MINUTES

MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION

FREE CONFERENCE COMMITTEE ON SB 184

Call to Order: By **CHAIRMAN LORENTS GROSFIELD,** on April 16, 1999 at 2:30 P.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:
Sen. Lorents Grosfield, Chairman (R)
Rep. Robert Story Jr., Co-Chairman (R)
Sen. Dorothy Eck (D)
Sen. John Harp (R)
Rep. Dan Harrington (D)
Rep. Chase Hibbard (R)

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

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

Committee Business Summary:
Bills Discussed: SB 184

HEARING ON SB 184

SEN. GROSFIELD called the meeting to order. He called on the Department of Revenue first to present to the committee their presentation.

Presentation by the Department of Revenue:

Larry Finch, Department of Revenue, walked the committee through a four-page document entitled "How the Local Government Reimbursement in SB 184 Works," **EXHIBIT(tas83sb0184a01)**, created by the Department of Revenue.

Questions from the Committee:

SEN. HARP asked what the mechanism was in **SB 260** to reimburse cities and towns and county governments for the loss created by that bill. **Mr. Finch** said **SB 260** contained no specific mechanism for reimbursement for those entities. They simply receive a reallocated portion of the remaining vehicle taxes, which would have bumped up proportionately the amount they would receive because the distribution of taxes no longer takes into account those mill levies. **SEN. HARP** said, then, that what is currently in this bill in that specific area is different than the policy that was passed by the legislature and signed by the Governor, and **Mr. Finch** said that was correct.

SEN. HIBBARD asked for clarification on the pending sale of Montana Power Company assets. **Mr. Finch** said this language and this reimbursement has nothing to do with the $30 million from that sale. This is saying that in calculating the reimbursements for those taxing jurisdictions in which there is electric generation assets, the Department would take into consideration not only the drop in the rate from 12% to 6%, but also the fact that there are estimates showing that the current market valuation of those assets, which is at about $1.4 billion, after the sale would increase to about $1.9 billion. Those reimbursements would in fact, then, be based on the $1.9 billion.

SEN. ECK said that the major piece of reimbursement that won't be seen is from residential, and it will be tough on counties that are mostly residential. However, we also heard in a number of tax bills that came through the session this year, that reimbursement was being taken care of. She asked if we are assuming that reimbursement for all those minor bills is going to be dropped. **Mr. Finch** said he had not heard anything about those other bills. All this exhibit speaks to is the bills that are contained in **SB 184**.

SEN. HARP said it was the House Taxation Committee that started to identify which bills in this legislature would be reimbursed, and as the bill left the Senate and was amended yesterday on the floor, the Senate started to identify which bills in this particular bill would be reimbursed. He said the Senate has not had an opportunity to identify exactly which bills are being identified and for what reasons, and that is the purpose of this conference committee.

REP. HARRINGTON said reimbursement for **SB 184** is not spelled out. **Mr. Finch** said he understood that **SB 184**, which is the bill that provides the reimbursement mechanisms for several other bills, does not contain the reimbursement for the impacts of

SB 184, itself, on residential property. **SEN. HARP** said that is exactly why the Senate rejected it. The vehicle that moved from the House to the Senate is the bill that is not even identified within the bill for reimbursement. He said that is one of the main reasons why it is in conference committee.

SEN. GROSFIELD called on the Office of Public Instruction to make their presentation.

Presentation by the Office of Public Instruction:

Madalyn Quinlan, Office of Public Instruction, said there are three mechanisms used to reimburse schools through this bill as it is now: 1) $29 million is pumped through Guaranteed Tax Base Aid for school district general fund budgets, 2) $7.5 million is reimbursed to county retirement funds, and 3) $1.16 million is reimbursed to counties for the county transportation fund.

Ms. Quinlan said the way the Guaranteed Tax Base Aid works is that all districts will have shifts in taxable valuation under these bills and under whatever economic factors are working within that district. A statewide guaranteed level will be calculated for all school districts for Guaranteed Tax Base Aid, and then each district will be considered relative to where it stands in regard to the statewide guaranteed level. If a local district's taxable valuation is less than the statewide guaranteed level, the district will be compensated through Guaranteed Tax Base Aid subsidies. If a school district has a high taxable valuation now and is not currently eligible for Guaranteed Tax Base Aid, and it retains that high taxable valuation after all these bills are put into effect, they will not receive compensation under this bill; however, any school district that is currently eligible for Guaranteed Tax Base Aid, or becomes eligible, will be compensated.

Questions from the Committee:

SEN. HARP asked if it would be fair to say that **SB 184** is a bill dealing with taxes and not funding of schools, and the Guaranteed Tax Base is really a separate issue. The committee's discussions will be centered on what we do for homeowners and how we reimburse, and the mechanism of the Guaranteed Tax Base really stands on its own. **Ms. Quinlan** said she actually thinks they are so intertwined, it would be difficult to separate them. She said the state does have a commitment to an equalization policy for school districts in this state, so as taxable valuation fluctuates for whatever reason in a school district, they will be compensated in a way that brings them up to the state guaranteed level. **SEN. HARP** said that would automatically be done because of the Constitutional equalization requirements.

Presentation by OPI on Their Amendments:

Ms. Quinlan said OPI has asked for nine amendments, and she distributed a handout explaining those amendments, **EXHIBIT(tas83sb0184a02).**

SEN. GROSFIELD recessed the Free Conference Committee at 3:00 p.m., April 16, 1999, and reconvened at 11:10 a.m., April 17, 1999 in Room 325.

The committee also received a letter from Great Northern Town Center, dated April 16, 1999, and signed by Joe Kiely, **EXHIBIT(tas83sb0184a03)**; a memo from Gordon Morris, Executive Director, Montana Association of Counties, dated April 16, 1999, **EXHIBIT(tas83sb0184a04)**; and a faxed note from Charles Brooks on behalf of Yellowstone County, showing the estimated revenue losses from tax changes and reimbursement phase-outs, **EXHIBIT(tas83sb0184a05).**

SEN. GROSFIELD reminded the committee that on Friday they had had a few minutes to hear the presentations of the Department of Revenue and the Office of Public Instruction. Today Jim Gillett will be presenting a proposal based on **HB 678.**

Presentation of Jim Gillett on HB 678:

Jim Gillett, Legislative Audit Division, distributed copies of **HB 678**, **EXHIBIT(tas83sb0184a06)**, and a sheet with the handwritten goals of **SEN. GLASER** on **HB 678**, **EXHIBIT(tas83sb0184a07).**

Mr. Gillett said the four goals of this proposal are: 1) straight reimbursement based on tax base lost as compared to tax year 1998, 2) total dollar amount of the reimbursement is at the discretion of the legislature, 3) reimbursement would end when "tax capacity" was regained in a taxing jurisdiction, and 4) minimize shifting of tax burdens.

Mr. Gillett said the actual formula is on line 29 of page 1. He said this compares the tax capacity of a taxing jurisdiction in the last completed tax year with the tax capacity in tax year 1998.

Questions from the Committee:

REP. STORY said that this formula is simple on paper, but in concept there is some concern about calculating it for all the taxing jurisdictions in the state of Montana, because there are several thousand jurisdictions. He asked if that was something **Mr. Gillett** had considered. **Mr. Gillett** said that information would have to be accumulated and technology set up to accomplish that. He said the denominator of the formula is a fixed number, the tax revenue does not change, but the numerator does change every year. Once they have been accumulated once, it is a mechanical process.

REP. STORY said that on the motor vehicle side of this, he understood that no one tracks that any further than the county level. He wondered, when that is broken down, what the proposal was to apportion the value of those vehicles to individual districts. **Mr. Gillett** said that currently motor vehicle revenues are allocated to all those separate taxing jurisdictions. One potential solution in the weighting would be to use tax revenue rather than taxable value on both sides of the formula. If that were done, the MSRP would have to be tracked to all the taxing jurisdictions.

SEN. HARP referred to goal No. 2, the dollar amount of the reimbursement is at the discretion of the legislature, and he asked about the pro ratio factor that whatever "x" is would be appropriated by a legislative reimbursement and not necessarily through a so-called dollar-for-dollar. He wondered if **Mr. Gillett** could show him where that is in the bill. **Mr. Gillett** said page 2 of **HB 678**, subsection (3), says, "The total reimbursable amount for each fiscal year is the total of all taxing jurisdiction base reimbursement amounts for the state. Each taxing jurisdiction is entitled to reimbursement equal to base reimbursement amount, or if an insufficient amount of money has been appropriated for total reimbursement under this section, then all the base reimbursement amounts must be reduced proportionally." He said **SEN. GLASER** also added subsection (5), on line 23, which says, "The governor shall include the total reimbursable amount for both years of the ensuing biennium, increased or decreased by the same percentage that the previous year's individual income tax collections have changed from the 1999 tax year's individual tax collections, in the present law base budget prepared for each session."

SEN. HARP said that **SB 260** is included in this proposal, and it is inconsistent with what has already taken place in the legislature as far as how **SB 260** came back with the Governor's amendments which reimbursed the 9 mills and 6 mills. He wondered if this bill would again reimburse local governments but not necessarily to the whole dollar amount with the pro ratio. **Mr.**

Gillett said he could not say for sure, but his understanding is that the reimbursement to local governments in **SB 260** was 40 and 60, and he believed that that provision would be repealed.

REP. HIBBARD said the committee needed to have some sort of understanding of how this compares with the reimbursement that was amended into **SB 184.** He said he understood the goals of basically putting it back from whence it came, but that becomes complicated in practice. He wondered where the money goes in the school portion, and in the city and county portion, where it goes and how it is done. **Mr. Gillett** said it would go to the individual taxing jurisdiction. In the case of schools, if they have general fund mill levies, they will be reimbursed on their taxable valuation; in the case of cities and towns, it would be the same.

REP. HIBBARD asked in the school portion, where the money goes, into GTB or direct state aid, and how countywide transportation and retirement are handled. **Mr. Gillett** said that in **HB 678** it would go into those funds just as mill levies and motor vehicles do currently.

REP. HIBBARD asked **Mr. Gillett** to go over again how city and county reimbursement would be handled. **Mr. Gillett** said the money would go back to the individual taxing jurisdiction through the county treasurer, and then be further reimbursed to the taxing jurisdictions. **REP. HIBBARD** said, then, that reimbursements would not go to the county, and from the county to the city. **Mr. Gillett** said he assumed that it would go to the county treasurer and then to the cities and towns.

SEN. ECK said that under **HB 678, SB 184** is being reimbursed, which means there would be reimbursement for residences. She said it was her understanding that by doing that, probably other payments would have to be prorated if there is an insufficient amount of money. **Mr. Gillett** said that is exactly what would happen. **SEN. GLASER'S** point was that different jurisdictions are taxed differently, and putting them all in the mix when deciding how much to reimburse was the fairest way to deal with that.

SEN. ECK said, then, that that would mean that it wouldn't matter what kind of property it was, industrial or residential, there would be a proportional amount of reimbursement. **Mr. Gillett** said that was correct. **SEN. ECK** said that in looking at the various proposals for reimbursement, this plan would be much more complex than the provisions under **SB 184.** **Mr. Gillett** said that initially they may all be complex to set up, but once that is done, it is the same each year. **SEN. ECK** asked if there was a provision in this proposal that would allow the local taxing authorities to raise their mills if there is not sufficient reimbursement. **Mr. Gillett** said that **HB 678** does not provide for that.

REP. HARRINGTON asked if in **HB 678**, the Governor then, before the next legislative session, makes a decision as to how much money will be appropriated to reimburse. **Mr. Gillett** said that in **HB 678**, the Governor would simply estimate the formula calculations and that becomes a part of the Governor's base budget. **REP. HARRINGTON** said, though, that the Governor would set that as part of his budget, and an increase or reduction would be according to that, and **Mr. Gillett** said that was correct. **REP. HARRINGTON** said his understanding is that when money reaches the 1998 level, there will be no reimbursement, but he wondered if there was any growth allowed for as far as any of these areas of tax or if growth is brought into the factor as far as how much is reimbursed. **Mr. Gillett** said that in the formula in **HB 678**, the growth would be used to reduce reimbursements back to the 1998 level in individual taxing jurisdictions. At that point all growth would go to the taxing jurisdiction. **REP. HARRINGTON** said, then, that there would be no allowance for growth in any of these counties until they reach that 1998 level, and **Mr. Gillett** said that was correct.

SEN. HARP asked if it would be a straight reimbursement based on tax base loss as compared to tax year 1998, which is currently in **HB 678**, but with the House floor amendment on **SB 184**, we allow the floating of mills, so there is an absolute contradiction with how both bills are factored on the reimbursement issue for local governments. **Mr. Gillett** said there is some inconsistency between the two bills.

SEN. HARP asked if the reimbursement issue brought up by **REP. HARRINGTON** would stop when the 1998 tax base capacity is reached, and **Mr. Gillett** said that was correct. **SEN. HARP** asked if anyone knows what that capacity is and how far we have to go to get the capacity to where this reimbursement would end, and **Mr. Gillett** said that reimbursements would end on a tax jurisdiction basis, so they would not all end at the same time.

SEN. GROSFIELD asked if that was on a county-by-county basis or a taxing district-by-taxing district basis. **Mr. Gillett** said that as **HB 678** is right now, it is on a taxing jurisdiction basis.

SEN. HARP said, then, that this really recognizes the differences of how property is treated within Montana, and **Mr. Gillett** said that was correct.

REP. STORY asked if **HB 678** clarifies who calculates the number for reimbursement for each district, and **Mr. Gillett** said he did not think it did.

REP. HIBBARD asked, under this bill, what happens to new construction or new base as it comes on. **Mr. Gillett** said those would be considered growth and would be used to reduce the reimbursement until they go past the 1998 level. **REP. HIBBARD** asked if new construction is allowed, then, to be taken into the local jurisdiction, but then reimbursement reduces by a like amount. He said when this is coupled with property tax relief in **SB 184**, where mills have been allowed to float to make up for shortfalls, he wondered if mills might be required to float more under this proposal since the reimbursement goes down as growth occurs. **Mr. Gillett** said as far as mill float in **HB 678** as compared to **SB 184**, that float would vary significantly between the two because there is a different mix of tax deductions. As far as the effects of new construction, he said he would have to study that issue further to give an answer.

REP. HARRINGTON asked about the reimbursement controls in **HB 678**, and he wondered if they were entirely different than in **SB 184. Mr. Gillett** said the two mechanisms are much different. He said in **HB 678**, growth is used to reduce reimbursement until they achieve 1998 levels, and under **SB 184** you do get some growth.

SEN. GROSFIELD said in **HB 678** there is an allocation of $80 million from the General Fund to the Department of Revenue, which is a flat number. He asked whether, as a district reaches the 1998 level and they no longer get reimbursed, we are talking about the same $80 million to the Department, and then, as some of the jurisdictions reach the 1998 levels, if that would increase the reimbursements to other districts. **Mr. Gillett** said that $80 million would be a legislatively chosen number, but if that number stayed constant, it would have that effect. **SEN. GROSFIELD** asked if that concept would cause a tax shift from urban to rural or east to west, and **Mr. Gillett** said they had not done any analysis regarding that.

REP. STORY asked if, when all the tax relief bills are brought together, and assuming it was fully funded, there would be no need for mill increases, and **Mr. Gillett** said that was correct. **REP. STORY** said, then, that any percent less than full funding causes some districts to raise mills a little bit, and **Mr. Gillett** said they would have to raise mills or fees. **REP. STORY** asked if that would be done under the float provision in Section 1 of **SB 184**, and **Mr. Gillett** said that was correct. **REP. STORY** said this bill provides for reimbursement for lost property within a district which causes a fall in taxable value, and **Mr. Gillett** agreed. **REP. STORY** referred to the provision which provides that the Governor will figure out what proportion of the income tax revenue this last reimbursement was, the $80 million, and then apportion that same percentage of the new income tax projection to fund the bill the next time, which is the Kadas amendment from Senate Taxation, and he wondered if that was the way that would work. **Mr. Gillett** said that the Governor would specify what that amount would be in his budget.

SEN. ECK said that she did not feel that **HB 678** allows for any growth in the revenue available to counties, but **SB 184** does allow for the growth that comes from new construction. She wondered if under **HB 678**, until they reach the 1998 level, counties are required to eat the expenses involved with growth. **Mr. Gillett** said that with the present proposal, that was correct.

SEN. HARP referred to page 2, lines 14 through 18, which is the pro ratio factor which allows the legislature to adjust and appropriate, and he wondered if that was inconsistent with the allocation of the $80 million. **Mr. Gillett** said the $80 million allocation is the manifestation of the legislative discretion. **SEN. HARP** asked if **Mr. Gillett** knew what the dollar amount would be in **SB 184** as it left the Senate for an appropriation that would drive the pro ratio section of this bill. **Mr. Gillett** said he did not, but he would find out.

SEN. GROSFIELD asked if the $80 million was simply the biennium appropriation, and **Mr. Gillett** said that was correct.

SEN. GROSFIELD asked if someone from the Department of Revenue could address the question of doing each one of these jurisdictions individually from an administrative perspective. **Judy Paynter, Department of Revenue**, said there are 5,000 taxing districts in the state, and it would involve quite a lot of time and work to set up reimbursement to each of those. **SEN. GROSFIELD** asked if these numbers that were presented were available to the Department under current law. **Ms. Paynter** said that not all the numbers are in the database in the Department of Revenue. The Department would have to get information from the taxing jurisdictions on property. In regard to vehicles, that would probably also be the only feasible way to get that information. **SEN. GROSFIELD** asked, then, if **HB 678** does not in fact work, and **Ms. Paynter** said that under **HB 678**, there is not accurate information at the state level for the amount of motor vehicle revenue at every taxing jurisdiction in the state.
SB 184 spells out how that is accomplished.

REP. HARRINGTON asked if there was a way to know on all of these bills how much money would go into each of these areas and how it will affect the mill levies in each of these counties and how many mills will have to float in these counties. **Ms. Paynter** said **Mr. Simshaw** had done that for **SB 184** for each county and city.

REP. STORY said a couple of ways of reimbursing had been discussed, one is the mechanism the House put on **SB 184**, and the other is attaching **HB 678** to this bill and using that reimbursement mechanism. He asked if, when **SB 260** went through and was signed, that left some counties and schools short on funding in the reimbursement mechanism, and whether the Department had any of those numbers. **Ms. Paynter** said county governments were short $1.7 million in Fiscal Year 2000, and $3.6 million in Fiscal Year 2001. County miscellaneous districts were short $666,000 in FY 2000, and $1.4 million in $2001. Countywide retirement was short $612,000 in FY 2000 and $1.3 million in FY 2001. Countywide transportation is short $98,000 in FY 2000 and $207,000 in FY 2001. Cities and towns were short $1.3 million in FY 2000 and $2 million in FY 2001. School general funds were short $2.6 million in FY 2000 and $5.4 million in FY 2001. Non-general funds for FY 2000 were short $61,000 and $815,000 in FY 2001. She said these figures are without the increase in the county option tax in **SB 260** from .5 to .7.

SEN. HARP asked why these did not include the increase in tax in **SB 260. Ms. Paynter** said that that requires a vote of the people, and the Department decided to make their calculations without that. **SEN. HARP** asked which way the Administration is calculating it presently, and **Ms. Paynter** said they are also calculating it without the option money. **SEN. HARP** said that **SB 260** represents a savings to motorists of $40 million as it currently stands, and **Ms. Paynter** said that the local option tax represents about $11 million.

REP. STORY said he had asked **Jim Standaert** to run some figures when the GTB methodology was being discussed to see how much shifting would go on amongst school districts if they were reimbursed on a GTB basis rather than a dollar-for-dollar, and he wondered if those figures were available. **Mr. Standaert** said he did have those figures and would present them to the committee.

The Subcommittee on SB 184 recessed at 12:00 p.m., and reconvened at 1:30 p.m., April 17, 1999.

SEN. GROSFIELD called the Free Conference Committee on **SB 184** back to order at 1:30 p.m. He said the committee was going to concentrate on the reimbursement of schools this afternoon.

REP. STORY said that reimbursement of schools through the Guaranteed Tax Base was discussed yesterday, and this morning the Committee discussed **HB 678**, which was based on figuring how much tax base they had lost and reimbursing them for that directly. He asked if, when the percentage that is reimbursed is raised in the Guaranteed Tax Base, that money would end up back in the districts that lost tax base from tax reductions of this session. **Curt Nichols, Assistant Director, Budget and Program Planning**, said in general it would wind up back there, because in districts that are GTB eligible, a loss of taxable value given a fixed guarantee is replaced by state money. He said in addition, in this bill, the guarantee has been increased to offset the losses in the over-BASE area and the losses in the other local school funds. So there is a little bit of mixing of losses from one type of budget with the other, but in general, this should replace their losses. At the extreme end, where you have the non-GTB eligible districts that have a very high wealth, there will not be any replacement at all through the GTB, but there is some increase for them in the direct state aid that is in **SB 100.**

REP. STORY asked if schools would get more reimbursement under the **HB 678** plan, and **Mr. Nichols** said that **HB 678**, the way it is written right now with the $80 million cap and no intertie with **SB 100**, more money would go to schools and less to local governments than would happen with **SB 184** as it is constructed. He said as these two plans stand, there is a different mixing between other taxing jurisdictions and schools.

REP. STORY asked if, when money is put back through the GTB formula, one of the things that drives that is the number of students and the rest is the average value in relation to the rest of the state. He asked if the school districts that have low student numbers would be reimbursed or if they would have to go back to their mill levies. **Mr. Nichols** said they would be reimbursed proportionately, so those schools with smaller populations would get less; however, the payment level for smaller schools is higher.

REP. STORY asked if one of the reasons that the GTB reimbursement method is being considered is because it does not require reinventing a reimbursement process; it is already established. **Mr. Nichols** said that was correct. The school formula operates on changes in values and reimbursement. When a district loses value, class eight property is eliminated, and the district is GTB eligible, under the formula there is an automatic replacement of some of that loss and an offsetting of the General Fund support to recognize that. So they cannot be entirely unentangled from the school formulas even if they are ignored and are not used for redistribution.

REP. STORY asked if the schools are reimbursed now for **HB 20** and **SB 417** through those mechanisms, or was that taken care of some other way. **Mr. Nichols** said they are reimbursed with non-levy revenues for those.

REP. STORY asked if **Jim Standaert, Legislative Fiscal Division,** had the school figures now, and **Mr. Standaert** distributed a handout entitled "Impact of the Reimbursement Mechanism in SB 184 on Consolidated Mills, by School District," **EXHIBIT(tas83sb0184a08).** He said this a run of each elementary school district in the state. He said the column "Consolidated Mills" reflects the total mills in that district for all taxing jurisdictions, and is a weighted average for each elementary school district of that total consolidated mill, and he went on to explain the rest of the information on the sheet. **SEN. HARP** asked if this information is based on **SB 184** as it left the Senate, and **Mr. Standaert** said it was. **SEN. HARP** asked if **SB 100** is figured into the changes in mills listed here, and **Mr. Standaert** said that was correct.

REP. STORY asked if **Mr. Standaert** could find any correlation in the variations demonstrated by Exhibit 8. **Mr. Standaert** said that whenever GTB at the school district level is used, you will be overcompensating poor schools and under-compensating rich schools.

REP. HARRINGTON asked if this dealt only with elementary schools, and **Mr. Standaert** said that was correct, although the high school mills are included in this.

SEN. HARP asked if **Mr. Standaert** could explain a little further the column, "Change in Other School Mills." **Mr. Standaert** said he understood that **SB 184** would not provide for direct reimbursement for schools for any of the bills to any of the school mills. That would be done by raising the GTB in such a way that the BASE mills would be driven downward. Those other mills, then, are going to have to float in response to reductions in taxable value for all the bills combined.

SEN. HARP asked about the "Changes in Local Government Mills" column, and **Mr. Standaert** said that under **SB 184** there is a reimbursement payment to each one of the local governments that presumably will cover the cost of the other bills, so no mills would have to change. **SEN. HARP** asked if **SB 260** was considered as it passed the legislature and was signed by the Governor, and **Mr. Standaert** said he had assumed that that would be totally reimbursed for.

REP. STORY said that on the back of the sheet there are totals just for the taxable value columns, and he asked if that reflects that all the tax relief bills have taken about $290 million in taxable value out of the system. **Mr. Standaert** said that was correct, in tax year 2000.

SEN. HARP said, though, that things have been done in lieu of property taxes as a way to reimburse government units, specifically for **HB 128** and **HB 174**, but strictly dealing with taxable value based on property, this is accurate. **Mr. Standaert** said he had not taken into account the excise tax or the WET tax, because he was strictly interested in local governments.

SEN. GROSFIELD asked if the difference is that in **HB 678** reimbursement is done district by district, and **Mr. Gillett** said that was correct. **SEN. GROSFIELD** asked if that allows for more flexibility on an annual basis, and **Mr. Gillett** said that under **HB 678**, the total amount of money put into the reimbursement is governed by legislative appropriation and is proportionally distributed. If the GTB and/or the direct state aid levels are raised to deliver an amount of reimbursement that is appropriate today, as tax bases change, that does not necessarily go down or go up. It depends on the demographics of the changes in the tax base.

REP. STORY asked, though, if reimbursement were not reduced on the state level, the amount spent is still capped by the formula, so that would cause some changes in taxation on the local level, and **Mr. Gillett** said that is correct, although it depends somewhat on action of this committee.

REP. STORY asked about the local option tax side of vehicles, and whether when a county puts a local option tax on motor vehicles, that money is distributed like non-levy revenue to the mill levies or if it goes into specific purposes, and if they can specify that. **Mr. Gillett** said that follows the mills. **Gordon Morris, Montana Association of Counties**, added that under the temporary provision in code, the local option revenue is distributed 50% to the county and 50% is divided between the county and the appropriate cities and towns, based upon population. In 2005, that temporary instruction will go off the books and the distribution will be based upon the distribution of personal property taxes. **REP. STORY** asked if none of that goes into the school system, and **Mr. Morris** said that the local option stays entirely with the cities, towns and counties. **REP. STORY** asked if a county can put it into a specific fund, or if it has to be distributed across the county funds, and **Mr. Morris** said that the legislative intent was that the local option distribution would be from a county perspective primarily dedicated to addressing financial problems in district court and, having done that, any additional revenue could be used anywhere within county operations.

SEN. HARP distributed Amendment SB018416.alh, **EXHIBIT(tas83sb0184a09).** He said this amendment removes three amendments that were offered on the House floor on April 14th. One of these amendments dealt with the so-called cap, one dealt with the rate that was changed, and the last one was a change of when new properties were going to be accounted for. He said these amendments passed by a very close margin, 51-49, and by removing these, we will be able to start by recognizing how the bill left the Senate.

Motion: SEN. HARP moved SB018416.ALH.

Discussion:

REP. HARRINGTON said there are strong and varied feelings about these particular amendments, and he wondered if there would be an opportunity at some time for this committee to look at a cap. **SEN. HARP** said he would feel comfortable continuing to look at that, but he also knew that when this bill left the Senate, there were 47 votes for this bill without caps. **REP. HARRINGTON** said that the Democrats of the House feel that in order to give property tax relief, it should be spread over all the classes, and by taking the caps off, it creates serious problems with that.

REP. HIBBARD said **SEN. HARP** is correct in that two of the three were very narrow margins on the House floor, with a little wider margin on the Davies amendment. He said **REP. FACEY'S** amendment was a novel idea that had some fairly broad implications at a late date, and the House Taxation Committee had given him two opportunities to work on it. There was a general level of discomfort about the administration of it, and it was defeated in the Committee. In regard to the Davies amendment, he said there was not a clear understanding of what the fiscal impact would be. He said he would support this motion.

SEN. ECK said her concern is the meager amount of tax relief being given to residential in comparison to others. She said she would be willing to give up on the Davies amendment, but she felt that the Guggenheim amendment is especially important because it provides a significant increase in the amount of relief available to residences. In regard to the Facey amendment, it is complex and she was not sure how it would be implemented. She said she would vote for this amendment with the cap off.

SEN. GROSFIELD said that the Facey amendment is an interesting concept, and he did not feel that there would be a significant impact, but he did not know how it could be administered. He said he would support this motion.

<u>**Vote**</u>: **Motion carried 4-2 with Eck and Harrington voting no** (Roll call vote #1).

SEN. GROSFIELD said that if the Committee had any requests for specific information or numbers, perhaps they should ask for those now so that they could be worked on over the weekend.

REP. HIBBARD asked if there would be some value to a spreadsheet on **SB 184** reimbursements and **HB 678** reimbursements, showing a comparison of how these bills affect various categories. **REP. HARRINGTON** said that would be very helpful. **SEN. GROSFIELD** said it would be helpful to have more information.

REP. HARRINGTON asked if some areas may not be funded, and **SEN. HARP** said that **SB 260** is reimbursed. **REP. HARRINGTON** said that it is not fully funded, and **SEN. HARP** agreed, but that the 6 mills and the assumed counties on welfare are reimbursed.

REP. STORY said this Committee has the choice of the reimbursement mechanism that is in **SB 184** or the **HB 678** version. He said the reason those came out of the House Taxation Committee is because they were concerned that there would be four or five different mechanisms and the difficulty administering those, and that was the reason for trying to put together a consolidated mechanism. He wondered if anyone was available who could brief the Committee on the reimbursement mechanisms that have been in other bills.

REP. KIM GILLAN, HD 11, Billings, said that **HB 128** stipulated that the revenues generated by the excise tax would go into a special revenue account, and that would be split 25% to the General Fund and 75% back to local governments. The reimbursement was not based on a single year, but was based on a three-year running average of the property tax loss calculation. **SEN. GROSFIELD** asked how the 75% to local governments was distributed. **Gloria Paladichuk, Richland Economic Development,** said that she opposed **HB 128**, and that is why she remembers the specifics. She said it had a three-year running average, but it was also divided by a three-year statewide mill levy, and that was detrimental to eastern Montana.

REP. STORY asked **Mr. Standeart** whether the counties distributed that money according to the mill levies. **Mr. Standaert** said he does have a sheet that compares the distribution schemes of all these bills, including the distribution below the county level, and **HB 128** does not say how the money is distributed below the county level. **SEN. GROSFIELD** asked, then, if the implication is that the county commissioners have full discretion, and **Mr. Standaert** said that was probably correct, but it does not say in the bill. He provided copies of the "Reimbursement Mechanisms in Various Bills," **EXHIBIT(tas83sb0184a10).**

REP. HIBBARD said that **HB 174** states that the Department shall calculate the amount of revenue lost to each local taxing jurisdiction, and it is based upon the number of mills levied in each jurisdiction for the previous year. The amount of the reimbursement is equal to the difference of the amount determined and multiplying 12% of the assessed value to 6% of the assessed value. That determines the amount of the loss, and that is what is reimbursed to local taxing jurisdictions.

SEN. HARP said that the date on Exhibit 10 is 4/7/99, and on 4/9/99 **SB 200** was amended. He wondered if those mechanisms in **SB 200** would be accurate on this sheet dated 4/7/99. **Mary Bryson, Director, Department of Revenue,** said there is nothing in **SB 200** that would change the mechanism, so this sheet would be correct as far as **SB 200**, even though the rates did change.

REP. STORY said that the distribution method in **SB 200** did not change, but he thought the reimbursement mechanism did. **Larry Finch, Department of Revenue,** said that under **SB 200** today, for every taxpayer who has market value less than $5,000 worth of business equipment is gone. The other component is that the rate goes from 6% to 3%. In regard to reimbursements for every jurisdiction, they would look at every taxpayer who has market value of less than $5,000, determine the taxable value in that jurisdiction, and multiply it by the mill levy in 1999. That would be the reimbursement for those taxpayers. Reimbursement for the remaining taxpayers would be their 1999 taxable value times the 1999 mill levy times 50%. **SEN. HARP** asked if that is reimbursed to local governments, and **Mr. Finch** said that was correct.

SEN. HARP asked if **SB 200** was a stand-alone reimbursement mechanism, and **Mr. Finch** said it was.

Mr. Standaert said Exhibit 10 needs to be updated because the reimbursement mechanism on **SB 200** is changed from what is indicated. He said it is also different for **HB 174** than what is indicated on this sheet because this was under the language that cost the state $16 million to reimburse.

SEN. HARP said it was his understanding that when **HB 174** left the House, the cost was around $5 million, and the amendments offered by **REP. HIBBARD** before the Senate Taxation Committee, moved that to around $400,000. He said that is not indicated on Exhibit 10. **REP. HIBBARD** said that was correct, that there was an error in the way the reimbursement was calculated in the wording in the bill, and the effect of changing that to read like it was intended to read had an effect on the Fiscal Note of lowering it down to a much smaller amount. He thought that the $400,000 was pre-4Rs Act, and after the 4Rs Act it would be around $2 million.

REP. HIBBARD said, on the mills not reimbursed as listed on Exhibit 10, that it is his understanding that the 101 mills and the 9 mills is money that does not flow to the state treasury but the state treasury still has obligations to fill those accounts. If that is not a correct assumption, someone needs to set it straight. He wondered if that 101 mill reimbursement is in addition to the $85 million that has been discussed. **Mr. Standaert** said he had just put the 40 mills and the 55 mills in there to show that **HB 174** does not reimburse those. He said the 6 mills and the 9 mills are special revenue accounts, and those are not being reimbursed in **HB 174**.

REP. HIBBARD said that money is not paid to the state for those accounts, but the obligation of the state to go back to those accounts still exists. He said the obligation is still there, and it is going to be paid out of the General Fund. **Mr. Nichols** said in terms of those accounts, when there is a property tax reduction that affects those, money needs to be appropriated from the General Fund to backfill them. In **SB 260**, there are appropriations related to that bill, and **SB 184** has appropriations for the remaining shortfalls to the 6 mills and the 9 mills, which is about $4 million.

SEN. HARP said on **HB 174** and **HB 128**, not only do the property taxes need to be considered, but also the different excise taxes and the WET taxes, the electric licensing tax, and what is going on in lieu of property taxes.

REP. STORY said he had gotten additional information on **HB 128**, and the language in the statute says that the reimbursement is calculated for each taxing jurisdiction, so that breaks it down into the levying districts like all the others tried to do. **SEN.**

GROSFIELD said, then, that county commissioners do not have full discretion, it is all in the formula set out in **HB 128.**

Mr. Standaert said he would update the information on Exhibit 10 and have it available for the Committee on Monday.

REP. HIBBARD asked who would prepare the spreadsheet indicating the comparisons between the reimbursement mechanisms, and a discussion ensued regarding exactly what information would be used to produce that spreadsheet. Once that was established, **Judy Paynter, Department of Revenue,** said they would do their best to provide that information on Monday.

The Free Conference Committee on SB 184 recessed at 3:00 p.m., April 17, 1999, to reconvene at 9:00 a.m., Monday, April 19, 1999.

SEN. GROSFIELD said that since Saturday there has been some discussion on the study involved with this issue. He asked **REP. HIBBARD** to expand on that.

Motion: REP. HIBBARD moved SB018412.AGP, EXHIBIT(tas83sb0184a11).

Discussion:

REP. HIBBARD said that it has become clear that every time a little change is made somewhere, it affects several other areas, and there are always unintended consequences. He said decisions that have been made on the legislative level in terms of overall tax policy end up having implications for local governments, who then end up not having the ability to fund some of the tax policy decisions that the legislature makes. He said the complexity of this issue warrants more study, and he is proposing an amendment that will assure that a study committee continues. The committee will be made up of two Senate members, two House members, and then the Governor will appoint two members from counties, two members from cities and towns, one county treasurer, and one executive branch representative, for a total of 10 members. $37,500 for Funding is provided.

REP. HIBBARD said in addition, there would be a parallel court study committee consisting of two Senate members, two House members, the Chief Justice of the Supreme Court will appoint one member, and the Governor will appoint one from cities and towns, one from counties, one from the Montana Judges Association, one from the magistrates, and one clerk of court, for a total of ten, and funding will be provided at $17,500. That makes a total appropriation of $55,000.

SEN. GROSFIELD reiterated that the funding is going from $200,000 to $55,000, and membership is reduced to 10 members in each study committee. He said the charge of the committees stays the same as stated in **SB 184.**

REP. STORY said he supports this amendment.

REP. HARRINGTON asked why there was no representation on these committees from the education community. **REP. HIBBARD** said the representative from the School Boards Association was added through an amendment in House Taxation, and this amendment just pares down the size of the committee so that the dollar amount could be cut to an amount that we could actually have a committee.

SEN. GROSFIELD asked if there were any guidelines with respect to the legislative appointments, and **REP. HIBBARD** said it would be done in the normal fashion, where the Committee on Committees makes the appointment and the Speaker of the House makes the appointment.

REP. HARRINGTON said he would support this amendment, that it is important that there is a study committee provided.

Vote: Motion carried 6-0.

Motion: REP. HARRINGTON moved SB018421.ALH, EXHIBIT(tas83sb0184a12).

Discussion:

REP. HARRINGTON said in the legislative session, **HB 420** was passed which gave Montana Resources a break on their transportation costs as part of the gross proceeds and metal mines tax, and this amendment would reimburse to a certain extent to the school district. **Mr. Heiman** said this amendment adds **HB 420** into the reimbursement formula where the loss is determined. He said it talks about the revenue loss from the listing of bills, and by adding **HB 420**, it is included in the formula for determining the reimbursement.

REP. HARRINGTON said this is important because Butte-Silver Bow is going to be hit quite hard as a result of some of the tax relief provided by this legislature. **REP. STORY** asked what the dollar amount was, and **REP. HARRINGTON** said he believed it was approximately $150,000.

REP. HIBBARD said he would support this amendment. He said this is a tax policy change that was pitting the needs of business against the needs of local governments and schools. He said this will allow the tax policy to be made that should be made and still get some money back to those local governments and schools.

Vote: Motion carried 6-0.

Motion: SEN. HARP moved SB018420.ALH, EXHIBIT(tas83sb0184a13).

Discussion:

SEN. HARP referred to **SB 260**, which is the bill that reduced the vehicle taxes in Montana from 2% to 1.4%, and resulted in $26 million to $27 million of tax relief to Montanans. He said the Governor's amendments reimbursed the 9 mills for the assumed counties and also the 6 mills for the University System, as well as the 55 mills. However, the 40 mills was not recognized in **SB 260**, and this amendment strikes the coordination of the full reimbursement of **SB 260** in **SB 184**.

REP. HARRINGTON asked if a chart had been prepared showing what the effects of this would be to counties, local governments and schools. **SEN. HARP** said that he can provide the dollar amount, which is $22 million, and he was sure those figures could be provided. **REP. HARRINGTON** said he would appreciate that information.

SEN. ECK said the issue was discussed in Senate Taxation and on the floor of the Senate, that vehicle owners get a break and property owners pick it up, probably through some of the mills that don't require a vote. **SEN. HARP** said the basis of this amendment is the executive and legislative action on **SB 260.** He believes this is what was intended by both of those branches. **REP. HARRINGTON** said that it is important that the committee recognize the fact that, as pointed out by **SEN. ECK,** there is going to be a shift here as far as the taxes are concerned. He feels, however, that it is more important that it be recognized that perhaps caps are needed if this is going to be spread to even more homeowner relief, so it does not all float to the top.

SEN. HARP said an amendment was made by this Committee on Saturday which removed the cap. He said what is disturbing about the cap was the effect that it had on multiple dwellings in Montana and what took place as far as people who are trying to have affordable housing in Montana. He said the cap of $200,000 targets people in multiple dwellings and low-income people because of the rental costs that will be raised on those people.

SEN. ECK said she felt that multiple issues should be considered rather than one issue at a time. She said she had information on the cap is that there are fewer than 4% of the homes in Montana that would be greater than $200,000, and yet they would be getting well over 25% of the tax relief. As far as multiple units, she said she would like to see some information as to how they are covered, and that issue should be discussed. She said in looking at the vehicle tax, and if we are not going to reimburse that $22 million, there has been problems expressed by the Department on the mechanism for doing that, but that she might be willing to let that go if the Committee had county-by-county data which showed the impact and if there were some indication that additional homeowner relief will be provided.

REP. STORY said he had been analyzing how not reimbursing the vehicles will affect the rural taxing jurisdictions. He said the assumption is being made that local governments will end up with the same amount of dollars as they have now, either by being reimbursed for vehicle tax losses or by raising the mills on the property that is out there. He said he is hoping that that $21 million can be put into some type of homeowner relief so as the mills are increased on the local level to get this money back, the homeowner is not hammered.

REP. HARRINGTON said as far as the caps are concerned, 95% of the homes in Montana are from zero to $200,000. Without caps in these bills, they are going to get much less tax relief because of the other 5%, and that is where he has problems. He said until he can see what effects the other part is going to have on the counties, he is going to oppose this amendment. **SEN. HARP** said that, again, when caps are put in, it targets 3,000 residents who are living in multiple housing in Montana.

SEN. GROSFIELD said it should be noted that there is a question regarding the reimbursement of small units. He said there is a technical problem with the amendment and it needs to be changed slightly. Amendment No. 6 should read "Page 182, lines 23 through page 183, line 18," because the word "through" had been omitted; and on the next line where it says "strike subsection (3)," it should say "subsection (2)." Amendment No. 7 should not be on there. **SEN. HARP** agreed with these changes.

SEN. ECK asked if it was a general agreement that that $22 million is intended to go to homeowner relief, and **SEN. HARP** that with all the tax relief bills in the legislature, he felt that a large majority of those dollars would be going to homeowner relief.

REP. HARRINGTON asked how much of these can be floated and how much will just have to disappear. **SEN. HARP** said that the 9 mills, the 6 mills and the 55 mills have been recognized, and the growth and projections of where this will be going by the year 2000, with over $90 million being paid in this area, a shift to homeowners rather than a reimbursing will help more Montanans than by simply making a commitment that the legislature and the Governor never agreed on, and that was full reimbursement of **SB 260.**

REP. HIBBARD said he intends to support this amendment, but when you look at the magnitude of the relief given overall, about $203 million, and you look at the various classes that are getting relief, there is significant relief among most taxpayers. He said this $22 million should not be revisited, but should be left as it was passed as **SB 260.**

REP. HARRINGTON asked if he could request the Department of Revenue to provide an estimate of what the effects would be on local governments and schools as far as this $22 million is concerned. **Ms. Paynter** said that over the biennium, because there are some 40 mill shifts, there is really about $15 million to $16 million over the biennium that will result in local governments not having that revenue, and that would result in mill levy increases. That $15 million or $16 million, with the new value of a mill would probably be approximately 7 mills over the biennium.

SEN. HARP said that in addition to the change in the value of a mill, there is the issue of "in lieu of" property taxes, with two major components of **HB 128** and **HB 174** where money is being put back into local governments. He wondered if **Ms. Paynter** had taken that into account in coming to the overall average of 7 mills. **Ms. Paynter** said that the value of a mill ought to decrease about 10%, but there is also the question of the way the language may come out of the legislature this is motor vehicle loss and it is a tax in lieu of a property tax, so she is not sure how the local governments, depending on the language, could put this back on a property tax basis. It may not relate in the end to mills at all.

REP. STORY said he had asked the attorneys whether the language in Section 1 of **SB 184** would allow the county to raise the mills to recover this money, and it is his understanding that it would. **Mr. Petesch** said that **SB 184**, Section 1, as written, allows the local government to get back to the level of property tax actually imposed. Currently a tax is imposed on motor vehicles, it is not a fee in lieu of tax. It is a different way of calculating a property tax, so as written, local government could impose mills to get back to the level of tax imposed.

SEN. HARP said, then, with the legislature's action on **SB 260** and the 40 mills being outside the equation, he wondered if under **SB 184** local governments could be reimbursed regardless if the legislature recognizes the 40 mills or not. **Mr. Petesch** said reimbursement and being able to impose mills to get back to the level of taxes imposed are different issues. **SEN. HARP** said that is another good reason to exclude **SB 260.**

REP. STORY referred to **REP. HARRINGTON'S** question about the $21 million going back on the property tax base and who is going to pay that, He said he believes the homeowner pays 40 cents on the dollar. So of this $21 million, about 40% would be picked up by homeowners and the other 60% would be spread across the tax base in that jurisdiction. **REP. HARRINGTON** said in talking about 40% and 60%, some of these communities do not have a really strong industrial base, so some of them might have to absorb much more than that.

<u>Vote</u>: Motion carried 4-2 with Eck and Harrington voting no.

<u>Presentation of Larry Finch, Department of Revenue</u>:

Larry Finch, Department of Revenue, distributed a "Comparison of **HB 678** and **SB 184** Reimbursement Mechanisms," **EXHIBIT(tas83sb0184a14),** and walked the Committee through that handout.

SEN. HARP asked **Mr. Nichols** to expand on the "School Funding" section on page 3. **Mr. Nichols** said that in **SB 184,** the reimbursement to schools is about $29 million and then there is about $10 million in **SB 100,** resulting in a total of $39 million in reimbursement. The way **HB 678** would operate, there would be in the range of $35 million for schools as they split the $80 million according to the formulas in there, and there would still be the $10 million in **SB 100.** Consequently, there would be in the range of $45 million versus $39 million, which would be an expense to the counties. **SEN. HARP** said that **Mr. Finch** had said the combination is not coordinated, resulting in the differences between schools and cities and counties. He asked if **SB 184** needs to recognize what is going on because of **SB 100** in statute and also the reimbursement mechanism within **SB 184. Mr. Nichols** said that in the bills that needed reimbursement, there was about $85 million of loss in property taxes, and when they calculated the reimbursements for **SB 184,** there is $75 million to $76 million reimbursement for those districts for all those losses, with another $10 million in **SB 100.** So full $85 million loss is reimbursed, and it goes back because the schools losses have been reimbursed through the school program, the **SB 184** appropriation for schools is offset by the amount already contained in **SB 100**, so those two have been coordinated. **SEN. HARP** said, in other words, the $10 million had been backed out of the appropriation within **SB 184**, and **Mr. Nichols** said that was correct.

REP. STORY said, then, that **HB 678**, because of the way the formula works, when you work off a taxable value and compare it from one year to the next, it does not take into account that extra money going into schools through **SB 100**, so the taxable value has been taken out and you're going to reimburse fully for that but it does not consider that you already put $5 million into schools. **Mr. Nichols** said the calculations in **SB 184** and **SB 100** recognize the loss in taxable value, but reimburse through the schools and do not reimburse to the tax. **REP. STORY** said, then, that any mechanism used to fund schools that does not compensate for that some way will over-fund, and the only way it was compensated for in **SB 184** was that the GTB was not raised as much. **Mr. Nichols** said that was correct.

Mr. Finch continued with the "Reimbursement Funding - 2001 Biennium," adding that under the second paragraph of that section, he should have added that these specified reimbursements are for calculations for reimbursements to local governments. The bill also provides for direct appropriations to the Office of Public Instruction in the amount of $38 million, and all of the appropriations combined in **SB 184** would approach the $80 million that is provided for in **HB 678**, so the amount of the appropriations in the two bills are very close to being the same.

SEN. HARP, referring to the mechanism on **HB 678**, on page 4, read that "the same percentage that the previous year's individual income tax collections have changed from the 1999 tax year's individual tax collection. If the total reimbursement were in the 2001 biennium budget, the amount of reimbursement would be $53 million to $63 million higher." He asked **Mr. Finch** to explain that. **Mr. Finch** said the language in **HB 678** says that for future biennia, it requires the Governor to include in the base budget prepared for each session the total reimbursable amount for both years of the ensuing biennium. What is confusing is what is meant by the total reimbursable amount for both years of the ensuing biennium, and whether that means to include in there the total amount that would be due to taxing jurisdictions in each of the ensuing biennium from here on out. The fact that we are not in the current biennium providing for $53 million to $63 million of reimbursements for lost revenue, would that amount have to be included in these budgets for the ensuing biennia.

REP. STORY said this section of **HB 678** came as an amendment in the Senate Taxation Committee, and it was a suggestion by **Mayor Kadas**, that if you were going to have a reimbursement mechanism that was tied down like **HB 678** was, to put some growth in it, you would take the amount of money that was funded for reimbursement in the original year, the $80 million, and find out what proportion of the income tax that was. If it was 20% of the income tax, for the next biennium, the Governor would be required to put 20% of the projected income tax in to fund the reimbursement. The down side is, the way **HB 678** is drafted, you cannot reimburse more than actual loss, so it would have left an ending-fund balance in the bill.

REP. HIBBARD asked, then, if the effect of this amendment would be to relate the reimbursement to the amount of income tax, and if the income tax grows, the reimbursement amount would grow in the same relative percentage, and would have the effect of tying local government reimbursement to growth in overall income tax. **REP. STORY** said that was the intent of the amendment, but other language in the bill says that you cannot reimburse more than actual loss.

SEN. ECK said the general intent was to make sure that the base amount is included in the Governor's budget. She said that **Mayor Kadas's** proposal was that a percentage of the income tax be designated for assistance to local governments without tying it to a particular mechanism.

SEN. HARP said that future legislatures need to be concerned about the potential of this and what it does. He wondered what the effects would be from the state standpoint in the future.

Mr. Finch continued through the handout, and at the section on "Relationship to Sales of MPC Assets," **SEN. HARP** asked if the increase in value due to the sale of those assets increased by one-half billion dollars, it is fair to say that the reimbursement is based on the new value and not the old value, but the dollars reimbursed in **HB 174** takes care of the entities where those fixed assets sit today. **Mr. Finch** said this is based on the assumption that if **SB 184** passes and the coordination language in **SB 184** passes as well, the reimbursement mechanism currently provided for in **HB 174** will go away and the reimbursement mechanism that is contained in **SB 184** will take its place. That reimbursement mechanism provides that in essence we would take the same approach as in **HB 174**, and that is in calculating reimbursements for a jurisdiction, we would consider its post-sale value relative to the 1998 tax base and mill levy rather than the 1998 value. **SEN. HARP** asked if they were still whole, and **Mr. Finch** said they were.

SEN. HARP asked if **SB 184** supercedes bills that have already passed, and **Mr. Finch** said that was correct, and the language in this bill would provide coordinating instructions that would strike the reimbursement sections from all of those other pieces of legislation and substitute the reimbursement language that has been placed into the reimbursement section in **SB 184.** **Mr. Heiman** said that Section 182 on page 182, line 20, strikes Sections 1 and 26 of **SB 200**, which are the reimbursement provisions for the livestock and the personal property tax.

REP. STORY said that same section reads that **HB 678** reduces reimbursements because the sale will cause the tax base to grow, and he asked for clarification. **Mr. Finch** said **HB 678** references tax year 1998 as the base year from which differences will be measured in tax base. **REP. STORY** wondered, though, how that is different from **SB 184.** In both, the reimbursement is dependent on what the net taxable value of those plants is, and **Mr. Finch** said that was correct. In essence, both bills treat these sales pretty much the same.

REP. HIBBARD said his understanding is that either one of these bills will override the reimbursement mechanisms in **HB 128** or **HB 174**, and either bill is designed to make those taxing jurisdictions whole to the extent that the reimbursement money is made available to do so. If the reimbursement money is more, they might come out better; and if the reimbursement money is less, then they might come out slightly less. **Mr. Finch** said that was correct.

Mr. Finch continued through the handout, starting at "Previous Reimbursement Mechanisms (HB 20 and SB 417)." **SEN. HARP** said, then, that the money from **SB 417** is being counted in the $80 million, and of that, there is a net impact of what is occurring this session of $35 million. **Mr. Finch** said that **HB 678** provides for an allocation to the Department of Revenue of $80 million to cover reimbursements. It also is repealing these two sections of law, **HB 20** and **SB 417.** Those result in a savings to the General Fund and a corresponding reduction in revenue to local governments of about $45 million over the biennium. **SEN. HARP** asked if the $45 million is the mechanism which they reimburse because of **HB 20** and **SB 417**, and **Mr. Finch** answered that under current law, **HB 20** and **SB 417** reduce revenues to the General Fund by about $45 million over the biennium. Now we are repealing those, so that is an additional $45 million net impact from this proposal benefitting the General Fund. **SEN. HARP** asked what the offset of a positive $45 million involved in the various proposals this session, and **Mr. Finch** said he did not know.

REP. HARRINGTON asked if both **HB 20** and **SB 417** dealt with the personal property tax relief, and **Mr. Finch** said that was right. **REP. HARRINGTON** asked, then, if these are repealed, whether that affects local governments even further, and **Mr. Finch** said this is a direct reduction in revenues to local governments of about $45 million over the 2001 biennium. **REP. HARRINGTON** asked if this was on top of everything else, and he wondered if that had been figured in to what had been done so far. **Mr. Finch** said this is not included in that.

SEN. ECK clarified that the state is not reimbursing for those losses, and they are not worked into the total amount that counties are being reimbursed. **Mr. Finch** said it was not being worked into the reimbursement mechanism, and the combined impact of those two bills is $45 million over the 2001 biennium. **REP. HIBBARD** said that **SB 184** would retain the current law, so $45 million would be reimbursed to counties as was called for in **SB 417** and **HB 20**. If **HB 678** is adopted, those reimbursements go away totally, so there is $45 million which will no longer be reimbursed to cities and counties, and **Mr. Finch** said that was correct.

SEN. HARP said that budgets and projections are based on current law, and **HB 20** and **SB 417**, will be included in the mix of the final numbers. He said they may not be recognized yet, but it is recognized that is a current expenditure taking place in Montana and needs to be dealt with. **Mr. Finch** agreed.

Terry Johnson added that that $45 million is not included on the lists that were provided on Friday; however, in terms of the budgeting process, **HB 20** is a direct General Fund statutory appropriation and it was built into the starting point. In regard to **SB 417**, that is a reduction in state property tax revenues, so the local entities retain the revenue and the state gets less 40 mill property tax revenue. **SEN. HARP** said that it was a policy decision on **SB 417** that eventually we started to ratchet down, and that is something that was recognized when it was passed in the 1995 session. **Mr. Johnson** said that was correct. He said that **HB 20** is also reduced by 10% each year of the 2001 biennium.

REP. STORY said that it was always the intent of **HB 678** to reimburse for these two bills, as noted on page 2 of the bill. However, when the appropriation was put on this bill, it was a number that was picked by the Senate Taxation Committee as about how much new money we had to put into reimbursement, and they forgot to add the other $45 million on to pick up those other two reimbursements that were already fully funded.

REP. HARRINGTON asked, then, if this $45 million had not been included in **Mr. Johnson's** estimates, and **Mr. Johnson** said that if that had been included, this particular document would have shown an improved figure of another $45 million. **REP. HARRINGTON** asked if the effects are then in the reimbursement, and **Mr. Johnson** said that that $45 million has been ignored in terms of its impact on the status sheet, and what is built into this at this point in time is about $80 million worth of direct local government reimbursement monies.

SEN. HARP said that this $45 million is recognized because it is current law and we are obligated to reimburse that, and what is being considered by this committee now is what has taken place this legislative session and what our commitment is into the future.

SEN. ECK asked if the same mechanism by which reimbursements have been taking place for **HB 20** and **SB 417**, those mechanisms will continue as they have been done, and then a new reimbursement mechanism will be added for what takes place this session. **SEN. GROSFIELD** said that this committee is considering two different approaches, **HB 678** and **SB 184.** **HB 678** repeals those two bills, and **SB 184** does not.

Mr. Finch continued, at the top of page 5, that **SB 184** retains current law with respect to these reimbursements. **SEN. GROSFIELD** added that that is a large part of what the study will be dealing with, how these two bills and what is in **SB 184** can be pulled together, recognizing that there are a lot of issues involved there and it requires more study than this committee can accomplish in a few days.

Mr. Finch said the final section of the handout deals with administrative issues.

REP. HIBBARD referred to page 2 of the Comparison handout, under "Jurisdictions Reimbursed," under **SB 184** it is stated that state levies specifically excluded under the bill include the 40 mill statewide levy for school equalization, the 33 mill and 22 mill levies for elementary and high school districts, the 1.5 mill levy for vocational-technical schools, the 6 mill university levy and the 9 mill levy for state assumption of welfare, but on the top of the next page it says that **SB 184**, combined with **SB 260**, reimburses the 6 mill and 9 mill levy accounts through direct appropriations. He wondered if that meant that those levies are excluded until **SB 260** language is included, at which times the 6 mills and the 9 mills are reimbursed. **Mr. Finch** said the bottom of page 2 is referring to the point at which the calculations are being done for taxing jurisdictions based on the language in the bill, there will not be calculations for the 6 mills and the 9 mills specifically to see how much lost revenue occurred from one year to another because they are being reimbursed directly through appropriations that are provided both in **SB 260** and **SB 184.**

The Free Conference Committee on SB 184 was recessed at 11:00 a.m. and reconvened at 8:45 a.m., April 20, 1999.

Presentation by Mary Bryson, Department of Revenue:

Mary Bryson, Director, Department of Revenue, presented the financial summary that the Department had created which identifies what appropriations and reimbursements are necessary and available, as well as the local tax relief that is provided for the bills that are reimbursed in **SB 184, EXHIBIT(tas83sb0184a15).**

Ms. Bryson, starting at the top of Exhibit 15, the funding available in **SB 184,** the actual dollars for use in the bill, which is $79.9 million, walked the Committee through the appropriations that were broken out, arriving at a total appropriations of $75.9 million.

SEN. HARP referred to the $2 million to the City of Billings for the reimbursement due to **SB 184,** and he wondered if that was due to their city charter, which sets a limit on the number of mills that can be raised, and this is the reimbursement necessary to accommodate **SB 184,** and **Ms. Bryson** said that was correct. **SEN. HARP** asked what that cap was, and **Ms. Bryson** said it was 79 mills. **SEN. HARP** asked what a mill raises in the City of Billings, and **Ms. Bryson** said it is $124,000. **SEN. HARP** asked why Billings was being reimbursed and other cities and towns were not, and **Ms. Bryson** said it has to do with the limitation on the number of mills which they can levy, and the inability to float their mills.

REP. STORY asked for further explanation on the $4.3 million for the Office of Public Instruction, **SB 260** GTB/NLR vehicles. **Mr. Nichols** said this represents the reimbursements to schools for losses to general funds in **SB 260,** which were not appropriated. Since we have shifted back to **SB 260,** those needed to be picked up.

SEN. HARP said that as **SB 260** was crafted, it was only in effect for half of the first biennium, and then it took full effect the second year. He wondered why the $4.3 million has suddenly appeared and it had not been considered with **SB 260. Mr. Nichols** said these numbers were on the Fiscal Note for **SB 260.** What has been done is the $6.6 million listed on the Fiscal Note for **SB 260** has been reduced to this $4.3 million which will go to the schools as reimbursements for lost revenues. **SEN. HARP** said he had been under the impression in consideration of **SB 260** that the relief to the taxpayer was around $26 million, and he asked if it should have been $30 million, or has the $4.3 million already been accounted for and it is now being counted twice. **Mr. Nichols** said he did not think so. **Terry Johnson** said that in terms of **SB 260**, on the section of the status sheet that shows potential appropriations, there is an amount shown there for **SB 260**, and that consists of Guaranteed Tax Base costs. Because it is in the potential appropriations section, it was not figured into the bottom line on the front page of that status sheet, so to that extent, based on the amendment of yesterday, those costs would be incurred by the state and the Superintendent of Public Instruction would be required by statute to request a supplemental appropriation to backfill that with General Fund monies if this bill does not pass. **SEN. HARP** asked if the $4.3 million was not included in **SB 260**, and **Mr. Johnson** said that was correct. **SEN. HARP** said that the decision that needed to be made today, then, is whether or not we want to appropriate an additional $4.3 million because the actions of the legislature and the Governor never included this amount in **SB 260. Mr. Johnson** said that was correct.

Mr. Nichols said that this $4.3 million could not be entirely ignored, however, because if this is ignored, the GTB costs will rise, because the appropriation by statute must be made and the withdrawal from the General Fund will be made. He said $2.2 million of that amount is reimbursement, which could be ignored, but the balance will happen no matter what. That $2.2 million is the reimbursement that would be paid to school districts for their losses on the vehicle tax. The remainder is an increase on the GTB because their taxes will rise mainly due to the delay in those reimbursements. **SEN. HARP** asked how long this delay would be, and **Mr. Nichols** said it is a one-year lag that will stay in the process.

Ms. Bryson continued through the financial summary. **REP. STORY** asked if these costs are things associated with the various tax relief bills that were not listed on those Fiscal Notes. **Ms. Bryson** said they are included in the Fiscal Notes, but they do require an allocation from the General Fund to the 6 mill and 9 mill levies to replace that money. That is a legislative decision as to whether that is done or not. **SEN. HARP** said the Governor's amendment of March 10th takes care of the 6 mills and the 9 mills, but he asked from which this $3.9 million came. **Ms. Bryson** said that was in association with **HB 128, HB 174, SB 200** and **SB 184. SEN. HARP** said the price tag on **SB 200** was $62 million, but we have not appropriated, and **Ms. Bryson** said that was correct, as well as **HB 128** and **HB 174.**

SEN. HARP asked if everyone was sure that everything coordinated with **HB 2**, and **Mr. Johnson** said in terms of **HB 2,** the University System millage appropriations are essentially based on current law, before any tax relief measures were enacted. That is the appropriation level. To the extent that there is insufficient cash in those accounts, the University System cannot spend any more than what is received in those accounts; so if those accounts are backfilled with cash, they will be able to spend up to that appropriation. **SEN. HARP** said, then, that current law is based on the assumption that a mill generates $1.9 million and the millage that funds the University is based on that total taxable value, and anything that has been reduced because of legislative action must be appropriated back. **Mr. Johnson** said the state special revenue appropriation is already established in **HB 2.** If it is legislative policy to backfill those accounts with the General Fund, money must be transferred out of the General Fund into those accounts.

Ms. Bryson moved on to the land cap at 75% of improvement value, which is an amendment which will be before this Committee today, and that would be the cost associated with that amendment. **REP. HARRINGTON** asked what counties would be involved in the land cap, and **Ms. Bryson** said it would involve those counties whose property values are at a higher percentage of the total value of the improvements on the property, which would probably be western Montana.

Ms. Bryson said the final item under "Appropriations" has to do with the administrative costs that the Department of Revenue will incur, and there is an amendment pending before the Free Conference Committee on **HB 2** on the administrative costs for this bill. **SEN. HARP** asked if this was due to the phasing in of the 1996 values over a four-year period, and doing the reappraisal. **Ms. Bryson** said the vast majority of the costs are associated with additional FTEs to do the reappraisal. **SEN. HARP** asked how many FTEs that would require, and **Ms. Bryson** said the Department had requested 21 FTEs. **SEN. HARP** asked how many dollars of the $1.7 million that represented, and **Ms. Bryson** said in 2001 it will be approximately $700,000 for the FTEs, $290,000 for operating expenses, and another $12,500 for equipment.

Moving on to the "General Fund Replacement," **Ms. Bryson** said that at this point in time these two numbers are estimates, but the property tax decreases to the General Fund associated with the Roosevelt decision do need to be recognized; and because of the changes in the tax policy of Montana, there will be some non-levy revenue lost to the General Fund which needs to be recognized. **Ms. Bryson** said that demonstrates how the $79.9 million has been allocated that is available.

SEN. GROSFIELD asked if the non-levy revenue is entirely from **SB 260**, and **Ms. Bryson** said it was as a result of a lot of the other impacts that are associated with other things, although it is primarily associated with **SB 260** because motor vehicle money represents non-levy revenue.

SEN. HARP said that if that is appropriated, then, that money is basically coming back to the state, and **Ms. Bryson** said it is not really an appropriation. It is just to recognize that that is an additional revenue loss that has been incurred. **SEN. HARP** asked if the estimated revenue that has been projected is going to be affected because of the non-levy revenue losses to the General Fund of $2 million, and this is just recognizing that loss. **Ms. Bryson** said that was correct. She said it is not a cost of the bill, it is just a recognition of what revenue may be available for reimbursement. **SEN. HARP** asked if this $2 million recognized because of property tax decreases to the General Fund because of **SB 195** was based on current law. **Ms. Bryson** said that was correct, and when the revenue estimates are put together for **HJR 2** at the beginning of the session, we did base them on current law. The Roosevelt decision came out after those determinations and estimates were already made, and **HJR 2** has not been adjusted to reflect that decision. **SEN. HARP** said he did not believe that the $2 million should not be counted because it does not relate to current law and how projections are put together as far as revenue. **Ms. Bryson** said the Department had interpreted **SB 195** to phase in the values, both increases and decreases, and the projections were based upon the Department's belief that that was legislative intent and that that was current law.

Referring the Committee to the second half of the financial summary, **Ms. Bryson** listed the local tax relief provided in bills reimbursed in **SB 184.** **REP. HIBBARD** asked if the amount for **SB 200** includes the livestock reduction, and **Ms. Bryson** said it does.

REP. STORY said the 96.84% assumes that the Committee adopts all of the proposals that are listed on the top half of the financial summary, and **Ms. Bryson** said that was correct. She said these are just to lay out the decisions the Committee has before it.

REP. HARRINGTON said that the flow chart dated April 12th shows reimbursement to schools as $85.8 million, and on this sheet it is $79.8. He asked what accounted for the difference. **Ms. Bryson** said that two different factors go into that determination. The first factor is **SB 100** and the $10 million associated with that that was going back to schools and were included in these numbers. However, the Committee had made amendments to **SB 184** which changed the distribution and the reimbursement flow, so the impacts of **SB 100** are no longer recognized. The balance had to do with the GTB reimbursement. **REP. HARRINGTON** asked what the effect on the schools would be as a result of that, and **Ms. Bryson** said local school mill levies will adjust.

REP. HIBBARD said that on April 12th we had a figure of $85.8 million to reimbursed to local governments and schools, and on this sheet, the number is $62.1 to be reimbursed to local governments and schools. He said he needs to understand how we got from $85.8 million to $62.1 million, understanding that $10 million of that is from the way **SB 100** was accounted for, but there is additional difference there that is unclear to the Committee at this point. He asked if there is really no less money that is available, or if it is just the way it is accounted for. **Ms. Bryson** said that the total appropriations line on this sheet is $75.8 million, and the additional $10 million would be added to that.

REP. HARRINGTON said these mills will be able to be raised without a vote, and **Ms. Bryson** said it is her understanding that both the local jurisdictions and the schools will not have to vote increases in mills. **SEN. GROSFIELD** said that is assuming they are not going above last year's budget, and **Ms. Bryson** said that was correct.

SEN. ECK asked what the affect would be if reimbursement for residences were included in **SB 184** on different counties. She said it appears that those counties that rely primarily on residential property taxes will not receive very much reimbursement. **Ms. Bryson** said the Department has done an analysis that shows the impact of **SB 184** on a county-by-county basis, and could make that available to the Committee. **SEN. ECK** asked if that would include the change in the number of mills that would have to be levied proportionately. **Ms. Bryson** said they do have a sheet that shows the county-by-county distribution impact and the percentages. They would not be able to say what the impact level would be as far as the local mills until they know the actual value of the local mill in that taxing jurisdiction.

SEN. GROSFIELD said the numbers on the bottom of this financial summary only deal with the bills in **SB 184**, and does not represent everything. **Ms. Bryson** said that was correct.

SEN. HARP asked where on this financial summary the excise tax that is in lieu of property tax is accounted for, and **Ms. Bryson** said that would be in the $79.9 million at the top as to funding that would be available. Those monies would be deposited into the General Fund and made available for the reimbursement. **SEN. HARP** asked if the Department could provide a breakdown of that $80 million at the top of the financial summary. **Ms. Bryson** said the Department would provide that.

REP. STORY said that yesterday the Committee thought there was $17 million available for homeowner relief, and assuming the decisions are made as laid out on this sheet, that is used up. **SEN. HARP** said that the Committee needs to recognize that it is the Committee's discretion what is going to occur with some of these issues.

SEN. GROSFIELD asked about the 79 mill cap in the City of Billings charter, and that it absolutely could not be exceeded. **Jani McCall, City of Billings,** said the City of Billings is capped at 74 mills, and due to their charter status, that cannot be raised until it is taken to a vote of the people. **SEN. GROSFIELD** asked how long the cap has been 74 mills, and **Ms. McCall** said since 1981 when the charter was established. **SEN. GROSFIELD** asked how long it would take to take this issue to the voters, and **Ms. McCall** said it would probably take nine to twelve months.

SEN. GROSFIELD asked if Billings is the only city with this issue, and **Alec Hansen, Montana League of Cities and Towns,** said there are 15 or 16 cities and towns in Montana that have charters. Two cities, Billings and Missoula, have mill levy limits in their charters. If the legislature allows other cities and towns to raise mills to recover the lost revenues of **SB 184** and **SB 260,** Missoula could increase their mills without a vote. **SEN. GROSFIELD** said that almost $3 million is going to Billings in this proposal, which is a significant percentage, and he wondered how that would be justified. **Mr. Hansen** said when Billings set the cap, the tax rate on class four property was 11%. That rate went to 8.55% and then to 3.88% and is going down. When the 74 mills hard cap was adopted, they felt they had plenty of mills, now they are finding it is not. This amendment merely gives the City of Billings some time to go to the voters to get the increase approved. It is not a permanent commitment.

SEN. HARP said everything being worked on now is based on 1998 values, because we know what they are, and he asked if that $2 million was based on 1998 numbers. **Ms. Bryson** said it is based upon the 1998 values and information obtained from the City of Billings.

SEN. GROSFIELD asked, then, what kind of annual growth factor is being considered. **Ms. Bryson** said the Department did not do anything specifically for Billings, but the statewide average is 3% for property values. **REP. ROYAL JOHNSON, Billings,** said it is about 3.2% in Billings. He said in regarding the 74 mills, that the taxpayers in Billings are actually paying 94 mills because they pay the 74 mills, plus 10 mills for transportation, 5 mills for the library, and 5 mills for public safety. **SEN. GROSFIELD** asked if those all happened by vote, and **REP. JOHNSON** said that was right.

SEN. ECK asked if the City of Billings and Yellowstone County make use of fees and funds in order to avoid mills. **REP. JOHNSON** said they use SIDs, RSIDs, tax increment districts in addition to other items. **SEN. ECK** said the other thing that is happening here is the lowering of the value of a mill, and she wondered if there would be a possibility of maintaining the current 3.86% or increasing that for those districts that are up against caps. She wondered if that would bring in enough extra money to make a difference. **Ms. Bryson** said as a result of legislation, the taxable value is being lowered, but the actual market value of property is not changing. As far as not lowering the taxable value, that would be a decision the legislature would have to make.

REP. STORY asked if the charter in Billings requires that an election for a mill levy increase be held at a certain time, and **REP. JOHNSON** said they do have to be held at a certain time, but he did not remember the specific date. **REP. STORY** said the City of Billings would need some lead time to promote, and then after the vote, it would take a certain amount of time to put those mills on the rolls and start collecting them. **REP. JOHNSON** said that was correct. **SEN. GROSFIELD** asked **Mr. Hansen** if he knew the minimum amount of time it would take to accomplish the whole process. **Mr. Hansen** said the primary would be in September, the general would be in November. He said starting now, there would be enough time to notice up a mill levy election in the City of Billings.

The Committee recessed at 9:55 a.m., April 20, 1999, and reconvened at 8:07 p.m., April 20, 1999.

Motion: SEN. ECK moved SB018415.ALH, EXHIBIT(tas83sb0184a16).

Discussion:

REP. STORY said these are technical amendments which reinsert language and correct some provisions that were in the drafting of this lengthy bill and needed to be taken care of. **Mr. Heiman** said Amendments 1 and 2 make some changes to the title that are necessary by the following amendments. Amendment No. 3 reinserts a section that was mistakenly struck from the bill which is the general taxing power of municipalities. Amendment No. 4 changes the valuation of class four property to 100% to the applicable percentage of the value of the property. Also, there are changes to some provisions relating to the Hard Rock Mining Impact, Amendment No. 5 deletes a section and Nos. 6 and 7 clarify how the valuation is to be used. No. 8 changes how the assistance is rendered to the Department of Administration in the study involved. Nos. 9 and 10 provide that legislators are paid as legislators in the course of the study; No. 11 corrects a mistake as to which department the appropriation goes to; No. 12 includes the basic coordination regarding the prison farm study and including that in the study provided for in this bill; No. 13 is a standard severability clause; and Nos. 14 and 15 terminate the reimbursement provision.

SEN. HARP asked if the hard rock issue coordinates with **REP. HARRINGTON'S** amendment regarding **HB 420**. **SEN. GROSFIELD** said that amendment actually came from him, and it has to do with the ability of hard rock mining counties to count as newly taxable property the mining property as it comes in.

Vote: Motion carried 6-0.

Motion: SEN. ECK moved SB018424.ALH, EXHIBIT(tas83sb0184a17).

Discussion:

SEN. ECK said this amendment provides a greater amount of tax relief for residences. She suggested that vacant lots be deleted and reworked into the tax exemptions for residences. The other issue is the $200,000 cap, and she said she agreed with what **SEN. HARP** had said about that affecting multi-unit rental units, so this puts in a cap of $200,000 for each unit.

SEN. HARP said he still had a problem with the vacant lot issue. It is his understanding that for a mobile home, a lot is considered private property unless the home is on a foundation, and mobile home owners could see a 30% increase in their taxes. He said he appreciates **SEN. ECK'S** concerns for homeowners, but he could not support the amendment.

SEN. ECK said the percentage of the $14 million that is being allowed for vacant lots that house mobile homes is 2% or 3%; however, it is obvious that this amendment is not going and she would not push it any further.

Vote: Motion failed 2-4 with Harp. Grosfield, Story and Hibbard voting no.

Motion: SEN. ECK moved SB018425.ALH, EXHIBIT(tas83sb0184a18).

Discussion:

SEN. ECK said this amendment includes in the tax exemptions in **SB 184**, along with the seven other bills on page 177 where those bills are listed, that **SB 184** could be reimbursed, and adds **SB 184** into the total mix with the understanding that this is going to be proportional anyway, but it would be more fair to those counties that have a tax base that is predominantly residential.

REP. STORY said he would oppose this amendment. He said when this reimbursement process was begun, the bills that already had reimbursement mechanisms in them were considered. The reason the reimbursement mechanisms were consolidated was just to simplify the process so there would not be six or seven reimbursement mechanisms out there to administer. Many of those bills are focused on very specific areas. **SB 184** was a bill dealing with installing the new reappraisal, and every time a new reappraisal is installed, there is a shift in the tax base. It was decided to put some homeowner relief into **SB 184** without shifting it to other people in the tax system. He said he opposes this amendment because he feels that we need to keep our money focused to the policies that were passed in the tax reduction bills.

REP. HARRINGTON asked what this would do for homeowners, and **SEN. ECK** said the Department was going to try to get some data on this, but she has not seen it.

REP. HIBBARD said a number of tax policy changes took place this session which affected local governments, and it is nice to be able to put some of that money back into those taxing jurisdictions. He said with all that has been done, homeowners will achieve decreases in their property taxes. He said he would oppose this amendment.

SEN. ECK said that some homeowners will end up paying less tax, some will end up paying more, and that has to do with the general makeup of their county, because the floating mills could fall primarily on residences in some counties.

Vote: Motion failed 2-4, with Harp, Grosfield, Story and Hibbard voting no.

Motion: SEN. ECK moved SB018429.ALH, EXHIBIT(tas83sb0184a19).

Discussion:

SEN. ECK asked **Mr. Heiman** to explain this amendment. **Mr. Heiman** said this is a set of amendments that are clarification amendments that started with the Office of Public Instruction and also the Department of Revenue to clear up some provisions. Amendments Nos. 3 and 5 rewrite Section 1 of the bill so that it is cleaner and easier to administer; Amendments Nos. 4, 6, 7 and 8 do some cleanup as far as OPI's need for a different type of tuition levies and removing some sections from the bill to go with that.

SEN. GROSFIELD said the first few amendments deal with the famous Section 1 of this bill, and as this bill has gone through several committees, floor action, and so on, Section 1 has been amended a number of times. While he feels that Section 1 probably works, this tries to put it into a more readable and more understandable language. He said he will support this amendment.

REP. HARRINGTON said OPI had brought forward some concerns earlier, and he wondered if these alleviate those concerns. **Madalyn Quinlan, Office of Public Instruction,** said this was something she brought to the Committee last week, asking that it be clear that the school district general fund levy and the tuition levy were subject to the provisions of the school finance law and not the provisions of Section 1 here.

REP. STORY said this does work well, and he will support it.

SEN. ECK said that everyone who has gone through this bill has found some confusing language, and this makes sense and helps this bill.

Vote: Motion carried 6-0.

Motion: REP. HARRINGTON moved SB018419.ALH, EXHIBIT(tas83sb0184a20).

Discussion:

REP. HARRINGTON said this is an amendment to reenact the economic development levy in the counties so they have the right to every six years have the election. This is one of the things that was a problem with the bill, and this gives the counties the right to continue what they are doing now, which is to vote on these economic development mill levies.

SEN. HARP asked if this is the 1 mill and it it is authorized to not exceed six years, and **REP. HARRINGTON** said that was correct. He said it was in the bill but was somehow stricken, and he believes it is an important part of the economic development. **SEN. HARP** said he supports that.

Vote: Motion carried 6-0.

Motion: REP. HARRINGTON moved SB018423.ALH, EXHIBIT(tas83sb0184a21).

Discussion:

REP. HARRINGTON said this amendment sets up the tax increment districts for their lost taxable valuation and does extend this across and gives a percentage of the recovery to the areas in these districts. **REP. HIBBARD** said this will allow for the reimbursements to tax increment finance districts across the state and will include them in the same section of the bill which deals with local government units. This allows the TIFs to be reimbursed on the same basis as any other local government unit. **Mr. Heiman** said that No. 4 provides that all districts except those industrial districts formed under 7-15-4299 get the incremental increase for reimbursement. The industrial districts are then dealt with in No. 5. **REP. HIBBARD** said that industrial districts will not be reimbursed in the same fashion as the others, but there is an appropriation of $600,000 for the biennium to the industrial district in Butte.

REP. HARRINGTON said of all of the things that have come to Montana, the AsiMI plant is important, and using the industrial tax increment district to support this is important and this appropriation is very necessary.

SEN. ECK said this applies to that one tax increment district in Butte, but wondered if it would disallow those kind of districts in other areas. **REP. HIBBARD** said that with the way that taxes have been reduced and the elimination of personal property taxes, the main reason for creating tax increment financing districts in the future is going to be a thing of the past.

SEN. GROSFIELD said, then, that there is no longer a need for industrial TIFs because of what has been accomplished with **SB 200**. **REP. HIBBARD** said that was correct.

SEN. HARP said that Amendment No. 4 says that each year the district must receive reimbursement based on the loss of the increment taxable value of the district, so whatever is currently going on, they are being reimbursed, and No. 5 specifies that every TIF program that is currently underway in Montana will be reimbursed. He said this is consistent with what the legislature has been trying to do all session, and he will support it.

SEN. ECK asked what is happening to the tax increment district in Butte, and if this $600,000 appropriation for one biennium was going to take care of them. **SEN. HARP** said Silver Bow is always well represented in the legislature, and if a need should arise in the future, they will make sure that the legislature is aware of that need. Also, in **HB 260** there is a $600,000 appropriation which goes on forever. **REP. HIBBARD** said also that this amendment only deals with reimbursement, so formation of TIFs in the future would be affected by the reduction and elimination of personal property tax; however, if TIFs can be structured around some other future tax flow, there is nothing here to prevent that from happening.

REP. HARRINGTON said it is important to note that we are protecting all tax increment districts across the state of Montana with this bill.

Vote: Motion carried 6-0.

Motion: SEN. HARP moved SB018422.ALH, EXHIBIT(tas83sb0184a22).

Discussion:

SEN. HARP listed the major points of this amendment: 1) it reimburses OPI for the effects of **SB 260**, the entire amount of $4.3 million, a direct reimbursement rather than going through the GTB, and is a dollar replacement; 2) it recognizes the charter problems for the City of Billings by appropriating $2,150,000 to fully reimburse; 3) it reimburses $2.4 million from the General Fund to the 6 mills for the University System; 4) it recognizes that we are back in the reappraisal business, and $1.5 million will be appropriated to the Department of Revenue to administer this act; 5) it provides approximately $67,834,392 will be reimbursed to local governments and schools, with a 3% growth factor, beyond the impacts of the legislative acts; 6) it provides that the Governor will be required to include reimbursements into the future in his base budget, and 7) it provides $1 million to take care of the disparity between the values of land and residences, and there will be a land cap to deal with those situations where the land has increased more than 75% of the improvements.

REP. HARP said this amendment amounts to a little over $79 million, along with the $600,000 appropriation in **REP. HARRINGTON'S** amendment. The Department of Revenue provided a financial summary dated April 20, 1999, with attachments, **EXHIBIT(tas83sb0184a23)**.

SEN. HARP said this results in $138 million in tax relief, not including the $10 million of relief in **SB 100**, and the effects of that are being reimbursed.

REP. HARRINGTON said it is a good amendment, but he does have some problems with the 75%.

SEN. ECK said she has problems with that also, but she has been told that it only affects Lake County, Gallatin County and Flathead County. This would encourage anyone who has valuable, high-tax land to build a very inexpensive dwelling and get a very large tax cut.

REP. STORY said this bill takes care of total tax restructuring that has taken place in this session, and he supports this amendment.

SEN. ECK said her preference would be to segregate No. 5, and she could support this amendment.

SEN. HARP said the entire session has worked toward turning the economy around and also recognizing the responsibilities that we have to local governments and schools. When you look at the entire picture of this session, this is a landmark legislature.

SEN. GROSFIELD added that there is a lot of tax relief in this bill, and reimbursements have been taken care of. It is a good amendment, and he will support it.

Vote: Motion carried 6-0.

Motion: REP. STORY moved that SB 184 DO PASS AS AMENDED.

Discussion:

REP. HARRINGTON said that if he had his druthers, he would want to go a different direction, but as it stands presently, he will support this bill.

REP. HIBBARD said that last session we were able to stop a 44% statewide increase in taxes, affecting 94% of the taxpayers in Montana. By these actions today, we are able to phase that reappraisal in over a four-year period of time, and through a combination of homestead and comstead exemptions and rate reductions, we are able to still provide additional relief, somewhere between 10% and 6.2% of tax relief to homeowners. Overall we are providing about $138 million worth of tax relief and allowing local governments to recoup whatever losses they may have suffered. He said he wholeheartedly supports this bill as amended.

SEN. ECK said she supports the idea of reimbursing counties when their tax base is cut. She said this is a more sophisticated effort, and is probably the best effort that has been made, but she is not sure what it does yet, and she would like to see the data and have it made available to the entire Senate. **SEN. HARP** said he had assured **SEN. DOHERTY** that that information would be available.

REP. STORY said this is a lengthy and complicated bill, but the needs for this bill points to the fact that we have a convoluted property tax system in Montana and we just made it more complicated. He said we rely very heavily on property taxes to support both state and local governments, and we are not going to get away from that with the present tax system. This bill puts together a study group to look at a simplified funding system as long as we are going to depend on the property tax system to do all the work in the state of Montana. He said the methods that were done this time to try to hold the homeowner harmless and the commercial property harmless from the reappraisal put another level of complexity into an already complex system, but it has served its purpose as best as it could. This is a good bill, it is good for Montana, good for homeowners and good for business, and he will support it.

REP. HARRINGTON said he echoes **SEN. ECK'S** comments. It is going to be very, very important that all that material can be presented in the morning so that each and every legislator knows exactly what this bill does in every aspect.

SEN. GROSFIELD said **SB 184** has had a long and varied history. At the beginning of the session we were dealing with **CI-75**. This bill deals with the issues raised in that Constitutional initiative, which were local taxpayer control or at least a say in government, especially as it relates to taxes. This bill still requires a local participation in the form of local voter approval if a government unit's budget is increased above whatever it was last year.

SEN. GROSFIELD said it also deals with the issues involved in **SB 195** by taking a 50-year phase-in and moved it back to a six-year phase-in and set up a six-year reappraisal cycle. This bill responds to and actually uses the concept of **SB 195**, but instead of doing it over 50 years, it does it in six years. It also does the whole reappraisal thing. It provides significant and real homeowner property tax relief.

SEN. GROSFIELD said he is proud to have been a part of this particular legislative session. He commended everyone who was involved with this bill and all the amendments and requested information. Their help was greatly appreciated.

<u>Vote</u>: Motion carried 6-0.

ADJOURNMENT

Adjournment: 9:25 P.M.

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SEN. LORENTS GROSFIELD, Chairman

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SANDY BARNES, Secretary

LG/SB

EXHIBIT(tas83sb0184aad)