GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

Governor's Budget
Fiscal Years 2026 – 2027

Revenue Estimates
General Fund and Select Funds

Governor's Office of Budget
and Program Planning

Volume 2

Revenue Estimates

2027 Biennium

Submitted by

Governor's Office of
Budget and Program Planning

Volume 2

TABLE OF CONTENTS

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

ECONOMIC OVERVIEW
SECTION 1

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Economic Overview

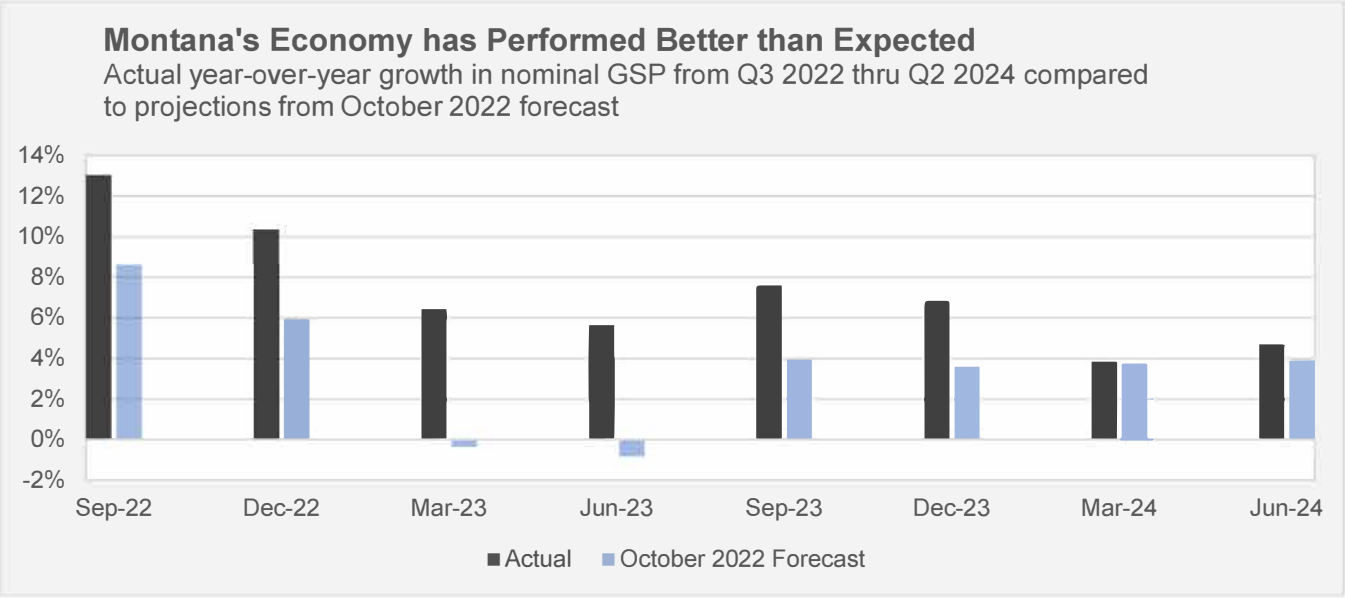
Introduction

Revenue estimates are a core piece of the executive budget, informing both current and future expenditure decisions. Appropriately digesting economic data is important to understanding the intricacies of the various sectors of the economy and how that influences tax revenue for the state of Montana. In addition to knowing the details of individual sectors, it is often helpful to zoom out to a macro view of the economy, to understand, in broad terms, the interplay among important components of the economy such as employment, inflation, consumption, government activity, etc. This section provides an overview of economic conditions in the national economy and then moves into a more detailed discussion of the current outlook for the Montana economy. The economic overview is meant to shed light on the economic assumptions that are consistent across all the revenue estimates. Further details on sector-specific economic assumptions are available in the descriptions of each individual revenue source.

Montana Economy

The Recent Past

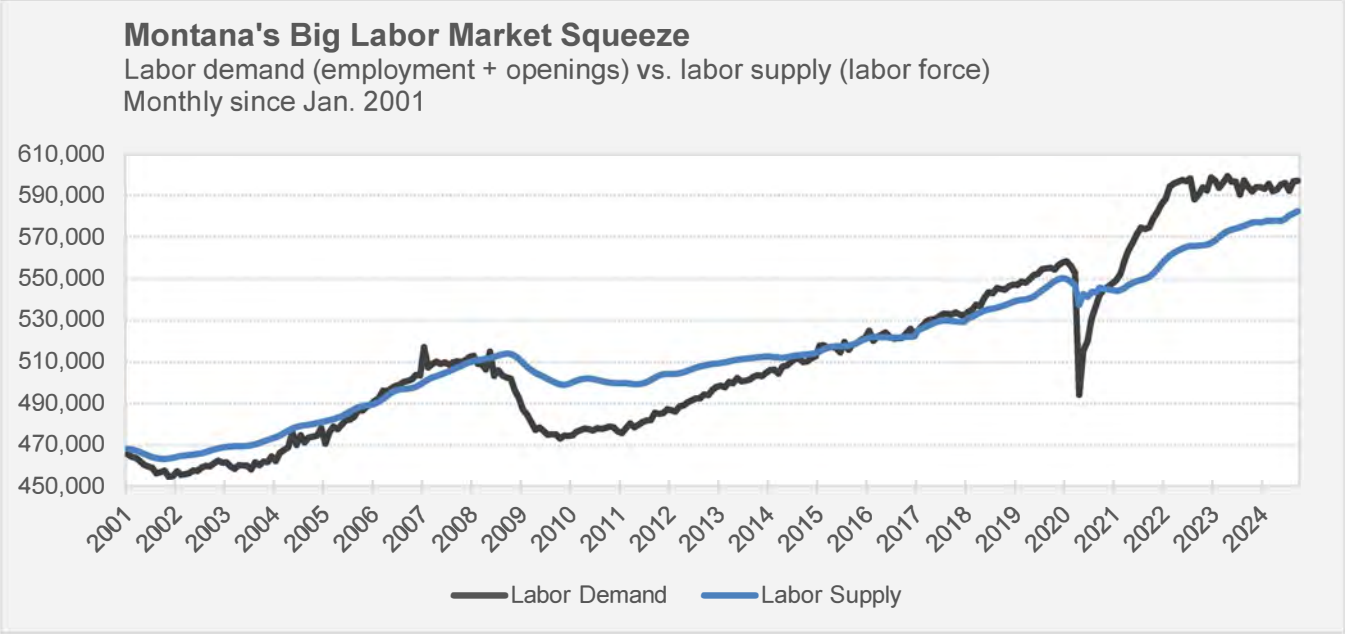
Montana's economy, as measured by gross state product (GSP), performed strongly in 2023. During the period Q4 2022 to Q4 2023, nominal GSP grew by 6.8% from just under $70 billion to $74.5 billion. Real GSP during this period grew by 5.6% from $55 billion to $58 billion. Growth has continued in 2024, but at a more modest pace. For Q2 2024, nominal GSP rose at a quarter-over-quarter annualized pace of 4.7%, or 3.1% on an inflation-adjusted basis. Prior to the 2023 legislative session, the state's contracted forecasting firm, S&P Global, projected average quarterly year-over-year growth of 2.8% from Q4 2022 to Q2 2024. Factoring in the assumption for inflation yielded a real growth forecast of just 0.4% for the same period. Better than expected growth, coupled with upward revisions to historical data by the U.S. Bureau of Economic Analysis (BEA), resulted in Q2 2024 GSP coming in much higher than projected. Nominal GSP of $75.8 billion exceeded its October 2022 estimate by $5.2 billion (7%) and real GSP of $58.5 billion exceeded its estimate by $8.3 billion (16%) – softer inflation explains why real GSP performed relatively better. This upward swing translates to about $460 million in general fund revenue given the historical gearing between CY real GSP and FY general fund revenue. The better-than-expected performance of Montana's economy in 2023 and so far in 2024 can be linked to several factors, some of which are discussed in further detail below.



The implication of healthy growth in Montana's GSP is strength in its underpinnings. Real GSP growth was broadly distributed across industry sectors. All but two industries experienced real growth over 2% from Q4 2022 to Q4 2023 and five industries topped 4% growth: agriculture, manufacturing, construction, information, and education and health services. The widespread economic lift is reflective of a robust labor market and rising incomes. Real disposable income

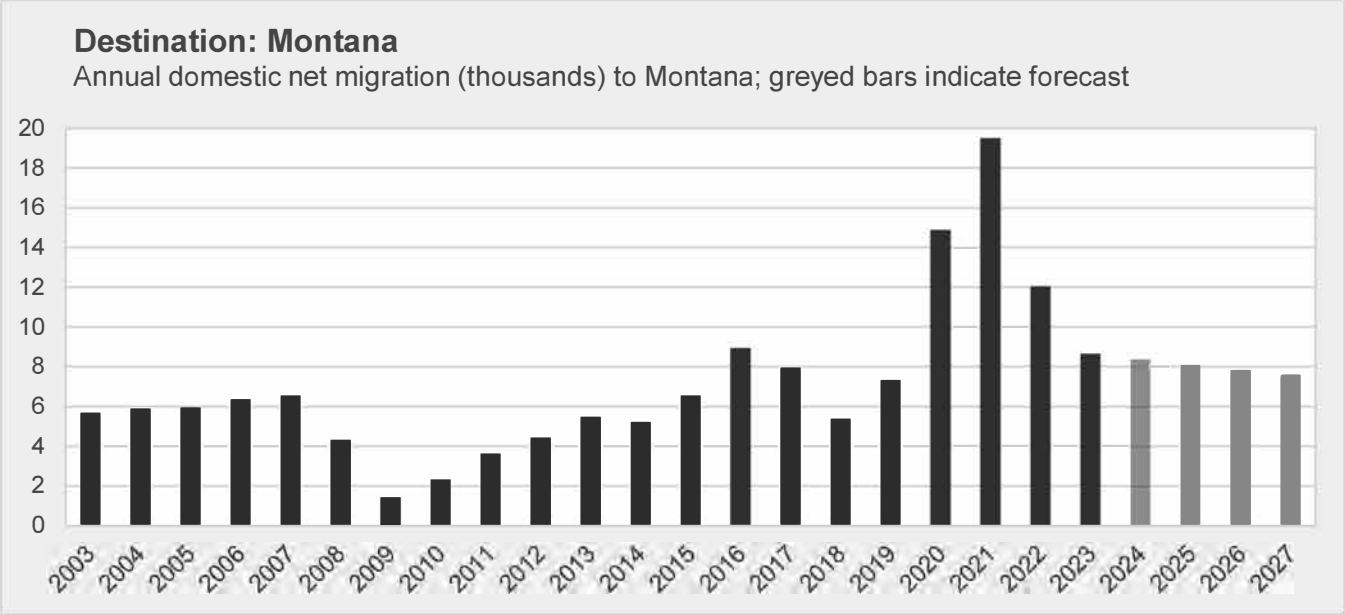
expanded at an average pace of 5.4% in 2023, supported by persistent growth north of 2% from both wage and nonwage sources. Wage income grew faster than nonwage income. Montana's (nominal) average annual wage reached $58,230 in Q4 2023, up 5.2% from $55,400 in Q4 2022. Income from transfer payments declined in 2023 meaning more income was derived from factors such as employment, productivity, and entrepreneurship rather than government assistance. These strong income gains supported healthy levels of consumer spending in 2023. Total personal consumption expenditures expanded by 5.5% from the end of 2022 to the end of 2023. Goods spending (34% share) increased by 4.2% and services spending (66% share) increased by 6.3%. Consumption is the single largest contributor to GSP growth, so the overall health of the economy is closely linked to the health of the individual consumer. Consumers enjoyed expanding incomes, moderating inflation, and more jobs in 2023, trends that have continued so far in 2024, albeit at slower rates.

The total number of employed people in Montana is at its highest level in history. As of Q2 2024 there were 560,140 jobholders in Montana, up 0.4% from 557,800 at the end of 2023 and 1.6% from 551,370 at the end of 2022. Total employment has flattened since the beginning of 2023 following an extended period of solid growth in the wake of the pandemic. At the same time, the labor force has continued its expansion. The number of people available for work stands just shy of 578,000 as of Q2 2024. Labor force growth has outpaced employment growth since mid-2023, a reversal of the relationship that existed since early 2021. This development has added some slack to a labor market that has been incredibly tight in recent years. The jobless rate in Montana has been below 4% since Q4 2020 and was below 3% for the eight quarters from Q4 2021 through Q3 2023, a historic run. Worker demand, measured as employment plus job openings, has vastly exceeded supply since 2020. Job openings rocketed upward in 2021 as businesses struggled to find workers, which, in conjunction with the low level of unemployed, has created a labor market where there are multiple jobs available for every one unemployed individual. At its peak in 2022, this metric was three jobs per unemployed person. Easing labor market pressures over the past 12 months have brought this metric back down to under two jobs per unemployed person. The general downward path of the quits rate is another indicator of easing in the labor market. A high quits rate is a signal that workers are confident in their ability to improve their employment situation by leaving their current position; thus, when jobs are plentiful, quits rise. Workers are much less likely to voluntarily leave their job when the prospect of quickly acquiring another one more suited to their preferences becomes murky, and so quits decline. Montana's labor market is clearly on a softening trend. Labor demand has flattened while labor supply persistently ticks upward. A return to relative equilibrium is on the horizon.



Another market that moved strongly into disequilibrium following the pandemic shock is Montana's housing market. Household formations in 2021 and 2022 recorded their strongest gains since the mid-1990s, ascending by 2.2% and 2.6%, respectively when measured Q4 to Q4. Growth in formations fell by just over a percentage point in 2023 to about the historical average of the past 30 years. The total number of households in Montana was 450,000 at the end of 2020. By the end of 2023, this number swelled to 480,000. Along with the rise in formations came an incredible surge in home prices. Over the three years from Q4 2020 to Q4 2023, the median price for a new home grew by 30% and the median

price for an existing home grew by 44%. Such rapid gains in home prices have not been without their consequences. Shortage of affordable housing has become a pointed problem in Montana, and one that is not easily remedied. This massive shock to Montana's housing market is linked to the pandemic's impact on domestic migration patterns. Many people sought an escape from the claustrophobia of urban life that became acute during pandemic lockdowns. The advent of remote work gave people the ability to seek space, something Montana has in spades. Consequently, the state became an attractive destination during the pandemic period.



Domestic net migration to Montana was 14,890 in 2020, more than double the inflow of people in 2019 (7,320). Incredibly, in-migration climbed even higher in 2021 to 19,500. Arrivals to Montana cooled to a still elevated 12,040 in 2022 and then dropped to 8,640 in 2023, a number more in line with historical average levels. On the back of such strong net migration, Montana's total population notched gains of 1.3% in 2020, 1.8% in 2021, and 1.2% in 2022. The 1.8% increase in 2021 was the strongest advance since the mid-1990s. There was a noticeable bump in population growth during the early 2020s for the segment of the population aged 15 – 44, particularly for those aged 25 - 44. Prior to mid-2020, growth in Montana's cohort of people aged 25 - 44 had been flat to declining. The growth rate for this age group moved steeply upward through mid-2021 and then plateaued before starting a downward trend in early 2022. Individuals in this cohort are in their prime working age years and are an important ingredient to a well-functioning economy. The fact that Montana was able to import material amounts of these individuals during the recent in-migration boom is good for the state's economic future. Montana is aging and the influx of prime age workers has and will continue to help relieve some of the economic pressures that come from a population that is skewed toward the older end of the age spectrum.

The Near Future

All the above discussion illustrates that Montana has enjoyed a period of relative economic strength since emerging from the pandemic doldrums. The economic tide has generally risen for Montana's residents, but this is not to say that challenges have been nonexistent – particularly for some of Montana's rural areas, where labor shortages and price increases can be felt more acutely. Looking ahead through 2027, Montana's economy moves back toward its long-term steady state. This means slower growth than what has been experienced lately, but growth, nonetheless. Real GSP growth reverts to trend with the rate of increase averaging 2% annually for the four-year period from 2024 through 2027. Inflation averages 2.3% over the same period, which means nominal GSP growth is projected to register average annual growth of 4.3%. Both metrics, real and nominal GSP growth, are above pre-pandemic levels, with nominal growth being more so because of the ultra-low inflation environment that persisted in the wake of the Great Recession.

Montana Economy - Major Economic Indicators
(Real values reported in 2017 dollars)

Calendar Year	Real GSP (millions)	Percent Change	Total Employment	Percent Change	Labor Force	Percent Change	Unemp. Rate	Percent Change	Real Avg. Wage	Percent Change
2014	$46,167	2.3%	490,234	9.3%	514,192	0.4%	4.7	-12.7%	$37,807	1.6%
2015	$47,766	3.5%	497,226	1.4%	519,453	1.0%	4.3	-8.2%	$38,507	1.9%
2016	$47,190	-1.2%	501,210	0.8%	523,798	0.8%	4.3	0.8%	$38,325	-0.5%
2017	$48,471	2.7%	506,828	1.1%	528,429	0.9%	4.1	-5.2%	$38,522	0.5%
2018	$49,455	2.0%	515,092	1.6%	535,059	1.3%	3.7	-8.7%	$38,562	0.1%
2019	$50,263	1.6%	525,022	1.9%	544,073	1.7%	3.5	-6.2%	$38,915	0.9%
2020	$49,981	-0.6%	512,586	-2.4%	544,340	0.0%	5.8	67.0%	$41,021	5.4%
2021	$53,304	6.6%	530,479	3.5%	549,206	0.9%	3.4	-41.6%	$41,343	0.8%
2022	$55,194	3.5%	549,090	3.5%	564,237	2.7%	2.7	-21.3%	$40,012	-3.2%
2023	$57,373	3.9%	557,394	1.5%	573,808	1.7%	2.9	6.5%	$40,078	0.2%
2024	**$58,720**	**2.3%**	**561,076**	**0.7%**	**579,687**	**1.0%**	**3.2**	**12.3%**	**$40,883**	**2.0%**
2025	**$59,971**	**2.1%**	**563,960**	**0.5%**	**583,783**	**0.7%**	**3.4**	**5.8%**	**$41,302**	**1.0%**
2026	**$61,127**	**1.9%**	**565,317**	**0.2%**	**586,312**	**0.4%**	**3.6**	**5.5%**	**$41,713**	**1.0%**
2027	**$62,247**	**1.8%**	**566,997**	**0.3%**	**588,893**	**0.4%**	**3.7**	**3.8%**	**$42,338**	**1.5%**

Some slackness begins to infiltrate Montana's labor market as labor force growth outpaces total employment growth in each year from 2024 through 2027. As a result, the unemployment ticks up at a steady pace, but remains low, at under 4%, compared to long-term averages. The easing labor shortage will be a welcome development for Montana businesses and the impact to Montana workers will not be to push wages downward. In fact, real wages continue to advance at a clip above pre-pandemic rates. Real wages move up 2% in 2024 and then average 1.4% annual growth for each of the three subsequent years. Real disposable personal income also follows an upward path and does so at an increasing rate. Robust income growth helps support steady consumption growth. After coming down from incredible heights in 2021 and 2022, growth in real consumption expenditures settles around 2.5% for the period 2024 – 2027, a healthy reading. Additionally, the persistent advance of real incomes helps buyers of new and existing homes.

Housing affordability erodes slightly in 2024 but improves thereafter as price growth for new and existing homes recedes while income growth moves in the opposite direction. The median price for an existing home averages 2.0% growth from 2025 through 2027, and the median price for a new home averages 2.6% growth. Homes sales recover somewhat in 2024, posting a year-over-year gain following two straight years of decline. Still, tightness in the market does not allow home sales to return to pre-pandemic rates despite a rising level of housing starts. Household formations rise at a consistent rate of 1.2% starting in 2024, roughly in line with growth in Montana's prime working age population.

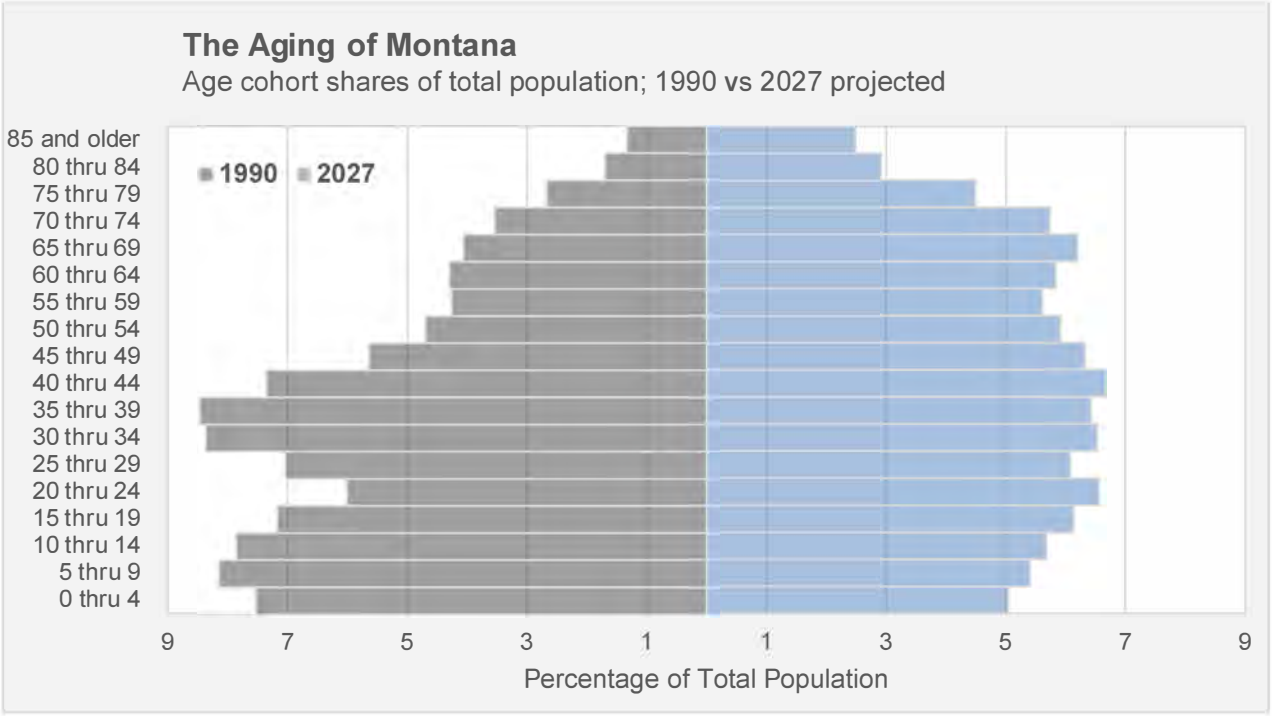
The prime working age group consists of individuals aged 25 – 54. This segment of Montana's population grows faster than total population by just under 0.5% per year from 2024 through 2027. Expansion of this population cohort, as mentioned previously, is good for the economic vitality of the state because it is a cohort that is highly active in pursuing things such as career advancement, family formation, and community involvement. Total population growth retreats from its pandemic-era strength to average growth of 0.8% per year, a little below where it was in the years leading up to 2020. Perhaps the pandemic "pulled forward" some population growth by incentivizing people who were already considering a move to Montana to do so sooner. The following table shows projections for Montana population counts by 10-year age cohort (except for the smaller 0-4 cohort and larger 65+ cohort) for 2023 through 2027. Percent growth from the prior year and the cohort's share of total population are also included for 2024 and beyond. Projections have Montana adding 38,500 people over the four years ending 2027. Of these 38,500 new additions, 60% (23,200) of them come from the 65 and older cohort.

Age Structure of the Montana Population
(thousands)

	2023	2024			2025			2026			2027		
Age Cohort	Pop.	Pop.	Y/Y Chg.	Share	Pop.	Y/Y Chg.	Share	Pop.	Y/Y Chg.	Share	Pop.	Y/Y Chg.	Share
0 thru 4	57.53	57.3	-0.4%	5.0%	57.7	0.6%	5.0%	58.4	1.2%	5.0%	59.2	1.4%	5.0%
5 thru 14	134.31	133.0	-1.0%	11.6%	131.8	-0.9%	11.4%	130.8	-0.7%	11.2%	130.0	-0.6%	11.1%
15 thru 24	145.80	147.1	0.9%	12.9%	148.2	0.7%	12.8%	148.8	0.4%	12.8%	148.7	0.0%	12.7%
25 thru 34	148.20	148.6	0.2%	13.0%	148.7	0.1%	12.9%	148.4	-0.2%	12.8%	147.7	-0.5%	12.6%
35 thru 44	147.60	149.7	1.4%	13.1%	151.5	1.2%	13.1%	152.7	0.8%	13.1%	153.3	0.4%	13.1%
45 thru 54	126.46	129.7	2.6%	11.3%	133.7	3.1%	11.6%	138.5	3.5%	11.9%	143.4	3.6%	12.2%
55 thru 64	141.19	138.2	-2.1%	12.1%	135.8	-1.7%	11.8%	134.4	-1.1%	11.5%	134.2	-0.1%	11.4%
65 and Older	232.96	240.3	3.1%	21.0%	246.7	2.7%	21.4%	251.9	2.1%	21.6%	256.2	1.7%	21.8%
Total	**1,134.1**	**1,143.8**	**0.9%**		**1,154.0**	**0.9%**		**1,163.8**	**0.8%**		**1,172.6**	**0.8%**	

Montana's demographic breakdown is defined by its graying. A visualization of this phenomenon by five-year age cohort is presented in the chart below. The redistribution of Montana's population from younger to older since 1990 is very apparent as Montana's population distribution has become much more uniform over time. In 1990, all but one of the cohorts aged 44 or less accounted for at least 7% of the state's total population. By 2027, none of them do. The cohort of people aged 65 and over continues to swell through 2027 as baby boomers age into the cohort and retirees move into the state.

Not only is this segment of the population growing, but the population of the youngest Montanans is also shrinking. Birth rates in Montana have been on a generally downward trend since 1990. The cohort aged 14 and under declines by 2,600 (1.4%) from where it was in 2023 to 2027. As a share, the under 14 cohort makes up 16% of the state's total population. By comparison, the over 65 cohort accounts for almost 22%. The next highest is the group squarely in the middle of their prime working years; individuals aged 35-44 make up 13% of the total population. Montana's struggle to gain young people is troublesome for the medium-to-long term future of the prime working age population and by extension economic growth. The youngest third of the prime working age group, those aged 25 – 34, starts to experience year-over-year decline in 2026. Even more worrisome is the shrinkage of the population aged 34 and under by about 300 individuals from 2023 to 2027, especially if it's the beginning of a longer-term trend. Young people play a crucial role in filling entry-level and other low-skill jobs while they work their way toward educational and professional advancement. They contribute more economic resources than they require, something that is needed to balance the tipping of Montana's demographic scale toward the other end of the spectrum.



GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

GENERAL FUND REVENUE SUMMARY SECTION 2

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

General Fund Revenue Summary

The state general fund accounts for all the state's financial resources, except for those legally mandated to be accounted for in another fund. Revenue estimates are constructed as part of the Governor's Executive Budget to inform expenditure decisions that maintain compliance with the balanced budget requirement in Article VIII of Montana's constitution. The Governor's Office of Budget and Program Planning generates forecasts for all components of general fund revenue along with select sources of non-general fund revenue.

Forecast Overview

The structure of general fund revenue has undergone some changes since FY 2023. During the 2023 Legislative Session, HB 251 and HB 587 redirected general fund revenue from treasury cash account interest earnings (effective FY 2023) and state 95 mill property tax (effective FY 2024), respectively, to the state special revenue funds. Consequently, general fund revenue took a big step down in FY 2024. Treasury cash account (TCA) interest earnings revert to the general fund beginning in FY 2026 while the diversion of 95 mill property tax to the state special revenue fund is permanent. In the last year without both of these sources, general fund revenue essentially moves sideways in FY 2025, declining slightly by 0.8% from its FY 2024 level. Revenue growth resumes in FY 2026 (4.9%) and FY 2027 (1.6%). The return of interest earnings contributes to revenue growth in both years of the 2027 Biennium. Collections in FY 2027 are just north of $3,500 million, $250 million shy of FY 2023 collections. The slowing pace of income and employment growth and the effects of recent policy changes are important variables in the equation that results in FY 2027 revenue being less than what was booked in FY 2023.

Recent policy changes that affect 2027 Biennium revenue include the aforementioned redirection of 95 mill property tax revenue and a reduction to the top marginal income tax rate resulting from the passage of SB 121 during the 2023 Legislative Session. Individual income tax is the general fund's largest sources of revenue. For the 2027 biennium, income tax accounts for nearly two-thirds of general fund revenue, its role as primary contributor having become more pronounced with the shift of 95 mill property tax revenue to the state special revenue fund. With SB 121 fully in effect, income tax revenue dips by 2.9% in FY 2025, but then rises by an average of 1.7% per year for FY 2026 and FY 2027. Corporation tax, the next largest source of general fund revenue, continues its recent upward trend through FY 2026 and then flattens in FY 2027. Revenue from motor vehicle registrations is unchanged in FY 2025 and then rises by just over 2% per year during the 2027 Biennium. Insurance premiums tax revenue exhibited strong growth in FY 2024 and this strength is projected to persist through FY 2027. This is the group of six major taxes sources, 84.5% of general fund revenue, for the 2027 biennium.

Total revenue from the natural resource tax group hovers just over $100 million per year during the forecast period. Projected natural resource tax revenue in FY 2027 is slightly less than what was realized in FY 2024 due primarily to generally lower resource prices (particularly for coal exports). Prices during the forecast period are projected to be relatively stable with slight upward drift. Coal output declines while oil output rises. For the 2027 Biennium, 3% of general fund revenue comes from this group.

Interest earnings revenue contributes materially again to general fund revenue for the 2027 Biennium when TCA earnings move back to the general fund from the state special revenue fund. Both the fund balance and yield on short-term assets in the TCA follow a downward trend in FY 2026 and FY 2027; nonetheless, the level of earnings remains elevated by historical standards. Interest earnings from the coal severance tax permanent trust fund plod steadily upward over the forecast period. In total, these two sources of revenue contribute 3% of the general fund total.

Revenue from the sales tax group averages almost 5% annual growth over the three years FY 2025 – FY 2027. The largest source of revenue in this group is the accommodations sales tax. Both it, and the rental car sales tax exhibit healthy growth through FY 2027, indicating that Montana maintains its position as an attractive travel destination. Cannabis sales tax revenue growth is slow but consistent with average annual growth over the forecast period of 1.4%.

Table 1 on the following page outlines the component-by-component general fund revenue forecast for FY 2025 and the ensuing 2027 Biennium. FY 2024, actuals are included as well. An addendum to Table 1 breaks out revenue from the state's 95 mill property tax and TCA interest earnings that use to be deposited in the general fund but are currently directed to the state special revenue funds.

Table 1
General Fund Revenue
($ Millions)

Revenue Category	Actual FY 2023	Actual FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	27B Share
MAJOR TAXES						
Individual Income Tax	2,254.3	2,243.9	2,178.6	2,212.5	2,252.4	64.1%
Property Tax	355.98	17.03	15.89	14.73	12.65	0.4%
Vehicle Taxes and Fees	123.0	124.9	124.9	127.7	130.7	3.7%
Corporation Income Tax	309.9	312.3	327.2	341.2	344.0	9.8%
Insurance Premiums Tax	106.2	115.1	123.2	131.4	140.1	3.9%
Video Gambling Tax	80.1	83.4	85.6	86.4	86.4	2.5%
Total Major Taxes	**3,229.5**	**2,896.6**	**2,855.5**	**2,913.9**	**2,966.3**	**84.5%**
NATURAL RESOURCE TAXES						
Oil and Gas Production Taxes	71.0	64.40	57.75	59.78	64.99	1.8%
U.S. Mineral Royalties	37.5	15.65	18.36	17.82	19.21	0.5%
Coal Severance Tax	20.9	18.18	15.34	11.63	10.81	0.3%
Metalliferous Mines Tax	7.3	6.57	6.70	6.88	6.88	0.2%
Electrical Energy Tax	4.0	4.09	4.26	4.31	4.35	0.1%
Wholesale Energy Tax	3.5	3.55	3.58	3.63	3.68	0.1%
Total Natural Resource	**144.1**	**112.45**	**105.99**	**104.04**	**109.91**	**3.1%**
INTEREST EARNINGS						
Coal Trust Interest Earnings	18.1	19.14	19.89	21.23	22.43	0.6%
Treasury Cash Interest	0.0	0.00	0.00	93.41	75.06	2.4%
Total Interest Earnings	**18.1**	**19.14**	**19.89**	**114.64**	**97.49**	**3.0%**
LIQUOR TAXES						
Liquor Excise and Lic... Taxes	29.7	30.37	30.64	31.55	32.45	0.9%
Liquor Profits	19.0	7.00	20.50	20.50	21.00	0.6%
Beer Tax	3.2	2.97	2.98	2.93	2.89	0.1%
Wine Tax	2.5	2.50	2.41	2.41	2.41	0.1%
Total Liquor Taxes	**54.4**	**42.85**	**56.53**	**57.40**	**58.74**	**1.7%**
TOBACCO TAXES						
Cigarette Tax	20.8	20.77	19.18	18.77	18.37	0.5%
Tobacco Products Tax	5.4	5.11	4.73	4.52	4.32	0.1%
Tobacco Settlement	3.5	3.00	2.94	2.87	2.81	0.1%
Total Tobacco Taxes	**29.6**	**28.88**	**26.85**	**26.17**	**25.50**	**0.7%**
SALES TAXES						
Telecommunications Tax	8.4	8.14	7.81	7.50	7.20	0.2%
Institutional Reimbursements	4.3	4.90	4.92	6.22	11.34	0.3%
Health Care Facility Fees	3.5	3.54	3.42	3.44	3.47	0.1%
Accommodations Tax	42.3	44.75	46.00	48.57	51.29	1.4%
Rental Car Sales Tax	7.3	6.97	7.97	8.43	8.86	0.2%
Cannabis Sales Tax	29.4	31.80	32.05	32.63	33.19	0.9%
Total Sales Taxes	**95.3**	**100.10**	**102.18**	**106.78**	**115.36**	**3.2%**
OTHER TAXES						
Lottery Profits	22.7	19.31	21.15	22.77	24.71	0.7%
Highway Patrol Fines	3.6	3.47	3.63	3.76	3.78	0.1%
Investment Licenses	20.9	21.04	23.24	24.34	24.66	0.7%
Contractors' Gross Receipts	6.7	9.12	8.76	9.26	9.53	0.3%
Driver's License Fee	6.5	5.77	5.11	5.39	5.61	0.2%
Rail Car Tax	4.0	3.64	3.46	3.53	3.60	0.1%
Other Revenue	120.4	59.82	61.76	62.37	62.92	1.8%
Total Other Taxes	**184.9**	**122.19**	**127.11**	**131.42**	**134.82**	**3.8%**
TOTAL GENERAL FUND	**3,755.98**	**3,322.22**	**3,294.00**	**3,454.37**	**3,508.09**	**100.0%**
Property Tax - SEPTR		430.81	439.12	507.93	515.31	
GENERAL REVENUE		**3,753.03**	**3,733.12**	**3,962.30**	**4,023.40**	
TCA - Debt & Liability Free	118.46	163.30	144.98			
School Interest and Income	54.32	64.46	55.93	56.54	60.06	

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

MAJOR REVENUE
SECTION 3

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Individual Income Tax

2027 Biennium

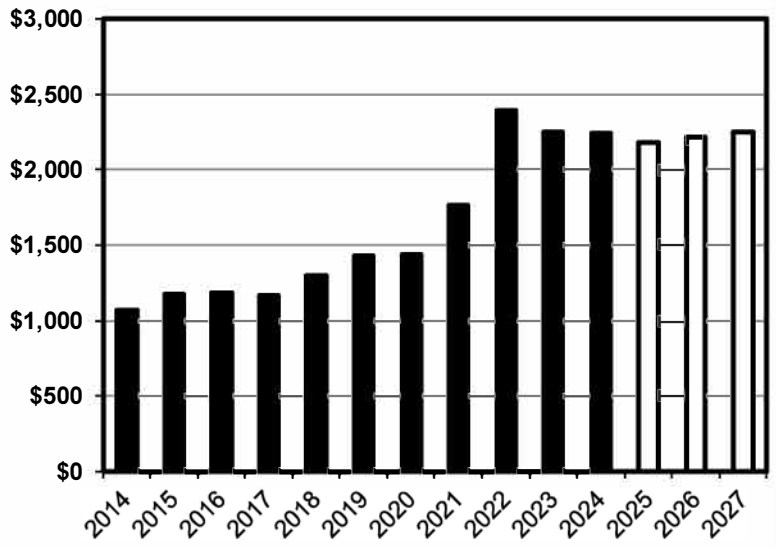
Revenue Description

Title 15, Chapter 30, MCA, Title 15, Chapter 30, MCA, sets individual income taxation based on taxpayers federal taxable income as of tax year 2024. Individual income tax is the largest single source of general fund revenue, accounting for 67.5% of total present law general fund revenue in FY 2024. All individual income tax revenue is allocated to the general fund.

Table 1 shows actual individual income tax revenue for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Individual Income Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$1,063.284	1.5%
A 2015	$1,175.745	10.6%
A 2016	$1,184.828	0.8%
A 2017	$1,168.225	-1.4%
A 2018	$1,297.777	11.1%
A 2019	$1,429.010	10.1%
A 2020	$1,435.240	0.4%
A 2021	$1,765.418	23.0%
A 2022	$2,393.807	35.6%
A 2023	$2,254.305	-5.8%
A 2024	$2,243.946	-0.5%
F 2025	**$2,178.640**	**-2.9%**
F 2026	**$2,212.474**	**1.6%**
F 2027	**$2,252.426**	**1.8%**



Significant changes to the Montana income tax system are a product of SB 399 (2021) which reduced the number of tax brackets from seven to two, moved Montana taxable income to a federal table income starting point, lowered rates and eliminated several credits and deductions. The 2003 Session brought further changes with HB 221 (modifying the basis of capital gains taxation) and SB 121, which further lowered marginal income tax rates to 4.1% and 5.9% and increased the earned income tax credit (EITC) to 10% of the federal credit. All these changes come into full force for tax year (TY) 2024.

Tax policy changes at the federal level can cause behavioral variations in the timing of state tax collections as taxpayers seek to minimize their total tax liability. The strategies are driven by the impacts at the federal level as the top marginal tax rates at the federal level are up to five times higher than state tax rates. The changes in collections in FY 2013 and FY 2014 demonstrate the revenue shifting induced by *The American Taxpayer Relief Act of 2012* (ATRA). To a lesser extent something similar happened in FY 2015 and FY 2016 due to the passage of the *Protecting Americans from Tax Hikes (PATH) Act of 2015*. PATH retroactively reinstated tax provisions that had expired at the end of TY 2014 and made them permanent. Similar shifting occurred in FY 2017, FY 2018, and FY 2019 as taxpayers anticipated federal tax policy changes with the change of presidential administration in November 2016. This appears to have led to deferral of capital gains realizations. Federal tax policy did in fact change, significantly, with the passage of H.R.1 in December 2017 with the *Tax Cuts and Jobs Act of 2017 (TCJA)*. A clear manifestation of this shift was a $40 million surge in income tax payments and $15 to $20 million surge in property tax receipts attributable to activity at the end of December 2017.

Further temporary tax changes were included in the various packages to provide relief in response to the COVID-19 pandemic. With a series of bills collectively referred to as the CARES Act. The changes are temporary tax law changes for TY 2020 with extensive lookback provisions. Extraordinary fiscal and economic support during the pandemic and the recovery resulted in growth far in excess of 2021 Legislative Session expectations.

The 2021 Session brought several changes to state income tax law. Notably in the near terms were SB 159 which reduced the top marginal income tax rate from 6.9% to 6.75% starting in TY 2022. This is approximately a 2% reduction in statewide liability. This change is superseded starting in TY 2024 by SB 399 which changes the starting point for Montana income tax to match the federal taxable income reducing the current seven bracket system to a two-rate tax system (4.7% and 6.5%). Several existing tax credits were eliminated starting in TY 2022 by SB 399. The magnitude of the change in tax liability is comparable to SB 159 starting in TY 2024.

There were several jobs' credits granted in the 2021 Session: HB 252 provided credits for employer-funded training for certain trades and HB 629 which granted non-refundable tax credits for employers meeting certain job growth thresholds. Other bills will have impact in the future like SB 184 which eliminates tax on certain long-term capital gains attributable to the sale of a qualifying Montana corporation. The first firm sales eligible for the credit would be in TY 2025.

Risks and Significant Factors

- This estimate relies on the S&P Global October 2024 baseline U.S. and Montana forecast for much of the data used in the microsimulation model based on TY 2023 returns. Employment levels, which have recovered past previous peak, indicate the labor force growth is expected to moderate but continue to grow despite an anticipated increase in the unemployment rate in CY 2025. Despite this, total wage disbursements in Montana are expected to continue to decelerate recent high growth rates.
- Economic forecasters rely heavily on the Bureau of Economic Analysis (BEA) and Bureau of Labor Statistics (BLS) data for their forecasts. These agencies have standard revision schedules for preliminary data. Significant revisions to measured changes in labor market and economic conditions can, and will, change S&P Global forecasts. These data revisions have 3- to 9-month lags. One of the reasons for much higher collections in the 25 Biennium is that personal income and gross state product were upgraded by as much as 9% in nominal terms since October 2022.
- Also contributing to the difficulty of tracking the changing dynamics of the Montana economy is the potential discrepancy between the various measures of employment activity and wages. The most accurate data are found in the Quarterly Census of Employment and Wages (QCEW) which tracks all payroll employment and wages by sector in the state, unfortunately, that data has a five-month lag. More timely sample survey measures of employment are the Current Employment Statistics (CES) survey of establishment payrolls, and the model-based estimates of total employment from the Local Area Unemployment Statistics (LAUS) system. New in CY 2021 was the availability of state level Job Openings and Labor Turnover Survey (JOLTS) information. This survey provides additional insight into the function of the labor market. Because the CES survey includes data on economic sector of employment, it is a key input to the S&P Global state forecasts.
- New QCEW data, calendar year withholding data, and estimated payments data in December and January provide more information with which to assess if these estimates will need re-centering.
- The Office of Budget and Program Planning (OBPP) closely monitors a wide range of economic reports, changes in S&P Global forecasts and state revenue collections, on an ongoing basis. Generally, monthly changes to the S&P Global forecasts historically have minor impact on the revenue estimates (+/- $10 million a fiscal year). These shifts tend to have less impact in the near-term (six months) and greater impact in the long term. Major quarterly updates that use BEA national income and product accounts updates can have a larger impact. Again, the impact is more noticeable two or more years into the future (a general fund effect of roughly +/- $30 to $60 million per year). In recent years revisions to the forecasts have been far more significant, with effects that shift tax collections by more than $100 million per year.
- Forecast variation has moderated from the wide swings during the pandemic and the rapid early recovery from the economic effects of the pandemic. It appears that the economy is running off of a new higher level and is slowing some to something below pre-pandemic historical trend.
- The increase in housing values coupled with higher mortgage rates slowed the housing market dramatically. A long period of equity market appreciation reversed temporarily in CY 2022 but has recovered to very strong levels TY 2021 tax forms revealed extraordinary capital gains realizations. These gains could reverse rapidly. However, the stock of potential realizations is again high.
- Despite the return to a more normal economic environment the new sources of uncertainty arise from how the economy will react to monetary policy loosening by the Federal Reserve, particularly the housing market, and

how a return to more normal levels of household saving, from extraordinarily high levels, will work through the economy. Other risks involve a slowdown in Montana's net migration population surge. The migration with jobs trend is likely to continue, but at a reduced rate. This is particularly the case as housing markets appear to be entering a period of consolidation.

- This forecast was produced by applying the projected income stream patterns into the DOR TY 2023 tax record-based simulation model. As such, these forecasts incorporate the major tax policy changes in preset law highlighted above.

Income by Category

Taxpayers reported income on eleven lines on their TY 2023 tax returns and these eleven income types are forecast separately. TY 2023 will be the last year these data will be available on the Montana tax form. These income sources can be organized into five general categories: wage, salary, and tip (labor) income; ownership/business income; taxable retirement income; net capital gains; and interest income. Graph 1 shows these categories and their relative proportion of total taxable income.

Graph 1
Personal Income Reported by Full Year Residents for Tax Year 2023

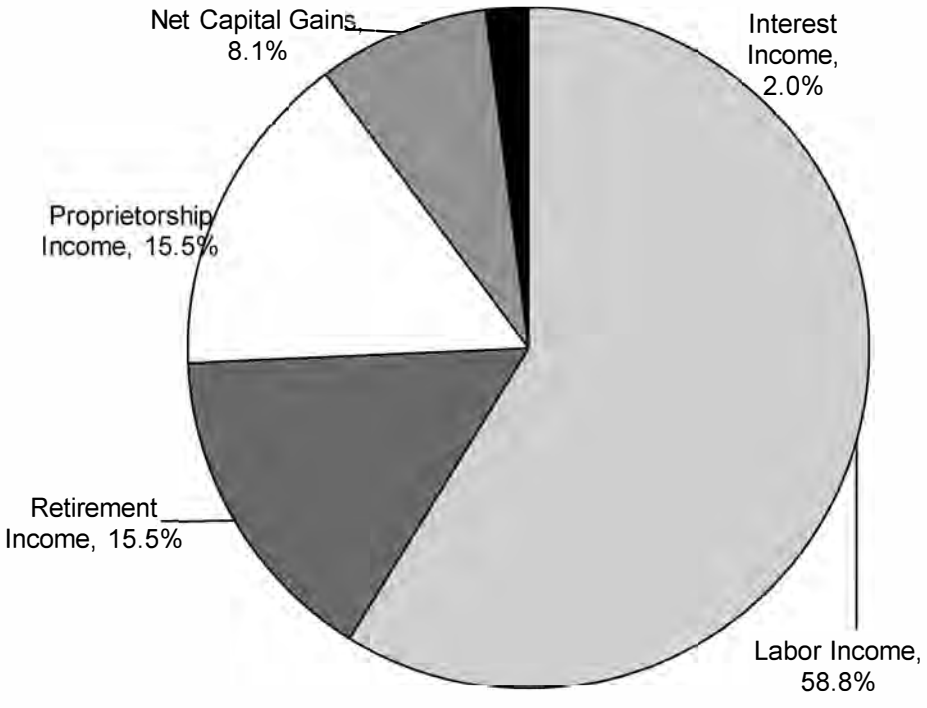


Table 2 provides more detail by showing the amount of income reported for TY 2023 by full-year residents and the percentage of total reported income that category represents. The last column gives the ten-year (TY 2014 through TY 2023) average percent of total reported income for each category.

Table 2
Tax Year Income
($ millions)

Source of Income	TY 2023 Income	Relative Share of TY 2021 Income	Ten Year Average Shares
Labor Income			
Wages, salaries, tips, etc.	**$24,973**	**58.8%**	**59.5%**
Proprietorship Income			
Rents, royalties, partnerships, etc.	$4,242	10.0%	10.3%
Net business income	$1,238	2.9%	3.1%
Dividend income	$1,388	3.3%	2.9%
Net farm income	-$325	-0.8%	-0.8%
Other income	$56	0.1%	-0.7%
Sub-Total	**$6,600**	**15.5%**	**14.7%**
Retirement Income			
Taxable Social Security	$1,920	4.5%	3.9%
Taxable Pensions, & IRAs	$4,666	11.0%	11.0%
Sub-Total	**$6,586**	**15.5%**	**15.0%**
Gains and Losses			
Capital gain or (loss)	$3,270	7.7%	9.1%
Supplemental gains or (losses)	$189	0.4%	0.5%
Sub-Total	**$3,459**	**8.1%**	**9.6%**
Interest Income	**$856**	**2.0%**	**1.2%**
Total	**$42,472**	**100.0%**	**100.0%**

Tables 3 through 11 present the historical and forecast income for the above categories. Following each table, the risks and significant factors for the forecast are listed. Forecast growth rates for the income sources, deductions, reductions, and credits are summarized in Table 12. All charts depict income reported by full-year residents. **Apart from wages and salaries, the vertical scale is held constant at a range of $0 to $7 billion in taxpayer income for Tables 4 through 9, the scale is reduced to $0 to $3.5 billion for Tables 10 and 11.** This representation better reflects the relative importance of each revenue stream. **The vertical scale for wages and salary income is over four times the range of the other sources of income.**

The reader is cautioned that Table 2 through Table 12 present total income before taxes.

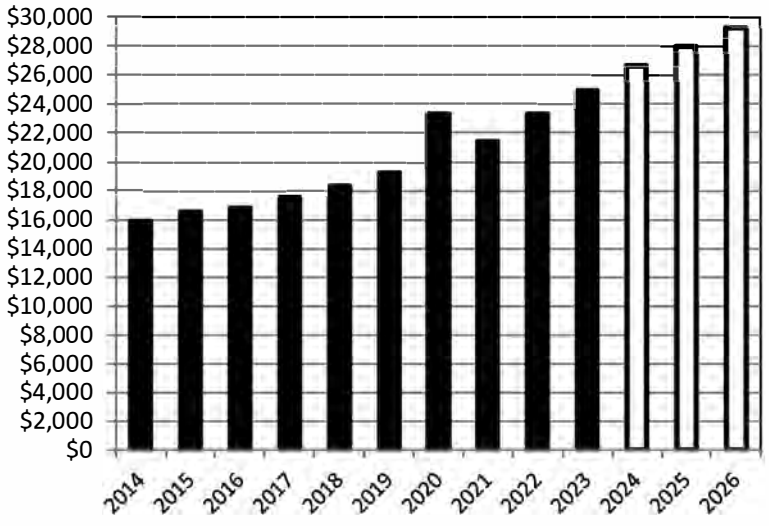
In TY 2023, on average, every $10,000 of income attributable to full-year resident individual income taxpayers generated roughly $415 in state individual income tax liability (an effective average tax rate of 4.15% on reported taxable income.

Labor Income

Individual income taxes on wage and salary earnings are the principal source of state government tax revenue.

Table 3
Wages, Tips, and Salary Income
($ millions)

Tax Year	Wage Income	Percent Change
A 2014	$15,912	4.8%
A 2015	$16,520	3.8%
A 2016	$16,792	1.6%
A 2017	$17,475	4.1%
A 2018	$18,366	5.1%
A 2019	$19,199	4.5%
A 2020	$23,333	21.5%
A 2021	$21,416	-8.2%
A 2022	$23,333	9.0%
A 2023	$24,973	7.0%
F 2024	**$26,697**	**6.9%**
F 2025	**$28,043**	**5.0%**
F 2026	**$29,327**	**4.6%**



Risks and Significant Factors

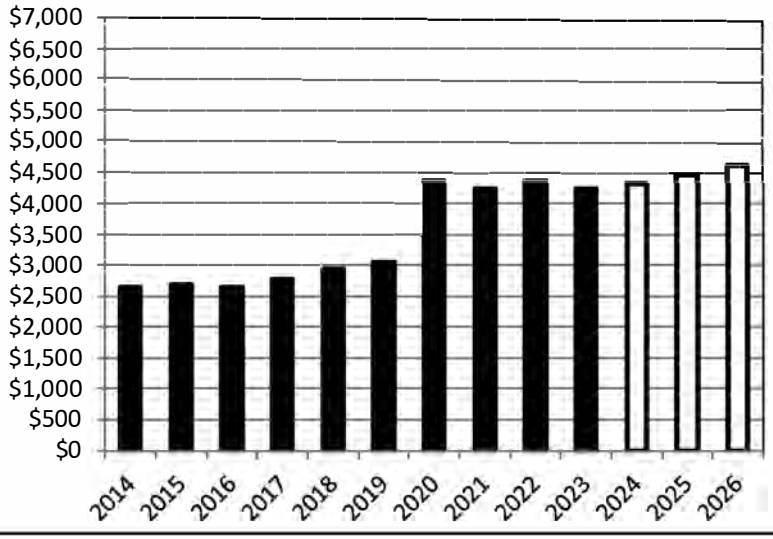
- Wage withholding information, normally a very good indicator of the health of the labor economy, is adjusting to new tax withholding schedules instituted at the start of CY 2024. With these adjustments, it is more difficult to gauge current trends. Data from the Quarterly Census of Employment and Wages for the 1st quarter of CY 2024 suggests that the wage bill is growing at a 5.5% clip. The 2024 withholding tables were adjusted for inflation and new income tax rates. Withholding collections should drop by between 15% to 18% and reduce over withholding. Withholding changes the timing of cash receipts, they do not change tax liability. Currently, withholding collections are running 11% to 13% below last year, which would be consistent with the QCEW data.
- The level of total Montana employment helps drive labor incomes. This was particularly the case in the past. The proportion of the Montana working-age population in the labor force before the pandemic was matching or exceeding the high levels of the mid-2000's. Current estimates suggest that Montanan's are again working at these high levels. This leaves less room for additional increase in the level of employment as "graying" demographics limit labor supply. The difference appears to have been made up by an increase in net in-migration which surged to levels approaching 20,000 people per year during the recovery from the pandemic. The Census Bureau estimates that in CY 2023 net in migration slowed to around 7,000. While this is a healthy pace (around 0.8%) however the slow growth in the working-age population cohort means changes in compensation will drive labor incomes more than labor force expansion.
- The level of average annual wages received by Montanans has a direct effect on the total level of taxable labor income. Increases in average wages has a positive effect on tax collections.
- OBPP tracks withholding collections relative to forecast wages reported on Montana resident tax forms. In January 2025, this data can be used to benchmark the TY 2024 wage estimate and to evaluate if the income tax estimate needs to be revised.
- Estimates naturally miss by a greater margin at significant turns in the economy and with major tax policy shifts.
- Wages are forecast to moderate in TY 2025 and then return to trend.

Proprietorship Income

Returns from owning property, businesses, farms, ranches, royalty rights or working interests in natural resources, processes, techniques, other intellectual property, or stock in companies and other financial instrument property generates the second largest source of taxable income. Principal among these are rents, royalties, and partnership income. This is followed by net business income, dividend income, net farm income, and other miscellaneous sources of income.

Table 4
Rents, Royalties, and Partnership Income
($ millions)

Tax Year	Income	Percent Change
A 2014	$2,650.88	3.8%
A 2015	$2,693.44	1.6%
A 2016	$2,650.88	-1.6%
A 2017	$2,777.54	4.8%
A 2018	$2,950.77	6.2%
A 2019	$3,056.39	3.6%
A 2020	$4,355.49	42.5%
A 2021	$4,228.36	-2.9%
A 2022	$4,355.49	3.0%
A 2023	$4,242.04	-2.6%
F 2024	**$4,312.67**	**1.7%**
F 2025	**$4,468.22**	**3.6%**
F 2026	**$4,625.81**	**3.5%**

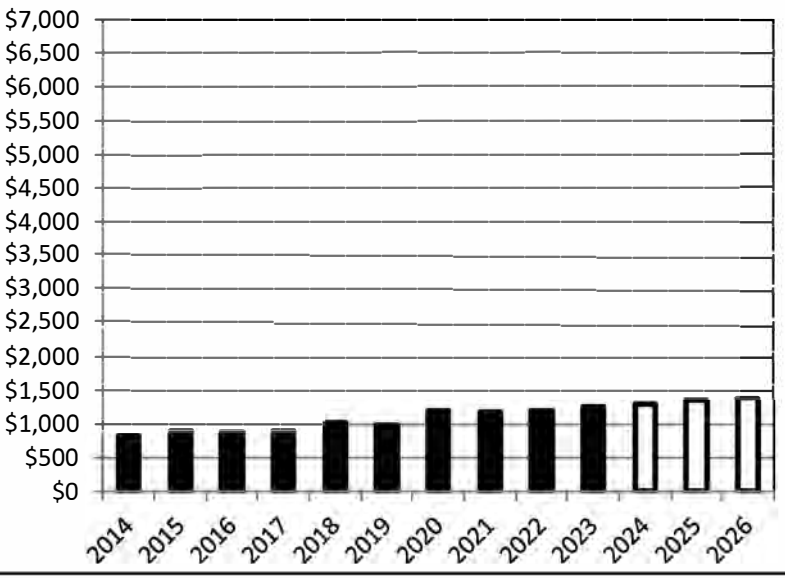


Risks and Significant Factors

- Prior work by the Department of Revenue examining this income stream shows it is often derived from structured payments from business or enterprise sales. A portion of these business ownership transfers are demographically driven and as such may accelerate faster than trend. The pandemic may have accelerated these transfers of businesses from older owners to new –younger – owners.
- The growth rate of rents and royalty's income shows a strong relationship with national proprietors' income. If the economy accelerates more (less) than expected, this income source would increase (decrease).
- Mineral royalties are reported in this income category. Increases in mineral, oil, and natural gas prices, would increase the growth of this income source.
- Federal policy changes in the TCJA, particularly the 20% federal qualified income deduction, may have shifted income into this classification of earnings and income derived from sole proprietorships, Chapter S corporations, partnerships, LLCs, and other pass-through entities.
- TY 2020 and TY 2021 saw a surge in this source of income. The forecast model remains level and later increases to trend growth.,
- SB 554 which created an option pass-through entity (PTE) tax provides a workaround for the federal state and local tax limitation. In CY 2023, approximately $300 million dollars in PTE tax payments were recorded. Calendar year-to-date payments are approaching $400 million. These payments are claimed as credits on Montana tax forms. These payments are effectively estimated payments. To the extent that other estimated payments are not reduced, they create exposure for additional refunds. PTE may be shifting the timing of receipts and increasing the amplitude of tax payments and subsequent refunds.

Table 5
Net Business Income
($ millions)

Tax Year	Business Income	Percent Change
A 2014	$834.81	1.8%
A 2015	$883.86	5.9%
A 2016	$862.60	-2.4%
A 2017	$886.40	2.8%
A 2018	$1,019.46	15.0%
A 2019	$966.36	-5.2%
A 2020	$1,179.51	22.1%
A 2021	$1,175.96	-0.3%
A 2022	$1,179.51	0.3%
A 2023	$1,238.28	5.0%
F 2024	**$1,285.26**	**3.8%**
F 2025	**$1,338.27**	**4.1%**
F 2026	**$1,389.14**	**3.8%**

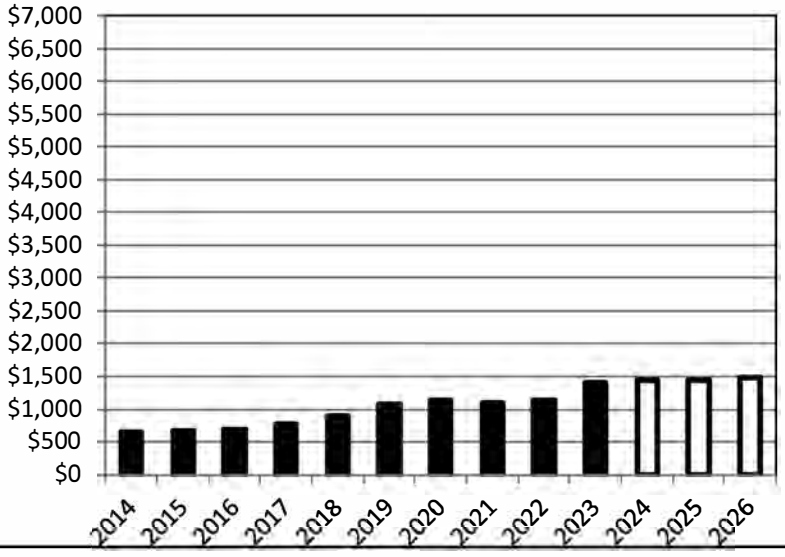


Risks and Significant Factors

- The growth in national proprietors' income is highly correlated with Montana net business income. Changes in national business income will have an impact on this source of income.
- Net business income suffered during the pandemic but has returned to prior trend level and path.

Table 6
Dividend Income
($ millions)

Tax Year	Dividend Income	Percent Change
A 2014	$641.45	16.6%
A 2015	$658.93	2.7%
A 2016	$690.23	4.8%
A 2017	$774.33	12.2%
A 2018	$893.18	15.3%
A 2019	$1,063.59	19.1%
A 2020	$1,128.76	6.1%
A 2021	$1,093.00	**-3.2%**
A 2022	$1,128.76	3.3%
A 2023	$1,388.50	23.0%
F 2024	**$1,431.61**	**3.1%**
F 2025	**$1,443.18**	**0.8%**
F 2026	**$1,473.33**	**2.1%**



Risks and Significant Factors

- Montana dividend income is highly correlated with the national level of dividend income. If national corporate profits are significantly different than forecast, dividend income will change accordingly.

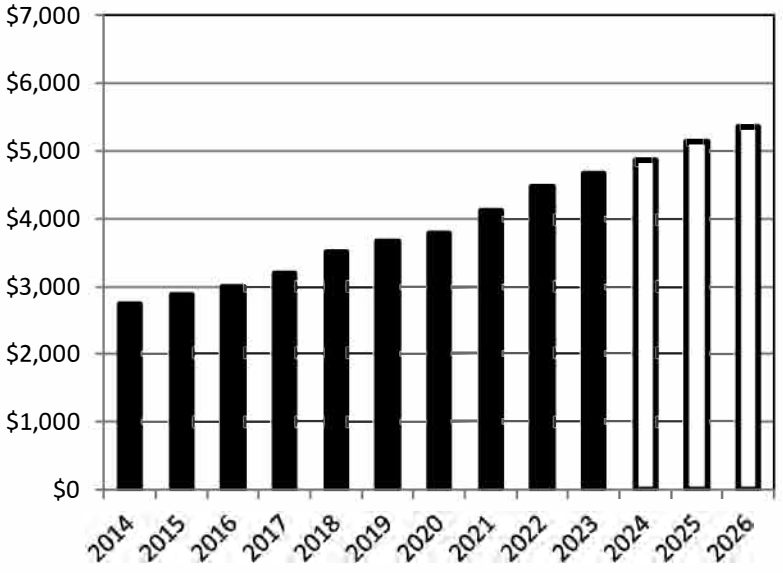
- Corporations have experienced large increases in profits over recent years and have returned some of their cash reserves as special dividends. The TCJA created preferential tax rates and accounting treatment for repatriated profits. Firms may have returned these profits to shareholders directly as special dividends (a current year taxable event) or by buying back stock (a tax event that is depended on when the shareholder realizes the gain).
- *The Inflation Reduction Act of 2022* applies a 1% excise tax on certain corporate stock buybacks, this may result in more distributable dividends.

Retirement Income

The main components of retirement income are pension and IRA income and the taxable portion of social security income. Pension and IRA income exceeds social security income but are more volatile. As the share of the population eligible for social security income grows, workers retire and claim retirement savings. There is an acceleration in this income type.

Table 7
Taxable Pension and IRA Income
($ millions)

Tax Year	Pension Income	Percent Change
A 2014	$2,728.70	6.2%
A 2015	$2,867.70	5.1%
A 2016	$2,998.58	4.6%
A 2017	$3,193.11	6.5%
A 2018	$3,505.76	9.8%
A 2019	$3,656.28	4.3%
A 2020	$3,782.58	3.5%
A 2021	$4,110.37	8.7%
A 2022	$4,464.27	8.6%
A 2023	$4,665.55	4.5%
F 2024	**$4,860.67**	**4.2%**
F 2025	**$5,140.00**	**5.7%**
F 2026	**$5,345.85**	**4.0%**

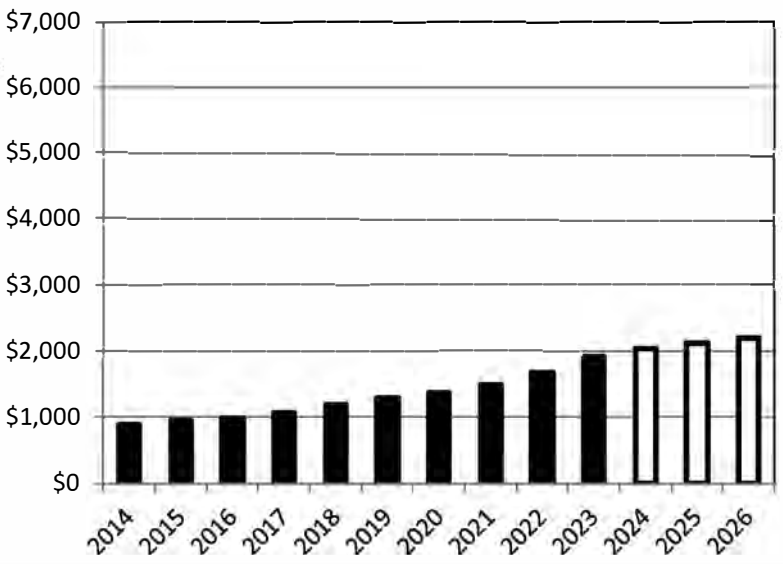


Risks and Significant Factors

- Prior years' S&P 500 stock price index, accelerating growth in the population over age 65, raised the taxable pension and IRA income stream. Changes in the SECURE Act (2019) raised the age at which individuals must begin making withdrawals from their IRAs from 70 ½ to 72. The SECURE Act changes and market appreciation may reduce distributions. The two changes may lead to higher IRA returns and withdrawals in subsequent years.

Table 8
Taxable Social Security Income
($ millions)

Tax Year	SS Income	Percent Change
A 2014	$882.27	9.8%
A 2015	$941.22	6.7%
A 2016	$981.54	4.3%
A 2017	$1,072.02	9.2%
A 2018	$1,191.85	11.2%
A 2019	$1,293.29	8.5%
A 2020	$1,371.54	6.1%
A 2021	$1,495.53	9.0%
A 2022	$1,667.53	11.5%
A 2023	$1,920.21	15.2%
F 2024	**$2,028.90**	**5.7%**
F 2025	**$2,124.91**	**4.7%**
F 2026	**$2,202.17**	**3.6%**



Risks and Significant Factors

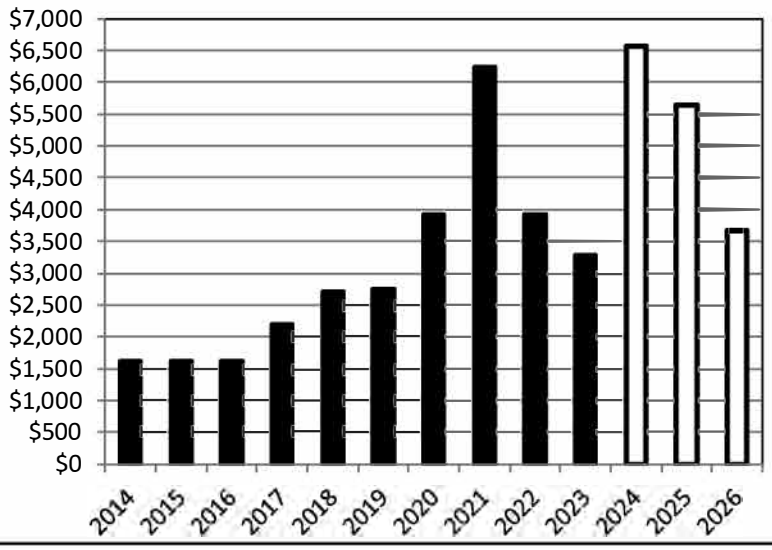
- Social security is indexed for inflation. If inflation remains lower than expected, this will have a negative effect on the growth of taxable social security income.
- Montana population age 65 and older is increasing. This increases the total amount of social security income claimed. The effects of the pandemic may increase the proportion of individuals taking early retirement and lower relative taxable income from social security payments in two ways – lower monthly payments for those recipients and reduced portion of social security subject to tax.
- Growth in other income received by social security recipients increases the share of social security payments subject to tax – effectively taxing more of the (previously untaxed) employer contribution of an individual's share of social security payments.
- Social Security payment increases are scheduled to slow to around 2.5% in TY 2025. This estimate assumes a return to trend in taxable social security growth after the recent inflationary surge. If taxable social security payments were to rise at twice the projected rate in 2022, that would represent about another $80 million in income. Eighty million dollars more in income would increase tax liability by about $5 million.

Taxable Gains and Losses

Capital gains and supplemental gains are gains or losses from the sale of assets.

Table 9
Capital Gains and Losses Income
($ millions)

Tax Year	Cap Gains Income	Percent Change
A 2014	$1,616.57	23.0%
A 2015	$1,617.31	0.0%
A 2016	$1,616.57	0.0%
A 2017	$2,188.18	35.4%
A 2018	$2,709.17	23.8%
A 2019	$2,735.22	1.0%
A 2020	$3,913.12	43.1%
A 2021	$6,226.90	59.1%
A 2022	$3,913.12	-37.2%
A 2023	$3,269.50	-16.4%
F 2024	**$6,568.05**	**100.9%**
F 2025	**$5,647.46**	**-14.0%**
F 2026	**$3,663.55**	**-35.1%**



Risks and 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 assets for which reliable price data is available.
- The timing of capital gains "realizations" – when taxpayers choose to liquidate or convert assets – determines when a capital gain is realized and becomes taxable.
- Capital gains income can be highly variable and tax planning can lead to rapid changes in capital gains income.
- TY 2021 saw an unprecedented surge in capital gain income reported on Montana tax forms from $3.4 billion to $6.2 billion. A review of all TY 2021 returns available in January 2023 revealed that capital gains were in fact around $9 billion. This is thought to be due to gains realized in real estate and profit taking on very high equity returns. Additional research done developing these estimates shows that the one-year change in the S&P 500 is not the best predictor of capital gains. A better fit is achieved with a model that uses longer spans with a three-year or four-year change in the S&P 500 performing well. This suggests that many gains are deferred realizations.
- The longer realization period spreads the reversal of the surge in capital gains over several years. However, if realizations were to drop more rapidly this would manifest itself in lower estimated payments at the end of CY 2024. Another scenario would be for capital gains realizations to slow rapidly with safe-harbor and minimum estimated payments rules causing deferral until April 2025.
- This estimate uses the November 1 available returns in a consistent manner and makes "outside" the model adjustments for the missing tax year returns these later-filed returns often have much higher levels of capital gains income.
- This estimate uses the two-year change in the S&P 500 along with indicators of housing wealth and proprietors' income. The main reason for this is to smooth the effects of S&P 500 forecasts in the out years as the S&P 500 forecast is subject to great volatility.

The relationship between stock prices and capital gains is depicted in Graph 2 (below) with the forecast years indicated by white diamonds. The graph indicates that there is a strong one-to-one relationship between S&P 500 gains and taxable capital gains. Capital gains are difficult to predict for any one year but the sum of estimates for the three-year period is likely to be reasonable.

Graph 2
Capital Gains Income and the S&P 500

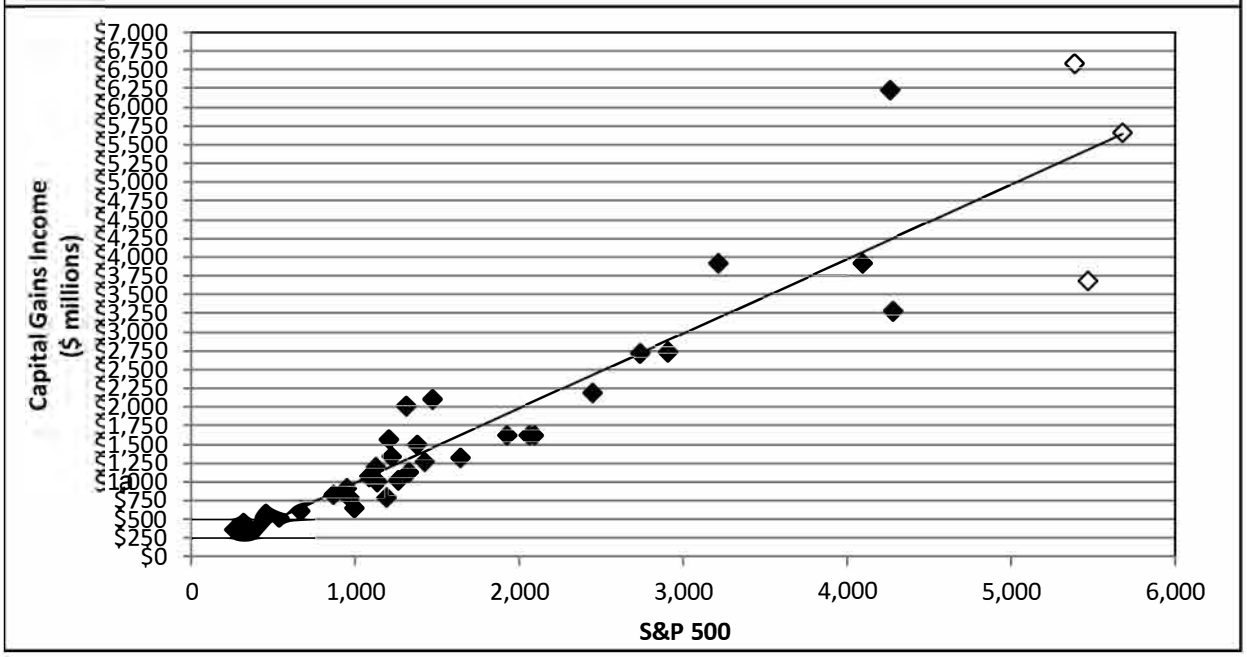
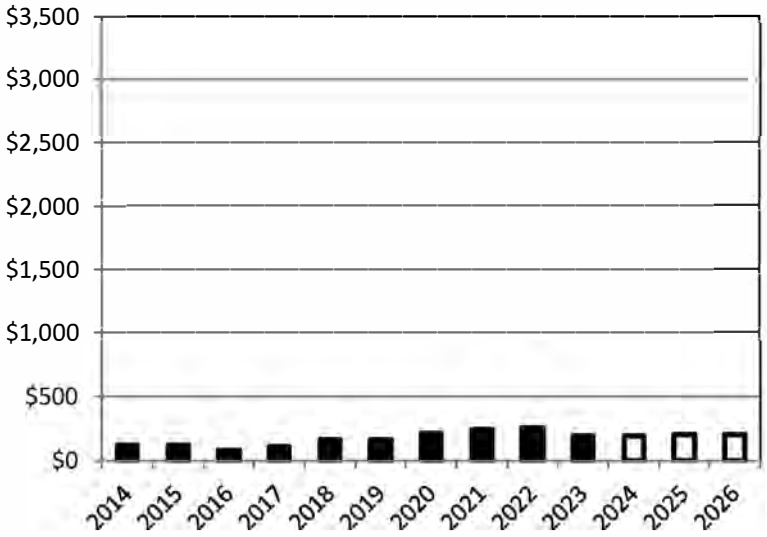


Table 10
Supplemental Gains Income
($ millions)

Tax Year	Income	Percent Change
A 2014	$116.10	32.2%
A 2015	$118.25	1.8%
A 2016	$80.01	-32.3%
A 2017	$107.08	33.8%
A 2018	$162.48	51.7%
A 2019	$155.74	-4.2%
A 2020	$207.55	33.3%
A 2021	$242.81	17.0%
A 2022	$248.17	2.2%
A 2023	$189.39	-23.7%
F 2024	**$195.46**	**3.2%**
F 2025	**$197.09**	**0.8%**
F 2026	**$201.33**	**2.2%**



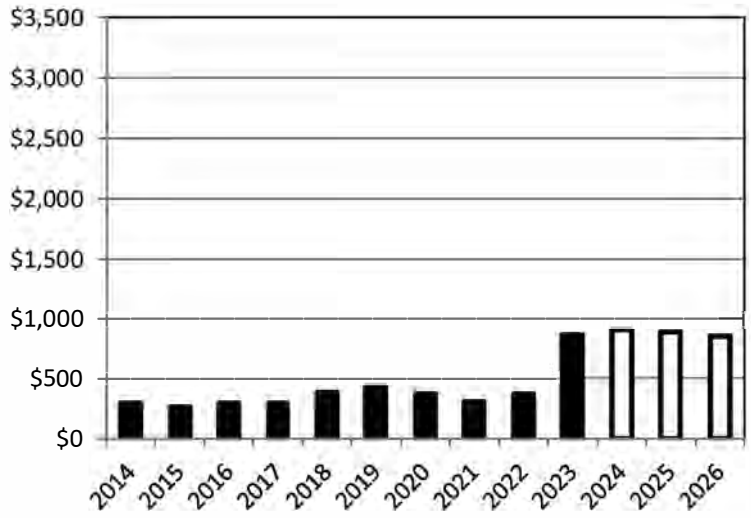
Risks and Significant Factors

- The swings in growth of supplemental gains income are tempered by the fact that it is small, contributing approximately one tenth of a percent of the taxable income stream.

Interest Income

Table 11
Interest Income
($ millions)

Tax Year	Interest Income	Percent Change
A 2014	$295.85	0.6%
A 2015	$264.05	-10.7%
A 2016	$295.85	12.0%
A 2017	$297.88	0.7%
A 2018	$380.54	27.7%
A 2019	$437.55	15.0%
A 2020	$368.57	-15.8%
A 2021	$306.75	-16.8%
A 2022	$368.57	20.2%
A 2023	$855.66	132.2%
F 2024	**$902.57**	**5.5%**
F 2025	**$880.42**	**-2.5%**
F 2026	**$852.48**	**-3.2%**



Risks and Significant Factors

- While there have been increases in taxpayers' savings, low interest rates lead to small changes in the levels of earnings. Interest rates rose rapidly as the Federal Reserve worked to bring down inflation which has led to much better returns. The estimate assumes that interest rates will gradually drop but not to the ultra-low levels of the post-great recession era. Because it is a small share of taxable income, this category of income limits its negative impact on collections growth.

Other Sources of Income

Graphs have been omitted for these small sources of taxable income (they are shown in Table 2). Net taxable farm income has been on a long-term negative trend and is expected to hold that pattern. The other income line is a catch-all for income that does not fit in the other categories. It is usually negative and relatively small. The category is forecast to grow at a rate based on historic trends. Interestingly, in TY 2021 this category was slightly positive ($31million). Normally it is generally in the $350 million negative "income" range.

Forecast Methodology

Income tax revenue estimates are centered around a microsimulation model (computer program) that calculates tax liability from individual income tax returns under present law. Baseline assumptions are listed in Table 12 at the end of this section. The model takes TY 2023 returns and applies income and deduction growth forecasts to individual taxpayer records estimating the tax liability to changes in income, deductions, tax bracket thresholds, and other state and federal parameters representing anticipated statutorily tax law in the future.

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 Legislative Fiscal Division (LFD) and the Office of Budget and Program Planning (OBPP) have again agreed on a common set of these tax parameters based on statute and CBO projections, actual changes in inflation, and forecast inflation. The analysts in the Department of Revenue's Tax Policy and Research section maintain and curate the microsimulation model.

The tax simulation program is run to project tax liability. It does so by:

- reading each full-year resident return in the latest year's income tax returns database.

- calculates current year's tax liability for each return; optimizing each tax unit's tax strategy to minimize tax liability.
- applies an annual growth rate to each of the income and deduction line items and calculates the next year's tax liability; and
- repeats the process, growing income and deductions and calculating tax liability for each year of the forecast period.

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

Adjustments are made for:

- Projected growth in the number of taxpayers;
- Changes to state and federal tax law;
- Fiscal year timing of calendar year tax liability;
- An estimate of revenue from less than full-time residents;
- Reductions in tax liability due to the use of tax credits;
- Accounting for revenue from audits, penalties, and interest not already included in the base calculations; and
- Other adjustments for shifts due to legislation for which there are not yet records in the model.

This forecast has base adjustments for likely tax records not in the November tax extract based on a comparison of November and subsequent January extracts of the tax year master file. For the TY 2023 November file, OBPP has used a 3% adjustment for missing filers. This is a comparatively low estimate, but a review of tax form processing to date suggests that we have a lower number of "missing" records processing.

Distribution

All individual income tax revenue is distributed to the general fund.

Data Sources

Revenue data is from SABHRS and the Department of Revenue. Past employment and wage data are from the Bureau of Labor Statistics. Employment, wage, interest rate, inflation, and other economic forecasts are from the U.S. and Montana S&P Global forecast release as of October 2024.

Table 12
Actual and Projected Growth Rates for Line Items

	Actual					Forecast		
Income Item:	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	**TY 2024**	**TY 2025**	**TY 2026**
Wages, salaries, tips, etc.	4.5%	21.5%	-8.2%	9.0%	7.0%	**6.9%**	**5.0%**	**4.6%**
Interest income	15.0%	-15.8%	-16.8%	20.2%	132.2%	**5.5%**	**-2.5%**	**-3.2%**
Dividend income	19.1%	6.1%	-3.2%	3.3%	23.0%	**3.1%**	**0.8%**	**2.1%**
Net business income	-5.2%	22.1%	-0.3%	0.3%	5.0%	**3.8%**	**4.1%**	**3.8%**
Capital gain or (loss)	1.0%	43.1%	59.1%	-37.2%	-16.4%	**100.9%**	**-14.0%**	**-35.1%**
Supplemental gains or (losses)	-4.2%	33.3%	17.0%	2.2%	-23.7%	**3.2%**	**0.8%**	**2.2%**
Rents, royalties, partnerships, etc.	3.6%	42.5%	-2.9%	3.0%	-2.6%	**1.7%**	**3.6%**	**3.5%**
Taxable IRAs and pensions	4.3%	3.5%	8.7%	8.6%	4.5%	**4.2%**	**5.7%**	**4.0%**
Taxable portion of Soc. Sec.	8.5%	6.1%	9.0%	11.5%	15.2%	**5.7%**	**4.7%**	**3.6%**
Net farm income	9.6%	-25.3%	26.6%	-3.6%	4.4%	**-23.9%**	**15.0%**	**5.7%**
All other income	37.1%	-65.0%	-118.4%	-506.6%	-143.5%	**-195.2%**	**-55.8%**	**58.6%**
Fed. Adj. to Income:	2.3%	-0.7%	-4.9%	2.9%	16.1%	**5.5%**	**5.5%**	**5.5%**
Montana Additions:	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	**TY 2024**	**TY 2025**	**TY 2026**
Interest on state & county bonds	6.2%	-10.6%	-5.0%	5.3%	19.5%	**4.3%**	**3.9%**	**3.2%**
Federal income tax refunds	-27.7%	-58.1%	43.8%	-30.4%	12.7%	**-13.0%**	**-0.6%**	**-6.1%**
All Other additions	-5.2%	-14.4%	7.0%	-6.6%	14.3%	**-7.8%**	**1.3%**	**-0.1%**
Montana Subtractions:	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	**TY 2024**	**TY 2025**	**TY 2026**
Farm risk management account	82.8%	-62.0%	1855.1%	-90.1%	-82.7%	**1421.1%**	**9.7%**	**16.4%**
Exclusion for savings bonds	37.0%	-5.2%	-42.7%	74.5%	194.7%	**5.9%**	**-2.6%**	**-3.4%**
Unemployment income	2.3%	982.3%	-66.4%	-76.8%	13.1%	**3.7%**	**-4.6%**	**6.0%**
Medical savings account exclusion	12.6%	6.1%	-1.0%	1.0%	4.9%	**2.1%**	**2.1%**	**2.0%**
Family education account exclusion	7.6%	25.5%	-1.0%	3.7%	3.6%	**3.5%**	**3.4%**	**3.2%**
First-time homebuyers exclusion.	3.8%	28.1%	-1.1%	5.8%	5.8%	**5.8%**	**5.8%**	**5.8%**
Health care professional loan exclusion	8.3%	-24.6%	-4.1%	-2.1%	-1.1%	**-0.6%**	**-0.3%**	**-0.1%**
All other subtractions	3.1%	-8.0%	0.2%	5.7%	5.7%	**5.7%**	**5.7%**	**5.7%**
Itemized Deductions:	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	**TY 2024**	**TY 2025**	**TY 2026**
Medical insurance premiums	-4.5%	10.7%	0.1%	-0.1%	16.9%	**5.1%**	**5.1%**	**5.1%**
Medical deduction	-3.9%	1.1%	-6.1%	6.5%	4.2%	**0.4%**	**0.4%**	**0.4%**
Long-term care insurance	-0.7%	-2.5%	0.8%	-0.8%	-2.9%	**3.6%**	**-0.4%**	**-0.4%**
Balance of federal tax	-0.3%	114.9%	-40.7%	68.6%	-26.1%	**18.7%**	**12.6%**	**16.0%**
Additional federal prior year tax	-58.4%	-5.6%	8.8%	-8.1%	-21.0%	**-10.7%**	**-12.3%**	**-15.4%**
Property taxes	8.9%	0.3%	2.9%	-0.8%	13.5%	**1.0%**	**7.0%**	**1.0%**
Other deductible taxes	-16.3%	-15.9%	5.6%	-5.3%	7.5%	**-9.4%**	**-9.0%**	**-9.3%**
Home mortgage interest	6.3%	-9.6%	2.3%	-2.3%	11.9%	**1.7%**	**1.6%**	**1.7%**
Deductible investment interest	-4.5%	-5.1%	-11.5%	18.4%	58.1%	**0.1%**	**-0.1%**	**-0.1%**
Contributions	3.1%	2.3%	5.3%	-5.0%	1.1%	**2.0%**	**3.0%**	**1.7%**
Child/dependent care expenses	-20.9%	-2.4%	-1.6%	-25.0%	-16.5%	**0.0%**	**0.0%**	**0.0%**
Casualty and theft losses	-65.7%	181.5%	-59.9%	149.6%	-51.3%	**0.0%**	**0.0%**	**0.0%**
Tier II - Miscellaneous	113.1%	-62.9%	43.6%	460.0%	-68.0%	**3.5%**	**3.5%**	**3.5%**
Gambling losses	0.3%	-43.7%	96.3%	25.3%	34.3%	0.0%	0.0%	0.0%
Credits	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	**TY 2024**	**TY 2025**	**TY 2026**
Total Allowable Credits	-20.9%	-2.4%	-1.6%	-25.0%	-16.5%	0.0%	0.0%	0.0%
Full-Year Resident Returns	594,722	595,053	600,961	609,240	615,546	**625,181**	**631,583**	**635,302**

Revenue Description

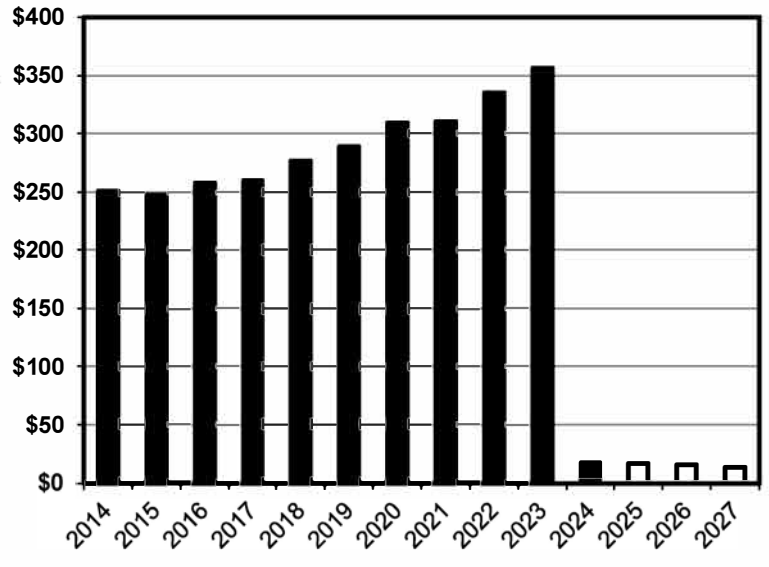
Title 15, Chapter 6, Part 1, MCA, identifies the classes of property subject to taxation and the applicable tax rate. Property tax revenue is collected directly from mills levied on property and indirectly from non-levy revenue sources. New in FY 2024, a state special revenue fund receives property tax revenue from statewide levies for: elementary school BASE funding of 33 mills (20-9-331, MCA), high school BASE funding of 22 mills (20-9-333, MCA), and the 40 mills state equalization aid levy (20-9-360, MCA), commonly referred to collectively as the 95 mills levy.

The general fund now receives the 1.5 mill levy on property in counties with colleges of technology (20-25-439, MCA) and non-levy revenues. Non-levy revenues consist principally of coal gross proceeds and federal forest receipts as well as miscellaneous revenues shared with local taxing districts based on the proportion of education mills levied in each of respective taxing districts. There is also a 6 mill state special revenue for the Montana University system (15-10-109, MCA). HB 587 (2023) redirected the state school equalization mills to a state special revenue account dedicated to funding local schools.

Table 1 shows state general fund property tax collections for FY 2014 through FY 2024 and the forecast for FY 2025 through FY 2027. The shift in FY 2024 is due to the fund switch for the 95 mills in HB 587.

Table 1
Property Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$250.344	2.3%
A	2015	$247.881	-1.0%
A	2016	$257.100	3.7%
A	2017	$260.224	1.2%
A	2018	$276.414	6.2%
A	2019	$289.212	4.6%
A	2020	$308.610	6.7%
A	2021	$310.682	0.7%
A	2022	$335.114	7.9%
A	2023	$355.982	6.2%
A	2024	$17.028	-95.2%
F	**2025**	**$15.890**	**-6.7%**
F	**2026**	**$14.734**	**-7.3%**
F	**2027**	**$12.649**	**-14.2%**



Property taxes constitute the largest statewide tax source from the perspective of state, local government, schools, and special districts. In TY 2023/FY 2024 these authorities collected around $2.567 billion in ad valorem property taxes and special improvement district (SIDs) and other fees. SIDs and other fees were around $235 million of the total. Of the total collections, about 18.6% were collected by the state through the 95, 1.5, and 6 mill levies.

Risks and Significant Factors

- The most significant recent property tax changes have been related to moving the 95 mill levies to a state special revenue fund dedicated to school equalization HB 587 (2023). The bill also creates additional state funding for countywide school retirement guaranteed tax base-aid funding by sharing 55% of the marginal tax base growth each year when the anticipated equalization mill revenue increase exceeds $2 million growth. The estimate is calculated in December each year and flows to counties through the school funding formula in the subsequent fiscal year.

- In 2015, reappraisal cycles were changed for agricultural, commercial, and residential property by moving from a six-year appraisal cycle to a two-year appraisal under SB 157. All other property is assessed annually except forest property (class 10) which remained on a six-year cycle but uses 10-year (Olympic) average timber prices. With SB 157, tax rates were adjusted to apply to the full market value of the reappraised property and eliminated the class 4 homestead and comstead exemptions. The Montana Property Tax Assistance Program (PTAP) and Montana Disabled Veteran Property Tax Relief Programs were modified to account for the change in class 4 residential property taxation.
- Significant 2017 Session property tax legislation included: SB 94 capped land value to 150% of the improvement (residence) assessed value for certain property held within a family; SB 132 provided a ten-year exemption for certain class 5 (pollution control equipment) and class 15 (carbon sequestration and CO_2 pipeline) property; and SB 359 created a new property tax classification (class 17) for qualified data centers with a tax rate of 0.9%.
- The 2019 Session had only one bill with direct revenue impact: HB 24 streamlined irrigation cost reporting.
- During the 2021 Session HB 303 increased the business equipment (Class 8) market value exemption from $100,000 to $300,000; HB 191 revised the residential property tax credit for the elderly by increasing the income exclusion and the maximum credit; HB 394 made permanent the temporary exemption in SB 132 (2019) for certain class 17 and class 5 property; SB 51 created a 10-year tax moratorium for qualifying new broadband fiber optic and cable property; SB 263 mandated a forest lands advisory commission study of the taxation of forest lands and proposal of new class 10 rates in the 2023 session.
- Other 2023 Session legislation included: Property tax rebates authorized by HB 192, HB 222, and HB 816 provided for property tax rebates of up to $675 for property taxes paid in TY 2022 (FY 2024) and TY 2023 (FY 2025). The Property Tax Assistance Program was expanded by increasing the market value eligible for abatement to $350,000 from $200,000. Those thresholds will now be based on the change in the median home value. The application period for the intangible land value exemption in SB 94 (2017) was tied more closely to the timing off assessment notices. The class 8 business equipment tax exemption was raised from $300,000 to $1,000,000 under HB 212. Local governments are reimbursed for the loss of tax base though entitlement share payments, local schools are reimbursed through adjustments to the GTB ratio.
- On the administrative front, forest property was moved to two-year appraisal while retaining 10-year Olympic average reference prices (SB 3). Centrally assessed property was moved to two-year appraisal with half of the property assessed in one year and the other half the following year starting in TY 2024. SB 505 clarified the three different Tax increment financing (TIF) district mill retention regimes that are based on the formation date. SB 510 added renewable diesel and sustainable aviation fuel facilities to the equipment and facilities eligible for the 50% energy production or development property tax abatement. SB 530 creates an 80% exemption for new manufacturing class 8 property. Counties can expand the exemption to 100%.

Risks to the forecast

- Class 4 residential property could experience new property growth with the increased acceptability of telecommuting and decreasing mortgage rates.
- Rising interest rates could slow growth by decreasing commercial and industrial capital investment and continue to limit residential property markets.
- Final 2025 cycle reappraisal change could be higher, or lower than current preliminary estimates.
- Lags inherent in capital investment could lead to an underestimation of plant and equipment put in place.
- Unanticipated growth in tax increment financing districts (TIFs) could lower state and local tax collections
- Class 13 telecommunications property may grow faster than expected given current large public investments.
- Use of statewide abatements and exemptions could increase more than anticipated.

These estimates are based on present law, and present law reappraisal statutes.

Estimate Summary

The presentation of this forecast starts with a summary of the general fund and state special revenue property tax estimate (Table 2). The summary is followed by a step-by-step presentation of the methodology used to estimate each component of the estimate.

Table 2
Summary of State Special and General Fund Property Tax Revenue
($ millions)

	--- Actual ---		---------- Forecast ----------		
	FY 2023	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
Property Tax - 95 Mill Levy (SSR)	$338.27	$437.95	**$439.14**	**$507.95**	**$515.33**
Net Protested Property Taxes	-$0.027	-$0.020	**-$0.020**	**-$0.020**	**-$0.020**
Net 95 Mill Levy Revenue (SSR)	$338.246	$437.930	**$439.116**	**$507.928**	**$515.309**
Property Tax - 1.5 Mill Levy	$1.679	$2.093	**$2.076**	**$2.406**	**$2.440**
Coal Gross Proceeds	$9.157	$11.092	**$11.948**	**$10.436**	**$8.275**
Federal Forest Reserves	$2.845	$2.964	**$0.872**	**$0.899**	**$0.941**
All Other (last 3 year average)	$0.766	$1.201	**$0.993**	**$0.993**	**$0.993**
Non-Levy Revenue (General Fund)[1]	$12.768	$17.351	**$15.890**	**$14.734**	**$12.649**
	$351.013	$455.281	**$455.006**	**$522.662**	**$527.958**

[1] Actual collections do not tie to SABHRS totals exactly in Table 1 because of cash vs. accrual accounting differences and potential account misallocation differences within non-levy revenue categories on county collections reports.

Property Tax Forecast Methodology

The property tax forecast is built by estimating growth rates for TY assessed market value for each property class and converting the assessed market value into taxable value using statutory tax rates and exemptions. For most property, the tax year property sets the basis of the subsequent fiscal year (FY) receipt of revenue. This method facilitates the estimation of the underlying property growth and minimizes the need for adjustments for changes in tax rates, and local property tax abatements. Adjustments are made for tax increment financing districts (TIFs) which do not transfer state equalization levies to the state (or local millage to their respective districts) on their incremental taxable value. TIFs do transfer their six-mill university levies to the state special revenue fund for the university system. The revenue due the state is then allocated to the fiscal year of receipt. A separate forecast is made for each non-levy revenue source. These estimates are summed to form the general fund and state special revenue property tax revenue estimate.

There are six main steps followed to calculate the state general fund property tax revenue generated from the 95-mill levy, the 1.5 mill levy, and non-levy revenue shared based on jurisdiction mill shares.

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

Historical trends in assessed market value serve as the foundation for estimating future property value. Adjustments are made for major new investments and law changes. Growth rates are determined independently for each class of property.

Table 3 is a summary of assessed market value and growth for all property except class 3 (agricultural land), class 4 (residential and commercial real property), class 10 (forest property). Classes 3, 4, and 10 will be presented in detail in the section on cyclically reappraised property which follows the summary of all other classes of property.

Of note in Table 3 (below):

- **Class 1,** net proceeds of mines (except metal mines and bentonite) are dependent on construction activity; net proceeds are expected to oscillate around the long-run growth rate. Bentonite moved from the class in TY 2005.
- The forecast for **class 2**, net proceeds of metal mines, is based on the S&P Global projection of the producer price for metals. Metal mines property taxes are based on the prior calendar year's production value.
- **Class 5** (rural co-op and pollution control property) is adjusted for the effects of HB 156 (2015), SB 132 (2017), and HB 394 (2021) – resulting in no growth in the pollution control sub-class. The remainder grows at trend.
- **Class 8** business equipment property trend growth is estimated on the market value with adjustments for large one-time investments and property eliminated from the class by SB 372 (2011), SB 96 (2013), and HB 303 (2021). Those bills first converted the exclusion threshold to an exemption, then created two tax rates 1.5% for the first $6 million in market value and a 3% tax rate for the rest. The bills progressively raised the exemption level which

now stands at $300,000. The class continues to grow but at a somewhat reduced trend rate after adjusting for settlements and pauses in investment following commodity price declines. The *Hiland Crude* decision shifted some property into class 8 from class 9. Exemptions for new class 8 property are accounted for by discounting growth by 50%.

- **Class 9** (pipeline and electrical transmission property) is expected to revert to a long-term growth after adjusting for surges in pipeline property and the *Hiland Crude* decision which clarified the classification of gathering lines and maintained central assessment for the class.
- Centrally assessed **class 13** property valuation reductions due to prior court rulings and protested tax settlements are assumed to have been fully incorporated into tax base. The class is forecast to have little growth. This property is now assessed on a two-year cycle however, by assessing half the property each year the estimated property is assumed to flow like annual assessment after the initial TY 2024 pause.
- **Class 14** (formerly wind generation property) expanded rapidly with the Montana-Alberta Tie-Line. New projects supported growth, albeit at a slower rate. Tax settlements reversed some of the prior surge in property growth. New facilities are assumed to more than offset depreciation of existing facilities as the federal production tax credit for renewable energy has been extended through calendar year (CY) 2024 under the *Inflation Reduction Act of 2022*. The new property enters the class at a lower temporary rate which slows taxable value growth. This may lead to a surge in TY 2025 property
- **Class 15** includes the current pipeline supplying CO_2 for injection into the Bell Creek oil formation. No value growth is expected from certain new property, which was abated by HB 156 (2015) and SB 132 (2017). The remaining property in the class is assumed to depreciate.
- No value is anticipated to be added to **class 16** (high-voltage DC) property linking regional electrical grids. However, major new financing and increased interest in linking regional electrical grids has put a major new project on the horizon with the High Plains Connector. No value is assumed to be added until TY 2029.
- **Class 17** (qualified data centers) appears in TY 2022 and is now assumed to deprecate on a 20-year schedule.

Table 3
Summary of Assessed Market Value
($ millions)

Tax Year	Class 1 Net Proceeds		Class 2 Gross Proceeds		Class 5 Rural Co-Op & Pollution Control		Class 7 Locally Assessed Utilities		Class 8 Business Equipment (FY adjusted)		Class 9 Pipelines & Electricity Transmission	
	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Net Assessed Value	Percent Change	Assessed Value	Percent Change
A 2014	$3.791	15.9%	$29.723	-12.0%	$1,485.501	-1.1%	$14.773	-1.7%	$7,088.731	-1.5%	$3,122.440	5.9%
A 2015	$3.907	3.1%	$25.578	-13.9%	$1,550.769	4.4%	$14.866	0.6%	$7,250.378	2.3%	$3,587.141	14.9%
A 2016	$4.080	4.4%	$19.454	-23.9%	$1,636.805	5.5%	$14.241	-4.2%	$7,096.595	-2.1%	$3,986.808	11.1%
A 2017	$3.984	-2.4%	$19.454	0.0%	$1,604.336	-2.0%	$14.330	0.6%	$6,664.994	-6.1%	$4,214.396	5.7%
A 2018	$4.795	20.4%	$17.890	-8.0%	$1,589.441	-0.9%	$15.191	6.0%	$7,150.077	7.3%	$4,176.210	-0.9%
A 2019	$5.584	16.5%	$22.274	24.5%	$1,583.769	-0.4%	$0.038	-99.7%	$9,358.695	30.9%	$4,227.858	1.2%
A 2020	$4.745	-15.0%	$25.979	16.6%	$1,692.296	6.9%	$0.038	-1.1%	$6,617.435	-29.3%	$4,516.422	6.8%
A 2021	$3.929	-17.2%	$31.695	22.0%	$1,732.329	2.4%	$0.035	-6.6%	$6,897.917	4.2%	$4,635.886	2.6%
A 2022	$4.432	12.8%	$41.809	31.9%	$1,782.072	2.9%	$0.220	522.4%	$6,280.599	-8.9%	$5,220.024	12.6%
A 2023	$4.101	-7.5%	$34.000	-18.7%	$2,037.580	14.3%	$0.248	12.7%	$8,460.400	34.7%	$4,965.295	-4.9%
A 2024	$5.545	35.2%	$26.584	-21.8%	$2,046.539	0.4%	$0.227	-8.5%	$8,106.854	-4.2%	$5,128.366	3.3%
F 2025	**$5.548**	**0.0%**	**$26.622**	**0.1%**	**$2,104.495**	**2.8%**	**$0.221**	**-2.5%**	**$8,197.947**	**1.1%**	**$5,273.870**	**2.8%**
F 2026	**$5.551**	**0.0%**	**$26.659**	**0.1%**	**$2,164.092**	**2.8%**	**$0.216**	**-2.5%**	**$8,471.440**	**3.3%**	**$5,423.502**	**2.8%**
F 2027	**$5.733**	**3.3%**	**$26.697**	**0.1%**	**$2,225.377**	**2.8%**	**$0.210**	**-2.5%**	**$8,754.058**	**3.3%**	**$5,577.380**	**2.8%**

Tax Year	Class 12 Airlines & Railroads		Class 13 Telecommunication & Electrical Generation		Class 14 Renewable Energy Production & Transmission		Class 15 CO2/Qualifying Liquid Pipeline Property		Class 16 High Voltage DC Converter Property		Class 17 Qualified Data Center	
	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change
A 2014	$2,221.753	1.1%	$2,831.344	-1.6%	$980.529	-4.4%	$117.162	83.3%	$0.000			
A 2015	$2,503.508	12.7%	$2,974.469	5.1%	$957.970	-2.3%	$165.687	41.4%	$0.000			
A 2016	$2,843.525	13.6%	$3,030.510	1.9%	$880.904	-8.0%	$171.450	3.5%	$0.000			
A 2017	$3,107.555	9.3%	$2,992.082	-1.3%	$841.477	-4.5%	$190.179	10.9%	$0.000			
A 2018	$2,823.509	-9.1%	$2,877.270	-3.8%	$761.927	-9.5%	$151.199	-20.5%	$0.000		$0.000	
A 2019	$2,720.418	-3.7%	$2,838.929	-1.3%	$825.784	8.4%	$148.772	-1.6%	$0.000		$0.000	
A 2020	$3,161.348	16.2%	$2,713.175	-4.4%	$772.732	-6.4%	$143.388	-3.6%	$0.000		$0.000	
A 2021	$3,357.298	6.2%	$2,549.664	-6.0%	$866.999	12.2%	$143.186	-0.1%	$0.000		$196.819	
A 2022	$3,211.430	-4.3%	$2,474.775	-2.9%	$1,205.409	39.0%	$190.529	33.1%	$0.000		$87.197	
A 2023	$2,997.644	-6.7%	$2,143.504	-13.4%	$1,362.543	13.0%	$216.066	13.4%	$0.000		$62.338	-28.5%
A 2024	$3,142.844	4.8%	$2,198.128	2.5%	$1,251.489	-8.2%	$204.422	-5.4%	$0.000		$59.221	-5.0%
F 2025	**$3,219.974**	**2.5%**	**$2,253.081**	**2.5%**	**$1,356.010**	**8.4%**	**$209.737**	**2.6%**	**$0.000**		**$56.260**	**-5.0%**
F 2026	**$3,298.996**	**2.5%**	**$2,309.408**	**2.5%**	**$1,536.468**	**13.3%**	**$215.191**	**2.6%**	**$0.000**		**$53.447**	**-5.0%**
F 2027	**$3,379.958**	**2.5%**	**$2,367.143**	**2.5%**	**$1,741.530**	**13.3%**	**$220.785**	**2.6%**	**$0.000**		**$50.775**	**-5.0%**

No c**lass 16** - High Voltage DC Converter property has been identified in the TY 2025-TY 2027 period. A significant investment is anticiated to start in TY 2028 and to be online by TY 2032.

Step 2. Estimate the growth of property subject to cyclical reappraisal (classes 3, 4, and 10).

TY 2025 (FY 2026) marks the fifth (two-year) valuation cycle instituted by SB 157 (2015) for agricultural land (class 3 property) and commercial and residential real property (class 4 property). Class 10 forest property moves to two-year reappraisal cycle.

For classes 3 and 4, forecast growth is derived by calculating the interaction of long-run trends, new property growth, and biennial reappraisal. Per present law, tax rates are held constant, new property is added annually at trend, and valuations are adjusted for the statewide average two-year change in existing home values. Preliminary estimates of reappraisal change developed by the Département of Revenue are used for the TY 2025 estimates of reappraisal change. The 2027 biennium estimates are based on S&P Global estimates of median existing home prices in Montana. These reappraisal estimates are approximations and are not the final estimates produced by the Department of Revenue's statistical modeling and appraisal activities.

Class 3 – Agricultural Land

Agricultural land is assessed based on its production value. This is assessed based on changes in reference to agricultural products (cattle for grazing land, spring wheat for crop land, and alfalfa hay for irrigated land), average production practices -- controlling for soil and climatological characteristics -- instead of market value. Table 4 presents the estimate of class 3 productivity value and taxable value growth. The base growth rate of agricultural land is -0.50% during the forecast period. The negative growth rate is due to the gradual conversion of class 3 land to other uses (commercial and residential parcels). Due to reappraisal, the assessed value grows biennially based on the 10-year Olympic average change in the reference commodity prices. Rising grazing and hay prices are offset by declines in wheat prices resulting in a small (0.75%) reappraisal change. The other feature of class 3 is the applicable tax for agricultural property is higher than the statutory rate because small agricultural parcels, those that do not meet a minimum income threshold (non-qualified agricultural land), have a higher tax rate.

Table 4
Class 3 Agricultural Land
($ millions)

	TY 2022	TY 2023	TY 2024	**TY 2025**	**TY 2026**
Productivity Value	$6,678.28	$6,718.63	$6,701.16	**$7,044.69**	**$7,027.08**
Statutory Tax Rate	2.16%	2.16%	2.16%	**2.16%**	**2.16%**
(Applicable tax rate)	*2.28%*	*2.28%*	*2.28%*	***2.28%***	***2.28%***
Total Taxable Value	$152.236	$153.153	$153.099	**$160.947**	**$160.545**
Productivity Value Growth	-0.33%	0.60%	-0.26%	**5.39%**	**0.00%**
Base Growth	-0.80%	0.00%	-0.25%	**-0.25%**	**-0.25%**
Taxable Value Percent Change	-1.13%	0.60%	-0.04%	**5.13%**	**-0.25%**

Class 4 – Residential and Commercial Real Property

Because valuations for commercial and residential property are driven by different factors, each subclass is estimated and presented separately.

Class 4 Residential Real Property

Table 5 presents the forecast of market and resulting taxable value for residential class 4 property. The forecast is based on underlying residential property growth of averaging 1.6% in TY 2023 and TY 2024 (TY 2022 is known). That estimate is based on prior year estimated household formation which is then used to extrapolate base new property growth. This growth is combined with the TY 2023 median, existing home, price growth forecast by S&P Global for Montana which is used to approximate the anticipated reappraisal change and is highlighted in gray.

Additionally, there has been a growing number of properties in which the improvement value exceeds $1.5 million. These properties pay a 1.89% rate on the increment over $1.5 million per 15-6-135 (3)(b), MCA. There is also an adjustment for the reduction in taxable value granted homeowners that qualify for the Property Tax Assistance Program (PTAP), the Disabled American Veterans (DAV) property tax assistance program and the valuation limitation in SB 94 (2017) for residences with disproportionate land values. The revenue effects of these programs, unlike local property tax abatements, reduce state mill collections. The taxable value for these tax programs is assumed to be a fixed share of taxable value during the forecast period.

Table 5
Class 4 Residential Real Property
($ millions)

	TY 2023	TY 2024	**TY 2025**	**TY 2026**
Market Value	$204,542.724	$208,259.724	**$255,482.901**	**$258,482.785**
Tax Rate	1.35%	1.35%	**1.35%**	**1.35%**
Taxable Value (calculated)	$2,761.327	$2,811.506	**$3,449.019**	**$3,489.518**
Improvement Value over $1.5 Mn	$62.127	$64.838	$79.540	$80.474
Est. PTAP/DAV/HB 75 Reductions	($46.034)	($82.319)	($100.985)	($102.171)
Total Taxable Value	**$2,777.421**	**$2,794.025**	**$3,427.574**	**$3,467.821**
Est. Household Formation	1.5%	1.2%	1.23%	1.17%
Est. Housing Value Change	47.08%	0.0%	**21.45%**	0.00%
Taxable Value Percent Change	50.1%	0.6%	**22.68%**	**1.17%**

Class 4 Commercial Real Property

Commercial real property estimates are presented in Table 6. New property is assumed to grow biennially with growth matching the prior cycle average annual growth. Due to reappraisal, the market value of existing property moves biennially. For this estimate, statewide average reappraisal growth is taken from the DOR preliminary reappraisal change estimate. For the 27-cycle, growth is assumed to be 40% of the residential property valuation change and base growth is assumed to match the prior cycle average. The present law reappraisal change for the 2025 cycle is highlighted in gray.

Table 6
Class 4 Commercial Real Property
($ millions)

	TY 2021	TY 2022	**TY 2023**	**TY 2024**
Market Value	$25,029.731	$25,348.417	**$29,631.022**	**$29,858.179**
Reductions	($3.598)	($3.361)	**($3.929)**	**($3.959)**
Total Taxable Value	$469.464	$475.724	**$556.098**	**$560.361**
Base Growth	0.26%	1.27%	**0.77%**	**0.77%**
Change in Value	9.0%	0.00%	**16.1%**	**0.00%**
Taxable Value Percent Change	9.26%	1.33%	**16.89%**	**0.77%**

Certain properties, generally land dedicated to golf courses as classified under 15-6-134(2)(c), MCA, are taxed at one-half of the standard class 4 tax rate. This reduction is assumed to be a constant share during the forecast period.

Class 10 Forest Land

Forest land, like agricultural land, is assessed based on its productivity value. Table 7 presents the estimate of class 10 taxable value. The preliminary rate of productivity value growth under new forest land biennial reappraisal system reflects the changes of SB 3 which returns the tax rate to 0.37% but reduces the stumpage. The department preliminary reappraisal change for the new cycle is for a change of negative 24.33%. This results in a modest growth in taxable value as the valuation and the rate change generally neutralize each other. Because forest land is reappraised on a new two-year cycle these estimates assume no change in productivity value in the second year of the cycle

Table 7
Class 10 Forest Land
($ millions)

	TY 2023	TY 2024	**TY 2025**	**TY 2026**
Productivity Value	$1,641.099	$1,764.510	**$1,336.204**	**$1,337.204**
Tax Rate	0.29%	0.27%	0.37%	0.37%
Taxable Value	$4.759	$4.764	**$4.944**	**$4.948**
Base Growth	7.49%	7.52%	**-24.33%**	**0.00%**
Taxable Value Growth	0.55%	0.10%	**3.77%**	**0.07%**

Step 3. Determine the 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. In class 3, parcels of agricultural land that are less than 160 acres in size 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 class 3 rate for grazing land. Because of this, the applicable rate is higher than the standard tax rate. This increment was calculated for the forecast period.

In class 4, residential properties of individuals who meet qualifying statutory residence, income, and tenure conditions receive reduced tax rates (property tax assistance program, disabled American veterans' program, and capped land valuation for certain long-held family property). Some commercial properties are taxed at a lower than the standard rate – examples are properties that receive new and expanding industry, property (local) abatements, and commercial golf courses (lower statutory class 4 rate). Under SB 372 (2011), SB 96 (2013), HB 303 (2021), and HB 212 (2023) class 8 property has a two-tiered tax rate with a $1 million market value exemption. The statutory class 8 effective weighted average rate, before local abatements, is presented in Table 8. The table summarizes standard statutory property tax rates for TY 2023 through TY 2026 (FY 2027) for all classes of property.

Table 8
Statutory Tax Rates by Class of Property

Tax Year	Class 1 Mine Net Proceeds	Class 2 Mine Gross Proceeds	Class 3 Ag Land[1]	Class 4 Residential	Class 4 Multi-family	Class 4 Commercial	Class 4 Commercial	Class 5 Co-op & Pollution Control[4]	Class 7 Locally Assessed Utilities	Class 8 Business Equipment[3]	Class 9 Pipelines, Utility Non-Generatin	Class 10 Forest land	Class 12 Airlines & Railroads[2]	Class 13 Telecomm & Electrical Generation	Class 14 Renewable Energy & Transmission	Class 15 CO_2/Cert. Liquid Pipeline[5]	Class 16 High Voltage DC	Class 17 Qualified Data Center
2023	3.00%	3.00%	2.16%	1.35%	1.35%	1.35%	1.89%	3.00%	8.00%	2.24%	12.00%	0.37%	3.06%	6.00%	3.00%	1.50%	2.25%	0.90%
2024	3.00%	3.00%	2.16%	1.35%	1.35%	1.35%	1.89%	3.00%	8.00%	2.24%	12.00%	0.37%	2.77%	6.00%	3.00%	1.50%	2.25%	0.90%
2025	**3.00%**	**3.00%**	**2.16%**	**1.35%**	**1.35%**	**1.35%**	**1.89%**	**3.00%**	**8.00%**	**2.24%**	**12.00%**	**0.37%**	**2.77%**	**6.00%**	**3.00%**	**1.50%**	**2.25%**	**0.90%**
2026	**3.00%**	**3.00%**	**2.16%**	**1.35%**	**1.35%**	**1.35%**	**1.89%**	**3.00%**	**8.00%**	**2.24%**	**12.00%**	**0.37%**	**2.77%**	**6.00%**	**3.00%**	**1.50%**	**2.25%**	**0.90%**

[1] Actual rate is higher due to the rate on non-qualified ag land. [2] The class 12 rate is calculated as the weighted average of all commercial and industrial property in the prior year.
[3] Blended rate – The first $1 million in market value of business equipment property is exempt for all taxpayers, a rate of 1.5% applies to the next $6 million in property value, and 3.0% on all property above that level.
[4] Certain pollution control equipment (class 5) is now excempt from taxation. [5] The rate is 3.0%, but new class 15 carbon dioxide pipelines receive a full excemption (as of TY 2021)

The class 12 tax rate is calculated under the provisions of the federal 4-R Act. The provisions of the act prohibit state, county, and local taxing jurisdictions from assessing certain transportation property (airlines and railways) at a higher ratio of assessed value to true market value than other commercial and industrial property within the jurisdiction. Class 12 property is assessed annually and is the weighted average tax rate for all commercial and industrial property in the state. Class 4 commercial property represents over half of statewide commercial and industrial property and is assessed on a two-year cycle. In order to comply with the 4-R Act, the Department of Revenue uses commercial property sales to calculate the required adjustment to the class 4 commercial tax rate used in the class 12 weighted average. This revenue estimate assumes the class 12 rate is constant for the forecast period as class 4 commercial property is now assessed on a biennial basis instead of a six-year cycle. The tax rate for TY 2024 was published by the Department of Revenue in June 2024.

Step 4. Calculate the statewide fiscal year taxable value for each class of 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. That is, TY 2024 property assessments lead to FY 2025 revenue. However, property in class 8 (business equipment) consists of two types of property, each with a different billing cycle. Class 8 taxable value needs to be adjusted

for the timing of those payments. Personal property not-liened-to-real property (or "strict"-personal property) represents 36% of the taxable value in the class. This personal property is assessed in the spring of the calendar year and bills are paid in May of the ongoing fiscal year. Class 8 real property and class 8 personal property liened-to-real property (secured permanently or legally to real property), represent 64% of the value of the class and have tax payments due in November and May. Therefore, FY 2025 taxable value is 66% of TY 2024 taxable value and 34% of TY 2025 taxable value. The class 8 taxable value presented in the Summary of Assessed Market Value (Table 3) and the summary of taxable value (Table 9) include this adjustment.

Note: The discussion from this point forward will focus on fiscal year receipts.

Table 9 presents the result of applying statutory tax rates (Table 8) to tax year assessed values adjusted for the expected timing of the state's property tax receipts. TY 2024 certified taxable values were released in early August 2024, except for tax protests and settlements, most of FY 2025 billing, and therefore collections, are essentially known.

Table 9
Calculated Statewide Fiscal Year Taxable Value Summary
($ millions)

Class & Property Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
1. Net Proceeds	$4.432	$4.101	$5.545	$5.548	$5.551
2. Mine Gross Proceeds	$41.809	$34.000	$26.584	$26.622	$26.659
3. Agricultural Land	$152.236	$153.153	$153.099	$160.947	$160.545
4. Residential & Commercial Real Property	$2,325.503	$3,409.162	$3,423.555	$4,114.122	$4,159.517
5. Rural Co-Op Utilities and Pollution Control	$53.462	$61.127	$61.396	$63.135	$64.923
7. Non-centrally Assessed Utilities	$0.018	$0.020	$0.018	$0.018	$0.017
8. Business Equipment (FY adjusted)	$140.938	$189.853	$181.919	$183.963	$190.100
9. Pipelines, Electrical Transmission Lines	$626.403	$595.835	$615.404	$632.864	$650.820
10. Forest Land	$4.733	$4.759	$4.764	$4.944	$4.948
12. Airlines/Railroads	$98.090	$91.560	$86.897	$89.030	$91.215
13. Telecommunication & Electrical Generation	$148.486	$128.619	$131.888	$135.185	$138.564
14. Renewable Energy Production & Transmission	$29.858	$34.641	$32.635	$36.248	$42.076
15. CO2/Qualifying Liquid Pipelines	$2.858	$3.241	$3.066	$3.146	$3.228
16. High Voltage DC Converter Property	$0.000	$0.000	$0.000	$0.000	$0.000
17. Data Server Facility	$0.785	$0.561	$0.533	$0.506	$0.481
Statewide Taxable Value	$3,629.619	$4,719.624	$4,727.304	$5,456.277	$5,538.645

Table 10 presents the annual change in the forecast taxable values (from Table 9), by class, to facilitate comparability to the estimates presented by the Legislative Fiscal Division. These growth rates are important in projecting taxable value for property tax fiscal impact of legislation estimates.

Table 10
Forecast Annual Percent Change in Taxable Value

Class & Property Description	FY 2023	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
1. Net Proceeds	12.8%	-7.5%	**35.2%**	**0.0%**	**0.0%**
2. Mine Gross Proceeds (w/o Abatements)	31.9%	-18.7%	**-21.8%**	**0.1%**	**0.1%**
3. Agricultural Land	-1.1%	0.6%	**0.0%**	**5.1%**	**-0.3%**
4. Residential & Commercial Real Property	2.9%	46.6%	**0.4%**	**20.2%**	**1.1%**
Residential	3.3%	50.1%	**0.6%**	**22.7%**	**1.2%**
Commercial	1.3%	32.8%	**-0.4%**	**9.1%**	**0.8%**
5. Rural Co-Op Utilities and Pollution Control	2.9%	14.3%	**0.4%**	**2.8%**	**2.8%**
7. Non-centrally Assessed Utilities	522.4%	12.7%	**-8.5%**	**-2.5%**	**-2.5%**
8. Business Equipment (FY adjusted)	-8.9%	34.7%	**-4.2%**	**1.1%**	**3.3%**
9. Pipelines, Electrical Transmission Lines	12.6%	-4.9%	**3.3%**	**2.8%**	**2.8%**
10. Forest Land	-1.4%	0.5%	**0.1%**	**3.8%**	**0.1%**
12. Airlines/Railroads	-6.2%	-6.7%	**-5.1%**	**2.5%**	**2.5%**
13. Telecommunication & Electrical Generation	-2.9%	-13.4%	**2.5%**	**2.5%**	**2.5%**
14. Renewable Energy Production & Transmission	42.8%	16.0%	**-5.8%**	**11.1%**	**16.1%**
15. CO2/Qualifying Liquid Pipelines	33.1%	13.4%	**-5.4%**	**2.6%**	**2.6%**
16. High Voltage DC Converter Property	0.0%	0.0%	**0.0%**	**0.0%**	**0.0%**
17. Data Server Facility		-28.5%	**-5.0%**	**-5.0%**	**-5.0%**
Statewide Taxable Value Growth	3.8%	29.8%	**0.4%**	**15.4%**	**1.5%**

Step 5. Determine the taxable value base for statewide mill levies and 95 mill revenue.

The calculation of 95 mill revenue requires adjustments for Tax Increment Financing Districts and Targeted Economic Development Districts (TIFs & TEDDs). These districts do not transfer all the 95 mills revenue generated in the district to the state. As authorized under Title 7, chapter 14, part 42, MCA, they retain the taxes generated from most millage in the district, except the 6 mill university levies and parts of millage in new TIF districts (per 2021 Session SB 385 and SB 388) on the taxable value "increment" greater than the taxable value that existed when the district was created, commonly referred to as the "incremental value". The districts have a finite duration tied to the districts initial charter (generally 15 years). TIF districts can be extended, generally to recover bonded debt. The 95 mills revenue generated from these increments is deducted from the estimate of state property tax revenue. This estimate grows TY 2024 TEDD and TIF incremental taxable value by trend district taxable value growth, net of the property in expiring districts.

Because the calculation of total property tax revenue is estimated by applying the standard statutory tax rates to the assessed market value property base, no adjustment is needed for locally abated property. Table 11 displays the calculation of state revenue generated from the 95 mills levies.

Table 11
Calculation of State Special Fund Revenue from 95 Mill Levy
($ millions)

Calculation	FY 2023	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
Statewide (FY) Taxable Value	$3,629.610	$4,710.624	**$4,727.304**	**$5,456.277**	**$5,538.645**
Subtract TIF Taxable Value	($68.845)	($100.623)	**($104.824)**	**($109.454)**	**($114.130)**
Taxable Value for 95 Mills	$3,560.765	$4,610.001	**$4,622.480**	**$5,346.823**	**$5,424.515**
Apply 95 Mills	0.095	0.095	**0.095**	**0.095**	**0.095**
Revenue from 95 Mills	$338.273	$437.950	**$439.136**	**$507.948**	**$515.329**

Table 12 shows the forecast for the 1.5 mill levy revenue for colleges of technology and is based on the taxable value in counties with colleges of technology after adjusted for county TIFs.

Table 12
Property Tax 1.5 Mill Levy General Fund Revenue
($ millions)

	FY 2023	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
COT County Taxable Value	$1,157.526	$1,434.047	**$1,440.709**	**$1,662.873**	**$1,687.976**
COT County TIF Value	($38.438)	($38.711)	**($56.579)**	**($58.942)**	**($61.545)**
Taxable Value for 1.5 Mills	$1,119.088	$1,395.336	**$1,384.130**	**$1,603.932**	**$1,626.431**
Apply 1.5 Mills	0.0015	0.0015	**0.0015**	**0.0015**	**0.0015**
1.5 Mill Levy Revenue	$1.679	$2.093	**$2.076**	**$2.406**	**$2.440**

Step 6. Calculate total property tax revenue and the general fund and state special revenue components

The non-levy revenue generated in counties is shared with the state based on the relative distribution of state and local education mills. These include coal gross proceeds (in counties that have coal production) and federal forest receipts (in counties that have national forests). Additionally, there is an assortment of miscellaneous revenues that are collected by counties that are shared with the state based on the proportionate state and local mills levied in the jurisdictions.

The base for coal gross proceeds non-levy revenue are coal severance tax reports. The coal gross proceeds tax is a 5% levy on the gross value of coal produced. The state receives the TY 1989, elementary and high school mills (55 mills) share of coal gross proceeds tax collections. Under SB 266 (2011), the coal gross proceeds tax rate for underground mines was reduced to 2.5%. The reduced tax rate would be available to any new or qualifying expanding underground mine for the first ten years of production. SB 328 passed by the 2019 Legislature granted counties the ability to abate up to 50% of local coal gross proceeds tax from surface mines in their jurisdictions.

The 2001 federal Secure Rural Schools and Communities Act (SRS) was reauthorized and fully funded through FY 2012 under the Emergency Economic Stabilization Act of 2008. The Act was reauthorized and funded for FY 2013 by Public Law 112-141, in July 2012; reauthorized by section 524 of P.L. 114-10 extending payments through FY 2016. SRS lapsed for FY 2017 but was extended for FY 2018 and FY 2019 by the Bipartisan Balanced Budget Act of 2018. SRS payments were expected to expire in FY 2019 but were extended through FY 2021 by H.R.1865 - *Further Consolidated Appropriations Act, 2020* in December 2019. In November 2021, payments were again reauthorized by the *Infrastructure Investment and Jobs Act* (P.L.117-58, Section 41202) - for federal fiscal years 2021 through 2023 (SFY 2024) and will revert to the *1908 Act* 25% distribution of the seven-year average of federal forest receipts in FY 2025. The state receives the 55 mills share of the one-third share of Title I funds that are allocated statutorily to countywide school levies. In recent years, that has meant approximately 20% of all Title I payments accrue to the state general fund due to the proportional share of school equalization mills. For the state general fund that results in about $2.46 million in FY 2023 and FY 2024 with a drop to around $475,000 in FY 2025 when the program is yet again scheduled to expire.

All other non-levy revenues are set at the level of the last known year's total (FY 2024) as reported on the Office of Public Instruction's FP6b reports based on consolidated county treasurer and county school superintendent financial reports.

Summary

Table 13 presents 95 mills revenue from anticipated centrally assessed protested property taxes (net of known settlements) that may be allocated to the protested reserved account which are state special revenues and the 1.5 mill revenue and non-levy revenues which are now general fund revenues. Table 13 restates the values presented earlier in the initial summary (Table 2).

Table 13
Summary of State Special and General Fund Property Tax Revenue
($ millions)

	--- Actual ---		---------- Forecast ----------		
	FY 2023	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
Property Tax - 95 Mill Levy (SSR)	$338.27	$437.95	**$439.14**	**$507.95**	**$515.33**
Net Protested Property Taxes	-$0.027	-$0.020	**-$0.020**	**-$0.020**	**-$0.020**
Net 95 Mill Levy Revenue (SSR)	$338.246	$437.930	**$439.116**	**$507.928**	**$515.309**
Property Tax - 1.5 Mill Levy	$1.679	$2.093	**$2.076**	**$2.406**	**$2.440**
Coal Gross Proceeds	$9.157	$11.092	**$11.948**	**$10.436**	**$8.275**
Federal Forest Reserves	$2.845	$2.964	**$0.872**	**$0.899**	**$0.941**
All Other (last 3 year average)	$0.766	$1.201	**$0.993**	**$0.993**	**$0.993**
Non-Levy Revenue (General Fund)[1]	$12.768	$17.351	**$15.890**	**$14.734**	**$12.649**
	$351.013	$455.281	**$455.006**	**$522.662**	**$527.958**

[1] Actual collections do not tie to SABHRS totals exactly in Table 1 because of cash vs. accrual accounting differences and potential account misallocation differences within non-levy revenue categories on county collections reports.

Distribution

The School Equalization Aid account state special revenue fund receives 100% of the 33 mills elementary equalization levy, the 22 mills high school equalization levy, and the 40 mills state equalization aid levy. The general fund receives 100% of the 1.5 mill levy for colleges of technology and the state general fund non-levy revenues as presented in Table 13.

Data Sources

Tax collections are extracted from the state accounting system (SABHRS). The summary property tax database and other property tax reports were provided by the Department of Revenue. The Office of Public Instruction prepares the FP6b summary of county school revenues used in the estimates of “all other” non-levy revenue. The producer price index for metals is from the S&P Global, October 2024, U.S. forecast. Household formation and existing Montana housing prices are from S&P Global, October 2024, Montana forecast.

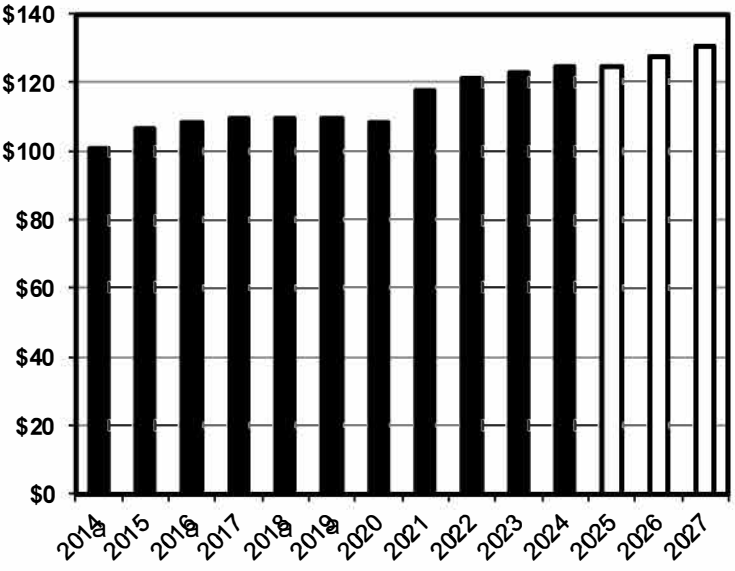
Revenue Description

Title 23 and Section 61-3-221 and 61-3-562, MCA, provide for multiple fees and fees-in-lieu of taxes on motor vehicles, which 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, and vehicle type.

Table 1 shows actual revenue for vehicle taxes and fees to the general fund for FY 2014 - FY 2024 and forecast revenue for FY 2025 - FY 2027.

Table 1
Vehicle Taxes and Fees
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$100.968	1.8%
A 2015	$106.381	5.4%
A 2016	$108.479	2.0%
A 2017	$109.195	0.7%
A 2018	$109.534	0.3%
A 2019	$109.493	0.0%
A 2020	$108.481	-0.9%
A 2021	$117.790	8.6%
A 2022	$121.137	2.8%
A 2023	$123.003	1.5%
A 2024	$124.902	1.5%
F 2025	**$124.895**	**0.0%**
F 2026	**$127.705**	**2.2%**
F 2027	**$130.669**	**2.3%**



Registration fees for light vehicles (cars, light trucks, and sport utility vehicles) represents approximately three-fourths of general fund revenue from motor vehicle fees. Vehicles 0-4 years old (new age cohort) and 5-10 years old (mid age cohort) must register on an annual basis. Vehicles over the age of 10 years (old age cohort) have the option of registering annually or registering permanently. Once a vehicle undergoes permanent registration, it is no longer subject to annual fees unless it changes ownership. The stock of cars and trucks that register on an annual basis consists of approximately 800,000 vehicles. This number does not include permanent registrations. Including vehicles registering permanently, there are approximately 900,000 light vehicles each year that pay registration fees to the state of Montana.

Shifts in the age distribution of the vehicle stock influences total revenue collections because newer vehicles are subject to higher fees than older vehicles. Annual registration fee amounts range from $217 for vehicles in the new age cohort, $87 for vehicles in the mid age cohort, and $28 for vehicles in the old age cohort. The fee for permanent registration is $87.50. New cohort registrations have a disproportionate effect on revenue collections because the fee associated with this age class is over two times higher than the mid cohort fee and over seven times higher than the old cohort fee. Consequently, the number of vehicles in the new cohort has a large impact on motor vehicle revenue and significant changes in the proportion of new cohort registrations to total registrations tend to have persistent effects on revenue collections because of the way vehicles flow through the registration system.

The new and mid cohort groups each account for 25% - 35% of total registrations in a year, but vehicles in the new cohort generate between 55% and 60% of annual light vehicle registration revenue while mid cohort vehicles account for

approximately 25% of the revenue. Old cohort vehicles account for about 30% of annual registrations and contribute 10% of annual revenue. Permanent registrations make up 5% - 10% of total registrations and produce 5% - 10% of annual revenue.

Registration of vehicles other than light vehicles offers a relatively stable source of revenue. Historically, fees for the registration of other vehicles have averaged about 14% of total motor vehicle revenue annually. These vehicles include heavy trucks, watercraft, trailers, off-highway vehicles, and others. A small portion of motor vehicle revenue comes from fees associated with the issuance of titles, license plates, etc. Revenue from these fees is driven primarily by the volume of new vehicle registrations requiring Montana identification. There are numerous general fund accounts into which vehicle taxes and fee revenue are recorded. Table 2 summarizes revenue collections by grouping similar fees into broad categories. These groupings include revenue from registrations of light vehicles, registrations of other vehicles, permanent registrations, fees associated with titles, license plates, and related items.

Table 2

Actual Vehicle Taxes and Fee Revenue by Grouped SABHRS Accounts

($ millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Light Vehicle Registrations	$81.693	$81.356	$85.204	$87.293	$89.204	$90.386
Other Vehicle Registrations	$14.490	$14.232	$13.842	$13.070	$13.890	$13.765
Other Fees	$6.476	$6.271	$6.823	$7.081	$7.097	$7.348
of which "other fees" revenue from:						
New Plates	*$0.917*	*$0.928*	*$1.208*	*$1.190*	*$1.175*	*$1.273*
Specialty Plates	*$1.179*	*$1.131*	*$1.168*	*$1.108*	*$1.153*	*$1.142*
Titles	*$2.817*	*$2.707*	*$3.125*	*$3.164*	*$3.115*	*$3.229*
Other	*$1.563*	*$1.505*	*$1.322*	*$1.619*	*$1.653*	*$1.704*
Permanent Registrations	$6.833	$6.622	$7.921	$8.694	$8.812	$9.403
Light Vehicles	*$6.189*	*$6.034*	*$7.209*	*$8.020*	*$8.206*	*$8.789*
Motor Homes	*$0.644*	*$0.588*	*$0.712*	*$0.674*	*$0.606*	*$0.613*
Total	**$109.493**	**$108.481**	**$117.790**	**$121.137**	**$123.003**	**$124.902**

Over the past decade, motor vehicles experienced a period of sideways movement from FY 2014 – FY 2020 and a period of consistent upward movement from FY 2021 – FY 2024. Fallout from the Great Recession led to the flat trajectory of motor vehicle revenue prior to FY 2021. New vehicle purchases tumbled during the Great Recession, and, because of the cohort nature of motor vehicle revenue, this decline had long-lasting effects. The recession eroded the revenue base for new cohort vehicles from FY 2009 through FY 2013 and started to affect registration revenue for mid cohort vehicles in FY 2014. Mid cohort registration revenue declined each year from FY 2014 – FY 2019 as the recessionary dip in vehicle purchases took full effect, bottoming in FY 2019. Revenue from new cohort registrations during this period of weakness for mid cohort revenue provided just enough offset to keep total motor vehicle revenue growth above zero. New cohort registration revenue grew each year from FY 2014 – FY 2019. This, in turn, translating to swelling of mid cohort registrations in FY 2020 and beyond. The effect of the Great Recession is now visible in the old cohort, where annual registrations of vehicles over 10 years old have been falling since FY 2019; however, the marginal impact on motor vehicle revenue is minimal because of the lower registration fee assessed on old cohort registrations. The COVID-19 pandemic's snarling of motor vehicle supply chains likely provided lift to mid and old cohort registration revenue where there otherwise wouldn't have been because of increased activity in the used vehicle market stemming from a negative shock to the supply of new vehicles.

Permanent registrations not only come from vehicles transitioning from an annual registration schedule, but also from turnover – i.e., changing ownership – within the age group of vehicles 11 years and older. The impact of the Great Recession was expected to cause a slowdown in permanent registration activity through the channel of a shrinking population of vehicles eligible for permanent registration but still registering annually. This outcome was expected to begin

in FY 2020 with the strongest effects being realized in FYs 2021 and 2022. Indeed, there was a contraction in the volume of permanent registrations in FY 2020, but the magnitude of the dip was much smaller than initially assumed. Permanent registrations surged in FYs 2021 and 2022, a complete reversal of the predicted trend. The reason for these divergent results seems to be the disruption in the market for new and used vehicles caused by the COVID-19 pandemic. Concurrent elevated demand from stimulatory fiscal policy and suppressed supply from constrained global production and transportation capacity created a shortage of new vehicles that began in 2020 and persisted through 2022. This market imbalance fueled rapidly rising prices for new vehicles that pushed many consumers out of the market. Instead of forgoing a vehicle purchase altogether, however, consumers alienated from the new vehicle market moved instead to the used vehicle market. This substitution effect created a big upward shock to used vehicle demand, sending prices soaring to record levels. More owners were willing to sell their vehicles at these elevated prices and so market transactions became more prevalent. A byproduct of this phenomenon was a heightened rate of used vehicle turnover which led to a rise in the number of permanent registrations related to changes in vehicle ownership.

Risks and Significant Factors

- Once a vehicle is purchased, it flows through the three age cohorts over the course of its life and eventually exits the vehicle revenue base when it is permanently registered (unless it changes ownership) or is removed from service. Ebbs and flows in the volume of entries and exits to and from each age cohort are a function of economic conditions that influence factors such as vehicle sales and migration patterns. Since these fluctuations persist in the annual registration revenue pool as vehicles move through the different age cohorts, significant shocks to new vehicle purchases are an important determinant of future revenue streams.
- Only vehicles over ten years old can register permanently. Permanently registered vehicles only re-enter the vehicle tax collection system upon a change of ownership. For a permanently registered vehicle that changes ownership, the duration of the vehicle's presence in the tax collection system depends on the decision of the new owner to either register the vehicle annually or permanently. This change in ownership of permanently registered vehicles is a source of forecasting error because it is difficult to estimate how many previously permanently registered vehicles reappear in the revenue pool.
- Vehicle markets have recovered from their pandemic imbalances. New vehicles sales are lower than pre-pandemic levels but have been stable since the middle of 2023. In March 2024, prices for new vehicles posted their first year-over-year decline since the early stages of the pandemic. Year-over-year price changes for new vehicles have since moved further into negative territory. Used vehicle prices have been falling since late 2022. As prices retreat toward equilibrium levels, particularly for new vehicles, sales volumes could increase.

Forecast Methodology

The method employed to forecast motor vehicle taxes and fees revenue is outlined below. There are three steps in the estimating process. The first step is to estimate the age distribution of vehicles in the registration pool, i.e., the number of vehicles registering in each of the new, mid, and old age cohorts along with permanent registrations. Second, total annual light vehicle registration revenue is calculated. Each annual registration cohort is associated with a different fee and total registration revenue for each cohort is the product of the registration count and the fee amount. Third, revenue from permanent registrations and other vehicle registrations and fees is calculated and added to annual registration revenue to arrive at the amount to be deposited in the general fund.

Step 1. Age Distribution of the Motor Vehicle Stock

Table 3 presents the actual and estimated distribution of annually registering vehicles by age cohort by fiscal year. The population of the new age cohort is projected to grow in each year of the forecast period. New vehicle sales and first-time registrations in the new cohort that are not due to new vehicle sales are forecast to gradually rise through FY 2027, returning to historical trends as the vehicle market stabilizes after the pandemic-induced disruptions. Constrained new vehicle sales that characterized the pandemic years affect mid cohort registrations during the forecast period because of the arrival of model year 2020 and 2021 vehicles into the cohort. Total mid cohort registrations grow only slightly from FY 2024 to FY 2027. Old cohort registrations continue their decline in FY 2025 but flatten afterward as the lingering effects of the Great Recession's negative demand shock work to fully dissipate. Permanent registrations have been rising consistently year after year over the past decade, a reflection of a gradually expanding vehicle stock and pool of vehicles that meet the age requirement for permanent registration (turnover within which generates more permanent registrations). This steady upward movement is projected to continue through FY 2025 and the subsequent biennium.

New Cohort. The total number of vehicles in the new cohort is estimated by first starting with the population of the new cohort in the previous year less the vehicles that will age into the mid cohort. Estimated new sales are then added to this figure. Finally, an adjustment is made to account for vehicles that enter the new age cohort for reasons other than new sales (e.g., move to Montana from out-of-state) and vehicles that exit the cohort for reasons other than switching to the mid cohort (e.g., removed from service or move out of Montana).

Mid Cohort. The population of vehicles in the mid cohort for a given year is estimated in a similar manner as above. The previous year's mid cohort population is used as a starting point. Vehicles leaving the new cohort and entering the mid cohort are added to the prior year's mid cohort population and vehicles aging out of the mid cohort are removed. The net gain or loss from vehicles moving in or out of Montana, as well as vehicles removed from service, is accounted for as well.

Old Cohort. Primary new entrants into the old cohort consist of vehicles achieving 11 years of age and moving out of the mid cohort. An estimate of this new population in the old cohort is added to the prior year's old cohort population. Estimated permanent registrations are subtracted away. An adjustment is included to capture the net effect on the old cohort population of vehicles that change ownership and re-enter the pool, move into the state, move out of the state, or are removed from service.

Permanent Registrations. Permanent registrations can occur when a vehicle ages out of the mid cohort and immediately registers as permanent, when a vehicle in the old cohort switches from annual registration to permanent registration, when a vehicle registered as permanent changes ownership and is permanently registered again by the new owner, or when a vehicle older than ten years moves to Montana and registers permanent in the state. Permanent registrations have followed a relatively stable linear trend over time and are projected to remain on trend moving forward.

Table 3 shows the number of vehicles that permanently register each year as well as an estimate of the cumulative number of permanently registered vehicles in Montana. Cumulative permanent registrations are calculated by adding new permanent registrations to the existing total minus an estimate of vehicles that leave the population.

Table 3
Distribution of Light Motor Vehicle Stock by Age Class

	Annual Registrations					Permanent Registrations	
Fiscal Year	0 to 4 Years	5 to 10 Years	Over 10 Years	All	Percent Change	Annual Permanent Registrations	Cumulative Permanent Registrations Since FY 2007
A 2020	233,667	250,303	316,915	800,885	1.9%	68,962	521,131
A 2021	244,540	275,720	291,105	811,365	1.3%	82,390	579,722
A 2022	249,104	292,318	278,766	820,188	1.1%	91,652	644,900
A 2023	251,782	309,541	272,770	834,093	1.7%	93,781	709,230
A 2024	252,739	322,148	268,402	843,289	1.1%	100,451	777,292
F 2025	**253,944**	**321,013**	**258,722**	**833,679**	**-1.1%**	**101,960**	**843,755**
F 2026	**262,017**	**322,034**	**259,309**	**843,359**	**1.2%**	**106,800**	**912,023**
F 2027	**269,894**	**325,342**	**258,619**	**853,856**	**1.2%**	**111,641**	**982,015**

Step 2. Annual Registration Revenue

Multiply the estimated population of each age cohort by its respective registration fee. Table 4 presents the estimated revenue from light vehicle registrations by age class. Revenue from new cohort registrations rises in each year of the forecast period. Mid cohort and old cohort revenue stays flat. Light vehicle revenue is adjusted for the historical discrepancy between model estimated revenue and revenue received in the state accounting system (SABHRS). Total light vehicle annual registration revenue rises from $90 million in FY 2025 to $94 million in FY 2027, an average annual growth rate of 1.4%.

Table 4
Estimate of Light Motor Vehicle Registration Revenue by Age Class
($ millions)

Fiscal Year	0 to 4 Years $217 Fee	5 to 10 Years $87 Fee	Over 10 Years $28 Fee	Light Vehicle Revenue
A 2020	$50.706	$21.776	$8.874	$81.356
A 2021	$53.065	$23.988	$8.151	$85.204
A 2022	$54.056	$25.432	$7.805	$87.293
A 2023	$54.637	$26.930	$7.638	$89.204
A 2024	$54.844	$28.027	$7.515	$90.386
F 2025	**$55.106**	**$27.928**	**$7.244**	**$90.278**
F 2026	**$56.858**	**$28.017**	**$7.261**	**$92.135**
F 2027	**$58.567**	**$28.305**	**$7.241**	**$94.113**

Step 3. Combine All Components of Motor Vehicle Revenue

Additional motor vehicle revenue comes from permanent registrations and registrations of vehicles other than light vehicles (motor homes, large vehicles, boats, etc.), as well as from fees for licensing, plating, titling, and other transactions. The other registration and fee revenue categories are expected to grow at the same rate as annual light vehicle registration revenue over the forecast period. This information is summarized in Table 5.

Table 5
Total Vehicle Revenue by Major Component
($ millions)

Fiscal Year	Light Vehicle Revenue	Percent Change	Permanent Registration Revenue	Percent Change	Other Vehicle Revenue	Percent Change	All Other Fees	Percent Change	Total Revenue	Percent Change
A 2020	$81.356	-0.4%	$6.034	-2.5%	$14.821	-2.1%	$6.271	-3.2%	$108.481	-0.9%
A 2021	$85.204	4.7%	$7.209	19.5%	$18.554	25.2%	$6.823	8.8%	$117.790	8.6%
A 2022	$87.293	2.5%	$8.020	11.2%	$18.744	1.0%	$7.081	3.8%	$121.137	2.8%
A 2023	$89.204	2.2%	$8.206	2.3%	$18.496	-1.3%	$7.097	0.2%	$123.003	1.5%
A 2024	$90.386	1.3%	$8.789	7.1%	$18.378	-0.6%	$7.348	3.5%	$124.902	1.5%
F 2025	**$90.278**	**-0.1%**	**$8.921**	1.5%	**$18.356**	**-0.1%**	**$7.339**	**-0.1%**	**$124.895**	**0.0%**
F 2026	**$92.135**	**2.1%**	**$9.345**	4.7%	**$18.734**	**2.1%**	**$7.490**	**2.1%**	**$127.705**	**2.2%**
F 2027	**$94.113**	**2.1%**	**$9.769**	4.5%	**$19.136**	**2.1%**	**$7.651**	**2.1%**	**$130.669**	**2.3%**

Data Sources

Tax revenue data are from SABHRS. Detailed Montana vehicle registration data are provided by the Department of Justice Motor Vehicle Division.

Corporation Income Tax

Revenue Description

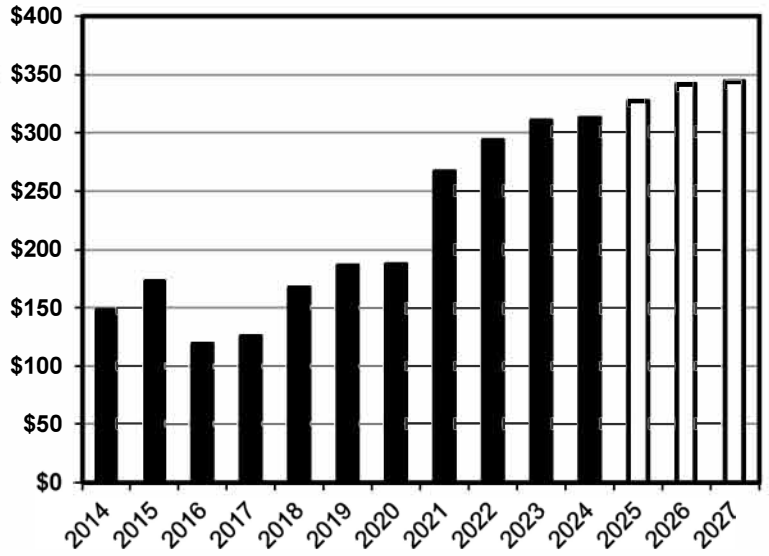
Montana imposes a corporation income tax on net corporate profits apportioned to Montana per 15-31-121, MCA. The tax is levied at a flat rate of 6.75% of net income; however, corporations making a "water's edge" election to exclude overseas net profits, are taxed at 7%. Since FY 2006, revenues have been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

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 corporate fiscal year, but a corporation may elect to take an automatic six-month extension. The Department of Revenue may grant additional extensions. Unlike individuals, corporate fiscal years do not necessarily follow the calendar year. Corporations taking an extension and expecting to have tax liability greater than their estimated payments generally make a tentative payment when their return would normally be due. There is a minimum corporation tax of $50 per year, the overwhelming majority of the approximately 22,000 "C-Corps" registered to do business in Montana pay the minimum tax.

Table 1 shows general fund revenue from corporation income taxes for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Corporation Income Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$147.548	-16.9%
A	2015	$172.729	17.1%
A	2016	$118.387	-31.5%
A	2017	$125.992	6.4%
A	2018	$167.100	32.6%
A	2019	$186.536	11.6%
A	2020	$187.358	0.4%
A	2021	$266.506	42.2%
A	2022	$293.683	10.2%
A	2023	$309.884	5.5%
A	2024	$312.276	0.8%
F	**2025**	**$327.200**	**4.8%**
F	**2026**	**$341.200**	**4.3%**
F	**2027**	**$344.000**	**0.8%**



Corporation tax is historically very volatile. In the current reference period (FY 2014-FY 2024) year-to-year change have been as large as rises of 42% or declines of 35%. These changes reflect, with varying lags, sharp rises, and declines in corporate profits. Additionally, a series of federal tax policy changes related to bonus depreciation and shifts in the basis of corporate taxation (from a world-wide basis to a partial territorial system) under the *Tax Cuts and Jobs Act of 2017* have complicated forecasting. State policy changes in 2021 and 2023 have shifted Montana apportionment of federal taxable income from three-factor (property, payroll, and sales) to three-factor with double weighted sales and starting in CY 2025 sales alone. Surges in collections since the pandemic appear to be related to increases in corporate profits.

Actual corporate profits have grown steadily with surprisingly modest declines in the 2001 and 2009 recessions. It appears that the timing of changes in federal business tax benefit provisions -- extensions, expansions, and retroactive tax preferences (for instance, bonus depreciation and expense rule changes) have led to unanticipated changes in collections. Revenue again fell sharply in FY 2016 and then began recovering. With the unwinding of the pandemic, collections began to surge, surpassing expectations.

The sources of variation and unpredictability of Montana corporation tax collections stem from frequent shifts in federal tax law affecting corporations since 2002 leading to recurring irregular shifts in taxpaying strategies for firms. The most significant policy change is a product of the *Tax Cuts and Jobs Act of 2017* (TCJA) that passed on December 22, 2017. The TCJA works to transition federal taxation of corporate profits to a more territorial-based system and provides for a lower, and flat, federal corporation tax rate of 21% for profits received starting CY 2018. Corporations with fiscal years that span this period must prorated their profits for tax purposes. This may have caused shifts in profit recognition between calendar year (CY) 2017 and CY 2018. Other TCJA features like the federal transition tax (IRC form 935) for repatriated profits have limited effects on Montana as income from most "water's edge" filers is excluded from their Montana apportioned share of taxable profits. Worldwide filers that included any of that income in their Montana filing get to deduct 100% of that income.

Bonus depreciation under the TCJA was extended and expanded. The TCJA raised first-year "bonus" depreciation to 100% through CY 2022. The rate is now phasing down 20% each year, expiring after CY 2026. Bonus depreciation (50%) had been expected to expire under prior law (*Protecting Americans from Tax Hikes Act of 2015* (PATH), in CY 2019 (CY 2020 for certain long-production period property). Bonus depreciation provisions were set to expire in CY 2014. The *American Taxpayer Relief Act of 2012* (ATRA), passed as part of the "fiscal cliff" deal on January 2, 2013, appears to have affected 2015 biennia collections. PATH passed in December 2015, has affected 2017 biennia collections.

While most corporation tax provisions of the TCJA do not expire, changes to the foreign profit repatriation provisions could increase state collections marginally (+1%) for entities taking the *water's edge* election.

State law changes have also affected collections. SB 550 (2017) created a $500,000 limitation on the amount of net operating loss (NOL) carrybacks. (The bill also extended the NOL carry-forward period to ten years.) This should limit very large refunds. More recently state policy changes to apportionment factors are more significant than the TCJA provision changes. The move (SB376 (2021) to double-weighted sales was expected to increase the tax base by about 2%. SB 124 in the 2023 session creating single sales factor apportionment adds another 3.6% to the state tax base. The 2023 Legislature also passed SB 245 eliminating the "tax haven" list that required firms making a *water's edge* election to "add back" income that otherwise would have been excluded from operations in nations on the tax haven list.

While the Federal provisions provided for an expansion of the federal lookbacks (re-claiming prior-year taxes paid using current losses), Montana law (SB 550) limits the near-term refund risk. Instead, firms tend to carry forward substantial NOLs from year to year. It is assumed that future revenue risk, while unknown, is relatively modest due to this limitation. The fiscal note for SB 550 shows NOL "carrybacks" averaged $6 million per year from tax year (TY) 2011 through TY 2014. The SB 550 limitation would convert losses into carry-forward NOLs, the CARES Act was anticipated to do the same. This does not appear to have materialized.

The U.S. corporate profit outlook is for profits to rise to new peaks in the near-term and then stabilize.

Risks and Significant Factors

- Corporate tax revenue is highly correlated with the profitability of corporations doing business in the United States.
- The variation in corporate tax revenue can be much greater than that of corporate profits as Montana allows:
  - Firms to accumulate net operating losses for up to ten years to offset current and future taxable income.
  - Corporations may amend returns (back three years) and use current losses to partially offset past taxes.
  - Business structures and tax treatment of expenditures and income may change.
- A series of federal policy (2002, 2003, 2008, 2009, 2010, 2011, 2012, 2014, 2015, and 2017) changes to expensing and depreciation rules have introduced additional variation in collections. Many of these rules are now permanent.
- Forecast models cannot fully account for these changes, nor the behavioral response to the policy changes. These factors have weakened the predictive power of the corporate tax collection models.
- Corporations may reorganize their business structures which can have significant effects on the level and allocation of tax receipts. These changes tend to shift collections between corporation tax and individual income tax.
- In recent years there have been approximately 22,000 companies that filed corporate income forms in Montana. The top 100 filers had around 70% of the total tax liability. If one of these top tax-filing companies has significantly more (or less) tax liability than expected, it could have a significant impact on collections.
- The true stock of carry-forward losses is not known. The extent to which firms will use losses to offset current profits is not known. Greater than historical use of these accumulated losses may lower corporation tax collections.

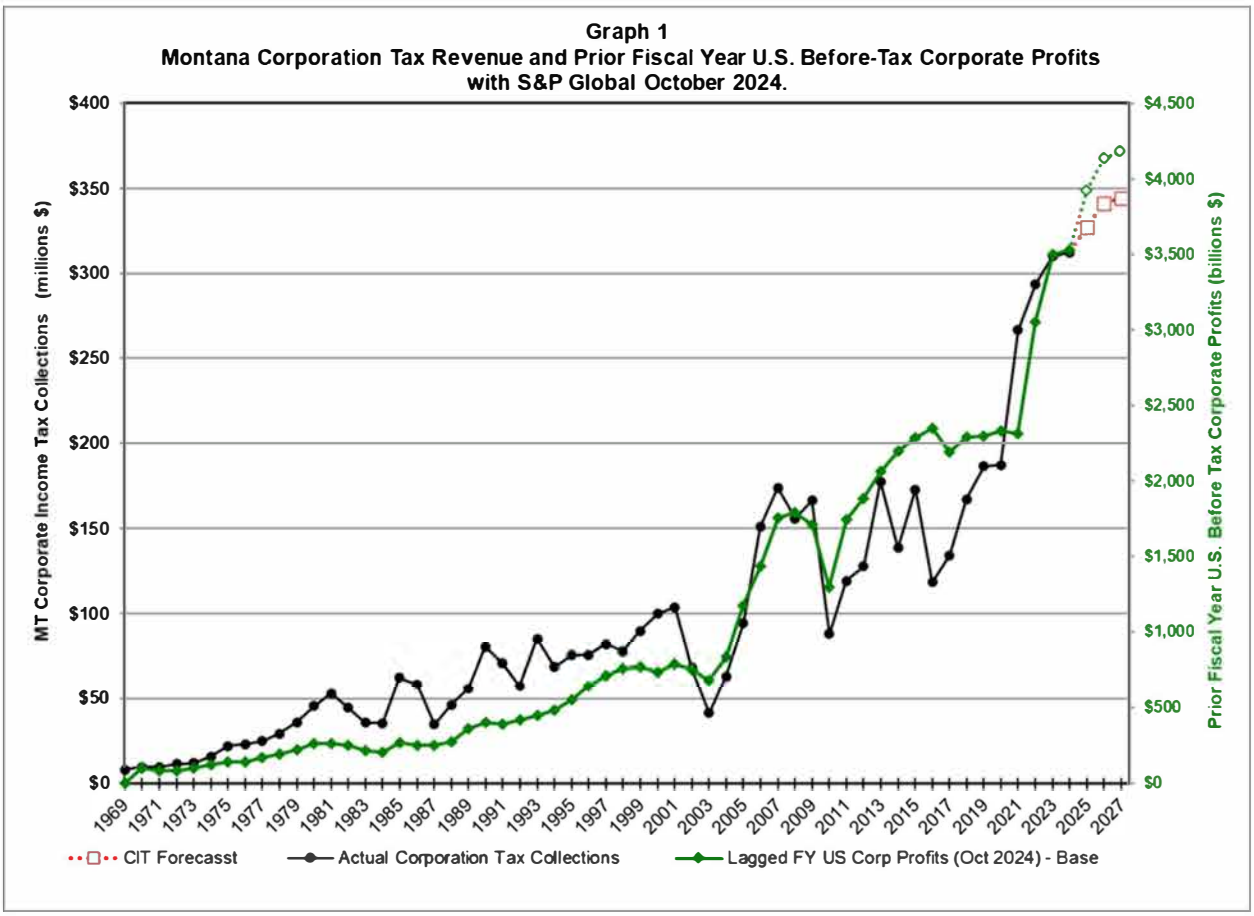
Forecast Methodology

Step 1. Total corporate income tax collections for FY 1993 through FY 2024 are regressed against prior fiscal year national corporate profits before taxes (with multiple lags), a variable to account for the TCJA, and a dummy variable is used to account for the extraordinary decline in revenue in FY 2003. Depending on model specification the mean absolute percentage error of the models run between 13% and 18%. The models are run with pessimistic, baseline, and optimistic forecasts of corporate profits. While the R^2 of the models are adequate at between 0.889 to 0.917.

Step 2. The model parameters were then used with the S&P Global forecasts of corporation before tax profits to calculate an expected (future) level of Montana corporation tax collections. Given the wide variance the output of the models is averaged.

The tax strategies of U.S. corporations doing business in Montana are unknown but assumed to follow historical patterns. Therefore, the model(s) uses implied historical economic sector weights of Montana corporation profits.

Graph 1 presents the actual fiscal year collections and modeled (predicted) collections. The model predicted (forecast) values for FY 2025, FY 2026 and FY 2027 are those presented in Table 1.



Distribution

100% of the corporation tax revenue collected is distributed to the general fund.

Data Sources

Collections data were obtained from SABHRS. Revenues prior to FY 1993 are from LFD historical records, U.S. corporation profits and forecasts are from the October 2024, S&P Global forecasts. The Department of Revenue provided the corporation tax annual master files through the latest available dataset (TY 2022).

Insurance Premiums Tax

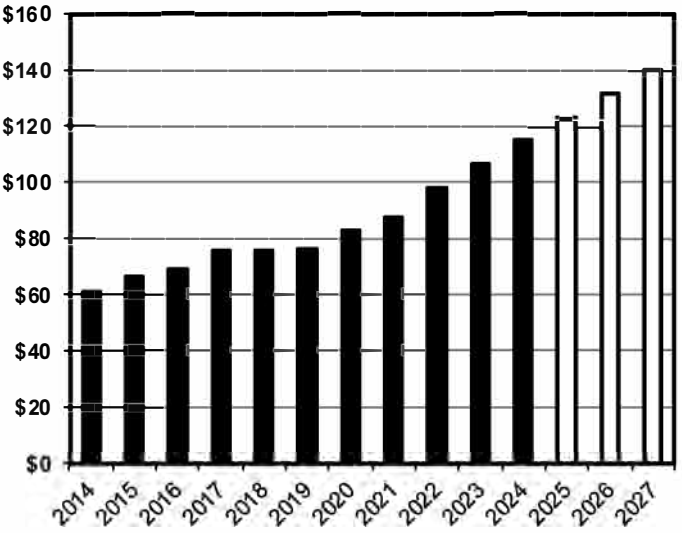
2027 Biennium

Revenue Description

Per 33-2-705, MCA, Montana levies a tax of 2.75% on net premiums on all insurance policies except those issued by health service corporations (HSCs). HSCs are exempt from all premium taxes under 33-30-203, MCA. An additional surcharge of 2.5% on premiums is collected for fire and casualty insurance on property (50-3-109, MCA). There is also a premium insurance tax for captive insurance companies levied under 33-28-201, MCA. Starting in November 2008, Initiative 155 transfers 33% of insurance premium taxes collected (under 33-2-705, MCA) to a state special revenue fund for the Healthy Montana Kids Plan Act (53-4-1101, MCA). HB 676 of the 2009 session reduced the transfer to 16.67% for the 2011 and 2013 Biennia, but the transfer returned to 33% for the 2015 Biennium and beyond. The State Auditor's Office (SAO) administers the collection of these taxes.

Table 1
Insurance Premiums Tax
($ millions)

Fiscal Year		General Fund	Percent Change
A	2014	$60.873	-1.3%
A	2015	$66.582	9.4%
A	2016	$69.255	4.0%
A	2017	$75.558	9.1%
A	2018	$75.273	-0.4%
A	2019	$76.141	1.2%
A	2020	$82.489	8.3%
A	2021	$87.297	5.8%
A	2022	$97.940	12.2%
A	2023	$106.196	8.4%
A	2024	$115.075	8.4%
F	**2025**	**$123.229**	**7.1%**
F	**2026**	**$131.382**	**6.6%**
F	**2027**	**$140.071**	**6.6%**



Risks and Significant Factors

- In August 2013, Health Care Services Corporation (HCSC) purchased Blue Cross Blue Shield of Montana (BCBS). As a result of the merger, premiums paid to BCBS are now taxable. As BCBS market share changes, so will taxable insurance premium.
- The Montana HELP Act, passed during the 2015 Legislature, expanded Medicaid effective January 2016. The HELP Act contributed to the decrease in the uninsured rate in Montana, however, the fees paid to the third-party administrator by HELP members are not taxable.
- Financial or other turmoil raises insurer's costs; slow wage growth may reduce insurance purchases.
- Premium tax collections tend to move counter-cyclically with financial markets as companies collect premiums from policy holders and pay claims from premiums and investment earnings. When investment earnings are high, insurance companies can reduce premiums charged to clients.
- SB 76 from the 2021 Session increased the State Auditor's Office's share of revenue from the captive premium taxes from 5% to 20%. While the percent increase was significant, the impact to the general fund is less than $250K per year.

Forecast Methodology

Step 1. Insurance premium taxes forecast. Insurance premiums taxes, before offsets, are projected from a model of the relationship of insurance premium tax collections with respect to the average S&P 500 stock index value for the prior calendar year.

Step 2. Calculate insurance tax bases for distributions. Captive insurance company premiums taxes, yearly insurance premium taxes, and surplus lines taxes need to be estimated and excluded from insurance premium taxes that are the base for distributions to the Healthy Montana Kids fund. This also allows for the calculation of captive insurance company insurance premium taxes that are directed to the captive insurance company administration fund.

Captive insurance companies are regulated under Title 33, Chapter 28, of the Montana Code, (SB 373, 2001 Legislature). Captive insurance firms pay tax on premiums collected under 33-28-201, MCA, and were recorded in the same account as premium taxes collected under 33-2-705, MCA, until FY 2010. The 2007 Legislature, through SB 161, reserved 5% of the tax paid by captive insurance companies for the oversight of captive insurance companies. As mentioned above, SB 76 from the 2021 Session increased the funding reserved from captive insurance companies to 20%. HB 160, 2009 Session, reduced the number of tax rate bands from four to two (with no revenue effects) and allowed for quarterly proration of initial year fees.

Step 3. Calculate fire surtax. The Fire Marshal surtax on fire and casualty insurance is projected using the growth in total estimated insurance base. Table 2 lists the actual fire/casualty (or Fire Marshall tax) and forecast collections. Surtax collections represented 7.6% of gross insurance premiums taxes in FY 2024.

Step 4. Calculate insurance licenses and permits revenue. Revenue from insurance licenses and permits represented 4.7% of gross insurance premiums taxes in FY 2024 and this percentage is held constant during the forecast period.

Step 5. Total the estimates. Total general fund insurance premiums tax revenue (net of offsets and I-155 distributions), fire/casualty insurance surtax, and licenses and permits fees are summed to determine the estimate of insurance premiums tax collections for FY 2025, FY 2026, and FY 2027.

Distribution

- Distributions to the general fund, Healthy Montana Kids fund, SAO Insurance Operations and the Captive Insurance fund are presented in Table 2.

Table 2
Distribution of Insurance Taxes by Type and Fund
($ millions)

Tax/Fund	Fund	FY 2024	FY 2025	FY 2026	FY 2027
Captive Premium Tax		***$1.824***	***$1.885***	***$2.014***	***$2.052***
General Fund (80%)	01100	*$1.459*	*$1.508*	*$1.611*	*$1.721*
Captive Insurance Operations (20%)	02528	*$0.365*	*$0.377*	*$0.403*	*$0.430*
Other Insurance Taxes		**$8.106**	**$8.427**	**$8.761**	**$9.108**
Retaliation Tax	02235	$0.188	$0.282	$0.218	$0.229
Insurance Licenses & Permits		**$7.918**	**$8.145**	**$8.542**	**$8.879**
Of Which:					
General Fund (est. 0.58%)	01100	*$0.039*	*$0.042*	*$0.044*	*$0.046*
SAO Insurance Operations (est. 99.24%)	02235	*$7.876*	*$8.083*	*$8.478*	*$8.810*
Captive Insurance Operations (est. 1.50%)	02528	*$0.094*	*$0.122*	*$0.128*	*$0.133*
Insurance Taxes and Offsets		***$23.341***	***$24.858***	***$26.474***	***$28.195***
Fire & Casualty Surtax (GF)	01100	$12.812	$13.645	$14.532	$15.477
Surplus Lines Tax	01100	$10.529	$11.213	$11.942	$12.718
I-155 Premium Insurance Tax		**$135.441**	**$144.509**	**$154.109**	**$164.341**
Healthy Montana Kids Fund (33%)	02597	$45.015	$47.688	$50.856	$54.233
General Fund (67%)	01100	$90.235	$96.821	$103.253	$110.108
Gross Insurance Taxes, Licenses, & Fees	All Funds	**$168.712**	**$179.679**	**$191.358**	**$203.796**

Distribution of All Insurance Taxes, Licenses and Fees

Fund	Fund	FY 2024	FY 2025	FY 2026	FY 2027
General Fund	01100	$115.075	$123.229	$131.382	$140.071
SAO Insurance Operations	02235	$8.064	$8.365	$8.696	$9.041
Captive Insurance Operations	02528	$0.458	$0.499	$0.531	$0.564
Healthy Montana Kids Fund	02597	$45.115	$47.688	$50.856	$54.233
Gross Insurance Taxes, Licenses, & Fees	All Funds	**$168.712**	**$179.781**	**$191.465**	**$203.908**

Data Sources

Tax collections are from SABHRS and the Department of Revenue GENTAX system. The S&P 500 stock index is from IHS Markit.

Video Gambling Tax

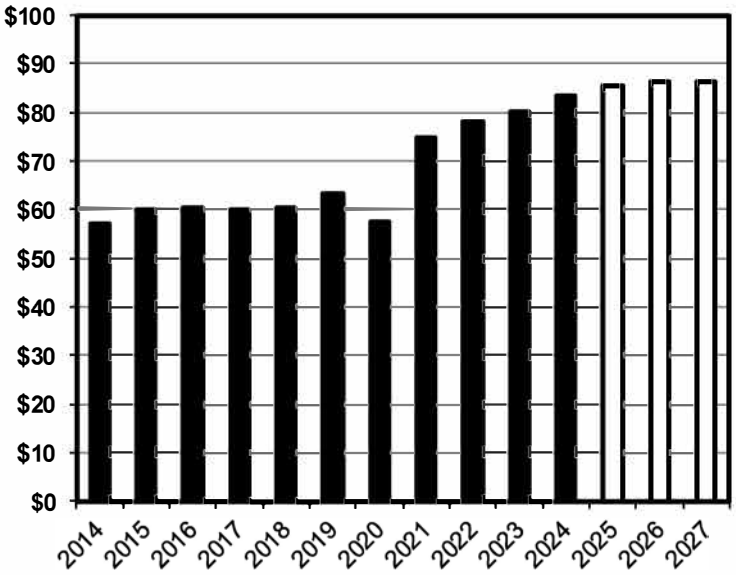
Revenue Description

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. Allowable video gambling activity in Montana consists of bingo, keno, poker, line games, and multigame terminals. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the general fund.

Table 1 shows actual video gambling revenue to the general fund for FY 2014 through FY 2024 and projected revenue for FY 2025 through FY 2027.

Table 1
Video Gambling Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$57.147	-0.2%
A	2015	$59.799	4.6%
A	2016	$60.554	1.3%
A	2017	$59.956	-1.0%
A	2018	$60.324	0.6%
A	2019	$63.228	4.8%
A	2020	$57.447	-9.1%
A	2021	$74.917	30.4%
A	2022	$77.881	4.0%
A	2023	$80.105	2.9%
A	2024	$83.385	4.1%
F	**2025**	**$85.602**	**2.7%**
F	**2026**	**$86.419**	**1.0%**
F	**2027**	**$86.446**	**0.0%**



According to the Montana Department of Justice, at the end of FY 2024 there were 1,383 licensed gambling establishments in Montana operating over 15,000 video gambling machines. Revenue from video gambling activity in Montana set a record in each of the past two fiscal years, eclipsing $80 million for the first time in FY 2023 and then rising another 4% in FY 2024. This growth continued a rising trend that came on the heels of a significant COVID-19 induced drop in revenue in FY 2020. Prior to that, annual revenue was steady around the $60 million mark for the five years from FY 2015a- FY 2019.

Healthy growth in Montana disposable income supported the level-up in receipts that began in FY 2021. Pandemic-era stimulatory spending action by the federal government boosted incomes for Montanans across the economic spectrum. A major source of this windfall was direct cash infusions from stimulus checks and enhanced unemployment benefits. Additional lift to incomes occurred because of the strong economic growth that took place during and following the reopening of the state and national economy. These effects can be seen in the strong year-over-year growth that characterized the period FY 2021 – FY 2024. In addition to the income effect, Montana's population also grew at a healthy clip from 2019 to 2023, a reflection of the impact of remote work on national labor mobility. Statewide, consumer expenditures on video gaming totaled nearly $2.8 billion in FY 2024. In accomplishing this, individuals allocated 3.8% of their disposable income to video gaming, the same amount they allocated in FY 2023. The FY 2023 and FY 2024 income shares represent the first time this metric has fallen below 4%. Interestingly, the decline in the share of income allocated to video gaming has occurred while total expenditures on video gaming have been rising. This inverse relationship is projected to continue through the forecast period.

Looking ahead through the 2027 Biennium, total fiscal year Montana disposable income is projected to average 4.4% per annum. The share of disposable income used for consumption of video gaming services falls from its FY 2024 level to average 3.6% over the forecast period. Despite this lower income share, the level of total video gaming expenditures rises steadily through FY 2027. The implication is that either individual incomes will be rising faster than their spending on video gaming or that the number of people participating in video gaming will increase. Chances are it won't solely be one or the other, but some combination of both. Video gaming tax collections follow the trend of total expenditures, rising but at a decreasing rate. Revenue increases by over 2% in FY 2025, but the rate of growth slows to under 1% for each year of the 2027 Biennium.

Table 2 shows nominal Montana disposable income, total video gambling expenditures, and the ratio of expenditures to disposable income for FY 2014 through FY 2024, with estimates for FY 2025 though FY 2027.

Table 2
Video Gambling Trends
($ millions)

	Fiscal Year	Montana Disposable Income		Video Gambling Expenditures		% of Disp. Income	Tax Revenue
A	2014	$43,826	÷	$1,905	=	4.3%	$57.147
A	2015	$45,725	÷	$1,993	=	4.4%	$59.799
A	2016	$46,281	÷	$2,018	=	4.4%	$60.554
A	2017	$46,488	÷	$1,999	=	4.3%	$59.956
A	2018	$49,132	÷	$2,011	=	4.1%	$60.324
A	2019	$51,494	÷	$2,108	=	4.1%	$63.228
A	2020	$52,885	÷	$1,915	=	3.6%	$57.447
A	2021	$54,276	÷	$2,497	=	4.6%	$74.917
A	2022	$62,873	÷	$2,596	=	4.1%	$77.881
A	2023	$69,792	÷	$2,670	=	3.8%	$80.105
A	2024	$73,942	÷	$2,780	=	3.8%	$83.385
F	**2025**	**$77,322**	**÷**	**$2,853**	**=**	**3.7%**	**$85.602**
F	**2026**	**$80,828**	**÷**	**$2,881**	**=**	**3.6%**	**$86.419**
F	**2027**	**$84,209**	**÷**	**$2,882**	**=**	**3.4%**	**$86.446**

Risks and Significant Factors

- State and federal policy that directly impacts individuals' disposable incomes has flow-through effects on video gambling activity.
- Recreation spending is a relatively elastic part of an individual's budget, and so can respond disproportionately to changes in income, prices, etc. Video gaming revenue is therefore sensitive to disruptions in, for example, labor markets and/or price levels.

Forecast Methodology

Video gambling revenue is forecast using a multiple linear regression model. The model uses quarterly data, and video gambling receipts are regressed on a collection of independent variables. These independent variables include Montana personal consumption expenditures on recreation services, the percentage of disposable income saved, and dummy variables to account for changes in the economic landscape.

Consumption expenditures on recreation services is included as an indicator of individuals' willingness to pay for video gaming services. Savings as a percentage of disposable income are included in the model to capture changes in individuals' propensity to consume a dollar of disposable income. Savings rates and video gaming expenditures are expected to be inversely related. The dummy variables account for the effects of the Great Recession and COVID-19 lockdowns on video gaming tax receipts.

Gambling receipts, recreation spending, and the savings rate are transformed with the natural log function. The natural log transformation straightens out any non-linearities in the raw data, allowing for better estimation using the linear regression model. Additionally, the coefficients in a log-log model are interpretable directly as elasticities.

The regression model produces coefficient estimates for the effect of recreation spending, saving, and economic conditions on video gambling revenue. Each of these variables, except for the savings rate, has a statistically significant coefficient estimate and all have the expected sign (i.e., the direction of the impact on gambling receipts). Recreation spending has a positive effect on video gambling revenue, while challenging economic conditions contribute negatively to receipts. Because of the statistical insignificance of its coefficient estimate, the impact of the savings rates on video gaming tax collections is not distinguishable from zero.

By multiplying the estimated regression coefficients against forecast values of the independent variables, future estimates of quarterly video gambling revenue are obtained for FY 2025, FY 2026, and FY 2027. These quarterly forecasts are summed to produce annual estimates of video gambling revenue.

Distribution

All revenue collected from the video gambling tax is distributed to the general fund.

Data Sources

Historic video gambling revenues were obtained from SABHRS and the Department of Justice. Historical and forecast values for Montana-specific economic indicators were obtained from S&P Global.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

NATURAL RESOURCE REVENUE SECTION 4

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Oil and Natural Gas Production Tax

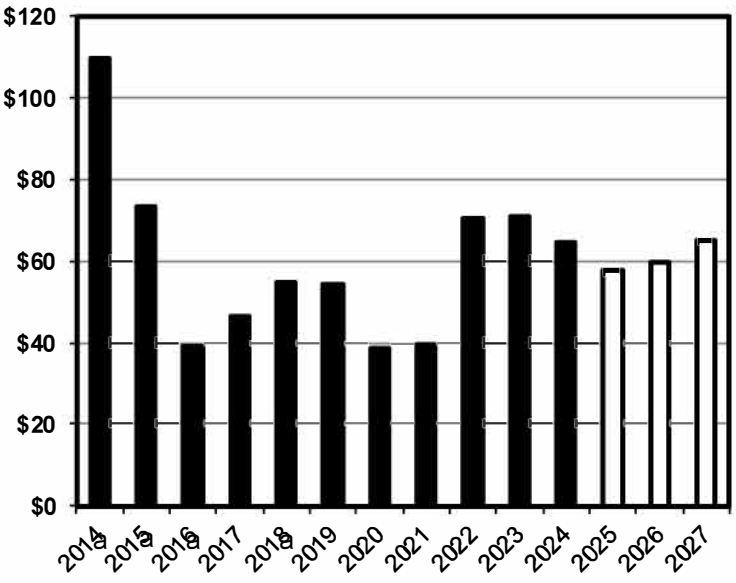
Revenue Description

In accordance with 15-36-304, MCA, Montana taxes the gross value of oil and natural gas production. The tax rates vary depending on the resource being extracted, the method of production, the age of the well, and the resource price. Working interest owners who incur the costs of production pay lower tax rates than parties that receive royalty payments from production of the oil and/or natural gas. Revenues are distributed to a variety of state and local government funds. Oil and natural gas production tax deposits to the general fund average about 45% of total production tax collections.

Table 1 shows actual general fund revenue from the oil and natural gas production tax for FY 2014 through FY 2024 and projected revenues for FY 2025 through FY 2027.

Table 1
Oil and Gas Production Taxes
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$109.606	11.1%
A	2015	$73.184	-33.2%
A	2016	$39.083	-46.6%
A	2017	$46.334	18.6%
A	2018	$54.508	17.6%
A	2019	$54.178	-0.6%
A	2020	$38.380	-29.2%
A	2021	$39.540	3.0%
A	2022	$70.510	78.3%
A	2023	$71.039	0.8%
A	2024	$64.405	-9.3%
F	**2025**	**$57.750**	**-10.3%**
F	**2026**	**$59.780**	**3.5%**
F	**2027**	**$64.988**	**8.7%**



Oil and natural gas production tax is assessed on the gross value of output, so changes in tax revenue move in near lockstep with changes in resource prices, particularly the price of oil since revenue from oil extraction accounts for over 90% of total revenue. At the start of the past decade the price of West Texas Intermediate oil – the national benchmark price – stayed consistently in the $90 - $100 per barrel range. This stretch of consistency came to end when oil and natural gas prices started to decline in the summer of 2014 and continued to fall rapidly into the winter of 2015, shedding over 50% in value during that time. Shifts in the balance of demand and supply in the global oil market brought some recovery to oil prices in 2017 and prices fluctuated in the $50 - $70 per barrel range through 2019. Oil prices were trending the same direction into 2020 before the COVID-19 virus swept across the globe causing economic turmoil that led to a freefall in oil prices as demand evaporated. Montana oil producers likely shut-in some production in response to unfavorable well economics caused by exceptionally low oil prices in the second quarter of 2020. In 2021, as the world emerged from pandemic shutdowns, oil prices began a steady march upward on the back of revitalized demand. In early 2022, the war in Ukraine added momentum to rising oil prices which surged past $100 per barrel and held steady there for multiple months before retreating below $90 in the fourth quarter of 2022. Since the start of 2023, the price of WTI has moved within a $20 band between $70 and $90 per barrel. Over the forecast period, the WTI price is projected to exhibit decreased volatility and trade consistently between $70 - $80 per barrel.

The production tax rates applicable for working and royalty ownership interests of a well, as established in 15-36-304, MCA, are outlined in Table 2. The production tax rates in the table reflect the statutory percentages. In addition, the

combined tax rates that include the Board of Oil and Gas Conservation (BOGC) privilege and license tax (0.3%) are shown. The tax rate on royalties is constant, regardless of the tax rate on the working interest.

Table 2
Oil and Natural Gas Tax Rates by Well & Ownership Classification

Product	Well Classification	Working Interest		Royalty Interest	
		Production Tax Rate	Total Tax[1]	Production Tax Rate	Total Tax[1]
Natural Gas	**Vertical Wells**				
	First 12 Months	0.50%	0.80%	14.80%	15.10%
	After 12 Months:				
	Drilled Post-1999	9.00%	9.30%	14.80%	15.10%
	Drilled Pre-1999	14.80%	15.10%	14.80%	15.10%
	Stripper Well Drilled Pre-1999	11.00%	11.30%	14.80%	15.10%
	Horizontally Completed Wells				
	First 18 Months	0.50%	0.80%	14.80%	15.10%
	After 18 Months	9.00%	9.30%	14.80%	15.10%
Oil	**Vertical Wells**				
	Primary Recovery Production:				
	First 12 Months	0.50%	0.80%	14.80%	15.10%
	After 12 Months:				
	Drilled Pre-1999	12.50%	12.80%	14.80%	15.10%
	Drilled Post-1999	9.00%	9.30%	14.80%	15.10%
	Pre-1999 Stripper Wells:				
	More than 3 bbls/day	9.00%	9.30%	14.80%	15.10%
	3 bbls/day or less:				
	Stripper Well Exemption Production[2]	0.50%	0.80%	14.80%	15.10%
	Stripper Well Bonus Production	5.00%	5.30%	14.80%	15.10%
	Post-1999 Stripper Wells:				
	More than 3 bbls/day:				
	3-10 bbls/day	5.50%	5.80%	14.80%	15.10%
	More than 10 bbls/day	9.00%	9.30%	14.80%	15.10%
	3 bbls/day or less:				
	Stripper Well Exemption Production[2]	0.50%	0.80%	14.80%	15.10%
	Stripper Well Bonus Production	5.00%	5.30%	14.80%	15.10%
	Horizontally Completed Wells				
	First 18 Months	0.50%	0.80%	14.80%	15.10%
	After 18 Months:				
	Drilled Pre-1999	12.50%	12.80%	14.80%	15.10%
	Drilled Post-1999	9.00%	9.30%	14.80%	15.10%
	Incremental Secondary Production[3,4]	8.50%	8.80%	14.80%	15.10%
	Incremental Tertiary Production[3,4]	5.80%	6.10%	14.80%	15.10%
	Horizontally Recompleted Wells				
	First 18 Months	0.50%	0.80%	14.80%	15.10%
	After 18 Months:				
	Drilled Pre-1999	12.50%	12.80%	14.80%	15.10%
	Drilled Post-1999	9.00%	9.30%	14.80%	15.10%

1 Includes BOGC privilege & license tax and oil & natural gas resource account tax

2 Tax rate effective when quarter average oil price received by producer < $54/bbl, otherwise taxed at stripper well bonus production rate

3 Tax rate effective when quarter average oil price received by producer < $54/bbl, otherwise taxed at primary recovery rates

4 Applies only to the amount of increased production above the decline rate schedule

Risks and Significant Factors

Prices

- Oil prices are a key driver of Montana oil and natural gas production tax revenue, accounting for most of the variation in tax revenue in recent years. There is over 90% correlation between changes in oil prices and changes in production tax revenue. This brings considerable volatility to tax collections. The supply and demand of oil can be knocked out of balance in the short-term by myriad, market-distorting developments such as technological change, extreme weather phenomena, and geopolitical events like regime changes, civil unrest, and outright wars. Shocks to oil and natural gas markets can cause large, sudden dips or spikes in prices that may persist for indeterminate amounts of time.
- Montana oil prices are linked to national and international prices and move in tandem with these prices. West Texas Intermediate (WTI) is the U.S. benchmark oil price and Brent is the international benchmark oil price. Prices received for Montana oil are lower than these benchmark prices. The margin between the price for Montana oil and the price for WTI or Brent oil reflects the transportation costs required to get Montana's oil to major market destinations. The margin between the Montana price and the benchmark prices generally widens or narrows depending on existing transportation constraints. This margin has recently widened (perhaps reflective of rising Montana oil output) after a period of narrowing over the past few years as declining Montana production and increased takeaway capacity reduced transportation bottlenecks.
- The relationship between Montana natural gas prices and the U.S. benchmark Henry Hub price isn't as directly linked as it is for oil prices. Regional market dynamics such as weather, pipeline accessibility, and demand creation or destruction make it so there isn't a consistent margin between benchmark prices and prices received by Montana producers.
- There is a large network of natural gas pipelines in the U.S. and Canada, which provides a much more fluid market for natural gas, allowing Montana to export natural gas relatively easier and at lower cost than oil.
- The U.S. maintains an influential and growing presence in global oil and natural gas markets. On the one hand, this exposure to world markets can increase domestic prices because the marginal unit of output is available for export. On the other hand, it can also mitigate price volatility because U.S. output can act as a balancing agent to movements in global supply and demand.
- The Organization of Petroleum Exporting Countries (OPEC) still wields significant power in the oil market and can affect the price of oil via changes to its production quota. Cooperation among OPEC members is key to the group's ability to manipulate oil prices.
- Current unrest in the Middle East and the potential for further escalation poses upside risk to the recent stability of oil prices if oil supplies from the region are impacted and OPEC is unable to use its spare production capacity to mitigate losses elsewhere in the region.

Production

- Montana oil production is sourced primarily from horizontal wells drilled in the Bakken shale formation in the far eastern part of the state.
- Horizontal oil wells have much quicker decline rates than conventional vertical wells. This has introduced an element of volatility into Montana's oil production profile that didn't exist when conventional legacy production dominated oil output in the state. Because stability in production from horizontal wells relies on constant drilling of new wells, any change in the pace of drilling will impact the rate of oil production.
- Drilling and completion of Bakken wells has picked up in the last couple years, with activity concentrated in Roosevelt County. Recent and proposed lease sales indicate that this heightened level of activity may be sustainable.
- The Bakken formation still holds plenty of oil and technological advancements are allowing more of it to be accessible. Longer laterals on horizontal wells (3-mile lengths are becoming the norm for new wells, with 4-mile lengths on the horizon) and recompletion of old 1-mile lateral wells in places like Elm Coulee are contributing to rising output from the Bakken formation.
- Oil and natural gas production can be negatively affected by harsh weather conditions, especially in the shale formations where cold temperatures and high winds can put a stop to well drilling and completion activities.
- Exploration and production activity in other parts of Montana has not proved to be nearly as fruitful as the Bakken. Output from the historically productive Red River formation has been declining steadily. Efforts to inject CO_2 into the Bell Creek field in Powder River County have been successful in enhancing oil output from the legacy field. Montana's Cedar Creek Anticline is slated for CO_2 injection as well and offers productive

potential as a source of tertiary recovery.

- Montana natural gas production comes primarily in the form of associated gas from oil production in the Bakken region. Gas well drilling is nonexistent in the state. The future of the state's natural gas output is nearly fully tied to Bakken oil well drilling activity.

Forecast Methodology

Step 1. Estimate oil and natural gas production.

Oil Production

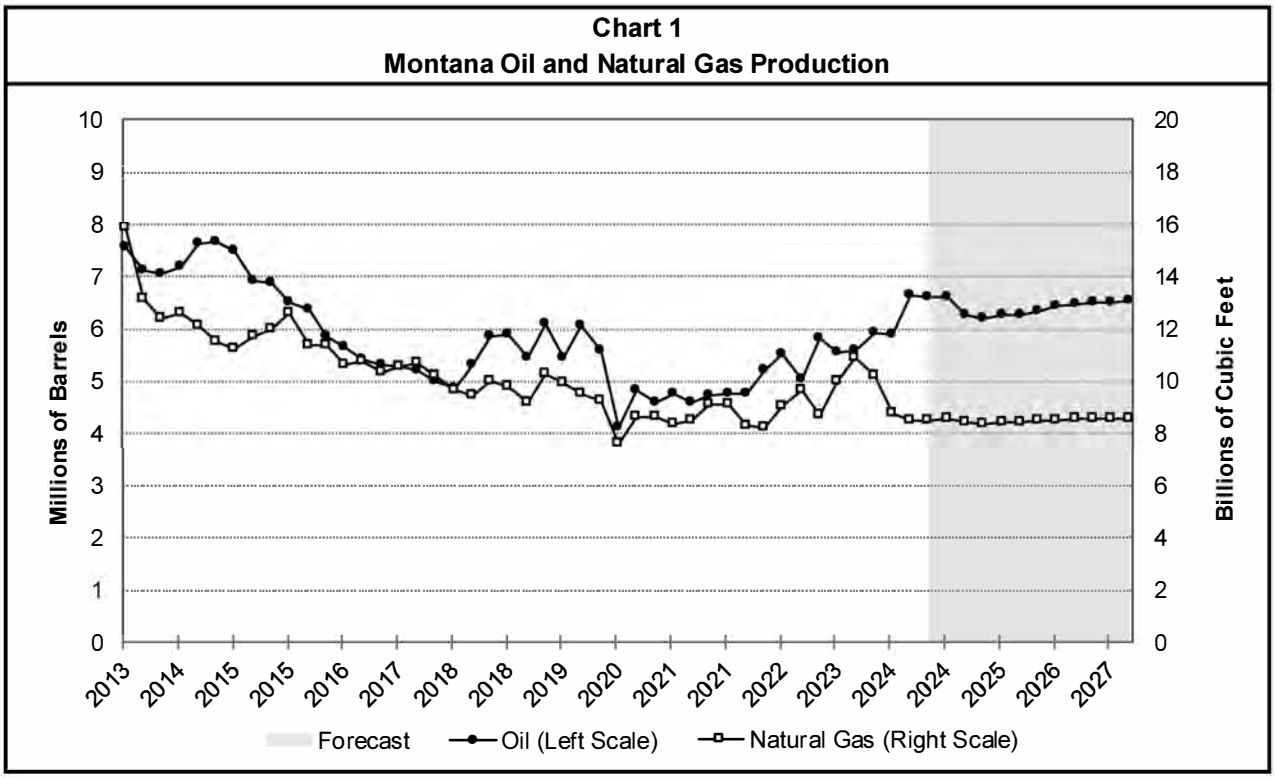
- Using quarterly data, oil production is split into holiday and non-holiday production and each class of production is forecast separately. Output from non-holiday wells is estimated using a time series model. The forecast projects the production path for the existing stock of non-holiday oil wells. If there are producing wells on holiday status that move outside the 18-month holiday window during the forecast period, output from these wells is added to the non-holiday production estimate once holiday status is relinquished. The forecast for holiday oil production is based on estimated new well completions and the typical production decline schedule for a newly completed (usually Bakken) well. Aggregate Montana oil production is the sum of the non-holiday and holiday forecasts.
- The forecast for total Montana oil production moves upward through FY 2025, a reflection of the recent increase in drilling and completion activity in the Bakken region. The projected level of oil prices is enough to sustain moderate but consistent drilling and new well completion activity throughout the forecast period. Production dips slightly in FY 2026 and then rises again in FY 2027. For FY 2025 – FY 2027, quarterly oil production is projected to average north of six million barrels, a level last seen prior to the COVID-19 pandemic.

Natural Gas Production

- Natural gas production is modeled to follow the trend in oil production. Fluctuations in natural gas output are tightly linked to associated gas production from Bakken oil wells. Forecast Montana natural gas production is estimated to move mostly sideways from FY 2025 through FY 2027.

Chart 1 shows the actual and projected quarterly total production levels of oil and natural gas in Montana from FY 2014 through FY 2027.

Chart 1
Montana Oil and Natural Gas Production



Step 2. Estimate oil and natural gas prices.

Oil Prices

- Montana oil prices are estimated based on their historical relationship with WTI prices. Movements in Montana oil prices are highly correlated with movements in WTI prices, making the price of WTI a significant determinant of the price of Montana oil. Forecast values of WTI prices through FY 2027 are used to generate projected Montana prices for the same period via an estimated discount Montana prices take to WTI. The current margin between the price of Montana oil and the price of WTI is about $8 per barrel, double what it was one year ago.
- The average price for Montana oil is forecast to decline in FY 2025 and tick up in FY 2026, with a stronger gain in FY 2027. The trajectory tracks with the projected price of WTI, while the widening margin pushes Montana prices lower. Rising output may be putting constraints on takeaway capacity and contributing to a larger spread between Montana and WTI prices.

Natural Gas Prices

- Montana natural gas prices are modeled against the benchmark Henry Hub price. Fluctuations in Henry Hub prices are generally reflected in Montana natural gas prices. Montana natural gas usually sells at a discount to the Henry Hub price, but regional economics can sometimes invert this relationship. An estimate of the Henry Hub-Montana price margin is used to project Montana prices based on forecast values of Henry Hub prices.
- Montana natural gas prices are forecast to climb in both FY 2025 and FY 2026, with a more marked increase in FY 2026. Prices move sideways in FY 2027. During this time, Montana prices are estimated to be nearly equivalent to the Henry Hub price.

Table 3 shows quarterly WTI and Montana oil prices in dollars per barrel. Actual prices are shown from FY 2014 though FY 2024 and forecast prices are shown for FY 2025 through FY 2027.

Table 3
Montana and West Texas Intermediate Oil Prices
(Dollars per Barrel)

Fiscal Year	Montana Price	WTI Price
A 2014	$88.69	$101.32
A 2015	$58.92	$69.33
A 2016	$34.33	$41.74
A 2017	$41.91	$48.62
A 2018	$53.75	$58.62
A 2019	$53.12	$60.82
A 2020	$40.10	$46.72
A 2021	$46.22	$51.83
A 2022	$83.94	$87.81
A 2023	$78.13	$81.45
A 2024	$75.25	$79.90
F 2025	**$62.29**	**$70.38**
F 2026	**$63.72**	**$71.81**
F 2027	**$68.63**	**$76.72**

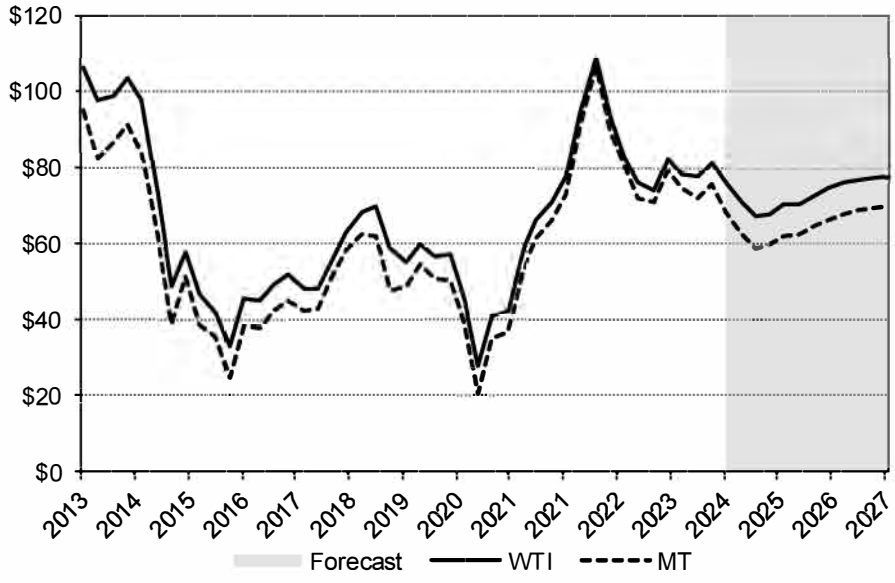
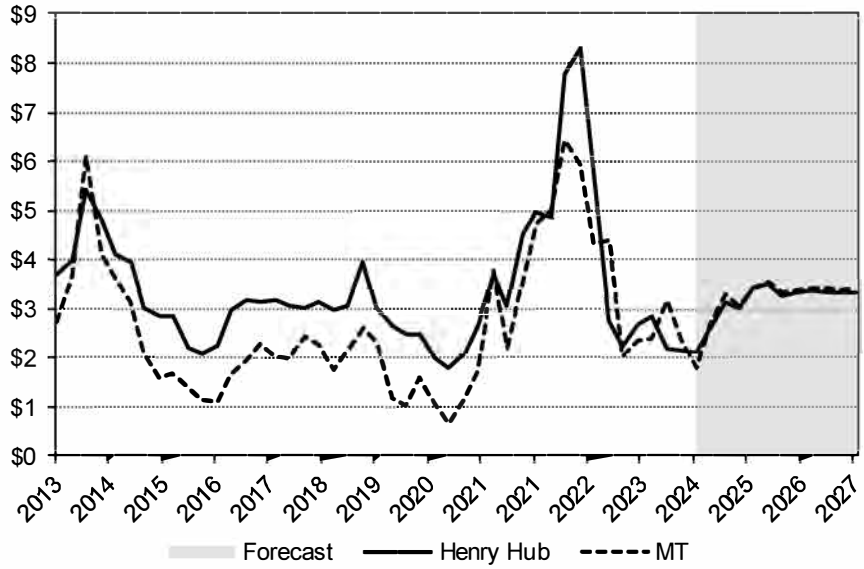


Table 4 shows quarterly Henry Hub and Montana natural gas prices in dollars per thousand cubic feet (Mcf). Actual prices are shown for FY 2014 though FY 2024 and forecast prices are shown for FY 2025 through FY 2027.

Table 4
Montana and Henry Hub Natural Gas Prices
(Dollars per Mcf)

Fiscal Year	Montana Price	Henry Hub Price
A 2014	$4.16	$4.47
A 2015	$2.60	$3.48
A 2016	$1.32	$2.34
A 2017	$1.98	$3.11
A 2018	$2.12	$3.04
A 2019	$2.06	$3.17
A 2020	$1.08	$2.18
A 2021	$2.21	$2.86
A 2022	$4.93	$5.52
A 2023	$4.16	$4.76
A 2024	$2.58	$2.48
F 2025	**$2.70**	**$2.71**
F 2026	**$3.42**	**$3.37**
F 2027	**$3.40**	**$3.35**



Step 3. Estimate effective tax rates for oil and natural gas production and determine tax revenue.

- Effective tax rates are estimated for both working and royalty ownership interests. The effective tax rate for the working interest portions of oil and natural gas production varies from year to year because there are different nominal tax rates for different types of working interest production. All royalty interest production is taxed at one rate, so the effective tax rate is equal to the nominal tax rate.
- A four-year moving average is used to estimate effective working interest tax rates for oil and natural gas production over the forecast period. Effective royalty tax rates are assumed to equal the nominal rates for all forecast years.
- Working interest oil tax revenue is determined by multiplying the effective working interest tax rate for oil production by the estimated gross value of working interest oil production. Tax revenue for the working interest portion of natural gas revenue is determined by the same method.
- Royalty tax revenue for oil and natural gas is calculated by applying the royalty tax rate of 15.10% to the gross royalty value of oil and natural gas production.
- Total oil and natural gas tax revenue to be distributed to the state is equal to the sum of working interest and royalty interest tax revenue from oil and natural gas production.

Table 5 shows the components that determine total tax revenue from oil production in Montana. Similarly, Table 6 summarizes how total tax revenue from natural gas production is calculated. Table 7 shows the combination of oil and natural gas tax revenue, plus audit, penalty, and interest income, to determine total tax revenue received by the state. All the tables show actual values for FY 2014 - FY 2024 and forecast values for FY 2025 - FY 2027.

Table 5
Montana Oil Revenue
($ millions)

Fiscal Year	Millions of Barrels of Oil	Gross Value		Non-Taxable Royalty Value		Taxable Value		Average Tax Rate		Tax Revenue
A 2014	28.928	$2,568.789	-	$64.325	=	$2,504.464	X	8.20%	=	$210.705
A 2015	29.700	$1,757.886	-	$46.295	=	$1,711.591	X	8.30%	=	$145.925
A 2016	25.586	$878.660	-	$24.333	=	$854.327	X	9.16%	=	$80.490
A 2017	21.635	$905.505	-	$25.367	=	$880.138	X	10.18%	=	$92.153
A 2018	20.380	$1,095.717	-	$32.672	=	$1,063.046	X	9.96%	=	$109.148
A 2019	23.286	$1,238.850	-	$36.410	=	$1,202.440	X	8.96%	=	$111.038
A 2020	21.229	$883.735	-	$24.327	=	$859.408	X	8.66%	=	$76.515
A 2021	18.771	$866.351	-	$24.570	=	$841.781	X	9.34%	=	$80.915
A 2022	19.447	$1,642.923	-	$46.233	=	$1,596.690	X	9.03%	=	$148.283
A 2023	21.958	$1,712.353	-	$45.765	=	$1,666.589	X	8.31%	=	$142.325
A 2024	24.006	$1,805.379	-	$48.502	=	$1,756.877	X	7.71%	=	$139.266
F 2025	**25.663**	**$1,600.733**	-	**$43.739**	=	**$1,556.994**	X	**7.36%**	=	**$117.809**
F 2026	**25.310**	**$1,613.151**	-	**$44.078**	=	**$1,569.073**	X	**7.44%**	=	**$120.074**
F 2027	**26.018**	**$1,785.632**	-	**$48.791**	=	**$1,736.841**	X	**7.33%**	=	**$130.896**

Table 6
Natural Gas Production Revenue
($ millions)

Fiscal Year	Billions of Cubic Feet of Gas	Gross Value		Non-Taxable Royalty Value		Taxable Value		Average Tax Rate		Tax Revenue
A 2014	54.016	$219.206	-	$8.337	=	$210.869	X	9.13%	=	$20.006
A 2015	46.553	$121.616	-	$4.978	=	$116.638	X	9.12%	=	$11.085
A 2016	47.261	$62.839	-	$2.670	=	$60.169	X	9.60%	=	$6.031
A 2017	42.234	$83.610	-	$2.688	=	$80.923	X	10.09%	=	$8.439
A 2018	40.059	$84.892	-	$2.660	=	$82.231	X	9.85%	=	$8.361
A 2019	39.318	$80.587	-	$2.438	=	$78.149	X	9.54%	=	$7.686
A 2020	36.379	$39.976	-	$1.199	=	$38.776	X	9.67%	=	$3.867
A 2021	34.214	$75.039	-	$2.534	=	$72.505	X	9.90%	=	$7.429
A 2022	34.815	$170.106	-	$5.348	=	$164.758	X	9.75%	=	$16.591
A 2023	37.462	$153.926	-	$4.761	=	$149.164	X	9.03%	=	$13.893
A 2024	38.351	$98.283	-	$2.521	=	$95.762	X	8.07%	=	$7.933
F 2025	**33.871**	**$91.419**	-	**$3.308**	=	**$88.111**	X	**9.12%**	=	**$8.336**
F 2026	**33.867**	**$115.695**	-	**$4.186**	=	**$111.509**	X	**9.15%**	=	**$10.583**
F 2027	**34.291**	**$116.687**	-	**$4.222**	=	**$112.465**	X	**9.09%**	=	**$10.610**

Table 7
Montana Oil and Gas Tax Revenue
($ millions)

Fiscal Year	Oil Revenue		Natural Gas Revenue		Audits, Penalties, & Interest		Total Revenue
A 2014	$210.705	+	$20.006	+	$0.864	=	$231.575
A 2015	$145.925	+	$11.085	+	-$0.605	=	$156.406
A 2016	$80.490	+	$6.031	+	$0.772	=	$87.293
A 2017	$92.153	+	$8.439	+	$0.408	=	$101.000
A 2018	$109.148	+	$8.361	+	$1.959	=	$119.468
A 2019	$111.038	+	$7.686	+	$0.720	=	$119.444
A 2020	$76.515	+	$3.867	+	-$0.007	=	$80.374
A 2021	$80.915	+	$7.429	+	$0.250	=	$88.594
A 2022	$148.283	+	$16.591	+	-$0.184	=	$164.690
A 2023	$142.325	+	$13.893	+	-$0.591	=	$155.627
A 2024	$139.266	+	$7.933	+	-$0.666	=	$146.533
F 2025	**$117.809**	**+**	**$8.336**	**+**	**-$0.298**	**=**	**$125.847**
F 2026	**$120.074**	**+**	**$10.583**	**+**	**-$0.435**	**=**	**$130.222**
F 2027	**$130.896**	**+**	**$10.610**	**+**	**-$0.497**	**=**	**$141.008**

Distribution

Oil and natural gas revenue is distributed in accordance with 15-36-331, MCA.

The BOGC imposes a privilege and license tax in addition to the base oil and natural gas tax rates. This tax rate is currently set at 0.3% of the gross value of oil and natural gas production.

Total oil and gas production tax revenue in Montana is divided between the state and local governments. Prior to HB 748 (2003 session), the distribution was based primarily on property tax mill levies. After HB 748, the counties and schools were each assigned a percentage of the production tax revenue generated in their county that they would receive. Beginning in FY 2012, SB 329 (2011 session) capped the amount of oil and natural gas receipts distributed to a school district at 130% of a district's maximum general fund budget (with some exceptions) and distributed any excess revenues to various state special revenue accounts (guarantee account, state school oil and gas impact fund, and county oil and natural gas impact fund). The 2013 legislative session passed SB 175, which changed the local distribution of oil and natural gas tax revenue starting in FY 2014. The amount of oil and natural gas revenue a school district could receive was still capped at 130% of the district's maximum budget; however, school districts with budgets less than $1.5 million were allowed to keep revenue equivalent to up to 150% of their maximum budget. Per SB 175, any excess tax revenue existing in a school district after these budget-based limits were reached was distributed outwardly to other school districts in a concentric circle pattern until all the excess revenue was exhausted. During the 2015 legislative session, SB 175 was replaced with SB 260, which did away with the concentric circle method of distribution and instead established two negotiated rulemaking committees that were tasked with determining how to allocate the excess tax revenue. Each committee was assigned the authority to portion out 50% of the available revenue. House Bill 647 from the 2017 regular session did away with the rulemaking committee distribution and changed the law so that any oil and natural gas revenue in excess of 130% of a school district's maximum budget is deposited into the guarantee fund (20-9-310, MCA).

The state share of oil and natural gas production tax revenue is divided among various funds according to the following schedule:

- 2.16% to the natural resource projects state special revenue account.
- 2.02% to the natural resource operations state special revenue account.
- 2.95% to the orphan share account.
- 2.65% to the university system.

- The remainder (90.22%) to the general fund.

Table 8 shows the actual distribution of oil and natural gas production tax revenues for FY 2024 and forecast distributions for FY 2025 through FY 2027.

Table 8
Oil and Gas Tax Revenue Distribution
($ millions)

Entity	Fiscal Year 2024	**Fiscal Year 2025**	**Fiscal Year 2026**	**Fiscal Year 2027**
Tax Revenue	**$137.003**	**$125.847**	**$130.222**	**$141.008**
BOGC	$4.441	**$3.723**	**$3.803**	**$4.185**
Oil & Gas Natural Resource Acct.	$0.888	**$1.354**	**$1.383**	**$1.522**
Guarantee Fund	$0.000	**$0.000**	**$0.000**	**$0.000**
Local Share	$60.288	**$56.76**	**$58.78**	**$63.27**
State Share	$71.386	**$64.010**	**$66.260**	**$72.033**
Natural Resource Projects Acct. (2.16%)	$1.542	**$1.383**	**$1.431**	**$1.556**
Natural Resource Operations Acct. (2.02%)	$1.442	**$1.293**	**$1.338**	**$1.455**
Orphan Share Acct. (2.95%)	$2.106	**$1.888**	**$1.955**	**$2.125**
University System (2.65%)	$1.892	**$1.696**	**$1.756**	**$1.909**
General Fund Share (90.22%)	**$64.405**	**$57.750**	**$59.780**	**$64.988**

Data Sources

Montana oil and natural gas production tax data are sourced from the Montana Department of Revenue. Historic and forecast WTI prices and Henry Hub prices are from S&P Global and the U.S. Energy Information Administration. Supplemental data are obtained from the Montana Board of Oil and Gas Conservation and the U.S. Energy Information Administration.

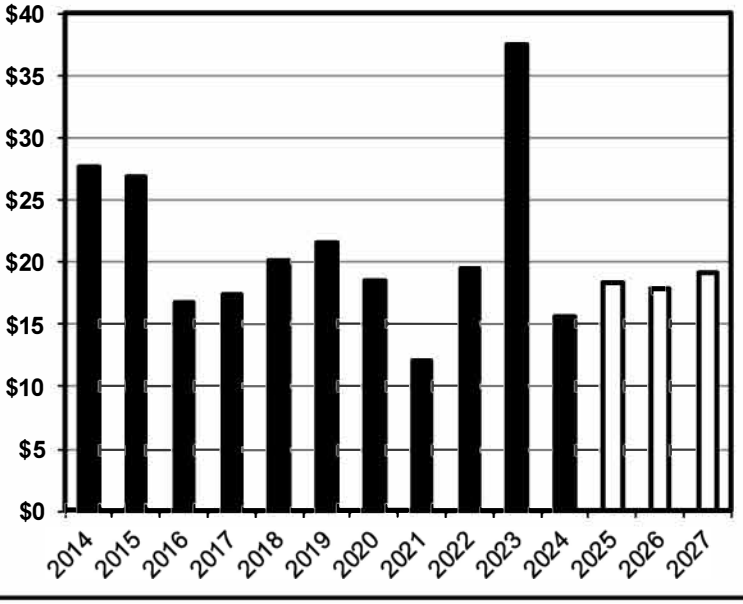
Revenue Description

In accordance with 30 USC, Section 191, a portion of the revenue from minerals extracted in Montana from federal land must be shared with the state of Montana. When the U.S. government leases public lands for mineral production, it distributes a portion of the royalty income it receives from resource extraction to the state where the leased land is located. Generally, U.S. states receive 50% of the royalty revenue from resource extraction on federal lands within the state, less 2% to account for administrative costs. Montana distributes its share of federal mineral royalty revenue 75% to the general fund and 25% to an account in the state special revenue fund. The state special revenue is for distribution to local governments with impacts from mineral extraction, per 17-3-240, MCA.

Table 1 shows actual revenue to the general fund from U.S. mineral royalties for FY 2014 through FY 2024 and forecast revenues for FY 2025 through FY 2027.

Table 1
U.S. Mineral Royalties
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$27.744	-5.0%
A	2015	$26.960	-2.8%
A	2016	$16.759	-37.8%
A	2017	$17.322	3.4%
A	2018	$20.139	16.3%
A	2019	$21.570	7.1%
A	2020	$18.527	-14.1%
A	2021	$12.082	-34.8%
A	2022	$19.464	61.1%
A	2023	$37.508	92.7%
A	2024	$15.655	-58.3%
F	**2025**	**$18.356**	**17.3%**
F	**2026**	**$17.817**	**-2.9%**
F	**2027**	**$19.212**	**7.8%**



General fund revenue from U.S. mineral royalties fluctuates as mineral prices and production levels change. Over the past decade, royalty revenues have exhibited a slight downward trend, with considerable fluctuation around this trend. The effect of the commodity bust that began in 2014 and lasted into 2016 can be seen in the sharp drop that occurred in royalty receipts from FY 2015 to FY 2016. Oil and natural gas prices plummeted, and coal production declined significantly during this period. A steady rebound in revenues occurred from FY 2017 through FY 2019, but collections turned downward again in FY 2020 as the world economy slowed considerably in response to the emergence and rapid spread of the COVID-19 virus. Economic shutdowns sapped energy demand. Oil prices crashed hard in the fourth quarter of FY 2020. These developments led to lower resource prices and volumes for Montana, which translated into depressed severance tax and royalty revenues in FY 2020 and FY 2021. Post-pandemic increases in energy demand plus the shock to commodity markets from the conflict between Russia and Ukraine led to resurgent prices for coal, oil, and natural gas which pushed royalty revenues higher in FY 2022. These elevated prices, particularly the record prices received for Montana's coal exports were the source of exceptionally strong revenue growth in FY 2023. Retreating prices are a partial cause of revenue declining by over half in FY 2024. The other piece that contributed to the steep drop was the loss of federal coal production from Signal Peak's Bull Mountain mine related to a decision by the U.S. Department of Justice to put the company on three years of probation for violating certain health, safety, and environmental standards. Signal Peak is also trying to get approval for expansion of the Bull Mountain mine into federal land, but that process is currently stalled

pending a proper environmental review. The issues surrounding Signal Peak's extraction of coal from federal land are expected to reduce mineral royalty revenue during the forecast period. Higher revenue from oil due to increased activity in the Bakken region of Montana will provide a small degree of mitigation, but coal remains the engine that drives total royalty collections.

Coal is the leading source of U.S. mineral royalty revenue for Montana, averaging about 60% of total collections over the last five years. Oil is the second largest revenue source followed by natural gas, averaging 30% and 6% of total receipts, respectively. Royalties from other mineral sources along with bonus and rental payments round out the remainder of revenue. Historically, roughly half of coal production in Montana occurred on federal land. Moving forward, this share will be lower if Signal Peak's federal extraction volumes remain nonexistent or subdued. Production of oil and gas in Montana isn't as concentrated on federal lands as coal production. About 15% of oil production and 30% of natural gas production in Montana occurs on federal lands. The development of the Bakken shale formation in eastern Montana led to a shift in more oil and natural gas being produced on privately-owned land.

Risks and Significant Factors

- Most royalty revenue is calculated as a percentage of the gross value of the minerals produced. As prices fluctuate, so does royalty revenue.
- How the current issues surrounding Signal Peak resolve themselves may have significant impacts on the Bull Mountain mine and its federal coal extraction volumes.
- Over the past couple of years, oil drilling activity has picked up in Montana. Oil and associated natural gas production have been rising steadily as a result. The current level of activity in the Bakken region is expected to continue and perhaps even accelerate slightly. The extent to which this provides a boost to mineral royalty revenue depends on the amount of federal land contained in the spacing units of new oil wells.

Forecast Methodology

Step 1. Forecast the gross value of coal, oil, and natural gas production on federal land by multiplying estimated production by estimated price. Historical proportions of resource production on federally owned land in Montana to total state production are used to estimate future production for each resource type. Estimated federal production proportions for each resource type are then multiplied by estimated total Montana production for each resource to determine estimated federal production. Forecast federal production volumes are then multiplied by an estimated price for each resource to determine gross value. The total production and price estimates for coal, oil, and natural gas come from data contained in each resource's respective revenue estimate.

Step 2. Estimate the federal royalty rate to be applied to the gross value of each resource type. The nominal federal royalty rate for coal is 12.5%. As of April 2022, the nominal royalty rate for new oil and gas leases moved up to 18.75%. Existing oil and natural gas production is still subject to the old 12.5% rate. The effective federal royalty rate is often lower than the nominal rate. The effective federal royalty rate is estimated for each resource type over the forecast period. To determine estimated total royalty revenue from coal, oil, and natural gas production on federal lands in Montana, the gross value of production for each resource type is multiplied by the effective federal royalty rate.

Step 3. Calculate the average percentage of receipts that are remitted by the federal government to the state for each resource type. Although the federal government is required to return 48% of the revenue to the state, there are exceptions that may reduce the actual percentage to less than 48%. This is primarily dependent on the nature of the property where the federal lease is issued. For example, a federal lease could be on General Services Administration (GSA) land, in which case 100% of the revenue would be distributed to the U.S. Treasury. Federal leases on Indian reservations and timing issues between fiscal years can also contribute to variation. The percentage of federal royalty revenue estimated to be returned to the state is estimated using an average of past years' state shares. The state's percentage is multiplied by total federal royalty revenue to yield total state mineral royalty revenue from coal, oil, and natural gas extraction.

Step 4. Estimate revenue from sources other than royalties on coal, oil, and natural gas, as well as rental and bonus payments. Other revenue is estimate using an average of prior years' revenue while rental and bonus payment revenue is assumed to grow at the same rate as royalty revenue. Add rental/bonus and other revenue to the state's share of coal, oil, and natural gas revenue to obtain total mineral royalty revenue.

Table 2 shows actual royalty revenues for coal, oil, and natural gas, along with revenue from rental, bonuses, and other sources for FY 2016 through FY 2024. Historical data beyond FY 2016 are incomplete. Forecast numbers are shown for FY 2025 through FY 2027. Note that other revenue can be negative due to sequestration.

Table 2
U.S. Mineral Royalty Revenue by Source
($ millions)

Fiscal Year	Coal Royalty Revenue	Oil Royalty Revenue	Natural Gas Royalty Revenue	Rents and Bonuses	Other Revenue	Total Revenue
A 2016	$16.550	$4.749	$0.746	$0.540	-$0.239	$22.345
A 2017	$16.110	$6.542	$0.353	$0.320	-$0.229	$23.096
A 2018	$17.802	$6.939	$1.602	$1.188	-$0.678	$26.852
A 2019	$16.558	$9.107	$1.384	$0.611	$1.099	$28.760
A 2020	$16.247	$6.183	$1.005	$1.545	-$0.277	$24.703
A 2021	$9.074	$5.491	$1.320	$0.136	$0.087	$16.109
A 2022	$13.698	$10.007	$1.610	$0.129	$0.507	$25.952
A 2023	$30.302	$12.337	$2.500	$3.759	$1.112	$50.010
A 2024	$11.539	$8.291	$0.665	$0.269	$0.109	$20.873
F 2025	**$11.592**	**$10.830**	**$1.565**	**$0.321**	**$0.166**	**$24.475**
F 2026	**$11.271**	**$10.193**	**$1.770**	**$0.311**	**$0.211**	**$23.755**
F 2027	**$12.148**	**$11.123**	**$1.750**	**$0.335**	**$0.259**	**$25.616**

Distribution

U.S. mineral royalties are distributed to both the general fund and the mineral impact account in accordance with 17-3-240, MCA. Table 3 shows the distribution of U.S. mineral royalty revenue to the state of Montana for FY 2014 through FY 2024 along with the estimated distribution for FY 2025 through FY 2027.

Table 3
U.S. Mineral Royalty Revenue Distribution
($ millions)

Fiscal Year	General Fund (75%)	Mineral Impact (25%)	Total
A 2014	$27.744	$9.248	$36.992
A 2015	$26.960	$8.987	$35.947
A 2016	$16.759	$5.586	$22.345
A 2017	$17.322	$5.774	$23.096
A 2018	$20.139	$6.713	$26.852
A 2019	$21.570	$7.190	$28.760
A 2020	$18.527	$6.176	$24.703
A 2021	$12.082	$4.027	$16.109
A 2022	$19.464	$6.488	$25.952
A 2023	$37.508	$12.503	$50.010
A 2024	$15.655	$5.218	$20.873
F 2025	**$18.356**	**$6.119**	**$24.475**
F 2026	**$17.817**	**$5.939**	**$23.755**
F 2027	**$19.212**	**$6.404**	**$25.616**

Data Sources

General fund and mineral impact account revenue are from SABHRS. Federal mineral statistics are available from the Department of Interior's Office of Natural Resources Revenue.

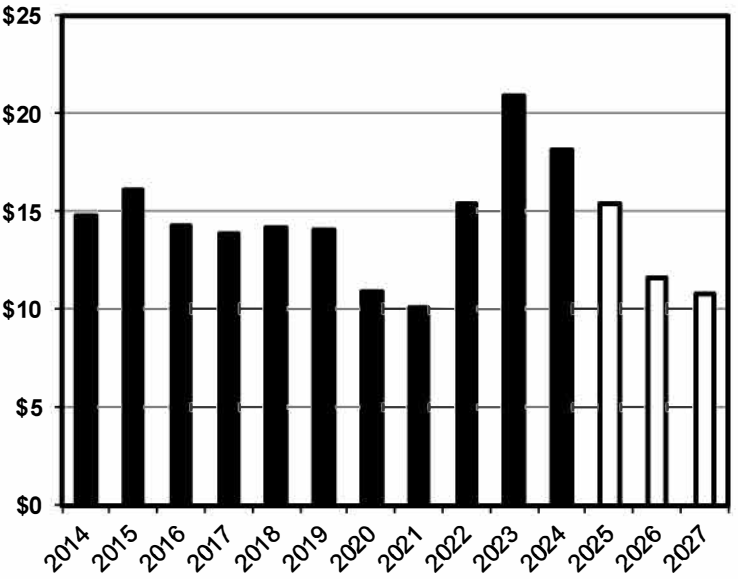
Revenue Description

In accordance with 15-35-103, MCA, Montana levies a tax on the value of coal produced in the state. The tax rate on coal varies with heat content of the coal (measured in Btu per pound) and the type of mine (open pit, auger or underground). Each producer is exempt from tax on 20,000 tons per year. If a producer mines 50,000 tons or less per year, they are exempt from the tax entirely.

Table 1 shows actual coal severance tax revenue to the general fund for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Coal Severance Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$14.745	11.2%
A	2015	$16.063	8.9%
A	2016	$14.236	-11.4%
A	2017	$13.799	-3.1%
A	2018	$14.107	2.2%
A	2019	$14.091	-0.1%
A	2020	$10.920	-22.5%
A	2021	$10.084	-7.7%
A	2022	$15.359	52.3%
A	2023	$20.879	35.9%
A	2024	$18.181	-12.9%
F	**2025**	**$15.341**	**-15.6%**
F	**2026**	**$11.630**	**-24.2%**
F	**2027**	**$10.807**	**-7.1%**



Montana produces sub-bituminous coal from the Powder River Basin in the south-central region of the state and is one of the top producers in the country accounting for 4-5% of the nation's total output. The majority of Montana coal is consumed by domestic electric power plants in Montana, Michigan, and Minnesota. Most of Montana's in-state coal consumption occurs at the Colstrip Power Plant, which receives its fuel directly from the adjacent Rosebud mine. Michigan is the largest out-of-state domestic consumer, followed by Minnesota, Washington, and Arizona. Montana also has exposure to international markets via exports through the Westshore Terminal in British Columbia; however, constraints on the takeaway capacity at the terminal does cap the volume of Montana coal able to leave the country. This is why there was no corresponding surge in Montana exports during the massive run-up in international coal prices in 2022. High international prices did raise the value of Montana's exports, which yielded strong growth in severance tax collections in FY 2022 and FY 2023, with lingering effects in FY 2024. International prices are down significantly from the record levels of two years ago but remain well over $100/ton, a level that will continue to support exports of Montana coal.

This opportunity for Montana producers to meet thermal coal demand from foreign consumers comes at a time when domestic demand is waning. Coal-fired electric generation has been on a strong downward trend since 2010 with a brief pause from 2021 – 2022 due to the surge in natural gas prices during that period (coal's primary competitor for electricity generation). Natural gas prices have since receded back to low levels and coal-fired generation resumed in downward path in 2023. Volatility in natural gas prices may alter the short-term economics of coal as a substitute to natural gas for power generation, but the medium-to-long term outlook for domestic coal consumption remains dim.

Coal is no longer the primary source of U.S. electricity generation, having surrendered this title to natural gas in 2016. Coal's competitiveness in the electric power sector is being hampered by tightening emissions regulations as stricter air pollution controls have assisted in spurring the closure of aging coal-fired power plants across the country. Over 80 gigawatts of coal-fired generation at electric utilities have been shuttered since the start of 2010, and more closures are on the horizon. The U.S. Energy Information Administration (EIA) estimates there will be 17 gigawatts of coal-fired generation that go offline during the three years from 2025 through 2027. Some of these planned retirements are current consumers of Montana coal (power plants in Minnesota and Washington). Montana itself has not been immune to these plant closures. Colstrip Units 1 and 2 ceased operation at the beginning of 2020. Units 3 and 4 are still operational and are expected to produce electricity for years to come, but there remains a risk of premature closure. The erosion of domestic demand has also led to the closure of Montana's Decker and Savage coal mines. The EIA is projecting the steady decline in U.S. coal-fired electric generating capacity to continue. Coal-fired electric power sector capacity falls from 188 gigawatts in 2023 to 146 gigawatts by the end of 2027 according to the EIA's Annual Energy Outlook Reference Case.

Coal severance tax revenue is distributed to numerous funds, many of which aid in the support of natural resource development projects and impact mitigation plans. The largest share of the coal severance tax (50%) is deposited into the coal severance tax trust fund which earns interest for the benefit of local infrastructure projects, public school facilities, and natural resource conservation. For more information on the coal severance tax trust fund see section 10-3.

Risks and Significant Factors

- Ongoing retirements of domestic coal-fired electric power plants are eroding the customer base for Montana coal. Washington's Centralia power plant is scheduled to shutter another generator in 2025, which could affect output from the Spring Creek mine if no other customers, either domestic or foreign, can be found.
- Spikes in natural gas prices could provide periods of increased viability for coal as a source of domestic electric power generation.
- Montana's exposure to international markets is limited by the amount of contracted volumes Montana's mines have with the Westshore Terminal in British Columbia. Any changes to allowed export volumes could change the balance of Montana's domestic and international shipments, and as a result the total value of Montana's coal product.
- Volatility in international coal prices can provide significant upside or downside risk to severance tax collections.

Forecast Methodology

Below are the steps involved in forecasting coal severance tax revenue:

Step 1. Estimate the quarterly average coal price across all mines using a linear regression model with quarterly averages of the international thermal coal price and producer price index for coal as inputs. The estimated price for the fiscal year is the four-quarter average.

Step 2. Forecast total monthly coal production from taxable mines in Montana. Total monthly production is estimated using a seasonal exponential smoothing model. The model uses past values of the time series to estimate level, trend, and seasonal components of the forecast values. Coal production is projected to continue its downward trend while exhibiting intra-year seasonal fluctuation.

Step 3. Monthly coal production estimates are summed by fiscal year and then multiplied by the estimated price for that year to obtain total gross value of the coal produced.

Step 4. Estimate total deductions and exemptions for the fiscal year to determine taxable coal production. Deductions and exemptions include the first 20,000 tons produced in a year (for operator's with over 50,000 tons of production per year), and the deductions for other state and federal tax liabilities related to coal production including the black lung tax, the coal gross proceeds tax, federal reclamation tax, and others.

Step 5. Apply an estimated average tax rate to yield total coal severance tax revenue.

Table 2 shows actual coal production, average price per ton, total deductions, taxable revenue, average tax rate, and total coal severance tax revenue for FY 2022 through FY 2024, along with estimates for FY 2025 through FY 2027.

Table 2
Coal Severance Tax
(millions)

	FY 2022		FY 2023		FY 2024		**FY 2025**		**FY 2026**		**FY 2027**
Tons Produced	27.616		26.504		24.923		**26.572**		**24.061**		**23.307**
Average FOB Price	x $34.34	x	$49.24	x	$44.61	**x**	**$36.07**	**x**	**$30.16**	**x**	**$28.92**
Gross Revenue	$948.353		$1,304.956		$1,111.911		**$958.398**		**$725.702**		**$674.081**
Exemptions	- $171.500	-	$235.985	-	$158.890	**-**	**$136.953**	**-**	**$103.701**	**-**	**$96.325**
Taxable Revenue	$776.853		$1,068.971		$953.021		**$821.445**		**$622.000**		**$577.756**
Average Tax Rate	x 8.71%	x	7.65%	x	7.79%	**x**	**7.79%**	**x**	**7.79%**	**x**	**7.79%**
Tax Revenue	$67.635		$81.823		$74.232		**$63.984**		**$48.449**		**$45.002**

Distribution

Coal Severance tax is distributed in accordance with 15-35-108, MCA. Table 3 shows the distribution of actual and estimated coal severance tax revenue for FY 2024 through FY 2027. The amount shown in Table 3 for total coal severance tax revenue differs slightly from Table 2 because estimated audit, penalty, and interest payments are included in the Table 3 total.

Table 3
Coal Severance Tax Revenue Allocation by Fund
($ millions)

Entity	Percent Allocation	FY 2024 Actual	**FY 2025 Projected**	**FY 2026 Projected**	**FY 2027 Projected**
Coal Tax Trust Fund (50%)	50.00%	$38.576	**$32.631**	**$24.864**	**$23.141**
Long Range Building Program Account	12.00%	$9.258	**$7.832**	**$5.967**	**$5.554**
Basic Library Services	0.93%	$0.718	**$0.607**	**$0.462**	**$0.430**
Conservation Districts	3.71%	$2.862	**$2.421**	**$1.845**	**$1.717**
Growth Through Agriculture Act	0.82%	$0.633	**$0.535**	**$0.408**	**$0.380**
Coal Board (5.8% in FY 2023)	5.80%	$4.475	**$3.785**	**$2.884**	**$2.684**
Parks Trust Fund	1.27%	$0.980	**$0.829**	**$0.632**	**$0.588**
Renewable Resource Loan Debt Service Fund	0.95%	$0.733	**$0.620**	**$0.472**	**$0.440**
Capitol Art Protection Trust Fund	0.63%	$0.486	**$0.411**	**$0.313**	**$0.292**
DEQ Mine Permitting and Restoration	$250k	$0.250	**$0.250**	**$0.250**	**$0.250**
General Fund	Remainder	$18.181	**$15.341**	**$11.630**	**$10.807**
Total Coal Severance Tax			**$77.151**	**$65.263**	**$49.728**	**$46.281**

Data Sources

Historical quarterly coal production, value, and tax data are from the Department of Revenue. Monthly coal production data are from the Department of Labor and Industry.

Metalliferous Mines License Tax

2027 Biennium

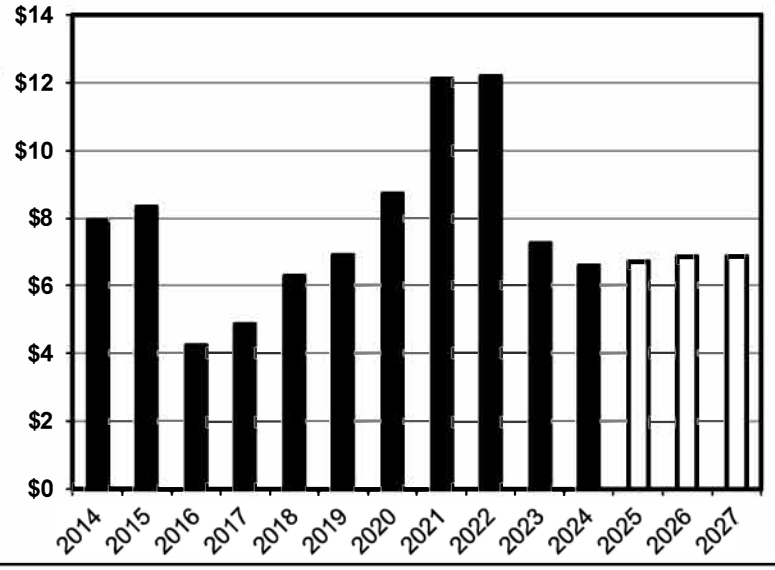
Revenue Description

Montana levies a tax on the gross value of metals mined in the state under 15-37-101, MCA. Gross value (15-23-801, MCA) is the market value of the refined product, less the costs of transporting unrefined product and its refining. The first $250,000 of gross value is not taxed; this effectively exempts small mines from this tax. The tax rate for production beyond $250,000 depends on the amount of processing. Concentrate, which is non-smelted ore, has a tax rate of 1.81%. Metals that have been separated from impurities by smelting are taxed at 1.6% (15-37-103, MCA).

Revenues from the metal mines tax are divided between the state and counties that have fiscal or economic impacts from large-scale mining per 15-37-117, MCA. From FY 2006 through FY 2015, the general fund received 57% of the total tax collected. With the passage of SB 20 (2015), the state general fund receives 47% of metal mines tax collections through FY 2026. HB 442 of the 2017 Session grants the state the authority to withhold metal mine tax distributions to local governments, as offsets, if these units fail to meet financial reporting and payment remittance deadlines. There were no changes to metal mines tax in the 2019, 2021 or 2023 Sessions. Table 1 shows actual general fund revenue for FY 2014 through FY 2024 and projected revenue for FY 2025 through FY 2027.

Table 1
Metalliferous Mines Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$7.948	-20.9%
A 2015	$8.320	4.7%
A 2016	$4.221	-49.3%
A 2017	$4.839	14.6%
A 2018	$6.291	30.0%
A 2019	$6.907	9.8%
A 2020	$8.724	26.3%
A 2021	$12.136	39.1%
A 2022	$12.210	0.6%
A 2023	$7.251	-40.6%
A 2024	$6.573	-9.4%
F 2025	**$6.700**	**1.9%**
F 2026	**$6.878**	**2.7%**
F 2027	**$6.876**	**0.0%**



Revenue recovered from declines during the "Great Recession" with higher prices through FY 2013. New price declines, a mine closure, and the winding down of an existing gold mine led to a subsequent revenue drop. Montana metals production is now concentrated in copper and platinum metals group (PMG) metals (platinum, palladium, and rhodium). Historically, palladium prices are lower than platinum. However, palladium experienced a relative price boom between October 2019 through July 2021 rising to ($2,300 oz.) over twice the price of platinum ($980 oz.). More recently palladium prices have dropped to match platinum. This has prompted a major reorganization at Montana's PMG mine. The World Bank's October 2024 *Commodity Market Outlook* has Montana's main metal mine products (copper, platinum and gold) prices dropping slightly (a weighted -2% per year) over the next several years.

Risks and Significant Factors

- Production varies over time, but mines have cost optimal life-cycle production profiles, so production primarily varies based on the number of mines in operation and their remaining minable reserves. Production shifts tend to be slow.
- New financing could reopen existing mines; however, new production is not contemplated in the forecast horizon.
- The proportional value weight of production for each type of metal drives collections. Metals production with impact

are (in alphabetic order) copper, gold, molybdenum, palladium, platinum, rhodium, and silver.

- Rapid metal price shifts cause changes in overall tax revenue.
- Metal producers can deduct transportation, treatment, and refining costs from the gross value of production.
- This estimate assumes that the mix of metals produced will remain substantially as it was in FY 2021 - FY 2024.

Forecast Methodology

There are three steps in estimating metal mines tax revenue:

Step 1. FY 2024 production and prices serve as the basis for this estimate. All fund revenue is projected from the change in the weighted average price forecast for three reference metals (copper, platinum, and gold). The price outlook is from The *Commodity Markets Outlook* Production and is adjusted for planned changes in metal production on a value share basis.

Step 2. Transportation, refining, and treatment cost deductions are assumed to maintain their FY 2021 - FY 2024 share production value during the forecast period. These are deducted from the gross value of the minerals.

Step 3. The average tax rate from FY 2021 through FY 2024 is applied to the value of production yielding tax liability.

Table 2 shows the gross value of all mined metal products in Montana, deductions taken by the producers, the average tax rate, and the total tax revenue generated for the metal mines license tax (the table presents cash collections).

Table 2
Metal Mines Production Forecast
($ millions)

Fiscal Year	Gross Value	Deductions	Net Value	Average Tax Rate	Tax Revenue
A 2022	$1,473.1	$88.9	$1,384.2	1.653%	$22.89
A 2023	$1,046.2	$92.8	$953.4	1.682%	$16.03
A 2024	$970.8	$95.8	$874.9	1.685%	$14.74
F 2025	**$945.1**	**$93.3**	**$851.8**	**1.673%**	**$14.25**
F 2026	**$966.4**	**$95.4**	**$871.0**	**1.680%**	**$14.63**
F 2027	**$966.5**	**$95.4**	**$871.1**	**1.680%**	**$14.63**

Distribution

Table 3 shows the 15-37-117, MCA, distribution of the metal mines tax.

Table 3
Total Collections and Allocation of Metal Mines Tax
($ millions)

Fund	Allocation Percentage	Actual FY 2023	Actual FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027
General Fund (47%)	**47.0%**	$7.251	$6.573	**$6.700**	**$6.878**	**$6.876**
Hard-Rock Mining Impact Trust (2.5%)	**2.5%**	$0.386	$0.350	**$0.356**	**$0.366**	**$0.366**
Impacted Counties (35.0%)	**35.0%**	$5.400	$4.895	**$4.989**	**$5.122**	**$5.120**
Natural Resource Operations (7.0%)	**7.0%**	$1.080	$0.979	**$0.998**	**$1.024**	**$1.024**
Hard-Rock Mining Debt Service (8.5%)	**8.5%**	$1.311	$1.189	**$1.212**	**$1.244**	**$1.244**
Total Collections	**100.0%**	$15.428	$13.985	**$14.254**	**$14.633**	**$14.630**

Data Sources

Production, value, and deduction data are from the Department of Revenue as of November 1, 2024. Collections are from SABHRS. Price forecasts are from The World Bank's *Commodity Markets Outlook (October 2024)*.

Electrical Energy Producer's License Tax

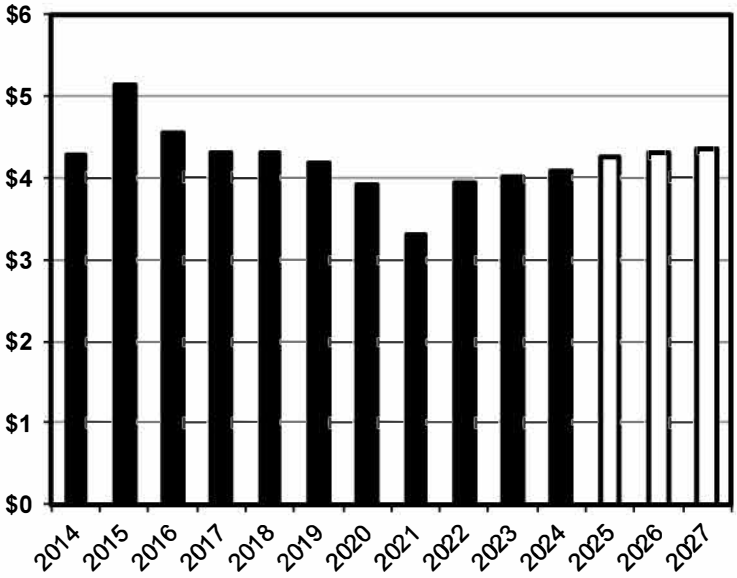
Revenue Description

In accordance with 15-51-101, MCA, Montana levies an electrical energy producer's license tax (EET) at a rate of $0.0002 per kilowatt hour (kWh). The tax applies to all electricity generated, manufactured, or produced in Montana for barter, sale, or exchange. Electricity generated for plant use is excluded from the tax. All revenue from the electrical energy producer's license tax is allocated to the general fund.

Table 1 shows actual general fund revenue collections from the electrical energy producer's license tax for FY 2014 through FY 2024, and the forecast for FY 2025 through FY 2027.

Table 1
Electrical Energy Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$4.280	-15.5%
A	2015	$5.133	19.9%
A	2016	$4.536	-11.6%
A	2017	$4.314	-4.9%
A	2018	$4.302	-0.3%
A	2019	$4.185	-2.7%
A	2020	$3.910	-6.6%
A	2021	$3.298	-15.7%
A	2022	$3.930	19.1%
A	2023	$4.004	1.9%
A	2024	$4.090	2.1%
F	**2025**	**$4.265**	**4.3%**
F	**2026**	**$4.308**	**1.0%**
F	**2027**	**$4.351**	**1.0%**



As of 2023, Montana's electric power sector has total generation capacity of about 6,800 megawatts (MW). The state's primary energy source is hydroelectric power, which accounts for about 40% of all electrical generating capacity. The closure of the Colstrip power plant's two older generating units in January 2020 reduced Montana's generating capacity and significantly lowered coal's share of Montana's electric generation portfolio. Colstrip remains Montana's largest generating facility. The plant's roughly 1,600 MW capacity accounts for a little over one quarter of the state total. With the partial closure of the Colstrip power plant, coal relinquished its status as the dominant source of electricity generation in Montana. Wind is Montana's third largest source of electricity but is moving ever closer to overtaking coal for the number two spot. It has grown to represent 23% of the state's generation mix. Wind is the resource that offers the largest potential for growth moving forward. Multiple new wind facilities have commenced commercial operation in recent years and more projects are slated for development.

Risks and Significant Factors

- Montana continues to see steady growth in electricity generation from renewable sources, with the major contributions coming from wind resources. There is potential for multiple large wind farms to come online during the forecast period. Puget Sound Energy has been and continues to be busy acquiring wind resources in Montana. It's Beaver Creek Wind Facility in Stillwater County is expected to begin operation by August of 2025. Another project, the Haymaker Wind Farm being developed by Clearway Energy Group in central Montana, is linking up with PSE and is scheduled to commence operation in 2028.

Forecast Methodology

Electrical energy tax revenue is forecast by multiplying projected taxable kWhs by the statutory tax rate. Electrical output subject to taxation is slightly lower than total output because producers can deduct the amount of electricity used for plant operations. Taxable kWhs are forecast on a quarterly basis. The quarterly series is seasonally adjusted, and a linear exponential smoothing model is used to forecast the adjusted series. Usage of the linear exponential smoothing model allows estimated values to be informed by both level and trend components of the series. Forecast observations of the adjusted series are re-seasonalized to arrive at the final values. Quarterly observations are summed to fiscal year totals.

Estimated annual taxable kWhs are multiplied by the statutory tax rate of $0.0002 per kWh to determine tax revenue.

Table 2 shows actual electricity production and tax revenue for FY 2014 through FY 2024 and forecast values for FY 2025 through FY 2027.

Table 2
Taxable Electricity Production & Tax Revenue
($ millions)

	Fiscal Year	KWh (millions)		Tax Rate		Tax Revenue
A	2014	21,140.289	x	$0.0002	=	$4.280
A	2015	25,391.141	x	$0.0002	=	$5.133
A	2016	21,583.999	x	$0.0002	=	$4.536
A	2017	21,446.685	x	$0.0002	=	$4.314
A	2018	21,666.773	x	$0.0002	=	$4.302
A	2019	20,996.870	x	$0.0002	=	$4.185
A	2020	19,862.614	x	$0.0002	=	$3.910
A	2021	16,492.194	x	$0.0002	=	$3.298
A	2022	19,472.771	x	$0.0002	=	$3.930
A	2023	20,474.347	x	$0.0002	=	$4.004
A	2024	20,438.360	x	$0.0002	=	$4.090
F	**2025**	**21,313.441**	x	**$0.0002**	=	**$4.265**
F	**2026**	**21,526.576**	x	**$0.0002**	=	**$4.308**
F	**2027**	**21,741.841**	x	**$0.0002**	=	**$4.351**

Distribution

Pursuant to 15-51-103 and 17-2-124, MCA, the general fund receives 100% of the electrical energy tax.

Data Sources

Historical electricity data are provided by the Department of Revenue.

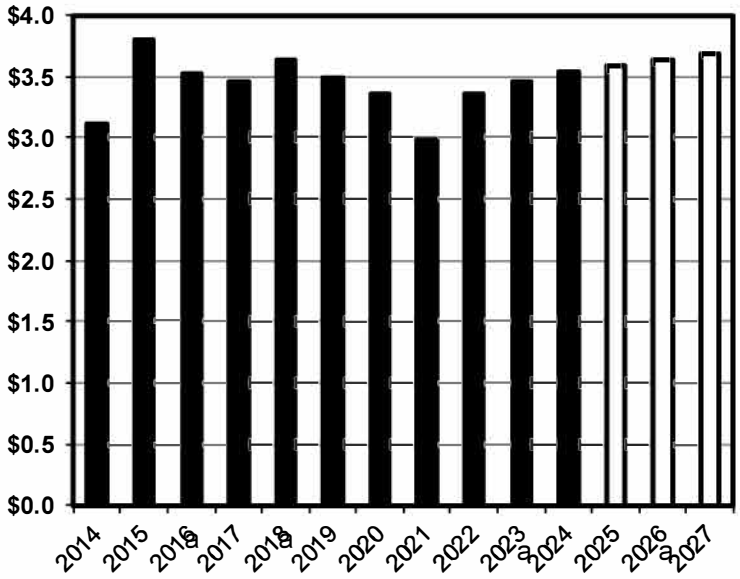
Revenue Description

In accordance with 15-72-104, MCA, Montana levies a wholesale energy transaction (WET) tax at a rate of $0.00015 per kilowatt hour (kWh) on the movement of electricity by a transmission service provider in the state. The movement of electricity includes in-state production delivered out-of-state, in-state production delivered in-state, and out-of-state production delivered in-state. This tax became effective January 1, 2000.

Table 1 shows actual general fund collections from the WET tax for FY 2014 through FY 2024 and the projected revenue for FY 2025 through FY 2027.

Table 1
Wholesale Energy Transaction Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$3.112	-12.5%
A 2015	$3.795	21.9%
A 2016	$3.516	-7.4%
A 2017	$3.464	-1.5%
A 2018	$3.628	4.7%
A 2019	$3.490	-3.8%
A 2020	$3.351	-4.0%
A 2021	$2.981	-11.0%
A 2022	$3.352	12.5%
A 2023	$3.455	3.1%
A 2024	$3.545	2.6%
F 2025	**$3.579**	**0.9%**
F 2026	**$3.629**	**1.4%**
F 2027	**$3.679**	**1.4%**



As of 2023, total electrical generation capacity in Montana is about 6,800 megawatts. Montana is a net exporter of electricity. The state's import-export balance narrowed when the Colstrip Power Plant completed the shutdown of its older two units, which shipped most of their output west to Washington and Oregon. The consistent development of wind resources in Montana, however, is making up for the lost exports from the closure of Colstrip Units 1 and 2. Substantial new wind capacity has come online in the past couple of years, and more is coming. Puget Sound Energy (PSE) in Washington state is a major player in developing and contracting for wind generation in Montana as it works to meet Washington's clean energy goals. Montana's position as a net electricity exporter is expected to continue to strengthen.

Risks and Significant Factors

- Volatility in tax revenue from electrical energy transmission in Montana stems from variation in total kilowatt hours (kWhs) delivered out-of-state, which is generally more than the amount of kWhs generated for delivery in-state.
- Montana continues to see steady growth in electricity generation from renewable sources, with the major contributions coming from wind resources. There is potential for multiple large wind farms to come online during the forecast period. Puget Sound Energy has been and continues to be busy acquiring wind resources in Montana. It's Beaver Creek Wind Facility in Stillwater County is expected to begin operation by August 2025. Another project, the Haymaker Wind Farm being developed by Clearway Energy Group in central Montana, is linking up with PSE and is scheduled to commence operation in 2028.

Forecast Methodology

WET tax revenue is forecast by multiplying estimated taxable kWhs from in-state and out-of-state transmission by the statutory tax rate. For in-state generation that is sent out-of-state, the total amount of kWhs generated is reduced by 5% to account for line losses during transmission.

Taxable kWhs for out-of-state delivery and in-state delivery are estimated separately, but via the same methodology. Taxable kWhs are forecast on a quarterly basis. The quarterly series is seasonally adjusted, and a linear exponential smoothing model is used to forecast the adjusted series. Usage of the linear exponential smoothing model allows estimated values to be informed by both level and trend components of the series. Forecast observations of the adjusted series are re-seasonalized to arrive at the final values. Quarterly observations are summed to fiscal year totals.

Estimated annual taxable kWhs are multiplied by the statutory tax rate of $0.00015 per kWh to determine tax revenue.

Table 2 shows actual taxable electricity production and realized tax revenue for FY 2014 through FY 2024 and forecasts for FY 2025 through FY 2027.

Table 2
Taxable kWh for Wholesale Energy Tax
($ millions)

Fiscal Year	Taxable KWh (million)		Tax Rate		Tax Revenue
A 2014	20,962.124	x	0.00015	=	$3.112
A 2015	24,878.014	x	0.00015	=	$3.795
A 2016	22,875.105	x	0.00015	=	$3.516
A 2017	23,129.308	x	0.00015	=	$3.464
A 2018	23,558.590	x	0.00015	=	$3.628
A 2019	23,195.901	x	0.00015	=	$3.490
A 2020	22,398.297	x	0.00015	=	$3.351
A 2021	20,035.391	x	0.00015	=	$2.981
A 2022	22,184.409	x	0.00015	=	$3.352
A 2023	23,404.009	x	0.00015	=	$3.455
A 2024	23,490.499	x	0.00015	=	$3.545
F 2025	**23,920.032**	**x**	**0.00015**	**=**	**$3.579**
F 2026	**24,255.040**	**x**	**0.00015**	**=**	**$3.629**
F 2027	**24,590.048**	**x**	**0.00015**	**=**	**$3.679**

Distribution

Pursuant to 15-72-106, MCA, the general fund receives 100% of the WET tax.

Data Sources

Historical electricity data are provided by the Department of Revenue.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

INTEREST REVENUE
SECTION 5

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Revenue Description

Under Article VIII, Section 13, of the Montana Constitution, the Legislature is required to provide for a Unified Investment Program for public funds held by both state and local government. The Montana Board of Investments (BOI) was created and given sole authority to manage the investment of state funds.

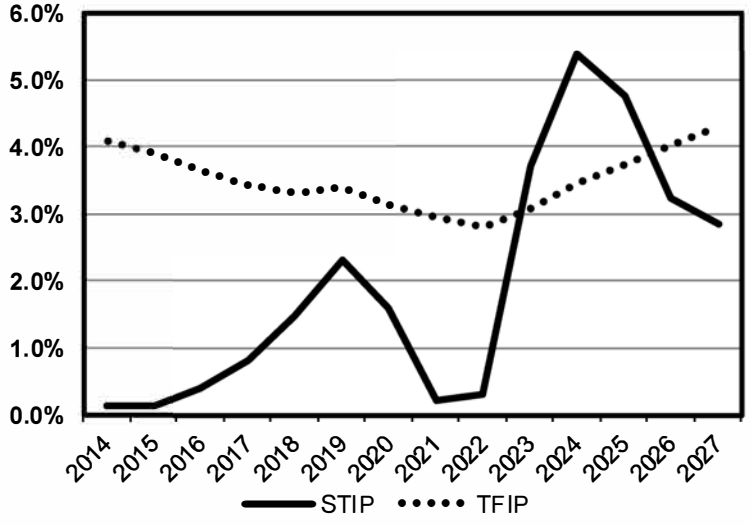
The BOI invests state cash holdings and fund balances in both short-term and long-term assets, with the investment strategy dependent on the specific needs of the account or fund. The BOI invests most agency cash and a small portion of fund balances in the short-term investment pool (STIP). Assets in the STIP have a maximum maturity of two years or less in order to maintain a high level of liquidity. In addition to maintaining liquidity, the STIP is managed in a way that aims to preserve the principle of an investment while at the same time maximizing investment income.

State trust fund balances are invested by the BOI in the Trust Fund Investment Pool (TFIP). The TFIP's portfolio is diversified among three main asset classes: investment grade fixed income assets, high-yield fixed income assets, and core real estate assets. The latter two investment classes are limited to 10% and 30% of the total TFIP portfolio, respectively. The allocation for the real estate asset class was increased in FY 2020 as part of a change in BOI's investment policy statement in response to the economic fallout of the COVID-19 pandemic. The TFIP is managed with the goal of providing a consistent and competitive stream of income to pool participants.

Estimates for the rates of return on the STIP and TFIP are used to forecast interest revenue for the treasury cash account, the common school trust, the various coal trusts, and several other funds. Table 1 shows actual annual percentage interest rates for both STIP and TFIP in FY 2014 through FY 2024, and projections for FY 2025 through FY 2027.

Table 1
Short Term Investment Pool and Trust Fund Investment Pool
Annual Rates of Return

Fiscal Year	STIP	TFIP
A 2014	0.14%	4.07%
A 2015	0.13%	3.89%
A 2016	0.40%	3.65%
A 2017	0.82%	3.44%
A 2018	1.48%	3.29%
A 2019	2.31%	3.39%
A 2020	1.59%	3.14%
A 2021	0.22%	2.96%
A 2022	0.32%	2.80%
A 2023	3.71%	3.06%
A 2024	5.39%	3.46%
F 2025	**4.74%**	**3.73%**
F 2026	**3.24%**	**4.02%**
F 2027	**2.83%**	**4.30%**



The interest rate on STIP investments generally moves in line with the federal funds rate, and so is sensitive to changes in Federal Reserve monetary policy. The federal funds rate is the interest rate banks receive on overnight loans that are used to meet daily reserve requirements. The Federal Open Market Committee (FOMC) is the body responsible for setting the target range of the federal funds rate. Over the past decade, the federal funds rate has ranged from lows near zero to a high above 5%. The FOMC slashed the target level of the federal funds rate to its lowest possible level of 0%- 0.25% in 2009 in an effort to stimulate the economy following the Great Recession. The target range remained there until 2015

as the nation struggled to mount an economic recovery post-recession. Eventually, short-term interest rates started rising as the Federal Reserve shifted course on monetary policy in 2016 to keep step with a strengthening U.S. economy. Economic momentum was quickly extinguished in early 2020 when the COVID-19 virus burst onto the world stage. As the U.S. dealt with surging infections and economic shutdowns, the FOMC reinstituted accommodative monetary policy by moving the target federal fund rate back to near-zero levels.

Consumer price inflation began to emerge in the spring of 2021 and steadily crept upward in the following months. By January 2022 year-over-year growth in the headline CPI was 7.5% and pressure on the Fed to move off the zero-lower bound for the federal funds rate was intensifying. By March headline inflation was 8.6% and the FOMC instituted its first rate hike since cutting them to near-zero in early 2020. This 25 basis-point tick upward in March was followed by a 50 basis-point increase in May and 75 basis-point increases in each of June, July, September, and November of 2022. This rapid pace of tightening stemmed from persistently high year-over-year CPI growth in the second half of 2022. In all, the FOMC added 4.25% to the target range of the federal funds rate in 2022. Another 1% was tacked on by July 2023, bringing the range to 5.25% - 5.50%. This was the peak of the tightening cycle. Inflation responded, with the headline CPI rate of year-over-year growth averaging just under 3.5% in the second half of 2023. By July 2024 headline CPI growth was under 3%. At the same time, the labor market was showing signs of cooling. After having held the federal funds rate target steady for over a year, the FOMC, responding to economic conditions, instituted a 50-basis point cut to the range. The Fed is committed to its data dependent approach to setting monetary policy but has indicated further softening of policy is likely. Market expectations are for the federal funds rate to achieve its neutral level sometime around mid-2026.

Long-term rates suffered during the Great Recession as investors piled into safer assets. The combination of shrinking supply and soaring demand bid up safe asset prices, reducing yields. These assets maintained low yields for years following the downturn, and their accumulation within the TFIP dragged the overall yield of the investment pool steadily downward through FY 2018. The TFIP is primarily invested in medium-to-long-term investment grade assets, which are comprised of securities that are generally viewed as safe from default, such as U.S. government debt. Low yields on U.S. government debt influence yields on investment grade corporate bonds and other similar assets. The overall TFIP rate of return showed signs of turning around in FY 2019 after a decade of decline, but this recovery was short-lived. Long-term yields plunged once again as COVID-19 clouded the economic outlook. Relatively low-yield assets once again accumulated in the TFIP during 2020 and 2021. Long-term rates started climbing early in 2022 and the general upward trajectory continued until the U.S. 10-year treasury yield nearly touched 5% in October 2023. The yield on the 10-year note currently sits near 4%. These gains in market rates help pull TFIP yields upward through the forecast period. Providing additional support to TFIP yields is the implementation of a May 2022 revision to the Board of Investments' TFIP investment policy which allows a higher allocation of the funds assets to the real estate class. This change was put in place to mitigate the impact of low-yield investment grade fixed income assets on the overall TFIP rate of return.

Risks and Significant Factors

- Inflation has moderated and the U.S. labor market is in good shape. To the extent that the Federal Reserve feels its goal of a "soft landing" has been or is on the cusp of being achieved, further easing of monetary policy is likely.
- The FOMC's interpretation of economic conditions will determine their policy approach regarding target levels of the federal funds rate. Both forward guidance by the Fed and actual rate adjustments will influence STIP interest earnings over the forecast period.
- Changes in the supply and demand of safe assets will be linked to the realized rate of return for the TFIP. Both domestic and global factors will influence the safe asset market in the years to come. Risk appetites of private investors do and will continue to play a large role in shaping the demand for these investment grade securities.
- Stock market volatility can affect both short-term and long-term interest rates. Heightened volatility can shift investment demand away from equities and toward safer securities.

Forecast Methodology

Short Term Investment Pool

STIP interest rates are modeled against the federal funds rate. Changes in the STIP rate follow, with a slight lag, changes in the federal funds rate. In levels, the STIP rate exceeds the federal funds rate by a small, but varying margin. Returns on the types of assets held in the STIP generally carry a higher yield due to risk and term premiums. A large portion of STIP holdings are in short-term securities other than U.S. treasury or agency securities. U.S. government and agency

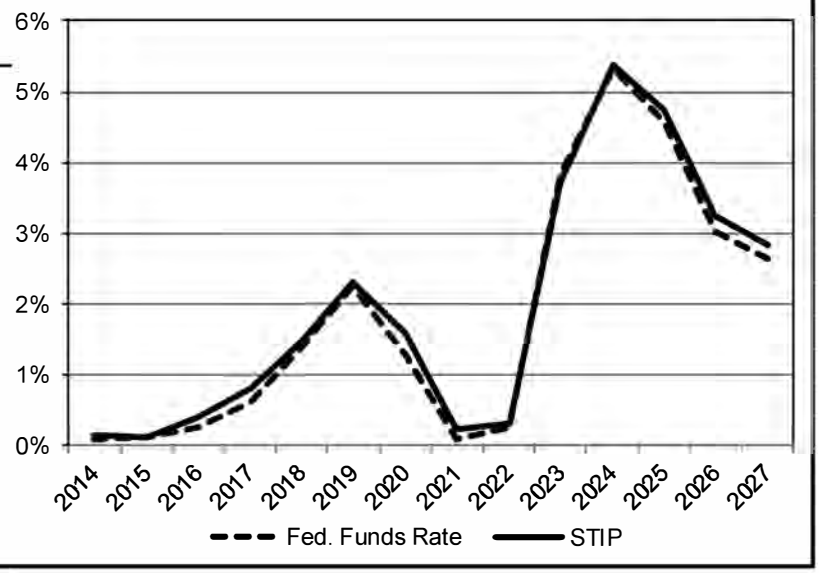
debt are more closely linked to the federal funds rate.

Quarterly observations of annualized STIP rates are modeled using a simple OLS regression that includes the quarterly average effective federal funds rate as the input. Inclusion of the federal funds rate allows the model to capture information about movement in short-term interest rates associated with safe, highly liquid, short-term securities of the kind held in the STIP. The model projects the STIP rate moving consistently downward, but at varying speeds, throughout the forecast period.

Table 2 shows actual values for the average STIP rate and average federal funds rate for FY 2014 through FY 2024 and forecast values for FY 2025 through FY 2027.

Table 2
Short-Term Interest Rates

Fiscal Year	Fed. Funds Rate	STIP
A 2014	0.08%	0.14%
A 2015	0.11%	0.13%
A 2016	0.26%	0.40%
A 2017	0.62%	0.82%
A 2018	1.39%	1.48%
A 2019	2.24%	2.31%
A 2020	1.29%	1.59%
A 2021	0.08%	0.22%
A 2022	0.27%	0.32%
A 2023	3.84%	3.71%
A 2024	5.31%	5.39%
F 2025	**4.58%**	**4.74%**
F 2026	**3.02%**	**3.24%**
F 2027	**2.62%**	**2.83%**



Trust Fund Investment Pool

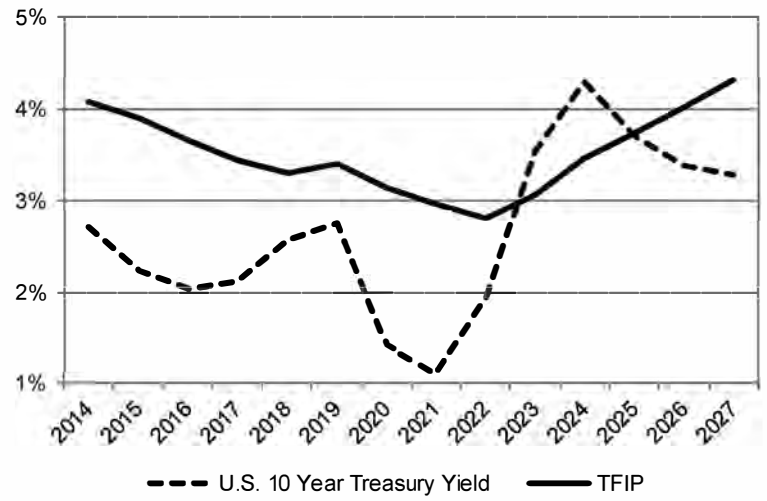
The TFIP rate forecast is informed by yield projections put together by the BOI but is modeled independently. The BOI estimates forward-looking monthly yields for each TFIP participating fund using realized book yields and assumptions about current market yields and the weighted average time-to-maturity of each fund's collection of securities. A fund's book yield is expected to achieve the assumed market yield. Typically, this process takes about five years to complete.

Smoothing model estimates of the TFIP yield project steady upward movement through FY 2027. This path reflects the lagged nature of TFIP yields relative to market and is consistent with the BOI's expectations that book yields will gradually progress toward market yields. Low-yield assets from 2020 and 2021 will mature out of the pool, allowing the higher-yield assets purchased in 2022 and beyond to push up the overall yield on the TFIP.

Table 3 shows actual values for the average TFIP rate and the average yield on the 10-year U.S. treasury note for FY 2014 through FY 2024 and forecast values for FY 2025 through FY 2027.

Table 3
Trust Fund Investment Pool Rate of Return

	Fiscal Year	U.S. 10 Year Treasury Yield	TFIP
A	2014	2.71%	4.07%
A	2015	2.23%	3.89%
A	2016	2.02%	3.65%
A	2017	2.10%	3.44%
A	2018	2.57%	3.29%
A	2019	2.74%	3.39%
A	2020	1.41%	3.14%
A	2021	1.01%	2.96%
A	2022	1.93%	2.80%
A	2023	3.54%	3.06%
A	2024	4.30%	3.46%
F	**2025**	**3.70%**	**3.73%**
F	**2026**	**3.38%**	**4.02%**
F	**2027**	**3.28%**	**4.30%**



Data Sources

The Montana BOI provides monthly reports on STIP and TFIP investment earnings and balances. Federal funds rate data are from S&P Global.

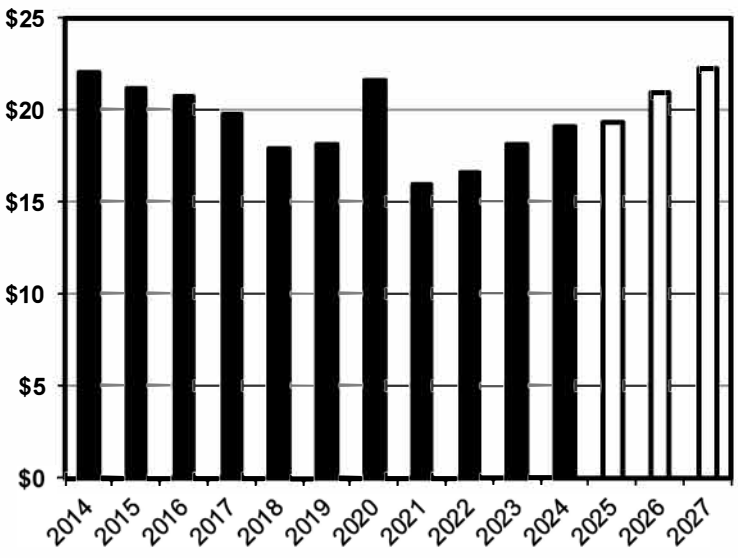
Revenue Description

Article IX, Section 5, of the Montana Constitution, established the coal severance tax trust fund. The principle of this trust fund is inviolate unless acted upon by a three-fourths vote of the legislature. Under current law, 50% of the severance tax revenue from coal production in Montana is deposited into the trust fund and is dispersed among various sub-trusts. The individual trust funds are described in more detail in the *Introduction to the Coal Trust Fund* section. The largest fund within the coal tax trust fund is the coal tax permanent fund (permanent fund). Interest earnings from the permanent fund are allocated to the general fund.

Table 1 shows actual interest earnings deposited into the general fund from the coal tax trust fund from FY 2014 through FY 2024 and the forecast amounts for FY 2025 through FY 2027. The amounts in Table 1 include interest earnings from the permanent fund as well as the coal tax bond fund (which has as its balance, sufficient funds to meet all principal and interest payments on coal severance tax bonds in a fiscal year) and other income minus expenses.

Table 1
Coal Trust Interest Earnings
($ millions)

	Year	Fund	Change
A	2014	$21.996	-8.9%
A	2015	$21.168	-3.8%
A	2016	$20.722	-2.1%
A	2017	$19.799	-4.5%
A	2018	$17.938	-9.4%
A	2019	$18.172	1.3%
A	2020	$21.600	18.9%
A	2021	$15.967	-26.1%
A	2022	$16.561	3.7%
A	2023	$18.105	9.3%
A	2024	$19.139	5.7%
F	**2025**	**$19.280**	**0.7%**
F	**2026**	**$20.993**	**8.9%**
F	**2027**	**$22.196**	**5.7%**



Declining permanent fund interest earnings from FY 2014 – FY 2018 reflect the impact of the Great Recession's upheaval of financial markets. Bond yields dropped during the economic downturn and remained low for an extended period post-recession. As a result, the rate of return of the trust fund investment pool (TFIP) – the primary investment pool of the permanent fund – fell as higher-yield bonds matured and lower-yield bonds took their place. This trend started to turn around in FY 2019. The exit of recession era securities and the entrance of higher-yield securities was beginning to lift the overall rate of return for the TFIP. Projections showed a continuation of this trend in the following years, but the emergence of the COVID-19 pandemic and the associated economic disruption in the latter half of FY 2020 pushed market interest rates back to the lows of a decade prior. The fall in medium and long-term bond yields put a halt to the improving return performance of permanent fund investments. Relatively low-yield bonds accumulated in the TFIP during FY 2021 and FY 2022. The Montana Board of Investments (BOI) made some adjustments to the investment strategy of the TFIP, allocating more funds to higher yield real estate assets to mitigate the impact of low bond yields. Market yields started rising quickly in 2022 in response to the Fed's aggressive action toward reigning in high inflation with sharp increases in the target range for the federal funds rate. The arrival of higher yield securities into the TFIP plus the adjustments made by BOI to the TFIP investment strategy led to rising earnings from the permanent fund in FY 2023 and FY 2024. This rising trend is projected to continue through FY 2027.

The permanent fund currently does not receive any distribution from coal severance tax revenue. Of the money deposited into the coal tax trust fund, 65% is allocated to the conservation district fund (HB 321, 2023 legislative session), 10% is allocated to the school facilities fund (SB 260, 2017 legislative session), and 25% is allocated to the big sky economic development fund. Once the school facilities fund balance reaches $300 million, its allocation reverts to the permanent fund. This is not projected to occur during the FY 2027 biennium.

The Montana Board of Investments (BOI) distributes permanent fund dollars across three main investment pools: the TFIP, the short-term investment pool (STIP), and loans (mortgages and commercial). The permanent fund balance is generally invested 60%-80% in the TFIP, 20%-40% in loans, and 2%-3% in the STIP. Loan balances and TFIP balances tend to move in the opposite direction of one another. The TFIP balance is used to fund loan issuances and as loans are paid back, the money is invested in the TFIP, if it is not recycled back into more loans. Looking forward, the distribution of the permanent fund balance across loans, the TFIP, and the STIP are expected to remain relatively stable.

Risks and Significant Factors

- Coal permanent fund balances are primarily invested in the TFIP, so the TFIP asset mix and the returns on those assets are a large determinant of permanent fund interest earnings.
- TFIP yields are a function of both current and historical market conditions due to their longer average time to maturity. Thus, TFIP yields react with a lag to movements in financial markets.
- The steep ascension of short-term interest rates in 2023 boosted yields on STIP assets significantly. The Fed has reached the end of its tightening cycle, having lowered the target range for the federal funds rate by 50 basis points at its September 2024 meeting. Easing of the federal funds rate target is expected to continue and yields on STIP assets will move in concert. How permanent fund STIP income responds to lower short-term rates will depend on the fund's level of STIP holdings.
- The future path of market interest rates will depend on how the Fed continues to conduct monetary policy, market interpretations of the central bank's actions, and whether the U.S. economy maintains its strong footing.

Forecast Methodology

There are three main steps taken to determine total interest income deposited to the general fund from the coal tax trust fund. These steps are detailed below and include estimating future balances and interest rates for each of the three investment pools (TFIP, STIP, and loans), determining annual interest income from each pool, adding in estimated income from other sources, and subtracting expenses.

Step 1. Forecast balances and interest rates for TFIP investments, STIP investments, and loans.

TFIP: Without any distribution from coal severance tax, the balance of TFIP investments is projected to stay stable through FY 2027. The interest rate on TFIP investments rises in each year of the FY 2025 – FY 2027 period, partly because low-yield pandemic-era securities will continue to mature and be replaced by current higher-yield counterparts.

STIP: The STIP investment balance is estimated to remain stable from FY 2025 – FY 2027. Interest rates on STIP investments are projected to decline steadily through FY 2026 and flatten in FY 2027, reflecting the expected path of the federal funds rate target over that period.

Loans: Like TFIP and STIP balances, permanent fund loan balances are projected to remain flat. Loan interest rates are projected to be stable as well.

Step 2. Forecast interest rates for each investment pool are applied to their respective balances to determine annual income. TFIP income, STIP income, and loan income are summed for each year in the forecast period to determine total permanent fund interest income.

Step 3. Other income and administrative expenses are then estimated and added to total interest income to determine total coal trust revenue.

Table 2 shows the annual average balance, rate of return, and income for each investment category for FY 2022 through FY 2024. Forecast values are included for FY 2025 through FY 2027.

Table 2
Coal Trust Interest Income
($ millions)

Loan Income				TFIP Income			
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 2022	$191.714	2.44%	$4.686	A 2022	$339.441	3.43%	$11.629
A 2023	$188.159	2.41%	$4.543	A 2023	$344.441	3.77%	$12.998
A 2024	$199.493	2.57%	$5.118	A 2024	$329.211	3.93%	$12.944
F 2025	**$202.560**	**2.76%**	**$5.589**	**F 2025**	**$322.198**	**3.90%**	**$12.572**
F 2026	**$203.418**	**3.24%**	**$6.599**	**F 2026**	**$321.422**	**4.22%**	**$13.558**
F 2027	**$203.552**	**3.42%**	**$6.969**	**F 2027**	**$321.252**	**4.50%**	**$14.462**

STIP Income				Trust Fund Total			
Fiscal Year	Balance	Interest Rate	Income	Fiscal Year	Balance	Interest Rate	Income
A 2022	$13.936	0.31%	$0.043	A 2022	$545.092	3.00%	$16.358
A 2023	$13.021	3.68%	$0.479	A 2023	$545.622	3.30%	$18.019
A 2024	$14.952	5.71%	$0.854	A 2024	$543.656	3.48%	$18.916
F 2025	**$22.134**	**4.75%**	**$1.052**	**F 2025**	**$546.892**	**3.51%**	**$19.213**
F 2026	**$21.653**	**3.24%**	**$0.701**	**F 2026**	**$546.493**	**3.82%**	**$20.858**
F 2027	**$21.650**	**2.83%**	**$0.614**	**F 2027**	**$546.454**	**4.03%**	**$22.044**

Table 3 shows actual administrative expenses, other income, and interest income for FY 2022 through FY 2024 and forecast amounts for FY 2025 through FY 2027. The last column shows the total revenue from the coal severance tax trust fund that is deposited into the general fund.

Table 3
Coal Trust Total General Fund Revenue
($ millions)

Fiscal Year	Interest Income		Other Income		Admin. Expense		Total Revenue
A 2022	$16.358	+	$0.262	+	($0.059)	=	$16.561
A 2023	$18.019	+	$0.151	+	($0.065)	=	$18.105
A 2024	$18.916	+	$0.285	+	($0.063)	=	$19.139
F 2025	**$19.213**	+	**$0.233**	+	**($0.166)**	=	**$19.280**
F 2026	**$20.858**	+	**$0.223**	+	**($0.088)**	=	**$20.993**
F 2027	**$22.044**	+	**$0.247**	+	**($0.096)**	=	**$22.196**

Other income is derived primarily from the following two sources: 1) interest earned on a bond fund that provides debt security for coal severance tax bonds; and 2) interest earned on the short-term investment of the coal tax income fund, which comes from the deposit of interest earnings from both the permanent fund and the bond fund into the coal tax income fund. Although the balance of the coal tax income fund is swept monthly into the general fund, it is invested in STIP during the interim and earnings are reinvested.

Data Sources

The State Street Bank and BOI provide monthly reports on the trust fund balances and income. Fiscal year end revenues and administrative expenses were obtained from SABHRS.

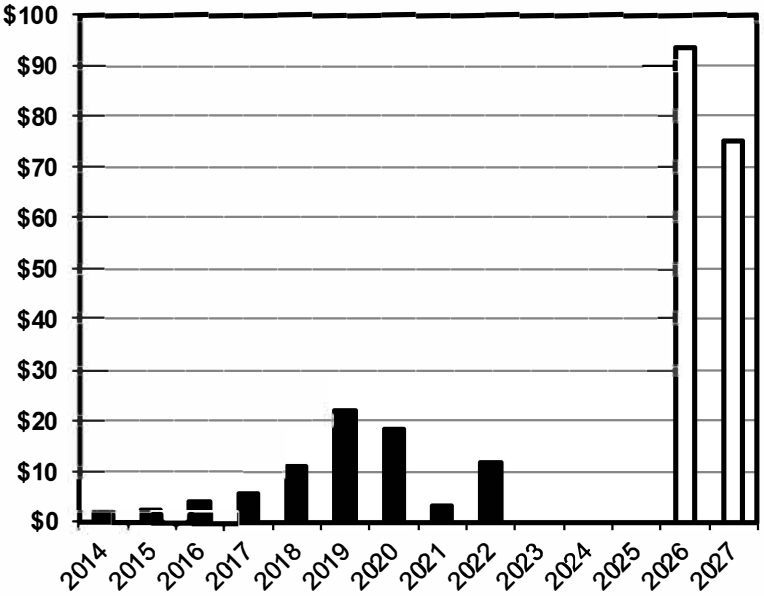
Revenue Description

Section 17-6-202(2), MCA, establishes the treasury cash account (TCA). According to the law, securities and cash in all treasury fund accounts that are not designated to specific sources are to be pooled in the TCA to be managed by the Montana Board of Investments (BOI). Included in the TCA are general fund cash balances. The default destination of interest earnings from the investment of TCA funds is the general fund. HB 251, passed during the 2023 Legislative Session, redirects TCA earnings generated in FY 2023, FY 2024, and FY 2025 into the debt and liability free account within the state special revenue fund, which is dedicated to paying down debts and other financial liabilities of the State of Montana. TCA earnings revert to the general fund for the 2027 biennium following the sunset of HB 251.

Table 1 shows general fund revenue from TCA interest earnings for FY 2014 though FY 2024 and projected revenues for FY 2025 through FY 2027.

Table 1
Treasury Cash Account Interest
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$1.756	-28.7%
A	2015	$2.164	23.2%
A	2016	$3.961	83.0%
A	2017	$5.692	43.7%
A	2018	$10.805	89.8%
A	2019	$21.954	103.2%
A	2020	$18.457	-15.9%
A	2021	$3.317	-82.0%
A	2022	$11.776	255.0%
A	2023	$0.000	
A	2024	$0.000	
F	**2025**	**$0.000**	
F	**2026**	**$93.409**	
F	**2027**	**$75.063**	-19.6%



General fund revenue from TCA interest earnings is subject to a high degree of volatility due to the short-term nature of TCA investments. The TCA primarily features short-term investments because the account needs to maintain liquidity to ensure the availability of funds for expenditure. The TCA's high exposure to short-term interest rate risk can cause large and rapid changes in the account's earnings from year-to-year. Over the past decade, TCA earnings have ranged from a low of $1.76 million in FY 2014 to a high of $147 million in FY 2023 (per HB 251, these earnings were deposited into the debt and liability free account, hence the $0 for general fund in Table 1).

Short-term interest rates remained near zero for a considerable time following the Great Recession, resulting in historically low rates of return for TCA investments. Interest earnings began to climb from rock-bottom levels in FY 2017 and exhibited exponential growth through FY 2019. This upward momentum was stymied by the arrival of the COVID-19 pandemic in late FY 2020. In response to pandemic-fueled economic turmoil, the Federal Reserve pursued aggressive monetary policy easing. The movement of the federal funds rate back to the zero lower bound in 2020 pulled TCA earnings down in FY 2020 and FY 2021. Demand and supply imbalances that emerged as the economy reopened created inflation pressures that started in 2021 and rose to 40-year highs in 2022. In response, the Fed shifted into rapid rate hike mode. The Federal Open Market Committee (FOMC) increased the target range of the federal funds rate from 0% - 0.25% in March 2022 to

5.25% - 5.50% in July 2023, where it peaked in the current cycle. The FOMC dropped the target range of the federal funds rate by 50 basis points at its September 2024 meeting and signaled the likelihood of additional reductions on the horizon, given the current state of the economy, where the Fed's "soft landing" goal has arguably been achieved.

The TCA is invested heavily in the Montana Board of Investment's Short-Term Investment Pool (STIP), so the pool's rate of return has a direct impact on TCA revenue. There is an approximate 45-day lag between a change in market short-term interest rates and a change in the STIP interest rate. STIP yields have ascended alongside the incredible runup in short-term market interest rates. TCA earnings have been above $100 million annually since FY 2023, the highest levels in history by a wide margin. For the 2027 biennium, annual TCA earnings move back down below $100 million per year. Fund balances decline alongside an expected drawdown of the general fund balance. Average short-term rates fall from recent highs but are projected to persist above 3%.

A portion of TCA funds have historically also been invested in short/medium-term securities, but to a much lesser degree than STIP. Security investments can include U.S. Treasury obligations, direct obligations of the U.S. mortgage agencies, Federal Farm Credit Bank, and Federal Home Loan Bank, collateralized tri-party repurchase obligations, and fixed income obligations of other U.S. agencies or corporate entities. The time-to-maturity is constrained to three years or less for liquidity purposes.

On November 30, 2021, the BOI adopted a new policy statement for the TCA that added trust fund investment pool (TFIP) holdings to the list of permitted investments. The impetus for the policy change was a desire to allow a portion of TCA holdings to benefit from the higher yields associated with long-term investments. To avoid any issues with liquidity, which the TCA has an obligation to maintain, there is a maximum threshold assigned to the total balance of securities and TFIP holdings within the TCA.

Per BOI investment policy statement 40.943(F)(1), securities and TFIP purchases are permitted only up to an amount equal to 50% of the lowest 12-month average account balance over the past 10 one-year periods. The BOI has been slowly building up the TFIP balance in the TCA and it is projected to meet the maximum threshold (~$330 million) sometime in FY 2026. If the total securities and TFIP investment balance exceeds the 50% threshold, prudent sales are not required until the balance breaches 60%.

Risks and Significant Factors

- The STIP rate of return is tied closely to benchmark short-term market interest rates such as the federal funds rate. Monetary policy aimed at changing these rates influences TCA revenue because of the account's high exposure to STIP investments.
- Inflation has moderated sufficiently in the Federal Reserve's view, and so the expected path of short-term interest rates over the next few years is downward. The speed at which the central bank moves to bring rates back to neutral will be data dependent as the Fed keeps a close eye on inflation and labor market dynamics.
- The balance of funds in the TCA has an impact on interest earnings generated from the account. Balances have been historically strong since FY 2022 due to strong revenue growth and receipts of pandemic-era federal fiscal aid. Economic and political factors play an important role in determining the movement in TCA balances during the forecast period.
- The general fund is the primary component of the TCA. Decisions made by the legislature that affect general fund revenue and/or expenditures will flow through to impact TCA balances.

Forecast Methodology

The amount of total TCA interest income deposited to the general fund is determined in three main steps. Details for each step of the estimation process are given below.

Step 1. Estimate the balance of funds in each investment pool within the TCA and the respective rate of return.

STIP: The balance of STIP investments is projected to tick up in FY 2025 before moving down in FY 2026 and FY 2027, moving in step with an estimated decline in general fund cash balances during the 2027 biennium.

Medium Term Securities: The balance of this investment class goes to zero in FY 2025 and remains there as

BOI moves to hold TCA assets solely in STIP and TFIP.

TFIP: TCA TFIP holdings rise throughout FY 2025 and FY 2026, reaching the maximum threshold by FYE 2026. The threshold level does not change during the 2027 Biennium, so the TFIP balance stays constant once the maximum allowable balance is achieved.

Step 2. Estimated yields for each investment pool in the TCA are applied to their respective balances to determine annual interest income from each asset class. STIP, TFIP, and medium-term bond income are added together to come up with total TCA gross investment income.

Step 3. Estimated other revenue and expenses are added to investment income to arrive at total income transferred to the general fund.

Table 2 shows the average annual balance, rate of return, and interest income for STIP holdings, TFIP holdings, and medium-term bond assets, along with the fund total, for FY 2020 to FY 2024, and forecast amounts for FY 2025 through FY 2027.

Table 2
TCA Balances & Rates of Return by Investment Type
($ millions)

	STIP			Medium Term Bonds			
Fiscal Year	Balance	Interest Rate	Interest Income	Balance	Interest Rate	Interest Income	Non Interest Income
A 2020	$1,150.68	1.57%	$18.03	$27.00	0.00%	$0.00	$0.80
A 2021	$1,774.35	0.19%	$3.38	$0.00	0.00%	$0.00	$0.32
A 2022	$2,853.34	0.36%	$10.26	$64.84	0.36%	$0.23	$0.08
A 2023	$3,774.20	3.72%	$140.27	$74.88	0.38%	$0.29	$0.15
A 2024	$2,360.19	5.49%	$129.46	$74.54	0.39%	$0.29	$0.25
F 2025	**$2,811.61**	**4.79%**	**$134.79**	**$10.22**	**0.47%**	**$0.05**	**$0.07**
F 2026	**$2,488.28**	**3.25%**	**$80.88**	**$0.00**		**$0.00**	**$0.00**
F 2027	**$2,156.16**	**2.83%**	**$61.12**	**$0.00**		**$0.00**	**$0.00**

	TFIP			Treasurer's Fund Total			
Fiscal Year	Balance	Interest Rate	Interest Income	Balance	Interest Rate	Interest Income	Total Income
A 2020				$1,177.68	1.53%	$18.03	$18.83
A 2021				$1,774.35	0.19%	$3.38	$3.70
A 2022	$46.22	2.59%	$1.20	$2,964.40	0.39%	$11.69	$11.77
A 2023	$181.08	3.51%	$6.36	$4,030.17	3.65%	$146.92	$147.07
A 2024	$240.33	3.68%	$8.85	$2,675.06	5.18%	$138.60	$138.86
F 2025	**$278.67**	**3.71%**	**$10.32**	**$3,100.50**	**4.68%**	**$145.16**	**$145.23**
F 2026	**$317.75**	**4.02%**	**$12.78**	**$2,806.03**	**3.34%**	**$93.66**	**$93.66**
F 2027	**$330.00**	**4.30%**	**$14.20**	**$2,486.16**	**3.03%**	**$75.31**	**$75.31**

Table 3 shows the net amount of other income and expenses associated with the TCA for FY 2020 to FY 2024 and estimated amounts for FY 2025 through FY 2027.

Table 3
TCA Income to the General Fund
($ millions)

Fiscal Year	Investment Income		Other Income and Expenses		Total Income
A 2020	$18.83	+	($0.37)	=	$18.46
A 2021	$3.70	+	($0.38)	=	$3.32
A 2022	$11.77	+	$0.01	=	$11.78
A 2023	$147.07	+	($28.62)	=	$118.46
A 2024	$138.86	+	$24.45	=	$163.30
F 2025	**$145.23**	**+**	**($0.25)**	**=**	**$144.98**
F 2026	**$93.66**	**+**	**($0.25)**	**=**	**$93.41**
F 2027	**$75.31**	**+**	**($0.25)**	**=**	**$75.06**

Data Sources

Data were obtained from SABHRS, the State Street Bank, the BOI, and the Department of Administration.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

ALCOHOL REVENUE
SECTION 6

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Liquor Excise and License Tax

2027 Biennium

Revenue Description

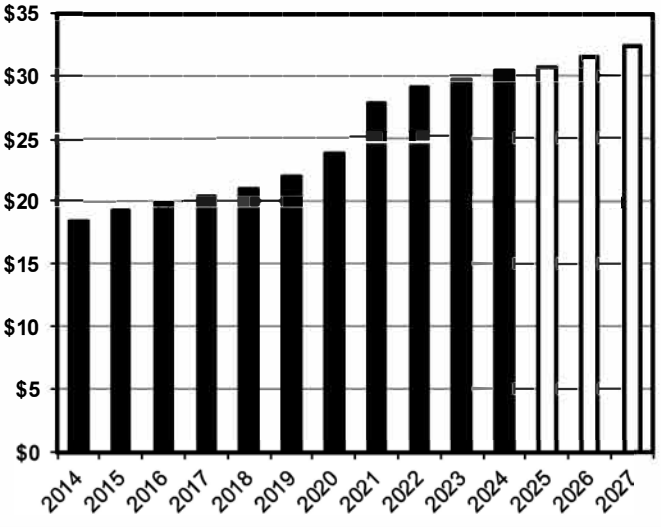
According to 16-1-401 and 16-1-404, MCA, the Department of Revenue is directed to collect an *excise* tax of 16% and a *license* tax of 10% of the retail selling price on all liquor sold and delivered in the state and manufactured by distillers producing 200,000 or more proof gallons of alcohol annually. Both the excise and license tax rates are smaller for distillers that produce less than 200,000 proof gallons of alcohol. Currently, the majority of the distilled spirits sold in the state of Montana are acquired from vendors that produce more than 200,000 proof gallons annually.

Section 16-1-404, MCA, states that 65.5% of the liquor *license* tax is deposited to the Department of Public Health and Human Services (DPHHS) to fund treatment, rehabilitation, and prevention of alcoholism and chemical dependency. Three Indian tribes have revenue sharing agreements with the state where a portion of the remaining revenue from both the excise and license tax is shared with these tribes. The remaining revenue, 34.5%, is deposited to the general fund.

Table 1 shows actual general fund revenue from liquor excise and license taxes for FY 2014 through FY 2024 and the projected revenue for FY 2025 through FY 2027.

Table 1
Liquor Excise and License Taxes
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$18.418	3.9%
A 2015	$19.257	4.6%
A 2016	$19.776	2.7%
A 2017	$20.366	3.0%
A 2018	$21.007	3.1%
A 2019	$21.946	4.5%
A 2020	$23.786	8.4%
A 2021	$27.823	17.0%
A 2022	$29.166	4.8%
A 2023	$29.705	1.8%
A 2024	$30.370	2.2%
F 2025	**$30.641**	**0.9%**
F 2026	**$31.553**	**3.0%**
F 2027	**$32.449**	**2.8%**



Risk and Significant Factors

- Between FY 2016 and FY 2019, the number of liquor bottles sold increased an average of 3.7% per year. Due in part to the global pandemic, bottles sold increased significantly in fiscal years 2020, 2021, and 2022, where the increases year-over-year were 16.9%, 20.7%, and 10.6% respectively. The relative slowdown since FY 2022 is viewed as a return to near trend growth for the forecast period.
- SB 5, passed during the 2017 Special Session, eliminated the lottery system that was in place for liquor, beer, and restaurant licenses, and replaced it with a competitive bidding process. Licenses become available for the bidding process for several reasons, including as a result of increased quotas, closure of a business, or lapse in payment of license fees. Revenue from the new auction system is included in the other revenue section.

Forecast Methodology

The general fund share of the liquor excise and license tax is prepared in five steps:

Step 1. Calculate gross sales.

Step 2. Calculate retail selling value.

Step 3. Calculate gross liquor excise and license tax collections.

Step 4. Calculate tribal portion of revenue.

Step 5. Calculate liquor excise and license tax general fund revenue.

Distribution

Table 2 shows liquor license tax is first distributed to DPHHS and then revenue from the liquor excise tax is added. Finally, tribal revenues are subtracted to obtain general fund revenue.

Table 2
Liquor Excise and License Tax Revenue Allocation

Description	Actual FY 2024	**Projected FY 2025**	**Projected FY 2026**	**Projected FY 2027**
Liquor License Tax	$16,031,890	$15,893,449	$16,366,585	$16,831,114
Less DPHHS Share (65.5%)	$10,500,888	$10,410,209	$10,720,113	$11,024,380
Remaining Liquor License Tax	$5,531,002	$5,483,240	$5,646,472	$5,806,734
Liquor Excise Tax	$25,666,884	$25,998,034	$26,771,975	$27,531,838
Non DPHHS Liquor Tax Revenue	$31,197,886	$31,481,274	$32,418,447	$33,338,573
Less Tribal Share	$827,581	$840,005	$865,011	$889,563
General Fund Revenue	$30,370,305	**$30,641,269**	**$31,553,436**	**$32,449,010**

Data Sources

Data is from the Department of Revenue monthly cost of sales reports, the Department of Revenue Liquor Distribution annual financial schedules, and SABHRS. S&P Global provided historical and projected Montana population data.

Liquor Profits

2027 Biennium

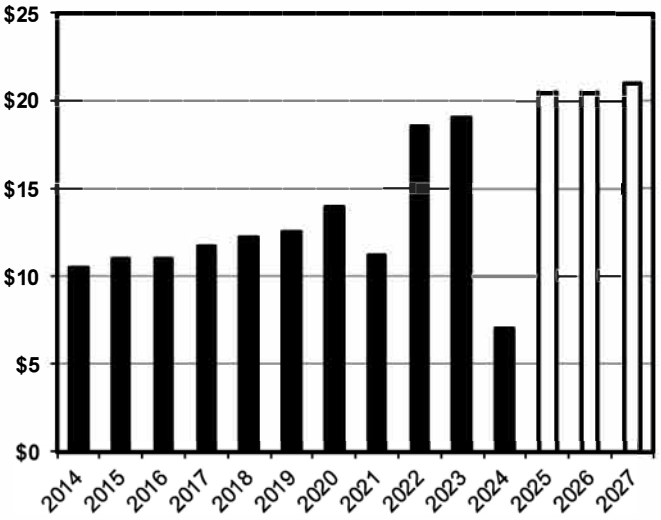
Revenue Description

Title 16, chapters 1 through 6, MCA, directs the Department of Revenue to administer liquor laws relating to alcoholic beverage control, sale, distribution, and the licensing of alcoholic beverage manufacturers, wholesalers, and retailers. Agency franchisees purchase liquor products from the state liquor warehouse. A 40.5% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. All liquor profit net revenue is transferred to the general fund at fiscal year end.

Table 1 shows actual general fund collections from liquor profits for FY 2014 through FY 2024 and the projected revenue for FY 2025 through FY 2027.

Table 1
Liquor Profits
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$10.500	0.0%
A	2015	$11.000	4.8%
A	2016	$11.000	0.0%
A	2017	$11.750	6.8%
A	2018	$12.200	3.8%
A	2019	$12.500	2.5%
A	2020	$14.000	12.0%
A	2021	$11.189	-20.1%
A	2022	$18.500	65.3%
A	2023	$19.000	2.7%
A	2024	$7.000	-63.2%
F	**2025**	**$20.500**	**192.9%**
F	**2026**	**$20.500**	**0.0%**
F	**2027**	**$21.000**	**2.4%**



The state privatized liquor retailing operations in FY 1996. The decreased general fund transfer in FY 2009 is attributable to a one-time transfer of $1.75 million for renovation of the State Liquor Warehouse, approved in HB 5 by the 2009 Legislature. The 2015 Legislature passed SB 193, which increased the state markup from 40.0% to 40.5%, and created a new methodology for calculating agency liquor store discount rates.

During the 2021 Session, the Supplemental Appropriations Bill, HB 3, transferred $5.819 million from the liquor enterprise fund to settle a lawsuit. Revenue in excess of the costs of operating the liquor warehouse and program is normally transferred to the general fund. The diversion of funds to pay for lawsuits directly reduced the general fund transfer in FY 2021.

During the 2023 Session the legislature approved the one-time use of excess liquor enterprise revenue to partially fund the expansion of the State Liquor Warehouse. A total of $12 million in liquor enterprise funds were spent on the project, which resulted in an offsetting reduction to the transfer of liquor profits to the general fund in FY 2024.

Risks and Significant Factors

- Liquor sales grew by 4.0% per year from FY 2012 through FY 2019. From FY 2020 through FY 2022, sales grew by 11.7%. The recent high growth is believed to be a short-term phenomenon and, as a result, the forecast period growth rate of 3.5% is more in line with historic trends. Shifts in liquor sales impact the profitability of the liquor operations, and ultimately the amount of revenue transferred to the general fund.

- Store owners pay a discounted rate for liquor based on the agency liquor store's prior calendar year liquor purchases. The new rate for an agency liquor store will fall into one of ten commissions ranging from 16% for stores that purchased less than $250,000, to 12.15% for those stores that purchased more than $7 million. The purchase thresholds will be adjusted annually based on the consumer price index for the prior calendar year.

Forecast Methodology

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year.

Step 1. Net income from liquor operations is calculated as gross liquor sales less the cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), combined commissions/discounts, and liquor operating expenses.

Step 2. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are ascertained through the process of forecasting Liquor Excise and License Tax general fund revenue.

Distributions

Table 2 shows the actual liquor profit transfer for FY 2024 and projections for FY 2025 through FY 2027. Gross liquor sales are added to a small amount of other revenue. The profits are then adjusted for the changes to the net assets of the Liquor Control Division and the remainder is transferred to the general fund.

Table 2
Distribution of Forecast Liquor Profits
($ millions)

Fiscal Year	Gross Sales		License Fees/Other Revenue		Discounts		Cost of Goods Sold		Liquor Taxes		Operating Expenses		Profit		Change in Net Assets		Transfer to General Fund	Percent Change
A 2024	$211.737	+	$0.405	-	$27.472	-	$120.608	-	$41.698	-	$2.855	►	$19.509	-	$0.509	=	$7.000	-63.16%
F 2025	**$221.744**	**+**	**$0.418**	**-**	**$28.482**	**-**	**$124.822**	**-**	**$43.370**	**-**	**$2.989**	**►**	**$22.499**	**-**	**$0.583**	**=**	**$20.500**	**192.86%**
F 2026	**$228.345**	**+**	**$0.432**	**-**	**$29.529**	**-**	**$129.184**	**-**	**$45.109**	**-**	**$3.129**	**►**	**$21.826**		**$0.572**	**=**	**$20.500**	**0.00%**
F 2027	**$234.826**	**+**	**$0.446**	**-**	**$30.614**	**-**	**$133.698**	**-**	**$46.918**	**-**	**$3.275**	**►**	**$20.767**		**$0.483**	**=**	**$21.000**	**2.44%**

Data Sources

Gross liquor sales data and other related data comes from the Department of Revenue Liquor Services Division Annual Financial Report. Other data is from SABHRS and IBARS.

Beer Tax

Revenue Description

According to 16-1-406, MCA, the Department of Revenue is directed to collect a tax on each barrel (31 gallons) of beer sold in Montana by a wholesaler at the following rates:

Brewer Production*	Tax Per Barrel
Up to 5,000 Barrels	$1.30
5,001 to 10,000 Barrels	$2.30
Over 10,000 Barrels	$4.30

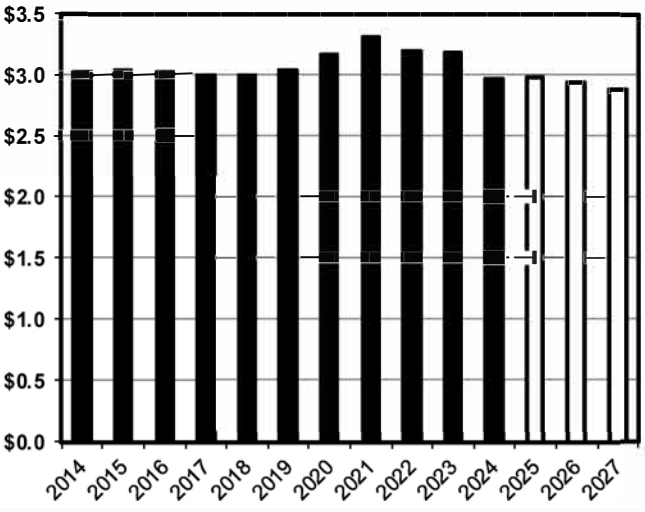
*1 Barrel= 31 Gallons

HB 541, from the 2017 session, increased the tax from $3.30 to $4.30 per barrel for brewers producing more than 10,000 barrels of beer.

From total beer tax revenue, 76.74% is distributed to the state general fund and 23.26% is distributed to the Department of Public Health and Human Services (DPHHS) to fund alcohol treatment programs. A small portion of the beer tax revenue allocated to the general fund (approximately 2.0%) is remitted to the Blackfeet, Fort Belknap, Fort Peck, and Confederated Salish and Kootenai tribes in compliance with revenue sharing agreements.

Table 1
Beer Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$3.023	-0.3%
A	2015	$3.034	0.4%
A	2016	$3.027	-0.2%
A	2017	$2.998	-1.0%
A	2018	$3.002	0.2%
A	2019	$3.041	1.3%
A	2020	$3.167	4.2%
A	2021	$3.315	4.7%
A	2022	$3.202	-3.4%
A	2023	$3.188	-0.5%
A	2024	$2.971	-6.8%
F	**2025**	**$2.978**	**0.2%**
F	**2026**	**$2.934**	**-1.5%**
F	**2027**	**$2.888**	**-1.6%**



Risks and Significant Factors

- Growth in per capita beer consumption was relatively flat (0.04%) from FY 2010 through FY 2020. However, beginning in FY 2021, consumption on a per capita basis has dropped on average by 4.0% per year. In addition, brewers making up to 5,000 barrels annually have experienced 6.5% average annual growth in production. Revenue gains in this category are offset by the loss of tax revenue from the higher taxed production brackets. A continuation in the consumption decline, combined with a continued shift in production from larger to smaller producers, contribute to a reduction in tax revenue for the forecast period.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total beer consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc. From FY 2015 through FY 2024, the cohort of beer consumers used in this model has experienced a growth rate of 1.3% per year. The population growth for this group is 1.1% for the forecast period.

Forecast Methodology

The general fund share of the beer tax is prepared in three steps:

Step 1. Calculate per capita consumption of beer.

Step 2. Total revenue is projected by multiplying the number of barrels sold by the average tax rate per barrel.

Step 3. Total revenue is allocated to the general fund, DPHHS, and the tribes, per the revenue sharing agreements.

Distribution

Table 2 shows the actual allocation for FY 2024 and the projected allocation of beer tax revenue to the general fund, DPHHS, and the tribes for FY 2025 through FY 2027. DPHHS revenue allocation is subtracted from total beer tax revenue to obtain total general fund and tribe share. Tribe share is then calculated and subtracted to obtain estimated beer tax revenue for the general fund.

Table 2

Description	FY 2024	FY 2025	FY 2026	FY 2027
Total Revenue	$3.968	$4.017	$3.993	$3.965
Less DPHHS Share (23.26%)	$0.923	$0.934	$0.929	$0.922
General Fund and Tribes' Share	$3.045	$3.083	$3.064	$3.043
Less Tribes' Share (2.0%)	$0.074	$0.078	$0.078	$0.077
General Fund	**$2.971**	**$3.004**	**$2.986**	**$2.966**

Data Sources

Department of Revenue GENTAX reports provided historical information on the number of total production by producer type. SABHRS provided historical beer tax revenue and allocation information. S&P Global provided historical and projected Montana population data.

Wine Tax

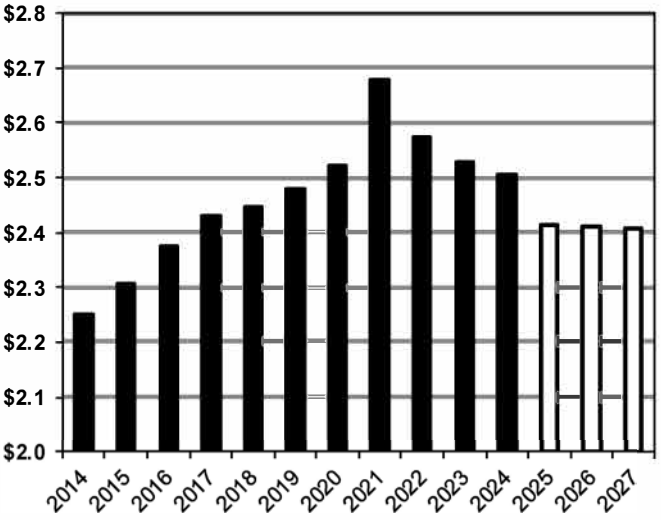
Revenue Description

According to 16-1-411, MCA, the Department of Revenue is directed to collect a tax of 27 cents on each liter of table wine and 3.7 cents on each liter of hard cider imported by a distributor or the department. Additionally, a tax of 1 cent per liter of wine is levied on table wine sold by a table wine dealer to an agent pursuant to 16-2-301, MCA.

Wine tax revenues are distributed 69% to the state general fund and 31% to the Department of Public Health and Human Services (DPHHS) for the treatment, rehabilitation, and prevention of alcoholism and chemical dependency. Approximately 1.72% of gross wine tax revenue is remitted to the Blackfeet, Fort Belknap, Fort Peck, and Confederated Salish and Kootenai tribes in compliance with revenue sharing agreements.

Table 1
Wine Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$2.250	2.5%
A 2015	$2.307	2.5%
A 2016	$2.373	2.9%
A 2017	$2.429	2.3%
A 2018	$2.446	0.7%
A 2019	$2.478	1.3%
A 2020	$2.522	1.8%
A 2021	$2.679	6.2%
A 2022	$2.573	-4.0%
A 2023	$2.528	-1.7%
A 2024	$2.504	-1.0%
F 2025	**$2.413**	**-3.6%**
F 2026	**$2.411**	**-0.1%**
F 2027	**$2.406**	**-0.2%**



Risks and Significant Factors

- Per capita consumption has decreased by 4.3% each year since for FY 2022. The forecast period is the first time since FY 2011 that per capita consumption of wine falls below 15 liters. Per capita consumption is expected to remain flat for the forecast period.
- Montana population age 20 and over was used for this forecast because, according to a statistical analysis, this demographic tracked total wine consumption over time better than changes in other age demographics such as total population or the population between 30 and 60 years old. From FY 2015 through FY 2024, the cohort of wine consumers used in this model has experienced a growth rate above 1.3% per year. While per capita consumption of wine is expected to increase, the population growth for this group is decreasing, but supports a relative flat growth rate for the 2027 biennium.

Forecast Methodology

The general fund share of the wine tax is prepared in three steps:

Step 1. Estimate liters of per capita wine consumption for FY 2025 through FY 2027 using average per capita consumption growth.

Step 2. Multiply the estimates of per capita consumption by population and the tax rate ($0.27/liter) to obtain estimates of total tax revenue through FY 2027.

Step 3. Determine the wine tax allocation to the general fund.

Distribution

Table 2 shows the actual allocation for FY 2024 and the projected allocation for FY 2025 through FY 2027. Of the total revenue, 31% is first distributed to the DPHHS. The tribal revenue allocation payment (1.72%) is then subtracted from the remaining revenue for FY 2025 through FY 2027. All revenue which remains after DPHHS and tribal payments have been subtracted is deposited to the general fund.

Table 2
Wine Tax Revenue Allocation
($ millions)

Description	FY 2024	FY 2025	FY 2026	FY 2027
Total Revenue	$3.715	$3.587	$3.583	$3.576
Less DPHHS Share (31%)	$1.151	$1.112	$1.111	$1.109
General Fund and Tribes' Share	$2.563	$2.475	$2.472	$2.468
Less Tribes' Share (1.72%)	$0.060	$0.062	$0.062	$0.062
General Fund	**$2.504**	**$2.413**	**$2.411**	**$2.406**

Data Sources

Department of Revenue GENTAX reports provided historical information on the number of wine liters sold. SABHRS provided historical wine tax revenue and allocation information. S&P Global provided historical and projected Montana population data.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

TOBACCO REVENUE
SECTION 7

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Cigarette Tax

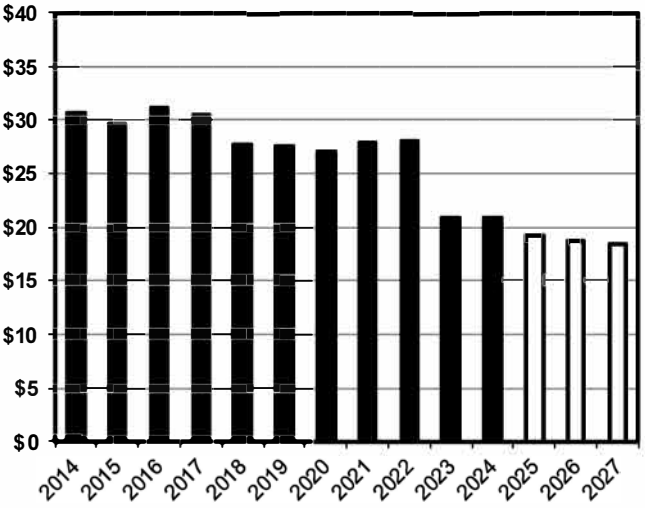
2027 Biennium

Revenue Description

According to 16-11-111, MCA, a specific tax of $1.70 is imposed on each pack of 20 cigarettes. If a pack contains more than 20 cigarettes, the tax is pro-rated by 1/20th of the $1.70 tax for each cigarette exceeding 20 cigarettes. Currently, revenue generated from the cigarette tax is distributed as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiatives account; 2.6% to the long-range building account; and the greater of 8.3% or $5.0 million for operation of state veterans' nursing homes.

Table 1
Cigarette Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$30.623	-1.3%
A 2015	$29.604	-3.3%
A 2016	$31.103	5.1%
A 2017	$30.558	-1.8%
A 2018	$27.755	-9.2%
A 2019	$27.500	-0.9%
A 2020	$26.983	-1.9%
A 2021	$27.887	3.4%
A 2022	$27.993	0.4%
A 2023	$20.797	-25.7%
A 2024	$20.769	-0.1%
F 2025	**$19.182**	**-7.6%**
F 2026	**$18.772**	**-2.1%**
F 2027	**$18.369**	**-2.1%**



Beginning May 1, 2003, SB 407 (2003 session) increased the tax on cigarettes from $0.18 to $0.70 per pack. SB 407 also changed the distribution of cigarette taxes, increasing the general fund portion to 87.4%, the long-range building account to 4.3%, and the DPHHS portion to the greater of 8.3% or $2.0 million.

Initiative 149 (I-149) further increased the tax on each pack of cigarettes to $1.70 as of January 1, 2005. I-149 also changed the allocation of total collections as follows: 45.1% to the general fund; 44.0% to the health and Medicaid initiatives account; 2.6% to the long-range building account; and the greater of 8.3% or $2.0 million for operation of state veterans' nursing homes.

For FY 2010 through FY 2015, the general fund portion was reduced to 43.9% and 1.2% was designated for the Southwest Montana Veterans' Home. In FY 2016, the general fund distribution returned to 45.1%.

During the 2021 session, HB 667 passed and changed the distribution of cigarette tax revenue allocation to state veterans' homes from the greater of 8.3% or $2.0 million, to the greater of 8.3% or $4.0 million.

During the 2023 session, HB 840 and HB 864 both passed and changed the distribution of cigarette tax proceeds. HB 840 increased the allocation to the state veterans' home to the greater of 8.3% or $5.0 million. HB 864 created a new distribution of $150,000 per year to the veterans and surviving spouses state special revenue account in the Department of Military Affairs.

Beginning in FY 2023, Montana experienced a downward shift in tax collections. This may be due, in part, to increased use of alternative nicotine products. Nationally, sales of non-tobacco nicotine products, including pouches and vape products increased from $452.8 million to $1.06 billion from 2020 to 2022. A similar magnitude increase in sales for Montana would account for some of the decline in cigarette tax revenue over the past three fiscal years.

Risks and Significant Factors

- Montana population age 15 and over was used for this forecast because, according to statistical analysis, this demographic tracked total cigarette consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc.
- According to the Center for Disease Control, the national prevalence of cigarette smoking has resumed a slow decline after stalling for several years. This model assumes a 2.7% annual decrease in per capita consumption during the forecast period.
- There are three types of arrangements for cigarette taxes with the seven Indian reservations in Montana:
  1. Currently, no Indian reservations have a tax-free quota agreement with the state.
  2. The Flathead Reservation abides by the tax-free quota law with no specific agreement with the state.
  3. The Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, Crow, and Northern Cheyenne Reservations have a revenue sharing agreement with the state.
- Tribes in categories 1 and 2 receive cigarettes tax free for the enrolled tribal members residing on the reservation. Under the revenue sharing agreements, the tribe and state cigarette tax rates are the same. The tribe's share of the tax revenue is 150% of the per capita cigarette tax collected for each of the tribes' enrolled members residing on the reservation.
- Recent legislation increased the amount of the distribution to support the Montana Veterans' home. Future changes to the allocation on a declining revenue source puts more of the financial burden on the general fund.

Forecast Methodology

The general fund share of the cigarette tax is prepared in four steps:

Step 1. Estimate taxable per capita cigarette consumption.

Step 2. Estimate cigarette tax revenue.

Step 3. Calculate tribal revenue sharing agreement payments.

Step 4. Calculate distributable state cigarette tax revenue and allocation.

Distributions

Table 2 shows the actual allocation for FY 2024 and projected state cigarette tax revenue/allocation for FY 2025 through FY 2027. The tribes' revenue allocations are subtracted from the gross cigarette tax revenue to yield total state cigarette tax revenue. Revenue is allocated to each fund by multiplying state cigarette tax revenue by the fund's share.

Table 2
Distribution of Cigarette Tax Revenue
($ million)

Calculation	FY 2024	FY 2025	FY 2026	FY 2027
Gross Cigarette Tax Revenue	$49.074	**$48.239**	**$47.427**	**$46.629**
Subtract Tribal Payments	$2.664	**$2.648**	**$2.603**	**$2.559**
Subtract Cigarette Tax Stamps	$0.026	**$0.026**	**$0.027**	**$0.027**
Total Distributable State Cigarette Tax Revenue	$46.384	**$45.565**	**$44.797**	**$44.043**
Allocation				
Health and Medicaid (44.0%)	$20.409	**$20.049**	**$19.711**	**$19.379**
Long Range Building Fund (2.6%)	$1.206	**$1.185**	**$1.165**	**$1.145**
State Veterans' Nursing Homes (Greater of 8.3% or $5M)	$3.850	**$5.000**	**$5.000**	**$5.000**
Veterans and Surviving Spouses ($150,000)	$0.150	**$0.150**	**$0.150**	**$0.150**
General Fund (remainder)	$20.769	**$19.182**	**$18.772**	**$18.369**

Data Sources

Department of Revenue GENTAX reports provided historical information on the number of cigarette packs sold. The general fund revenue data was obtained from SABHRS. Current tribal payments are provided by DOR Revenue Sharing Agreement Quarterly Reports. Population data forecasts are by S&P Global.

Tobacco Products Tax

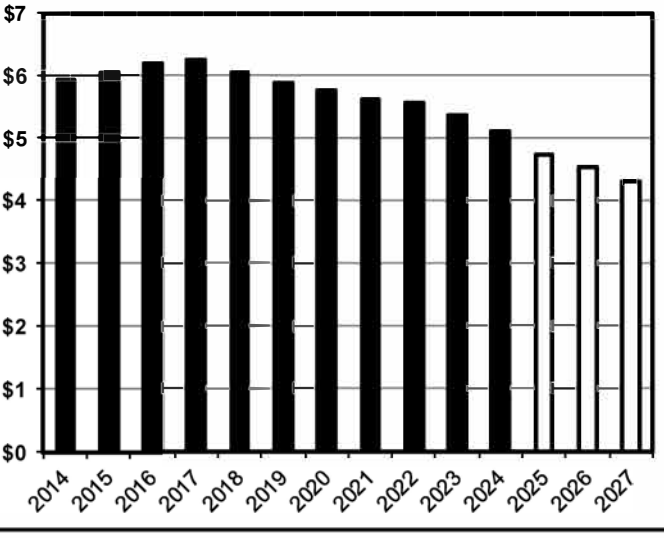
2027 Biennium

Revenue Description

According to 16-11-111, MCA, the Department of Revenue (DOR) is directed to collect a tax of 85 cents per ounce of moist snuff and 50% of the wholesale price of all other tobacco products (OTP), excluding cigarettes. Tobacco products destined for retail sale and consumption outside Montana are not subject to this tax. The general fund and the health and Medicaid initiatives account each receive 50% of the tobacco products tax revenue after payments are made as per tribal revenue sharing agreements.

Table 1
Tobacco Products Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$5.929	1.3%
A 2015	$6.056	2.1%
A 2016	$6.184	2.1%
A 2017	$6.247	1.0%
A 2018	$6.058	-3.0%
A 2019	$5.869	-3.1%
A 2020	$5.754	-2.0%
A 2021	$5.611	-2.5%
A 2022	$5.565	-0.8%
A 2023	$5.358	-3.7%
A 2024	$5.114	-4.5%
F 2025	**$4.728**	**-7.6%**
F 2026	**$4.521**	**-4.4%**
F 2027	**$4.319**	**-4.5%**



In FY 2004, tobacco tax revenue increased by 54.5% due to changes made by SB 407 from the 2003 Session. On May 1, 2003, SB 407 changed the tax on moist snuff from 12.5% of the wholesale price to 35 cents per ounce, an effective increase of 7 cents per ounce. SB 407 also increased the tax on all other tobacco from 12.5% of the wholesale price to 25% of the wholesale price. On January 1, 2005, Initiative 149 (I-149) changed the tax on moist snuff to 85 cents per ounce and increased the tax on all other tobacco products to 50% of the wholesale price.

Risks and Significant Factors

- Montana population age 15 and over, which experienced an average annual increase of 1.6% between FY 2020 and FY 2024, was used for this forecast because, according to statistical analysis, this demographic tracked total cigarette consumption over time better than changes in other age demographics such as total population, the population between 30 and 60 years old, etc. Moist snuff per capita consumption has experienced an average annual decrease of 4.3% from FY 2020 to FY 2024.
- The excise tax on tobacco products is imposed on retail consumers, but the tax is collected by wholesalers. In accordance with 16-11-112, MCA, wholesalers are allowed a discount to defray collection and administrative costs. The discount is equal to 1.5% of total tax collections. The model also includes a 1.6% credit to sellers to account for any tobacco products that could not be sold due to defect.
- Six Indian reservations in Montana have a tobacco revenue sharing agreement with the state: Blackfeet, Fort Belknap, Rocky Boy, Fort Peck, Crow, and Northern Cheyenne Reservations. Under the revenue sharing agreements, the tribe tobacco tax and the state tobacco tax are the same. The tribe's share of the tax revenue is 150% of the per capita state tobacco tax collected for each of the tribes' enrolled members residing on the reservation.

Forecast Methodology

The tobacco tax revenue is comprised of two taxes: (1) moist snuff tax of 85 cents per ounce; and (2) other tobacco products tax of 50% of the wholesale price. The six steps in estimating tobacco tax revenues are:

Step 1. Estimate per capita moist snuff consumption and the per capita consumption of other tobacco products.

Step 2. Estimate projected gross tobacco tax revenue by multiplying the per capita consumption times the population over 15 times the tax rate.

Step 3. Calculate wholesaler discounts at 1.5% of total tobacco tax revenue.

Step 4. Calculate refunds for unsalable product.

Step 5. Calculate tribes' revenue allocation.

Step 6. Calculate state tobacco tax revenue and allocation.

Distribution

Wholesaler discounts and refund credits are subtracted from total tobacco tax revenue and tribal allocation payments are subtracted from net revenue to determine total state other tobacco tax revenue. Fifty percent of the state tobacco tax revenue goes to the general fund and 50% goes to the health and Medicaid initiatives account.

Table 2
Distribution of Tobacco Products Tax
($ million)

Calculation	FY 2024	FY 2025	FY 2026	FY 2027
Total Tobacco Tax Revenue	$11.134	$10.312	$9.860	$9.420
Subtract Discounts/Refund Credits	$0.337	$0.322	$0.308	$0.294
Subtract Tribal Payments	$0.569	$0.534	$0.512	$0.487
Total State Tobacco Tax Revenue	$10.229	$9.456	$9.041	$8.638
Allocation				
Total to Health and Medicaid (50%)	$5.114	$4.728	$4.521	$4.319
Total to General Fund (50%)	$5.114	**$4.728**	**$4.521**	**$4.319**

Data Sources

Department of Revenue GENTAX reports provide product sales information. General fund revenue data is from SABHRS. Other data provided by DOR includes the discounts and credits applied to distributors of other tobacco products. Population data is provided by S&P Global.

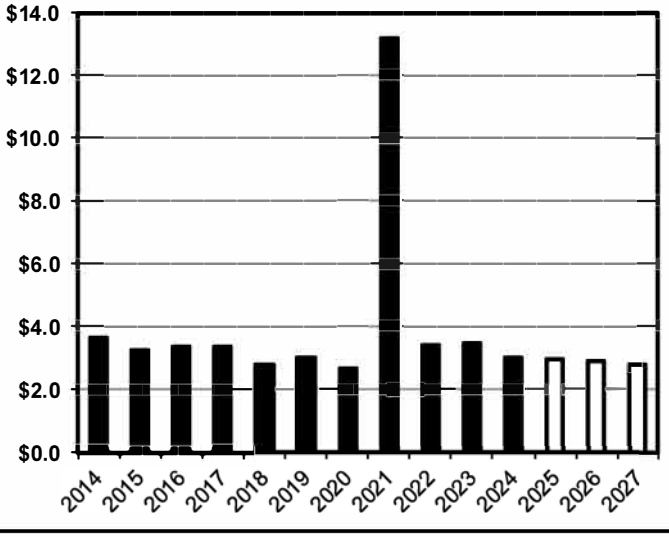
Revenue Description

In 1998, Montana, along with 45 other states, signed a settlement agreement with major tobacco companies. Pursuant to the agreement, Montana will receive approximately $832 million by the year 2025. Payments are made annually beginning in FY 2000. The schedule of payments provided for under the settlement agreement is subject to change depending on adjustment criteria specified in the agreement.

Table 1 shows the actual general fund revenue from the tobacco settlement agreement from FY 2014 through FY 2024 and the forecast revenue for FY 2025 through FY 2027.

Table 1
Tobacco Settlement
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$3.646	9.8%
A 2015	$3.225	-11.5%
A 2016	$3.371	4.5%
A 2017	$3.343	-0.8%
A 2018	$2.778	-16.9%
A 2019	$3.034	9.2%
A 2020	$2.654	-12.5%
A 2021	$13.196	397.2%
A 2022	$3.426	-74.0%
A 2023	$3.466	1.2%
A 2024	$2.999	-13.5%
F 2025	**$2.939**	**-2.0%**
F 2026	**$2.875**	**-2.2%**
F 2027	**$2.812**	**-2.2%**



In FY 2008, the base payment paid to states increased from $8 billion to $9 billion. This accounts for the large percentage increase from FY 2007 to FY 2008. However, the forecast payments, when adjusted for inflation, are decreasing or flat because cigarette consumption per capita (nationwide) has slightly decreased. Further, additional adjustments to the annual payments have been made since FY 2005 to compensate for changes in market share among the participating and non-participating manufacturers. These market share adjustments are forecast to continue through FY 2025.

Two major arrangements in the allocation of the tobacco settlement revenue have existed since the first payment was received in FY 2000. First, in November 2000, Montana's electorate passed Constitutional Amendment 35. The amendment required no less than 40% of tobacco settlement revenue to be deposited in a trust fund, with the remaining money deposited in the state general fund. The trust fund was established to provide a permanent source of revenue to fund the costs associated with programs for tobacco disease prevention and healthcare benefits, services, or coverage. The amendment further stated that 90% of the interest income from the trust fund could be appropriated; with 10% of the interest income from the trust fund to be deposited in the trust fund on or after January 1, 2001. The principal of the trust fund and 10% of the interest income was to be deposited in the trust fund and remain forever inviolate unless appropriated by a vote of two-thirds of the members of each house of the legislature.

Second, in the November 2002 election, Initiative 146 (I-146) was passed. I-146 required the tobacco settlement payments received after June 30, 2003, be deposited as follows: 32% in a state special revenue account for tobacco prevention; 17% in a state special revenue account for health insurance benefits; 40% in the trust fund; and 11% in the state general fund.

In July of 2018, the State of Montana and the Participating Manufacturers (PMs) entered into a consent decree that resolved the 2004 Non-Participating Manufacturer's (NPM) adjustment dispute between Montana and the PMs. As a result, the independent auditor released Montana's share of disputed payments related to the 2004 NPM adjustment.

In December 2020, the State of Montana entered into a consent decree that resolved a dispute between the State and the participating manufacturers. As a result of the consent decree, Montana received a lump sum payment of $53.5 million from disputed payments held in escrow since 2005. In addition, the tobacco manufacturers agreed that no additional disputed payments would be withheld through 2030.

Risks and Significant Factors

If Original Participating Manufacturers (OPMs) and Subsequent Participating Manufacturers (SPMs) lose market share to NPMs, then OPMs and SPMs may be entitled to pay less by means of an NPM adjustment. The NPM adjustment is conditional upon two factors: (1) whether there has been a loss in market share by participating manufacturers to NPMs; and (2) whether that loss is attributable to disadvantages resultant from the tobacco settlement.

A specific provision of the Master Settlement Agreement (MSA), referred to as the safe harbor provision, is relevant to this adjustment. Under the safe harbor provision, a state can avoid a payment reduction due to the NPM adjustment if a qualifying statute is enacted and "diligently enforced". The qualifying statute provides for an amount to be paid into an escrow account for each cigarette sold by NPMs in the state that is equivalent to the amount that would have been paid had the NPMs participated in the settlement.

An independent auditor determined that, beginning in 2003, participating manufacturers started losing market share to NPMs. Pursuant to this finding, OPMs and SPMs can pay a portion of their tobacco settlement payments into a disputed payment account (DPA) and have routinely done so beginning in FY 2006. Withheld disputed amounts are not to be distributed to the states until the dispute is resolved. Based on the consent decree in December of 2020, neither OPMs nor SPMs will withhold any payments in the DPA through 2030.

There are numerous possible outcomes to the dispute over the NPM adjustment. The following is a short list of possible outcomes over this disputed money.

- Litigation/arbitration may continue in 2030. If this is the case, then it is likely that OPMs and SPMs will continue to place the disputed money in the separate dispute account.

Beginning in FY 2018 (tobacco sales year 2017), the strategic payment to the settling states ended, while the non-strategic payment increased by a like amount. As Montana's share of the non-strategic payment is lower than the strategic payment portion, 0.4248% vs 1.0446%, the gross payment to the state is expected to decrease. Additionally, the Previously Settled States Reduction decreases from 12.237% to 11.0667%, which results in a small increase in revenue. Accounting for additional adjustments for changes in inflation and market share, the net effect on collections is difficult to estimate.

Forecast Methodology

The MSA provides for complex methods and formulas to calculate annual payments made by the settling tobacco companies to each state. Several clauses in the tobacco settlement set forth the precise calculations for the adjustments to the payments due from the two categories of settling companies: (1) OPMs and (2) SPMs.

Seven major steps are used to calculate the annual amount due to Montana from tobacco companies which are parties to the MSA. These calculations are completed for both the non-strategic and strategic payments and are summarized in Table 2.

Step 1. The inflation adjustment;

Step 2. The volume adjustment to the base payment;

Step 3. The volume adjustment to the base operating income (this adjustment has not taken place since 2000);

Step 4. Previously settled states' reduction;

Step 5. SPM payments;

Step 6. Montana's share of the total payment; and

Step 7. Adjustments for NPM and other payment disputes.

Table 2 shows actual receipts and expenditures for FY 2024 and forecasts for FY 2025 through FY 2027.

Table 2
Summary Calculation of Tobacco Settlement Revenue
($ millions)

Description	FY 2024	FY 2025	FY 2026	FY 2027
Non-Strategic Base Payment	$9,000.000	**$9,000.000**	**$9,000.000**	**$9,000.000**
Inflation Adjustment	$11,733.115	**$12,396.617**	**$13,038.515**	**$13,699.670**
Net Volume Adjustment	($14,552.126)	**($15,345.726)**	**($16,125.228)**	**($16,919.577)**
Previously Settled States Reduction	($684.029)	**($669.632)**	**($654.404)**	**($639.664)**
Adjusted OPM Base Payment	$5,496.959	**$5,381.259**	**$5,258.883**	**$5,140.430**
Adjusted SPM Base Payment	$923.006	**$909.025**	**$893.707**	**$878.842**
Sub-total Adjusted Base Payment	$6,419.965	**$6,290.283**	**$6,152.590**	**$6,019.272**
Montana's Percentage	0.4247591%	**0.4247591%**	**0.4247591%**	**0.4247591%**
Total Adjusted Non-Strategic Payment (IX)(c)(1)	$27.269	**$26.719**	**$26.134**	**$25.567**
Total MT Payment	$27.269	**$26.719**	**$26.134**	**$25.567**
Total of NPM and Other Adjustment	($0.004)	**$0.000**	**$0.000**	**$0.000**
Adjusted MT Payment	$27.266	**$26.719**	**$26.134**	**$25.567**

Distributions

Table 3 shows the actual allocation for FY 2024 and the projected distribution of Montana's share of the Tobacco Master Settlement Agreement for FY 2025 through FY 2027.

Table 3
Tobacco Settlement Payment Distributions
($ millions)

	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
Tobacco Trust Fund (40%)	10.906	**10.687**	**10.453**	**10.227**
Tobacco Prevention Account (32%)	8.725	**8.550**	**8.363**	**8.182**
Health Insurance Benefits Acc. (17%)	4.635	**4.542**	**4.443**	**4.346**
General Fund (11%)	2.999	**2.939**	**2.875**	**2.812**
Total MT Payment	27.266	**26.719**	**26.134**	**25.567**

Data Sources

Tobacco Settlement data was obtained from SABHRS, Price Waterhouse Coopers Litigation Master Settlement extranet and the Tobacco Master Settlement Agreement (MSA). Historical inflation data was obtained from the Bureau of Labor Statistics and forecast inflation was derived from S&P Global.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

SALES REVENUE
SECTION 8

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Telecommunications Excise Tax

2027 Biennium

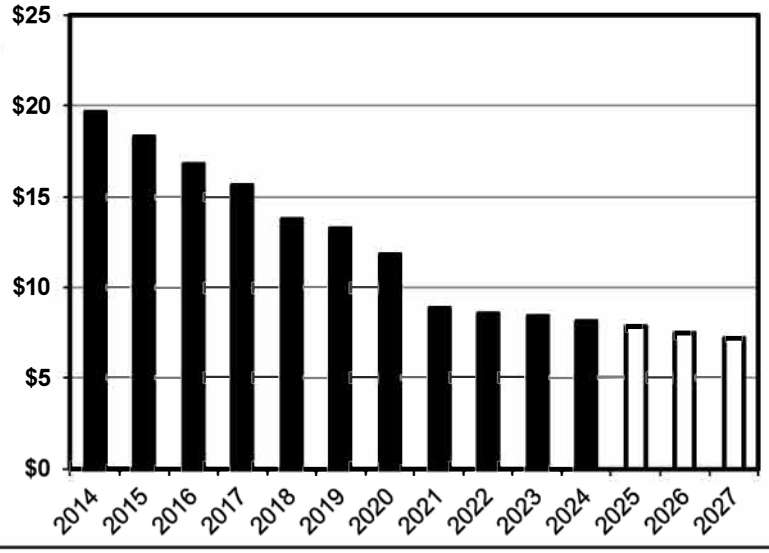
Revenue Description

Under 15-53-130, MCA, a 3.75% excise tax is assessed on retail telecommunications services. Telecommunications services are defined as two-way transmission of information over a telecommunications network that originates or terminates in the state and is 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.

Table 1 shows actual general fund revenue from retail telecommunications excise tax collections for FY 2014 through FY 2024 and the revenue forecast for FY 2025 through FY 2027.

Table 1
Telecommunications Excise Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$19.657	-4.8%
A 2015	$18.257	-7.1%
A 2016	$16.775	-8.1%
A 2017	$15.603	-7.0%
A 2018	$13.726	-12.0%
A 2019	$13.224	-3.7%
A 2020	$11.788	-10.9%
A 2021	$8.814	-25.2%
A 2022	$8.571	-2.8%
A 2023	$8.436	-1.6%
A 2024	$8.139	-3.5%
F 2025	**$7.814**	**-4.0%**
F 2026	**$7.501**	**-4.0%**
F 2027	**$7.201**	**-4.0%**



Risks and Significant Factors

- The general trend of households and businesses eliminating wire-line services reduces the tax base as internet communications applications and services offered are free of tax.
- The COVID-19 Pandemic increased the shifts to internet-based services,
- In the past, audit assessments created timing variations as audit attribution did not match the year tax was incurred.
- Montana Tax Appeal Board (MTAB) rulings in July 2011 narrowed the tax's base, excluding certain mobile telecommunications services paid with prepaid calling cards.
- The *Internet Tax Freedom Act* became permanent with the signing of the *Trade Facilitation and Trade Enforcement Act of 2016*. The Act bans taxes on internet access services. While the Act does not ban taxes on products and services over the internet. However, to the extent that these services can be delivered over the internet and classified as internet access, this reduces retail telecommunications excise tax collections.
- There have been no changes to this tax since the 2007 Legislative Session.

Forecast Methodology

The estimate previously was based on a simple projection of the long run trend since FY 2011 when the current decline in collections appears to have started. Base collections are taxes due before audit, penalty and interest assessments. The non-compounding annual growth rate between FY 2011 to FY 2019 was 11.1%. The pandemic and increased utilization of broadband services led to a sharp drop in collections in FY 2020 and FY 2021. Since FY 2021 the pace of

decline slowed to around – 3%. In the past, audit revenues were excluded from this calculation to reduce the effect of misallocating significant audit revenue to fiscal years. However, MTAB decisions on the non-taxable status of certain pre-paid resellers and court decisions on the applicability of the *Internet Tax Freedom Act* have resolved many issues of interpretation that had generated audit assessments. Annual audit revenues are assumed to be equal to rounded prior four-year average with collections around $5,000.

The forecast assumes a 4% annual decline based on the downwardly rounded average trend that also takes receipts down to their anticipated level in FY 2027 based on pre-pandemic patterns. Effectively, this assumes the pandemic accelerated the shift away from taxable services.

Table 2 illustrates actual revenue collections for the excise tax, as well as audit and penalty collections for FY 2014 through FY 2024 along with the forecast for FY 2025, FY 2026, and FY 2027.

Table 2
Total Collections
($ millions)

	Fiscal Year	Excise Tax		Audits, Penalties & Interest		General Fund	Percent Change
A	2014	$19.636	+	$0.020	=	$19.657	-4.74%
A	2015	$18.245	+	$0.027	=	$18.272	-7.05%
A	2016	$16.766	+	$0.009	=	$16.775	-8.19%
A	2017	$15.592	+	$0.011	=	$15.603	-6.99%
A	2018	$13.707	+	$0.002	=	$13.708	-12.14%
A	2019	$13.204	+	$0.020	=	$13.224	-3.53%
A	2020	$11.782	+	$0.006	=	$11.788	-10.86%
A	2021	$8.812	+	$0.002	=	$8.814	-25.23%
A	2022	$8.544	+	$0.026	=	$8.570	-2.76%
A	2023	$8.435	+	$0.001	=	**$8.436**	**-1.57%**
A	2024	$8.134	+	$0.005	=	**$8.139**	**-3.52%**
F	**2025**	**$7.809**	**+**	**$0.005**	**=**	**$7.814**	**-4.00%**
F	**2026**	**$7.496**	**+**	**$0.005**	**=**	**$7.501**	**-4.00%**
F	**2027**	**$7.196**	**+**	**$0.005**	**=**	**$7.201**	**-4.00%**

Distribution

All telecommunications excise tax collections are allocated to the general fund pursuant to 15-53-156, MCA.

Data Sources

Revenue data is drawn from SABHRS.

Accommodations Tax

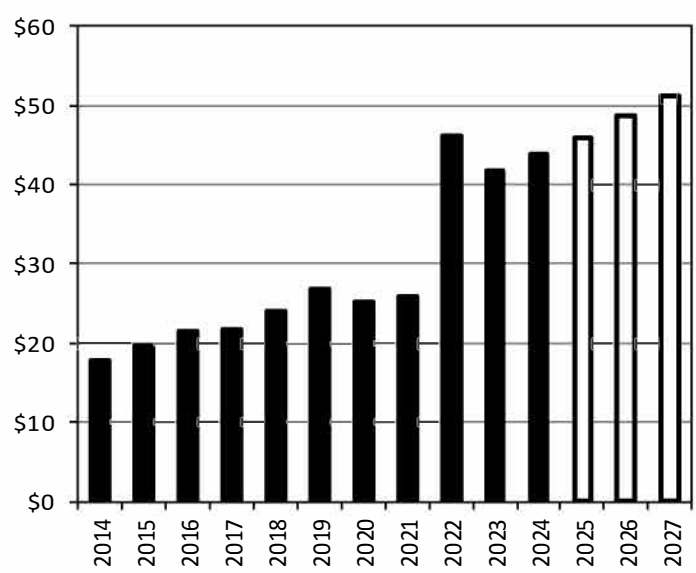
Revenue Description

In accordance with 15-68-102, MCA, a 4% accommodations **sales** tax is levied on all charges for accommodations at lodging facilities and campgrounds in the state. In accordance with 15-65-111, MCA, Montana charges a lodging facility **use** tax of 4% on all accommodations. Sales tax is distributed 75% to the general fund and 25% to other funds as described below. A small portion of the **use** tax is distributed to the general fund while the majority of the **use** tax is distributed to other funds.

Table 1 shows actual revenue for the accommodations **sales** and **use** tax distributed to the general fund for FY 2014 though FY 2024 and forecast values for FY 2025 through FY 2027.

Table 1
Accommodations Sales Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2012	$15.606	9.6%
A	2013	$16.720	7.1%
A	2014	$17.725	6.0%
A	2015	$19.697	11.1%
A	2016	$21.493	9.1%
A	2017	$21.780	1.3%
A	2018	$24.091	10.6%
A	2019	$26.703	10.8%
A	2020	$25.058	-6.2%
A	2021	$25.874	3.3%
A	2022	$46.175	78.5%
A	2023	$41.677	-9.7%
A	2024	$43.778	5.0%
F	**2025**	**$45.997**	**5.1%**
F	**2026**	**$48.573**	**5.6%**
F	**2027**	**$51.293**	**5.6%**



The accommodations **sales** tax was enacted during the 2003 Session in SB 407 and was only collected for one month in FY 2003. The first full year of collections was FY 2004. As disposable income fell in FY 2009 and FY 2010, both in Montana and in the U.S., people spent less on accommodations and as a result, tax revenue declined during those years.

In November 2015, a $1.1 million settlement from the online travel companies for accommodations **sales** tax and interest was received for prior years FY 2010 through the first two quarters of FY 2015. All of this is included in FY 2016 **sales** tax collections. Ongoing revenue from online travel companies grows at the same rate other accommodations **sales** taxes increase.

HB 111, 2011 Session, revised the allocation of the lodging facility **use** taxes collected from state agencies. Previously, these taxes were distributed back to the agency that paid for the in-state lodging expenditures. HB 111 allocated 30% of these collections to the general fund, with the balance returned to the agency that made the in-state lodging expenditure. Any lodging **use** tax collected from state agencies paid with federal funds, was held by the Department of Revenue to be returned to the federal government. The remainder of the funds paid by state agencies for lodging facility **use** taxes was distributed to the funds as defined 15-65-121, MCA.

HB 477 in the 2011 Session changed the distribution of the lodging facility **use** tax, reducing the amount distributed to the Department of Commerce by 2.6% and allocating 2.6% to Montana Historical Interpretation.

HB 32, 2013 session, revised statute to allow the lodging **use** tax paid by state agencies with federal funding to be returned to the state agency that paid the in-state lodging **use** tax.

In the 2017 regular session, SB 309, made a small change to the **use** tax distribution reducing the allocation to Commerce by 0.5% down to 64.4% and created a new fund for state tribal economic development with the 0.5%.

The 2019 Legislature passed SB 338, the Montana Museums Act of 2020, to provide funding for the construction of the Montana Heritage Center and created the Historic Preservation Grant Program. This legislation revised the sales tax on accommodations and campgrounds from 3% to 4% and directed the additional 1% sales tax funding to the two new programs, 75% of the additional 1% collected for the Montana Heritage Center construction and 25% for the grant program until December 30, 2024. Starting January 1, 2025, that 1% **use** tax collections is to be distributed: 6% to the Montana Heritage Center for operation and maintenance; 6% to the Historic Preservation Grants program; and 7% to the capital development long-range building program. The final 6% is to be divided among the Department of Fish, Wildlife, and Parks for state parks facilities maintenance (7%), the Department of Commerce for tourism promotion (68.5%), the Department of Commerce for regional tourism promotion (24%); and the state-tribal economic development commission for regional Indian tourism activities (0.5%)

HB 678 in the 2019 Session eliminated the $400,000 distribution of **use** taxes for the Montana heritage preservation and development account, decreased the 63% portion of the tax directed to the Department of Commerce to 60.3% and directed the lesser of 2.7% or $1 million to the Montana heritage preservation and development account.

Several changes were made to the **use** taxes during the 2023 Legislative Session. SB 522 reduced the 60.3% directed to the Department of Commerce by 0.1% to be directed to the emergency lodging for victims of domestic violence or human trafficking account. SB 540 specified that the Department of Commerce is to spend the 60.2% of accommodations **use** taxes 43% for tourism media, 22.5% for rural tourism, 23% for tourism grants, 6.5% for the revolving loan programs and regional tourism assistance, and 5% to use in collaboration with the Office of Economic Development. HB 5 also directed the Department of Commerce to utilize part of the 60.2% **use** tax for the renovation of the Miles City train depot during the 2025 Biennium. Lastly, HB 121 directs the portion of the taxes collected from state agency accommodations purchases with federal funds to be paid to the Department of Administration to be returned to the federal government. These taxes had been returned to the agency where the purchase was made, and each agency returned the funds to the federal government.

Risks and Significant Factors

- The interest in single home vacation rentals, (Airbnb, Vacation Rental By Owner (Vrbo), etc.) has become enticing for both homeowners and vacationers in Montana. Increased numbers of these types of rentals have noticeably increased sales and use tax collections. This revenue could decline if homeowners were to decide the upkeep on such properties were not worth the time, rising property taxes, or saturated markets caused a decrease in number of rentals.
- During the COVID-19 pandemic, travel to Montana increased significantly as a place to vacation and social distance, driving sales and use tax collections to record highs. Collections in FY 2021 were 20% higher than projected and FY 2022 collections were 63% higher than anticipated.
- Montana properties were in high demand during the pandemic closures driving prices of accommodations up thus increased sales and use tax revenues were up. Now that other vacation locations around the world have or are opening again, demand for Montana properties as vacation locations could go down driving rental costs down resulting in a decline in sales and use tax collections.
- Over the past few years, there has been an increase in available accommodations across the state with new motels and other guest accommodations being built. Increased accommodations mean more rooms available, thus increased tax collections. However, this can have the reverse effect of driving prices down if the available accommodations are more than demand.
- Montana fire seasons can have a significant impact on accommodations tax revenues dependent on where the fires occur and the time of year. In years with many fires and heavy smoke, travel in those areas decreases, reducing tax collections.

Forecast Methodology

There are three steps used when forecasting the accommodations **sales** and **use** taxes:

Step 1: Estimate lodging receipts.

Step 2: Estimate vendor allowances. A 5% vendor allowance is permitted only on accommodations **sales** tax unless the filer return or payment is after the due date.

Step 3: Calculate the lodging facility **use** tax (4%) of the taxable value of lodging receipts plus the **sales** tax (3%) minus the vendor allowance. The additional 1% **sales** tax for the Heritage Center construction and the Historic Preservation Grant Program are deposited into other funds at the time of receipt. Starting January 1, 2025, the 1% **sales** tax will be redirected as construction of the Heritage Center is drawing to a close.

Distribution of taxes 15-68-820, MCA.

The 4% **sales** tax is distributed 75% to the general fund and 20% to the Heritage Center construction, and 5% the Historic Preservation Grant Program until December 31, 2024, as shown in Table 2. Beginning January 1, 2025, distributions of the non general fund 25% are redirected as shown in Table 3.

Table 2
1% Sales Tas Distribution
January 1, 2020 to December 31, 2024
($ millions)

	FY 2020 (from 12/1/2020)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025 (to 12/31/24)
Heritage Center Construction (20%)	2.442	6.900	12.085	11.114	11.674	**6.771**
Heritage Preservation Grants 5%)	0.610	1.725	3.157	2.917	3.041	**1.693**
TOTAL	3.052	8.625	15.242	14.031	14.715	**8.464**

Table 3
1% Sales Tas Distribution
January 1, 2020 to December 31, 2024
($ millions)

Distribution			FY 2025	FY 2026		FY 2027	
O&M Heritage Center	6.0%		1.711	3.903		4.122	
Capital Dev Long-range Bldg	7.0%		1.996	4.554		4.809	
Historic Preservation Grants	6.0%		1.711	3.903		4.122	
Split to following 4 lines	6.0%		1.711	3.903		4.122	
Dept of Commerce		68.5%			2.674		2.823
FWP State Parks maintenance		7.0%			0.273		0.289
Regional nonprofit tourism		24%			0.937		0.989
SSR for State-tribal Eco Devo Comm		0.5%			0.020		0.021
			6.67	16.26	3.90	17.17	4.02

After the DOR administration, state agency, and general fund distributions are made from the 4% **use** tax collected, the remainder is distributed as follows (15-65-121, MCA):

1. General fund receives 30% of the use tax revenue generated by state employees.
2. The Department of Revenue receives $0.132 million for administration.
3. The remainder is distributed as follows:
   a. 2.7% or $1 million (lesser of) to the MT Heritage Preservation Society;
   b. 1.0% to the Montana Historical Society for roadside historic sites and signs;
   c. 2.5% to the university system for tourism research;
   d. 6.5% to the Department of Fish, Wildlife and Parks for state parks maintenance;
   e. 1.4% to the Department of Fish, Wildlife, & Parks (invasive species)
   f. 60.2% to the Department of Commerce for statewide tourism promotion
   g. 0.1% to emergency lodging for victims of domestic violence or human trafficking;
   h. 22.5% to regional tourism promotion;
   i. 0.5% to state-tribal economic development commission for activities in the Indian tourism region; and
   j. 2.6% for Montana historical interpretation.

Table 4 summarizes the distribution of the lodging facility **use** tax showing actual distributions for FY 2024 and projected distributions for FY 2025 through FY 2027.

Table 4
Lodging Use Tax Distribution
($ millions)

	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
General Fund	$0.292	**$0.292**	**$0.292**	**$0.292**
DOR Tax Administration	$0.132	**$0.132**	**$0.132**	**$0.132**
MT Heritage Preservation Society	$1.002	**$1.000**	**$1.000**	**$1.000**
Montana Historical Society	$0.620	**$0.661**	**$0.698**	**$0.737**
University System	$1.549	**$1.653**	**$1.745**	**$1.843**
Fish, Wildlife, & Parks maintenance	$4.028	**$4.299**	**$4.538**	**$4.791**
Fish, Wildlife, & Park (Invasive Species)	$0.868	**$0.926**	**$0.977**	**$1.032**
Commerce-Tourism & Film Promo 43%	$16.146	**$17.121**	**$18.099**	**$19.132**
Commerce - Rural Tourism 22.5%	$8.362	**$8.958**	**$9.470**	**$10.011**
Commerce - Tourism Grants 23%	$8.547	**$9.157**	**$9.681**	**$10.233**
Commerce - Revolving Loan 6.5%	$2.421	**$2.588**	**$2.736**	**$2.892**
Commerce - Economic Develop 5%	$1.865	**$1.991**	**$2.105**	**$2.225**
Regional Travel Promotion	$13.944	**$14.881**	**$15.709**	**$16.583**
DCI DC Traffic Grant Pgm	$0.070	**$0.066**	**$0.070**	**$0.074**
Tribal Economic Development	$0.538	**$0.331**	**$0.349**	**$0.369**
Montana Historical Interpretation	$1.622	**$1.720**	**$1.815**	**$1.916**
Total Use Tax Revenue	$62.796	**$66.098**	**$69.777**	**$73.663**

Data Sources

Fiscal year end revenues are from SABHRS MTGL0109 report. Additional data were provided by DOR's GENTAX system. Wage and national spending on accommodations from the S&P Global, October 2024, U.S. forecast.

Institutional Reimbursement

2027 Biennium

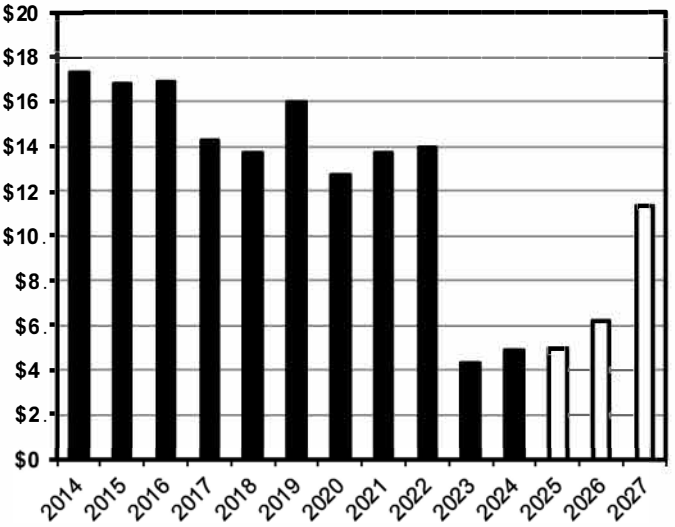
Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operates facilities to treat persons with developmental disabilities and mental illnesses. The Intensive Behavior Center (IBC) in Boulder, Montana 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. Payments go first to repay the Montana Developmental Center (MDC) through FY 2016 and MSH 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
($ millions)

Fiscal Year		General Fund	Percent Change
A	2014	$17.298	6.7%
A	2015	$16.819	-2.8%
A	2016	$16.910	0.5%
A	2017	$14.264	-15.6%
A	2018	$13.674	-4.1%
A	2019	$15.991	16.9%
A	2020	$12.745	-20.3%
A	2021	$13.649	7.1%
A	2022	$13.933	2.1%
A	2023	$4.308	-69.1%
A	2024	$4.903	13.8%
F	**2025**	**$4.924**	**0.4%**
F	**2026**	**$6.216**	**26.2%**
F	**2027**	**$11.338**	**82.4%**



Risks and Significant Factors

- SB 411, passed by the 2015 Legislature, directed the closure of the MDC by July 1, 2017. HB 387 passed by the 2017 Legislature allowed the MDC to remain open until June 30, 2019.
- Actions taken by a future legislature to open a facility to serve individuals with developmental disabilities, similar to the former MDC campus, could increase revenue collections.
- In April 2022, the Center for Medicare and Medicaid Services (CMS) terminated its provider agreement with the state of Montana for all services at the MSH. The result of the termination is the loss of certification and ability for the state to receive reimbursement from CMS for eligible services provided to patients at the MSH. The MSH is expected to achieve recertification during the second half of FY 2026. Changes in the recertification timeline could have a significant impact on actual collections.

Forecast Methodology

There are four steps to estimating general fund receipts:

Step 1. Estimate 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 on 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 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 so 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 FMAP rates.

Step 2. Estimate the average daily population and the number of care days for which each institution will be reimbursed.

Step 3. Multiply 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 times the number of days.
- General fund revenue is the total of reimbursements for IBC, MSH, and MMHNCC.

Distributions

Table 2 shows the actual reimbursements for FY 2024 and the projection of general fund revenue from institutional reimbursements in FY 2025 through FY 2027.

Table 2

	Fiscal Year	Reimbursements IBC		MSH		MMHNCC		General Fund
A	2024	$0.087	+	$2.188	+	$2.628	=	$4.903
F	**2025**	**$0.086**	**+**	**$2.210**	**+**	**$2.628**	**=**	**$4.924**
F	**2026**	**$0.086**	**+**	**$3.437**	**+**	**$2.694**	**=**	**$6.216**
F	**2027**	**$0.086**	**+**	**$8.490**	**+**	**$2.761**	**=**	**$11.338**

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.

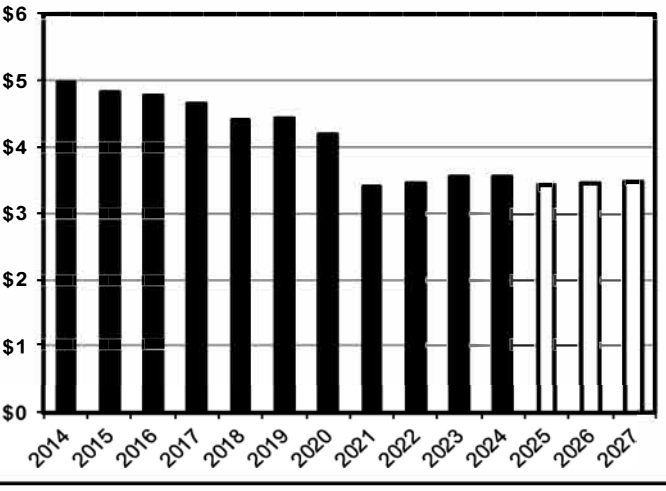
Revenue Description

Per 15-60-102, MCA, 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 2003. The fee was raised to $4.50 in FY 2004, to $5.30 in FY 2005, to $7.05 in FY 2006, and to $8.30 in FY 2007. The fee increased again to $11.30 in FY 2018 and to $15.30 in FY 2019 (15-60-102, MCA). Through FY 2002, all fees were allocated to the general fund. Currently, $2.80 of the fee is allocated to the general fund and the remaining $12.50 is allocated to the nursing facility utilization fee special revenue account.

The fee for intermediate care facilities for the developmentally disabled is 6% of revenue (15-67-102, MCA). The only facility in Montana currently meeting this definition is the Intensive Behavior Center, formerly the Assessment and Stabilization Unit at the Montana Developmental Center (MDC). 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 state special revenue account.

Table 1
Health Care Facility Utilization Fees
($ millions)

Fiscal Year		General Fund	Percent Change
A	2014	$4.961	0.7%
A	2015	$4.810	-3.0%
A	2016	$4.764	-1.0%
A	2017	$4.635	-2.7%
A	2018	$4.405	-5.0%
A	2019	$4.416	0.2%
A	2020	$4.188	-5.2%
A	2021	$3.400	-18.8%
A	2022	$3.447	1.4%
A	2023	$3.542	2.7%
A	2024	$3.535	-0.2%
F	**2025**	**$3.422**	**-3.2%**
F	**2026**	**$3.437**	**0.4%**
F	**2027**	**$3.468**	**0.9%**



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 facility utilization fee account. HB 743 made the Montana Mental Health Nursing Care Center (MMHNCC) subject to the nursing facility utilization fee and allocated 30% of fees from this facility to the general fund and 70% to a new prevention and stabilization state special revenue account. HB 722 created a new fee equal to 5% of charges for care that applied only to the MDC. The revenue from the new fee is allocated 30% to the general fund and 70% to the prevention and stabilization state special revenue account.

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 facility utilization 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 intellectually disabled. SB 82 was effective immediately on passage and was retroactive to the beginning of tax year (TY) 2005.

In 2017, the legislature passed HB 618, which increased the facility bed tax to $11.30 per day in FY 2018 and to $15.30 for FY 2019. A portion of the increased revenue is allocated to the nursing facility utilization account to increase the average price paid for Medicaid nursing facility services, as well as provide increased wages for certified nursing assistants working in nursing facilities by $0.25 per hour every six months throughout the 2019 biennium.

Risks and Significant Factors

- Taxable bed days at non-state facilities declined at an average rate of 5.5% between FY 2020 and FY 2023, driven by a significant decrease in FY 2021. Following a 0.8% increase in bed days in FY 2024, the annual growth rate for the forecast period is 1.0%.
- SB 411, passed by the 2015 Legislature, directed the closure of the MDC by July 1, 2017. The 2017 Legislature passed HB 387 to extend the closure date for a portion of the MDC campus for two years, while also allowing the 12-bed secure unit to remain open permanently.
- Actions taken by a future legislature to open a facility to serve individuals with developmental disabilities, similar to the former MDC campus, could increase revenue collections.

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.

- Bed days for FY 2025 through FY 2027 for the MMHNCC are forecast based on projected usage of nursing homes. Total collections equal the number of bed days multiplied by the fee per bed day. Thirty percent of collections are allocated to the general fund and 70% are allocated to the prevention and stabilization state special revenue account. Estimated bed days for MMHNCC are estimated to increase by 0.5% per year for the period FY 2025 through FY 2027.

- The Intensive Behavior Center, formerly the Montana Developmental Center, is the only facility in Montana 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 2025 through FY 2027 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 the actual allocation for FY 2024 and the projected allocation for FY 2025 through FY 2027.

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

	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
Nursing Facility Utilization Fee Account	14.144	14.286	14.429	14.573
Prevention and Stabilization Account	0.553	0.519	0.478	0.475
General Fund	3.405	3.422	3.437	3.468
Total Collections	18.102	**18.227**	**18.344**	**18.516**

Data Sources

Department of Revenue GENTAX reports provided historic information on the number of taxable bed days. SABHRS provided historical tax revenue and allocation information.

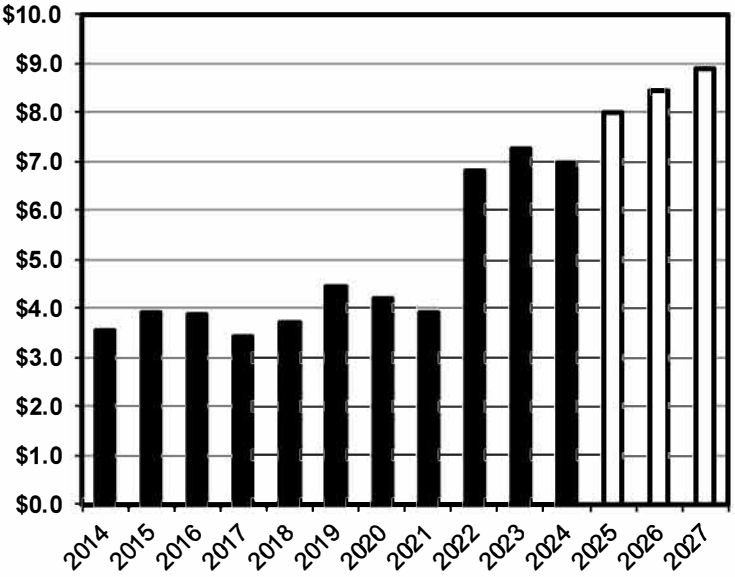
Rental Car Sales Tax

Revenue Description

Montana levies a 4% tax on base rental charges on rental vehicle sales per 15-68-102(1b), MCA. The rental vehicle sales tax collections began in FY 2004. Table 1 shows actual general fund revenue for the rental car sales tax for FY 2014 through FY 2024 and projected revenue for FY 2025 through FY 2027.

Table 1
Rental Car Sales Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$3.521	-0.1%
A 2015	$3.907	10.9%
A 2016	$3.878	-0.7%
A 2017	$3.402	-12.3%
A 2018	$3.719	9.3%
A 2019	$4.431	19.1%
A 2020	$4.179	-5.7%
A 2021	$3.916	-6.3%
A 2022	$6.823	74.2%
A 2023	$7.270	6.6%
A 2024	$6.972	-4.1%
F 2025	**$7.970**	**14.3%**
F 2026	**$8.426**	**5.7%**
F 2027	**$8.864**	**5.2%**



The COVID-19 pandemic had a massive effect on rental vehicle sales tax revenue. Travelers began to flood into Montana in the spring of 2021, eager to get out and about after the easing of shelter-in-place orders and travel restrictions that were in place during 2020. Total visitation numbers reached record highs in 2021, retreated slightly in 2022, and flattened in 2023. The influx of visitors conflated with the supply-side shock to vehicle prices, which sent rental vehicle prices soaring. The market dynamics of rising demand for and tightening supply of rental vehicles produced incredible growth in sales tax revenue in FY 2022. The level of collections rose again in FY 2023, but at a much lower rate as decreased visitation balanced out still-rising vehicle costs (sales prices, maintenance, insurance). Tax revenue declined in FY 2024, but for reasons other than a retreat in taxable sales value, which posted a healthy gain. Taxable sales are projected to rise at an average pace of 5.5% per year from FY 2025 – FY 2027. This is a slower pace than the past three years. Stabilizing visitation numbers and falling vehicle prices settle tax collections back into a more normal pattern of behavior.

Risks and Significant Factors

- Rental car sales tax revenue is a function of the volume of rental vehicle sales and the value of those sales because the tax is applied to the rental price.
- The year-over-year change in the consumer price index for new and used vehicles has been falling consistently through 2024 year-to-date. This is reflective of a return to normal in the vehicle market after the significant imbalances that occurred during the pandemic years. Falling prices should flow through and put downward pressure on the value of rental vehicle sales.
- Travel preferences of domestic and international residents influence visitation to Montana. Rental vehicle demand is closely linked to plane de-boardings at Montana airports. Increases in international visitation and/or visitation from outside the Rocky Mountain region could positively affect rental vehicle sales.

Forecast Methodology

Step 1: Forecast quarterly values of taxable rental car sales using a seasonal exponential smoothing model. Information of past levels, trends, and seasonal variations of the series are all captured by this method of data estimation.

Step 2: Sum quarterly estimates to fiscal year totals and apply the nominal rental car tax rate of 4% to taxable sales to obtain total tax revenue.

Step 3: Allocate 75% of total tax revenue to the general fund.

Distribution

This tax is distributed 75% to the general fund and 25% to the state special revenue senior citizen and persons with disabilities transportation services account provided for in 7-14-112, MCA. The change to the distribution of rental car sales tax revenue is a result of SB 180 from the 2015 Legislative Session (prior to this the revenue was distributed 100% to the general fund).

Table 2
Distribution of Rental Car Sales Tax
($ millions)

Fiscal Year	General Fund	Transportation Aid Fund	Total	Percent Change
A 2016	$3.878	$0.392	$4.269	9.28%
A 2017	$3.402	$1.134	$4.536	6.25%
A 2018	$3.719	$1.240	$4.959	9.31%
A 2019	$4.431	$1.477	$5.908	19.14%
A 2020	$4.179	$1.393	$5.572	-5.67%
A 2021	$3.916	$1.305	$5.221	-6.31%
A 2022	$6.823	$2.274	$9.097	74.25%
A 2023	$7.270	$2.423	$9.694	6.56%
A 2024	$6.972	$2.324	$9.296	-4.11%
F 2025	**$7.970**	**$2.657**	**$10.627**	**14.32%**
F 2026	**$8.426**	**$2.809**	**$11.235**	**5.72%**
F 2027	**$8.864**	**$2.955**	**$11.819**	**5.20%**

Data Sources

Historical rental car sales tax data are from the Department of Revenue. Tourism data are from the University of Montana Institute for Tourism and Recreation Research.

Revenue Description

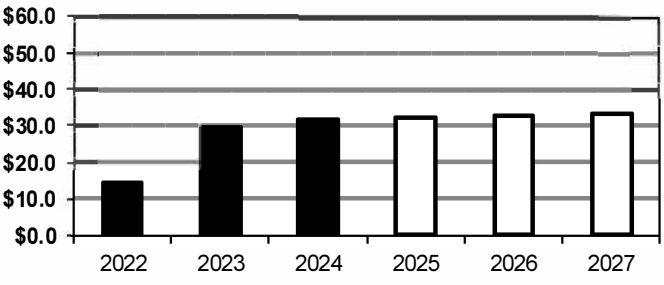
In 2020, the voters in Montana passed Initiative 190 (I-190) which allowed the legal sale and taxation of recreational cannabis to persons aged 21 years and older. The 2021 Legislature passed HB 701 which implemented many of the provisions of I-190. According to 15-64-102, MCA, the marijuana dispensaries are required to collect a 4% tax on medical cannabis and a 20% tax on adult use cannabis. The sales tax along with all license fees, and penalties are deposited into a state special revenue account from which all disbursements, are made.

After reimbursing the Department of Revenue Cannabis Control Division for operating costs and transferring $6 million to the Helping End Addiction through Recovery and Treatment (HEART) fund, the remaining funds are disbursed according to 16-12-111, MCA, to the Department of Fish, Wildlife and Parks (FWP), the Department of Military Affairs (DMA), the Department of Justice (DOJ), and the general fund. See the table below for the disbursement amounts and percentages:

Gross Collections	**Amount**
DOR Operating Costs	Reimbursed
DPHHS - HEART Fund	$6,000,000
Remaining Funds	**Amount**
FWP - Wildlife Habitat	20%
FWP - State Parks	4%
FWP - Trails & Recreation	4%
FWP - NonGame Wildlife	4%
Dept. Military Affairs	$200,000
Board of Crime Control	$450,000
General Fund	Balance of Funds

Table 1
Cannabis Sales Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2022	$14.518	
A	2023	$29.423	102.7%
A	2024	$31.804	8.1%
F	**2025**	**$32.052**	**0.8%**
F	**2026**	**$32.630**	**1.8%**
F	**2027**	**$33.194**	**1.7%**



Risks and Significant Factors

- Per capita cannabis sales were $364 and $342 in FY 2023 and FY 2024, respectively. Per capita sales are anticipated to remain at $342 for the forecast period. At the same time, adult use sales are increasing as a share of overall sales. As the tax rate on adult use cannabis is four times that of medical cannabis, overall tax collections grew.

- Cannabis is a Schedule I drug according to the U.S. Drug Enforcement Administration. Any action the federal government takes that changes cannabis' legal status in Montana could impact sales and tax collections.
- HB 362, introduced during the 2023 Session, provided a $300,000 appropriation to the Board of Crime Control for the crisis intervention team training program for law enforcement, behavioral health providers, and community stakeholders working with individuals experiencing a behavioral health crisis.

Forecast Methodology

The general fund share of the cannabis tax is prepared in three steps:

Step 1. Calculate the per capita sales of cannabis.

Step 2. Total revenue is projected by multiplying the prior year sales by the per capita growth rate, the year over year sales growth, and the effective tax rate.

Step 3. Total revenue is allocated to the general fund, DPHHS, FWP, DMA, and DOJ per statute.

Distribution

Table 2 shows the actual allocation for FY 2022 through FY 2024 and the projected allocation of cannabis tax revenue to the general fund, DPHHS, FWP, DMA, and DOJ for FY 2025 through FY 2027. The DPHHS revenue allocation is subtracted from total cannabis tax revenue to obtain total general fund and other agencies' share.

Table 2 Cannabis Tax Distribution by Fund

Description	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Gross Revenue	**$ 28.306**	**$49.969**	**$53.726**	**$ 54.091**	**$ 54.941**	**$ 55.771**
DPHHS HEART Fund ($6M)	$ 6.000	$ 6.000	$ 6.000	$ 6.000	$ 6.000	$ 6.000
Available for Distribution	**$ 22.306**	**$43.969**	**$47.726**	**$ 48.091**	**$ 48.941**	**$ 49.771**
FWP - Wildlife Habitat (20%)	$ 4.461	$ 8.794	$ 9.545	$ 9.618	$ 9.788	$ 9.954
FWP - State Parks (4%)	$ 0.892	$ 1.759	$ 1.909	$ 1.924	$ 1.958	$ 1.991
FWP - Trails & Recreation (4%)	$ 0.892	$ 1.759	$ 1.909	$ 1.924	$ 1.958	$ 1.991
FWP - NonGame Wildlife (4%)	$ 0.892	$ 1.759	$ 1.909	$ 1.924	$ 1.958	$ 1.991
Dept. Military Affairs ($200K)	$ 0.200	$ 0.200	$ 0.200	$ 0.200	$ 0.200	$ 0.200
Dept. of Justice ($300K 2023B Only)	$ 0.300	$ -	$ -	$ -	$ -	$ -
Board of Crime Control ($450K)	$ 0.150	$ 0.150	$ 0.450	$ 0.450	$ 0.450	$ 0.450
General Fund	**$ 14.518**	**$29.549**	**$31.804**	**$ 32.052**	**$ 32.630**	**$ 33.194**

Data Sources

Department of Revenue GENTAX reports provided historical information on the gross sales, taxes due, and penalties by produce. SABHRS provided cannabis tax revenue and allocation information. The Department of Revenue cannabis sales report website provides monthly sales and tax estimates by county.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

OTHER GENERAL FUND REVENUE SECTION 9

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Lottery Profits

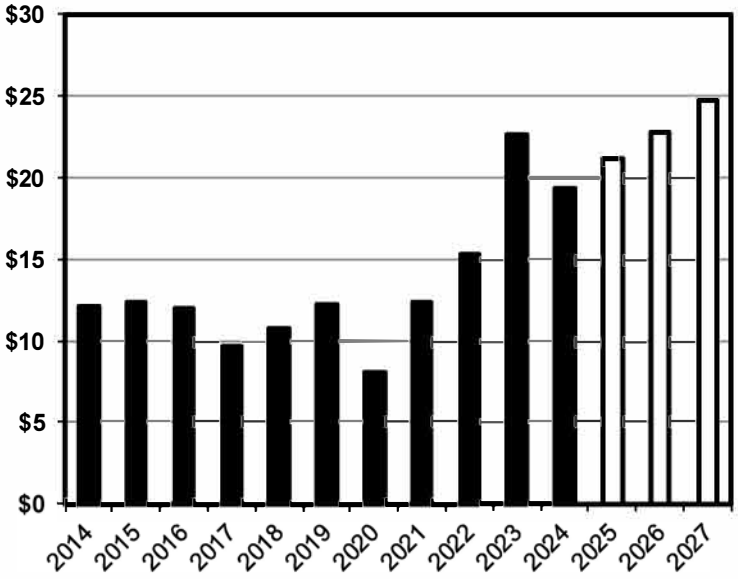
Revenue Description

In accordance with 23-7-402, MCA, a portion of net revenue from the operation of the lottery is to be deposited quarterly into the state general fund. Net revenue is equivalent to the difference between gross revenue from ticket sales, sports wagering, license fees, interest earnings, and miscellaneous sources and expenses associated with prize payouts, vendor fees, commissions, and operating costs. Net revenue to the general fund is reduced by the amount of the statutory transfer to the STEM scholarship fund.

Table 1 shows actual lottery revenue transferred to the general fund for FY 2014 through FY 2024 and forecast revenues for FY 2025 through FY 2027.

Table 1
Lottery Profits
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$12.091	-7.6%
A	2015	$12.363	2.3%
A	2016	$11.963	-3.2%
A	2017	$9.624	-19.6%
A	2018	$10.699	11.2%
A	2019	$12.215	14.2%
A	2020	$8.073	-33.9%
A	2021	$12.300	52.4%
A	2022	$15.311	24.5%
A	2023	$22.657	48.0%
A	2024	$19.312	-14.8%
F	**2025**	**$21.145**	**9.5%**
F	**2026**	**$22.773**	**7.7%**
F	**2027**	**$24.714**	**8.5%**



General fund lottery collections have been quite variable over the past decade, ranging from a low of $8 million in FY 2020 to a high of $22.6 million in FY 2023. The FY 2020 low was the result of depressed sales linked to pandemic disruptions, higher costs, and the advent of a new funding mechanism for the STEM scholarship program in the state special revenue fund. The runup to the FY 2023 high was the result of post-pandemic pent-up demand, rising disposable incomes, and the rollout of newly legalized sports wagering. Lottery game jackpots, operating expenses, and vendor contract negotiations add variance to year-to-year lottery net revenue. Large Powerball jackpots can sometimes pull spending forward, producing somewhat of a sales hangover in the subsequent year. Such was the case in FY 2017. Individuals may also substitute away from other games when Powerball jackpots are high. Powerball revenue was strong in FY 2024 but was mitigated by reduced spending on the Mega Millions and Montana Cash games. Sports wagering has provided a new and growing source of revenue since its first full year of implementation in FY 2021.

Sports wagering was legalized by passage of HB 725 during the 2019 Legislative Session. It allowed sports wagering on the premises of licensed establishments in Montana. At the same time sports wagering was being rolled out in Montana, the arrival of the COVID-19 virus put a halt to most sports leagues across the nation. Not only were there a sparse number of sporting events on which to bet, but the establishments licensed to offer the sports wagering product in Montana were temporarily shuttered to help prevent the spread of the virus. Consequently, the inaugural run of sports wagering in FY 2020 was lackluster at best. Sports leagues resumed play in early FY 2021 and sports wagering activity picked up rapidly.

Sports wagering grew from gross revenue of $41 million in FY 2021 to $63 million in FY 2024. Net revenue, which subtracts payouts and costs, was $1.7 million in FY 2021 and $3.9 million in FY 2024. Montana's sports wagering market is still maturing, and revenue is projected to move up and down on a general growth trend through FY 2027.

Since FY 2016, there has been a structure in place for the Montana Lottery to distribute revenue to a STEM scholarship fund. Prior to SB 60, any excess lottery profit revenue over an established general fund cap would be transferred to the STEM scholarship fund. Beginning in FY 2020, the provisions of SB 60 prescribe a fixed distribution to the STEM scholarship fund before any lottery revenue is transferred to the general fund. The amount of the statutory distribution has risen from $0.5 million in FY 2020 to $2.25 million in FY 2024 where it remains for all subsequent fiscal years.

Risks and Significant Factors

- Fluctuations in the share of disposable income that lottery participants allocate to the purchase of lottery games impacts gross receipts. Disposable incomes and spending on recreation services have been strong in the wake of the pandemic, supported by federal fiscal stimulus and economic recovery that has included elevated wage growth. Individuals' willingness and ability to pay for lottery games is projected to rise steadily through the forecast period due to a stable economic outlook.
- The size of lottery jackpots influences spending on lottery games. Large jackpots attract more players and encourage existing players to participate at a higher rate.
- Historical gross receipts data suggests that consumers prefer to maintain a consistent level of average annual lottery expenditures across years. This behavior is evident when comparing years with large Powerball jackpots to the years immediately following. Consumers appear to reduce lottery expenditures after a large Powerball jackpot has been won to mitigate their higher outlays when trying to win the jackpot. The result of such behavior is increased volatility in lottery gross receipts surrounding big Powerball years.
- Sports wagering, the newest addition to the lottery suite of offerings, is still in its early stages. Montanans' consumption preferences for the sports wagering product are still coming into focus. Limited historical data creates wide error bands around forecast values, but these bands should narrow as the historical data series grows with each additional year of observation.

Forecast Methodology

Lottery revenue is forecast using four main steps:

Step 1. Estimate gross receipts from lottery games excluding sports wagering. A linear regression model is used to predict gross receipts from lottery games, which are modeled as a function of personal consumption expenditures on recreations services in Montana and a dummy variable to account for Powerball changes and the addition of machines at new locations that occurred in FY 2012. Expenditures on recreation services are used as an indicator of individuals' willingness to pay for lottery games. If total expenditures on recreation services are rising, lottery sales are predicted to increase as well, and vice versa. The dummy variable that accounts for the increase in Powerball jackpots and the addition of new machines is predicted to have a positive effect on lottery gross receipts in future years. More machines increase the accessibility of lottery games, which is assumed to lead to increased participation. Additionally, larger jackpots may increase participation if individuals change their lottery risk preferences due to the possibility of a larger payout.

Step 2. Estimate revenue from sports wagering. The short historical series (16 quarterly observations) prevents effective modelling of the observable data. Instead, sports wagering revenue is estimated based on the relationship between wagers and the gambling age population. Wagers per capita are calculated for the historical series and projected forward using population forecasts from S&P Global. The estimate for total wagers is then the product of the gambling age population and the wager per capita.

Step 3. Estimate direct game costs associated with prize payouts, commissions and vendor fees. Direct game costs are expected to equal about 80% of gross receipts for each year in the forecast.

Step 4. Add other income to gross receipts and then subtract direct game costs as well as operating expenses to determine net revenue. Include adjustments made to net revenue (historically, these adjustments have been comprised of equipment depreciation and post-employment benefit costs) and subtract the STEM scholarship

fund distribution to arrive at the amount due to be transferred to the general fund. Other income comes primarily from license fees and short-term interest earnings on money held in the enterprise fund before it is transferred to the general fund. A three-year historical average is used to estimate other income. Projected operating expenses are estimated based on a historical average of the ratio of operating expenses to gross receipts.

Table 2 shows the breakdown of income and expenditures that are used in the calculation of lottery net revenue and final general fund revenue.

Table 2
Total Revenue & Expenses
($ millions)

Fiscal Year	Gross Revenue		Other Income		Direct Game Costs		Operating Expenses		Net Revenue		Other Adjustments		STEM Distribution		General Fund Revenue
A 2014	$53.108	+	$0.028	-	$35.690	-	$5.618	=	$11.828	+	$0.262			=	$12.091
A 2015	$52.342	+	$0.048	-	$35.449	-	$5.613	=	$11.327	+	$1.036			=	$12.363
A 2016	$59.727	+	$0.069	-	$41.038	-	$6.401	=	$12.356	+	-$0.393			=	$11.963
A 2017	$52.460	+	$0.055	-	$37.930	-	$5.187	=	$9.398	+	$0.226			=	$9.624
A 2018	$56.402	+	$0.064	-	$40.661	-	$5.235	=	$10.570	+	$0.130			=	$10.699
A 2019	$60.273	+	$0.045	-	$43.150	-	$5.059	=	$12.109	+	$0.106			=	$12.215
A 2020	$59.891	+	$0.035	-	$45.859	-	$5.546	=	$8.521	+	$0.052	-	$0.500	=	$8.073
A 2021	$112.328	+	$0.014	-	$93.665	-	$5.682	=	$12.995	+	$0.305	-	$1.000	=	$12.300
A 2022	$116.053	+	$0.002	-	$93.176	-	$6.212	=	$16.667	+	$0.144	-	$1.500	=	$15.311
A 2023	$147.849	+	$0.002	-	$117.065	-	$6.171	=	$24.614	+	$0.042	-	$2.000	=	$22.657
A 2024	$154.155	+	$0.005	-	$126.422	-	$6.153	=	$21.586	+	-$0.023	-	$2.250	=	$19.312
F 2025	**$155.865**	+	**$0.003**	-	**$125.459**	-	**$7.023**	=	**$23.386**	+	**$0.010**	-	**$2.250**	=	**$21.145**
F 2026	**$166.819**	+	**$0.003**	-	**$134.276**	-	**$7.517**	=	**$25.029**	+	**-$0.007**	-	**$2.250**	=	**$22.773**
F 2027	**$179.703**	+	**$0.004**	-	**$144.646**	-	**$8.097**	=	**$26.963**	+	**$0.001**	-	**$2.250**	=	**$24.714**

Data Sources

Revenue and expenditure data are obtained from SABHRS and the Montana State Lottery. Montana disposable income data are sourced from S&P Global.

Highway Patrol Fines

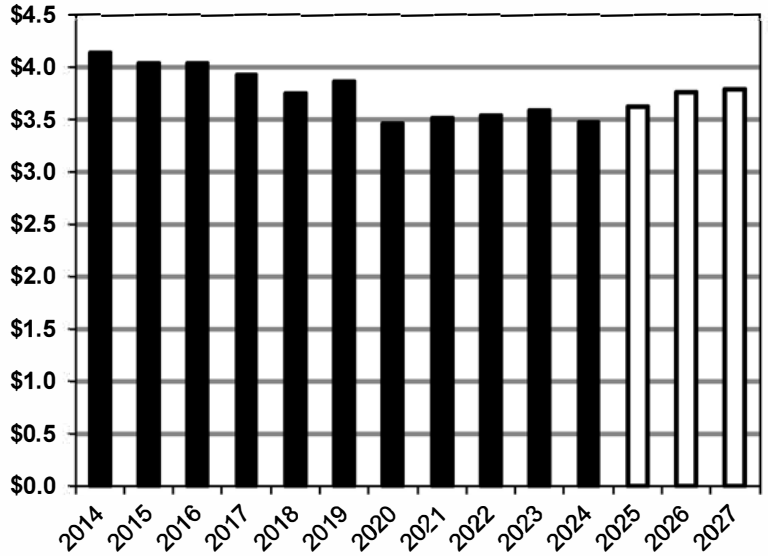
Revenue Description

Highway patrol fines are provided for in Title 61, Chapter 8, Parts 3 and 7, MCA. Fines for citations are collected in Justice Courts. Highway patrol fines are distributed 50% to the county general fund and 50% to the state general fund, pursuant to 3-10-601, MCA. One-hundred percent of fines resulting from convictions due to highway patrol officer stops for highway use or vehicle violations, processed in any other court, are deposited in the state general fund (61-12-701, MCA).

Table 1 shows actual general fund revenue from highway patrol fines for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Highway Patrol Fines
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$4.142	0.0%
A	2015	$4.042	-2.4%
A	2016	$4.040	-0.1%
A	2017	$3.927	-2.8%
A	2018	$3.754	-4.4%
A	2019	$3.862	2.9%
A	2020	$3.458	-10.5%
A	2021	$3.517	1.7%
A	2022	$3.533	0.5%
A	2023	$3.587	1.5%
A	2024	$3.474	-3.2%
F	**2025**	**$3.631**	**4.5%**
F	**2026**	**$3.758**	**3.5%**
F	**2027**	**$3.785**	**0.7%**



The table shows that fine revenues occasionally increase followed by modest annual declines. Declines are assumed to be attributable to increases in gasoline prices and to changes in policy stance (e.g., emphasis on safety and visible presence). Management changes (SB 264 (2005) prohibiting citation quotas) and more recently HB 375 (2015) allowing higher interstate highway speed limits (albeit with increased fine levels) can affect revenue trends. Highway patrol fine collections were affected by the pandemic and changes in court operations. The forecast assumes modest gains to prior levels of driving and collections driven in part by lower fuel prices.

Risks and Significant Factors

- Changes in patrol operations and the economy can typically change collections by around $100,000 per year.
- Changes in traffic laws generally produce very small changes as new violations can crowd out other citations.
- SB 375 (2015) increased speed limits on interstate highways and increased penalties. Revenue was assumed to increase by nearly $100,000 per year, however, the increases did not materialize. Higher fines may have led to more contested citations and drivers may speed less often with the higher limits.
- Drivers may become accustomed to the new limits and citations may increase.
- Declining gasoline prices generally lead to increased highway patrol fine revenue. A 10-cent decrease in average annual gasoline prices historically leads to about a $45,000 increase in fines.

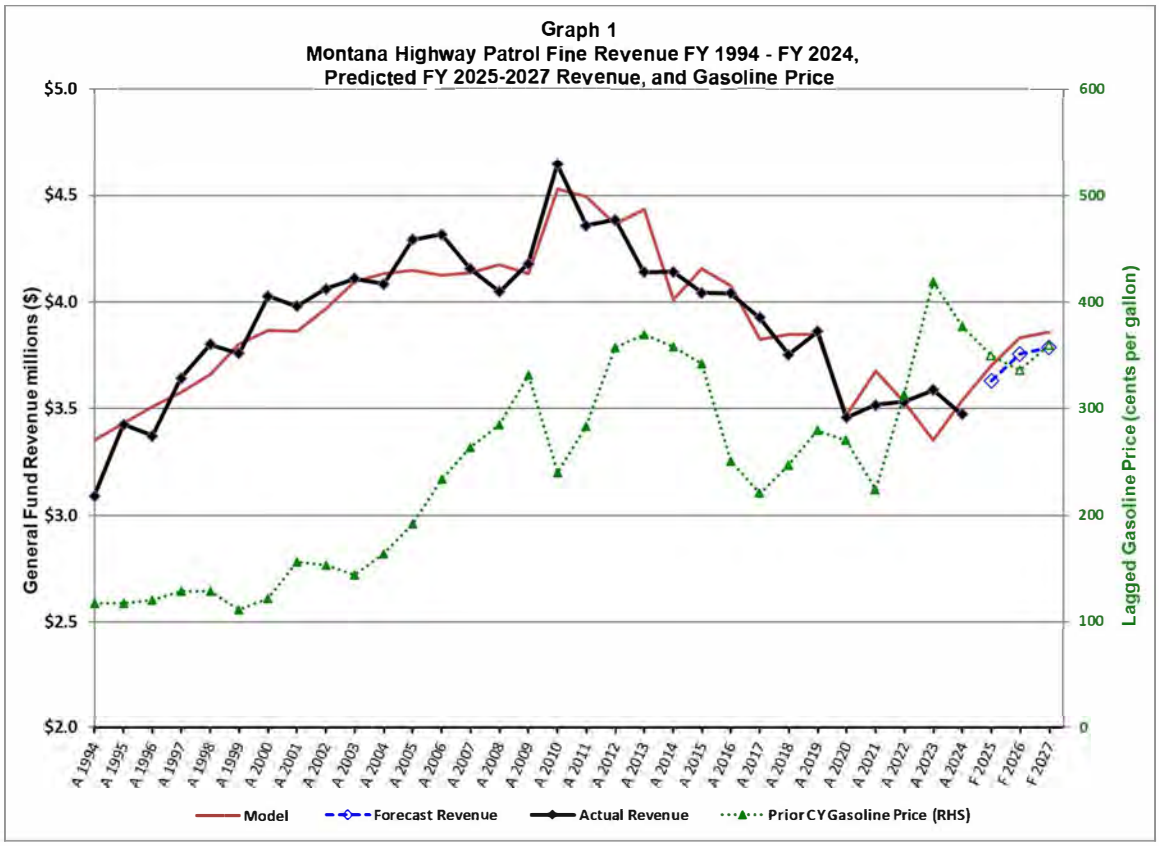
Forecast Methodology

The estimate is based on a model of revenue as a function of time and prior calendar year average gasoline prices. Law and policy changes appear to have disrupted the basic model relationship of time and gasoline price. Adding variables to account for the effects of eliminating the use of citation quotas and speed limit changes restored model fit. The level of gasoline price may serve as an indicator of the change (relative to trend) in traffic volume and possibly vehicle velocity.

Increases in fuel prices above seasonal trend are believed to have a negative effect on discretionary travel. Structurally, collections lag citations as adjudication and revenue recording have natural lags.

COVID-19 changed driving behavior, highway patrol operations, and the functioning of the courts and is apparent in the data. The closure of the northern border to non-commercial travel also shifted traffic flows. These constraints no longer apply. Tourism and travel have surged, the model tries to account for this post-pandemic behavior and a return to more normal patterns.

The model fit and forecast are presented in Graph 1.



Distribution:

All highway patrol fines received by the state are directed to the general fund.

Data Sources

Historical tax revenue is from the state accounting system (SABHRS). The Highway Patrol provided fiscal year operations reports. Gasoline prices and the gasoline price forecasts are from S&P Global national forecast (October 2024).

Revenue Description

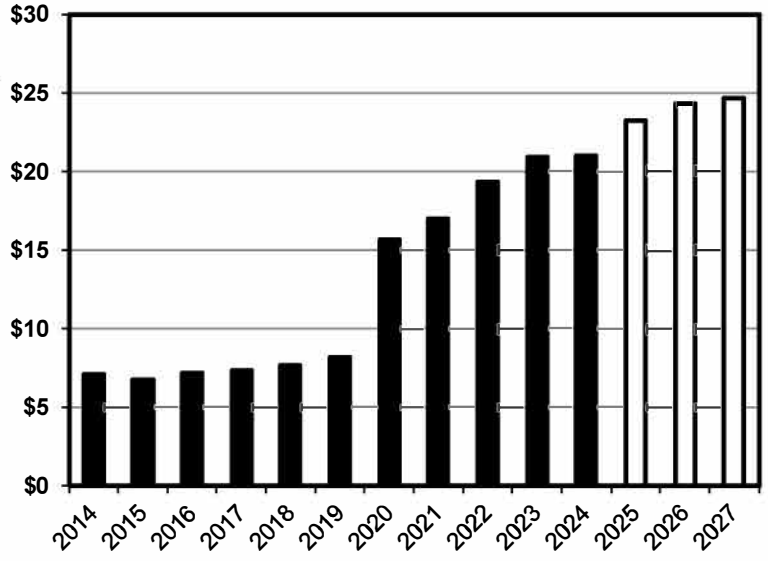
Individuals and firms who plan to sell securities in Montana must register with the Commissioner of Securities and Insurance (CSI) and pay fees as specified in 30-10-209, MCA. The fee to register as a broker-dealer or investment advisor firm is $400 a year, representatives pay $100.

Newly issued securities not regulated at the federal level, or traded on official exchanges, or otherwise exempt from state regulation, must be registered with the CSI. The first-year securities notice registration fees are $200 plus 0.1% of the issue value over $100,000, up to a maximum fee of $1,000. In succeeding years, the registration may be renewed for a fee of 0.1% of the value of securities offered with a minimum of $200 and a maximum of $1,000.

Table 1 shows that investment licenses and permits revenue has trended steadily upward with variation due to financial sector performance.

Table 1
Investment Licenses and Permits
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$7.115	2.4%
A 2015	$6.773	-4.8%
A 2016	$7.212	6.5%
A 2017	$7.327	1.6%
A 2018	$7.683	4.9%
A 2019	$8.182	6.5%
A 2020	$15.711	92.0%
A 2021	$17.020	8.3%
A 2022	$19.352	13.7%
A 2023	$20.942	8.2%
A 2024	$21.042	0.5%
F 2025	**$23.244**	**10.5%**
F 2026	**$24.339**	**4.7%**
F 2027	**$24.658**	**1.3%**



Risks and Significant Factors

- Annual registration revenue tends to move with financial markets and can be cyclical. A long-trend of financial service firm consolidation has not slowed securities brokers-dealers and sales representatives registration growth markedly, despite market volatility. Individual registrations are linked to the representative's new firm, when individuals change firms, they are required to re-register and pay the registration fees.
- Approximately 1% of all Montana registered broker-dealer salespeople and investment advisor representatives (158,887) are physically located in Montana (1,529 in October 2024)
- All investment advisors, broker-dealers, and their representatives and firms register and pay their fees through the (national) Financial Industry Regulatory Authority (FINRA) electronic clearinghouse. This has been mandatory since 2003. In calendar year 2023, there were 628,392 FINRA-registered representatives working for 3,298 firms, nationally. Approximately 24.4% of these registered representatives were licensed in Montana in FY 2023.
- The 2019 Legislature, in HB 694 (2019), doubled the fees for investment advisors and representatives, as well as for broker-dealers and their salespersons. HB 694 also granted refunds of 50% for Montana representatives. Resident representatives must file with the Commissioner for a refund. In recent years less than 40 individuals have requested a refund each fiscal year.

- In January 2024, the state was sued (*Monforton v. Montana*) on Constitutional Privileges and Immunities Clause grounds (discriminating against non-residents) if the case proceeds a trial would be held in early 2026. This case puts half of these collections since May 2019 at risk.
- Related to investment licenses and permits, securities portfolio fee state special revenue collections run about $8 million per year and fund CSI securities activities. Collections exceeding the securities division operations are transferred to the general fund ("Other Revenue"). HB 81 (2011) created a temporary state special revenue fund for securities fraud restitution. Restitution is paid to victims of securities fraud subject to application, a cap, and review by a CSI panel. HB 81 (2013) directed 4.5% of portfolio fee collections to the fund (about $360,000 per year), with a FY 2017 sunset. HB 137 (2017) extended the sunset (FY 2022) and suspended transfers for FY 2018 and FY 2019. HB 66 (2021) reauthorized the fund through FY 2027, renamed the fund to the "*Lynne Egan Memorial Securities Restitution Assistance Fund*" and lowered the transfer to 3% of portfolio fee collections.

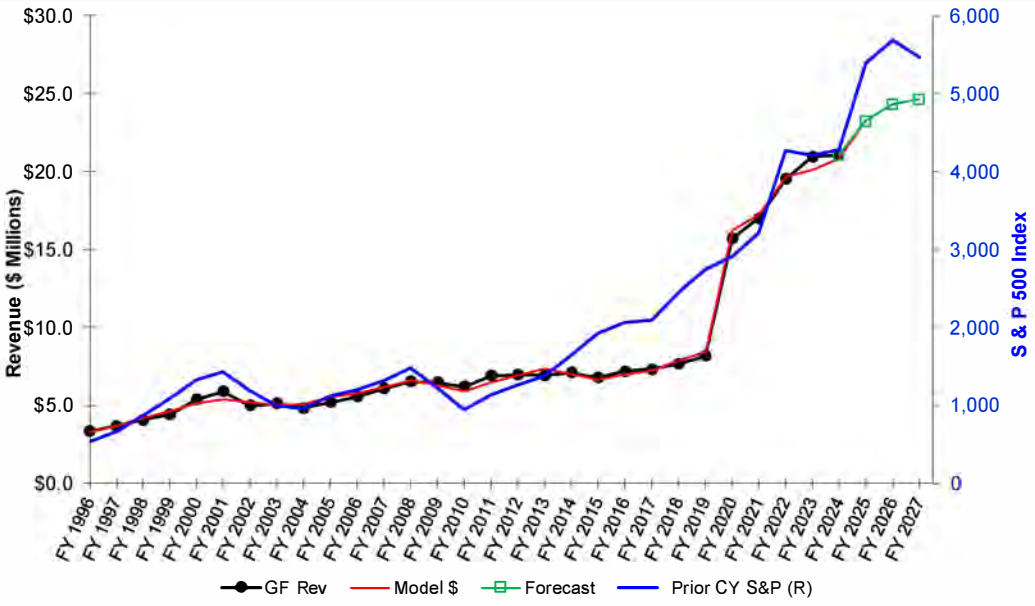
Forecast Methodology

Insurance license and permit revenue is forecast using a regression model of time, and the natural log of prior fiscal year level of the S&P 500. A dummy variable has been added to account for the reclassification of certain fees by CSI in January 2014. The accounting reclassification reduced investment license fee collections. A dummy variable was added to account for HB 684 fee rates changes starting in FY 2020.

The model produces a strong fit with narrow confidence bounds. Though HB 694 rate changes widened the confidence intervals (a standard error of $791,000 instead of $270,000). A 100-point change in the S&P 500 index shifts collections by approximately $172,000. The model reflects the time trend and the change in the S&P 500 index forecast. With the doubling of nonresident fees in May 2019, there are only five fiscal years of data with the new rates, however, the HB 694 adjustment variable appears to be performing well. January 2025 registrations will provide an opportunity to re-evaluate the model as FINRA requires annual registrations by December each year.

The model fit and forecast are presented in Graph 1. The graph shows that revenues move in with time and financial markets after accounting for the change in fees (HB 694) in May 2019.

Graph 1
Investment License Revenue and Prior Year S&P 500 Average
FY 1996 - FY 2024 and Forecast for FY 2025 - FY 2027



Data Sources

Collections are from SABHRS. Montana registrations are from CSI. FINRA registrations are from (https://www.finra.org/media-center/statistics#key). The S&P 500 forecast is from October 2024 U.S. S&P Global forecast.

Public Contractors' Gross Receipts Tax

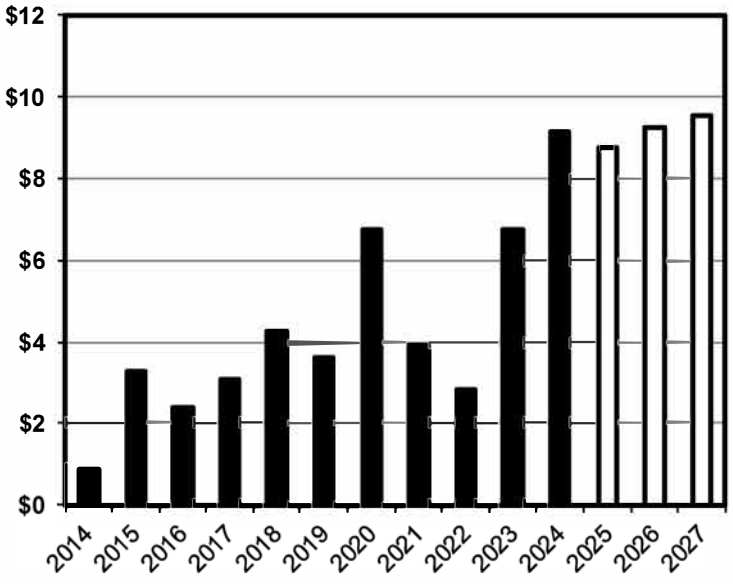
Revenue Description

In accordance with 15-50-205, MCA, a 1% tax is assessed on the gross receipts contractors receive for construction work within Montana for federal, state, or local government projects. Contractors may use the amount of gross receipts tax paid as an offset or credit against either their corporation income tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractors' gross receipts taxes paid. Any tax not credited or refunded is allocated to the general fund.

Table 1 shows actual general fund revenue from the contractors' gross receipts tax for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Contractors' Gross Receipts Tax
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$0.887	-744.7%
A 2015	$3.257	267.1%
A 2016	$2.397	26.4%
A 2017	$3.078	28.4%
A 2018	$4.267	38.6%
A 2019	$3.597	-15.7%
A 2020	$6.729	87.0%
A 2021	$3.897	-42.1%
A 2022	$2.840	-27.1%
A 2023	$6.733	137.1%
A 2024	$9.125	35.5%
F 2025	**$8.760**	**-4.0%**
F 2026	**$9.263**	**5.7%**
F 2027	**$9.534**	**2.9%**



Risks and Significant Factors

- The level of contractors' gross receipts tax is dependent on the amount of public construction contracts available from federal, state, and local governments. Federal and state contracts provide the bulk of work for public contractors. Growth in public infrastructure investment in Montana increases the size and number of public contracts and leads to higher tax collections.
- Pandemic-era federal stimulus spending, primarily from the CARES Act, American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Act (IIJA) juiced demand for public construction services in Montana. The long tail on the administration and distribution of the funding made available through these federal laws is expected to keep public contract activity elevated through the 2027 Biennium.
- The balance between the value of the public contract and the amount of property taxes and vehicle taxes paid on the equipment used for the construction work influences the amount of gross receipts tax due to the general fund. If a lot of equipment is used for a relatively small value contract, it is possible for the contractor to receive a refund instead of owing tax, which is a negative draw on general fund revenue.
- Economic conditions and public policy influence the amount of spending governments allocate to public infrastructure. Spending can increase in both good economic times and bad economic times, and public policy is often dictated by the political makeup of governing bodies.

Forecast Methodology

There are three steps used when calculating public contractors' gross receipts tax revenue:

Step 1. Estimate gross tax receipts based on the expected value of public contracts. The total value of public contracts is divided into two categories: contracts supplied by the Montana Department of Transportation (MDT), and contracts supplied by other entities such as the federal government. Other contract payments historically have fluctuated more than MDT contract payments over the years. Large increases in other contract payments appear to be linked to federal stimulus spending.

MDT contract payments are forecast to continue rising but at a flattening rate through FY 2027 as federal dollars from sources like the IIJA flow through MDT to contractors around the state. The value of contracts not linked to MDT moved sideways during the forecast period. Funds from ARPA are still being awarded and distributed, with the deadline for distribution from the state to recipients being the end of CY 2026. New federal infrastructure spending is expected to decline and balances out the upward lift provided by ARPA distributions.

Step 2. Forecast total tax credits and refunds as a consistent share of the value of non-MDT contracts.

Step 3. Calculate the tax liability for the fiscal year and add the amount of credits and refunds to obtain general fund revenue.

Table 2 shows actual gross receipts from MDT and other contractors' payments, total credits and refunds, and general fund revenue for FY 2014 through FY 2024. Forecast values are shown for FY 2025 through FY 2027.

Table 2
Gross Receipts, Refunds, and Credits
($ millions)

Fiscal Year	MDT	Other	Tax Liability	Credits and Refunds	General Fund
A 2014	$324.84	$115.88	$4.41	($3.52)	$0.89
A 2015	$335.65	$112.45	$4.48	($1.22)	$3.26
A 2016	$295.29	$152.84	$4.48	($2.08)	$2.40
A 2017	$266.98	$151.81	$4.19	($1.11)	$3.08
A 2018	$284.64	$185.64	$4.70	($0.44)	$4.27
A 2019	$351.28	$97.28	$4.49	($0.89)	$3.60
A 2020	$400.38	$253.61	$6.54	$0.19	$6.73
A 2021	$372.42	$501.85	$8.74	($4.85)	$3.90
A 2022	$327.28	$922.32	$12.50	($9.66)	$2.84
A 2023	$429.12	$999.20	$14.28	($7.55)	$6.73
A 2024	$520.66	$1,382.31	$19.03	($9.90)	$9.12
F 2025	**$534.67**	**$1,204.29**	**$17.39**	**($8.63)**	**$8.76**
F 2026	**$567.84**	**$1,264.55**	**$18.32**	**($9.06)**	**$9.26**
F 2027	**$584.42**	**$1,301.62**	**$18.86**	**($9.33)**	**$9.53**

Data Sources

Gross tax receipts, tax credits, refunds, and net general fund collections are obtained from SABHRS.

Drivers' License Fees

2027 Biennium

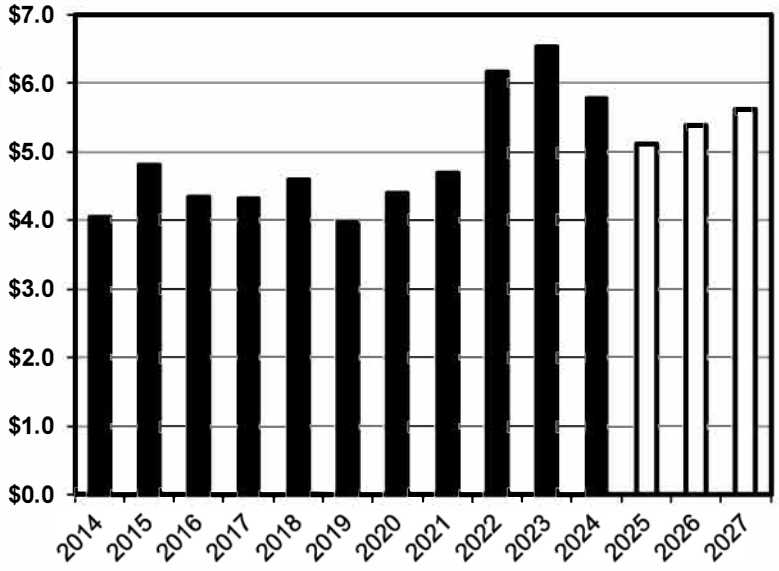
Revenue Description

Fees for driver's licenses, commercial driver's licenses, and motorcycle endorsements are set in 61-5-111, MCA. The fee for replacing a lost or destroyed license is set in 61-5-114, MCA. The distribution of revenue from driver's license fees is set in 61-5-121, MCA. County treasurer's offices in some small counties with limited-service driver license exam stations can retain a small percentage of the fees they collect on behalf of the Motor Vehicle Division (MVD). The county retention appears to be phasing out with the implementation of the division's new licensing system.

Table 1 shows general fund revenue from driver's license fees for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Driver's License Fees
($ millions)

Fiscal Year	General Fund	Percent Change
A 2014	$4.051	-10.5%
A 2015	$4.811	18.8%
A 2016	$4.345	-9.7%
A 2017	$4.308	-0.8%
A 2018	$4.581	6.3%
A 2019	$3.976	-13.2%
A 2020	$4.404	10.8%
A 2021	$4.695	6.6%
A 2022	$6.167	31.3%
A 2023	$6.531	5.9%
A 2024	$5.772	-11.6%
F 2025	**$5.113**	**-11.4%**
F 2026	**$5.388**	**5.4%**
F 2027	**$5.613**	**4.2%**



Basic fees for driver's licenses are $5 per year of validity. Additional fees are charged for motorcycle endorsements ($0.50 per year). Commercial driver's licenses ($10 per year for inter-state and $8.50 per year for intra-state licenses) are valid for a four-year period and include basic driving privileges that run concurrently with the commercial license. Reduced fees are available to active military personnel for basic driver's licenses and motorcycle endorsements. Replacement licenses are $10, and a $0.50 renewal notice fee is charged at issue of a license. All Title 61, MCA, fees also receive a 3% administrative surcharge as of January 1, 2018, per HB 650 and HB 473 of the 2017 Session. The 3% fee is directed to the MVD administration state special revenue fund.

Most license fees were revised by the 2003 Legislature. During the 2005 Session the validity of commercial drivers' licenses was reduced to four years to conform with federal regulations and HB 192 revised fee distributions. There was a correction to the distribution of fees in HB 23 (2007). SB 393 (2015) created the option for a web-based drivers' licensing renewal system and expanded eligibility for mail renewals

In 2017, SB 366 provided for federal REAL ID licensure as current Montana drivers' licenses were anticipated to not meet the Transportation Security Administration (TSA) requirements of October 2021. TSA requirements have been postponed repeatedly and are now slated to go into effect in May 2025. REAL ID compliant IDs carry the standard license fee ($5 per year of validity) plus an additional $25 charge. The REAL ID fees are state special revenue collections.

HB 515 (2019) expanded the availability of replacement driver's licenses online or mail if a digital photo is on file at MVD.

SB 336 (2021) allows drivers of qualifying age to obtain a standard drivers' license (without REAL ID) with up to 12 years of validity, extending the prior eight-year limitation.

The 2023 Legislature authorized app-based digital driver's licenses (mDL) starting September 2025 (HB 519).

Risks and Significant Factors

- Revenue swings between fiscal years are principally due to renewal patterns that developed during the transition from four-year to eight-year licensing and now 12-year licensing. The amplitude of these shifts grew with fee changes in FY 2003. These effects have persisted in an attenuated manner.
- New twelve-year standard licensing appears to have extended the average term of Montana licenses from around six years to just over seven years. To the extent that licensed drivers are not constrained by: REAL ID (eight-year licenses), CDL (four-year licenses) and licenses leading to age 75, may result in additional variation.
- Pandemic renewal waivers appear to have shifted renewals into FY 2021, FY 2022, and FY 2023.
- First year restrictions for drivers 18 years of age and under, which began in FY 2006, have lengthened the transition to full licensure and reduced the number of drivers aged 16 and under.
- The average driver's age in Montana has risen and the growth of licensed drivers is slowing, this has been offset by recent migration to Montana.
- As current eight-year licenses expire and are replaced with 12-year licenses, collections will be higher. Starting in FY 2029 fewer drivers will need to relicense, lowering revenue.
- REAL ID requirements for clearing TSA for air travel starting May 7, 2025, could result in more replacement licensing. The transition to REAL IDs, availability of online renewals, and scheduling lowers those risks.

Forecast Methodology

Forecasting general fund driver's license fee revenue:

Step 1: Calculate the average effective licensing fee for basic licenses by dividing the number of renewal notices by the basic license collections. The number of driver's licenses issued in any given year is proxied by the renewal notices issued each fiscal year starting in FY 2006.

Step2: Forecast the number of licenses to be issued. The estimate of fiscal year licenses is calculated by taking the average of the prior fifth, sixth, and seventh year of the licensing cycle and growing the number by the five-year percent change in the driving-age population.

Step 3: Project licensing fees for basic drivers' licenses. This is done using the rounded FY 2022 - FY 2024 average fees as these are the first full years of 12-year licensing.

Step 4: Project total basic driver's license revenue by multiplying projected driver's licenses by expected fees.

The results of Steps 1 through 4 are summarized in Table 2:

Table 2
Estimate of Basic Driver's License Collections

Fiscal Year	Standard Driver's License Fees		Effective Average Fee		Renewal Notices		Forecast Std. License Total Revenue
A 2018	$4,548,243	÷	$31.19	=	145,826		
A 2019	$3,930,353	÷	$31.50	=	124,792		
A 2020	$4,292,062	÷	$30.65	=	140,051		
A 2021	$4,800,984	÷	$30.68	=	156,485		
A 2022	$6,643,240	÷	$36.92	=	179,955		
A 2023	$7,192,887	÷	$37.55	=	191,566		
A 2024	$6,102,979	÷	$36.26	=	168,292		
F 2025			**$36.91**	**x**	**149,379**	**=**	**$5,513,483**
F 2026			**$36.91**	**x**	**157,429**	**=**	**$5,810,259**
F 2027			**$36.69**	**x**	**164,977**	**=**	**$6,053,590**

Notable in Table 2 is the change in the effective average fee since FY 2021, suggesting that the average license term has been extended by about 1.25 years.

Step 5: Estimate revenue from other licenses. Commercial driver's license, motorcycle endorsement, and replacement license revenues are projected based on their respective three-year average proportions relative to basic driver's license revenue. These estimates are reported in Table 3.

A portion of the driver's license fees were retained for counties' general fund, this retention was not reported in SABHRS. The New MVD licensing system eliminates the need for these county retentions.

Table 3
Driver's License Total Revenue by Fee Type
($ millions)

Fiscal Year	Basic Driver's Licenses	Commercial Licenses	Motorcycle Endorsements	Replacement Licenses	Renewal Fee	Total Revenue	Estimate of county retention
A 2020	$4.292	$0.548	$0.045	$0.503	$0.070	$5.457	$0.011
A 2021	$4.801	$0.509	$0.047	$0.405	$0.078	$5.841	$0.009
A 2022	$6.643	$0.579	$0.057	$0.337	$0.090	$7.706	$0.010
A 2023	$7.193	$0.492	$0.063	$0.329	$0.096	$8.173	$0.008
A 2024	$6.103	$0.435	$0.053	$0.500	$0.084	$7.186	$0.000
Relative Proportion							
A 2020	1.000	0.128	0.010	0.117	0.016	1.272	0.003
A 2021	1.000	0.106	0.010	0.084	0.016	1.217	0.002
A 2022	1.000	0.087	0.009	0.050	0.014	1.160	0.002
A 2023	1.000	0.068	0.009	0.046	0.013	1.136	0.001
A 2024	1.000	0.070	0.009	0.084	0.014	1.178	0.000
Three Yr Ave. Proportion		**0.076**	**0.009**	**0.060**	**0.014**	**1.158**	**0.001**
All Fund Revenue by License Type							
A 2024	$6.103	$0.435	$0.053	$0.500	$0.084	$7.186	$0.000
F 2025	**$5.513**	**$0.417**	**$0.048**	**$0.331**	**$0.075**	**$6.384**	**$0.000**
F 2026	**$5.810**	**$0.439**	**$0.051**	**$0.349**	**$0.079**	**$6.728**	**$0.000**
F 2027	**$6.054**	**$0.458**	**$0.053**	**$0.363**	**$0.082**	**$7.009**	**$0.000**

Step 6: Allocate statutory distributions of revenue to the state traffic education and state motorcycle safety accounts, by type of licensing revenue. The remainder is distributed to county or state general funds. The basis for distributing fees for each license is set in 61-5-121, MCA, and shown in Table 4.

Table 4
Driver's License Fee Allocation

	Basic Driver's License	Commercial Licenses	Motorcycle Endorsement	Replacement License
State General Fund (remainder)	76.80%	80.56%	33.20%	87.50%
State or County General Fund[1]	2.50%	2.50%	3.34%	3.75%
Traffic Safety Education	20.70%	16.94%	0.00%	8.75%
Motorcycle Safety Training	0.00%	0.00%	63.46%	0.00%
	100.00%	100.00%	100.00%	100.00%

[1] County general fund receives the distribution if the license is issued at a county office (vs. a MVD office).

The estimates from the bottom of Table 3 are multiplied by the corresponding distribution percentage listed in Table 4 to allocate receipts to each special revenue account and to the state general fund. Counties only receive a distribution if they issue the license. The county retention is estimated to be $0.

Table 5
Allocation of Driver's License Fee Revenue
($ millions)

Fiscal Year	General Fund	Traffic Safety Education	Motorcycle Safety Training	County Retention	Total
A 2019	$3.976	$0.929	$0.025	$0.013	$4.929
A 2020	$4.404	$1.025	$0.028	$0.011	$5.457
A 2021	$4.686	$1.115	$0.030	$0.009	$5.841
A 2022	$6.157	$1.503	$0.036	$0.010	$7.706
A 2023	$6.524	$1.601	$0.040	$0.008	$8.173
A 2024	$5.771	$1.382	$0.034	$0.000	$7.186
F 2025	**$5.113**	**$1.241**	**$0.030**	**$0.000**	**$6.384**
F 2026	**$5.388**	**$1.308**	**$0.032**	**$0.000**	**$6.728**
F 2027	**$5.613**	**$1.362**	**$0.033**	**$0.000**	**$7.009**

Data Sources

Historical revenue data by license type is from SABHRS. Montana population estimates are from October 2024 S&P Global Montana state forecast.

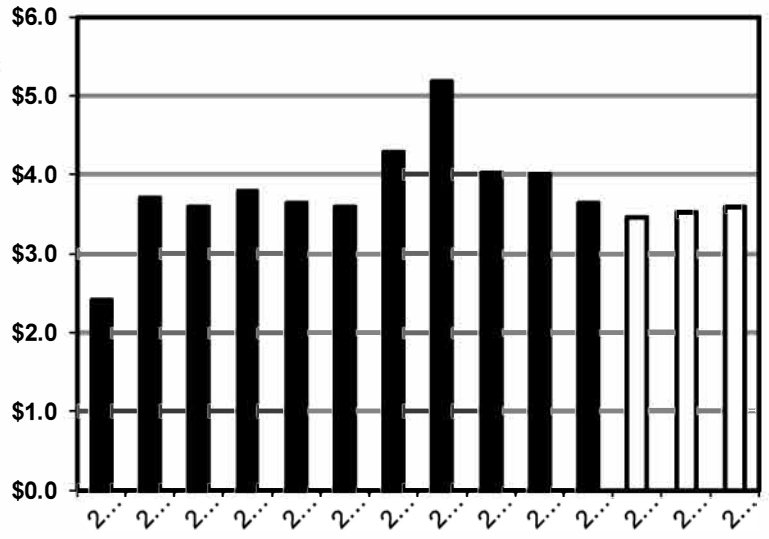
Revenue Description

Title 15, Chapter 23, Part 2, MCA, provides for the central assessment of rail car companies' operating properties and their taxation. The tax is computed by multiplying the assessed value of the allocated Montana share of the national rail car fleet by the class 12 tax rate and the statewide average mill levy for commercial and industrial property.

Table 1 presents actual general fund revenue from the rail car tax for FY 2014 through FY 2024 and forecast for FY 2025 through FY 2027. (FY 2025 revenues are known since the tax bills were issued in October 2024).

Table 1
Rail Car Tax
($ millions)

	Fiscal Year	General Fund	Percent Change
A	2014	$2.418	11.0%
A	2015	$3.706	53.3%
A	2016	$3.594	-3.0%
A	2017	$3.790	5.4%
A	2018	$3.649	-3.7%
A	2019	$3.594	-1.5%
A	2020	$4.294	19.5%
A	2021	$5.187	20.8%
A	2022	$4.020	-22.5%
A	2023	$4.012	-0.2%
A	2024	$3.645	-9.2%
F	**2025**	**$3.457**	**-5.1%**
F	**2026**	**$3.526**	**2.0%**
F	**2027**	**$3.597**	**2.0%**



Risks and Significant Factors

- Increases in the national rail car fleet, increased traffic with growing trade flows, including grain, coal, and oil hauling can expand state collections. Slowing trade, reductions in commodity shipments, declines in coal demand, and oil pipeline expansion can reduce traffic.
- The class 12 tax rate is the effective weighted average rate that applies to all commercial and industrial property in the state. The rate is affected by state property tax reductions as the federal 4-R Act protects class 12 property from paying taxes at a rate higher than the statewide industrial and commercial average.
- Property tax base reductions may also raise statewide average commercial and industrial mill rates. If mill levies rise (fall) more than anticipated, they would increase (decrease) state general fund rail car tax revenue.
- Because tax year (TY) 2024 rail car tax bills were mailed in October, the tax liability for FY 2025 is known but subject to protests, penalties, audits, and corrections to rail car company reporting.

Forecast Methodology

Step 1. Forecast the allocated market value of rail car companies operating in Montana. The (outlier adjusted) trend growth adds about $2 million per year to national rail car fleet value allocated to Montana. The Montana allocation (share) of the national railcar fleet value is determined by time and speed studies of rail car traffic through the state of Montana. Rail car firms can also waive the speed studies and elect to use a default allocation.

Step 2. Apply the class 12 tax rate to allocated market value. Business equipment tax reductions in the 2021 and 2023 Sessions and class 4 commercial property tax reappraisal lowered the class 12 tax rate from 3.06% to 2.77%. It is assumed that the rate will remain at 2.77%

Step 3. Estimate the average statewide mill levy for commercial and industrial property. Statewide commercial and industrial mills are expected to remain flat in the forecast period as new property offsets mill growth.

Step 4. Calculate general fund revenue. Table 2 presents the forecast of allocated market value, class 12 tax rate, the estimated statewide average commercial and industrial property mill levy, and the resulting general fund tax revenue forecast.

Table 2
Calculation of Rail Car Tax Revenue
($ millions)

Description	FY 2023 Actual	FY 2024 Actual	**FY 2025 Billed**	**FY 2026 Projected**	**FY 2027 Projected**
Total Montana Allocated Value	$230.635	$209.439	**$241.075**	**$245.897**	**$250.815**
Multiplied by Class 12 Tax Rate	3.06%	3.06%	**2.77%**	**2.77%**	**2.77%**
Taxable Value	$7.057	$6.409	**$6.678**	**$6.814**	**$6.948**
Multiplied by Mill Levy	567.990	568.850	**517.680**	**517.680**	**517.680**
Calculated Tax	$4.009	$3.646	**$3.457**	**$3.526**	**$3.597**
General Fund Revenue	$4.012	$3.645	**$3.457**	**$3.526**	**$3.597**

Distribution

The general fund receives 100% of rail car tax revenue.

Data Sources

Historical tax revenue is from SABHRS. The summary rail car tax database (TY 2003 – TY 2024), class 12 tax rates for TY 2003 – TY 2024, and statewide average commercial and industrial mill levies for TY 2003 – TY 2024 were provided by the Department of Revenue.

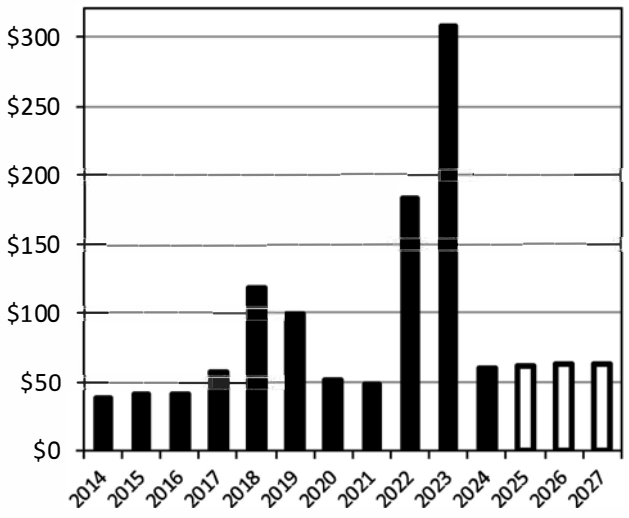
Revenue Description

Other revenue represents the sources of general fund revenue that do not have an individual line item in the revenue estimating resolution. The FY 2018 one-time revenue includes $38.4 million of 2017 regular session transfers and $22.4 million 2017 special session transfers to the general fund. One-time revenue in FY 2019 includes $10.24 million from HB 6, (2017 Special Session) transfers; $15 million receipts from Core Civic; $15.08 million from State Fund management fees; and $1.64 million from tourism transfers. FY 2020 revenues include $4.1 million from Core Civic, and $750,000 from HB 715, 2019 Session transfers. The Compound Annual Growth Rate (CAGR) transfers of $116.2 million in FY 2022 and $260.8 million in FY 2023 are included in other revenue. An average of $3.4 million per year is used to forecast one-time revenue going forward.

Table 1 shows actual general fund revenue from FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
Other Revenue
($ millions)

Fiscal Year		General Fund	Percent Change
A	2014	$37.321	-26.0%
A	2015	$40.822	9.4%
A	2016	$41.444	1.5%
A	2017	$57.338	38.4%
[1]A	2018	$117.813	105.5%
[2]A	2019	$98.896	-16.1%
[3]A	2020	$50.484	-49.0%
A	2021	$47.860	-5.2%
[4]A	2022	$183.058	282.5%
[5]A	2023	$307.930	68.2%
A	2024	$59.737	-80.6%
F	**2025**	**$61.757**	**3.4%**
F	**2026**	**$62.373**	**1.0%**
F	**2027**	**$62.920**	**0.9%**



[1]FY 2018 includes $38.4M 2017 Reg Session transfers; $22.4M 2017 Special Session transfers
[2]FY 2019 includes $1.64M 2017 Reg Session transfers; $10.24M 2017 Special Session transfers; $15M Core Civic; $15.084M State Fund Mgmt Fee
[3]FY 2020 includes $4.1M Core Civic; $750k HB 715 transfers
[4]FY 2022 includes CAGR transfer $116.2M
[5]FY 2023 includes CAGR transfer $260.79M

Risks and Significant Factors

- State legislative and national congressional action may have a significant impact on “other revenue”.
- Many small variances over a large number of revenue categories may have a significant aggregate effect.

Forecast Methodology

The general fund “other revenue” is forecast in four steps:

Step 1. Estimate future one-time revenue.

Step 2: Isolate and estimate large sources of other revenue.

- The sale of abandoned property is from financial accounts that have gone dormant and are forwarded to the state.

Step 3: Isolate and estimate smaller sources of revenue.

- There are many small sources of revenue that are forecast individually. These sources are projected like the larger sources of revenue; they are assessed for law changes and forecast based on trends or discussions within agencies.

Step 4: Estimate the remaining revenue as a group and sum the four categories. The general fund revenue that is not classified in one of the three previous groups is estimated as a single group.

Table 2 shows revenue to the general fund that is categorized as one-time revenue which is projected to be $3.4 million each year for FY 2025 through FY 2027.

Table 2
One Time General Fund Revenue
($ millions)

Fiscal Year	One Time Revenue	Percent Change
A 2012	$3.450	-78.9%
A 2013	$2.030	-41.2%
A 2014	$0.649	-68.0%
A 2015	$0.588	-9.3%
A 2016	$1.330	126.2%
A 2017	$1.384	4.0%
A 2018	$69.628	4932.6%
A 2019	$46.630	**-33.0%**
A 2020	$7.384	-84.2%
A 2021	$2.429	-67.1%
A 2022	$139.489	5641.9%
A 2023	$263.808	89.1%
A 2024	$3.403	-98.7%
F 2025	**$3.403**	**0.0%**
F 2026	**$3.403**	**0.0%**
F 2027	**$3.403**	**0.0%**

Table 3 shows additional large sources of ongoing other revenue. Collections are projected by examining historical deposits to determine whether there is a trend or other pattern in receipts.

Table 3
Large Individual Sources of Ongoing Other Revenue
($ millions)

Source of Revenue	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**
Abandoned Property	$23.224	**$23.224**	**$23.224**	**$23.224**
Clerk of Court Fees	$3.912	**$3.912**	**$3.912**	**$3.912**
Portfolio Transfer	$5.491	**$5.605**	**$5.721**	**$5.840**
Vehicle and Driving Records	$3.131	**$3.131**	**$3.131**	**$3.131**
SWCAP	$4.500	**$4.500**	**$4.500**	**$4.500**
HB 536 Criminal Surcharge	$1.194	**$1.194**	**$1.194**	**$1.194**
Liquor License Sales	$0.454	**$3.430**	**$3.666**	**$4.358**
Bentonite Production	$0.454	**$0.456**	**$0.456**	**$0.456**
Driver's License Reinstatement	$0.861	**$0.861**	**$0.861**	**$0.861**
Total	$43.220	**$46.313**	**$46.665**	**$47.476**

Table 4 shows the four different revenue categories that make up general fund other revenue for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 4
All Other Revenue Sources
($ millions)

Fiscal Year	One Time	Large Sources	Smaller Sources	Estimated as a group	Total
A 2014	$0.649	$31.291	$4.431	$0.973	$37.344
A 2015	$0.588	$32.039	$4.003	$4.225	$40.855
A 2016	$1.330	$30.468	$5.148	$4.583	$41.529
A 2017	$1.384	$32.464	$12.830	$10.704	$57.381
A 2018	$69.628	$33.789	$3.502	$10.893	$117.813
A 2019	$46.630	$32.015	$10.175	$11.165	$99.985
A 2020	$7.384	$35.668	$4.650	$7.182	$54.884
A 2021	$2.429	$37.531	$2.774	$7.431	$50.165
A 2022	$139.489	$38.107	$5.434	$3.581	$186.611
A 2023	$263.808	$35.355	$5.031	$3.736	$307.930
A 2024	$3.403	$43.220	$9.066	$4.048	$59.737
F 2025	**$3.403**	**$46.313**	**$7.993**	**$4.048**	**$61.757**
F 2026	**$3.403**	**$46.665**	**$8.257**	**$4.048**	**$62.373**
F 2027	**$3.403**	**$47.476**	**$8.943**	**$4.048**	**$63.870**

Data Sources

SABHRS MTGL0109 report for fiscal year end and SABHRS Data Mine provided historical revenue.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

NON-GENERAL FUND REVENUE SECTION 10

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

School Trust Land Interest and Income

2025 Biennium

Revenue Description

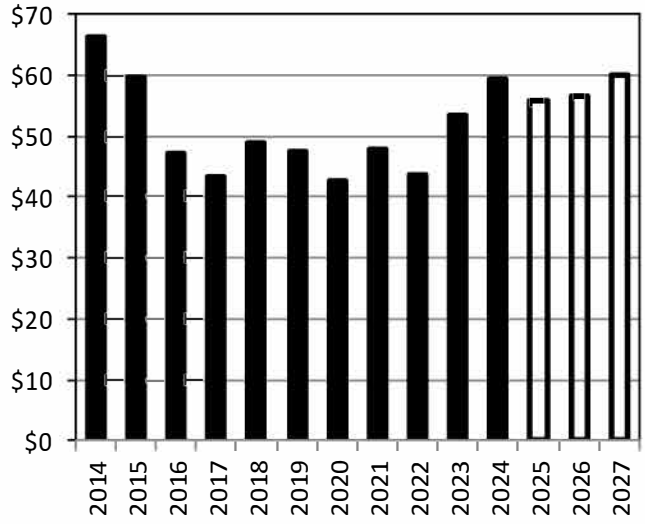
The United States Congress granted public lands to the State of Montana by the Enabling Act in 1889 to provide income to support public schools. The Enabling Act also granted smaller amounts of land to other state institutions (School for the Deaf and Blind, colleges, and universities). The land grants have been supplemented over time through gifts to the state, reversions of unclaimed property, and subsequent acts.

Proceeds from property sales of the granted land are deposited into an inviolate trust fund; thus, the proceeds are non-distributable. The trust fund is invested, almost exclusively, in the Trust Fund Investment Pool (TFIP). Of the interest income and other income from the trust lands, 5% percent is retained by the trust fund corpus and 95% of the interest earned by the trust fund is considered distributable. The distributable income from the common school trust land is deposited in the state special revenue guarantee account as the first source of revenue to spend on public schools. The distributable income from the other trust lands goes to state special revenue accounts for those entities. Costs of administering state lands are deducted from allocations of the income. An amount is also deducted and put into a reserve fund in the event revenues do not meet the required expenses in a given fiscal year but will be greater than the costs given a longer time-period.

Table 1 shows actual distributable income from the Common School Trust plus additional revenue directed to the account for FY 2014 through FY 2024 and forecast revenue for FY 2025 through FY 2027.

Table 1
School Trust Land Interest and Income
($ millions)

A	2014	$66.194	8.34%
A	2015	$59.833	-9.61%
A	2016	$47.053	-21.36%
A	2017	$43.132	-8.33%
A	2018	$49.036	13.69%
A	2019	$47.341	-3.46%
A	2020	$42.452	-10.33%
A	2021	$47.945	12.94%
A	2022	$43.577	-9.11%
A	2023	$53.321	22.36%
A	2024	$59.473	11.54%
F	**2025**	$55.935	**-5.95%**
F	**2026**	$56.542	**1.09%**
F	**2027**	$60.065	**6.23%**



School interest and income was deposited in the general fund through FY 2001. A new state special revenue account, the guarantee account (20-9-622, MCA), was created in SB 495 (2001 Session) and amended in HB 7 (2002 Special Session) to be statutorily appropriated. Beginning in FY 2002, school trust interest and income has been deposited in the guarantee account rather than to the general fund.

SB 65 (2009 Session) consolidated four accounts that were used to pay for the administration of the trust fund into a single account. It also allowed the diversion of up to 25% of the prior year's distributable revenue to be deposited into the trust administration account (TAC) for the Department of Natural Resources and Conservation (DNRC) administrative costs. In the event costs were less than what was distributed to the TAC, then up to one-third of the excess would be deposited into a newly created reserve account. Money in the reserve account would then be used to cover administrative costs in the event there were inadequate funds in the TAC account to cover all costs. The remaining revenue would be

deposited in the trust fund corpus to generate interest. The balance in the earnings reserve fund may not exceed 200% of the appropriation to the TAC account from the prior fiscal year.

Funding deposited in the state special revenue guarantee account in addition to the state lands revenues included: SB 175, 2013 session, transferred $22.95 million general fund at the end of FY 2013 to the state special revenue Montana support for schools account to be equally distributed to the state special revenue guarantee account at the beginning of each fiscal year in FY 2014 and FY 2015. The 2017 special legislative session transferred $3.4 million in FY 2018 and $4.8 million in FY 2019 via HB 6 from the state special revenue school facility and technology account to the guarantee account.

HB 587, 2023 Session, identified the guarantee account as the first source of funding for state equalization aid for schools. Statute directs in 20-9-342, MCA, that any excess interest and income revenue exceeding $56 million is to be transferred to the school major maintenance aid (SMMA) account in 20-9-525, MCA. In FY 2024, for the first time, there was $3.4 million excess interest and income to transfer to SMMA.

Risks and Significant Factors

- Trust revenue is net of administration costs of DNRC. If DNRC's costs vary from expectations, then common school revenue could also be greater or less than anticipated.
- Revenue to the account can vary depending on legislative action depositing more or less revenue to the account.
- Mineral management revenue varies according to mineral prices and changes in mineral rights leases.
- The price of timber, along with decisions about the amount of land to be harvested, could have an effect on trust land revenue.
- Excess oil and gas revenue from schools that would receive more than 130% of their maximum district general fund budget in oil and gas tax revenue is deposited into the state special revenue guarantee account. This amount varies greatly depending on the prices of oil and natural gas and well drilling activity.

Forecast Methodology

Step 1. Total interest earnings from the trust and legacy fund are based on interest rate forecasts described in the *Interest Rate Introduction* section.

Step 2. The Common School portion of the total trust fund is then estimated and applied to yield interest income.

Step 3. Agricultural and grazing rentals are determined based on projections provided by the DNRC and historical projection patterns.

Step 4. School trust non-royalty mineral income is based on projections provided by the DNRC and historical projection patterns.

Step 5. Timber revenue is based on projections by DNRC, long-term trends, and executive budget recommendations.

Step 6. Mineral revenue is calculated based on projections provided by the DNRC and historical projection patterns.

Step 7. All other revenue to the common school trust is forecast based on communication with DNRC, long-term trends, and legislative actions.

Step 8. All components are added together and distributed appropriately.

Table 2 shows actual revenue for FY 2024 and forecast gross revenue, estimated administrative expenses, common schools distribution, other anticipated revenue, and net revenue to schools for FY 2025 through FY 2027.

Table 2
School Trust Income Allocation and Distribution
($ millions)

Fiscal Year	FY 2024	FY 2025	FY 2026	FY 2027
Distributable Income				
Investment Income	$32.810	**$33.507**	**$36.611**	**$39.979**
Agriculture and Grazing Rents	$32.898	**$30.000**	**$30.000**	**$30.000**
Recreational Use	$2.097	**$2.000**	**$2.000**	**$2.000**
Mineral Management	$2.465	**$3.500**	**$1.000**	**$1.000**
Forest Management	$5.052	**$2.492**	**$2.477**	**$2.766**
Licenses and Other Income	$2.630	**$2.960**	**$3.010**	**$3.061**
Subtotal	$78.053	**$74.459**	**$75.098**	**$78.806**
Expenses				
Technology Acquisition Fund	$1.954	**$2.000**	**$2.000**	**$2.000**
Trust Land Administration Account	$14.228	**$13.580**	**$13.580**	**$13.580**
Subtotal	$16.970	**$58.879**	**$59.518**	**$63.226**
Permanent Fund				
5% to permanent fund	$3.099	**$2.944**	**$2.976**	**$3.161**
Total Common Schools Distribution	$58.872	**$55.935**	**$56.542**	**$60.065**
Other Trust Land Interest & Income				
Land Banking Earnings	$0.601			
Total Trust Land Interest & Income	$59.473	**$55.935**	**$56.542**	**$60.065**
Excess greater than $56M to SMMA	$3.473	**$0.000**	**$0.542**	**$4.065**
Other Guarantee Account Revenue				
Excess Oil and Gas (HB 647)	$4.837	**$4.669**	**$4.571**	**$4.924**
Total Revenue to Guarantee Account	$60.837	**$60.603**	**$60.571**	**$60.924**

Data Sources

Interest income information was collected from SABHRS and other projections were obtained from DNRC.

Tobacco Settlement Trust Interest

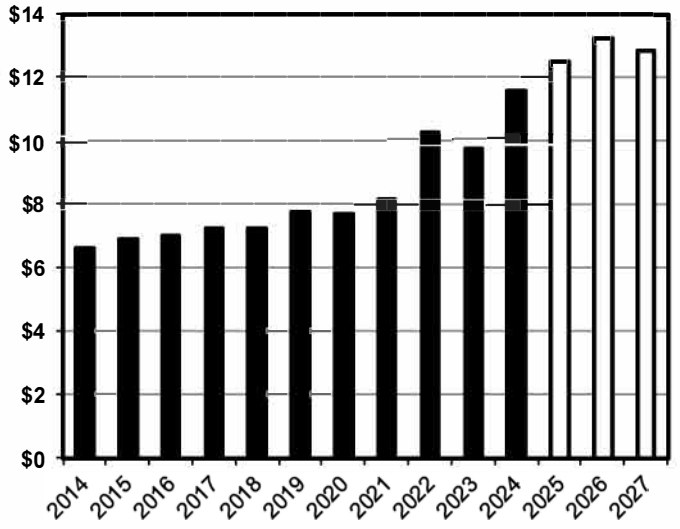
2027 Biennium

Revenue Description

Montana receives payments from a multi-state settlement with tobacco companies. Forty percent of the receipts from this settlement are deposited in the tobacco settlement trust. Ten percent of interest earnings from this trust fund are retained in the trust and 90% are deposited in a state special revenue account and may be appropriated by the legislature for tobacco prevention and health care programs (17-6-603, MCA).

Table 1
Tobacco Settlement Trust Interest
($ millions)

Fiscal Year	Revenue	Percent Change
A 2014	$6.592	1.0%
A 2015	$6.916	4.9%
A 2016	$7.009	1.3%
A 2017	$7.217	3.0%
A 2018	$7.259	0.6%
A 2019	$7.757	6.9%
A 2020	$7.725	-0.4%
A 2021	$8.169	5.7%
A 2022	$10.284	25.9%
A 2023	$9.774	-5.0%
A 2024	$11.609	18.8%
F 2025	**$12.469**	**7.4%**
F 2026	**$13.250**	**6.3%**
F 2027	**$12.860**	**-2.9%**



The tobacco settlement trust was established in January 2001 following passage of Constitutional Amendment 35 in the November 2000 election. Distributable interest is the portion of tobacco trust interest that is not retained by the trust. The growth of tobacco trust interest revenue depends on the interest rates as well as the settlement payments each year.

Forecast Methodology and Significant Factors

Strategic contribution payments to states from participating manufacturers ended after the 2017 sales year. Historically, the strategic payment has amounted to about $12 million per year transferred to the corpus of the trust.

There are three steps to forecasting interest revenue from the tobacco trust fund:

Step 1. The annual average balance of the fund is projected. The fund balance increases yearly as 40% of the tobacco settlement payments and 10% of the interest earned on the fund balance are deposited into the trust fund.

Step 2. The annual average balance by investment type is projected. The fund balance is invested in the short-term investment pool (STIP) and the trust fund investment pool (TFIP). STIP and TFIP are managed by the Board of Investments (BOI) and forecasts of annual rates of return for STIP and TFIP are explained in the *Interest Rates Introduction*.

Step 3. Interest earnings are forecast by multiplying the tobacco trust fund balance by the projected average interest rate. The STIP and TFIP interest rates are expected to change throughout the 2027 biennium, as described in the *Interest Rates Introduction*. To the extent that increasing interest rates are realized, total tobacco trust fund income will continue to increase each year.

Distributions

Table 2 summarizes actual and projected interest earnings and the allocation of interest earnings from FY 2014 through FY 2027. Ten percent of tobacco trust earnings are retained by the trust and 90% are allocated to a state special revenue account.

Table 2
Tobacco Trust Interest Revenue Distribution
($ millions)

Fiscal Year	Reinvested Revenue (10%)		Remaining Revenue (90%)		Total Interest Revenue
A 2014	$0.659	+	$5.933	=	$6.592
A 2015	$0.692	+	$6.224	=	$6.916
A 2016	$0.701	+	$6.308	=	$7.009
A 2017	$0.722	+	$6.495	=	$7.217
A 2018	$0.726	+	$6.533	=	$7.259
A 2019	$0.776	+	$6.981	=	$7.757
A 2020	$0.772	+	$6.952	=	$7.725
A 2021	$0.817	+	$7.352	=	$8.169
A 2022	$1.028	+	$9.256	=	$10.284
A 2023	$0.977	+	$8.797	=	$9.774
A 2024	$1.161	+	$10.448	=	$11.609
F 2025	**$1.247**	**+**	**$11.223**	**=**	**$12.469**
F 2026	**$1.325**	**+**	**$11.925**	**=**	**$13.250**
F 2027	**$1.286**	**+**	**$11.574**	**=**	**$12.860**

Data Sources

Tobacco trust balances and earnings are obtained from the BOI and SABHRS. Projections of tobacco settlement deposits are from the *Tobacco Settlement* revenue estimate. Projections of the STIP and TFIP interest rates are from *Interest Rates Introduction*.

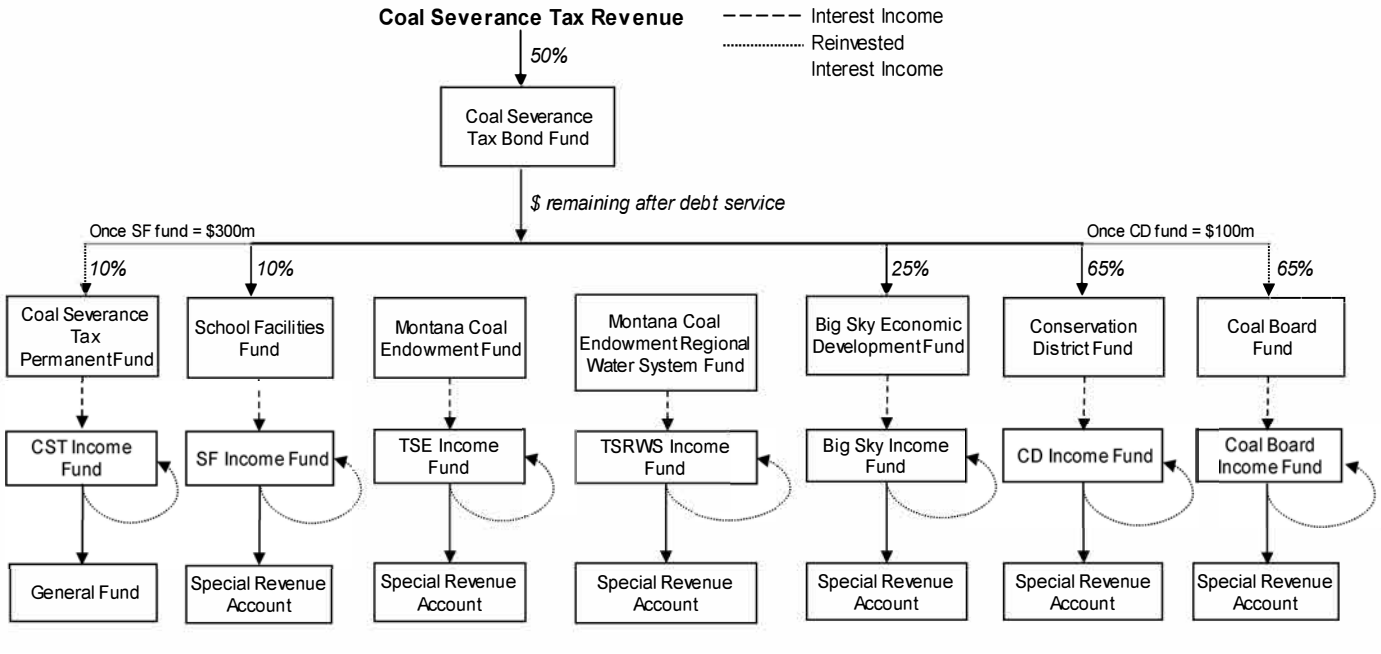
Revenue Description

Article IX, Section 5, of the Montana Constitution established a permanent trust fund into which at least half of coal severance tax revenue must be deposited as principal. Interest income from this principal may be appropriated, but the principal itself is inviolate unless approved by three-fourths of the members of each house in the legislature. Under current law, 50% of coal severance tax revenue is deposited in the trust fund, which is divided into the following funds described in 17-5-703, MCA.

- Coal severance tax bond fund
- Coal severance tax permanent fund
- Montana coal endowment fund (MCE)
- Montana coal endowment regional water system fund (MCRWS)
- Big sky economic development fund (BSED)
- School facilities fund
- Conservation district fund
- Coal board fund

The coal severance tax revenue allocated to the trust is initially deposited in the coal severance tax bond fund, which provides for debt service on the state's coal severance tax bonds. The amount remaining after debt service payments is distributed among a subset of the funds within the trust. The 2023 legislature passed HB 321 which added two new sub-trusts within the coal trust fund, the conservation district fund and the coal board fund, and rearranged the allocation of coal severance tax revenue that is deposited into the trust fund. The current distribution of coal severance tax revenue within the coal trust fund, which began in FY 2024, is laid out in Figure 1.

Figure 1: Distribution of Coal Severance Tax



Coal Severance Tax Bond Fund

The coal severance tax revenue deposited into the coal severance tax bond fund (bond fund) secures state issued bonds referred to as coal severance tax bonds. The tax bonds are issued to finance loans through the Department of Natural Resources and Conservation (DNRC). The Department of Revenue (DOR) administers the bond fund, and at the

beginning of the fiscal year, DNRC informs DOR of the amount necessary to meet all principal and interest payments on coal severance tax bonds for the next twelve months. This amount is maintained as a reserve balance in the bond fund.

A portion of the reserve balance in the bond fund is invested in the short-term investment pool (STIP). This investment averages about $6 million per year, and the interest earnings are deposited in the coal severance tax income fund. The coal severance tax income fund balance is transferred monthly to the general fund, but the balance is invested in STIP during the interim with the reinvested interest income returning to the fund.

The coal severance tax revenue that is not reserved in the bond fund is allocated 25% to the BSED fund, 65% to the conservation district fund, and 10% to the school facilities fund. The Montana coal endowment fund and Montana coal endowment regional water system fund no longer receive distributions from the bond fund; however, these two funds retain their existing balances and continue to generate interest earnings to fund infrastructure projects around the state.

Risks and Significant Factors

- Coal trust fund balances are primarily invested in the trust fund investment pool (TFIP), so rates of return on assets held in the TFIP are a large determinant of trust fund interest earnings.
- TFIP yields are a function of both current and historical market conditions. Current yields on TFIP investments are rising, shaking off the effects of the low-rate environment in 2020 and 2021. Yields on medium-to-long term assets held in the TFIP are projected to continue ascending.
- The steep ascent of short-term interest rates boosted yields on STIP assets significantly. The recent tightening cycle is over. The Fed lowered its target range for the federal funds rate in September 2024. Expectations are for further reduction in short-term rates, which will lower income from STIP assets.
- The future path of market interest rates will depend on how the Fed continues to conduct monetary policy, market interpretations of the central bank's actions, and whether the U.S. economy continues to flirt with recession.
- For the trust funds that receive distributions from the coal severance tax (currently the BSED fund, the school facilities fund, and the conservation district fund), growth in their fund balances is linked directly to the amount of coal severance tax collected. All else equal, greater principal growth will lead to higher interest earnings. Shifts in coal markets that impact coal production and/or price in Montana will flow through to effect distributions to and interest earnings from the coal trust funds.

Forecast Methodology

Interest earnings from the various sub-trusts within the coal trust fund are forecast in two main steps.

Step 1. Estimate the investment composition of the balance in each trust fund (i.e., the allocation between STIP, TFIP, and loan (if any) assets).

Step 2. Apply the appropriate interest rate to each investment balance. Details about the STIP and TFIP are discussed in the *Interest Rate Introduction* section.

The following sections discuss the revenue outlook for each individual trust.

Coal Severance Tax Permanent Fund

The coal severance tax permanent fund is the original coal tax trust fund. Generally, the permanent fund is not a recipient of coal severance tax revenue but acts as the default recipient in the absence of specific direction of coal severance tax revenue to other sub-trust funds. The last time the fund received a distribution from coal severance tax was in FY 2017 when it received the amounts previously allocated to the MCE (50%) and MCRWS (25%) when those distributions expired at the end of FY 2016. Starting in FY 2018, the school facilities fund became the recipient of the 75% distribution that was previously allocated to the permanent fund.

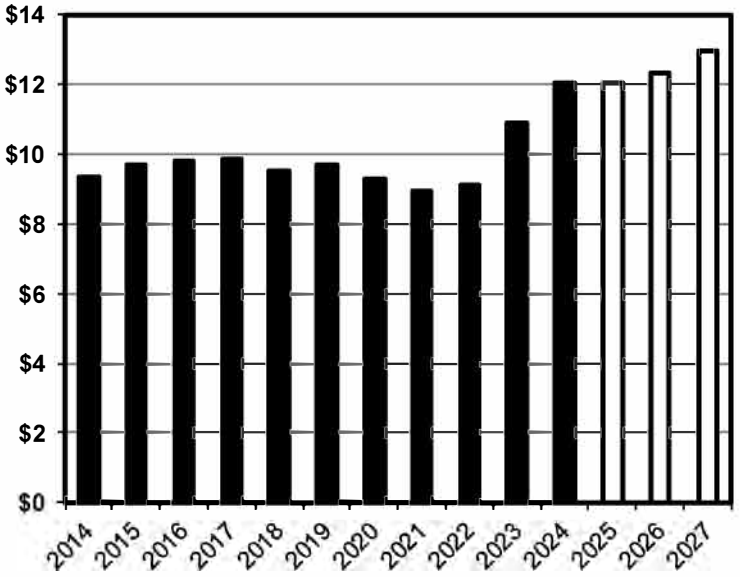
The average balance of the permanent fund in FY 2024 was $544 million, and the investment composition of the fund was 37% in loans, 3% in the STIP, and the remaining 60% in the TFIP. The interest earnings from the permanent fund are deposited into the coal severance tax income fund and are ultimately transferred to the general fund. Permanent fund interest earnings allocated to the general fund are discussed in the *Coal Trust Interest Earnings* section.

Montana Coal Endowment Fund

The MCE fund is used for local government projects that include improvements to drinking water systems, wastewater treatment facilities, sewer systems, solid waste disposal systems, and bridges. The coal tax contributions to the MCE have varied across years. In FY 2002 and FY 2003, the trust fund received 75% of the distribution from the coal bond fund. Deposits to the trust fund declined in FY 2004 as the MCE fund's share of the bond fund allocation was reduced to 50% of distributable revenue (SB 10, 2003 Session). From FY 2004 through FY 2016, the distribution from the coal bond fund to the MCE fund remained at 50%. The MCE fund does not currently receive a portion of coal severance tax revenue, but a provision in current law (17-5-703 (5)(a), MCA) assigns 65% of coal severance tax revenue to the MCE fund once the conservation district fund and coal board fund reached their capped amounts of $100 million and $150 million, respectively.

Table 1
Montana Coal Endowment Fund Interest
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2014	$9.356	-1.0%
A	2015	$9.656	3.2%
A	2016	$9.767	1.2%
A	2017	$9.853	0.9%
A	2018	$9.484	-3.8%
A	2019	$9.674	2.0%
A	2020	$9.253	-4.3%
A	2021	$8.925	-3.5%
A	2022	$9.091	1.9%
A	2023	$10.858	19.4%
A	2024	$12.034	10.8%
F	**2025**	**$12.028**	**0.0%**
F	**2026**	**$12.334**	**2.5%**
F	**2027**	**$12.968**	**5.1%**



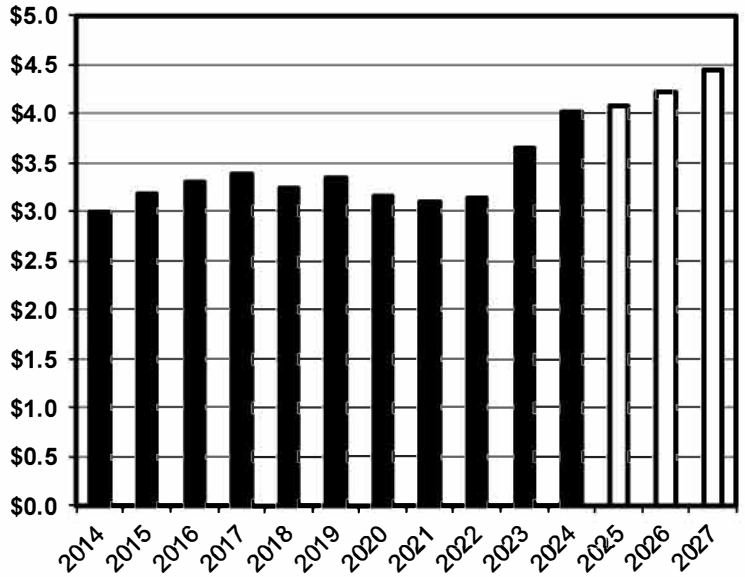
The total balance in the MCE fund at the end of FY 2024 was $271 million. The MCE fund is invested heavily in the TFIP (nearly 99%), and the remainder is invested in the STIP. The interest income from the MCE fund is deposited in the MCE income fund, which earns interest income from STIP investments which is then reinvested. Income fund STIP earnings have risen substantially over the past couple years, tracking the ascension of short-term interest rates during that time. Higher income fund balances have also contributed to elevated STIP earnings. Short-term rates are projected to decline over the forecast period which will reduce the STIP portion of total earnings generated from the MCE fund. The money needed for local government projects is transferred from the income fund to a state special revenue account for distribution. As mentioned above, the MCE fund ceased receiving coal severance tax revenue starting in FY 2017.

Montana Coal Endowment Regional Water System Fund

The MCRWS fund was established by the 1999 Legislature through SB 220. The MCRWS fund provides support for regional water projects. Allocations from the MCRWS fund may be used to match funds for construction of water systems, pay debt service on water system bond obligations, pay administrative expenses of state and local entities, and provide interim funding to state or local entities pending receipt of grants or loans. Historically, the MCRWS fund received 25% of the distributable revenue from the coal bond fund. Beginning in FY 2017 the fund no longer receives revenue from the bond fund, but the principle remains in place and continues to earn interest.

Table 1
Montana Coal Endowment Regional Water System Fund Interest
($ millions)

Fiscal Year		Revenue	Percent Change
A	2014	$2.994	2.8%
A	2015	$3.178	6.2%
A	2016	$3.307	4.0%
A	2017	$3.379	2.2%
A	2018	$3.246	-4.0%
A	2019	$3.332	2.6%
A	2020	$3.153	-5.4%
A	2021	$3.088	-2.1%
A	2022	$3.136	1.6%
A	2023	$3.651	16.4%
A	2024	$4.018	10.1%
F	**2025**	**$4.065**	**1.2%**
F	**2026**	**$4.215**	**3.7%**
F	**2027**	**$4.447**	**5.5%**



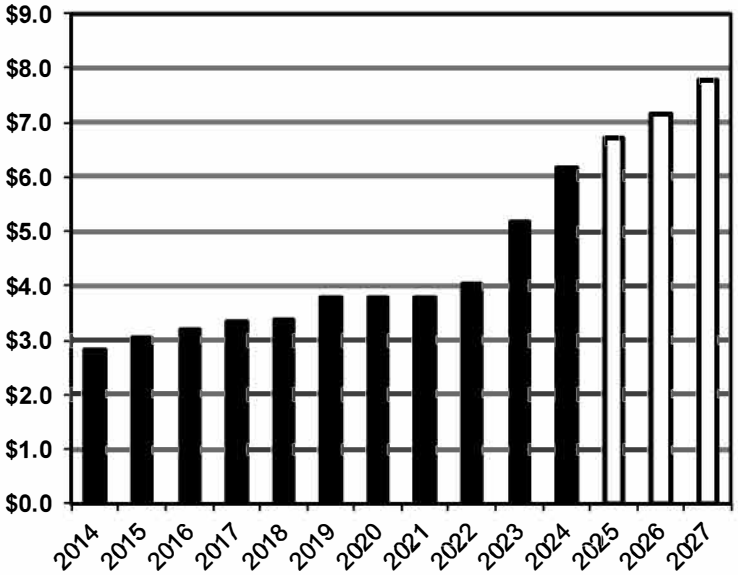
The MCRWS fund balance at the end of FY 2024 was $94.8 million. The balance is invested 99% in the TFIP and 1% in the STIP. The interest income from the MCRWS fund is deposited in the MCRWS income fund, the balance of which is invested in the STIP and earnings from the balance are reinvested. Higher STIP rates and balances have increased earnings from the MCRWS income fund since FY 2022. Through FY 2027, STIP income is expected to remain elevated relative to historical standards, but falling short-term rates bring it down from a local peak in FY 2024. Funds needed for projects are transferred to a state special revenue account for distribution. Like the MCE fund, the MCRWS fund stopped receiving its coal severance tax distribution beginning in FY 2017.

Big Sky Economic Development Fund

The BSED fund was created by HB 249 during the 2005 Legislature. At the beginning of FY 2006, $20 million was taken from the permanent fund to create the BSED fund. The interest income from the BSED fund provides financial assistance to local governments and certified regional development corporations for the purposes of economic development. The BSED fund currently receives a 25% distribution from the coal bond fund and is slated to maintain this allocation through FY 2035.

Table 1
Big Sky Economic Development Fund Interest
($ millions)

Fiscal Year		Revenue	Percent Change
A	2014	$2.822	2.8%
A	2015	$3.022	7.1%
A	2016	$3.171	5.0%
A	2017	$3.326	4.9%
A	2018	$3.387	1.8%
A	2019	$3.756	10.9%
A	2020	$3.782	0.7%
A	2021	$3.789	0.2%
A	2022	$4.034	6.4%
A	2023	$5.184	28.5%
A	2024	$6.171	19.1%
F	**2025**	**$6.694**	**8.5%**
F	**2026**	**$7.152**	**6.9%**
F	**2027**	**$7.772**	**8.7%**



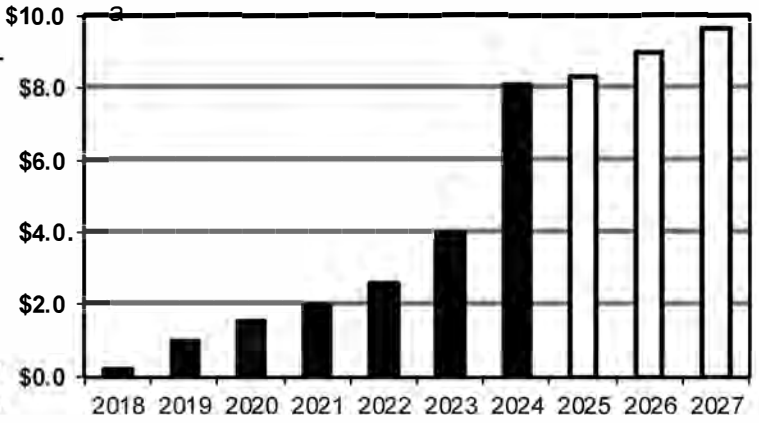
The year-end balance for the BSED fund in FY 2024 was $149 million. This balance is invested 98% in the TFIP and 2% in STIP. Like the MCE and MCRWS funds, BSED fund investment earnings are deposited into an income fund which distributes to a state special revenue account to fund program expenditures. Income not needed for program expenditures remains in the BSED income fund, which is held in STIP and earns interest that is reinvested. STIP earnings have been strong recently due to elevated rates and balances and will remain historically strong through FY 2027 but will exhibit a decreasing trend. Current law dictates that the BSED fund will continue to receive coal severance tax revenue through FY 2035.

School Facilities Fund

The school facilities fund was established by SB 260 during the 2017 regular legislative session. Beginning in FY 2018, this fund received 75% of the distributable revenue from the coal bond fund and was slated to do so until its balance reaches $200 million. HB 321 passed during the 2023 Session changed how coal tax revenue is distributed to the school facilities fund. There was a transfer into the fund early in FY 2024 to bring its fund balance to $200 million. Beginning in FY 2024, the fund's allocation of coal tax revenue was dropped from 75% to 10%, where it will remain until the fund balance reaches $300 million. Once the $300 million cap is achieved, the 10% distribution moves to the permanent fund.

Table 1
School Facilities Fund Interest
($ millions)

Fiscal Year		Revenue	Percent Change
A	2018	$0.193	
A	2019	$0.971	402.8%
A	2020	$1.550	59.7%
A	2021	$1.956	26.1%
A	2022	$2.579	31.9%
A	2023	$3.980	54.3%
A	2024	$8.066	102.7%
F	**2025**	**$8.318**	**3.1%**
F	**2026**	**$8.943**	**7.5%**
F	**2027**	**$9.620**	**7.6%**



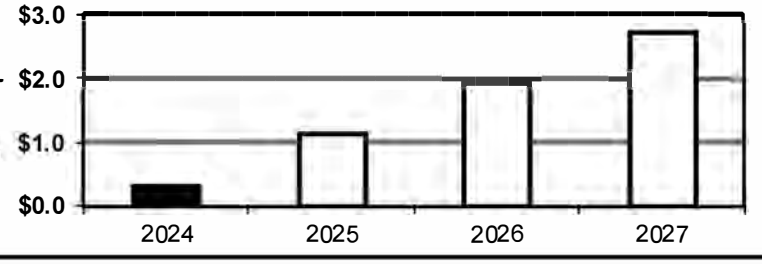
At the end of FY 2024, the balance of the school facilities fund, not including STIP balances in the income fund, was $216 million, with about 2% invested in the STIP and 98% invested in the TFIP. Trust fund investment earnings are transferred to an income fund. Amounts to meet legislative appropriations for school major maintenance projects are transferred from the income fund to a state special revenue fund. Any interest earnings not transferred to the state special fund account for school facilities projects remain in the income fund. These income fund balances are held in the STIP, and the earnings are reinvested in the income fund. Income fund STIP balances and earnings have been strong since FY 2022 due to the run-up in short-term interest rates over the past couple of years.

Conservation District Fund

The conservation district fund was established by HB 321 during the 2023 regular legislative session. The coal severance tax distribution within the coal trust fund was rearranged to send 65% of the flow-through from the coal bond fund to the conservation district fund beginning in FY 2024. This allocation remains in place until the balance of the conservation district fund reaches $100 million. Once capped, the conservation district fund ceases to receive coal severance tax revenue and instead the 65% allocation moves to the coal board fund. The conservation district fund is not expected to reach its $100 million cap during the FY 2027 biennium.

Table 1
Conservation District Fund Interest
($ millions)

Fiscal Year		Revenue	Percent Change
A	2024	$0.304	
F	**2025**	**$1.121**	**269.2%**
F	**2026**	**$1.945**	**73.5%**
F	**2027**	**$2.733**	**40.5%**



Data Sources

Trust fund balances and earnings were obtained from the Board of Investments and SABHRS. Establishment and legal description of the coal trusts is discussed in 17-5-701 through 17-5-731, MCA.

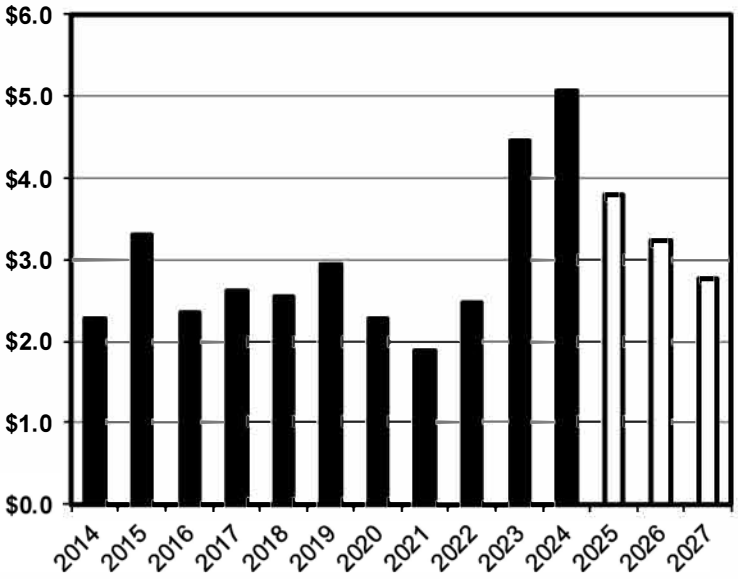
Revenue Description

Title 15, Chapter 38, MCA, created a resource indemnity and groundwater assessment tax. The resource indemnity tax (RIT) was initially enacted to provide for the creation of a resource indemnity trust fund, where 50% of the proceeds from the tax went toward building up the principle of the trust fund until it reached the cap of $100 million. The trust fund balance eclipsed $100 million in December 2001, and consequently the RIT distribution ceased. Currently, the tax provides revenue for groundwater assessment and resource development programs for the benefit of the state and its citizens. The purpose of the RIT is to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage caused by mineral development.

Table 1 shows actual RIT revenues for FY 2014 through FY 2024 and forecast revenue for FY 2025 though FY 2027.

Table 1
Resource Indemnity Tax
($ millions)

	Fiscal Year	Revenue	Percent Change
A	2014	$2.279	7.9%
A	2015	$3.303	44.9%
A	2016	$2.335	-29.3%
A	2017	$2.623	12.3%
A	2018	$2.531	-3.5%
A	2019	$2.923	15.5%
A	2020	$2.269	-22.4%
A	2021	$1.871	-17.6%
A	2022	$2.471	32.1%
A	2023	$4.444	79.9%
A	2024	$5.053	13.7%
F	**2025**	**$3.787**	**-25.1%**
F	**2026**	**$3.214**	**-15.1%**
F	**2027**	**$2.767**	**-13.9%**



The tax rates for RIT vary depending on the type of mineral being extracted.

- Talc's tax rate is $25 plus an additional 4% of the gross value of the talc produced in excess of $625 in the prior calendar year.
- Coal's tax rate is $25 plus an additional 0.4% of the gross value of the coal produced in excess of $6,250 in the prior calendar year.
- Vermiculite's tax rate is $25 plus an additional 2% of the gross value of the vermiculite produced in excess of $1,250 in the prior calendar year.
- Limestone's tax rate is $25 plus an additional 10% of the gross value of the limestone produced in excess of $250 in the prior calendar year.
- Industrial garnets and its associated byproducts tax rate is $25 plus an additional 1% of the gross value of product in excess of $2,500 in the prior calendar year.
- All other mineral's tax rate (excluding metals, oil, and natural gas) is $25 and an additional 0.5% of the gross value of the product in excess of $5,000 in the prior calendar year.

Forecast Methodology

Step 1. Estimate the amount of RIT revenue from coal mines in the state.

Step 2. Estimate the amount of RIT revenue from all other mineral mines in the state.

Table 2 shows the actual and forecast RIT revenues from coal production and other mineral production.

Table 2
Resource Indemnity Tax
($ millions)

Fiscal Year	Coal Tax Revenue		Other Minerals Tax Revenue		Total
A 2014	$2.052	+	$0.227	=	$2.279
A 2015	$2.224	+	$1.079	=	$3.303
A 2016	$2.090	+	$0.245	=	$2.335
A 2017	$1.803	+	$0.820	=	$2.623
A 2018	$2.090	+	$0.441	=	$2.531
A 2019	$2.516	+	$0.408	=	$2.923
A 2020	$2.420	+	-$0.151	=	$2.269
A 2021	$1.610	+	$0.261	=	$1.871
A 2022	$2.140	+	$0.330	=	$2.471
A 2023	$4.153	+	$0.291	=	$4.444
A 2024	$4.528	+	$0.524	=	$5.053
F 2025	**$3.407**	**+**	**$0.380**	**=**	**$3.787**
F 2026	**$2.812**	**+**	**$0.402**	**=**	**$3.214**
F 2027	**$2.334**	**+**	**$0.433**	**=**	**$2.767**

Distribution

RIT revenue is allocated to several state special revenue accounts. These include the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) match debt service fund (75-10-622, MCA), the ground water assessment account (85-2-905, MCA), the water storage account (85-1-631, MCA), the Hazardous Waste/CERCLA state special revenue account (75-10-621, MCA), the Environmental Quality Protection Fund (75-10-704, MCA), and the Natural Resource Projects state special revenue account (15-38-302, MCA). The allocations are made in the specific order described below.

First, the CERCLA match debt service fund must allocate the required amount to pay the principal, redemption premiums, and interest on CERCLA bonds, after transfers from the CERCLA cost recovery account (75-10-631, MCA).

Second, $0.366 million is distributed to the groundwater assessment account.

Third, at the beginning of the biennium (even numbered years), $0.150 million is allocated to the water storage state special revenue account.

Lastly, 25% of the remaining revenue is distributed to the Hazardous Waste /CERCLA state special revenue account, 25% is distributed to the Environmental Quality Protection Fund, and 50% to the Natural Resource Projects state special revenue account.

Table 3 shows the actual and forecast distribution of RIT revenue for FY 2022 through FY 2027.

Table 3
Resource Indemnity Tax Revenue Allocation
($ millions)

	Fiscal Year	CERCLA Match Debt Service Fund	Groundwater Assessment	Water Storage	Environmental Quality Protection	Hazardous Waste / CERCLA	Natural Resources Projects	Total
A	2022	$0.045	$0.366	$0.050	$0.452	$0.452	$0.905	$2.471
A	2023	$0.045	$0.366	$0.000	$0.983	$0.983	$1.066	$4.444
A	2024	$0.000	$0.366	$0.050	$1.034	$1.034	$2.268	$5.053
F	**2025**	**$0.000**	**$0.366**	**$0.000**	**$0.855**	**$0.855**	**$1.710**	**$3.787**
F	**2026**	**$0.000**	**$0.366**	**$0.150**	**$0.674**	**$0.674**	**$1.349**	**$3.214**
F	**2027**	**$0.000**	**$0.366**	**$0.000**	**$0.600**	**$0.600**	**$1.201**	**$2.767**

Data Sources

RIT revenue and distribution amounts were obtained from the Department of Revenue and SABHRS.

Resource Indemnity Trust Interest

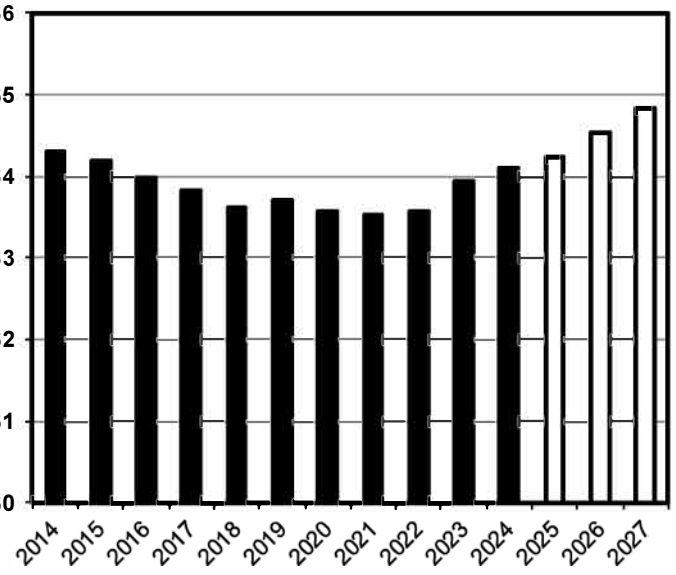
Revenue Description

Title 15, Chapter 38, MCA, created a Resource Indemnity Trust (RIT) fund to indemnify the citizens of Montana for depletion of the state's natural resources and for the environmental damage due to mineral development. The trust was funded with proceeds from the Resource Indemnity Tax until the trust balance reached $100 million, which occurred in December 2001. Deposits from the Resource Indemnity Tax ceased at that point and the balance has remained steady at slightly over $100 million.

Table 1 shows actual interest income from the RIT trust fund from FY 2014 through FY 2024 and forecast income for FY 2025 through FY 2027.

Table 1
Resource Indemnity Trust Interest
($ millions)

Fiscal Year		Revenue	Percent Change
A	2014	$4.296	-6.6%
A	2015	$4.176	-2.8%
A	2016	$3.973	-4.9%
A	2017	$3.818	-3.9%
A	2018	$3.618	-5.2%
A	2019	$3.703	2.4%
A	2020	$3.557	-3.9%
A	2021	$3.516	-1.2%
A	2022	$3.563	1.3%
A	2023	$3.933	10.4%
A	2024	$4.096	4.2%
F	**2025**	**$4.220**	**3.0%**
F	**2026**	**$4.524**	**7.2%**
F	**2027**	**$4.820**	**6.6%**



Since the principle of the RIT fund is fixed, interest earnings from the fund are determined solely by changes in yield of the fund's assets. The fund is invested primarily in the trust fund investment pool (TFIP) which consists of long-term securities and is managed by the Montana Board of Investments (BOI). Basement-level yields took hold during the Great Recession and remained subdued for an extended period after the crisis, which resulted in a build-up of relatively low-yield assets in the TFIP. Maturing recession era securities and their subsequent replacement with higher-yielding counterparts caused overall TFIP returns to flatten and begin an upward turn in FY 2018 – FY 2019. It was a short-lived rise. The global spread of the COVID-19 virus resulted in sharp decline in U.S. treasury yields that lasted through 2020 and 2021 which pulled down RIT trust earnings in FYs 2020 and 2021. Ascension of market yields that began in 2022 has lifted the rate of return on RIT TFIP assets. Adjustments to the TFIP investment strategy by the BOI has also helped lift TFIP investment income. TFIP yields are projected to continue an upward trajectory through the forecast period as the recent gains in medium- to long-term treasury yields becomes fully integrated into the investment pool.

Forecast Methodology

Step 1. Estimate the balances of short- and long-term investments in the RIT fund.

Step 2. Estimate the yields on RIT fund investments and apply these rates to the estimated RIT fund balances.

Distribution

The distribution of RIT interest earnings is defined in section 15-38-202, MCA. Some of the funds receive a fixed allocation per biennium, some funds receive a fixed allocation per fiscal year, and some funds receive a percentage each fiscal year of remaining revenue after the fixed allocations have been made. If there isn't enough interest revenue to cover the fixed allocations for all the funds, then each fund gets a percentage of the available revenue. This percentage is equal to the proportion a fund's fixed allocation is to the total revenue needed to cover the fixed allocations for all funds.

In the first year of each biennium the following funds receive these fixed allocations:

- $650,000 to the oil and gas production damage mitigation account unless the unobligated cash balance equals or exceeds $1 million (82-11-161, MCA).
- $500,000 to the water storage account (85-1-631, MCA).
- $175,000 to the environmental contingency account unless the unobligated cash balance equals or exceeds $750,000 (75-1-1101, MCA).

Each fiscal year the following accounts receive these fixed allocations:

- $3.2 million to the natural resource projects account for grants (15-38-302, MCA).
- $300,000 to the groundwater assessment account (85-2-905, MCA).
- $500,000 to the Department of Fish, Wildlife, and Parks for the trout habitat enhancement program (87-1-283, MCA).

Each fiscal year any money remaining after all fixed allocations have been made is distributed to the following accounts in these proportions:

- 65% to the natural resource operations account (15-38-301, MCA).
- 26% to the hazardous waste/CERCLA account (75-10-621, MCA).
- 9% to the environmental quality protection fund (75-10-704, MCA).

Table 2 shows the distribution of RIT interest for FY 2022 – FY 2024 and the forecast distribution through FY 2027.

Table 2
Resource Indemnity Trust Interest Allocation
($ millions)

Entity	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Total Revenue	**$3.563**	**$3.933**	**$4.096**	**$4.220**	**$4.524**	**$4.820**
Biennial Fixed Allocations						
Oil & Gas Damage Mitigation	$0.318	$0.000	$0.401	**$0.000**	**$0.552**	**$0.000**
Environmental Contingency	$0.121	$0.000	$0.138	**$0.000**	**$0.149**	**$0.000**
Water Storage	$0.347	$0.000	$0.395	**$0.000**	**$0.425**	**$0.000**
Annual Fixed Allocation						
Natural Resources Projects	$2.221	$3.146	$2.530	**$3.200**	**$2.718**	**$3.200**
Ground Water Assessment	$0.208	$0.295	$0.237	**$0.300**	**$0.255**	**$0.300**
Future Fisheries	$0.347	$0.492	$0.395	**$0.500**	**$0.425**	**$0.500**
Remainder	**$0.000**	**$0.000**	**$0.000**	**$0.220**	**$0.000**	**$0.820**
Annual Percentage Allocations						
Natural Resource Operations (65%)	$0.000	$0.000	$0.000	**$0.143**	**$0.000**	**$0.533**
Hazardous Waste/CERCLA (26%)	$0.000	$0.000	$0.000	**$0.057**	**$0.000**	**$0.213**
Environmental Quality Protection (9%)	$0.000	$0.000	$0.000	**$0.020**	**$0.000**	**$0.074**

Data Sources

Investment balances and interest rate data were obtained from the Board of Investments and SABHRS.

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

SUMMARY OF MAJOR ASSUMPTIONS SECTION 11

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Summary of Revenue Assumptions by Tax Type

(Fiscal Year Unless Otherwise Noted)

General Fund Assumption Item	Actual 2023	Actual 2024	Forecast 2025	2026	2027
	(Fiscal year unless otherwise stated)				
Personal Income Tax	**TY 2022**	**TY 2023**	**TY 2024**	**TY 2025**	**TY.2026**
Full Year Resident Returns (Annual)	609,240	615,546	**625,181**	**631,583**	**635,302**
Full Year Resident Returns (Growth)	1.4%	1.0%	**1.6%**	**1.0%**	**0.6%**
Income Items	TY.2022	TY.2023	**TY.2024**	**TY 2025**	**TY.2026**
Wages and salaries	23,332,694,100	24,972,540,734	**26,697,464,832**	**28,043,089,923**	**29,326,579,327**
Interest income	368,566,943	855,657,152	**902,570,383**	**880,423,554**	**852,476,662**
Dividend income	1,128,756,788	1,388,497,033	**1,431,609,471**	**1,443,177,011**	**1,473,328,055**
Net business income	1,179,505,077	1,238,275,926	**1,285,256,722**	**1,338,267,542**	**1,389,140,646**
Capital gains	3,913,120,779	3,269,504,954	**6,568,054,383**	**5,647,455,328**	**3,663,547,749**
Supplemental gains	248,169,225	189,391,767	**195,461,069**	**197,089,529**	**201,334,146**
Rents, royalties, etc.	4,355,486,932	4,242,044,152	**4,312,673,314**	**4,468,218,099**	**4,625,814,743**
Taxable IRAs, Pensions & Annuities	4,464,274,627	4,665,545,171	**4,860,666,212**	**5,139,998,628**	**5,345,847,049**
Taxable Social Security sec.	1,667,532,817	1,920,208,705	**2,028,898,538**	**2,124,914,100**	**2,202,167,907**
Farm income	(311,203,434)	(324,961,932)	**(247,406,384)**	**(284,511,467)**	**(300,722,252)**
All Other Taxable Income	(128,063,288)	55,769,844	**(53,070,648)**	**(23,466,625)**	**(37,207,679)**
Total Income	$40,218,840,566	$42,472,473,506	**$47,982,177,892**	**$48,974,655,622**	**$48,742,306,353**
Growth	0.5%	5.6%	**13.0%**	**2.1%**	**-0.5%**
Fed. Adj. to Income:	544,333,351	587,997,838	**634,223,793**		
Montana Additions	TY.2022	TY.2023	**TY.2024**	**TY 2025**	**TY.2026**
Interest on state, county, bonds	94,752,304	113,257,480	**118,171,789**	**122,799,775**	**126,782,356**
Federal income tax refunds	33,916,812	38,222,898	**33,269,783**	**33,076,191**	**31,060,673**
All Other additions	553,002,504	631,865,914	**582,436,418**	**589,794,896**	**589,274,933**
Montana Subtractions	TY.2022	TY.2023	**TY.2024**	**TY 2025**	**TY.2026**
Farm risk management account	4,629	801	**12,184**	**13,362**	**15,556**
Exclusion for savings bonds	47,207,761	139,105,688	**147,377,905**	**143,472,752**	**138,544,872**
Unemployment income	70,068,144	79,275,782	**82,211,782**	**78,390,234**	**83,127,368**
Medical savings account excl.	24,217,502	25,393,441	**25,933,344**	**26,473,247**	**27,013,150**
Family education account excl.	19,509,178	20,210,648	**20,912,117**	**21,613,587**	**22,315,057**
First-time homebuyers acct. excl.	1,017,867	1,076,734	**1,139,005**	**1,204,877**	**1,274,560**
Health Care Prof. Loan Pmt. excl.	1,092,595	1,080,626	**1,074,641**	**1,071,648**	**1,070,152**
All Other Subtractions	1,445,930,946	1,527,735,335	**1,614,167,854**	**1,705,490,344**	**1,801,979,457**
Itemized Deductions	TY.2022	TY.2023	**TY.2024**	**TY 2025**	**TY.2026**
Medical insurance premiums	565,333,261	660,771,330	**694,277,715**	**729,483,142**	**766,473,765**
Medical deduction	304,195,192	316,871,679	**318,000,321**	**319,132,983**	**320,269,679**
Long-term care insurance	28,916,875	28,087,891	**29,093,347**	**28,966,171**	**28,852,781**
Balance of federal tax	1,330,343,475	983,733,788	**1,167,572,077**	**1,315,216,018**	**1,526,147,992**
Additional federal back year tax	7,693,800	6,079,769	**5,430,681**	**4,763,903**	**4,031,540**
Property taxes	687,469,636	780,067,609	**787,868,285**	**843,019,065**	**851,449,256**
Other Deductible taxes	3,111,417	3,344,211	**3,029,519**	**2,757,381**	**2,500,383**
Home mortgage interest	900,683,824	1,007,632,419	**1,024,448,841**	**1,040,331,413**	**1,057,937,319**
Deductible investment interest	44,614,080	70,524,420	**70,583,428**	**70,543,358**	**70,500,201**
Contributions	771,360,853	779,929,675	**795,420,840**	**819,188,660**	**833,011,313**
Child/dependent care expenses	509,733	425,443	**425,443**	**425,443**	**425,443**
Casualty and theft losses	4,435,344	2,157,970	**2,157,970**	**2,157,970**	**2,157,970**
Tier I - Miscellaneous	-	-	**-**	**-**	**-**
Tier II - Miscellaneous	46,465,916	14,850,415	**15,370,180**	**15,908,136**	**16,464,921**
Gambling Losses	32,478,313	43,622,888	**43,622,888**	**43,622,888**	**43,622,888**

Summary of Revenue Assumptions by Tax Type
(Fiscal Year Unless Otherwise Noted)

General Fund Assumption Item	Actual 2023	Actual 2024	Forecast 2025	2026	2027
	(Fiscal year unless otherwise stated)				
Credits	TY 2022	TY 2023	**TY 2024**	**TY 2025**	**TY 2026**
Total Allowable Credits	105,228,834	263,742,024	**116,856,031**	**124,003,851**	**131,588,886**
PIT Other	2023	2024	**2025**	**2026**	**2027**
Model TY Liability ($ million)	$1,803.1	$1,904.9	**$1,952.4**	**$1,948.9**	**NA**
Est. FY Liability.($ million)	$1,815.8	$1,842.5	**$2,038.3**	**$2,069.0**	**$2,107.0**
Audit Collections($ million)	$57.3	$58.9	**$58.2**	**$59.4**	**$60.7**
Penalties and Interest.($ million)	$12.3	$14.2	**$14.1**	**$14.1**	**$14.4**
Prior Year Amended Returns ($ million)	$11.8	$8.4	**$10.0**	**$11.0**	**$10.4**
Calculated Collections ($ million)	$1,897.3	$1,923.9	**$2,120.6**	**$2,153.5**	**$2,192.4**
SABHRS/ Base Adj ($ million)	$357.0	$320.0			
Missing Filers Adj. (TY 2023 Nov. 2024)	$20.0	$20.0	**$58.0**	**$59.0**	**$60.0**
SABHRS/ Adjusted Collections ($ million)	$2,254.3	$2,243.9	**$2,178.6**	**$2,212.5**	**$2,252.4**
Property Tax					
Mill Levy Revenue (millions.$)					
Property Tax - 95 Mill Levy (SSR)	$338.273	$437.950	**$439.136**	**$507.948**	**$515.329**
Protested Property Taxes (subtraction)	$0.027	$0.020	**$0.020**	**$0.020**	**$0.020**
Total Mill Levy Revenue (millions.$)	$338.246	$437.930	**$439.116**	**$507.928**	**$515.309**
Non-Levy PT Revenue (millions $)					
Property Tax - 1.5 Mill Levy (GF)	$1.679	$2.093	**$2.076**	**$2.406**	**$2.440**
Coal Gross Proceeds	$9.157	$11.092	**$11.948**	**$10.436**	**$8.275**
Federal Forest Reserves	$2.845	$2.964	**$0.872**	**$0.899**	**$0.941**
All Other (by residual)	$0.766	$1.201	**$0.993**	**$0.993**	**$0.993**
Total Non-Levy PT Revenue	$12.768	$17.351	**$15.890**	**$14.734**	**$12.649**
Statewide TV by Class (millions) - Fiscal Year					
1. Net Proceeds	4.432	4.101	**5.545**	**5.548**	**5.551**
2. Gross Proceeds (w/o Abatements)	41.809	34.000	**26.584**	**26.622**	**26.659**
3. Agricultural Land	152.236	153.153	**153.099**	**160.947**	**160.545**
4. Res./Comm... Real Property	2,325.503	3,409.162	**3,423.555**	**4,114.122**	**4,159.517**
5. Rural Co-Op/Poll. Control	53.462	61.127	**61.396**	**63.135**	**64.923**
7. Non-centrally Assessed Util.	0.018	0.020	**0.018**	**0.018**	**0.017**
8. Business Equipment (FY adjusted)	140.938	189.853	**181.919**	**183.963**	**190.100**
9. Pipelines, Electrical Transmission	626.403	595.835	**615.404**	**632.864**	**650.820**
10. Forest Land	4.733	4.759	**4.764**	**4.944**	**4.948**
12. Airlines/Railroads	98.090	91.560	**86.897**	**89.030**	**91.215**
13. Telecomm./Elec Generation	148.486	128.610	**131.888**	**135.185**	**138.564**
14. Renewable Energy Prod.& Trans.	29.858	34.641	**32.635**	**36.248**	**42.076**
15. CO2/Qualifying Liquid Pipelines	2.858	3.241	**3.066**	**3.146**	**3.228**
16. High Voltage DC Converter	-	-	-	-	-
17. Data Server Facility	0.785	0.561	**0.533**	**0.506**	**0.481**
Statewide Taxable Value (millions)	3,629.610	4,710.624	**4,727.304**	**5,456.277**	**5,538.645**

Summary of Revenue Assumptions by Tax Type

(Fiscal Year Unless Otherwise Noted)

General Fund Assumption Item	Actual 2023	Actual 2024	Forecast 2025	Forecast 2026	Forecast 2027
	(Fiscal year unless otherwise stated)				
Statewide TV Growth by Class - Fiscal Year					
1. Net Proceeds	12.8%	-7.5%	**35.2%**	**0.0%**	**0.0%**
2. Gross Proceeds (w/o Abatements)	0.0%	-18.7%	**-21.8%**	**0.1%**	**0.1%**
3. Agricultural Land	-1.1%	0.6%	**0.0%**	**5.1%**	**-0.3%**
4. Res./Comm... Real Property	2.9%	46.6%	**0.4%**	**20.2%**	**1.1%**
5. Rural Co-Op/Poll. Control	2.9%	14.3%	**0.4%**	**2.8%**	**2.8%**
7. Non-centrally Assessed Util.	522.4%	12.7%	**-8.5%**	**-2.5%**	**-2.5%**
8. Business Equipment (FY adjusted)	-8.9%	34.7%	**-4.2%**	**1.1%**	**3.3%**
9. Pipelines, Electrical Transmission	12.6%	-4.9%	**3.3%**	**2.8%**	**2.8%**
10. Forest Land	-1.4%	0.5%	**0.1%**	**3.8%**	**0.1%**
12. Airlines/Railroads	-0.4%	-6.7%	**-5.1%**	**2.5%**	**2.5%**
13. Telecomm./Elec Generation	-2.9%	-13.4%	**2.5%**	**2.5%**	**2.5%**
14. Renewable Energy Prod.& Trans.	42.8%	16.0%	**-5.8%**	**11.1%**	**16.1%**
15. CO2/Qualifying Liquid Pipelines	33.1%	13.4%	**-5.4%**	**2.6%**	**2.6%**
16. High Voltage DC Converter	0.0%	100.0%	**200.0%**	**300.0%**	**400.0%**
17. Data Server Facility		5.2%	**5.2%**	**0.0%**	**0.0%**
Statewide Taxable Value Growth	3.8%	29.8%	**0.4%**	**15.4%**	**1.5%**
Taxable Value in TIF districts (millions)	68.845	100.623	**104.824**	**(109.454)**	**(114.130)**
Taxable value for COT Counties	1,157.526	1,434.047	**1,440.709**	**1,662.873**	**1,687.976**
TIF Taxable Value in COT Counties	38.438	38.711	**56.579**	**58.942**	**61.545**
Taxable Value for 1.5 Mills	1,119.088	1,395.336	**1,384.130**	**1,603.932**	**1,626.431**
Vehicle Taxes and Fees					
Annual Vehicle Registrations by Age Class					
0 to 4 Years	240,629	237,786	**242,558**	**249,519**	**256,949**
5 to 10 Years	295,785	303,707	**306,971**	**306,621**	**309,376**
Over 10 Years	260,501	251,954	**246,197**	**245,562**	**244,380**
Total Annual Registrations	796,915	793,447	**795,726**	**801,702**	**810,705**
Permanent Registrations	90,772	96,295	**99,245**	**104,086**	**108,926**
Annual Light Vehicle Revenue (million $)	$89.20	$90.39	**$90.28**	**$92.14**	**$94.11**
Other Vehicle Registration revenue (million $)	$18.50	$18.38	**$18.36**	**$18.73**	**$19.14**
All Other Fees (million $)	$7.10	$7.35	**$7.34**	**$7.49**	**$7.65**
Permanent Registration Revenue (million $)	$8.21	$8.79	**$8.68**	**$9.11**	**$9.53**
Corporate Income Tax					
FY Lagged (1) U.S. Corp Profits Bn $	$3,499	$3,529	**$3,922**	**$4,139**	**$4,181**
TCJA Base Expansion Dummy	1	1	**1**	**1**	**1**
FY 2003 Dummy	0	0	**0**	**0**	**0**
Insurance Premiums Tax					
Est. Gross Insurance Premium Tax (millions)	$156.491	$168.712	**$179.679**	**$191.358**	**$203.796**
Prior Calendar Year S&P 500 Index Average	4,101	4,284	**5,289**	**5,322**	**5,207**
Video Gambling					
Net machine Income (million $)	$534.036	$555.900	**$570.682**	**$576.130**	**$576.307**
Oil and Natural Gas					
WTI Oil Price per Barrel	$81.45	$79.90	**$70.38**	**$71.81**	**$76.72**
MT Oil Price per Barrel	$78.13	$75.25	**$62.29**	**$63.72**	**$68.63**
Oil Production (millions bbl)	21.96	24.01	**25.66**	**25.31**	**26.02**
Oil Effective Tax Rate	8.31%	7.71%	**7.36%**	**7.44%**	**7.33%**
Henry Hub Natural Gas Price per MCF	$4.76	$2.48	**$2.71**	**$3.37**	**$3.35**
MT Natural Gas price per MCF	$4.16	$2.58	**$2.70**	**$3.42**	**$3.40**
Natural Gas Production (thousands of MCF)	37.46	38.35	**33.87**	**33.87**	**34.29**
Natural Gas Effective Tax Rate	9.03%	8.07%	**9.12%**	**9.15%**	**9.09%**
US Mineral Royalties					
Coal Royalty Income	$30.302	$11.539	**$11.592**	**$11.271**	**$12.148**
Oil Royalty Income	$12.337	$8.291	**$10.830**	**$10.193**	**$11.123**
Natural Gas Royalty Income	$2.500	$0.665	**$1.565**	**$1.770**	**$1.750**
Other Income (Rentals & Bonuses)	$3.759	$0.269	**$0.321**	**$0.311**	**$0.335**
Coal Severance Tax					

Summary of Revenue Assumptions by Tax Type

(Fiscal Year Unless Otherwise Noted)

General Fund Assumption Item	Actual 2023	Actual 2024	Forecast 2025	Forecast 2026	Forecast 2027
	(Fiscal year unless otherwise stated)				
Tons Produced	26.504	24.923	**26.572**	**24.061**	**23.307**
Price Per Ton	$49.24	$44.61	**$36.07**	**$30.16**	**$28.92**
Exemptions	$235.99	$158.89	**$136.95**	**$103.70**	**$96.33**
Tax Rate	7.65%	7.79%	**7.79%**	**7.79%**	**7.79%**
Metal Mines Tax					
Gross Value	$1,046.217	$970.756	**$945.118**	**$966.367**	**$966.487**
Deductions	$92.849	$95.832	**$93.301**	**$95.399**	**$95.411**
Average Tax Rate	1.68%	1.69%	**1.67%**	**1.68%**	**1.68%**
Total Tax Revenue	16.034	14.743	**14.254**	**14.633**	**14.630**
World Bank FY Change in Gold Price	-4.6%	2.5%	**4.6%**	**-4.0%**	**-4.9%**
World Bank FY Change in Platinum Price	-6.1%	2.0%	**4.3%**	**4.9%**	**1.9%**
World Bank FY Change in Copper Price	-4.6%	2.5%	**4.6%**	**-4.0%**	**-4.9%**
Electrical Energy Producers Tax					
kWh (millions)	20,474	20,438	**21,313**	**21,526**	**21,741**
Wholesale Energy Tax					
Taxable kWh (million)	23,404	23,490	**23,920**	**24,255**	**24,590**
Coal Trust Interest Earnings					
Balance	$545.6	$543.7	**$546.9**	**$546.5**	**$546.5**
Return	3.30%	3.48%	**3.62%**	**3.86%**	**4.08%**
TCA Interest Earnings					
Balance	$4,030.2	$2,675.1	**$3,100.5**	**$2,806.0**	**$2,486.2**
Return	3.65%	5.18%	**4.68%**	**3.34%**	**3.03%**

Summary of Revenue Assumptions by Tax Type

(Fiscal Year Unless Otherwise Noted)

General Fund Assumption Item	Actual 2023	Actual 2024	Forecast 2025	Forecast 2026	Forecast 2027
	(Fiscal year unless otherwise stated)				
Liquor Excise and License Tax					
FY Pre-Tax Sales (millions)	$207.608	$211.737	**$221.744**	**$228.345**	**$234.826**
FY Tribal Distributions (millions)	$0.813	$0.828	**$0.840**	**$0.865**	**$0.890**
Liquor Profits					
FY Gross Liquor Sales (millions)	$258.472	$263.612	**$276.071**	**$284.290**	**$292.359**
FY Cost of Goods Sold (millions)	$117.998	$120.608	**$126.048**	**$129.800**	**$133.484**
FY Liquor Discounts and Commissions (millions)	$26.957	$27.472	**$28.909**	**$29.769**	**$30.614**
FY Liquor Operating Costs (millions)	$3.826	$2.855	**$2.898**	**$2.942**	**$2.986**
Telecommunications Excise Tax					
ExciseTax	$7.842	$7.198	**$6.606**		
Audits, Penalties & Interest	$0.014	$0.014	**$0.014**		
Growth rate	-8.3%	-8.2%	**-8.2%**		
Health Care Facility Utilization Fees					
FY Bed Days (millions)	1.147	1.155	1.166	1.177	1.188
FY Intermediate Care Expenditures (millions)	$8.569	$8.285	$7.570	$6.703	$6.717
Beer Tax					
FY Beer Barrels (millions)	1.071	1.020	**1.010**	**0.998**	**0.987**
FY Tribal Distribution (millions)	$0.088	$0.074	**$0.078**	**$0.076**	**$0.075**
FY Effective Tax Per Barrel ($)	$3.991	$3.959	**$3.944**	**$3.929**	**$3.914**
Wine Tax					
FY Wine Liters (millions)	13.684	13.290	**13.284**	**13.271**	**13.245**
FY Tribal Distribution (millions)	0.069	0.060	**0.062**	**0.062**	**0.062**
Cigarette Tax					
FY Cigarette Packs (millions)	33.387	29.337	**28.835**	**28.318**	**27.773**
FY Effective Tax Rate per Pack (dollars)	$1.70	$1.70	**$1.70**	**$1.70**	**$1.70**
FY Tribal Distribution (millions)	$2.940	$2.664	**$2.441**	**$2.344**	**$2.251**
Tobacco Tax					
FY Value of Other Tobacco Products (millions)	$6.352	$5.369	$5.338	$5.302	$5.259
FY Snuff Ounces (millions)	10.229	9.525	8.992	8.481	7.988
FY Tribal Distribution (millions)	$0.601	$0.569	**$0.534**	**$0.510**	**$0.487**
Tobacco Settlement					
FY CPI Change (Percent Change)	6.45%	3.35%	**3.20%**	**3.00%**	**3.00%**
FY Cumulative CPI Change (Percent Change)	122.90%	130.37%	**137.74%**	**144.87%**	**152.22%**
Montana NPM Adjustment (millions)	$0.000	$0.000	**$0.000**	**$0.000**	**$0.000**
Institutional Reimbursements					
Reimbursements - MDC (millions)	$0.096	$0.087	**$0.086**	**$0.086**	**$0.086**
Reimbursements - MSH (millions)	$0.576	$2.188	**$2.210**	**$3.437**	**$8.490**
Reimbursements - MMHNCC (millions)	$3.635	$2.628	**$2.628**	**$2.694**	**$2.761**
Highway Patrol Fines					
Prior CY Gasoline Price (cents per gal)	311.11	300.45	**288.18**		

Summary of Revenue Assumptions by Tax Type

(Fiscal Year Unless Otherwise Noted)

General Fund Assumption Item	Actual 2023	Actual 2024	Forecast 2025	2026	2027
	(Fiscal year unless otherwise stated)				
Investment License Permits					
Prior FY S&P 500 average	4,145	3,744	**3,864**		
Drivers License Fees					
Effective Average Fee	$37.55	$36.26	**$36.91**	**$36.91**	**$36.69**
Basic Drivers licenses issued	191,566	168,292	**149,379**	**157,429**	**164,977**
Revenue by type (million $)					
Basic Driver's Licenses	$7.193	$6.103	**$5.513**	**$5.810**	**$6.054**
Commercial Licenses	$0.492	$0.435	**$0.435**	**$0.417**	**$0.439**
Motorcycle Endorsements	$0.063	$0.053	**$0.053**	**$0.048**	**$0.051**
Replacement Licenses	$0.329	$0.510	**$0.331**	**$0.349**	**$0.363**
Renewal Fee	$0.087	$0.084	**$0.075**	**$0.079**	**$0.082**
License Revenue	$6.782	$7.186	**$6.384**	**$6.728**	**$7.009**
Estimate of County retention	$0.011	$0.000	**$0.000**	**$0.000**	**$0.000**
Rail Car Tax					
Total MT Allocated (market) Value (million $)	$230.635	$209.439	**$241.075**	**$245.897**	**$250.815**
Class 12 Tax Rate	3.06%	3.06%	**2.77%**	**2.77%**	**2.77%**
Taxable Value (million $)	$7.057	$6.409	**$6.678**	**$6.811**	**$6.948**
Commercial & Industrial Mill Levy	567.99	568.85	**517.68**	**517.68**	**517.68**
Non-General Fund Assumption Item					
Property Tax					
University 6 Mill Levy TV (millions)	3,629.610	4,710.624	**4,727.304**	**5,456.277**	**5,538.645**
University 6 Mil levy revenue (million $)	$21.84	$27.58	**$27.95**	**$32.74**	**$33.23**
University 6 mill non-levy revenue					
Coal Gross Proceeds	$0.648	$1.035	**$1.134**	**$0.986**	**$0.780**
Other Non-Levy Revenue	$0.045	$0.070	**$0.058**	**$0.058**	**$0.058**
Protested University Mills	($0.002)	($0.001)	**($0.001)**	**($0.001)**	**($0.001)**
Total Non-Levy (million $)	$0.691	$1.104	**$1.191**	**$1.043**	**$0.837**
Total PT 6 mill (million $)	$22.47	$29.37	**$29.55**	**$33.78**	**$34.07**
Oil & Gas University Revenue (million $)	$2.303	$2.086	**$1.888**	**$1.955**	**$2.125**
Bentonite University Revenue ($)	$0.012	$0.012	**$0.029**	**$0.029**	**$0.029**

GOVERNOR
GREG GIANFORTE

STATE OF MONTANA

INDEX

OBPP Staff:

Ryan Evans	444-3163
Ralph Franklin	444-1337
Nancy Hall	444-4899
Brian Hannan	444-7802
Chris Watson	444-1338

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

INDEX