MINUTES

MONTANA HOUSE OF REPRESENTATIVES
57th LEGISLATURE - REGULAR SESSION
LOCAL GOVERNMENT FUNDING SELECT

Call to Order: By **CHAIRMAN BOB STORY,** on February 15, 2001 at 7:00 P.M., in Room 137 Capitol.

ROLL CALL

Members Present:
Rep. Bob Story, Chairman (R)
Rep. Gary Branae (D)
Rep. Eileen Carney (D)
Rep. John Esp (R)
Rep. Jeff Mangan (D)
Rep. Ken Peterson (R)
Rep. Karl Waitschies (R)
Rep. David Wanzenried (D)

Members Excused: None.

Members Absent: None.

Staff Present: Eddye McClure, Legislative Branch
Greg Petesch, Director for Legal Services of Legislative Council
Jenni Stockman, Committee Secretary

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

Committee Business Summary:
Hearing(s) & Date(s) Posted: HB 124, 3/17/2001
Executive Action:

Chuck Swysgood, Director of the Budget Office and Program Planning, presented his concerns about the growth rate factor in HB 124. He said the period that was used to figure the 3.2% rate was a period of time when there was a strong economy with lots of capital gain. This would make the rate higher then normal. He said the average rate was actually 2.2 or 2.5%. He thought the growth rate would decline to under 2% in the next two years. **EXHIBIT(lfh38a01)** The top of the chart shows the money coming into hte state from the funding shifts in HB 124. The lower chart shows the annual growth rate. The first two columns show a 1.28% growth rate as up sizing in 2003 from the gaming machines in 2002. The average rate of growth for funds coming in would be 2.3% rate of growth. He was still cautious about that number, but was presenting it as his proposed rate. He said the growth rate did three things: 1) The revenue coming in continues to grow at the percent factor in the coming years. 2) SB 184 reimbursement had no growth factor, so the growth rate put in would still get that reimbursement. 3) There are 2 reimbursement bills in effect, HB 20 and SB 417. They both had a reimbursement trigger mechanism that they were static for a time and then in 2000 there was a 10% decline for 10 years in the revenue coming to the local government. After those 10 years were over the reimbursements would stop coming. By using this mechanism they took HB 20 and SB 417 and put them with the rate that came in 2000 to put a growth rate to them. This would pick up the 10% loss which, with his proposed 2.3% growth rate, they would receive a 12.3% growth of revenue, rather then the 10% declining.

Rep. Wanzenried wondered about the funding of the reimbursements. SB 184 requires that the reimbursement money replaced in HB 2 set aside $108 million. The executive must be planning that their other 2 bills pass, otherwise there will not be enough revenue.

Chuck Swysgood said the $108 million in the revenue budget for reimbursements was an increase over what was paid and currently there was $239 million in the budget. To figure out what they would get in this biennium, they would have to take out that $108 million and they would get the left over amount. Once SB 184 sunsets there will be no reimbursements.

Rep. Wanzenried showed them page 64 of "Simplification in the 21st Century" where the totals of the personal property reimbursement was higher then the $108 million. He wondered where those totals came from.

Judy Paynter, Dept. of Revenue said that the $76 million starts out with the personal property reimbursement from the $55 million in SB 134 and the remaining is the reimbursement that is going out in SB 417 from a past session and HB 20. In fiscal year 2002, SB 117 and HB 20 decrease 10% per year under the current law, while SB 134 would stay consistent with the 2001 level.

Rep. Wanzenried pointed out the total of those was over $140 million but there was only $108 million in the Dept. of Revenue's budget.

Judy Paynter said there were statutory appropriations to take care of that. **Rep. Wanzenried** wanted to know what those appropriations were. **Judy Paynter** replied that they were from the statutory general appropriation fund that had been written into the law which made it automatic. The amount of these funds were $17 million. In SB 184, there was $54.9 million and there was approximately $21 million in fiscal year 2001. She was not sure what the breakdown was between the different funds. **Rep. Wanzenried** said that was a reduction of $10 million. **Judy Paynter** said there was $109 million in the budget for this biennium, which would cover 2 years. This $109 million came only from SB 184 and the other money to pay HB 20 and HB 417 would come from the statutory appropriations.

Rep. Story asked if the money would figure the shifts from their department. **Judy Paynter** said no, because that just held the money. They needed that money set aside in the budget because that is what made up the personal property reimbursement.

Rep. Mangan asked that it be explained again where they were getting the 12.3%. **Chuck Swysgood** explained that the 12.3% came about when HB 20 and SB 417 started decreasing 10% a year for 10 years. After the 10 years there would be no reimbursement. Under HB 124, the revenue would now go to the state and would stop the 10% decline and add the 2.3% increase. He explained the same thing would happen with the bill factor of 3.3%, you would just end up with 13.3% instead. It ultimately stops the 10% decline and adds the growth factor. The 12.3% plan would benefit local government because under the current system they would lose all revenue in 10 years.

Sen. Elliot said the HB 20 monies that would be declining were only a portion of the money reimbursement. HB 184 has no money decrease in it and the money that would decline is only a portion of the monies that goes back to the counties. He wondered what the money between the 3 bills was and said that between all those bills there would not be a 10% decrease.

Chuck Swysgood said HB 20 and SB 417 were the bills that reduced class 8 rates. It looked like HB 20 had $9 million and SB 417 had $10 million, which would equal $21 million.. This would be declining about 10% starting 2000.

Sen. Elliot said it would still not equal a 10% increase for the local government. **Chuck Swysgood** replied that he did not say that the local government would be getting an increase. He said that they would be getting the increase from HB 20 and SB 417, which would be a part, not the whole.

Mark Staples, Montana Tavern Association and an attorney in Helena, wanted to simplify things by streamlining how the local government would get their funding. He thought it was the most simplified the way it was done now. He did not like the idea of the funding going all over the place and coming back to them from the general budget. This would allow cities to say that 18% to 20% of the budget did not come from gaming as it would come from the general fund. He thought they should leave things the way they were. Gaming has been the most predictable, most steady income and has steadied out between 3 and 5%. Right now two-thirds of it goes to the cities and counties, plus a portion of the fees from the gaming machines, plus one-third to the general fund. He did not know how it could be said that to send all the money to the general fund to come back with a new formula was a simpler, faster route then the one now taken. He also mentioned that there were a number of establishments that have gaming in them which helps keep certain fees down. Airports can keep landing fees down, golf courses keep golf fees down and ski resorts keep the ski fees reasonable. There are areas that treat gaming as a legitimate business, and treat it fairly. In those areas, there is more of a revenue flow. Communities that discriminate against the gaming business would still get the same amount of money as the areas that treat gaming fairly. The Montana Tavern Association wanted to see the money stay in the areas where it was earned, rather then sending it all in to get a percentage back.

Kristi Blazer representing Montana Beer and Wine Association, the group that collects the liqour taxes, and the **28 chemical dependency programs** that are the beneficiaries of the alcohol tax fund. Her issue was the earmarking of tax funds. In 1977 a policy was passed that made the product that was causing the problems be used to fund the treatment and rehabilitation. The system that is currently used works very well, she thought. She was a middle man and never actually sold the alcohol to the public, but rather to the distributers. 5% of the beer, wine and spirit taxes go right into the counties. Another large portion goes into the DPHHS fund. The leftover money then given back to the counties is earmarked for alcohol dependencies. That equals $1 million a year. The wholesalers want the money to go to solving alcohol problems. Under HB 124, that money would not be earmarked, but would be part of an entitlement share the local government could spend on roads, police etc. She would like to see that money still earmarked for alcohol dependencies.

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Rep. Story asked where the gaming revenue went once it was collected. **Mark Staples** told him it went to the Justice Dept. to make sure the right amount was there and then it was sent back tp local government at a quarterly basis.

Rep. Story wondered how what was being proposed in HB 124 was any different than that. **Mark Staples** said it was currently a formula where 100% went in and 100% went back out unless the Justice Dept. found a problem. Under HB 124, 100% goes into the general fund and has other formulas it goes through. It just was not as simple as things were now. Right now you can give the money and get that same amount back. It is a reliable way because they know what was sent in and they can count on what they will get back.

Rhonda Carpenter, representing the Montana Coin Machine Operators, had done some numbers with GIA by taking what the growth rate has been in some areas and that growth rate had been higher then the rate that was put into HB 124. HB 124 put a lock on the growth rate and the revenue coming back. Any additional money would have to be given to the general fund rather then being kept. They came up with what had been paid in the pool and then divided that by the population. A third of the counties and cities would lose a lot and two thirds would go up a little.

Randy Grey, Mayor of Great Falls, said that Great Falls was a high gaming area and wondered what would happen if that was equalized over a years time, and what would stop the area from promoting gaming because they would get the same amount. He said there was a conflict as to what should be done with HB 124. He said gambling could be left out of the bill and then the money would go back to the city, but he thought the money should be left in the bill. He was concerned about the stability of that source of revenue coming to towns. 20% of their general fund came from gambling. If that revenue source was to be voted out by the people of Montana, his city would lose $3 million. He did not want to be supporting a position on behalf of an industry.

Rep. Esp asked if the chart that Rhonda Carpenter had passed out only included the gaming revenue or if they took into consideration any of the cities budget that depends on something from the state that was decreasing like HB 20. **Rhonda Carpenter** said those charts had only been made with the gaming revenue numbers.

Rep. Esp wondered how it was figured out what gaming revenue the state would get. **Mark Staples** told him it was 15% of the gross(after payouts). He used the example of a game machine. If someone put $10 into the machine, he would get $6 back and the machine would gross $4 before taxes. That 15% has actually been $46 million and is distributed. Two-thirds goes into the local government, cities and counties and one-third goes to the State of Montana.

Rep. Esp pointed out that if the cities and counties get 10% and the owner and operator gets 85% of the gross, there would be some overhead profit. **Mark Staples** agreed, saying there would be an estimated profit of 12%.

Rep. Esp wondered if the citizens of the town would get a portion there was an increase of gaming in the town. He was told they would.

Rep. Wanzenried wondered what the other side of the conflict was and why gaming should be removed from HB 124.

Mayor Grey said that Chuck Swysgood's projections were low. By looking back to past years it could be seen that there was a higher growth rate. Some areas grow faster then others, and they would lose money. He thought the bill got worse every time he looked at it. He said that in SB 417 and HB 20 a chunk of the tax base would be taken away with the promise of a reimbursement. The legislation said they would flatten them out and, then after so much growth, they would be put on a decline. The towns and cities were supposed to be okay because of the growth, but, they had already been hurt. He asked that the growth be given and not taken away.

Rep. Wanzenried wondered what advantages there were to the money coming back to the city. **Mayor Kadas** said the money was earmarked for police. The advantage was that it was a separate revenue source that was not as tied to the economy as the other revenue sources were. The gaming fund was about 10% of the general fund budget and about half of what HB 124 would give them. Most of the gambling money goes back to the cities because that is where it was earned.

Rep. Story pointed out that there was only a 2% growth on gambling revenue in Missoula.

Mayor Kadas said he had looked back 3 years and found that for the first quarter of 2001 there was no increase. In 2000 there was a 2% increase and in 1999 there was a 7% increase. In all, it is 10% of the budget and grows more then 2% a year.

Rep. Wanzenried asked if gaming was left in the bill would the state be responsible to distribute $20 million in tax receipts that it would not receive because gaming had been taken out. **Greg Petesch** told him that was how it was.

Mark Staples said he appreciated the various positions and concerns on the bill, but wanted to point out that it was HB 124 that put them in that position, not gambling.

Rep. Mangan asked were MACo stood on this.

Gordon Morris said it was safe for him to say they supported the bill. He pointed out that counties had a unique position in the gaming phenomenon. They have a slight take of the revenue, but have all the same social costs that goes with it.

Rep. Peterson said the gambling funds that Missoula got were earmarked for police work. He wondered if the gaming in the bill would go back earmarked or if it would go to the general fund. **Greg Petesch** told him it was just deposited in the municipal treasury along with the entitlement share.

Rep. Peterson wondered what the statutory effect was if that money was not required to be used on a certain thing. **Greg Petesch** was not certain, and was not aware of any such requirement.

Rep. Peterson said Great Falls was a gambling city which say a growth of 5.7%. The net effect of that would mean they would get back $4073. **Rhonda Carpenter** said he was sort of correct with his assumptions. She said they collected in 2001 on all average of the growth. The estimated base is what they collected in the base year plus a 3% growth. They contributed $72,500 to taxes and would get back $76,000. That would mean they would not have paid the state $4370.

Rep. Peterson pointed out Billings and how they were in the hole because they were growing faster then the growth rate with 8.7%. **Rhonda Carpenter** said that was because they were growing at a 5% rate faster then the factored growth rate. She said the average gambling revenue was growing that much faster. **Rep. Peterson** wondered if this was like an equalization among towns. **Rhonda Carpenter** agreed, calling it gambling equalization.

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Kristi Blazer said they looked at it like there was this pot of money that came back to counties from alcohol taxes. A large share of the taxes, she informed the committee, went straight to DPHHS instead of the local government. The amount left over currently went to the counties earmarked for the alcohol dependency purposes. As a part of the proposed entitlement share there would be no earmarks, no qualifications as to what the money should be used for. The $1 million that her dependency programs depended on would, under HB 124 be given to the state general fund and then a part of the entitlement fund.

Larry Finch, Dept. of Revenue said Kristi Blazer was partly correct. The money would go into the county in the entitlement share, but there would still be the requirement that it be used for the dependency programs.

Gordon Morris said that one of the adopted amendments should have helped that because it made the money go back to alcohol if it came from alcohol.

Rep. Mangan wanted to hear what Alec Hanson and Gordon Morris thought about Mr. Swysgood's proposal.

Alec Hanson said the HB 124 had been passed with the understanding that the gambling would go into the state and the entitlement would get kicked out. He said he would stick to that even though the growth rate was lower. HB 124 sets up a partnership between the cities and counties so he was willing to work with Mr. Swysgood's proposal of 2.3%.

Gordon Morris agreed, saying he would like to see it work for the counties and cities.

ADJOURNMENT

Adjournment: 8:05 P.M.

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REP. BOB STORY, Chairman

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JENNI STOCKMAN, Secretary

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