

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON JOINT REVENUE ESTIMATING

Call to Order: By Chairman Bob Ream, on February 14th 1989, at
7:10 a.m.

ROLL CALL

Members Present: All members were present except:

Members Excused:

Members Absent: Sen. Norman, Sen. Walker, Rep. Driscoll

Staff Present: Dave Bohyer, Legislative Council, Maureen Cleary,
Committee Secretary

Announcements/Discussion: A revised agenda was presented to
Committee members. (See Attached)

Ms. Judith Curtis-Waldron: Reviewed Exhibit #5 with Committee
members.

QUESTIONS FROM THE COMMITTEE:

Sen. Harp: On Boulder, we might lose our Medicaid, does that
reflect in this? Ms. Waldron: These forecast assume that
all institutions currently receiving Medicaid will continue
to do so.

Mr. Terry Johnson/REAC: Reviewed his figures for Exhibit #5.

Rep. Ream: The public institutions reimbursement: you are fairly
close in your assumptions. Does the change in procedures
take place after 1989? Ms. Waldron: Yes. We would see
the change starting in fiscal year 1990.

MOTIONS:

Rep. Giacometto motioned to adopt the "Recommended" figures
listed on Exhibit #5.

A VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THESE FIGURES.
SEE TABLE #6.

Ms. Madalyn Quinlan/LFA: Reviewed Exhibit #4 with Committee
members.

QUESTIONS FROM THE COMMITTEE:

Rep. Ream: What were the prices that we estimated last week?
Ms. Quinlan: 7.3 million compared to 7.36 million here, 7.4 million compared to the 7.6 million here and 7.4 million for 1989, 7.5 million for 1990 and 7.6 million for 1991. Only spot is different in the 1991 figure. Rep. Ream: This is more accurate of a model of the production and prices.

MOTIONS:

Sen. Eck motioned to adopt the "Recommended" figures on Exhibit #4.

A VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THESE FIGURES.
SEE TABLE #6.

Mr. Terry Johnson/REAC: Reviewed Exhibits #2 and #3.

Ms. Quinlan reviewed figures from Exhibit #6, pointing out an error listed under Motor Vehicle Taxes for the 1990 year, that these numbers should read: LFA/29,765,000 and OBPP/37,138,000.

QUESTIONS FROM THE COMMITTEE:

Rep. Ream: Looking at the LFA figures, are the totals differences due to assumptions on coal tax? Mr. Johnson: The problem with this schedule is that this does not show the current law revenue forecast, it shows the past administration's estimates. It isn't a fair comparison. The key is, in that bottom line "Revenues", is that you compare current law "Executive", to current law "LFA". We are less than a million dollars apart. That is a relatively small amount.

MOTIONS:

Rep. Schye moved to adopt the OBPP figures on Common School Interest and Income.

A VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THESE FIGURES.
SEE TABLE #6.

Sen. Eck moved to adopt the LFA figures on Other Taxable Valuation.

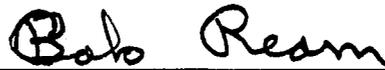
A VOTE WAS TAKEN WITH ONE NO VOTE CAST (GIACOMETTO) TO ADOPT
THESE FIGURES. SEE TABLE #6.

Rep. Patterson moved to adopt the LFA figures on Motor Vehicle Taxes. Sen. Eck provided a substitute motion of 1989/ 33,000,000; 1990/ 36,000,000; and 1991/ 38,000,000, stating her figures were somewhere in between the LFA and the OBPP figures.

A VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE SUB-MOTION
FIGURES. SEE TABLE #6.

ADJOURNMENT

Adjournment At: 8:00 A.M.



REP. BOB REAM, Chairman

BR/mc

SUB.7

Exhibit #1
2/14/89
Dave Bohyer

EXHIBIT #1
DATE 2/14/89
HB HJR 13

YEAR	ASSUMPTION	CY/FY 1988	CY/FY 1989	CY/FY 1990	CY/FY 1991
CY	Oil Production (Million Bbl.)	22,500	21,500	20,000	19,000
FY	Oil Production (Million Bbl.)	23,547	22,275	21,131	19,754
CY	Oil Price \$/Bbl.	\$14,500	\$15,000	\$15,500	\$16,000
FY	Oil Price \$/Bbl.	\$16,487	\$14,476	\$15,176	\$15,587
FY	Exempt "New" Production (Million Bbl.)	0.613	1.105	1.048	0.980
FY	Exempt "Stripper" Production (Million Bbl.)	1.709	1.636	1.602	1.602
CY	Coal Production (Million tons)	36,879	31,000	32,000	32,000
CY	Coal Price \$/ton	\$7,385	\$7,400	\$7,500	\$7,600
	MT Population on July 1	804,000	809,000	815,000	819,000
CY	Consumer Price Index (% change)	4.140%	4.700%	4.700%	3.650%
FY	Short-term Interest Rate (STIP)	NA	8.500%	8.000%	8.000%
FY	Long-term Interest Rate	NA	9.750%	10.000%	10.000%
CY	MT Total Personal Income (Billion \$)	\$10,300	\$11,100	\$11,600	\$12,100
CY	MT Non-Farm Employment (Thousands)	279,000	280,700	282,200	284,100
CY	MT Total Non-Farm Labor Income (Billion \$)	\$6,300	\$6,600	\$7,000	\$7,500
FY	Individual Income Tax Audits (Million \$)	NA	\$10,307	\$10,786	\$11,266
CY	Federal Tax Reform -- Individuals (Million \$)	\$39,233	\$48,120	\$58,079	\$69,383
CY	U.S. Total Corporate Profits (Billion \$)	\$299,200	\$314,600	\$330,800	NA
CY	Corporation License Tax Audits (Million \$)	\$9,203	\$8,000	\$7,000	\$7,000
CY	Federal Tax Reform -- Corporate (Million \$)	\$5,890	\$6,350	\$6,750	\$7,175
FY	Metal Mines Tax -- Gen. Fund Rev. (Million \$)	NA	\$4,242	\$4,336	\$3,703
FY	Nat'l Gas Sev. Tax -- Gen. Fund Rev. (Million \$)	NA	\$1,100	\$1,000	\$1,100

LFA

exhibit #2
2/14/89 #2
EXHIBIT
DATE 2/14/89
HB HR 13

PUBLIC SCHOOL FOUNDATION PROGRAM
COMPARISON OF EXECUTIVE AND LFA FUNDING PROJECTIONS
1991 BIENNIUM
(Millions)

	<u>Executive</u>	<u>LFA</u>	<u>Difference</u>
Beginning Fund Balance	\$ 8.793	\$ -0-	\$ (8.793)
State Equalization			
Individual Income Tax	\$158.044	\$156.857	\$ (1.187)
Corporation License Tax	22.603	23.526	0.923
Coal Severance Tax	19.664	3.865	(15.799)
U.S. Mineral Royalties	46.180	37.847	(8.333)
Common School I & I	67.838	70.226	2.388
✓ Education Trust Interest	1.680	3.377	1.697
Education Trust Transfers	9.575	0.000	(9.575)
Total State Equalization	\$325.584	\$295.698	\$(29.886)
County Equalization			
45 Mill Levy	\$169.641	\$167.657	\$ (1.984)
Forest Funds	2.930	2.326	(0.604)
Taylor Grazing	0.204	0.216	0.012
Cash Re-appropriated	5.613	4.760	(0.853)
Miscellaneous	8.620	12.889	4.269
Elementary Transportation	(7.434)	(7.400)	0.034
High School Tuition	(1.676)	(1.518)	0.158
Total County Equalization	\$177.898	\$178.930	\$ 1.032
District Share of Permissive	\$ 34.201	\$ 36.396	\$ 2.195
Total Non-General Fund	\$546.476	\$511.024	\$(35.452)
Maximum General Fund Without a Vote	571.778	572.650	0.872
General Fund Required	<u>\$ 25.302</u>	<u>\$ 61.626</u>	<u>\$ 36.324</u>

The above table compares the executive budget to LFA current level projections for the public school foundation program. Both the executive budget and LFA current level apply a 2 percent increase to the cost of the foundation program in each year of the 1991 biennium. The executive budget differs from current level in four ways. The executive budget:

- 1) Carries forward into the 1991 biennium the unspent balance of the \$34 million education trust appropriation to the foundation program for the 1989 biennium. The executive estimates the unspent balance to be \$8.793 million. The LFA projections assume that the unspent appropriation reverts to the education trust.
- 2) Increases the allocation of coal tax revenues to the public school foundation from 3.80 percent to 19.95 percent.

- 3) Adds \$0.7 million to public school revenues from the individual income tax due to increased audit collections.
- 4) Appropriates the \$9.575 million balance of the education trust fund to the public school equalization account in fiscal 1991.

In addition, LFA current level and the executive budget differ by \$8.3 million in projections of U.S. mineral royalties in the 1991 biennium.

ISSUE 1: REVERSION OF UNSPENT EDUCATION TRUST APPROPRIATION

In House Bill 904, the 1987 legislature appropriated \$34 million from the education trust fund to the public school foundation program for the 1989 biennium. The LFA estimates that \$26.7 million of this appropriation will be needed to meet foundation program costs and that the remaining \$7.3 million will revert to the education trust fund. The justification for the reversion is Section 17-7-304, MCA, which says:

All moneys appropriated for any specific purpose shall, after the expiration of the time for which so appropriated, revert to the several funds and accounts from which originally appropriated. However, any unexpended balance in any specific appropriation may be used for the years for which the appropriation was made.

The executive estimates that the unspent appropriation from the trust fund will total \$8.793 million and will remain in the public school equalization account at to carry forward into the 1991 biennium. Due to these differences in assumptions, the executive shows a \$8.793 million beginning fund balance in the public school equalization account where the LFA shows a zero balance. In addition, LFA estimates of education trust fund earnings in the 1991 biennium are approximately \$0.91 million higher because of the reversion.

ISSUE 2: REALLOCATION OF COAL TAX REVENUES

The executive budget reallocates coal tax monies and estimates that this reallocation will generate \$15.9 million for the foundation program. Current law allocates 3.80 percent of coal tax revenues to the public school equalization account, 7.60 percent to the education trust, 6.65 percent to the local impact account, and 1.90 percent to the park acquisition trust for the 1991 biennium. By allocating all of these revenues to the public school equalization account, the executive proposes to increase the school allocation to 19.95 percent for the 1991 biennium.

Table A uses LFA revenue estimates to show the net effect of reallocating the coal tax on four accounts: education trust, local impact account, park acquisition trust, and public school equalization account. The public school equalization account gains \$16.42 million from the proposed coal tax reallocation, but loses \$0.78 million as a result of capping the education trust in the 1991 biennium. The net gain to the public school equalization account using LFA estimates is \$15.64 million.

Table A
Executive Proposal for Reallocating Coal Tax Revenues
Based on LFA Revenue Forecasts
1991 Biennium

	<u>Executive Proposal</u>	<u>Current Law</u>	<u>Difference</u>
Coal Tax Revenues			
Education Trust	\$ -0-	\$ 7,728,767	\$(7,728,767)
Local Impact Account	-0-	6,762,671	(6,762,671)
Park Acquisition Trust	-0-	1,932,192	(1,932,192)
Public School Equalization	<u>20,288,013</u>	<u>3,864,383</u>	<u>16,423,630</u>
Total	<u>\$20,288,013</u>	<u>\$20,288,013</u>	<u>\$ -0-</u>
Education Trust Interest			
Public School Equalization	<u>\$ 2,591,535</u>	<u>\$3,377,000</u>	<u>\$ (785,465)</u>

ISSUE 3: INCREASED INDIVIDUAL INCOME TAX COLLECTIONS

The executive budget proposes to add 4.00 FTE to the individual income tax division of the Department of Revenue to enhance collection efforts. Individual income tax revenues to the foundation program would increase by \$0.7 million according to the executive budget. This revenue is not included in LFA current law estimates.

ISSUE 4: APPROPRIATION OF EDUCATION TRUST FUND BALANCE

The executive proposes to appropriate the fund balance of the education trust to the public schools in fiscal 1991, thus eliminating the trust fund. The executive estimates the fund balance will be \$9.575 million at the time of the transfer. If the transfer does not occur until June 30, 1991, the transfer will have little effect on education trust fund earnings in the 1991 biennium. A minimal impact would be felt as trust fund investments are moved from long-term securities to the short-term investment pool before the transfer occurs. The LFA current law estimates do not include this transfer of the trust fund balance.

ISSUE 5: U.S. MINERAL ROYALTY REVENUES FOR THE 1991 BIENNIUM

The executive estimate of revenues from U.S. mineral royalties in the 1991 biennium is \$8.3 million higher than the LFA estimate. The LFA estimate removes \$5.5 million of back payments on protested coal royalties from the fiscal 1988 base, thus generating lower revenue estimates for the 1991 biennium.

ISSUE 6: ALTERNATIVE FUNDING PROPOSALS

The Governor's Public School Finance Advisory Council and the Legislative Finance Committee have developed public school funding proposals which will be presented to the Fifty-first Legislature.

Governor's Proposal

The proposal of the Governor's Public School Finance Advisory Council equalizes school funding at the current level of expenditures and applies an expenditure cap in order to maintain equity within the system. The foundation program schedules are adjusted upward by 116 percent from current law and provide 85 percent of the allowable expenditures for every district. Districts can raise the remaining 15 percent through voted levies, cash reappropriated, Public Law 874 funds, or other local revenues. A five-year phase in allows districts spending above the expenditure cap time to reduce expenditures gradually.

The executive estimates the cost of the proposed foundation program in fiscal 1987 dollars is \$522.345 million with funding provided by a 140 mill statewide levy, existing state and county equalization revenues, net lottery funds, and district revenues. The 140 mill statewide levy replaces the existing 45 mill, permissive, retirement, insurance, and transportation levies. Tuition payments between districts are eliminated.

The Governor's Public School Finance Advisory Council used fiscal 1987 revenues in developing its funding recommendation. Table B compares actual fiscal 1987 school revenues to the executive proposal for school funding in fiscal 1991. Due to declines in statewide taxable valuation, coal tax revenues, U.S. mineral royalties, and education trust interest earnings, the proposed revenue sources will generate \$2.159 million less in fiscal 1991 than the \$522.3 million fiscal 1987 cost of the foundation program. Most notable is the \$36 million decline in revenue generated by a 140 mill levy. In addition, the transfer of funds out of the education trust fund reduces public school revenues by \$8.1 million from fiscal 1987 to fiscal 1991. The declines in these earmarked sources of school funding are offset by general fund appropriations, trust fund transfers, and reallocation of coal tax revenues in the executive proposal.

FOUNDATION PROGRAM REVENUE ESTIMATES

EXHIBIT #3

exhibit #3
2/14/89
43

DATE 2/14/89

HB HR13

The major components of foundation program revenues are individual income tax, corporation income tax, coal severance tax, interest and income earnings, US oil and gas royal-

ties, education trust interest earnings and mandatory and permissive tax levies. These sources are depicted below.

Foundation Program Revenue Estimates
Current Law Status
(In Millions)

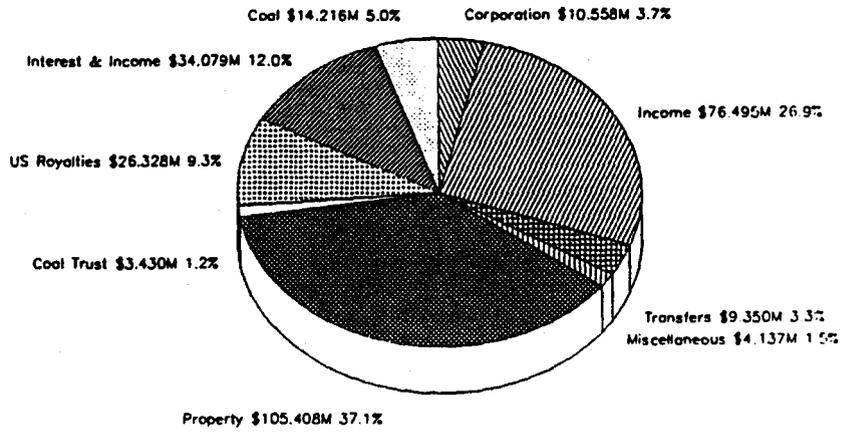
Revenue Component	Actual FY 1988	Estimated FY 1889	Estimated FY 1990	Estimated FY 1991	Estimated FY 88-89	Estimated FY 90-91
State Revenue						
✓ Income Tax	76.494683	77.104000	76.042000	80.908000	153.599000	156.950000
✓ Corporation Tax	10.557529	11.209000	11.271000	11.332000	21.767000	22.603000
✓ Coal Severance Tax	14.215851	9.781000	2.010000	1.736000	23.997000	3.746000
✓ Interest & Income	34.078544	32.465000	33.485000	34.353000	66.544000	67.838000
✓ US Oil & Gas Royalties	26.327798	23.524000	22.686000	23.494000	49.852000	46.180000
✓ Education Trust Interest	3.430171	0.825000	0.926000	1.148000	4.255000	2.074000
✓ Miscellaneous Revenue	9.350000	24.650000	0.000000	0.000000	<u>34.000000</u>	0.000000
✓ County Levy Surplus	10.558855	0.000000	0.000000	0.000000	<u>10.559000</u>	0.000000
Total State	\$185.013431	\$179.558000	\$146.420000	\$152.971000	\$364.573000	\$299.391000
Statewide Taxable Valuation	1977.891006	1942.914000	1899.969000	1869.831000	NA	NA
County Revenue						
Mandatory Levy	78.446240	87.431000	85.499000	84.142000	165.877000	169.641000
Elementary Transportation	-3.725853	-3.717000	-3.717000	-3.717000	-7.443000	-7.434000
Cash Reappropriated	1.699658	1.566000	2.487000	3.126000	3.266000	5.613000
Forest Funds	1.464581	1.465000	1.465000	1.465000	2.930000	2.930000
Taylor Grazing	0.102104	0.102000	0.102000	0.102000	0.204000	0.204000
Miscellaneous Revenue	4.310324	4.310000	4.310000	4.310000	8.620000	8.620000
High School Tuition	-0.838280	-0.838000	-0.838000	-0.838000	-1.676000	-1.676000
Total County	\$81.458774	\$90.319000	\$89.308000	\$88.590000	\$171.778000	\$177.898000
District Revenue						
Permissive Levy	16.402650	16.113000	15.756000	15.507000	32.516000	31.263000
Miscellaneous Revenue	1.124619	1.227000	1.371000	1.567000	2.352000	2.938000
Total District	\$17.527269	\$17.340000	\$17.127000	\$17.074000	\$34.868000	\$34.201000
Total State, County, District	\$283.999474	\$287.217000	\$252.855000	\$258.635000	\$571.219000	\$511.490000

REAC

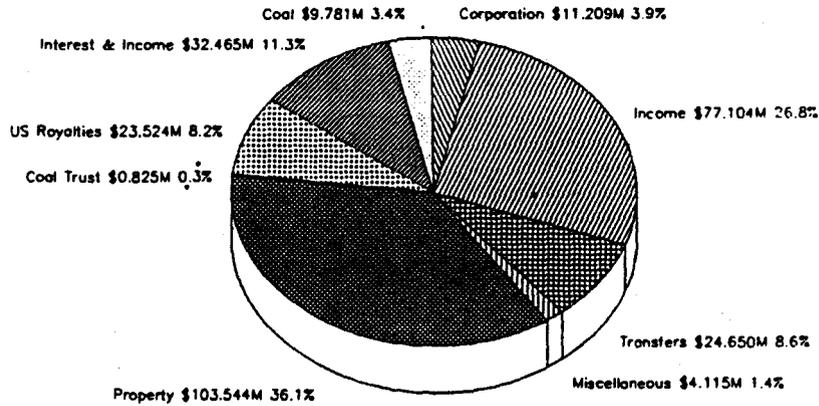
revenue estimating advisory council.

FOUNDATION PROGRAM REVENUE ESTIMATES

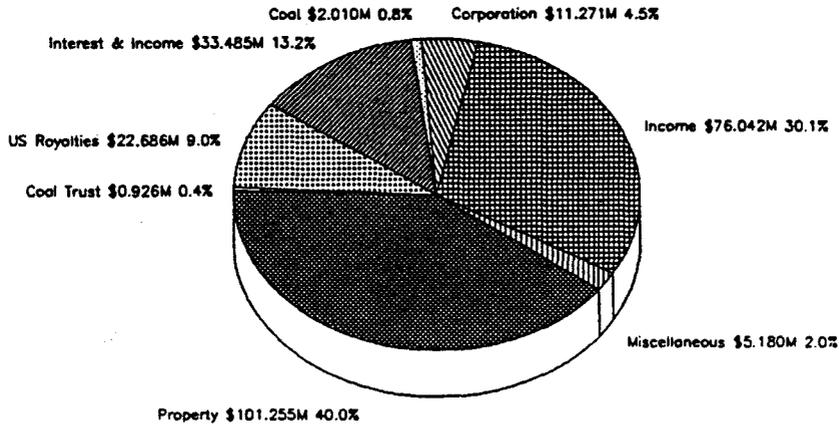
Foundation Program Revenue Analysis
Contribution By Source For FY 88



Foundation Program Revenue Analysis
Contribution By Source For FY 89



Foundation Program Revenue Analysis
Contribution By Source For FY 90



Foundation Program Revenue Analysis
Contribution By Source For FY 91

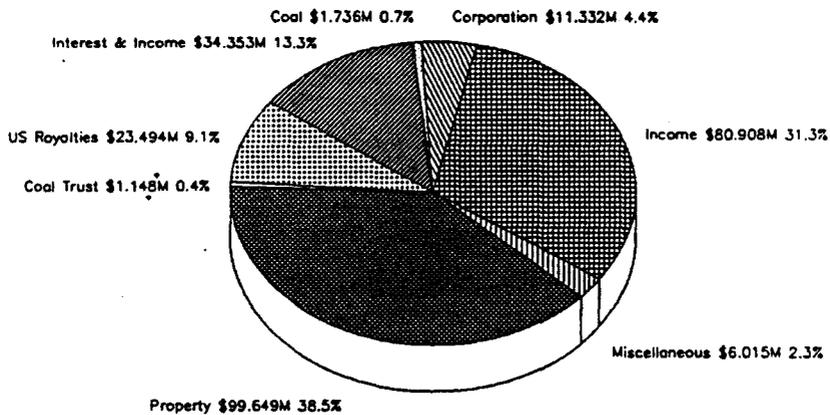


EXHIBIT #4

DATE 2/14/89

HB WJ213

exhibit #4
2/14/89
LFA revised fig.

Comparison of Coal Production and Price Estimates

Production	1988 Taxable	1989			1990			1991		
		LFA	OBPP	Recommended	LFA	OBPP	Recommended	LFA	OBPP	Recommended
Decker	10,795,492	9,560,000	9,560,000	9,560,000	10,327,000	10,354,000	10,354,000	9,844,000	10,354,000	9,844,000
Knife River	208,303	175,000	180,000	180,000	181,000	181,000	181,000	186,000	180,000	180,000
Peabody	3,768,172	3,130,000	2,780,000	3,500,000	3,130,000	2,780,000	3,500,000	3,130,000	2,780,000	3,130,000
Spring Creek	4,684,443	4,273,000	4,280,000	4,280,000	4,475,000	4,480,000	4,480,000	5,638,000	5,680,000	5,680,000
Western Energy	16,121,147	14,080,000	13,380,000	12,936,000	14,080,000	10,980,000	12,145,000	14,080,000	10,980,000	12,145,000
Westmoreland	1,301,181	960,000	859,000	1,340,000	960,000	859,000	1,340,000	960,000	859,000	1,021,000
Total	36,878,738	32,178,000	31,039,000	31,796,000	33,153,000	29,633,000	32,000,000	33,838,000	30,833,000	32,000,000
Price										
Decker	\$12.05	\$10.81	\$11.58	\$11.16	\$10.98	\$11.61	\$11.00	\$11.28	\$11.61	\$11.28
Knife River	\$10.29	\$10.46	\$10.85	\$10.46	\$10.58	\$10.88	\$10.58	\$10.73	\$10.88	\$10.73
Peabody	\$6.22	\$7.55	\$7.33	\$7.15	\$7.63	\$7.35	\$7.35	\$7.73	\$7.35	\$7.50
Spring Creek	\$4.35	\$5.13	\$4.54	\$4.54	\$5.19	\$4.55	\$4.55	\$5.26	\$4.55	\$4.55
Western Energy	\$5.53	\$5.63	\$5.67	\$5.67	\$5.70	\$5.69	\$5.69	\$5.78	\$5.69	\$5.69
Westmoreland	\$5.51	\$5.73	\$5.48	\$5.67	\$5.80	\$5.49	\$5.69	\$5.88	\$5.49	\$5.69
Total	\$7.39	\$7.32	\$7.69	\$7.36	\$7.47	\$7.78	\$7.46	\$7.45	\$7.78	\$7.41
Incentive Tax Credit	\$6,479,000	\$4,460,000	\$4,357,000	\$4,133,186	\$4,614,000	\$2,764,000	\$2,551,534	\$2,551,534	\$2,764,000	\$2,551,534

Prepared by: Madalyn Quinlan, LFA
Mike Walsh, OBPP
Terry Johnson

exhibit #6
2/14/89
LFA - Madrygn.

EXHIBIT #6
DATE 2/14/89
HB HJR 13

Joint Revenue Estimating Committee
February 14, 1989

Comparison of Public School Revenue Estimates

Common School Interest and Income	1989	1990	1991
Fiscal Year			
✓ LFA	\$30,313,000	\$34,411,000	\$35,815,000
OBPP	\$32,496,000	\$33,699,000	\$34,770,000
	*	*	*

LFA notes:
↑ @ shg hty greater rate.
As identical / commercial prop. diff.

Other Taxable Valuation

Fiscal Year			
✓ LFA	\$1,532,625,000	\$1,536,598,000	\$1,551,253,000
OBPP	\$1,532,599,000	\$1,534,301,000	\$1,540,088,000

1) Eck: move LFA figures
2) disc @
3) Giacomo/No

Motor Vehicle Taxes

Fiscal Year			
✓ LFA	\$30,111,000	\$37,138,000	\$29,943,000
OBPP	\$34,300,000	\$29,765,000	\$40,376,000
	33; 8ck	36;	38;

1) Peterson: LFA figures.
2) Eck: submotion less than OBPP
3) UNAM. vote