

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 6, 1987

The eighteenth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on February 6, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present with the exception of Senator Lybeck.

CONSIDERATION OF HB 136: Representative Driscoll, House District 92, presented this bill to the committee. His written statement is attached as Exhibit 1.

Representative Grady, House District 47, co-sponsored this bill, and gave testimony in support of this bill. He said HB 136 will address some 2,000 jobs throughout the state. This bill will help the majority of the people in this state with better roads, create jobs and uplift the economy.

PROPONENTS: Senator Mazurek, Senate District 23, gave testimony in support of this bill. His information packet is attached as Exhibit 2.

Gary Wicks, Director, Department of Highways, gave testimony in support of this bill. His testimony is attached as Exhibit 3.

Joe Weggenman, Helena Chamber of Commerce, gave testimony in support of this bill. They are supporting this bill so that Montana might get the roads back into reasonable travel condition. He mentioned especially the road to western Montana from Helena to Garrison. Good roads will promote safety, allow residents that live in the country to enjoy good roads when traveling to work and provide safe roadways for people wanting to visit the capitol city.

Gene Fenderson, Montana State Building and Construction Trades Council, gave testimony in support of this bill. Employment is needed in this state, particularly in these financial times. From the contractors, to the workers, down to the gravel and other material needed, these are all basically Montana products and Montana workers. He said if we are going to finance something this year, this is one of the most important bills that will come before this body this session.

Jerry Perkins, representing Karst Stage and the Montana School Transportation Association, gave testimony in support of this bill. They support this bill but would like the bill amended to exempt the contractors that provide bus service for the school districts. At the present time school districts do not pay any state fuel tax and are exempt on the federal level 12 cents of the 15 cents. The contractors do have an avenue for pay back if this amendment is not incorporated in this bill and that is through the taxpayers who are provided with this school bus service.

Roy Hilde, Great Falls, gave testimony in support of this bill. In relation to highway construction, they let contracts in 1983 for \$130 million, in 1984 for \$140 million and in 1985 for \$172 million, for an average of \$147 million for those three years. In 1986 they let contracts for only \$104 million. The drop in contracts is a loss to the state of \$1.45 million in direct taxes, with a loss of 750 employees.

Keith Anderson, President, Montana Taxpayers Association, gave testimony in support of this bill. His testimony is attached as Exhibit 4.

Jim Manion, Montana Automobile Association, gave testimony in support of this bill. He said we strongly believe the Reconstruction Trust Fund program needs to be funded in the state of Montana, which has very definite benefits for the economic situation in the state. They strongly support that these funds go into the Reconstruction Trust Fund to be used by the Highway Department for highway construction and not be diverted for other uses. If we are going to raise the fuel tax, he feels it is appropriate to raise it for diesel and gasoline. He feels that the users of the highways should pay in accordance with the use and damage to the roads and not based on the amount people think they can pay. As of November, 1986, ten states have a diesel tax that is higher than gasoline.

Hugh Frame, American Asphalt in Missoula, gave testimony in support of this bill. He said the highway program is not funded at the present time. The federal highway program is still in trouble and has not passed. Our roads are deteriorating faster than the present rate of repair. There is a need for this bill. The price for construction of highways is at the lowest that its been in a long time. Asphalt is down, fuel is down, and highway construction and repair is a good buy now.

He said it is very critical that the highway program be funded right away. The season is almost here and if this isn't funded right away the season will be lost.

Stuart Doggett, Montana Chamber of Commerce, gave testimony in support of this bill. They support this bill with the hope that this money will be applied to the Reconstruction Trust Fund and used for highway construction.

Alan Hobbs, Montana Refining Company, gave testimony in support of this bill. He said his company buys crude oil on the open market and sells refined petroleum products on a wholesale basis. He said his company was designed and built to refine Montana crude oil and supply petroleum needs to central and north Montana. They make gasoline and diesel fuels, military fuel, heating oils and asphalt. They can't make gasoline unless they make asphalt. If they don't empty their asphalt tanks in the summer they will have to quite operating until the tanks are emptied and there is room for more asphalt. They support this bill because it will insure a construction season.

Terry Carmody, representing the Montana Farmers Union, gave testimony in support of this bill. They support this bill because it will promote good highways and provide needed jobs for Montana.

Jack Traxler, Beach Transportation, Missoula, gave testimony in support of this bill. He supports this bill for the same reasons expressed by Jerry Perkins and would request the amendment requested by Mr. Perkins.

Bob Correa, representing the Bozeman Chamber of Commerce, gave testimony in support of this bill. They support this tax increase as it is important for good highways in Montana and important for job creation.

OPPONENTS: Representative Asay, House District 27, gave testimony in opposition to this bill. He is not in agreement with funding the Highway Construction without requiring them to account for their actions and he also feels we need more equitability before they spend their money. He does not understand administrative procedures in making new highways with old highways in the middle of them, or why do we have an apparently good highway torn up. Why a highway is designed to drain and still does not drain water from a very light rain. He thinks the legislature should know where the money is being spent and be able to assess if there is a better place to spend the money.

Alan Eck, Montana Farm Bureau Federation, gave testimony in opposition to this bill. His testimony is attached as Exhibit 5.

Steve Visocan, Western Petroleum Marketers, gave testimony in opposition to this bill. He said we support the highway program and have supported the program in the past. They support the increase if the money goes to building highways in Montana. He thinks the legislature should go back and reverse what was done during the special session to put the money back in the Reconstruction Trust Fund. He would like consideration of his bill for gasoline shrinkage and the amount of money that it costs him to handle the fuel tax.

Ben Havdahl, Executive Vice President of the Montana Motor Carriers Association, gave testimony in opposition to this bill. A copy of his testimony is attached as Exhibit 6.

George Allen, Montana Retail Association, gave testimony in opposition of this bill. He recognizes the highways need to be repaired, recognizes we need more money and he supports the gasoline tax but has a problem on the diesel tax. He would appreciate consideration being given to lowering the tax on diesel and if it is necessary to have the same dollar amount that this bill raises, to increase the gasoline tax.

Senator Farrell, Senate District 31, gave testimony in opposition to this bill. He said it is very interesting that this bill has to be rushed through so quickly for the construction season. He wonders the reason why the highway program is put above any other programs that are asking for money. He furnished the committee with a letter addressed to Senator Mazurek from the Office of the Legislative Fiscal Analyst, attached as Exhibit 7. He referred to page 2, Expenditures, which states, "Post Session (RIF Stopped), the highway department shows coal tax revenue of \$9,440,000 in fiscal 1988 and \$9,823,000 in fiscal 1989. However, there are no reconstruction trust fund expenditures. Thus coal tax funds are being used for highway expenditures although section 15-35-108(2), MCA, allocated the coal tax funds to the reconstruction trust account." He believes these funds should be put into the reconstruction trust fund. He is not aware that the legislature has repealed that law. At the very least he would urge the committee to hold the bill until we know what will happen down the road.

Keith Olson, Montana Logging Association, gave testimony in opposition to this bill. His organization represents 650 logging contractors throughout the timber regions of the state. Approximately 1/2 of those contractors haul their own logs. They are mostly family owned and a majority of those own a single truck in their business. He said this bill will put many of our members out of business. Do not act on this bill simply because they say this will increase jobs. You can't raise this tax without taking it from someone. He has no confidence that this is the last fuel tax increase that he will see or that the fund will not be raided again.

QUESTIONS FROM THE COMMITTEE: Senator Crippen asked Senator Farrell what a typical truck pays in property tax.

Senator Farrell said approximately \$1400-1490.

Senator Crippen asked if SB 44 would reduce that somewhat.

Senator Severson said it would be reduced by about one-third with SB 44.

Senator Crippen asked Senator Farrell how much of an increase he would expect per operator, per year, on a 3 cent diesel hike.

Senator Farrell said a single operator averages 100,000 miles a year, at 5 miles per gallon, they would pay about \$600 per truck.

Senator Brown said that testimony was given that if the contract buses were not exempted they would have to pass the increase to the taxpayers. In light of I-105 he wonders if that is possible. He asked Jerry Perkins if he had an amendment prepared concerning the exclusion of privately owned school buses.

Jerry Perkins said he does have an amendment that he will present at the executive session on this bill.

Senator Halligan asked if his bus provides other services other than to the school districts.

Jerry Perkins said we have school buses and over-the-road coaches that are used sometimes for school activities. In the summer and when we are not using those for school activities, we would pay all the tax and everything else.

Senator Crippen said in the committee on highway financing, a motion was made to the committee to approve a one cent diesel tax and, if we wanted to stay at the \$15 million range, then we would have to raise gas by one-half a cent. That was proposed but lost by one or two votes. Now we have got a three cent increase passed in the House and we have Senator Farrell's bill. If we would have passed the one-half cent increase, instead of the three cent increase on diesel, instead of a negative there would have been a positive factor.

Ben Havdahl said that is right. If all comes out in the wash we do not have any problems.

Senator Crippen asked Gary Wicks what would happen to the Reconstruction Trust Fund if the \$15 million stream is lowered to \$13 million.

Gary Wicks said we would have to come back to the legislature in 1991 or 1992 to continue the program through 1993. We would be reducing the program.

Senator Crippen asked Mr. Wicks to enlarge on the rutting problem.

Gary Wicks said we have not solved the rutting problem. They established a task force to look at the problem to see what could be done about the ruts. They came up with some recommendations to tighten up the specifications for construction of pavement with Montana highway conditions. At this point they have not solved the rutting problem. The increased tire pressure per square inch has contributed to the problem. We have looked at the problem, done some steps to try and solve the problem, but still are not convinced we have the problem solved and rutting is something we will have to continue to live with.

Senator Mazurek asked Mr. Wicks to respond to the argument that they have a bunch of money available now.

Mr. Wicks said if we had a choice we would not be asking for a tax increase but the reason he is here is because he does need the money. In 1983 they projected ahead and made commitments which are three years ahead of when the money is actually spent.

Senator Mazurek said so there appears to be cash on hand but that money is already committed to contracts.

Senator Eck asked how speed was involved in rutting.

Gary Wicks said he could not answer that question. He said we believe speed is a factor in damage to roads but we do not have any statistical evidence to show there is a difference.

Senator Eck said that Hugh Frame indicated in his testimony that he saw this as a job bill and for every million dollars that is spent it would represent 15 jobs. She asked Mr. Frame how he came up with that figure.

Hugh Frame said he took that information from his company records and that is what that money would represent, 15 jobs in the construction industry.

Senator Hirsch asked Gary Wicks if he saw any problems for the construction season if the federal legislation is not passed, even if this bill does pass.

Gary Wicks said if the federal government does not enact the new highway legislation, we will be in a worse situation this summer than we would be if this bill passed to put the reconstruction program back to work. Right now the federal legislation has passed both houses. If we do not get HB 136, we will be unable to capture the construction season.

Senator Hirsch said even though we expedite this bill, if that federal legislation isn't passed, it will make no difference what we do here.

Gary Wicks said what you do here makes a lot of difference. If this bill passes at least we will have the reconstruction program in front of the contractors to work on.

Senator Hager said he has noticed a number of trucks that have been operating with only two wheels on an axle. He asked if there were rules regulating that.

Ben Havdahl said there is a statutory restriction on pounds per inch on the tire and another provision to control the axle weight. As long as the standard for axle weight is met and also the tire width per inch is met, a single tire on an axle is all right.

Gary Wicks said there is a per square inch requirement in the law, but what is happening with the tire pressure is they are still complying with the law but the actual contact with the pavement is the problem.

Senator Mazurek said he wants to make it clear the difference between the federal and state program and how this bill will be affected by the federal program. This is entirely state money. There is no federal money in the RTF fund and we do not have to have federal matching money.

Gary Wicks confirmed that information. The state, without the RTF program, could still match the federal dollars coming available if the Federal Highway Act is passed. Without this bill we cannot fund the state program.

Senator Crippen said Mr. Havdahl commented in his testimony, in 1983 when we passed the gas tax program, 1/2 of the increase went to the cities and counties and that lead to the eventual downfall of the program. He asked Mr. Wicks to comment.

Gary Wicks said what the legislature did was to double the amount of money that would go to local government. Prior to 1984 city government and counties were getting \$7 million a year and after that \$14 million was diverted. They did not get half of the increase. Part went into highway programs and part went into continued funding of the highway program.

Senator Eck said we still get some federal matching on primary roads.

Gary Wicks said we would still have a primary program within the state, with matching funds running over \$30 million a year, and if the RTF isn't restored that is where we get the money to do the 8 million miles of primary. The RTF gives more freedom. It gives the opportunity to do work the federal government will not fund.

Senator Eck asked what the matching money from the federal government was on the \$30 million.

Gary Wicks said the state is 18% and the federal is 82%.

Senator Halligan asked where Montana would rank with respect to gas and diesel tax nationwide, if this goes on.

Representative Driscoll furnished the committee with charts that show Montana's ranking for diesel and gasoline tax if this increase goes in. See attached Exhibit 8.

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Senator Crippen asked Representative Driscoll if in looking at Senator Farrell's bill, which will reduce trucks to the same property class or a similar property class to railroads, if he would support that.

Representative Driscoll said he would agree that trucks should be taxed in the same neighborhood as railroads as they are in the transportation business.

Representative Driscoll closed.

Hearing closed on HB 136.

ADJOURNMENT: The hearing adjourned at 10:00 A.M.


SENATOR GEORGE McCALLUM, Chairman

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ROLL CALLTAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2-6-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK			✓
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

DATE 2-6-87

COMMITTEE ON

Senate Taxation

VISITORS' REGISTER

HB-136

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Alan Eck	Montana Farm Bureau	HB-136		X
KEITH OLSON	MT. Logging Assn.	HB/136		✓
Ben HANDAHL	MT. Motor Carriers Assn.	HB/136		✓
JOE WEGGENMAN	HELENA Chamber of Commerce	HB/136	X	
John Bannock	Energy Serv. Co.			X
Alan Hobbs	Montana Refining Co.		X	
Scary Lockun	Mont. Cent. Assn.		X	
Hugh Frame	American Asphalt	HB/136	X	
W.T. O'Neil	E. H. O'Neil & Sons		X	
Jerry Perkins	Karst Stage - MT-TRANSPORTATION	HB/136	X	
Keith Anderson	Mont Tax	HB/136	X	
Steve Visor	Western Petroleum Marketers	HB/136		✓
Jack TRAXLER	Beck Transportation	HB/136		✓
Bob Corbin	Boz. Chamber	HB/136	X	
Brooks Morin	City of Helena	HB/136	X	
Rep. Gatzert	Helena	HB/136	X	
Kurt Keneber	Mont Pet Dist Assn.	HB/136		X
Ward Hill	MCA - Wildlife Trust			
Elmer Fend	MT St Bly Trade		X	
Don J. WICKS	MDON	HB/136	X	
Julia Hacker	Mele Co. Freeholders			X
Bruce Petrie	Shearson Lehman Brothers	HB/136	✓	
Terry Connolly	Mont Foreman W		✓	
Bob Campbell	Shearson Lehman Brothers	HB/136	✓	
George Allen	MT. Retail Assn	HB/136		✓
Stuart Doggart	MT. Chamber of Commerce	HB/136	✓	

(Please leave prepared statement with Secretary)

NAME: Gary J. Wicke DATE: 2/6/87

ADDRESS: ~~925 Strawberry Drive~~ 2701 Prosper Ave

PHONE: ~~444-1096~~ 444-6201

REPRESENTING WHOM? M DOTT

APPEARING ON WHICH PROPOSAL: HB 136

DO YOU: SUPPORT? ☒ AMEND? ☐ OPPOSE? ☐

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

NAME: KEITH C. LSON DATE: 2-6-87

ADDRESS: P.O. Box 1716, KAISPELL 59903

PHONE: 755-3185

REPRESENTING WHOM? MT. Logging Assn.

APPEARING ON WHICH PROPOSAL: HB 136

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? ☒

COMMENTS: _____

MLA... 150 loggers... 1/3 bad logs... family owned businesses... single truck owner.

OPPOSE HB 136 because represents increase in operating expense!

Can't state HB 136 alone will ~~not~~ put us out of business... straw that breaks camels back?

THIS COMMITTEE ^{recently} passed SB 44... some consolation should HB 136 pass.

However DON'T ^{ACT} ~~pass~~ HB 136 ^{simply} because it will create jobs... Trucking jobs v.s. Construction.

\$15 million IF HB 136 must pass... pass it because we need a Hwy's program.

MLA supported 64/gal in '83... only to see such revenue, diverted.

MLA has no confidence this is last fuel tax proposal.

NOR do we believe attempts wont be made to raid Hwy funds this session.

ASK your careful consideration of this proposal.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Phil STROPE DATE: 2-6-87

ADDRESS: Box 874, Helena 59624

PHONE: 442-4570

REPRESENTING WHOM? MONT TAVERN AND MONT INNKEEPERS ASSN

APPEARING ON WHICH PROPOSAL: HB 136

DO YOU: SUPPORT? X AMEND? _____ OPPOSE? _____

COMMENT: _____

WE SUPPORT 3 AND 3.

ITS THE ONLY CHOICE.

Phil Strobe

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

FACT SHEET
HB 136, Rep. Driscoll

BACKGROUND: The Reconstruction Trust Fund Program (RTF) was created and initially funded by the 48th Legislature to begin reconstruction of the state's deteriorating primary highway system. The 48th Legislature provided bonding authority up to \$150 million to provide up-front funding to begin the RTF and to complete the interstate system in Montana ahead of schedule.

Since 1983, with the RTF and the regular federal-aid primary programs, the department has been able to complete the reconstruction, resurfacing and preservation of approximately 1800 miles of the primary system. The number of miles of seal and cover work which extends the life of good roads has tripled. Over 700 miles of primary roads have been moved to the good to excellent category under the highway rating system.

Primary roads, the two-lane rural roads such as U.S. 93, MT 200, U.S. 2 and U.S. 12, MT 3 and MT 78, U.S. 212 and U.S. 87 serve most Montanans and are most in need of work.

CURRENT STATUS: The RTF program is out of funds and has been shut down. The Highway Commission eliminated all projects being funded from the RTF beginning in fiscal 1987 through 1993. This represents \$85 million worth of work on the primary for fiscal years 1987, 1988 and 1989, and a total of \$250 million through 1993.

A Joint Committee on Highway Financing reviewed the RTF funding situation and determined that the RTF could not be restored without additional funding. The Committee recommended to the 50th Legislature that an additional \$15 million in fuel tax revenues be provided.

PROPOSED BILL: HB 136 would provide an additional \$15 million in revenues by increasing motor fuel taxes by 3¢ per gallon on gasoline and 3¢ on diesel fuels. A 1¢ increase on gasoline yields approximately \$4 million; 1¢ on diesel yields approximately \$1 million.

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The \$15 million in additional revenues, together with issuing new bonds up to the authorized level and retention of the current level of coal taxes, would restore the RTF through fiscal 1993. Work would proceed on an additional 2800 miles of the primary system. Without the RTF, the department would only address approximately 800 miles on the primary system, since only federal-aid funds are now available.

The difference between the 2800 and 800 miles is critical to Montana. Completion of the RTF program, as authorized, would provide a primary highway system that will greatly enhance Montana's ability to transport its agriculture, timber and other products. Tourism will benefit and Montanans will finally see some improvements on roads that have been promised for years. Further, it is estimated 750 construction jobs are directly related to reinstating the RTF program and hundreds more are affected through industries such as oil, concrete and heavy equipment.

Montana is not unique in the need for highway funds. Washington, North Dakota, Oregon, Utah and Nevada are all requesting significant increases in fuel taxes and in some case registration fees for their respective highway programs. Further, South Dakota and Idaho have proposals before their Governors for consideration. Colorado raised its fuel taxes during the 1986 session to 18¢ on gas and 20.5¢ on diesel.

The Idaho, Washington and Oregon proposals would put those states above the Montana fuel tax rate, even with passage of HB 136.

Of all the major state programs, the highway program has grown the least, according to the Bureau of Business and Economic Research - University of Montana. The Bureau, in reviewing the growth in government since 1969, estimates that highway expenditures have grown only 5% in 1985 dollars between 1969 and 1984. This compares to 153% for public welfare, 126% for health and hospitals, and 83% for local schools.

Competition for contracts, low prices for asphalt and concrete, low interest rates for bonding, and the need for private sector jobs means it is a good time to act. Revenue now would put all of these factors to work to ensure Montana's primary highways are ready for the 21st Century.



The Big Sky Country

MONTANA STATE SENATE

SENATOR JOSEPH P. MAZUREK

SENATE DISTRICT 23

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STANDING COMMITTEES:

JUDICIARY, CHAIRMAN

TAXATION, VICE CHAIRMAN

EDUCATION

LEGISLATIVE ADMINISTRATION

COMMITTEE ON COMMITTEES

PERMANENT COMMITTEES:

REVENUE OVERSIGHT

RESERVED WATER RIGHTS COMPACT

MEMORANDUM

TO: Members of the 50th Legislature

FROM: *Joe Mazurek* Senator Joe Mazurek, Chairman
Joint Committee on Highway Financing

RE: Highway Reconstruction Trust Fund
Financing Needs

DATE: January 12, 1987

In November 1986, an Ad Hoc Joint Committee on Highway Financing was appointed by the leadership of both houses to review the present situation on highway funding and determine if additional revenues would be necessary to continue the Reconstruction Trust Fund program begun in 1983. Members of the committee were Senators Neuman, Crippen, Brown, Lybeck, Farrell, Hager, Gage, Abrams, Stimatz, and Mazurek; and Representatives Bradley, Miller, Nathe, Gilbert, Harper, Peck, Spaeth, Mercer, Harp, Quilici, and Donaldson.

The Committee conducted two meetings to determine the status of highway program financing. The Committee reviewed the impact of the Special Session III, 1986, on the RTF program.

During these meetings, testimony and information was received from the Department of Highways, Legislative Auditors office, Legislative Fiscal Analyst office, Montana Contractors Association, Montana Motor Carriers Association, Highway Users Federation, Montana Petroleum Marketing Association, and individual contractors and refiners regarding the highway construction program.

The information received during the meetings demonstrate the need for continuation of the RTF program and the impact the highway construction program has on the economy of Montana. One contractor cited statistics indicating the loss of revenues to the general fund and jobs resulting from a reduced highway

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program. Another individual in the oil industry pointed out the negative impact on Montana's crude oil industry because of the reduction in asphalt production. Given the competition among contractors, the significant reductions in the price of asphalt and concrete, and the low interest rates for bonding, now is an ideal time to maintain the recent level of construction activity. Further, it was determined that to gain the benefit of this summer's construction season, the Legislature must act quickly.

At the conclusion of the second meeting, the Committee unanimously voted to restore and continue the RTF program at the level authorized in 1983. The RTF program was authorized to expend up to \$40 million per year on highway system improvements. The Committee agreed that the RTF program was essential to improving the primary highway system, and the RTF cannot continue without additional revenues. Without the RTF, only 800 miles of primary system improvements can be made through 1993. With the RTF, approximately 2,800 miles of primary system improvements could be made through that period.

The Committee determined that to continue the RTF program the following actions are necessary:

1. Continue the current level of coal severance tax revenues;
2. Continue bonding to the presently authorized level through the RTF period; and,
3. Raise an additional \$15 million in revenues for the RTF program.

Specifically, the Committee makes the following recommendations to the 50th Legislature:

- .. The RTF program be funded and restored to the authorized level. This recommendation passed unanimously.
- .. That currently authorized coal severance tax revenues be retained by the RTF program, and these revenues be pledged for bonding purposes. This recommendation passed unanimously.
- .. The amount of highway revenues presently being provided to the Department of Fish, Wildlife, and Parks' snowmobile and motorboat programs be reduced by half to no more than \$500,000 per year total. This motion passed 9 to 8.

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.. The \$15 million required to restore the RTF program be derived from motor fuel tax increases, and that the makeup of the additional \$15 million derived from the fuel taxes be based fairly on the users in combination with appropriate reductions where other savings can be made.

We urge that the 50th Legislature consider and act quickly on these recommendations. If the state is to gain the benefit of this summer's construction season, provide jobs, and take advantage of the competitive prices currently in place, the Legislature must provide additional revenues as soon as possible.

JM:WSG:ts:li

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MINUTES

Joint Committee on Highway Financing

A meeting of the Joint Committee on Highway Financing began at 4:15 p.m., January 5, 1987 in Room 312-2, Capitol Building.

Committee members attending were Senators Mazurek, Neuman, Crippen, Brown, Lybeck, Farrell, Hager, Gage and Abrams; and Representatives Bradley, Miller, Nathe, Gilbert, Harper, Peck, Spaeth, Mercer and Harp.

Members not attending were Senator Stimatz and Representatives Quilici and Donaldson.

Chairman Mazurek opened the meeting by stating the purpose of the meeting was to:

- Review the follow-up information provided by the Department of Highways as requested at the November 13, 1986 meeting.
- Receive comments from the Legislative Auditor and Fiscal Analyst offices regarding the department's cash flow projections.
- Hear testimony from concerned groups and citizens.
- Review additional alternatives prepared by the Department of Highways.
- Make recommendations on highway funding.

Gary Wicks, Director, Montana Department of Highways, discussed the follow-up information requested by the Committee at the November meeting. Wicks described the distribution of highway revenues and the amounts that remain for highway construction after all the various statutory transfers are made. Wicks also discussed the distribution made for the \$14 million statutory pass-through to local governments, and explained that specific amounts were based on formulas contained in the statutes.

Madalyn Quinlan and Jim Haubein, Legislative Fiscal Analyst office, presented a report to the Committee on the department's cash flow projections, budget request, and revenue projections. The LFA revenue projections indicate a slightly lower amount in diesel revenues than the department's projections, with gasoline projected to be approximately the same as the department's estimates. The LFA pointed out that there was an unexplained difference in the amount shown for the department's budget request and the LFA recommendation.

Wayne Kedish, office of the Legislative Auditor, discussed the review made by the auditor's office of the department's cash flow projections, and stated that the fiscal 1986 and 1987 amounts were based on SBAS records and the Fiscal 1988 and 1989 amounts were based on the Governor's budget submission. He emphasized the projections were not audited; however, the amounts tie to SBAS and the budget submission through 1989.

Dave Hilde, contractor, discussed the impact of the highway construction program on the construction industry, and the effect a reduced program will have on jobs and revenues to the general fund. Hilde's statistics cited a

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loss of approximately \$1.5 million in revenues to the general fund and loss of 725 jobs without the RTF program.

Al Hobbs, refiner, discussed the impact of a reduced highway program on the production of asphalt from Montana crude oil. Hobbs explained that Montana sour crude from Chinook, Cut Bank and Conrad produces a high percentage of asphalt when refined whereas Canadian crude does not provide as large an asphalt byproduct when refined. Therefore, with the reduced program, Hobbs is buying crude oil on the open market which produces a small amount of asphalt when refined, such as Canadian, rather than the Montana crude. The failure to purchase Montana crude has a negative impact on the oil industry throughout Montana.

Hugh Frame, contractor, discussed the impact on individual contractors resulting from the loss of the RTF or other reductions in highway construction. He explained that the construction industry is capital intensive, requiring costly equipment. Without contracts to keep the equipment utilized and paying for itself, he would be forced to shut down or move to another state.

Ben Havdahl, Montana Motor Carriers Association, explained the Motor Carriers' position on highway funding by acknowledging the need for the RTF program but stated that higher diesel fuel taxes would hurt the carriers. He presented reports that cited statistics regarding the overall cost to carriers at the state and federal level. He suggested other sources of revenue be found to fund the RTF.

Larry Tobiason, Highway Users Federation, discussed three options for the Committee to consider: drop the RTF, look at other funding alternatives, or increase motor fuel taxes. He said a survey of the 77,000 members showed little support for a fuel tax increase. He stated that if the legislature decided to fund the RTF from user fees, all users should be taxed and the cost be borne equally.

Doug Alexander, Montana Petroleum Marketing Association, stated that he would assist the Committee in developing ideas and suggestions if requested.

Rep. Jerry Driscoll, Billings, discussed the bill he is sponsoring which would increase both gas and diesel taxes by 3¢ a gallon, raising approximately \$15 million for the RTF program.

Gary Wicks presented several other alternatives, including bonding without additional revenues, the RTF reduced to half the authorized amount, and the \$15 million in new revenues and bonding, to the Committee. He explained the impact of each alternative.

Wicks also discussed what the other states in region were proposing to their legislatures, the adjustments made to the projections based on the Governor's proposal to reduce coal severance tax rates, revenue projections, and the Governor's budget request for the department. Wicks said the need to continue work on the primary system is necessary, and it is a very good time to work on the roads due to the competition keeping prices down on the bids. Asphalt has dropped from \$184 per ton in 1984 to only \$51 per ton during December 1986; concrete costs have declined from \$11.41 per square yard in 1985 to \$7.65 per square yard in 1986; and interest rates are very favorable for issuing bonds

SENATE TAXATION

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at present. Wicks stated that the RTF needs \$15 million in additional revenues, issue bonds up to the authorized level, and the continuation of the currently authorized coal tax revenues to keep the RTF on line through the RTF period. Wicks said that the legislature must act now to meet the summer construction season needs.

Chairman Mazurek opened the meeting to recommendations and action.

Rep. Spaeth made a motion to keep the currently authorized coal tax revenues for the highway program, and to pledge these revenues for bonding purposes. This motion passed unanimously.

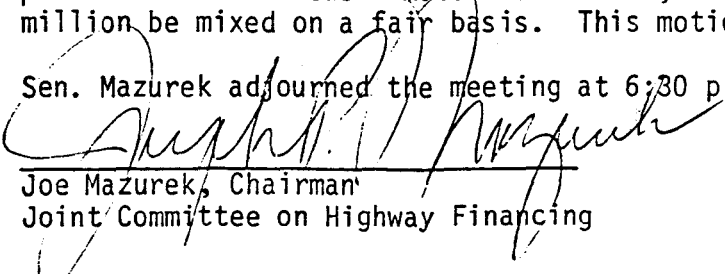
Rep. Harp made a motion to reduce the amount of funds going to the snowmobile and motorboat accounts in the Department of Fish, Wildlife and Parks by half to no more than \$500,000 per year total. This motion passed. During the discussion on this motion, there were various concerns expressed regarding using funds for other than highway purposes. It was agreed that any additional revenues should go for construction purposes only, and for no other purposes.

Rep. Spaeth made a motion that the Committee recommend to the 50th Legislature that the RTF program be funded and restored to the authorized level. This motion passed unanimously.

Rep. Spaeth moved to recommend motor fuel tax increases of 3¢ on both gas and diesel. Sen. Gage made a substitute motion to eliminate the \$14 million pass-through to local governments and retain these funds in the highway program. The substitute motion failed.

Rep. Bradley made a substitute motion to recommend to the 50th Legislature that the RTF be restored, that \$15 million in additional highway revenues be provided from increased motor fuel taxes, and that the makeup of the \$15 million be mixed on a fair basis. This motion passed.

Sen. Mazurek adjourned the meeting at 6:30 p.m.


Joe Mazurek, Chairman
Joint Committee on Highway Financing

WSG:kw:1x

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-6-87

BILL NO. H.B. 136

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

December 19, 1986

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

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

Dear Mr. Wicks:

As you requested, we have performed the procedures described below regarding the review of Department of Highways' 1986 Schedule of Projected Highway Cash Balance without RTF Program and With Coal Tax - Executive Budget Proposal. All parties have agreed this report is solely for your information, but may be distributed with the department's report on base information for establishing future funding levels.

Projections included on the schedule are estimates of the Department of Highways. We provide no assurance regarding the validity of those assumptions used in the projections or the application of those assumptions in the calculation of the budgeted amounts.

The agreed upon procedures that we performed are summarized below:

1. We obtained the Department of Highways' 1986 Schedule of Projected Highway Cash Balance Without RTF Program and With Coal Tax - Executive Budget Proposal - and agreed the fiscal year 1985-86 actual amounts presented on the schedule to amounts recorded on the Statewide Budgeting and Accounting System (SBAS). We also reviewed SBAS for completeness of the amounts. We have not performed an audit of the fiscal year 1985-86 SBAS amounts and do not attest to their accuracy. These figures will be part of our Department of Highways' biennial audit for fiscal years 1985-86 and 1986-87.
2. We agreed budgeted expenditure amounts for fiscal years 1987-88 and 1988-89 presented on the schedule to the Governor's Executive Budget Fiscal Years 1988-89.

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3. We reviewed the department's calculation of working cash for compliance with state policy, specifically Management Memo 2-86-7.
4. We footed and cross-footed the rows and columns for revenue and expenditure amounts as appropriate.

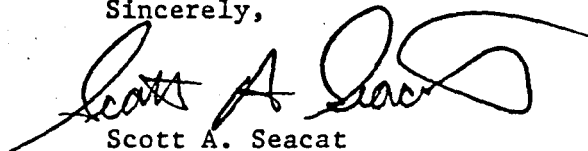
As a result of applying the aforementioned procedures we determined the following:

1. The amounts presented on the schedule as actual amounts for fiscal year 1985-86 agree to the amounts recorded on the Statewide Budgeting and Accounting System (SBAS) for accounting entities 02422, Highway Special Revenue, and 02424, Highway Construction, and no important information has been omitted.
2. The budgeted amounts for fiscal years 1987-88 and 1988-89 agree to the Governor's Executive Budget except for the following:
 - A. The fiscal year 1987-88 construction amount does not include \$4,100,000 that is included in the Governor's Executive Budget. This is noted in the department's footnote to the schedule.
 - B. The reconstruction trust amount does not include \$7,134,596 (fiscal year 1987-88) and \$2,907,354 (fiscal year 1988-89) included in the Governor's Executive Budget. The department has noted this exclusion in the footnote to the schedule.
 - C. The Local Government amount of \$14,150,000 relies on statutory appropriation authority, and is not included in the Governor's Budget.
 - D. The Architecture and Engineering (A&E) amount of \$761,000 is not budgeted but is included in the Capital Construction Priority List included in the Governor's Budget.
3. The department's calculation of working cash does not comply with state policy. In determining working cash the department did not include inventory. The excluded inventory is primarily gravel stock piles, and resale value is questionable. The department has excluded inventory from the calculation of working cash since inventory proceeds would not be available to finance current operations.
4. The schedule rows and columns footed and cross-footed as appropriate.

Mr. Gary Wicks
December 19, 1986
Page 3

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion in any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the specified accounts should be adjusted. If we had performed additional procedures or if we had made an examination of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the schedule specified above and does not extend to any financial statement of the Department of Highways taken as a whole.

Sincerely,



Scott A. Seacat
Legislative Auditor

SAS/js4u

SENATE TAXATION

EXHIBIT NO. 2

DATE 2-6-87

BILL NO. H.B. 136

PROJECTED HIGHWAY CASH BALANCE without RIF Program and with COAL TAX Revenue
EXECUTIVE BUDGET PROPOSAL
Current Construction Work Plan

	ACTUAL FY86	BUDGETED FY87	BUDGETED FY88	BUDGETED FY89
BEGINNING CASH BALANCE	\$73,540,570	\$45,286,748	\$24,958,692	\$18,598,354
REVENUE				
G. V. M.	22,583,650	22,809,487	23,037,582	23,267,958
Gas Tax	59,576,264	65,299,704	65,517,209	64,373,065
Diesel Tax	18,576,576	18,576,576	18,576,576	18,576,576
Accounts Receivable	1,014,755	1,497,631	1,014,755	1,014,755
Mineral Royalties	7,577,783	0	0	0
Coal Tax	1,684,344	6,144,000	9,440,000	9,823,000
Interest Income	3,466,058	0	0	0
Stores	12,792,481	12,643,971	13,402,298	13,472,810
Prior Year Revenue Adj.	250,393	0	0	0
Modified Revenue	0	0	0	0
Bond Proceeds	0	0	0	0
TOTAL REVENUE	127,522,244	112,671,369	113,188,420	113,728,164
AVAILABLE CASH	\$281,062,834	\$172,258,117	\$156,147,112	\$149,326,518
EXPENDITURES				
G. V. M.	3,205,616	3,388,159	3,497,307	3,583,362
General Operations	4,567,463	4,944,397	5,378,930	5,208,734
Construction	14,669,544	7,057,058	26,399,212	25,601,183
Construction To Be Let	0	0	0	0
Maintenance	41,546,502	38,688,379	40,620,936	40,872,194
Preconstruction	4,787,503	3,165,831	4,565,797	8,923,336
Equipment	2,910,182	2,247,850	1,475,099	1,450,899
Head Quarters Building	646,106	588,505	591,525	597,881
A. & E.	732,886	791,314	761,000	761,000
Local Government	14,150,000	14,150,000	14,150,000	14,150,000
Bond Principal & Interest	14,127,179	15,975,094	15,973,573	15,973,103
Reconstruction Trust	29,660,678	32,292,030	0	0
Reconstruction To Be Let	0	0	0	0
Department of Revenue	787,852	753,879	826,596	805,517
Department of Justice	6,913,827	9,283,571	9,306,485	9,449,159
Stores	12,442,555	12,443,971	13,402,298	13,472,810
Modified Adjustments	0	0	0	0
Entity Consolidation Adjustments	5,324,331	0	0	0
Prior Year Adjustments	(696,358)	29,367	0	0
TOTAL EXPENDITURES	\$155,776,086	\$147,299,425	\$137,548,758	\$135,970,580
ENDING CASH BALANCE	\$45,286,748	\$24,958,692	\$18,598,354	\$13,856,138

These are unaudited schedules. Actual information is from the Statewide Budgeting and Accounting System for the Department of Highways. Also included in the schedules is other agency activity. These schedules do not contain the adjustments and disclosure that would be necessary to present the financial information in accordance with generally accepted accounting principles. These schedules are prepared on a working cash basis. They differ from the State of Montana Policy on Working Capital by the exclusion from Current Assets of \$1,367,897 Cash with Fiscal Agent in the FY86 Beginning Cash Balance. The FY86 Ending Cash Balance excludes \$1,492,027 Cash with Fiscal Agent and \$16,984,384 Merchandise Inventory.

These schedules differ from the Executive Budget by the amount of \$7,134,596 in FY88 and \$2,907,334 in FY89 due to the elimination of certain construction projects in the Reconstruction Trust Fund (RTF) by the Highway Commission after the budget submission.

The schedules relate to the State share of construction projects and do not include \$4,100,000 projected expenditures in the State Special Revenue Fund in FY88 for bonds issued for Advanced Construction Interstate (ACI). These funds will be reimbursed by the Federal Government when Interstate obligation authority becomes available.

HB 136

The Department of Highways supports HB 136 since the 3¢-a-gallon increase in gas and diesel taxes is an extension of the 5¢ on gas and 3¢ on diesel requested by the administration last June. It will provide sufficient funds to continue the program to improve Montana's highways.

That program, approved by the 1983 Legislature, consisted of three major parts: 1) establishment of the Reconstruction Trust Fund, authorizing the department to spend \$40 million a year over the next 10 years to improve the primary system; 2) authorizing the issuance of \$150 million worth of bonds to complete the interstate and match increased federal aid; and 3) a fuel tax increase of 6¢ a gallon, part of which went for cities and towns, and continued funding of the Highway Patrol.

The money you provided went into highway construction and the projects we said would be let to contract were let to contract. In September, the contract to complete the last stretch of the interstate was let, allowing Montana to complete this vital link years ahead of the schedule based on federal funding.

With the completion of the interstate, the department and Highway Commission have made improvement of the primary system their highest priority. In the three years funding for the RTF was available (FYs 1984/1985/1986) and through the biennium, the department will have improved 1,800 miles of primary, moved 700 miles of the 5,500-mile system from the "poor/fair" pavement category to "good/excellent" and let to contract 172 miles of the 458 miles of "red" roads identified in 1983. Projects such as DeSmet-Evaro -- four lanes on Highway 93,

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Coram-West Glacier on Highway 2, Sidney-Fairview on Highway 200, and Bowman's Corner-East on Highway 200 are just a few examples of what we've done in a short time with the RTF program.

Prior to the special session in June, the department recognized additional funds would be necessary in 1987 and planned to request an increase. The decision to reduce highway funding dramatically altered the planned construction program. When we examined projected cash flows after the special session, it was clear we could not continue the scheduled RTF projects and end 1989 with a positive balance. We faced the choice of reducing maintenance, failing to match federal aid, not meeting our debt service obligations or reducing the RTF. Clearly, reducing the RTF was the only prudent thing to do.

In September, the Highway Commission, acting on the basis of these reduced funding projections, cut \$85 million worth of RTF projects from the 87-89 construction program. These projects are identified in the Highway Department's REPORT TO THE 50TH LEGISLATURE.

Since the special session, a legislative committee chaired by Senator Mazurek has reviewed highway financing, the highway program and funding alternatives. The committee asked the Legislative Fiscal Analyst and the Legislative Auditor to review the highway account balance sheets. It also heard testimony from other interested groups.

The committee's unanimous recommendation was that the RTF program be restored. It recommended an additional \$15 million per year be provided from fuel taxes for highway construction and the primary system, and that the coal tax funds

be retained by the RTF. The committee's report has been distributed to the Legislature.

HB 136 would fund the committee's recommendations. Assuming the 12 percent coal tax revenues continue and will be used as pledged revenues together with the additional funds to issue bonds up to the authorized level, the RTF can be restored and funded until 1993.

- With the RTF, we can improve or maintain 2,800 miles of primary between now and 1993; without it only 800 miles.
- With the RTF, we can continue the preventive maintenance program to get the most out of the taxpayers' investment; without it preventive maintenance is not possible.
- With the RTF, 458 miles of critical roads will be improved by 1993; without it, that will not be accomplished until after the beginning of the 21st Century.
- With the RTF, we can reconstruct:

Highway 2 - Libby/Troy;

Highway 93 - Darby South;

Highway 12 - Avon/Elliston;

Highway 87 - Big Sandy North & South;

Highway 3 - Broadview North & South and Acton West;

Highway 13 - Scobey North;

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Highway 78 - Absarokee/Columbus; and
Highway 2 - Browning East & West.

Without the RTF, these projects must be delayed or eliminated from the program.

- With the RTF and early approval by the Legislature, the highway construction program -- and Montanans -- can go back to work in May.

Since the special session, we have been working with legislators for a better understanding of Montana's highway problems. That cooperation has created bipartisan support. If politics can continue to be set aside, we will pass on to Montanans in the 21st Century not a Democrat or Republican highway system, but a good highway system, adequate to meet the needs of Montana's business, citizens, and economy. This is the clear choice facing this committee and this Legislature.

GJW:kw:4u

WILLIAM G. STERNHAGEN
CHAIRMAN, BOARD OF DIRECTORS
S. KEITH ANDERSON
PRESIDENT



MONTANA TAXPAYERS Association

P O BOX 4909

1706 NINTH AVENUE

HELENA, MONTANA 59604

406-442-2130

FEBRUARY 6, 1987

TO: SENATE TAXATION COMMITTEE

RE: HOUSE BILL 136

BY: S. KEITH ANDERSON, PRESIDENT

MONTANA TAXPAYERS ASSOCIATION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS KEITH ANDERSON AND I AM PRESIDENT OF THE MONTANA TAXPAYERS ASSOCIATION.

I AM NOT KNOWN TO BE A BIG ADVOCATE OF INCREASED TAXATION BUT IN THIS CASE WE DON'T BELIEVE THAT THE STATE OF MONTANA CAN AFFORD NOT TO HAVE INCREASED REVENUE FOR OUR HIGHWAY PROGRAM. WE ARE A STRONG BELIEVER IN USER TAXES SO THIS TRANSLATES INTO SUPPORT FOR AN ADDED TAX ON MOTOR FUELS.

WE ALL KNOW THAT MONTANA IS SUFFERING AN ECONOMIC DECLINE AS BAD AS SOME OF US HAVE SEEN SINCE THE "DIRTY THIRTIES." DURING THE LAST COUPLE OF YEARS AS I TRAVELED AROUND MONTANA THE ONLY BRIGHT SPOT, THE ONLY REAL ECONOMIC ACTIVITY WAS THE HIGHWAY PROGRAM, THE RECONSTRUCTION TRUST FUND PROGRAM. THIS WAS WORK ON LONG OVER-DUE PROJECTS AND RECONSTRUCTION OF SOME OF OUR WORST ROADS.

MONTANA IS A LARGE AND SPARSE STATE AND A GOOD HIGHWAY SYSTEM IS ESSENTIAL TO OUR ECONOMY. NOT ONLY DO WE NEED A GOOD HIGHWAY SYSTEM, BUT AT THIS TIME IN OUR ECONOMY WE NEED TO PUT PEOPLE BACK ON THE PAY ROLL. THIS HAS A SNOWBALLING EFFECT. AT THE STATE LEVEL WE WILL COLLECT MORE INCOME TAXES WHEN PEOPLE GO BACK TO WORK. WE WILL

SENATE TAXATION

EXHIBIT NO. 4

DATE 2-6-87

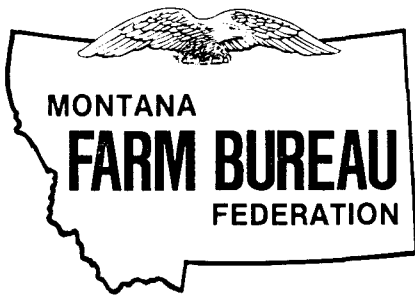
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COLLECT MORE PROPERTY TAXES AT THE COUNTY LEVEL, AND MONTANA'S ECONOMY WILL BE BOOSTED BY PURCHASES MADE BY THE CONTRACTORS AND THE PEOPLE ON THE PAY ROLLS. I UNDERSTAND THAT AT THIS PARTICULAR TIME ASPHALT IS ABOUT ONE FORTH THE COST IT WAS THREE OR FOUR YEARS AGO. THIS MEANS OUR MOTOR FUEL TAXES WILL GO MUCH FURTHER AND WE WILL GET MORE BANG FOR THE TAX BUCK.

LAST YEAR WE DROVE OUR ASSOCIATION CAR ABOUT 21,000 MILES. I FIGURE IT WOULD HAVE COST US ABOUT \$22.00 EXTRA FOR THE YEAR--LESS THAN \$2.00 A MONTH. THIS IS A SMALL PRICE TO PAY TO PUT PEOPLE BACK TO WORK AND TO GET A GOOD HIGHWAY SYSTEM.

I FULLY REALIZE THAT A TAX INCREASE WILL HAVE AN ADVERSE ECONOMIC IMPACT UPON SOME BUSINESS IN THIS STATE. I DO NOT KNOW WHAT THE EXACT TAX MIX BETWEEN GASOLINE AND DIESEL SHOULD BE. I AM SURE YOU HAVE ADEQUATE INFORMATION TO COME UP WITH A FORMULA THAT WILL PROVIDE THE NECESSARY DOLLARS.

THE THING I WANT TO IMPRESS UPON YOU IS THE IMPORTANCE OF GETTING THE RTF PROGRAM GOING SO PEOPLE CAN BE PUT TO WORK DURING THE COMING HIGHWAY BUILDING SEASON. WE HOPE YOU PASS HOUSE BILL 136 WITH ENOUGH REVENUE BUILT INTO IT SO IT WILL DO THE CONSTRUCTION JOB THAT NEEDS DOING.



P.O. Box 6400
~~502 South 19th~~

Bozeman, Montana 59715
Phone (406) 587-3153

TESTIMONY BY: Alan Eck
BILL # HB-136 DATE 2/6/87
SUPPORT _____ OPPOSE XXXX

Mr. Chairman and members of the committee, for the record my name is Alan Eck. I'm testifying on behalf of the Montana Farm Bureau. We oppose HB-136. We supported the RTF program in 1983 and have supported previous increases in fuel taxes. The gutting that the Reconstruction Trust fund took in June 1986 makes us have little faith that the monies talked about in HB-136 will be used for the purpose stated in the bill. In a state the size of Montana, travel is a necessity and should not be penalized. We encourage a "do not pass" recommendation on this legislation. Thank You.

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EXHIBIT NO. 5

DATE 2-6-87

BILL NO. HB-136

SIGNED: Alan Eck

February 6, 1987

MMCA STATEMENT ON HB136 BEFORE THE SENATE TAXATION COMMITTEE

Mr. Chairman and members of the committee I'm Ben Havdahl, Executive Vice President of the Montana Motor Carriers Association We would like to go on record opposing the diesel fuel tax increase by 3 cents per gallon in HB136 I emphasize only the diesel fuel tax increase and my comments are not being directed in opposition to the gasoline tax proposed in HB136 or on any other basis.....

MMCA has some 325 carrier members and 125 supplier members. All of whom are employers and the carriers range in size from a one-truck operation to medium size companies operating fleets of trucks up to 400 plus in numbers. 95% of our Montana based trucking companies operate in interstate commerce under ICC authority in several states, some in all 48 states

I would also like this committee and members of the Legislature to understand that the opposing position by MMCA to a diesel fuel tax increase is not an opposing position to supporting an adequately funded "reconstruction trust fund" to rebuild some 2,000 miles of the primary highway system in Montana. MMCA has and continues to support an affordable highway program in Montana. We supported a diesel fuel tax increase in 1983 to fund the then created "reconstruction trust fund". The tax was increased from 11 to 17 cents per gallon with half of that increase diverted from the RTF to cities and counties notwithstanding that almost all the over-the-road truck mileage is on the interstate and the primary system in Montana. If that diversion had not happened we are convinced the RTF would not be suffering today.

MMCA expressed its opposition to the increase in diesel fuel tax by 3 cents per gallon as proposed in SB14, during the June 1986 session due to the difficult economic situation facing the trucking industry. The diesel tax increase was amended out of SB14. Our position has not changed nor has the economic situation of the industry improved. If anything it has gotten worse.

MMCA testified before this Committee on SB44 to reclassify trucks and trailers from 16% to 11% placing Motor Carriers on par with the rails. SB44 represents a tax reduction in personal property taxes to over the road truckers of approximately \$1.8 million. The industry's support for that bill is based solely on the economic benefit that would accrue. We simply not afford any additional taxes be they diesel fuel, workers' compensation, truck property taxes, or any others. SB44 represented some tax relief and we would welcome that.

Let me try to review for you just exactly why and what the situation is for truckers in Montana.

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Since 1983 state diesel fuel taxes have increased 55%; federal taxes increased 275%; the federal use tax on heavy trucks increased 162%; excise taxes on equipment 32% and excise taxes on tires 45%. Total state and federal diesel fuel taxes are 32 cents per gallon and total gasoline taxes are 24 cents per gallon. Diesel fuel taxes are presently 6 cents per gallon higher than gasoline.

One large Montana truck combination pays more annual state and federal road taxes than do 47.5 passenger cars

The impact of total increased state and federal highway taxes on a typical five axle semi is major: An 80,000 pound five axle tractor semitrailer combination pays approximately \$11,500 in Montana taxes and federal taxes per year based on 100,000 miles of operation. Currently, the total state and federal taxes on a five-axle semi equates to a cost of 14 cents per mile and approximately \$.08 per bushel when transporting grain from Montana to the West Coast. Any additional tax increase will reflect in even higher transportation costs to the Montana farmer.

There are those who would question whether or not trucks are paying their fair share of highway user taxes however, some \$18.5 million was collected in diesel fuel taxes in 1986 plus \$22.5 million in GVW fees or 41% of the highway user taxes. When federal user taxes are added to that total the percentage soars closer to 60%.

Montana Workers' Compensation premiums for truckmen increased 50% two years ago and were increased an additional 25% effective January 1, 1987.

Prior to the rate increase, a truck driver earning \$30,000 a year, costs \$3,558 a year for workers' compensation in Montana, but only \$389 in North Dakota, \$3,120 in Idaho, \$1,872 in Utah and \$1,500 in Wyoming for example. The latest increase in Montana adds an additional \$882 per year for a total of \$4,440. Its interesting to note that the increase is more than twice the North Dakota rate.

We polled our membership response to the Montana Workers' Compensation increase on January 1, 1987, out of 55 responses operating 2,379 trucks, or 29 or 52% indicated giving consideration to plans to move out of Montana or move their drivers. Those 29 account for 1,338 trucks. Equating that to jobs, and assuming one driver per truck, that's over 1300 jobs potentially lost in Montana and represents a prospective impact of a \$39 million payroll loss to the state's workers' compensation fund. In addition GVW records at the Montana Highway Department reflect over 1,000 fewer trucks registered for Montana based carriers this year to date compared to last year. The potential 1300 would be in addition to this number.

Next let me cite some other economic facts

Montana trucking industry liability insurance rates have been and are increasing dramatically, ranging from 100% to 400% on up to 1000% because of government required minimum liability limits of \$750,000 and for trucks carrying hazardous materials \$5,000,000 many carriers still can't buy all the required liability insurance at any cost.

Cargo insurance rates have increased from 50% to as high as 370% these rates are not manual rates, or not published in a book, but are based on certain criteria of the company the most important is the carrier's perceived financial health ... in other words, the poorer a company's financial status, the higher the rate.

On the national scene there is still pressure by Congress to raise federal fuel taxes to balance the national deficit. Right now, according to American Trucking Association over 30% of the industry in interstate commerce is operating at a loss. This equates to almost 10,000 of the 33,000 carriers with ICC operating authority, which is only one part of trucking. With a 25 cent per gallon increase, in the federal fuel tax the number of ICC authorized carriers operating at a loss would be in the majority.... or more than one half.

I said in Montana our economic situation has not improved. I told this committee before, that the Montana Department of Commerce recently completed a Montana Truck User Fee study at the request of the Montana Grain Growers Association. The purpose of the study was to determine at what level truck user fees became counter-productive to the intents of producing revenue for highway construction and maintenance. The economics for grain truck hauling concluded the following:

A 7 axle grain truck hauling to Butte from Great Falls resulted in a profit of \$347.00. When all current user fees are paid the net result is a loss of over \$12,600. Using a 5 axle truck the loss is \$13,300. When current user fees are added in the loss nearly doubles to \$24,000. A 7 axle grain truck hauling to Lewiston, Idaho the operator has a loss of -\$26,600. with normal costs. When current level user fee costs are added the deficit increases to -\$39,600 and with a 5 axle grain truck the loss is -\$33,500. Adding current level user fees causes the deficit to climb to over -\$44,000. A copy of that study has been submitted with prior testimony.

It is the opinion of the Motor Carriers Association that based on this study and due to the depressed situation within the trucking industry, that any further user fee increases will be counterproductive and MMCA stands firm in its opposition to any such increase.

Finally, we would like to include with our statement a copy of a recent letter to motor carrier "friends" and I emphasize "friends" from Wyoming's Governor Ed Herschler where in he urges truckers to do business in Wyoming citing diesel fuel taxes, among others, as the lowest in the neighborhood at 8 cents per gallon.

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FILE NO. 11 R 121

He says Wyoming doesn't have any punitive laws which make it difficult and frustrating to operate efficiently.....

In addition to extolling all the low taxes in Wyoming, he adds, that our facilities are equal to any you'll find and you'll put dollars back in your profit column at the same time.....some of our members are taking Governor Herschler very very seriously.

Thank you.



STATE OF WYOMING
OFFICE OF THE GOVERNOR
CHEYENNE 82002

ED HERSCHLER
GOVERNOR

Dear Motor Carrier Friends:

You know Wyoming as a land of long distances and wide spaces with mountain shadows always on the horizon. I am sure you see it on your operations' map as the bridge you travel to deliver your freight.

As a businessman, I know that you are continually seeking ways to make sure your bottom line remains in the black. Wyoming business people can help you. You already know that our highways are among the best in the nation. You should also be aware that Wyoming maintains a business and tax climate that is "highway-user friendly." Our tax structure is among the lowest in the nation, especially for motor carriers. At 8¢ per gallon, our diesel fuel tax is at least 5¢ per gallon less than any of our neighboring states and the differential is significantly higher in most cases. While we now have our tax payable at the pump, the actual rate itself has not increased in many, many years. With a low total price at our fuel stops in Wyoming, you'll find it makes good management sense to "Fuel Around" in Wyoming. Recent changes in Wyoming's laws have made it easier for motor carriers to do business here. Refund procedures on a monthly basis are available when you purchase fuel in Wyoming and use it elsewhere. Your reports are now due on a quarterly basis instead of monthly. You'll also find that Wyoming has no punitive laws which make it difficult and frustrating to operate efficiently.

All other services you may need are available in Wyoming at more competitive prices. Our sales tax is among the lowest in the region.

Wyoming invites you to take a good look at doing business here. Our facilities are equal to any you'll find and you'll put dollars back in your profit column at the same time. Buying in Wyoming will help you meet that goal.

Yours sincerely,
Ed Herschler

SENATE TAXATION

EXHIBIT NO. 6

DATE 2-6-87

FILE NO. 112 101



STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

JUDY RIPPINGALE
LEGISLATIVE FISCAL ANALYST

January 5, 1987

Senator Joe Mazurek, Chairman
Joint Committee on Highway Financing
State Capitol
Helena, MT 59620

Dear Senator Mazurek:

In response to your request, this analysis of the Department of Highway's cash flow projections, presented to the Joint Committee on Highway Financing at their November meeting, was done. The cash flow projections are the combined Highway Special Revenue and Highway Reconstruction accounts.

Comments on the analysis are presented in two sections--revenues and expenditures.

REVENUES

Gasoline Tax

The Legislative Fiscal Analyst estimates that gasoline tax revenues will fall by 2.4 percent in fiscal 1987 and 2 percent in each year of the 1989 biennium. The highway department's gasoline tax estimates are virtually the same as the LFA estimates.

Gasoline consumption is projected to decline in spite of lower gasoline prices. The downward trend is due to increases in vehicle fuel efficiency and a slight decrease in the number of vehicles registered in Montana.

Based on LFA projections, a 1 cent/gallon increase in the gasoline tax would generate \$3.85 million in fiscal 1988 and \$3.78 million, or 2 percent less, in fiscal 1989 for the highway state special revenue account.

Diesel Tax

The LFA estimates that diesel tax revenues will decline by 4 percent in fiscal 1987 and 2 percent in each year of the 1989 biennium. The highway department assumes that diesel tax revenues will remain at the fiscal 1986 level in fiscal years 1987 through 1989. The differences in diesel tax revenues estimates widen over the forecast period. The highway department estimates are \$0.61 million higher in fiscal 1987, \$0.97 million higher in fiscal 1988, and \$1.3 million higher in fiscal 1989.

SENATE TAXATION

EXHIBIT NO. 7

DATE 2-6-87

BILL NO. HB-136

Through November 1986, fiscal 1987 diesel tax revenue was 9.5 percent below the year-to-date figure for fiscal 1986. With the addition of December's tax revenues, fiscal 1987 year-to-date revenues are 9.3 percent above revenues for the same period in fiscal 1986. At this point, it is difficult to forecast diesel tax revenues based on year-to-date collections.

A downward trend in diesel consumption is projected for three reasons: 1) increased fuel efficiency in the trucking industry; 2) more "trucks" moving by rail prior to local delivery; and 3) fewer passenger cars running on diesel. *Less trucks running*

Based on LFA projections, a 1 cent/gallon increase in the diesel tax would generate \$1.04 million in fiscal 1988 and \$1.015 million in fiscal 1989 for the highway state special revenue account.

Coal Tax

The major differences in revenue estimates occur in coal severance tax projections. Over the three year period from fiscal 1987 to fiscal 1989, coal tax estimates vary by \$3.64 million.

Table 1
Coal Tax Comparison - LFA and Department of Highways

<u>Fiscal Year</u>	<u>Highways</u>	<u>LFA</u>	<u>Difference</u>
1987	\$ 6,144,000	\$ 5,883,700	\$ 260,300
1988	9,440,000	7,751,637	1,688,363
1989	9,823,000	8,133,812	1,689,188
3-Yr Total	<u>\$25,407,000</u>	<u>\$21,769,149</u>	<u>\$3,637,851</u>

The highway department's coal tax estimates, which were developed by the Office of Budget and Program Planning, are based on higher price and production forecasts. These differences in economic, or market, assumptions will be addressed by the House and Senate Taxation Committees.

EXPENDITURES

There are three points of interest in the expenditures.

1. On the Highway Department statement titled, "Post Session (RIF Stopped)," the highway department shows coal tax revenue of \$9,440,000 in fiscal 1988 and \$9,823,000 in fiscal 1989. However, there are no reconstruction trust fund expenditures. Thus coal tax funds are being used for other highway expenditures although section 15-35-108(2), MCA, allocated the coal tax funds to the reconstruction trust account stated as follows:

"Starting July 1, 1987 and ending June 30, 1993, 12 percent of coal severance tax collections are allocated to the highway reconstruction trust fund account in the state special revenue fund."

2. The Department of Justice expenditures are \$1.2 million in fiscal 1988 and \$0.7 million in fiscal 1989 less than requested by the Department of Justice. Table 1 shows the amount of highway special revenue for the Department of Justice in the 1989 biennium.

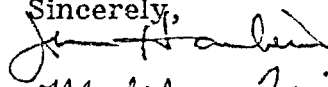

Table 1
Potential Highway Special Revenue to Department of Justice

<u>Department of Justice</u>	<u>FY 1988</u>	<u>FY 1989</u>	<u>1989 Biennium</u>
Highway Statements	\$ 9,429,485	\$ 9,447,159	\$18,876,644
Justice Request	10,647,396	10,116,929	20,764,325
Governor's Budget	8,968,021	8,976,238	17,944,259
LFA Current Level	9,647,310	9,704,471	19,351,781

3. The Department of Highway's budget request, excluding contractor payments, is approximately \$18 million more in the 1989 biennium than the LFA current level analysis.

Please feel free to contact us if you need any additional information.

Sincerely,

Jim Haubel, Principal Analyst
Madalyn Quinlan, Associate Analyst

JH1:bn:sm.

SENATE TAXATION

EXHIBIT NO. 7

DATE 2-6-87

BILL NO H.B. 136

CENTS PER GALLON

0 5 10 15 20

CURRENT STATE DIESEL TAX RATES

(AS OF JAN 1, 1987)

PROPOSED TAX INCREASE

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

SENATE TAXATION

EXHIBIT NO. 8

DATE 2-6-87

FILE NO. H.B. 136