

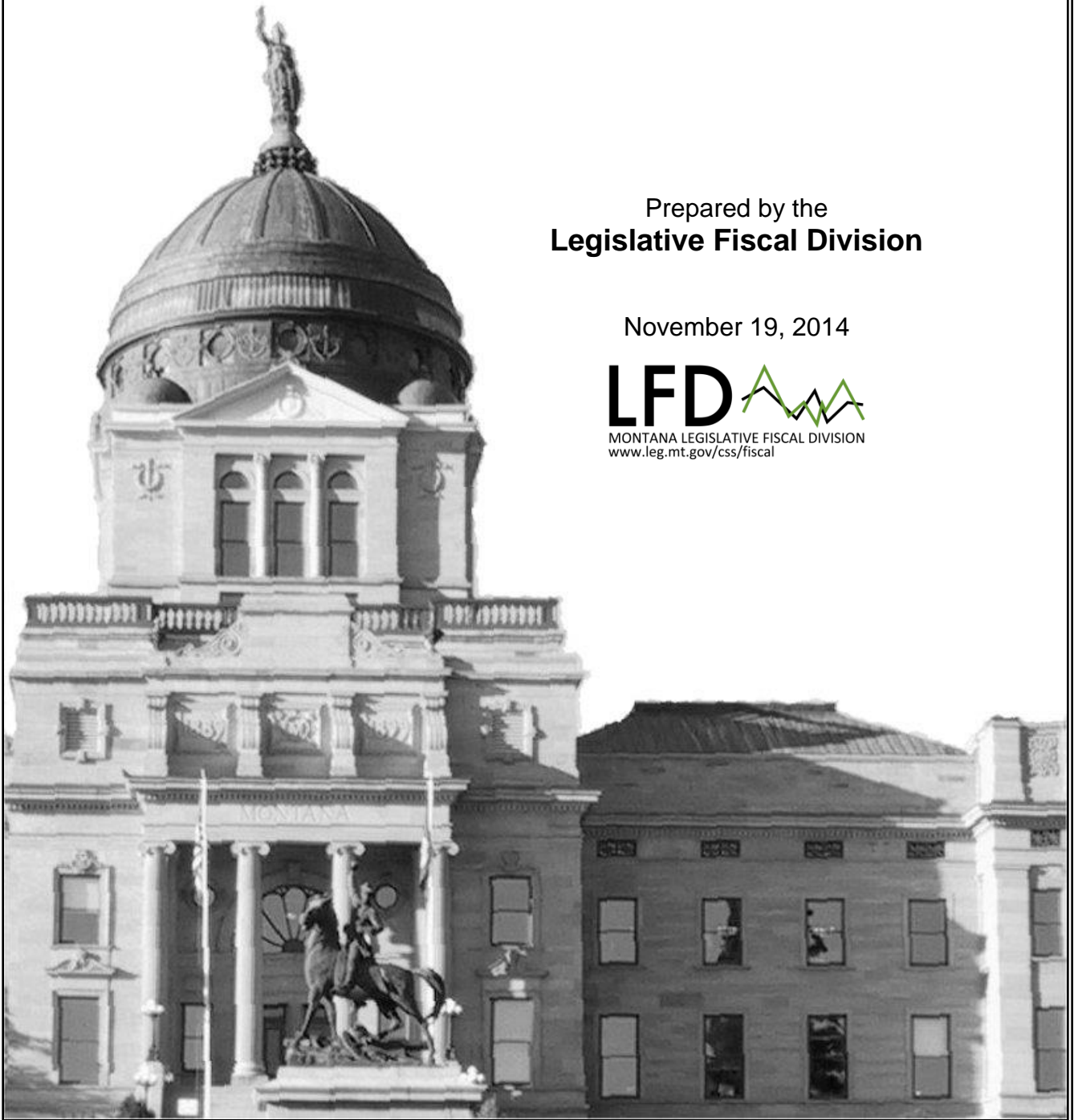
# Revenue Estimate Recommendations

*Fiscal Years 2015, 2016 and 2017*

Prepared by the  
**Legislative Fiscal Division**

November 19, 2014

**LFD**   
MONTANA LEGISLATIVE FISCAL DIVISION  
[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



# Revenue and Transportation Interim Committee

Senator Christine Kaufmann—Chair  
Senator Dick Barrett  
Senator Greg Jergeson  
Senator Janna Taylor  
Senator Fred Thomas  
Senator Art Wittich

Representative Nancy Balance—Vice Chair  
Representative Carlie Boland  
Representative Roy Hollandsworth  
Representative Chuck Hunter  
Representative Tom Jacobson  
Representative Mike Miller

## Legislative Fiscal Division Staff

Amy Carlson  
Joe Triem  
Nick Brown  
Cynthia Hollimon  
Stephanie Morrison  
Sam Schaefer



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

**Director**  
AMY CARLSON

November 17, 2014

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

In accordance with the provisions of [5-12-302, MCA](#), I am submitting electronically the Legislative Fiscal Division revenue estimate recommendations for the fiscal years 2015, 2016, and 2017. I am providing this information in advance of the November 20<sup>th</sup> RTIC 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 2017 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 2015 legislative session. My staff and I look forward to assisting in this task.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Amy Carlson".

Amy Carlson  
Legislative Fiscal Analyst

Attachments



# Revenue Estimates

## Overview

Purpose of the Report.....	1
History .....	1
General Fund Revenue Estimate Recommendations.....	3
Select Non-General Fund Revenue Estimates Recommendations .....	5
Economic Outlook for Montana .....	6
General Fund Projection .....	14

## Business and Personal Taxes

Corporation Income Tax .....	17
Driver's License Fees .....	21
Individual Income Tax .....	24
Insurance Tax & License Fees.....	30
Investment License Fee.....	32
Lodging Taxes .....	34
Motor Vehicle Fee.....	37
Public Contractors Tax.....	40
Railroad Car Tax.....	43
Rental Car Sales Tax.....	46
Telecommunications Excise Tax.....	48
Vehicle Tax.....	50

## Natural Resource Taxes

Coal Severance Tax .....	55
Electrical Energy Tax .....	60
Federal Forest Receipts.....	62
Metalliferous Mines Tax .....	64
Oil & Natural Gas Production Tax .....	66
Resource Indemnity Tax .....	73
U.S. Mineral Royalties .....	75
Wholesale Energy Tax.....	77

## Interest Earnings

Capital Land Grant Interest and Income.....	81
Coal Trust Interest .....	83
Common School Interest and Income .....	86
Cultural Trust Interest .....	90
Deaf and Blind Trust Interest and Income .....	92
Economic Development Trust Interest .....	94
Parks Trust Interest.....	96
Pine Hills Interest and Income .....	98
Regional Water Trust Interest .....	100
Resource Indemnity Trust Interest .....	103
Tobacco Trust Interest.....	106
Treasure State Endowment Trust Interest.....	109
Treasury Cash Account Interest.....	111

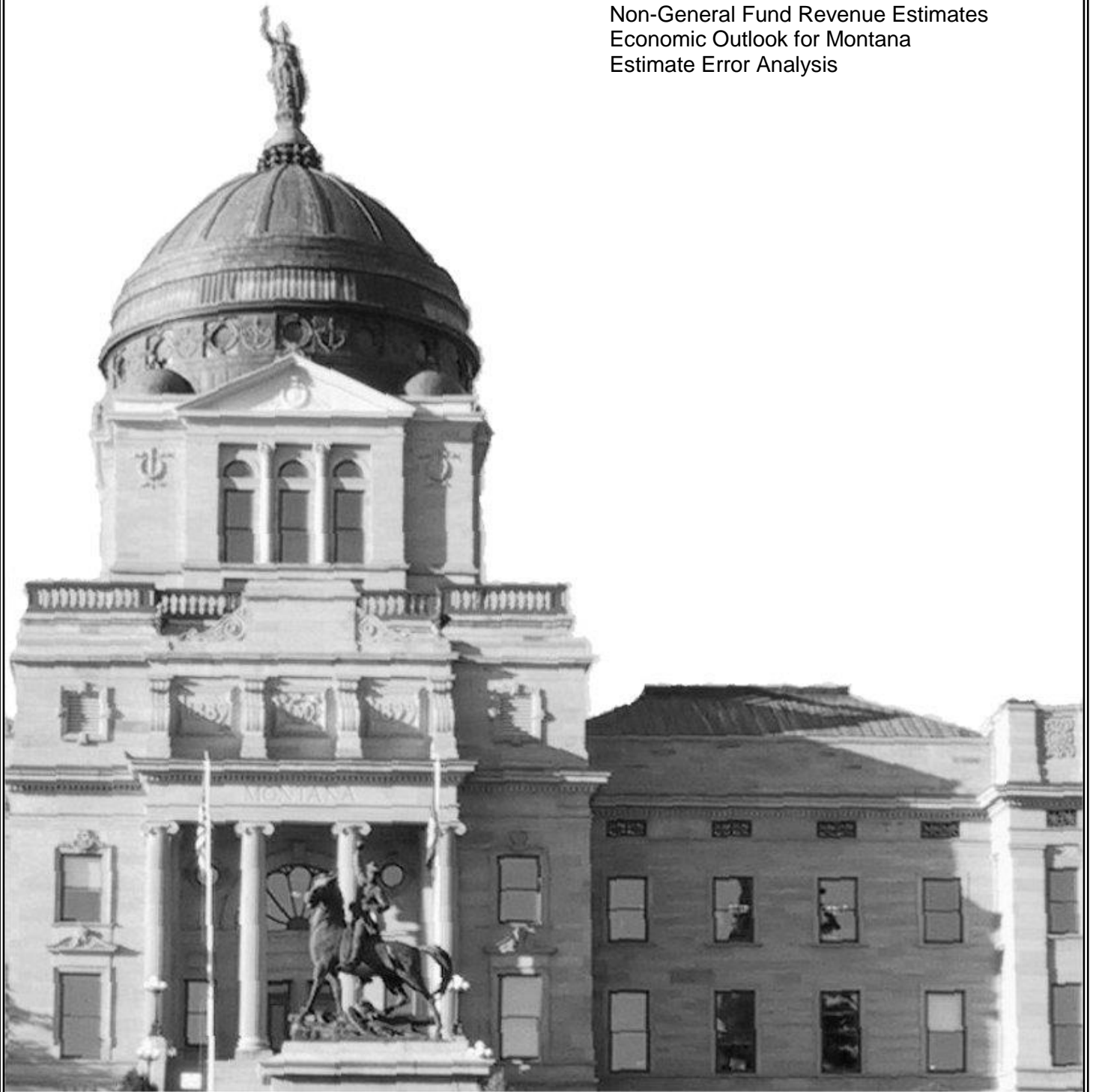
## Consumption Taxes

Beer Tax .....	115
Cigarette Tax .....	118
Diesel Tax.....	121
Gasoline Tax.....	123
GVW and Other Fees .....	126
Liquor Excise and License Tax .....	128
Liquor Profits.....	131
Lottery Profits.....	133

Tobacco Tax .....	135
Video Gambling Tax .....	137
Wine Tax .....	140
<b>Property Taxes</b>	
Property Tax and Non Levy Revenue .....	145
Property Tax 55 Mill .....	150
Property Tax 40 Mill .....	151
Property Tax 6 Mill .....	152
Property Tax 1.5 Mill .....	153
<b>Other General Fund Revenue</b>	
All Other Revenue .....	157
Highway Patrol Fines .....	159
Nursing Facilities Fee .....	161
Public Institution Reimbursements .....	163
Tobacco Settlement .....	165
<b>Guarantee Account Revenue</b>	
Guarantee Account .....	171

# OVERVIEW

Purpose of the Report  
History  
General Fund Revenue Estimates  
Non-General Fund Revenue Estimates  
Economic Outlook for Montana  
Estimate Error Analysis







## Overview

---

### Purpose of the Report

As delineated in [5-5-227\(2\)\(a\), MCA](#), the Revenue and Transportation Interim Committee (RTIC) 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 RTIC 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 2015 through 2017. 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). In the past, 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, constituted 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. During more recent sessions, the resolution has stalled at various stages of the legislative process:

## 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. As such, the Revenue and Transportation Interim Committee's estimates were the Legislature's current revenue estimates.
- On February 18, 2009, the House Taxation Committee amended HJR 2 and adopted a committee report. The resolution was rereferred to the Committee. On March 21, 2009, 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.
- On March 23, 2011, the House Taxation Committee amended HJR 2 and adopted a committee report. The resolution was rereferred to the Committee on March 28, where it died in process.
- On November 19, 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 63<sup>rd</sup> 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 of the 2013 Legislative Session. A revised estimate contained in SJR 27 was introduced in early April; however, due missing the transmittal deadline for revenue bills, it ultimately failed to pass both houses.

## Overview

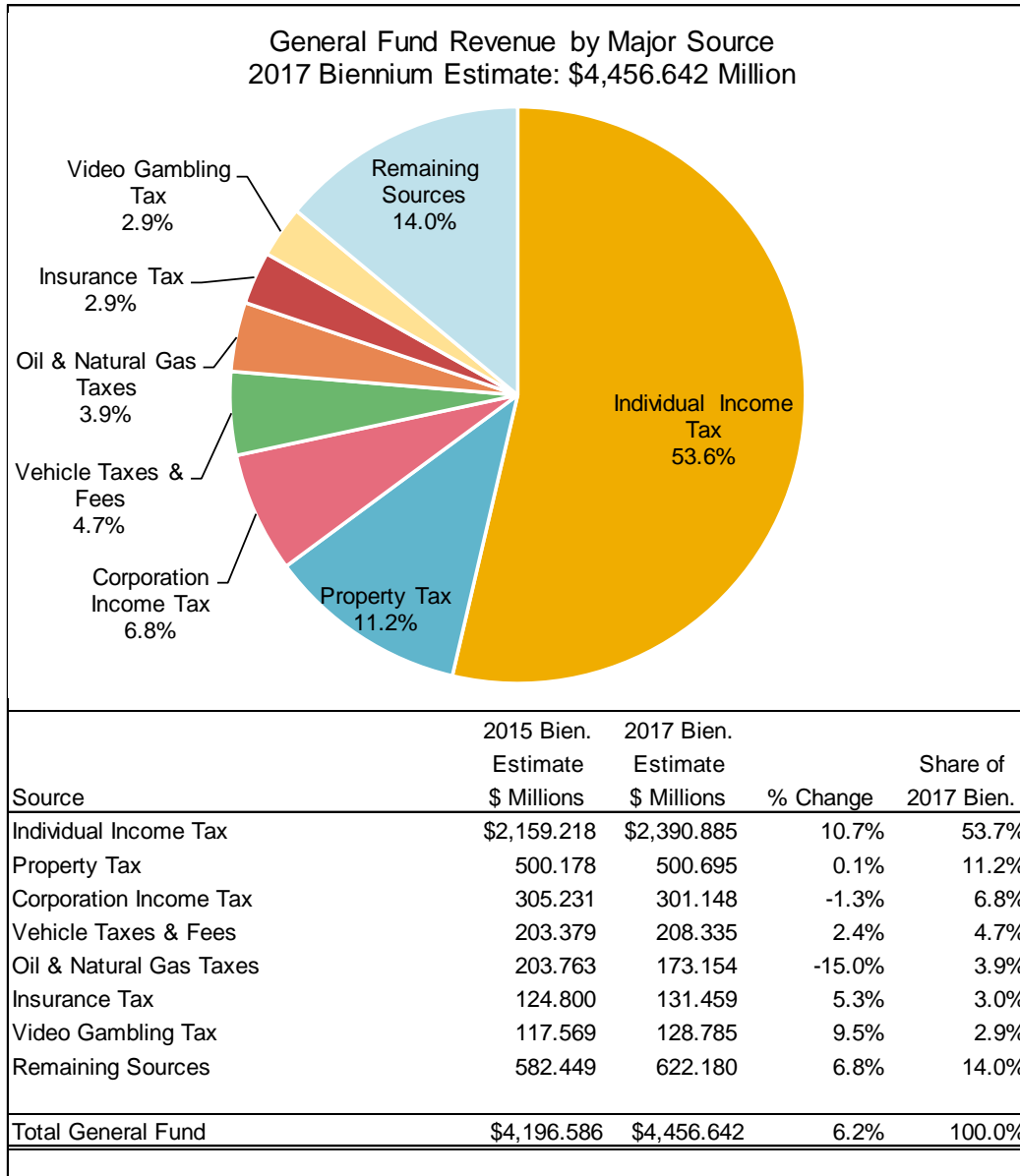
### General Fund Revenue Estimate Recommendations

The table below shows the LFD general fund estimate recommendations by revenue category. Actual FY 2014 collections are shown, along with projections for FY 2015 through 2017.

General Fund Revenue Estimate Summary						
(\$ Millions)						
Source of Revenue	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Estimated 2015 Bien	Estimated 2017 Bien
<b>Largest Seven Sources</b>						
Individual Income Tax	\$1,063.284	\$1,095.933	\$1,161.280	\$1,229.605	\$2,159.218	\$2,390.885
Property Tax	250.344	249.834	245.351	255.344	500.178	500.695
Corporation Income Tax	147.548	157.683	148.626	152.522	305.231	301.148
Vehicle Taxes & Fees	101.088	102.290	103.566	104.769	203.379	208.335
Oil & Natural Gas Production Tax	109.606	94.157	86.228	86.926	203.763	173.154
Insurance Tax & License Fees	60.873	63.928	65.357	66.102	124.800	131.459
Video Gambling Tax	57.147	60.423	62.744	66.041	117.569	128.785
<b>Other Business Taxes</b>						
Driver's License Fee	4.051	4.397	4.082	4.468	8.448	8.550
Investment License Fee	7.115	7.257	7.412	7.567	14.372	14.978
Lodging Taxes	17.725	19.169	20.114	21.316	36.894	41.430
Public Contractors Tax	0.887	2.817	3.560	3.476	3.704	7.036
Railroad Car Tax	2.418	3.641	3.698	3.849	6.059	7.547
Rental Car Sales Tax	3.521	3.749	3.896	4.071	7.271	7.967
Telecommunications Excise Tax	19.657	20.186	19.934	19.771	39.842	39.705
<b>Other Natural Resource Taxes</b>						
Coal Severance Tax	14.745	15.427	16.118	16.612	30.172	32.730
Electrical Energy Tax	4.280	4.721	4.708	4.696	9.001	9.404
Metalliferous Mines Tax	7.948	8.004	8.015	7.491	15.951	15.506
US Mineral Royalty	27.744	26.888	24.726	24.557	54.632	49.282
Wholesale Energy Tax	3.112	3.652	3.629	3.608	6.765	7.236
<b>Other Interest Earnings</b>						
Coal Trust Interest	21.996	20.473	19.849	22.491	42.468	42.340
Treasury Cash Account Interest	1.756	1.605	9.196	21.378	3.361	30.574
<b>Other Consumption Taxes</b>						
Beer Tax	3.023	3.110	3.169	3.229	6.133	6.399
Cigarette Tax	30.623	30.363	30.914	30.191	60.986	61.105
Liquor Excise & License Tax	18.418	19.086	19.720	20.446	37.504	40.166
Liquor Profits	10.500	10.744	11.184	11.618	21.244	22.801
Lottery Profits	12.091	12.596	13.409	14.440	24.687	27.849
Tobacco Tax	5.929	6.235	6.413	6.579	12.165	12.992
Wine Tax	2.250	2.299	2.366	2.438	4.549	4.804
<b>Other Sources</b>						
All Other Revenue	37.320	39.492	36.426	36.656	76.812	73.082
Highway Patrol Fines	4.142	4.224	4.255	4.251	8.366	8.506
Nursing Facilities Fee	4.961	4.859	4.756	4.654	9.820	9.410
Public Institution Reimbursements	17.298	17.123	17.239	17.280	34.421	34.519
Tobacco Settlement	3.646	3.176	3.145	3.115	6.822	6.260
<b>Total General Fund</b>	<b>\$2,077.044</b>	<b>\$2,119.542</b>	<b>\$2,175.085</b>	<b>\$2,281.558</b>	<b>\$4,196.586</b>	<b>\$4,456.642</b>

**Overview**

General fund revenue for the 2017 biennium is projected to increase 6.2% over the 2015 biennium projection. As shown in the pie chart below, the largest seven revenue sources are anticipated to account for 85% of general fund revenue in the 2017 biennium; since 2002, these sources have on average accounted for 82% of general fund revenue.



## 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 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Estimated 2015 Bien	Estimated 2017 Bien
Property Tax: 6 Mill	\$16.156	\$16.006	\$15.914	\$16.613	\$32.162	\$32.527
Natural Resource Taxes						
Federal Forest Receipts	18.675	2.137	2.053	2.017	20.811	4.070
Resource Indemnity Tax	2.279	2.402	2.492	2.565	4.681	5.057
Interest Earnings						
Capital Land Grant Interest and Income	0.666	0.892	1.044	0.880	1.558	1.924
Common School Interest and Income	49.676	50.688	49.673	48.952	100.364	98.625
Cultural Trust Interest	0.504	0.501	0.485	0.472	1.005	0.957
Deaf & Blind Interest and Income	0.275	0.287	0.290	0.285	0.562	0.574
Economic Development Trust	2.822	3.090	3.265	3.478	5.912	6.742
Parks Trust Interest	0.906	0.911	0.892	0.876	1.817	1.768
Pine Hills Interest and Income	0.345	0.388	0.396	0.401	0.732	0.797
Regional Water Trust Interest	2.993	3.207	3.269	-	6.200	3.269
RIT Trust Interest	4.296	4.044	3.787	3.530	8.340	7.317
TSE Trust Interest	9.356	9.708	9.852	10.088	19.063	19.940
Tobacco Trust Interest	6.592	7.041	7.175	7.278	13.633	14.453
Consumption Taxes						
Diesel Tax	75.560	76.411	76.752	77.975	151.972	154.726
Gasoline Tax	139.653	137.310	136.257	135.867	276.963	272.124
GVW and Other Fees	35.923	36.467	37.031	37.595	72.389	74.626
<b>Total Selected Non-General Fund</b>	<b>\$366.678</b>	<b>\$351.488</b>	<b>\$350.628</b>	<b>\$348.869</b>	<b>\$718.166</b>	<b>\$699.497</b>

## Overview

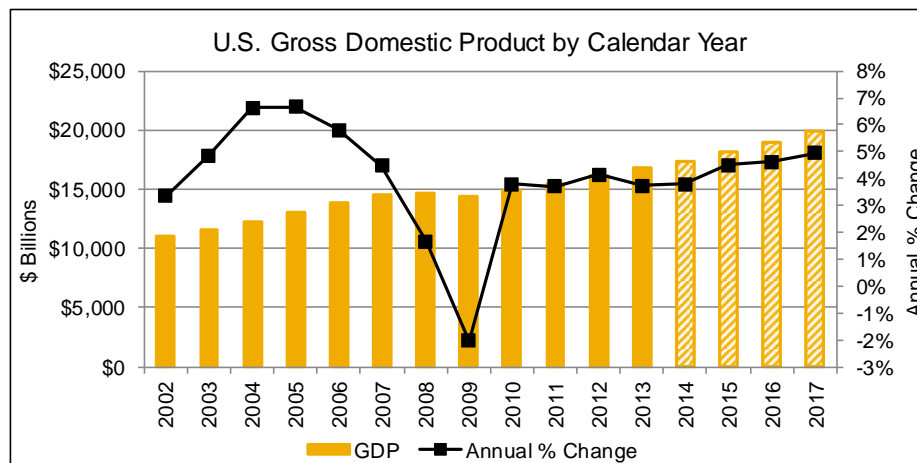
### Economic Outlook for Montana

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

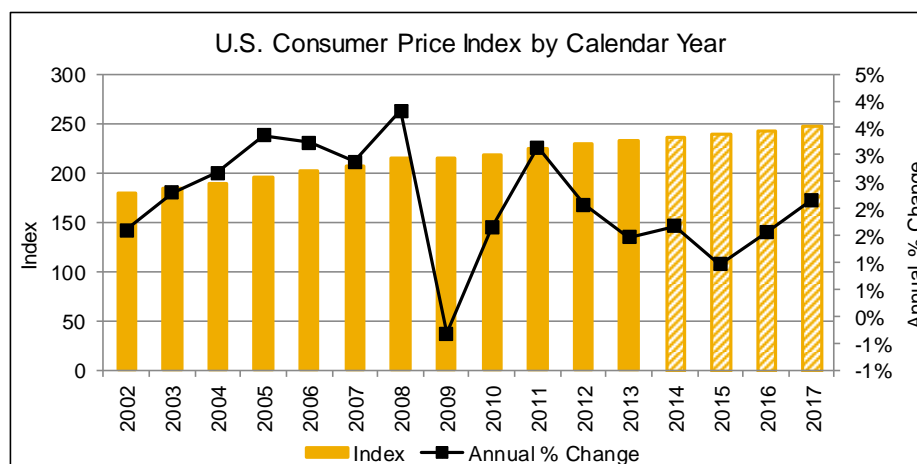
##### Gross Domestic Product (GDP)

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)

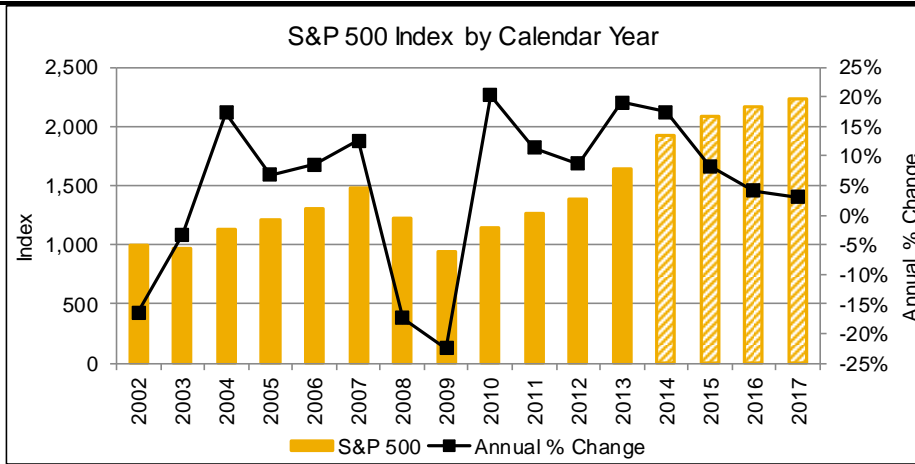
The inflation rate is measured by the price change of the CPI “shopping basket” of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable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



##### S&P 500 Stock Market Index

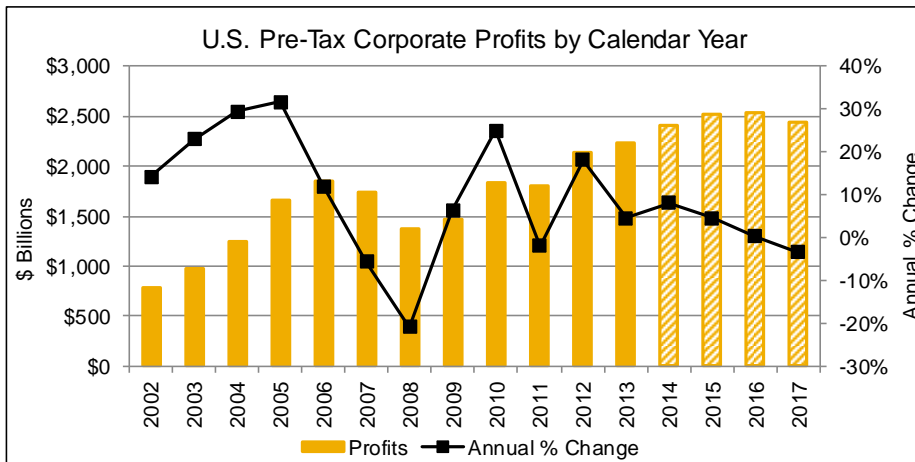
The S&P 500 is a stock market index based on the market capitalizations of 500 large companies. Due to the diversity of companies, it is a broad representation of the U.S. stock market and is a good indicator for investment income.

## Overview



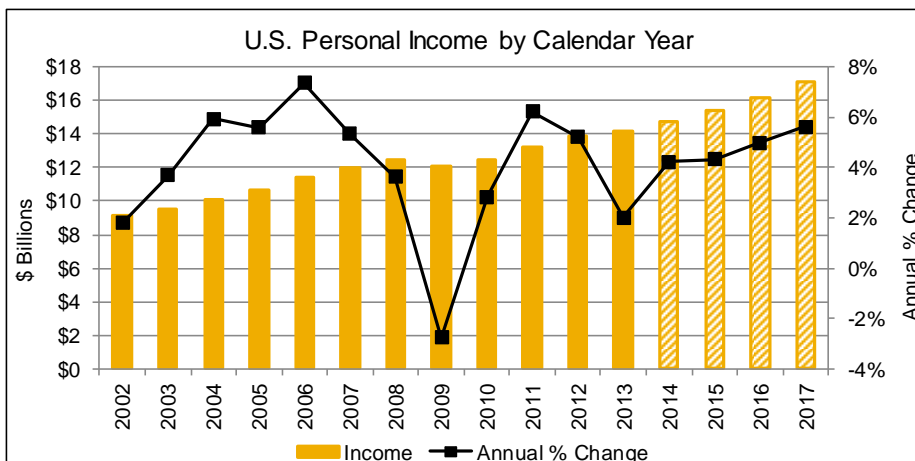
### U.S. Corporate Profits

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.

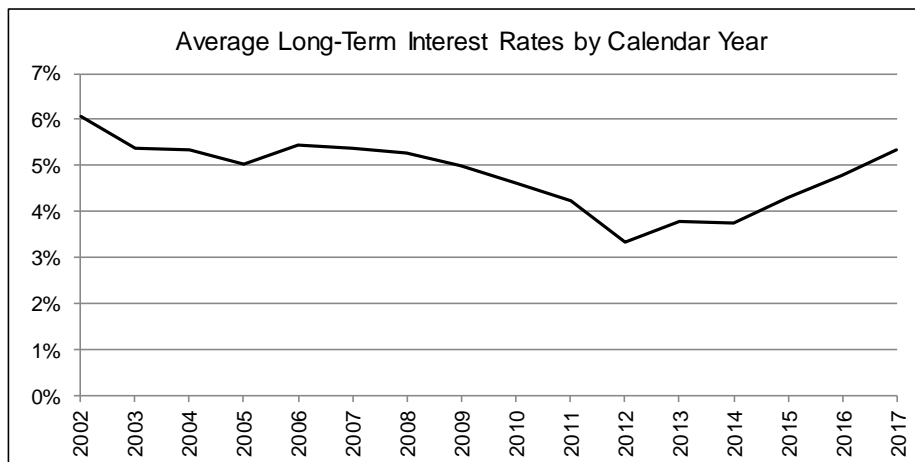
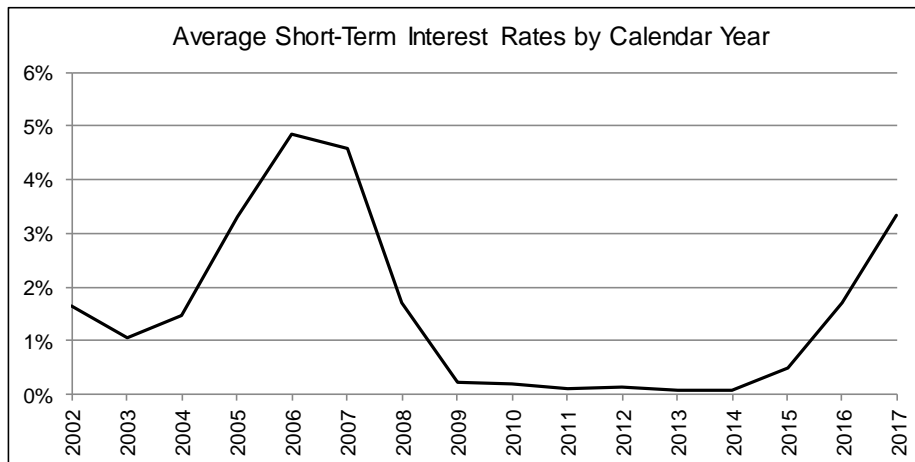


### Long & Short Term Interest Rates

## Overview

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.



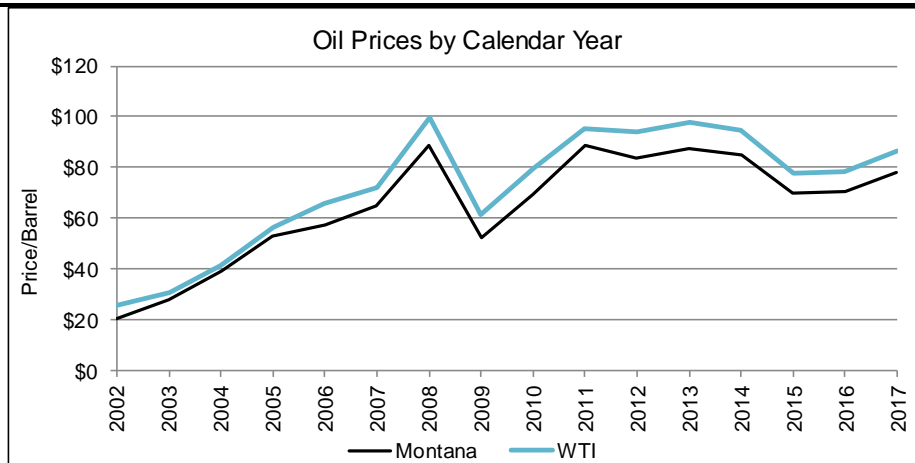
### *Oil Price: West Texas Intermediate (WTI)*

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 10% reduction to account for transportation costs.

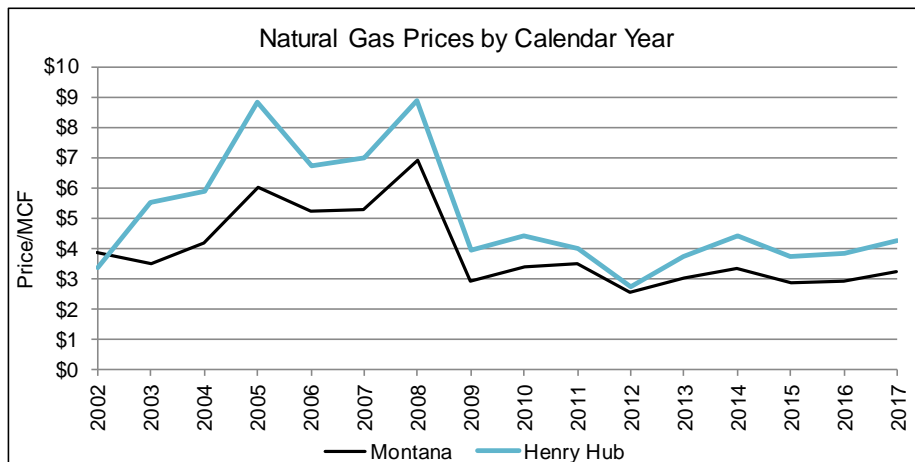


## Overview



### Natural Gas Price: Henry Hub

Montana natural gas price tracks the national Henry Hub price, with an average 24% deduction for transportation costs.

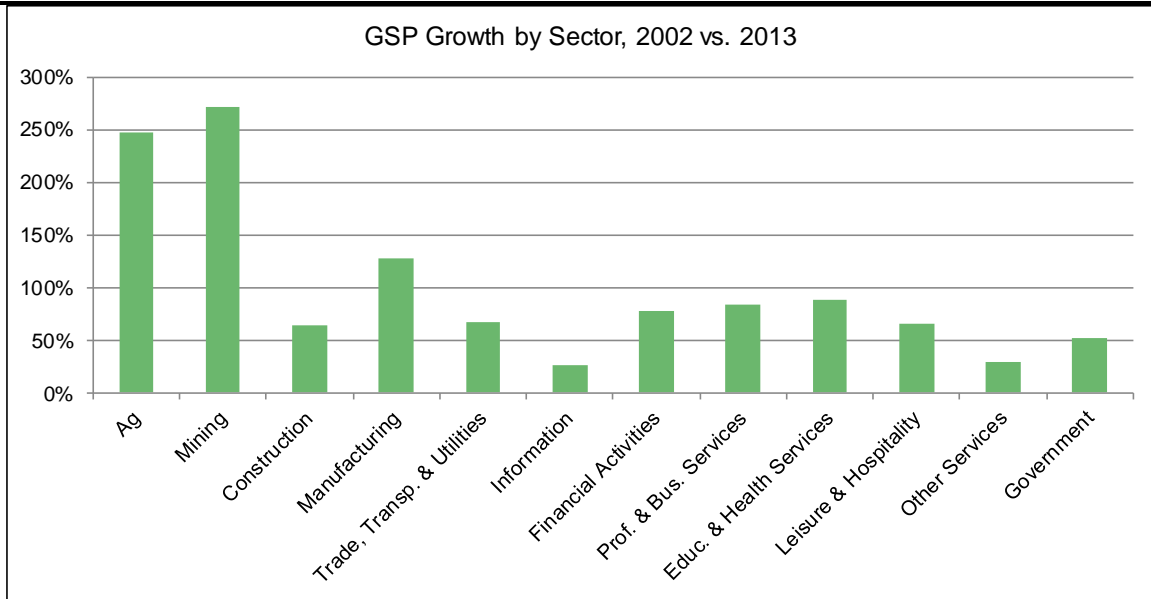


### Montana Economic Indicators

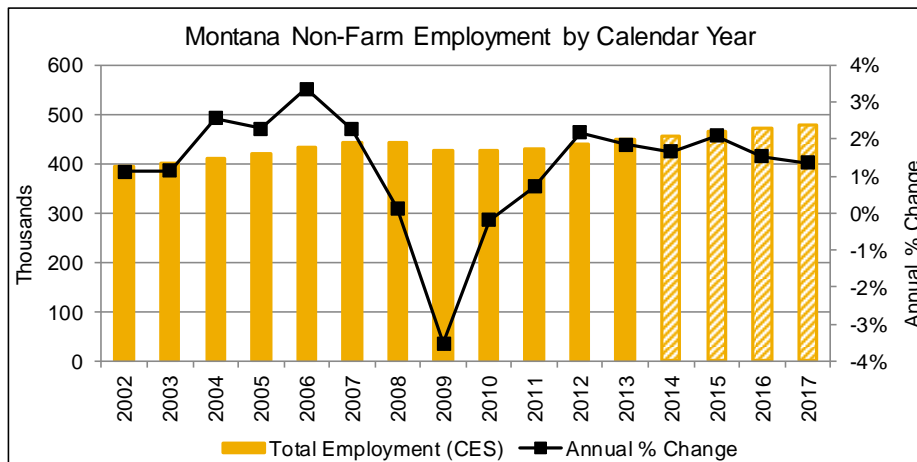
#### Gross State Product (GSP)

All broad industry categories have grown since 2002, as measured by GSP; however, the strongest growth has occurred in the agriculture and mining (which includes oil extraction) industries. These two industries combined account for 6.4% of total GSP in 2002, and grew to account for 12.5% of GSP in 2013.

## Overview



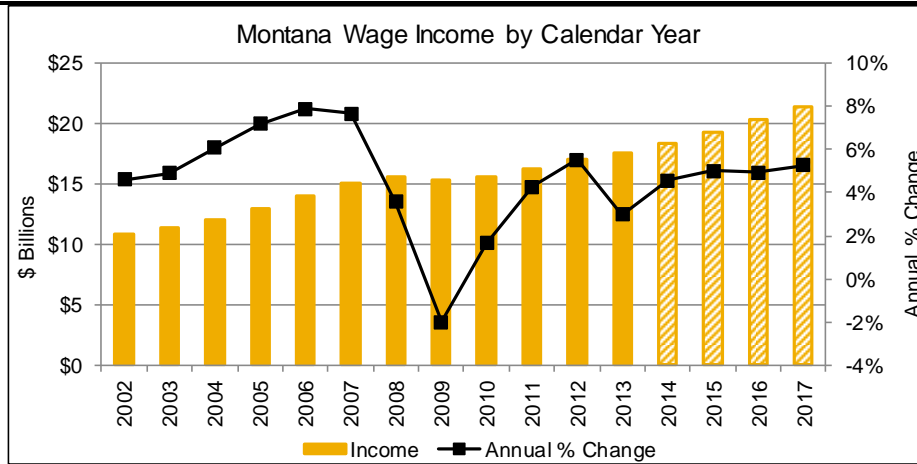
## Employment



## Wages

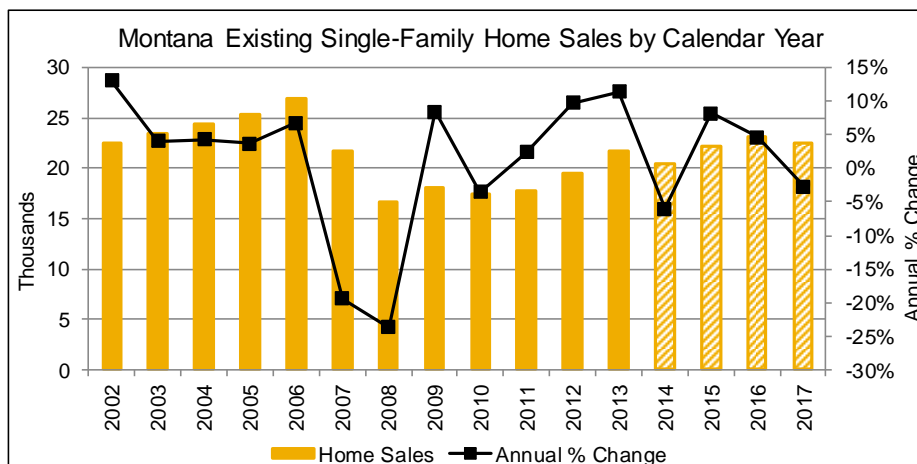
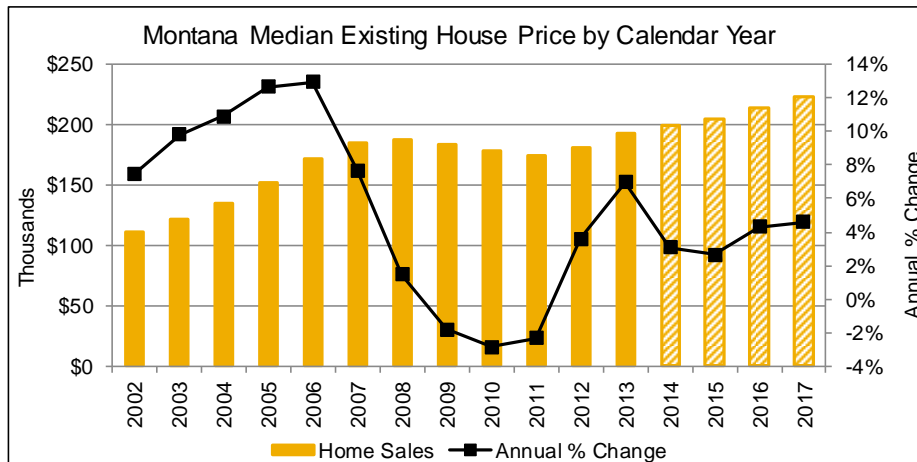
Wage income accounts for nearly two-thirds of individual income, and individual income tax accounts for about half of general fund revenue. Although wage income is not as volatile as several other income or revenue sources, even small changes in the outlook for wage income and produce large swings in 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.

## Overview



## Housing

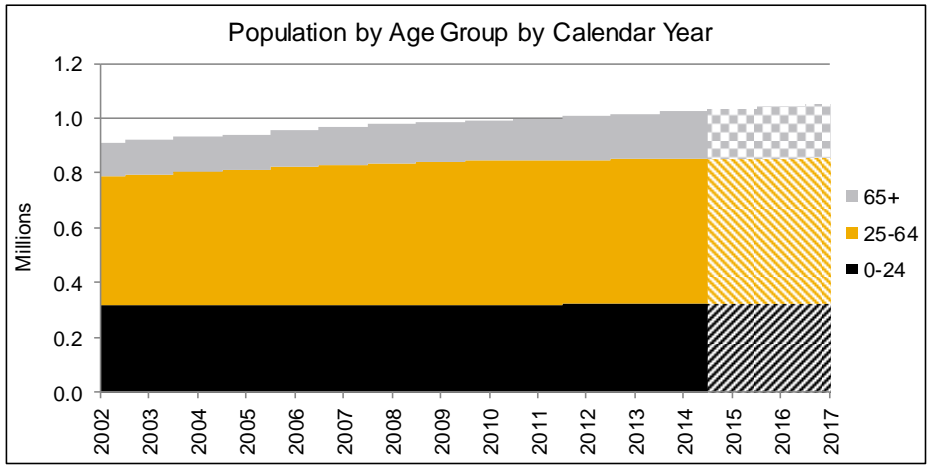
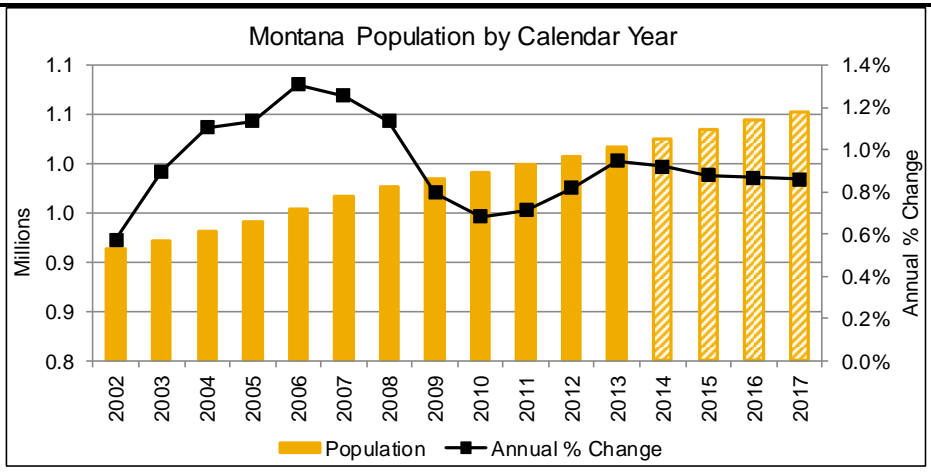
The health of the housing market can be measured by median house price and annual sales. Housing is an important—and leading—measure of economic activity: it drives construction and related industry growth, and reflects household formation and asset accumulation. Housing indicators are used in the individual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



## 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**



## Overview

### Estimate Error Analysis

LFD revenue analyst Sam Schaefer has extended his rigorous [standard error analysis](#)—undertaken to better understand the source of estimate volatility and to direct data and model changes that would minimize the estimating error—to all top seven general fund revenue sources, as well as TCA interest earnings.

Each of the revenue estimates in the following table is calculated using a source-specific model. In any given year it is highly unlikely that the model will estimate the actual revenues perfectly. A model may overestimate actual revenues one year, while underestimating revenue the next. Since the direction and magnitude of errors may vary widely from one year to the next, it is difficult to assign a level of certainty to an error term in any specific future year. As a result, to study the overall accuracy of any one model it makes sense to study the model's average error. Studying the average error gives insight into the long-term efficiency of any specific model, and allows for accurate model comparison.

For each revenue source below, a corresponding 95% confidence interval for an estimate of the average error is listed for the estimates one, two, and three years into the biennium. Note that the actual error in a given year will almost always be larger or smaller than the average error, and could fall outside the confidence interval for the average error.

Intervals of Average Error by Estimate Year with 95% Confidence Interval							
Revenue Source	Year 1		Year 2		Year 3		Analysis Notes
	Low	High	Low	High	Low	High	
Individual Income Tax	-10.0%	13.1%	-15.0%	14.6%	-18.2%	13.0%	Represents maximum bound
Property Tax	0.0%	1.4%	-1.6%	1.7%	-1.3%	3.8%	Based on historical estimates
Corporation Income Tax	-5.1%	23.4%	-5.3%	23.9%	-11.7%	27.8%	
Vehicle Taxes & Fees	-5.5%	-0.6%	-8.3%	-1.9%	-11.4%	-3.7%	
Oil & Natural Gas Taxes	-5.8%	15.9%	-11.6%	23.4%	-16.5%	28.1%	Based on a proxy model
Insurance Tax	-3.7%	8.0%	-5.4%	6.8%	-3.3%	10.4%	
Video Gambling Tax	-0.8%	6.5%	-0.9%	7.1%	-4.9%	5.6%	
Treasury Cash Account Interest	0.3%	50.0%	-195.5%	29.8%	-550.8%	-15.8%	Lower bound of \$0

### Key Takeaways

The standard error analysis of the top seven general fund revenue sources, along with TCA, allows for the following:

- Comparison of model efficiency which allows for more focused research in the future
  - Comparison of model types
    - Currently applied to corporation income tax and oil taxes
    - Future application to individual income and others
  - Comparison of IHS forecast accuracy
- Insight into a particular model's tendency to overestimate or underestimate revenue
- Understanding of long-term model accuracy

### Note of Caution

The inquisitive reader may wish to construct an aggregate confidence interval for the sources listed above by simply applying the interval bounds to the corresponding estimate and summing them. This would result in a maximum average error interval. An interval this large, however, is highly unlikely as these revenue sources have an inherent relationship with one another. This relationship often causes estimate error from different sources to partially offset each other. As an example, lower oil prices result in less oil taxes; however, reduced oil prices may actually stimulate other parts of the economy—especially consumer spending—by increasing disposable income.

### Future Work

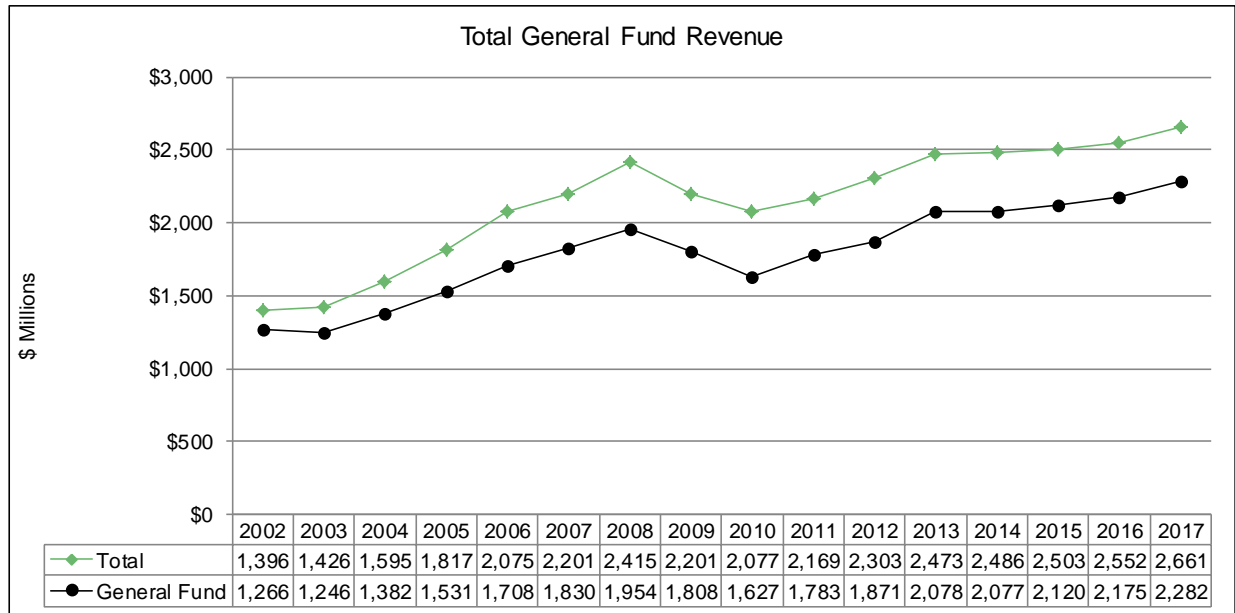
Currently, data limitations prevent understanding revenue offsetting relationships fully enough to create the average error interval for an aggregate revenue estimate of the sources listed above. As more data becomes available in the coming years, the plan is to extend these confidence intervals to

## Overview

a revenue estimate for the entire general fund. Furthermore, more data may provide a means to begin understanding the error term associated with any one year's revenue estimate, as opposed to analyzing its average error.

## General Fund Projection

The graph below shows actual total general fund collections from FY 2002 to FY 2014 and includes LFD estimate recommendations for FY 2015 through FY 2017.



# BUSINESS AND PERSONAL TAXES

Corporation Income Tax  
Driver's License Fees  
Individual Income Tax  
Insurance Tax & License Fees  
Investment License Fees  
Lodging Taxes  
Motor Vehicle Fees  
Public Contractors Tax  
Railroad Car Tax  
Rental Car Sales Tax  
Telecommunications Excise Tax  
Vehicle Tax

**LFD**   
MONTANA LEGISLATIVE FISCAL DIVISION  
[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)





## Corporation Income Tax

### Revenue Description

The corporation income tax is levied against a corporation's net income earned in or attributable to Montana, adjusted for allowable credits.

### Statutory Reference

Tax Rate – [15-31-121, MCA](#)

Tax Distribution – [15-31-121, MCA](#)

Date Due – 15<sup>th</sup> day of the fifth month following the close of the corporation fiscal year ([15-31-111, MCA](#) and [15-31-502, MCA](#)). Estimated taxes due April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, and December 15<sup>th</sup> ([15-31-502, MCA](#)).

### Applicable Tax Rates

The tax rate is 6.75%, except for corporations making a "water's edge" election ([15-31-322, MCA](#)), who pay a 7.0% tax on their net income.

**Collection Frequency:** Monthly, quarterly and annually

**Distribution:** All proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to significant differences in modeling methodology. The executive forecast is based on a model using lagged U.S. corporate profits, while the legislative forecast takes a multi-sector approach using multiple economic variables to forecast various corporate sectors.

Corporation Income Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$167.400	\$204.000	\$201.300	\$572.700
Legislative Forecast	157.683	148.626	152.522	458.831
Difference	\$9.717	\$55.374	\$48.778	\$113.869
% Difference	6.2%	37.3%	32.0%	24.8%

### Forecast Risks

- Stock market activity
- Oil price
- Housing market outlook

### Revenue Estimate Methodology

#### Data

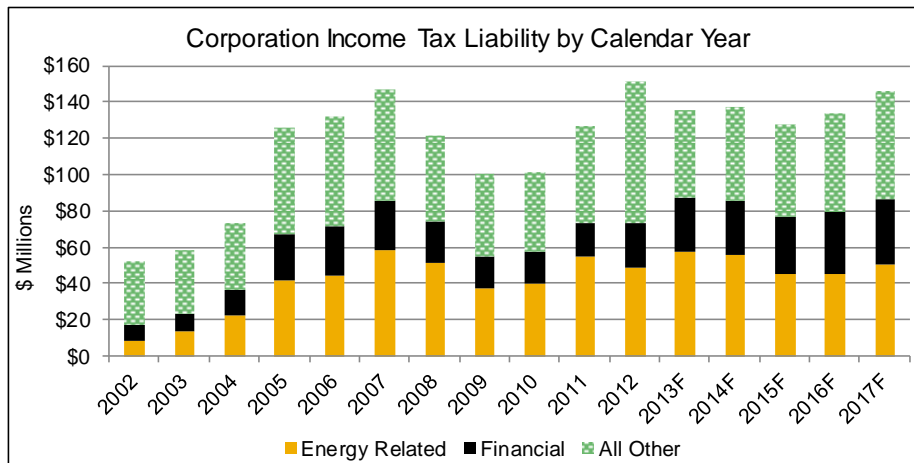
The estimate for this source is based on collection data from SABHRS, corporation income tax return data from DOR, and various historical and forecast economic indicators from IHS. The return data is dated information for two main reasons: each tax year includes all returns from corporations whose fiscal year began in that particular tax year; and corporations are allowed up to 10.5 months after the end of the tax year to file a return.

#### Analysis

Montana corporation tax liability is forecast using a variety of IHS economic variables as predictors. These variables are used to forecast calendar year tax liability by sector. Major sectors include manufacturing, financial services, retail trade, and mining. Once estimates have been produced

individually for all relevant sectors, they are combined to form a total estimate of calendar year liability. The calendar year estimate is converted to a fiscal year estimate, with adjustments made to account for refunds, audits, penalties, and credit reimbursements.

As shown in the figure below, energy related sectors account for nearly half of total tax liability. The underlying volatility of the energy industry is a large contributor to the overall volatility of this tax source.



Corporation income tax revenues are quite volatile from year to year, resulting in a revenue stream that is difficult to predict. The volatility can be attributed to many factors: sensitivity of corporation income to business cycles, industry composition in the state, reliance on a limited number of large taxpayers, and federal and state tax policy. For example, Montana law allows corporations to carry back current year losses for three years, and carry forward losses for up to seven years. The carry back provision may result in magnifying a downturn to the extent that corporations file amended prior year tax returns that include current year losses, and are thereby owed a refund of taxes paid in those previous years.

Forecasting error is produced through three main channels: timing of data, in the inherent error of IHS forecast economic variables, and in the model itself as past collections are not predicted perfectly by selected IHS variables. Combined with the uncertainty involved in predicting audit and refund amounts, these sources of error can lead to revenues that may significantly deviate from forecast values and prior year collections.

While corporations’ tax behavior introduces forecasting error that is difficult to predict, [research by the LFD](#) explores methods to minimize the errors associated with the IHS forecasts of underlying economic variables and compares the relative accuracy of various model types. The research suggests that using a sector-based modeling approach consistently performs better than models that used a single variable as a predictor. While corporation income tax will likely continue to be a volatile source, the methods utilized by this research should direct modeling choices that will minimize the error introduced by IHS forecast error.

**Assumptions**

Each of the eleven sectors are listed below, followed by the average share of tax liability, a brief description of the sector, and the underlying economic variables used to develop the projection. The variables used to develop most of the projections are the average price of West Texas Intermediate oil price, Montana retail sales, and Montana median home prices.

- Manufacturing (27%)—The manufacturing industry in Montana is highly correlated with energy prices and is therefore a relatively variable with respect to its aggregate tax liability. This sector is modeled using IHS forecast prices of West Texas Intermediate Crude.

- Financial services (17%)—This sector includes banks, bank holding corporations, and companies involved in investment activities. Financial sector tax liability is modeled on median existing home prices in Montana as well as Montana wholesale employment.
- Wholesale and retail trade (17%)—This combined sector trends well with Montana retail sales and therefore uses retail sales to predict future sector revenues.
- Mining (5%)—The mining industry in Montana is heavily dependent on energy prices; it is modeled on the average price of West Texas Intermediate Crude.
- Professional and business services (6%)—The professional service sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. The business service sector comprises establishments performing routine support activities for the day-to-day operations of other organizations. This sector is combined with the utility and social sectors and aggregate estimated is produced using an ARIMA time series.
- Transportation and warehousing (14%)—The transportation and warehousing sector includes industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation. Its tax liability is modeled on forecast West Texas Intermediate Crude prices and Montana's population.
- Information (5%)—The main components of this sector are the publishing industries, the motion picture and sound recording industries, the broadcasting industries, the telecommunications industries, and the information services industries. Its tax liability is modeled on 3-month commercial paper.
- Utilities (1%)—The utilities sector includes establishments engaged in the provision of electric power, natural gas, steam supply, water supply, and sewage removal. The tax liability of this sector is modeled on the average number of housing starts per year. This sector is combined with the professional and social sectors and aggregate estimated is produced using an arima time series.
- Agriculture (3%)—The tax liability of the agriculture sector is modeled on forecast Domestic Crude prices.
- Social and educational services (3%)—This is a broad grouping of educational and health services, and arts, entertainment and recreation. The tax liability is modeled on GDP. This sector is combined with the professional and utility sectors and aggregate estimated is produced using an ARIMA time series.
- Construction (2%)—Next to the utility sector, the construction industry is the smallest contributor to corporation tax liability, likely because most construction companies are organized as S-corps or limited liability companies. Its tax liability is modeled on the average West Texas Intermediate Crude price.

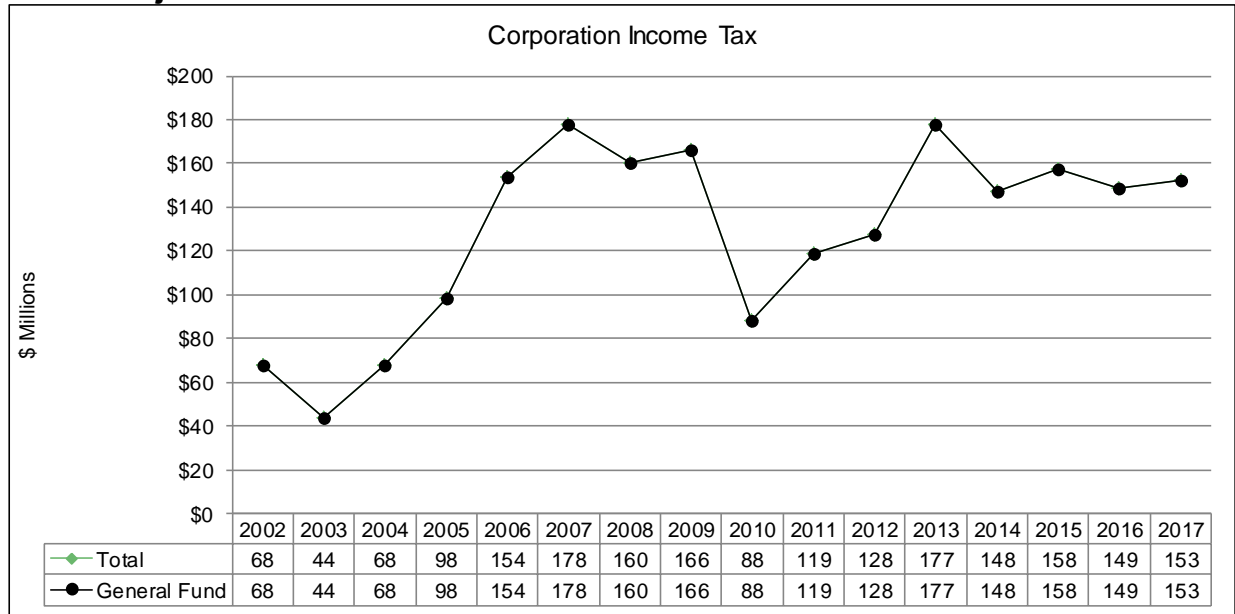
Calendar year corporation income tax liabilities are modeled by sectors as described above, and summed by year to produce a total calendar year estimate of tax liabilities. The calendar year estimates are converted to fiscal year with an 80% prior year, 20% current year allocation.

### Adjustments

After the estimate for the fiscal year gross corporation tax liability is complete, several adjustments are required. The adjustments and the corresponding estimate process for each is described below.

- Refunds – Projected on a historical average ratio of current fiscal year liability.
- Audits, penalties & interest – Projected on a historical average ratio of prior fiscal year liability.

**Revenue Projection**



**Driver's License Fees**

**Revenue Description**

A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays fees. The fees are collected by Department of Justice, Motor Vehicle Division staff or county treasurers and are forwarded to the state treasurer for deposit. If collected by the county treasurers, a portion is retained by the county. The estimates shown in this source are net of revenue retained by the counties. The fees included in this source are from regular driver's licenses, commercial driver's licenses, motorcycle endorsements, duplicate driver's licenses, and renewal notices.

**Statutory Reference**

Tax Rates – Duplicate licenses: [61-5-114, MCA](#); all others: [61-5-111\(6\), MCA](#)

Tax Distribution – [61-5-121, MCA](#)

Date Due – Upon application

**Applicable Tax Rates**

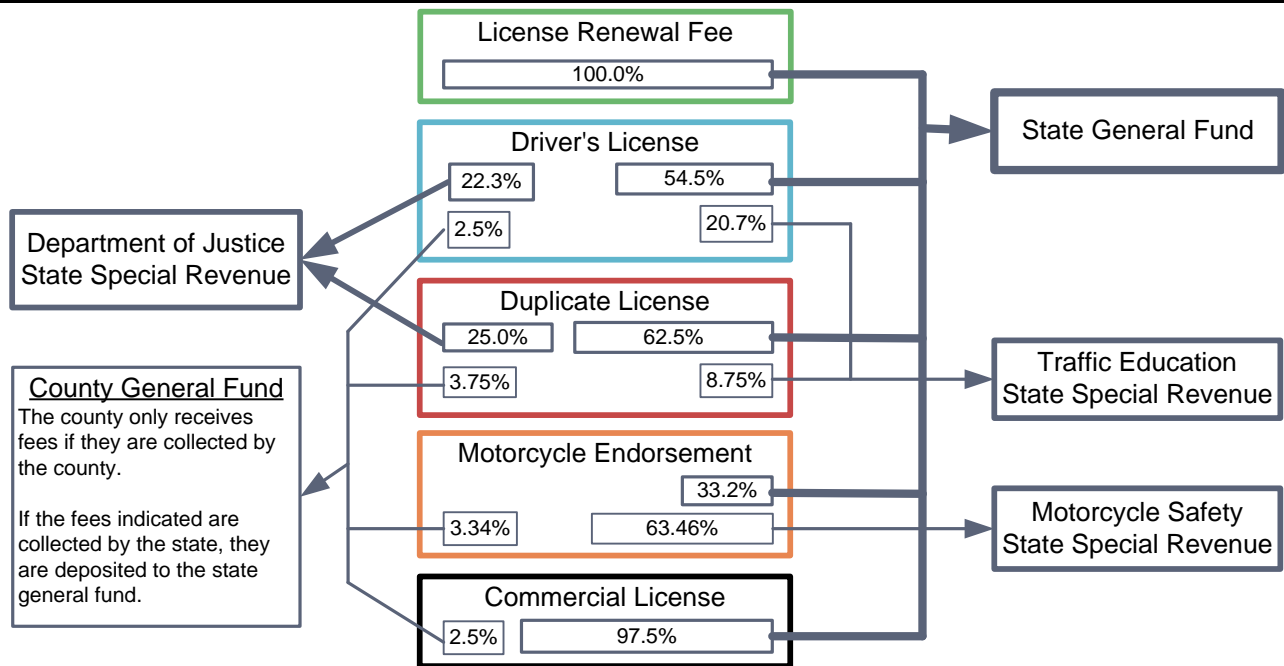
- Driver's license, except a commercial driver's license: \$5.00 per year or fraction of a year
- Motorcycle endorsement: \$0.50 per year or fraction of a year
- Commercial driver's licenses (includes the basic license fee of \$5.00)
  - Interstate: \$10.00 per year or fraction of a year
  - Intrastate: \$8.50 per year or fraction of a year
- Duplicate license: \$10.00
- Renewal notice: \$0.50

**Collection Frequency:** Monthly

**Distribution**

The distribution of license fee revenue varies by the type of license and who collects the fee. The table below shows the current statutory distribution. Note that the portion allocated to counties applies only when the county collects the fee. Otherwise, the county allocation is added to the general fund distribution.

Distribution of Driver's License Fees					
Allocation	Driver's License	Replacement License	Motorcycle Endorsement	Commercial Driver's License	Renewal Notice
County or State General Fund	2.5%	3.8%	3.3%	2.5%	0.0%
Motorcycle Safety Account	0.0%	0.0%	63.5%	0.0%	0.0%
Traffic Education Account	20.7%	8.8%	0.0%	16.5%	0.0%
State General Fund	<u>76.8%</u>	<u>87.5%</u>	<u>33.2%</u>	<u>80.6%</u>	<u>100.0%</u>
Total	100.0%	100.0%	100.0%	99.6%	100.0%



**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to the difference in population growth estimates.

Drivers License Fees (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$3.770	\$3.940	\$4.040	\$11.750
Legislative Forecast	4.397	4.082	4.468	12.947
Difference	(\$0.627)	(\$0.142)	(\$0.428)	(\$1.197)
% Difference	-14.3%	-3.5%	-9.6%	-9.2%

**Forecast Risks**

- Growth of population over age 16
- Potential impact from youth driving habits

**Revenue Estimate Methodology**

The driver's license revenue estimate is based on the number of the six various licenses/fees, multiplied by the applicable fee. The number of licenses is modeled on Montana driving age population.

Data

There are six different sources of revenue—five different driver's licenses and the renewal notice. The best source of data for the number of licenses and the renewal notice is contained in the history of revenue collections for each of these six items from the state accounting system (SABHRS).

Analysis

The methodology used to determine the number of each license/fee differs slightly:

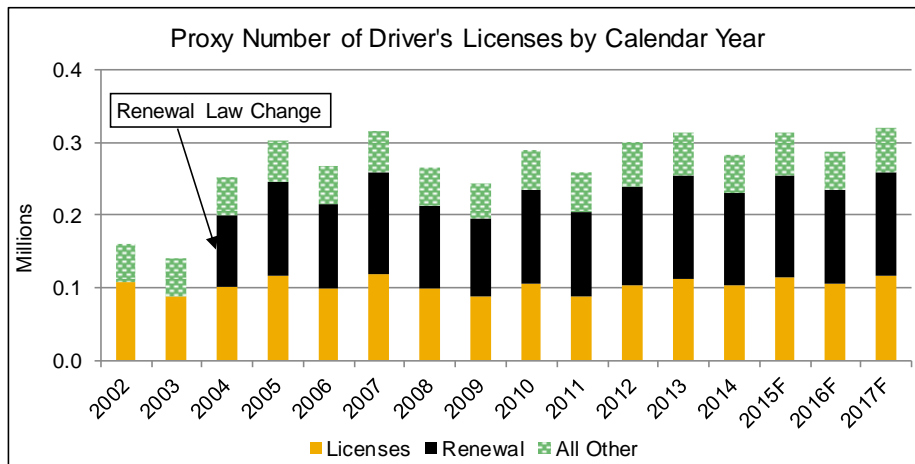
1. The proxy numbers for driver's and motorcycle licenses are obtained by multiplying the driving age population estimate for each year by the last known actual ratio of driver's licenses to driving age population. This ratio differs between odd and even years, and is applied accordingly.
2. For duplicate licenses, the proxy number is derived by multiplying the number of driver's licenses by the previous year's ratio between the number of duplicates and drivers licenses.

## Business and Personal Taxes

## Driver's License Fees

Because the driver's license proxy includes the effects of population change, these effects are also included in the proxy for duplicate licenses.

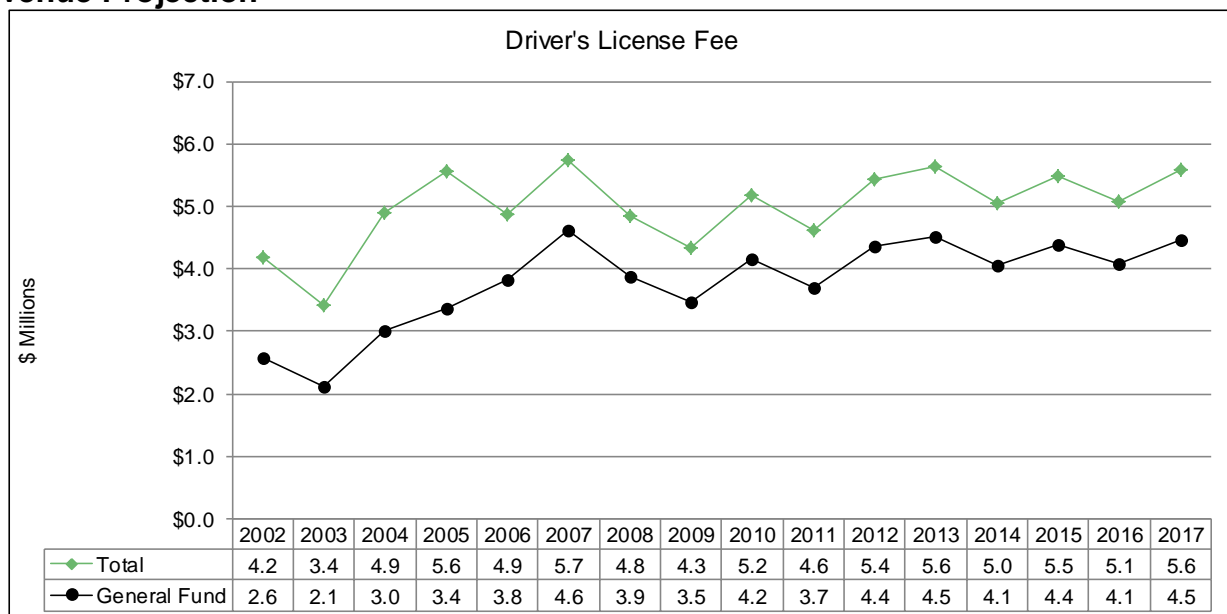
3. The proxies for the number of interstate and intrastate licenses are the amounts from the last known fiscal year.
4. To approximate the number of renewal notices, the ratio between the previous years' number of notices to the proxy number of licenses is multiplied by the estimated number of licenses. Since the license proxy includes the effects of population change, these effects are also included in the proxy for renewal notices.
5. Based on historical percentages, amounts retained by the counties are calculated and subtracted from the total revenue to derive the state's portion.



### Adjustments and Distribution

Once the proxy number for each license has been estimated, adjustments, if any, are made. After any adjustments, the applicable distribution percentage of the revenue for each license fee is applied (see the "Distribution" section).

### Revenue Projection



## Individual Income Tax

### Revenue Description

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

### Statutory Reference

Tax Rate – [15-30-2103, MCA](#) through [15-30-2105, MCA](#)

Tax Distribution – [17-2-124\(2\), MCA](#)

Date Due – 15<sup>th</sup> day of the fourth month of the filer's fiscal year ([15-30-2604, MCA](#)). Withholding taxes are due monthly, quarterly, or on an accelerated schedule depending on income ([15-30-2504, MCA](#)). Estimated taxes are due on the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> month and the month following the close of the tax year ([15-30-2512, MCA](#)).

### Applicable Tax Rates

Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted for inflation each year. Due to the capital gains income tax credit, the tax rate on capital gains income is less than the tax rate on ordinary income by 2%.

**Collection Frequency:** Quarterly, monthly, bi-weekly and weekly

**Distribution:** All proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts appears to be primarily due to the use of different simulation models.

Individual Income Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$1,107.850	\$1,199.200	\$1,295.700	\$3,602.750
Legislative Forecast	1,095.933	1,161.280	1,229.605	3,486.818
Difference	\$11.917	\$37.920	\$66.095	\$115.932
% Difference	1.1%	3.3%	5.4%	3.3%

### Forecast Risks

- Changes to the national economic growth outlook
- Changes to Montana's economic growth outlook
- Changes to the outlook for Montana wages
- Oil price
- Stock market activity
- Housing prices and sales

### Revenue Estimate Methodology

#### Data

The estimate for this source is based on collection data from SABHRS, individual income tax return data supplied by the Department of Revenue (DOR), state and national historical and forecast data on income, inflation, employment, and other economic variables from IHS.



Analysis

*Overview*

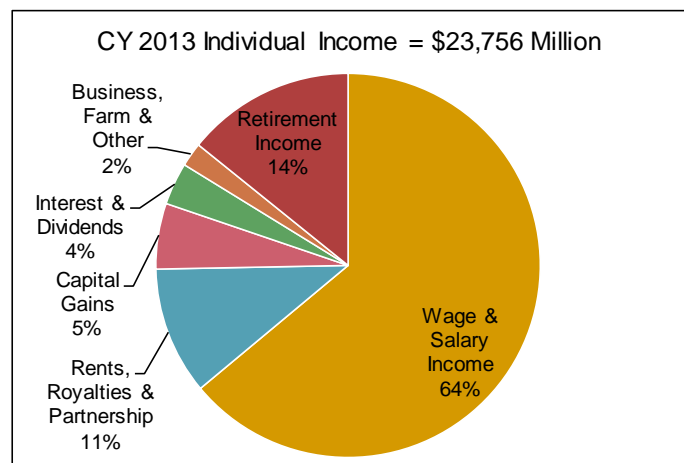
An individual income tax simulation model is used to forecast Montana calendar year individual income tax liability for all residents. The calendar year state tax liability forecast is developed by applying modeled growth rates to each resident taxpayer’s income and deduction items. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which produces a statewide forecast of individual income tax liability for each year.

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. An estimate of allowable credits is deducted, producing a calendar year individual income tax liability for each future year.

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

*Growth Rates*

Growth rates are modeled for each of the income, adjustment, addition, reduction and deduction line items. The models for most of the income line items are highlighted in this section, along with corresponding forecast risks. Nearly two-thirds of all income reported is from wages and salaries; the broad revenue categories are shown in the adjacent chart.



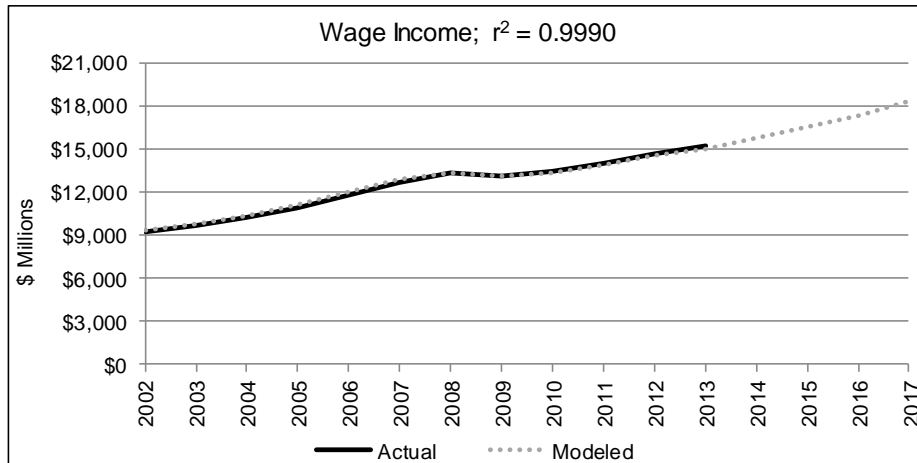
The table below summarizes the growth rates used for returns, inflation and income items. Growth estimates for all other line items—adjustments, additions, reductions and itemized deductions—are included in the revenue estimate assumptions section, which is available online.

Individual Income Growth Rates				
	CY 2014	CY 2015	CY 2016	CY 2017
Full Year Resident Returns (Annual)	1.3%	1.6%	1.2%	1.0%
Full Year Resident Returns (Cumulative)	101.3%	102.9%	104.1%	105.1%
Inflation State	2.1%	0.8%	1.5%	2.2%
Inflation Federal	1.7%	1.6%	1.0%	1.4%
Wages and salaries	4.5%	4.9%	4.9%	5.2%
Interest income	-0.1%	1.4%	12.0%	26.8%
Dividend income	3.7%	6.6%	3.7%	0.3%
Taxable refunds	0.0%	0.0%	0.0%	0.0%
Alimony received	4.0%	4.0%	4.0%	4.0%
Net business income	-0.3%	1.9%	0.7%	2.0%
Capital gains	22.2%	-6.4%	5.0%	-2.5%
Supplemental gains	-40.0%	2.0%	2.0%	2.0%
IRA distributions	12.7%	10.5%	8.8%	7.6%
Taxable pensions	6.2%	7.0%	6.9%	6.6%
Rents, royalties, etc.	5.4%	4.3%	1.5%	-1.4%
Farm income	5.0%	0.0%	0.0%	0.0%
Unemployment compensation	0.0%	0.0%	0.0%	0.0%
Taxable social security	8.8%	8.5%	7.6%	6.9%
Other income	0.0%	0.0%	0.0%	0.0%

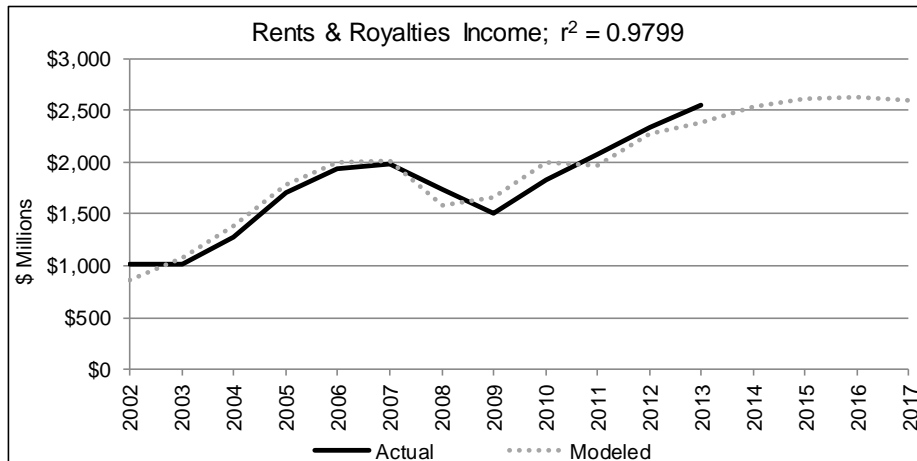
**Business and Personal Taxes**

**Individual Income Tax**

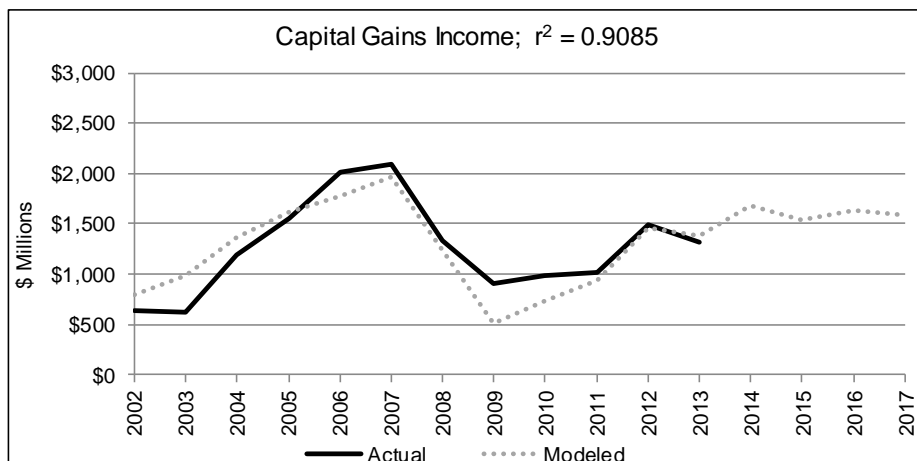
Wage and salary income is the largest source of individual income and is modeled on the IHS series for Montana wage and salary distributions.



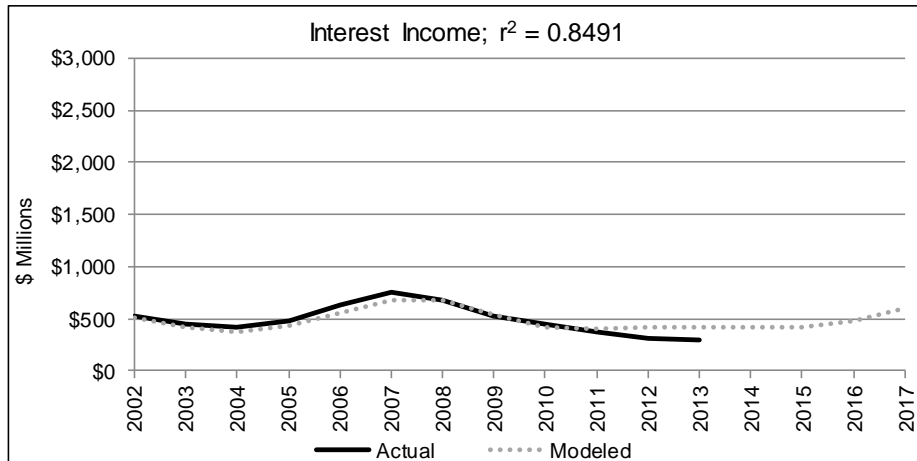
Rent, royalty & partnership (schedule E) income is modeled on West Texas Intermediate (WTI) oil price, gross state product for the construction industries and before tax corporate profits.



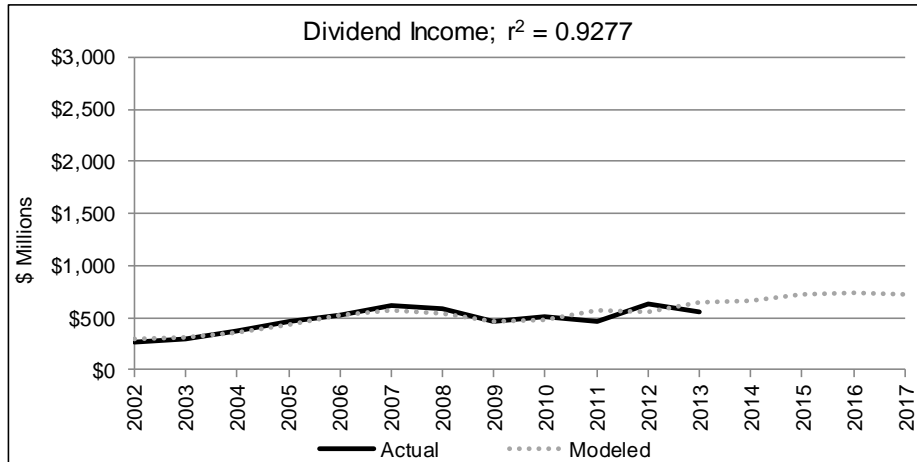
Capital gains income is modeled on a three-year difference of the S&P 500 stock market index, a three-year difference of Montana median house price, and the annual number of Montana home sales.



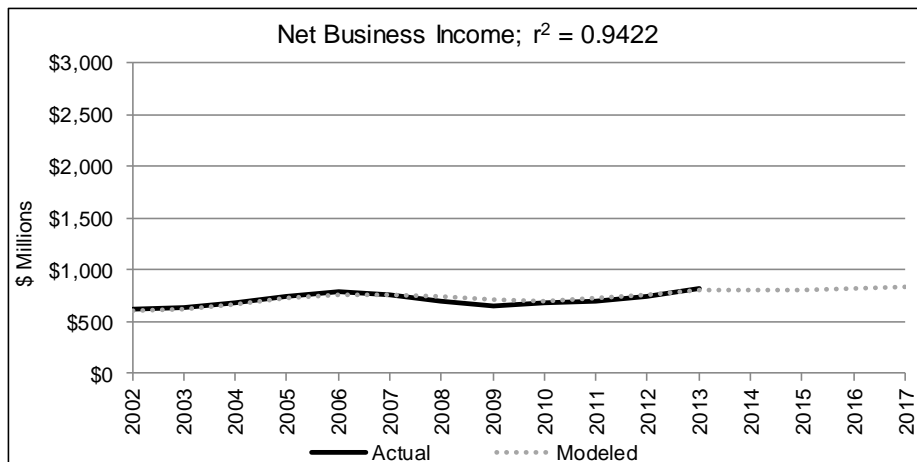
Interest income is modeled on the rate of 3-month negotiable CDs and national personal interest income.



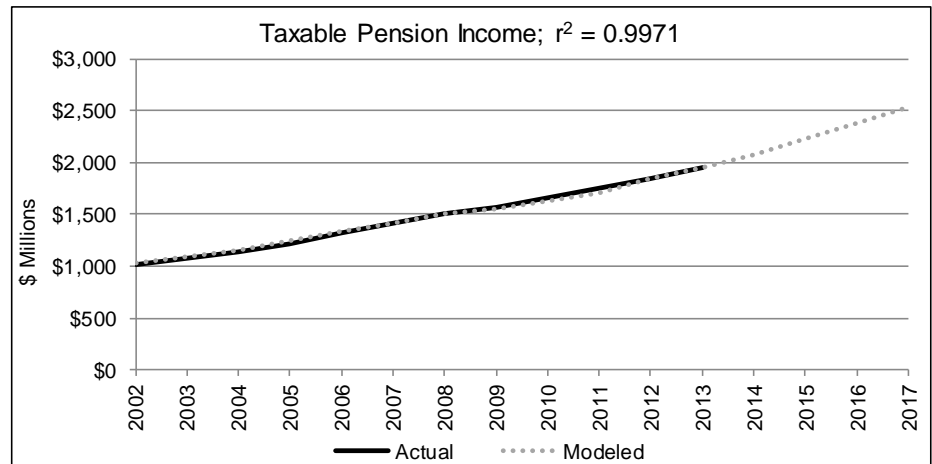
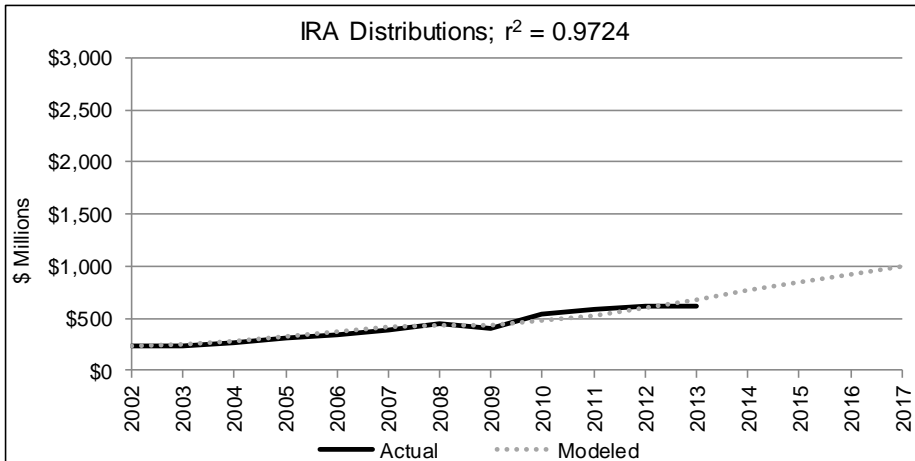
Dividend income is modeled on before-tax corporate profits.



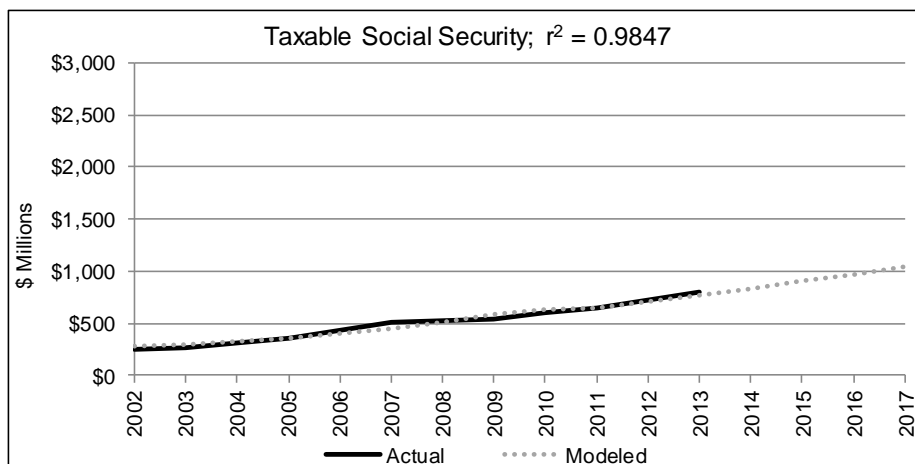
Net Business income is modeled on national non-farm proprietor's income, Montana farm proprietor's income, and gross state product for the construction industry.



The two of the three retirement income sources—IRA distributions and pension income—are modeled on the S&P 500 stock market index, gross domestic product and the number of age 65 and older Montanans.



Taxable social security is modeled on federal transfer payments to Montana and Montana population age 65 or older.

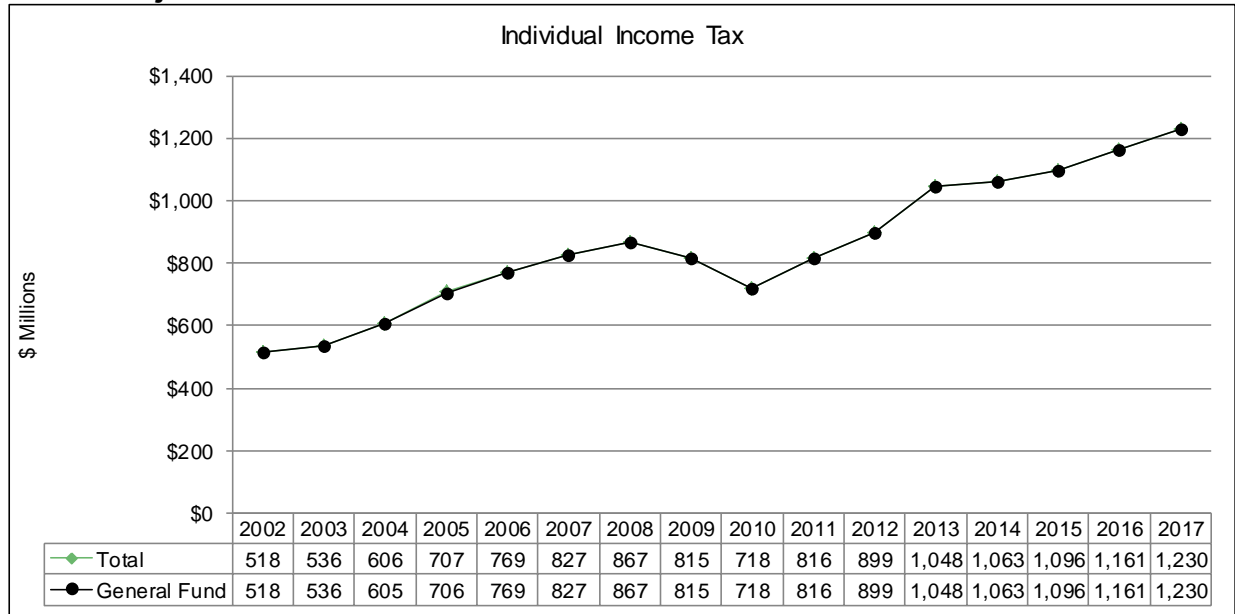


All remaining income sources, including farm income, sum to a negative amount. These sources are forecast individually, but are generally anticipated to remain at about the same as the level as the last known year.

*Audits and Other Assumptions*

Fiscal year audit, penalty and interest revenue is assumed to remain at a recent historical average of the prior calendar year tax liability before credits. Audit, and penalty and interest revenue added to the modeled fiscal liability, resulting in total fiscal year collections.

**Revenue Projection**



**Insurance Tax & License Fees**

**Revenue Description**

An insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Various insurance and license fees are also collected.

**Statutory Reference**

Tax Rate – [33-2-705\(2\), MCA](#); [33-2-311, MCA](#); [33-28-201\(1&2\), MCA](#); [50-3-109\(1\), MCA](#)

Fee Rate – Many of the fees are contained in [33-2-708\(1&2\), MCA](#); all other fees are listed in various chapters of [Title 33, MCA](#)

Tax Distribution – [33-2-708\(3\), MCA](#); [33-2-712, MCA](#); [50-3-109\(1\), MCA](#); [33-28-120, MCA](#)

Date Due – March 1<sup>st</sup> each year ([33-2-705\(1\), MCA](#); [33-2-712, MCA](#); [33-28-201\(1&2\), MCA](#)).

Quarterly payments due the 15<sup>th</sup> of April, June, September and December (Administrative Rules [6.6.2704](#) and [6.6.2705](#))

**Applicable Tax Rates**

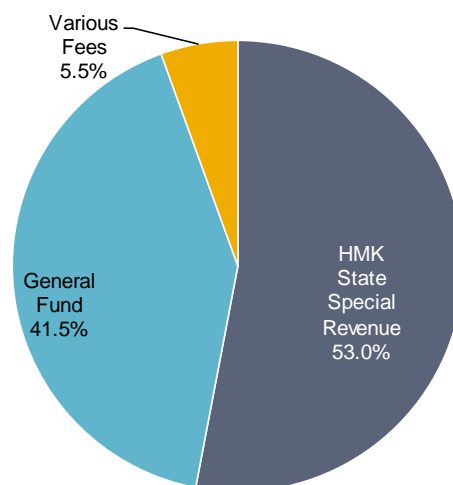
- 2.75% of net premiums on policies sold in Montana
- An additional 2.5 % tax on the fire portion of net premiums for selected risks
- 0.4% on the first \$20 million of net direct premiums and 0.3% on each subsequent dollar collected by captive insurance companies

**Collection Frequency:** Quarterly and annually

**Distribution**

Insurance tax and license fee revenue is distributed primarily between the general fund (2/3) and the Healthy Montana Kids state special revenue fund (1/3). Exceptions include fire insurance premiums which are deposited fully to the general fund, captive insurance company premiums which are deposited 95% to the general fund and 5% (along with any fees and assessments to captive companies) to a fund for administration of such companies, the genetics fee which is deposited into a state special fund for genetic testing, and the remaining fees which are deposited in a state special fund for use by the State Auditor.

The following chart shows the high level FY 2014 distribution of insurance tax and license fee revenue.



**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Insurance Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$62.990	\$64.880	\$67.500	\$195.370
Legislative Forecast	63.928	65.357	66.102	195.387
Difference	(\$0.938)	(\$0.477)	\$1.398	(\$0.017)
% Difference	-1.5%	-0.7%	2.1%	0.0%

**Forecast Risks**

- Changes in the S&P 500 forecast
- Changes in Long-term interest
- Changes in Montana housing sales

**Revenue Estimate Methodology**

Data

The insurance tax and license fee estimate is based on data obtained from SABHRS, the State Auditor’s Office (SAO) and IHS. Fiscal year collections come from SABHRS; detailed historical data and future estimates for offsets and refunds are from the SAO; forecasts for independent economic variables are produced by IHS.

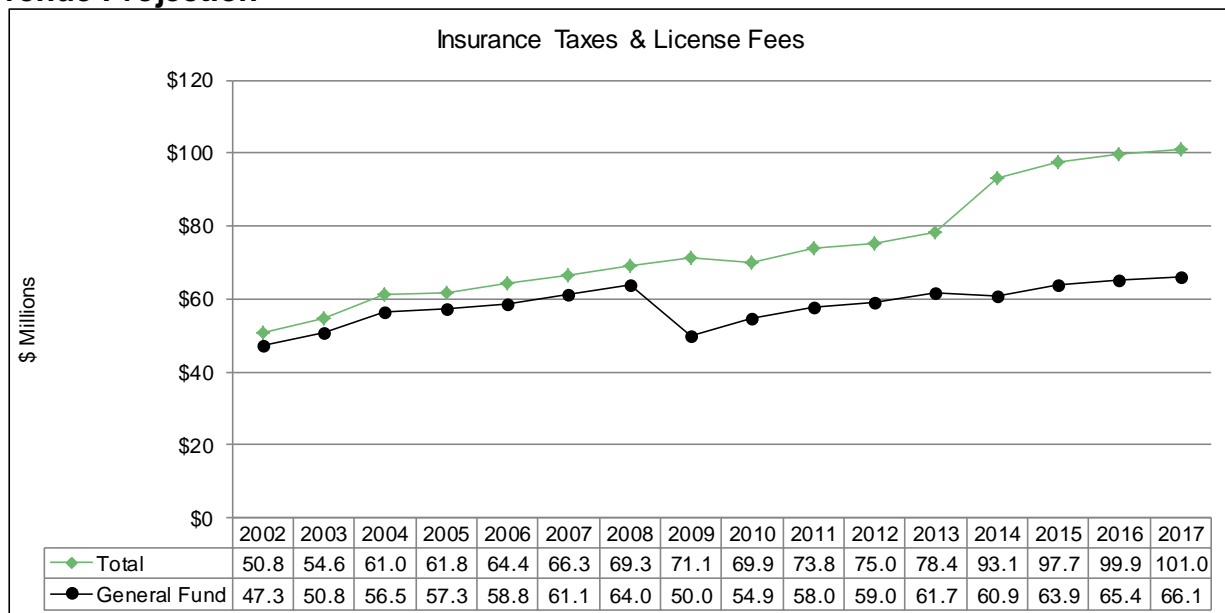
Analysis

Total taxes and fees are calculated by summing the forecasts for premium taxes and all other fees as estimated individually. Premium taxes are forecast with a regression model using the independent, IHS-provided values for long-term interest rates, Montana housing starts, and the S&P 500 index, as well as a linear time trend. Additionally, the model employs the previous year’s premium tax as an auto-regressive component.

Estimates for the various fees are made based on measures of annual growth.

Estimates for offsets and refunds from the SAO are subtracted from the sum of these two components to produce the amount of net premium taxes expected to be received by the state.

**Revenue Projection**



**Investment License Fee**

**Revenue Description**

Investment advisors and investment companies pay fees to the state for registration of securities and agents, registration of securities by notification, notice of a federal filing of a federally secured security, and name changes.

**Statutory Reference**

Fee Rate – [30-10-209, MCA](#) and [30-10-904, MCA](#)

Fee Distribution – Excess to general fund: [30-10-115, MCA](#) and [30-10-209\(6\), MCA](#); portfolio notice fee: [30-10-209\(1d\), MCA](#), [30-10-210\(2\), MCA](#) and [30-10-907, MCA](#)

Date Due – Dealers: upon registration and annually before December 31<sup>st</sup> thereafter ([30-10-201\(9&11\), MCA](#)); securities: upon registration ([30-10-206, MCA](#)) and renewal ([30-10-209\(1b\)](#))

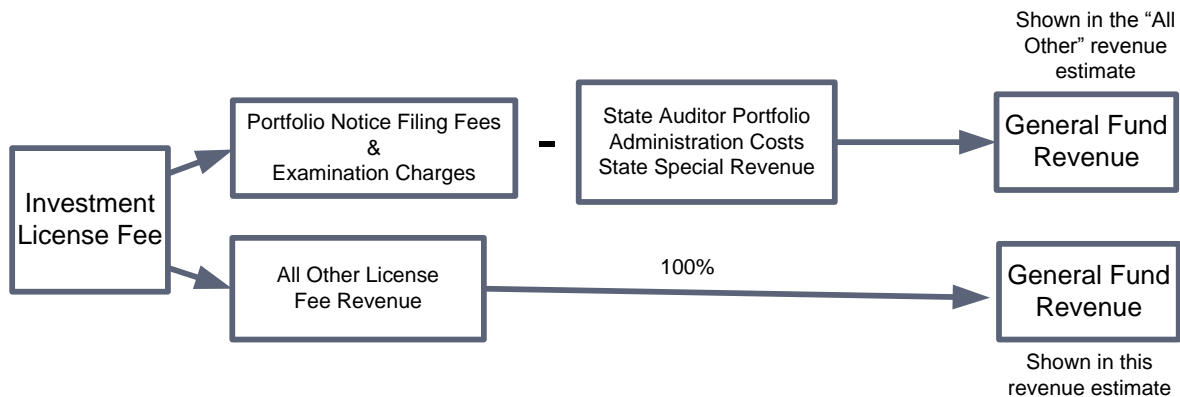
**Applicable Tax Rate**

Initial and annual security registration fees vary based on the offering price of securities, but cannot be less than \$200 or more than \$1,000. Initial and annual registration fees for a broker-dealer, investment adviser, and federal covered adviser are \$200. Initial and annual registration fees for a salesperson or investment adviser are \$50. The fee for name changes to series, portfolio, or a subdivision of an investment company is \$50.

**Collection Frequency:** Varies

**Distribution**

All fees except portfolio notice filing fees and examination charges are deposited to the general fund. Portfolio notice filing fees and examination charges are deposited in a state special revenue account from which the State Auditor pays for expenses associated with the regulation of portfolio activities. The excess in this account is transferred to the general fund throughout the year as a non-budgeted transfer and is shown under the “All Other” revenue category.



**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is small, and primarily due to slight modeling differences.

Investment License Fees (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$7.490	\$7.730	\$7.950	\$23.170
Legislative Forecast	7.257	7.412	7.567	22.235
Difference	\$0.233	\$0.318	\$0.383	\$0.935
% Difference	3.2%	4.3%	5.1%	4.2%



**Forecast Risks**

- Unusual stock market fluctuations
- Low or negative inflation

**Revenue Estimate Methodology**

Investment license fee revenue is obtained from two major sources: portfolio notice filing and examination fees, and various other fees. The portfolio notice filing fees, examination fees, and other permit revenue are estimated separately and then summed.

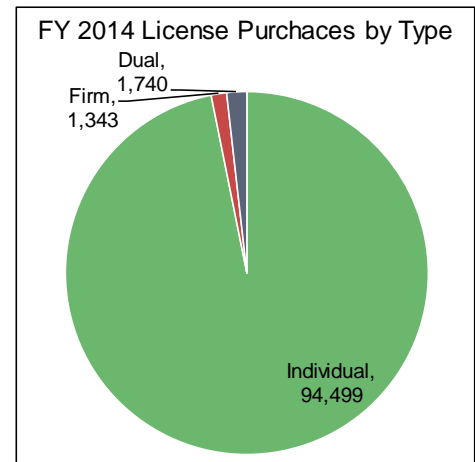
Data

The estimate for this source is based on historical collection data from SABHRS, historical license purchases by type from the State Auditor’s Office (SAO), and actual and forecast S&P 500 and Consumer Price indices from IHS.

Analysis

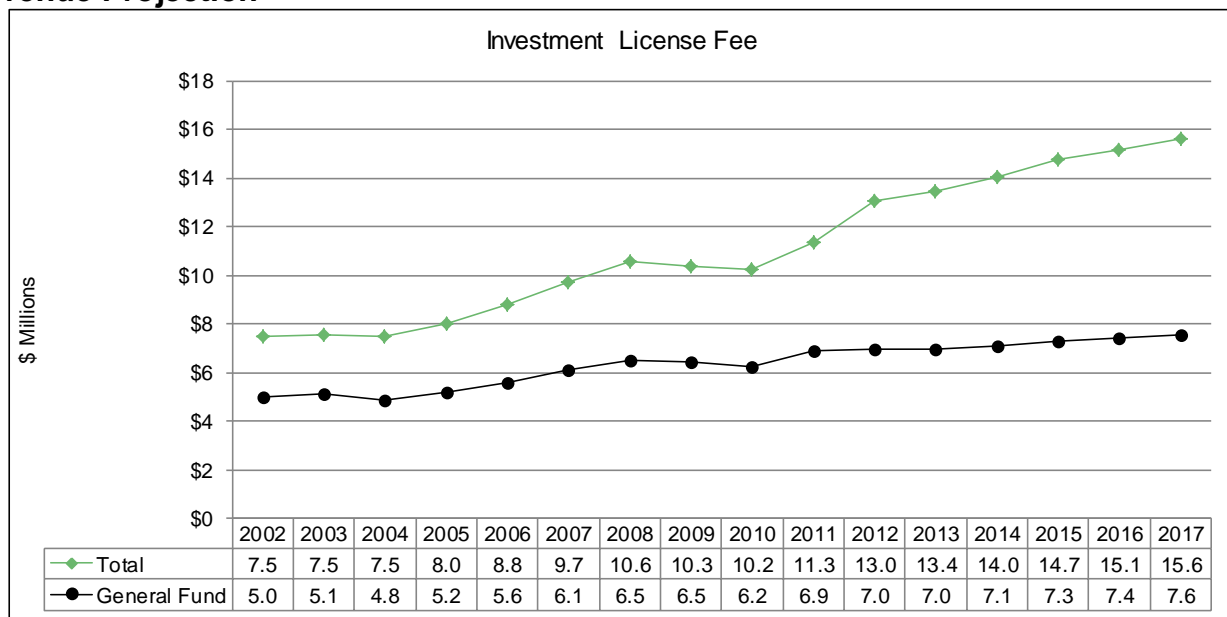
Licenses and permits receipts are modeled on the time-trended growth in license purchases. According to analysts at SAO, there are broad changes to consider in the investment industry. As larger investment firms continue to acquire smaller firms, and the large firms merge, the total number of firms has been steadily declining, resulting in fewer firm license purchases.

The trend of declining firms is expected to continue; however, the number of firm license purchases is small compared to the number of individual license purchases, as shown in the adjoining chart.



Portfolio notice filing fees are modeled on S&P 500 and Consumer Price indices.

**Revenue Projection**



## Lodging Taxes

### Revenue Description

The state imposes two taxes on room charges collected by lodging facilities and campgrounds: a lodging sales tax and a lodging facility use tax. The taxes only apply for rooms used for lodging.

The 3% lodging sales tax applies to hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, and bed and breakfast facilities. Exempt are facilities for health care, facilities owned by non-profit corporations for use by youth for camping, facilities whose average daily charge is less than 60% of the amount the state of Montana reimburses for lodging, and facilities rented for 30 days or more. Sales to the U.S. government are also exempt from the sales tax.

The 4% lodging facility use tax applies to facilities containing individual sleeping rooms or suites, providing overnight lodging for periods of less than 30 days to the general public for compensation. This includes hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, or bed and breakfasts. Exempt are non-profit or religious corporation facilities used primarily by youth for camping, facilities whose average daily charge does not exceed 60% of the amount the state of Montana reimburses for lodging, and facilities rented for 30 days or more.

### Statutory Reference

Tax Rate – [15-65-111, MCA](#) (4% lodging facility use tax); [15-68-102, MCA](#) (3% lodging sales tax)

Tax Distribution – [15-65-121, MCA](#) (4% lodging facility use tax), [15-68-820, MCA](#) (3% lodging sales tax)

Date Due – The 4% lodging facility use tax is due before the end of calendar quarter ([15-65-112, MCA](#)). The 3% lodging sales tax is due the last day of the month following the calendar quarter ([15-68-502\(1\), MCA](#)).

### Applicable Tax Rates

The lodging sales tax is 3.0% of the sales price. The lodging facility use tax is 4.0% of room charges.

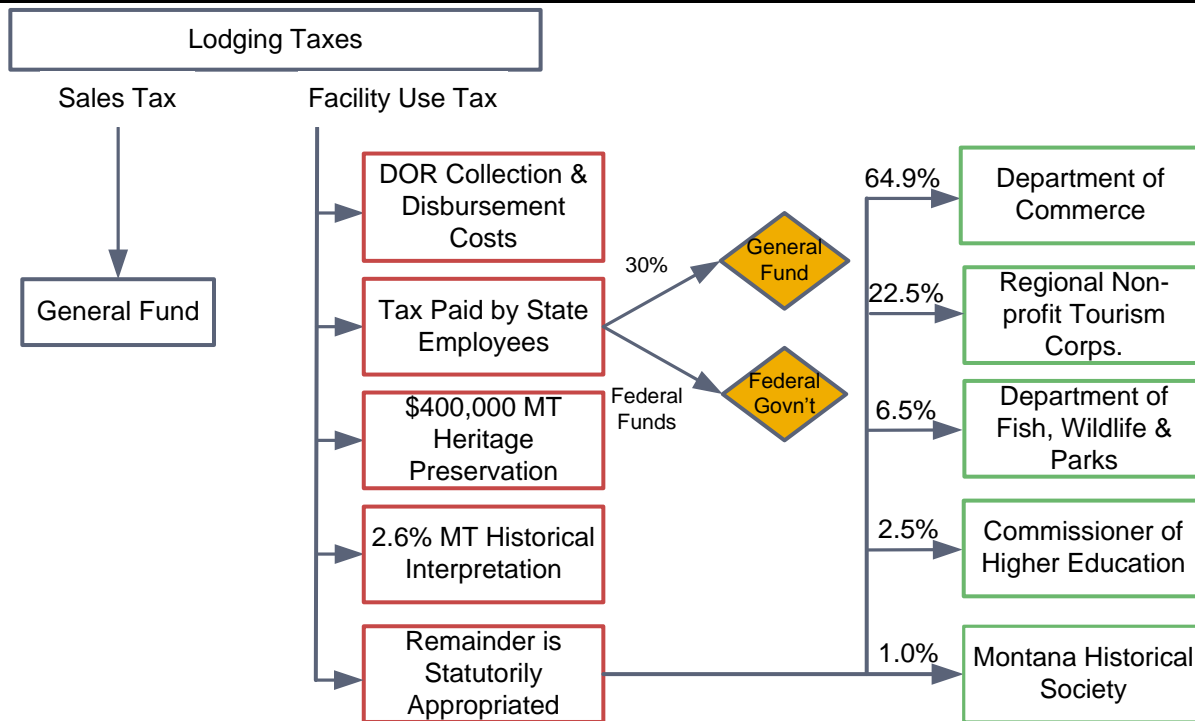
**Collection Frequency:** Quarterly

### Distribution

Sales tax: All proceeds are deposited into the general fund.

Facility use tax: The revenue is first distributed to the Department of Revenue in the amount appropriated for collection and disbursement costs; 30% of the taxes paid by state employees to the general fund (taxes paid with federal funds are reimbursed to the federal government from the general fund); \$400,000 to the Montana heritage preservation and development fund; and 2.6% to the historical interpretation account. After these distributions, the remainder is distributed and statutorily appropriated:

- 67.5% to the Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials
- 22.5% to regional nonprofit tourism corporations
- 6.5% to the Department of Fish, Wildlife and Parks for maintenance of state park facilities
- 2.5% to the university system for the establishment and maintenance of a Montana travel research program
- 1.0% to the Montana Historical Society to install and maintain roadside historical signs and historic sites



**Comparison of Legislative and Executive Forecasts**

The legislative and executive forecasts are both based on U.S. personal income estimates; as a result, the outlook for revenues is similar.

Lodging Facilities Sales Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$19.440	\$21.050	\$22.890	\$63.380
Legislative Forecast	19.169	20.114	21.316	60.599
Difference	\$0.271	\$0.936	\$1.574	\$2.781
% Difference	1.4%	4.7%	7.4%	4.6%

**Forecast Risks**

- Change in outlook for U.S. personal income

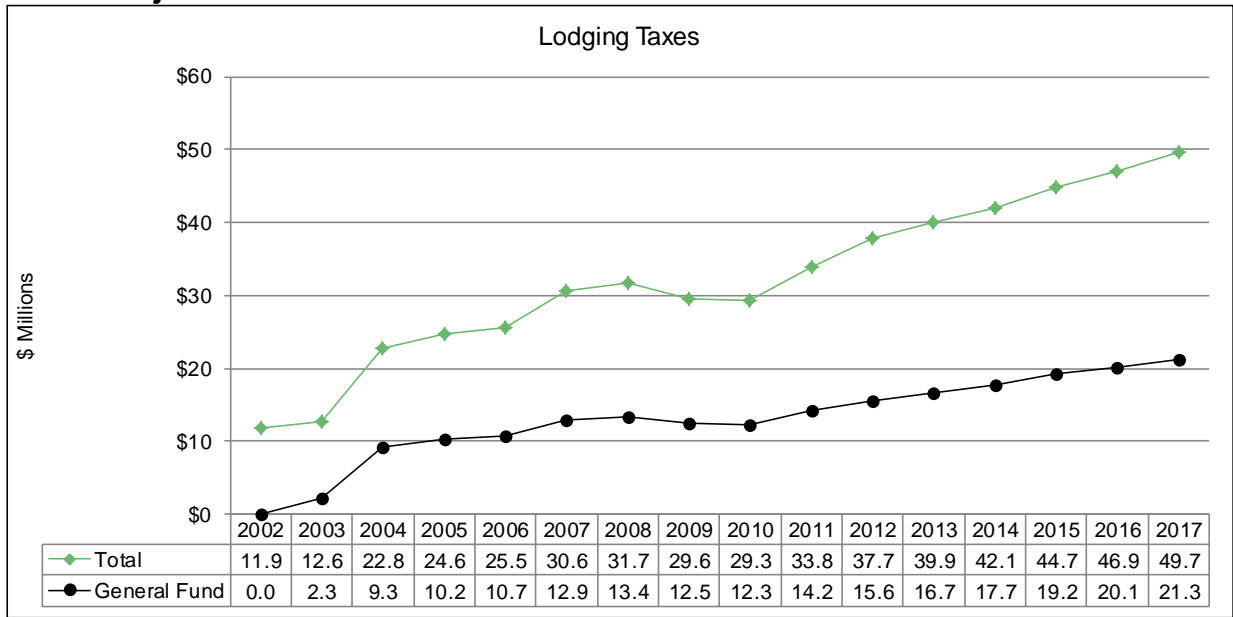
**Revenue Estimate Methodology**

Data

The estimate for this source is based on historical collection data from SABHRS, and actual and forecast U.S. personal income from IHS.

Analysis

Total lodging taxes are made up of two separate taxes, the lodging facility use tax and the lodging sales tax; a proxy for taxable room charges—tax collections divided by the appropriate tax rate—is used as the starting point both sources. This proxy is modeled on U.S. personal income to produce a forecast of taxable room charges. Estimates of taxable room charges are multiplied by the corresponding tax rate and summed to produce the total lodging tax estimate.



**Motor Vehicle Fee**

**Revenue Description**

The state assesses a variety of motor vehicle fees, including fees for the filing of motor vehicle liens, fees for new license plates, title fees, and annual and permanent registration fees. The fees vary according to the type of vehicle and the type of license plate. There are also Gross Vehicle Weight (GVW) fees on trucks and pickups, special fees for senior citizen transportation, veteran services, the highway patrol pension fund, salaries for the highway patrol, motorcycle safety, electronic commerce applications, and an optional registration fee on light vehicles for state parks and fishing access sites.

All fees on motorcycles and quadricycles, trailers, travel trailers, snowmobiles, off-highway vehicles, and watercraft are one-time only and permanent, except upon change of ownership. Fees on other vehicles are annual. Light vehicles older than ten years old may be licensed permanently, at the option of the owner.

**Statutory Reference**

Fee Rate – multiple, but generally in [Title 61, Chapter 3, MCA](#); permanent registration: [61-3-562, MCA](#)

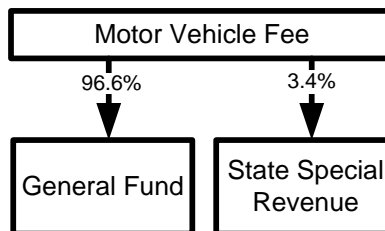
Tax Distribution – [61-3-108, MCA](#)

**Applicable Tax Rates:** Various

**Collection Frequency:** Monthly

**Distribution**

Most motor vehicle fees are allocated to the general fund. Some fees or a portion of them are distributed to the specific state special revenue accounts, or to the county general fund.



**Comparison of Legislative and Executive Forecasts**

Motor vehicle fees are combined with vehicle tax to produce the estimate for vehicle taxes and fees. The difference between the legislative and executive forecasts is small, and primarily due to slight modeling differences.

Vehicle Taxes & Fees (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$102.200	\$104.600	\$107.200	\$314.000
Legislative Forecast	102.290	103.566	104.769	310.626
Difference	(\$0.090)	\$1.034	\$2.431	\$3.374
% Difference	-0.1%	1.0%	2.3%	1.1%

**Forecast Risks**

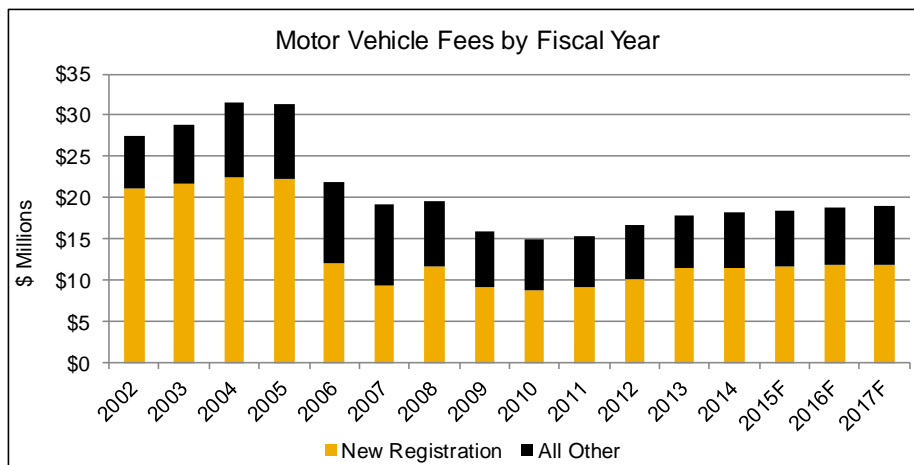
- Changes in forecast growth of Montana vehicle stock
- Changes to forecast growth of new vehicle sales

Data

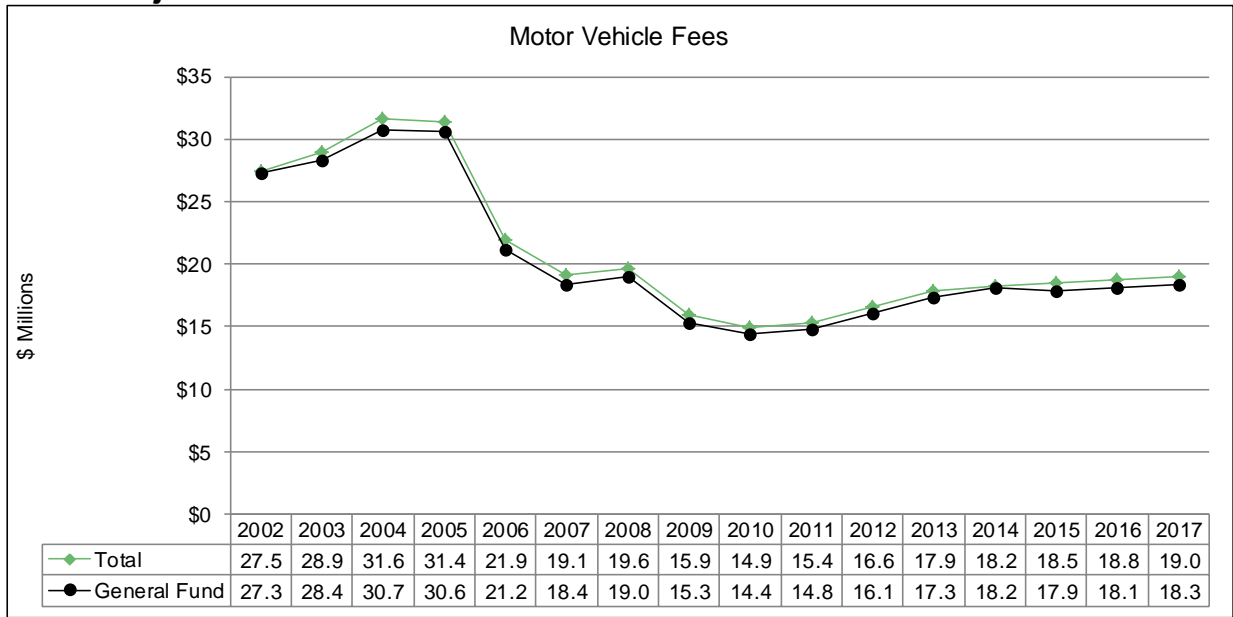
The data used to estimate the motor vehicle (MV) fees are obtained from the state accounting system (SABHRS) and IHS.

Analysis

MV fees are currently imposed at different rates on eight major categories. Included in the fees assessed on motor vehicles in Montana are registration fees, two types of record liens, title fees, personal and new plate fees, senior transit fees, and veteran’s administration fees. The ninth category is made up of other miscellaneous fees assessed on motor vehicles. As shown in the figure below, the collection of motor vehicle fees has been highly variable since FY 2000. The figure below also shows the impact of the reduction and subsequent change in classifying vehicle registration fee revenue as vehicle tax revenue in FY 2006 and FY 2007. This change in the vehicle registration fees is the combined impact of SB 285 and HB 671, both implemented in the 2005 session. However, since registration fee revenues are now recorded as vehicle taxes, the net change to total revenues is zero.



With constant fees, the future change in MV fees results from change in the vehicle stock in Montana. Because fee payments are directly connected to the number of vehicles in the state, estimates for the MV fees are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are modeled on IHS estimates for the national and Montana-specific vehicle stock and new car sales nationwide. The growth rate is applied to the base year revenues of each fee category and projected forward at the same rate for all estimated fiscal years. The estimated tax collections of each category are then combined to create the total estimates for the MV fees.



**Public Contractors Tax**

**Revenue Description**

A license fee is applied to the gross receipts of each separate project let by any of the listed public entities. Part or all of a contractor’s fee may be refunded through class 8 business equipment property or vehicle taxes, or claimed as a credit on individual or corporation income tax returns.

**Statutory Reference**

Tax Rate – [15-50-205, MCA](#)

Tax Distribution – [15-50-311, MCA](#)

Date Due – within 30 days after payment to the contractor ([15-50-309, MCA](#))

**Applicable Tax Rates**

A 1.0% license fee is applied to all public contracts over \$5,000.

**Collection Frequency:** Monthly

**Distribution:** All proceeds are deposited into the general fund.

**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to the difference in non-highway construction estimates.

Public Contractors' Gross Receipts Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$2.930	\$3.250	\$3.550	\$9.730
Legislative Forecast	2.817	3.560	3.476	9.853
Difference	\$0.113	(\$0.310)	\$0.074	(\$0.123)
% Difference	4.0%	-8.7%	2.1%	-1.3%

**Forecast Risks**

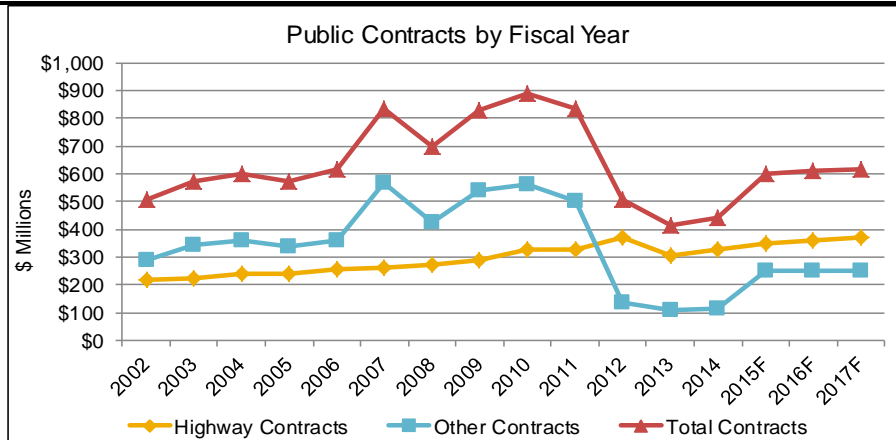
- Federal highway trust fund status
- State legislative funding of infrastructure projects

**Revenue Estimate Methodology**

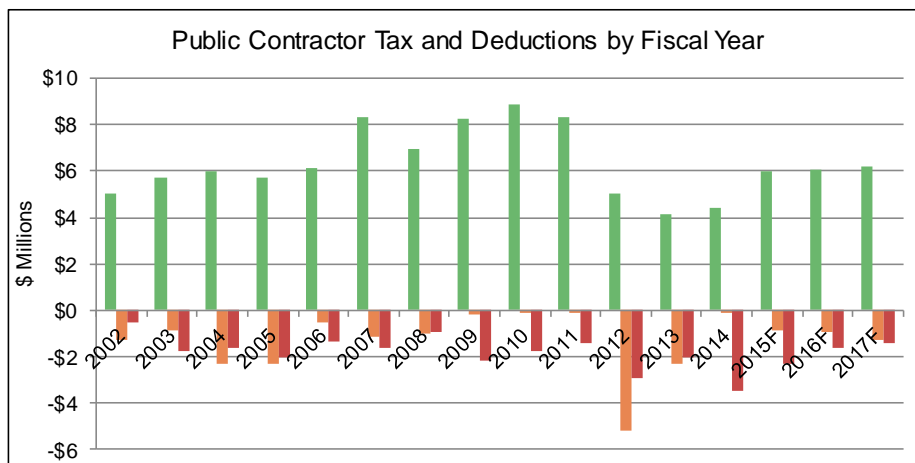
Data

The estimate for this source is based on historical revenue collection and highway expenditure data from SABHRS. A proxy for gross tax collections is developed by adjusting the SABHRS total collection data to account for refunds and credits. The gross proxy is disaggregated into two contract classifications, highway payments and all other contracts.





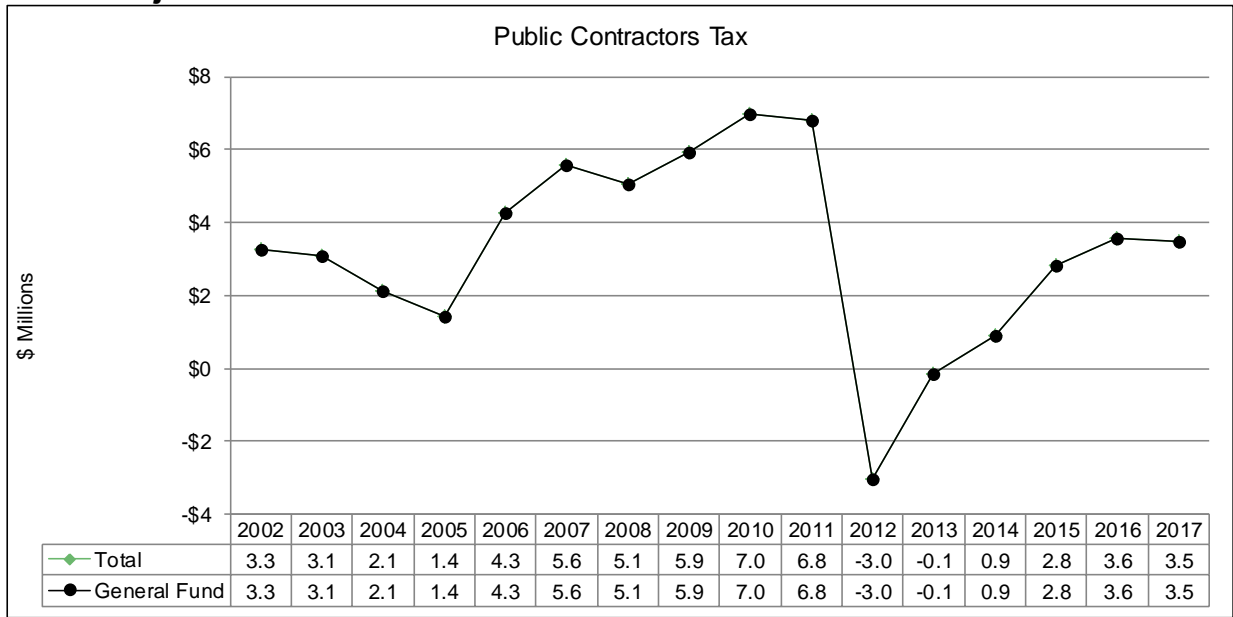
Public contractor’s tax revenue has been highly variable due to inconsistencies in processing payment of refunds and credits; in addition, there has been recent volatility as a result of the increased number of public projects funded through the American Recovery & Reinvestment Act (ARRA) in 2009 and 2010, followed by higher levels of credits and refunds in subsequent years.



Refunds are made up primarily of refund claims against the class 8-business property tax. Credits are authorized for both individual income tax and the corporation license tax. There is a significant time lag between the date of the contract and the reimbursement of the tax through credits or refunds, so large fluctuations in public construction projects may continue to produce unusual future collection patterns.

Analysis

Highway payments are forecast on a time trend; all other contracts are forecast as an approximate historical average. This sum of these two categories is multiplied by 1% to obtain the gross tax revenue. Gross taxes are reduced by an aggregate forecast of refunds and credits to produce net tax collections.



## Railroad Car Tax

### Revenue Description

The railroad car tax applies to the rolling stock owned by railroad companies, and the tax rate is equal to the average property tax rate for commercial and industrial property. Railroad car companies, which operate in several states, pay taxes on the portion of the property value allocated to Montana, based on the ratio of the car miles traveled within Montana to the total number of car miles traveled in all states, as well as time spent in the state relative to time spent in other states.

### Statutory Reference

Tax Rate – [15-23-214\(1\), MCA](#)

Tax Distribution – [15-23-215, MCA](#)

Date Due – Report due to the Department of Revenue (DOR) by April 15<sup>th</sup> of each year for the previous calendar year ([15-23-103\(2\), MCA](#); [15-23-212, MCA](#)). The department calculates the tax due by the third Monday in October ([15-23-214\(1\), MCA](#)). Half of the tax is due by November 30<sup>th</sup> and half is due by May 31<sup>st</sup> ([15-23-214\(3\), MCA](#); [15-16-102\(1\), MCA](#)).

### Applicable Tax Rates

The tax rate is equal to the previous year's average statewide tax rate for commercial and industrial property; in recent years, the rate has been about 3.5%. The rate is multiplied by the statewide average mill levy for commercial and industrial property.

**Collection Frequency:** Semi-annually

**Distribution:** All proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

There are no material differences between the legislative and executive forecasts, any difference is primarily due to modeling differences.

Railcar Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$3.610	\$3.790	\$3.970	\$11.370
Legislative Forecast	3.641	3.698	3.849	11.188
Difference	(\$0.031)	\$0.092	\$0.121	\$0.182
% Difference	-0.8%	2.5%	3.2%	1.6%

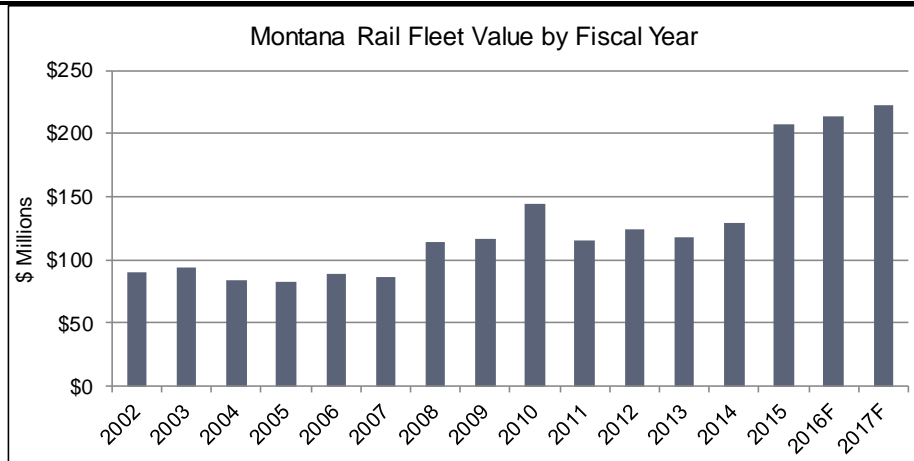
### Forecast Risks

- Changing outlook for Montana retail sales

### Revenue Estimate Methodology

#### Data

Data from DOR provides the value of national railroad car fleet, Montana's rolling stock, railroad car tax assessed by company, the average mill levy and applicable tax rate. SABHRS data are used to check the estimates against the historic values.



Analysis

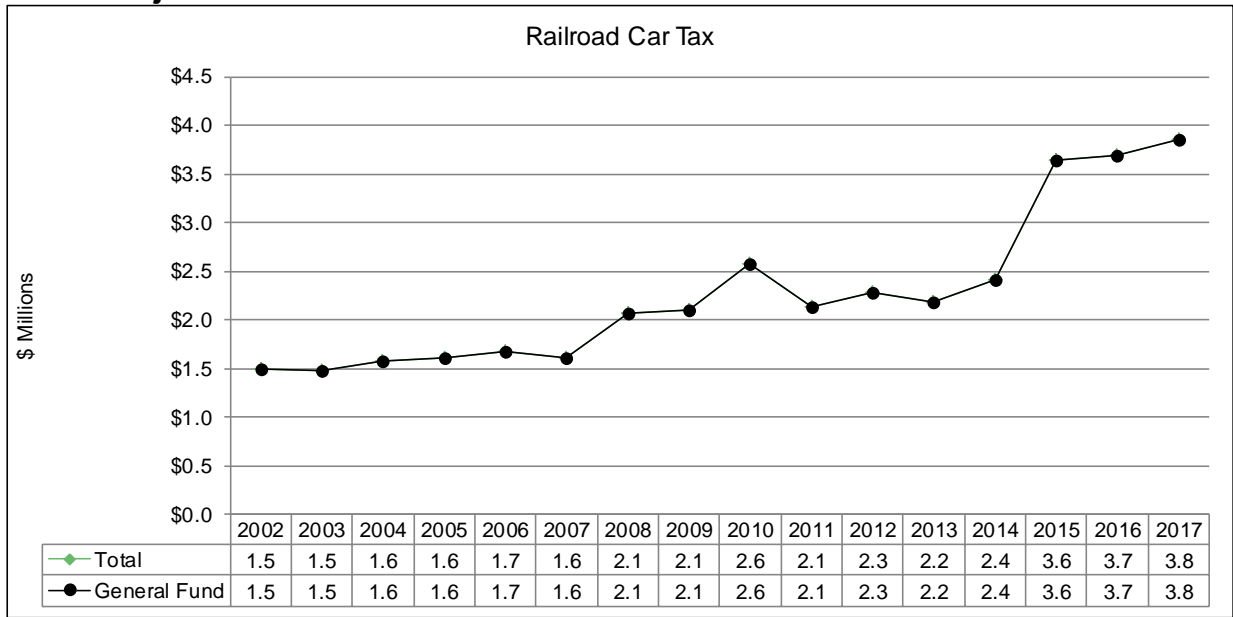
Although the railcar tax appears quite volatile, most of the volatility is caused by shifts in average mill levies and tax rates, both of which are controlled in large part by factors outside of the growth in rail shipments. The volatility can also be traced to litigation brought by rail companies and settled in federal legislation. In 1993, some rail companies protested tax rates, which reduced tax payments for four years. In 1997, the litigation was settled and the companies were required to make both past and current payments.

Railroad properties are taxed as class 12 properties. To calculate total railroad car tax collections, the market value of the Montana fleet is multiplied by the average mill levy and tax rate. The market value of the rail fleet in Montana is based on a relationship with market value of the U.S. fleet. An estimate for the value of the national fleet is developed using the average rate of growth in the U.S. fleet value, based on a four-year pattern of growth. Montana’s average share of the total fleet value is applied to the national estimate. Since 2004, the market value of Montana’s rail fleet has been ranged between 0.44% and 0.51% of the nation’s fleet. Growth in Montana-allocated value is expected to grow with the national fleet value.

After the Montana market fleet value is determined, the average commercial and industrial mill levy and tax rate must be calculated. The rate of the mill levy is calculated from the average of statewide commercial and industrial mill levies. The average mill levy is expected to increase because counties are able to raise levies at a rate equal to half of the annual rate of inflation. Furthermore, the increasing costs of school budgets will further force the average mill levy to increase.

The tax rate for the railroad property is created from a weighted average of five property classes containing commercial and industrial property: class 4, 7, 8, 9, 13 and 14. Class 4 property tax, which contains commercial real estate, is weighted more heavily than the other classes. The estimated tax rate will be shown for forecast years in the revenue estimate assumptions table below.

The rail car tax estimates are completed by multiplying the Montana market value by the average mills and the tax rate.



## Rental Car Sales Tax

### Revenue Description

The 4% sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. Rental vehicles include are light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax. Vendors are allowed to claim 5% of the tax as an allowance, up to \$1,000 per quarter.

### Statutory Reference

Tax Rate – [15-68-102\(1b\), MCA](#)

Tax Distribution – [15-68-820, MCA](#)

Date Due – Before the last day of the month following the calendar quarter ([15-68-502\(1\), MCA](#))

**Applicable Tax Rates:** A 4% sales tax is imposed on the base rental charge for rental vehicles.

**Collection Frequency:** Quarterly

**Distribution:** All proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

The legislative forecast is based on Montana retail sales, while the executive forecast is based on U.S. personal income estimates.

Rental Car Sales Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$3.700	\$3.880	\$4.080	\$11.660
Legislative Forecast	3.749	3.896	4.071	11.716
Difference	(\$0.049)	(\$0.016)	\$0.009	(\$0.056)
% Difference	-1.3%	-0.4%	0.2%	-0.5%

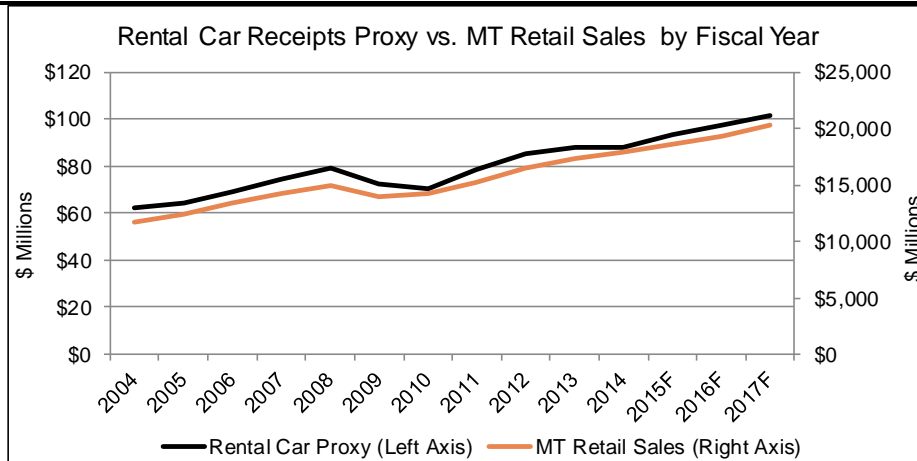
### Forecast Risks

- Changing outlook for Montana retail sales

### Revenue Estimate Methodology

#### Data

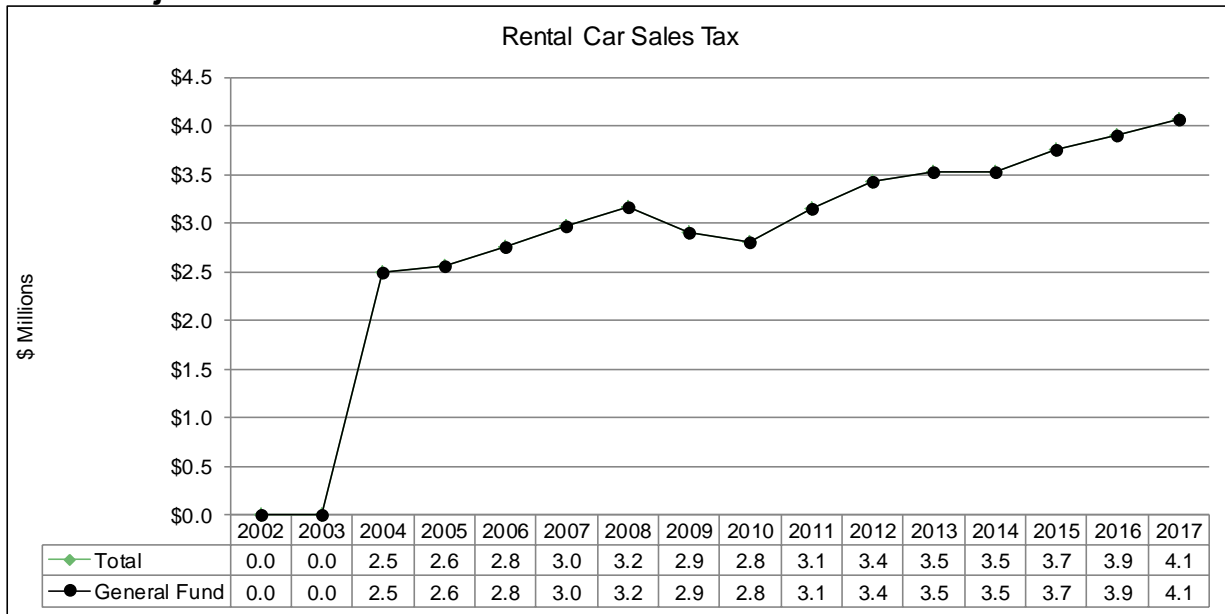
The estimate for this source is based on historical collection data from SABHRS, and historical and forecast Montana retail sales from IHS.



Analysis

A proxy of rental car receipts is made by dividing historic tax receipts by the current tax rate. Future proxy values are modeled on Montana retail sales and then multiplied by the applicable tax rate to obtain projected tax revenues.

**Revenue Projection**



## Telecommunications Excise Tax

### Revenue Description

The retail telecommunications excise tax is levied on the sales price of retail telecommunications services originating or terminating in the state. It is paid by the retail purchaser and collected by the provider.

### Statutory Reference

Tax Rate – [15-53-130, MCA](#)

Tax Distribution – [15-53-156, MCA](#)

Date Due – 60 days after the end of the calendar quarter ([15-53-139, MCA](#))

### Applicable Tax Rates

A tax of 3.75% is applied to the sales price of retail telecommunications services. Sales price includes payment for services such as distribution, supply, transmission, and delivery, but excludes federal taxes, relocation of service, equipment repair, prepaid calling cards, and other items. Gross receipts from the pre-paid wireless and internet services are also exempt.

**Collection Frequency:** Quarterly

**Distribution:** After retaining an allowance for refunds, all proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to modeling differences.

Retail Telecommunications Excise Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$19.520	\$19.380	\$19.320	\$58.220
Legislative Forecast	20.186	19.934	19.771	59.891
Difference	(\$0.666)	(\$0.554)	(\$0.451)	(\$1.671)
% Difference	-3.3%	-2.8%	-2.3%	-2.8%

### Forecast Risks

- Changing rate of landline usage
- Changing market share of prepaid smartphones, which are not taxable

### Revenue Estimate Methodology

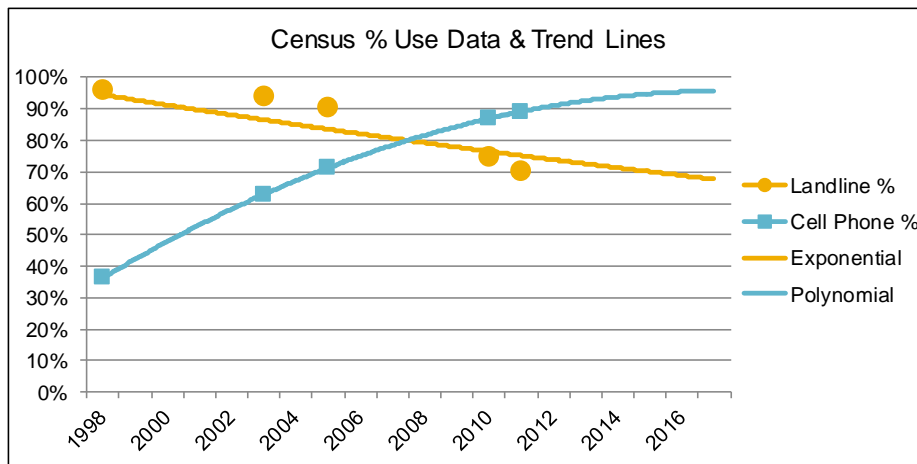
#### Data

The estimate for this source is based on historical revenue data from SABHRS, U.S. Census Bureau data for landline use decline and cell phone use growth, IDC Mobile Phone Tracker statistics, Google smartphone statistics, and the IHS forecast of Montana population.

#### Analysis

Telecommunication services have changed with users—especially younger users and those in higher populated area—trending toward exclusive reliance on cell phones. Data collected by the U.S. Census Bureau on consumer trends suggests that many users had both landline and cell services as the cell phones increased in popularity, but now that cell service reliability is well established, users are dropping their land line service. The graph below shows the national trends, which are applied to the Montana forecast:

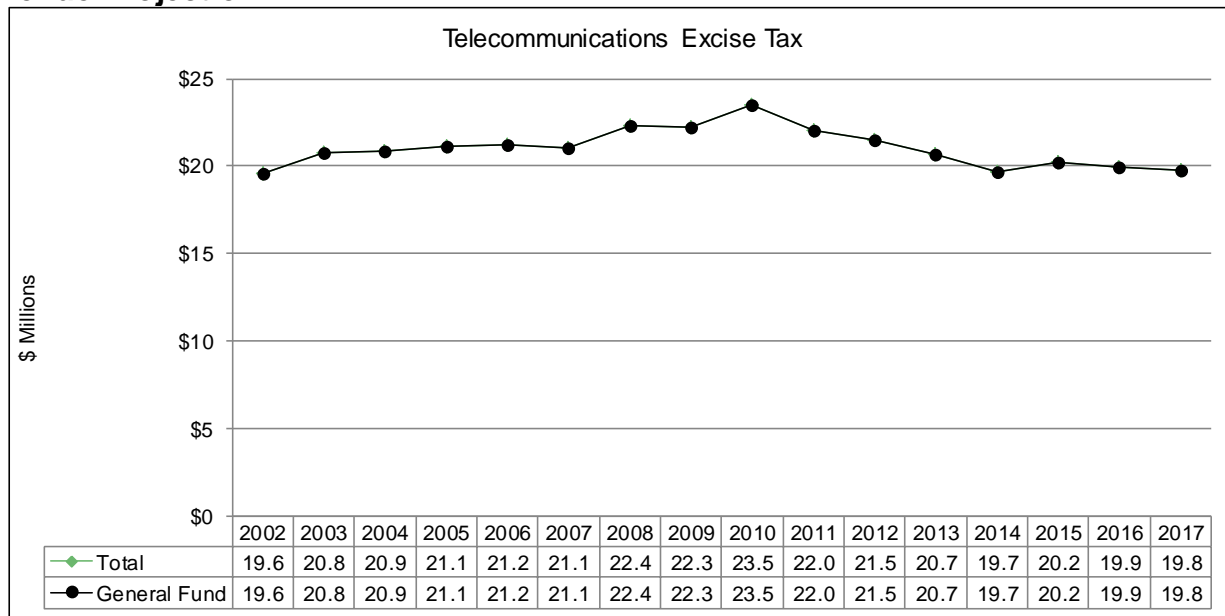




Total revenue has been declining since FY 2011 in part due to the DOR’s loss of the pre-paid wireless case in 2011. The impact of the case was initially estimated to be an annual reduction in revenue of about \$1.0 million. However, the growth in the market share of prepaid smartphones was likely underestimated, resulting in an underestimate of the revenue reduction.

The current estimate assumes the prepaid wireless market share plateaus at 40% of all wireless service; however, if trends follow that of European countries, the prepaid market share could go above 80%, which would result in lower revenue.

Revenue Projection



## Vehicle Tax

### Revenue Description

Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, truck tractors having a manufacturer's rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight.

### Statutory Reference

Tax Rate – Watercraft, snowmobiles, off-highway vehicles (OHV), and light vehicles registrations: [61-3-321, MCA](#); vehicles greater than 1 ton: [61-3-529, MCA](#)

Tax Distribution – [61-3-509, MCA](#)

Date Due – Revenue for prior month is due on or before the 20<sup>th</sup> of the month ([15-1-504, MCA](#); [61-3-509, MCA](#)).

**Applicable Tax Rates:** Varies

**Collection Frequency:** Monthly

**Distribution:** All fees-in-lieu-of-tax are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

Motor vehicle fees are combined with vehicle tax to produce the estimate for vehicle taxes and fees. The difference between the legislative and executive forecasts is small, and primarily due to slight modeling differences.

Vehicle Taxes & Fees (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$102.200	\$104.600	\$107.200	\$314.000
Legislative Forecast	102.290	103.566	104.769	310.626
Difference	(\$0.090)	\$1.034	\$2.431	\$3.374
% Difference	-0.1%	1.0%	2.3%	1.1%

### Forecast Risks

- Changing outlook for Montana total vehicle stock
- Changing outlook for new vehicle sales

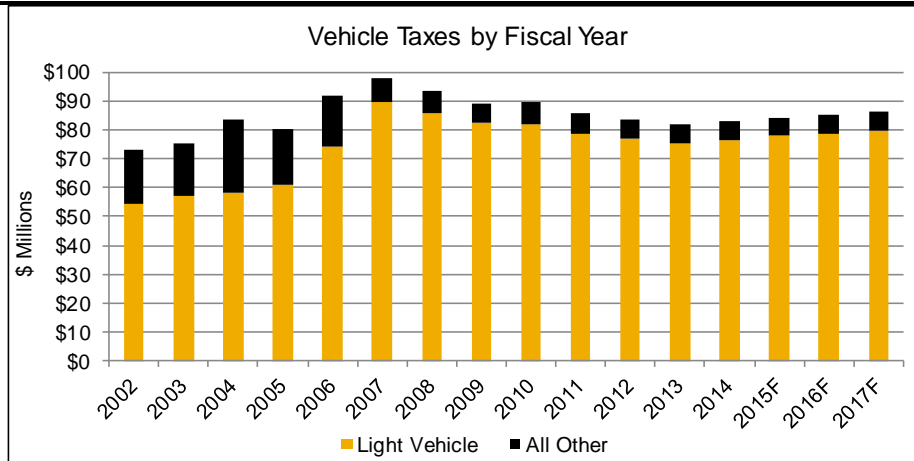
### Revenue Estimate Methodology

#### Data

The data used to estimate the motor vehicle tax are obtained from SABHRS and IHS.

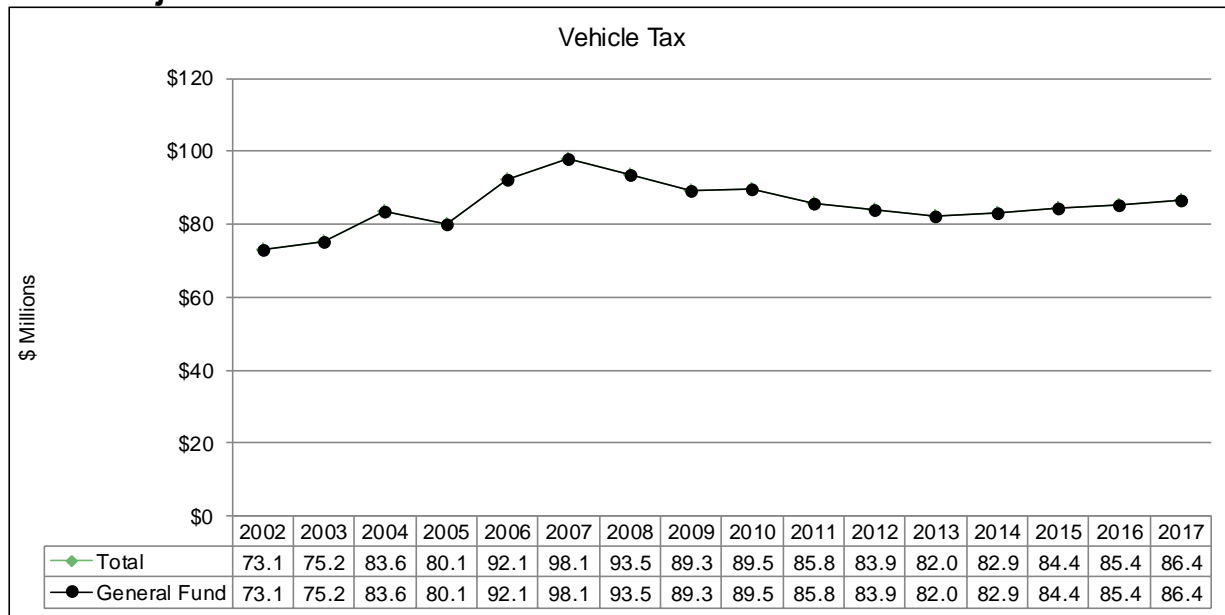
#### Analysis

Vehicle taxes are currently imposed at different rates on five categories of vehicles (tax schedule varies by age and weight) including light vehicles, large trucks, motor homes, motor cycles (including tri-cycles), and boats and snowmobiles.



With constant fees, the future change in vehicle tax revenue results from change in the vehicle stock in Montana. Because taxes are directly connected to the number of vehicles in the state, estimates are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are modeled on IHS estimates for the national and Montana-specific vehicle stock and new car sales nationwide. The growth rate is applied to the base year revenues and projected forward at the same rate for the forecast period.

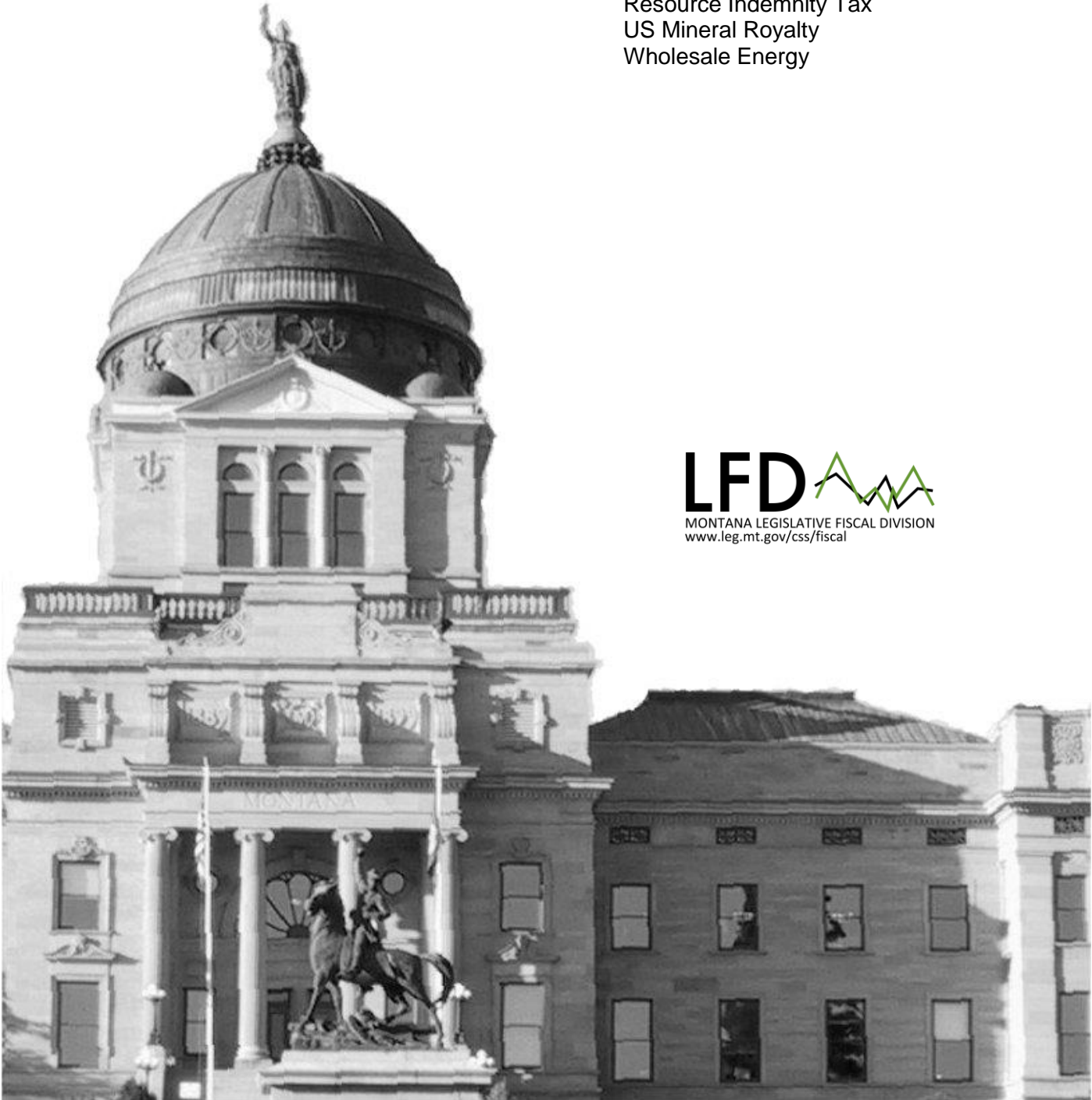
Revenue Projection





# NATURAL RESOURCE TAXES

Coal Severance Tax  
Electrical Energy Tax  
Federal Forest Receipts  
Metalliferous Mines Tax  
Oil & Natural Gas Production Tax  
Resource Indemnity Tax  
US Mineral Royalty  
Wholesale Energy



**LFD**   
MONTANA LEGISLATIVE FISCAL DIVISION  
[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



### Coal Severance Tax

#### Revenue Description

For large producers, the coal severance tax is imposed on all coal production, except that on reservations, in excess of 20,000 tons per company per calendar year. Producers of 50,000 tons or less in any calendar year are exempt from the tax.

#### Statutory Reference

Tax Rate – [15-35-103, MCA](#)

Tax Distribution – [Montana Constitution, Article IX, Section 5](#); [15-35-108, MCA](#); [17-5-703, MCA](#)

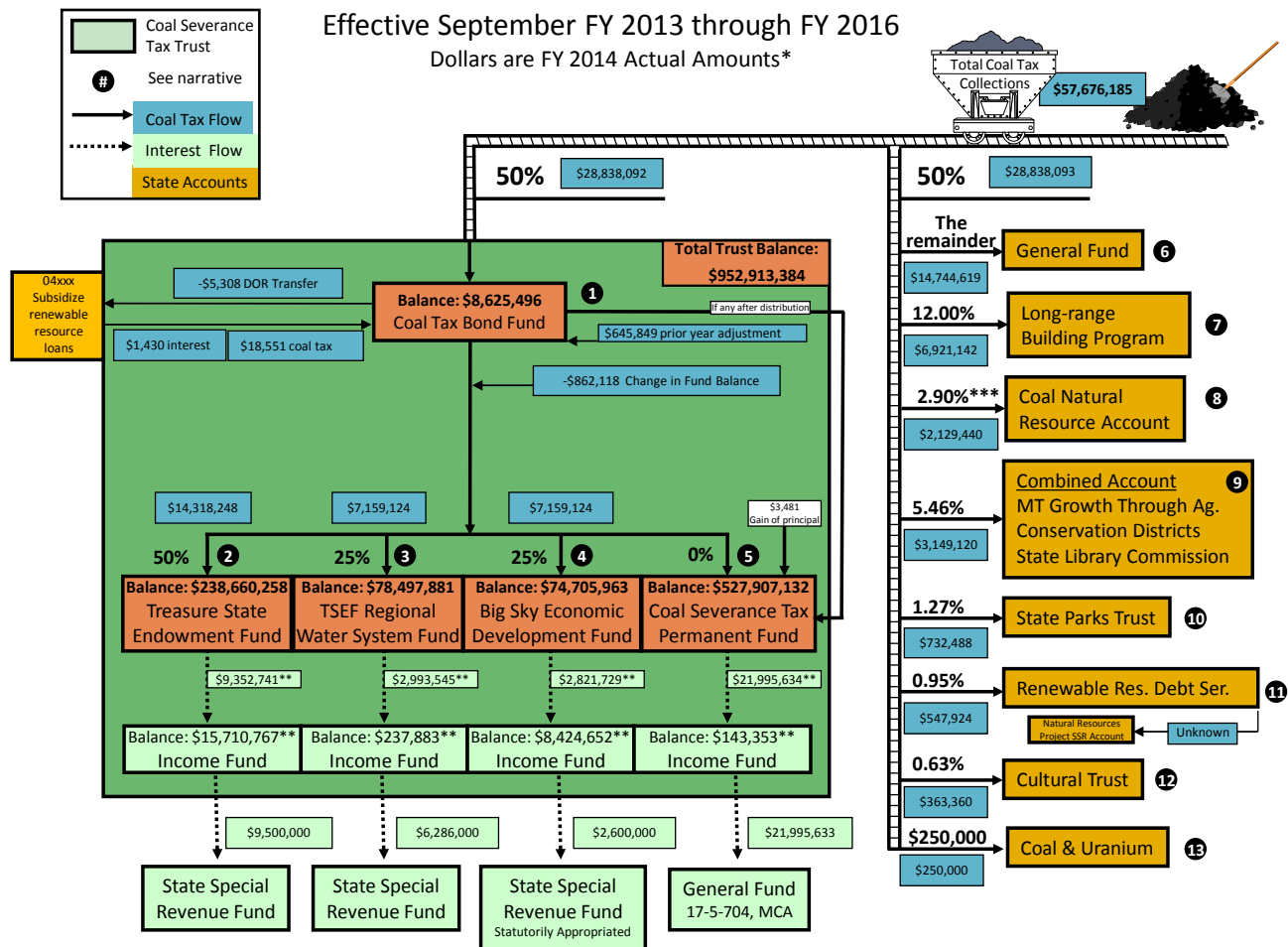
Date Due – Thirty days following the close of the quarter ([15-35-104, MCA](#))

#### Applicable Tax Rates

- 10% on the value of surfaced mined coal with a heating quality < 7,000 BTU
- 15% on the value surfaced mined coal with a heating quality ≥ 7,000 BTU
- 3% on the value underground mined coal with a heating quality < 7,000 BTU
- 4% on the value underground mined coal with a heating quality ≥ 7,000 BTU
- 3.75% on the value of auger mined coal with a heating quality < 7,000 BTU
- 5% on the value of auger mined coal with a heating quality ≥ 7,000 BTU

#### Collection Frequency: Quarterly

#### Distribution



\* Current year  
\*\* Excludes unrealized investment gains and losses  
\*\*\* Reduced from 5.8% after September 30, 2013

## Natural Resource Taxes

## Coal Severance Tax

As directed by [Article IX, Section 5](#) of the Montana Constitution, the coal severance tax trust fund receives 50% of total coal severance tax collections. The money flows through five sub-trust funds within the trust. In order, these five are:

❶ Coal Tax Bond Fund ([Title 17, Chapter 5, Part 7](#)) – The legislature authorizes the sale of coal severance tax bonds to finance renewable resource projects ([Title 85, Chapter 1, Part 6](#)) and local government infrastructure projects ([Title 90, Chapter 6, Part 7](#)). A maximum of \$250 million in bonds is authorized as loans for renewable resource projects ([17-5-719, MCA](#)) to provide:

- a healthy economy;
- alleviation of social and economic impacts created by coal development; and
- a clean and healthful environment

The total amount of outstanding principal of renewable resource bonds at any time cannot exceed \$30 million ([85-1-624, MCA](#)). An amount equal to the following year's principal and interest payments is maintained in the fund. Money in the fund is pledged to pay the debt service on the bonds if interest and principal payments by the loan recipients are insufficient to fully pay the debt service. Bonds are authorized, projects approved, loan rates established, and bond proceeds are appropriated by the legislature to the Department of Natural Resources and Conservation (DNRC) in HB 8.

❷ Treasure State Endowment Fund ([Title 90, Chapter 6, Part 7](#)) – In June 1992, the voters approved a legislative referendum establishing the treasure state endowment program. Initially funded with \$10 million from the permanent fund, the treasure state endowment fund currently receives 50% of the remaining coal severance tax revenue after deposits in the coal tax bond fund (25% of the total coal tax revenue). Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in HB 11 as grants for local government infrastructure projects. The deposit of coal severance tax revenue to this fund terminates the end of FY 2016.

❸ Treasure State Endowment Regional Water System Fund – The treasure state endowment program was established in [SB 220 \(1999 Session\)](#) to fund regional water system projects. The fund receives 25% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. Projects are restricted to drinking water systems that provide water for domestic, industrial, and stock water use for communities and rural residences that lie in specific north central and northeastern geographic areas. Projects are approved and interest earnings from the fund are appropriated to the Department of Commerce by the legislature in HB 11 as grants for local government infrastructure projects. The deposit of coal severance tax revenue to this fund terminates the end of FY 2016.

❹ Big Sky Economic Development Fund – The big sky economic development program was established by [HB 249 \(2005 Session\)](#) to fund qualified economic development projects. The fund receives 25% (12.5% of the total) of the remaining coal severance tax revenue after deposits in the coal tax bond fund. The deposit of coal severance tax revenue to this fund terminates the end of FY 2025. Interest earnings are deposited to a state special revenue fund and are statutorily appropriated to the Department of Commerce to pay administrative expenses with the remainder for:

- 75% to local governments to be used for job creation; and
- 25% to certified regional development corporations and economic development organizations

❺ Permanent Fund – Prior to the establishment of the previous four funds, all the coal severance tax revenue distributed to the trust fund was deposited to the permanent fund. Beginning FY 2006, no coal severance tax revenue has been deposited to the fund. Interest earnings from the fund, audit revenue, and interest and penalties are deposited to the general fund ([17-5-704, MCA](#)). Interest income from the permanent fund deposited into the general fund is statutorily appropriated as follows:

- \$65,000 to the cooperative development center;
- \$625,000 for the growth through agriculture program provided for in [Title 90, chapter 9](#);
- \$1.275 million to the research and commercialization account created in [90-3-1002](#);



- to the Department of Commerce for specific projects:
  - \$125,000 for a small business development center;
  - \$50,000 for a small business innovative research program;
  - \$425,000 for certified regional development corporations;
  - \$200,000 for the Montana manufacturing extension center at MSU-Bozeman; and
  - \$300,000 for export trade enhancement
- After the above payments, up to \$21 million is appropriated to the public employees' retirement system defined benefit plan trust fund

From FY 2000 through FY 2014, the permanent fund has lost \$4,425,137 due to loan write-offs.

#### Coal Severance Tax Related Funds:

The other 50% of the coal severance tax revenue is distributed to the following eight funds outside of the coal severance tax trust fund ([15-35-108, MCA](#)):

- ⑥ General Fund (the remainder after all other allocations) –The largest four expenditures (FY 2014) of general fund by function were: public schools – 33%; human services – 20%; Department of Administration (includes pension transfers) – 11%; and higher education – 10%. The largest four types of general fund expenditures by account were: local assistance – 42%; personal services – 15%; benefits & claims – 14%; and operating – 10%.
- ⑦ Long-range Building Program Account (12.00%) – Coal severance tax revenue in this account can be used for long-range building projects or for general obligation bond debt service. The legislature appropriates the money in HB 5 to finance building projects at universities, vocational education institutions, state buildings and state institutions. Debt service payments are statutorily appropriated and are currently servicing debt for capitol restoration, the UofM pharmacy/psychology and chemistry buildings, MSU central heating plant and underground utilities, Montana state prison expansion, and regional correctional facilities.
- ⑧ Coal Natural Resource Account (2.90%) – Created in [HB 758 \(2005 Session\)](#) and amended by [SB 23 \(2009 Session\)](#), the account receives a portion of the coal severance tax revenue. Money in the account is appropriated to the coal board in HB 2 for local impact grants and administrative costs. Due to [SB 100 \(2009 Session\)](#), the coal tax allocation was doubled to 5.80% beginning FY 2010. After September 2013, the allocation decreased to 2.9%.
- ⑨ Combined Account (5.46%) – The distribution of coal severance taxes to this account is appropriated to certain state agencies by the legislature in HB 2 and can be spent for the following three purposes:
  - Montana growth through agriculture – Money is granted or loaned by the Agriculture Development Council to businesses for agricultural development projects that stimulate agriculture
  - Conservation districts – The money is distributed to the conservation districts on the basis of need
  - State Library Commission – The money is distributed by the commission to public library federations
- ⑩ State Parks Trust (1.27%) – The distribution to this trust is for the purpose of parks acquisition or management. Interest earnings from the trust is appropriated to the Department of Fish, Wildlife, and Parks (FWP) by the legislature in HB 2 and HB 5 for the acquisition, development, operation, and maintenance of state parks, recreational areas, public camping grounds, historic sites, and monuments.
- ⑪ Renewable Resource Debt Service Fund (0.95%) – Money in this fund is used to service debt on coal severance tax bonds used to finance renewable resource projects. This is in addition to any coal tax paid from the Coal Tax Bond Fund (number 1 above). Bonds are authorized, projects

## Natural Resource Taxes

## Coal Severance Tax

approved, loan rates established, and bond proceeds are appropriated by the legislature to DNRC in HB 8.

⑫ Cultural Trust (0.63%) – The distribution to this trust is for the purpose of protecting works of art in the capitol and for other cultural and aesthetic projects. Interest earnings from the trust are appropriated to the Montana Arts Council by the legislature in HB 9 for these purposes.

⑬ Coal and Uranium Mine Permitting and Reclamation Program (\$250,000) – Enacted by [HB 688 \(2007 Session\)](#), coal severance tax revenue is deposited to the state special revenue account and appropriated in HB 2 to the Department of Environmental Quality (DEQ) to administer and enforce coal and uranium mine reclamation ([82-4-244, MCA](#)).

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to differences in price assumptions and how ranges in production survey data was incorporated into the models.

Coal Severance Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$15.610	\$15.830	\$15.600	\$47.040
Legislative Forecast	15.427	16.118	16.612	48.157
Difference	\$0.183	(\$0.288)	(\$1.012)	(\$1.117)
% Difference	1.2%	-1.8%	-6.1%	-2.3%

### Forecast Risks

- Energy prices
- Production and shipping costs
- Type of coal (BTU)
- Length of company contracts
- Federal Environmental regulation changes

### Revenue Estimate Methodology

#### Data

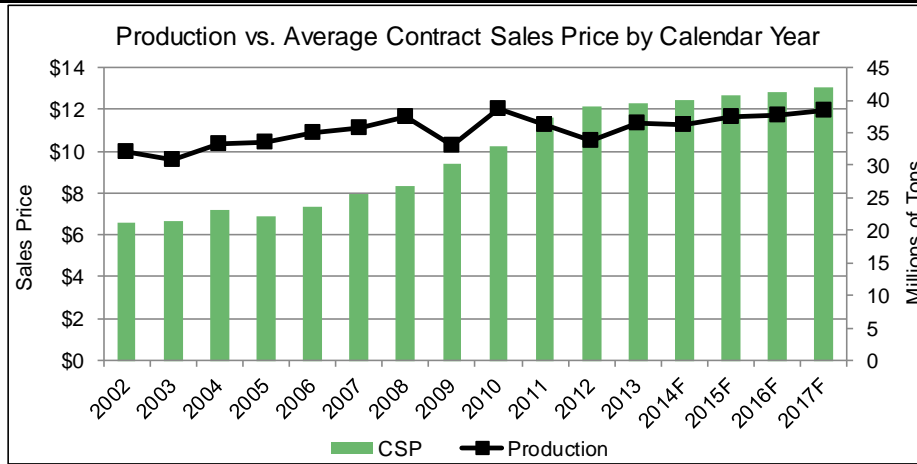
The estimate of this revenue source is based on collection data from SABHRS, historical price and production data from DOR, and anticipated production from surveys of major coal companies.

#### Analysis

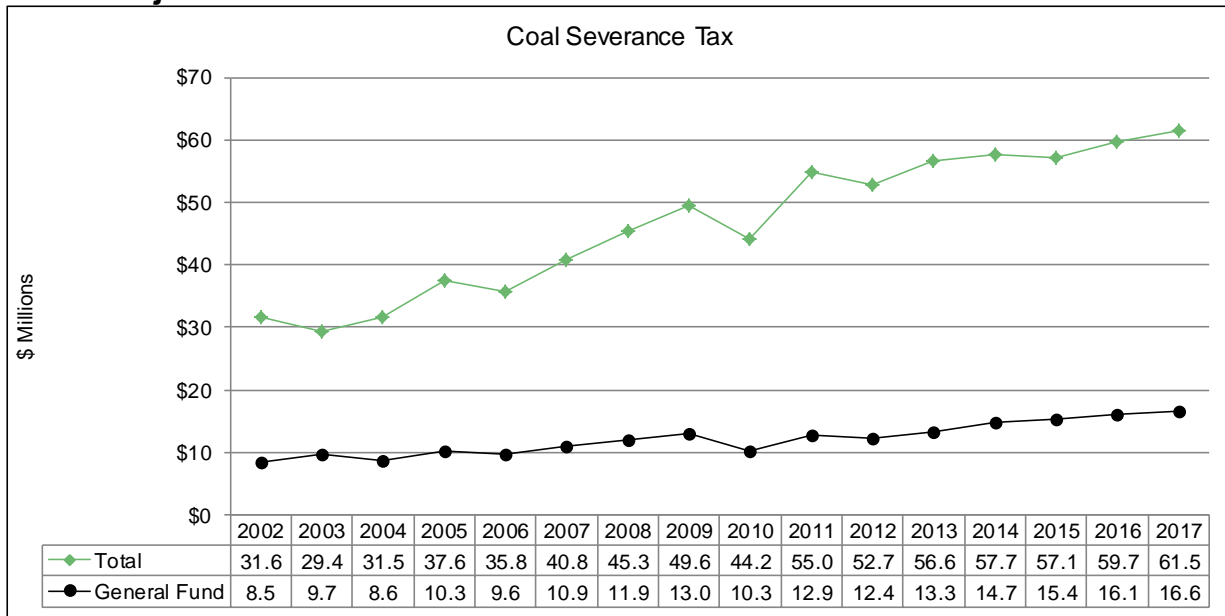
The taxable value of coal is determined in a three-step process:

1. The future coal production for each company, as reported on the survey, is reduced by the exempt amount of 20,000 tons to get taxable tons.
2. To determine the future price for each company's coal, the company's average contract sales price for the last year is increased by an average price. The average contract sales price for all companies is shown in the figure below.
3. The estimated production and price for each company are multiplied together and the product for all companies summed to obtain the total taxable value.

The calendar year taxable value is multiplied by the applicable tax rate to determine total coal severance tax revenue and converted to fiscal year basis.



Revenue Projection



## Electrical Energy Tax

### Revenue Description

The electrical energy license tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana. This tax is in addition to the wholesale energy transaction tax.

### Statutory Reference

Tax Rate – [15-51-101, MCA](#)

Tax Distribution – [17-2-124\(2\), MCA](#); [15-51-103, MCA](#)

Date Due – Thirty days after the end of the calendar quarter ([15-51-101, MCA](#); [15-51-102, MCA](#))

### Applicable Tax Rates

A tax of \$0.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for energy use by the plant for the production of the energy.

**Collection Frequency:** Quarterly

**Distribution:** All proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to differences in modeling.

Electrical Energy Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$4.420	\$4.430	\$4.460	\$13.310
Legislative Forecast	4.721	4.708	4.696	14.125
Difference	(\$0.301)	(\$0.278)	(\$0.236)	(\$0.815)
% Difference	-6.4%	-5.9%	-5.0%	-5.8%

### Forecast Risks

- Generation variability

### Revenue Estimate Methodology

#### Data

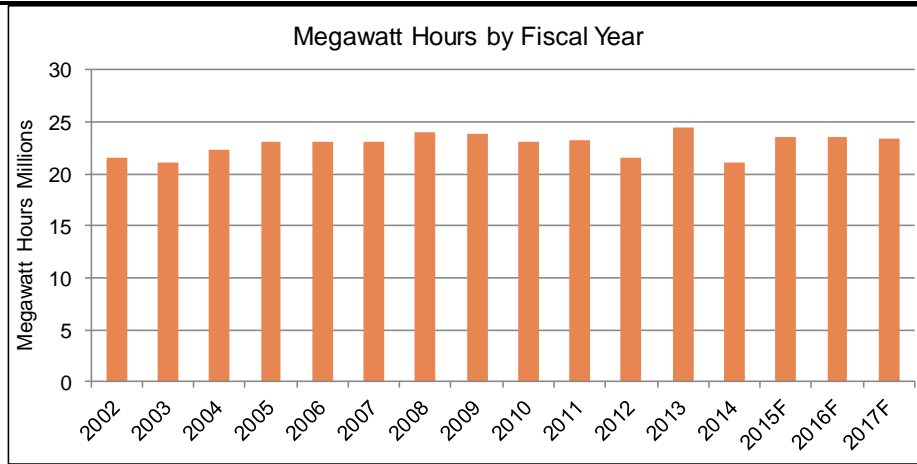
Data from quarterly reports produced by DOR provide a history of kilowatt hours produced for each individual company.

#### Analysis

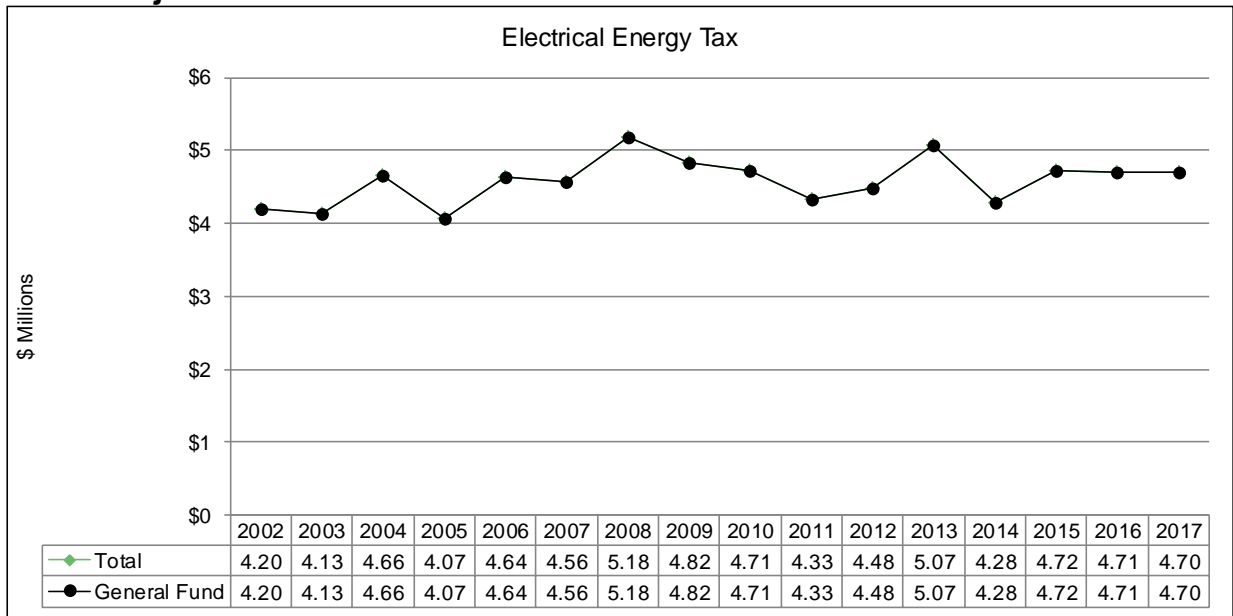
Historic data of kilowatt hours are used to trend forecast future kilowatt hours by year. Taxable kilowatt hours are then multiplied by the tax rate to produce total revenue from this source.

**Natural Resource Taxes**

**Electrical Energy Tax**



**Revenue Projection**



## Federal Forest Receipts

### Revenue Description

Federal forest receipts are payments from the federal government in lieu of revenues from the sale of forest products of federal land. The federal government authorizes logging operations on forest lands located within the borders of Montana. The sale of timber generates revenue that the federal government shares with the state in the following year. FY 2015 has a significant drop in revenue as [Secure Rural Schools](#) was not extended at the federal level and payments reverted to the formula described below.

### Statutory Reference

Tax Distribution – [17-3-211, MCA](#); [17-3-212, MCA](#)

Date Due – The state treasurer distributes the funds within thirty days of receiving full payment.

**Applicable Tax Rates:** N/A

**Collection Frequency:** Twice annually (usually October and December)

### Distribution

The county treasurer apportions federal forest receipts as follows:

- 66 2/3% to the road fund of the county
- 33 1/3% to the following county wide accounts, based on the mill ratios of each to total mills in the current year:
  - The county equalization accounts (55 mills)
  - The county transportation account
  - The county retirement accounts

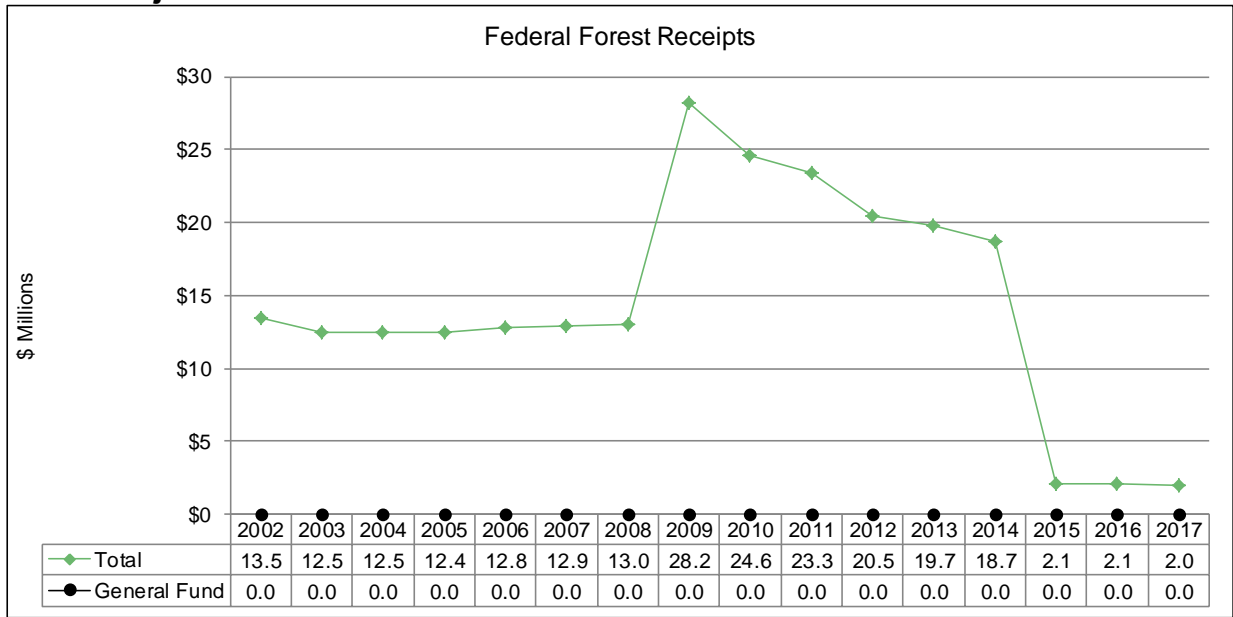
This revenue source represents one component used to calculate total non-levy property tax revenue, this is the 55 mills portion.

### Forecast Risks

- Timber harvests
- Federal policy on reauthorizing [Secure Rural Schools](#)

### Revenue Estimate Methodology

Counties receives 25% of the 7 year rolling average value of timber sold, lagged due to timing of production and payments. The last known year of receipts is pulled forward for forecasted years, then the 7-year average of known and forecasted data is taken. The average state 55 mill share is applied to this and added to non-levy property revenue.



**Metalliferous Mines Tax**

**Revenue Description**

The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced. The first \$250,000 of value is exempt from taxation. A company taxed at both rates can claim both exemptions.

**Statutory Reference**

Tax Rate – [15-37-103, MCA](#)

Tax Distribution – [15-37-117, MCA](#); [17-2-124\(2\), MCA](#)

Date Due – August 15<sup>th</sup> for the period January through June, March 31<sup>st</sup> for the period July through December ([15-37-105, MCA](#))

**Applicable Tax Rates**

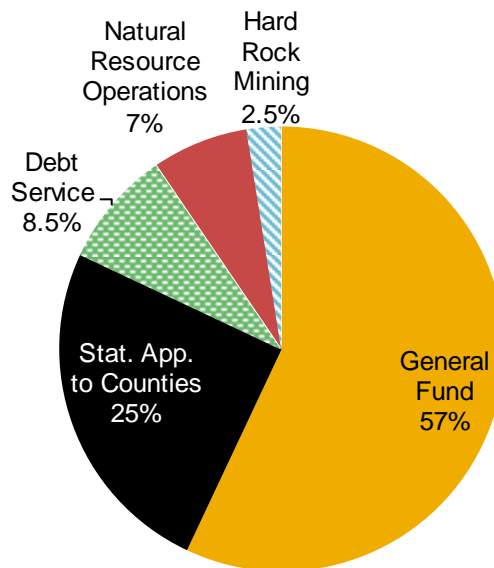
There are two tax rates which depend on the extraction type:

- 1.60% for dore, bullion or matte that is sent to a refinery
- 1.81% for concentrate sent to a smelter, mill or reduction work

The appropriate tax rate is applied to the gross value less allowable deductions and the \$250,000 exemption.

**Collection Frequency:** Biannually

**Distribution**



**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to the difference in commodity price estimates.

Metalliferous Mines Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$8.130	\$8.550	\$8.570	\$25.250
Legislative Forecast	8.004	8.015	7.491	23.510
Difference	\$0.126	\$0.535	\$1.079	\$1.740
% Difference	1.6%	6.7%	14.4%	7.4%



**Forecast Risks**

- Commodity prices
- Changes to production outlook
- Environmental regulations

**Revenue Estimate Methodology**

Data

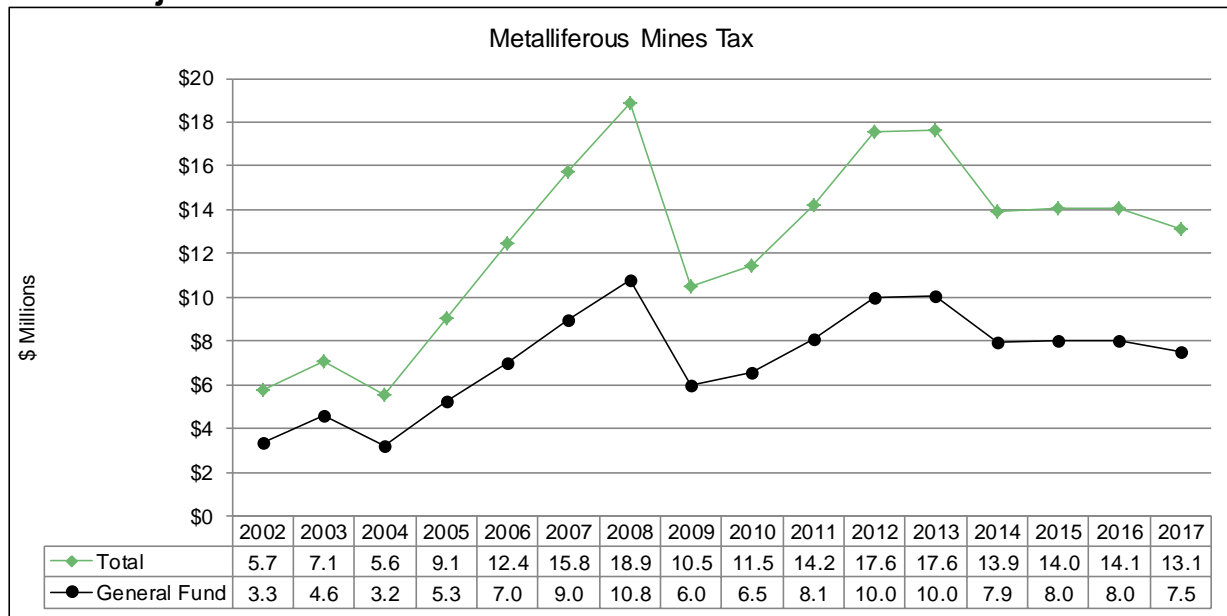
The estimate for this source is based on surveys from Montana mining companies regarding anticipated production, historical prices from the U.S. Geological Survey, historical revenue collections from SABHRS, and historical price and production data from the Department of Revenue (DOR). Forecast prices are based on historical average prices.

Analysis

As reported on the surveys, future metals production for each company is summed by commodity. Amounts may be adjusted to fit with historical trends or if major changes are expected from historical production. The estimated production amount for each metal for all companies is summed and multiplied by the estimated price for that metal, with the resulting gross value for each metal being summed to produce a total gross value.

Total taxable value is obtained by reducing the total gross value by a time trended value of refining and other costs. The calendar year estimate is obtained by multiplying the total taxable value by the effective tax rate. Since a company’s taxable value could be subject to two tax rates—1.81% for concentrates shipped to a smelter, mill or reduction work and 1.6% for dore, bullion, or matte that is shipped to a refinery—an effective tax rate is used to capture both these rates. Calendar year estimates are converted to fiscal year estimates by an equal allocation.

**Revenue Projection**



**Oil & Natural Gas Production Tax**

**Revenue Description**

The oil and natural gas production tax is imposed on the production of oil and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production. A portion of the revenue from the tax may be returned to Indian tribes per agreements between the Department of Revenue (DOR) and the tribes.

**Statutory Reference**

Tax Rate – [15-36-304, MCA](#); Privilege & license tax – [82-11-131, MCA](#); Administrative Rules [36.72.1242](#)

Tax Distribution – [15-36-331\(4\), MCA](#); [15-36-332\(2&3\), MCA](#)

Date Due – within 60 days after the end of the calendar quarter ([15-36-311\(1\), MCA](#))

**Applicable Tax Rates**

The oil and natural gas production tax has numerous tax rates depending on several factors. The following table shows tax rate percentages for each type of pre- and post-1999 oil, excluding the Privilege & License (P & L) tax and the local impact tax. The P & L and local impact taxes account for less than 0.3% and are shown on the distribution diagram.

Oil Tax Rates	
<u>Working Interest</u>	
Primary recovery production	
First 12 months of qualifying production	0.5%
After 12 months for pre-1999 wells	12.5%
After 12 months for post-1999 wells	9.0%
Stripper oil production (>3 and < 15 barrels/day if oil<\$30)	
1 through 10 barrels a day production	5.5%
>10 through 14 barrels a day production	9.0%
Stripper oil production (>3 and < 15 barrels/day if oil>=\$30)	Primary Recovery Rates
Stripper wells (3 barrels or less/day)	
Stripper well exemption production (if oil <\$38)	0.5%
Stripper well bonus production (if oil >=\$38)	6.0%
Horizontally completed well production	
First 18 months of qualifying production	0.5%
After 18 months for pre-1999 wells	12.5%
After 18 months for post-1999 wells	9.0%
Incremental production (if oil <\$30/barrel)	
New or expanded secondary recovery production	8.5%
New or expanded tertiary production	5.8%
Incremental production (if oil >=\$30/barrel)	
Pre-1999 wells	12.5%
Post-1999 wells	9.0%
Horizontally recompleted well	
First 18 months	5.5%
After 18 months for pre-1999 wells	12.5%
After 18 months for post-1999 wells	9.0%
<u>Nonworking Interest</u>	14.8%

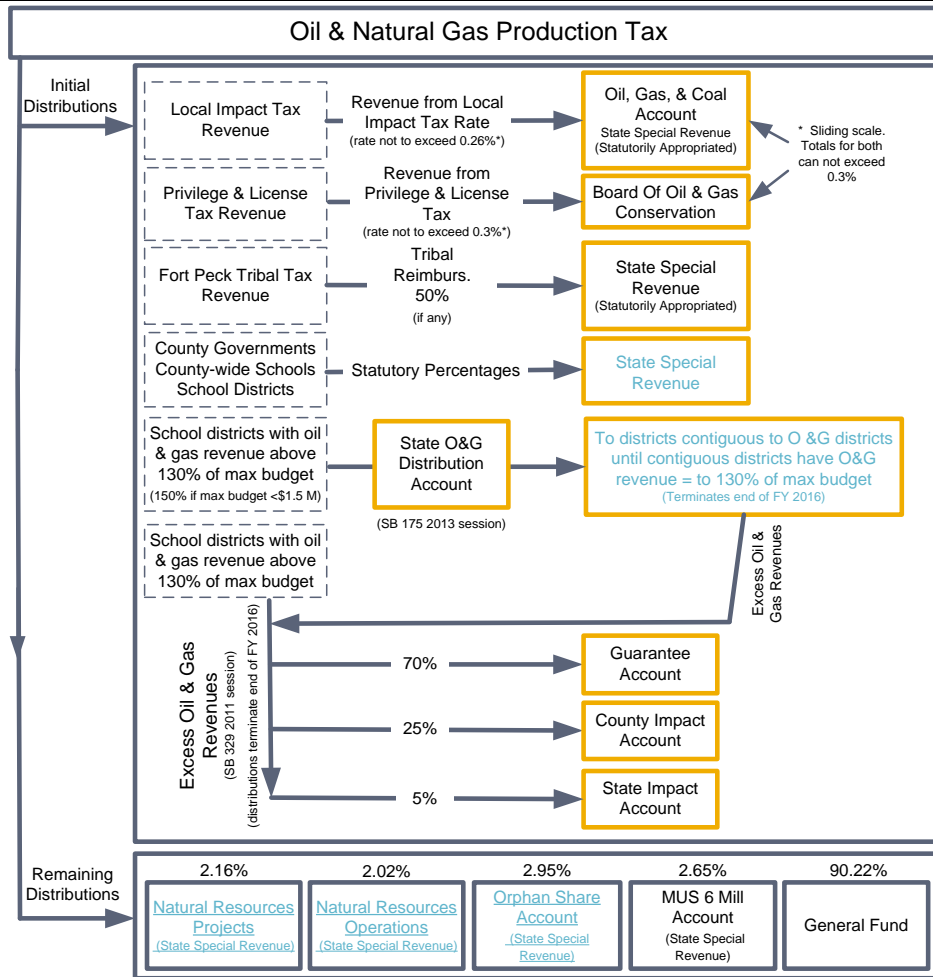
Natural Gas Tax Rates	
<u>Working Interest</u>	
Qualified production	
First 12 months	0.5%
After 12 months for pre-1999 wells	14.8%
After 12 months for post-1999 wells	9.0%
Stripper natural gas pre-1999 wells	11.0%
Horizontally completed well production	
First 18 months of qualifying production	0.5%
After 18 months	9.0%
<u>Nonworking Interest</u>	14.8%

**Collection Frequency:** Quarterly

**Distribution**

After the oil and natural gas production taxes have been collected, the revenue is distributed based on the amounts collected from the P & L and local impact taxes. The P & L tax is distributed to the Board of Oil and Gas Conservation. The amounts from the Local Impact tax are distributed to the oil and gas natural resource state special revenue account. The amounts received by the Board and the oil and gas natural resource account vary based on a sliding tax scale based on the P & L tax set by the Board. Counties producing oil and natural gas receive the next share of total revenue with each county having its own statutory distribution percentage of total revenue, including the revenue generated by the P & L and Local Impact taxes.

A portion of the revenue may be returned to Indian tribes per agreements between the DOR and the tribes. The remainder of the revenue is distributed to other state accounts, shown in the distribution chart below. The distributions of county shares and the amount of oil and natural gas production tax revenue deposited in the oil and gas natural resource account are statutorily appropriated and are based on the statutorily set percentages for each county.



**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to significant differences in price. Large price drops were incorporated into the IHS year-over-year forecast numbers just after the executive released their estimates, but this was incorporated into the legislative estimates.

Oil & Natural Gas Taxes (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$101.000	\$102.990	\$115.860	\$319.850
Legislative Forecast	94.157	86.228	86.926	267.311
Difference	\$6.843	\$16.762	\$28.934	\$52.539
% Difference	7.3%	19.4%	33.3%	19.7%

**Forecast Risks**

- Price
- Production
- New drilling

**Revenue Estimate Methodology**

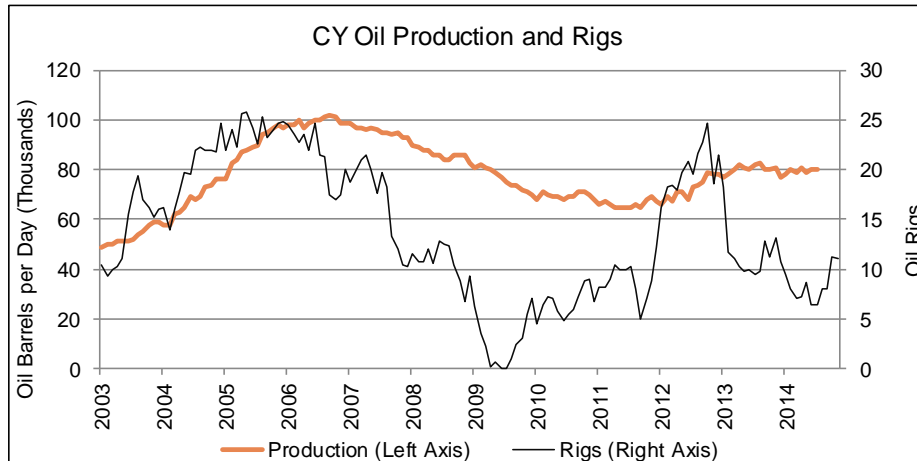
Data

Data from the Board of Oil and Gas Conservation are used extensively to isolate monthly historical production of oil and natural gas by field and by individual well. IHS provides future estimates of West

## Natural Resource Taxes

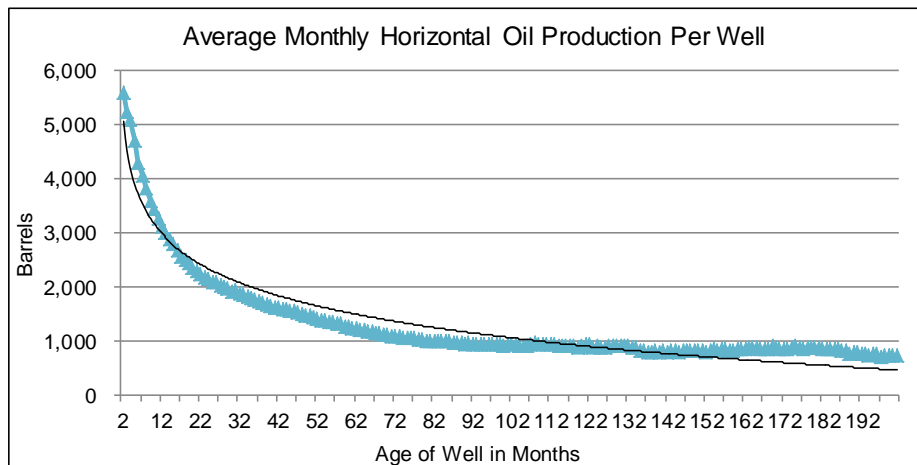
## Oil & Natural Gas Production Taxes

Texas Intermediate oil and national well head natural gas prices. Production, price, value, and revenue collections, by oil type, are provided on a quarterly basis by DOR. Drilling rigs, shown following with production numbers from the U.S. Energy Information Administration, are also used from Baker Hughes.

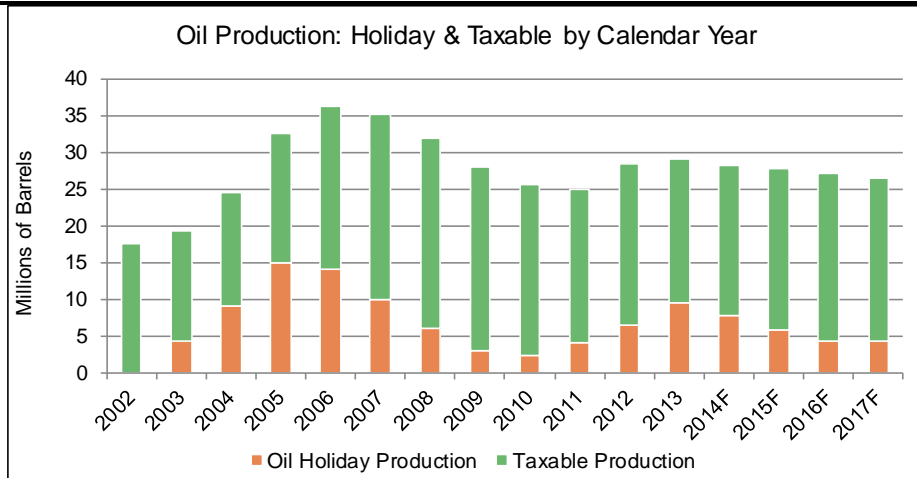


### Analysis

Production is estimated independently for oil and natural gas. The estimate is developed on a quarterly basis with production from horizontal wells separate from all other production. Existing horizontal wells follow a production decline curve unique to the characteristics of those wells. Future production from completed wells can be estimated by developing a normalized production decline curve from the producing wells. In doing so, the difficulty of having different starting time for each well can be eliminated by averaging each well's production from a common time point. The result is a curve that represents the average production of horizontal wells by month of production.

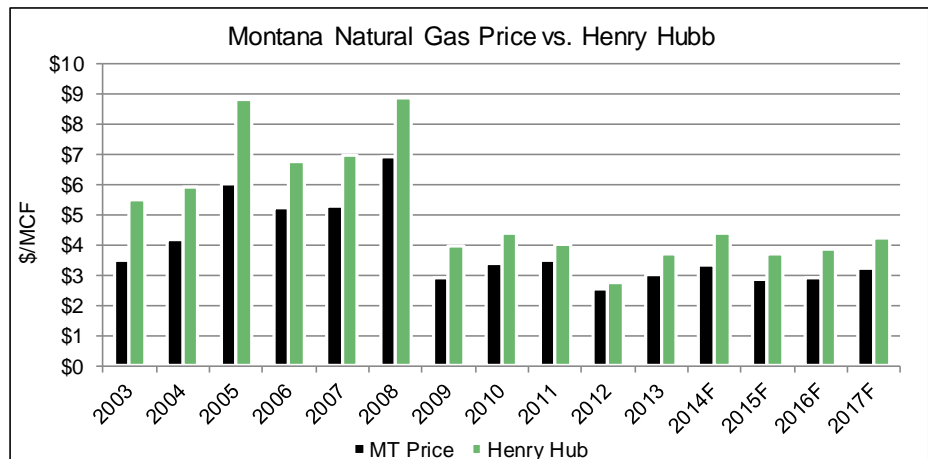
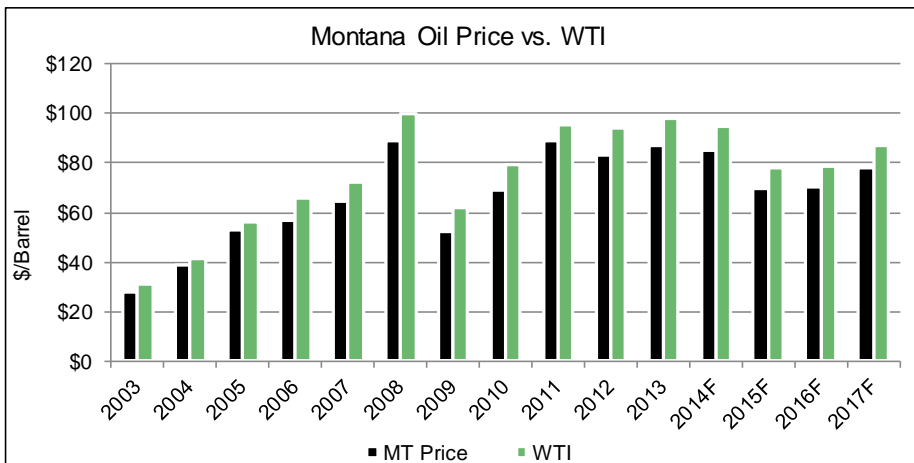


Production from future wells can be estimated by applying the production curve coefficients to an estimate of future spudded wells. Knowing monthly production from each well and the date it was placed into production is essential for estimating oil tax revenue because tax rates vary based on the length of time a well has been in production. The dynamics in the timing of when wells enter and fall out of the various tax rates and the changes in production at the various stages are complex, but need to be modeled to create more accurate estimates given future price variability.



Production from all other wells is also estimated on an annual basis and by the different taxation types. For each year, the estimate is produced by multiplying the previous year by the ratio of the results of a regression analysis for the current and the previous year. The results for each tax type are then summed by year.

The price for each quarter is estimated by adjusting the IHS West Texas Intermediate oil price estimate or Henry Hub natural gas price estimate by a Montana-specific ratio. The Montana price is lower than the national price primarily due to transportation costs.

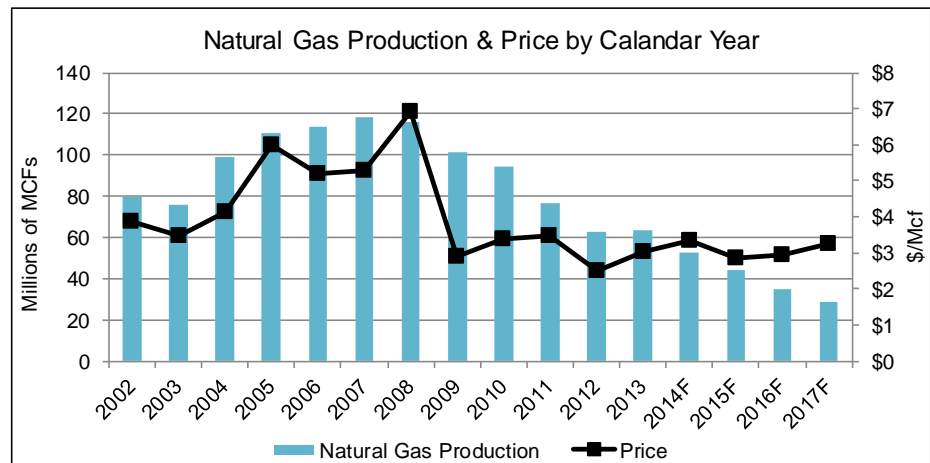
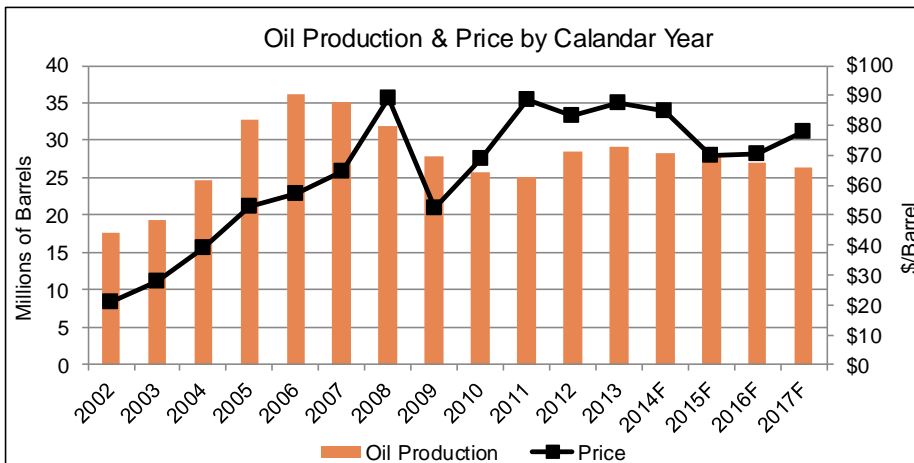


Once production and prices have been estimated, the value can be calculated by the product of the two. The quarterly value of each tax type is then multiplied by the applicable tax rate to obtain the

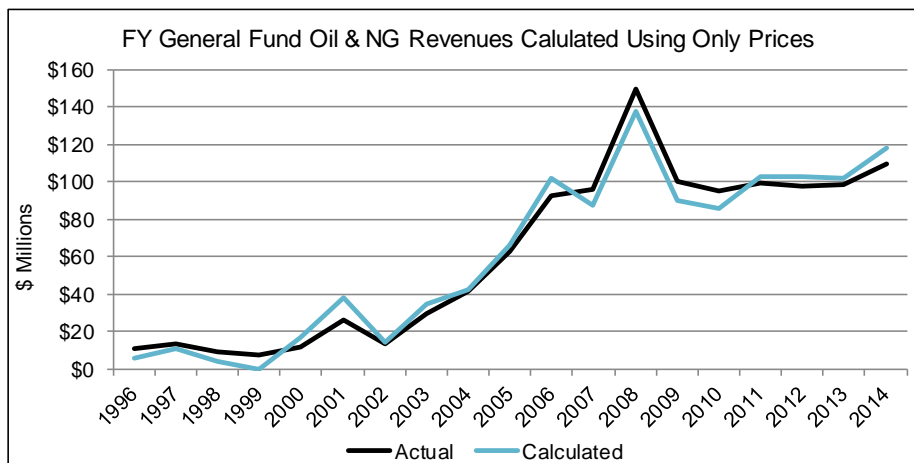
## Natural Resource Taxes

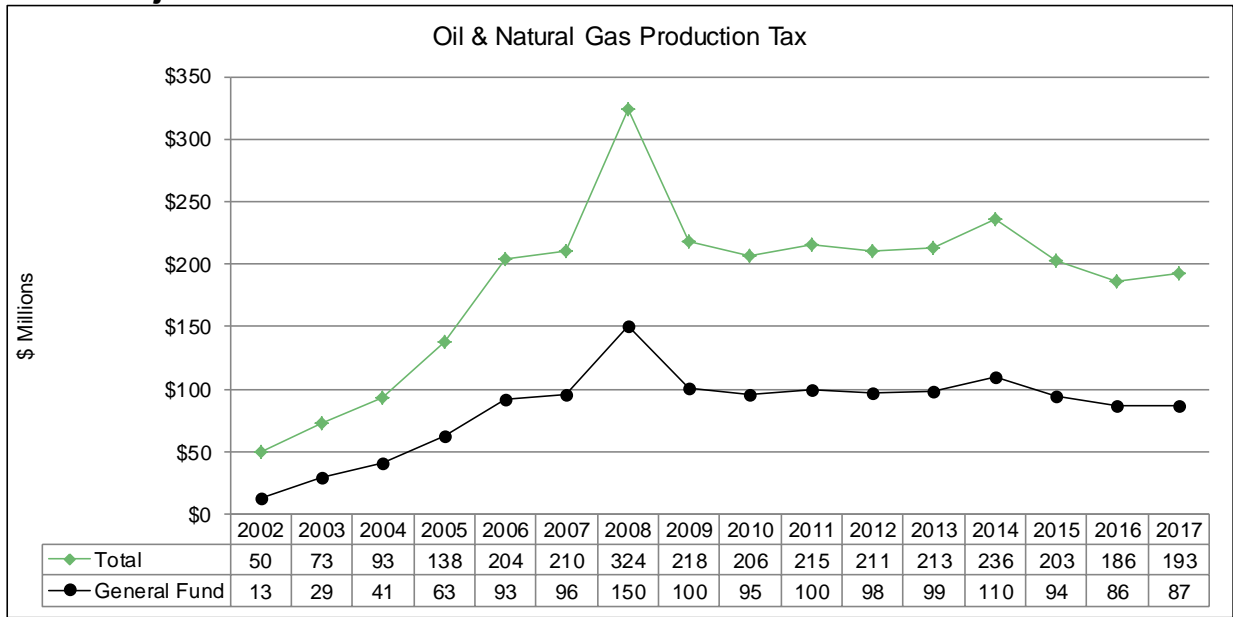
## Oil & Natural Gas Production Taxes

estimate. The sum of the revenue from all tax types for each fiscal year determines the oil and natural gas production revenue estimate.



Price—not production—is the larger driver of the overall estimate. Modeling on only WTI oil prices and HH gas prices, predicted revenues are extremely close to actuals, although this relies on already known prices. As prices are never known with such accuracy, the oil and gas model uses historical production data from each well in the state to model forecast production based on an average decline curve. The additional production modeling essentially acts as a buffer against price forecast volatility.







### Resource Indemnity Tax

#### Revenue Description

The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal (based on the contract sales price), as well as most minerals, but not gravel, metals, oil, and natural gas.

#### Statutory Reference

Tax Rate – [15-38-104, MCA](#)

Tax Distribution – [15-38-106, MCA](#)

Date Due (metal producers) – March 31<sup>st</sup> following the end of the calendar year ([15-38-105, MCA](#); [15-38-106\(1\), MCA](#))

Date Due (mineral producers) – 60 days following the end of the calendar year ([15-38-105, MCA](#); [15-38-106\(1\), MCA](#))

#### Applicable Tax Rates

Coal: \$25 plus 0.4% of the gross value of coal produced in the preceding year in excess of \$6,250

Minerals: \$25 plus 0.5% of the gross value of minerals (excluding gravel and metals, and excluding oil and natural gas since the resource indemnity trust has reached \$100 million) produced in the preceding year in excess of \$5,000

Talc: \$25 plus 0.4% of the gross value of talc produced in the preceding year in excess of \$625

Vermiculite: \$25 plus 2.0% of the gross value of vermiculite produced in the preceding year in excess of \$1,250

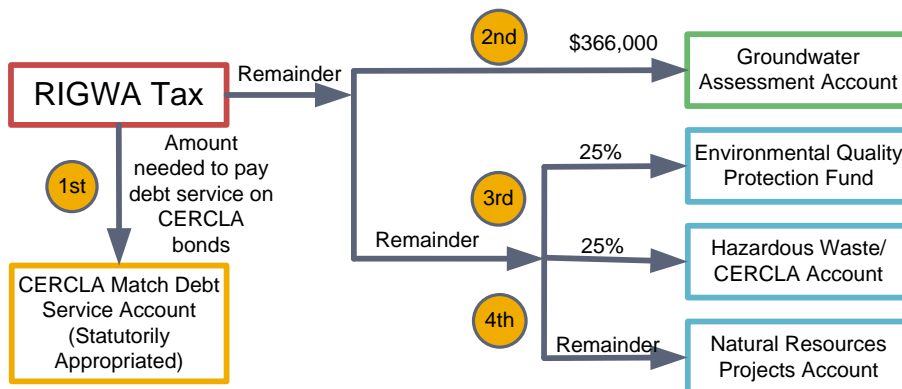
Limestone: \$25 plus 10.0% of the gross value of limestone produced in the preceding year in excess of \$250

Garnets: \$25 plus 1.0% of the gross value of garnets produced in the preceding year in excess of \$2,500

**Collection Frequency:** Annually

#### Distribution

Beginning FY 2004, the amount needed to cover debt service on CERCLA bonds (after amounts transferred from the CERCLA cost recovery account) is deposited first to the CERCLA match debt service account. Money is then apportioned in steps 2-4 as shown in the distribution chart.



#### Forecast Risks

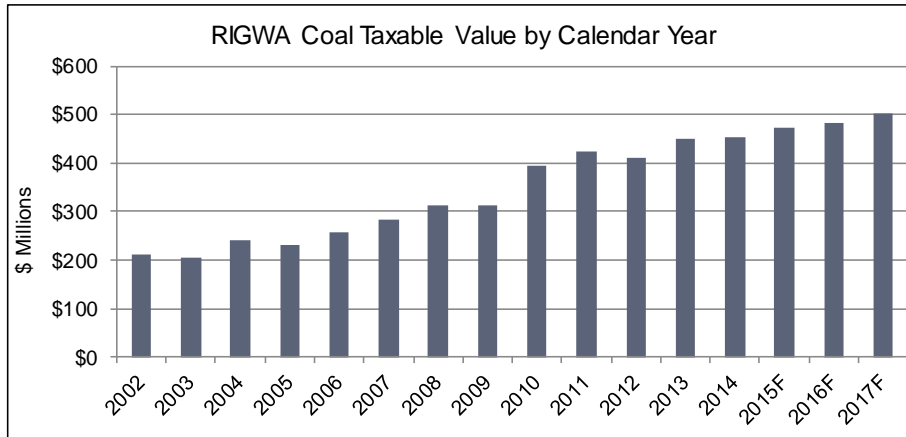
- Coal and mineral prices
- Production

Data

The data used to estimate the resource indemnity and groundwater assessment (RIGWA) tax are obtained from the coal severance tax source data and SABHRS.

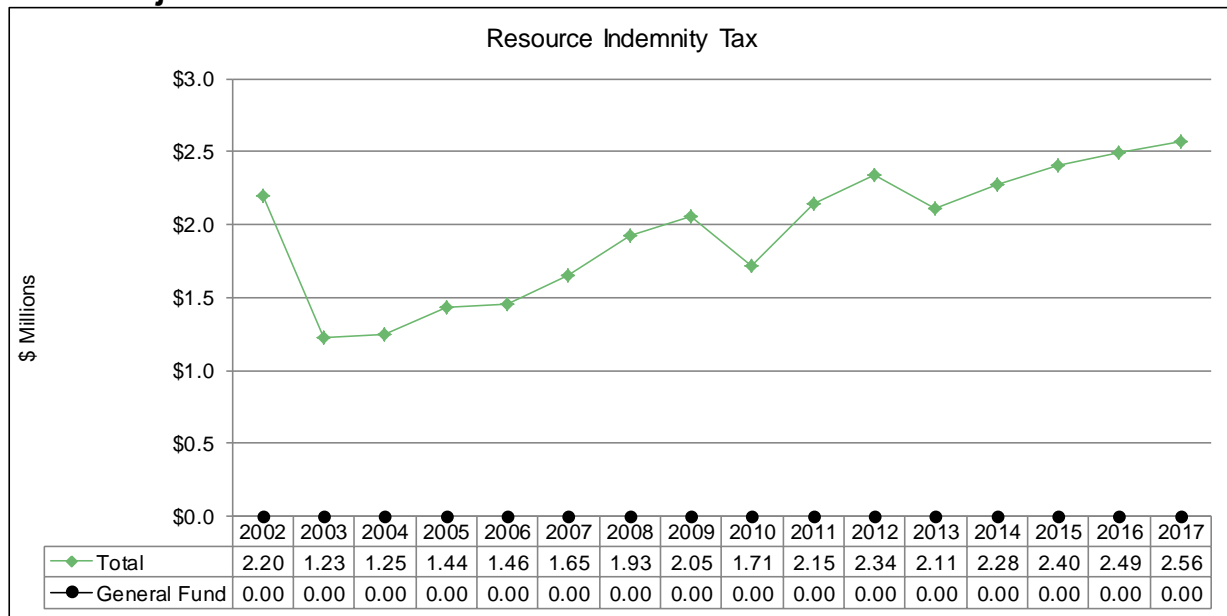
Analysis

The gross value estimates prepared for the coal severance tax are used in the estimate for the RIGWA tax. The future taxable value of coal, produced by all mines, is estimated in the coal severance tax source. The future taxable value of other mineral production is estimated at the amount of the last known year.



The tax rates are applied to the production value of each of the components, coal and other minerals. The tax estimates for the two components are summed to produce the total estimate of the RIGWA tax.

**Revenue Projection**



**U.S. Mineral Royalties**

**Revenue Description**

Under the federal Mineral Lands Leasing Act ([30 USC, Section 191](#)), 50% of all sales, bonuses, royalties, and rentals received from federal lands in Montana must be paid to the state; however, that rate is currently at 48%. The money is to be used as the legislature may direct, giving priority to those subdivisions of the state socially or economically impacted by development of minerals leased under the federal act. The revenue produced on federal public lands includes royalties and bonuses from oil, gas, coal, and other mineral exploration and extraction.

**Statutory Reference**

Distribution – [17-3-240, MCA](#)

**Collection Frequency:** Monthly

**Distribution**

Receipts are deposited 75% to the general fund and 25% to the state special revenue mineral impact account. Money in the mineral impact account is statutorily appropriated for distribution to eligible counties in which the minerals were extracted.

**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to the same large differences in oil price that exist in the oil and natural gas estimates, as well as some oil production, which LFD has continuing its decline on federal land. Modeling differences in coal may also play a role.

U.S. Mineral Royalties (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$30.770	\$31.710	\$32.860	\$95.340
Legislative Forecast	26.888	24.726	24.557	76.170
Difference	\$3.882	\$6.984	\$8.303	\$19.170
% Difference	14.4%	28.2%	33.8%	25.2%

**Forecast Risks**

- Coal, oil, and other mineral prices
- The amount of production on federal lands
- Federal legislative impacts

**Revenue Estimate Methodology**

Data

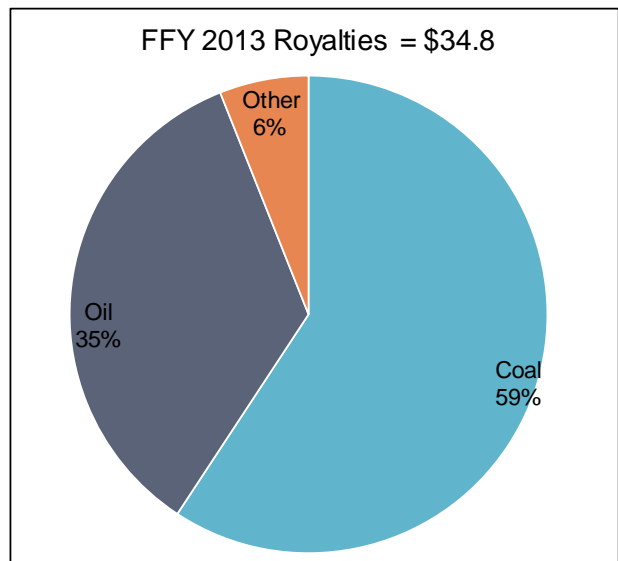
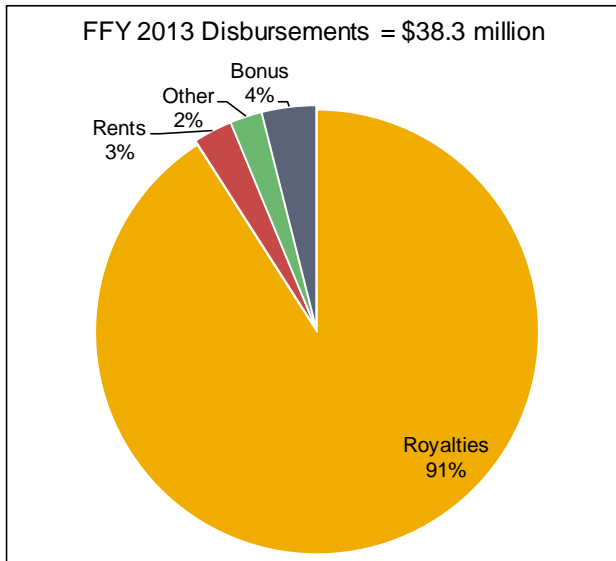
Federal fiscal year data on receipts by mineral type as well as royalty, bonus, rents, and other categories are combined with growth and distribution data from the coal and oil & natural gas analysis.

Analysis

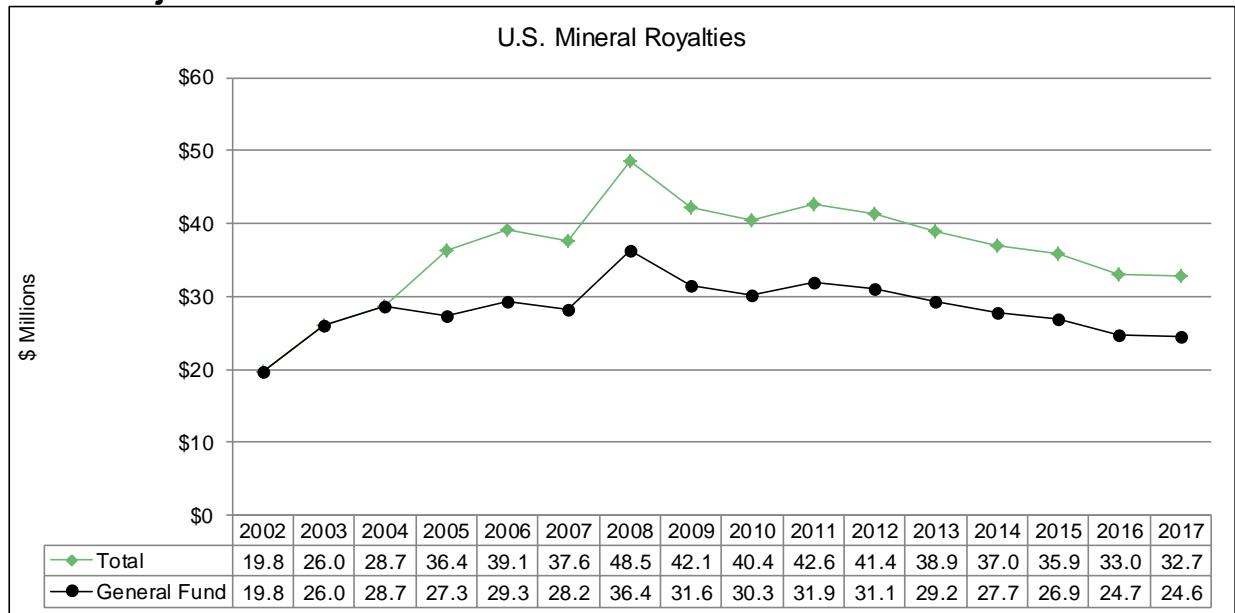
The estimate for mineral royalties is obtained by multiplying together estimates for production & price (based on data from other natural resource analysis), the applicable royalty rate, and Montana’s percentage share for coal, oil, natural gas, natural gas liquids, and methane. Rents, bonuses and other revenues are then simply trended as they are much more volatile than royalties. The estimates are based on the federal fiscal year, so a 25/75 split is used to convert to a state fiscal year. The following charts show the revenue source by type of payment, and the royalties by source.

**Natural Resource Taxes**

**U.S. Mineral Royalties**



**Revenue Projection**



**Wholesale Energy Tax**

**Revenue Description**

The wholesale energy transaction tax is imposed on the amount of electricity transmitted by a transmission services provider in the state.

**Statutory Reference**

Tax Rate – [15-72-104\(1\), MCA](#)

Tax Distribution – [15-72-106\(3\), MCA](#)

Date Due – 30<sup>th</sup> day of the month following the end of the calendar quarter ([15-72-110, MCA](#))

**Applicable Tax Rates**

The tax rate of \$0.15 per megawatt is applied to the number of megawatt hours transmitted. If the electricity is produced in state and sold out of state, the taxpayer is the owner of the electrical generation property, and the tax is collected by the transmission services provider. If the electricity is produced in-state for delivery in-state, or is produced outside the state for delivery in-state, the taxpayer is the distribution services provider, and the tax is collected by the transmission services provider.

The tax does not apply to the following:

- Electricity that is transmitted through the state that is neither produced nor consumed in the state;
- Electricity generated in the state by an agency of the federal government for delivery outside the state;
- Electricity delivered to a distribution services provider that is a municipal utility or a rural electric cooperative which opts out of competition;
- Electricity delivered to a purchaser that received its power directly from a transmission or distribution facility owned by an entity of the U.S. government;
- Electricity meeting certain contractual requirements that is delivered by a distribution services provider that was first served by a public utility after December 31, 1996;
- Electricity that has been subject to the transmission tax in another state; and
- A 5% line loss exemption for transmission of electricity produced in the state for delivery outside of the state.

**Collection Frequency:** Quarterly

**Distribution:** All proceeds are deposited into the general fund.

**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to differences in modeling.

Wholesale Energy Transmission Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$3.170	\$3.310	\$3.480	\$9.960
Legislative Forecast	3.652	3.629	3.608	10.889
Difference	(\$0.482)	(\$0.319)	(\$0.128)	(\$0.929)
% Difference	-13.2%	-8.8%	-3.5%	-8.5%

**Forecast Risks**

- Electricity prices
- Generation and transmission capacity

- Production outages

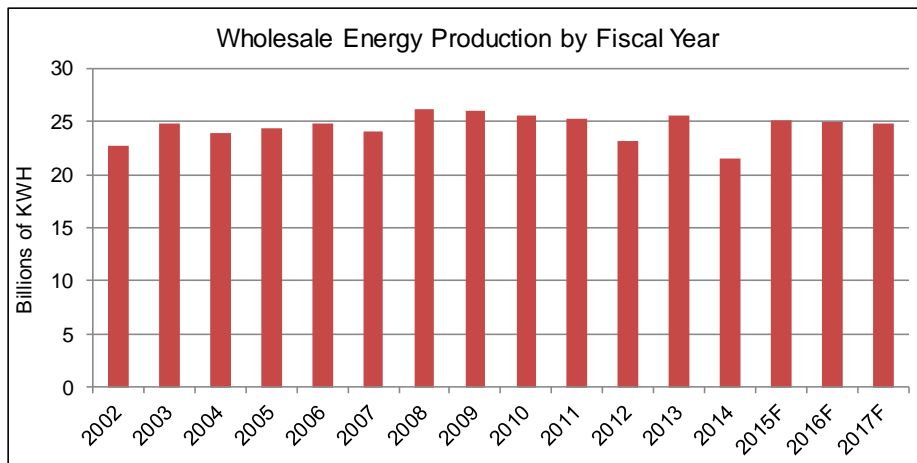
**Revenue Estimate Methodology**

Data

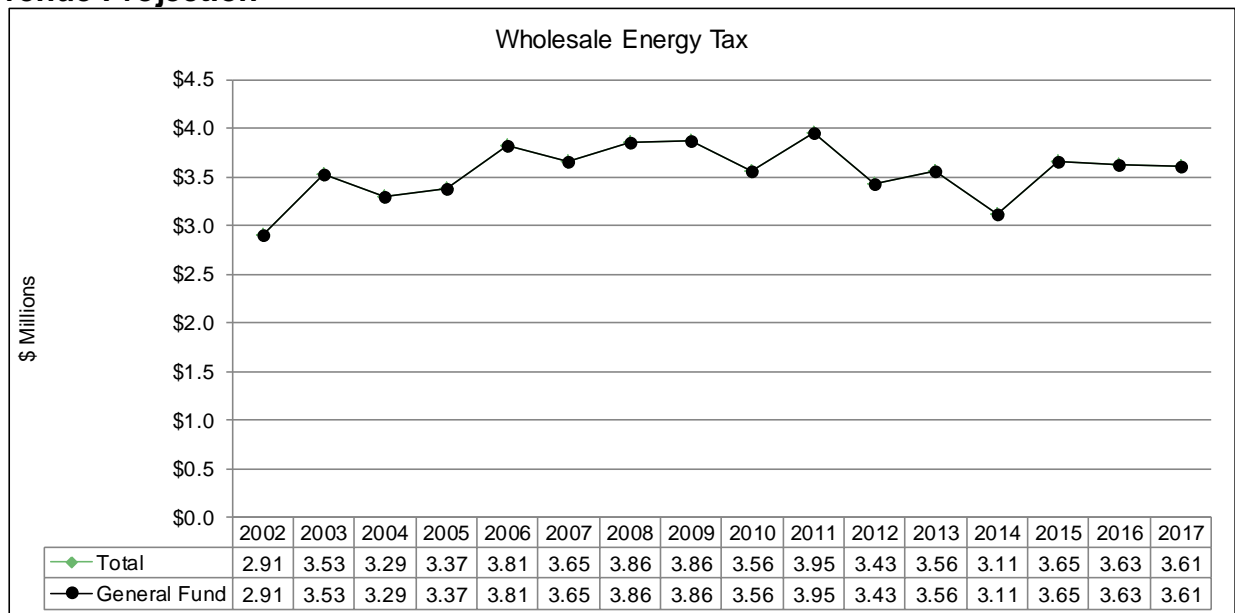
Data from quarterly reports produced by the Department of Revenue provide a history of in-state and out-of-state kilowatt hours transmitted by each company.

Analysis

A trend of historical in and out-of-state kilowatt hour data is applied to the previous gross production amount and line loss is subtracted. Net taxable kilowatt hours are multiplied by the tax rate to produce total revenue from this source.

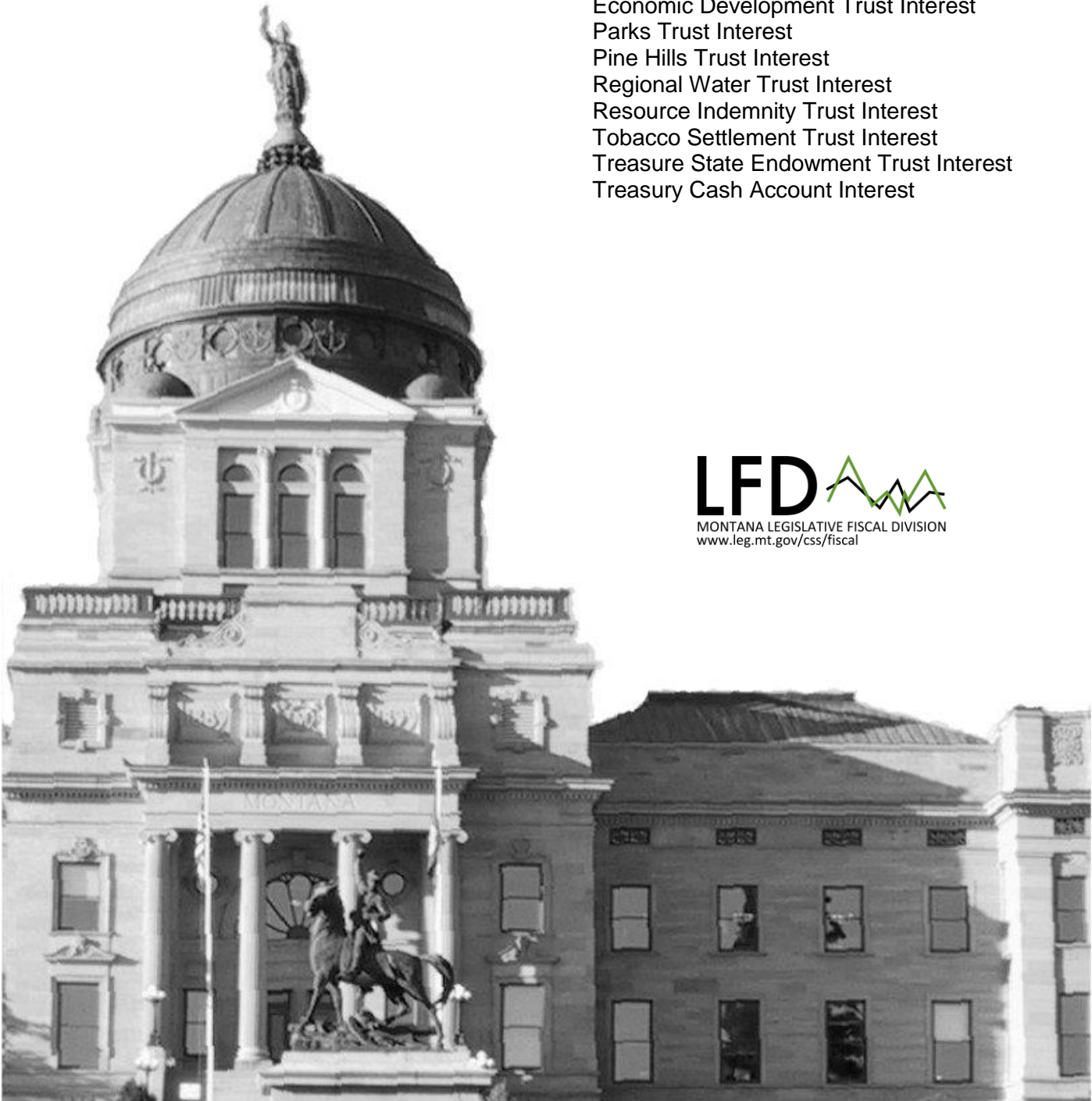


**Revenue Projection**



# INTEREST EARNINGS

Capital Land Grant  
Coal Trust Interest  
Common School Interest & Income  
Cultural & Aesthetics Trust Interest  
Deaf & Blind Trust Interest  
Economic Development Trust Interest  
Parks Trust Interest  
Pine Hills Trust Interest  
Regional Water Trust Interest  
Resource Indemnity Trust Interest  
Tobacco Settlement Trust Interest  
Treasure State Endowment Trust Interest  
Treasury Cash Account Interest



**LFD**   
MONTANA LEGISLATIVE FISCAL DIVISION  
[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)





## Capital Land Grant Interest and Income

### Revenue Description

The capital land grant fund is a fund set up for public buildings at the state capital for construction, repair, renovation, and other permanent improvements of state building. Capital land grant funds can also be used for the acquisition of land for such buildings, as well as the payment of principal and interest on bonds issued for any of these purposes. The funds for this come from lands granted by the federal government to the state, which generate income from a variety of sources, as well as interest from principal in the account. Section 12 of the *Enabling Act* requires that income generated on certain sections of federally granted land be used for this purpose.

### Statutory Reference

Distribution – [18-2-107, MCA](#)  
[Enabling Act](#), Sections 10, 12 & 17

Other – DNRC trust land administration diversion ([77-1-108, MCA](#) & [77-1-109, MCA](#))  
DNRC land bank administration diversion ([77-2-362, MCA](#))

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

After diversions for DNRC administration, all remaining capital land grant income is deposited into a capital projects fund to be used for projects on the state capital complex in accordance with the provisions of Section 12 of the *Enabling Act*.

### Forecast Risks

- Prices and rental charges set by the Board of Land Commissioners
- Commodity prices and production
- Administration costs

### Revenue Estimate Methodology

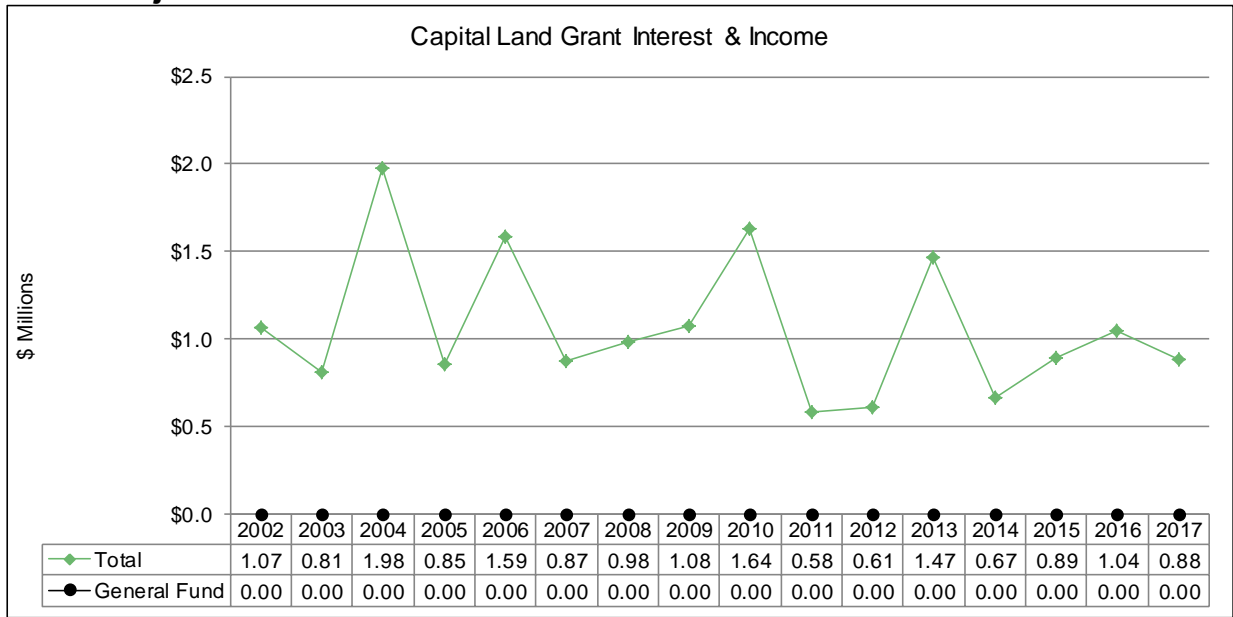
The estimate for interest and income from the capital land grant trust determines the net amount of revenue that will be distributed to the trust beneficiary. Since all of the trust income is distributed, the trust has no monetary corpus.

### Data

Data from SABHRS provide a history of each individual interest and income revenue component. Department of Natural Resources and Conservation (DNRC) annual reports and other data provide additional information such as mineral prices and production. Budget submissions on the state budgeting system (MBARS) provide anticipated diversions.

### Analysis

The estimate is produced by estimating the revenue components and then subtracting estimated diversion amount. The revenue components for this source are made up of timber, grazing, and agricultural fees, oil and gas bonuses, leases and penalties, mineral royalties and miscellaneous rentals. They are typically estimated using a moving average of recently completed fiscal years' collections. DNRC's estimated operational costs are used for the forecast of diversion amounts.



## Coal Trust Interest

### Revenue Description

The coal trust is one of several trusts set up with money from the Coal Severance Tax. The interest money from this fund is for a variety of purposes with the majority going to fund the Public Employees Retirement System.

[Article IX, Section 5](#) of the Montana Constitution requires that 50% of all coal severance tax revenue be deposited in a permanent coal trust fund in which appropriation of the principal requires a three-fourths vote of each house of the legislature. Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. The remaining funds are then split 50% (25% of total revenue) to the Treasure State Endowment trust fund, 25% (12.5% of total revenue) to the Treasure State Endowment Regional Water System trust fund, and 25% (12.5% of total revenue) to the Big Sky Economic Development trust fund.

The permanent trust fund currently does not receive coal severance tax revenue; however, the distributions to the treasure state endowment trust fund and the treasure state endowment regional water system trust fund terminate on June 30, 2016. After this date, amounts that had been distributed to the two treasure state trust funds will be distributed to the permanent fund. By statute, interest earned on the coal severance tax permanent trust that is not earmarked to other programs is deposited to the general fund.

For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

### Statutory Reference

Distribution – [Montana Constitution, Article IX, Section 5](#); [17-5-704, MCA](#); [15-35-108, MCA](#)

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

Interest earned on the coal severance tax permanent trust fund that is deposited to the general fund is statutorily appropriated as follows:

- \$65,000 to the cooperative development center;
- \$625,000 for the growth through agriculture program provided for in [Title 90, chapter 9](#);
- \$1.275 million to the research and commercialization account created in [90-3-1002](#);
- to the Department of Commerce for specific projects:
  - \$125,000 for a small business development center;
  - \$50,000 for a small business innovative research program;
  - \$425,000 for certified regional development corporations;
  - \$200,000 for the Montana manufacturing extension center at MSU-Bozeman; and
  - \$300,000 for export trade enhancement
- After the above payments, up to \$21 million is appropriated to the public employees' retirement system defined benefit plan trust fund

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is due to the difference in the estimated balance in FY 2017, as the legislative estimate assumes that the coal permanent trust balance will receive the current principle of regional water trust fund once this trust sunsets at the end of FY 2016.

Coal Trust Interest (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$20.550	\$19.870	\$20.050	\$60.470
Legislative Forecast	20.473	19.849	22.491	62.813
Difference	\$0.077	\$0.021	(\$2.441)	(\$2.343)
% Difference	0.4%	0.1%	-10.9%	-3.7%

**Forecast Risks**

- Short and long term interest rates
- Bond rates

**Revenue Estimate Methodology**

Data

The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future long-term interest rates are provided by the BOI and short-term rates are provided by IHS.

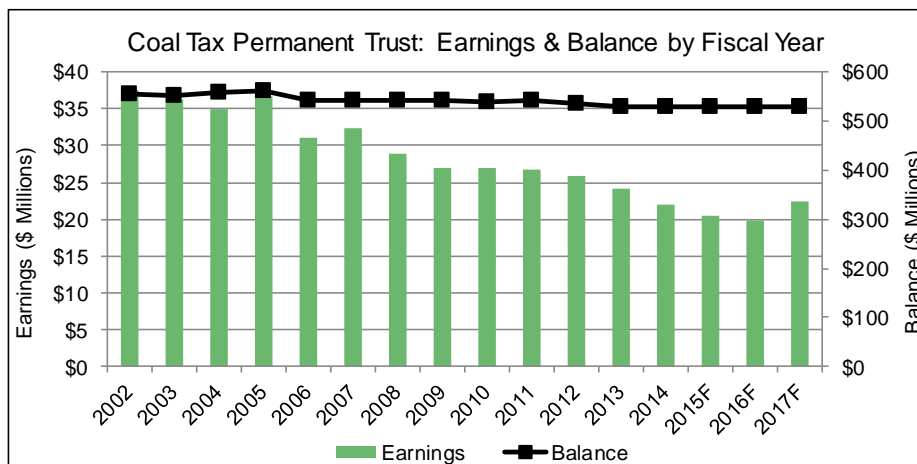
Analysis

The coal trust was created from distributions of the coal severance tax. The Constitution requires that 50% of the coal severance tax collections be distributed into the permanent coal trust; currently, the required coal tax revenue flows into the three sub-trusts and none of the tax revenue is deposited into the permanent coal trust.

Each of the following interest or income components are estimated independently and combined to produce the estimate:

- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)

The TFBP was formed in 1995 to manage the fixed investments held in the state’s major trust funds. Each trust owns “shares” of the pool and interest earnings are paid to each trust on a per-share basis. Yearly return rate estimates provided by the BOI are applied to the current and estimated future trust balance to produce a TFBP earnings estimate.

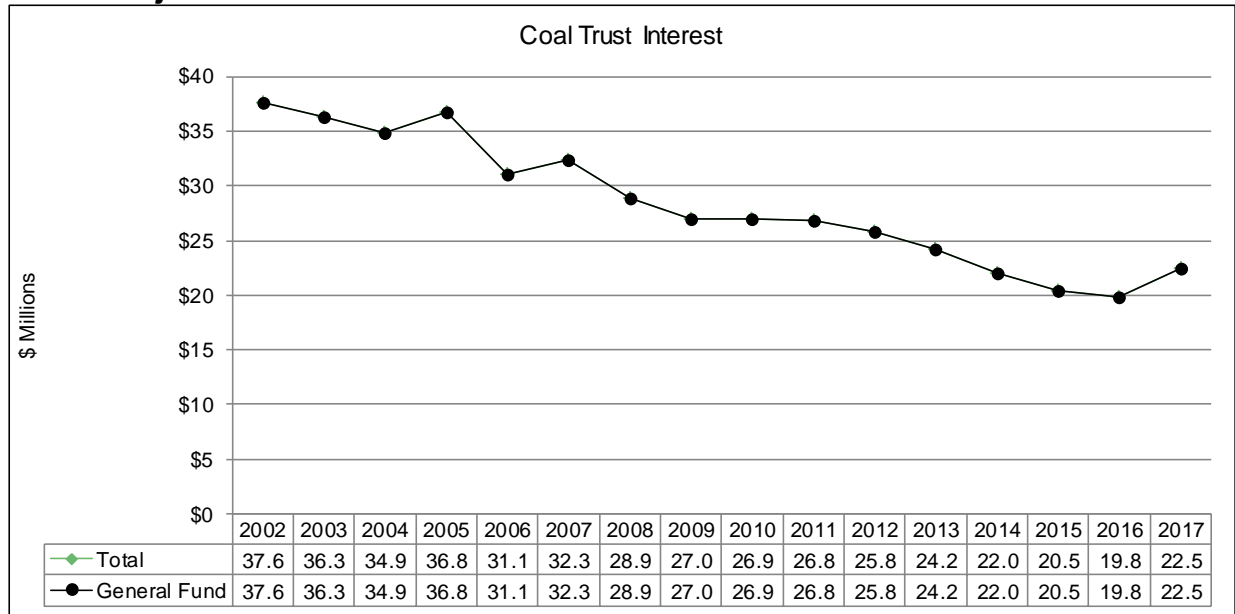


The BOI is required by statute to invest 25% of the coal tax trust in the Montana economy. In-state investments primarily consist of loans to Montana business entities and earnings are equal to the interest charged on the loans.

STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. STIP earnings are modeled on an average short-term interest rate based on IHS projections of three short-term investments

After the estimates are calculated, the projected earnings the sources are combined to reach total coal trust interest revenue, and the revenues are distributed as described above.

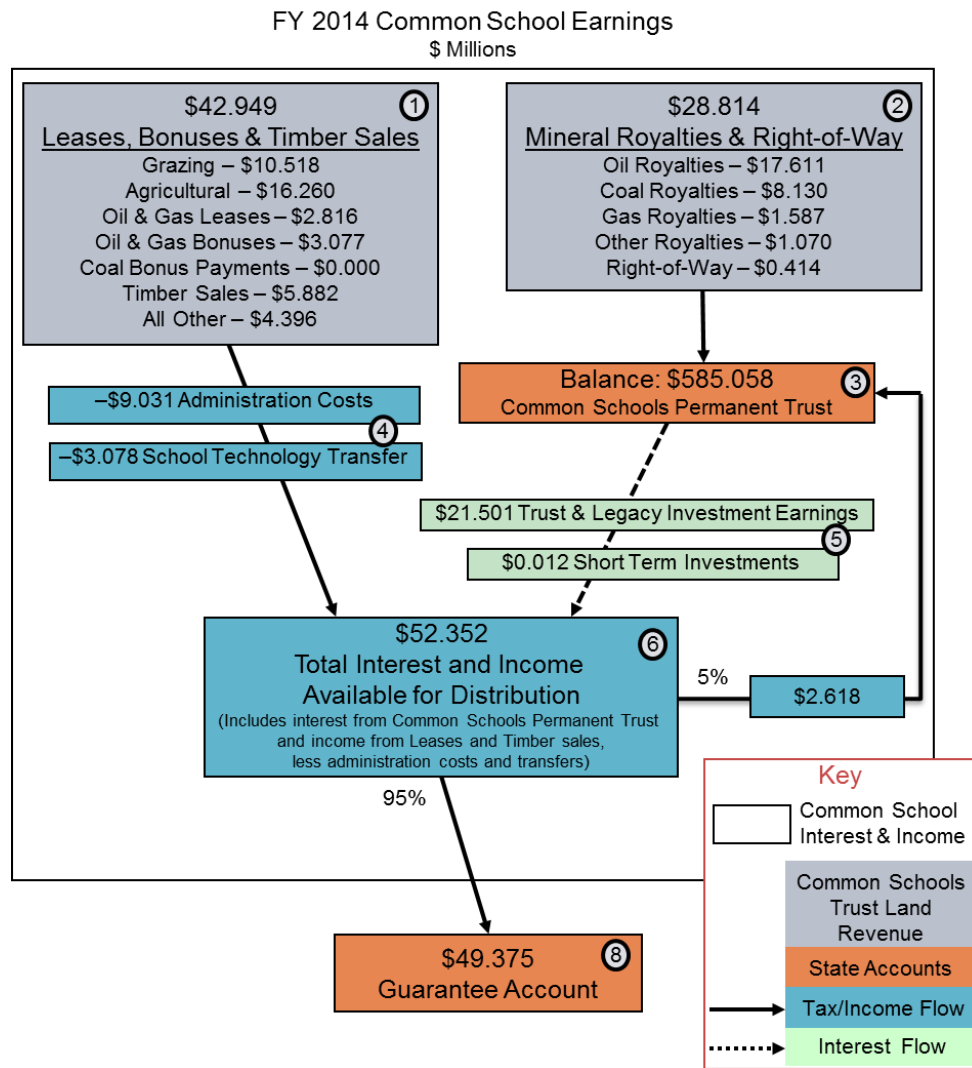
**Revenue Projection**



**Common School Interest and Income**

**Revenue Description**

The Common School Trust is a fund set up for the support of public schools using income generated from state common school trust land and the subsequent interest on the account. Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. The revenue estimate is net of administration costs for the Department of Natural Resources and Conservation (DNRC) and any other school-related transfers. The chart below shows the FY 2014 earnings and distribution, with subsequent descriptions of each numbered box.



**1** Leases, Bonuses & Timber Sales: Lands granted by the federal government to the state for the benefit of public schools generate income. Common school lands produce two kinds of revenue: 1) distributable income such as interest earnings, agricultural rents or crop shares, and timber sale revenue; and 2) permanent income that is returned to the trust as income from the sale of minerals, land, and easements. Box 1 is the distributable income. This common school land revenue includes leases, bonuses and timber sales under 18 million board feet. Revenue from timber sales over 18 million board feet is transferred to the school facility and technology account ([20-9-516, MCA](#)).

## **Interest Earnings**

## **Common School Interest and Income**

② Mineral Royalties & Right-of-Way: This portion is deposited directly into the common schools permanent trust and includes sales of part of all of a piece of common schools trust land including extractable resources such as oil, natural gas, and coal.

③ Common Schools Permanent Trust: The [Enabling Act](#) states that “proceeds from the sale and other permanent disposition of any of the said lands and from every part thereof, shall constitute permanent funds for the support and maintenance of the public schools and the various State institutions for which the lands have been granted.” The Common Schools Permanent Trust is the permanent trust account in which school dedicated funds are held.

④ Costs & Transfer: The amount of revenue deposited to the guarantee account is net of amounts diverted for DNRC administration costs and those deposited directly to the school facility and technology account shown in Box 4. The administration costs diversion funds operational costs in DNRC for common school lands. The school facility and technology account receives timber revenue in excess of 18 million board feet ([77-1-218, MCA](#)). This reduces the amount of revenue distributable to the Guarantee Account.

⑤ Investment Earnings: Funds in the Common Schools Permanent Trust are invested by the [Montana Board of Investments](#), with the interest earned available for distribution. The majority of the revenue, the Trust & Legacy Investment Earnings, comes from fixed-income investments. A small amount comes from short-term investments which is interest on the cash when it comes into the Montana Board of Investments and before it is invested in the longer-term Trust Funds Investment Pool.

⑥ Common School Trust Land Interest and Income: This amount is commonly referred to as common school interest and income. It is comprised of the income from leases, bonuses, and timber (Box 1) less costs and transfers (Box 4), plus interest from the Common Schools Permanent Trust (Box 5). The money is distributed as follows:

- 95% is transferred to the state special revenue guarantee account which is statutorily appropriated for schools
- 5% is reinvested in the Common Schools Permanent Trust

⑦ Additional transfers which are not shown here, but are included in the [Guarantee Account](#) section.

⑧ Guarantee Account: This is the state special revenue fund ([20-9-104, MCA](#)) which is statutorily appropriated to schools in the form of BASE aid. It is comprised of common school interest and income and other appropriations and is the first source of state school funding (used before general fund).

Note that the common school revenue is not the only source of guarantee account revenue; see the [Guarantee Account](#) section for more information on total revenue transferred to that account.

### **Statutory Reference**

Distribution – [Montana Constitution Article X, Section 5](#); [20-9-342, MCA](#); [20-9-622, MCA](#)  
[Enabling Act](#), Section 10

Other – DNRC trust land administration diversion ([77-1-108, MCA](#) & [77-1-109, MCA](#))  
DNRC land bank administration diversion ([77-2-362, MCA](#))

Date Due – Last business day of February following the calendar year in which the money was received ([20-9-342, MCA](#)).

**Applicable Tax Rates:** N/A

### **Collection Frequency**

Revenue is received monthly; distribution to the state special revenue fund occurs three times per year.

**Distribution**

As described above, 95% of interest and income from the common school permanent trust fund (excluding a portion of timber sale revenue and after amounts diverted for DNRC administration) is distributed to the state special revenue guarantee account and is statutorily appropriated for schools. The remaining 5% is deposited to the permanent trust fund. The amount of timber sale revenue over 18 million board feet is deposited to the school facility and technology account. The amounts deposited to the guarantee account are shown in this revenue source.

**Forecast Risks**

- Commodity prices and production
- Bond rates

**Revenue Estimate Methodology**

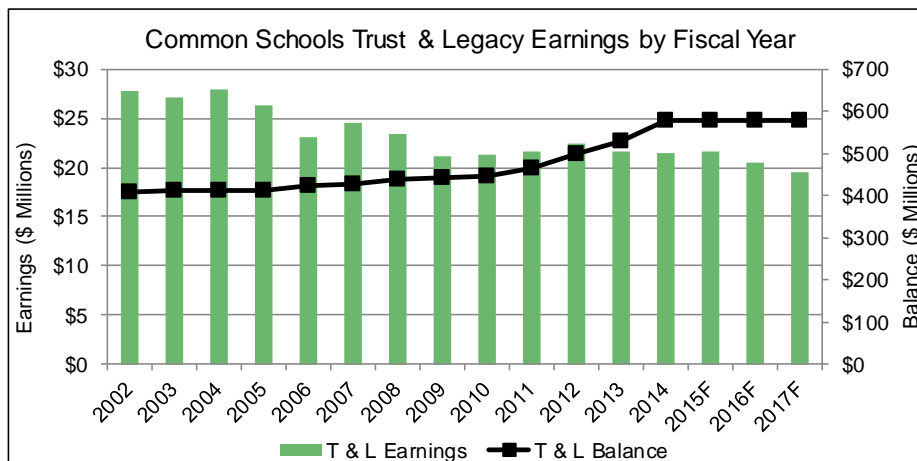
Data

Data from SABHRS provides a history of each individual interest and income revenue component from which estimates can be made. DNRC annual reports and other data provide additional information such as mineral prices and production. DNRC provided data for easement sales and timber harvest volumes. IHS provides future estimates of West Texas Intermediate oil and national well head natural gas prices.

Analysis

In addition to interest earnings, the revenue components for this source are made up of timber, grazing, and agricultural fees, oil and gas bonuses, leases and penalties, mineral royalties and miscellaneous rentals. They are typically estimated using a moving average of recently completed fiscal years' collections

The monetary assets of the common school trust are pooled with monetary assets of other land trusts (termed "Trust and Legacy") and invested by the Board of Investments (BOI) in the trust funds bond pool (TFBP). To forecast the total interest earned, estimated rates of return provided by the BOI are applied to the current and forecast invested balance. Money not invested in the TFBP earns interest at a short-term rate which is forecast by IHS.



Diversions fund operational costs in DNRC, but reduce the amount of permanent and distributable revenue that would have been deposited to the common school trust or distributed to the trust beneficiaries. The cost estimates are provided by DNRC.

The estimate assumes that distributable revenue is used to fund DNRC costs. The total expenditures requested to be made from the Trust Land Administration Account can be funded from distributable revenue, permanent revenue, or a combination of the two. It is up to the DNRC to decide. If

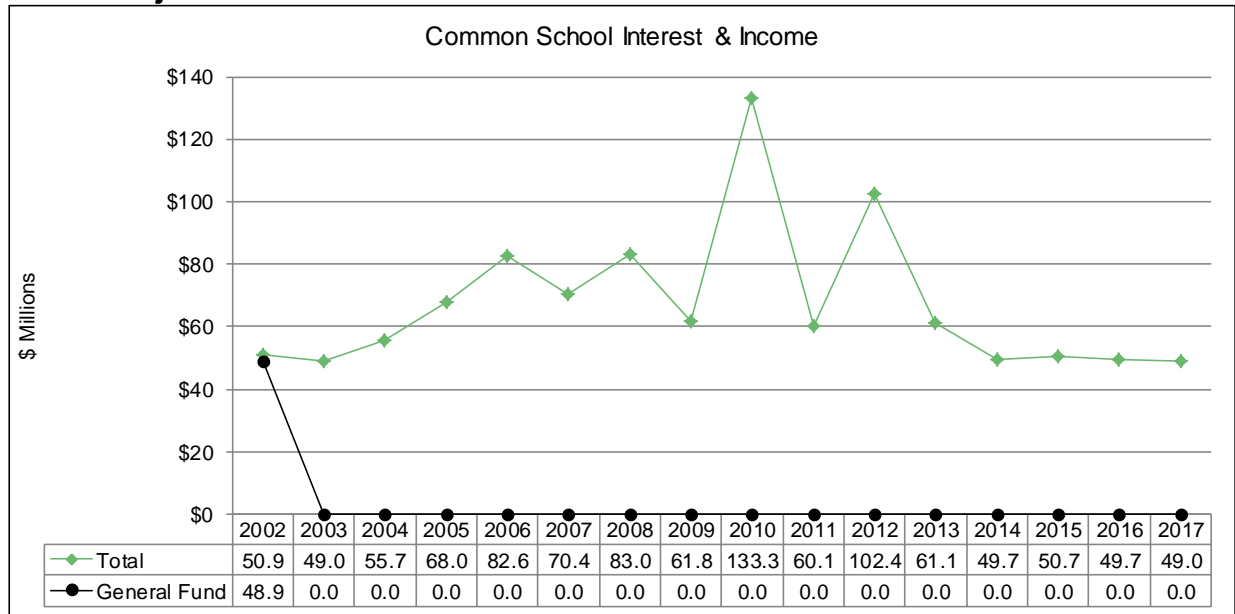


## Interest Earnings

## Common School Interest and Income

permanent revenue is chosen, the corpus of the trust will not grow as rapidly as it would have and interest earnings from the trust will be less. If distributable revenue is chosen, the amount deposited to the guarantee account to fund public schools will be less, thus requiring more funding from the general fund.

## Revenue Projection



## Cultural Trust Interest

### Revenue Description

The Cultural Trust is one of several trusts set up with money from the coal severance tax. The interest money from this fund is used primarily for works of art in the capitol and for other cultural and aesthetic projects. For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

### Statutory Reference

Distribution – [15-35-108\(6\), MCA](#); [22-2-305, MCA](#)

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

All income from the trust is deposited in a state special revenue fund to be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

### Forecast Risks

- Short and long-term interest rates
- Bond rates
- Coal price and production

### Revenue Estimate Methodology

#### Data

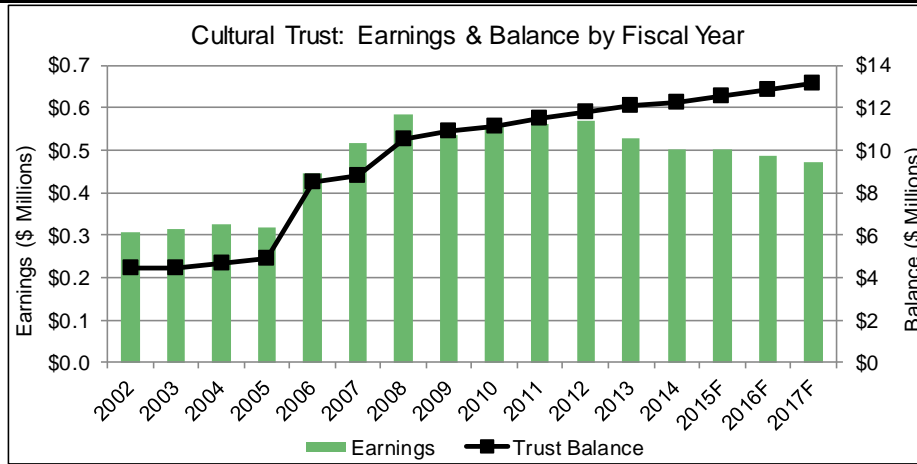
The Board of Investments (BOI) provides historic interest earnings from the trust as well as the gains and losses from the sale of investment instruments. Projections of interest rates are provided by IHS, and historic earnings are provided from SABHRS.

#### Analysis

Each of the following interest or income components are estimated independently and combined to produce the estimate:

- Trust fund bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

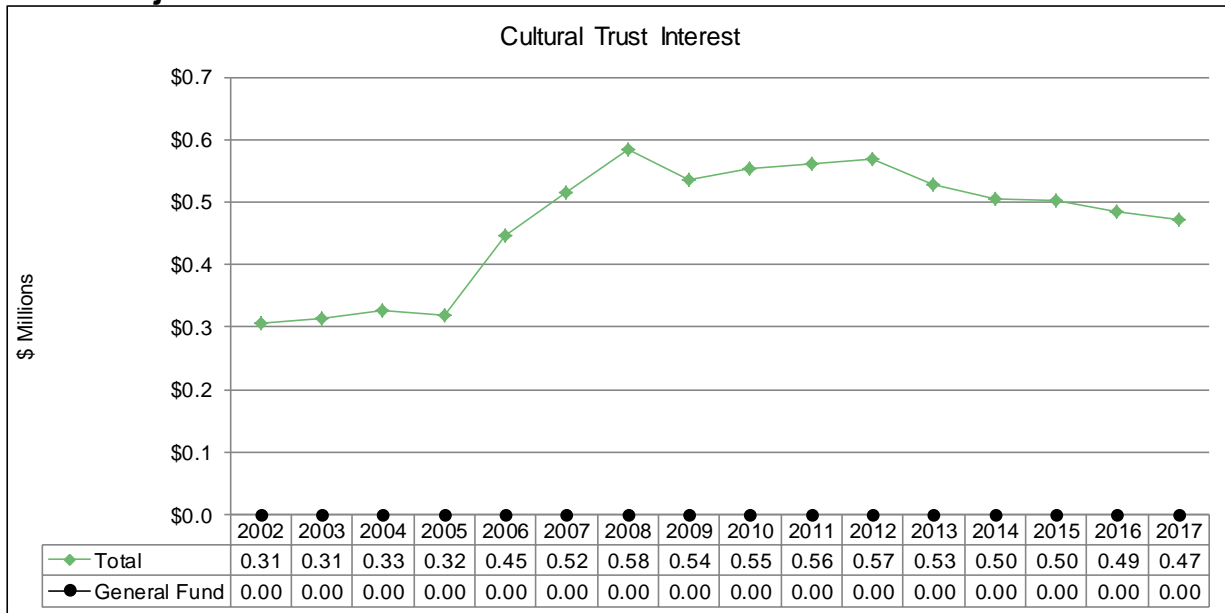
TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

The 0.63% coal severance tax distribution to the cultural trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. These new trust deposits are forecast using estimates of coal severance tax collections.

Revenue Projection



## Deaf and Blind Trust Interest and Income

### Revenue Description

The Deaf and Blind Trust is a fund set up for the support of the School for the Deaf and Blind using income generated from state land and the subsequent interest on the account. Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Up to 25% of distributable revenue may be diverted to the trust land administration account to fund the Department of Natural Resources & Conservation (DNRC) administrative costs.

### Statutory Reference

Distribution – [20-8-110, MCA](#)  
[Enabling Act](#), Sections 11 & 17

Other – DNRC trust land administration diversion ([77-1-108, MCA](#) & [77-1-109, MCA](#))  
DNRC land bank administration diversion ([77-2-362, MCA](#))

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

Interest and income from the trust, net of amounts to fund DNRC administration costs, are allocated to the School for the Deaf and Blind.

### Forecast Risks

- Short and long-term interest rates
- Bond rates

### Revenue Estimate Methodology

#### Data

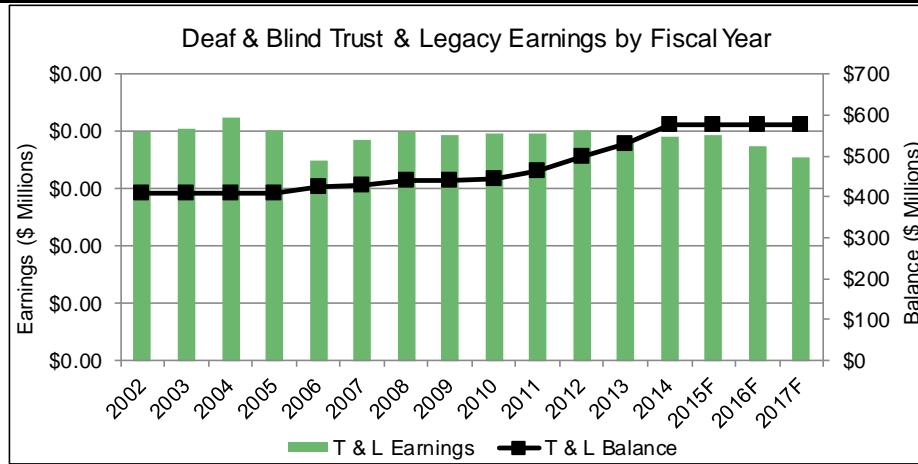
SABHRS data provide a history of each individual interest and income revenue component; DNRC annual reports and other data provide additional information such as mineral production and timber estimates; and DNRC estimates for operating costs are used for the forecast diversion amounts.

#### Analysis

Trust and Legacy Earnings: The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. The Deaf and Blind trust share is 0.8%. The total pool earnings is a sum of the following:

- Earnings from new deposits – New deposits in the pool initially earn interest at the short-term rate before it is invested in a longer term investment. IHS forecasts for short-term interest rates are used to project these interest earnings.
- Earnings from existing balance – The majority of these funds have been invested in bonds purchased over the past several years. Estimated return rates from the BOI are applied to the current and forecast trust balance to calculate the estimate.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate.

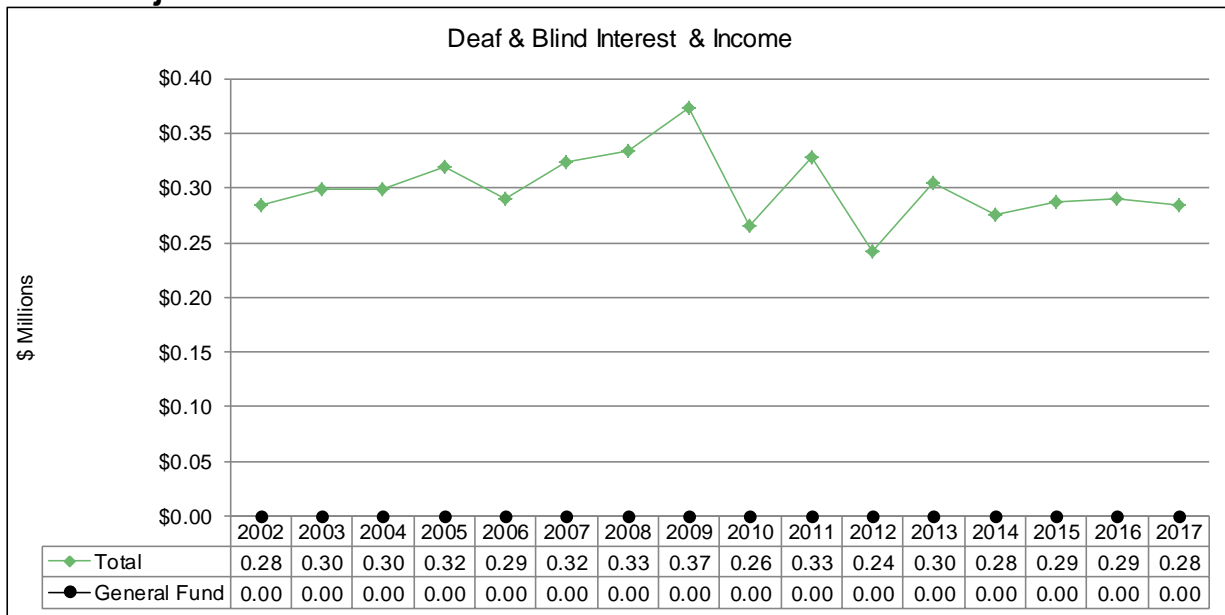
Once the total amount of the pool earnings has been estimated by summing the above three items, it is multiplied by the Deaf and Blind trust share of 0.8%.



Remaining revenue sources such as grazing and agricultural fees, as well as mineral royalties and oil and gas leases are typically estimated using a time series or assuming no growth from the previous fiscal year.

Future diversion amounts are based on estimates from the DNRC, and are assumed to be funded with distributable revenue.

Revenue Projection



Economic Development Trust Interest

Revenue Description

The Economic Development trust is one of several trusts set up with money from the coal severance tax. The interest money from this fund is used primarily for economic development by local governments and certified regional and economic development organizations. The deposits of coal severance tax revenue to this fund terminate at the end of FY 2025. For more information on the coal permanent trust earnings and distributions, see the chart in the Coal Severance Tax section.

Article IX, Section 5 of the Montana Constitution requires that 50% of all coal severance tax revenue be deposited in a permanent coal trust fund in which appropriation of the principal requires a three-fourths vote of each house of the legislature. Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. The remaining funds are then split 50% (25% of total revenue) to the Treasure State Endowment trust fund, 25% (12.5% of total revenue) to the Treasure State Endowment Regional Water System trust fund, and 25% (12.5% of total revenue) to the Big Sky Economic Development trust fund. The permanent trust fund currently receives no coal severance tax revenue.

Statutory Reference

Distribution – Montana Constitution, Article IX, Section 5; 17-5-703 (5b), MCA; 90-1-205, MCA
Date Due – Monthly (17-5-703(5b), MCA)

Applicable Tax Rates: N/A

Collection Frequency: Monthly

Distribution

Interest earnings are deposited to a state special revenue fund and are statutorily appropriated to the Department of Commerce to pay administrative expenses with the remainder for:

- 1. 75% to local governments to be used for job creation; and
2. 25% to certified regional development corporations and economic development organizations



Forecast Risks

- Short and long-term interest rates
• Bond rates
• Coal price and production

Revenue Estimate Methodology

Data

The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

Analysis

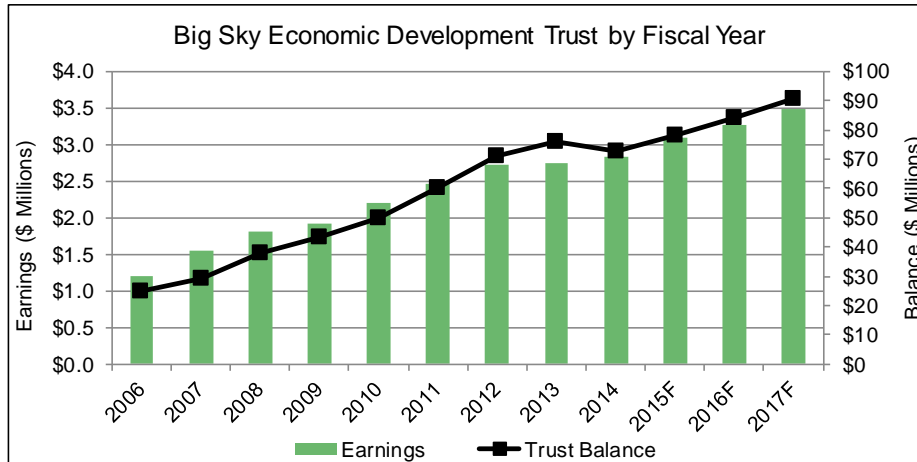
Each of the following interest or income components are estimated independently and combined to produce the overall estimate:

## Interest Earnings

## Economic Development Trust Interest

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

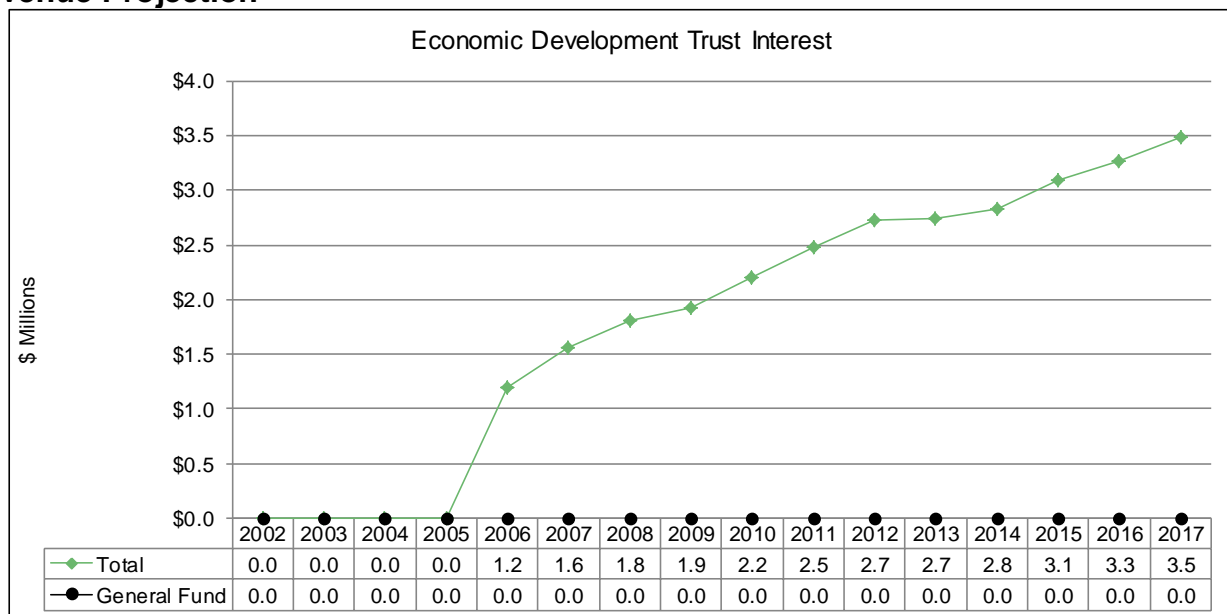
The TFBP was formed in 1995 to manage the fixed investments held in the state’s major trust funds. Each trust owns “shares” of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

Coal severance tax distributions to the trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. These new trust deposits are forecast using estimates of coal severance tax collections.

## Revenue Projection



## Parks Trust Interest

### Revenue Description

The Parks Trust is one of several trusts set up with money from the coal severance tax. Income from the parks trust must be appropriated for the acquisition, development, operation, and maintenance of state parks, state recreational areas, state monuments, and state historical sites under control of the Department of Fish, Wildlife and Parks (FWP). For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

### Statutory Reference

Distribution – [15-35-108\(4\), MCA](#)

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

Interest earnings on the parks trust are allocated to FWP and deposited to a state special revenue fund.

### Forecast Risks

- Short and long term interest rates
- Bond rates
- Coal price and production

### Revenue Estimate Methodology

#### Data

The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

#### Analysis

Each of the following interest or income components are estimated independently and combined to produce the overall estimate:

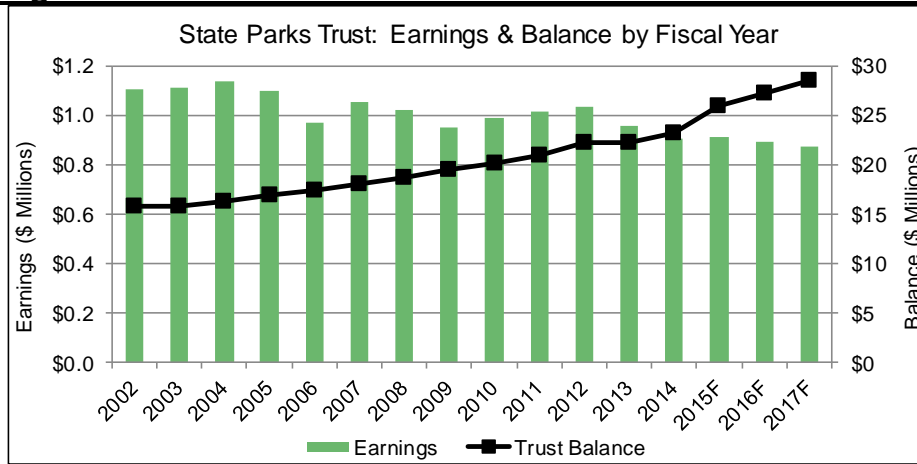
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



## Interest Earnings

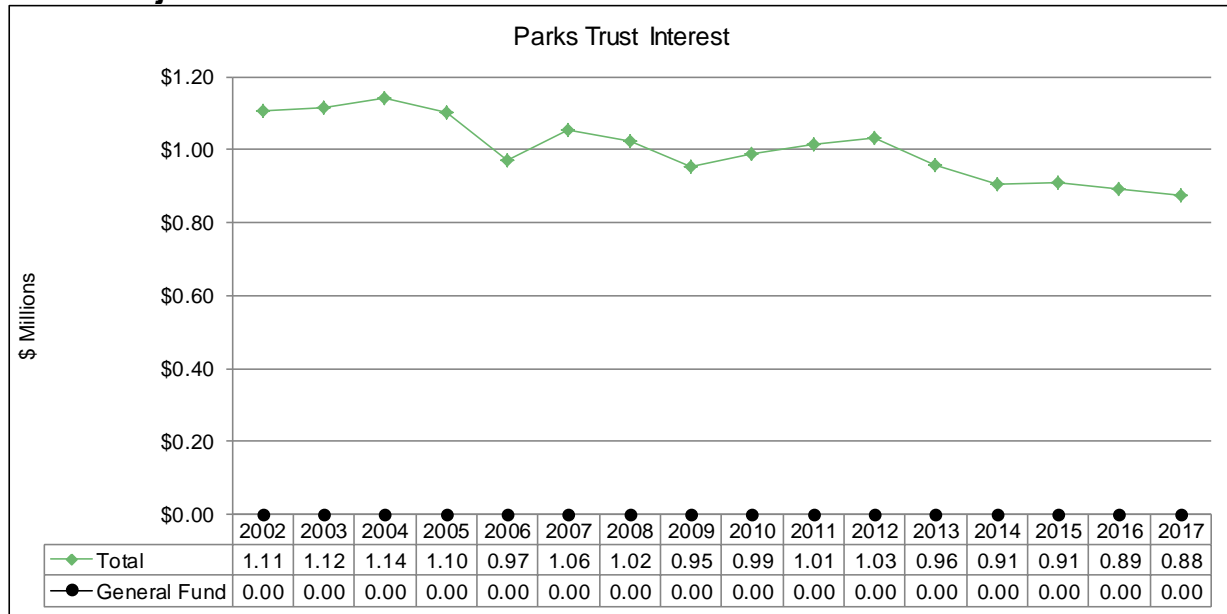
## Parks Trust Interest



STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

The 1.27% coal severance tax distribution to the parks trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. These new trust deposits are based on estimates of coal severance tax collections.

## Revenue Projection



## Pine Hills Interest and Income

### Revenue Description

The Pine Hills trust is a fund set up for the support of the Pine Hills youth correctional facility using income generated from state land and the subsequent interest on the account. Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Up to 25% of distributable revenue may be diverted to the trust land administration account to fund the Department of Natural Resources & Conservation (DNRC) administrative costs.

### Statutory Reference

Distribution – [17-3-1003, MCA](#)  
[Enabling Act](#), Sections 11 & 17

Other – DNRC trust land administration diversion ([77-1-108, MCA](#) & [77-1-109, MCA](#))  
DNRC land bank administration diversion ([77-2-362, MCA](#))

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

Interest and income from the trust, net of amounts to fund DNRC administration, is allocated to the Department of Corrections for support of the Pine Hills youth correctional facility.

### Forecast Risks

- Short and long term interest rates
- Bond rates

### Revenue Estimate Methodology

#### Data

SABHRS data provide a history of each individual interest and income revenue component; DNRC annual reports and other data provide additional information such as mineral production and timber estimates; and DNRC estimates for operating costs are used for the forecast diversion amounts.

#### Analysis

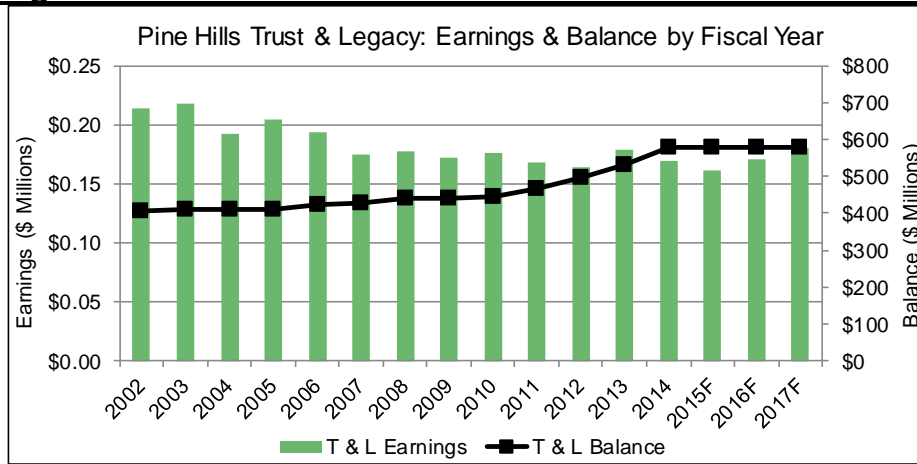
Trust and Legacy Earnings: The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investments in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. The Pine Hills trust share is 0.8%. The total pool earnings is a sum of the following:

- Earnings from new deposits – New deposits in the pool initially earn interest at the short-term rate before it is invested in a longer term investment. IHS forecasts for short-term interest rates are used to project these interest earnings.
- Earnings from existing balance – The majority of these funds have been invested in bonds purchased over the past several years. Estimated return rates from the BOI are applied to the current and forecast trust balance to calculate the estimate.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate.

Once the total amount of the pool earnings has been estimated by summing the above three items, it is multiplied by the Pine Hills trust share of 0.8%.

## Interest Earnings

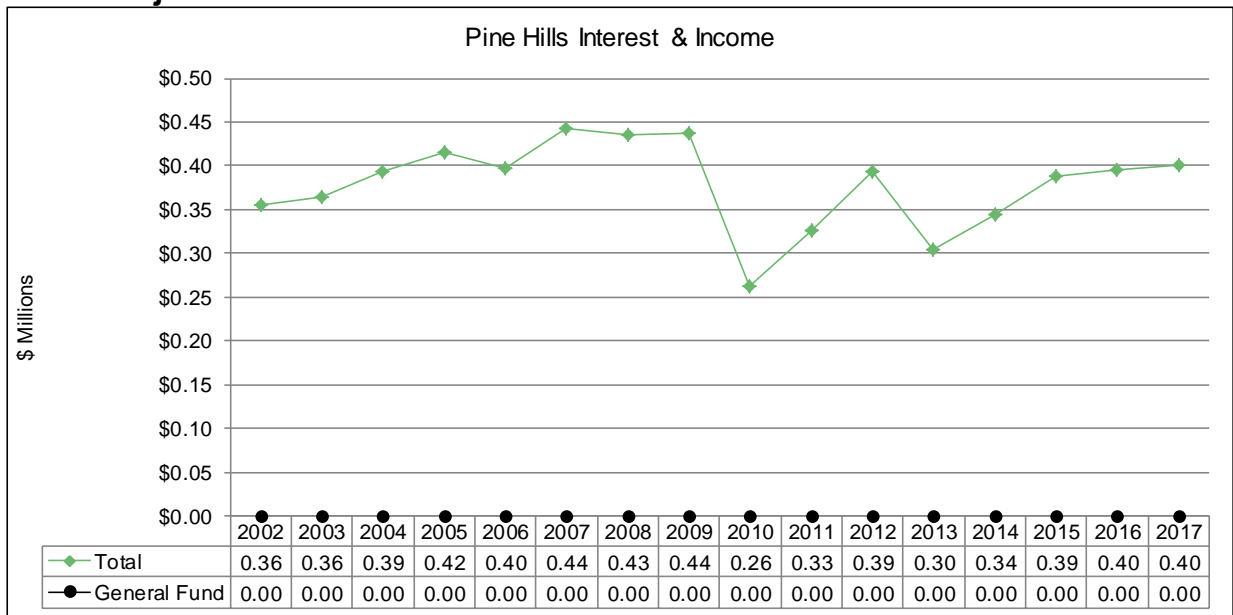
## Pine Hills Interest and Income



Remaining revenue sources such as grazing and agricultural fees, as well as mineral royalties and oil and gas leases are typically estimated using a time series or assuming no growth from the previous fiscal year.

Future diversion amounts are based on estimates from the DNRC, and are assumed to be funded with distributable revenue.

## Revenue Projection



## Regional Water Trust Interest

### Revenue Description

The Regional Water trust is one of several trusts set up with money from the coal severance tax. The Treasure State Endowment (TSE) Regional Water System trust fund receives 12.5% of total coal severance tax collections. Interest earned on the fund is used to provide matching funds to plan and construct regional drinking water systems in Montana and fund state and local entity administrative expenses. Except for administrative expenses, state funds must be matched equally by local funds. The funds in the account are further restricted to finance regional drinking water systems from the waters of the Tiber reservoir and the Missouri River within specific geographic areas.

This sub-trust is scheduled to sunset at the end FY 2016, at which point the balance of the sub-trust will be transferred to the coal permanent trust. For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

[Article IX, Section 5](#) of the Montana Constitution requires that 50% of all coal severance tax revenue be deposited in a permanent coal trust fund in which appropriation of the principal requires a three-fourths vote of each house of the legislature. Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. The remaining funds are then split 50% (25% of total revenue) to the Treasure State Endowment trust fund, 25% (12.5% of total revenue) to the Treasure State Endowment Regional Water System trust fund, and 25% (12.5% of total revenue) to the Big Sky Economic Development trust fund. The permanent trust fund currently receives no coal severance tax revenue.

### Statutory Reference

Distribution – [Montana Constitution, Article IX, Section 5](#); [17-5-703 \(4b\), MCA](#); [90-6-715, MCA](#)

Date Due – Monthly ([17-5-703\(4d\), MCA](#))

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

### Distribution

Interest earnings are deposited to a state special revenue fund and appropriated to the Department of Natural Resources and Conservation to fund eligible projects and pay administrative expenses.

### Forecast Risks

- Short and long-term interest rates
- Bond rates
- Coal price and production

### Revenue Estimate Methodology

#### Data

The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

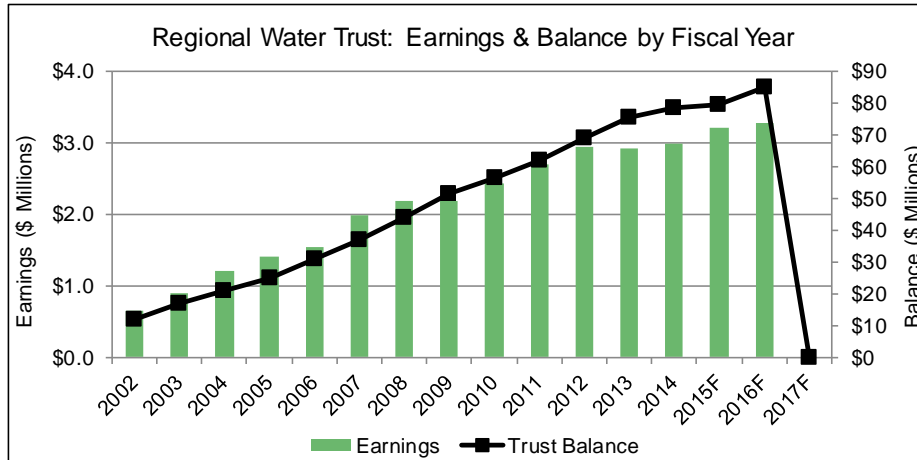
#### Analysis

Each of the following interest or income components are estimated independently and combined:

- Trust fund bond pool (TFBP)
- Short-term investment pool (STIP)

- New trust deposits

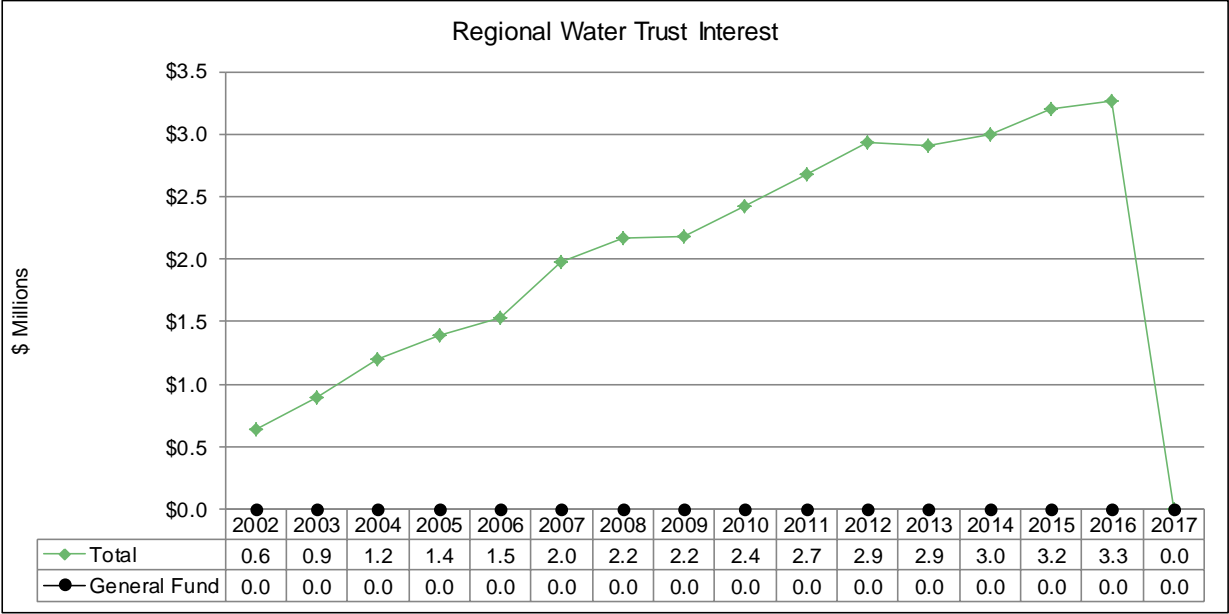
The TFBP was formed in 1995 to manage the fixed investments held in the state’s major trust funds. Each trust owns “shares” of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



The chart illustrates the sunset of the regional water trust at the end of FY 2016. It is assumed that the balance will be transferred to the coal permanent trust.

STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

Coal severance tax distributions to the trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. These new trust deposits are forecast using estimates of coal severance tax collections.



**Resource Indemnity Trust Interest**

**Revenue Description**

The Resource Indemnity Trust was set up from resource extraction taxes. The interest money from this fund is used for a variety of purposes (see distribution chart below) focusing on natural resource and environmental projects.

[Article IX, Section 2](#) of the Montana Constitution and [Title 15, Chapter 38, MCA](#), requires that certain resource extraction taxes, as determined by the legislature, be placed in a trust. The principal of the Resource Indemnity Trust (RIT), up to \$100 million, cannot be appropriated and is guaranteed by the state against loss or diversion. The principal of the trust reached \$100 million in FY 2003, and subsequently no longer receives additional tax deposits. Interest earnings on the RIT are spent to improve the total environment and rectify damage to the environment. It was also the legislature’s intent that the use of interest earnings for operations of state government be minimized.

**Statutory Reference**

Distribution – [Montana Constitution, Article IX, Section 2](#); [15-38-202\(2\), MCA](#); [15-38-203, MCA](#)

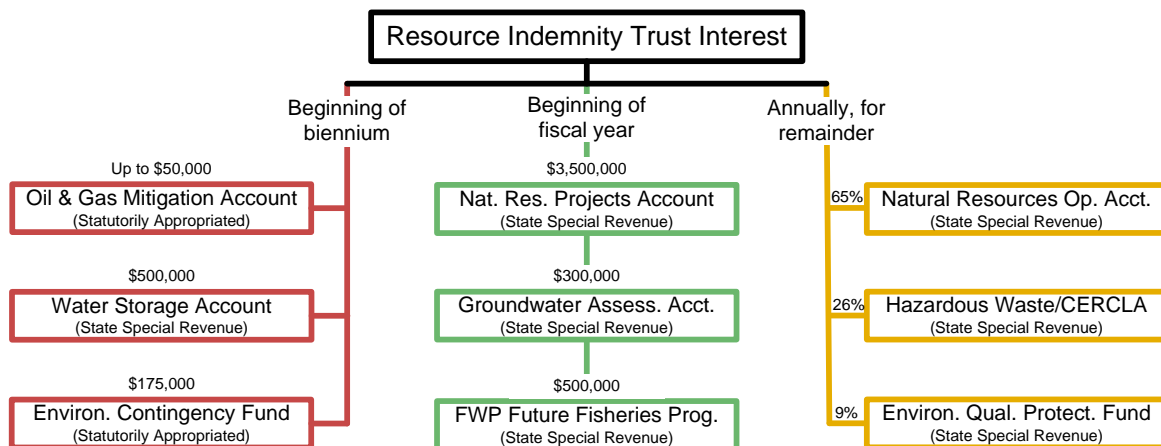
**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

**Distribution**

Statute allocates RIT interest earnings in the following manner:

- 1) At the beginning of the biennium, an amount not to exceed \$50,000 to the oil and gas mitigation account to bring the balance up to \$200,000;
- 2) At the beginning of the biennium, \$500,000 to the water storage state special revenue account;
- 3) At the beginning of the biennium, \$175,000 to the environmental contingency fund;
- 4) \$3.5 million annually to the natural resources projects state special revenue account;
- 5) \$300,000 annually to the ground water assessment account;
- 6) \$500,000 annually to the future fisheries program for bull trout and cutthroat trout recovery; and
- 7) Of the remaining RIT interest earnings:
  - a) 65% to the natural resources operations state special revenue account;
  - b) 26% to the hazardous waste/CERCLA state special revenue account; and
  - c) 9% to the environmental quality protection state special revenue fund.



**Forecast Risks**

- Short and long-term interest rates

Data

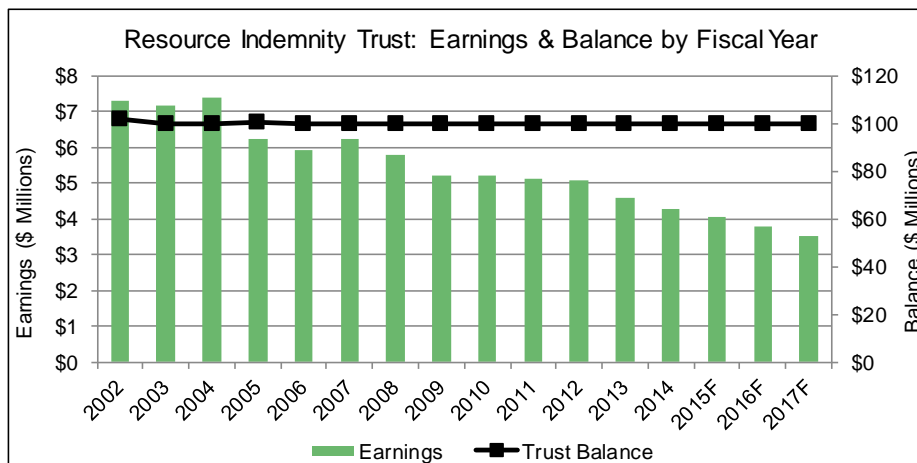
The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by the BOI and IHS, and historic interest collections are obtained from SABHRS.

Analysis

Each of the following interest or income components are estimated independently and combined:

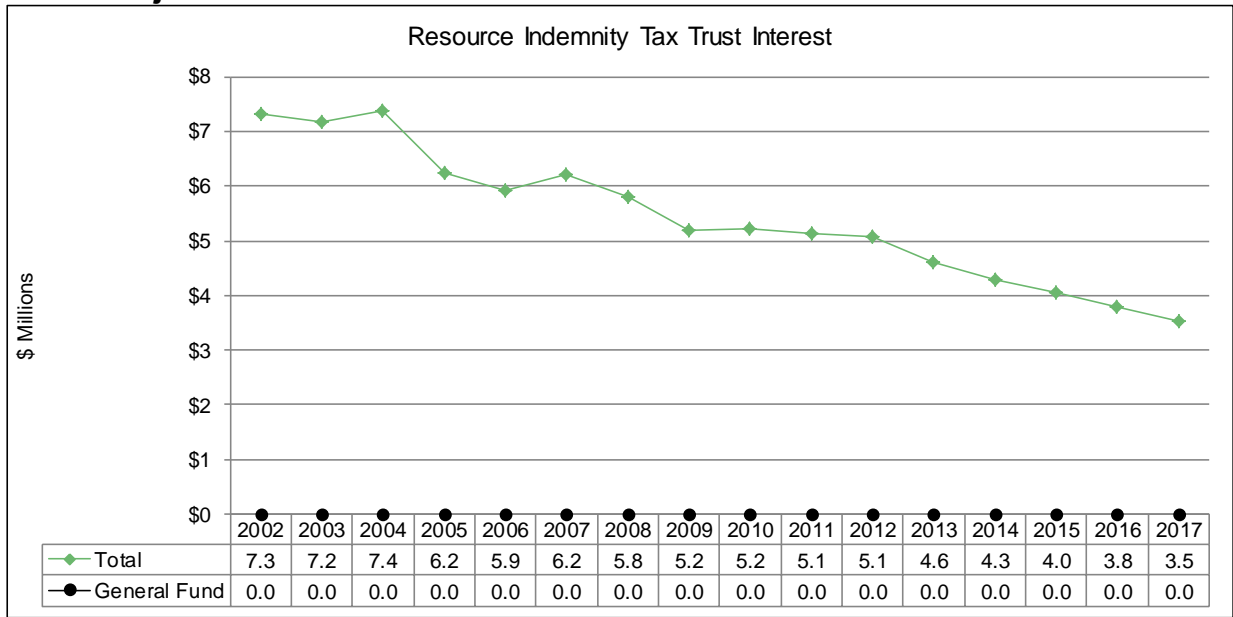
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)

The TFBP was formed in 1995 to manage the fixed investments held in the state’s major trust funds. Each trust owns “shares” of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.





**Tobacco Trust Interest**

**Revenue Description**

The tobacco trust fund is set up with money from the tobacco settlement which included 46 states and various United States territories. In 2000, as required by constitutional amendment, the state began depositing 40% of the tobacco settlement funds into a trust. As required in statute, 10% of the trust earnings must be deposited in the trust.

This revenue source is only the interest resulting from that account (highlighted in the distribution chart); revenue from continued payments from the tobacco settlement is explained in the Tobacco Settlement section under the Other General Funds section.

**Statutory Reference**

Distribution – [Montana Constitution Article XII, Section 4](#); [17-6-601, MCA](#); [17-6-603, MCA](#)

Date Due – Interest deposits are mostly made monthly, but none in July and two in June

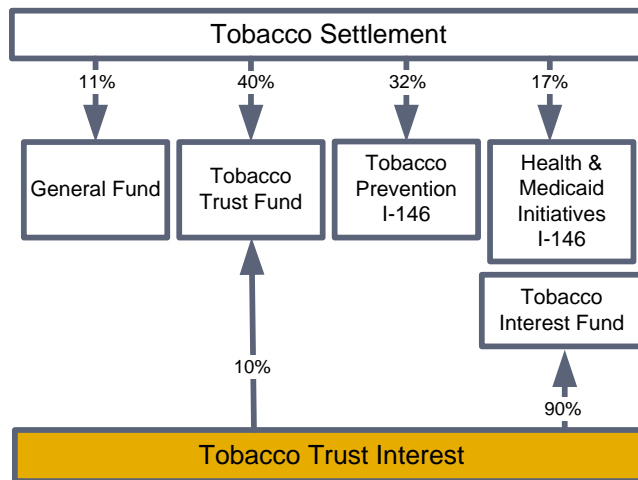
**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

**Distribution**

Interest earnings from the trust fund are distributed as follows

1. 90% to a state special revenue account for appropriation by the legislature for disease prevention programs (includes chronic disease programs) and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and
2. 10% to the tobacco settlement trust fund



**Forecast Risks**

- Short and long-term interest rates

**Revenue Estimate Methodology**

Data

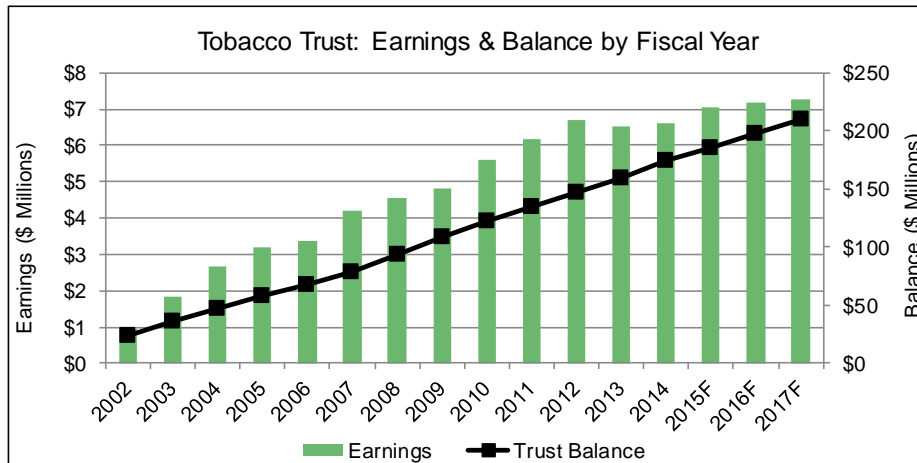
The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

Analysis

Each of the following interest or income components are estimated independently and combined:

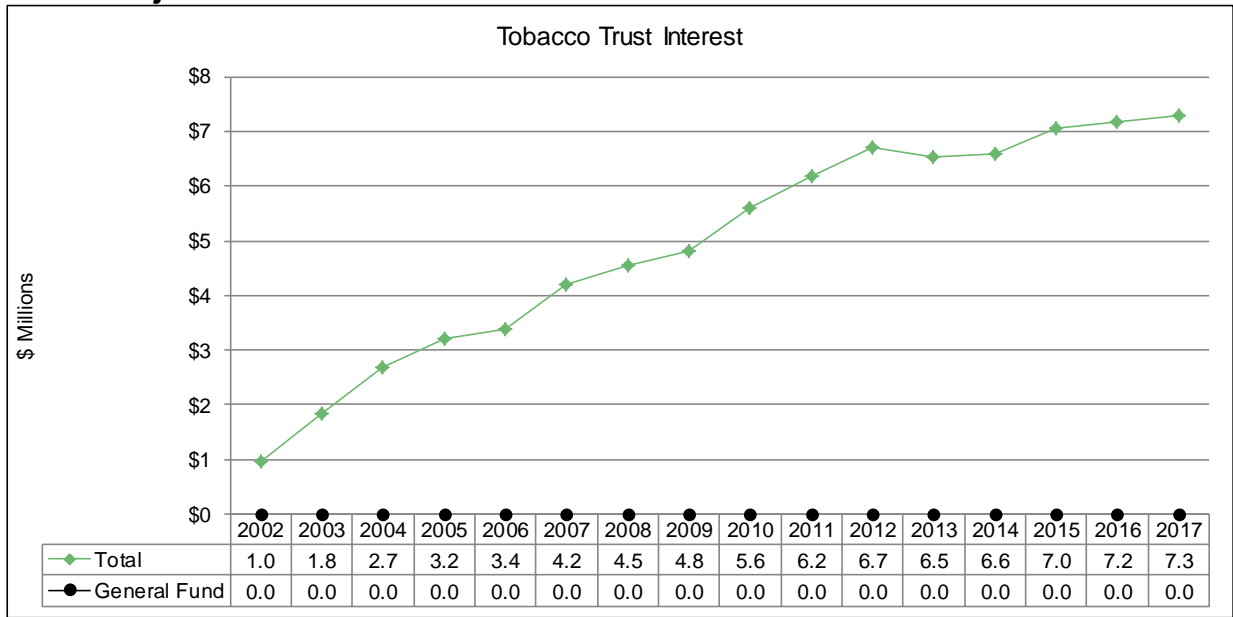
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state’s major trust funds. Each trust owns “shares” of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

The 40% distribution of tobacco settlement funds and 10% of retained interest earnings are considered new deposits in the tobacco settlement trust. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the tobacco settlement funds, they are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year.



## Treasure State Endowment Trust Interest

### Revenue Description

The Treasure State Endowment Trust is one of several trusts set up with money from the coal severance tax; the trust currently receives 25% of total coal severance tax collections. Interest earned on the fund is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation and authorized by the legislature via the Treasure State Endowment Program (TSEP).

The deposit of coal severance tax revenue to this fund terminates the end of FY 2016. For more information on the coal permanent trust earnings and distributions, see the chart in the [Coal Severance Tax](#) section.

### Statutory Reference

Distribution – [17-5-703 \(4c\), MCA](#); [90-6-701\(2\), MCA](#)

Date Due – Monthly ([17-5-703 \(4c\), MCA](#))

**Applicable Tax Rates:** N/A

**Collection Frequency:** Monthly

**Distribution:** Interest earnings are allocated to the Department of Commerce to fund TSEP.

### Forecast Risks

- Short and long-term interest rates
- Bond rates
- Coal price and production

### Revenue Estimate Methodology

#### Data

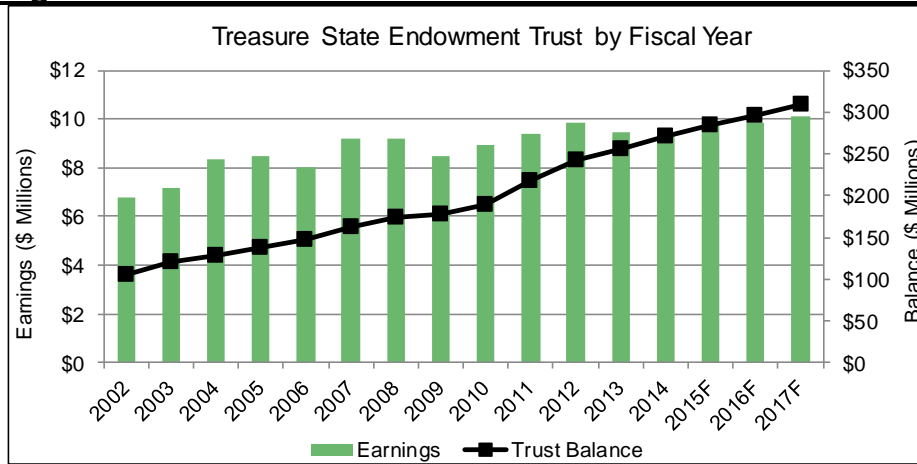
The Board of Investments (BOI) provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

#### Analysis

Each of the following interest or income components are estimated independently and combined:

- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. TFBP earnings are forecast by applying estimated return rates, provided by the BOI, to the current and forecast trust balance.

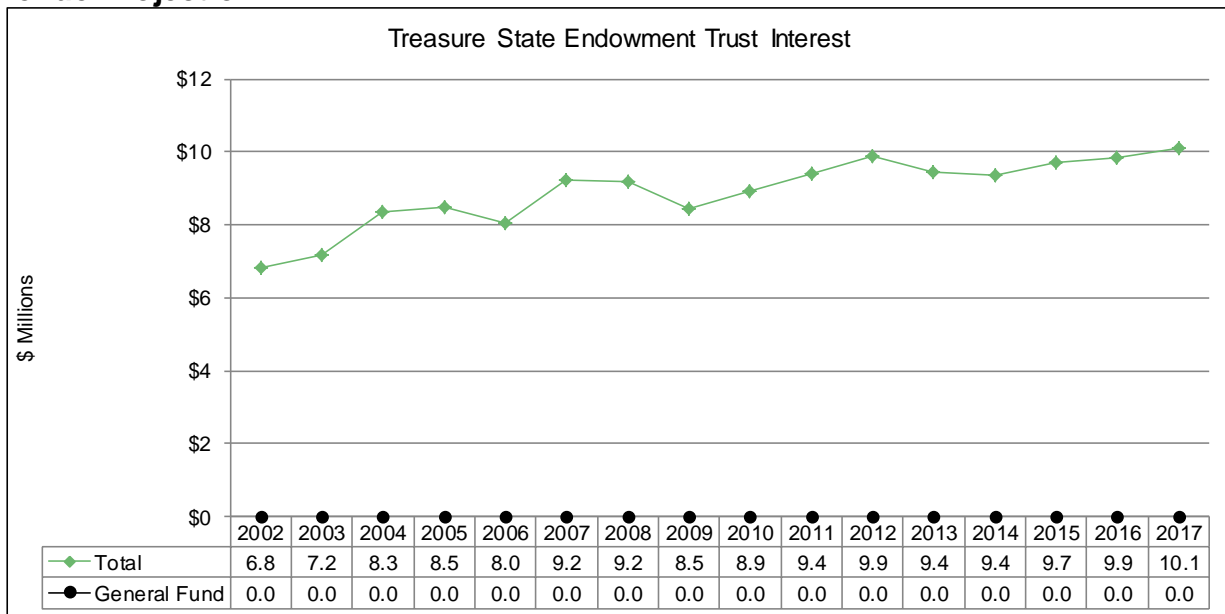


Earnings from in-state investments have historically been the second largest source of income to the TSE trust. The BOI is required by statute to invest 25% of coal tax trust in the Montana economy. In-state investments primarily consist of loans to Montana business entities and earnings are equal to the interest charged on the loans.

STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. Short-term interest forecasts from IHS are applied to money not invested in the TFBP to calculate future STIP earnings.

Coal severance tax distributions to the TSE trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. These new trust deposits are forecast using estimates of coal severance tax collections.

Revenue Projection



## Treasury Cash Account Interest

### Revenue Description

Interest is generated by excess treasury cash being invested in short and medium-term investments. The Board of Investments (BOI) is responsible for investing all state funds. [Title 17, Chapter 6, MCA](#), provides guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund.

### Statutory Reference

Distribution – [17-6-202\(2\), MCA](#)

Date Due – Interest deposits are mostly made monthly, with two in June and none in July

**Applicable Tax Rates:** N/A

**Collection Frequency:** Ongoing

**Distribution:** All proceeds are deposited into the general fund.

### Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to differences in the estimated average daily balance of the treasury cash account.

Treasury Cash Account Interest (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$1.700	\$9.880	\$25.790	\$37.370
Legislative Forecast	1.605	9.196	21.378	32.179
Difference	\$0.095	\$0.684	\$4.412	\$5.191
% Difference	5.9%	7.4%	20.6%	16.1%

### Forecast Risks

- Short-term interest rates
- Average daily balance

### Revenue Estimate Methodology

#### Data

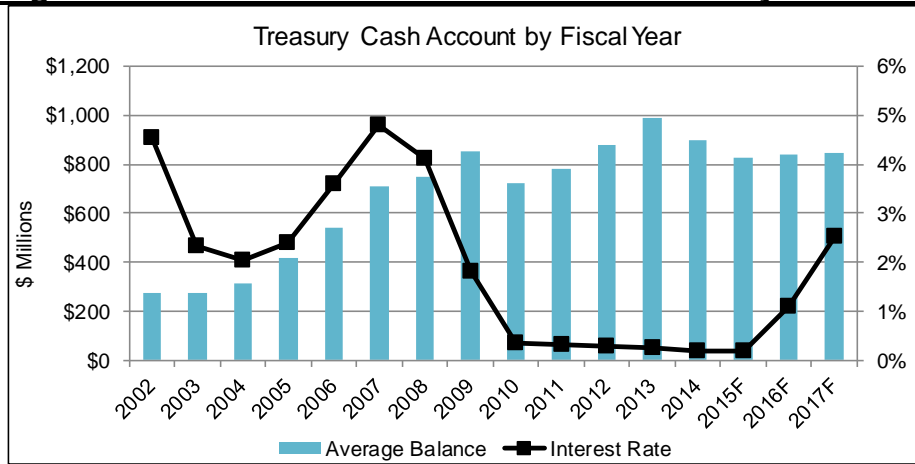
The BOI provides monthly reports on the treasury cash account balance. Projections of future interest rates are provided by IHS and historic interest collections are obtained from SABHRS.

#### Analysis

The average balance of the TCA is estimated using an eight-year moving average. When cash flow is insufficient, tax revenue anticipation notes (TRANS) are issued to meet short-term cash flow needs. The term of the loan and amount borrowed are used to determine the amount to be added to the average balance calculations.

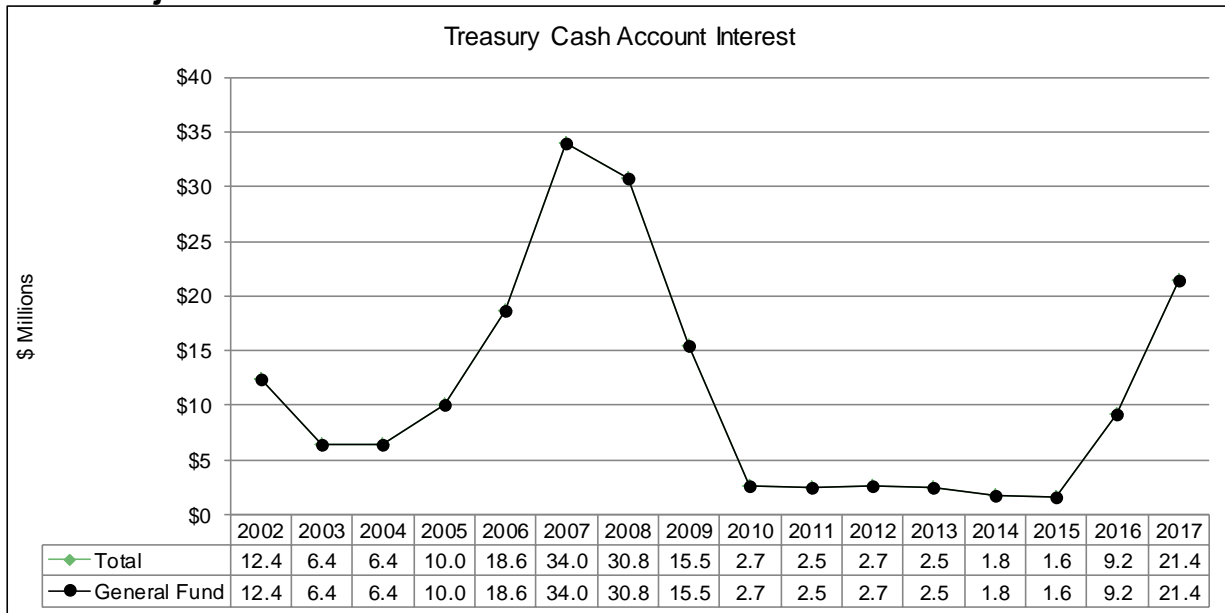
## Interest Earnings

## Treasury Cash Account Interest



Short-term interest rates are estimated by based on a composite rate of IHS forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates. The average TCA balance multiplied by the composite interest rate produces total fiscal year revenue.

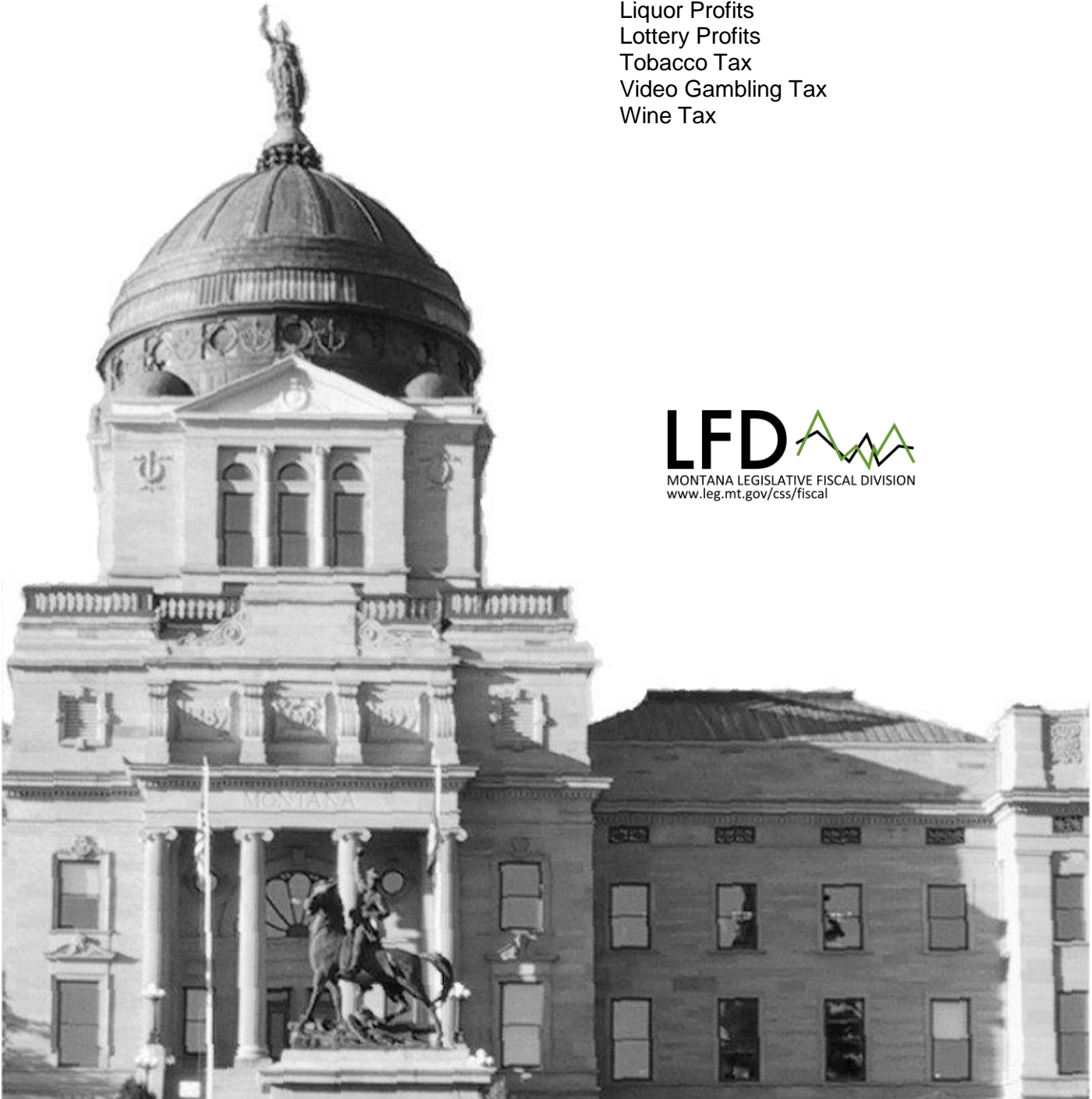
## Revenue Projection





# CONSUMPTION TAXES

Beer Tax  
Cigarette Tax  
Diesel Tax  
Gasoline Tax  
GWV & Other Fees  
Liquor Excise & License Tax  
Liquor Profits  
Lottery Profits  
Tobacco Tax  
Video Gambling Tax  
Wine Tax



**LFD**   
MONTANA LEGISLATIVE FISCAL DIVISION  
[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



### Beer Tax

#### Revenue Description

A tax is levied on each barrel (31 gallons) of beer produced in or imported into Montana according to the number of barrels produced annually by a given brewer.

#### Statutory Reference

Tax Rate – [16-1-406, MCA](#)

Distribution – [16-1-406, MCA](#)

Date Due – end of the month and collected in the next month ([16-1-406\(2\), MCA](#))

#### Applicable Tax Rates

The per-barrel tax varies according to number of barrels produced:

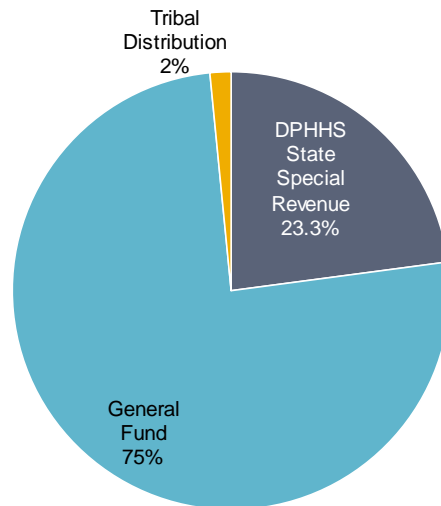
- Up to 5,000 barrels – \$1.30
- 5,001 to 10,000 barrels – \$2.30
- 10,001 to 20,000 barrels – \$3.30
- Over 20,000 barrels – \$4.30

**Collection Frequency:** Monthly

#### Distribution

Beer tax revenue is distributed between the general fund, the Department of Public Health and Human Services (DPHHS) state special revenue alcohol account, and three tribal governments according to intergovernmental agreements between the Department of Revenue (DOR) and the tribes. Beer tax dollars are distributed to Blackfeet, Fort Belknap, and Fort Peck according to the following formula: (per capita beer consumption) x (tribal membership) x (Montana tax rate).

The following chart shows the FY 2014 distribution of beer tax revenue.



**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Beer Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$3.030	\$3.040	\$3.050	\$9.120
Legislative Forecast	3.110	3.169	3.229	9.509
Difference	(\$0.080)	(\$0.129)	(\$0.179)	(\$0.389)
% Difference	-2.6%	-4.1%	-5.6%	-4.1%

**Forecasting Risks**

- Value of Montana retail sales
- Changing Montana population
- Changing Montana per capita income
- Rate of change in effective tax rate

**Revenue Estimate Methodology**

Data

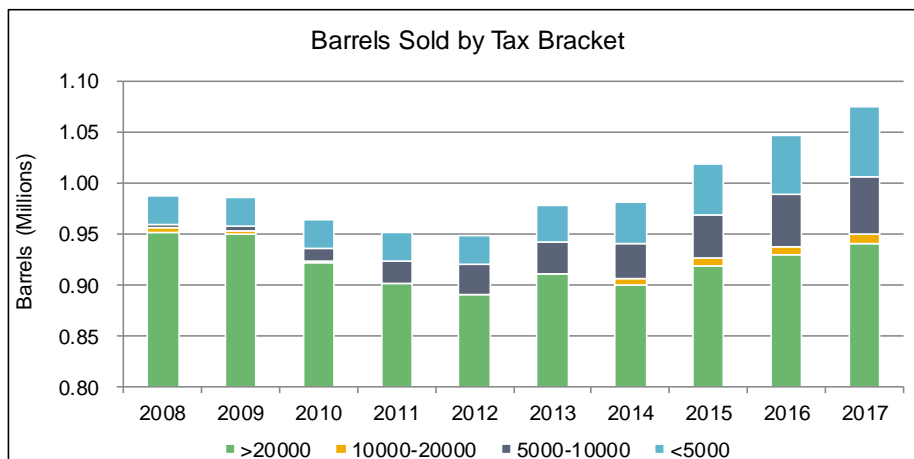
The beer tax estimate is based on data obtained from DOR, SABHRS, and IHS. Details on tax collections by rate and tribal distributions are provided by DOR; fiscal year tax collections are from SABHRS; forecasts for independent economic variables are produced by IHS.

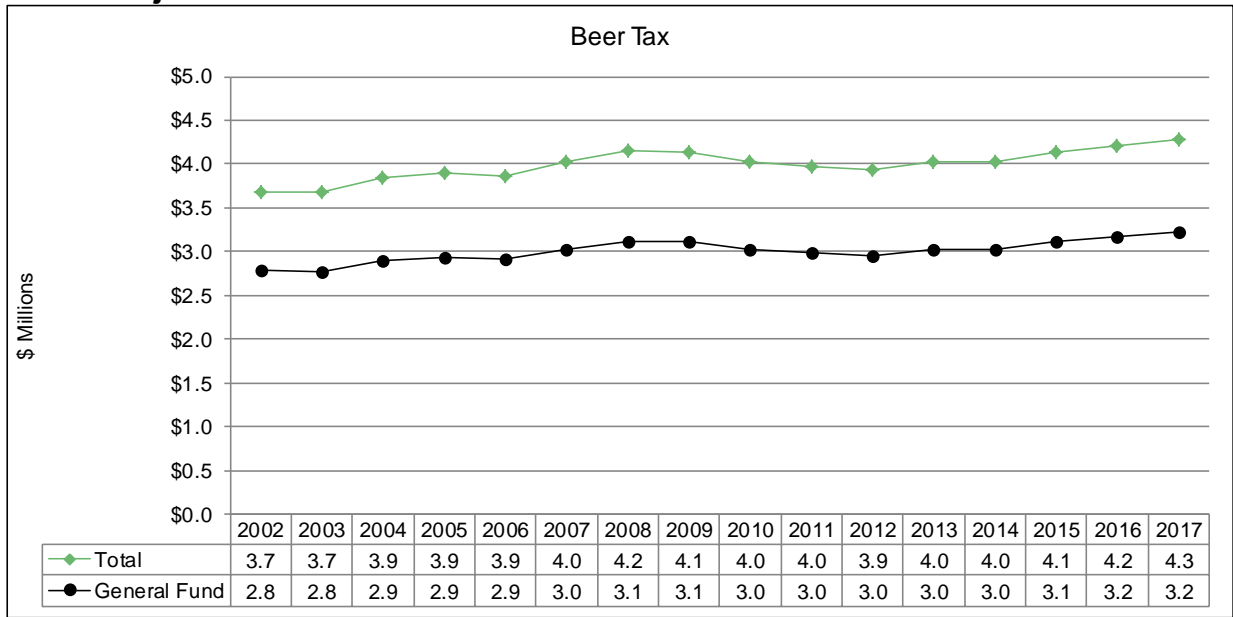
DOR data are used to develop an effective tax rate accounting for number of barrels sold in each tax bracket. IHS data provide regressors to model number of barrels sold.

Analysis

Total tax collections are calculated by multiplying the number of barrels sold in a given year by the effective tax rate in that year. The number of barrels sold is forecast with a regression model using the independent, IHS-provided values for Montana retail sales, Montana population over the age of 21, and Montana per capita income. Additionally, the model employs the previous year’s barrels sold as an auto-regressive component.

The effective tax rate is on a consistent downward trend; as the number of small brewers increases, there are more barrels being sold in the lower tax brackets. In the chart below, the number of barrels sold in each bracket is stacked to illustrate the changing composition of the beer market. This analysis assumes that the decrease in the effective rate continues through the biennium by applying the current rate of change going forward.





### Cigarette Tax

#### Revenue Description

An excise tax is levied on all cigarettes sold in Montana. The tax is collected from the wholesaler through sale of insignia and passed down to the retail consumer. The insignia are purchased from the state and affixed to each package of cigarettes. The state has agreements with six of the tribes in Montana (Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, Crow, and Northern Cheyenne) wherein the sale of cigarettes on a reservation, up to a set quota, are untaxed and state cigarette tax revenues are shared with the tribes.

#### Statutory Reference

Tax Rate – [16-11-111, MCA](#)

Tax Distribution – [16-11-119, MCA](#)

Date Due – Within 30 days after purchase of the insignia ([16-11-117, MCA](#))

#### Applicable Tax Rates

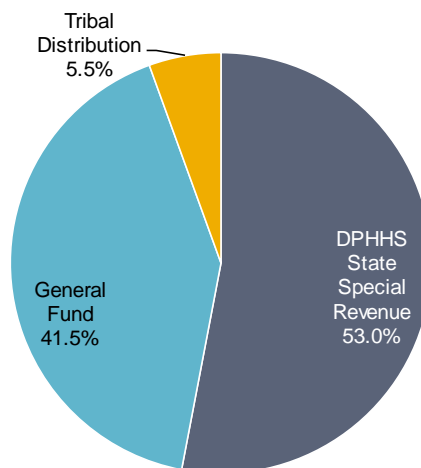
\$1.70 per package of 20 cigarettes, prorated by cigarette for packages that differ from 20 cigarettes

**Collection Frequency:** Monthly

#### Distribution

Cigarette tax revenue is distributed between the general fund, various state special revenue accounts administrated by the Department of Public Health and Human Services (DPHHS), the long range building fund, and five tribal governments according to intergovernmental agreements between the Department of Revenue (DOR) and the tribes. Cigarette tax dollars are distributed to the tribes according to the following formula:  $(1.5) \times (\text{Montana per capita cigarette tax revenue}) \times (\text{enrolled tribal population})$ . This formula may be superseded by another agreed upon amount.

The following chart shows the FY 2014 distribution of cigarette tax revenue.



**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Cigarette Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$30.180	\$30.630	\$30.250	\$91.060
Legislative Forecast	30.363	30.914	30.191	91.468
Difference	(\$0.183)	(\$0.284)	\$0.059	(\$0.408)
% Difference	-0.6%	-0.9%	0.2%	-0.4%

**Forecast Risks**

- Changes in tobacco CPI
- Changes in consumer spending
- Rate of change in effective tax rate

**Revenue Estimate Methodology**Data

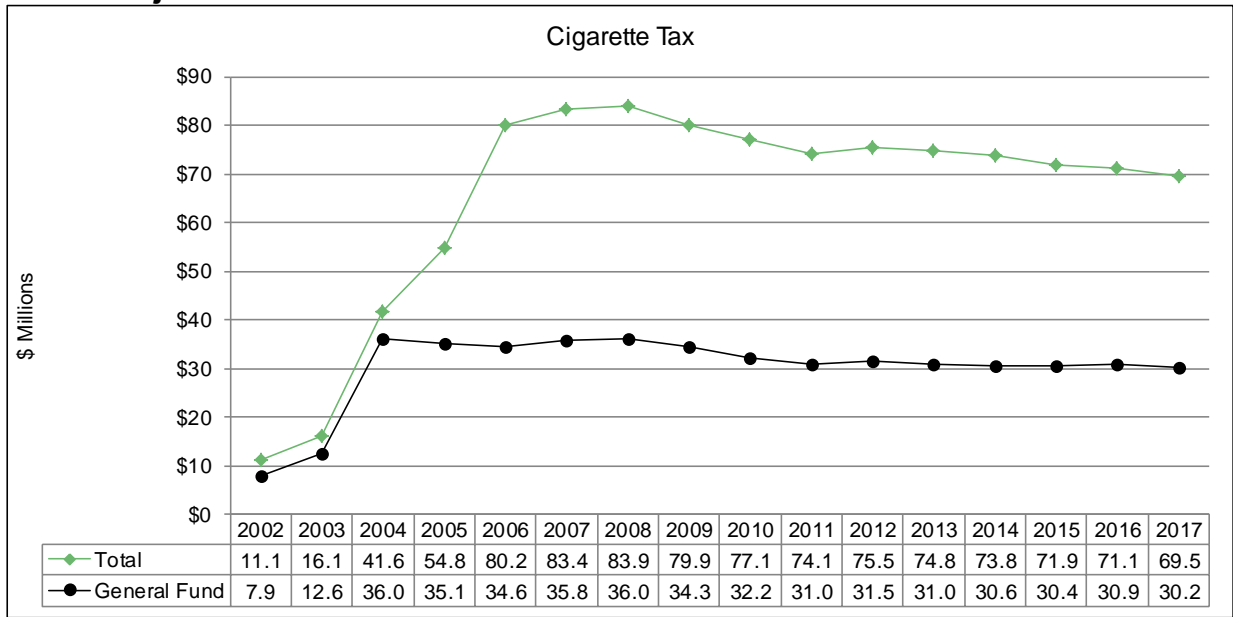
The cigarette tax estimate is based on data obtained from DOR, SABHRS, and IHS. Details on tax collections by month and refunds for quota sales are provided by DOR; fiscal year tax collections are from SABHRS; forecasts for independent economic variables are produced by IHS.

DOR data are used to develop an effective tax rate accounting for numbers of different sized packs sold. IHS data provide regressors to model growth in packs sold.

Analysis

Total tax collections are calculated by multiplying the number of packs sold in a given year by the effective tax rate in that year. The number of packs sold is forecast with a regression model using the independent, IHS-provided values for national tobacco CPI, and national consumer spending on tobacco. Additionally, the model employs the previous year's packs sold as an auto-regressive component.

The effective tax rate is on a consistent upward trend; the number of packs sold is steadily declining, but a higher proportion of those packs include 25 rather than 20 cigarettes. This analysis assumes that the increase in the effective rate continues through the biennium by applying the current rate of change going forward.





## Diesel Tax

### Revenue Description

There are two sources of revenue associated with the taxation of special fuels (primarily diesel): the diesel tax paid to the Montana Department of Transportation (MDT) for every gallon of diesel sold or used in the state; and a tax assessed on each gallon of diesel fuel for the purpose of funding petroleum storage tank cleanup.

Distributors are allowed to withhold 1.0% of the diesel tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, MDT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for commercial vehicle use other than for use on public highways and streets, governmental use, and nonpublic school use for the transportation of pupils.

[Article VIII, Section 6](#) of the Montana Constitution provides that money from taxes on vehicle fuel be used solely for: payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; payment of county, city, and town obligations on streets roads, and bridges; and enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

### Statutory Reference

Tax Rate – [15-70-321\(2\), MCA](#); [75-11-313, MCA](#) (storage tank cleanup)

Tax Distribution – [15-70-101\(1\), MCA](#); [75-11-314, MCA](#) (storage tank cleanup)

Date Due – 25<sup>th</sup> of the following month ([15-70-344\(1\), MCA](#))

### Applicable Tax Rates

- Diesel (Special) Fuel Tax: \$0.2775 per gallon
- Petroleum Storage Tank Cleanup Tax: \$0.0075 per gallon

**Collection Frequency:** Monthly

### Distribution

Diesel tax proceeds are distributed to MDT after the following deductions:

- 1.0% withheld by distributors;
- Administrative expenses and refunds under the tribal agreements;
- Diesel tax refunds; and
- Refunds through the international fuel tax agreement.

Of the amount distributed to MDT, 1/4 of \$0.01 per gallon is allocated specifically to the funding of highway system maintenance.

### Forecast Risks

- Fuel price significantly different from historical prices

### Revenue Estimate Methodology

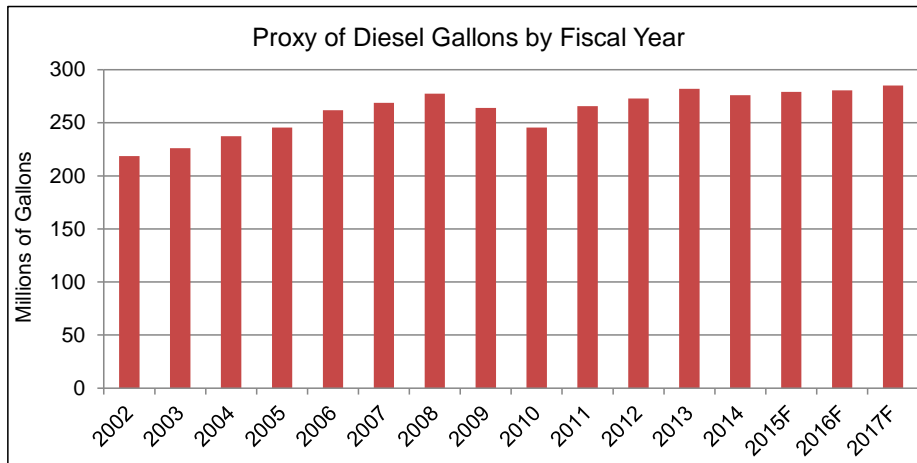
#### Data

Diesel tax collections data from SABHRS is used to produce a proxy amount for taxable gallons of diesel sold in Montana.

Analysis

Diesel fuel taxes are estimated as separate taxes. First, the diesel tax is imposed on each gallon of diesel sold in the state. A second tax is imposed on all diesel fuel distributed in the state for the purpose of diesel storage tank clean-up costs (storage tank tax). The two taxes are applied to different bases, because the diesel fuel tax provides credits against the cost of the tax to consumers who use the diesel “off highway.”

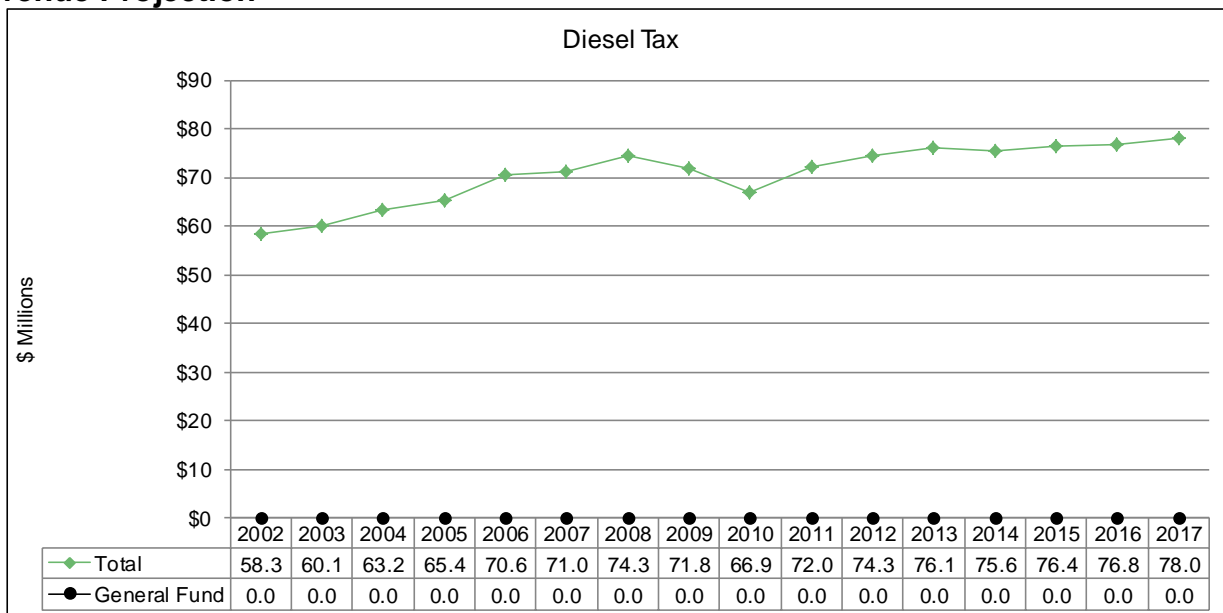
Future growth in diesel consumption is calculated using an autoregressive moving average time series. The storage tank tax is expected to follow the same patterns as the diesel fuel tax. The effective gasoline tax rates—created to adjust for the statutory credit provided to diesel distributors—are applied to the estimates to produce the estimate for gross tax revenues.



Adjustments

Several adjustments are made to the expected gross diesel fuel tax revenues. Gross tax revenues are reduced by refunds, incentives, MDT administrative costs, and tribal agreements, resulting in the estimate for net diesel fuel tax revenue. No adjustments are required for the storage tank tax. The net tax revenues of the two taxes are combined to determine the estimate for total diesel fuel tax revenue.

**Revenue Projection**



## Gasoline Tax

### Revenue Description

There are two sources of revenue associated with the taxation of gasoline: a gasoline license tax paid to the Montana Department of Transportation (MDT) by every distributor for the privilege of selling gasoline; and a tax assessed on each gallon of gasoline for the purpose of funding petroleum storage tank cleanup.

Distributors are allowed to withhold 1.0% of the gasoline tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, MDT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for denaturing alcohol used in gasohol, stationary gasoline engines used off public highways and streets, and commercial vehicle use other than for use on public highways and streets.

[Article VIII, Section 6](#) of the Montana Constitution provides that money from taxes on vehicle fuel be used solely for: payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; payment of county, city, and town obligations on streets roads, and bridges; and enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

### Statutory Reference

Tax Rate – [15-70-204\(1\), MCA](#); [75-11-314, MCA](#) (storage tank cleanup)

Distribution – [15-70-101\(1\), MCA](#); [60-3-201\(1\), MCA](#); [75-11-313, MCA](#) (storage tank cleanup)

Date Due – 25<sup>th</sup> of the following month ([15-70-205\(1\), MCA](#))

### Applicable Tax Rates

Gasoline License Tax: \$0.27 per gallon

Petroleum Storage Tank Cleanup Tax: \$0.0075 per gallon

### Distribution

After four reductions—the 1.0% withheld by distributors, administrative expenses and refunds under tribal agreements, refunds, and refunds through the international fuel tax agreement—the gasoline tax is allocated as follows:

- 9/10 of 1.0% to the state park account;
- 15/28 of 1.0% to a snowmobile account, which is further allocated 86.0% for general use, 4.33% for enforcement, 8.67% for safety and education, and 1.0% to the noxious weed trust;
- 1/8 of 1.0% to an off-highway vehicle account, which is further allocated 90% for general use and 10% for safety;
- 1/25 of 1.0% to the aeronautics revenue fund of the Department of Transportation; and
- 98.3993% to MDT to be used for highway-related purposes, primarily construction projects and administrative costs. One-fourth of \$0.01 per gallon is allocated specifically to the funding of highway system maintenance.

**Collection Frequency:** Monthly

### Forecast Risks

- Fuel prices significantly different from historical prices

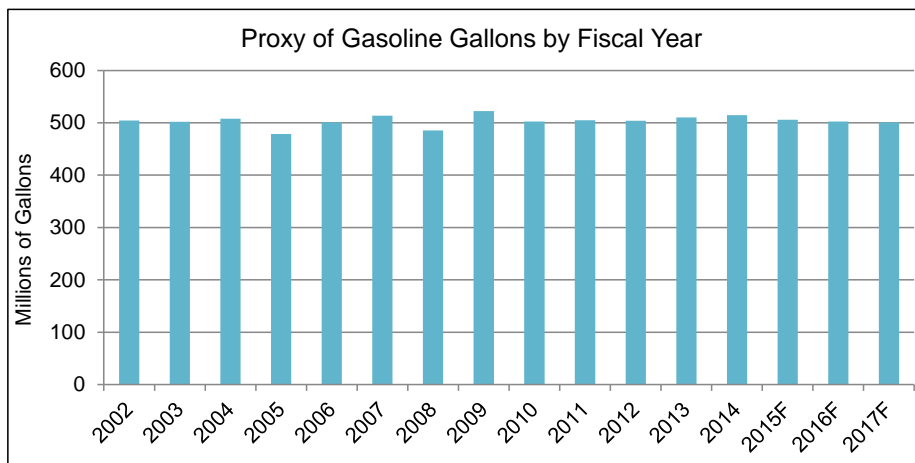
Data

Gasoline tax collections data from SABHRS is used to produce a proxy amount for taxable gallons of gasoline sold in Montana.

Analysis

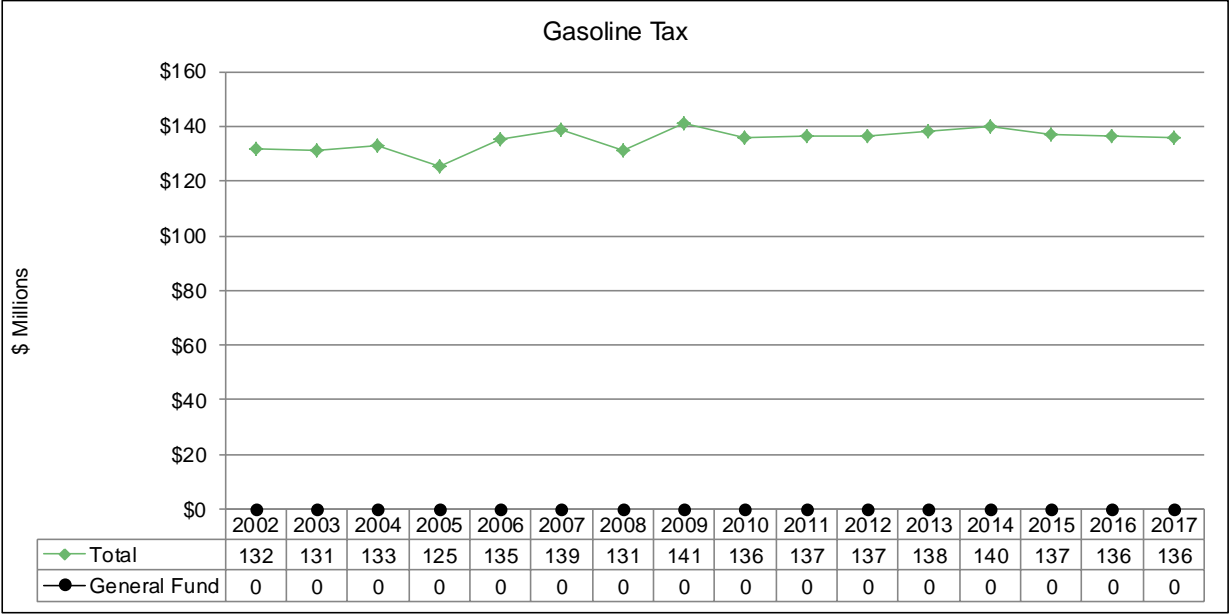
The gasoline tax and the gasoline petroleum storage tank cleanup tax are estimated separately. First, the gasoline tax is imposed on each gallon of gasoline sold in the state. A second tax is imposed on all gasoline distributed in the state for the purpose of gasoline storage tank clean-up costs (storage tank tax). The two taxes are applied to different bases, because the gasoline tax provides credits against the cost of the tax to consumers who use the gasoline “off highway.”

Future growth in gasoline consumption is calculated using an autoregressive moving average time series. The storage tank tax is expected to follow the same patterns as the gasoline tax. The effective gasoline tax rates—created to adjust for the statutory credit provided to gasoline distributors—are applied to the estimates to produce the estimate for gross tax revenues.



Adjustments

Gross tax revenues are reduced by refunds, incentives, MDT administrative costs, and tribal agreements, resulting in the estimate for net gasoline tax revenue. No adjustments are required for the storage tank tax. Next, the net tax revenues of the two taxes are combined to determine the estimate for total gasoline tax revenue.



**GVW and Other Fees**

**Revenue Description**

There are two types of revenue derived from over 20 different sources: fee revenue and permit revenue. The majority of revenue is derived from a variety of gross vehicle weight (GVW) fees, including those fees collected by counties when vehicles are registered. Miscellaneous permits comprise the second income component under this source.

**Statutory Reference**

Tax Rate – [Title 61, Chapter 10, MCA](#); [Administrative Rules 18.8.202](#)

Tax Distribution (MCA) – Multiple

**Applicable Tax Rates:** [Title 61, Chapter 10, MCA](#)

**Collection Frequency:** Various

**Distribution:** Most GVW revenue is allocated to the Montana Department of Transportation (MDT).

**Forecast Risks**

- Vehicle sales
- Gas prices

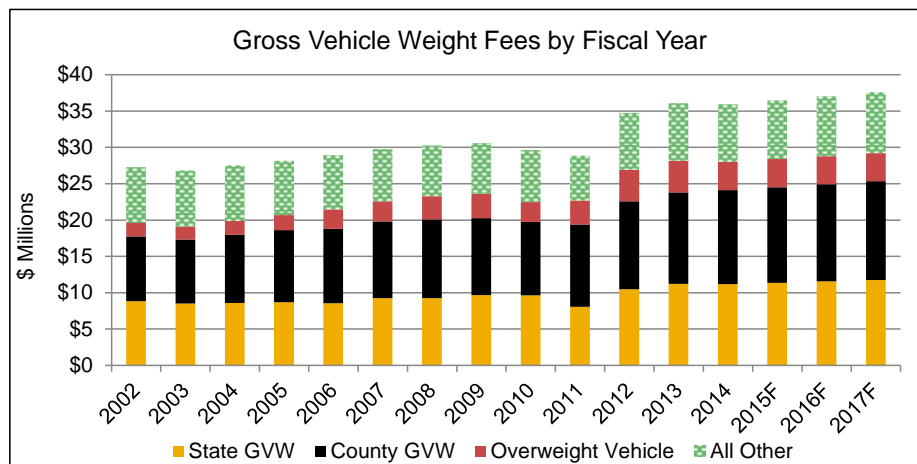
**Revenue Estimate Methodology**

Data

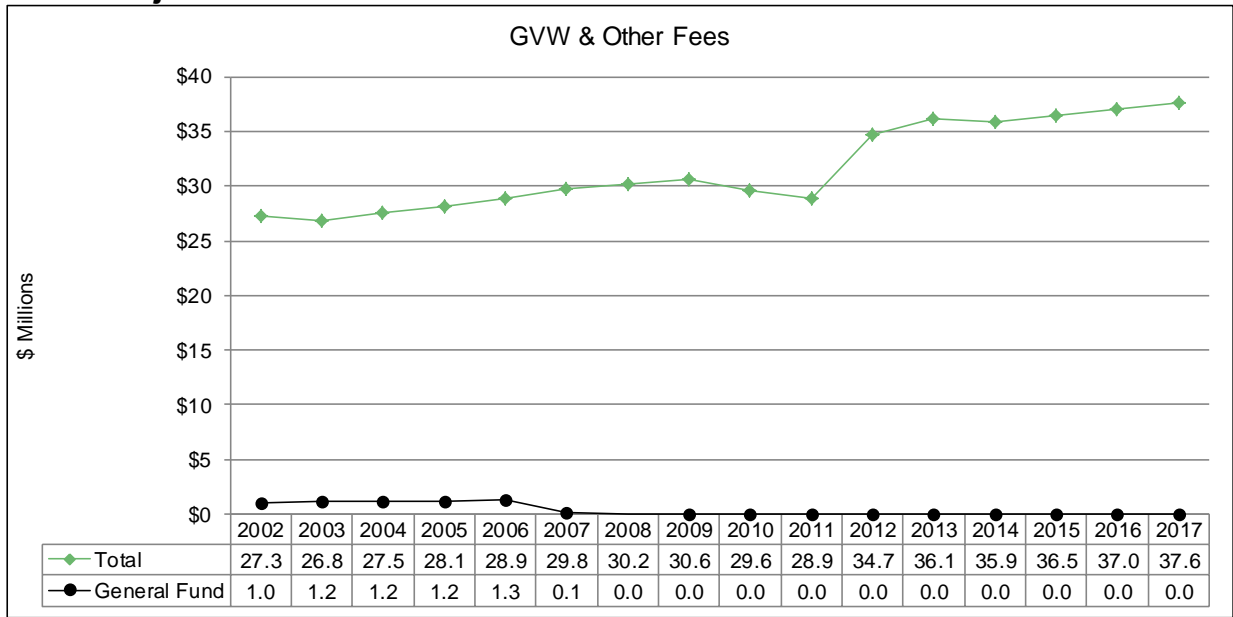
The SABHRS data provide the historic collection data for the 13 different types of fees and permits. MDT provides statistics on the number of gross weight vehicle licenses for use in Montana.

Analysis

The state of Montana imposes many fees and requires several types of permits based on the gross weight of commercial and large privately owned vehicles. The largest sources of revenue in the GVW are the gross vehicle weight fees collected by both counties and the state. The figure below demonstrates the relative importance of these two sources to the overall GVW collections.



Both county and state GVW fees are forecast by applying an estimated growth in Montana’s vehicle stock to the previous year’s collections. This same methodology is applied to the remaining smaller fees associated with this revenue source.



**Liquor Excise and License Tax**

**Revenue Description**

The Department of Revenue (DOR) is the only liquor wholesaler in the state of Montana. An excise tax and a license tax are collected both on liquor sold by DOR and liquor purchased outside the state (by airlines and passenger rail) for consumption within the state.

**Statutory Reference**

Tax Rate – Excise tax: [16-1-401, MCA](#); License tax: [16-1-404, MCA](#)

Tax Distribution – Excise tax: [16-1-401, MCA](#) & [16-2-108, MCA](#); License tax: [16-1-404, MCA](#)

Date Due – Excise tax is collected at the time of sale and distributed by the 10<sup>th</sup> day of each month. License tax is collected at the time of sale.

**Applicable Tax Rates**

All liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed the liquor is taxed a percentage rate on the retail selling price based on the following number of proof gallons of liquor handled nationwide by that company in the calendar year preceding imposition of the tax:

Excise Tax Rate

- 3.0% – Less than 20,000 proof gallons
- 8.0% – 20,000 to 50,000 proof gallons
- 13.8% – 50,001 to 200,000 proof gallons
- 16.0% – More than 200,000 proof gallons

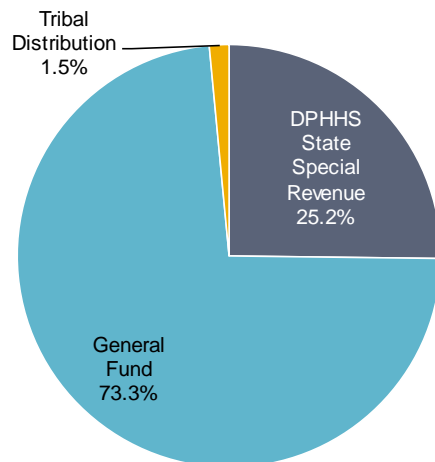
License Tax Rate

- 10.0% – More than 200,000 proof gallons
- 8.6% – Not more than 200,000 proof gallons

**Collection Frequency:** Both the liquor excise tax and the license tax on liquor are collected at the time of the sale and delivery of liquor. Deposits to the general fund are made monthly.

**Distribution**

Liquor excise and license tax revenue is distributed between the general fund, the Department of Public Health and Human Services (DPHHS) state special revenue alcohol account, and three tribal governments according to intergovernmental agreements between the Department of Revenue (DOR) and the tribes. Liquor tax dollars are distributed to Blackfeet, Fort Belknap, and Fort Peck according to the following formula: (per capita liquor consumption) x (tribal membership) x (Montana tax rate).





**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Liquor Excise & License Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$19.340	\$20.160	\$20.520	\$60.020
Legislative Forecast	19.086	19.720	20.446	59.252
Difference	\$0.254	\$0.440	\$0.074	\$0.768
% Difference	1.3%	2.2%	0.4%	1.3%

**Forecasting Risks**

- Change in rate of CPI growth
- Departure of sales growth from historic trends

**Revenue Estimate Methodology**Data

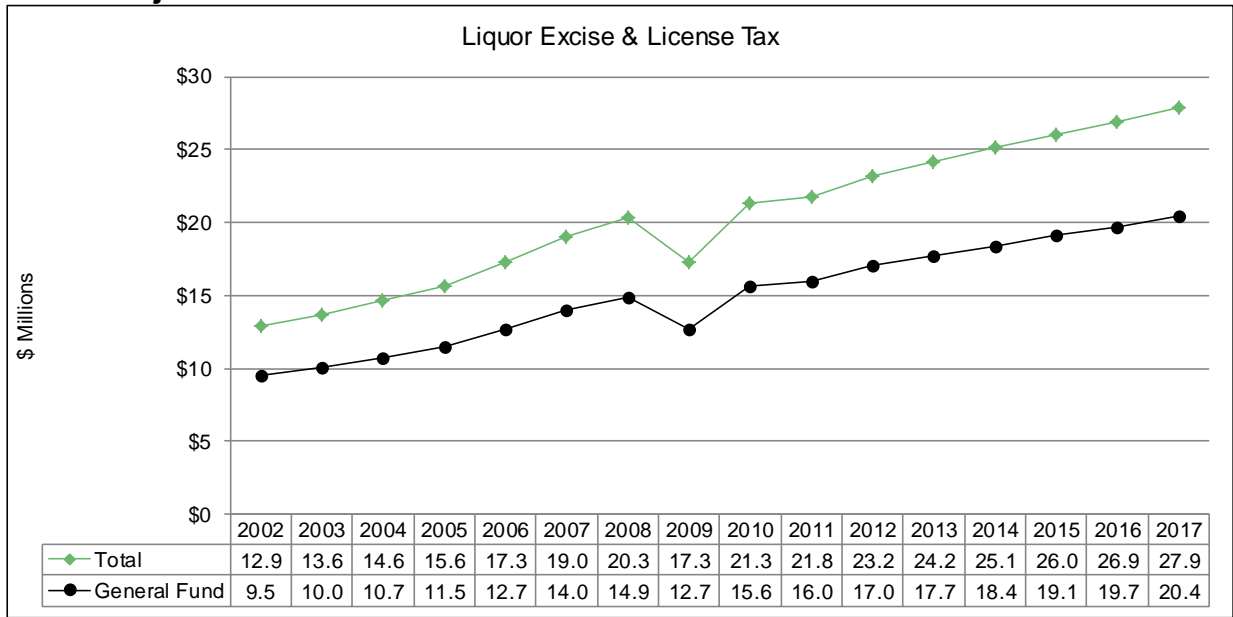
The liquor profits estimate is based on data obtained from DOR, SABHRS, IBARS, and HIS. Details on number of units sold, and average cost per unit are provided by DOR; fiscal year tax collections are from SABHRS; the present law operational budget for the DOR liquor division is from IBARS; forecasts for independent economic variables are produced by IHS. IHS data provide regressors to model the average cost per unit of alcohol.

Analysis

Analysis shows a constant upward trend in liquor sales in Montana. Accordingly, unit sales is regressed in a linear trend model to determine the future unit sales.

Gross liquor profits are calculated by multiplying the average cost per unit by the number of units sold. The average cost per unit is forecast with a regression model using the independent, IHS-provided values for national CPI. Additionally, the model employs the previous year's average cost per unit as an auto-regressive component. The number of units sold is modeled with an annual linear time trend.

Liquor taxes are calculated by applying the tax rates to the retail sales price of liquor sold. The tax rate is lower for companies that produce less than 200,000 gallons; however, at this time the lower tax rates are not considered.



## Liquor Profits

### Revenue Description

The Department of Revenue (DOR) is the only liquor wholesaler in the state of Montana. The profits from sales to retail establishments are deposited in the general fund.

### Statutory Reference

Tax Rate – Authority to markup [16-1-404\(2\), MCA](#) and rate of markup [ARM 42.11.104](#)

Tax Distribution – [16-2-108\(4\), MCA](#)

Date Due – N/A

### Applicable Tax Rates

Liquor profits received by the state are primarily generated by a mark-up on the sale of liquor and fortified wine, less costs such as commissions and discounts. A 40% mark-up is added to the state's base cost for liquor. The state's mark-up percentage on the base cost of fortified wine (more than 16% but no greater than 24% alcohol by volume) is 51%.

**Collection Frequency:** Payment for liquor purchases is due within 60 days of the invoice date and revenue is deposited into an enterprise fund.

**Distribution:** Liquor profits are deposited in the general fund annually.

### Comparison of Legislative and Executive Forecasts

There are no material differences between the legislative and executive branch forecasts.

Liquor Profits (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$10.790	\$11.010	\$11.180	\$32.980
Legislative Forecast	10.744	11.184	11.618	33.545
Difference	\$0.046	(\$0.174)	(\$0.438)	(\$0.565)
% Difference	0.4%	-1.6%	-3.8%	-1.7%

### Forecast Risks

- Change in rate of CPI growth
- Departure of sales growth from historic trends

### Revenue Estimate Methodology

#### Data

The liquor profits estimate is based on data obtained from DOR, SABHRS, IBARS, and HIS. Details on number of units sold, and average cost per unit are provided by DOR; fiscal year tax collections are from SABHRS; the present law operational budget for the DOR liquor division is from IBARS; forecasts for independent economic variables are produced by IHS. IHS data provide regressors to model the average cost per unit of alcohol.

#### Analysis

Gross liquor profits are calculated by multiplying the average cost per unit by the number of units sold. The average cost per unit is forecast with a regression model using the independent, IHS-provided values for national CPI. Additionally, the model employs the previous year's average cost per unit as an auto-regressive component. The number of units sold is modeled with an annual linear time trend.

**Consumption Taxes**

**Liquor Profits**

Net profits are calculated by reducing the gross profits by excise and license tax amounts, discounts, cost of goods sold, and the division’s operating budget.

**Revenue Projection**



## Lottery Profits

### Revenue Description

Lottery revenue is derived from ticket sales, sales agents license fees, and unclaimed prizes. These funds are deposited into the lottery enterprise fund. After paying prizes, ticket costs, commissions, and other operating costs from the enterprise fund, profits are transferred to the general fund.

### Statutory Reference

Tax Rate – N/A

Distribution – [23-7-402\(3\), MCA](#)

Date Due – Quarterly ([23-7-402\(3\), MCA](#))

**Applicable Tax Rates:** N/A

**Collection Frequency:** Lottery revenues are collected on an on-going basis. Transfers to the general fund are made quarterly.

**Distribution:** Net proceeds are deposited into the general fund

### Comparison of Legislative and Executive Forecasts

The legislative forecast assumes that the drop in FY 2014 revenue was a statistical anomaly due to lower advertised jackpots and that the prior years' trended increase will continue into FY 2015 and forward through the biennium. The executive forecast assumes that the drop in FY 2014 revenue is due to changing economic conditions and indicates a continued decline in the coming years.

Lottery Profits (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$12.540	\$11.590	\$10.690	\$34.820
Legislative Forecast	12.596	13.409	14.440	40.445
Difference	(\$0.056)	(\$1.819)	(\$3.750)	(\$5.625)
% Difference	-0.4%	-13.6%	-26.0%	-13.9%

### Forecast Risks

- Fluctuating short-term interest rates
- Changing Montana retail sales
- Unexpected number of jackpots won

### Revenue Estimate Methodology

#### Data

The lottery revenue estimate is based on data obtained from SABHRS, IHS, IBARS, and the annual Montana Lottery Commission report. Monthly accounting information for the enterprise fund come from SABHRS; forecasts for independent economic variables are produced by IHS; operational costs come from IBARS; interest earnings, daily fund balance and other more detailed information come from the Lottery Commission report.

#### Analysis

Revenue for the enterprise fund comes primarily from a combination of ticket sales, interest earnings, and license sales. Expenditures from the fund cover prizes, commissions, and operation costs. The difference between the forecast revenues and expenditures is the anticipated general fund transfer of lottery profits.

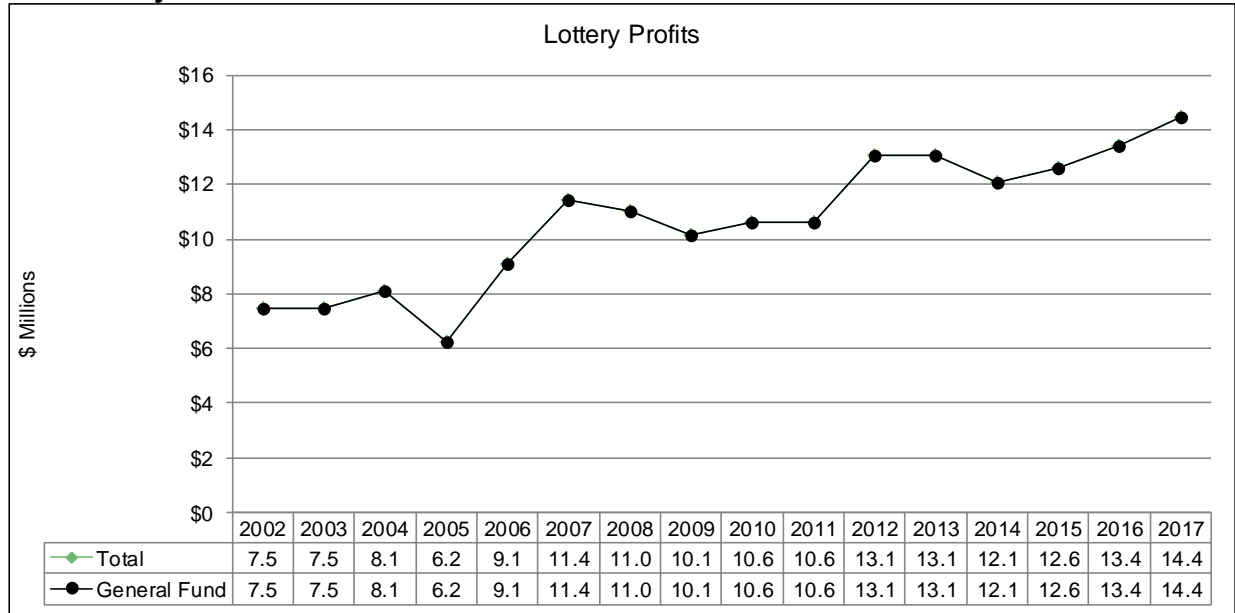
## Consumption Taxes

## Lottery Profits

Ticket sales are forecast with a regression model using the independent, IHS-provided values for Montana retail sales. Interest earnings are calculated by multiplying the IHS forecast for short-term interest by the projected average daily balance of the enterprise fund. The projection for the average daily balance is calculated by taking the previous year's balance ratio (average daily balance divided by ticket sales) and applying it to the ticket sales forecast. License sales are assumed to be comparable to those in the last known fiscal year.

Prizes and commissions are forecast by applying the previous year's prize to ticket sales ratio to the ticket sales forecast. Operational costs are those budget submissions by the Lottery Commission as found in IBARS.

## Revenue Projection



**Tobacco Tax**

**Revenue Description**

Taxes are levied on all non-cigarette tobacco products sold in Montana. A tax is assessed on the number of ounces of moist snuff sold, and a tax is assessed on the wholesale value of all other non-cigarette tobacco products sold. Tobacco products shipped from Montana to be sold and consumed elsewhere are not subject to the tax.

**Statutory Reference**

Tax Rate – [16-11-111\(7\), MCA](#)

Tax Distribution – [16-11-114\(2\), MCA](#); [16-11-119\(3\), MCA](#)

Date Due – [16-11-111\(8\), MCA](#)

**Applicable Tax Rates**

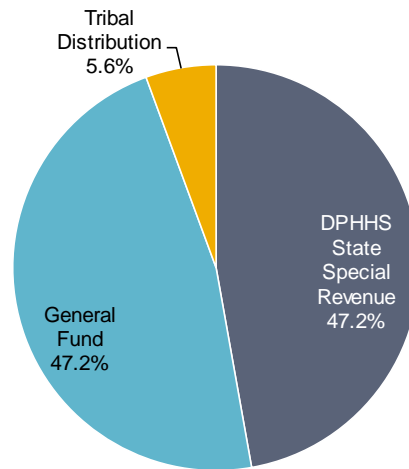
Tobacco products – 50% of the wholesale price

Moist snuff – \$0.85 per ounce

**Collection Frequency:** Monthly

**Distribution**

Tobacco tax revenue is distributed between the general fund, the Department of Public Health and Human Services (DPHHS) Health and Medicaid Initiatives state special revenue fund, and to five tribal governments according to intergovernmental agreements between the Department of Revenue (DOR) and the tribes. Tobacco tax dollars are distributed to Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow according to the following formula:  $(1.5) \times (\text{Montana per capita tobacco product consumption}) \times (\text{enrolled tribal population}) \times (\text{tax rate})$ .



**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Tobacco Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$6.160	\$6.380	\$6.600	\$19.140
Legislative Forecast	6.235	6.413	6.579	19.227
Difference	(\$0.075)	(\$0.033)	\$0.021	(\$0.087)
% Difference	-1.2%	-0.5%	0.3%	-0.5%

Forecast Risks

- Changing Montana population
- Value of Montana retail sales

Revenue Estimate Methodology

Data

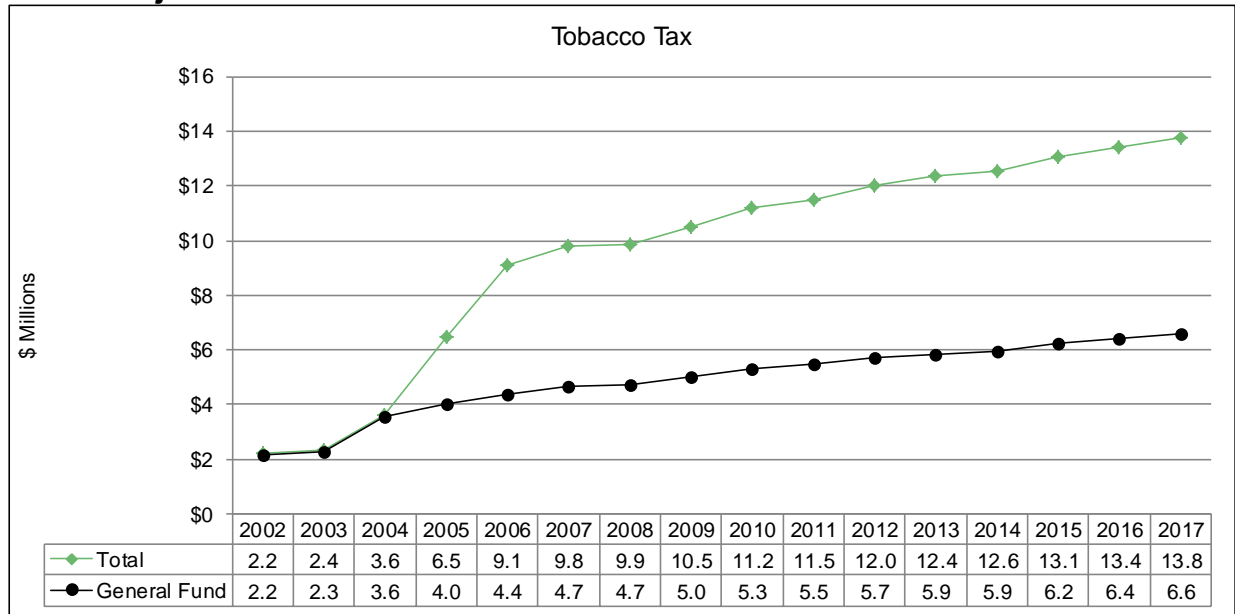
The tobacco tax estimate is based on data obtained from DOR, SABHRS, and IHS. Details on tax collections by month, distributor, snuff vs other collections, and tribal distributions are provided by DOR; fiscal year tax collections are from SABHRS; forecasts for independent economic variables are produced by IHS.

Analysis

Ounces of moist snuff and wholesale value of other non-cigarette tobacco products are forecast separately using the same methodology. Both values are forecast with regression models using the independent, IHS-provided values for Montana population over the age of 18 and Montana retail sales. The models are separate because the relationships between the variables and changing snuff sales are different than the relationships between the variables and changing value of other tobacco products.

After applying the appropriate tax rate to each value to determine gross taxes, forecasts for credits and discounts are subtracted to find the net revenue. Credits and discounts are each forecast using a three year rolling average.

Revenue Projection





## Video Gambling Tax

### Revenue Description

Video gambling income is derived from two sources: license fees and video gambling taxes. There are three types of license fees: fees paid by operators for video gambling machines, fees paid by operators for non-video games such as poker, and annual fees for the right to assemble, produce, or manufacture video gambling machines or associated equipment. The video gambling tax is paid by licensed video gambling machine operators. License holders are charged a tax of 15% of the gross income (defined as net of payouts) from each licensed video gambling machine. The Department of Justice (DOJ) issues video gambling licenses and permits and collects the fees and taxes.

### Statutory Reference

Tax Rate – Route operator license: [23-5-129, MCA](#); gambling establishment operator license: [23-5-177, MCA](#); card table fee: [23-5-306\(2\), MCA](#); bingo/keno permit: [23-5-407, MCA](#); sports tab tax: [23-5-502, MCA](#); video tax: [23-5-610\(1\), MCA](#); machine permit fee: [23-5-612\(2\), MCA](#)

Tax Distribution – Card table fee: [23-5-306\(3&4\), MCA](#); bingo and keno tax: [23-5-409, MCA](#); sports tab tax: [23-5-502, MCA](#); video: [23-5-610\(6\), MCA](#); machine permit fee: [23-5-612\(3\), MCA](#)

Date Due – Card table fees due annually and distributed quarterly to local governments: [23-5-306\(1&4\), MCA](#); video tax due 15 and 25 days after the end of the quarter: [23-5-610\(5\), MCA](#); machine permit fees due annually prorated on a quarterly basis: [23-5-612\(2a\), MCA](#); bingo and keno taxes due July 31.

### Applicable Tax Rates

#### License Fees

- Video gambling machine permit – \$220 annually
- Video gambling manufacturer license – \$1,000 annually
- Video gambling machine examination fee – Actual DOJ costs of examining the electronic equipment
- Distributor license – \$1,000 annually
- Route operator license – \$1,000 annually
- Bingo/keno manufacture license – \$1,000 annually
- Gambling establishment operator license – Actual DOJ costs of determining licensure qualifications
- Antique slot machine seller permit – \$50 annually
- Live card game table – \$250 annually for the first table and \$500 for each additional table
- Card game dealer license – \$75 for the first year, \$25 for each subsequent year
- Pinochle tournament permit – \$25
- Card room contractor license – \$150 annually
- Bingo/keno permit – \$250 annually
- Bingo/keno examination fee – Actual DOJ costs of examining the electronic equipment
- Sports tab game seller license – \$100 annually
- Casino night permit – \$25
- Associated business – \$100

#### Gambling Taxes

- Video – 15% of gross income (defined as net of payouts) per video gambling machine
- Bingo/keno – 1% of gross proceeds
- Sport tabs – \$1.00 for each 100 sport tabs sold

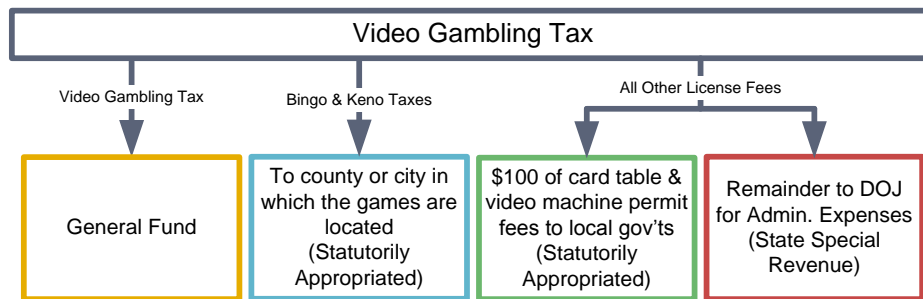
**Collection Frequency:** Video tax – quarterly, machine permit fees – quarterly, other fees – annually

License Fees

- \$100 of the live card game table fee and \$100 of the video gambling machine permit fee (prorated basis) are statutorily appropriated for distribution to local governments.
- All other license fee revenue is retained by DOJ to cover administrative costs.

Gambling Taxes

- Video – All of video gambling tax receipts are deposited into the general fund.
- Bingo/Keno – All collections are statutorily appropriated for distribution to the municipality or county in which the game is located.
- Sport Tabs – All collections are retained by DOJ for administration purposes.



**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is due to differences in personal and disposable income growth.

Video Gambling Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$59.750	\$61.950	\$64.360	\$186.060
Legislative Forecast	60.423	62.744	66.041	189.208
Difference	(\$0.673)	(\$0.794)	(\$1.681)	(\$3.148)
% Difference	-1.1%	-1.3%	-2.5%	-1.7%

**Forecast Risks**

- Personal income changes
- Population changes

**Revenue Estimate Methodology**

The components of video gambling revenue have separate distributions, so each component is estimated separately.

Data

DOJ provides data upon request and limited applicable data is available from the department's website. Historic and current revenue collections are obtained from SABHRS. IHS forecasts of Montana personal income are used to model the total gambling machine gross income.

Analysis

Revenue from the tax on video gambling machine gross income (defined as net of payouts) is the largest component of this revenue source and all revenue from this tax is distributed to the general fund. To determine total gross income, gross income for poker, keno, and multiple-game machines are calculated from revenue collections. The amount from the most recently completed fiscal year and subsequent estimates for succeeding fiscal years are adjusted based on prior years' collections.

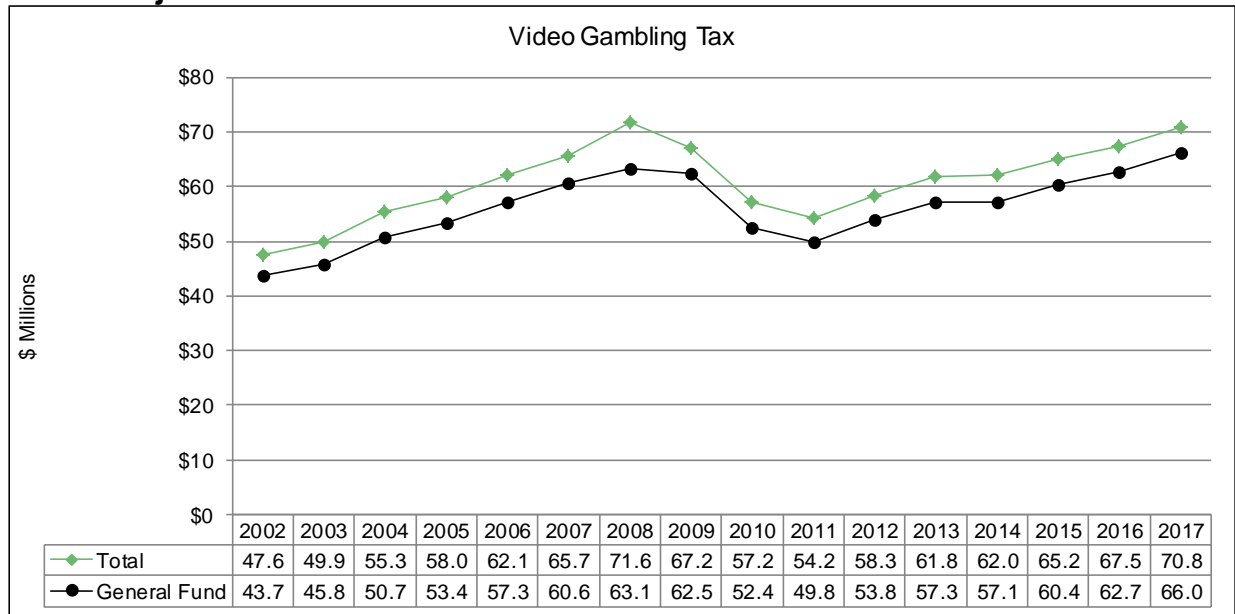
## Consumption Taxes

## Video Gambling Tax

Permit and license fees are the second component to this revenue source, the revenue from which is deposited to the state special revenue fund and distributed to the DOJ to pay administrative costs and to local governments. There are three separate estimates for permit and license fees.

- Video gambling manufacturing license – The number of licenses are estimated using a linear regression model that uses the prior fiscal year’s license amount as the predictor variable.
- Live game permit/license fees – The amounts of “first” poker tables, “additional” poker tables, bingo/keno, and card dealers are estimated using a two-year moving average.
- Video gambling machine permit fees – The number of video, bingo/multi game, and keno machine permits is estimated using a five-year moving average

## Revenue Projection



Wine Tax

Revenue Description

A tax is levied on table wines and hard ciders imported into Montana by wine distributors or by the Department of Revenue (DOR), as a liquor wholesaler.

Statutory Reference

Tax Rate – [16-1-411\(1\), MCA](#); [16-2-301\(2\), MCA](#)

Tax Distribution – [16-1-411\(3\), MCA](#); [16-2-301\(2\), MCA](#)

Date Due – 15<sup>th</sup> day of the month following the sale from the distributor’s warehouse ([16-1-411\(2\), MCA](#))

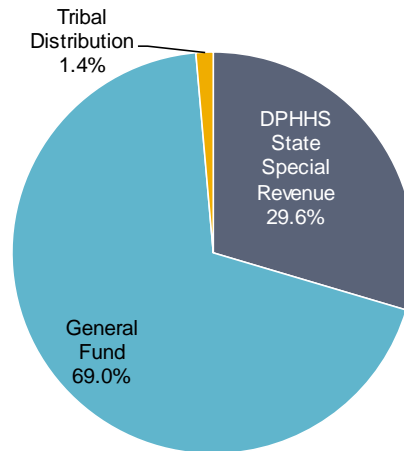
Applicable Tax Rates

A tax of \$0.27 is imposed per liter of wine and a tax of \$0.037 per liter is imposed on hard cider. An additional tax of \$0.01 per liter is imposed on table wine sold by a table wine distributor to an agent.

Collection Frequency: Monthly

Distribution

Wine tax revenue is distributed between the general fund, the Department of Public Health and Human Services (DPHHS) state special revenue alcohol account, and three tribal governments according to intergovernmental agreements between DOR and the tribes. Wine tax revenues are distributed to Blackfeet, Fort Belknap, and Fort Peck according to the following formula: (per capita wine consumption) x (tribal membership) x (Montana tax rate).



Comparison of Legislative and Executive Forecasts

There are no material differences between the legislative and executive branch forecasts.

Wine Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$2.300	\$2.380	\$2.460	\$7.140
Legislative Forecast	2.299	2.366	2.438	7.103
Difference	\$0.001	\$0.014	\$0.022	\$0.037
% Difference	0.1%	0.6%	0.9%	0.5%

Forecast Risks

- Changing Montana population
- Rate of change in effective tax rate

Data

The wine tax estimate is based on data obtained from DOR, SABHRS, and IHS. Details on historic tribal distributions are provided by DOR; fiscal year tax collections are from SABHRS; forecasts for independent economic variables are produced by IHS.

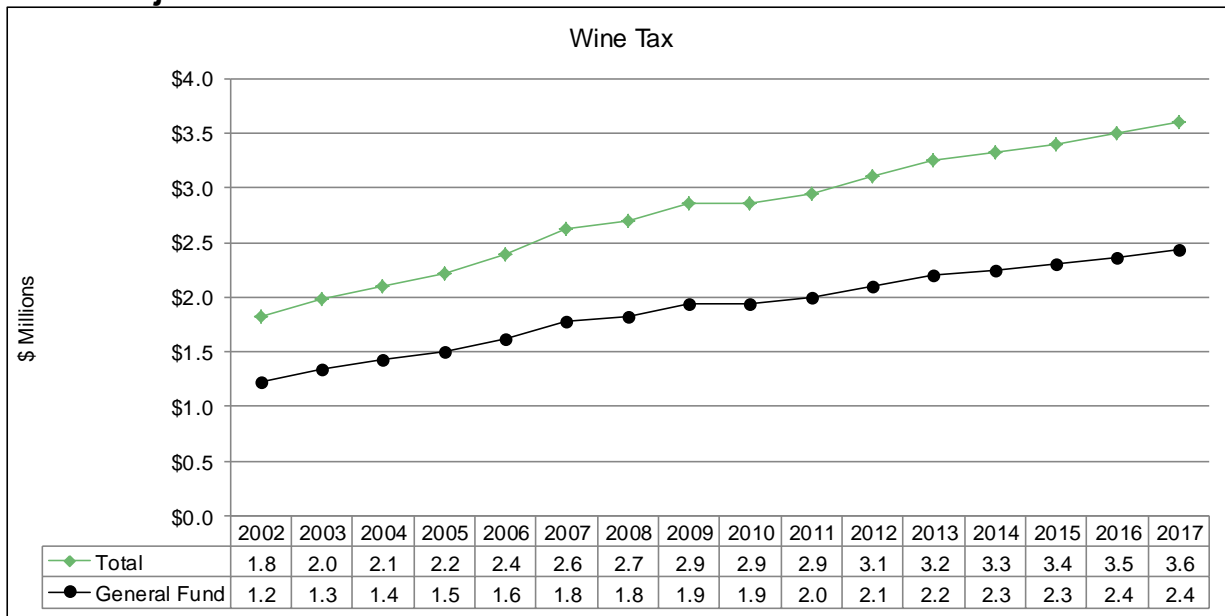
DOR data are used to develop an effective tax rate accounting for the number of liters of each wine and hard cider sold and the difference in their tax rates. IHS data provide regressors to model number of liters sold.

Analysis

Total tax collections are calculated by multiplying the number of liters sold in a given year by the effective tax rate in that year. The number of liters sold is forecast with a regression model using the independent, IHS-provided values for Montana population over the age of 21. Additionally, the model employs the previous year's barrels sold as an auto-regressive component.

This analysis assumes that the effective tax rate remains steady through the biennium.

**Revenue Projection**





# PROPERTY TAXES

Property Tax Overview  
55 Mill Property Tax  
40 Mill Property Tax  
6 Mill Property Tax  
1.5 Mill Property Tax



**LFD**   
MONTANA LEGISLATIVE FISCAL DIVISION  
[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)





**Property Tax and Non Levy Revenue**

**Revenue Description**

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills (often referred to together as the 95 mills) for K-12 schools, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vo-tech college. Taxable value is the market value of statutorily defined property times a statutory tax rate. This along with non-levy revenue, such as coal gross proceeds, federal forest receipts and a few others, makes up state property revenue.

The assessed value of residential and commercial real estate is the market value phased in over the reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. Beginning January 1, 2015, residential and commercial property as well as agricultural land and timberland will reflect the impact of the new reappraisal on assessed values. The current reappraisal cycle is 6 years, during which increases in property values are phased in by 1/6th per year. Property that declines in value will be assessed immediately at its new reappraised value. Because of the immediate decline in the first year, taxable value in TY 2015 is expected to decline for class 4 residential and class 3 agricultural, with increases thereafter, shown in the following table. Class 10 timber is expected to be halved in taxable value the first year due to reappraisal, with no increases thereafter. Increases very similar to those in FY 2017 will continue into subsequent years due to the 1/6<sup>th</sup> of value per year phase-in.

Reappraisal Effects by Fiscal Year		
Class of Property	Fiscal Year	
	2016	2017
Class 3 Agricultural	-5.5%	4.2%
Class 4 Residential	-7.1%	0.5%
Class 4 Commercial	1.0%	3.5%

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

This source also includes the state’s share of protested taxes paid by centrally assessed companies. Fifty percent of taxes paid under protest by centrally assessed firms are deposited in the general fund and the rest are deposited in a state special account. Should the state fail in its defense of the taxation of these companies, the protested taxes must be returned to the taxpayer. If the state prevails in the case, the money in the state special account is transferred to the general fund.

The state has established programs that lower property taxes for homeowners whose homesteads have increased above certain thresholds due to reappraisal and whose income falls below certain levels. These programs are known as taxpayer assistance programs.

**Non-Levy Revenue**

This source includes federal forest receipts, coal gross proceeds revenue, and other revenue which is distributed to statewide and local mills in each county. The mills to which non levy revenue is distributed are unique for each county and each non levy revenue source. The state’s portion of non-levy revenue is remitted to the state as a portion of the appropriate property tax.

**Federal Forest Receipts**

**Revenue Description**

Federal forest receipts are payments from the federal government in lieu of revenues from the sale of forest products of federal land. The federal government authorizes logging operations on forest lands

## Property Tax

## Property Tax

located within the borders of Montana. The sale of timber generates revenue that the federal government shares with the state in the following year. The state sends the money to the county treasurer of the county in which the receipts were generated. Within thirty days, the county treasurer distributes the money to various county and state accounts.

### Statutory References

Distribution – [17-3-211, MCA](#); [17-3-212, MCA](#)

Date Due – The state treasurer distributes the funds within 30 days after receiving full payment

### Distribution

The county treasurer apportions federal forest receipts in the following manner. Not more than 20% and not less than 15% is distributed to county government for special projects on federal land. Of the remainder:

- 66 2/3% goes to the road fund of the county
- 33 1/3% goes to the following countywide accounts, based on the mill ratios of each to total mills in the prior year: county equalization accounts (55 mills), county transportation account, county retirement accounts

## Coal Gross Proceeds Tax

### Revenue Description

The state imposes a gross proceeds tax of 5% on the gross value of coal produced by all the coal mines in the state. The gross value of coal is computed as the tonnage of coal produced and sold times the contract sales price. The tax on the gross proceeds for coal is estimated in conjunction with the coal severance tax. Of the total gross proceeds revenue, a state share is distributed to the elementary and high school county equalization levies as they existed in FY 1990.

### Statutory References

Tax Rate – [15-23-703\(1\), MCA](#)

Tax Distribution – [15-23-703\(3\), MCA](#)

### Applicable Tax Rates

The amount of tax due is 5% of the value of production as measured by the contract sales price for production in the preceding calendar year. There are some exceptions, such as new underground mines which are taxed at 2.5% for the first 10 years, as well as certain county-granted tax abatements.

### Distribution

The county treasurer distributes the coal gross proceeds tax based on the relative proportions of mill levies for the state, counties, and school districts as these existed in FY 1990. However, coal gross proceeds from mines started after 1988 are distributed across mill levies in the same fashion as property taxes were distributed in the previous fiscal year.

## Other Revenue

The county equalization account receives other revenue in addition to the types listed elsewhere. These include penalties and interest, back taxes, investment earnings, recreational fees, tax title and property sales, various state grants and fees, district court fines, county rents and lease income, and various revenue from federal sources such as PILT, Taylor Grazing and Bankhead Jones payments

## Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to the difference non-levy revenue and protested tax estimates.

	Property Tax (\$ Millions)			
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$247.860	\$244.380	\$253.170	\$745.410
Legislative Forecast	249.834	245.351	255.344	750.529
Difference	(\$1.974)	(\$0.971)	(\$2.174)	(\$5.119)
% Difference	-0.8%	-0.4%	-0.9%	-0.7%

**Forecast Risks**

- Assessed Value of property
- Tax Rates for each class of property
- Homestead and comstead exemptions
- Tax Increment Financing (TIF) property values
- Abated property values
- Non levy revenue

**Revenue Estimate Methodology**Data

The data required to produce forecasts of property tax received by the state are historical data on assessed and taxable value by class of property, the amount of property in tax increment financing (TIF) districts, the amount of local abatements conferred by local governments, and future growth rates for these variables. Also required is historical and estimate data on the non-levy components of property tax. These are gross proceeds revenue, federal forest revenue, and miscellaneous revenue allocated to the various state mill levies. The historical data on assessed and taxable value by property tax class, TIF taxable value, and abated taxable value are provided to the LFD and OBPP by the Department of Revenue on an annual basis.

TIF taxable value is required because state law allows a TIF district to apply the state 95 mills and 1.5 vo-tech mills to the increment in property value that occurred since the TIF was created, but allows the TIF district to keep the revenue associated with these mill levies. Thus the taxable value of the state must be adjusted downward by the value of TIF property for the 95 mills and the 1.5-mill levy. The 6-mill levy revenue derived from incremental TIF property does flow to the state special account for university operations, and thus the tax base for the 6-mill levy is not adjusted for the incremental taxable value in a TIF.

Montana law allows local governments (usually counties) to temporarily reduce the tax rate applied to the assessed value of property. This is called abated property. For instance, in tax year 2010, an electrical generation plant outside Hardin and another in Silver Bow County were granted a 10 year exemption on all personal and real estate property. The abatement applies to all local mills for those jurisdictions in which the properties are located. However, the tax rate reduction and the resulting partial exemption from property taxes does not apply to state mills. The taxable value data received by the department does not include the exempted property and thus for state property tax revenue purposes this property must be added back to the statewide taxable value. For the first time in tax year 2010, abated taxable values were available by class of property and were added back to each class of taxable value to form the tax base for the state mills. Previously these values had been added back without respect to class of property.

Assessed and taxable values are measured on January 1 of the tax year. The taxes are due to the state in the following November and May, i.e. in the fiscal year following the calendar year in which the values are measured. Coal gross proceeds are due to the state in the fiscal year two years after the calendar year in which the coal was produced. Federal forest receipts are received by the federal government in December of each year, and miscellaneous non-levy revenue (primarily interest) is deposited as earned.

Analysis

The latest year for which taxable value by class is available is the base from which future taxable values are derived. Growth rates are applied to the taxable value in each class of property. For the most part, growth rates are based on historical growth and on expected changes in tax rates in upcoming fiscal years. The table below shows growth rates for each class of property, for TIF and the resulting growth rates in net taxable value. Rates reflect both reappraisal and assumed growth rates for classes 3, 4, and 10.

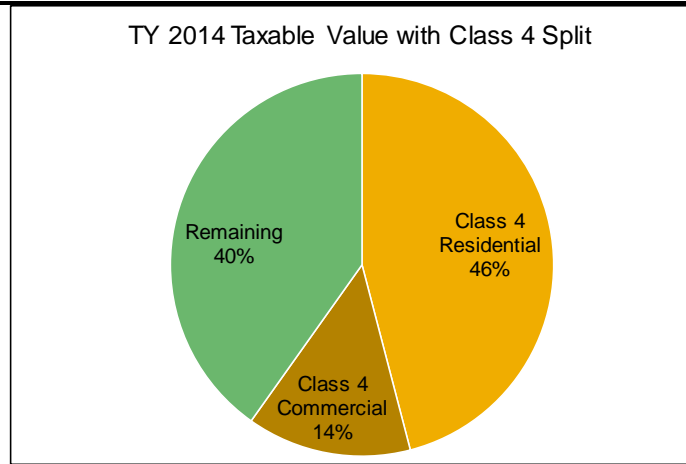
Statewide Taxable Value by Fiscal Year						
Class of Property	Taxable Value (\$ Millions)			Growth Rates		
	2015	2016	2017	2015	2016	2017
1 Mine Net Proceeds	\$3.791	\$4.014	\$4.181	15.9%	5.9%	4.2%
2 Gross Proceeds Metal Mines	25.555	27.062	28.188	-14.0%	5.9%	4.2%
3 Ag Land	143.467	135.260	140.585	-1.2%	-5.7%	3.9%
4 Residential and Commercial Real Estate	1,521.371	1,478.052	1,534.847	2.9%	-2.8%	3.8%
5 Pollution Control Equipment	44.566	46.430	48.371	-1.1%	4.2%	4.2%
7 Non Centrally Assesd Utilities	1.182	1.167	1.152	-1.7%	-1.3%	-1.3%
8 Business Personal Property	146.332	153.795	161.639	-10.2%	5.1%	5.1%
9 Electrical Utilities	374.692	396.631	419.854	5.9%	5.9%	5.9%
10 Forest Land	6.215	3.128	3.097	-1.0%	-49.7%	-1.0%
12 Railroads and Airlines	72.873	76.460	81.767	-2.2%	4.9%	6.9%
13 Telecomm and Electric Generation	170.052	173.103	176.209	-9.3%	1.8%	1.8%
14 Wind Generation	31.347	31.347	31.347	-2.4%	0.0%	0.0%
15 C02/Qualifying Liquid Pipeline	1.757	1.757	1.757	84.4%	0.0%	0.0%
16 High Voltage DC Converter	-	-	-	NA	NA	NA
Total Taxable Value	2,543.202	2,528.206	2,632.994	0.8%	-0.6%	4.1%
Tax Increment Financing Values	49.385	49.821	51.069	-2.0%	0.9%	2.5%
Net Taxable Value	\$2,493.817	\$2,478.385	\$2,581.925	0.9%	-0.6%	4.2%
Net Votech Taxable Value	826.434	821.221	855.220	1.2%	3.6%	3.2%
Net 6-Mill Taxable Value	\$2,592.587	\$2,578.027	\$2,684.064	0.8%	-0.6%	4.1%

FY 2015 taxable values are tax year 2014 taxable values. The property was valued on January 1, 2014, and the revenue from these values is collected by the state in November and May of the following fiscal year. FY 2015 values are known, although preliminary.

The figure below shows the tax rates for all classes of property as well as the values for the homestead and comstead exemptions.

Tax Rates and Exemptions by Property Tax Class			
Class of Property	Tax Rates		
	2015	2016	2017
Mine Net Proceeds	100.0%	100.0%	100.0%
Gross Proceeds Metal Mines	3.0%	3.0%	3.0%
Ag Land	2.5%	2.5%	2.5%
Residential and Commercial Real Estate	2.5%	2.5%	2.5%
Pollution Control Equipment	3.0%	3.0%	3.0%
Non Centrally Assesd Utilities	8.0%	8.0%	8.0%
Business Personal Property, above threshold	3.0%	3.0%	3.0%
Business Personal Property, below threshold	1.5%	1.5%	1.5%
Electrical Utilities	12.0%	12.0%	12.0%
Forest Land	0.3%	0.3%	0.3%
Railroads and Airlines	3.3%	3.3%	3.3%
Telecomm and Electric Generation	6.0%	6.0%	6.0%
Wind Generation	3.0%	3.0%	3.0%
C02/Qualifying Liquid Pipeline	3.0%	3.0%	3.0%
High Voltage DC Converter	2.3%	2.3%	2.3%
Exemptions			
Exemption Type	2015	2016	2017
Homestead Exemption for Residential Property	47.0%	47.0%	47.0%
Comstead Exemption for Commercial Property	21.5%	21.5%	21.5%

Even with exemptions, class 4 is by far the largest property tax class, representing 60% of taxable value in TY 2014.



Once non-levy revenue forecasts are added property tax proper forecasts, an adjustment is made for centrally assessed protested taxes. The following table shows the projected property tax revenue from the property tax base and non-levy revenue.

Property Tax Revenue in General Fund and University Account (\$ Millions)			
Revenue Type	2015	2016	2017
95 Mill Revenue	\$236.917	\$235.005	\$245.200
1.5 Mill Revenue	1,213	1,199	1,250
Property Tax in the General Fund	238.130	236.204	246.450
Non-Levy - Coal Gross Proceeds	7.826	8.277	8.494
Non-Levy - Federal Forest Receipts	0.440	0.423	0.416
Non-Levy - Miscellaneous Revenue	1.000	1.000	1.000
Protested Taxes	2.437	(0.553)	(1.015)
Net Property Taxes - 95 Mills and 1.5 Mills	\$249.834	\$245.351	\$255.344
6-Mill Property Tax Revenue - University Account	\$14.701	\$14.735	\$15.451
Nonlevy Revenue Associated with 6-Mills	1.191	1.259	1.288
Protested Taxes in Protest account	0.114	(0.080)	(0.126)
Net Property Taxes in University Account	16.006	15.914	16.613

Revenue Projection



### Property Tax 55 Mill

**Statutory Reference**

Tax Rate – [20-9-331\(1\), MCA](#); [20-9-333\(1\), MCA](#)

Tax Distribution – [20-9-331\(1\), MCA](#); [20-9-333\(1\), MCA](#)

Date Due – Half of taxes due November 30<sup>th</sup> and half are due May 31<sup>st</sup> ([15-16-102\(1\), MCA](#)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month ([15-1-504\(1\), MCA](#))

**Applicable Tax Rates:** Each property class has its own tax rate, which is applied to the assessed value to produce a taxable value. For every \$1,000 in taxable value, 55 mills generate \$55 in state property taxes.

**Collection Frequency:** Monthly with significant state deposits in December and June.

**Distribution:** All property tax receipts are deposited into the general fund, except revenue associated with the 6-mill university levy.

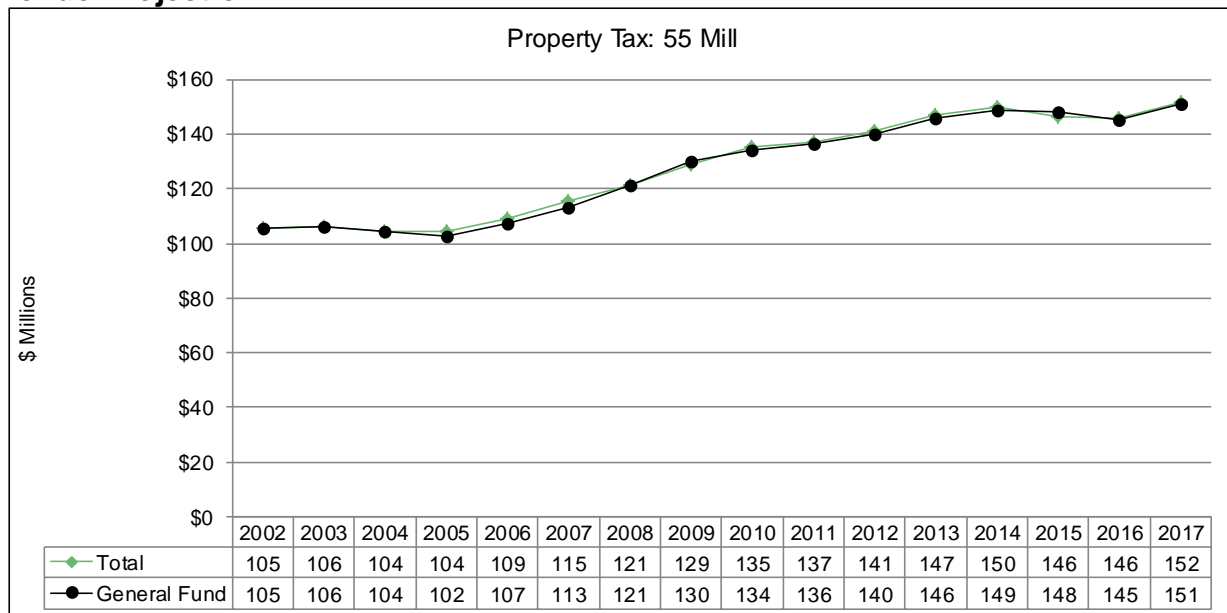
**Summary of Legislative Action**

**Forecast Risks**

- Assessed Value of property
- Tax Rates for each class of property
- Homestead and comstead exemptions
- Tax Increment Financing (TIF) property values
- Abated property values
- Non levy revenue

**Revenue Estimate Methodology:** Explained in the methodology section under “Property Tax.”

**Revenue Projection**



### Property Tax 40 Mill

**Statutory Reference**

Tax Rate – [20-9-360, MCA](#)

Tax Distribution – [20-9-360, MCA](#)

Date Due – Half of taxes due November 30<sup>th</sup> and half are due May 31<sup>st</sup> ([15-16-102\(1\), MCA](#)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month ([15-1-504\(1\), MCA](#))

**Applicable Tax Rates:** Each property class has its own tax rate, which is applied to the assessed value to produce a taxable value. For every \$1,000 in taxable value, 40 mills generate \$40 in state property taxes.

**Collection Frequency:** Monthly with significant state deposits in December and June.

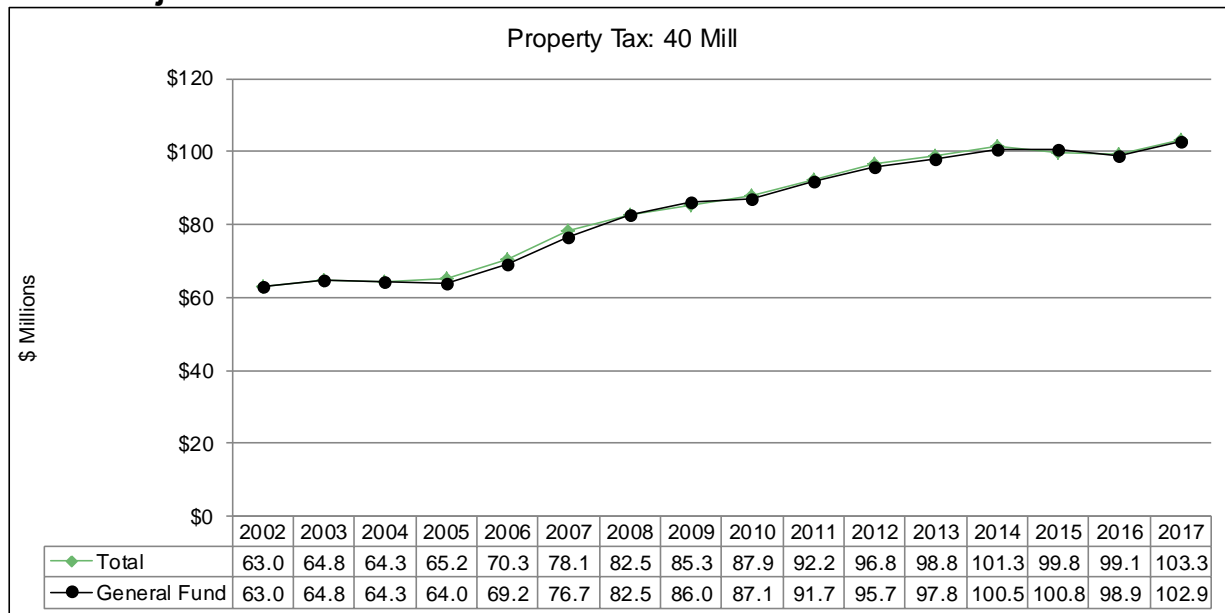
**Distribution:** All property tax receipts are deposited into the general fund, except revenue associated with the 6-mill university levy.

**Forecast Risks**

- Assessed Value of property
- Tax Rates for each class of property
- Homestead and comstead exemptions
- Tax Increment Financing (TIF) property values
- Abated property values

**Revenue Estimate Methodology:** Explained in the methodology section under “Property Tax.”

**Revenue Projection**



### Property Tax 6 Mill

**Statutory Reference**

Tax Rate – [15-10-108, MCA](#)

Tax Distribution – [15-10-108, MCA](#)

Date Due – Half of taxes due November 30<sup>th</sup> and half are due May 31<sup>st</sup> ([15-16-102\(1\), MCA](#)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month ([15-1-504\(1\), MCA](#))

**Applicable Tax Rates**

Each property class has its own tax rate, which is applied to the assessed value to produce a taxable value. For every \$1,000 in taxable value, 6 mills generate \$6 in state property taxes.

**Collection Frequency:** Monthly with significant state deposits in December and June

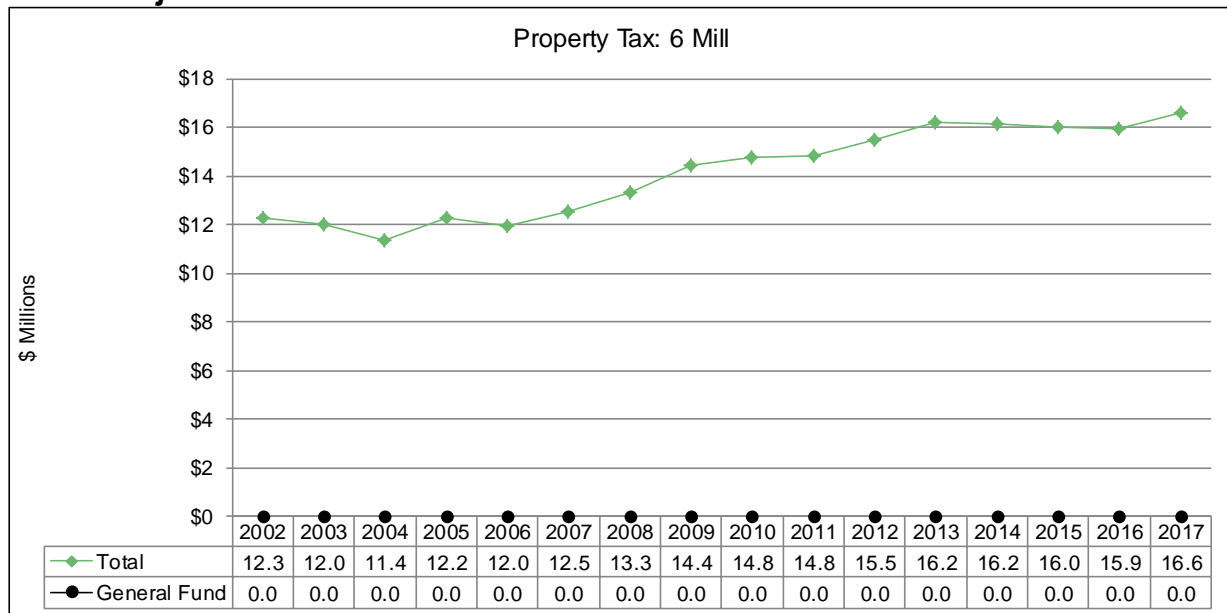
**Distribution:** All proceeds are deposited into the university system 6 mill levy state special revenue account.

**Forecast Risks**

- Assessed Value of property
- Tax Rates for each class of property
- Homestead and comstead exemptions
- Tax Increment Financing (TIF) property values
- Abated property values

**Revenue Estimate Methodology:** Explained in the methodology section under “Property Tax.”

**Revenue Projection**





### Property Tax 1.5 Mill

#### Revenue Description

Statute requires the boards of county commissioners in the five counties where colleges of technology reside to levy 1.5 mills for deposit in the state general fund.

#### Statutory Reference

Tax Rate – [20-25-439\(1\), MCA](#)

Tax Distribution – [20-25-439\(2\), MCA](#)

Date Due – Half of taxes due November 30<sup>th</sup> and half are due May 31<sup>st</sup> ([15-16-102\(1\), MCA](#)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month ([15-1-504\(1\), MCA](#))

**Applicable Tax Rates:** Each property class has its own tax rate which is applied to assessed value to produce a taxable value. For every \$1,000 in taxable value, 1.5 mills generate \$1.50 in state property taxes.

**Collection Frequency:** Monthly with significant state deposits in December and June.

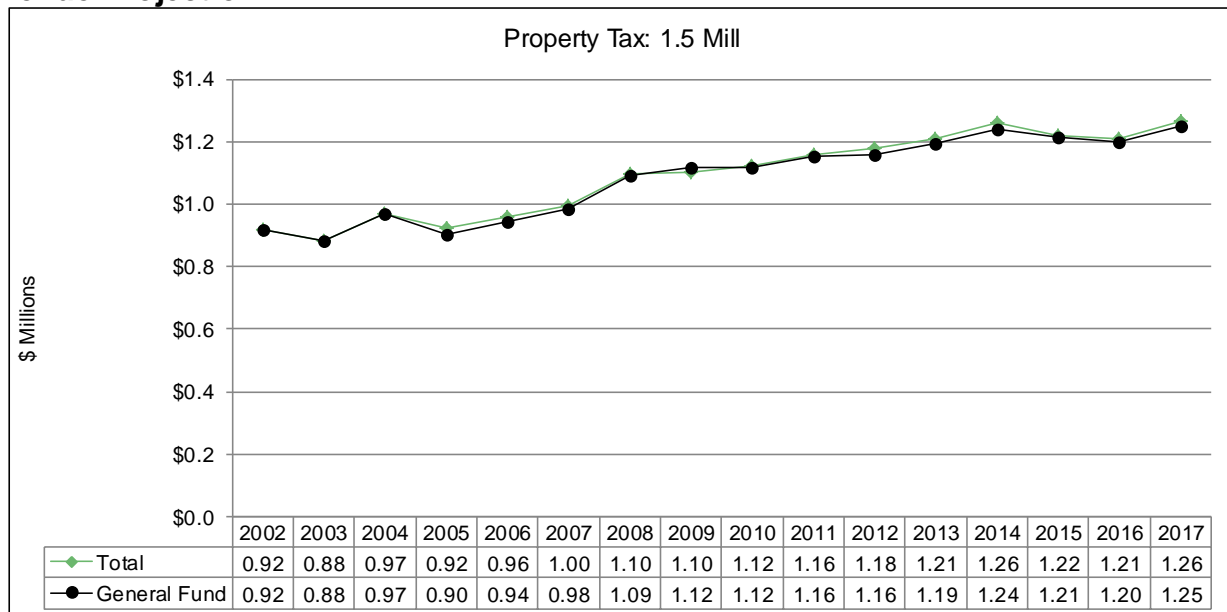
**Distribution:** All property tax receipts are deposited into the general fund, except revenue associated with the 6-mill university levy.

#### Forecast Risks

- Assessed Value of property
- Growth rates for assessed values of property
- Tax Rates for each class of property
- Homestead and comstead exemptions
- Class tax rates
- Tax Increment Financing (TIF) property values
- Abated property values
- Nonlevy revenue growth rates

**Revenue Estimate Methodology:** Explained in the methodology section under “Property Tax.”

#### Revenue Projection





# OTHER GENERAL FUND REVENUE

- All Other Revenue
- Highway Patrol Fines
- Nursing Facilities Fee
- Public Institution Reimbursements
- Tobacco Settlement





**All Other Revenue**

**Revenue Description**

There are a number of other taxes, fees, and fines that historically have generated less than \$2.5 million each in annual general fund revenue.

**Statutory Reference:** Various

**Applicable Tax Rates:** Various

**Collection Frequency:** Monthly

**Distribution:** All proceeds are deposited into the general fund.

**Comparison of Legislative and Executive Forecasts**

The small difference between the legislative and executive forecasts over the biennium is due to differences in modeling methodology regarding the many various sources that make up this revenue source.

All Other Revenue (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$36.290	\$40.530	\$37.150	\$113.970
Legislative Forecast	39.492	36.426	36.656	112.574
Difference	(\$3.202)	\$4.104	\$0.494	\$1.396
% Difference	-8.1%	11.3%	1.3%	1.2%

**Forecast Risks**

- Investment license revenue and expenditures
- Liquor license revenue and expenditures
- Number of vehicles registered under the single state registration system
- Fixed costs appropriated for SWCAP/SFCAP
- District court fees
- Revenue and expenditures in the DPHHS cigarette account
- Civil fines
- State Street banking fees
- MSU-EMC debt service payments

**Revenue Estimate Methodology**

Data

Numerous data sources are consulted for each of the applicable fifteen revenue sources that are estimated individually.

Analysis

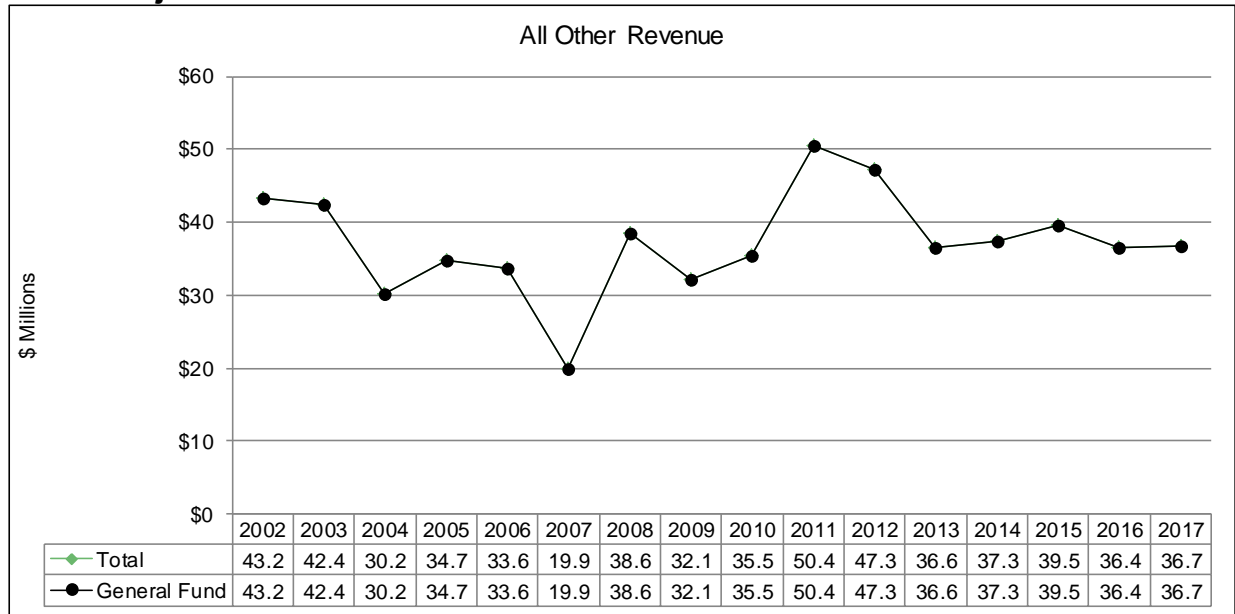
1. Abandoned property is estimated using a seven-year olympic average.
2. District court fees are estimated using a two-year moving average.
3. Investment license fee transfer is the net between non-general fund investment fee revenue collected by the State Auditor and its expenses. These amounts are determined in the "Investment License Fee" revenue source.
4. Statewide Cost Allocation Plan: these amounts are estimated using a three-year moving average.
5. Court surcharge is estimated using a three-year moving average.

**Other General Fund Sources**

**All Other Revenue**

6. Veteran’s cigarette account transfer: money in the account at the end of a fiscal year in excess of \$2.0 million is transferred to the general fund. To estimate the excess amounts, distributions of cigarette tax revenue to the account (as determined in the “Cigarette Tax” revenue source) is reduced by budgeted present law amounts from the account for each fiscal year obtained from MBARS. Included are expenditure estimates from long range building appropriations. The \$2.0 million limit is then subtracted from the net revenue.
7. Banking charges are estimated to grow by 1% per year.
8. The remainder of “All Other” revenue, after the seven revenue sources have been estimated individually, is estimated using a three-year moving average.

**Revenue Projection**



**Highway Patrol Fines**

**Revenue Description**

The Montana Highway Patrol issues citations for speeding, driving under the influence of alcohol or drugs, and other misdemeanors. The fines and forfeitures associated with these citations are collected by various state and local courts.

**Statutory Reference**

Tax Rate – General fines: [61-3-601, MCA](#); [61-5-307, MCA](#); [61-7-118, MCA](#); [61-8-711, MCA](#); [61-9-511, MCA](#); multiple others

Tax Distribution – [3-10-601, MCA](#) (fines collected in justice court are included in “All Other Revenue”); [61-10-148, MCA](#) (violations of vehicle size, weight & load); [61-12-701, MCA](#) (fines by Highway Patrol)

Date Due – Upon conviction

**Applicable Tax Rates:** Variable

**Collection Frequency:** Monthly

**Distribution:** All of Highway Patrol fines and forfeitures on all offenses that result from citations issued by the Highway Patrol, except those paid to a justices’ court, and received by the state are deposited in the general fund.

**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is due to differences in the modeling processes. The executive uses gas prices to forecast future revenue while the legislative forecast comes from an ARMA time series model.

Highway Patrol Fines (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$4.370	\$4.510	\$4.710	\$13.590
Legislative Forecast	4.224	4.255	4.251	12.730
Difference	\$0.146	\$0.255	\$0.459	\$0.860
% Difference	3.5%	6.0%	10.8%	6.8%

**Forecast Risks**

- Significant changes in historical driving patterns

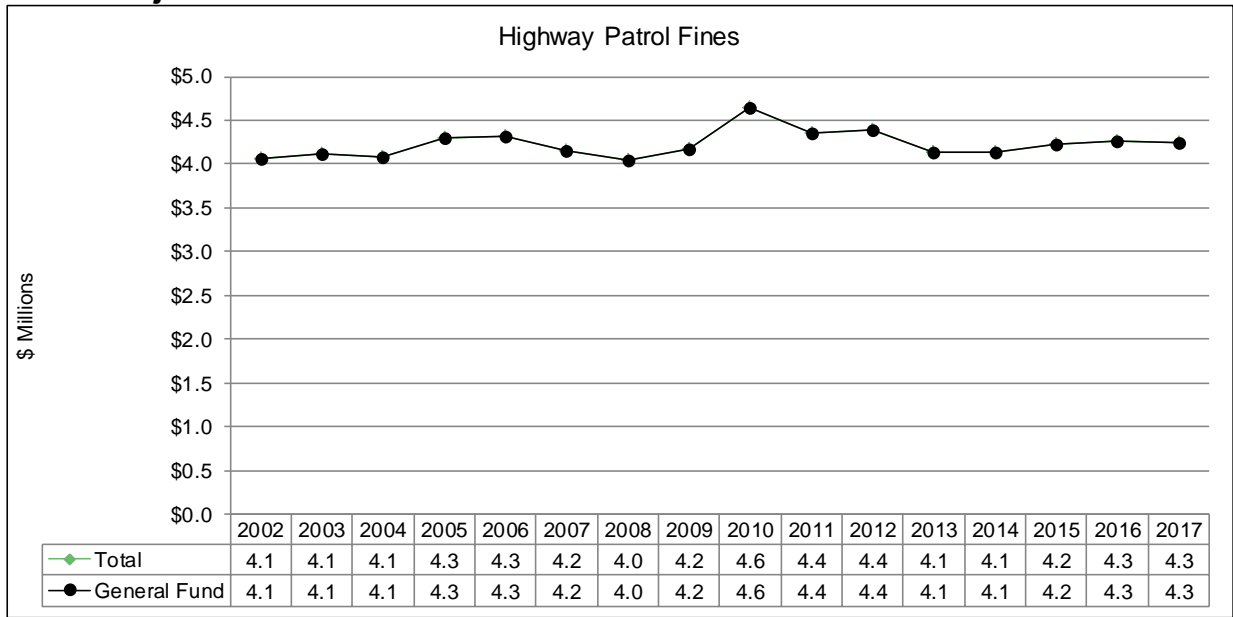
**Revenue Estimate Methodology**

Data

SABHRS data provide a history of highway patrol fine revenue.

Analysis

Highway patrol fine revenue is forecast using an autoregressive moving average time series model.





### Nursing Facilities Fee

#### Revenue Description

Utilization fees are assessed on nursing facilities and intermediate care facilities in Montana. Nursing facilities are health care facilities licensed by the Department of Public Health and Human Services (DPHHS) and include those operated for profit or non-profit, freestanding or part of another health facility, and may be either publicly or privately owned. Nursing facilities do not include adult foster homes, retirement homes, and other alternative living arrangements. Currently, Montana’s only intermediate care facility is the Montana Developmental Center (MDC).

#### Statutory Reference

Tax Rate – Nursing facility utilization fee: [15-60-102, MCA](#); intermediate care facility utilization fee: [15-67-102\(2\), MCA](#)

Tax Distribution – Nursing facility utilization fee: [15-60-102, MCA](#) & [15-60-210, MCA](#); intermediate care facility utilization fee: [15-67-102\(3\), MCA](#)

Date Due – Nursing facility utilization fee due the last day of the month following the close of the calendar quarter ([15-60-201, MCA](#)); intermediate care facility utilization fee due the month following the close of the calendar quarter ([15-67-201\(1\), MCA](#))

#### Applicable Tax Rates

Nursing facility utilization fee: \$8.30 per bed day

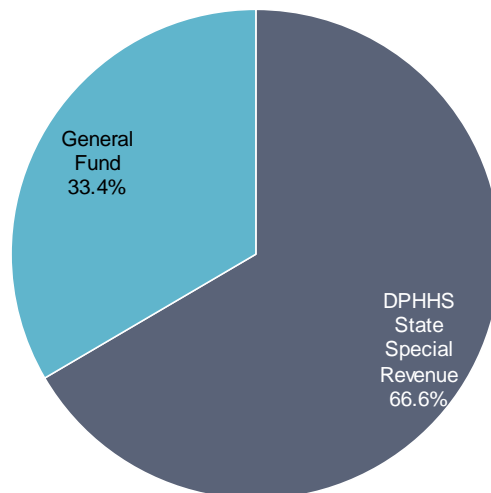
Intermediate care facility utilization fee: 6% of a facility’s quarterly revenue divided by quarterly bed days

Bed days are defined as a 24-hour period in which a resident of a nursing facility is present in the facility or in which a bed is held for a resident while on temporary leave.

**Collection Frequency:** Quarterly

#### Distribution

Nursing facility fee revenue is distributed between the general fund and the DPHHS state special revenue prevention and stabilization fund. The following chart shows the FY 2014 distribution of nursing facility fee revenue.



**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Nursing Facilities Fees (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$4.750	\$4.650	\$4.560	\$13.960
Legislative Forecast	4.859	4.756	4.654	14.269
Difference	(\$0.109)	(\$0.106)	(\$0.094)	(\$0.309)
% Difference	-2.2%	-2.2%	-2.0%	-2.2%

**Forecast Risks**

- Change in rate of facility utilization

**Revenue Estimate Methodology**

Data

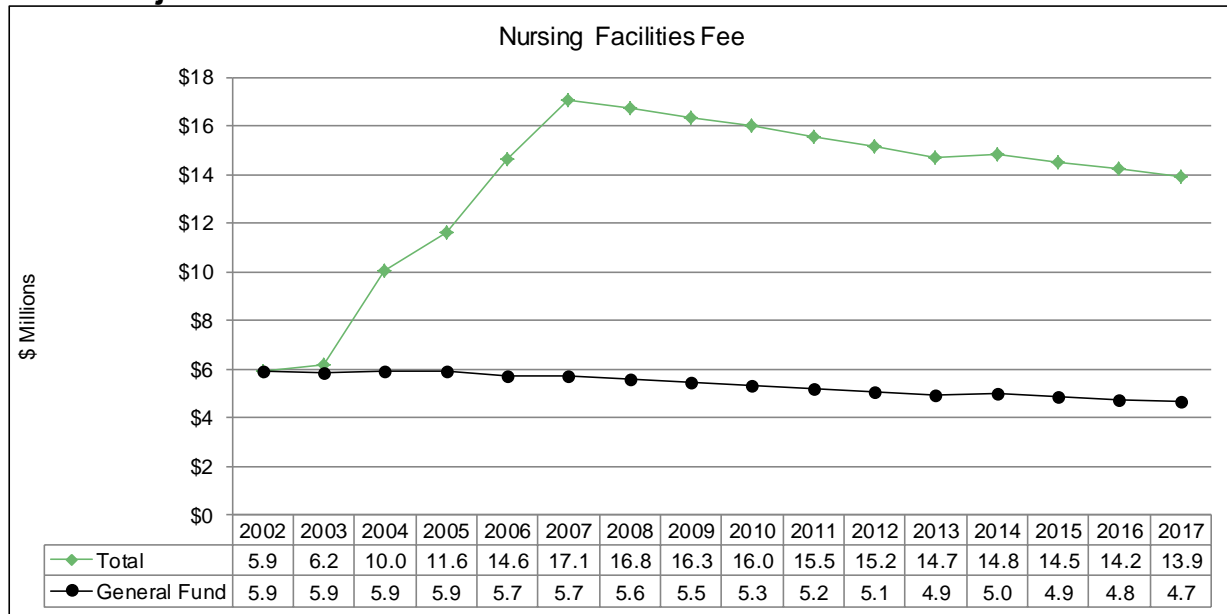
Data for this source are obtained from the DOR, DPHHS, and SABHRS. Information on taxable bed days in various facilities is provided by DOR; counts of bed days and total revenue at the MDC come from DPHHS; fiscal year collections are from SABHRS.

Analysis

Total collections are calculated by summing the estimates for nursing facility revenue and intermediate care facility revenue. Nursing facility fees are forecast using a linear regression over time to project future bed days at nursing care facilities which are then multiplied by the applicable tax rate.

Intermediate care facility fees are projected by applying the average growth rate of past fiscal years to the last year of actual revenue collections.

**Revenue Projection**



**Public Institution Reimbursements**

**Revenue Description**

The Department of Public Health and Human Services (DPHHS) receives reimbursement for the cost of sheltering and treating residents at the Montana Developmental Center (MDC), the Montana Mental Health Nursing Care Center (MMHNCC), Montana State Hospital (MSH), Montana Chemical Dependency Treatment Center (MCDC), and the Montana Veterans' Home (MVH).

Reimbursement comes from four sources: state and federally matched Medicaid monies, federal Medicare funds, insurance payments if available, and private payments by residents or persons legally responsible for them.

**Statutory Reference**

Tax Rate – [53-1-402, MCA](#) (requirement to pay)

Tax Distribution – [53-1-413, MCA](#)

Date Due – Monthly ([53-1-405\(3\), MCA](#))

**Applicable Tax Rates:** Three variables determine the level of Medicaid nursing home payments: the number of patient days eligible for Medicaid reimbursement, the reimbursement rate per patient day, and the private resources of Medicaid patients.

**Collection Frequency:** Monthly

**Distribution**

Institutional reimbursements for MDC, MMHNCC, and MSH are first used for debt service with the remainder distributed to the general fund. Reimbursements for MCDC and MVH are distributed to a DPHHS state special revenue fund to be appropriated to those facilities.

**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Public Institution Reimbursements (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$16.950	\$17.320	\$17.800	\$52.070
Legislative Forecast	17.123	17.239	17.280	51.643
Difference	(\$0.173)	\$0.081	\$0.520	\$0.427
% Difference	-1.0%	0.5%	3.0%	0.8%

**Forecast Risks**

- Changes in insurance, Medicaid, Medicare eligibility and payment levels
- Values of state and local medical spending
- Changing Montana per capita income

**Revenue Estimate Methodology**

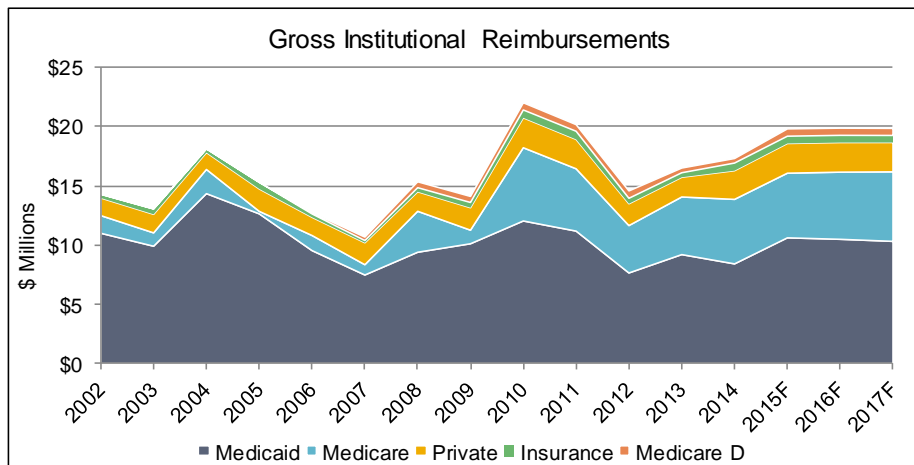
Data

The public institution reimbursement estimate is based on data obtained from DPHHS, SABHRS, and IHS. Average daily population and patterns in payment type are provided by DPHHS; fiscal year fee collections by facility and payment type are from SABHRS; forecasts for independent economic variables are produced by IHS.

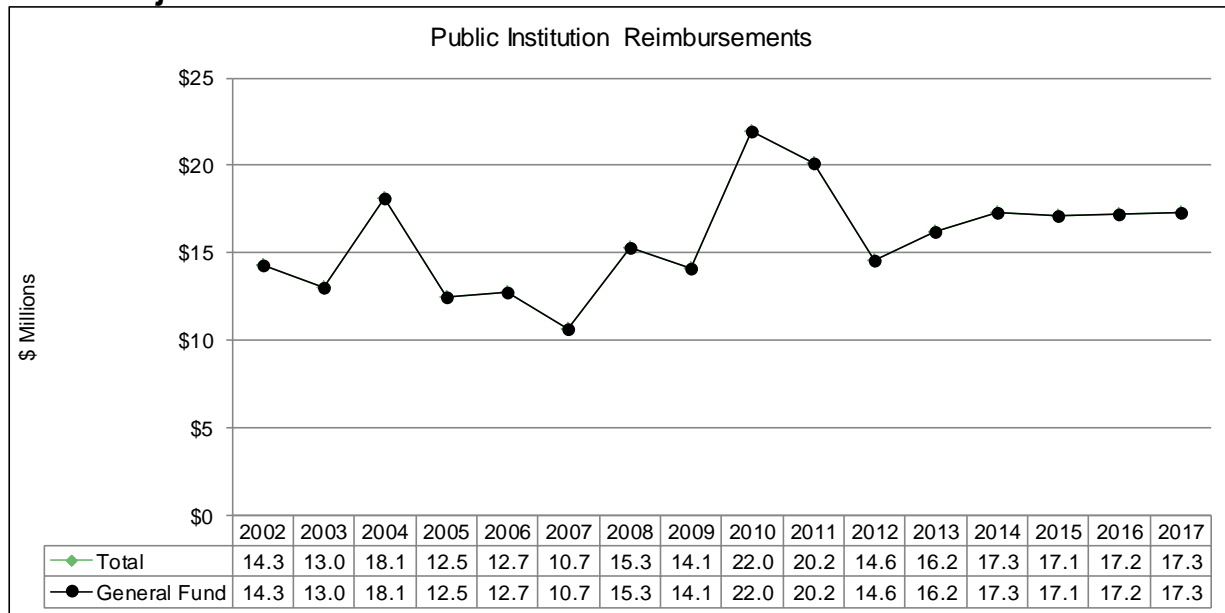
Analysis

Total reimbursements are calculated by summing the estimates for reimbursement in each of the facilities. These estimates are based on applying the most recent effective rates for reimbursement to forecasts for annual bed days. MDC population is forecast using a regression model over time. MMHNCC population is forecast with a regression model using the independent, IHS-provided values for Montana medical spending. MSH population is forecast with a regression model using the IHS variable for federal Medicare spending. MCDC population is forecast by applying the ratio of the previous year's Montana per capita income and the IHS projection for the current year's Montana per capita income to the previous year's population. MVH population is forecast using a regression model over time.

As seen in the figure below, the largest component of Montana's institutional reimbursements is Medicaid, followed by Medicare and private payments. Medicaid and Medicare payments are responsible for most of the variability in reimbursement collections, due to the changes in the Federal Medical Assistance Percentages (FMAP) for the state. The FMAP rates are set annually based on the state's relative per capita income.



**Revenue Projection**



## Tobacco Settlement

### Revenue Description

Montana receives tobacco settlement revenue per the Master Settlement Agreement (MSA) with 60 tobacco companies which concluded litigation with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities). The lawsuit and subsequent settlement were regarding tobacco-related health care costs. Montana currently receives an on-going annual payment and a “strategic contribution” payment that will expire after FY 2017.

### Statutory Reference

Tax Rate – N/A

Tax Distribution – [Montana Constitution, Article XII, Section 4](#); [17-6-606, MCA](#); [53-4-1011, MCA](#)

Date Due – Annual payments from settling entities due April 15<sup>th</sup> ([Master Settlement Agreement, Chapter IX\(c\)](#)), General Tobacco annual payments through 2016 due August 30<sup>th</sup> (General Tobacco Adherence Agreement)

### Applicable Tax Rates:

Funds received are subject to adjustments for various reasons including inflation, sales volume, loss of market share due to non-settling companies, operating income, settlements reaches by the non-participating states, offsets for litigation, disputed payments, and others.

Montana receives 0.4247591% of the total on-going annual payment, and 1.0447501% of the strategic contribution payment.

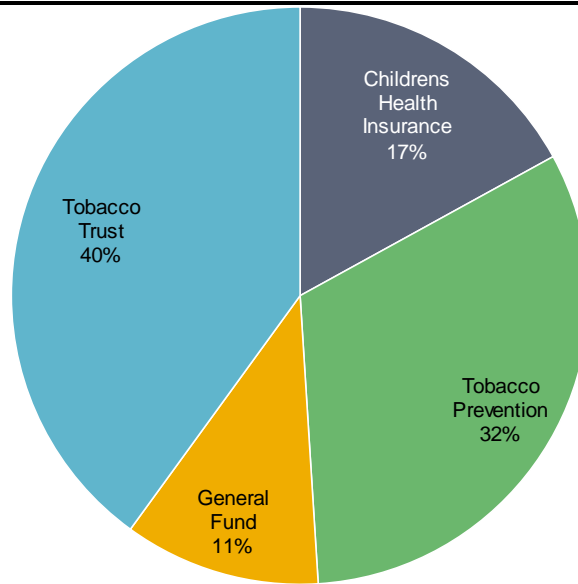
### Collection Frequency

Annual payments are expected each April 15<sup>th</sup> into perpetuity. General Tobacco, a subsequent participating manufacturer, is required to make annual payments every August 30<sup>th</sup> through 2016 for obligations incurred from 2000 to 2003.

### Distribution

The legislature is required to dedicate no less than 40% of tobacco settlement money to a permanent trust fund. The remaining revenue is distributed between the general fund, the Children’s Health Insurance Program state special revenue fund, and the Tobacco Prevention state special revenue fund.

The following chart shows the FY 2014 distribution of the tobacco settlement funds.



**Comparison of Legislative and Executive Forecasts**

There are no material differences between the legislative and executive branch forecasts.

Tobacco Settlement (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$3.280	\$3.200	\$3.110	\$9.590
Legislative Forecast	3.176	3.145	3.115	9.436
Difference	\$0.104	\$0.055	(\$0.005)	\$0.154
% Difference	3.3%	1.7%	-0.2%	1.6%

**Forecast Risks**

- Inflation
- Volume
- Changing market share for settling companies
- Payment disputes

**Revenue Estimate Methodology**

Data

PriceWaterhouseCoopers (PWC), the independent auditor to the agreement, gathers all tobacco settlement data and makes all the calculations required by the Master Settlement Agreement for determining the amount owed and the distribution. PWC provides detailed documentation of all calculations that is used to inform the model.

Analysis

The base amount of the settlement is a set value, the analysis and relies on forecasting the adjustments made to that base amount that will result in the final revenue. The adjustments calculated in the model are related to (1) inflation, (2) volume, (3) operating income, (4) states with prior tobacco settlements, (5) non-participating cigarette manufacturers.

1. Inflation – This adjustment cumulatively increases the amount owed by the greater of 3% or the amount of the Consumer Price Index for Urban Consumers. This is forecast using the CPI forecast provided by IHS.

**Other General Fund Sources**

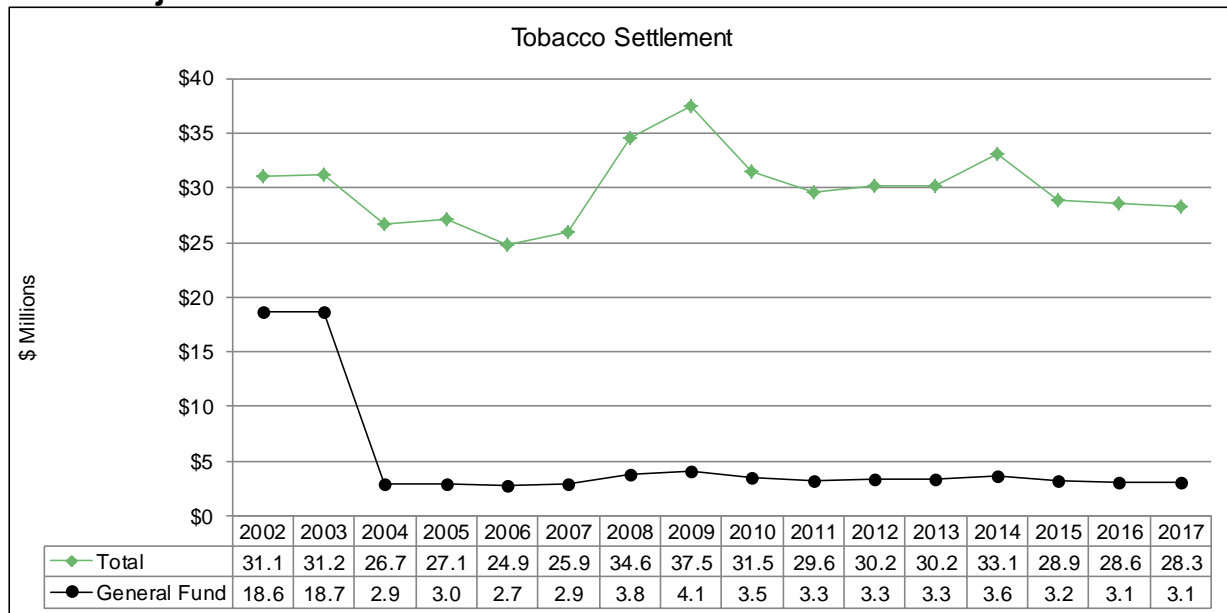
**Tobacco Settlement**

2. Volume – Payments are reduced as the number of cigarettes shipped nationally decreases. The current number of cigarettes is compared to the 1997 base number of 475.7 billion cigarettes. The analysis assumes that the historic trend in number of cigarettes shipped will continue through the biennium. Per the settlement agreement, the calculated adjustment is reduced by 2.0% and then applied.
3. Operating income – Payments increase if the aggregate operating income from the sales of cigarettes exceeds the 1996 base amount of \$7,060.840 million, as adjusted for inflation (see above). This adjustment has not been used since 2000 and therefore is not explained in this document.
4. Previous settling states – Previous to the Master Settlement Agreement, four states had settled lawsuits with certain cigarette manufacturers. The agreement recognized this by allowing reductions to the annual payments (as adjusted for inflation and volume) of 12.45% through FY 2007, 12.24% through FY 2017, and 11.07% thereafter.
5. Non-participating manufacturers (NPM) – If tobacco manufacturers who participate in the Master Settlement Agreement lose market share to those manufacturers who do not, their payments may be reduced, if certain criteria are met.

This adjustment is three times the market share loss of the participating manufacturers. Market share loss is determined by subtracting the current year market share of the participating manufacturers from 97.5835%. If the computed market share loss exceeds 16-2/3%, adjustments are made to account for loss of market share. For this to occur, the change in market share for all PM would have to fall to 80%. It is unlikely that this will occur. While this adjustment is not included as such, the estimate is reduced slightly because the participating manufacturers generally dispute a portion of a payment. FY 2014 was the first year that any disputed payment has completed the cycle of litigation, and the state received the disputed 2003 funds.

These forecast adjustments are applied to the base amount, and the result is the total revenue estimate.

**Revenue Projection**







# GUARANTEE ACCOUNT REVENUE



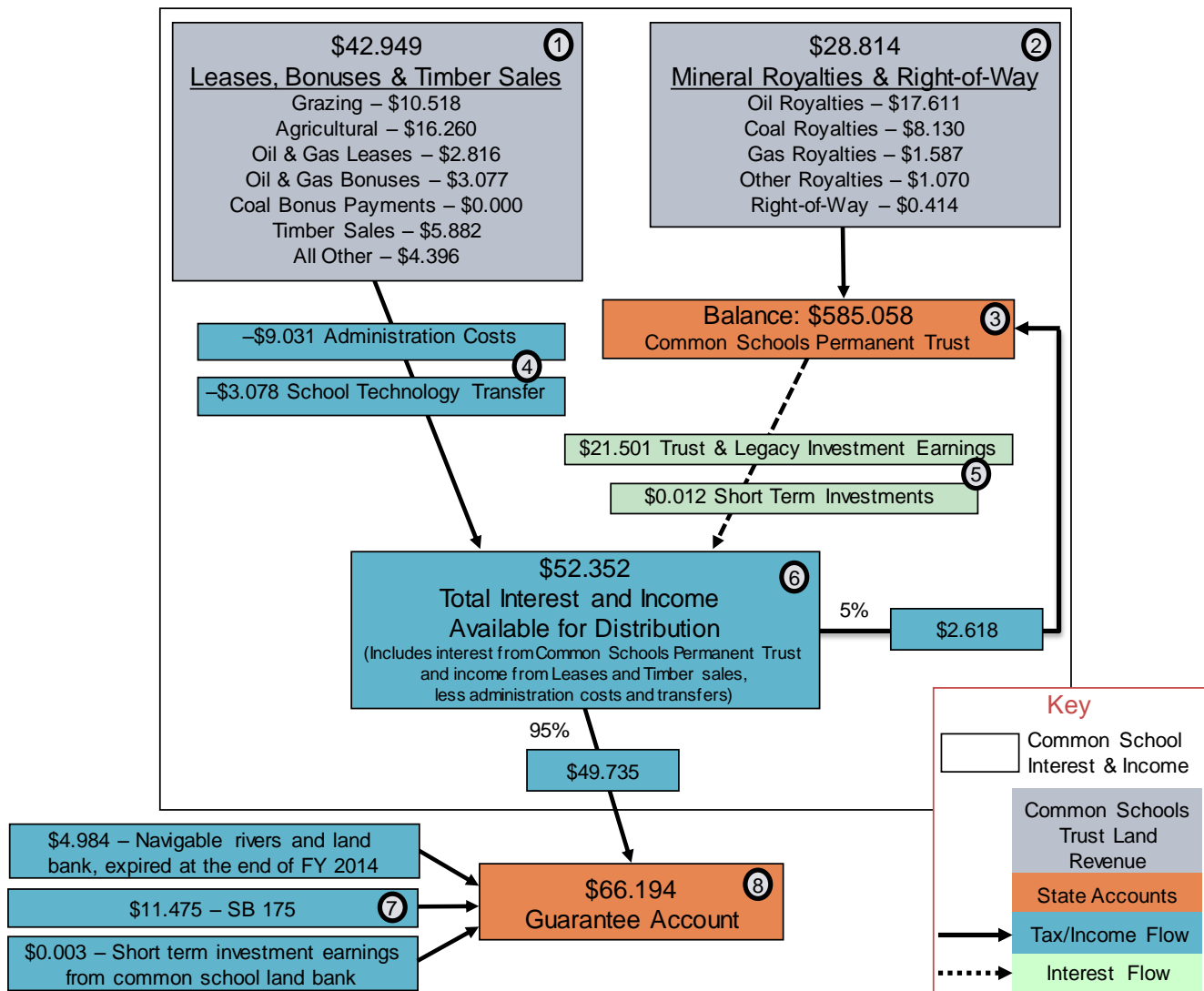


Guarantee Account

Revenue Description

The Guarantee Account is a state special revenue account dedicated as the first source of school funding. It primarily receives revenue generated from common school state land and the subsequent interest on the Common School trust account.

FY 2014 Guarantee Account Collections  
\$ Millions



**1** Leases, Bonuses & Timber Sales: Lands granted by the federal government to the state for the benefit of public schools generate income. Common school lands produce two kinds of revenue: 1) distributable income such as interest earnings, agricultural rents or crop shares, and timber sale revenue; and 2) permanent income that is returned to the trust as income from the sale of minerals, land, and easements.

Box 1 is the distributable income. This common school land revenue includes leases, bonuses and timber sales under 18 million board feet. Revenue from timber sales over 18 million board feet is transferred to the school facility and technology account ([20-9-516, MCA](#)).

## **General Fund Related Sources**

## **Guarantee Account**

② Mineral Royalties & Right-of-Way: This portion is deposited directly into the common schools permanent trust and includes sales of part of all of a piece of common schools trust land including extractable resources such as oil, natural gas, and coal.

③ Common Schools Permanent Trust: The [Enabling Act](#) states that “proceeds from the sale and other permanent disposition of any of the said lands and from every part thereof, shall constitute permanent funds for the support and maintenance of the public schools and the various State institutions for which the lands have been granted.” The Common Schools Permanent Trust is the permanent trust account in which school dedicated funds are held.

④ Costs & Transfer: The amount of revenue deposited to the guarantee account is net of amounts diverted for DNRC administration costs and those deposited directly to the school facility and technology account shown in Box 4. The administration costs diversion funds operational costs in DNRC for common school lands. The school facility and technology account receives timber revenue in excess of 18 million board feet ([77-1-218, MCA](#)). This reduces the amount of revenue distributable to the Guarantee Account.

⑤ Investment Earnings: Funds in the Common Schools Permanent Trust are invested by the [Montana Board of Investments](#), with the interest earned available for distribution. The majority of the revenue, the Trust & Legacy Investment Earnings, comes from fixed-income investments. A small amount comes from short-term investments which is interest on the cash when it comes into the Montana Board of Investments and before it is invested in the longer-term Trust Funds Investment Pool.

⑥ Common School Trust Land Interest and Income: This amount is commonly referred to as common school interest and income. It is comprised of the income from leases, bonuses, and timber (Box 1) less costs and transfers (Box 4), plus interest from the Common Schools Permanent Trust (Box 5). The money is distributed as follows:

- 95% is transferred to the state special revenue guarantee account which is statutorily appropriated for schools
- 5% is reinvested in the Common Schools Permanent Trust

⑦ Additional transfers to the Guarantee Account: The legislature has in the past transferred additional money into the Guarantee Account. In FY 2012 through FY 2014, navigable river revenues were redirected from the school facility and technology account to the common schools guarantee account as a result of [HB 165](#) (2011 Session). [SB 175](#) (2013 session) transferred \$11.5 million from the state general fund to the Guarantee Account to fund the ongoing costs of restructuring the K-12 funding formula. Finally, short-term investments from the common school land bank contribute to the Guarantee Account revenues.

⑧ Guarantee Account: This is the state special revenue fund ([20-9-104, MCA](#)) which is statutorily appropriated to schools in the form of BASE aid. It is comprised of common school interest and income and other appropriations and is the first source of state school funding (used before general fund).

**Statutory Reference:** [20-9-622, MCA](#)

**Applicable Tax Rates:** N/A

**Collection Frequency:** Revenue from the Department of Natural Resources and Conservation is distributed to the guarantee account in both February and June. Payments from other agencies vary from month to month.

**Distribution:** Statutorily appropriated to schools in the form of BASE aid

**Comparison of Legislative and Executive Forecasts**

The difference between the legislative and executive forecasts is primarily due to significant differences the SB 175 impacts.

Guarantee Account (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$49.477	\$48.231	\$53.605	\$151.313
Legislative Forecast	62.163	49.673	54.152	165.988
Difference	(\$12.686)	(\$1.442)	(\$0.547)	(\$14.675)
% Difference	-20.4%	-2.9%	-1.0%	-8.8%

**Forecast Risks**

- Oil price
- Interest rates
- Common core standards

**Revenue Estimate Methodology**

The revenue for this source is primarily based on the estimate for Common Schools Interest and Income. Please see that section for more information on the revenue estimate methodology. Estimates of other transfers are based on statute.

**Revenue Projection**

