



Revenue and Transportation Interim Committee

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58th Montana Legislature

SENATE MEMBERS

GREGORY BARKUS
JERRY BLACK
VICKI COCCHIARELLA
JON ELLINGSON
ROBERT STORY
KEN TOOLE

HOUSE MEMBERS

JOE BALYEAT
EILEEN CARNEY
RONALD DEVLIN
CHRISTINE KAUFMANN
KARL WAITSCHIES
BILL WILSON

COMMITTEE STAFF

LEANNE KURTZ, Research Analyst
JEFF MARTIN, Research Analyst
LEE HEIMAN, Staff Attorney

MINUTES

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.**

Room 137, State Capitol
April 30, 2004

COMMITTEE MEMBERS PRESENT

Sen. Robert Story, Chair
Rep. Eileen Carney, Vice Chair
Sen. Gregory Barkus
Sen. Jerry Black
Sen. Vicki Cocchiarella
Sen. Jon Ellingson
Sen. Ken Toole
Rep. Joe Balyeat
Rep. Ronald R. Devlin
Rep. Christine Kaufmann
Rep. Karl Waitschies

COMMITTEE MEMBERS ABSENT

Rep. Bill Wilson

STAFF PRESENT

Jeff Martin, Research Analyst
Leanne Kurtz, Research Analyst
Lee Heiman, Staff Attorney
Diane McDuffie, Secretary

VISITORS

Visitors' list (Attachment #1)

COMMITTEE ACTION

None

CALL TO ORDER AND ROLL CALL

The meeting was called to order by Sen. Story at 9:00 a.m. on Friday, April 30, 2004. The secretary noted the roll (Attachment 2).

Rep. Devlin moved to approve the December 11 & 12, 2003, minutes as presented. The motion carried unanimously. Sen. Cocchiarella moved to approve the February 13, 2004, minutes as presented. The motion carried unanimously.

TAXATION OF CLASS EIGHT BUSINESS EQUIPMENT

- **Trends in the Taxation of Business Equipment and Comparisons with Other Classes of Property**

Jim Standaert, Fiscal Analyst, Legislative Fiscal Division, presented a report on the Historical Effective Statutory Tax Rates and Effective Tax Rates on Class 8 Business Equipment. (Exhibit 1) Mr. Standaert presented several tables and provided a detailed explanation for each one. The first table shows the market value, percentage change, taxable value, effective statutory tax rate, effective tax rate, average statewide mills, and actual taxes levied for class 8 business equipment from tax year 1989 through 2003. The second table shows the ratio of taxable values to true market values and the ratio of property taxes levied to true market value for all classes of property. Mr. Standaert said there was some problems with the 1999 data and it may not be reliable. The third table shows average mill levies and property taxes levied for classes 1 through 13. The fourth table shows actual dollars collected for tax year 2003, and the last page of the report contains several charts showing shares of true market value, taxable value, and taxes levied for tax year 2003.

Mr. Standaert also provided a map showing mill value per elementary ANB for fiscal year 2004. (Exhibit 2)

Sen. Cocchiarella asked Mr. Standaert what the actual rates are for class 4. He referred to the table on page 177 of the *Legislative Fiscal Report 2005 Biennium*, which shows the tax rates for fiscal years 2004 through 2009.

Rep. Balyeat asked if the class 8 market value figure is after depreciation and after subtracting out the \$5,000 exclusion. Mr. Standaert said yes.

Sen. Toole asked if another column could be added to the table to reflect real dollars. Mr. Standaert said yes.

Sen. Story asked for information regarding what industries over time have seen a reduction and/or increase in Class 8 business equipment tax. Mr. Standaert said he would provide a report for the next meeting.

- **Wage and Salary Information**

Terry Johnson, Principal Fiscal Analyst, Legislative Fiscal Division, presented four documents: 1) U.S. Bureau of Economic Analysis definitions; 2) personal property tax trigger statute; 3) wage and salary disbursements for calendar year 1969 through 2003; and 4) personal property tax trigger, LFD. (Exhibits 3, 4, 5, & 6)

The purpose of his report is to show total wages and salaries, private wages and salaries, and public wages and salaries and what the information shows in terms of the trigger mechanism.

Exhibit 5 is a table showing wage and salary disbursements compiled by the U.S. Bureau of Economic Analysis for calendar years 1969 through 2003. The amounts in red indicate those years the trigger would have been met had the statute been in affect. Exhibit 6 (Personal Property Tax Trigger) summarizes the information in the table.

Sen. Story commented that the chart indicates since 1991 the growth in wages and salaries has been stable. He asked Mr. Johnson to provide the average growth rate for 1991 through 2003. Mr. Johnson will provide a report at the next meeting. He also said that preliminary Bureau of Economic Analysis numbers for 2003 indicate the trigger, if the preliminary numbers don't change significantly, would not be met for the 2006 tax year.

Rep. Balyeat asked if it is less likely that the trigger will be met than the historical records in the 70's and 80's shows. Mr. Johnson said Rep. Balyeat is correct because transfer payments are a large component of total personal income. Another contributing factor is that Montana has a service-based economy and most of the service jobs are relatively stable. A third factor, which is somewhat of a wildcard, is the energy sector. Currently, the oil and natural gas industry is doing well.

Rep. Balyeat asked if wage and salary growth is based on average salaries. Mr. Johnson said it is based on total wages and salaries. Rep. Balyeat asked if it is possible, in a period of time when we might be relatively close to the trigger, that any single employer or group of employers, could issue salary bonus increases to the extent that it might put us over the trigger and pay them in terms of how much lower their equipment taxes would be compared to what they paid out in salaries. Mr. Johnson said that the Columbia Falls Aluminum Plant is an example of where an activity of a business that could have led to the trigger being achieved.

Sen. Barkus asked given that the Columbia Falls settlement almost doubled the growth rate of wages and salaries for the year, what effect would the bankruptcy of two major corporations have on to these numbers. Mr. Johnson said there could be an impact on corporate tax revenues, but the actual impact on wages and salaries would be hard to determine.

Sen. Story asked Mr. Johnson if he could provide the numbers for total economy of Montana compared to federal money. Mr. Johnson said he could get those numbers.

LEGAL REVIEW RELATED TO OTHER CLASSES OR PROPERTY IF BUSINESS EQUIPMENT IS EXEMPT

Lee Heiman, Staff Attorney, discussed a memo regarding how exempting business personal property from taxation would affect other personal property. (Exhibit 7) Mr. Heiman said that the Montana Constitution gives the Legislature a lot of discretion in the classification of property and requires only having a rational basis for the classification. Other than requiring the recomputation of the rate of class 12 railroad and airline property, the exemption of class 8 property will not affect the taxation of other classes of property or taxation of other personal property.

(Tape 2; Side A)

Sen. Cocchiarella asked if it would be constitutional to combine class 4 and class 8 and apply the same tax rate or would it be better to apply the same tax rate to two separate classes. Mr. Heiman said it would be constitutional both ways; the easiest way would be to apply the same rate to the different classes.

COMPARISONS WITH SELECTED STATES AND OTHER POLICY CONSIDERATIONS

Jeff Martin, Legislative Research Analyst, discussed the report on the taxation of class 8 business equipment and other policy considerations. (Exhibit 8) The purpose of the report is to compare the relative tax burden of commercial and industrial real and personal property in Montana with 12 other states (based on studies sponsored by the Minnesota Taxpayers Association); to review the relative importance of class 8 property by county; to provide an example of the revenue impact of “pulling” the class 8 exemption “trigger” on class 12 railroad and airline property; to discuss the feasibility of combining class 8 business equipment with class 4 land and improvements; and to present alternatives to the calculation of the class 8 trigger.

Table 1 of Exhibit 8 shows for each comparison state, the urban and rural city, the mill levy, the statutory tax rate, property subject to taxation, and exemptions. Of the comparison states, only North and South Dakota do not tax personal property. All of the comparison states exempt inventories, but the value of inventories is included in the calculation of the effective tax rate. Table 2 shows the effective tax rates and relative rankings for industrial real and personal property. In 1995 and 1998, Montana ranked third highest in effective tax rates. In 2000, Montana ranked below North and South Dakota, both of which exempt personal property. In 2002, the effective tax rates in Montana increased because of higher mill levies. Table 3 shows similar information for commercial property. In almost every instance, the effective tax rate for commercial property is higher than industrial property. One reason for the difference is including exempt inventories in total market value when calculating effective tax rates for industrial property.

Sen. Black asked what the criteria was for picking Billings and Choteau. Mr. Martin said that for each state the largest metropolitan area and a typical rural area was chosen. Sen. Black also asked if Choteau would be an average of all rural communities. Mr. Martin said he was not sure what criteria was used in determining which rural area to pick, but the Minnesota Taxpayers Association did consult with people within the state. Sen. Black asked if Mr. Martin would check into that. Mr. Martin said yes.

Attached to Mr. Martin’s report is a spreadsheet compiled by the Montana Department of Revenue that shows class 8 property as a percentage of total statewide taxable value. In tax year 2003, business equipment accounted for 6.8 percent of total statewide taxable value. The percentage amount ranges from a low of 2.4 percent in Sanders County to a high of 22.4 percent in Sweet Grass County. Table 4 shows the revenue impact on class 12 property in tax year 2003 at various tax rates for class 8 property. If the class 8 trigger is met, the taxable percentage applied to railroad and airline property would decline until class 8 property was exempt and then increase. If the tax rate on class 8 property reaches zero, the tax rate on railroad and airline property would increase because class 9 centrally assessed property and class 13 property would become relatively more important in determining the class 12 tax rate.

- **Combining Class Eight with Class Four**

Mr. Martin said that prior to 1977, residential, commercial, and industrial land and improvements and certain personal property in Montana were included in the same class. In 1977, the Montana Legislature significantly revised the property tax structure. The revised structure included the creation of a separate class for land and improvements and several different classes of personal property. In 2003, the Montana Legislature provided different phased-in exemption amounts for residential property and for commercial and industrial property as well as phased-in reductions in the taxable percentages over a 6-year period. The effect of the exemption amounts is to reduce the “effective” taxable percentage applied to the assessed market value of property in class 4. If class 8 personal property were to be combined with class

4 property, similar provisions for personal property may have to be adopted to ensure that commercial and industrial real property and business equipment are subject to the same “effective” taxable percentage.

- **Options for the Trigger**

Mr. Martin briefly discussed the following options for the trigger:

- ▼ Leave the trigger in place;
- ▼ Increase in general fund revenue;
- ▼ Increase in gross state product; or
- ▼ Eliminate trigger.

- **Public Comment**

Stan Kaleczyc, Attorney, representing Burlington Northern Santa Fe railroad discussed how class 8 going to zero relates to class 12. Mr. Kaleczyc said that the 4-R Act specifically provides that BNSF be taxed on the average of all other commercial and industrial properties. As a matter of federal law, if the tax rates on class 8 property goes to zero, personal property of railroads and airlines will also have to be exempt in order to comply with the 4-R Act.

Tape 2; Side B)

SJR 29 STUDY ON THE TAXATION AND VALUATION OF ELECTRICAL GENERATION PROPERTY

Jeff Martin, Legislative Research Analyst, discussed the report “Selected Financial and Operating Information for Avista Corp. and PPL Montana”. (Exhibit 9) The purpose of the report is to present some financial and operating information for Avista Corp. and PPL Montana as requested at the last meeting.

Table 1 of Mr. Martin’s report shows income and expense figures, sales of electricity by customer class, wholesale sales, and sources of energy for Avista Corp. Operating revenue and expenses increased significantly from 1998 to 2000 and then began to decline. From 1998 to 2002, wholesale sales accounted for over 50 percent of operating revenue. In 2000, wholesale sales were \$864 million, but according to Avista figures, the utility paid over \$1 billion for purchased energy. In that year, Avista suffered a net operating loss of around \$4 million. Revenue per megawatt hour for residential and commercial customers was relatively constant from 1998 to 2001. In 2002, electric energy surcharges and an increase in electricity rates in Washington led to an increase in revenue per megawatt hour for both residential and commercial customers.

Table 2 shows statements of income, megawatt hours produced, and megawatt hours sold by PPL Montana for 2000 through 2003. PPL Montana is now under contract with North Western Energy to supply 300 megawatts of baseload electricity and 150 megawatts of unit-contingent, on-peak electricity for 5 years. Operating income in 2002 and 2003 was below the amounts recorded in 2000 and 2001. The overall cost of the purchased power was \$86.65 a megawatt hour in 2000, \$74.34 in 2001, and \$25.66 in 2003. Mr. Martin pointed out that this is a superficial look at the profitability of these entities in the regulated and wholesale markets. If the Committee wishes to pursue this issue it would require a more in depth financial analysis.

Sen. Toole asked if you compare revenue per megawatt to net income as a percentage of revenue, would that show the market they are selling into and what the product costs. Mr. Martin said with the numbers provided he is not sure and that a more extensive financial analysis may be needed.

Sen. Toole commented that if you use the revenue per megawatt hour numbers and compare that to PPL Montana, it appears that the regulated market that Avista is in is yielding more revenue per megawatt. Mr. Martin responded that all the associated costs of production are figured into the net income. Sen. Toole asked if the cost of production is figured into the revenue per megawatt. Mr. Martin said that the revenue per megawatt is the delivered price of electricity.

Sen. Story asked how “apples to apples” are these comparisons. Mr. Martin said he is not sure you can get a precise “apples to apples” comparison depending on the market circumstances, contract obligations, changes in energy prices, and other factors. Sen. Story asked if you look at total revenues are those the same numbers or are there some deductions built in. Mr. Martin said in terms of calculating net income it would be the same.

Rep. Devlin commented that it would be difficult to draw a direct comparison with the charts provided. The revenue per megawatt hour does not necessarily indicate the total. There can be different costs for those revenues depending on size of the generation and facility, and the net income as a percent of revenue is more of an indication of the company.

- **Public Comment**

Neil Colwell, Manager, Avista Corp., presented a letter with several attachments (Exhibit 10) explaining the differences between the two companies. Attachment 2 shows that Avista Utilities' generation capacity alone has been insufficient on an annualized basis to meet the needs of its utility customers who pay prices regulated by state utility commissions.

Attachment 3 shows that Avista Utilities' wholesale purchases exceed its wholesale sales. When this information is combined with that in Attachment 2, it becomes clear that Avista is a net importer of power just to meet the needs of its regulated utility customers.

Attachment 4 is a comparison of the ownership and purposes of electrical generation owned by Avista Utilities and PPL Montana. Avista's investments in generation plant and equipment are regulated by state utility commissions in the states in which they operate. In contrast, none of PPL Montana's generation plant is regulated or dedicated to any price-regulated customers.

Attachment 5 contrasts the rationale for different valuations for property tax purposes between the two companies. Attachment 6 describes the different uses of revenue from wholesale sales by the two companies. Avista Utilities earnings from wholesale sales are merged with all of the earnings of the utility, and those earnings are capped by the state utility commissions that regulate their operations.

(Tape 3; Side A)

COST AND RETURN COMPARISONS FOR COLLECTING DELINQUENT TAXES BY DEPARTMENT OF REVENUE AND GC SERVICES

Russ Hyatt, Department of Revenue, submitted a handout entitled “Debt Collection In-house v. Outsourcing Cost Comparison” (Exhibit 11), and reviewed the information.

Sen. Cocchiarella asked if there are businesses in Montana that can do this work. Mr. Hyatt said yes. Of the 17 vendors that applied, there was only one company from Montana that submitted a bid. Sen. Cocchiarella asked when the contract is up for bid again. Mr. Hyatt said the current contract expires September 30 of this year. The contract specifies that it may be renewed annually up to seven years.

Sen. Barkus asked what the criteria were for assigning the \$29 million to GC Services. Mr. Hyatt said the total debt was ranked and categorized by dollar amounts and by ages. DOR kept collections for any debt less than 3 years old and \$200 and greater. Accounts with balances under \$200, out-of-state accounts, and accounts older than 3 years were turned over to GC Services. Sen. Barkus asked if the department reduced employees. Mr. Hyatt said they have not reduced staff as a result of assigning accounts to GC Services. The department has eight individuals collecting individual income taxes and a small number of other collectors working on other tax types. Sen. Barkus asked if there is a provision in state government to create an incentive system for in-house employees to collect the accounts. Mr. Hyatt said there is not.

IRIS CONVERSION UPDATE

Don Hoffman, Director, DOR, provided an update on the IRIS Withholding Account Balance Conversion Plan (Exhibit 12). Mr. Hoffman reported that the lodging facility use tax and the cigarette tax are now operating on the GenTax system. The withholding tax is scheduled to be on the system by early July.

Mr. Hoffman also reported that with the July date approaching, the department is focusing efforts on reconciling withholding accounts. Since April 2003, the department has reconciled 7,966 withholding accounts. There are 25,697 out-of-balance withholding accounts remaining. The department has developed a conversion plan to deal with the remaining out-of-balance accounts.

OPTIONS FOR OBTAINING ECONOMIC FORECASTING INFORMATION FOR DEVELOPING REVENUE

Judy Paynter, Tax Policy and Revenue Manager, OBPP, provided a report to the Committee on the contract for economic forecasting data (Exhibit 13).

Dan Dodds, Tax Policy and Revenue Supervisor, OBPP, explained that under the current contract, Global Insight provides monthly updates of its U.S. macroeconomic forecast and makes an annual presentation to the Committee. The current contract with Global Insight expires at the end of June and the primary users of this service have been considering whether to renew the contract, to change the contract terms, or to change vendors.

(Tape 4; Side A)

Mr. Dodds asked the committee members about: 1) using the funds available for forecasting services to obtain state specific data that is not currently obtained; and 2) having the university professors/economists discuss the national economic conditions and trends with the Committee rather than a professional staff member from the forecasting service.

Dr. Paul Polzin, Director of Bureau of Business and Economic Research, University of Montana, commented that he has been working closely with OBPP, LSD and LFD to explore what options are available to obtain the economic forecasting data needed by all the users. The Bureau of Business and Economic Research now has a state and local forecasting system.

Dr. Myles Watts, Professor, Department of Agricultural Economics and Economics, Montana State University, said that he does not see much of a difference between Global Insight and Economy.com in terms of the quality of forecasts. Dr. Watts recommended getting the state forecasts and he and Dr. Polson could interpret and present the information.

Sen. Ellingson commented that the presentation from the forecasting service seemed short on specific information for Montana and the money would be better spent for statewide data.

Rep. Waitschies agreed and asked Mr. Dodds what additional data would be available at the state level. Mr. Dodds said they are looking for the same sort of information they are getting at the national level. On page 5 of Exhibit 13 there is a list of general categories from Economy.com and Appendix A of Exhibit 13 is a list from Global Insight showing the variables and their state level forecast. Both companies said they could provide state level population information which we do not get at the national level.

Sen. Cocchiarella asked if we do not have the speaker and we support increased state information are we expecting the university people to provide the additional information at no cost.

Sen. Story asked if we pay for the information we get. Dr. Polzin said they do not receive payments from the Legislature to the Bureau of Business and Economic Research.

Sen. Story asked if Mr. Johnson and Mr. Dodds would be working with the reports or with the analysis of the reports that are done by Dr. Polzin and Dr. Watts. Mr. Johnson said they would be working with the reports and they will also have access to their databases which is the raw data for both the national and state economies.

Dr. Polzin provided an example of his report shown on page 4 of "Street Smart Economics" (Exhibit 14) which was presented to the outlook seminar and this would be similar to what Dr. Watts and Dr. Polzin would provide to the Committee.

MOTION: Sen. Cocchiarella moved that the Committee endorse ending the formal presentations and adopting state-level forecasts for revenue estimating. **VOTE:** Motion carried unanimously.

PROCEDURE FOR REVIEWING AGENCY-PROPOSED LEGISLATION

Leanne Kurtz, Research Analyst, LSD, discussed a handout on Interim Committee Review of Agency Legislation. (Exhibit 15) The purpose of the report is to discuss the procedure for reviewing agency-proposed legislation at the July 9 meeting. Section 5-5-215, MCA, states that each interim committee shall "review proposed legislation of assigned agencies or entities as provided in the joint legislative rules." By acting as the requestor for agency-proposed legislation, neither the individual legislators on a committee nor the committee itself commits to supporting or endorsing the legislation. The procedure is intended to alert legislators to what agencies will be bringing to the session and allow for input. The Legislative Council recently reviewed and endorsed this procedure and recommended as appropriate a level of review between "rubber stamping" and a public hearing.

REGISTRATION OF PASSENGER VEHICLES BY OUT-OF-STATE RESIDENTS WHO WORK IN MONTANA

Leanne Kurtz provided a handout regarding registration of out-of-state vehicles. (Exhibit 16) Legislative Services Division received a letter from an individual who is a resident of Wyoming but works in Montana. Section 61-3-701, MCA, requires a person who is a resident of another state but who works in Montana to register the vehicle used in employment in Montana and pay associated fees. The person registers her vehicle in Montana but in the winter months occasionally uses a 4-wheel-drive vehicle registered in Wyoming. She has been stopped by

law enforcement and told she may not operate a vehicle that is not registered in Montana. She proposed possible solutions to her dilemma, one of which would be to require the person to carry valid proof that the person has registered a vehicle in Montana.

The Motor Vehicle Division has been researching the possibility of removing this requirement from state law. The proposal to remove the requirement may be in the Department of Justice's proposed legislation submitted to OBPP and, if approved, reviewed by the Law and Justice Interim Committee at its July 15 meeting.

Sen. Cocchiarella commented that this is a huge problem that is not going to go away. It's not a problem of compliance but a total lack of enforcement. Ms. Kurtz said she would follow the DOJ proposal.

HIGHWAY REAUTHORIZATION UPDATE

Jim Currie, Deputy Director, Department of Transportation, provided an update on reauthorization of federal highway legislation. He reported that the U.S. House of Representatives passed a reauthorization bill a few weeks ago for \$275 billion which may or may not be good for Montana depending on how it's structured. Another temporary extension has been passed but is not signed yet by the president. The extension would end June 30, 2004.

HIGHWAY SAFETY

Dave Galt, Director, MDT, presented an update on the status of the highway safety program. He distributed a graph showing fatalities on Montana roads for January, February and March of 2000 through 2004 (Exhibit 17) and also copies of an updated list of traffic fatalities for January, February and March, 2004. (Exhibit 18) The list includes the names and ages of the fatalities, total number of fatalities, the number of motorcycle and pedestrian fatalities, the number of fatalities in which a seatbelt was used and not used, and the number of alcohol-related fatalities.

Director Galt said he is creating a safety committee comprised of representatives from the Department of Justice, Highway Patrol, Office of Public Instruction, Federal Highways Administration, Federal Motor Carrier Administration, Department of Transportation and local law enforcement. MDT is also developing a comprehensive highway safety plan and MDT is in the process of hiring a consultant. MDT is working on the highway safety website so information will be available to the public.

(Tape 4; Side B)

Director Galt also reported that a groundbreaking transportation research project will soon be underway in Lewistown. Key partners in the effort include the Federal Highway Administration, the Western Transportation Institute, MSU-Bozeman, MDT, Fergus County, and the Port Authority of Lewistown. This project will provide for high-end research and testing on transportation problems that affect rural and cold regions like Montana. Project findings could be of interest to the northern tier of American states as well as countries such as Canada, Switzerland, Sweden, Finland and Japan. The test-bed will be beneficial in that it will evaluate different types of animal detection systems from different vendors under similar circumstances at a controlled site.

Director Galt said that the Federal Highway Administration put the department on notice regarding enforcement of federal and state laws on outdoor advertising and signs. If the

department does not enforce the laws Montana will have a sanction on highway funds. The department has been vigorously enforcing the sign rule which has caused a lot of consternation in rural Montana. MDT has been looking at making some revisions to the department rules. The Transportation Commission has given approval to proceed. There will be a hearing on revising those rules.

Sen. Story said that if people in rural Montana can't have signs advertising what they have, people won't stop.

Sen. Black asked Mr. Galt if he would comment on the problem with the rail system. As a result of being a "captive state" of BNSF, it is nearly impossible to get good shipping rates out of Montana. Mr. Galt said that he doesn't have any answers. In the last session MDT asked for \$250,000 to hire a rail expert.

Sen. Black said that Taft-Hartley Act addresses captive states and suggested competitive rail could come into the state and BNSF has to allow access to their rails. Director Galt said that Sen. Burns is moving a bill to allow open access to all rail lines.

Sen. Toole mentioned Marc Racicot is on the board of BNSF and asked if anyone has talked to him. Director Galt said he is planning to contact him.

Sen. Story asked for some estimation of what it cost to ship a carload of coal from Colstrip to the coast and see what the relation is between shipping a carload of wheat. Director Galt said he would look into it.

Sen. Black suggested Director Galt provide an update on the railroad situation at each meeting.

PROGRESS REPORTS FROM TAX STUDY COMMITTEES

- Tax Reform Study Committee - Rep. Carney

Rep. Carney reported on the last meeting of the Tax Reform Study Committee. She said the committee has looked at all the different taxes in Montana and each member graded them fair, simple, reliable, effective economic behavior and whether they can be exported. The main purpose of the committee is to put together a sales tax. Rep. Jim Peterson and Myles Watts have put together a proposal. The proposal is a four percent sales tax exempting groceries, health care, utilities, drugs and fuel, eliminate the 101 mills, exempt 50 percent of capital gains, raise the exemption from \$4,000 to \$5,740, and all taxable income would be taxed at a flat rate of 5.75 percent. Everybody will pay the property tax but it will be turned back to Montana citizens that file Montana individual income tax returns. Under this proposal, the DOR said we would send about \$30 million more to the federal government. At the next meeting they will discuss the effect of this proposal on people from different income categories.

- Property Reappraisal Study Committee - Rep. Devlin

Rep. Devlin reported that the Committee has reviewed the property tax system, what the Legislature has done over the past reappraisal cycles and what is happening in other states. States with a sales tax are not as dependent on the property tax revenue as we are. The Committee is looking at something similar to what Michigan is doing and that is proposing capping the rate of increase. The Committee is scheduled to meet again May 7.

PUBLIC COMMENT

Sen. Mike Cooney representing Healthy Mothers Healthy Babies, briefly commented on the statistics of the fatalities presented by Director Galt. Sen. Cooney asked the Committee to

consider actions that the next Legislature may want to consider to help drive down these numbers.

OTHER BUSINESS

Rep. Balyeat said that he is on the Property Tax Exemption Committee and would provide a brief report at the next meeting.

Rep. Carney suggested the committee studying school funding provide a report at the next meeting.

ADJOURN

The next meeting is July 9. There being no further business, the meeting adjourned at 3:30 p.m.

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