

# **SPECIAL SESSION REVENUE ESTIMATING PROCEDURE RECOMMENDATION**

A Report Prepared for the  
**Revenue and Transportation Interim Committee**

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Revenue & Transportation Committee  
September 30, 2005

Exhibit #2

## INTRODUCTION

As delineated in Section 5-5-227(1) (a), MCA, the Revenue and Transportation Interim Committee (RTIC) is required to prepare “an estimate of the amount of revenue projected to be available for legislative appropriation.” In addition, sections 5-12-302(2) and 5-12-307(6) specifically require the Legislative Fiscal Analyst (LFA) to “estimate revenue from existing and proposed taxes” and also requires the LFA to “assist the revenue and transportation committee in performing its revenue estimating duties...”

The purpose of this report is to recommend a procedure to the RTIC for reviewing the revenue estimates contained in HJR 2 (revenue estimate resolution) of the 59th Legislature assuming a special session is called for December 2005.

## BACKGROUND AND RECOMMENDATION

### BACKGROUND

During November 2004, prior to the convening of the 59th Legislature, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2005, 2006, and 2007. The actions taken by the RTIC were incorporated into HJR 2 and were introduced at the beginning of the 59th Legislature. During the legislative process, the legislature amended HJR 2 with some adjustments to the recommendations offered by the RTIC. Figure 1 shows the total general fund impact of the amended adjustments by the House and Senate by revenue category. Although the House failed to concur with Senate amendments, for the three-year period, fiscal 2005 through 2007, total general fund revenue estimates were increased \$34.1 million from the recommendations of the RTIC.

Figure 1 Revenue Estimate Adjustments by 59th Legislature General Fund In Millions				
Revenue Issue	Fiscal 2005	Fiscal 2006	Fiscal 2007	3-Year Total
<b>Revenue and Transportation Committee</b>	<b>\$1,384.639</b>	<b>\$1,429.143</b>	<b>\$1,469.173</b>	<b>\$4,282.955</b>
<b>House Taxation Committee Adjustments</b>				
Coal Trust Interest	(2.107)	(3.227)	(3.345)	(8.679)
Treasury Cash Account Interest	(1.428)	(0.171)	1.366	(0.233)
Individual Income Tax	15.424	-	-	15.424
<b>Total House Adjustments</b>	<b>\$11.889</b>	<b>(\$3.398)</b>	<b>(\$1.979)</b>	<b>\$6.512</b>
<b>Senate Taxation Committee Adjustments</b>				
Individual Income Tax	15.424	-	-	15.424
Oil and Natural Gas Production Tax	-	3.067	6.206	9.273
US Mineral Royalty	-	0.956	1.949	2.905
<b>Total Senate Adjustments</b>	<b>\$15.424</b>	<b>\$4.023</b>	<b>\$8.155</b>	<b>\$27.602</b>
<b>Grand Total All Adjustments</b>	<b>\$27.313</b>	<b>\$0.625</b>	<b>\$6.176</b>	<b>\$34.114</b>
<b>Revised HJR2 Revenue Estimates</b>	<b>\$1,411.952</b>	<b>\$1,429.768</b>	<b>\$1,475.349</b>	<b>\$4,317.069</b>

As the committee members may recall, there was considerable debate during the 59<sup>th</sup> Legislature about the amount of individual income tax revenues to be received in fiscal 2005. Both your staff and the executive budget office provided economic and accounting information that supported an upward adjustment to the original recommendations of the RTIC. As shown in Figure 1, the legislature ultimately increased the individual income tax estimate by \$30.8 million (House \$15.4 million and Senate \$15.4 million) for fiscal 2005 only.

In the report "General Fund Status: Fiscal 2005 Actual/2007 Biennium Projected", it was shown that total general revenue collections exceeded the legislatures' adjusted HJR 2 revenue estimate by \$133.4 million. Sources exceeding the HJR 2 estimate significantly were individual income tax (\$91.5 million), corporation income tax (\$31.9 million), oil and natural gas production tax (\$4.4 million), and the remaining categories (\$5.6 million). If you exclude the unanticipated Federal Emergency and Management Agency (FEMA) reimbursement accrual of \$5.5 million, all of the remaining categories would have been within \$0.1 million of the legislature's revenue estimate.

## RECOMMENDATION

Staff recommends the RTIC draft a new 2007 biennium revenue estimate resolution for the December special session based on the assumptions and revenue estimates contained in the current HJR 2. However, since a majority of the fiscal 2005 change in collections versus the revenue estimates was due to individual income tax, corporation income tax, and oil and natural gas production tax, staff recommends the RTIC limit their review and potential adjustments to only the economic assumptions and the associated revenue estimates for these three sources. As done in the past, however, if an adjustment is adopted for oil and natural gas price and production levels, your staff would be directed to calculate the associated impact on US Mineral Royalty and Common School Interest and Income revenues.

The one exception to the above recommendation is for property tax. Staff recommends that the committee also review the assumptions relative to property tax since taxable values of property classes are essential in the development of a new public school funding formula. The remaining general fund revenue assumptions and estimates would be as currently shown in HJR 2.

**Committee Action - We will update the 2007 biennium HJR 2 economic assumptions and associated revenue estimates for the following revenue sources:**

1. **Individual Income Tax**
2. **Corporation Income Tax**
3. **Oil and Natural Gas Production Tax (with associated impacts to US Mineral Royalty and Common School Interest and Income revenue sources)**
4. **Property Tax**

**Option 1: Yes**

**Option 2: No**

**Option 3: Direct staff to assist in some other recommendation**

Your staff, in cooperation with the executive budget office, have developed the above recommendations and are in full agreement. Both offices believe the sources outlined above are responsible for most of the revenue estimate variations and that the RTIC needs to focus on a few relevant economic assumptions. Based on committee action, your staff, with input from executive budget office, will also develop a presentation document to facilitate a discussion of the critical assumptions and relevant issues.

Because of the impact on future biennium budgets, the RTIC will need to discuss thoroughly whether the fiscal 2005 trends and the underlying causes are "one-time" versus "on-going". This determination is essential for the special session legislature to adopt a structurally balanced budget.