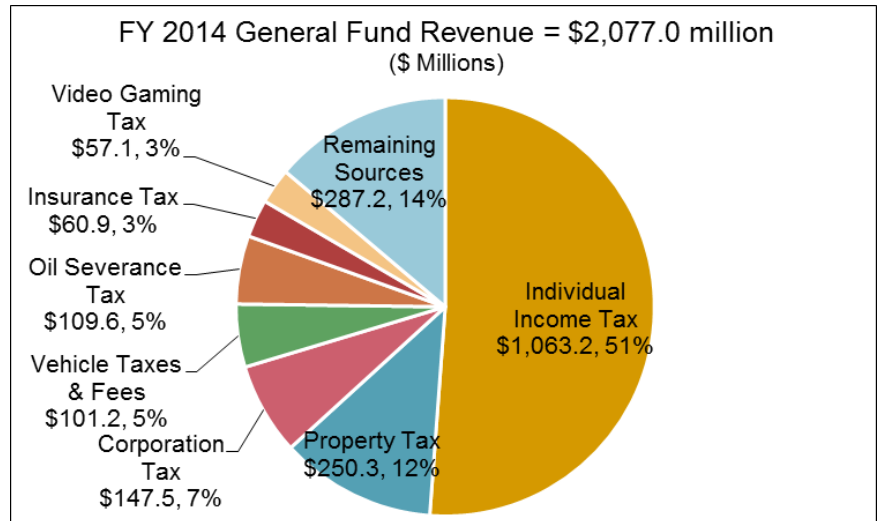
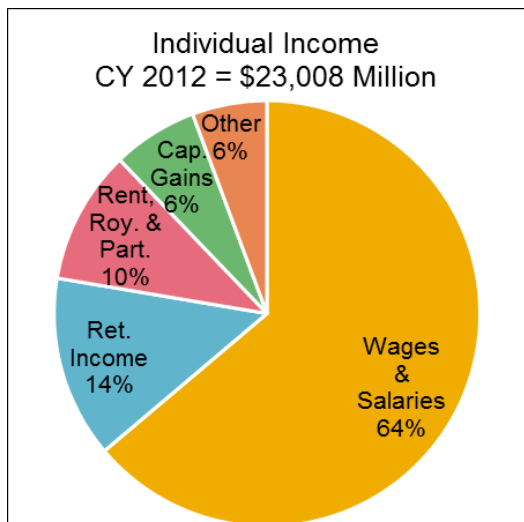


The focus of most general fund revenue reports is on the top seven revenue sources: individual income tax, property tax, corporation income tax, oil and natural gas taxes, vehicle taxes, insurance tax, and video gambling tax. In FY 2014, these sources accounted for 86% of total general fund revenue.

Due to their relative importance to overall general fund collections, increased scrutiny is given to the revenue forecasts of these sources, with particular attention given to base year data anomalies, modeling methodology and underlying economic variable forecast accuracy. In addition, particular attention is called out on the Treasury Cash Account Interest revenue source, due to its sensitivity to a potential federal funds rate increase.



Individual Income Tax



The tax simulation model is currently being updated with current federal provisions. CY 2013 return data will be available the first week of November.

Potential Questions

- How might income acceleration into CY 2012 as a result of the federal “fiscal cliff” be accounted for in the CY 2013 base data and subsequent years?

- How might the forecast growth for each income type be matched with a possible payment strategy—i.e., withholding or estimated and current year payments—to produce an outlook for quarterly revenue estimates? Under what conditions would a quarterly estimate provide useful information to the legislature?

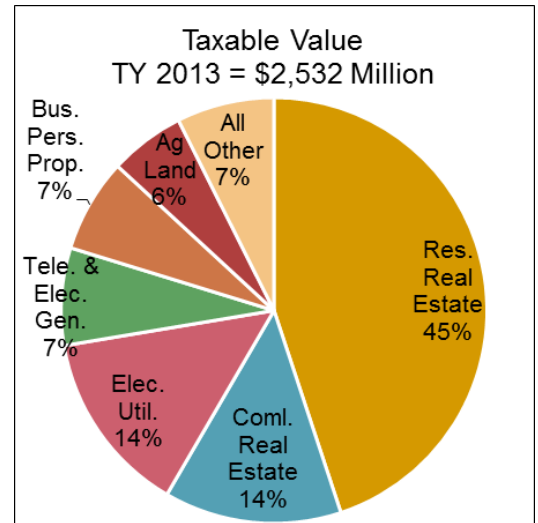
Notes:

Property Tax

Agricultural land, timber land, and residential and commercial land values are reappraised every six years; all other property classes are reappraised annually. The reappraisals are currently in process and will be the basis for FY 2016 property tax. Note that the November revenue estimate recommendation will be based on current law, which includes current tax rates and the reappraised values.

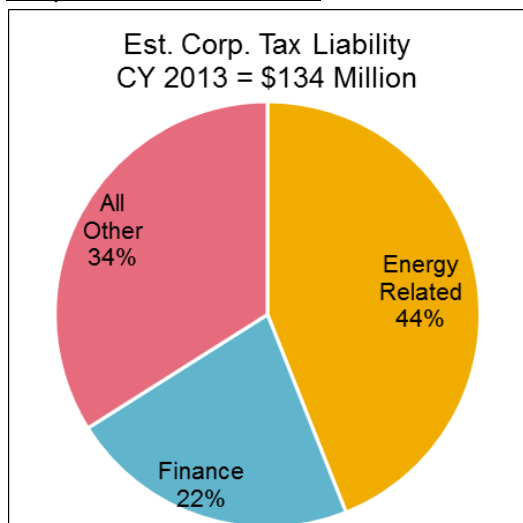
Potential Questions

- How will the increase in taxable value impact the property tax estimate? If the legislature chose to consider mitigating the increase as it has in the past, what would be a rough estimate of the revenue impact?



Notes:

Corporation Income Tax



As frequently noted, actual return data for this source is quite lagged: CY 2012 data will be available mid-October. Based on the [standard error analysis](#) of LFD revenue analyst Sam Shaefer, the sector-based modeling approach has been refined to minimize the error bounds of the corporation income tax revenue estimate.

Financial and energy related sectors are the largest contributors to corporation income tax liability. Primary economic drivers of this source include oil prices, median house price, and retail sales.

Potential Questions

- FY 2013 corporation tax was unusually high in part due to a one-time payment from a large company reorganizing as an LLC. Did the impact of this tax change show up in FY 2014? What are the implications for future corporation tax collections?

- Based on Mr. Schaefer’s standard error analysis, what are some next steps to improving the forecast of this volatile source?

Notes:

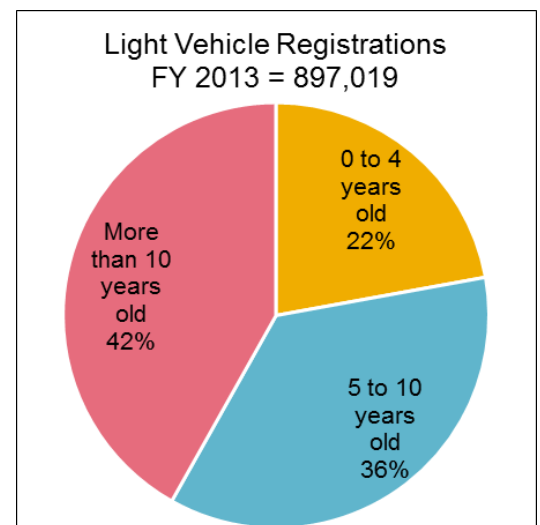
Vehicle Taxes & Fees

Revenue for this source is primarily generated by taxing light vehicles and a variety of other vehicles under a fee schedule that varies by age and weight. Light vehicles aged 0 to 4 years are taxed at \$217; vehicles aged 5 to 10 years cost \$87; and vehicles 11 years of age and older cost \$28, although there is the option to permanently register them for \$87.50.

Revenue from this source is forecast based on IHS estimates for new and used Montana car sales. Using these estimates, a growth rate in Montana’s vehicle stock is developed to apply to forecast years. The model is currently being updated to include detailed registration data available from the Department of Justice.

Potential Questions

- What is the revenue impact of permanent registration?
- How are demographic shifts—namely, the decreased reliance of younger generations on vehicle ownership—being accounted for in the estimate?



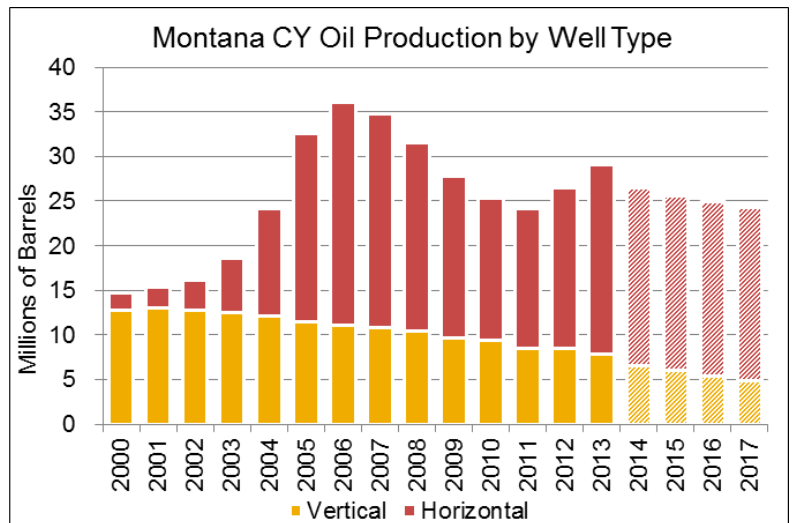
Notes:

Oil & Natural Gas Taxes

Oil production peaked in Montana in 2006, then fell 34% by 2011. Exploratory drilling in 2012 and 2013 resulted in an increase in production; the outlook expects a gradual decline as the surge in exploratory drilling has tapered off. The price of oil produced in Montana is less than the most quoted prices due to transportation costs to major markets.

Potential Questions

- Assuming fairly consistent WTI prices for the next few years, the decline curve for operational wells results in a forecast decrease in production. What changes would need to occur to increase the outlook?
- There is occasional discussion about the potential for CO2 tertiary recovery in some of Montana's older fields; at forecast prices and current technology, is it reasonable to anticipate this kind of activity in the next few years?
- What are some of the potential impacts of the new EPA regulations on oil and natural gas production?

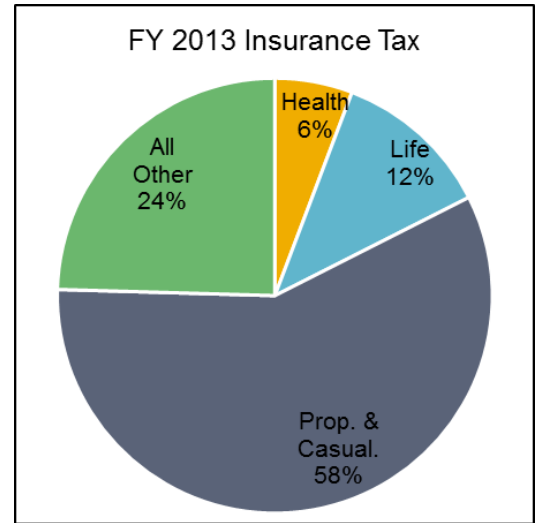


Notes:

Insurance Tax

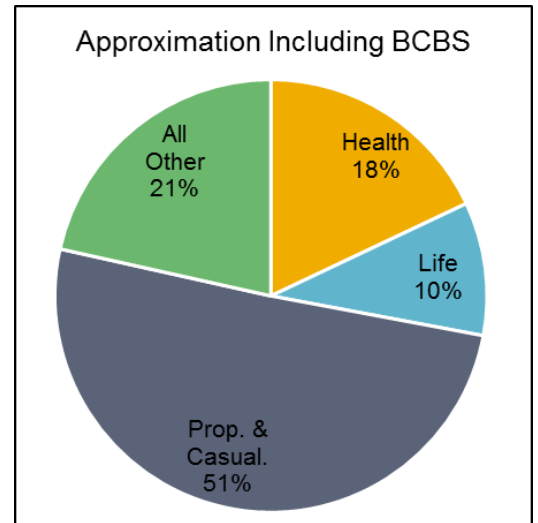
Two changes in FY 2014 will impact this revenue source: Blue Cross and Blue Shield (BCBS) was bought out by Health Care Services Corporation (HCSC) at the beginning of FY 2014 under terms that made all of its policies taxable where they had previously been exempt; and the implementation of the Affordable Care Act (ACA).

The State Auditor's Office has been very helpful with sharing data and explaining the various changes due to ACA. At this time, data is not yet available to determine what percentage of the increase in health insurance premiums bought through the exchange are new and/or taxable policies. The data is likely to be available in advance of producing the revenue estimate recommendation in November, and may inform modeling changes.



Potential Question

- Given the increased reliance on health insurance premiums, how might the change in health insurance premium costs impact this revenue source?

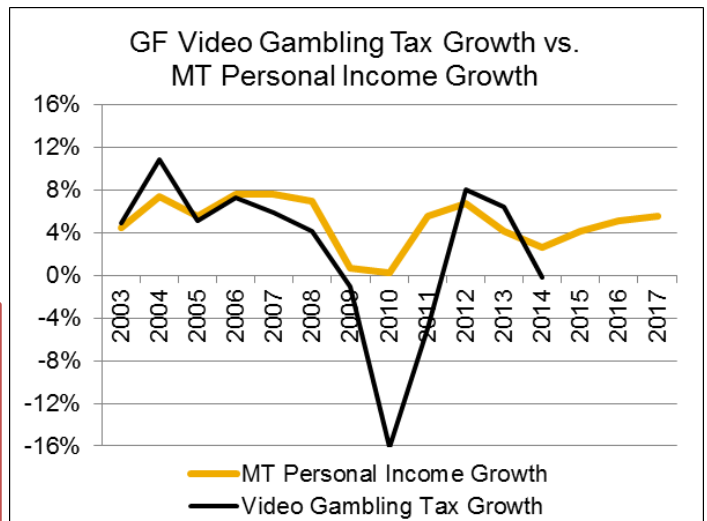


Notes:

Video Gambling Tax

Video gambling tax revenue is estimated using Montana personal income. After the sharp decline due to the recession and the implantation of the smoking ban, gambling revenue is growing again. The IHS outlook for Montana personal income suggests that revenue from this source will continue to increase throughout the forecast period.

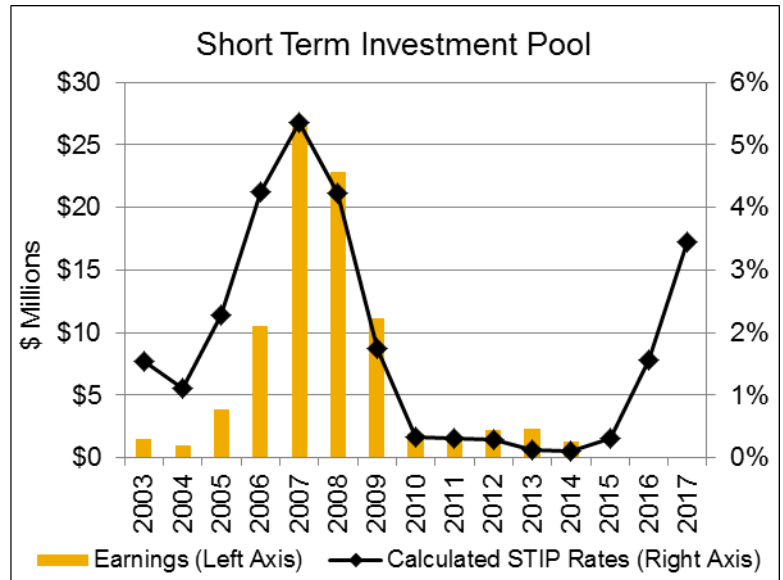
Notes:



Treasury Cash Account Interest

TCA interest earnings has been identified as an area of potential risk for the upcoming revenue estimate recommendation due to the IHS forecast of short-term interest rates: although the past several years have seen almost zero rates of return on short-term investments, the current outlook assumes a return to nearly 4% by the end of the forecast period. If realized, this increase would have an especially pronounced impact on treasury cash account earnings.

The IHS forecast for short term interest rates has expected an increase in the third year of the forecast for several years. While the rates are likely to increase from the currently very low levels, the current forecast may be high, especially when compared with previous forecasts and current actuals.



Potential Question:

- If the November release of the IHS forecast update continues to show a sharp increase in short term interest rates, what (if any) adjustments could be made to the forecast?

Notes & concluding remarks: