

REVENUE ESTIMATING PROCESS

A Report Prepared for the
Revenue and Transportation Interim Committee

By
Terry Johnson,
Principal Fiscal Analyst

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Legislative Fiscal Division

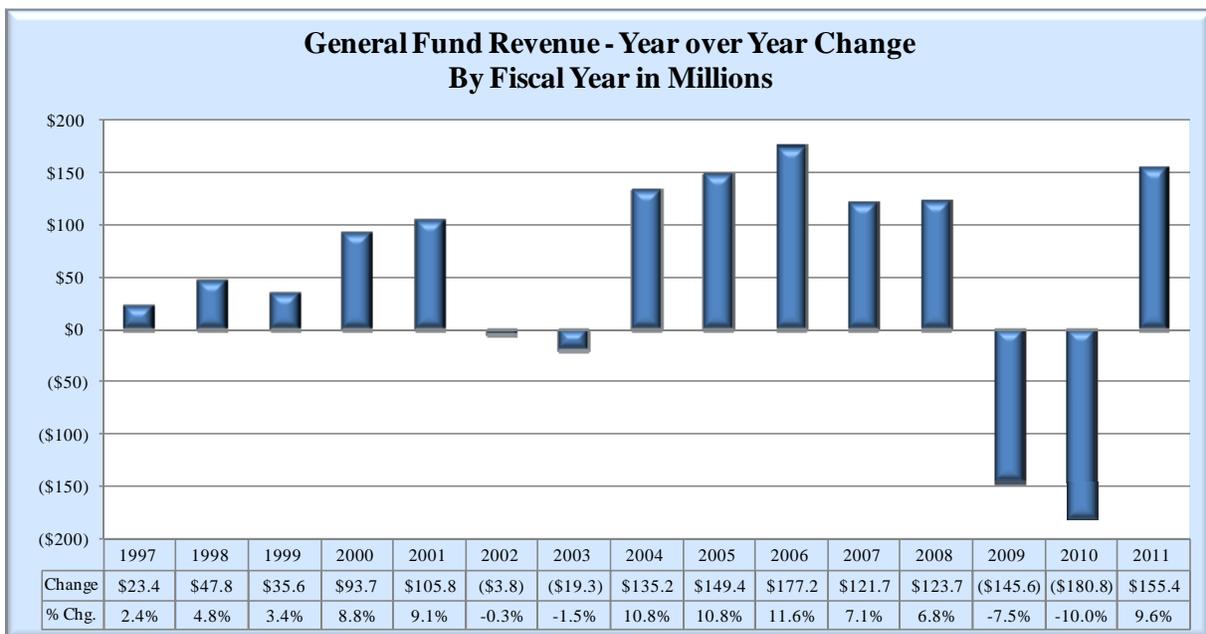


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INTRODUCTION

Montana’s general fund revenue collections during FY 2009 and FY 2010 experienced the largest decline in over 4 decades. During this period, revenue collections declined by 7.5% from FY 2008 to FY 2009 and another 10.0% from FY 2009 to FY 2010. These unprecedented declines were the result of the “Great Recession” and impacted individual and corporation income tax collections as well as consumption tax collections and investment earnings. As Figure 1 shows, revenue collections rebounded in FY 2011 and increased by 9.6%. For the legislature, the volatility in revenues made the job of developing a balanced budget, as required by the state constitution, a very challenging task. When funding is limited, the legislature is faced with the difficult task of considering tax increases, spending reductions, or a combination of both items. During the 2011 Legislature, the issue of revenue estimates and how much money would be available for the 2013 biennium was a hotly debated issue. This report is designed to point out, from a staff perspective, two revenue estimating process issues and a recommended procedure to discuss these issues.

Figure 1



BACKGROUND

As specified in section 5-5-12-302, MCA, the Legislative Fiscal Analyst (LFA) is required to “estimate revenue from existing and proposed taxes” and also requires the LFA to “assist the revenue and transportation interim committee in performing its revenue estimating duties.” Under current procedures, staff of the Legislative Fiscal Division (LFD) prepare economic and revenue estimate recommendations that are presented to the Revenue and Transportation Interim Committee (RTIC) prior to each legislative session. These recommendations are based on a myriad of economic information from IHS Global Insight (a national economic and forecasting service) for both the national and state economies. There are many other information sources that are contacted such as the Bureau of Business and Economic Research from Missoula, Montana State University Agriculture Economics department from Bozeman, numerous state agencies such as Department of Revenue, Department of Labor and Industry, and Department of Commerce and associations like the Montana Petroleum Association, Montana Society of Certified Public Accounts, and Montana Taxpayers Association. All of this information is utilized by staff to develop models that correlate state revenue with current and future economic conditions.

This process, although somewhat overwhelming for committee members, works and accomplishes the committees statutorily responsibility to submit revenue estimates to the ensuing legislature. These estimates are the official revenue estimates of the legislative branch and are the starting point for the development of the next biennium budget.

ISSUES

DO MEMBERS OF THE LEGISLATURE FEEL ABLE TO ARTICULATE THEIR OWN INTERPRETATION OF THE REVENUE CONDITION OF THE STATE TO THE PUBLIC? DO THEY HAVE THE TOOLS THEY NEED TO DESCRIBE THE PHILOSOPHICAL DIFFERENCES BETWEEN THEIR POSITIONS?

While current revenue estimating process is technically reliable, it does not give individual legislators sufficient information to formulate their respective arguments either “for or against” the revenue estimate recommendations. It also lacks the visibility or transparency aspect that is critical to the state budgeting process. Staff prepares a detailed document that shows all of the economic assumptions used by the committee to develop the associated revenue estimate recommendations. This document, however, is lengthy, overwhelming, and lacks the specificity regarding key economic assumptions that account for a majority of the anticipated revenue. During the last session, there were times when both parties and chambers could not adequately articulate their arguments for a higher or lower revenue estimate. They had their respective thoughts but it was difficult for them to put in perspective whether their arguments would significantly impact anticipated revenue either positively or negatively and by how much.

For example, about 40% of total general fund revenue comes from withholding taxes on wage and salary income. If a legislator could explain why he or she thinks wage income is going to be different than the RTIC recommendation, the legislator is in a better position to discuss the reasoning as well as the financial implications with their constituents and other legislators. Another good example is the price of oil that Montana producers receive for the commodity. Some legislators have an intimate understanding of the oil industry in Montana but knowing how a different price assumption may impact the numerous revenue sources is a complex financial issue. This example also illustrates how difficult it can be to bring factions from various sectors of the economy together to help the legislature better understand the dynamics of Montana’s economy as well as the wealth of information that these sectors may contribute to the revenue estimating process. There are times where business leaders and others have provided anecdotal evidence of economic trends that the legislature could have utilized if the information were available in a more public forum.

SHOULD THE REVENUE ESTIMATE RESOLUTION BE REQUIRED TO GO THROUGH THE LEGISLATIVE PROCESS (HOUSE AND SENATE)?

This issue was discussed by the Legislative Finance Committee during their brainstorming session held in June. However, current statute specifies that the official revenue estimate of the legislative branch is the RTIC recommendations or the amended version by a legislative committee. This means the revenue estimating resolution is not required to be passed by the legislature and it also means the House of Representatives can determine the anticipated level of revenue without any consideration by the Senate. There have been numerous attempts by past legislatures to change this procedure but none of them have passed.

RECOMMENDATIONS

Staff recommends that members from the Legislative Council, RTIC, and LFC participate in a half-day discussion on December 7th to develop potential solutions to both of these issues. Staff realizes that not all members will be able to attend this discussion but our intent is to include as many legislators as possible. Staff would also ask that two members be available before December 7th so staff can develop an agenda and have members available to solicit ideas and feedback.