

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

February 6, 1987

The meeting of the Revenue Estimating Taxation Subcommittee was called to order by Chairman John Harp on February 6, 1987, at 11:45 a.m. in Room 312D of the State Capitol.

ROLL CALL: Not all members were present with some of the members arriving later during the meeting.

Rep. Harrington asked what caused the drop-off in the beer tax income. Was there something going on in society that was having an affect on the income. Rep. Williams answered it was just a general drop-off in the use of alcoholic beverages. Rep. Harrington remarked he had read it had hit bottom and would go up very slowly.

Rep. Williams said he was not sure about beer, but liquor store sales were getting worse than last year. Montana has had a drop in population which has affected other taxes as well.

Rep. Harp could see a decline in cigarette sales which are still going down. See exhibit #1. Tobacco products tax are based on value, so as prices of the commodity go up, the tax is increased. Many of the revenue estimates are based on current law.

Rep. Harrington moved the figures on exhibit #1 be ACCEPTED. Senator Lybeck seconded the motion. Question was called and the motion was ADOPTED.

No action was taken on statewide valuation on local government block grants.

Rep. Harp asked if they had a comparison on statewide valuation on which to base the committee's revenue estimates. Counties receive money from vehicle fees and oil severance tax. The counties receive 80% of the tax paid by financial institutions. Need to come up with an estimate of the vehicle fee revenue, corporation taxes, and revenue paid from financial institutions so as to allocate those revenues in the proportion that mill levies are allocated. A 45 mill levy represents 20% of county revenues. The committee needs to identify revenue sources and place a level which represents the 45 mill levy compared to the total mills levied.

The vehicle fees table shows January 1987 light vehicle account has six different categories. The vehicle fee paid varies. After determining the number of vehicles registered, the fee schedule is set in statute. The inflator involved is arrived at by taking the ratio of the GNP Deflator PCE for the second quarter of 1986 divided between second quarter of 1981. The question is how to determine the inflator.

The LFA shows total revenues from vehicle fees to be \$30,037 million. These figures were based on figures as of January 1986. The department of justice had a new number. See explained table for 1987. See exhibit #2.

The corporate license tax paid by financial institutions shows the LFA number. The amount paid by financial institutions carries forward here. You would not get an identical number. Then you have to decide what the local governments get. When the oil severance tax revenue is decided, it should be right into this number.

Rep. Harp said he would rather spend some time discussing decisions on the average treasury cash balance. The committee has already signed off on nine categories. The committee also has gone through the LFA and OBPP figures and has adopted them. He wished to review the average treasury cash balance.

Mainly because of the executive assumption of transferring \$80 million from the coal tax trust fund to the general fund, the daily average balance is different by some \$73 million. The LFA's proposed daily average balance is considerably less. The LFA shows the legislature would leave with a balanced budget with \$1.00 remaining.

The OBPP shows the legislature would leave with a \$20 million surplus at the end of January 1987. There will be some benefit from other money that is not being used. Bond proceeds will sit in bond proceeds accounts and interest will go to pay off the balance.

Terry Johnson said the daily average is based on the executive budget. Staff proposal is to use the current windfall to balance the budget. It is going to have an effect on the fund balance. In terms of the windfall, that is considered a current law revenue and they are assuming that revenue will come into the income stream.

Rep. Harp asked about the \$73 million for the 1989 biennium. Assumption must be that some \$80 million will come from other sources to arrive at a \$20 million balance. LFA

looked at balancing the budget and leaving \$1.00 for a balance.

Mr. Johnson remarked he did not envy the committee in this particular situation. It was going to be very difficult to make a decision. He further stated the committee really needed to look at what projected revenue total is as far as excluding interest earnings, then get an idea of what general fund expenditures will be. Without really knowing exactly what was going to happen, you have an unknown component. The combination of revenue and expenditures gives you some perspective on where the cash is generated.

Rep. Harp reminded the committee they are pushed to get this revenue estimate to enable it to go to the floor in a matter of 10 days. They have to react to the information they currently had. The appropriations side would not be answered until the 85th day and they do not know what effects that will have.

Mr. Johnson stated until they get to a bottom line, there will not be a real good feel of what their bottom line total general revenue fund is. Can not develop interest earnings until they have some idea of a level of revenue they are looking at. Have to decide from an assumption standpoint in general what type of a fund balance they were looking at or if they were going to look at a zero fund balance.

Rep. Harp said are basing assumptions without any supplemental or any reserve there. Facing a \$21-27 million deficit right now between now and June when they leave this session. Have seen that kind of erosion on the spending side and on the revenue side. Keeping that in mind, they have to be fairly conservative. There is no pushing in this budget.

Rep. Harp reminded the committee had talked about the average cash balance on Friday. Have already adopted interest rates. Are not making cash flow and payments when \$83 million in bonds was issued to end the problem on June 30 this year. Why is LFA and OBPP saying we have to borrow less money than we did in 1983?

Mr. Johnson replied they are saying that we are going to maintain a flow of treasury cash account. Rules have changed in issuing tax repayment notes. You can now issue 90% of your maximum debt incurred in any given month. They came up with a \$68 million figure that could be issued in the next two years. Issued \$82 million in 1987, but could have issued a lot more. The situation in the general fund is that whatever you anticipate your shortage will be, you can issue 90% of that in bonds. He advised they have to go through a cash flow statement on the general fund, estimate

expenditures and cash that comes in. Strictly an estimate. If March is our low point, then can take 90% of that low point for anticipation revenue notes for one year. They would have issued more if the situation had been better understood.

Was the LFA assumption the same? That was the department of revenue figures. How much you can sell depends on what you feel the expenditures and revenues will be for next year.

Rep. Harp asked if they adopted the LFA figures and looked at tax anticipation notes and adopted executive and not LFA figures, and looked at the average balance without that, and then adopted LFA, would there be consistency in that?

Ms. Waldron advised it is necessary to adopt tax anticipation notes, and then adopt an average balance. Have already chosen an interest rate. Then the average cash balance takes care of taxes. Are we going to end with a \$20 million end fund balance or less? Are we going to use \$80 million from some other source to go into the general fund, and are we going to take all the windfall? The executive assumes so. If there is another alternative on those things, then you would want to adjust these numbers to satisfy institutional numbers to require a balanced budget.

Rep. Harp said the committee will meet after 10 days and again about the 45th day and update figures the 85th day. Have had some test votes and are not real optimistic. *are a little concerned about the whole windfall use with some of the discounts. We would be better by being fairly conservative as to what the daily average balance would be.

Sen. Neuman did not disagree. Hate to adopt such low numbers that we end up forcing the rest of the legislature into that sort of position. In the senate taxation committee, a vote on taking coal money from the education account was 5 to 5, and not on a party line vote. If the legislature were willing to move some of those funds around, they would have lower numbers. Let's wait another couple of days to vote on this.

Mr. Johnson suggested being careful about mixing this with current law. Would have to give back tax moneys unless there is legislation to change that. The LFA is consistent in that.

Rep. Harrington concurred with Sen. Neuman - it is a very serious problem and could throw the legislature into a turmoil if they came in with these drastically low figures. Do not know if that is what we want to do right now.

Rep. Harp said this committee's purpose is to give conditions as they see it as of the 45th day. He sees nothing going on that is going to resolve this. They are meeting on some problems on how to get out of 1987.

Sen. Hager said Mr. Vasquez would be estimating what the windfall will do. He will come back on Monday morning and if we are going to get any direction on that, it will be on Monday. Sen. Neuman advised Mr. Vasquez will give us some figures on personal growth.

Rep. Harp referred to the agenda. Have to be done by February 16. He told the speaker he wanted members to be excused from the taxation committee to meet at 7:00 a.m. and sit down until about 12 and hammer out some of these things. Sen. Neuman said the governor's tax reform package will be heard on the 16th. (Exhibit #4)

Rep. Harp said would get excused Feb. 12, Thursday. He will talk with Rep. Ramirez and will set a time and place for a hearing and have an overview of where we are at. Will meet at 7:00 a.m.

Rep. Harp said they have not talked about the long range interest income, and will have the staff look at all interest rates.

Mr. Johnson referred to January 14 figures - interest rates on long term new investments, 1987 - 7.5%, 1988 - 4.0%, 1989 - 9.21%. Sen. Neuman thought Mr. Penner said our estimates of 8.75 to 9% are in the range of what he expected. The staff is to plug those figures in in figuring long-term income. Some rollover at lower rates is assumed.

Mr. Johnson indicated that long term rates for 1988 would be 7%. Currently long term rates are between 8.75% to 9.5%. It was estimated that they may go down to the range of 8.5% to 10%, definitely closer to the lower end.

Rep. Harp asked when the committee would be prepared to make a decision on the average treasury cash balance. Sen. Neuman didn't want to that before they hear Mr. Vasquez next Monday. Rep. Harp asked how about on the 11th? Mr. Johnson said he and Madeline Quinlan could work on that. Deductions from gross to net proceeds is between \$60 million - \$80 million?

Rep. Harp thought they could do the same on millage as on the 9 other categories. Will have to spend a lot of time on federal tax reform and the treasury cash balance, and anything the LFA can do to help will really be appreciated.

Sen. Lybeck reminded about the agricultural leases on the forest lands and sales on federal and state. He has the information from Keith Olson. It depends on the size of the sale.

ADJOURNMENT: There being no further business to come before the committee, the hearing was adjourned at 12:40 p.m..



REP. JOHN HARP, CHAIRMAN

EXHIBIT #1
 DATE 2-6-87
 Rev Est Sum

RECORDED REVENUE & BUDGETS FOR SELECTED GENERAL FUND CATEGORIES

Category	Actual FY1986	FY1987	Projected FY1988	FY1989
Cigarette Tax	\$9,942,291	\$9,221,000	\$8,699,000	\$8,203,000
Tobacco Products Tax	669,932	692,000	713,000	735,000
Electrical Energy Tax	2,530,403	2,515,000	2,539,000	2,608,000
Drivers License Fees	796,349	804,000	799,000	809,000
Telephone License Tax	3,242,935	3,340,000	3,352,000	3,401,000
Beer Tax	1,387,765	1,354,000	1,329,000	1,355,000
Flight Line Tax	1,175,000	1,327,000	1,229,000	1,210,000
Slot Tax	991,237	1,211,000	1,121,000	1,100,000
Total	\$22,413,002	\$22,144,000	\$21,528,000	\$21,327,000
Contributors:				
State of Michigan Bond	\$9,377,000	\$5,219,000	\$8,000,000	\$7,391,000
AWA provided (Millions)	10,000	10,000	10,000	10,000
Contributions from other	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Revenue of other funds	327,000	327,000	327,000	327,000
Interest on bonds	1,189,000	1,189,000	1,189,000	1,189,000

EXHIBIT #2
2-6-87
Rev Est Subc

PUBLIC SCHOOL FOUNDATION PROGRAM

Miscellaneous Revenues

The "miscellaneous" category of county equalization funds includes vehicle fees, local government block grant funds, and the portion of the corporate license tax paid by financial institutions and distributed to the counties.

The statute requires that counties distribute their vehicle fees, block grant revenues, and corporate license fees to the taxing jurisdictions in the proportion that the jurisdiction's mill levy bears to the total mill levy in a given tax district. For example, in a tax district that levies 225 mills for all purposes, the 45 mill levy receives 20 percent (45/225) of the combined revenues from vehicle fees, the block grant, and corporate license fees.

In order to project revenues in the miscellaneous category, the committee must first determine estimates for vehicle fee collections, corporate license taxes paid by financial institutions, and the level of funding for the local government block grant. Then a percentage needs to be chosen which represents the ratio of the 45 mill levy to total mill levies. This percentage will be used to determine the allocation of county revenues to the public school foundation program.

Calculation of Miscellaneous Revenues

	Motor Vehicle Fees
+	Local Government Block Grant
+	<u>80 % of Corporation License Tax Paid by Financial Institutions</u>
	Total County Funds to be Distributed
x	<u>Ratio of 45 mills to Total mills</u>
	Total Allocated to Public School Foundation Program

Office of the Legislative Fiscal Analyst
 February 4, 1987

PUBLIC SCHOOL FOUNDATION PROGRAM
 County Equalization Funding

<u>Vehicle Fees</u>	<u>LFA</u>	<u>Executive</u>	<u>Committee</u>
Vehicle Registrations	644,373		
GNP Deflator PCE			
1981.1	93.4	93.4	
1986.2	113.4	113.4	
1987.2	117.8		
1988.2	123.4		
Collections (millions)			
FY 1987	\$30.037		
FY 1988	\$31.121		
FY 1989	\$32.393		

In January of each year, the Department of Justice, Registrar's Bureau, compiles a light vehicle count by weight and age of the vehicle. The following table shows the light vehicle counts as of January 1987.

January 1987 Light Vehicle Counts

<u>Weight</u>	<u>Age (Years)</u>	<u>Number</u>
Under 2,850 lbs	0-4	80,853
	5-7	56,774
	Over 8	77,573
Over 2,850 lbs	0-4	103,771
	5-7	72,572
	Over 8	296,254
Total		<u>678,797</u>

Corporate License Tax Paid by Financial Institutions (Millions)

	<u>LFA</u>	<u>Executive</u>	<u>Committee</u>
Fiscal 1987	\$4.395		
Fiscal 1988	6.595		
Fiscal 1989	7.875		

Local Government Block Grant (Millions)

	<u>LFA</u>	<u>Executive</u>	<u>Committee</u>
Fiscal 1987	\$14.061		
Fiscal 1988			
Oil Severance Tax	\$ 6.414	\$6.404	
Vehicle Fees	2.313	2.432	
General Fund	<u>9.245</u>	<u>-0-</u>	
Total	\$17.972	\$8.836	
Fiscal 1989			
Oil Severance Tax	\$ 6.318	\$6.940	
Vehicle Fees	2.313	2.474	
General Fund	<u>9.725</u>	<u>-0-</u>	
Total	\$18.356	\$9.414	

Percentage Allocated to Public School Foundation

	<u>LFA</u>	<u>Executive</u>	<u>Committee</u>
PSF Mills/Total Mills	13.44%		

Cash Re-Appropriated (Millions)

	<u>LFA</u>	<u>Executive</u>	<u>Committee</u>
Fiscal 1987	\$3.941	\$2.996	
Fiscal 1988	2.10	1.704	
Fiscal 1989	2.467	.708	

#3
 EXHIBIT
 DATE 2-6-87
 RE: Rev Est 5

OFFICE OF THE LEGISLATIVE FISCAL ANALYST
 Interest on Investments Forecasts and Assumptions

	FY1987	FY1988	FY1989
General Fund Revenue from Interest on Investments			
LFA	\$15,042,000	\$14,150,000	\$16,119,000
Executive	\$15,857,000	\$15,707,000	\$17,476,000
	-----	-----	-----
Difference	(\$815,000)	(\$1,517,000)	(\$1,357,000)
Short-term Interest Rate			
LFA	5.96%	6.79%	8.02%
Executive	5.85%	6.89%	7.11%
	-----	-----	-----
Difference	0.11%	0.40%	0.91%
Subcommittee	5.85%	6.89%	7.11%
Average Treasury Cash Balance			
LFA	\$252,400,000	\$209,000,000	\$201,000,000
Executive	\$271,067,000	\$245,800,000	\$245,200,000
	-----	-----	-----
Difference	(\$18,667,000)	(\$36,800,000)	(\$44,200,000)
Tax Anticipation Notes Issued*			
LFA	\$83,200,000	\$40,000,000	\$40,000,000
Executive	\$83,200,000	\$68,000,000	\$68,000,000
	-----	-----	-----
Difference	\$0	(\$28,000,000)	(\$28,000,000)
Average Balance without TRANS			
LFA	\$176,117,000	\$162,950,000	\$160,980,000
Executive	\$194,800,000	\$194,800,000	\$194,800,000
	-----	-----	-----
Difference	(\$18,683,000)	(\$31,850,000)	(\$33,820,000)

*LFA assumes notes are outstanding for 12 months in FY 1988 and 1989, while the executive assumes 9 months.

#4
2-6-87
Rev Est Subs

JOINT HOUSE AND SENATE REVENUE ESTIMATING COMMITTEE
Proposed Schedule
February 4, 1987

February 4 - Wednesday

School Foundation Program

Local Government Block Grant

Vehicle Fees

Miscellaneous County Revenue

Elementary Transportation

High School Tuition

Decisions on: Average Treasury Cash Balance

Recommendation on Smaller General Fund Categories

February 5 - Thursday

Federal Tax Reform - Department of Revenue

Insurance Premiums Tax

Inheritance Tax

Other Revenue Without Vehicle Fee

February 6 - Friday

Montana Personal and Nonfarm Income

February 9 - Monday

Federal Tax Reform - Policy Economics Group

February 10 - Tuesday

Decision on Federal Tax Reform

February 11 - Wednesday

Revenue from 45 Mill Mandatory Levy

Revenue from 6 Mill University Levy

Revenue from 10 Mill Permissive Levy

Revenue from 12 Mill Assumed Counties Levy

Revenue from 1.5 Mill Vo-Tech Levy

Coal Trust Interest

Education Trust Interest

Park Acquisition Trust Interest

Resource Indemnity Trust Interest

February 13 - Friday

Public Institutions Reimbursement

Liquor Excise Tax

Liquor Profits

February 16 - Monday

Review, Discussion, and Adoption of Forecasts

JCW2:kj:rec.

MONTANA PERSONAL INCOME GROWTH

1985 to 1989

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

PERSONAL INCOME INCREASES

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

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

ECONOMIC FORECASTS FOR MONTANA

	CY86	CY87	CY88	CY89
A. Personal Income (billions \$)				
1. BBER	9.82	10.4	11.0	11.8
2. First Interstate Bk	9.20	9.5	10.0	10.5
3. REAC	9.55	10.0	10.5	11.0
4. OEA	9.62	N/A	N/A	N/A
B. Nonfarm Labor Income (billions \$)				
1. BBER	6.29	6.7	7.2	7.6
2. 9th Fed. Reserve Bk	6.20	6.5	6.9	N/A
3. LFA	6.09	6.3	6.7	7.2
4. OEA	6.05	N/A	N/A	N/A
C. Nonfarm Wage/Salary Emp. (thousands)				
1. BBER	275	277	280	284
2. First Interstate Bk	277	277	278	N/A
3. 9th Fed. Reserve Bk	272	274	277	N/A
4. REAC	276	278	280	281
5. OEA	276	N/A	N/A	N/A

BBER-Bureau of Business and Economic Research, University of Montana

REAC-Revenue Estimating Advisory Committee to the Office of Budget and Program Planning

LFA- Office of the Legislative Fiscal Analyst

OEA-Office of Economic Analysis, Montana Department of Commerce

N/A-Not available

Office of Economic Analysis

Montana Dept. of Commerce

February 6, 1987

MONTANA
FARM PROPRIETORS' INCOME

Year	Farm Proprietors' Income*
1980	\$ 150,377,000
1981	217,608,000
1982	72,584,000
1983	8,872,000
1984	-50,757,000
1985	-164,727,000
1986	300,000,000**

*Net income of self-employed farmers and ranchers, includes government payments.

**Preliminary estimate produced by the Office of Economic Analysis, Montana Department of Commerce.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Office of Economic Analysis
Montana Department of Commerce
February 6, 1987

VALUE OF CROP PRODUCTION IN MONTANA
(millions of dollars)

	1986	1985
Wheat	337	178
Barley	123	65
Hay	233	229
Potatoes	14	17
Oats, Corn, Beans, & Cherries	11	8
Sugar Beets	N/A	N/A
TOTAL	718	497

Source: Montana Agricultural Statistics Service, U.S. Department
of Agriculture

Office of Economic Analysis
Montana Department of Commerce
February 6, 1987

COMPARISON OF NONFARM LABOR INCOME (EARNINGS) BY INDUSTRY
(millions of dollars)

INDUSTRY	1986*	1985
Ag. and Forestry Services	57	49
Mining	196	229
Construction	414	435
Manufacturing	547	552
Transportation & Public Utilities	727	719
Wholesale Trade	341	366
Retail Trade	743	748
Finance, Ins., & Real Estate	307	289
Private Services	1340	1276
Public Services(Government)	1355	1328

*Annualized average of the first 3 quarters of 1986

Source: Bureau of Economic Analysis, U.S. Department of Commerce except for third quarter 1986. Third quarter data derived by Office of Economic Analysis, Montana Department of Commerce.

Office of Economic Analysis
Montana Department of Commerce
February 6, 1987

OVERVIEW OF THE MONTANA ECONOMY WITH
EMPHASIS ON THE PERIOD 1986-1989

Presentation to the Joint Legislative Committee on Revenue Estimation

Phil Brooks, State Economist
Office of Economic Analysis
Montana Department of Commerce

February 6, 1987

REVENUE ESTIMATING SUBCOMMITTEE

I. U.S. FOREST SERVICE TIMBER SALES

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

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

II. STATE OF MONTANA TIMBER SALES

From: Jeff Jahnke
Mt. Division of Forestry
Missoula

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