The Big Sky Country

MONTANA HOUSE OF REPRESENTATIVES

TO: Members of the Taxation Committee

From: Chairman Gerry Devlin

Date: January 26, 1985

I have selected the following members to serve on the subcommittee considering HJR 9:

Representative Harp, Chairman
Representative Sands
Representative Switzer
Representative Williams
Representative Harrington
Representative Schye

Gerry Devlin, Chairman
Taxation Committee
House of Representatives
49th Legislative Session

The Big Sky Country

MONTANA HOUSE OF REPRESENTATIVES

REPRESENTATIVE JOHN G. HARP

134 PARK AVENUE
KALISPELL, MONTANA 59901

COMMITTEES:
HIGHWAYS & TRANSPORTATION, CHAIRMAN
TAXATION
NATURAL RESOURCES
LEGISLATIVE AUDIT

HOUSE TAXATION SUBCOMMITTEE ON REVENUE

HJR 9 AGENDA

January 28, 1985:	Organization, Scheduling, Procedures Beginning Fund Balance - GAAP vs SBAS Legislative Auditor Recommendations Oil and Gas Payment to Counties Revenue Accruals
January 29, 1985:	Oil Severance Tax Natural Gas Severance Tax
January 30, 1985:	Coal Severance Tax Metal Mines Tax
January 31, 1985:	Interest on Investments Coal Trust Interest
February 4, 1985:	Individual Income Tax Corporate Income Tax
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February 6, 1985:	Insurance Tax Institution Reimbursements Inheritance Tax
February 7, 1985:	Liquor Tax Liquor Profits Beer Tax Wine Tax
February 8, 1985:	Freight Tax Drivers' License Fee Other Revenue
February 11, 1985:	Foundation Program Revenue
February 12, 1985:	HJR 9 Amendments and Recommendations

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MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 28, 1985

The meeting of the Taxation Subcommittee was called to order by Chairman John Harp on January 28, 1985 at 5:00 p.m. in Room 420 of the State Capitol.

DISCUSSION: The main topic of the subcommittee meeting was to have the subcommittee come up with a recommendation on HJR9. This committee was trying to decide between two different accounting systems--SBAS and GAAP. Most of the dicussion involved these two systems. It was noted that the Governor's office, the Legislative Auditor's office, Dave Hunter, Ellen Feaver, Terry Johnson, and Jim Gillett recommend the use of the GAAP system and Judy Rippingale, Legislative Fical Analyst, recommends the use of the SBAS system.

Judy Rippingale said that after the last session, things started to change quite a bit. They started to accrue some revenues and this past year they accrued even more of them. She said that if you take the June 1983 financial statement, these statements say that the ending balance was Grade 3. She said that there is a great variance in the interest accrued during the 1983 and 1984 period. She also said that there really isn't any record that they can find to trace back to see where this variance occurred. She noted that they had been able to trace some of it to the general fund; the long range building access, which goes back to the general fund; or the school foundation account, which also goes back to the general fund. She said that $4.6 millon was traced to the general fund, but there was $7.6 million at fault. By the time the auditors get time, someplace, somewhere it will be found that it is all laid out. She said that they will find the $7 million, but that is a lot of money to trace around to see what people did with it. She is not saying that using GAAP eventually, if the Legislators choose to go that way, can not be done. She said that many things happen in accruring revenue, and it would be wise to get some serious input from many different sources. She feels that it is worth giving some serious effort to for the people who are involved in both sides of this issue.

Ellen Feaver gave another perspective concerning the issue. She said that many businesses require the accrual basis because it is the best way to measure business transactions. She stated that the legislature should be no less business like than any other business, it is the biggest business around these days. She gave some reasons and examples for using the GAAP system.

Jim Gillett spoke in favor the GAAP system, also. He stated that in the past sessions they used the SBAS as the dollor figure that they had for going into the next biennium, and then they changed to the GAAP system within the last year. He stated that the commercial process has been going on since the 1981 legislative session, and then the structure changed in 1983. He said that the reason for going to GAAP was the problems that they had with the bonding programs. Standard business process has been GAAP and they feel more comfortable with it. He said that there are some estimates that have to be made when you are on the accrual basis, but you can make a good faith estimate. He said that if you are off, you make a better estimate next time.

Representative Switzer asked what effect it would have if they went three consecutive years with a slight error on the heavy side. Mr. Gillett replied that the advantage of audited GAAP base numbers is that you have criteria, so if you make an error you can find it. When you are on the cash basis, you can't find the errors. He also stated that when you are on the accrual basis, you can find the areas where there may be an error. The system would find the errors if the amounts are significant, and then adjustments could be made. Also, on the accrual basis, you can find the errors that have been accruing over the years.

Judy Rippingale made a response by stating that their experience on checking accruals that they have been following in the finance committee, has not shown a very good track record. She said that all auditing and accrual are, is an estimate; and because they are an estimate, they are often off. She said that this deserves some caution on the part of the legislature.

Representative Sands stated that he does not know which side has the better argument. He said that since they had been on SBAS for a long period of time, that before they move from SBAS to something else, they had better be sure that there is a reason for a change. In his own mind he is not sure whether they should change or not. He felt that the appropriate time to study this would be after Representative Bardanouve and Senator Regan complete their study.

Another question asked, was how close would we come in the compromise between the two that we reached, and in the end who would have the closest estimate.

Terry Johnson stated that the resolution that came out of the House last time, addressed only the revenue issue. It did not address the fund balance, so there was actually a fund balance named in the resolution.

Dave Hunter stated that there are some issues to decide how to split the difference. He said that they are talking about a known figure. He said that the end result is deciding if they are going to use SBAS or GAAP. He said that the right policy decision is to tell them the right balance. He does not understand why the legislature refuses to use their own public statement. They have gone to a GAAP financial statement and they are now using this in state government. He said that they have everything now on a GAAP basis, but the legislature might want to do something different. He said that there is a lot of inconsistency.

Representative Harrington wanted to know if they felt that they had to make a decision here, whether it is SBAS or GAAP as far as the ending balance is concerned. He said that he feels that it is important to make a decision as soon as possible and that they can not wait until the study is over.

Representative Waldron stated that it is hard to determine how much money you can spend if you don't know how much money you have. He said he felt that they needed to check through both of these different systems.

Representative Sands stated that he felt they should stick with SBAS until after the study is complete.

Dave Hunter was asked if he was aware of the proposal that Representative Bardanouve and Senator Regan had made. He stated that he just became aware of it when it was handed out.

Chairman Harp asked for the committees' pleasure on the matter before them. Representative Sands felt that they should talk to as many people as possible about these systems, and then make a decision the next day so that they could get things moving.

Another topic for discussion was the oil and gas payments and the revenue accrued by them. Judy Rippingale told the committee that in 1984 the Department of Revenue again put all the oil and gas money that was left into the general fund and made a general fund revenue. She said that they then put the money on increased production, which goes back out to the counties, and then put a statuatory appropriation on the books in order to get the counties money back out of the general fund. She said that that, too, was a policy change that the legislature needs to think about. She said that historically, the general fund has been, for the most part, discretionary in terms of the appropriations that were made out of it. It was changed last time, so that the debt service cost of paying bonds was not discretionary.

Terry Johnson stated that in terms of putting it into perspective, in fiscal year 1984, the Department of Revenue requested a $2 million statuatory appropriation. They requested this because of the legislative audit recommendation. They established this on the books and then they accrued the expenditures back on the oil and gas counties.

Chairman Harp asked if the oil money being talked about was actually severance tax. He was told it was the severance tax on the increased production. Chairman Harp also asked if there was some money that the counties took on windfall last session because of an anticipated increased revenue from oil severance tax. Terry Johnson replied that Senate Bill #413 dealt with the windfall profits tax and changed the deduction from 100% to 70%.

Chairman Harp then stated that he had passed out an agenda for the subcommittee. He went over the agenda sheet with the committee members and said that they would tentatively try to have 11 meetings to cover all the issues brought before them. There was further discussion about agenda matters.

The committee meeting was adjourned at 6:10 p.m.

John Harp

JOHN HARP, Chairman

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 29, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on January 29, 1985, at 5 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

Chairman Harp advised those present the Subcommittee would review Oil Severance Tax and Natural Gas Severance Tax. He stated his belief that overviews from industry, as well as those of the Office of Budget and Program Planning, (OBPP), and the Legislative Fiscal Analyst (LFA), seemed a fair approach.

CONSIDERATION OF OIL SEVERANCE TAX: Mr. Tucker Hill, representing the oil industry, provided subcommittee members with charts noting tax contributions and net proceeds taxes for oil and gas between 1973 and 1983, as well as production figures from 1968 through 1983 (Exhibit 1).

Mr. Hill stated the severance tax on oil in 1983 was approximately $42 million. He said production has been falling or remaining static, and foresees no drastic changes, although the Tax is scheduled to decrease from 6 to 5% in April, 1985.

Mr. Hill advised the Subcommittee that oil in eastern Montana has dropped about $1.20 per barrel in price to approximately $26.50 or $27 per barrel. He said this figure could be as high as $28 for superior grades of oil.

Mr. D. VanDeGraaff, Executive Director, Montana Petroleum Association, told the Subcommittee he could foresee a drop of $1 or so per barrel by the end of February, 1985, to about $25 or $26 per barrel. He said viscosity may vary and prices are quoted on gravity, but it appeared there would be no substantial price increases for a year or two.

Chairman Harp asked what the expectations were for Montana production during the next two years. Mr. Hill replied prices have fallen 2% in the past two years and may continue to fall a little and that there would probably be no dramatic increase in production.

Mr. Jerome Anderson, Attorney, Shell Oil, commented legislation introduced this session would not have an immediate effect on gas and oil.

Representative Switzer said he wondered about the quality of oil in eastern Montana and that of stripper wells.

Chairman Harp commented that subcommittee members may need to note industry projections in their workbooks for future reference. Industry projections for oil are as follows:

Production	FY85	-$29 million	Price per barrel FY85	-$26
	86	28		25
	87	28		26.50

Ms. Judy Waldron, LFA, told subcommittee members her projections did not include payments to the counties (Exhibit 2, Table 2), and said page 2, columns 4 and 5 (Exhibit 3, Table 2), indicate possible lost revenue to the general fund. She explained her FY86 projections include a drop in the taxation rate and that her projections are stated in Exhibit 2, Table 1.

Mr. Terry Johnson, OBPP, advised subcommittee members a $1 drop in the price of oil would mean a $2 million loss in revenue for the State. He explained his office "used mathematical equations to match one economic variable to another; conversations with the industry and information from Chase Econometrics for near and long term forecasts; and verification of development estimates by relating to the current situation".

Mr. Johnson said there is a different timing mechanism involved between the oil severance tax and the net proceeds tax and that he used quarterly figures ending March, 1985, in FY84 receipts, to arrive at appropriate projections. He explained that calendar year prices and production for FY84 affect the 1987 university mill and the foundation program, adding the "net proceeds tax is received in November and May and county surplus funds revert back to the State".

According to Mr. Johnson, his office utilized production, price and tax rates for 6 major fields and an aggregate figure from other fields in arriving at its projections (Exhibit 2, Table 2). He said OBPP estimates include payments to the counties, as recommended by the Legislative Auditor,(which are dependent upon production of the previous year). He commented the different approaches utilized by the LFA and OBPP are "really policy issues and if the figures are shown in the general fund it becomes an appropriate issue".

Mr. Johnson said his office no longer agrees with Chase Econometric forecasts and referred to those of First Boston Research (Exhibit 5). OBPP projections for payments to the counties are as follows:

FY85	-$982,000
86	772,000
87	750,000

Ms. Waldron stated the amounts presented in House Joint Resolution 9 are founded on GAAP.

Mr. John Northey, Staff Legal Counsel, Office of the Legislative Auditor, referring to the Legislative Audit Report to the OBPP, commented the payments to counties, "should be shown as revenue to the State and then as an expenditure".

Representative Williams, referring to SBAS and GAAP, asked why there are two different accounting procedures. Ms. Waldron replied GAAP is done for logical reasons, one of which it to provide a good audit trail. She said SBAS should be tied to GAAP via GAAP principles on the SBAS system.

Mr. Northey explained GAAP is not accrual versus cash, but a finance statement prepared by industry standards, the format for which is devised to be uniform nationwide.

Representative Switzer asked why the State did not begin using GAAP next fiscal year. Mr. Northey replied it could be done but "it would make a difference in the first year as to whether or not funds were counted as revenue".

Chairman Harp and Representative Williams suggested the Subcommittee hear the revenue figures projected by the LFA and OBPP and then decide whether to go with SBAS or GAAP adjustments.

CONSIDERATION OF NATURAL GAS SEVERANCE TAX: Mr. Tucker Hill, Helena, representing the gas industry, told the Subcommittee there were no industry projections as little change is foreseen in price or production. He said the tax is presently 2.65% of gross value.

Chairman Harp commented there is a $2.5 million disparity between OBPP and LFA projections for natural gas.

Mr. Terry Johnson, OBPP, referred to a natural gas flow chart (Exhibit 6), and explained he also used payments to the counties in his natural gas severance tax projections (Exhibit 2, Table 4). He said the OBPP used the rate of inflation or "roughly 5%" to determine prices.

Ms. Judy Waldron, LFA, told subcommittee members her projections were based upon a decline in production in FY85 and industry stabilization in FY86 and FY87 (Exhibit 1, Table 3).

Mr. VanDeGraaff commented since federal decontrol of natural gas rates, the market has dictated the price of natural gas, for a drop in price.

Mr. Anderson said there was previously an attitude that natural gas was in short supply, which created a production surplus, while usage has not grown.

Chairman Harp asked subcommittee members to consider projections they wish to use as he hoped to set projections for Oil Severance Tax, Natural Gas Severance Tax, Coal Severance Tax and Metal Mines Tax during the next meeting.

Representative Switzer suggested the Subcommittee address House Joint Resolution 9 concerning the merger of SBAS and GAAP at the ending fund balance.

There being no further business before the Subcommittee, the meeting was adjourned at 6:30 p.m.

Representative John G. Harp, Chairman

The Future

The fact is that Montana isn't competitive in attracting exploration capital. Montana's *total* direct tax burden on the petroleum industry ranks at the highest among oil and gas producing states in this area.

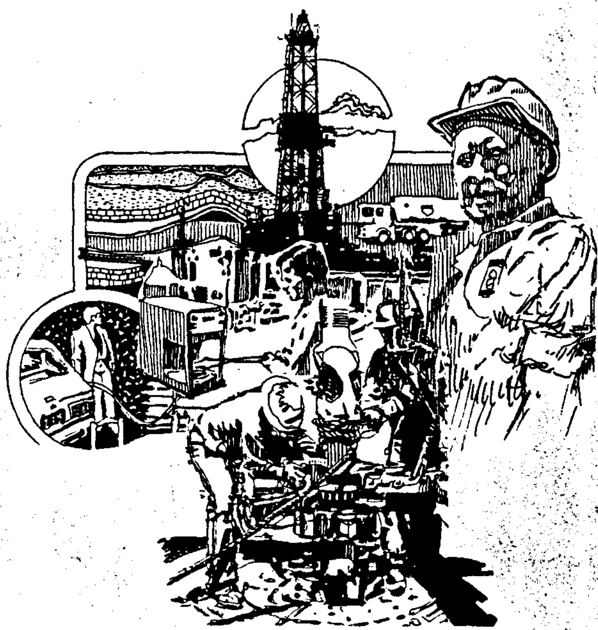
Another deterrent to production is the tie-up of government lands that have been placed off-limits to energy exploration and development. Nearly 7.4 million acres in Montana are closed to energy exploration. The western overthrust and disturbed belt underlies many of these lands — geologic formations that can hold vast reserves of oil and gas.

Due to new technologies and reclamation Montana can have development and still preserve the wilderness values of our wildlands.

Economic incentives are also a step in the right direction — such as the roll-back in Montana's oil severance tax from 6 to 5 percent enacted by the legislature in 1983, which becomes effective April 1, 1985.

Even with lower tax rates the state can benefit when increased drilling results in higher production volume, thus maintaining constant or increasing revenue collections. Other benefits would be more jobs and more investment capital pumped into Montana's economy.

Our public policymakers must decide whether to work with the petroleum industry to achieve these benefits. And Montanans have to speak up for the oil and gas industry if it is to work in the best interests of the people of Montana.



For additional information, call or write:

Montana Petroleum Association
2030 Eleventh Avenue
Helena, Montana 59601
(406) 442-7582

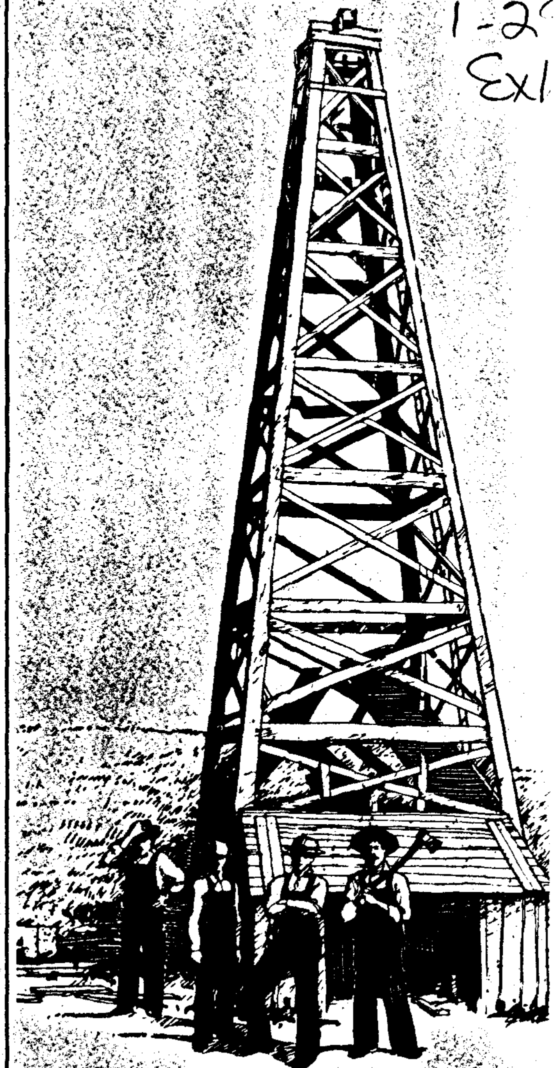
MONTANA OIL AND GA[S] INDUSTRY

An Overview

H

1-2

Ex



Montana's first oil rig — erected by Col. Th[o] Cruse on Butcher Creek, Carbon Count[y] 1898. The figure with an axe is "Black S[...] Taggart, then in charge of the drill crew

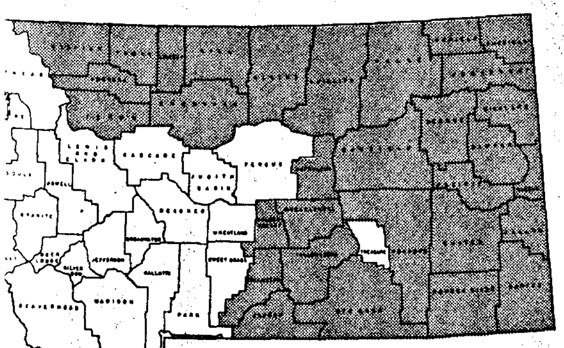
MONTANA OIL AND GAS INDUSTRY

first commercial oil production in Montana 1915 at Elk Basin in Carbon County. It was d by 17 years of almost fruitless exploration. The rst oil well was drilled by Tommy Cruse in 1898 ved to be a dry hole or "duster." Minor drilling d around the turn of the century in the area that came Glacier National Park.

once oil was struck at Elk Basin impressive finds . . . in Petroleum County, the Kevin-Sunburst Bank fields, the Williston Basin and the Bell eld in Powder River County.

ay Montana is ranked thirteenth among oil and lucing states in the United States. Montana has a story of drilling, producing, transporting and petroleum products in the Rocky Mountain Production has grown to 272 oil fields and 119 s, located in 31 of Montana's 56 counties.

on County is the leading oil producing county oduction of 6 million barrels in 1983. Richland follows with oil production of 5.2 million barrels at $154 million. Blaine County is the leading r of natural gas with production exceeding 8.1 MCF of natural gas, valued at $19.4 million. County follows closely with 7.8 million MCF.



Shaded areas: oil and gas producing counties

-half of Montana's 4,606 oil wells are "stripper" roducing less than 10 barrels of oil per day) and roduction for all oil wells in Montana in 1982 d 19.2 barrels.

ınd Gas — An Economic et to Montana

growing oil and gas industry has been healthy for a's economy. In 1981 12,364 petroleum industry es — one out of 20 private/non-farm jobs in the - received a payroll of about $250 million. ds of millions of dollars have come into the state

Royalty payments to oil and gas mineral owners benefit Montanans; $104.7 million was paid to royalty owners for their share of 1983 production.

Montanans benefit from a vigorous refining industry. Six oil refineries in the state, employing over 1,000 people, refined a total of 41,914,265 barrels of oil in 1983.

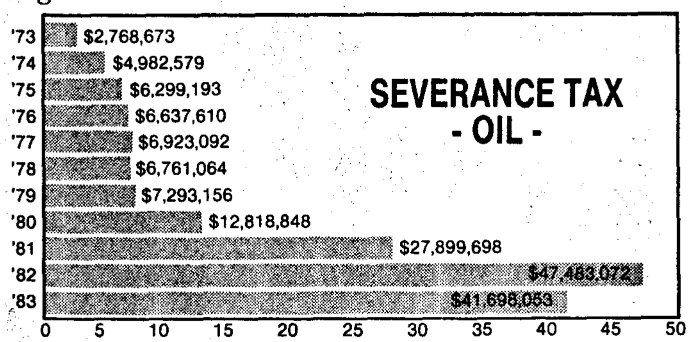
Overall, refiners in Montana process a third more oil than is produced in the state, a unique situation in a state troubled by a lack of manufacturing opportunities and the complexities of distribution.

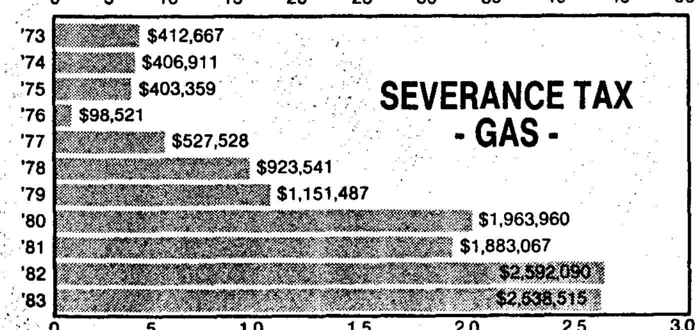
Tax Contributions

Oil and gas play a major role in Montana's fiscal health, also. Approximately 14 percent of the state's general fund money was from oil and gas severance taxes in 1983.

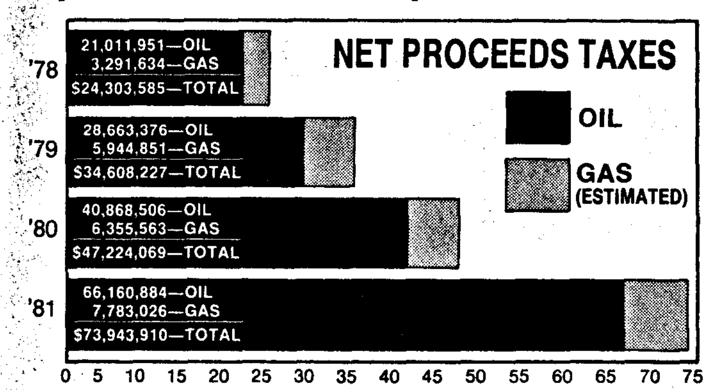
Oil and gas money flows into the state's treasury as corporate taxes, conservation taxes, severance taxes, resource indemnity payments and state royalties, rentals and fees. Counties benefit from Net Proceeds and property taxes.

Severance taxes are based on the gross value of oil. Part of it goes to all cities and counties in Montana and part goes to cities and counties in the oil producing areas to help deal with impacts. The rest goes to the state general fund.





Largest of the four petroleum taxes the state imposes is Net Proceeds taxes which go to county governments. Proceeds taxes on oil and gas produced in 1982 was over $75 million. Due to economic changes and reduced production, the taxes for 1983 production will be less.

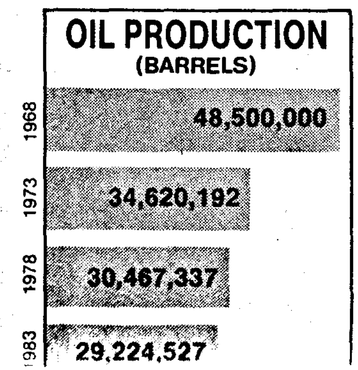


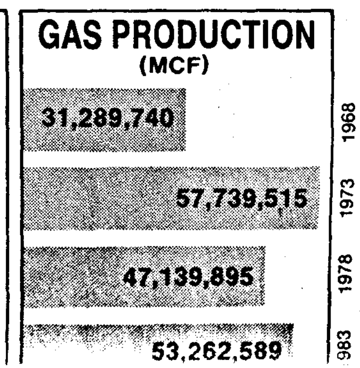
Tax Revenue vs. Production

Tax revenues depend upon a steady, healthy level of production, however, and the changing economic scene of the past few years has had a negative effect on Montana's gas and oil business.

Falling oil prices in 1982 dramatically cut exploration spending. By the middle of the year more than 3,500 petroleum industry jobs were lost in Montana. In fact, oil and gas drilling activity declined much more sharply in Montana than in neighboring states and the nation as a whole. In 1981, 1,111 wells were drilled in Montana. Only 905 wells were drilled in 1982, and they were shallower, resulting in even less investment than expected.

Montana's falling production will continue, and tax revenues from oil and gas production will be further reduced unless depleting oil reserves are replaced now by spirited drilling activity. For example, in 1981 Montana's collection from oil and gas activity on state school lands amounted to more than $48 million. In 1982, that dollar flow was slashed to under $28 million.





January 23, 1985

Office of the Legislative Fiscal Analyst
General Fund Revenue Comparison
(Thousands)

	- - - - - FY 1985	- - - - -		- - - - - FY 1986	- - - - -		- - - - - FY 1987	- - - - -		1987 Biennium
Category	LFA	Executive	Difference	LFA	Executive	Difference	LFA	Executive	Difference	Difference
Individual Income Tax	$113,044	$116,582	$(3,538)	$123,442	$125,541	$ (2,099)	$133,513	$134,330	$ (817)	$ (2,916)
Corporation License Tax	31,217	35,017	(3,800)	29,388	29,957	(569)	32,561	32,304	257	(312)
Coal Severance Tax	16,329	17,444	(1,115)	17,028	19,735	(2,707)	16,934	18,732	(1,798)	(4,505)
Oil Severance Tax	30,663	31,911	(1,248)	23,466	24,654	(1,188)	25,059	23,274	1,785	597
Interest on Investments	25,044	26,482	(1,438)	23,044	22,656	388	21,920	22,961	(1,041)	(653)
Long-range Bond Excess	36,185	38,437	(2,252)	37,479	39,237	(1,758)	39,582	41,288	(1,706)	(3,464)
Coal Trust Fund Interest	23,455	24,378	(923)	28,383	28,158	225	33,465	32,259	1,206	1,431
Insurance Premiums Tax	15,753	16,109	(356)	16,195	16,139	56	16,737	17,558	(821)	(765)
Institutional Reimbursement	15,281	12,213	3,068	14,902	14,758	144	15,356	15,310	46	190
Liquor Profits	5,197	4,466	731	5,263	5,222	41	5,315	5,077	238	279
Liquor Excise Tax	6,029	6,191	(162)	6,045	6,600	(555)	6,038	6,736	(698)	(1,253)
Inheritance Tax	6,247	6,289	(42)	6,247	6,656	(409)	6,247	7,072	(825)	(1,234)
Metal Mines Tax	1,610	1,711	(101)	1,149	1,185	(36)	1,282	1,190	92	56
Electrical Energy Tax	2,084	1,986	98	2,074	2,042	32	2,165	2,169	(4)	28
Drivers' License Fees	905	817	88	905	835	70	905	854	51	121
Telephone License Tax	2,661	2,814	(153)	2,798	3,053	(255)	2,944	3,311	(367)	(622)
Beer License Tax	1,175	1,180	(5)	1,146	1,157	(11)	1,096	1,133	(37)	(48)
Natural Gas Severance Tax	2,736	3,481	(745)	2,486	3,650	(1,164)	2,500	3,862	(1,362)	(2,526)
Freight Line Tax	1,387	1,402	(15)	1,450	1,465	(15)	1,522	1,556	(34)	(49)
Wine Tax	967	917	50	1,015	928	87	1,066	940	126	213
Other Revenue	14,364	13,474	890	14,326	15,030	(704)	15,413	14,922	491	(213)
Total	$352,333	$363,301	$(10,968)	$358,231	$368,658	$(10,427)	$381,620	$386,838	$(5,218)	$(15,645)*

*(1) The executive revenue estimates for oil and natural gas severance tax include money attributable to the increased county production. By statute this money belongs to the counties. The Governor's budget has a $2.2 million general fund appropriation to the counties for returning these funds in the Department of Revenue's budget.

(2) The executive budget proposes increasing the cigarette tax to generate $5.5 million in fiscal 1986 and $7.4 million in fiscal 1987.

1-29-85
Exhibit 2
HJR-9

REVENUE PROJECTIONS

Major differences in revenue projections and economic assumptions occur in the following categories:

1. Coal Severance Tax

Table 1 compares actual fiscal 1984 and projected fiscal 1985 through 1987 taxable coal production and contract sales price.

Table 1
Taxable Coal Production and Contract Sales Price

Production(tons)		Projected		
	Actual FY 1984	FY 1985	FY 1986	FY 1987
LFA	27,394,512	28,844,000	28,742,000	29,370,000
Executive		30,079,000	32,916,000	34,973,000
Difference		(1,235,000)	(4,174,000)	(5,603,000)
Contract Sales Price				
LFA	$10.10	$ 9.950	$10.420	$11.530
Executive		10.201	10.545	10.703
Difference		$(0.251)	$(0.125)	$ 0.827

2. Oil Severance Tax

Table 2 compares actual fiscal 1984 and projected fiscal 1985 through 1987 taxable oil production and average price.

Table 2
Taxable Oil Production and Average Price

Production(barrels)		Projected		
	Actual FY 1984	FY 1985	FY 1986	FY 1987
LFA	28,517,000	28,101,147	27,690,453	27,286,173
Executive		28,801,000	28,341,000	27,939,000
Difference		(699,853)	(650,547)	(652,827)
Average Price				
LFA	$28.540	$27.280	$26.500	$27.500
Executive		27.699	26.097	24.990
Difference		$(0.419)	$ 0.403	$ 2.51

The LFA general fund revenue projection excludes approximately $1 million in each fiscal 1986 and 1987 which is the amount of estimated payments to counties with increased production.

3. Interest on Investments

Table 3 compares actual fiscal 1984 and projected fiscal 1985 through 1987 interest yield earned on the treasurer's fund and the average investable balance without the proceeds from sale of tax anticipation notes (TANS).

Table 3
Interest Yield and Average Investable Balance

Interest Yield	Actual FY 1984	- - - - - - - - FY 1985	Projected - - - FY 1986	- - - - - FY 1987
LFA	10.75%	10.00%	10.25%	9.75%
Executive		10.87%	10.75%	10.90%
Difference		(0.87%)	(0.50%)	(1.15%)
Investable Balance without TANS(millions)				
LFA	$222.2	$216.6	$180.3	$180.3
Executive		212.0	169.0	169.0
Difference		$ 4.6	$ 11.3	$ 11.3

4. Long-Range Bond Excess

The long-range bond excess receives revenue from 11 percent of individual and corporation taxes, 79.25 percent of the cigarette tax, and the tobacco products tax. The executive estimate of the bond excess contains $2.7 million more in revenue from the cigarette tax, accounting for the majority of the $3.5 million difference between the two projections in the 1987 biennium.

5. Natural Gas Tax

The executive has not supplied the price and production data which support its forecast of the natural gas tax. The LFA projection assumes that the average price of natural gas will rise 5.8 percent between fiscal 1984 and 1987 and that taxable production will decline 2.5 percent annually over the forecast period. Table 4 shows actual fiscal 1984 and the LFA projections for fiscal 1985 through 1987 of natural gas tax revenue.

Table 4
Natural Gas Tax Revenue

Fiscal Year	Revenue	Percent Change
1984	$2,797,996	10.8
1985	2,736,000	(2.2)
1986	2,486,000	9.1
1987	2,500,000	0.6

The LFA revenue projections for fiscal 1986 and 1987 each exclude approximately $200,000 which is the amount of estimated payments to counties with increased production.

COMPARISON OF FISCAL 1985 GENERAL FUND BALANCE
Prepared by Office of the Legislative Fiscal Analyst
January 23, 1985

	LFA	OBPP	Difference
Beginning Fund Balance	$ 30,531,293	$ 35,057,000	$ (4,525,707)*
Estimated Receipts	352,333,000	363,301,000	(10,968,000)
Total Available	$382,864,293	$398,358,000	$(15,493,707)
Expenditures			
Budgeted Operating Expen.	$378,775,993	$378,501,209	$ 274,784
Pay Plan Carry Forward	2,000,000	2,000,000	-0-
Tax Anticipation Notes	2,304,714	2,304,714	-0-
Long Term Debt Service	10,063,547	10,004,699	58,848
Oil & Gas Payments to Counties	1,562,948	1,215,000	347,948
Supplemental Requests	7,937,075	7,937,075	-0-
Feed Bill	4,122,272	4,122,272	-0-
Adjustments			
FY 84 Debt Service	(1,406,100)	-0-	$ (1,406,100)
Other	(392,115)	-0-	(392,115)
Reversions			
Public Schools	(13,830,000)	(19,347,000)	5,517,000
Other	(10,200,000)	(10,200,000)	-0-
Total Expenditures	$380,938,334	$376,537,969	$ 4,400,365
Ending Fund Balance	$ 1,925,959	$ 21,820,031	$ (19,894,072)

* Difference of $4.6 million consists of the following:

1.	Accrued Interest	$4.5 million
2.	Inventories	(2.2 million)
3.	FY 84 Institutional Reimbursement recorded as deferred revenue by Institutions	2.4 million
4.	Additional Institutional Reimbursement shown by GAAP	0.8 million
5.	Debt Service Costs which general fund paid but should have been made by non-general fund money	1.4 million
6.	Patients' Account Lawsuit accrued as revenue in FY 82.	(2.4 million)
7.	Miscellaneous	0.1 million
	Total	$4.6 million

Item 3 is included in LFA Fiscal 1985 revenue,
Item 5 is included in LFA Fiscal 1985 Adjustments.

COMPARISON OF SCHOOL FOUNDATION REVENUES
Fiscal 1985
(Millions)

Revenues Available	LFA	OBPP	Difference
County Equalization			
45 Mill Levy	$107.94[3]	$104.86	(3.08)
Miscellaneous[2]	11.77	11.77	--
Forest Funds	1.01	1.01	--
Grazing Funds	.12	.12	--
Elementary Trans.	(3.54)	(3.54)	--
High School Tuition	(.67)	(.67)	--
Total County Equalization[1]	$116.63	$113.55	(3.08)
State Equalization			
25 Percent Income Tax	$ 44.16	$ 45.54	1.38
25 Percent Corp. Tax	12.19	13.68	1.49
5 Percent Coal Tax	4.30	4.59	.29
Interest and Income	37.46	37.46	-0-
Federal Mineral Leasing	13.90	14.17	.27
Coal Trust Interest	6.22	6.01	(.21)
Balance Available	.21	-0-	(.21)
Miscellaneous	--	5.27	5.27
Total State Equalization	$118.44	$126.72	8.28
District Permissive (Includes Light Vehicle Fees and Replacement Funds)	18.50	18.74	.24
TOTAL REVENUES	$253.57	259.01	5.44

[1] County Surplus included in county equalization.

[2] Includes cash reappropriated, 45 mill levy shares of vehicle fees and state reimbursements, other minor revenues and portions of retroactive adjustment for Senate Bill 413 not included in 45 mill levy figures.

[3] Includes funds from retroactive adjustments to oil and gas net proceeds taxes resulting from Senate Bill 413 of 48th Legislature.

COMPARISON OF SCHOOL FOUNDATION REVENUES
1987 Biennium
(Millions)

Revenues Available	LFA	OBPP	Difference
County Equalization			
45 Mill Levy	$211.27	$217.90	$ 6.63
Miscellaneous [2]	21.00	25.93	4.93
Forest Funds	2.00	3.60	1.60
Grazing Funds	.24	.25	.01
Elementary Trans.	(7.51)	(7.95)	(.44)
High School Tuition	(1.40)	(1.43)	(.03)
Total County Equalization[1]	$225.60	$238.30	$12.70
State Equalization			
25 Percent Income Tax	$100.37	$101.51	$ 1.14
25 Percent Corp. Tax	24.20	24.32	.12
5 Percent Coal Tax	8.94	17.71	8.77
Interest and Income	85.30	79.27	(6.03)
Federal Mineral Leasing	28.30	37.43	9.13
Coal Trust Interest	14.96	14.25	(.71)
Total State Equalization	$262.07	$274.49	$12.42
District Permissive (Includes Light Vehicle Fees and Replacement Funds)	$ 37.90	$ 38.86	$ .96
TOTAL REVENUES	$525.57	$551.65	$26.08

1-29-85
Exhibit
HJR-9
LFA

3

Office of the Legislative Fiscal Analyst

Prepared for the

HJR 9 Subcommittee on Revenue

OIL SEVERANCE TAX

Table 1 compares actual fiscal 1984 and projected fiscal 1985 through 1987 taxable oil production, average price, and general fund revenue.

Table 1
Taxable Oil Production, Average Price, and General Fund Revenue

Production (barrels)		- - - - - - - Projected	- - - - - - -	
	Actual FY 1984	FY 1985	FY 1986	FY 1987
LFA	28,517,073	28,101,147	27,690,453	27,286,173
Executive		28,801,000	28,341,000	27,939,000
Difference		(699,853)	(650,547)	(652,827)
Average Price				
LFA	$28.540	$27.280	$26.500	$27.500
Executive		27.699	26.097	24.990
Difference		$(0.419)	$0.403	$ 2.51
General Fund Revenue				
LFA	32,686,015	30,663,000	23,466,000	25,059,000
Executive		31,911,000	24,654,000	23,274,000
Difference		(1,248,000)	(1,188,000)	1,785,000

The LFA revenue projections exclude $994,000 for fiscal 1986 and $954,000 for fiscal 1987 which is the amount of estimated payments to counties with increased production. The executive includes the money needed for county payments in its forecasts.

Table 2 shows projected 1987 biennium general fund revenue under alternative assumptions about average price and the accounting treatment for payments to counties with increased production. Projections are based on the LFA level of taxable production.

Table 2
General Fund Revenue with Alternative Assumptions
on Average Price and County Payments
1987 Biennium

(1) Average Price	(2) G. F. Revenue With Cty. Payments	(3) G. F. Revenue Without Cty. Payments	(4) LFA Revenue Projection	(5) Difference (3) - (4)
$26.00	$47,646,000	$45,761,000	$48,525,000	$(2,764,000)
25.00	45,814,000	44,001,000	48,525,000	(4,524,000)
24.00	43,981,000	42,241,000	48,525,000	(6,284,000)
23.00	42,149,000	40,481,000	48,525,000	(8,044,000)
22.00	40,316,000	38,721,000	48,525,000	(9,804,000)
21.00	38,484,000	36,961,000	48,525,000	(11,564,000)
20.00	36,651,000	35,201,000	48,525,000	(13,324,000)

As Table 2 shows, each $1 per barrel drop in the price of oil reduces general fund revenue by $1.8 million for the 1987 biennium.

Natural Gas Tax

Table 3 compares actual fiscal 1984 and projected fiscal 1985 through 1987 taxable natural gas production, average price and general fund revenue.

Table 3
Taxable Natural Gas Production, Average Price, and General Fund Revenue

Production (Mcf's)	FY 1984	FY 1985 (Projected)	FY 1986 (Projected)	FY 1987 (Projected)
LFA	44,213,508	41,847,616	40,801,424	39,781,390
Executive		49,787,000	49,589,000	49,448,000
Difference		(7,939,384)	(8,787,576)	(9,666,610)
Price				
LFA	$2.46	$ 2.47	$ 2.52	$ 2.60
Executive		2.638	2.778	2.947
Difference		$(0.168)	$(0.258)	$(0.347)
General Fund Revenue				
LFA	$2,797,996	$2,736,000	$ 2,486,000	$ 2,500,000
Executive		3,481,000	3,650,000	3,862,000
Difference		$ (745,000)	$(1,164,000)	$(1,362,000)

The LFA revenue projections exclude $236,000 for fiscal 1986 and $243,000 for fiscal 1987 which is the amount of estimated payments to counties with increased production. The executive includes the money needed for county payments in its forecasts.

1-29-85
Exhibit 4
HJR 9
OBPP

CHASE ECONOMETRICS FORECAST OF AUGUST 13, 1984 - MODERATE GROWTH
TABLE 12.1 -- ENERGY DEMAND
QUADRILLION BTUS, SAAR

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	83-88	88-93	83-93
TOTAL ENERGY DEMAND	70.5	75.2	76.8	77.7	78.6	79.9	80.9	82.0	83.2	84.1	85.3	2.5	1.3	1.9
TRANSPORTATION	18.5	19.4	19.6	19.6	19.3	19.2	19.1	19.0	18.9	18.8	18.8	0.8	-0.5	0.1
NONTRANSPORTATION	52.0	55.8	57.2	58.1	59.3	60.7	61.8	63.0	64.2	65.3	66.5	3.1	1.9	2.5
NATURAL GAS	17.6	18.9	18.8	18.8	18.7	18.6	18.5	18.4	18.3	18.3	18.2	1.2	-0.5	0.3
COAL	15.6	17.0	17.5	17.9	18.6	19.1	19.6	20.2	20.7	21.3	21.8	4.1	2.7	3.4
PETROLEUM	11.7	12.6	13.2	13.3	13.6	14.2	14.6	15.0	15.4	15.6	15.9	3.9	2.3	3.1
OTHER	7.1	7.2	7.6	8.0	8.4	8.7	9.1	9.4	9.8	10.2	10.6	4.2	4.0	4.1
TOTAL PETROLEUM DEMAND	30.2	32.0	32.9	32.9	32.9	33.4	33.6	34.0	34.3	34.4	34.7	2.0	0.7	1.4
TOTAL PETROLEUM DEMAND,MBPD	15.3	16.0	16.4	16.4	16.4	16.6	16.8	16.9	17.1	17.1	17.3	1.7	0.7	1.2
ENERGY SUPPLY														
DOMES.PRODUCTION,OIL,MBPD	9.9	9.8	9.6	9.4	9.4	9.3	9.0	8.9	8.7	8.6	8.5	-1.3	-1.6	-1.4
PETROLEUM STOCKS,MIL.BARRELS	1116.7	1160.2	1182.5	1144.8	1123.3	1111.4	1096.3	1090.5	1083.2	1084.3	1080.0	-0.1	-0.6	-0.3
PETROLEUM IMPORTS,MBPD,SAAR	5.5	6.3	6.6	6.6	6.8	7.2	7.5	7.8	8.1	8.4	8.6	5.5	3.6	4.5
ENERGY PRICES														
REFINER ACQ.COST,$/BARREL	29.01	28.80	28.98	30.36	32.08	34.56	37.10	39.98	42.92	46.08	49.45	3.6	7.4	5.5
IMPORTED OIL PRICE,$/BARREL	29.32	28.93	29.10	30.35	32.47	35.04	37.85	40.40	43.09	45.94	49.08	3.6	7.0	5.3
RATIO,DOM TO IMP OIL PRICE	0.98	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.1	0.0	0.1
ADD:AVG MILES PER GALLON	28.21	29.80	31.46	33.18	35.18	36.24	37.40	38.46	39.46	40.44	41.44	5.1	2.7	3.9

TABLE 12.1A -- ENERGY DEMAND
QUADRILLION BTUS, SAAR
PERCENT CHANGE, ANNUAL RATE

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
TOTAL ENERGY DEMAND	-0.4	6.7	2.1	1.2	1.2	1.6	1.2	1.4	1.4	1.2	1.4
TRANSPORTATION	0.4	5.1	1.0	-0.3	-1.2	-0.7	-0.7	-0.5	-0.4	-0.5	-0.3
NONTRANSPORTATION	-0.7	7.3	2.5	1.6	2.0	2.4	1.9	2.0	1.9	1.7	1.8
NATURAL GAS	-4.5	7.8	-0.6	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
COAL	2.1	9.0	2.7	2.5	4.0	2.7	2.7	2.7	2.7	2.7	2.7
PETROLEUM	-0.7	7.2	5.1	0.9	1.5	4.8	2.6	3.0	2.6	1.4	2.0
OTHER	3.4	2.5	5.5	5.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
TOTAL PETROLEUM DEMAND	-0.0	5.9	2.6	0.2	-0.1	1.6	0.7	1.0	0.9	0.4	0.7
TOTAL PETROLEUM DEMAND,MBPD	-0.1	4.7	2.1	0.2	-0.1	1.6	0.7	1.0	0.9	0.4	0.7
ENERGY SUPPLY											
DOMES.PRODUCTION,OIL,MBPD	-0.6	-1.0	-1.5	-1.8	-1.0	-1.1	-2.2	-1.1	-2.3	-1.1	-1.2
PETROLEUM STOCKS,MIL.BARRELS	-1.1	3.9	1.9	-3.2	-1.9	-1.1	-1.4	-0.5	-0.7	0.1	-0.4
PETROLEUM IMPORTS,MBPD,SAAR	8.4	15.2	4.5	-0.5	4.0	5.1	4.4	4.4	3.8	3.4	2.0
ENERGY PRICES											
REFINER ACQ.COST,$/BARREL	-9.04	-0.71	0.62	4.74	5.69	7.71	7.37	7.76	7.33	7.38	7.31
IMPORTED OIL PRICE,$/BARREL	-9.03	-1.35	0.60	4.30	6.97	7.92	8.03	6.73	6.66	6.61	6.84
RATIO,DOM TO IMP OIL PRICE	5.80	0.71	-0.10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ADD:AVG MILES PER GALLON	2.49	5.63	5.56	5.48	6.01	3.01	3.21	2.83	2.59	2.48	2.48

TABLE 12.1 -- ENERGY DEMAND
QUADRILLION BTUS, SAAR

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	84-89	89-94	84-94
TOTAL ENERGY DEMAND	74.0	75.6	77.2	79.0	80.6	81.7	83.0	84.2	85.2	86.4	87.3	2.0	1.3	1.7
TRANSPORTATION	19.0	19.5	19.8	19.9	19.9	19.8	19.7	19.6	19.5	19.4	19.3	0.8	-0.5	0.2
NONTRANSPORTATION	55.0	56.1	57.4	59.1	60.7	61.9	63.3	64.6	65.7	67.0	68.0	2.4	1.9	2.1
NATURAL GAS	18.5	18.5	18.6	18.8	18.7	18.7	18.7	18.6	18.5	18.5	18.5	0.2	-0.3	-0.0
COAL	16.9	17.4	17.6	18.2	18.8	19.4	19.9	20.5	21.1	21.5	22.2	2.7	2.8	2.7
PETROLEUM	12.2	12.6	13.2	13.7	14.4	14.7	15.2	15.6	15.8	16.3	16.3	3.7	2.1	2.9
OTHER	7.3	7.7	8.0	8.5	8.8	9.2	9.6	9.9	10.3	10.7	11.1	4.6	3.8	4.2
TOTAL PETROLEUM DEMAND	31.2	32.1	32.9	33.6	34.4	34.5	34.9	35.2	35.3	35.7	35.6	2.0	0.6	1.3
TOTAL PETROLEUM DEMAND,MBPD	15.6	16.0	16.4	16.7	17.1	17.2	17.4	17.5	17.6	17.8	17.7	1.9	0.6	1.3
ENERGY SUPPLY														
DOMES.PRODUCTION,OIL,MBPD	9.8	9.6	9.4	9.3	9.2	9.0	8.9	8.7	8.6	8.5	8.4	-1.6	-1.4	-1.5
PETROLEUM STOCKS,MIL.BARRELS	1189.0	1245.2	1126.0	1081.1	1058.7	1045.6	1038.8	1032.0	1033.2	1028.3	1019.6	-2.5	-0.5	-1.5
PETROLEUM IMPORTS,MBPD,SAAR	6.1	6.1	6.1	6.6	7.1	7.4	7.8	8.1	8.3	8.5	8.7	3.8	3.2	3.5
ENERGY PRICES														
REFINER ACQ.COST,$/BARREL	28.61	27.69	27.80	29.00	30.70	32.82	35.34	38.55	42.22	46.19	50.39	2.8	9.0	5.8
IMPORTED OIL PRICE,$/BARREL	28.81	28.09	28.20	29.40	31.12	33.27	35.83	39.08	42.80	46.82	51.08	2.9	9.0	5.9
RATIO,DOM TO IMP OIL PRICE	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	-0.1	0.0	-0.0
ADD:AVG MILES PER GALLON	29.80	31.46	33.18	34.78	36.27	37.44	38.49	39.49	40.47	41.48	42.08	4.7	2.4	3.5

TABLE 12.1A -- ENERGY DEMAND
QUADRILLION BTUS, SAAR
PERCENT CHANGE, ANNUAL RATE

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
TOTAL ENERGY DEMAND	5.4	2.2	2.0	2.4	2.0	1.3	1.5	1.5	1.2	1.4	1.1
TRANSPORTATION	3.7	2.9	1.2	0.8	-0.0	-0.9	-0.5	-0.3	-0.6	-0.4	-0.6
NONTRANSPORTATION	6.1	2.0	2.3	3.0	2.7	2.1	2.2	2.1	1.8	1.9	1.5
NATURAL GAS	6.5	-0.1	0.9	0.8	-0.4	0.1	-0.2	-0.3	-0.4	-0.4	0.1
COAL	6.8	2.6	0.9	3.8	2.9	3.2	2.6	3.0	2.9	2.3	3.0
PETROLEUM	4.6	2.8	4.5	3.8	5.6	1.9	3.4	2.6	1.4	2.8	0.2
OTHER	5.8	4.3	5.2	5.0	4.5	4.0	4.0	4.0	4.0	4.0	3.1
TOTAL PETROLEUM DEMAND	4.0	2.9	2.5	2.0	2.2	0.3	1.2	0.9	0.3	1.0	-0.2
TOTAL PETROLEUM DEMAND,MBPD	2.8	2.5	2.5	2.0	2.2	0.3	1.2	0.9	0.3	1.0	-0.2
ENERGY SUPPLY											
DOMES.PRODUCTION,OIL,MBPD	-1.0	-1.5	-1.8	-1.1	-1.3	-2.2	-1.1	-2.3	-1.1	-1.2	-1.1
PETROLEUM STOCKS,MIL.BARRELS	6.7	4.7	-9.6	-4.0	-2.1	-1.2	-0.6	-0.7	0.1	-0.5	-0.9
PETROLEUM IMPORTS,MBPD,SAAR	14.1	-0.6	0.8	6.5	9.0	3.6	4.7	4.0	3.2	2.5	1.8
ENERGY PRICES											
REFINER ACQ.COST,$/BARREL	-1.36	-3.23	0.41	4.32	5.86	6.90	7.68	9.08	9.50	9.40	9.10
IMPORTED OIL PRICE,$/BARREL	-1.74	-2.51	0.40	4.26	5.86	6.90	7.68	9.08	9.50	9.40	9.10
RATIO,DOM TO IMP OIL PRICE	-0.04	-0.37	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ADD:AVG MILES PER GALLON	5.63	5.56	5.48	4.82	4.28	3.21	2.83	2.59	2.48	2.48	1.46

TABLE 12.1 -- ENERGY DEMAND
QUADRILLION BTUS, SAAR

	1984.3	1984.4	1985.1	1985.2	1985.3	1985.4	1986.1	1986.2	1986.3	1986.4	1984	1985	1986	1987
TOTAL ENERGY DEMAND	74.2	74.1	74.3	75.2	75.2	75.5	75.7	76.2	76.6	77.1	73.9	75.0	76.4	78.1
TRANSPORTATION	19.0	18.9	19.4	19.2	19.2	19.3	19.6	19.5	19.3	19.5	18.9	19.3	19.5	19.6
NONTRANSPORTATION	55.2	55.2	54.9	55.9	56.0	56.1	56.0	56.7	57.3	57.6	54.9	55.7	56.9	58.4
NATURAL GAS	18.4	18.7	18.0	18.5	18.6	18.6	18.5	18.5	18.6	18.7	18.5	18.4	18.6	18.7
COAL	16.7	17.3	17.4	17.4	17.1	17.3	17.6	17.5	17.2	17.4	16.9	17.3	17.4	18.0
PETROLEUM	12.3	11.7	11.9	12.5	12.6	12.4	12.1	12.8	13.4	13.3	12.2	12.4	12.9	13.3
OTHER	7.8	7.4	7.5	7.6	7.7	7.8	7.9	8.0	8.1	8.2	7.3	7.7	8.0	8.5
TOTAL PETROLEUM DEMAND	31.3	30.6	31.4	31.7	31.8	31.7	31.7	32.3	32.7	32.8	31.1	31.7	32.4	33.0
TOTAL PETROLEUM DEMAND,MBPD	15.6	15.3	15.6	15.8	15.8	15.8	15.8	16.1	16.3	16.3	15.5	15.8	16.1	16.4
ENERGY SUPPLY														
DOMES.PRODUCTION,OIL,MBPD	9.8	9.7	9.7	9.6	9.6	9.6	9.5	9.5	9.4	9.4	9.8	9.6	9.4	9.3
PETROLEUM STOCKS,MIL.BARREL	1209.2	1263.0	1279.9	1260.3	1257.8	1222.4	1182.9	1158.3	1121.9	1086.7	1191.2	1255.1	1137.5	1090.1
PETROLEUM IMPORTS,MBPD,SAAR	6.4	6.2	6.1	6.0	6.2	5.9	6.0	6.1	6.3	6.3	6.1	6.1	6.2	6.5
ENERGY PRICES														
REFINER ACQ.COST,$/BARREL	28.69	27.80	26.90	26.50	26.55	26.65	26.70	26.75	26.80	26.90	28.51	26.65	26.79	27.08
IMPORTED OIL PRICE,$/BARREL	28.77	28.20	27.30	26.90	26.95	27.05	27.10	27.15	27.20	27.30	28.68	27.05	27.19	27.48
RATIO,DOM TO IMP OIL PRICE	0.99	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.98	0.99	0.98	0.98	0.98
ADD:AVG MILES PER GALLON	29.39	31.03	31.03	31.03	31.03	32.74	32.74	32.74	32.74	34.51	29.80	31.46	33.18	34.78

TABLE 12.1A -- ENERGY DEMAND
QUADRILLION BTUS, SAAR
PERCENT CHANGE, ANNUAL RATE

	1984.3	1984.4	1985.1	1985.2	1985.3	1985.4	1986.1	1986.2	1986.3	1986.4	1984	1985	1986	1987
TOTAL ENERGY DEMAND	0.4	-0.4	1.4	4.5	0.3	1.3	1.0	3.1	1.9	2.8	5.2	1.6	1.8	2.2
TRANSPORTATION	-0.8	-0.9	11.3	-4.7	-0.3	2.8	6.4	-2.8	-3.6	4.2	3.4	1.9	1.0	0.8
NONTRANSPORTATION	0.8	-0.3	-1.9	7.9	0.5	0.8	-0.8	5.2	3.8	2.4	5.9	1.5	2.1	2.7
NATURAL GAS	5.1	6.5	-14.0	9.5	4.0	-0.1	-3.3	0.2	2.1	2.1	6.4	-0.3	0.6	0.5
COAL	-8.9	16.1	2.4	-1.5	-6.4	6.7	5.0	-2.4	-5.1	5.0	6.8	2.1	0.7	3.4
PETROLEUM	2.9	-17.9	7.9	22.1	2.6	-7.9	-8.5	25.3	18.8	-2.1	3.9	1.7	4.2	3.4
OTHER	10.4	-17.7	5.5	5.4	5.4	5.3	5.2	5.2	5.1	5.0	5.8	4.3	5.2	5.0
TOTAL PETROLEUM DEMAND	0.6	-7.9	10.0	4.9	0.8	-1.5	0.4	7.3	4.9	1.6	3.6	1.8	2.3	1.8
TOTAL PETROLEUM DEMAND,MBPD	-1.5	-7.9	10.0	4.9	0.8	-1.5	0.4	7.3	4.9	1.6	2.4	1.4	2.3	1.8
ENERGY SUPPLY														
DOMES.PRODUCTION,OIL,MBPD	0.0	-4.0	0.0	-4.1	0.0	0.0	-4.1	0.0	-4.1	0.0	-1.0	-1.5	-1.8	-1.1
PETROLEUM STOCKS,MIL.BARREL	20.0	19.0	5.5	-6.0	-0.8	-10.8	-12.3	-8.1	-12.0	-12.0	6.9	5.4	-9.4	-4.2
PETROLEUM IMPORTS,MBPD,SAAR	24.8	-13.0	-2.7	-7.4	15.7	-19.4	4.8	10.2	10.9	5.1	13.4	-0.7	1.9	5.7
ENERGY PRICES														
REFINER ACQ.COST,$/BARREL	-1.34	-11.88	-12.33	-5.82	0.76	1.51	0.75	0.75	0.75	1.50	-1.71	-6.53	0.52	1.07
IMPORTED OIL PRICE,$/BARREL	-2.65	-7.69	-12.17	-5.73	0.75	1.49	0.74	0.74	0.74	1.48	-2.17	-5.70	0.51	1.06
RATIO,DOM TO IMP OIL PRICE	4.36	-4.41	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.24	-0.65	0.0	0.0
ADD:AVG MILES PER GALLON	0.0	24.26	0.0	0.0	0.0	23.93	0.0	0.0	0.0	23.44	5.63	5.56	5.48	4.82

1-29-85
Exhibit HJR-9
OBPP

GRAPHIC REPRESENTATION OF REVENUE IMPACT
OIL

- OIL
  - OIL SEVERANCE TAX
    - GENERAL FUND
    - COUNTIES
    - LOCAL GOVERNMENT BLOCK GRANT
  - NET PROCEEDS TAX
    - FOUNDATION PROGRAM
    - LOCAL GOVERNMENT
    - UNIVERSITY MILLAGE
  - STATE ROYALTIES
    - TRUST FUND INCOME
      - FOUNDATION PROGRAM
      - OTHER STATE ACCOUNTS
  - RESOURCE INDEMNITY TAX
    - TRUST FUND INCOME
      - DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
      - SPECIAL PROJECTS
      - DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES
  - FEDERAL ROYALTIES
    - FOUNDATION PROGRAM
    - DEPARTMENT OF HIGHWAYS
  - OIL WELL TAX
    - DEPARTMENT OF NATURAL RESOURCES & CONSERVATION
    - DEPARTMENT OF REVENUE
  - CORPORATION LICENSE TAX
    - GENERAL FUND
    - FOUNDATION PROGRAM
    - LONG-RANGE BUILDING DEBT SERVICE

FIRST BOSTON RESEARCH

Industry:
International Oils

Special Report
January 23, 1985
OI0175

A GLIMMER IN THE DARKNESS: THE INEVITABLE IMPACT OF DESTOCKING

Recent indications from Kuwait suggest that the OPEC differentials committee will recommend a $1.00 per barrel price cut in the benchmark grade Saudi Arabian Light, to $28.00 per barrel, at OPEC's ministerial meeting scheduled for January 28. If this comes to pass, it would be consistent with the expectation we have had for three months that the OPEC benchmark price would fall as oil prices succumbed to the forces of supply and demand. Coupled with the $0.50 per barrel increase for heavy crude prices that was implemented following OPEC's recent Geneva meeting, this would constitute a differential between light and heavy grades of $1.50 per barrel--a significant narrowing of the $3.00 per barrel difference that has existed for some time. While any reduction in the benchmark price will doubtless be adamantly opposed by Iran, Algeria and several other OPEC hard-liners, there is little they can do to counter the market pressure that will force their own prices into parity with a new benchmark quote.

While trimming the light/heavy crude price differential to $1.50 would fall short of the $1.00 per barrel gap that countries like Nigeria have long sought, it would still go a long way toward erasing the market dislocations that the excessively wide $3.00 previous light/heavy spread have generated. From a practical standpoint, the Saudis cannot be expected to narrow the gap any further than $1.50 per barrel, due to their continued desire to retain a competitive price for the heavy grade--so as to ensure volumetric outlet--and the fear that an eventual end to the coal miner's strike in Britain will lead to reduced demand for heavy fuel oil and downward pressure on heavy crude prices.

Extreme cold weather, in combination with a reduction of oil output by OPEC, has caused some firming in the spot markets for both crude oil and petroleum products. While the cold weather could prove to be an ephemeral benefit to the oil producers, the discipline that OPEC members are showing collectively may be of more lasting value in propping up a weak market--if the producers can resist the temptation to exceed their production quotas over the next two months. We reckon that OPEC output is not much more than about 15.5 million barrels per day (MMBD) currently, well within OPEC's self-imposed quota of 16.0 MMBD. Since the underlying demand for OPEC crude is probably over 18.0 MMBD currently, this implies an inventory liquidation of approximately 2.5-3.0 MMBD during the first quarter if OPEC output remains at its current level. Such a stockdraw would lead to abnormally low petroleum inventories by April 1, suggesting the possibility of some restocking by the industry during the second quarter, or, at best, the absence of a step-function drop in the demand for OPEC crude during the spring and summer. Such a scenario would avoid the long-anticipated seasonal drop in demand for OPEC oil that has been associated with a potential spring price collapse. While it is too early to predict with any confidence that OPEC will have the resolve and internal cohesion to keep a lid on output for long enough to preempt a spring assault on its price structure, the odds that a significant drop in prices will not occur have clearly risen in the last week or two.

The underlying fundamentals of the oil supply/demand balance remain unfavorable--and will continue to be so, in our judgment, for three to five years. The steady, four-year drop in world petroleum consumption that followed the last price explosion of 1979, together with the development of substantial new supplies from non-OPEC sources that were spurred by higher prices, have led to a large (10-12 MMBD) amount of overcapacity within the oil producers' cartel that will take years to be reduced substantially. This fact, in combination with the severe financial squeeze in which all the producers, including Saudi Arabia, find themselves (relating in most cases to internal political considerations in each nation), suggests an inherently unstable pricing environment for the next few years. Just as 1983 and 1984 were characterized by sharp pricing swings in the market for both crude and products, so too will be 1985, 1986 and 1987. The alternating forces of fear and greed as they play on the financially pressed members of OPEC will lead directly to volatility in the oil market and cyclical periods of market stability giving way to destabilization, as the irresistible temptation to produce more and gain market share in a limited overall market environment takes its toll on the price structure.

Our best guess at this point is that we will see a series of small ($1-$2) downward ratchets in the price of oil over the next two or three years, rather than a collapse. However, the potential for the latter cannot be dismissed because of the simple fact that as prices come down, the producers are motivated to increase exports in order to make up for lost revenue, thereby destabilizing the market further. On the other hand, factors arguing for a "soft landing" rather than a collapse are: (1) the knowledge among leaders of OPEC that the lower the price goes, the less stable it becomes; (2) the risk to the international financial system of a large drop in oil prices; and (3) the high probability that a major price drop would trigger oil import tariffs in countries like the United States--totally nullifying any desired effect of stimulating demand.

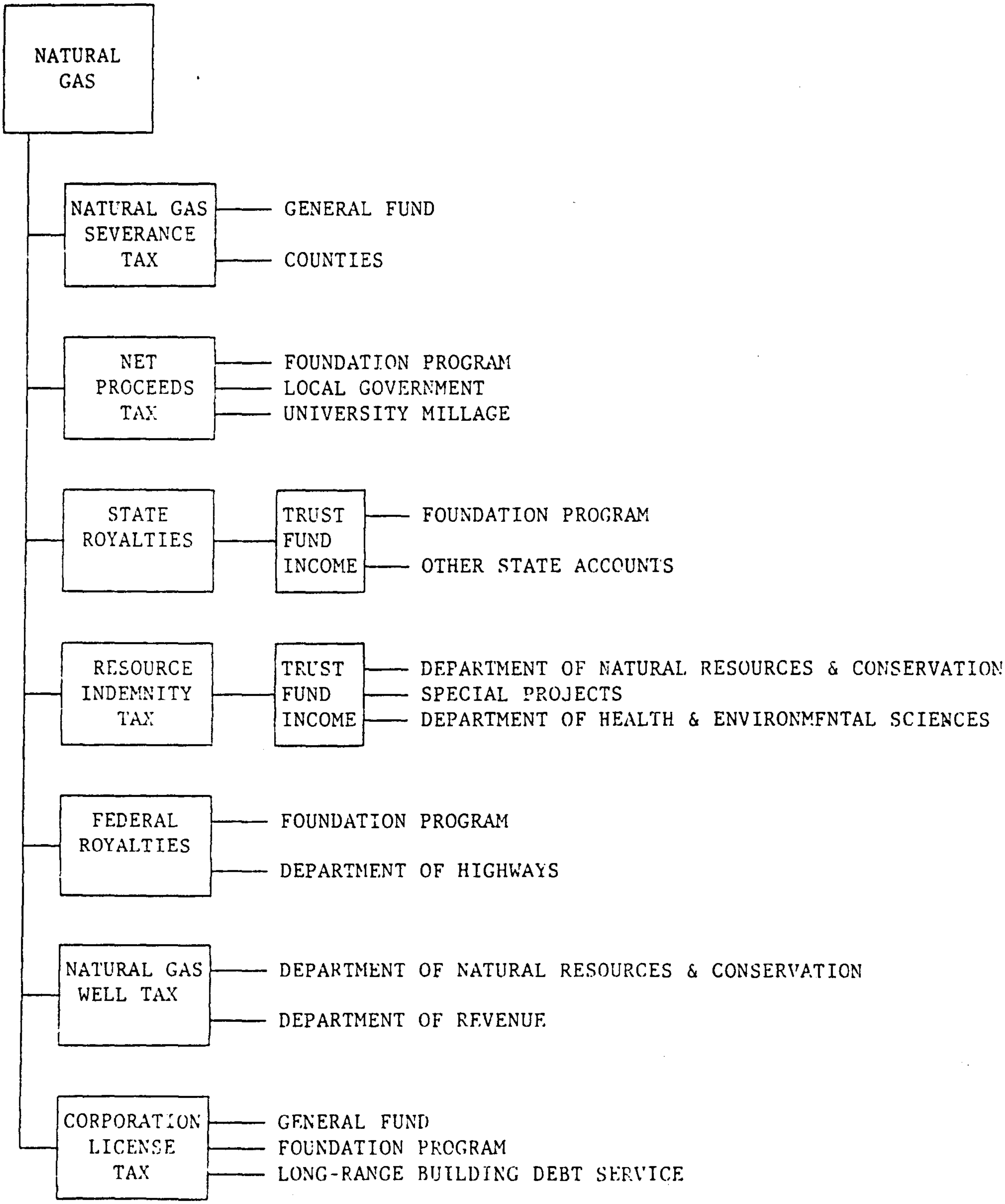
In view of the slightly more sanguine short-term oil market outlook, aggressive investors may wish to play the internationals for a near-term trading move. Our favorites would be: Exxon (XON: 48 1/4), Royal Dutch (RD: 51 1/4), Chevron (CHV: 33 1/4), Texaco (TX: 34 5/8) and Imperial Oil (IMO.A: 32 5/8). Longer-term investors may wish to take advantage of higher share prices to reduce exposure to this group in view of the lackluster intermediate-term fundamentals.

William L. Randol (212) 909-3144

N.B.: The First Boston Corporation has, within the last three years, performed investment banking services for Exxon and Texaco. Prices are as of the close, January 22, 1985.

1-29-85
Exhibit
HJR-9
OBPP

GRAPHIC REPRESENTATION OF REVENUE IMPACT
NATURAL GAS



The range of petroleum demand projected for 1984 is 130,000 barrels per day, with the largest source of uncertainty being the weather. (The fuel-switching adjustment increases the range on the high demand side.) This range of demand is relatively small compared to the level published in the August 1984 Outlook because only the fourth quarter of 1984 is a forecast in this Outlook. In 1985, the level of economic activity becomes the greatest source of uncertainty, with the total range of demand projected to be about 820,000 barrels per day. Although the level of economic activity is the greatest source of uncertainty in estimating petroleum demand on an annual basis, the first-quarter uncertainty is dominated by the weather-related variation in distillate demand for heating. Over the course of the year, the uncertainty in demand as a result of price variation also becomes more important, with a range of 390,000 barrels per day due to price changes by the fourth quarter of 1985.

Projections for Other Major Energy Sources

Natural Gas

Total natural gas consumption and production are forecast to end 4-year declines, increasing by 6 percent and 9 percent, respectively, from 1983 to 1984 (Table 14). Relatively small increases are expected between 1984 and 1985. The projection for natural gas demand is contingent on the effects of the assumed economic growth, the moderation in natural gas price increases during 1984, and only small increases in the nominal price of natural gas after partial deregulation goes into effect in January 1985. As the balancing item between demand and supply, the level of natural gas in underground storage is projected to decline by about 1 percent between the end of 1984 and the end of 1985.

Natural Gas Demand. Demand for natural gas in the United States is responding to the economic expansion. Total residential, commercial, and industrial use of natural gas was almost 8 percent higher in the first 9 months of 1984 compared to year-earlier levels, and is projected to increase by about 1 percent between 1984 and 1985. In the first 9 months of 1984, electric utility consumption of natural gas was more than 7 percent above year-earlier levels as a result of the increase in total electricity generation and the moderation in gas price increases. In 1984, electric utility demand for natural gas is projected to be about 9 percent above the 1983 level and is projected to increase slightly from 1984 to 1985, as higher levels of generation are expected to increase natural gas usage. Including the projected rise in electric utility gas use from 1984 to 1985, total gas consumption in 1985 is forecast to be 18.2 trillion cubic feet, the highest level since 1981, when consumption was 19.4 trillion cubic feet.

Natural Gas Supply. Total dry gas production is projected to increase by more than 9 percent to 17.4 trillion cubic feet in 1984 and then increase to 17.5 trillion cubic feet in 1985. Natural gas production is currently restrained by the limited end-use demand for natural gas. These projections for natural gas production are based on the expectation of limited growth in end-use consumption.

A lower price floor on Canadian pipeline exports of natural gas to the United States is expected to result in an increase in U.S. imports in 1985. Net pipeline imports of natural gas are projected to be 880 billion cubic feet in 1984 and 1 trillion cubic feet in 1985, a level still below the record of 1.2 trillion cubic feet of gas imports set in 1979.

AGA: Declining prices hold advantage for gas

Declining oil and gas prices present an opportunity for the gas industry to claim a slice of oil's share of the U.S. energy market, says the president of the American Gas Association (AGA).

George H. Lawrence told New York security analysts the prevailing view about how declining oil and gas prices will affect each other is not right.

"Conventional wisdom is that falling oil prices will hurt gas demand. Conventional wisdom is wrong," he said.

Lawrence acknowledged that falling oil prices will result in some gas load loss to residual oil in industrial and electric utility markets.

However, he said falling oil prices also will result in lower gas prices, higher levels of economic activity, particularly in heavy manufacturing industries, a lower inflation rate, a more favorable competitive position of gas vs. electricity and coal, energy conservation, and lower gas drilling costs.

"Our preliminary analysis shows that the positives of lower oil prices will soon outweigh the negatives," Lawrence said.

"Therefore, what has been perceived as a potential risk overhanging the gas industry is actually a potential opportunity. It is an opportunity we will work at achieving by backing out oil with gas, thereby putting increased pressure on oil markets."

Lawrence was joined at the analysts' meeting by O.C. Davis, chief executive officer of MidCon Corp., Lombard, Ill., and immediate past chairman of AGA.

Both men said the U.S. natural gas industry began 1985 in improved financial shape, anticipating stable gas consumption and prices, and well positioned to capitalize on new markets.

New markets. Davis cited an AGA study that found the gas industry's capital structure, bond ratings, and stock prices improving. He said the industry's stronger financial footing will help it tap opportunities in gas cooling and gas fired fuel cells.

Lawrence pointed out that the extensive gas pipeline network in the U.S. and its numerous gas storage sites make it easy to commercialize new technologies.

He suggested the transportation sector as one such emerging market.

The most likely initial market for natural gas vehicles is the fleet sector, which numbers 7-13 million automobiles. There are more than 30,000 natural gas vehicles operating in the U.S.

"The market for fleet vehicles alone could create a demand for 1 trillion cu ft of gas in the 1990s, replacing 500,000 b/d of imported oil," Lawrence said.

Fuel Use Act. Lawrence said one of the largest obstacles to tapping new markets and meeting competition is constraint on marketing activities imposed by the "antiquated gas use prohibitions" of the Powerplant and Industrial Fuel Use Act and the "price inflating" incremental pricing program of the Natural Gas Policy Act.

AGA will make repeal of the Fuel Use Act a top priority this year.

Lawrence was particularly critical of the effect of the Fuel Use Act on developing gas technologies.

He said certain new gas cogeneration applications are impeded by the act. In addition, combined cycle gas turbine technology that offers new opportunities for gas sales in the electric utility sector is prohibited.

The law also restricts select use of gas with coal or oil in new plants—even though such use could meet Clean Air Act requirements in a low cost way, Lawrence said.

How industry fared. Davis reported that the industry saw a significant rise in consumption, lower prices, and ample supplies during 1984.

Once all the data are in, 1984 gas consumption is expected to have reached 18.6 trillion cu ft, up 7% from a modern day low of 17.4 trillion cu ft in 1983. Davis called it the largest year to year increase in consumption since 1969.

Consumption is expected to be stable this year after the recovery in 1984. For first half 1985 AGA expects gas consumption to be 9.5 trillion cu ft, about the same as the first 6 months of 1984.

Gas prices for the winter heating season are expected to be flat, Davis said. And price increases during the year will be limited to the rate of inflation.

For the rest of the 1980s it is likely that gas prices will rise less than the rate of inflation and thus decline in real terms, Davis said.

He said domestic gas supply exceeds current demand by about 2 trillion cu ft. Further, there is more than 1 trillion cu ft of natural gas from Canada beyond the current level of almost 800 billion cu ft being imported. Supplies will remain adequate for some time.

Davis sees the industry's supply capability and market potential at 18-26 trillion cu ft by 2000, depending on economic conditions.

He said the industry anticipates little effect on average gas prices from partial decontrol on Jan. 1. A price flyup has been avoided by increased competition in gas markets, the current deliverability surplus, and industry efforts to renegotiate gas purchase contracts. •

Price slide means no WPT for some U.S. crude

Prices of a small volume of U.S. crude oil production have declined to a level no longer subject to the "windfall profits" tax (WPT).

Lease removal prices have, in some cases, fallen below the level at which the tax takes effect. That price varies by lease.

As crude prices declined toward the tax threshold, the reduced revenue came out of the pockets of producers and the U.S. Treasury. For crude no longer subject to WPT, the producer bears 100% of further price reductions.

Purchasers' payments to most producers and royalty owners early in 1985 probably still reflect some WPT because the payments cover oil removed from leases in November and December, when most prices were above WPT threshholds.

More oil is expected to escape WPT this month because prices have continued to decline.

Oil for which the sale price is below the adjusted base price is not subject to WPT.

Based on typical adjusted base prices for first quarter 1985, some Tier 3 crude is escaping the WPT. Tier 3, the category that fits a majority of production, includes oil discovered since June 1, 1979, incremental tertiary oil, and heavy oil (20° gravity or lower).

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 30, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on January 29, 1985, at 5 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

Chairman Harp advised those present the Subcommittee would hear projections for the Coal Severance Tax and the Metal Mines Tax.

CONSIDERATION OF THE COAL SEVERANCE TAX: Mr. Jim Mockler, Executive Director, Montana coal Council, said industry projections were down between 3 and 4 tons per year, primarily due to Western Energy in Colstrip, (Exhibit 1). He explained Colstrip 4, if fired up, would provide 4 million tons of coal, but chances of a strike at Colstrip are presently 50%. He commented there would be no new mines in 1986 nor in 1987 and that there is the possibility of the sale of 1½ tons of coal to Northern States Power in Minnestoa, however Northern States Power last purchased coal from Wyoming.

Mr. Terry Johnson, OBPP, said projected revenue from Colstrip is $1.5 million and that with Units 3 and 4 at full capacity, the plant would be at peak capacity by 1989.

Mr. Mockler advised the Subcommittee of a suit between the Crow Tribe and the State of Montana, which may have an effect on coal and may not be settled during the coming biennium.

Chairman Harp asked if the Governor's proposed rebate would have an effect on revenue this biennium. Mr. Mockler commented he would not like to comment until House Joint Resolution 9 is heard in the House and Senate. He did say the price of coal is tied to inflation the the escalation of production, but is expected to moderate considerably.

Mr. Johnson explained explained the figures stated in Exhibit 1 are no those originally projected by his office. He said the OBPP foresees a decline in production in 1984-85 and a rise in 1986-87, and that legislation passed in 1983 allows coal companies to receive a reduction in part, on royalties. He said this factor as well as increased production at Western (a low-cost producer) were taken into consideration when projections were made.

Mr. Dave Hunter, OBPP, said prior projections for FY85 were $1.1 million and are now $90,800. He explained the $4.1 million difference in projections between the LFA and his office have been reducted to $1.4 million, with this change and others.

Representative Williams asked why there is such a difference between LFA and Coal Council projections. Mr. Mockler replied, "historically the Council has been high in its projections and production has dropped off approximately 3 million tons this year".

Mr. Johnson said there are 10 different areas served by the Coal Severance Tax (Exhibit 2), from which $91 million has been collected in earnings. He explained the prevailing tax rate is 30%, while one company pays 20% and that his figures include Colstrip 3 and 4 on line as of April, 1986, (Exhibit 3).

Mr. Johnson advised the Subcommittee that 3.86 million tons of coal go to Bell River in Michigan each year, of which only 3.1 million tons were reported by the Coal Council. He commented that one difference between the LFA and OFPP is the litigation which involves 80% of production at Westmoreland, in addition to that of arriving at aggregate prices (Exhibit 4).

Chairman Harp asked if oil and coal were "tied together" on price trends. Mr. Johnson replied the price of diesel fuel drops when income from Coal Severance Tax drops, but oil would have to drop between $10-15 per barrel before there would a a noticable price change.

Mr. Mockler told subcommittee members there is no Bell River contract, but an old contract with Detroit Edison, which is a blend of Decker Coals and has only a moderating effect on price.

Ms. Waldron told the Subcommittee she excluded 70% of Westmoreland production from her projections, (Exhibit 4).

Chairman Harp asked why there was a drop in production between 1981 and 1982. Mr. Johnson replied Spring Creek Mines had problems in delivering coal to Houston, which accounted for a drop from 4.3 million to 1.4 million tons.

CONSIDERATION OF METAL MINES TAX: Mr. Gary Langley, Executive Director, Montana Mining Association, said there was a 1.5% increase in metal mines production in 1983, of which "one-third remains in trust to take care of tail-end situations".

Mr. Langley commented that several mines near Troy, Phillipsburg, Hall and Malta are still in the application process and may not open for nearly two years. He said mining is not a healthy industry right now and is expected to remain so for the next biennium (Exhibits 5,6, and 7).

Mr. Terry Johnson, OBPP, told subcommittee members he used calender year 1983 production levels as a base because of legislation passed that year requiring quarterly returns and that he used general receipts in FY84. His projections are as follows:

Copper -$	.65	Total production revenue FY85	-$120.104	million
Silver	7.50	86	121.353	
Gold	350.00	87	121.839	

Mr. Johnson said silver is presently at about $6.50 and that he included Black Pine Mine in his forecast, (which produced approximately 1 million pounds of copper, 620,000 ounces of silver and a small amount of gold in CY83. He commented tax revenue from the mine will be between $150,000 and $200,000.

Representative Switzer asked Mr. Johnson if the resource Indemnity Tax would affect OBPP projections. Mr. Johnson replied he used applied tax values of .01425 for FY85 and .01465 overall for FY86 and FY87.

Ms. Waldron, LFA, provided copies of her projections for subcommittee members (Exhibit 8).

Mr. Ted Rollins, Personnel Manager, Asarco's Troy Mine, said the mine's most recent tax statement included $1.2 million in real and personal property taxes, $350,000 in gross proceeds tax, $1 million in metal mines tax, $150,000 in resource indemnity tax and $110,000 in state unemployment tax. He explained the mine produced $4.2 million ounces of silver and between 19 and 20 tons of copper.

Mr. Rollins told subcommittee members the Rock Creek project north of Noxon, Montana, is richer and larger than the Troy mine, in both silver and copper, and would employ approximately 350 persons using the same methods as those at Troy.

Mr. Rollins said he expects the price of silver to recover as he believes the $6 price is marginal. He commented the feasibility study for Troy was gegun in 1973 at a cost of $4 million, while development did not begin until 1979, and full proudction was not attained until February, 1982. He added that Troy is presently the third largest producer of silver in the U.S.

Mr. Johnson, in summary, said his forecasts covered 30 months in advance, but his judgment was based on information from two quarters, for constant production projections in CY84-87.

SUBCOMMITTEE PROJECTIONS FOR OIL SEVERANCE TAX: Representative Switzer made a motion the Subcommittee adopt 27.75 million for FY85.

Representative Harrington made a substitute motion that the Subcommittee go with 28.8 million for FY85. Subsequent to discussion, the following was agreed upon:

Production FY85 -28.8 million	Price FY85 -$27.50
28.	26.25
27.5	26.00

Mr. Dave Hunter, OBPP, offered to provide these revised estimates to the Subcommittee at the next meeting.

There being no further business before the Subcommittee, the meeting was adjourned at 6:45 p.m.

Representative John G. Harp, Chairman

From
Jim Mockler
1/30/85
Exhibit 1.
HJR-9

Montana Coal Council
January 30, 1985

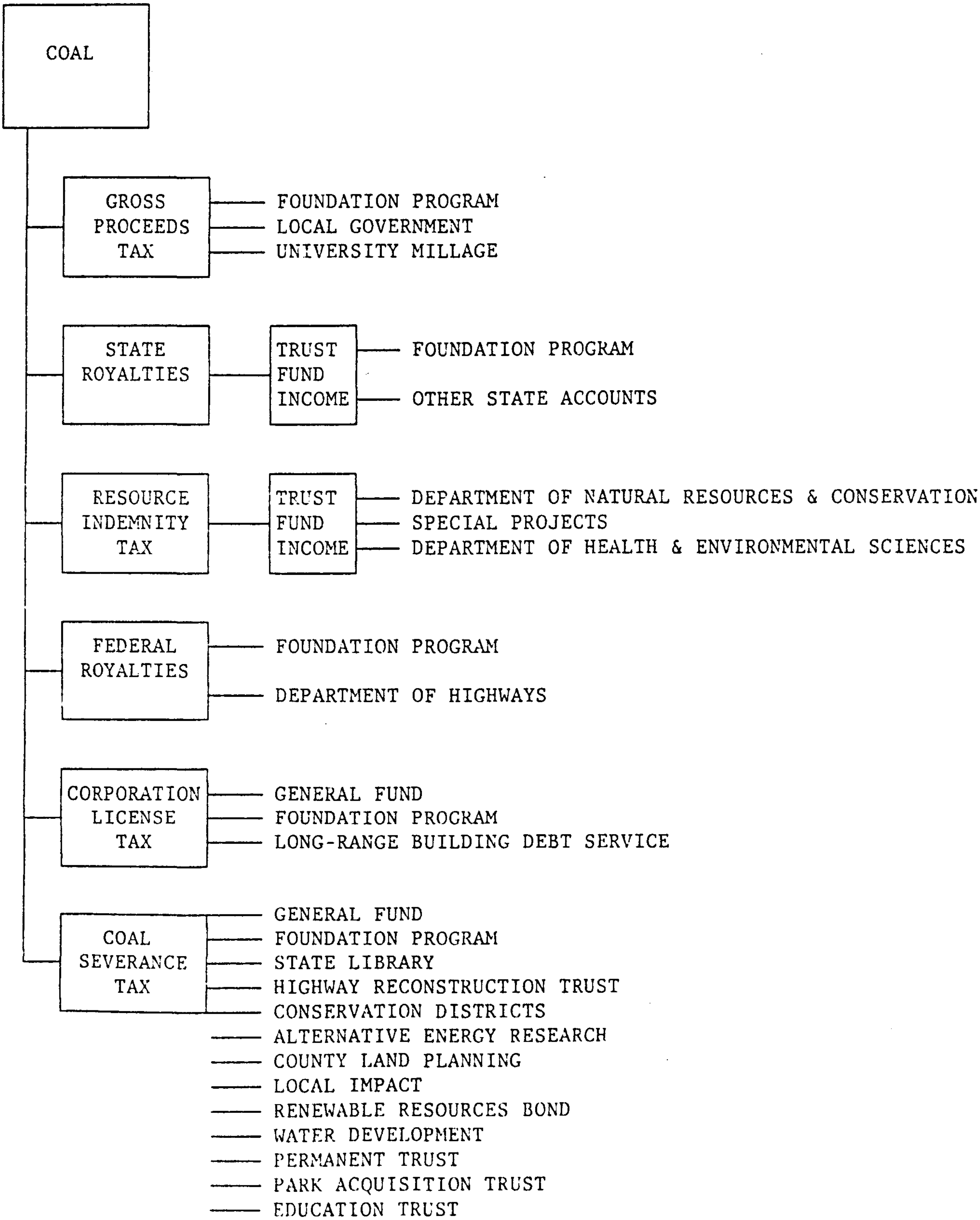
Estimated Montana Coal Production
1985-1989

Millions of Tons

	1985	1986	1987	1988	1989
Decker Coal Co.	12.7	13.6	13.5	13.6	13.7
Knife River Coal Mining Co.	.25	.25	.25	.25	.25
Peabody Coal Co.	3.2	3.2	3.2	3.2	3.2
Spring Creek Coal Co.	2.5	2.5	2.5	2.5	2.5
Western Energy Co.	11.9	11.9	13.0	13.0	15.0
Westmoreland Resources Inc.	3.9	3.9	3.9	3.9	3.9
	34.45	35.35	36.35	36.45	38.55

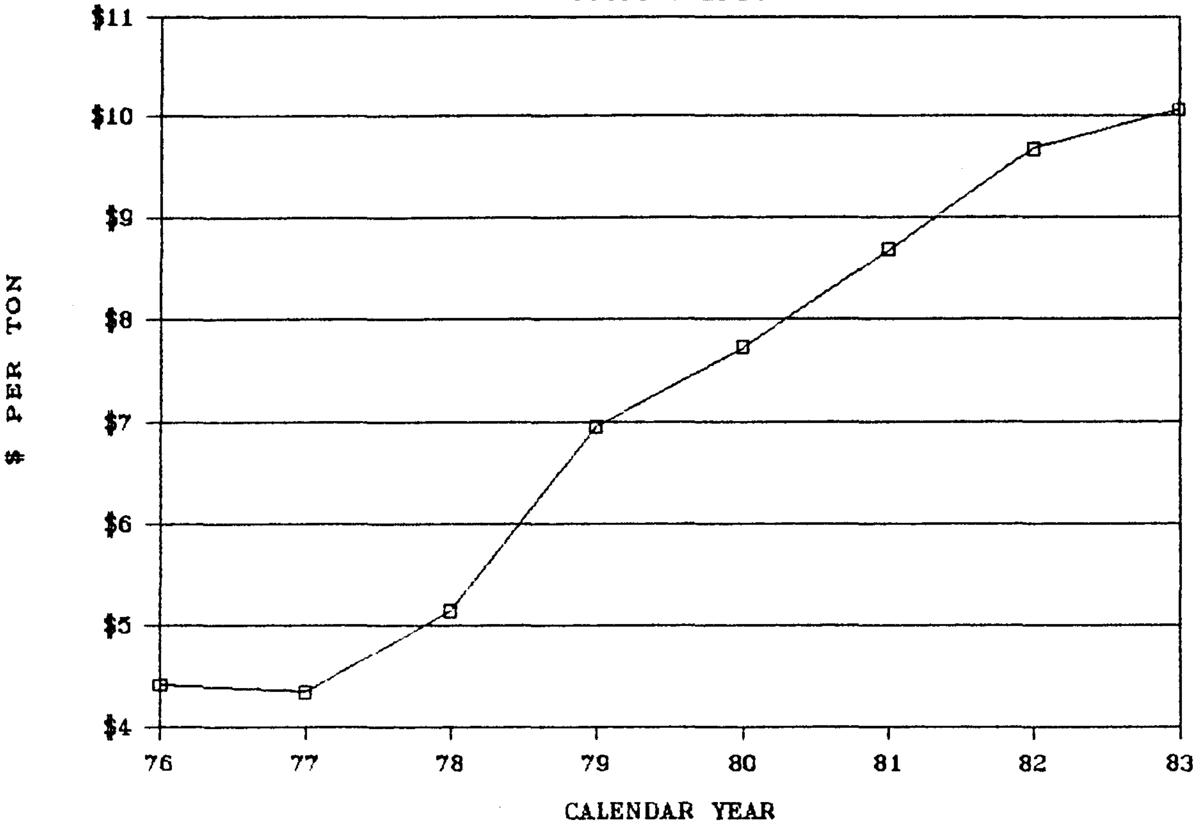
1-30-85
Exhibit 2
HJR-9
OBPP

GRAPHIC REPRESENTATION OF REVENUE IMPACT
COAL



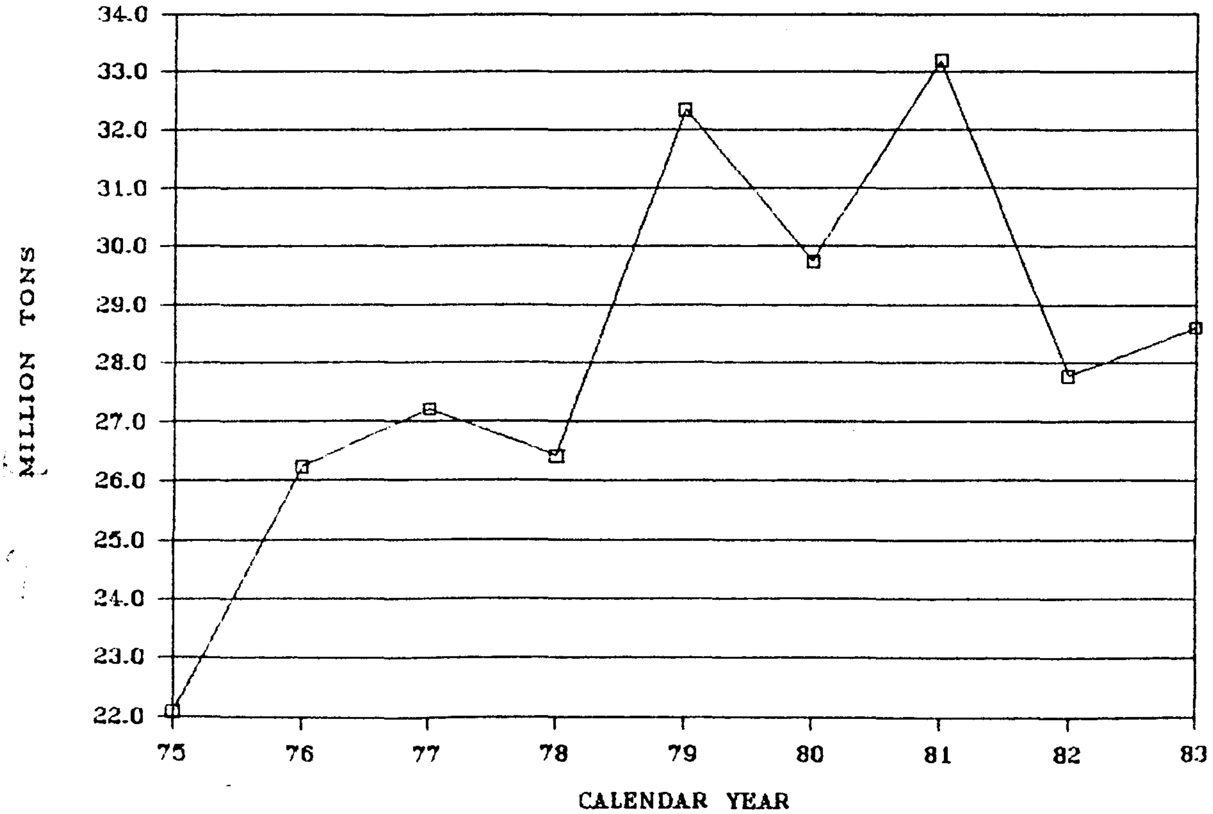
COAL SEVERANCE TAX

PRICE TRENDS



COAL SEVERANCE TAX

PRODUCTION TRENDS



WKS=COALTAX

OFFICE OF BUDGET & PROGRAM PLANNING
COAL SEVERANCE TAX REVENUE

COAL SEVERANCE TAX COLLECTIONS

ACCT. ENTITY	ACCOUNT NAME	ACTUAL FY 76	ACTUAL FY 77	ACTUAL FY 78	ACTUAL FY 79	ACTUAL FY 80	ACTUAL FY 81	ACTUAL FY 82	ACTUAL FY 83	ACTUAL FY 84	CUMMULATIVE TOTALS
01100	GENERAL FUND	10,586,335	14,362,422	11,241,695	12,806,812	20,222,579	13,378,906	16,375,501	15,208,546	15,736,452	129,919,24
02403	PUBLIC SCHOOL EQUALIZATION	2,203,181	3,590,606	2,810,392	3,201,679	5,210,070	3,520,751	4,309,342	4,002,249	4,141,172	32,939,44
02405	STATE LIBRARY	0	0	0	0	383,568	352,075	430,934	400,225	414,117	1,980,91
02434	CONSERVATION DISTRICTS	0	0	0	0	0	0	99,325	200,112	207,059	506,49
02437	ALTERNATIVE ENERGY RESEARCH	550,795	897,651	702,598	800,420	1,514,667	1,760,376	2,055,346	1,801,012	1,863,527	11,946,39
02444	COUNTY LAND PLANNING	220,318	359,061	281,039	320,168	521,007	352,075	430,934	400,225	414,117	3,298,94
02445	LOCAL IMPACT	3,855,567	6,283,560	4,798,525	5,399,195	9,030,162	6,161,314	7,541,349	7,003,936	7,247,050	57,320,65
04008	RENEWABLE RESOURCES BOND	550,795	897,651	702,598	800,420	1,302,518	880,188	1,077,336	1,000,562	624,224	7,836,29
04011	WATER DEVELOPMENT	0	0	0	0	0	0	0	0	411,069	411,06
09001	PERMANENT TRUST	0	0	6,268,016	10,672,277	23,024,226	35,207,511	43,093,423	40,022,491	41,411,716	199,699,66
09004	PARK ACQUISITION TRUST	275,398	448,826	351,299	400,210	2,089,639	1,760,376	2,154,671	2,001,125	2,070,565	11,552,10
09005	EDUCATION TRUST	2,203,181	3,590,606	2,742,014	3,085,254	8,995,772	7,041,502	8,618,685	8,004,498	8,282,343	52,563,85
	ACQUISITION OF SITES & AREAS	275,398	448,826	351,299	400,210	171,799	0	0	0	0	1,647,53
	COAL AREA HIGHWAY IMPROVEMENT	2,203,181	3,590,606	3,374,514	4,162,183	1,786,708	0	0	0	0	15,117,19
	COUNTIES	1,040,493	1,436,242	748,076	640,336	872,294	0	0	0	0	4,737,44
	TOTAL TAXES	23,964,642	35,906,057	34,372,065	42,689,164	75,125,009	70,415,074	86,186,846	80,044,981	82,823,411	531,537,24

WKS=COALTAX

OFFICE OF BUDGET & PROGRAM PLANNING
COAL SEVERANCE TAX REVENUE

COAL SEVERANCE TAX INTEREST COLLECTIONS

ACCT. ENTITY	ACCOUNT NAME	ACTUAL FY 76	ACTUAL FY 77	ACTUAL FY 78	ACTUAL FY 79	ACTUAL FY 80	ACTUAL FY 81	ACTUAL FY 82	ACTUAL FY 83	ACTUAL FY 84	CUMMULATI TOTALS
EDUCATION TRUST EARNINGS											
02403	PUBLIC SCHOOL EQUALIZATION	0	45,076	348,669	447,265	582,852	1,172,659	2,376,417	8,230,693	5,107,578	18,311,2
02022	BOARD OF REGENTS	0	15,025	116,223	149,088	194,284	390,886	792,139	2,743,565	1,702,526	6,103,7
09005	EDUCATION TRUST/VO-TECH/ABE	0	6,678	51,655	66,262	86,348	173,727	352,062	1,219,362	756,678	2,712,7
PERMANENT TRUST EARNINGS											
01100	GENERAL FUND	0	0	86,801	712,165	2,118,130	5,099,806	11,726,303	18,520,100	18,947,636	57,210,9
09001	PERMANENT TRUST	0	0	0	0	0	0	0	0	3,343,701	3,343,7
PARK ACQUISITION TRUST EARNINGS											
02408	FISH,WILDLIFE & PARKS	0	0	0	104,007	253,740	490,378	552,367	633,862	618,693	2,653,0
02408	MONTANA ARTS COUNCIL	0	0	0	0	0	0	276,184	316,931	309,346	902,4
	TOTAL INTEREST	0	66,779	603,348	1,478,787	3,235,354	7,327,456	16,075,472	31,664,513	30,786,158	91,237,8

TRUST BALANCES AS OF 6/30/84

PERMANENT TRUST	192,761,293
PERMANENT TRUST - IN-STATE	10,173,172
PARK ACQUISITION TRUST	11,565,460
EDUCATION TRUST	60,925,269
TOTAL	275,425,194

Exhibit 2a
Jan 30, 1985
HJR 9

Office of the Legislative Fiscal Analyst

Prepared for the

HJR 9 Subcommittee on Revenue

COAL SEVERANCE TAX

Table 1 compares actual fiscal 1984 and projected fiscal 1985 through 1987 taxable coal production, contract sales price, and general fund revenue.

Table 1
Taxable Coal Production, Contract Sales Price, and General Fund Revenue

	Actual FY 1984	FY 1985	FY 1986	FY 1987
Production(tons)				
LFA	27,394,512	30,655,000	31,920,000	32,390,000
Executive		30,079,000	32,916,000	34,973,000
Difference		576,000	(996,000)	(2,583,000)
Contract Sales Price				
LFA	$10.10	$ 9.93	$10.46	$11.11
Executive		10.201	10.545	10.703
Difference		$(0.271)	$(0.085)	$ 0.407
General Fund Revenue				
LFA	$15,736,468	$17,346,200	$19,039,500	$18,035,000
Executive		17,444,000	19,735,000	18,732,000
Difference		$ (97,800)	$ (695,500)	$ (697,000)

METAL MINES TAX

The LFA projections of general fund revenue from the metal mines tax were based on the assumptions that mines currently in operation would continue producting at their actual calendar year 1983 levels, that no new mines would begin commercial operations during the forecast period, and that metal prices would generally rise from the 1984 level. Table 2 shows the current (January 25, 1985) prices for gold, silver, and copper and those used in making LFA projections.

Table 2
Metal Prices

	Current	CY 1984	CY 1985	CY 1986
Gold	$300/oz.	$350/oz.	$375/oz.	$415/oz.
Silver	$6/oz.	$9/oz.	$8/oz.	$9/oz.
Copper	65¢/lb.	65¢/lb.	62¢/lb.	70¢/lb.

JCLEG:jt:HJR9 1-30-5

HOUSE JOINT RESOLUTION NO. 9

INTRODUCED BY Walker

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE MONTANA CONSTITUTION.

WHEREAS, Article VI, section 9, of the Montana Constitution requires the Governor to submit to the Legislature a budget for the ensuing fiscal period containing in detail the estimated revenue of the state; and

WHEREAS, Article VIII, section 9, of the Montana Constitution requires that the Legislature may not appropriate funds in excess of the anticipated revenue of the state; and

WHEREAS, section 5-12-302(2), MCA, requires the Office of the Legislative Fiscal Analyst to estimate revenue from existing and proposed taxes, and section 17-7-123(1), MCA, requires the Governor to submit a budget showing a balance between proposed disbursements and total anticipated receipts; and

WHEREAS, due to the complexity of economic variables

involved in revenue forecasting and the diversity of sources from which state revenues are obtained, it has become increasingly difficult to project revenues in order to prepare a balanced budget for the ensuing biennium; and

WHEREAS, past legislatures have not agreed on revenue projections until the last days of the session when there is little time for comprehensive analysis or reasoned criticism; and

WHEREAS, it is in the best interests of the state that revenue forecasts be discussed and arrived at in public hearings wherein all the people may attend and participate.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the state general fund revenue for fiscal years 1986 and 1987 is estimated to total $767,532,000. This total is based on the assumptions and projections set forth below:

GENERAL FUND REVENUE

The projections for total general fund revenue during the 1986-87 biennium are based on an assumption of moderate economic growth during the period. While current economic growth is slowing, the present economic recovery is expected to continue, but at a more moderate level. It is further assumed that the inflation rate will be about 6% during the biennium and that interest rates will drift upward until

INTRODUCED BILL
HJR 9

late 1986 and then decline slightly in 1987, based on the assumption of a less restrictive monetary policy by the Federal Reserve and a continuation of competing credit demands between private borrowers and the federal government.

General Fund Revenue

Source of Revenue	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
(1) Individual Income Tax				
	$116,653,000	$123,466,000	$130,626,000	$254,092,000

This revenue consists of 64% of the total projected individual income tax collections, which percentage is currently deposited in the general fund.

Assumption: Income tax forecasts for the 1986-87 biennium assume moderate growth in personal income and employment. These projections also are based upon the continuation of all statutory credits. The additional revenue that would be generated by federal income tax indexing has not been included in the forecasts.

(2) Corporation License Tax

$35,017,000	$29,957,000	$32,304,000	$62,261,000

The corporation license tax is distributed to several accounts. The revenue reported above consists of 64% of the corporation license tax, which percentage is currently

deposited in the general fund.

(3) Coal Severance Tax

$17,444,000	$19,735,000	$18,732,000	$38,467,000

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year, assessed at the rate of 30% of the value of the coal with a heating quality of at least 7,000 Btu's per pound and 20% of the value of coal with a lower Btu rate.

Assumption: With lower demand and competitively priced alternative fuels, coal prices have remained soft. It is assumed that these conditions, in conjunction with royalty deductions, will result in a modest rate of growth in the price of coal during the biennium. A dispute involving the state's authority to tax coal mined on Crow Indian land has prompted a major coal developer to protest taxes paid on this production. Until a settlement is reached, these taxes are being deposited in an escrow account. Tax forecasts for the 1986-87 biennium assume a settlement will not be reached until after fiscal year 1987; therefore, these coal tax revenues are not included in the above revenue estimates.

(4) Oil Severance Tax

$32,837,000	$27,792,000	$29,269,000	$57,061,000

Assumptions: Oil severance tax revenues are dependent on the price per barrel and the number of barrels of oil produced in the state. Since oil is a commodity that is used

for diverse purposes, the prices depend on federal regulations and world demand. Although recent oil price cuts by Norway, Great Britain, and Nigeria have injected an uncertainty in the international oil market, it is assumed that prices will stabilize and increase slightly by the calendar year 1987. This assumption is based on OPEC's recent agreement to cut daily production and Chase Econometrics' prediction that further price declines will not occur because of an observed increase in recent worldwide demand.

(5) Interest on Investments

$27,732,000 $25,099,000 $25,820,000 $50,919,000

Assumptions: Interest on investments is projected to increase in fiscal 1985, but then decline in fiscal years 1986 and 1987. The increase in 1985 is expected because tax anticipation notes were sold this year. The decline in 1986 and 1987 is expected because interest earned on the highway gas account will begin to accrue to the highway account.

(6) Long-Range Bond Excess

$38,449,000 $38,880,000 $40,652,000 $79,532,000

The long-range debt service account receives 11% of all individual income and corporation license taxes, 79.75% of all cigarette excise taxes, and 100% of the tobacco products tax. When the sum of money in the debt service account exceeds the annual principal and interest payments, the

excess is transferred to the general fund.

Assumption: It is assumed that there will be no additional long-range building bonds sold through fiscal year 1987.

(7) Coal Trust Fund Interest

$24,529,000 $28,792,000 $33,560,000 $62,352,000

This revenue is derived from interest earned on the deposit of 50% of the coal severance tax receipts dedicated to the permanent trust fund.

Assumption: Coal severance tax bonds are sold to finance specific water resources development projects. Debt service on these bonds is paid primarily with pledged project and coal severance tax revenues. The use of coal severance tax revenues for this purpose will reduce permanent trust fund receipts by about $300,000 in fiscal years 1986 and 1987. However, it is projected and assumed that the total permanent trust interest income will increase over the biennium. Balances available for investment are expected to increase because of anticipated higher coal severance tax receipts. In addition, long-term interest rates are expected to gradually increase by calendar year 1986.

(8) Insurance Premiums Tax

$16,109,000 $16,139,000 $17,558,000 $33,697,000

Assumptions: The level of insurance tax receipts is

assumed to increase by about 8% for fiscal years 1985 through 1987, based on a moderate growth in total personal income and employment.

(9) Public Institutions Reimbursements

$12,213,000	$14,758,000	$15,310,000	$30,068,000

Assumptions: In fiscal 1984, approximately 88% of all reimbursements collected were federal medicaid receipts. Hence, forecasts for revenue assume federal medicaid reimbursement equal to the executive budget request for the Department of Social and Rehabilitation Services. This request assumes that the number of patient care days will remain constant at the 1985 level. In addition, the revenue estimates for fiscal years 1986 and 1987 assume about $2,000,000 annually for medicaid reimbursements from the Montana Youth Treatment Center at Billings.

(10) Liquor Profits

$4,466,000	$5,924,000	$6,544,000	$12,468,000

(11) Liquor Excise Tax

$6,418,000	$7,074,000	$7,470,000	$14,544,000

Assumptions: Liquor sales for fiscal years 1986 and 1987 are expected to show little growth. Although personal income is growing, there appears to be a trend toward moderation in liquor consumption. Furthermore, the liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at the 1984 level.

(12) Inheritance Tax

$6,289,000	$6,656,000	$7,072,000	$13,728,000

Assumptions: Projected inheritance tax revenues are based on a 6% annual growth rate in tax collections. Returns processed are expected to remain stable and of average size taxable at between 0% and 32%.

(13) Metal Mines Tax

$1,711,000	$1,185,000	$1,190,000	$2,375,000

Historically, the metal mines tax has been deposited in the general fund. Beginning in fiscal year 1986, one-third of the receipts will be deposited in a hard-rock mining trust account.

Assumptions: Metal prices, metal production, and the effective tax rate are the major factors that determine the level of metal mines tax receipts. It is assumed that production for gold, silver, and copper will increase modestly throughout the biennium. Also, prices are assumed to remain constant at calendar year 1984 levels. No new companies are expected to begin operating in the state by the end of calendar year 1986.

(14) Electrical Energy Tax

$1,986,000	$2,042,000	$2,169,000	$4,211,000

Assumptions: Total U.S. electricity production has grown by 2.2% since calendar year 1974. It is assumed that Montana's production will follow this trend and that demand

for electrical power will increase at this rate through the 1986-87 biennium. In addition, an adjustment to these estimates has been made based on a July 1986 completion date for Colstrip Unit 4. Production capacity for both Colstrip Unit 3 and Unit 4 is assumed to be 60% the first year and 70% thereafter.

(15) Drivers' License Fees

$817,000	$835,000	$854,000	$1,689,000

Assumptions: Census data from 1970 and 1980 indicate that growth in the eligible driver age cohort was 2.2% annually. Collection of drivers' license fees is assumed to continue this trend during the biennium.

(16) Telephone License Tax

$2,814,000	$3,053,000	$3,311,000	$6,364,000

Assumptions: Revenue forecasts for the telephone tax are based on an average growth rate in revenues of 8.5% observed since calendar year 1969.

(17) Beer License Tax

$1,213,000	$1,221,000	$1,230,000	$2,451,000

Assumptions: Revenues are projected based on an annual growth rate in beer consumption of about 0.7% that has been observed since fiscal year 1979.

(18) Natural Gas Severance Tax

$3,481,000	$3,650,000	$3,862,000	$7,512,000

Assumptions: Natural gas production is projected to

remain at current levels throughout the 1986-87 biennium. Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985. Prices will increase only moderately even with deregulation because of more competition, contract renegotiations, and lower market prices, primarily from Canada.

(19) Freight Line Tax

$1,402,000	$1,465,000	$1,556,000	$3,021,000

Assumptions: Freight line tax revenues are projected to increase by about 6% over the period 1985-1987.

(20) Wine Tax

$917,000	$928,000	$940,000	$1,868,000

Assumptions: Wine tax receipts are projected to increase by 1.3% annually based on the same percentage rate of growth in the consumption of distilled spirits experienced since calendar year 1969. Wine taxes are not based on the value of the commodity. Revenues are a function of consumption.

(21) Other Revenue Sources

$13,474,000	$13,930,000	$14,922,000	$28,852,000

Assumptions: Since fiscal year 1981, revenues from a number of other statutory taxes and fines have grown an average of 7.2% per year after adjusting for one-time receipts. It is assumed this trend will continue during the biennium; however, a negative adjustment of $465,000 was made to fiscal year 1986 and 1987 estimates to account for bank examination fees being deposited to a new state special revenue account.

General Fund Total

$365,971,000 $372,581,000 $394,951,000 $767,532,000

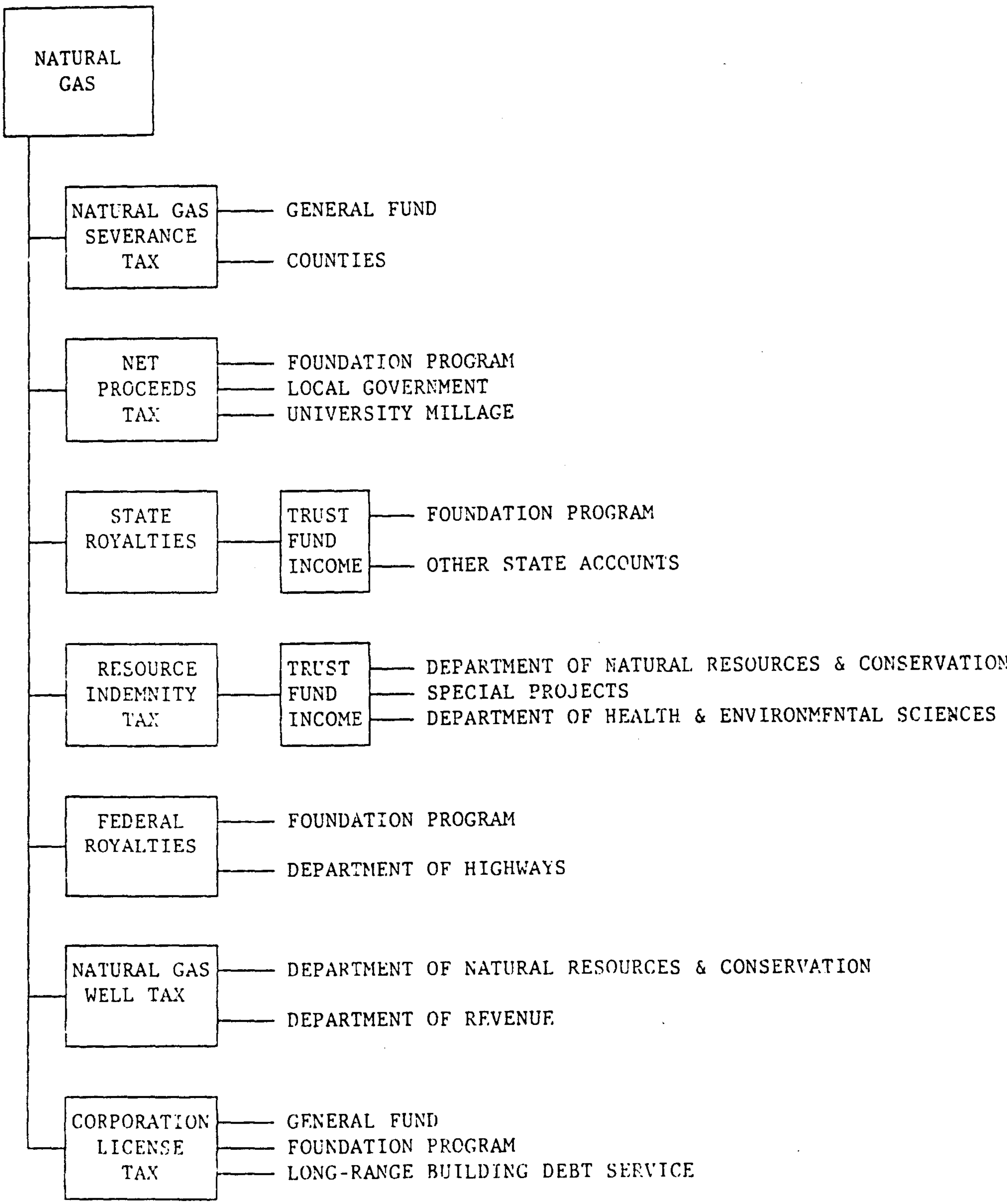
General Fund
Fiscal 1985
Ending Balance

$28,981,378

-End-

1-29-85
Exhibit
HJR 9

GRAPHIC REPRESENTATION OF REVENUE IMPACT
NATURAL GAS



The range of petroleum demand projected for 1984 is 130,000 barrels per day, with the largest source of uncertainty being the weather. (The fuel-switching adjustment increases the range on the high demand side.) This range of demand is relatively small compared to the level published in the August 1984 Outlook because only the fourth quarter of 1984 is a forecast in this Outlook. In 1985, the level of economic activity becomes the greatest source of uncertainty, with the total range of demand projected to be about 820,000 barrels per day. Although the level of economic activity is the greatest source of uncertainty in estimating petroleum demand on an annual basis, the first-quarter uncertainty is dominated by the weather-related variation in distillate demand for heating. Over the course of the year, the uncertainty in demand as a result of price variation also becomes more important, with a range of 390,000 barrels per day due to price changes by the fourth quarter of 1985.

Projections for Other Major Energy Sources

Natural Gas

Total natural gas consumption and production are forecast to end 4-year declines, increasing by 6 percent and 9 percent, respectively, from 1983 to 1984 (Table 14). Relatively small increases are expected between 1984 and 1985. The projection for natural gas demand is contingent on the effects of the assumed economic growth, the moderation in natural gas price increases during 1984, and only small increases in the nominal price of natural gas after partial deregulation goes into effect in January 1985. As the balancing item between demand and supply, the level of natural gas in underground storage is projected to decline by about 1 percent between the end of 1984 and the end of 1985.

Natural Gas Demand. Demand for natural gas in the United States is responding to the economic expansion. Total residential, commercial, and industrial use of natural gas was almost 8 percent higher in the first 9 months of 1984 compared to year-earlier levels, and is projected to increase by about 1 percent between 1984 and 1985. In the first 9 months of 1984, electric utility consumption of natural gas was more than 7 percent above year-earlier levels as a result of the increase in total electricity generation and the moderation in gas price increases. In 1984, electric utility demand for natural gas is projected to be about 9 percent above the 1983 level and is projected to increase slightly from 1984 to 1985, as higher levels of generation are expected to increase natural gas usage. Including the projected rise in electric utility gas use from 1984 to 1985, total gas consumption in 1985 is forecast to be 18.2 trillion cubic feet, the highest level since 1981, when consumption was 19.4 trillion cubic feet.

Natural Gas Supply. Total dry gas production is projected to increase by more than 9 percent to 17.4 trillion cubic feet in 1984 and then increase to 17.5 trillion cubic feet in 1985. Natural gas production is currently restrained by the limited end-use demand for natural gas. These projections for natural gas production are based on the expectation of limited growth in end-use consumption.

A lower price floor on Canadian pipeline exports of natural gas to the United States is expected to result in an increase in U.S. imports in 1985. Net pipeline imports of natural gas are projected to be 880 billion cubic feet in 1984 and 1 trillion cubic feet in 1985, a level still below the record of 1.2 trillion cubic feet of gas imports set in 1979.

AGA: Declining prices hold advantage for gas

Declining oil and gas prices present an opportunity for the gas industry to claim a slice of oil's share of the U.S. energy market, says the president of the American Gas Association (AGA).

George H. Lawrence told New York security analysts the prevailing view about how declining oil and gas prices will affect each other is not right.

"Conventional wisdom is that falling oil prices will hurt gas demand. Conventional wisdom is wrong," he said.

Lawrence acknowledged that falling oil prices will result in some gas load loss to residual oil in industrial and electric utility markets.

However, he said falling oil prices also will result in lower gas prices, higher levels of economic activity, particularly in heavy manufacturing industries, a lower inflation rate, a more favorable competitive position of gas vs. electricity and coal, energy conservation, and lower gas drilling costs.

"Our preliminary analysis shows that the positives of lower oil prices will soon outweigh the negatives," Lawrence said.

"Therefore, what has been perceived as a potential risk overhanging the gas industry is actually a potential opportunity. It is an opportunity we will work at achieving by backing out oil with gas, thereby putting increased pressure on oil markets."

Lawrence was joined at the analysts' meeting by O.C. Davis, chief executive officer of MidCon Corp., Lombard, Ill., and immediate past chairman of AGA.

Both men said the U.S. natural gas industry began 1985 in improved financial shape, anticipating stable gas consumption and prices, and well positioned to capitalize on new markets.

New markets. Davis cited an AGA study that found the gas industry's capital structure, bond ratings, and stock prices improving. He said the industry's stronger financial footing will help it tap opportunities in gas cooling and gas fired fuel cells.

Lawrence pointed out that the extensive gas pipeline network in the U.S. and its numerous gas storage sites make it easy to commercialize new technologies.

He suggested the transportation sector as one such emerging market.

The most likely initial market for natural gas vehicles is the fleet sector, which numbers 7-13 million automobiles. There are more than 30,000 natural gas vehicles operating in the U.S.

"The market for fleet vehicles alone could create a demand for 1 trillion cu ft of gas in the 1990s, replacing 500,000 b/d of imported oil," Lawrence said.

Fuel Use Act. Lawrence said one of the largest obstacles to tapping new markets and meeting competition is constraint on marketing activities imposed by the "antiquated gas use prohibitions" of the Powerplant and Industrial Fuel Use Act and the "price inflating" incremental pricing program of the Natural Gas Policy Act.

AGA will make repeal of the Fuel Use Act a top priority this year.

Lawrence was particularly critical of the effect of the Fuel Use Act on developing gas technologies.

He said certain new gas cogeneration applications are impeded by the act. In addition, combined cycle gas turbine technology that offers new opportunities for gas sales in the electric utility sector is prohibited.

The law also restricts select use of gas with coal or oil in new plants—even though such use could meet Clean Air Act requirements in a low cost way, Lawrence said.

How industry fared. Davis reported that the industry saw a significant rise in consumption, lower prices, and ample supplies during 1984.

Once all the data are in, 1984 gas consumption is expected to have reached 18.6 trillion cu ft, up 7% from a modern day low of 17.4 trillion cu ft in 1983. Davis called it the largest year to year increase in consumption since 1969.

Consumption is expected to be stable this year after the recovery in 1984. For first half 1985 AGA expects gas consumption to be 9.5 trillion cu ft, about the same as the first 6 months of 1984.

Gas prices for the winter heating season are expected to be flat, Davis said. And price increases during the year will be limited to the rate of inflation.

For the rest of the 1980s it is likely that gas prices will rise less than the rate of inflation and thus decline in real terms, Davis said.

He said domestic gas supply exceeds current demand by about 2 trillion cu ft. Further, there is more than 1 trillion cu ft of natural gas from Canada beyond the current level of almost 800 billion cu ft being imported. Supplies will remain adequate for some time.

Davis sees the industry's supply capability and market potential at 18-26 trillion cu ft by 2000, depending on economic conditions.

He said the industry anticipates little effect on average gas prices from partial decontrol on Jan. 1. A price flyup has been avoided by increased competition in gas markets, the current deliverability surplus, and industry efforts to renegotiate gas purchase contracts. •

Price slide means no WPT for some U.S. crude

Prices of a small volume of U.S. crude oil production have declined to a level no longer subject to the "windfall profits" tax (WPT).

Lease removal prices have, in some cases, fallen below the level at which the tax takes effect. That price varies by lease.

As crude prices declined toward the tax threshold, the reduced revenue came out of the pockets of producers and the U.S. Treasury. For crude no longer subject to WPT, the producer bears 100% of further price reductions.

Purchasers' payments to most producers and royalty owners early in 1985 probably still reflect some WPT because the payments cover oil removed from leases in November and December, when most prices were above WPT threshholds.

More oil is expected to escape WPT this month because prices have continued to decline.

Oil for which the sale price is below the adjusted base price is not subject to WPT.

Based on typical adjusted base prices for first quarter 1985, some Tier 3 crude is escaping the WPT. Tier 3, the category that fits a majority of production, includes oil discovered since June 1, 1979, incremental tertiary oil, and heavy oil (20° gravity or lower).

1- -85
Exhibit
NJR-9
OBPP

Table 4 lists two measure of inflation rates as published by Chase Econometrics. These national averages are provided because indices for Montana are not available.

TABLE 4

MEASURES OF INFLATION

CY	US CPI 1967=100	% CHANGE	US GNP DEFLATOR 1972=100	% CHANGE
1970	116.3		91.4	
1971	121.2	4.21	96.0	5.03
1972	125.3	3.38	100.0	4.17
1973	133.1	6.23	105.7	5.70
1974	147.7	10.97	115.1	8.89
1975	161.3	9.21	125.7	9.21
1976	170.5	5.70	132.3	5.25
1977	181.6	6.51	140.0	5.82
1978	195.4	7.60	150.4	7.43
1979	217.5	11.31	163.4	8.64
1980	246.8	13.47	178.4	9.18
1981	272.3	10.33	195.6	9.64
1982	289.1	6.17	207.4	6.03
1983	298.3	3.18	215.3	3.81
PROJECTED				
1984	311.5	4.43	223.6	3.86
1985	327.3	5.07	234.4	4.83
1986	346.4	5.84	247.2	5.46
1987	368.1	6.26	262.3	6.11

SOURCE: CHASE ECONOMETRICS, INC.

Energy Prices

Montana is the fourth largest state with a vast potential for oil, coal and natural gas exploration and extraction. Because of this potential and our current level of natural resource taxation, energy prices play a critical role in the budgetary process. Oil, coal and natural gas severance taxes are directly affected by energy prices.

Oil

The recent oil price cuts by Norway, Great Britain and Nigeria has injected an uncertainty in the international oil market. However, the primary reason for these cuts was to align contract prices for light crudes with the value of heavier grades. Chase Econometrics does not anticipate further price declines because worldwide demand is rising, the peak heating season is now starting and OPEC members have agreed on production cuts.

Natural Gas

Under the Natural Gas Policy Act of 1978, all new gas is scheduled to be deregulated on January 1, 1985. Many industry analysts expect prices to remain stable or to increase only moderately even with deregulation. Primary reasons for this scenario include more competition, contract renegotiations and lower import prices, primarily from Canada.

Coal

The coal industry in the United States and Montana is heavily dependent upon the demand for electrical power. The recession, mild weather and energy conservation have all contributed to electrical usage remaining below expectations.

With lower demand and competitively priced other fuels, coal prices have remained soft. These conditions in conjunction with royalty deductions approved by the 48th Legislature, should cause coal prices to grow at a modest rate.

Table 5 reflects historical and projected energy prices for oil, coal and natural gas.

TABLE 5

ENERGY PRICES

CY	COAL CONTRACT SALES PRICE $/TON	% CHANGE	OIL WELL-HEAD PRICE $/BARREL	% CHANGE	NATURAL GAS PRICE $/MCF	% CHANGE
1970			2.834		.0824	
1971			3.054	7.76	.0844	2.43
1972			2.994	- 1.96	.1016	20.38
1973			3.859	28.89	.1621	59.55
1974			6.868	77.97	.2570	58.54
1975	4.224		7.826	13.95	.3938	53.23
1976	4.415	4.52	8.586	9.71	.4408	11.93
1977	4.344	- 1.61	9.073	5.67	.7351	66.76
1978	5.154	18.65	8.978	- 1.05	.8374	13.92
1979	6.951	34.87	11.961	33.23	1.2024	43.59
1980	7.724	11.12	20.922	74.92	1.4361	19.44
1981	8.686	12.45	34.457	64.69	1.9004	32.33
1982	9.673	11.36	31.141	- 9.62	2.1025	10.63
1983	10.065	4.05	28.740	- 7.71	2.4029	14.29
			PROJECTED			
1984	10.056	- .09	28.351	- 1.35	2.6055	8.43
1985	10.496	4.38	28.518	.59	2.7376	5.07
1986	10.650	1.47	29.743	4.30	2.8975	5.84
1987	10.854	1.92	31.821	6.99	3.0788	6.26

SOURCE:
HISTORICAL - MONTANA DEPARTMENT OF REVENUE
PROJECTED - OFFICE OF BUDGET & PROGRAM PLANNING

Individual Income Tax

Individual or personal income tax is the largest single source of revenue to the general fund. The original tax law was enacted in 1933 and has been altered many times since then. Currently, 64 percent of the tax is deposited in the general fund, 25 percent in the public school equalization account and 11 percent in the long-range building debt service account.

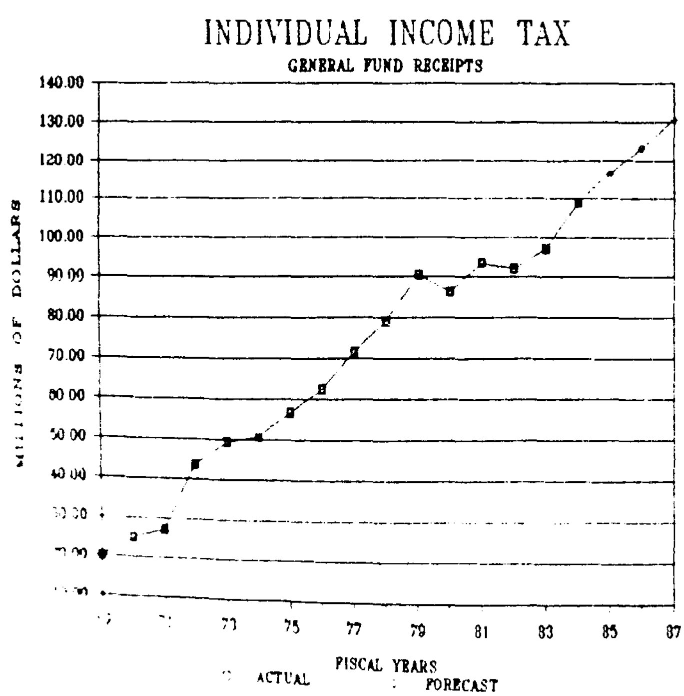
The tax is levied against taxable income which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

The income tax forecasts for the 1986-87 biennium are based on a moderate growth in total personal income and employment. Although current economic growth is slowing, the recovery is expected to continue but at a more modest pace.

Since fiscal year 1980, income tax collections have been reduced by a number of credits, exemption allowances and indexation. Projections for fiscal years 1985 through 1987 are based on an inflation rate of approximately 6 percent and the continuation of all statutory credits.

The additional revenue that would be generated by federal income tax indexing has not been included in the forecasts. It is estimated this would increase revenues by approximately $1.3 million in fiscal year 1986 and $2.9 million in fiscal year 1987.

GENERAL FUND INDIVIDUAL INCOME TAX COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION $)	PERCENT CHANGE
1970	24.877342	24.49%
1971	27.070705	8.82%
1972	43.620321	61.13%
1973	49.321939	13.07%
1974	50.527303	2.44%
1975	56.703595	12.22%
1976	62.412990	10.07%
1977	71.591377	14.71%
1978	79.117312	10.51%
1979	90.509280	14.40%
1980	86.391870	- 4.55%
1981	93.463223	8.19%
1982	92.034568	- 1.53%
1983	97.152215	5.56%
1984	109.021660	12.22%
- - - - -	-PROJECTED-	- - - - -
1985	116.653000	7.00%
1986	123.466000	5.84%
1987	130.626000	5.80%

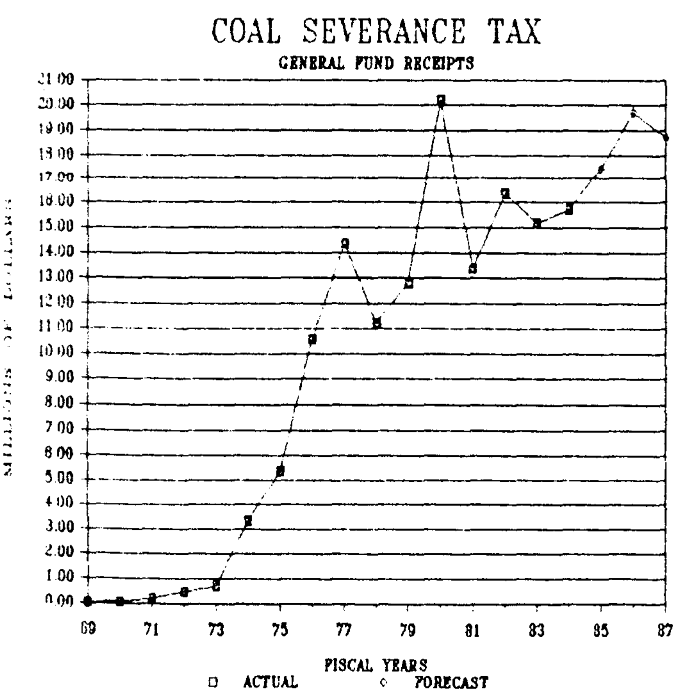
Coal severance tax revenues are dependent on the contract sales price per ton of coal and the number of tons produced. Since most of Montana's coals is sold to utilities under long-term contracts, prices are usually allowed to increase by inflation indicies specified in the contracts.

The other factor that offsets the prices of coal is the deductibility of royalty payments from the contract sales price. The 48th legislature approved a bill that phases in the royalty deduction over a period of three years. These deductions have been included in the price forecasts.

Production levels are driven by the demand for electrical power. Based on a survey of the major coal producers, production is anticipated to grow to 36.5 million tons by calendar year 1987. The majority of the increase can be attributed to Montana Power's Colstrip Unit 4 coming on-line in July of 1986.

A dispute involving the state's authority to tax coal mined on Crow Indian land has prompted Westmoreland Resources to protest the taxes paid on this production. Until a settlement is litigated, these taxes are being deposited in an escrow account. Tax forecasts for fiscal year 1985 through 1987 assume a settlement will not be reached until after fiscal year 1987.

GENERAL FUND COAL SEVERANCE TAX COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION $)	PERCENT CHANGE
1970	0.050300	163.27%
1971	0.212056	321.58%
1972	0.483434	127.97%
1973	0.694213	43.60%
1974	3.315416	377.58%
1975	5.395415	62.74%
1976	10.586335	96.21%
1977	14.362422	35.67%
1978	11.241695	-21.73%
1979	12.806813	13.92%
1980	20.222579	57.90%
1981	13.378906	-33.84%
1982	16.375541	22.40%
1983	15.208581	- 7.13%
1984	15.736468	3.47%
- - - - -	-PROJECTED-	- - - - -
1985	17.444000	10.85%
1986	19.735000	13.13%
1987	18.732000	- 5.08%

Oil Severance Tax

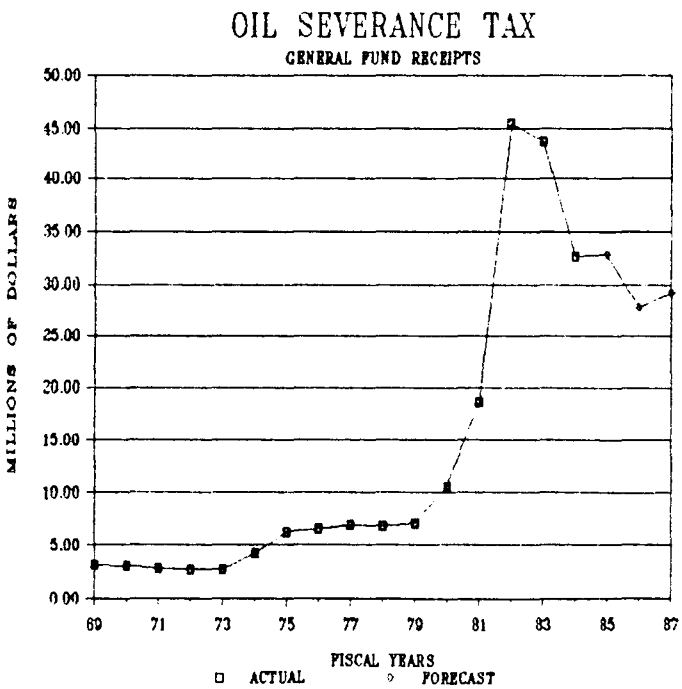
An oil severance tax is imposed on the production of petroleum and other mineral or crude oil in the state. The tax was first enacted in 1921 and has since undergone several modifications. On April 1, 1983, the tax rate increased from 5 to 6 percent. However, on April 1, 1985, the tax rate will revert back to 5 percent.

Beginning in fiscal year 1984, one-third of the tax is deposited in the local government block grant account and two-thirds in the general fund account. If production in any county increases over production in the previous year, taxes on the increased production are returned to the county by a general fund appropriation. This procedure was recommended by the Legislative Auditor.

Oil severance tax revenues are dependent on the price per barrel and the number of barrels produced. Since oil is a commodity that is used for many purposes, the prices depend upon federal regulations and world demand. Even in the wake of international price cuts, it is assumed that prices will stabilize and drift slightly upward by calendar year 1987. This is based on OPEC's recent agreement to cut daily production.

Production is expected to increase above calendar year 1983 levels. Economic recovery and OPEC production cuts should stimulate world demand.

GENERAL FUND OIL SEVERANCE TAX COLLECTIONS



FISCAL YEAR	GENERAL FUND COLLECTIONS (MILLION $)	PERCENT CHANGE
1970	3.038492	- 3.75%
1971	2.766963	- 8.94%
1972	2.668316	- 3.57%
1973	2.692453	0.90%
1974	4.255716	58.06%
1975	6.179984	45.22%
1976	6.563569	6.21%
1977	6.884010	4.88%
1978	6.808100	- 1.10%
1979	7.056573	3.65%
1980	10.544555	49.43%
1981	18.654469	76.91%
1982	45.473425	143.77%
1983	43.787960	- 3.71%
1984	32.686014	-25.35%
- - - - -	-PROJECTED-	- - - - -
1985	32.837000	0.46%
1986	27.792000	-15.36%
1987	29.269000	5.31%

January 30, 1985
Exhibit 4
HJR-9

Office of the Legislative Fiscal Analyst

Prepared for the

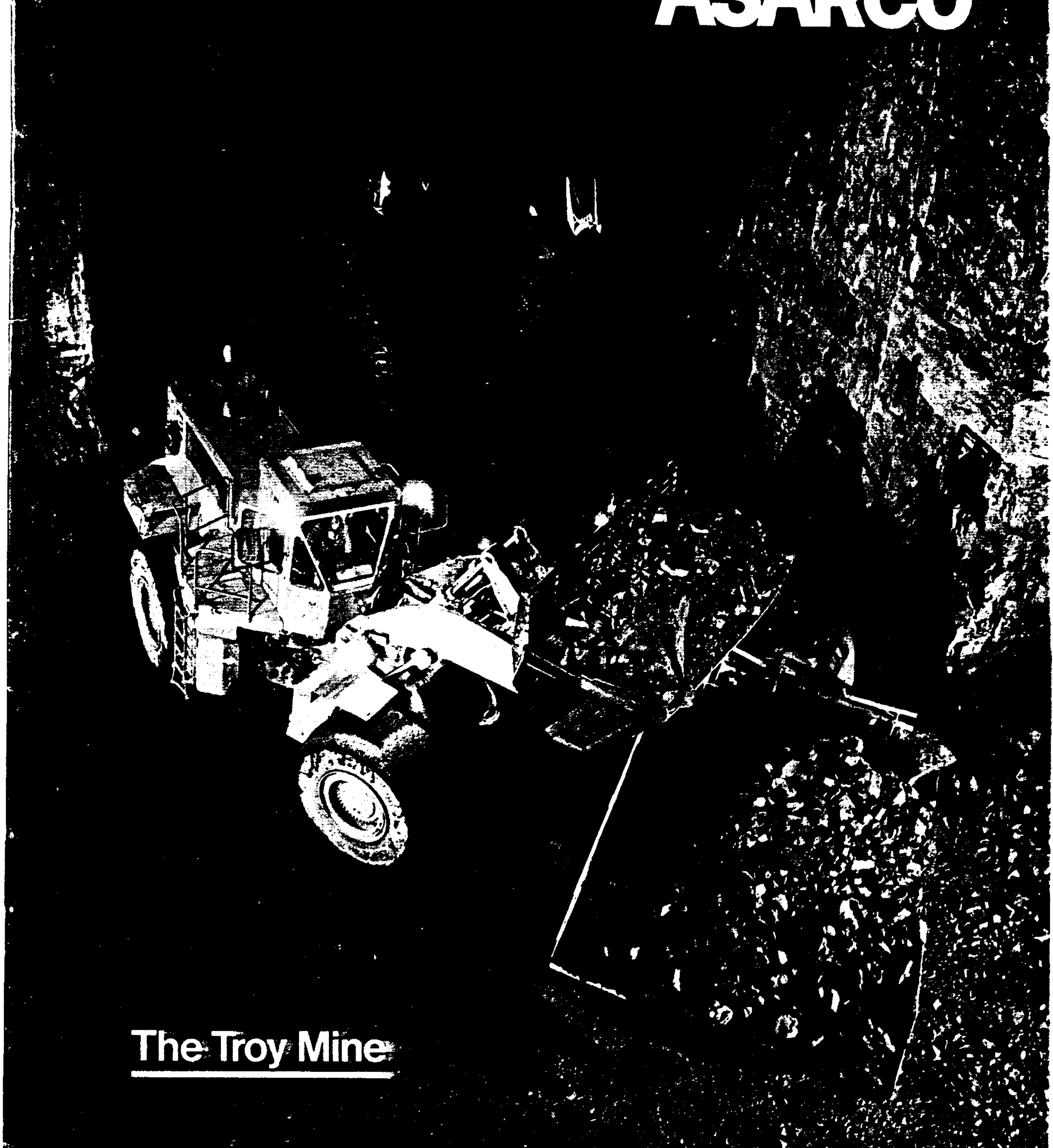
HJR 9 Subcommittee on Revenue

COAL SEVERANCE TAX

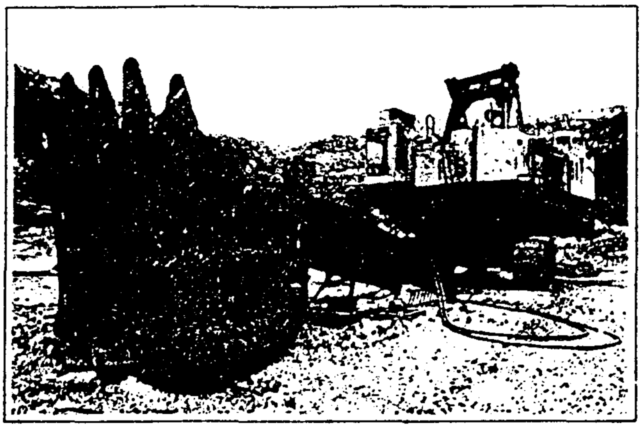
Table 1 compares actual fiscal 1984 and projected fiscal 1985 through 1987 taxable coal production, contract sales price, and general fund revenue.

Table 1
Taxable Coal Production, Contract Sales Price, and General Fund Revenue

Production(tons)	Actual FY 1984	FY 1985	FY 1986	FY 1987
LFA	27,394,512	30,655,000	31,920,000	32,390,000
Executive		30,079,000	32,916,000	34,973,000
Difference		576,000	(996,000)	(2,583,000)
Contract Sales Price				
LFA	$10.10	$ 9.93	$10.46	$11.11
Executive		10.201	10.545	10.703
Difference		$(0.271)	$(0.085)	$ 0.407
General Fund Revenue				
LFA	$15,736,468	$17,346,200	$19,039,500	$18,035,000
Executive		17,444,000	19,735,000	18,732,000
Difference		$ (97,800)	$ (695,500)	$ (697,000)


ASARCO
The Troy Mine

1-30-85
Exhibit 6
HJR-9



THE DEATH OF MINING

AMERICA IS LOSING ONE OF ITS MOST BASIC INDUSTRIES

Just south of Tucson, a two-lane highway rolls through the desert to Mexico. Along one 26-mi. stretch, it skirts five open-pit copper mines amid the saguaro cactus, mesquite, and ironwood. This is U.S. 89, known as *el camino de la muerte*—"road of death"—for the toll it has taken on drivers zooming north from a hard-drinking night in the border town of Nogales. But the macabre name might just as easily refer to the mines that line this lonely road. Once the workplaces of thousands, they are now either closed or up for sale—a stark reminder of the sad state not only of U.S. copper companies, but of most of the rest of the North American metals mining industry.

The recovery of 1983-84 largely bypassed producers of copper, iron ore, nickel, lead, zinc, and molybdenum. Now, after a prolonged period of painful losses, these companies are reeling from what are clearly chronic problems: shrinking markets, huge debt, and depressed prices. Three or four major metals producers may even be forced out of the business over the next few years. In a very real sense the industry is dying.

The pangs of mining are the latest example of what may be an industrial megatrend: the inexorable shift of the production and processing of all basic

materials from the industrial countries to the Third World. Like steelmaking, metals mining is vulnerable to some fundamental forces. It is an industrial activity in which, these days, the developing nations have an almost unbeatable pair of economic advantages: cheap labor plus very-low-cost reserves.

The industry's plight ripples far beyond the dozen or so companies that dominate metals mining in North America. Just four years ago, metals mining in the U. S. was an $8.9 billion enterprise. By 1983 it had shrunk to just $5.9 billion. Mining employment, already down to 44,800 at the start of this year from 109,000 in 1981, could fall a further 30% over the next two to three years. The contraction is already creating modern-day ghost towns (page 68) in mining regions of the country. And while lower metals prices do mean at least a short-term benefit for manufacturers and consumers, some observers are concerned that the industry's problems may one day put national security at risk. "We need a copper industry, for defense purposes if nothing else," asserts Representative Morris K. Udall (D-Ariz.), chairman of the House Interior Committee.

REAL DANGER. For all these reasons, metals mining could become the next *cause célèbre* in Washington's continuing debate over industrial policy. Many officials within the Commerce, Defense, and Interior Depts., as well as in Congress, now believe the U. S. may soon have to choose between forgoing major segments of its minerals-producing capability and subsidizing them. "We are in real danger of losing 75% of our copper industry and 40% to 50% of our iron-ore industry," warns Robert C. Horton, head of the Bureau of Mines. All across the mining spectrum the signs are plain:

□ The largest copper producers—Kennecott, Asarco, and Phelps Dodge—are deep in the red again this year. Phelps Dodge lost $50 million in the first nine months. Kennecott Corp.'s $41 million operating loss in metals during the third quarter brings its total loss in the business since 1981 to $483 million. Asarco Inc., which suffered a net loss of $70 million in the first nine months of 1984, had to cancel its fourth-quarter dividend.

□ The major oil companies—which once rushed into metals as the next best thing to oil—are already giving up. Last month, Pennzoil Co. took a hefty $100 million write-off to reflect the decreased value of Duval Corp., its copper and molybdenum mining subsidiary. Three months earlier, Atlantic Richfield Co. took a $785 million write-off on Anaconda Minerals Co., a copper and metals fabricator it purchased in 1977 for $680 million. Both companies have put their metals operations on the block.

□ In iron ore, U. S. Steel, Hanna Mining, and Pickands Mather announced in November yet another round of temporary mine closings that will shut down most of Minnesota's iron-ore Mesabi Range this winter. Days later, Canadian steelmaker Stelco Inc. announced that it was permanently closing its Griffith Iron Ore Mine. That added a further 1.5 million tons of ore-producing capacity to the 25 million that has been shut down for good in the U. S. and Canada since 1980.

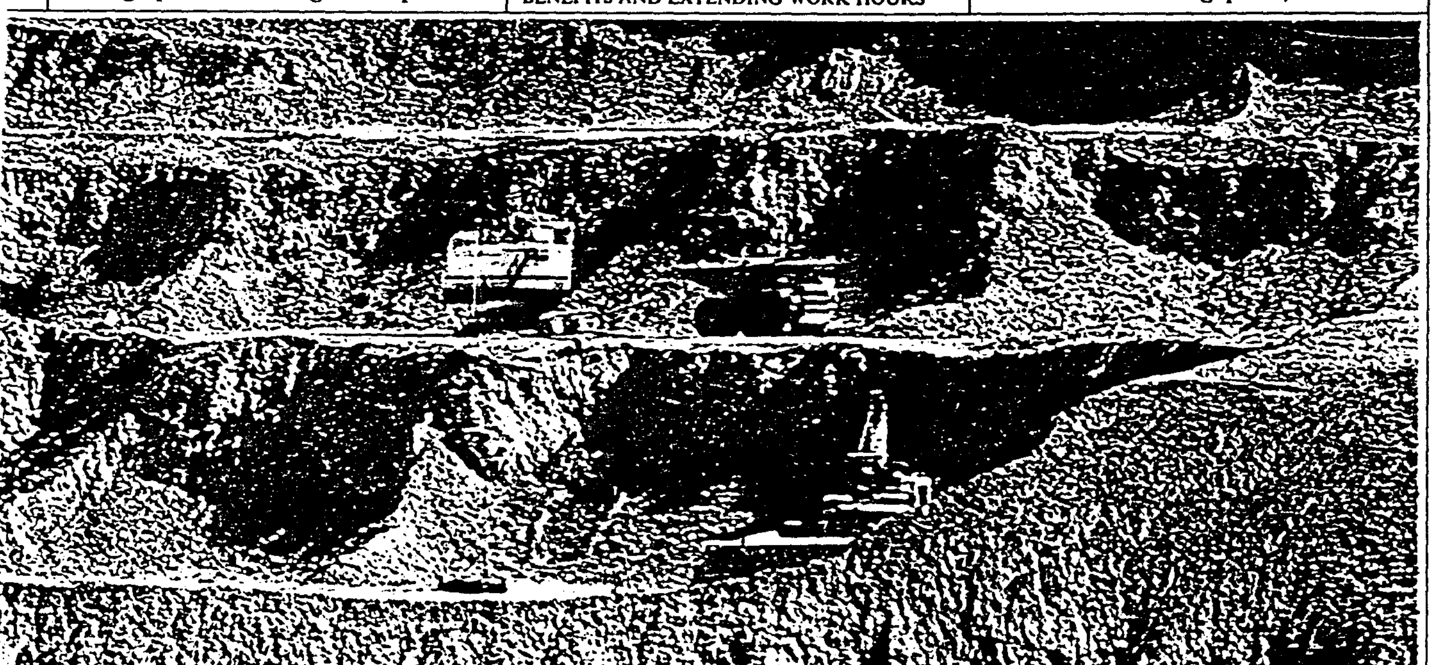
□ In nickel, zinc, and lead, the scene is much the same. Toronto-based Inco Ltd., a giant nickel producer, has posted 13 consecutive quarters of operating deficits. Noranda Inc., a major zinc and lead producer, lost $38 million in the third quarter, wiping out its first-half profit.

A series of factors accounts for mining's malaise. The industry is hobbled by a worldwide excess of capacity that shows no sign of abating. Despite disappointing demand for most metals, Third World countries, eager to exploit more of their natural resources, keep opening giant new mines that incorporate the latest recovery techniques. The strong dollar makes their low-cost products particularly appealing to U. S. buyers. Underlying all this is a weakening geological base: Many of the richest domestic base-metal reserves are coming close to depletion, while the low-grade ore that remains is becoming too costly to recover.

In their day, North American mining companies ranked among the world's industrial elite. Amax, Anaconda, Asarco, Kennecott, or their forerunners helped settle the West. Huge family fortunes derived from mining, including the Hearsts' and the Guggenheims'. Mining companies were among the first U. S. multinationals, dominating world markets during the boom that followed World War II. Amax Inc. once held 50% of the Free World market for molybdenum, a metal used in everything from light bulbs to jet engines. Inco once supplied 90% of the world's nickel.

WILD FLUCTUATIONS. Things began to change in the 1970s. Copper and iron-ore mines in South America and Africa were expropriated. The North American industry was hit with large environmental expenditures. New competitors from the Third World appeared, many of them state-owned and blessed with abundant reserves.

Price-setting, once the province of the North American oligopolies, shifted to



PENNZOIL'S SIERRITA COPPER MINE IN ARIZONA: THOUGH UP FOR SALE, IT HAS SO FAR SURVIVED BY CUTTING WAGES AND BENEFITS AND EXTENDING WORK HOURS the floors of the world's commodities exchanges, chiefly the London Metal Exchange. Steady prices yielded to the wild fluctuations now the norm in the business. Demand for iron ore, nickel, and molybdenum started to wobble as the biggest customer for all three metals—the U. S. steel industry—faltered.

But the most devastating blows came with the recession of 1981-82. After hitting record, or near record, levels in 1979 and 1980, earnings of the North American producers collapsed. From 1982 through this year's third quarter, 10 of the largest independent North American mining companies reported net losses totaling $1.8 billion. At the start of 1981, their debt amounted to 36% of their capitalization; by the end of this year's third quarter, it was close to 41%—at least 10 percentage points above the average for U. S. industry. Return on shareholders' equity, which stood at 18% five years ago, is likely to end up this year at minus 1%. On average, the shares of the U. S. metals mining companies in the group sell for 36% below book value.

The situation has grown so grim that Interior Secretary William P. Clark, who last fall tried to win import relief for copper producers, is now publicly voicing his alarm. Worried about U. S. dependence on foreign minerals, Clark has appointed a 25-member task force to search for ways to preserve the nation's remaining mines. In mid-November, the panel, headed by retired Rear Admiral William C. Mott, issued its first substantive proposal. It called for the U. S. strategic metals stockpile to be placed in the hands of a Comsat-type, quasi-government corporation instead of several agencies. A single entity presumably could make decisions more smoothly than the present mix of overseers can.

ROCKS IN WATER. The industry's most visible problem is prices, which have lately had all the buoyancy of rocks in water. Even though strikes have curtailed 63% of U. S. lead mining capacity since summer, lead has nonetheless fallen an additional 5¢ a lb. since July. Although inventories of copper on the London and New York exchanges have dropped 50% since January and world demand for the metal may hit a record 8.3 million tons this year, copper is now 61¢ a lb.—9¢ below its price last April.

"These are not normal economics as we have known them," says Asarco President Richard de J. Osborne. "Based on the fundamentals and on historic precedent, we should now be several quarters into a price recovery." Yet, in real terms, the price of copper is lower now than at any time in this century except during the trough of the Depression.

Industry executives lay much of the blame on the mighty U. S. dollar, which has allowed foreign producers to offer metal to U. S. buyers at low prices and to maintain—or even fatten—profit margins in their own currencies. Grumbles Inco's Chairman Charles F. Baird: "The U. S. dollar is killing us." Some executives are hoping the dollar will soon weaken. But even if it does, it may be too little, too late. "The concept of currency devaluation is overblown," argues Brian E. Felske, a Toronto-based mining consultant. "A 10% decline will do some good, but it isn't going to bring copper producers back to profitability."

Moreover, a declining dollar does not necessarily mean that the price of copper, lead, and molybdenum will rise, notes Firoze E. Katrak, a vice-president of the Boston commodities research firm Charles River Associates Inc. The reason: Even in times of glut, world producers set their prices on the direct operating costs of the most expensive mines—which happen to be in the U. S. A lower dollar would thus affect neither production costs nor market prices in the U. S.—and would also have no bearing on worldwide supplies or demand. Although Katrak believes prices just might rise moderately over the next few years,

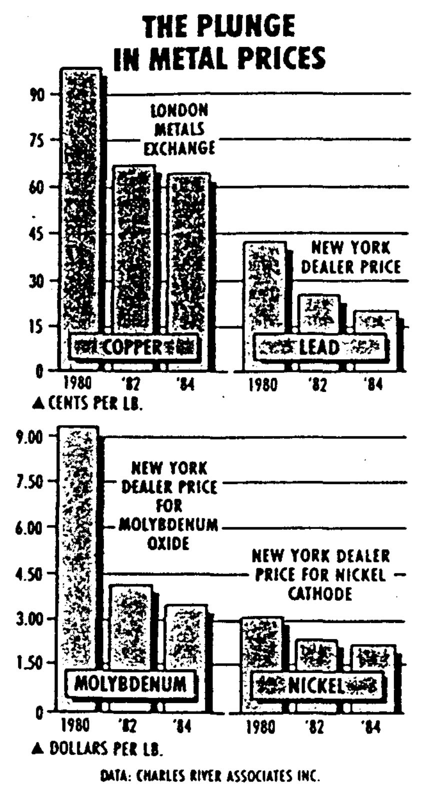
WHY CHILE IS THE KING OF COPPER

CHEAPER LABOR: CODELCO MINERS' WAGES ARE HIGH BY CHILEAN STANDARDS—BUT ONLY A TENTH OF WHAT U. S. MINERS EARN he thinks they will more likely languish near present levels. He predicts that copper will sell for less than 90¢ a lb., in constant dollars, through the rest of the century and that nickel and lead prices will stagnate into the 1990s. The price of molybdenum, he predicts, will remain weak through 1987.

A significant increase in volume also seems far off. Metals experts almost all agree that demand will hold steady, or at best grow modestly, over the next decade. Cleveland-based Hanna Mining Co. is forecasting that North American consumption of iron-ore pellets will average no more than 74 million tons a year through 1990—a far cry from the 109 million tons consumed in the peak year of 1979. Demand for copper, nickel, lead, and zinc is seen increasing by only 1% to 2% for the next 10 years.

A host of factors is curbing growth. New materials, such as plastics and optic fibers, are replacing metals in many product lines. Katrak estimates that, by 2000, technological advances will enable manufacturers to use only two-thirds as much copper per unit of output as they do today. Lead is being banished from gasoline, its second-biggest market, while longer-lasting, lighter batteries are slowing consumption in its primary market. More and more metals recycling is occurring almost everywhere.

In the few markets where demand



continues to grow respectably, supplies keep growing as fast or faster. According to Katrak, world molybdenum consumption may increase 3.5% a year through 1990. But so many new molybdenum mines have opened up during the past five years that annual capacity is now 69% greater than the 166 million lb. expected to be consumed next year.

For many struggling producers of North America, the telling factor is the decline in the grade of their ore. "The high-grade, easily accessible deposits have been mined out" in the U. S., says John W. Goth, Amax's senior executive vice-president. Most of the richest deposits now are in developing countries. That is a major reason why the giant Corporacion Nacional del Cobre de Chile (CODELCO) is now the world's foremost producer of copper (below).

Similarly, Cia. Vale do Rio Doce, the Brazilian state-owned mining company, will be the world's premier iron-ore producer when its giant Carajás mine comes on stream next year. Not only does Carajás contain 20 billion tons of the world's richest iron ore, but Brazilian labor costs are 78% lower than those at U. S. mines. By 1988, output could hit 35 million tons a year—nearly as much as the entire U. S. produced last year.

'UNCONSCIONABLE' LOAN. It is unlikely that Carajás ore will flood the U. S., since domestic steelmakers have a huge investment in North American iron-ore mines and processing facilities. But Japanese and European steelmakers have signed long-term contracts that should allow them to buy Carajás ore for even

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If Chile is the Saudi Arabia of copper, Corporacion Nacional del Cobre de Chile (CODELCO) is the Petromin of Chile. Formed as the successor to five mining companies nationalized in 1971, this state-owned giant is blessed with more than 25% of the world's known copper reserves. Its gargantuan Chuquicamata mining and processing complex yields ores with 1.65% copper—2½ times what a typical U. S. deposit contains. At 44¢ per lb., CODELCO's production costs are the world's lowest. Not surprisingly, it accounted for 16% of all copper mined by non-Communist countries last year.

While sheer size gives CODELCO operational advantages, its rock-bottom labor costs are what make competitors weep. Although its 26,000 workers earn only a tenth of what U. S. copper companies pay, their wages are much higher than average for Chile, where 25% of the work force is idle.

In 1983, while the North American mining industry was deep in the red, CODELCO netted a respectable $220.6 million on sales of $1.8 billion. This year, in spite of severely depressed copper prices, it is expected to earn $140 million. Profits would be even higher were it not for a government decree that diverts 10% of copper revenues to the Chilean armed forces.

As U. S. copper producers see it, CODELCO's success comes mainly at their expense. Last year the company shipped a record 330,000 tons to the U. S.—46% of copper imports and 15% of all the copper used by U. S. manufacturers. Clearly, the strong dollar was a factor. But U. S. companies say CODELCO's refusal to scale back despite bulging world inventories is the prime reason world copper prices are so low. While U. S. mines are typically operating at 40% of capacity, CODELCO continues to run flat out. Douglas J. Bourne, chairman of Duval Corp., Pennzoil Co.'s mining subsidiary, charges that this is a deliberate attempt to drive U. S. companies out of the business.

RADICAL BREAK? CODELCO officials respond that their operation is the chief prop under a teetering economy. Chile depends on CODELCO for 46% of its foreign exchange. The government's 1983 interest payments on $20 billion in debts consumed all of the $678.5 million the company handed over to the state in taxes that year. Chile's military strongman, Augusto Pinochet, is likely to impose additional unpopular austerity measures to maintain debt payments, so the pressure will remain on CODELCO to keep production and exports high. The company is authorized to spend $1.4 billion by 1986 to expand its mines. Outsiders estimate that by 1990 it could be mining 40% more copper than the 1.1 million tons it now produces a year.

Simon D. Strauss, a former Asarco Inc. vice-chairman who is now a consultant, concedes that the Chilean government has monumental problems. But he believes that both CODELCO and Chile would be better off in the long run if they cut copper production to raise prices. That would ultimately bring in more foreign revenue, he says, while slowing the depletion of Chile's most important resource.

Chilean officials point out that for such a strategy to work, CODELCO would have to move in concert with other Third World producers, who are also spewing out copper at an accelerating rate. Given the developing world's plight, such cooperation is questionable. And that sort of planning would mark a radical break with Santiago's 11-year reliance on the free market. Some CODELCO executives even argue that copper's reign as a key metal is limited, so Chile should sell all it can before the market shrinks.

By John O'Brien in Santiago and Patrick Houston in Toronto

CHART BY BRIAN MCDONALD

less than this year's Brazilian price of $17 per dry metric ton, and that will pressure U.S. producers to make even more drastic cost cuts. Says Robert McInnes, president of Cleveland's Pickands Mather & Co.: "Importation of subsidized or low-cost foreign ore is, without question, one of the gravest threats our industry faces." Equally ominous, the cheap Carajás ore will cut the production costs of some foreign-made steel, which already claims more than 20% of the U.S. market.

The Carajás mine project particularly galls U.S. executives because its $5.1 billion price tag was underwritten with a $500 million loan from the World Bank. "The world did not need Carajás," snaps Hanna Chairman Robert F. Anderson. Adds S.K. Scovil, chairman of Cleveland-Cliffs Iron Co.: "It was unconscionable [that] they made that loan."

Given so many adverse forces, it seems only a matter of time before the North American metals mining industry suffers a major casualty. Analysts contend that Phelps Dodge Corp., the second-largest U.S. copper producer, is especially vulnerable because it relies on copper for almost all its revenues. The

THERE'S NOT MUCH JOY IN LEADVILLE

For more than a century, Leadville, Colo., has mirrored the ups and downs of the mining industry. The town, then called Oro City, was devastated in 1865 when its gold mines played out. Twenty-eight years later, it was racked by the great silver crash, which turned local kings into paupers overnight. Now molybdenum has dealt Leadville a cruel blow.

Four years ago, Amax Inc.'s Climax mine employed 3,000 and had a payroll of more than $80 million. Then demand for molybdenum plummeted. Amax closed the mine, and Leadville's unemployment rate leaped to 40%. Although Climax has since reopened with some 800 employees, the company has made it plain that the mine will never again employ thousands.

So residents of historic Leadville are now courting tourists and small businesses. This, the town hopes, will open up 2,500 jobs in 5 to 10 years. If it does, Leadville could provide a prototype for other withering mining towns.

BAWDY HOUSES. Leadville has a wealth of Old West lore. Molly Brown got rich on its gold; Oscar Wilde outdrank the miners at a local silver mine. Once known as "the wickedest town in the West" because of the bawdy houses that lined Stillborn Alley, it still boasts unspoiled gingerbread cottages and Victorian commercial buildings.

After Amax shut down Climax, Leadville hired a full-timer to head its Chamber of Commerce, launched a series of summer events that included gold panning and a 100-mi. ultramarathon along the Continental Divide, and invested $40,000 in a multimedia presentation ballyhooing its assets. By yearend the town will have spent $100,000 marketing itself, and its merchants have approved a $900,000 bond to upgrade the sidewalks and lighting.

As a result, says Elaine Kochevar, executive director of the Chamber of Commerce, tourism jumped 75% last summer, and revenues from the local sales tax rose nearly 25%. She expects more of the same this winter. With an $850,000 grant from the state, Leadville's ski area, Ski Cooper, has expanded. This year it will offer lift tickets at $12 a day—half the price at nearby Vail. Visitors are invariably reminded that a three-bedroom house in Leadville—just two hours from Denver—typically costs $45,000, a fraction of the price at other Colorado ski resorts.

THE TOWN—BETRAYED BY GOLD, SILVER, AND MOLYBDENUM—IS TURNING TO TOURISM

Big investors have taken notice. Dallas' Trace Investment Inc. plans to purchase six buildings, including the 1885 Vendome Hotel, where President Benjamin Harrison once trod a lobby floor inlaid with silver dollars. The company will pay about $1.5 million for all six buildings and intends to spend $10 million restoring and converting them to modern hotels or condominiums.

Revving up tourism may prove easier, however, than attracting new businesses. One reason: Two-mile-high Leadville, situated just below the timberline, seems desolate to many outsiders. Winters are so long that the locals quip that Leadville has only two seasons—this winter and last.

The days are gone in Leadville when the Guggenheims could build a fortune starting with one small smelter, or a David May could launch a nationwide department-store chain. "We're not going to land a Sperry Rand," admits Kochevar. Still, she adds, small manufacturers and distributors could be drawn to Leadville, with its ready labor and easy access to a railroad, airport, and interstate highway.

MELTDOWN. Eight new enterprises have started up in the past two years. To draw still more, the town has formed the Leadville Improvement Group with $50,000 in state assistance. This office is now applying for a $250,000 grant from the U.S. Housing & Urban Development Dept. To be matched by local banks, the money would finance low-cost loans to new businesses.

Compared with some previous schemes for reviving Leadville, the current plan looks eminently workable. Following the depression of 1893, for example, the town built a three-acre ice palace, complete with ballroom. It did a booming business—until a warm spell began melting its ice blocks.

By Sandra Atchison in Denver

company has lost $187 million since 1982, and "unless the world copper price improves very sharply throughout the rest of the decade, it is difficult to see how the company can survive," says William G. Siedenburg, an analyst with Smith Barney, Harris Upham & Co.

GETTING TOUGH. The day of reckoning also may be nearing for Kennecott, the copper mining giant acquired by Standard Oil Co. (Ohio) three years ago for $1.8 billion. Sohio has been mulling over a proposed $1 billion modernization for Kennecott's huge Bingham Canyon mine in Utah but has not approved the expenditure. That mine "is not something you'd lightly turn your back on," says Sohio Chairman Alton W. Whitehouse Jr. "But we just aren't going to take [Kennecott's] losses indefinitely."

As Big Oil backs out of metals mining, the independents are struggling to survive. While some are closing down high-cost operations, others can't even find the money to meet the steep severance and shutdown costs without eating into the cash they need to pay their debts. Corporate staffs are being cut. Falconbridge Ltd., a Canadian nickel producer, has slashed white-collar employment so much that top management now occupies one floor instead of three in its Toronto headquarters. Chairman William James even shares a secretary.

Mining companies are also getting tough with their unions. The most dramatic example is Phelps Dodge, which in July, 1983, accepted a strike at its Arizona mines and smelters rather than settle for the terms other copper producers agreed to. The company has replaced the strikers with nonunion workers and now awaits court rulings on decertification votes. In October, Pennzoil's Duval subsidiary unilaterally imposed a new labor contract on workers at its Sierrita (Ariz.) mine, cutting wages 15%, dropping cost-of-living adjustments, and increasing work time for all employees by two shifts a month.

These cost-cutting measures have resulted in impressive productivity gains. The cost of producing copper in the U. S. has dropped 25% in the past three years. Inco has lowered its breakeven point for nickel 12% this year alone, to $2.30 a lb., and Chairman Baird's goal is to get down to $2 next year.

NO FAT. More gains are needed. "We've reduced costs, but not at the same precipitous rates as metals prices have declined," says Kennecott President G. Frank Joklik. But making further headway will be tough. "The mining companies don't have any more fat to shave off," says Canadian consultant Felske.

Because they see diversification as a way out of their troubles, some base-metals mining companies are rushing into gold—so many, in fact, that North American gold production is expected to jump 50% by 1989. "The only thing worth developing now is a good-grade precious metals deposit," says Alfred Powis, chairman of Noranda. His company is spending $230 million to develop its Hemlo stake in Northern Ontario, a gold vein that eventually could add $38 million to the company's annual profits.

Other companies are looking further afield. Newmont Mining Corp. intends to add a "fourth leg" to its copper, gold, and energy businesses, says Chairman Plato Malozemoff. Hanna is on the diversification trail too, but it will be cautious: It has been burned by bad moves in the past. Some 85% of its $28.8 million loss last year resulted from energy businesses it acquired in the late 1970s.

Amax, which had eight separate metals divisions, is restructuring all its mining operations to make them more market-responsive. The company also wants to expand into more specialized products such as molybdenum chemicals, ceramics, and plastic composites. "That's the only way," says Chester O. Ensign Jr., who heads the company's strategic planning and development group, "to make sure Amax doesn't perish."

Consultants agree such changes are necessary. "Metals companies have got to become more market-driven," says Frank Schwab Jr., president of Fenvessy & Schwab Inc., a management consulting firm in New York. He also urges companies to get more involved in commodities trading to help offset the volatility of their business. Finally, Schwab advises his North American clients to enter joint ventures, especially with foreign partners. "Somehow," he says, "our companies have to develop a workable program to finance the development of ore reserves outside the U. S."

Here and there, mining companies are beginning to embrace such strategies. But even insiders acknowledge that the industry as a whole is changing too slowly, because of what some see as an anomaly in the thinking of many metals mining executives: While they are rarely averse to the risks of developing new ore deposits, that same spirit usually does not extend into the marketing and financial aspects of their business. "The industry is dominated by guys who bring things to the surface," says consultant Felske. "They have to become more sophisticated in the commercial side of the business."

REDEMPTION? Some believe that redemption may be found in high technology. The Colorado School of Mines has launched what could become a $25 million research effort to adapt automated factory techniques to mining. In October, Inco created a separate equipment company to develop machinery for continuously mining and transporting ore, now done in batches. But the potential of such innovations is limited. Concludes Noranda Chairman Powis: "There's not going to be one technology that will change the economics of this industry."

The chance of getting much government help is dim. Mining companies lack political clout because their constituency is relatively small and they have been unable to put together a unified lobby. Moreover, a growing chorus of voices argues that a shortfall in U. S. metals production is not necessarily a problem. After all, notes John A. Cordes, head of the Mineral Economics Dept. at the Colorado School of Mines, "countries like Japan and West Germany have very, very strong economies with very low levels of metals self-sufficiency."

The U. S. is rapidly heading in their direction. Indeed, if another broad-based recession were to hit the U. S. in 1985 or 1986, it would probably sound the death knell for an industry that is already permanently bedridden.

By Patrick Houston in Toronto, Zachary Schiller in Cleveland, Sandra D. Atchison in Denver, Mark Crawford in Washington, James R. Norman in Houston, and Jeffrey Ryser in São Paulo

THE SAD STATE OF METALS MINING

Composite figures for 10 leading independent metals mining companies: Amax, Asarco, Cleveland-Cliffs, Cominco, Falconbridge, Hanna, Inco, Newmont, Noranda, and Phelps Dodge

	1979	1980	1981	1982	1983
			Millions of dollars		
NET EARNINGS	$1,770	$1,872	$539	$ -963	$ -778
TOTAL DEBT	5,086	5,814	6,773	7,876	7,744
			Percent		
DEBT AS A PERCENT OF CAPITALIZATION	34%	34%	36%	42%	43%
RETURN ON EQUITY	18	16	5	-9	-8

DATA: COMPANY FINANCIAL REPORTS

THE ASARCO TROY UNIT

Exhibit 8
January 30 198
HJR-9

METAL MINES TAX

The LFA projections of general fund revenue from the metal mines tax were based on the assumptions that mines currently in operation would continue producting at their actual calendar year 1983 levels, that no new mines would begin commercial operations during the forecast period, and that metal prices would generally rise from the 1984 level. Table 2 shows the current (January 25, 1985) prices for gold, silver, and copper and those used in making LFA projections.

Table 2
Metal Prices

	Current	CY 1984	CY 1985	CY 1986
Gold	$300/oz.	$350/oz.	$375/oz.	$415/oz.
Silver	$6/oz.	$9/oz.	$8/oz.	$9/oz.
Copper	65¢/lb.	65¢/lb.	62¢/lb.	70¢/lb.

JCLEG:jt:HJR9 1-30-5

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

January 31, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on January 29, 1985, at 5 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

CONSIDERATION OF INTEREST ON INVESTMENTS: Mr. Jim Howeth, Investor, Board of Investments, provided members of the Subcommittee with a copy of the State of Montana Board of Investments 1983-1984 Fiscal Year Report, specifically page 42, which recaps investment income yield for FY84 (Exhibit 1). He said the treasury balance of \$23 million at a 10.45% yield is down from \$28 million in FY83, as it has been affected by the amount of cash available and short term interest rates.

Mr. Howeth explained the Permanent Coal Tax provided earnings of \$23.6 million in FY84 at 14.42% long term rates, up \$6 million from FY83 at 15% rates. He said if interest rates remain down, Coal Tax Trust Fund earnings would drop and the bonds would be reinvested at a lower rate, but would not drop as fast as short term rates.

Mr. Howeth commented he is unable to predict interest rates for the next few years. He guessed that the rate of inflation would continue as it has the past two years and said long term rates could go below 10% in FY85, and as low as 8% in FY86 and FY87, but he would not guarantee his estimates.

According to Mr. Howeth, low interest rates would have little effect on the overall earnings of the fund, considering the size of the fund and rapid flow of income. He commented short term rates would be approximately as low as 6-8%.

Chairman Harp asked what the greatest yield had been for an investment to date. Mr. Howeth replied, 19% for short term and 16 5/8% for long term investments of which \$55 million went into the general fund for the highest amount ever.

Mr. Howeth said the State would still see income from the fast growth of the Coal Trust Fund even with lower interest rates, as more tax dollars would be received from a good economy to compensate for the drop in interest rates. He explained the Board invests \$200 million annually for 65 funds from which a total of \$2 billion is compounded at 15% annually. He said that \$ 2 billion would double in 4½-5 years.

Representative Sands asked if the Coal Tax Trust Fund were keeping pace with inflation. Mr. Howeth replied, "with reference to principle, yes, but with reference to earnings rates, the net equalization is 10% over the inflation rate". He said the fixed income security on $1 invested seven years ago is still the same, except bonds appreciate if interest rates go down, but earnings from bonds go to the general fund and are spent.

Mr. Howeth explained growth depends upon future inflation rates and that he is not concerned with the present rate of inflation. He said if he were to adjust for inequities, income to the general fund would be reduced and that the Trust and Legacy Fund was more dangerous to inflation as the rate is growing at 2-3% annually, and new funds all go to schools. Mr. Howeth commented "coal is the best fund we have".

Mr. Terry Johnson, OBPP, stated a drop in declining fund balances between FY84 and FY85 was included in his projections for FY85, along with a drop due to highway gas tax in FY87 (Exhibit 2).

Chairman Harp asked how much the Department of Highways has contributed to the general fund and how much there would be if funds were not moved as proposed by the Governor (figures on Exhibit 2).

Mr. Johnson stated he believed the federal government would not make any material changes in the federal deficit. He said the federal government has loosened the money supply, producing lower interest rates the past 3-4 months and with strong economic growth and business stimulus, both business and the consumer will find borrowing rates to be more competitive.

Mr. Johnson said tax anticipation notes were included in his projections at the maximum of $50 million. He said no notes were issued in FY84, but $38 million were sold in FY85 and he has anticipated $50 million in FY86 and FY87.

According to Mr. Johnson, the real interest rate is the difference between interest rates and the rate of inflation. He said Chase Econometrics anticipates an inflation rate of 4½-5%, 10.7% short term interest rates and shows a decrease in real rates with the gap closing, for a 6½% real rate, but still leaves a margin. He added, Chase foresees a slight increase in interest rates in the next two years.

Chairman Harp commented there is quite a disparity between OBPP and Board of Investment projections.

CONSIDERATION OF COAL TRUST FUND INTEREST: Mr. Terry Johnson, OBPP, told subcommittee members the fund balance was $24 million at 13.4% as of June 30, 1984, (Exhibit 4, last page). He said he used this figure as a base and then included quarterly income in arriving at his long term interest rate projections which are as follows:

FY85	-12.5%
86	11.86
87	11.59

Mr. Johnson explained his projections include debt service of $979,000 in FY85, $303,000 in FY86 and $302,000 in FY87 for water development and that he looked at Chase Econometric's forecast, which resulted in higher projections than those of the LFA.

Ms. Judy Waldron, LFA, told subcommittee members she anticipated the average balance would decline from FY84 to FY85 and would drop further in FY86 and FY87, with the loss of the highway special revenue fund in 1985-86. Her projections are reflected on Exhibit 2 and include $4.6 million in interest for FY86 and $4.3 million for FY87 from tax anticipation notes.

Ms. Waldron said 15% of interest income goes back into the Coal Trust Fund to pay back interest on bonds, while 85% goes to the general fund. She commented average yield is declining as long term interest rates are falling.

Ms. Madeline Quinlan, LFA, quoted her yield projections, as did the OBPP. Those figures are as follows:

LFA	FY85	-12.25%	OBPP	FY85	-12.50
	86	12.16		86	11.68
	87	11.43		87	11.59

Chairman Harp suggested the LFA and OBPP work together to come up with a common projection and advised subcommittee members they would take up the matter on Monday, February 4, as there would be no meeting on Friday, February 2, 1985.

There being no further business before the Subcommittee, the meeting was adjourned at 7:30 p.m.

Representative John G. Harp, Chairman

January 31, 1985
Exhibit 2
HJR-9

INTEREST ON INVESTMENTS

CASH TO BE INVESTED (million)

	ACTUAL	PROJECTED		
	FY 84	FY 85	FY 86	FY 87
LFA	222.2	216.6	180.3	180.3
OBPP		212.0	169.0	169.0

INTEREST RATES (Percent)

LFA	10.75	10.00	10.25	9.75
OBPP		10.87	10.75	10.90

GENERAL FUND BALANCE (millions)

LFA	30.531	2.197	-20.372	-38.450
OBPP (Budget)	38.934	28.981	15.651	16.148
OBPP (Revised)	35.057	21.820	22.277	24.734

TRANS (millions)

LFA	-0-	38.0	50.0	50.0
OBPP		38.0	50.0	50.0

INFLATION - % INCREASE

Chase Econometrics, Dec. 28, 1984		4.0	5.2	5.5

January 31
Exhibit 3
HJR-9

Office of the Legislative Fiscal Analyst

Prepared for the

HJR 9 Subcommittee on Revenue

INTEREST ON INVESTMENTS

Table 1 compares actual fiscal 1984 and projected fiscal 1985 through 1987 investable balances, interest yield, and general fund revenue from interest on investments.

Table 1
Investable Balances, Interest Yield, and General Fund Revenue
Fiscal Years 1984 through 1987

Investable Balances without TANS (millions)	Actual FY 1984	FY 1985	FY 1986	FY 1987
LFA	$222.2	$216.6	$180.3	$180.3
Executive		212.0	169.0	169.0
Difference		$ 4.6	$ 11.3	$ 11.3
Interest Yield				
LFA	10.75%	10.00%	10.25%	9.75%
Executive		10.87%	10.75%	10.90%
Difference		(0.87%)	(0.50%)	(1.15%)
General Fund Revenue				
LFA	$23,898,968	$25,044,000	$23,044,000	$21,920,000
Executive		26,482,000	22,656,000	22,961,000
Difference		$(1,438,000)	$ 388,000	$(1,041,000)

In addition to the investable balances shown, each office assumes that tax anticipation notes (TANS) will be sold each year of the 1987 biennium.

The LFA projects the sale of $50 million each year with the notes outstanding for approximately 11 months each year and contributing $4.6 million of interest in fiscal 1986 and $4.3 million in fiscal 1987. The interest earned on TANS is included in the LFA projection of general fund revenue.

COAL TRUST INTEREST

The permanent coal trust fund began fiscal 1985 with a fund balance of $203.1 million. In fiscal 1984, the trust earned $22.3 million; 85 percent of this total or $18.9 million was deposited in the general fund and the remaining 15 percent was returned to the trust.

In our forecasts, the trust fund balance grows with deposits of the coal severance tax, interest income, and pay back on coal tax bonds and is reduced by principal and interest payments on coal tax bonds. Table 2 shows actual fiscal 1984 and projected fiscal 1985 through 1987 average trust fund balance and average yield.

Table 2
Average Coal Trust Fund Balance and Yield

	Actual FY 1984	FY 1985	FY 1986	FY 1987
Average Trust Fund Balance (millions)	$179.9	$226.6	$278.7	$335.9
Average Yield	12.41%	12.25%	12.18%	11.97%

JCLEG:rev subcom 1-31-5

January 31, 1985
Exhibit 4
HJR 9

REPORT MISR03
DATE : 08/10/84
TIME : 18/17/20

OFFICE OF BUDGET & PROGRAM PLANNING
INTEREST ANALYSIS REPORT

COMPANY NAME	T DATE	TICK	QUANTITY	COST	BOOK	RATE	M DATE	INTERE
SOUTH CENTRAL BELL TEL	83/07/27	88392	240,000.00	172,992.00	175,904.63	8.250	04/12/01	19.800
CENTRAL TEL FLORIDA	72/02/29	10398	50,000.00	50,000.00	50,000.00	7.650	97/02/01	3.825
TENNECO	81/10/28	81572	250,000.00	226,730.00	229,261.24	15.000	06/06/01	37.500
WASHINGTON WATER POWER	81/01/22	76976	100,000.00	100,000.00	100,000.00	14.125	91/01/01	14.125
US TREASURY NOTES	84/05/27	90938	100,000.00	98,085.94	98,219.67	11.250	87/12/31	11.250
GNMA PASSTHROUGH	83/11/23	89625	330,670.57	285,156.22	288,723.84	9.000	09/05/15	29.760
014 TOTALS FOR VOLUNTEER FIREMANS COMP			3,160,670.57	2,938,082.06	2,964,455.43			321.497
AMERICAN CAN COMPANY	80/07/16	77435	500,000.00	496,840.00	497,257.52	11.375	10/07/01	56.875
AMERICAN EXPRESS CREDIT CORP	82/10/28	85539	1,000,000.00	917,930.00	925,707.49	11.250	00/07/01	112.500
AMERICAN GENERAL INSURANCE CO	78/12/14	73782	500,000.00	496,250.00	496,943.35	9.375	08/12/15	46.875
ANADARKO PRODUCTION CO	81/12/02	81900	1,000,000.00	980,000.00	985,162.55	14.750	91/12/01	147.500
ARIZONA PUBLIC SERVICE	83/07/15	88257	1,000,000.00	979,300.00	979,964.03	12.750	13/07/01	127.500
ARKANSAS LOUISIANA GAS	78/10/17	73319	200,000.00	200,000.00	200,000.00	9.100	98/10/01	18.200
BELL CANADA	78/01/17	71476	400,000.00	400,000.00	400,000.00	9.000	08/01/15	36.000
BENEFICIAL CORP	76/02/16	71672	200,000.00	200,000.00	200,000.00	8.350	86/02/15	16.700
BENEFICIAL CORP	76/02/16	71691	100,000.00	100,000.00	100,000.00	8.350	86/02/15	8.350
BC HYDRO & POWER	81/07/22	80656	1,500,000.00	1,489,545.00	1,490,570.84	15.500	11/07/15	232.500
BC HYDRO & POWER	81/11/19	85146	500,000.00	495,200.00	495,673.59	15.500	11/11/15	77.500
BC HYDRO & POWER	83/09/01	88751	2,000,000.00	1,973,080.00	1,973,627.76	12.500	13/09/01	250.000
BC HYDRO & POWER	84/01/20	9021.	2,000,000.00	1,975,000.00	1,975,372.86	12.500	14/01/15	250.000
BURLINGTON INDUSTRIES	80/06/08	77697	1,000,000.00	970,000.00	981,714.44	11.250	90/06/01	112.500
BURLINGTON NORTHERN PP	82/09/23	85213	984,732.32	984,732.32	984,732.32	15.500	99/01/02	152.633
CANADIAN NATL RAILWAY CO	84/06/18	91767	1,100,000.00	781,506.00	782,076.91	9.700	04/07/15	106.700
CANADIAN NATL RAILWAY CO	82/09/01	85027	1,000,000.00	1,000,000.00	1,000,000.00	14.750	12/09/01	147.500
CAROLINA POWER & LIGHT	83/12/09	89788	2,000,000.00	1,970,000.00	1,970,561.53	12.875	13/12/01	257.500
CENTRAL POWER & LIGHT	83/03/23	87052	1,000,000.00	992,850.00	994,111.34	12.125	13/03/01	121.250
CENTRAL POWER & LIGHT	83/03/25	87082	1,000,000.00	990,000.00	990,423.17	12.125	13/03/01	121.250
CIT FINANCIAL CORP NOTES PP	82/08/20	84697	1,000,000.00	1,008,350.00	1,006,136.31	14.700	89/09/01	147.000
CITIES SERVICE	81/06/18	80349	500,000.00	483,750.00	485,420.94	13.875	11/01/15	69.375
CITIES SERVICE	82/02/18	82736	1,000,000.00	857,500.00	869,174.67	13.875	11/01/15	138.750
CITIES SERVICE GAS	80/09/16	78022	1,000,000.00	1,000,000.00	1,000,000.00	13.000	05/09/15	130.000
CITIES SERVICE GAS	82/10/28	85558	2,800,000.00	2,766,724.00	2,771,013.59	13.000	05/09/15	364.000
CLEVELAND ELECTRIC ILLUM CO	82/03/17	83079	1,000,000.00	983,750.00	984,991.65	16.625	12/03/01	166.250
CLEVELAND ELECTRIC ILLUM CO	83/06/01	87754	2,000,000.00	1,970,000.00	1,971,085.35	12.250	13/06/01	245.000
COLUMBIA GAS SYSTEM	82/12/09	85929	450,000.00	396,464.00	401,531.49	9.875	99/06/01	44.437
COLUMBIA GAS SYSTEM	82/08/23	84918	1,000,000.00	846,420.00	863,074.66	11.750	99/10/01	117.500
COLUMBIA GAS SYSTEM	80/08/22	77809	1,000,000.00	996,420.00	997,112.65	12.750	00/08/01	127.500
COLUMBIA GAS SYSTEM	82/06/02	83911	1,000,000.00	995,000.00	995,693.65	15.375	97/06/01	153.750
CONSOLIDATED NATURAL GAS	80/10/22	78265	500,000.00	500,000.00	500,000.00	12.875	00/10/01	64.375
CONSOLIDATED NATURAL GAS	82/11/29	85809	500,000.00	500,000.00	500,000.00	12.875	00/10/01	64.375
CONSOLIDATED NATURAL GAS	83/04/25	87364	1,000,000.00	997,700.00	997,809.16	11.125	08/04/01	111.250
CONSUMERS POWER PP	79/11/15	75843	500,000.00	500,000.00	500,000.00	10.625	99/07/01	53.125
CORTEZ CAPITAL CORP PP	83/05/26	87705	4,000,000.00	4,000,000.00	4,000,000.00	12.625	03/05/15	505.000
CROCKER NATIONAL	77/12/20	71307	500,000.00	497,500.00	498,154.43	8.600	02/12/01	43.000
DALLAS POWER & LIGHT	83/01/05	86231	500,000.00	565,000.00	561,593.00	15.125	11/06/01	75.625
DANA CORPORATION	78/11/28	73658	300,000.00	298,500.00	298,779.92	8.875	08/11/15	26.625
DIAMOND SHAMROCK	78/04/05	72051	500,000.00	490,000.00	492,080.42	8.500	08/04/01	42.500
DOW CHEMICAL CO	78/03/02	71608	200,000.00	196,400.00	198,738.18	8.625	08/02/15	17.250
DOW CHEMICAL CO	83/06/21	87980	1,000,000.00	955,320.00	955,092.54	11.250	10/07/15	112.500
DRESSER INDUSTRIES	83/07/20	88310	2,000,000.00	1,907,200.00	1,910,877.93	11.750	07/11/01	235.000
DUQUESNE LIGHT	79/03/06	74271	500,000.00	494,375.00	495,375.64	10.125	09/02/01	50.625

COMPANY NAME	T DATE	TICK	QUANTITY	COST	BOOK	RATE	M DATE	INTERE
EL PASO ELECTRIC	81/05/13	80042	1,000,000.00	1,000,000.00	1,000,000.00	10.350	91/05/01	103,500
EL PASO ELECTRIC PP	79/05/03	74652	500,000.00	500,000.00	500,000.00	9.950	04/05/01	49,750
ENGELHARD MINERALS & CHEMICALS	80/06/05	77644	500,000.00	497,500.00	497,890.72	11.750	05/06/01	58,750
ENGELHARD MINERALS & CHEMICALS	84/04/04	91021	1,750,000.00	1,541,820.00	1,544,179.21	11.750	05/06/01	205,625
ENSERCH	82/04/07	83277	1,000,000.00	990,000.00	996,357.58	10.375	07/04/01	103,750
EXXON PIPELINE CO	81/03/06	79391	1,000,000.00	697,140.00	739,723.56	9.000	04/10/15	90,000
FIRST INTERSTATE BANCORP	80/05/29	77146	500,000.00	496,000.00	496,545.91	12.250	10/05/15	61,250
FIRST INTERSTATE BANCORP	81/03/27	79562	500,000.00	438,515.00	445,397.48	12.250	10/05/15	61,250
FIRST INTERSTATE BANCORP	81/07/09	80565	1,000,000.00	815,030.00	837,708.97	12.250	10/05/15	122,500
FIRST INTERSTATE BANKS PP	84/02/15	90469	1,735,332.00	1,735,332.00	1,735,332.00	13.500	99/03/01	234,269
GENERAL MILLS	84/06/22	91845	500,000.00	347,960.00	348,113.94	9.375	09/03/01	46,875
GENERAL TEL CALIFORNIA	78/04/12	72100	200,000.00	197,410.00	197,947.48	8.875	08/04/01	17,750
GENERAL TEL CALIFORNIA	79/10/10	75630	1,000,000.00	976,250.00	979,993.76	10.750	09/10/01	107,500
GENERAL TEL KENTUCKY PP	80/12/16	78713	1,000,000.00	1,000,000.00	1,000,000.00	13.750	00/12/01	137,500
GENERAL TEL MICHIGAN	83/02/22	86755	2,000,000.00	1,873,700.00	1,879,969.91	11.875	10/06/01	237,500
GENERAL TEL SOUTHWEST	83/10/11	89132	3,000,000.00	3,163,890.00	3,159,515.11	14.000	10/11/01	420,000
GENERAL TEL SOUTHWEST	83/10/18	89203	2,000,000.00	1,984,600.00	1,985,150.64	12.750	13/10/01	255,000
GULF CANADA	81/07/07	80532	1,000,000.00	1,000,000.00	1,000,000.00	15.500	11/07/01	155,000
GULF CANADA	81/09/09	81089	2,000,000.00	1,823,750.00	1,840,369.91	15.500	11/07/01	310,000
GULF CANADA	82/07/13	84340	1,000,000.00	920,250.00	931,257.19	15.500	11/07/01	155,000
HARSCO CORP	82/11/15	85670	1,000,000.00	1,005,000.00	1,004,703.62	12.250	10/05/01	122,500
HONEYWELL	82/06/11	84025	2,000,000.00	1,823,000.00	1,837,500.62	14.125	11/02/01	282,500
HOUSTON LIGHTING & POWER	84/03/13	90601	500,000.00	420,250.00	421,160.33	11.250	09/12/01	56,250
IDAHO POWER	78/06/17	72946	500,000.00	500,000.00	500,000.00	9.000	08/06/15	45,000
IMPERIAL OIL	79/09/26	75552	500,000.00	499,020.00	499,164.20	9.750	09/09/15	48,750
IMPERIAL OIL	82/11/03	85575	500,000.00	397,225.00	402,579.37	9.750	09/09/15	48,750
IMPERIAL OIL	83/02/03	86504	500,000.00	396,940.00	404,297.60	9.750	09/09/15	48,750
INCO LIMITED	80/07/24	77512	500,000.00	500,000.00	500,000.00	12.375	10/07/15	61,875
INDIANA BELL TEL	81/09/10	81107	1,000,000.00	994,000.00	994,432.32	17.000	20/09/01	170,000
INGERSOLL RAND	80/09/09	77943	1,000,000.00	1,000,000.00	1,000,000.00	12.875	10/09/01	128,750
INTERNATIONAL TEL & TEL	80/02/26	76498	500,000.00	456,250.00	463,602.74	12.625	05/02/01	63,125
IOWA POWER & LIGHT	79/01/30	74047	500,000.00	495,200.00	496,068.30	9.750	09/01/15	48,750
IOWA PUBLIC SERVICE	79/09/07	75453	500,000.00	492,500.00	493,704.84	9.750	09/09/01	48,750
IRVING BANK	83/10/06	89107	1,400,000.00	1,370,698.00	1,371,592.09	12.375	07/11/15	173,250
LUCKY STORES	81/10/29	81587	2,322,412.20	2,322,412.20	2,322,412.20	16.000	01/10/29	371,585
LUCKY STORES	81/10/29	81592	390,028.14	390,028.14	390,028.14	16.000	01/10/29	62,404
LUCKY STORES BAKERY PP	81/12/10	81994	288,854.65	288,854.65	288,854.65	16.000	01/12/10	46,216
MARATHON OIL	83/04/15	87256	2,000,000.00	1,454,000.00	1,462,085.88	8.500	06/11/01	170,000
MASSACHUSETTS ELECTRIC	83/03/03	86649	1,000,000.00	1,000,000.00	1,000,000.00	12.500	12/10/01	125,000
K MART	81/11/30	81661	3,000,000.00	3,000,000.00	3,000,000.00	15.750	06/12/01	472,500
MISSOURI PACIFIC RR PP	79/07/31	75213	330,530.66	330,530.66	330,530.66	9.750	94/06/01	32,22
MOUNTAIN STATES TEL & TEL	78/04/05	72046	500,000.00	495,000.00	495,780.07	8.625	18/04/01	43,125
MOUNTAIN STATES TEL & TEL	79/11/01	75706	500,000.00	500,000.00	500,000.00	11.250	19/11/01	56,250
MUNICIPAL FINANCE BC	80/12/03	78568	1,971,200.00	1,963,800.56	1,964,666.12	13.750	05/12/01	271,040
MUNICIPAL FINANCE BC	81/11/30	81875	2,956,800.00	2,720,860.90	2,751,051.38	13.750	05/12/01	406,560
NATIONAL RURAL UTILITIES	82/06/09	84637	100,000.00	67,742.00	70,049.51	9.750	09/04/01	9,750
NATIONAL RURAL UTILITIES	79/09/05	75432	100,000.00	99,520.00	99,597.20	9.750	09/09/01	9,750
NATIONAL RURAL UTILITIES	79/09/05	75433	300,000.00	298,560.00	298,791.56	9.750	09/09/01	29,250
NATIONAL RURAL UTILITIES	79/09/05	75434	100,000.00	99,520.00	99,597.20	9.750	09/09/01	9,750
NATIONAL RURAL UTILITIES	82/06/30	84220	800,000.00	506,056.00	527,723.89	9.750	09/09/01	78,000
NATIONAL RURAL UTILITIES	80/10/01	78126	500,000.00	500,000.00	500,000.00	13.500	10/09/15	67,500
NATIONAL RURAL UTILITIES	81/02/05	79162	1,000,000.00	1,000,000.00	1,000,000.00	14.750	11/02/01	147,500
NATIONAL RURAL UTILITIES	81/03/12	79443	2,000,000.00	1,962,500.00	1,966,044.19	14.750	11/02/01	295,000

COMPANY NAME	T DATE	TICK	QUANTITY	COST	BOOK	RATE	M DATE	INTERE
NATIONAL RURAL UTILITIES	81/08/20	80938	500,000.00	497,500.00	498,210.97	15.750	91/08/15	78,750
NATIONAL RURAL UTILITIES	81/08/20	80939	500,000.00	497,500.00	498,210.97	15.750	91/08/15	78,750
NEW YORK TEL	84/06/11	91694	500,000.00	525,655.00	525,816.28	15.625	21/07/15	78,125
NIAGARA MOHAWK POWER	83/06/28	88061	1,500,000.00	1,500,000.00	1,500,000.00	12.500	13/06/15	187,500
PACIFIC GAS & ELECTRIC	79/06/19	74974	500,000.00	498,750.00	498,939.99	10.125	12/06/01	50,625
PACIFIC GAS & ELECTRIC	80/02/05	76322	500,000.00	500,000.00	500,000.00	12.750	13/02/01	63,750
PACIFIC GAS & ELECTRIC	81/05/01	79905	1,000,000.00	979,170.00	981,184.09	16.250	14/02/01	162,500
PACIFIC GAS & ELECTRIC	82/10/18	85411	1,000,000.00	990,670.00	991,344.17	13.375	15/06/01	133,750
PACIFIC TEL & TEL	79/02/15	74154	500,000.00	500,000.00	500,000.00	9.875	16/02/15	49,375
PACIFIC TEL & TEL	80/03/06	76564	500,000.00	500,000.00	500,000.00	15.125	86/03/01	75,625
PACIFIC TEL & TEL	80/03/06	76570	500,000.00	500,000.00	500,000.00	15.125	86/03/01	75,625
PACIFIC TEL & TEL	80/03/06	76572	1,000,000.00	996,790.00	997,136.76	15.500	20/03/01	155,000
PACIFIC TEL & TEL	81/04/01	79610	500,000.00	495,000.00	495,406.25	16.125	21/04/01	80,625
PACIFIC TEL & TEL	81/04/01	79613	450,000.00	445,500.00	445,865.65	16.125	21/04/01	72,562
PACIFIC TEL & TEL	81/04/01	79615	1,050,000.00	1,039,500.00	1,040,353.15	16.125	21/04/01	169,312
PANHANDLE EASTERN PIPELINE	80/04/02	76765	500,000.00	495,000.00	496,416.00	15.125	95/04/01	75,625
JC PENNEY	84/03/07	90734	2,300,000.00	2,131,778.00	2,133,799.22	12.000	10/07/15	276,000
PUBLIC SERVICE COLORADO	78/10/04	73247	100,000.00	100,000.00	100,000.00	9.250	08/10/01	9,250
PUBLIC SERVICE COLORADO	81/12/10	82037	1,000,000.00	992,500.00	993,140.12	16.250	11/12/01	162,500
PUBLIC SERVICE INDIANA	82/08/17	84807	1,000,000.00	964,390.00	966,732.95	14.750	11/02/01	147,500
PUBLIC SERVICE INDIANA	82/06/29	84190	1,000,000.00	960,350.00	963,052.73	15.750	11/12/01	157,500
PUBLIC SERVICE OKLAHOMA	83/03/03	86855	2,000,000.00	1,992,500.00	1,992,632.01	12.125	13/03/01	242,500
PUBLIC SERVICE ELECTRIC & GAS	82/09/15	85145	2,000,000.00	2,000,000.00	2,000,000.00	14.375	12/09/01	287,500
PUBLIC SERVICE ELECTRIC & GAS	84/03/14	91436	1,150,000.00	976,259.00	974,044.42	12.125	12/12/01	139,437
RCA CORPORATION	80/08/07	77679	1,000,000.00	996,250.00	[illegible]	12.250	05/05/01	122,500
RCA CORPORATION	80/09/05	77909	1,000,000.00	975,000.00	976,675.62	12.250	05/05/01	122,500
RCA CORPORATION	81/03/11	79426	2,000,000.00	1,710,920.00	1,750,506.33	12.250	05/05/01	245,000
ST REGIS PAPER	80/07/03	77387	1,000,000.00	962,500.00	967,301.40	10.625	10/06/15	106,250
SHELL OIL-OST ATLANTIC PP	79/03/07	74283	389,308.31	389,308.31	389,308.31	9.300	02/03/07	36,205
SOUTH CAROLINA ELECTRIC & GAS	79/04/30	74625	500,000.00	495,000.00	495,603.90	10.125	09/04/01	50,625
SOUTHERN CALIFORNIA EDISON	82/04/22	83452	2,000,000.00	1,972,880.00	1,974,602.50	16.000	12/04/15	320,000
SOUTHERN CALIFORNIA GAS	79/11/07	75802	500,000.00	500,000.00	500,000.00	12.750	99/11/01	63,750
SOUTHERN CALIFORNIA GAS	81/09/29	81304	1,000,000.00	992,750.00	996,922.55	17.375	01/09/15	173,750
SOUTHWESTERN BELL TEL	81/10/01	81337	1,000,000.00	942,500.00	946,456.70	16.125	21/09/18	161,250
SOUTHWEST ELECTRIC POWER	82/05/25	83805	1,980,000.00	1,970,100.00	1,970,794.55	15.500	12/05/01	306,900
SOUTHWESTERN PUBLIC SERVICE	78/03/15	71900	150,000.00	150,000.00	150,000.00	8.750	08/03/01	13,125
STUDEBAKER WORTHINGTON	78/11/16	73593	300,000.00	300,000.00	300,000.00	9.350	03/11/15	28,050
SUN CO	82/05/31	85003	1,000,000.00	1,000,000.00	1,000,000.00	13.400	07/08/15	134,000
TENNECO	82/03/02	82888	500,000.00	384,460.00	390,034.67	12.125	05/05/01	60,625
TENNECO	82/03/13	83637	500,000.00	398,403.00	407,841.97	12.125	05/05/01	60,625
TENNECO	82/06/25	84946	2,000,000.00	1,724,760.00	1,747,220.30	12.125	05/05/01	242,500
TENNECO	81/04/08	79677	1,000,000.00	985,000.00	986,939.85	14.500	06/04/01	145,000
TENNECO	81/08/27	80997	2,000,000.00	1,887,500.00	1,900,423.48	15.000	06/06/01	300,000
TEXAS EASTERN TRANSMISSION	81/09/17	81168	1,000,000.00	972,500.00	976,343.26	17.500	01/09/01	175,000
TEXAS ELECTRIC SERVICE	79/02/28	74230	500,000.00	496,500.00	497,124.22	9.500	09/02/01	47,500
TRANSAMERICA FINANCIAL	81/02/27	79316	500,000.00	359,340.00	365,456.64	9.875	99/03/01	49,375
UNION CARBIDE CORP	82/02/24	82620	200,000.00	113,340.00	122,240.62	8.500	05/01/15	17,000
UNION CARBIDE CORP	84/03/26	90969	1,000,000.00	712,970.00	715,691.50	9.350	09/08/15	93,500
UNION TANK CAR	81/01/27	79027	1,000,000.00	1,000,000.00	1,000,000.00	14.000	01/01/15	140,000
UTAH POWER & LIGHT	78/06/01	72456	300,000.00	300,000.00	300,000.00	9.125	08/05/01	27,375
UTAH POWER & LIGHT	81/12/17	82076	1,000,000.00	1,000,000.00	1,000,000.00	16.375	11/12/01	163,750
UTAH POWER & LIGHT	82/12/22	86103	1,000,000.00	1,000,000.00	1,000,000.00	13.000	12/12/01	130,000
VIRGINIA ELECTRIC POWER	78/07/27	72820	200,000.00	200,000.00	200,000.00	9.625	08/07/01	19,250

COMPANY NAME	T DATE	TICK	QUANTITY	COST	BOOK	RATE	M DATE	INTERE
WITCO CHEMICAL	79/08/21	75322	500,000.00	495,125.00	496,428.98	9.500	09/08/15	47.500
US TREASURY NOTES	83/08/09	88517	3,000,000.00	2,850,093.75	2,874,073.60	10.750	90/07/15	322.500
US TREASURY NOTES	83/09/13	88846	2,000,000.00	1,914,375.00	1,924,388.01	10.750	90/07/15	215.000
US TREASURY NOTES	83/10/05	89086	3,000,000.00	2,961,450.00	2,965,504.73	11.500	90/10/15	345.000
US TREASURY NOTES	84/04/24	91233	2,000,000.00	1,909,375.00	1,911,139.75	11.750	93/11/15	235.000
US TREASURY NOTES	84/02/24	90602	3,000,000.00	2,987,812.50	2,988,570.59	11.375	89/02/15	341.250
US TREASURY NOTES	84/03/27	90933	1,000,000.00	980,859.38	982,196.72	11.250	87/12/31	112.500
US TREASURY NOTES	84/02/16	90508	2,000,000.00	2,015,000.00	2,014,192.08	11.750	91/01/15	235.000
US TREASURY NOTES	84/03/05	90693	1,000,000.00	995,781.25	996,043.67	11.750	89/05/15	117.500
US TREASURY NOTES	84/05/14	91439	2,000,000.00	1,947,187.50	1,948,190.67	12.375	91/04/15	247.500
US TREASURY NOTES	84/05/18	91486	3,000,000.00	2,937,187.50	2,937,944.90	13.125	94/05/15	393.750
US TREASURY NOTES	84/05/30	91587	2,000,000.00	1,965,000.00	1,965,307.95	13.125	94/05/15	262.500
AMERICAN PRESIDENT LINES XI	83/03/29	87110	1,000,000.00	1,000,000.00	1,000,000.00	11.750	08/03/29	117.500
BIG SKY TRANSPORTATION USGG PP	80/06/11	77231	366,235.22	366,235.22	366,235.22	12.000	90/05/01	43.948
BIG SKY TRANSPORTATION USGG PP	80/09/19	78051	1,186,223.27	1,186,223.27	1,186,223.27	12.500	91/10/01	148.527
FEDERAL FARM CREDIT BANKS	84/06/27	91909	1,000,000.00	1,037,500.00	1,037,233.57	15.800	86/01/20	158.000
FEDERAL NATIONAL MORTGAGE	77/10/11	70787	500,000.00	500,000.00	500,000.00	7.500	07/10/13	37.500
FEDERAL NATIONAL MORTGAGE	78/09/11	73094	500,000.00	498,750.00	498,750.00	8.550	08/09/12	42.750
GNMA PASSTHROUGH	80/03/14	05055	1,781,522.01	1,365,090.21	1,425,740.35	9.500	09/09/15	169.244
GNMA PASSTHROUGH	80/01/16	76184	918,997.07	821,355.47	835,946.91	10.000	09/11/15	91.899
GNMA PASSTHROUGH	84/01/16	80875	999,163.20	861,155.71	865,476.01	10.000	10/12/15	99.916
GNMA PASSTHROUGH	83/06/15	87922	2,992,131.16	2,872,445.91	2,876,744.05	11.500	12/07/15	344.095
GNMA PASSTHROUGH	83/05/20	87849	914,040.10	906,597.42	904,611.98	13.500	12/11/15	123.395
GNMA PASSTHROUGH	83/06/15	87921	1,972,558.70	1,906,232.84	1,908,555.50	11.500	13/04/15	226.844
HOUTECH LTD I MM US GG PP	81/07/09	80571	1,870,000.00	1,870,000.00	1,870,000.00	14.800	96/10/31	276.760
MARINE DRILLING GG MM SHIP	81/03/05	79360	1,000,000.00	1,000,000.00	1,000,000.00	14.250	96/03/01	142.500
US GG SHIP FINANCING BONDS	77/12/23	71329	500,000.00	500,000.00	500,000.00	8.200	02/12/15	41.000
015 TOTALS FOR PERMANENT COAL TRUST			188,052,075.03	180,677,647.75	181,267,332.70			24,111.800
US TREASURY NOTES	83/01/31	86511	200,000.00	200,000.00	200,000.00	9.250	85/01/31	18.500
US TREASURY NOTES	83/01/31	86513	100,000.00	100,000.00	100,000.00	9.250	85/01/31	9.250
US TREASURY NOTES	84/04/23	91214	200,000.00	198,375.00	198,452.97	12.000	88/03/31	24.000
US TREASURY NOTES	84/06/04	91624	200,000.00	199,468.75	199,468.51	12.625	86/05/31	25.250
016 TOTALS FOR CRIME VICTIMS COMPENSATION			700,000.00	697,843.75	697,941.48			77.000
US TREASURY BILLS	84/06/15	91734	65,000.00	58,052.58	58,052.58		85/06/13	
US TREASURY BILLS	84/06/27	91899	30,000.00	28,542.38	28,542.38		84/12/13	
017 TOTALS FOR LEASE PARTICIPATION CERTIF			95,000.00	86,594.96	86,594.96			
US TREASURY BILLS	83/09/21	05191	1,625,000.00	1,492,323.27	1,492,323.27		84/08/09	
US TREASURY BILLS	83/09/21	05192	1,645,000.00	1,499,127.57	1,499,127.57		84/09/06	
US TREASURY NOTES	83/09/21	05199	2,000,000.00	1,958,125.00	1,973,255.41	9.750	85/11/15	195.000
US TREASURY NOTES	83/09/21	05200	1,000,000.00	977,812.50	985,629.36	9.750	85/11/15	97.500
US TREASURY NOTES	83/09/21	05193	1,500,000.00	1,491,093.75	1,496,395.07	9.875	84/11/30	148.125
US TREASURY NOTES	83/09/21	05201	2,000,000.00	1,961,250.00	1,973,784.17	9.875	86/02/15	197.500
US TREASURY NOTES	83/09/21	05194	1,000,000.00	929,062.50	994,967.92	9.625	85/02/28	96.250
US TREASURY NOTES	83/09/21	05195	1,500,000.00	1,479,843.75	1,489,106.49	9.875	85/05/31	148.125
US TREASURY NOTES	83/09/21	05196	2,000,000.00	1,990,625.00	1,994,546.21	10.625	85/07/31	212.500
US TREASURY NOTES	83/09/21	05197	2,000,000.00	1,990,625.00	1,994,546.21	10.625	85/07/31	212.500
US TREASURY NOTES	83/09/21	05198	4,000,000.00	3,995,625.00	3,997,375.00	10.625	85/08/31	425.000

January 31, 1985
Exhibit
HJR9

STATE OF MONTANA BOARD OF INVESTMENTS
1983-1984 Fiscal Year Report

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 4, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on February 4, 1985, at 5:15 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present, except Representative Harrington who was excused.

Chairman Harp advised those present the Subcommittee would review Individual Income Tax and Corporate Income Tax.

CONSIDERATION OF INDIVIDUAL INCOME TAX: Mr. Dave Hunter, OBPP, commented he believes the Subcommittee needs to be mindful of some inconsistencies in its projections as they will have a direct impact on Individual Income Tax revenues.

Ms. Judy Waldron, LFA, told subcommittee members here projections were based upon individual income tax returns of 1982 and she assumes a 6½-7% annual rate of growth, of which 1% is in employment with the balance in wages.

Ms. Waldron said federal indexing which took effect January 1, 1985, will increase state revenue while decreasing federal taxes by reducing itemized deductions. Ms. Waldron explained she did not include possible taxation of some social security benefits, as she did not consider it to be a significant factor.

According to Ms. Waldron, $109.022 million was paid in 1984 for Individual Income Tax, which combined with a 4% rate of inflation and a 10.75% growth rate, gave her the following projections:

FY85	-$113 million and a growth rate of	10%
86	123	10.25
87	133	9.75

Chairman Harp asked if the LFA would increase its estimate if interest rates decreased. Ms. Waldron replied she had already used a lower interest rate.

Mr. Dave Hunter, OBPP, said teh Legislature must pass Senate Bill 72 (sponsored by Senator Hager), which would decouple the State from the federal system and prevent the Montana portion of retirement income from being taxed. Ms. Waldron replied she would need to add $1 million per year to her projections if the bill were to pass, which would also reduce the difference between LFA and OBPP projections to $2 million.

Mr. Terry Johnson, OBPP, told subcommittee members he included statutory credit already on the books in his projections and started with a base year of calendar 1982. He said he used a procedure similar to that of the LFA in determining liabilities versus tax credits, in arriving at adjustments. His projections for Individual Income Tax growth rates are as follows:

CY85	-8%
86	8.1
87	8.7

Mr. Johnson said he included the impact of social security benefits taxation from Senate Bill 247 in the amount of $2 million annually. He state Senate Bill 247 would provide that state employees no longer pay taxes on the amount contributed to PERS (Public Employees Retirement System), affecting FY86 and FY87.

Chairman Harp again pointed out that the LFA and OBPP need to "come together" in their FY85 projections. He commented a lower rate of inflation would contribute to a better economy and provide more income for individuals and corporations, thus increasing tax revenue.

Mr. Johnson pointed out that average annual income in Montana is $14,456. He explained he looked at CY70 through CY83, which averaged 2.47% in growth, although growth in CY83 was 9%. He said he expects the rate to drop through FY87 and predicted employment would grow at a slower rate of 1.2%.

Mr. Johnson said tax income reported through the end of December, 1984, is approximately $6.2 million ahead of last year, at 42% of the projected income for FY85 and that he is comfortable with his projected total of $116 million for that year. He commented the OBPP would have a firm projection by February 10, 1985, for the second quarter ending January 31, 1985, and that the 12% growth in tax receipts between FY83 and FY84 was taken into consideration in anticipating a 7% growth rate for FY85.

Mr. Dave Hunter, OBPP, said if anything, actual income tax growth will be higher than projected.

Ms. Waldron stated withholding tables have contributed to over-withholding this year and will be adjusted next year. She said investment tax credits fell from 30% of federal to 5% or $7.7 million in CY82, to $2.7 million in CY83. Chairman Harp asked if both the LFA and OBPP were using a 4½% inflation rate.

Mr. Jerry Johnson commented additional tax credit was picked up, which was incorporated into the OBPP projections. Ms. Waldron responded, stating the "large jump in FY86-87 is due to federal indexing" and that CY84 was one of the better years in personal income growth. She said agriculture created a negative balance in personal income growth of $152 million in CY82.

CONSIDERATION OF CORPORATION LICENSE TAX: Mr. Terry Johnson, OBPP, said it was difficult to arrive at projections for Corporation License Tax due to lack of good data. He explained he used national statistics and included actual audit dollars and tax credits. Mr. Johnson stated the 8.5% growth in CY83 and CY84 would generate tax income for FY85. He projected an 8.7% growth rate in FY84-85 and 8.5% in FY85-86.

Mr. Johnson told the Subcommittee the Department of Revenue collected $11.7 million from a large audit for CY83-84, "over and above normal audit proceeds". He said $16.4 million was collected for FY85 in an audit of 1982 returns, which included penalty and interest. Mr. Johnson advised that $15.9 million had been collected in audits through January, 1985, (including the $11.7 million audit), compared to $7.5 collected in FY84 (of which $4.7 went to the general fund).

Mr. Johnson said the $5 million business inventory credit which provided 80% to the federal government and the remaining 20% to local governments no longer needed to be repaid. He estimated total Corporation License Tax receipts for FY85 to be $60 million which he said is very close to the OBPP projection of $58.9 million. Mr. Johnson commented the "corporate side is coming closer to the pattern of what's happening on the national level, i.e., a downturn the past few years".

Ms. Waldron advised subcommittee members the profit projections used at the national level were not as optimistic as those of the OBPP and that she used $10.5 million for the large audit referred to by Mr. Johnson, instead of $11.7 million. Ms. Waldron said she didn't include $1.3 million for 1983 audits but the Subcommittee could add $800,000 (the general fund share) of the $1.3 million to its FY85 projections.

Ms. Waldron commented it is difficult to estimate revenue sources as they fluctuate by large amounts.

Mr. Johnson stated that multi-national corporations which file income tax in Montana can have an effect on the pattern of state Corporation License Tax, in following the national pattern.

SUBCOMMITTEE PROJECTIONS FOR NATURAL GAS TAX: Chairman Harp commented there is an 8 million cubic foot difference between LFA and OBPP projections.

Mr. Johnson, OBPP, stated 40-50mcf were projected for the first quarter of tax collection ending June 30, 1985. He said CY84 supported a higher production level of approximately $54 million and that current production is up from last year. Mr. Johnson further advised that the LFA did not include 20% of funds which are returned to the counties, comprising part of the difference in their estimates.

SUBCOMMITTEE PROJECTIONS FOR NATURAL TAS TAX:

Production	FY85	-46.5 mcf	Price	FY85	-$2.50 mcf
	86	46.5		86	2.55
	87	46.0		87	2.55

SUBCOMMITTEE PROJECTIONS FOR METAL MINES TAX:

Production	FY85	-$1.66 million
	86	1.0
	87	1.0

SUBCOMMITTEE PROJECTIONS FOR INTEREST ON INVESTMENTS:

$ to invest	FY85	-$214 million	Interest rates	FY85	-10.25%
	86	175		86	10.25
	87	175		87	10.0

There being no further business before the Subcommittee, the meeting was adjourned at 7:40 p.m.

Representative John G. Harp, Chairman

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 5, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on February 5, 1985, at 5 p.m., in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

Chairman Harp advised those present the Subcommittee would review Long Range Bond Excess, Electrical Energy Tax and Telephone Tax.

CONSIDERATION OF LONG RANGE BOND EXCESS: Ms. Judy Waldron, LFA, advised subcommittee members funds for Long Range Bond Excess are received from Corporation License Tax, Personal Income Tax, Tobacco Tax and Cigarette Tax, as general fund appropriations. She said her office projected lower revenues on Cigarette Tax than those of the OBPP.

Mr. Terry Johnson, stated the Subcommittee would not need to address Corporation License Tax and Individual Income Tax in Long Range Bond Excess if projections were already made. He advised that debt service for building is now paid from the general fund, which receives its funding from debt services.

Mr. Dave Hunter, OBPP, stated that "for the purpose of revenue estimates, dollars are pledged toward long range bonds". He said total debt service is $12 million annually of which $10 million is general funds. Mr. Hunter estimated debt service as follows:

FY85 -$10.005 million
86 10.070
87 10.131 (figues assume no new buildings for state agencies)

Mr. Hunger explained bonded indebtedness for the Department of Fish, Wildlife and Parks and the Department of Highways comes from earmarked funds and that both LFA and OBPP projections were based upon continuation of present trends, for Cigarette Tax. Mr. Hunter said the "8 cent cigarette tax is a separate policy proposal and not a contingency".

Mr. Terry Johnson, stated OBPP projections for Cigarette Tax and Tobacco Tax are as follows:

Cigarette Tax	FY85	-$11.632 million	Tobacco Tax	FY85	-$748,000
	86	11.683		86	828,000
	87	11.723		87	916,000

Mr. Johnson said actual Cigarette Tax receipts for FY84 were $9.494 million and those for tobacco, $693,000. He explained differences between LFA and OBPP estiamtes may be due to the increase from 12 to 16 cents per pack for cigarettes, as well as the trend toward purchasing decals in 1983 to avoid the increase in 1984. He commented the Department of Revenue switched to GAAP.

Mr. Johnson provided Department of Revenue information on cigarette sales in Montana (Exhibit 1) and said tobacco is based on gross value, presently at 12½%.

Ms. Judy Waldron, LFA, stated her projections were somewhat less than those of the OPBB, and are as follows:

Cigarette Tax	FY85	-$10.7 million	Tobacco Tax	FY85	-$730,000
	86	10.4		86	764,000
	87	10.2		87	799,000

Ms. Waldron stated the LFA believes there will be a drop in cigarette consumption because of a trend toward healthier lifestyles.

Mr. Johnson advised the Subcommittee that roughly 58% of estimated tax revenue has been received during the first 7 months of FY85. He said the OBPP tried to tie cigarette consumption to the employment rate in the State in arriving at its projections.

Ms. Waldron advised subcommittee members that consumption of cigarettes increased 1.49% in FY80, 2.73% in FY81 and then decreased by 1.19% in FY82 and 2.5% in FY83, according to national statistics available.

SUBCOMMITTEE PROJECTIONS FOR CIGARETTE TAX:

Cigarette Tax	FY85	-90 million	Tobacco Tax	FY85	-$825,000
(# of packs)	86	90		86	825,000
	87	90		87	825,000

CONSIDERATION OF ELECTRICAL ENERGY TAX: Mr. Terry Johnson, OBPP, stated he had access to new information, which changed his prior estimates. He used $1.65 million from the first three quarters of FY85, the last quarter of FY84 (for a total of $2.212 million), and $225,000 annually from the Northwest Power Council. His projections which show $693,000 net increase during the three year period, are as follows:

FY85	-$2.212 million
86	2.273
87	2.405

Ms. Judy Waldron, LFA, stated some electricity is generated by hydro-power and will be dependent upon the availability of water during the next two years. Ms. Waldron said she annualized Colstrip 3 as on line for a 2.7% increase and some additional production from Colstrip 4 during FY87.

SUBCOMMITTEE PROJECTIONS FOR ELECTRICAL ENERGY TAX: The Subcommittee opted to use projections of the OBPP as stated previously herein.

CONSIDERATION OF TELEPHONE TAX: Ms. Waldron told subcommittee members LFA projections were dependent upon quantity of service and said she used Mountain Bell, (which provides 90% of telephone tax revenue), in her projections. Ms. Waldron said she also spoke with Public Service Commission (PSC) analysts, who believe revenue for Mountain Bell will increase at 7% each year, while long distance rates will decrease. She commented FY85 projections include annualized increases from divestiture.

Mr. Terry Johnson, explained the OBPP also received data from the PSC and reviewed telephone tax receipts since 1969 (except those years with rate increases), to arrive at an 8½% growth rate. OBPP revised estimates are as follows:

FY85	-$3.010 million
86	3.266
87	3.542

Mr. Johnson told subcommittee members $732,000 was paid last quarter and $1.51 million the two previous quarters of FY85.

Ms. Waldron stated her projections are somewhat lower and are as follows:

FY85	-$2.661 million
86	2.798
87	2.944

SUBCOMMITTEE PROJECTIONS FOR TELEPHONE TAX:

FY85	-$3.010 million
86	3.160
87	3.319

Representative Sands opposed the projections, which were approved by remaining subcommittee members.

<u>SUBCOMMITTEE PROJECTIONS FOR COAL TRUST FUND INTEREST</u>: Mr. Johnson, OBPP, stated there were variables such as "debt service and others", which could affect rates.

Mr. Dave Hunter, OBPP, stated stock market columns of a recent newspaper reflected February 1986 Treasury Bonds at 10.26% and February 2005 bonds at 11.26%.

The Subcommittee agreed upon a short term interest rate of 10.25% and long term interest rates as follows:

FY85 -12%
86 12
87 11.75

There being no further business before the Subcommittee, the meeting was adjourned at 6:35 p.m.

Representative John G. Harp, Chairman

Feb 5, 1985
Exhibit 1
Cigarette Tax

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

STATE OF MONTANA

HELENA, MONTANA 59620

CIGARETTE SALES

STATE OF MONTANA

Number of cartons of cigarettes sold in the following Fiscal Years:

1980	*9,586,972*	95.869720
1981	*9,530,087*	95.300870
1982	*9,707,865*	97.078650
1983	*9,108,369*	91.083690
1984	*9,060,601*	90.060601

10/4/84
KK

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 6, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on February 6, 1985, at 5 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

Chairman Harp advised those present the Subcommittee would review Insurance Premiums Tax, Institutional Reimbursements and Inheritance Tax.

CONSIDERATION OF INSURANCE PREMIUMS TAX: Mr. Terry Johnson, OBPP, stated factors used in arriving at his projections include, amount of premiums, tax rate and portion devoted to police and firemen's retirement accounts. Mr. Johnson said he used reports of the State Auditor to estimate insurance premiums tax and included $225,000 each year from Inland Marine Insurance (created by the fiscal impact of House Bill 465, passed in 1983).

Mr. Johnson advised subcommittee members insurance taxes are due on March 1 of each year, but the State Auditor's office has been inconsistent in its procedures for remitting retirement monies to the general fund. He said an agreement has been reached with newly elected State Auditor, Andrea "Andy" Bennett, whereby the remittance will be made in the year in which the tax is paid.

Mr. Johnson growth factors averaged 11% between FY69 and FY84 and that he projected 8% growth annually between FY85 and FY87.

Representative Sands commented there was a 25% growth factor betwen FY84 and FY85. Mr. Johnson replied the State Auditor paid $5.5 million in FY85 instead of the actual $4.4 million due, and that that $1 million overpayment should be credited to FY84.

Ms. Judy Waldron, LFA, stated she used the same procedure in her estimates as those used by the OBPP, and assumed the State Auditor would remit correct amounts for retirement in the future. Ms. Waldron told subcommittee members she included the effect of severe hail storms in 1983, in her estimated 10% growth factor for FY85.

Ms. Waldron explained contributions to retirements funds are based upon current salaries of police and firemen and that cities and towns send this information to Public Employees Retirement Division. Projections for Insurance Premiums Tax are as follows:

LFA:	FY85 -$4.1 million	OBPP:	FY85 -$4.6 million
	86 - 4.7		86 6.3
	87 - 5.3		87 6.7

SUBCOMMITTEE PROJECTIONS FOR INSURANCE PREMIUMS TAX: Representative Williams suggested the Subcommittee project FY85 growth at 6.75%. Subsequent to discussion, projections agreed upon are as follows:

FY85	-$15.7 million	-4.1%
86	16.195	4.1
87	16.737	5.3

CONSIDERATION OF INSTITUTIONAL REIMBURSEMENT: Ms. Judy Waldron, LFA, stated funds are received from 6 state institutional buildings, (for example, Galen, Warm Wprings, Columbia Falls), but the majority of revenue is received from Medicaid (approximately 74%). She said a lesser amount is received from private insurance reimbursements. Ms. Waldron stated she used the number of Medicaid days for 1984 times the number of patient days to arrive at her estimates for FY85 and used the SRS budgeted increases for 2% and 3% for FY86 and FY87.

Ms. Waldron explained LFA projections were higher than those of the OBPP, "as earned, but not yet received", since OBPP used GAAP. According to Ms. Waldron the difference is $688,000 for FY85.

Representative Harrington asked about FY87 projections. Ms. Waldron replied there are increased costs to Medicaid for institutional care each year of which $10,000,000 is estimated in FY85.

Mr. Terry Johnson, OBPP, stated he used dollar amounts in the Governor's budget for Medicaid and inflated other sources by projecting the annual rate of inflation. He said he included $2 million from the Youth Treatment Center in Billings, which the LFA excluded and that there is a 2.4% difference in general fund projections (or $700,000) between the two offices.

SUBCOMMITTEE PROJECTIONS FOR INSTITUTIONAL REIMBURSEMENT:

FY85	-$12.893 million
86	16.195
87	16.737

CONSIDERATION OF INHERITANCE TAX: Mr. Terry Johnson, OBPP, stated he used similar procedures to those used in projecting Corporation License Tax, in arriving at his estimates. He said he spoke with a representative of the Inheritance Tax Bureau, who said projected revenue could be as high as $8 or 9 million, but believed $7 million would be closer to actual revenue.

Mr. Johnson explained he used $6.3 million as a base for FY85 and assumed the level of growth would equal the rate of inflation. He said inheritance tax, which is received on a monthly basis, totalled $3.864 million during the first 7 months of FY85 and could reach $6.624 million at year end.

Ms. Waldron she also talked to the Administrator of the Inheritance Tax Bureau, who did not predict much change. She said inheritance began falling in 1981 and that there is an 18 month lag between filing and settlement of an estate.

SUBCOMMITTEE PROJECTIONS FOR INHERITANCE TAX:

FY85	-$6.624 million
86	6.6
87	6.8

SUBCOMMITTEE PROJECTIONS FOR INDIVIDUAL INCOME TAX: Chairman Harp said he thought the LFA was low and the OBPP, high, in its projections for Individual Income Tax. He reminded subcommittee members the LFA used 4½-5% inflation rates and did not include social security tax exemptions proposed in Senate Bill 72.

Ms. Waldron commented the Subcommittee would need to add $1 million each year to her figures if Senate Bill 72 were to pass and said Senate Bill 247 would provide an additional $2 million or $1.3 million to the general fund annually.

Mr. Terry Johnson, OBPP, stated that Individual Income Tax is $6 million ahead of FY84 with 42% of projected income received for FY85. He said the OBPP used 4% in FY85, 5.2% in FY86 and 5.5% in FY87.

Chairman Harp advised subcommittee members it is extremely important it be noted that the Subcommittee is assuming Senate Bill 72 will fail and Senate Bill 247 will pas, in its projections, which are as follows:

FY85	-$115 million	
86	124	-7.7%
87	133	-7.0

Representative Harrington then made a motion that the projections be increased by $1 million per year, which was seconded by Representative Schye. The motion was defeated, as all other subcommittee voted no.

SUBCOMMITTEE PROJECTIONS FOR CORPORATION LICENSE TAX: Representative Williams made a motion that the Subcommittee accept OBPP projections. The motion was given unanimous approval.

Chairman Harp suggested the LFA and OBPP adjust their smaller budget areas between SBAS and GAAP and report their revised projections at the next meeting, in an effort to resolve the $800,000 difference in their estimates.

There being no further business before the Subcommittee, the meeting was adjourned at 6:50 p.m.

Representative John G. Harp, Chairman

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 7, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on February 7, 1985, at 5 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

Chairman Harp advised those present the Subcommittee would review information on GAAP and SBAS received from the Legislative Auditor.

CONSIDERATION OF AMENDMENTS TO HOUSE JOINT RESOLUTION 9: Representative Williams made a motion that the Subcommittee adopt the proposed amendments (Exhibit 1).

Ms. Judy Rippingale, Legislative Fiscal Analyst, stated her belief that, ultimately, state records would "be on GAAP" and said the Legislative Auditor believes the process could be accomplished by June 30, 1985. She said state agencies are encouraged to make SBAS entries compatible with GAAP by that date, (Exhibit 2).

Mr. Dave Hunter, Director, Office of Budget and Program Planning, said he saw no problem with a June 30, 1985, target date.

Chairman Harp told subcommittee members he was advised by Legislative Researcher, Dave Bohyer, that a separate committee bill is necessary to so direct state agencies.

Mr. John Northey, Staff Legal Counsel, Office of the Legislative Auditor, stated such action could not be "mandated" by a resolution, but could be "encouraged". He said a committee bill would cause the resolution to be taken seriously.

Representative Sands asked if audit trails would be impaired if the Subcommittee were to adopt the proposed amendments. Ms. Rippingale stated such action would serve to improve audit trails for the legislative side and would leave only FY84 incompatible for accrual for SBAS and GAAP.

Mr. Jim Gillett, Deputy Legislative Auditor, Financial/Compliance and Contract Audits, stated the change would make legislative audit work easier and would create no problem with audit trails. He said June 30, 1984, was the first GAAP-based fund balance from the Department of Administration.

Chairman Harp asked the LFA, OBPP and the Legislative Auditor to review the proposed amendments and proposed Mr. Northey and Mr. Bohyer take charge of the matter.

Representative Williams withdrew his motion and made a substitute motion that the amendments be reviewed as proposed by Chairman Harp. The motion was seconded by Representative Harrington and given unanimous approval.

<u>CONSIDERATION OF FORECAST ASSUMPTIONS FOR REVENUE CATEGORIES IN HOUSE JOINT RESOLUTION 9</u>: Representative Switzer stated he concurred with the $35.097 million ending fund balance.

Chairman asked how the OBPP and LFA readjusted their figures for FY84. Mr. Terry Johnson, OBPP, replied all of the issues between the LFA and OBPP had been resolved in accordance with GAAP, (Exhibit 3).

Ms. Judy Waldron, LFA, stated forecast assumptions for revenue estimates were included in House Joint Resolution 9. She said the FY84 drop in liquor sales is continuing in FY85, affecting the Liquor Excise Tax; that the LFA and OBPP compromised on Liquor Profits; that they used the OBPP projection for Freight Line Tax; compromised between their earlier projections for Drivers License Fees; used the OBPP projections for Wine Tax.

Ms. Waldron said the LFA and OBPP assumed a 7% annual increase between FY84 and FY87, and included federal reimbursements for firefighting earned in 1985 and to be accrued in FY86. She commented the LFA and OBPP assumed the general fund would retain bank examiners fees, but House Bill 460 would change this amount to $465,000 for both FY86 and FY87. Ms. Waldron explained that Department of Commerce functions would operate from that account and unused funds would revert to the general fund.

Chairman Harp advised Subcommittee members he would like to meet Friday evening, February 8, 1985, to review changes in amendments and revenue projections and to review the Foundation Program, in addition to addressing SBAS and GAAP issues to be prepared by Mr. Northey.

Chairman Harp commented the Subcommittee could recommend that the Taxation Committee establish a permanent revenue subcommittee to meet one week after each session begins and report its findings on revenue to the Taxation Committee after several weeks of study. He said it could be a House Standing Committee, as it is vital that Taxation Committee members are informed on sources of revenue.

Representative Switzer agreed the Subcommittee helped his understanding of the relationship between revenue and taxation and made a motion that Mr. Northey draft such a proposal for the Subcommittee. The motion was given unanimous approval by subcommittee members.

There being no further business before the Subcommittee, the meeting was adjourned at 5:35 p.m.

Representative John G. Harp, Chairman

2-7-85
HJR-9
Exhibit 1

It is the policy of the legislature for budget decisions to utilize the unreserved fund balance prepared according to generally accepted accounting principles (G.A.A.P) as published in the audited state financial statement as of June 30, 1984.

The FY 84 unreserved ending fund balance is $35.097 million.

The Department of Adminstration and other state agencies are encouraged to make timely entries so that by June 30, 1986, the SBAS unreserved fund balance is in accordance with G.A.A.P.

TM1:DD/1:th

2-7-85
Exhibit 2
HJR-9

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

February 7, 1985

Representative John Harp, Chairman
House Taxation Subcommittee on Revenue Estimates
State Capitol
Helena, MT 59620

Listed below are reasons why the Legislative Auditor's Office believes the Legislature should use the audited, unreserved General Fund balance prepared in accordance with generally accepted accounting principles (GAAP) for budget purposes rather than the SBAS fund balance.

1. Since the state of Montana financial statements are audited annually in accordance with GAAP, the fund balances between years will remain consistent and comparable with each other. SBAS fund balances may fluctuate significantly due to accounting errors.

2. In future years, SBAS should be GAAP with the exception of any record keeping errors found after the fact. The Department of Administration's objective is to reduce and eventually eliminate the need to adjust the state's accounting records to comply with GAAP.

3. A significant portion of the difference between the SBAS and GAAP fund balances at June 30, 1984 was for correction of errors. In the future, SBAS should more closely resemble GAAP amounts especially since the Accounting Division is striving to maintain the accounting records in accordance with GAAP.

4. The state of Montana Comprehensive Annual Financial Report (CAFR) contains the audited GAAP fund balance and is distributed to the public and bond houses. If different fund balances are used, it will cause confusion and concern.

5. The audited GAAP fund balance is not as subject to manipulation as the SBAS balance. On SBAS, each agency can control when they receive and record revenues and pay and record expenditures. SBAS fund balance could be artificially controlled by the decisions of agency personnel.

Sincerely,

Robert R. Ringwood

Robert R. Ringwood
Legislative Auditor

RRR/jw324k

2-7-85
HJR-9
Exhibit 3

Forecast Assumptions for Revenue Categories in HJR 9

Liquor Excise Tax

Fiscal 1985 liquor excise tax collections drop from the fiscal 1984 level because of a 4.8 percent decline in dollar sales. The decline in unit sales is assumed to be 3 percent in each fiscal 1986 and 1987. Due primarily to the increase in federal excise tax scheduled to become effective October 1, 1985, price rises an average of 6.5 percent in each fiscal 1986 and 1987.

Liquor Profits

Liquor profits decline in fiscal 1985 with the drop of approximately 6 percent in unit sales. In each fiscal 1986 and 1987, dollar sales rise slightly from the fiscal 1985 level as price increases more than enough to compensate for falling unit sales. Liquor Division expenses including the cost of goods sold change in proportion to the increase in dollar sales.

Freight Line Tax

The gross earnings of freight line companies and consequently revenue from the freight line tax are assumed to rise at an average rate of 5.26 percent, consistent with anticipated price inflation during the forecast period.

Beer Tax

During each fiscal 1985 and 1986, gallons of beer sold in Montana are assumed to decline 2.4 percent annually. The rate of decline increases to

4.4. percent in fiscal 1987 with the increase in the minimum legal drinking age to 21 on July 1, 1986.

Drivers' License Fees

Year-to-date collections support a 21 percent increase in revenue from license fees for fiscal 1985. In fiscal 1986 and 1987, revenue will rise 2.2 percent annually, consistent with the historic growth rate in the driving age population.

Wine Tax

Receipts from the wine tax are projected to grow 1.3 percent annually during the forecast period. Such modest growth is consistent with the historic experience since calendar year 1969.

Other Revenue

In fiscal 1985, other revenue will be inflated by $1 million of federal reimbursements for the cost of fighting forest fires in the state during August 1984. The underlying trend is growth in other revenue averaging approximately 7 percent annually. The projections assume the general fund will retain bank examination fees; House Bill 460 proposes to deposit these fees in a state special revenue account. If House Bill 460 passes, projected fiscal 1986 and 1987 other general fund revenue should be adjusted downward for the lost bank examination fees.

JCLEG:far 2-7-5

HOUSE JOINT RESOLUTION NO. 9

INTRODUCED BY Waldron

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE MONTANA CONSTITUTION.

WHEREAS, Article VI, section 9, of the Montana Constitution requires the Governor to submit to the Legislature a budget for the ensuing fiscal period containing in detail the estimated revenue of the state; and

WHEREAS, Article VIII, section 9, of the Montana Constitution requires that the Legislature may not appropriate funds in excess of the anticipated revenue of the state; and

WHEREAS, section 5-12-302(2), MCA, requires the Office of the Legislative Fiscal Analyst to estimate revenue from existing and proposed taxes, and section 17-7-123(1), MCA, requires the Governor to submit a budget showing a balance between proposed disbursements and total anticipated receipts; and

WHEREAS, due to the complexity of economic variables

involved in revenue forecasting and the diversity of sources from which state revenues are obtained, it has become increasingly difficult to project revenues in order to prepare a balanced budget for the ensuing biennium; and

WHEREAS, past legislatures have not agreed on revenue projections until the last days of the session when there is little time for comprehensive analysis or reasoned criticism; and

WHEREAS, it is in the best interests of the state that revenue forecasts be discussed and arrived at in public hearings wherein all the people may attend and participate.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the state general fund revenue for fiscal years 1986 and 1987 is estimated to total $767,532,000. This total is based on the assumptions and projections set forth below:

GENERAL FUND REVENUE

The projections for total general fund revenue during the 1986-87 biennium are based on an assumption of moderate economic growth during the period. While current economic growth is slowing, the present economic recovery is expected to continue, but at a more moderate level. It is further assumed that the inflation rate will be about 6% during the biennium and that interest rates will drift upward until

INTRODUCED BILL
HJR 9

late 1986 and then decline slightly in 1987, based on the assumption of a less restrictive monetary policy by the Federal Reserve and a continuation of competing credit demands between private borrowers and the federal government.

General Fund Revenue

Source of Revenue	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
(1) Individual Income Tax				
	$116,653,000	$123,466,000	$130,626,000	$254,092,000

This revenue consists of 64% of the total projected individual income tax collections, which percentage is currently deposited in the general fund.

Assumption: Income tax forecasts for the 1986-87 biennium assume moderate growth in personal income and employment. These projections also are based upon the continuation of all statutory credits. The additional revenue that would be generated by federal income tax indexing has not been included in the forecasts.

(2) Corporation License Tax				
	$35,017,000	$29,957,000	$32,304,000	$62,261,000

The corporation license tax is distributed to several accounts. The revenue reported above consists of 64% of the corporation license tax, which percentage is currently

deposited in the general fund.

(3) Coal Severance Tax				
	$17,444,000	$19,735,000	$18,732,000	$38,467,000

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year, assessed at the rate of 30% of the value of the coal with a heating quality of at least 7,000 Btu's per pound and 20% of the value of coal with a lower Btu rate.

Assumption: With lower demand and competitively priced alternative fuels, coal prices have remained soft. It is assumed that these conditions, in conjunction with royalty deductions, will result in a modest rate of growth in the price of coal during the biennium. A dispute involving the state's authority to tax coal mined on Crow Indian land has prompted a major coal developer to protest taxes paid on this production. Until a settlement is reached, these taxes are being deposited in an escrow account. Tax forecasts for the 1986-87 biennium assume a settlement will not be reached until after fiscal year 1987; therefore, these coal tax revenues are not included in the above revenue estimates.

(4) Oil Severance Tax				
	$32,837,000	$27,792,000	$29,269,000	$57,061,000

Assumptions: Oil severance tax revenues are dependent on the price per barrel and the number of barrels of oil produced in the state. Since oil is a commodity that is used

for diverse purposes, the prices depend on federal regulations and world demand. Although recent oil price cuts by Norway, Great Britain, and Nigeria have injected an uncertainty in the international oil market, it is assumed that prices will stabilize and increase slightly by the calendar year 1987. This assumption is based on OPEC's recent agreement to cut daily production and Chase Econometrics' prediction that further price declines will not occur because of an observed increase in recent worldwide demand.

(5) Interest on Investments

$27,732,000 $25,099,000 $25,820,000 $50,919,000

Assumptions: Interest on investments is projected to increase in fiscal 1985, but then decline in fiscal years 1986 and 1987. The increase in 1985 is expected because tax anticipation notes were sold this year. The decline in 1986 and 1987 is expected because interest earned on the highway gas account will begin to accrue to the highway account.

(6) Long-Range Bond Excess

$38,449,000 $38,880,000 $40,652,000 $79,532,000

The long-range debt service account receives 11% of all individual income and corporation license taxes, 79.75% of all cigarette excise taxes, and 100% of the tobacco products tax. When the sum of money in the debt service account exceeds the annual principal and interest payments, the

excess is transferred to the general fund.

Assumption: It is assumed that there will be no additional long-range building bonds sold through fiscal year 1987.

(7) Coal Trust Fund Interest

$24,529,000 $28,792,000 $33,560,000 $62,352,000

This revenue is derived from interest earned on the deposit of 50% of the coal severance tax receipts dedicated to the permanent trust fund.

Assumption: Coal severance tax bonds are sold to finance specific water resources development projects. Debt service on these bonds is paid primarily with pledged project and coal severance tax revenues. The use of coal severance tax revenues for this purpose will reduce permanent trust fund receipts by about $300,000 in fiscal years 1986 and 1987. However, it is projected and assumed that the total permanent trust interest income will increase over the biennium. Balances available for investment are expected to increase because of anticipated higher coal severance tax receipts. In addition, long-term interest rates are expected to gradually increase by calendar year 1986.

(8) Insurance Premiums Tax

$16,109,000 $16,139,000 $17,558,000 $33,697,000

Assumptions: The level of insurance tax receipts is

assumed to increase by about 8% for fiscal years 1985 through 1987, based on a moderate growth in total personal income and employment.

(9) Public Institutions Reimbursements

$12,213,000 $14,758,000 $15,310,000 $30,068,000

Assumptions: In fiscal 1984, approximately 88% of all reimbursements collected were federal medicaid receipts. Hence, forecasts for revenue assume federal medicaid reimbursement equal to the executive budget request for the Department of Social and Rehabilitation Services. This request assumes that the number of patient care days will remain constant at the 1985 level. In addition, the revenue estimates for fiscal years 1986 and 1987 assume about $2,000,000 annually for medicaid reimbursements from the Montana Youth Treatment Center at Billings.

(10) Liquor Profits

$4,466,000 $5,924,000 $6,544,000 $12,468,000

(11) Liquor Excise Tax

$6,418,000 $7,074,000 $7,470,000 $14,544,000

Assumptions: Liquor sales for fiscal years 1986 and 1987 are expected to show little growth. Although personal income is growing, there appears to be a trend toward moderation in liquor consumption. Furthermore, the liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at the 1984 level.

(12) Inheritance Tax

$6,289,000 $6,656,000 $7,072,000 $13,728,000

Assumptions: Projected inheritance tax revenues are based on a 6% annual growth rate in tax collections. Returns processed are expected to remain stable and of average size taxable at between 0% and 32%.

(13) Metal Mines Tax

$1,711,000 $1,185,000 $1,190,000 $2,375,000

Historically, the metal mines tax has been deposited in the general fund. Beginning in fiscal year 1986, one-third of the receipts will be deposited in a hard-rock mining trust account.

Assumptions: Metal prices, metal production, and the effective tax rate are the major factors that determine the level of metal mines tax receipts. It is assumed that production for gold, silver, and copper will increase modestly throughout the biennium. Also, prices are assumed to remain constant at calendar year 1984 levels. No new companies are expected to begin operating in the state by the end of calendar year 1986.

(14) Electrical Energy Tax

$1,986,000 $2,042,000 $2,169,000 $4,211,000

Assumptions: Total U.S. electricity production has grown by 2.2% since calendar year 1974. It is assumed that Montana's production will follow this trend and that demand

for electrical power will increase at this rate through the 1986-87 biennium. In addition, an adjustment to these estimates has been made based on a July 1986 completion date for Colstrip Unit 4. Production capacity for both Colstrip Unit 3 and Unit 4 is assumed to be 60% the first year and 70% thereafter.

(15) Drivers' License Fees

$817,000	$835,000	$854,000	$1,689,000

Assumptions: Census data from 1970 and 1980 indicate that growth in the eligible driver age cohort was 2.2% annually. Collection of drivers' license fees is assumed to continue this trend during the biennium.

(16) Telephone License Tax

$2,814,000	$3,053,000	$3,311,000	$6,364,000

Assumptions: Revenue forecasts for the telephone tax are based on an average growth rate in revenues of 8.5% observed since calendar year 1969.

(17) Beer License Tax

$1,213,000	$1,221,000	$1,230,000	$2,451,000

Assumptions: Revenues are projected based on an annual growth rate in beer consumption of about 0.7% that has been observed since fiscal year 1979.

(18) Natural Gas Severance Tax

$3,481,000	$3,650,000	$3,862,000	$7,512,000

Assumptions: Natural gas production is projected to

remain at current levels throughout the 1986-87 biennium. Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985. Prices will increase only moderately even with deregulation because of more competition, contract renegotiations, and lower market prices, primarily from Canada.

(19) Freight Line Tax

$1,402,000	$1,465,000	$1,556,000	$3,021,000

Assumptions: Freight line tax revenues are projected to increase by about 6% over the period 1985-1987.

(20) Wine Tax

$917,000	$928,000	$940,000	$1,868,000

Assumptions: Wine tax receipts are projected to increase by 1.3% annually based on the same percentage rate of growth in the consumption of distilled spirits experienced since calendar year 1969. Wine taxes are not based on the value of the commodity. Revenues are a function of consumption.

(21) Other Revenue Sources

$13,474,000	$13,930,000	$14,922,000	$28,852,000

Assumptions: Since fiscal year 1981, revenues from a number of other statutory taxes and fines have grown an average of 7.2% per year after adjusting for one-time receipts. It is assumed this trend will continue during the biennium; however, a negative adjustment of $465,000 was made to fiscal year 1986 and 1987 estimates to account for bank examination fees being deposited to a new state special revenue account.

General Fund Total

$365,971,000 $372,581,000 $394,951,000 $767,532,000

General Fund
Fiscal 1985
Ending Balance

$28,981,378

-End-

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 8, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on February 8, 1985, at 5:15 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present.

Representative Switzer stated he was concerned with Corporation License Tax and that the Subcommittee may have projected between $3 and 4 million more than is available.

Mr. Terry Johnson, OBPP, stated the $11.6 million total provided by the OBPP included one audit in FY85 of which only 64$ may be used for revenue projections. He said he estimated business inventory credit and investment credit to be claimed in FY85 to arrive at a true taxable income. Mr. Johnson explained the taxable income growth of 8.5% for CY83 and CY84, plus 64% of the $4.75 historical average for ongoing audits and the previously mentioned one-time audit figure of $11.6 million, total $16,350,000. He said total credit of $7.4 million would provide $4.7 million to the general fund.

Chairman Harp commented the total of the $10.5 million audit and the adjustments for tax investment credit equals the $35 million estimated by the Subcommittee for Corporation License Tax.

Chairman Harp asked Ms. Waldron if she had tracked the $4.7 million from FY84. Ms. Waldron replied the Subcommittee must use 64% of the $10.5 million estimate.

Mr. Terry Johnson, said business investment credit totals $5 million, less 64%; investment credit, $2.3 million, less 64%, from which $4.7 million is derived. Chairman Harp commented the Subcommittee's "trimming" in FY86 and 87 would make up for its projection for FY85.

SCHOOL FOUNDATION REVENUES: Chairman Harp advised subcommittee members they were within $150,000 of $526 million, as stated in Option 2 of the Comparison (Exhibit 1, under Current Policy).

Mr. Terry Johnson, said the LFA shows a portion of $45 million "related to other valuation aside from net proceeds" and that the LFA and OBPP agree on Coal Severance Tax and Corporation License Tax projections. He stated differences remain for Interest Income Tax and federal mine leasing, (where no perameters have been set for production on federal lands) and is the same for coal and gas.

Mr. Johnson stated the OBPP and LFA differ in their projections for Coal Trust Fund Tax and the district permanent levy, for assumptions on valuation and added, "the figures would be correct if the proceeds were removed".

Chairman Harp commented that if general funds were included in foundation revenues it would appear it should be reflected in the title of House Joint Resolution 9.

Mr. John Northey, Staff Legal Counsel, Office of the Legislative Auditor, proposed the Subcommittee amend the title, (Exhibit 2), and that language would need to be inserted on page 11 of the bill, preceeding GAAP and SBAS amendments. He explained that Chairman Harp's suggested would seem to be consistent with other action proposed by the resolution under "current law".

Chairman Harp commented any language inserted should refer to "current policy" so it would appear the Subcommittee were not dictating policy.

Mr. Dave Hunter, OBPP, stated a reference should be made also to "earmarked monies for the foundation program". Subcommittee members agreed to his suggestion.

Chairman Harp suggested the Subcommittee adopt Option 2 of the Foundation Revenue Comparisons (Exhibit 1), to which subcommittee members agreed.

Mr. Curt Nichols, LFA, stated the differences between county and state equalization in the Comparison offset each other.

<u>SUBCOMMITTEE PROJECTIONS FOR SCHOOL FOUNDATION REVENUES</u>: Members of the Subcommittee unanimously agreed to accept Current Policy projections of $525.31, with no policy changes.

<u>SUBCOMMITTEE DETERMINATIONS FOR PROPOSED AMENDMENTS TO HOUSE JOINT RESOLUTION 9</u>: Representative Williams made a motion that the amendments stated on the Standing Committee Report (Exhibit 2), be approved. The motion was given unanimous subcommittee approval.

Mr. Northey advised subcommittee members the Legislative Auditor added language on page 2 of the Standing Committee Report, lines 17-22, urging the OBPP to use revenue estimates adopted by the Subcommittee to promote consistency.

Mr. Johnson stated he would have a problem with "all other" categories since there would be nothing to "tie (his) figures to". Mr. Jim Gillett, Deputy Legislative Auditor, explained the language drafted provided optional and not mandatory guidelines.

Mr. Northey commented that the language inserted would have the effect of freezing total revenue estimated by the Subcommittee.

CONSIDERATION OF COMMITTEE BILL: Mr. Northey stated the bill, "very simply, would amend two sections of the Codes" and cited page 1, line 19, where new language was inserted, in addition to page 3, where amendments were proposed for fiscal year finance report pertaining to GAAP, and page 2, which would add Subsection 4, to mandate agencies "shall" follow policies as set by the Department of Administration. Mr. Northey commented language in the bill would include the university system and vo-tech centers with one exception, as outlined on page 2, lines 15-18.

Mr. Gillett explained GAAP requires reporting of unrescheduled fund balances but the cost of creating an encumbrance fund balance system is not feasible, and the net effect of reporting the balances is unchanged.

Ms. Kathy Fabiano, Administrator, Accounting Division, Department of Administration, stated encumbrances are a commitment made to unperformed service contracts and that it would cost $150,000 to change accounting for this procedure.

Representative Williams made a motion that the Subcommittee approve the Committee Bill. The motion was given unanimous subcommittee approval.

Mr. Northey explained the bill would become effective October 1, 1985, but would not "be effectively implemented until June 30, 1986", hence he included no effective date in the bill draft. Mr. Northey said he would consult with Mr. Dave Bohyer, Legislative Researcher, to incorporate Foundation langauge into the bill.

CONSIDERATION OF RESOLUTION TO AMEND HOUSE RULES: Speaking to the proposed resolution, Mr. Northey told subcommittee members the beginning 5th day and the ending 40th day were arbitrary (Exhibit 4).

Mr. Bob Person, Director, Legal Services Division, Legislative Council, stated there is presently "no authority of the Legislature to establish subcommittees".

Representative Sands said he would prefer to leave out the sentence beginning mid-line 10 and ending on line 12 of page 2. Mr. Northey replied he so worded the resolution because a taxation subcommittee is a very powerful entity.

Representative Steve Waldron, sponsor of House Joint Resolution 9, said he views a resolution as a "living document" and envisions changes in his resolution as the Session progresses.

Representative Williams made a motion that the Subcommittee adopt the resolution. The motion was given unanimous approval.

There being no further business before the Subcommittee, the meeting was adjourned at 6:30 p.m.

Representative John G. Harp, Chairman

Feb 8, 1985
Exhibit 1
HJR-9

COMPARISON OF SCHOOL FOUNDATION REVENUES
1987 Biennium
(Millions)
HJR 9 Assumptions February 8, 1985

Revenues Available	OPTION 1 [redacted]	OPTION 2 [redacted]	Difference
County Equalization			
45 Mill Levy	$212.62	$215.25	$ 2.63
Miscellaneous	21.00	25.93	4.93
Forest Funds	3.60	3.60	-0-
Grazing Funds	.24	.25	.01
Elementary Trans.	(7.51)	(7.95)	(.44)
High School Tuition	(1.40)	(1.43)	(.03)
Total County Equalization	$228.55	$235.65	$ 7.10
State Equalization			
25 Percent Income Tax	$100.39	$100.39	$ -0-
25 Percent Corp. Tax	24.32	24.32	-0-
5 Percent Coal Tax	9.74	9.74	-0-
Interest and Income	83.02	78.80	(4.22)
Federal Mineral Leasing	27.34	24.94	(2.40)
Coal Trust Interest	14.96	14.06	(.90)
Total State Equalization	$259.77	$252.25	$(7.52)
District Permissive (Includes Light Vehicle Fees and Replacement Funds)	$ 38.14	$ 38.41	$ .27
Total Revenues with Current Policy	$526.46	$526.31	$ (.15)
Policy Options			
Reallocate Coal Tax [1]	$ 7.31	$ 7.31	$ -0-
Reallocate Federal Mineral Leasing Funds [2]	13.40	11.96	(1.44)
Total Revenues with Policy Options	$547.17	$545.58	$(1.59)

[1] Increase public school share from 5 to 8 3/4 percent.
[2] Increase public school share to 100 percent less $3 million.
[3] 1/31/85 Coal Tax and Coal Net Proceeds Revised

CNLEG:Sch Foundation 1-31-5

COMPARISON OF SCHOOL FOUNDATION REVENUES
Fiscal 1985
(Millions)

Revenues Available	OPTION 1 [redacted]	OPTION 2 [redacted]	Difference
County Equalization			
45 Mill Levy	$107.94[3]	$104.86	(3.08)
Miscellaneous [2]	11.77	11.77	--
Forest Funds	1.01	1.01	--
Grazing Funds	.12	.12	--
Elementary Trans.	(3.54)	(3.54)	--
High School Tuition	(.67)	(.67)	--
Total County Equalization[1]	$116.63	$113.55	(3.08)
State Equalization			
25 Percent Income Tax	$ 44.92	$ 44.92	---
25 Percent Corp. Tax	13.68	13.68	---
5 Percent Coal Tax	4.58	4.58	---
Interest and Income	37.46	37.46	---
Federal Mineral Leasing	14.40	13.96	(.44)
Coal Trust Interest	6.22	5.97	(.25)
Balance Available	.21	.21	---
Miscellaneous	--	5.27	5.27
Total State Equalization	$121.47	$126.05	4.58
District Permissive (Includes Light Vehicle Fees and Replacement Funds)	18.50	18.74	.24
TOTAL REVENUES	$256.60	258.34	1.74

[1] County Surplus included in county equalization.
[2] Includes cash reappropriated, 45 mill levy shares of vehicle fees and state reimbursements, other minor revenues and portions of retroactive adjustment for Senate Bill 413 not included in 45 mill levy figures.
[3] Includes funds from retroactive adjustments to oil and gas net proceeds taxes resulting from Senate Bill 413 of 48th Legislature.

jw324o

Feb 8, 1985
Exhibit
HJR-9 2

STANDING COMMITTEE REPORT

February 8, 1985

Taxation

House Joint Resolution No. 9

First reading copy (white)

Respectfully report as follows: That House Joint Resolution No. 9 Be amended as follows:

1. Title, line 9.

Following: "CONSTITUTION"

Insert: "; ACCEPTING A JUNE 30, 1984 GENERAL FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; AND URGING THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87."

2. Page 11, line 9.

Following: line 9

Insert: "BE IT FURTHER RESOLVED, that the legislature accepts for budget purposes the unreserved general fund balance prepared according to generally accepted accounting principles (G.A.A.P.) as published in the audited state financial statements as of June 30, 1984 which was established to be $35.097 million.

BE IT FURTHER RESOLVED, that the department of administration and other state agencies are strongly urged to make timely accounting entries so that by June 30, 1985, the SBAS unreserved general fund balance reflects records entered and maintained in accordance with G.A.A.P."

BE IT FURTHER RESOLVED, that the governor's office of budget and program planning is strongly urged to enter the revenue estimates contained in the resolution on the statewide budgeting and accounting system as the official revenue estimates for the general fund for fiscal years 1985-86 and 1986-87.

<u>AND AS AMENDED</u>

<u>DO PASS</u>

____

Chairman

jw324m

Feb 8, 1985
Exhibit 2
HJR-9

HOUSE BILL NO. _____

INTRODUCED BY: HOUSE TAXATION COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT TO REQUIRE THAT THE STATE'S ACCOUNTING SYSTEM BE ESTABLISHED AND STATE AGENCY FINANCIAL RECORDS AND REPORTS BE PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; AND AMENDING SECTIONS 17-1-102 AND 17-2-110, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 17-1-102, MCA, is amended to read:

"17-1-102. Uniform accounting system and expenditure control. (1) The department shall establish a system of financial control so that the functioning of the various agencies of the state may be improved, duplications of work by different state agencies and employees eliminated, public service improved, and the cost of government reduced.

(2) The department shall prescribe and install uniform accounting and reporting for all state agencies and institutions, showing the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles, and shall develop plans for improvements and economies in the organization and operation thereof, which shall be submitted to the respective heads of agencies and institutions. Copies of all such plans shall be delivered to the governor, and additional copies shall be

retained in the office of the department for inspection by the members of the legislature.

(3) The department shall examine all financial affairs of every state agency and institution for the purpose of developing plans for improvement and economies in organization and operation thereof and for the purpose of enabling the department to properly perform any of the duties imposed upon the department by this part.

(4) All state agencies, including units of the university system and the vocational-technical centers, shall input all necessary transactions to the accounting system prescribed in (2) before the accounts are closed at the end of the fiscal year in order to present the receipt use and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles; except, for budgetary control purposes, encumbrances, which are required by generally accepted accounting principles to be reported as a reservation of fund balance, shall be recorded as expenditures and liabilities on the accounting records.

Section 2. Section 17-2-110, MCA, is amended to read:

"17-2-110. Fiscal year and financial reports. (1) The fiscal year for state purposes commences on July 1 of each year and ends on June 30 of each year.,

(2) At the close of each fiscal year the fiscal records of each state office, department, bureau, commission, institution, university unit, and agency (hereinafter collectively referred to as "state agency") shall be closed as of the end of the fiscal year. Each state agency shall prepare such financial statements

and reconciliations for the fiscal year as the department of administration may prescribe. These financial reports are to be completed and distributed not more than 31 days following the close of each fiscal year. The department of administration may extend this time limit if a state agency can show necessity therefor.

(3) The reports are to be distributed to the department of administration and the legislative auditor and any other state agency the department of administration may prescribe. It is the intent of this provision that these reports accurately and comprehensively present the financial activities of the reporting state agency <u>in accordance with generally accepted accounting principles</u> so that the reports can be effectively utilized by the executive and legislative branches of state government.

(4) Upon consolidation of the reports, the annual financial reports by the department of administration will be available for other individuals and organizations interested in the financial affairs of the state of Montana."

\- END -

Feb 8, 1985
Exhibit 4
HJR-9

JW324n

HOUSE RESOLUTION NO. _____

INTRODUCED BY: HOUSE TAXATION COMMITTEE

A RESOLUTION OF THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA TO AMEND THE HOUSE RULES FOLLOWING H3-4 BY ADDING HOUSE RULE H3-5 TO PROVIDE FOR A REVENUE SUBCOMMITTEE OF THE HOUSE TAXATION COMMITTEE.

WHEREAS, Article VIII, Section 9 of the Montana Constitution requires a balanced budget with appropriations not exceeding anticipated revenue; and

WHEREAS, during the 48th Legislative Assembly the Taxation Committee of the House of Representatives has created a revenue subcommittee to advise the House of Representatives as to anticipated revenue for the next biennium; and

WHEREAS, the revenue subcommittee of the House Taxation Committee has held extensive hearings on estimated revenue to the State of Montana for the next biennium; and

WHEREAS, the revenue estimates prepared by the revenue subcommittee provide a basis upon which a balanced budgeted may be prepared; and

WHEREAS, such revenue estimates are a valuable aid to the Legislature as a whole and the House of Representatives in particular, and

WHEREAS, the establishment of a permanent revenue subcommittee of the House Taxation Committee to prepare revenue estimates for the State of Montana would be of continuing benefit to the Legislature.

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the House Rules are amended following H3-4 by adding H3-5 which provides:

"H3-5. By the fifth legislative day there shall be appointed a revenue subcommittee of the Taxation Committee made up of members of the Taxation Committee. The subcommittee shall be appointed in the same manner as members of standing committees as provided in H3-2. The first named member of the subcommittee is the chairman and in his absence the next named member, and so on. The revenue subcommittee shall review state revenue and recommend estimated revenue levels for the next biennium to the Taxation Committee by the 40th legislative day."

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE ON REVENUE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 11, 1985

The meeting of the Taxation Subcommittee on Revenue was called to order by Chairman Harp on February 11, 1985, at 6 p.m. in Room 420 of the State Capitol.

ROLL CALL: All members of the Subcommittee were present except Representative Harrington, who was excused.

CONSIDERATION OF AMENDMENTS PROPOSED FOR HOUSE JOINT RESOLUTION 9: Chairman Harp advised subcommittee members he reviewed the amendments earlier in the day with staff members from the LFA, OBPP and Legislative Auditor's office, who were in agreement with the amendments as proposed (Exhibit 1).

Mr. John Northey, Staff Legal Council, Office of the Legislative Auditor, provided copies of language for the Committee Resolution pertaining to "non-general fund revenues for the school foundation program" (Exhibit 2).

Mr. Dave Bohyer, Legislative Researcher, stated that page 3, line 17 of House Joint Resolution 9 should include language for an effective date of "January 1, 1985", (Exhibit 3).

Representative Williams made a motion that the Subcommittee approve the amendments as proposed. The motion was given unanimous approval.

Representative Williams then made a motion that House Joint Resolution 9 be approved as amended. The motion was given unanimous approval of the Subcommittee.

There being no further business before the Subcommittee, the meeting was adjourned at 6:20 p.m.

Representative John G. Harp, Chairman

2-11-85
Exhibit 1
HJR 9

PROPOSED AMENDMENTS

House Joint Resolution No. 9
Introduced Copy

1. Title, line 9.
Following: "CONSTITUTION"
Insert: "; ACCEPTING A JUNE 30, 1984, GENERAL FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; REQUESTING THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87; AND ESTABLISHING AN ESTIMATE OF THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION PROGRAM"

2. Page 2, line 16.
Following: "to total"
Strike: "$767,532,000"
Insert: "$748,148,295"

3. Page 2, lines 24 and 25.
Following: "about" on line 24
Strike: "6% during the biennium"
Insert: "4% for 1985, 5.2% for 1986, and 5.4% for 1987,"

4. Pages 2 and 3.
Following: "drift" on line 25 of page 2
Strike: the remainder of line 25 through "1987" on line 1 of page 3
Insert: "downward during the biennium"

5. Page 3.
Strike: line 11 in its entirety
Following: line 11
Insert: "$115,000,000 $124,000,000 $133,000,000 $257,000,000"

6. Page 3, line 17.
Following: "also"
Insert: "include the effects of federal income tax indexing, assume a continuation of current Montana law, and"
Following: "are"
Insert: "otherwise"

7. Page 3, lines 18 through 20.
Following: "credits." on line 18
Strike: the remainder of line 18 through line 20

8. Page 4.
Following: line 2
Strike: line 3 in its entirety
Insert: "$17,385,000 $19,152,000 $17,877,024 $37,029,024"

9. Page 4, line 20.
Following: "estimates."
Insert: "The revenue estimates are further based on the following assumptions of production and price:

Tons of Coal

30,500,000	32,000,000	33,000,000	65,000,000

Price per Ton

$10.00	$10.50	$10.80	NA"

10. Page 4.
Following: line 21
Strike: line 22 in its entirety
Insert: "$31,680,000 $24,500,000 $23,833,333 $48,333,333"

11. Page 5, line 2.
Following: "demand."
Strike: "Although"
Insert: "Because a worldwide surplus of oil and because"

12. Page 5, lines 5 through 10.
Following: "prices" on line 5
Strike: the remainder of line 5 through line 10
Insert: "and production will decrease slightly throughout the biennium. The revenue estimates for oil severance taxes are further based on the following assumptions of price and production:

Barrels of Oil

28,800,000	28,000,000	27,500,000	55,500,000

Price per Barrel

$27.50	$26.25	$26.00	NA"

13. Page 5.
Following: line 11
Strike: line 12 in its entirety
Insert: "$25,505,417 $22,635,417 $22,083,333 $44,718,750"

14. Page 5, line 16.
Following: "notes"
Insert: in the amount of $38,000,000"
Following: "year."
Insert: It is further anticipated that $50,000,000 in tax anticipation notes will be sold in fiscal year 1986 and in fiscal year 1987."

15. Page 5, line 18.
Following: "account."
Insert: "The projected rates of return are 10.25% for fiscal year 1985, 10.25% for fiscal year 1986, and 10.00% for fiscal year 1987. The estimated revenues from interest on investments are based on the anticipated daily average investable amounts of $214,000,000 in fiscal year 1985, $175,000,000 in fiscal year 1986, and $175,000,000 in fiscal year 1987."

16. Page 5.
Following: line 19
Strike: line 20 in its entirety
Insert: "$37,634,000 $38,311,000 $40,261,000 $78,572,000"

17. Pages 5 and 6.
Following: "tax." on line 24 of page 5
Strike: the remainder of line 24, line 25 in its entirety, and line 1 on page 6 in its entirety

18. Page 6, line 2.
Following: line 1
Strike: "Assumption"
Insert: "Assumptions"

19. Page 6, line 4.
Following: "1987."
Insert: "It is further assumed that cigarette sales for fiscal years 1985, 1986, and 1987, will be 90 million packs each year. Revenue from tobacco sales is expected to be $825,000 for each fiscal year."

20. Page 6.
Following: line 5
Strike: line 6 in its entirety
Insert: "$24,155,000 $28,807,000 $33,736,000 $62,543,000"

21. Page 6, line 22.
Following: "1986"
Insert: ", then fall slightly for 1987. The anticipated interest rates on new long-term investments for 1985, 1986, and 1987, are 12.00%, 12.00%, and 11.75%, respectively"

22. Page 6.
Following: line 23
Strike: line 24 in its entirety
Insert: "$15,700,000 $16,195,000 $16,737,000 $32,932,000"

23. Page 7, line 1.
Following: "about"
Strike: "8%"
Insert: "5.5%"

24. Page 7.
Following: line 4
Strike: line 5 in its entirety
Insert: "$12,893,000 $14,800,000 $15,300,000 $30,100,000"

25. Page 7.
Following: line 16
Strike: line 17 in its entirety
Insert: "$4,850,000 $5,250,000 $5,200,000 $10,450,000"

26. Page 7.
Following: line 18
Strike: line 19 in its entirety
Insert: "$6,110,000 $6,322,500 $6,387,000 $12,709,500"

27. Page 7, line 25.
Following: "level."
Insert: "The revenue estimates for both liquor profits and excise taxes are further based on declines in unit sales of 3% for fiscal years 1986 and 1987, coupled with increases in prices of 6.5% in each of the fiscal years.

28. Page 8.
Following: line 1
Strike: line 2 in its entirety
Insert: "$6,624,000 $6,600,000 $6,800,000 $13,400,000"

29. Page 8, line 4.
Following: "on a"
Insert: "slight decrease from 1985 to 1986, then projected at a
Strike: "6%"
Insert: "3%"
Following: "collections"
Insert: "for the remainder of the biennium"

30. Page 8.
Following: line 7
Strike: line 8 in its entirety
Insert: "$1,660,000 $1,000,000 $1,000,000 $2,000,000"

31. Page 8, lines 16 and 17.
Following: "will" on line 16
Strike: "increase modestly"
Insert: "remain constant"

32. Page 8, line 20.
Following: "1986."
Insert: "The revenue estimates further assume no reopening of the Black Pine mine near Philipsburg, Montana."

33. Page 8.
Following: line 21
Strike: line 22 in its entirety
Insert: "$2,212,000 $2,273,000 $2,405,000 $4,678,000"

34. Page 9.
Following: line 7
Strike: line 8 in its entirety
Insert: "$861,000 $880,000 $899,000 $1,779,000"

35. Page 9.
Following: line 13
Strike: line 14 in its entirety
Insert: "$3,010,000 $3,160,000 $3,319,000 $6,479,000"

36. Page 9.
Following: line 18
Strike: line 19 in its entirety
Insert: "$1,175,000 $1,146,000 $1,096,000 $2,242,000"

37. Page 9, line 21.
Following: line 20
Strike: "growth"
Insert: "decline"

38. Page 9, lines 21 and 22.
Following: "about" on line 21
Strike: the remainder of line 21 and line 22
Insert: "2.4% for fiscal years 1985 and 1986. The rate of decline changes to 4.4% for fiscal year 1987 due to the change in the minimum drinking age.

39. Page 9.
Following: line 23
Strike: line 24 in its entirety
Insert: "$3,080,625 $3,142,238 $3,108,450 $6,250,688"

40. Page 10, line 1.
Following: line 25 on page 9
Strike: "remain at current levels"
Insert: "decrease slightly"

41. Page 10, lines 2 and 3.
Following: line 1
Strike: "Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985."

42. Page 10, lines 3 and 4.
Following: "Prices" on line 3
Strike: "will increase only moderately"
Insert: "are anticipated to remain constant"

43. Page 10, line 6.
Following: "Canada."
Insert: "The revenue estimates for natural gas severance taxes are further based on the following assumptions of production and price for fiscal years 1985, 1986, and 1987:

Millions of MCF				
	46.5	46.5	45.0	91.5
Price per MCF				
	$2.50	$2.55	$2.55	NA"

44. Page 10, line 10.
Following: "about"
Strike: "6%"
Insert: "5.26%"

45. Page 10.
Following: line 19
Strike: line 20 in its entirety
Insert: "$14,474,000 $14,395,000 $15,387,000 $29,782,000"

46. Pages 10 and 11.
Following: "receipts." on line 24 of page 10
Strike: the remainder of line 24 on page 10 through line 3 on page 11
Insert: "The "other revenue sources" estimates are based on an average annual growth rate of 7%. Additionally, the fiscal year 1985 estimate includes a $1,000,000 addition for federal reimbursement for fighting forest fires."

47. Page 11.
Following: line 4
Strike: line 5 in its entirety
Insert: "$361,345,042 $364,919,155 $383,229,140 $748,148,295
Nongeneral Fund School Foundation Program
1986-87 Biennium
$526,310,000"

48. Page 11, line 8.
Following: line 7
Strike: "Ending"
Insert: "Beginning"

49. Page 11, line 9.
Strike: "$28,981,378"
Insert: "$35,097,000"

50. Page 11.
Following: line 9
Insert: "BE IT FURTHER RESOLVED, that the Legislature accepts for budget purposes the unreserved general fund balance of $35,097,000 prepared according to generally accepted accounting principles (commonly referred to as G.A.A.P.) as published in the audited state financial statements as of June 30, 1984.

BE IT FURTHER RESOLVED, that the Department of Administration and other state agencies are strongly urged to make timely accounting entries so that by June 30, 1985, the state budgeting and accounting system (commonly referred to as SBAS) unreserved general fund balance reflects records entered and maintained in accordance with generally accepted accounting principles.

BE IT FURTHER RESOLVED, that the Governor's Office of Budget and Program Planning is strongly urged to enter the revenue estimates contained in this resolution on the statewide budgeting and accounting system as the official revenue estimates for the general fund for fiscal years 1985-86 and 1986-87."

2-11-85
Exhibit 2
HJR-9

BE IT FURTHER RESOLVED, that the legislature establish for budget purposes that the total non-general fund revenues for the school foundation program for fiscal years 1985-86 and 1986-87 will be $526,310,000.

Exhibit 3
HJR-9

HOUSE JOINT RESOLUTION NO. 9

INTRODUCED BY Waldron

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE MONTANA CONSTITUTION. #1

WHEREAS, Article VI, section 9, of the Montana Constitution requires the Governor to submit to the Legislature a budget for the ensuing fiscal period containing in detail the estimated revenue of the state; and

WHEREAS, Article VIII, section 9, of the Montana Constitution requires that the Legislature may not appropriate funds in excess of the anticipated revenue of the state; and

WHEREAS, section 5-12-302(2), MCA, requires the Office of the Legislative Fiscal Analyst to estimate revenue from existing and proposed taxes, and section 17-7-123(1), MCA, requires the Governor to submit a budget showing a balance between proposed disbursements and total anticipated receipts; and

WHEREAS, due to the complexity of economic variables

involved in revenue forecasting and the diversity of sources from which state revenues are obtained, it has become increasingly difficult to project revenues in order to prepare a balanced budget for the ensuing biennium; and

WHEREAS, past legislatures have not agreed on revenue projections until the last days of the session when there is little time for comprehensive analysis or reasoned criticism; and

WHEREAS, it is in the best interests of the state that revenue forecasts be discussed and arrived at in public hearings wherein all the people may attend and participate.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the state general fund revenue for fiscal years 1986 and 1987 is estimated to total ~~$767,532,000~~ #2. This total is based on the assumptions and projections set forth below:

GENERAL FUND REVENUE

The projections for total general fund revenue during the 1986-87 biennium are based on an assumption of moderate economic growth during the period. While current economic growth is slowing, the present economic recovery is expected to continue, but at a more moderate level. It is further assumed that the inflation rate will be about ~~6%~~ #3 during the biennium and that interest rates will drift ~~upward until~~

INTRODUCED BILL
HJR 9

#4 ~~late 1986 and then decline slightly in 1987~~, based on the assumption of a less restrictive monetary policy by the Federal Reserve and a continuation of competing credit demands between private borrowers and the federal government.

General Fund Revenue

Source of Revenue	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
(1) Individual Income Tax				
#5	~~$116,653,000~~	~~$123,466,000~~	~~$130,626,000~~	~~$254,092,000~~

This revenue consists of 64% of the total projected individual income tax collections, which percentage is currently deposited in the general fund.

Assumption: Income tax forecasts for the 1986-87 biennium assume moderate growth in personal income and employment. These projections also #6 are #6 based upon the continuation of all statutory credits. ~~The additional revenue that would be generated by federal income tax indexing has not been included in the forecasts~~.

(2) Corporation License Tax	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
	$35,017,000	$29,957,000	$32,304,000	$62,261,000

The corporation license tax is distributed to several accounts. The revenue reported above consists of 64% of the corporation license tax, which percentage is currently

deposited in the general fund.

(3) Coal Severance Tax

	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
#8	~~$17,444,000~~	~~$19,735,000~~	~~$18,732,000~~	~~$38,467,000~~

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year, assessed at the rate of 30% of the value of the coal with a heating quality of at least 7,000 Btu's per pound and 20% of the value of coal with a lower Btu rate.

Assumption: With lower demand and competitively priced alternative fuels, coal prices have remained soft. It is assumed that these conditions, in conjunction with royalty deductions, will result in a modest rate of growth in the price of coal during the biennium. A dispute involving the state's authority to tax coal mined on Crow Indian land has prompted a major coal developer to protest taxes paid on this production. Until a settlement is reached, these taxes are being deposited in an escrow account. Tax forecasts for the 1986-87 biennium assume a settlement will not be reached until after fiscal year 1987; therefore, these coal tax revenues are not included in the above revenue estimates. #9

(4) Oil Severance Tax

	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
#10	~~$32,837,000~~	~~$27,792,000~~	~~$29,269,000~~	~~$57,061,000~~

Assumptions: Oil severance tax revenues are dependent on the price per barrel and the number of barrels of oil produced in the state. Since oil is a commodity that is used

for diverse purposes, the prices depend on federal regulations and world demand. ~~Although~~ #11 recent oil price cuts by Norway, Great Britain, and Nigeria have injected an uncertainty in the international oil market, it is assumed that prices ~~will stabilize and increase slightly by the calendar year 1987. This assumption is based on OPEC's recent agreement to cut daily production and Chase Econometrics' prediction that further price declines will not occur because of an observed increase in recent worldwide demand.~~ #12

(5) Interest on Investments

#13 ~~$27,732,000 $25,099,000 $25,820,000 $50,919,000~~

Assumptions: Interest on investments is projected to increase in fiscal 1985, but then decline in fiscal years 1986 and 1987. The increase in 1985 is expected because tax anticipation notes #14 were sold this year. #14 The decline in 1986 and 1987 is expected because interest earned on the highway gas account will begin to accrue to the highway account. #15

(6) Long-Range Bond Excess

#16 ~~$38,449,000 $38,880,000 $40,652,000 $79,532,000~~

The long-range debt service account receives 11% of all individual income and corporation license taxes, 79.75% of all cigarette excise taxes, and 100% of the tobacco products tax. ~~When the sum of money in the debt service account exceeds the annual principal and interest payments, the~~

~~excess is transferred to the general fund.~~

~~Assumption~~ Assumptions: It is assumed that there will be no additional long-range building bonds sold through fiscal year 1987. #19

(7) Coal Trust Fund Interest

#20 ~~$24,529,000 $28,792,000 $33,560,000 $62,352,000~~

This revenue is derived from interest earned on the deposit of 50% of the coal severance tax receipts dedicated to the permanent trust fund.

Assumption: Coal severance tax bonds are sold to finance specific water resources development projects. Debt service on these bonds is paid primarily with pledged project and coal severance tax revenues. The use of coal severance tax revenues for this purpose will reduce permanent trust fund receipts by about $300,000 in fiscal years 1986 and 1987. However, it is projected and assumed that the total permanent trust interest income will increase over the biennium. Balances available for investment are expected to increase because of anticipated higher coal severance tax receipts. In addition, long-term interest rates are expected to gradually increase by calendar year 1986. #21

(8) Insurance Premiums Tax

#22 ~~$16,109,000 $16,139,000 $17,558,000 $33,697,000~~

Assumptions: The level of insurance tax receipts is

assumed to increase by about ~~8%~~ 5.5% for fiscal years 1985 through 1987, based on a moderate growth in total personal income and employment.

(9) Public Institutions Reimbursements

#24 ~~$12,213,000 $14,758,000 $15,310,000 $30,068,000~~

Assumptions: In fiscal 1984, approximately 88% of all reimbursements collected were federal medicaid receipts. Hence, forecasts for revenue assume federal medicaid reimbursement equal to the executive budget request for the Department of Social and Rehabilitation Services. This request assumes that the number of patient care days will remain constant at the 1985 level. In addition, the revenue estimates for fiscal years 1986 and 1987 assume about $2,000,000 annually for medicaid reimbursements from the Montana Youth Treatment Center at Billings.

(10) Liquor Profits

#25 ~~$4,466,000 $5,924,000 $6,544,000 $12,468,000~~

(11) Liquor Excise Tax

#26 ~~$6,418,000 $7,074,000 $7,470,000 $14,544,000~~

Assumptions: Liquor sales for fiscal years 1986 and 1987 are expected to show little growth. Although personal income is growing, there appears to be a trend toward moderation in liquor consumption. Furthermore, the liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at the 1984 level. #27

(12) Inheritance Tax

#28 ~~$6,289,000 $6,656,000 $7,072,000 $13,728,000~~

Assumptions: Projected inheritance tax revenues are based on a #29 ~~6%~~ 3% annual growth rate in tax collections. #29 Returns processed are expected to remain stable and of average size taxable at between 0% and 32%.

(13) Metal Mines Tax

#30 ~~$1,711,000 $1,185,000 $1,190,000 $2,375,000~~

Historically, the metal mines tax has been deposited in the general fund. Beginning in fiscal year 1986, one-third of the receipts will be deposited in a hard-rock mining trust account.

Assumptions: Metal prices, metal production, and the effective tax rate are the major factors that determine the level of metal mines tax receipts. It is assumed that production for gold, silver, and copper will ~~increase modestly~~ remain constant throughout the biennium. Also, prices are assumed to remain constant at calendar year 1984 levels. No new companies are expected to begin operating in the state by the end of calendar year 1986. #32

(14) Electrical Energy Tax

#33 ~~$1,986,000 $2,042,000 $2,169,000 $4,211,000~~

Assumptions: Total U.S. electricity production has grown by 2.2% since calendar year 1974. It is assumed that Montana's production will follow this trend and that demand

for electrical power will increase at this rate through the 1986-87 biennium. In addition, an adjustment to these estimates has been made based on a July 1986 completion date for Colstrip Unit 4. Production capacity for both Colstrip Unit 3 and Unit 4 is assumed to be 60% the first year and 70% thereafter.

(15) Drivers' License Fees

> #34 ~~$817,000 $835,000 $854,000 $1,689,000~~

Assumptions: Census data from 1970 and 1980 indicate that growth in the eligible driver age cohort was 2.2% annually. Collection of drivers' license fees is assumed to continue this trend during the biennium.

(16) Telephone License Tax

> #35 ~~$2,814,000 $3,053,000 $3,311,000 $6,364,000~~

Assumptions: Revenue forecasts for the telephone tax are based on an average growth rate in revenues of 8.5% observed since calendar year 1969.

(17) Beer License Tax

> #36 ~~$1,213,000 $1,221,000 $1,230,000 $2,451,000~~

Assumptions: Revenues are projected based on an annual ~~growth~~ decline rate in beer consumption of about ~~0.7% that has been observed since fiscal year 1979.~~ #38

(18) Natural Gas Severance Tax

> #39 ~~$3,481,000 $3,650,000 $3,862,000 $7,512,000~~

Assumptions: Natural gas production is projected to

~~remain at current levels~~ decrease slightly throughout the 1986-87 biennium. ~~Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985.~~ Prices ~~will increase only moderately~~ #42 even with deregulation because of more competition, contract renegotiations, and lower market prices, primarily from Canada. #43

(19) Freight Line Tax

$1,402,000 $1,465,000 $1,556,000 $3,021,000

Assumptions: Freight line tax revenues are projected to increase by about ~~6%~~ 5.26% over the period 1985-1987.

(20) Wine Tax

$917,000 $928,000 $940,000 $1,868,000

Assumptions: Wine tax receipts are projected to increase by 1.3% annually based on the same percentage rate of growth in the consumption of distilled spirits experienced since calendar year 1969. Wine taxes are not based on the value of the commodity. Revenues are a function of consumption.

(21) Other Revenue Sources

> #45 ~~$13,474,000 $13,930,000 $14,922,000 $28,852,000~~

Assumptions: Since fiscal year 1981, revenues from a number of other statutory taxes and fines have grown an average of 7.2% per year after adjusting for one-time receipts. ~~It is assumed this trend will continue during the biennium; however, a negative adjustment of $465,000 was~~

~~made to fiscal year 1986 and 1987 estimates to account for bank examination fees being deposited to a new state special revenue account.~~ #46

General Fund Total

#47 ~~$365,971,000 $372,581,000 $394,951,000 $767,532,000~~

General Fund

Fiscal 1985

~~Ending~~ Beginning Balance

~~$28,981,378~~ $35,097,000

#50

-End-