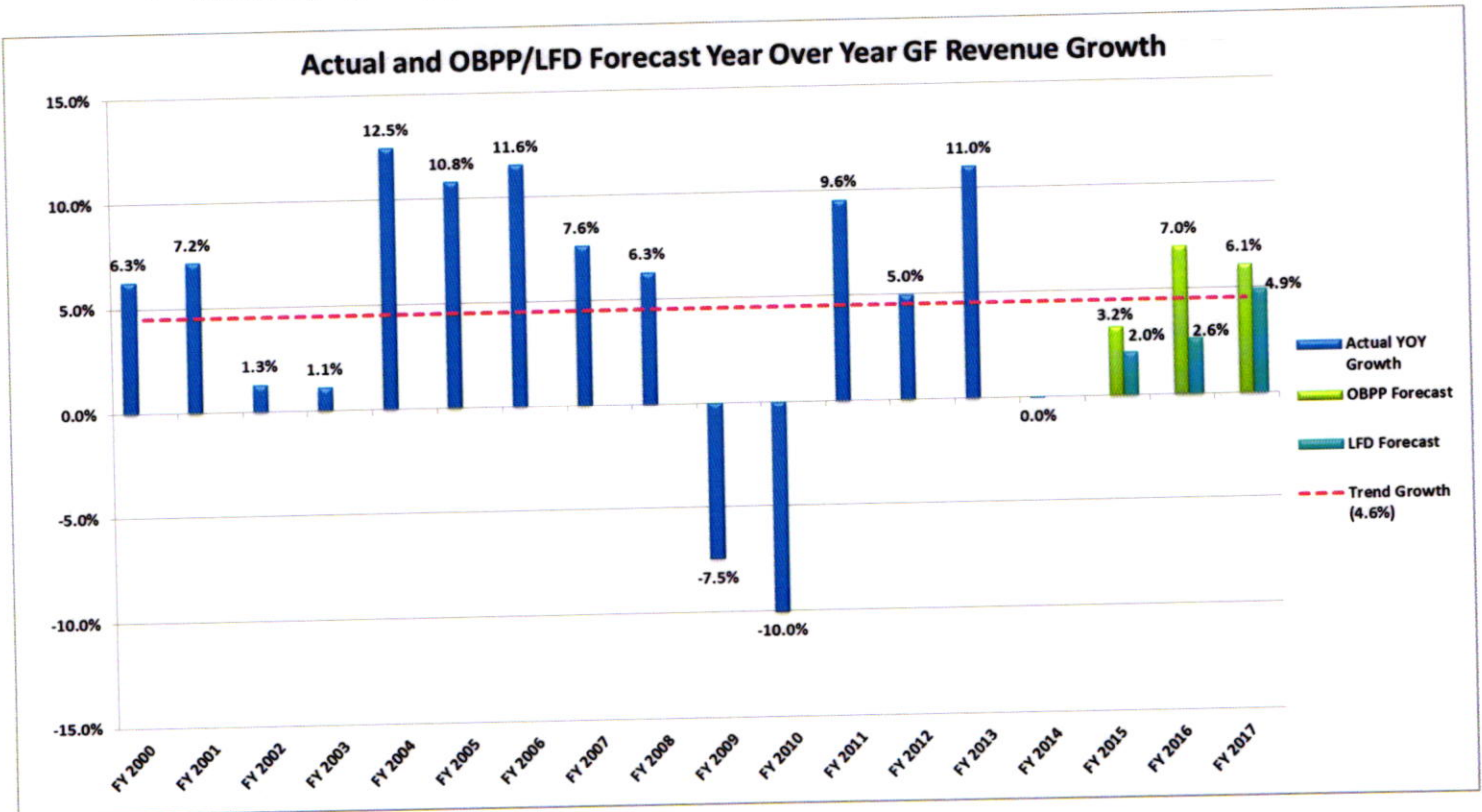
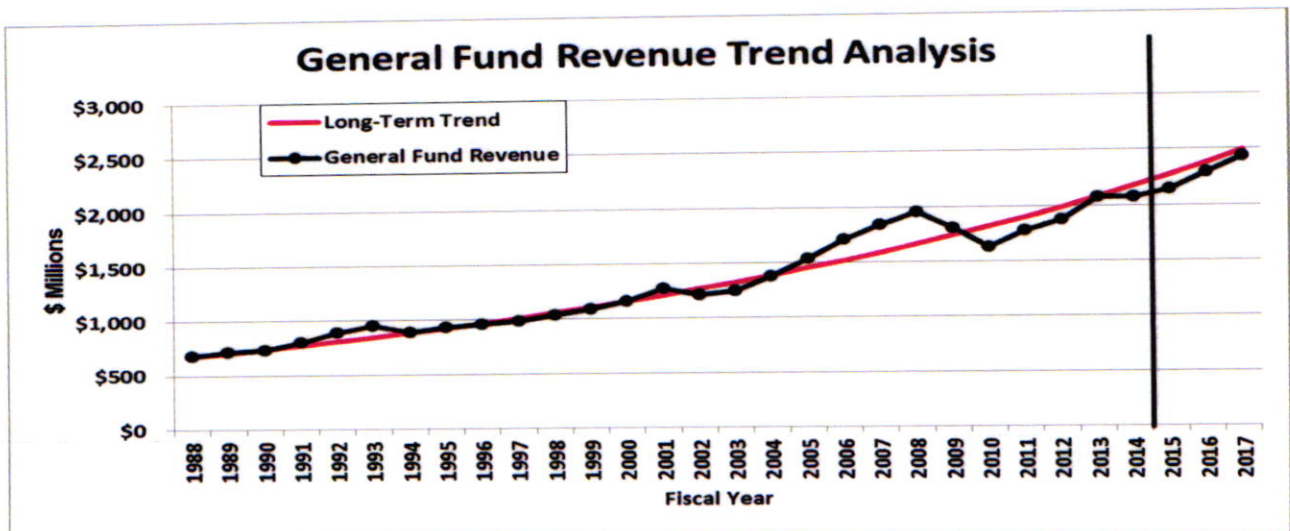


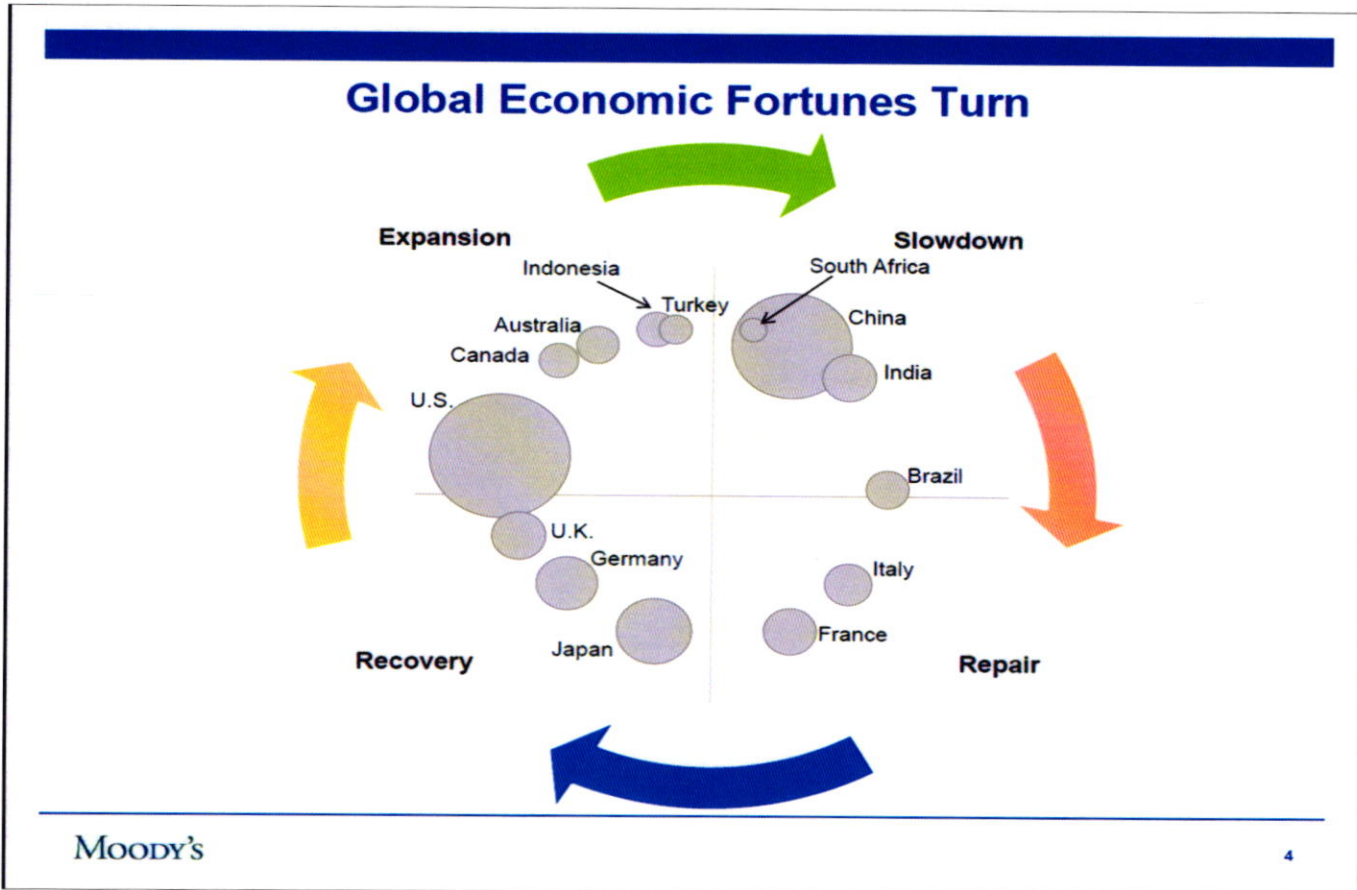
- **Task at Hand - What are the most probable expectations for total GF revenue for the next three years?**
  - Individual estimate errors tend to cancel out.
  - Collective tendency to underestimate total GF revenues.
  - Our job is not to only “plug and chug” economic variables (i.e. GDP, wages, etc.) into our models, but to synthesize that information, along with countless other resources, to estimate the economy’s incidence on GF revenue.
- **Comparing to trend revenue collections (%).**
  - Average trend is a result of many years of “above trend growth” and a few instances of “below trend growth”.
  - Recessions, negative (%) collections, and several consecutive years “below trend” are actually rare.



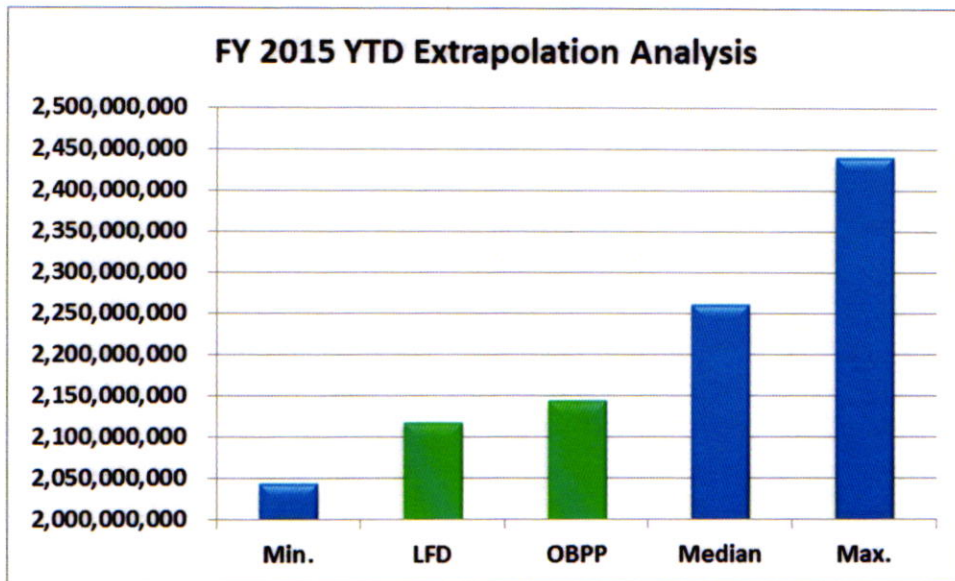
- **Comparing to trend revenue collections (\$).**
  - Revenue growth from year-to-year is often greater or less than the trend growth rate would suggest, but these deviations from trend tend to be self-correcting, meaning revenue collections revert back to near their trend level following periods of above average or below average growth.



- **Business cycle analysis and the likelihood of accelerating revenue growth in Montana**
  - Based on the estimated position in the business cycle, Montana is poised to experience “above trend average” revenue growth.



- **Year-to-date Revenue Analysis.**
  - Following is a range of estimates based on a 14 year collection patterned YTD extrapolation methodology.
  - Increased accuracy in the base year revenue estimate (FY 15) increases the likelihood of accuracy in subsequent years.
  - YTD extrapolation analysis improves as the year progresses, with the February 1 YTD extrapolation being the “Gold Standard” in recent years. The graph below incorporates actual revenues through October.



## Specific Considerations by Tax Type

- **Individual Income Tax**
  - **American Taxpayer Relief Act (ATRA)** – OBPP has not made any adjustments for ATRA expensing; we probably should be adding revenue now that we are at a low post-TY 2012 base (revenue was added to FY 2013, and then subtracted from FY 2015, FY 2016, FY 2017 in our April 2013 model to address ATRA tax shifting).
  - **Wage Growth** - Withholding collections have been accelerating since January 2014, leading to record collections through FY 15.
  - **CES and LAUS Employment Discrepancies** – IHS (and other) state forecasts rely on CES (establishment surveys) to project economic sectors at the state level. As was the case in late 2012, the CES sample is producing lower employment numbers than the local area modeling of total employment is presenting. Independent withholding collections numbers suggest that the LAUS (higher) numbers are more correct at this time. The QCEW figures lag LAUS and CES by at least six months – we expect revisions to correct these discrepancies.
- **Corporate Income Tax**
  - **Corporate Profits** - Corporate profits remain at all-time highs, though their growth has flattened.
  - **Timing of ATRA and Bonus Depreciation** - the 2015 model incorporates the extension of accelerated expensing and bonus depreciation under ATRA 2012. The eleventh-hour passage of the “fiscal cliff” deal extended and liberalized (retroactively) the applicability (through CY 2013 and CY 2014 for certain long-term investments) tax preferences that were to expire in CY 2012.
- **Oil and Gas**
  - **Exploration** – Compared to recent years, less exploration activity is occurring as the Bakken has been mapped out in Montana. Currently, drilling activity is taking place on existing spacing units (infill drilling).
  - **Price** - Current dip in WTI prices could affect Montana if prices drop further and sustain this low level for a significant period.
  - **Production** - Outlook for production is relatively flat for both oil and natural gas. Associated gas production from the Bakken is making up for lost production from some of Montana’s older gas fields.
  - **Transportation** - Transportation constraints contribute to the discount in Montana oil prices compared to other benchmark crude prices. Larger discounts tend to be associated with transportation by rail.
- **Coal**
  - **Production** - FY 2015 coal production in Montana is not slowing down; rather, production is recording slight year-over-year growth based on YTD numbers.
  - **Market** - Montana coal is shipped all over the U.S. and changes in domestic coal demand can flow back to affect production from Montana’s mines.
- **Interest Rates**
  - **Federal Funds Rate** - The Federal Reserve is expected to raise its target federal funds rate sometime in CY 2015 (likely in the 3<sup>rd</sup> or 4<sup>th</sup> quarter). Increasingly positive economic data could push action forward; likewise, subdued economic data could extend action.
  - **End to Quantitative Easing** - The Fed ended its quantitative easing policy. As a result, long-term interest rates may begin to float up in coming years.
  - **Trust Fund Bond Pool (TFBP) and Short Term Investment Pool (STIP)** - Earnings on TFBP investments will still take multiple years to recover from the low bond yields that occurred as a result of the recession. STIP rates are more subject to short term changes and should begin to recover in the forecast period.
- **Insurance Premiums Tax**
  - **HCSC Now Taxable** - In August 2013, Health Care Services Corporation (HCSC) purchased Blue Cross Blue Shield of Montana (BCBS). As a result of the merger, premiums paid to BCBS are now taxable at a rate of 2.75% of net premium. The increase in revenue from the newly taxable BCBS insurance premiums offset much of the expected reduction in general fund that was due to the change in distribution to the general fund and HMK.
  - **Taxable Insurer on the Exchange** - Beginning January 1, 2014, the individual mandate of the Affordable Care Act (ACA) became effective. At this time, BCBS is the only taxable insurer offering plans on the health exchange. The impact on insurance premium tax collections due to the ACA is not yet known.

- Comparison of OBPP and LFD Estimates

	Actual 2014	Forecast 2015	Forecast 2016	Forecast 2017	3 Year Total
OBPP	2,077.04	2,143.84	2,294.00	2,433.78	6,871.62
LFD	2,077.04	2,119.50	2,175.10	2,281.60	6,576.20
Change	-	24.34	118.90	152.18	295.42

- Looking Forward

Major Montana, IHS Economics, Bureau of Economic Analysis, Bureau of Labor Statistics, & Federal Reserve Data Releases with their Potential Interaction with the Level of the Revenue Estimate and the Legislative Schedule					
IHS National Data Release		Major New Data (MT, BEA, BLS, Federal Reserve)	IHS State Data Release	Potential Impact on Revenue Estimate	Date of Legislative Significance
October	8-Oct-14	25 Sep - DOR Property Tax Database 26 Sep - GDP Q2, 2014 (third estimate); Corporate Profits Q2, 2014 (revised) 30 Sep - State Quarterly Personal Income, Q1 2011-Q2 2014; 30 Sep - State Annual Personal Income, 2011-2013. 30 Sep - State Annual Personal income revisions 2001-2012; 31 Oct - DOR TY 2013 Individual Income Tax Filings	15-Oct-14	Most Significant	RTIC Thursday, November 20, 2014
November	10-Nov-14	Oct 30, 2014 - GDP Q3, 2014 (adv, est); 31 Oct - Personal Income and Outlays Sep 2014; 3 Nov - October Collections and FY 2014 Accrual Reversals.	17-Nov-14	Major	
December	4-Dec-14	20 Nov - Local Area Personal Income, 2009-2011; 25 Nov - GDP Q3 2014 (2nd est.); Corp. Profits Q3 2014 (preliminary); Nov 26 - Personal Income & Outlays Oct 2014	11-Dec-14	Minor	Monday, December 15, 2014 Budget Adjustments
January	31-Dec-14	2 Jan - SABHRS December Collections (including CY 2014 Withholding) 16-17 Dec - Federal Reserve Projections (Dec 16-17) 19 Dec - State Quarterly Personal Income Q1:2014 - Q3:2014; 23 Dec - GDP Q3 2013 (third est.) & Corp Profits (revised);	7-Jan-15	Minor	Jan 5 (Day 1) - Jan 19 (Day 12); Jan 24 (Day 17) last day for new Revenue Bills
February	9-Feb-15	28 Jan - FMOC meeting Jan 30 - GDP - 4th quarter and annual 2014 (advance estimate); 2 Feb - Personal Income and Outlays, December 2014; 2 Feb - SABHRS January Collections (including January Annual W/H update);	16-Feb-15	Major	Feb 26 (Day 45) Transmittal of General Bills
March	9-Mar-15	2 Mar - SABHRS February Collections; Feb 27 - Gross Domestic Product, Q4 2014, & Annual 2014 (second estimate) CBO Projections	16-Mar-15	Minor	March 19 (Day 60) Transmittal HJR 2; March 27 (Date 67) Transmittal Approp. Bills; April 5 (Day 71), Transmittal Revenue Bills
April	7-Apr-15	18 Mar - CY 2014 State Employment Benchmark 18 Mar - January & February Montana employment & Unemployment release; 25 Mar - State Annual & Quarterly Personal Income, Q1 2011 - Q4 2014; 27 Mar - GDP Q4 & Annual 2014 (3rd Est.); Corporate Profits, Q4 and 2014). 1 Apr - SABHRS March Collections. Federal Reserve Projections & FMOC meeting March (17-18)	14-Apr-15	Major	April 17 (Day 82), Transmittal amended Revenue Bills (including HJR2); Monday April 27 90th Legislative Day <i>Sine die</i>
May	7-May-15	1 May - SABHRS April collections including PIT payments w/returns, & refunds. 23 Apr - GDP by Industry, 2014; GDP Q1 2015 (advance estimate)	14-May-15		