

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

February 16, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp on February 16, 1987, at 8:15 p.m. in Room 312B of the State Capitol.

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

DISPOSITION OF EDUCATION TRUST ESTIMATES: Terry Johnson advised that a portion of the educational trust goes to a local impact fund (short term earnings) and reverts back to the educational trust, if not used. He stated the OBPP received its information on educational trust from the Board of Investments and that as of January 31, 1987, there were about \$440,000 in bond calls which probably wouldn't support the \$2 million level projected earlier.

Madalyn Quinlan commented it was her understanding from talking with Jim Penner, Board of Investments, that the \$440,000 figure included bond premiums in a high turnover month.

Rep. Lybeck made a motion to approve subcommittee estimates for FY's 87, 88 and 89, for education trust interest without bond calls (Exhibit #1). The motion CARRIED unanimously.

DISPOSITION OF RESOURCE INDEMNITY TRUST: Rep. Williams made a motion to approve subcommittee estimates for FY's 87, 88 and 89 for resource indemnity trust without bond calls. The motion CARRIED unanimously.

DISPOSITION OF HIGH SCHOOL TUITION: Sen. Hager made a motion to approve subcommittee estimates for FY's 87, 88, and 89 for high school tuition. The motion CARRIED unanimously (Exhibit #1).

DISPOSITION OF FOREST FUNDS AND TAYLOR GRAZING: Sen. Lybeck made a motion to approve subcommittee estimates for FY's 87, 88, and 89 for forest funds and for Taylor Grazing. The motion CARRIED unanimously (Exhibit #1).

DISPOSITION OF LIGHT VEHICLE COUNT: Rep. Sands made a motion to approve subcommittee estimates for FY's 87, 88, and 89 for light vehicle count. The motion CARRIED unanimously (Exhibit #1).

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Terry Johnson advised that he assumed there would be no growth in FY's 88 and 89 and that he used DOR figures for FY87.

Sen. Lybeck stated that the Senate passed SB 200 with an amendment of 1% on camper trailers and motor homes, which would provide revenue of \$12 million annually.

Chairman Harp added that \$2.7 million in interest will go to the general fund from the earmarked account, now that the gas tax is about to be signed. He said this amount can be added to the treasury balance.

Madalyn Quinlan advised that she received figures similar to those received by the OBPP from the Board of Investments, but reduced them.

DISPOSITION OF ELEMENTARY TRANSPORTATION: Sen. Hager made a motion to approve subcommittee estimates for elementary transportation for FY's 87, 88, and 89. The motion CARRIED unanimously.

DISPOSITION OF EDUCATION TRUST BOND CALLS: Rep. Williams made a motion to approve LFA estimates for education trust bond calls in the amount of \$1,108,500 for FY87. The motion CARRIED unanimously.

Terry Johnson advised that bond calls also include bond tenders and gains from the sale of given securities. He said that in FY86, education trust had \$1.9 million in bond calls, tenders and gain from sales, and that there were a large amount of bond calls during the last biennium in all trust accounts.

DISPOSITION OF RESOURCE INDEMNITY TRUST BOND CALLS: Sen. Lybeck made a motion to approve OBPP resource indemnity trust bond call estimates for FY87. The motion CARRIED unanimously.

Terry Johnson stated he had not had much experience with bond calls and assumed there would not be many bond calls in FY's 88 and 89.

DISPOSITION OF OIL NET PROCEEDS FOR STATEWIDE PROPERTY VALUATION: Chairman Harp commented that a \$400 million drop in net proceeds is projected between FY87 and 88, and that there is a large disparity in LFA and OBPP estimates for net proceeds for these years.

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Madalyn Quinlan stated that producers are allowed to deduct the cost of extraction from gross value, and that she believes extraction costs will only decline about 10%. She added that that range is narrowed by the 50% drop in the value of oil.

Ms. Quinlan advised that the 1985 oil severance tax market price of \$25.20, less extraction costs of \$12.40, provides a net cost of \$12.80 per barrel. She added that the windfall profit tax is also shown as a deduction, and said that with current market price, and extraction costs of \$10.40 per ton, the net production cost would be about \$3.30 per barrel. Ms. Quinlan quoted net proceeds ratios to gross value of 50.88%, 23.76%, and 29%, for CY's 85, 86, and 87, respectively.

Terry Johnson said that windfall profits tax will kick in if the price of oil goes above \$20 per barrel, and that total operating costs were \$421 million in CY85. Mr. Johnson explained that he deducted operating costs of \$7.79 per barrel for CY85, \$6.45 for CY86, and \$6.61 for CY87, while total production costs were \$183 million for CY86 and are estimated to be \$172 million for CY's 86 and 87. He commented that the more efficient wells will continue to operate during times of low prices, and said cost per barrel dropped 19% in CY86.

Rep. Ellison asked if production in good wells would decrease, with no new production. Terry Johnson replied production is estimated to drop by approximately 6 million barrels. Rep. Ellison asked if that would not drive up expenses. There was no response.

Rep. Sands asked what caused the 19% drop in cost per barrel. Terry Johnson replied there was a decline in overall operating costs, as only the more efficient wells have been producing. He said the production cost low occurred in 1970, at \$1.29 per barrel, and the high, in 1983 at \$8.58 per barrel. Mr. Johnson added that he had just discussed the matter with Senator Gage, who represents a high production area of the state.

Madalyn Quinlan advised that she talked with Cenex and with Shell Oil (responsible for 25% of oil production in the state).

Rep. Williams asked if dry holes are charged off to production expense. Terry Johnson replied that he didn't think so, and added that the difference between the LFA and OBPP is about \$2.5 million in terms of mills.

Sen. Hirsch commented that producers in Miles City said it costs more to plug a well than to pump it.

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Rep. Williams made a motion to approve OBPP estimates of oil net proceeds for statewide property valuation. The motion CARRIED. Sen. Neuman and Reps. Harp, Sands, and Ellison voting no (Exhibit #1).

DISPOSITION OF OTHER PROPERTY FOR STATEWIDE PROPERTY

VALUATION: Terry Johnson explained that excluding oil net proceeds, there is a \$50 million difference in net proceeds for other property.

Sen. Hager made a motion to approve LFA estimates for other property for statewide property valuation for FY's 87, 88, and 89. The motion CARRIED unanimously (Exhibit #1).

DISPOSITION OF GNP DEFLATOR PCE: Rep. Williams made a motion to approve subcommittee estimates for GNP deflator, PCE. The motion CARRIED unanimously (Exhibit #1).

DISPOSITION OF PERCENTAGE ALLOCATED TO THE PUBLIC SCHOOL FOUNDATION PROGRAM: Rep. Williams made a motion to approve subcommittee estimates for percentage allocated to the public school foundation program. The motion CARRIED unanimously (Exhibit #1).

DISPOSITION OF COAL TAX TRUST EARNINGS: Rep. Schye said he talked with Jim Mockler, Montana Coal Council, who believes the subcommittee is about one million tons short on its estimates for Detroit Edison-Spring Creek.

Sen. Neuman made a motion to approve OBPP estimates for coal tax trust earnings bond calls.

Terry Johnson advised that bond calls, tenders and gains were \$5.5 million last year.

Madalyn Quinlan stated that about 25% of securities were invested in areas earning above 13%, on \$241 million.

Terry Johnson added that when corporations call in bonds, they must pay premiums.

Sen. Neuman amended his motion to approve \$4.75 million in bond calls for coal tax trust earnings.

Sen. Hager advised that the amount should be about \$6.1 million if the figure were extended out in the same manner it was for resource indemnity trust.

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Terry Johnson commented that he would be inclined to use the same rule of thumb for bond calls on coal tax trust earnings, adding that estimating what corporations are doing is very difficult. He said resource indemnity trust was \$644,000 last year.

Sen. Hager made a substitute motion to approve \$6.1 million for bond calls for coal tax trust earnings. The motion CARRIED, with Reps. Harp and Ellison, and Sen. Neuman, voting no.

Rep. Williams made a motion to approve LFA estimates for interest without bond calls for coal tax trust earnings.

Terry Johnson advised that this figure is also difficult to estimate, as it requires different methodology. He said a portion of in-state investments is used for loans and has three to four different interest rates alone.

Rep. Sands commented that the Subcommittee should assume a lower interest rate if it assumes a higher amount for bond calls.

Madalyn Quinlan stated that the LFA and OBPP both began with old interest rates.

Chairman Harp advised that he would oppose the motion and Rep. Williams withdrew his motion.

Rep. Sands made a motion to approve OBPP figures for coal tax trust interest without bond calls. The motion CARRIED unanimously.

DISCUSSION OF GENERAL FUND REVENUE FROM INTEREST ON

INVESTMENTS: Terry Johnson explained that he applied short term interest rates to average daily balance in the treasury cash account (invested by the Board of Investments, primarily in short term securities). He said the Department of Highways was authorized interest earnings off the gas account and that tax anticipation notes are issued each year to accommodate cash flow shortages in the general fund. Mr. Johnson advised that up to 90% of the maximum deficit can be issued in any given month, and that the Department of Administration can now issue \$68 million for up to nine months.

Judy Curtis Waldron stated she assumed there would be \$40 million in tax anticipation notes and that she looked at the average balance without tax anticipation notes, as well as trends on the average balance throughout the course of a year. Ms. Waldron said he expected a decline in FY87 and a further decline in FY's 88-89, as the Department of Highways spends its cash down.

Terry Johnson advised that he assumed \$47 million in tax anticipation notes for the department of Highways in FY86.

DISCUSSION OF AVERAGE BALANCE WITHOUT TRANS: Chairman Harp advised the state is still \$25 million in the red in FY87 and that there probably won't be more than \$2 million in ending fund balance for FY89. He said the Appropriations Committee is \$20-30 million above OBPP estimates right now.

Chairman Harp asked if Rep. Winslow's bill to allow the state to set welfare regulations would help. Sen. Neuman advised that issue wouldn't be voted on until 1988.

DISPOSITION OF AVERAGE BALANCE WITHOUT TRANS: Rep. Williams made a motion to approve OBPP estimates for tax anticipation notes issued (Exhibit #2). The motion CARRIED unanimously.

Rep. Williams made a motion to assume a 9 month period for outstanding bonds in FY88 and 89.

Terry Johnson advised that \$68 million is not a realistic figure for TRANS as more than \$100 million could have been issued this year. He further advised that, depending upon what is done with taxation policy, the Subcommittee could approve \$83 million as a minimum.


Rep. Williams withdrew his motion and Rep. Ellison made a motion to approve \$85 million for FY87 and 88 for tax anticipation notes issued (Exhibit #2). The motion CARRIED unanimously.

DISPOSITION OF PUBLIC INSTITUTIONS REIMBURSEMENT: Sen. Neuman made a motion to approve LFA estimates for public school reimbursement (Exhibit #3). The motion CARRIED unanimously.

ADJOURNMENT: Dave Bohyer advised that Mr. Vasquez, Policy Economics, would have windfall figures for the February 17, 1987, meeting.

Chairman Harp advised that the next meeting will be held on Wednesday evening, February 18, 1987, at 8 p.m.

There being no further business before the Committee, the meeting was adjourned at 10:15 p.m.

  
Representative John Harp,  
Chairman



2-16  
EX 1

#1  
2-16-87  
REV EST SU

Revenue Estimating Subcommittee  
February 16, 1987

<u>Revenue Category</u>	<u>Fiscal 1987</u>	<u>Fiscal 1988</u>	<u>Fiscal 1989</u>
<b>Education Trust</b>			
Interest w/o Bond Calls	\$9,237,000	\$9,407,000	\$9,884,000
Bond Calls			
LFA	1,108,550		
Executive	2,000,000		
<b>Resource Indemnity Trust</b>			
Interest w/o Bond Calls	\$6,059,000	\$6,375,000	\$6,722,000
Bond Calls			
LFA	641,000		
Executive	1,400,000		
<b>Statewide Property Valuation</b>			
Oil Net Proceeds			
LFA	560,268,212	133,772,029	142,154,182
Executive	560,268,212	195,382,000	196,400,000
Other Property			
LFA	1,700,493,355	1,780,535,971	1,777,470,116
Executive	1,700,493,355	1,786,872,000	1,785,713,000
<b>High School Tuition</b>	(761,000)	(761,000)	(761,000)
<b>Elementary Transportation</b>			
LFA	(3,788,000)	(3,788,000)	(3,788,000)
Executive	(3,627,000)	(3,627,000)	(3,627,000)
<b>Forest Funds</b>			
LFA	1,226,000	1,226,000	1,226,000
Executive	1,119,000	1,119,000	1,119,000
<b>Taylor Grazing</b>			
LFA	122,000	122,000	122,000
Executive	118,000	118,000	118,000
<b>Light Vehicle Count</b>	691,448	691,448	691,448
<b>GNP Deflator, PCE</b>			
1986.2	113.4		
1987.2	117.9		
1988.2	123.4		
<b>Percentage Allocated to the Public School Foundation Program</b>			
Local Government Block Grant	13.72%		
Vehicle Fees	16.74%		
Corporate License Tax	15.23%		
Other	\$600,000		



**Coal Tax Trust Earnings****Interest w/o Bond Calls**

LFA	\$34,444,100	\$37,957,600	\$41,564,600
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Executive	34,342,000	37,153,000	40,045,000
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**Bond Calls**

LFA	3,258,000	- 0 -	- 0 -
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Executive	6,600,000	- 0 -	- 0 -
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ROLL CALL VOTE

HOUSE TAXATION REVENUE ESTIMATING SUBCOMMITTEE

DATE 2-16-87 BILL NO. \_\_\_\_\_

NAME	ABSTAIN	AYE	NAY
REP. HARP		✓	
REP. ELLISON		✓	
REP. HARRINGTON			
REP. SANDS		✓	
REP. SCHYE			✓
REP. WILLIAMS			✓
SEN. NEUMAN		✓	
SEN. BISHOP		✓	
SEN. HAGER			✓
SEN. HIRSCH		✓	
SEN. LYBECK			✓
SEN. SEVERSON <i>absent</i>	✓		
TALLY		6	5

Joann Banschbach  
Secretary

Rep. Jack Ramirez  
Chairman

Motion: Ellison - app. LFA one hal w/  
sub. laws for 77-88-89

EX2  
2-16  
minutes

EX-102  
2-16-87  
Rev Est Subc

OFFICE OF THE LEGISLATIVE COUNCIL  
Interest on Investable Funds

	FY1987	FY1988	FY1989
General Fund Revenue from			
Interest on Investments			
LFA	\$18,044,000	\$14,177,000	\$12,111,000
Executive	\$15,887,000	\$15,297,000	\$17,174,000
Difference	(\$2,143,000)	(\$1,120,000)	(\$5,063,000)
Short-term Interest Rate			
LFA	5.94%	5.79%	6.02%
Executive	5.83%	6.39%	7.11%
Difference	0.11%	0.40%	0.91%
Subcommittee	5.35%	6.39%	7.11%
Average Treasury Cash Balance			
LFA	\$252,400,000	\$207,000,000	\$201,000,000
Executive	\$271,067,000	\$245,800,000	\$245,800,000
Difference	(\$18,667,000)	(\$38,800,000)	(\$44,800,000)
* Anticipation Notes Issued*			
LFA	\$88,200,000	\$40,000,000	\$40,000,000
Executive	\$88,200,000	\$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.

3  
West Side

#3  
2-16-87  
REV Est Su

Public Building  
with kitchen  
Expend. Fund  
LFC  
Expenditure

19,151,000	19,151,000	19,151,000	19,151,000

Revised Replacement  
LFC  
Expenditure

11,951,500	11,951,500	11,951,500	11,951,500

Difference

Other Related  
LFC  
Expenditure

2,211,310	2,211,310	2,211,310	2,211,310

Difference