MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: May 3, 2012

TO: Legislative Council

FROM: Terry W. Johnson, Principal Fiscal Analyst

RE: Revenue estimate process (REP) roundtable

The Legislative Council, Legislative Finance Committee, and the Revenue and Transportation Committee (RTIC) met on December 6th to discuss the revenue estimating process. The focus of their discussion was on five areas:

- Legislative process
- Independence and expertise
- Frequency of estimates and updates
- Managing volatility
- Accuracy

This report focuses on the "accuracy" component and what staff is doing to address this issue. The following are the draft recommended actions for this area as developed by the REP roundtable.

1. *Compare the post-session revenue estimate with actual revenue to determine whether accuracy increased. Determine if session should be extended.*

Staff reviewed FY 2011 actual collections with a post-session revenue update based on general fund revenue collections received through May FY 2011. This analysis was based on accounting data through May plus new Global Insight (HIS) economic data. Using this information, it was forecast that FY 2011 revenues would exceed the HJ2 revenue estimate by $67.7 to $77.7 million. Actual collections for FY 2011 were $75.9 million more than anticipated in HJ2 which is within the range above. In this case, a delay in the conclusion of the legislative session would have improved the accuracy of the revenue estimating process assuming the legislature would endorse the recommended revisions.

2. *Determine if income tax data from DOR scan process improves the accuracy of the estimates.*

The Department of Revenue (DOR) has been contacted to determine the status of the computer scanning project authorized by the 61st Legislature. The following is the response I received from the department director: *"The Imaging Project is operating successfully and increasing department productivity, but it is still too early in the project to produce expanded data to impact*

*the revenue estimating process. That data will emerge over time as the department extends scanning to greater portions of paper returns for which data has never been captured before and as the IRS phases in its modernized e-file system (MeF) for electronic returns."*The director goes on to say that enhanced electronic data will be available for policy analysis by the 2015 legislature.

3. *Review historical data to determine if year-to-date collection information is useful to the yearend forecast.*

Some of the RTIC members met with the Legislative Fiscal Division (LFD) to discuss year to date revenue collections in the revenue estimating process. Attached is an example of the analysis discussed with these members.

4. *Conduct a periodic review of critical components of the revenue estimating models, including data and processes. Identify "triggers" that may indicate when model might be breaking down.*

Staff is currently in the process of evaluating the individual income tax models and the accuracy for tax year 2010. The DOR supplied tax return data for 2010 in mid November.

Staff is also refining the corporation license tax model with an emphasis on the larger corporations. This modeling effort will also be a combination of tax return data and year to date payment information. Corporation license tax revenues are more prone to taxpayer behavior changes which require a better understanding of tax payments by quarter.

Staff is also working with the Department of Justice to receive motor vehicle fee/tax data on a monthly basis. This data will help determine the age distribution of vehicles in the state in addition to other fee/tax statistics.

The Board of Oil and Gas maintains a large database of oil and gas wells in Montana. Efforts are currently underway to further analyze this information for wells other than those in the Bakken formation. This data will help determine production decline curves for other significant fields.

The REP roundtable also discussed the possibility of contracting with an expert to review the current LFD revenue estimates. Committee discussions focused on having a retired state employee, previously involved with revenue estimating, provide a review. A subcommittee of the roundtable members discussed the possibility of having the Legislative Auditor (LA) provide a performance audit or review. Staff met with the LA to determine the feasibility of a performance audit or review. The LA felt that there would be an independence issue as well as a potential for conflict of interest. The LA questioned what standards they would audit to, discussed limited resource considerations, and suggested contract services to do the review.

Staff initiated contact with two economic consulting firms to determine if there would be an interest in doing a review as described above and what a ballpark cost estimate would be.

Attachment

Month	Min.	Max.	Mean	Min. Estimate	Max. Estimate	Mean Estimate	Max. - Min.
01 Jul.	0.031035	0.054931	0.042862	1,583,701,994	2,803,104,051	2,029,642,078	1,219,402,057
02 Aug.	0.066080	0.114446	0.093694	1,632,586,574	2,827,527,286	1,994,189,029	1,194,940,712
03 Sep.	0.150810	0.208069	0.174184	1,607,130,633	2,217,320,229	1,919,779,867	610,189,596
04 Oct.	0.198966	0.234623	0.209587	1,552,390,820	1,830,597,144	1,737,833,088	278,206,324
05 Nov.	0.247348	0.296929	0.264011	1,546,648,111	1,856,674,309	1,739,487,697	310,026,198
06 Dec.	0.340244	0.395953	0.365655	1,663,155,535	1,935,468,145	1,800,962,919	272,312,610
07 Jan.	0.452428	0.567953	0.495432	1,555,289,485	1,952,424,095	1,782,953,340	397,134,610
08 Feb.	0.518868	0.767577	0.561837	1,207,909,839	1,786,897,266	1,650,236,832	578,987,427
09 Mar.	0.563812	0.818399	0.603725	1,218,349,563	1,768,490,319	1,651,572,509	550,140,756
10 Apr.	0.660408	0.750942	0.701084	1,646,455,675	1,872,164,961	1,763,544,565	225,709,286
11-May.	0.748139	0.819151	0.781762	1,644,510,206	1,800,604,138	1,723,161,098	156,093,932
12 Jun.	1.000000	1.000000	1.000000	1,782,557,554	1,782,557,554	1,782,557,554	0

Total General Fund Revenue
Difference Between Maximum and Minimum Estimates

Total General Fund Revenue
Estimates using Min., Max., & Mean %'s

Min. Max. Mean

GF Revenue Estimate Over/Under Actual Collections by Month
Based on 11 year Historical Average For Each Month