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## Revenue and Transportation Interim Committee

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### 61st Montana Legislature

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LEE HEIMAN, Staff Attorney  
FONG HOM, Secretary

September 9, 2010

Dennis Himmelberger, Chair  
Montana Legislative Council  
State Capitol  
Helena, MT 59620-1706

Dear Representative Dennis Himmelberger and Members of the Legislative Council,

I am writing on behalf of the Revenue and Transportation Interim Committee (Committee) to ask the Legislative Council to consider the possibility of subscribing to the economic forecasting services of Moody's Economy.com for a 1-year period for the purpose of assisting the Committee and the Legislature in estimating general fund revenue. Moody's forecasts would be used, in conjunction with economic forecasts provided by IHS Global Insight, by the Committee in developing the initial revenue estimates and by the Legislature in its consideration of the revenue estimating resolution.

The source of funding would be from the Council's contingency fund for issues of statewide importance. The 1-year subscription would be paid for in the current biennium and would not require an additional appropriation.

In August, the Committee discussed the possibility of subscribing to Moody's for 1 year and concluded that having additional information would provide Legislative Fiscal Division (LFD) staff and Office of Budget and Program Planning (OBPP) staff an important, additional tool in developing and evaluating revenue estimates. The cost for a one-agency (LFD) subscription would be \$17,691 for 1 year. If OBPP participated, the total cost would be \$21,300. One idea is that OBPP would pick up the difference in cost between a one-agency and a two-agency subscription if it wants to participate.

At the Committee's September 15-16 meeting, representatives from Global Insight and Moody's will each present national and state economic outlooks, provide insights on how to interpret economic forecasts, and discuss risks associated with relying on baseline, optimistic, and pessimistic forecasts. At that time, the Committee would evaluate whether a subscription to Moody's would enhance the Legislature's ability to better estimate revenue.

One approach would be for the Legislative Council to tentatively approve the funding request at your September 9 meeting. Final approval would be contingent on the Committee's recommendation that the subscription would be an appropriate use of legislative funds.

#### BACKGROUND

Section 5-5-227, MCA, directs the Committee to develop the initial biennial revenue estimates for each legislative session. The Committee estimates revenue for the state general fund and certain nongeneral

fund revenue sources. The Committee's estimate constitutes the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses of the Legislature.

The Committee's estimates and underlying assumptions are contained in House Joint Resolution No. 2. The resolution plays a critical role in adopting a balanced budget for the biennium and in fiscal notes for quantifying the impact of tax and other revenue legislation.

In developing the revenue estimates, the Committee focuses on six major general fund revenue sources, including the individual income tax, the corporation license tax, the property tax, oil and natural gas taxes, the vehicle tax, and the video gambling tax. Together these taxes account for about 80% of general fund revenue collections. The Committee relies primarily on the assistance of the LFD and OBPP in developing the estimates.

Each agency uses a variety of models and assumptions to estimate revenue. Of particular importance are the estimates for individual income taxes and corporation license taxes, which account for about 50% of general fund revenue.

The state of Montana subscribes to the services of Global Insight, and OBPP recently extended the contract subscription on behalf of the state. Global Insight provides national and Montana economic forecasts. These forecasts are incorporated in the models used by the LFD and OBPP to estimate individual income tax revenue, corporation license tax revenue, and certain other revenue.

As you know, revenue collections for this biennium are well below the estimates contained in House Joint Resolution No. 2 from last session. A significant amount of the shortfall is attributable to the individual income tax and the corporation license tax.

In this time of state financial uncertainty, the Committee is committed to developing initial revenue estimates that are as accurate as possible and to ensuring that the revenue estimating process works as smoothly as possible during the legislative session.

In July, the Committee decided to begin the revenue estimating process in earnest. At the Committee's August meeting, economists from the Montana university system discussed economic forecasting and the factors that may affect the accuracy of the forecasts. LFD staff also discussed the accuracy of economic forecasts and general fund revenue estimates and surveyed public agencies and private firms that provide economic forecasting services. One of the private firms was Moody's Economy.com. The staff survey included a comparison of the relative forecasting accuracy of certain economic variables made by Global Insight and Moody's; the firms were evenly split on the relative accuracy of different economic variables.

On behalf of the Revenue and Transportation Interim Committee, I want to express our appreciation for your consideration of this important matter.

Sincerely,

Senator Kim Gillan, Chair, Revenue and Transportation Interim Committee

cc: Revenue and Transportation Interim Committee

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