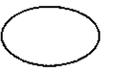


Legislative Finance Committee
2013 Biennium Work Plan Item



SHORT TITLE: Revenue Estimating Process (IV.2)

Brief Description of the Issue(s):

Two issues appear in the Revenue Estimate Process:

- 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?
- Should the revenue estimate resolution be required to go through the legislative process (House and Senate)?

Potential questions to address may include:

- Can staff better explain the revenue choices of assumptions and risks to the Legislature?
- Should the LFD engage the RTIC or LFC in the process to a greater degree?
- Should there be a Council of Economic Advisors to review and give input to the staff and the legislature?
- Should revenue estimates be a consensus process? Or another process similar to another state?

Relation to the LFC:

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 “assist the revenue and transportation interim committee in performing its revenue estimating duties.” The LFC is the management oversight of the LFA.

Revenue estimates determine the level of spending available to any Legislature. The estimates used by the legislature significantly impact the type and level of services provided by state government.

Potential Outcomes/Deliverables/Recommendations:

The LFC could: review reports generated last interim; consider why changes were not made last interim; discuss choices with the RTIC; and determine if a better solution can be found. An example of a possible outcome is shown on the second page.

Resources Required:

- Committee: The LFC and RTIC would need to work together to develop a solution. Resources required would depend on the solution chosen.
- Staff: Staff of LFD and LSD may be needed for research as needed

Coordination with other Entities/Staff:

- Interim Committee(s): Revenue and Transportation Interim Committee
- LSD or LAD Staff: Legislative Services Division
- Executive Agencies: Governor’s Office of Budget and Program Planning
- Stakeholders: Citizenry of Montana, Legislature

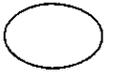
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Note: An example of a choice that the LFD has considered is ii

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Example:

Brief Description of the Example and issues it could resolve:

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.

While the above process is technically reliable, it lacks the visibility or transparency aspect that is critical to the state budgeting process. It is also difficult to simultaneously bring factions from various sectors of the economy together to help staff 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 has been numerous times where business leaders and others have provided anecdotal evidence of economic trends that staff could have utilized if the information were available in a more public forum.

Staff is recommending that a council of economic advisors (CEA) be created that would be an advisory group to the LFA. This group would consist of individuals from the business community, educational system, and other interested parties. The council would advise the LFA on complex economic issues and other state revenue issues that may impact current and future revenue collections. Staff would then have a broader range of expertise to consult with especially during the peaks and valleys of economic cycles. The advice received from the council would be incorporated by staff into the appropriate revenue estimating models. The results would then be presented to the legislature via the pre-session meeting of the Revenue and Transportation Committee (RTIC) and probably mid-session during the legislative session.

Potential Outcomes/Deliverables/Recommendations:

The CEA would be created by the LFA based on a list of appointees recommended by the LFC, the RTIC, and staff of the LFD. The House and Senate Leadership could also be requested to submit appointees in lieu of the LFC and RTIC. The CEA would be requested to meet four times throughout the interim. Those times would be January 2012, June 2012, October 2012, and March 2013. January 2012 would be for educational and background information, June 2012 would be a trial run for the "Big Picture" analysis, October 2012 would be for the LFD recommendations to RTIC in November, and March 2013 would be for a mid-session update.

Resources Required:

- Committee: The LFC and RTIC would be asked to submit names of potential appointees to CEA. The House and Senate leadership may be asked to submit names of appointees in lieu of the LFC and RTIC. There would be a need for financial resources to pay for anticipated travel costs of the appointees.
- Staff: Staff of LFD would prepare revenue estimate recommendations under current procedures. An additional step in the process would be to bring significant issues and economic concerns to CEA for