

MINUTES OF THE MEETING OF THE LOCAL GOVERNMENT COMMITTEE
March 22, 1983

The meeting of the Local Government Committee held on March 22, 1983, at 12:30 p.m., in Room 224A of the Capitol Building was called to order by Chairman Kathleen McBride. All members were present except Reps. Kitselman and Switzer, who were absent, and Rep. Sales, who was excused.

EXECUTIVE SESSION

SENATE BILL 281

SEN. ECK, sponsor. This bill would allow adoption of a local option motor fuel tax by referendum.

CHAIRMAN McBRIDE: What I want to focus on and discuss is looking at the issue of local option taxes and the method of trying to get them on the ballot. SENATE BILL 281 amends existing local option taxes and allows the issue to be placed on the ballot by referendum or by resolution of local government.

REP. WALDRON: Moved SENATE BILL 281 BE CONCURRED IN.

REP. WALLIN: Moved a substitute motion that SENATE BILL 281 BE NOT CONCURRED IN.

REP. WALLIN: A couple things came out of testimony. All the money has to come into the state and be reapportioned. It would require considerable help to take care of that problem. The second thing that was brought out--a distributor that sells fuel across county lines--one has a one cent tax and the other has a two cents tax. This situation could make it very difficult.

CHAIRMAN McBRIDE: The issue here is not whether or not we are going to have a motor fuel tax. It is merely the method that it is presented to the voters.

REP. WALDRON: The Department of Revenue collects it. We have that in current law. The only thing they are allowed to do--someone can claim that tax back that is used for off-road use.

REP. WALLIN: How does it affect the fuel distributor?
DOUG ALEXANDER, Distributor, Gallatin County, said the fuel, if it is distributed to another county, we would have to file back for a refund on a separate set of books. Once it leaves a point of origin, it is difficult to administer.

We feel the public should be given a double chance of seeing how important the bill is. It affects 98% in the county. It is very hard to administer and only deals with gasoline--not propane or diesel. The city should not be the only ones who have jurisdiction of putting it on the bill.

REP. WALDRON: If you have a gas station operator who can't keep track of gas, you have an incompetent businessman. I don't know why this would cause any problem administering.

REP. SCHYE: I think what they are getting at is deliveries to farms in the rural areas where fuel distributors cross county lines. The gas is coming out of one filling station but yet, they sell it to someone who doesn't have the tax--who is going to have to pay that tax?

REP. WALDRON: If it is for off-road use, which a farm is, then he can claim all the tax.

REP. SCHYE: Not all your gasoline is for off-road bulk use.

CHAIRMAN McBRIDE: I am not sure there is any distinction there. It says the motor fuel tax not to exceed two cents per gallon sold to the ultimate consumer within the county for use in motor vehicles operated upon public highways. Are you trying to distinguish between off-road and on-road use?

REP. WALDRON: The Department of Revenue calculates that when you make a claim for your bulk gasoline on the farm.

REP. HAND: Aren't we only talking about referendum or initiative. We aren't talking about the tax.

CHAIRMAN McBRIDE: The law regarding the taxes is already in place. We are addressing whether it is going to be presented to the people in the form of referendum.

REP. BERGENE: In the written testimony presented by John Braunbeck, what does #1 mean? "Eliminate need for the above listed costs and expenses by concentrating on Section 15-70-101(1), M.C.A. (specifically the \$6.5 million allocation)"

LEE HEIMAN: The fuel tax is distributed among cities, towns, and counties and it provides the ratio based upon rural road mileage, land area, with a minimum to be divided among cities and towns. In earlier testimony they suggested one cent be added which would, through this distribution, raise money for roads for local governments.

A roll call vote was taken on the motion that SENATE BILL 281 BE NOT CONCURRED IN with four members voting yes (REPS. PISTORIA, SWITZER, VINGER and WALLIN) and fourteen members voting no (REPS. BERGENE, BERTELSEN, DARKO, HAND, HANSEN, HOLLIDAY, KADAS, KEENAN, NEUMAN, SALES, SANDS, SCHYE, WALDRON and CHAIRMAN McBRIDE). The motion FAILED. The vote was REVERSED and SENATE BILL 281 went out of committee BE CONCURRED IN.

REP. SALES will carry SENATE BILL 281 on the floor of the House.

HOUSE BILL 793

REP. BERTELSEN, sponsor. This bill would provide for optional local government taxes; authorizing a 55-mill all-purpose levy for counties, a local government income tax not to exceed 20% of state income tax liabilities.

REP. BERTELSEN: Passed out amendments suggested by the Department of Revenue to set up appropriations to take care of the original setup and some amendments to make it operate more properly through the Department of Revenue (EXHIBIT 1).

CHAIRMAN McBRIDE: Asked for an explanation of the amendment regarding the public utilities.

REP. BERTELSEN: This amendment was written because of the fear that some of the utilities were trying to levy an income tax on public utilities which is already regulated and this was not the intent. All this does is eliminate the public utilities from the income tax option.

REP. BERTELSEN: Moved that this amendment be accepted.

CHAIRMAN McBRIDE: This is not supposed to imply that an employee would be exempt from the tax--only the corporation itself.

REP. BERTELSEN: That is correct--the intent being to put it back on people who buy the power.

REP. VINGER: If Billings passed it and the others didn't--how would you break it out?

REP. SANDS: This addresses a broader question. What would happen if a nonutility corporation happened to have assets in the local county.

REP. BERTELSEN: I believe they would be taxed.

REP. SANDS: What if the corporation had an office building in Yellowstone County and its corporation was registered in Helena. Under what scheme would Yellowstone County impose the tax?

REP. BERTELSEN: Our intent was to tax only where the taxpayer paid his taxes.

LEE HEIMAN: What we are talking about here is the individual income tax.

REP. SANDS: Utilities are not individuals.

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REP. BERTELSEN: The question was asked--why was public utilities put in there if we don't tax corporations.

LEE HEIMAN: They suggested it.

REP. BERTELSEN: They were concerned that they might, somehow, be taxed.

CHAIRMAN McBRIDE: Why are they singled out to be exempt if we are only addressing individual income taxes.

REP. KADAS: They are serving a public need for everyone. If Yellowstone County put an income tax on, then all the rest of the rate payers, through Montana Power's jurisdiction, would end up paying that tax in Yellowstone County.

REP. WALDRON: Yes, but it's a tax on personal income. It has nothing to do with corporate tax.

CHAIRMAN McBRIDE: We are talking about tax on personal income and we are trying to figure out why the utilities were worried about taxation of that regulating utility. One other comment as far as the definition of what a taxpayer is "any person or fiduciary, resident or nonresident subject to a tax imposed by this chapter and does not include corporations".

REP. SWITZER: On the hotel and motel room tax, don't you leave one segment public that is definitely a minority as far as numbers are concerned at the mercy of the electorate to lay a tax on them?

REP. BERTELSEN: I suspect that is true.

REP. SWITZER: They wouldn't have the numerical power to resist.

REP. VINGER: If it doesn't hurt anything, it doesn't hurt to leave it in there.

CHAIRMAN McBRIDE: Do the utilities feel like there is some question?

REP. VINGER: The attorney that testified does; otherwise, they wouldn't have submitted the amendment.

REP. SANDS: Are there any utilities that are owned by private individuals?

Question was called and the motion to accept Amendment 3 was voted on. The motion PASSED UNANIMOUSLY.

REP. HAND: Moved that Amendments 4 - 13 be adopted.

LEE HEIMAN: Everyone of these is a housekeeping amendment which would help in the administering of the program.

The motion was voted on and PASSED UNANIMOUSLY.

REP. KADAS: Moved the technical amendment be adopted.

LEE HEIMAN: When the bill was written, "registrar of motor vehicles" was mentioned who doesn't have rulemaking authority. It should be "motor vehicle division, department of justice".

The motion was voted on and PASSED UNANIMOUSLY.

REP. BERTELSEN: The first section which has drawn more questions than any portion is the section which deals with the all-purpose mill levy authorized. The deal is that we permit the county to have a 55 mill all-purpose levy. Cities now have 65 mills. Counties could levy up to 75.25 - 91.75 mills at the present time if they levied at the top of all permissive levies. If you went to your tax book, you would find they are in the range from 26-46 mills. There are two fears that have been expressed--because the county had the added leeway in levying mills, they would go up to the limit of 55. The other problem they ran into in the Senate was that immediately certain areas wanted to protect their turf and they wanted to have their particular portion taken out of the 55 mill levy. With those points in mind, I considered pulling this part of the bill because I didn't want to lose the rest of the bill. Since then, I have been bombarded with both sides of the issue. Most counties feel it is a management tool they would like to have. They don't have to go this way. I will leave it to the judgment of this committee if they want to keep the 55 mill or remove it.

REP. HAND: This is all permissive?

REP. BERTELSEN: Yes. In this portion, it is at the discretion of the commissioners.

REP. WALLIN: It is a general purpose levy. If they elected to go with this, it would be in place of all of these.

CHAIRMAN McBRIDE: What does this do to permissive levies that we have said you could raise--3 mills for libraries? How do those two aspects fit together? Will they be allowed to go higher?

REP. BERTELSEN: They would be confined to the 55 mills.

CHAIRMAN McBRIDE asked REP. BERTELSEN to read the list.

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<u>Name of Fund</u>	<u>No. of Mills</u>
General Fund	25-27
Bridge Fund	4- 6
Special Bridge Fund	5
Fair	1.5
District Fair	1 mill more
Library (present time)	3
Airport	2
City County Planning	2- 6
Ferry	2
Ambulance	1
Open Space	2
Senior Citizens Recreation	1
City County Health Board	5
Board of Health	1
City Center	2
Nursing Home	3- 6
Cemetery	4
Developmentally disabled facility	1
Insect Control	3
Weed Control	2
Livestock Show and Sale	.25
Museum	2

Regular road fund is not included.

Voted road fund would be included in the 55 mills.

REP. BERTELSEN: There is a section where they say something to the affect--the levies that are set up for a special purpose are not under these general headings and they would still be outside the 55.

REP. HAND: What do they add up to?

CHAIRMAN McBRIDE: 71.25 at the low end and 91.25 at the high. On the General Fund--between 25-27--does that depend on the class of county.

REP. BERTELSEN: Yes.

REP. WALLIN: It sounds so good--who is against it.

REP. BERTELSEN: The Missoula group have no faith in county commissioners. They are afraid commissioners will spend too much money.

REP. WALLIN: What is the levy now for all these purposes in the state?

LEE HEIMAN: It would be impossible to determine because you can absorb out of the General Fund.

REP. BERTELSEN: There was one testimony that it was in the neighborhood of 47.

CHAIRMAN McBRIDE: If a county reaches its maximum, it couldn't do anything more. If we put it at 55, can they get any more than that?

REP. BERTELSEN: For emergency purposes, you can levy not to exceed two mills. There are other things outside.

CHAIRMAN McBRIDE: Retirement is normally outside. In some cases we have voted legislation that has put them beyond the mill limit.

REP. BERTELSEN: The other question is that the libraries are afraid if they get put into an all-purpose levy, they won't get the three mills they were supposed to get. If we get to that point, we destroy the whole purpose of the bill.

REP. SANDS: 55 mills is not enough. Section 4 allows an unlimited amount in excess of that. Why didn't you provide that if the county wants to go to an all-purpose mill levy that it do so by a vote of the people. You are reversing 100 years of how the state and the county reacts to property taxes.

REP. BERTELSEN: I took this from previous legislation. I thought it was a good management choice that a group of commissioners made.

REP. HAND: Rather than impose all these levies, they can take 55 and they don't have to categorize. They still have to have the budget reviewed and it has to be open to the public.

CHAIRMAN McBride: This would allow the county some flexibility in moving their funds around.

REP. KEENAN: I think this is a very progressive approach. You are putting it in the hands of the governing bodies who are going to look at the needs of the community. It gives flexibility and discretion towards local government.

REP. BERTELSEN: If REP. SANDS wants to amend it, I think we should try.

REP. KADAS: Do you know of any other bills in the session to have an all-purpose tax.

REP. BERTELSEN: There was one in the Senate. If we are going to start subtracting all of the different categories, then I would just as soon not have the 55 mill.

REP. KADAS: REP. SANDS, on your point, I think it would be better to leave it the way we have it. It is the commissioners who are dealing with all those levies.

REP. VINGER: Do the cities have this authority now on 55 mills?

LEE HEIMAN: The cities have 65 mills since 1965.

REP. HANSEN: I would urge REP. BERTELSEN to work it through the system and maybe we will come up with something that will help out the counties.

REP. SWITZER: Aren't the designated mills for each category now adding up to about 65?

REP. BERTELSEN: No. 71 in the low and 91 in the high.

REP. SWITZER: I mean--not in the bill but in the county budgets.

REP. BERTELSEN: Yes. Depending on your county, some are up to 65-70.

REP. KEENAN: In the case of consolidation, cities levy 65 and counties can levy 55?

LEE HEIMAN: They set whatever levy they wish and this would not affect any in place now.

REP. SANDS: I would like to offer an amendment requiring that before a county goes to the all-purpose mill levy, it would be done by a vote of the people. It could be submitted by referendum and would not have to go through the initiative process. I do that because I think this bill is a major revolution, in a way. Counties have been regarded as a division of state government--not as a separate independent governing authority--but one who is, in effect, an administrative arm of state government. It is the state that passes the laws and the county that administers them. We are moving away from that and I have some questions about the speed with which we are moving away from that. If we go this way, I would think the least thing we can require is for the people in this county to approve it.

REP. KEENAN: I see this as the first step in giving local government an opportunity to govern. I think you will complicate the matter more with the referendum process.

REP. SANDS: Local governments are the people who are most capable of addressing that issue and explaining it to the people.

REP. KEENAN: How many people show up at the commissioners' meeting.

REP. SANDS: Not very many. I am trying to encourage interest.

REP. KEENAN: Give the people who have the knowledge of government an opportunity to explain it to the people.

REP. HAND: I would oppose REP. SANDS' amendment.

REP. SWITZER: I would support REP. SANDS' amendment. I agree with peoples' participation picking up when something is the matter, but it doesn't necessarily have to be good or bad. With the referendum, I have never heard people complain about having to vote on something.

CHAIRMAN McBRIDE: The motion is to require that the issue of the 55 mill be placed before the voters by referendum prior to adoption by county commissioners.

A roll call vote was taken with five members voting yes (REPS. PISTORIA, SANDS, SCHYE, SWITZER and WALLIN) and ten members voting no (REPS. BERGENE, DARKO, HAND, HANSEN, HOLLIDAY, KADAS, KEENAN, NEUMAN, VINGER and CHAIRMAN McBRIDE). The motion FAILED.

REP. BERTELSEN: Are we ready to go to the other section of the bill.

CHAIRMAN McBRIDE: Yes.

REP. BERTELSEN: In discussions with people, I found there was a very serious feeling that all of the option taxes ought to be a vote of the people. I had not included that in the bill and so these amendments which I will now pass out will make those option taxes part of the bill and we can vote on them.

REP. KADAS: Is this primarily Senators who are expressing this concern?

REP. BERTELSEN: No.

REP. HAND: This will put this local income tax option before the people?

REP. BERTELSEN: I had it for the income tax but I didn't have it for the motor vehicle and the hotel-motel. Now, they will all require it go to the vote of the people.

REP. KEENAN: Does that include the additional levies exceeding the all-purpose mill levy?

LEE HEIMAN: No. Those are just exceptions.

REP. SWITZER: What section did your questions address, REP. KEENAN?

REP. KEENAN: Section 3, page 2, line 5. I had some concern that district court would have to go to the vote of the people.

REP. BERTELSEN: No. This just refers to the option of taxes.

REP. KADAS: Is this by referendum or initiative?

REP. BERTELSEN: Both.

REP. BERTELSEN: Moved that the amendments be accepted.

REP. HANSEN: I would like to speak against the amendments. I like the idea that there are two options left if the income tax is not passed. The counties will not be left with anything. At least, they would have the motor vehicle and the hotel-motel tax to fall back on.

REP. BERTELSEN: What she is saying--we are requiring a vote on the income tax. If that should fail, they would still have some options they could use if they were in a real emergency with the other two without the vote of the people.

REP. HANSEN: I think you would have an awful time getting a local option income tax through unless it was coupled with property tax relief.

Question was called and the motion to accept the second list of REP. BERTELSEN's amendments was voted on. The motion PASSED with REPS. HANSEN, BERGENE, DARKO and PISTORIA voting no.

REP. BERTELSEN: There was one other amendment suggested. I have some concern with it and I want you to look at it. There is an option in the income tax for an interlocal agreement as to what portions will go to the city and what portions will go to the county. They could come to an agreement before it would be presented to the people. However, in the absence of an interlocal agreement, as the bill now states, one-half of the proceeds must be distributed between the municipality and the county on a ratio based on the total income tax collection in these jurisdictions. For this purpose the municipality jurisdiction includes all taxpayers residing in the municipality. The county jurisdiction includes only taxpayers residing in the county but outside a municipality. The remainder of the proceeds must be distributed to local governments in the county in the same proportion that their populations bear to the total population of the county. For this purpose the population of the county includes all county residents, including municipal residents, and must be added to the population of the municipalities to calculate the proportions. The amendment that was offered was that it should be divided 100% at the point of origin and this would be that anybody that lives in the city--his income taxes would go to the city and anybody who lives outside, if they were dividing it by county-city lines, it would go to the county. I do not know the complete ramifications of that. I am reluctant to go that way. I think interlocal agreement would be the best situation.

REP. WALLIN: You are keeping half for the county.

REP. BERTELSEN: Half of the total is divided and the other half is distributed to local government--the county-state's portion that the populations bear. We are taking half on income and half on population. The purpose in back of that is that population creates problems. You might have the

wealthy people living on the outskirts of the city and providing a lot of income to the city and the poorer people might congregate in the city and so the other half would be divided on population rather than on income. There would be a tendency to split it in two different categories. The way the amendment is written--wherever the money is, that is where the income tax would stay.

REP. VINGER: Wouldn't the simplest way be to administer it to keep all the money collected in the city within the city and the county within the county.

REP. BERTELSEN: I would like to have a discussion on that rather than make a motion at this time.

REP. KADAS: I like it the way it is because it doesn't act as an equalization mechanism. You are going to have the wealthier city people helping the poorer county people.

REP. HAND: We have already talked about this zoning situation. I would oppose the amendment.

REP. SANDS: What are the options again--to leave the bill where it is or to allow the income taxes to be distributed entirely on the basis of revenues?

REP. BERTELSEN: There would be no effort to redistribute according to population. The way the bill is written, half of the total income-taxes collected in the county would be distributed on the basis of where it is collected. The other half would say it would be divided equally according to the number of people living in each unit of government.

REP. SANDS: Where the county consisted of 100,000 people and there were 50,000 in the city, the way the bill is written--

REP. BERTELSEN: In the last half, they would each get 50%.

REP. SANDS: If it was based solely on income--would it be one-third to the city or one-half to the city?

REP. BERTELSEN: You wouldn't know until you collected the income taxes. It depends upon which area your income earners are living in.

REP. SANDS: In a county of 100,000 people and the city of 50,000, would the city get one-third or one-half?

ALEC HANSEN: Unless the bill has been amended, it is my understanding that the municipal population counts toward the county total so in regard to REP. SANDS' question, if there were 100,000 population, all 100,000 people in the county would be counted. 50,000 of the city would be counted so the city would get one-third. We proposed the amendment to go to strict point of origin. If the municipal population wasn't included in the county population, we could consider the second part of the formula.

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REP. VINGER: I believe in tying it down.

REP. HANSEN: I would like to speak in favor of the amendment. We have to keep in mind that the city does have some other means of raising revenue that the county doesn't.

REP. BERTELSEN: Wherever you live determines who gets the tax.

REP. KADAS: It seems to me it would be better to adopt the amendment or to amend section(b) so that if it is divided by population, it is divided between those who live in a municipality and the county population--those who do not live in the municipality.

REP. BERTELSEN: I will propose the amendment. That will mean that you eliminate Part (b) and you would put 100% in Part (a) page 8, line 11.

LEE HEIMAN: The amendment would actually read:

Page 8, line 9

Following: "must be"

Strike: "distributed in the following manner:

(a) one-half of the proceeds must be"

Strike: (b)

REP. SANDS: Now the county residents who live within a city--if this amendment is adopted--receive no contribution of their county's share.

REP. BERTELSEN: The total amount of income tax collected from that resident living in the city would go to the city.

Question was called and the motion to amend was voted on. It PASSED UNANIMOUSLY.

REP. BERTELSEN: I feel we owe the local governments something out of this session. This is an effort to solve some of our problems locally.

REP. KADAS: Could someone walk me through income tax on non-residents.

LEE HEIMAN: The income tax is based upon where you make your money. If you make your money and reside in the same jurisdiction, that jurisdiction gets all of it. If you reside in Jefferson County and work at the State Capitol--Lewis and Clark has an income tax; Jefferson County does not--Lewis and Clark

would get half of your income tax and the other half would be refunded to you. If you live in Jefferson County and work in Lewis and Clark County and both of them have an income tax, then you would split--one-half based upon residence and one-half based upon the fact that you made your money here.

REP. KADAS: What if you live in Jefferson County and work in Helena and Jefferson County has a local income tax and Helena doesn't.

LEE HEIMAN: Half of it would be taxed for Jefferson County. The other half, you wouldn't pay.

REP. SANDS: I would like to offer another amendment--to strike out hotel-motel taxes. I don't think we should allow local governments a form of taxing authority.

REP. KADAS: Why couldn't we give local governments taxing authority we have denied for ourselves?

REP. SANDS: We have already rejected this option. The second reason is because I think we are starting to develop a very difficult situation. If you have one set of tax laws in one community and a different one in the community next door--to have different tax systems in adjoining counties makes the law far more difficult to interpret and far more difficult to know what it is.

REP. KADAS: It seems logical to allow special kinds of taxes for special situations in special areas. One area, like West Yellowstone, has a tremendous tourist industry. Hotel-motel tax in that area seems logical where it might not be logical at all in Fergus County. To me, there are special situations in special areas and we should allow local areas jurisdiction to deal with their special problems.

REP. WALLIN: Would dude ranches be included?

CHAIRMAN McBRIDE: No.

A roll call vote was taken with four members voting yes (REPS. PISTORIA, SANDS, SWITZER, and VINGER) and twelve members voting no (REPS. BERGENE, BERTELSEN, DARKO, HAND, HANSEN, HOLLIDAY, KADAS, KEENAN, NEUMAN, SCHYE, WALLIN and CHAIRMAN McBRIDE).

REP. BERTELSEN: Moved that HOUSE BILL 793 DO PASS AS AMENDED. The motion was voted on and PASSED with REPS. PISTORIA, SWITZER, and SANDS voting no. REP. SALES and WALDRON voted yes by proxy.

HOUSE BILL 910

REP. KEMMIS, sponsor. This is a block grant bill with its source of funding from income taxes with the requirement for local governments to get some state aid--that they pass a local option income tax.

CHAIRMAN McBRIDE: I think it is important that we decide which bill we want to use to help local governments. If we end up sending this bill out as well as HB 600 without deciding which of those two we, as a Committee, may favor, we are leaving the Appropriations Committee in the position of deciding.

REP. HANSEN: There is one more bill and I think it is in Taxation--Hal Harper's bill for the local option income tax coupled with the property reduction.

CHAIRMAN McBRIDE: I think what we are looking at here is a bill to try and give immediate relief to local government.

REP. BERTELSEN's bill is a long term and possible help to local government. I see REP. BERTELSEN's bill fitting in with whatever we do with immediate local government aid. We have HOUSE BILL 910 in front of us and we have to decide what the disposition of this particular bill will be.

REP. HAND: Do you suppose we should keep one of these bills in reserve for a few days?

REP. SANDS: It is my view that this bill is a better version of the block grant program than HB 600 and 419 combined. It is different from REP. BERTELSEN's bill because money is appropriated for a block grant program for the next two or three years. The question that is presented is whether the sources of funding for the block grant program is more appropriate than HB 910 or HB 600 and 419. HB 910 provides a broader base and better funding sources than do the other two. I think the revenues that would be provided would be less subject to fluctuation. I would prefer to bring this bill out.

REP. KADAS: I think HB 910 is real important because it has a built-in incentive to get off of that state feed line. You are going to have to start dealing with the local problems locally. That is a pretty important concept to me. It phases out the block grant program and instead of being a short term kind of thing will end up being a long term big thing.

CHAIRMAN McBRIDE: One of the issues is that what has been done to local government as far as removing taxable valuations from cities and counties is permanent. They will never have the money coming in from inventory taxes or the motor vehicle fee reimbursement. Those are permanent reductions in evaluations. From that point of view, what we are saying to the people is "you are going to have to tax yourselves just to stay even."

REP. VINGER: If local governments need any more money, they have the option of increasing the income tax or increasing property taxes.

REP. KADAS: Most of them affected the property tax base and we sit here and say "we are going to give money back to the local government." That money comes from some place. If we can move to get local government to have their own tax base, we are in a lot more solid position for the long term. We think we give the money to local government or force them to create a new tax base--the money is coming from the people.

REP. DARKO: I think we are moving towards a thing that is more fair. We are giving them an option.

REP. SANDS: If HB 910 passes, we have not taken away anything from local governments. We have taken away one source of taxation in telling local governments they may replace it with another source. What is the appropriate substitute. If you really believe in local control, all you really should give local government is the appropriate taxing authority to raise those monies. I think that is what HOUSE BILL 910 goes toward.

CHAIRMAN McBRIDE: I won't disagree with you. It took the income tax to bring us up to level. The other bill says you are at level. Provided that REP. BERTELSEN's bill passes, then you can use other sources to raise additional money and not use it to keep yourself even. REP. KEMMIS wanted a discussion as to what sources of revenue should we use.

REP. SANDS: The issue is whether this money comes to a local government only through generosity of state government or whether it is a free option to be exercised by local people.

CHAIRMAN McBRIDE: What do you see as the distinction between HOUSE BILL 910 and HOUSE BILL 600?

REP. SANDS: The assistance to local government can come only through the generosity of state government and I think that is what you have with HOUSE BILL 600 and 418. With HOUSE BILL 910, you have returned taxing authority to local government. They can raise their own revenues if they want. I think that is the direction that HOUSE BILL 910 leads us towards. I don't think that HOUSE BILL 600 and 418 have that same impetus. We heard from local government

that they are tied to the property tax and that in urban areas, there is a substantial amount of income that is not tied to property taxes. So when you tie their revenue sources to property taxes, you are, in fact, discriminating against them. What HB 910 says--if that is where the source of your wealth lies--if we return to you the authority to have access to that wealth, that is all we should give you. That is true local control.

REP. HAND: Would REP. BERTELSEN share his thoughts on this?

REP. BERTELSEN: I am having some real problems. I do like the incentive to pull people into utilizing the income tax option.

REP. KADAS: The biggest fear I have is with the block grant program, we are going to set up a new state bureaucracy if we set it through the severance tax and we are going to come back here next session and add an inflation factor to it. The other point--in taking it to the Appropriations Committee, I don't see why we can't explain that we think this is a better way to go.

CHAIRMAN MCBRIDE: If you divide local governments so one is coming in for one and the other is coming in for another, we will lose both. I can give you some of my own assessments and it has to do with how the bills came about to be rather than if one is better than the other. Most of local governments appear to be behind HB 600 and 418. They were involved in its creation. If we are going to do something for local government, it has to be with their cooperation, their input, and their own compromise.

REP. HAND: Moved to TABLE HOUSE BILL 910.

REP. KADAS: Would it be out of order to ask our two local government representatives to stand up and tell us what they think of the alternatives.

ALEC HANSEN, representing Montana League of Cities and Towns, said he had been working on HB 600 since last July and some of the features of HB 600 are incorporated in HB 910. The real question is the source of money. People that he has talked to and the Board of Directors of the League are on record in support of HB 600. The position of the League of Cities and Towns would be to support HB 600 and 418 and also support HB 793 as a combined measure to make those local option taxes available

down the road.

REP. BERTELSEN: There are some features in HB 910--even if we go with the other bills this session--this bill should be revised.

MIKE STEPHEN, Montana Association of Counties, said they have been behind HB 600 since last summer. He spent two and one-half months helping with League of Cities and Towns developing our formula and analyzing what it would do for us. What we are all alluding to--is there enough money to fund it? It is not whether it is good or bad--it is strictly dollars. Our property tax system is failing. When we look at REP. BERTELSEN's bill, it has some features in there which gives us some flexibility and it also has some features which provide additional taxing authority. If HB 910 goes through, we are admitting that local governments need something more than the property tax base to support themselves. If the Legislature is not going to keep property taxes in place and keep it healthy, we need something like HB 910 to help us out.

GEORGE BOUSLIMAN, Urban Coalition, stated that all three organizations have been meeting with this Committee for two and one-half months. We are asking for two things--real money and the option to impose local option taxes. It can be done through HB 910 or HB 600 and 418. My organization is more wedded to HB 600 and 418. To a degree, it appears that this discussion could be academic. It doesn't look like there is much money available for local government.

REP. SWITZER: Would you gentlemen, Alec Hansen and Mike Stephen, address the same subject that Mr. Bousliman did. Do you think there is money available?

ALEC HANSEN: Under HB 600 and 418, the oil price would have to settle at a certain level to allow that to fund the replacement of motor vehicle taxes. The estimated cost for accomplishing that purpose is \$31 million. For example, if the price of oil is \$26.50 and 2% is earmarked for local governments, that would raise \$31.4 million. It would replace vehicle taxes with a margin of \$400,000. What we are attempting to do here is supplement the oil severance with some General Fund money at the level of \$3 million per year. At \$26.50 with \$3 million per year, you would have a block grant program that would be worth \$3.2 million per year. HB 910 does pretty much the same kind of thing. It earmarks a certain amount of the personal income tax to replace the motor vehicles. I am completely aware of the

financial problems. I would hope you can't allow local governments to lose that \$31 million, or even part of it. It has to be there. Without that money, you would precipitate a real financial crisis in local government. Hopefully, under either of these bills, there would be a way to provide some additional funding to give some meaning to the term "block grant". The other issue--if HB 600 is passed and 2% of the oil severance tax is earmarked and the oil price recovers, there could be some additional money for local government. Regarding HB 910, if income grows and the amount that is earmarked exceeds \$31 million, there should be some additional money for local government. Our feeling is the growth potential in the oil tax is higher and that is why we support HB 600 and 418.

MIKE STEPHEN said in looking at the government block grant proposal, if we are looking at money up and above the \$31 million for the vehicle fee reimbursement, that is somewhat essential in helping us make up for some of the property tax loss we have incurred in the last couple of years. The lack of tax evaluation we lost through vehicle fees--the \$31 million is essential for keeping us alive. We cannot absorb that kind of a loss. If you are talking about the 2% that applies to vehicle reimbursement money, you are not really talking about block grant any more. It is in law right now that you will replenish the vehicle fee money. The question is--how will that be immediately funded? We hope it is 2% of the oil severance tax. Looking further on the needs of local government--to date, as far as the crunch of local government, we provided \$24 million to the support of state district court program. Another things that happens to us--it is very easy for the Legislature to help balance the budget by sliding things on the property tax. The issue here right now is giving us some money to help us provide and pay for these services that have been shoved off on us.

Question was called and the motion to TABLE HB 910 was voted on. The motion PASSED with REPS. SWITZER and SANDS voting no. REPS. PISTORIA and WALDRON voted yes by proxy.

The meeting adjourned at 2:45 p.m.

Kathleen McBride

CHAIRMAN KATHLEEN MCBRIDE

Geri Brust
Secretary

Amend House Bill 793 as follows:

APPROPRIATION -- ADOPTED FEBRUARY 20, 1983

1. Title, line 10.

Following: "MCA;"

Insert: "PROVIDING AN APPROPRIATION"

2. Page 10.

Following: line 24

Insert: "NEW SECTION. Section 20. Appropriation. There is appropriated \$37,000 from the general fund to the department of revenue for the biennium ending June 30, 1985, for the initial development costs of the local income tax program."

Renumber: subsequent section

PUBLIC UTILITIES

3. Page 4, line 16.

Following: "liability."

Insert: "Nothing in [sections 8 through 15] may be construed to permit a county to levy an income tax on a regulated public utility"

DEPARTMENT OF REVENUE

4. Page 4, line 13.

Following: "tax"

Insert: "as a percentage of the state income tax liability"

5. Page 5, line 17.

Following: "before"

Strike: "October"

Insert: "August"

6. Page 5, line 21.

Following: "any"

Strike: "fiscal"

Insert: "calendar"

7. Page 5, line 23.

Strike: "120"

Insert: "150"

8. Page 6.

Following: line 23

Insert: "(1) For the purposes of this section the term 'nonresident' means a person not maintaining a permanent place of residence in the county as the close of the tax year."

Renumber: subsequent subsections

9. Page 7, line 6.

Following: "the"

Strike: "nonresident"

Insert: "taxpayer"

10. Page 7, line 8.

Following: "tax, the"

Strike: "department shall credit"

Insert: "taxpayer shall pay"

11. Page 7, line 9.

Following: "total"

Strike: "net proceeds of the nonresident's"

Following: "to"

Insert: "be credited to"

12. Page 7, line 10.

Following: "business"

Strike: "and refund the"

13. Page 7, line 11.

Strike: "remainder to the taxpayer"

TECHNICAL AMENDMENT

1. Page 9, line 9.

Following: "The"

Strike: "registrar of motor vehicles"

Insert: "motor vehicle division, department of justice"

Amend HB 793
ELECTION ON IMPOSITION OF ALL TAXES

1. Page 4, line 18.
Strike: "local income"

2. Page 4, line 19.
Following: "by"
Strike: "[section"
Insert: "[sections"
Following: "8"
Insert: ", 16, and 17"

3. Page 5, line 8.
Following: "government"
Strike: "income tax"
Insert: "(insert name of tax)"

4. Page 5, line 9.
Following: "government"
Strike: "income tax"
Insert: "(insert name of tax)"

5. Page 9, line 14.
Following: "(1)"
Strike: "A"
Insert: "Pursuant to the provisions of [section 9] a"

6. Page 9, lines 4 through 6.
Following: "may" on line 4
Strike: everything through "resolution" on line 6

7. Page 10, line 4.
Following: line 3
Strike: "A"
Insert: "Pursuant to the provisions of [section 9] a"

8. Page 10, lines 4 through 6.
Following: "may" on line 4
Strike: everything through "resolution" on line 6

STATE OF MONTANA

REQUEST NO. 420-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 16, 19 83, there is hereby submitted a Fiscal Note for House Bill 793 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). 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 793 provides for optional local government taxes; authorizes a 55-mill all-purpose levy for counties, a local government income tax not to exceed 20% of state income tax liabilities to be established countywide after approval by the electorate, a local government motor vehicle license fee, and a hotel or motel room tax; and provides an effective date.

FISCAL IMPACT:

- 1) 55-Mill All-Purpose Property Tax Levy for Counties: No state impact.
- 2) Local Government Income Tax: Administrative expenses to be deducted by Department of Revenue from payments made to local governments. Expenditures in FY84 would total \$77,000, and in FY85 would total \$40,000.
- 3) Local Government Motor Vehicle License Fee: No state impact.
- 4) Local Government Hotel or Motel Room Tax: No state impact.

EFFECT ON LOCAL GOVERNMENTS:

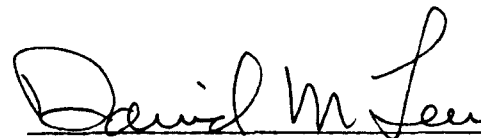
- 1) 55-Mill All-Purpose Property Tax Levy for Counties:

This provision should not have any fiscal impact, it merely gives counties more budgetary flexibility.

- 2) Local Government Income Tax:

The amount of revenue to be generated will be determined by the tax rate established by individual counties, as well as by the allocation of administrative costs incurred by the Department of Revenue for participating counties. If all counties imposed an income tax at the maximum allowable rate, then between \$31 million and \$33 million would be received annually by local governments statewide.

(Continued)



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-19-83

3) Local Government Motor Vehicle License Fee:

The amount of revenue to be generated will be determined by the size of fee established by counties and municipalities imposing such fees. If all local governments imposed a motor vehicle license fee at the maximum allowable rate then approximately \$10.5 million in gross revenue would be received annually.

4) Local Government Hotel or Motel Room Tax:

The amount of revenue to be generated will be determined by the tax rate established by local governments. If all nonresident hotel/motel expenditures were subjected to a tax at the 10% rate, approximately \$11.2 million in gross revenue would be produced annually.

TECHNICAL NOTE:

The amount which the Department may deduct to cover administrative costs for the local income tax is limited to 1% of the amount collected. It is quite possible that 1% of local income tax receipts may be less than the necessary administrative expenses, particularly if the participating counties are small in number and/or income.

FISCAL NOTE 16: B/2

HB 793