

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

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Mark your calendars now – 87th Annual Meeting, December 4

The Board of Directors of the Montana Taxpayers Association would like to invite you to our 87th Annual Meeting. We will be inviting the Governor, legislative leadership, Superintendent of the Office of Public Instruction and hear from speakers on Montana's economy, budget and how the future demographics will impact state revenues and expenditures. The meeting begins at 11:30 with registration and lunch at noon. We'll conclude the day with a hosted reception.

Upcoming Meetings – NOTE: Visit our calendar on our website for updates

Monday, Nov 3 – DOR rule hearing MAR Notice No. 42.2.799

Friday, Nov. 7 – Legislative Audit Committee

Monday, Nov 10 – DOR rule Hearing – MAR Notice No. 42.2.800

Monday, Nov. 10 – Finance Long Range Planning Work Group

Wed, Nov 12 – DOR rule hearing MAR Notice No. 42.2.801

Wednesday, November 12 - Legislative Caucuses, State Capitol

Wednesday, November 12-14 - New & Veteran Legislator

Orientation & Training, State Capitol

Monday & Tuesday, November 17 & 18 - Revenue and

Transportation

Tuesday, November 18 - Legislative Finance

Tuesday, November 18 - Legislative Council

Thursday, December 4 – 87th Meeting of the Montana Taxpayers

Assoc.

Monday & Tuesday, December 8 & 9 – Revenue and

Transportation Interim Committee

Monday, December 15, - Rules Committee meetings and

Presiding Officer Training

Monday, January 5, 2009 – 2009 Legislative Session Begins

Montana Legislature Live Audio Broadcasts

Montana Legislative Live Video Broadcasts

General Fund Status for the 2009 and 2011 Biennium

The Legislative Fiscal Division (LFD) presented the “Big Picture Report” for the 2009 and 2011 Biennia at the Legislative Finance Committee on October 9th. The preliminary estimate for the 2009 Biennium ending fund balance before reserves is nearly \$500 million. By the end of the 2011 Biennium, the ending fund balance is projected to be nearly \$950 million.

A \$950 million ending fund balance puts Montana in a better position than most of the other states. However, as the Legislative Fiscal Division staff point out in the report, “Unlike past biennia, the current level of economic uncertainty that is prevalent in both the national and world economies is unsurpassed. Because of this conundrum, an amount has been included in the report as a “placeholder” for the potential impacts of this expected downturn. It represents an estimate of the amount of the projected balance that could “evaporate” if there is a significant downturn in the Montana economy and resulting decline in state revenue collections. To determine this amount, the downturn in revenue collections experienced during the 2002-2003 fiscal period was used as a proxy for the potential impacts.” The “placeholder” used by the staff was estimated to be \$275 million.

A Closer Look at the Numbers

Montana's legislature meets every two years and adopts anticipated revenues and expenses for the next two fiscal years, a biennium. For example, the 2007 Legislature adopted revenue and expense estimates from July 1, 2007 to June 30, 2009. The 2009 Legislature will be adopting revenue and expenditure estimates for July 1, 2009 thru June 30, 2011. Since legislative sessions adjourn in April and the fiscal year does not end until June 30, revenues and expenditures for even the current biennium are still estimates.

We have tracked the ending fund balance since the adjournment of the September Special Session of the 61st Legislature to explain the changes that have occurred. Please refer to the enclosed spreadsheet to follow these changes.

2009 Biennium General Fund Outlook – Updated with the preliminary 2008 ending fund balance

The Legislature estimated a \$190.7 ending fund balance for FY08 and \$125 million for the end of the 2009 Biennium when they adjourned the Special Session in September 2007 (see comment box 1).

Montana Taxpayer

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Anticipated expenditures are based on the current present law base for 2009 times two for the next biennium. Present law base is the ongoing cost of government expenditures adjusted for inflation and caseload, workload and enrollment increases without new programs or actions by the 2011 Legislature

Some interesting observations on the increases in present law are that public schools, public health and corrections make up 74 percent of the total. Also, the present law adjustments are increasing total expenditures by nearly 11 percent per year.

If the \$483 million ending fund balance from the 2009 Biennium is taken into account, the projected figures for the 2009 Biennium Ending Fund Balance would be \$957 million without taking into account a reserve.

LFD Recommended Reserves

The Legislative Fiscal Division staff recommends four other adjustments to reflect a better picture of what funds may be available for the 2009 Legislature:

1. Adequate ending fund balance reserve

Montana statute requires a minimum reserve of 1 percent of total appropriations. In recent years the legislature has reserved about \$100 million which represents about 3 percent. National experts recommend a minimum reserve of 3 to 5 percent. For states like Montana with a biennium budget, they recommend a higher reserve like 5 percent as a cushion. LFD staff used a conservative 3 percent or \$126.1 million.

2. Reserve for wildfire suppression costs

Historically the state did not build in fire fighting costs into the budget. This meant the ending fund balance had to cover these expenses. In the 2007 Special Session in September, the legislature set aside an amount they anticipated would cover an average amount. The LFD recommends using a five year average removing the high and low years to be put in reserve. The average annual cost is \$17.7 million therefore the reserve would be \$35.4 million for the biennium.

3. Reserve for declared emergencies

The legislature has approved a statutory appropriation to cover declared disasters or emergencies such as floods, fires, and other natural disasters.

4. Reserve for unpredictable impact of the current economic crisis.

The current downturn in the economy led the LFD to include a reserve for a significant reduction in revenues.

When the fiscal year ended June 30, 2008, the preliminary ending fund balance was \$247 million higher than the initial estimate of \$190.7 million. Most of the difference, \$183 million, was from higher than anticipated revenues (see comment box 2). Eighty-one percent of the additional revenues were due to higher income tax and oil and gas collections.

2009 Biennium General Fund Outlook as of October, 2008 - \$483.3 M

New estimates from the October fiscal report, anticipate an ending fund balance of \$483 million by the end of the 2009 Biennium. This is \$358 million more (including the \$183 million from FY08) than the revenues adopted by the Legislature. The LFD estimate that 2009 revenues will be \$116 million higher than anticipated based on trends experienced in FY08.

2011 Biennium General Fund Outlook - \$957 M

Page two of the spreadsheet lays out the revenues and expenses for the 2011 biennium. Revenues are expected to grow approximately 3.4 percent per year. Individual income taxes, corporation income and oil and natural gas production taxes are cited as the three sources critical in determining the fiscal status for the biennium. Individual income taxes are expected to increase approximately 8.4 percent over the biennium, while corporation taxes expected to increase approximately 4.4 percent. Oil and gas revenues were expected to continue to grow based on higher commodity prices and increased production.

When the adjustments are accounted for, the ending fund balance drops to \$503.12 million.

Structural Balanced Budget - Ongoing - \$421.8 M

What is important to consider is how much of this revenue should be considered ongoing. A structural balanced budget means you are not spending more than you are bringing in. Looking only at ongoing revenues (ignoring the beginning fund balance of \$483.31 million) and expenses for the 2011 Biennium and a reserve for emergencies and wildfire suppression costs produces only \$421.8 million of ongoing revenues or \$210.9 million per fiscal year that could be considered in new programs. But, with inflation and rising caseloads associated with new programs, it would be risky to commit the entire amount.

Remaining Budget - \$356.8 - One Time Only (OTO)

Once again, beginning with the anticipated \$778 million ending fund balance for the 2009 Biennium and subtracting the ongoing funds, \$356.8 million could be considered for one-time only spending.

Significant Issues Not Included in 2011 Projections

Listed below are issues not included in the projections for the 2011 Biennium. These are only a few of potential costs or requests legislators will be facing during the 2009 Session. We have only included issues contained in the Legislative Fiscal Division's Big Picture. These don't include any new proposals from agencies, legislative proposals or ballot initiatives. Although the issues do not have a monetary cost associated with them, proposals for potential on-going and one-time only expenditures could be significantly affected.

Other Significant Issues

Potential 2009 Biennium Cost Over-runs-Supplementals

2011 Biennium Pay Plan

Litigation Issues

K-12 Funding Adequacy

State Fund Lawsuit

Protested Property Taxes

PPL Montana River Bed Fees

Long-Range Building Program Deficit

Condition of State Pension Funds

State Fund "Old Fund" Liability

Ballot Initiative - I155 Healthy Montana Kids

Federal Funds

Inflation/Energy Prices

New Proposals and Other Initiatives

Tax Relief/ Rebate Measures

Interest Earnings

Caution is the Key

The Big Picture Report summarizes the need for our legislative leaders to use caution adopting the final 2011 budget. The projections could change dramatically depending on economic condition of our state and nation. Many of the "significant issues" listed above could become a fiscal reality even without legislative action. Litigation and reduced federal funding are just two of the events outside the control of the legislature. These events would require utilization of the funds projected for the next biennium. We would also encourage close examination of existing programs before increasing or adding new services.

Revenues in Montana plummeted after the 9/11 tragedy and the national economic recession. Corporate income tax revenues went from \$104 million in 2001 to \$44 million by 2003. These collections have been as high as \$177 million in 2007 and \$161 in 2008. We have seen a significant drop in oil and gas prices recently, which will also play on revenue collections.

Perhaps now is the time to renew discussions on reviewing the use of a "present law base" to develop the biennial budget. Other procedures such as zero based budgeting or performance budgeting, could be utilized. There also could be a standing committee appointed to meeting during the interim who could more closely examine existing programs on a agency by agency basis.

2009 Legislative Session

The 61st Legislative Session is scheduled to begin Monday, January 5. A preliminary calendar is now available on the 2009 Legislative website.

Some other important legislative dates to note:

January 16 – Last day to request general bills

January 27 – Last day to request revenue bills

February 18 – Last day for Committee to request general bill

February 28 – Transmittal of general bills to other house

March 2 – 3 - Transmittal break.

March 20 – Transmittal of revenue estimating joint resolutions

March 23 – Last day for committee to request revenue bills

March 28 – Transmittal of appropriation bills

April 2 – Transmittal of revenue bills

April 4 – Transmittal of amendments to general bills

April 7 – Last day to request res. or comm. bills to implement HB2

April 16 – Transmittal of amendments to appropriation bills

April 18 – Transmittal of amendments to revenue bills and revenue estimating joint. resolutions.

April 22 - Transmittal of interim study resolutions

April 28 – Sine Die

As of October 30, 678 bill drafts had been requested. Interestingly, there were 641 bill draft requests at the end of October in 2007. The LAWS database has a list of these legislative requests as well as a variety of additional information you will find useful during the legislative session.

Our website has some additional information on the Executive Planning Process (EPP). Look under Legislative Sessions, 2009 Legislative Session. We will be adding more information on the budget when it is released in mid-November. We will also be updating our website with information on the session as it becomes available.

The website also has information on the activities during the interim, updates on school funding, and an update on the distance learning rule adopted by the Board of Public Education. All of these are linked on our home page: www.montax.org.

Please let us know what other information you would like to receive during the 2009 Legislative Session.

Next month we will have an article on the state's retirement systems, more on the upcoming legislative session and bill draft requests that may be important to our members.

Update from the Department of Revenue – New Director of the Office of Taxpayer Assistance and Public Outreach

Rich Bechtel (pronounced Bek-tel) has joined the Director's Office as the new Director of the Office of Taxpayer Assistance and Public Outreach, effective Monday, October 27.

In this position, Rich will provide overall vision and direction to the department's taxpayer assistance program and public outreach activities. His job responsibilities will encompass the areas of taxpayer assistance, constituent relations, and legislative affairs. He also will serve as an economic development liaison, working closely with the Governor's Office of Economic Development.

Rich's diverse professional experience includes senior-level management positions in both state government and national organizations. He possesses exceptional and proven skills in building effective relationships, partnerships and coalitions.

Rich's career was launched staffing the Montana Constitutional Convention's Legislative Committee. He then staffed the Montana Legislative Council and the Blue Ribbon Commission on Postsecondary Education.

Rich spent more than twenty years of his career directing the Washington, D.C. offices for the Western Governor's Association as well for three former Montana governors --Judge, Schwinden, and Stephens. He also served as a legislative assistant for U.S. Senator Lee Metcalf.

Rich recently moved back to Montana after serving more than 30 years in Washington, D.C. developing state and federal policy. Most recently, he worked for the National Wildlife Federation as their Senior Legislative Representative for Wildlife Policy and Conservation Funding. Prior to that, he was the Director of Federal Affairs for Governor Kitzhaber of Oregon.

General Fund Outlook

In Millions

2009 Biennium General Fund with Special Session Action

{ July 1, 2007 - June 30, 2009 }	2009 Budgeted Ending Fund Balance	\$207.30
	September 2007 Special Session Action	<u>-\$82.33</u>
	2009 Biennium Ending Fund Balance w/o reserve	\$124.97
	FY2008 Preliminary Ending Fund Balance	\$437.70
	Expected Balance	<u>\$190.70</u>
	Difference	\$247.00
	2008 Additional Revenue	\$183.60
	2008 Reversions	\$61.90
Prior Year Adjustments	<u>\$1.40</u>	
	\$246.90	

Comment Box 1:

<u>Special Session Action</u>	
Feed Bill	\$0.13
Wildfire Study	\$0.20
DNRC	\$39.00
Dept of Mil. Affairs	\$ 3.00
Trans to Fire Fund	<u>\$40.00</u>
Total	\$82.33

Comment Box 2:

Additional Revenue 2008:

Ind Income Tax	\$100.1
Oil & Nat Gas	\$48.8
TCA Inv. Earn	\$9.2
Property Tax	\$6.9
Other Revenue	\$5.6
US Mineral Leasing	\$4.7
Vehicle Fee/Tax	(\$6.1)
Rem. Rev Sources	<u>\$14.4</u>
	\$183.6

Comment Box 3:

\$51.7 is re-appropriated in FY09

2009 Biennium General Fund as of Oct. 2008

{ July 1, 2007 - June 30, 2009 }	FY2009 Biennium Outlook - Revised w/2009 proj	\$483.30
	Expected Balance	<u>\$125.00</u>
	Difference	\$358.30
	2008 Additional Revenue	\$183.60
	2009 Estimated Additional Revenue	\$116.60
	Disbursements/Reversions	\$23.80
	Wildfire Suppression Fund Transfer	\$32.90
	Fund Balance Adjustments	<u>\$1.40</u>
	2009 Ending Fund Balance w/o reserve *	\$358.30

Comment Box 3:

In accordance with the sunset provisions of HB3 of the Sept. 2007 special session and takes into account the costs of the past summer fire season.

* LFD, October 2008, "Big Picture Report"

2011 Biennium General Fund Outlook as of Oct, 2008

	Beginning Balance	\$483.31	
	Anticipated Revenue *	\$4,217.14	
	Disbursements		
	Fiscal 2008 Base X 2 (excl. stat approp)	(\$3,018.60)	
	Present Law Adjustments	(\$366.56)	
	Public Schools	(\$78.21)	} 74%
	Public Health	(\$116.55)	
	Corrections	(\$68.87)	
	Higher Education	(\$43.01)	
	Judiciary	(\$5.93)	
	All Other Agencies	(\$16.88)	
	Other Adjustments	(\$37.11)	
	Fiscal 2008 Base X 2 (Stat. approps + trmf)	(\$350.10)	
	Present Law statutory approp	(\$5.57)	
	Present Law Transfers	(\$0.49)	
	Feed Bill and Reversions	(\$2.03)	
	Total Disbursements	<u>(\$3,743.35)</u>	
	2011 Ending Fund Balance - w/o reserve	\$957.10	
	LFD Recommended Reserves	(\$178.50)	
	3.0% Fund Balance Reserve	(\$126.51)	
	Wildfire Suppression Cost Reserve	(\$35.49)	
	Emergency Appropriation Reserve	(\$16.50)	
	Projected Present Law Excess	\$778.60	
	Economic Uncertainty	<u>(\$275.48)</u>	
	Excess with Economic Uncertainty	\$503.12	

July 1, 2009 - June 30, 2011

Structural Balanced Budget - Ongoing - \$421.80M

Anticipated Revenue *	\$4,217.14
Present Law Costs	(\$3,743.35)
Wildfire Suppression Costs	(\$35.49)
Emergency Appropriation Reserve	(\$16.50)
2011 Structural Balance - w/o reserves	\$421.80
Remaining Balance or OTO	\$356.80

* LFD, October 2008, "Big Picture Report"