

# **Revenue Estimates** as adopted by the **Revenue and Taxation Committee**

*Fiscal Years 2001, 2002 and 2003*



Prepared by the  
**Legislative Fiscal Division**

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***Legislative Fiscal Division***



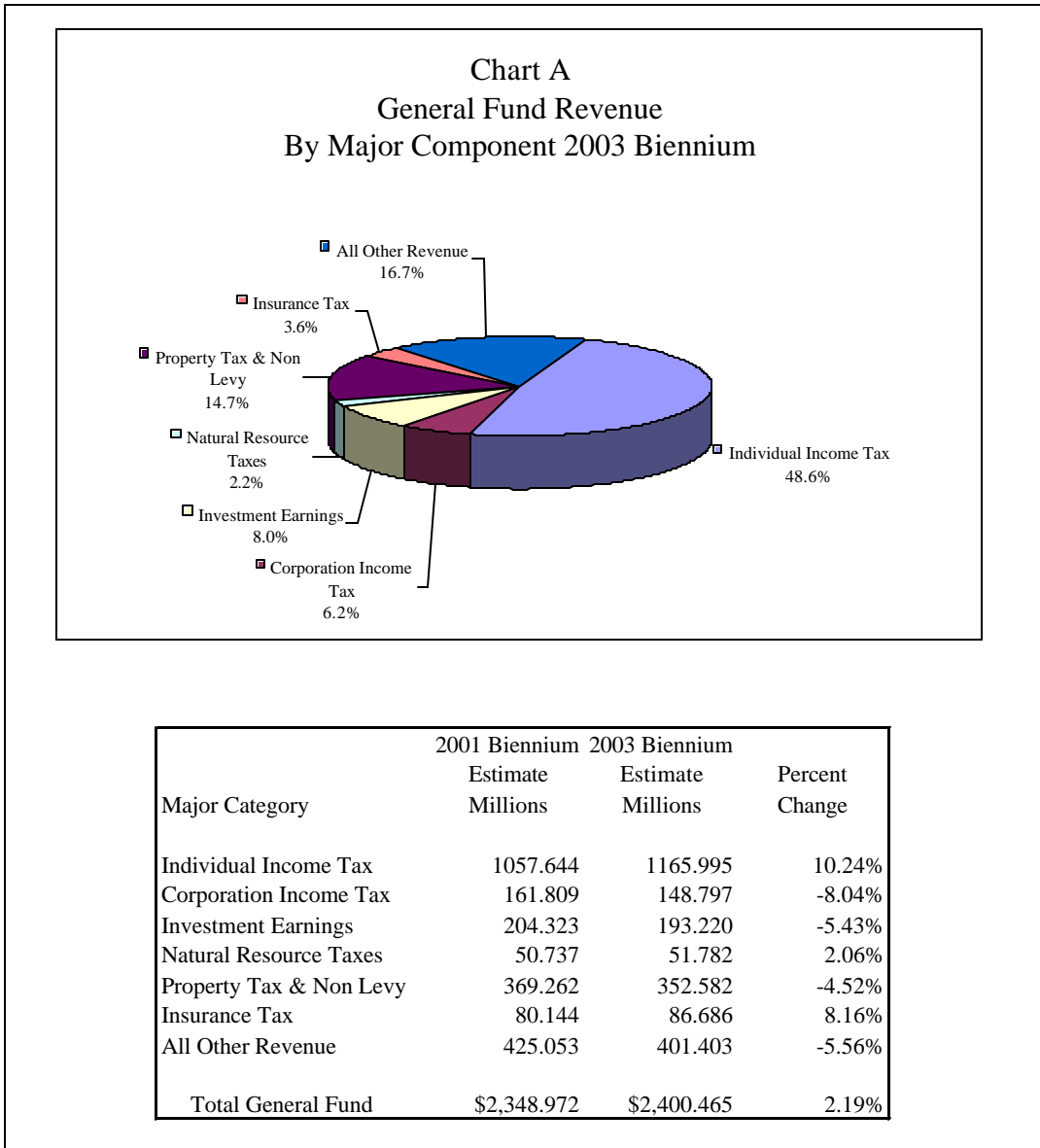
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# INTRODUCTION

The 2003 biennium budget for the state of Montana depends upon the current and future economic condition of the state, nation, and world. Rapidly changing technology, enhanced global economic interdependence, major changes in regional and international trade agreements such as NAFTA and GATT, and congressional response to our federal deficit, all have the ability to impact the state's economy more than ever before. Economic events occurring locally, as well as globally, can significantly affect tax receipts. Because of this potential impact, economic assumptions are clearly a vital component in formulating revenue estimates.

In developing revenue estimates, the key economic variables targeted as most affecting state government receipts are: Montana total income, Montana employment levels; inflation rates; corporate profits; property values; and interest rates. The reason these variables are so significant is illustrated in Chart A. As shown in the chart, individual income tax, corporation income tax, property tax, and investment earnings contribute over 77.0 percent to the total general fund revenue stream.



Total general fund revenues for the 2003 biennium are projected to increase 2.2 percent over the 2001 biennium projections. The comparative change by major revenue category is shown at the bottom of chart A.

## **PURPOSE**

As delineated in Section 5-18-107(1) (a), MCA, the Revenue and Taxation Committee (RATC) is required to prepare “an estimate of the amount of revenue projected to be available for legislative appropriation.” In addition, sections 5-12-302(2) and 5-12-307(7) specifically require the Legislative Fiscal Analyst (LFA) to “estimate revenue from existing and proposed taxes” and also requires the LFA to “assist the revenue and taxation committee in performing its revenue estimating duties...”.

The purpose of this report is to show the revenue estimates as adopted by RATC regarding anticipated revenues for fiscal year 2001 through 2003. It should be noted that the accompanying RATC 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 actions of the RATC.

## **THE GENERAL FUND REVENUE OUTLOOK**

General fund revenues in fiscal 2000 were above the estimate mainly because of strong growth in individual income tax collections and unanticipated one-time corporation income taxes.

The rate of growth in individual income tax revenues is expected to slow in fiscal 2001 when compared to fiscal 1999 and 2000, and increase about 5 percent in fiscal 2002 and 2003. Wage and salary income grew by only 4.3 percent in calendar 1999 compared with the rapid growth of 5.7 percent in calendar 1998. Growth in wage and salary income in calendar 2000 is expected to be 5.6 percent due to increased employment in construction, services and trade. However, growth in wage and salary income is expected to slow in calendar 2001 through 2003 to slightly above 4.5 percent per year, as a slowdown in corporate and business profits reduces hiring, and as inflation moderates.

Growth in capital gain income is also likely to moderate during the 2003 biennium. The rising stock market in the latter half of the 1990's provided a boost to state and national income tax revenues derived from capital gains. The stock market in calendar 2000 has been volatile, but is essentially no higher in November than it was in January. The outlook by many national forecasting firms for growth in the S&P 500 index in the next two years is for a slowly increasing market with high volatility where losses and gains are equally probable.

Corporate profits are expected to range from stable to a modest increase, while interest earnings will be down slightly because cash balances available for investment will be stable to declining. Revenues from natural resource taxes will be up due to higher prices for oil and natural gas. Finally, property tax revenue will decrease due to legislation enacted by Fifty-sixth Legislature.

Corporate profits during the 2001 biennium had a large one-time increase from the sale of Montana Power Company electrical generation assets and other significant one-time transactions. All but the telecommunications assets of the Montana Power Company have been offered for sale and buyers announced. These sales may produce another windfall in corporate taxes in the future, but the uncertainty regarding their level and timing is unknown. The RATC estimates do not include revenue for the potential impact of these sale events.

Property tax revenues from real estate and vehicles will be down during the 2003 biennium, after remaining flat during the 2001 biennium. Most of this moderation and decline are the result of property tax cuts enacted by the Fifty-sixth Legislature. The tax rate cuts included moderate reductions for residential and commercial real estate, agricultural land, and timberland, which offset the phase-in of the 1997 reappraisal values. In addition, large tax rate cuts were authorized for business equipment, electrical generation, and telecommunications property. To partially offset these property tax revenue declines, the Fifty-sixth Legislature increased tax rates on wholesale sales of electrical energy and retail sales of telecommunications services.

Tax rate cuts for light vehicles were also enacted by the Fifty-sixth Legislature. Tax rates on light vehicles were reduced by 30 percent, and the legislature reallocated the remaining revenue almost entirely to local governments and schools. In November 2000, the populace voted on and approved an initiative to change the levy on light vehicles from a tax to a registration fee.

Economic conditions and the impact on state revenues are fairly certain for fiscal 2001. Current prices for oil, natural gas, and cattle are up relative to their levels in calendar 1998 and 1999. Oil and natural gas prices are expected to retract in calendar 2001. Business revenues and corporate revenues will be under pressure as the slowdown in the national economy begins to occur. In order for businesses and corporations to maintain net incomes, it is likely that business expansion will moderate, which should result in reduced hiring.

The outlook for the 2003 biennium is much less certain. The futures market for oil and natural gas prices has built-in steady price declines. Average national oil prices are expected to fall to between \$20 and \$22 per barrel in calendar 2002 and 2003, down from \$29 per barrel in 2000. Metals prices are expected to remain stable.

## **TOTAL GENERAL FUND REVENUE ESTIMATES**

Table 1 shows total general fund revenue estimates for fiscal years 2001, 2002, and 2003. Adjusted actual general fund collections for fiscal year 2000 are also provided.

**Table 1**  
**House Joint Resolution 2**  
**General Fund Revenue Estimates**  
 Figures In Millions

Source of Revenue	Percent of Total	Adj. Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Individual Income Tax	44.37%	\$516.262	\$541.382	\$569.469	\$596.526	\$1,057.644	\$1,165.995	48.57%
2 Property Tax	16.69%	194.197	175.065	173.754	178.828	369.262	352.582	63.26%
3 Corporation Income Tax	7.79%	90.683	71.126	73.653	75.144	161.809	148.797	69.46%
4 Common School Interest and Income	3.81%	44.296	47.924	42.621	43.600	92.220	86.221	73.05%
5 Insurance Tax & License Fees	3.38%	39.334	40.810	42.656	44.030	80.144	86.686	76.66%
6 Coal Trust Interest	3.37%	39.195	39.117	39.133	39.043	78.312	78.176	79.92%
7 US Mineral Royalty	1.65%	19.243	21.807	26.756	20.474	41.050	47.230	81.89%
8 All Other Revenue	1.76%	20.488	50.782	30.062	19.462	71.270	49.524	83.95%
9 Tobacco Settlement	2.99%	34.804	15.677	18.925	19.147	50.481	38.072	85.54%
10 Telecommunications Excise Tax	0.55%	6.366	16.833	17.234	17.692	23.199	34.926	86.99%
11 Video Gambling Tax	1.19%	13.851	13.828	13.796	15.107	27.679	28.903	88.20%
12 Treasury Cash Account Interest	1.38%	16.088	17.703	14.696	14.127	33.791	28.823	89.40%
13 Estate Tax	1.64%	19.039	19.691	17.118	10.097	38.730	27.215	90.53%
14 Oil & Natural Gas Production Tax	0.98%	11.363	14.188	12.407	11.985	25.551	24.392	91.55%
15 Motor Vehicle Fee	1.01%	11.716	12.954	11.772	12.004	24.670	23.776	92.54%
16 Public Institution Reimbursements	0.97%	11.345	11.141	10.583	10.968	22.486	21.551	93.43%
17 Coal Severance Tax	0.82%	9.502	8.918	9.073	9.058	18.420	18.131	94.19%
18 Liquor Excise & License Tax	0.62%	7.172	7.534	7.925	8.383	14.706	16.308	94.87%
19 Cigarette Tax	0.73%	8.464	8.222	8.057	7.889	16.686	15.946	95.53%
20 Investment License Fee	0.46%	5.390	6.081	6.580	7.119	11.471	13.699	96.10%
21 Lottery Profits	0.50%	5.841	6.197	6.281	6.372	12.038	12.653	96.63%
22 Liquor Profits	0.51%	5.900	5.659	5.977	6.267	11.559	12.244	97.14%
23 Nursing Facilities Fee	0.52%	6.055	5.533	5.547	5.575	11.588	11.122	97.60%
24 Foreign Capital Depository Tax	0.00%	0.000	0.000	0.000	0.000	0.000	0.000	97.60%
25 Electrical Energy Tax	0.41%	4.829	4.562	4.644	4.664	9.391	9.308	97.99%
26 Metalliferous Mines Tax	0.23%	2.703	4.063	4.706	4.553	6.766	9.259	98.38%
27 Highway Patrol Fines	0.35%	4.028	4.096	4.166	4.237	8.124	8.403	98.73%
28 Public Contractors Tax	0.19%	2.162	3.526	3.812	3.999	5.688	7.811	99.05%
29 Wholesale Energy Tax	0.16%	1.895	3.500	3.568	3.614	5.395	7.182	99.35%
30 Tobacco Tax	0.17%	2.017	2.137	2.265	2.400	4.154	4.665	99.55%
31 Driver's License Fee	0.20%	2.333	2.165	2.178	2.194	4.498	4.372	99.73%
32 Railroad Car Tax	0.18%	2.101	1.665	1.688	1.718	3.766	3.406	99.87%
33 Wine Tax	0.09%	1.017	1.059	1.107	1.156	2.076	2.263	99.97%
34 Beer Tax	0.03%	0.370	0.386	0.403	0.421	0.756	0.824	100.00%
35 Telephone License Tax	0.30%	3.491	0.000	0.000	0.000	3.491	0.000	100.00%
36 Long Range Bond Excess	<u>0.01%</u>	<u>0.101</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.101</u>	<u>0.000</u>	<u>100.00%</u>
Total General Fund	100.00%	\$1,163.641	\$1,185.331	\$1,192.612	\$1,207.853	\$2,348.972	\$2,400.465	100.00%

## NON-GENERAL FUND REVENUE ESTIMATES

Table 2 shows estimates for selected non-general fund revenue for fiscal years 2001, 2002, and 2003. These estimates were adopted because of their importance in the budgeting process.

**Table 2**  
**House Joint Resolution 2**  
**Non-General Fund Revenue Estimates**  
 Figures In Millions

Source of Revenue	Percent of Total	Adj. Actual Fiscal 2000	Estimated Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Estimated Fiscal 00-01	Estimated Fiscal 02-03	Cumulative % of Total
1 Diesel Tax	15.63%	\$56.455	\$58.148	\$59.893	\$61.690	\$114.603	\$121.583	16.99%
2 Federal Forest Receipts	1.74%	\$6.283	\$7.437	\$10.714	\$10.856	13.720	21.570	20.00%
3 Gasoline Tax	36.15%	\$130.552	\$132.068	\$133.600	\$135.151	262.620	268.751	57.54%
4 GVW and Other Fees	9.75%	\$35.211	\$33.658	\$30.807	\$30.960	68.869	61.767	66.17%
5 Lodging Facility Use Tax	3.08%	\$11.120	\$11.621	\$12.144	\$12.692	22.741	24.836	69.64%
6 Resource Indemnity Tax	1.88%	\$6.793	\$3.140	\$2.904	\$2.809	9.933	5.713	70.44%
7 Vehicle Tax	20.76%	\$74.951	\$69.355	\$69.357	\$69.474	144.306	138.831	89.84%
8 Arts Trust Interest	0.07%	\$0.254	\$0.301	\$0.317	\$0.331	0.555	0.648	89.93%
9 Capital Land Grant Interest and Income	0.53%	\$1.914	\$0.425	\$0.570	\$0.889	2.339	1.459	90.13%
10 Deaf & Blind Interest and Income	0.07%	\$0.248	\$0.243	\$0.249	\$0.254	0.491	0.503	90.20%
11 Parks Trust Interest	0.29%	\$1.051	\$1.012	\$1.044	\$1.073	2.063	2.117	90.50%
12 Pine Hills Interest and Income	0.08%	\$0.300	\$0.308	\$0.315	\$0.325	0.608	0.640	90.59%
13 RIT Trust Interest	2.54%	\$9.184	\$7.467	\$7.582	\$7.609	16.651	15.191	92.71%
14 TSE Trust Interest	1.42%	\$5.123	\$6.173	\$7.088	\$7.952	11.296	15.040	94.81%
15 Property Tax: 6 Mill	3.65%	\$13.189	\$12.484	\$11.889	\$12.092	25.673	23.981	98.16%
16 Property Tax: 9 Mill	2.35%	\$8.481	\$6.418	\$6.512	\$6.660	14.899	13.172	100.00%
Total General Fund	100.00%	\$361.109	\$350.258	\$354.985	\$360.817	\$711.367	\$715.802	100.00%

## GENERAL FUND ACCOUNTING ADJUSTMENTS

Total general fund deposits in fiscal 2000 were \$1,182 million as recorded on the State Accounting, Budgeting, and Human Resources System (SABHRS), the official state accounting system. Table 3 shows the individual components that comprise this total. The top five revenue sources contributed 76 percent of the total. The largest single revenue source, individual income taxes, contributed 45 percent of total general fund collections.

Table 3 also shows adjustments to ten general fund revenue sources totaling \$18.0 million. The adjusted totals are used in the RATC revenue estimates. These unusually large number of adjustments (that will be made as prior year adjustments in fiscal 2001) to fiscal 2000 general fund revenues are necessary to adjust entries made by the Department of Revenue and other agencies to ensure an accurate Comprehensive Annual Financial Report for the state. Although these are the known general fund adjustments as of November 10, 2000, other adjustments may be necessary. In addition, many of these adjustments also affect funds other than general fund

**Table 3**  
**General Fund Receipts for Fiscal 2000**

Revenue Category	SABHRS Fiscal 2000 Receipts	Agency Adjustments	Adjusted Fiscal 2000 Receipts
Individual Income Tax	527,282,565	(11,020,653)	516,261,912
Property Tax	194,196,158		194,196,158
Corporation Income Tax	91,365,955	(683,283)	90,682,672
Common School Interest & Income	44,296,034		44,296,034
Insurance Tax & License Fees	39,333,537		39,333,537
Coal Trust Interest	48,703,777	(9,508,574)	39,195,203
Tobacco Settlement	34,804,411		34,804,411
All Other Revenue	24,670,127	(4,181,797)	20,488,330
US Mineral Royalty	14,300,545	4,942,409	19,242,954
Estate Tax	19,038,785		19,038,785
Treasury Cash Account Interest	16,088,271		16,088,271
Video Gambling Tax	13,850,821		13,850,821
Motor Vehicle fee	11,715,716		11,715,716
Oil & Natural Gas Production Tax	11,362,741		11,362,741
Public Institution Reimbursements	12,041,175	(695,735)	11,345,440
Coal Severance Tax	7,894,957	1,607,400	9,502,357
Cigarette Tax	8,463,793		8,463,793
Liquor Excise & License Tax	7,171,721		7,171,721
Telecommunications Excise Tax	5,902,834	463,465	6,366,299
Nursing Facilities Fee	6,184,702	(129,755)	6,054,947
Liquor Profits	5,900,000		5,900,000
Lottery Profits	5,840,985		5,840,985
Investment License Fee	5,389,593		5,389,593
Electrical Energy Tax	3,609,467	1,219,535	4,829,002
Highway Patrol Fines	4,027,557		4,027,557
Telephone License Tax	3,490,590		3,490,590
Metalliferous Mines Tax	2,703,031		2,703,031
Driver's License Fees	2,333,182		2,333,182
Public Contractors Tax	2,162,223		2,162,223
Railroad Car Tax	2,100,600		2,100,600
Tobacco Tax	2,016,799		2,016,799
Wholesale Energy Tax	1,894,704		1,894,704
Wine Tax	1,016,538		1,016,538
Beer Tax	370,418		370,418
Long Range Bond Excess	100,766		100,766
<b>Grand Total</b>	<b>\$1,181,625,078</b>	<b>(\$17,986,988)</b>	<b>\$1,163,638,090</b>



## HOW TO USE THIS REPORT

The following report is arranged into seven main revenue sections. Each section contains revenue sources that share common characteristics, have many of the same assumptions, and have common estimating methodologies. The committee's time can be more efficiently used by considering those sources by section due to their commonalities. The seven main sections are:

1. Business Taxes
2. Natural Resource Taxes
3. Interest Earnings
4. Consumption & Sumptuary
5. Property Taxes
6. Other General Fund Revenue
7. Non-General Fund

The sections are marked by tabbed divider pages that list each revenue source within that section. The sources are arranged alphabetically within each section.

The report contains profiles of each revenue source estimated by the RATC. Fourteen categories of information are provided for each source. These categories and a short description of each follow:

**Revenue Description:** A brief description of the source is provided including the origin of the revenue and, in the case of taxes and fees, the item that is taxed.

**Applicable Tax Rate(s):** This section provides an explanation of the tax rate or license fee, more detail on the items that are taxed, and other information such as exemptions, minimums, initial versus annual fees, etc.

**Distribution:** This section shows how the revenue is distributed. In cases where uses or entities other than general fund receive a portion of the revenue, percentage distribution or the dollar amount is shown for each recipient.

**Collection Frequency:** Timing of the revenue deposited in the state treasury may affect the revenue estimate. Most revenue is usually received on a quarterly or monthly basis.

**Applicable Assumptions and/or Relevant Indicators:** The various types of information used or considered in the estimation process are listed.

**Data Source(s):** The various state agencies, federal agencies, companies, information systems, publications, fiscal notes, etc., that were consulted or reviewed in the estimation process are listed.

**Contacts:** The reader may contact these entities for more information about the revenue source.

**Statute:** These are the citations from the Montana Code Annotated (MCA) applicable to the revenue source.

**% of Total FY 2000 General Fund Revenue:** To give the reader an idea of the size of a particular revenue source, its percentage of total fiscal 2000 general fund revenue (as adjusted – see “Note” below) is provided.

**Revenue Estimate Methodology:** A general description of the revenue estimating methods and philosophy of the RATC is provided followed by a more detailed explanation of the methodology used to derive assumptions for the revenue source. Legislative impacts that have not been reflected in the tax base or the methodology are included. Methods differ between sources and may change each biennium depending on circumstances.

**Revenue Projection:** This section consists of a graph and accompanying data table. The line graph shows the amount of actual collections and the projected amounts for fiscal years 2001, 2002, and 2003. Total collections are depicted by a dark line while general fund collections are shown by a lighter line. The data table contains historic information about this data source since 1979 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal 2001, 2002, and 2003; and 4) the yearly percentage change in general fund.

**NOTE:** In ten of the general fund revenue sources, the graph is followed by a “Note” similar to this one. Due to the transition to a new state accounting system and other factors, an unusually large number of accounting errors occurred in fiscal 2000. The errors not only impact the general fund, but other funds as well. To correct these errors and ensure an accurate Comprehensive Annual Financial Report for the state, adjustments must be made in fiscal 2001 as prior year adjustments. All of these necessary adjustments may not be known at this time. The actual fiscal 2000 revenue shown in the table has been adjusted for these accounting errors, but has not been audited by the Legislative Auditor. The amount of the adjustments, as of November 10, 2000, is noted for each of the ten sources.

**Forecast Methodology:** Mathematical formulas used to derive the revenue estimate are shown with the applicable variables, derived variables, and definitions.

**Distribution Methodology:** The mathematical distribution formula is used to determine the portion of the revenue source that is deposited into the general fund.

**Data Tables:** In most cases, the data provided in these tables can be used in the formulas shown in the “Forecast Methodology” to derive the revenue estimate. The tables also show the revenue estimates for fiscal years 2001, 2002, and 2003, the estimated general fund amount, and, if applicable, distributions to other funds or uses.

The remaining portion of this document is the RATC revenue estimates by revenue source.