MINUTES

MONTANA SENATE
57 th LEGISLATURE - REGULAR SESSION
COMMITTEE ON FINANCE

Call to Order: By **CHAIRMAN BOB KEENAN,** on March 21, 2001 at 9:00 A.M., in Room 317 Capitol.

ROLL CALL

Members Present:
Sen. Bob Keenan, Chairman (R)
Sen. Ken Miller, Vice Chairman (R)
Sen. Chris Christiaens (D)
Sen. John Cobb (R)
Sen. William Crismore (R)
Sen. Greg Jergeson (D)
Sen. Royal Johnson (R)
Sen. Bea McCarthy (D)
Sen. Arnie Mohl (R)
Sen. Linda Nelson (D)
Sen. Debbie Shea (D)
Sen. Corey Stapleton (R)
Sen. Bill Tash (R)
Sen. Jon Tester (D)
Sen. Mignon Waterman (D)
Sen. Jack Wells (R)
Sen. Tom Zook (R)

Members Excused: Sen. Tom A. Beck (R)

Members Absent: None.

Staff Present: Prudence Gildroy, Committee Secretary
Jon Moe, Legislative Fiscal Division

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

Committee Business Summary:
Hearing(s) & Date(s) Posted: HB 489, 3/18/2001; SB500, 3/18/2001; HB 490, 3/18/2001

Executive Action: SB 497, SB 176, SB 338
Informational Hearing: HB 176

INFORMATIONAL HEARING ON HB 489

Sponsor: **REP. BILL PRICE, HD 94, LEWISTOWN**

Proponents: **Evan Barrett, MT Econ. Developers Assn.**

Opponents: **None**

Opening Statement by Sponsor:

REP. BILL PRICE, HD 94, LEWISTOWN, opened by stating that loans for economic development granted by the Board of Investments must be used to build infrastructure, be it water or sewer systems or treatment facilities, or roads, allowing for the location, creation, or expansion of business in Montana. The loan must be made to the local government that will create the infrastructure, and the receiver of the loan may charge fees for the infrastructure to pay for the loan. These loans qualify for job credit interest rate reductions if the interest rate reduction passes through the business that creates the jobs. A business that is created or expanded as the result of the loan is also entitled to take a credit against their state income taxes for the portion of the fees attributable to the use of the infrastructure. The amount of the tax credit cannot exceed the amount of the loan. Since many new businesses do not have positive taxable income for the first few years, and this tax credit is non-refundable, they may not be able to use it for some time. In order to assist their cash flow, under the provisions of this bill, the tax credits can be sold to another taxpayer at no more than a 5% discount.

Proponents' Testimony:

Evan Barrett, MT Economic Developers Association, stated this was a very credible program by providing infrastructure to create jobs which in turn create taxes. He asserted that cash flow deficiency impedes start-up or expansion of a business, and this bill was designed to enhance the cash flow of the companies being created to the benefit of the state, making the loan program more usable.

Questions from Committee Members and Responses:

SEN. GREG JERGESON asked for clarification regarding the fiscal note which shows that the impact on the general fund balance is "unknown", fearing that a dollar amount would be added at a later date, dissipating the ending fund balance. He also wanted to know how many businesses had received the tax credits.

Carroll South, Exec. Director, Board of Investments, replied that they did know how many loan recipients there were and their amortization schedules. He explained there was a seven year carry forward provision, and the oldest loan was four years old, meaning that the company still has three years in which to use the credits. They did not know, under current law, whether these credits would be used or not; if a company does not make enough money to pay taxes, these credits are of no use. HB 489 would permit them to sell the credits meaning they will be used by the purchasing company. **SEN. JERGESON** then asked if he knew the amount of the outstanding, unused credits. **Mr. South** responded that this would correspond to the money paid out by ASiMI over the last four years; the other loans were so new that there was not one calendar year of activity yet, and the DOR has not received certification that these credits were available. **SEN. JERGESON** was not satisfied with the answer and repeated his question. **Mr. South** stated that, according to Mr. Barrett's figures, it would be $258,000. **SEN. JERGESON** wanted to be sure that HB 489 enabled ASiMI to sell the tax credits for 95% of their value during this biennium, and **Mr. South** confirmed this. **SEN. JERGESON** then inquired as to why they had not done that. **Mr. South** explained that if ASiMI thought they would be profitable enough in the next three years to use the credits themselves, they would have lost 5% by selling them prematurely. **SEN. JERGESON** surmised that this amount, then, should appear on the fiscal note. **Mr. South** pointed out that this was the liability under current law, created under the infrastructure program; it did not warrant a fiscal note because the liability was not created due to this bill.

SEN. ROYAL JOHNSON asked if the AsiMI loan was four years old and one other loan only a few months. **Mr. South** responded that two loans were made last year, one of which had not been funded yet, and the certification of payments received was made to the DOR at the end of the calendar year. **SEN. JOHNSON** repeated that there was one loan in the process and one more, in addition to the AsiMI loan, and **Mr. South** explained that, yes, there were three funded loans and one, in Billings, that was committed. **SEN. JOHNSON** asked if he would share the amounts of the loans that had been funded. **Mr. South** complied, saying the ASiMI loan was $2,750,000; the Stream International, Kalispell, $2,500,000; and the MSC, Butte, loan $499,000. **SEN. JOHNSON** inquired whether the potential liability would include these loans. **Mr. South** clarified the liability would be on the amortization of these loans, over a 20 year period. **SEN. JOHNSON** asked if he had testified in favor of the bill, and **Mr. South** said he did not. **SEN. JOHNSON** wanted assurance that these businesses sold their tax credit for cash rather than taking the credit themselves. **Mr. South** explained that the businesses who receive the infrastructure benefit have to make the determination whether they are going to be profitable enough to use it over a seven year period, and if they think they will be, it made no sense to sell it because they would lose 5%. For example, if they thought they would make enough profit to owe $100,000 in income tax, they should be using the tax credit themselves rather than selling it for only $95,000. **SEN. JOHNSON** wondered if that was a good business decision, since they were, in effect, getting capital at 5% interest rather than having to borrow it at higher rates. **Mr. South** proclaimed the sale of the tax credit means an immediate infusion of cash, and the purchasing company receives 5% for providing cash to the business creating the jobs. **SEN. JOHNSON** then referred to the question of fiscal liability, saying that HB 489 encourages businesses to take the tax credit immediately because it is cheap money. **Mr. South** admitted that this was possible, but advised there was a seven year carry forward provision on the credit itself. **SEN. JOHNSON** clarified there were only three years left on the $258,000 loan. **SEN. JOHNSON** questioned why this amount would not be reflected as a negative in the general fund when ASiMI has to effect the credit within that time frame. **Mr. South** responded that it was not known if they would take it under current law. He elaborated that an unverifiable number cannot be included in a fiscal note. The $258,000 is a liability under current law, and putting that amount in the fiscal note applying to this bill would duplicate it. **SEN. JOHNSON** asked who, under current law, could take this credit, and **Mr. South** answered ASiMI. **SEN. JOHNSON** the asked who could use the tax credit if this bill passes, and **Mr. South** replied whoever they chose to sell it to. **SEN. JOHNSON** asserted this was the point he was trying to make; why would someone not buy it, or sell it, under this bill, and create a problem in the next three years. **Mr. South** replied he could not verify that, not knowing what AsiMI would decide, and repeated his statement of them being better off keeping the credit if they thought they would be profitable enough to have a $300,000 tax debt.

SEN. JACK WELLS asked the sponsor if the purchasing company would have to meet similar criteria to those required by the company who got the loan. **REP. PRICE** answered that he did not think so, they just had to have the necessary cash. **SEN. WELLS** felt this transaction would have a twofold benefit: the original company received the loan, thereby creating jobs, and the purchasing company would get the tax credit which in turn enabled it to create more jobs. This analysis was confirmed by **Mr. South.**

SEN. TOM ZOOK wondered if it would not be a substantial benefit to the company receiving this cash infusion. **Mr. South** agreed.

SEN. JERGESON confirmed that the cash up front would mean a lot to a business, and the 5% discount would not be worth holding for three years or more. He still felt it created a liability for the state because the purchasing company would take the tax credit immediately.

SEN. BEA MCARTHY asked if **Mr. Barrett** could add to the discussion. **Evan Barrett** agreed that **SEN. WELLS** hit on a key point, namely that the purchasing company had a 5% gain, and 95% went to the company who created the jobs which was the purpose of the original statute. He felt that, presently, the program was under-utilized. It was designed to create economic development by building the infrastructure, force the companies to pay for something from which they benefit, and then offset the payment with the tax credit. Some young companies, however, were not willing to pay for an infrastructure they could have for free somewhere else, especially since the credit benefit was not an immediate one, thus creating a cash flow deficiency. This made the current program less desirable, and that was the reason for the bill. It is forward-looking by virtue of enabling more companies to avail themselves of this program, thereby creating jobs and a tax base. At the same time, Montana's infrastructure is built and expanded, on the backs of these businesses.

{Tape : 1; Side : B}

SEN. JOHNSON surmised that tax credits were primarily needed by businesses making money and paying taxes. **Mr. Barrett** agreed but added even if they did not have a tax obligation, they were creating jobs, and the people receiving wages were paying taxes; the resulting positive effect on the general fund was something that was not taken into consideration in the discussion about the fiscal note. He used ASiMI as an example, saying of the 300 prospective jobs, they had filled 205, averaging $45,000 per year, which brought about $680,000 per year in tax benefits to the general fund, offsetting the $258,000 loss for the tax credit. **SEN. JOHNSON** still had concerns with the fiscal impact, and asked whether this tax credit was created by the infrastructure loan to AsiMI. **Mr. Barrett** confirmed this, elaborating that it was the result of the use fee payment for the loan which created the infrastructure. **SEN. JOHNSON** asked if the state was not subsidizing the payments on that loan. **Mr. Barrett** did not believe so. **SEN. JOHNSON** then wondered how this would affect the bonds for the tax increments with regards to the business equipment tax reduction. **Mr. Barrett** explained that the bonds associated with the tax increments were totally separate set of bonds, and have nothing to do with the current law being revised in this bill. **SEN. JOHNSON** stated that there was a connection because it involved the same company, and 1.2 million dollars were budgeted this year to help pay for the bonds involved in the third sale ASiMI had. **Mr. Barrett** claimed that the legislature was currently anticipating a reimbursement for some of the shortfalls created by SB 200 in the last term. **SEN. JOHNSON** asked if it was anticipated and paid in the last session. **Mr. Barrett** answered that there was a similar reimbursement utilized in both the last regular session as well as the special session, due to SB 184 and HB 260, which applied to the tax increment issue. It involved the same company, but different programs. **SEN. JOHNSON** reminded the committee that it was HB 1 in the special session which allocated $600,000 for five years for the tax increment bonds.

CHAIRMAN BOB KEENAN suggested the same format for HB 490.

INFORMATIONAL HEARING ON HB 490

Sponsor: **REP. BILL PRICE, HD 94, LEWISTOWN**

Opening Statement by Sponsor:

REP. BILL PRICE, HD 94, LEWISTOWN, informed the committee that Intermediary Relending Programs are called IRP's. He stated that the bill creates a IRP with the Board of Investments. The loan proceeds must be used as matching funds for federal intermediary relending programs as provided by the USDA for rural economic development. He ensured the committee that the bill had nothing to do with agriculture. He declared that the bill provides that the Board of Investments may purchase a portion of the loans. The board has set aside $5 million dollars in order to create the IRP. He charged that the IRP loans may be made to a board approved organization with a revolving loan program. There are nine qualified organizations in the state. Each loan may not exceed a half a million dollars. The loan is offered only to an applicant which is the local economic development organization who agrees to use the matching funds in conjunction with the USDA. He made reference to the chart displaying the leveraged value of $5 million state intermediary re-lending program **EXHIBIT(fcs64a01)**. He explained that the board can repurchase seasoned loans. He pointed out assumptions seven, eight and nine on the fiscal note **EXHIBIT(fcs64a02)**. He charged that local revenue will increase as a result of the bill. The bill puts the legislature in a position with the USDA program, the more you put up front the more points you get in the process of qualifying for loans. He stated creating jobs creates a net gain for government. He hypothesized if all of the $5 million was loaned out, there would still be a net gain.

Questions from the committee:

SEN. ZOOK questioned why the money is not in the USDA budget. **REP. PRICE** informed him that the USDA has a variety of programs. The loans refer specifically to economic development, not just agriculture. He added that economic development could encompass agriculture growth. **SEN. ZOOK** asked if he meant gasohol plants. **REP. PRICE** said that was a good example. **SEN. ZOOK** inquired because the type of program is a part of the USDA budget on a national level. It makes the agriculture program look like it has a huge budget. **REP. PRICE** stated it is for economic development in states that are mostly impacted by agriculture.

EXECUTIVE ACTION ON SB 176

CHAIRMAN KEENAN informed the committee of an amendment for the bill **SB017601.avl EXHIBIT(fcs64a03).**

SEN. MIGNON WATERMAN asked if the bill removes responsibility for the counties to pay for youth and mental health placements. **Lois Steinbeck, Legislative Fiscal Division,** declared she did not have a chance to review the bill. **SEN. WATERMAN** wanted to make sure the amount was indicated in the fiscal note. If the state is assuming the cost for placement, what incentive is there for a judge to place youth and mental health patients into Warm Springs.

SEN. CHRIS CHRISTIANS commented that page 12, line 23 is similar to what **SEN. WATERMAN** was talking about. Page 13 reads, "If the money appropriate for the expense is listed in subsection 4A is insufficient to fund those expense the county is responsible for payment of the balance." **SEN. WATERMAN** argued that the amount did not include placement costs. She asked if someone from the interim committee could explain the intent. **SEN. JON TESTER** declared the intent was for the state to pick up those costs. **SEN. WATERMAN** wanted to make people aware of the costs. She stated there is a current lawsuit in Missoula. There is the potential for the state to pick up 100% of the tab, and have no say about placement.

SEN. JERGESON questioned how the fiscal note would appear on the status sheet. **Mr. Moe** stated that general revenue would appear in one column and general fund expenditure in another. The net impact would be reflected. **SEN. JERGESON** wondered since the bill started in the Senate it would not have the appropriations in it, it would need to be in a third potential appropriations column. He declared the amount was not reflected in the ending fund balance. He expressed his discontent with the package of bills starting in different houses. He felt the funding assessment was incorrect and would lead to a false ending fund balance.

CHAIRMAN KEENAN stated he did not understand why the bills tied to HB 124 did not all start in the House together.

Motion: **SEN. STAPLETON** moved that **SB 176 DO PASS.**

Discussion:

SEN. WATERMAN asked if it was necessary to move the bill out of committee today. She warned that if the bill passes a lot of work needs to go into making sure that the bill does what it says. She read aloud page 10, line 17, where the state will have to pay for all commitments. The bill needs clarification.

SEN. ZOOK stated in the fiscal note the bill is supposed to be revenue neutral. There is no provision in the bill to tie it to HB 124.

SEN. WATERMAN clarified the link is on page 34. She questioned if the bill was truly revenue neutral. Counties will react differently depending on who is paying. She interpreted the bill to read, the state was assuming the counties' cost for placement.

{Tape : 2; Side : A}

SEN. CHRISTIANS proclaimed that the bill is good for his county. They are currently trying a case that has the potential to bankrupt their county. He argued the bill would break the bank.

SEN. WATERMAN charged the county revenues are required to pay off the loans, that is not indicated in the fiscal note.

Substitute Motion/Vote: **SEN. MILLER** made a substitute motion that **SB 176 BE TABLED. Substitute motion carried 17-1 with Tester voting no.**

SEN. TESTER argued that the current action would kill the bill because it would miss the transmittal deadline.

CHAIRMAN KEENAN said the committee has the right to reconsider their action. However, they need more information in order to make an appropriate decision.
SEN. JERGESON commented that the House could suspend the rules and get the bill off of the table if necessary.

EXECUTIVE ACTION ON SB 338

Motion: SEN. KEENAN moved that **SB 338 DO PASS.**

Motion: SEN. KEENAN moved that **AMENDMENTS BE ADOPTED.**

Discussion:

CHAIRMAN KEENAN explained that he wanted to leave CHIP at 150% and spread the coverage. He argued there are gaps in the funding. He wanted to make sure that at 150% services are being maximized.

SEN. CHRISTIANS questioned the purpose of the bill with the proposed amendments.

CHAIRMAN KEENAN stressed the importance of page three, section four, subsection two.

CHAIRMAN KEENAN withdrew his motions.

EXECUTIVE ACTION ON SB 497

Motion: SEN. KEENAN moved that **SB 497 DO PASS.**

Substitute Motion/Vote: SEN. MILLER moved that **SB 497 BE TABLED. Motion carried 12-5 with Nelson, Waterman, McCarthy, Shea, Tester voting no.**

Informational HEARING ON SB 500

Sponsor: SEN. BILL GLASER, SD 8, Huntley

Opening Statement by Sponsor:

SEN. BILL GLASER, SD 8, Huntley, stated that the bill has $40 million in schedules in a traditional funding method. The bill generates a side box funding system which allows the legislature to put money into the fund and the schools can have flexibility as to how the money is spent. He declared that if the ANB declines and there is extra revenue in the fund, it will return to the general fund revenue. He accused other bills of taking the flexibility away from the proposed flex fund in SB 500. He told the committee he had amendments that would allow the bill to move forward.

Public Testimony:

SEN. JOHN BOHLINGER, SD 7, Billings, told the committee he was a member of the Senate Education Committee. He had supported efforts to grow the $25 million that had been identified as available funding for K-12 education into $40 million. He declared as a member of the Taxation committee he has the ability to look closely at available revenue to fund the proposed increase in education. He narrated that people value happiness and success for their children. Happiness is dependent upon a good education. Montana has had a tradition of good schools. It is the goal to develop the full potential in each person in the state. He argued a major problem with public schools is low teacher salaries. SB 500 brings forward a source of funding that would adequately provide funding in order to reach those goals. SB 119 proposed taxing cigarettes to generate an additional $18 million per year in revenue. SB 439 revised the lodging tax. Under the proposal the accommodation tax would be raised to 9%, a car rental tax of 9% would be imposed, there would be a credit provision to remove Montana tax payers from this provision, and it would earmark in percentage form monies to go to different tourist sources around the state. He stated the fund is growing 5% annually. If the bill passes, it would generate $19 million per year; $10 million would be earmarked for education. SB 494 would revise the telecommunication tax. It would bring approximately $13 million to the general fund. The tax would cost consumers $16-$20 per year. He declared the potential revenue would be over $50 million to fund K-12 education.

Linda McCulloch, Superintendent of Public Instruction, professed that public schools are in a crisis. She informed the committee she is working with Secretary of State Bob Brown to find a way to make Montana's assets work harder for education. Education should be the top priority in this legislative session. She charged that there are revenue options available to fund this bill. Available funds are the Coal Tax Trust Fund and the permanent School Trust Fund. Other possible sources come from proposed legislation such as the bed tax, telecommunication tax, tobacco tax and rental car tax. She declared that there were still questions as to a proper level for an ending fund balance. She stated there are potential gains from the Montana Power sale and increased revenue generated from President Bush's income tax cut. She charged investing in the future of Montana is necessary and vital.

{Tape : 2; Side : B}

Dr. Dick Crofts, Commissioner of Higher Education, declared that the Senate Education Committee amended the bill as suggested by the commission. He informed the committee that the university system is facing serious budget problems. He stated that SB 500 helps to solve those problems.

Julie Mitchell, Helena School Board, said there are numerous people in education who support this bill. She asked the committee to create options to meet the funding expectations in SB 500. She articulated that the Helena School District is trying to cut 1.3 million dollars out of their budget. She encouraged the committee to be "far out in front" of the other people involved in the process so children will have a valuable education.

Harry Amend, Superintendent Kalispell School District 5, expressed his support for the flex fund system created in the bill. The fund offers a tool for school districts around the state to address a broad number of issues. He told the committee that the flex fund is key for the future of the Flathead School District. He said the weighted average amendment should be addressed. The weighted average amendment is a local control mechanism for a school district spending less than the weighted average per student, with the approval of their local voters they can spend to the weighted state average. There are statewide cuts taking place. The amendment would allow community voters to vote for a new high school in Kalispell. The amendment is local control that enhances equalization. He charged there is no impact on the general fund.

Eric Feaver, MEA-MFT, expressed his support for the bill as amended by the Senate Education Committee. He stated that the 33 million dollars in the base is a good idea. The 7 million for the rolling ANB is also a good idea. He encouraged the committee to use that money as their target dollar amount. Using the fund will help schools with declining enrollments. He argued that the flex plan is a good way to fund a wide variety of school projects. He declared taking the money from declining enrollment and placing it back into the flex plan is a good idea. He said the flex plan does not exist unless the committee appropriates 20 million dollars for K-12 education. He expressed his concern about contingency voidness. Putting money into HB 13 would give a positive dollar amount to fund university teacher salaries. He warned tuition will increase if the state does not provide adequate funding.

Bob Fogle, MT School Board Association, proclaimed his support for two specific items in the bill: weighted average and three year ANB. He stated his support for the 2.44% per year in the basic upgrade of entitlements. He handed out a copy of the flex plan **EXHIBIT(fcs64a04).** He explained the change in the percentage of rates. The exhibit is meant to explain the positive impact a flex plan can have on a struggling school district. He said they would support eliminating the 20 million dollar contingency. They would also support the weighted average proposal.

Loren Frazier, School Administrators of Montana, declared his support for the flex plan with delayed revenue and payments. He said the flex plan is needed because school districts have already developed a budget and spending authority. The bill gives them the ability to spend revenue that is coming.

Bruce Messinger, Superintendent of Schools Helena, informed the committee that proposed cuts in their budget were based on the effect HB 121 will have on school districts. He stated the problem with balancing a budget is weighing the loss of quality programs and chances the students will have. He declared their support for flex funding.

Questions from Committee Members and Responses:

SEN. ZOOK questioned if adding revenue to the bill was adding taxes. **SEN. BOHLINGER** said yes. **SEN. ZOOK** wondered how those tax measures would pass. **SEN. BOHLINGER** stated the tax measures identified would be presented to the people for approval. The lodging tax measure would include a refunding mechanism for Montanans. **SEN. ZOOK** wondered about potential taxes that are concrete proposals.

{Tape : 3; Side : A}

Ms. McCulloch declared that the tax proposals are aimed at people outside of the state. She stated the proposal is aimed at using the money in the legacy trust more wisely. She said there are numerous proposals that are being discussed. **SEN. ZOOK** questioned how those proposals can be characterized as concrete. **Ms McColloch** said they are concrete because there are solutions that will generate dollars. **SEN. ZOOK** asked if any proposed sources are listed on the fiscal sheets as potential sources of revenue. **Ms McColloch** conceded that they were not. **SEN. ZOOK**

clarified that the sources listed on the sheet have passed committee.

SEN. CHRISTIANS asked if SB 119 and SB 439 would go to a vote of the people and if they did would the money be available in this biennium. **SEN. BOHLINGER** told him that SB 119 would go to the people. SB 439 would not be referred to the people. He stated the certainty of the funds are based on the support of the legislators. While he served on the taxation committee they took great strides to stimulate the economy. He declared that the committee needs to take steps to generate revenue. **SEN. CHRISTIANS** inquired if the referendum could be stripped to have the funds available immediately. He questioned the constitutionality of having an accommodation tax. **SEN. BOHLINGER** read aloud from SB 439. He stated that the sponsor of the bill **SEN. LORENTS GROSFIELD, SD 13, Big Timber,** did not feel as though it violated any constitutional provisions.

CHAIRMAN KEENAN wondered about the structural imbalance the pay plan would generate in the future biennium. **Jim Standaert, Legislative Fiscal Division,** declared it would become worse if the proposed increases were not matched in the bill.

CHAIRMAN KEENAN asked **Mr. Harry Amend, Kalispell School District #5,** to respond to a e-mail sent to him by a superintendent in Western Montana. He declared that the bill is so complicated there is no way to know the impacts. **Mr. Amend** declared there is no simple way to fund schools. He disagreed with the idea that the bill to fund schools needs to be simple. The flex program affords the opportunity to bring in different sources of revenue. The committee has a chance to adopt a bill that will perform all of the tasks necessary to fund K-12 education.

CHAIRMAN KEENAN wondered if **SEN. GLASER** knew about the new funding put into HB 121. **SEN. GLASER** told him the funding is slightly more than 20 million dollars. **CHAIRMAN KEENAN** questioned if a flex fund could be put into HB 121. **SEN. GLASER** said the title is not broad enough. HB 2 has a broad enough title to create a flex fund. **CHAIRMAN KEENAN** asked if SB 500 would further complicate school funding. **SEN. GLASER** stated the bill changes the way one time funding is handled. The school board would have to make more decisions, but that would not be very difficult.

CHAIRMAN KEENAN questioned why the economy is bad if the schools are doing a good job. **Ms McColloch** theorized that in 1995 funding for education was shortchanged. In 1999 funding was adequately distributed. The crisis is teachers leaving the state. She stated past funding decisions are catching up with the state. **CHAIRMAN KEENAN** stated that the school boards need to figure out a way to make teaching in Montana more enticing. **Ms McCulloch** stated individual contracts are made at the local level.

SEN. STAPLETON questioned what happened in the committee with HB 500. **SEN. GLASER** declared that the people who wanted to change the original amount of 25 million dollars to 40 million dollars prevailed in committee. He said there are only two items of worth in the bill, the flex plan and the title.

SEN. ZOOK clarified when **Ms McColloch** was talking about 0% increase. In 1993, $10 million was appropriated, in 1995 $12 million, in 1997 $26-30 million plus $12 million for textbooks and technology. He stated that enrollment has decreased yet funding continues to increase.

{Tape : 3; Side : B}

SEN. MILLER asked for clarification regarding retiring teachers and how many would retire in the next two years. **Ms McColloch** said she could not tell him the projections. All she knows is 40-50% are eligible to retire. **Mr. Fever** declared it is between 5-600 per year. **SEN. MILLER** asked if 550 teachers retire per year, do those calculations go into calculating school funding per biennium. **Jim Standaert, Legislative Branch,** said that was not the states point of view. The formula used to calculate does not take into account the number of teachers.

CHAIRMAN KEENAN requested a fiscal note dealing with accreditation standards.

SEN. JACK WELLS declared that every year with the steps and lanes program teacher salaries are increased. He asked what goes into the steps and lanes program. He stated in the special session $30 million was given to education. He questioned how much of that was left. **Mr. Standaent** told him elementary schedules were increased by 6.6% and high school by 4%. **SEN. WELLS** asked what the increase was in dollar amounts. **Mr. Standaent** told him it was $30 million dollars. **SEN. WELLS** wondered about the benefits of the Bush tax plan. **Mr. Standaent** told him he has not looked at the plan very seriously. **SEN. WELLS** questioned how much money is spent on teacher salaries with steps and lanes in effect. He has heard figures $10-15 million. That amount is granted every year. He questioned the average teacher salary in the state. **CHAIRMAN KEENAN** told him it was $32,121 in FY2000. **SEN. WELLS** argued that the salary is competitive among other states. He charged that other occupations are leaving the state. He questioned the percentage of the amount of people who stay in the state as opposed to the amount who leave. He argued that the numbers reflect the overall economic condition of the state. **CHAIRMAN KEENAN** speculated that the steps and lanes generate approximately 12 million.

SEN. COBB asked if it would be a problem to amend the bill back to the original 25 million and leave the rest of the funding contingent upon passage of other bills. **SEN. GLASER** said it was up to the committee. **SEN. COBB** questioned if he would oppose making it contingent upon other sources of revenue. **SEN. GLASER** argued the bill has a broad enough title to do the things that he wants to do. However, he sees the bill slipping away from its original intentions. **SEN. COBB** wondered if the bill should be re-referred to the Senate Taxation Committee. **SEN. GLASER** did not believe that the bill would survive in the Taxation Committee. Unless there is value in the title or ideas of the bill, it should be tabled.

SEN. TESTER questioned the funding to campuses. **Dr. Crofts** told him the amendment put $7 million into university funding. **SEN. TESTER** wanted to know the impact on tuition if the bill passes with the $7 million in extra funding. **Dr. Crofts** argued that their new plan will cost $17 million beyond what has already been passed by the legislature. Utilities will cost over $2.4 million of the projected amount, another $6 million has been projected for the next biennium. Tuition will increase by 3.8% in order to annualize the past pay plan and implement the next one. He indicated that $2.7 million was generated per percentage point of tuition increase. Budget obligations of the next biennium were $40 million. He stated that the annual tuition increase would be 9.4%. The proposed $7 million would reduce that by a couple of percentage points.

SEN. TESTER asked if the defining enrollment dollars would be rolled into the flex plan. **SEN. GLASER** stated rather than divert the declining dollars, move them into the flex plan for the next legislative session.

CHAIRMAN KEENAN questioned if $20 million would be rolled into the bill. **SEN. GLASER** said that could happen through various sources.

SEN. DEBBIE SHEA stated that teachers did not know about the latest increases. **Mr. Feaver** said teacher salaries are irrelevant at the state level because they are bartered at the local level. Average salary varies around the state.

EXECUTIVE ACTION ON SB 176

Motion/Vote: SEN. KEENAN moved to **RECONSIDER ACTION ON SB 176. Motion carried 15-1 with Cobb voting no.**

SEN. JERGESON declared his major concern was the conflicts between HB 124 and SB 176. The way it would appear on the ending fund balance would be inaccurate.

{Tape : 4; Side : A}

He stated if the bill is important, the committee should hang onto the bill and deal with them as a pair.

SEN. MCCNUTT declared that the bill needs to go forward. There is language that coordinates the two bills. The bill cannot stand alone. He stated it was not his impression that the two bills would skew the ending fund balance.

SEN. NELSON spoke of **SEN. WATERMAN's** concerns about mental health and juvenile commitments. **SEN. MCCNUTT** stated it was his understanding that it was limited to the 1998 amounts of money.

Motion: SEN. MILLER moved **SB 176.**

Substitute Motion: SEN. MILLER made a substitute motion that **SB 176 AMENDMENTS BE ADOPTED. EXHIBIT(fcs64a05)**

Discussion:

SEN. CHRISTIANS asked if the language on page 12 and 13 could be clarified. **Judy Paynter, Department of Revenue,** stated that the public employees would be reimbursed. It is a provision of carefulness. Public Defenders can be paid with the funds that exist.

SEN. ZOOK asked where it dealt with juvenile funding. **Ms Painter** stated there is not uniformity among the district courts and what they pay for. There is no desire for them to start billing the state. The bill is a result of a compromise between districts.

SEN. ZOOK questioned where the limitation are for court costs regarding juveniles. **SEN. MCCNUTT** said the limitation was on page 11. Abuses of the system occur because judges do not know who to bill. Costs are claimed through the current Supreme Court system. The bill is not about that.

SEN. MILLER withdrew his motions.

ADJOURNMENT

Adjournment: 12:35 P.M.

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SEN. BOB KEENAN, Chairman

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PRUDENCE GILDROY, Secretary

BK/PG

EXHIBIT(fcs64aad)