

MINUTES OF THE MEETING
APPROPRIATIONS COMMITTEE
50TH LEGISLATIVE SESSION

The meeting of the Appropriations Committee was called to order by Chairman Rep. Gene Donaldson on January 8, 1987, at 1:30 p.m. in Room 104 of the State Capitol.

ROLL CALL: All members were present except Rep. Winslow and Rep. Iverson who were absent and Rep. Peck who arrived late. Also present were Judy Rippingale, LFA and Denise Thompson, Secretary.

INITIATIVE 105:

Mr. Gary Buchanan, Co-chairman of the Montana Tax Reform Education Committee (MONTREC), presented information regarding Initiative 105 (Exhibit 1). He stated that the Montana Tax Reform Education Committee was a bipartisan committee constructed to address the problem of property taxes. He pointed out that I105 was not a legal document but a constructive and moderate document to solve solutions.

Mr. Buchanan said I105 is a message and a statement, a constructive and moderate approach to solving solutions. Mr. Buchanan stated there are four fundamental objectives:

1. Reduction of Government Expenditures. In this area, MONTREC feels government expenditures, especially in the elected officials area, need to be cut no matter how painful. Controlling expenditures is the first priority. The Legislature must deal with government consolidation in the state, county, city and university levels.

2. Substantive Property Tax Relief (4:A:9.30). MONTREC feels that the property tax issue should be solved in the legislature, not kicked back into the initiative process. He stated that he was encouraged to see that there were approximately 100 bills introduced dealing with this issue. Residences, commercial and personal property taxes are the areas of most concern. Mr. Buchanan stressed that MONTREC wants substantive changes, not cosmetic. He stated that Montana relies more on property tax than any other state.

3. Alternative Revenue. MONTREC feels that the Legislature needs to reverse and discontinue its practice of

balancing the budget on property taxes and find alternative methods to fund the cities, towns, and schools. He expressed his personal opinion saying he favored a sales tax.

4. Develop a Balanced Tax System. Mr. Buchanan stated the tax system is unbalanced and fundamental reform is needed in order to balance the tax system. He also stated that MONTREC supports the governor's Transition Task Force recommendation on tax reform from an economic development standpoint. He stressed that he felt paying property tax is a responsibility of everyone but alternative methods needed to be implemented also.

In concluding, Mr. Buchanan stated that something had to be done to lower the property tax, that this is the responsibility of the legislature, and that MONTREC would support any positive measures the legislature takes to try to rectify the problem.

Mr. Al Nicholson, (A:19.19) Board of Public Education had the following responses to the same four areas.

1. MONTREC doesn't expect across the board reductions in government expenditures, but are looking at what expenditures can be cut and if they need to be increased in other arenas, then increase taxes as necessary.

2. Substantive doesn't mean statewide you cut in total by \$5 million and say that \$5 million is a lot of money. Substantive means something more than a 1 percent cut; substantially more.

3. Legislature can tax production, consumption or income. Hopefully, we won't continue to increase taxes on production. Income taxes are a very fair tax and he believes in income taxes but there is a limit. He stated that the unanimous opinion of his group is that the legislature should not leave this type of tax decisions to the people, but should make a commitment.

Rep. Peck arrived at the meeting.

Curt Nichols stated that the staff of the Legislative Fiscal Analyst could answer questions about the property tax and the details. About \$900 million of the property tax base is affected in the classes that are capped or frozen under this procedure.

QUESTIONS:

Rep. Donaldson asked Mr. Cort Harrington who assisted in writing the initiative which classes were affected and not

affected by I105. Mr. Harrington stated that he was not sure if he could effectively address the question but it had started out basically with main street business and residences which is basically class 4. As the process went along, additional people asked other classes be included. He said he would have to look at Title 15 of the codes to determine exactly what was included in class four.

Mr. Buchanan elaborated on the answer by saying that the discussion among the MONTREC group was to concentrate on residences, main street business, and agriculture. The objective was to get as broad as possible and write something that would win.

Rep. Bardanouve asked Mr. Buchanan why didn't he initiate an initiative specifically addressing what he was concerned about. Mr. Buchanan stated that they were trying to take the approach that there needed to be full reform for taxes. This initiative mentions a fundamental problem, we over rely on property tax. The system needs total reform.

Rep. Menahan asked Mr. Buchanan what he meant by consolidation in the elected officials area. Mr. Buchanan stated that the best way MONTREC knows of to cut property tax costs is to control expenditures. One of the reasons we are in such a predicament is because we try to fund too much with too little. Rep. Menahan asked if the legislature were to equalize taxes in the county such as the teachers retirement system, would this prevent the state government from equalizing by raising one and lowering another? Mr. Harrington answered by saying you can't raise one and lower another. You can lower it all you want but you can't equalize it by raising and lowering.

Rep. Donaldson clarified by using an example. We are going to have some revenue from the lottery, how much we don't know. It is earmarked for the Teacher's Retirement Program which should reduce property tax by that amount. That in effect is what you call within MONTREC's interpretation of I105, but if we were to put a statewide levy on to do the same thing, to equalize it, that would not fall within the confines of I105? Mr. Harrington stated that was correct.

Rep. Quilici asked what happens with local governments and school districts if these revenues are frozen at the 86 level, a local option tax would help, but what assurance do these local governments and school districts have that the people in their respective communities are going to vote for that. Mr. Buchanan stated none, and that wasn't the purpose of the initiative to assure them anything. The legislature has to consider that and MONTREC needs to consider that now.

Mr. Buchanan stated that there are some problems with the initiative and that MONTREC would work with the legislature to try to correct them.

Rep. Spaeth expressed his concern with MONTREC sending this message to the legislature to DO SOMETHING , we have 100 tax bills coming in, he wanted to know a little more about the specifics, such as which bills does MONTREC recommend on them, he offered some drafting requests he had available to Mr. Buchanan in order for him to draft bills that would encompass the message he was trying to send. Mr. Buchanan again stated the message is very simple, cut or lower property taxes.


(B:18.00) Rep. Spaeth asked Mr. Buchanan which bills, specifically he liked. Mr. Buchanan stated he liked the Sales Tax, to relieve the mandatory levies on higher ed and local ed, I would add some distribution back to local government and I would make at least half of it for direct relief. Some others in the MONTREC support the income tax surcharge, local option tax or an income tax.

Rep. Marks asked Mr. Buchanan if MONTREC would support legislation which was passed when an initiative action was taken up against it in the future. Mr. Buchanan stated yes, they would be supportive of the legislature's action if they lower property taxes and give the local governments alternative revenues.

Rep. Bradley asked about the referendum route such as sales tax to replace property tax, we could go by instituting some kind of a sales tax dollar for dollar to relieve property taxes, we could institute it first and then have it go to a referendum later. Or we could just have the entire proposal go to the referendum later. If we waited and did not institute it, does the fact that we didn't act trigger the freeze. Mr. Buchanan stated yes, on July 31. If it was instituted and then voted down, would that trigger the freeze? Mr. Buchanan stated yes.

Rep. Switzer asked about the Montana Forward Group which has a bill to reduce the class 4 to class 2 and condense classes, is that group working with MONTREC? Mr. Buchanan stated yes they were and they were in favor of Montana Forward's proposal.

There being no further business, the meeting was adjourned.


Rep. Gene Donaldson
Chairman

DAILY ROLL CALL

APPROPRIATIONS

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 1-8-87

NAME	PRESENT	ABSENT	EXCUSED
DONALDSON, GENE (Chairman)	✓		
THOFT, BOB (Vice Chairman)	✓		
WINSLOW, CAL (Vice Chairman)		✓	
BARDANOUE, FRANCIS	✓		
BRADLEY, DOROTHY	✓		
CONNELY, MARY ELLEN	✓		
DEVLIN, GERRY	✓		
IVERSON, DENNIS		✓	
MANUEL, REX		✓	
MENAHAN, WILLIAM "RED"	✓		
MENKE, LARRY	✓		
MILLER, RON	✓		
NATHE, DENNIS	✓		
PECK, RAY	✓		
POULSEN, HAROLD	✓		
QUILICI, JOE	✓		
REHBERG, DENNIS	✓		
SPAETH, GARY	✓		
SWIFT, BERNIE	✓		
SWITZER, DEAN	✓		

MON

1-8-87

MONTANA TAX REFORM EDUCATION COMMITTEE

TREC

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FOR RELEASE

FOR FURTHER INFORMATION CALL
GARY BUCHANAN AT 1-800-332-7157

THE MESSAGE OF I-105
by Gary Buchanan, MONTREC Co-Chairman

The Montana Tax Reform Education Committee was formed over a year ago to promote debate and reform of Montana's tax and revenue system. MONTREC was formed in part because of Legislative inaction on the tough issues of taxes and government expenditures.

When we started, tax reform was not at the top of the political agenda. It now is, thanks to our own I-105 and the near passage of CI-27. It is also at the top of the agenda because of now widespread realization that the status quo does not work and major changes are in order.

Some people are asking "what's the message behind I-105?" As the sponsors, we thought we would restate our fundamental theme and objectives:

- I. Reduction of Government Expenditures
- II. Substantive Property Tax Relief
- III. Alternative Revenue Sources to Replace Property Taxes
- IV. The Development of a Balanced Tax System

I. Reduction of Government Expenditures

Montana has an overbuilt, over administered, governmental system. Our declining population of 826,000 people is about the same size as an intermediate sized American city, but look at what we attempt to support: Fifty-six counties, 127 cities, 19 judicial districts, 6, separate universities and a community college system, (with declining enrollments). Just at the county level, we pay for over 600 elected officials. We've built a service structure too large for our revenue base and it's time to fix it. The Legislature must deal with government consolidation at the state, county, city and university levels. Controlling expenditures must remain the highest priority.

II. Substantive Property Tax Relief

The Legislature clearly must deal with the property tax rebellion. CI-27 and I-105 were just two symptoms of a tax system that is flawed and not working. The reappraisal system is a debacle and aggravated the current situation further. A revised CI-27 will pass the next time around if the Legislature does not act. Legislative proposals to duck issues and send them back to the initiative or referendum process are an abdication of responsibility and merely "political ping pong". We elect and pay legislators to act and now is the time to solve these severe problems during the 1987 session. I-105 will freeze taxes in certain classes only if the Legislature does not act to lower them. A cosmetic response will only backfire. MONTREC will, in fact, support application of property tax relief by the Legislature to additional classes.

III. Alternative Revenue

We think the Legislative history in support of local governments is dismal. As the League of Cities & Towns said in 1985, "There is a basic structural problem in Montana's method of financing local government and education. Heavy spending requirements are loaded on a narrow property tax base and the entire system is out of balance and riddled with inequities".

The 1987 Legislature must reverse and discontinue its practice of balancing the budget crisis on the backs of local government. Local government must be given meaningful, not cosmetic, revenue alternatives to the property tax.

IV. The Development of a Balanced Tax System

The lack of balance of Montana's tax system was made clear by the Advisory Council's Intergovernmental Relations September 1985 Study. Montana was ranked 46th in the study's "final report card", 43rd in business climate and 47th or nearly last in "balance" of our tax system. We are concerned with the lack of balance and our over-reliance on residential and business property taxes to fund public services. We applaud the Montana Forward Study and agree with their concern regarding "personal property taxes". We also support the Governor's Transition Task Force recommendation on tax reform from an economic development standpoint.

CONCLUSION

Study after study points to the problem. Our tax system is not only out of balance and often negative for business and economic development, but in 1986 does not raise the necessary revenue for fundamental public services. Fundamental tax reform is essential, not bandages, tourniquets and compresses like the actions of the last Special Session. The 1987 Legislature must act on its own because that's why we elect Senators and House members. Legislative actions to duck the issue and simply refer solutions back to the initiative process are unacceptable. That's what I-105 is about. It is a purposely general yet firm and constructive message to prompt the Legislature toward leadership.

VISITOR'S REGISTER

Appropriations

COMMITTEE

BILL(S) I 105

DATE _____

SPONSOR(S) _____

NAME	REPRESENTING	BILL NO.	SUP-PORT	OP-POSE
<i>Yvonne Morris</i>	<i>MA Co.</i>			
<i>Red Gibson</i>	<i>"</i>			
<i>Karen Hawkins</i>	<i>"</i>			
<i>John Courtney</i>	<i>MT CO. TREASURERS</i>			
<i>Cort HARRINGTON</i>	<i>SAE MONTREAL</i>			
<i>Gary Buchanan</i>	<i>MONTREAL</i>			
<i>[Signature]</i>	<i>MONTREAL</i>			

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR VISITOR'S STATEMENT
 IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY



Ex 2
1-8-87

1986 Voter Information Pamphlet

Introduction

On November 4, you will have the opportunity to vote on seven state ballot issues along with the federal, state and local offices which will appear on your general election ballot. This pamphlet contains information about each of the ballot issues. It is being sent to you, and all other registered voters of Montana, as required by law. It is printed to assist you in making informed decisions on these very important ballot questions.

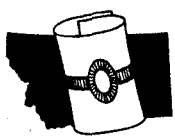
The first section contains just the basic information on each issue — including: the official ballot titles and explanatory statements for each issue as prepared by the Legislature and Attorney General; "How the issue will appear on the Ballot"; and the arguments "for" and "against" each issue as prepared by duly appointed committees of proponents and opponents. Then, the complete text of each measure is printed separately toward the end of the pamphlet.

As Secretary of State of the State of Montana, I certify that the text of each proposed issue, ballot title, explanatory statement, statement for and against, and the rebuttal statement which appears in this pamphlet is a true and correct copy of the original document filed in my office.



Jim Waltermire
Jim Waltermire
Secretary of State

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