MINUTES

MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION

FREE CONFERENCE COMMITTEE ON SB 200

Call to Order: By **CHAIRMAN MIKE TAYLOR**, on April 9, 1999 at 2:15 P.M., in Room 325 Capitol.

ROLL CALL

Members Present:
Sen. Mike Taylor, Chairman (R)
Rep. Doug Mood, Chairman (R)
Sen. Bob DePratu
Sen. Mike Halligan (D)
Rep. Gary Beck (D)
Rep. Robert R. Story Jr. (R)
NOTE: Sen. Barry "Spook" Stang (D) sat in for Sen. Halligan until he was available

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Greg Petesch, Legislative Branch

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Bills Discussed: SB 200

HEARING ON SB 200

SEN. TAYLOR told the committee that **SB 200** had been brought back for reconsideration to make it even better for Montana and Montana's families, and to take Montana out of 51st place, to thank agriculture and businesses that are in Montana, and to tell them that we want them to stay in Montana and we want them to grow. That was the vision of the Governor and the committee when this bill was created, and the object of this bill was to create jobs and income for Montana. The Governor was always concerned that there was enough money, that it could be done and done right, and still adequately fund the programs that were necessary for homeowner relief.

SEN. TAYLOR told the committee that a basic agreement has been reached on **SB 200**, and in this particular form, the basic concept is to go from 6% to 3% next year, which is an effective tax rate of 1.2% and is comparable to the state of Idaho, a little bit higher than Wyoming and North Dakota and South Dakota, but it is competitive. He said the trigger stays in place at the year 2003 at 2.85%, based on federal wages yearly. This is a true trigger, and it will be met because the wages of Montana families will grow. Once they grow above a level, and it is not an easy level, it will trigger at 2003 and then go to zero.

SEN. TAYLOR said the $5,000 exemption has been left in the bill, and it will exempt 46,000 Montana businesses from the tax rolls. If a business has more than $5,000, they will not be able to double dip. They will only get the reduction to 3%. In other words, if a business has $10,000, they cannot subtract the $5,000 and then take 3% on the remaining $5,000. In addition, the agriculture tax is reduced by 1% yearly until 2003, when it will be gone.

SEN. TAYLOR told the committee that the cost of **SB 200** is $59,277,525 for the biennium, which is the same cost approximately as we started with. The bonding has been taken care of so that counties do not lose their ratings, and in tax incremental situations where a deduction to property taxes was absorbed by the counties, those counties do not get to double dip.

REP. MOOD explained that the bill as presented today is in the form that it was prior to the last free conference committee hearing. In other words, the amendments adopted by that committee are now off this bill, and it is in the form it came out of the House of Representatives, went to the Senate for approval and originally went to the Governor, so this committee is starting over from that point.

Greg Petesch, Legislative Services Division, said that the amendments are extensive, but they are not substantively different than the prior set of amendments that were considered, and most of them are the same. The changes are in the bonding area because, as **SEN. TAYLOR** pointed out, we do not know in which year the trigger will be pulled; and we no longer have the graduated phase-down to 3%, it goes right to 3%. The bonding section has been adjusted so that the bonding capacity is increased for the years in which the 2% rate may be in effect, since we don't know which year that will be, are increased for the year in which the 1% rate will be in effect, and then there is a full ability to calculate the amount of class eight that would have been taxable when class eight is totally exempt. He said those are the adjustments to the debt limits that are made in this bill, and they are made uniformly in all the debt limit sections in the bill.

Mr. Petesch went on to say that the substantive changes from what were considered before are on pages 12 and 13 of the amendments, and that is where class eight property is amended to 3% of market value for the tax year beginning January 1, 2000. Then the trigger for reductions will be pulled at the point in time that inflation-adjusted Montana wage and salary income for the last full year for which data is available, which is the same trigger we had before, is at least 2.85% of an increase from the prior year, at which point the phase-down of 1% a year in the tax rate for class eight goes into effect.

Mr. Petesch said that at the top of page 13 of the amendments, subsections (b) and (c) are new. He said the formula that **Mr. Standaert** drew on the blackboard in the prior meeting have been plugged into the actual databases that will be used to make the calculation of the 2.85%. So that formula is now in statute and the sources from which the calculation will be made are identified.

Then, **Mr. Petesch** said, there is a total exemption for class eight property for an entity that owns an aggregate of $5,000 or less of market value class eight property. He said the use of market value is being retained for class eight property in this amendment. In the prior set there was the phase-in exemption of $5,000 and then $7,500, and that was used as assessed value. This is no longer being used because it will not be phased in, and we are providing the total exemption only for those whose aggregate property in class eight in all taxing jurisdictions within the state amounts to $5,000 or less. **Mr. Petesch** referred the committee to page 13, amendment No. 99, which is the class eight reporting requirement. All new businesses are required to report their class eight property even though it may be exempt so that the Department of Revenue can determine the market value of the property for purposes of the reimbursements and the bond debt limit adjustments.

REP. MOOD asked what happens if a business is between $5,001 and $9,999, and **Mr. Petesch** explained that a business only gets the exemption if their aggregate of class eight property is $5,000 or less. If a business has $6,000, they pay on that total amount at 3%.

REP. STORY asked about the section that deals with exempt categories, 15-6-201, on page 22 of the bill. **Mr. Petesch** said those exemptions are left intact. **REP. STORY** said he wondered if there needed to be a reference in that section to the $5,000 exemption. **Mr. Petesch** said they did not think it was necessary since that class eight is still taxed, but that limited entity exemption in 15-6-138 should be sufficient. **REP. STORY** asked about the reimbursement and double dipping in that, and **Mr. Petesch** said the reimbursement amendment is amendment No. 135, page 41, lines 11 and 12 of the bill, where some language on reimbursement is inserted. This is not significantly different from the reimbursement amendment that was in the prior free conference committee report. In that, countywide equalization of retirement and transportation were included, but tax increment financing districts were excluded. The reason was that the county has voted to give that reduced rate and for the state to backfill would be allowing them to both give the rate reduction that they choose to give and to be backfilled. Tax increment financing districts have been excluded, along with the state equalization levies and the six mill levy from the reimbursement calculation, as well as the levy for the assumed counties.

REP. BECK wondered if these amendments and the way this bill is now written is acceptable to the Governor, and **SEN. TAYLOR** said in his best judgment, he believes that the Governor will in good faith sign the bill, but there is nothing set in stone.

REP. BECK said that these amendments have speeded up the process quite a bit, and the black hole is here sooner. He wondered, considering all the tax breaks given in this session to various categories of taxpayers, where the extra money for backfill would come from specifically. **SEN. TAYLOR** said projections for revenue, as he understood it, are between $19 million and $20 million. He said the figures out of the Finance and Claims Committee indicate that some bills will be killed and that frees up funding for this. He agreed that this reduction takes place immediately, but that the benefits of wage growth will be realized sooner.

SEN. DEPRATU said he is pleased with the possibility that this can go to 3%. He said he believes that this will stimulate economic activity. He said he was concerned previously that it was going down too slow and Montana would miss opportunities. This sends a strong message to prospective businesses in Montana, and he believes that we will see the economic stimulation from this much sooner than we had anticipated.

SEN. STANG said the revenue projections would be up $19 million to $20 million, and he wondered if **HJR 2** would be amended to show that. **SEN. TAYLOR** said he could not address that. He said that when this was being worked out, they had been told that there was $15 million to $20 million more because of increased tax collections. He said also that not all bills before the legislature will pass, and that would free up additional funding.

SEN. STANG asked if **SB 184** was one of the bills **SEN. TAYLOR** referred to, and **SEN. TAYLOR** said that the Governor had said in his press conference today this **SB 184**, which is the property tax relief bill, had a few problems that need to be addressed, but that it will be sent to the House. **SEN. TAYLOR** said it is probably in the House now.

REP. MOOD said that the Governor had endorsed this concept of 3%. He had commented that it makes sense to make that kind of investment in tax relief right away to reinforce the economy.

REP. BECK asked about the anticipated monies from the tobacco settlement and the MPC sale, and wondered if in the equation of this total package some of this is being considered for the tax relief that creates this hole of $106 million. **SEN. TAYLOR** said that **SB 200** has no more fiscal impact than it had the last time it was in free conference committee. The Governor has said that the tobacco money is not in play at this point, but the new revenues which would be gained could be used and would be part of the mix.

REP. STORY asked about amendment No. 132, page 17. He wondered how the reimbursement formula works when the value of class eight property is calculated. **Mr. Petesch** said the reimbursement formula works in that by reporting all class eight property, we will have it valued at market. The base year is built into the formula, then the amount will be calculated as provided for in the class eight section for the current year, and the differences would be made up for those jurisdictions, absent the calculations mentioned earlier that are being excluded. **REP. STORY** asked, then, if this was like **SB 417**, and **Mr. Petesch** said it was very similar.

NOTE: SEN. HALLIGAN joined the meeting.

SEN. HALLIGAN said that if the revenue used to potentially plug the $60 million is going to be from income tax collections, he would like dto ask **Terry Johnson** a question. **SEN. HALLIGAN** said that **Mr. Johnson** had testified that there were in fact increased income tax collections, but he thought that **Mr. Johnson** had also cautioned that other areas were not reporting as high, such as corporate income tax. He asked what other areas were not reporting as high. **Terry Johnson, Legislative Services Division,** said that as of the end of March, income tax revenues specifically, compared to last year at this point in time, are up $18 million to $19 million, but there are other areas of income tax which have gone down about $7 million. **Mr. Johnson** said it would be advisable to look at all the individual categories and not focus in on the $20 million increase.

A long discussion ensued regarding funding of the lost revenues created by **SB 200** and other tax relief bills. **SEN. HALLIGAN** expressed serious concern about this issue, and **SEN. TAYLOR** said the fact that corporate income taxes are going down only strengthens the resolve that Montana needs this bill. **SEN. DEPRATU** said he recognizes and respects the differences in philosophies and approaches to things, but he believes that both parties are interested in doing what is best for Montana and its citizens. He said as these bills have developed and evolved, a tremendous effort has been put into them, and the information on which they are based has been better and more current than it ever has been.

SEN. HALLIGAN said his concern is that if **SB 200** could not be afforded in 2003, how it can be afforded in 2001. **SEN. TAYLOR** said the numbers did not change on **SB 200** from what it was before, and the trigger still does not go into effect until 2003. The negotiations were premised on the ability to fund the things discussed and still have an ending fund balance. **SEN. HALLIGAN** said he was not prepared to vote yes on this bill without further information.

REP. MOOD said he believes that **SB 200** is the best vehicle the legislature has to get Montana back on track. **SEN. TAYLOR** said where this has been done in other states, it has worked. He said he believes this is the only bill which will grow revenues.

Motion/Vote: SEN. DEPRATU MOVED THE AMENDMENTS PREPARED BY GREG PETESCH, DATED APRIL 9, 1999, 1:14 P.M. MOTION CARRIED 4-2, WITH SEN. HALLIGAN AND REP. BECK VOTING NO.

ADJOURNMENT

Adjournment: 3:10 P.M.

____
SEN. MIKE TAYLOR, Chairman

____
SANDY BARNES, Secretary

GD/SB

EXHIBIT(tas77cad)