

## MINUTES

### MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION SUB-COMMITTEE ON TAXATION

**Call to Order:** By **CHAIRMAN BILL GLASER**, on April 4, 2001 at 4:35 P.M., in Room 405 Capitol.

#### ROLL CALL

**Members Present:**

Sen. Bill Glaser (R), Chairman (R)  
Sen. Alvin Ellis Jr. (R)  
Sen. Emily Stonington (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Branch  
Linda Ashworth, Sub-Committee Secretary

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

**Committee Business Summary:**

Discussion: HB 124

#### HEARING HB 124

**REVISE LOCAL FUNDING (aka The Big Bill): Terry Johnson, Legislative Fiscal Division**, distributed information supplied by the Department of Revenue, **EXHIBIT (tas76b01)**. He informed the committee that he had projected the revenues on the first page through fiscal year 2011. On the second page he projected the expenditures through 2011. **Mr. Johnson** called attention to the summary block on the bottom of page two, which showed the revenue and expenditure total by fiscal year. The third page of the handout displayed a graphic representation of the revenues and expenditures.

**Sen. Glaser** informed the members of the public that the sub-committee had concluded the bill could advance in one of three ways. It could pass in its current form with suggested fixes, be

stripped into an abbreviated form or it could die. He announced that the responsibility had been divided among the three sub-committee members. **Sen. Stonington** had agreed to look at the bill in an abbreviated form and **Sen Ellis** would discuss the bill from the point of view that the bill would come together in its total form.

**Sen. Stonington** explained she was viewing the bill from a policy decision point of view. In order to do that, she suggested a comparison was needed with the existing amended bill and a stripped down version. She stated she had met with **Greg Petesh** and had asked him to draft amendments to include reimbursements from SB 184, HB 20 and SB 417. She requested that **Mr. Petesch** do that in two different ways. One way would be to accept the phase-down of HB 20 and SB 417, which would show an entitlement share that would decline in value. The second way would hold the entitlement steady, which would impact the state's general fund. Both amendments would include provisions in the bill that were non-controversial. She also asked him to include the growth factor as stated in the big bill after the tax increment finances (TIFs) would expire, and to address the funding when the decrease in reimbursement to the industrial TIFs would roll into the reimbursement pool. The money would be allocated pro-rata share out to the entire state, based on the same growth factor in the big bill. **Sen. Stonington** indicated she had asked **Judy Paynter** to prepare a county by county comparison between the big bill and the stripped down version of the bill, which would allow each county to retain their sources of revenue and would receive the reimbursement on a declining basis with the expiring TIFs rolling back into the counties.

**Judy Paynter** responded that **Brad Simshaw** had made a comparison between current law and the big bill in relationship to several counties and cities in Montana. She indicated that he was working on a comparison in relation to the stripped down version. **Sen. Stonington** stressed that the big bill and the stripped down version would contain the exact same assumptions when comparing the exact revenue sources and expenditures. **Ms. Paynter** affirmed compliance to the request.

**Brad Simshaw** distributed comparisons of revenue flow and expenditures between current law and HB124, **EXHIBIT (tas76b02)** and **EXHIBIT (tas76b03)**. He explained how each would impact several Montana counties and cities. **Sen. Stonington** wondered why all the listed counties showed improving fiscal conditions but some of the cities did not. **Judy Paynter** explained that credits were being given to offset the gaming revenue's cost of connecting machines to the new electronic system. That money would be absorbed by the state in fiscal year 2002 causing a distortion

created by the credits on the gaming machines. **Mr. Simshaw** pointed out the distortion in the city of Billings, as listed on page 2.

**SEN. ELLIS** contended fiscal year 2003 would be an aberration for cities because of gaming even though it would hold stable or increase after 2003. **Mr. Simshaw** agreed with **Sen. Ellis**, maintaining that if there weren't any of this going on there would be a shifting of some of the revenues to fiscal year 2003. **Sen. Stonington** felt the bill showed positive aspects for the cities and counties. She referred to the chart distributed by **Terry Johnson**, maintaining the projections through 2011 showed that the general fund would provide that growth.

**Sen. Ellis** asserted the general fund would grow by the projected amount, questioning what percentage of the growth would be made up by increasing revenue from the fees in the general fund. **Brad Simshaw** responded that the numbers reflected the changing components of the revenue flow. He articulated that he was not talking about other money that would be included in the general fund. **Sen. Ellis** wondered if the fees would create the money that the general fund would take in. He assumed the bill would allow the redistribution of the fees in a different system. **Mr. Simshaw** asserted the bill would affect revenue flows, attesting the money would remain the same, while moving in a different direction. He indicated the trade-off would weigh the revenue flows against an entitlement. For example the bill as is, estimates the entitlement growths at 3% for 2002-03 and would drop to 2.4% for the next two years of the biennium.

**Sen. Glaser** requested that **Sen. Ellis** narrate his opinions on HB 124. **Sen. Ellis** stated his belief that the Mangan Amendment be accepted. He informed the committee the amendment would address growth in the entitlement. **Judy Paynter** referred to previous information regarding the Mangan Amendment and explained the rationale behind the funding. She recounted that the schools would be held at the 2002-03 levels but would increase the level by 1.5% in 2004-05.

**Sen. Stonington** clarified that the TIF payments to industrial districts would be cut in half each year. **Ms. Paynter** affirmed that it was currently doubled in HB 124. She reiterated that the TIF would have the statutory appropriation that extended in special session's HB 4.

**Sen. Stonington** questioned what would happen to those TIF payments. **Judy Paynter** explained the confusion at the beginning of the session regarding the money that was promised to the industrial TIFs in the special session in HB 4. She contended

1.2 million dollars in 2002-03 and \$600,000 in 2004-05 would honor HB 4 from special session. She purported that a statutory appropriation had already provided for the HB 4 money. This resulted in a reduction of the 2002-03 funds by \$600,000 and a reduction of 2004-05 by \$300,000 each year. **Sen. Stonington** wondered if the chart on funding shifts on state government was combined with the Mangan Amendment or if it was an additional amendment. **Sen. Ellis** maintained they were the same except for the highlighted sections on the Mangan Amendment.

**Sen. Ellis** addressed the Stonington Amendment (HB012434.agb). He referred to the amendment as "the trust me factor" that would insure that the department would use actual revenue for the growth factor and the counties would continue to levy at the rate they did in 2001 for district courts. He suggested a statement of intent should be also included. **Sen. Stonington** voiced concerns that the statement was too lengthy to be included in statute. **Sen. Ellis** queried whether the statement would go into the statute. **Lee Heiman** apprized the committee that the statement would be included in the beginning of the statute. He maintained a statement of intent would be codified. **Gordon Morris** maintained he would not have a problem if **Mr. Heiman** abbreviated the statement.

**Sen. Ellis** reported on the concern that off-road vehicles monies would no longer be statutorily appropriated. He advised the sub-committee that there were two options to deal with this. He professed that the Department of Revenue would submit an amendment. **Judy Paynter** surmised that **Lee Heiman** had drafted the amendment. **Mr. Heiman** reported that inserting the amendment at the front of the bill would insure that the money would be distributed to an ear-marked fund. **Sen. Ellis** cited his opinion that the money should not go into the general fund but into the ear-marked fund, which would make it less susceptible to theft by the Legislature. **Sen. Ellis** reported the amendment would be drawn up in accordance to the wishes of the industry.

**Judy Paynter** reported that **Greg Petesch** had drafted technical amendments. She suggested the committee would address the amendments at the next sub-committee meeting. **Sen. Glaser** requested the amendments be submitted to **Sen. Ellis** prior to the next sub-committee meeting.

**Lee Heiman** purported that HB 124 needed to be coordinated with 12-13 other bills, including the district court bill and the assumption of welfare costs. He suggested the bills be prioritized. **Sen. Glaser** indicated the passage of HB 124 would allow the other bills to remain in their current form. The failure of HB 124 would force the modification of the other

bills. **Mr. Heiman** cited his belief that SB 176 had coordination instruction that would kill it if HB 124 were to fail. He maintained that SB 176 had 10 or 12 sections that were different from HB 124. **Judy Paynter** recounted that previous amendments to HB 124, which were purported to address coordination, would need adjustments. She reported that she would bring the coordination amendments for SB 176 to the next sub-committee meeting. **Gordon Morris** responded that SB 339 had passed the floor of the Senate and contained two co-ordinating instructions. He opined that SB 339 would be appropriately co-ordinated to take into account the passage or failure of HB 124. He suggested that anything relative to SB 339 would not have to be addressed in HB 124.

**Sen. Glaser** reported that the sponsor of SB 176 had an interest in maintaining parts of the bill in the event that HB 124 would fail. **Sen. Stonington** contended there would be one repealer the sponsor would like to see maintained. She recommended that the repealer should be included in the stripped down version of the bill as well.

**Sen. Stonington** asked **Terry Johnson** if he could amend his charts to include the Mangan Amendments. **Sen. Glaser** requested that he prepare the copy before the sub-committee would meet again. **Mr. Johnson** agreed to the request.

**Sen. Stonington** observed that rising district court costs were driving the increased expenses under current law or HB 124. She maintained that the counties would pick up the growth in costs under one scenario and the state general fund would pick up the cost in the other. **Brad Simshaw** submitted additional information on TIF and suggested that **Mr. Johnson** could reflect that information in HB 124, **EXHIBIT (tas76b04)**.

**Alec Hanson** suggested that HB 124 was a careful, comprehensive look at local government finance. He declared that the fundamental element of the bill would be the entitlement share that would be tied to the economy. He assumed that other state revenues that were tied to the economy would rise accordingly. He stated that he would like to see revenue projections on income and corporate taxes that would fit into the bill so it wouldn't appear as if that the costs to the state of Montana would increase by 30 million dollars by 2011.

**Mary Phippon, representing the Montana Association of Clerks of District Court**, reiterated her concerns with co-ordinating language in HB 124 in the event that SB 126 would not pass.

**Mary Whittinghill, representing Montana Tax Payers Association,** asked for clarification in the mill levy language and the necessity for the temporary and the permanent section, (Sections 95, 96 under 15-10-420). She stated her understanding that the intent would be to allow local governments to float the mill, exclusive of newly taxable or 2%, whichever was greater. She asked the sub-committee if the mills would float under 15-10-420 or if they would grow at the same amount as the entitlement. She felt this issue was confusing as stated in the bill. **Sen. Ellis** requested that she present her concerns in written form to **Lee Heiman** prior to consideration at the next sub-committee meeting.

**Ronda Carpenter** stated her concerns with the different growth rates in different areas of the state. She contended HB 195, which was currently on the Governor's desk, had extended the tax credits for the gaming machines because the dial up system was behind schedules. She maintained the credits would extent for twenty-four months, beginning the next fiscal year. She offered to provide the sub-committee with the average growth in every city and county for the last three years.

**Sen. Stonington** suggested that the variable growth rate across the state would be exchanged for the formula in HB 124. **Ms. Carpenter** adduced that without the bill the local government would keep all the gaming money.

**John Lawton, City Manager of Great Falls,** pointed out that the cities understood that there would be winners and losers in various categories of revenues. He cited his belief that for the good of the whole they would overlook and not be selfish about who wins and who loses on a specific revenue category.

**ADJOURNMENT**

Adjournment: 5:30 P.M.

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SEN. BILL GLASER, Chairman

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LINDA ASHWORTH, Secretary

BG/LA