

TAXATION COMMITTEE
45TH LEGISLATURE

Rep. Herb Huennekens, Chairman, called the Taxation Committee to order at 8:00 a.m., March 14, 1977, in room #434, Capitol Building, Helena. All members were present except Rep. Les J. Hirsch, who was excused. Bills to be heard were HB 824 and 825.

Rep. R. Budd Gould, District #98, Missoula County, sponsor of HB 824, said this bill was introduced because reappraisal has left a certain segment of people with terribly unfair tax problems. HB 824 requires the department of revenue to reduce the appraisal of property valued through the use of the 1972 manual by 25%, and appropriates \$33,900 to the department for that purpose. The act would be repealed upon state-wide implementation of cyclical reappraisals.

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Edward W. Nelson, Montana Taxpayers Association, Helena, reemphasizes what Rep. Gould has said, especially on new property that has been constructed since 1972. There were some 16 lawsuits during the last biennium regarding problems caused by reclassification. On a 5-year cyclical program comparing neighbors one with their property reassessed, and the other with the assessment carried on the books for a long time, the newer property is taxed a great deal higher since its valuation is figured on the present market value. Some adjustments have been made since 1972. The 1976 total state valuation is \$1.5 billion. Inflation has caused part of the increase. Since this is a one-time adjustment pending the outcome of reappraisal, this would be a fair thing to do for people with new property whose assessment has been put on the books at the present market value. He urges the committee to support this bill.

Mrs. Lucinda W. Hightower, representing homeowners, Missoula, explained some charts to the committee showing differences in taxes on adjoining homes. They built a new home in 1972 and received their tax appraisal in 1973. Homes appraised at 1972 values are much higher than the 80% that are assessed at the 1960 values. Only new homes were added to tax rolls at the 1973 assessment values. See her testimony showing figures of 1976 assessed values on homes built after 1973 and before 1973. She very much supports HB 824.

Mary Ellen Weatherhead, Missoula, supports HB 824. They finished their house in 1975, and in 1976 paid first taxes. Taxes on their new house went up 400%. Their new home cost almost twice as much as they sold their old home for. They are in the city and pay little over \$1100 in taxes on a house 1560 square feet & 1½ years old, valued at \$56,000. Another house valued at \$71,500 pays less taxes. They are facing a lawsuit. They can't afford to pay over \$100 per month in taxes. She thinks everyone needs a reduction.

OPPONENT:

Greg L. McCurdy, Montana Association of Counties, said it is very hard to agree with the equity question raised. He feels equity can be reached. The state allows 25% appraised value reduction on houses built after 1972 and appraised at the present market values.

If this bill were to pass, in Lewis & Clark County it would affect 92.5% of the existing valuation. The reappraisal program according to the DOR is supposed to be finished sometime this fall. There is no fiscal note attached to the bill. There is an equity problem involved - there is a question of fairness to local governments, too. What would be the effect on the counties? Association of Counties urges do not pass HB 824.

Dennis Burr, DOR, said arguments in favor of the bill are very good arguments in favor of the reappraisal program. The reappraisal program has been looked at by the courts as something ongoing, and it was recognized that increasing the values of some property, but not all property, is better than doing nothing at all and allowing inequities to continue. Some property is overappraised and some is underappraised, but the situation will correct itself in a year. Giving a 25% discount on the appraised value, it is permissible to appraise new property from the 1972 manual so I am not sure the DOR will be taking the same stand since we are talking about only one-half the tax base in the state; 40% is residential property, so 40% would receive this break and the rest of it won't get a break. If it is logical to give a 1972 built house which is already based on less valuation such a break, it will cause a shift in mill levies. The solution is to finish the reappraisal process and then keep the assessment process current. He hopes HB 824 doesn't pass.

Rep. Gould thinks Mr. Burr is very fair. He doesn't feel people should have to fight for the 25% decrease. Might be able to lower the \$34,000 valuation in his bill a bit.

Questions by the committee brought out that this discount would be in effect just until new appraisals are in effect. The cost of rolling the tax valuations back would be \$33,900, but could be lowered or changed. A very small percentage of persons affected are fighting this reappraisal.

The question of what would happen if taxes were paid under protest was asked. They would probably get the 25% tax reduction, but most tax appeal boards might not be amenable to this. The district court indicated appraisal would be figured on the 1972 manual. It could take six months to settle protested taxes. This could amount to \$4 million to the counties. They would transfer these lost taxes to the other 80% of homeowners. Everybody will be appraised the same in 1977. Until new appraisals are in, mill levies will be raised. The total thought is to get equality at all levels.

The difference between a 1962 manual and the 1972 manual is probably 30%, so the 25% discount is a little less reduction than the previous difference was. There is no equity on a home assessed in 1962 and a home assessed in 1972 according to the 1962 manual. There is approximately the same value even though the actual price of the homes is different. There is an inequity until the next appraisal is finished. A big inequity was caused by different methods and different manuals for assessment in each county. Tax problems can be appealed to the tax board each year.

Mrs. Weatherhead would rather see a reduction in taxable valuation than receive the proposed \$100 rebate.

Rep. John Driscoll, District #91, Ravalli County, chief sponsor of HB 825, said this bill provides that a proposed amendment to the Constitution be submitted to the electorate to provide that the interest from the investment of the coal trust fund be retained until 2001. In 2000, the Legislature shall determine four alternatives for spending the income and interest and submit these alternatives to the electorate at a statewide election during the first six months of the year 2000.

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The two most popular shall be resubmitted to the electorage again during the last six months of the year 2000. Their choice will govern the disposition of the interest and income of the coal tax trust fund.

Rep. Driscoll said it is his desire to see a possible transfer of dependence by the schools of the state from property tax to some other fair source of income, and he has always thought it should be the severance tax on coal. The interest from the trust fund is not really available to replace property tax and this is one reason for not becoming addicted to the interest off the trust fund. This is because it would be spent for current expenses, and the state's operational budget could become addicted to using the interest.

This interest and income could not be used until after 2001, and by that time approximately \$208 million would be available in interest and could be used to replace property taxes to fund schools. Montana coal may be depleted by 2083. If the money is not reinvested, the fund will be \$2.1 billion in 2001 - \$9.1 billion if income and interest is accumulated until 1999. Interest income this year won't start until this summer, and it will be a very small amount.

Michael G. Billings, Director of the Budget and Program Planning Office, explained charts he handed out to the committee (copy attached) showing various ways of handling this possible income. The figures are based on the assumption that coal production will increase at 6%, inflation will advance 6% per year, and the interest rate will be 7%. There has been a 10% inflation increase rate over the last few years. The charts figure on coal production of 111.1 million tons by 2000, and 150 million tons by 2023. More than that would have to be mined to deplete Montana's coal reserves. Price could be \$13.40 by the year 2000. There is a lot of speculation, but there is a very good possibility that the final figure of \$9.16 billion could be irrelevant by the year 2000 with the assumptions varying even slightly.

By allowing interest and income to accumulate, the state would be in a comfortable bargaining position.

The general consensus of opinion by committee members which was brought out in questions and comments is that they feel some of the money should be invested in the state of Montana.

This bill would allow the people to decide what they want done with this interest and income money, but after their approval of its handling, it would take 3/4 vote of each house of the Legislature to approve their choice.

Rep. Fabrega thinks so far the handling of this fund has been sloppy.

There is an underground feeling that the government might impose some sort of tax.

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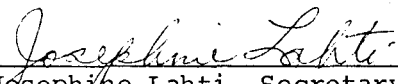
The committee recessed to an executive session.

Rep. Harrington moved to recommend HB 3 DO PASS. Rep. Fagg moved to recommend proposed amendments 1 through 3 be adopted. This motion carried unanimously. The original motion was then to recommend HB 3 AS AMENDED DO PASS. Motion carried 12-4. Reps. Bertelsen, Lien, Sivertsen, Underdal voted No; Rep. Hirsch was absent. Complete amendments as approved can be found in the Standing Committee Reports in Book #1.

Meeting adjourned at 10:00 a.m.



REP. HERB HUENNEKENS, CHAIRMAN



Josephine Lahti, Secretary