



Revenue and Transportation Interim Committee

61st Montana Legislature

SENATE MEMBERS

KIM GILLAN--Chair
RON ERICKSON
JEFF ESSMANN
CHRISTINE KAUFMANN
JIM PETERSON
BRUCE TUTVEDT

HOUSE MEMBERS

ROY HOLLANDSWORTH--Vice Chair
DICK BARRETT
CYDNIE (CARLIE) BOLAND
BRIAN HOVEN
MIKE JOPEK
BILL NOONEY

COMMITTEE STAFF

JEFF MARTIN, Research Analyst
LEE HEIMAN, Staff Attorney
FONG HOM, Secretary

April 19, 2010

TO: Revenue and Transportation Interim Committee

FROM: Jeff Martin, Legislative Research Analyst

SUBJECT: The Revenue Estimating Process

In 1989, the Montana Legislature established a process for the Legislature to develop revenue estimates for legislative appropriation. Senate Bill No. 341 (Chapter 608, Laws 1989) directed the then-Revenue Oversight Committee to prepare the revenue estimates. The legislation also provided that the revenue estimating resolution introduced by the Committee and subsequent periodic reports issued by the Committee constitute the Legislature's current revenue estimate until final adoption of the resolution by both houses of the Legislature.

In 1991, the Legislature revised the procedures of estimating revenue by inserting the language that is now contained in 5-5-227(2)(a) and (3), MCA, including the language that the Committee's revenue estimates and underlying assumptions should be used by state agencies in the preparation of fiscal notes (Chapter 603, Laws 1991).

In 1999, the Legislature revised the structure of interim committees and assigned the revenue estimating responsibilities to the Revenue and Transportation Interim Committee (Chapter 19, Laws 1999). Section 5-5-227, MCA, provides in part that:

(2) (a) The committee must have prepared by December 1 for introduction during each regular session of the legislature in which a revenue bill is under consideration an estimate of the amount of revenue projected to be available for legislative appropriation.

(b) The committee may prepare for introduction during a special session of the legislature in which a revenue bill or an appropriation bill is under consideration an estimate of the amount of projected revenue. The revenue estimate is considered a subject specified in the call of a special session under 5-3-101.¹

(3) The committee's estimate, as introduced in the legislature, constitutes the legislature's current revenue estimate until amended or until final adoption of the estimate by both houses. It is intended that the legislature's estimates and the assumptions underlying the estimates will be used by all agencies with responsibilities for estimating revenue or costs, including the preparation of fiscal notes.

¹House Bill No. 21 (Chapter 5, Laws 2007) added subsection (2)(b) that allows the Committee to develop revenue estimates for introduction during a special session. A similar provision was contained in the 1989 enactment.

Neither the Committee nor the Legislature has conducted a systematic review of the process and procedures for developing revenue estimates since the process was established in 1989. Because of disparities in the revenue estimates between the Legislative Fiscal Analyst (now the Legislative Fiscal Division) and the Department of Revenue during the 1997 session, House leadership requested that the Revenue Oversight Committee work with the Fiscal Analyst and the Department of Revenue to develop a process to resolve differences in revenue estimates before the 1999 legislative session.

The remainder of this memorandum discusses the recent history of the revenue estimating process. A companion memorandum provides a brief overview of how other states estimate revenues for legislative appropriation. The purpose of the two memos is to encourage discussion among Committee members of how the process may be improved for the next legislative session and whether the Committee may want to consider undertaking a systematic review of the revenue estimating process next interim.

As noted above, the Committee's estimate, as introduced in the Legislature, constitutes the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses. During the last three sessions, the resolution has stalled at various stages of the legislative process.

On February 18, 2009, the House Taxation Committee amended House Joint Resolution No. 2 and adopted a committee report. The resolution was rereferred to the Committee. On March 21, 2009, the Committee again amended the resolution and adopted a committee report. In each instance, the House Taxation Committee estimates became the Legislature's current revenue estimate. The resolution died in the process.

In 2007, the resolution died in the House Taxation Committee. As such, the Revenue and Transportation Interim Committee's estimates were the Legislature's current revenue estimates.

In 2005, the House of Representatives did not concur in the Senate amendments to the resolution, and the resolution died in the process. As such, the Senate estimates were the Legislature's current revenue estimates.

In the 1999 through 2003 legislative sessions, both houses of the Legislature adopted the resolution, and it was filed with the Secretary of State.

The Revenue and Transportation Interim Committee adopts the revenue estimates in November of the year preceding the next regular session. As a practical matter, the Committee cannot adopt the estimates much earlier than mid-November because the Department of Revenue's income tax data tape is not available until November 1 (October 15 is the general deadline for taxpayers who requested an extension of time for filing an income tax return).

Staff of the Legislative Fiscal Division and the Governor's Office of Budget and Program

Planning each present assumptions and corresponding revenue estimates for the Committee's consideration. In the past, the Committee has initially adopted the revenue estimates of the Legislative Fiscal Division and may make changes to those estimates based on information presented by OBPP, economists from the Montana university system, and, occasionally, other experts.

Because the Committee is inundated with a large amount of information at the November meeting (including revenue estimates for selected nongeneral fund sources, including motor fuels taxes, common schools interest and income, GVW fees, and interest earnings for several trust funds), it may want to consider getting a start on the revenue estimating process at the July 8-9 meeting and at the September 15-16 meeting.

At those meetings, the Committee can discuss the modeling, assumptions, and data requirements for the major sources of general fund revenue including individual income taxes, corporation license taxes, property taxes, natural resource production taxes, motor vehicle taxes and fees, and other sources of revenue the Committee considers significant. The Committee may also want to develop a list for expert testimony on the state's economy and other factors that may affect the estimates.

The Committee would take up the other, less important revenue sources at the November meeting when it adopts the initial revenue estimates.

Finally, the resolution containing the Committee's revenue estimates must be preintroduced by December 15, 2010 (see Rules of the Montana Legislature, Joint Rules 40-40(5)(a)). To ensure the timely preintroduction of the revenue estimating resolution, the Committee should make a bill draft request for the resolution at the April meeting.

CI0425 0102jfqc.