

LEGISLATIVE FISCAL DIVISION 2025 BIENNIUM REVENUE ESTIMATE AND COMPARISON TO THE EXECUTIVE

A Report Prepared for the
Revenue Interim Committee

By
LFD Revenue Team

November 17, 2022

INTRODUCTION

This report provides a summary of the Legislative Fiscal Division (LFD) revenue estimate recommendations for the upcoming 2025 biennium. Full detail on each of the general fund revenue sources and selected non-general fund revenue sources are available online in the LFD's [2025 Biennium Budget Analysis: Volume 2](#). The revenue estimates for each source reflect a combination of changes in base year data, revised assumptions, modeling adjustments, and new IHS Markit forecasts since the production of the current official revenue estimate contained in [HJ 2 \(2023 Biennium\)](#). The body of this report is organized into the following sections:

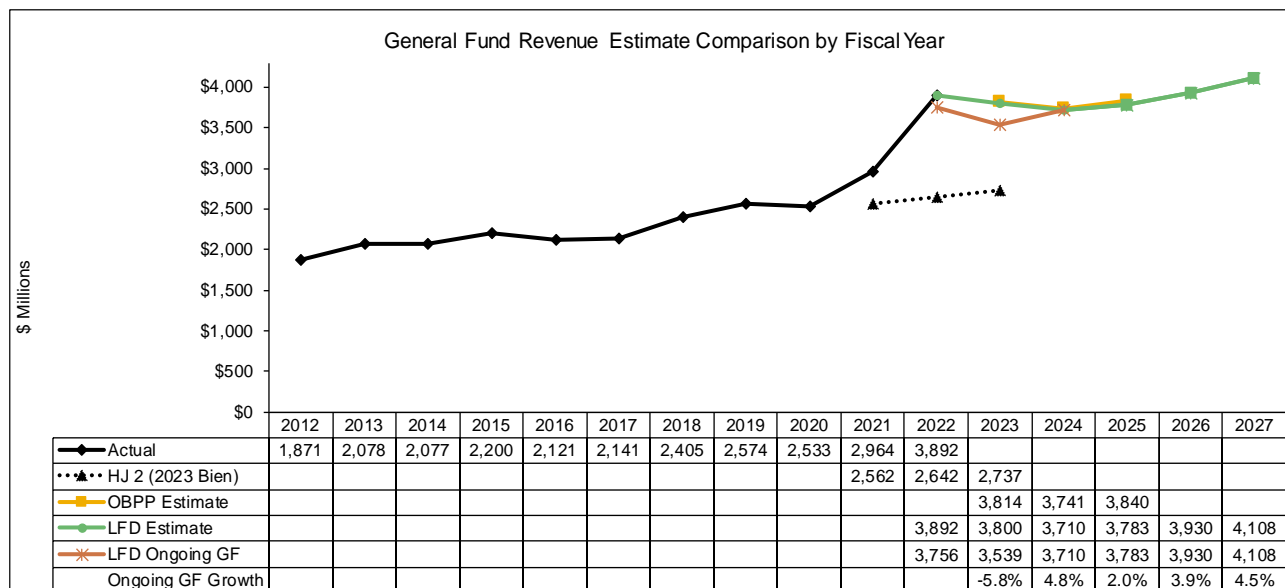
- 2025 Biennium Revenue Overview
- 2025 Biennium Comparison to the Executive
- 2025 Biennium LFD Recommendation
- Appendix (Includes year-to-date revenue collections through October)

The new data available since the adoption of [HJ 2 \(2023 Biennium\)](#) includes the following sources:

- FY 2021 and FY 2022 revenue collections
- Two additional years of individual and corporate income tax return data, and property valuation data
- Two additional years of oil and natural gas production data
- Updated IHS Markit forecasts

2025 BIENNIUM REVENUE OVERVIEW

The estimate recommendation for annual ongoing growth in general fund revenue for FY 2023 is -5.8%, for FY 2024 is 4.8%, and for FY 2025 is 2.0%. Moving forward into the next biennium, growth is expected to be 3.9% and 4.5% in FY 2026 and FY 2027 respectively. The three-year estimate has improved compared to what was anticipated in the [2025 Biennium Outlook](#). Comparisons of actual collections since FY 2012, estimates contained in [HJ 2 \(2023 Biennium\)](#), the LFD 2025 biennium estimate recommendation, and the executive estimate recommendation are shown in the chart below.



The 2025 biennium revenue estimates produced by the LFD and corresponding year-over-year growth rates are detailed in the following table:

| General Fund HJ 2 Estimate Recommendation | | | | | | |
|--|--------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
| (\$ Millions) | | | | | | |
| Source of Revenue | Actual FY 2022 | Estimated FY 2023 | Estimated FY 2024 | Estimated FY 2025 | Estimated 2023 Bien | Estimated 2025 Bien |
| Largest Seven Sources | | | | | | |
| Individual Income Tax | \$2,393.807 | \$2,033.784 | \$2,086.756 | \$2,178.325 | \$4,427.592 | \$4,265.080 |
| Property Tax | 335.114 | 351.821 | 443.144 | 450.817 | 686.936 | 893.961 |
| Corporation Income Tax | 293.683 | 284.335 | 277.207 | 271.356 | 578.019 | 548.563 |
| Vehicle Taxes & Fees | 121.138 | 121.546 | 122.263 | 123.246 | 242.684 | 245.509 |
| Oil & Natural Gas Production Tax | 70.510 | 78.712 | 73.262 | 72.045 | 149.222 | 145.306 |
| Insurance Tax & License Fees | 97.940 | 101.387 | 105.838 | 110.608 | 199.327 | 216.447 |
| Video Gambling Tax | 77.881 | 80.185 | 83.666 | 86.895 | 158.066 | 170.561 |
| Other Business Taxes | | | | | | |
| Driver's License Fee | 6.171 | 5.854 | 5.919 | 5.972 | 12.025 | 11.890 |
| Investment License Fee | 19.535 | 20.182 | 20.741 | 21.314 | 39.717 | 42.056 |
| Lodging Taxes | 46.175 | 51.124 | 57.476 | 61.792 | 97.299 | 119.268 |
| Public Contractors Tax | 2.840 | 4.196 | 4.300 | 4.396 | 7.036 | 8.697 |
| Railroad Car Tax | 4.020 | 4.799 | 5.496 | 5.534 | 8.819 | 11.029 |
| Rental Car Sales Tax | 6.823 | 8.114 | 7.978 | 8.250 | 14.937 | 16.228 |
| Telecommunications Excise Tax | 8.571 | 7.891 | 5.631 | 4.634 | 16.462 | 10.265 |
| Other Natural Resource Taxes | | | | | | |
| Coal Severance Tax | 15.359 | 21.374 | 20.644 | 17.218 | 36.733 | 37.862 |
| Electrical Energy Tax | 3.930 | 3.841 | 3.536 | 3.383 | 7.771 | 6.919 |
| Metalliferous Mines Tax | 12.210 | 11.254 | 11.363 | 11.369 | 23.464 | 22.732 |
| US Mineral Royalty | 19.464 | 28.143 | 24.212 | 20.291 | 47.607 | 44.503 |
| Wholesale Energy Tax | 3.352 | 3.427 | 3.410 | 3.398 | 6.779 | 6.808 |
| Other Interest Earnings | | | | | | |
| Coal Trust Interest | 16.561 | 17.947 | 18.857 | 19.657 | 34.509 | 38.514 |
| Treasury Cash Account Interest | 11.776 | 101.367 | 126.591 | 98.569 | 113.143 | 225.159 |
| Other Consumption Taxes | | | | | | |
| Beer Tax | 3.202 | 3.294 | 3.329 | 3.362 | 6.496 | 6.691 |
| Cigarette Tax | 27.993 | 27.517 | 26.889 | 26.069 | 55.510 | 52.958 |
| Liquor Excise & License Tax | 29.166 | 31.241 | 32.282 | 33.409 | 60.407 | 65.691 |
| Liquor Profits | 21.879 | 22.600 | 23.700 | 24.300 | 44.479 | 48.000 |
| Lottery Profits | 15.311 | 15.264 | 15.508 | 15.683 | 30.575 | 31.191 |
| Marijuana Tax | 14.238 | 27.401 | 27.975 | 29.107 | 41.639 | 57.082 |
| Tobacco Tax | 5.565 | 5.451 | 5.366 | 5.253 | 11.016 | 10.619 |
| Wine Tax | 2.573 | 2.641 | 2.699 | 2.760 | 5.214 | 5.459 |
| Other Sources | | | | | | |
| All Other Revenue ¹ | 180.512 | 305.512 | 46.451 | 46.662 | 486.024 | 93.113 |
| Highway Patrol Fines | 3.533 | 3.503 | 3.518 | 3.518 | 7.036 | 7.036 |
| Nursing Facilities Fee | 3.447 | 3.153 | 2.942 | 2.731 | 6.600 | 5.673 |
| Public Institution Reimbursements | 13.933 | 8.070 | 7.758 | 7.446 | 22.003 | 15.204 |
| Tobacco Settlement | 3.426 | 3.342 | 3.327 | 3.312 | 6.768 | 6.638 |
| Ongoing Revenue Subtotal | 3,755.727 | 3,539.484 | 3,710.034 | 3,782.680 | 7,295.211 | 7,492.714 |
| OTO & Transfers Subtotal | 135.914 | 260.789 | | | | |
| Total General Fund | \$3,891.640 | \$3,800.273 | \$3,710.034 | \$3,782.680 | \$7,691.913 | \$7,492.714 |
| Ongoing General Fund Growth | | -5.8% | 4.8% | 2.0% | | 2.7% |
| *In FY 2022, All Other Revenue includes a transfer of \$115 million from the BSRF back to the General Fund. In FY 2023 this transfer is \$260.8 million. | | | | | | |

COMPARISON TO THE EXECUTIVE

| General Fund Revenue Estimate Overview & Comparison | | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|
| (\$ Millions) | | | | | | | | | |
| Revenue Source | Actual FY 2022 | LFD | | | OBPP | | | 3-Year \$ Diff. | 3-Year % Diff. |
| | | FY 2023 | FY 2024 | FY 2025 | FY 2023 | FY 2024 | FY 2025 | | |
| Largest Seven Sources | | | | | | | | | |
| Individual Income Tax | \$2,393.807 | \$2,033.784 | \$2,086.756 | \$2,178.325 | \$2,040.951 | \$2,087.164 | \$2,181.069 | (\$10.319) | -0.2% |
| Property Tax | 335.114 | 351.821 | 443.144 | 450.817 | 351.888 | 445.558 | 447.920 | 0.416 | 0.0% |
| Corporation Tax | 293.683 | 284.335 | 277.207 | 271.356 | 259.200 | 265.600 | 267.200 | 40.898 | 5.2% |
| Vehicle Taxes & Fees | 121.138 | 121.546 | 122.263 | 123.246 | 122.073 | 126.664 | 129.404 | (11.086) | -2.9% |
| Oil & Natural Gas Taxes | 70.510 | 78.712 | 73.262 | 72.045 | 78.406 | 71.018 | 73.053 | 1.541 | 0.7% |
| Insurance Tax | 97.940 | 101.387 | 105.838 | 110.608 | 104.896 | 109.637 | 114.557 | (11.257) | -3.4% |
| Video Gaming Tax | 77.881 | 80.185 | 83.666 | 86.895 | 78.040 | 78.970 | 80.383 | 13.353 | 5.6% |
| Other Business Taxes | | | | | | | | | |
| Drivers License Fee | 6.171 | 5.854 | 5.919 | 5.972 | 5.448 | 5.304 | 5.372 | 1.621 | 10.1% |
| Investment Licenses | 19.535 | 20.182 | 20.741 | 21.314 | 19.669 | 19.474 | 20.229 | 2.866 | 4.8% |
| Lodging Facilities Sales Tax | 46.175 | 51.124 | 57.476 | 61.792 | 46.808 | 50.803 | 55.978 | 16.803 | 10.9% |
| Public Contractor's Tax | 2.840 | 4.196 | 4.300 | 4.396 | 2.945 | 3.034 | 3.122 | 3.792 | 41.7% |
| Railroad Car Tax | 4.020 | 4.799 | 5.496 | 5.534 | 4.036 | 4.103 | 4.131 | 3.559 | 29.0% |
| Rental Car Sales Tax | 6.823 | 8.114 | 7.978 | 8.250 | 7.115 | 7.769 | 8.583 | 0.876 | 3.7% |
| Retail Telecom Excise Tax | 8.571 | 7.891 | 5.631 | 4.634 | 7.856 | 7.212 | 6.620 | (3.532) | -16.3% |
| Other Natural Resource Taxes | | | | | | | | | |
| Coal Severance Tax | 15.359 | 21.374 | 20.644 | 17.218 | 22.577 | 19.309 | 16.864 | 0.486 | 0.8% |
| Electrical Energy Tax | 3.930 | 3.841 | 3.536 | 3.383 | 4.006 | 4.114 | 4.222 | (1.581) | -12.8% |
| Metal Mines Tax | 12.210 | 11.254 | 11.363 | 11.369 | 12.428 | 12.145 | 10.857 | (1.443) | -4.1% |
| U.S. Mineral Royalties | 19.464 | 28.143 | 24.212 | 20.291 | 33.090 | 26.269 | 24.512 | (11.225) | -13.4% |
| Wholesale Energy Trans Tax | 3.352 | 3.427 | 3.410 | 3.398 | 3.399 | 3.459 | 3.520 | (0.143) | -1.4% |
| Other Interest Earnings | | | | | | | | | |
| Coal Trust Interest Earnings | 16.561 | 17.947 | 18.857 | 19.657 | 18.135 | 19.558 | 20.699 | (1.931) | -3.3% |
| TCA Interest Earnings | 11.776 | 101.367 | 126.591 | 98.569 | 121.913 | 145.728 | 119.250 | (60.365) | -15.6% |
| Other Consumption Taxes | | | | | | | | | |
| Beer Tax | 3.202 | 3.294 | 3.329 | 3.362 | 3.242 | 3.259 | 3.272 | 0.212 | 2.2% |
| Cigarette Tax | 27.993 | 27.517 | 26.889 | 26.069 | 27.585 | 27.414 | 27.244 | (1.768) | -2.1% |
| Liquor Excise Tax | 29.166 | 31.241 | 32.282 | 33.409 | 30.080 | 31.189 | 32.573 | 3.090 | 3.3% |
| Liquor Profits | 21.879 | 22.600 | 23.700 | 24.300 | 19.000 | 20.500 | 22.000 | 9.100 | 14.8% |
| Lottery Profits | 15.311 | 15.264 | 15.508 | 15.683 | 14.985 | 17.010 | 18.218 | (3.757) | -7.5% |
| Marijuana Tax | 14.238 | 27.401 | 27.975 | 29.107 | 37.144 | 50.683 | 57.486 | (60.830) | -41.9% |
| Tobacco Tax | 5.565 | 5.451 | 5.366 | 5.253 | 5.559 | 5.481 | 5.399 | (0.369) | -2.2% |
| Wine Tax | 2.573 | 2.641 | 2.699 | 2.760 | 2.593 | 2.628 | 2.661 | 0.219 | 2.8% |
| Other Sources | | | | | | | | | |
| All Other Revenue ¹ | 180.512 | 305.512 | 46.451 | 46.662 | 312.063 | 53.392 | 53.708 | (20.538) | -4.9% |
| Highway Patrol Fines | 3.533 | 3.503 | 3.518 | 3.518 | 3.628 | 3.770 | 3.924 | (0.783) | -6.9% |
| Nursing Facilities Fee | 3.447 | 3.153 | 2.942 | 2.731 | 3.287 | 3.229 | 3.173 | (0.863) | -8.9% |
| Public Institution Reimb. | 13.933 | 8.070 | 7.758 | 7.446 | 6.343 | 6.588 | 10.048 | 0.294 | 1.3% |
| Tobacco Settlement | 3.426 | 3.342 | 3.327 | 3.312 | 3.140 | 3.014 | 2.886 | 0.940 | 10.4% |
| Ongoing Revenue Subtotal | 3,755.727 | 3,539.484 | 3,710.034 | 3,782.680 | 3,552.739 | 3,741.049 | 3,840.137 | (101.726) | -0.9% |
| OTO & Transfers Subtotal | 135.914 | 260.789 | | | 260.789 | | | | |
| Total General Fund | \$3,891.640 | \$3,800.273 | \$3,710.034 | \$3,782.680 | \$3,813.528 | \$3,741.049 | \$3,840.137 | (\$101.726) | -0.9% |
| Guarantee Account | 47.925 | 50.344 | 54.399 | 56.843 | 43.247 | 48.289 | 51.686 | 18.4 | 11.4% |
| Total General Fund & Guarantee | \$3,939.566 | \$3,850.617 | \$3,764.433 | \$3,839.523 | \$3,856.775 | \$3,789.338 | \$3,891.823 | (\$83.362) | -0.7% |

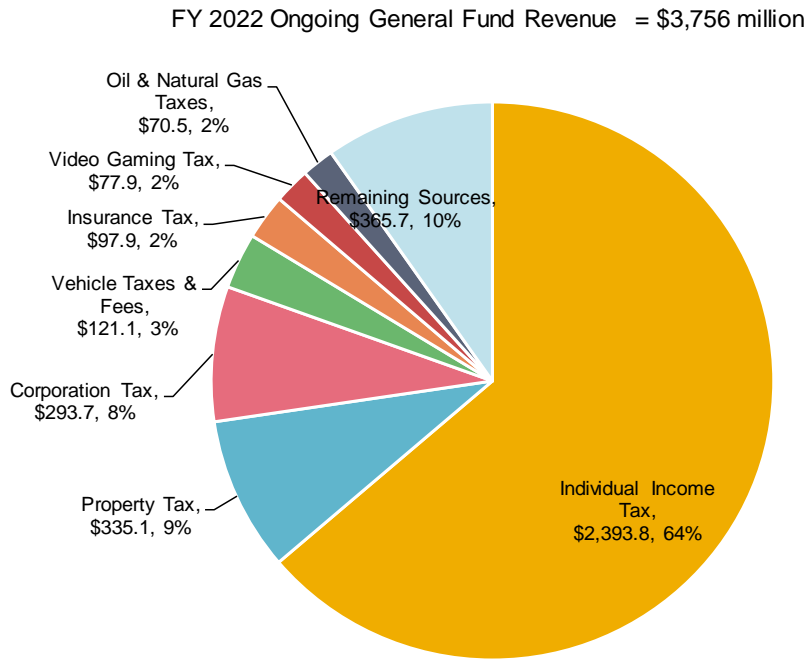
¹In FY 2022, All Other Revenue includes a transfer of \$115 million from the BSRF back to the General Fund. In FY 2023 this transfer is \$260.8 million.

The three-year difference between the LFD and the Governor's Office of Budget and Program Planning (OBPP) is currently \$101.7 million or 0.9%.

2025 BIENNIUM REVENUE ESTIMATE RECOMMENDATIONS

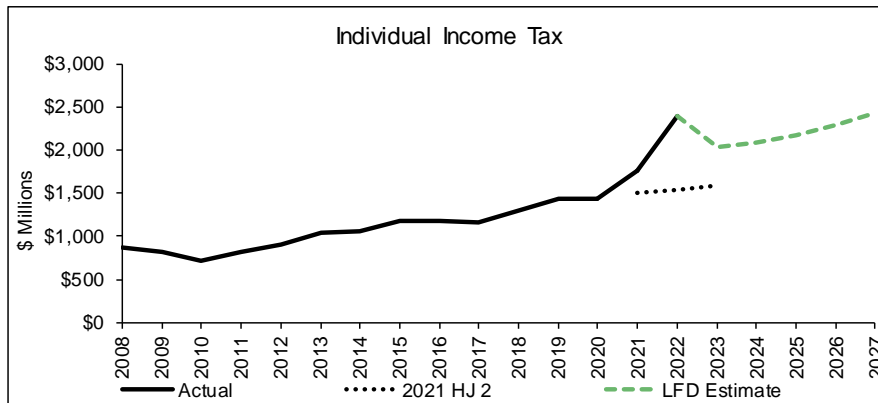
Large Revenue Sources

In FY 2022, the largest seven revenue sources accounted for 87.1% of total ongoing general fund revenue. Due to the relative importance of these sources, particular attention is given to important underlying economic indicators for each source.



Individual Income Tax

Individual income tax experienced very strong growth over the past two years, a product of inflation, federal stimulus funds, and increases in new migration compared to prior years. For reasons that are later explained, individual income tax collections are expected to decline in FY 2023, before returning to growth levels more in line with historical trends throughout the forecast period.



An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all full year residents (FYR). The model is updated each year by the Department of Revenue (DOR) to incorporate the changes in federal and state tax law.

The calendar year state tax liability forecast is developed by applying modeled growth rates to each FYR taxpayer's income and deduction items. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which produces a statewide forecast of FYR individual income tax liability for each year. The table below shows the actual income contained on FYR 2021 tax returns and forecast growth rates through the forecast period.

| CY 2021 Income Levels & Estimate Growth Rates | | | | | | | |
|---|-------------------|--------------|-------------|-------------|-------------|-------------|--------------|
| | 2021 | 2021 | 2022 | 2023 | 2024 | 2025 | 10-Year Avg. |
| Wage Income | \$21,415.9 | 7.4% | 10.3% | 5.3% | 4.0% | 4.0% | 4.4% |
| Interest Income | 306.7 | -20.9% | -0.1% | 7.4% | 10.9% | 3.4% | -1.2% |
| Dividend Income | 1,093.0 | 5.0% | 28.5% | 9.6% | 0.0% | 1.9% | 9.6% |
| Net Business | 1,176.0 | 28.7% | 6.2% | -1.0% | -1.8% | -0.2% | 5.7% |
| Cap. Gains | 6,226.9 | 85.6% | -25.0% | -4.8% | 5.0% | 11.2% | 23.4% |
| Sup. Gains | 150.1 | 17.0% | -16.8% | 0.0% | 0.0% | 0.0% | 23.0% |
| Rents & Royalties | 4,228.4 | 12.9% | 5.3% | -2.4% | 2.5% | 3.1% | 7.7% |
| IRA Income | 1,354.4 | 26.9% | -10.0% | 1.8% | 4.6% | 4.3% | 8.8% |
| Taxable Pensions | 2,808.8 | 3.4% | 9.2% | 5.9% | 4.2% | 4.3% | 4.8% |
| Taxable Soc. Sec. | 1,495.5 | 9.0% | 7.6% | 9.0% | 5.1% | 4.6% | 8.7% |
| Farm Income | (322.8) | 26.6% | 0.0% | 0.0% | 0.0% | 0.0% | 12.2% |
| Other Income | (296.0) | | 0.0% | 0.0% | 0.0% | 0.0% | 3.5% |
| Total | \$39,636.9 | 16.7% | 3.1% | 3.5% | 3.8% | 4.6% | 5.6% |

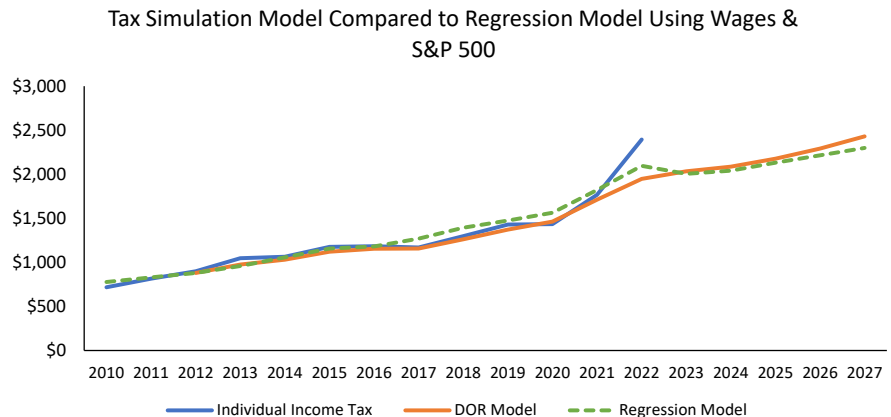
The statewide forecast of resident liability is adjusted for the growth in resident taxpayers and multiplied by an all-filers percentage to include the tax liability for nonresidents and partial-year residents. This results in a forecast of total calendar year individual income tax liability before credits.

Fiscal year collections before audit, penalty, and interest income are modeled on total calendar year liability before credits, with forecast fiscal year collections then augmented by expected future audit, penalty and interest collections to produce the total individual income tax revenue estimate.

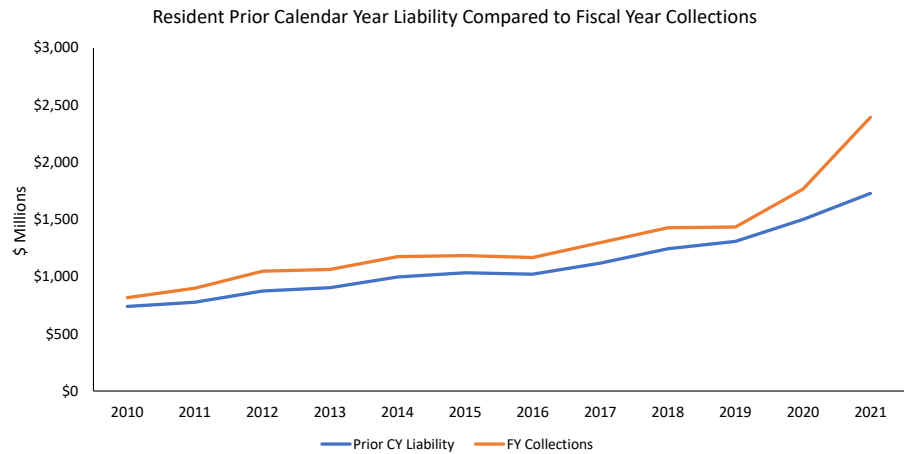
Reasons for Forecasted Decline in Individual Income Tax

Individual income tax collections are forecast to decline by 15.0% in FY 2023, then grow by 2.6% and 4.4% respectively in FY 2024 and FY 2025. The decline is driven by forecasted declines in capital gains and IRA income, and the assumption that a portion of collections in FY 2022 were not a product of ongoing economic activity.

In addition to the DOR forecasting model, another simpler model was used to forecast the next two biennia. This is a model that uses Montana wage disbursements and the S&P 500 to forecast fiscal year collections. As can be seen historically, both this model and the DOR model tend to accurately predict final fiscal year collections, but both significantly underestimated FY 2022 collections, indicating that there was unusual taxpayer behavior. Moving forward both models are consistent in their predictions.



In CY 2021, the full-year-resident statewide tax liability was \$1,728.9 million. In FY 2022 the state collected \$2,393.8 million. While fiscal year collections typically surpass the calendar year liability, last year was quite significantly greater than normal, as seen in the graph to the right. CY liabilities typically represent 87% of FY collections though last year it was only 72.2%.



The recent figures suggest there was upwards of \$400 million in collections that is not explained by either of the forecast models or the CY 2021 known tax liability. There are a few possible reasons that could explain this inconsistency.

- It is possible that individuals made significant capital gains realizations in early CY 2022 and have already paid taxes on that income as opposed to paying them in April 2023 when they are due.
- Taxpayer may have opted to move their refunds from April of 2022 to future years.
- Taxpayers may be making safe harbor payments on their estimated payments; in which case they are paying based upon their known liability from the prior year.

These assumptions could result in higher refunds and lower payments in this upcoming spring tax season.

Property Tax

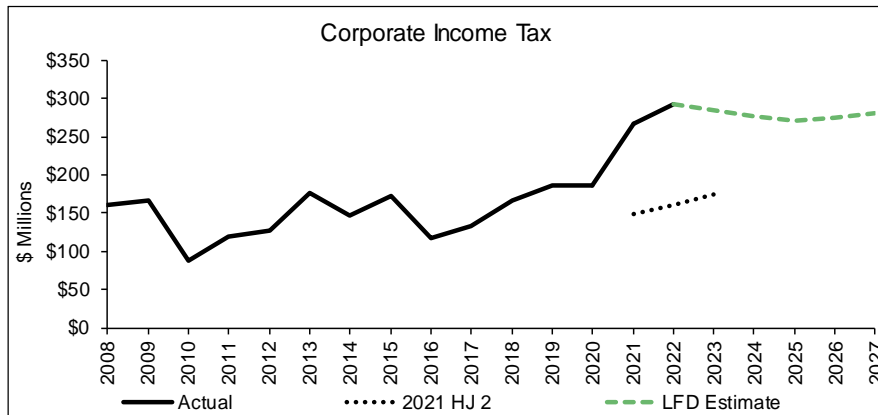
Property taxes collections were nearly identical to HJ 2 in FY 2021 and slightly above the estimate in FY 2022. Actual collections influence the updated forecast for FY 2023 but have less of an impact than the additional data for the two-year reappraisal impacts on class 4 residential and commercial property. The updated forecast for FY 2023 remains very close to the HJ 2 estimate.

The forecast for FY 2024 grows substantially, due to high reappraisal growth estimates from DOR for class 4 residential property at 43.8% and commercial property at 16.1%. Coal gross proceeds are also expected to experience strong growth in FY 2024. The growth in revenue from the increase in class 4 property and coal gross proceeds is expected to level off for the remainder of the forecast period beginning in FY 2025. The estimate for FY 2025 includes relatively small, but significant declines in federal forest receipts. These declines are due to the expiration of the federal authorization for the Secure Rural Schools program at the end of 2024.



Corporate Income Tax

Corporate income tax collections exceeded the amounts in HJ 2 over the past two years and was driven by extremely strong estimated payments, as refunds and audits mostly offset each other. Moving forward, this source is expected to decrease modestly throughout the upcoming biennium, but still exceed pre-pandemic collection levels.



The LFD estimate recommendation for corporate income tax is produced using the LFD sector-based included per the research detailed in the LFD’s [Standard Error Analysis](#). In addition, audit, penalty & interest revenue as well as refunds are anticipated to reflect historical levels. The sector-based approached uses the CY 2020 liability as the base year in the modeling process.

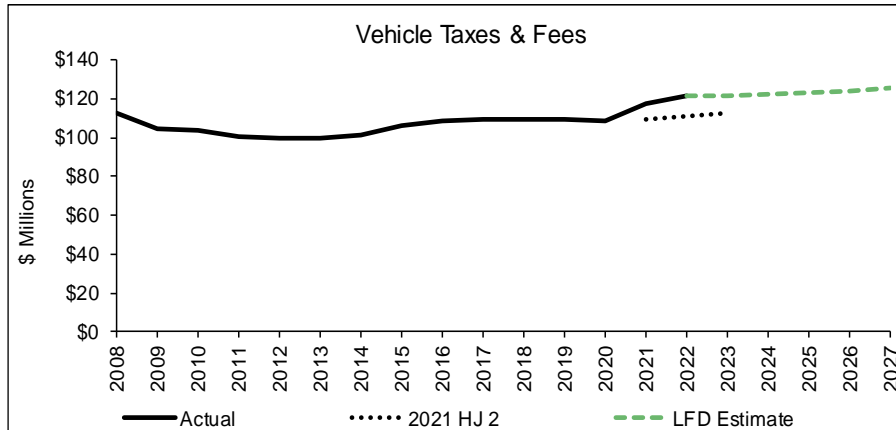
The CY 2020 tax liability by sector is shown in the adjacent table. This is the most readily available detailed tax liability data and is used as the base year of the current forecast. Calendar year data is forecast by industry sector then converted to a fiscal year estimate using historical trends. As the table shows, the actual CY 2020 liability was 60.0% higher than the estimated liability contained in HJ 2. The growth above the estimate was driven by all sectors excluding mining.

| CY 2020 Tax Liability (\$ Millions) | | | | |
|--|----------------|----------------|---------------|--------------|
| Sector | Actual | HJ 2 | \$ Diff | % Diff |
| Agriculture | \$6.2 | \$4.2 | \$2.0 | 47.1% |
| Mining | 0.6 | 3.0 | (2.3) | -79.1% |
| Utilities | 2.8 | 1.2 | 1.6 | 134.3% |
| Construction | 4.9 | 2.9 | 2.0 | 71.0% |
| Manufacturing | 31.0 | 17.0 | 14.0 | 82.6% |
| Wholesale & Retail Trade | 40.7 | 26.4 | 14.3 | 54.2% |
| Transportation | 29.2 | 16.0 | 13.1 | 81.9% |
| Information | 11.7 | 9.2 | 2.5 | 27.0% |
| Professional | 35.9 | 15.9 | 19.9 | 125.1% |
| Large Banks & Holding Companies | 58.1 | 42.4 | 15.7 | 37.1% |
| Social | 5.0 | 4.0 | 1.0 | 25.5% |
| Other | 2.7 | 0.8 | 1.9 | 232.9% |
| Total | \$228.8 | \$143.0 | \$85.8 | 60.0% |

Moving forward, the manufacturing, trade, and transportation sectors are expected to experience small declines while the remaining sectors experience flat or slow growth.

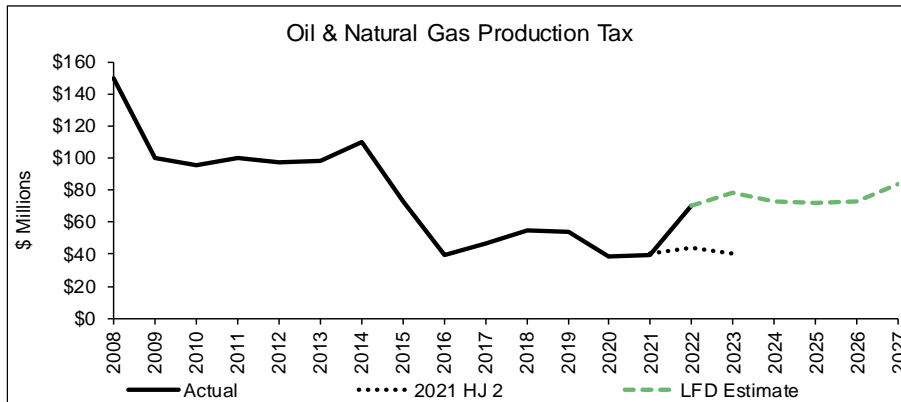
Vehicle Taxes & Fees

Vehicle taxes and fees collections were higher than expected in HJ 2 in FY 2022 by \$10.2 million, a 9.2% increase above HJ 2. Revenue from this source is forecast to experience slow growth through the 2025 biennium. The forecast for vehicle taxes and fees is based on calculated vehicle stock growth rates using IHS projections for total used vehicle stock in the US, IHS Montana specific projections for new vehicle sales, as well as IHS projections for Montana's population.

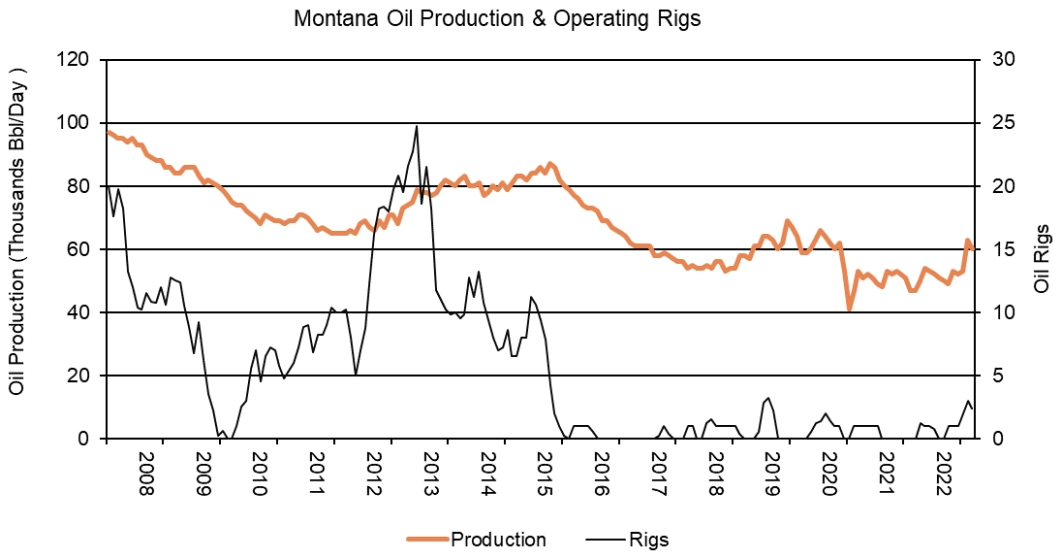


Oil & Natural Gas Production Tax

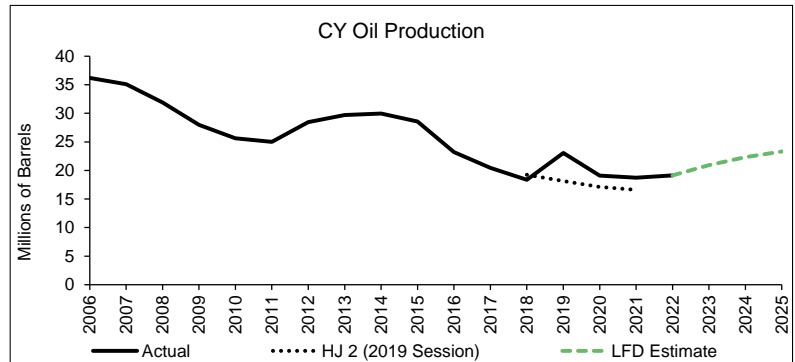
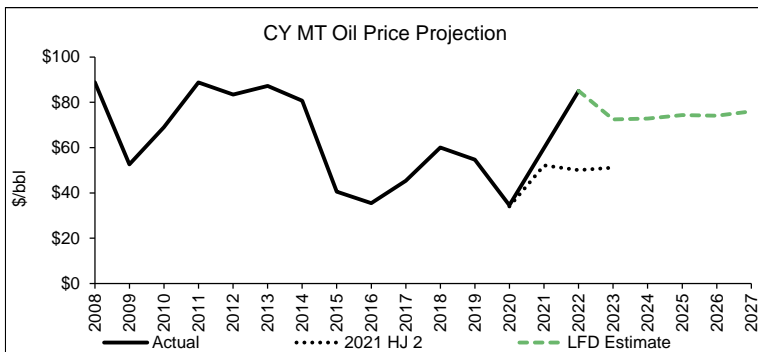
Oil and natural gas production tax collections were higher than projected in HJ 2 in FY 2022 by about \$26.5 million or 60.3%. The large difference between actual collections and the forecast is due to a large increase in oil prices compared to the assumption in HJ 2. The forecast for this source is based on the IHS projection of West Texas Intermediate oil prices and future oil production which is modeled by the LFD.



In recent years, as shown in the following chart below, the number of active drilling rigs in the state has remained lower than a decade ago. As a result, production has remained flat over the last and current biennia. In recent months however, there has been a slight uptick in the number of rigs operating in Montana as well as total production, though these increases can be temporary as the graph below suggests.

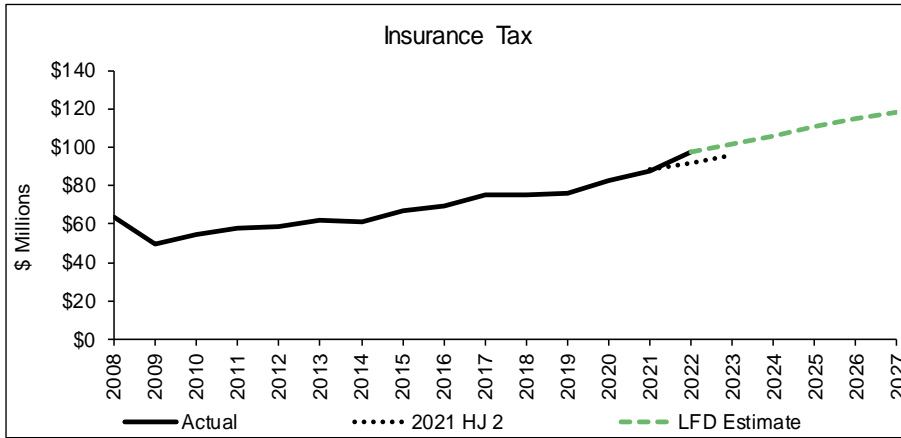


Overall, revenue for this source is expected to remain relatively flat throughout the upcoming biennium as slight increases in production offset small declines in the price.



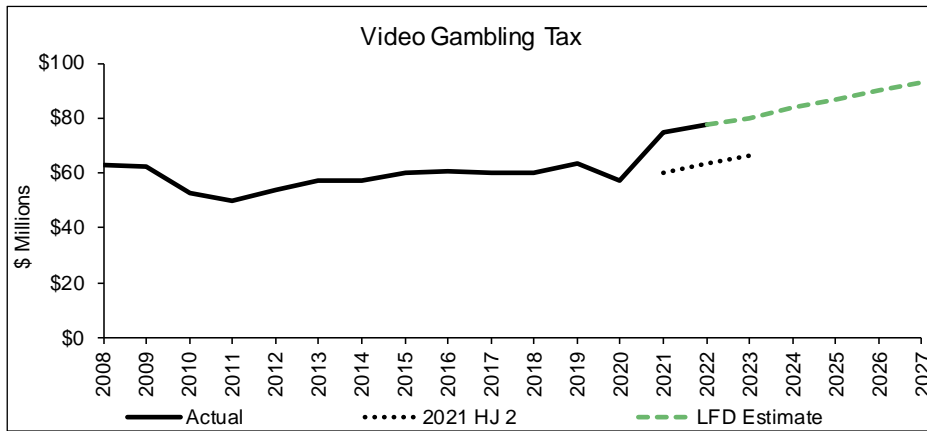
Insurance Tax

Insurance tax collections were 6.5% or \$5.9 million above the HJ 2 estimate for FY 2022, likely due to increased property values and population. This source is modeled based on the Montana personal consumption expenditure (PCE) series for finance and insurance from IHS Markit.



Video Gambling Tax

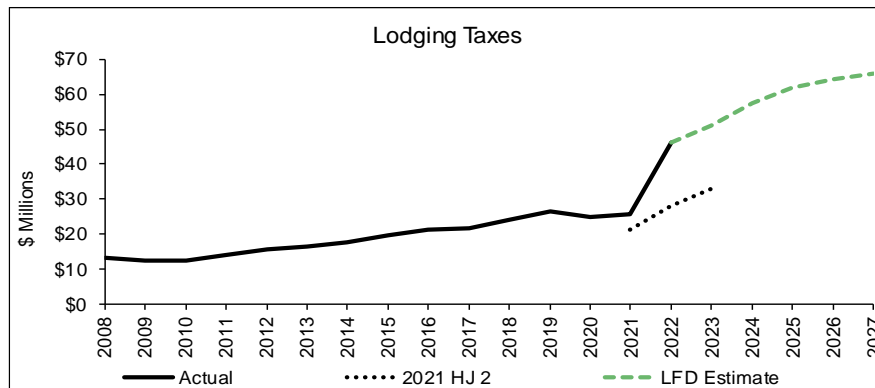
Combined video gambling revenue in FY 2022 was 23.0% or 14.5% above the HJ 2 estimate. Federal stimulus and increased population were likely factors in the strong growth of this source. Video gambling revenues are expected to fall back to traditional levels of growth from the new level they reached during the pandemic.



SOURCES CHANGING FROM LONG TERM TRENDS

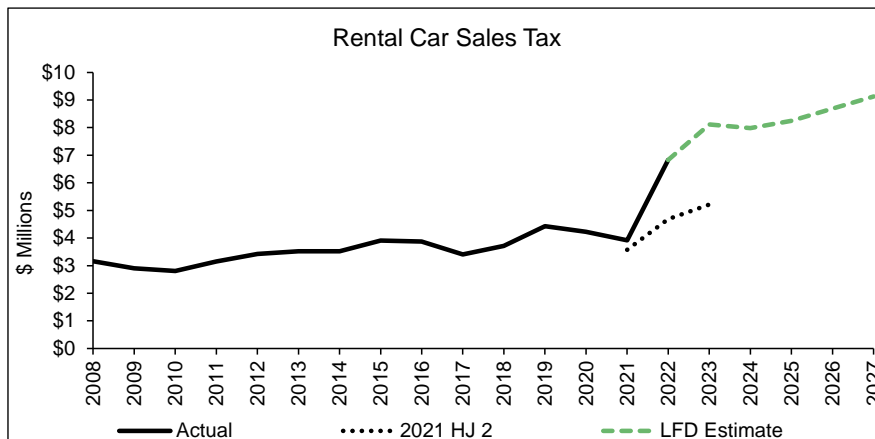
Lodging Facilities Sales Tax

Lodging facilities sales tax collections far exceeded the HJ 2 estimate in FY 2022, a result of increased travel to the state and increased lodging prices. This revenue source is forecasted using the IHS Markit projection of national consumer spending on accommodations. The strong rebound seen in the travel industry in Montana after the COVID-19 pandemic is expected to stay, though the growth experienced in the past two years is expected to slow.



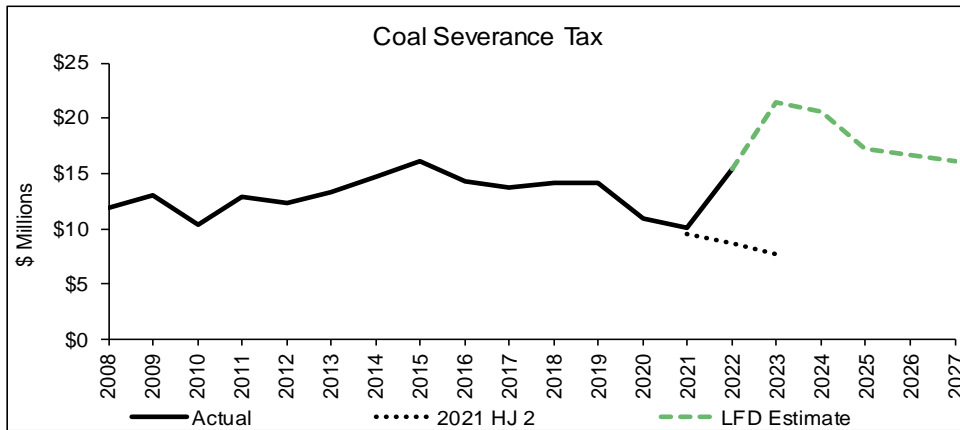
Rental Car Sales Tax

Rental car sales tax collections were above the HJ 2 estimate in both FY 2021 and FY 2022. Revenue is expected to continue to increase throughout the upcoming biennium but at a slower rate. Rental car sales tax forecasts are based on the IHS Markit projection of Montana personal consumption expenditure series for transportation.



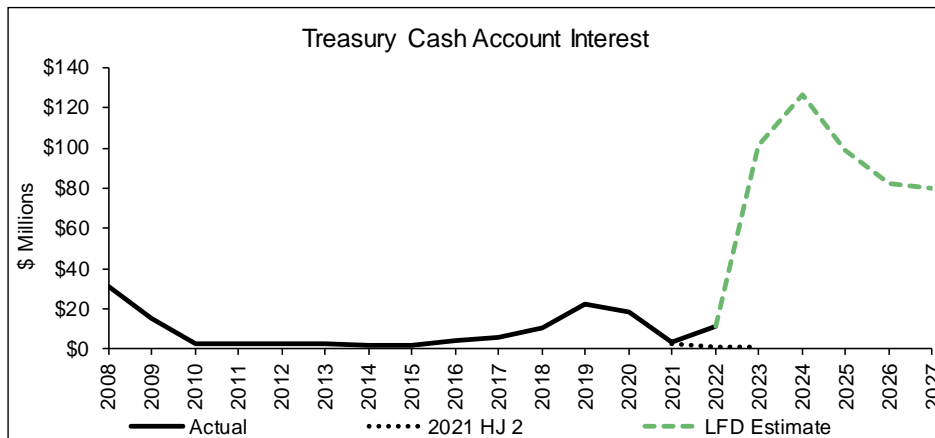
Coal Severance Tax

Coal severance tax collections were above the HJ 2 forecast in FY 2022. This was due to an increase in production of 11.8% as well as increases in the price of coal. Many mines are currently experiencing price increases of at least 25% compared to prior years, and those that sell coal internationally are experiencing even larger increases. These higher prices are expected to continue for much of the upcoming biennium before gradually declining in FY 2025 through FY 2027.



Treasury Cash Account Interest

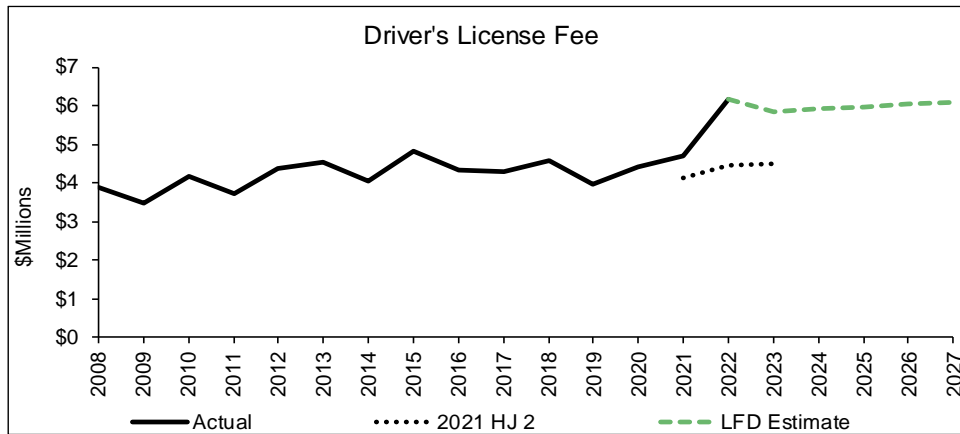
TCA interest earnings are estimated to increase substantially in FY 2023 and throughout the 2025 biennium. Due to strong revenue collections in the past two years the TCA cash balance has risen significantly, particularly in FY 2022, averaging around \$3.6 billion. Additionally, short term interest rates have increased over the last fiscal year, and that trend is expected to continue. Since TCA interest earnings are impacted considerably by both short-term interest rates and cash in the general fund ending fund balance **this source will be directly impacted by legislative action that spends down the general fund ending fund balance.** This source is forecast using IHS Markit estimations of short-term investment rates, and estimated TCA cash balances.



OTHER BUSINESS TAXES

Driver's License Fee

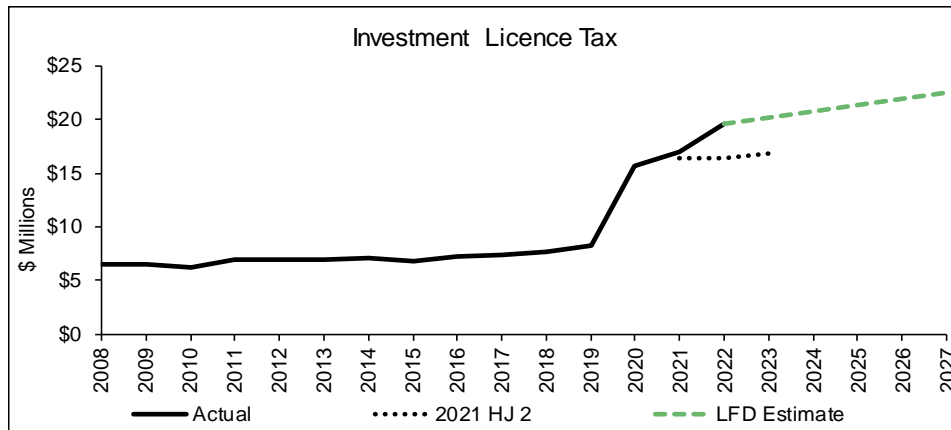
Total driver's license revenue was above HJ 2 in FY 2021 and again exceeded HJ 2 in FY 2022. A small decrease in revenue is expected in FY 2023, with relatively little growth through the next biennium as this source stabilizes.



Ratios of recent revenue collections to the license-eligible MT population projection from IHS Markit are applied accordingly to forecast years to produce this estimate.

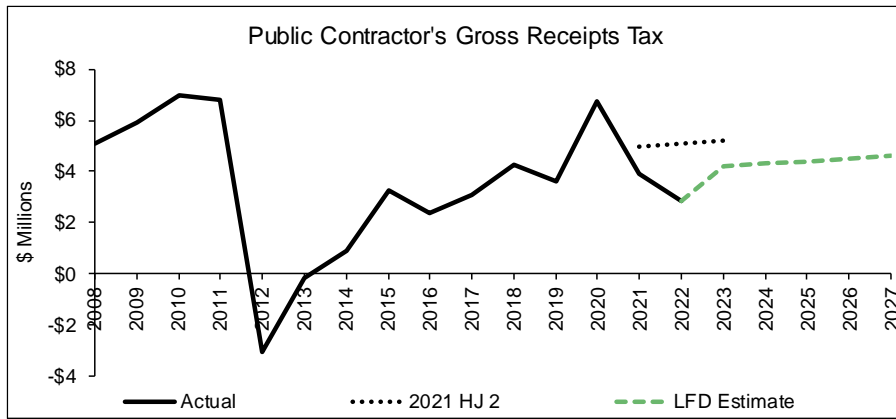
Investment License Fee

Investment license fee collections came in very close to the HJ 2 estimate in FY 2021 and exceeded them in FY 2022. This source is modeled on the IHS Markit personal consumption expenditure series for finance & insurance and a forecast of investment firm licenses based on historical license data from the State Auditor's Office, with modeled growth rates applied to the last known collections. This source is expected to see slow growth through the biennium.



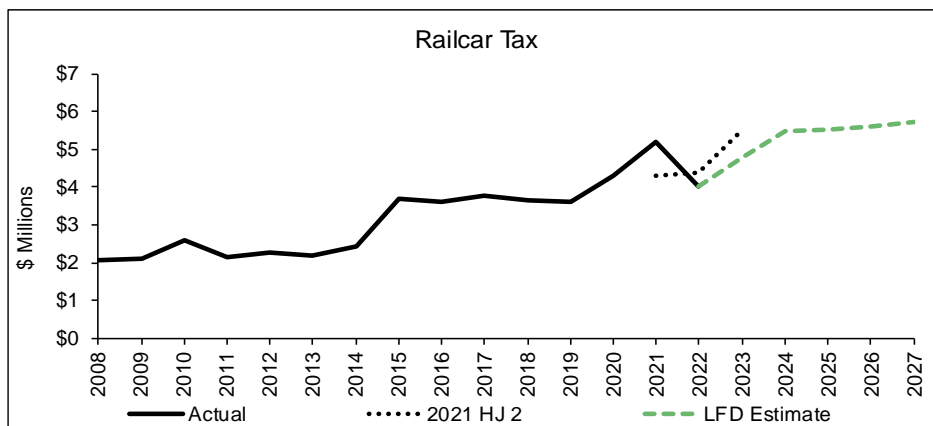
Public Contractor's Tax

Public contractors' gross receipts tax collections were below HJ 2 estimates in FY 2021 and FY 2022. This is highly volatile source that is difficult to forecast. The HJ 2 forecast is based on a time trend of highway spending and an average level of all other construction. This source is expected to see slow growth over the biennium.



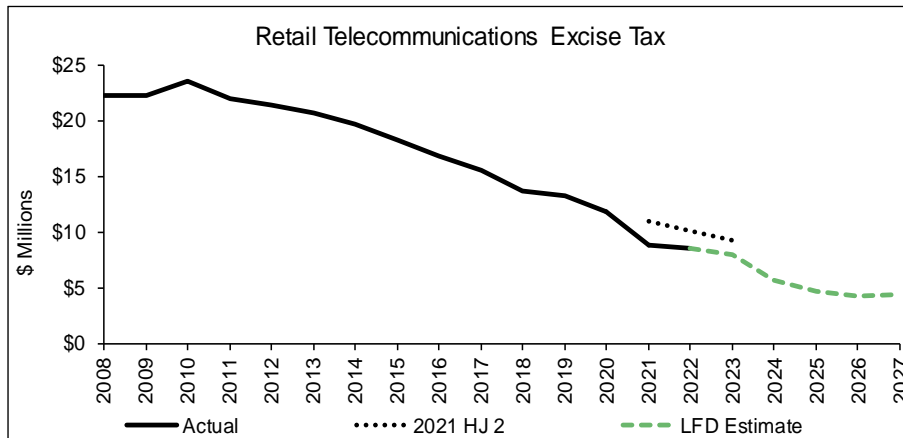
Railroad Car Tax

Railroad car tax revenue was above the HJ 2 forecast in FY 2021 and slightly below it in FY 2022. Given known tax assessment data for FY 2022, it is expected that FY 2023 collections will come in below the HJ 2 estimate, after which railcar tax is expected to continue growing into FY 2024 before leveling off in FY 2025.



Retail Telecommunications Excise Tax

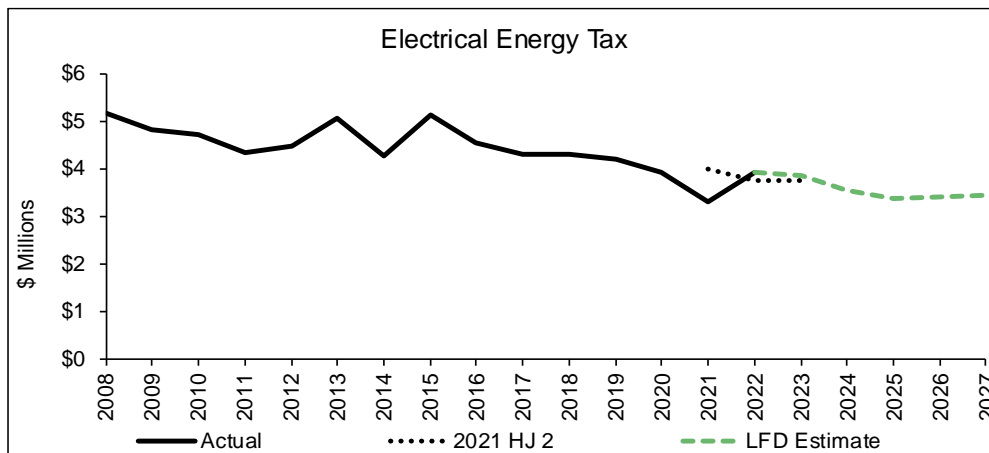
Retail telecommunications excise tax collections were close to, but below the estimate contained in HJ 2 in FY 2021 and FY 2022. The estimate was based on U.S. Census Bureau data for landline and cell phone use, other sources of cell phone statistics, and the IHS forecast of Montana population. Modeling for the LFD estimate assumes a continuing decline in the use of landlines, which leads to a downward trend in revenue collections through the next biennium.



OTHER NATURAL RESOURCE TAXES

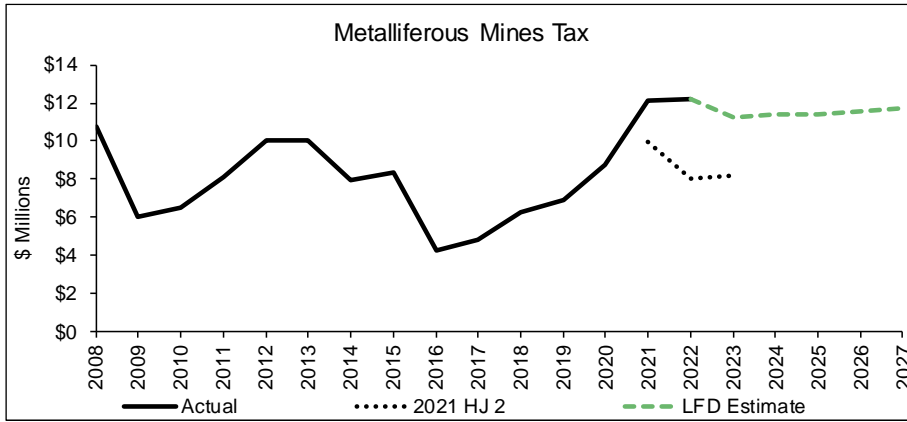
Electrical Energy Tax

Electrical energy tax collections were below the HJ 2 estimate in FY 2021 and close to the estimate in FY 2022. This source is modeled using historic data of kilowatt hours produced, so the forecast moving forward simply follows the long-term trend.



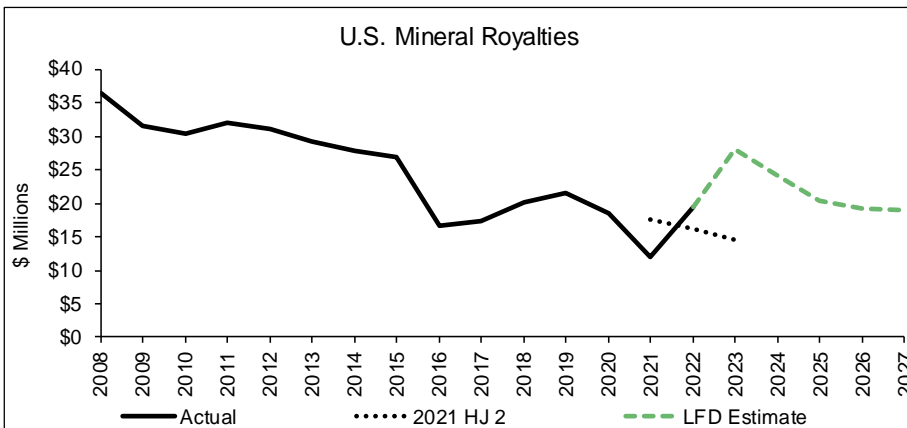
Metalliferous Mines Tax

Metal mines tax collections were above the HJ 2 estimate in both FY 2021 and 2022. The increase is primarily attributable to higher metal prices. The LFD estimate includes revised prices based on a five-year moving averages, as well as including speculative prices from select sources.



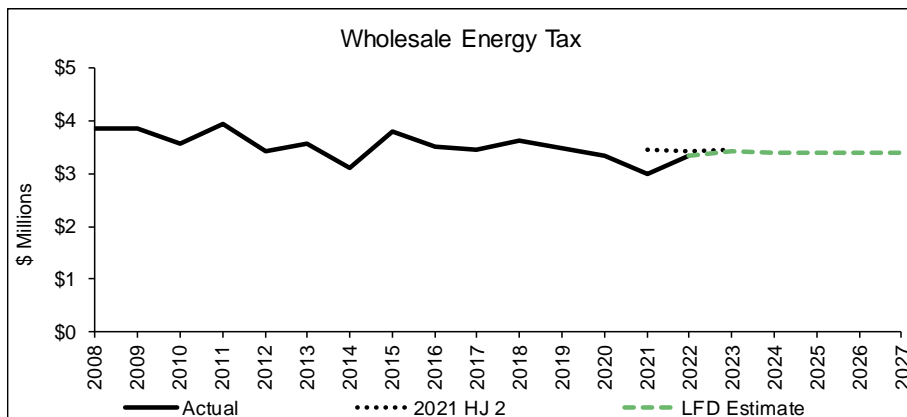
U.S. Mineral Royalties

U.S. mineral royalties were below the HJ 2 estimate in FY 2021 and above than the estimate in FY 2022. The change in collections is primarily due to volatile energy prices and production through the biennium. Royalty collections are expected to rise in FY 2023 due to increasing coal, oil, and natural gas prices in FY 2023 before decreasing under the assumption that coal prices will decline.



Wholesale Energy Transaction Tax

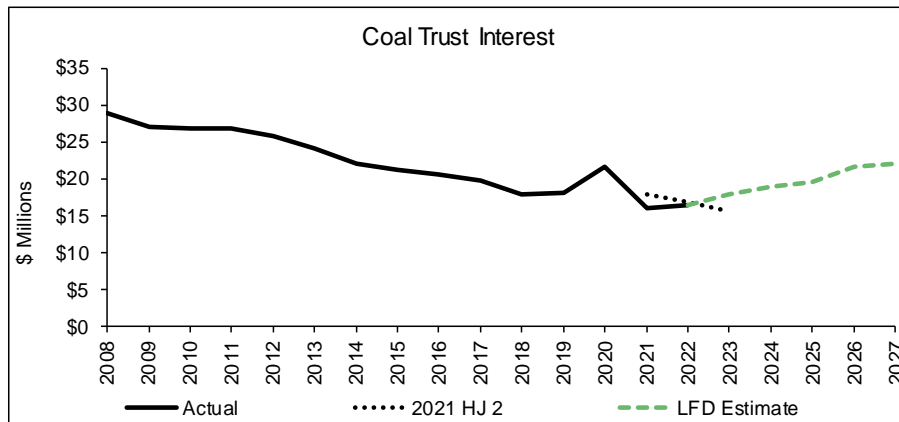
Wholesale energy transaction tax, imposed on transmission services providers, was slightly below the HJ 2 estimate in FY 2021 and very close to the estimate in FY 2022. This source is estimated in HJ 2 based on historical trends of energy transmission.



Other Interest Earnings

Coal Trust Interest Earnings

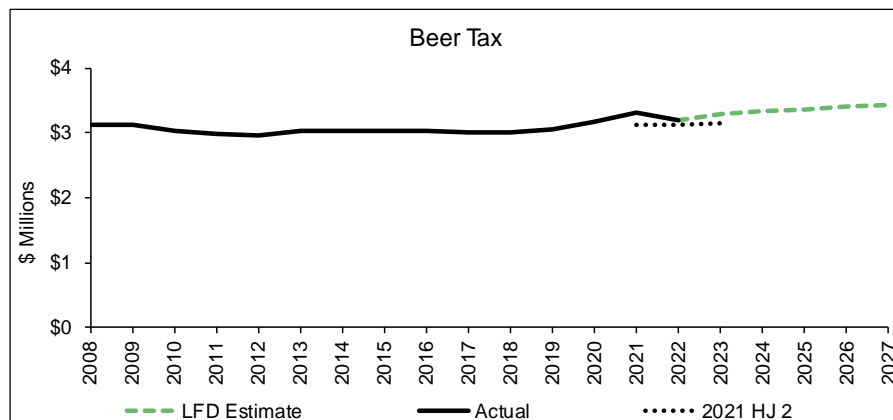
Coal trust earnings were below the estimate contained in HJ 2 by in FY 2022 by 1.5%. Revenue from this source is estimated using projected trust balance amounts and forecast interest rates based on suggestions from the Board of Investments (BOI). Return rates in the Trust Funds Bond Pool (TFBP) are expected to increase in the upcoming biennium. These increased interest rates are responsible for the increase in interest earnings in the forecast period.



Other Consumption Taxes

Beer Tax

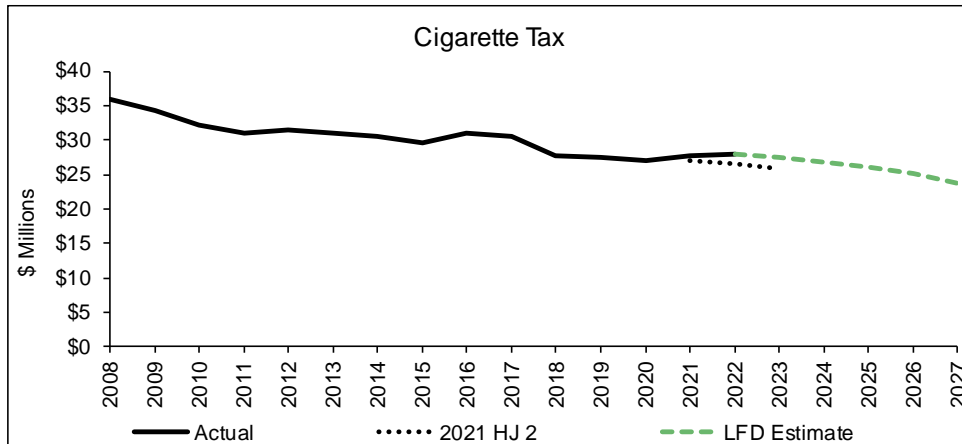
Beer tax revenue came in \$0.1 million or 2.2% above the HJ 2 estimate for FY 2022. The HJ 2 estimate was based on two Montana-specific indicators from IHS: the personal consumption expenditure series for food and population over age 21.



This model also forecasts an effective tax rate based on growth trends for the various distributor sizes, which is applied to the total forecast consumption. The tax rate for distributors moving less than 5000 barrels per year is \$1.30 per barrel, and for those distributing between 5,001 and 10,000 the rate is \$2.30, much less than the nominal \$4.30 for larger distributors. There has been a small but steady decline in effective tax rate over the last 20 years as the market share of small brewers increases. In FY 2020 there was a small bump in effective tax rate likely due in part to a decrease in the market share of small producers during COVID-19 phase I restrictions.

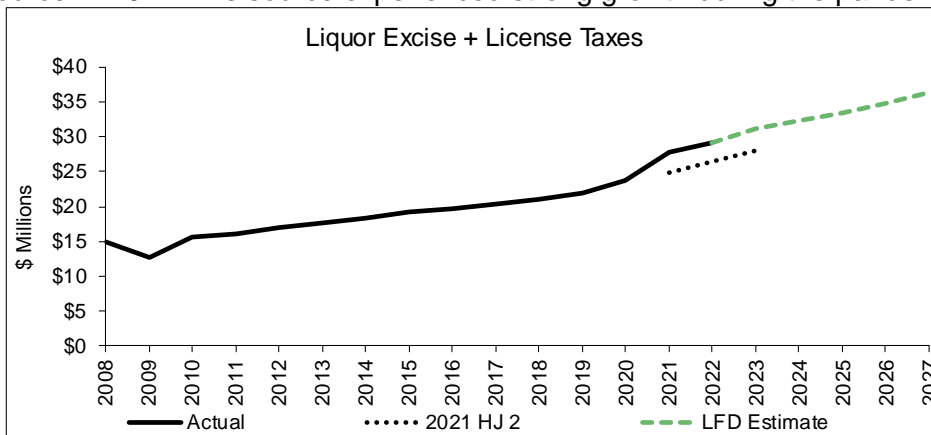
Cigarette Tax

Cigarette tax collections were \$1.5 million or 5.5% greater than the HJ 2 revenue estimate for FY 2022. The HJ 2 forecast for this source was based on the IHS Markit series for consumer price index for tobacco, consumer spending on tobacco products, and Montana population over age 18. Smoking rates increased during the pandemic, a reversal of long-term trends, but this source is expected to follow its long-term trends of a slow but steady decline.



Liquor Excise & License Tax

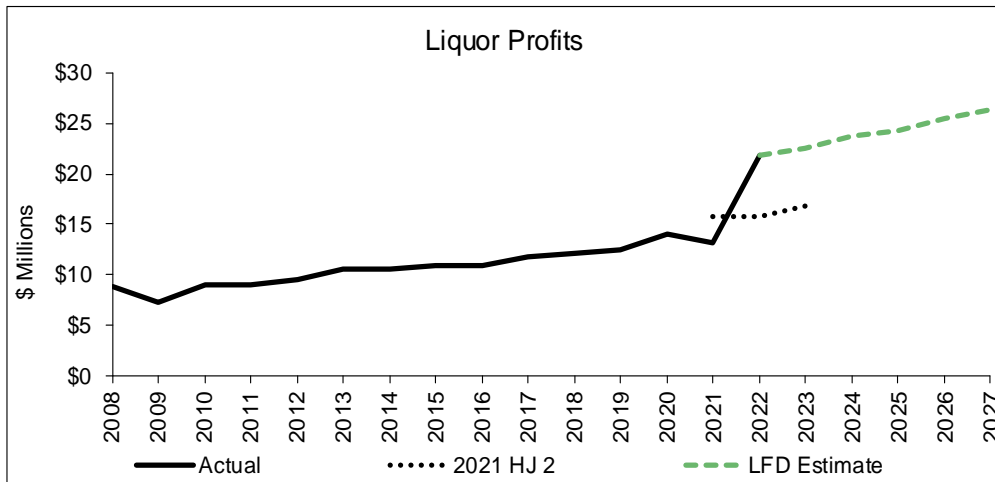
Liquor excise tax revenue came in \$2.7 million or 10.1% above the official HJ 2 projection for FY 2022. The IHS Markit forecast of Montana personal consumption expenditure series for food was used as an input for this source in HJ 2. This source experienced strong growth during the pandemic.



Liquor Profits

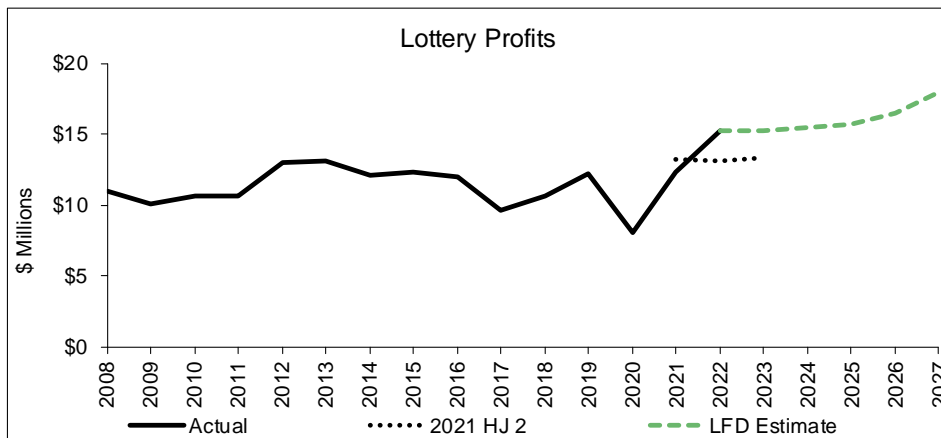
Liquor profits were \$1.6 million or 10.1% below the HJ 2 estimate in FY 2022. Following a sharp rise in demand during the lockdown during the latter half of FY 2020, the market contracted a bit more than expected.

In the upcoming biennium liquor profits will include the account that receives revenue from the liquor license auction. The liquor license auction enacted in [SB 5 \(2017 November Special Session\)](#). Upon implementation of the program revenue was recorded within an account that has been historically part of “all other revenue”. In accordance with the original fiscal note and Volume 2, profits from competitive bids for liquor licensing will be recorded as part of this source going forward. Competitive bid revenue is approximately \$3.0 million per year.



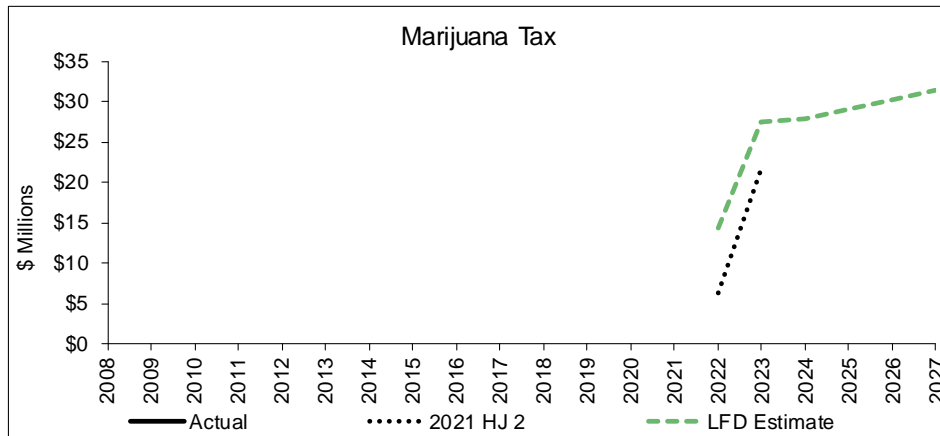
Lottery Profits

Lottery profits were \$2.1 million or 16.2% above HJ 2 in FY 2022. When HJ 2 was estimated for the 2023 biennium there was very little data from the new sports wagering ([HB 725](#), 2019 Session) income which had operated for only 6 months during the height of COVID-19 restrictions. Due to this uncertainty the forecast for sports wagering revenue was underestimated.



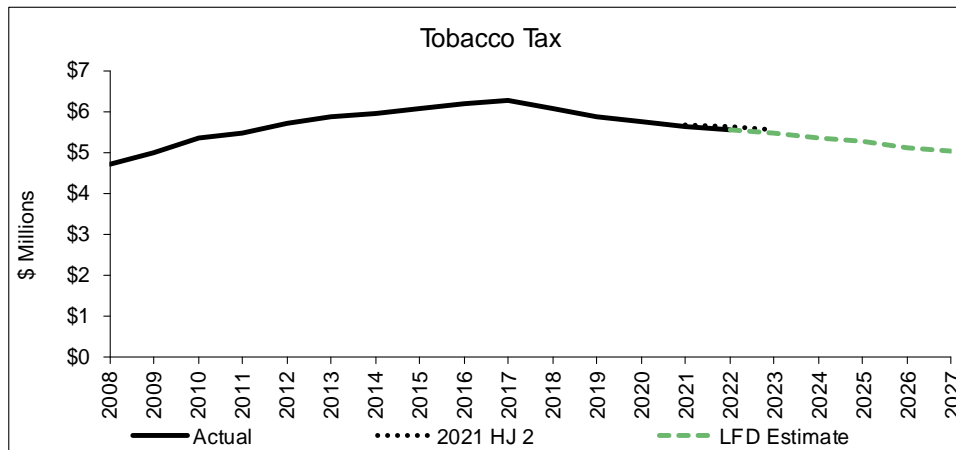
Marijuana Tax

Marijuana tax collections in FY 2022 were higher than estimated in HJ 2. This was due to higher-than-expected adult use collections. Medical tax collections slightly fell before adult use was legalized in FY 2022. Adult use, medical, and license fee future collections are estimated using Montana population growth and CPI projections from IHS Markit. All marijuana sources are expected to continue to grow steadily through the biennium. The large jump in FY 2023 is due to adult use only being legalized halfway through FY 2022.



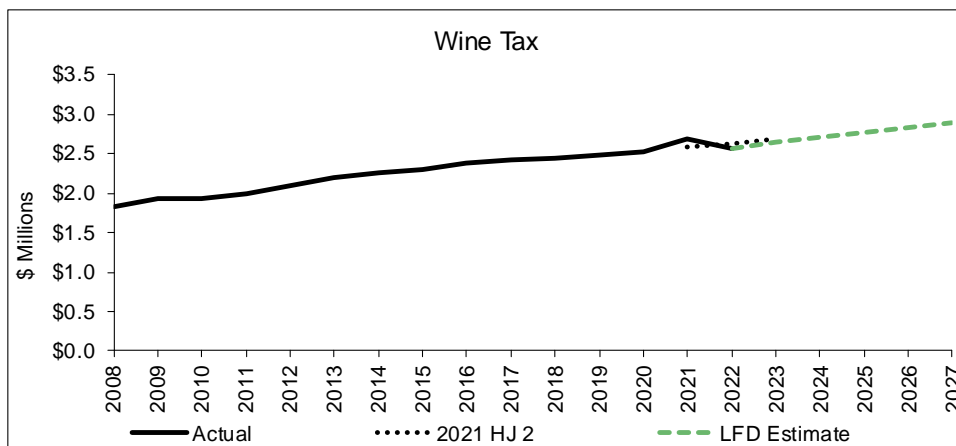
Tobacco Tax

Tobacco tax revenues finalized within 1% of the HJ 2 estimate for FY 2022. The HJ 2 estimate was based on IHS forecasts of Montana personal consumption expenditures and population over age 18.



Wine Tax

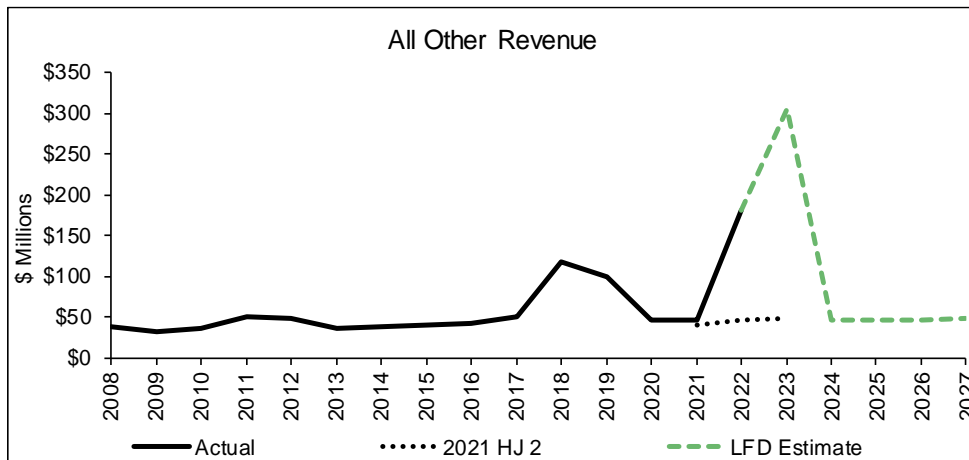
Wine tax revenues were close to the estimate contained in HJ 2 in the past two years. This source is based on the IHS forecast of Montana population over age 21; modeling for this source has not changed but incorporates the most recent collections.



Other Sources

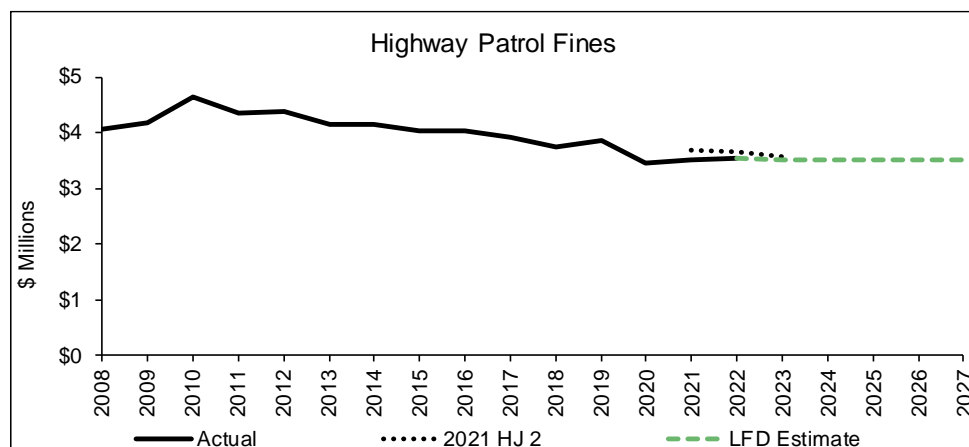
All Other Revenue

All other revenue collections were close to the HJ estimate in FY 2021, however in FY 2022 there was a transfer from the Budget Stabilization Reserve Fund of about \$115 million back to the general fund, which ultimately was categorized as All Other Revenue. In FY 2023 there has already been a similar transfer from the BSRF of \$260.2 million, causing the large spike in FY 2023. Apart from these non-forecasted transfers, this source is expected to remain relatively flat through the next biennium.



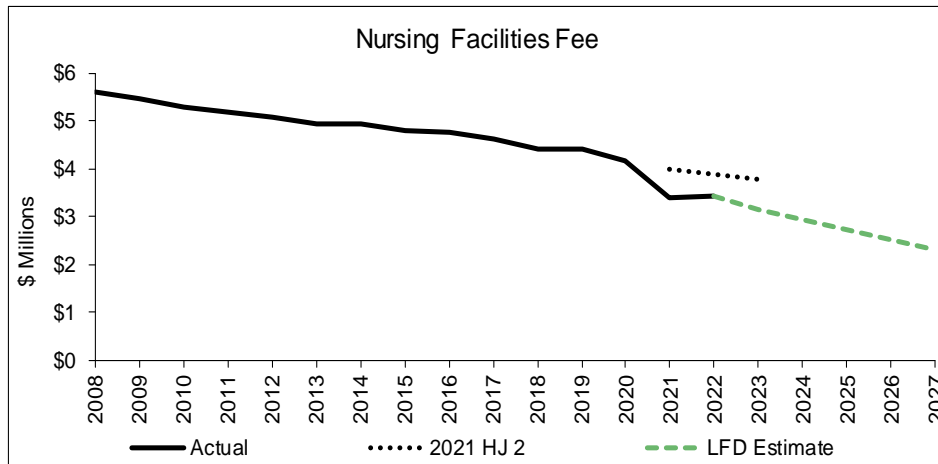
Highway Patrol Fines

Highway patrol fines were close to the official HJ 2 estimate in FY 2021 and in FY 2022. This source is expected to remain flat in the upcoming biennium.



Nursing Facilities Fee

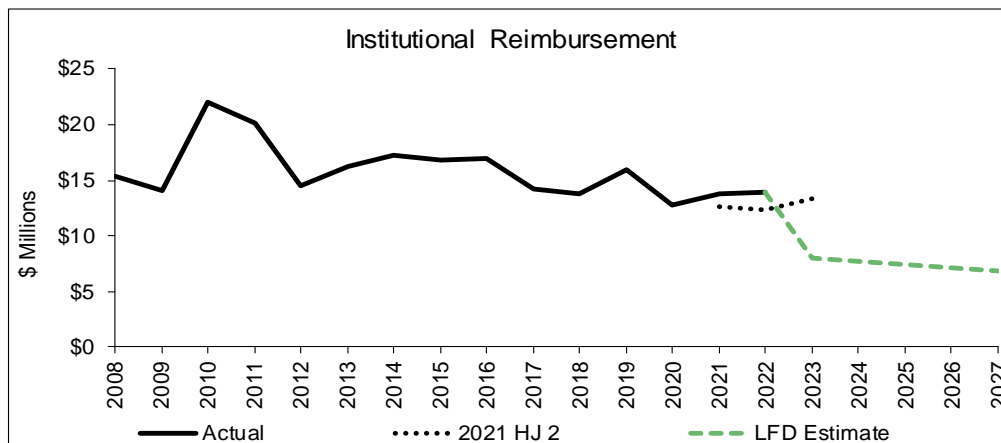
Nursing facilities fees were \$0.4 million or 11.5% below the HJ 2 estimate. This source has declined most years since its inception and is forecast primarily based on a time series of proxy bed days. In FY 2021 this source declined 19.5%, like a result of the pandemic. Nursing facilities fees recovered slightly in FY 2022 and are expected to decrease gradually over time.



Public Institution Reimbursements

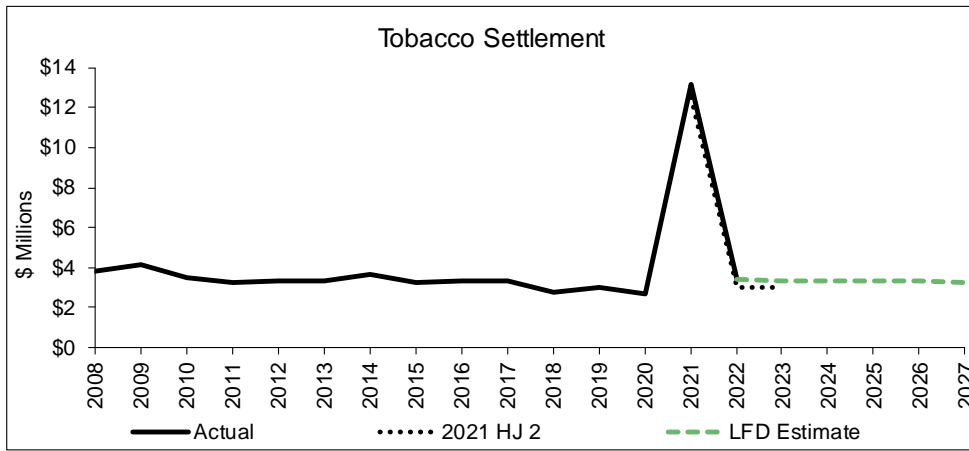
Public institution reimbursements were \$1.6 million or 12.5% above the HJ 2 estimate. This source has a history of fluctuating collections primarily due to timing of federal payments. Modeling for this source relies primarily on a time trend of nursing facility residents.

In Spring of 2022 the Montana State Hospital (MSH) lost its Medicaid certification and cannot receive federal reimbursement until it is recertified. The Department of Public Health and Human Services has a 2-year recertification plan. However, it could be recertified no sooner than halfway through FY 2025. This will cause a decline to this source. Medicare and Medicaid reimbursement make up 70.0-90.0% of MSH revenue. In the past 3 years the MSH has averaged around \$7.0 million in general fund reimbursement. This certification issue only affects MSH. All other state-owned facilities are still eligible for reimbursement.



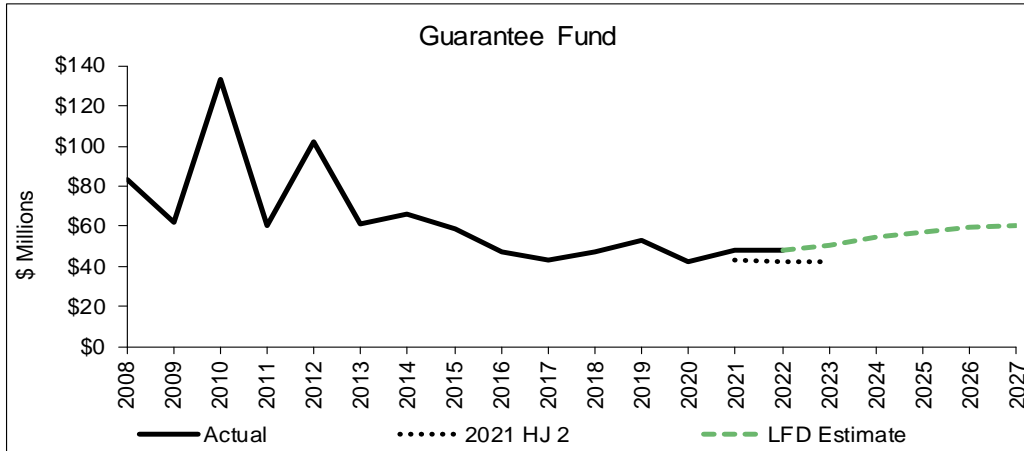
Tobacco Settlement

Tobacco settlement revenue were \$0.4 million or 13.2% above the HJ 2 estimate in FY 2022. In FY 2021 the State of Montana prevailed to have all disputed funds released in a large settlement. Formerly approximately \$3.0 to \$4.0 million was withheld as “disputed payments.” The state ultimately received all disputed payments, additionally the companies can no longer withhold payments in the same manner. The general fund receives 11% of settlement proceeds.



2025 BIENNIUM GUARANTEE FUND REVENUE ESTIMATE






































The guarantee fund is a state special revenue fund dedicated as the first source of school funding. Since the available funds from the guarantee fund directly offset general fund spending, the LFD revenue estimate recommendation is included for informational purposes. The guarantee fund primarily receives revenue generated from common school state land and the subsequent interest on the common school trust account. Guarantee account revenues are anticipated to increase throughout the forecasted period, as interest rates on the common school trust are expected to increase.



APPENDIX

GENERAL FUND REVENUE COLLECTIONS THROUGH OCTOBER

General Fund Revenue Monitoring Report (\$ Millions)

| Revenue Source | Actual FY 2022 | HJ 2 FY 2023 | HJ 2 Est. % Change | Oct FY 2022 | Oct FY 2023 | YTD Difference | YTD % Change | YTD % Change |
|-------------------------------------|--------------------|--------------------|-----------------------|------------------|--------------------|-------------------|-----------------|---|
| Largest Seven Sources | | | | | | | | |
| Individual Income Tax | \$2,393.807 | \$1,588.388 | -33.6% | \$731.969 | \$850.492 | \$118.522 | 16.2% |  |
| Property Tax | 335.114 | 337.618 | 0.7% | 7.574 | 7.138 | (0.437) | -5.8% |  |
| Corporate Income Tax | 293.683 | 174.024 | -40.7% | 94.004 | 91.282 | (2.722) | -2.9% |  |
| Vehicle Taxes & Fees | 121.138 | 112.228 | -7.4% | 30.751 | 29.904 | (0.847) | -2.8% |  |
| Oil & Natural Gas Taxes | 70.510 | 40.477 | -42.6% | - | - | - | - |  |
| Insurance Tax | 97.940 | 95.723 | -2.3% | 16.772 | 18.269 | 1.497 | 8.9% |  |
| Video Gaming Tax | 77.881 | 66.503 | -14.6% | 19.999 | 20.116 | 0.118 | 0.6% |  |
| Other Business Taxes | | | | | | | | |
| Drivers License Fee | 6.171 | 4.497 | -27.1% | 1.670 | 1.403 | (0.267) | -16.0% |  |
| Investment Licenses | 19.535 | 16.813 | -13.9% | 1.766 | 1.847 | 0.081 | 4.6% |  |
| Lodging Facilities Sales Tax | 46.175 | 32.941 | -28.7% | 7.626 | 9.992 | 2.366 | 31.0% |  |
| Public Contractor's Tax | 2.840 | 5.181 | 82.4% | 0.165 | 2.104 | 1.939 | 1171.6% |  |
| Railroad Car Tax | 4.020 | 5.509 | 37.1% | 0.670 | 0.015 | (0.655) | -97.8% |  |
| Rental Car Sales Tax | 6.823 | 5.212 | -23.6% | 1.656 | 2.010 | 0.354 | 21.4% |  |
| Retail Telecom Excise Tax | 8.571 | 9.287 | 8.4% | 0.918 | 1.402 | 0.484 | 52.7% |  |
| Other Natural Resource Taxes | | | | | | | | |
| Coal Severance Tax | 15.359 | 7.689 | -49.9% | 0.076 | 5.514 | 5.437 | 7118.9% |  |
| Electrical Energy Tax | 3.930 | 3.741 | -4.8% | 0.416 | 0.870 | 0.454 | 109.3% |  |
| Metal Mines Tax | 12.210 | 8.222 | -32.7% | - | - | - | - |  |
| U.S. Mineral Leasing | 19.464 | 14.526 | -25.4% | 2.882 | 13.033 | 10.150 | 352.2% |  |
| Wholesale Energy Trans Tax | 3.352 | 3.466 | 3.4% | 0.205 | 0.811 | 0.605 | 294.7% |  |
| Other Interest Earnings | | | | | | | | |
| Coal Trust Interest Earnings | 16.561 | 15.693 | -5.2% | 3.398 | 4.031 | 0.633 | 18.6% |  |
| TCA Interest Earnings | 11.776 | 1.440 | -87.8% | 0.776 | 20.562 | 19.786 | 2548.8% |  |
| Other Consumption Taxes | | | | | | | | |
| Beer Tax | 3.202 | 3.142 | -1.9% | 0.948 | 0.950 | 0.002 | 0.3% |  |
| Cigarette Tax | 27.993 | 25.908 | -7.5% | 8.431 | 4.623 | (3.809) | -45.2% |  |
| Liquor Excise Tax | 32.545 | 27.944 | -14.1% | 7.471 | 7.739 | 0.268 | 3.6% |  |
| Liquor Profits | 18.500 | 16.800 | -9.2% | - | - | - | - |  |
| Lottery Profits | 15.311 | 13.317 | -13.0% | - | - | - | - |  |
| Marijuana Tax | 14.238 | 21.624 | 51.9% | - | - | - | - |  |
| Tobacco Tax | 5.565 | 5.555 | -0.2% | 1.513 | 1.496 | (0.017) | -1.1% |  |
| Wine Tax | 2.573 | 2.693 | 4.7% | 0.697 | 0.690 | (0.007) | -1.0% |  |
| Other Sources | | | | | | | | |
| All Other Revenue | 180.512 | 47.333 | -73.8% | 14.863 | 272.277 | 257.414 | 1731.9% |  |
| Highway Patrol Fines | 3.533 | 3.581 | 1.3% | 0.788 | 0.829 | 0.040 | 5.1% |  |
| Nursing Facilities Fee | 3.447 | 3.799 | 10.2% | 0.458 | 0.259 | (0.199) | -43.6% |  |
| Public Institution Reimbursement | 13.933 | 13.410 | -3.8% | 1.386 | (0.261) | (1.647) | -118.8% |  |
| Tobacco Settlement | 3.426 | 3.007 | -12.2% | - | 0.157 | 0.157 | - |  |
| Ongoing Revenue Subtotal | 3,755.727 | 2,737.286 | -27.1% | 959.851 | 1,108.763 | 148.913 | 15.5% |  |
| OTO Revenue & Transfers Subtotal | 135.914 | - | - | - | 260.789 | 260.789 | - |  |
| Grand Total | \$3,891.640 | \$2,737.286 | -29.7% | \$959.851 | \$1,369.552 | \$409.702 | 42.7% |  |

Individual Income Collections by Account

Individual Income Tax (\$ Millions)

| Account | YTD 2023 | YTD 2022 | \$ Difference | % Difference |
|------------------------|----------|----------|---------------|--------------|
| Withholding | \$440.3 | \$388.8 | \$51.5 | 13.3% |
| Estimated Payments | 187.2 | 143.6 | 43.6 | 30.4% |
| Current Year Payments | 65.1 | 31.6 | 33.5 | 106.1% |
| Audit, P&I, Amended | 11.2 | 12.7 | (1.6) | -12.4% |
| Refunds | 117.4 | 141.9 | (24.4) | -17.2% |
| Partnership Income Tax | 26.7 | 12.7 | 14.0 | 110.2% |
| Mineral Royalties | 2.5 | 0.7 | 1.8 | 261.5% |
| Total | 850.5 | 732.0 | 118.5 | 16.2% |

Corporation Income Collections by Account

Corporate Income Tax

(\$ Millions)

| Account | YTD 2023 | YTD 2022 | \$ Difference | % Difference |
|---------------------|----------|----------|---------------|--------------|
| Corporation Tax | \$13.4 | \$13.9 | (\$0.5) | -3.3% |
| Estimated Payments | \$74.8 | \$69.2 | 5.6 | 8.1% |
| Refunds | 0.8 | 1.9 | (1.1) | -59.4% |
| Audit, P&I, Amended | 2.3 | 9.0 | (6.7) | -74.3% |
| Total | \$91.3 | \$94.0 | (\$2.7) | -2.9% |