SALES TAXES
SECTION 8

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Retail Telecommunications Excise Tax

2011 Biennium

Revenue Description

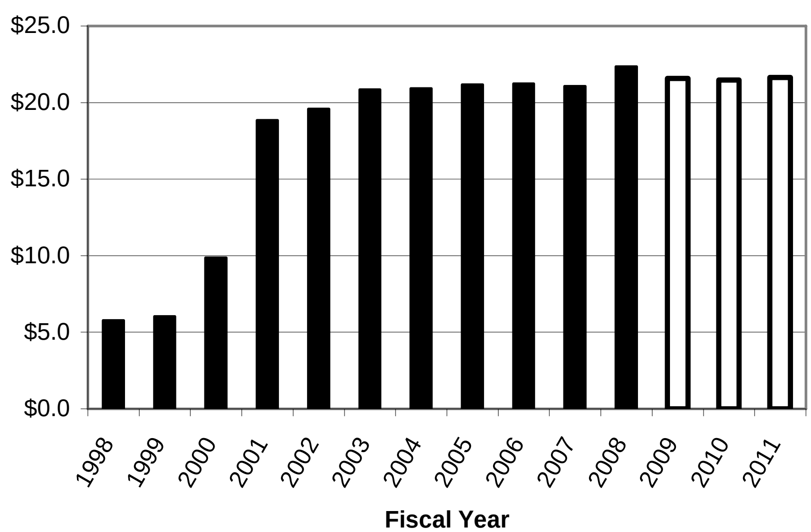
Montana imposes a 3.75% excise tax on retail telecommunications services as directed in 15-53-130, MCA. Telecommunications services are defined as two-way transmission of information over a telecommunications network that originates or terminates in the state and are billed to a customer with a Montana service address. Telecommunications service providers are required to collect the tax and make quarterly payments within 60 days after the end of each quarter. All revenue is allocated to the general fund pursuant to 15-53-156, MCA.

The telecommunications excise tax replaced the telephone company license tax on January 1, 2000 and was intended to replace revenue losses from lower property taxes on telephone company property. Before FY 2000, annual revenues averaged $6 million. The large increases in FY 2000 and FY 2001 reflect the transition from the telephone company license tax to the retail telecommunications excise tax. The increase in FY 2008 revenue was driven primarily by extraordinary audit collections; for the forecast period, a decrease in revenue is expected due to lower audit collections.

Table 1 shows general fund revenue from retail telecommunications excise tax. The important thing to note is the stability of this tax; although audit collections cause small fluctuations in the overall revenue, it is otherwise quite stable and seemingly unaffected by outside economic indicators.

Table 1
Retail Telecommunications Excise Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998	$5.773	-4.5%
A	1999	$6.037	4.6%
A	2000	$9.857	63.3%
A	2001	$18.838	91.1%
A	2002	$19.594	4.0%
A	2003	$20.838	6.4%
A	2004	$20.919	0.4%
A	2005	$21.176	1.2%
A	2006	$21.226	0.2%
A	2007	$21.066	-0.8%
A	2008	$22.350	6.1%
F	**2009**	**$21.584**	**-3.4%**
F	**2010**	**$21.463**	**-0.6%**
F	**2011**	**$21.643**	**0.8%**



Forecast Methodology

Retail telecommunications excise tax revenue is forecast in three steps:

Step 1: Calculate the average annual growth rate of current year tax revenue. Since FY 2003, the growth of the telecommunications excise tax has slowed. Therefore, the average annual growth rate of 0.84% is calculated from FY 2004 to FY 2008. Apply this growth rate to forecast the excise tax revenue.

Step 2: Average the audit, and penalty and interest collections from FY 2003 to FY 2008; add the average to the forecast excise tax revenue.

Step 3: There is litigation in negotiation with the Public Services Commission that would lower the cost of a large telecommunication firm's services; this would result in a reduction of the firm's overall revenue by $16.0 million per year, beginning the first quarter of 2009. It is assessed that if this settlement occurs, it would reduce tax revenue by $0.3 million in FY 2009, $0.6 million in FY 2010 and $0.6 million in FY 2011. This adjustment is included in the forecast.

The Table 2 illustrates the steps listed above.

Table 2
Forecast Calculation
($ millions)

	Fiscal Year	Excise Tax		Audits		Settlement		General Fund
A	2003	$20.294	+	$0.544			=	$20.838
A	2004	$20.081	+	$0.838			=	$20.919
A	2005	$21.173	+	$0.003			=	$21.176
A	2006	$21.226	+	$0.000*			=	$21.226
A	2007	$21.066	+	$0.000*			=	$21.066
A	2008	$21.128	+	$1.223			=	$22.350
F	**2009**	**$21.305**	+	**$0.578**	**-**	**$0.300**	=	**$21.584**
F	**2010**	**$21.484**	+	**$0.578**	**-**	**$0.600**	=	**$21.463**
F	**2011**	**$21.665**	+	**$0.578**	**-**	**$0.600**	=	**$21.643**

*****Audit collections of $0.166 million for FY 2006 and $0.697 million for FY 2007 were accounted for in the following year's prior year revenue and therefore not included in the amount reported to the general fund. However, these figures were included in the audit average calculation.

Data Sources

Retail telecommunications excise tax revenue data is from SABHRS Report MTGL109. Information regarding the possible settlement was obtained from the Public Service Commission.

Institutional Reimbursement

2011 Biennium

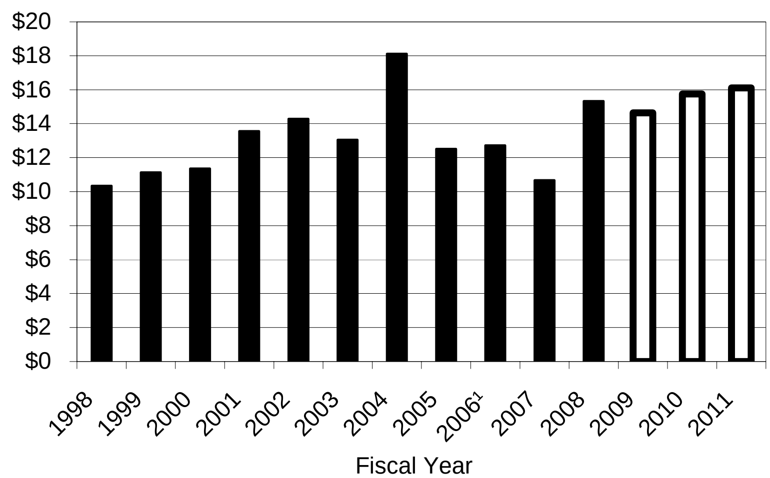
Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operate facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay debt service obligations associated with the institutions' mortgages (90-7-220 and 221, MCA). After the debt service obligations are met, payments for care at the institutions are deposited in the general fund.

Table 1
Institutional Reimbursements - General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1998	$ 10.335	-7.4%
A 1999	$ 11.136	7.8%
A 2000	$ 11.345	1.9%
A 2001	$ 13.554	19.5%
A 2002	$ 14.283	5.4%
A 2003	$ 13.043	-8.7%
A 2004	$ 18.110	38.9%
A 2005	$ 12.509	-30.9%
A 2006[1]	$ 12.728	1.8%
A 2007	$ 10.669	-16.2%
A 2008	$ 15.330	43.7%
F 2009	**$ 14.635**	**-4.5%**
F 2010	**$ 15.760**	**7.7%**
F 2011	**$ 16.119**	**2.3%**



[1]FY 2006 is revised collection amount to include reimbursement of Medicare Part D expenses.

There have been significant changes in both the infrastructure and operation of the institutional facilities. These changes have affected the way expenses were paid at each institution and have affected general fund reimbursement.

In FY 1997, a mental health managed care system was implemented for MSH and MMHNCC. This caused a large drop in institutional reimbursements to the general fund in FY 1997. The managed care contract was ultimately terminated in FY 2000, but the flow of funds remained the same.

New facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC and in 1997 for MSH. Institutional reimbursement revenue is reduced by the amount of the mortgage payments.
The MSH became Medicare-certified. This allows MSH to bill Medicare for a greater portion of eligible residents' expenses than it was able to in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001. In FY 2004, the department received additional revenue from billing Medicare for services in previous years. However, in FY 2005, the Medicare reimbursement formula for MSH was changed, and the department was required to refund some payments it had received in FY 2004.

As part of a lawsuit settlement, DPHHS agreed to move some MDC residents to assisted-living facilities in their communities. Since these facilities are not state institutions, the state does not receive reimbursement for services at these assisted-living facilities. Also a separate, secure unit has been established at MDC. Services provided through this unit are not eligible for federal reimbursement through Medicaid.

Legislation passed by the 2003 Legislature (HB 722 and HB 743) significantly affected reimbursements by making state institutions subject to state health care facility taxes. These taxes, which are part of the cost allowance for Medicaid reimbursement, increased reimbursements. Also, HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 now requires that they be deposited in the general fund.

Forecast Methodology

At each institution, there are up to four sources of reimbursement for patients' costs: patients and their families; insurance; Medicare; and Medicaid. There are four steps to estimating general fund receipts:

Step 1: Estimating daily reimbursement rates for each type of reimbursement at each institution;

- The primary reimbursement sources are payments from patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income (SSI) disability payments. Private and SSI reimbursement rates are based upon estimates provided by DPHHS.
- Insurance rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage.
- Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Medicare payments per day are based upon information provided by DPHHS.
- Medicaid pays costs that residents cannot. Therefore, the Medicaid daily rate is equal to the full cost rate less the patient/family and SSI reimbursements per day. Medicaid is a joint federal-state program, and only the federal portion comes to the state as net reimbursement. Medicaid also pays some ancillary service costs that are not on a daily basis, such as medications and laboratory work. Historically, the variability in Medicaid payment rates can be attributed to, in part, changes in the Federal Medical Assistance percentage (FMAP) rates.

Step 2: Estimating the population and number of care days for which each institution will be reimbursed. DPHHS expects the number of residents at the MDC to increase slightly, the number of residents at MSH to decrease as a result of Goal 189, and the number of residents at the MMHNCC to be generally stable when comparing FY 2008 actual average daily population to FY 2009 through FY 2011 projected average daily population at each respective institution.

Step 3: Multiplying the reimbursement rates by the number of care days to obtain reimbursement revenue. Private reimbursement for a fiscal year is the average daily reimbursement times the number of care days. Medicaid reimbursement for a fiscal year is the average daily reimbursement times the number of Medicaid eligible residents. Care days are based on the average number of (eligible Medicaid) residents times 365 days in a year (366 in leap years).

Step 4: Subtracting the institution's mortgage payments to derive the general fund revenue. General fund revenue is total reimbursements for MDC, MSH and MMHNCC minus debt service payments for MDC and MSH. Debt service payments are provided by DPHHS and are shown in Table 2.

Distributions

Table 2 shows the calculation of forecast general fund revenue from institutional reimbursements in FY 2009 through FY 2011.

Table 2
Institutional Reimbursements to the General Fund
($ millions)

Fiscal Year	Reimbursements MDC		Reimbursements MSH		Reimbursements MMHNCC		Debt Service MDC		Debt Service MSH		General Fund
F 2009	$9.385	+	$4.668	+	$3.508	-	$1.017	-	$1.910	=	$14.635
F 2010	$10.351	+	$4.740	+	$3.596	-	$1.017	-	$1.910	=	$15.760
F 2011	$10.594	+	$4.786	+	$3.666	-	$1.017	-	$1.910	=	$16.119

Data Sources

DPHHS provided actual and projected per day reimbursement rates and care days, as well as information regarding debt service for the facilities. FMAP percentages are based on OBPP estimates.

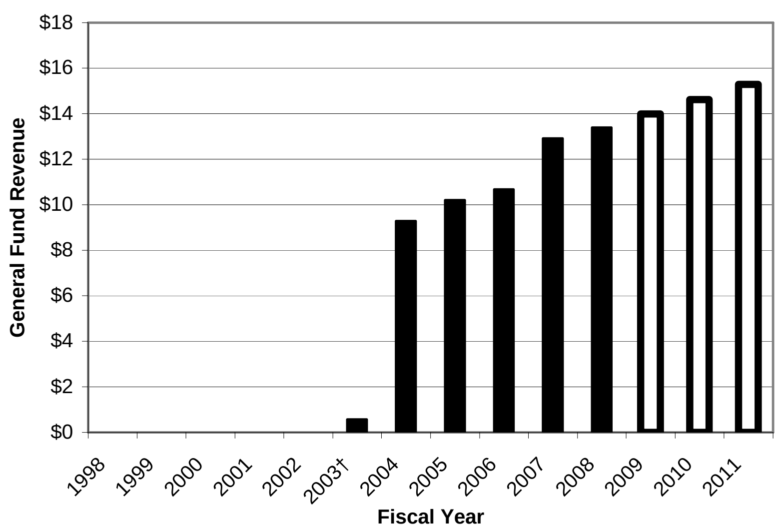
Revenue Description

There is a 3% sales tax on all charges for accommodation at lodging facilities, and campgrounds. All of this revenue is deposited in the general fund. In addition to the 3% sales tax, Montana also charges use tax of 4% on all accommodations. Revenue from the lodging facility use tax is distributed to various entities after the Department of Revenue (DOR) deducts the amount needed for administering the tax, and the portion of the tax paid by state government agencies is remitted to the agencies. This revenue is mainly used for the purposes of promoting tourism.

Table 1 shows actual revenue for the lodging facility use tax distributed to the general fund for FY 1998 though FY 2008 and forecasted values for FY 2009 through FY 2011.

Table 1
Lodging Facility Sales Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 1998	-	-
A 1999	-	-
A 2000	-	-
A 2001	-	-
A 2002	-	-
A 2003†	$0.571	-
A 2004	$9.279	1524.3%
A 2005	$10.201	9.9%
A 2006	$10.679	4.7%
A 2007	$12.916	20.9%
A 2008	$13.390	3.7%
F 2009	**$13.985**	**4.4%**
F 2010	**$14.618**	**4.5%**
F 2011	**$15.278**	**4.5%**



†The lodging facility sales tax was only collected for one month in FY 2003

Only revenue from the lodging facility sales tax is deposited in the general fund. SB 407 (2003 session) enacted the 3% sales tax on accommodations. The general fund received no revenue from accommodation taxes before FY 2003. The lodging facility sales tax was collected for only one month in FY 2003. The first full year of collections is FY 2004.

Forecast Methodology

There are 3 steps in forecasting Lodging Facility sales tax:

Step 1: Estimate lodging charges. The Lodging Facility Use Tax is 4% of the taxable value of accommodations charges and the sales tax is 3% of the accommodations charges.

Step 2: Estimate vendor allowances. There is a vendor allowance for filing of 5% for filing in a timely manner, but may not exceed $1,000.

Step 3: Apply 3% sales tax rate to taxable accommodations charges.

Table 2 shows the actual use tax, the sales tax, the vendor allowance, and the sum of these three numbers divided by the total tax rate of 7% yields taxable accommodations charges.

Table 2 Accommodations Charges and Taxes for FY 2004 - FY 2011 ($ millions)												
Fiscal Year	(	Use Tax	+	Sales Tax	+	Vendor Allowances	)÷	Combined Tax Rate	=	Taxable Accommodation Charges		Percent Change
A 2004	(	$13.70	+	$9.28	+	$1.00	)÷	7.00%	=	$342.57		12.60%
A 2005	(	$14.60	+	$10.20	+	$0.75	)÷	7.00%	=	$364.91		6.52%
A 2006	(	$15.02	+	$10.68	+	$0.58	)÷	7.00%	=	$375.45		2.89%
A 2007	(	$17.91	+	$12.92	+	$0.51	)÷	7.00%	=	$447.66		19.23%
A 2008	(	$18.56	+	$13.39	+	$0.53	)÷	7.00%	=	$464.05		3.66%
F 2009	(	**$19.37**	**+**	**$13.98**	**+**	**$0.54**	)÷	**7.00%**	=	**$484.27**		**4.36%**
F 2010	(	**$20.21**	**+**	**$14.62**	**+**	**$0.54**	)÷	**7.00%**	=	**$505.37**		**4.36%**
F 2011	(	**$21.10**	**+**	**$15.28**	**+**	**$0.54**	)÷	**7.00%**	=	**$527.39**		**4.36%**
F 2012	(	**$22.01**	**+**	**$15.97**	**+**	**$0.54**	)÷	**7.00%**	=	**$550.37**		**4.36%**
F 2013	(	**$22.97**	**+**	**$16.69**	**+**	**$0.54**	)÷	**7.00%**	=	**$574.35**		**4.36%**

Table 3 summarizes the actual distribution of the use tax.

Table 3 Lodging Facility Use Tax Allocation ($ millions)					
Entity	FY 2007	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**
DOR Tax Administration	$0.15	$0.15	**$0.15**	**$0.15**	**$0.15**
State Agency Reimbursement	$0.20	$0.21	**$0.23**	**$0.25**	**$0.27**
MT Heritage Preservation & Development	$0.40	$0.40	**$0.40**	**$0.40**	**$0.40**
Historical Society	$0.17	$0.18	**$0.19**	**$0.19**	**$0.20**
University System	$0.43	$0.45	**$0.46**	**$0.49**	**$0.51**
Fish, Wildlife, & Park	$1.12	$1.16	**$1.21**	**$1.26**	**$1.32**
Commerce	$11.58	$12.02	**$12.55**	**$13.11**	**$13.69**
Regional Travel Promotion	$3.86	$4.01	**$4.18**	**$4.37**	**$4.56**
Total Revenue	$17.91	$18.56	**$19.37**	**$20.21**	**$21.10**

The remainder is distributed as follows:

1. The Montana heritage preservation and development account receives $400,000.
2. The Remainder is distributed in the following way:
   a. 1% to the Montana Historical Society for roadside historic sites and signs,
   b. 2.5% to the university system for tourism research,
   c. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
   d. 67.5% to the Department of Commerce for statewide tourism promotion, and
   a. 22.5% to regional tourism promotion agencies

Data Sources

Fiscal year end revenues are from SABHRS MTGL0109 report, additional data was provided by DOR's GENTAX system.

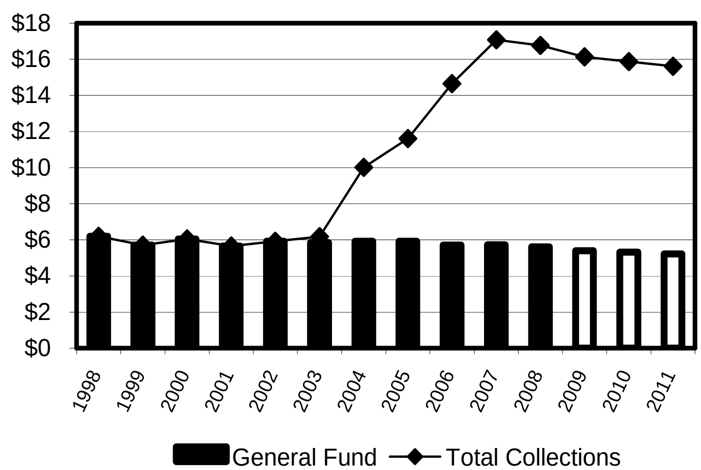
Revenue Description

Montana imposes a per bed day fee on nursing facilities and intermediate care facilities for the developmentally disabled. The fee for nursing facilities was $2.80 per bed day through FY 2002. The fee was raised to $4.50 in FY 2003, to $5.30 in FY 2005, and to $7.05 in FY 2006. In FY 2007 it was raised to $8.30 (15-60-102, MCA). Through FY 2002, all fees were allocated to the general fund. Beginning in FY 2003, $2.80 of the fee per day is allocated to the general fund and the remainder is allocated to a state special revenue fund.

The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). Fees collected from the facilities operated by the Department of Public Health and Human Services (DPHHS) are allocated 30% to the general fund and 70% to the prevention and stabilization special revenue fund.

Table 1
Health Care Facility Utilization Fees General Fund Revenue
$ (Millions)

Fiscal Year	Total Collec-tions	General Fund	Percent Change
A 1998	$6.200	$6.200	-5.5%
A 1999	$5.713	$5.713	-7.9%
A 2000	$6.055	$6.055	6.0%
A 2001	$5.656	$5.656	-6.6%
A 2002	$5.918	$5.918	4.6%
A 2003	$6.178	$5.860	-1.0%
A 2004	$10.022	$5.916	1.0%
A 2005	$11.602	$5.912	-0.1%
A 2006	$14.650	$5.712	-3.4%
A 2007	$17.074	$5.717	0.1%
A 2008	$16.759	$5.610	-1.9%
F 2009	**$16.137**	**$5.399**	**-3.8%**
F 2010	**$15.874**	**$5.310**	**-1.6%**
F 2011	**$15.616**	**$5.223**	**-1.6%**



Nursing facility fees were enacted in HB 93 of the 1991 Session. The fee was $1 per bed day for FY 1992 and $2 per bed day for FY 1993 and applied only to bed days reimbursed by a third-party payer, such as insurance or a public assistance program. All revenue was deposited in the general fund. HB 333 (1993 Session) applied the fee to all bed days beginning in FY 1994. HB 333 also raised the fee to $2.80 beginning in FY 1995, and allocated all revenue to the nursing facilities fee state special revenue account. SB 83 (1995 Session) allocated all revenue to the general fund beginning in FY 1996.

The 2003 Legislature passed three bills that changed health care facility fees. HB 705 set the nursing facilities fee at $4.50 in FY 2004 and $5.30 beginning in FY 2005, and allocated the additional revenue to the nursing facilities fee account. HB 743 made the Montana Mental Health Nursing Care Center (MMHNC) subject to the nursing facility fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization account. HB 722 created a new fee equal to 5% of charges for care that applied only to the Montana Developmental Center (MDC). The revenue from the new fee is allocated 30% to the general fund and 70% to the prevention and stabilization fund.

In 2005 the Legislature passed two bills, HB 749 and SB 82, which changed health care facility fees. HB 749 increased the facility bed tax to $7.05 per day in FY 2006 and to $8.30 per day in FY 2007. The increased revenue from fees collected from non-state facilities is allocated to the nursing facilities fee account. SB 82 increased the bed tax on intermediate facilities for the developmentally disabled from 5% to 6% and amended the definition of facilities to which the 6% bed tax applies to include intermediate care facilities for the mentally retarded. SB 82 was effective immediately on passage and was retroactive in its effect back to the beginning of tax year 2005.

Forecast Methodology

Revenue is estimated separately for fees from private nursing homes, the MMHNCC, and the MDC. The estimate is based on forecast bed days for the MMHNCC and budget estimates for the MDC. Forecast bed days for non-state owned facilities are based on the historic trend.

- From FY 1998 through FY 2008, taxable bed days at non-state facilities declined at an average rate of 2.06%. However, beginning in 2001 the rate of decline slowed and the average rate of decline over the period from 2002 through 2008 was 1.80%. Bed days are projected to continue to decline at the rate of 1.80% per year in FY 2009 through FY 2011. Revenue from non-state facilities is declining over the forecast period because fewer bed days are estimated.
- Bed days for FY 2009 through FY 2011for the Montana Mental Health Nursing Care Center (MMHNC) are forecast by DPHHS, which operates the facility. Total collections equal the number of bed days multiplied by the fee per bed day of $8.30. Thirty percent of collections are allocated to the general fund and seventy percent are allocated to the prevention and stabilization account. For the period of FY 2009 through FY 2011, bed days at MMHNC are estimated to remain constant at 30,145.
- MDC is the only facility subject to the intermediate care facility utilization fee. The fee is 6% of the cost of care billed to residents and third parties. The cost of care for FY 2009 through FY 2011 is estimated by DPHHS, which operates the facility, and is based on planned numbers of residents and expected costs. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization account.

Distributions

Total collections for each fund are calculated by summing the collections from non-state facilities and collections from the two state facilities. Table 2 shows total projected collections for each fund and the total projected collections for all funds for FY 2009 through FY 2011.

Table 2
Total Health Care Facilities Utilization Fee Collections and Distibution
($ millions)

Fiscal Year	General Fund		Nursing Facility Utilization Fee Account		Prevention and Stabilization Account		Total Collections
F 2009	**$5.399**	+	$9.898	+	$0.840	=	**$16.137**
F 2010	**$5.310**	+	$9.719	+	$0.845	=	**$15.874**
F 2011	**$5.223**	+	$9.544	+	$0.849	=	**$15.616**

Data Sources

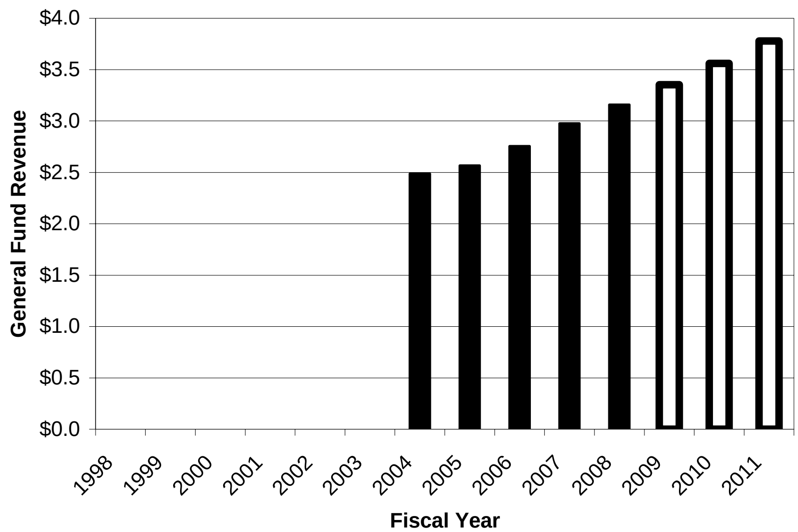
Past collections are from SABHRS Data Mine. Past bed days are from the Department of Revenue as reported on tax returns. Future bed days and cost of care at MMHNCC and MDC are from DPHHS.

Revenue Description

Montana imposes a 4% tax on rental vehicle sales. The rental vehicle sales tax collections began in FY 2004. All revenue from the rental car sales tax is allocated to the general fund. Table 1 shows actual revenue for the rental car sales tax for FY 2004 through FY 2008 and projected revenue for FY 2009 through FY 2011.

Table 1
Rental Car Sales Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	1998		
A	1999		
A	2000		
A	2001		
A	2002		
A	2003		
A	2004	$2.486	
A	2005	$2.566	3.2%
A	2006	$2.755	7.4%
A	2007	$2.976	8.0%
A	2008	$3.157	6.1%
F	**2009**	**$3.352**	**6.2%**
F	**2010**	**$3.559**	**6.2%**
F	**2011**	**$3.779**	**6.2%**



Forecast Methodology

There are two steps to calculating rental car sales tax

Step 1: Calculate an average growth rate. Rental car sales tax revenue is highly reliant on the tourism industry and a downturn in the national economy could result in a decline in the growth of the tourist industry.

Step 2: Apply that growth rate to the last fiscal year tax revenue.

Due to the limited number of years this tax has been levied, an average growth rate for tax revenue was calculated. The average tax revenue growth rate of 6.17% was applied to the prior year's tax revenue to forecast revenue for FY 2009 through FY 2011.

Data Sources

Historic general fund revenue from the rental car tax was from SABHRS MTGL0109 report.