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Revenue and Transportation Interim Committee

60th Montana Legislature

SENATE MEMBERS

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KIM GILLAN--Vice Chair
JIM ELLIOTT
JEFF ESSMANN
CHRISTINE KAUFMANN
ROBERT STORY JR

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JEFF MARTIN, Lead Staff
LEE HEIMAN, Staff Attorney
FONG HOM, Secretary

MINUTES

SJR 31 Subcommittee

April 17, 2008

Room 102, Capitol Building
Helena, Montana

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

COMMITTEE MEMBERS PRESENT

SEN. ROBERT STORY JR
SEN. JEFF ESSMANN
SEN. CHRISTINE KAUFMANN

REP. GALEN HOLLENBAUGH
REP. BOB LAKE

COMMITTEE MEMBERS EXCUSED

REP. TIMOTHY FUREY

STAFF PRESENT

LEE HEIMAN, Staff Attorney
FONG HOM, Secretary

Visitors

Visitors' list, Attachment #1.

COMMITTEE ACTION

CALL TO ORDER AND ROLL CALL

00:00:21 Sen. Story called meeting to order at 8:30 a.m. The secretary took roll visually. Rep. Furey was excused. The minutes of the February 7, 2008 meeting were approved as presented.

AGENDA

Property Tax Information Related to K-12 Schools - Mary Craigle, Department of Revenue, and Judy Paynter, Office of Budget and Program Planning

00:02:48 Ms. Craigle talked about K-12 Schools - Property Tax Revenue Growth TY2000 to TY2007 **(Exhibit 1)**.

Questions during the presentation

00:24:25 Sen. Story asked if the Budget Office had the charts that showed market and taxable value. Ms. Paynter said that they did not bring the table showing the market value, only the table showing taxable value and taxes paid.

00:25:44 Sen. Story asked how much of taxable value is driven by Class 4? Ms. Craigle said Class IV drives most of the taxable value, Class 10 is fairly insignificant, Class 3 is important, but the vast majority of it is Class 4 Ms. Craigle said that the taxable value actually dropped but combining those three, the taxable value is growing but coming out of Class 4

Disparities in School Levies - Jim Standaert, LFD

00:50:37 Mr. Standaert gave a presentation regarding school mill disparities **(Exhibit 2)**.

Questions

01:31:43 Sen. Kaufmann asked what the effect would be of doing a statewide mill, no local mills. Mr. Standaert said that if there were no local mills, the state would have to come up with a formula to distribute money to each school district. There would not be any local discretion about how much money is in that district, and the school board's functions would be fewer because there will be no decisions about how much money is brought in.

Sen. Kaufmann asked if the existing formula would work? Mr. Standaert said that it would because you could get rid of the local mills, you could say that the state is going to spend up to the maximum budget, and all those districts above the maximum budget would have to come down to the maximum budget because you don't have local mills anymore.

Mr. Standaert talked about the reservation districts. He said that as part of his regression analysis he treated those differently to see if there were any distinctions with the Indian reservation schools. The average mill levy between other districts and the reservation districts is around 20 mills in the elementary and 40 mills in the high school.

Schools Budgeting of Oil and Gas and Coal Revenue - Judy Paynter, Assistant State Budget Director, and Marla Larson, Department of Revenue

01:39:37 Ms. Paynter gave an update on the oil and natural gas and coal gross revenue in the school budgets and compare to the amount of revenue schools get versus what they budget (**Exhibit 3**).

Questions

01:58:52 Sen. Essmann said that Ms. Paynter talked about a \$9 million difference in 2007, and asked where the non-budgeted revenue in the oil and gas districts was going to the bank. Ms. Paynter said that she was talking about a \$31 million difference in 2008. She was trying to tell the committee that some of the districts budget the money, which means it officially goes into the bank for later years and increases their budget while other districts are transferring that revenue to other funds.

02:00:35 Jim Standaert said that the districts budget x amount of dollars and get three or four times that amount and then the following year they roll it into their fund balance and that money has to be fund balance reappropriated into the general fund above 10% of their ensuing year budget. **Madalyn Quinlan, OPI**, said that there is an area of the budget that says "excess revenue" that is recorded based on their estimates but is not needed to fund the budget. She said that it carries over from year to year to the extend that the fund balance is enough to fully fund property taxes or the budget in the following year.

02:07:57 Sen. Story asked what happens to a school district's budget if they overestimate oil and gas revenue? Ms. Quinlan said that if they overestimate oil and gas revenue, they potentially could have a shortfall in their budget and if they budgeted a certain amount of money but the revenue doesn't come in and support that budget, then they are going to have to cut their budget.

Overview of Quality Schools Interim Committee - Jim Standaert, Madalyn Quinlan, Sen. Bob Story

02:27:54 A copy of the Final Report for the Quality Schools Interim Committee written by Connie Erickson, Research Analyst, LSD (**Exhibit 4**) was distributed to the committee.

Sen. Story gave an overview of the Quality Schools Interim Committee and the work that they did in addressing school funding. The committee, after putting out an RFP, hired consultants to do cost analysis and to put together funding formulas using different methodologies. Sen. Story said that the QSIC tried to engage the education community in the process. In the end, the committee put together a formula which they tried to adopt and propose as legislation for a special session. That proposed legislation died in committee on a 4-4 vote. They received an opinion from Chief Legal Counsel that the committee had done everything that the committee was required and the committee adjourned. The Governor called a special session and brought forth a package of proposals.

02:33:16 Jim Standaert, LFD, gave a brief overview of the Quality Schools Interim Committee report. He also distributed and discussed the document "Status Sheet 11/14/2005 - Committee motions as of 11/2/2005" showing the final chart that

they used to keep track of what this was costing us **(Exhibit 4a)**.

Questions

02:55:59 Sen. Kaufmann asked if the per educator payment that was adopted subsequent to that study related to the classroom component, or was it a new idea that came up. Mr. Standaert said that it was related but a totally different concept. The per educator counts the number of teachers in the district and allocates \$3026 per educator. The classroom component was a totally manufactured classroom. They said that 8.6 students per teacher is one classroom and came up with a dollar figure to reflect salaries.

Adequate school funding and how Montana can meet goal - Lance Melton, Montana School Boards Association

03:09:15 Mr. Melton talked about adequate school funding and how Montana can meet the goal **(Exhibit 5)**.

Questions throughout Mr. Melton's presentation

03:29:28 Rep. Lake asked if there was a way to find out how much of the reason for a child to stay in school is based on what the school has to offer versus how committed the parents are keeping that child in school. Mr. Melton said that there is national data regarding the dropout rates. There are situations where students drop out because they feel as though the opportunities aren't there for them. There are certainly some children that drop out in their senior year, go the GED route and go right into college. Rep. Lake said that he is not sure that increasing education funding would address the dropout numbers if the motivation to stay in school isn't coming from the parents.

03:39:26 Sen. Story asked what is growing in the state budget that education is getting a smaller portion. Mr. Melton said that some of it is the economic boom. There has been a record resources available and as those resources have been directed to other problems, it redirects it away from K12 public education.

04:17:02 Sen. Kaufmann said that Mr. Melton commented that the Legislature should find a good revenue source. She asked if Mr. Melton is prepared to support any particular revenue source or prepared to recommend a statewide mills increase? Mr. Melton said that their membership has recently taken a position in support of a sales tax. He also said that they once supported the Governor's request for additional taxation at the end of last session on the Plum Creek Property.

04:19:00 Rep. Lake commented to committee that until they determine what the actual costs is to provide that information, they are wandering different directions. School boards will spend what money is in front of them, but the Legislature must establish what is the costs of bringing a child from kindergarten and moving him through the grades levels, and until the Legislature does that, they don't have a target as to what amount of funding they are going to have to have to fund the education system.

Effect of tax increment finance districts on school funding - Mary Craigle, DOR, and Judy Paynter, Assistant State Budget Director, OBPP

05:08:16 Ms. Craigle discussed the document (**Exhibit 6**) that is an overview if the TIF money that went to local schools in that the 95 mill levy is treated similarly to the 6 mill levy. The paper also gives more information on clarifying bases and TIFs.

Public Comment

05:20:34 **Tina Volek, Administrator of City of Billings**, said that the City of Billings has long been one of the most active users of TIF districts in the state. They sunset the first TIF district that was created. She said that TIFs can benefit schools.

Update on sales tax - Dan Bucks, Director, DOR

05:24:13 Mr. Bucks distributed a write up of his comments on sales taxes that were made at the February meeting (**Exhibit 7**). He talked about the three charts contained in his comments.

Sales Tax Options - Larson Silbaugh, Department of Revenue

05:39:45 Mr. Silbaugh presented a sales tax model that the Department of Revenue prepared to help committee discussion on what items to include in a sales tax.

Questions

05:41:32 Sen. Essmann asked if Mr. Silbaugh took the Wyoming base and extrapolated it by population. Mr. Silbaugh said that he used the most up-to-date Montana data from the 2000 economic census, consumer expenditure, national data and multiply that by the population growth rate in Montana. He said that the model is the base whether something is taxable or not, and the Wyoming base is applied to the Montana specific model.

05:42:29 Sen. Story asked if the Wyoming tax was implemented in Montana, would the total revenue be at 4%? Mr. Silbaugh said yes. Sen. Story asked if Wyoming had any dealing with pyramiding in their system? Mr. Silbaugh said that they exempt goods that are going to be included in the finished product and they tax business services because they are not the raw materials that go into the finished product.

Sen. Story asked if his model could be used or modified to project revenue from a local option tax? Mr. Silbaugh said that the model is only as good as the data, so it depends on how small the metropolitan statistical areas are that they can get the 2002 economic census data for and that is an area with a population greater than 5,000. Sen. Story wanted to know if that has to be done at that specific level or does it just work proportional? Mr. Silbaugh said no because the base comes from the 2002 economic census. Sen. Story asked Mr. Silbaugh when the new economic census update will be out. Mr. Silbaugh said the first wave of that data is coming out in January 2009 and will be released 18 months after that and is based on the 2007 base year.

Public Comment

05:50:45 **Tina Volek, Administrator of City of Billings**, said that the City of Billings united with the Chamber of Commerce and other entities in the community to address the issue of the local option tax that would have been an extension of the current resort tax limited to communities with a population of 5,000 or under.

She said that she is not an advocate of a full sales tax or reliance on a sales tax. She said that in measure, it is a tax that does have some benefit, particularly in a state that relies on tourism.

Committee discussion and instruction

Sen. Story talked about the fact that so far the committee has only been gathering information. He said that the funding components that were talked about are substantial and somewhat important. If the state does starting thinking about doing something to school funding that is sustainable and long term, the state needs to figure out how to pay for that.

Adjournment

05:59:04 Sen. Story adjourned the SJR 31 Subcommittee meeting at 2:29 p.m.

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