

MINUTES

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

Call to Order: By **CHAIRMAN BOB STORY**, on February 8, 2001 at 6:30 P.M., in Room 137 Capitol.

ROLL CALL

Members Present:

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

Members Excused: Rep. Eileen Carney (D)

Members Absent: None.

Staff Present: Eddy McClure, Legislative Branch
Gregory Petesch, Director of 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:
Executive Action:

Rep. Story opened by saying they would start out tonight with the motorcycle issues, and go into education from there.

Dal Smilie, Vice Chairman of the Motorcyclist Association, gave testimony that the amendment to the bill was only a tax increase. **EXHIBIT (1fh32a01)**

Rep. Wanzenried wondered what would have to be done to the bill to change that. **Greg Petesch** said they would have to create a

whole new registration category of \$9.75 for the motorcycles and quadricycles. **Dal Smilie** pointed out that there was already a \$10 fee category that they could use as it was closer to the \$9.75 than the \$13 or \$15 categories.

Rep. Story asked why it costs \$10 for the licence and decal for everything else and only \$2 for the motorcycle. **Dal Smilie** was not sure, but thought maybe it was because the motorcycle was not a year round vehicle. His only argument was that they just should not use HB 124 as a tax increase.

Rep. Wanzenried made the motion to put the changes, making the light vehicle fee back to \$5 and the motorcycle licence plate fee back to \$2, into a grey bill.

The motion failed on a tie vote.

Madalyn Quinlan, OPI for Helena, went through her amendments.
EXHIBIT (lfh32a02)

Amendments 1-4. They wanted to strike out the references to tuition being subject to 15-10-420, as tuition is excluded from the property tax limitation.

Amendments 6-9. These are technical amendments and relate to the fact that school districts should be required to anticipate the block grants while putting together their budget. Amendment 6 pertains to the general fund, amendment 7 pertains to the retirement fund, amendment 8 pertains to district transportation, and amendment 9 pertains to county transportation.

Amendment 10. This amendment changes a singular to a plural.

Amendments 11-16. (Page 184 of HB124) This section of the bill establishes the school district block grant. Currently it states that school districts calculate the block grant. She would like it to say that the OPI calculates the block grant according to the schools information.

Amendments 17-18. (Page 184, line 13 of HB124) This section of the bill says that half of the yearly district block grant would be distributed in November, and the other half in May. This raised the concerns that the district would lose interest. Amendments 17-18 would allow for 70% of the district block grant would be distributed in November and 30% in May. This would offset the interest loss a district would have from not getting the monthly motor vehicle payment.

Amendments 19-20 requests a supplemental, if the appropriation from the legislation is lower then what the districts are entitled to receive. So, while the legislation is trying to figure out what the district will receive in 2001, if they still come up short, OPI will prorate. They would actually receive less then what they included in their budget. OPI would like to see that changed so that if the appropriations are less then what the schools are entitled to receive they could request a supplement to the next legislation.

Amendments 21-22. These amendments cover the sections 256 and 267, which discuss the county school retirement and transportation reimbursements. These amendments would change those to block grants.

Amendments 23. This amendments covers page 188 of the bill. This amendment would make the appropriations biennial instead of annual appropriation for the block grants. This way they would be covered the first year and they could ask for a supplement if they were short the next year.

Rep. Wanzenried moved the amendments. **Rep. Story** wanted to segregate them and talk about amendments 19, 20, and 23. **Rep. Wanzenried** moved to segregate and adopt.

Rep. Esp asked **Greg Petesch** if he agreed with the reasoning of amendments 21 and 22, and was told yes, **Greg Petesch** did agree with them.

Rep. Story asked **Madalyn Quinlan** about amendments 7 and 9. He needed to know if the local school calculates the county wide levies in the school districts. **Madalyn Quinlan** told him that the district does not prepare the budget for county-wide levies, but the county superintendent did. He would still need to take the total revenues into account or they would levy more tax then they would need to.

The committee adopted the set of amendments, excluding 19, 20 and 23, which they wanted to discuss further.

Amendment 23 was about the biennial appropriations. **Rep. Story** asked what authority Madalyn Quinlan had from OPI to move the money from one half of the biennium to the other. **Madalyn Quinlan** answered that the authority came from this committee. If this committee gave them the biennial appropriation they could fully fund the first year. If there was a short fall before the information from fiscal year 2001 came in, they could still fully fund the 1st year and then the short fall would be in the 2nd year.

Rep. Story asked if **Madalyn Quinlan** agreed with his assessment that once they went with the yearly appropriations in the 1st year they would take the decline in the existing programs because of the 2 business equipment reimbursements that are on a 10% decline. The HB 20 and 417 are on a phase out so that every year from here on, 10% of those revenues would disappear. This phase out, he said, was not put into the final number. **Madalyn Quinlan** said they did build it into the county retirement number. The total appropriations for schools still has the 10% decline in it, it is just all packaged into the county retirement reimbursement. School will get the 2001 amount, but the county retirement fund will reflect the declining revenue source.

Rep. Story then asked about the transportation fund. **Madalyn Quinlan** said the county and district transportation would receive the amount that was estimated from the 2001 revenues. All the slack would be taken up in retirement. **Judy Paynter, Dept. of Revenue** said that the retirement fund was not in the 64.9 million dollars. Section 256 has the county - wide school and retirement reimbursement and section 257 is the county - wide school transportation reimbursement. They are both separate from the block advancement.

Rep. Story said there actually 3 appropriations. The appropriation they were dealing with now should be a pretty solid number, 64,9 million and the appropriation that would be short was one of the other appropriations. **Madalyn Quinlan** said it did not matter if the appropriation matched their intent. She understood that the slack of the short fall is absorbed in the county retirement fund and the school would be getting the 2002 budget. She said they would actually want biennials on all three of the appropriations.

Greg Petesch mentioned that they have specific dollar amount distributions to each county for each fiscal year in the other two appropriations. **Rep. Story** wondered if they fund everyone in the 1st year with the biennial appropriation, what would they do for the 2nd year when they do not have the money? **Madalyn Quinlan** answered that the payments are made in November and May. It would be possible in May 2003 to make a payment to school districts to fully fund the 2nd year and that would be after the 2002 fiscal year.

Rep. Story then asked how the schools would be getting the money, as they could not get it until after the fact and there was not a pot of money waiting to be used. The payments were made in November and May so it would be possible, in May 2003, to make a payment to school district that fully funded the 2nd year and that would be after the 2003 legislation, answered **Madalyn**

Quinlan. The way this bill was drafted, school districts have used a certain 2001 amount. They build that into their 2003 budget even though they may not have the appropriations to fund it.

Rep. Esp asked how they came up with the 64 million, and was told by **Brad Simshaw, Dept. of Revenue** that it can from page 25 of the "Simplification in the 21st Century" book. There were 4 items under schools, so they added them together and came up with the 64 million. **Rep. Esp** wanted to know if these figures were estimates of what the revenues would be, or if they were the actual takeoffs of the revenue. **Brad Simshaw** replied that they were estimates for what the revenue would be by estimating the fiscal year 2002 with the motor vehicle estimates. With the indication and calculation as if the principles from HB 140 were in place for an entire year. The financial institutions would be estimated based on the most recent years.

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Rep. Story said it was based assuming the reimbursements from HB 184 were fully funded.

Rep. Esp asked **Madalyn Quinlan** if she thought these numbers would go up, but they would not get their money. **Madalyn Quinlan** said they wanted to make sure school districts would get the money in the block grant that they would be required to anticipate in their budget. She said it was guess work either way. Districts could be entitled to less than the State Appropriation. Under the current bill, if the appropriation is higher than what school districts are entitled to they would still receive that money. She would like to see that guess work taken out so the school districts would know exactly what they would be receiving from fiscal year 2001. The school districts have to estimate the following things as money available: investment earnings, what they will get from tuition, what they will get from various property taxes, even though they may not be available. HB 124 would set out a process by which they could determine the amount they would have to set in their budgets for the block grants. She once again requested that they be able to get what they are entitled to. No more, and no less.

Rep. Peterson restated what she said by saying that her point was to guarantee what they would get, and if there was more, that would be great. **Madalyn Quinlan** replied that if the appropriation was higher than what the districts anticipated in their budget, they will not get the benefit of that higher appropriation. The money would go back to the State general fund.

Rep. Story said that when they did the balance here, they assumed the 64 million for both the 1st and 2nd year. He asked **Judy Paynter** what would happen to the ending balance if it cost 66 million the 1st year and there was only 62 million for the 2nd year. **Judy Paynter** said it would hurt the balance. If 66 million was spent the 1st year, it would also be spent the second year. They would come up 4 million short.

Rep. Story then asked **Greg Petesch** if language could be put in that would guarantee that the next legislation would fund a supplemental. **Greg Petesch** told him that it was not possible. Even though this bill requests a supplemental, it is almost never granted. It is their legislative prerogative to not fund the overspending because they were not responsible for that overspending.

Rep. Story wanted to know how that 4 million would be gotten back for when they set their budget, how would they get the supplement back into the pockets of the taxpayers? **Madalyn Quinlan** said they would get the 4 million back when OPI made the payment in May of 2003. **Rep. Story** pointed out that by May 2003 the tax bills were already paid. **Madalyn Quinlan** said what was missing was that the districts in this bill were required to include the block grant at the fiscal year 2001 level. They have been told what level to anticipate for their budget even though they knew they may come up short.

Rep. Story asked if there was any language that could change that. **Madalyn Quinlan** said they could request language be drafted into the bill that the districts should be allowed to levy taxes if the revenue would be short the next year. She went further to say that the uncertainty of it came from the 2002 year. The amount that the districts have to anticipate in their budgets is the same in 2003 as it had been in 2002. Once they get past figuring out what 2001 will generate for revenue, they will know what they can build into their 2002 budget and that same amount would be in 2003.

Rep. Story wondered which district would come up short and if it would be caused by an influx of vehicle sales in 2001. **Madalyn Quinlan** assured him that it would not just be one district. They would know this by looking at the revenue they are entitled to, and when they get the trustees report at the end of the year. These would show them if the total amount would be less than the 64 million. By proposing the biennial appropriation they could fully fund the 1st year and after that they would have to use the same. If it was short the 2001 amount, they could levy property tax to make up the difference. If they decided not to go the supplemental route, they could say the amount they would have to

use in their budget would be the remaining appropriation. **Rep. Story** thought that sounded like it would work and that they would be fully funded no matter how it was done unless money had been taken out before HB 124 went through the process.

Rep. Mangan asked if they wanted to make an amendment to make the change. **Rep. Story** told him that they could do an amendment and they would deal with it next time.

Rep. Wanzenried wanted to know if they were not going to adopt amendment 23. **Rep. Story** responded that they were actually talking about amendments 19 and 20 as well. If they did adopt amendment 23 they would be fully funding the 1st year. If they were short the next year OPI could adjust levy tax. **Rep. Story** moved amendment 23 so they could get the biennial appropriation.

Amendment 23 was adopted unanimously.

Linda Branon, Indian Impact Schools EXHIBIT(1fh32a03) started her testimony by saying that the OPI has to calculate, based on school district spendings, the local contribution rates. The blue page shows the local revenue received plus the county revenue received. She discussed how things were under current law and how things would be under HB 124. The white page shows what the rate looks like. Ultimately the local expenditures would go down and the school districts will be eligible to less federal money. The green page uses the district of Morin as an example of the payment sheet and their local contribution rate. This showed that the final amount of payment to be made to the applicant would be less, due to the local contribution being less. The yellow page is the actual law. The cream pages are the federal regulations that deal with the impact aid. She discussed the local sources and said that HB 124 ties everyone's hands. The 2nd cream page ties what OPI can do because it says that no State or Federal funds can be included. She made it clear that Impact Aid was not the only program that would be impacted by this.

Rep. Esp wondered if, on the yellow page, the 55 mils from the State fit under the category B. He was told that the 55 mils were put into place so equalization would work. Jurisdictions had to send in 55 mils to the State and then it was redistributed based on the student population.

Linda Branon clarified it farther by saying the 55 mils used to be collected by the county for the schools, and then distributed back to the schools by the county treasurer. When the funding law was changed it made the 55 mils be placed into a general fund and distributed from there. **Rep. Esp** asked if it would be

distributed in the same proportion it had been collected. **Linda Branon** said they had to put in that portion in because there were some counties where the 55 mils brought in more than was needed. Now the excess would go to a more needy county. **Rep. Mangan** said it sounded like, in HB 124 that a way had been found to get the money to the State, but no way to get it back. **Linda Branon** said that was not possible with HB 124.

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Rep. Story said the 55 mils was what was always in place to fund schools and were collected at the county level and distributed back to school districts. **Linda Branon** agreed and said that the funding used to be 17 and 28 mils, but was now increased to 33 mils for the elementary schools and 22 for the high schools. She said that OPI ships that back out. For Impact Aid, OPI keeps track of each separately because it is going back in the same proportionate way. **Rep. Story** asked how much HB 184 had effected the Impact Schools. **Madalyn Quinlan** said no one knows for sure. She said that property tax reimbursement was not included in the local contribution rate, so they were trying to identify which one of the 6 revenue sources would be effected. It was agreed that only the motor vehicle revenue would be, so it would be possible to identify the motor vehicle amount from 2001 and credit school for that going out.

Rep. Story Said he would think about that. **Greg Petesch** thought motor vehicle fit under the subsection B definition, better then the 55 mils because the districts were held harmless for the loss of motor vehicle revenue through the district block grant program that OPI calculates. **Linda Branon** understood HB 124 to say that the motor vehicle comes in and the State would send it back out. **Greg Petesch** told her how that applies to other funds collected by another government unit, and was distributed back to the schools in the same proportion as was collected in the block grant.

Eddy McClure said when the 55 mils came in they were sent out equitably, not necessarily in the same proportion. **Rep. Story** thought they were equalizing, but most districts were getting back more then the 55 mils that was put in. **Linda Branon** said that some counties were sending in more, but the 55 million would go back to that county. **Rep. Story** thought they should talk about it amongst themselves and they may see that HB 124 was a pretty good bill.

Gwen Anderson, Teton County Superintendent of Schools thought that the block grants were great, especially if they would be given the grants and allowed to do whatever they wanted to with

them. This was not the case though. The block grant would have to go back to the budgets they had been in for 2001. 2001 as the base year creates a few problems and the non-levy revenue are distributed on the mills that were levied. She did not levy any mills in her bus depreciation fund because she needed the money in the transportation fund. Because of that, she will not get any block grant money or non-levy revenue for her bus depreciation. This will increase the local taxes because she must fund the bus depreciation somehow. She said that there are many other school districts that did the same thing because SB184 was supposed to sunset and that would have given them more flexibility. With this block grant system, if they did not levy any mills they will not be getting any block grants for that budget. She agreed with **Rep. Story** that they needed a mechanism to adjust the revenue estimates if there was a short-fall. They budgeted the revenue they were told they were going to get. If they do not, it would create a hole. This hole would be there in 2002 and 2003 because 2001 is the base year. She also had concerns about the motor vehicle revenue being put in this package. She thought this would create a cash flow problem. 1)The school districts depend on the money from the July to November cash.

2)The reserves, another source of revenue between July and November, has decreased from 35% to 10%.

3)The non-levy revenue will be sent to the state and they will get that back twice a year. This will effect their interest as well.

4)The direct State aid is even declining.

She wondered if it was a possibility to make the payments be on a monthly basis, or if it had to be twice.

Dr. Jerry Pauli, Superintendent of Thompson Falls

EXHIBIT (lfh32a04) had concerns about how the vote from the last legislature to reduce taxes effected everything.

1)The taxable evaluation in their county reduced over 1 million,

2)The millions reduced from \$13,000 to \$10,000

These created a hole that had to be filled up. SB 184 was a lifesaver for him because then the non-levy revenue accounts increased for the school districts. He was concerned about whether or not that amount of non-levy revenue would continue to come into the school districts. If they did not, it would increase their taxes. He pointed out that no one really knows how HB 124 would effect the non-levy revenues and he would like to see exact predictions. He opposed HB 124 and hoped they would allow SB 184 to continue.

Bob Volo, Montana School Boards Association agreed that everyone involved was worried about how this would impact schools. He did appreciate the work that was put into this bill and how the schools were held harmless from a State perspective. He said it

was a trust issue and they would just have to assume that the revenue source would be there. He had no solutions, just concerns, but he did agree with OPI's amendments.

Senator Jim Elliot spoke on behalf of the taxpayers. He discussed the necessity of the funding that **Madaly Quinlan** was talking about, to give it to the local school district as a biennial appropriation. He agreed with **Rep. Story** that supplementals were not a sure thing. He then gave three ways to guarantee that the local school districts get the money.

1)The next legislation can promise to give this money.

2)The local school can raise taxes or,

3)They can dig into their reserves.

He said that either of these options abnegates an agreement made between the legislature and the State of Montana school districts.

Tom Bilidor, Research Director of MEA-AFT saw a problem with HB 124 because the reimbursement block grants for the schools sunsets at the end the biennial. Block grants terminate after 2003. Governor Martz's budget to the legislation of 2003, will have in it the monies needed to pay the on-going reimbursement to the local government or counties. They would increase, whereas the block grant is not in that budget. This would mean that they would have to come back the next legislation and argue for the basic block grant with less of a budget to claim. He wanted the schools to be treated the same as the local government and counties.

Rep. Mangan asked if there was enough time to work on the process to evaluate the concerns of the school district about the sunset.

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Rep. Story said they would just have to require the governor to budget that money into the next budget.

Rep. Story asked if **Joan Anderson's** primary concern was because of the loss of the motor vehicle revenue being paid monthly. He mentioned that the other revenue sources did not come in monthly, and he wondered if doing 70% of the payments in November and 30%in May would help take up some of the slack.

Joan Anderson agreed that would help, but the monthly payments were better.

Rep. Esp asked **Linda Branon** how many school districts were having a federal money problem. She answered that there were about 75 to 100 having the problem.

It was decided by the committee that Linda Branon and OPI would tell them next Tuesday what they found out from reviewing what had been discussed tonight. That way they would know better if things were okay, or if a specific amendment needed to be changed.

ADJOURNMENT

Adjournment: 8:10 P.M.

REP. BOB STORY, Chairman

JENNI STOCKMAN, Secretary

BS/JS

EXHIBIT (1fh32aad)