

**MINUTES OF THE  
UTAH TAX REVIEW COMMISSION**

Friday, July 15, 2005 – 1:00 p.m. – Room W125 House Building

**Members Present:**

Mr. M. Keith Prescott, Chair  
Mr. David Crapo, Vice Chair  
Sen. Brent Goodfellow  
Rep. Wayne Harper  
Rep. Rosalind J. McGee  
Mr. Larry Barusch  
Mr. Mark K. Buchi  
Mr. Gary Cornia  
Ms. Janis A. Dubno  
Comm. Bruce Johnson  
Mr. Dixie Leavitt

**Members Absent:**

Sen. Lyle W. Hillyard  
Ms. Kathleen Howell  
Mr. Bruce Jones

**Staff Present:**

Mr. Phillip V. Dean, Policy Analyst  
Mr. Bryant Howe, Assistant Director  
Ms. Angela D. Oakes, Associate General Counsel  
Ms. Rebecca L. Rockwell, Associate General Counsel  
Ms. Phalin L. Flowers, Legislative Secretary

**Note:** A list of others present, copy of related materials, and an audio recording of the meeting can be found at [www.le.utah.gov](http://www.le.utah.gov).

**1. TRC Business**

Chair Prescott called the meeting to order at 1:09 p.m.

**MOTION:** Sen. Goodfellow moved to approve the minutes of the May 20, 2005 and June 3, 2005 meetings. The motion passed unanimously with Rep. Harper absent for the vote.

Mr. Howe gave a brief update on the Tax Reform Task Force and its working groups. He explained that the RDA/Other Taxes Working Group is studying RDAs and has received testimony from several cities and counties. He also said that the Legislative Auditor General is conducting an audit of a sample of RDA projects. Mr. Howe also said this working group is studying: the distribution of the 1% local option sales and use tax; and the insurance premium tax.

Mr. Howe gave an update on the Property Tax Working Group. He explained that this Working Group is studying the property tax on personal property, including a constitutional amendment proposed by Rep. Dougall regarding property taxes on personal property. Mr. Howe said that the Property Tax Working Group has asked the CRC (Utah Constitutional Revision Commission) to review this issue. He said that this Working Group has also held hearings on the centrally assessed property tax system and truth in taxation system.

Mr. Dean gave an update on the Income Tax Working Group. He said this Working Group is proposing to adopt a flat income tax with no deductions, and is studying the state gross receipts taxes that are imposed on certain corporations. He noted that the Working Group has sent a proposal to the CRC to eliminate constitutional earmarking of taxes on income for education. Mr. Dean said that this Working Group is also studying corporate franchise and income taxes and the minimum filing threshold, but that no action has been taken to date.

Mr. Dean gave an update on the Sales and Use Tax Working Group. He explained that this Working Group is discussing applying sales and use taxes to services, removing sales and use taxes on food, and

creating an income tax credit for amounts spent on food. He said that this Working Group is also studying the sales and use tax base, rates, and exemptions.

Chair Prescott noted that the Trust and Estate Working Group will meet on Wednesday, July 20, 2005 at 11:30 a.m. All TRC members are invited to attend.

Commissioner Johnson reported that the Conforming States Committee of the Streamlined Sales Tax Project recently met and certified 18 states as members of the Governing Board. The organization expects to be in operation beginning on October 1, 2005. He said that the New Jersey General Assembly recently enacted conforming legislation. With this state, there are now 18 states with 30 percent of the nation's population having adopted fully conforming legislation. He said that Utah is an associate member because its conforming legislation is not scheduled to be effective until July 1, 2006.

## **2. Oil and Gas Severance Tax**

Mr. Howe distributed and discussed "Oil and Gas Severance Tax - Study Issues and Information Items," "Oil and Gas Severance Tax Revenue," "Comparison of Median Drilling Costs Per Well and Volume Per Well," "2000 Oil and Gas Production on American Indian Lands."

Mr. Morris Jackson, Director, Tax Planning and Compliance, Questar, distributed and discussed "Questar Market Resources - Exploration & Production Overview." He explained that commodity prices for natural gas and oil are generally lower and production costs are generally higher in Utah when compared to other producing states. He encouraged the TRC to not make a recommendation on severance tax policy based strictly on Utah's current severance tax rates compared to other states or based on Professor Shelby Gerking's report.

Mr. Jay Neese, Executive Vice President, Exploration and Production, Questar, presented "Questar Market Resources." He explained that Questar is involved with market resources, transmission, and distribution of natural gas and is taking advantage of its extraction capabilities in Utah, Colorado, and Wyoming. For the prior 12 months ending March 2005, Mr. Neese said that Questar Corporation experienced a 13.1 percent return on assets. Because Questar is a commodity business, it is critical that it carefully manage all costs. Mr. Neese concluded by presenting an analysis that shows the effects of doubling the state severance tax on natural gas. He said that while revenues would be higher for 13 months, increasing the tax would discourage the significant capital reinvestment necessary to replace production decline.

Mr. Buchi noted that firms that deal in commodities must closely watch commodity prices and their own production costs.

Staff distributed 2005 General Session S.B. 63 "Severance Tax Amendments." This legislation, which did not pass, provided that some of the proceeds from the state severance tax on oil and gas be allocated to counties where oil and gas is produced.

Mr. Larry Ross, Duchesne County Commissioner, Mr. Michael McKee, Uintah County Commissioner, and Sen. Beverly Evans spoke to the TRC. They explained that the large trucks used to transport oil and gas can damage most road services, especially unpaved roads. They explained that their counties do not

receive funding from the state imposed severance taxes on oil and gas and believe that this should be studied.

Mr. Leavitt spoke in favor of counties receiving a portion of oil and gas tax severance revenue. Mr. Barusch asked about property tax revenues from oil and gas producing property and whether counties are experiencing an increase in these revenues due to increased prices and production.

Sen. Howard Stephenson noted that San Juan County is a major oil and gas producing county. He said that this county holds some funds in reserve to compensate for fluctuations in revenue.

Mr. Crapo asked the witnesses whether they would support oil and gas severance tax revenue only being used by counties for infrastructure and capital improvements. Mr. Ross and Mr. McKee said that they would support such a proposal.

Chair Prescott and Comm. Johnson told the TRC that former Governor Walker has recommended that proceeds from the state oil and gas severance tax be placed into a trust fund and that only interest from the fund be expended. They explained that because oil and gas deposits within the state are declining assets, it is good tax policy to place these revenues into a capital fund.

Mr. Barusch asked for an analysis of the sources of revenue for oil and gas producing counties for the last ten years, including debts and loans/grants from the Community Impact Board.

### **3. Review of Sales and Use Tax Exemptions**

This item was not discussed.

### **4. Other Items / Adjourn**

Mr. Prescott discussed a letter sent to the TRC by Sen. Michael Waddoups concerning the tax exempt status of hospitals owned by Intermountain Health Care. He explained that the letter requests the TRC to answer certain questions including a question regarding how county and state property tax officials administer the property tax exemption granted to these hospitals.

**MOTION:** Mr. Cornia moved to adjourn the meeting. The motion passed unanimously with Sen. Goodfellow and Rep. Harper absent for the vote.

Chair Prescott adjourned the meeting at 4:40 p.m.