PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

Revenue and Transportation Interim Committee

61st Montana Legislature

April 19, 2010

TO: Revenue and Transportation Interim Committee

FROM: Jeff Martin, Legislative Research Analyst

SUBJECT: Overview of Revenue Estimating Procedures in Other States

In 1989, representatives of state budget and revenue offices from 12 states participated in a discussion of revenue estimating practices sponsored by the National Association of Budget Officers (NASBO) and the Federation of Tax Administrators. The discussion was in response to a National Association of Governors' request that NASBO examine the revenue estimating process. The governors' association wanted to know how to be certain that state revenue estimates are as accurate as possible.

The participants developed a list of good practices in revenue estimating that are contained in a report prepared after the discussion.[1] In eleven participating states, the executive branch or the executive branch working with the legislative branch to some degree developed the revenue estimates. Only one participating state used a consensus process. As such, many of the "good practices" were directed to how the executive branch should be involved in the revenue estimating process. However, there were some practices that had general applicability.

Participants agreed that gaining a consensus of the state economic forecast is an important first step in developing a revenue estimate. The consensus approach should include academic, business, labor, and legislative interests as well as the executive branch. The report pointed out that development of the state economic forecast may be easier than estimating revenues if there is volatility in the tax structure at the federal or state level. On the other hand, the report also noted that in some states, the relationship between the executive branch and the legislative branch may be contentious and that agreement on the state economic forecast may be impossible.

The report also recommended that a monthly report on revenue collections should be prepared as well as an annual report that shows the variance between collections and estimates. In addition,

[1] Marcia A. Howard, "Good Practices in Revenue Estimating", National Association of State Budget Officers (Washington, D.C., December 1989), pp. 1-19.

changes in the national economic forecast may require changes to the state economic forecast and revenue estimates.

It is not known whether the participants were representative of the states in who has the primary responsibility for developing the revenue estimates. If they were, the responsibility among the states has changed significantly in the last 20 years.

States have developed a variety of processes to estimate revenue available for legislative appropriation. The National Conference of State Legislatures has compiled information on how each state develops revenue estimates for legislative appropriation.[2] The NCSL table and notes are attached to this memorandum. NCSL has categorized states by the process they use to develop revenue estimates:

- consensus revenue estimates -- 23 states
- executive branch revenue estimates --16 states
- legislative branch revenue estimates -- 1 state
- other revenue estimate --10 states[3]

Montana is the only state that the Legislature is specifically listed as having the responsibility for developing the "official" revenue estimate.

Nearly half the states use a consensus approach to estimate revenues. The membership of the consensus group varies among the states using that approach. The consensus group may include representatives from the executive branch and the legislative branch, and in some cases the group may include the two branches of government and nongovernmental representatives.

In states in which the executive branch is responsible for developing the official revenue estimates, the estimates may be developed by the Governor's office, a single state agency, or a combination of state agencies.

In some cases, the state legislature may provide input or legislative oversight in the development of the revenue estimates. In Maryland, for example, the Board of Revenue Estimates is assisted by the Consensus Revenue Monitoring and Forecasting Group, which includes the Bureau of Revenue Estimates, the Department of Budget and Management, and the Department of Legislative Services. In California, the revenue forecast is contained in the Governor's budget proposal. Adjustments to the forecast may be made based on revenue estimates prepared by the state's Legislative Fiscal Analyst. The forecast is jointly approved by the Legislature and the Governor.

---

[2]National Conference of State Legislatures, Legislative Budget Procedures: Enactment of the Budget (Revenue Forecast), Table and Notes, (Denver, CO, October 2009). Retrieved from http://www.ncsl.org/default.aspx?tabid=18793, March 25, 2010.

[3]The states in the attached table are sorted by the revenue estimating process rather than alphabetically in the original NCSL table.

There are a variety of processes used by the states that NCSL characterizes as "other" in the development of revenue estimates. In Connecticut, the Joint Committee on Finance, Revenue, and Bonding develops the revenue estimate. The Office of Fiscal Analysis receives input from the executive branch, but the committee makes an independent revenue forecast. In Hawaii, the Council on Revenues reports its latest revenue forecast to the Governor and the Legislature four times a year. The council consists of an advisory board of economists, three of whom are appointed by the Governor and two each of whom are appointed by the president of the Senate and the speaker of the House.[4]

Some states have specific procedures for adopting the revenue estimate. For example, Colorado, Delaware, and Montana adopt the revenue estimates in a joint resolution of the Legislature, while New Hampshire incorporates the revenue estimates in the appropriations bill. In other states, the estimates may be adopted or modified by the joint appropriations committees (e.g. South Dakota and Kentucky, respectively).

According to the NCSL tabulations, in nearly half the states the revenue estimates do not "bind the budget". In those states, budget law may determine how the revenue estimates are used. In Florida, for example, the state Constitution requires a balanced budget. In Kansas, there are no specific prohibitions against expenditures exceeding the revenue estimate. However, state law provides that general fund expenditures and demand transfers be limited to an amount that provides for an ending fund balance of 7.5% of total expenditures for a fiscal year.

Finally, states may revise revenue estimates every 2 years, annually, semiannually, three times a year, or more often.

Below are brief descriptions of how six states (Colorado, Delaware, Kansas, New Hampshire, Oregon, and Utah) develop revenue estimates.

Colorado--Other

Section 24-75-201.3, CRS, requires that the General Assembly adopt a revenue resolution each year by February 1 after taking into consideration the estimates of the Governor's Office and the Legislative Council. The resolution is introduced in the Senate and contains the total general fund estimate for the budget period.[5] That section of law also requires the Governor to report to the General Assembly four times each fiscal year revenue estimates for the fiscal year. Those estimates are used to formulate a plan, if necessary, to reduce general fund expenditures.

Delaware--Consensus

---

[4] *Ibid.*, Notes.

[5] Last interim, the Revenue and Transportation Interim Committee requested legislation to require that the revenue estimating resolution be introduced in the Senate (Senate Bill No. 28). The legislation would also have made the Committee's revenue estimate the current estimate until concurred in by both houses of the Legislature. The bill died in the Senate Taxation Committee.

Revenue estimates are prepared by the Delaware Economic and Financial Advisory Council. The Council, consisting of 32 members, is appointed by the Governor. It includes members of the House and Senate and the Governor's cabinet, Office of the Controller General, and private sector and university representatives. The Delaware Department of Finance provides staff support for the Council.

The Council meets six times a year. The Council includes an expenditure subcommittee and a revenue subcommittee. At the Council's March 2009 meeting, the revenue subcommittee reported that Global Insight's March baseline economic forecast was below the December pessimistic forecast. The Council approved the subcommittee's recommendation to lower general fund revenue estimates for fiscal years 2009 and 2010.[6]

Article VIII, section 6(b), of the Delaware Constitution (Revenue and Taxation) prohibits general fund appropriations from exceeding 98% of the estimated state general fund revenue. Article VIII, section 6, also requires that the general fund revenue estimate for each fiscal year must be contained in a House Joint Resolution of the General Assembly and signed by the Governor. In 2009, the resolutions for fiscal year 2009 and for fiscal year 2010 were unanimously passed by the House and Senate. The history of legislative action for each resolution does not indicate assignment to a committee. Floor action on each resolution occurred on the day of introduction in each chamber.

Kansas--Consensus

Revenue estimates for the Kansas general fund are developed by the Legislative Research Department, the Division of the Budget, the Department of Revenue, and three consulting economists from state universities. Kansas has been using the consensus revenue estimating process for 35 years. Each of the state agencies and the consulting economists prepare initial, independent revenue estimates. An agreement on the initial estimates for the following fiscal year occurs in November, with a formal update occurring the following April. In November 2009, the consensus group decreased the revenue estimate for fiscal year 2010 and developed the initial estimate for fiscal year 2011.[7]

State law does not prohibit appropriations from exceeding official revenue forecasts; however, state law does require that general fund expenditures and demand transfers be limited to an amount that provides an ending general fund balance of 7.5% of total expenditures for a fiscal year.

New Hampshire--Other

---

[6]Minutes of the Delaware Economic & Financial Advisory Council, Buena Vista, March 16, 2009. Retrieved from http://finance.delaware.gov/defac/min_0309.pdf, April 6, 2010.

[7]Memo from Kansas Legislative Research Department and Kansas Division of the Budget to Governor Mark Parkinson and Legislative Budget Committee, "State General Fund Receipts Estimates for FY 2010 and FY 2011", November 12, 2009. Retrieved from http://budget.ks.gov/files/FY2011/CRE_Long_Memo_Nov2009.pdf, April 1, 2010.

The executive branch prepares an initial revenue estimate in February. Legislative revenue estimates begin in the House Ways and Means Committee, with participation by the New Hampshire Department of Revenue Administration and the Legislative Budget Assistant. The House and Senate also prepare their own estimates during the session. The New Hampshire Center for Public Policy Studies describes the revenue estimating process "as a negotiated collaborative process between the legislative and executive branch of state government."[8]

The Committee of Conference produces the official state revenue estimate. The revenue estimates by source of revenue for the general fund, the education trust fund, the highway fund, and the fish and game fund are included in the general appropriations act (HB 1-A).

Oregon--Executive

The Department of Administrative Services, Office of Economic Analysis, develops the revenue estimates for the executive branch in a two-step process. First, the Department of Administrative Services prepares an economic forecasting model before developing revenue estimates. The model assumptions and results are reviewed by an economic advisory committee, consisting of economists employed by state agencies and by the Governor's Council of Economic Advisors, consisting of economists from universities, the financial sector, utilities, and industry. The Department prepares a final economic forecast based on comments of the reviewing committees.

Second, the economic model is used to develop preliminary revenue estimates that are reviewed by the Council of Revenue Forecast Advisors. That group consists of accountants, financial planners, and economists from the private and public sectors (including the Oregon Department of Revenue and the Legislative Revenue Office). The Department of Administrative Services prepares a final economic forecast based on comments by the reviewing committees.[9] Although the Oregon Constitution requires a balanced budget,[10] there are no provisions that bind the budget to revenue estimates. However, the revenue "kicker" law is based on the Governor's official revenue estimate[11] that is prepared after the adjournment of a regular legislative session (Article IX, section 14, of the Oregon Constitution).

Utah--Other

The Revenue Assumptions Committee (RAC) develops key assumptions that will be used in the forecasting of Utah's economy and tax revenue. The Committee includes economists from the

---

[8]New Hampshire Center for Public Policy Studies, "New Hampshire State Revenue Forecasts: A Good Track Record" (Concord, NH, June 2007), pp. 1-10. Retrieved from http://www.nhpolicy.org/reports/revenueforcasts2007.pdf, April 5, 2010.

[9]Scott L. Herra, Director, Department of Administrative Services, Foreword, "Oregon Economic and Revenue Forecast", Department of Administrative Services, Office of Economic Analysis, Volume XXX, No. 1 (March 2010), p. iii. Retrieved from http://www.oregon.gov/DAS/OEA/docs/economic/forecast0310.pdf, April 5, 2010.

[10]Article IX, section 2, of the Oregon Constitution requires that "[the] Legislative Assembly shall provide for raising revenue sufficiently to defray the expenses of the State for each fiscal year, and also a sufficient sum to pay the interest on the State debt, if there be any."

[11]*Idem*, National Conference of State Legislatures, Notes.

Governor's Office of Planning and Budget, the Legislative Fiscal Analyst's Office, the Utah Tax Commission, other state agencies, and experts from academia and the private sector.[12] The Committee focuses on changes to more than 50 different indices spread across seven categories, including production and spending, sales and construction, demographics, profits and resource prices, inflation and interest rates, employment and wages, and income and unemployment.

The Governor's Office of Planning and Budget, the Legislative Fiscal Analyst's Office, and the Utah Tax Commission use the RAC's economic and demographic forecasts and other data to prepare independent revenue estimates.

The Governor uses the "consensus" estimates in developing budget recommendations. The Legislature's Executive Appropriations Committee typically adopts the November estimates to set spending caps for the appropriations subcommittees. The revenue estimates are revised in February.

Final Comments

Since 1989, the Montana Legislature has had the responsibility for estimating revenue available for legislative appropriation. Although the revenue estimating process has occasionally bogged down during the legislative session, it seems to work fairly well. However, the Revenue and Transportation Interim Committee may want to consider ways to improve the process. It can begin that effort at the July 8-9 and September 15-16 meetings. The Committee can also consider whether it wants to examine in a systematic fashion the revenue estimating process next interim, either on its own initiative or by requesting a study resolution.

Some of the elements that could be examined include:

- the entities involved in estimating revenues and the degree of collaboration or consensus among the entities;
- the components, data (including data and analysis from national economic forecasting groups), and assumptions used in the models to develop the economic and revenue forecasts;
- the frequency of updated revenue estimates;
- the accuracy of the revenue forecasts and the consequences of forecasts that are too high or too low; and
- the procedure for adopting the revenue estimates, including the involvement of legislative committees, and the implications for budgeting.

---

[12] Kevin G. Walthers, "Revenue Estimating and Budgeting in Utah: A Primer", *Policy Perspectives*, Center for Public Policy and Administration, University of Utah (Salt Lake, October 28, 2009), pp. 1-4. Retrieved from http://www.imakenews.com/cppa/e_article001579060.cfm?x=b11,0,w, April 6, 2010.

cl0425 0102jfqb.