

THE MINUTES OF THE MEETING OF THE TAXATION COMMITTEE -
SPECIAL SESSION
November 19, 1981

The meeting was called to order by CHAIRMAN KEN NORDTVEDT on November 19, 1981, at 7 a.m. in room 437 of the Capitol building, Helena, Montana.

ROLL CALL was taken and all members were present. Members of this committee are:

REP. KENNETH NORDTVEDT, Chairman	REP. ORREN VINGER
REP. ROBERT SIVERTSEN	REP. JOE BRAND
REP. TOM ASAY	REP. ROBERT DOZIER
REP. VERNER BERTELSEN	REP. DAN HARRINGTON
REP. JAMES BURNETT	REP. TED NEUMAN
REP. GERRY DEVLIN	REP. DANNY OBERG
REP. JOHN HARP	REP. MELVIN WILLIAMS
REP. AUDREY ROTH	REP. CARL ZABROCKI
REP. DEAN SWITZER	REP. MARJORIE HART
REP. MELVIN UNDERDAL	

HOUSE BILL 11, (EXHIBIT I), was introduced by REPRESENTATIVE PAUL PISTORIA, District 39, and stated that highways need reconstruction and repairs but the highway department has tried to cut down, which is what the legislature has asked for for many years.

This bill is from January 1, 1982 to June 30, 1983, only one and a half years and by that time they should know what to do with the highway department. You cannot put the amount in this bill. Starting this year, \$46 million a year goes into the trust fund; so in a year and one half they will be using about \$33 million for repairing roads. Of that, \$2.5 million will be for helping the counties and cities by using the formula that is now a law in Section 15-70-101.

There is now \$87 million in the total coal trust fund. This year 50% will be placed in the fund by law instead of the 25% of the 30% coal severance tax usually placed in the coal tax fund. In 1981, there will be \$46 million dollars received in the coal severance tax, and at 50% there will be \$23 million placed in the Coal Trust Fund. The interest in the Coal Trust Fund for 1981 - 1983 will be about \$11 million. The interest from the Coal Trust Fund for 1981 - 1982 will be \$17 million.

This money will be the same amount as the 5 cent gasoline tax and 6 cent diesel tax. REPRESENTATIVE PISTORIA stated that he believes this bill should be approved because the coal tax has already been allocated.

REPRESENTATIVE PISTORIA stated that people have been contacting him and asking him about the cutting of highway funds. This bill will not tax us at a time when the economy is so bad. Why not take money from under the ground and put it above the ground. This bill is asked for by the people not the parties.

PROPOSERS were called for.

BILL OLSON, Secretary, Manager of the Montana Contractor's Association, stated that they think the committee should consider this bill for several reasons. 1. Timing. This should be taken care of while the legislature is in session. 2. Money coming out of the coal tax for highway repair is for preventative problems for the future generations. Therefore Mr. Olson recommended a Do Pass for House Bill 11.

MIKE STEPHENS, representing the Montana Association of Counties, stated that looking at the depletion of revenue sources, they do not get full benefit, at least what they did in the past, out of their one cent gas tax which goes to cities and counties. It has been reduced from about \$7.5 million down to a little over \$5 million at this time. They did get an increase in their road fund last session and already those are up to maximum. They have a very difficult time keeping up with paying for increased road costs, maintenance of road and upkeep with the funds available.

DAN MIZNER, Assistant Director of Montana League of Cities and Towns, spoke as a proponent and said that they are operating on a 1975 and 1977 income in comparison to \$1,800,000 less than they had in 1979 and 1980. Someone must take a look at generating some kind of funds to help local government take care of those problems at the local level, not through property tax because they are up to their maximum levies. As of this time they have 67 cities that have reported in and 23 of those cities will be registering warrants or are registering warrants now. They are down to November to collect taxes and they will have some money. If they have registered warrants this year that means they have to raise property tax next July to pay for next years operation and pick up the warrants plus the interest which will reduce the amount of money available to pay bills with next year. It is not mismanagement, it is a reduction problem. Mr. Mizner stood in support of this H.B.11.

GARY WICKS, Director of the Department of Highways, made a presentation to the Committee in support of House Bill 11. He stated that everyone knows the Governor is proposing a gas tax for the roads, however, he believes it is the Governor's way of getting the legislature to focus on the Highway funding problem and willing to take a look at other sources of funding.

Mr. Wicks went over some of the highway problems that exist and the funding problems. He stated that there is a lot of misconception in the newspaper.

MR. WICKS exhibited a map (EXHIBIT 2) that indicates critical miles in red; miles that will need reconstruction within 10 years, in blue; and miles that have become critical since 1975. He stated that Montana, more than any other state is dependent upon federal funds and has more miles of highways than anyplace else in the nation. He stated that the most critical highway conditions are in Sidney, Kalispell and Highway 200 out of Great Falls. He emphasized the impact that a reduction in federal funding has in Montana.

(EXHIBIT 3), HIGHWAY RECONSTRUCTION FACTS, expressed the "Needs", "Gas Tax", "Federal Reductions", "Inflation", and "Dept. of Highway's Cost Saving Measures."

Mr. Wicks stated that the federal government cutbacks are serious and they have taken steps to reduce costs. They have reduced FTE's from 2,162 to 1,862. They have implemented a time schedule and a management system that will allow them to do a better job with the money they have besides trying to eliminate the frills on the projects. They are also looking at reorganization of the Department of Highways and a change of strategy. He said this must be a state responsibility. They recognize that they must move away from the idea of new highways and put the emphasis on the highways they have now. They must move away from emphasis on interstate programs and concentrate on working more on primary and secondary highways. He said they must also put more focus on the reconstruction trust account and set up a fund for construction and overlay.

The state of Montana is divided up into 12 financial districts. The reason for the law is for fair distribution. The distribution formula was explained to the committee and also its priorities. He also made mention that the \$4 million given to them by the Legislature last session was not enough.

A series of projects will be dropped. Mr. Wicks presented a Chart (EXHIBIT 4) showing 'Highway Fund Projected At Current Level', with 'Savings Reconstruction', and with 'Fuel Tax and Expanded Program.'

Another Chart (EXHIBIT 5) shows Highway Fund Projected at Current Level; (EXHIBIT 6), Highway Fund Projected with Savings Reconstruction; (EXHIBIT 7), Highway Fund Projected with Fuel Tax and Expanded Program.

Mr. Wicks concluded his testimony that he does not believe the allegation not to do anything is valid and they must act now. He said that the Highway Department has management problems but they are making progress, and that should not be used in making a decision on this bill.

There being no other proponents, opponents were called for.

REPRESENTATIVE CAL WINSLOW spoke in opposition to the bill stating that he served as chairman of the Coal Tax Oversight committee and they are involved in looking at all the coal tax expenditures and reviewing proper uses and coming to the 1984 Legislature with possible changes if they need to be made. He stated that taking the money from the coal trust fund, a very unwise solution. They have planned a January 29th meeting to study the road situation. The committee has agreed that any kind of an effort to take from the coal trust at this time would be premature. EXHIBIT 8.

QUESTIONS were opened to the committee.

A question was asked of Mr. Stephens if where they consider their local road situation is critical, that the issue could be brought to the people through the two-cycle local gas tax that they have as an option.

MR. STEPHENS said they presented this and it has been tried and has not been successful in getting the job done.

MR. MIZNER stated that they too had tried to get it on the ballot at a local level and there was a clause in the law at the time and the attorney general and the revenue department said we could not do that. They came back to the Legislature to change the law and now in October it is available to the cities and counties. They do have to get the counties to agree with the cities on the distribution of funds.

REPRESENTATIVE DEVLIN question page 2, line 7 of the bill and REPRESENTATIVE PISTORIA stated that this defines the construction and maintenance of roads. MR. STEPHENS said that the Section 60-3-21 is the establishment of the financial districts.

REPRESENTATIVE BRAND asked the reason the tax base in the communities are going down. MR. STEPHENS stated it started with the reclassification, secondly there is a 34% rollback in some of the cases and a 12% rollback, and those things added together has reduced some of the taxable values within the communities. Representative Brand asked if any of the cities or towns come to the Legislature about tax delinquencies. Mr. Stephens said they sponsored a bill jointly with Assessors Associations, County Commissioners Association, League of Cities and Towns and the School Board Association. This bill did not make it through.

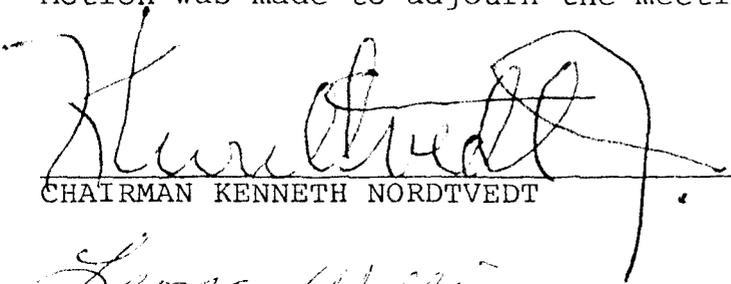
REPRESENTATIVE BERTELSON questioned the amount of income lost to the general fund because of the loss of interest. REPRESENTATIVE DEVLIN stated that he did not think this would affect it because they will gain 50% this year. It will still be sitting in the interest bearing general state account until

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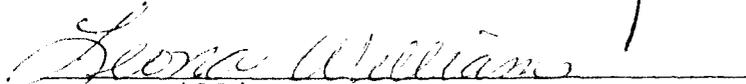
it is actually drawn out. REPRESENTATIVE BERTELSEN surmized that eventually they will be losing that money to the general account year after year.

REPRESENTATIVE PISTORIA closed on HOUSE BILL 11 stating that the people are the ones to satisfy, not the politicians and pleaded with the committee to pass this bill out of the Committee so it could be debated on the floor.

Motion was made to adjourn the meeting at 8:30 p.m.



CHAIRMAN KENNETH NORDTVEDT

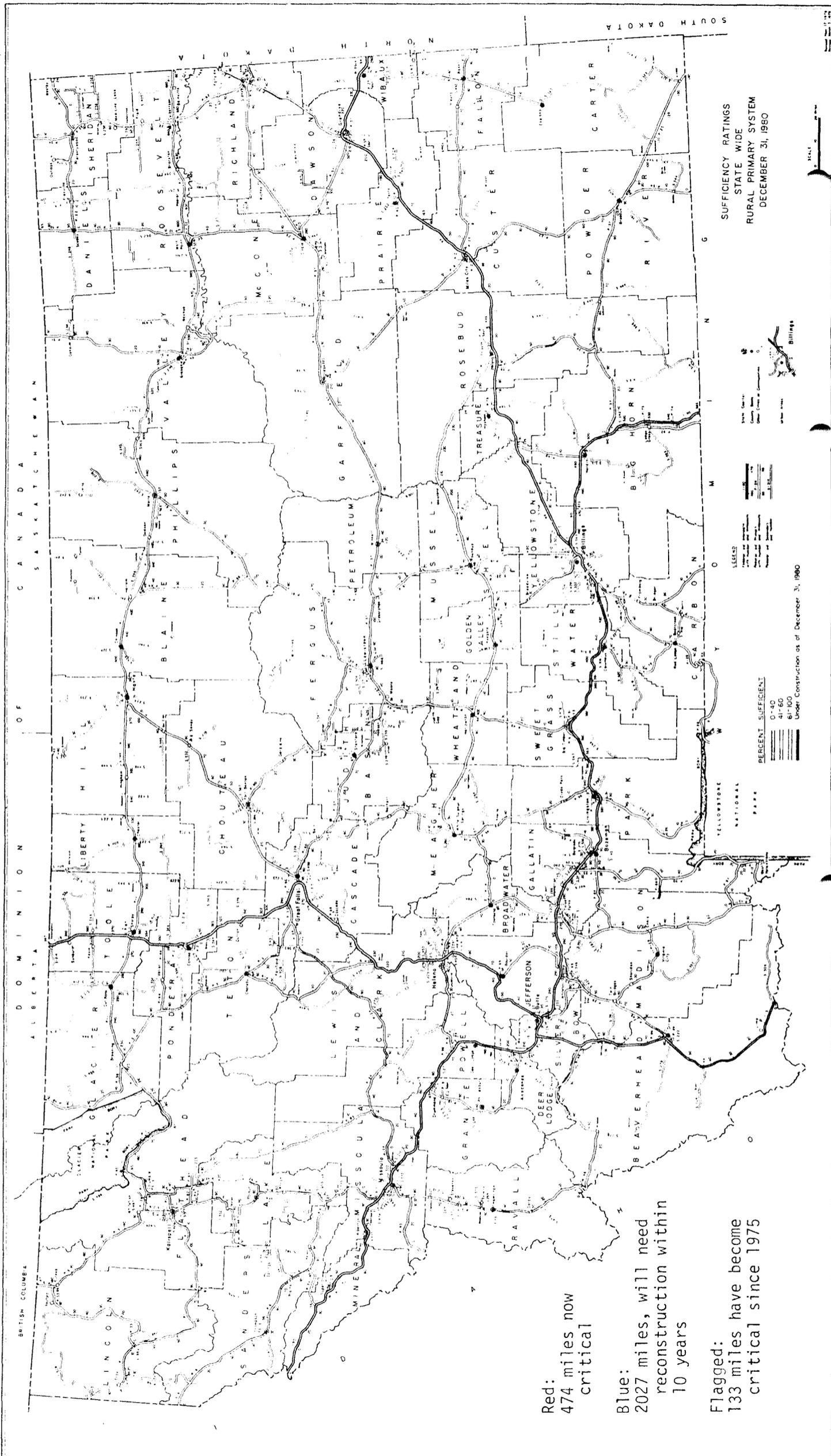


Leona Williams, Secretary

HOUSE
 BILL NO. 11
 INTRODUCED BY *Richard Hamming*
and *Gordon*
 A BILL FOR AN ACT ENTITLED: "AN ACT TO APPROPRIATE FUNDS FOR RECONSTRUCTION OF THE COAL SEVERANCE TAX COLLECTED BETWEEN JANUARY 1, 1982, AND JUNE 30, 1983, TO THE HIGHWAY RECONSTRUCTION TRUST ACCOUNT WHICH IS ONE-HALF OF THE TAX THAT WOULD HAVE BEEN DEPOSITED TO THE COAL SEVERANCE TAX TRUST FUND; AND TO APPROPRIATE \$2,500,000 OF THE HIGHWAY EARMARKED REVENUE FUND TO CITIES AND COUNTIES FOR CONSTRUCTION AND RECONSTRUCTION OF ROADS AND STREETS."

1 funds on reconstruction projects to straighten, widen, or
 2 make major improvements to the base of the highway or make
 3 major improvements in grades or curves. The funds may not be
 4 expended for routine repairs.
 5 (3) The department of highways shall expend the funds
 6 on projects throughout the state according to need and not
 7 on the basis of 60-3-203.
 8 Section 3. Biennial appropriation -- counties --
 9 cities and towns. (1) There is appropriated from the highway
 10 earmarked revenue fund \$2,500,000 for the biennium ending
 11 June 30, 1983, for the construction, reconstruction,
 12 maintenance, and repair of rural roads and city or town
 13 streets and alleys.
 14 (2) The sum of \$1,136,000 shall be divided among the
 15 various counties in the manner provided for in
 16 15-70-101(1)(a).
 17 (3) The sum of \$1,364,000 shall be divided among the
 18 incorporated cities and towns in the manner provided for in
 19 15-70-101(1)(b).
 20 Section 4. Three-fourths vote required. This act
 21 appropriates money from the principal of the coal severance
 22 tax trust fund and, as required by Article IX, section 5, of
 23 the Montana Constitution, it must pass by a three-fourths
 24 vote of the members of each house of the legislature.

-End-



Red:
474 miles now
critical

Blue:
2027 miles, will need
reconstruction within
10 years

Flagged:
133 miles have become
critical since 1975

HIGHWAY RECONSTRUCTION FACTS

NEEDS

- Primary roads serve through traffic from one city to another. The roads in critical condition are rated less than 40% sufficient based upon an analysis of the foundation, surface, drainage, safety and capacity. In 1975 there were 358 miles of critical highways, today there are 474 miles of primary highway now in critical condition which need immediate reconstruction. We only expect to be able to work on 33 miles of this critical highway this biennium.

- If no action is taken within the next five years, there will be 529 miles of critically deficient highway.

- Cost of a mile of reconstruction averages \$600,000 per mile - at 474 miles that equals \$286 million.

- There are 2,027 miles of primary which will need reconstruction in the next five to ten years.

- Montana has 105 miles of highway per 1,000 population as opposed to the urban states ratio, of 7.4 miles per 1,000 population. This is the highest burden of miles per person in the nation.

GAS TAX

- A one cent gas tax increase on gasoline will provide the highway fund with \$4,027,607; one cent on diesel fuel would net \$1,064,110. The proposed increase would raise \$26,522,995 annually for the reconstruction program.
- Of the 9¢ per gallon tax, 7.6¢ is the net return to the Highway Department, after deductions for the highway patrol, state parks, snowmobiles, aeronautics, et al. This assumes the gas tax is distributed proportionately to the total highway earmarked fund.
- The new tax of 14¢ per gallon on gasoline and 17¢ per gallon on diesel fuel would temporarily put Montana's tax among the highest in the country. New Hampshire currently has 14¢ tax on gasoline and Nebraska is at 13.9¢; Washington is at 13.5¢. Many other states are proposing major increases in fuel taxes to their legislatures, as well as receiving funds from other revenue sources.

FED REDUCTIONS

- Over the past five years Montana's average federal obligation level was \$97.7 million. If obligation authority is reduced to \$68.5 it will be a 30% cut.
- As a result of proposed changes in the Federal Highway Act, secondary and urban programs will require a 25% increase in state matching funds in order to match fewer federal dollars.

INFLATION

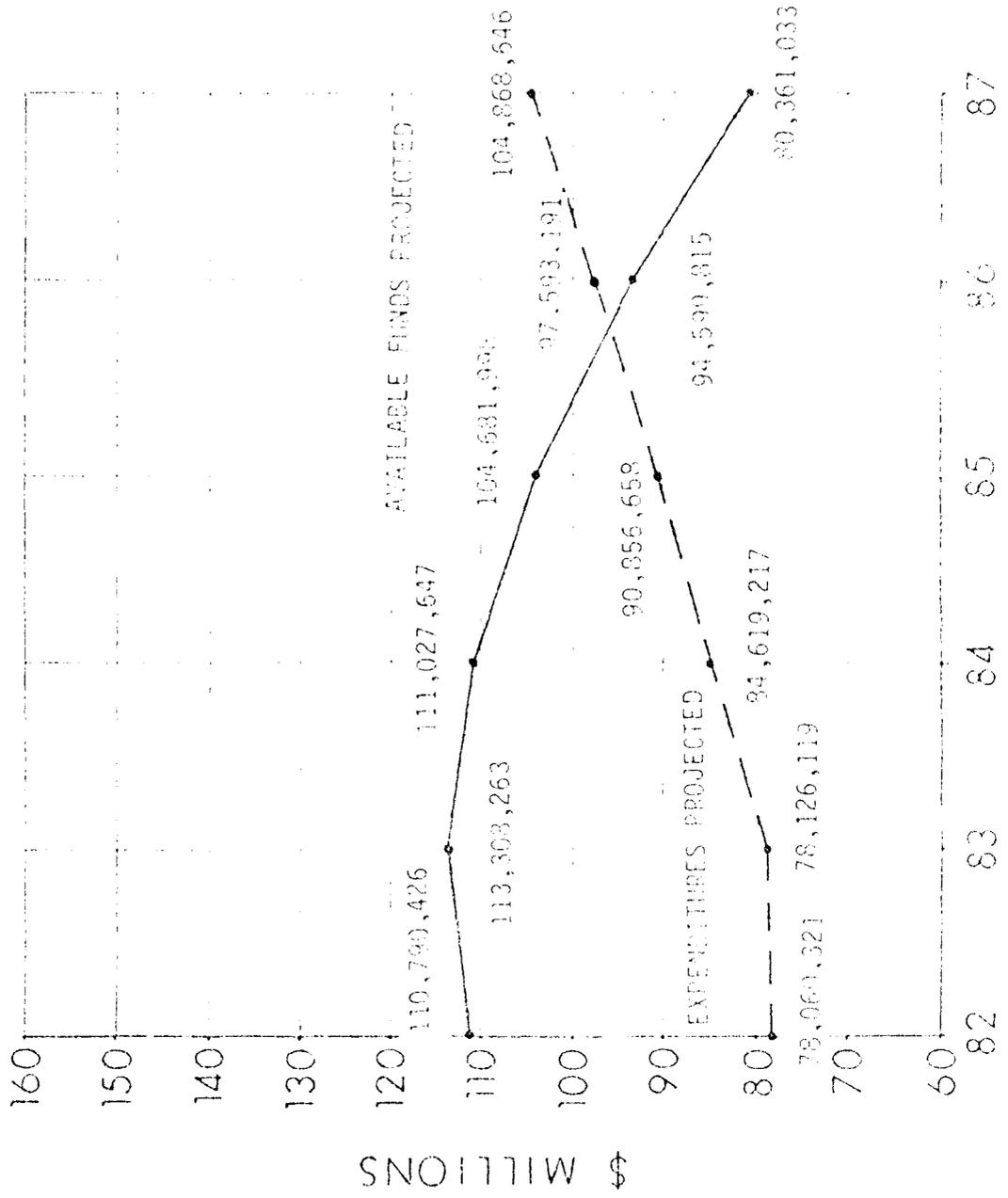
- From 1970 to 1980 prices rose by anywhere from 150 to 200%. The effect of inflation has been dramatic. In 1971 we could reconstruct 6.4 miles of primary with \$1 million. Today, that same million will only buy 1.5 miles. In 1971, we could maintain 660 miles of highway with \$1 million. Today, that same million will only maintain 350 miles.
- The highway earmarked revenue fund expenditures continue in excess of income and therefore cannot sustain the current level of basic highway services through the next biennium.

DOH COST SAVING MEASURES

- Position reduction. The legislature authorized 2,162 positions on July 1, 1981. After a reduction of 300 FTE's, the Department now has 1,862.06 (the lowest level since 1957).
- Department of Highways cost reduction measures resulted in saving \$7.5 million over the biennium. State matching funds of \$9.3 million were not required due to a decrease in federal funds. This revenue will be spent, within our spending authority, on reconstruction of needed projects.

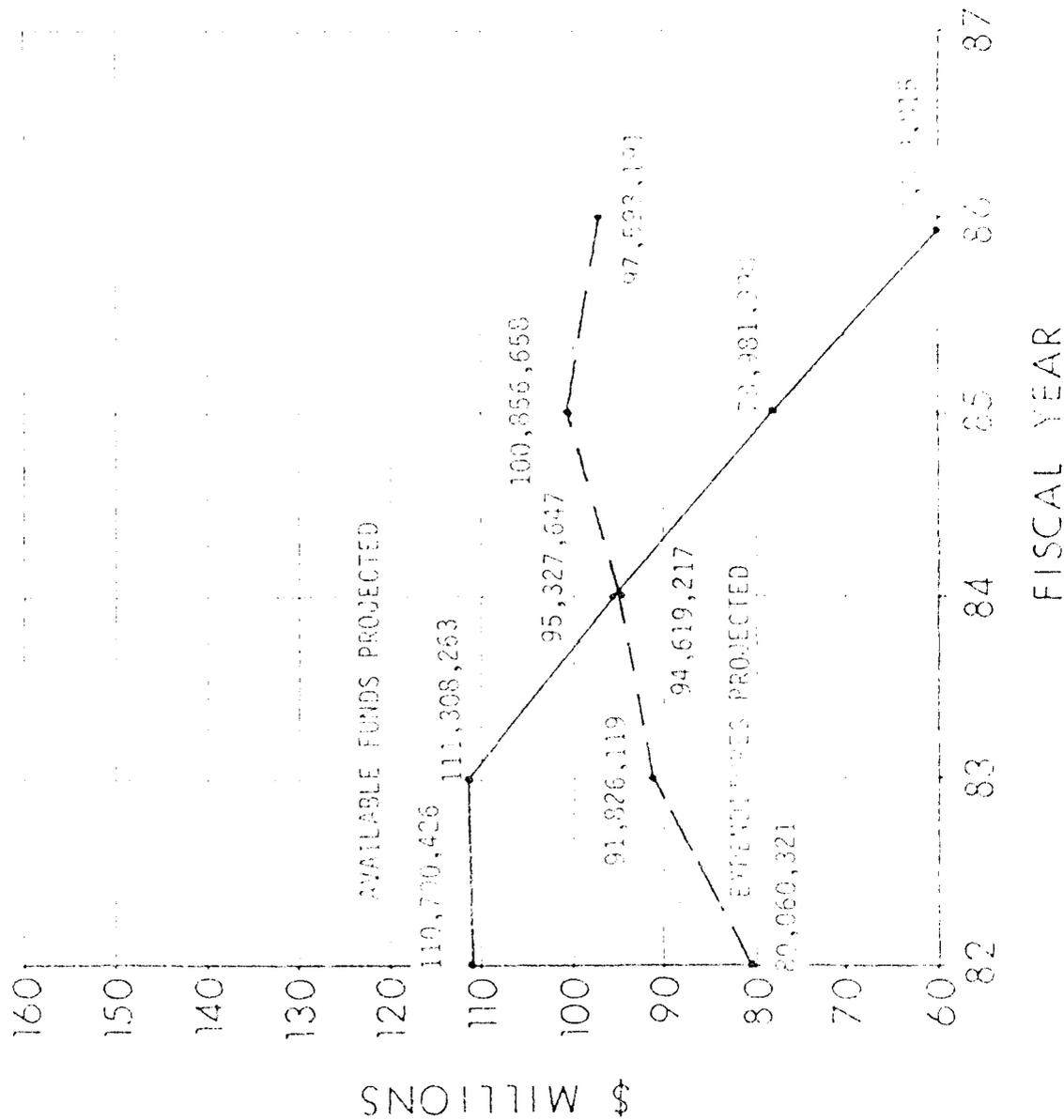
SCHEDULE 1

HIGHWAY FUND PROJECTED AT CURRENT LEVEL



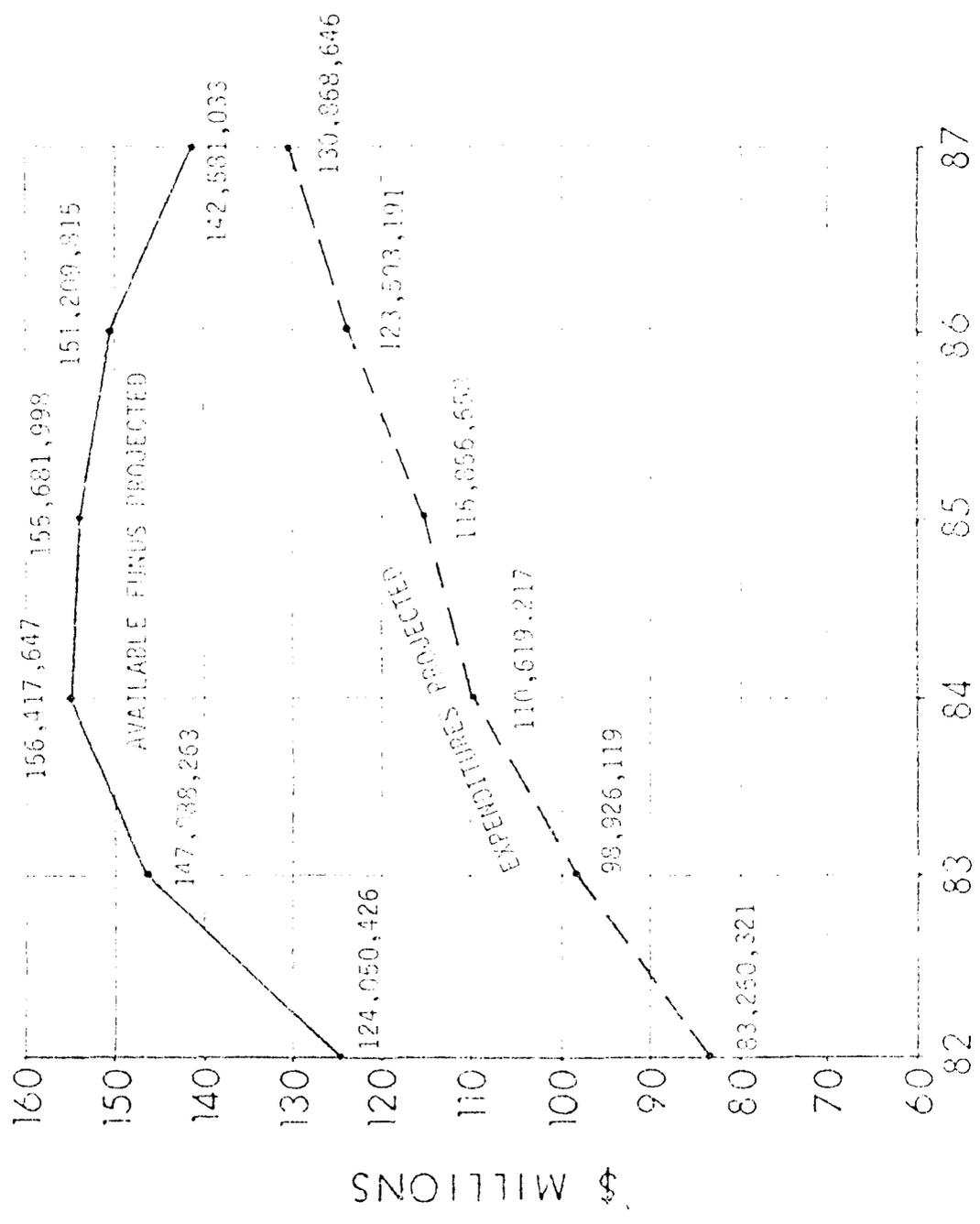
SCHEDULE 2

HIGHWAY FUND PROJECTED WITH SAVING RECONSTRUCTION



SCHEDULE 3

HIGHWAY FUND PROJECTED WITH FUEL TAX AND EXPANDED PROGRAM



FISCAL YEAR

HIGHWAY FUND PROJECTED AT CURRENT LEVEL

	Fiscal Year 82	Fiscal Year 83	Fiscal Year 84	Fiscal Year 85	Fiscal Year 86	Fiscal Year 87
Revenues:						
Beginning Balance	\$ 13,221,879	\$ 32,730,105	\$ 35,182,144	\$ 26,408,430	13,825,340	\$ (2,993,376)
Revenues A	75,568,547	78,578,158	75,845,503	78,273,568	80,774,475	83,354,409
General Fund B	<u>22,000,000</u>	<u>2,000,000</u>				
Available Fund	\$110,790,426	\$113,308,263	111,027,647	104,681,998	94,599,815	\$ 80,361,033
Expenditures:						
Current Level	<u>78,060,321</u>	<u>78,126,119</u>	<u>84,619,217</u>	<u>90,856,658</u>	<u>97,593,191</u>	<u>104,868,646</u>
Ending Fund Balance	<u>\$ 32,730,105</u>	<u>\$ 35,182,144</u>	<u>\$ 26,408,430</u>	<u>\$ 13,825,340</u>	<u>(2,993,376)</u>	<u>(24,507,613)</u>

A 1¢ Fuel Tax Ends FY '83

B \$20 Million Gen. Fund Ends FY '83

C Assume inflation of 8% on all expenditures except local government aid.

HIGHWAY FUND PROJECTED WITH SAVINGS RECONSTRUCTION

	Fiscal Year 82	Fiscal Year 83	Fiscal Year 84	Fiscal Year 85	Fiscal Year 86
Revenues:					
Beginning Balance	\$ 13,221,879	\$30,730,105	\$19,482,144	\$ 708,430	\$ (21,874,660)
Revenues A	75,568,547	78,578,150	75,845,503	78,273,568	80,774,475
General Fund B	<u>22,000,000</u>	<u>2,000,000</u>			
Available Funds	\$110,790,426	111,308,263	95,327,647	\$ 78,981,938	\$ 58,899,815
Expenditures:					
Current Level C	78,060,321	78,126,119	84,619,217	90,856,658	97,593,191
Savings Construction D	<u>2,000,000</u>	<u>13,700,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	
	80,060,321	91,826,119	94,619,217	100,856,658	97,593,191
Ending Fund Balance	<u>\$ 30,730,105</u>	<u>19,482,144</u>	<u>\$ 708,430</u>	<u>\$ (21,874,660)</u>	<u>\$ (38,693,376)</u>

A 1% Fuel Tax Ends

B \$20 Million General Fund Ends '83

C Assume inflation of 8% on all expenditures except local government aid.

D Savings Redistribution

HIGHWAY FUND PROJECTED WITH FUEL TAX AND EXPANDED PROGRAM

	Fiscal Year 82	Fiscal Year 83	Fiscal Year 84	Fiscal Year 85	Fiscal Year 86	Fiscal Year 87
Revenues:						
Beginning Balance	\$ 13,221,879	\$ 40,790,105	\$ 48,962,144	\$ 45,798,430	\$ 38,025,340	\$ 27,616,624
Current Revenues A	75,568,547	78,578,158	80,935,503	83,363,568	85,864,475	88,444,409
Tax Increase B	13,260,000	26,520,000	26,520,000	26,520,000	26,520,000	26,520,000
General Fund C	<u>22,000,000</u>	<u>2,000,000</u>				
	\$124,050,426	147,888,263	156,417,647	155,681,998	151,209,815	142,581,033
Expenditures:						
Current Level D	78,060,321	78,126,119	84,619,217	90,856,658	97,593,191	104,868,646
Reconstruction	2,800,000	11,200,000	14,000,000	14,000,000	14,000,000	14,000,000
Replace Lost Federal Funds	<u>2,400,000</u>	<u>9,600,000</u>	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>
	83,260,321	98,926,119	110,619,217	116,856,658	123,593,191	130,868,646
Ending Fund Balance	<u>\$ 40,790,105</u>	<u>\$ 48,962,144</u>	<u>\$ 45,798,430</u>	<u>\$ 38,825,340</u>	<u>\$ 27,616,624</u>	<u>\$ 11,712,387</u>

A 1% Fuel Tax Permanent

B Gas Tax Raised 5%, Diesel Fuel Raised 6% '82

C \$20 Million General Fund Ends '83

D Assume inflation of 8% on all expenditures except local government aid.

The Big Sky Country

MONTANA STATE HOUSE OF REPRESENTATIVES

Rep. Cal Winslow
House District No. 65
1240 Crawford Dr.
Billings, Montana 59102

Committees
Human Services, Vice Chairman
State Administration
Highways & Transportation

November 18, 1981

FOR IMMEDIATE RELEASE

Coal Tax Oversight Committee met on Monday evening to review Coal Tax expenditures and revenues and to determine the scope of future meetings.

During the process of the meeting, it was stated that in recent months it had become standard procedure to bypass the Coal Tax Oversight Committee in the consideration of proposed uses of the coal tax. The committee remains closely involved in the oversight of all coal expenditures and has been overlooked in all recent proposals.

In an effort to remind interested parties that the proper procedure begins with the Coal Tax Oversight Committee a motion was made and unanimously passed. It read:

"During the Special Session the Coal Tax Oversight Subcommittee will vigorously oppose any effort to reallocate coal tax funds. Included in this motion is the protection of the constitutional Trust Fund, the interest from this fund, and the allocation of coal tax revenues.

It is the charge of the subcommittee to review the uses of all coal tax expenditures and bring back suggested changes to the 48th legislature. It would be premature to support any changes at this time."

Chairman Cal Winslow, presented the motion to the Revenue Oversight Committee for review and received a vote of support at their Tuesday meeting.

VISITORS' REGISTER

HOUSE _____ TAXATION _____ COMMITTEE - SPECIAL SESSION

BILL H. B. 11 (Highways)

Date November 19, 1981

SPONSOR REP. PISTORIA

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
Mike Steph	Helena	MACs	✓	
Rep. Pistoria	Helena	State Rep	✓	
	Do. Helena	DSH	✓	
Ed McWhirter	Great Falls	Mont. Contractors Assn	✓	
Jon Harriott	Helena	DOH	✓	
Bill Olson	Helena	MT. Contractors Assn	✓	
	Helena			
Bob (Walter)	Helena	# 05		
	Helena			
Frank McWhirter	Helena	Mont. Pedagogical	✓	
Joe McWhirter	Helena	Brokers		
JW MHI	LEK			
Walter Buchanan	Helena	MT. School Boards		
VP	Helena	Dept of Health	✓	
T. Cole	Helena	OBPP		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.