MAJOR GENERAL FUND TAXES
SECTION 3

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Revenue Description

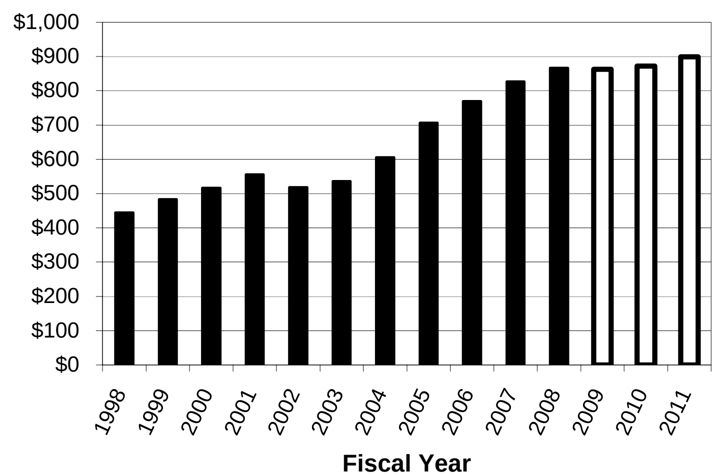
Title 15, Chapter 30, MCA, imposes a graduated individual income tax ranging from 1% to 6.9% on gross income, less exemptions and deductions. Taxpayers' Montana adjusted gross income is based on their federal adjusted gross income, but may be higher or lower because some types of income are taxed differently by the state and federal government. Itemized deductions for federal and state income tax are similar; however, while all state income tax may be deducted in calculating federal taxable income, the amount of federal income tax that may be deducted in calculating state taxable income is limited. Montana also allows a number of credits that may reduce taxpayers' liabilities.

Individual income tax is the largest source of revenue to the general fund, accounting for 45.8% of total general fund revenue in FY 2008. With the exception of FY 2005, all individual income tax revenue is allocated to the general fund. In FY 2005, about $1.1 million was allocated to pay for the Department of Revenue's new data processing system.

Table 1 shows actual individual income tax revenue for FY 1998 through FY 2008 and forecast revenue for FY 2009 through FY 2011. Revenues are expected to decrease slightly in FY 2009 and increase gradually in FY 2010. Although growth in FY 2011 is expected to increase, it is forecast to be relatively low.

Table 1
Individual Income Tax Revenue
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998	$444.191	9.3%
A	1999	$483.032	8.7%
A	2000	$516.262	6.9%
A	2001	$556.015	7.7%
A	2002	$517.568	-6.9%
A	2003	$535.831	3.5%
A	2004	$605.348	13.0%
A	2005	$706.219	16.7%
A	2006	$768.912	8.9%
A	2007	$827.095	7.6%
A	2008	$866.638	4.8%
F	**2009**	**$862.808**	**-0.4%**
F	**2010**	**$872.159**	**1.1%**
F	**2011**	**$898.883**	**3.1%**



Risks

- The estimate relies on the Global Insight forecasts for much of the data used in the model. If economic conditions change significantly over the next months, Global Insight's forecast will likely change as well.
- Global Insight includes both an optimistic and pessimistic scenario in its forecast service. The pessimistic scenario includes the following assumptions:
  - The financial crisis worsens
  - Credit markets remained clogged
  - Reduced consumer spending
  - Housing market continues to fall
- In the October forecast, Global Insight assigns a probability of 25% to the pessimistic scenario occurring. If actual economic conditions over the next several years follow the pessimistic scenario, then individual income tax collections for FY 2009 through FY 2011 are likely to be lower than forecast.

- Due to the dependence of Montana adjusted gross income on Federal adjusted gross income, changes in the federal tax code could have a significant effect on Montana income tax receipts. With a new administration in Washington D.C. beginning January 2009, federal tax changes for individual income taxes are probable. Holding all other factors constant, lower federal taxes result in higher state tax collections, while higher federal taxes reduce state tax collections.

Income by Category

Taxpayers report income on eleven lines on the tax return and these eleven income types are forecast separately. They can be organized into five general categories: wage, salary and tip income; ownership income; taxable retirement income; gains and losses; and interest income. Graph 1 shows these categories and their relative proportion of total taxable income.

Graph 1
Personal Income Reported by Full-time Residents for Tax Year 2007

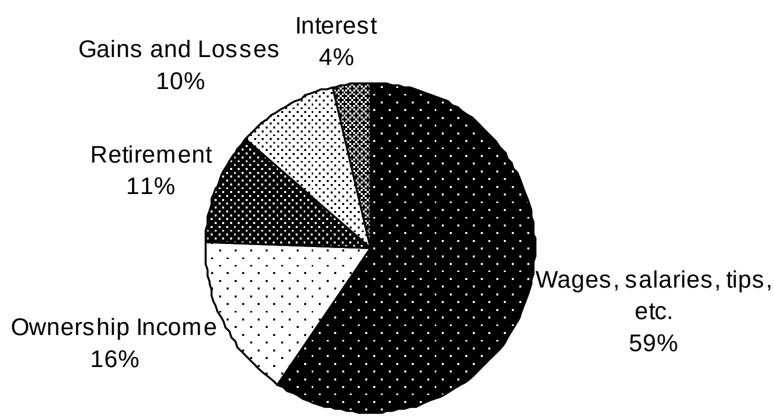


Table 2 provides more detail by showing the amount of income reported for CY 2007 by full-year residents and the percent of total reported income that category represents. The last column gives the average percent of total reported income for each category for the prior 11 years.

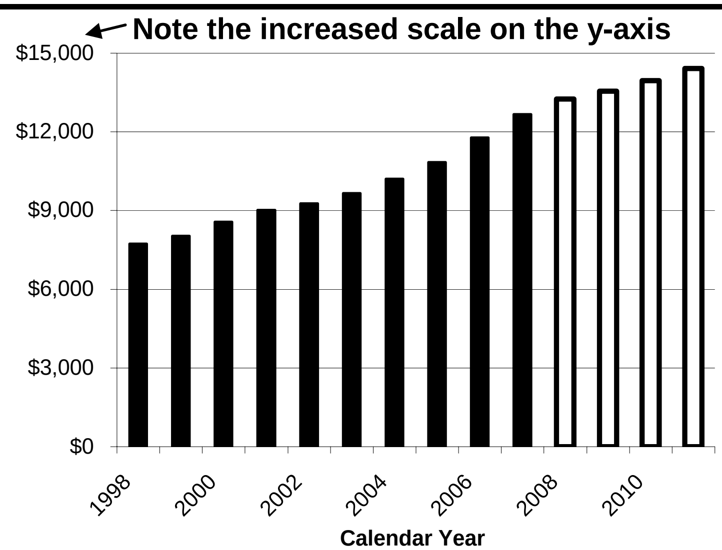
Table 2 Calendar Year Income ($ millions)			
Type of Income	CY 2007 Income	% CY 2007 Income	% CY 96-06 Income
Labor Income			
Wages, salaries, tips, etc.	$12,669.894	59.4%	64.1%
Ownership Income			
Rents, royalties, partnerships, etc.	$1,976.847	9.3%	7.5%
Net business income	$762.060	3.6%	4.5%
Dividend income	$619.819	2.9%	2.5%
Net farm income	-$155.989	-0.7%	-0.9%
Other income	$214.366	1.0%	-0.3%
Retirement			
Taxable portion of Soc. Sec.	$508.637	2.4%	1.9%
Taxable Pensions, IRAs	$1,812.789	8.5%	8.7%
Gains and Losses			
Capital gain or (loss)	$2,088.579	9.8%	7.6%
Supplemental gains or (losses)	$66.367	0.3%	0.4%
Interest			
Interest income	$756.826	3.5%	4.0%
TOTAL INCOME	**$21,320.194**	**100.0%**	**100.0%**

Tables 3-11 list historical and forecast income for most of the sub-categories above. At the end of each table, the significant factors for the forecast are listed, as is an estimate of the effect on the general fund of a 1% change in the income source. Forecast growth rates for the income sources, and deductions, reductions and credits are summarized in Table 12. All charts depict income reported by full-year residents.

Labor income

Table 3
Wage, Salary and Tip Income
($ millions)

Calendar Year		Wage, Salary and Tip Income	Percent Change
A	1998	$7,730.368	6.5%
A	1999	$8,026.893	3.8%
A	2000	$8,569.388	6.8%
A	2001	$9,013.441	5.2%
A	2002	$9,265.904	2.8%
A	2003	$9,649.687	4.1%
A	2004	$10,209.869	5.8%
A	2005	$10,840.674	6.2%
A	2006	$11,779.592	8.7%
A	2007	$12,669.894	7.6%
F	**2008**	**$13,253.216**	**4.6%**
F	**2009**	**$13,548.535**	**2.2%**
F	**2010**	**$13,954.846**	**3.0%**
F	**2011**	**$14,416.936**	**3.3%**



Significant Factors

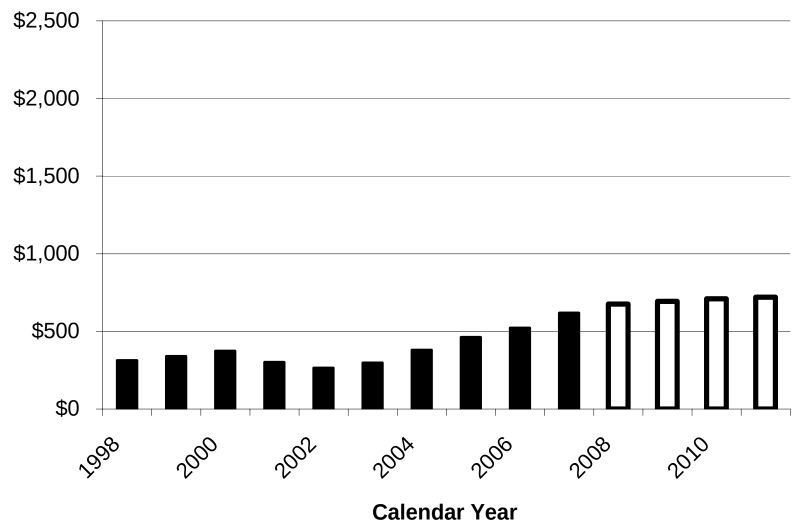
- Montana employment
- Average annual wages for major sectors of the state economy
- One percent change in Wages and Salary Income results in $7.5 million change in revenue collections

Note the fairly steady growth with sensitivity to national economic conditions, indicated by the slow growth during the recession of 2000 and a similar downturn beginning in 2007.

Ownership income

Table 4
Dividend Income
($ millions)

Calendar Year		Dividend Income	Percent Change
A	1998	$312.283	-3.4%
A	1999	$340.081	8.9%
A	2000	$374.794	10.2%
A	2001	$302.464	-19.3%
A	2002	$264.875	-12.4%
A	2003	$297.423	12.3%
A	2004	$379.386	27.6%
A	2005	$463.027	22.0%
A	2006	$521.734	12.7%
A	2007	$619.819	18.8%
F	**2008**	**$676.262**	**9.1%**
F	**2009**	**$693.522**	**2.6%**
F	**2010**	**$709.418**	**2.3%**
F	**2011**	**$721.584**	**1.7%**

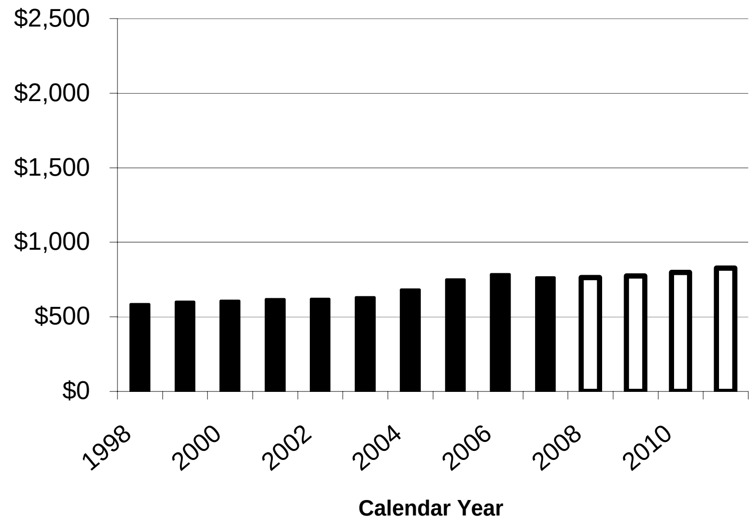


Significant Factors

- Montana dividends are highly correlated with their national equivalents
- One percent change in Dividend Income results in a $0.3 million change in revenue collections

Table 5
Net Business Income
($ millions)

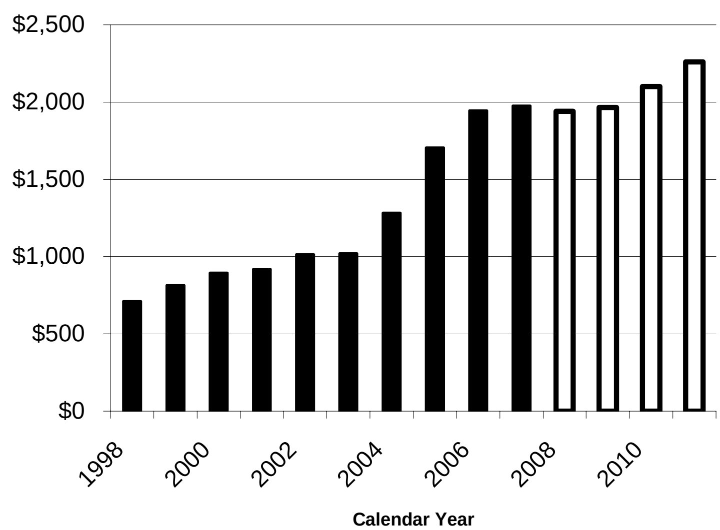
Calendar Year		Net Business Income	Percent Change
A	1998	$584.178	5.3%
A	1999	$599.189	2.6%
A	2000	$606.597	1.2%
A	2001	$617.943	1.9%
A	2002	$620.572	0.4%
A	2003	$629.701	1.5%
A	2004	$680.790	8.1%
A	2005	$749.588	10.1%
A	2006	$785.303	4.8%
A	2007	$762.060	-3.0%
F	**2008**	**$763.303**	**0.2%**
F	**2009**	**$772.834**	**1.2%**
F	**2010**	**$797.827**	**3.2%**
F	**2011**	**$826.510**	**3.6%**



Significant Factors
- The previous year's growth rate
- Growth rate of national proprietors' income
- Montana net business income is highly correlated with its national equivalent
- One percent change in business income results in a $0.4 million change in revenue collections

Table 6
Rents, Royalties & Partnership Income
($ millions)

Calendar Year		Rents, Royalties and Partnership	Percent Change
A	1998	$709.340	6.7%
A	1999	$813.250	14.6%
A	2000	$894.050	9.9%
A	2001	$917.394	2.6%
A	2002	$1,014.593	10.6%
A	2003	$1,019.724	0.5%
A	2004	$1,283.271	25.8%
A	2005	$1,704.629	32.8%
A	2006	$1,944.999	14.1%
A	2007	$1,976.847	1.6%
F	**2008**	**$1,939.508**	**-1.9%**
F	**2009**	**$1,964.979**	**1.3%**
F	**2010**	**$2,100.972**	**6.9%**
F	**2011**	**$2,260.859**	**7.6%**



Significant Factors
- The growth rate of rents and royalties income shows a strong relationship with national proprietors' income
- Mineral royalties have generally been reported in this category, and higher mineral, oil, and natural gas prices have contributed to recent growth

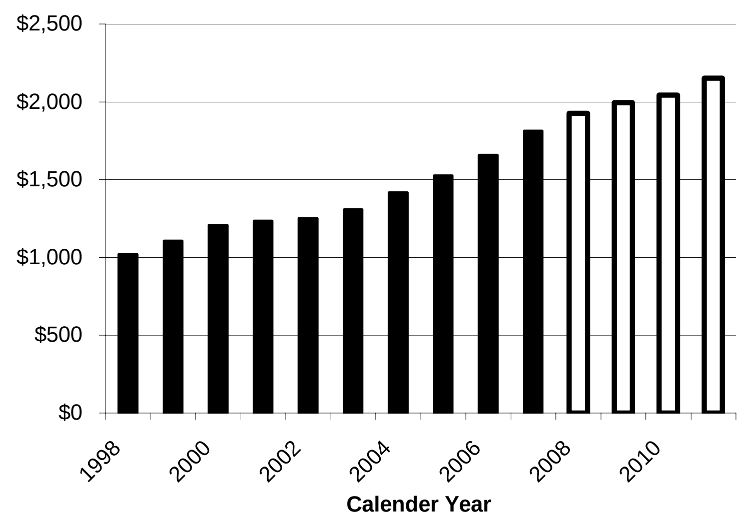
- By SB 439 (2007 Session), withholdings are required for mineral royalty payments; this is likely to increase revenue
- One percent change in rents and royalties income results in $1.0 million change in revenue collections

Net farm income has been negative in recent years and is expected to stay negative. It is projected using forecast beef and wheat prices from the U.S. Department of Agriculture and a time trend. The other income line is a catch-all for income that does not fit on the other lines. It is usually small and is forecast to grow at a rate based on historic trends.

Retirement income

Table 7
Pension and IRA Income
($ millions)

	Calendar Year	Pension & IRA Income	Percent Change
A	1998	$1,021.092	13.2%
A	1999	$1,107.481	8.5%
A	2000	$1,206.261	8.9%
A	2001	$1,233.690	2.3%
A	2002	$1,250.389	1.4%
A	2003	$1,307.739	4.6%
A	2004	$1,417.524	8.4%
A	2005	$1,524.803	7.6%
A	2006	$1,657.863	8.7%
A	2007	$1,812.789	9.3%
F	**2008**	**$1,925.976**	**6.2%**
F	**2009**	**$1,994.509**	**3.6%**
F	**2010**	**$2,042.327**	**2.4%**
F	**2011**	**$2,151.957**	**5.4%**

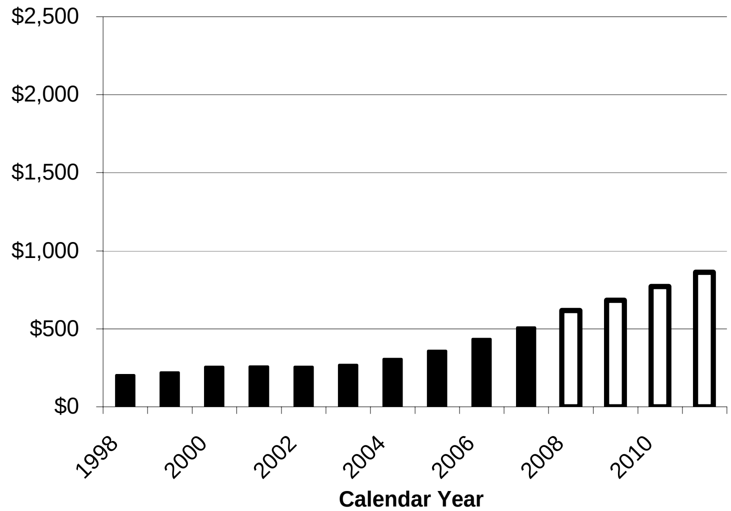


Significant Factors
- Prior years' S&P 500 stock price index
- Last year's U.S. gross domestic product
- One percent change in pensions and IRA income results in $0.8 million change in revenue collections

Growth of pension and IRA income slowed during the recession of 2000, but has otherwise remained fairly consistent.

Table 8
Taxable Social Security Income
($ millions)

Calendar Year		Social Security	Percent Change
A	1998	$202.846	10.9%
A	1999	$219.828	8.4%
A	2000	$255.297	16.1%
A	2001	$257.153	0.7%
A	2002	$254.249	-1.1%
A	2003	$267.287	5.1%
A	2004	$305.542	14.3%
A	2005	$359.184	17.6%
A	2006	$434.518	21.0%
A	2007	$508.637	17.1%
F	**2008**	**$617.867**	**21.5%**
F	**2009**	**$683.471**	**10.6%**
F	**2010**	**$771.955**	**12.9%**
F	**2011**	**$861.993**	**11.7%**



Significant Factors
- Inflation rates
- Montana population age 65 and older
- One percent change in Taxable Social Security Income results in $0.3 million change in revenue collections

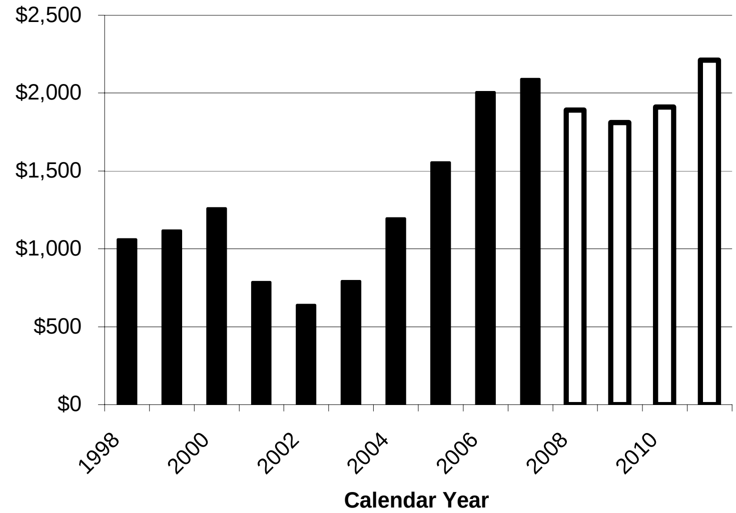
Like pension and IRA income, social security income flat-lined during the recession of 2000; it has since then grown quite rapidly. Because this income source is strongly dependent upon Montanans age 65 and older, and this population is expected to increase, the strong growth should continue.

<u>Gains and Losses</u>

Capital gains and supplemental gains are gains or losses from the sale of assets. Gains or losses on the sale of property used in the owner's trade or business, mineral rights, and business inventories are usually reported as supplemental gains. Gains or losses on the sale of other assets are generally reported as capital gains.

Table 9
Capital Gains Income
($ millions)

	Calendar Year	Capital Gains Income	Percent Change
A	1998	$1,060.174	29.5%
A	1999	$1,115.780	5.2%
A	2000	$1,259.720	12.9%
A	2001	$785.759	-37.6%
A	2002	$637.444	-18.9%
A	2003	$790.913	24.1%
A	2004	$1,193.177	50.9%
A	2005	$1,554.054	30.2%
A	2006	$2,006.021	29.1%
A	2007	$2,088.579	4.1%
F	**2008**	**$1,890.547**	**-9.5%**
F	**2009**	**$1,811.253**	**-4.2%**
F	**2010**	**$1,911.188**	**5.5%**
F	**2011**	**$2,211.297**	**15.7%**

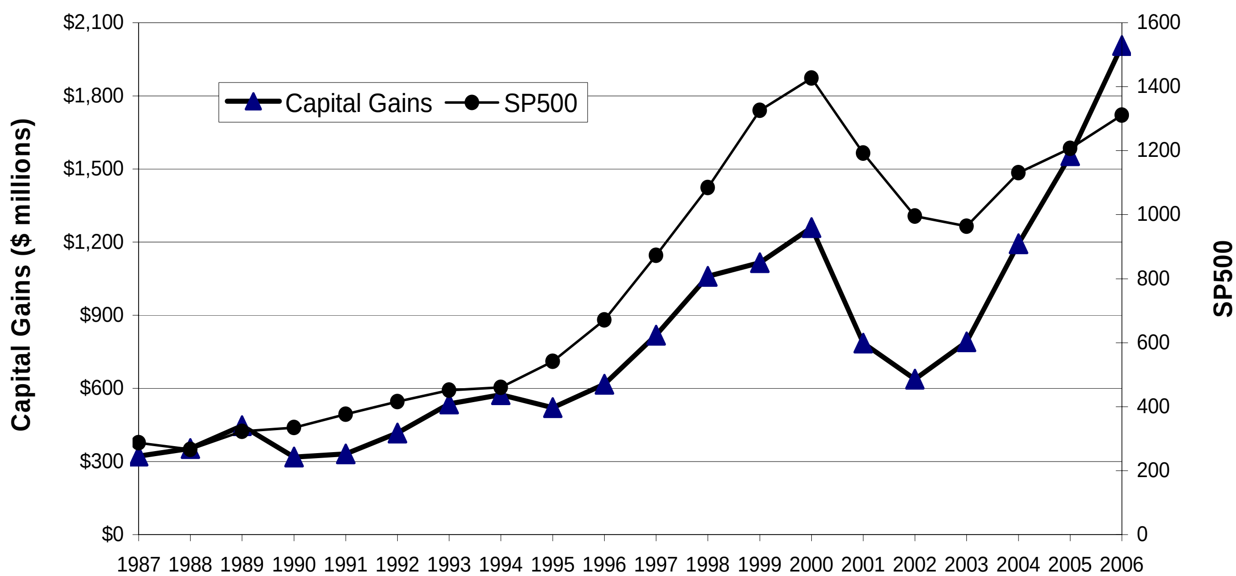


Significant Factors

- Stock prices serve as a general indicator of the value of assets; only a portion of capital gains are from sales of stocks, but stocks are the only assets for which reliable price data are available
- One percent change in capital gains income results in $1.1 million change in revenue collections

In Table 9, note the decline in capital gains income following the stock market crash of CY 2000. The relationship between stock prices and capital gains is depicted in Graph 2:

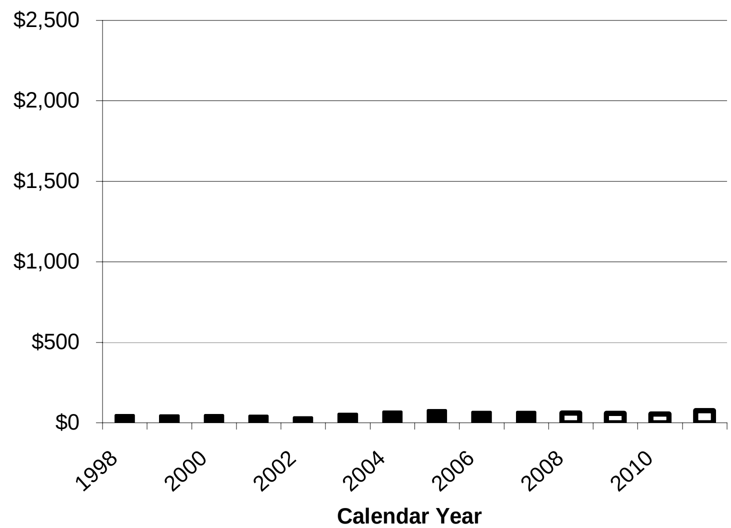
Graph 2
Capital Gains & SP500



The Jobs and Growth Tax Relief Reconciliation Act of 2003 included changes affecting long-term capital gains from sales on or after May 6, 2003, reducing the rates on many types of gains from asset sales. The legislation included language which sunset these lower capital gains rates in 2008 unless extended by Congress. In May 2006, Congress passed legislation extending the lower capital gains rates through 2010. In the past, people with assets that have appreciated have responded to changes in capital gains rates by selling assets to realize gains during periods when tax rates are lower. This is almost certain to have happened again, and part of the increase in capital gains in 2003 through 2005 reflects a one-time turnover of assets following the tax rate cuts in order to realize the gains.

Table 10
Supplemental Gains Income
($ millions)

	Calendar Year	Supplemental Gains Income	Percent Change
A	1998	$47.856	-7.0%
A	1999	$44.391	-7.2%
A	2000	$46.175	4.0%
A	2001	$42.906	-7.1%
A	2002	$32.565	-24.1%
A	2003	$55.547	70.6%
A	2004	$69.724	25.5%
A	2005	$77.631	11.3%
A	2006	$67.793	-12.7%
A	2007	$66.367	-2.1%
F	**2008**	**$62.136**	**-6.4%**
F	**2009**	**$58.747**	**-5.5%**
F	**2010**	**$55.913**	**-4.8%**
F	**2011**	**$74.383**	**33.0%**

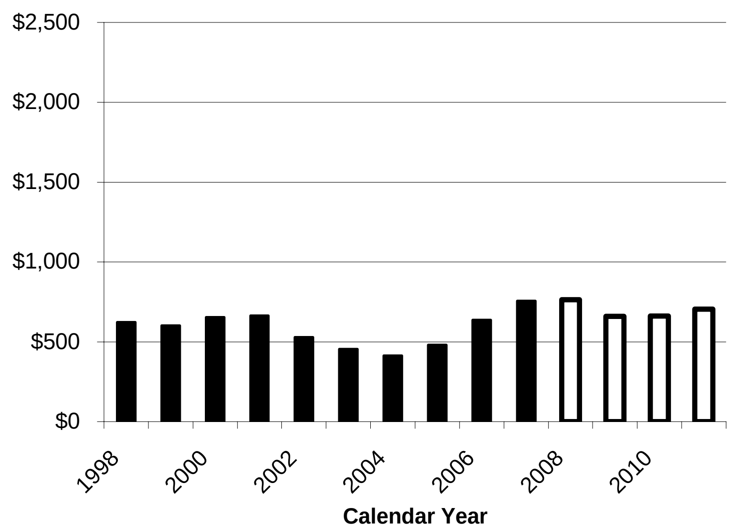


The swings in growth of supplemental gains income are tempered by the fact that it is small, contributing less that one percent of the overall revenue.

<u>Interest income</u>

Table 11
Interest Income
($ millions)

Calendar Year		Interest Income	Percent Change
A	1998	$621.815	4.5%
A	1999	$602.599	-3.1%
A	2000	$652.744	8.3%
A	2001	$662.617	1.5%
A	2002	$528.959	-20.2%
A	2003	$453.025	-14.4%
A	2004	$411.889	-9.1%
A	2005	$480.088	16.6%
A	2006	$636.780	32.6%
A	2007	$756.826	18.9%
F	**2008**	**$764.258**	**1.0%**
F	**2009**	**$658.981**	**-13.8%**
F	**2010**	**$662.056**	**0.5%**
F	**2011**	**$704.013**	**6.3%**



Significant Factors

- Growth in taxpayers' savings
- The current and last year's average rates on three-month certificates of deposits
- One percent change in interest income results in $0.3 million change in revenue collections

Forecast Methodology

Income tax revenue estimates are based on a computer program that calculates tax liability for individual income tax returns. Base line assumptions are listed in Table 12.

Before program implementation

- Growth rates for income and deductions must be estimated
- Future tax parameters, such as rate brackets and caps on deductions, must be calculated based on forecasts of inflation and any changes in state or federal law

The operating program

- Reads each full-year resident return in the latest year's income tax returns database
- Calculates current year's tax liability for each return
- Applies an annual growth rate to each of the income and deduction line items and calculates the next year's tax liability
- Repeats process, growing income and deductions and calculating tax liability, for each year of the forecast

Once the simulation program has estimated future years' tax liability for full-year resident taxpayers who filed in the past year, adjustments are made to produce projected fiscal year collections for all filers.

Adjustments are made for

- Projected population growth
- Changes to state and federal tax law
- Calendar year tax liability and additional revenue from less than full-time residents
- Reduced revenue due to credits
- Conversion from calendar year to fiscal year collections

- Accounting for revenue from audits, penalties and interest not already included in the base calculations
- Other adjustments, such as additional refunds

Data Sources

Revenue data is from SABHRS and the Department of Revenue. Estimated audit revenue for future years is from the Department of Revenue. Past employment and wage data is from the Bureau of Labor Statistics, U.S. Department of Labor. Commodity market estimates for future years is from the Economic Research Service, U.S. Department of Agriculture. Inflation estimates used in estimating certain future tax bracket and other tax data were from the Congressional Budget Office. Employment, wage, interest rates, and other economic data forecasts are from Global Insight's October 2008 forecast.

Table 12
Historic and Projected Growth Rates for Line Items

INCOME ITEMS	Historical Growth Rates							Projected Growth Rates					
	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
FEDERAL AGI ITEMS													
Wages, salaries, tips, etc.	5.18%	2.80%	4.14%	5.81%	6.18%	8.66%	7.56%	4.60%	2.23%	3.00%	3.31%	3.85%	3.94%
Interest income	1.51%	-20.17%	-14.36%	-9.08%	16.56%	32.64%	13.52%	0.98%	-13.78%	0.47%	6.34%	6.04%	0.45%
Dividend income	-19.30%	-12.43%	12.29%	27.56%	22.05%	16.74%	11.86%	9.11%	2.55%	2.29%	1.71%	-0.09%	-0.62%
Net business income	1.87%	0.43%	1.47%	8.11%	10.11%	4.76%	-2.96%	0.16%	1.25%	3.23%	3.60%	4.85%	5.09%
Capital gain or (loss)	-37.62%	-18.88%	24.08%	50.86%	30.25%	29.08%	4.12%	-9.98%	-9.35%	3.45%	18.53%	14.07%	12.50%
Supplemental gains or (losses)	-7.08%	-24.10%	70.57%	25.52%	11.34%	-12.67%	-2.10%	-6.38%	-5.45%	-4.82%	33.03%	-3.77%	-4.91%
Rents, royalties, partnerships, etc.	2.61%	10.60%	0.51%	25.84%	32.83%	14.10%	1.64%	-1.89%	1.31%	6.92%	7.61%	10.64%	9.33%
Taxable IRAs and pensions	2.27%	1.35%	4.59%	8.40%	7.57%	8.73%	7.61%	6.24%	3.56%	2.40%	5.37%	5.84%	6.13%
Taxable portion of Soc. Sec.	0.73%	-1.13%	5.13%	14.31%	17.56%	20.97%	17.06%	21.48%	10.62%	12.95%	11.66%	12.74%	9.18%
Net farm income	-45.38%	-39.86%	7.18%	4.51%	9.80%	-39.87%	11.44%	-4.03%	13.03%	7.54%	4.09%	4.48%	7.66%
Other income	-1.48%	6.45%	-20.06%	-7.02%	-3.32%	1.45%	479.53%	-10.17%	-9.23%	-8.45%	-7.79%	-7.23%	-6.74%
Adjustments to Income	1.28%	23.21%	15.69%	7.28%	7.28%	7.73%	9.79%	3.14%	5.20%	6.35%	6.99%	7.33%	7.52%
ADDITIONS:													
Interest on state, county, bonds	4.78%	-2.97%	4.01%	6.47%	-0.07%	50.43%	10.98%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal income tax refunds	10.24%	21.34%	3.88%	5.72%	-7.04%	-41.50%	-0.93%	7.73%	7.73%	7.73%	7.73%	7.73%	7.73%
Other additions	0.73%	2.63%	18.14%	15.70%	-25.27%	30.65%	-7.99%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
REDUCTIONS:													
Farm risk management account	0.00%	0.00%	1309.10%	-98.89%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	0.09%	-7.40%	-7.41%	-5.24%	4.97%	14.21%	na	na	na	na	na	na	na
Exclusion for savings bonds	-12.81%	-30.61%	-20.93%	-7.70%	12.93%	16.41%	13.96%	-7.14%	0.76%	6.88%	8.25%	0.92%	0.25%
Exempt pension income	3.30%	2.98%	0.96%	0.96%	0.96%	-1.30%	na	na	na	na	na	na	na
Unemployment income	17.40%	31.53%	9.50%	-21.39%	-16.24%	4.02%	7.12%	30.18%	22.19%	6.06%	-1.03%	-3.04%	-3.88%
Medical savings account excl.	21.63%	20.56%	14.70%	21.74%	3.43%	10.03%	5.36%	8.82%	8.10%	7.49%	6.97%	6.52%	6.12%
Family education account excl.	61.24%	60.42%	20.15%	13.52%	-6.55%	7.60%	6.57%	9.96%	9.06%	8.30%	7.67%	7.12%	6.65%
First-time homebuyers acct. excl.	23.47%	1.76%	14.94%	-18.84%	4.42%	-19.78%	-8.29%	1.39%	1.39%	1.39%	1.39%	1.39%	1.39%
Other reductions	6.46%	5.44%	6.83%	10.51%	12.06%	8.13%	9.15%	8.13%	8.13%	8.13%	8.13%	8.13%	8.13%

Table 12
Historic and Projected Growth Rates for Line Items (continued)

	Historical Growth Rates							Projected Growth Rates					
ITEMIZED DEDUCTIONS:	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
Medical insurance premiums	8.97%	9.89%	-1.99%	7.25%	6.03%	6.47%	3.15%	6.34%	6.34%	6.34%	6.34%	6.34%	6.34%
Medical deduction	9.95%	9.71%	6.12%	9.27%	5.73%	2.67%	4.87%	6.97%	6.97%	6.97%	6.97%	6.97%	6.97%
Long-term care insurance	4.14%	12.98%	8.86%	6.81%	3.53%	12.69%	13.92%	6.42%	6.03%	5.69%	5.38%	5.11%	4.86%
Balance of federal tax	2.51%	-21.55%	-5.09%	-11.00%	5.21%	86.93%	23.55%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Additional federal tax	61.28%	-31.92%	17.64%	0.55%	-20.23%	4.36%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Property taxes	3.70%	10.66%	5.99%	7.44%	0.05%	6.39%	4.34%	6.11%	6.11%	6.11%	6.11%	6.11%	6.11%
Motor veh. and other deductible taxes	-18.12%	11.63%	3.00%	10.16%	26.69%	-2.26%	-18.95%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Home mortgage interest	7.03%	4.15%	-1.05%	4.24%	9.81%	7.44%	14.52%	7.87%	7.87%	7.87%	7.87%	7.87%	7.87%
Deductible investment interest	-9.45%	-22.57%	-12.23%	12.34%	38.17%	42.27%	9.89%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contributions	3.57%	13.05%	-2.26%	11.23%	6.55%	3.58%	42.01%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%
Child/dependent care expenses	-7.59%	1.57%	2.18%	-9.36%	-3.22%	-3.49%	5.73%	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%	-2.33%
Casualty and theft losses	-56.20%	41.33%	-8.03%	-11.86%	23.74%	5.25%	-36.59%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Tier I - Miscellaneous	9.07%	3.81%	0.45%	9.13%	8.53%	-1.56%	10.58%	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%
Tier II - Miscellaneous	-0.26%	13.45%	67.50%	-31.04%	7.25%	-1.56%	-40.36%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Gambling Losses	-14.98%	0.14%	-3.55%	22.97%	28.25%	8.20%	12.62%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
CREDITS													
Capital gains tax credit					$15,361,935	$19,599,422	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly homeowner/renter tax credit					$7,853,725	$7,482,107	-6.32%	16.33%	1.47%	1.44%	1.42%	1.40%	1.38%
Physician credit for rural practice	$284,082	$405,666	$338,643	$336,829	$252,400	$208,980	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
College contribution credit	$165,451	$166,369	$148,470	$171,903	$206,886	$246,533	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Charitable endowment credit	$7,410,957	$1,610,509	$2,138,608	$2,502,605	$2,491,431	$3,164,764	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Elderly care credit	$64,247	$27,493	$21,041	$27,911	$55,257	$53,497	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Other state/foreign tax credit	$13,501,613	$14,013,510	$14,479,498	$17,407,297	$18,854,161	$23,043,200	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Contractor's gross receipts credit	$649,632	$613,178	$776,635	$804,843	$1,024,102	$1,657,462	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Investment credit	$4,765	$1,756					0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Alternative energy systems credit	$40,193	$228,283	$300,489	$445,967	$640,431	$677,311	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Energy conservation credit	$201,445	$1,305,788	$2,440,965	$3,098,479	$5,623,446	$7,933,053	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Alternative energy production credit	$3,220	$13,312	$11,174	$16,982	$11,090	$20,858	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Recycling credit	$102,071	$66,369	$121,309	$307,678	$410,815	$757,543	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Alternative fuels credit	$2,924	$8,845			$25,283	$19,109	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Montana capital company credit	$170,001	$159,288			$49	$25	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Dependent care assistance credit	$538	$3,897	$8,484	$6,208	$8,818	$9,755	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Employee health insurance credit	$93,618	$61,113	$137,398	$427,460	$517,110	$559,023	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Infrastructure users fee credit	$0	$0			$851,766	$778,095	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Historic building preservation credit	$71,980	$74,777	$17,810	$97,748	$51,297	$200,670	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Developmental disability account credit				$1,050	$2,715	$1,000	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Empowerment zone credit				$365	$969	$17,201	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%
Other Credits	$901,516	$194,885	$178,460	$808,488	$195,285	$372,890	8.49%	7.83%	7.26%	6.77%	6.34%	5.96%	5.63%

Revenue Description

Property tax revenue is collected directly from mills levied on property, and indirectly from non-levy revenue sources. The state general fund receives property tax revenue from school equalization mill levies of 22, 33, and 40 mills (commonly referred to as the 95 mill levy) levied statewide and 1.5 mills levied on property in counties with colleges of technology. The tax rates for each class of property are set in Title 15, Chapter 6, Part 1, MCA.

The state receives revenue from non-levy sources that are shared with local taxing jurisdictions based on the share of mills levied in the respective taxing jurisdictions. Non-levy revenues consist of coal gross proceeds, federal forest receipts, and other smaller revenue sources.

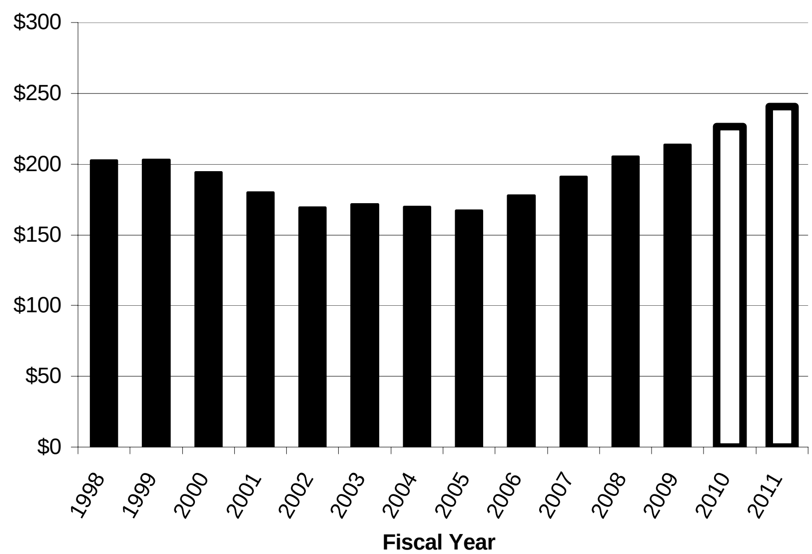
Property tax is the largest revenue source statewide. The state, local governments, school districts, and special improvement districts collected over $1.2 billion in property taxes and related fees in FY 2008. Table 1 shows that state mills and non-levy revenues generated $205.036 million in state general fund revenue in FY 2008.

Tax year 2009 is the first year of a new six-year reappraisal cycle for agricultural land, commercial and residential real property, and forest land. Current law fixes tax rates and exemptions at their tax year 2008 values and requires that the increase in assessed value due to reappraisal be added in one-sixth increments each year of the reappraisal cycle per 15-7-111, MCA. Reappraisal data are not yet available as such this estimate used the reappraisal simulation developed with the Legislative Fiscal Division to estimate reappraisal growth on revenue pending the availability of final reappraisal data.

Table 1 shows actual general fund revenue from property tax for FY 1998 through FY 2008 and forecast revenue for FY 2009 through FY 2011.

Table 1
Property Tax Revenue
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998	$202.350	-3.3%
A	1999	$202.774	0.2%
A	2000	$194.197	-4.2%
A	2001	$180.050	-7.3%
A	2002	$169.339	-5.9%
A	2003	$171.657	1.4%
A	2004	$169.531	-1.2%
A	2005	$167.270	-1.3%
A	2006	$177.639	6.2%
A	2007	$190.982	7.5%
A	2008	$205.036	7.4%
F	**2009**	**$213.568**	**4.2%**
F	**2010**	**$226.535**	**6.1%**
F	**2011**	**$240.687**	**6.2%**



Organization

The presentation of this forecast starts with an estimate of property tax and non-levy revenue that accrues to the state. A step-by-step presentation of the factors used to forecast property tax revenue is presented after the forecast methodology section.

Estimate Summary

Table 2 summarized the estimated general fund property tax revenue with adjustments for non-levy revenues and protested property taxes. This estimate is the current law anticipated level of revenue.

Table 2
Summary of General Fund Property Tax Revenue

	FY 2008	FY 2009	FY 2010	FY 2011
Property Tax Mill Levy (95 & 1.5)	194,979,735	**202,330,059**	**215,221,101**	**228,830,630**
Non-Levy Revenue:				
Coal Gross Proceeds	6,311,107	**7,141,010**	**7,746,852**	**8,765,561**
Federal Forest Reserves	2,650,501	**5,296,000**	**4,766,000**	**4,290,000**
All Other	1,883,314	**1,883,314**	**1,883,314**	**1,883,314**
Subtotal Non-Levy Revenue	10,844,923	**14,320,324**	**14,396,166**	**14,938,875**
Protested Property Taxes	(806,259)	**(3,082,389)**	**(3,082,389)**	**(3,082,389)**
Total Property Tax Revenue	**205,018,398**	**213,567,994**	**226,534,878**	**240,687,116**

Property Tax Mitigation recommended in Governor's budget

The Governor is recommending that the class 4 residential property taxes be mitigated for the effects of reappraisal. The revenues the Governor's budget assumes will be available for expenditure are reduced by the estimate of the reduction in revenues associated with this mitigation. Table 3 presents the estimate of the incremental state property tax revenue due to class 4 reappraisal. The estimate is calculated by subtracting the revenue generated in a zero reappraisal growth scenario from the 36% reappraisal growth scenario developed with the Legislative Fiscal Division.

Table 3
Incremental Growth in Property Tax Revenue due to Reappraisal

	FY 2008	FY 2009	FY 2010	FY 2011
Present Law (with Reappraisl)	$205,018,398	**$213,567,994**	**$226,534,878**	**$240,687,116**
Baseline - No Reappraisal Growth	205,018,398	**213,567,994**	**221,137,835**	**228,646,781**
Increase in Property Tax Revenue	$0	**$0**	**$5,397,043**	**$12,040,335**

Forecast Methodology

The property tax forecast is built by estimating growth rates for assessed market value, converting the assessed value into taxable value by applying statutory tax rates and exemptions. Taxable values are then adjusted for local abatements and tax increment financing districts. Revenue accruing to the state is then estimated for each fiscal year based on calendar year taxable value. A separate forecast is made for each non-levy revenue source. These estimates are added to calculate general fund property tax revenue.

There are six main steps followed to calculate the property tax revenue generated from the 95 total mill levy and the 1.5 mill levy:

Step 1: Estimate the growth rate for the assessed value of each class of property.

Historical valuation trends are generally used as the foundation for estimating future growth; adjustments are then made with the assistance of the Department of Revenue (DOR) appraisal staff. Adjustments are made to address major new investments or the effects of known changes in tax rates or valuations. Growth rates are determined for each class of property.

Table 4 is a summary of assessed market value and market value growth for all property classes except 3, 4, 15 and 16. Classes 3 & 4 will be presented in greater detail below when reappraisal is discussed. New tax classes 15 and 16 have been assigned no value or growth during the forecast period since the amount of property that will be created in these classes is currently unknown.

Table 4
Summary of Assesed Market Value
($ Millions)

Calender Year	Class 1 Net Proceeds: Adjusted Assessed Value	Class 1: Annual Percent Change	Class 2 Gross Proceeds: Assessed Value	Class 2: Annual Percent Change	Class 5 Rural Co-Op & Polution Control: Assessed Value	Class 5: Annual Percent Change	Class 7 Locally Assesed Utilities: Assessed Value	Class 7: Annual Percent Change	Class 8 Business Equipment: Net Assessed Value	Class 8: Annual Percent Change
A 1998			$8.781	-2.9%			$22.263	10.2%	$3,231.040	4.8%
A 1999			$8.282	-5.7%			$23.520	5.6%	$3,344.251	3.5%
A 2000			$8.461	2.2%			$1.948	-91.7%	$3,376.018	0.9%
A 2001	$2.129		$11.015	30.2%			$2.363	21.3%	$3,568.341	5.7%
A 2002	$3.903	83.3%	$10.669	-3.1%	$1,180.182		$2.705	14.5%	$3,660.739	2.6%
A 2003	$3.071	-21.3%	$8.800	-17.5%	$1,090.984	-7.6%	$12.439	359.8%	$3,642.809	-0.5%
A 2004	$2.974	-3.2%	$10.428	18.5%	$1,134.277	4.0%	$12.179	-2.1%	$3,794.404	4.2%
A 2005	$2.694	-9.4%	$19.265	84.7%	$1,154.284	1.8%	$11.918	-2.1%	$3,988.525	5.1%
A 2006	$3.252	20.7%	$21.106	9.6%	$1,170.571	1.4%	$13.354	12.1%	$4,216.939	5.7%
A 2007	$3.840	18.1%	$18.849	-10.7%	$1,181.927	1.0%	$13.698	2.6%	$4,632.083	9.8%
A 2008	$4.013	4.5%	$16.010	-15.1%	$1,170.260	-1.0%	$15.179	10.8%	$5,279.140	14.0%
F 2009	**$3.392**	**-15.5%**	**$19.185**	**19.8%**	**$1,179.432**	**0.8%**	**$15.796**	**4.1%**	**$5,494.709**	**4.1%**
F 2010	**$3.408**	**0.5%**	**$18.275**	**-4.7%**	**$1,188.677**	**0.8%**	**$16.438**	**4.1%**	**$5,719.081**	**4.1%**
F 2011	**$3.424**	**0.5%**	**$20.897**	**14.3%**	**$1,197.994**	**0.8%**	**$17.106**	**4.1%**	**$5,952.616**	**4.1%**

Calender Year	Class 9 Pipelines & Electricity Transmission: Assessed Value	Class 9: Annual Percent Change	Class 10 Forest Land: Assessed Value	Class 10: Annual Percent Change	Class 12 Airlines & Railroads: Assessed Value	Class 12: Annual Percent Change	Class 13 Telecommunication & Electrical Generation: Assessed Value	Class 13: Annual Percent Change	Class 14 Renewable Energy Production & Transmission: Net Assessed Value	Class 14: Annual Percent Change
A 1998			$971.863	3.1%						
A 1999	$1,940.197		$1,252.954	28.9%						
A 2000	$1,938.782	-0.1%	$2,287.433	82.6%						
A 2001	$1,719.851	-11.3%	$2,058.427	-10.0%						
A 2002	$1,767.717	2.8%	$2,048.625	-0.5%	$1,161.405		$2,286.414			
A 2003	$1,833.334	3.7%	$2,022.746	-1.3%	$1,176.038	1.3%	$2,041.207	-10.7%		
A 2004	$1,990.999	8.6%	$2,005.553	-0.8%	$1,183.046	0.6%	$2,008.084	-1.6%		
A 2005	$2,070.805	4.0%	$1,989.784	-0.8%	$1,183.616	0.0%	$2,048.766	2.0%		
A 2006	$2,204.148	6.4%	$1,982.408	-0.4%	$1,171.178	-1.1%	$2,354.749	14.9%	$85.189	
A 2007	$2,173.798	-1.4%	$1,965.616	-0.8%	$1,221.693	4.3%	$2,550.499	8.3%	$87.475	2.7%
A 2008	$2,278.059	4.8%	$1,947.617	-0.9%	$1,266.918	3.7%	$2,583.395	1.3%	$92.177	5.4%
F 2009	**$2,387.320**	**4.8%**	**$1,931.274**	**-0.8%**	**$1,266.918**	**0.0%**	**$2,708.017**	**4.8%**	**$140.509**	**52.4%**
F 2010	**$2,501.821**	**4.8%**	**$1,915.067**	**-0.8%**	**$1,266.918**	**0.0%**	**$2,838.652**	**4.8%**	**$238.004**	**69.4%**
F 2011	**$2,621.815**	**4.8%**	**$1,898.996**	**-0.8%**	**$1,266.918**	**0.0%**	**$2,975.589**	**4.8%**	**$273.026**	**14.7%**

Of note in Table 4 are:

- **Class 1,** net proceeds of all mines (except metal mines and bentonite), assessed value is highly dependent on construction, value is expected to drop in CY 2009 (as in CY 2003) and then recover to its long run growth rate. The series presented is adjusted for the removal of bentonite from the class in CY 2005.
- **Class 2**, net proceeds of metal mines forecast is based on the Global Insight projection for the producer price for metals and is expected to decline in FY 2010. Growth is restored in FY 2011, in part, due to the expiration of new and expanding industry tax rates.
- **Class 8,** growth is based on underlying property value growth after adjusting for large onetime investments.
- **Class 10,** property is assessed on the productive value of timber on forest lands, changes due to reappraisal are unknown and are assumed to have no change due to reappraisal.
- **Class 14,** (formerly wind generation property) is expanding rapidly from its initial base. The forecast is based on an assessment of recent growth such as reported new projects that have broken ground and assessment of potential projects. The growth rate for Class 14 is based on the exempted value of the property.

Step 2: Estimate the impact of reappraisal on Classes 3, 4 and 10.

For classes 3, 4 and 10 base growth rates are derived by estimating the growth of property at full-reappraisal value through TY 2008 in order to measure underlying growth. For this estimate Classes 3 and 10 are assumed to have no reappraisal change.

Table 5 presents the estimate of base class 3 growth. Class 10 growth was presented in Table 4 above. The assessed market value of agricultural land tends to fall as farm land is converted to commercial and residential parcels.

Table 5
Class 3 Agricultural Land
Full Reappraisal Value

Calender Year	Full Reappraisal Value	Annual % Chg.
2002	$3,845,602,698	-0.1%
2003	$4,477,138,879	16.4%
2004	$4,470,737,962	-0.1%
2005	$4,457,023,294	-0.3%
2006	$4,453,806,563	-0.1%
2007	$4,450,375,340	-0.1%
2008	$4,446,426,252	-0.1%
F 2009	**$4,442,740,683**	**-0.1%**
F 2010	**$4,439,058,170**	**-0.1%**
F 2011	**$4,435,378,709**	**-0.1%**

Because exemptions are different for commercial and residential property, and reappraisal impacts are likely to be different for each subclass of class 4 property; estimates of reappraisal effects for residential and commercial property are presented separately, starting with residential property.

The current estimate for residential property assumes that 15% of property decreases in value by an average of 4% and the remaining 85% of properties rise an average of 36%. These estimates are loosely based on the distribution of property during the 2003 reappraisal. Table 6 presents the forecast of underlying growth of 3.2% which is based on property growth in the late 1990s after the dot com "bubble" began to deflate.

The table presents the estimate of property that declines in value and for which reappraisal value applies immediately. The table also presents the estimate of properties that increased in value and the phase-in required under 15-7-111, MCA.

Table 6
Class 4 - Residential Property Full Reappraisal Value
Phase-in and Assessed Value Without Mitigation

Calendar Year	Class 4 Residential Full Reappraisal	Growth	Properties for Which Value: Declined	Properties for Which Value: Increased	Phase-in Incremental Value	Total Assessed Value
1998	$26,571,350,481	3.2%				
1999	$27,413,435,577	3.2%				
2000	$28,491,931,202	3.9%				
2001	$29,467,078,334	3.4%				
2002	$30,896,848,417	4.9%				
2003	$38,896,055,931	25.9%				
2004	$40,438,426,830	4.0%				
2005	$42,398,184,468	4.8%				
2006	$44,588,728,062	5.2%				
2007	$46,962,751,995	5.3%				
2008	$48,755,025,124	3.8%				$48,755,025,124
F 2009	**$65,390,186,456**	**34.1%**	**$7,243,220,654**	**$42,755,121,914**	**$2,564,281,192**	**$52,562,623,759**
F 2010	**$67,462,497,438**	**3.2%**	**$7,472,768,947**	**$44,110,094,479**	**$5,291,094,053**	**$56,873,957,479**
F 2011	**$69,600,482,997**	**3.2%**	**$7,709,591,963**	**$45,508,008,113**	**$8,188,164,884**	**$61,405,764,960**

For class 4, assessed market value is not the basis for calculating taxable value. For residential property, there is a "homestead" exemption of 34% (15-6-222, MCA.), that must first be deducted.

Table 7 displays the estimated impact of reappraisal on commercial property. The current estimate is based on the assumption that 25% of commercial property declines in value an average of 5.4% and that the remaining 75% of property goes up in value an average of 36%.

Table 7 Class 4 - Commercial Property Full Reappraisal Value Phase-in and Assessed Value Without Mitigation						
			Properties for Which Value:			
Calendar Year	Class 4 Commercial Full Reappraisal	Growth	Declined	Increased	Phase-in Incremental Value	Total Assessed Value
1998	8,143,714,442	5.0%				
1999	8,550,178,304	5.0%				
2000	8,862,414,734	3.7%				
2001	9,155,042,041	3.3%				
2002	9,442,757,963	3.1%				
2003	11,725,883,492	24.2%				
2004	12,067,933,107	2.9%				
2005	12,488,727,182	3.5%				
2006	12,837,111,530	2.8%				
2007	13,247,331,518	3.2%				
2008	$13,802,220,883	4.2%				$13,802,220,883
F 2009	**$17,873,874,853**	**29.5%**	**$3,364,243,058**	**$10,668,846,908**	**$639,874,762**	**$14,672,964,728**
F 2010	**$18,421,541,100**	**3.1%**	**$3,467,325,484**	**$10,995,746,777**	**$1,318,961,817**	**$15,782,034,078**
F 2011	**$18,985,988,170**	**3.1%**	**$3,573,566,416**	**$11,332,663,054**	**$2,039,063,398**	**$16,945,292,869**

The taxable market value of commercial property is calculated after deducting the “comstead” exemption of 15% (15-6-222, MCA)

Table 8 Summarizes estimated underlying growth rates for all classes:

Table 8 TY 2008 and Estimated TY 2009 and TY 2010 Assessed Value Growth Rates by Property Tax Class				
		Actual	**Estimated**	
Class	Description	TY 2008	**TY 2009**	**TY 2010**
1	Net Proceeds of Mines	3.8%	**-15.5%**	**0.5%**
2	Gross Proceeds of Mines	-15.1%	**19.8%**	**-4.7%**
3	Agricultural Land	-0.1%	**-0.1%**	**-0.1%**
4	Residential and Commercial Real Property	5.2%	**5.1%**	**7.5%**
5	Rural Co-Op/Pollution Control	-1.0%	**0.8%**	**0.8%**
7	Non-centrally Assessed Utilities	10.8%	**4.1%**	**4.1%**
8	Business Personal Property	14.0%	**4.1%**	**4.1%**
9	Pipelines & Non-elec. Generating	-1.4%	**4.8%**	**4.8%**
10	Forestland	-0.9%	**-0.8%**	**-0.8%**
12	Airlines/Railroads	3.7%	**0.0%**	**0.0%**
13	TeleCom & Electric Generation Property	4.8%	**4.8%**	**4.8%**
14	Renewable Energy Production & Transmission	5.6%	**69.3%**	**42.1%**
15	CO2/Qualifying Liquid Pipeline Property	0.0%	**0.0%**	**0.0%**
16	High Voltage DC Converter Property	0.0%	**0.0%**	**0.0%**

Step 3: Determine the Applicable Tax Rate for Each Class of Property

As stated previously, tax rates for each class of property are set in statute. However, classes 3 and 4 have special rates which apply to sub-categories of property. The applicable tax rate is the actual overall tax rate for the class after considering the special tax rate provisions for certain property.

In class 3 smaller plots of land that do not generate at least $1,500 in agricultural production per year are considered "non-qualified agricultural land" and have a tax rate seven times the standard rate. Because the non-qualified agriculture tax rate is higher than the standard class 3 tax rate, the applicable tax rate is higher than the standard tax rate. Table 9 provides the detail for class 3.

Table 9
Class 3 - Agricultural Land
Tax Rate and Applicable Tax Rate

Calendar Year	Taxable Market Value	Standard Tax Rate	Applicable Tax Rate	Taxable Value	Taxable Value Growth
A 2002	3,845,602,698	3.46%	3.61%	$138,918,722	-0.1%
A 2003	3,942,941,138	3.40%	3.56%	$140,240,224	1.0%
A 2004	4,044,106,892	3.30%	3.46%	$139,901,823	-0.2%
A 2005	4,138,071,799	3.22%	3.41%	$140,988,242	0.8%
A 2006	4,241,065,540	3.14%	3.32%	$141,002,419	0.0%
A 2007	4,344,016,347	3.07%	3.25%	$141,328,914	0.2%
A 2008	$4,446,426,252	3.01%	3.20%	$142,069,587	0.5%
F 2009	**$4,442,740,683**	**3.01%**	**3.21%**	**$142,518,090**	**0.3%**
F 2010	**$4,439,058,170**	**3.01%**	**3.22%**	**$143,004,702**	**0.3%**
F 2011	**$4,435,378,709**	**3.01%**	**3.24%**	**$143,532,008**	**0.4%**

In class 4, residential properties for individuals who meet residence and income criteria receive reduced tax rates. Some commercial properties are taxed at a lower than standard rate — examples are new and expanding industry property, and commercial golf courses. Class 4 applicable tax rates are the standard rates (3.01% in TY2008) with these adjustments. The table shows the effects of the phase down of tax rates during the last reappraisal cycle. Class 4 residential and commercial property taxable values are presented in Table 10.

Table 10
Class 4 - Residential and Commercial Property
Taxable Market Value (with Phase-in)

	Residential Property				Commercial Property				All Class 4 Property		
Tax Year	Taxable Market Value	Tax Rate	Taxable Value	Growth	Taxable Market Value	Tax Rate	Taxable Value	Growth	Taxable Market Value	Tax Rate	Taxable Value
A 1998			$704,138,927				$247,919,791				
A 1999			$653,771,296	-7.2%			$240,417,014	-3.0%			
A 2000			$667,865,912	2.2%			$250,256,341	4.1%			
A 2001			$692,948,871	3.8%			$261,153,471	4.4%			
A 2002			$731,671,491	5.6%			$271,202,451	3.8%			
A 2003	$22,416,714,414	3.37%	$755,783,275	3.3%	$8,876,913,072	3.09%	274,329,534	1.2%	$31,293,627,486	3.29%	$1,030,112,809
A 2004	$24,221,081,258	3.27%	$792,062,821	4.8%	$9,370,922,651	3.04%	284,921,722	3.9%	$33,592,003,909	3.21%	$1,076,984,543
A 2005	$26,088,682,671	3.19%	$832,617,039	5.1%	$9,916,021,414	3.00%	297,177,428	4.3%	$36,004,704,085	3.14%	$1,129,794,467
A 2006	$28,110,923,719	3.11%	$875,201,471	5.1%	$10,425,955,800	2.96%	308,619,522	3.9%	$38,536,879,519	3.07%	$1,183,820,993
A 2007	$30,372,907,361	3.05%	$925,050,672	5.7%	$10,526,866,332	3.04%	320,039,730	3.7%	$40,899,773,693	3.04%	$1,245,090,402
A 2008	$32,178,316,582	2.98%	$960,291,102	3.8%	$11,703,070,314	2.98%	$348,522,013	8.9%	$43,881,386,896	2.98%	$1,308,813,115
F 2009	**$34,691,331,681**	**2.98%**	**$1,035,286,512**	7.8%	**$12,472,020,019**	**2.98%**	**$371,421,636**	6.6%	**$47,163,351,700**	**2.98%**	**$1,406,708,148**
F 2010	**$37,536,811,936**	**2.98%**	**$1,120,203,613**	8.2%	**$13,414,728,966**	**2.98%**	**$399,495,877**	7.6%	**$50,951,540,902**	**2.98%**	**$1,519,699,490**

Table 11 summarizes property tax rates for FY 2008 through FY 2011. The table illustrates that class 8 and class 12 property also have different applicable rates, Investments in new and expanding industry that are class 8 property can receive reduced tax rates during the initial investment period. Property that meets statutory requirements can receive a 50 % reduction in the class tax rate for the initial 5 years of the investment. The rate reduction is then phased out over the subsequent 5 years. This lowers the average class tax rate. The class average tax rate was calculated from the Department of Revenue TY 2007 and TY 2008 property database. The rate is assumed to hold constant at its current rate of 2.87% through the forecast period.

The class 12 tax rate is calculated under the provisions of the federal 4-R Act. The specific provisions of the act prohibits state, county, and local taxing jurisdictions from assessing rail transportation property at a higher ratio of assessed value to true market value than other commercial and industrial property within the jurisdiction. Class 4 commercial property represents over 55% of commercial and industrial property, and is assessed on a six-year cycle. The Department of Revenue uses commercial property sales to adjust the class 4 commercial tax rate to calculate the class 12 tax rate annually. This estimate uses forecast market and taxable values to estimate the likely class 12 rate for TY 2009 through TY 2011.

Table 11
Actual & Applicable Property Tax Rates for FY 2008 through FY 2011

	Statutory Tax Rate			Applicable Tax Rate		
Property Tax Class	FY 09	FY 10	FY 11	FY 09	FY 10	FY 11
Class1 - Net Proceeds of Mines	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Class 2 - Gross Proceeds of Mines	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 3 - Agricultural Land	3.01%	3.01%	3.01%	3.20%	3.21%	3.22%
Class 4 - Residential and Commercial Real Property	3.01%	3.01%	3.01%	2.98%	2.98%	2.98%
Class 5 - Rural Co-Op/Pollution Control	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 7 - Non-centrally Assessed Utilities	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Class 8 - Business Personal Property	3.00%	3.00%	3.00%	2.87%	2.87%	2.87%
Class 9 - Pipelines & Non-elec. Generating	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Class 10 - Forest Land	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
Class 12 - Airlines/Railroads	3.44%	Calculate	Calculate	3.44%	3.33%	3.26%
Class 13 - TeleCom & Electric Generation Property	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Class 14 - Renewable Energy Production & Transmission	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 15 - CO2/Qualifying Liquid Pipeline Property	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Class 16 - High Voltage DC Converter Property	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

Step 4: Calculate the statewide fiscal year taxable value for each class of property

Two adjustments must be made before applicable tax rates can be applied to assessed taxable values: adjust tax year to fiscal year and adjust class 8 taxable values for differential treatment of personal property liened to real property.

For all classes of property except class 8, the tax collected on the calendar year taxable value is the next fiscal year's revenue. For class 8 property, fiscal year tax payments are not based on the prior calendar year taxable value alone. Class 8 property not liened to real property (38%) is taxed in the spring of the calendar year and is paid in the current fiscal year. Class 8 property liened to real property (62%) is collected in the following fiscal year when the real property tax payments are made. Therefore, FY 2009 taxable value is 62% of CY 2008 taxable value and 38% of CY 2009 taxable value. Table 12 presents the assessed value for class 8 property with adjustments to estimate revenue that will accrue in the appropriate fiscal year.

Table 12 Conversion of Class 8 Calendar Year Assessed Value to Class 8 Fiscal Year Taxable Value					
Calendar Year	Assessed Property	Prior Year Liened to Real Property (62%)	Current Year Not Liened to Real Property (38%)	Fiscal Year Property	Fiscal Year
CY 1998	$3,507,976,378	$1,910,656,843	1,333,031,024	3,243,687,867	FY 1999
CY 1999	$3,703,236,176	$2,174,945,354	1,407,229,747	3,582,175,101	FY 2000
CY 2000	$3,727,546,491	$2,296,006,429	1,416,467,667	3,712,474,096	FY 2001
CY 2001	$3,943,691,027	$2,311,078,824	1,498,602,590	3,809,681,415	FY 2002
CY 2002	$4,012,212,828	$2,445,088,437	1,524,640,875	3,969,729,311	FY 2003
CY 2003	$3,995,585,302	$2,487,571,953	1,518,322,415	4,005,894,368	FY 2004
CY 2004	$3,989,981,866	$2,477,262,887	1,516,193,109	3,993,455,996	FY 2005
CY 2005	$4,184,890,533	$2,473,788,757	1,590,258,403	4,064,047,160	FY 2006
CY 2006	$4,643,968,393	$2,594,632,131	1,764,707,989	4,359,340,120	FY 2007
CY 2007	$4,981,370,671	$2,879,260,403	1,892,920,855	4,772,181,258	FY 2008
CY 2008	**$5,506,882,088**	**$3,088,449,816**	**2,092,615,193**	**5,181,065,009**	**FY 2009**
CY 2009	**$5,722,451,347**	**$3,414,266,894**	**2,174,531,512**	**5,588,798,406**	**FY 2010**
CY 2010	**$5,946,823,412**	**$3,547,919,835**	**2,259,792,897**	**5,807,712,731**	**FY 2011**

Table 13 presents the result of applying the tax rates from Table 11 to the fiscal year assessed values. The discussion from this point forward will focus on fiscal year outcomes.

Table 13 Taxable Value Summary				
Property Class Description	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**
1. Net Proceeds	$3,839,998	**$4,013,187**	**$3,392,000**	**$3,408,000**
2. Gross Proceeds	$18,849,252	**$16,010,232**	**$19,185,011**	**$18,275,054**
3. Agricultural Land	$141,328,914	**$142,069,587**	**$142,518,090**	**$143,004,702**
4. Res./Comm... Real Property	$1,244,956,088	**$1,308,813,115**	**$1,406,708,148**	**$1,519,699,490**
5. Rural Co-Op/Poll. Control	$35,457,802	**$35,107,786**	**$35,382,960**	**$35,660,310**
7. Non-centrally Assessed Util.	$1,095,825	**$1,214,359**	**$1,263,680**	**$1,315,040**
8. Business Equipment (adjusted)	$137,438,820	**$148,446,754**	**$160,129,043**	**$166,401,329**
9. Pipelines, Elec. Trans.	$264,497,728	**$260,855,810**	**$273,367,070**	**$286,478,399**
10. Forest Land	$6,879,548	**$6,816,661**	**$6,759,459**	**$6,702,735**
12. Airlines/Railroads	$43,072,836	**$43,581,979**	**$42,186,209**	**$41,319,865**
13. Telecomm./Elec Generation	$153,029,921	**$155,003,672**	**$162,481,049**	**$170,319,134**
14. Renewable Energy Prod.& Trans. Prop,	$2,624,235	**$2,765,312**	**$4,215,274**	**$7,140,110**
15. CO2/Qualifying Liquid Pipeline Property	$0	**$0**	**$0**	**$0**
16. High Voltage DC Converter Property	$0	**$0**	**$0**	**$0**
Statewide Taxable Value	$2,053,070,967	**$2,124,698,453**	**$2,257,587,992**	**$2,399,724,168**
Annual Change in Total Taxable Value	4.93%	3.49%	6.25%	6.30%

Step 5: Determine the appropriate taxable value base for the 95 and 1.5 mill levies

In order to calculate the 95 mill revenue due the state, adjustments are made for Tax Increment Financing (TIF) districts and for locally abated property.

TIF districts generally are special taxing jurisdictions, often urban renewal or business improvement districts, which are allowed to retain property taxes generated on the incremental taxable value created in the district after the district was formed. TIF districts are authorized under Title 7, chapter 14, part 42, MCA. Because the tax data file provided by the Department of Revenue is set-up for county assessors' offices, the taxable value in the district is included; however district retains the tax revenue generated by the 95 mill levy and the 1.5 mill levy in the district. However TIF districts do not retain the 6 mill university levy. The 95 mill revenue that would have accrued to the state from TIF districts accrues to the TIF authority. The estimate grows TIF property by class. During the forecast period two TIF districts expire.

The taxable value of locally abated property is added back into the total taxable value estimate for state mill revenue purposes. This estimate assumes that TY 2008 abated values hold constant through the forecast period. Therefore, the estimate assumes that new abatements offset expiring abatements. The above adjustments are applied to the estimate of fiscal year taxable value to estimate the revenue from the 95 mill levy. Table 14 shows these adjustments through FY 2011.

Table 14
Calculation of General Fund Revenue from 95 Mill Levy

Calculation	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**
Unadjusted Statewide Taxable Value	$2,053,070,967	**$2,124,698,453**	**$2,257,587,992**	**$2,399,724,168**
Subtract TIF Value	($30,120,363)	**($26,862,235)**	**($24,854,477)**	**($24,565,200)**
Add Abated Property Value	$18,098,854	**$20,020,604**	**$20,020,604**	**$20,020,604**
Taxable Value for 95 Mills	$2,041,049,458	**$2,117,856,822**	**$2,252,754,119**	**$2,395,179,572**
Apply 95 Mills	x 0.095	x **0.095**	x **).095**	x **0.095**
State 95 Mill Levy Revenue	$193,899,698	**$201,196,398**	**$214,011,641**	**$227,542,059**
Less SB 417 Reimbursements	$0	**$0**	**$0**	**$0**
State Revenue from 95 Mills	**$193,899,698**	**$201,196,398**	**$214,011,641**	**$227,542,059**

The 1.5 mill levy revenue for Colleges of Technology is estimated based on the taxable value in the counties with colleges of technology with TIF and abated value adjustments. Table 15 shows the estimated revenue generated by the 1.5 mill levy:

Table 15
Property Tax 1.5 Mill Levy General Fund Revenue

Calculation	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**
Unadjusted Statewide Taxable Value	$727,453,636	**$758,894,257**	**$ 806,359,396**	**$ 857,127,225**
Subtract TIF Value	($23,371,134)	**($20,754,711)**	**($17,687,200)**	**($15,714,190)**
Add Abated Property Value	$15,941,565	**$17,634,253**	**$17,634,253**	**$17,634,253**
Taxable Value for 1.5 Mills	$720,024,067	**$755,773,799**	**$806,306,449**	**$859,047,288**
Apply 1.5 Mills	x 0.0015	x **0.0015**	x **0.0015**	x **0.0015**
1.5 Mill Levy Revenue	**$1,080,036**	**$1,133,661**	**$1,209,460**	**$1,288,571**

Step 6: Calculate the general fund property tax revenue for the 95 and 1.5 mill levies

Estimating total general fund revenue from property taxes requires the calculation of the non-levy revenue that accrues to the state. Non-levy revenues are generally allocated to taxing jurisdictions based on the relative share of levied mills. For example, the 95 mill levy constituted 17.95% (95/ (95+434.13)) of the state-wide average mill levies (529.13 mills) assessed in TY 2007.

The main grouping of non-levy revenues are coal gross proceeds shared with the counties that have coal production, federal forest receipts, and an assortment of miscellaneous revenues reported by the counties.

Beginning in FY 2009, the Secure Rural Schools and Communities Act was reauthorized and fully funded under the Emergency Economic Stabilization Act of 2008. The Secure Rural Schools and Communities Act uses the federal forest receipts distribution formula. The state receives the 55 mill share of the one-third of Title I funds allocated to countywide school levies. In recent years, that has meant approximately 20% of all Title I payments accrue to the state due to school equalization mills.

The base for coal gross proceeds non-levy revenue is the coal severance tax forecast. Coal gross proceeds tax is 5% of the gross value of coal produced. The state receives the 45 mill share gross proceeds tax collections

Table 16 combines the 95 mills and 1.5 mill revenue (net of an estimated $3.1 million in protested property tax) in addition to non-levy revenues.

Table 16
Summary of General Fund Property Tax Revenue

	FY 2008	FY 2009	FY 2010	FY 2011
Property Tax Mill Levy (95 & 1.5)	194,979,735	**202,330,059**	**215,221,101**	**228,830,630**
Non-Levy Revenue:				
Coal Gross Proceeds	6,311,107	**7,141,010**	**7,746,852**	**8,765,561**
Federal Forest Reserves	2,650,501	**5,296,000**	**4,766,000**	**4,290,000**
All Other	1,883,314	**1,883,314**	**1,883,314**	**1,883,314**
Subtotal Non-Levy Revenue	10,844,923	**14,320,324**	**14,396,166**	**14,938,875**
Protested Property Taxes	(806,259)	**(3,082,389)**	**(3,082,389)**	**(3,082,389)**
Total Property Tax Revenue	**205,018,398**	**213,567,994**	**226,534,878**	**240,687,116**

These estimates constitute the values presented in the Table 1 summary.

Data Sources

Historical tax revenue is from SABHRS. The summary property tax database and other tax reports were provided by the Department of Revenue. The producer price index for metals is from the Global Insight November 2008 National Forecast

Motor Vehicle Taxes and Fees

2011 Biennium

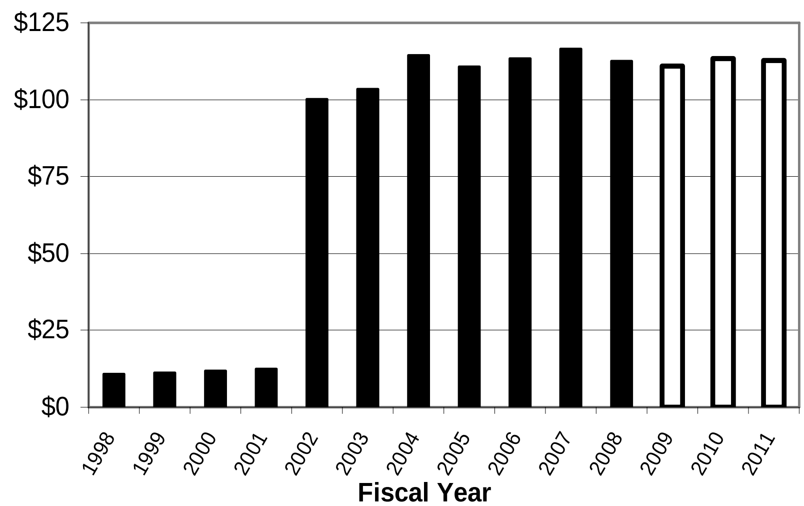
Revenue Description

Titles 23 and 61, MCA, provide for multiple fees and fees in lieu of taxes on motor vehicles. Such vehicles include light vehicles, heavy vehicles weighing more than one ton, motor homes, trailers, travel trailers, watercraft, motorcycles, snowmobiles, and off-highway vehicles. Fees are based on one or a combination of the following criteria: age, weight, size, or vehicle type. Light vehicles (cars, light trucks and sports utility vehicles) registration fees-in-lieu of taxes represent nearly 80% of vehicle taxes and fees.

Based on Global Insight's forecast of new light vehicle registrations, the stock of light vehicles in Montana is estimated to remain flat during the forecasted period. The issuance of new license plates (61-3-332, MCA,) will increase revenue in FY 2010 and FY 2011. After adjusting for these impacts, revenue is expected to recover slightly from FY 2009 collections in FY 2010, with revenue declining slightly in FY 2011 as permanently registered cars and light trucks reduce annual renewal collections.

Table 1
Vehicle Taxes and Fee Revenue
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998	$10.778	-30.9%
A	1999	$11.099	3.0%
A	2000	$11.716	5.6%
A	2001	$12.534	7.0%
A	2002	$100.181	699.3%
A	2003	$103.538	3.4%
A	2004	$114.331	10.4%
A	2005	$110.772	-3.1%
A	2006	$113.292	2.3%
A	2007	$116.455	2.8%
A	2008	$112.486	-3.4%
F	**2009**	**$110.901**	**-1.4%**
F	**2010**	**$113.320**	**2.2%**
F	**2011**	**$112.729**	**-0.5%**



Since FY 2002, most motor vehicle revenue has been deposited to the general fund. Fluctuations in revenue since FY 2002 result from legislation. There is little change in overall revenue because the number of automobiles and light trucks is large (over one million vehicles) and annual new vehicle registrations are relatively few. The stock vehicles changes only to the extent that new registrations are greater (or fewer) than the number of vehicles sold out of state or are taken out of service. Historically, there have been on average 43,800 new vehicle registrations each year the rate of new vehicle stock growth is approximately equal to the "scrapage" rate reported by R.L.Polk & Co.

Significant Factors

Two factors appear to have reduced revenue more than expected in recent years: reductions in new vehicle registrations with the recent economic slowdown and increased use of permanent registration of older vehicles. To date approximately 6% of vehicles are registered permanently and the program appears to be popular with many vehicle owners. Data is only available for FY 2007 and FY 2008 in SABHRS on permanent registration. Permanent registration lowers future vehicle collections, unless the vehicle re-enters the vehicle tax collections system on a change of ownership.

Forecast Methodology

Because of major reforms in motor vehicle tax legislation by the 2005 Legislature, which resulted in accounting and registration changes, the forecast of general fund vehicle license tax revenue is prepared by:

Step 1: Projecting the stock of Montana light vehicles using new vehicle registrations and estimates of vehicle reductions due to scrapping of vehicles

Step 2: Estimating the number of light vehicles registering permanently and forecasting permanent registration revenue

Step 3: From the remaining stock of vehicles, estimating annual registration revenue from light vehicles

Step 4: Using historical ratios to estimate total collections before permanent registration revenue

Step 5: Estimating total collections by adding total annual registrations and fees, permanent registration revenue and adjustments for new license plates revenue

Table 2 there are currently 57 separate accounts for which vehicle taxes and fee revenues are recorded. Table 2 groups accounts by functional categories or vehicle type: Light motor vehicles registration; other vehicles registration; all other motor vehicle fees; and light vehicle permanent registration. These groupings are used to estimate total revenue. The estimate builds on the number of cars and light trucks which generate vehicle tax and fee revenue.

It is important to note that for this estimate, adjusted fiscal year light vehicle revenue is used not the current year revenue presented in SABHRS because of accounting delays related to the timing of Motor Vehicle Division (MVD) recording of revenue. The October 2008 Legislative Audit Division report of the Department of Justice documents some of the challenges the Division faces with recording fiscal year-end revenues received from counties. To minimize these effects the prior year adjustments are used to estimate underlying "real" fiscal year activity.

Table 2
Motor Vehicles Taxes and Fees by SABHRS Account
FY 2006 through FY 2008

SABHRS Short Description	FY 2006	FY 2007	FY 2008
Adjusted Light Motor Vehicle Registrations	**$76,079,664**	**$87,352,147**	**$85,624,489**
Other Vehicle Registrations			
Large Vehicle Registration	$5,576,714	$3,024,446	$2,778,853
Motor Home Registration	$5,235,701	$3,999,998	$3,742,792
Trailer Registration		$3,259,672	$3,346,031
Boats, PWC & Motor Pontoons	$2,325,379	$1,470,374	$1,346,935
Dual Use Motorcycle/Quadricycle Registrations		$937,101	$1,023,917
All Other Vehicles Accounts	$5,167,356	$1,238,921	$1,437,393
Total Other Vehicle Registration Fees	**$18,305,151**	**$13,930,511**	**$13,675,920**
All Other Motor Vehicle Fees			
Titles	$2,368,829	$2,495,408	$2,463,826
New Plate Fee	$2,865,422	$3,102,155	$1,492,825
Recreational Travel Trailer Registrations		$1,464,639	$1,439,259
Personalized Plates Renew/Transfer		$826,538	$922,195
Personalized Plates	$1,418,129	$537,942	$413,804
General Specialty Plate Administration Fee	$252,140	$262,653	$259,595
Veterans License Plate Fees	$245,637	$230,726	$192,623
Registration Fees	$12,084,778	$4,847	
All Other Accounts	$1,793,732	$2,070,061	$2,037,882
Total All Other Motor Vehicle Fees	**$21,028,667**	**$10,994,968**	**$9,222,010**
Light Vehicle Permanent Registrations		**$1,971,235**	**$3,963,412**
Total Adjusted Collections	**$115,413,482**	**$114,248,860**	**$112,485,831**
Reversal of prior year adjustment	($2,099,790)	$2,222,646	$0
Fiscal Year-end Revenue	$113,313,692	$116,471,506	$112,485,831

Step 1: Current Stock. Table 3 presents the actual and forecast number of new car and light truck registrations. Montana FY 2008 registrations are consistent with reports that show a significant drop in new car sales nationally. In order to estimate the stock of Montana vehicles, Federal Highway Administration data on the number of active vehicle registrations in Montana is used to set the base number of cars and light trucks. The latest available full year count of these registrations is for calendar year 2006. The forecast number of vehicles registered in Montana is estimated by adding the new registrations and subtracting the estimated share of vehicle that are retired based on the estimated percent of apparent scrapping of vehicles from national stock of light vehicles using data from Global Insight.

Step 2: Permanent Registrations. In order to estimate the share of vehicles that are eligible for permanent registration, data on the share of cars and light trucks over ten years of age from R.L. Polk & Co were used. In Montana vehicles that are over ten years old can be registered permanently for a fixed fee of $87.50, just over three-times the annual registration fee for older vehicles. These permanently registered vehicles generate no future revenue unless they change ownership. As such, they lower the number of vehicles that register and pay fees annually. The current estimate assumes that the share of vehicles that will be permanently registered will begin to stabilize at about 18% of the eligible vehicle stock. However, if the rate of growth in permanently registered vehicles continued at the rate of increase between FY 2007 and FY 2008 growth rate would reduce total collections by $1.8 million in FY 2011.

Table 3 Light Motor Vehicle Stock, Vehicles Eligible for Permanent Registration and Revenue from Permanent Registrations								
Fiscal Year	New Light Vehicle Registration	Percent Change	Estimated Light Vehicle Stock	Growth	Number of Vehicles Over 10 Years Old	Share of Eligible Vehicles	Permanent Registrations	Permanent Registration Revenue
A 2002	38,382	1.6%	915,100					
A 2003	43,361	13.0%	945,470	3.3%				
A 2004	48,084	10.9%	971,870	2.8%				
A 2005	47,021	-2.2%	992,420	2.1%	327,500			
A 2006	47,247	0.5%	**1,014,611**	2.2%	340,910			
A 2007	50,579	7.1%	996,410	-1.8%	340,800	6.6%	22,658	$1,971,235
A 2008	38,738	-23.4%	971,080	-2.5%	326,300	14.0%	45,556	$3,963,412
F 2009	**40,415**	**4.3%**	953,270	**-1.8%**	**320,300**	**16.4%**	**52,527**	**$4,569,824**
F 2010	**44,384**	**9.8%**	948,970	**-0.5%**	**318,900**	**17.2%**	**54,888**	**$4,775,290**
F 2011	**47,570**	**7.2%**	944,110	**-0.5%**	**317,200**	**17.5%**	**55,455**	**$4,824,580**

Step 3: Annual Registrations. Table 4 estimates the forecast of revenue from light vehicle registrations using the number of cars and light trucks that are likely to register annually using the estimated growth rate of vehicles.

Table 4 Light Motor Vehicle Registration Revenue ($ millions)					
Fiscal Year	Estimated Light Vehicle Stock	Permanent Registrations (minus)	Annual Registrations	Growth	Light Vehicle Revenue
A 2002	915,100		915,100		$54,142,909
A 2003	945,470		945,470	3.3%	$57,085,942
A 2004	971,870		971,870	2.8%	$58,654,306
A 2005	992,420		992,420	2.1%	$59,459,210
A 2006	1,014,611		1,014,611	2.2%	$76,079,664
A 2007	996,410	22,658	973,752	-4.0%	$87,352,147
A 2008	971,080	45,556	925,524	-5.0%	$85,624,489
F 2009	953,270	**52,527**	**900,743**	**-2.7%**	**$83,331,953**
F 2010	948,970	**54,888**	**894,082**	**-0.7%**	**$82,715,650**
F 2011	944,110	**55,455**	**888,655**	**-0.6%**	**$82,213,614**

Step 4: Apply Historical Ratios. Based on light vehicle revenue, Table 5 uses vehicle registration revenue by group to estimate the revenue from all other vehicles and estimates the increment due to licensing, plating, registration and titling fees. The ratios are stable but change with significant changes in fee rates set in legislation. Forecasts are based on the ratios experienced during the last two fiscal years as these ratios reflect the current legislation and fee rates.

Table 5 All Vehicle Registration Revenue ($ millions)						
Fiscal Year	Light Vehicle Revenue	Ratio	All Vehicle Revenue (net of Permanent Registrations)	Ratio	Total Collections (net of Permanent Registrations)	Growth
A 2002	$54,142,909	1.357	$73,479,650	1.366	$100,399,833	**0.0%**
A 2003	$57,085,942	1.382	$78,870,626	1.313	$103,537,562	**3.1%**
A 2004	$58,654,306	1.356	$79,506,070	1.438	$114,330,455	**10.4%**
A 2005	$59,459,210	1.353	$80,429,698	1.377	$110,786,684	**-3.1%**
A 2006	$76,079,664	1.241	$94,384,815	1.223	$115,413,482	**4.2%**
A 2007	$87,352,147	1.159	$101,282,658	1.109	$112,277,625	**-2.7%**
A 2008	$85,624,489	1.160	$99,300,410	1.093	$108,522,419	**-3.3%**
F 2009	**$83,331,953**	**1.160**	**$96,665,066**	**1.100**	**$106,331,572**	**-2.0%**
F 2010	**$82,715,650**	**1.160**	**$95,950,154**	**1.100**	**$105,545,169**	**-0.7%**
F 2011	**$82,213,614**	**1.160**	**$95,367,793**	**1.100**	**$104,904,572**	**-0.6%**

Step 5: Combine All Estimates. The final step of the estimate is to combine the estimate of revenue from permanent registrations with all other vehicle taxes and fees and to make adjustments for present law revenue impacts. These are presented in Table 6. An adjustment is made to the revenue estimate to account for the issuance of new license plates on the four-year cycle as required under 31-3-332, MCA. The MVD estimates that the new plates issued beginning January 1, 2010 will bring in an additional $3 million dollars in each of fiscal years 2010 and 2011.

Table 6 All Vehicle Taxes and Fees Revenue ($ millions)					
Fiscal Year	Total Collections Net of Permanent Registration	Permanent Registration Estimate	Adjustment for New License Plates	Total Revenue	Projected Growth
A 2002	$100,399,833			$100,399,833	
A 2003	$103,537,562			$103,537,562	**3.1%**
A 2004	$114,330,455			$114,330,455	**10.4%**
A 2005	$110,786,684			$110,786,684	**-3.1%**
A 2006	$115,413,482			$115,413,482	**4.2%**
A 2007	$112,277,625	$1,971,235		$114,248,860	**-1.0%**
A 2008	$108,522,419	$3,963,412		$112,485,831	**-1.5%**
F 2009	**$106,331,572**	**$4,569,824**		**$110,901,396**	**-1.4%**
F 2010	**$105,545,169**	**$4,775,290**	**$3,000,000**	**$113,320,459**	**2.2%**
F 2011	**$104,904,572**	**$4,824,580**	**$3,000,000**	**$112,729,152**	**-0.5%**

Data Sources

Historical tax revenue data are from SABHRS. Montana vehicles stock is from the Federal Highway Administration. Motor Vehicles Division provided semi-annual vehicle reports (FY 2006 through FY 2008). Average vehicle age and scrapage rates are from R.L. Polk & Co. *Global Insight's National and* Montana forecasts for October 2008 was the source of Montana new light vehicle registrations and national vehicle stock estimates.

Revenue Description

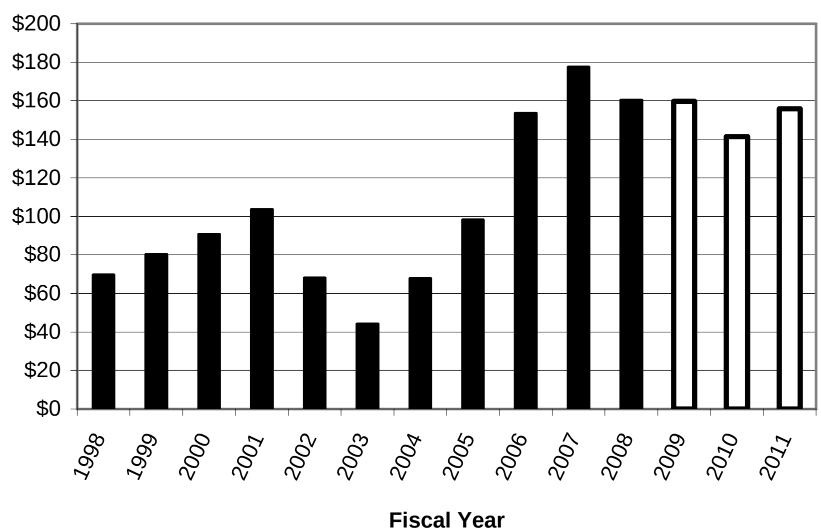
The corporation license tax is a tax on corporate income apportioned to Montana. The tax is levied at a flat rate of 6.75% of net income; however, corporations making a "water's edge" election are taxed at 7%. Since FY 2006, revenues have been deposited 100% in the general fund (15-31-121, MCA).

Corporations expecting to have tax liability of at least $5,000 are required to make quarterly estimated payments. Returns are due five months after the end of the tax year, but a corporation may have an automatic six-month extension and the Department of Revenue may grant additional extensions. Corporations taking an extension and expecting to have tax liability greater than their estimated payments generally make a tentative payment when their return is due. The minimum corporation tax payment for a year is $50.

Table 1 shows total and general fund revenue from corporation license taxes for FY 1998 through FY 2008 and projections for FY 2009 through FY 2011. Revenues were already declining from their unusual high in FY 2007; they are expected to continue to decline in FY 2009 and FY 2010 due to a downturn in national economic conditions and increase in FY 2011.

Table 1
Corporation License Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998	$69.725	8.8%
A	1999	$80.142	14.9%
A	2000	$90.683	13.2%
A	2001	$103.670	14.3%
A	2002	$68.173	-34.2%
A	2003	$44.138	-35.3%
A	2004	$67.723	53.4%
A	2005	$98.214	45.0%
A	2006	$153.675	56.5%
A	2007	$177.504	15.5%
A	2008	$160.342	-9.7%
F	**2009**	**$159.781**	**-0.3%**
F	**2010**	**$141.435**	**-11.5%**
F	**2011**	**$155.864**	**10.2%**



Note the volatility of the corporation license tax and its sensitivity to national economic indicators. This instability is also apparent when the revenue is broken down into its components.

Risks

- The estimate relies on the Global Insight baseline forecast of national corporate profit before taxes; if economic conditions change significantly, Global Insight's forecast will likely change as well. Global Insight includes both an optimistic and pessimistic scenario in its forecast service. The pessimistic scenario includes the following assumptions:

    - o The financial crisis worsens

    - Credit markets remained clogged
    - Reduced consumer spending
    - Housing market continues to fall
- In the October forecast, Global Insight assigns a probability of 25% to the pessimistic scenario occurring. If actual economic conditions over the next several years follow the pessimistic scenario, then corporate tax collections for FY 2009 through FY 2011 will likely be lower than estimated by $72 million
- A factor that can accelerate and deepen downward turns in revenues is the ability of corporations to claim losses against income in other years through the carry back and forward attributes of the tax code
- The Montana tax base is Montana's share of taxable profits for federal corporate income tax. With a new administration in Washington D.C. beginning January 2009, federal tax changes for corporate income taxes are possible

Significant Factors

- The downturn in revenue over the next several years is unlikely to match the severity of the downturn in the 2000 recession. The economic turbulence of 2000 had significant Montana impacts that almost certainly will not be repeated.
- The Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed first year depreciation to be increased by 30% for purchases between September 10, 2001 and May 5, 2003 and by up to 50% for purchases between May 6, 2003 and December 31, 2004. This temporary change in accounting rules shifts corporate profits and taxes from calendar years 2001 through 2004 to later years.

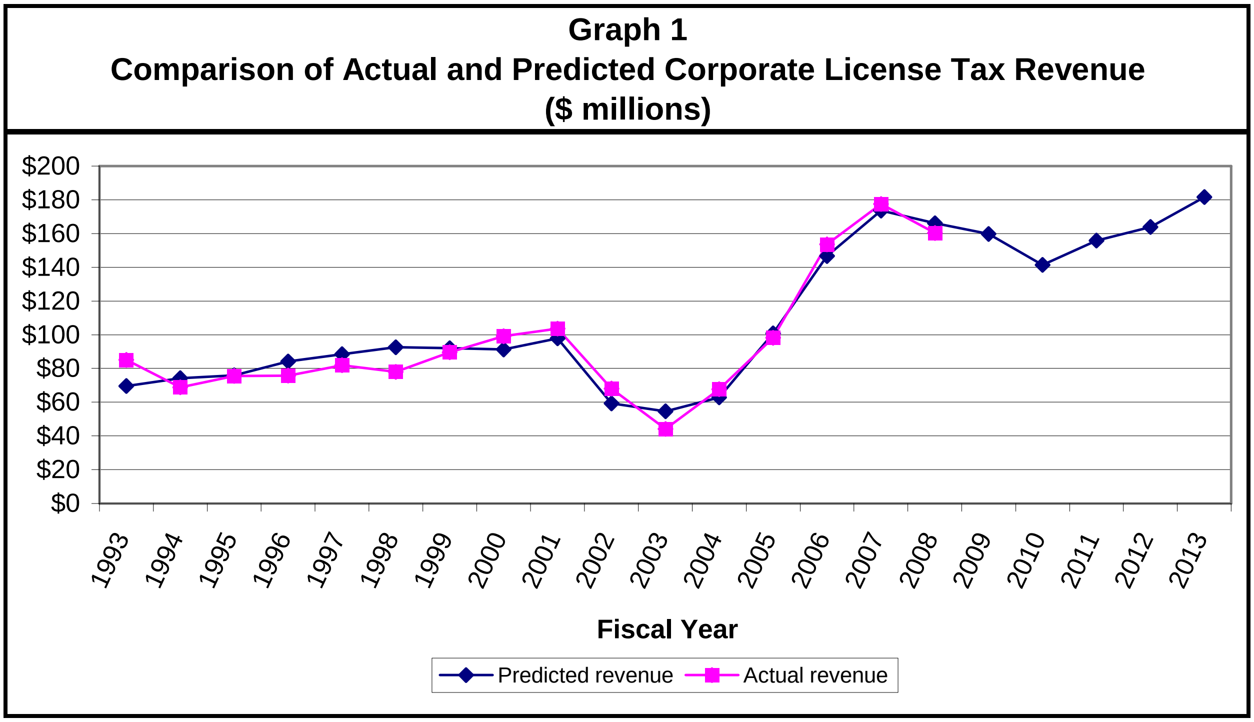
Forecast Methodology

Corporation license tax revenue estimates are made in three steps:

Step 1: The model is based on Bureau of Economic Analysis (U.S. Department of Commerce) data on national corporate profits before taxes and Global Insight November 2008 forecast of the same for FY 2009 through FY 2011. National profits before taxes from the prior year have a relatively good level of predictive power for Montana corporate tax revenues.

Step 2: Total corporate license tax collections, including both general fund and non-general fund revenues, for FY 1993 through FY 2008 were regressed against prior year national corporate profits before taxes to produce an estimate of the relationship. The regression model also incorporates a time trend and a qualitative variable indicating times of national economic downturn.

Step 3: The model is then used to estimate revenues based upon the Global Insight forecast of national before-tax corporate profits. The fit of predicted to actual revenue is shown in Graph 2.



Data Sources

Data was obtained from SABHRS and the November 2008 Global Insight forecast.

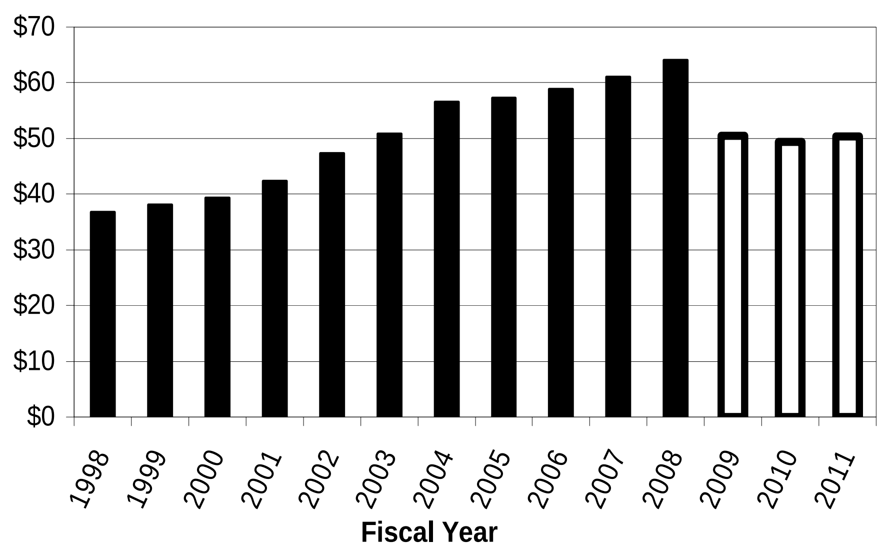
Revenue Description

Montana levies a tax of 2.75% on net premiums on all insurance policies (33-2-705, MCA) except health service corporations, which are exempt from all premium taxes under section 33-30-203, MCA. There is an additional tax of 2.5% on premiums for fire and casualty insurance on property, insurance of property in transit, insurance against loss or damage to motor vehicles, crop insurance, insurance against water damage, insurance against property damage from vehicle accidents, and insurance against theft of a vehicle (50-3-109, MCA). The State Auditors Office (SAO) administers the collection of these taxes.

Table 1 presents the general fund receipts from insurance premium taxes since FY 2008 and forecasts receipts through FY 2011 with the effects of passage of Initiative No. 155 (I-155). The initiative transfers one-third of insurance premium tax receipts (exclusive of Fire/Casualty taxes collected under (50-3-109, MCA,) to a state special revenue fund for the Healthy Montana Kids plan. The initiative reduces general fund collections by $17.1 million in FY 2009, $22.1 million in FY 2010 and $22.3 million in FY 2011.

Table 1
Insurance Premiums Tax - General Fund Collections
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998	$36.813	45.3%
A	1999	$38.137	3.6%
A	2000	$39.334	3.1%
A	2001	$42.298	7.5%
A	2002	$47.291	11.8%
A	2003	$50.810	7.4%
A	2004	$56.527	11.3%
A	2005	$57.308	1.4%
A	2006	$58.795	2.6%
A	2007	$61.298	4.3%
A	2008	$64.004	4.4%
F	**2009**	**$52.955**	**-17.3%**
F	**2010**	**$49.349**	**-6.8%**
F	**2011**	**$49.669**	**0.7%**



The basic fee structure of insurance premium taxes have not changed significantly since FY 1998 when collections were consolidated and directed to the general fund. However, insurance companies are allowed to offset some of their premium taxes due, for other statutory mandates. Key programs that reduce insurance premium tax collections are assessments for the Montana Life and Health Insurance Guarantee Association (MLHIGA), assessments for the Montana Comprehensive Health Association (MCHA) and administrative fees for the state captive insurance program. The collective impacts of these various programs have reduced state general fund receipts by approximately $1.75 million a year since FY 2000.

Prior to FY 2006, a statewide genetic testing and counseling program for parents (and prospective parents) was funded by a fee on insurers under 50-19-211 MCA, and recorded in an insurance premiums tax account. The program fee was paid by insurers or health service corporations, for each Montana resident insured under any individual, group disability, or health insurance policy. The 2005 Legislature (SB 275) changed the disposition of the fee revenue from the general fund to a state special revenue fund (50-19-212, MCA). The 2007 Legislature in SB 162 expanded the program, increased the fees from $0.70 to $1.00 per insured resident, and continued funding the program out of the designated state special revenue fund.

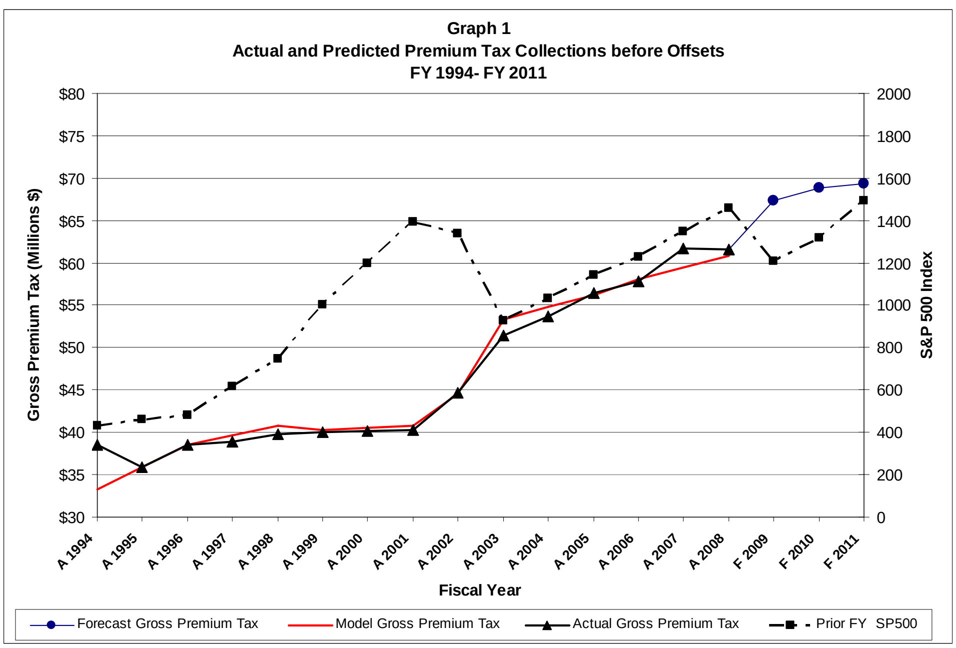
Captive insurance companies are regulated under Title 33, Chapter 28 of the Montana Code commencing with legislation enacted by the 2001 Legislature (SB 373). Captive Insurance firms pay tax on premiums collected under 33-28-201, MCA. These premium taxes are accounted for in the same account as premium taxes collected under 33-2-705, MCA. The 2007 Legislature, through SB 161 reserved five percent (5%) of the tax on premiums paid by captive insurance companies for the administration of captive insurance companies. In FY 2008 nearly $225,000 in premium taxes were collected from captive insurance companies and $11,233 was directed to the state special revenue account. Presently, premiums tax collections from captive insurance companies represent a very small fraction (less than 0.35%) of total premium tax collections. While they constitute a rapidly growing source of insurance coverage; these collections are not anticipated to materially affect the level of overall insurance premium tax collections in the near future.

Significant Factors

Insurance companies collect insurance premiums from policy holders and pay claims from premium collections and investment earnings. When investment earnings are high, insurance companies can reduce premiums charged to clients. Premium tax collections tend to move counter cyclically with financial markets

Forecast Methodology

Step 1: Insurance premium taxes forecast. Insurance premiums taxes before offsets are projected from a model of relationship between Insurance premium tax collections and the average Standard and Poor's 500 stock index value for the prior fiscal year. The fit of the regression model for estimating gross premium taxes (before offsets) is illustrated in Graph 1.



The impact of applying the growth rates derived from modeling FY 1994 through FY 2008 actual gross premium tax collections against prior fiscal year average S&P index values is presented in Table 2.

Step 2: **2:** Calculate Offsets.

Insurance premiums taxes are forecast based on prior trends and State Auditor's office estimates. Table 3 lists the actual insurance company claimed premium tax offsets through FY 2008 and estimates of future offsets. The Montana Life Insurance Guarantee Association (MHHIGA) assessments are approaching zero. The Montana Comprehensive Health Insurance Association (MCHA) assessments fluctuate. In October 2006 MCHA reported that they revised the way they calculate their assessments, at the time they anticipated that

Table 2 Insurance Premiums Tax Growth Before Offsets		
Fiscal Year	Base Premiums Tax Before Offsets ($ million)	% Growth
A 1998	$36.212	-4.5%
A 1999	$35.674	-1.5%
A 2000	$37.834	6.1%
A 2001	$39.874	5.4%
A 2002	$44.803	12.4%
A 2003	$48.630	8.5%
A 2004	$53.419	9.8%
A 2005	$55.526	3.9%
A 2006	$56.300	1.4%
A 2007	$59.146	5.1%
A 2008	$61.609	4.2%
F 2009	**$67.346**	9.3%
F 2010	**$68.786**	2.1%
F 2011	**$69.324**	0.8%

Table 3 MLHIGA and MCHA Offsets ($ millions)			
Fiscal Year	MHLIGA Offsets	MCHA Offsets	Total Offsets
A 1998	$2.801	$0.229	$3.030
A 1999	$1.936	$0.702	$2.638
A 2000	$1.354	$0.729	$2.083
A 2001	$0.587	$0.274	$0.861
A 2002	$0.259	$0.481	$0.740
A 2003	$0.374	$1.089	$1.463
A 2004	$0.368	$0.793	$1.161
A 2005	$0.382	$1.268	$1.650
A 2006	$0.311	$0.805	$1.116
A 2007	$0.132	$ 1.547	$1.679
A 2008	$0.022	$1.554	$1.576
F 2009	**$0.010**	**$1.650**	**$1.660**
F 2010	**$0.010**	**$1.750**	**$1.760**
F 2011	**$0.010**	**$1.860**	**$1.870**

assessments would stabilize. Data for FY 2007 and FY 2008 suggest that may be the case. For this forecast the assessments are grown by 6%, in order to capture long run medical cost increases.

Step 3: Calculate Fire surtax. The Fire Marshal surtax on fire and casualty insurance is projected using the historical proportion of these taxes with respect to base insurance premium tax collections, before offsets. Table 4 lists the anticipated fire/casualty (or Fire Marshall) tax) collections for FY 1998 through FY 2007. The FY 2008 estimate included a FY 2009 prior year adjustment to represent actual underlying economic activity in FY 2008. Actual Fire/Casualty surtax collections have steadily remained between 6.2% and 6.5% of gross premium taxes since FY2003. The five year average of 6.43% of gross premium taxes is used to project Fire Marshal tax collections. Table 4 reflects actual FY 2008 activity with a prior year adjustment for a fiscal year-end that misallocated revenue between the insurance premium tax account and the fire/casualty surtax account.

Table 4 Fire/Casualty Surtax			
Fiscal	Year	Surtax ($ millions)	% Growth
A	2002	$2.429	11.2%
A	2003	$2.921	20.3%
A	2004	$3.210	9.9%
A	2005	$3.416	6.4%
A	2006	$3.597	5.3%
A	2007	$3.831	6.5%
R	2008	$3.758 [1]	-1.9%
F	**2009**	**$4.260**	**13.3%**
F	**2010**	**$4.351**	**2.1%**
F	**2011**	**$4.385**	**0.8%**

[1] $7.471 minus $3.713 FY 2009 Adj.

Step 4: Calculate insurance licenses and permits. Revenue from insurance licenses and permits are projected based on a three-year moving average.

Step 5: Total the Estimates. Total general fund insurance premiums tax revenue (net of offsets) from the fire/casualty insurance surtax, and licenses and permits fees are summed to arrive at the estimate of insurance premiums tax collections for FY 2009, FY 2010 and FY 2011. Table 5 sums all the estimates and factors in the estimated impact of the passage of Initiative -155.

Table 5
Total General Fund Insurance Premium Tax Collections
($ millions)

Fiscal Year	Insurance Premiums Tax		Offsets		I-155		Fire/Casualty Surtax		Licenses & Permits		General Fund Revenue
A 2002	$44.803	-	$0.740			+	$2.429	+	$0.257	=	$46.748
A 2003	$48.630	-	$1.463			+	$2.921	+	$0.320	=	$50.408
A 2004	$53.419	-	$1.161			+	$3.210	+	$0.559	=	$56.026
A 2005	$55.526	-	$1.650			+	$3.416	+	($0.440)	=	$56.853
A 2006	$56.300	-	$1.116			+	$3.597	+	$0.184	=	$58.965
A 2007	$59.146	-	$1.679			+	$3.831	+	$0.000	=	$61.298
R 2008	$61.609	-	$1.576			+	$3.758	+	$0.068	=	$63.859
F 2009	**$67.346**	-	**$1.660**	-	**$17.081**	+	**$4.260**	+	**$0.090**	=	**$52.955**
F 2010	**$68.786**	-	**$1.760**	-	**$22.119**	+	**$4.351**	+	**$0.090**	=	**$49.349**
F 2011	**$69.324**	-	**$1.870**	-	**$22.260**	+	**$4.385**	+	**$0.090**	=	**$49.669**

Data Sources

SABHRS provided historical tax revenue. The Insurance Department of the State Auditor's Office provided historical data on offsets and estimates future offsets. Standard & Poor's 500-stock index and forecast was obtained from *Global Insight O*ctober 2008 national forecast.

Video Gambling Tax

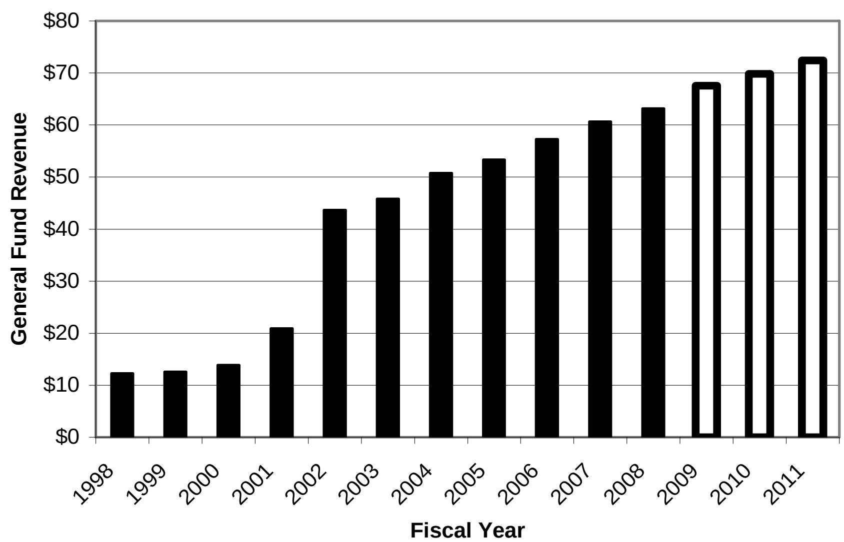
Revenue Description

In accordance with 23-5-610, MCA, a 15% tax is imposed on the gross machine income received from video gambling machines in the state of Montana. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the state general fund.

Table 1 shows actual video gambling revenue to the general fund for FY 1998 through FY 2008, and forecasted revenue for FY 2009 through FY 2010.

Table 1
Video Gambling Tax Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1998	$12.26	10.7%
A 1999	$12.56	2.5%
A 2000	$13.85	10.3%
A 2001	$20.89	50.8%
A 2002	$43.67	109.0%
A 2003	$45.79	4.9%
A 2004	$50.75	10.8%
A 2005	$53.36	5.1%
A 2006	$57.28	7.3%
A 2007	$60.66	5.9%
A 2008	$63.13	4.1%
F 2009	**$67.53**	**7.0%**
F 2010	**$69.84**	**3.4%**
F 2011	**$72.42**	**3.7%**



HB 124 (2001 Session) changed the distribution of the video gambling tax. Prior to the fourth quarter of FY 2001, two-thirds of the video gambling tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning in fourth quarter FY 2001, all video gambling tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue in FY 2001 and FY 2002.

HB 758 (2003 Session) added an additional surcharge fee of $10 on each video gambling machine for establishments with less than 20 machines and $20 per machine for establishments with 20 or more machines. HB 758 allocated all video gambling surcharge revenue to the general fund. Two years later, HB 802 (2005 session) eliminated the video gambling surcharge. Thus, the video gambling surcharge was only collected for FY 2004 and FY 2005.

Significant Factors

The two main factors effecting tax revenue are total personal income for the state as a whole and peoples' participation rates in video gambling. If peoples' income goes down they will have less money to spend on gambling, as well as the trade off

Forecast Methodology

There are three steps in forecasting video gambling revenue:

Step 1: Forecast income in Montana

Step 2: Determine the percentage of income that will be spent on video gambling in order to estimate gross machine income.

Step 3: Apply 15% tax rate to the gross machine income.

Table 2 shows actual total disposable income for Montana, net machine income, tax revenue, and the percent of personal income spent on video gaming for FY 1993 through FY 2008, and estimates for FY 2009 though FY 2010.

Table 2
Video Gambling Trends
($ millions)

Fiscal Year	Personal Income		Net Machine Inc.		% of Total	Tax Revenue[1]
A 1993	$12,970.13	÷	$178.93	=	1.38%	$26.84
A 1994	$13,546.19	÷	$200.35	=	1.48%	$30.05
A 1995	$14,122.90	÷	$208.99	=	1.48%	$31.35
A 1996	$14,659.92	÷	$214.66	=	1.46%	$32.20
A 1997	$15,374.19	÷	$225.39	=	1.47%	$33.81
A 1998	$16,230.82	÷	$244.51	=	1.51%	$36.68
A 1999	$16,961.22	÷	$253.50	=	1.49%	$38.02
A 2000	$17,692.82	÷	$275.89	=	1.56%	$41.38
A 2001	$19,047.10	÷	$276.67	=	1.45%	$41.50
A 2002	$20,154.06	÷	$291.11	=	1.44%	$43.67
A 2003	$21,237.64	÷	$305.29	=	1.44%	$45.79
A 2004	$22,710.75	÷	$336.50	=	1.48%	$50.48
A 2005	$24,099.32	÷	$353.91	=	1.47%	$53.09
A 2006	$25,493.50	÷	$381.85	=	1.50%	$57.28
A 2007	$27,303.96	÷	$404.39	=	1.48%	$60.66
A 2008	$29,139.55	÷	$420.89	=	1.44%	$63.13
F 2009	**$30,604.21**	÷	**$450.21**	=	**1.47%**	**$67.53**
F 2010	**$31,650.48**	÷	**$465.60**	=	**1.47%**	**$69.84**
F 2011	**$32,821.61**	÷	**$482.83**	=	**1.47%**	**$72.42**

[1]Does not include surcharge fees in FY 2004 and FY 2005

The percentage that Montanans spend on video gambling has remained relatively consistent since FY 1993 and the average percentage for FY 1993 through FY 2008 was used to forecast video gambling net machine income. Global Insight provided estimates for the total disposable income for FY 2009 through 2011. Once an estimate for net machine income is established the tax rate of 15% is applied to yield general fund video gaming income.

Data Sources

Historic video gambling revenues were obtained from SABHRS MTGL0109 report. Historic and forecasted values for Montana's total disposable income were obtained from Global Insight's *Fall Short Term Outlook*.