

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

February 2, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Vice Chairman Neuman on February 2, 1987, at 11:30 a.m. in Room 312B of the state Capitol.

ROLL CALL: All members were present with the exception of Rep. Harp and Sen Hager, who were excused. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, Madalyn Quinlan and Judy Curtis Waldron, LFA.

DISCUSSION OF PUBLIC SCHOOL FOUNDATION PROGRAM: Madalyn Quinlan explained Exhibit #1, Public School Foundation Program. She said the cost of the Program is driven by a formula set by the Legislature and is supplemented by the general fund.

Terry Johnson stated that when revenue estimates are developed for the general fund, they are also developed for the Foundation Program to some extent.

Vice Chairman Neuman said the Montana Education Association (MEA) has published a small, self-explanatory booklet on the Foundation Program.

Madalyn Quinlan provided subcommittee members with copies of Exhibit #2, LFA and OBPP report on funding comparisons. She said the Resource Indemnity Trust (RIT) is comprised of 1 1/2% of the gross value on mineral production, as well as that for sand, gravel and gems. Ms. Quinlan advised that the table in the exhibit show LFA calculations using Revenue Estimating Subcommittee estimates.

Terry Johnson explained that RIT funds are invested by the Board of Investment (Exhibit #2a), and that in the past the Legislature has used some of these funds for Department of Natural Resources and Conservation (DNRC) and the Department of State Lands. He said a large portion of receipts are generated from oil and coal, which were 64% and 18.7% respectively for 1968. Mr. Johnson commented that there is a discrepancy between LFA and OBPP estimates, and that based upon Revenue Advisory Council Estimates (REAC), OBPP assumptions will be lower.

Mr. Johnson stated he would provide revised numbers within a few days.

Rep. Ellison asked when RIT taxes are paid. Terry Johnson replied they are paid annually and reports are filed quarterly.

REVENUE ESTIMATING SUBCOMMITTEE

February 2, 1987

Page 2

He said the tax is due on March 1, 1987 for FY87.

Terry Johnson provided copies of estimates for BLM Mineral Leasing (Exhibit #3), and said he will have the final figures for CY86 in a few days. He explained that 100% of these funds go to the state Foundation Program. He said the state receives 50% of revenue from leasing federal lands.

Mr. Johnson explained that the drop for FY86 and increase shown for FY87, 88, and 89 are a little misleading and should be adjusted.

Madalyn Quinlan stated she used basic oil, gas and coal mineral royalties for her estimates, and that if one used a FY86 base and the Revenue Estimating Subcommittee applied factors to that base to calculate royalty collection for FY87, the assumption would be 71% for oil and gas (carried forward for FY88 and 89).

Ms. Quinlan stated that in FY87 the state received payment withheld by the federal government under the Gramm-Rudman Act, of approximately \$1 million. Terry Johnson added that federal distribution is required to be made on a monthly basis.

Madalyn Quinlan advised the LFA projections for Taylor Grazing are based upon prior year.

Terry Johnson provided copies of revenue estimates for Forest Funds (Exhibit #4), which he said have been fluctuating around 34% during past years, with the remainder going to counties for their roads.

Vice Chairman Newman asked if counties pay at the time of sale or at harvest. Rep. Ellison replied he believed most pay when bid.

DISCUSSION OF NET AND GROSS PROCEEDS TAX: Vice Chairman Neuman asked if potential ramifications of I105 come into play in the area of net and gross proceeds.

Terry Johnson provided copies of estimates on Net and Gross Proceeds Tax (Exhibit #5), and said the method of making estimates for the Tax is very similar to that used for coal and gas, except that it is computed on a calendar year (CY) basis. He explained that revenue from the Net and Gross Proceeds Tax goes to the Foundation Program, and said the OBPP anticipates a drop in CY 87, 88, and 89, due to the anticipated drop in oil, coal, and natural gas prices.

REVENUE ESTIMATING SUBCOMMITTEE

February 2, 1987

Page 3

Terry Johnson said the 12 mill assumed county levy and another permissive county levy affect the Foundation Program.

Vice Chairman Neuman asked what the current price is for West Texas oil. Terry Johnson replied that when he last checked it was between \$17.50 and \$18.11 per barrel, depending upon grade.

Vice Chairman Neuman commented the the Subcommittee may want to check oil prices during the session to get first quarter prices for CY87.

Terry Johnson advised he made an adjustment in OBPP estimates for continued protesting of taxes by Burlington Northern (BN).

Dave Bohyer commented that the phase-in for the change of accounting methods accounts for \$170 million of unit value and is as large an issue as the Net and Gross Proceeds Tax.

Madalyn Quinlan advised that BN said it won't pay any more taxes than it paid last year, thus she is estimating the same taxable value.

DISCUSSION OF SMALLER GENERAL FUND CATEGORY COMPARISONS:

Judy Curtis Waldron advised that she and Terry Johnson met to discuss estimates on smaller general fund categories. She explained that the Cigarette Tax and Tobacco Products Tax goes to the debt service account and then into the general fund.

Ms. Waldron said that an Electrical Energy adjustment was made for Colstrip 4 being shut down, and that the Electric Tax is .02 cents credit per kilowatt hour.

Dave Bohyer advised that the tax on cigarettes hasn't changed since 1983, but there has been a decline in smokers.

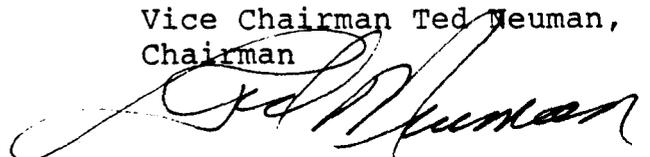
Vice Chairman Neuman advised that Department of Labor & Industry (DL&I) will be heard on February 3, 1987.

Rep. Sands asked that Terry Johnson and Judy Curtis Waldron report on the differences between the Net and Gross Proceeds as attributed to oil production.

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

Vice Chairman Ted Neuman,
Chairman

a:sub0202.txt



OFFICE OF THE LEGISLATIVE FISCAL ANALYST
Revenue and Taxable Values

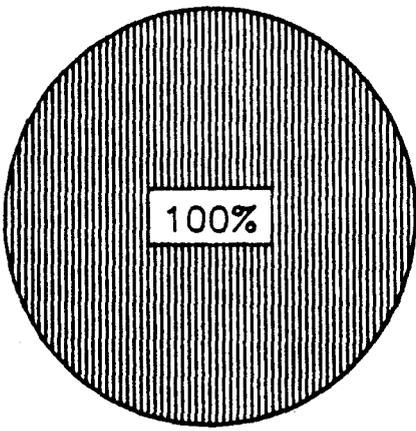
	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>
RIT Tax	\$4,266,769	\$4,425,437	\$4,962,617
US Minerals Subcommittee ¹	\$15,565,040	\$16,054,501	\$16,750,185
OBPP	16,036,000	16,138,000	17,620,000
LFA	16,066,000	16,679,000	17,709,000
Taylor Grazing			
OBPP	118,000	118,000	118,000
LFA	122,000	122,000	122,000
Forest Funds			
OBPP	1,119,000	1,119,000	1,119,000
LFA	1,226,000	1,226,000	1,226,000
<u>Statewide Taxable Value</u>	<u>Tax Year 1987</u>	<u>Tax Year 1988</u>	
Net and Gross Proceeds			
Subcommittee	\$ 320,962,000	\$ 307,590,000	
OBPP	406,797,000	404,319,000	
LFA	326,817,000	329,062,000	
All Other Property			
OBPP	1,590,396,000	1,620,342,000	
LFA	1,584,538,000	1,614,249,000	
Statewide Valuation			
Subcommittee ¹	1,905,500,000	1,921,939,000	
OBPP	1,997,193,000	2,024,661,000	
LFA	1,911,355,000	1,943,311,000	

¹ Subcommittee actions on oil, coal, natural gas, and metal mines production and prices using LFA methodology.

26
BPP

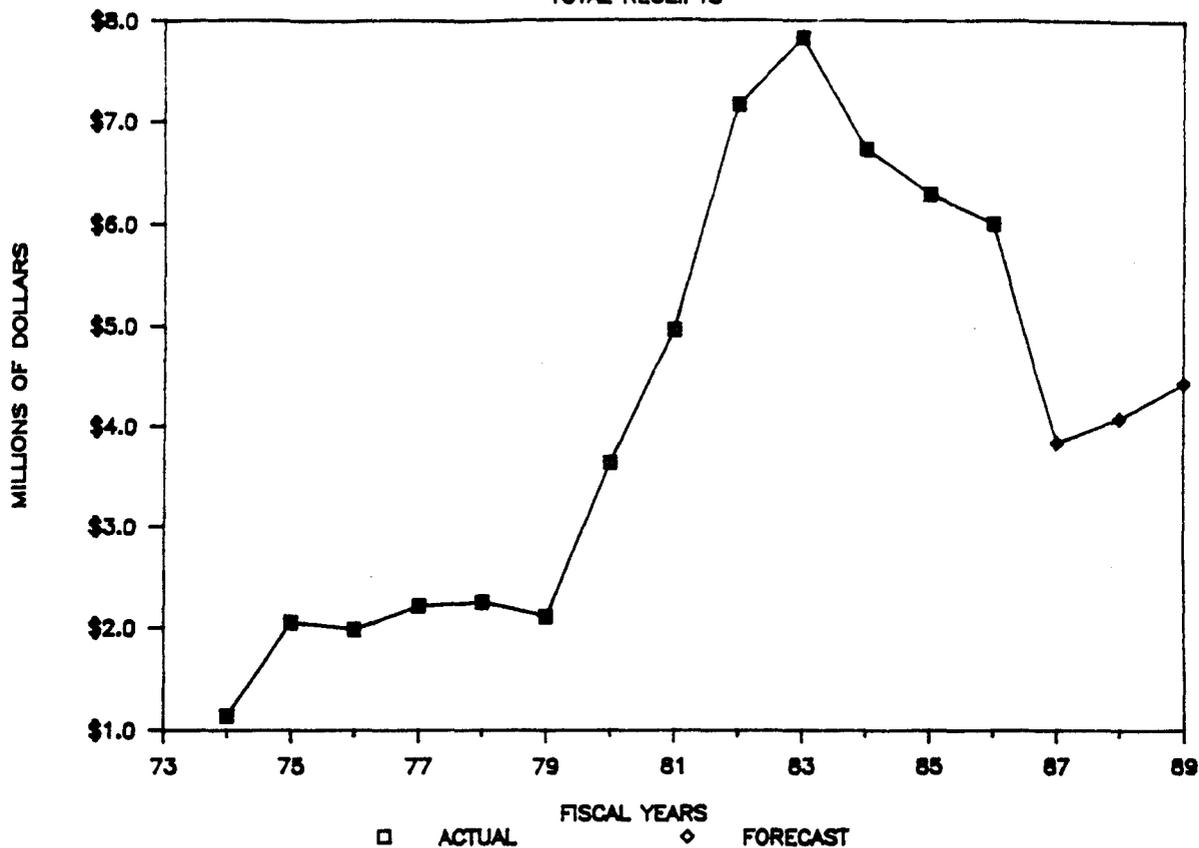
RESOURCE INDEMNITY TAX *DISTRIBUTION FORMULA*

Resource Indemnity Trust



RESOURCE INDEMNITY TAX

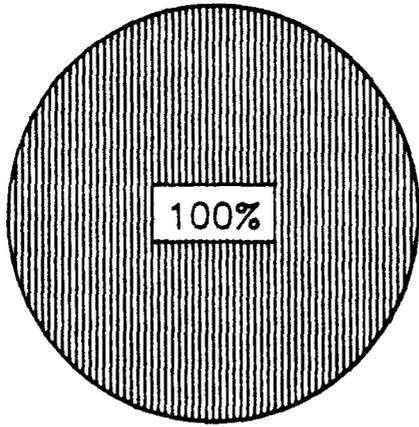
TOTAL RECEIPTS



YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74	1.137902	
A 75	2.050037	80.16%
A 76	1.981363	-3.35%
A 77	2.209719	11.53%
A 78	2.246415	1.66%
A 79	2.107358	-6.19%
A 80	3.630322	72.27%
A 81	4.959025	36.60%
A 82	7.159153	44.37%
A 83	7.822036	9.26%
A 84	6.716089	-14.14%
A 85	6.278740	-6.51%
A 86	5.992270	-4.56%
F 87	3.830897	-36.07%
F 88	4.070546	6.26%
F 89	4.419592	8.57%

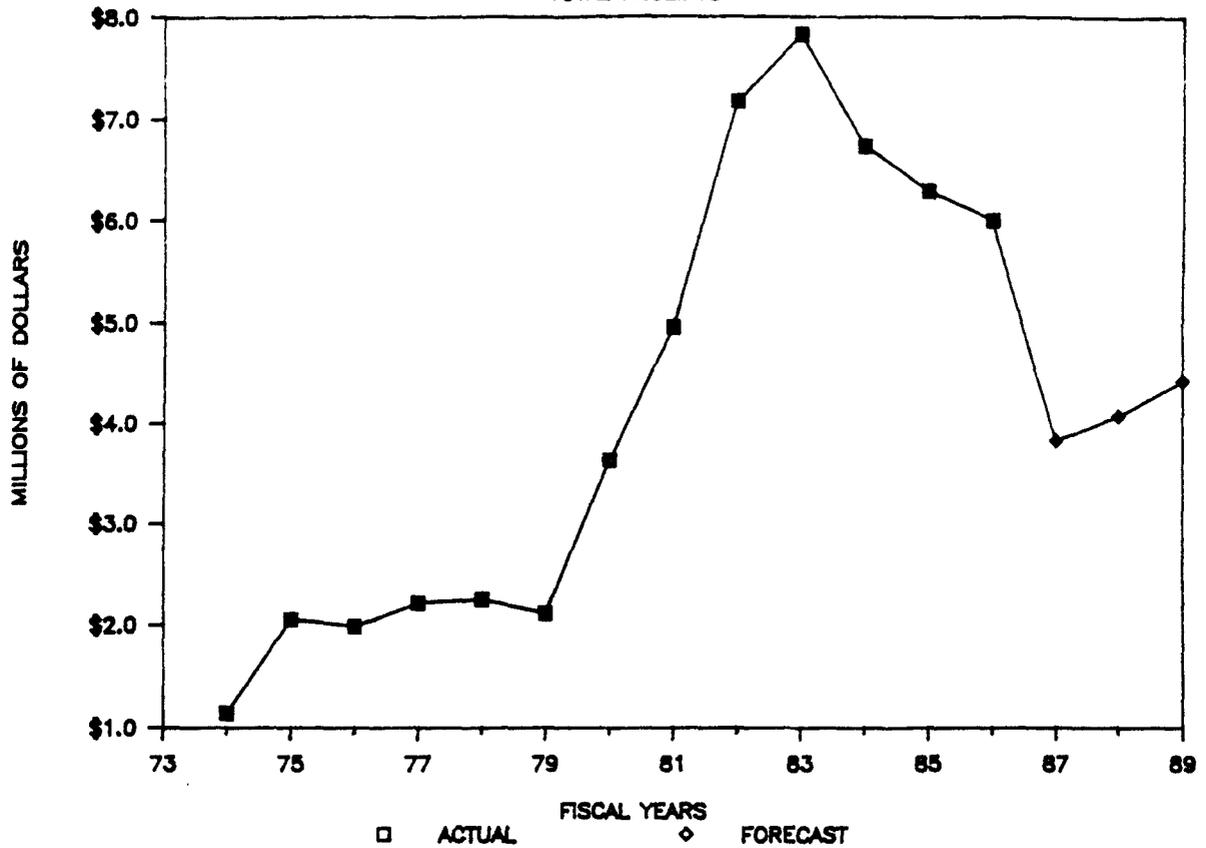
RESOURCE INDEMNITY TAX *DISTRIBUTION FORMULA*

Resource Indemnity Trust



RESOURCE INDEMNITY TAX

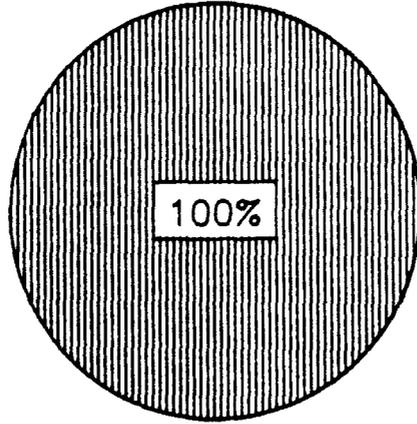
TOTAL RECEIPTS



YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74	1.137902	
A 75	2.050037	80.16%
A 76	1.981363	-3.35%
A 77	2.209719	11.53%
A 78	2.246415	1.66%
A 79	2.107358	-6.19%
A 80	3.630322	72.27%
A 81	4.959025	36.60%
A 82	7.159153	44.37%
A 83	7.822036	9.26%
A 84	6.716089	-14.14%
A 85	6.278740	-6.51%
A 86	5.992270	-4.56%
F 87	3.830897	-36.07%
F 88	4.070546	6.26%
F 89	4.419592	8.57%

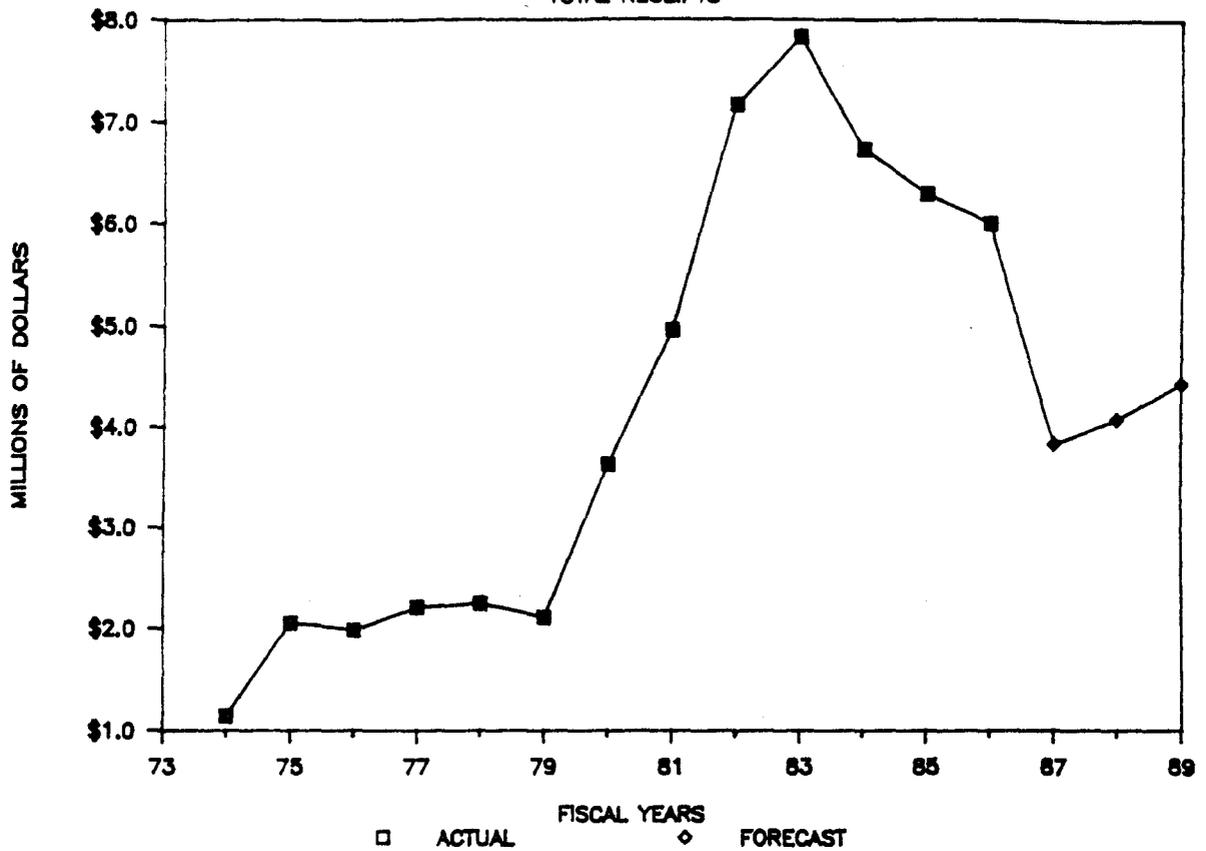
RESOURCE INDEMNITY TAX *DISTRIBUTION FORMULA*

Resource Indemnity Trust



RESOURCE INDEMNITY TAX

TOTAL RECEIPTS

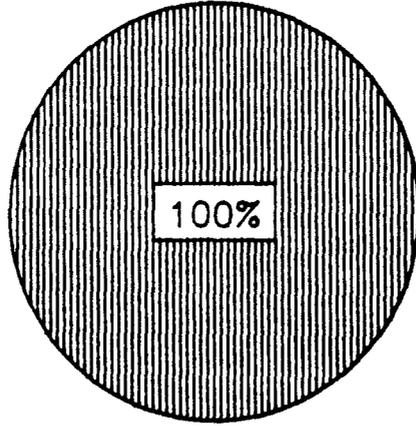


YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74	1.137902	
A 75	2.050037	80.16%
A 76	1.981363	-3.35%
A 77	2.209719	11.53%
A 78	2.246415	1.66%
A 79	2.107358	-6.19%
A 80	3.630322	72.27%
A 81	4.959025	36.60%
A 82	7.159153	44.37%
A 83	7.822036	9.26%
A 84	6.716089	-14.14%
A 85	6.278740	-6.51%
A 86	5.992270	-4.56%
F 87	3.830897	-36.07%
F 88	4.070546	6.26%
F 89	4.419592	8.57%

RESOURCE INDEMNITY TAX

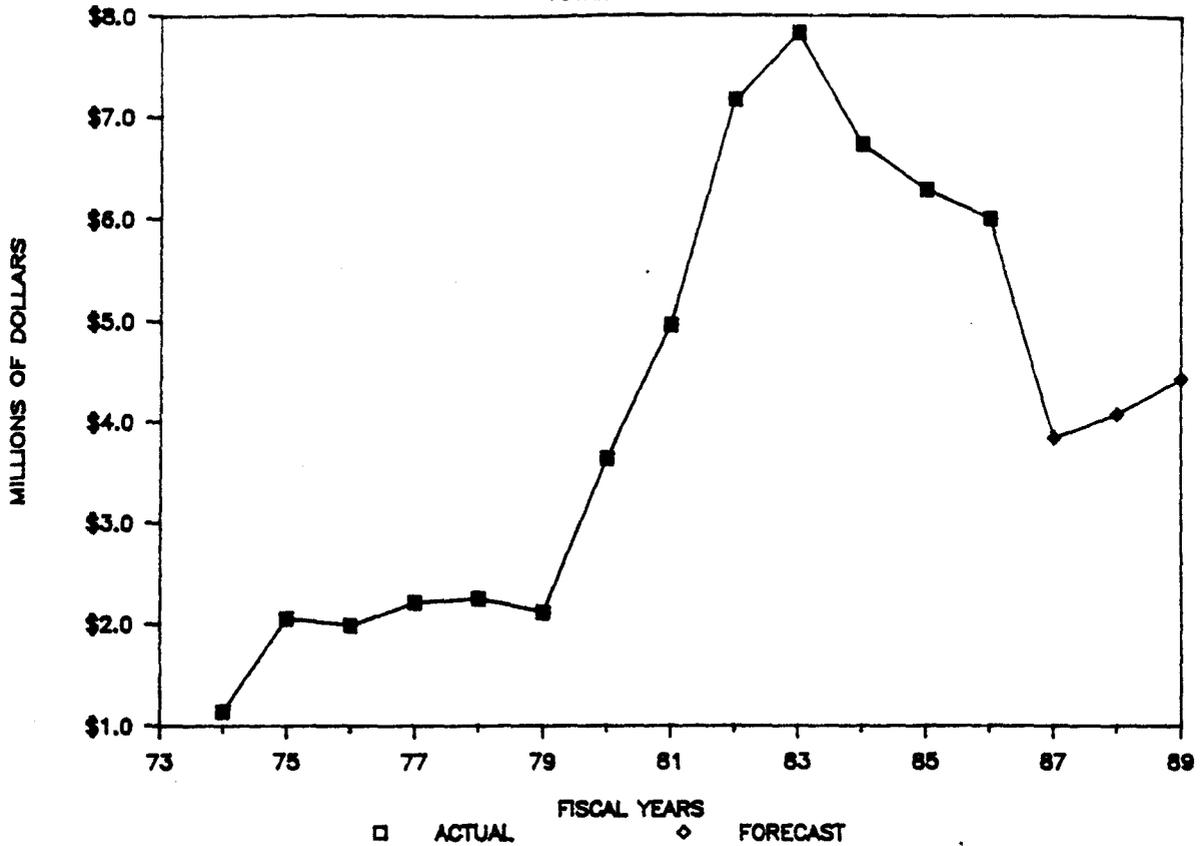
DISTRIBUTION FORMULA

Resource Indemnity Trust



RESOURCE INDEMNITY TAX

TOTAL RECEIPTS

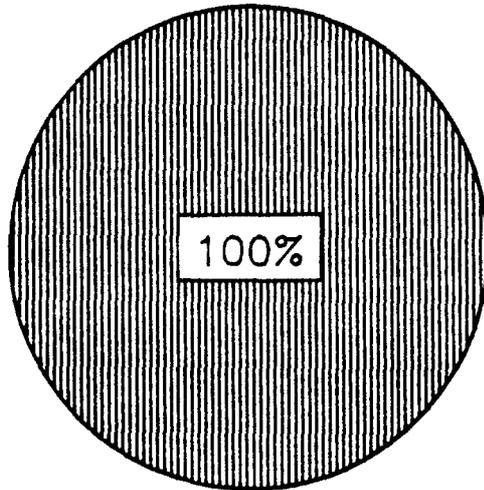


YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74	1.137902	
A 75	2.050037	80.16%
A 76	1.981363	-3.35%
A 77	2.209719	11.53%
A 78	2.246415	1.66%
A 79	2.107358	-6.19%
A 80	3.630322	72.27%
A 81	4.959025	36.60%
A 82	7.159153	44.37%
A 83	7.822036	9.26%
A 84	6.716089	-14.14%
A 85	6.278740	-6.51%
A 86	5.992270	-4.56%
F 87	3.830897	-36.07%
F 88	4.070546	6.26%
F 89	4.419592	8.57%

BLM MINERAL LEASING
DISTRIBUTION FORMULA

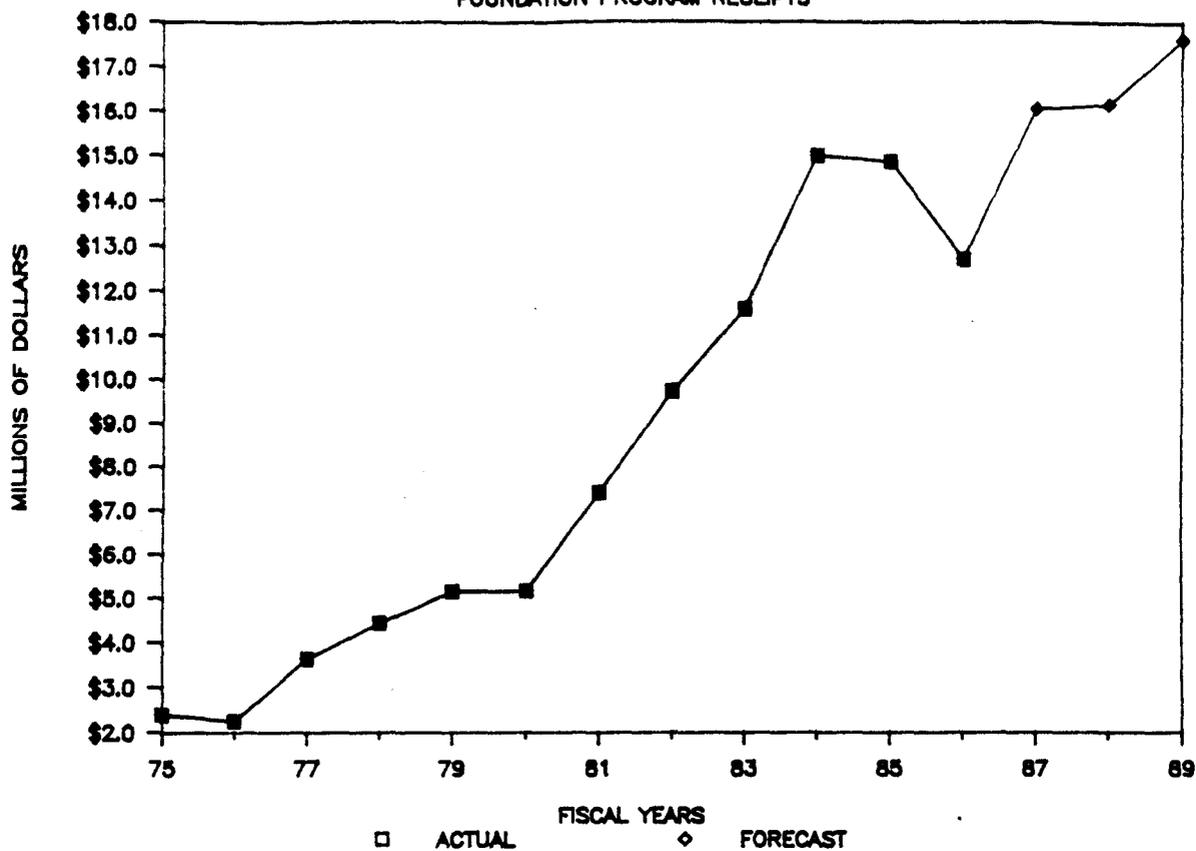
x3
72
rev
Cst
mbr

Foundation Program



BLM MINERAL LEASING

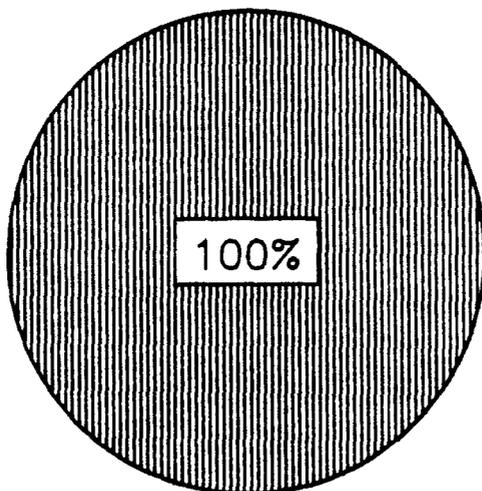
FOUNDATION PROGRAM RECEIPTS



YR	OSPI RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74		
A 75	2.384922	
A 76	2.243054	-5.95%
A 77	3.634904	62.05%
A 78	4.426413	21.78%
A 79	5.148922	16.32%
A 80	5.146239	-0.05%
A 81	7.380404	43.41%
A 82	9.693122	31.34%
A 83	11.543027	19.08%
A 84	14.948556	29.50%
A 85	14.817634	-0.88%
A 86	12.629639	-14.77%
F 87	16.035706	26.97%
F 88	16.138488	0.64%
F 89	17.619575	9.18%

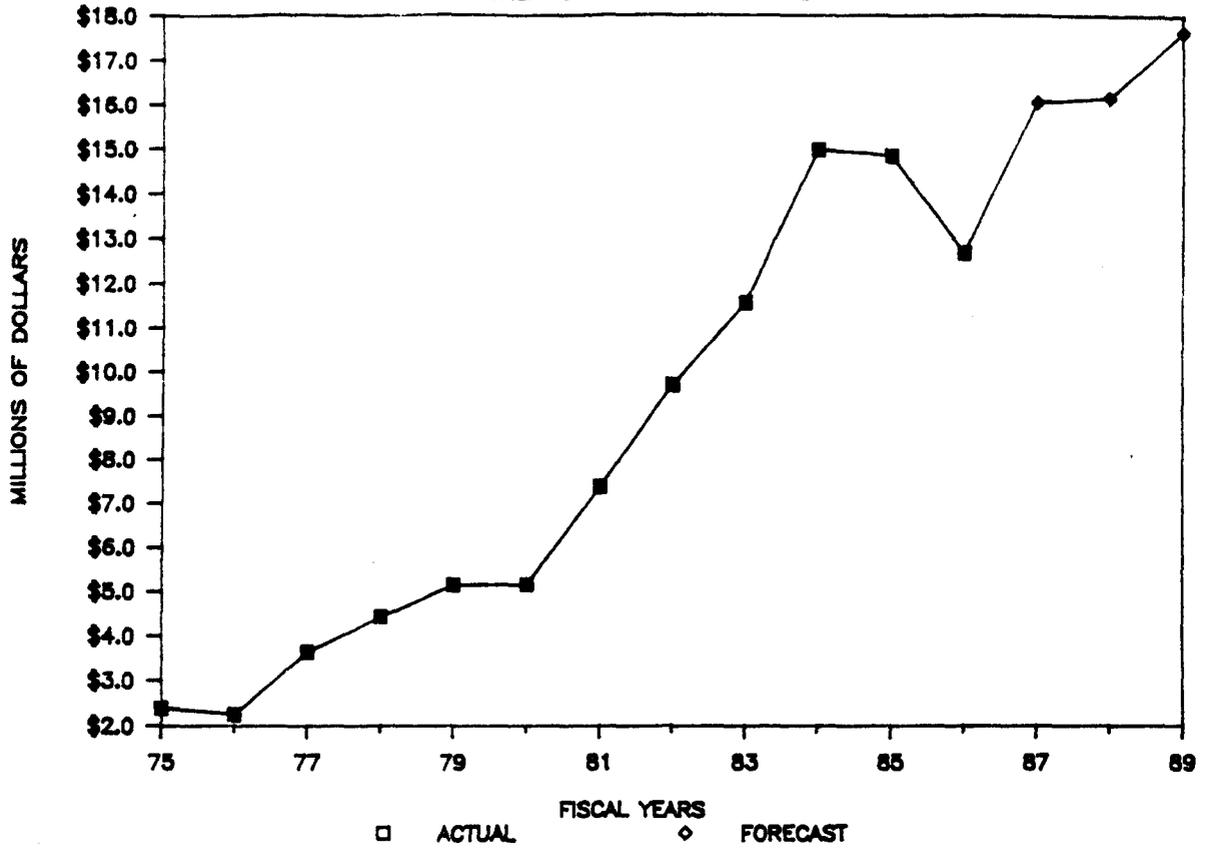
BLM MINERAL LEASING *DISTRIBUTION FORMULA*

Foundation Program



BLM MINERAL LEASING

FOUNDATION PROGRAM RECEIPTS

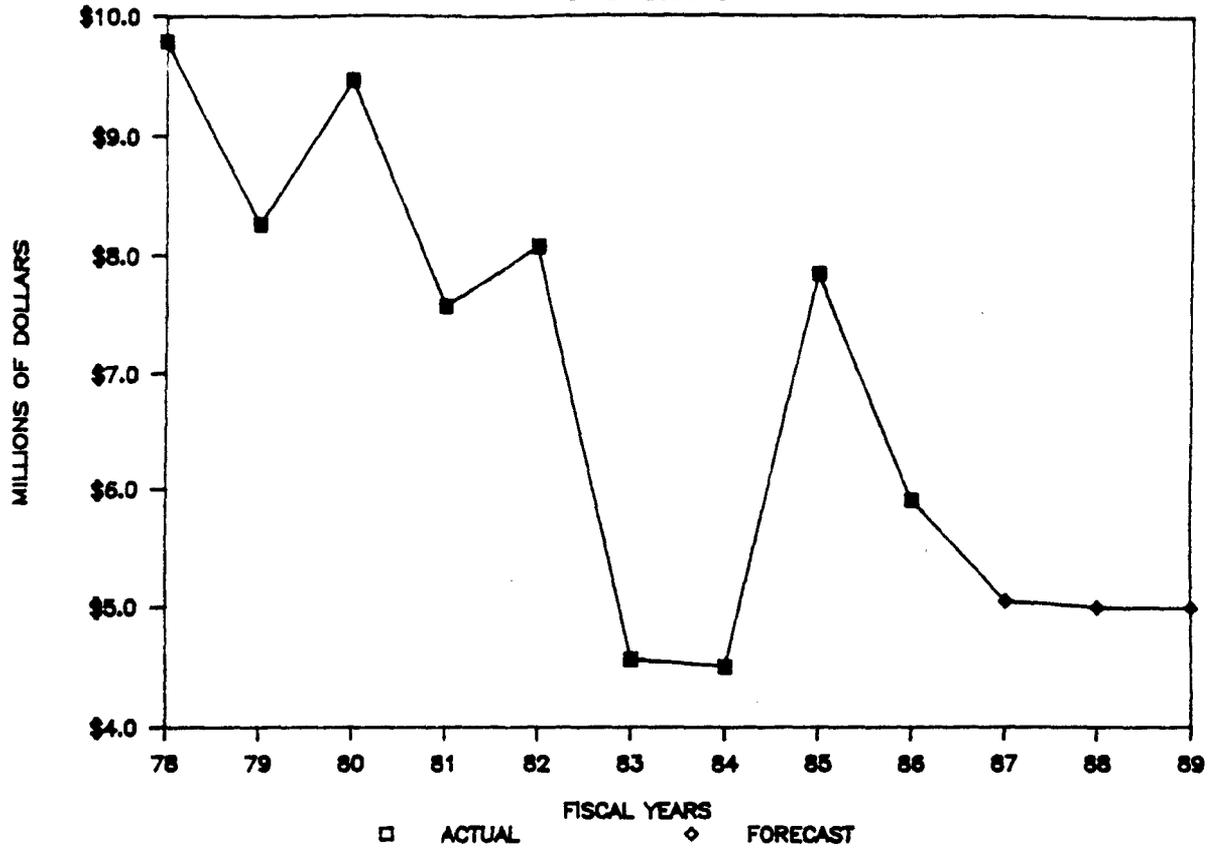


YR	OSPI RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74		
A 75	2.384922	
A 76	2.243054	-5.95%
A 77	3.634904	62.05%
A 78	4.426413	21.78%
A 79	5.148922	16.32%
A 80	5.146239	-0.05%
A 81	7.380404	43.41%
A 82	9.693122	31.34%
A 83	11.543027	19.08%
A 84	14.948556	29.50%
A 85	14.817634	-0.88%
A 86	12.629639	-14.77%
F 87	16.035706	26.97%
F 88	16.138488	0.64%
F 89	17.619575	9.18%

2-2
 9-14
 12/27/88

FOREST FUNDS

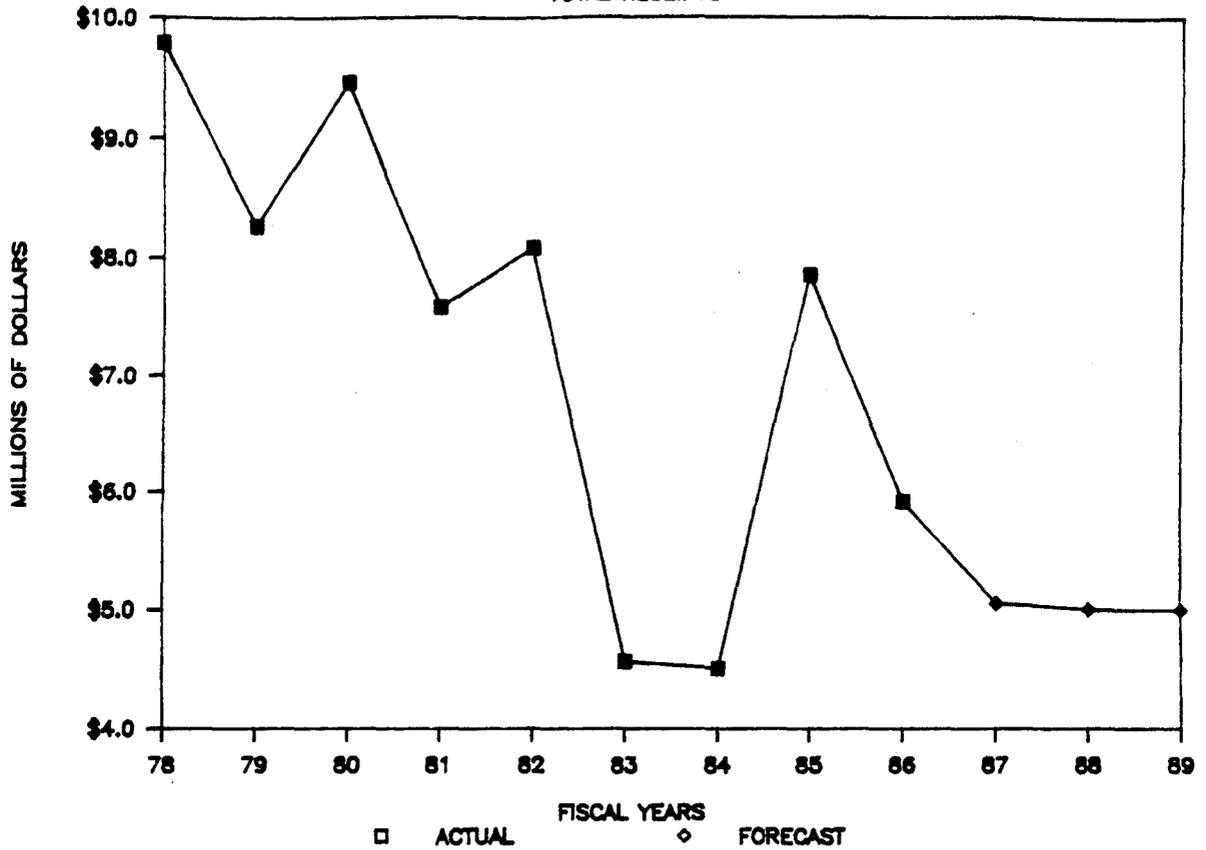
TOTAL RECEIPTS



YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74		
A 75		
A 76		
A 77		
A 78	9.787436	
A 79	8.258492	-15.62%
A 80	9.460390	14.55%
A 81	7.584827	-19.83%
A 82	8.079709	6.52%
A 83	4.566283	-43.48%
A 84	4.505490	-1.33%
A 85	7.844447	74.11%
A 86	5.921759	-24.51%
F 87	5.053888	-14.66%
F 88	5.011855	-0.83%
F 89	5.011855	0.00%

FOREST FUNDS

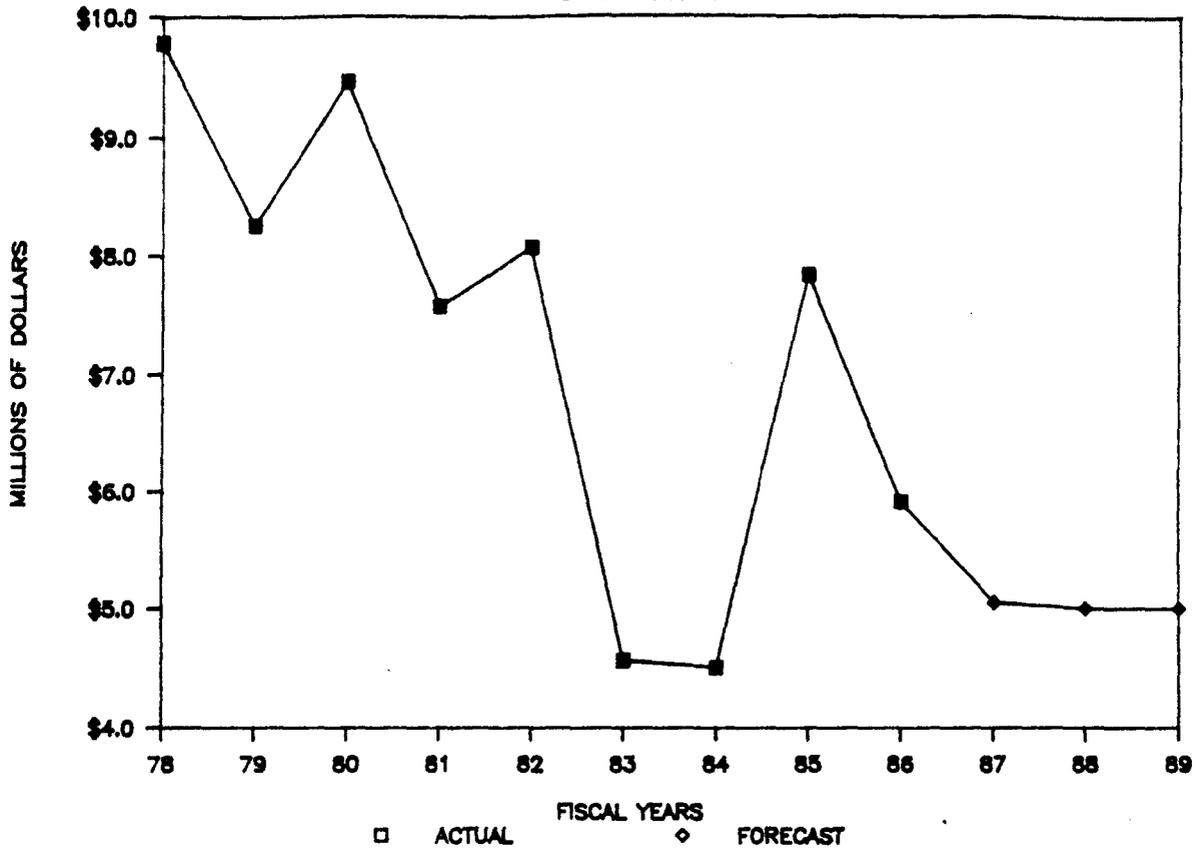
TOTAL RECEIPTS



YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74		
A 75		
A 76		
A 77		
A 78	9.787436	
A 79	8.258492	-15.62%
A 80	9.460390	14.55%
A 81	7.584827	-19.83%
A 82	8.079709	6.52%
A 83	4.566283	-43.48%
A 84	4.505490	-1.33%
A 85	7.844447	74.11%
A 86	5.921759	-24.51%
F 87	5.053888	-14.66%
F 88	5.011855	-0.83%
F 89	5.011855	0.00%

FOREST FUNDS

TOTAL RECEIPTS



YR	TOTAL RECEIPTS	PERCENT CHANGE
A 69		
A 70		
A 71		
A 72		
A 73		
A 74		
A 75		
A 76		
A 77		
A 78	9.787436	
A 79	8.258492	-15.62%
A 80	9.460390	14.55%
A 81	7.584827	-19.83%
A 82	8.079709	6.52%
A 83	4.566283	-43.48%
A 84	4.505490	-1.33%
A 85	7.844447	74.11%
A 86	5.921759	-24.51%
F 87	5.053888	-14.66%
F 88	5.011855	-0.83%
F 89	5.011855	0.00%

February 3, 1987

REVENUE ESTIMATING SUBCOMMITTEE

ENR #4a
DATE 2-2-87
REVENUE EST SU

I. U.S. FOREST SERVICE TIMBER SALES

From: Dal Johnson
U.S.F.S. Regional Office
Missoula

- A. Bid Bond: all bidders must provide a bid guarantee equal to 10% of appraised value.
- B. Cash Deposit: following the financial accountability of the high bidder, he must provide a cash deposit equal to 10% of the bid value. (Bid bond may be applied if in the form of cash.) Cash deposit is held until 25% of timber volume is cut.
- C. Performance Bond: prior to commencing operations a performance bond must be submitted to ensure compliance with contractual obligations.
- D. Cash Down Payment: prior to commencing operations a cash payment equal to 45-60 days of harvest volume must be submitted.

II. STATE OF MONTANA TIMBER SALES

From: Jeff Jahnke
Mt. Division of Forestry
Missoula

- A. Bid Bond: all bidders must provide a bid guarantee equal to 5% of appraised value.
- B. Performance Bond: prior to commencing operations a bond must be submitted to ensure compliance with the contract.
- C. Down Payment: prior to commencing operations a cash or security deposit equal to 6 weeks of harvest volume is required.

REVENUE ESTIMATING SUBCOMMITTEE

I. U.S. FOREST SERVICE TIMBER SALES

From: Dal Johnson
U.S.F.S. Regional Office
Missoula

- A. Bid Bond: all bidders must provide a bid guarantee equal to 10% of appraised value.
- B. Cash Deposit: following the financial accountability of the high bidder, he must provide a cash deposit equal to 10% of the bid value. (Bid bond may be applied if in the form of cash.) Cash deposit is held until 25% of timber volume is cut.
- C. Performance Bond: prior to commencing operations a performance bond must be submitted to ensure compliance with contractual obligations.
- D. Cash Down Payment: prior to commencing operations a cash payment equal to 45-60 days of harvest volume must be submitted.

II. STATE OF MONTANA TIMBER SALES

From: Jeff Jahnke
Mt. Division of Forestry
Missoula

- A. Bid Bond: all bidders must provide a bid guarantee equal to 5% of appraised value.
- B. Performance Bond: prior to commencing operations a bond must be submitted to ensure compliance with the contract.
- C. Down Payment: prior to commencing operations a cash or security deposit equal to 6 weeks of harvest volume is required.

REVENUE ESTIMATING SUBCOMMITTEE

I. U.S. FOREST SERVICE TIMBER SALES

From: Dal Johnson
U.S.F.S. Regional Office
Missoula

- A. Bid Bond: all bidders must provide a bid guarantee equal to 10% of appraised value.
- B. Cash Deposit: following the financial accountability of the high bidder, he must provide a cash deposit equal to 10% of the bid value. (Bid bond may be applied if in the form of cash.) Cash deposit is held until 25% of timber volume is cut.
- C. Performance Bond: prior to commencing operations a performance bond must be submitted to ensure compliance with contractual obligations.
- D. Cash Down Payment: prior to commencing operations a cash payment equal to 45-60 days of harvest volume must be submitted.

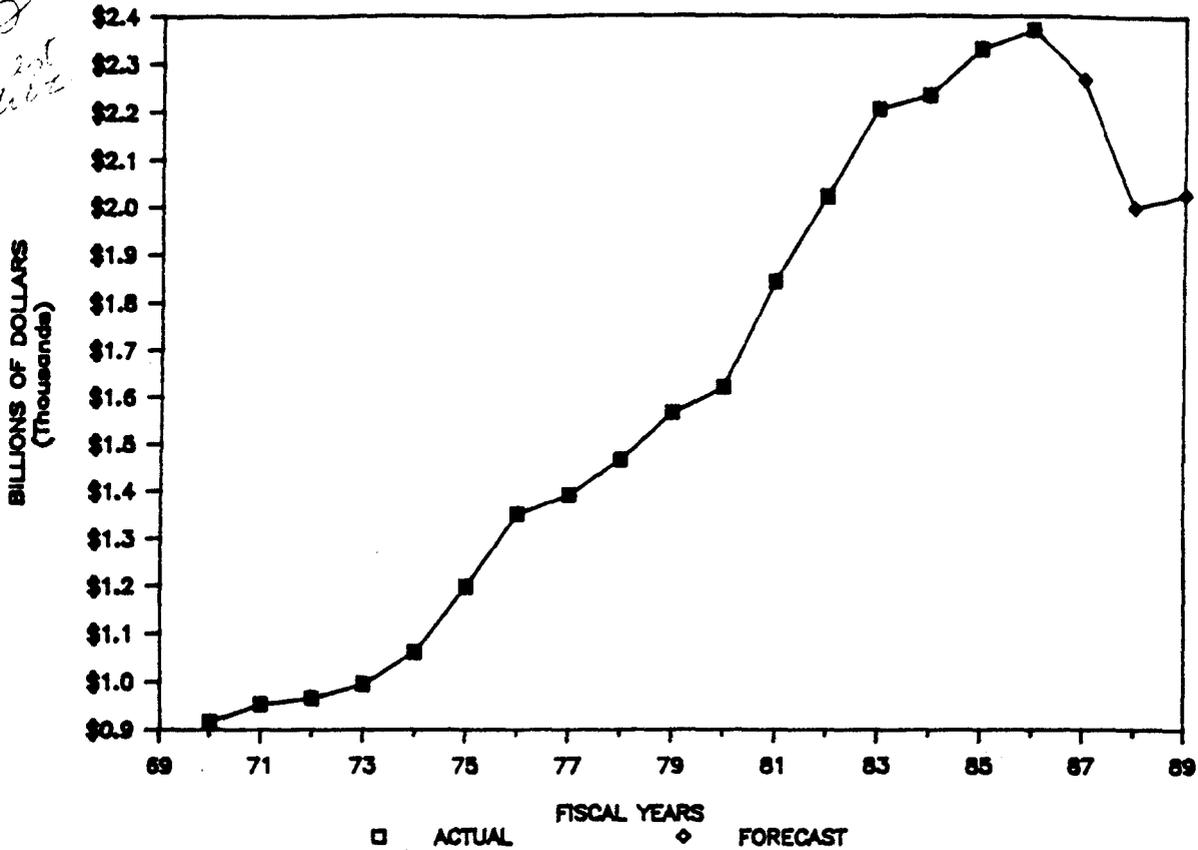
II. STATE OF MONTANA TIMBER SALES

From: Jeff Jahnke
Mt. Division of Forestry
Missoula

- A. Bid Bond: all bidders must provide a bid guarantee equal to 5% of appraised value.
- B. Performance Bond: prior to commencing operations a bond must be submitted to ensure compliance with the contract.
- C. Down Payment: prior to commencing operations a cash or security deposit equal to 6 weeks of harvest volume is required.

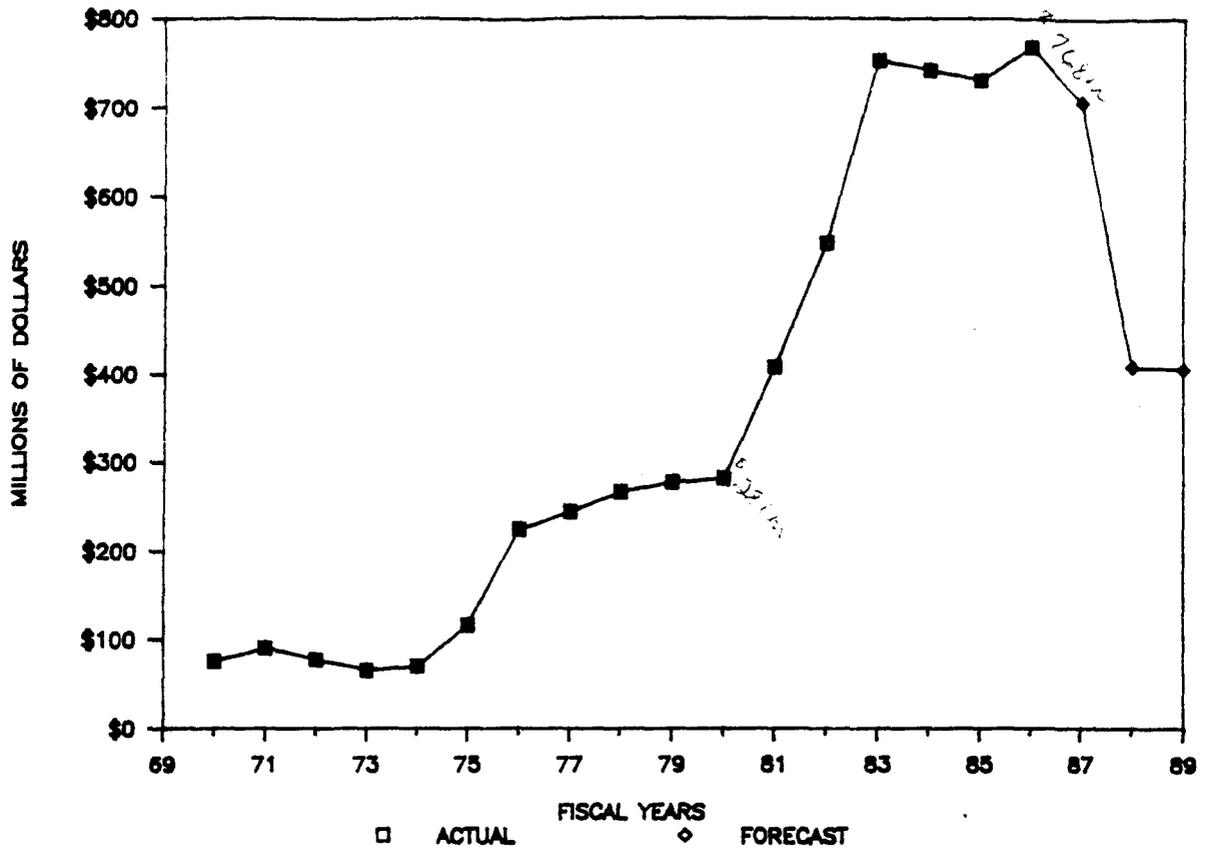
STATEWIDE TAXABLE VALUATION

345
2-8
1991 205
2002



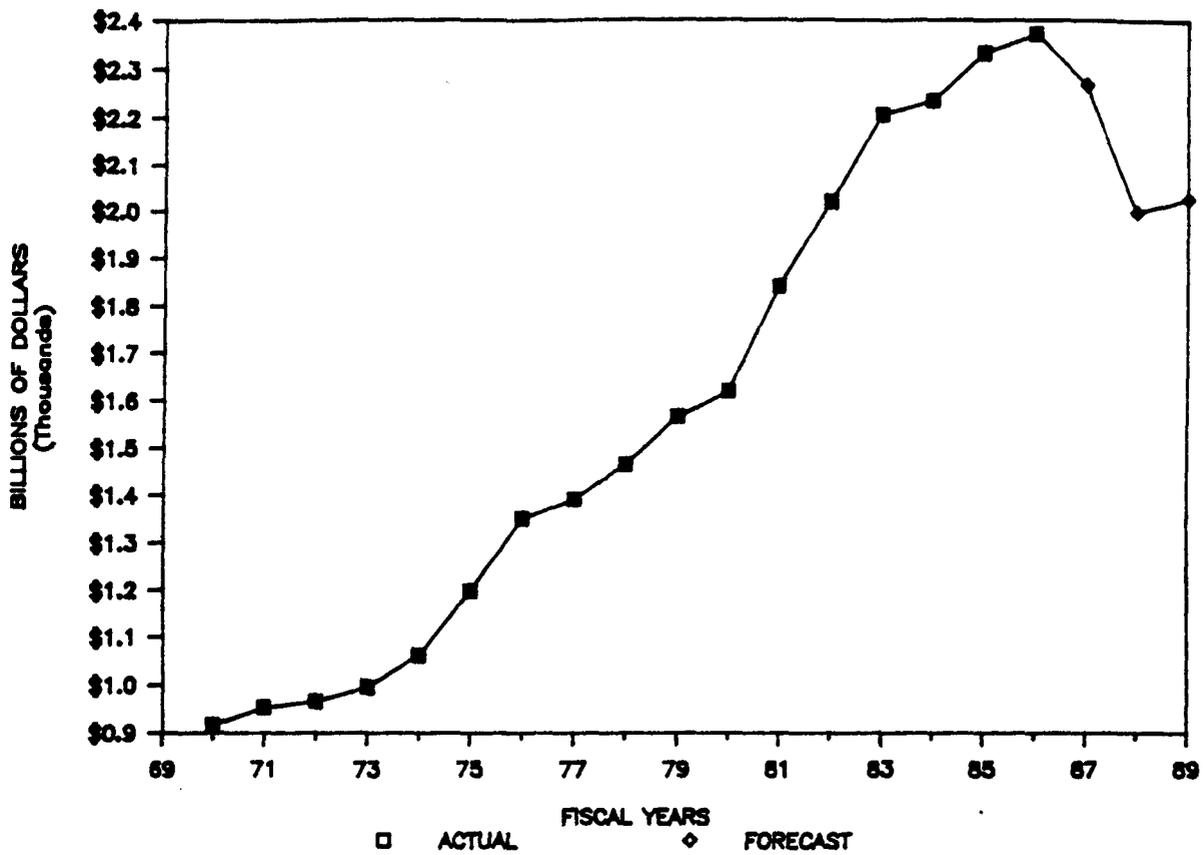
YR	TOTAL VALUATION	PERCENT CHANGE
A 69		
A 70	917.110954	
A 71	952.698790	3.88%
A 72	965.708451	1.37%
A 73	995.099126	3.04%
A 74	1061.621651	6.69%
A 75	1198.510071	12.89%
A 76	1350.774330	12.70%
A 77	1391.935128	3.05%
A 78	1466.743705	5.37%
A 79	1568.285437	6.92%
A 80	1621.951970	3.42%
A 81	1845.008937	13.75%
A 82	2020.630740	9.52%
A 83	2204.492144	9.10%
A 84	2233.385468	1.31%
A 85	2330.882688	4.37%
A 86	2370.133344	1.68%
F 87	2266.402224	-4.38%
F 88	1997.193109	-11.88%
F 89	2024.660930	1.38%

NET/GROSS PROCEEDS TAXABLE VALUATION



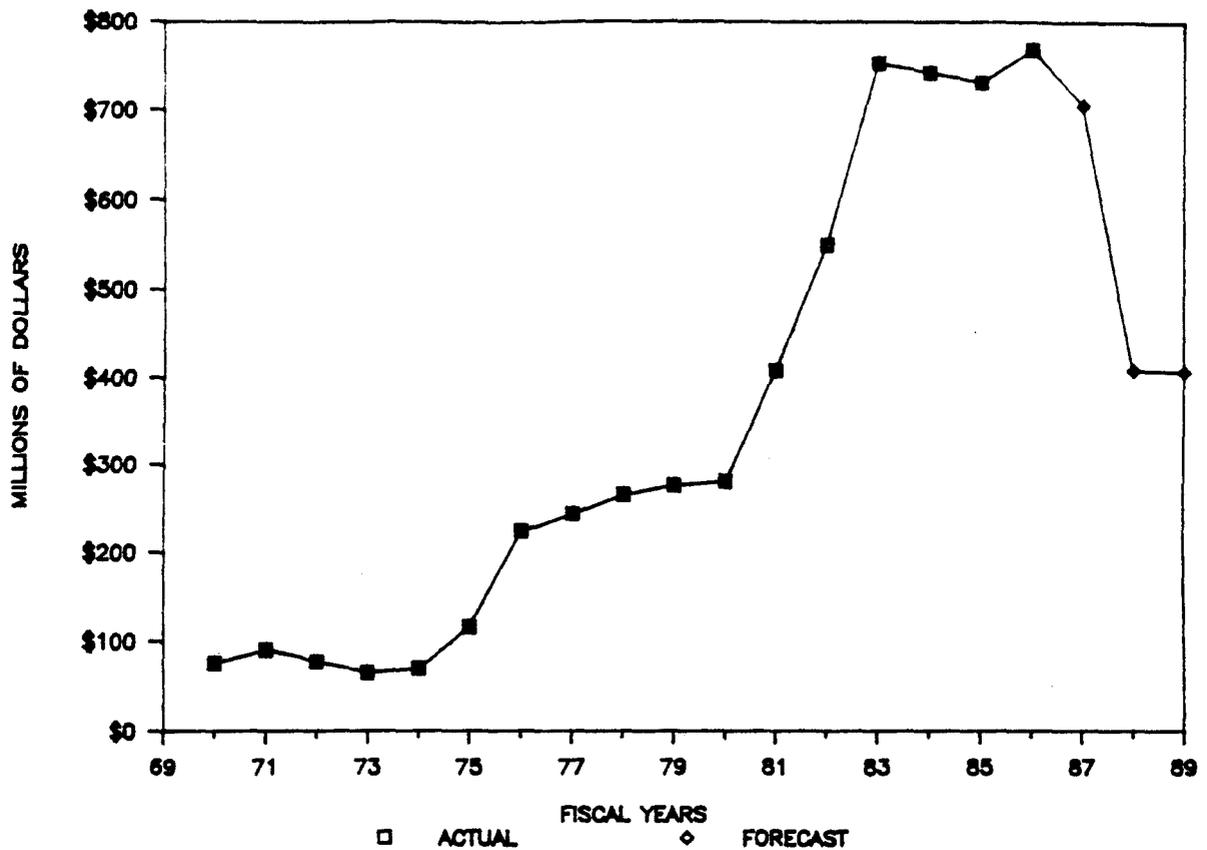
YR	NET/GROSS PROCEEDS	PERCENT CHANGE
A 69		
A 70	75.396505	
A 71	90.305424	19.77%
A 72	76.866075	-14.88%
A 73	64.794333	-15.70%
A 74	69.604224	7.42%
A 75	116.146543	66.87%
A 76	223.975328	92.84%
A 77	244.205602	9.03%
A 78	266.181793	9.00%
A 79	276.843999	4.01%
A 80	281.405885	1.65%
A 81	407.379105	44.77%
A 82	547.411267	34.37%
A 83	752.164369	37.40%
A 84	741.544063	-1.41%
A 85	730.330120	-1.51%
A 86	768.271263	5.20%
F 87	704.589074	-8.29%
F 88	406.796754	-42.26%
F 89	404.318580	-0.61%

STATEWIDE TAXABLE VALUATION



YR	TOTAL VALUATION	PERCENT CHANGE
A 69		
A 70	917.110954	
A 71	952.698790	3.88%
A 72	965.708451	1.37%
A 73	995.099126	3.04%
A 74	1061.621651	6.69%
A 75	1198.510071	12.89%
A 76	1350.774330	12.70%
A 77	1391.935128	3.05%
A 78	1466.743705	5.37%
A 79	1568.285437	6.92%
A 80	1621.951970	3.42%
A 81	1845.008937	13.75%
A 82	2020.630740	9.52%
A 83	2204.492144	9.10%
A 84	2233.385468	1.31%
A 85	2330.882688	4.37%
A 86	2370.133344	1.68%
F 87	2266.402224	-4.38%
F 88	1997.193109	-11.88%
F 89	2024.660930	1.38%

NET/GROSS PROCEEDS TAXABLE VALUATION



YR	NET/GROSS PROCEEDS	PERCENT CHANGE
A 69		
A 70	75.396505	
A 71	90.305424	19.77%
A 72	76.866075	-14.88%
A 73	64.794333	-15.70%
A 74	69.604224	7.42%
A 75	116.146543	66.87%
A 76	223.975328	92.84%
A 77	244.205602	9.03%
A 78	266.181793	9.00%
A 79	276.843999	4.01%
A 80	281.405885	1.65%
A 81	407.379105	44.77%
A 82	547.411267	34.37%
A 83	752.164369	37.40%
A 84	741.544063	-1.41%
A 85	730.330120	-1.51%
A 86	768.271263	5.20%
F 87	704.589074	-8.29%
F 88	406.796754	-42.26%
F 89	404.318580	-0.61%

RECOMMENDED REVENUE FORECASTS FOR SELECTED GENERAL FUND CATEGORIES

<u>Category</u>	<u>FY1987</u>	<u>FY1988</u>	<u>FY1989</u>
Cigarette Tax	\$9,221,000	\$8,699,000	\$8,207,000
Tobacco Products Tax	692,000	712,000	735,000
Electrical Energy Tax	2,515,000	2,539,000	2,608,000
Drivers License Fees	804,000	759,000	809,000
Telephone License Tax	3,340,000	3,352,000	3,406,000
Beer Tax	1,254,000	1,229,000	1,229,000
Freight Line Tax	1,337,000	1,339,000	1,345,000
Wine Tax	984,000	1,025,000	1,028,000
Total	\$20,147,000	\$19,695,000	\$19,427,000

RECOMMENDED REVENUE FORECASTS FOR SELECTED GENERAL FUND CATEGORIES

<u>Category</u>	<u>FY1987</u>	<u>FY1988</u>	<u>FY1989</u>
Cigarette Tax	\$9,221,000	\$8,699,000	\$8,207,000
Tobacco Products Tax	692,000	713,000	735,000
Electrical Energy Tax	2,515,000	2,539,000	2,608,000
Drivers License Fees	804,000	799,000	809,000
Telephone License Tax	3,240,000	3,332,000	3,406,000
Beer Tax	1,254,000	1,229,000	1,229,000
Freight Line Tax	1,337,000	1,339,000	1,365,000
Wine Tax	984,000	1,025,000	1,068,000
Total	\$20,147,000	\$19,695,000	\$19,427,000

Oil: Getting a Bet Down



True believers are buying their tickets to the next energy crisis well in advance

Is it only snake oil that they're pumping out of the Middle East? Or is the new OPEC agreement the real thing? Starting Feb. 1, OPEC says, it will cut production by enough to fix average crude-oil prices at \$18 a barrel, \$4 higher than last year's average price. Several non-OPEC countries (Norway, Mexico, the Soviet Union and Egypt) are buying into the scheme.

Hope for just such a pricing agreement shot a bolt of energy last summer through tens of thousands of stockbrokers and financial planners, who hit their telephones to urge their customers to buy oil. By December of last year, sales of oil-income limited partnerships had jumped nearly 98 percent to \$502 million, the Stanger Register reports. Domestic oil stocks have zoomed 36 percent since August.

As investors see it, the chance is small for another steep drop in oil prices. In fact, increases ought to be in the cards—especially in the 1990s, when the world should have soaked up its present surpluses. Maybe prices will bounce around between now and then, but true believers are buying their tickets to the next oil crisis well in advance.

Stocks and mutual funds are the easiest way of owning a piece of the mind of King Fahd. But the money runners worry that the market has already overshot its mark.

George Roche, manager of T. Rowe Price's New Era Fund, gives the OPEC agreement no more than a 50-50 chance of success, so he's keeping only 10 percent of his assets in integrated petroleum companies. He looks for lower prices this spring when demand for heating oil slumps.

Ditto David MacCallan of the Petroleum and Resources Corp., a closed-end mutual fund whose shares are selling for more than the value of its assets. PRC is currently 31 percent in cash, waiting for better buys than MacCallan sees today.

Ernst von Metzch—mastermind of Vanguard's Specialized Energy Fund, which bested its rivals in last year's fourth

quarter—especially likes the domestic integrated oil companies. Their earnings, he says, are highly sensitive to small price variations in crude: "At \$12 to \$14 a barrel, most earnings go to zero. At \$20 there's a big improvement." He's looking for an average of \$17 a barrel this year, which he thinks will send earnings up 80 percent.

Merrill Lynch's Natural Resources Fund, top performer on the chart, is an interesting story. Its biggest money came from heavy investments in gold and paper—smart stocks to be in last year but not the type of "natural resources" you might think of first. In November it was 35 percent in oil.

At the bottom of the barrel rests another tale: Fidelity Select Energy Services, a buyer of companies that provide the equipment for oil drilling and exploration. Last year they were dead ducks. Even now oilmen say that crude will have to top \$20 a barrel before they'll risk digging holes again. The obvious conclusion: it's far too soon to buy oil-service stocks. Yet this fund's shares have been the second fastest mover so far this year.

A mission: So much for stocks. If your broker is Prudential Bache, you're probably into limited partnerships instead. Pru-Bache salesmen have made oil deals a mission—raising 72 percent of the money that's going into income partnerships right now, according to Stanger's Fuhrman Nettles. Paine Webber is raising most of the rest.

With an income limited partnership, you own a piece of some producing wells. You hope to get regular cash payments from pumping and selling oil and natural gas; there's some tax deferral, and you pray eventually to sell the wells at a profit.

Old-style partnerships effectively lock you into the investment. So investors are looking instead at new-style master limited partnerships (MLP's), which are listed on a stock exchange—because you can sell your shares at any time.

But at what price? The average MLP tumbled 38.5 percent last year, reports John S. Herold Inc., a Greenwich, Conn., publisher of oil-investment services. (Two exceptions: Dorchester-Hugoton and Mesa Limited Partnership.) In remorse, they climbed an amazing 28 percent in early January, although Herold thinks the weaker MLP's will fade.

Bill Brennan of Brennan Reports doesn't know if there's any oil price that would encourage his clients to buy an oil-drilling deal, now that most of its tax breaks have gone

the way of the carrier pigeon. But oil-income partnerships can still be priced for double-digit yields. (Failing that, the promoter can make you think that you're getting double-digit yields when you're not. Many deals merely return a portion of your own cash every year, which the innocent mistake for a return on their investment.)

But even when they offer genuine, competitive yields, Brennan says, he's not finding much interest. The charges are high—especially Pru-Bache's at 15 percent plus 2.8 percent of revenues. Many wells pump more natural gas than oil, and natural-gas prices are deeply depressed. If you're merely trying to catch the bottom of the oil market, he says, it makes more sense to stick with stocks.

Associate: VIRGINIA WILSON

King Fahd's Groupies

Most energy funds performed poorly last year, but now they may pick up.

	1986	1987*
General Equity Funds	13.4%	9.2%
Merrill Lynch Natural Resources	32.4%	12.0%
T. Rowe Price New Era	16.0%	11.1%
Vanguard Specialized Energy	12.7%	10.1%
Dean Witter Natural Resources	11.3%	10.7%
Energy Fund	10.1%	8.5%
Financial Portfolio-Energy	7.1%	10.6%
Fidelity Select Energy	5.5%	9.4%
Putnam Energy Resources	-2.2%	8.8%
First Investors Natural Resources	-14.9%	13.2%
Fidelity Select Energy Services	-15.8%	13.0%

*THROUGH JAN. 15. ALL DIVIDENDS REINVESTED. SOURCE: LIPPER ANALYTICAL SERVICES