

OFFICE OF THE GOVERNOR
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR



JOHN WALSH
LT. GOVERNOR

May 6, 2013

The Honorable Linda McCulloch
Secretary of State
State Capitol
Helena, MT 59620

Dear Secretary McCulloch:

In accordance with the power vested in me as Governor by the Constitution and the laws of the State of Montana, I hereby veto House Bill 408 (HB 408), "AN ACT REDUCING THE TAX RATE FOR CERTAIN AIR AND WATER POLLUTION CONTROL EQUIPMENT FOR PROPERTY TAX PURPOSES; PROVIDING A REIMBURSEMENT TO LOCAL GOVERNMENTS AND TAX INCREMENT FINANCING DISTRICTS UNDER THE ENTITLEMENT SHARE PAYMENT, TO SCHOOL DISTRICTS THROUGH THE BLOCK GRANT PROGRAM, TO COUNTY SCHOOL RETIREMENT AND COUNTY TRANSPORTATION REIMBURSEMENT, AND TO THE MONTANA UNIVERSITY SYSTEM THROUGH SUPPORT OF PUBLIC EDUCATION INSTITUTIONS FOR THE LOSS OF CLASS FIVE REVENUE; AND AMENDING SECTIONS 15-1-121, 15-6-135, 20-9-501, AND 20-10-146, MCA."

HB 408 reduces the Class 5 tax rate (§ 15-6-135, MCA) for certified air and water pollution control equipment from the current rate of 3 percent to 2 percent in tax year 2015, 1.5 percent in tax year 2016, and 1 percent in tax year 2017. HB 408 also provides for a reimbursement for the local taxes lost as a result of the tax reductions pursuant to § 15-6-135, MCA, that otherwise would have been generated if the tax rate had remained at 3 percent.

If the tax rates for pollution control equipment are reduced as HB 408 proposes, the impact to the state general fund is significant. It is estimated that the reduction associated with the lowering of the tax rate and the reimbursement to local government will cost the general fund \$3,045,108 in FY 2016, \$4,709,266 in FY 2017, and \$6,473,648 in FY 2018. Those reductions, which are likely to grow each fiscal year, will continue into future years and will impair future Legislatures' flexibility in budgeting and may create long-term fiscal imbalance.

HB 408 delays implementation of the tax reductions for pollution control equipment, to begin in tax year 2015. The effect of the delay provides structural balance for this biennium, but saddles future Legislatures with potential revenue shortfalls.

The budget I proposed was balanced, left money in the bank for a rainy day, cut taxes for small businesses and homeowners, and maintained critical services. At the same time I laid out clear and

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basic expectations for the Legislature while considering the state budget. First, Montana's budget needs to be in structural balance – we cannot spend more than we take in. Second, to ensure sound fiscal management, the Legislature needs to maintain a reserve of \$300 million in ending fund balance. Finally, essential services and long-term liabilities must be addressed before the Legislature creates new programs or tax expenditures.

Therefore, for reasons of fiscal responsibility, I veto HB 408.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Bullock", with a long horizontal flourish extending to the right.

STEVE BULLOCK

Governor

cc: Legislative Services Division
Mark Blasdel, Speaker of the House
Jeff Essman, President of the Senate