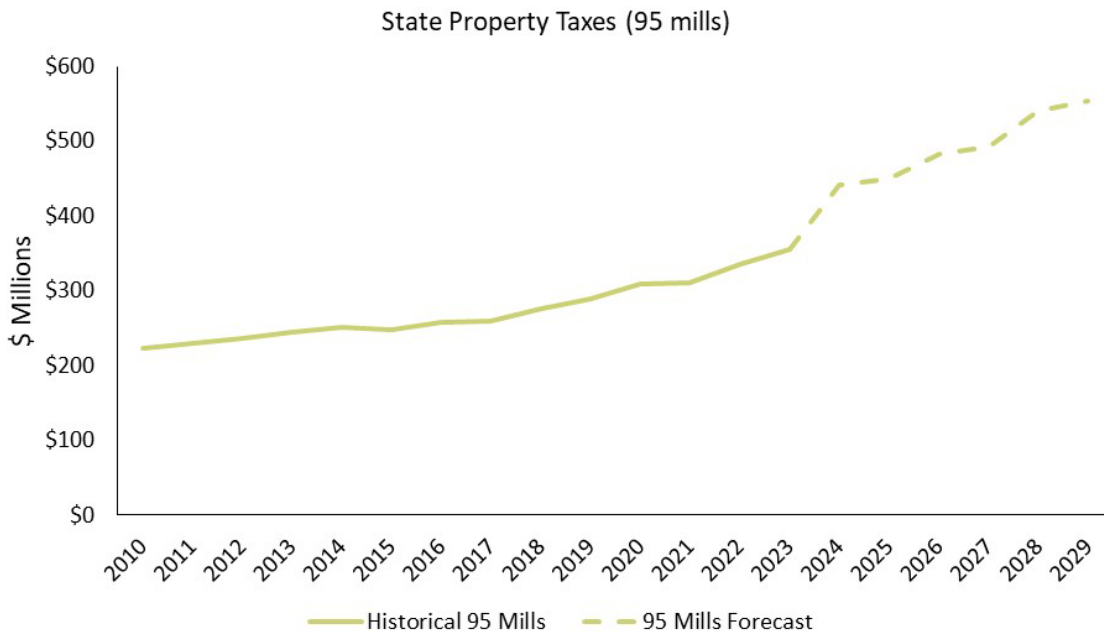
in HJ 2. Moving into the outlook period, growth is expected to be muted, but this is an extremely volatile source, so it is not unexpected if collections are noticeably higher or lower than the forecast.

Corporate income tax return data is available through CY 2021, and CY 2022 data will be available this fall. In CY 2021, the manufacturing, retail trade, transportation, financial, and professional sectors made up 83% of total Montana corporate income tax liability. The historical and forecast liabilities of these five sectors are shown in the figure below.



Remaining Large Sources

The remaining large sources that make up the state’s general revenues are property taxes (95 mills), vehicle taxes and fees, insurance taxes, oil and natural gas taxes, and gambling taxes. The following chart shows the history and forecast of the 95 mills that the state collects. As the graph shows, after a large increase in FY 2024, a result of increasing residential property values, growth slows.



Finally, while oil and natural gas taxes are consistently volatile, vehicle taxes and fees, video gaming taxes, and insurance taxes are forecast to return to pre-pandemic growth rates, albeit at higher levels.

