MINUTES

MONTANA HOUSE OF REPRESENTATIVES
57th LEGISLATURE - REGULAR SESSION
COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB STORY**, on January 9, 2001 at 9:00 A.M., in Room 472 Capitol.

ROLL CALL

Members Present:
Rep. Bob Story, Chairman (R)
Rep. Ron Erickson, Vice Chairman (D)
Rep. Roger Somerville, Vice Chairman (R)
Rep. Keith Bales (R)
Rep. Joe Balyeat (R)
Rep. Gary Branae (D)
Rep. Eileen Carney (D)
Rep. Larry Cyr (D)
Rep. Rick Dale (R)
Rep. Ronald Devlin (R)
Rep. John Esp (R)
Rep. Gary Forrester (D)
Rep. Daniel Fuchs (R)
Rep. Verdell Jackson (R)
Rep. Jesse Laslovich (D)
Rep. Trudi Schmidt (D)
Rep. Butch Waddill (R)
Rep. Karl Waitschies (R)
Rep. David Wanzenried (D)

Members Excused: Rep. Joan Andersen (R)

Members Absent: None.

Staff Present: Jeff Martin, Legislative Branch
Rhonda Van Meter, Committee Secretary

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

Committee Business Summary:
Hearing(s) & Date(s) Posted: HB 23, 1/4/2001; HB 24, 1/4/2001
Executive Action: None

CHAIRMAN STORY opened by explaining the process of the hearing of a bill, including sponsor opening, proponent testimony, opponent testimony, informational testimony, questions, and executive action. He reminded committee members they should take good notes because executive action might not be taken on a bill for a significant amount of time.

HEARING ON HB 23

Sponsor: REPRESENTATIVE RON ERICKSON, HD 64, Missoula

Proponents: **Anna Miller, Department of Natural Resources**
Gordon Morris, Montana Association of Counties
Gene Huntington
Mary Whittinghill, Montana Taxpayers Association
Alec Hansen, Montana League of Cities & Towns

Opponents: None.

Opening Statement by Sponsor:

{Tape : 1; Side : A; Approx. Time Counter : 6.5}

REPRESENTATIVE RON ERICKSON opened by saying he would first say a few words about reading bills since this is the first bill being heard in the committee. He used HB 23 as an example discussing the requestor process, title, number of sections, and looking for new sections and amendments. He said this bill is about a particular kind of debt. Examples were given of kinds of debt people cannot vote on and can vote on. There should be debt limits as stated in the Constitution, Article 8, Section 10. This bill proposes going from taxable value to assessed value. Every year the legislature changes taxable value, so they want to simplify. **EXHIBIT(tah06a01)**, **EXHIBIT(tah06a02)**, **EXHIBIT(tah06a03)**. These handouts are for extra information used in the subcommittee, but they are not something he would try to use on the floor. The idea of going from taxable value to appraised value is that appraised value is something that changes, is real, and is not something being changed by the legislature. When you change this, there are both winners and losers in both counties and cities. The various counties and cities have a very different mix of types of properties they have in them, including gas and oil properties. There was a lot of work done trying to decide how to make sure cities and counties were not being hurt. They decided to keep it simple and add 25% value to the appraised values out there for calculations to see what they get by using market values times a fixed percentage. The result of this calculation gives local governments an increase in bonding capacity of 25% on the average. The bill is based on the 25% increase. For the most part, there are more possibilities of debt limit being increased than decreased. In the past county debt overall was at 23% with separate limits for general obligation versus jails. They got rid of treating jails differently and used the 23%. He asked if it was imprudent to have increased 25%, and their answer was it was not, as compared to other states, we are fairly lenient. Also most counties are butting up to their limit now and voters decide.

Proponents' Testimony:

{Tape : 1; Side : A; Approx. Time Counter : 24.1}

Gene Huntington stated he has worked for a decade working as a financial advisor dealing with municipal bonds and handles the relationship between local governments and school districts when they want to take their debt to the securities market and sell their bonds. This bill will make improvements on two points. The changes made in the last session accumulated with changes made before made understanding debt limits almost impossible for local governments, especially small jurisdictions, and this would be remedied. The second point is to make sure people understand this debt limit is required in the Constitution, but debt limits do not play a role in the purchasing of bonds by investors.

Alec Hansen, Montana League of Cities & Towns said when the debt limits were based on taxable value, every time the legislature made a decision affecting this value, they had to work with the bond companies and change a lot of sections including these debt limits based on taxable value. He gave an example of a problem this caused in Columbia Falls of financing a swimming pool because of the value of the property. The legislature does not change assessed value, so it will not be necessary to change all of the percentages listed in the bill. The bond market will ultimately decide whether these are good bonds and the slight expansion of debt limits is reasonable. People will ultimately decide, because on this type of debt it is a public vote.

Gordon Morris, Director, Montana Association of Counties said the other proponents heard from are correct in terms of their reasons for supporting the bill. He worked with the representatives on this bill. What is being proposed is a simplification mechanism that will hopefully take care of itself in the years to come as taxes are changed by actions of the legislature.

Mary Whittinghill, Montana Taxpayers Association, stated they believe this is good tax policy because it simplifies local financing and makes it easier for the taxpayer to understand how debt limits are set and easier for the smaller local government units. The taxpayers would be protected here because ultimately this is turned over to the voters.

Anna Miller, Department of Natural Resources, stated they work with a lot of small and large communities with financing water and sewer systems, and there are a number of small communities who have struggled to build a project in their community and figure out how to finance it. This bill would make it a much less confusing process and would help greatly.

Opponents' Testimony: None.

Questions from Committee Members and Responses:

{Tape : 1; Side : A; Approx. Time Counter : 32.6}

REPRESENTATIVE BALYEAT asked if the local governments could still use Class 8 assessed value in their calculations even if the taxable value phases out to zero. If they could not use the assessed value once they hit the phase-out to zero, will any of the governments be up to their debt limits then. **REPRESENTATIVE ERICKSON** stated he did not know whether there would be problems when the Class 8 goes to zero. If it does go to zero, they cannot use it. **Jeff Martin** commented that would be taken out of the debt limit capacity for a local jurisdiction. The same thing will happen to livestock because that will be phased out to zero, but if Class 8 property is phased out, it is likely the legislature may have to make an adjustment to the rates in this bill.

REPRESENTATIVE ESP asked if the assessed value of taxable property included gross and net proceeds. **REPRESENTATIVE ERICKSON** responded that those things do count, but for those kinds of property, the value is given by a different means. **Mr. Martin** stated coal gross proceeds are not counted in the debt limit. Although it previously was a property tax, it went to a flat percentage amount for deriving the tax and is not subject to mill levies; however, there is some financial support from the taxation on gross proceeds because it is distributed on the basis of mill levies. **REPRESENTATIVE ESP** asked if it would include all metal mines. **Mr. Martin** stated it would.

REPRESENTATIVE BALES asked if there would be a concern with the bonding companies of possibly doing away with Class 8 and livestock tax and if this needed to be addressed in some way. **Gene Huntington** answered there will be disclosure on the sale of bonds on a current basis. They will look at this when determining interest rates to be charged. Larger jurisdictions get ratings and will be dealt with in a more formal manner and on a statewide level. **REPRESENTATIVE ERICKSON** stated Carter County has 10% of its tax base in livestock, so there will be some changes because of this.

Closing by Sponsor:

{Tape : 1; Side : A; Approx. Time Counter : 39.4}

REPRESENTATIVE ERICKSON stated there are a few things missing on this bill they may come back to. First they want to try to find a way every town could get a loan to buy a fire truck, which is around $70,000, but the debt limit on some towns is not that high, so there could be a problem of that nature. Second if the table handed out is looked out, the numbers seem random. The exact reason behind setting limits from years ago is not known. At some future time, they may want to come back and do some more simplification.

HEARING ON HB 24

Sponsor: **REPRESENTATIVE RON ERICKSON, HD 64, Missoula**

Proponents: **Madeline Quinlin, Chief of Staff, Office of Public Instruction**
Gene Huntington
Mary Whittinghill, Montana Taxpayers Association
Gordon Morris, Montana Association of Counties

Opponents: None

Opening Statement by Sponsor:

{Tape : 1; Side : A; Approx. Time Counter : 41.4}

REPRESENTATIVE RON ERICKSON stated this is a bill to limit debt provisions for public schools eliminating the adjustments. A great amount of time was spent thinking about whether they needed to do a whole lot here. Part of the problem is that schools are different from other kinds of property because of equalization. They are simplifying the bonding for the schools.

Proponents' Testimony:

{Tape : 1; Side : A; Approx. Time Counter : 43}

Madeline Quinlin, Chief of Staff, Office of Public Instruction, stated the committee discussed expanding the assessed value concept to school districts and decided not to pursue this. In addition to the current statute which allows school districts to bond at 45% of their taxable valuation, there is also a safety net in statute, which is the equalization stating a school district can bond up to 45% of the statewide mill value times the ANB of the district. The ANB of a district is the student enrollment count. The statewide mill value is the amount of money property tax statewide would raise per student if one mill were levied. She pointed out section 1 and 3 of the bill and explained. She stated if taxable valuation is kept, the 45% is adequate for new construction in Montana given the regional information they researched. The 45% of taxable valuation for elementary districts tends to be inadequate, so considering a regional average, the bonding capacity would need to be approximately 66% for a new school. There is a concern that if an elementary district would need to entirely replace its school, it might not have adequate bonding capacity, but because of declining enrollment, there are not many schools being built but rather being remodeled. There is a move to study school funding for the future and hopes this will be an issue to come up.

Gene Huntington stated any change in calculating the debt limit does not really affect the credit markets of the bonds. Removing the references and changes of taxable value will simplify the understanding and ability to plan at the local level.

Mary Whittinghill, Montana Taxpayers Association, stated the association believes the simplification would be easier for the taxpayers to understand the debt limits. During the course of deliberations, there was a proposal heard from the Office of Public Instruction on a move to undertake a study on school funding, and they believe this change would be adequate if this study was to go forward to address the debt limits currently in statute.

Opponents' Testimony: None.

Questions from Committee Members and Responses:

{Tape : 1; Side : A; Approx. Time Counter : 51.4}

REPRESENTATIVE ESP asked if the debt limits created would be sufficient to build a school if the ANB were 200-300. **Madeline Quinlin** stated in a small school district it would probably not. The middle schools are the ones they are most concerned about because of slightly more expanded program.

REPRESENTATIVE BALYEAT asked if the debt limits were high enough under the current criteria to build a school. **Ms. Quinlin** stated she did not think so. The language being struck is basically returning to the current law. There could be a problem with a single small school with total replacement and there was no insurance money available. If for some reason they had to build a new school and had no other source of revenue, they would probably have a problem. **REPRESENTATIVE STORY** requested information on the state guaranteed tax program for bonds for the committee. He asked if once the add-backs are taken out are more people pushed into the guaranteed side or will there need to be more state money into the bonding program to make up for the add-backs. **Ms. Quinlin** stated it would likely push more districts into the safety net. The safety net is not being changed here. The number of bonds being issued and the size of those bonds is what will affect the need for more money being put into the bonding program. The bonding capacity will not have a big affect on that.

REPRESENTATIVE BALES asked if Eastern Montana had new energy development and other expansions therefore making it necessary to build additional schools, how could this happen and what affect would this have. **Ms. Quinlin** remarked the Hard Rock Mining Act has ways of putting money up front for construction of new schools. She did not believe there was anything equivalent to that for oil, gas, or coal developments. These districts would be subject to the property tax.

Closing by Sponsor:

{Tape : 1; Side : A; Approx. Time Counter : 57.1}

REPRESENTATIVE ERICKSON wanted to add to the question on energy development. He believes the Major Facilities Citing Act had provisions for money coming in for building schools and would be the place to look for that information.

ADJOURNMENT

Adjournment: 9:57 A.M.

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REP. BOB STORY, Chairman

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RHONDA VAN METER, Secretary

EXHIBIT(tah06aad)