

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

January 23, 1987

The meeting of the Revenue Estimating Subcommittee of the Taxation Committee was called to order by Chairman Harp on January 23, 1987, at 11:30 a.m. in Room 312-B of the State Capitol.

ROLL CALL: All members were present except Reps. Ellison and Sands, and Sen. Neuman, who were excused. Also present were Dave Bohyer, Researcher, Legislative Council, Terry Johnson, Office of Budget and Program Planning (OBPP), Judy Curtis Waldron and Madalyn Quinlan from the Office of the Legislative Fiscal Analyst (LFA).

DISCUSSION OF TOTAL PERSONAL INCOME GROWTH: Chairman Harp reported on information received from the Bureau of Economic Analysis, Department of Commerce for total personal income growth for 1985. He said the OBPP predicted a total personal income growth rate of 5.2%, but the rate for the first three quarters in 1986 is 1.2%. Chairman Harp stated the LFA is talking about lowering its estimate from 1.6% to .5%, and said the Subcommittee may need to advise Vasquez that the latest figures sent need to be lowered. (EXHIBIT #1)

Terry Johnson, OBPP, advised that these figures are strictly estimates of preliminary numbers that are still subject to revision. (EXHIBIT #2)

Chairman Harp asked if the revenue estimate would come down more when fourth quarter reports are received. Terry Johnson replied that tax receipts and withholding are received at the end of January for December, and are one month behind. He advised that income figures won't be received for the fourth quarter until approximately April 1, 1987.

Chairman Harp stated the Subcommittee would plan to provide its last revenue estimate for total personal income growth on the 85th day of the session.

Dave Bohyer said that in talking with Policy Economics, any figures provided by the Subcommittee can be adjusted.

Chairman Harp commented that there will be carryover in

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CY 87-88 from CY 86. Terry Johnson added that growth in CY 84-85 was 1% and that he anticipates a similar trend. Judy Curtis Waldron stated it is not unusual for the Department of Commerce to make revenue estimates for total personal income growth prior to fourth quarter reports, and that 34% of general fund revenue is from individual income tax.

Sen. Hager asked both the LFA and the OBPP what adjustments they would make, based upon the Department of Commerce final report. Judy Curtis Waldron replied she would look at individual detail prior to making any changes and that she would also look at what is actually happening with tax receipts.

Rep. Harrington advised there is a need to be very careful, as estimates could be \$50 million to \$60 million in a few weeks.

Dave Bohyer stated Policy Economics would reduce the figure it received from the Subcommittee, if it appears to have been overstated. He said the study is being done to provide the Taxation Committee with information needed to make decisions, and to obtain information on the distribution of federal income tax windfall.

DISCUSSION OF OIL SEVERANCE TAX: Judy Curtis Waldron stated she anticipates the price of oil to average \$15 per barrel during the upcoming biennium and to stay there during FY 89.

Terry Johnson said he originally had higher assumptions, and the Revenue Estimating Advisory Council adjusted those assumptions downward for CY's 87-89. He stated that he sees a further decline in production and that fourth quarter production would have to be 7 million barrels to meet original projections. Terry Johnson added that both his office and the LFA agree their forecasts are too optimistic.

Chairman Harp advised that reducing CY 86 production assumptions to 26.5 million barrels should be close. Terry Johnson stated production for the first three quarters in CY 86 was 20.1 million barrels, while the quarter ending September, 1986, production was 6.5 million barrels, and that for the quarter ending July, 1986, was 6.7 million barrels.

Rep. Williams agreed that 26.5 million barrels appeared to be an accurate estimate.

DISPOSITION OF OIL SEVERANCE TAX PRICES AND PRODUCTION:

Sen. Hager made a motion that the Subcommittee approve estimates of \$13.70 for CY 86, \$14.12 for CY 87, \$15.50 for CY 88, and \$18.00 per barrel for CY 89.

Terry Johnson advised that the spot price on January 22 for West Texas Crude was \$17.50 and the contract price, \$18.11. He said prices are traditionally about \$2.00 per barrel lower in Montana.

The motion made by Senator Hager CARRIED unanimously.

Sen. Hager made a motion that the Subcommittee approve production estimates of 26.5 million barrels in CY 86, 26.7 million in CY 87, 25 million in CY 88, and 21.5 million in CY 89. The motion CARRIED unanimously.

DISPOSITION OF OIL SEVERANCE TAX INCREASED COUNTY

PRODUCTION: Judy Curtis Waldron advised the Subcommittee of the need to convert the oil severance tax collections from FY to CY. She said FY 87 collections go through March, 1987.

Terry Johnson stated the Subcommittee needs to adopt assumptions on increased county production.

Sen. Lybeck asked why there is such a large increase in payment to the counties between CY 88 and 89. Judy Curtis Waldron replied that as the rate of production slows between those years, county payments are made larger.

Rep. Schye made a motion that the Subcommittee approve increased county production estimates of \$125,000 for each of Cy's 88 and 89.

DISCUSSION OF COAL SEVERANCE TAX: Terry Johnson stated \$4.96 is the average for all customers for the quarter used to make estimates. He explained that his office used data on historical coal statistics by quarter and by county to estimate both production and price. (EXHIBITS #3 and 4)

Madalyn Quinlan stated Decker and Western Energy represented over 70% of coal production in the state and will be the most significant in weighted average sales price. She said CY 86, 87, and 88 reflect a 25% lower price on contracts with Northern States Power, and that Spring Creek sells coal to Houston Power and Light under a long term contract through 2009. Ms. Quinlan explained that since 1982, Houston has been escrowing money as a result of a dispute and is not making contract payments. (EXHIBIT #5)

Ken Williams, Western Energy, advised that the Texas railroad commission only allows for BTU's for rate recovery.

Chairman Harp stated Public Service Commissions could regulate rates for coal production, if this were going to continue to be a problem.

Ms. Quinlan advised that the Spring Creek Mine did pick up a contract with Detroit Edison for 1.5 million tons per year, which should be worth about \$9 per ton.

Ken Williams pointed out that tonnage to Commonwealth really skews averages under Kiewit Engineering Co. Ms. Quinlan stated she talked with several mining people concerning November, 1986 reports and was given an f.o.b. price of \$24.46.

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

  
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Representative John Harp,  
Chairman



1-23-87  
Rev. Est Sub

MONTANA PERSONAL INCOME GROWTH

1985 to 1989

<u>YEAR</u>		<u>PERSONAL INCOME</u> (billion)
1985	actual	9.067
1986	projected	9.819
1987	projected	10.362
1988	projected	11.017
1989	projected	11.772

PERSONAL INCOME INCREASES

<u>YEAR</u>		<u>% AVERAGE INCREASE</u>
1985 to 1986	actual	9.3%
1986 to 1987	projected	5.5%
1987 to 1988	projected	6.3%
1988 to 1989	projected	6.9%
1985 to 1989	projected	6.75%

Source of Information: Paul Polzin - Director of Economic Forecasting  
at University of Montana  
Bureau of Economics Analysis

EXHIBIT #2  
 1-23-87  
 Rev Est Sub

ECONOMIC ASSUMPTIONS ADOPTED BY THE JOINT REVENUE ESTIMATING SUBCOMMITTEE

	<u>CY86</u>	<u>CY87</u>	<u>CY88</u>	<u>CY89</u>
EMPLOYMENT	276,200	278,100	280,100	281,000
TOTAL MONTANA PERSONAL INCOME (\$ billions)	\$9.550	\$10.000	\$10.500	\$11.000
INFLATION				
CPI	1.92%	2.80%	3.80%	5.19%
PCE	2.15%	3.85%	4.30%	4.85%
NON-FARM LABOR INCOME (\$ Billions)	\$6.097	\$6.317	\$6.693	\$7.165
	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>
INDIVIDUAL INCOME TAX (\$ millions)	\$172.216	\$193.397	\$208.087	\$229.990
CORPORATION LICENSE TAX (\$ millions)	\$58.585	\$45.730	\$53.063	\$58.995
INTEREST RATES (Fiscal Yr.)				
Short-term (<2 mos.)	NA	5.85%	6.39%	7.11%
Long-term (>10 yrs.)	NA	7.98%	8.46%	9.21%

OFFICE OF BUDGET & PROGRAM PLANNING  
HISTORICAL COAL STATISTICS

EXHIBIT 70  
DATE 1-23-87  
REV Est Subco

PRODUCTION BY COAL COMPANY	CY 85:4	CY 86:1	CY 86:2	CY 86:3	TOTAL
DECKER	2.579334	3.182557	2.931665	2.891966	11.585522
KNIFE RIVER	0.081843	0.052019	0.036980	0.038469	0.209311
PEABODY	0.877050	0.659444	0.748263	0.395054	2.679811
SPRING CREEK	0.840588	0.791790	0.758875	1.418071	3.809324
WESTERN ENERGY	3.157404	3.232072	1.693249	3.336908	11.419633
WESTMORELAND PROTESTED	0.301140	0.227027	0.323297	0.371683	1.223147
WESTMORELAND NON-PROTESTED	0.099455	0.134855	0.134936	0.205539	0.574785
TOTAL ALL COMPANIES	7.936814	8.279764	6.627265	8.657690	31.501533
TOTAL LESS PROTESTED	7.635674	8.052737	6.303968	8.286007	30.278386

AVERAGE PRICES(CSP) BY COAL COMPANY	CY 85:4	CY 86:1	CY 86:2	CY 86:3	TOTAL
DECKER	\$11.389	\$9.864	\$11.216	\$11.395	\$10.928
KNIFE RIVER	\$10.387	\$10.699	\$10.088	\$9.426	\$10.235
PEABODY	\$7.518	\$8.027	\$7.486	\$8.963	\$7.847
SPRING CREEK	\$9.067	\$11.276	\$10.156	\$4.945	\$8.209
WESTERN ENERGY	\$7.579	\$7.148	\$7.626	\$6.422	\$7.126
WESTMORELAND PROTESTED	\$7.445	\$8.398	\$6.768	\$6.890	\$7.274
WESTMORELAND NON-PROTESTED	\$7.433	\$8.134	\$6.400	\$6.623	\$7.065
TOTAL ALL COMPANIES	\$8.990	\$8.729	\$9.435	\$7.995	\$8.742
TOTAL LESS PROTESTED	\$9.051	\$8.739	\$9.572	\$8.045	\$8.801

OFFICE OF BUDGET & PROGRAM PLANNING  
 COAL ASSUMPTIONS BY COMPANY

EXP # 4  
 DATE 1-23-87  
 Rev Est Subc

	ESTIMATED TONS			
	CY 86	CY 87	CY 88	CY 89
DECKER	12.156	12.731	13.452	12.768
KNIFE RIVER	0.200	0.210	0.210	0.210
PEABODY	2.480	2.780	2.780	2.780
SPRING CREEK	4.647	2.780	2.780	2.780
WESTERN ENERGY	10.580	10.980	10.980	10.980
WESTMORELAND-NON-PROTESTED	0.619	0.519	0.798	0.798
TOTALS	30.682	30.000	31.000	30.316

	ESTIMATED CSP			
	CY 86	CY 87	CY 88	CY 89
DECKER	\$10.841	\$10.748	\$10.779	\$10.955
KNIFE RIVER	\$10.157	\$9.815	\$9.727	\$9.886
PEABODY	\$7.708	\$7.720	\$7.801	\$7.929
SPRING CREEK	\$10.350	\$10.003	\$9.904	\$10.065
WESTERN ENERGY	\$7.180	\$7.094	\$7.106	\$7.222
WESTMORELAND-NON-PROTESTED	\$7.063	\$6.702	\$6.646	\$6.754
AVERAGES	\$9.171	\$8.985	\$9.019	\$9.126

	WINDOW TONS			
	CY 86	CY 87	CY 88	CY 89
DECKER	1.500	1.500	1.500	0.000
KNIFE RIVER	0.000	0.000	0.000	0.000
PEABODY	0.000	0.000	0.000	0.000
SPRING CREEK	1.000	0.000	0.000	0.000
WESTERN ENERGY	0.000	0.000	0.000	0.000
WESTMORELAND-NON-PROTESTED	0.000	0.000	0.300	0.300
TOTALS	2.500	1.500	1.800	0.300

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#5  
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Rev Est Sub

OFFICE OF LEGISLATIVE FISCAL ANALYST PROJECTIONS

FISCAL YEAR DATA

Tonnage	FISCAL 1987	FISCAL 1988	FISCAL 1989
Decker	11,609,760	9,880,000	9,880,000
Knife River	187,004	200,360	207,600
Peabody	2,552,000	2,780,000	2,780,000
Spring Creek	4,220,000	3,080,000	3,080,000
Western Energy	11,105,000	11,355,000	10,980,000
Westmoreland	592,752	663,250	1,050,000
<b>Total</b>	<b>30,266,516</b>	<b>27,958,610</b>	<b>27,977,600</b>

Price	FISCAL 1987	FISCAL 1988	FISCAL 1989
Decker	\$10.74	\$10.32	\$10.64
Knife River	\$9.97	\$9.61	\$9.93
Peabody	\$7.64	\$7.76	\$8.09
Spring Creek	\$10.20	\$9.92	\$10.22
Western Energy	\$5.85	\$5.34	\$5.54
Westmoreland	\$5.71	\$5.46	\$5.69

CALANDAR YEAR DATA

Tonnage	Calendar 1986	Calendar 1987	Calendar 1988	Calendar 1989
Decker	12,156,000	9,880,000	9,880,000	9,880,000
Knife River	183,116	197,000	209,000	204,000
Peabody	2,480,000	2,780,000	2,780,000	2,780,000
Spring Creek	4,580,000	3,080,000	3,080,000	3,080,000
Western Energy	10,980,000	11,480,000	10,980,000	10,980,000
Westmoreland	640,000	595,000	1,050,000	1,050,000
<b>Total</b>	<b>31,019,116</b>	<b>28,012,000</b>	<b>27,979,000</b>	<b>27,974,000</b>

Price	Calendar 1986	Calendar 1987	Calendar 1988
Decker	\$10.74	\$10.32	\$10.64
Knife River	\$9.97	\$9.61	\$9.93
Peabody	\$7.64	\$7.76	\$8.09
Spring Creek	\$10.20	\$9.92	\$10.22
Western Energy	\$5.85	\$5.34	\$5.54
Westmoreland	\$5.71	\$5.46	\$5.69

Incremental Tonnage	Calendar 1986	Calendar 1987	Calendar 1988
Decker	1,445,000	0	0
Knife River	5,000	0	0
Peabody	0	0	0
Spring Creek	100,000	100,000	600,000
Western Energy	0	0	0
Westmoreland	0	175,000	700,000
<b>Total</b>	<b>1,550,000</b>	<b>275,000</b>	<b>1,300,000</b>

Credit Earned	Calendar 1986	Calendar 1987	Calendar 1988
Decker	\$1,551,930	\$0	\$0
Knife River	3,323	0	0
Peabody	0	0	0
Spring Creek	102,000	99,200	613,200
Western Energy	0	0	0
Westmoreland	0	95,550	398,300
<b>Total</b>	<b>\$1,657,253</b>	<b>\$194,750</b>	<b>\$1,011,500</b>

Fiscal 1987 1225701  
 Fiscal 1988 1291628  
 Fiscal 1989 398938