

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Chairman, Rep. Kathleen McBride, called the Committee on Local Government to order on March 19, 1983 in room 224A of the State Capitol Building, Helena, Montana, at 8:00 a.m. All members were present except Rep. Sales and Waldron.

HOUSE BILL 910

REP. KEMMIS, District 94, sponsor, opened by saying a great deal of work has gone into coming up with this local government package. Some of us don't want to upset the apple cart - that is not my intention. If the judgment of this committee is that we should stick with House Bill 600 and House Bill 418 either with or without Rep. Bertelsen's bill, I am willing to abide by that judgment. My concerns for local government financing are as follows: I firmly believe that we must approve the ability of local governments to govern themselves locally. We have taken a paternal attitude toward the people of this state. With the new federalism and the concept of decentralization of government, the time is definitely here to determine how it is people are going to govern themselves locally. By the policy decisions we have made over the last two to four years, we have steadily and drastically eroded the tax base of local governments. The first step is to replace some of the taxes that have been taken away by the state decisions. Going beyond the vehicle fees, it is only good public policy that we at least make some real state money available to local governments to replace the losses they have suffered. This would provide a local government block grant program. This bill is fully plagiarized from Rep. McBride's bill with only one difference...from what state source do we draw the money for local government assistance? Her bill was based on the oil severance tax which is wrong because it is an extremely unstable and unreliable source of revenue. It would put uncertainty into local government. There is no good reason to make local governments into being advocates of oil policy and oil production and oil taxes. They should not be influenced by it. A block grant program for local governments should be based on a stable, broadly based tax base, and that is the income tax. It doesn't make any difference from the point of view of the general fund - it's the same amount of money basically, it does make a difference in terms of public policy. The major issue of this bill is to base it on income tax instead of Oil Severance Tax. Whether you do it in this bill or as an amendment to the Appropriations Committee, you should take that issue on squarely. State assistance to local governments should be seen as an interim step and not looked to as a long term solution. Sooner or later we will have to face the fact that they need to be given tax authority. This provides for a local option income tax and a local option property tax. It also builds in an incentive to local governments to move to a local option tax. It says that block grants will be

available on a declining basis to those local governments who move to local option tax. Those that do not will lose the ability to have block grants. It's a heavy incentive. What I asked for in drafting the bill was that it would raise \$37 million - \$31 for vehicle fee replacement and \$6 million for the block grant program. There was an error in drafting. I have an amendment to correct it to the \$37 million figure. The fiscal note also needs correcting. Those that wanted to continue on the block grant program would have to vote in 1984 on the local option income tax. Then the block grant would remain available on a declining basis. The Dept. of Revenue would collect and they could hold up to 1% for expenses. There is a statement of intent prepared.

PROPONENTS:

GEORGE BOUSLIMAN, Urban Coalition: We find alot of features in Rep. Kemmis' bill desireable and beyond that, we would emphasize that our real concern is getting some real money from this legislature - whether it comes from HB 600 or HB 910. We urge your support.

KEN MORRISON, Dept. of Revenue: There are some technical problems in the bill that need to be corrected. We want it defined who is going to be subject to the income tax. Our amendment defines what a resident of a local government is going to be. We are going to need in addition to the 1%, some up-front money to develop a computerized system to handle the income tax money. (Exhibit #2)

LOIS HERBIG, Alderperson of Missoula City Council. We support this legislation. Property tax increases is the wrong way to go, people on fixed incomes and the elderly are suffering under the weight of property taxes now. (Exhibit #1)

ALEC HANSEN, Montana League of Cities and Towns: We support this bill. We are not interested in the source of funds for local government assistance - we are just interested in getting that money back to the local governments. You have heard what happened in the 1981 Legislature - this is a serious problem. Local governments provide critical services to the people of this state. It would be extremely difficult to pass a local government income tax. The incentive built in may do it but it will probably take more time than is provided in this bill. The concerns of funding of some kind for local assistance programs are legitimate.

MIKE YOUNG, Financial Director - Missoula: Rep. Kemmis has taken the lead in supporting local governments. We must have a means beyond the local property tax to pay for services for our communities.

BOB PALMER, Missoula County Commission: We are not concerned about what vehicle you use to come to grips with this problem, we want to stress the seriousness of the situation local governments find themselves in at this time.

ANN MARY DUSSAULT, Missoula Commission: I would ask you seriously to consider amending the level at which this bill is set to insure that it replaces those revenues the last session did away with, not only the vehicle fees but the funds lost by the business inventory tax. The governor does not address the business inventory tax in his block grant program. That makes sense because that was taken away by legislative action. You and I know that we fully intended that local governments would not suffer the loss of that revenue. There was no way to calculate that loss and so we created a tax credit mechanism intended to give this legislature the data needed to determine how those revenues would be replaced. If that means that in the end the legislature has to look to some kind of tax increase, big deal. If the money's not there, then it's up to the legislature to find it. Beyond that, the local option taxes are the best things that you can give us. It is then our responsibility to go to our people and convince them that if the level of services that they want is broader than what we can afford, then it will be part of their obligation to raise those taxes. In Missoula, the value of the mill will decline by about \$4,000. That means every department funded by that fund will be asked to decrease their budget 6 1/2%. We are adults and we can raise our property tax 1/4% because we are not at the limit. But, in the end, that is just about all we can do unless you give us some options.

JOHN WILKINSON, Lewis & Clark County Commissioner: Things are changing so fast now in terms of cut-backs, we are running scared constantly. We just received word that it is quite likely that we will not receive our distribution of payment from the federal government - that means \$650 thousand for the next fiscal year. That represents to us our entire capital improvements program. Both the block grant bill and Rep. Kemmis' bill speak to us at least as an immediate transfusion of funds into local government. There is an immediate crisis facing local governments and it's hard to make sense of it financially. If we are going to make the transition to local tax option, we need the time and immediate financial relief in order to educate our own constituencies of the program. I urge your favorable consideration of this bill.

OPPONENTS:

PHIL STROPE, Montana Innkeepers Association: I believe the bill violates your own legislative rules and I believe it's unconstitutional. Your rules on Page 29, 6-8 says no bill may be introduced in the House after the House has rejected a bill during that session designed to accomplish the same purpose. This committee did kill Rep. Waldron's

room tax bill this session and a similar bill concerning a state-wide room tax was killed in the Taxation Committee and the Senate killed a state-wide tax on lodging facilities in SB 417. I submit that the issue of taxing rooms has been before the legislature enough times. You owe it to the people to preserve the integrity of your rules - if they don't mean anything then people aren't very responsive. I'm quite sure it violates the constitutional provision that is set forth on Page C31, Article 5, Subsection 11 and sub 3 and 4 beyond that. That's the provision of having more than one subject in a bill. "It shall contain only one subject clearly expressed in its title." Speaker Kemmis' bill has on the title alone, three subjects, one of them imposing a tax on lodging. I will tell you why the lodging industry opposes room taxes so vigorously. The incidence of people staying in a large state like Montana is not as high as a state like New York. In any given year, 2/3 of the people who stay in lodging are other Montanans. The vast majority of people who come here probably don't use the lodging facilities. The tourist who comes here spends 1/3 of his money on food, 1/3 on transportation, 10-15% on entertainment items and 10-15% on lodging. As far as the cities getting more revenue...an example is the Colonial Inn in Helena. The property taxes on the Colonial are \$100 thousand a year. I was the attorney for two ranches being sold recently. Both appraised at \$3 1/2 million, the same appraisal as the Colonial Inn. The grazing district's total taxes were \$7,500 and the ranch taxes were \$13,000. So, if you have any doubts about lodging making a contribution to local governments, forget it. They make it.

KEITH ANDERSON, Montana Tax Payer's Association: The state general fund is in jeopardy. The state paid \$27.7 more this last year than it took in and the surplus that people are talking about grabbing is essentially non-existent. We have one of the highest income taxes in the country and who the heck wants to come to Montana with an income tax as high as ours and we are always trying to increase it. This bill is so complicated and you don't even have a fiscal note on it, do you? I think local governments are doing a poor job of convincing their people that they are having financial trouble. People would rather take a cut in services than to have an increase in taxes.

FORREST BOLES, Montana Chamber of Commerce: We are opposed to local option taxes that are not broadly based. The room tax meets that criteria. Local governments say cut backs come too fast - they have had two years to adjust to the vehicle tax. Who is to say these local option taxes wouldn't be made mandatory? If this state needs more money, and we don't think it does, then the bullet should be bitten and a general sales tax should be passed.

REP. KEMMIS, in closing, said the amendments submitted by the Dept. of Revenue are OK. Perhaps if there is to be a phase out of block grant funds, more time should be given. I agree that it would be a good idea to back off the phase out portion of this bill probably for two years. I would accept an amendment to that effect. I agree with Dussault that the Inventory Tax should be replaced. Mr. Strobe has raised some questions about rules. Rep. Waldron's bill was killed before this one was introduced, but it was in drafting and I think that argument would be an unfortunate interpretation of the rules. Rep. Bertelsen's bill would not be subject to the same criticism, fortunately. The question of how many subjects...that question could be raised about any bill introduced here. This bill has a single unitary title. If you reject this bill on that basis, you would have to reject 3/4 of the bills in this session. The Montana Tax Payer's Association's testimony was interesting. If someone appears here and says there isn't even a fiscal note and then says if there is one, it must be wrong, gives you an indication of the nature of that testimony.

QUESTIONS:

REP. SWITZER: I am much more in agreement with this than I suspected I would be. (Speaker Kemmis: It's early in the morning...you'll come to your senses later on...)

If the state picked up the mandatory obligation of the counties and let the counties select the type of tax and the degree of tax, would you tolerate such an adjustment to SB 910? Rep. Kemmis: In the long term, that's the direction in which we should move. But, there is an immediate short-term problem that can't be solved in that way. There is an immediate need that must be addressed.

REP. SWITZER: Would you say one biennium would be a sufficient amount of time to reach that goal? Rep. Kemmis: Originally, I thought it would but my concern now is getting the people ready for a vote on local option taxes.

State-wide, I don't think the majority would be ready in 1 1/2 years. 1986 would probably be the better way to go. REP. SWITZER: Except for the Inventory Tax dollars being available for the counties to use, they are still where they want them to be - they are in their jurisdiction with their people. Rep. Kemmis: To a certain extent that is true, but so much of the inventory on which taxes are paid is owned by out-of-state corporations with a tendency to export their money. When we stopped capturing a portion of it through the inventory tax we also stopped giving it to the communities.

REP. KADAS: Mr. Morrison, on your amendment, does resident mean where you reside the greatest amount of time? Mr. Morrison: You may reside in different counties and we have to know the county where you resided the greatest length of time during a year so we know who is subject to the tax. There are various ways you can handle it.

REP. KADAS: Please tell us how the decline of block grant funds will work. Rep. Kemmis: The Block Grant Program is called the general services block grant and you find references to that on Page 3, line 12. This sets out the percentage of the individual income tax collections that would be devoted to the block grant program. At the outset 3% would be applied and that is meant to raise approximately \$6 million. That would decline for fiscal year 1987 to 2% and that would be available as a block grant program on the same formula that is contained in the block grant bill that you have passed. That would be available but only to cities and counties that had instigated a local option income tax. In 1989 it would decline to 1% and still be available only to those that had imposed a local option income tax.

REP. SANDS: In the block grant program, 1% will be raised through state income tax and a certain percentage from local income tax? Rep. Kemmis: I haven't looked at it that way. The state block grant program is entirely funded from state revenue. Rep. Sands: I don't understand why we are coercing local governments to raise taxes. Rep. Kemmis: The bill tries to build in a movement toward local options. I think coercion is too strong a word.

REP. NEUMAN: How do you keep this stable? When the economy is good, you will have a surplus but when the economy is bad it won't meet the need. It will have to be balanced by property tax revenue. Once it starts, local governments will want to raise it. Rep. Kemmis: I can't guarantee that there won't be an request to increase the amount.

REP. McBRIDE: Have you looked at the possibility of taxing the people who work in a community, who use the services but live outside the county? Rep. Kemmis: It is something I would like to look at but I didn't have the time.

REP. McBRIDE: Do you foresee a vote each year to increase the income tax percentage? Rep. Kemmis: If I were a government official, I would try to do it all in one vote. You could have an incremental application of the tax voted on. I wouldn't want to put it up twice.

REP. McBRIDE: You are saying, we will give you some money for awhile but in addition you will have to tax yourselves in addition to your already decreased property tax base. My concern is that we can ask them to tax themselves, but in reality we are asking them to tax themselves for something, we, in fact, have taken away from them. It gets them close to being even for our action. Then do you foresee no additional needs of local government for additional revenue? If we have already used the income tax aspect we are facing raising the property tax for any additional revenue needed. Rep. Kemmis: I don't think that is correct. Only a small part of the permissible 10% income tax would be needed to make up what has been done. The rest would be for increasing needs. The income tax base should be an expandable tax base. It should make more money available.

REP. HANSEN: Ms. Dussault, do you think putting this on the ballot in Missoula will go? Ms. Dussault: I think it

would be tough but what we are all struggling with concerns us all and it's our obligation as government officials to present those options to the people. I am willing to risk it.

REP. SALES: Ms. Dussault, do you believe that the property tax payer is being unfairly burdened? Ms. Dussault: Absolutely.

REP. McBRIDE: Rep. Kemmis, what year do you foresee the local income tax having to be passed by the voters?

Rep. Kemmis: It would be 1984 but that is the one area that we should stretch out and leave the block grant available to everybody until a vote in 1986.

REP. McBRIDE: If the voters did not pass it that year, would they ever be barred from passing it? Can they do it a year later? Rep. Kemmis: It is my intention that you should be able to get back on the train. I will take another look at it.

The hearing adjourned at 10:00 a.m.



REP. KATHLEEN McBRIDE, CHAIRMAN



Linda Palmer, Secretary

Exhibit #1

1026 Monroe St.
Missoula, MT 59802
March 19, 1983

Chairman, ^{person}~~man~~, Members of the Committee:

I am Lois Herbig, ~~Alder~~ ^{person} of Missoula City Council. Thank you for the opportunity of speaking to you this morning.

I wish to speak in favor of HB 910, the Local Government Tax Stabilization Act of 1983. After reading the bill, I find the title most appropriate and timely. I appreciate the fact that there are those who recognize the grim situation that cities and counties are faced with.....and have been faced with during many Legislative sessions. The 1981 Legislature could have helped more easily since they were sitting on a \$40 million surplus; however, they chose to not only take away \$586,000 but at the same time require that there be new expenditures for cities to the tune of \$655,000.

There are those in this year's Legislature who are truly to be commended who finally recognize that the cities are in this awful plight and are willing to try to do something for them. These same people seem to be saying that, yes, they do trust that there are people in City Governments who are capable of running local affairs and may set their own priorities. Without this assistance from the State, cities will necessarily have to cut services further as well as cutting more staff positions, that are currently down to "bare bones" in Missoula. Property tax increases is the WRONG way to go...people on fixed incomes and the elderly are suffering under the weight of property taxes NOW. Let's not

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push them over the brink. Many have already been forced to give up homes that they have worked all their lives for because of the increases in property tax.

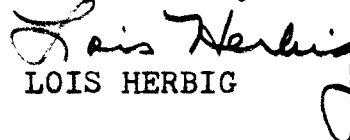
Without an expanded tax base, as is being proposed in this bill, it is just possible that there may be a time when cities are forced to operate with volunteer help, rummage and bake sales and through donations. Is this the 'proof' that some Legislators are looking for to recognize that cities indeed do need assistance? From one Legislative session to the next, the hope is still alive that there may be relief. Maybe this is the year for a turn-around...reverse the limited ability to raise revenue by city governments.

We have been eagerly awaiting relief through Governor Schwinden's proposed Local Government Assistance Plan but that no doubt is being cast aside because of the decline in oil tax receipts.

From my vantage point, over the past number of years, I see that local officials have similar integrity, ambition and experience as have our dedicated Legislators. No better...no worse. Revenue has to come from somewhere and I believe that the proposals in this bill make good "people sense."

Thank you for your attention.

Respectfully submitted,


LOIS HERBIG

Amendments to HB 910
(introduced copy)

1. Title, line 14.

Strike: "SECTION"

Insert: "SECTIONS 15-1-501 AND"

2. Page 3, line 7.

Following: "30,"

Insert: "and allocated to the general fund under 15-1-501"

3. Page 3, lines 10 and 11.

Strike: "total" on line 10 through "1982" on line 11

Insert: "general fund allocation in fiscal year 1984"

4. Page 3, line 14.

Strike: line 14 through "1984"

Insert: "the general fund allocation in fiscal years 1984
through 1986"

5. Page 3, line 16.

Following: "of"

Strike: line 16 through "1985"

Insert: "the general fund allocation in fiscal year 1987"

6. Page 3, line 18.

Following: "of"

Strike: line 18 through "1986"

Insert: "the general fund allocation in fiscal year 1988"

7. Page 12, line 11.

Following: line 10

Insert: "Section 17. Section 15-1-501, MCA, is amend to
read:

"15-1-5-1. Disposition of moneys from certain
designated license and other taxes. (1) The state
treasurer shall deposit to the credit of the state
general fund all moneys received by him from the
collection of:

(a) automobile driver's license fees under
subsections (1) through (6) of 61-5-111;

(b) electric energy producer's license taxes under
chapter 51;

(c) metalliferous mines license taxes under chapter
37;

(d) oil and gas severance taxes allocated to the
general fund under chapter 36;

(e) liquor license taxes under Title 16;

(f) telephone license taxes under chapter 53; and

(g) inheritance and estate taxes under Title 72,
chapter 16.

(2) Seventy-five percent of all moneys received
from the collection of income taxes under chapter 30 and

corporation license and income taxes under chapter 31, except as provided in 15-31-702, shall be deposited in the general fund subject to the prior pledge and appropriation of such income tax and corporation license tax collections for the payment of long-range building program bonds and the provision of [section 3]. The remaining 25% of the proceeds of the corporation license tax, excluding that allocated to the counties under 15-31-702, corporation income tax, and income tax shall be deposited to the credit of the earmarked revenue fund for state equalization aid to the public schools of Montana.

(3) The state treasurer shall also deposit to the credit of the state general fund all moneys received by him from the collection of license taxes, fees, and all net revenues and receipts from all other sources under the operation of the Montana Alcoholic Beverage Code.""

Renumber: subsequent sections

WITNESS STATEMENT

Name Phil Strope Committee On LOCAL GOV'T
 Address HELENA Date 3-19-83
 Representing MONT INNKEEPER ASS Support _____
 Bill No. HB 910 Oppose X
 Amend _____

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. BILL VIOLATES JOINT RULE 6-8, PAGE 29 OF RULES BECAUSE HB 230 AUTHORIZING LOCAL ROOM TAX HAS BEEN KILLED.
 2. BILL VIOLATES ARTICLE V, SECTION 11 (3) AND (4) CONST. PAGE C-31 OF RULES. IT CONTAINS TWO OR MORE SUBJECTS. IT APPROPRIATES MONEY FROM STATE INCOME TAX AND AUTHORIZES LOCAL GOVERNMENTS TO CREATE A LOCAL INCOME TAX AND A LOCAL ROOM TAX.
 3. LODGING INDUSTRY PAYS HIGH PROPERTY TAXES NOW.
 4. LODGING INDUSTRY WILL JOIN ALL TRAVEL RELATED INDUSTRIES AND INCREASE CONTRIBUTION TO TRAVEL PROMOTION FROM \$300,000 TO \$700,000 TO SUPPORT GOV BUILD MONT PROGRAM.
- Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

STATE OF MONTANA

REQUEST NO. 500-83

FISCAL NOTE

Form BD-15

In compliance with a written request received March 18, 19 83, there is hereby submitted a Fiscal Note for House Bill 910 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 910 is the Local Government Tax Stabilization Act of 1983. The bill establishes a local government block grant program funded by a portion of the state income tax and authorizes local governments to impose a local option income tax and certain local option hotel and motel taxes.

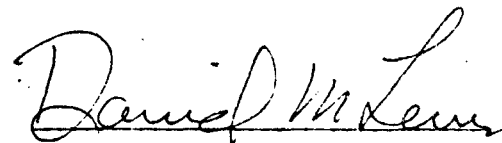
ASSUMPTIONS:

- 1) The percentages in Section 3(a) and (b) apply to total income tax collections in FY 84 and FY 85. Current allocations of income tax would be made after the allocation on the Local Government Block Grant.
- 2) Income tax collections will be \$166.43m in FY 84 and \$175.46m in FY 85.
- 3) No estimate is made of the amount that would be raised by the local option income tax or hotel/motel tax.

FISCAL IMPACT:

	<u>FY84</u>	<u>FY85</u>
	<u>Million</u>	
Local Government Block Grant Account		
Current Law	\$ 0	\$ 0
Proposed Law	28.29	29.83
Increase	<u>\$ 28.29</u>	<u>\$ 29.83</u>
General Fund		
Current Law	\$106.50	\$112.29
Proposed Law	88.41	93.20
Decrease	<u>\$(18.09)</u>	<u>\$(19.09)</u>
Sinking Fund		
Current Law	\$ 18.31	\$ 19.30
Proposed Law	15.19	16.02
Decrease	<u>\$ (3.12)</u>	<u>\$ (3.28)</u>

Continued


BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 3-18-83

School Foundation Program

Current Law	\$ 41.61	\$ 43.86
Proposed Law	34.53	36.40
Decrease	<u>\$ (7.08)</u>	<u>\$ (7.46)</u>

TECHNICAL NOTE:

Section 3(3) conflicts with Sections 15-1-501 and 17-5-408, which provide for the allocation of income tax collections. Section 3(3) is also ambiguous concerning what year's collections are affected. Referencing fiscal years' collections would be clearer. A local option income tax will be difficult to administer if it is based on taxpayers' residences, rather than places of employment.

FISCAL NOTE 17:Q/2

VISITOR'S REGISTER

HOUSE LOCAL GOVERNMENT COMMITTEE

BILL HOUSE BILL 910

DATE March 19, 1983

SPONSOR REP. KEMMIS

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.