

MINUTES OF THE MEETING
TAXATION COMMITTEE
HOUSE OF REPRESENTATIVES
50TH LEGISLATIVE SESSION

February 9, 1987

The meeting of the Taxation Committee was called to order by Chairman Ramirez, on February 9, 1987, at 9 a.m. in Room 312B of the State Capitol.

ROLL CALL: All members were present. Also present was Dave Bohyer, Researcher, Legislative Council.

CONSIDERATION OF HOUSE BILLS 288 AND 289: Rep. Paul Pistoria, House District #36, sponsor of HB 288, said the bill provides for a constitutional amendment devoting 5% of the coal tax to local governments. He explained that HB 289 allocates the funds to local governments, and read from statistics on distribution of general fund revenue from the coal tax (Exhibit #1). Rep. Pistoria stated that the proposed 5% in earmarked funds would come from the permanent trust fund.

Rep. Pistoria advised that the bill would not increase taxes, nor affect the permanent trust fund, or interest earned. He said HB 288 would put the constitutional amendment issue on the ballot in 1988 and, if passed, would be effective from July 1, 1989 through June 30, 1999.

PROPONENTS OF HOUSE BILLS 288 AND 289: Alec Hansen, Montana League of Cities and Towns, told the Committee that 5% of the coal tax would raise \$4 million for local governments, who are facing a \$20 million loss in the block grant program.

Lou Fontana, Cascade County Road Supervisor, stated his support of the bills.

Gordon Morris, Montana Association of Counties, said the bill appears to be good in concept, and that the issue should be submitted to voters.

OPPONENTS OF HOUSE BILLS 288 AND 289: Phil Campbell, Montana Education Association, said he opposed the bills, because MEA is opposed to getting into the coal trust fund.

QUESTIONS ON HOUSE BILLS 288 AND 289: Rep. Asay asked if there were no restrictions on use of funds, outlined in the bill. Rep. Pistoria replied that HB 289 explains implementation of funds.

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Rep. Ream asked Alec Hansen if he would support a bill to sunset this legislation in twelve years. Mr. Hansen replied he did not know.

Rep. Ream asked Rep. Pistoria if he thought a local government ballot was fair. Rep. Pistoria replied he did, and said the language met the satisfaction of the Legislative Council research staff.

CLOSING ON HOUSE BILLS 288 AND 289: Rep. Pistoria stated that he was angry at education for its overexpenditures, and nonsupport of local government issues.

CONSIDERATION OF HOUSE BILLS 270, 271, AND 272: Rep. Jack Ramirez, House District #87, sponsor of HB's 270, 271, and 272, said the bills were introduced last session as the Montana Infrastructure Trust, but died in the Senate. He added that there was an insufficient number of votes in the House to place the issue on a ballot.

Rep. Ramirez said HB 271 provides for a constitutional amendment to split the coal tax trust, by creating an infrastructure trust from 25% of coal tax receipts. He explained that a three-fourths vote would be required to spend 12.5% of that 25%, to finance local infrastructure projects.

Rep. Ramirez stated that HB 270 is the implementation bill, and HB 272 provides bonding provisions, enabling trust dollars to be used to finance the bonding program. He explained that HB 272 differs from HB 32, in that it is primarily a loan rather than a grant program.

Rep. Ramirez said the bills would permit direct grants from 12.5% of coal tax receipts, and authorize for new and separate bonding authority of \$250,000. He commented that the bills include state projects as well as local government projects and capital investment kinds of maintenance projects, which might not be permitted by HB 32.

Rep. Ramirez advised that the state will lose a tremendous investment if it can't continue capital investment projects. He said the question is "When is the future?", and commented that right now, 80% of coal tax interest is used for general fund purposes. Rep. Ramirez stated that because interest on the trust is not compounded, it is losing value in the trust.

Rep. Ramirez suggested that committee members read the booklet published by the Montana Economic Development Board. He said 42.3% of the original purchasing power in the coal tax trust has been lost since 1978. He stated that by the year 2000, the trust will have lost half the value it had

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in 1985, and said the legislature is better off putting the funds into tangible assets, rather than all paper.

Rep. Ramirez explained there is a question of balance between paper and tangible assets. He advised that a number of states and two Canadian provinces, Alberta and Saskatchewan use funds from their mineral trusts for infrastructure programs. He added that construction costs will be higher in the future, and it would be wise to address these issues now.

PROPOSERS OF HOUSE BILLS 270, 271, AND 272: Dan Huestis, Great Falls, President-elect of the Association of General Contractors of America, said his association completes 80% of the construction in the nation. He stated that he is also a past president of the Montana Contractors Association and a former member of the Governor's study on infrastructure, which reported infrastructure issues to the federal government.

Mr. Huestis stated that, in his opinion, the most important part of HB 271, is the preamble on page 1. He explained that one of the least understood problems is that one-half of all communities in the U.S. are out of the economic growth realm and, thus, underfunding revenue projects. Mr. Huestis said up to 1982, local government tax expenditures declined 53%, while welfare spent \$180 million in Montana, up 60% in the past five years. He advised that this figure is more than money spent for the university system, and highway construction in the state, and said a \$9 million job training program produced only 35,000 jobs at a cost of \$88,000 each.

Mr. Huestis told the Committee that in 1984, construction comprised 9% of the gross national product, and that 80% of all public works programs were approved by voters. He urged the Committee to support the bills, to look forward toward employing future generations in Montana.

Dennis Burr, Montana Taxpayers Association, stated his support of the bills.

Gordon Morris, Montana Association of Counties, stated his support of the bills.

Alec Hansen, Montana League of Cities and Towns, also stated his support of the three bills. He stated that in a survey of the water systems of eight cities, two years ago it was determined there was a need for \$108 million in necessary work. He said that if something is not done to

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change this situation, the next generation of Montanans will inherit a problem they may not be able to handle.

Mons Teigen, Montana Stockgrowers and CattleWomen, stated his support of the bills, and said there is a need for consistent programs which operate year by year.

OPPONENTS OF HOUSE BILLS 270, 271, AND 272: Jean Marie Souvigney, Montana Chapter of Sierra Clubs, said the legislature should not reduce the coal trust fund, as it will increase dependence upon funding coal development. She said that 11% of the general fund was supported by the coal trust fund in 1986, and asked where the state would be when it can't afford new projects.

Dave Hunter, Budget Director, Office of the Governor, told the Committee he opposed the bill as it would create a new expenditure program. He said if such a program is not created during the current biennium, it may be possible to balance the budget in the coming biennium.

Referring to Rep. Ramirez' statement concerning erosion of the trust fund, Mr. Hunter said income to the general fund is projected to decrease by \$31 million in FY 88 and \$34 million in FY 89, as a result of taxpayers paying 15% less in taxes. He added that the bills would reduce dollars available to Montana, and said the Economic Development Board had a problem in determining what is a needed public improvement.

Mr. Hunter said that, right now, local governments must pay part of infrastructure costs, thus showing approval for such projects. He explained there is a significant difference between infrastructure proposals and water development proposals, as in some cases, local voters have rejected as little as a 2% increase for infrastructure proposals. Mr. Hunter added that the bills are an inefficient way to build infrastructure, and that the state is better off with a living trust and underwriting bond issues, than in making grants. He urged the Committee to give the bills a do not pass recommendation.

Phil Campbell, Montana Environmental Information Center, said he opposed the bills for the same reasons he opposed HB's 288 and 289.

George Ochensky, Montana Environmental Information Center said he opposed the bills and any proposals to lower the coal tax for a few years in an effort to help the economy.

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Craig Jones, D.A. Davidson, told the Committee he generally supported the use of coal tax dollars for infrastructure, but believes the money can be put to more efficient use. He said Evanson Dodge of Minnesota discovered that local governments can borrow at a lower rate than can a state, and that he believes the grant program will be more effective than bonding. Mr. Jones commented that the state has exceeded its standards of issuance of debt.

QUESTIONS ON HOUSE BILLS 270, 271 AND 272: Rep. Sands asked Dave Hunter why local government loans are different from any other government expenditure. Mr. Hunter replied that the state is financing 11% of local government right now, and if the Committee wants to look at building infrastructure, the mechanism in the water bond bill is a more efficient way to do so.

Rep. Sands asked if the state should stop issuing grants if they are so inefficient. Dave Hunter replied that he was addressing capital expenditures for infrastructure and water projects, and not ongoing expenses to government, which are treated differently.

Rep. Harp said he was concerned with matching funds requests of local governments. Rep. Ramirez replied that projects at the local level that won't pay for themselves could be paid for, in part by seed money grants, and in part by local governments.

Rep. Raney asked if the state were not in tough times when consideration is being given to increasing dependence upon coal tax revenue, and to reducing the coal severance tax simultaneously. Rep. Ramirez replied that, assuming coal tax dollars could be saved by lowering the severance tax, the legislature would still have to deal with the trust situation in the constitution and how best to use and meet constitutional mandates.

Rep. Raney asked where the situation would end if the coal severance tax were lowered, and what the reason is behind taking funds from one trust and putting them into another trust. Rep. Ramirez said the state must have economic development and needs to make best use of its resources.

Rep. Raney asked Rep. Ramirez if he were essentially saying that the legislature should change the policy to put 5.5% into the general fund and get into rebuilding and general construction. Rep. Ramirez responded affirmatively, and said if funds hadn't been put into the state before, there would be no economy today.

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Rep. Raney asked how infrastructure was funded during the first 100 years of statehood. Rep. Ramirez advised that resources were put into capital development programs, and said the state must do some things to create economic development.

Rep. Sands asked Craig Jones if his objective were bonding provisions. Mr. Jones replied it was, and said the funds should be used for a grant/match funding program, to pay a portion of costs, while local governments also paid a portion.

Rep. Ream asked if language concerning "principle" on page 2, line 13 of the bill meant using half of \$30 million. Rep. Ramirez replied that both halves would grow.

Rep. Sands asked Dan Huestis if the bills would really help the economy grow, under the principles of economic growth, and commented that the state began to be federal aid junkies a long time ago. There was no response.

CLOSING ON HOUSE BILLS 270, 271, AND 272: Rep. Ramirez advised that all the bills do is allow binding and expenditure of funds. Referring to Dave Hunter's statement concerning 11% is used for current operating costs of governments and should be set aside for future generations, if the fund is going to be used for its true purpose. He stressed that he is a proponent only of infrastructure needs not funded at this time.

Rep. Ramirez said he questioned the motive of the administration in appearing on this bill, and commented that the question is, "Are we investing coal tax dollars now in the best way we can and, if not, are we fulfilling the purpose of the constitution?"

ADJOURNMENT: There being no further business before the Committee, the meeting was adjourned at 10:30 a.m.


Representative Jack Ramirez
Chairman

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