

MINUTES

MONTANA SENATE 53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Mike Halligan, on April 24, 1993, at 8:45 a.m.

ROLL CALL

Members Present:

Sen. Mike Halligan, Chair (D)
Sen. Dorothy Eck, Vice Chair (D)
Sen. Bob Brown (R)
Sen. Steve Doherty (D)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John Harp (R)
Sen. Spook Stang (D)
Sen. Tom Towe (D)
Sen. Fred Van Valkenburg (D)
Sen. Bill Yellowtail (D)

Members Excused: None.

Members Absent: None.

Staff Present: Jeff Martin, Legislative Council
Bonnie Stark, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: None.
Executive Action: SB 283, SB 434, HJR 3

EXECUTIVE ACTION ON HJR 3

DISCUSSION:

Senator Van Valkenburg said he had asked that amendments be prepared for HJR 3 which would have the affect of adopting the recommendations of the Legislative Fiscal Analyst's (LFA) office to adjust the revenue estimate. The net affect of those amendments would be to increase anticipated General Fund revenue during the coming biennium by approximately \$24 million. Not all the amendments are increases; some take the revenue down. These figures are spread over three different fiscal years, and approximately \$10 million of the net increase occurs in fiscal

year 1993. Terry Johnson, Legislative Fiscal Analyst's office, is the one who has prepared these figures, and Senator Van Valkenburg believes they are conservative estimates. Exhibit No. 1 to these minutes is a copy of the Amendments proposed. (hj000302.ajm)

MOTION:

Senator Van Valkenburg moved to adopt the amendments by the LFA, listed on Exhibit No. 1, and strike the previous Committee amendment made on March 16, 1993.

DISCUSSION:

Senator Brown asked if Dave Lewis, Budget Director, could comment on the revenue estimates and the motion to amend the Budget Resolution. Mr. Lewis commented that he does not disagree with Mr. Johnson's projections; however, he believes it is premature to project the revenue and expenditures. When the budget came out of the House, there was a \$24 million cash deficit projected. There is a possibility of excess revenue, but Mr. Lewis is mostly concerned about making sure that there is still a positive fund balance. He would acknowledge the possibility of higher revenues for the purpose of covering the cash deficit, but is concerned about increasing the spending. He prefers to take a conservative view at this time, and does not believe there is evidence on income tax revenue at this time to justify the increases in this amendment. Mr. Lewis presented Exhibit No. 2 to these minutes.

Senator Brown asked Mr. Lewis if he objected to the Committee amending HJR 3, or does he object to the money being spent. Mr. Lewis said he does not object to amending the resolution because there is the potential of some revenue above the original estimate. He is worried about the tendency of using the additional fund projections at this time, and thinks it would be premature. The Budget Office goal is to get the negative cash projection within \$25 million.

Senator Towe asked Mr. Lewis if most of the FY '93 revenue is already collected. Mr. Lewis said the bulk of the '93 revenue was tied to bond calls. The reinvestment interest is so low that there may be an offset in the interest earnings in the coming two years as the money is held waiting for the rates to go up. This would be approximately \$5.5 million of the \$10 million.

In response to Senator Towe's questions about projections on receipts of individual income taxes, Mr. Lewis said he has been looking at the approximate 1,000 layoffs at the Troy operations, the various hospitals, and state government, and he thinks the income projections are premature at this time.

Senator Harp questioned Mr. Lewis if he has had a chance to look at the quarterly returns affected by HB 14 in the Special Legislative Session in January, 1992. Mr. Lewis said those have not been processed, and the information is not available yet.

Senator Van Valkenburg followed up with questions on the quarterly payments, and Mr. Lewis said they don't know what the totals will be versus the estimates, whenever they are received.

Senator Van Valkenburg asked if Terry Johnson could respond to the comments by Mr. Lewis. Mr. Johnson presented Exhibit No. 3 to these minutes, which are updated revenue estimates since he last reported to this committee. Mr. Johnson said the individual income tax data his office is using is actual calendar year '92 data. Employment data and wage and salary income has seen over a 4.4% growth in non-farm employment from calendar year '91 to '92; this growth is over 13,000 jobs. HJR 3 assumed the job growth was going to be about 5,000. Regarding wage and salary income, HJR 3 assumed this would grow by about 4.5%. Actual data shows that wage and salary income is growing at 7.2%.

Mr. Johnson has researched the bond calls extensively and has looked at both the permanent trust portfolio and the common school portfolio. He agrees with Director Lewis as far as bond calls and lower rate of return in subsequent years, provided those investments are made in the long-term portfolio. If the investments are made in the short-term portfolio, there will probably be even lower rates. In that research, he found that there are new investments that deal with zero coupon bonds that were not taken into account in the original Resolution. When he takes them into account now, the amount of revenue that the state may lose because of lower long-term investments is offset by the zero coupon bond calculations now included. At this point in time, he does not have a problem with the over-all number in terms of interest earnings from the permanent trust account and the interest from the I & I account.

Mr. Johnson pointed out that there was concern about the dollars to be generated from HB 14. Ultimately, the Legislature adopted the LFA's recommendation which was about \$2 million below what the Department of Revenue (DOR) was indicating. Implicit in the assumptions built into HJR 3 at this point is the more conservative estimate. The previous DOR director advocated a \$34 million estimate at that time. The LFA chose a lower estimate which ultimately was adopted by the Revenue Oversight Committee (ROC), and that is what is in the Resolution at this time.

Senator Towe asked Mr. Johnson to further explain the zero coupon bonds. Mr. Johnson said the state is investing the zero coupon bonds. These were not included in his interest calculations last October, but are included at this time. The state is accruing those investment earnings on an annual basis.

Senator Gage asked Mr. Johnson what is being used for cash to replace those zero couple bonds. Mr. Johnson said he has concern in this regard because as time marches on and more of these investments are made, the state distributes these investments to the General Fund and the School Equalization Account (SEA), and the differential is increased between cash balance and fund balance.

Senator Gage asked if any thought was given to what will happen if the Federal government goes ahead with the energy tax. Mr. Johnson said he has not looked at that possibility. Senator Gage asked Mr. Lewis the same question, and Mr. Lewis responded that this was discussed in his office when it was originally proposed, but there is no way of calculating the impact. As he recalled, it translates into approximately a 7.5 cent per gallon tax on fuel, and he said this would raise operating expenses of business, agriculture and everyone else.

Senator Harp said he thinks a prudent way of handling the additional revenue should be done by including an anticipated supplemental for FY '94 to be faced in January of 1995.

Senator Towe said it is his understanding that \$4 million of the \$23 million is the TRANS monies. There is an expenditure item and an income item on that. The expenditure item of \$4 million has been included in HB 2. Consequently, if it isn't included in HJR 3, it would be taken in on one side and not on the other.

Senator Gage asked for clarification of the final revision figures on Exhibit No. 3. Mr. Johnson said that of the \$19.293 million figure, almost \$13 million would be General Fund, \$6.3 would be SEA account, and in addition, \$4 million would be for the TRANS issue. The total amount of adjustment should be \$23.3 million. Mr. Johnson said the previous amendment passed on March 16, 1993, was dealing with the approximately \$3 million per year rail car tax. Senator Gage totalled the inserts and strike outs listed on the amendment and concluded that HJR 3 would be increased, from the time it came from the House, by \$33.4 million. Mr. Johnson agreed.

VOTE:

The motion CARRIED UNANIMOUSLY on oral vote. (hj000302.ajm)

MOTION/VOTE:

Senator Towe moved HJR 3 BE CONCURRED IN AS AMENDED. The motion CARRIED on oral vote, with Senator Harp voting "NO". (901030SC.Sma) Senator Towe will carry the bill on the Senate floor.

EXECUTIVE ACTION ON SB 434

MOTION/VOTE:

Senator Brown moved to TABLE SB 434. The motion CARRIED on oral vote with Senators Halligan and Stang voting "NO".

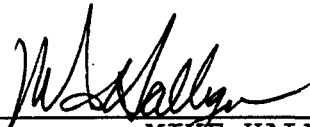
EXECUTIVE ACTION ON SB 283

MOTION/VOTE:

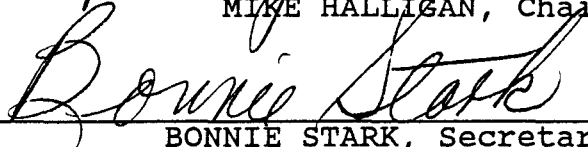
Senator Towe moved to TABLE SB 283. The motion CARRIED UNANIMOUSLY on oral vote.

ADJOURNMENT

Adjournment: The meeting adjourned at 9:15 a.m.



MIKE HALLIGAN, Chair



BONNIE STARK, Secretary

MH/bjs

ROLL CALL

SENATE COMMITTEE TAXATION

DATE 4-24-93

[illegible]

FC8

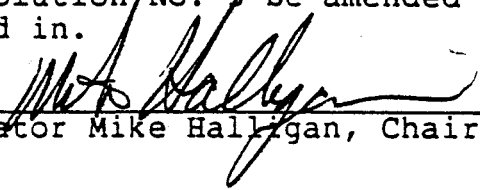
Attach to each day's minutes

SENATE STANDING COMMITTEE REPORT

Page 1 of 7
April 24, 1993

MR. PRESIDENT:

We, your committee on Taxation having had under consideration House Joint Resolution No. 3 (third reading copy -- blue), respectfully report that House Joint Resolution No. 3 be amended as follows and as so amended be concurred in.

Signed: 

Senator Mike Halligan, Chair

That such amendments read:

1. Strip Senate Committee on Taxation amendments dated March 16, 1993

2. Page 3, line 2.

Strike: "\$523,841,000"

Insert: "\$533,587,000"

Strike: "\$465,293,000"

Insert: "\$474,821,000"

Strike: "\$480,745,000"

Insert: "\$488,540,000"

3. Page 3, line 3.

Strike: "\$400,684,000"

Insert: "\$404,603,000"

4. Page 3, line 4.

Strike: "\$391,637,000"

Insert: "\$393,186,000"

Strike: "\$400,698,000"

Insert: "\$401,535,000"

5. Page 3, line 12.

Following: line 11

Insert: "BE IT FURTHER RESOLVED, that the Legislature, in considering House Bill No. 671, intends that the inflation factor applied to personal exemptions and the standard deductions be one-half of the change in the consumer price index.

BE IT FURTHER RESOLVED, that if House Bill No. 671 is passed and approved in substantially the same form as it passed the Senate on April 20, 1993, and if Senate Bill No. 235 is not passed and approved by the electorate, then it is the intention of the Legislature, in order to accurately reflect the financial condition of the state, that adjustments to the revenue estimates contained in this resolution take into account the inflation factor of one-half of the change in the consumer price index as intended in House Bill No. 671."

6. Page 4, line 9.

Strike: "307.300"

Insert: "317.100"

Strike: "312.400"

Insert: "322.400"

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Strike: "322.000"

Insert: "332.300"

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Strike: "\$6,322.395"

Insert: "\$6,452.000"

Strike: "\$6,634.740"

Insert: "\$6,770.729"

Strike: "\$6,987.400"

Insert: "\$7,130.932"

Strike: "\$7,353.865"

Insert: "\$7,504.592"

8. Page 4, line 18.

Strike: "4.54%"

Insert: "6.68%"

9. Page 5, line 2.

Strike: "\$355.801"

Insert: "\$375.800"

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Strike: "\$406.946"

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Strike: "\$432.886"

Insert: "\$428.300"

10. Page 5, line 3.

Strike: "\$741.257"

Insert: "\$784.883"

Strike: "\$800.496"

Insert: "\$875.712"

Strike: "\$861.988"

Insert: "\$916.452"

Strike: "\$922.471"

Insert: "\$912.254"

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Strike: "3.01%"

Insert: "3.0%"

Strike: "3.35%"

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Strike: "3.93%"

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Strike: "4.11%"

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Strike: "4.59%"

Insert: "4.09%"

Strike: "5.39%"

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Insert: "\$60.000"

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Strike: "\$1.843"

Insert: "\$6.018"

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Strike: "\$2.203"

Insert: "\$4.198"

18. Page 6, line 1.

Strike: "36.850"

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-END-

Amendments to House Joint Resolution No. 3
Third Reading Copy

Requested by Senator Van Valkenburg
For the Committee on Taxation

Prepared by Jeff Martin
April 21, 1993

DATE 4-24-93
BILL NO. HJR 3

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EXHIBIT 1
DATE 4-24-93
BY HJR-3

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DATE

1
4-24-93

HJR-3

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Table 1
Recommended Revenue Estimate Revisions
Figures In Millions

	HJR 3 Fiscal 1993	Revision Fiscal 1993	Revision Fiscal 1994	Revision Fiscal 1995	Revision Total
<i><u>General Fund Sources Reviewed</u></i>					
Individual Income Tax	\$221.018	\$3.561	\$3.151	\$3.254	\$9.966
Corporation Income Tax	42.897	2.209	2.451	0.800	5.460
Long Range Bond Excess	48.121	0.874	0.883	0.614	2.371
Coal Trust Income	39.608	3.549			3.549
Insurance Premiums Tax	22.648	0.636	0.628	0.662	1.926
Oil Severance Tax	16.815				
Interest on Investments	16.475	(3.378)	(2.320)	(2.367)	(8.065)
Coal Severance Tax	14.260	(0.607)	(0.223)	(0.210)	(1.040)
Video Gaming Net Income Tax	11.019	(0.408)	(0.371)	(0.400)	(1.179)
Institutions Reimbursements	15.893				
Total GF Reviewed	\$448.754	\$6.436	\$4.199	\$2.353	\$12.988
Total General Fund	\$527.151	\$527.151	\$468.642	\$484.094	\$1,479.887
<i><u>School Equalization Sources Reviewed</u></i>					
Individual Income Tax	\$100.303	\$1.616	\$1.684	\$1.739	\$5.039
Corporation Income Tax	19.320	1.032	1.145	0.374	2.551
Coal Trust Income	6.990	0.626			0.626
Coal Severance Tax	4.713	(0.202)	(0.165)	(0.156)	(0.523)
Statewide Property Tax	202.019				
Interest & Income	39.847	1.995			1.995
US Mineral Leasing	22.040	(1.148)	(1.115)	(1.120)	(3.383)
Total SEA Reviewed	\$395.232	\$3.919	\$1.549	\$0.837	\$6.305
Total School Equalization	\$400.684	\$400.684	\$391.637	\$400.698	\$1,193.019
Total GF & SEA Reviewed	\$843.986	\$10.355	\$5.748	\$3.190	\$19.293
Total GF & SEA	\$927.835	\$927.835	\$860.279	\$884.792	\$2,672.906
Total Percent Change		1.12%	0.67%	0.36%	0.72%

SENATE JOURNAL

EXHIBIT NO. 2

DATE 4-24-93

BILL NO. HJR 3

Office of Legislative Fiscal Analyst

Recommended Revenue Estimate Revisions

Figures In Millions

Revenue Source	Revision Fiscal 1993	Revision Fiscal 1994	Revision Fiscal 1995	Revision Total
◆ <i>Individual Income Tax</i>	<i>\$5.671</i>	<i>\$5.296</i>	<i>\$5.469</i>	<i>\$16.436</i>

Reason : Higher employment growth.
Higher wage and salary income growth.

HJR 3 assumed non-farm employment would grow by about 1.6% per year throughout the forecast period. Actual data as reported by the Department of Labor and Industry shows employment grew 4.41% or 13.4 thousand jobs from calendar 1991 to calendar 1992. In the revised recommendation, this growth rate was assumed for calendar 1992 only and was not applied to subsequent years.

HJR 3 assumed non-farm wage and salary income would increase by 4.54% from calendar 1991 to calendar 1992. Three quarters of actual data as reported by the US Department of Commerce shows wage and salary income has grown by 7.23% from calendar 1991 to calendar 1992. In the revised recommendation, this growth rate was assumed for calendar 1992 only and was not applied to subsequent years.

◆ <i>Corporation Income Tax</i>	<i>\$3.621</i>	<i>\$4.018</i>	<i>\$1.312</i>	<i>\$8.951</i>
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Reason : Higher US corporate pre-tax profits growth.

HJR 3 assumed US pre-tax corporate profits would increase approximately 6.5% per year throughout the forecast period. Data from Wharton Econometrics, Inc. for March 1993 estimates pre-tax profits will increase 12.3, 10.5, 3.9, and -7 percent for calendar 1992, 1993, 1994, and 1995 respectively. Since Montana's pre-tax profits parallel US trends, Whartons latest forecasts were used in the revision recommendations. SBAS data through March 31, supports the revised estimate for fiscal 1993.

◆ <i>Long-Range Bond Excess</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>
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Reason : Explained above.

Since changes in individual income tax and corporation income taxes affect long-range bond excess revenues, the impact on this source is included in the totals for those two sources. No adjustments were made to cigarette tax or tobacco tax revenue.

SERVICE TAXATION

EXHIBIT NO. 3

DATE 4-24-93

BILL NO. HJR 3

Office of Legislative Fiscal Analyst

Recommended Revenue Estimate Revisions

Figures In Millions

Revenue Source	Revision Fiscal 1993	Revision Fiscal 1994	Revision Fiscal 1995	Revision Total
◆ <i>Coal Trust Income</i>	<i>\$4.175</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$4.175</i>
Reason : Higher gain/loss revenues from bond calls.				
Because of lower long-term interest rates, companies are calling allowable bonds. If a company can re-issue debt at a lower long-term interest rate, the savings in interest costs can more than offset the bond call premium assessments. SBAS data through March 31, shows bond call revenues are \$4.2 million above the HJR 3 estimates for fiscal 1993. This one-time increase is included in fiscal 1993 only and has not been included in fiscal 1994 and 1995. Additional calls that may occur in the remaining three months of fiscal 1993 have not been included.				
◆ <i>Insurance Premiums Tax</i>	<i>\$0.636</i>	<i>\$0.628</i>	<i>\$0.662</i>	<i>\$1.926</i>
Reason : Higher insurance premiums growth rate.				
SBAS data through March 31 shows insurance taxes are increasing at an annual rate of 7.5%. HJR 3 assumed this growth rate would be 5.5% for fiscal 1993, 1994, and 1995. This growth rate was assumed for fiscal 1993 only, with the lower 5.5% rate applied in subsequent years.				
◆ <i>Oil Severance Tax</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>
Reason : No change.				
Actual oil price and production data for calendar 1992 was slightly below the estimates contained in HJR 3. Since the overall change in tax revenue would be insignificant, no adjustments were recommended.				
◆ <i>Interest on Investments</i>	<i>(\$3.378)</i>	<i>(\$2.320)</i>	<i>(\$2.367)</i>	<i>(\$8.065)</i>
Reason : Lower short-term interest rates. Lower investable balances.				
Current short-term interest rates are about 65 basis points below HJR 3 estimates. Data from Whartons Econometrics, Inc. March 1993 publication forecasts short-term interest rates will be 50 basis points below HJR 3 assumptions for fiscal 1994 and 1995. Current rates, in conjunction with the Wharton forecasts, were used in the revised recommendations.				
SBAS data through March 31, shows the average daily balance in the treasurer's cash account is approximately \$30 million below the HJR 3 assumption for fiscal 1993. The revised recommendations assumes this reduced balance will continue throughout the forecast period.				

Office of Legislative Fiscal Analyst

Recommended Revenue Estimate Revisions

Figures In Millions

Revenue Source	Revision Fiscal 1993	Revision Fiscal 1994	Revision Fiscal 1995	Revision Total
◆ <i>Coal Severance Tax</i>	<i>(\$0.809)</i>	<i>(\$0.388)</i>	<i>(\$0.366)</i>	<i>(\$1.563)</i>
Reason : Lower production for Westmoreland Resources Company. Lower price for Decker Coal Company.				
Actual data for calendar 1992 showed production at the Westmoreland mine below the assumption contained in HJR 3. Since Westmoreland's production is assumed to be 0 in calendar 1993, 1994, and 1995, an adjustment to total coal production was recommended for calendar 1992 only.				
Actual data for calendar 1992 also showed the contract sales price for Decker Coal Company below the assumption contained in HJR 3. Because their prices have been below forecasts for the final two quarters of calendar 1992, price revisions were recommended for calendar 1992, 1993, 1994, and 1995.				
◆ <i>Video Gaming Net Income Tax</i>	<i>(\$0.408)</i>	<i>(\$0.371)</i>	<i>(\$0.400)</i>	<i>(\$1.179)</i>
Reason : Lower video gaming net income growth.				
SBAS data through March 31, shows video gaming net income taxes are increasing but at a rate slower than anticipated in HJR 3. Revenues now appear to be growing at about 10% per year. This growth rate was assumed for fiscal 1993 and 1994 only with an 8% rate applied in fiscal 1995.				
◆ <i>Institution Reimbursements</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>
Reason : No change.				
SBAS data through April 12, shows revenues are higher than estimated. However, because of a previous fiscal year accounting change, no revision is recommended.				
◆ <i>Statewide Property Tax</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>	<i>\$0.000</i>
Reason : No change.				
SBAS data through March 31, shows revenues are higher than anticipated. However, 55 mill levy revenue is now remitted to the state on a monthly basis. Since this was not done in previous years, no historical data is available for comparison purposes. Data are available on the 40 and 6 mill levies, but the historical data is quite volatile. Without reliable information, no revision was recommended.				

Office of Legislative Fiscal Analyst

Recommended Revenue Estimate Revisions

Figures In Millions

Revenue Source	Revision Fiscal 1993	Revision Fiscal 1994	Revision Fiscal 1995	Revision Total
◆ <i>Interest & Income</i>	\$1.995	\$0.000	\$0.000	\$1.995
Reason : Higher gain/loss revenues from bond calls.				
Because of lower long-term interest rates, companies are calling allowable bonds. If a company can re-issue debt at a lower long-term interest rate, the savings in interest costs can more than offset the bond call premium assessments. SBAS data through March 31, shows bond call revenues are \$2.0 million above the HJR 3 estimates for fiscal 1993. This one-time increase is included in fiscal 1993 only and has not been included in fiscal 1994 and 1995. Additional calls that may occur in the remaining three months of fiscal 1993 have not been included.				
◆ <i>US Mineral Leasing</i>	(\$1.148)	(\$1.115)	(\$1.120)	(\$3.383)
Reason : Lower price for Decker Coal Company.				
Actual data for calendar 1992 showed the contract sales price for Decker Coal Company below the assumption contained in HJR 3. Because their prices have been below forecasts for the final two quarters of calendar 1992, price revisions were recommended for calendar 1992, 1993, 1994, and 1995. Since 90% of Decker's coal production is on federal lands, revised price recommendations reduce revenues from this source.				
<i>Total Adjustments (GF,SEA,DS)</i>	<u>\$10.355</u>	<u>\$5.748</u>	<u>\$3.190</u>	<u>\$19.293</u>