

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

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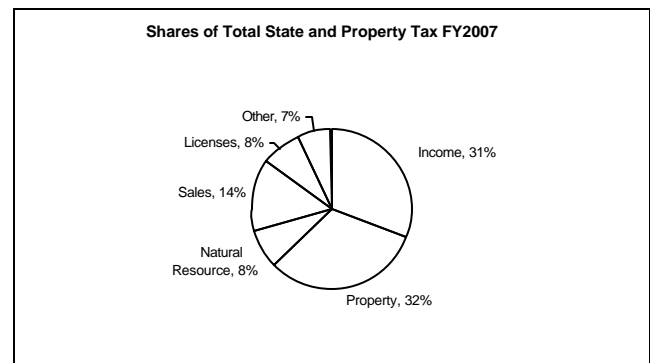
Number 2

February 2008

Upcoming Meetings

- Tuesday, March 4 – [Fire Suppression](#)
- Thursday & Friday, March 6 & 7 – [Legislative Finance](#)
- Monday & Tuesday, March 10 & 11 – [Environmental Quality Council](#)
- Wednesday & Thursday, March 12 & 13 - [Water Policy](#)
- Thursday & Friday, March 13 & 14 – [Education & Local Government](#)
- Monday & Tuesday, March 17 & 18 - [Children, Families, Health & Human Services](#)
- Monday, March 24 – [Computer System Planning](#)
- Thursday & Friday, March 27 & 28 - [Fire Suppression](#)
- Tuesday, April 1 – [Legislative Council, Rules Subcommittee](#)
- Thursday & Friday, April 10 & 11 – [Law & Justice](#)
- Tuesday & Wednesday, April 15 & 16 - [Water Policy](#)
- Thursday & Friday, April 17 & 18 – [Revenue & Transportation](#)
- Friday, April 25 - - [State Tribal Relations](#)
- Monday & Tuesday, April 28 & 29 – [State Administration and Veterans' Affairs](#)
- Monday & Tuesday, April 28 & 29 - [Fire Suppression](#)

Property taxes have grown 34 percent in the five year period. Property taxes continue to provide the largest share of revenues to state and local governments at 32 percent in FY2007 followed closely by Income taxes at 31 percent. The share of total from income taxes has risen from 27 percent in 2002 while the property tax share has fallen from 36 percent squeezed by the rapid increase of the natural resource share from 4 to 8 percent.



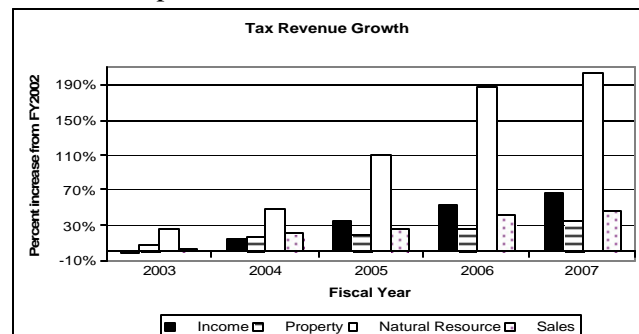
The following article was prepared by Curtis Nichols –Consultant for the Montana Taxpayers Association

Montana Revenues and State Appropriations

In our soon to be published annual publication “Montana Taxation 2007” we detail the sources of strong total State and Local government revenue growth. Total State levied taxes and property taxes grew over 54 percent in the five year period from 2002 to 2007 more than tripling the inflation growth of 16.1 percent. The most dramatic increase occurred in natural resource taxes as rising commodity prices and expanded production contributed to a 204 percent increase. Personal and corporate income taxes grew a phenomenal 67 percent over the five year period. Sales taxes grew 47 percent primarily driven by new or increased taxes for cigarettes and tobacco products.

Natural resource commodities and construction/real estate boom

Much of the strong revenue growth has been driven by higher commodity prices and a construction/real estate boom. We’ve watched as oil prices have risen past \$100 and gold approaches \$1000 on national futures markets. The booming growth can be seen in employment shown in the following table as in the past 5 years as construction and mining employment surge ahead leading total employment higher and driving state unemployment to unprecedented low levels.



Employment ³	Employment Growth ¹		
	1997-2002	2002-2007	
Construction	32,600	15%	52%
Mining ²	7,500	4%	47%
Total Nonfarm	451,100	8%	13%

¹ December employment (source: Mt Dept of Labor and Industry)

² Includes oil and gas

³ December 2007

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Further evidence of the boom is provided by income data reported by resident income tax filers and briefly summarized in the table below. Income from capital gains and rents, royalties and partnerships have grown much more rapidly in the most recent years for which data is available. This is somewhat reminiscent of tax year 2000 when capital gains rose to over \$1.26 billion only to fall to one-half that level in the next two years as the “dot com” bubble burst.

Selected Contributions to Montana Adjusted Gross Income ¹

	\$ Billions		Growth	
	2002	2006	Amount	Percent
Wages and Salaries	9.27	11.78	2.51	27%
Capital Gains	0.64	2.01	1.37	215%
Rents Royalties and Partnerships	1.01	1.94	0.93	92%
Business Income	0.62	0.79	0.16	27%
Other	1.50	2.14	0.65	43%
Total Montana Adjusted Gross Income	13.03	18.66	5.62	43%

¹ Reported on full year resident Montana personal income taxes (source: MT Dept of Revenue)

The question on the minds of many is: “Will growth continue and, if not, how much and how fast the slowdown will be?” As we write this, commodity prices show no sign of abating while the “subprime” crisis and a potential recession may significantly slow the construction/real estate boom.

Revenue growth and general fund appropriations

Revenue growth allows government spending growth. Narrowing the focus to the state general fund in our tables is a result of the additional reporting available on revenues and appropriations for this fund. This should not diminish the importance of other funds and levels of government but only explains why we focus here in the publication.

The following table illustrates the growth of revenue expectations and appropriations for the state general fund. Appropriations increase from \$2.6 billion made in April of 2003 to \$4.1 billion by September of 2007. The \$1.5 billion (58 percent) increase over the four year period is detailed by state agency in tables in “Montana Taxation 2007”. This undoubtedly represents the largest rise in revenues in such a short period in Montana’s history. It should be noted that 2009 biennium expenditures include \$97 million for one-time tax relief.

Biennium	State General Fund Revenue and Appropriations (\$billions)		
	2005	2007	2009
Appropriations			
Regular Session	\$ 2.602	\$ 2.973	\$ 3.987
Special Sessions	\$ -	\$ 0.193	\$ 0.086
Supplementals	\$ 0.055	\$ 0.083	
Total	\$ 2.658	\$ 3.249	\$ 4.072
Revenue Estimates			
Regular Session	\$ 2.646	\$ 3.049	\$ 3.645
Special Session	\$ -	\$ 3.140	\$ 3.645
Subsequent Session	\$ 2.822	\$ 3.471	\$ -
Actual	\$ 2.913	\$ 3.538	\$ -

State budgeting and rapid revenue growth

The state budget process occurs primarily on a two year cycle. In the winter and spring of odd numbered years the legislature meets in regular session to appropriate for the two year period beginning in July of that year. Revenue estimates are prepared and a funding plan is proposed by the Governor and modified, usually to a small degree, by the legislature. If this plan proposes to spend all estimated revenues the balance (or reserve) held in the state treasury will be expected to end the next two year period at the same level as it ends the current two year period.

In actuality the experience will always differ from the budgeted expectations as revenues will not be as estimated or expenses will be less than appropriated or unforeseen costs will arise requiring supplemental appropriations. When revenues exceed the estimates a surplus is generated which if added supplemental appropriations do not consume will be available for the next legislature. The surplus balance in the treasury at end of the biennium is referred to as the “one-time” surplus while the higher level of revenues relative to the expenditures going forward is the “ongoing” surplus. You can easily see that spending the “one-time” surplus for ongoing commitments would likely lead to budgetary disaster in the future.

Given this simplistic picture of state government budgeting you can imagine the effect of a boom cycle. Revenues exceed the estimates and large “one-time” and “ongoing” surpluses are generated. If the governor and legislature spend the “one-time” surplus on one-time items and commit the ongoing surplus to ongoing items the budget can be said to be in “balance”. If the boom comes to an end during the next two years and revenues

turn out to be overestimated, the governor and legislature will have to decrease spending or increase revenues to bring the budget into balance (after consumption of the reserve).

The typical response to a boom has been both tax reductions and expenditure increases. In the last session the response was significant increases in “ongoing” expenditures and “one-time” tax reduction/rebates.

Booms allow the legislature and administration to accomplish changes which are difficult during more normal times. The competition between spending and tax reductions during normal time tends to result in a relative status quo with spending rising at inflationary rates and taxes being maintained.

For some the passage of the largest increase in state revenue in history without any commitment to on-going tax reduction is sad. Yet for others the substantially increased spending on government programs is welcome. All share a concern about an ending boom and slowing or falling revenues. The choices of reducing programs or targeting taxpayers with new or increased taxes to make up for shortfalls will be on many minds.

For anyone interested in government revenues and expenditure “Montana Taxation 2007” will be an informative and useful reference.

2011 Biennium Executive Planning Process (EPP)

The Office of Budget and Program Planning (OBPP) has outlined the steps for 2011 biennium executive planning process (EPP). State agencies must submit a description of proposed legislation to (OBPP) by April 14. The list must be prioritized and must include *all legislative proposals (concepts)*. If the proposal has a fiscal impact, a clear description must be included. Agencies are encourage to consider the Governor’s 20X10 Energy Initiative during the planning process.

OBPP and the Governor’s Office will review the agencies’ description of proposed legislation from mid-April until late May. Legislation approved by the Governor’s Office will be sent to the Legislative Services Division (LSD) for distribution to the appropriate interim committees. The interim committees will review the proposals and decide whether the committee will request the legislation for bill drafting.

- If an interim committee agrees to request the legislation, the committee will submit a bill draft request to the LSD for processing.
- If an interim committee does not agree to request the legislation, the agency may still proceed by finding a holdover or unopposed legislator to request the legislation.

- An interim committee’s action on an agency proposal is not necessarily a position or comment on the merits of the proposal.
- An interim committee is encouraged to consolidate related bill draft requests.

Agencies will also be submitting all EPP budget proposals by May 1 to OBPP. Conferences will be held during May and June.

EPP Recap

- April 1 - Agencies must submit any reorganization plans to OBPP
- April 14 – Agencies’ proposed legislation deadline
- May 1 – Agencies submit EPP Present Law adjustments and New Proposals to OBPP
- May 1 - 31 - OBPP sends EPP approvals for legis to agencies
- Aug. 25 – Sept 5 – Agencies submit budget requests to OBPP
- Sept 1. – OBPP transmits base budget to LFD
- Sept. 8 – Agencies submit 5% reduction plan(17-7-111(3)(f))
- September 15 – Agency final drafts of Approp. Legislation and legislation with fiscal notes
- Sept. 15 – Dec. 22 – OBPP and Gov. Office secure sponsors
- Oct. 17 – last day to submit supp. App. requests (HB3)
- Oct. 31 – Deadline of transmittal of final draft legis to LSD
- Nov. 1 - OBPP provides LFD with present law base budget
- Nov. – RATIC adopts revenue estimates
- Nov. 15 - OBPP transmits executive budget to LFD
- Nov. 17 – Executive Budget available online
- Dec. 4 – OBPP submits General Appropriations Act to LSD
- Dec. 22 – 5:00pm deadline for pre -introduction of bills

A pre-introduced bill will be assigned a bill number; contain a line under the sponsor’s name indicating that the bill is “by request of the agency;” and be printed before the Legislature convenes on January 5, 2009.

Revenue and Transportation Interim Committee – summary from the February 7th – 8th meeting

Subcommittee on HB488 – Property Reappraisal
The 2009 reappraisal of Class 4 (residential and commercial property), Class 3 (agriculture lands) and Class 10 (forestland) is well underway.

Key dates of the reappraisal process:

- July 1, 2008 - Begin development of valuation models
- Dec. 31, 2008 - Reappraisal completed
- May 29, 2009 - Final value review completed
- June 2, 2009 - Assessments generated

Staff from the Legislative Services Division and the Department of Revenue presented numerous reports to the subcommittee on the history of reappraisals in Montana. The Department has completed five reappraisal cycles since they were charged with the statewide valuation of property after adoption of the 1972 State Constitution. Each Legislature since the first reappraisal, has implemented mitigation factors to ensure the increase in market value is revenue neutral

statewide. Mitigation factors from the last two reappraisals have included phase-ins of the increased values, increased exemptions to the market value, reductions in the tax rate as well as expanded low income programs. The committee will continue to examine historical mitigation factors, how other states are addressing valuation changes and considering new ideas. At some point this fall, the Department of Revenue will provide preliminary values to the committee so they can begin a more in depth analysis of the potential effects of the 2009 reappraisal.

SJR31 – Taxation and School Funding.

This subcommittee is reviewing the taxation mechanisms used as part of school funding, their effectiveness and alternative revenues that could be used. Jeff Martin presented a summary of reports that had been prepared for the Quality Schools Interim Committee (from the 2005-2006 Interim). These reports specifically dealt with school property taxes and nonlevy revenue and analyzed the disparities in mill levies and distribution of industrial and business equipment property among school districts.

Materials from the subcommittees and the full committee are available on the [committee's website](#). We are in the process of adding additional information provided by the Department to the [Montax](#) website.

The Next Meeting will be April 17 and 18

The committee asked for reports on gross receipts taxes (what is happening in OH and MI); further analysis of a sales tax and school equalization; uniform statewide mill

levy; update on the MQEC school funding lawsuit; caffeinated alcoholic beverages; potential legislation on combined reporting; and update on the STIP fund.

State Administration and Veteran Affairs

The State Administration and Veterans' Affairs Committee took several actions related to the House Joint Resolution 46 study of Montana's election laws, including approving two bill drafts. The committee also determined the [major elements](#) to be included in draft legislation for a pilot project testing the expanded use of mail ballot elections in a limited number of counties.

The two bill drafts approved for submission to the 2009 Legislature are: [LC9050](#), to revise and clarify current election laws. This bill will be LC35 during the legislative session and [LC9060](#), to authorize youth election judges. This bill will be LC36 during the legislative session.

The committee also authorized the drafting of a bill to address absentee ballots that have been cast, if a candidate dies after ballots are returned. That bill draft and the draft for the mail ballot pilot project will be posted on the [HJR 46 Study page](#) when they become available. (From Pat Murdo, committee staff).

2009 Montana Legislature Bill Draft Request Report

Go to our home page www.montax.org to get a copy of the latest bill draft list (as of February 29, 2008). Holdover legislators have already requested a total of sixty-one bill draft requests or placeholders. This list will be added to the Legislative website in the near future.