

HJR 1 INTRODUCED BY HARP
GENERAL FUND REVENUE ESTIMATE

6/19	INTRODUCED		
6/19	REFERRED TO TAXATION		
6/19	HEARING		
6/19	COMMITTEE REPORT-BILL DO PASS		
6/20	2ND READING PASS	93	1
6/20	3RD READING PASS	95	1
	TRANSMITTED TO SENATE		
6/21	REFERRED TO TAXATION		
	DIED IN COMMITTEE		

1 House JOINT RESOLUTION NO. 1
2 INTRODUCED BY HARP

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, 1985, GENERAL
10 FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY
11 ACCEPTED ACCOUNTING PRINCIPLES; ESTABLISHING AN ESTIMATE OF
12 THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION
13 PROGRAM; AND ACCEPTING A JUNE 30, 1985, FOUNDATION PROGRAM
14 FUND BALANCE.

15
16 WHEREAS, Article VI, section 9, of the Montana
17 Constitution requires the Governor to submit to the
18 Legislature for the ensuing fiscal period a budget detailing
19 the estimated revenue of the state; and

20 WHEREAS, Article VIII, section 9, of the Montana
21 Constitution requires that the Legislature may not
22 appropriate funds in excess of the anticipated revenue of
23 the state; and

24 WHEREAS, section 5-12-302(2), MCA, requires the Office
25 of the Legislative Fiscal Analyst to estimate revenue from

existing and proposed taxes, and section 17-7-123(1), MCA,
requires the Governor to submit a budget showing a balance
between proposed disbursements and total anticipated
receipts; and

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

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

WHEREAS, it is in the best interests of the people of
Montana that revenue forecasts be discussed and arrived at
in public hearings in which all interested persons may
attend and participate.

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

That the following estimate of economic conditions and
the resulting general fund and foundation program revenue
estimates be adopted for fiscal years 1986 and 1987. The
projections for total general fund and foundation program
revenues during the 1986-87 biennium are based on an

-2- INTRODUCED BILL
HJR 1

1 assumption of slow economic growth during the period and an
 2 assumption of a continuation of Montana law as it existed on
 3 April 1, 1986. While current economic growth is slow, some
 4 economic recovery is expected by late 1987. It is assumed
 5 that the inflation rate will be about 1.1% for calendar year
 6 1986 and 2.9% for calendar year 1987. Interest rates are
 7 projected to drift downward during the biennium, based on
 8 the assumption of a less restrictive monetary policy by the
 9 Federal Reserve Board and the continuation of slow economic
 10 growth in the United States.

11 GENERAL FUND REVENUE

12 Source of Revenue	FY 1986	FY 1987	Total
13 (1) Individual Income Tax			
14	\$110,157,000	\$116,168,000	\$226,325,000
15 This revenue consists of 64% of total projected			
16 individual income tax collections. Income tax forecasts for			
17 the 1986-87 biennium assume a slow growth in nonfarm labor			
18 income and employment. Income is forecast to grow 1.9% in			
19 calendar year 1986 and 3.7% in calendar year 1987, while			
20 nonfarm wage and salary employment is expected to remain			
21 stable over the biennium. These projections also include			
22 the effects of federal income tax indexing and the			
23 continuation of Montana law as it existed on April 1, 1986.			
24 The effects of federal tax reform and other such proposals			
25 are not included in the forecasts.			

1 (2) Corporation Income Tax

2	\$34,000,000	\$28,000,000	\$62,000,000
3 This revenue consists of 64% of total projected			
4 corporation income tax collections retained by state			
5 government. The forecasts are based on a decrease in			
6 Montana corporation taxable income in fiscal years 1986 and			
7 1987. These projections include \$7.6 million in additional			
8 taxes anticipated to be paid by the Montana Power Company in			
9 fiscal year 1986.			

10 (3) Coal Severance Tax

11	\$19,995,000	\$15,989,000	\$35,984,000
12 This revenue consists of 23.75% of total coal severance			
13 tax collections in fiscal year 1986 and 20.90% in fiscal			
14 year 1987. The forecasts are based on lower demand and			
15 competitively priced alternative fuels. It is assumed that			
16 these conditions, in conjunction with royalty deductions,			
17 will result in a decline in the price of coal during the			
18 biennium. A dispute involving the state's authority to tax			
19 coal mined on Crow Indian land has prompted a major coal			
20 developer to protest taxes paid on this production. Until a			
21 settlement is reached, these taxes are being deposited in an			
22 escrow account. Tax forecasts for the 1986-87 biennium			
23 assume a settlement will not be reached until after fiscal			
24 year 1987; therefore, these coal tax revenues are not			
25 included in the above revenue estimates. The revenue			

1 estimates are further based on the following assumptions of
2 production and price:

3 Tons of Coal		
4	31,119,000	30,500,000
5 Price per Ton		
6	\$9.07	\$8.46

7 (4) Oil Severance Tax

8	\$22,526,000	\$13,725,000	\$36,251,000
---	--------------	--------------	--------------

9 This revenue consists of 66.67% of total oil severance
10 tax collections less the portion remitted to counties with
11 production above the previous year. Since oil is a
12 commodity that is used for diverse purposes, prices depend
13 on federal regulations and world demand. Because a
14 worldwide surplus of oil exists and because of the recent
15 production increases by Saudi Arabia, it is assumed that
16 Montana's prices and production will follow worldwide trends
17 throughout the biennium. The revenue estimates for oil
18 severance taxes are based on the following assumptions of
19 production and price:

20 Barrels of Oil			
21	29,209,000	27,975,000	
22 Price per Barrel			
23	\$23.72	\$15.00	
24 (5) Interest on Investments			
25	\$16,001,000	\$10,208,000	\$26,209,000

1 Interest on investments is projected to decline in
2 fiscal years 1986 and 1987 from fiscal year 1985 levels.
3 The decline in 1986 and 1987 is expected because of lower
4 interest rates and less funds available to invest. The
5 revenue estimates for interest on investments are based on
6 the following assumptions.

7 Average Daily Cash			
8	\$166,500,000	\$100,000,000	
9 Average Interest Rate			
10	7.86%	7.00%	
11 TRANS Issue			
12	\$46,000,000	\$50,000,000	
13 (6) Long-Range Bond Excess			
14	\$35,476,000	\$35,181,000	\$70,657,000

15 The long-range bond debt service account receives 11%
16 of all individual income and corporation income taxes,
17 79.75% of all cigarette taxes, and 100% of tobacco taxes.
18 It is assumed that there will be no additional long-range
19 building bonds sold until after fiscal year 1987. It is
20 also assumed that cigarette sales will be 82.628 million
21 packs and 79.669 million packs in fiscal years 1986 and
22 1987, respectively. Revenue from tobacco sales is expected
23 to be \$716,000 in fiscal year 1986 and \$776,000 in fiscal
24 year 1987.

25 (7) Coal Trust Fund Interest

\$31,179,000 \$34,830,000 \$66,009,000

This revenue is derived from interest earned on the deposit of 50% of coal severance tax receipts dedicated to the permanent trust fund. Eighty-five percent of total interest earnings from the investment of the permanent trust fund is deposited to the general fund. It is assumed that total interest income will increase modestly over the biennium based on higher investable balances but invested at lower interest rates. It is also assumed that no additional water development bonds will be sold throughout the biennium. The revenue estimates for coal trust fund interest are further based on the following assumptions:

Average Long-Term Rates

10.00% 9.80%

Debt Service (Water Bonds)

\$356,000 \$584,000

Bond Calls

\$5,400,000

(8) Insurance Premium Tax

\$16,845,000 \$18,029,000 \$34,874,000

Total insurance premium taxes have grown 5.5% a year since fiscal year 1980, with the 10.4% growth in fiscal year 1984 excluded. It is assumed that receipts will grow 12.3% in fiscal year 1986 due to higher premiums for liability insurance and then return to a more normal growth pattern of

7.4% in fiscal year 1987. The revenue estimates are further based on the following assumptions:

Police and Firemen's Retirement

\$4,900,000 \$5,400,000

Insurance Division Budget

\$851,000 \$782,000

(9) Institution Reimbursement

\$13,676,000 \$14,268,000 \$27,944,000

Approximately 89% of all reimbursements collected are from federal Medicaid receipts. It is also assumed that the Montana Youth Treatment Center at Billings will not be certified this biennium and that all other institutions will remain certified throughout the biennium.

(10) Liquor Profits

\$4,187,000 \$3,817,000 \$8,004,000

(11) Liquor Excise Tax

\$5,818,000 \$5,678,000 \$11,496,000

Liquor sales for fiscal years 1986 and 1987 are expected to decline further as the trend toward moderation in liquor consumption continues. The liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at fiscal year 1985 levels.

(12) Inheritance Tax

\$7,659,000 \$7,836,000 \$15,495,000

Inheritance tax revenues for fiscal year 1986 are

1 projected to remain at fiscal year 1985 levels. In fiscal
 2 year 1987 receipts are estimated to grow by approximately
 3 2.3%. This trend is consistent with the growth rate observed
 4 from fiscal year 1974 to fiscal year 1985.

5 (13) Metal Mines Tax

6 \$998,000 \$969,000 \$1,967,000

7 This revenue consists of 66.67% of total projected
 8 metal mines tax. It is assumed that gold, silver, copper,
 9 and lead production for calendar year 1986 will decline
 10 modestly from calendar year 1985 levels. Also, it is
 11 assumed prices will increase slightly from calendar year
 12 1985 levels. No new companies are expected to begin
 13 production in the state by the end of calendar year 1986.

14 (14) Electrical Energy Tax

15 \$2,530,000 \$2,547,000 \$5,077,000

16 Total U.S. electricity production has grown by 2.4%
 17 since calendar 1974. It is assumed that Montana's
 18 production will follow the national trend and that demand
 19 for electrical power will increase 2.1% in fiscal year 1986
 20 and 2.3% in fiscal year 1987. In addition, an adjustment to
 21 these estimates has been made, based on a April 1986
 22 completion date for Colstrip Unit IV. The generating
 23 capacity for Colstrip Unit IV is assumed to be 60% the first
 24 year and 70% thereafter.

25 (15) Drivers' License Fee

1 \$768,000 \$790,000 \$1,558,000

2 Population growth in the age cohort 16 years of age or
 3 older is forecast to increase by 1% throughout the biennium.
 4 Since drivers' license fee revenues are dependent upon the
 5 number of eligible drivers, it is assumed that collections
 6 will follow this trend during the biennium.

7 (16) Telephone License Tax

8 \$3,241,000 \$3,419,000 \$6,660,000

9 Telephone taxes have grown approximately 8.5% since
 10 1969, excluding the years in which a rate increase was
 11 granted by the Public Service Commission. It is assumed this
 12 growth rate will increase to 10.5% in fiscal year 1986 and
 13 then decline to 5.5% in fiscal year 1987.

14 (17) Beer Tax

15 \$1,284,000 \$1,227,000 \$2,511,000

16 Beer consumption on a per capita basis is forecast to
 17 decrease 6.5% in fiscal year 1986 and 6.4% in fiscal year
 18 1987. This is a continuation of the downward trend in
 19 consumption that began in fiscal year 1982.

20 (18) Natural Gas Severance Tax

21 \$2,627,000 \$2,633,000 \$5,260,000

22 Natural gas production is projected to increase
 23 moderately throughout the biennium. However, prices are
 24 expected to decline to \$2.26 and \$2.24 per MCF in fiscal
 25 years 1986 and 1987, respectively. The revenue estimates are

1 based on the following assumptions of production and price:

2 MCFs of Natural Gas

3 44,632,000 45,286,000

4 Price per MCF

5 \$2.29 \$2.26

6 Gallons of Nat. Gas Liquids

7 3,242,000 3,290,000

8 Price per Gallon

9 \$0.239 \$0.236

10 (19) Freight Line Tax

11 \$1,195,000 \$1,448,000 \$2,643,000

12 Freight line tax revenues are forecast to decrease
13 13.4% in fiscal year 1986 and then increase 21.2% in fiscal
14 year 1987. Poor agricultural conditions in calendar year
15 1985 are assumed to be the cause for the decline in fiscal
16 year 1986 receipts.

17 (20) Wine Tax

18 \$944,000 \$984,000 \$1,928,000

19 Wine consumption on a per capita basis is forecast to
20 increase 3.3% annually. Although this is a trend not
21 consistent with historical data, it reflects the trend
22 observed during the first 10 months of fiscal year 1986.

23 (21) Other Revenue

24 \$17,804,000 \$19,106,000 \$36,910,000

25 Since fiscal year 1981, revenues from a number of other

1 statutory taxes, fees, licenses, and fines have grown an
2 average 6.4% per year after adjusting for one-time receipts.

3 It is assumed that these revenues will continue to grow but
4 at a somewhat lesser rate. Included in this revenue estimate
5 is revenue from poker licenses and vehicle license fees.

6 General Fund Total

7 \$348,910,000 \$336,852,000 \$685,762,000

8 FOUNDATION PROGRAM REVENUE

9 Source of Revenue FY 1986 FY 1987 Total

10 (1) Individual Income Tax

11 \$43,030,000 \$45,378,000 \$88,408,000

12 (2) Corporation Income Tax

13 \$13,281,000 \$10,938,000 \$24,219,000

14 (3) Coal Severance Tax

15 \$4,209,000 \$3,366,000 \$7,575,000

16 (4) Interest & Income

17 \$32,249,000 \$36,962,000 \$69,211,000

18 This revenue is primarily from agricultural leases,
19 grazing fees, oil and gas leases, and investment earnings
20 from the common school trust account. With a depressed
21 agricultural sector, reduced oil exploration activity, and
22 low interest rates, it is assumed that fiscal year 1986
23 revenues will decline from fiscal year 1985 levels. Fiscal
24 year 1987 revenues are assumed to increase moderately due to
25 an improved agricultural sector, higher oil prices, and

1 \$2.755 million from bond calls in the common school trust
 2 account.
 3 (5) US Oil & Gas Royalties
 4 \$13,070,000 \$12,175,000 \$25,245,000
 5 Montana receives 50% of all federal royalty payments
 6 from oil, gas, coal, and other mineral production on federal
 7 lands located in Montana. It is assumed that production
 8 will remain at calendar year 1983 levels and mineral prices
 9 will be as projected for the general fund revenue sources.
 10 (6) Education Trust Interest
 11 \$7,442,000 \$8,257,000 \$15,699,000
 12 This revenue is derived from interest earned on the
 13 education trust fund. An amount equal to 67.5% of the total
 14 interest earnings from the investment of the education trust
 15 fund is deposited to the foundation program. It is assumed
 16 that total interest income will increase modestly over the
 17 biennium, based on higher investable balances but invested
 18 at lower interest rates. The revenue estimates for
 19 education trust fund interest are further based on the
 20 following assumptions:
 21 Average Long-Term Rates
 22 10.00% 9.80%
 23 Bond Calls
 24 \$1,350,000
 25 (7) County Revenue

1 45 Mill Mandatory Levy
 2 \$106,656,000 \$104,668,000 \$211,324,000
 3 Other County Revenue
 4 \$6,044,000 \$5,788,000 \$11,832,000
 5 (8) District Revenue (Permissive)
 6 \$18,730,000 \$18,298,000 \$37,028,000
 7 The mandatory and permissive levies are applied against
 8 the statewide taxable valuation of the state. In fiscal
 9 year 1986 taxable valuation was \$2.370 billion. It is
 10 assumed to decline to \$2.326 billion in fiscal year 1987.
 11 The taxable valuation revenue estimates are based on the
 12 following components.
 13 Net/Gross Proceeds
 14 \$768,271,000 \$702,773,000
 15 All Other Valuation
 16 \$1,601,862,000 \$1,623,193,000
 17 Foundation Program Total
 18 \$244,711,000 \$245,830,000 \$490,541,000
 19 BE IT FURTHER RESOLVED, that the Legislature accept for
 20 budget purposes the unreserved general fund balance of
 21 \$27,545,000 prepared according to generally accepted
 22 accounting principles, as published in the audited state
 23 financial statements as of June 30, 1985.
 24 BE IT FURTHER RESOLVED, that the Legislature accept for
 25 budget purposes the foundation program balance of

LC 0097/01

1 \$25,636,000 as of June 30, 1985.

-End-

1 House JOINT RESOLUTION NO. 1
2 INTRODUCED BY HARR

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, 1985, GENERAL
10 FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY
11 ACCEPTED ACCOUNTING PRINCIPLES; ESTABLISHING AN ESTIMATE OF
12 THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION
13 PROGRAM; AND ACCEPTING A JUNE 30, 1985, FOUNDATION PROGRAM
14 FUND BALANCE.

15
16 WHEREAS, Article VI, section 9, of the Montana
17 Constitution requires the Governor to submit to the
18 Legislature for the ensuing fiscal period a budget detailing
19 the estimated revenue of the state; and

20 WHEREAS, Article VIII, section 9, of the Montana
21 Constitution requires that the Legislature may not
22 appropriate funds in excess of the anticipated revenue of
23 the state; and

24 WHEREAS, section 5-12-302(2), MCA, requires the Office
25 of the Legislative Fiscal Analyst to estimate revenue from



SECOND READING

There are no changes in HJR 1, & will not be re-run.
Please refer to white copy for complete text.

1 House JOINT RESOLUTION NO. L
2 INTRODUCED BY Harp
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, 1985, GENERAL
10 FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY
11 ACCEPTED ACCOUNTING PRINCIPLES; ESTABLISHING AN ESTIMATE OF
12 THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION
13 PROGRAM; AND ACCEPTING A JUNE 30, 1985, FOUNDATION PROGRAM
14 FUND BALANCE.

15
16 WHEREAS, Article VI, section 9, of the Montana
17 Constitution requires the Governor to submit to the
18 Legislature for the ensuing fiscal period a budget detailing
19 the estimated revenue of the state; and

20 WHEREAS, Article VIII, section 9, of the Montana
21 Constitution requires that the Legislature may not
22 appropriate funds in excess of the anticipated revenue of
23 the state; and

24 WHEREAS, section 5-12-302(2), MCA, requires the Office
25 of the Legislative Fiscal Analyst to estimate revenue from

1 existing and proposed taxes, and section 17-7-123(1), MCA,
2 requires the Governor to submit a budget showing a balance
3 between proposed disbursements and total anticipated
4 receipts; and

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

10 WHEREAS, past legislatures have not agreed on revenue
11 projections until the last days of the session, when there
12 is little time for comprehensive analysis or reasoned
13 criticism; and

14 WHEREAS, it is in the best interests of the people of
15 Montana that revenue forecasts be discussed and arrived at
16 in public hearings in which all interested persons may
17 attend and participate.

18
19 NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE
20 OF REPRESENTATIVES OF THE STATE OF MONTANA:

21 That the following estimate of economic conditions and
22 the resulting general fund and foundation program revenue
23 estimates be adopted for fiscal years 1986 and 1987. The
24 projections for total general fund and foundation program
25 revenues during the 1986-87 biennium are based on an

1 assumption of slow economic growth during the period and an
 2 assumption of a continuation of Montana law as it existed on
 3 April 1, 1986. While current economic growth is slow, some
 4 economic recovery is expected by late 1987. It is assumed
 5 that the inflation rate will be about 1.1% for calendar year
 6 1986 and 2.9% for calendar year 1987. Interest rates are
 7 projected to drift downward during the biennium, based on
 8 the assumption of a less restrictive monetary policy by the
 9 Federal Reserve Board and the continuation of slow economic
 10 growth in the United States.

11 GENERAL FUND REVENUE

12 Source of Revenue	FY 1986	FY 1987	Total
13 (1) Individual Income Tax			
14	\$110,157,000	\$116,168,000	\$226,325,000
15 This revenue consists of 64% of total projected			
16 individual income tax collections. Income tax forecasts for			
17 the 1986-87 biennium assume a slow growth in nonfarm labor			
18 income and employment. Income is forecast to grow 1.9% in			
19 calendar year 1986 and 3.7% in calendar year 1987, while			
20 nonfarm wage and salary employment is expected to remain			
21 stable over the biennium. These projections also include			
22 the effects of federal income tax indexing and the			
23 continuation of Montana law as it existed on April 1, 1986.			
24 The effects of federal tax reform and other such proposals			
25 are not included in the forecasts.			

1 (2) Corporation Income Tax			
2	\$34,000,000	\$28,000,000	\$62,000,000
3 This revenue consists of 64% of total projected			
4 corporation income tax collections retained by state			
5 government. The forecasts are based on a decrease in			
6 Montana corporation taxable income in fiscal years 1986 and			
7 1987. These projections include \$7.6 million in additional			
8 taxes anticipated to be paid by the Montana Power Company in			
9 fiscal year 1986.			
10 (3) Coal Severance Tax			
11	\$19,995,000	\$15,989,000	\$35,984,000
12 This revenue consists of 23.75% of total coal severance			
13 tax collections in fiscal year 1986 and 20.90% in fiscal			
14 year 1987. The forecasts are based on lower demand and			
15 competitively priced alternative fuels. It is assumed that			
16 these conditions, in conjunction with royalty deductions,			
17 will result in a decline in the price of coal during the			
18 biennium. A dispute involving the state's authority to tax			
19 coal mined on Crow Indian land has prompted a major coal			
20 developer to protest taxes paid on this production. Until a			
21 settlement is reached, these taxes are being deposited in an			
22 escrow account. Tax forecasts for the 1986-87 biennium			
23 assume a settlement will not be reached until after fiscal			
24 year 1987; therefore, these coal tax revenues are not			
25 included in the above revenue estimates. The revenue			

1 estimates are further based on the following assumptions of
2 production and price:

3 Tons of Coal			
4	31,119,000	30,500,000	
5 Price per Ton			
6	\$9.07	\$8.46	

7 (4) Oil Severance Tax			
8	\$22,526,000	\$13,725,000	\$36,251,000

9 This revenue consists of 66.67% of total oil severance
10 tax collections less the portion remitted to counties with
11 production above the previous year. Since oil is a
12 commodity that is used for diverse purposes, prices depend
13 on federal regulations and world demand. Because a
14 worldwide surplus of oil exists and because of the recent
15 production increases by Saudi Arabia, it is assumed that
16 Montana's prices and production will follow worldwide trends
17 throughout the biennium. The revenue estimates for oil
18 severance taxes are based on the following assumptions of
19 production and price:

20 Barrels of Oil			
21	29,209,000	27,975,000	
22 Price per Barrel			
23	\$23.72	\$15.00	

24 (5) Interest on Investments			
25	\$16,001,000	\$10,208,000	\$26,209,000

1 Interest on investments is projected to decline in
2 fiscal years 1986 and 1987 from fiscal year 1985 levels.
3 The decline in 1986 and 1987 is expected because of lower
4 interest rates and less funds available to invest. The
5 revenue estimates for interest on investments are based on
6 the following assumptions.

7 Average Daily Cash		
8	\$166,500,000	\$100,000,000
9 Average Interest Rate		
10	7.86%	7.00%

11 TRANS Issue		
12	\$46,000,000	\$50,000,000

13 (6) Long-Range Bond Excess			
14	\$35,476,000	\$35,181,000	\$70,657,000

15 The long-range bond debt service account receives 11%
16 of all individual income and corporation income taxes,
17 79.75% of all cigarette taxes, and 100% of tobacco taxes.
18 It is assumed that there will be no additional long-range
19 building bonds sold until after fiscal year 1987. It is
20 also assumed that cigarette sales will be 82.628 million
21 packs and 79.669 million packs in fiscal years 1986 and
22 1987, respectively. Revenue from tobacco sales is expected
23 to be \$716,000 in fiscal year 1986 and \$776,000 in fiscal
24 year 1987.

25 (7) Coal Trust Fund Interest	
---------------------------------	--

1 \$31,179,000 \$34,830,000 \$66,009,000

2 This revenue is derived from interest earned on the
3 deposit of 50% of coal severance tax receipts dedicated to
4 the permanent trust fund. Eighty-five percent of total
5 interest earnings from the investment of the permanent trust
6 fund is deposited to the general fund. It is assumed that
7 total interest income will increase modestly over the
8 biennium based on higher investable balances but invested at
9 lower interest rates. It is also assumed that no additional
10 water development bonds will be sold throughout the
11 biennium. The revenue estimates for coal trust fund
12 interest are further based on the following assumptions:

13 Average Long-Term Rates

14 10.00% 9.80%

15 Debt Service (Water Bonds)

16 \$356,000 \$584,000

17 Bond Calls

18 \$5,400,000

19 (8) Insurance Premium Tax

20 \$16,845,000 \$18,029,000 \$34,874,000

21 Total insurance premium taxes have grown 5.5% a year
22 since fiscal year 1980, with the 10.4% growth in fiscal year
23 1984 excluded. It is assumed that receipts will grow 12.3%
24 in fiscal year 1986 due to higher premiums for liability
25 insurance and then return to a more normal growth pattern of

1 7.4% in fiscal year 1987. The revenue estimates are further
2 based on the following assumptions:

3 Police and Firemen's Retirement

4 \$4,900,000 \$5,400,000

5 Insurance Division Budget

6 \$851,000 \$782,000

7 (9) Institution Reimbursement

8 \$13,676,000 \$14,268,000 \$27,944,000

9 Approximately 89% of all reimbursements collected are
10 from federal Medicaid receipts. It is also assumed that the
11 Montana Youth Treatment Center at Billings will not be
12 certified this biennium and that all other institutions will
13 remain certified throughout the biennium.

14 (10) Liquor Profits

15 \$4,187,000 \$3,817,000 \$8,004,000

16 (11) Liquor Excise Tax

17 \$5,818,000 \$5,678,000 \$11,496,000

18 Liquor sales for fiscal years 1986 and 1987 are
19 expected to decline further as the trend toward moderation
20 in liquor consumption continues. The liquor division's
21 operating expenses for the 1986-87 biennium are expected to
22 remain constant at fiscal year 1985 levels.

23 (12) Inheritance Tax

24 \$7,659,000 \$7,836,000 \$15,495,000

25 Inheritance tax revenues for fiscal year 1986 are

1 projected to remain at fiscal year 1985 levels. In fiscal
2 year 1987 receipts are estimated to grow by approximately
3 2.3%. This trend is consistent with the growth rate observed
4 from fiscal year 1974 to fiscal year 1985.

5 (13) Metal Mines Tax

6 \$998,000 \$969,000 \$1,967,000

7 This revenue consists of 66.67% of total projected
8 metal mines tax. It is assumed that gold, silver, copper,
9 and lead production for calendar year 1986 will decline
10 modestly from calendar year 1985 levels. Also, it is
11 assumed prices will increase slightly from calendar year
12 1985 levels. No new companies are expected to begin
13 production in the state by the end of calendar year 1986.

14 (14) Electrical Energy Tax

15 \$2,530,000 \$2,547,000 \$5,077,000

16 Total U.S. electricity production has grown by 2.4%
17 since calendar 1974. It is assumed that Montana's
18 production will follow the national trend and that demand
19 for electrical power will increase 2.1% in fiscal year 1986
20 and 2.3% in fiscal year 1987. In addition, an adjustment to
21 these estimates has been made, based on a April 1986
22 completion date for Colstrip Unit IV. The generating
23 capacity for Colstrip Unit IV is assumed to be 60% the first
24 year and 70% thereafter.

25 (15) Drivers' License Fee

1 \$768,000 \$790,000 \$1,558,000

2 Population growth in the age cohort 16 years of age or
3 older is forecast to increase by 1% throughout the biennium.
4 Since drivers' license fee revenues are dependant upon the
5 number of eligible drivers, it is assumed that collections
6 will follow this trend during the biennium.

7 (16) Telephone License Tax

8 \$3,241,000 \$3,419,000 \$6,660,000

9 Telephone taxes have grown approximately 8.5% since
10 1969, excluding the years in which a rate increase was
11 granted by the Public Service Commission. It is assumed this
12 growth rate will increase to 10.5% in fiscal year 1986 and
13 then decline to 5.5% in fiscal year 1987.

14 (17) Beer Tax

15 \$1,284,000 \$1,227,000 \$2,511,000

16 Beer consumption on a per capita basis is forecast to
17 decrease 6.5% in fiscal year 1986 and 6.4% in fiscal year
18 1987. This is a continuation of the downward trend in
19 consumption that began in fiscal year 1982.

20 (18) Natural Gas Severance Tax

21 \$2,627,000 \$2,633,000 \$5,260,000

22 Natural gas production is projected to increase
23 moderately throughout the biennium. However, prices are
24 expected to decline to \$2.26 and \$2.24 per MCF in fiscal
25 years 1986 and 1987, respectively. The revenue estimates are

1 based on the following assumptions of production and price:

2 MCFs of Natural Gas

3 44,632,000 45,286,000

4 Price per MCF

5 \$2.29 \$2.26

6 Gallons of Nat. Gas Liquids

7 3,242,000 3,290,000

8 Price per Gallon

9 \$0.239 \$0.236

10 (19) Freight Line Tax

11 \$1,195,000 \$1,448,000 \$2,643,000

12 Freight line tax revenues are forecast to decrease
13 13.4% in fiscal year 1986 and then increase 21.2% in fiscal
14 year 1987. Poor agricultural conditions in calendar year
15 1985 are assumed to be the cause for the decline in fiscal
16 year 1986 receipts.

17 (20) Wine Tax

18 \$944,000 \$984,000 \$1,928,000

19 Wine consumption on a per capita basis is forecast to
20 increase 3.3% annually. Although this is a trend not
21 consistent with historical data, it reflects the trend
22 observed during the first 10 months of fiscal year 1986.

23 (21) Other Revenue

24 \$17,804,000 \$19,106,000 \$36,910,000

25 Since fiscal year 1981, revenues from a number of other

1 statutory taxes, fees, licenses, and fines have grown an

2 average 6.4% per year after adjusting for one-time receipts.

3 It is assumed that these revenues will continue to grow but

4 at a somewhat lesser rate. Included in this revenue estimate

5 is revenue from poker licenses and vehicle license fees.

6 General Fund Total

7 \$348,910,000 \$336,852,000 \$685,762,000

8 FOUNDATION PROGRAM REVENUE

9 Source of Revenue FY 1986 FY 1987 Total

10 (1) Individual Income Tax

11 \$43,030,000 \$45,378,000 \$88,408,000

12 (2) Corporation Income Tax

13 \$13,281,000 \$10,938,000 \$24,219,000

14 (3) Coal Severance Tax

15 \$4,209,000 \$3,366,000 \$7,575,000

16 (4) Interest & Income

17 \$32,249,000 \$36,962,000 \$69,211,000

18 This revenue is primarily from agricultural leases,
19 grazing fees, oil and gas leases, and investment earnings
20 from the common school trust account. With a depressed
21 agricultural sector, reduced oil exploration activity, and
22 low interest rates, it is assumed that fiscal year 1986
23 revenues will decline from fiscal year 1985 levels. Fiscal
24 year 1987 revenues are assumed to increase moderately due to
25 an improved agricultural sector, higher oil prices, and

1 \$2.755 million from bond calls in the common school trust
2 account.

3 (5) US Oil & Gas Royalties

4 \$13,070,000 \$12,175,000 \$25,245,000

5 Montana receives 50% of all federal royalty payments
6 from oil, gas, coal, and other mineral production on federal
7 lands located in Montana. It is assumed that production
8 will remain at calendar year 1983 levels and mineral prices
9 will be as projected for the general fund revenue sources.

10 (6) Education Trust Interest

11 \$7,442,000 \$8,257,000 \$15,699,000

12 This revenue is derived from interest earned on the
13 education trust fund. An amount equal to 67.5% of the total
14 interest earnings from the investment of the education trust
15 fund is deposited to the foundation program. It is assumed
16 that total interest income will increase modestly over the
17 biennium, based on higher investable balances but invested
18 at lower interest rates. The revenue estimates for
19 education trust fund interest are further based on the
20 following assumptions:

21 Average Long-Term Rates

22 10.00% 9.80%

23 Bond Calls

24 \$1,350,000

25 (7) County Revenue

1 45 Mill Mandatory Levy

2 \$106,656,000 \$104,668,000 \$211,324,000

3 Other County Revenue

4 \$6,044,000 \$5,788,000 \$11,832,000

5 (8) District Revenue (Permissive)

6 \$18,730,000 \$18,298,000 \$37,028,000

7 The mandatory and permissive levies are applied against
8 the statewide taxable valuation of the state. In fiscal
9 year 1986 taxable valuation was \$2.370 billion. It is
10 assumed to decline to \$2.326 billion in fiscal year 1987.
11 The taxable valuation revenue estimates are based on the
12 following components.

13 Net/Gross Proceeds

14 \$768,271,000 \$702,773,000

15 All Other Valuation

16 \$1,601,862,000 \$1,623,193,000

17 Foundation Program Total

18 \$244,711,000 \$245,830,000 \$490,541,000

19 BE IT FURTHER RESOLVED, that the Legislature accept for
20 budget purposes the unreserved general fund balance of
21 \$27,545,000 prepared according to generally accepted
22 accounting principles, as published in the audited state
23 financial statements as of June 30, 1985.

24 BE IT FURTHER RESOLVED, that the Legislature accept for
25 budget purposes the foundation program balance of

LC 0097/01

1 \$25,636,000 as of June 30, 1985.

-End-