

MINUTES

**MONTANA SENATE
57th LEGISLATURE - REGULAR SESSION
COMMITTEE ON TAXATION**

Call to Order: By **CHAIRMAN BOB DEPRATU**, on February 14, 2001 at 8:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

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

Committee Business Summary:

Hearing(s) & Date(s) Posted: Senate Bill 350, 1/31/2001;
Senate Bill 351, 1/31/2001;
Senate Bill 400, 2/9/2001;
Senate Bill 427, 2/9/2001
Executive Action: Senate Bill 427 Pass 7-0
Senate Bill 400 Hold

HEARING ON SENATE BILL 427

Sponsor: **SENATOR ROYAL JOHNSON**, SD 5, Billings

Proponents: Harold Blattie, County Commissioner, Stillwater County; Gordon Morris, MACO; Charles Brooks, Yellowstone County Commissioner

Opponents: None

Opening Statement by Sponsor: SENATOR JOHNSON presented the bill. He said counties were trying to address the problem they had in county government of how they pay for improvements around the county. The bill authorizes a limited general obligation bond. The limitation comes as to who will have to pay the bond. This would cover financing for roads or bridges. Currently, bond issues need to be voted on and the county does not always vote for it as they cannot see a direct benefit. This bill will exempt those areas that do not directly benefit. **{Tape : 1; Side : A; Approx. Time Counter : 0 - 3.9}**

Proponents' Testimony: Harold Blattie, Commissioner in Stillwater County, said the bill came from their county. They encountered the situation last spring where they took a bond issue to the voters in a rural area to see if they could issue bonds to purchase road graders. Currently, they can only afford a new grader once every four years. With eight different districts that makes a 32 year turnover, which is not acceptable. They found there was no authority in Montana law to obligate just rural areas with a bond issue. The counties were only authorized to issue county wide bond issues. There are 25% of the voters residing within the incorporated city of Columbus, it was not practical to ask them if they were willing to obligate themselves for debt and for the repayment of that debt they would receive no service.

Gordon Morris, Director of the Montana Association of Counties, recommended the bill be passed. He emphasized these would be bonds issued on behalf of the electors in the county only, exclusive of those residing in the incorporated area. Roads are financed by county residents outside the city limits. This would be very appropriate for a limited general obligation to those people living outside the incorporated city. It does leave intact the current bridge authority. **{Tape : 1; Side : A; Approx. Time Counter : 3.9 - 8.1}**

Charles Brooks, Yellowstone County Commissioner, said this was important to Yellowstone County. He was very supportive of the legislation.

Opponents' Testimony: None

Questions from Committee Members and Responses: **SENATOR BOHLINGER** said this was very important legislation, however in limiting the people who paid for the bond issue, would this affect the sale of the bonds. **SENATOR JOHNSON** replied that he did not think so since this was the general obligation of all those people who were included in the district. You tax until you get the bond paid for, which was voted in before issued. **{Tape : 1; Side : A; Approx. Time Counter : 8.1 - 10.9}**

SENATOR COLE asked if the bridge part in Section 2 was addressed. **SENATOR JOHNSON** replied that these bonds were not for bridges. The benefit is for road building in the county and for purchasing equipment. **{Tape : 1; Side : A; Approx. Time Counter : 10.9 - 13}**

Closing by Sponsor: **SENATOR JOHNSON** closed.

HEARING ON SENATE BILL 400

Sponsor: **SENATOR GREG JERGESON**, SD 46, Chinook

Proponents: **Harold Blatties**, Stillwater County Commissioner; **Gordon Morris**, MACO; **Charles Brooks**, Yellowstone County Commissioner

Opponents: None

Opening Statement by Sponsor: **SENATOR JERGESON** presented the bill. He explained the bill was a local government bonding bill which would raise revenues for road construction, repairs and maintenance. To make the program work, you need a reliable revenue source that would pay off the bond issues. What happens in small counties is their revenues are so small that they can only do work on a block or two a year or a couple miles of road. They don't get very far and some of these projects need fundamental work. This will give them an opportunity to bond for that fundamental work. **{Tape : 1; Side : A; Approx. Time Counter : 13 - 18}**

Proponents' Testimony: **Harold Blattie**, Stillwater County Commissioner, spoke in support of the bill. He added that in growth counties, their needs often exceed their abilities. High volume roads warrant paving but if they don't have sources available a large portion is spent to maintain the gravel road. This would allow revenue to complete the project so maintenance dollars could be saved. A larger project is more cost effective. **{Tape : 1; Side : A; Approx. Time Counter : 16 - 18.8}**

Gordon Morris, MACO, said this would be pledging gas tax receipts to retire the debt service and the principal on the bonds that would be issued under this section of law. All counties get gas tax receipts. If there is a project that would cost ten times the amount of your gas tax allocation, you'd have to pay it out over the course of ten years in increments. This would allow you to commit your ten year gas tax revenue to complete and fund that project today. This is a sensible and reasonable request. There is approximately \$6.8 million annually out of the gas tax allocation for cities, towns and counties. They are proposing to use it in this fashion and he urged the committee support the bill. **{Tape : 1; Side : A; Approx. Time Counter : 18.8 - 20.2}**

Charles Brooks, representing Yellowstone County Commissioners, spoke in support of the bill.

Opponents' Testimony: None

Questions from Committee Members and Responses: **SENATOR BOHLINGER** asked what kind of revenue would be made available from the gas tax to use for a small population county road project. **Mr. Morris** said the gas tax allocations around the state, the minimum amount that any county receives is approximately \$100,000. This bill would allow the county to obligate that revenue ten times the amount you get on a two year average immediately proceeding the issuance of the revenue bond. Therefore, \$100,000 compounded would expense a project that you wouldn't be able to finance any other way.

SENATOR COLE asked if this money was looked at regionally before it goes to the counties. **Mr. Morris** said that was not the case. It is allocated out based upon mileage. The distribution is about \$16.8 million totally.

Closing by Sponsor: **SENATOR JERGESON** closed.

HEARING ON SENATE BILL 351

Sponsor: **SENATOR JON ELLINGSON**, SD 33, Missoula

Proponents: **SENATOR JIM ELLIOTT**, SD 36; **Don Judge**, AFL-CIO; **Eric Feaver**, MEA-MFT

Opponents: **Jim Mockler**, Executive Director Montana Coal Council; **Mary Whittinghill**, Montana Taxpayer Association; **SENATOR ALVIN ELLIS, Jr.**, Red Lodge; **Riley Johnson**, NFIB; **Byron Roberts**, MBIA; **Angela Janacaro**, Montana Contractors Association and Montana

Mining Association; Jim Youngblood, Montana Farm Bureau; Carl Schweitzer, Kalispell and Bozeman Chamber of Commerce

Informational Witness: Gary Peterson, Montana Department of Revenue

Opening Statement by Sponsor: SENATOR ELLINGSON presented the bill and written testimony. **EXHIBIT (tas37a01)** He stated Montana was bankrupt and we must live within our means. He believed Montana had spent the money and then cut revenue too much. He went over the handouts and described the tax policies since the 1950's. **{Tape : 1; Side : A; Approx. Time Counter : 20.2 - 30}**

SENATOR ELLINGSON handed out material from **Brad Simshaw**, Tax Policy Analyst from the Department of Revenue, that demonstrated the reduction of business equipment taxes on selected industries. **EXHIBIT (tas37a02)** He described a trend in growth of market value of business equipment. **EXHIBIT (tas37a03)** A 1994 table on Taxing Differences from all states demonstrated Montana to rank #42 for tax revenue per \$100 personal income. **EXHIBIT (tas37a04)**

Proponents' Testimony: Don Judge, AFL-CIO, supported the legislation. He described the job market and the fact that Montana had created 124,000 jobs. We have trained our workers and yet they still leave the state because of the poor wages. Taxes breaks have not worked. **{Tape : 2; Side : A; Approx. Time Counter : 0.6 - 5.6}**

Eric Feaver, MEA-MFT, spoke in favor of the bill. He pointed out the past concept of the three legged stool was not working. He said at one point extractive resources were supposed to be a leg but that has gone away. Income and property taxes are not holding it up very well, especially since the sales tax concept was defeated in 1993. The business equipment and property tax cuts suffered since 1993 have not had any replacement revenue. This has created a huge fiscal dilemma in Montana. The tax structure is not broadened so it can be fair, but it is narrowed and placed on a smaller group of taxpayers. **{Tape : 2; Side : A; Approx. Time Counter : 5.6 - 11.8}**

Opponents' Testimony: Jim Mockler, Executive Director of Montana Coal Council, opposed the bill. In 1983 the Legislature decided that education was the key to increasing business wealth in Montana and they doubled the money that was going to education. A selected 25% of taxpayers are targeted. How can an increase in taxes be supported by someone who is supposed to represent the working man? Someone arrived at a theory that by raising taxes on the highest paying industries in Montana this will somehow

help the working man. The largest taxpayers are now threatened with their ability to stay in business and now you want to raise their taxes. He pointed out Wyoming and Alaska had the highest per capita income. The state of Wyoming's coal taxes are half of Montana. Their property taxes are half of ours, their real estate taxes are half of ours and their income per capita are at least double. The state of Wyoming has a \$300 million dollar tax surplus this year. Businesses that this affects the most are the ones that are in the most trouble right now. This is not the time to increase their taxes. **{Tape : 2; Side : A; Approx. Time Counter : 11.8 - 15.7}**

Mary Whittinghill, Montana Taxpayer Association, spoke against the bill. She felt reducing the business equipment tax was forward looking. It is too early to measure the effects of the reduction. It is possible for businesses who are heavily investing in equipment to stay in Montana. If this tax were raised back up as proposed by this bill, it would penalize those businesses. The business equipment reductions only happened the last half of November. She pointed out Montana was 6th highest in the nation in property taxes and 7th in spending. **{Tape : 2; Side : A; Approx. Time Counter : 15.7 - 18}**

SENATOR ALVIN ELLIS, Jr., Red Lodge, SD 12, pointed out that the business equipment taxes were now 25% higher than residential class 4. The bill exempts the first \$50 thousand dollars of value. This exempts virtually all mainstream business except two in Red Lodge, the mini-brewer and the Flashes Image Factory which is a film developer. He pointed out the developing machine cost \$100,000 - even second hand. If you are a rancher or somebody that has more than \$100,000 of value, you would pay higher than a residential taxpayer, even though you have the first \$50 thousand dollars exempted. It would be the balance of \$50 thousand multiplied by 6 which is a 25% higher rate. The point was made that we didn't replace the tax revenues, which is absolutely wrong. We replaced it with income tax. The only tax breaks last Session, that did not involve replacement revenue, was residential class 4 and commercial class 4. Those were allowed to float. He described additional replacement revenues for the business tax. This bill attacks the very industries that pay the highest wages. He described funding for education.

EXHIBIT (tas37a05) He said the chart compares Montana's spending per student with other states. For every 3 K-12 student, we spend an average Montanan's entire salary. **{Tape : 2; Side : A; Approx. Time Counter : 18 - 29}**

Riley Johnson, NFIB, opposed the bill. He pointed out the correlation between higher paid workers, such as the coal industry, to the spawning of small main street businesses that

helped in economic development. He talked about Wyoming and how much the economy has increased in that state. **{Tape : 2; Side : B; Approx. Time Counter : 0 - 1.3}**

Byron Roberts, Montana Building Industry Association, said his 1,500 members opposed this bill.

Angela Janacoro, Montana Mining Association, opposed the bill.

Jim Youngblood, Montana Farm Bureau, opposed the bill.

Carl Schweitzer, representing the Bozeman and Kalispell Chambers of Commerce, opposed the bill.

Informational Witness: Gary Peterson, Tax Specialist and Industrial Appraiser for the Montana Department of Revenue, said he was available for questions.

Questions from Committee Members and Responses: SENATOR

STONINGTON asked **Mr. Peterson** about his views of industrial investment. **Mr. Peterson** replied he saw investment in machinery and equipment being relatively flat. He was not sure what the reason. He saw a decline in the timber industry.

SENATOR EKEGREN asked about the perspective on a sales tax.

SENATOR ELLINGSON replied it would benefit the state to find a solution to funding. **{Tape : 2; Side : B; Approx. Time Counter : 1.3 - 18}**

SENATOR BOHLINGER asked if a tax policy could be developed to include a sales tax. **Mr. Judge** replied his organization has reaffirmed their opposition to a sales tax which they believe is regressive. Economic development is a lot more than tax policy.

SENATOR BOHLINGER pointed out the inadequate funding for the educational or human concerns of the citizens. **Mr. Judge** pointed out the cigarette tax would raise \$43 million dollars. He also noted the Legislature had cut taxes in efforts to deal with the economy but had not replaced the revenues.

SENATOR STONINGTON asked for clarification on school funding.

Mr. Feaver described historical increases from the state. **{Tape : 2; Side : B; Approx. Time Counter : 27.4 - 30}** He said this year enrollments are plummeting and this is an enrollment driven system.

SENATOR STONINGTON said she appreciated the global approach by

SENATOR ELLINGSON as he was looking at the tax system as a whole and the position the state is in financially. She said in terms

of stimulating the economy, one of the biggest criteria was predictability and stability. She said it appeared the state was unstable because of the drastic tax cuts and government services were at risk. The implications for the next decade appear to set in a chain of events that will increase that instability. She said it was important to weigh government services with our taxes. **{Tape : 3; Side : A; Approx. Time Counter : 0 - 3.9}**

SENATOR ELLINGSON replied that the state was bankrupt in terms of being able to supply the necessary services that are required. This Legislature may not solve the situation and therefore the teachers that are going to be cut will be cut. There will be a lot of ramifications, including higher tuition at the universities. The fiscal crisis will continue to be unstable. A new business looking at the state would be very skeptical and uncertain about investing in the state where there is so much unpredictability as to the level of government services and to the level of taxation that we will be called upon to remedy. **{Tape : 3; Side : A; Approx. Time Counter : 3.9 - 7.6}**

SENATOR GLASER pointed out that different classes of property were not evenly distributed by taxing jurisdictions. This makes the tax system uneven. **Mary Whittinghill** replied that there was a different mix of property in the state. It could be seen in SB 184 when the residential tax rate was cut. The different school districts had a larger decrease in the taxable value which affects the base and the taxable value of that school district.

Closing by Sponsor: SENATOR ELLINGSON closed. He directed the committee to two issues that he claimed were beyond dispute. One was referenced in table 7 that demonstrated the relationship between the taxation system and the growth in business equipment investment. There is no demonstrable relationship between the tax rate and the growth of business equipment investment. The table that reflects a list of the tax cuts given over the last five years was over \$442 million dollars of tax cuts taken out of our revenue stream. There is a tight budget and a tight revenue stream this year that will drive what we can give to support our basic services within the state - education, the university system, Department of Public Health and Human Services, and Corrections. The reason why there is a tight situation is because we have given up so much of the revenue stream over the past five years. We need to address the rebuilding of the revenue structure of the state to fulfill the responsibilities that all of our citizens expect us to fulfill to provide that minimal level of services they have come to expect and demand from our government. **{Tape : 3; Side : A; Approx. Time Counter : 13.4 - 16.2}**

HEARING ON SENATE BILL 350

Sponsor: SENATOR JON ELLINGSON, SD 33, Missoula

Proponents: Byron Roberts, Montana Building Industry Association; Roger Halver, Montana Association of Realtors; Betty Whiting, Montana Association of Churches; Julie Ippolito, HRDC Director's Council

Opponents: None

Informational Witness: Bruce Brensdal, Montana Board of Housing

Opening Statement by Sponsor: SENATOR ELLINGSON presented the bill. SB 350 would allow a 50% tax credit for contribution to the Revolving Loan Account, up to a maximum of \$10 thousand dollars per year. He suggested, since the revenue impact of this bill has not been sufficiently studied, a sunset could be placed on the bill to review this fiscal impact. *{Tape : 3; Side : A; Approx. Time Counter : 16.7 - 21}*

Proponents' Testimony: Byron Roberts discussed the housing affordability problem. The cost of an average new home has just exceeded \$150,000. We are in a situation since 1990, where housing costs have doubled, lot costs have tripled and salaries have remained stagnant. Montana has one of the highest home ownership in the nation, approaching 70%. For the other 30%, it is a significant problem. In 1990, the Montana Board of Housing financed one out of ten homes. Last year, it was one out of five. According to HUD, we should be spending no more than 1/3 of our disposable income on housing. More and more people are falling under that line. He felt this bill would help these people. *{Tape : 3; Side : A; Approx. Time Counter : 21 - 23.5}*

Roger Halver, representing the Montana Association of Realtors, supported the bill. He described this as a tax choice, not a tax demand. Money that goes into the Affordable Housing Revolving Loan Account is a tool whereby low and middle income families could afford housing.

Betty Whiting, Montana Association of Churches, spoke in support of the Housing Trust Fund. She said the funds could be used to fill in the gaps to build homes that otherwise could not be built. It could also be used to get more federal funds. There are a large number of people in Montana that cannot afford rents for houses. This bill would help fund the trust that was started two years ago.

Julie Ippolito, representing the Human Resources Development Council Director's Association, spoke in favor of the bill. She said this was a means to provide funding for low income housing. Out of 323,000 households, 79,000 are below poverty level, with 16% of those being senior citizens.

Opponents' Testimony: None

Informational Witnesses: **Bruce Brunsdel**, Executive Director for the Montana Board of Housing and Administrator of the Revolving Loan Account, said he was available for any questions.

Questions from Committee Members and Responses: **SENATOR**

STONINGTON asked if there were any private donations made into the Housing Trust Fund. **Mr. Brunsdel** said currently there was not private donations. **SENATOR STONINGTON** asked if there were any way to make this known to the public to encourage contributions. **Mr. Brunsdel** said he could find out if that was possible. **SENATOR STONINGTON** suggested considering ways to publicize this as a possible charitable contribution as there might be some interest. *{Tape : 3; Side : A; Approx. Time Counter : 23.5 - 30}*

EXECUTIVE ACTION ON SENATE BILL 427

SENATOR STONINGTON MOVED DO PASS. The question was called. The motion **PASSED** unanimously 7-0 with **SENATORS EKEGREN AND BOHLINGER** being absent.

EXECUTIVE ACTION ON SENATE BILL 400

SENATOR STONINGTON MOVED DO PASS. **SENATOR GLASER** pointed out this would have the effect of locking taxes in place, forever, at a dollar amount, not locking it in as a percentage. These are revenue bonds and you can't cut the revenue off. The Legislature would have to come back and guarantee this revenue at the current dollars as it deals with two major sections of the law. You can't change the ratios, you can't change the percentages, you can't change the dollar amount. You are married to this because the Constitution says once that revenue starts you can't cut it off when you have committed revenue to bonds. This is one bill that should not pass for this reason. If a counties population goes down, or if a counties consumption goes down, if the formulas change, we have to protect them because they have the bonding that is fed by the revenue stream. *{Tape : 3; Side : B; Approx. Time Counter : 0 - 9.2}*

SENATOR ELLIS said this bill had another problem, which was repair and maintenance, which were ongoing expenses and they should not be bonded. If you can't meet the expenses today how are you going to meet them in the future after having paid the interest.

SENATOR HARRINGTON pointed out that he understood the problem but noted how the counties were having difficulty meeting their responsibilities.

SENATOR ELLINGSON said he would prefer to see executive action on this bill postponed until **SENATOR GLASER's** concerns are addressed.

SENATOR STONINGTON agreed these were valid concerns and the problem was immediate need that you are paying for with future pain. She proposed an amendment to strike "maintenance and repair". **CHAIRMAN DEPRATU** said there was a fine line there. He noted that in the city of Whitefish there was a fine line between repair and reconstruction. When you dig down six feet, is that repair or new construction?

CHAIRMAN DEPRATU suggested this bill be worked on with the sponsors and hold off on executive action.

ADJOURNMENT

Adjournment: 10:45 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas37aad)