

January 20, 1977

A meeting of the Local Government Committee was called to order by Chairman Robbins at 7:05 PM in Room 225. The secretary called roll; Representatives O'Connell and Gerke were excused. Representatives Colburn, Halvorson, and South were present.

Members of the House Taxation Committee who were present are: Dassinger, Bertelsen, Hirsch, Lien, Sivertsen, Uhde, Underdal, Waldron and Williams.

The meeting was turned over to Dale Harris for his presentation on the taxation portion of House Bill 122.

It was asked who gave more to local governments, the state or federal? The answer was federal. The major reason is the old law said state taxes could not be used for that. A license is not a tax and a gasoline tax could be shared. What was called a license tax, the supreme court said a license was not a tax, so this was a loophole. No real recognition by legislature to give state aid - exhibit 1. The rate of tax increase is below expenditures for local governments. The municipalities use service charges to make up the difference.

Looking at this type of information, the State Commission developed a set of recommendations to make changes for local government finances - SCLG EXHIBIT K.

The Code proposes that beginning in fiscal year 1978 both municipalities and counties will be required to operate under an all-purpose mill levy for property taxation and four types of optional taxes. All other alternative sources of revenue are in separate bills.

An editorial said there were no limits on any of the types of taxation. There are limits in this bill, both on the use of property taxes and there are limits of use on optional taxes. Any statement that this bill provides for unlimited taxes is untrue.

With the existing property tax in Montana, the expenses for 8 cities and towns and counties were no where near using their local taxing authority. It doesn't mean every local government goes out and taxes to the limit. Why do they need any new tax? It was felt local government needs an opportunity to create a balance so not entirely dependent upon property tax. Local government needs the opportunity to create a balanced tax system. It was thought it would be a major improvement to create a balanced system if they used an all-purpose mill levy.

The State Commission feels the state should do more in other areas by financing two state services. The State should assume the costs of the district court system. The State now pays judges but the other personnel is paid by the county. They are not under any control or supervision of county commissioners.

There is a wide range of per capital cost between counties and this cost should be equitable and paid by all citizens.

The second area is welfare financing same reason under state control great inequity in cases between counties. These are two programs state should assume.

Also the county attorney's office - the state should pay for half of the office. We are doing more than just suggesting an increase in local taxes.

A part of the balance is for the state to pick up its share in addition to recommendations of optional taxes.

We will talk about the all-purpose mill levy, Exhibit J. It is appropriate that state legislature control property tax and to set a ceiling. Cities and towns have had an opportunity to have an all-purpose mill levy since 1965, 100 incorporated municipalities have adopted the all-purpose mill levy only 26 are not using the all-purpose mill levy. Keeping the all-purpose mill levy at 65 would affect only 26 cities and towns.

For counties we are proposing that an all-purpose mill levy of 55 be authorized to replace all existing small levies. On page 13, it gives the current single purpose mill levy. With the authorization of an all-purpose mill levy, counties will have greater discretion in the provision of local services and may tailor them to the local situation.

This system allows changing, legislature has no understanding of what kind of ceiling on mill levies, or how many mills can counties levy. It is between 65 and 75 depending on the class of the county.

I don't think the legislature knows where to put that ceiling. Two years from now the legislature is probably going to change the mill levies because taxes are going to increase. Whereas, if system was changed to all-purpose mill levy 55 for counties, excluding roads and welfare, I think legislature could control that. Not better for legislature but better for local government. Local government could determine what is needed. There is an example in Exhibit J page 10 for library services.

A county should be able to balance its budget under its own priorities. Can you make a decision on what airports are worth -- think judgment should be turned over to local government. Why opposition? County Commissioners Association support but some county commissioners do not. Why? Because it puts them into a position of having to make some hard decisions. Under all-purpose mill levy, they would be under pressure to increase mills on say - library. They would be put on spot and they don't want to be. Opposition has come from some groups, like library or museum people; they don't want to compete for the same dollar. That has not been the case in municipalities with all-purpose mill levy libraries have competed successfully.

Another reason has to do with collective bargaining. Local government can use limited mill levy as a reason for saying no. The mill levy ciling is below present authorized mill levies, see table on page 21 of EXHIBIT J.

There was a short recess at 8:00 PM.

Optional taxes--why were these particular taxes selected? The income tax is the main and largest tax recommended. After a vote of their people, the tax would have to be on a county-wide basis. It could be submitted to vote by the county commissioners, city council, or the people can petition. The maximum amount of tax is set when the people vote. It would be collected and administered by the state department of revenue. It would add two boxes to the present state income tax form and take about 3/4 of an inch. It would be paid on a quarterly basis. There is one problem, that is the need for different withholding rates between counties and may cause a problem for some large corporations.

Question - would you have to reduce property tax? It obviously could be used for that purpose.

For mandatory reductions, the State Commission did not desire that; legislature can make that decision. Question - how much money statewide, if every county voted for the tax? 24.6 million. Question - what portion of the property tax would that be? It is about 1/4 of the property tax counties are spending. It is still 1/4 of what they are using in property tax. It is a progressive tax. It would tax certain portions of population that is not being directly affected by property tax, and it would be so easy to administer. The people voted a preference to income tax as opposed to a sales tax.

Fuel tax next most important tax, up to 2 cents per gallon sold at retail. It would be collected and administered locally by the county with money divided between cities and county by an inter-local agreement. It could be imposed as the bill is written without the vote of the people. It is earmarked for public roadways within the jurisdiction.

What we now have is a retail gas tax. It is technically not a sales tax. If Montana had a sales tax on gas, we would not get federal money so it has to be license tax.

Sivertsen - if divided between city and county is it their decision how to do it? Probably by population and mileage some counties may want to divide it. Some counties do not need money, others do. Robbins - countywide, why done on an agreement? Suppose there are two cities and one city doesn't want it. It has to be between all cities. One city could keep them from having this tax.

Sivertsen - don't you see a problem that a city might want a big part of the tax and the county don't like it. Dale - the income tax is divided between city and county by a formula or inter-local agreement. Same thing could be done on fuel tax.

Dale - there are problems with all the taxes. This could be done differently and you have that choice you can amend it. This was the commissions best attempt to iron out the problems. The last reason for justifying, it is more appropriate to use this type of tax for streets and roads rather than the property tax.

Motor vehicle license tax--cities and counties fight over this every session. What we are proposing is that the city and the county be permitted to put a service charge on and keep that for themselves. No additional administrative costs.

For income tax it would be up to 1% of the amount collected for administration costs.

Robbins - why were the two particular businesses selected? Dale - it is a selective sales tax on one type of accommodations. Of all possible types of sales tax, we think it is the least regressive in terms of who actually will be paying this type of cost. A large portion is by commercial and government travel and another large portion is tourist travel. It also will hurt the common person. It is least regressive type of sales tax and relatively simple to collect and administer. It can be administered at the local level.

Gould - are there taxes in other bills? Dale - no, there is no tax associated with them. Sivertsen - regarding welfare programs, if this is funded by state would local entities lose control over the program? Dale - first do they have control, they will not acknowledge they do. Legislature could fund without change in administrative responsibility. County portion is about 10 million from property tax for welfare. Hurwitz - there are counties with high welfare level. Robbins - could this come from the general fund? Dale - Mr. Hurwitz is correct that is why it should be funded state-wide so everyone pays equally. Any citizen in the state should pay per capita because it is available to every citizen in the state. Dale - legislature needs to conduct a hearing over this and we propose the state both finance and assume total responsibility.

The meeting adjourned at 8:55 PM.

Respectfully submitted,


HERSHEL M. ROBBINS, Chairman