MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON JOINT REVENUE ESTIMATING

Call to Order: By Chairman Bob Ream, on February 1st 1989, at 5:05 p.m.

ROLL CALL

Members Present: All

Members Excused: none

Members Absent: none

Staff Present: Dave Bohyer, Legislative Council, Maureen Cleary, Committee Secretary

Announcements/Discussion: Chairman Ream distributed a worksheet to all Committee members to use to add appropriate figures that the Committee will vote on. Chairman Ream announced that Mr. Terry Johnson is now officially working for the House Democrats, noting that he has asked Mr. Johnson to continue to come to the meetings, and that Republicans and Senators are welcome to ask questions of Mr. Johnson. Mr. Johnson noted that he represented the Governors Revenue Estimating Advisory Council (REAC) in presenting "Executive" figures listed on exhibits.

<u>Mr. Phil Brooks/State Economist Office:</u> noted to the Committee upon review of Exhibit #2 (See Exhibit #2), that his recommendation would be to concentrate on total population. Noting that the Census Bureau figures are very close to the Legislative Fiscal Analyst (LFA) figures, he recommended for the lower of the figures for the years 1988 through 1991. He made specific recommendations for the Committee to adopt in several areas, noting that the basis of his recommendations were adopted from a national consulting firm.

<u>QUESTIONS FROM THE COMMITTEE:</u>

Rep. Driscoll: asked why Mr. Brooks felt that the population would go up, based on his recommendations. Mr. Brooks commented that the fact that jobs have been recovering for about two years, and the population's response to those jobs if growth will continue to grow at a fairly slow rate, that is the assumption.

Sen. Gage: asked in making the projections, does Wharton Econometrics go regional or nationwide. Mr. Brooks noted that the assumptions are conducted state-by-state and county-by-county. The company has all 50 states to deal with and that might be a limitation, noting that they do not spend too much time fine-tuning the figures.

Sen. Eck: asked if Mr. Brooks had an idea of what the executive and LFA base their figures on, because they are so much higher than yours. Mr. Brooks noted that he did not know how they computed their figures.

Mr. Terry Johnson/REAC: commented to the Committee that at the time the REAC met, the estimate for the total population of 804,000 was not available. The most recent numbers that we had was 809,000 for 1987. When the forecast was formulated the thought was that the population was going to increase for that year.

Ms. Judith Curtis-Waldron/LFA: When we made our forecast for 1988, we didn't have the actual estimate that we have now. We had the figures for part of the year. Employment showed little growth and education enrollment figures which adjusted the population were lower than for the years of actual future years.

Mr. Brooks: Within the normal margin of error, you see that the figures reflect this. You need to choose a particular number. I offer reasonable numbers.

Rep. Ream: Your estimates on total population were slightly lower, would that follow on the other categories. Mr. Brooks: Yes, I did look at that. The figures are very close. Some of the figures are uncertain. I do look at the same forecasts as others. Mr. Johnson: I don't think that it is as important to come up with a specific number, the key item is that you want to consider, is what direction that you feel the population is going.

Mr. Jim Penner/Chief Investment, Board of Investments: (See Exhibit #1) Explained in general terms what the Board goes through in order to achieve an estimate if a return on investments.

Sen. Brown: To what do you attribute the drop. Mr. Penner: We see that the economy is slowing down. Sen. Brown: What is the rate of inflation now. Mr. Penner: 4.6% for 1988. Sen. Brown: Long-term rates. Mr. Penner: 4.6% for 1988, 9% for 1990 and 8.5% for 1991. What we see is a peaking in economic growth, some distortions, because of the drought. We think the economy is slowing; beyond that the rates will come down. I have been looking for long-term rates to go higher, but not a lot.

Rep. Ellison: What are the short term interest rates for 1991. Mr. Penner: 6.75%

Rep. Patterson: Do you think that the federal government's inability to manage the debt will have some affect on interest rates. Mr. Penner: I think that we could look at that variable, but there is so much more that influences that figure. We have become much more of an international world. Because of the debt level, interest rates cannot go dramatically higher because the impact would be very negative. That acts as a break on interest rates because we just cannot afford to have that happen. The Gross National Product figures, 2% 1989, 1990 1.2% and 1991 2.2%, are slow growth rate numbers and are consistent with the interest rate, which may both be wrong. The 1989 treasury bill rate, if you are using that number to project income and earnings from the treasurers fund, our goal is to yield about 3/4% above the treasury bills.

Sen. Gage: In regard to the inflation rate, speaking in terms of the CPI, if your GNP estimates are so much lower than the CPI figures, and your GNP percentage estimates are so much lower than the CPI estimates, are you saying that there are much bigger factors involved at much lower rate of increase in establishing the GNP increase as compared to the CPI calculation? Mr. Penner: Growth will be slow. That is what the numbers say. Inflation will be held in line.

Ms. Waldron: We gave the Committee a differential that you would add to your forecast T-Bill rate to get a STIP rate (Short-term Investment Pool). Is there something that you need to add to the T-Bill rate to get to a rate where there is the cash balance? Mr. Penner: The treasury fund currently is predominately in STIP, exclusively, some of the instruments that are in the US Treasury are notes which were put in there to enhance the yield at the time of purchase. We may do this again, if we foresee rates going down. We may take a portion of that treasury fund and put it into an 18 month or 24 month treasury note. That depends on a couple of things. One is how much cash there is, a viable alternative and that information is provided to us by the Office of Budget, in terms of their demand for money. It doesn't make sense to put it out for 18 or 24 months, when we have to have that money 2 months later to do that. On the other hand, by extending a portion of it out beyond a year we can potentially enhance the yields. Ms. Waldron: The average maturity of the treasury fund is greater than the maturity of STIP, although for that reason it has a little higher yield. Do you think that will continue? Mr. Penner: The permanent coal trust fund is invested in 30-year instruments, about 8% is in treasury notes, most of it is in corporate bonds. A "triple A" corporate bond would yield 20 to 30 base points more. This is a historical low. Our average portfolio quality is probably strong A or weak AA, and that differential in today's market is probably 70 to 75 base points or 3/4 of one percent. There again, that is a historical low. Things are getting really compressed and it doesn't pay you much additional to go out and buy an Exxon bond verses buying a US Treasury Bond.

Ms. Curtis-Waldron reviewed Exhibit #2 with the Committee. (See Exhibit #2).

QUESTIONS FROM THE COMMITTEE:

Sen. Gage: It is indicated that on short-term interest rates that they are up about 1/2%. Is the LFA thinking about doing that? Ms. Waldron: We will have to look at other forecasts. Our assumption is that the average maturity is about 3 months. That is what it was in 1988. It is now up to about 10 months. Because of long term securities in there, the rate has been pushed up even higher.

Mr. Johnson reviewed the REAC figures listed on Exhibit #2. (See Exhibit #2)

Sen. Harp: By law we cannot get carried away with things because of the federal Tax Reform Act. Mr. Johnson: I think there used to be a limit on the dollar amounts of the tax and revenue anticipation that you could actually issue and I think that was a limit of $50 million; that limit is no longer in existence. There is some federal criteria that allow you to only issue a certain dollar amount of notes.

Rep. Ream: The investible balance, $204.4 million and $205.5 million; does the Executive figure include the $30 million? Mr. Johnson: No. Rep. Ream: If we added $30 million to each year would it be approaching closer to what the LFA has? Mr. Johnson: That would be correct, but the problem with that is that you cannot go out and issue $30 million dollars at the beginning of the year and invest that $30 million for the full year. Federal law does not allow you to do that. The maximum term that you can issue is for a 6-month period. If your deficit is going to be enlarged, which it traditionally is, then you have to back up 6 months from that point and that is when you can issue the $30 million in short-term notes.

Sen. Harp: So we are broke in March. Mr. Johnson: Usually that is the case.

Rep. Ream: The $51 million and $62 million in TRANS (Tax and Revenue Anticipation Notes), are included in your investable balance? Ms. Waldron: Yes. Rep. Ream: A problem then, what is your figure dependent on? Ms. Waldron: We are looking at spending the cash balances down, to a very low level to justify issuing the TRANS.

Sen. Gage: You indicated that the REAC adopt the rates on the short-term and long-term, that they are high. On what basis did they do this? Mr. Johnson: The rationale behind reducing the rates, to give you some insight, Nancy Nicholson is one of the members of the Revenue Estimating Advisory Council, and she works for D. A. Davidson. She had a lot of influence in the area of interest rates. In terms of interest rates in October, they were seeing interest rates starting to creep up at that point. And they felt that interest rates were going to continue to go higher. Then what they foresaw was actually a weak economy and the possibility of the loosening up of money supply to make sure the economy would grow. So that is one of the reasons that they felt the interest rates were actually going to come back down.

Sen. Eck: You mentioned something about Wharton's, about short term interest rates but we don't have much here. Mr. Johnson: That is correct, what Wharton does is that they forecast a whole series of different interest rates for 90-day T-Bills, 2-year, etc., so they don't give you just one specific forecast, so we made a recommendation to the REAC, we took a summation and came up with the average of short-term rates.

MOTION:

Sen. Gage moved to adopt the CPI figures: 1990, 4.7%
Sen. Harp moved to adopt CPI figures: 1991, 3.65%

Discussions followed between Sen. Gage, Ms. Waldron, Mr. Penner, Sen. Eck, about the figures with emphasis on calendar year versus fiscal year amounts.

VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE ABOVE FIGURES. REFER TO TABLE #6 FOR DETAIL.

Rep. Driscoll moved to adopt 8.0% for the short-term interest rate for years 90-91.

VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE ABOVE FIGURES. REFER TO TABLE #6 FOR DETAIL.

Rep. Driscoll moved to adopt 10.0% for years 1990 and 1991.

VOTE WAS TAKEN WITH 7 AYE, AND 2 NAY (HARP, ELLISON), OF ADOPTING THE ABOVE FIGURES. SEE TABLE #6.

Sen. Walker moved to adopt a CPI rate of 4.7% for 1989.

VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE ABOVE FIGURES. SEE TABLE #6 FOR DETAIL.

Rep. Patterson moved 8.0% for short-term interest rate for 1989, Rep. Patterson changed his motion to 8.5%.

VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE ABOVE FIGURES. SEE TABLE #6 FOR DETAIL.

Rep. Driscoll moved to adopt 9.75% for 1989 for long-term interest rates.

VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE ABOVE FIGURES. SEE TABLE #6 FOR DETAIL.

Sen. Harp moved to adopt the following figures for the projected population growth figures: 1988/ 804,000, 1989/809,000, 1990/ 815,000 and 1991/ 819,000. Rep. Patterson seconded the motion.

VOTE WAS TAKEN WITH ALL IN FAVOR OF ADOPTING THE ABOVE FIGURES. SEE TABLE #6 FOR DETAIL.

ADJOURNMENT

Adjournment At: 6:25 p.m.

Bob Ream

REP. BOB REAM, Chairman

BR/mc

SUB.3

EXHIBIT #1
DATE 2/01/89
HB HJR13

WKS=RESCOMP1
DATE : 01/04/89

OFFICE OF BUDGET & PROGRAM PLANNING
GENERAL FUND REVENUE ESTIMATE COMPARISON

Source of Revenue	ACTUAL FY 1984	ACTUAL FY 1985	ACTUAL FY 1986	ACTUAL FY 1987	ACTUAL FY 1988	OBPP FY 1989	LFA FY 1989	DIFFERENCE FY 1989	OBPP FY 1990	LFA FY 1990	DIFFERENCE FY 1990	OBPP FY 1991	LFA FY 1991	DIFFERENCE FY 1991	OBPP FY 90-91	LFA FY 90-91	DIFFERENCE FY 90-91
Individual Income Tax	109.021660	115.876580	110.218323	124.593246	142.746609	141.114000	143.762000	-2.648000	139.170000	136.676000	2.494000	148.077000	150.401000	-2.324000	287.247000	287.077000	0.170000
Corporation License Tax	20.547177	36.657611	33.884815	19.682607	27.027277	28.694000	29.654000	-0.960000	28.855000	29.660000	-0.805000	29.010000	30.567000	-1.557000	57.865000	60.227000	-2.362000
Coal Severance Tax	15.736458	17.432203	20.001598	17.290794	12.961531	8.918000	9.137000	-0.219000	7.235000	7.318000	-0.083000	6.249000	6.594000	-0.345000	13.484000	13.912000	-0.428000
Oil Severance Tax	32.686014	32.526656	23.152504	10.762412	16.484059	13.536000	12.943000	0.593000	14.439000	12.680000	1.759000	13.836000	13.467000	0.369000	28.275000	26.147000	2.128000
Interest on Investments	23.527514	25.527889	13.285291	12.826674	15.731943	14.324000	17.315000	-2.991000	14.920000	19.423000	-4.503000	14.282000	17.168000	-2.886000	29.202000	36.591000	-7.389000
Long-Range Bond Excess	41.682643	37.535668	35.487786	35.312990	37.461464	38.444000	39.636000	-1.192000	37.760000	38.461000	-0.701000	38.977000	41.010000	-2.033000	76.737000	78.471000	-2.734000
Coal Trust Interest Income	18.947636	24.299802	32.443208	39.924866	36.354944	39.002000	39.574000	-0.572000	35.913000	37.219000	-1.306000	37.510000	39.700000	-2.190000	73.423000	76.919000	-3.496000
Insurance Premiums Tax	13.621332	15.691565	16.433299	17.827085	32.047077	21.371000	21.625000	-0.254000	22.187000	21.120000	1.067000	23.685000	22.023000	1.662000	45.872000	43.143000	2.729000
Public Institutions Reimb.	9.179921	12.895427	14.166103	14.215767	15.395310	16.090000	16.255000	-0.165000	12.211000	16.702000	-4.491000	12.352000	17.161000	-4.809000	24.563000	33.863000	-9.300000
Liquor Profits	5.782000	4.466000	4.500000	5.000000	3.633000	3.623000	3.524000	0.099000	3.153000	3.714000	-0.561000	2.680000	3.942000	-1.262000	5.833000	7.656000	-1.823000
Liquor Excise Tax	6.415784	5.935058	5.836884	5.589174	5.322934	4.998000	5.188000	-0.190000	4.691000	5.252000	-0.561000	4.402000	5.370000	-0.968000	9.093000	10.622000	-1.529000
Inheritance Tax	5.960471	7.656622	8.364764	7.212092	8.745457	8.727000	10.514000	-1.787000	8.905000	9.550000	-0.645000	9.151000	9.980000	-0.829000	18.056000	19.530000	-1.474000
Metal Mines Tax	2.630135	1.977324	0.989852	1.211030	2.961778	3.691000	4.242000	-0.551000	4.145000	4.336000	-0.191000	3.595000	3.703000	-0.108000	7.740000	8.039000	-0.299000
Electrical Energy Tax	2.413172	2.361855	2.530403	2.991861	3.311082	3.389000	3.632000	-0.243000	3.488000	3.221000	0.267000	3.528000	3.221000	0.307000	7.016000	6.442000	0.574000
Drivers' License Tax	0.789616	0.803983	0.796242	0.802900	0.790325	0.804000	0.790000	0.014000	0.791000	0.790000	0.001000	0.812000	0.790000	0.022000	1.603000	1.580000	0.023000
Telephone License Tax	2.521905	2.931732	3.243935	3.546256	3.450499	3.656000	3.560000	0.096000	3.821000	3.720000	0.101000	3.971000	3.803000	0.168000	7.792000	7.523000	0.269000
Beer License Tax	1.204236	1.156186	1.287765	1.281316	1.254564	1.242000	1.228000	0.014000	1.244000	1.228000	0.016000	1.260000	1.240000	0.020000	2.504000	2.468000	0.036000
Natural Gas Severance Tax	2.797996	2.945778	2.890666	2.492465	1.491523	1.143000	1.055000	0.088000	0.999000	1.036000	-0.037000	1.035000	1.135000	-0.100000	2.034000	2.171000	-0.137000
Freight Line Tax	1.334111	1.379418	1.195066	1.212218	1.229618	1.181000	1.184000	-0.003000	1.117000	1.288000	-0.171000	1.180000	1.342000	-0.162000	2.297000	2.630000	-0.333000
Wine Tax	0.904905	0.905648	0.946287	0.982402	0.929861	0.901000	0.833000	0.068000	0.868000	0.794000	0.074000	0.835000	0.794000	0.041000	1.703000	1.588000	0.115000
Other Revenue Sources	12.590802	13.558652	17.886690	21.931703	21.421351	22.509000	23.797000	-1.288000	23.096000	23.558000	-0.462000	23.723000	24.418000	-0.695000	46.819000	47.976000	-1.157000
GRAND TOTAL	330.305498	364.521837	349.541481	346.689859	391.152206	377.357000	389.448000	-12.091000	369.008000	377.746000	-8.738000	380.150000	397.829000	-17.679000	749.158000	775.575000	-26.417000

FOUNDATION PROGRAM REVENUE ESTIMATE COMPARISON

Source of Revenue	ACTUAL FY 1984	ACTUAL FY 1985	ACTUAL FY 1986	ACTUAL FY 1987	ACTUAL FY 1988	OBPP FY 1989	LFA FY 1989	DIFFERENCE FY 1989	OBPP FY 1990	LFA FY 1990	DIFFERENCE FY 1990	OBPP FY 1991	LFA FY 1991	DIFFERENCE FY 1991	OBPP FY 90-91	LFA FY 90-91	DIFFERENCE FY 90-91
Fund Balance						1.022000	1.688000	-0.666000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Individual Income Tax	42.586587	45.264290	43.054033	48.669237	76.494683	77.104000	78.550000	-1.446000	76.042000	74.679000	1.363000	80.908000	82.178000	-1.270000	156.950000	156.857000	0.093000
Corporation License Tax	8.026240	14.319379	13.236255	7.688518	10.557529	11.209000	11.583000	-0.374000	11.271000	11.586000	-0.315000	11.332000	11.940000	-0.608000	22.603000	23.526000	-0.923000
Coal Severance Tax	4.141172	4.587443	4.210861	10.104150	14.215851	9.781000	10.022000	-0.241000	2.010000	2.033000	-0.023000	1.736000	1.832000	-0.096000	3.746000	3.865000	-0.119000
Interest & Income	36.982035	62.050661	37.301053	35.529619	34.078544	32.465000	30.313000	2.152000	33.485000	34.411000	-0.926000	34.353000	35.815000	-1.462000	67.838000	70.226000	-2.388000
US Mineral Royalties	14.948556	14.817634	12.629639	23.433021	26.327798	23.524000	19.044000	4.480000	22.686000	18.634000	4.052000	23.494000	19.213000	4.281000	46.180000	37.847000	8.333000
Education Trust Interest	5.107578	5.837139	7.759479	9.401931	3.430171	0.825000	0.821000	0.004000	0.926000	1.553000	-0.627000	1.148000	1.824000	-0.676000	2.074000	3.377000	-1.303000
Miscellaneous	2.145511	0.750000	0.000000	0.000000	9.350000	24.650000	17.323000	7.327000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
County Levy Surplus	18.748569	21.850083	18.344046	16.244236	10.558855	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
General Fund Transfers	12.260000	15.297669	4.654304	19.355485	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
TOTAL	144.948048	184.774298	141.189670	170.426197	185.013431	180.580000	169.344000	11.236000	146.420000	142.896000	3.524000	152.971000	152.802000	0.169000	299.391000	295.698000	3.693000
45 Mill Levy						87.431000	87.433000	-0.002000	85.499000	84.032000	1.467000	84.142000	83.625000	0.517000	169.641000	167.657000	1.984000
Elementary Transportation						-3.717000	-4.419000	0.702000	-3.717000	-3.700000	-0.017000	-3.717000	-3.700000	-0.017000	-7.434000	-7.400000	-0.034000
Miscellaneous						5.876000	7.770000	-1.894000	6.797000	8.727000	-1.930000	7.436000	8.922000	-1.486000	14.233000	17.649000	-3.416000
Forest Funds						1.465000	1.163000	0.302000	1.465000	1.163000	0.302000	1.465000	1.163000	0.302000	2.830000	2.326000	0.604000
Taylor Grazing						0.102000	0.108000	-0.006000	0.102000	0.108000	-0.006000	0.102000	0.108000	-0.006000	0.204000	0.216000	-0.012000
High School Tuition						-0.838000	-0.759000	-0.079000	-0.838000	-0.759000	-0.079000	-0.838000	-0.759000	-0.079000	-1.676000	-1.518000	-0.158000
TOTAL						90.319000	91.296000	-0.977000	89.308000	89.571000	-0.263000	88.590000	89.359000	-0.769000	177.898000	178.930000	-1.032000
District Permissive Levy						17.340000	18.880000	-1.540000	17.127000	18.217000	-1.090000	17.074000	18.179000	-1.105000	34.201000	36.396000	-2.195000
GRAND TOTAL						288.239000	279.520000	8.719000	252.855000	250.684000	2.171000	258.635000	260.340000	-1.705000	511.480000	511.024000	0.456000
MSFBWV Costs						279.446000	279.520000	-0.074000	283.922000	284.200000	-0.278000	287.856000	288.450000	-0.594000	571.778000	572.650000	-0.872000

2/01/89

EXHIBIT #1
DATE 2/01/89
HB HJR 13

2/01/89

ECONOMIC ASSUMPTIONS

Year	Assumption	1988	1989	1990	1991
CY	Oil Production (Millions) - Executive	22.500	21.500	20.000	19.000
	- LFA	22.240	21.408	21.252	—
CY	Oil Price - Executive	$14.500	$15.000	$15.500	$16.000
	- LFA	$14.150	$14.170	$14.720	—
CY	Natural Gas Production (M MCF's) - Executive	40.420	39.447	38.524	38.135
	- LFA	41.675	43.170	43.858	—
CY	Natural Gas Production (M NGL) - Executive	9.666	9.433	9.212	9.119
	- LFA	11.410	12.764	13.530	—
CY	Natural Gas Price (MCF's) - Executive	$1.803	$1.792	$1.875	$1.980
	- LFA	$1.670	$1.710	$1.790	—
CY	Natural Gas Price (NGL) - Executive	$0.225	$0.224	$0.234	$0.247
	- LFA	$0.190	$0.200	$0.210	—
CY	Coal Production (Millions) - Executive	34.428	31.000	29.633	30.833
	- LFA	35.297	32.179	33.153	33.838
CY	Coal Price - Executive	$7.769	$7.687	$7.780	$7.780
	- LFA	$7.330	$7.320	$7.470	$7.450
CY	Coal Tax Credit (Millions) - Executive	$5.800	$4.357	$2.764	$1.842
	- LFA	$6.519	$4.460	$4.614	—
CY	Copper Production (M lbs.) - Executive	134.612	128.290	113.990	114.773
	- LFA	158.442	140.951	117.079	—
CY	Gold Production (M ozs.) - Executive	0.264	0.302	0.300	0.302
	- LFA	0.302	0.309	0.291	—
CY	Silver Production (M ozs.) - Executive	5.981	5.954	6.079	6.121
	- LFA	6.341	6.902	6.922	—

Year	Assumption	1988	1989	1990	1991
CY	Lead Production (M lbs.) - Executive	15.400	15.400	15.400	15.506
	- LFA	16.330	16.330	16.330	—
CY	Zinc Production (M lbs.) - Executive	53.000	53.000	53.000	53.364
	- LFA	40.449	40.449	40.449	—
CY	Molybdenum Production (M lbs.) - Executive	11.426	11.898	12.074	12.157
	- LFA	12.954	12.514	12.074	—
CY	Palladium Production (M ozs.) - Executive	0.160	0.150	0.182	0.183
	- LFA	0.137	0.150	0.182	—
CY	Platinum Production (M ozs.) - Executive	0.047	0.044	0.054	0.054
	- LFA	0.041	0.044	0.054	—
CY	Copper Price - Executive	$0.850	$0.850	$0.600	$0.625
	- LFA	$0.900	$0.750	$0.750	—
CY	Gold Price - Executive	$425.000	$425.000	$450.000	$450.000
	- LFA	$425.000	$425.000	$400.000	—
CY	Silver Price - Executive	$5.900	$6.250	$6.500	$6.500
	- LFA	$6.350	$6.500	$6.000	—
CY	Lead Price - Executive	$0.320	$0.320	$0.320	$0.320
	- LFA	$0.360	$0.400	$0.400	—
CY	Zinc Price - Executive	$0.430	$0.420	$0.420	$0.420
	- LFA	$0.650	$0.700	$0.700	—
CY	Molybdenum Price - Executive	$3.200	$3.300	$3.300	$3.300
	- LFA	$3.200	$3.300	$3.300	—
CY	Palladium Price - Executive	$123.830	$124.400	$124.400	$124.400
	- LFA	$124.000	$124.000	$124.000	—
CY	Platinum Price - Executive	$537.500	$550.000	$550.000	$550.00
	- LFA	$550.000	$550.000	$525.000	—

Year	Assumption	1988	1989	1990	1991
FY	Forest Receipts (Millions) - Executive	$6.500	$6.892	$5.689	$5.391
	- LFA	$1.472	$1.163	$1.163	$1.163
	MT Population July 1 (Thousands) - Executive	812.000	816.000	821.000	826.000
	- LFA	805.000	811.000	819.000	827.000
	MT Population 16 and older July 1 (Thousands)	613.000	616.000	621.000	625.000
	MT Population 18-24 July 1 (Thousands)	81.000	78.000	75.000	72.000
CY	CPI Percent Change - Executive	4.140%	4.650%	4.850%	5.320%
	- LFA	4.1%	4.7%	4.7%	
CY	GNPD Percent Change - Executive	3.140%	4.610%	4.490%	4.670%
CY	PCE Percent Change - Executive	4.100%	4.900%	4.900%	5.190%
CY	Short-Term Interest Rate - Executive	7.500%	7.500%	7.100%	6.800%
CY	Long-Term Interest Rate - Executive	10.140%	9.000%	8.750%	8.750%
FY	Short-Term Interest Rate - Exec		7.50%	7.30%	6.95%
	- LFA		8.18%	7.95%	7.14%
FY	Long-Term Interest Rate - Exec		9.57%	8.88%	8.75%
	LFA		11.45%	11.46%	10.43%
CY	Prime Interest Rate - Executive	9.440%	11.240%	9.940%	8.900%
FY	Treasury Cash Average Balance (Millions) - Exec.	$222.374	$190.993	$204.377	$205.489
	- LFA		$211.647	$244.214	$240.573
FY	TRANS Issue (Millions) - Executive	$56.000	$0.000	$ 0.000	$ 0.000
	- LFA		$0.000	$51.000	$62.000
FY	Permanent Trust Bond Calls (Millions)	$0.614	$0.000	$0.000	$0.000
FY	Education Trust Bond Calls (Millions)	$0.218	$0.000	$0.000	$0.000

Year	Assumption	1988	1989	1990	1991
FY	Common School Trust Bond Calls (Millions)	$0.527	$0.000	$0.000	$0.000
FY	Resource Ind. Trust Bond Calls (Millions)	$0.000	$0.000	$0.000	$0.000
FY	Park Acq. Trust Bond Calls (Millions)	$0.000	$0.000	$0.000	$0.000
CY	MT Personal Income (Billions) - Executive	$10.300	$11.000	$11.500	$12.000
CY	MT Non-Farm Labor Income (Billions) - LFA	$ 6.189	$ 6.528	$ 6.902	$ 7.325
CY	MT Non-Farm Employment (Thousands) - Executive	275.500	277.100	278.600	280.400
FY	Income Tax Audits (Millions) - Executive		$10.307	$10.786	$11.266
	- LFA		$10.297	$10.297	$10.297
CY	Individual Federal Tax Reform (Millions) - Exec.	$39.233	$48.120	$58.079	$69.383
	- LFA	$39.233	$48.120	$58.079	$69.383
CY	MT Corporate Taxable Income (Millions) - Exec.	$546.698	$559.286	$581.776	$641.576
CY	U.S. Corp. Profits Before Taxes (Billions) - LFA	$299.7	$312.3	$327.6	—
CY	Corporate Federal Tax Reform (Millions) - Exec.	$5.890	$6.350	$6.750	$7.175
FY	Corporation Tax Audits (Millions) - Executive	$9.203	$7.000	$7.000	$7.000
	- LFA	$9.203	$9.000	$9.000	$9.000
FY	Liquor Unit Sales (Millions) - Executive	5.094	4.723	4.379	4.060
	- LFA	5.094	4.789	4.741	4.741
FY	Wine Unit Sales (Millions) - Executive	0.180	0.160	0.142	0.126
	- LFA	0.180	0.161	0.154	0.154
FY	Liquor Cost Per Unit - Executive	$4.644	$4.700	$4.758	$4.816
FY	Liquor Price Per Unit - LFA	$8.340	$8.530	$8.720	$8.920
FY	Wine Cost Per Unit - Executive	$3.161	$3.328	$3.471	$3.619
FY	Wine Price Per Unit - LFA	$5.690	$5.940	$6.210	$6.490

Year	Assumption	1988	1989	1990	1991
FY	Liquor Division Budget (% Change) - Executive	-5.100%	-5.310%	-1.900%	-1.250%
	- LFA	-5.101%	-2.000%	-1.000%	0.000
FY	Cigarette Packs (Millions) - Executive	72.909	69.194	65.956	63.033
	- LFA	72.909	73.422	73.422	73.422
FY	Tobacco Value (Millions) - Executive	$5.948	$6.152	$6.315	$6.469
FY	Net/Gross Proceeds (Millions) - Executive	$383.272	$410.315	$360.798	$309.763
	- LFA		$410.315	$330.771	$307.072
FY	All Other Valuation (Millions) - Executive	$1,594.619	$1,532.599	$1,534.301	$1,540.088
	- LFA		$1,532.635	$1,536.598	$1,551.253
FY	Institution Reimbursements (Millions) - Exec.	$15.395	$16.090	$12.211	$12.352
	- LFA	$15.395	$16.255	$16.702	$17.161
FY	Insurance Revenue Growth (% Change) - Executive	60.360%	-27.610%	5.800%	5.800%
	- LFA		-25.6%	6.000%	7.000%
FY	Police and Firemen Retirement (Millions) - Exec.	$5.626	$5.826	$5.989	$6.149
	- LFA		$5.837	$6.032	$6.233
FY	Telephone Taxable Income (% Change) - Executive	4.880%	4.890%	4.520%	3.910%
FY	Kilowatt Hours Produced (Millions) - Executive	18,007.053	18,835.723	19,384.688	19,610.710
	- LFA		19,860.115	17,805.115	17,805.115
FY	Inheritance Tax (Millions) - Executive	$8.745	$ 8.727	$8.905	$9.151
	- LFA	$8.745	$10.514	$9.550	$9.980
FY	Drivers' License Fees (Millions) - Executive	$1.939	$1.972	$1.943	$1.997
FY	Barrels of Beer (Millions) - Executive	0.697	0.689	0.691	0.698
	- LFA	0.697	0.682	0.682	0.689
CY	Freight Line Earnings (Millions) - Executive	$22.357	$21.477	$20.308	$21.460
	- LFA	$22.357	$21.527	$23.418	$24.400

Year	Assumption	1988	1989	1990	1991
FY	Liters of Wine (Millions) - Executive	5.812	5.634	5.423	5.219
	- LFA	5.812	5.206	4.962	4.962
FY	Poker Total Receipts (Millions) - Executive	$7.684	$10.660	$10.766	$10.874
	- LFA	$7.684	$12.999	$14.262	$14.853
FY	Vehicle Total Receipts (Millions) - Executive	$32.173	$34.300	$37.138	$40.376
	- LFA		$30.111	$29.765	$29.943
FY	Other Receipts (Millions) - Executive	$16.117	$15.807	$16.104	$16.554
	- LFA		$17.198	$16.564	$17.213
FY	Interest and Income Receipts (Millions) - Exec.	$34.079	$32.496	$33.699	$34.770
	- LFA		$30.313	$34.411	$35.816

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A COMPARISON OF GENERAL FUND REVENUE FORECASTS

Over fiscal years 1989 through 1991, the Office of the Legislative Fiscal Analyst forecasts general fund revenue will total $9.3 million more than the executive budget in spite of the executive inclusion of $20 million of revenue enhancement. The majority of the difference occurs in fiscal 1989. Executive estimates for fiscal 1990 and 1991 are based on an accounting change which only lists the federal share of medicaid reimbursements to state institutions as general fund revenue. For comparability, Table 2 in this report makes the same adjustment for the LFA estimate.

For fiscal 1989, the LFA anticipates general fund revenue of $389.4 million which is $12.1 million more than the executive forecast of $377.3 million. Table 1 shows the fiscal 1989 difference by revenue category.

Table 1
Current Law General Fund Revenue Comparison
Fiscal Year 1989
(Thousands)

Category	LFA	Executive	Difference
Individual Income Tax	$143,762	$141,114	$ 2,648
Corporation License Tax	29,654	28,694	960
Coal Severance Tax	9,137	8,918	219
Oil Severance Tax	12,943	13,536	(593)
Interest on Investments	17,315	14,324	2,991
Bond Transfer	39,636	38,444	1,192
Coal Trust Interest Income	39,574	39,002	572
Insurance Tax	21,625	21,371	254
Public Institutions Reimbursement	16,255	16,090	165
Liquor Profits	3,524	3,623	(99)
Liquor Excise Tax	5,188	4,998	190
Inheritance Tax	10,514	8,727	1,787
Metal Mines Tax	4,242	3,691	551
Electrical Energy Tax	3,632	3,389	243
Drivers' License Fees	790	804	(14)
Telephone License Fees	3,560	3,656	(96)
Beer License Tax	1,228	1,242	(14)
Natural Gas Severance Tax	1,055	1,143	(88)
Freight Line Tax	1,184	1,181	3
Wine Tax	833	901	(68)
Other Revenue Sources	23,797	22,509	1,288
Total	$389,448	$377,357	$12,091

The largest differences are in individual income tax and interest on investments. Because the forecasting models are dissimilar, it is difficult to isolate the reasons for the LFA income tax forecast's being $2.6 million, or 1.9 percent, higher. A likely explanation is that the executive assumes growth in per capita Montana personal income of 2.7 percent in 1988, while the LFA forecast of per capita non-farm labor income is based on 3.0 percent growth. The LFA forecast of interest on investments is $3.0 million above the executive, due to both a larger balance available for investment and a higher interest rate. The larger balance is primarily the result of higher LFA fiscal 1989 revenue forecasts for the general fund. While the executive assumes interest earned on the balance will average 7.50 percent, the LFA uses an average of 8.18 percent. During most of 1988, short-term interest rates have been on an upward trend and were in the 8.0 to 8.5 percent range in December. For fiscal 1989, the total LFA general fund revenue forecast is 3.2 percent higher than the executive.

For the 1991 biennium, the LFA forecast is $2.8 million, or 0.4 percent, lower than the executive forecast with proposed revenue adjustments. Table 2 which follows shows the 1991 biennium difference by revenue category and fiscal year. Again, forecasts of interest on investments contribute to the difference. Due to both larger invested balances and higher interest rates, the LFA anticipates $3.1 million more in interest on investments than the executive. The higher balances available for investment are the result of the LFA assumption that sales of tax and revenue anticipation notes (TRANS) add $51 million and $62 million to average balances in fiscal years 1990 and 1991, respectively. In contrast, the executive budget includes the sale of $30 million of TRANS each year. While the executive uses an average interest rate of 7.30 percent for fiscal 1990 and 6.95 percent for fiscal 1991, the LFA anticipates interest rates of 7.95 percent and 7.14 percent in fiscal years 1990 and 1991, respectively. The rates in our forecast are based on Wharton Econometrics' forecasts of short term interest rates.

Table 2
General Fund Revenue Comparison
Fiscal Years 1990 and 1991
(Thousands)

Category	Fiscal 1990 LFA	Fiscal 1990 Executive	Fiscal 1990 Difference	Fiscal 1991 LFA	Fiscal 1991 Executive	Fiscal 1991 Difference	1991 Biennium LFA	1991 Biennium Executive	1991 Biennium Difference
Individual Income Tax	$136,676	$139,170	$(2,494)	$150,401	$148,077	$ 2,324	$287,077	$287,247	$ (170)
Corporation License Tax	29,660	28,855	805	30,567	29,010	1,557	60,227	57,865	2,362
Coal Severance Tax	7,318	7,235	83	6,594	6,249	345	13,912	13,484	428
Oil Severance Tax	12,680	14,439	(1,759)	13,467	13,836	(369)	26,147	28,275	(2,128)
Interest on Investments with TRANS	19,423	17,110	2,313	17,168	16,367	801	36,591	33,477	3,114
Bond Transfer	38,461	37,760	701	41,010	38,977	2,033	79,471	76,737	2,734
Coal Trust Interest Income	37,219	35,913	1,306	39,700	37,510	2,190	76,919	73,423	3,496
Insurance Tax	21,120	22,187	(1,067)	22,023	23,685	(1,662)	43,143	45,872	(2,729)
Public Institutions Reimbursement									
with Current Acctg. Procedures	16,702	16,206	496	17,161	16,332	829	33,863	32,538	1,325
Liquor Profits	3,714	3,153	561	3,942	2,680	1,262	7,656	5,833	1,823
Liquor Excise Tax	5,252	4,691	561	5,370	4,402	968	10,622	9,093	1,529
Inheritance Tax	9,550	8,905	645	9,980	9,151	829	19,530	18,056	1,474
Metal Mines Tax	4,336	4,145	191	3,703	3,595	108	8,039	7,740	299
Electrical Energy Tax	3,221	3,488	(267)	3,221	3,528	(307)	6,442	7,016	(574)
Drivers' License Fees	790	791	(1)	790	812	(22)	1,580	1,603	(23)
Telephone License Fees	3,720	3,821	(101)	3,803	3,971	(168)	7,523	7,792	(269)
Beer License Tax	1,228	1,244	(16)	1,240	1,260	(20)	2,468	2,504	(36)
Natural Gas Severance Tax	1,036	999	37	1,135	1,035	100	2,171	2,034	137
Freight Line Tax	1,288	1,117	171	1,342	1,180	162	2,630	2,297	333
Wine Tax	794	868	(74)	794	835	(41)	1,588	1,703	(115)
Other Revenue Sources	23,558	23,096	462	24,418	23,723	695	47,976	46,819	1,157
Subtotal	$377,746	$375,193	$ 2,553	$397,829	$386,215	$11,614	$775,575	$761,408	$ 14,167
Change in Reimb. Acctg. Procedure	$ (4,092)	$ (3,995)	$ (97)	$ (4,203)	$ (3,980)	$ (223)	$ (8,295)	$ (7,975)	$ (320)
Revenue Adjustments Proposed								-0-	-0-
in the Executive Budget:								-0-	-0-
Enhance Income Tax Collection	N/A	934	(934)	N/A	1,415	(1,415)	N/A	2,349	(2,349)
Divert Coal Trust Interest	N/A	5,946	(5,946)	N/A	6,229	(6,229)	N/A	12,175	(12,175)
OBRA Medicaid Reimbursement	N/A	332	(332)	N/A	554	(554)	N/A	886	(886)
Other Changes	N/A	615	(615)	N/A	618	(618)	N/A	1,233	(1,233)
Total	$373,654	$379,025	$(5,371)	$393,626	$391,051	$ 2,575	$767,280	$770,076	$ (2,796)

The executive current law forecast of coal trust interest to the general fund is $3.5 million less than the LFA forecast for the 1991 biennium. These differences are explained by higher coal tax estimates and interest projections in the LFA forecast. For fiscal 1990, the LFA estimate of the coal tax deposit to the permanent trust is $26.7 million, or $0.3 million greater than the executive estimate of $26.4 million. For fiscal 1991, the LFA estimate of the coal tax deposit is $24.1 million, or $1.3 million higher than the executive estimate.

Interest rate projections applied by the executive and LFA on fiscal 1990 and 1991 deposits to the trust fund are shown in Table 3.

Table 3
Comparison of LFA and Executive Interest Rate Projections
1991 Biennium

	Fiscal 1990	Fiscal 1991
Long-term Interest Rate		
LFA	11.46%	10.43%
Executive	8.88	8.75
Difference	2.58%	1.68%
Short-term Investment Pool Rate		
LFA	7.95%	7.10%
Executive	7.30	6.95
Difference	0.65%	0.15%

The LFA interest rate projections are consistently higher than the executive projections. The effect of these higher interest rate projections is compounded over time, so that the difference between the executive and LFA forecasts of coal trust interest to the general fund grows from $1.3 million in fiscal 1990 to $2.2 million in fiscal 1991.

In making the forecast of public institutions reimbursement, the LFA current level forecast assumes continuation of the current practice in budgeting for medicaid. Specifically, the state's general fund match to federal medicaid payments is included in the Department of Social and Rehabilitation Service's budget and is received, with the federal portion, as revenue by eligible state institutions. Following this procedure results in approximately $17 million of total reimbursement annually. Eighty-seven percent of this total is medicaid. In the executive budget, the state's general fund match is assumed to be supplied by the individual institutions through documenting sufficient general fund expenditures on caring for medicaid residents. If institutions were to follow this procedure, both general fund revenue and expenditures would be reduced by similar amounts, approximately $8 million over the 1991 biennium.

The executive budget contains several proposed adjustments which increase its revenue forecast over current law. Included in these is the proposal to appropriate all coal trust interest to the general fund in the 1991 biennium with the exception of the approximately $100,000 per year needed for the loan loss reserve in the Montana in-state investment fund. The executive budget estimates that this proposal will increase general fund revenue by $5,946,000 in fiscal 1990 and $6,229,000 in fiscal 1991. Also included in the executive budget is a proposal to enhance collection efforts in the Department of Revenue which is expected to produce $2.3 million of additional revenue over the 1991 biennium, while several other smaller changes are anticipated to generate $2.1 million of revenue above its current law forecast.

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OFFICE OF THE LEGISLATIVE FISCAL ANALYST
A Comparison of Economic Assumptions

	1988	1989	1990	1991
CY TOTAL POPULATION				
Executive	812,000	816,000	821,000	826,000
Percent Change	0.5%	0.5%	0.6%	0.6%
LFA	805,000	811,000	819,000	827,000
Percent Change	-0.5%	0.7%	1.0%	1.0%
U.S. Census Bureau	804,000			
CY POPULATION 16 AND OLDER				
Executive	613,000	616,000	621,000	625,000
Percent Change		0.5%	0.8%	0.6%
CY POPULATION 18 TO 24				
Executive	81,000	78,000	75,000	72,000
Percent Change		-3.7%	-3.8%	-4.0%
CY CONSUMER PRICE INDEX (CPI)				
Executive				
Percent Change	4.14%	4.65%	4.85%	5.32%
LFA				
Percent Change	4.1%	4.7%	4.7%	5.1%
Wharton Econometrics 1/89 Forecast				
Percent Change	4.1%	5.1%	5.2%	5.4%
FY SHORT-TERM INTEREST RATE				
Executive		7.50%	7.30%	6.95%
LFA		8.18%	7.95%	7.14%
FY LONG-TERM INTEREST RATE				
Executive		9.57%	8.88%	8.75%
LFA		11.45%	11.46%	10.43%
Wharton Econometrics 1/89 Forecast (Moody Baa Seasoned Bond Rate)		11.22%	11.26%	10.78%
CY PRIME INTEREST RATE				
Executive	9.44%	11.24%	9.94%	8.90%
Wharton Econometrics 1/89 Forecast	9.32%	10.96%	10.50%	10.50%
FY TREASURY CASH AVERAGE BALANCE (MILLIONS)				
Executive	$222.374	$190.993	$204.377	$205.489
LFA		$211.647	$244.214	$240.573
FY TRANS ISSUE (MILLIONS)				
Executive*	$56.000	$0.000	$0.000	$0.000
LFA		$0.000	$51.000	$62.000

* Revenue adjustments include the sale of $30 million of TRANS in each FY1990 and 19