Subcommittee meeting January 17, 1979

HOUSE TAXATION SUBCOMMITTEE

46th Legislature

Rep. E.N. Dassinger, Forsyth, called the subcommittee members to order at 8:00 a.m., January 17, 1979. Representatives Jay Fabrega and Vicki Johnson were present. Others present were Ronald Richards, Director, Jack Beckert, Engineering Division, James Beck, R/W Attorney, all of the Highway Department, and Norris Nichols, Administrator of the Motor Fuel Tax Division.

Mr. Beckert advised that the status varies from having all the right-of-ways for quite a few projects but not for all of the interstate. There are certain projects that can't advance as quickly as others. There are six contracts at Big Timber instead of one as planned. This allows for a lot of flexibility. Anything that is realistic will be let. It is impossible to get utilities to work on anything unless they know you are going to do something. They have a rolling program when utility is clear and the right-of-way is certain. Whenever they have an economic project, they can go ahead with it. Don't have all the right-of-way, but have all the right-of-way for the program in excess of $80 million per year. Rep. Fabrega asked if they could go with $80 million worth of projects this year. They could go with another $80 million next year also. $8-$10 million is needed for match.

Mr. Beckert said they have already tied up $16.5 million in January of federal funds for projects based on what they have planned; $13.3 for February; and are in the process of requesting another $20 million for their March letting. For the first 3 months of the year they could use $50 million of federal funds.

Rep. Fabrega asked if the 1¢ tax would generate enough money. Mr. Beck said it should if kept at around $80 million. Fabrega said by July accumulations should be in good shape. Mr. Richards said the gas balance would be utilized to get through this year and by then the tax would have a fund built up.

Rep. Dassinger asked about the possibility of changing the 1¢ to 4¢ and completing the interstate in a shorter time and thereby tying up the federal money. Mr. Beckert advised the feds won't let you tie up money over 90 days. They are sure that the package is all ready for bids. Have to get these packages ready so that they will allocate the money. Rep. Dassinger asked if there is a possibility of using $160 million. Beckert: No - staffing problems and contractor problems would arise. They can let a bridge standing by itself, so that the bridge contract which takes quite a long time won't delay the surfacing operations. They plan contracts that don't conflict in the operational stage.

Mr. Richards explained there is a tendency to get sloppy work when going too fast. He estimated that the first time a construction dollar turns over, it generates 2-1/2 times its original value. It has a harmful effect if too much money is spent all at once. Have the full right-of-way through

Big Timber for the whole road. They could handle up to $100 million in contracts per year. If they utilized all funds available to Montana from all programs, would be up to about $140 million which is almost twice the average, and would be a very substantial workload for contractors and staff.

Rep. Dassinger what assurance there is the program won't collapse after we have put on this tax and then not be able to get the funds to match our money. Richards said it depends how aggressive other states are. Can substantially essentially get the remaining work of the interstate to contract before the money runs out. The major essential work will be done. In the event the bottom fell out and something went terribly awry, since this is a dedicated tax for this purpose only, the 1¢ would continue to come in as a dedicated amount of money. When returning after 2-4 years, could take the 1¢ or 2¢ tax off and reduce the tax and reassign use of funds. Can't easily return earmarked funds.

Beckert advised the highway department has been slowly catching up on the interstate program. Year before last they had $11 million taken to contract, but had no funds, so they temporarily carried these projects and awarded the $11 million until the next year's appropriation without a dime of federal funds they used the new appropriation to wipe out that obligation of the state. They could go without the discretionary pot. When the pot is depleted, they could go to ACI with advanced interstate construction. They will carry the project until the next appropriation is available. On paper could tie up $11 million and after new appropriation take $11 million out.

Fabrega asked if Congress will allocate annually for the next three years or so or is that all the money that is in the slush fund. Richards said the Secretary of Transportation can allocate to states demonstrating the needs, the work and the money. Beckert advised there will be other states that will have the funds to go into this pot. Nobody knows how much other states will let and some possibilities of getting into the pot will lapse. Ten states are pretty much in competition for the funds. Montana is the first state to get into that pot. That was in January. Utah is making plans. Quite a few of the western states are in pretty good shape. Montana needs about 175 miles of interstate.

Rep. Johnson asked what would be the feeling if the 1¢ lapsed at the end of the next session? Richards said it might be a wise thing. If you put it in until 1984, and the department could come back and justify, the mechanics of repealing it are a lot easier than renewing. Would have a 4-year program that we could plan for. Plans are gone through every month. $140 million worth of work will be finalized by the end of this year. Some will fall out, but some others will go in. With a $140 million work program, guaranteeing $80 million is easy.

Fabrega: The level of construction you have been at is around $80 million average and you are aiming to go an additional $80 million on the interstate? Beckert: $137 million program this year and therafter it would be about $127-128 Million. Richards: The total interstate is about $27 million at the present time - it would be about triple for the interstate program

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which has to be done.

Beckert advised the department used almost every cent that was available for matching funds for secondary and primary systems. Have a very small amount of carryover.

Johnson: If you used ACI funds could you tie up as much as you would be ready to go to contract with? It would be necessary to carry program until federal funds would be available. Beckert: Don't need so very much to carry ACI. Would recommend doing this. So if discretionary fund is depleted, could look at the picture and go ACI and keep on collecting funds from this tax.

Fabrega: Is there any way you can tie up funds? Beckert: Problem is in getting contracts ready in time. Have some right-of-ways to get and utilities.

Fabrega: If you went to this level that you propose, how many more employees would be needed? Beckert: Don't see a proportionate need for more since they will pass on certain duties to the contractors. Don't want to hold him up. By using outside contracts, personnel staffing won't be fantastically increased, but should increase some. Richards advised there would be small increases in the legal division regarding right-of-ways. Designing has been completed. Small staffing impact since they will use outside help.

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Rep. Dassinger noted that gasoline is the only thing that is raised in taxation to cover for the loss of funds, however, it is alright with him since the diesel fuel is taxed at 2¢ higher already. Suggested putting into the bill some kind of restriction so that gasoline taxes could be raised by 1/10 of 1¢ if usage went down, and the next quarter could be removed if usage went up.

Mr. Beck said if usage goes up, the tax is decreased by 1/10 of 1¢. If it goes down, then the tax goes up. The 8¢ tax doesn't go down, but they need a 3% growth in usage to keep up with inflation. He doesn't think this available feature would ever go into effect absent some national or unusual situation.

Richards said the situation in the middle east concerns us now. Some national interruption of oil could change the picture - the need would not decrease. More or less of an insurance policy. If things stay stable, would not need this tax. In six months last year out the window went $12 million that could have been used for federal match. Federal aid to state of 1-10 is very good.

Fabrega asked about establishing a base gallonage from which to figure. Revenue is about 4/5 from gasoline tax and 1/5 from diesel so that when the amount of gas usage increases, revenue increases.

Rep. Dassinger if gallonage used were reviewed every six months. Gallonage usage varies in a six-month period. Beck suggested the base gallonage for a given period could be comparied with the previous year's - January-July, July-January. The reporting system is lagging for gallonage used, so recommends using the comparison method.

Don Allen, Montana Petroleum Industry representative, stated the industry is not opposed to gasoline tax increases per se. They acknowledge that the price does have some affect, but has to go very high before people won't drive. Conservation should be considered. In connection with the variable approach (since it is not wise to obligate future legislatures) the manner and level this particular approach takes seems to not be objectionable to the industry. Instead of the six-months level, might use an annual adjustment. Might not have to use this tax. 1/10 of 1¢ figure would be difficult to use since taxes are usually calculated at 1¢. 1/10 of 1¢ is a problem on the pump and to figure administratively.

Marvin Beck said they got 3/4¢ last time because it was impossible to work on the pumps. Would generate more money in a short time by using a whole cent. Should take a good look at the trend that more vehicles are using diesel - more pickups, cars, etc., are using diesel and could have an impact on gas gallonage sales. The dealer has to handle that tax on diesel.

Beck: Objection to the use of 1/10 is understandable. If the committee would desire the additional tax to go onto diesel, could trigger it off the gasoline structure inasmuch as it is similar and then could be reviewed or changed at the next legislature. Couldn't say what impact on diesel users would be. Should the diesel users be forced to pay more taxes when gas goes down and diesel usage goes up? Couldn't come up with a way to do this for diesel.

Fabrega: Maybe should not be based on gallonage, but on revenue instead of gallonage.

Dassinger suggested that might come up with a pro rata figure on the gallonage for the previous year for each six-month period.

Rep. Fabrega moved that the amendment to House Bill 63 be adopted. It was unanimously adopted.

Rep. Dassinger moved that HB 63 be recommended Do Pass As Amended to the Taxation Committee. Unanimously adopted.

Another subcommittee meeting on House Bill 64 is scheduled for January 19.

Meeting adjourned at 9:10 a.m.

E. N. Dassinger

Representative E.N. Dassinger, Chairman

Jo Fritz

Secretary