

## MINUTES

### MONTANA SENATE 52nd LEGISLATURE - REGULAR SESSION COMMITTEE ON EDUCATION

Call to Order: By SENATOR CHET BLAYLOCK, on January 21, 1991, at  
1:00 P. M.

#### ROLL CALL

##### Members Present:

Chet Blaylock, Chairman (D)  
Harry Fritz, Vice Chairman (D)  
Robert Brown (R)  
Bill Farrell (R)  
H.W. Hammond (R)  
Dennis Nathe (R)  
Dick Pinsoneault (D)  
Mignon Waterman (D)

Members Excused: Bill Yellowtail

Staff Present: Eddy McClure (Legislative Council).

Please Note: These are summary minutes. Testimony and  
discussion are paraphrased and condensed.

Announcements/Discussion: Chairman Blaylock reported on a  
meeting he attended in Atlanta, GA, January 17-20, 1991,  
sponsored by the Danforth Foundation and the National  
Conference of State Legislatures in which they called the  
chairmen of education committees for a conference on  
education.

Senator Farrell asked Chairman Blaylock how many of the  
states have had court decisions or pending court decisions  
on equalization.

Senator Blaylock said that most of the states either have a  
suit in progress or one is being threatened. Kentucky and  
Tennessee have recently reorganized. California did this  
quite awhile ago. Texas has had a big reorganization.

Senator Waterman said that she recalled that during  
Montana's lawsuit, there were about 37 states which had  
court challenges to their funding systems.

Senator Farrell said that he thought 14 states had the decisions overturned without making changes.

#### DISCUSSION ON SB 32

Chairman Blaylock said that Senator Keating's bill, SB 32, a bill to change the Constitution is coming out of committee on an adverse committee report.

Senator Farrell said that Montana is the only state that has changed the Constitution to include the word "equality". Senator Keating wanted to remove the word "equality". All of the other states don't have that word in their Constitution; it has been overturned because of the equal protection clause.

Chairman Blaylock said that he has asked for a copy of the Sorono vs. Priest case out of California and that is precisely what they put it on--was "equal protection". He said that there is "equal protection" under Section IV of the Constitution. Montana's Supreme Court has not addressed that yet.

#### HEARING ON SB 17

##### Presentation and Opening Statement by Sponsor:

SB 17 - Technical Amendments presented by Dorie Nielsen from OPI.

Alec Hanson, MT League of Cities and Towns: Special Amendments 1704 - Budget.

Exhibit No. 1 attached.

##### Questions from Committee Members:

Senator Nathe said that earlier the tax increment districts had to be under the 45 mills and the 10 mills permissive. He said that he now noted that there is a 45 mill statewide and they have moved away from the 55 and that now we allow them to levy for county equalization and they moved into the 40 mill statewide. He asked if there was a monetary advantage.

Jan Thomson, OPI referred to it as being an amendment that was put in at the last minute during the Special Session.

Madeline Quinlan said that the change originated in the house and she didn't know why was placed where it was. It is the 40 mill statewide levy that is affecting these districts. They basically had 55 mills all along so that is not going to affect the revenue.

Senator Hammond commented on the fact that Northeastern Montana might now be paying for the increment districts in other parts of the state.

Senator Nathe asked if prior to the HB 28 there had always been a metal mines tax reserve funding for schools Prior to HB 28 and

also why there wasn't a coal tax reserve or oil tax for schools.

Madeline Quinlan, OPI, said that there was some restructuring. It seems to be the hard rock area of mining where the future is. These are prepaid taxes that are put into a reserve account that is part of the development plan that has to be approved by the State Hard Rock Mining Board. A certain amount of taxes are paid up front and as the company goes into production, they get a credit on their property tax.

She said that she wanted to remind the committee of two things that Greg Groepper had mentioned: (1) If this amendment goes ahead, we will need to amend the foundation statutes to make it legal to pay tax increment out of the state equalization aide which has specified that the money should be paid. Right now the law says that the state equalization account revenues go to school. (2) Another issue that the committee may want to address: The end of the paragraph amending the statute: It talks about two equal installments on November 30 and May 31. The state won't actually receive those revenues until probably December 15 and June 15 just because of the way they are paid through the county and remitted to the state. Those dates should probably be adjusted.

Madeline Quinlan said that it was amended into the bill to pay those tax increment districts but HB 28 took it out and now they have put it back in. It is presently in the current law. This bill is saying that we are not going to pay taxes and the amendment is putting it back into current law.

Senator Blaylock referred to testimony by Pat Melby when he said that as responsible legislators it is important to accept the fact that two years ago when this amendment was put in, it was said that these tax increment districts would be held harmless. Bonds are depending upon that revenue stream.

SENATOR FARRELL MOVED that the dates regarding installments be changed on the proposed Amendment No. 1704 to December 31 and June 30. MOTION PASSED. The vote was unanimous.

SENATOR FARRELL MOVED that Amendment 1704 AEM with the technical amendments be adopted. MOTION PASSED. The vote was unanimous.

SENATOR FARRELL MOVED SB 1704 AEM as amended be adopted. Five voted aye; three, no. One absent. MOTION PASSED. Vote unanimous.

Senator Blaylock said that as he understood the budget amendment proposal, schools would not have to go back to the old emergency budget procedures. If a school gets protested tax or insurance monies and they have been deferring projects in anticipation of the settlement, they can get that money by coming to OPI and asking for a budget amendment. They can use the money for one time expenditures but they can't build their base with it.

SENATE EDUCATION COMMITTEE

January 21, 1991

Page 4 of 4

Madeline Quinlan made two points: First, the district proposes a budget amendment and there are a variety of reasons for which they can propose a budget amendment including increases in enrollment, an act of God, etc., and also for reasons that may be unique to that school district. If these expenditures cause the district to exceed the base, the school district must petition OPI to exceed the 104% cap and approve this budget amendment. If they are below the 104%, they don't need to come to OPI but the question is for the following year when they are developing their budget, if they had a budget amendment, we would look at that amendment to see whether it should follow through in the future.

Their prior year inversion amount did not have an impact on the next year. It didn't matter what their level was because the next year's budget was not built on that number. Now, it is built on that higher number and becomes very important to use it. This is an attempt to guide it so you can see it.

SENATOR WATERMAN MOVED to accept the Budget Amendment Proposal 1703 as offered by OPI. The vote was unanimous. MOTION PASSED.

Senator Blaylock brought Amendment 1701 before the committee. He said that what it does is to put the language back into SB 17 which has been part of Montana education since 1941. In 1949 when the Foundation Program was formed, 25% of the money went into the schools; that was changed to 31% and this is proposing that the amount is 41.3% which has been the language in the bill for the last two years. It makes a difference in the governor's proposed budget and this probably is the most potent amendment to be considered.

Curt Nichols presented a letter to the commission (Exhibit 1)

Senator Waterman asked what the governor's recommendation was and Curt Nichols said that he had not discussed a particular recommendation in terms of what should be allocated. Senator Waterman asked if he would get that information.

ADJOURNMENT

Adjournment At: 2:55 P. M.

  
\_\_\_\_\_  
SENATOR CHET BLAYLOCK, Chairman

\_\_\_\_\_  
BETSY CLARK, Secretary

CB/bc

ED012191.SM1

ROLL CALL VOTE

SENATE COMMITTEE EDUCATION

Date 1-21-91 Bill No. SB17 Time 2:15

NAME	YES	NO
SENATOR BLAYLOCK, CHAIRMAN	✓	
SENATOR FRITZ, VICE-CHAIRMAN	✓	
SENATOR FARRELL	✓	
SENATOR BROWN	✓	
SENATOR PINSONEAULT	✓	
SENATOR HAMMOND		✓
SENATOR YELLOWTAIL		
SENATOR NATHE		✓
SENATOR WATERMAN		✓

Secretary \_\_\_\_\_

Chairman \_\_\_\_\_

Motion: Senator Farrell moved that  
SB1704 AEM be adopted.  
Motion passed.

# OFFICE OF THE GOVERNOR

## BUDGET AND PROGRAM PLANNING



STAN STEPHENS, GOVERNOR

STATE CAPITOL

# STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

TO: Senator Bob Brown January 15, 1991

FROM: Curt Nichols *Curt Nichols*

SUBJECT: Allocations of personal and corporate income taxes to school equalization.

Personal and corporate income taxes historically have been allocated 25 percent to the school equalization account. In fiscal 1988, fiscal 1990, and fiscal 1991 the allocations to school equalization have increased. The most notable increase coming in fiscal 1991 when the "education surtax" was enacted and allocated to school equalization. Below are listed the allocations from 1941 to the present.

<u>Fiscal Years</u>	<u>School Equalization Allocation</u>	
	<u>Personal</u>	<u>Corporation</u>
1941-1987	25	25
1988-1989	31.8	25
1990	33.2	25
1991	41.3	28.5

The school equalization allocation drops to zero for both taxes in fiscal 1992 and after as a result of HB28. This de-earmarking of the personal and corporate income taxes results in nearly 100 percent of these general taxes being deposited to the general fund. A small portion of the corporate income taxes on financial institutions is allocated to local governments.

If the allocations to schools were to be reestablished at the percent in effect in fiscal 1991 when the education surtax was operable, as proposed by OPI amendments to SB17, the current executive budget would see a surplus in the school equalization account of \$55 million while the general fund would have a deficit of \$16 million. If the allocations were adjusted to the fiscal 1990 level these problems would be alleviated for the next biennium. The following table shows alternative allocations and their affect on the general fund and school equalization fund balances assuming the current schedules are maintained and the general fund appropriation for school equalization is in the amount needed to fully fund school equalization at current level.

School Equalization Allocation (percent)		Ending Fund Balance 1993 Biennium (millions)		General Fund Equalization Appropriation
<u>Personal</u>	<u>Corporate</u>	<u>General Fund</u>	<u>Equalization</u>	
0.0	0.0	\$38	\$0	\$241
25.0	25.0	38	0	54
31.8	25.0	38	0	10
33.2	25.0	38	0	1
41.3	28.5	(16)	55	0

SENATE EDUCATION

EXHIBIT NO. 1

DATE 1-21-91

PAGE 17

OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING




STAN STEPHENS, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 444-3616

HELENA, MONTANA 59620

TO: Senator Bob Brown  
FROM: Curt Nichols   
SUBJECT: Cost of increasing school support through GTB vs schedules

January 15, 1991

I estimate the cost of increasing public school equalization by equal amounts through the GTB to be approximately one-third that of increasing the schedules. This lower cost results because through the GTB state aid only goes to the districts with lower taxable values per ANB. The table below compares the cost for several options.

Schedule Increase	Biennial Cost	Equivalent GTB		Biennial Cost	Difference
		Fiscal 1992	Fiscal 1993		
3%/3%	\$34	39%	43%	\$11	\$23
4%/4%	\$46	40%	46%	\$15	\$31
5%/5%	\$58	42%	49%	\$20	\$38

These estimates are very crude as we do not at this time have data on current year budgets. This data should be available late next week at which time more refined estimates could be provided. In addition this estimate was based on no significant change in taxable values. However the procedure used to calculate district and state mill values is unstable and likely to cause significant fluctuations unless corrected by the legislature. These fluctuations could add to or reduce the guaranteed mill value significantly and therefore affect the cost of GTB programs.

15-007

ESTIMATED TAX INCREMENT REIMBURSEMENTS  
SENATE BILL 17

DISTRICT	VALUE CY-90	MILLS		CHANGE	REIMBURSEMENT
		FY-89	FY-91		
BILLINGS	\$9,525,555	189.21	221.53	32.32	N/A
BUTTE	2,198,392	298.21	267.56	(30.65)	\$67,380
GREAT FALLS	3,675,580	244.39	227.98	(16.41)	59,323
HELENA	1,692,246	258.68	242.15	(16.53)	27,972
KALISPELL	2,887,102	243.06	223.75	(19.31)	55,749
MISSOULA	1,841,967	231.58	253.52	21.94	N/A
WHITEFISH	354,857	175.84	186.79	10.95	N/A
TOTAL					\$210,424

THE AVERAGE SCHOOL LEVY FOR TAX INCREMENT DISTRICTS ENTITLED TO REIMBURSEMENT UNDER THE PROPOSED AMENDMENT IS 252.86 MILLS IN FY-91. IF LEVIES INCREASE 4 PERCENT ANNUALLY AS ALLOWED BY HOUSE BILL 28, AN AVERAGE OF ABOUT 10 MILLS WILL BE ADDED EACH YEAR, WHICH WILL SIGNIFICANTLY REDUCE THE COST OF THE REIMBURSEMENT SCHEDULE.

PROJECTED FY-92 TAX INCREMENT REIMBURSEMENT

DISTRICT	VALUE CY-90	MILLS		CHANGE	REIMBURSEMENT
		FY-89	FY-92		
BUTTE	\$2,198,392	298.21	278.26	(19.95)	\$43,857
GREAT FALLS	3,675,580	244.39	237.10	(7.29)	26,794
HELENA	1,692,246	258.68	251.83	(6.85)	11,591
KALISPELL	2,887,102	243.06	232.70	(10.36)	29,910
TOTAL					\$112,152

EXHIBIT NO. 1

DATE

1-21-91

BILL NO.

17



**There are 2 versions of the Jan. 23rd 1:00 p.m. minutes.  
One is a summary; the other is more complete.  
This is the summary version.**