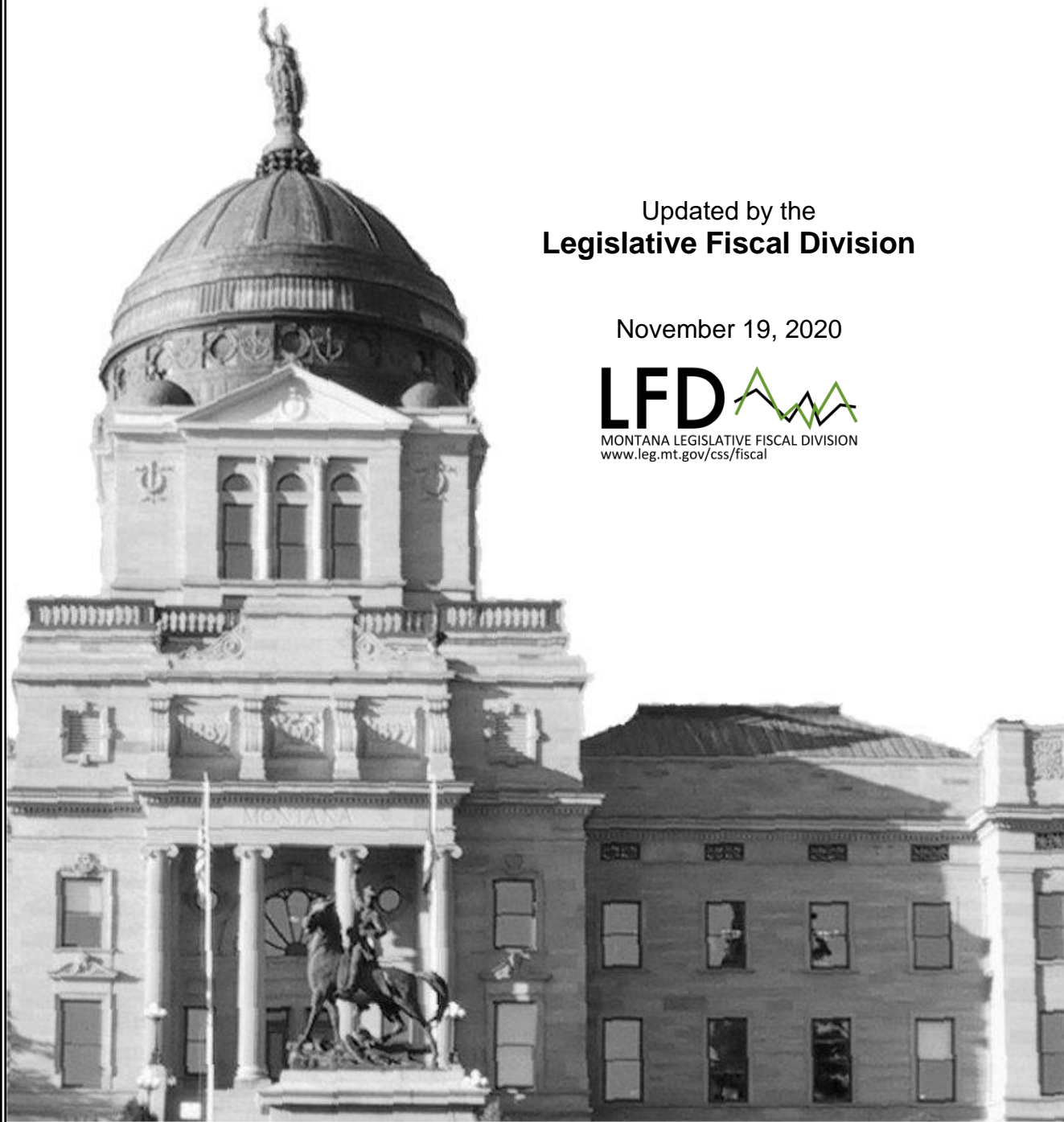


Revenue Estimate As Adopted

Fiscal Years 2021, 2022 and 2023



Updated by the
Legislative Fiscal Division

November 19, 2020

LFD 
MONTANA LEGISLATIVE FISCAL DIVISION
www.leg.mt.gov/css/fiscal

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Director
AMY CARLSON

November 19, 2020

Members of the Revenue and Transportation Interim Committee (RTIC):

In accordance with the provisions of [5-12-302, MCA](#), I am electronically submitting the Legislative Fiscal Division revenue estimate recommendations for the fiscal years 2021, 2022, and 2023. I am providing this information in advance of the November 19th RIC meeting to provide an opportunity for committee members to study the estimates and assumptions used in developing the estimates.

This report provides a profile of each major general fund revenue source, with specific detail on the methodology and assumptions used to develop these recommendations. Please note that in addition to the general fund components, the LFD report also contains recommendations for some specific non-general fund revenue sources that are significant in the development of the state budget for the 2023 biennium. A paper copy of this report will be provided during the committee meeting.

We believe this document and the process outlined above will serve as an effective tool as you carry out your statutory responsibility to develop revenue estimates for the 2021 legislative session. My staff and I look forward to assisting in this task.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Amy Carlson".

Amy Carlson
Legislative Fiscal Analyst

Attachments

Revenue Estimates

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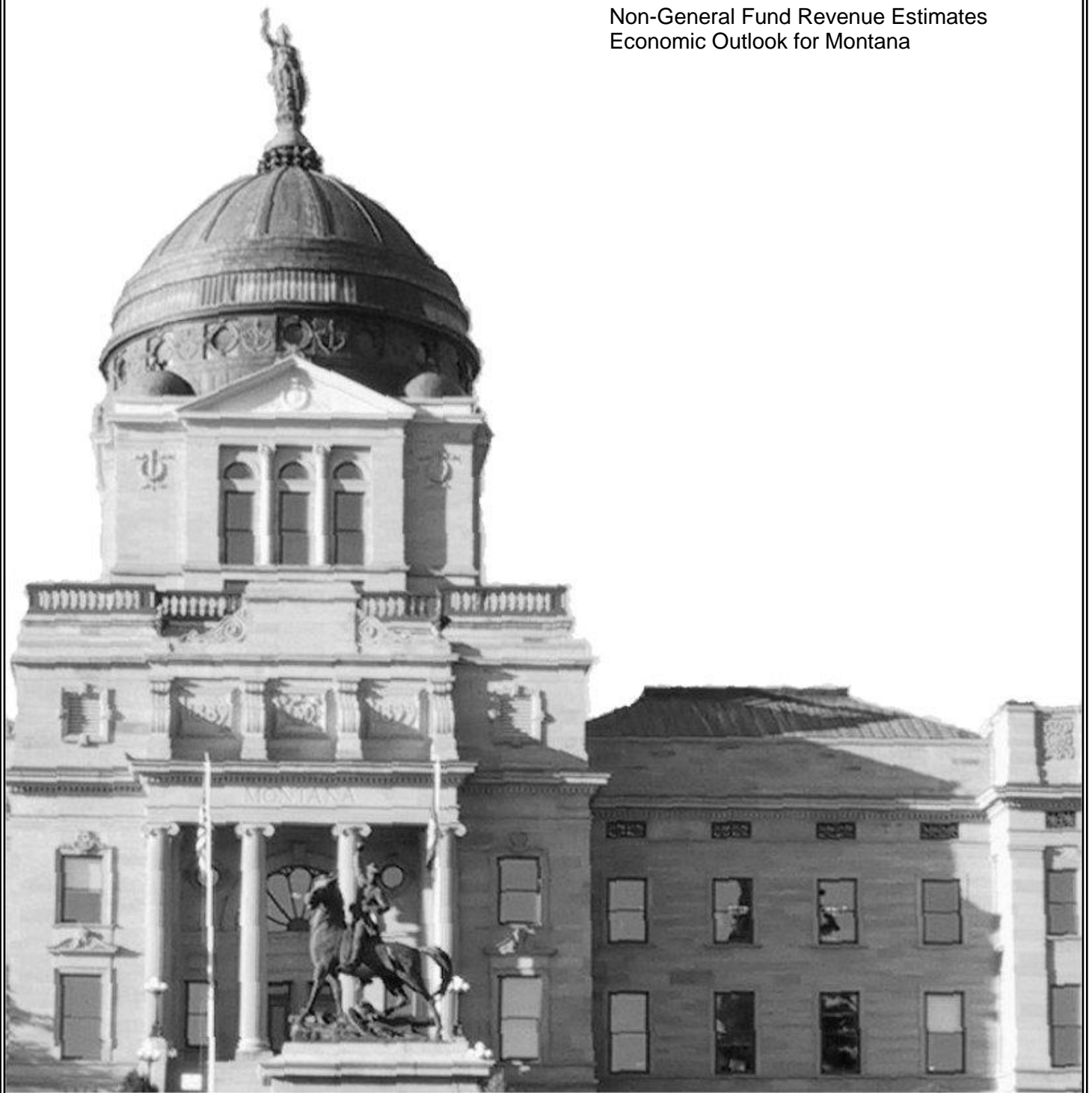
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OVERVIEW

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Overview

Purpose of the Report

As delineated in [5-5-227\(2\)\(a\), MCA](#), the Revenue Interim Committee (RIC) is required to prepare an estimate of the amount of revenue projected to be available for legislative appropriation. In addition, [5-12-302, MCA](#) specifically requires the Legislative Fiscal Analyst (LFA) to estimate revenue from existing and proposed taxes and also requires the LFA to assist RIC in performing its revenue estimating duties.

The purpose of this report is to document the Legislative Fiscal Division (LFD) recommendations for anticipated revenues for FY 2021 through 2023. In almost all cases, estimates are based on current federal and state laws and do not include estimates for revenues due to litigation or any other pending legal issues. This position is consistent with past recommendations to RTIC.

History

In 1989, the Montana Legislature established a process for the Legislature to develop revenue estimates for legislative appropriation. SB 341 (1989 Session) directed the then-Revenue Oversight Committee to prepare the revenue estimates. The legislation also provided that the revenue estimating resolution introduced by the Committee and subsequent periodic reports issued by the Committee constitute the Legislature's current revenue estimate until final adoption of the resolution by both houses of the Legislature.

In 1991, the Legislature revised the procedures of estimating revenue by inserting the language that is now contained in [5-5-227\(2\)\(a\) and \(3\), MCA](#), including the language that the Committee's revenue estimates and underlying assumptions should be used by state agencies in the preparation of fiscal notes (Chapter 603, Laws 1991).

Because of disparities in the revenue estimates between the LFD and the Department of Revenue (DOR) during the 1997 session, House leadership requested that the Revenue Oversight Committee work with LFD and DOR to develop a process to resolve differences in revenue estimates before the 1999 legislative session.

Recent Process

In 1999, the Legislature revised the structure of interim committees and assigned the revenue estimating responsibilities to RTIC (Chapter 19, Laws 1999). Since then, the RTIC has adopted the revenue estimates in November of the year proceeding the next regular session. As a practical matter, the Committee cannot adopt the estimates much earlier than mid-November because the DOR income tax data is not available until November 1 (October 15 is the general deadline for taxpayers who requested an extension of time for filing an income tax return).

Staff of the LFD and the Governor's Office of Budget and Program Planning (OBPP) each present assumptions and corresponding revenue estimates for the Committee's consideration. In the past, the Committee has initially adopted the revenue estimates of the LFD and may make changes to those estimates based on information presented by OBPP, economists from the Montana university system, and other experts.

Finally, the resolution containing the Committee's revenue estimates must be pre-introduced by December 15th (see Rules of the Montana Legislature, Joint Rules 40-40(5)(a)). The Committee's estimate, as introduced in the Legislature, constitutes the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses.

Path through the Legislature

In the 1999 through 2003 legislative sessions, both houses of the Legislature adopted the resolution, and it was filed with the Secretary of State.

Overview

In 2005, the House of Representatives did not concur in the Senate amendments to the resolution, and the resolution died in the process. As such, the Senate estimates were the Legislature's current revenue estimates.

In 2007, the resolution died in the House Taxation Committee. Therefore, the RTIC estimates were the Legislature's current revenue estimates.

In February 2009, the House Taxation Committee amended HJR 2 and adopted a committee report. The resolution was referred to the Committee. In March, the Committee again amended the resolution and adopted a committee report. In each instance, the House Taxation Committee estimates became the Legislature's current revenue estimate. The resolution died in the process.

In March 2011, the House Taxation Committee amended HJR 2 and adopted a committee report. The resolution was referred to the Committee, where it died in process.

In November 2012, RTIC met to review and adopt a revenue estimate recommendation, but were unable to agree on the estimate. Therefore, the committee did not introduce a resolution with the Committee's estimate. The Rules Committee subsequently met and adopted rules for the 63rd Legislative Session, including a requirement that the chair of the Senate Taxation Committee prepare a revenue estimate to be introduced in the Senate. The estimate contained in SJR 2, along with an initial set of amendments passed both houses by early February 2013. A revised estimate contained in SJR 27 was introduced in early April; however, due to missing the transmittal deadline for revenue bills, it ultimately failed to pass both houses.

In November 2014, RTIC met to review and adopt a revenue estimate recommendation. The OBPP recommendation was \$295.4 million above the LFD recommendation. The committee ultimately adopted the LFD recommendations, with total adjustments in individual income tax and oil & natural gas tax equal to half of the total difference between the OBPP and LFD recommendations for individual income tax, corporation income tax, and oil & natural gas tax.

In January 2015, OBPP and LFD presented updated revenue estimates to a joint meeting of the House and Senate Tax Committees. At this time, the OBPP estimate was above the LFD estimate by \$358.6 million. The two tax committees formed a joint subcommittee to understand the revenue estimates and the corresponding differences in more detail, and make a recommendation to the House Tax Committee. The joint subcommittee met weekly throughout February and March, and ultimately made a recommendation to the House Tax Committee based on the LFD estimate, with a variety of alternative assumptions that increased the three-year estimate to \$232 million above the LFD estimate.

OBPP presented a revenue estimate recommendation to the November 2016 meeting of RTIC that was below the LFD recommendation by \$40.6 million to the three-year forecast. The committee adopted LFD assumptions, but included a general fund adjustment to each source so that the overall amount was equal to the OBPP estimate. In April, the House Taxation Committee amended HJR 2 based on the LFD March updated recommendation and adopted a committee report. The resolution was rereferred to the Committee, where it died in process.

In November 2018, RTIC heard the revenue estimate recommendations from OBPP and LFD, which were quite close: the OBPP recommendation was \$46.3 million or 0.6% below LFD over the three-year forecast. The committee adopted the LFD estimate and corresponding assumptions, with an adjustment in corporate tax that essentially resulted in an average of the two estimate recommendations. The RTIC revenue estimate was incorporated into HJ 2 as the official revenue estimate of the legislature for the beginning of the session.

Overview

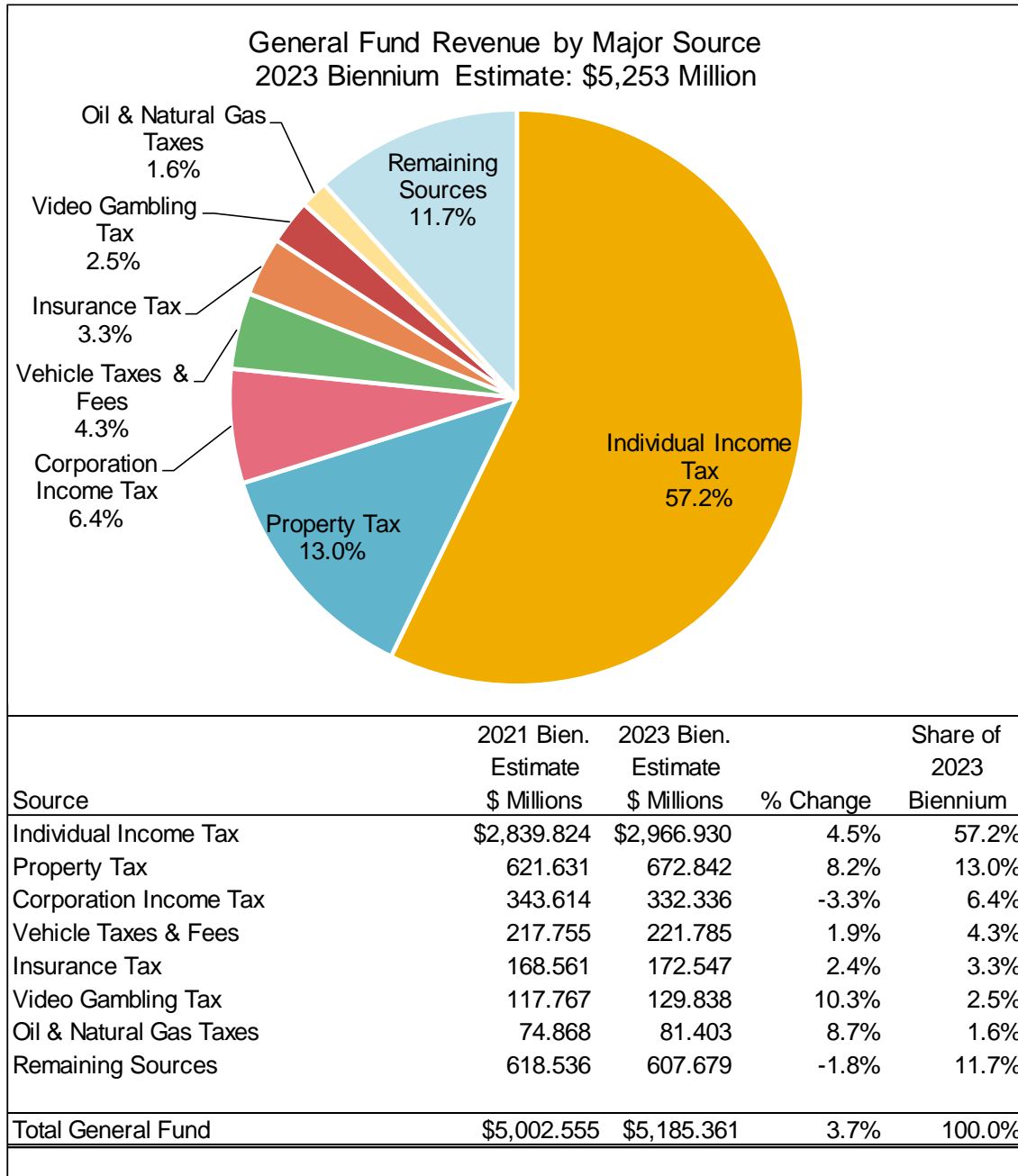
General Fund Revenue Estimate Recommendations

The table below shows the adopted general fund estimate recommendations by revenue category. Actual FY 2020 collections are shown, along with projections for FY 2021 through 2023.

General Fund HJ 2 Estimate as Adopted by RIC (\$ Millions)						
Source of Revenue	Actual FY 2020	Estimated FY 2021	Estimated FY 2022	Estimated FY 2023	Estimated 2021 Bien	Estimated 2023 Bien
Largest Seven Sources						
Individual Income Tax	\$1,435.240	\$1,404.584	\$1,443.769	\$1,523.161	\$2,839.824	\$2,966.930
Property Tax	308.610	313.021	333.017	339.825	621.631	672.842
Corporation Income Tax	187.358	156.256	163.528	168.808	343.614	332.336
Vehicle Taxes & Fees	108.482	109.273	110.402	111.384	217.755	221.785
Oil & Natural Gas Production Tax	38.380	36.488	40.402	41.002	74.868	81.403
Insurance Tax & License Fees	82.489	86.072	84.780	87.767	168.561	172.547
Video Gambling Tax	57.447	60.320	63.336	66.503	117.767	129.838
Other Business Taxes						
Driver's License Fee	4.410	4.029	4.053	4.071	8.440	8.124
Investment License Fee	15.711	16.385	16.524	16.866	32.096	33.390
Lodging Taxes	25.058	20.878	30.589	36.378	45.936	66.967
Public Contractors Tax	6.729	4.987	5.103	5.206	11.715	10.309
Railroad Car Tax	4.294	4.305	4.393	5.140	8.599	9.534
Rental Car Sales Tax	4.224	3.823	4.727	5.219	8.047	9.946
Telecommunications Excise Tax	11.788	10.954	10.085	9.190	22.742	19.275
Other Natural Resource Taxes						
Coal Severance Tax	10.920	10.966	10.812	10.648	21.886	21.460
Electrical Energy Tax	3.910	4.480	4.223	4.203	8.390	8.426
Metalliferous Mines Tax	8.724	9.922	8.038	8.222	18.646	16.260
US Mineral Royalty	18.527	18.729	17.909	17.221	37.256	35.130
Wholesale Energy Tax	3.351	3.467	3.460	3.466	6.818	6.926
Other Interest Earnings						
Coal Trust Interest	21.600	17.904	16.828	15.700	39.505	32.527
Treasury Cash Account Interest	18.597	2.740	1.582	1.724	21.337	3.306
Other Consumption Taxes						
Beer Tax	3.167	3.102	3.111	3.117	6.269	6.228
Cigarette Tax	26.983	27.045	26.558	26.113	54.027	52.671
Liquor Excise & License Tax	23.786	24.930	26.426	28.014	48.716	54.440
Liquor Profits	18.080	15.800	15.800	16.900	33.880	32.700
Lottery Profits	8.073	13.144	13.021	13.145	21.217	26.166
Tobacco Tax	5.754	5.724	5.627	5.565	11.478	11.191
Wine Tax	2.522	2.579	2.637	2.697	5.100	5.334
Other Sources						
All Other Revenue ¹	46.062	44.685	44.075	46.685	90.747	90.759
Highway Patrol Fines	3.458	3.691	3.670	3.607	7.149	7.277
Nursing Facilities Fee	4.188	3.992	3.896	3.799	8.180	7.695
Public Institution Reimbursements	12.745	12.555	12.382	13.410	25.299	25.791
Tobacco Settlement ²	2.654	12.406	2.936	2.912	15.060	5.848
Total General Fund	\$2,533.321	\$2,469.234	\$2,537.695	\$2,647.666	\$5,002.555	\$5,185.361
General Fund Growth		-2.5%	2.8%	4.3%		3.7%
¹ Includes GF Revenue from I-190 (Marijuana Tax, \$2.2 million)						
² Includes \$10 million in OTO in FY 2021 revenues from recent tobacco settlement						

Overview

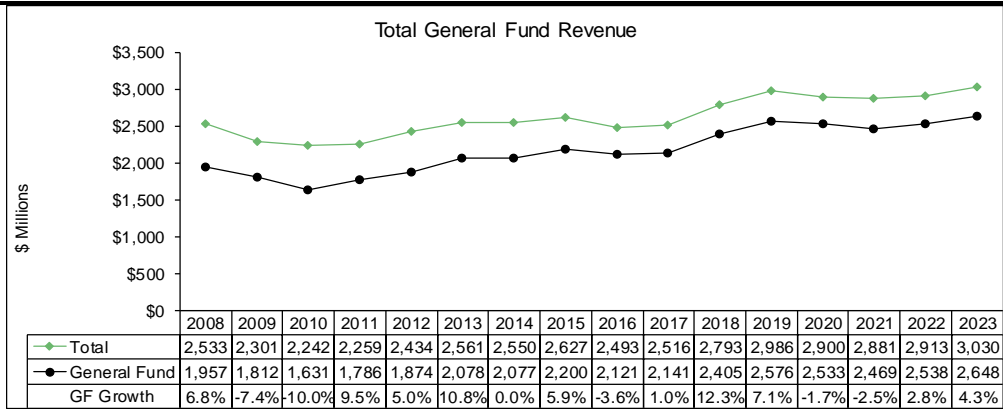
General fund revenue for the 2023 biennium is projected to increase 3.7% over the 2021 biennium projection. As shown in the pie chart below, the largest seven revenue sources are anticipated to account for approximately 88% of general fund revenue in the 2023 biennium; since 2004, these sources have on average accounted for 84% of general fund revenue.



General Fund History and Estimate Recommendation

The graph below shows actual total general fund collections from FY 2008 to FY 2020 and includes the HJ 2 estimate for FY 2021 through FY 2023.

Overview



Overview

Select Non-General Fund Revenue Estimates Recommendations

The LFD estimate recommendations for selected non-general fund revenue sources are shown in the table below. These estimates are included because of their importance in the budgeting process.

Selected Non-General Revenue Estimates Summary						
(\$ Millions)						
Source of Revenue	Actual FY 2020	Estimated FY 2021	Estimated FY 2022	Estimated FY 2023	Estimated 2021 Bien	Estimated 2023 Bien
Property Tax: 6 Mill	\$19.877	\$20.303	\$21.584	\$22.007	\$40.181	\$43.592
Natural Resource Taxes						
Federal Forest Receipts	13.801	13.111	3.760	3.917	26.912	7.678
Resource Indemnity Tax	2.269	2.427	2.213	2.061	4.696	4.274
Interest Earnings						
Capital Land Grant Interest and Incorr	2.194	1.844	1.815	1.939	4.039	3.754
Common School Interest and Income	41.186	41.986	41.478	41.917	83.173	83.395
Cultural Trust Interest	0.480	0.483	0.445	0.406	0.963	0.851
Deaf & Blind Interest and Income	0.307	0.362	0.357	0.360	0.669	0.717
Economic Development Trust	3.782	3.928	4.121	3.406	7.711	7.528
Parks Trust Interest	0.888	0.874	0.804	0.735	1.762	1.539
Pine Hills Interest and Income	0.379	0.390	0.403	0.423	0.769	0.827
Regional Water Trust Interest	3.153	3.093	2.830	2.574	6.246	5.404
RIT Trust Interest	3.557	3.504	3.186	2.867	7.062	6.053
School Facilities Trust	1.550	1.407	1.830	2.126	2.957	3.956
TSE Trust Interest	9.253	8.939	8.166	7.417	18.192	15.583
Tobacco Trust Interest	7.725	7.889	8.251	7.845	15.614	16.096
Consumption Taxes						
Diesel Tax	90.549	85.784	85.326	85.883	176.333	171.210
Gasoline Tax	171.584	172.672	176.112	179.586	344.256	355.698
GVW and Other Fees	35.555	35.807	36.000	36.193	71.362	72.192
Marijuana Tax*	-	-	14.313	25.698	-	40.011
Total Selected Non-General Fund	\$408.091	\$404.803	\$412.994	\$427.361	\$812.894	\$840.355
*Estimates based on I-190 fiscal note						

Overview

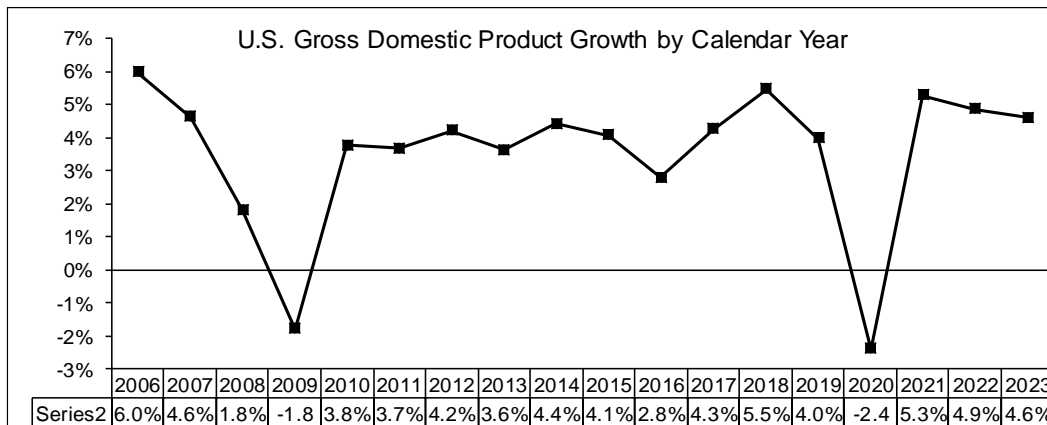
Economic Outlook for Montana

This section highlights a few of the key national and state-specific economic variables that are used in the revenue estimate. The forecasts for each of these economic indicators—and many others that are also used in the revenue estimate—are provided by IHS.

U.S. Economic Indicators

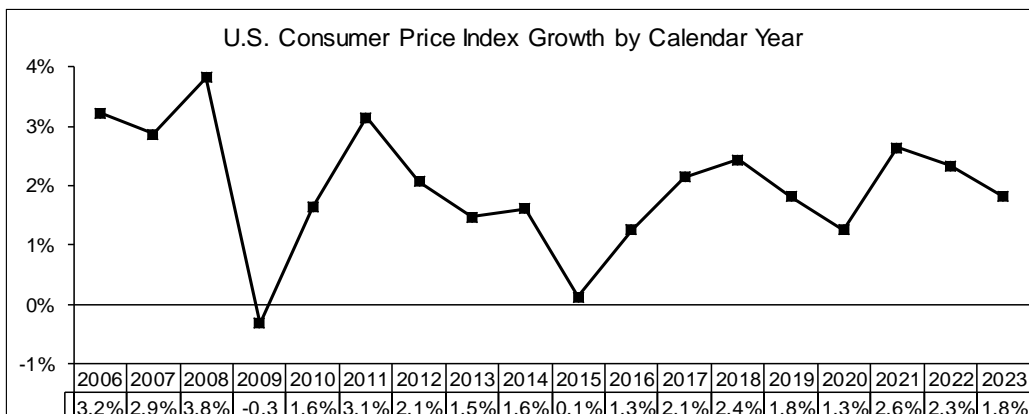
Gross Domestic Product (GDP)

GDP is one of the most comprehensive national economic statistics. As noted by the Bureau of Economic Analysis (BEA), GDP is used by the White House and Congress to prepare the Federal budget, by the Federal Reserve to formulate monetary policy, by Wall Street as an indicator of economic activity, and by the business community to prepare forecasts of economic performance that provide the basis for production, investment, and employment planning.



Consumer Price Index (CPI)

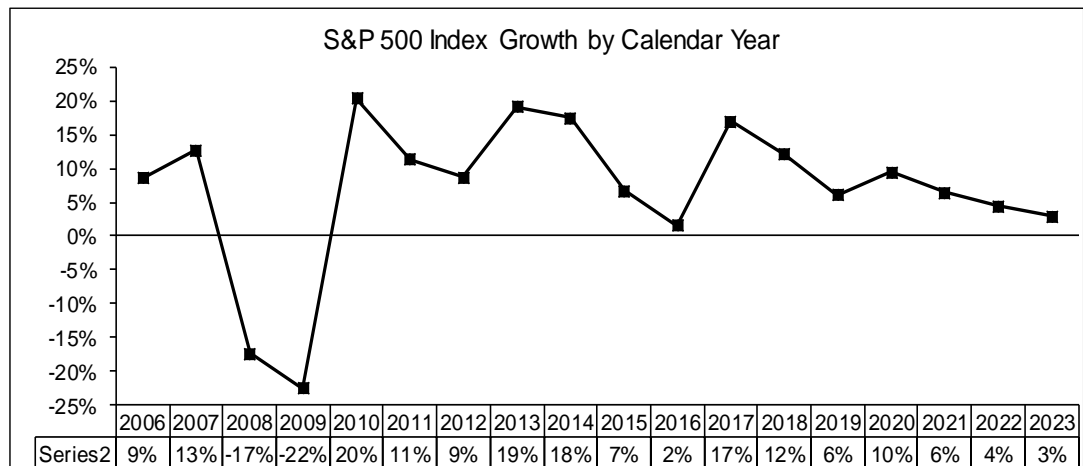
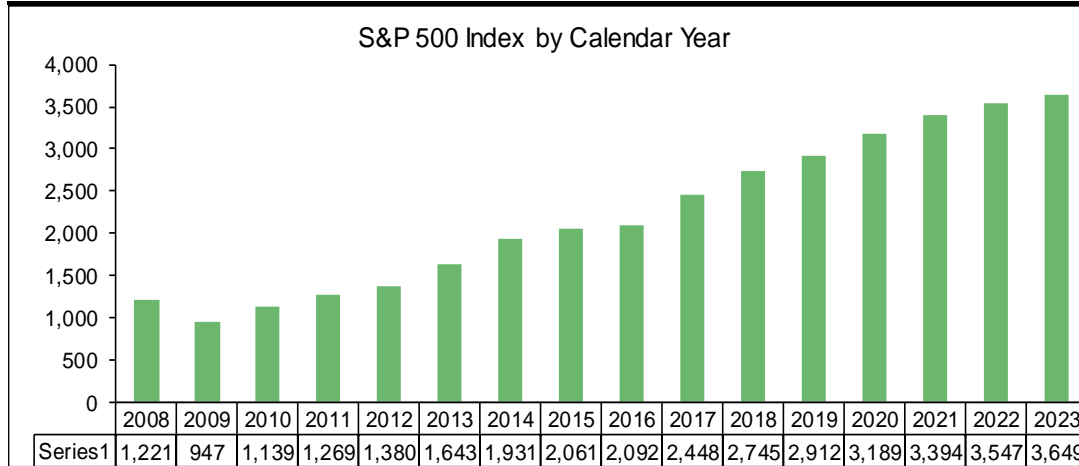
The inflation rate is measured by the price change of the CPI “shopping basket” of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less.



S&P 500 Stock Market Index

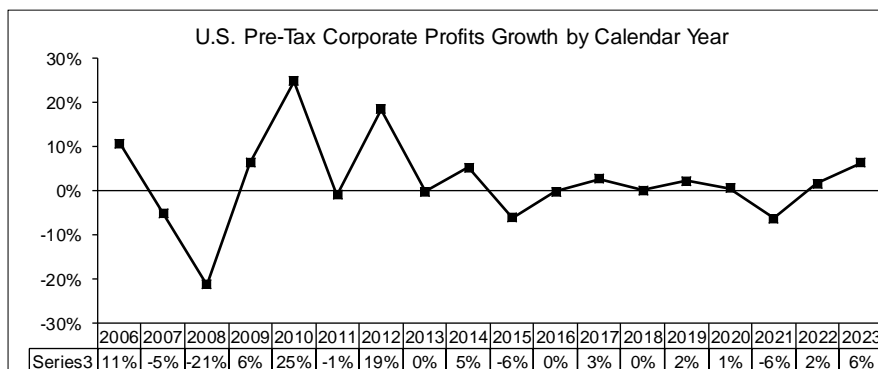
The S&P 500 is a stock market index based on the market capitalizations of 500 large companies. Due to the diversity of companies, it is a broad representation of the U.S. stock market and is a good indicator for investment income.

Overview



U.S. Corporate Profits

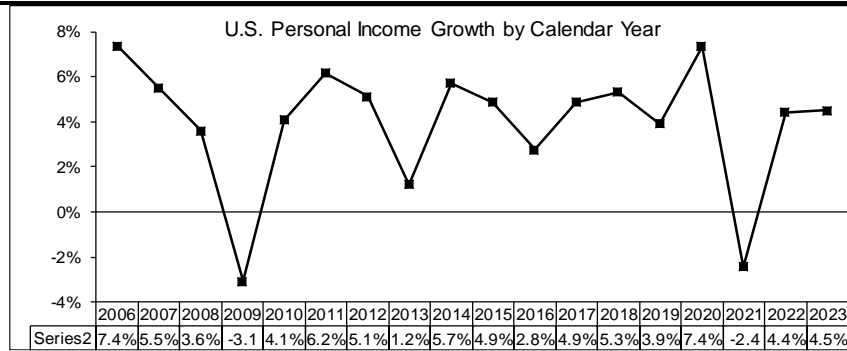
Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments.



U.S. Personal Income

Growth in Montana's tourism industry is related to growth in U.S. personal income. In addition, the outlook for U.S. personal income likely impacts the outlook for Montana personal income.

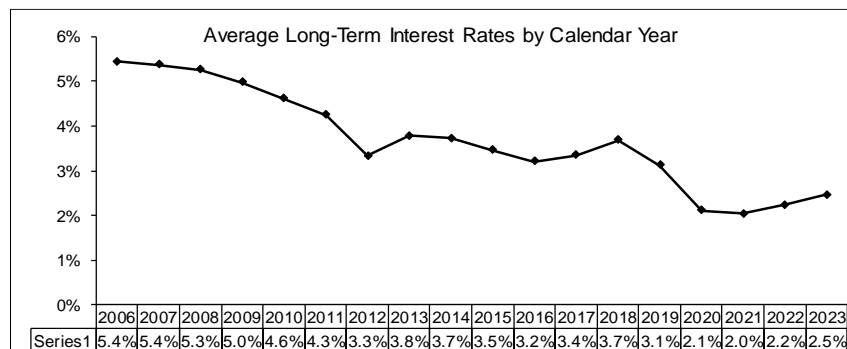
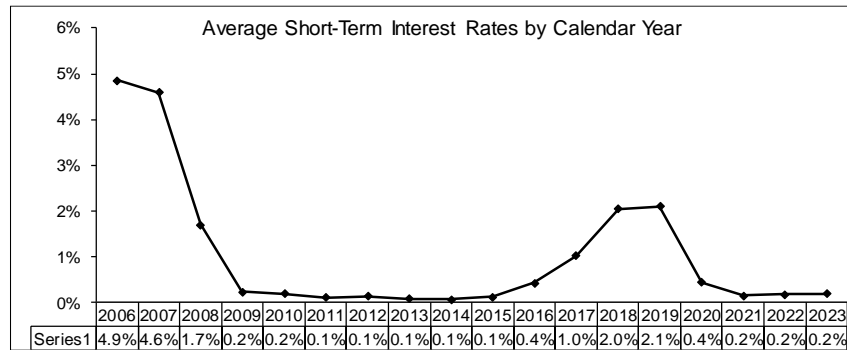
Overview



Long & Short Term Interest Rates

A large portion of Montana’s revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. In addition to the state revenue impact, interest rates impact the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana’s trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase.

Short-term rates are an average of 3-month corporate paper and 3 and 6-month Treasury bills. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year Treasury bonds, and 30-year Treasury bonds.

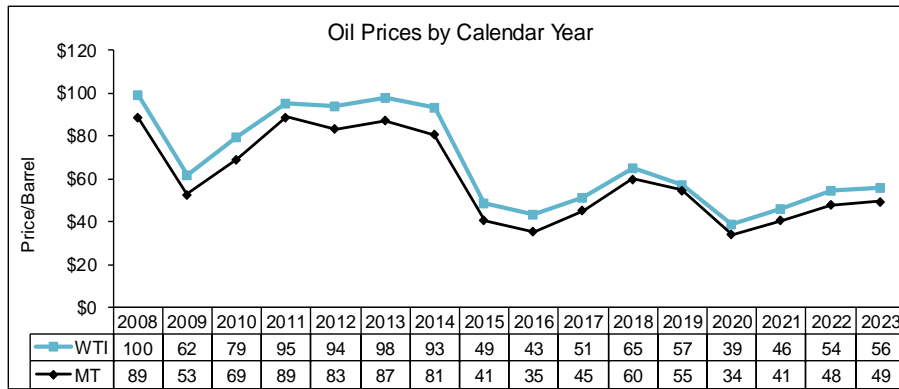


Oil Price: West Texas Intermediate (WTI)

At the national level, lower oil prices tend to correspond with a better economic outlook; manufacturing and transportation costs are lower, and consumers have more income to spend on goods and services. The impact on Montana revenue is more nuanced, however—although overall consumer activity may increase with lower prices, natural resource extraction and related industry activity may also decline, resulting in lower individual, corporation and natural resource tax collections.

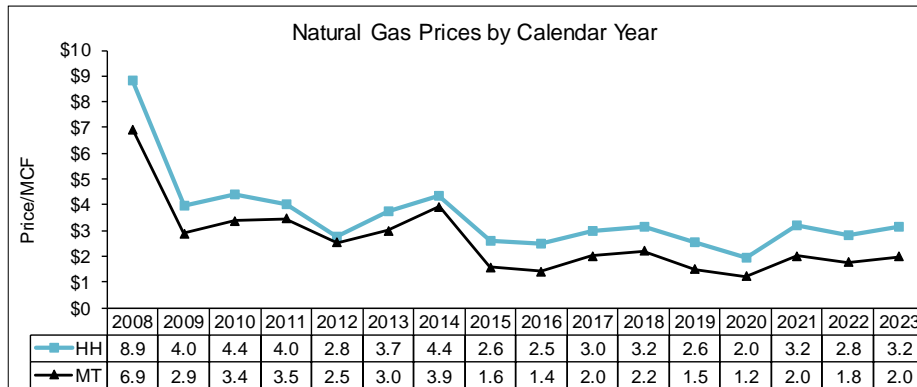
Montana oil price tracks closely with WTI, with an approximate 12% reduction to account for transportation costs.

Overview



Natural Gas Price: Henry Hub

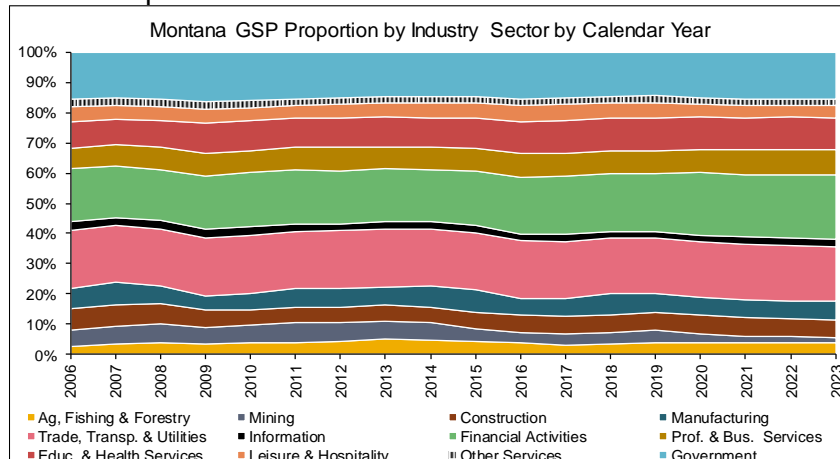
Montana natural gas price tracks the national Henry Hub price, with an average 37% deduction for transportation costs.



Montana Economic Indicators

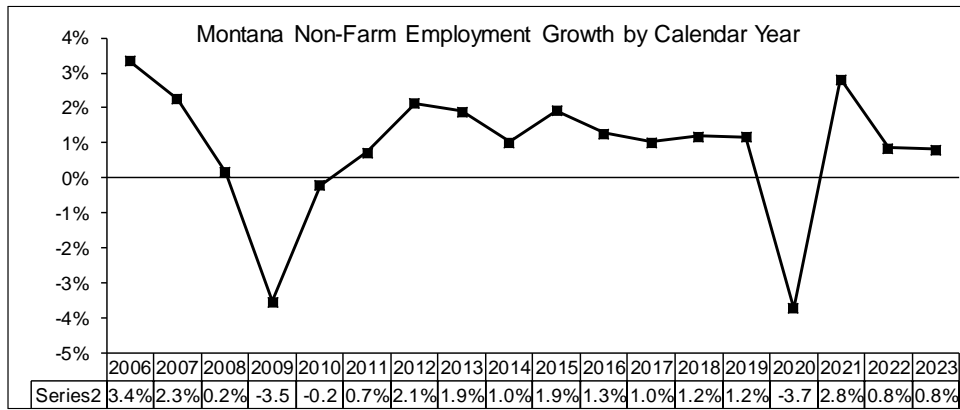
Gross State Product (GSP)

All broad industry categories as measured by GSP grew between CY 2000 and CY 2015, the last year of actual data, although most didn't change significantly as a share of the total, as indicated in the next graph. Just over half of GSP is due to three industry super sectors: trade, transportation & utilities; financial activities (which includes real estate); and government. Mining, including oil extraction and related activities, grew as a share of total GSP after CY 2004, but is expected to return to a pre-2004 share of GSP in the forecast period.



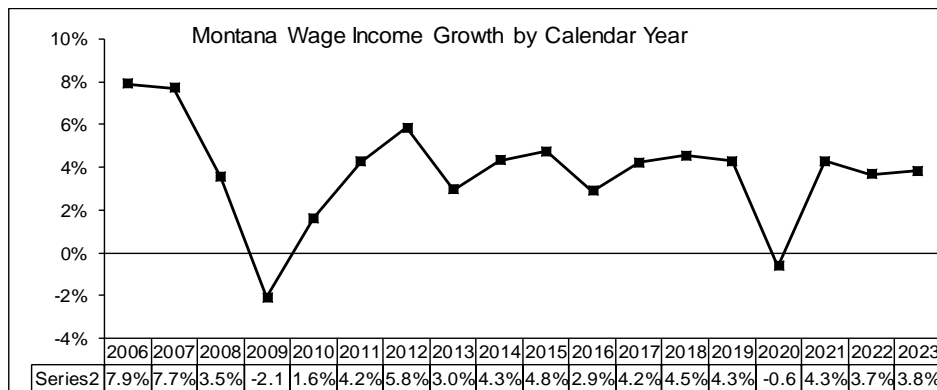
Employment

Overview



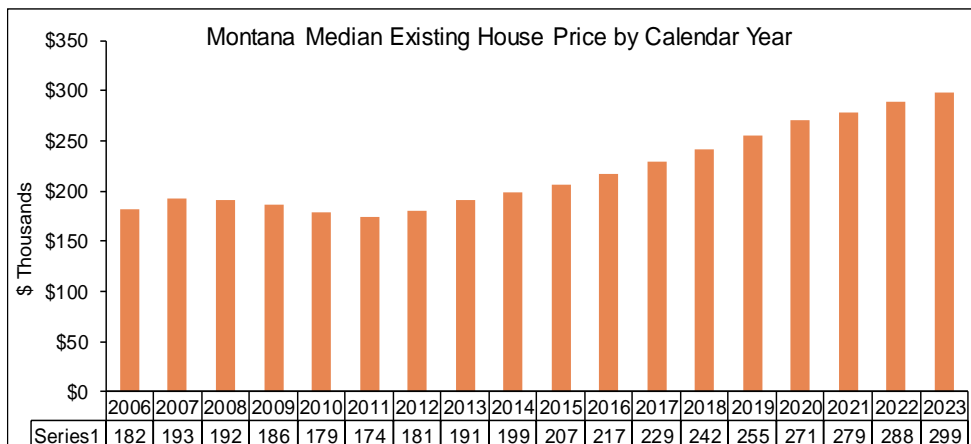
Wages

Wage income accounts for nearly two-thirds of individual income, and individual income tax accounts for over half of general fund revenue. Although wage income is not as volatile as several other income or revenue sources, even small changes in the outlook for wage income and produce large swings in the revenue estimate. The IHS wage disbursements variable for Montana is probably the single most important underlying indicator in the entire general fund revenue estimate.

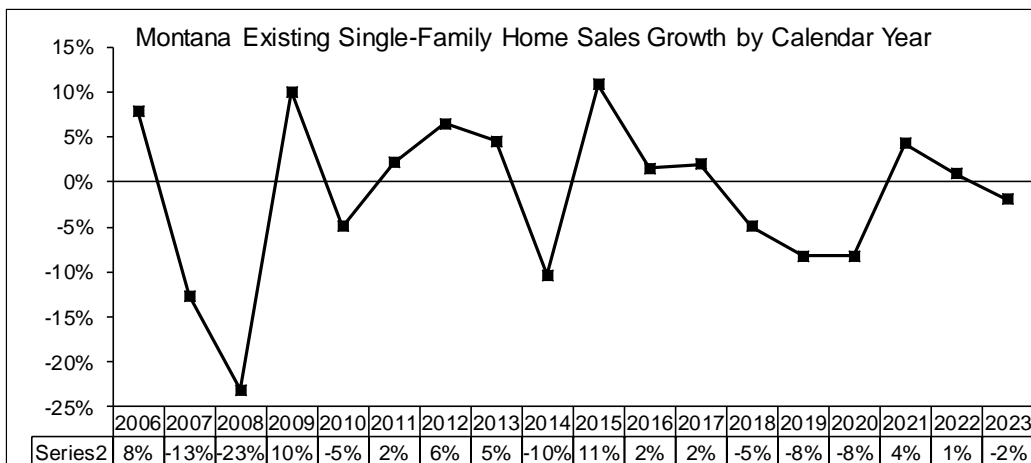
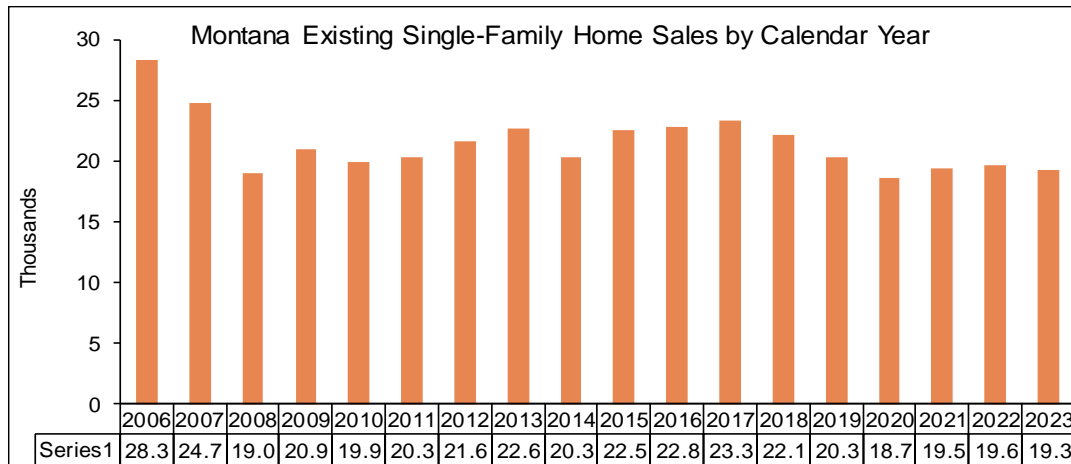
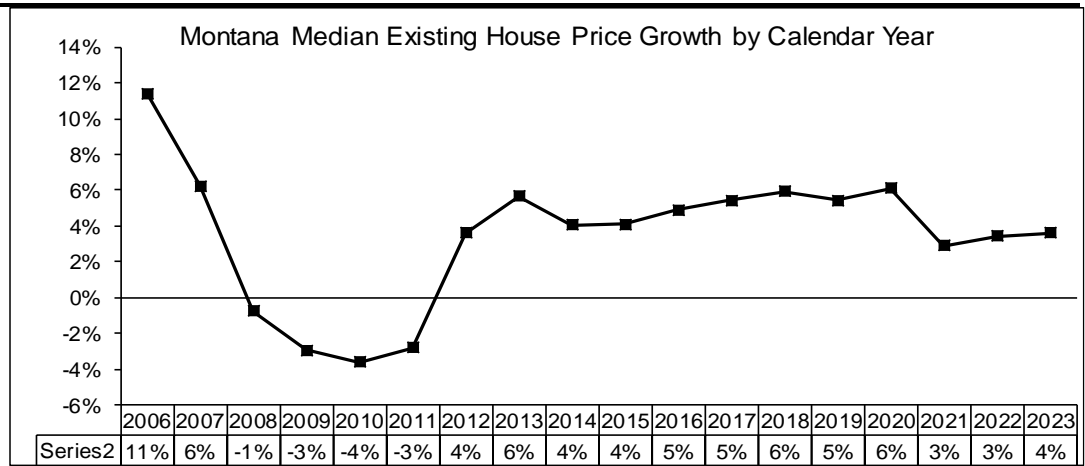


Housing

The health of the housing market can be measured by median house price and annual sales. Housing is an important—and leading—measure of economic activity: it drives construction and related industry growth, and reflects household formation and asset accumulation. Housing indicators are used in the individual and corporation income tax estimates.



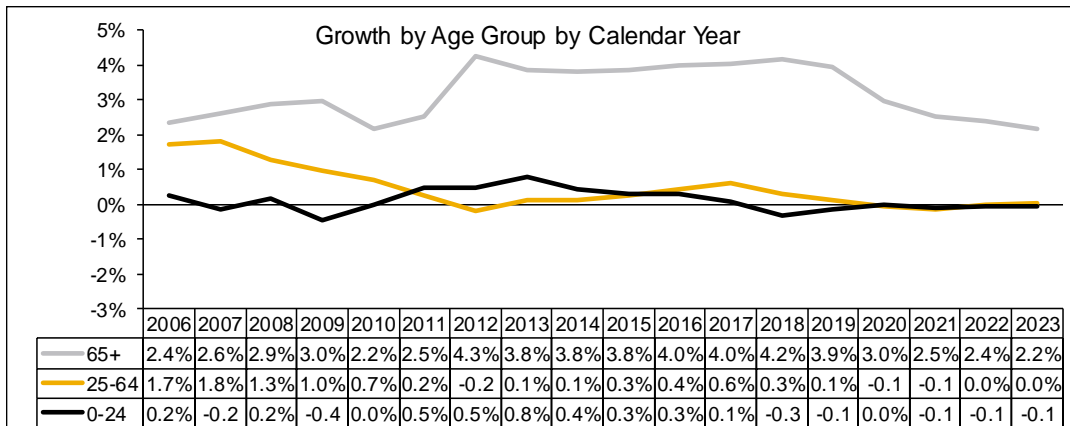
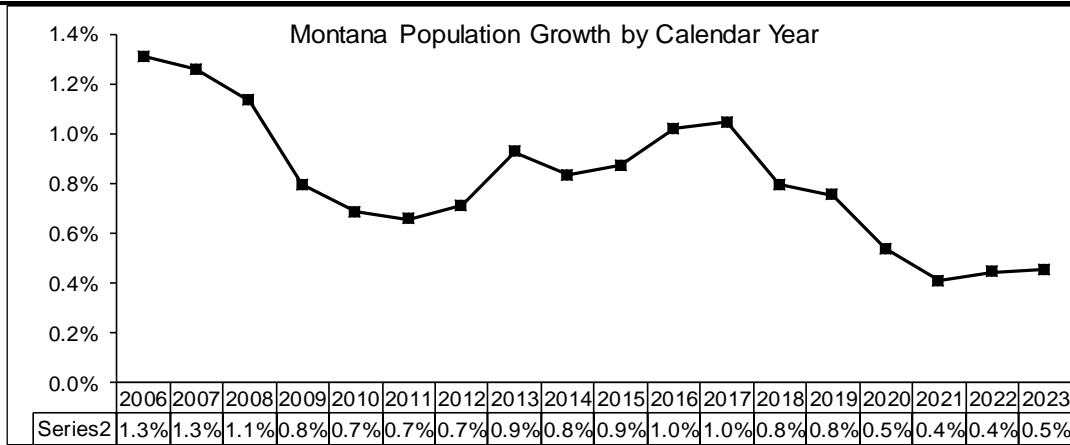
Overview



Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide.

Overview



Summary

A complete summary of each general fund and selected non-general fund revenue sources follows. Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, and distribution mechanisms.

Throughout the document, the state accounting system—Statewide Accounting, Budgeting and Human Resources System—is referred to only by its acronym, SABHRS. Likewise, the Department of Revenue is simply referred to as DOR.