MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE
49th LEGISLATURE
SPECIAL SESSION III

June 13, 1986

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman John Harp in Room 312-3 at 7:00 a.m. on the above date.

ROLL CALL: All members were present with Rep. Harrington coming in late.

Tape 1:A:000

Chairman Harp opened the meeting and explained to the Committee that the first item on the agenda was the School Foundation Program.

Madalyn Quinlan of the Legislative Fiscal Analyst's Office handed out Exhibit #1 attached to the minutes, which is a breakdown of the foundation program. House Bill 949, which is shown under "State Equalization", was a one time appropriation from thecoal board to the foundation program. The educational trust interest comes from coal and that doesn't take into account any legislation pending this special session. The board of investments tells how much interest earnings the education trust account is going to receive based on the principal that is already invested, then they have to estimate the amount of coal tax that is going to go into the trust account in 1986 and 1987 and based on that estimate apply the interest rates for long-term, and in some cases, the short-term rates.

They also tried to take into account the bond calls and assumed $600,000 for1986 and $2 million in 1987. Those are total amounts that will be generated in the education trust account. 67 1/2% goes back to the foundation program, there is another amount that goes back to adult vocational ed and vo-tech centers, and a portion that goes back to the board of regents. Mr. Johnson believed their estimate for 1986 was too low and would definitely review their number up by $600,000 for 1986. $7.4 for 1986 and 8.2 for 1987 and the main reason for that is the bond calls.

Chairman Harp said that the bond calls in the education trust are not windfalls but the crunch will be one to two years from now so it is not really additional money. Mr. Johnson said the bond calls that are taking place now will not have an effect on 1987 even though there will be more in 1987.

Rep. Williams moved to accept the numbers based on the OBPP for 1986 and 1987. MOTION CARRIED with Rep. Switzer abstaining. (1986, 7.442 and 8.257 for 1987)

U.S. Mineral Royalties (110) 62.5% goes to the schools and 37.5% goes to the higheways from the U.S. Mineral Royalties. There is a proposal to have it all go to the schools. Mr. Johnson said thereis a $2 million difference between 1986 and 1987 and he felt their number for 1986 was very conservative based on collections through June 12, 1986. He would increase their estimate about $588,000 which would make it a little over $13 million.

Ms. Quinlan said two large leases, Western Energy and Decker Coal, were going to go from 20¢ per ton to 12.5% so these would offset the falling oil production, however, she said if 2 million tons of coal production is lost, there will be an effect. Mr. Johnson said if the coal companies could stay away from mining on federal lands they would do so because that increases production costs.

Rep. Williams moved to accept the OBPP figures after they are adjusted upwards for 1986 to $13,070,000 for U.S. Mineral Royalties. MOTION CARRIED.

The 45 mill levy is assesed against the statewide taxable valuation. Chairman Harp said he had heard some real horror stories about the reappraisals. In Hill County there are 400-500 people who have already protested their taxes. Rep. Switzer said there was really no system to it at all; it was so up and down.

Interest and Income: Rep. Schye asked if the state participates in the farm program or if they have to go market value on crops. He said if they haveto go market value they would be in tough shape.

Mr. Johnson said the interest and income account is almost like a mini-general fund within the foundation program receiving grazing fees, agricultural fees, revenues from oil and gas leases, oil and gas penalties and in addition, there is interest earnings off the investment of that account itself and interest earnings off the trust and legacy account. Five percent is reverted back to the trust and legacy account and 2.5% goes back to the resource development account in department of state lands. The remaining portion goes to the foundation program.

Mr. Johnson told the Committee members to look at the comparison sheet for an explanation. The OBPP figure is 32 million in 1986 but they have a fund balance of 25.6 so within that 25.6 there is about $24 million in interest and income revenue that was actually recorded in FY85. The $750,000 from HB949 was put into 1986 but not in the interest and income account. The OBPP and the LFA would be comparable if $75,000 was added to the LFA figure for 1986.

Mr. Johnson said there are two separate parts - one is the common school trust account that has over $200 million and that is invested in long-term type investments and the interest earnings from that account goes into the interest and income account. This interest and income account also is invested on a short-term basis so whatever cash is in this account is invested by the board of investments and the interest earnings off this account comes right back to it.

He said the department of state lands makes two distributions to the foundation program; one in February and one in June. He said there are nine different sources that go into the foundation program. The LFA said tht most of the income is known at this point. The agricultural leases are due December 30th and grazing leases are due March 1st. Their differences were probably in the area of oil and gas leases but probably not all the 3.6 million difference is there.

Chairman Harp asked the OBPP and LFA where the largest difference is in the 3.6 million difference. Mr. Johnson said it was definitely the interest earnings off the trust and legacy account.

Chairman Harp asked the OBPP and LFA to give their reasons why they thought their respective figures were correct for the agricultural, oil and gas and grazing leases. Mr. Johnson said his contained all nine components and they had 10.5 million as one payment and then added to that 21.7 that gives their estimate of 32 million. The 10.5 is what was actually distributed in February. The difference could be caused by the way the LFA and OBPP count the money. The OBPP is counting more in 1986 and the LFA counting less.

The LFA assumed a distribution to the public schools from January to June of 1986 of 18.5 million. The OBPP showed 21.7 million. These should be actual figures so Chairman Harp asked why the difference. Mr. Johnson pointed out that June isn't over yet and one thing that takes place during the fiscal year end adjustment period is the transfer of interest and income monies off the trust and legacy account. This account receives royalties off state lands.

Oil and gas leases was the one area that was left to be estimated. Eighty-five percent of the total was in and in certain categories 100% was in.

Rep. Sands stated that approximately everyone agreed on the income but not on the interest. The LFA interest estimates were higher than what the Committee adopted for 1986. The LFA said the difference is what is going to come in in the last quarter and the big variation is when that is going to be counted.

Rep. Williams suggested that the difference between the LFA and the OBPP be split.

Rep. Sands moved to accept the figures of the LFA for interest and income portion of the foundation program.

Rep. Williams made a substitute motion to take the figures of the OBPP if they were not going to split the difference. Rep. Switzer said the disagreement should be ironed out in the Committee before it goes to the floor of the House. Mr. Johnson felt the difference was in the interest earnings from the trust and legacy account. The interest rates assumed on June 12th have no bearing on these trust accounts for 1986 revenues but will affect them in the future because they are long-term.

Mr. Johnson again went through the process for arriving at their figures.

The Committee recessed at 8:40 a.m.

Meeting resumed at 8:55 a.m.

Following the recess, Chairman Harp asked the OBPP and the LFA if they could compile a spread sheet for the Committee to use at the meeting on June 18, 1986. (Exhibit #3)

Chairman Harp told the members that the property values would be in on the centrally assessed properties and Class 3 properties by the end of the week.

Wine Tax: On the basis of per liter, 16¢ goes to the general fund - $25,000 for the biennium and $15,000 for 1986. The liquor stores are showing a decline in wine sales. The LFA showed a increase in the tax of 5.9% for FY86 and 2.6% for FY87.

There is $865,000 as of June 13, 1986 in receipts in the general fund and there should be two more distributions. The department distribution will be at the end of the month but the receipts from the grocery stores comes in on a regular basis.

Rep. Williams moved to accept the OBPP figures for wine tax. MOTION CARRIED.

Interest and Income (Cont.) Exhibit #2 was presented by Mr. Johnson from the department of state lands which was an accumulation of revenue for a calendar year basis and this particular report was as of May, 1986. The column that is pertinent is "Year to Date Total" which shows Total Available for Distribution is $16.7 million with a grand total of almost $18.6 million. Five percent goes back to the trust account, 2.5% to the resource development council and the remaining portion is available for distribution to the foundation program. That is what was there through the end of May. On the second sheet attached to that "144 Common School I & I Yearly Distribution" shows $10.5 million. That is what was actually distributed through the month of Fe-ruary to the foundation program. There is the additional $5 million in additional interest earnings which brings it to $32 million.

The substitute motion was repeated; $32,249 for 1986. Chairman Harp stated that Madalyn could look at this and if she changed her mind and did not agree it could be changed at a later date. The SUBSTITUTE MOTION CARRIED.

Rep. Schye moved to accept the figures of the OBPP for 1987 for interest and income. The difference between the OBPP and the LFA would be the bond calls. The MOTION CARRIED.

Chairman Harp stated that the components were pretty well put together at this time for the foundation program except for the taxable valuations. He said that Steve Bender of the department of revenue had informed them that it would be the latter part of next week before the figures would be available for the centrally assessed properties.

Beer Tax: (304) Starting in 1984 there has been a decline in beer consumption and this is projected to continue. Ms. Waldron said the tax was increased in the 1985 session so that is showing up as an increase in the revenues for 1986 and 1987. She had a 5.9% decline for 1986 and the OBPP showed a 5.5% decline.

Rep. Switzer moved to adopt the LFA figures for the beer license tax for both 1986 and 1987. MOTION CARRIED.

Property Valuation: (361) Terry Johnson said there is a 45 mill levy applied to statewide taxable valuation which generates county revenue and depending on that revenue it has an impact on how much foundation support there will actually be for public schools. He explained their process of making estimates and said that the number to be concerned about is the taxable valuation for FY87. The OBPP showed a decline of $50 million between 1986 and 1987 and part of that is because of the lower oil prices and the effect that has. It isn't real property that is driving those values down. There is a $23 million tax valuation growth outside of Class 1 and 2. The OBPP forecast is $2,326,000,000 for taxable valuation for 1987.

The LFA said they assumed a large decrease in the net gross proceeds. The overall decline would be $87 million in the taxable base. Their figure was $2,283,000,000.

Chairman Harp said that if they excluded Class 1 and 2 properties they actually saw a $15.23 million so there is an $8 million disparity between the OBPP and the LFA. He also said the price could be brought closer together because the OBPP had estimated the price of oil at $16.50 and it had been reduced to $15. Mr. Johnson said that would not have any effect because the net gross is based on calendar year 1985. It would not have any effect until 1988. The LFA showed a larger decline. The overall difference between the LFA and the OBPP is 1.9 million.

Rep. Williams moved to accept the OBPP numbers for property valuation subject to change if there is other information that comes in. MOTION CARRIED with Rep. Sands voting "no".

Forest funds, Taylor grazing and high school tuition: Tape V:A:000 Rep. Williams moved to accept the estimates for the above three categories as they are. MOTION CARRIED.

Elementary Transportation: Madalyn Quinlan said they assumed the same numbers from prior years. Mr. Johnson said the 1985 Legislature failed to adopt an increase for the transportation schedule so they assumed the same level for 1987. The LFA showed a smallincrease.

Rep. Schye moved to accept the figures of the OBPP for Elementary Transportation. MOTION CARRIED.

Miscellaneous: Part of the difference can be attributed to the local government block grant which is distributed to the counties and when that block grant is received they have to prorate it among the taxing jurisdiction. The 45 mill levy is considered a taxing jurisdiction. In their proposal they felt they had the authority to proratethe local government block grant under current statute so their assumption was based on the local government block grant not being fully funded. The LFA assumed that the block grant was funded so that isthe problem with the $9 million supplemental for the block grant because of the oil revenues. This is kind of a policy decision.

Rep. Switzer moved to take the lower figure of the OBPP for the miscellaneous income of which the biggest part is the block grants. MOTION CARRIED with Rep. Harrington voting "no".

District Permissive Levy: (058) Chairman Harp said this would reflect what had been done with the property values so they should beable to roll right into that without discussing it, therefore, the Committee assumed that. He asked Mr. Johnson if this was enough information for him to come back to the Committee on Tuesday and give the Committee their estimate as to the revenue availability for the general fund and the school foundation. Mr. Johnson said that it wasenough except for the permissive levy because he was puzzled for 1986. There was a disparity of 1/2 million. Chairman Harp asked why there was a disparity and he said the reason was because there is a 4 mill high school levy and a 6 mill elementary levy for a total of a 10 mill permissive levy. Some counties don't have to levy the entire 10 mills so there has to be some kind of judgment made about what the average mill levy will be; something less than 10.

Both the OBPP and theLFA get their figures from Steve Kolberg. Rep. Sands moved that they accept the figures of the OBPP for the district permissive levy for 1986 and 1987 which is 18.298 for 1986 and 18.935 for 1987. MOTION CARRIED.

Rep. Bardanouve spoke to the Committee about the figures being used at the meetings; some being calendar year and some fiscal year basis. He said that the Legislature should demand that the fiscal year figures be used as there can be a great variation between calendar year and fiscal year. He said that the figures have to be fiscal year because that is how the appropriations of state government are based.

Chairman Harp told Rep. Bardanouve that the Committee had been struggling with that problem for the two days of meetings. The budget is based on fiscal year, therefore, the figures should be the same.

Mr. Johnson said he would supply both figures because industry uses calendar year figures when they testify and the committees should have those figures in front of them so they can base their decisions on both.

Institutions Reimbursements: (272) Jim Currey, Department of Institutions, handed out Exhibit #4 to the Committee which is attached to the minutes and explained the figures on that exhibit. He went rhough the Patient Trust Account which has come about because of a suit concerning the patient billing accounts. $1.67 million has been deposited in a trust fund over the last 8-10 years. He said they are close to settling the suit anD it is just a matter of working out the details. The funds that were held in trust have now been released and deposited in the general fund which was $1.67 million on June 9, 1986.

Mr. Johnson said the OBPP revenue estimate for 1986 is $13.284 and with the transfer of $1.67 million the estimate would be revised accordingly, however, it would not be revised upward by that total amount. $1.5 is attributable to previous fiscal years. There is also $208,000 of current year revenue adjustments so that would be added onto the FY86 estimates. In addition to that, they would add another $200,000 plus in 1987 to account for the additional revenue that would be coming in in 1987 because of the patient account. They broke it into four components to arrive at the estimates: medicaid receipts, private receipts, insurance and medicare. Roughly 89-90% of the total estimate is due to medicaid receipts. They use current law concept. For the other components they jsut apply a standard inflation factor to arrive at an estimate.

The only money that is still in the trust account and has not been added to the general fund is Montana State Hospital. The department of revenue estimate includes the deposit of that money in the general fund in FY87.

Mr. Johnson said he would raise his estimates up $208,000 in 1986 and $209,000 in 1987. Following further discussion Rep. Schye moved to adopt the figures of the LFA for 1986 and 1987.

Rep. Schye's motion to accept the figures of the LFA for 1986 and 1987 was repeated. MOTION CARRIED.

Liquor Profits and Taxes: (080) Ms. Waldron said they assumed a 2% decline in tax collections in 1986 and 2.4% decline in 1987. The federal excise tax was increased in October, 1985 and that increases the price that the State pays for liquor which is then marked up so that has an impact on the tax collections. She said they saw an increase in the federal excise tax as essentially the only impact in price for this year. They also see a decline in unit sales. They forecast the sales to go down 4% in 1986. They have a forecast of $5.8 million in collections for 1986 and $5.7 million in 1987.

Rep. Switzer moved to adopt the LFA figures for liquor taxes for 1986 and 1987. MOTION CARRIED.

Rep. Schye moved to adopt the OBPP figures for 1986 and 1987 for liquor profits. MOTION CARRIED.

Inheritance Tax: (293) Mr. Johnson said this is one of the hardest areas to forecast. There have been numerous tax law changes since 1980 and changes in the accounting procedures, etc. Inflation has also affected the estates. It finally got down to looking at today's receipt trends in the general fund to establish their estimate for FY86 and then tried to get a general growth pattern that they observed for several years and from that applied about a 2.3% growth from the 1986 level. Ms. Waldron agreed that it was difficult to forecast. She predicted a 2% growth over 1985 and assumed that growth for 1987.

Rep. Sands asked if they had taken into consideration the forgiveness provision and the Moss Mansion in Billings which would amount to $113,000. This will be brought before the 1987 Legislature. The Daly Mansion has been dropped. Ms. Waldron said she was aware of that bill but it hasn't been used and therefore it was not significant.

Rep. Sands moved to adopt the OBPP figures for 1986 and 1987 for inheritance taxes. MOTION CARRIED.

Insurance Premiums Tax: (432) For fiscal year 1986 Mr. Johnson said they would revise their estimate $964,000 up and for FY87 they would revise it up $1,028,000. The total numbers would be $16,907,000 for 1986 and $18,398,000 for 1987. That put them very close to the LFA.

Chairman Harp asked for the reason for the increases. Mr. Johnson said this tax comes in on an annual basis, due March 1st. The

Auditor's office deposits the receipts in a clearance account. They go through the process of verifying the receipts and making a determination of how much should be given back to the police and retirement systems. When the Council met in May the insurance commissioner testified before the Council that she thought this is what the revenues would be. Since that time the insurance department indicated that there would definitely be more revenue transferred to the general fund than they had originally thought. He therefore adjusted the 1986 revenue estimate and based on that adjusted the 1987 estimate accordingly. The year to date totals in terms of actual distribution to the general fund was $14.8 million in the general fund as of June 13, 1986. In addition to that, about 2.1 million in the clearance account that will be transferred to the general fund.

Ms. Waldron said they were estimating a figure of $16.8 million for 1986 and $18 million for 1987.

Rep. Sands moved to adopt the LFA estimates for 1986 and 1987. MOTION CARRIED.

Revenue Sources: (558) The difference in 1986 is $150,000 and $470,000 in 1987 for a total of a little over $600,000. Ms. Waldron listed the different fees that go into this category.

Rep. Schye moved to adopt the LFA figures for 1986 and 1987. MOTION CARRIED.

Tape VII:A:012

Chairman Harp stated that it had been brought to his attention that the Governor's Council had put in a resolution estimating revenue that Greg Petesch of the Legislative Council has said is outside the call and for the Committee to use the information, as far as the revenue estimates, the only way that this can be put through the process is to have the resolution introduced to the House Taxation Committee in the next week or so. He said he was inclined to use the method that was used last session. Rep. Williams agreed with Chairman Harp and thought it could possibly be taken care of in theRules Committee. Chairman Harp said he had talked to the Speaker and there should be no difficulty proceeding with it but at some point it would probably have to be brought before the Rules Committee or to a caucus. He said that was probably the best way to explain some of the components; by having a document to work from and also take it to the caucus and the floor of the House and explain the assumptions. Rep. Sands said there should be some kind of official document to work with. Repl Schye said there are also changes in policy and law.

Rep. Williams suggested that the Rules Committee be contacted. Rep. Switzer suggested a motion could be made from the floor which would be the same as getting a petition.

Rep. Williams asked Mr. Johnson and Ms. Waldron to put the final numbers together on a calendar and fiscal year basis and if there are any major disagreement they will get together and work out an agreement. The calendar year figures would only be for oil, gas and coal.

Chairman Harp called for a subcommittee meeting on Wednesday, June 18, 1986.

The meeting was adjourned at 11:05 a.m.

REP. JOHN HARP, Chairman

DAILY ROLL CALL

REVENUE ESTIMATING COMMITTEE

49th LEGISLATIVE SESSION -- 1985

SPECIAL SESSION III

Date 6-12-86

NAME	PRESENT	ABSENT	EXCUSED
HARP, John, Chairman	✓		
HARRINGTON, Dan	✓		
SANDS, Jack	✓		
SCHYE, Ted	✓		
SWITZER, Dean	✓		
WILLIAMS, Mel	✓		

CS-30

VISITORS' REGISTER

Revenue Estimating COMMITTEE

BILL NO. ______________ DATE 6-12-86

SPONSOR ______________

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Tom McGree	Helena MT Bell		
Madalyn Quinlan	Legisl Fiscal Analyst		
Judy Curtis Waldron	LFA		
Terry W. Johnson	OBPP		
Steve Bender	Revenue		
Dan Bucks	Revenue		
Phil Brooks	Commerce		
Bruce Beattie	Ag Econ - MSU		
Jerome Anderson	Billings - Shell Oil Co. Tobacco Inst.		
TUCKER Hill	Helena Montana Wood Products		
Cathy Shenkle	Helena - Dept of Labor + Industry		
David Hunter	OBPP	✓	
D.W. Larson	M.T.A.		
Rep. Bob Marks	HD #70		
Janelle Fallan	Mont. Petroleum		
Dix Schultz	Dist 30 - Rep		
Jim Mockler	Mt Coal Council		
Sen. Pat Goodover	Great Falls		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

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Exhibit #1
June 12, 1986
Revenue Estimating Subcommittee

B · B · E

BUREAU OF BUSINESS AND ECON

ECONOMICS MONTANA

INCOME AND EMPLOYMENT FORECASTS

PREPARED FOR THE GOVERNOR'S REVENUE
ESTIMATING ADVISORY COMMITTEE
MAY 1986

The forecasts in this package were developed in connection with the Economics Montana program, cosponsored by the University of Montana Bureau of Business and Economic Research and Mountain Bell.

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
UNIVERSITY OF MONTANA
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BASELINE FORECAST

U.S. Economic Outlook (table 1)

No recession in sight

-- Modest economic growth in 1986.
-- Acceleration in 1987.
-- Slowdown in 1988.

Low inflation and interest rates

-- Stable or declining mortgage rates.
-- No rebound in inflation until 1988.
-- Housing starts strong throughout period.

U.S. exports more attractive due to declining exchange rate of dollar.

No significant rebound in oil prices before 1988.

Montana Economic Outlook (table 2)

Important assumptions

-- Drought ends in 1986. Agricultural labor income recovers to predrought levels, but remains below levels of the late 1970s.

-- No strike or major closures in wood products industry.

-- Increase in metal mining employment due to new mines.

-- Washington Corporation does <u>not</u> reopen Anaconda operations in Butte.

-- Aluminum refining employment in Columbia Falls remains at current levels.

-- Besides Livingston, no further Burlington Northern Railroad shutdowns.

Table 1
Economic Trends for the
U.S. Economy

	1984	1985	1986	1987	1988
Real GNP, percent change	6.5	2.2	2.8	4.4	2.6
Inflation (CPI), percent change	4.3	3.5	1.4	2.7	4.7
Interest rates, percent					
90-day T-bills	9.6	7.5	6.3	6.6	6.7
Mortgage rate	12.5	11.7	9.6	9.4	9.8
Industrial production, manufacturing, percent change	12.4	2.6	2.2	5.0	2.6
Housing starts, millions	1.8	1.7	2.0	1.9	1.8
Unemployment rate, percent	7.5	7.2	6.8	6.3	6.7
Exchange rate of U.S. dollar, percent change	10.4	3.5	-19.4	-6.5	-4.7
OPEC oil price, U.S. dollars per barrel	29.1	28.0	15.9	15.6	18.4

Source: Wharton Econometric Forecasting Associates (May 1986).

Table 2
Personal Income, by Major Component
Actual and Projected
Montana
(millions of dollars)

	Actual 1984	Actual 1985	Projected 1986	Projected 1987	Projected 1988
Personal income	$8,739	$8,877	$9,474	$10,118	$10,793
Percent change	6.7	1.6	6.7	6.8	6.7
Personal income less transfers	7,331	7,378	7,853	8,408	9,015
Percent change	7.1	0.6	6.4	7.1	7.2
Total labor income	5,763	5,738	6,367	6,857	7,377
Percent change	5.7	-0.4	11.0	7.7	7.6
Agricultural labor income	113	-33	225	260	300
Percent change	-46.7	N/A	N/A	15.6	15.4
Nonfarm labor income	5,650	5,771	6,142	6,597	7,077
Percent change	7.9	2.1	6.4	7.4	7.3
Contract construction	385	372	412	448	481
Mining	264	261	262	294	312
Manufacturing	568	566	592	622	657
Wood & paper products	256	256	265	275	288
Other manufacturing	312	310	327	347	369
Railroads	161	170	160	162	170
Federal government	406	416	440	465	492
Other industries	3,866	3,986	4,276	4,606	4,965

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

Alternative Baseline Forecast

U.S. Economic Outlook (table 1)
No change from Baseline Forecast.

Montana Economic Outlook (table 2A)
Slow recovery of agricultural labor income.
All other assumptions unchanged from Baseline Forecast.

Table 2A
Personal Income, by Major Component
Actual and Projected
Montana
(millions of dollars)

	--- Actual ---		------ Projected ------		
	1984	1985	1986	1987	1988
Personal income	$8,739	$8,877	$9,349	$10,008	$10,693
Percent change	6.7	1.6	5.3	7.1	6.8
Personal income less transfers	7,331	7,378	7,728	8,298	8,915
Percent change	7.1	0.6	4.7	7.3	7.4
Total labor income	5,763	5,738	6,242	6,747	7,277
Percent change	5.7	-0.4	8.8	8.1	7.9
Agricultural labor income	113	-33	100	150	200
Percent change	-46.7	N/A	N/A	50.0	33.3
Nonfarm labor income	5,650	5,771	6,142	6,597	7,077
Percent change	7.9	2.1	6.4	7.4	7.3

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

Strike-Shutdown Forecast

U.S. Economic Outlook (table 1)
No change from Baseline Forecast.

Montana Economic Outlook (table 3)
Three month wood product strike in 1986.
Aluminum refining in Columbia Fall closed on January 1, 1987.
All other assumptions unchanged from Baseline Forecast.

Table 3
Personal Income, by Major Component
Actual and Projected
Montana
(millions of dollars)

	--- Actual ---		------ Projected ------		
	1984	1985	1986	1987	1988
Personal income	$8,739	$8,877	$9,440	$10,063	$10,727
Percent change	6.7	1.6	6.3	6.6	6.6
Personal income less transfers	7,331	7,378	7,819	8,353	8,949
Percent change		0.6	6.0	6.8	7.1
Total labor income	5,763	5,738	6,333	6,801	7,310
Percent change	5.7	-0.4	10.4	7.4	7.5
Agricultural labor income	113	-33	225	260	300
Percent change	-46.7	N/A	N/A	15.6	15.4
Nonfarm labor income	5,650	5,771	6,108	6,541	7,010
Percent change	7.9	2.1	5.8	7.1	7.2
Contract construction	385	372	409	442	472
Mining	264	261	262	294	312
Manufacturing	568	566	572	591	624
Wood & paper products	256	256	245	275	288
Other manufacturing	312	310	327	316	336
Railroads	161	170	160	162	170
Federal government	406	416	440	465	492
Other industries	3,866	3,986	4,265	4,587	4,940

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

Alternative Strike-Shutdown Forecast

U.S. Economic Outlook (table 1)
No change from Baseline Forecast.

Montana Economic Outlook (table 3A)
Slow recovery of agricultural labor income.
All other assumptions unchanged from Strike-Shutdown Forecast.

Table 3A
Personal Income, by Major Component
Actual and Projected
Montana
(millions of dollars)

	--- Actual ---		------ Projected ------		
	1984	1985	1986	1987	1988
Personal income	$8,739	$8,877	$9,315	$9,952	$10,626
Percent change	6.7	1.6	4.9	6.8	6.8
Personal income less transfers	7,331	7,378	7,694	8,242	8,848
Percent change	7.1	0.6	4.3	7.1	7.4
Total labor income	5,763	5,738	6,208	6,691	7,210
Percent change	5.7	-0.4	8.2	7.8	7.8
Agricultural labor income	113	-33	100	150	200
Percent change	-46.7	N/A	N/A	50.0	33.3
Nonfarm labor income	5,650	5,771	6,108	6,541	7,010
Percent change	7.9	2.1	5.8	7.1	7.2

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

Reopen Berkeley Pit Forecast

U.S. Economic Outlook (table 1)
No change from Baseline Forecast.

Montana Economic Outlook (table 4)
Washington Corporation resumes mining operation in Butte on January 1, 1987 with 250 employees.
All other assumptions unchanged from Baseline Forecast.

Table 4
Personal Income, by Major Component
Actual and Projected
Montana
(millions of dollars)

	--- Actual ---		------ Projected ------		
	1984	1985	1986	1987	1988
Personal income	$8,739	$8,877	$9,474	$10,158	$10,841
Percent change	6.7	1.6	6.7	7.2	6.7
Personal income less transfers	7,331	7,378	7,853	8,448	9,063
Percent change	7.1	0.6	6.4	7.6	7.3
Total labor income	5,763	5,738	6,367	6,898	7,427
Percent change	5.7	-0.4	11.0	8.3	7.7
Agricultural labor income	113	-33	225	260	300
Percent change	-46.7	N/A	N/A	15.6	15.4
Nonfarm labor income	5,650	5,771	6,142	6,638	7,127
Percent change	7.9	2.1	6.4	8.1	7.4
Contract construction	385	372	412	452	488
Mining	264	261	262	323	343
Manufacturing	568	566	592	622	657
Wood & paper products	256	256	265	275	288
Other manufacturing	312	310	327	347	369
Railroads	161	170	160	162	170
Federal government	406	416	440	465	492
Other industries	3,866	3,986	4,276	4,614	4.977

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

Alternative Berkeley Pit Forecast

U.S. Economic Outlook (table 1)
No change from Baseline Forecast.

Montana Economic Outlook (table 4A)
Slow recovery of agricultural labor income.
All other assumptions unchanged from Reopen Berkeley Pit Forecast.

Table 4A
Personal Income, by Major Component
Actual and Projected
Montana
(millions of dollars)

	--- Actual ---		------ Projected ------		
	1984	1985	1986	1987	1988
Personal income	\$8,739	\$8,877	\$9,349	\$10,048	\$10,741
Percent change	6.7	1.6	5.3	7.5	6.9
Personal income less transfers	7,331	7,378	7,728	8,338	8,963
Percent change	7.1	0.6	4.7	7.9	7.5
Total labor income	5,763	5,738	6,242	6,788	7,327
Percent change	5.7	-0.4	8.8	8.8	7.9
Agricultural labor income	113	-33	100	150	200
Percent change	-46.7	N/A	N/A	50.0	33.3
Nonfarm labor income	5,650	5,771	6,142	6,638	7,127
Percent change	7.9	2.1	6.4	8.1	7.4

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

Table 5
Nonfarm Wage and Salary Jobs
Actual and Projected
Montana
(thousands ofjobs)

	--- Actual ---		------	Projected ------	
	1984	1985	1986	1987	1988
Total nonfarm wage and salary jobs	281.2	278.4	284.5	289.5	293.6
Percent change	1.9	-1.0	2.2	1.8	1.4
Contract construction	12.6	11.3	12.5	13.4	14.0
Mining	7.7	6.8	6.6	7.1	7.2
Manufacturing	22.5	21.7	22.0	22.2	22.4
Wood & paper products	9.9	9.3	9.3	9.3	9.3
Other manufacturing	12.6	12.4	12.7	12.9	13.1
Railroads	4.1	4.0	3.8	3.7	3.7
Federal government	12.8	12.4	12.3	12.1	12.0
Other industries	221.5	222.2	227.3	231.0	234.3

Source: Actual: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.
Projected: University of Montana, Bureau of Business and Economic Research, Economics Montana.

DEFINITIONS

Personal income. The income of residents of an area from all sources. It is measured after the deduction of personal contributions to social security but before the deduction of income and other personal taxes.

Labor income. The labor income of all persons engaged in the current production of goods and services. Does not include corporate profits. Consists mostly of wages and salaries and certain fringe benefits plus the earnings of the self-employed.

Farm labor income. The labor income of all persons engaged in agriculture--hired workers and managers and the self-employed. Consists mostly of wages and salaries and in-kind payments plus net income of farm proprietors and government payments.

Nonfarm labor income. The labor income of all persons, except those in agriculture, engaged in the current production of goods and services. Does not include corporate profits. Consists mostly of wages and salaries plus the earnings of the self-employed.

Transfer payments. Social security benefits, certain government pensions, unemployment compensation, and income maintenance payments such as welfare and food stamps.

Exhibit #2
June 12, 1986
Revenue Estimating Sub-committee

STATE OF MONTANA
CRUDE PRICE IMPACT ON PRODUCTION TAXES
(M$)

1986

$/BBL	25	20	18	15	10
SEVERANCE TAX @0.05	$36,666.0	$29,333.0	$26,400.0	$22,000.0	$14,667.0
R.I.T.T. $0.005	3,666.0	2,933.0	2,640.0	2,200.0	1,466.0
CONSERVATION TAX @$0.0008	586.7	469.4	422.4	352.0	234.7
TOTAL EST. OIL REVENUE	$40,918.7	$32,735.4	$29,462.4	$24,552.0	$16,367.7

1987

$/BBL	25	20	18	15	10
SEVERANCE TAX @0.05	$33,333.0	$26,667.0	$24,000.0	$20,000.0	$13,333.0
R.I.T.T. $0.005	3,333.0	2,666.0	2,400.0	2,000.0	1,333.0
CONSERVATION TAX @$0.0008	533.4	426.6	384.0	320.0	213.4
TOTAL EST. OIL REVENUE	$37,199.4	$29,759.6	$26,784.0	$22,320.0	$14,879.4

1.

STATE OF MONTANA
PRODUCTION ASSUMPTIONS

STATEWIDE PRODUCTION	1982 (1)	1983 (1)	1984 (1)	1985	1986	1987
Oil (MBBL)	30,937.5	29,320.4	30,276.6	(2) 29,500.0	(3) 29,333.3	(3) 26,666.7
Gas (MMCF)	48,337.8	46,422.8	48,396.3	(3) 47,000.0	(3) 47,000.0	(3) 47,000.0

(1) D.O.R. Publication (2) RMOGA Estimate (3) Shell Estimate

2.

STATE OF MONTANA
FIVE CRUDE PRICE SCENARIOS

	1986					1987				
$ PER BBL	25	20	18	15	10	25	20	18	15	10
Est. Production (M/BBLS)	29,333.3	29,333.3	29,333.3	29,333.3	29,333.3	26,666.7	26,666.7	26,666.7	26,666.7	26.666.7
Gross Value (M$)	$733,332.5	$586,666.0	$528,000.0	$440,000.0	$293,333.0	$666,668.0	$533,334.0	$480,000.0	$400,000.0	$266,667.0

No adjustment has been made for reduced production resulting from shut-in wells in the event of low price ($10-15 range) being sustained for long period of time.

STATE OF MONTANA
NATURAL GAS PRODUCTION AND REVENUE

	1986	1987
Est. Production (MMCF)	47,000.0	47,000.0
Gross Value (M$)	$98,700.0*	$98,700.0

* Estimated at average current SWEPI gross value received - $2.10/MCF

GENERAL FUND REVENUE ESTIMATE INFORMATION

prepared by

The Governor's Revenue Estimating Advisory Committee

June 1986

GENERAL FUND REVENUE

Source of Revenue	Fiscal Year 86	Fiscal Year 87	Total
(1) Individual Income Tax	$111,385,000	$118,272,000	$229,657,000

This revenue consists of 64% of total projected individual income tax collections. Income tax forecasts for the 1986-87 biennium assume a slow growth in total personal income and employment. Income is forecast to grow 3.8% in calendar year 1986 and 8.6% in calendar year 1986 while non-farm wage and salary employment is expected to remain stable over the biennium. These projections also include the effects of federal income tax indexing and the continuation of Montana law as it existed on July 1, 1985. The effects of federal tax reform and other such proposals are not included in the forecasts.

(2) Corporation Income Tax	$36,227,000	$28,101,000	$64,328,000

This revenue consists of 64% of total projected corporation income tax collections retained by state government. The forecasts are based on a decrease in Montana corporation taxable income of 5.7% in fiscal year 1986 and 3.5% in fiscal year 1987. These projections include $7.6 million in additional taxes anticipated to be paid by the Montana Power Company in fiscal year 1986. Also included are $9.7 million and $6.1 million in audit collections for fiscal years 1986 and 1987, respectively.

(3) Coal Severance Tax	$19,995,000	$16,728,000	$36,723,000

This revenue consists of 23.75% of total coal severance tax collections in fiscal year 1986 and 20.90% in fiscal year 1987. The forecasts are based on lower demand and competitively priced alternative fuels. It is assumed that these conditions, in conjunction with royalty deductions, will result in a decline 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. The revenue estimates are further based on the following assumptions of production and price.

Tons of Coal (CY)	32,721,000	34,000,000
Price per Ton (CY)	$8.46	$8.08

(4) Oil Severance Tax	$22,526,000	$14,046,000	$36,572,000

This revenue consists of 66.67% of total oil severance tax collections less the portion remitted to counties with production above the previous year. Since oil is a commodity that is used for diverse purposes, prices depend on federal regulations and world demand. Because a worldwide surplus of oil exists and because of the recent production increases by Saudi Arabia, it is assumed that Montana's prices and production will follow worldwide trends throughout the biennium. The revenue estimates for oil severance taxes are based on the following assumptions of production and price.

Barrels of Oil (CY)	28,400,000	26,700,000
Price per Barrel (CY)	$15.00	$16.50

(5) Interest On Investments	$16,001,000	$10,208,000	$26,209,000

Interest on investments are projected to decline in fiscal years 1986 and 1987 from fiscal year 1985 levels. The decline in 1986 and 1987 is expected because of lower interest rates and less funds available to invest. The revenue estimates for interest on investments are based on the following assumptions.

Average Daily Cash	$166,500,000	$100,000,000
Average Interest Rate	7.86%	7.00%
TRANS Issue	$46,000,000	$50,000,000

(6) Long-Range Bond Excess	$36,070,000	$35,560,000	$71,630,000

The long-range bond debt service account receives 11% of all individual income and corporation income taxes, 79.75% of all cigarette taxes and 100% of tobacco taxes. It is assumed that there will be no additional long-range building bonds sold until after fiscal year 1987. It is also assumed that cigarette sales will be 82.628 million packs and 79.669 million packs in fiscal year 1986 and 1987, respectively. Revenue from tobacco sales is expected to be $716,000 in fiscal year 1986 and $776,000 in fiscal year 1987.

(7) Coal Trust Fund Interest	$29,074,000	$36,104,000	$65,178,000

This revenue is derived from interest earned on the deposit of 50% of coal severance tax receipts dedicated to the permanent trust fund. Eighty-five percent of total interest earnings from the investment of the permanent trust fund is deposited to the general fund. It is assumed that total interest income will increase modestly over the biennium based on higher investable balances but invested at lower interest rates. It is also assumed that no additional water development bonds will be sold throughout the biennium. The revenue estimates for coal trust fund interest are further based on the following assumptions.

Average Long-Term Rates (CY)	9.68%	9.72%
Debt Service (Water Bonds)	$356,000	$584,000
Coal Severance Tax (Trust)	$41,739,000	$39,435,000
Bond Calls	$1,530,000	$5,610,000

(8) Insurance Premium Tax	$15,943,000	$17,370,000	$33,313,000

Total insurance premium taxes have grown 5.5% per year since fiscal year 1980 with the 10.4% growth in fiscal year 1984 excluded. It is assumed that receipts will grow 11.4% in fiscal year 1986 due to higher premiums for liability insurance and then return to a more normal growth pattern of 6.7% in fiscal year 1987. The revenue estimates are further based on the following assumptions.

Police & Firemen Retirement	$5,344,000	$5,483,000
Insurance Division Budget	$851,000	$782,000

(9) Institution Reimbursement	$13,284,000	$13,632,000	$26,916,000

Approximately 89% of all reimbursements collected are from federal medicaid receipts. Therefore, it is assumed that medicaid revenue will equal the appropriation of the Department of Social and Rehabilitation Services for public institutions medicaid. It is also assumed that the Montana Youth Treatment Center at Billings will not be certified this biennium and that all other institutions will remain certified throughout the biennium.

(10) Liquor Profits	$4,187,000	$3,817,000	$8,004,000
(11) Liquor Excise Tax	$5,906,000	$5,726,000	$11,632,000

Liquor sales for fiscal years 1986 and 1987 are expected to decline further as the trend toward moderation in liquor consumption continues. The liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at fiscal year 1985 levels.

(12) Inheritance Tax	$7,659,000	$7,836,000	$15,495,000

Inheritance tax revenues for fiscal year 1986 are projected to remain at fiscal year 1985 levels. In fiscal year 1987 receipts are estimated to grow by approximately 2.3% . This trend is consistent with the growth rate observed from fiscal year 1974 to fiscal year 1985.

(13) Metal Mines Tax	$994,000	$969,000	$1,963,000

This revenue consists of 66.67% of total projected metal mines tax. It is assumed that gold, silver, copper and lead production for calendar year 1986 will decline modestly from calendar year 1985 levels. Also, prices are assumed to increase slightly from calendar year 1985 levels. No new companies are expected to begin production in the state by the end of calendar year 1986.

(14) Electrical Energy Tax	$2,529,000	$2,547,000	$5,076,000

Total U.S. electricity production has grown by 2.4% since calendar 1974. It is assumed that Montana's production will follow the national trend and that demand for electrical power will increase 2.1% in fiscal year 1986 and 2.3% in fiscal year 1987. In addition, an adjustment to these estimates has been made based on a April 1986 completion date for Colstrip Unit IV. The generating capacity for Colstrip Unit IV is assumed to be 60% the first year and 70% thereafter.

(15) Drivers' License Fee	$768,000	$790,000	$1,558,000

Population growth in the age cohort 16 and greater is forecast to increase by 1% throughout the biennium. Since drivers' license fee revenues are dependent upon the number of eligible drivers, it is assumed that collections will follow this trend during the biennium.

(16) Telephone License Tax	$3,196,000	$3,419,000	$6,615,000

Telephone taxes have grown approximately 8.5% since 1969 excluding the years in which a rate increase was granted by the Public Service Commission. It is assumed this growth rate will increase to 9.0% in fiscal year 1986 and then decline to 7.0% in fiscal year 1987.

(17) Beer Tax	$1,310,000	$1,238,000	$2,548,000

Beer consumption on a per capita basis is forecast to decrease 6.5% in fiscal year 1986 and 6.4% in fiscal year 1987. This is a continuation of the downward trend in consumption that began in fiscal year 1982.

(18) Natural Gas Severance Tax	$2,627,000	$2,633,000	$5,260,000

Natural gas production is projected to increase moderately throughout the biennium. However, prices are expected to decline to $2.26 and $2.24 per MCF in fiscal years 1986 and 1987, respectively. The revenue estimates are based on the following assumptions of production and price :

MCF's of Natural Gas (CY)	45,222,000	45,476,000
Price per MCF (CY)	$2.26	$2.24
Gallons of Nat.Gas Liquids (CY)	3,285,000	3,304,000
Price per Gallon (CY)	$.236	$.233

(19) Freight Line Tax	$1,195,000	$1,249,000	$2,444,000

Freight line tax revenues are forecast to decrease 13.4% in fiscal year 1986 and then increase 4.5% in fiscal year 1987. Poor agricultural conditions in calendar year 1985 are assumed to be the cause for the decline in fiscal year 1986 receipts.

(20) Wine Tax	$944,000	$984,000	$1,928,000

Wine consumption on a per capita basis is forecast to increase 3.3% annually. Although this is a trend not consistent with historical data, it reflects the trend observed during the first ten months of fiscal year 1986.

(21) Other Revenue	$17,648,000	$18,636,000	$36,284,000

Since fiscal year 1981, revenues from a number of other statutory taxes, fees, licenses and fines have grown an average 6.4% per year after adjusting for one-time receipts. It is assumed that these revenues will continue to grow but at a somewhat lesser rate of 4%. Included in this revenue estimate is revenue from poker licenses and vehicle license fees.

General Fund Total	$349,468,000	$339,865,000	$689,333,000

BE IT FURTHER RESOLVED, that section 17-7-123(1), MCA requires the Governor to submit a budget showing a balance between proposed disbursements and total anticipated receipts. The following provides the necessary general fund revenue adjustments for the purpose of achieving a balanced budget. The projections set forth below are based on the assumptions delineated above.

Source of Revenue	Fiscal Year 86	Fiscal Year 87	Total
Coal Severance Tax			
Park Acquisition Trust		$1,761,000	
Education Trust		7,043,000	
Department of Highways Coal Tax		6,211,000	
Total Coal Severance Tax		$15,015,000	
Investment Earnings			
Balanced Budget		$4,655,000	
TRANS Cap Removal		1,283,000	
Department of Highways Account		6,764,000	
Total Investment Earnings		$12,702,000	
Liquor Profits		$1,085,000	
Long Range Bond Excess		$5,100,000	
Other Revenue			
Delay Alternative Energy Loans & Grants		$1,143,000	
Legislative Council Code Account		500,000	
Social Security Interest Earnings		2,000,000	
Coal Board Funds		1,630,000	
Resource Indemnity Tax		4,068,000	
Deputy County Attorney Earmarked		-142,000	
Total Other Revenue		$9,194,000	
Total of All Adjustments		$43,096,000	$43,096,000
General Fund Total	$349,468,000	$382,961,000	$732,429,000

FOUNDATION PROGRAM REVENUE

Source of Revenue	Fiscal Year 86	Fiscal Year 87	Total
(1) Individual Income Tax	$43,510,000	$46,200,000	$89,710,000
(2) Corporation Income Tax	$14,151,000	$10,977,000	$25,128,000
(3) Coal Severance Tax	$4,209,000	$3,522,000	$7,731,000
(4) Interest & Income	$32,249,000	$36,962,000	$69,211,000

This revenue is primarily from agricultural leases, grazing fees, oil and gas leases and investment earnings from the common school trust account. With a depressed agricultural sector, reduced oil exploration activity and low interest rates it is assumed that fiscal year 1986 revenues will decline from fiscal year 1985 levels. Fiscal year 1987 revenues are assumed to increase moderately due to an improved agricultural sector, higher oil prices and $2.755 million from bond calls in the common school trust account.

(5) US Oil & Gas Royalties	$12,490,000	$11,175,000	$23,665,000

Montana receives fifty percent of all federal royalty payments from oil, gas, coal and other mineral production on federal lands located in Montana. It is assumed that production will remain at calendar year 1983 levels and mineral prices will be as projected for the general fund revenue sources.

(6) Education Trust Interest	$6,828,000	$8,257,000	$15,085,000

This revenue is derived from interest earned on the education trust fund. Sixty-seven point five percent of the total interest earnings from the investment of the education trust fund is deposited to the foundation program. It is assumed that total interest income will increase modestly over the biennium based on higher investable balances but invested at lower interest rates. The revenue estimates for education trust fund interest are further based on the following assumptions.

Average Long-Term Rates (CY)	9.68%	9.72%	
Coal Severance Tax (Trust)	$8,419,000	$7,043,000	
Bond Calls	$405,000	$1,350,000	
(7) County Revenue			
45 Mill Mandatory Levy	$106,656,000	$104,668,000	$211,324,000
Other County Revenue	$6,044,000	$5,788,000	$11,832,000
(8) District Rev.(Permissive)	$18,730,000	$18,298,000	$37,028,000

The mandatory and permissive levies are applied against the statewide taxable valuation of the state. In fiscal year 1986 taxable valuation was $2.370 billion. It is assumed to decline to $2.326 billion in fiscal year 1987. The taxable valuation revenue estimates are based on the following components.

Net/Gross Proceeds	$768,271,000	$702,773,000	
All Other Valuation	$1,601,862,000	$1,623,193,000	
Foundation Program Total	$244,867,000	$245,847,000	$490,714,000

BE IT FURTHER RESOLVED, that section 17-7-123(1), MCA requires the Governor to submit a budget showing a balance between proposed disbursements and total anticipated receipts. The following policy option provides additional foundation program revenue for the purpose of supplanting general fund monies in order to achieve a balanced general fund budget. The projections set forth below are based on the assumptions delineated above.

Source of Revenue	Fiscal Year 86	Fiscal Year 87	Total
US Oil & Gas Royalties		$6,705,000	$6,705,000
Foundation Program Total	$244,867,000	$252,552,000	$497,419,000

BE IT FURTHER RESOLVED, that the Legislature accepts for budget purposes the unreserved general fund balance of $27,545,000 prepared according to generally accepted accounting principles as published in the audited state financial statements as of June 30, 1985.

GENERAL FUND REVENUE ESTIMATE INFORMATION

prepared by

The Office of the Legislative Fiscal Analyst

June 1986

Appropriations include $597,000 under feed bills for the June 1986 special session, a $30 million supplemental for the school foundation program, and other supplementals totaling $20.8 million which include $7.6 million for the Department of Social and Rehabilitation Services and $9.8 million for the Department of Commerce. Later sections of this report contain details on our revenue forecast and supplemental appropriations.

The fiscal 1986 entry for other appropriation bills reflects all general fund spending authority on the books this year. Since that authority includes some biennial appropriations which may not be spent until next year, our forecast of fiscal 1986 spending may be too high and, consequently, our projected ending balance for this year too low. When the biennial appropriations are spent does not, however, affect the size of the fiscal 1987 ending fund balance.

The Constitution's requirement that appropriations not exceed anticipated revenue implies the need for action to eliminate the projected deficit. Numerous options for doing so are discussed in this budget analysis.

GENERAL FUND SUMMARY

Coupling the current revenue projection with appropriations now on the books, the Office of the Legislative Fiscal Analyst forecasts the general fund would end the 1987 biennium with a deficit of $107.5 million. Table 1 shows calculation of the projected deficit.

Table 1
Projected General Fund Balance
Fiscal Years 1986 and 1987
(Thousands)

	Fiscal 1986	Fiscal 1987
Beginning Fund Balance, July 1	$ 27,545	$ (5,251)
Projected Revenue	346,921	340,899
Net Prior Year Revenue/Exp. Adjustments	2,993	-0-
Total Funds Available	$377,459	$ 335,648
Appropriations:		
HB 375 Pay Plan	$ 4,186	$ 12,314
HB 212 Public School Support	16,234	16,326
Other Appropriation Bills	356,220	348,674
Emergency & Disaster	204	151
Continuing Appropriations	1,065	-0-
Long-term Debt Service	12,446	12,405
TRANS Interest & Issue Costs	2,137	2,000
Feed Bills	895	4,481
Supplementals:		
March 1986 Special Session	3,284	4,285
1987 Session - Public Schools	-0-	30,067
- Other	-0-	20,843
2 Percent Executive Order Cuts	(6,951)	-0-
Reversions:		
Debt Service	(1,932)	(1,940)
Continuing Appropriations	(78)	-0-
Other	(5,000)	(6,500)
Total Expenditures	$382,710	$ 443,106
Ending Fund Balance, June 30	$ (5,251)	$(107,458)

A COMPARISON OF GENERAL FUND REVENUE PROJECTIONS

For the 1987 biennium, the Office of the Legislative Fiscal Analyst forecasts general fund revenue totaling $687.8 million or $1.5 million less than the $689.3 million projected in the executive budget before proposed revenue adjustments. Table 1 compares the two revenue estimates by source.

Table 1
A Comparison of General Fund Projections
1987 Biennium

Source	LFA Forecast	Executive Forecast	LFA-Executive Difference
Individual Income Tax	$226,325,000	$229,657,000	$(3,332,000)
Corporation License Tax	60,856,000	64,328,000	(3,472,000)
Coal Severance Tax	37,406,000	36,723,000	683,000
Oil Severance Tax	36,304,000	36,572,000	(268,000)
Interest On Investments	30,224,000	26,209,000	4,015,000
Long-Range Bond Excess	70,675,000	71,630,000	(955,000)
Coal Trust Interest Income	63,934,000	65,178,000	(1,244,000)
Insurance Premiums Tax	34,874,000	33,313,000	1,561,000
Public Institutions Reimb.	27,944,000	26,916,000	1,028,000
Liquor Profits	7,750,000	8,004,000	(254,000)
Liquor Excise Tax	11,496,000	11,632,000	(136,000)
Inheritance Tax	15,785,000	15,495,000	290,000
Metal Mines Tax	2,047,000	1,963,000	84,000
Electrical Energy Tax	5,153,000	5,076,000	77,000
Driver's License Fee	1,600,000	1,558,000	42,000
Telephone License Tax	6,595,000	6,615,000	(20,000)
Beer License Tax	2,511,000	2,548,000	(37,000)
Natural Gas Severance Tax	4,835,000	5,260,000	(425,000)
Freight Line Tax	2,643,000	2,444,000	199,000
Wine Tax	1,953,000	1,928,000	25,000
Other Revenue Sources	36,910,000	36,284,000	626,000
Total	$687,820,000	$689,333,000	$(1,513,000)

The largest dollar differences between the two revenue projections are in individual income tax, corporation license tax, and interest on investments.

In the following sections, the assumptions behind the projections in the categories with large differences are discussed briefly.

Individual Income Tax

For the 1987 biennium, our forecast of general fund revenue from individual income taxes is $3.3 million lower than the executive's projection. Table 2 compares the forecasts by fiscal year.

Table 2
A Comparison of General Fund Revenue from Individual Income Tax

	Fiscal 1986	Fiscal 1987
LFA Forecast	$110,157,000	$116,168,000
Executive Forecast	111,385,000	118,272,000
Difference	$ (1,228,000)	$ (2,104,000)

Our fiscal 1986 forecast is based on 11 months of actual tax activity, two more weeks of data than was available when the executive forecast was made.

For this year and next, we assume more modest income growth than the executive. Our forecasts are based on the assumption of 1.[illegible] percent growth in non-farm labor income in calendar 1986 and 3.7 percent in calendar 1987. In contrast, the executive projections rely on 3.8 percent growth in personal income this year and 8.6 percent in calendar 1987. Behind our forecast of modest income growth in calendar 1986 is the expectation of small wage gains for those working and some job losses in the wake of Burlington Northern and oil-related cutbacks. We expect agricultural production to return to more normal levels after last year's drought.

Corporation License Tax

Our forecast of 1987 biennium general fund revenue from the corporation license tax is $3.5 million lower than the executive's estimate. Table 3 compares the forecasts by fiscal year.

Table 3
A Comparison of General Fund Revenue from Corporation License Tax
Fiscal Years 1986 and 1987

	Fiscal 1986	Fiscal 1987
LFA Forecast	$33,490,000	$27,366,000
Executive Forecast	36,227,000	28,101,000
Difference	$(2,737,000)	$ (735,000)

As Table 3 indicates, most of the revenue difference occurs in fiscal 1986. Our forecast was based on actual collections for the first 11 months of the year. In contrast, the executive projection was made before all taxes which are due May 15 had been deposited in the treasury.

Interest On Investments

Over the 1987 biennium, our forecast anticipates $4.0 million more revenue from interest on investments than does the executive. The difference results from the executive assumption that the average cash balance will be $100 million in fiscal 1987, compared with our forecast of a $152.4 million balance.

The executive holds that its revenue projection coupled with appropriations now on the books would cause a $66.5 million drop in the average cash balance. One of the revenue adjustments proposed in the executive budget is an increase in interest income of $4.7 million from balancing the budget compared with the executive revenue assumption of an unbalanced budget.

In contrast, the LFA projection of a $152.4 million cash balance assumes a balanced budget. According to the constitution, the budget must be balanced with appropriations limited by anticipated revenue.

Table 4 compares fiscal year 1986 and 1987 LFA and executive general fund revenue projections by category.

Table 4
General Fund Revenue Comparison
Fiscal Years 1986 and 1987
(Thousands)

	Fiscal 1986			Fiscal 1987		
Category	LFA	Executive	Difference	LFA	Executive	Difference
Individual Income Tax	$110,157	$111,385	$(1,228)	$116,168	$118,272	$(2,104)
Corporation License Tax	33,490	36,227	(2,737)	27,366	28,101	(735)
Coal Severance Tax	19,995	19,995	-0-	17,411	16,728	683
Oil Severance Tax	22,836	22,526	310	13,468	14,046	(578)
Interest on Investments	15,981	16,001	(20)	14,243	10,208	4,035
Long-Range Bond Excess	35,460	36,070	(610)	35,215	35,560	(345)
Coal Trust Interest Income	29,445	29,074	371	34,489	36,104	(1,615)
Insurance Premiums Tax	16,845	15,943	902	18,029	17,370	659
Public Institutions Reimbur.	13,676	13,284	392	14,268	13,632	636
Liquor Profits	4,119	4,187	(68)	3,631	3,817	(186)
Liquor Excise Tax	5,818	5,906	(88)	5,678	5,726	(48)
Inheritance Tax	7,813	7,659	154	7,972	7,836	136
Metal Mines Tax	994	994	-0-	1,053	969	84
Electrical Energy Tax	2,530	2,529	1	2,623	2,547	76
Driver's License Fees	800	768	32	800	790	10
Telephone License Fees	3,217	3,196	21	3,378	3,419	(41)
Beer License Tax	1,284	1,310	(26)	1,227	1,238	(11)
Natural Gas Severance Tax	2,503	2,627	(124)	2,332	2,633	(301)
Freight Line Tax	1,195	1,195	-0-	1,448	1,249	199
Wine Tax	959	944	15	994	984	10
Other Revenue Sources	17,804	17,648	156	19,106	18,636	470
Total	$346,921	$349,468	$(2,547)	$340,899	$339,865	$ 1,034

GENERAL FUND REVENUE PROJECTIONS

For the 1987 biennium, the Office of the Legislative Fiscal Analyst forecasts general fund revenue will total $687.8 million. Table 1 compares actual fiscal 1985 revenue with projections for fiscal years 1986 and 1987 by category.

Table 1
General Fund Revenue
Fiscal Years 1985 through 1987
(thousands)

Category	Actual FY 1985	- - - Projected - - - FY 1986	FY 1987	- Percent Change - '85-'86	'86-'87
Individual Income Tax	$115,877	$110,157	$116,168	(4.9)	5.5
Corporation License Tax	36,697	33,490	27,366	(8.7)	(18.3)
Coal Severance Tax	17,432	19,995	17,411	14.7	(12.9)
Oil Severance Tax	32,527	22,836	13,468	(29.8)	(41.0)
Interest on Investments	25,724	15,981	14,243	(37.9)	(10.9)
Long-Range Bond Excess	37,536	35,460	35,215	(5.5)	(0.7)
Coal Trust Interest Income	27,400	29,445	34,489	7.5	17.1
Insurance Premiums Tax	15,692	16,845	18,029	7.3	7.0
Public Institutions Reimb.	12,895	13,676	14,268	6.1	4.3
Liquor Profits	4,466	4,119	3,631	(7.8)	(11.8)
Liquor Excise Tax	5,935	5,818	5,678	(2.0)	(2.4)
Inheritance Tax	7,657	7,813	7,972	2.0	2.0
Metal Mines Tax	1,977	994	1,053	(49.7)	5.9
Electrical Energy Tax	2,362	2,530	2,623	7.1	3.7
Driver's License Fees	804	800	800	(0.5)	0.0
Telephone License Fees	2,932	3,217	3,378	9.7	5.0
Beer License Tax	1,156	1,284	1,227	11.1	(4.4)
Natural Gas Severance Tax	2,946	2,503	2,332	(15.0)	(6.8)
Freight Line Tax	1,379	1,195	1,448	(13.3)	21.2
Wine Tax	906	959	994	5.9	3.6
Other Revenue Sources	13,432	17,804	19,106	32.5	7.3
Total	$367,730	$346,921	$340,899	(5.7)	(1.7)

As table 1 indicates, general fund revenue is forecast to decline 5.7 percent in fiscal 1986 and 1.7 percent in fiscal 1987. The largest dollar declines for fiscal 1986 are expected to occur in the oil severance tax where a reduction in the tax rate is accompanied by lower prices and production and in interest on investments where both interest rates and the balance available for investment are projected to fall.

Further declines in oil price, production, interest rates, and investable balances are forecast for fiscal 1987.

Our general fund revenue projections are premised on the assumption current state and federal tax laws remain unchanged during the 1987 biennium. Tax changes made by the Montana legislature or the passage of federal tax reform may affect general fund revenue.

The following sections discuss the basis of the projections for each source of general fund revenue.

INDIVIDUAL INCOME TAX

Individuals earning income in Montana are subject to a tax on their gross incomes after allowance for exemptions and deductions. Sixty-four percent of individual income tax receipts are deposited in the general fund. Table 2 shows general fund revenue from the individual income tax since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 2
Historic and Projected General Fund Collections of Individual Income Taxes
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$ 86,391,870	---
1981	93,463,223	8.2
1982	92,034,568	(1.5)
1983	97,152,215	5.6
1984	109,021,660	12.2
1985	115,876,580	6.3
	Projected	
1986	110,157,000	(4.9)
1987	116,168,000	5.5

The indexing of tax liabilities began with calendar year 1981. With indexing, the value of the personal exemption, the standard deduction, and the sizes of the tax brackets are determined by the increase in the consumer price index from June 1980 to June of the calendar year for which the tax return is filed. Our forecasts are based on a 1.1 percent increase in the consumer price index between June 1985 and June 1986 and a 2.9 percent increase the following year.

In our projections, Montana income is anticipated to grow 2 percent in calendar 1986 and almost 4 percent next year. Tax collections rise because the rate of income growth exceeds the rate of inflation and because the use of tax credits to reduce liabilities is forecast to decline as investment tax credits shrink.

Not included in our revenue projections is the impact of federal tax reform. The current Senate proposal calls for the elimination of some tax deductions January 1, 1987 and a reduction in tax rates July 1, 1987. The proposed federal changes affect Montana tax revenue in two ways. First, because Montana's definition of adjusted gross income is closely linked to the federal, eliminating credits would increase Montana adjusted gross income and taxes due. Second, if lower tax rates translate to lower federal tax payments, the change would reduce the state itemized deduction for federal taxes for the two-thirds of Montanans who itemize and, consequently, increase the amount of state taxes owed. How federal tax reform affects individual income tax revenue depends on the specifics of the proposal which passes Congress.

CORPORATION LICENSE TAX

Each corporation doing business in Montana is assessed a corporation license tax equal to 6.75 percent of its net income. Corporations are subject to a minimum tax of $50. When a company's fiscal year corresponds with the calendar year as it does for most corporations, the tax is due May 15 on net income earned during the preceding calendar year. Those corporations which operate in other states and/or countries and are classified as unitary (i.e., business within Montana is dependent upon and contributory to business outside the state) must apportion income to Montana for tax purposes using a formula which considers the proportions of worldwide sales, payroll, and property in Montana.

Table 3 shows total and general fund collections of the corporation license tax since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 3
Historic and Projected Corporation License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Total Revenue	General Fund Revenue	Percent Change in General Fund Revenue
1980	$45,623,189	$26,658,417	---
1981	52,900,964	30,962,755	16.2
1982	44,630,472	26,234,444	(15.3)
1983	35,824,951	20,733,658	(21.0)
1984	35,396,239	20,547,177	(0.9)
1985	62,670,886	36,697,611	78.6
Projected			
1986	57,697,000	33,490,000	(8.7)
1987	46,532,000	27,366,000	(18.3)

Distribution of corporation license tax collections depends on the source of the revenue. Revenue collected from banks and savings and loan associations is distributed 80 percent to the taxing jurisdictions in which the financial institution is located and 20 percent to the state. Combining this 20 percent with all revenue from corporations other than financial institutions, 64 percent of the total is deposited in the general fund, 25 percent in the school equalization aid account, and 11 percent in the long-range building debt service account.

While corporation taxes are dependent on the profitability of corporations operating in Montana, two other factors contribute to fluctuations in tax receipts: tax credits and audit collections. Credits causing the largest reductions in tax liabilities during the last five years were the business inventory tax and the investment tax credit. Because business inventories are no longer taxed and the investment tax credit has been reduced to 5 percent of the federal credit, the effect of tax credits on revenue is expected to be much less in the future than the recent past.

As table 4 shows, audit collections have contributed to fluctuations in corporation tax revenue.

Table 4
Corporation Tax Revenue and Audit Collections
Fiscal Years 1982 through 1985

Fiscal Year	Total Revenue	Audit Collections	Revenue from Other Sources
1982	$44,630,472	$ 5,283,256	$39,347,216
1983	35,824,951	10,441,348	25,383,603
1984	35,396,239	4,616,498	30,779,741
1985	62,670,886	16,578,676	46,092,209

Audit collections are expected to total approximately $9.5 million in fiscal 1986 and $5.0 million in fiscal 1987.

To forecast fiscal 1986 revenue, collections through May were assumed to equal 99 percent of annual revenue based on the historic collection pattern of the last three years. The projection for fiscal 1987 was based on the Wharton Econometrics' forecast of U.S. corporate profits before taxes which shows only 1 percent growth and the assumption audits return to a more normal level of $5.0 million.

COAL SEVERANCE TAX

All coal companies whose annual production is 50,000 tons or greater must pay coal severance taxes on annual production in excess of 20,000 tons. For coal with a per pound heating value of 7,000 BTU's or greater, the severance tax rate is 30 percent of the contract sales price. For coal with a lower heating value, the severance tax rate is 20 percent. Over 99 percent of Montana's coal production is taxed at the 30 percent rate.

Coal severance tax collections fell by 8.2 percent, or $7.56 million, from fiscal 1985 to fiscal 1986. A further decline of $0.88 million is projected for fiscal 1987. While total collections fell in fiscal 1986, the coal severance tax deposit to the general fund increased due to an increase in the general fund share of total coal tax collections. The general fund received 19 percent of coal tax collections in fiscal 1985, 23.75 percent in fiscal 1986, and will receive 20.9 percent in fiscal 1987. Table 5 shows the historic and projected coal tax deposits to the general fund in fiscal years 1980 through 1987.

Table 5
Historic and Projected General Fund Revenue from the Coal Severance Tax
Fiscal Years 1980 through 1987

Fiscal Year	Revenues	Percent Change
1980	$20,222,579	---
1981	13,378,906	(33.8)
1982	16,375,541	22.4
1983	15,208,581	(7.1)
1984	15,736,468	3.5
1985	17,432,312	10.8
	Projected	
1986	19,994,900	14.7
1987	17,411,000	(12.9)

Montana's coal production has grown slowly in the 1987 biennium. Production is now projected to grow by only 4.3 percent from fiscal 1985 to fiscal 1987. Competition from Powder River Basin coal in Wyoming, Canadian hydropower, and increased use of oil-fired plants in California has slowed the growth in demand for Montana coal. In April 1986, Western Energy reduced its projected calendar year 1986 production for the Colstrip plants by 1.3 million tons due to reduced sales of electricity to California.

Table 6 shows historic and projected coal production, price, and tax collections for fiscal years 1980 through 1987.

Table 6
Historic and Projected Taxable Coal Production, Price and Severance Tax Collections
Fiscal Years 1980 through 1987

Fiscal Year	Coal Production (tons)	Contract Sales Price	Coal Tax Collections
1980	34,359,771	$ 7.30	$74,252,715
1981	30,136,682	7.84	70,415,074
1982	31,983,591	9.00	86,386,848
1983	26,448,307	10.11	80,044,981
1984	27,394,512	10.10	82,823,411
1985	31,002,175	9.88	91,748,856
Projected			
1986	31,114,028	9.07	84,189,052
1987	32,337,000	8.76	83,305,884

The average contract sales price for Montana's coal has fallen in the 1987 biennium from the previous biennium. The major explanation is the cancellation of two million tons of production under the Decker contract with the Lower Colorado River Authority (LCRA). The LCRA contract was a higher-priced contract compared to other Decker and Montana coal contracts. While Decker was able to offset its production losses through a 1.7 million ton contract with a new customer, it did so at a significantly lower price. The average contract sales price for Decker and Montana coal has fallen as a result.

The fiscal 1987 price estimate anticipates that the average price of Montana coal will fall in response to the reduction in the contract sales price for Decker Coal. For other Montana producers, the price of coal is expected to remain stable or decrease slightly. The royalty reduction formula, which allows producers to deduct federal, state and tribal royalties in the calculation of the contract sales price, will serve to restrain or lower the contract sales price for Montana coal in fiscal 1987. Western Energy and Decker Coal have large federal leases which will be renewed at a 12.5 percent royalty rate in fiscal 1987. The former royalty rate on these leases was

$0.20/ton. The effect of the royalty reduction formula will be to restrain the price increase which would have otherwise occurred.

Finally, the coal production incentive tax credit, which was approved by the 1985 legislature in House Bill 607, will be an important factor affecting coal tax collections in the 1987 biennium. The tax credit on calendar 1985 and 1986 production is applied against quarterly tax payments in 1986 and 1987, respectively. In fiscal 1986, the tax credit applied only to the last quarter of tax collections, but it will be applied to all four quarters of fiscal 1987 collections. Of the $1.08 million tax credit which will be given on calendar year 1985 coal production, Decker Coal will receive $814,250 or 75 percent. The coal production incentive tax credit was $270,462 in fiscal 1986 and is projected to be $1.46 million in fiscal 1987.

Table 7 shows the distribution of coal tax collections among recipients for fiscal years 1986 and 1987.

Table 7
Distribution of Coal Severance Taxes
Fiscal 1986 and 1987

Category	Fiscal 1986 Percent Allocation	Actual Fiscal 1986	Fiscal 1987 Percent Allocation	Projected Fiscal 1987
Constitutional Trust	50.00	$42,094,526	50.00	$41,652,942
General Fund	23.75	19,994,900	20.90	17,410,930
Education Trust	10.00	8,418,905	8.80	7,330,918
Local Impact	3.00	2,525,671	2.64	2,199,275
Public School Equalization	5.00	4,209,453	4.40	3,665,459
Parks Acquisition/Cultural Projects	2.50	2,104,726	2.20	1,832,729
Alternative Energy	1.25	1,052,363	1.10	916,365
Renewable Resources Development	0.63	526,182	0.55	458,182
Water Development	0.63	526,182	0.55	458,182
County Land Planning	0.50	420,945	0.44	366,546
Library Commission	0.50	420,945	0.44	366,546
Conservation Districts	0.25	210,473	0.22	183,273
Hwy Reconstruction Trust	2.00	1,683,781	7.76	6,464,537
Total	100.00	$84,189,052	100.00	$83,305,884

Since January 1983, the coal severance taxes paid by Westmoreland Coal Company for production on Crow tribal-owned land have been escrowed. The balance in the escrowed account now totals $21.5 million. In September 1985, the federal district court in Billings confirmed the state's authority to tax production of tribal-owned coal on off-reservation land. However, the case has been appealed to the 9th Circuit Court of Appeals in San Francisco. If distribution of the escrowed taxes were to occur in the 1987 biennium, the general fund would gain at least $3.8 million.

OIL SEVERANCE TAX

In its 1981 regular session, the legislature raised the oil severance tax from 2.1 percent on the first $6,000 of total gross value and 2.65 percent on the excess to 5 percent on all crude oil produced excluding that used in production operations. The tax rate increased to 6 percent on April 1, 1983 and decreased to 5 percent on April 1, 1985. One-third of total oil severance tax receipts are earmarked for the local government block grant program. Counties with an increase in production during a fiscal year receive the tax collected on that increase; the state now withholds estimated county payments during the year production takes place and compensates counties the following year. In fiscal years 1984 and 1985, county payments were made with a general fund appropriation, rather than with funds withheld from revenue. Table 8 shows general fund revenue from the oil severance tax since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 8
Historic and Projected General Fund Revenue from the Oil Severance Tax
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1980	$10,544,555	---
1981	18,654,469	76.9
1982	45,473,425	143.8
1983	43,787,960	(3.7)
1984	32,686,015	(25.4)
1985	32,526,656	(0.5)
- - - - - Projected - - - - -		
1986	22,836,000	(29.8)
1987	13,468,000	(41.0)

Approximately three-fourths of the revenue increase occurring in fiscal 1982 was due to the higher tax rate imposed that year. In fiscal 1984, the decline in tax revenue was attributable to declines in taxable production and price and to earmarking one-third of tax collections for local governments.

Table 9 shows taxable production and average price since fiscal 1980.

Table 9
Taxable Oil Production and Average Price
Fiscal Years 1980 through 1987

Fiscal Year	Taxable Production (barrels)	Percent Change	Average Price
1980	28,682,202	(1.3)	$14.29
1981	28,431,470	(0.8)	26.25
1982	30,362,796	6.8	33.83
1983	29,551,328	(2.7)	30.53
1984	28,517,073	(3.5)	28.54
1985	29,871,626	4.7	27.16
- - - - - Projected - - - - -			
1986	28,985,000	(3.0)	24.07
1987	27,536,000	(5.0)	15.00

For the first three quarters of fiscal 1986, taxable production has fallen 2.3 percent compared with the same period in fiscal 1985 and price has averaged $25.36. Fiscal 1986 revenue is assumed to equal $22,836,000 based on an average price of $24.07 and a 3 percent decline in taxable production.

Taxable production is expected to continue its decline in fiscal 1987. Compared with the same period in the preceding year, fiscal 1986 production was down 0.7 percent in the June quarter, down 2.0 percent in the September quarter, and down 4.2 percent in the December quarter. If the rate of decline accelerates to 5.0 percent for the March quarter, fiscal 1986 taxable production will total 28,985,000 barrels, a 3.0 percent decline from fiscal 1985. Shutdowns of stripper wells and cuts in exploration and development budgets coupled with natural production declines are projected to result in a 5 percent decrease in taxable production in fiscal 1987.

As has been the experience of the recent past, the price of crude oil is expected to fluctuate in fiscal 1987. Current refiners' contract prices in Montana appear to average about $13 in late May. Our forecast of $15 for the year requires a price increase from the present level during the year.

INTEREST ON INVESTMENTS

Interest on investments not earmarked for other accounts is deposited in the general fund. This pool of investments is known as the treasurer's fund. Shown in Table 10 are interest earned on the treasurer's fund, the average yield, and the average balance without the proceeds from the sale of tax or revenue anticipation notes (TRANS).

Table 10
Historical and Projected Interest on the Treasurer's Fund and Average Balance
Fiscal Years 1980 through 1987

Fiscal Year	Interest On Treasurer's Fund	Average Interest Rate	Average Balance Without TRANS (Millions)
1980	$18,644,739	9.19%	$169.6
1981	26,518,071	11.04%	203.3
1982	42,442,555	13.59%	274.8
1983	29,918,421	10.87%	249.9
1984	23,898,968	10.75%	222.2
1985	25,723,532	9.87%	226.5
Projected			
1986	15,981,000	7.70%	163.4
1987	14,243,000	7.11%	152.4

To project interest earned on the treasurer's fund, three variables must be forecast: the average interest rate the fund will earn, the average balance without TRANS proceeds, and the average amount of TRANS proceeds in the treasurer's fund (which is based on the timing and amount of the TRANS sale).

After beginning the year above 8 percent, the yield on the treasurer's fund fell to 7.4 percent in March. A further decline is anticipated in the final quarter of fiscal 1986, giving an average interest rate of 7.70 percent for the year. Based on forecasts by Wharton Econometrics, the interest rate is projected to average 7.11 percent in fiscal 1987.

The shortfall of general fund revenue compared with expenditures in fiscal 1986 has contributed to a drop in cash available for investment. Year-to-date experience indicates the balance will average $163.4 million for the year. If fiscal 1987, the average balance is expected to decline to $152.4 million with additional reductions in the average general fund balance. Our forecasted balance does, however, assume action will be taken to balance the budget for the biennium.

The revenue forecast also assumes $50 million of TRANS are sold early in fiscal 1987.

LONG-RANGE BOND EXCESS

The bond transfer to the general fund is made from the long-range building program debt service account and is equal to the balance in the account in excess of that which must be held for future principal and interest payments. Since funds for principal and interest payments come from a general fund appropriation, all revenue deposited in this debt service account is available for transfer to the general fund. The debt service account receives 11 percent of individual income and corporation license tax receipts paid to the state, 79.75 percent of the cigarette tax, and the tobacco products tax. Table 11 shows bond transfers to the general fund since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 11
Historic and Projected Long-range Bond Excess to the General Fund
Fiscal Years 1980 through 1987

Fiscal Year	Transfer	Percent Change
1980	$20,700,000	---
1981	26,500,000	28.0
1982	29,450,000	11.1
1983	22,797,971	(22.6)
1984	41,682,643	82.8
1985	37,535,668	(9.9)
	Projected	
1986	35,460,000	(5.5)
1987	35,215,000	(0.7)

Long-range building bonds were refinanced during fiscal 1984 which inflated the general fund transfer for that year by approximately $13.1 million.

Most revenue transferred to the general fund from the debt service account is derived from the individual income and corporation license tax. The assumptions underlying the revenue projections for those taxes have been discussed previously.

Currently cigarettes are taxed at the rate of 16 cents per package, with sellers receiving a discount which averages 5 percent for affixing the tax insignia and precollecting the tax on behalf of the state. Packages of cigarettes sold in Montana declined at an average rate of 4 percent annually between fiscal 1983 and 1985. Based on year-to-date experience, cigarette sales are anticipated to decline 2.5 percent in fiscal 1986 and another 2.5 percent in fiscal 1987. The long-range building program debt service account receives 79.75 percent of total revenue from the cigarette tax.

All revenue from the tobacco products tax is deposited in the debt service account. The tax is levied at the rate of 12.5 percent on the wholesale price of tobacco products other than cigarettes. To defray the costs of collection and administration, wholesalers are granted a discount of 5 percent, making the effective tax rate 11.875 percent. Collections in fiscal 1986 through April are above those for the same time period in the preceding year. During each fiscal 1986 and 1987, revenue was assumed to increase 4.6 percent based on the increase observed in fiscal 1986.

COAL TAX FUND INTEREST

The permanent coal tax trust fund receives 50 percent of annual coal severance tax collections and 15 percent of its own interest. The remaining 85 percent of the trust fund interest is deposited to the general fund.

The coal severance tax bond program was established by the 1981 legislature to promote water development projects in Montana. These bonds are subsidized by the coal tax deposit to the permanent trust when water development loan repayments do not cover debt service costs. The coal tax subsidy for debt service of coal severance tax bonds is projected to be less than $400,000 for each year of the 1987 biennium.

Table 12 shows the historic and projected coal trust deposits to the general fund. Fiscal 1984 was the first year that 15 percent of the trust fund earnings were re-invested in the permanent trust. Prior to fiscal 1984, the general fund received 100 percent of the coal trust interest earnings.

Table 12
Historic and Projected Coal Trust Earnings to the General Fund
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1981	$ 7,421,902	---
1982	11,542,421	55.5
1983	18,466,762	60.0
1984	18,947,636	2.6
1985	27,400,000	44.6
	Projected	
1986	29,445,000	7.5
1987	34,489,000	17.1

Interest earnings on the coal tax trust fund are directly related to coal tax collections and interest rates. The decline in coal tax collections in the 1987 biennium has had the obvious effect of reducing the principal available for investment, which over the long-term will effect the level of investment earnings.

In the 1987 biennium, falling interest rates on new securities have caused a decline in the average yield of the coal tax trust. At the same time, the trust fund has profited from falling interest rates through the sale of long-term securities. Corporations which issued long-term securities at 13 to 16 percent interest rates have "called in", or refunded, these securities and paid a premium to the bondholders to do so. Profits (or losses) on the sale of trust fund securities are credited as current year investment income and are not re-invested in the trust fund. In fiscal 1987, the general fund is expected to gain over $5.4 million from bond calls.

While bond calls increase profits in the short-run, they also accelerate the decline in the average yield of the trust fund. When the principal from the bond sale is re-invested, it is re-invested at current (lower) interest rates. Over the long-term, the lower trust fund earnings will partially offset the profits that have been made in the short-run.

Table 13 shows the interest rate assumptions that have been used to project earnings on the permanent coal tax trust.

Table 13
Interest Rate Assumptions for Projecting Coal Tax Trust Earnings
1987 Biennium

	Fiscal 1986	Fiscal 1987
New Long-Term Securities	10.72%	9.25%
Short-Term Investments	8.35%	7.28%

INSURANCE TAXES

Insurance companies operating in the state are required to pay a tax equal to 2 3/4 percent of net premiums on policies sold in Montana (Section 33-2-705, MCA). From collections of the insurance tax, payments are made to police and firefighters' pension funds. Beginning in fiscal 1986, the insurance department in the State Auditor's Office is funded from insurance premium taxes. After payments to pension funds and expenditure by the insurance department, the remainder of tax receipts are deposited in the general fund. Since fiscal 1980, general fund revenue from insurance taxes has fluctuated as shown in table 14.

Table 14
Historic and Projected General Fund Revenue from Insurance Taxes
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$11,031,794	---
1981	9,551,061	(13.4)
1982	12,790,003	33.9
1983	13,001,479	1.6
1984	13,621,332	4.8
1985	15,691,565	15.2
Projected		
1986	16,845,000	7.3
1987	18,029,000	7.0

The revenue decline in fiscal 1981 is due to a change in accounting procedures, not a drop in collections.

The procedure used in forecasting general fund revenue from insurance premium taxes was to project total insurance premium taxes, then subtract an estimate of required pension fund payments and insurance department expenditures to determine the general fund deposit. Total insurance premium taxes are expected to grow 12.3 percent in fiscal 1986, a projection based on year-to-date receipts. In fiscal 1987, taxes were forecast to increase 7.4 percent consistent with average growth over the preceding five years. Included in the projections is revenue from the 45 cents annual charge per Montana resident covered by a health insurance policy; this charge was first imposed in fiscal 1986 and was designed to fund a genetics program which received a general fund appropriation.

Payments to police and firefighters' pension funds are forecast to increase from $4.3 million in fiscal 1985 to $4.9 million in fiscal 1986 and $5.4 million in fiscal 1987, for growth of 13.0 percent in fiscal 1986 and 9.7 percent in fiscal 1987. Responsible for most of the growth are increases in the contribution rates paid by the state which became effective July 1, 1985. In addition, revenue from insurance premium taxes are now required to amortize unfunded liabilities incurred under a prior plan when cities join the pension plan administered by the state. Payments for the unfunded liability began in fiscal 1986 and are forecast to total $95,000 each year of the biennium.

Lastly, revenue was reduced by approximately $715,000 each year for the appropriation from insurance taxes to fund the Insurance Division in the State Auditor's Office. Remaining taxes after payments to pension funds and funding of the Insurance Division were assumed to be deposited in the general fund.

INSTITUTIONAL REIMBURSEMENT

Five of Montana's state institutions -- Montana Development Center, Center for the Aged, Eastmont, Montana State Hospital (which includes the Galen and Warm Springs campuses), and the Veteran's Home -- collect partial reimbursement for the costs of patient care. While all funds which reimburse the Veteran's Home and funds from the alcohol program at Galen are returned to those institutions, other reimbursements are deposited in the general fund. Table 15 shows general fund collections of institutional reimbursement since fiscal year 1980 and projections for fiscal years 1986 and 1987.

Table 15
Historic and Projected General Fund Collections of Institutional Reimbursement
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$ 7,992,615	---
1981	9,972,309	24.7
1982	10,974,197	10.0
1983	11,406,505	3.9
1984	9,179,920	(19.5)
1985	12,895,427	40.5
	Projected	
1986	13,676,000	6.1
1987	14,268,000	4.3

Table 16
Historic and Projected Liquor Profits and General Fund Deposit
Fiscal Years 1980 through 1987

Fiscal Year	Liquor Profits	General Fund Deposit
1980	$6,028,438	$5,500,887
1981	6,028,851	7,499,113
1982	5,681,187	5,750,000
1983	5,010,213	4,500,000
1984	5,408,943	5,782,000
1985	4,340,660	4,466,000
	Projected	
1986	4,119,000	4,119,000
1987	3,631,000	3,631,000

The Liquor Division determines the amount transferred to the general fund which need not match profits earned.

Profits earned by the Liquor Division depend on the units of liquor and wine sold, prices, and operating expenses. During the past five years, unit sales of liquor and wine in state stores and agencies have declined, a trend expected to continue in the forecast period. Table 17 shows unit sales by the Liquor Division since fiscal 1980 and projections for fiscal years 1986 and 1987.

Table 17
Historic and Projected Unit Sales by the Liquor Division
Fiscal Years 1980 through 1987

	Liquor		Wine	
Fiscal Year	Unit Sales	Percent Change	Unit Sales	Percent Change
1980	7,358,847	---	837,252	---
1981	7,518,342	2.2	661,592	(21.0)
1982	7,381,728	(1.8)	679,817	2.8
1983	7,147,581	(3.2)	555,635	(18.3)
1984	6,846,154	(4.0)	446,793	(19.6)
1985	6,317,465	(7.7)	333,922	(25.3)
Projected				
1986	5,979,000	(5.4)	299,000	(10.5)
1987	5,740,000	(4.0)	287,000	(4.0)

Unit sales shown for fiscal 1986 are projected from year-to-date sales through March. In fiscal 1987, sales are expected to continue their decline, but at a somewhat slower rate than in the recent past.

Fiscal 1986 liquor prices rise from the fiscal 1985 level due primarily to the $2 per gallon increase in the federal excise tax last October which was reflected in higher retail selling prices. Apart from the effect of the federal excise tax, the average price of liquor has changed little since fiscal 1984 and is expected to remain at this year's level in fiscal 1987. Wine prices, in contrast, have fluctuated over time and are expected to increase almost 5 percent in fiscal 1987 over the fiscal 1986 level which was projected from year-to-date sales through March.

Through the first nine months of fiscal 1986, the Liquor Division held operating expenses 2.8 percent below expenses for the same period in fiscal 1985. This trend is forecast to continue this year and expenses to hold constant in fiscal 1987.

Fiscal 1984 revenue was deflated by $2.4 million of institutional reimbursement earned that year which was not credited to the general fund until the following year.

Four sources contribute to institutional reimbursement: private resources of the patients or parties responsible for them, insurance, medicare, and medicaid. In fiscal 1985, medicaid payments accounted for 89 percent of total institutional reimbursement. Medicaid reimbursement was forecast based on the assumption that patient days would remain at the fiscal 1985 level, reimbursement rates would rise 3 percent in fiscal 1987 over the actual fiscal 1986 rates, and the Montana Youth Treatment Center would not gain certification in the 1987 biennium.

Fiscal 1986 revenue includes $285,000 attributable to the Department of Institution's decision to release funds previously held in patients' accounts for Center for the Aged and Eastmont residents. Another $1.55 million was transferred to the general fund as prior year revenue. The patients' accounts lawsuit was initiated over ten years ago and challenged the department's authority to collect reimbursement from a patient's private resources. Still in the trust accounts is a balance of approximately $3 million held for Montana Development Center and Montana State Hospital patients which the department has indicated will not be deposited in the general fund until the lawsuit is settled. Our forecast assumes the lawsuit will not be resolved this biennium and the funds will not be transferred.

LIQUOR PROFITS

The Liquor Division in the Department of Revenue operates stores throughout Montana which sell liquor and wine to the public and other retail establishments. Table 16 shows liquor profits earned and the general fund deposit made by the division since fiscal 1980 and gives projections for fiscal years 1986 and 1987.

Table 17
Historic and Projected Unit Sales by the Liquor Division
Fiscal Years 1980 through 1987

	Liquor		Wine	
Fiscal Year	Unit Sales	Percent Change	Unit Sales	Percent Change
1980	7,358,847	---	837,252	---
1981	7,518,342	2.2	661,592	(21.0)
1982	7,381,728	(1.8)	679,817	2.8
1983	7,147,581	(3.2)	555,635	(18.3)
1984	6,846,154	(4.0)	446,793	(19.6)
1985	6,317,465	(7.7)	333,922	(25.3)
Projected				
1986	5,979,000	(5.4)	299,000	(10.5)
1987	5,740,000	(4.0)	287,000	(4.0)

Unit sales shown for fiscal 1986 are projected from year-to-date sales through March. In fiscal 1987, sales are expected to continue their decline, but at a somewhat slower rate than in the recent past.

Fiscal 1986 liquor prices rise from the fiscal 1985 level due primarily to the $2 per gallon increase in the federal excise tax last October which was reflected in higher retail selling prices. Apart from the effect of the federal excise tax, the average price of liquor has changed little since fiscal 1984 and is expected to remain at this year's level in fiscal 1987. Wine prices, in contrast, have fluctuated over time and are expected to increase almost 5 percent in fiscal 1987 over the fiscal 1986 level which was projected from year-to-date sales through March.

Through the first nine months of fiscal 1986, the Liquor Division held operating expenses 2.8 percent below expenses for the same period in fiscal 1985. This trend is forecast to continue this year and expenses to hold constant in fiscal 1987.

LIQUOR EXCISE TAX

Section 16-1-401, MCA, authorizes collection of a liquor excise tax and sets the rate at 16 percent of the retail selling price. (The retail selling price is defined as the state's cost plus mark-up and is less than a customer pays in a state liquor store.) All revenue collected from the tax is deposited in the general fund. As shown in table 18, the growth in excise tax collections has slowed since fiscal 1980 and became negative during the last three fiscal years, a trend forecast to continue in fiscal years 1986 and 1987.

Table 18
Historic and Projected Liquor Excise Tax Collections
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$5,764,741	(17.9)
1981	6,340,958	10.0
1982	6,572,066	3.6
1983	6,599,727	(0.2)
1984	6,415,784	(2.2)
1985	5,935,058	(7.5)
	Projected	
1986	5,818,000	(2.0)
1987	5,678,000	(2.4)

The decline in tax collections reflects the drop in unit sales, discussed in the section on liquor profits, which are partially offset by price increases.

INHERITANCE TAX

Title 72 of the Montana Code Annotated authorizes the collection of inheritance and estate taxes. The inheritance tax liability depends on the size of an estate and the relationship of the heirs to the descendant. Estate taxes also depend on the size of the estate and are equal to the credit allowed by the federal estate tax for state taxes. Since fiscal 1980, collections from inheritance and estate taxes have generally declined as shown in table 19.

Table 19
Historic and Projected Inheritance Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$8,537,242	---
1981	6,195,069	(27.4)
1982	7,680,529	24.0
1983	6,398,489	(16.7)
1984	5,960,471	(6.8)
1985	7,656,622	28.5
	Projected	
1986	7,813,000	2.0
1987	7,972,000	2.0

The general downward trend in tax collections since fiscal 1980 can be attributed to several statutory changes. At the state level, the 1979 legislature exempted the inheritance received by a decedent's spouse from taxation, while the 1981 legislature eliminated the tax on the inheritance of lineal descendants. At the national level, the Economic Recovery Tax Act of 1981 modified federal estate tax laws. Modifications enacted include increases in the unified credit and elimination of the tax on transfers between spouses.

For fiscal 1986, the projection of inheritance tax collections was based on year-to-date collections through April and the historic collection pattern for the last three years. The 2.0 percent growth rate of fiscal 1986 was assumed to continue in fiscal 1987.

METAL MINES TAX

The metal mines tax is levied on producers of gold, silver, copper, lead, and any other metal or precious or semiprecious gems or stones of any kind. Beginning with the calendar 1985 tax year, no tax will be assessed on the first $250,000 of gross value of metal mined, exempting mines with little output, and the marginal tax rate rises from 0.5 percent on the second $250,000 of gross value to 1.5 percent on gross value over $1,000,000. Collections for tax years beginning after December 31, 1984 are allocated 67 percent to the general fund and 33 percent to the hard-rock mining impact trust account. The tax is due on March 1 for production during the preceding calendar year. Prior to calendar year 1985, the tax rate varied from 0.15 percent on the first $100,000 to 1.438 percent on value over $500,000. All revenue was deposited in the general fund.

Table 20 shows general fund revenue from the metal mines tax since fiscal 1980.

Table 20
Historic and Projected Collections of the Metal Mines Tax
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$2,516,820	---
1981	1,564,569	(37.8)
1982	1,861,209	19.0
1983	1,542,061	(17.1)
1984	2,630,135	70.6
1985	1,977,324	(24.8)
	Projected	
1986	994,000	(49.7)
1987	1,053,000	5.9

The increase in fiscal 1984 tax collections reflects the opening of the Golden Sunlight Mine and expansion of production by ASARCO.

During fiscal years 1980 through 1983, the Anaconda Company paid the majority of the metal mines tax and revenue was dependent on the price of copper and production levels by that company. In fiscal years 1984 and beyond, most of the tax was paid by gold and silver producers.

Fiscal 1986 revenue was assumed to equal the $994,000 collected year-to-date. Since the tax is due March 1 for production during the preceding calendar year, no additional tax collections are expected in the last month of the fiscal year.

Projections of future revenue from the metal mines tax were made by assuming production remains at calendar 1985 levels for current operations and no new mines commence operations. The price of silver is forecast to fall from the $6 level of calendar 1985 to $5.00 per ounce in 1986. Gold is projected to sell for $340 per ounce, which is higher than its $317 average for calendar 1985. The last major metal produced in Montana, copper, is forecast to have an average price of 65¢ in calendar 1986, compared with 56¢ last year.

ELECTRICAL ENERGY PRODUCERS LICENSE TAX

Electrical energy producers are taxes $0.0002 per kilowatt hour (kwh) on electricity or electrical energy generated, manufactured, or produced in the state of Montana. Since fiscal 1980, the license tax revenue has grown as shown in table 21. Table 21 also includes projections for fiscal years 1986 and 1987.

Table 21
Historic and Projected Electrical Energy Producer's License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1980	$2,060,960	---
1981	1,367,959	(33.6)
1982	1,753,173	28.2
1983	1,546,157	(11.8)
1984	2,413,172	56.1
1985	2,361,855	(2.1)
	Projected	
1986	2,530,000	7.1
1987	2,623,000	3.7

Several factors account for the fluctuations in revenue. First, in fiscal 1981, Montana Power underpaid its taxes to compensate for overpayments in the preceding three years. Second, fiscal 1984 revenue was inflated by audit collections of $552,000.

Since the final tax payment for the fiscal year is due April 30, fiscal 1986 revenue was forecast to equal revenue collected through the end of May. Fiscal 1987 production was assumed to remain at the fiscal 1986 level plus the increase attributable to Colstrip 4's being available for production the entire year compared with four months in fiscal 1986. Consistent with the coal production assumptions in our revenue projections, electrical energy production reflects no surplus power sales in California.

DRIVERS LICENSE FEES

Section 61-5-111(6), MCA establishes fees for the issuance of driver's licenses and motorcycle endorsements. The general fund receives 40 percent of the revenue from drivers licenses and 60 percent from motorcycle endorsements. As shown in table 22, general fund revenue has declined since fiscal 1980 and is expected to remain at the $800,000 level in fiscal years 1986 and 1987.

Table 22
Historic and Projected General Fund Collections from Driver's License Fees
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$1,189,407	---
1981	1,163,701	(2.2)
1982	916,652	(21.2)
1983	816,376	(10.9)
1984	799,652	(2.0)
1985	803,983	0.5
Projected		
1986	800,000	(0.5)
1987	800,000	0.0

The size of the drop in fiscal 1982 revenue is attributable to the redistribution of total receipts: beginning October 1, 1981, 35 percent, rather than 5 percent, of collections from driver's license fees was deposited in the state traffic safety education account. Counties collecting the fees retain 3 1/3 percent of driver license fees and 5 percent of motorcycle endorsements.

Based on year-to-date receipts, fiscal 1986 driver's license fee revenue appears to be catching up to the level of the previous two years. Consequently, general fund revenue for both fiscal 1986 and 1987 is forecast to total $800,000.

TELEPHONE COMPANY LICENSE TAX

Authorized by Section 15-53-101, MCA, the telephone company license tax is equal to 1.725 percent of gross income in excess of $250 quarterly derived from any telephone business within the state.

Since fiscal 1980, collections of the telephone company license tax have risen from $1.8 million to $2.9 million as shown in table 23. Revenue is expected to increase to $3.4 million in fiscal 1987.

Table 23
Historic and Projected Telephone Company License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$1,783,776	9.2
1981	2,039,383	14.3
1982	2,167,815	6.3
1983	2,463,670	13.6
1984	2,521,905	2.4
1985	2,931,732	16.2
	Projected	
1986	3,217,000	9.7
1987	3,378,000	5.0

Because tax receipts rise with the gross incomes of covered telephone companies, tax increases are due to growth in the quantity of services provided and to the Public Service Commission's (PSC) granting rate increases. Since Mountain Bell pays the majority of the tax (70 percent in fiscal 1985), decisions in its rate cases account for the largest part of the increase in tax collections above that induced by growth or shrinkage in the quantity of services provided. AT&T Communications paid 18 percent of total taxes collected in fiscal 1985.

Fiscal 1986 taxes are to total $3,217,000 based on year-to-date collections. In fiscal 1987, revenue is expected to grow 5 percent assuming continued revenue growth from rate increases granted during the past year and no increase in rates from new filings.

BEER TAX

Sections 16-1-406 through 408, MCA, levy taxes totaling $4.30 per 31-gallon barrel of beer. From the tax on each barrel, $1.80 is deposited in the general fund, $1.50 goes to incorporated cities and towns, and $1.00 is credited to the Department of Institutions for alcoholism programs. The 1985 legislature increased the tax rate 30¢ per barrel and specified that the additional tax would be deposited in the general fund. Table 24 shows general fund revenue from the beer tax since fiscal 1980.

Table 24
Historic and Projected General Fund Revenue from the Beer Tax
Fiscal Years 1980 through 1987

Fiscal Year	Revenue	Percent Change
1980	$1,216,504	1.2
1981	1,218,383	0.2
1982	1,229,888	0.9
1983	1,235,805	0.5
1984	1,204,236	(2.6)
1985	1,156,186	(4.0)
Projected		
1986	1,284,000	11.1
1987	1,227,000	(4.4)

Because the rate of the beer tax was not changed between fiscal years 1980 and 1985, the percent changes in tax revenue shown in table 24 for that time period reflect changes in barrels of beer taxed. The decline which began in fiscal 1984 has continued through the first nine months of fiscal 1986. Based on year-to-date receipts and the historic collection pattern, fiscal 1986 general fund revenue from the beer tax is forecast to total $1,284,000; this revenue corresponds with a 5.9 percent decline in barrels taxed. (Revenue increases due to the 20 percent higher tax rate in fiscal 1986.) The downward trend in consumption is projected to continue at the same rate in fiscal 1987, yielding general fund revenue of $1,227,000.

The November ballot will include a constitutional amendment which would raise the legal drinking age to 21 effective January 1, 1987. If the amendment passes, beer consumption and taxes in fiscal 1987 would be expected to fall more than our forecast assumes.

NATURAL GAS SEVERANCE TAX

In accordance with Section 15-36-101, MCA, a severance tax of 2.65 percent of total gross value is levied on the production of natural gas in the state. Tax revenue on a year-to-year production increase within a county is paid to that county. The remainder of the tax is deposited in the general fund.

Since fiscal year 1980, natural gas severance tax collections by the general fund have increased as shown in table 25. Table 25 also shows forecasts for fiscal years 1986 and 1987.

Table 25
Historic and Projected Natural Gas Severance Tax
Fiscal Years 1980 through 1987

Fiscal Year	General Fund Revenue	Percent Change
1980	$1,264,024	---
1981	1,881,292	48.8
1982	2,474,811	31.5
1983	2,525,059	2.0
1984	2,797,996	10.8
1985	2,945,778	5.3
	Projected	
1986	2,503,000	(15.0)
1987	2,332,000	(6.8)

Between fiscal 1980 and 1983, the money to pay counties with increased production was set aside from tax collections before the general fund deposit was made. In fiscal years 1984 and 1985, payments were made with a general fund appropriation, rather than withholding money from the general fund. The change in accounting procedures accounts for most of the growth in revenue between fiscal years 1983 and 1984. A change back to the original method of withholding estimated payments from revenue accounts for most of the decline in fiscal 1986.

Receipts from the natural gas tax depend on the levels of taxable production and price. In January 1985, the federal government removed controls on the price of most natural gas. The Montana average price of gas fell from $2.53 per thousand cubic feet (MCF) in the quarter ending December 1984 to $2.32 in the quarter ending March 1985. Since that time, price has changed little and averaged $2.38 for the two following quarters. Falling oil prices will add to the existing downward pressure on natural gas prices resulting from oversupply. The projected price for fiscal 1986 is based on actual prices this year and the assumption average price will fall 7.5 percent in the March 1986 quarter, consistent with the outlook of those in the industry.

Price is assumed to fall another 7.5 percent in fiscal 1987 to an average of $2.17 per MCF, very close to the current Canadian border price of $2.20 per MCF.

In a reversal of the recent trend, fiscal 1986 production is expected to increase 2.9 percent over the fiscal 1985 level, based on year-to-date data. Fiscal 1987 production is forecast to fall 2.0 percent due to declining crude oil production and declining demand by utility customers.

FREIGHT LINE COMPANY LICENSE TAX

Established by Section 15-55-102, MCA, the freight line company license tax is assessed at the rate of "5½ percent of the total gross earnings received from all sources by reason of the use or operation of such cars within this state." Since fiscal 1980, the freight line tax has yielded general fund revenue in the amounts shown in table 26. Table 26 also shows projections for fiscal years 1986 and 1987.

Table 26
Historic and Projected Freight Line Company License Tax Revenue
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$ 956,357	41.5
1981	1,200,093	25.4
1982	1,344,761	12.0
1983	1,432,164	6.5
1984	1,334,111	(6.8)
1985	1,379,418	3.4
	Projected	
1986	1,195,000	(13.3)
1987	1,448,000	21.2

Fiscal 1986 revenue is forecast to be $1,195,000, the collections through the end of May. Since the tax is due March 1 for earnings during the preceding calendar year, all revenue should now be in the general fund. The decline from the fiscal 1985 level is probably attributable to the drought and resulting low levels of Montan grain harvests and shipments. Bushels of grain shipped by rail from Montana fell 33 percent in June through November 1985 compared with the same period in 1984. Assuming the state's agricultural sector recovers in calendar year 1986, freight line taxes are projected to increase to $1,448,000, a growth of 5 percent over fiscal 1985 tax collections.

WINE TAX

According to Section 16-1-411, MCA, table wine sold in the state is taxed at the rate of 27 cents per liter. Sixteen cents of the tax is deposited in the general fund, while the remainder goes to the Department of Institutions and local governments. As shown in table 27, general fund collections of the wine tax fell between fiscal 1980 and 1982, then rose during the last three years, and are expected to increase in fiscal years 1986 and 1987.

Table 27
Historic and Projected General Fund Revenue from the Wine Tax
Fiscal Years 1980 through 1987

Fiscal Year	Collections	Percent Change
1980	$1,312,405	---
1981	931,611	(29.0)
1982	715,246	(23.2)
1983	895,718	25.2
1984	904,932	1.0
1985	905,648	0.1
	Projected	
1986	959,000	5.9
1987	994,000	3.6

The wine tax is collected on both wine sold in state liquor stores and that sold by other retailers. Based on year-to-date experience, unit wine sales by state liquor stores are expected to decline 5.6 percent in fiscal 1986 and 4.0 percent in fiscal 1987. In contrast, unit sales by other retail distributors have increased annually since fiscal 1982. The tax from distributors is forecast to grow 7.1 percent in fiscal 1986 in accordance with the trend for the first nine months of the year and to increase 4.2 percent in fiscal 1987, its average rate over the previous three years. Since 95 percent of retail wine sales are in non-state stores, the upward trend in private sector sales causes total wine tax collections to increase.

"OTHER" REVENUE CATEGORY

The "other" revenue category contains a large number of taxes, fees, and other types of revenue which individually yielded less than $2 million in general fund revenue since fiscal 1985. Table 28 shows actual collections of other revenue for fiscal years 1983 through 1985 and projections for fiscal years 1986 and 1987.

Table 28
Historic and Projected Other Revenue
Fiscal Years 1983 through 1987

Fiscal Year	Collections	Percent Change
1983	$11,176,072	---
1984	12,219,313	9.3
1985	13,432,000	9.9
	Projected	
1986	17,804,000	32.5
1987	19,106,000	7.3

The growth between fiscal years 1985 and 1986 is largely the result of new revenue sources added by the 1985 legislature. Additional vehicle license fees used for district court funding are forecast to produce approximately $2.6 million of revenue each year. Another new revenue source, video poker licenses, is expected to add about $1.2 million to the general fund each year.

For categories which existed prior to this year, fiscal 1987 revenue was forecast with the assumption of modest growth over fiscal 1986 revenue which was, in turn, projected from year-to-date collections.

ANTICIPATED SUPPLEMENTALS FOR FISCAL 1987

The executive budget anticipates general fund supplementals totaling $7.4 million for fiscal 1987, excluding the supplemental for the foundation program. In addition to the executive supplementals presented, this office expects $13.4 million of supplemental requests for medicaid and the local government block grant. Table 1 shows the executive plus LFA estimates of supplemental appropriations.

Table 1
Executive plus LFA Estimates of Fiscal 1987 Supplementals

		---- Amount ----	
Agency	Program/Purpose	Executive	Total
Department of Justice	County Attorney Pay	$ 130,000	
	Forensic Lab	100,000	
Military Affairs	Armory Utility Cost	60,500	
Department of Health	AIDS	23,000	
	Planned Parenthood Suit	81,000	
Department of SRS	AFDC	2,833,019	
	Foster Care	1,105,883	
Dept. of State Lands	Fire Season (normal)	827,000	
Dept. of Institutions	Corrections Medical	525,000	
	Eastmont	56,350	
	Worker's Compensation	1,273,208	
	Litigation	327,428	
Office of Pub. Instr.	Foundation Suit	66,000	
Board of Public Education	Foundation Suit	15,000	
School/Deaf and Blind	I & I Reversion	20,000	
EXECUTIVE ESTIMATE OF FISCAL 1987 SUPPLEMENTALS			$ 7,443,388
Department of SRS	Medicaid		3,648,419
Department of Commerce	Local Block Grant		9,751,272
EXECUTIVE PLUS LFA ESTIMATE OF FISCAL 1987 SUPPLEMENTALS			$20,843,079

As table 1 indicates, the total supplemental estimate includes all the supplementals in the executive estimate plus appropriations for medicaid and the local government block grant. The medicaid and block grant supplementals are discussed briefly below and more thoroughly in the agency analysis.

Medicaid - Other Supplemental

For the 1987 biennium the legislative fiscal analyst's office is projecting a shortfall of $10.7 million for the medicaid-other program of which $3.6 million is general fund. As currently projected, fiscal 1986 medicaid-other expenditures will be approximately 22 percent or $9.5 million above the level spent in fiscal 1985. In large part, the increase appears to be attributable to increases in the AFDC caseload. Each AFDC recipient is also eligible for medicaid benefits with an average cost per AFDC case of approximately $3,500. Current projections by SRS indicate that the average monthly AFDC caseload for fiscal 1986 will be approximately 8,663 or 723 cases above the level used when establishing the medicaid appropriation. For fiscal 1987 the projected caseload is 9,408 or 1,325 above the level used to establish the medicaid appropriation. A more detailed explanation of the increased caseload and medicaid supplemental are provided in the legislative analyst's report under Supplemental Issue 2.

Local Government Block Grant Supplemental

For fiscal year 1987 the legislative fiscal analyst's (LFA) office is projecting a shortfall of $9,751,272 in the Department of Commerce, Local Government Block Grant Program. The Local Government Block Grant Program was created to reimburse local governmental units for lost revenue when the state switched from a property tax basis to a flat fee basis for registering autos and light trucks. For a detailed explanation of the LFA projected shortfall, please refer to Issue 6 in the Department of Commerce section of the LFA analysis.

In distributing the local government block grant appropriation for fiscal 1986, the department reimbursed counties at 100 percent of their revenue loss. The department interpreted the statutes related to the reimbursement as requiring them to reimburse at the 100 percent level. If the same interpretation is used in fiscal 1987, a supplemental would be needed to finance the projected $9,751,272 shortfall.

1987 BIENNIUM DEFICIT OVERVIEW

The executive budget foresees a deficit of $87.8 million at the end of the 1987 biennium, or $19.7 million less than our forecast of $107.5 million. The difference is primarily due to our projections of an $18.4 million higher level of supplementals. Table 1 lists the major causes of the difference in deficit projections.

Table 1
A Comparison of LFA and Executive Deficit Forecasts
1987 Biennium
(Millions)

LFA Projected Deficit	$107.5
Lower LFA Revenue	(1.5)
Higher LFA Prior Year Revenue	2.2
Higher LFA Fiscal 1987 Supplementals	
--Public Schools	(5.0)
--Other	(13.4)
Lower LFA Fiscal 1986 Reversions	(1.5)
Other Differences	(0.5)
Executive Projected Deficit	$ 87.8

The $1.5 million difference in revenue is equal to 0.2 percent of total revenue for the biennium; reasons for this small difference are discussed in the Comparison of General Fund Revenue Projections section of this analysis. The LFA figure for prior year revenue adjustments includes $2.0 million of accrued interest earnings added to prior year revenue in May. Compared with the $6.5 million fiscal 1986 reversion forecast by the executive, the LFA anticipates reversions of $5.0 million as agencies spend from budgets tightened by 2 percent cuts in January 1986. Rather than the $25 million public schools supplemental foreseen by the executive, the LFA anticipates a supplemental of $30 million due to our lower forecast of revenue to the school equalization aid account. Lastly, the LFA estimate for other supplementals includes $3.6 million for medicaid and $9.8 million for the local government block grant program not in the executive total.

The Governor's budget presents a plan to balance the budget based on his estimate of the deficit. The LFA has examined the Governor's proposals and finds no material technical problems, other than his not acknowledging all supplemental funding requests which will face the legislature. Besides reviewing the executive proposal, the LFA has also presented additional alternatives.

The options available to the legislature are presented in two tables: 1) revenue shifts to the general fund, and 2) general fund expenditure reductions. There are $71 million of potential revenue shifts to the general fund and $84 million of potential general fund expenditure cuts. Of this $155 million in revenue shifts and expenditure reductions, $34 million of the shifts are possible due to tax increases, fee increases, or shifting costs to the counties. Table 2 shows the amount of each cost increase by payer or revenue source.

Table 2
General Fund Revenue Increases and Reductions Available due to Cost Shifts
(Millions)

Revenue or Reduction Options	$155
Less: (1) Gas Tax	(10)
(2) Utility Tax	(2)
(3) Fee Increases	(20)
(4) County Costs	(2)
Options Without Cost Shifts	$121

Note: Does not include the school foundation schedule change as a cost shift.

To take all options presented for expenditure cuts and revenue shifting in the Department of Highways, a $10 million gas tax increase is required to maintain the $10 million fund balance referenced in House Bill 500 as shown on page A-126 of this analysis. Of the fee increases, $18 million is due to increasing vehicle fees to fund the local government block grant supplemental and to replace the $1.5 million general fund and $7.0 million of oil severance tax appropriated for the local government block grant in fiscal 1987. The county cost increases result from returning the responsibility for county assessors and appraisers salaries to the counties.

If none of the cost shifts presented by either the Governor or the LFA is acceptable, $121 million of options remain available for eliminating the deficit. Some options are one-time or temporary solutions. Effort needs to be made to identify the short- and long-term impacts of legislative decisions on revenue and expenditure trends. Ultimately, there must be a long-term solution to balance on-going revenues and expenditures. Sound fiscal policy requires equating on-going expenditures with a permanent revenue structure. To do otherwise will lead to erratic changes in tax and spending policies.

Revenue Shifts

Table 3 shows the revenue shifts to the general fund. The top of the table lists the Governor's proposals. The agency, program, or policy choice is named; the fund source is identified; and the amount of revenue shift proposed in the executive budget is shown. In addition, the maximum amount which the LFA has presented as an issue for the same agency in this budget analysis is listed. The "unduplicated" column takes the maximum dollar amount presented either in the Governor's budget or the LFA Budget Analysis. The lower part of the table lists LFA issues and identifies revenue shifts presented in the budget analysis which are not part of the Governor's budget. The bottom line shows that the maximum amount of unduplicated revenue shifts is $70.7 million.

Table 3
Unduplicated Revenue Shifts to the General Fund

Governor	Fund Source	Exec. Amount	LFA Amount	Unduplicated
Legislative Council	Montana Code Annotated Acct.	$ 500,000	$ 500,000	$ 500,000
Public Employee Retirement	Social Security Cont. Acct.	2,000,000	2,000,000	2,000,000
Department of Highways	Federal Mineral Royalties	6,705,000	15,544,334	15,544,334
	Coal Tax	6,211,000	8,148,318	8,148,318
	Interest Earnings	6,764,000	-0-	6,764,000
Department of Commerce	Coal Board	1,650,000	2,199,275	2,199,275
Long-range Building Program	Capitol Renovation Bond Proceeds	5,100,000	5,100,000	5,100,000
Department of Revenue	Retail Liquor Adjustments	1,085,000	-0-	1,085,000
Department of Admin.	TRANS Cap. Removal	1,283,000	1,363,000	1,363,000
Fish, Wildlife, & Parks	Trust Fund Cap	1,761,000	-0-	1,761,000
Dept. of Natural Resources	Alternative Energy Grants	1,143,000	-0-	1,143,000
Balanced Budget	Increased Interest	4,655,000	-0-	4,655,000
Foundation Program	Education Trust Coal Tax	7,043,000	8,094,986	8,094,986
GOVERNOR'S PROPOSALS		$45,900,000	$42,949,913	$58,357,913
LFA Issues				
Worker's Compensation	Crime Victims Fund			$ 250,000
Health & Environ. Sciences	Inspection Fees			247,600
Department of Agriculture	Plant Industry Fees			229,972
	Pesticide Fees			326,268
Department of Commerce	Weights and Measures			260,791
	Local Government Block Grant			6,977,144
	Science and Technology			800,000
Department of State Lands	State Lands Aircraft			171,968
Long Range Building Program	Cash Program			3,102,537
LFA ISSUES				$12,366,280
TOTAL UNDUPLICATED GOVERNOR AND LFA REVENUE SHIFT OPTIONS				$70,724,193

Expenditure Reductions

Table 4 summarizes the Governor's proposals and the LFA options for general fund expenditure reductions. There is a table at the beginning each subcommittee section in the budget analysis which details the Governor's across-the-board and policy cuts and presents the LFA issues. These tables also compare the Governor's and the LFA issues for duplication so that the maximum amount of "unduplicated" general fund expenditure reductions are known. Table 4 summarizes the bottom line of the subcommittee tables and adds the foundation program and the pay plan, which are not in the subcommittees. The local block grant supplemental is also presented as it is included in the $107.5 million LFA deficit projection. Should this supplemental not be funded, the deficit projection would be reduced.

Table 4
Unduplicated General Fund Governor's Cuts and LFA Issues

Subcommittee	Unduplicated Cuts	Governor's Cuts	Additional LFA Issues
A. General Government	$ 9,846,675	$ 6,093,103	$ 3,753,572
B. Human Services	14,337,456	10,900,014	3,437,442
C. Natural Resources and Commerce	8,235,605	4,021,815	4,213,790
D. Institutions	3,301,930	1,532,405	1,769,525
E. Other Education	3,644,902	2,462,135	1,182,767
F. Higher Education	15,773,757	4,687,232	11,086,525
G. Long Range Planning	-0-	-0-	-0-
Total Subcommittees	$55,140,325	$29,696,704	$25,443,621
Foundation Program	$11,229,000	$11,229,000	$ -0-
Pay Plan	8,128,000	8,128,000	-0-
Block Grant Supplemental	9,751,272	-0-	9,751,272
Total Cut Options	$84,248,597	$49,053,704	$35,194,893

Exhibit #3
June 12, 1986
Revenue Estimating Sub-
committee

MONTANA MINING Association

Post Office Box 132
Helena, Montana 59624
Phone (406) 443-7297

May 20, 1986

William Mathers, Chairman
Governor's Advisory Council on
Revenue Estimating
Capitol Station
Helena, Montana 59620

Dear Bill:

This will represent the Montana Mining Association's comments concerning metal prices and production during the 1985-87 budget period.

The Montana Mining Association is a trade association that represents: 1) Every major producer of hardrock minerals in Montana; 2) Companies with an interest in producing hardrock minerals in Montana in the future; 3) Individual miners and prospectors, and 4) Suppliers of goods and services to the mining industry.

As I indicated to the council May 19, there are three major producers of metals in Montana:

1. The Zortman-Landusky operation near Malta, which produced about 60,000 ounces of gold in 1985 and expects to produce about 98,000 ounces in 1986. Metal mines license taxes in 1985 were nearly $280,000, and are projected to be $531,000 in 1986.

2. The Golden Sunlight Mine near Whitehall, which produces about 100,000 ounces of gold per year. Metal mines license taxes are about $450,000 a year.

3. The ASARCO Troy Project, which produced about 4 million ounces of silver in 1985 and expects to produce about 4.2 million ounces of silver in 1986. Metal mines license taxes were $730,000 in 1985 and are expected to be the same in 1986.

Depressed metal prices has forced suspension of operations at the Black Pine Mine near Philipsburg, which was Montana's other major producer of silver. The mine will not re-open until silver prices rise substantially.

Each producing mine pays metal mines license taxes to the state and resource indemnity trust taxes. In addition, from $250,000 to $500,000 is paid directly to the local government in the form of gross proceeds taxes. Each of these taxes is a form of severance tax that is paid whether or not the company realizes a profit. Property taxes and corporate license taxes are in addition to the severance taxes.

As to the future, no significant additional severance taxes can be expected from metal mining until calendar year 1988. At that time, gold mines at Jefferson City and Jardine and a platinum-palladium mine in the Stillwater area should be in production. At Jefferson City, in the last seven months of 1987, Pegasus Gold Corporation expects to produce 62,000 ounces of gold in addition to silver and base metals. Metal mines license taxes are expected to be $508,000 in 1987. No estimates are available for the Jardine or Stillwater Projects. In addition, Montana Resources is in the process of attempting to re-open part of the old Anaconda Co's. operations at Butte. In its last year of operation the Anaconda Co. paid $$535,000 in metal mines license taxes. If the mine re-opens, taxes are expected to resume at the previous level.

Each of the operating metal mines, as well as those producing industrial minerals, employs from 50-350 workers, each of whom average $27,000 to $36,000 a year. Labor income is estimated at $190 million on which income taxes are paid. Another $20 million in salaries is paid by associate industries.

I hope this information has been of some help to you and the council. If you desire further information, please feel free to contact this office.

Very truly yours,

Gary A. Langley

Gary A. Langley
Executive Director

GAL/ld
cc: Governor's Advisory Council members
Terry Johnson
file

Exhibit #5
June 12, 1986
Revenue Estimating Sub-
committee

MONTANA COAL COUNCIL
406-442-6223 2301 COLONIAL DRIVE · HELENA, MONTANA 59601

June 13, 1986

To: House Budget Estimating Committee

From: James D. Mockler

As per Chairman Harp's request, following are the production estimates for 1986-87 calendar years.

Production Estimates
(million tons)

	1986	1987
Decker Coal Co.	12.6	13.8
Spring Creek Coal Co.	3.2	3.3
Westmoreland Resources[1]	2.7	2.7
Western Energy Co.	10.6	12.8
Peabody Coal Co.	3.1	3.15
Knife River Coal[2] Mining Co.	.2	.2
	32.4	35.95

[1]Approximately 70% of the severance tax from Westmoreland's mine is held in escrow pending the lawsuit between the Crow Tribe and the State. This litigation is expected to continue for some period of years and therefore should not be included in budget projections.

[2]Knife River is taxed at 20%.

TT 4

General Fund Revenue Comparison
Fiscal Years 1986 and 1987
Thousands

Category	Fiscal 1986 LFA	Fiscal 1986 Executive	Fiscal 1986 Difference	Fiscal 1987 LFA	Fiscal 1987 Executive	Fiscal 1987 Difference	1987 Biennium LFA	1987 Biennium Executive	1987 Biennium Difference
Individual Income Tax	$110,157	$111,385	($1,228)	$116,168	$118,272	($2,104)	$226,325	$229,657	($3,332)
Corporation License Tax	$33,490	$36,227	($2,737)	$27,366	$28,101	($735)	$60,856	$64,328	($3,472)
Coal Severance Tax	$19,995	$19,995	$0	$17,411	$16,728	$683	$37,406	$36,723	$683
Oil Severance Tax	$22,836	$22,526	$310	$13,468	$14,046	($578)	$36,304	$36,572	($268)
Interest on Investments	$15,981	$16,001	($20)	$14,243	$10,208	$4,035	$30,224	$26,209	$4,015
Long-range Bond Excess	$35,460	$36,070	($610)	$35,215	$35,560	($345)	$70,675	$71,630	($955)
Coal Trust Interest Income	$29,445	$29,074	$371	$34,489	$36,104	($1,615)	$63,934	$65,178	($1,244)
Insurance Premiums Tax	$16,845	$15,943	$902	$18,029	$17,370	$659	$34,874	$33,313	$1,561
Public Instsitutions Reimbur	$13,676	$13,284	$392	$14,268	$13,632	$636	$27,944	$26,916	$1,028
Liquor Profits	$4,119	$4,187	($68)	$3,631	$3,817	($186)	$7,750	$8,004	($254)
Liquor Excise Tax	$5,818	$5,906	($88)	$5,678	$5,726	($48)	$11,496	$11,632	($136)
Inheritance Tax	$7,813	$7,659	$154	$7,972	$7,836	$136	$15,785	$15,495	$290
Metal Mines Tax	$994	$994	$0	$1,053	$969	$84	$2,047	$1,963	$84
Electrical Energy Tax	$2,530	$2,529	$1	$2,623	$2,547	$76	$5,153	$5,076	$77
Drivers' License Fees	$800	$768	$32	$800	$790	$10	$1,600	$1,558	$42
Telephone License Fees	$3,217	$3,196	$21	$3,378	$3,419	($41)	$6,595	$6,615	($20)
Beer License Tax	$1,284	$1,310	($26)	$1,227	$1,238	($11)	$2,511	$2,548	($37)
Natural Gas Severance Tax	$2,503	$2,627	($124)	$2,332	$2,633	($301)	$4,835	$5,260	($425)
Freight Line Tax	$1,195	$1,195	$0	$1,448	$1,249	$199	$2,643	$2,444	$199
Wine Tax	$959	$944	$15	$994	$984	$10	$1,953	$1,928	$25
Other Revenue Sources	$17,804	$17,648	$156	$19,106	$18,636	$470	$36,910	$36,284	$626
Total	$346,921	$349,468	($2,547)	$340,899	$339,865	$1,034	$687,820	$689,333	($1,513)

<u>Invited Guests</u>

Phil Brooks, State Economist
Department of Commerce

Kathy Shenkle
Research Bureau
Department of Labor & Industry

John LaFaver, Director
Department of Revenue

Carrol South, Director
Department of Institutions

James Howeth
Board of Investments

Maxine Johnson
Bureau of Business Research
University of Montana

Bruce Beattie, Chairman
Department of Ag Economics & Economics
MSU

Gary Langley
MT Mining Assoc.

Jim Mockler
MT Coal Council

Tucker Hill
MT Wood Products Assoc.

Jeanelle Fallon
MT Petroleum Assoc.

MINUTES OF THE MEETING
TAXATION SUBCOMMITTEE
49th LEGISLATURE
SPECIAL SESSION III

June 13, 1986

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman John Harp in Room 312-3 at 7:00 a.m. on the above date.

ROLL CALL: All members were present with Rep. Harrington coming in late.

Tape 1:A:000

Chairman Harp opened the meeting and explained to the Committee that the first item on the agenda was the School Foundation Program.

Madalyn Quinlan of the Legislative Fiscal Analyst's Office handed out Exhibit #1 attached to the minutes, which is a breakdown of the foundation program. House Bill 949, which is shown under "State Equalization", was a one time appropriation from thecoal board to the foundation program. The educational trust interest comes from coal and that doesn't take into account any legislation pending this special session. The board of investments tells how much interest earnings the education trust account is going to receive based on the principal that is already invested, then they have to estimate the amount of coal tax that is going to go into the trust account in 1986 and 1987 and based on that estimate apply the interest rates for long-term, and in some cases, the short-term rates.

They also tried to take into account the bond calls and assumed $600,000 for1986 and $2 million in 1987. Those are total amounts that will be generated in the education trust account. 67 1/2% goes back to the foundation program, there is another amount that goes back to adult vocational ed and vo-tech centers, and a portion that goes back to the board of regents. Mr. Johnson believed their estimate for 1986 was too low and would definitely review their number up by $600,000 for 1986. $7.4 for 1986 and 8.2 for 1987 and the main reason for that is the bond calls.

Chairman Harp said that the bond calls in the education trust are not windfalls but the crunch will be one to two years from now so it is not really additional money. Mr. Johnson said the bond calls that are taking place now will not have an effect on 1987 even though there will be more in 1987.

Rep. Williams moved to accept the numbers based on the OBPP for 1986 and 1987. MOTION CARRIED with Rep. Switzer abstaining. (1986, 7.442 and 8.257 for 1987)

U.S. Mineral Royalties (110) 62.5% goes to the schools and 37.5% goes to the higheways from the U.S. Mineral Royalties. There is a proposal to have it all go to the schools. Mr. Johnson said thereis a $2 million difference between 1986 and 1987 and he felt their number for 1986 was very conservative based on collections through June 12, 1986. He would increase their estimate about $588,000 which would make it a little over $13 million.

Ms. Quinlan said two large leases, Western Energy and Decker Coal, were going to go from 20¢ per ton to 12.5% so these would offset the falling oil production, however, she said if 2 million tons of coal production is lost, there will be an effect. Mr. Johnson said if the coal companies could stay away from mining on federal lands they would do so because that increases production costs.

Rep. Williams moved to accept the OBPP figures after they are adjusted upwards for 1986 to $13,070,000 for U.S. Mineral Royalties. MOTION CARRIED.

The 45 mill levy is assesed against the statewide taxable valuation. Chairman Harp said he had heard some real horror stories about the reappraisals. In Hill County there are 400-500 people who have already protested their taxes. Rep. Switzer said there was really no system to it at all; it was so up and down.

Interest and Income: Rep. Schye asked if the state participates in the farm program or if they have to go market value on crops. He said if they haveto go market value they would be in tough shape.

Mr. Johnson said the interest and income account is almost like a mini-general fund within the foundation program receiving grazing fees, agricultural fees, revenues from oil and gas leases, oil and gas penalties and in addition, there is interest earnings off the investment of that account itself and interest earnings off the trust and legacy account. Five percent is reverted back to the trust and legacy account and 2.5% goes back to the resource development account in department of state lands. The remaining portion goes to the foundation program.

Mr. Johnson told the Committee members to look at the comparison sheet for an explanation. The OBPP figure is 32 million in 1986 but they have a fund balance of 25.6 so within that 25.6 there is about $24 million in interest and income revenue that was actually recorded in FY85. The $750,000 from HB949 was put into 1986 but not in the interest and income account. The OBPP and the LFA would be comparable if $75,000 was added to the LFA figure for 1986.

Mr. Johnson said there are two separate parts - one is the common school trust account that has over $200 million and that is invested in long-term type investments and the interest earnings from that account goes into the interest and income account. This interest and income account also is invested on a short-term basis so whatever cash is in this account is invested by the board of investments and the interest earnings off this account comes right back to it.

He said the department of state lands makes two distributions to the foundation program; one in February and one in June. He said there are nine different sources that go into the foundation program. The LFA said tht most of the income is known at this point. The agricultural leases are due December 30th and grazing leases are due March 1st. Their differences were probably in the area of oil and gas leases but probably not all the 3.6 million difference is there.

Chairman Harp asked the OBPP and LFA where the largest difference is in the 3.6 million difference. Mr. Johnson said it was definitely the interest earnings off the trust and legacy account.

Chairman Harp asked the OBPP and LFA to give their reasons why they thought their respective figures were correct for the agricultural, oil and gas and grazing leases. Mr. Johnson said his contained all nine components and they had 10.5 million as one payment and then added to that 21.7 that gives their estimate of 32 million. The 10.5 is what was actually distributed in February. The difference could be caused by the way the LFA and OBPP count the money. The OBPP is counting more in 1986 and the LFA counting less.

The LFA assumed a distribution to the public schools from January to June of 1986 of 18.5 million. The OBPP showed 21.7 million. These should be actual figures so Chairman Harp asked why the difference. Mr. Johnson pointed out that June isn't over yet and one thing that takes place during the fiscal year end adjustment period is the transfer of interest and income monies off the trust and legacy account. This account receives royalties off state lands.

Oil and gas leases was the one area that was left to be estimated. Eighty-five percent of the total was in and in certain categories 100% was in.

Rep. Sands stated that approximately everyone agreed on the income but not on the interest. The LFA interest estimates were higher than what the Committee adopted for 1986. The LFA said the difference is what is going to come in in the last quarter and the big variation is when that is going to be counted.

Rep. Williams suggested that the difference between the LFA and the OBPP be split.

Rep. Sands moved to accept the figures of the LFA for interest and income portion of the foundation program.

Rep. Williams made a substitute motion to take the figures of the OBPP if they were not going to split the difference. Rep. Switzer said the disagreement should be ironed out in the Committee before it goes to the floor of the House. Mr. Johnson felt the difference was in the interest earnings from the trust and legacy account. The interest rates assumed on June 12th have no bearing on these trust accounts for 1986 revenues but will affect them in the future because they are long-term.

Mr. Johnson again went through the process for arriving at their figures.

The Committee recessed at 8:40 a.m.

Meeting resumed at 8:55 a.m.

Following the recess, Chairman Harp asked the OBPP and the LFA if they could compile a spread sheet for the Committee to use at the meeting on June 18, 1986. (Exhibit #3)

Chairman Harp told the members that the property values would be in on the centrally assessed properties and Class 3 properties by the end of the week.

Wine Tax: On the basis of per liter, 16¢ goes to the general fund - $25,000 for the biennium and $15,000 for 1986. The liquor stores are showing a decline in wine sales. The LFA showed a increase in the tax of 5.9% for FY86 and 2.6% for FY87.

There is $865,000 as of June 13, 1986 in receipts in the general fund and there should be two more distributions. The department distribution will be at the end of the month but the receipts from the grocery stores comes in on a regular basis.

Rep. Williams moved to accept the OBPP figures for wine tax. MOTION CARRIED.

Interest and Income (Cont.) Exhibit #2 was presented by Mr. Johnson from the department of state lands which was an accumulation of revenue for a calendar year basis and this particular report was as of May, 1986. The column that is pertinent is "Year to Date Total" which shows Total Available for Distribution is $16.7 million with a grand total of almost $18.6 million. Five percent goes back to the trust account, 2.5% to the resource development council and the remaining portion is available for distribution to the foundation program. That is what was there through the end of May. On the second sheet attached to that "144 Common School I & I Yearly Distribution" shows $10.5 million. That is what was actually distributed through the month of Fe-ruary to the foundation program. There is the additional $5 million in additional interest earnings which brings it to $32 million.

The substitute motion was repeated; $32,249 for 1986. Chairman Harp stated that Madalyn could look at this and if she changed her mind and did not agree it could be changed at a later date. The SUBSTITUTE MOTION CARRIED.

Rep. Schye moved to accept the figures of the OBPP for 1987 for interest and income. The difference between the OBPP and the LFA would be the bond calls. The MOTION CARRIED.

Chairman Harp stated that the components were pretty well put together at this time for the foundation program except for the taxable valuations. He said that Steve Bender of the department of revenue had informed them that it would be the latter part of next week before the figures would be available for the centrally assessed properties.

Beer Tax: (304) Starting in 1984 there has been a decline in beer consumption and this is projected to continue. Ms. Waldron said the tax was increased in the 1985 session so that is showing up as an increase in the revenues for 1986 and 1987. She had a 5.9% decline for 1986 and the OBPP showed a 5.5% decline.

Rep. Switzer moved to adopt the LFA figures for the beer license tax for both 1986 and 1987. MOTION CARRIED.

Property Valuation: (361) Terry Johnson said there is a 45 mill levy applied to statewide taxable valuation which generates county revenue and depending on that revenue it has an impact on how much foundation support there will actually be for public schools. He explained their process of making estimates and said that the number to be concerned about is the taxable valuation for FY87. The OBPP showed a decline of $50 million between 1986 and 1987 and part of that is because of the lower oil prices and the effect that has. It isn't real property that is driving those values down. There is a $23 million tax valuation growth outside of Class 1 and 2. The OBPP forecast is $2,326,000,000 for taxable valuation for 1987.

The LFA said they assumed a large decrease in the net gross proceeds. The overall decline would be $87 million in the taxable base. Their figure was $2,283,000,000.

Chairman Harp said that if they excluded Class 1 and 2 properties they actually saw a $15.23 million so there is an $8 million disparity between the OBPP and the LFA. He also said the price could be brought closer together because the OBPP had estimated the price of oil at $16.50 and it had been reduced to $15. Mr. Johnson said that would not have any effect because the net gross is based on calendar year 1985. It would not have any effect until 1988. The LFA showed a larger decline. The overall difference between the LFA and the OBPP is 1.9 million.

Rep. Williams moved to accept the OBPP numbers for property valuation subject to change if there is other information that comes in. MOTION CARRIED with Rep. Sands voting "no".

Forest funds, Taylor grazing and high school tuition: Tape V:A:000 Rep. Williams moved to accept the estimates for the above three categories as they are. MOTION CARRIED.

Elementary Transportation: Madalyn Quinlan said they assumed the same numbers from prior years. Mr. Johnson said the 1985 Legislature failed to adopt an increase for the transportation schedule so they assumed the same level for 1987. The LFA showed a smallincrease.

Rep. Schye moved to accept the figures of the OBPP for Elementary Transportation. MOTION CARRIED.

Miscellaneous: Part of the difference can be attributed to the local government block grant which is distributed to the counties and when that block grant is received they have to prorate it among the taxing jurisdiction. The 45 mill levy is considered a taxing jurisdiction. In their proposal they felt they had the authority to proratethe local government block grant under current statute so their assumption was based on the local government block grant not being fully funded. The LFA assumed that the block grant was funded so that isthe problem with the $9 million supplemental for the block grant because of the oil revenues. This is kind of a policy decision.

Rep. Switzer moved to take the lower figure of the OBPP for the miscellaneous income of which the biggest part is the block grants. MOTION CARRIED with Rep. Harrington voting "no".

District Permissive Levy: (058) Chairman Harp said this would reflect what had been done with the property values so they should beable to roll right into that without discussing it, therefore, the Committee assumed that. He asked Mr. Johnson if this was enough information for him to come back to the Committee on Tuesday and give the Committee their estimate as to the revenue availability for the general fund and the school foundation. Mr. Johnson said that it wasenough except for the permissive levy because he was puzzled for 1986. There was a disparity of 1/2 million. Chairman Harp asked why there was a disparity and he said the reason was because there is a 4 mill high school levy and a 6 mill elementary levy for a total of a 10-mill permissive levy. Some counties don't have to levy the entire 10 mills so there has to be some kind of judgment made about what the average mill levy will be; something less than 10.

Both the OBPP and theLFA get their figures from Steve Kolberg. Rep. Sands moved that they accept the figures of the OBPP for the district permissive levy for 1986 and 1987 which is 18.298 for 1986 and 18.935 for 1987. MOTION CARRIED.

Rep. Bardanouve spoke to the Committee about the figures being used at the meetings; some being calendar year and some fiscal year basis. He said that the Legislature should demand that the fiscal year figures be used as there can be a great variation between calendar year and fiscal year. He said that the figures have to be fiscal year because that is how the appropriations of state government are based.

Chairman Harp told Rep. Bardanouve that the Committee had been struggling with that problem for the two days of meetings. The budget is based on fiscal year, therefore, the figures should be the same.

Mr. Johnson said he would supply both figures because industry uses calendar year figures when they testify and the committees should have those figures in front of them so they can base their decisions on both.

Institutions Reimbursements: (272) Jim Currey, Department of Institutions, handed out Exhibit #4 to the Committee which is attached to the minutes and explained the figures on that exhibit. He went rhough the Patient Trust Account which has come about because of a suit concerning the patient billing accounts. $1.67 million has been deposited in a trust fund over the last 8-10 years. He said they are close to settling the suit anD it is just a matter of working out the details. The funds that were held in trust have now been released and deposited in the general fund which was $1.67 million on June 9, 1986.

Mr. Johnson said the OBPP revenue estimate for 1986 is $13.284 and with the transfer of $1.67 million the estimate would be revised accordingly, however, it would not be revised upward by that total amount. $1.5 is attributable to previous fiscal years. There is also $208,000 of current year revenue adjustments so that would be added onto the FY86 estimates. In addition to that, they would add another $200,000 plus in 1987 to account for the additional revenue that would be coming in in 1987 because of the patient account. They broke it into four components to arrive at the estimates: medicaid receipts, private receipts, insurance and medicare. Roughly 89-90% of the total estimate is due to medicaid receipts. They use current law concept. For the other components they jsut apply a standard inflation factor to arrive at an estimate.

The only money that is still in the trust account and has not been added to the general fund is Montana State Hospital. The department of revenue estimate includes the deposit of that money in the general fund in FY87.

Mr. Johnson said he would raise his estimates up $208,000 in 1986 and $209,000 in 1987. Following further discussion Rep. Schye moved to adopt the figures of the LFA for 1986 and 1987.

Rep. Schye's motion to accept the figures of the LFA for 1986 and 1987 was repeated. MOTION CARRIED.

Liquor Profits and Taxes: (080) Ms. Waldron said they assumed a 2% decline in tax collections in 1986 and 2.4% decline in 1987. The federal excise tax was increased in October, 1985 and that increases the price that the State pays for liquor which is then marked up so that has an impact on the tax collections. She said they saw an increase in the federal excise tax as essentially the only impact in price for this year. They also see a decline in unit sales. They forecast the sales to go down 4% in 1986. They have a forecast of $5.8 million in collections for 1986 and $5.7 million in 1987.

Rep. Switzer moved to adopt the LFA figures for liquor taxes for 1986 and 1987. MOTION CARRIED.

Rep. Schye moved to adopt the OBPP figures for 1986 and 1987 for liquor profits. MOTION CARRIED.

Inheritance Tax: (293) Mr. Johnson said this is one of the hardest areas to forecast. There have been numerous tax law changes since 1980 and changes in the accounting procedures, etc. Inflation has also affected the estates. It finally got down to looking at today's receipt trends in the general fund to establish their estimate for FY86 and then tried to get a general growth pattern that they observed for several years and from that applied about a 2.3% growth from the 1986 level. Ms. Waldron agreed that it was difficult to forecast. She predicted a 2% growth over 1985 and assumed that growth for 1987.

Rep. Sands asked if they had taken into consideration the forgiveness provision and the Moss Mansion in Billings which would amount to $113,000. This will be brought before the 1987 Legislature. The Daly Mansion has been dropped. Ms. Waldron said she was aware of that bill but it hasn't been used and therefore it was not significant.

Rep. Sands moved to adopt the OBPP figures for 1986 and 1987 for inheritance taxes. MOTION CARRIED.

Insurance Premiums Tax: (432) For fiscal year 1986 Mr. Johnson said they would revise their estimate $964,000 up and for FY87 they would revise it up $1,028,000. The total numbers would be $16,907,000 for 1986 and $18,398,000 for 1987. That put them very close to the LFA.

Chairman Harp asked for the reason for the increases. Mr. Johnson said this tax comes in on an annual basis, due March 1st. The

Auditor's office deposits the receipts in a clearance account. They go through the process of verifying the receipts and making a determination of how much should be given back to the police and retirement systems. When the Council met in May the insurance commissioner testified before the Council that she thought this is what the revenues would be. Since that time the insurance department indicated that there would definitely be more revenue transferred to the general fund than they had originally thought. He therefore adjusted the 1986 revenue estimate and based on that adjusted the 1987 estimate accordingly. The year to date totals in terms of actual distribution to the general fund was $14.8 million in the general fund as of June 13, 1986. In addition to that, about 2.1 million in the clearance account that will be transferred to the general fund.

Ms. Waldron said they were estimating a figure of $16.8 million for 1986 and $18 million for 1987.

Rep. Sands moved to adopt the LFA estimates for 1986 and 1987. MOTION CARRIED.

Revenue Sources: (558) The difference in 1986 is $150,000 and $470,000 in 1987 for a total of a little over $600,000. Ms. Waldron listed the different fees that go into this category.

Rep. Schye moved to adopt the LFA figures for 1986 and 1987. MOTION CARRIED.

Tape VII:A:012

Chairman Harp stated that it had been brought to his attention that the Governor's Council had put in a resolution estimating revenue that Greg Petesch of the Legislative Council has said is outside the call and for the Committee to use the information, as far as the revenue estimates, the only way that this can be put through the process is to have the resolution introduced to the House Taxation Committee in the next week or so. He said he was inclined to use the method that was used last session. Rep. Williams agreed with Chairman Harp and thought it could possibly be taken care of in theRules Committee. Chairman Harp said he had talked to the Speaker and there should be no difficulty proceeding with it but at some point it would probably have to be brought before the Rules Committee or to a caucus. He said that was probably the best way to explain some of the components; by having a document to work from and also take it to the caucus and the floor of the House and explain the assumptions. Rep. Sands said there should be some kind of official document to work with. Repl Schye said there are also changes in policy and law.

Rep. Williams suggested that the Rules Committee be contacted. Rep. Switzer suggested a motion could be made from the floor which would be the same as getting a petition.

Rep. Williams asked Mr. Johnson and Ms. Waldron to put the final numbers together on a calendar and fiscal year basis and if there are any major disagreement they will get together and work out an agreement. The calendar year figures would only be for oil, gas and coal.

Chairman Harp called for a subcommittee meeting on Wednesday, June 18, 1986.

The meeting was adjourned at 11:05 a.m.

John Harp

REP. JOHN HARP, Chairman

DAILY ROLL CALL

REVENUE ESTIMATING COMMITTEE

49th LEGISLATIVE SESSION -- 1985

SPECIAL SESSION III

Date 6-13-86

NAME	PRESENT	ABSENT	EXCUSED
HARP, John, Chairman	✓		
HARRINGTON, Dan	✓		
SANDS, Jack	✓		
SCHYE, Ted	✓		
SWITZER, Dean	✓		
WILLIAMS, Mel	✓		

Exhibit #1 (LFA)
June 13, 1986

PUBLIC SCHOOL FOUNDATION PROGRAM

The Public School Foundation Program is funded by county equalization aid, state equalization aid, and general fund revenues. The major source of revenue for county equalization is the property tax levy of 45 mills statewide. Forest and grazing funds and miscellaneous revenues also contribute to county equalization. State equalization comes from six dedicated, non-general fund sources. General fund is added to the Public School Foundation Program to the extent that county and state equalization aid does not cover the formula-driven costs of the foundation program.

Enrollment

Total budgeted expenditures for the foundation and permissive program are dependent upon enrollment fluctuations and the legislatively-approved, cost-per-student schedule increase. The 1985 legislature anticipated a .8 percent enrollment increase from fiscal 1986 to fiscal 1987 when it set the fiscal 1987 appropriation. Instead, enrollment is now expected to decrease .55 percent from fiscal years 1986 to 1987. Recent OPI enrollment projections indicate that fiscal 1987 enrollment will be 1.63 percent less than the level used to estimate the fiscal 1987 appropriation. Adjusting the fiscal 1987 appropriation for the anticipated decrease in enrollment reduces the expenditure base by $4.75 million. Our revised biennial cost estimate for the foundation program is $574.16 million. Table 1 details enrollment changes.

Table 1
Public School Enrollment (ANB)
Fiscal Years 1984 - 1987

Fiscal Year	Elementary	Secondary	Total	% Change
1984	104,152	46,533	150,705	---
1985	104,795	46,451	151,246	.36
1986	105,078	46,479	151,557	.21
Projected				
1987	104,010	46,717	150,727	(.55)

Table 2 shows the Legislative Fiscal Analyst estimates for revenues and expenditures in the Public School Foundation Program. The revenue and expenditure estimates are based upon current law and a 4 percent increase in the public school funding schedule in fiscal 1987. Total expenditures for the foundation and permissive program have been reduced to reflect the most recent fiscal 1987 enrollment estimates.

Table 2
Estimates of Public School Funding
1987 Biennium
(Millions)

State Equalization	Fiscal 1986	Fiscal 1987	1987 Biennium
25 Percent Individual Income Tax	$ 43.030	$ 45.378	$ 88.408
25 Percent Corporate License Tax	13.082	10.690	23.772
Coal Severance Tax	4.209	3.665	7.874
Interest and Income	53.643	37.755	91.398
U.S. Mineral Royalties (62.5%)	12.716	13.191	25.907
Education Trust Interest (67.5%)	7.355	7.459	14.814
House Bill 949	0.750	0.000	0.750
Total State Equalization	$134.785	$118.138	$252.923
County Equalization			
45 Mill Levy	$106.656	$102.731	$209.387
Miscellaneous	8.923	8.923	17.846
Forest Funds	1.391	1.391	2.782
Grazing Funds	0.118	0.120	0.238
Elementary Transportation	(3.627)	(3.680)	(7.307)
High School Tuition	(0.761)	(0.761)	(1.522)
Total County Equalization	$112.700	$108.724	$221.424
District Permissive Levies	$ 18.251	$ 18.935	$ 37.186
TOTAL NON-GENERAL FUND	$265.736	$245.797	$511.533
Less: Formula-Driven Costs	281.970	292.190	574.160
General Fund Required	$ 16.234	$ 46.393	$ 62.627
General Fund Available	32.560	16.326	32.560
GENERAL FUND SUPPLEMENTAL FY87		$(30.067)	$(30.067)

State Equalization

The Public School Foundation Program receives funding from individual income, corporate license, and coal severance taxes. The basis for these revenue estimates is discussed in the General Fund Revenue section of this book.

The common school interest and income account receives revenues from agricultural, grazing, and oil and gas leases on state lands. The state receives one-fourth of the crop value from its agricultural leases. Revenues in fiscal 1986, on the 1985 crop, were down by 50 percent, or $3 million, from fiscal 1985. The fiscal 1987 estimate for revenues from agricultural leases anticipates greater revenues based on a more normal production year in 1986. Revenues from grazing leases are projected to remain stable at $3 million in fiscal 1987. Revenues from oil and gas leases are projected to decline in fiscal 1987 based upon an anticipated 47 percent decrease in the value of Montana oil production.

A second revenue source for the common school interest and income account is the interest earnings on the common school trust. Royalties on coal, oil, and natural gas production and revenues from timber sales are deposited to the common school trust. The fiscal 1986 year-end balance in the trust is estimated to be $177.6 million (excluding land values of $45 million). Interest earnings for fiscal 1987 are projected to be $21.4 million, of which the common school interest and income account will receive 95 percent. Five percent of the interest earnings will be re-invested in the trust.

The state of Montana receives one-half of the rents and royalties paid on federal mineral leases. Of the state's total receipts, the Public School Foundation Program receives 62.5 percent. These revenues to the state are directly related to the value of oil, gas, and coal production. The value of production in all three of these areas has declined in fiscal 1986 and is expected to continue to decline in fiscal 1987. However, two of Montana's largest federal coal leases will be renewed in mid-1986 at a 12.5 percent royalty rate. The former royalty rate on these leases was $.20/ton.

The increased royalty payments on coal production will be enough to cause a 3.7 percent increase in U.S. mineral royalties in fiscal 1987 over fiscal 1986.

The Public School Foundation Program receives 67.5 percent of the interest earnings from the education trust fund. The level of earnings on the trust is determined by the coal severance tax deposit to the trust and the interest rate on investments, both of which are projected to decline in fiscal 1987. The average yield on the education trust fund is declining in the 1987 biennium as new investments are made at lower interest rates. However, the decline in the average yield of the education trust fund has been offset by profits earned from a high level of bond sales in fiscal 1986, a trend which is expected to continue in fiscal 1987. The balance in the education trust fund is estimated to be $78.9 million as of fiscal 1986 year-end. The level of interest earnings is estimated to be $11.05 million in fiscal 1987, of which the Public School Foundation Program will receive $7.46 million.

County Equalization

County equalization aid is estimated to decrease by 3.7 percent from fiscal 1986 to fiscal 1987. The source of decline is the net and gross proceeds portion of the property tax base. Property taxes on oil, coal, natural gas, and metal produced in calendar 1985 are paid in fiscal 1987. Therefore, the decline in the property tax base between fiscal years 1986 and 1987 reflects a decline in the value of oil, coal, natural gas, and metal production from calendar 1984 to 1985. The taxable value of net and gross proceeds is estimated to fall by $102.46 million, or 13.3 percent, from fiscal 1986 to fiscal 1987. Growth in other property tax classes is estimated to add $15.23 million to statewide taxable value in fiscal 1987. Therefore, the overall decline is estimated to be $87.225 million. Public school foundation revenues from the 45 mill levy will decrease by $3.9 million as a result.

Comparison of Executive and LFA Estimate

Table 3 compares the executive and the LFA estimates for revenues and expenditures in the Public School Foundation Program in the 1987 biennium. These estimates are based on current law and a 4 percent increase in the public school funding schedule in fiscal 1987. The impact of the executive proposal to retain the fiscal 1986 public school funding schedule in fiscal 1987 and to appropriate all U.S. mineral royalties to the Public School Foundation Program are shown as issues in the table, using LFA estimates. Also presented is an LFA option to allocate all U.S. mineral royalties to the general fund in both years of the 1987 biennium.

Table 3
Comparison of Executive and LFA Estimates for Public School Funding
1987 Biennium
(Millions)

State Equalization	Executive Estimate	LFA Estimate	Difference
25 Percent Individual Income Tax	$ 89.710	$ 88.408	$(1.302)
25 Percent Corporate License Tax	25.128	23.772	(1.356)
Coal Severance Tax	7.731	7.874	0.143
Interest and Income	94.847	91.398	(3.449)
U.S. Mineral Royalties (62.5%)	23.665	25.907	2.242
Education Trust Interest (67.5%)	15.085	14.814	0.271
House Bill 949	0.750	0.750	0.00
Total State Equalization	$256.916	$252.923	$(3.993)
County Equalization			
45 Mill Levy	$211.324	$209.387	$(1.937)
Miscellaneous	17.590	17.846	0.256
Forest Funds	2.782	2.782	0.000
Grazing Funds	0.236	0.238	0.002
Elementary Transportation	(7.254)	(7.307)	(0.053)
High School Tuition	(1.522)	(1.522)	0.00
Total County Equalization	$223.156	$221.424	$(1.732)
District Permissive Levies	37.028	37.186	0.158
TOTAL NON-GENERAL FUND	$517.100	$511.533	$(5.567)
Less: Formula-Driven Costs	$573.920	$574.160	$ 0.240
General Fund Required	56.820	62.627	5.807
General Fund Available	32.560	32.560	0.000
GENERAL FUND SUPPLEMENTAL FY87	$(24.260)	$(30.067)	$(5.807)

ISSUES - Fiscal 1987 - - - - -

	General Fund	Other Funds
1. Maintain Funding at Fiscal 1986 Schedule	$11.24	-0-
2. Transfer U.S. Mineral Royalties		
Option A: Fiscal 1987 Revenue	$ 7.9	$ (7.9)
Option B: 1987 Biennium Revenues	$15.5	$(15.5)

6-13-86

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DEPARTMENT OF STATE LANDS

COMMON SCHOOL INTEREST AND INCOME

May 1986

	Previous month	This month	Year to Date Total
Grazing Leases	2,890,235.33	22,391.7[illegible]	2,902,417.09
Agricultural Leases	326,359.63	394,779.47	721,139.15
Oil & Gas Leases	966,065.56	267,179.90	1,233,244.46
Oil & Gas Penalties	606,369.56	191,134.18	797,503.74
Oil & Gas Bonus Payments	320,777.76		320,777.76
Misc. Fees by Forestry Division	33,669.03	2,075.00	35,744.03
Misc. Mineral Leases	44,500.11	13,583.58	58,083.69
Interest on Land Sales Contracts	11,825.97	263.29	12,089.15
Interest on Short Term Investments	2,324,417.61	(67.38)	2,324,350.23
Interest on T & L Investments	10,338,270.37		10,338,270.97
Less: Resource Development	(136,357.63)	(15,376.31)	(152,735.94)
Total Interest and Income	17,715,631.80	875,456.48	18,591,088.28
Less: 5% to Permanent Fund	(885,781.60)	(43,772.82)	(929,554.42)
Total Available for Distribution	16,829,850.20	831,683.66	17,661,533.86
SBAS Reconciliation:			
Cash			731,737.05
Fed. Securities @ Par			
Fed. Securities @ Cost			
Other Investments @ Cost			17,859,351.23
Stip. Principal			
Stip. Interest			
Securities on Loan			
Total			18,591,088.28

ENCY 55 . DEPARTMENT OF STATE LANDS

REV IT NO	REVENUE ESTIMATE NAME	C E	ACT ENT	AGENCY	STATE CLASS	RESPON CENTER	NOM CODE	ESTIMATED COLLECTIONS	PRIOR YEAR COLLECTIONS	CURRENT YEAR COLLECTIONS	PERCENT COLL
022	GENERAL FUND FEES		01100	5501	1000	1000	5101	180,000.00	0.00	151,946.06	84.41
025	FORESTRY FEES		01100	5501	0121	15	5101	2,000.00	0.00	5,914.15	295.71
104	FORESTRY MISC REIMB		01100	5501	1197	15	5101	25,000.00	0.00	34,111.26	136.45
110	INDIRECT COSTS-GF SHARE		01100	5501	1701	1200	5101	29,700.00	0.00	25,744.17	86.68
111	GF LAND SALES-INTEREST		01100	5501	1300	1000	5101	65,000.00	0.00	8,797.69	13.53
017	RES. DEV. - STIP EARNINGS		02450	5501	1365	5000	5101	120,000.00	0.00	34,738.32	28.95
018	RES. DEV. - 2 1/2 % EARNINGS		02450	5501	2425	5000	5101	570,000.00	0.00	315,622.98	55.37
030	FORESTRY [illegible]		02031	5501	2075	15	5101	120,852.00	0.00	99,086.90	81.99
031	TIMBER STAND IMPROV		02449	5501	1195	15	5101	445,983.00	0.00	167,865.56	37.64
110	RECLAMATION HARD ROCK ACT		02451	5501	0435	3000	5101	7,000.00	0.00	11,905.00	170.07
122	FORESTER-BRUSH DISPOSAL		02837	5501	1195	15	5101	523,472.00	0.00	156,481.87	29.89
144	COM. SCH. I & I YEARLY DIST.		02403	5501	1300	178	5101	36,100,000.00	0.00	10,527,858.95	29.16
210	FORESTRY-SLASH DISPOSAL		02073	5501	1195	15	5101	80,000.00	0.00	37,596.81	47.00
293	[illegible] REVENUE		02830	5501	3000	3000	5101	765,732.00	0.00	257,775.81	33.66
327	RENEWABLE RESOURCE DEVELOPMENT		02463	5501	2800	15	5101	31,000.00	0.00	0.00	0.00
520	RECLAMATION BOND FORFEITURES		02096	5501	1599	3000	5101	37,000.00	0.00	342,070.92	924.52
101	FIRE PROTECTION TAXES		03068	5501	0820	15	5101	1,004,039.00	0.00	880,176.60	87.66
142	CONSOLIDATED GRANT - 03069		03069	5501	4005	15	5101	104,939.00	0.00	214,750.73	204.64
158	10.901 RES CONSERVATION & DEV		03069	5501	4035	15	5101	16,138.00	0.00	29,958.00	185.64
172	10.664 CONSOL. GRANT - 03068		03068	5501	4000	15	5101	206,350.00	0.00	484,972.41	235.02
174	10.063 ACP		03069	5501	3925	15	5101	15,873.00	0.00	6,910.00	43.53
225	FIRE CONTRACTS		03068	5501	2800	15	5101	38,000.00	0.00	20,170.31	53.08
329	10.064 FORESTRY INCENTIVE PROG		03069	5501	3930	15	5101	4,410.00	0.00	3,656.00	82.90
330	10.654 RCFP		03068	5501	4030	15	5101	65,000.00	0.00	65,000.00	100.00
353	INDIRECT COSTS-AGENCY SHARE		03070	5501	1701	1200	5101	140,300.00	0.00	260,484.80	185.66
402	FED. RECLAMATION GRANT		03067	5501	4136	3000	5101	7,500,000.00	0.00	4,068,083.43	54.24
067	AIR OPERATIONS REVOLVING FUND		06538	5501	1197	1000	5101	154,257.00	0.00	156,421.00	101.40
001	MSU TIMBER & R/W		09009	5501	2145	33	5101	60,000.00	0.00	72,340.37	120.57
002	U OF M TIMBER & R/W		09016	5501	2145	39	5101	100.00	0.00	335.00	335.00
003	SCH. PERM. ROYALTIES		09020	5501	2450	40	5101	8,000,000.00	0.00	5,396,545.81	67.46
004	SCH. 5% YEARLY DISTRIBUTION		09020	5501	1300	40	5101	1,900,000.00	0.00	554,097.84	29.16
005	MSU MORRILL TIMBER & R/W		09010	5501	2145	34	5101	35,000.00	0.00	16,888.55	48.25
006	D & B TIMBER & R/W		09011	5501	2145	35	5101	5,000.00	0.00	3,391.59	67.83
007	PINE HILLS TIMBER & R/W		09012	5501	2145	36	5101	50,000.00	0.00	21,118.10	42.24
008	NORMAL SCH. TIMBER R/W		09013	5501	2145	37	5101	15,000.00	0.00	70,420.89	469.47
009	SCH TIMBER & R/W		09020	5501	2145	40	5101	1,500,000.00	0.00	643,646.80	42.91
010	SCH. TAYLOR GRAZING		09020	5501	4515	40	5101	20,000.00	0.00	11,746.06	58.73
011	U OF M ROYALTIES		09016	5501	2450	39	5101	500.00	0.00	376.50	75.30
012	MONT. TECH. TIMBER & R/W		09014	5501	2145	38	5101	50,000.00	0.00	49,812.67	99.63
017	MONT. TECH. ROYALTIES		09014	5501	2450	38	5101	500.00	0.00	0.00	0.00
018	NORMAL SCH. ROYALTIES		09013	5501	2450	37	5101	15,000.00	0.00	27,207.68	181.38
019	PINE HILLS ROYALTIES		09012	5501	2450	36	5101	100.00	0.00	0.00	0.00
020	D & B ROYALTIES		09011	5501	2450	35	5101	100.00	0.00	0.00	0.00
021	MSU MORRILL ROYALTIES		09010	5501	2450	34	5101	5,000.00	0.00	30,375.30	607.51
022	MSU ROYALTIES		09009	5501	2450	33	5101	1,500.00	0.00	25,211.06	1680.74
			TOTALS FOR AGENCY 5501					60,009,845.00	0.00	25,291,613.95	

Exhibit #3
6-13-86

WKS=COMPARE4
DATE : 06/13/86

OFFICE OF BUDGET & PROGRAM PLANNING
GENERAL FUND REVENUE ESTIMATE COMPARISON

Source of Revenue	ACTUAL FY 1984	ACTUAL FY 1985	REAC FY 1986	LFA FY 1986	DIFFERENCE FY 1986	REAC FY 1987	LFA FY 1987	DIFFERENCE FY 1987	REAC FY 86-87	LFA FY 86-87	DIFFERENCE FY 86-87
Individual Income Tax	109.021660	115.876580	111.385000	110.157000	1.228000	118.272000	116.168000	2.104000	229.657000	226.325000	3.332000
Corporation License Tax	20.547177	36.657611	36.227000	33.490000	2.737000	28.101000	27.366000	0.735000	64.328000	60.856000	3.472000
Coal Severance Tax	15.736468	17.432283	19.995000	19.995000	0.000000	16.728000	17.411000	-0.683000	36.723000	37.406000	-0.683000
Oil Severance Tax	32.686014	32.526656	22.526000	22.836000	-0.310000	14.046000	13.468000	0.578000	36.572000	36.304000	0.268000
Interest on Investments	23.527514	25.527889	16.001000	15.981000	0.020000	10.208000	14.243000	-4.035000	26.209000	30.224000	-4.015000
Long-Range Bond Excess	41.682643	37.535663	36.070000	35.460000	0.610000	35.560000	35.215000	0.345000	71.630000	70.675000	0.955000
Coal Trust Interest Income	18.947636	24.299902	29.074000	29.445000	-0.371000	36.104000	34.489000	1.615000	65.178000	63.934000	1.244000
Insurance Premiums Tax	13.621332	15.691565	15.943000	16.845000	-0.902000	17.370000	18.029000	-0.659000	33.313000	34.874000	-1.561000
Public Institutions Reimb.	9.179921	12.895427	13.284000	13.676000	-0.392000	13.632000	14.268000	-0.636000	26.916000	27.944000	-1.028000
Liquor Profits	5.782000	4.466000	4.187000	4.119000	0.068000	3.817000	3.631000	0.186000	8.004000	7.750000	0.254000
Liquor Excise Tax	6.415784	5.935058	5.906000	5.818000	0.088000	5.726000	5.678000	0.048000	11.632000	11.496000	0.136000
Inheritance Tax	5.960471	7.656622	7.659000	7.813000	-0.154000	7.836000	7.972000	-0.136000	15.495000	15.785000	-0.290000
Metal Mines Tax	2.630135	1.977324	0.994000	0.994000	0.000000	0.969000	1.053000	-0.084000	1.963000	2.047000	-0.084000
Electrical Energy Tax	2.413172	2.361835	2.529000	2.530000	-0.001000	2.547000	2.623000	-0.076000	5.076000	5.153000	-0.077000
Drivers' License Tax	0.799616	0.803983	0.768000	0.800000	-0.032000	0.790000	0.800000	-0.010000	1.558000	1.600000	-0.042000
Telephone License Tax	2.521905	2.931752	3.176000	3.217000	-0.021000	3.419000	3.378000	0.041000	6.615000	6.595000	0.020000
Beer License Tax	1.204236	1.156186	1.310000	1.284000	0.026000	1.238000	1.227000	0.011000	2.548000	2.511000	0.037000
Natural Gas Severance Tax	2.797996	2.945778	2.627000	2.503000	0.124000	2.633000	2.332000	0.301000	5.260000	4.835000	0.425000
Freight Line Tax	1.334111	1.379418	1.195000	1.195000	0.000000	1.249000	1.448000	-0.199000	2.444000	2.643000	-0.199000
Wine Tax	0.704905	0.705648	0.944000	0.957000	-0.013000	0.984000	0.994000	-0.010000	1.928000	1.953000	-0.025000
Other Revenue Sources	12.590802	13.558652	17.646000	17.804000	-0.156000	18.636000	19.106000	-0.470000	36.284000	36.710000	-0.426000
GRAND TOTAL	330.303498	364.521837	349.468000	346.921000	2.547000	339.865000	340.899000	-1.034000	689.333000	687.820000	1.513000

FOUNDATION PROGRAM REVENUE ESTIMATE COMPARISON

Source of Revenue	ACTUAL FY 1984	ACTUAL FY 1985	REAC FY 1986	LFA FY 1986	DIFFERENCE FY 1986	REAC FY 1987	LFA FY 1987	DIFFERENCE FY 1987	REAC FY 86-87	LFA FY 86-87	DIFFERENCE FY 86-87
Fund Balance			25.636000	0.000000	25.636000	0.000000	0.000000	0.000000	25.636000	0.000000	25.636000
Individual Income Tax	42.586587	45.264290	43.510000	43.030000	0.480000	46.200000	45.378000	0.822000	89.710000	88.408000	1.302000
Corporation License Tax	8.026240	14.317379	14.151000	13.082000	1.069000	10.977000	10.690000	0.287000	25.128000	23.772000	1.356000
Coal Severance Tax	4.141172	4.587443	4.209000	4.209000	0.000000	3.522000	3.665000	-0.143000	7.731000	7.874000	-0.143000
Interest & Income	36.982835	62.030661	32.247000	53.643000	-21.394000	36.962000	37.755000	-0.793000	69.211000	91.398000	-22.187000
US Mineral Royalties	14.946556	14.817634	12.490000	12.716000	-0.226000	11.175000	13.191000	-2.016000	23.665000	25.907000	-2.242000
Education Trust Interest	5.107578	5.837139	6.828000	7.355000	-0.527000	8.257000	7.459000	0.798000	15.085000	14.814000	0.271000
Miscellaneous	2.145511	0.750000	0.000000	0.750000	-0.750000	0.000000	0.000000	0.000000	0.000000	0.750000	-0.750000
TOTAL	113.938479	147.626546	139.073000	134.785000	4.288000	117.093000	118.138000	-1.045000	256.166000	252.923000	3.243000
45 Mill Levy			106.656000	106.656000	0.000000	104.668000	102.731000	1.937000	211.324000	209.387000	1.937000
Elementary Transportation			-3.627000	-3.627000	0.000000	-3.627000	-3.680000	0.053000	-7.254000	-7.307000	0.053000
Miscellaneous			8.923000	8.923000	0.000000	8.667000	8.923000	-0.256000	17.590000	17.846000	-0.256000
Forest Funds			1.391000	1.391000	0.000000	1.391000	1.391000	0.000000	2.782000	2.782000	0.000000
Taylor Grazing			0.118000	0.118000	0.000000	0.118000	0.120000	-0.002000	0.236000	0.238000	-0.002000
High School Tuition			-0.761000	-0.761000	0.000000	-0.761000	-0.761000	0.000000	-1.522000	-1.522000	0.000000
TOTAL			112.700000	112.700000	0.000000	110.456000	108.724000	1.732000	223.156000	221.424000	1.732000
District Permissive Levy			18.730000	18.251000	0.479000	18.298000	18.935000	-0.637000	37.028000	37.186000	-0.158000
GRAND TOTAL			270.503000	265.736000	4.767000	245.847000	245.797000	0.050000	516.350000	511.533000	4.817000
MGFBWV Costs			281.997000	281.970000	0.027000	291.950000	292.190000	-0.240000	573.947000	574.160000	-0.213000
General Fund Need			-11.494000	-16.234000	4.740000	-46.103000	-46.393000	0.290000	-57.597000	-62.627000	5.030000

6-13-86

REVENUE ESTIMATES FY 87

	General Fund
Center/Aged	
Private	$ 650,436
Medicaid	1,240,686
Total	1,891,122
Eastmont	
Private	95,783
Medicaid	1,364,404
Total	1,460,187
MDC (Boulder)	
* Private	321,442
Ins.	40,000
Medicare	35,000
Medicaid	8,701,263
Total	9,097,705
Galen	
Private	254,732
Ins.	30,970
Medicare	158,542
Medicaid	935,793
Total	1,380,037
Warm Springs	
Private	2,136,468
Ins.	20,000
Medicare	12,300
Medicaid	342,996
Total	2,511,764
Montana Youth Treatment Center	
Private	1,325
**Ins.	38,500
Total	39,825
TOTAL	16,380,640

* 1.67 million in Patient Account Trust funds deposited in G.F. on 6-9-86 (MDC)

** represents deferred receivable collected after 9-1-86. Additional $16,500 receivable will accrue as FY 86 revenue (MYTC)

6-12-86