

MINUTES OF THE MEETING
TAXATION COMMITTEE
49TH LEGISLATURE
SPECIAL SESSION III
HOUSE OF REPRESENTATIVES

June 26, 1986

The sixth meeting of the taxation committee was called to order in room 312-1 of the capitol by chairman Gerry Devlin on the above date at 4:40 p.m.

ROLL CALL: All members were present as were Dave Bohyer, researcher for the legislative council, and Alice Omang, secretary.

CONSIDERATION OF SENATE BILL 14: Senator Neuman, senate district 21, stated that this bill transfers from the state highway revenue fund to the general fund some money that is currently used for highway construction and first it transfers the coal tax revenue, which amounts to about \$5.9 million and secondly, it transfers interest and earnings income from the highway special revenue account, which amounts to about \$6.7 million, and thirdly, it deposits the federal oil and gas mineral funds that the U. S. government pays the state in the state equalization aid account, which is another \$6.7 million. He advised that this bill will also assume the full operational costs of the highway patrol and the results of these transfers will reduce the moneys available for highway construction by approximately \$22.5 million. He continued that the bill then proposes to replace this transferred revenue with a user fee for the very important work of rebuilding Montana's highways and the fee in the bill as it currently exists is 5 cents on gas and this will raise about \$17.1 million for the highway construction account, which is about \$5.2 million less than the amount being transferred out. He emphasized that this will be a significant cutback in the important work of the highway program and this is coupled with the fact that the highway construction fund is scheduled to get an additional 6% of coal tax money next year and this will not be received under this bill.

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PROPOSERS: Gary Wicks, director of the department of highways, said that it is important to repeat that this proposal is the key to balancing the general fund budget, they do not get any new money from it and they think it is the key to continuation of the highway program which was approved in 1983. He distributed exhibits 1 and 2 to the committee and showed some slides on different highway projects around the state and others that need to be done.

David Hunter, director of the office of budget and planning in the governor's office, informed the committee that as of last night one house or the other has adopted about \$72.6 million of reduced expenditures or transfers, and, in some minor cases, increased revenue; and the number now of the projected deficit is \$97 million, so this legislature still needs to adopt \$25 million worth of legislation to get back to zero, plus the governor has recommended some modest ending fund balance.

He advised that this legislation is a very critical piece of their ability to solve the problem in this June session and they feel that this is an essential piece of legislation.

Bill Campbell, representing the Montana Education Association, stated that they support some increased revenue; and while this is not the most popular and probably would not be their first preference, it is the one available to support and they do support this.

Bill Olson, secretary-manager of the Montana Contractors' Association, testified in support of this bill. See exhibit 3.

Terry Minow, representing the Montana Federation of Teachers, said that their agenda was to help find some revenue to fund the school programs and this is the only bill on the table and they urge a do-pass.

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Tom Schneider, representing the Montana Public Employees' Association, the Montana highway patrol, and the construction people in the department of highways, stated that he wanted to go on record supporting this bill. He advised that he drives 50,000 miles a year and he has a staff that drives 325,000 miles a year, and this is certainly going to cost them some money, but they are more aware than the normal motorist as to what is happening to the highways of this state; and he thought they were dealing with a safety issue also.

There were no further proponents.

OPPONENTS: Robert VanDerVere, a citizen who lives on the outskirts of Helena, said that if more people have to go on welfare, it is going to cost the state some money and he felt that if they fixed the chuck holes instead of building new highways, they would be in better condition than they are now.

Lorna Frank, representing the Montana Farm Bureau, stated that the bureau was organized in 37 counties throughout the state and have between 3500 and 4,000 members and they oppose the 5-cents-gas-tax increase and support the use of some of the coal severance tax money to balance the budget or they can try for a sales tax, which is about the same as what the gas tax increase is.

Vera Cahoon, representing the Montana Freeholders' Association, said that they are a unique organization in that they have no special interest in lobbying and they represent Mr. and Mrs. Taxpayer and she rose in strong opposition against this bill. She contended that a gasoline tax is not going to just affect the user of that tax, it is going to funnel down to delivery people, motor carriers

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and it is going to come back to the consumer. She advised that she has been watching the legislature since the 16th of June; and she has watched them shuffle money from here, putting it over there, taking it out, putting it back in, and the people do not understand that they are trying to balance the budget on the backs of the taxpayer. She emphasized that they should balance the budget on where it happened - on the back of government.

Carol Mosher, representing the Montana Stockgrowers and the Montana Cattle Women, stated that this will put additional hardships on their basic food and fiber industry in the state that are already going down one by one and the recent drop in fuel prices was the one bright spot in agriculture. She asked that the committee oppose this bill.

Julie Hacker, representing Missoula County Freeholders, and a gas burning farmer, indicated that she believed in the highway reconstruction program, but there is an enormous waste of money and she showed some pamphlets that were delivered by the highway department and they received seven of these - one for each licensed driver. She also told of how she saw six highway supervisors watching over the contractors of a job close to her home and how they had to drill a well instead of getting water out of the river close by.

Steve Nesbit, vice-president of Western Petroleum Marketing Association and a local jobber who distributes gas and diesel fuel, stated that they are the tax collectors and they see that the taxes are paid and then pass them on to the state. He advised that they are hit larger than other groups by this tax because when they buy the fuel and put it in inventory, they pay those taxes and it costs them around \$6,000 a year additionally for this 5-cent increase in tax and secondly, they are caught in shrinkage, and thirdly, with the bad economy, they still have to pay the tax, even though they don't get paid for it.

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Riley Johnson, representing the Montana Federation of Independent Businessmen, stated that he did not want to be on record of either opposing or being for this bill, but wanted to advise that in a 1985 survey of their members in Montana, the question was asked if they would support a gasoline tax provided it was earmarked for highways and they received an 82% favorable return on that survey. He stated that they are opposing this bill because they do not feel that this tax is going to rebuilding of the highways - they are just shifting funds.

Tom Harrison, representing the Montana Automobile Dealers' Association and the Montana Automobile Association, said that the MAA represents over 19% of all automobiles registered in this state and nine years ago, the Montana Dealers' Association had 240 dealerships in this state and they now have 160 members - seven dealers have failed this year and seven more are projected to fail the remainder of this year. He stated that he hoped they would not single Montana out as the highest state in the United States in gas tax.

Terry Murphy, representing the Montana Farmers' Union, testified that when this was in the senate, they vehemently opposed this bill as it included diesel fuel, but at this hearing, when they are only talking about gas, they appear in strong opposition. He noted that it is not the highway budget that is in trouble - it is the general fund - and he asked why should transportation be chosen to bear the burden of balancing the budget.

Jim Manion, representing the Montana Highway Users' Association, advised that the directors of the association voted to oppose any increase in the gas and diesel tax and ask that the legislature take a hard look at perhaps using the coal tax as a source of revenue.

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George Allen, representing the Montana Retail Association, stated that he reluctantly opposes this since the diesel tax was taken out, it is a lot more acceptable, and they oppose especially the fact that there is no sunset. He contended that they have a temporary problem - the economy is going to get better, oil prices are going to go up and the time will come when they will work their way out of this problem, but if no sunset on this, what will happen to agriculture when gas goes up to \$1.50 a gallon and they have this tax built into it.

There were no further opponents.

QUESTIONS ON SENATE BILL 14: Representative Sands indicated that the legislative fiscal analyst had told him that they had anticipated in 1985 that the final balance for the combined highway special revenues and reconstruction was about \$16 million and if this bill went into effect and with the adjustments made in HB 30 and along with the changes in the bonding program, that they would have a balance of \$33,120,000 in fiscal year 1987, which is twice what they had anticipated when they left the regular session in 1985.

Mr. Wicks referred to the LFA's figures (exhibit 4) and those figures show that if everything went along with no changes, with no special session, they would have had in 1987 a balance in the earmarked account of about \$22 million and they have some differences in revenue projections - they projected an increase of gas taxes and they don't see it yet - but they are approximately the same as to the ending fund balance in 1987. He explained that the reason that it is more than what they projected in 1985 is because this year is one of the worst construction years they have had, but not in terms of the amount of contracts that were let, but due

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to the rain during August, they pretty much shut things down and the contractors did not get their work done as fast, they did not submit their claims as fast, so their balance at the end of 1987 is somewhat higher than they anticipated. He continued that if you take account of the LFA's proposal, which is recommending leaving the interest on the earmarked account and recommending transferring the coal tax, mineral royalties tax for 1986 as well as 1987 and replacing it with a 1 1/2 cent tax increase on gasoline, that would have let them end up 1987 with a \$11 million balance. He acknowledged that the problem with that is they did not take into account what is going to happen in 1988 and 1989, and with her projections, under the current program, they would end 1988 with a \$30 million deficit and 1989 with a \$90 million deficit. He said that they clearly would have to shut the RTF program down next year.

He advised that the LFA's proposal compared to the governor's leaves the highway program with \$16 million less than the governor's and that is \$16 million that is not being replaced by the coal tax interest.

Representative Sands asked if the reductions provided in HB 30 did not save them about \$4 million.

Mr. Wicks replied that he thought this ended with a \$4 million reduction.

Representative Sands asked if that was an additional \$4 million.

Mr. Wicks responded that it was not - we take it into the expenses and the balances and this is taken into consideration in the governor's budget.

Representative Sands asked if that affects the ending fund balance.

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Mr. Wicks replied that it does affect the ending fund balance, but even with the ending fund balance and the reductions in the budget as recommended, they will still end 1988 with a \$39 million deficit and a \$90 million deficit in 1989 under the LFA's proposal.

Chairman Devlin asked what would they end with in fiscal year 1987.

Mr. Wicks answered that they would end fiscal year 1987 with about a \$11 million balance, add to that a \$3 million amount that they took out in construction and he advised that when they let a contract, they don't pay out until 1988 and they have to shut the contracts down in 1987 to avoid the \$30 million deficit and have a positive balance in 1988.

He indicated that they obviously were coming back for a fuel tax increase in 1987 to carry them through 1989; and with the proposal contained in SB 14, when they take the \$22 million out, they need more additional revenue to keep the program going and the 5-cent-gas-tax increase allows them to keep the program going at a 10% reduction.

Chairman Devlin asked considering the way this bill reads now, what would their ending fund balance be as of June 30, 1987.

Mr. Wicks replied that with the bonding program, they estimate their balance in 1987 would be in the neighborhood of \$65 million, but most of that is represented by an increase in fuel taxes and the bond proceeds.

Representative Ellison asked if he understood him to say that, if they had not had a special session, that they would have come in during the next session and ask for a 5-cent-gas-tax increase.

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Mr. Wicks answered that it would not have been a 5-cent increase, but might be 3 cents.

Representative Ellison asked if this bill passes in its present form, will they be back in for another tax increase in 1987.

Mr. Wicks responded that he would not be back in 1987, and probably will not be back in for another tax increase in the remainder of his career.

Representative Sands asked numerous questions of Mr. Wicks along the same lines as previously recorded.

Chairman Devlin asked if they would scale the program down or would they shut it down.

Mr. Wicks replied that the RTF program would be shut down in 1987, they already have the contracts out that they are going to pay for in 1987 that were let under the legislature's authorization in 1983, so they have to shut the RTF program down and allow them to end 1988 with a positive balance.

Representative Harp clarified that one of the problems in the highway financing is that they have a lag period from when the contracts are let and when they are actually paid and not only a lag period in the contract payments, but also in what you are going to be paying off in bonds, so it looks like you have a big balance, but in reality, if they pay their bills, that balance is considerably less than that.

Representative Sands asked if Jim Haubein, principal analyst for the office of legislative fiscal analyst, could comment on this bill. Mr. Haubein went over exhibit 4 with the committee.

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In reply to a question by Representative Sands, Mr. Haubein answered that within the \$33 million, there is almost \$22 million worth of gas tax and if you were to not get the gas tax increase, they would have an approximately \$12 - \$13 million ending fund balance at the end of 1987.

Representative Sands asked, when they left in April of 1985, was it our assumption that the ending fund balance would be approximately \$16 million.

Mr. Haubein responded that is correct.

Representative Sands asked what would happen in 1988 and 1989 to your projections if the gas tax was not in effect.

Mr. Haubein replied that they would have to back off approximately \$60 million for the three fiscal years - 1987, 1988, and 1989, so they would be about \$83 million in the red.

There were no further questions.

Senator Neuman offered a letter to the committee from Evenson Dodge, Inc., who are financial advisors, stating that if a sunset were put in the bill, it would cripple the ability of the state to market the bonds and it will cause the interest rate to decline. See exhibit 5. He also advised that the department has taken a 2% cut and now a 5% cut and they have been significantly reduced. He also distributed to the committee exhibits 6 and 7.

The hearing on this bill was closed.

EXECUTIVE SESSION

DISPOSITION OF HOUSE BILL 44: Representative Keenan moved that this bill DO PASS. Chairman Devlin distributed a set of amendments recommend by Les Loble. See exhibit 8.

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Representative Keenan distributed some proposed amendments (exhibit 9) and she explained these amendments to the committee, saying that the first amendmend clarifies the changes in assessment due to reappraisal and these are acceptable grounds for a protest and on the second amendment, she advised that the federal reserve board changes the rate periodically and on the third amendment, she thought this would clarify Les Loble's concern on that section on page 6, line 17, that the money in general fund can also be used. She moved adoption of these amendments.

Representative Ellison asked if it were three years before the suit was settled would the taxing jurisdiction be in arbitrage for two years.

Representative Keenan said they could not spend it for the first year, so they would for two years.

Representative Asay noted that the first year the taxing jurisdiction would still be making a profit on the interest and his objection is that if the taxpayer proves to be right, he should be made whole.

A vote was taken on the adoption of these amendments and the motion passed with Representative Sands voting no.

Representative Sands indicated that he had some real reservations about this bill and everyone knew of the lines around the courthouse and how many people were protesting and what this bill says, in effect, is even though you protest your taxes, at least after the first year, they are going to go and spend it anyway and there are provisions for repayment, but that essentially is what this bill is designed to do. He continued that if the amendments proposed by Montax are adopted, which are reasonable amendments he thought, he would be prepared to vote in favor of this bill, but he

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also thought that the interest rate provision suggested by Montax apply and he thought it was vitally important that it apply not just after the judgment is rendered. He continued that it seems to him the critical factor is the time that this money is held up during the tax protest, and if you can't get market rates or the discount rate plus 4%, you are going to allow those local jurisdictions to get arbitrage on those taxpayers' money and he did not feel that was fair and he thought they should have the market rate and that is all their amendments would do.

Representative Sands moved to make the interest rate payment that Representative Keenan has apply to the protested amount even before judgment. He said that he thought it was appropriate and vital to have the market rate apply from the date of the payment of taxes under protest and that would make sure that the local jurisdictions doesn't benefit by keeping the taxpayers' money during the time of protest.

Representative Gilbert stated that it was his understanding that they didn't start paying that high interest rate at the time the money is protested - it is only after the waiting period that the county can decide to use those funds. He indicated that it certainly doesn't make much sense to try and get 14% out of money that is laying in an account when money market investment accounts right now are 5.8% and you are going to pay protested taxpayer 14% - it is ludicrous.

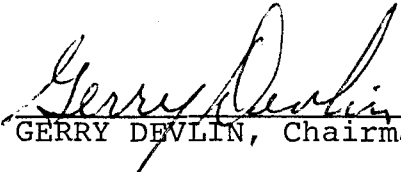
Representative Sands said that he misspoke when he applied the 6% from the very beginning, he talked to Dennis Burr and what their amendment was the federal discount rate plus 4% and this would apply from the day the county or local government started using the money - if after the one-year period, they decided to use the money, then they would propose that it have this higher market rate and he moved to so amend.

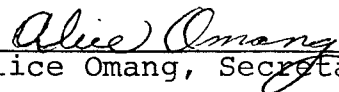
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A vote was taken on Representative Sand's amendment and it passed with 11 voting for it and 9 voting against it. See roll call vote #1.

A vote was taken on the DO PASS AS AMENDED motion and it passed with a vote of 11 ayes and 9 nos. See roll call vote #2.

ADJOURNMENT: There being no further business, the meeting was adjourned at 6:37 p.m.


GERRY DEVLIN, Chairman


Alice Omang, Secretary

DAILY ROLL CALL

TAXATION

COMMITTEE

49th LEGISLATIVE SESSION -- 1986
 Second Special

Date June 26, 1986

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, Gerry, Chairman	✓		
WILLIAMS, Mel, Vice-Chairman	✓		
ABRAMS, Hugh	✓		
ASAY, Tom	✓		
COHEN, Ben	✓		
ELLISON, Orval	✓		
GILBERT, Bob	✓		
HANSON, Marian	✓		
HARRINGTON, Dan	✓		
HARP, John	✓		
IVERSON, Dennis	✓		
KEENAN, Nancy	✓		
KOEHNKE, Francis	✓		
PATTERSON, John	✓		
RANEY, Bob	✓		
REAM, Bob	✓		
SANDS, Jack	✓		
SCHYE, Ted	✓		
SWITZER, Dean	✓		
ZABROCKI, Carl	✓		

STANDING COMMITTEE REPORT

June 27,

19 86

Mr. Speaker: We, the committee on TAXATION

report HB 44

To revise the procedures for the payment of Mt. tax under protest

do pass

be concurred in

as amended

do not pass

be not concurred in

statement of intent attached

1. Page 2, line 2.

Following: "protest"

Insert: ", which grounds may include but are not limited to changes in assessment due to reappraisal under 15-7-111"

Garry Devlin
Chairman

2. Page 6, lines 8 and 9.

Following: "until the date" on line 8

Strike: "of final resolution of the protest"

Insert: "on which funds are released as provided in subsection (8)"

3. Page 6, line 9.

Following: "and at the"

Insert: "combined"

Following: "rate of"

Strike: "10%"

Insert: "the federal reserve discount rate quoted from the federal reserve bank in New York, New York, on the date of final resolution, plus four percentage points."

4. Page 6, line 10.

Following: "date"

Strike: "of final resolution of the protest"

Insert: "on which funds are released as provided in subsection (8)"

5. Page 6, line 17.

Following: "general fund"

Insert: ", except that amount generated by the all-purpose mill levy,"

*Reconsidered
6/27/86*

ROLL CALL VOTE

Taxation

COMMITTEE

Date: June 26, 1986

Bill # 44

Number ①

Motion: Sands - amendment

Name	Aye	Nay
DEVLIN, Gerry, Chm.	✓	
WILLIAMS, Mel, V.Chm.		✓
ABRAMS, Hugh	✓	
ASAY, Tom	✓	
COHEN, Ben		✓
ELLISON, Orval	✓	
GILBERT, Bob	✓	
HANSON, Marian	✓	
HARRINGTON, Dan		✓
HARP, John		✓
IVERSON, Dennis	✓	
KEENAN, Nancy		✓
KOEHNKE, Francis	✓	
PATTERSON, John	✓	
RANEY, Bob		✓
REAM, Bob		✓
SANDS, Jack	✓	
SCHYE, Ted		✓
SWITZER, Dean	✓	
ZABROCKI, Carl		✓
Totals	11	9

ROLL CALL VOTE

Taxation COMMITTEE

Date: June 30, 1986 Bill # 44 Number #2

Motion: De Posse

Name	Aye	Nay
DEVLIN, Gerry, Chm.	✓	
WILLIAMS, Mel, V.Chm.	✓	
ABRAMS, Hugh	✓	
ASAY, Tom	✓	
COHEN, Ben	✓	
ELLISON, Orval	✓	
GILBERT, Bob	✓	
HANSON, Marian	✓	
HARRINGTON, Dan	✓	
HARP, John		✓
IVERSON, Dennis		✓
KEENAN, Nancy		✓
KOEHNKE, Francis	✓	
PATTERSON, John	✓	
RANEY, Bob		✓
REAM, Bob		✓
SANDS, Jack		✓
SCHYE, Ted		✓
SWITZER, Dean		✓
ZABROCKI, Carl		✓
Totals	11	9

Exhibit 1
SB 14
June 26, 1986
Gary Wicks

Fact Sheet - Senate Bill 14 (as amended)

PURPOSE: This bill would transfer all 'non-user' highway revenues that presently go to the state highway revenue fund from the highway fund to the state general fund and state equalization aid account. The non-user revenues consist of coal tax funds, mineral royalties, and the interest and investment earnings on the highway account cash balances. The bill would also assume the full operational costs of the Highway Patrol Division from the highway funds.

These funds would be replaced in the highway account by an increase of 5¢ per gallon tax on gasoline.

The passage of the bill as amended would result in:
The Highway Program would be 100% 'user' based (all revenues to the program would be derived from user fees);
100% of the funds received from the Federal Mineral Lands Leasing Act would go to the state foundation program;
Interest and investment earnings on the highway funds would again accrue to the general fund as was the case prior to July 1, 1985;
Coal tax funds that were to begin accruing to the highway fund on July 1, 1986 and thereafter would again be provided to the general fund;
100% of the Highway Patrol Division operating costs would be paid for from the highway funds.

FINANCIAL IMPACT: For Fiscal 1987 the bill as amended would generate approximately \$5.2 million less in revenues from the 5¢ gasoline tax as would be transferred from the highway fund. For Fiscal 1988 and beyond, the proposal would bring in approximately \$4 million per year less than were anticipated from the coal taxes, mineral royalties and interest, but the sources of revenue to the highway program would be more certain. For Fiscal 1987 the amount of funds being transferred from the highway fund total \$22.3 million, including the assumption of the Highway Patrol operating costs, as compared to the \$17.1 million to be generated by the 5¢ gasoline tax increase based on the effective date of the tax increase.

HIGHWAY PROGRAM IMPACT: Even with the full utilization of the bonding authority provided by the 1983 legislature, the bill as amended would require a reduction in the level of effort currently underway on the Reconstruction Trust Fund program directed at the primary system. Without the revenues being proposed in the bill as amended, the department would be required to immediately eliminate the RTF program. The replacement fuel taxes must be made permanent -- to sunset the fuel tax increased based on price considerations would create uncertainty about the pledged revenue guarantees and adversely effect the departments ability to continue the favorable bond ratings.

It was understood in 1983 when the ten-year highway program was authorized there was not sufficient funding to carry the program through the ten-year period.

With approval of the funding as initially proposed, the department would continue its current level of effort into the 1990's. During the current period 1984 through 1987 the department has committed \$645.2 million to complete 2,305 miles of primary work, including 152 miles of the 458 miles of 'critically deficient' primary identified in 1983; 560 miles of interstate will have been rehabilitated. The last contract for interstate construction will be let in September, years ahead of schedule due to the use of the highway bond program; 289 miles of secondary; 11 miles of major reconstruction on urban streets; and, replacement or rehabilitation of 133 on- and off-system bridges.

For the period 1988-1993, with the funding as initially proposed, the department plans work on:

- ..3,330 miles of primary;
- ..330 miles of interstate and the rehabilitation of three existing interchanges and the construction of five new interchanges;
- ..300 miles of secondary;
- ..30 miles of major improvements on urban streets;
- ..275 on- and off-system bridges.

In addition to providing a safe and efficient highway system which provides for the transportation of products to and from the national marketplace, the program provides jobs to Montanans and for the purchase of construction and maintenance materials produced in Montana.

IMPACT OF 5¢ ON TAXPAYER: Using an assumption that the average Montana vehicle drives 15,000 miles per year and gets 20 miles per gallon, the increase of 5¢ per gallon would cost an additional \$37.50 per year, or \$3.13 per month.

Based on a survey of the western states on June 19 (last week) the average retail price of unleaded gasoline in the 19 western states surveyed was \$0.958 per gallon. Montana's average price, based on 8 cities surveyed, was \$0.88 per gallon, or 7¢ less than the other states on the average. Of the surrounding states, only Wyoming was lower at \$0.849 per gallon.

A 5¢ increase on the current price would still keep Montana's gasoline prices below those in South Dakota, Idaho, Oregon, Washington and Utah, and several other more distant western states. Average prices in Washington, a major source of tourists to Montana, is presently \$1.05.

MONTANA'S RELATIVE POSITION: With the increase of 5¢ per gallon on gasoline, Montana would be one of the highest in the nation for total fuel related taxes. But Arizona and Louisiana would be higher, and Michigan and Illinois at 19.5¢ would be very close behind. Several of the states have sales taxes on fuel, as well as local options and other add-ons.

In 1983 when we raised the fuel taxes by 6¢ per gallon, Montana was the highest, but only briefly. Since then, 20 other states have either caught up or passed us. States with similar financial problems are taking the same approach, transferring funds from highways to the general fund and raising fuel taxes.

A few of the projects now underway or planned through the early 1990s are:

- Desmet-Evaro, Kallispell-South, Elmo-Rollins, and Darby-North and South on US 93
- Libby-Troy on US 2
- Dickey Lake North and South on US 93
- Hungry Horse-West Glacier and Elk Hill-Lyons Springs on US 2
- Avon-Elliston on US 12
- South of Culbertson on MT 16
- Savage-Crane on MT 16 and Sidney-Fairview on MT 200
- Loma-Big Sandy on US 87
- Sidney-East on MT 23
- Circle-North on MT 13

WHAT WILL IT TAKE TO CONTINUE?

In 1983, the Legislature only approved funding for the first four years of the ten-year program. Without additional funding, the program will grind to a stop.

In order to continue, the Governor has proposed an additional fuel tax, restructuring of outstanding highway bonds and issuance of additional highway bonds.

The proposed 5c per gallon gas tax increase will cost the average motorist about \$3 per month.

The proposal would also transfer "non-user fee" revenue—mineral royalties and coal tax funds—to the state's General Fund. As a result, the highway program would be 100% user-funded—highway users will pay all the costs. The proposed 5c per gallon gas tax increase will cost the average motorist about \$3 per month.

The proposed 3c per gallon diesel tax increase will cost motor carriers about \$50 per month, assuming the carrier travels 100,000 miles per year. It's important to remember, however, that most of the revenue from the diesel tax increase, about 61%, will be paid by out-of-state operators. The additional fuel tax is an essential part of the program. Without it, the program to rebuild Montana's primary highway system can't continue.

A good highway system is critical to Montana's future. Transportation of Montana's products to national markets, access to natural resources and recreation, and distribution of goods to a widely dispersed population all depend on the highway system.

In addition, the program puts state and federal money into the Montana economy and provides a wide range of employment opportunity. The highway program benefits all Montana.

WHY?

Engineering studies confirm what every Montanan already knows: our roads are in poor shape.

In 1983, the Legislature and the Schweinden Administration kicked off a program to change that. The program was based on recommendations from the Governor's Council on Management, the Governor's Transportation Advisory Council, a Joint Subcommittee on Highways, and a legislative audit report.

It's goals is to reverse the deterioration of Montana's roads and prepare a transportation system for the twenty-first century. The legislature authorized a highway bond program, restructured the highway districts and, most importantly, created a 10-year program to fund much-needed repairs to the primary highway system.

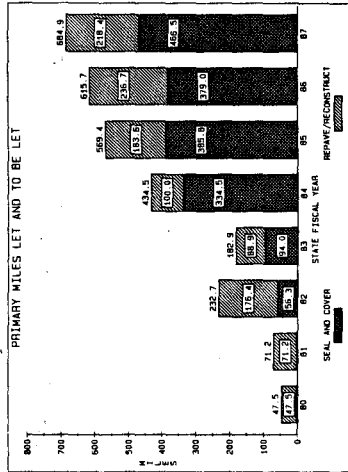
With state funding authorized for up to \$40 million annually, an ambitious program began, the Reconstruction Trust Fund, or RTF program. A commitment was made to rebuild Montana's roads with Montana dollars.

Most of Montana's roads were built in the 1930s. Until 1983, funding didn't even allow for a preventive maintenance program. Fifty percent of Montana's primary highways needed reconstruction or repair. Forty percent of the state's bridges were sub-standard. Four major gaps still prevented completion of the interstate system.

Federal funding is just not enough to take care of Montana's highway needs.

WHAT'S BEEN DONE?

Last year, due to the RTF and a shift in priority to the primary system, Montana repaved or reconstructed nearly 600 miles of roadway. That number will continue to grow in 1986 and 1987.



In 1980, less than fifty miles of primary highway were repaved or reconstructed and there was no preventive maintenance program. With the RTF, Montana is able to address reconstruction and repaving needs and extend the life of good roads with preventive maintenance seal and cover.

HOW ABOUT MY ROAD? WHO DECIDES?

Today, the Montana Highway Commission selects and prioritizes future projects, often 5-7 years in advance of construction.

Recommendations come from field staff and from local people. Potential projects are analyzed according to:

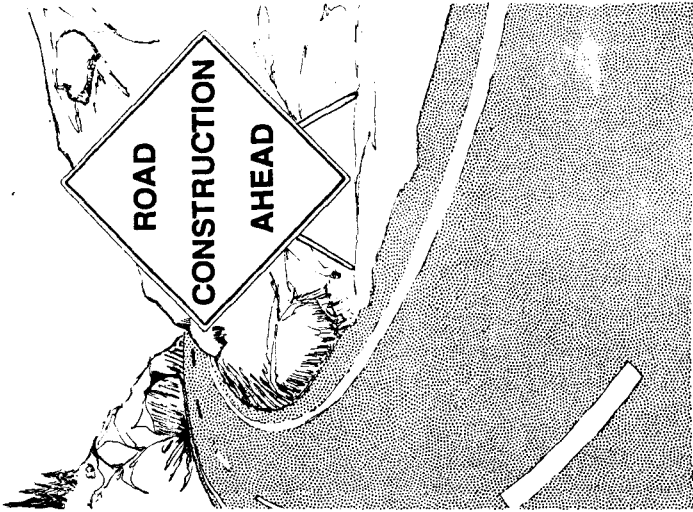
- Pavement condition.
- Available funding.
- Cost effectiveness.
- Geographic balance based on a formula approved by the Legislature.
- Sufficiency, including soundness of the structure, existence or lack of safety and design hazards, and capacity to handle existing traffic.

In the past, there was no system for project selection based on need, cost effectiveness, or available funding. Projects were undertaken with no assurance they would ever be let to contract.

Clearly, the Department needed a systematic documented system of selecting and prioritizing construction projects.

The system provides an objective analysis of highway needs and ensures that the work is done where it's most needed.

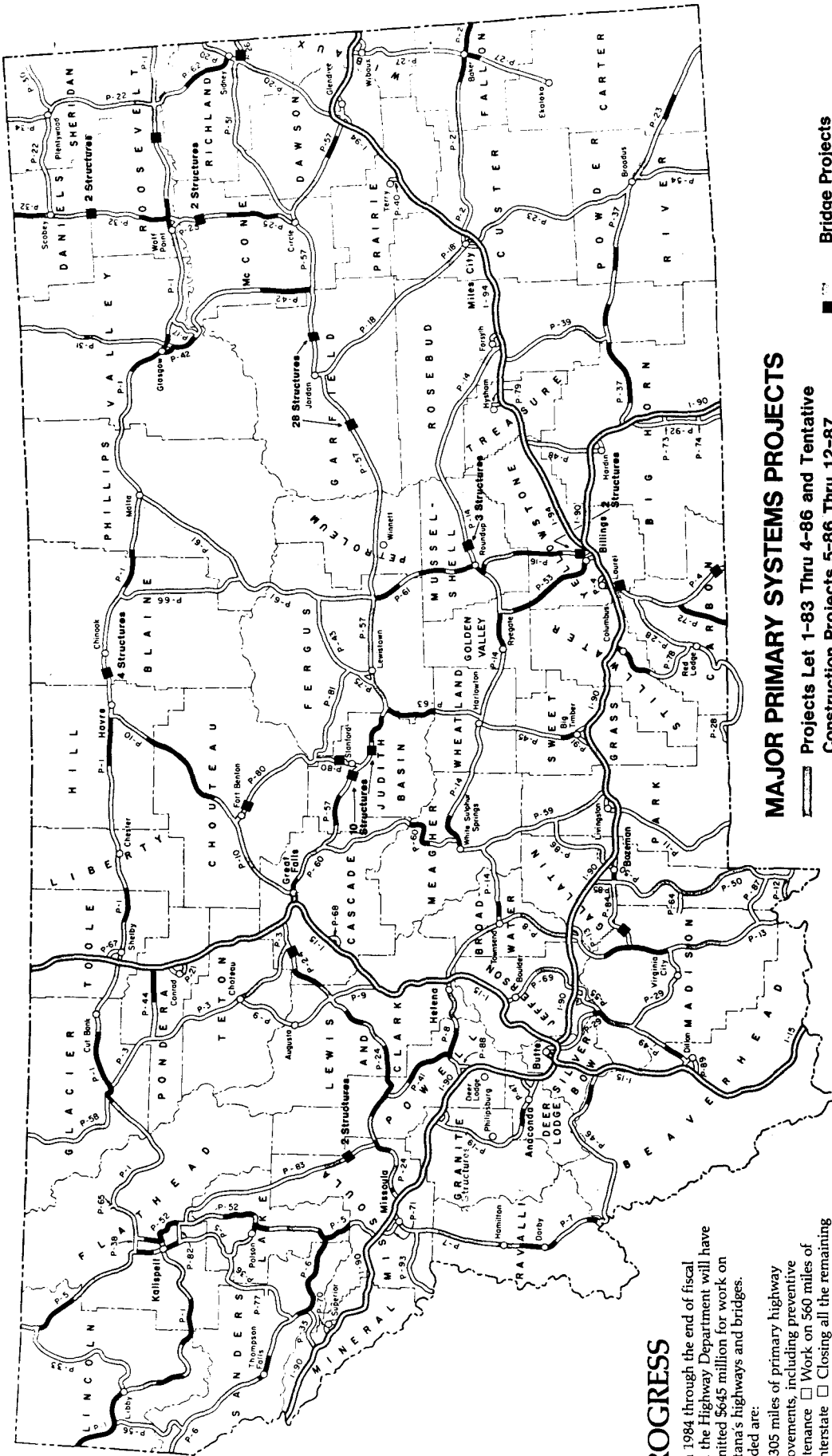
After 30 years of neglect, Montana's roads are getting much-deserved attention. But without a commitment to funding, the work will stall.



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SB 1
June 26, 1986
Gary Wiata



■ Bridge Projects

MAJOR PRIMARY SYSTEMS PROJECTS

▬ Projects Let 1-83 Thru 4-86 and Tentative

▬ Construction Projects 5-86 Thru 12-87

▬ Long Range Projects to be Let After 1-88

▬ Interstate

PROGRESS

From 1984 through the end of fiscal 1987, the Highway Department will have committed \$645 million for work on Montana's highways and bridges.

Included are:

- 2,305 miles of primary highway improvements, including preventive maintenance
- Work on 560 miles of the interstate
- Closing all the remaining interstate gaps years ahead of schedule
- Projects on 289 miles of secondary road
- 133 on- and off-system bridges.

For the period 1988-1993, the Department plans work on:

- 3330 miles of primary highway
- 275 on- and off-system bridges
- 300 miles of secondary roads
- 30 miles of major urban street improvements
- 3 existing and 5 new interchanges on the interstate system, as well as repaving 330 miles of interstate.

MONTANA CONTRACTORS'

Association, Inc.

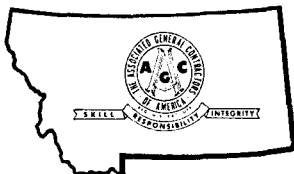
Exhibit 3

SB 14

June 26,

Wm. Olson

1717 11th Ave., P. O. Box 4519
Helena, Montana 59604



CHAPTER OF THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA, INC.

Testimony on SB 14
House Taxation Committee
June 26, 1986

Mr. Chairman and members of the committee, for the record I am Bill Olson, Secretary-Manager of the Montana Contractors' Association, located in Helena.

I am here today to testify in support of Senate Bill 14, which increases fuel taxes and also reallocates various funds now in the highway earmarked account. It is important to remember that the increased fuel taxes do not increase highway funding, but replace highway funds allocated to the general fund.

Positive aspects -

- Would provide funds for properly planned program on primary system up to 1993.
- Thus, any funds withdrawn from the Highway funds must be replaced and the replacement must be permanent - no sunset. A long range program such as the RTF needs permanent funding.
- Justifying any tax can be tough. In this case, the fuel tax is as justifiable as a tax can be. It's a users tax, where the revenue is dedicated to our states highway construction program.
- I'm sure that the opponents to this bill will be testifying that the increase in gas tax will discourage tourism. Tourists come to Montana for its scenic beauty and our outdoor recreation. If a tourist used 100 gallons of gas while in Montana which would equate to 1500-2000 miles of travel, the additional 5¢ tax would add \$5.00 to the cost of the vacation. It is ridiculous to think that a tourist who likes our scenery, fishing and other outdoor recreational will not vacation in Montana because of a \$5.00 bill.

3

TESTIMONY ON SB 14

JUNE 26, 1986


PAGE TWO

- If anything would stop tourists from coming to our state, it would be an unsafe highway system, in disrepair because of lack of funding. That is a good solid reason why the funds for highway construction must be replaced with the gas tax to offset the transfer of funds to the general fund.

In summary -

The options open for solving the budget crisis are diminishing. The bill before you today, although it will not be joyous news to motorists, is a viable solution, in part, and deserves bipartisan support. Past legislatures have deemed the Highway RTF program essential by earmarking coal tax money to that program. Assuming allocation of these monies to the general fund, replacement funds are essential, and to that end, we urge your support of SB 14, the increase in fuel taxes.

Respectfully submitted,



WILLIAM OLSON
Secretary-Manager
Montana Contractors' Association, Inc.

WO:pp

Transfers 19.6 M.u

COMBINED HIGHWAY SPECIAL REVENUE AND RECONSTRUCTION TRUST ACCOUNTS
 SENATE BILL 14
 FISCAL 1985 AND 1987 BEINNIUM

	Fiscal 1985	Fiscal 1986	Fiscal 1987	Adjustments to FY 87	Adjustments FY 87	FY 88	FY 89
Beginning Fund Balance	\$ 62,787,602	\$ 74,908,467	\$ 57,231,957	\$ -0-	\$ 57,231,957	\$ 33,124,809	\$ 4,717,661
Revenues							
Gasoline Tax (15¢ gallon)	60,957,345	60,086,700	60,957,345	20,756,000 (a)	81,713,345	81,713,345	81,713,345
Diesel Tax (17¢ gallon)	19,278,727	19,140,300	19,114,000	-0-	19,114,000	19,114,000	19,114,000
U.S. Minerals Taxes	8,890,580	7,629,584	6,705,000	(6,705,000)(b)	-0-	-0-	-0-
Coal Severance Taxes	-0-	1,683,781	6,211,000	(6,211,000)(c)	-0-	-0-	-0-
GWV Revenue	24,254,407	23,388,853	23,772,742	-0-	23,772,742	23,772,742	23,772,742
Interest Income	-0-	4,100,000	6,764,000	(6,764,000)(d)	-0-	-0-	-0-
Stores	-0-	13,050,700	13,309,443	-0-	13,309,443	13,309,443	13,309,443
Prior Year Revenue Adjustment	803,060	-0-	-0-	-0-	-0-	-0-	-0-
Total Revenues	\$114,184,119	\$ 129,079,918	\$ 136,833,530	\$ 1,076,000	\$137,909,530	\$137,909,530	\$137,909,530
Total Funds Available	\$176,971,721	\$ 203,988,385	\$ 194,065,487	\$ 1,076,000	\$195,141,487	\$171,034,339	\$142,627,191
Disbursements and Appropriation							
Highway Traffic Safety	\$ 65,468	\$ 72,525	\$ 73,946	\$ -0-	\$ 73,946	\$ 73,946	\$ 73,946
Department of Justice	6,432,468	6,836,202	6,662,869	2,863,688 (e)	9,526,557	9,526,557	9,526,557
Department of Revenue	690,612	725,055	726,086	-0-	726,086	726,086	726,086
Department of Commerce	75,000	75,000	75,000	-0-	75,000	75,000	75,000
Pass through to Local Govt's	14,000,000	14,000,000	14,000,000	-0-	14,000,000	14,000,000	14,000,000
Long Range Building	425,649	726,799	947,069	-0-	947,069	947,069	947,069
Department of Highways	80,374,057	135,384,138	156,378,477	(13,025,618)(f)	143,352,859	140,968,020	140,968,020
Change in Construction Schedule							
Special Revenue	-0-	(2,341,765)	(8,230,734)	-0-	(8,230,734)	-0-	-0-
Reconstruction Trust	-0-	(8,721,526)	1,545,895	-0-	1,545,895	-0-	-0-
Total Disbursements	\$102,063,254	\$146,756,428	\$172,178,608	\$(10,161,930)	\$162,016,678	\$166,316,678	\$166,316,678
ENDING FUND BALANCE	\$ 74,908,467	\$ 57,231,957	\$ 21,886,879	\$ 11,237,930	\$ 33,124,809	\$ 4,717,661	\$(23,689,487)

with all June

Regain 16,000,000

Exhibit 4

SB 14

June 26, 1988

Gary Wicks

- (a) 5 cent per gallon increase in gasoline tax.
- (b) U.S. Mineral Royalties Tax.
- (c) Coal Severance Tax.
- (d) Interest Revenues
- (e) Funding Switch - Highway Patrol (Net of automobile purchase reduction).
- (f) Across-the-board reduction of \$4,050,618 2nd debt service reduction \$8,975,000.

EVENSEN DODGE, INC.

Exhibit 5
SB 14
June 24, 1986
Sen. Neuman
FINANCIAL CONSULTANTS

June 6, 1986

Mr. Gary Wicks, Director
Montana Department of Highways
Highway Building
2701 Prospect Avenue
Helena, MT 59620

Dear Mr. Wicks:

As financial advisor to the Department and the State, you have asked us to review and comment on the Department's proposal concerning motor fuel taxes. Our analysis will focus on the effect of this tax proposal on the issuance of highway revenue bonds.

The Department's Proposal

We understand the proposal includes the following:

1. Redirect coal severance taxes, mineral royalty revenues and interest income from the highway funds to the State's general fund.
2. Replace the lost funds from 1. above with additional motor fuel taxes by increasing the tax rate on gas by 5¢ per gallon and diesel fuel by 3¢ per gallon.

Highway Revenue Bonds

Under the State constitution and law, highway revenue bonds may be issued and are payable as follows:

1. The amount of outstanding highway revenue bonds may not exceed \$150 million.
2. The bonds are secured by motor fuel taxes and certain other taxes which, together, are known as Pledged Revenues. State law requires the Legislature to establish motor fuel taxes at levels necessary to pay the bonds.
3. Other highway funds are not pledged, but available to pay the bonds, if necessary.

Moody's Investors Service and Standard & Poor's Corporation, national credit rating services, assign the ratings of A1 and AA, respectively, to the outstanding highway bonds based upon the financial condition of the highway funds, anticipated coverage of debt service from Pledged Revenues and other available funds, the amount of bonds authorized and issued, and other factors.

The Department is considering a plan to restructure its outstanding highway bonds and issue additional highway bonds. A bond issue to achieve this result is scheduled for the summer of 1986 following the special legislative session, if the additional revenues are provided on a permanent basis.

Changes to state law, financial factors, and other conditions will be considered by Moody's and Standard & Poor's in assigning a rating to the highway bonds to be issued in 1986.

In our opinion, the overall effect of the financing plan and the legislative changes should be neutral with respect to the credit rating on highway bonds.

It is also our understanding that other fuel tax proposals are being discussed that would reduce or suspend the additional fuel taxes if motor fuel prices rise above certain levels.

It is our opinion that the presence of the fuel tax suspension tied to fuel price increases is likely to result in negative credit rating implications for highway bonds for the following reasons:

1. Continuation of the additional motor fuel taxes is uncertain, subject to events beyond the control of the State, and bears no relationship to the contractual or other obligations of the Department.
2. The anticipated coverage of debt service, the uncertain additional taxes, the lost revenues and additional outstanding debt will likely be viewed as a weakening of the coverage of debt service which could result in a lowering in the credit rating for the bonds.

We are prepared to analyze these and other proposals under consideration by the Legislature. Please call us if you have any questions.

Sincerely,

EVENSEN DODGE, INC.



Patrick P. Born
Senior Vice President

/jln

Exhibit 6
SB 14
June 26, 1986
Sen. Neuman

RETAIL PRICES FOR UNLEADED GASOLINE

June 19, 1986

<u>STATE</u>	<u>PRICE/GAL</u>
Arizona	1.14
California	1.09
Nevada	1.09
Nebraska	1.05
Washington	1.05
Wisconsin	1.01
Minnesota	.989
Oregon	.979
Idaho	.969
South Dakota	.959
Utah	.959
New Mexico	.909
Colorado	.899
North Dakota	.889
Montana	.880
Kansas	.879
Oklahoma	.849
Wyoming	.849
Texas	<u>.769</u>
Average =	.958

<u>MONTANA CITY</u>	<u>PRICE/GAL</u>
Missoula	\$.929
Dillon	.919
Billings	.889
Helena	.889
Kalispell	.869
Miles City	.859
Havre	.859
Great Falls	<u>.829</u>
Average =	.880

CURRENT STATE GASOLINE TAX RATES

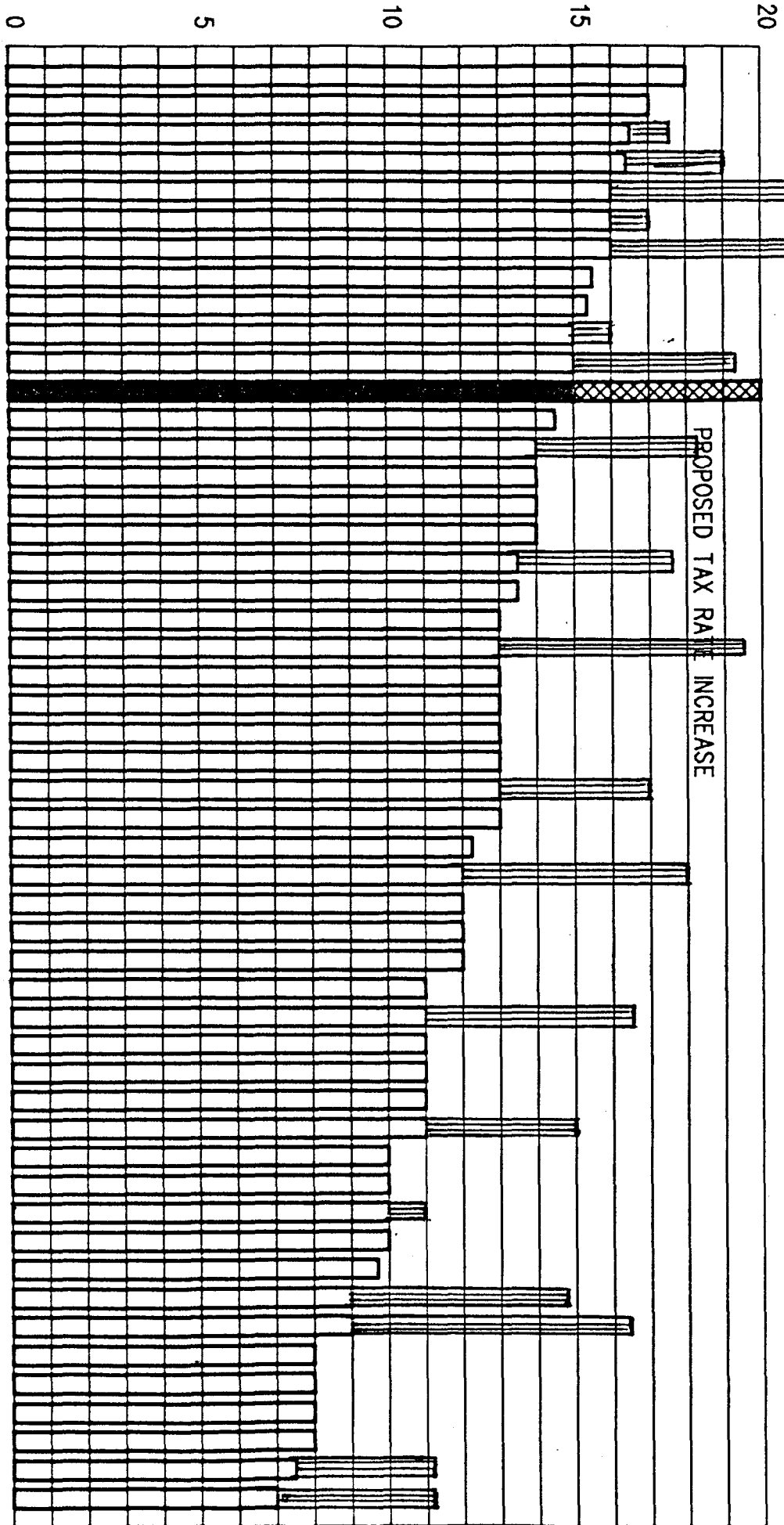
(AS-OF 10/18/85) (Updated as of 6/17/86 - including sales taxes and other adjustments to tax)

June 26, 1986
Sen. Neuman

H 791011 /
SB 14

CENTS PER GALLON

- STATES
- Washington
 - Minnesota
 - Wisconsin
 - Nebraska
 - Arizona
 - Connecticut
 - Louisiana
 - Dist. of Col.
 - West Virginia
 - Iowa
 - Michigan
 - MONTANA
 - Idaho
 - Indiana
 - Maine
 - New Hampshire
 - Utah
 - Arkansas
 - Maryland
 - Alabama
 - Illinois
 - North Dakota
 - Rhode Island
 - South Carolina
 - South Dakota
 - Tennessee
 - Vermont
 - North Carolina
 - Colorado
 - Nevada
 - Ohio
 - Pennsylvania
 - Delaware
 - Hawaii
 - Kansas
 - Massachusetts
 - New Mexico
 - Virginia
 - Kentucky
 - Oklahoma
 - Oregon
 - Texas
 - Florida
 - California
 - Mississippi
 - Alaska
 - New Jersey
 - New York
 - Wyoming
 - Georgia
 - Missouri



①

17/86

EXHIBIT 8

H.B. 44

June 26, 1986

Les Noble by Devlin

PROPOSED AMENDMENTS TO HB 44

Delete new language at lines 24-25, page 1 and lines 1-2 of page 2. Insert a new subsection:

"(2) A party defendant or respondent may by motion before the court or state tax appeal board request that the amount of the tax or license fee paid under protest be reduced. The state tax appeal board or the court shall hear the motion. If it decides that the amount paid under protest is too high in light of the basis upon which the tax or license is being protested, it shall order the amount of the protested tax or license fee reduced. In that event, only the reduced amount shall be paid into the protest fund."

Renumber subsequent subsections.

Page 6, line 12
Change "may"
to "shall"

Page 7, line 7
Delete: "or tax protest refunds"

(S) 2-007
(Bruce)

EXHIBIT 7
HB 44
June 26, 1981
Rep. Keenan

PROPOSED AMENDMENTS FOR HOUSE BILL NO. 44
First Reading (White) Copy

1. Page 2, line 2.

Following: "protest"

Insert: ", which grounds may include but are not limited to changes in assessment due to reappraisal under 15-7-111"

2. Page 6, line 9.

Following: "and at the"

Insert: "combined"

Following: "rate of"

Strike: "10%"

Insert: "the federal reserve discount rate quoted from the federal reserve bank in New York, New York, on the date of final resolution, plus four percentage points,"

3. Page 6, line 17.

Following: "general fund"

Insert: ", except that amount generated by the all-purpose mill levy,"

Keenan 9
Boyer

VISITORS' REGISTER

TAXATION

COMMITTEE

BILL NO. SB 14

DATE June 26, 1986

SPONSOR Senator Neuman

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
George Olsen	Mt. Retail Assoc		✓
Julie Hacker	Mesa Co. Freelancers		✓
Vera Carlson	Mesa Co. Freelancers		✓
Bill Olson	Mt. Contractors Assn.	✓	
Paul Murphy	Mt. Farmers Union		✓
Carol Mosher	Mt. Stockgrowers Mt. Galtto Women		✓
Lynna Frank	Mt. Farm Bureau		✓
Greg Mansfield	Mt. Auto Dealers/Mt. Heavy Users		✓
Thomas Anderson	MPEA	✓	
Jan Nixon	MFT	✓	
Robert Connor	Bozeman Chamber		✓
Phil Campbell	MEA	✓	
Jim Manson	Mount. AAA		✓
LARRY TOMLINSON	" "		✓
J. Kelly Johnson	NFIB		✓
Robert Vanderveer			✓

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FOR
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 44
First Reading (White) Copy

1. Page 1, line 22.

Following: "and"

Insert: "and"

2. Pages 1 and 2.

Following: "protest."

Strike: the remainder of line 23 on page 1 through line 2
on page 2

Insert: "."

(2) Any party to a protest action may request a county tax appeal board to reduce the amount of the tax or license fee paid under protest, which request must be heard by the board. If the tax appeal board decides, on the basis of the specified grounds of protest, that the amount paid under protest is too high, it shall order the amount of the protested tax or license fee reduced, and the reduced amount shall be deposited in the protest fund. Any decision of the county tax appeal board is appealable as provided in Title 15, chapters 2 and 15."

Renumber subsequent subsections

Renumber internal references as necessary

3. Page 3, line 15.

Strike: "(7)"

Insert: "(8)"

4. Page 5, line 12.

Strike: "(7)"

Insert: "(8)"

5. Page 6, line 4.

Strike: "(8)"

Insert: "(9)"

6. Page 6, line 12.

Strike: "may"

Insert: "shall"

WITNESS STATEMENT

NAME Julie Hacker BILL NO. SB14
ADDRESS SR Ba 335 Donner, Mt. DATE 6/26/86
WHOM DO YOU REPRESENT? Miss Co. Freeholders & self
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Hwy dept wastes money
surveyed same section every yr. for 25 yrs.
now finally being fixed
2. Burner of off road gas for farm equip
never asked for tax refund before
3. This bill is another example of the
budget shuffle
4. People at home are expecting budget cuts

WITNESS STATEMENT

NAME Vera Cahoon BILL NO SB 14
ADDRESS _____ DATE 6/26
WHOM DO YOU REPRESENT? Missouri County Truckload Assoc
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

- I Impacts - already dying economy
Farming - transportation - & others
- II Loads it to the taxpayer
to support & inefficient heavy dep.
- III Lower gas prices is the only
break consumers have had in
years.
- IV Those on limited incomes
will be hurt.