

HB 124 "The Big Bill"

Timeline of major events that lead to the formation of the 1999-2000 Local Government Funding and Structure Committee and the Entitlement Share Program

In FY97, almost \$300 million in state revenue was collected at the county level, and over 100 lines of code was needed to complete the *State of Montana State Treasurer County Collection Report*. The large amount of money collected coupled with a complex reporting process created opportunities for mistakes.

A committee of county treasurers and state agency personnel was formed to make recommendations for improvements in the county collection process.



April

The Department of Revenue and the Legislative Audit Division formed the County Revenue Collection (CRC) work team to explore methods to simplify the county revenue collection process.

The CRC's final recommendations included ensuring adequate checks and balances, allowing for methods of automation, and simplifying laws related to county and state revenue collection and dispersal.



Utilizing the research and recommendations of the CRC and considering their own findings, the Local Government Funding and School Finance Group created the following vision statement:



We are dedicated to a partnership among state, county, city and school districts that is based on mutual trust and respect for local authority. This partnership will enable all governments to respond to the demands of their citizens in the 21st century through a revenue system that is simple, understandable, equitable, stable, and adequate and through a revenue collections and distribution system that is simple, efficient, accurate, and timely.

1997

Significant finding of the county treasurer and state agency committee:

Breakdowns in communication between state agencies and local governments may have led to improper distributions:

- » counties were supposed to withhold SB417 personal property reimbursements, but almost half was actually remitted to the state, and
- » HB20 personal property reimbursements had been incorrectly remitted to the state rather than distributed in counties since 1993.



1998

The Department of Revenue also established the Local Government Funding and School Finance Group with members from MACO, MLCT, DOJ, OPI, county and city officials, and school personnel.

August

The Local Government Funding and School Finance Group researched potential tax changes that could create profound revenue impacts on local governments and schools. The group worked to find an alternative to property tax reimbursement programs because reimbursement programs have many drawbacks including:

- unique, often confusing, calculations required for each reimbursement,
- a complicated implementation structure for schools and local governments when determining budgets and mill levy calculations, and
- each time a taxing jurisdiction is changed, the reimbursement calculations also have to change.

Eight property tax reimbursement programs already existed, and the 1999 session threatened to add more, so the group realized an alternative, simplified approach to balancing local government revenue reductions was needed.

1999

The MT Legislature enacted significant tax cuts during the 1999 session.

» Local governments and schools saw a **\$115.6 million** reduction in property tax revenue over the biennium.

SB 184 and HB 260 attempted to offset the reductions by providing reimbursements from the general fund. However, the reimbursements weren't enough.

\$115.6 million revenue loss
- \$76 million reimbursement

=
**\$39.6 MILLION
DEFICIT**

*for local governments and schools to recoup,
usually through increased mill levies*

Additionally, the reimbursements provided in SB 184 were scheduled to sunset June 30, 2001, which would further increase the deficit for local government unless further action occurred.

September

The Local Government Funding and Structure Committee (LGFSC) determined three primary goals:

- 1 Simplify billing, collection, accounting, distribution, and reporting of all revenue.
- 2 De-earmark revenue and eliminate expenditure mandates for local government.
- 3 Create a rational, dependable, stable funding structure for cities and counties.



"All governments and citizens deserve a revenue system that produces adequate and relatively constant revenue, treats individuals and businesses fairly, is easy for taxpayers to understand, minimizes administrative costs and has all economic activity and wealth contributing proportionally to support government service."

- LGFSC final report

June

SB 184 established two study committees:

Local Government Funding & Structure Committee (LGFSC)

Examined the best method to allocate current and future resources while providing a complimentary funding relationship between state and local government.

and

Court Funding & Structure Committee

Examined district court funding with the goal of bringing funding responsibility and operation of the court system into one governing body.

The LGFSC consisted of:

- | | |
|------------------------|--------------------|
| 2 Representatives | 1 City Manager |
| 2 Senators | 1 City Councilman |
| 2 County Commissioners | 1 County Treasurer |
| Director of DOR | |



The LGFSC met eight times during the 1999- 2000 interim and adopted the 1998 Local Government Funding and School Finance Group's vision statement, repeated from the previous page:



We are dedicated to a partnership among state, county, city and school districts that is based on mutual trust and respect for local authority. This partnership will enable all governments to respond to the demands of their citizens in the 21st century through a revenue system that is simple, understandable, equitable, stable, and adequate and through a revenue collections and distribution system that is simple, efficient, accurate, and timely.

THE LGFSC DEVELOPED EIGHT AREAS OF RECOMMENDATION:

2000

***Budget & Accounting** - Provide a single set of uniform budget and accounting laws for local governments

***Revenue Changes** - Change the flow of revenue so that most revenue remains with the government that collects it. Streamline and eliminate fees where appropriate.

***Expenditure Changes** - Transfer welfare and most district court funding responsibilities to the state.

***De-earmarking and Mandate Guidelines** - Establish guidelines for earmarking revenue and develop system to review earmarked funds.

Local Option Taxes - Authorize a voted local option tax not to exceed 4% and allow for revenue sharing between urban and rural counties. Also authorize up to a 1% voted local option realty transfer tax for infrastructure, with 20% staying in a state operated program and 80% remaining in the local community.

** Denotes those recommendations that were enacted or partially enacted during the 2001 session or subsequent sessions.*

***Entitlement Share** - Create general fund entitlement shares to replace lost revenue from property tax reductions and streamline fee collection. Shares would include an annual growth rate.

Property Tax Limit - Retain the SB 184 property tax limit as an overall property tax limit. Eliminate existing local government mill levy caps other than the 2-mill emergency levy.

State and Local Government Relationship Committee - Create a temporary (4 yr) committee of legislators and local gov't officials to promote relationships and monitor implementation of any related upcoming legislation.

December

HB 124 was drafted and preintroduced, representing the body of work and recommendations of the LGFSC.



LGFSC Final Report:

"A significant impact of the committee proposals is the trust both state and local government officials must establish between themselves. The legislature will have less control over local government, and local government will have the right to receive an Entitlement Share of the general fund without specific revenue or expenditure requirements. Building this trust level will be a challenge. To expedite the trust building, local government audit provisions have been strengthened and local government financial laws have been revised to allow significantly more local financial flexibility and authority...As the state gives more autonomy to local government, the county clerk and recorders, in their function as budgeting and accounting personnel, will make a major contribution in strengthening and demonstrating the local government accountability requirements."

2001

HB 124 received its first hearing in the House Local Government Committee on January 25, 2001. The hearing lasted 3 hours, with 21 proponents and 20 opponents testifying.

January

The length and complexity of the bill joined with the number of citizen concerns heard during testimony prompted the committee to assign the bill to a select committee.

Legislative leadership assigned the bill to the Local Government Funding Select Committee which held its first meeting February 1 at 5 pm. The committee continued to meet roughly twice a week until mid March.

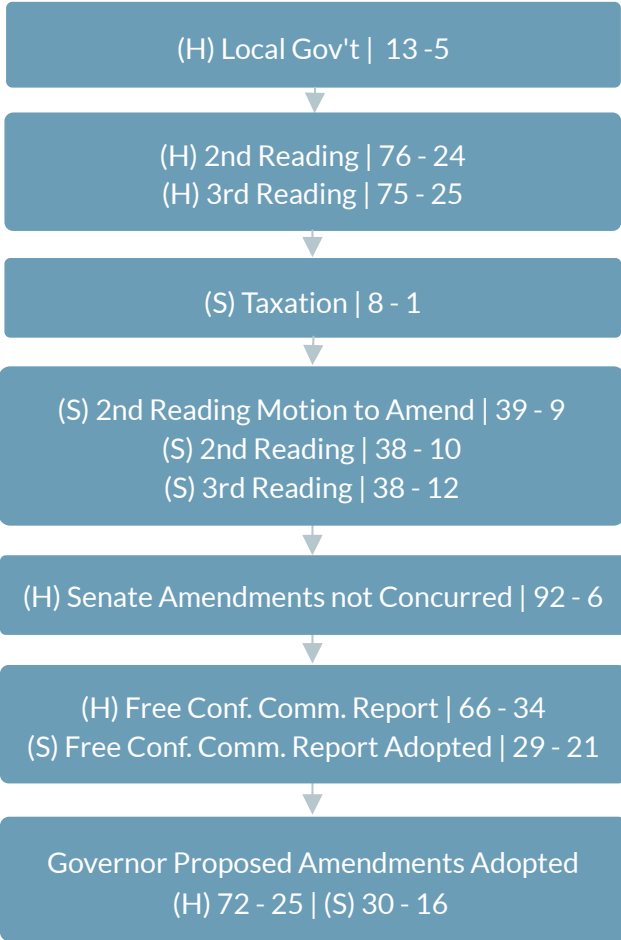
February

February & March

The goal of the Local Government Funding Select Committee was to hear from stakeholders and make amendments in committee rather than on the House or Senate Floor.

March & April

HB 124 made its way out of the select committee and continued to proceed through the legislative process.



Local Government Select Committee	
Feb. 1	59 amendments introduced
Feb. 6	8 amendments adopted, 2 rejected; MACO proposed 7 additional amendments
Feb. 8	OPI proposed 23 amendments; testimony from MT School Board Assoc., Indian Impact Aid, MEA- AFT, & multiple superintendents
Feb. 13	Major discussion: growth factor and timing of payments
Feb. 15	Budget Office proposed additional growth factor revisions; Tavern Assoc., Beer & Wine Assoc., Coin Machine Operators, and Gaming Industry reps express concerns regarding growth factor
Mar. 6	Major discussion: FWP, DNRC, and Taylor Grazing payments - all removed from bill 7 additional amendments passed; 2 amendments rejected
Mar. 8	Final meeting: 9 amendments passed; 4 amendments rejected

14 hrs. Total time the Local Government Select Committee spent listening to testimony and work-shopping HB 124.

May

The governor signed HB 124 into law on May 5, 2001, marking the culmination of roughly four years of various committee work throughout the process.

The Entitlement Share Program has become an integral part of both the state and local government budgeting processes. The program has been amended multiple times since its inception almost two decades ago, but the basic idea and structure of the program remains largely intact.

Sources:

"Simplification in the 21st Century", Final Report of Local Government Structure and Funding Committee, December 2000.
 Local Government Funding Select Committee Minutes, 2001 Montana Legislative Session

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