

MINUTES OF THE MEETING
REVENUE ESTIMATING SUBCOMMITTEE OF THE TAXATION COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

January 22, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp on January 22, 1987, at 11:30 a.m., in Room 312B of the State Capitol.

ROLL CALL: All members were present with the exception of Reps. Ellison and Schye, and Sen. Hager, who were absent. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, and Judy Curtis Waldron, LFA.

DISCUSSION OF NATURAL GAS TAX: Judith Curtis Waldron, Senior Analyst, LFA, explained that 100% of the natural gas tax goes to the general fund except when there is an increase in a FY from the prior FY. She said forecasts are based on price, production, and county portions, and that the declining forecast over the next several years is a continuation of declines over the past several years.

Terry Johnson, OBPP, provided copies of assumptions for natural gas tax (Exhibit #1), and said receipts have gone up substantially due to increases in price. He explained the OBPP also looked at price, production and county portions in arriving at its assumptions, and that Montana wellhead prices were compared to Wharton Econometrics figures. He said his office contacted a large company concerning natural gas production and prices, but that company felt uncomfortable with projections for the next three months as well as any for the next three years.

Mr. Johnson stated the OBPP differed from the LFA in production assumptions (MCF and gallonage components are forecast separately).

Sen. Lybeck asked why there was a change of 75% in 1978 receipts. Terry Johnson replied there was upward movement in the late 1970's in production and price. Judy Curtis Waldron added that the price of gas was first deregulated at that time.

Terry Johnson stated that a severance tax reports only one price when it is filed, thus the need to look at net proceeds returns for this information.

REVENUE ESTIMATING SUBCOMMITTEE

January 22, 1987

Page 2

Rep. Williams asked if reports were filed on gas at the liquid state or at other stages. There was no response.

Sen. Neuman asked if the completion of the pipeline from Cut Bank to Butte would make a significant difference. Terry Johnson replied he was uncertain.

Rep. Williams asked if the value of liquid gas were included in historical production figures. Judy Curtis Waldron replied that only one figure is received from severance tax data, but the OBPP attempts to split out this information. She added that her price assumptions may be a little too high at a few cents difference per MCF (million cubic feet).

Terry Johnson replied that the difference is graphed in net proceeds and not in net production.

Rep. Sands asked which figure should be used. Terry Johnson replied that the Subcommittee needs to address this issue, as the numbers are not the same.

Rep. Ellison asked if there are any exemptions. Terry Johnson replied that could be possible. Judy Curtis Waldron stated that the severance tax does not include royalties or gas used in the field.

DISCUSSION OF METAL MINES TAX: Terry Johnson told the Subcommittee his office looks at mining production of copper, gold, silver, and other minerals. He said companies are required to file quarterly reports with the DOR (Department of Revenue), but not to pay a quarterly tax, thus production assumptions are based on two quarters reported in CY86 for CY's 87-88. Terry Johnson quoted 3rd quarter prices of \$.58 for copper, \$.19 for lead, \$5.16 for silver, and \$355.50 for gold. (EXHIBIT #2, #2a)

Terry Johnson explained that price/production from various mines in Montana are included in the OBPP forecast, and said a look at general fund revenue comparisons show only one small difference in FY88. He stated the OBPP included \$220,000 in audit collections for FY88 and that the LFA shows a difference in the area of general fund balance.

Judy Curtis Waldron stated LFA figures for CY86 are low because of low first quarter figures for Troy Mines. She said prices for paladium and platinum are contract prices, and that the price of gold varies quite a bit from day to day, month to month and year to year. She added her agreement to Terry Johnson's statement that price differences are very small. (EXHIBIT #3)

Chairman Harp asked for copies of projections for the Subcommittee, explaining that the information should be provided at party caucus' to facilitate understanding of the Subcommittee's undertakings.

Chairman Harp advised that Mr. Vasquez from Policy Economics would provide information for the Subcommittee on February 9, 1987. He said Policy Economics figures will reflect federal tax reform windfall because they are based on current law.

Dave Bohyer stated the LFA estimates \$78 million in windfall and the OBPP, \$73 million. He said Policy Economics anticipated all states would be in the same bind and developed a computer model to estimate the effect to each state. Mr. Bohyer advised that Policy Economics merged state tax returns with population and other information to make its estimates. He said the variables used included employment, personal income, non-farm income and historical data on tax returns, and that this information was sent by telex on January 21, 1987, to the Legislative Council.

Dave Bohyer explained that an attempt will be made to bring in staff persons for the Joint Committee on Taxation (Congress) as DOR is basing its estimates on the figures adopted by that committee and by Mr. Vasquez. He added that Mr. Vasquez believes DOR overestimated windfall by 55%.

Chairman Harp asked where Montana would be without federal tax reform. There was no response.

Sen. Neuman asked if the Subcommittee had DOR figures on the amount of capital gain claimed by farmers. Dave Bohyer replied that is one of the key elements of the Vasquez formula.

Terry Johnson added that his office has computer runs on capital gains, taken from tax returns.

REVENUE ESTIMATING SUBCOMMITTEE

January 22, 1987

Page 4

ADJOURNMENT: There being no further business before the Subcommittee, the meeting was adjourned at 12:50 p.m.

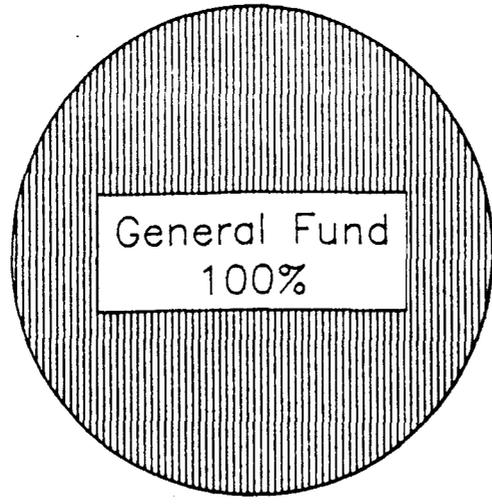

Representative John Harp,
Chairman

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Rev Est Subc

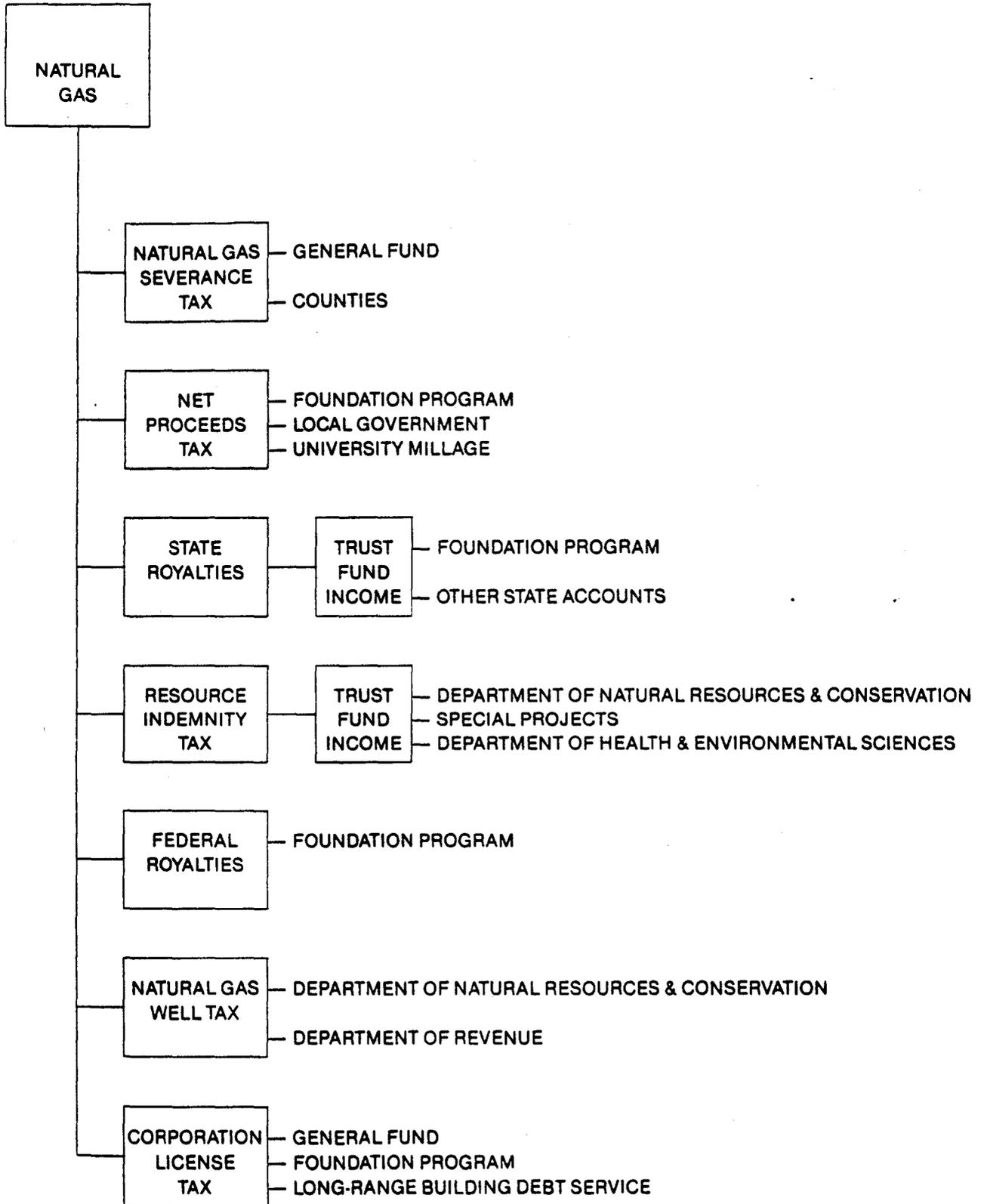
NATURAL GAS SEVERANCE TAX

DISTRIBUTION FORMULA



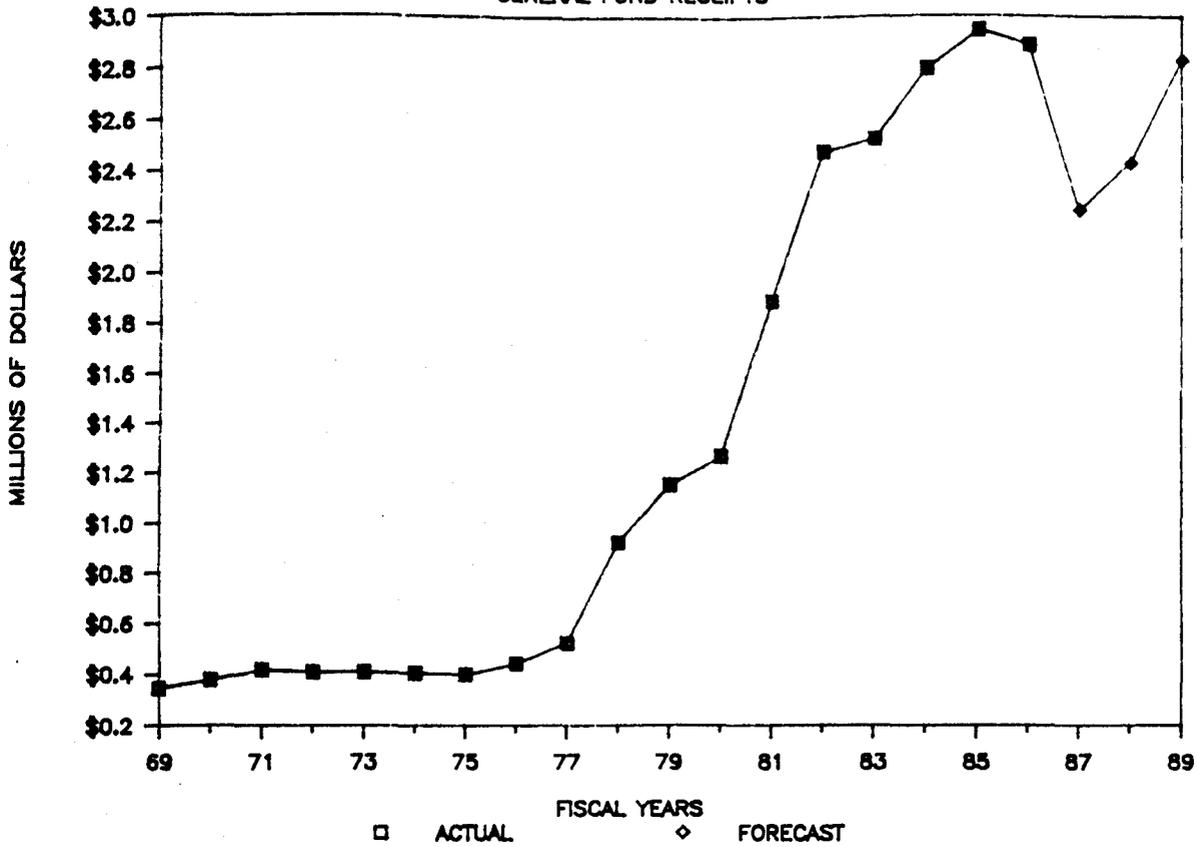
County portion is deducted from the General Fund.

**GRAPHIC REPRESENTATION OF REVENUE IMPACT
NATURAL GAS**



NATURAL GAS SEVERANCE TAX

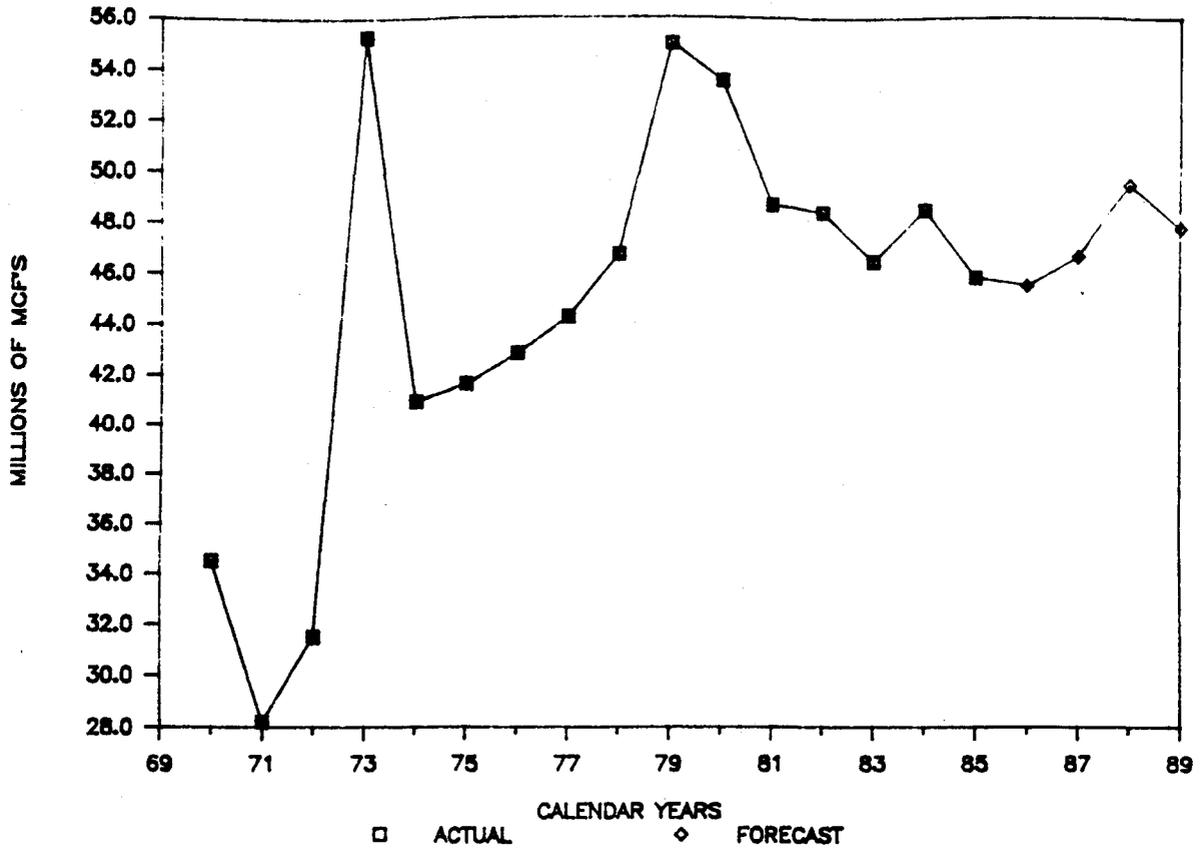
GENERAL FUND RECEIPTS



YR	GF RECEIPTS	PERCENT CHANGE
A 69	0.347054	
A 70	0.379112	9.24%
A 71	0.418475	10.38%
A 72	0.410554	-1.89%
A 73	0.412667	0.51%
A 74	0.406911	-1.39%
A 75	0.403359	-0.87%
A 76	0.445640	10.48%
A 77	0.527496	18.37%
A 78	0.923601	75.09%
A 79	1.151104	24.63%
A 80	1.264024	9.81%
A 81	1.881292	48.83%
A 82	2.474811	31.55%
A 83	2.525059	2.03%
A 84	2.797996	10.81%
A 85	2.945778	5.28%
A 86	2.890666	-1.87%
F 87	2.241079	-22.47%
F 88	2.428279	8.35%
F 89	2.833001	16.67%

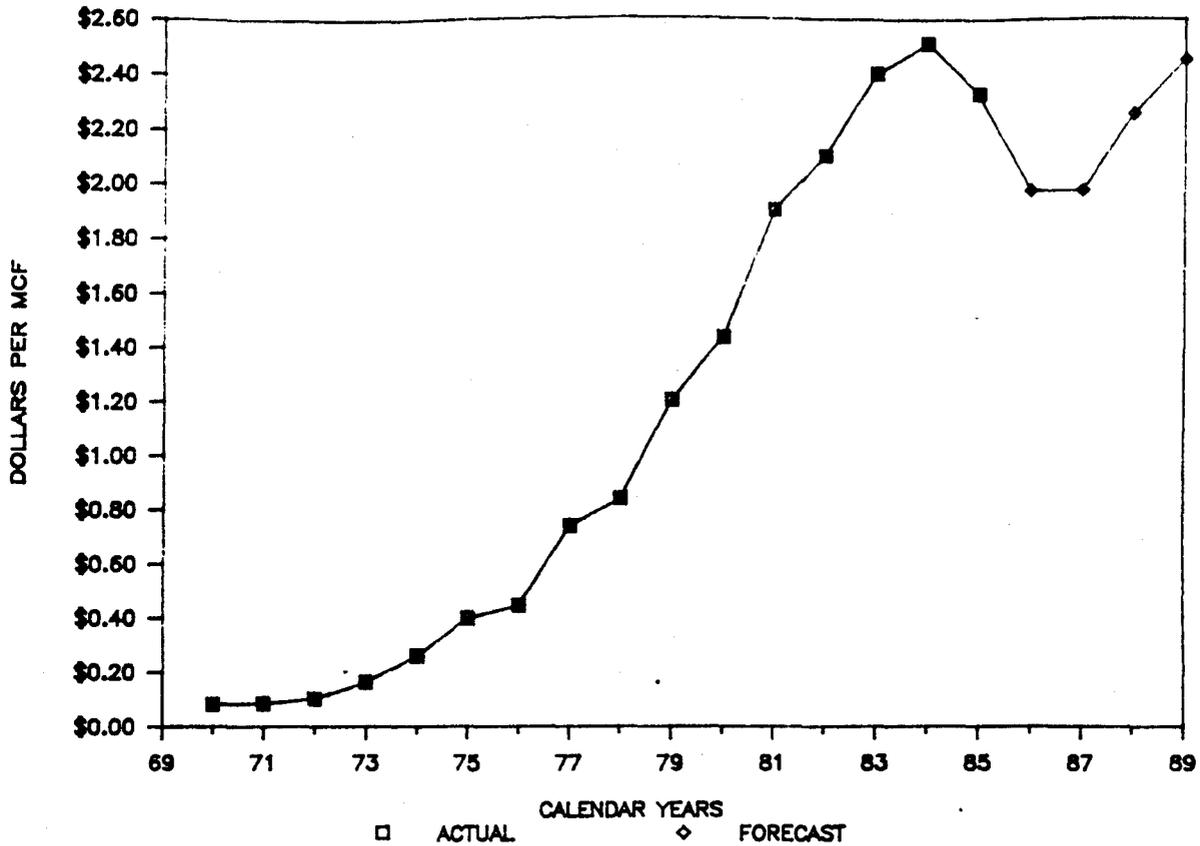
(5)
 (2)
 Conf. Sec.
 A. F. Tolson

MONTANA NATURAL GAS PRODUCTION



YR	TOTAL MCF'S	PERCENT CHANGE
A 69	NA	
A 70	34.532578	NA
A 71	28.210215	-18.31%
A 72	31.539029	11.80%
A 73	55.276037	75.26%
A 74	40.933838	-25.95%
A 75	41.664224	1.78%
A 76	42.897936	2.96%
A 77	44.326295	3.33%
A 78	46.758635	5.49%
A 79	54.969129	17.56%
A 80	53.520370	-2.64%
A 81	48.630710	-9.14%
A 82	48.337829	-0.60%
A 83	46.422761	-3.96%
A 84	48.416302	4.29%
A 85	45.794239	-5.42%
F 86	45.470016	-0.71%
F 87	46.604720	2.50%
F 88	49.387488	5.97%
F 89	47.685398	-3.45%

MONTANA NATURAL GAS PRICES



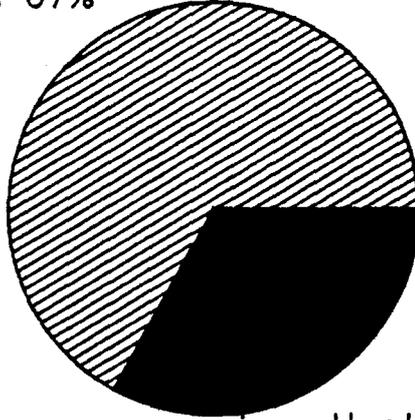
YR	AVERAGE PRICE	PERCENT CHANGE
A 69	NA	
A 70	0.082480	NA
A 71	0.084387	2.31%
A 72	0.101584	20.38%
A 73	0.162071	59.54%
A 74	0.256972	58.56%
A 75	0.393834	53.26%
A 76	0.440788	11.92%
A 77	0.735148	66.78%
A 78	0.837444	13.92%
A 79	1.202400	43.58%
A 80	1.436056	19.43%
A 81	1.900381	32.33%
A 82	2.102518	10.64%
A 83	2.402916	14.29%
A 84	2.512040	4.54%
A 85	2.329369	-7.27%
F 86	1.972449	-15.32%
F 87	1.972449	0.00%
F 88	2.254227	14.29%
F 89	2.451472	8.75%

1-22-8
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METALLIFEROUS MINES TAX

DISTRIBUTION FORMULA

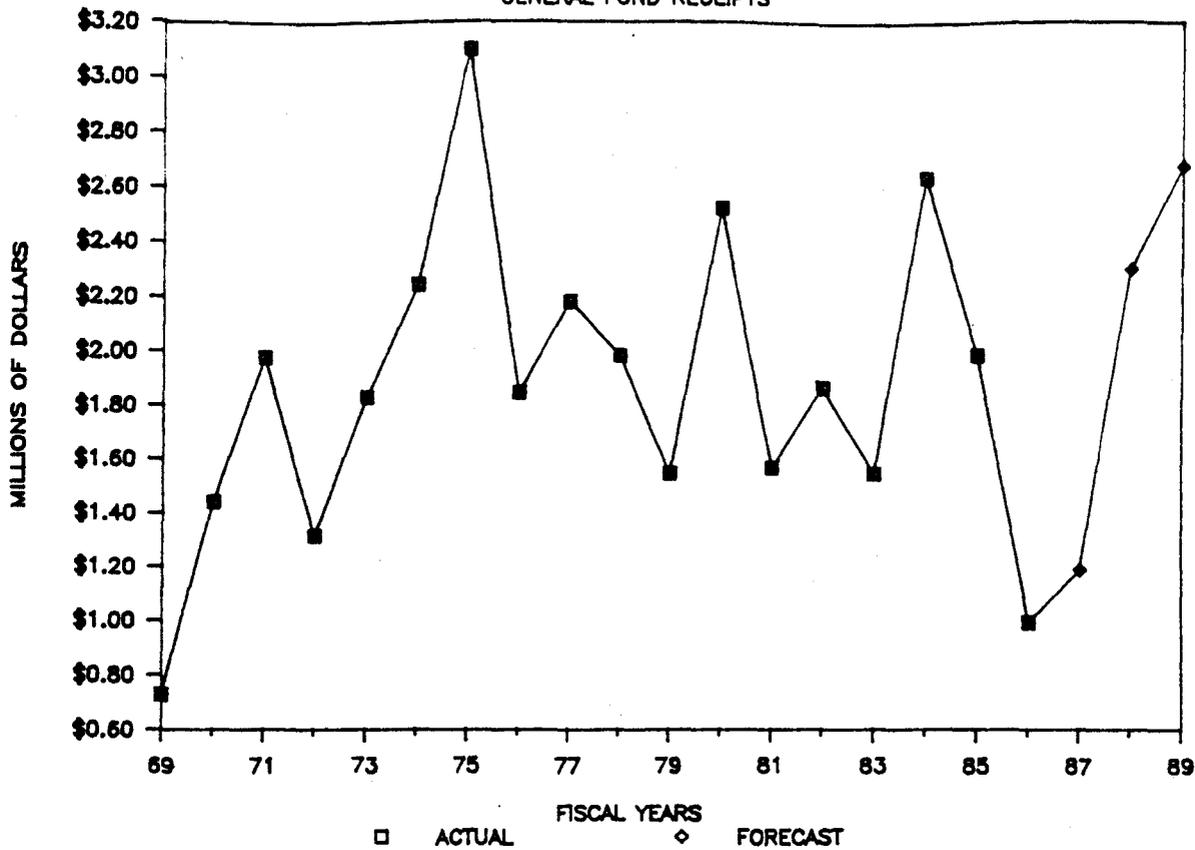
General Fund 67%



Hard Rock Impact Account 33%

METAL MINES TAX

GENERAL FUND RECEIPTS



YR	GF RECEIPTS	PERCENT CHANGE
A 69	0.728208	
A 70	1.440898	97.87%
A 71	1.976202	37.15%
A 72	1.313736	-33.52%
A 73	1.828501	39.18%
A 74	2.239654	22.49%
A 75	3.099368	38.39%
A 76	1.845076	-40.47%
A 77	2.177777	18.03%
A 78	1.978993	-9.13%
A 79	1.544518	-21.95%
A 80	2.516820	62.95%
A 81	1.564569	-37.84%
A 82	1.861208	18.96%
A 83	1.542061	-17.15%
A 84	2.630135	70.56%
A 85	1.977324	-24.82%
A 86	0.989852	-49.94%
F 87	1.185091	19.72%
F 88	2.294668	93.63%
F 89	2.671037	16.40%

EX-102 #22
 1-22-87
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METALS PRICES

Metal	Average		Average	
	Jan. 1986	June 1986	Nov. 1986	Dec. 18, 1986 Jan. 19, 1987
Copper	40.6988	40.6747	40.6286	40.6350 40.6450
Gold	345.4900	342.7900	398.8100	390.7500 422.2500
Silver	6.0500	5.1500	5.6000	5.3600 5.6500
Lead	0.1835	0.2207	0.2797	0.2850 0.2800
Zinc	0.3287	0.3654	0.4577	0.4400 0.4300
Niobium	3.1500	2.7700	3.1100	N/A N/A
Palladium	120.0000	120.0000	150.0000	N/A N/A
Platinum	475.0000	475.0000	600.0000	600.0000 600.0000

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OFFICE OF THE LEGISLATIVE FISCAL ANALYST
Metal Mines Tax Forecasts and Assumptions

	FY1987	FY1988	FY1989
GENERAL FUND REVENUE			
FROM THE METAL MINES TAX			
LFA	\$1,171,000	\$2,231,000	\$2,735,000
Executive	\$1,185,000	\$2,295,000	\$2,671,000
Difference	(\$14,000)	(\$64,000)	\$112,000
PRODUCTION			
	CY1986	CY1987	CY1988
Copper (Million lbs)			
LFA	50.289	97.941	97.941
Executive	61.326	90.423	100.244
Gold (Million ozs)			
LFA	0.162	0.207	0.258
Executive	0.160	0.210	0.275
Silver (Million ozs)			
LFA	3.993	5.841	6.791
Executive	4.323	6.101	7.000
Lead (Million lbs)			
LFA		4.500	10.000
Executive	0.126	4.624	10.125
Zinc (Million lbs)			
LFA		22.000	52.000
Executive		22.000	52.000
Molybdenum (Million lbs)			
LFA	2.700	6.600	6.600
Executive	3.027	7.200	7.500
Palladium (Million ozs)			
LFA		0.038	0.075
Executive		0.038	0.075
Platinum (Million ozs)			
LFA		0.012	0.025
Executive		0.013	0.025

PRICE

Copper (per lb)			
LFA	\$0.600	\$0.500	\$0.500
Executive	\$0.560	\$0.500	\$0.500
Gold (per oz)			
LFA	\$350.000	\$400.000	\$400.000
Executive	\$342.350	\$420.000	\$420.000
Silver (per oz)			
LFA	\$5.500	\$6.000	\$6.000
Executive	\$5.120	\$5.700	\$5.700
Lead (per lb)			
LFA		\$0.200	\$0.200
Executive	\$0.188	\$0.190	\$0.190
Zinc (per lb)			
LFA		\$0.400	\$0.400
Executive		\$0.300	\$0.300
Molybdenum (per lb)			
LFA	\$2.250	\$2.250	\$2.250
Executive	\$2.500	\$2.500	\$2.500
Palladium (per oz)			
LFA		\$145.000	\$145.000
Executive		\$125.000	\$125.000
Platinum (per oz)			
LFA		\$500.000	\$500.000
Executive		\$550.000	\$550.000