

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

HELENA, MONTANA

Volume 40

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Important Dates (*legislative dates subject to change*)

- December 26 – Deadline for pre-introduction of bills
- January 3 – 60th Legislative Session Begins
- January 15 – Last Day to Request General Bills
- January 23 – Last Day to Request Revenue Bills
- February 14 – Last Day for Committee to Request General Bills
- February 24 – Transmittal of General Bills to Other Chamber
- February 26-28 – Transmittal Break
- March 17 – Transmittal of Revenue Estimating Joint Resolutions
- March 20 – Last Day for Committee to Request Revenue Bills
- March 26 – Transmittal of Appropriation Bills
- March 30 – Transmittal of Revenue Bills
- April 2 – Transmittal of Amendments to General Bills
- April 4 – Last day to request study Resolution or Committee Bills to implement HB2
- April 12 – Transmittal of amendments to Appropriation Bills
- April 14 – Transmittal of amendments to Revenue Bills and Revenue Est. Jnt. Res.
- April 18 – Transmittal of Interim Study Resolutions
- April 24 – Sine Die

Election of the Board of Directors

We are pleased to announce the following members who will serve as the board of directors of the Montana Taxpayers Association for 2006 – 2007.

- Automobiles – Tom Rolfe, Helena
- Cable – Mark Baker, Helena
- CPA's – Dwaine Iverson - Shelby
- Cooperatives – Doug Hardy, Livingston
- Chair** - Director at Large – Rick Hays, Helena
- Director at Large – Walter McNutt, Sidney
- Director at Large – Barbara Ranf, Helena
- Farm Machinery – Gordon Nelsen, Conrad
- Farm & Ranch – Nancy Schlepp, Bozeman
- Gas & Electric – John Fitzpatrick, Helena
- Healthcare – Mike Foster, Billings
- Ind. Power Producers - David Hoffman, Helena
- Legal Profession – Louise Galt, Martinsdale
- Manufacturing – Susan Knedler, Lewistown
- Natural Resource/Energy – Russ Ritter, Helena
- Railroads – Alec Vincent, Texas
- Recreation Industry – George Willett, Neihart
- Retail – Bill Simkins, Bozeman

- Sheep & Wool – Chase Hibbard, Helena
- Technology – Dave Seburn, Butte
- Vice Chair** - Utilities – Tom Ebzery, Billings
- Wood Products – Henry Ricklefs, Whitefish

Overview of the 2007 Session

The association will begin our legislative updates beginning in January. If you are not currently receiving emails from us, please email your contact information to phyatt@montax.org. You will also be able to find updates on our website: www.montax.org.

If you have comments or concerns about specific legislation, please do not hesitate to contact us.

Revenue and Taxation Committee Sets Revenue Estimates for 2007-2009 - (Curt Nichols, Consultant)

At the November 15th committee meeting, the State biennial budgeting process began with the initial setting of revenue estimates for the state fiscal years 2007, 2008 and 2009. These estimates are incorporated into HJ2 (House Joint Resolution) which winds its way through the 90 day legislative session from January through April always providing the official estimate of funds available from “current law” revenues. Current law means those revenues that would continue to be received without legislative action and excludes any revenue legislation which may be passed during the session.

The committee was presented with revenue estimates for the general fund and selected other funds by the Legislative Fiscal Division staff (LFD) and the Governor’s Budget Office (OBPP). These offices differed by only \$30 million or one-half of one percent on the total general fund for the three years as shown below. The committee chose to use the estimates provided by legislative staff which was the lower of the two.

General Fund Revenue Estimates

	(\$Billions)		
	LFD	OBPP	Difference
FY2007	1.76	1.78	0.02
FY2008	1.80	1.81	0.01
FY2009	1.88	1.88	0.00
Total	5.44	5.47	0.03

Montana Taxpayer

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OFFICERS AND STAFF

RICK HAYS, Helena....Chairman, Board of Directors

MARY WHITTINGHILL, Helena....President

PAM HYATT, Helena....Office Manager



DIRECTORS

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The resolution, HJ2, also identifies the general fund balance at the end of FY06 which is \$423 million. Since appropriations for FY2007 are known, the only remaining pieces of the puzzle to determine what is available for the legislature's spending in the next session is how much will supplemental appropriations be and how much does the legislature wish held in reserve. The following table shows \$4.19 billion available for the 2009 biennium. Though the estimates are currently under review, the costs of continuing current programs in FY2008 and FY2009 with adjustment for growth in usage/enrollments (present law) have been projected by legislative staff to be \$3.22 billion. Without accounting for a reserve (a level of \$153 million is recommended by legislative staff) there will be approximately \$970 million available for new spending or tax relief.

State General Fund Estimates
(\$Billions)

FY2006 ending fund balance		0.42
Revenue		
FY2007	1.76	
FY2008	1.80	
FY2009	1.88	
Total revenue		5.43
Currently authorized disbursements		
FY2007 appropriations	(1.59)	
Anticipated reversions and adjustments	(0.00)	
Anticipated supplementals & emergencies	(0.07)	
Total FY2007 Disbursements		<u>(1.66)</u>
Available for FY2008 & 2009		4.19
Estimated cost of continuing current programs ¹		(3.22)
Available for new expenditures and fund balance in FY08 & FY09		0.97

¹ Legislative Fiscal Division "Big Picture" report October 2006

How accurate are these revenue estimates typically? Averaged over a long period of time they are accurate within a few percentage points. However, in the three previous year time periods they have shown considerable variances especially in years of change like the recession of 2001 and the rapid growth of revenues in the recent years. In November of 2004 the committee set estimates for FY2006 and FY2007 or \$1.43 billion and \$1.47 billion respectively. Actual revenues for FY2006 were \$1.71 billion, 20 percent higher; revenues projected this November for FY2007 are \$1.76 billion, again higher by 20%. Will the bumper revenue crops continue or will the revenue droughts of the early years of this century reappear?

The large increase in revenue and fund balance available is good fortune for the people of Montana. It allows the state, like any farmer or business, to pay down some debt, renew equipment (infrastructure) and try some new things. Unlike the farmer or business however, if the state makes bad decisions about trying new things the result may not be setting priorities and making savings when the next revenue drought comes but could be higher taxes when they are least welcome.

The \$970 million available for new spending and reserves signals a need for vigilance on the part of taxpayers. It offers the governor and legislators the possibility to initiate new spending programs or expand existing programs without the scrutiny that would come when a tax increase is necessary to pay for them or the competition among existing programs for scarce resources.

Governor's Proposed Budget*

Included in the Governor's proposed budget for the biennium is \$77 million in revenue enhancements. Approval of these proposals by the legislature would increase available revenues for new spending to over \$1 billion. The Governor has committed all but \$100 million of the revenue in his budget (with approximately \$90 million reserved in the "Big Sky Savings Account)."

2009 Ending Fund Balance without reserve	\$972 million
Proposed Revenue Enhancements	<u>77</u>
Total 2009 Surplus	\$1,049

Governor's Agency Budget Proposals	(\$300)
Additional present law	\$109.5
New proposals	\$189.5

Governor's Other Proposals	(\$514)
2009 Biennium Pay Plan	(\$59)
Long Range Building and IT	(\$171)
Tax Rebates	(\$119)
Retirement Systems	(\$129)
Other Appropriations	(\$36)

Remaining for fund balance and Big Sky Savings Account	<u>\$235</u>
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*These estimates are under review by the Legislative Fiscal Division.

Department of Revenue Legislation

Links to most of the Department of Revenue's proposed legislation can be found on our [website](#). Many of these bills are the same or similar proposals the department brought forward last session to address what the new director considered compliance issues. These bills are part of the Governor's "revenue enhancers" referenced above.

The Montana Taxpayers Association is a strong supporter of tax compliance and tax equity. We will be following these bills closely to ensure each bill actually addresses compliance problems with Montana's tax system and don't create additional compliance issues.

The department is also requesting an additional \$31 million and 100 FTE over the biennium, a 65% increase in their budget. Most of the increases are listed as present law adjustments rather than new proposals.

85th Annual Meeting

We'd like to thank Evelyn Pyburn, Big Sky Business Journal for her articles on our 85th Annual Meeting. From all accounts, our annual meeting is proving to be an informative and excellent networking event. The following are excerpts from the Big Sky Business Journal, December 15, 2006. Additional articles from our conference can be found at www.bigskybusiness.com.

It's a Big Boom, Dr. Paul Polzin

Not that it's a secret, but Montana is in the midst of a natural resources boom, one that has defied projections the past few years. Subject to booms and busts before, the question is how long can Montana's current boom last?

Perhaps, longer than any before, according to Montana's most noted economist, Paul Polzin, Director of the Bureau of Business and Economic Research at the University of Montana. "It's already a record boom," Polzin told an audience at the Montana Taxpayers Association's annual meeting in Helena. The last comparable booms were in the 1940s and 50s, followed by another in the 70s. From 1966 to 2002, there were only 11 years in which annual economic growth in Montana exceeded four percent; but it's been exceeding four percent for the last four straight years.

The current boom is fundamentally different than in the 70s, which was brought about by a supply shortage manipulated by OPEC. Now it's a demand issue, prompted by the growth of many countries, with China leading the way, explained Polzin. While there are some risks, the demand for commodities will probably remain high as long as nothing disrupts the growth trends of these countries. "Most of the risks are geo-political,"

said Polzin, "it's not anything we can control locally." "In the 1970s we had faster growth but for a shorter period of time. It appears like it will last longer but growth rates won't be as fast," said Polzin.

The bursting of a bit of a bubble in the natural resources market, early in 2006, slowed the rate of growth in commodity prices, but they didn't level off. Prices are high for such commodities as oil, copper, lead, zinc and most especially coal. There are two components to coal prices and "both look good," said Polzin -- the traditional market and the emerging coal-to-liquids market.

To what extent the boom will impact Montana's economy in the future will depend upon how quickly the state acts to capitalize upon it. "Montana is not known for the swift opening of mines with all its regulations," commented Polzin.

Montana's newly booming economy has consistently exceeded growth projections, necessitating revisions from Polzin's office. "Our revisions have been constantly upward the last four years," said Polzin. Polzin's 3-4 percent projected growth rate for 2006 was moved up to six percent, this summer, as the state's economy outperformed all expectations. Polzin noted that besides natural resource industries, other aspects of the state's economy have also been doing well. Projected growth rate for 2007 is five percent.

Since 2000 the state has been performing consistently above the national average. It's been growing faster than the national average for two reasons: the state didn't feel the 2002 recession the same as the rest of the nation, because the industries that were effected by that recession are not prominent industries in Montana -- and, of course, there has been a natural resources boom.

"We have experienced a lower average growth rate in the last 30 years than in the previous 30," noted Polzin. From 1940 -1970 the average annual rate of growth in Montana was 3.61 percent. From 1971 through 2005 the average annual rate of growth was 2.82 percent.

Entrepreneurship – Not New to American Indians, Bill Yellowtail

The future of American Indians faces a dichotomy of culture when it comes to economics, according to Bill Yellowtail, an American Indian himself, former Montana legislator, and former administrator of the US Environmental Protection Agency, in speaking at the Montana Taxpayers' Association annual meeting, in Helena.

The dichotomy is that of a culture that focuses upon the well-being of the community -- of the collective -- as

primary over the development and autonomy of the individual.

Confronting this philosophical mind-set won't be without resistance and controversy, he conceded, but it will have to happen if American Indians are to move forward.

The issue is one of entrepreneurship. "American Indian sovereignty depends upon the rekindling of the entrepreneurial spirit," said Yellowtail, claiming that there was a time when the importance of entrepreneurship was a part of Indian culture. Contrary to the common perception, said Yellowtail, "'tribal think' is not the way of our traditions."

From stories and legends of the American Indians, it's obvious that entrepreneurship is not "a new notion," he said, but somehow "it's been boiled out over the last couple hundred years." The legends and stories of American Indians have a "recurring" theme of generosity and empathy for those in need, explained Yellowtail. "Where does the ability to help others come from?" he questioned. "It is the underlying assumption of legend" that the wherewith all to be able to provide for others must come from the production that is inherent in entrepreneurship, he said. "That is the Indian way, and always has been."

Yellowtail analyzed as an example the economic development of the Hudatsas in North Dakota at the time that Lewis and Clark encamped with them on their way to explore the West. Yellowtail talked about his own grandparents who were born "in buffalo days" but became farmers. They spoke their native language and were "thoroughly traditional," and yet "they could participate and hold their own anywhere in business. They traveled every where." "Based upon my grandparents it is hard to convince me that you can't do those things simultaneously," said Yellowtail.

Conceding the tragedies of history upon the American Indians, Yellowtail added, "but if we grieve forever we will never move forward." "Economic self sufficiency is a crucial element of sustainability," said Yellowtail. "We have to figure out how to apply our personal energy to define our community strength," said Yellowtail, "Empowerment not crafted by one's own strength is an illusion." "We have to give Indians permission to pursue the age old idea of entrepreneurial self-sufficiency."

It won't be easy, conceded Yellowtail. It's become a matter of culture. "Many now assume that business is not our business. We haven't dealt with the reality that there is not enough economic capacity to absorb all our people," he continued. "We have to make a determined cultural adjustment that our people can still be part of the community even if they can't live within it. "Because they have to make their way where ever they can, doesn't mean you are giving up being Indian."

Yellowtail urged tribal governments to develop the kind of legal systems and enforcement consistencies that are necessary to attract investment. "Our legal system seems to be a real impediment," he said, going on to relate experiences with companies who couldn't find workers, but were still reluctant to go to the reservation and start businesses because of a lack of a uniform commercial code.

He concluded however, saying, "I think we are making progress." There are some tribes who are officially celebrating their entrepreneurs.



Merry Christmas