MINUTES

MONTANA HOUSE OF REPRESENTATIVES
57th LEGISLATURE - REGULAR SESSION
FREE CONFERENCE COMMITTEE ON HOUSE BILL 124

Call to Order: By **CHAIRMAN ROYAL JOHNSON,** on April 17, 2001 at 8:45 A.M., in Room 472 Capitol.

ROLL CALL

Members Present:
Sen. Royal Johnson, Chairman (R)
Rep. Bob Story, Vice Chairman (R)
Rep. Jeff Mangan, (D)
Rep. John Esp (R)
Sen. Emily Stonington (D)

Members Excused: Sen. Bob Keenan (R)

Members Absent: None.

Staff Present: Linda Keim, Secretary
Lee Heiman, Legislative Attorney

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

Committee Business Summary:
Hearing(s) & Date(s) Posted:
Executive Action: HB 124

CHAIRMAN JOHNSON said that since not everyone had been on the Taxation Committee, he would like to get the committee familiar with HB 124 at this meeting. He asked **REP. STORY** to tell about his bill, where it originally was, how much of it he would like to hold together, and where they would go from there.

REP. STORY said the bill came out of Senate Taxation in very good shape, the district courts took over the welfare, created the entitlement share program, everyone had a growth factor including the schools. Then it went to the Senate Floor, but before that point the Budget office had a problem with the bill. Most of the mechanics were stripped out to create the entitlement share, and turned it into a reimbursement bill. Negotiations since then have gotten us back to the point where it can be put back into its original shape and the district courts and welfare could be assumed. The entitlement share would be scaled down because the two declining reimbursements from HB 20 and SB 417 would be set outside the bill and continue to phase out in their own time. That is the way he would like to proceed, as long as the local governments are okay with it. It is still a good working deal, and at this time the local governments are still supporting the bill, even with the Budget Director's amendments. He said he hoped to work toward reconstructing the bill so the state would assume welfare and district courts. Financially, it works for counties. Cities are marginal, especially when they have to drop down to the 2.3% in the out years. Schools will have a problem because now we don't have the revenue to give them the growth factor, other than they will be getting their vehicle growth - which is about half of what we had in **REP. MANGAN'S** amendment. The main structural difference in the proposed amendments was that the original bill held everyone to a higher entitlement share than what is under this proposal. The other amendments that need to be made to the bill have to do with the assumption that district courts push that back six months, to the end of the fiscal year. The administrative part will go in immediately, so that the Supreme Court has their staff geared up and ready to take over on July 1 and the District Court will come on the State system, 2002. There are a few other technical amendments which the Department of Revenue can explain. That is the proposal, the Budget Office and the Governor's office are on board, so then it is more a matter of whether there still is support in the Senate for that proposal, and when they go back to the House if the schools get enough funding there.

<u>Questions from the Committee:</u>

SEN. STONINGTON asked if it is a preference to have the growth factor at 3% in the out years. **REP. STORY** said it is his preference to leave it at 3%, but that won't fly on the Floor. **SEN. STONINGTON** questioned, even with HB 20 and SB 417 out. **REP. STORY** said that is his understanding.

ALEC HANSEN, Montana League of Cities commented that they talked to the Budget Director and the Department of Revenue about maintaining growth at 3%, and members tentatively approved 3%. With growth down to 2.3%, they don't know if the bill is still worth doing. They have to balance their budgets, and all the costs come after four years. Would like to see an amendment go in to make sure Cities and Towns can at least stay even or have marginal gains under this bill.

SEN. STONINGTON said it would be helpful to do a quick comparison. Cities like Billings, Butte and Great Falls really hurt if we don't go 3% in the out year. The whole concept is in jeopardy if the Cities think that in order to get this they will receive less money in the out years, in negative amounts.

CHAIRMAN JOHNSON asked if HB 20 will be taken out. **SEN. STONINGTON** said everyone is assuming that HB 20 and SB 417 will come out of the original bill. **CHAIRMAN JOHNSON** asked if the assumption came from a conversation concerning the Budget Office. **SEN. STONINGTON** said yes, and the fact that it did not pass on the Senate Floor with HB 20 and SB 417 in there was largely due to the influence of the Budget Office. Going along with what is acceptable with the Budget Office, at least to a certain point, will bring us together pretty soon.

REP. MANGAN said 150 people have looked at this, but now it is being driven by one person. This bill doesn't work with the 2.3% in the out years, since the Budget Office has had input. He said the numbers don't look too much different than they did when it left the House. He wants to work on the assumption that if the declining revenues stay in the bill, we need to keep the 3% across the board. He can't support 2.3%, particularly since the schools are no longer involved in this bill.

REP. STORY said he does not disagree with what **REP. MANGAN** said. With the select committee the issue was getting the bill so it worked for four years and don't worry about the rest. They thought it was a good thing that the state general fund would start to shift some money to local government. Then in Senate Tax they wanted off year projections. We started accumulating deficits and it turned into a sizable amount of money, most of which turned into local property tax relief. We were generating local property tax relief and paying for it with general funds.

SEN. STONINGTON asked if it is true that if they pull HB 20 and SB 417 out, we essentially increase local property taxes because they have the ability to float loans back up to that level as that declines. **REP. STORY** said those are declining now, and we are assuming there will be some government agency picking that back up in their mills. Some of it is small numbers that get lost in the shuffle. The first four years are about the same, because the first time, we pushed all the mill levy stuff into county retirement. It was still happening, it was just all in one account. After four years, we couldn't put any more in, the state started eating it, and it wasn't being levied anywhere. That is where the property tax came in, the out years. This plan deals with the out years.

SEN. STONINGTON said her assessment of what occurred in the Senate was fear that was inflamed by a lot of talk that was mostly protective of local government, and fear of the legislature's tendency to go back on its deals. There was little discussion about the impact of the out years.

CHAIRMAN JOHNSON agreed. He said there was a real fear of what the legislature will do to local government, because they keep doing different things to them, most of which are bad. He asked what the numbers read on the impacts with the 3% in the second section of the chart. **Brad Simshaw, Department of Revenue** said the difference between revenues and expenditures on the 3% after the ten years is a $32.854 million negative number. This is a cumulative figure.

REP. MANGAN referred to the 3.0%, going to 2.3% in the out years. Department of Revenue put the numbers together and the last one is 3.0% across the board. We are assuming the Budget Office is still on the 3.0% and the 2.3%. Is that right? **Judy Paynter** said the Budget Director called and said they could not go 3% in the out years because it raises the costs $12 million, and it raises the cumulative costs from $20.4 million to $32.9 million.

SEN. STONINGTON asked about a clause on page 16 that had not been satisfactorily addressed. "If the money appropriated for the District Court assumption is insufficient, counties have to pick up the tab". Why was that language kept in there? **REP. STORY** said he assumed that would come out in the coordinating language. **Judy Paynter** said SB 176 has a new section on 35901, so this is replaced. **SEN. STONINGTON** said if this whole thing goes, and 176 goes, this all comes out. **CHAIRMAN JOHNSON** said the counties will have no assumption and no responsibility of any overruns. **Judy Paynter** said they do have responsibility in two areas: some commitment things and public defenders. They have responsibility in helping to control those costs for fiscal 03 and then it goes totally to the state. There is a limited amount of cost that the district court has some concern about helping to control, and you give them the fiscal 01 base plus inflation. It is just to let the Supreme Court have a little time to get their hands around the budget and get the proper procedures in place. The county has one year to help control select costs. **CHAIRMAN JOHNSON** asked how the control shifts; who will finally control that. **Judy Paynter** said the District Court Council will control it, and that is comprised of four District Court Judges and one member of the State Supreme Court. They have a Supreme Court Administrator and it is anticipated that they will have a District Court Administrator with staff also. **CHAIRMAN JOHNSON** asked how it would work with that group of people who are all affected by it exercising control of it. **SEN. STONINGTON** said they will have to appropriate funds from the legislature. She feels the pressure should come back on the policy makers to say that if we can't afford what we are doing in our judicial system, we should change our policies. It is most appropriate that this pressure comes back on us financially, because there is no other way that the legislature will respond. She said she doesn't know if the District Court Council is the right mechanism, but someone has to sit there saying yes, or no we can't afford this within the given budget that the legislature appropriates.

REP. ESP said that is in both SB 176 and HB 124, and although it is related to this, it might be a different discussion. She is right about this, and they were assured that the coordinating language would be put in.

Judy Paynter said it is difficult to trust folks, but the Montana Supreme Court has had a large general fund for many years and they have stayed within their budget and they have taken responsibility for doing so. They already have the salaries of the District Court Judges and a lot of their expenses, now they are taking over the staff that serves the District Court Judges. It is just like any other agency, they still have to come and ask you for the money. Ultimately, people are responsible and we hope that the court system is responsible also.

REP. ESP said the District Courts from the smaller counties perspective don't have much to say about what they do. We pay our part, and they do what they want. From his perspective, it is a state responsibility and a state problem. This is appropriate. **CHAIRMAN JOHNSON** asked if the budget is enough of a control over what they do, are you satisfied that the budget can control whatever happens. **REP. ESP** said he had only been here four months, and is not sure anything can control anything here.

REP. MANGAN said the committee had a discussion and he is assuming it was about the budget office's proposal for HB 124. He understands they would like to see 2.3% in the out years and asked what year that starts. **Amy Carlson, Budget Office** said it starts in 2006. **REP. MANGAN** asked if the reason is because of concern with costs. **Amy Carlson** said long term growth of revenue sources is anticipated to be 2.3% and **Director Swysgood** agreed to 3% in the short term, but in the long term he would rather have that be a closer match to the anticipated revenues. **REP. MANGAN** said one of the underlying philosophies that had been forgotten is that local governments would share the growth rate of the state. The mechanism of them sending all their money to the legislature, trusting the legislature, and getting reimbursed as Montana's economy grows will benefit local government. That seems not to be one of the Budget Office's concerns. It seems that you are trying to keep it neutral to what your anticipated revenues come in. Does the budget office agree that local governments shall also benefit from the state's growth since they helped increase that growth? Is that what the Budget Office is saying with this proposal? **Amy Carlson** said she would limit her observations to her conversations with **Director Swysgood.** Their primary goal is to balance the state budget. Even in the current proposal there is a sharing of that revenue source because there are more costs associated with this. That partnership is there, but it is limited to **Director Swysgood's** view of the balance of how much we can absorb versus how far we can go. **REP. MANGAN** said it doesn't seem that was the philosophy with business equipment tax breaks where we lost $700 million projected over a seven year period from 1999 to 2007. If you use that logic, those tax breaks would have never happened. We have only $30 million here, and are concerned about it being revenue neutral, vs $700 million in another situation where the same underlying philosophy was used that was for economic development. Why is there a difference? If you are concerned about the $30 million "hit" to the state, then we are not expecting the income in the state to grow by at least $30 million in those five years. **Amy Carlson** deferred to **Director Swysgood** to answer at another time.

REP. MANGAN asked what type of increase in all revenues the state would see in those out years 2007 through 2011. **Judy Paynter** said they have revenue projections for 02 and 03 on growth rates, those are the same growth rates that are used all the way through to fiscal year 2011. It is almost impossible to say what they will be in reality, so they used the same estimates all the way through. **CHAIRMAN JOHNSON** asked if that is 3% growth rate. **Judy Paynter** said there was a handout that shows percentage growth rates on the bottom. It shows Motor Vehicles and District Courts 1.5% growth rates applied, and the gaming revenue looks unusual because it is 2% and 7.4%. That is because there are credits to be given to the machine operators when they connect them to the system that reports the revenue to Justice. It is basically an average of 4.2% for gaming revenue in 04 and 05. They tried to be conservative. **REP. MANGAN** asked how much overall income the state gained over the last biennium. **Judy Paynter** said $100 million a biennium. **REP. MANGAN** said $500 million is what the state will increase through fiscal year 2011. If we took that same logic, we are looking at $32 million over the whole period.

SEN. STONINGTON said as we put this package together, remember that this has been a bargain between cities, counties and the state and if we go with the 2.3% growth in the out years we hammer the cities. It is their share of the good deal that we are sacrificing, and it is worth fighting for. The least we can do if we are taking out SB 417 and HB 20 is to keep the growth at 3% in the out years.

REP. ESP said they could settle that in the House. The difference between the two is $700,000 a year. He would rather take that $700,000 a year and spread it out over 56 counties and 200 cities and let them spend it instead of having it here for us to spend. His local government is doing a good job with what they get, they spend it on services we need, and he thinks that shift would be a positive one. Income tax growth, corporate tax, Bed tax, etc. will more than make up any difference in the state's budget.

CHAIRMAN JOHNSON asked for audience comment about using the 3% straight across and taking off the two reducing bills.

Alec Hansen referred to the spread sheet that was distributed Friday with 3% across the board. In the first four years of this program the state actually makes $2.5 million. The "net change" line indicates that the state makes $11.9 million the first year. That money isn't eaten up until fiscal year 2006. The state is getting a good deal in the first two bienniums, and keeping the growth rate at 3% the first year, the change from 2.3% to 3% is $546,000. Out of the vast sea of general fund money, the state should be able to fund $546,000. Monkeying around with these growth rates and trying to change them at the whim of the legislature or the administration or the cities and towns, completely misses the idea behind this bill. The bill was written to make cities, counties, and the state partners in the economic performance of Montana. The growth rate is supposed to be a percentage of the growth in personal income and the gross state product. We have lost that concept and he is convinced that over the next ten years corporate personal income tax collections will increase in the state to the point where Montana can afford $546,000 to share with the cities, towns and counties. 3% is a step in the right direction, an indication that the state is willing to be honest with their concerns and legitimately look at what was happening to cities under this bill. He would have a difficult time selling this to his members at 2.3%. Under this bill, $546,000 makes the difference between cities losing money and staying even.

Joe Mazurek, City of Great Falls said that **City Manager John Lotton** actively worked on the local structure finance committee and is committed to this process. He commented that legislators were afraid of what might happen to local governments, but while that may be true, you have to respect the local governments who have been in this process a long time. They have worked hard trying to develop a new partnership. They realize there is risk, and are willing to stay in this game if they can keep some ability to participate in growth. The fact that they are willing to accept that risk themselves should be taken as a sign of good faith. In that respect, he hopes the legislature will honor the efforts that have gone into this and negotiate to at least keep the growth factor in. The growth factor is probably much less than what every state government agency will be getting over the next ten years, and if you take it at 2.3%, that is a deal that even **John Lotton** would not be willing to accept. He hopes to get the growth factor to 3%. He said that it is not a significant expense to the state.

Jani McCall, City of Billings said she spent time with **Dennis Taylor** on this and she wanted to reiterate what **Alec Hansen** has said. City of Billings is willing to commit at 3%. This was to be about a partnership between state and local governments and if it goes down to 2.3%, it is very unlikely that the City of Billings would be able to accept that.

Harold Blattey, Stillwater County Commissioner said he was the Interim Commitee Vice Chair and the whole concept that the committee had was that it was the beginning of a true partnership. The committee's intent was that there would be a revenue shift of basically state general fund dollars to local government. Revenue sharing is not a novel concept; it is used by the vast majority of states across America. He said that he thinks the money is already in there, but for whatever reasons, there were no projections for any growth in revenues such as financial institution's tax, district court fees, etc.

Tim Burton, City Manager of Helena said he agreed with everything that has been said. It is important to go back to the fact that this has been a long process and there has been a lot of participation. He has seen the deal that was made by the select committee with the budget office change on numerous occasions. The 3% is critical as we look toward a new relationship between cities and counties. This is our good faith attempt to try and be partners with the state of Montana as we address all the vast issues that we talk about from session to session. The 3% can be looked at in many different ways; one is that it is part of the good faith effort that brought them to the board. Even at 3%, there are local governments in the western half of Montana that have growth factors larger than that.

Gordon Morris, Montana Association of Counties said he viewed the 3% as being a deal breaker from the perspective of the cities, and from the larger growth oriented counties, in particular. If that is the case, we are back to a reimbursement bill. From the county perspective, it throws us back into the district court arena and the welfare arena, etc. Those are areas that we don't have the contingent capability to fund. This bill really gets them out from under that burden. If the 3% is problematic, everything is gone, for all intents and purposes.

Mona Jamison, Gallatin County said the growth factor had always concerned them, and their major concern is becoming a reality. This is the trust factor unraveling on this bill. They were worried that the state would ultimately balance its budget on the back of local governments, and lowering the growth factor is worrisome. Asked that the bill be sent with the 3% growth factor in there; she said this is a deal breaker, 3% is the bottom line.

SEN. STONINGTON is concerned that the legislature has a reputation of breaking deals, and that the main thing they pay attention to is the impact on the general fund. Impacts on local governments are ignored, i.e. so far this session it has been that way with small breweries and large trucks. She suggested thinking about the statutory appropriation out of the general fund in a different light and have all the revenues go into a state special revenue account. It would not show up as part of the ending fund balance in that case, and would be statutorily appropriated out. In the out years when there is general fund money needed to fulfill the commitment on the entitlement shares and the other obligations, those would also be statutorily appropriated out of the general fund. This might add a layer of protection because they would have to go after the state special revenue account on one hand, and after a statutory appropriation out of the general fund as a second bill. It would give legislators more confidence that this would be a deal that would be kept in the future.

Amy Carlson, Budget Office, said the entitlement will have straight general fund in it, and would not have the ability to be a separate pool of money. Currently it is a statutory appropriation, so it does not show up in HB 2 and does need a separate bill in order to change it. **SEN. STONINGTON** asked if it shows up as part of the ending fund balance. **Amy Carlson** said yes, that calculation is done first, and it is mostly in the background, like bonding. It is not something they can get at directly, like HB 2 appropriations.

CHAIRMAN JOHNSON said the concern is that it is June 30, for example, and the ending fund balance is $185 million more than they thought it would be. They would probably call a special session to spend money. That is a danger. **SEN. STONINGTON's** question is more: is it possible to do it that way, rather than saying we ought to do it that way.

Amy Carlson said it is possible, but it is more complicated to do it that way.

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Judy Paynter, Revenue Department said it is possible, but what it doesn't do is to set up the on going partnership that you want. She hopes these revenues come in and go to the general fund, the entitlement share is going out, and people don't come back and say all counties are entitled to are these particular revenues. Revenues that come in for motor vehicles used to be fast growing but the legislature has changed that and it is limited to the growth in the number of vehicles, which is about 1.5% a year. Local governments have no control over that. Because of those kinds of things, she hopes this is a building of a partnership. They have a statutory general fund and she hopes you don't relate revenues to what is going out and then say "we are giving you cities a gift of this amount". It isn't really a gift to cities and counties, it is revenues that are controlled by the state of Montana, both in how fast they grow or how limited they get. Or, like the small brewery bill. That was acceptable because it only cost the general fund $20,000, but it cost local governments $90,000. The only thing that got looked at was the general fund cost. That bill is going through, and cutting local government. Legislators as a whole do not realize that, and it is such a small bite that local governments are not able to come and argue against it. Her concern about setting this up in the state special revenue is that someone will say that was local government's revenue that they gave us and some will ask why we are giving them an extra general fund supplemental. Some years down the road, they will forget that the reason motor vehicles are only growing 1.5% a year was because of the referendum the legislature put out on the ballot. Local government had no way to control that. She would rather have them be a partnership that did not track which is local government and which is state.

CHAIRMAN JOHNSON asked how it would be handled if it were in the ending fund balance. **Judy Paynter** said if the ending fund balance got held over and doesn't get swept into other program's spending, she would investigate whether we could reserve in law the amount that we expect to be in excess and reserve this in fiscal 02 and 03 and hold in reserve for statutory appropriation to local government for the entitlement share payment. There are reserves to the general fund balance, so what you start out with and you look at to see what you can spend is the unreserved general fund balance.

CHAIRMAN JOHNSON asked if she would consider doing it in this bill. **Judy Paynter** said yes.

SEN. STONINGTON asked what happens under this concept if motor vehicle revenue is higher than 1.5% because we have created this windfall through the fee system. **Judy Paynter** said they were wrong on the first year of conversion and some license costs went up or down, but statewide they have a close conversion. **SEN. STONINGTON** said if growth revenues are under in this concept, local governments would be getting more revenue under current law. But now, because this is all going into the general fund, the state receives that money and local governments just get their entitlement share. **Judy Paynter** said that is what would happen.

SEN. STONINGTON said this goes to the concept of trying to find a way to reflect that in a state special revenue account. She would like everyone to explore this further. It would keep the $12 million that is going to be in surplus in 02 as a reserved account. Over the next three years it would be distributed as an entitlement share or as the whole expense part of this, decreased in revenue relative to the expenses.

Judy Paynter said she would be glad to work with **SEN. STONINGTON** on the concept of the state special revenue account and the concept of the reserve fund as a part of the general fund balance. **SEN. STONINGTON** said she would explore those on behalf of the committee and report back to them.

REP. MANGAN said this is a partnership between state and local governments, they share in the growth, and they will share in any decline. He said he would like to explore this concept also. This is the reason they need to keep the growth rate high in the out years or change the formula. We could see a huge increase in some local government revenues depending on what happens to the growth rate that the local government gets.

REP. ESP said when they look at the 3%, these are projected growth rates. The bill has an actual formula, so that if the state had a lot of economic growth, that might be because of the formulas in the bill going to 3.1% or 2.8%. It floats along on a four year average, so we are not looking at a static growth rate, we are looking at adjusting it as our economy grows or declines. If counties have growth in vehicles money, probably the state had growth in wages and other things we are basing this formula on, so that entitlement will mirror what is going on.

Judy Paynter said one of the philosophies was that local government would not change. The way they tied revenues to the gross domestic product and the change in personal income is so cities and counties could also share in individual income tax growth and their overall growth. The whole idea is that local governments share in the entire balanced mix of the state general fund.

CHAIRMAN JOHNSON asked what would happen if there was a situation similar to the one Great Falls is currently in, where they have a potentially costly court case in Cascade County. We might be in a negative situation in our fund if the state had to pay that. Would that be correct? **Judy Paynter** said the way district court works, SB 176, is if you had a huge court case it would become a general fund cost. Wherever that large court case will be heard, they would move the court related costs to where the court case is going on that year, so maybe Cascade County would receive more general fund money that year.

CHAIRMAN JOHNSON said if it were separated out into a different account, you might have to re do that account. **Judy Paynter** said yes, that is one of the details to work out with **SEN. STONINGTON.** When you think you could put all that money into a state special revenue, the problem is that you don't want to be putting the district court and welfare in that special revenue. We would have to do modifications, it is not as simple as it looks.

SEN. STONINGTON said we have not discussed the schools. By pulling out HB 20 and SB 417, are the schools still in or not? **Tom Billido, Research Director MEA/MFT** presented the school's position on HB 124 in **EXHIBIT(frh86hb0124a01).** He said the growth factor of 1.5% for school revenues would kick in for the second biennium. Their $65 million school revenues are about 40% of the total revenues affected by HB 128. They saw elimination of the sunset and the inclusion of a partial growth factor as important. In the third biennium, the growth factor was raised to the same level as would be provided to local governments and counties, whatever that may work out to be. Previously they had talked about 70% of inflation at that point, or 3% per the discussion today. Under those terms, they remain supportive of the bill. They would continue to have those local replacement revenues available. The cost associated with including the growth factor for schools at 1.5% is $750,000 per year. He said that a reimbursement schedule of .76% is not attractive.

REP. MANGAN said he would like to hear what ideas the Budget Director had. **REP. MANGAN** said the amendment that he presented in Senate Tax regarding this same issue is not in this proposal and he would like to discuss it in this committee. Obviously this 3% in the out years is an issue. **REP. STONINGTON** said the current bill strips everything except straight reimbursement. **REP. MANGAN** said he attempted to put a growth factor in but it was stripped out.

SEN. STONINGTON asked for an explanation of what the 3% growth factor does to schools. **Judy Paynter** deferred to **Brad Simshaw, Montana Department of Revenue** who said the school block grant as it is on the 3% chart shows two lines: Schools K-12 Replacement of Revenue $56,551,062; the growth rate of .76% would result in $429,788. That growth rate is applied annually for ten years and it compounds. When it is .76% there is an additional cost of $24.185 million.

SEN. STONINGTON asked for a review comparing this with how the bill came out of Senate Taxation. **Brad Simshaw** said the only difference is that the growth rate at that time was 1.5%.

SEN. STONINGTON asked if it came out of the House with .76%. **Brad Simshaw** said it came out of the House without any growth factor, the only block grant related thing they accomplished was the inclusion of sufficient dollars in the next Governor's budget to allow us to have those dollars available to work with. The major amendments were in the Senate Tax Committee. **SEN. STONINGTON** asked for an analysis of concerns and MEA/MFT's position on the amendments from the House, keeping the sunset off so the block grant continues with the growth rate, but if it is only .76%, what is your opinion then? **Brad Simshaw** said they are meeting at noon to discuss that issue. They opposed the bill as it came out of the House, and it is questionable with the schools having a 50% reduction in their proposed growth factor.

SEN. STONINGTON asked where the .76% came from. **Judy Paynter** said the only thing they have out of their non-levy revenues that they think is growing is the motor vehicles at 1.5% a year. When it is put in the total, they would have a growth of .76%.

SEN. STONINGTON asked if the growth rate here was intended to reflect the growth rate that they have under current law. **Judy Paynter** said yes.

REP. ESP asked about **REP. MANGAN's** amendment in Senate Tax, was that 1.5% per biennium. **Judy Paynter** said it was 1.5% for fiscal 04, 1.5% for 05 and thereafter it was the same growth rate as cities and counties.

CHAIRMAN JOHNSON asked if it becomes part of the school base. **Judy Paynter** said she would read it as becoming part of the school base.

REP. MANGAN said the other part of this is that we will be looking at a new school funding formula this next biennium. This will impact that, which may be the reason schools were left out of the bill in the first place. His amendment in Senate Tax said that once a new school funding program was developed, this would change accordingly. In January there was an amendment with $65,114 across the board, now it is $57,000 in fiscal year 02, $57,500 in 03. Is that because of declining revenues, taking out HB 20 and 184. **Judy Paynter** said that is because of taking out HB 20 and SB 417. Before, when it was held constant because HB 20 and SB 417 were going down, it really gave schools a 1% growth. When they took those out, .76% was put in to keep them where they would have been with the revenues left in the bill.

SEN. STONINGTON said when you ask if that goes into the base and you confirm that, aren't you really saying that is part of the state's share of school funding, but it doesn't change the formulas at all. If they have to levy a certain number of mills to get to their budget, it just means more local property tax and homeowners pick it up. **Judy Paynter** said **REP. MANGAN's** amendment did not get on fully in the Senate Tax. The idea would be to reserve that amount of money in 03 for budget years 04-05. It would be a new study for schools, and then the money would go to school funding in a different manner. This is not the way to put money into schools long term because it either reduces general fund costs or it reduces property tax; it does not result in the schools being able to spend money. The amendment was intended that in case the school study did not occur, you would have growth in this revenue for schools. The more ideal situation would be to make sure we reserve the amount of money in this bill for schools, make sure that gets worked into whatever new system they have for funding schools, and schools go their own way.

SEN. STONINGTON said that maintaining schools at their current level but without a sunset, because we can't guarantee we will be able to find a better way to fund schools, at least keeps their state share at current law levels. **Judy Paynter** said they could not find the study language, so they gave some amendments to reserve this money until there is a new school funding system.

SEN. STONINGTON asked **Lee Heiman** what information he had about the language in the bill concerning this reserved money for the study. **Legislative Attorney Lee Heiman** referred to section 250 of the brown bill. Page 239 has that as reservation language so that when it comes up it is in the Governor's base budget. **Judy Paynter** said the section they couldn't find is when there is a new school study. The intent is to hold this money in the executive budget so it is there for schools, when they do their new school funding formula, this money is there and can be worked in however the education people feel would be best.

REP. MANGAN said that was the amendment that was put on in the House. He asked whether the sunset had been taken out. **Lee Heiman** verified that the sunset was taken out, according to page 230, line 11.

REP. MANGAN said he is afraid the numbers are skewed in the out years. When we get a new school funding formula set up, these numbers could change. **CHAIRMAN JOHNSON** said that although the numbers change, the responsibility to fund the schools and the local governments remains the same to each of the local entities.

REP. STONINGTON said the whole concept is go ahead and put it all together, quit counting it as this piece of money goes to that function, put it in the general fund, and appropriate it as an entitlement share with a 3% growth factor to the entitlement share itself.

CHAIRMAN JOHNSON asked if that could be interpreted as relieving the committee of looking into that situation. **REP. STONINGTON** said she wanted to explore these thoughts further for the committee, but that is how she feels currently.

CHAIRMAN JOHNSON referred to page 81, lines 3-8 tax increment financing districts and asked for an explanation. **Brad Simshaw** said in the next few years there are Tax Increment Finance Districts (TIFD) that will terminate. The taxable value of their incremental value will be released and subject to local government mills and the revenue going from local government mills now will go into those local governments. If there is a release of $1 million of new taxable value that they weren't collecting on before, they will not have to reduce mills to account for that. In their calculation of 15-10-420 they can treat that as if it were new construction. **CHAIRMAN JOHNSON** said that new taxable value was based on the mills, whereas the taxable value in the tax increment district was based on a set number when the tax increment district was put into place. The reason they get there is because they are bonding; isn't that correct. **Brad Simshaw** said yes, if you look at the situation the year before the TIFD district will dissolve. If that incremental value is $1 million, and that value has grown since the inception of the initial year of the increment to finance obligations for bonds, if it is terminating those obligations are removed. All of a sudden the $1 million from which the local governments were not seeing revenue directly will have an increase in their tax base. This provision says that will be counted as newly taxable value. **CHAIRMAN JOHNSON** asked if that could be an increase in addition to the payment of the bonds created by that district. There could be another increase on top of that, just by the value of being a newly taxable district. Is that right? **Brad Simshaw**

said the concept is right. It would be the same as if all of a sudden there were $1 million of taxable value for them to generate revenue from, and no bond payments.

SEN. STONINGTON said one other issue came up in Senate Taxation, the issue of growth of newly taxable value for the growth factor allowable at the local government level. At that time, **Mary Whittinghill, Montana Taxpayers Association** brought up that she was concerned that it be either newly taxable value or 2% growth, and it was not clear how that was resolved in detail. **Judy Paynter** referred to page 80, lines 5-12 and said the revision is that whatever they have as their base, they may get one half the rate of inflation for the prior three years. In addition, under current law, they can get what is in their base, only dollar for dollar. Now they can take their base and go one half the rate of inflation and they also have newly taxable property. They have that under current law and under this law. The only change is that their base increment amount can increase by one half the rate of inflation. **SEN. STONINGTON** asked if they can take newly taxable property and increase one and one half the rate of inflation including that as their base. **Judy Paynter** said no, you can take last year's property tax which is your base, and that can increase by 1.5%. On top of that, if you had growth, you get to use the newly taxable property also for your growth value. This is on lines 8 and 21. The time of the three years for the rate of inflation, line 11, is for the prior three years. As you move over time, each current year goes back to the prior three years which moves with the tax year.

CHAIRMAN JOHNSON said he wanted to get the rest of the committee in attendance before proceeding and the next meeting would be today April 17,2001 at 1:00 P.M. in Room 472. He said they may have some of this worked out by then.

ADJOURNMENT

Adjournment: 10:30 A.M.

SEN. ROYAL JOHNSON, Chairman

Linda Keim, Secretary

JM/RJ/