

MINUTES OF THE MEETING
FINANCE AND CLAIMS COMMITTEE
MONTANA STATE SENATE

November 2, 1981

The first meeting of the Senate Finance and Claims Committee met as a joint committee with the House Appropriations as a pre-session meeting for the Special Session of Legislature. Called to order at 8:37 a.m. by Chairman Rep. Gene Donaldson, it was adjourned to the House Chambers for more space.

Representative Donaldson introduced the secretaries who would be handling Committees I, II and III; Senator Himsl as the Chairman of Finance and Claims, Senator Smith as Chairman of the Finance Committee and Judy Ripplingale as chief of staff for the Fiscal Analysts.

Representative Donaldson said the meeting would be composed of three parts plus questions from the committee members followed by questions from other legislators. 1. Dave Lewis would give the Governor's recommendations, 2. Senator Smith would chair a Finance Committee meeting, and 3. Presentation from local governments.

Dave Lewis, Director of the Office of Budget and Program Planning passed out the Governor's budget recommendations and introduced his people who would be working with the different committees. He then explained the budget book and the way it was set up, showing the members how to follow through. He said in general they are asking for \$13.8 million total, most of which would be going to SRS. He explained the reserve fund for schools, and said if this were not included, they would be asking for \$22 million, depending on what happens. He disclaimed any spending irresponsibility pointing out that already 220 people have been laid off, and that this will have a tremendous impact on the agencies, but that the remaining question is whether we can still afford to maintain this level of funding. The question, Mr. Lewis said, revolves around the base of on-going revenue. We are half way through 1982 and can operate with a lower balance since there are less uncertainties. We think we can pull it down to \$12 million which is less than a 2% fluctuation in the balance.

In answer to questions, Mr. Lewis said the base of the fluctuations are the amount of highway contracts let. We anticipate about \$40 million loss of appropriation funds here and \$8 million to \$12 million in CETA funds. We have prepared the amended budget of the governor and the specific call to the legislature is to consider it. He explained the letter, second paragraph, by saying they had started the biennium with a balance of \$65 million. We projected to pull it down to \$18 million and are now projecting to pull it down to

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OF MONTANA

\$12 million. We ended up with a balance for 1981 of \$9 or \$10 million more than anticipated. Discussion was held on funds changing around because of the changes in the foresters, DCA, etc., and that the fund balances were also reflected here. There is \$60 million in education, also monies in highway that are in base level projects and even with those out they can pull it down to \$12 million. There will be an increase in oil severance tax for instance that will build the revenue base to maintain the programs to the level we have recommended.

Representative Marks asked if rather than the \$13.7 million there wasn't actually \$23 million of open-ended authority here. Mr. Lewis answered that this was the accrual issue, and the totals of House Bill 500 included the accrual figures. In his calculations he was asking to use this in a different way. He also mentioned some reversions such as Old West \$90,000, coal tax \$93,000, Swan River, etc., and the \$13.8 is the net of all that.

Representative Bardanouve pointed out that this money had been given to pay bills at the end of the biennium in 1983 and he did not like to see a bookkeeping process have those bills go in dispair. Mr. Lewis pointed out that the legislature had appropriated for 3 years and they only need the one time appropriation and that LaFaver is using the money appropriated in 1981 to do this. Representative Quilici pointed out that the accrual of \$1.9 million, in his understanding, was to go to medicaid. Mr. Lewis said they are asking that it be re-appropriated and that most of it would go to the counties. About 1/2 of the SRS request is to back up some of the cost to the counties.

Senator Hims1 asked if on page i the \$9,135,000 was included in the \$351 million on that page. Mr. Lewis said that all along we have considered it as a part of the total. We are simply asking for a different way of using it.

Discussion was held on the end of the fiscal year for the federal and the state and if this was apt to cause any problems. Mr. Lewis said this fiscal year for federal government will carry us through October of the next fiscal year. It is closer to January and we can look forward to handle any further problems in the next legislature.

Representative Donaldson recessed the joint meeting and Senator Ed Smith opened the Finance Committee meeting. Senator Smith introduced the members of the finance committee and the Legislative staff--Judy Rippingale director of LFA, the staff, members of the committee, and asked Mrs. Rippingale to give a preview of their analysis.

Judy Rippingale introduced the new members from their office and the staff members working with each committee. She said their budget analysis is put together at the requirement of the law, and is an independent review of the executive budget. The purpose is to show you alternatives, and this one is put together differently from previous books. She went through the various steps of following through the book on an issue or a department and explained how it worked by using an example.

She said she had a slightly different version from the Executive budget. The Governor's recommendations exceed the revenue on expenditures. The 1981 school foundation general fund balance was approximately \$40 million. Had it not been there, it would have been supported by a general fund appropriation. Therefore there is a \$40 million of one time items shown as coming from the general fund. There also happens to be \$40 million on a one time assumption in from the general fund. This offsets the other, so looking at it as a whole, the Governor's budget is out of balance. This is not good. The good parts last only so long as you have a savings balance. To keep up this policy we believe will lead to a radical change in tax and spending policy. You do have money, but it is money generated previously, it is not on-going. The LFA staff has estimated the revenue at \$12 million less than the Executive, and if they are correct it would leave a zero balance. The Executive general fund balance is substantially less than the 3% we recommend. There are problems that could arise--proposals, unforeseen emergencies, things that could come up. Financially there should be between 3 and 5% margin, and we have tried to have them maintain at least 3%. I would give a word of caution--personal income and corporate income tax--the base has essentially been destroyed. Trying to determine the impact and what will happen is just a matter of poor judgment. Interest is another. The ability to come in high, and if it don't you are in trouble. The federal government says it will lower substantially, but interest is high and they say people will not take advantage and buy equipment etc.

Mrs. Rippingale mentioned other revenue figures such as oil, coal tax etc., and pointed out the dangers of estimating too high. She mentioned some of the questions her office had with the Governor's amended budget. The contingency fund for SRS--how long does SRS have to have before they turn over the remainder? When would they get it? What amount would be available to revenue? Would they get \$5 million or \$2 million? The answers to those questions have quite an impact. How will the money be distributed? Is this a one-time thing to the counties? Do you just deal with the past losses? How do you intend to deal with the future losses? A 12% cutback on property that starts in 1982 will have quite an impact.

The Department of Highways--the Executive sees definite cutbacks. My staff says this has a potential of great trouble.

You should remember none of this is final, we take you through and show you what the potential problems are. Schools-- we have considerable disagreement with the executive budget. School lunch money is going to subsidize middle and upper families, not the poor. They put more money in OSPI than they asked for, and more than the loss of federal funds. In the Health Department--they are not asking you for a great deal of money. They have quite a bit of shifting around, and you need to be attentive to where it is being shifted.

Mrs. Rippingale went into SRS requests, the changes in AFDC requirements, the tightening of requirements in various areas such as two-parent recipients of welfare, pregnant women to the third trimester, and finished by saying there is a \$1.7 million difference in the LFA and the executive budgets, and it needs to be straightened out.

Questions and answers were held and Representative Conroy asked for a revenue estimate break-down to know where the difference in the two estimates lie. Mr. Lewis said he would have one available for them to be handed out.

Representative Bardanouve questioned where the money for the special session was coming from and Mrs. Rippingale said the Executive had allocated \$250,000 and that would probably be House Bill 1. Some estimates had come in that the cost would run as high as \$400,000.

Discussion was held on the pro's and con's of recommendations for cutting the case loads in welfare and what would happen on the local levels as a result of the tightening regulations. Mrs. Rippingale pointed out on page 276 the uneven distribution of funds to the counties, and that perhaps direct aid to recipients would be better than paying salaries since it would be cheaper for the state and possibly less devastating to the counties.

Representative Conroy said he had been to a conference where it was suggested it might be good to coordinate some of the services between the state and the Indian Services to see where there is duplication.

A MOTION made by Representative Conroy to let the Feds look at this and maybe coordinate some of the federal grants with the states. A letter would go out to the Federal Government at the Denver office to this effect authorizing the Federal Government to make inquiries into the feasibility of coordinating grants.

Discussion was held on the sensitivity of this area and the distrust felt by the Indian people for the "white man". The committee members advised extreme care and all effort should be made to provide services and get them to the people who really need them.

QUESTION was called, the motion voted and passed unanimously.

MOTION by Representative Moore that the committee accept the LFA analysis. Voted and passed.

The Finance Committee was adjourned and the Joint Finance and Claims, Appropriations Committee re-convened. Representative Donaldson announced the committee Chairman as: Committee I, Representative Moore, Vice Chairman Senator Nelson; Committee II, Representative Hurwitz with Senator Smith as Vice Chairman; and Committee III, Representative Cozzens with Senator Story as Vice Chairman. He said all legislators were encouraged to attend and can partake of the deliberations, and they would reserve some space for them. He said they would be putting out a news letter for the legislators who are not here, there is a Watt line to get information and they would try to have an informed person available to answer it.

The meeting was adjourned until 1:30 p.m. when the local government people would give thier input to the committees.

The meeting was re-convened at 1:30 p.m. for a scheduled hearing with the Local Government participating. Chairman Donaldson said they would start off with the cities and towns, followed by the counties with questions from committee members and then other legislators.

Don Peoples, League of Cities and Towns, Butte-Silverbow Local Government said they were talking about programs that affect their residents. They represent 6 major Montana cities and the situation there is serious. The property valuations are down, employment decreased, property taxes have decreased and the erosion of the property tax is a real problem to the cities. He said he felt the block grants should be designed to go directly to the recipient and not have them rely on the property tax. He said he would introduce speakers from the different areas on different aspects of the situation.

Gene Marciel, Polson said the administration of the community block grant program through the years had been administered by the HUD program. We would strongly recommend that the state of Montana assume the liabilities formerly administered by HUD; that the state of Montana establish immediately a planning committee to advise on regulations and administration of the program in Montana, and that the state of Montana honor the multi-year commitments to the cities that have community block grant programs. We also feel they should remain competitive and provide technical assistance to the cities that request such in preparing the applications necessary. One of the major recommendations is that regulations that are brought forth from the committee allow the funds to be put into the cities in a timely manner.

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Mike Young, speaking for the cities and towns said the mills levied have increased 21%, reduced expenditures about 10%, and decreased employment about 10%. In small cities increase in property tax is 21%, taxable valuation down about 18% and reduced expenditures about 12%.

Dan Warsdell, Anaconda-Deer Lodge talked about some of the problems they are having and are feeling with the cutbacks. Human services expects a 20% cutback and this is general relief and general medical (the safety net for social services), and the impact could be 100% funded from property tax while they are now at a level where many are unable to increase the mill levy. The concern is a "do nothing" attitude toward the safety net and the county property tax will have to take a full burden on this. If someone out there is hungry or starving, and that is what the safety net is for, the cutback will impact this. He said if they do not support the administrations proposal to put \$8 million into this program, then the counties will have to pick up the impact and may not be able to afford it.

Al Thielen, Billings City Manager, said Highways have their problems and city streets are a low priority with them. The cutbacks will definitely effect the cities in regard to streets in the urban areas. Highways have a priority for the interstate highways then the primary and secondary road systems. We would urge the committee to reinstate some of the money the state is going to lose, particularly in the highway system if you address the issue of short run for highway maintenance and highway development. The unprecedented increase in property taxes throughout the state, some areas very sharp increases, and the fact that the property taxes next year will top this year's is a problem. It is to the point where the people paying taxes are going to revolt.

Vill Verwolf, city of Helena, said part of the problem is the error due to the state on property assessment and the resulting 34% rollback. The cities, counties and school districts have their expense budgets based on income before the roll back and the expenses go on. He said this causes a 6 mill increase (2 for the county, 2 for the cities and 2 for the schools), and since this was an error by the state the result was that the state basically changed an accounts receivable to a bad debt overnight. The business tax is coming up while it is a tax credit now, in two years they will quit paying it and this will add 2 to 4 mills to all jurisdictions, again making it a 6 to 12% total increase.

Jim Nugent, Missoula spoke on the action taken in convention, at the League convention. He said in regard to the block grants they had urged 7 conditions be considered and with those they would accept the administration's proposals.

1. A planning committee be established to formulate a block grant advisory committee; 2. Honor the on-going projects that are now going down the road; 3. Assume control of the block system without interruption of the funding cycle; 4. Remain competitive; 5. Maintain current funding categories and multi-funding; 6. Provide formal technical assistance; and 7. In forming an organization, a mechanism to assure distribution of funds in a timely manner.

John Evans, Bozeman, summed up the testimony of the cities very briefly touching on the main points of each speaker.

Questions from the committee followed.

Representative Hurwitz commented that according to his information the city development block grant will be increased by 9% in 1982 and '83. Even though the cities are hurting, he said, I cannot understand why they should be hurt by the community development grants. Mr. Peoples said the point is that he feels the state should take the responsibility if the cities want any input into the community block grant system. Representative Hurwitz presented some figures for them by saying the 1980 revenue was \$5,999,000, the 1981 \$5,738,000; the 1982 will be \$6,423,000 and the 1983 will be \$6,423,000 which is an 11.9% increase.

Nancy Leifer, Department of Commerce addressed the above figures by saying she felt there was some confusion because of the community development block grant being such a limited program while we are talking about a variety of block grant programs. This particular grant is very limited as to what it can be used for. It does not necessarily answer the local government problems that cover the needs of the other areas. Mr. Peoples said it also covers the needs of other areas and includes the multi-year projects. Ms. Leifer answered that there were \$2,517,000 in annual multi-year projects out of the \$6.3 million commitment.

Representative Donaldson asked that they clarify whether the cities and towns want the state to assume the responsibility. Ms. Leifer said the Department of Commerce has been assuming responsibility as though they would be taking on the program. We have taken steps to get suggestions from them, people for the advisory group, etc. We have a cap of 2% federal funds which is matched dollar for dollar by the state for administrative costs and we think we can get the entire process in line and have it take place to get the grants by July 1st, with this money.

In reply to a question from Representative Bardanouve in regard to the commitments made in the past and what commitments they are being asked to pick up. Mr. Peoples answered that the direct relationship between the cities and the federal government are shifting to a relationship between the state and the federal government. When the state makes the determination on rules and regulations they would ask that the cities'

programs and those residents who expect to be represented through input from the cities and towns.

Representative Waldron asked if they are not asking for more funds, or simply asking the state to assume the administration of the program and Mr. Peoples said from the standpoint of a county official we are very concerned about the welfare program--the program by the department. We think that the assistance must be provided, as AFDC is terminated other programs are changing. Unemployment is running out and we are afraid when we see a lot of people needing assistance that we will have the big cost transferred to us on this needy assistance.

Questions and answers involved discussion on the make-up of the advisory committee, reimbursement from the state for the loss of revenue to the city through its error on assessment, the tax levy on people as a result of the state error, pressure on increasing penalty on delinquent taxes and the tax credit on inventory tax which would be replaced, but with a 6 month lag, the vehicle tax effect on counties, etc.

Following the cities presentation the counties gave theirs and Ed McCaffree acted as spokesman.

Testimony is attached for Ed McCaffree, County commissioner from Rosebud county; Everett Elliott, Pondera county commissioner and first vice president of MACo; Jim Straw, Yellowstone county commissioner; John Nesbo, Toole county commissioner; John Gottfried, Toole County commissioner and fiscal officer of MACo.

Questions and answers followed with concerns on DD saying if it were not properly funded we would be having a return to warehousing at the institutions; GA (general assistance) and medical assistance to the counties. Senator Smith asked if the commissioners approve the proposed plan to aid counties and Mr. McCaffree said there are mixed feelings on this and it will depend on the final program made; that they felt the state should pay a portion of the GA. They felt the LFA projections with the discrepancies on distributions to the counties need study. There were questions and answers in regard to the local control and what would happen with the state paying the salaries of the welfare workers, allowing flexibility in the rules and regulations that are set up by the state, and the amount of levy in the various counties and whether they are at a maximum levy.

Representative Waldron pointed out that a fair hearing process had been mentioned. He said when you have a client that is getting GA you go on to a fair hearing. SRS administers that hearing, but SRS has no economic interest so that rather than going along with the states proposal, if the state picks up

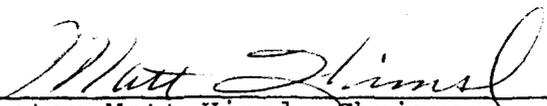
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some general assistance the state would have an economic interest in insuring that the system was not abused by clients and SRS would be a little tougher to deal with. Mr. McCaffree agreed.

The meeting was adjourned by Chairman Donaldson at 3:38 p.m.



Representative Gene Donaldson
Chairman, Appropriations Committee



Senator Matt Himsl, Chairman
Finance and Claims Committee

RESOLUTION 2

A RESOLUTION BY THE MONTANA LEAGUE OF CITIES AND TOWNS ENDORSING THE ASSUMPTION OF THE COMMUNITY DEVELOPMENT SMALL CITIES BLOCK GRANT PROGRAM BY THE STATE OF MONTANA.

WHEREAS, the Montana League of Cities and Towns has a responsibility to assist the cities and towns of Montana in every way possible; and

WHEREAS, the State of Montana will be required under the emerging Block Grant Program of the Federal Government to exercise an option relative to administration of the Small Cities Community Development Program; and

WHEREAS, the Montana League of Cities and Towns desires to see the Block Grant Program continue to aid the cities and towns in their efforts to provide a better environment for their citizens;

NOW, THEREFORE, BE IT RESOLVED BY THE MONTANA LEAGUE OF CITIES AND TOWNS THAT THEY DO ENDORSE THE PROPOSED ASSUMPTION OF THE SMALL CITIES BLOCK GRANT PROGRAM BY THE STATE OF MONTANA UNDER THE FOLLOWING CONDITIONS:

SECTION 1: That a Planning Committee be established to formulate State Community Development Block Grant Regulations.

That this committee be composed of appropriate State and local officials, and that this group be a permanent advisory committee but not participate in ranking or evaluating Community Development Block Grant applications.

SECTION 2: That the State of Montana honor multi-year commitments previously made by the department of Housing & Urban Development.

SECTION 3: That the State of Montana assume control of the Community Development Block Grant Program as soon as practical without interrupting the existing funding cycle.

SECTION 4: That the Community Development Block Grant Program remain competitive with the State of Montana adopting, as close as possible, the existing Department of Housing & Urban Development ranking criteria.

SECTION 5: That the State of Montana maintain the current funding categories (single purpose comprehensive and multi-year) and that limits be established for each category.

SECTION 6: That the State of Montana provide formal technical assistance to communities requesting such assistance and that no person serving as a technical representative be involved in ranking or evaluating procedures.

SECTION 7: That in the formalization of Community Development Block Grant Regulations, a mechanism be developed to assure distribution of funds in a timely fashion.

ROLL CALL

6-21 COMMITTEE

LEGISLATIVE SESSION, 19__

Name	Date											
Rep. Gene Donaldson	11/2											
Sen. Matt Himself	✓											
Rep. Jack Moore	✓											
Rep. Esther Bengston	✓											
Rep. Tom Conroy	✓											
Rep. Gene Ernst	✓											
Rep. Bob Thoft	✓											
Sen. Harold Nelson	✓											
Sen. Mark Etchart	✓											
Sen. Jack Haffey	✓											
Sen. Judy Jacobson	✓											
Rep. Burt Hurwitz	✓											
Rep. Francis Bardanouve	✓											
Rep. Andy Hemstad	✓											
Rep. Rex Manuel	✓											
Rep. Chris Stobie	✓											
Sen. Ed Smith	✓											
Sen. Jan Johnson	✓											
Sen. Tom Keating	✓											

Joint mtg

Wolf

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Les Senkus	OBPP			
Perry W Johnson	OBPP			
George H. Hamner	OBPP			
Ron Weir	---			
Dag Booker	OBPP			
T. Cohen	OBPP			
Glen Leavitt	OBPP			
FRANCIS OLSON	OBPP			
Ken Rutledge	MT Hosp. Assoc			
Tom Crosser	OBPP			
Dave Lewis	OBPP			
Sandy Merdinger	LWV MT			
Jay Bunch	LWV - MT.			
Dave Depew	MPEA			
Cort Harrington	Leg Council			
Lee Heiman	Leg. Council			
Dreg Petersel	Leg. Council			
Walter Stone	Gallatin County Rep. Cent. Comm.			
Don Pratt	MT Optometric Assoc MT Funeral Directors Assoc			
Richard Manning	Rep Dist 35			
Joe Hager	Mountain Bell			
Jim Hager	" "			
Allen O'Connell	Representative # 34			
Brian McCullough	Dept of Commerce			
David Cole	" "			
Pete Story				

DATE _____

COMMITTEE ON

LFA Budget Book

Received

X those that have
not signed in

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Esther G. Bengtson	Representative			
John M. Shantz Rep.	HO 53			
Joe Quilici	Dist 84			
Francis Bussone	Dist. 6			
Walter J. Sabin	" 79			
Puri Sperwita	Dist 45			
Earl Long	Dist 99			
Robert W. Hamilton	Dist 40			
Carl H. Moore	Dist 41			
Joe Madison	HO 29			
W. J. Smith	Dist # 1			
Max Hines	Dist # 9			
Cort Harrington	Leg Council			
Greg Peters	Leg council			
Lee Heiman	"			
Judy Johnson	OPI			
Jay Seuerwald	OPI			
Ray Shackelford	OPI			
Lois M. Skoog	MPHA			
Perry Langer	League of Women Voters			

DATE

11/2/81

COMMITTEE ON

Budget Book Received LFA

If you have not
signed in -

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
GARRY J. MOES	The ASSOCIATED PRESS			
JOHN LAFAVER	SRS			
Joe Todd	Rep. Hommes			
J. M. Kelly	Senate Dist 39			
Pat James	Leg. Aid			
Robert Abrams	Rep. Dist 56			
Paul Van Valkenburg	Senate Dist 50			
John L. Kelly	Senate Dist 50			
Tom Conroy	House Dist # 58			
Bill Thomas	Sen. Dist 70			
Jim Wolf	Sen. Dist # 49			
Bob Thoft	H. D. 92			
Budd Gould	Dist 98			
Rep. Jack Manuel	Dist # 11			
Ch. Stabi	Dist 23			
Chick Cozzens	H. D. 64			
Harold Low	Senate Dist 27			
Gene Ernst	H. D. # 47			
Mark Echart	Senate District 2			
Pat Ryan	Senate District 31			
Judith Jackson	Senate District 42			
Larry Stande	Dist 43			
Steve Waldron	House Dist 97			
Scott F. Boykin	Senate Dist # 35			
Harold S. Nelson	Senate Dist 7			

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Howard E Johnson	Environ. Quality Council			
John E. Kauter	EAC			
Deborah Schmidt	EAC			
Tony Bergene	Legislator Dist. #36			
Ben Johns	Dept SRS			
Shirley Henniss				
Jamille Fallan	Montana Chamber			
Dennis Burr	Montana Teachers Assoc.			
Dennis S. Dastgheer	State Rep Dist 57			
Cluck Johnson	Great Falls Tribune			
Hal Harper	HD 30			
JEWEL METCALF	HD 31			
JOE LAMSON	MT. DEMOCRATIC PARTY			
Dee Wally	Self			
Shelton O'Connell	Leg. # 34			
Richard E. Manning	Leg Dist 35			
REP. BOBBY SPILKER	DIST. # 30			
Rep. Bob Marks	# 30			
Beverly Gibson	M A Co			
A.D. Holmes	Mont. Institute of Arts Foundation			
Dave Depew	MOPEX			
Chiff Rossing	LFA			
Jane Dee May	LFA			
Judy Curtis	LFA			

Conrad clerk battles Dept. of Revenue over city's drop in taxable value

By RALPH BIDWELL

Independent-Observer Editor
There's an old saying that a squeaky wheel gets the grease. That may be true with a wagon wheel, but Ted Jury, city clerk, finds it doesn't work that way in a bureaucracy, particularly at the state level. Jury has been "squawking" periodically to the state Department of Revenue and governor's office ever since so-called statewide equalization of property values began and the city's tax base declined while the cost of running the city increased. It doesn't take much of a mathematician to realize that when outgo exceeds

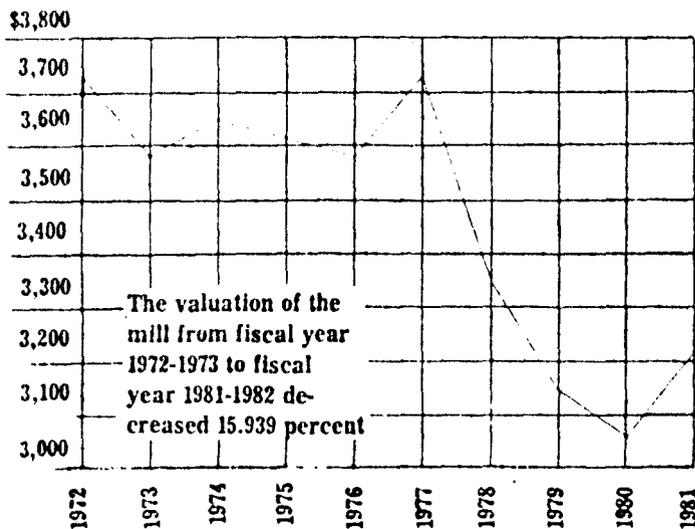
income cash surpluses soon vanish and after a while the belt can be tightened no more. Then what?
Cities don't have the "luxury" of deficit spending as does the state and federal government. Once Conrad's budget is used up, that's it.
In fact, that is what Jury was telling the City Council at the last meeting when he handed the mayor and aldermen the accompanying charts and figures showing the city had spent \$188,845 the first quarter (July, August and September) of the current fiscal year. The budget is \$633,443. Somewhere between now and next June 30, there will

have to be some more belt tightening, because if the city continues at its present spending rate, it would, if it could, end up \$121,937 in the red.
What does Jury have to show for his running feud with the state? Only satisfaction.
And a letter from former Governor Thomas L. Judge, dated April 18, 1980, that said:
"Dear Mr. Jury:
"Your concern over the failure of the property tax base to grow as rapidly as the cost of local government is certainly legitimate. You make the point that 1972 values are used for real property. In a technical sense, this is true; the Department of Revenue used a manual based on 1972 sales data to perform the statewide appraisal of residential property. It also used a 1976 cost based manual for the appraisal of commercial property (that has been the subject of many protests and still has not been resolved).
"There are two aspects which are important. First, it is essential that like properties be treated in like fashion. The law demands uniformity in practice throughout the state so the same appraisal manual must be used to find a value for all improvements on the tax roll. Se-

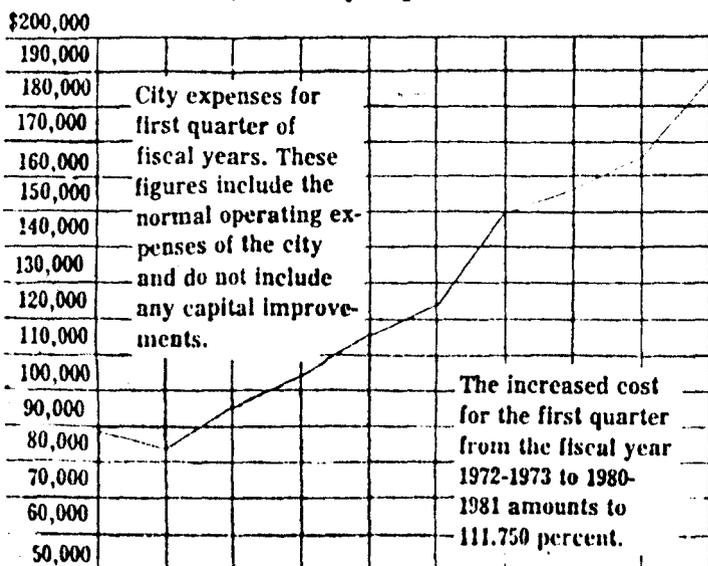
cond, appraising real property is a complicated, time-consuming task. It is impossible, given the resources available, for the state to reappraise all real property annually. The Legislature has recognized the size of the task and has established a cycle which requires that real property be reappraised once every five years. The department cannot, however, place the new appraisals on the tax rolls as they are completed. Both the Legislature and the courts have held that this would produce unequal treatment. Thus, no new appraisals of existing property may be used until the entire reappraisal is completed in 1982.

"Assessed value was defined to be equal to appraised value by the 1977 session. Prior to that, assessed value had been 40 percent of appraised value. At the same time the Legislature reduced the classification percentage from 30 to 12. There was concern that the reappraisal would result in a windfall for local governments so a sliding scale was provided which further reduced the classification of property statewide. In 1978, the final values were available and the

Valuation of 1 mill



Quarterly expenses



Moonlight Madness strikes Conrad merchants this Thursday

Moonlight Madness has struck Conrad's merchants and they're going all out this Thursday with hundreds of mad, mad buys with some businesses offering bargains from 9 a.m. until 5:30 p.m. and 6:30 until 9 p.m. Most business, however will have their bargains from 6:30 until 9.

In conjunction with the mad evening Ken Stroh, chairman of the Chamber of Commerce-sponsored promotion, said a

from 7 p.m. until 8:30 for all youngsters. While parents do their shopping, they can drop their kids off at the entrance of the temporary water office where they will enter there and go directly to the Chart Room where the film will be shown. Stroh said a chaperone will be on duty for the length of the movie.

So, moms, dads and kids, get ready to have a fun night out this Thursday when

JOE GOTTFRIED

1. Thank you. I am Joe Gottfried, Toole county commissioner, and fiscal officer of MACo.
2. Since John will probably describe your county's revenue and projected cutbacks, you will not have to duplicate. If John does not examine district court costs, please
3. In varying degrees, most counties are already affected by certain statewide budget problems. These problems affect their ability to maintain a balanced budget, and a budget that meets the needs of its citizens without undue hardship.
4. When a county adopts a budget in August each year, it must include as expected income all property identified on the tax rolls. It is this and other expected revenue that determines the expenditures for programs.

However, this fine balance swiftly deteriorates when taxes are paid under protest, or when they become delinquent. Currently, counties must find a way to recover from the lost revenue as a result of the settlement of the 34% commercial property tax protests.

The subject of delinquent taxes has been discussed widely lately, beginning with MACo's request to the last legislative session to raise the interest rate on these unpaid taxes. It is not our intention to ask that the special session be opened to this still-unsolved problem, but it does have a direct influence on a county's ability to balance a budget.

5. What happens when revenues do not come up to expectations? When income drops, counties must register warrants to pay the bills...in effect, borrowing against next year's income, with interest. This may mean raising next year's levies to compensate for this activity. It is no windfall when delinquent taxes finally are paid...this money already is budgeted, and must be used to pay for the services the taxes should have been supporting all along.
6. Many counties are now experiencing a sudden reduction in taxable valuation from B. N. railroad abandonments. The estimated lost taxable value statewide could be as much as \$4.8 million, affecting 20 counties. The estimated lost tax revenue statewide could be over \$1 million. These figures could change, but it gives you an idea of impacts in addition to federal budget cuts.
7. Discuss laws authorizing county taxes: they are not flexible...they cannot be transferred between budgets, there is a cap on program budgets. This in spite of the fact there are differences between counties, based on geography, population, resources, taxable valuation, etc. (Refer if necessary to Exhibit C that Ed distributed.)
8. Budget woes afflict the district courts throughout the counties, some more than others. Fifteen counties applied in July for grants to reimburse their cost overruns. As you know, counties are allowed to levy 6 mills for class 1 and 2 counties; 5 mills for class 3 and 4; and 4 mills for class 5, 6 and 7 counties. The total amount of the claims was about \$670,000. Because the legislature only appropriated \$750,000 for the biennium, the Dept. of Administration had to adjust the reimbursement downward, for a 55-60% payoff. That means the counties had to absorb the remainder of the cost overrun. We perceive a need to bring the district court system under some kind of fiscal control, and to increase the appropriation for state grants-in-aid. A complete state assumption of district court funding would not be out of order.

EROSION OF PROPERTY TAX BASE

In addition to long-standing exemptions from property taxation (such as public buildings, charity and religious property and public art galleries), the legislature has removed or lowered the taxable value of other properties during the past five sessions, including the following:

Household goods

Freeport merchandise

Unprocessed fruits and vegetables

Unprocessed agricultural products

Livestock under nine months

Swine under three months

Bankshares

One-half of coal contracts if producer extracts less than 20,000 tons annually

Pickup toppers less than 300 pounds

Property of nonprofit community service organizations

Sprinkler irrigation systems

Senior citizen centers

Business inventories (due to end after Jan. 1, 1983)

Automobiles and light trucks (effective Jan. 1, 1983)

Livestock and poultry (from 8% to 4%)

100% disabled veterans (depending on adjusted gross income)

Rollback taxes

Agricultural machinery and trucks (from high book to low book)

Aircraft (to low book)

Trucks over 3/4 ton (to low book)

Construction Equipment (to low book)

Motor boats (to low book)

Boat trailers (to low book)

Motorcycles (to low book)

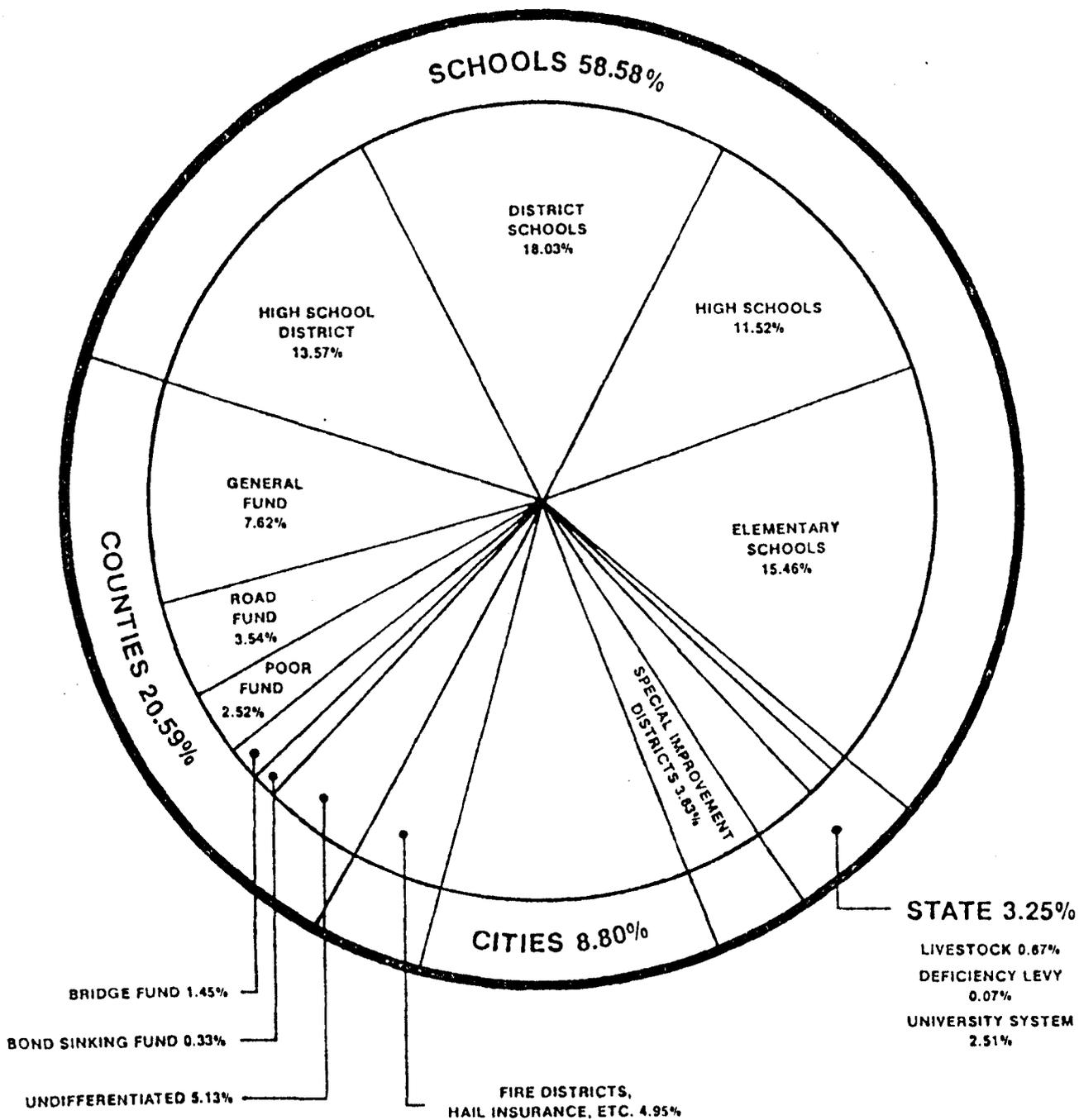
Windfall profits tax (deducted from net proceeds tax)

EXHIBIT C

LAWS AUTHORIZING COUNTY TAXES

<u>General Fund Tax.</u>	Up to 27 mills for 4th, 5th, 6th, 7th class. Up to 25 mills for 1st, 2nd and 3rd class.
<u>Economic Development.</u>	1 mill (requires voter approval).
<u>Poor Fund Tax.</u>	Up to 13.5 mills.
<u>District Court Tax.</u>	Up to 6 mills for 1st and 2nd class. Up to 5 mills for 3rd and 4th class. Up to 4 mills for 5th, 6th and 7th class.
<u>Bond Sinking and Interest Fund Taxes.</u>	No limit.
<u>Capital Improvement Fund.</u>	No separate mill levy; funds established from existing levies.
<u>County Road Tax.</u>	Up to 15 mills for 1st, 2nd, 3rd class. Up to 18 mills for 4th, 5th, 6th, and 7th class.
<u>Emergency Levies.</u>	Up to 2 mills.
<u>Unemployment Compensation.</u>	As needed.
<u>Public Employees Retirement Tax.</u>	As needed.
<u>Group Insurance.</u>	As needed.
<u>County Bridge Tax.</u>	Up to 4 mills. Up to additional 1 mill for excess bridges in low-valuation county. Up to additional 2 mills for excess bridges in medium-valuation county.
<u>Additional Tax For Road and Bridge Construction.</u>	Additional levy up to 10 mills (requires voter approval).
<u>Special Bridge Tax.</u>	Up to 5 mills (for city bridges).
<u>Airport Taxes.</u>	Up to 2 mills.
<u>Airport Authorities.</u>	No limit (for payment of bonds.)
<u>Public Ferry Tax.</u>	Up to 2 mills.
<u>District Fair Taxes.</u>	Up to 1½ mill in host county. Up to 1 mill in other counties in district.
<u>County Fair Taxes.</u>	Up to 1½ mills.
<u>Purebred Livestock Show.</u>	Up to 1/4 mill.
<u>Capital Improvement Fund.</u>	Funding from unexpended (fair) budgets.
<u>Library Tax.</u>	Up to 3 mills.
<u>Joint City-County Library.</u>	Up to 3 mills.
<u>Library Depreciation Reserve.</u>	Funded from unspent budgets or federal funds.
<u>Rodent Control Tax.</u>	Up to 2 mills (in district).
<u>Insect Pest Tax.</u>	Up to 3 mills.
<u>Weed Control Tax.</u>	Up to 2 mills.
<u>Agriculture and Home Economics Extension.</u>	No limit.

PROPERTY TAXES LEVIED 1980



<u>Fire Protection - Fire Districts.</u>	As needed (in district).
<u>Rural Fire Control.</u>	\$15,000 maximum.
<u>Soil Conservation Districts.</u>	Up to 1½ mills (in district). (Regular assessment). Up to 3 mills (special assessment.)
<u>Conservancy Districts.</u>	Up to 2 mills (in district) for running district. Up to 3 mills to pay bonded indebtedness.
<u>Cemetery Tax.</u>	Up to 4 mills (in district).
<u>Refuse Disposal Districts.</u>	Fees for service.
<u>Local Board of Health.</u>	Mixed funding (federal, state and local). Up to 5 mills outside city limits for city-county board (class 1 & 2 Additional appropriation allowed from general fund for city-county board, if needed (class 1 & 2). For other than class 1 & 2, county may appropriate from general fund, plus levy up to an additional 1 mill.
<u>Museum Tax.</u>	Up to 1 mill.
<u>Mosquito Control District.</u>	Up to 5 mills (in the district).
<u>Planning & Zoning Commissions.</u>	Up to 1 mill (in the district).
<u>Planning Board.</u>	Up to 2 mills (1st class). Up to 3 mills (2nd class). Up to 4 mills (3rd class). Up to 5 mills (4th class). Up to 6 mills (5th, 6th, 7th class).
<u>Community Based Services (DD).</u>	Up to 1 mill.
<u>Public Hospital District.</u>	Up to 3 mills (in the district). Up to an additional 6 mills (with voter approval).
<u>County Park Commission.</u>	May contract indebtedness up to 13% of county valuation (voter approval).
<u>Livestock Protective Committees.</u>	Up to 50¢ per head on cattle (owner petition). Up to 5¢ per head on sheep (owner petition).
<u>Cattle Protective Districts.</u>	Up to 50¢ per head on cattle (owner petition).
<u>Civic Center Tax.</u>	Up to 2 mills.
<u>Metropolitan Sanitary & Storm Sewer Districts.</u>	May set rates up to \$7 for operation and maintenance. Additional \$7 per unit for operation and maintenance. Up to 2 mills (for revenue for reserve fund).
<u>County Water Districts.</u>	May set rates. May levy taxes as needed to pay operating expenses and pay bonds.
<u>Rural Special Improve- ment Districts.</u>	May create a revolving fund, by making transfers from the general fund, as a loan; or by levying a tax on all property in the county up to 5% of the outstanding principal on the bonds and warrants, to be used as a loan.
<u>Television Districts.</u>	As needed, per person owning a set.
<u>Ambulance Service.</u>	Up to 1 mill.
<u>Recreational.</u>	Up to 1 mill (for elderly).

Comprehensive Insurance. As needed.

Gasoline Tax. 2¢ per gallon (local voted option).

Maximum Levy Exceeded. A county voted levy may be imposed above all other levies.

Flood Control Projects. As needed to pay off bonds.

Open Space Land Act. Up to 1 mill for bonds.

Schools, University. Basic 46 mills.

ED McCaffree

1. ~~Good afternoon:~~ I am Ed McCaffree, county commissioner from Rosebud County. I am also President of the Montana Association of Counties, and I have here with me today members of the executive committee: Everett Elliott, Pondera county; Jim Straw, Yellowstone county; Joe Gottfried, Toole County, and John Nesbo, also Toole county. Following their comments, I will have a closing statement.
2. We are here to share with you our perceptions of what the federal budget cuts might mean to counties, especially in the changeover to the block grant system of funding.
3. First of all, I know you realize that the impact of these budget cuts will not affect every county in the same way. Montana's varied geography and population patterns are unique, and our counties reflect these differences. We have urban and rural counties; mineral-rich counties; heavily-timbered counties; counties with more cows than people; and counties encompassing 7 Indian reservations.
4. However, there is one overriding concern in every county today, no matter whether it's large or small, rich or poor: as the federal government decreases its share of funding of programs, and tightens eligibility for mandated social services, state and local governments will have to take up the slack. (Counties are agreeable to tightening our belts, along with the state; however) there is a clear indication that when funding for programs is cut at the federal and state level, much of that burden may be shifted to the last level on the totem pole: local governments.
5. In order to understand how this will affect county budgets, the executive committee and I will try to give you a picture of the county financial and service structure as it is today.

Counties statewide depend on the property tax to finance their government services. This tax base is shrinking away at an alarming rate...alarming if there is no replacement through other revenues. Each legislative session there is a move to provide property tax relief to taxpayers. However, the net result is to concentrate the financing of county government on a smaller and smaller core of taxpayers. I have provided a list of typical cuts in the property tax base from the past few sessions, labeled Exhibit A.

Another major problem with the reliance on property tax is that the county must compete with other units of local government for the property tax dollar. Increasingly, counties are losing the battle. In 1980, counties received ~~20.59%~~ 20.59% of the tax dollar. The rest went to the state, cities and towns, and schools, with the schools receiving the major portion of the tax dollar. You can see this distribution on the chart labeled Exhibit B.

Montana law designates the services that counties must provide, and strictly regulates how much the county may or may not raise in taxes to support these services. Exhibit C will refresh your memories on the various laws authorizing county taxes. Some of the basic services counties provide are roads, law enforcement, social services, and health services. Other functions include planning, elections, fire protection, licensing and registration, fairs, managing county property and many more.

Ed McCaffree, continued

6. The federal government has indicated at least a 25% cutback in federal funds, affecting many of these programs. Some funds they may pull back completely, such as urban and secondary road funding.

The question is: how much will the state absorb of these impacts, and through what means?

A larger question is: how much can the counties absorb without cutting crucial services, such as road maintenance, sheriff's departments, or aid to the truly needy?

7. I'm going to ask the MACo officers to explore these questions in relation to their own counties and the other counties we represent.

CALL ON EVERETT FIRST; JIM SECOND; JOHN THIRD; AND JOE FOURTH.

Following their comments, you may describe the impacts in your own and neighboring counties, then make a closing statement:

1. Counties believe that flexibility to set priorities and provide programs accordingly should be a function of the local governments.
2. We urge that administrative costs should be cut, both at the state and local level, with most of the funds going to the programs.
3. The state must look at alternative means of funding programs. Increasing property taxes at the local level to replace lost federal funding is not an acceptable alternative.

NOTES:

We appreciate having your attention today. However, as you know, we cannot learn all about local government financing in the short time given us this week, or this month. There is a need for an on-going research effort to examine local government finances...where we are, where we're going. The level of government closest to the people is the most misunderstood, because the state doesn't have the data-gathering capacity to examine local government finances. We would urge you to provide a financial base to the proper state agency to develop this capability that could provide you with an on-going data comparison, county by county, city by city, school district by school district.

local gov finance

EVERETT ELLIOTT

1. Thank you. I am Everett Elliott, Pondera county commissioner, and first vice president of MACo.
2. Describe your class of county, and your major revenue sources, and how these revenue sources are holding up in relation to changes brought about by legislative action, and by the federal budget cutbacks. Include information about your neighbor or similarly-situated counties.

Discuss areas that you can gather information on, such as roads, poor fund, law enforcement, public health, social services, etc.

If you can pinpoint some state regulations that need changing, to provide more local flexibility, mention them.

3. Preliminary figures from the Department of Revenue indicate that this year 26 counties lost taxable value. That's tough to take. Thirty counties gained taxable value. However, the total gain statewide for all counties was only about 8.94% over last year, which is a losing proposition when measured against a 12% inflation rate. Counties' ability to continue to provide services is steadily eroding.
4. In addition, many counties like my own depend on supplementary revenue from such sources as the federal payment-in-lieu of taxes program, and the general revenue sharing program. Both of these federal programs are in jeopardy. Both may be completely eliminated, or greatly reduced. Counties statewide depend on this income to give their property taxpayers some relief, and to finance expenditures that the county probably would have to forego if the funds were not available. These include items ranging from new jails and hospitals, to road graders, police and fire services, ambulances and computers.

So you can see that what we're facing today is more than "block grants"...it is unavoidably mixed up in federal cuts in categorical programs, and in cuts of entitlement programs.

5. One of the largest budget items for counties is for law enforcement. Salaries and equipment for the sheriff's department are a major budget item within the county general fund. In addition, many of us have jails built as much as 50 to 100 years ago, and we are in grave danger of civil rights lawsuits that could wipe out a county's budget for years to come. When the budget crunch becomes acute, we'll be forced to cut back on deputies, make old vehicles do the job, and push back the schedule for upgrading or replacing our jail facilities.

(Everett: at some point in this special session it is likely that the League will ask the legislature to support the concept of eliminating city residents from paying for "duplicated" county services, such as the sheriff. Of course, this move would completely gut the sheriff's department budget. Perhaps you can obtain a list of services provided city residents by the sheriff, such as servicing subpoenas for city courts, etc. The point is, at a time when some cities and counties are looking for ways to save money and provide service by consolidation, it would be fiscally irresponsible to fund duplicate services by having a whole new layer of employees at the city to do the job the sheriff's office does now.)

(I don't believe that in your initial presentation you will have time to explore the problems of staffing patterns in the sheriff's department; however, in response to questions concerning salary costs, etc. this information would

JIM STRAW

1. Thank you. I am Jim Straw, Yellowstone county commissioner, and second vice president of MACo.
2. Describe your class of county, and your major revenue sources, and how these revenue sources are holding up in relation to changes brought about by legislative action, and by the federal budget cutbacks. Include information about your neighbor or other urban counties.

Discuss areas that you can gather information on, such as roads, poor fund, law enforcement, public health, social services, dumps, district courts, etc.

If you can pinpoint some state regulations that need changing, to provide more local flexibility, mention them.

3. Urban counties experience some unique problems that are brought about because people tend to migrate here to take advantage of our medical facilities, and on the expectation of job possibilities. However, unemployment is running at _____% in Yellowstone county. When these people are out of work, the county picks up a major part of their costs for welfare aid and medical help, depending on their eligibility for the various programs.
4. Those who qualify for AFDC and Medicaide receive federal and state funds. As you know, these funds are being reduced, and eligibility for programs is being tightened. However, persons who no longer qualify for federal and state aid usually still qualify for county-funded general assistance and county medical. That is why the county poor fund will experience one of the greatest impacts as a result of the federal cuts.

The state has offered to help counties offset this expected impact by allocating \$8.8 million to pay for mandated staff salaries, the county share of foster care, and indirect costs. We believe that this proposal shows good faith by the state administration, but it is exceedingly cautious. The state is offering to assume the known costs of personnel salaries and the more or less controllable costs of foster care, and leave the counties with the unpredictable and uncontrollable costs of general assistance and county medical.

We would like to see the state assume instead some or all of the costs associated with general assistance and county medical. Do you know, according to a federal study, Montana ranks third lowest of all the states in percentage of shared welfare costs? Forty-seven states paid a higher share of welfare for a U. S. average of 80% state share. Montana's share was 52%, compared to an average in the Rocky Mountain region of 78%. Only two states paid less: New York at 45% and Nevada at 47%.

5. I also would like to address the problem of county roads. Our budget is becoming tighter and tighter. Every year inflation pushes up the costs of building, reconstructing, or maintaining roads. Bridges are the same. We are going to have to abandon some bridges, if funds are not sufficient to repair or replace them. The proposal of the federal government to reduce or eliminate funds for urban and secondary roads will be a real blow to local governments. Some counties are not at their maximum mill levy for roads, but this is because the county is trying to spare the overloaded property taxpayer an additional burden. We believe that a better source of road funds is based on the gas tax: paid by those who use the roads, when they use the roads. We would hope that if this session looks at additional funding for roads, that cities and counties receive an equitable share of a new gas tax.

JOHN NESBO

1. Thank you. I am John Nesbo, Toole county commissioner, and immediate past president of MACo.
2. Describe your class of county, and your major revenue sources, and how these revenue sources are holding up in relation to changes brought about by legislative action, and by the federal budget cutbacks. Include information about your neighbor or similarly-situated counties.

Discuss areas that you can gather information on, such as roads, poor fund, district courts, etc.

If you can pinpoint some state regulations that need changing, to provide more local flexibility, mention them.

3. Our county supports a nursing home and a hospital. We can foresee that cuts in the federal budget will have a boomerang effect on these facilities, leaving local governments with impossible costs to bear. I can predict that some counties will have to close their facilities.

(John, discuss briefly here the effect of changed reimbursement rates and related concerns. Discuss the difference between those counties who include the costs of running their health facilities within the poor fund, and those who levy outside the poor fund, especially as this relates to application for state grants-in-aid.)

4. Our county participates in a very successful Mental Health regional program.

(John, discuss the concerns that mental health services will be reduced because of inability to fund programs. Also touch briefly on the concern in many areas that the state intends to so merge mental health with alcohol and drug abuse programs that the separate programs will lose their effectiveness.)

5. Our county also participates in an area agency approach to senior citizen programs. There have been some problems but we are working on them. We would hope to work with the state in reducing administrative costs where we can, and applaud the state's intention to reduce administrative costs at the state level.

(John, discuss what cutbacks in senior citizen programs would do to other county programs, such as impacting general assistance and county medical.)

6. Discuss any concerns your county has regarding cutbacks in the preventative health services. Should EMS be arbitrarily imposed statewide, even though it is a fine program? Counties should have the local option to support EMS. Support state's proposal to distribute block grant monies on a formula basis, letting counties determine whether they need all the programs, and allowing counties to increase their support through interlocal agreements.