

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

January 23, 1981

The eleventh meeting of the Taxation Committee was called to order by acting Chairman, Sen. Bob Brown, at 8:00 a.m. in Room 415 of the State Capitol Building.

ROLL CALL: All members were present, with the exception of Sen. Manley, and Senators Goodover and McCallum who were excused.

CONSIDERATION OF SENATE BILL 77: Sen. Matt Himsl, District 9, Kalispell, presented SB 77 explaining that it is a renewal act extending the authority of the State Board of Examiners, upon recommendation of the DOR, to issue and sell notes in anticipation of taxes and revenues appropriated for expenditure during a fiscal year; providing that the full faith and credit and taxing power of the state shall be pledged for the payment of all notes; and providing that the act is effective on passage by a two-thirds vote of the members of each house of the legislature and approved by the Governor. Sen. Himsl introduced Bill McEnaney, Executive Secretary, State Board of Examiners, who said the bill was self-explanatory. It has been a money maker for the state and the Board uses this money to equalize the general fund.

There were no further proponents and no opponents to this bill.

Questions were called for: Sen. Towe asked what the notes expect to sell for and was told 6.1%. Sen. Elliott asked Sen. Himsl if the purpose of this bill was to raise monies between the periods of actual collection of the taxes? The answer was yes. He said further that in order to have funds available, instead of having registered warrants or deficiencies, they borrow money at a low interest rate and have funds available. The section that pledges full faith on credit enables us to get an even better interest rate.

Senator Himsl, in closing, said he thought this is an example of good money management on the part of the administration because it has limitations and is also well protected. He felt we have an obligation to operate as efficiently as possible and urged support of SB 77.

CONSIDERATION OF SENATE BILL 98: Sen. Himsl said this bill was not an original thought of his but of Dennis Burr's, Montana Taxpayers Association. This bill would provide a simple and certain way of funding the state's share of the foundation program at a level determined by the legislature without a state-wide deficiency levy, thereby resulting in tax relief. The legislature would appropriate for the biennium, the office of Public Instruction would not have to estimate the draw, but payment would be made on the schedule set by the legislature and payment made on actual student enrollment, not the projected enrollment. See attachment #1. Sen. Himsl called on Dennis Burr to speak further on Senate Bill 98.

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He testified: As you know, there are schedules in school statutes which set up the amount of the foundation program. Each county estimates student number and arrive at total foundation program budget. The state supports 80% of that from many sources and gets reasonably close to the amount but it usually has to be capped by legislative appropriation. In the last biennium the estimate was 22 million for the first year and 25 million for the second. After the legislature levys the Superintendent of Public Instruction has to go through another estimate for how much they need for the foundation program. In 1979 they determined there would be a shortfall of about 1 1/2 million so they levied a one-mill levy. They got through the first year; in the second year there were a lot of unexpected revenues to the foundation program (sale of oil leases, etc.) and they ended up with a large surplus to the program. If there came a time when there was a shortfall, the superintendent's office would approach the following legislature with a supplemental request for the program. The main thing this bill does is gets rid of a lot of estimating, as it will be based on actual enrollment. If there are constitutional problems they concern the current law rather than the proposed bill.

PROPOSER: David Sexton, Montana Education Association, said their first concern is that the foundation be adequately funded and that the sources of revenue be fair. He said they think the present system has been working reasonably well, although there is the problem of having to predict the future. Their only concern is if there will always be adequate appropriation from the legislature to fully fund and another is regarding earmarked revenues--will they maintain at the present levels in the future so the legislature has monies to draw from. He felt this bill had an advantage in that it provides property tax relief.

There were no other proponents and no opponents to this bill, so questions were called for.

Sen. Elliott wondered if the Office of Public Instruction had been contacted about this bill and Sen. Himsel said they had and could find no fault with it. He said this bill had nothing to do with the level of funding--that will be another process. All this does is guarantee that the money will be available.

Sen. Towe had questions about what is referred to as "permissive act."

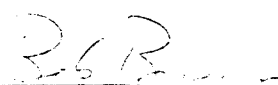
Mr. Burr said the purpose of that was that whether there is a supplemental or not and funding turns out to be more than needed in the biennium, that principle makes sure that money would be available for school purposes rather than the general fund. There are two accounts, one deficiency and one permissive. One is funded to the 80% level, the other for the difference in, and this authorizes funds transfer between the two.

Sen. Hager wondered when actual student count took place, in place of estimated count. Mr. Burr said schools are never paid on estimates. The schools use the previous year's enrollment when they estimate for

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the biennium, but pay on actual number of students after school starts. This bill eliminates the need for any estimates.

The hearing was closed on Senate Bill 98 and the meeting was adjourned.



BOB BROWN, ACTING CHAIRMAN

ROLL CALL

TAXATION COMMITTEE

47th LEGISLATIVE SESSION - - 1981

Date Jan. 23

NAME	PRESENT	ABSENT	EXCUSED
Goodover, Pat M., Chairman			✓
McCallum, George, Vice			✓
Brown, Bob	✓		
Brown, Steve	✓		
Crippen, Bryce D.	✓		
Eck, Dorothy	✓		
Elliott, Roger H.	✓		
Hager, Tom	✓		
Healy, John E. "Jack"	✓		
Manley, John E.		✓	
Norman, Bill	✓		
Ochsner, J. Donald	✓		
Severson, Elmer D.	✓		
Towe, Thomas E.	✓		

Each day attach to minutes.

Senate Bill 98

Deficiency ^{Levy} ~~levies~~ in schools

Attachment #1

Senator Matt Himsl

This bill would provide a simple and certain way of funding the state's share of the foundation program at a level determined by the legislature without a state-wide deficiency levy, thereby resulting in property tax relief.

The legislature would appropriate for the biennium for this purpose. The office of Public Instruction would not have to estimate the draw on the appropriation each year, but payment would be on the schedule determined by the legislature, and the payment would be made on the actual student enrollment, not the projected enrollment.

There is certain to be adequate funding for the first year, if the draw took more than half of the fund, the legislature would meet in January and surely would honor-- as it always has--a supplemental appropriation from the general fund--there would never be a need for a state-wide deficiency levy.

In fact the Constitution, Article 10, Section 1, paragraph 3 declares "The legislature shall provide a basic system of free quality public elementary and secondary schools" -----"It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system."

In a time of decreasing enrollments the draw was less than half of the appropriation and a surplus resulted in the second year--the surplus would be applied to the appropriation for the next biennium.

State wide deficiency levies have been imposed 6 times in the past eight years in the following amounts:

1980	1.00 mill
1979	3.20 mills
1978	1.05 mills
1977	1.60 mills
1976	3.90 mills
1975	0.00 mills
1974	12.00 mills

During this time period more than \$26 million in property taxes have been collected through deficiency levies.

SENATE BILL 77 Sell notes in anticipation of Taxes

Senator Himsl

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Senate Bill 77 is a renewal act extending the authority of the State Board of Examiners, upon the recommendation of the Department of Administration, to issue and sell notes in anticipation of taxes and revenues appropriated for expenditure during a fiscal year; providing that the full faith and credit and taxing power of the state shall be pledged for the payment of all notes; and providing that the act is effective on passage by a two-thirds vote of the members of each house of the legislature and approved by the Governor.

The net effect of this procedure is that the state borrows money at a low interest rate, keeps investing the tax receipts at a high interest rate--until the notes are due.

In 1980 forty million dollars (\$40 million) in notes were issued at 6¼%, the money invested in the State-Short-Term Investment Pool (STIP) yielded 10.3%. After selling expense, the state made \$1,100,000.

An additional \$45 million was issued in fiscal year 1981 and the yield to the state is expected to be about \$1,450,000.

I must remind you that such an authorization requires a two-thirds vote by the members of each house of the legislature.

Because of the on-going probability of this procedure I believe item 2 of section 1 should be deleted. Further, I

would ask the committee to delete "until June 30, 1983--this would eliminate the need for repeated authorization.

I would also suggest amending line 20 by striking the language "an aggregate of \$100 million and no more than"---putting the limit that the total amount of notes issued under this authority may not exceed \$50 million outstanding at any time.

Section 2, paragraph 2 provides for the full faith on credit protection which makes possible the favorable rates.

This is a money-maker for the state and is an example of good money management with no risk to the state.