

HOUSE JOINT RESOLUTION NO. 9

1/19 Introduced
1/19 Referred to Taxation
1/23 Hearing
2/12 Committee Report-Bill Pass As Amended
2/14 2nd Reading Pass As Amended
2/27 3rd Reading Pass

Transmitted to Senate

3/05 Referred to Taxation
4/04 Hearing
4/25 Comm Report-Bill Concurred As Amended
4/25 2nd Reading Concurred
4/25 3rd Reading Concurred

Returned to House With Amendments

Died in Process

1 HOUSE JOINT RESOLUTION NO. 9
2 INTRODUCED BY Malison

3
4 A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF
5 REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN
6 ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF
7 THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED
8 BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE
9 MONTANA CONSTITUTION.

10
11 WHEREAS, Article VI, section 9, of the Montana
12 Constitution requires the Governor to submit to the
13 Legislature a budget for the ensuing fiscal period
14 containing in detail the estimated revenue of the state; and

15 WHEREAS, Article VIII, section 9, of the Montana
16 Constitution requires that the Legislature may not
17 appropriate funds in excess of the anticipated revenue of
18 the state; and

19 WHEREAS, section 5-12-302(2), MCA, requires the Office
20 of the Legislative Fiscal Analyst to estimate revenue from
21 existing and proposed taxes, and section 17-7-123(1), MCA,
22 requires the Governor to submit a budget showing a balance
23 between proposed disbursements and total anticipated
24 receipts; and

25 WHEREAS, due to the complexity of economic variables

1 involved in revenue forecasting and the diversity of sources
2 from which state revenues are obtained, it has become
3 increasingly difficult to project revenues in order to
4 prepare a balanced budget for the ensuing biennium; and

5 WHEREAS, past legislatures have not agreed on revenue
6 projections until the last days of the session when there is
7 little time for comprehensive analysis or reasoned
8 criticism; and

9 WHEREAS, it is in the best interests of the state that
10 revenue forecasts be discussed and arrived at in public
11 hearings wherein all the people may attend and participate.

12
13 NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE
14 OF REPRESENTATIVES OF THE STATE OF MONTANA:

15 That the state general fund revenue for fiscal years
16 1986 and 1987 is estimated to total \$767,532,000. This total
17 is based on the assumptions and projections set forth below:

18 GENERAL FUND REVENUE

19 The projections for total general fund revenue during
20 the 1986-87 biennium are based on an assumption of moderate
21 economic growth during the period. While current economic
22 growth is slowing, the present economic recovery is expected
23 to continue, but at a more moderate level. It is further
24 assumed that the inflation rate will be about 6% during the
25 biennium and that interest rates will drift upward until

1 late 1986 and then decline slightly in 1987, based on the
 2 assumption of a less restrictive monetary policy by the
 3 Federal Reserve and a continuation of competing credit
 4 demands between private borrowers and the federal
 5 government.

6 General Fund Revenue

7 Source of Revenue

8 Fiscal 1985 Fiscal 1986 Fiscal 1987 Biennium

9 =====

10 (1) Individual Income Tax

11 \$116,653,000 \$123,466,000 \$130,626,000 \$254,092,000

12 This revenue consists of 64% of the total projected
 13 individual income tax collections, which percentage is
 14 currently deposited in the general fund.

15 Assumption: Income tax forecasts for the 1986-87
 16 biennium assume moderate growth in personal income and
 17 employment. These projections also are based upon the
 18 continuation of all statutory credits. The additional
 19 revenue that would be generated by federal income tax
 20 indexing has not been included in the forecasts.

21 (2) Corporation License Tax

22 \$35,017,000 \$29,957,000 \$32,304,000 \$62,261,000

23 The corporation license tax is distributed to several
 24 accounts. The revenue reported above consists of 64% of the
 25 corporation license tax, which percentage is currently

1 deposited in the general fund.

2 (3) Coal Severance Tax

3 \$17,444,000 \$19,735,000 \$18,732,000 \$38,467,000

4 The coal severance tax is imposed on all coal
 5 production in excess of 20,000 tons per company per calendar
 6 year, assessed at the rate of 30% of the value of the coal
 7 with a heating quality of at least 7,000 Btu's per pound and
 8 20% of the value of coal with a lower Btu rate.

9 Assumption: With lower demand and competitively priced
 10 alternative fuels, coal prices have remained soft. It is
 11 assumed that these conditions, in conjunction with royalty
 12 deductions, will result in a modest rate of growth in the
 13 price of coal during the biennium. A dispute involving the
 14 state's authority to tax coal mined on Crow Indian land has
 15 prompted a major coal developer to protest taxes paid on
 16 this production. Until a settlement is reached, these taxes
 17 are being deposited in an escrow account. Tax forecasts for
 18 the 1986-87 biennium assume a settlement will not be reached
 19 until after fiscal year 1987; therefore, these coal tax
 20 revenues are not included in the above revenue estimates.

21 (4) Oil Severance Tax

22 \$32,837,000 \$27,792,000 \$29,269,000 \$57,061,000

23 Assumptions: Oil severance tax revenues are dependent
 24 on the price per barrel and the number of barrels of oil
 25 produced in the state. Since oil is a commodity that is used

1 for diverse purposes, the prices depend on federal
 2 regulations and world demand. Although recent oil price cuts
 3 by Norway, Great Britain, and Nigeria have injected an
 4 uncertainty in the international oil market, it is assumed
 5 that prices will stabilize and increase slightly by the
 6 calendar year 1987. This assumption is based on OPEC's
 7 recent agreement to cut daily production and Chase
 8 Econometrics' prediction that further price declines will
 9 not occur because of an observed increase in recent
 10 worldwide demand.

11 (5) Interest on Investments

12 \$27,732,000 \$25,099,000 \$25,820,000 \$50,919,000

13 Assumptions: Interest on investments is projected to
 14 increase in fiscal 1985, but then decline in fiscal years
 15 1986 and 1987. The increase in 1985 is expected because tax
 16 anticipation notes were sold this year. The decline in 1986
 17 and 1987 is expected because interest earned on the highway
 18 gas account will begin to accrue to the highway account.

19 (6) Long-Range Bond Excess

20 \$38,449,000 \$38,880,000 \$40,652,000 \$79,532,000

21 The long-range debt service account receives 11% of all
 22 individual income and corporation license taxes, 79.75% of
 23 all cigarette excise taxes, and 100% of the tobacco products
 24 tax. When the sum of money in the debt service account
 25 exceeds the annual principal and interest payments, the

1 excess is transferred to the general fund.

2 Assumption: It is assumed that there will be no
 3 additional long-range building bonds sold through fiscal
 4 year 1987.

5 (7) Coal Trust Fund Interest

6 \$24,529,000 \$28,792,000 \$33,560,000 \$62,352,000

7 This revenue is derived from interest earned on the
 8 deposit of 50% of the coal severance tax receipts dedicated
 9 to the permanent trust fund.

10 Assumption: Coal severance tax bonds are sold to
 11 finance specific water resources development projects. Debt
 12 service on these bonds is paid primarily with pledged
 13 project and coal severance tax revenues. The use of coal
 14 severance tax revenues for this purpose will reduce
 15 permanent trust fund receipts by about \$300,000 in fiscal
 16 years 1986 and 1987. However, it is projected and assumed
 17 that the total permanent trust interest income will increase
 18 over the biennium. Balances available for investment are
 19 expected to increase because of anticipated higher coal
 20 severance tax receipts. In addition, long-term interest
 21 rates are expected to gradually increase by calendar year
 22 1986.

23 (8) Insurance Premiums Tax

24 \$16,109,000 \$16,139,000 \$17,558,000 \$33,697,000

25 Assumptions: The level of insurance tax receipts is

1 assumed to increase by about 8% for fiscal years 1985
2 through 1987, based on a moderate growth in total personal
3 income and employment.

4 (9) Public Institutions Reimbursements

5 \$12,213,000 \$14,758,000 \$15,310,000 \$30,068,000

6 Assumptions: In fiscal 1984, approximately 88% of all
7 reimbursements collected were federal medicaid receipts.
8 Hence, forecasts for revenue assume federal medicaid
9 reimbursement equal to the executive budget request for the
10 Department of Social and Rehabilitation Services. This
11 request assumes that the number of patient care days will
12 remain constant at the 1985 level. In addition, the revenue
13 estimates for fiscal years 1986 and 1987 assume about
14 \$2,000,000 annually for medicaid reimbursements from the
15 Montana Youth Treatment Center at Billings.

16 (10) Liquor Profits

17 \$4,466,000 \$5,924,000 \$6,544,000 \$12,468,000

18 (11) Liquor Excise Tax

19 \$6,418,000 \$7,074,000 \$7,470,000 \$14,544,000

20 Assumptions: Liquor sales for fiscal years 1986 and
21 1987 are expected to show little growth. Although personal
22 income is growing, there appears to be a trend toward
23 moderation in liquor consumption. Furthermore, the liquor
24 division's operating expenses for the 1986-87 biennium are
25 expected to remain constant at the 1984 level.

1 (12) Inheritance Tax

2 \$6,289,000 \$6,656,000 \$7,072,000 \$13,728,000

3 Assumptions: Projected inheritance tax revenues are
4 based on a 6% annual growth rate in tax collections. Returns
5 processed are expected to remain stable and of average size
6 taxable at between 0% and 32%.

7 (13) Metal Mines Tax

8 \$1,711,000 \$1,185,000 \$1,190,000 \$2,375,000

9 Historically, the metal mines tax has been deposited in
10 the general fund. Beginning in fiscal year 1986, one-third
11 of the receipts will be deposited in a hard-rock mining
12 trust account.

13 Assumptions: Metal prices, metal production, and the
14 effective tax rate are the major factors that determine the
15 level of metal mines tax receipts. It is assumed that
16 production for gold, silver, and copper will increase
17 modestly throughout the biennium. Also, prices are assumed
18 to remain constant at calendar year 1984 levels. No new
19 companies are expected to begin operating in the state by
20 the end of calendar year 1986.

21 (14) Electrical Energy Tax

22 \$1,986,000 \$2,042,000 \$2,169,000 \$4,211,000

23 Assumptions: Total U.S. electricity production has
24 grown by 2.2% since calendar year 1974. It is assumed that
25 Montana's production will follow this trend and that demand

1 for electrical power will increase at this rate through the
 2 1986-87 biennium. In addition, an adjustment to these
 3 estimates has been made based on a July 1986 completion date
 4 for Colstrip Unit 4. Production capacity for both Colstrip
 5 Unit 3 and Unit 4 is assumed to be 60% the first year and
 6 70% thereafter.

7 (15) Drivers' License Fees

8 \$817,000 \$835,000 \$854,000 \$1,689,000

9 Assumptions: Census data from 1970 and 1980 indicate
 10 that growth in the eligible driver age cohort was 2.2%
 11 annually. Collection of drivers' license fees is assumed to
 12 continue this trend during the biennium.

13 (16) Telephone License Tax

14 \$2,814,000 \$3,053,000 \$3,311,000 \$6,364,000

15 Assumptions: Revenue forecasts for the telephone tax
 16 are based on an average growth rate in revenues of 8.5%
 17 observed since calendar year 1969.

18 (17) Beer License Tax

19 \$1,213,000 \$1,221,000 \$1,230,000 \$2,451,000

20 Assumptions: Revenues are projected based on an annual
 21 growth rate in beer consumption of about 0.7% that has been
 22 observed since fiscal year 1979.

23 (18) Natural Gas Severance Tax

24 \$3,481,000 \$3,650,000 \$3,862,000 \$7,512,000

25 Assumptions: Natural gas production is projected to

1 remain at current levels throughout the 1986-87 biennium.
 2 Prices are expected to increase only moderately despite
 3 deregulation of all new gas on January 1, 1985. Prices will
 4 increase only moderately even with deregulation because of
 5 more competition, contract renegotiations, and lower market
 6 prices, primarily from Canada.

7 (19) Freight Line Tax

8 \$1,402,000 \$1,465,000 \$1,556,000 \$3,021,000

9 Assumptions: Freight line tax revenues are projected to
 10 increase by about 6% over the period 1985-1987.

11 (20) Wine Tax

12 \$917,000 \$928,000 \$940,000 \$1,868,000

13 Assumptions: Wine tax receipts are projected to
 14 increase by 1.3% annually based on the same percentage rate
 15 of growth in the consumption of distilled spirits
 16 experienced since calendar year 1969. Wine taxes are not
 17 based on the value of the commodity. Revenues are a function
 18 of consumption.

19 (21) Other Revenue Sources

20 \$13,474,000 \$13,930,000 \$14,922,000 \$28,852,000

21 Assumptions: Since fiscal year 1981, revenues from a
 22 number of other statutory taxes and fines have grown an
 23 average of 7.2% per year after adjusting for one-time
 24 receipts. It is assumed this trend will continue during the
 25 biennium; however, a negative adjustment of \$465,000 was

1 made to fiscal year 1986 and 1987 estimates to account for
2 bank examination fees being deposited to a new state special
3 revenue account.

4 General Fund Total

5 \$365,971,000 \$372,581,000 \$394,951,000 \$767,532,000

6 General Fund

7 Fiscal 1985

8 Ending Balance

9 \$28,981,378

-End-

APPROVED BY COMMITTEE
ON TAXATION

1 HOUSE JOINT RESOLUTION NO. 9
 2 INTRODUCED BY WALDRON
 3
 4 A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF
 5 REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN
 6 ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF
 7 THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED
 8 BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE
 9 MONTANA CONSTITUTION; ACCEPTING A JUNE 30, 1984, GENERAL
 10 FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY
 11 ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE
 12 TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY
 13 ACCEPTED ACCOUNTING PRINCIPLES; REQUESTING THE GOVERNOR'S
 14 OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE
 15 ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE
 16 ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87; AND
 17 ESTABLISHING AN ESTIMATE OF THE NONGENERAL FUND REVENUES FOR
 18 THE SCHOOL FOUNDATION PROGRAM.

19
 20 WHEREAS, Article VI, section 9, of the Montana
 21 Constitution requires the Governor to submit to the
 22 Legislature a budget for the ensuing fiscal period
 23 containing in detail the estimated revenue of the state; and

24 WHEREAS, Article VIII, section 9, of the Montana
 25 Constitution requires that the Legislature may not

1 appropriate funds in excess of the anticipated revenue of
 2 the state; and

3 WHEREAS, section 5-12-302(2), MCA, requires the Office
 4 of the Legislative Fiscal Analyst to estimate revenue from
 5 existing and proposed taxes, and section 17-7-123(1), MCA,
 6 requires the Governor to submit a budget showing a balance
 7 between proposed disbursements and total anticipated
 8 receipts; and

9 WHEREAS, due to the complexity of economic variables
 10 involved in revenue forecasting and the diversity of sources
 11 from which state revenues are obtained, it has become
 12 increasingly difficult to project revenues in order to
 13 prepare a balanced budget for the ensuing biennium; and

14 WHEREAS, past legislatures have not agreed on revenue
 15 projections until the last days of the session when there is
 16 little time for comprehensive analysis or reasoned
 17 criticism; and

18 WHEREAS, it is in the best interests of the state that
 19 revenue forecasts be discussed and arrived at in public
 20 hearings wherein all the people may attend and participate.

21
 22 NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE
 23 OF REPRESENTATIVES OF THE STATE OF MONTANA:

24 That the state general fund revenue for fiscal years
 25 1986 and 1987 is estimated to total \$767,532,000



1 \$748,148,295. This total is based on the assumptions and
2 projections set forth below:

3 GENERAL FUND REVENUE

4 The projections for total general fund revenue during
5 the 1986-87 biennium are based on an assumption of moderate
6 economic growth during the period AND AN ASSUMPTION OF A
7 CONTINUATION OF MONTANA LAW AS IT EXISTED ON JANUARY 1,
8 1985. While current economic growth is slowing, the present
9 economic recovery is expected to continue, but at a more
10 moderate level. It is further assumed that the inflation
11 rate will be about 6% during the biennium 4% FOR 1985, 5.2%
12 FOR 1986, AND 5.4% FOR 1987, and that interest rates will
13 drift upward until late 1986 and then decline slightly in
14 1987 DOWNWARD DURING THE BIENNIUM, based on the assumption
15 of a less restrictive monetary policy by the Federal Reserve
16 and a continuation of competing credit demands between
17 private borrowers and the federal government.

18 General Fund Revenue

19 Source of Revenue

20	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
21	=====	=====	=====	=====
22	(1) Individual Income Tax			
23	\$116,653,000	\$123,466,000	\$130,626,000	\$254,092,000
24	<u>\$115,000,000</u>	<u>\$124,000,000</u>	<u>\$133,000,000</u>	<u>\$257,000,000</u>
25	This revenue consists of 64% of the total projected			

1 individual income tax collections, which percentage is
2 currently deposited in the general fund.

3 Assumption: Income tax forecasts for the 1986-87
4 biennium assume moderate growth in personal income and
5 employment. These projections also INCLUDE THE EFFECTS OF
6 FEDERAL INCOME TAX INDEXING, ASSUME A CONTINUATION OF
7 MONTANA LAW AS IT EXISTED ON JANUARY 1, 1985, AND are
8 OTHERWISE based upon the continuation of all statutory
9 credits. ~~The--additional--revenue--that--would--be--generated--by~~
10 ~~federal--income--tax--indexing--has--not--been--included--in--the~~
11 ~~forecasts.~~

12 (2) Corporation License Tax

13	\$35,017,000	\$29,957,000	\$32,304,000	\$62,261,000
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14 The corporation license tax is distributed to several
15 accounts. The revenue reported above consists of 64% of the
16 corporation license tax, which percentage is currently
17 deposited in the general fund.

18 (3) Coal Severance Tax

19	\$17,444,000	\$19,735,000	\$18,732,000	\$38,467,000
20	<u>\$17,385,000</u>	<u>\$19,152,000</u>	<u>\$17,877,024</u>	<u>\$37,029,024</u>

21 The coal severance tax is imposed on all coal
22 production in excess of 20,000 tons per company per calendar
23 year, assessed at the rate of 30% of the value of the coal
24 with a heating quality of at least 7,000 Btu's per pound and
25 20% of the value of coal with a lower Btu rate.

1 Assumption: With lower demand and competitively priced
 2 alternative fuels, coal prices have remained soft. It is
 3 assumed that these conditions, in conjunction with royalty
 4 deductions, will result in a modest rate of growth in the
 5 price of coal during the biennium. A dispute involving the
 6 state's authority to tax coal mined on Crow Indian land has
 7 prompted a major coal developer to protest taxes paid on
 8 this production. Until a settlement is reached, these taxes
 9 are being deposited in an escrow account. Tax forecasts for
 10 the 1986-87 biennium assume a settlement will not be reached
 11 until after fiscal year 1987; therefore, these coal tax
 12 revenues are not included in the above revenue estimates.
 13 THE REVENUE ESTIMATES ARE FURTHER BASED ON THE FOLLOWING
 14 ASSUMPTIONS OF PRODUCTION AND PRICE:

15	<u>TONS OF COAL</u>			
16	<u>30,500,000</u>	<u>32,000,000</u>	<u>33,000,000</u>	<u>65,000,000</u>
17	<u>PRICE PER TON</u>			
18	<u>\$10.00</u>	<u>\$10.50</u>	<u>\$10.80</u>	<u>NA</u>
19	(4) Oil Severance Tax			
20	<u>\$32,837,000</u>	<u>\$27,792,000</u>	<u>\$29,269,000</u>	<u>\$57,061,000</u>
21	<u>\$31,680,000</u>	<u>\$24,500,000</u>	<u>\$23,833,333</u>	<u>\$48,333,333</u>

22 Assumptions: Oil severance tax revenues are dependent
 23 on the price per barrel and the number of barrels of oil
 24 produced in the state. Since oil is a commodity that is used
 25 for diverse purposes, the prices depend on federal

1 regulations and world demand. Although BECAUSE A WORLDWIDE
 2 SURPLUS OF OIL AND BECAUSE recent oil price cuts by Norway,
 3 Great Britain, and Nigeria have injected an uncertainty in
 4 the international oil market, it is assumed that prices will
 5 ~~stabilize and increase slightly by the calendar year 1987.~~
 6 ~~This assumption is based on OPEC's recent agreement to cut~~
 7 ~~daily production and Chase Econometrics' prediction that~~
 8 ~~further price declines will not occur because of an observed~~
 9 ~~increase in recent worldwide demand.~~ AND PRODUCTION WILL
 10 DECREASE SLIGHTLY THROUGHOUT THE BIENNIUM. THE REVENUE
 11 ESTIMATES FOR OIL SEVERANCE TAXES ARE FURTHER BASED ON THE
 12 FOLLOWING ASSUMPTIONS OF PRICE AND PRODUCTION:

13	<u>BARRELS OF OIL</u>			
14	<u>28,800,000</u>	<u>28,000,000</u>	<u>27,500,000</u>	<u>55,500,000</u>
15	<u>PRICE PER BARREL</u>			
16	<u>\$27.50</u>	<u>\$26.25</u>	<u>\$26.00</u>	<u>NA</u>
17	(5) Interest on Investments			
18	<u>\$27,732,000</u>	<u>\$25,099,000</u>	<u>\$25,020,000</u>	<u>\$50,919,000</u>
19	<u>\$25,505,417</u>	<u>\$22,635,417</u>	<u>\$22,083,333</u>	<u>\$44,718,750</u>

20 Assumptions: Interest on investments is projected to
 21 increase in fiscal 1985, but then decline in fiscal years
 22 1986 and 1987. The increase in 1985 is expected because tax
 23 anticipation notes IN THE AMOUNT OF \$38,000,000 were sold
 24 this year. IT IS FURTHER ANTICIPATED THAT \$50,000,000 IN TAX
 25 ANTICIPATION NOTES WILL BE SOLD IN FISCAL YEAR 1986 AND IN

1 FISCAL YEAR 1987. The decline in 1986 and 1987 is expected
 2 because interest earned on the highway gas account will
 3 begin to accrue to the highway account. THE PROJECTED RATES
 4 OF RETURN ARE 10.25% FOR FISCAL YEAR 1985, 10.25% FOR FISCAL
 5 YEAR 1986, AND 10.00% FOR FISCAL YEAR 1987. THE ESTIMATED
 6 REVENUES FROM INTEREST ON INVESTMENTS ARE BASED ON THE
 7 ANTICIPATED DAILY AVERAGE INVESTABLE AMOUNTS OF \$214,000,000
 8 IN FISCAL YEAR 1985, \$175,000,000 IN FISCAL YEAR 1986, AND
 9 \$175,000,000 IN FISCAL YEAR 1987.

10 (6) Long-Range Bond Excess

11	<u>\$38,449,000</u>	<u>\$30,800,000</u>	<u>\$40,652,000</u>	<u>\$79,532,000</u>
12	<u>\$37,634,000</u>	<u>\$38,311,000</u>	<u>\$40,261,000</u>	<u>\$78,572,000</u>

13 The long-range debt service account receives 11% of all
 14 individual income and corporation license taxes, 79.75% of
 15 all cigarette excise taxes, and 100% of the tobacco products
 16 tax. ~~When the sum of money in the debt service account~~
 17 ~~exceeds the annual principal and interest payments, the~~
 18 ~~excess is transferred to the general fund.~~

19 Assumption ASSUMPTIONS: It is assumed that there will
 20 be no additional long-range building bonds sold through
 21 fiscal year 1987. IT IS FURTHER ASSUMED THAT CIGARETTE SALES
 22 FOR FISCAL YEARS 1985, 1986, AND 1987 WILL BE 90 MILLION
 23 PACKS EACH YEAR. REVENUE FROM TOBACCO SALES IS EXPECTED TO
 24 BE \$825,000 FOR EACH FISCAL YEAR.

25 (7) Coal Trust Fund Interest

1	<u>\$24,529,000</u>	<u>\$28,792,000</u>	<u>\$33,560,000</u>	<u>\$62,352,000</u>
2	<u>\$24,155,000</u>	<u>\$28,807,000</u>	<u>\$33,736,000</u>	<u>\$62,543,000</u>

3 This revenue is derived from interest earned on the
 4 deposit of 50% of the coal severance tax receipts dedicated
 5 to the permanent trust fund.

6 Assumption: Coal severance tax bonds are sold to
 7 finance specific water resources development projects. Debt
 8 service on these bonds is paid primarily with pledged
 9 project and coal severance tax revenues. The use of coal
 10 severance tax revenues for this purpose will reduce
 11 permanent trust fund receipts by about \$300,000 in fiscal
 12 years 1986 and 1987. However, it is projected and assumed
 13 that the total permanent trust interest income will increase
 14 over the biennium. Balances available for investment are
 15 expected to increase because of anticipated higher coal
 16 severance tax receipts. In addition, long-term interest
 17 rates are expected to gradually increase by calendar year
 18 1986, THEN FALL SLIGHTLY FOR 1987. THE ANTICIPATED INTEREST
 19 RATES ON NEW LONG-TERM INVESTMENTS FOR 1985, 1986, AND 1987
 20 ARE 12.00%, 12.00%, AND 11.75%, RESPECTIVELY.

21 (8) Insurance Premiums Tax

22	<u>\$16,109,000</u>	<u>\$16,139,000</u>	<u>\$17,550,000</u>	<u>\$33,697,000</u>
23	<u>\$15,700,000</u>	<u>\$16,195,000</u>	<u>\$16,737,000</u>	<u>\$32,932,000</u>

24 Assumptions: The level of insurance tax receipts is
 25 assumed to increase by about 0% 5.5% for fiscal years 1985

1 through 1987, based on a moderate growth in total personal
2 income and employment.

3 (9) Public Institutions Reimbursements

4	\$12,213,000	\$14,750,000	\$15,310,000	\$30,068,000
5	<u>\$12,893,000</u>	<u>\$14,800,000</u>	<u>\$15,300,000</u>	<u>\$30,100,000</u>

6 Assumptions: In fiscal 1984, approximately 88% of all
7 reimbursements collected were federal medicaid receipts.
8 Hence, forecasts for revenue assume federal medicaid
9 reimbursement equal to the executive budget request for the
10 Department of Social and Rehabilitation Services. This
11 request assumes that the number of patient care days will
12 remain constant at the 1985 level. In addition, the revenue
13 estimates for fiscal years 1986 and 1987 assume about
14 \$2,000,000 annually for medicaid reimbursements from the
15 Montana Youth Treatment Center at Billings.

16 (10) Liquor Profits

17	\$4,466,000	\$5,924,000	\$6,544,000	\$12,468,000
18	<u>\$4,850,000</u>	<u>\$5,250,000</u>	<u>\$5,200,000</u>	<u>\$10,450,000</u>

19 (11) Liquor Excise Tax

20	\$6,418,000	\$7,074,000	\$7,470,000	\$14,544,000
21	<u>\$6,110,000</u>	<u>\$6,322,500</u>	<u>\$6,387,000</u>	<u>\$12,709,500</u>

22 Assumptions: Liquor sales for fiscal years 1986 and
23 1987 are expected to show little growth. Although personal
24 income is growing, there appears to be a trend toward
25 moderation in liquor consumption. Furthermore, the liquor

1 division's operating expenses for the 1986-87 biennium are
2 expected to remain constant at the 1984 level. THE REVENUE
3 ESTIMATES FOR BOTH LIQUOR PROFITS AND EXCISE TAXES ARE
4 FURTHER BASED ON DECLINES IN UNIT SALES OF 3% FOR FISCAL
5 YEARS 1986 AND 1987, COUPLED WITH INCREASES IN PRICES OF
6 6.5% IN EACH OF THE FISCAL YEARS.

7 (12) Inheritance Tax

8	\$6,289,000	\$6,656,000	\$7,072,000	\$13,728,000
9	<u>\$6,624,000</u>	<u>\$6,600,000</u>	<u>\$6,800,000</u>	<u>\$13,400,000</u>

10 Assumptions: Projected inheritance tax revenues are
11 based on a 6% SLIGHT DECREASE FROM 1985 TO 1986, THEN
12 PROJECTED AT A 3% annual growth rate in tax collections FOR
13 THE REMAINDER OF THE BIENNIUM. Returns processed are
14 expected to remain stable and of average size taxable at
15 between 0% and 32%.

16 (13) Metal Mines Tax

17	\$1,711,000	\$1,185,000	\$1,190,000	\$2,375,000
18	<u>\$1,660,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$2,000,000</u>

19 Historically, the metal mines tax has been deposited in
20 the general fund. Beginning in fiscal year 1986, one-third
21 of the receipts will be deposited in a hard-rock mining
22 trust account.

23 Assumptions: Metal prices, metal production, and the
24 effective tax rate are the major factors that determine the
25 level of metal mines tax receipts. It is assumed that

1 production for gold, silver, and copper will increase
 2 modestly REMAIN CONSTANT throughout the biennium. Also,
 3 prices are assumed to remain constant at calendar year 1984
 4 levels. No new companies are expected to begin operating in
 5 the state by the end of calendar year 1986. THE REVENUE
 6 ESTIMATES FURTHER ASSUME NO REOPENING OF THE BLACK PINE MINE
 7 NEAR PHILIPSBURG, MONTANA.

8 (14) Electrical Energy Tax

9	\$1,986,000	\$2,042,000	\$2,169,000	\$4,211,000
10	<u>\$2,212,000</u>	<u>\$2,273,000</u>	<u>\$2,405,000</u>	<u>\$4,678,000</u>

11 Assumptions: Total U.S. electricity production has
 12 grown by 2.2% since calendar year 1974. It is assumed that
 13 Montana's production will follow this trend and that demand
 14 for electrical power will increase at this rate through the
 15 1986-87 biennium. In addition, an adjustment to these
 16 estimates has been made based on a July 1986 completion date
 17 for Colstrip Unit 4. Production capacity for both Colstrip
 18 Unit 3 and Unit 4 is assumed to be 60% the first year and
 19 70% thereafter.

20 (15) Drivers' License Fees

21	\$817,000	\$835,000	\$854,000	\$1,689,000
22	<u>\$861,000</u>	<u>\$880,000</u>	<u>\$899,000</u>	<u>\$1,779,000</u>

23 Assumptions: Census data from 1970 and 1980 indicate
 24 that growth in the eligible driver age cohort was 2.2%
 25 annually. Collection of drivers' license fees is assumed to

1 continue this trend during the biennium.

2 (16) Telephone License Tax

3	\$2,014,000	\$3,053,000	\$3,311,000	\$6,364,000
4	<u>\$3,010,000</u>	<u>\$3,160,000</u>	<u>\$3,319,000</u>	<u>\$6,479,000</u>

5 Assumptions: Revenue forecasts for the telephone tax
 6 are based on an average growth rate in revenues of 8.5%
 7 observed since calendar year 1969.

8 (17) Beer License Tax

9	\$1,213,000	\$1,221,000	\$1,230,000	\$2,451,000
10	<u>\$1,175,000</u>	<u>\$1,146,000</u>	<u>\$1,096,000</u>	<u>\$2,242,000</u>

11 Assumptions: Revenues are projected based on an annual
 12 growth DECLINE rate in beer consumption of about 0.7%--that
 13 has--been--observed--since-fiscal-year-1979- 2.4% FOR FISCAL
 14 YEARS 1985 AND 1986. THE RATE OF DECLINE CHANGES TO 4.4% FOR
 15 FISCAL YEAR 1987 DUE TO THE CHANGE IN THE MINIMUM DRINKING
 16 AGE.

17 (18) Natural Gas Severance Tax

18	\$3,401,000	\$3,650,000	\$3,862,000	\$7,512,000
19	<u>\$3,080,625</u>	<u>\$3,142,238</u>	<u>\$3,108,450</u>	<u>\$6,250,688</u>

20 Assumptions: Natural gas production is projected to
 21 remain-at-current-levels DECREASE SLIGHTLY throughout the
 22 1986-87 biennium. Prices--are--expected--to--increase--only
 23 moderately-despite-deregulation-of-all-new-gas-on-January-1-
 24 1985- Prices will increase only moderately ARE ANTICIPATED
 25 TO REMAIN CONSTANT even with deregulation because of more

1 competition, contract renegotiations, and lower market
 2 prices, primarily from Canada. THE REVENUE ESTIMATES FOR
 3 NATURAL GAS SEVERANCE TAXES ARE FURTHER BASED ON THE
 4 FOLLOWING ASSUMPTIONS OF PRODUCTION AND PRICE FOR FISCAL
 5 YEARS 1985, 1986, AND 1987:

6 MILLIONS OF MCF

7	46.5	46.5	45.0	91.5
8	<u>PRICE PER MCF</u>			
9	\$2.50	\$2.55	\$2.55	NA

10 (19) Freight Line Tax

11	\$1,402,000	\$1,465,000	\$1,556,000	\$3,021,000
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12 Assumptions: Freight line tax revenues are projected to
 13 increase by about 6% 5.26% over the period 1985-1987.

14 (20) Wine Tax

15	\$917,000	\$928,000	\$940,000	\$1,868,000
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16 Assumptions: Wine tax receipts are projected to
 17 increase by 1.3% annually based on the same percentage rate
 18 of growth in the consumption of distilled spirits
 19 experienced since calendar year 1969. Wine taxes are not
 20 based on the value of the commodity. Revenues are a function
 21 of consumption.

22 (21) Other Revenue Sources

23	\$13,474,000	\$13,930,000	\$14,922,000	\$28,852,000
24	\$14,474,000	\$14,395,000	\$15,387,000	\$29,782,000

25 Assumptions: Since fiscal year 1981, revenues from a

1 number of other statutory taxes and fines have grown an
 2 average of 7.2% per year after adjusting for one-time
 3 receipts. ~~It is assumed this trend will continue during the~~
 4 ~~biennium; however, a negative adjustment of \$465,000 was~~
 5 ~~made to fiscal year 1986 and 1987 estimates to account for~~
 6 ~~bank examination fees being deposited to a new state special~~
 7 ~~revenue account. THE "OTHER REVENUE SOURCES" ESTIMATES ARE~~
 8 BASED ON AN AVERAGE ANNUAL GROWTH RATE OF 7%. ADDITIONALLY,
 9 THE FISCAL YEAR 1985 ESTIMATE INCLUDES A \$1,000,000 ADDITION
 10 FOR FEDERAL REIMBURSEMENT FOR FIGHTING FOREST FIRES.

11 General Fund Total

12	\$365,971,000	\$372,581,000	\$394,951,000	\$767,532,000
13	\$361,345,042	\$364,919,155	\$383,229,140	\$748,148,295

14 General Fund

15 Fiscal 1985

16 Ending BEGINNING Balance

17	\$28,981,378
18	\$35,097,000

19 NONGENERAL FUND SCHOOL FOUNDATION PROGRAM REVENUE

20 1986-87 BIENNIUM

21 \$526,310,000

22 BE IT FURTHER RESOLVED, THAT THE LEGISLATURE ACCEPTS
 23 FOR BUDGET PURPOSES THE UNRESERVED GENERAL FUND BALANCE OF
 24 \$35,097,000 PREPARED ACCORDING TO GENERALLY ACCEPTED
 25 ACCOUNTING PRINCIPLES (COMMONLY REFERRED TO AS G.A.A.P.) AS

1 PUBLISHED IN THE AUDITED STATE FINANCIAL STATEMENTS AS OF
2 JUNE 30, 1984.

3 BE IT FURTHER RESOLVED, THAT THE DEPARTMENT OF
4 ADMINISTRATION AND OTHER STATE AGENCIES ARE STRONGLY URGED
5 TO MAKE TIMELY ACCOUNTING ENTRIES SO THAT BY JUNE 30, 1985,
6 THE STATE BUDGETING AND ACCOUNTING SYSTEM (COMMONLY REFERRED
7 TO AS SBAS) UNRESERVED GENERAL FUND BALANCE REFLECTS RECORDS
8 ENTERED AND MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED
9 ACCOUNTING PRINCIPLES.

10 BE IT FURTHER RESOLVED, THAT THE GOVERNOR'S OFFICE OF
11 BUDGET AND PROGRAM PLANNING IS STRONGLY URGED TO ENTER THE
12 REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION ON THE
13 STATEWIDE BUDGETING AND ACCOUNTING SYSTEM AS THE OFFICIAL
14 REVENUE ESTIMATES FOR THE GENERAL FUND FOR FISCAL YEARS
15 1985-86 AND 1986-87.

-End-

1 HOUSE JOINT RESOLUTION NO. 9

2 INTRODUCED BY WALDRON

3
 4 A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF
 5 REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN
 6 ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF
 7 THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED
 8 BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE
 9 MONTANA CONSTITUTION; ACCEPTING A JUNE 30, 1984, GENERAL
 10 FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY
 11 ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE
 12 TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY
 13 ACCEPTED ACCOUNTING PRINCIPLES; REQUESTING THE GOVERNOR'S
 14 OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE
 15 ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE
 16 ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87; AND
 17 ESTABLISHING AN ESTIMATE OF THE NONGENERAL FUND REVENUES FOR
 18 THE SCHOOL FOUNDATION PROGRAM.

19
 20 WHEREAS, Article VI, section 9, of the Montana
 21 Constitution requires the Governor to submit to the
 22 Legislature a budget for the ensuing fiscal period
 23 containing in detail the estimated revenue of the state; and

24 WHEREAS, Article VIII, section 9, of the Montana
 25 Constitution requires that the Legislature may not

1 appropriate funds in excess of the anticipated revenue of
 2 the state; and

3 WHEREAS, section 5-12-302(2), MCA, requires the Office
 4 of the Legislative Fiscal Analyst to estimate revenue from
 5 existing and proposed taxes, and section 17-7-123(1), MCA,
 6 requires the Governor to submit a budget showing a balance
 7 between proposed disbursements and total anticipated
 8 receipts; and

9 WHEREAS, due to the complexity of economic variables
 10 involved in revenue forecasting and the diversity of sources
 11 from which state revenues are obtained, it has become
 12 increasingly difficult to project revenues in order to
 13 prepare a balanced budget for the ensuing biennium; and

14 WHEREAS, past legislatures have not agreed on revenue
 15 projections until the last days of the session when there is
 16 little time for comprehensive analysis or reasoned
 17 criticism; and

18 WHEREAS, it is in the best interests of the state that
 19 revenue forecasts be discussed and arrived at in public
 20 hearings wherein all the people may attend and participate.

21
 22 NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE
 23 OF REPRESENTATIVES OF THE STATE OF MONTANA:

24 That the state general fund revenue for fiscal years
 25 1986 and 1987 is estimated to total \$767,532,000

1 ~~\$748,148,295~~ \$747,108,169. This total is based on the
2 assumptions and projections set forth below:

3 GENERAL FUND REVENUE

4 The projections for total general fund revenue during
5 the 1986-87 biennium are based on an assumption of moderate
6 economic growth during the period AND AN ASSUMPTION OF A
7 CONTINUATION OF MONTANA LAW AS IT EXISTED ON JANUARY 1,
8 1985. While current economic growth is slowing, the present
9 economic recovery is expected to continue, but at a more
10 moderate level. It is further assumed that the inflation
11 rate will be about ~~6% during the biennium~~ 4% FOR 1985, 5.2%
12 FOR 1986, AND 5.4% FOR 1987, and that interest rates will
13 drift ~~upward until rate 1986 and then decline slightly in~~
14 1987 DOWNWARD DURING THE BIENNIUM, based on the assumption
15 of a less restrictive monetary policy by the Federal Reserve
16 and a continuation of competing credit demands between
17 private borrowers and the federal government.

18 General Fund Revenue

19 Source of Revenue

20 Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
21 =====	=====	=====	=====
22 (1) Individual Income Tax			
23 <u>\$116,653,888</u>	<u>\$123,466,888</u>	<u>\$130,626,888</u>	<u>\$254,892,888</u>
24 <u>\$115,000,000</u>	<u>\$124,000,000</u>	<u>\$133,000,000</u>	<u>\$257,000,000</u>
25 This revenue consists of 64% of the total projected			

1 individual income tax collections, which percentage is
2 currently deposited in the general fund.

3 Assumption: Income tax forecasts for the 1986-87
4 biennium assume moderate growth in personal income and
5 employment. These projections also INCLUDE THE EFFECTS OF
6 FEDERAL INCOME TAX INDEXING, ASSUME A CONTINUATION OF
7 MONTANA LAW AS IT EXISTED ON JANUARY 1, 1985, AND are
8 OTHERWISE based upon the continuation of all statutory
9 credits. ~~The--additional-revenue-that-would-be-generated-by~~
10 ~~federal-income-tax-indexing-has-not-been-included-in-the~~
11 ~~forecasts.~~

12 (2) Corporation License Tax

13 \$35,017,000	\$29,957,000	\$32,304,000	\$62,261,000
14 The corporation license tax is distributed to several			
15 accounts. The revenue reported above consists of 64% of the			
16 corporation license tax, which percentage is currently			
17 deposited in the general fund.			

18 (3) Coal Severance Tax

19 \$17,444,888	\$19,735,888	\$18,732,888	\$38,467,888
20 <u>\$17,385,000</u>	<u>\$19,152,000</u>	<u>\$17,877,024</u>	<u>\$37,029,024</u>
21 The coal severance tax is imposed on all coal			
22 production in excess of 20,000 tons per company per calendar			
23 year, assessed at the rate of 30% of the value of the coal			
24 with a heating quality of at least 7,000 Btu's per pound and			
25 20% of the value of coal with a lower Btu rate.			

1 Assumption: With lower demand and competitively priced
 2 alternative fuels, coal prices have remained soft. It is
 3 assumed that these conditions, in conjunction with royalty
 4 deductions, will result in a modest rate of growth in the
 5 price of coal during the biennium. A dispute involving the
 6 state's authority to tax coal mined on Crow Indian land has
 7 prompted a major coal developer to protest taxes paid on
 8 this production. Until a settlement is reached, these taxes
 9 are being deposited in an escrow account. Tax forecasts for
 10 the 1986-87 biennium assume a settlement will not be reached
 11 until after fiscal year 1987; therefore, these coal tax
 12 revenues are not included in the above revenue estimates.

13 THE REVENUE ESTIMATES ARE FURTHER BASED ON THE FOLLOWING
 14 ASSUMPTIONS OF PRODUCTION AND PRICE:

15	<u>TONS OF COAL</u>			
16	<u>30,500,000</u>	<u>32,000,000</u>	<u>33,000,000</u>	<u>65,000,000</u>
17	<u>PRICE PER TON</u>			
18	<u>\$10.00</u>	<u>\$10.50</u>	<u>\$10.80</u>	<u>NA</u>
19	(4) Oil Severance Tax			
20	<u>\$32,837,000</u>	<u>\$27,792,000</u>	<u>\$29,269,000</u>	<u>\$57,061,000</u>
21	<u>\$31,680,000</u>	<u>\$24,500,000</u>	<u>\$23,833,333</u>	<u>\$48,333,333</u>

22 Assumptions: Oil severance tax revenues are dependent
 23 on the price per barrel and the number of barrels of oil
 24 produced in the state. Since oil is a commodity that is used
 25 for diverse purposes, the prices depend on federal

1 regulations and world demand. Although BECAUSE A WORLDWIDE
 2 SURPLUS OF OIL AND BECAUSE recent oil price cuts by Norway,
 3 Great Britain, and Nigeria have injected an uncertainty in
 4 the international oil market, it is assumed that prices will
 5 ~~stabilize and increase slightly by the calendar year 1987.~~
 6 ~~This assumption is based on OPEC's recent agreement to cut~~
 7 ~~daily production and Chase Econometrics' prediction that~~
 8 ~~further price declines will not occur because of an observed~~
 9 ~~increase in recent worldwide demand.~~ AND PRODUCTION WILL
 10 DECREASE SLIGHTLY THROUGHOUT THE BIENNIUM. THE REVENUE
 11 ESTIMATES FOR OIL SEVERANCE TAXES ARE FURTHER BASED ON THE
 12 FOLLOWING ASSUMPTIONS OF PRICE AND PRODUCTION:

13	<u>BARRELS OF OIL</u>			
14	<u>28,800,000</u>	<u>28,000,000</u>	<u>27,500,000</u>	<u>55,500,000</u>
15	<u>PRICE PER BARREL</u>			
16	<u>\$27.50</u>	<u>\$26.25</u>	<u>\$26.00</u>	<u>NA</u>
17	(5) Interest on Investments			
18	<u>\$27,732,000</u>	<u>\$25,099,000</u>	<u>\$25,820,000</u>	<u>\$50,919,000</u>
19	<u>\$25,505,417</u>	<u>\$22,635,417</u>	<u>\$22,083,333</u>	<u>\$44,718,750</u>

20 Assumptions: Interest on investments is projected to
 21 increase in fiscal 1985, but then decline in fiscal years
 22 1986 and 1987. The increase in 1985 is expected because tax
 23 anticipation notes IN THE AMOUNT OF \$38,000,000 were sold
 24 this year. IT IS FURTHER ANTICIPATED THAT \$50,000,000 IN TAX
 25 ANTICIPATION NOTES WILL BE SOLD IN FISCAL YEAR 1986 AND IN

1 FISCAL YEAR 1987. The decline in 1986 and 1987 is expected
 2 because interest earned on the highway gas account will
 3 begin to accrue to the highway account. THE PROJECTED RATES
 4 OF RETURN ARE 10.25% FOR FISCAL YEAR 1985, 10.25% FOR FISCAL
 5 YEAR 1986, AND 10.00% FOR FISCAL YEAR 1987. THE ESTIMATED
 6 REVENUES FROM INTEREST ON INVESTMENTS ARE BASED ON THE
 7 ANTICIPATED DAILY AVERAGE INVESTABLE AMOUNTS OF \$214,000,000
 8 IN FISCAL YEAR 1985, \$175,000,000 IN FISCAL YEAR 1986, AND
 9 \$175,000,000 IN FISCAL YEAR 1987.

10 (6) Long-Range Bond Excess

11	\$38,449,000	\$38,888,000	\$40,652,000	\$79,532,000
12	\$37,634,000	\$38,311,000	\$40,261,000	\$78,572,000

13 The long-range debt service account receives 11% of all
 14 individual income and corporation license taxes, 79.75% of
 15 all cigarette excise taxes, and 100% of the tobacco products
 16 tax. ~~When the sum of money in the debt service account~~
 17 ~~exceeds the annual principal and interest payments, the~~
 18 ~~excess is transferred to the general fund.~~

19 Assumption ASSUMPTIONS: It is assumed that there will
 20 be no additional long-range building bonds sold through
 21 fiscal year 1987. IT IS FURTHER ASSUMED THAT CIGARETTE SALES
 22 FOR FISCAL YEARS 1985, 1986, AND 1987 WILL BE 90 MILLION
 23 PACKS EACH YEAR. REVENUE FROM TOBACCO SALES IS EXPECTED TO
 24 BE \$825,000 FOR EACH FISCAL YEAR.

25 (7) Coal Trust Fund Interest

1	\$24,529,000	\$28,792,000	\$33,560,000	\$62,352,000
2	\$24,155,000	\$28,807,000	\$33,736,000	\$62,543,000

3 This revenue is derived from interest earned on the
 4 deposit of 50% of the coal severance tax receipts dedicated
 5 to the permanent trust fund.

6 Assumption: Coal severance tax bonds are sold to
 7 finance specific water resources development projects. Debt
 8 service on these bonds is paid primarily with pledged
 9 project and coal severance tax revenues. The use of coal
 10 severance tax revenues for this purpose will reduce
 11 permanent trust fund receipts by about \$300,000 in fiscal
 12 years 1986 and 1987. However, it is projected and assumed
 13 that the total permanent trust interest income will increase
 14 over the biennium. Balances available for investment are
 15 expected to increase because of anticipated higher coal
 16 severance tax receipts. In addition, long-term interest
 17 rates are expected to gradually increase by calendar year
 18 1986, THEN FALL SLIGHTLY FOR 1987. THE ANTICIPATED INTEREST
 19 RATES ON NEW LONG-TERM INVESTMENTS FOR 1985, 1986, AND 1987
 20 ARE 12.00%, 12.00%, AND 11.75%, RESPECTIVELY.

21 (8) Insurance Premiums Tax

22	\$16,109,000	\$16,139,000	\$17,550,000	\$33,697,000
23	\$15,700,000	\$16,195,000	\$16,737,000	\$32,932,000

24 Assumptions: The level of insurance tax receipts is
 25 assumed to increase by about 0% 5.5% for fiscal years 1985

1 through 1987, based on a moderate growth in total personal
2 income and employment.

3 (9) Public Institutions Reimbursements

4	\$12,213,000	\$14,750,000	\$15,310,000	\$30,060,000
5	<u>\$12,893,000</u>	<u>\$14,800,000</u>	<u>\$15,300,000</u>	<u>\$30,100,000</u>

6 Assumptions: In fiscal 1984, approximately 88% of all
7 reimbursements collected were federal medicaid receipts.
8 Hence, forecasts for revenue assume federal medicaid
9 reimbursement equal to the executive budget request for the
10 Department of Social and Rehabilitation Services. This
11 request assumes that the number of patient care days will
12 remain constant at the 1985 level. In addition, the revenue
13 estimates for fiscal years 1986 and 1987 assume about
14 \$2,000,000 annually for medicaid reimbursements from the
15 Montana Youth Treatment Center at Billings.

16 (10) Liquor Profits

17	\$4,466,000	\$5,924,000	\$6,544,000	\$12,740,000
18	<u>\$4,850,000</u>	<u>\$5,250,000</u>	<u>\$5,200,000</u>	<u>\$10,450,000</u>

19 (11) Liquor Excise Tax

20	\$6,418,000	\$7,074,000	\$7,470,000	\$14,544,000
21	<u>\$6,110,000</u>	<u>\$6,322,500</u>	<u>\$6,387,000</u>	<u>\$12,709,500</u>

22 Assumptions: Liquor sales for fiscal years 1986 and
23 1987 are expected to show little growth. Although personal
24 income is growing, there appears to be a trend toward
25 moderation in liquor consumption. Furthermore, the liquor

1 division's operating expenses for the 1986-87 biennium are
2 expected to remain constant at the 1984 level. THE REVENUE
3 ESTIMATES FOR BOTH LIQUOR PROFITS AND EXCISE TAXES ARE
4 FURTHER BASED ON DECLINES IN UNIT SALES OF 3% FOR FISCAL
5 YEARS 1986 AND 1987, COUPLED WITH INCREASES IN PRICES OF
6 6.5% IN EACH OF THE FISCAL YEARS.

7 (12) Inheritance Tax

8	\$6,289,000	\$6,656,000	\$7,072,000	\$13,720,000
9	<u>\$6,624,000</u>	<u>\$6,600,000</u>	<u>\$6,800,000</u>	<u>\$13,400,000</u>

10 Assumptions: Projected inheritance tax revenues are
11 based on a 6% SLIGHT DECREASE FROM 1985 TO 1986, THEN
12 PROJECTED AT A 3% annual growth rate in tax collections FOR
13 THE REMAINDER OF THE BIENNIUM. Returns processed are
14 expected to remain stable and of average size taxable at
15 between 0% and 32%.

16 (13) Metal Mines Tax

17	\$1,711,000	\$1,105,000	\$1,190,000	\$2,375,000
18	<u>\$1,660,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$2,000,000</u>

19 Historically, the metal mines tax has been deposited in
20 the general fund. Beginning in fiscal year 1986, one-third
21 of the receipts will be deposited in a hard-rock mining
22 trust account.

23 Assumptions: Metal prices, metal production, and the
24 effective tax rate are the major factors that determine the
25 level of metal mines tax receipts. It is assumed that

1 production for gold, silver, and copper will increase
 2 modestly REMAIN CONSTANT throughout the biennium. Also,
 3 prices are assumed to remain constant at calendar year 1984
 4 levels. No new companies are expected to begin operating in
 5 the state by the end of calendar year 1986. THE REVENUE
 6 ESTIMATES FURTHER ASSUME NO REOPENING OF THE BLACK PINE MINE
 7 NEAR PHILIPSBURG, MONTANA.

8 (14) Electrical Energy Tax

9	\$1,986,000	\$2,042,000	\$2,169,000	\$4,211,000
10	<u>\$2,212,000</u>	<u>\$2,273,000</u>	<u>\$2,405,000</u>	<u>\$4,678,000</u>

11 Assumptions: Total U.S. electricity production has
 12 grown by 2.2% since calendar year 1974. It is assumed that
 13 Montana's production will follow this trend and that demand
 14 for electrical power will increase at this rate through the
 15 1986-87 biennium. In addition, an adjustment to these
 16 estimates has been made based on a July 1986 completion date
 17 for Colstrip Unit 4. Production capacity for both Colstrip
 18 Unit 3 and Unit 4 is assumed to be 60% the first year and
 19 70% thereafter.

20 (15) Drivers' License Fees

21	\$817,000	\$835,000	\$854,000	\$1,689,000
22	<u>\$861,000</u>	<u>\$880,000</u>	<u>\$899,000</u>	<u>\$1,779,000</u>

23 Assumptions: Census data from 1970 and 1980 indicate
 24 that growth in the eligible driver age cohort was 2.2%
 25 annually. Collection of drivers' license fees is assumed to

1 continue this trend during the biennium.

2 (16) Telephone License Tax

3	\$2,014,000	\$3,053,000	\$3,311,000	\$6,364,000
4	<u>\$3,010,000</u>	<u>\$3,160,000</u>	<u>\$3,319,000</u>	<u>\$6,479,000</u>

5 Assumptions: Revenue forecasts for the telephone tax
 6 are based on an average growth rate in revenues of 8.5%
 7 observed since calendar year 1969.

8 (17) Beer License Tax

9	\$1,213,000	\$1,221,000	\$1,230,000	\$2,451,000
10	<u>\$1,175,000</u>	<u>\$1,146,000</u>	<u>\$1,096,000</u>	<u>\$2,242,000</u>

11 Assumptions: Revenues are projected based on an annual
 12 growth DECLINE rate in beer consumption of about 0.7%--that
 13 has--been--observed--since-fiscal-year-1979- 2.4% FOR FISCAL
 14 YEARS 1985 AND 1986. THE RATE OF DECLINE CHANGES TO 4.4% FOR
 15 FISCAL YEAR 1987 DUE TO THE CHANGE IN THE MINIMUM DRINKING
 16 AGE.

17 (18) Natural Gas Severance Tax

18	\$3,481,000	\$3,650,000	\$3,862,000	\$7,512,000
19	<u>\$3,080,625</u>	<u>\$3,142,230</u>	<u>\$3,100,450</u>	<u>\$6,250,608</u>
20		<u>\$2,772,562</u>	<u>\$2,438,000</u>	<u>\$5,210,562</u>

21 Assumptions: Natural gas production is projected to
 22 remain-at-current-levels DECREASE SLIGHTLY throughout the
 23 1986-87 biennium. Prices--are--expected--to--increase--only
 24 moderately-despite-deregulation-of-all-new-gas-on-January-17
 25 1985. Prices will-increase-only-moderately ARE ANTICIPATED

1 TO REMAIN-CONSTANT even DECLINE with deregulation because of
 2 more competition, contract renegotiations, and lower market
 3 prices, primarily from Canada. THE REVENUE ESTIMATES FOR
 4 NATURAL GAS SEVERANCE TAXES ARE FURTHER BASED ON THE
 5 FOLLOWING ASSUMPTIONS OF PRODUCTION AND PRICE FOR FISCAL
 6 YEARS 1985, 1986, AND 1987:

7	MILLIONS OF MCF			
8	<u>46.5</u>	<u>46.5</u>	<u>45.0</u>	<u>91.5</u>
9	PRICE PER MCF			
10	<u>\$2.50</u>	<u>\$2.55</u>	<u>\$2.55</u>	<u>NA</u>
11		<u>\$2.25</u>	<u>\$2.00</u>	

12 (19) Freight Line Tax

13	\$1,402,000	\$1,465,000	\$1,556,000	\$3,021,000
----	-------------	-------------	-------------	-------------

14 Assumptions: Freight line tax revenues are projected to
 15 increase by about 6% 5.26% over the period 1985-1987.

16 (20) Wine Tax

17	\$917,000	\$928,000	\$940,000	\$1,868,000
----	-----------	-----------	-----------	-------------

18 Assumptions: Wine tax receipts are projected to
 19 increase by 1.3% annually based on the same percentage rate
 20 of growth in the consumption of distilled spirits
 21 experienced since calendar year 1969. Wine taxes are not
 22 based on the value of the commodity. Revenues are a function
 23 of consumption.

24 (21) Other Revenue Sources

25	\$13,474,000	\$13,930,000	\$14,922,000	\$28,852,000
----	--------------	--------------	--------------	--------------

1 \$14,474,000 \$14,395,000 \$15,387,000 \$29,782,000

2 Assumptions: Since fiscal year 1981, revenues from a
 3 number of other statutory taxes and fines have grown an
 4 average of 7.2% per year after adjusting for one-time
 5 receipts. ~~It is assumed this trend will continue during the~~
 6 ~~biennium, however, a negative adjustment of \$465,000 was~~
 7 ~~made to fiscal year 1986 and 1987 estimates to account for~~
 8 ~~bank examination fees being deposited to a new state special~~
 9 ~~revenue account. THE "OTHER REVENUE SOURCES" ESTIMATES ARE~~
 10 ~~BASED ON AN AVERAGE ANNUAL GROWTH RATE OF 7%. ADDITIONALLY,~~
 11 ~~THE FISCAL YEAR 1985 ESTIMATE INCLUDES A \$1,000,000 ADDITION~~
 12 ~~FOR FEDERAL REIMBURSEMENT FOR FIGHTING FOREST FIRES.~~

13	General Fund Total			
14	<u>\$365,971,000</u>	<u>\$372,581,000</u>	<u>\$394,951,000</u>	<u>\$767,532,000</u>
15	<u>\$361,345,042</u>	<u>\$364,919,155</u>	<u>\$383,229,140</u>	<u>\$748,140,295</u>
16		<u>\$364,549,479</u>	<u>\$382,558,690</u>	<u>\$747,108,169</u>

17 General Fund

18 Fiscal 1985

19 Ending BEGINNING Balance

20	<u>\$20,981,370</u>
21	<u>\$35,097,000</u>

22 NONGENERAL FUND SCHOOL FOUNDATION PROGRAM REVENUE

23 1986-87 BIENNIUM

24 \$526,310,000

25 THIS ESTIMATE IS BASED ON AN ASSUMPTION OF A

1 CONTINUATION OF MONTANA LAW AS IT EXISTED ON JANUARY 1,
2 1985.

3 BE IT FURTHER RESOLVED, THAT THE LEGISLATURE ACCEPTS
4 FOR BUDGET PURPOSES THE UNRESERVED GENERAL FUND BALANCE OF
5 \$35,097,000 PREPARED ACCORDING TO GENERALLY ACCEPTED
6 ACCOUNTING PRINCIPLES (COMMONLY REFERRED TO AS G.A.A.P.) AS
7 PUBLISHED IN THE AUDITED STATE FINANCIAL STATEMENTS AS OF
8 JUNE 30, 1984.

9 BE IT FURTHER RESOLVED, THAT THE DEPARTMENT OF
10 ADMINISTRATION AND OTHER STATE AGENCIES ARE STRONGLY URGED
11 TO MAKE TIMELY ACCOUNTING ENTRIES SO THAT BY JUNE 30, 1985,
12 THE STATE BUDGETING AND ACCOUNTING SYSTEM (COMMONLY REFERRED
13 TO AS SBAS) UNRESERVED GENERAL FUND BALANCE REFLECTS RECORDS
14 ENTERED AND MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED
15 ACCOUNTING PRINCIPLES.

16 BE IT FURTHER RESOLVED, THAT THE GOVERNOR'S OFFICE OF
17 BUDGET AND PROGRAM PLANNING IS STRONGLY URGED TO ENTER THE
18 REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION ON THE
19 STATEWIDE BUDGETING AND ACCOUNTING SYSTEM AS THE OFFICIAL
20 REVENUE ESTIMATES FOR THE GENERAL FUND FOR FISCAL YEARS
21 1985-86 AND 1986-87.

-End-

SENATE

STANDING COMMITTEE REPORT

Page 1 of 8.

HJR 9
Page 2 of 8.

April 24, 1985

April 24, 1985

MR. PRESIDENT

We, your committee on Taxation
having had under consideration House Joint Resolution No. 9
third reading copy (blue color)

(Senator Towe)

AN ESTIMATE OF STATE'S ANTICIPATED REVENUE FOR THE 1986-87 BIENNIUM.

Respectfully report as follows: That House Joint Resolution No. 9
be amended as follows:

1. Page 3, line 1.
Strike: "\$747,108,169"
Insert: "\$754,396,000"

2. Page 3, line 8.
Following: "1985"
Insert: ", except as modified by Senate Bill 247 and House Bill 460"

3. Page 3, line 12.
Strike: "5.4%"
Insert: "5.5%"

4. Page 3, line 13.
Following: line 12
Strike: "drift"

5. Page 3, line 14.
Following: "1987"
Strike: "DOWNWARD"
Insert: "be stable"

6. Page 3, line 16.
Following: line 15
Strike: "and"
Insert: "but"

(continued)

XXXXXX

XXXXXXXX

continued

TET
Chairman.

7. Page 3, line 24.
Strike: "\$115,000,000 \$124,000,000 \$133,000,000
\$257,000,000"
Insert: "\$116,582,000 \$125,541,000 \$134,330,000
\$259,871,000"

8. Page 4, line 7.
Following: "1985,"
Insert: "with the exception that Senate Bill 247 impacts
are included,"

9. Page 4, line 20.
Strike: "\$17,385,000 \$19,152,000 \$17,877,024
\$37,029,024"
Insert: "\$17,444,000, \$19,735,000 \$18,732,000 \$38,467,000"

10. Page 5, line 16.
Strike: "\$30,500,000 32,000,000 33,000,000 65,000,000"
Insert: "\$30,079,000 32,916,000 34,973,000 67,889,000"

11. Page 5, line 18.
Strike: "\$10.00 \$10.50 \$10.80"
Insert: "\$10.201 \$10.545 \$10.703"

12. Page 5, line 21.
Strike: "\$31,680,000 \$24,500,000 \$23,833,333
\$48,333,333"
Insert: "\$31,911,000 \$24,654,000 \$23,274,000
\$47,928,000"

13. Page 5, line 22.
Following: line 21
Insert: "County Portion of Oil Severance Tax
\$982,000 \$923,000 \$874,000 \$1,797,000"

14. Page 6, line 14.
Strike: "\$28,800,000 28,000,000 27,500,000 55,500,000"
Insert: "\$28,801,000 28,341,000 27,939,000 56,280,000"

15. Page 6, line 16.
Strike: "\$27.50 \$26.25 \$26.00"
Insert: "\$27.699 \$26.097 \$24.990"

16. Page 6, line 19.
Strike: "\$25,505,417 \$22,635,417 \$22,083,333
\$44,718,750"
Insert: "\$26,482,000 \$22,656,000 \$22,961,000
\$45,617,000"

(continued)

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April 24, 1985

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17. Page 7, line 4.
Following: "ARE"
Strike: "10.25%"
Insert: "10.87%"
Following: "1985,"
Strike: "10.25%"
Insert: "10.75%"

18. Page 7, line 5.
Strike: "10.00%"
Insert: "10.90%"

19. Page 7, line 7.
Strike: "\$214,000,000"
Insert: "\$212,000,000"

20. Page 7, lines 8 and 9.
Strike: "\$175,000,000" on both lines
Insert: "\$169,000,000"

21. Page 7, line 12.
Strike: "\$37,634,000 \$38,311,000 \$40,261,000
\$78,572,000"
Insert: "\$38,437,000 \$39,237,000 \$41,288,000
\$80,525,000"

22. Page 7, lines 21 through 24.
Following: "1987." on line 21
Strike: remainder of line 21 through line 24
Insert: "Cigarette Sales
91,167,000 91,556,000 91,942,000 183,498,000
Tobacco Tax
\$748,000 \$828,000 \$916,000 \$1,744,000"

23. Page 8, line 2.
Strike: "\$24,155,000 \$28,807,000 \$33,736,000
\$62,543,000"
Insert: "\$24,378,000 \$28,158,000 \$32,259,000
\$60,417,000"

24. Page 8, line 17.
Following: "gradually"
Strike: "increase"
Insert: "decrease"

25. Page 8, line 18.
Following: line 17
Strike: "1986, THEN FALL SLIGHTLY FOR 1987"
Insert: "1987"

(continued)

continued

TET

26. Page 8, line 20.
Following: "ARE"
Strike: "12.00%, 12.00%"
Insert: "12.51%, 11.86%"
Following: "AND"
Strike: "11.75%"
Insert: "11.59%"

27. Page 8, line 23.
Strike: "\$15,700,000 \$16,195,000 \$16,737,000
\$32,932,000"
Insert: "\$16,109,000 \$16,139,000 \$17,558,000
\$33,697,000"

28. Page 8, line 25.
Following: "8%"
Strike: "5.5%"
Insert: "8%"

29. Page 9, line 5.
Strike: "\$12,893,000 \$14,800,000 \$15,300,000
\$30,100,000"
Insert: "\$12,213,000 \$14,758,000 \$15,310,000
\$30,068,000"

30. Page 9, line 18.
Strike: "\$4,850,000 \$5,250,000 \$5,200,000
\$10,450,000"
Insert: "\$4,466,000 \$5,222,000 \$5,077,000
\$10,299,000"

31. Page 9, line 21.
Strike: "\$6,110,000 \$6,322,500 \$6,387,000
\$12,709,500"
Insert: "\$6,191,000 \$6,600,000 \$6,736,000
\$13,336,000"

32. Page 10, lines 4 through 6.
Following: "BASED" on line 4
Strike: remainder of line 4 through "YEARS" on line 6
Insert: "on anticipated federal tax increases scheduled to be effective October 1, 1985"

33. Page 10, line 9.
Strike: "\$6,624,000 \$6,600,000 \$6,800,000
\$13,400,000"
Insert: "\$6,289,000 \$6,656,000 \$7,072,000
\$13,728,000"

(continued)

continued

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34. Page 10, lines 11 through 13.

Following: "on" on line 11

Insert: "approximately"

Following: "6%" on line 11

Strike: "SLIGHT DECREASE FROM 1985 TO 1986, THEN PROJECTED AT A 3%"

Following: "collections" on line 12

Strike: "FOR THE REMAINDER OF THE BIENNIUM"

35. Page 10, line 18.

Strike: "\$1,660,000 \$1,000,000 \$1,000,000 \$2,000,000"
Insert: "\$1,711,000 \$1,185,000 \$1,190,000 \$2,375,000"

36. Page 11, line 2.

Following: "modestly"

Strike: "REMAIN CONSTANT"

Insert: "increase modestly"

37. Page 11, lines 5 through 7.

Following: "1986." on line 5

Strike: remainder of line 5 through "MONTANA" on line 7

38. Page 11, line 10.

Strike: "\$2,212,000 \$2,273,000 \$2,405,000"
\$4,678,000"
Insert: "\$1,986,000 \$2,042,000 \$2,169,000"
\$4,211,000"

39. Page 11, line 22.

Strike: "\$861,000 \$880,000 \$899,000 \$1,779,000"
Insert: "\$817,000 \$835,000 \$854,000 \$1,689,000"

40. Page 12, line 4.

Strike: "\$3,010,000 \$3,160,000 \$3,319,000"
\$6,479,000"
Insert: "\$2,814,000 \$3,053,000 \$3,311,000"
\$6,364,000"

41. Page 12, line 10.

Strike: "\$1,175,000 \$1,146,000 \$1,096,000"
\$2,242,000"
Insert: "\$1,180,000 \$1,157,000 \$1,133,000"
\$2,290,000"

42. Page 12, lines 13 through 16.

Following: "1979" on line 13

Strike: remainder of line 13 through "AGE" on line 13

Insert: "2.0%"

(continued)

43. Page 12, line 19.

Strike: "\$3,080,625"

Insert: "\$3,481,000"

44. Page 12, line 20.

Strike: "\$2,772,562 \$2,438,000 \$5,210,562"

Insert: "\$3,650,000 \$3,862,000 \$7,512,000"

45. Page 12, line 21.

Following: line 20

Insert: "County Portion of Natural Gas Severance Tax
\$191,000 \$202,000 \$214,000 \$416,000"

46. Page 12, line 22.

Following: "levels"

Strike: "DECREASE SLIGHTLY"

Insert: "remain at current levels"

47. Page 12, line 25.

Following: "1985"

Insert: "Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985."

48. Page 12, line 25 through line 1, page 13.

Following: "moderately" on line 25

Strike: "ARE ANTICIPATED TO DECLINE"

Insert: "will increase only moderately"

49. Page 13, line 8.

Strike: "46.5 46.5 45.0 91.5"

Insert: "49.787 49.589 49.448 99.04"

50. Page 13, line 10.

Strike: "\$2.50"

Insert: "\$1.638"

51. Page 13, line 11.

Strike: "\$2.25 \$2.00"

Insert: "\$2.778 \$2.947"

52. Page 13, line 15.

Following: "6%"

Strike: "5.26%"

Insert: "5%"

(continued)

continued

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continued

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April 24, 1985

April 24, 1985

53. Page 14, line 1.
 Strike: "\$14,474,000 \$14,395,000 \$15,387,000
\$29,782,000"
 Insert: "\$13,962,000 \$13,930,000 \$14,922,000
\$28,852,000"

54. Page 14, lines 9 and 10.
 Following: "~~account-~~" on line 9
 Strike: remainder of line 9 through "7%." on line 10
 Insert: "It is assumed this trend will continue during the biennium; however, a negative adjustment of \$465,000 was made to fiscal year 1986 and 1987 estimates to account for bank examination fees being deposited to a new state special revenue account."

55. Page 14, line 11.
 Following: "A"
 Strike: "\$1,000,000"
 Insert: "\$ 488,000"

56. Page 14, line 15.
 Strike: "\$361,345,042"
 Insert: "\$363,789,000"

57. Page 14, line 16.
 Strike: "\$364,549,479 \$382,558,690 \$747,108,169"
 Insert: "\$367,558,000 \$386,838,000 \$754,396,000"

58. Page 14, line 24.
 Strike: "\$526,310,000"
 Insert: "\$531,895,000"

59. Page 15, line 2.
 Following: "1985"
 Insert: ", except as modified by Senate Bill 247 and House Bill 460"

(continued)

60. Page 15.
 Following: line 21
 Insert: "BE IT FURTHER RESOLVED, that the legislature recognizes that several items of pending legislation will affect the figures set forth in this resolution, some of them with a negative fiscal impact, such as:

Bill Number	FY 86	FY 87
HB 634	-\$259,041	-\$255,997
HB 759	-\$648,478	-\$641,531

BE IT FURTHER RESOLVED, that the legislature recognizes that additional auditor positions in the department of revenue will result in an additional \$11,000,000 in the next biennium."

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continued

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AND AS AMENDED
BE CONCURRED IN

Thomas E. Towe
 Senator Thomas E. Towe, Chair