

DAILY ROLL CALL

LOCAL GOVERNMENT

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 1/21/87

NAME	PRESENT	ABSENT	EXCUSED
REP. NORM WALLIN, CHAIRMAN	✓		
REP. RAY BRANDEWIE, VICE CHAIRMAN	✓		
REP. BUDD GOULD	✓		
REP. REP. TIMOTHY WHALEN	✓		
REP. PAULA DARKO	✓		
REP. TOM BULGER		✓	
REP. JAN BROWN	✓		
REP. BOB GILBERT	✓		
REP. LARRY GRINDE	✓		
REP. WALTER SALES	✓		
REP. STELLA JEAN HANSEN	✓		
REP. PAUL PISTORIA	✓		
REP. ROBERT HOFFMAN	✓		
REP. LES KITSELMAN	✓		
REP. JACK RAMIREZ	✓		
REP. DAVE BROWN	✓		
REP. CAROLYN SQUIRES	✓		

MINUTES OF THE MEETING
LOCAL GOVERNMENT COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

January 21, 1987

The meeting of the Local Government Committee was called to order by Chairman Norm Wallin on January 21, 1987, at 1:00 p.m. in Room 312-F of the State Capitol.

ROLL CALL: All members were present with the exception of Rep. Tom Bulger who was absent. Lee Heiman, Committee Counsel from the Legislative Council was also present.

The Chairman stated to the Committee that the secretary, Jean Stephenson had elected to resign and introduced the new secretary, Vonnice Evans.

Chairman commented that the Montana Association of Counties (MACo) and the League of Cities and Towns asked to be heard to air some concerns they had. He called upon Gordon Morris to speak.

Gordon Morris. Executive Director of MACo, pointed out to the committee that MACo is a voluntary association made up of Montana counties. At the present, there are 54 member counties. There are 56 counties in Montana. The other two counties, Butte-Silver Bow and Deer Lodge-Anaconda are not currently members of MACo but do enjoy the privileges of the membership. They are members of the League of Cities and Towns. Mr. Morris stated they have a full compliment of county members at this time. In the past this has been a problem.

Previously handed out to the committee were copies of a Revenue Enhancement Committee Report and the Montana County Budget Report for FY 86-87. Mr. Morris shared the information with the members. These reports are attached to the minutes as Exhibit 1.

The Revenue Enhancement Report was prepared by committee members made up of prominent county commissioners across Montana. Mr. Morris stated they came up with a very good report which was taken to the MACo membership in Red Lodge at their June annual meeting. He pointed out that the process of committee investigation began at the end of the 49th Session. The recommendations of the report were adopted unanimously at this meeting. He encouraged the committee to look through these recommendations. Many of the things in terms of private sector concerns and concerns from other areas in Montana have to do with taxation. He stated the report really does make the point that local governments are going

through and experiencing belt tightening. As far as proponents of CI27 and I105, he stated they have been carrying the message to the Legislature.

Mr. Morris stated the FY 86-87 County Budget Report represents the single most comprehensive compilation of budget information having to do with counties. He said their format and figures are getting better every year. He said committee members could find out things about their own counties by taking a look at the report. One thing that stands out in contrast to the information made available from Montana Taxpayers Association is that approximately 50 percent of revenue to fund county governments comes from property taxes. Of all of the tax revenue, the property tax that funds county services represents approximately 98 percent. Something that does not appear on the record either in the Montax Report or in any other discussion of county budgeting is that counties have been impacted by a variety of different forces to which there is no control over. There is a list in the back of the Revenue Enhancement Report that lists cuts and some programs being eliminated. Adding up the dollar impacts of all those various programs, local governments are becoming the safety net for other programs being funded from other sources, both federal and state. He stated this point is made in the revenue report and the county budget report.

Mr. Morris said they have recently completed a survey of all counties in regards to protest taxes and delinquent taxes. Some counties are reporting delinquent taxes in the range of 55 percent. Hill County has reported delinquent taxes as a percentage of November's tax collections at 55 percent; Ravalli County 27 percent; Petroleum County 44 percent. He stated this was very disturbing and higher than anything seen in the past. Delinquency usually ranges between 7 and 8 percent. Cascade County is running at 8.8 percent; Yellowstone is at 12 percent.

This year all taxing jurisdictions (particularly counties) are being impacted by protests. In one protest situation alone, the state is looking at \$8 1/2 million. This protest is filed by Burlington Northern. The BPA litigation is currently tying up \$5.5 million in tax protests. Mr. Morris commented that they do not have a mechanism to cope with these protests and delinquencies with the budgets.

In closing, Mr. Morris stated that county governments in Montana are responsible governments and added that the new county commissioners are very promising. There are 54 legal

member counties right now, that constitutes 162 elected officials elected by the same base constituency as the legislators. He hopes the legislators would appreciate their efforts. He thanked the committee and said he looked forward to working with them.

Alec Hansen, League of City and Towns, stated that municipal governments are having severe financial problems. He stated they cannot handle these problems by themselves under current law.

For 1987 the cities are not asking for money but for the opportunity to try to solve their own problems. He said last session they had a bill which allowed the cities and towns to set up a self-insurance pool for liability. He said the legislature did grant the authority and the cities put together a liability insurance program which was the first in the U.S. funded by bonds. Mr. Hansen stated it was working very well. There are 80 cities in the program that are covered with rates that are competitive with the commercial market. He said more importantly the liability insurance is being provided that was not there before. There would be nothing worse than a city trying to operate with the enormous exposure they have without this insurance. Mr. Hansen stated they have proved, given the opportunity and necessary authority, that cities can manage their problems.

The financial problem in Montana with cities, counties, schools and possibly for the state relates to the excessive reliance on the property taxes. Cities have few alternatives to property tax for generating revenue. There are 45 states that have some type of local option tax for cities, counties or even schools. One of the primary objectives of the League of Cities and Towns is to get the legislature to approve a local option tax bill. Mr. Hansen stated they need this authority.

Another problem in Montana that has been talked about is the direct state assistance program. In Montana 5.5 percent of funds available to municipalities come from state government. The national average is 19.6 percent. Mr. Hansen stated they do not have local option authority; they receive an abnormally low percentage of state assistance and as a result rely heavily on property tax. He stated the property tax is not doing the job. The message was clear last fall from voters with Constitutional Initiative 27 coming within 8 percentage points of passing.

Last year cities and towns levied \$45 million in property taxes compared to \$39 million six years ago. Property taxes have been frozen under Initiative 105 of 1986 which means this

\$45 million will be available to cities and towns this year and each year down the road. The problem is the \$45 million was levied in the year when federal revenue sharing was still in effect. The \$7.2 million of federal revenue sharing that went to cities and towns subtracted from the \$45 million will put cities and towns back to the 1981 level.

Mr. Hansen said there is a list of bills this legislature to reduce property taxes. He said it would be very easy for the legislature to take the message from the people to go in and reduce property taxes. He said reducing property taxes with no replacement will force difficult decisions for layoffs and service cuts onto local government. Mr. Hansen hoped that this legislature could come up with a balance approach to address the problem of overdependence on property taxes and at the same time maintain adequate revenue for cities, counties and schools.

Mr. Hansen stated Montana ranks sixth in the nation in the cost of education; \$916 per capita. It ranks fifth in the cost of the highway program; \$323 per year per person. Cities provide essentially police and fire protection. The cost of police and fire protection ranks 39th in the nation; \$78 per capita per year compared to the national average of \$116. There are 11 states that spend less than Montana. Mr. Hansen thanked the committee.

DISCUSSION AND QUESTIONS: Rep. Pistoria asked Mr. Morris if he had a percentage of delinquent taxes for the whole state.

Mr. Morris responded that it was being put together and he would get that information to the committee. He said he did know that Cascade County reported figures of 8.8 percent which would be consistent with the average norm.

Rep. Gilbert asked on the recommendation that local governments be granted discretionary authority to implement local option taxes, who would pay for the payroll tax and how would the tax be collected?

Mr. Morris replied they have not thought through specifics of implementation of the local option taxes. There would be some administrative problems to work through. He stated the Governor's proposal which provides local option taxes has the Department of Revenue serving as the collector, working with local governments and returning the collections. He said that would be something to consider very seriously attached to any proposals.

Rep. Gilbert said Mr. Morris did not discuss whether the employee would pay all or part of the tax or if the employer would pay all or part of the payroll tax.

Mr. Morris said again he did not have specific recommendations as to either.

Rep. Brandewie asked if most of the income generated on the tax was in the town or city, how does the county come out? How would that income be distributed between city and county?

Mr. Morris stated that was the major problem. A careful look will have to be taken on that issue. The income tax proposal of the Governor did not indicate whether or not that income tax would be collected at the work place or residence. He stated he did not have the answer as to how local governments would come to grips with those questions only that other states have dealt with the problems and felt they are not insurmountable.

Mr. Hansen addressed the question from Rep. Brandewie by stating that there is a bill this session that would provide payroll tax. It provides for distribution. An example would be the City of Helena, where the tax would be collected at the place of employment and paid by the employee. People who live in town would pay the full amount and those out of town would pay half the rate. Kentucky has a unique system for payroll tax in that it is paid at the place of employment. Those living in town would get a credit on their property tax while those living out of town would not. He said this is a thinly disguised method for getting money into cities. Mr. Hansen thought the payroll tax was one reason why the legislature did not approve local option taxes last session. It would be a way for cities to tax people beyond the borders. He said he would be more than willing to delete payroll tax from the bill. He said there are other options that work better and are more needed. An example given was of West Yellowstone which collected \$1/2 million with a resort tax last year. The total cost of administration was for a clerk working half time on salary of \$10,000 or less. Mr. Hansen stated that local option taxes will work.

Chairman Wallin closed the discussion and thanked Mr. Gordon and Mr. Hansen for coming in.

DISPOSITION OF HOUSE BILL 99: Rep. Sales reviewed for the committee what is happening up in West Yellowstone with the resort tax. West Yellowstone has sold in sales and services close to \$17 million. They have raised \$1/2 million

on a 3 percent tax imposed on limited sales and services. Five percent of that (\$25,000) goes to establishments for administering the sales tax; another 5 percent goes for property tax relief. The community wants to put the money into badly needed improvements.

Rep. Hansen moved to DO PASS HB 99.

For the projects in West Yellowstone, they are talking of approximately \$6 million in bonding. Rep. Sales said that is more than the resort tax will take care of. There is \$1.6 million that they want to put into a water system that will be paid back by the users. This will require some pretty high rates. They want to put \$1/2 million into sidewalks but anticipate doing that by regular assessments which seems agreeable in the community. The rest will go for the storm sewer and street improvements and with these it will be approximately \$4 million. West Yellowstone is talking of 20 year bonds with 7 1/2 percent interest.

The underwriting limits placed on this project are being cooperated through Merrill Lynch and D. A. Davidson (DAD). The limits are 1.25 percent which is approximately \$400,000 available for principal interest on these bonds over a 20-year period.

Rep. Ramirez questioned leaving the limits to the underwriters or the bond buyers. He felt there should be limits placed in the law to tie it down. He stated he did not want to interfere with West Yellowstone's plans because he felt they were worthwhile projects. He said it would not be harmful but beneficial to put the limitation into the statute. People might not be as prudent as the legislature might want. The bond issue itself would provide for 125 percent limitation. In the absence of anything else, Rep. Ramirez said that could be put into the bill as a starting point for the limit. Experience might show this is not an adequate limit but it would be a starting point.

Rep. Ramirez moved to AMEND HB 99 by inserting on line 18, page 2, following the word "be", strike "sufficient" and insert "at least 125 percent of amount needed".

Rep. Sales said before discussion as to the merits of amending the bill or not he would ask Creg Jones of DAD to explain what this might do and also what type of amendment he might prefer.

Creg Jones, representing DAD, said in order to understand the issue, the type of law being dealt with needed to be defined. He agreed with all statements made thus far and felt Rep. Ramirez was correct in that limitations do need to be looked at carefully in regards to local government issuing debt. Mr. Jones stated there are different limitations placed on different types of municipal bonds. General obligation bonds have a limitation of 28 percent even though they are voted upon by the electorate of a taxing jurisdiction.

The bonds being discussed are not paid or secured by property valuation or pledge of credit in the community for their taxing power. It comes under a broad categorization of revenue bonds paid by a singular source of revenue, in this case the resort tax of West Yellowstone. He thought the concerns were because of considering legislation to govern not only West Yellowstone's resort tax but those able to assess a tax at a later time.

The reasoning with the bonds are the improvements which are deeply warranted by the municipality since the passage of the resolution enables them to issue the bonds. Mr. Jones said this is fairly loose with respect to most types of revenue bonds. This type of obligation would have greater limitations in that it is already limited to the 3 percent tax on goods and services defined in the Montana statute. This limits the amount of revenue which they can make available for payment on the bonds. He said the way legislation exists now it can be construed to be more conservative than are other statutes governing basic revenue bonds that municipalities currently are empowered to issue.

West Yellowstone currently is issuing bonds with a 125 percent rating. This means their net revenues have to equal 125 percent of the debt service that is paid annually. If the debt service is \$400,000 annually, they must collect at least \$500,000 in taxes, leaving a buffer for noncollection of taxes or other things that might come about.

Mr. Jones could not say if other municipalities issue bonds that would be the appropriate covenant for them to have. Most revenue bonds do bear the 1.25 recovery factor. Montana is lagging the national market a bit. Certain revenue bonds issued in larger municipalities are now being issued on a 1.1 to 1.15 factor. Mr. Jones stated they would not want to bond more aggressively in the available revenues. At

least for the first time, they could be more conservative than the 1.25. West Yellowstone does have the benefit of a year of collections to demonstrate to the market place that the tax can produce sufficient revenue necessary to repay the obligations. He believed the statute in itself would place reasonable limitations on the ability to meet the obligations and felt it sufficient in its existing form. If the committee does feel it necessary to amend the legislation as suggested by Rep. Ramirez, Mr. Jones proposed an amendment for HB 99 (Exhibit 2).

Rep. Sales commented that Mr. Lewis Robinson, a businessman from West Yellowstone was present to answer questions.

Rep. Brandewie stated that with the local option taxes there is nothing to say this session or the next cannot change the resort tax. There is no guarantee that the bill will stay. He felt if somehow revenues brought in from the tax were lost it would leave West Yellowstone in a real bind. Rep. Brandewie wanted this to be considered.

Rep. Sales understood and stated it was a real concern of the communities on the local option taxes. He felt that the resort tax should stand alone and hoped it would get through the session.

Rep. Ramirez WITHDREW his motion to AMEND HB 99.

Rep. Ramirez asked Mr. Jones what would happen if there was a more aggressive interest rate and the sales tax revenue goes down. If a city cannot meet their obligations or there is a default on the bonds, what are the short-term and long-term consequences?

Mr. Jones responded there is a correlation between the covenants in a bond transaction and the interest rates the bonds will bear. In terms of getting more aggressive with the rate covenant, at this time they cannot issue additional bonds or secure bonds beyond this point to make payment. Presumably a careful analysis would have to be done and more aggressive posture adopted if there were historical revenues, figures available from the municipality showing a healthy trend and resiliency in down times to generate those revenues. Currently, Mr. Jones said the 1.25 would be as aggressive as they would be willing to go on a bond of this nature.

If sales taxes or the resort taxes were down in a certain year and could not generate sufficient funds to make payments on bonds, a debt service reserve fund would be set up. The reserve fund is funded immediately from bond proceeds and used solely for the purpose of making payment on the bonds in the event an insufficiency occurs. The cost of the reserve fund is not much since it is available for reinvestments and Mr. Jones believed it helped lower the interest rate. He said assuming that revenues were insufficient, the extent of 10 percent in that reserve fund would last ten years before being completely depleted.

Rep. Ramirez questioned what would happen if revenues were down 25 to 35 percent and the reserve fund was inadequate?

Mr. Jones stated he could not answer that question. He said they were thankful they did not have that experience in Montana as far as defaults. He said short-term effects would be that the municipality would have a difficult time issuing debt, more than likely, for all types of bonds but in particular that type of bond. It would impact the credit rating for some period of time. He did not know how long.

Rep. Hansen asked if the 125 percent was not put in the bill then when the bonds were issued wouldn't DAD put a limit on them and if by putting the limit into the statutes are other communities being limited from that kind of bonding capacity?

Mr. Jones said they would not be limited. He said that discussions to date involve a rate covenant of 125 percent and at least currently then that would not impact West Yellowstone's ability at all to issue these bonds. He said it is difficult to see down the road what other municipalities would require. Currently, no one else is coming into the market to impact these bonds.

Rep. Ramirez moved to AMEND HB 99 with the proposed amendment from Mr. Jones (Exhibit 2). Rep. Pistoria seconded the motion.

Rep. Ramirez spoke to the amendment. He stated it was a 125 percent amendment and takes into account the amount required to reduce property tax pursuant to 7-6-4467. He said it was a matter of personal philosophy and there is great incentive to bond to the maximum. There have not been any municipal defaults except the Columbia Falls

situation. The bonds for West Yellowstone are not typical types of revenue bonds. Revenue bonds have a source of nontax revenue. He said West Yellowstone has had one year's experience in this and maybe the tourism base will be strong. He thought it prudent for the legislature to be conservative in its approach to indebtedness for local governments. If the limitations proved to be too restrictive they could be changed.

Rep. Wallin asked Mr. Robinson with the bonds being for 20 years if there was enough money available under this limitation of time and with the size of the payments to be made could it be done in 20 years?

Mr. Robinson responded yes and it was quite possible that if revenues increased and they wanted to prepay that it could be paid off sooner. If the tax collections went up to \$750,000 over a period of years that amount could be used to prepay the bonds.

Rep. Wallin asked if the payments would be \$400,000 a year?

Mr. Robinson responded yes. The current income as of Dec. 31 was \$505,000 and the 125 percent covenant is approximately \$401,250 which would be applied to the bonds. He added they have a historical record through bank records of the past 15 years that indicate a fairly level increase of about 2 percent per year as to what revenues would have been if the 3 percent tax was enacted on the currently taxed items for that period of time.

Rep. Wallin commented that they would bond on the resort tax income but they would also have a program for a water system through user fees. He asked how much would be asked in the amount of bonds they would sell?

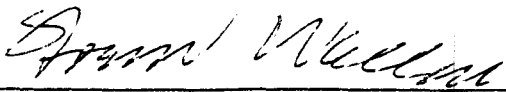
Mr. Robinson replied approximately \$4 million of the bond amount that DAD and Merrill Lynch would sell and approximately \$1 1/2 million of user revenue from the water. He said they did not have a central water in West Yellowstone and wanted to put it in ahead of doing \$3 million worth of streets.

Rep. Sales stated he was in support of the amendment because of the reasonable limits contained.

The question was called. Rep. Hansen's motion to DO PASS HB 99 AS AMENDED passed with Rep. Pistoria voting no.

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There being no further business to come before the committee,
the meeting was adjourned at 2:15 p.m.



Chairman Norm Wallin

98 #1 1-21-87
HD

MONTANA ASSOCIATION OF COUNTIES

1802 11th Avenue
Helena, Montana 59601
(406) 442-5209

January 14, 1987

Norm Wallin, Chair
Members, House Local Government Committee

I welcome this opportunity to share "a local government perspective" on the State of the State. I have made available MACo's "Revenue Enhancement Committee Report" and The Montana County Budget Report. I don't wish to take up your valuable time by dwelling at length on county budgets.

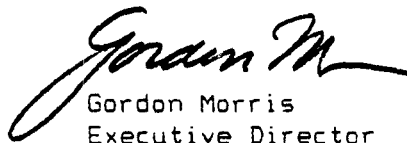
Instead, I would like to focus on the Revenue Enhancement committee's recommendations as identified in the report. I feel the report correctly and succinctly identifies the salient points in county finance.

In addition, I would like to comment on taxable value projections. Looking at the Governor's budget one critical factor stands out, but is seldom perceived: taxable value in Montana is expected to decline by over \$300 million dollars in the coming biennium. This loss is entirely within Class 1 and Class 2 properties -- net and gross proceeds. The impact will be felt in the following fashion:

	CURRENT	FY 88	FY 89
University Mill levy	14,453,418	11,983,158	12,147,966
School Foundation Prog.	108,400,635	89,873,685	91,109,745
Co. Average @ 51 mills	122,854,053	101,856,843	103,257,711

I find those members terribly disturbing as they pertain to CI-27 and I-105. I would close at this point and again thank the Committee members for this opportunity to appear before you.

Sincerely,


Gordon Morris
Executive Director

GM/mrp
Enclosures

MACo

MONTANA ASSOCIATION OF COUNTIES

DATE 1-21-87

HB

1802 11th Avenue
Helena, Montana 59601
(406) 442-5209

REVENUE ENHANCEMENT COMMITTEE

The Montana Association of Counties Revenue Enhancement Committee submits the following in response to the call of MACo President Bob Mullen. The Committee has met, engaged in intensive analysis, and does hereby transmit this report to the full membership of MACo at the Annual Meeting in Red Lodge June 15 through 18.

The committee respectfully requests acceptance of the report and recommendations as submitted. The recommendations if adopted in whole or part will be prepared in appropriate legislative fashion by the MACo staff and the MACo Resolutions/Legislative Committee.

Committee Members are:

Marie McAlear, MACo Chair	Thomas A. Beck	Fritz Tossberg
Bob Mullen, MACo Pres.	Malcolm McRae	Jim Campbell
Bernt F. Ward	Howard Schwartz	Jerry Thomas
Ed Blackman	Greg Jackson	

Section I.

Property tax has been the subject of study and analysis by various groups such as the Governor of the state and the voter review groups. One of the most important single conclusions emerging from all studies is that Montana local governments, in this case counties, are facing increased difficulties in generating sufficient revenues to finance and deliver current services. In the past several years counties have been forced to increase the utilization of the property tax significantly. This is perhaps best demonstrated by the fact that an increasing number of counties have reached or are close to reaching the maximum mill levy authority set forth in state statutes. This fact is demonstrated by the increasing number of "other levies" being added to the property tax bills as counties struggle to levy separately for costs associated with services that would have been provided through a general fund levy at one time. For example, the number of counties that are levying for insurance purposes has significantly increased in the past two years. Likewise, counties now levying for personnel related fringe benefits outside of the general fund have also increased in number.

- o In FY'86, 33 counties are: either at the maximum; over the maximum; or within 1 mill of the maximum, allowable levy for General Fund purposes.

MACo

- X
- o In FY'86, 38 counties are: either at the maximum; over the maximum; or within 1 mill of the maximum, allowable levy for county road fund purposes.

These are only indicative of the problem created as the property tax base shrinks relative to the expansion of the costs of providing services as measured by the consumer price index.

COMPARISON OF TAXABLE VALUE TO US CPI, 1975-84 (1)

FISCAL YEAR	MARKET VALUE	TAXABLE VALUE	% CHANGE IN T.V.	US CPI 1967 = 100	% CHANGE IN CPI
1975-76	4,374,050,185	1,350,774,330		161.3	9.21
1976-77	4,778,405,162	1,391,935,128	3.04	170.5	5.70
1977-78	5,105,825,552	1,466,743,754	5.39	181.6	6.51
1978-79	13,103,720,390	1,568,285,437	6.96	195.4	7.60
1979-80	13,741,816,793	1,621,951,970	3.38	217.5	11.31
1980-81	15,128,059,224	1,845,008,937	13.82	246.8	13.47
1981-82	15,871,971,762	2,020,630,740	9.49	272.3	10.33
1982-83	15,952,480,208	2,204,492,144	9.11	289.1	6.17
1983-84	15,796,592,579	2,233,374,651	1.32	298.3	3.18

TOTAL PERCENT INCREASE IN CPI = 84.93%

TOTAL PERCENT INCREASE IN TAXABLE VALUE = 65.41%

(1) SOURCE: "Report of the State Department of Revenue"

At the same time property tax revenues have decreased as property has been identified for removal from the tax rolls or the valuation for tax purposes has been reduced. It should be noted at this time that one of the few remaining stable categories of property tax revenues is land and residential property. The future prospects of increased taxable value would appear uncertain, particularly in light of continued pressure to provide a strong economic development base, with consideration for the role that property taxes play in the analysis of economic growth and development.

Legislative action during the 1985 session further clouds taxable value concerns. There is a potential for further losses in taxable value resulting from reappraisal. The committee recognizes the dilemma associated with property tax reappraisal and believes that the prospect of inequities is real and efforts should be made to avoid increasing the property tax burden on those people least able to pay.

Section II.

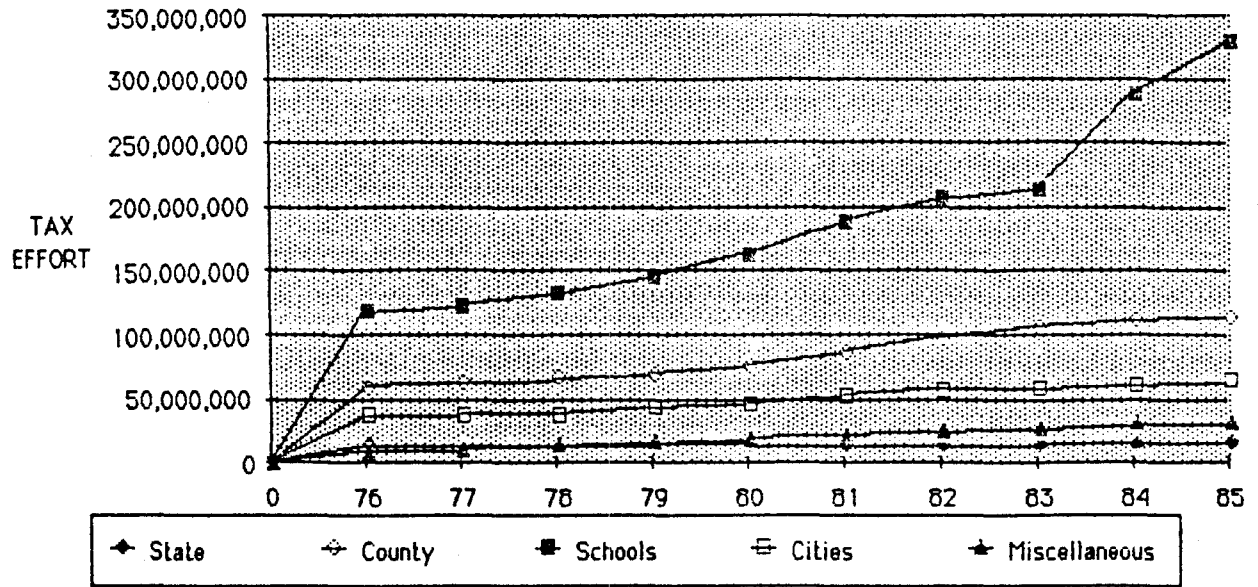
In attempting to make comparisons between property tax revenue generated in the state of Montana and the individual income tax several things can be noted. Using data found in the Montana Executive Budget 1986-87 it has been determined that income tax collections in the years 1983-1987 run \$150 million in '83, \$170 million in '84, and beginning in '85 projected revenues of \$182 million, '86 \$195 million and in '87 \$204 million. The projections contained in the Executive Budget note that income tax forecasts are based on the assumption of moderate growth in total personal income and employment. The property tax comparisons should be made on the basis of the years 1983 and 84. In 1983 total taxable value for the entire state of Montana was at \$2.23 billion dollars with property tax revenues coming to a grand total of \$505 million dollars. In 1984 the taxable value statewide was \$2.3 billion dollars with property tax revenues generated in the amount of \$554 million dollars. One can conclude that the state's reliance on the property taxes is minimal, while local governments are virtually totally dependent upon property tax revenues and the reliance factor on property taxes in Montana is substantially higher than the national average.

PROPERTY TAX COMPARISONS TO INCOME TAX

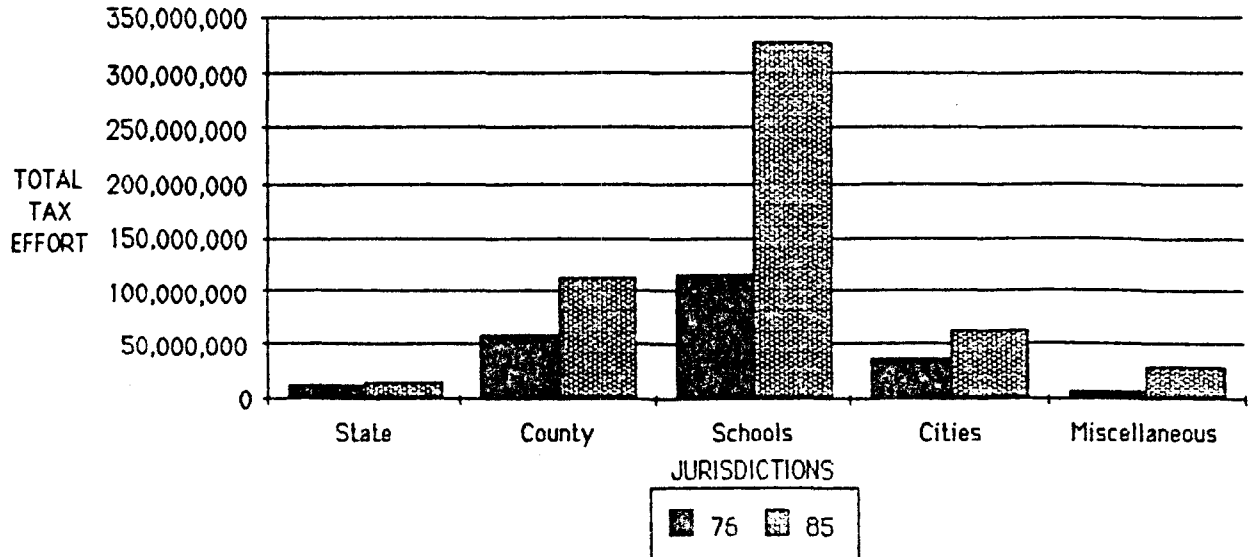
	INCOME TAX COLLECTIONS	PROPERTY TAX COLLECTIONS
'76	\$ 98,249.725	\$280,418,622
'83	\$150,000,000	\$505,000,000
'84	\$170,000,000	\$554,000,000
'85	\$181,057,160.	\$580,000,000*
*10 year increase %	84.7	107.1
'86	\$195,000,000*	\$625,000,000*
'87	\$204,000,000*	\$680,000,000*

* PROJECTIONS RATHER THAN ACTUALS.

MONTANA PROPERTY TAXES BY JURISDICTION 1976-1985



MONTANA PROPERTY TAXES BY JURISDICTION FISCAL YEARS 1975-76 AND 1984-85



In 1983, property taxes, as a percent of total local revenue collections in Montana was 95.9%. This compares to the national average of 76.6 and the Rocky Mountain regional average of 77.3.

RECOMMENDATIONS

Any method this state uses to generate revenue directly affects local governments. State budget shortfalls can not be made up by passing costs of programs to local governments and their taxpayers. We expect the state to honor their existing commitments to local government.

In order to maintain mandated or required levels of services the committee recommends establishing a stable and diverse alternative tax source with a potential for reducing and/or replacing property taxes.

"Required services" are defined as those services currently provided throughout the state which are funded by property tax collections.

The committee recognizes that statewide taxable value has increased primarily as a result of the growth in centrally assessed property in the past 10 years. This does not adequately represent the deteriorating situation in the majority of counties in the state of Montana.

The committee recognizes that local governments must have the ability to find additional revenues to support services which in many cases are currently being provided on a bare bones basis.

The committee acknowledges that one alternative to establishing other revenue sources is to cut services. We do not recommend cutting services but understand that this is an alternative.

Section III.

In endeavoring to analyze the status of fees and/or service charges associated with courthouse services provided to the general public it is necessary to understand current Montana statutes. The authority for counties to provide the services associated with public safety, public works, recording services and other assumed responsibilities of the county are scattered throughout the codes. The laws authorizing local governments to provide services as enacted in the past were not developed in a uniform and consistent fashion. The authorization to provide a particular service was usually granted without any conscious recognition of the original intention of the law and the costs of the service to be provided.

It should be noted that the issue of fees and/or service charge should be viewed as an expense upon the user of the service generally by a fee or service charge levied when the service can be measured and provided in identifiable units while the user also can be identified. The rationale behind service charges is that certain

services are primarily for the benefit of individuals rather than the general public and hence should not be an expense against the general public or therefore supported by the property tax. The individual directly benefiting from the service should pay the cost of that service. Service charges and fees do differ from licensing and permitting requirements in that these are designed to reimburse the county for costs related to its regulatory responsibilities. Service charges are assumed to be imposed to support an identifiable service to individuals.

The dilemma insofar as existing law is concerned is that some services are being provided and financed by county wide property taxes while all the property taxpayers do not actually receive or benefit from those services. An attempt needs to be made to identify more accurately those services which are currently provided at property tax expense when in fact they should be supported by individual assessments. Current fees for services are a functional responsibility of the state legislature. Where counties are collecting a fee usually through the Clerk and Recorders office, those fees are being set by the legislature. Prior to the '85 legislative session, MACo did propose the establishment of a local government fee board with the independent authority to establish fees currently set in the statutes.

One might compare the fees identified for collection within the current statute against a rather broad and general list of service areas where fees might be utilized. It should be noted that local autonomy may be a factor in the ultimate analysis of fee scheduling. The areas that might be identified in terms of having a potential for generating service fees within the counties would include 1) cultural and recreational facilities; 2) special safety services; 3) special public works services; 4) general governmental/miscellaneous. There may be other sectors that could be identified as having a potential for generating service charges where none are currently being generated but yet a service is being provided. A case by case analysis could be made or blanket authority for fee assessments could be granted.

RECOMMENDATION

The committee recommends that consideration be made to support legislation that would:

Allow for local government discretion in the setting of fees for services.

Grant broad local fee authority to local governments.

Grant the local discretionary authority for the implementation of additional varieties of fees to be assessed.

Section IV.

Other State and/or local taxes utilized throughout the United States vary considerably. If they were all identified the list would virtually be endless. Instead one might analyze some of the major state and local taxing authorities used throughout the country other than property and income taxes as we know and love in Montana.

1. State and/or Local option sales tax
2. Admission taxes
3. Real estate transfer/excise taxes
4. Gambling taxes
5. Parking taxes
6. Utility user taxes
7. Special police or fire service taxes
8. Business and occupational taxes
9. Hotel/Motel taxes
10. Payroll taxes
11. Restaurant
12. Luxury
13. Income

RECOMMENDATION

The committee recommends that local governments be granted discretionary authority to implement various local option taxes to offset local property tax revenues, the lack of federal revenues and decreases in state revenues. Such legislation should include consideration for:

1. hotel/motel taxes,
2. restaurant taxes,
3. luxury taxes,
4. payroll taxes,
5. motor vehicle fees,
6. sales taxes,
7. Entertainment taxes,
8. Income taxes
9. Etc.

The committee recommends that statewide alternative revenue sources be established to fund state revenue sharing programs for local governments. Such revenues may include statewide taxes imposed on:

1. Hotels/Motels
2. Restaurants
3. Luxuries
4. Sales Taxes
5. Entertainment establishments
6. Etc.

X

The committee recommends that a portion of any revenue from statewide tax effort or reform be shared with county government.

The committee recommends continued advocacy efforts in support of these beliefs in conjunction with other local government representative groups.

Section V.

The future for property tax reform is relatively limited if it is viewed without consideration for property tax relief or the generation of income from other sources. Disregarding that potential property tax reform would be limited to very few possibilities.

The major possibility for consideration and one which has been foremost in many minds since 1977 would be the establishment of county authorization for an all purpose levy. This would be used to replace or supplement current levy authority which has caps set by state law in the categories of the general fund, poor fund, roads, bridges, fairs, libraries, etc. Counties should be authorized the use of an "all purpose tax levy" as the sole method of raising revenues. The strongest argument for this type of approach is that it would simplify legislative oversight, increase local discretion in allocating scarce financial resources, and eliminate the cost of bookkeeping for separate funds. Greater flexibility could be granted through allowing counties to consolidate different types of levies at their discretion.

Another alternative would be to approach each of the current authorizations for property tax mill levies to seek to increase them to levels which would be more in line with current needs. The last time the levies were adjusted by the legislature occurred in 1973. Since 1977 there have been no increases on the caps in state law.

RECOMMENDATION

The committee recommends enabling legislation to support broad discretionary authority at the local level for an all purpose levy in lieu of various separate levies now authorized. Such an all purpose levy would allow Commissioners greater flexibility in managing county operations and achieve greater efficiency in the delivery of services and the cost associated with those services. All purpose levy authority, with an established cap, must be tied to generating additional revenue from other sources for county government.

Section VI - Block Grant Program

During the 1985 legislative session considerable attention was focused on the general purpose block grant program or state aid for local government. The attention was due to the increase in revenue necessary to continue to support the general purpose portion of the block grant or state motor vehicle reimbursements at the 100% level. In addition an effort was made to get the state statutes amended so as to eliminate the continuing distribution of block grant revenues on the basis of mill levies. This has the effect of reducing revenue to counties insofar as the levies for county purposes are fixed by law. By way of explanation this item, a legislative effort sponsored both by MACo and the League, would have amended the distribution of block grant revenues as they are set forth in statutes based upon the mill levies which means that the schools are the primary beneficiaries due to their continual increase in levies over prior years. This effort was unsuccessful.

At the same time attention was focused on perhaps the most important part of the block grant distribution. There are eight counties and jurisdictions therein that do not benefit from the distributions of revenues. This is based upon the assumption that on the flat fee basis of motor vehicle registrations in those counties were generating more revenue than they were in the prior period on an ad valorem tax basis. The section of state law 61-3-536 sets up a system wherein property taxes on cars and light trucks in the period January 1, 1981 through December 31, 1981 is used to determine future reimbursements. The license fee revenue generated by the ad valorem taxes in the same period was the amount equated with the revenue losses on a county-by-county basis that would be reimbursed by the state. The county revenue loss and other jurisdictional losses are translated into a loss per vehicle based on the number of vehicles in that year and the calculations then resulted in a loss per vehicle per county. That loss per vehicle per county has remained constant since the law was passed and has not changed.

The question that needs to be answered is, on a county-by-county basis, is whether or not the loss per vehicle has remained constant. It may fairly be predicted that the loss per vehicle on a county-by-county basis would in fact fluctuate relative to increasing or decreasing mill levies on the part of all the taxing jurisdictions within the county. The conclusion then would be that while a county might have been determined to have had a loss per vehicle based upon 1981 levies that loss per vehicle in 1985 may be substantially more or even perhaps substantially less. In the case of the non-recipient counties it becomes a question of whether or not their property taxes have increased to the point where on an ad valorem basis they would now be losing revenue in comparison to the flat fee motor vehicle registration system.

X

It would not be fair to predict the results that would arise from using a new figure relative to the comparative position on an ad valorem basis versus the flat fee system. The strongest recommendation should be made that the system needs to be revised so as to compensate all jurisdictions in an equitable fashion based upon the most recent statistics available. For example, the property taxes on cars and light trucks could be calculated in each successive fiscal year and used for purposes of comparing that to the current license fee revenue being generated in that same period. The figure could then be arrived at based upon what the county revenue loss or gain would be and hence new eligibility determinations on an annual basis for distribution of the block grant money. This would not require a major change in state law but would instead rest on the understanding that a weighted property tax average could be generated and used on a county-by-county basis and compared to the revenue currently being generated on a flat fee basis. Such a system could lead to substantial changes in the allocations of the block grant revenue in each successive year.

RECOMMENDATION

It is recommended that an alternative revenue source be identified for purposes of funding the local government block grant and district court funding. It is further recommended that motor vehicle fees be reserved as a local government revenue source with the fees being established uniformly as in the fashion currently provided in state law or by using 1) a weighted average mill levy if motor vehicles are to be put back on the tax rolls, or 2) using a uniform statewide percentage of depreciated value for assessing fees.

FEDERAL FISCAL PROPOSALS RESULTING IN REVENUE LOSSES TO COUNTIES

o Community Development Block Grant	- Cut Back
o Rural Development Loan Fund	- Eliminated
o Public Works	- Eliminated
o General Revenue Sharing	- Cut Back
o Section 8 Housing	- Cut Back
o Rent Rehabilitation-Housing Grant	- Cut Back
o Rural Housing Grants/Loans	- Severe Cut Back
o Job Training Programs (General)	- Cut Back
o Transportation Grants	- Cut Back
o Rural Water and Sewer Grants	- Eliminates
o Community Services Block Grant	- Eliminates
o Juvenile Justice Grants	- Eliminates
o Disaster and Emergency Operating Centers	- Eliminates
o Disaster Loans	- Eliminates
o Rural Community Fire Protection	- Eliminates

EXHIBIT 1

DATE 1-22-87

HB

MONTANA COUNTY BUDGET REPORT

FY 1986 - 1987

Compiled By The Montana Association of Counties
1802 11th Avenue, Helena, Montana 59601, 442-5209
\$25.00 PER COPY -- (FREE TO MEMBERS)

Amendment for H.B. 99

Amend H.B. 99 by adding the following sentence at the end of Section 1(3). Bonds shall not be issued pledging the resort tax unless the municipality in the resolution authorizing issuance of the bonds determines that the annual revenues expected to be derived from the resort tax, less the amount required to reduce property taxes pursuant to 7-6-4467 MCA, equal at least 125% of the average amount of principal and interest payable from the resort tax revenues on the bonds and any other outstanding bonds payable therefrom (excluding, however, any bonds to be refunded upon the issuance of the proposed bonds) in any fiscal year.

STANDING COMMITTEE REPORT

January 21

19 87

Mr. Speaker: We have committee on LOCAL GOVERNMENT

report HOUSE BILL 99

☒ do pass
☐ do not pass

☐ be concurred in
☐ be not concurred in

☒ as amended
☐ statement of intent attached

REP. NORM WALLIN

Chairman

1. Page 2, line 19.

Following: "due."

Insert: "Bonds may not be issued pledging proceeds of the resort tax for repayment unless the municipality in the resolution authorizing issuance of the bonds determines that in any fiscal year the annual revenues expected to be derived from the resort tax, less the amount required to reduce property taxes pursuant to 7-4-4467, equals at least 125% of the average amount of the principal and interest payable from the resort tax revenues on the bonds, and any other outstanding bonds payable from the resort tax except any bonds to be refunded upon the issuance of the proposed bonds."

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