



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Legislative Fiscal Analyst
CLAYTON SCHENCK

DATE: September 24, 2004

TO: Legislative Finance Committee

FROM: Jon Moe, Fiscal Specialist

RE: State Government Revenue/Expenditure Growth Project Update

INTRODUCTION

At their June 2003 meeting, the Legislative Finance Committee (LFC) directed the Legislative Fiscal Division (LFD) staff to proceed with a study of growth in state revenues and expenditures. The goal of this study is to “develop an understanding of the existing budget structure, and identify options to create structural balance between revenues and expenditures.” It began with an effort to identify what the growth of revenues and expenditures have been, and what has historically “driven” that growth. Ultimately, the goal was to determine if the state revenue structure supports the existing state program structure now and into the future, and offer some options to the legislature for providing a structural balance in state budgeting. However, an overarching reason for pursuing this study was to provide staff with information that would assist the legislature throughout the budget deliberations process.

STATUS

The revenue and expenditure growth project is a major project, and significant progress has been achieved, including expenditure analysis and data that will be used and available for the 2005 session. While there are some aspects of the study that we still hope to complete in the next month, our intent at this time is to continue this project into the next interim. We have identified data and tools that will be useful in the future. Some, including tools for analyzing expenditures, are available now, but for others (like models for forecasting beyond the upcoming biennium), we are working to complete the development of the methodology. These are tools which will serve the analysts and the legislature as analysis and training tools, and can potentially help us through the inevitable periods of staff and legislator turnover.

Accomplishments To Date

The revenue and expenditure growth project has resulted in the following accomplishments:

- Generally, LFD staff (particularly new hires) have a better perspective of their assigned agencies as a result of determining the historic growth of expenditures and what specifically has “driven” the growth. By identifying the factors that influence the growth drivers, each analyst has a better picture of what the legislature might address in order to

impact growth trends. The period studied was from fiscal 1996 to 2003, primarily because of data issues in years prior to 1996.

- Revenue analysts completed research on the historic growth of revenue for all sources, identifying what caused growth over a period of time exceeding twenty years, including tax rate changes, economic conditions, changes in consumption, changes in production, etc. The revenue analysts attempted to project future revenues, through fiscal 2009, based upon historic trends and certain economic assumptions.
- For both the expenditure and revenue analysts, this exercise has contributed significantly to staff development, by providing a structured format for analysis and a comprehensive review of agency expenditures, resulting in both a detailed understanding of expenditure and revenue growth and a better “big picture” understanding of state finance. The approach taken on the growth project, and for expenditure analysts in concert with the inventory project, empowered analysts to look at their assigned agencies in a different way than they might in the traditional budget analysis model. It identified economic relationships not previously clear.
- The study has pointed to numerous reasons why the consumer price index (CPI) is not a good measure for comparison to state expenditure growth.
- The study has facilitated a look at specific categories of expenditures such as medical costs, information technology costs, and personal services, and resulted in lists of underlying factors that influence those categories of costs.

How Information Will Be Used In Budget Analysis And Beyond

From the beginning, it was clear that the exercise of determining what drives growth in state revenues and expenditures would better position the LFD analysts to assist the legislature during the session and interim. The benefits of this study in the budget analysis process can be these:

- The study of revenue and expenditure growth and the factors that influence growth can result in the identification of specific issues and/or options that can be presented to the legislature, including appropriation subcommittees, appropriation committees, and taxation committees.
- Understanding the factors that influence growth enables analysts to more thoroughly describe changes in revenue and expenditures in their analysis.
- Having explored the issues of growth in advance can allow the analyst to more quickly respond to question of legislators and assist legislators in policy development.
- Analysts should be better able to identify the impacts that proposed changes to the budget or to statute might have in the short-term or long-term.
- Ultimately, this information will be incorporated into profiles of each agency and revenue sources, which will provide legislators, legislative staff, and interested persons quick reference to agency information, including descriptions of what has caused growth in expenditures and what factors influence that growth.

These benefits occur more for newer staff that had less time to acquire knowledge on their agencies and issues because it provided the structure and thoroughness of learning the background and detailed components of their agencies’ finances. Veteran staff have the benefit of looking at their agencies from a different perspective, and additional issues and options can be a by-product.