

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

February 18, 1987

The meeting of the Revenue Estimating Subcommittee was called to order by Chairman Harp on February 18, 1987, at 8 p.m. in Room 312B of the State Capitol.

ROLL CALL: All members were present with the exception of Sens. Lybeck and Severson. Also present were Dave Bohyer, Legislative Council, Terry Johnson, OBPP, Curt Nichols, Judy Curtis Waldron and Madalyn Quinlan, LFA, and Dan Bucks, DOR.

DISCUSSION OF POLICY ECONOMICS ESTIMATES ANTICIPATED

WINDFALL FROM FEDERAL TAX REFORM: Dave Bohyer provided copies of telexed information from Policy Economics (Exhibit #1).

Curt Nichols advised that Mr. Vasquez reduced his windfall estimate to \$67 million and said there was a significant downward revision for capital gains exclusions, as it was felt the original sample was distorted.

Dan Bucks told the Subcommittee that when Mr. Vasquez was in Helena he explained that he spotted an error in his estimates of income of Montanans (based on data from Montana tax returns). Mr. Bucks said non-residents who pay taxes in the state were inadvertently included in the original income estimates. He added that a large portion of capital gains are attributed to capital gains only and not to Montana income.

Mr. Bucks said it is unclear to him if Policy Economics has accounted for shifting of capital gains from CY86 into FY87 and advised that capital gains comprise a good portion of FY87 revenue.

Chairman Harp commented that when the Subcommittee adopted DOR estimates for indirect income, that figure was within \$190,000 of Policy Economics estimates (Exhibit #1a).

Rep. Sands requested a summary of key information. Mr. Bucks replied that the capital gains assumption is the only one of major proportion to this biennium. He said estimates on capital gains are an assumption, basically, because of early sales and the switching of some assets held, late in CY86. Mr. Bucks advised that total capital gains income for CY87 would be less than in CY85, but is anticipated to return to a normal growth pattern by 1991. He added that the estimate for capital gains for CY88 is 30% less than for 1985.

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Chairman Harp asked what the windfall estimate is for corporate income. Mr. Bucks replied it is \$12 million.

Sen. Hager stated windfall should be included as a separate figure, so that interested persons will know what that amount is.

DISPOSITION OF OIL SEVERANCE TAX: Terry Johnson advised that the only difference between the LFA and OBPP estimates for oil severance tax is in methodology.

Rep. Schye made a motion to approve the Recommended figures on Exhibit #2 for oil severance tax for FY's 87, 88 and 89. The motion CARRIED unanimously.

DISPOSITION OF NATURAL GAS SEVERANCE TAX: Judy Curtis Waldron explained that a recent audit brought in \$289,000, which she added to her forecast. Ms. Waldron said she changed county MCF (million cubic feet) payments to be more consistent with production between years.

Sen. Hager made a motion to approve Recommended figures on Exhibit #2 for natural gas severance tax for FY's 87, 88, and 89. The motion CARRIED unanimously.

DISPOSITION OF INSURANCE TAXES: Terry Johnson reviewed the Subcommittee's action to adopt a 6.5% growth rate for FY's 87, 88 and 89 for insurance tax. He said the genetic research program is to be sunset in FY87, and was removed from base figures before the growth rate was applied for FY87.

Judy Curtis Waldron explained that she took a literal application for the Subcommittee's assumption, although she knew the genetic program was there. She added that the OBPP estimate was probably more real.

Sen. Neuman made a motion to approve Recommended figures on Exhibit #2 for FY's 87, 88 and 89. The motion CARRIED unanimously.

DISPOSITION OF LIQUOR PROFITS: Judy Curtis Waldron explained that both the LFA and OBPP included additional revenue from price restructuring, and added that the problem with price restructuring is that prices won't change this year. She said the LFA anticipates a smaller decline in prices and unit sales than does the OBPP.

Sen. Hager made a motion to approve \$4.425 million, \$5.023

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million and \$5.641 million for liquor profit without price restructuring for FY's 87, 88 and 89 respectively. The motion CARRIED unanimously.

DISPOSITION OF LIQUOR EXCISE TAX: Sen. Hager made a motion to approve \$5.825 million, \$5.905 million and \$6.048 million for FY's 87, 88 and 89 respectively. The motion CARRIED unanimously.

Terry Johnson advised that he spoke with the analyst in the OBPP office who is involved in the institutions budget and said that figure probably needs to be adjusted upward to account for changes. He said he looked at unit sales on a historical basis and saw a dramatic decline over the past several years. Mr. Johnson stated he anticipated a continued decline of 5% in liquor sales and 10% in wine sales.

Judy Curtis Waldron advised that she anticipated an overall decline closer to 5%, as wine is a very small part of sales.

Terry Johnson advised that liquor profits and liquor excise tax go entirely to the general fund, and are driven by a ratio of 10-16%.

DISPOSITION OF U.S. MINERAL ROYALTIES: Madalyn Quinlan explained that there are four areas of the public school program to act on, three of which are revenue areas, and the fourth being the foundation program. She said 50% of federal mineral royalties come back to the state for deposit to the school foundation program, mostly from oil, natural gas and coal production (Exhibit #3).

Terry Johnson stated that the OBPP and LFA had a difficult time isolating their differences in estimates for mineral royalties for oil, gas and coal production on federal lands. He advised that when the Subcommittee adopts its assumptions, it will be difficult to apply the same rate of decline to federal lands, especially with coal, adding that doesn't necessarily mean there will be a decline in production on federal lands.

Rep. Williams made a motion to approve OBPP estimates for U.S. mineral royalties. The motion CARRIED, with all members voting aye, except Sen. Neuman, who voted no.

DISPOSITION OF MISCELLANEOUS REVENUES: Madalyn Quinlan advised that she provided estimates with and without local government

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block grants (Exhibit #3).

Rep. Schye asked what Sen. Smith's bill would do to the local government block grant program. Terry Johnson replied that the bill does away with the program, but a portion of county revenue will come back to the state through the foundation program, for a net gain to the state. Mr. Johnson said there may be a disagreement in terms of the way the LFA and OBPP presented their estimates, as the OBPP assumed current law and the OBPP presumed no statutory requirement to fund local government block grants. He explained that the LFA interpreted that block grants would be fully funded.

Rep. Sands stated he agreed with OBPP estimates and made a motion to approve those estimates without general fund, in accord with current law. The motion CARRIED unanimously.

DISPOSITION OF CASH RE-APPROPRIATED: Madalyn Quinlan advised that the local government block grant program receives one-third of its funding from the severance tax and motor vehicle fees (to be eliminated in 1987), and the remainder from the general fund. She said county cash re-appropriated is dollars carried over from one year to the next, and that there is usually a balance remaining at the end of each year from the difference between the budget and what the counties actually receive usually because of conservative estimates.

Terry Johnson explained that when schools establish their budgets, they provide estimates from revenue sources, including miscellaneous revenue. He commented that these usually conservative estimates are for actual cash collections and that schools process this through a three-year time frame to bring collections closer to budget projections.

Madalyn Quinlan stated she believes the opposite is true, and so anticipated the schools will be budgeting for less and will draw down funds carried forward.

Sen. Neuman asked what would happen if the foundation programs were cut by 15%. Terry Johnson replied that school districts actually receive funds collected by the counties.

Rep. Sands asked why the LFA assumed a base of \$1.5 million, while the OBPP did not. Madalyn Quinlan replied she assumed the counties would get back tax payments. Terry Johnson explained he did not make this assumption because of a series of delinquent taxes.

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Madalyn Quinlan advised she assumed there would be back taxes from reappraisal, and thus included those figures in her base for projections.

Sen. Hager made a motion to approve OBPP estimates without general fund for cash re-appropriated (Exhibit #3). The motion CARRIED unanimously.


DISTRIBUTION OF FOUNDATION PROGRAM COSTS: Terry Johnson advised that the LFA and OBPP used the same assumptions for elementary and high school enrollment, of 151,000 students. He said FY87 costs reflect a 1% scheduled increase and that figures for FY88 and 89 are current level.

Chairman Harp asked how much the foundation is short in FY87. Terry Johnson replied there is a definite need for a supplemental appropriation, but that he did not think it would be \$5 million.

Madalyn Quinlan stated she believes a supplement of \$1.9 million will be necessary, and that the shortage for FY's 88 and 89 will be \$19.6 million.

Rep. Sands made a motion to approve LFA estimates for foundation program costs for FY's 87, 88 and 89.

ADJOURNMENT: There being no further business before the Subcommittee, the meeting was adjourned at 9:14 p.m.

  
Representative John Harp,  
Chairman

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DAILY ROLL CALL

HOUSE TAXATION REVENUE ESTIMATING SUBCOMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 4/1

NAME	PRESENT	ABSENT	EXCUSED
REP. HARP	✓		
REP. ELLISON	✓		
REP. HARRINGTON	✓		
REP. SANDS	✓		
REP. SCHYE	✓		
REP. WILLIAMS	✓		
SEN. NEUMAN	✓		
SEN. BISHOP	✓		
SEN. HAGER	✓		
SEN. HIRSCH	✓		
SEN. LYBECK	✓		
SEN. SEVERSON			✓

EXHIBIT #1  
 DATE 2-18-87  
 Rev Est Subc

Table 4

**Impact of the Major Provisions  
 of the Tax Reform Act of 1986 on State Tax Liabilities  
 of Montana Residents**

(dollar amounts in millions)

	1987	1988	1989
1. Repeal dividend income exclusion			
Dollar amount	0.3	0.3	0.3
Percent change	0.17	0.17	0.16
2. Tax all unemployment compensation			
Dollar amount	0.0	-0.1	-0.1
Percent change	0.00	-0.06	-0.05
3. Repeal two-earner deduction			
Dollar amount	-0.6	-0.7	-0.7
Percent change	-0.33	-0.39	-0.38
4. Restrict IRA deduction			
Dollar amount	0.9	1.2	1.2
Percent change	0.50	0.67	0.65
5. Change depreciation provisions			
Dollar amount	-0.3	0.0	0.3
Percent change	-0.17	0.00	0.16
6. Limit passive losses			
Dollar amount	1.0	2.3	1.2
Percent change	0.55	1.27	0.64
7. Alter employee business expenses & misc deductions			
Dollar amount	2.6	2.6	2.6
Percent change	1.43	1.41	1.39
8. Limit non-business interest deduction			
Dollar amount	2.5	4.0	4.6
Percent change	1.36	2.14	2.42

Table 4 (Continued)

**Impact of the Major Provisions  
of the Tax Reform Act of 1986 on State Tax Liabilities  
of Montana Residents**

(dollar amounts in millions)

	1987	1988	1989
9. Raise AGI floor on medical deductions			
Dollar amount	1.4	1.5	1.6
Percent change	0.75	0.79	0.82
10. Repeal sales tax deduction			
Dollar amount	0.0	0.0	0.0
Percent change	0.00	0.00	0.00
11. Repeal investment tax credit			
Dollar amount	0.4	0.3	0.8
Percent change	0.21	0.16	0.41
12. Revise earned income credit			
Dollar amount	0.0	0.1	0.1
Percent change	0.00	0.05	0.05
13. Eliminate political contribution credit			
Dollar amount	-0.1	-0.1	-0.1
Percent change	-0.05	-0.05	-0.05
14. Change personal exemptions			
Dollar amount	4.7	4.9	4.9
Percent change	2.50	2.55	2.48
15. Change ZBA to standard deduction			
Dollar amount	0.2	0.7	0.7
Percent change	0.10	0.35	0.35
16. Change marginal rates			
Dollar amount	5.1	5.7	5.5
Percent change	2.64	2.88	2.71



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EXHIBIT 1a  
 DATE 2-18-87  
 Rev Est Subc

ECONOMIC ASSUMPTIONS ADOPTED BY THE JOINT REVENUE ESTIMATING SUBCOMMITTEE

	CY86 -----	CY87 -----	CY88 -----	CY89 -----
EMPLOYMENT	276,200	278,100	280,100	281,000
TOTAL MONTANA PERSONAL INCOME (\$ billions)	\$9.550	\$10.000	\$10.500	\$11.000
INFLATION				
CPI	1.92%	2.80%	3.80%	5.19%
PCE	2.15%	3.85%	4.30%	4.85%
NON-FARM LABOR INCOME (\$ Billions)	\$6.097	\$6.317	\$6.693	\$7.165
	FY86 -----	FY87 -----	FY88 -----	FY89 -----
INDIVIDUAL INCOME TAX (\$ millions)	\$172.216	\$193.397	\$208.087	\$229.990
CORPORATION LICENSE TAX (\$ millions)	\$58.585	\$45.730	\$53.063	\$58.995
INTEREST RATES				
Short-term (<2 mos.)	NA	5.85%	6.39%	7.11%
Long-term (>10 yrs.)	NA	7.98%	8.46%	9.21%

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OFFICE OF THE LEGISLATIVE FISCAL ANALYST  
A Comparison of Revenue Forecasts Using Committee Assumptions

	FY1987 =====	FY1988 =====	FY1989 =====
<b>OIL SEVERANCE TAX</b>			
LFA	\$10,392,000	\$12,034,000	\$13,068,000
Executive	\$10,328,000	\$12,221,000	\$13,032,000
Difference	<u>\$64,000</u>	<u>(\$187,000)</u>	<u>\$36,000</u>
Recommended	\$10,328,000	\$12,221,000	\$13,032,000
<b>NATURAL GAS SEVERANCE TAX</b>			
LFA	\$1,920,000	\$2,015,000	\$2,529,000
Executive	\$2,039,000	\$1,986,000	\$2,519,000
Difference	<u>(\$119,000)</u>	<u>\$29,000</u>	<u>\$10,000</u>
Recommended	\$2,207,000	\$2,106,000	\$2,212,000
<b>INSURANCE TAXES</b>			
LFA	\$18,217,000	\$19,520,000	\$20,949,000
Executive	\$18,126,000	\$19,141,000	\$20,535,000
Difference	<u>\$91,000</u>	<u>\$379,000</u>	<u>\$414,000</u>
Recommended	\$18,126,000	\$19,141,000	\$20,535,000

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 Joint Revenue Estimating Subcommittee  
 Public School Foundation Program Estimates

18-Feb-87

	Fiscal 1987	Fiscal 1988	Fiscal 1989
<b>U. S. Mineral Royalties</b>			
LFA	\$15,565,000	\$16,054,000	\$16,750,000
Executive	\$15,637,000	\$15,445,000	\$16,634,000
Difference	(\$72,000)	\$609,000	\$116,000
<b>Miscellaneous Revenues</b>			
<b>Fully Funded LGBG</b>			
LFA	\$9,810,100	\$10,973,000	\$11,368,000
Executive	\$9,769,000	\$10,973,000	\$11,368,000
Difference	\$41,100	\$0	\$0
<b>LGBG w/o General Fund</b>			
LFA		\$9,062,389	\$9,575,184
Executive		\$9,078,000	\$9,572,000
Difference		(\$15,611)	\$3,184
<b>Cash Re-appropriated</b>			
<b>Fully Funded LGBG</b>			
LFA	\$3,620,885	\$2,315,000	\$1,854,000
Executive	\$3,620,885		
Difference	\$0		
<b>LGBG w/o General Fund</b>			
LFA		\$512,596	\$1,927,329
Executive		\$708,692	10,000
Difference		(\$196,096)	1,917,329
<b>Foundation Program Cost</b>			
LFA	\$283,320,000	\$285,360,000	\$286,843,000
Executive	\$283,934,000	\$285,435,000	\$286,185,000
Difference	(\$614,000)	(\$75,000)	\$658,000