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HOUSE TAXATION COMMITTEE

46th Legislature

The meeting was called to order by Chairman Representative Herb Huennekens, in room 434, at 8:30 a.m. January 23, 1979. All members were present - Representative Harrington who had been excused came in later.

Bills to be heard were House Bills 252, 255.

Representative Hal Harper, District #30, Helena, explained House Bill 252 of which he is sponsor, would move multiple housing units which are occupied by low income persons (under \$300 per month incomes) into Class 15 for tax purposes. Persons with such low income cannot afford to live in their own homes or pay much rent and still maintain their health. These are
HOUSE BILL occupied by older persons who are unable to maintain homes
252 for themselves. These are non-profit multiple-unit homes whose occupants are subsidized by the government. When the unit makes a profit, it is passed on to the occupants in the form of lower rents. HB 252 would provide a tax benefit of about \$20 per month per unit. The net impact of this particular reduction in taxes would be minimal, especially in larger areas.

Senator Towe, Billings, is cosponsor of HB 252 and is very much in support of it. It addresses equity to senior citizens who qualify. If they own their own homes, they are taxed on only one-half of the value of their homes. This bill would say in effect that the taxes paid by conglomerate houses would be reduced by one-half as is done for private homes owned by senior citizens. Inasmuch as the income is very strictly controlled by the government agencies, they have to pass that savings on to the renter.

Ralph L. Dixon, Billings owner and manager of some conglomerate housing similar in operation to Lakeview Village at Polson mentioned by Rep. Harper, is a proponent of the bill. Small rural villages have become stabilized or have gone downhill and have no standard housing. The Farmers Home stepped in, so the program has been around a long time. They made money available so that non-profit or limited profit corporations could build housing for persons who could not keep or afford their own homes. Some are not economically able to take care of their own homes. The owners will not benefit from this tax advantage. The people living in the homes benefit. Rents have to be in accordance with what can be paid.

Ken Tonn, Farmers Home Administration, Bozeman, explained these are rural rental housing programs. FMHA can make loans to individuals, institutions, associations, limited profit and non-profit corporations. The builders agree to provide proper housing, but are limited to an 8% return on their investment. FMHA provides a 95% loan. They ask the borrowers to prepare one budget based upon 1% interest to determine the basic rental cost and another to determine the market return rate of 8 3/4% interest on investment capital.

The tenant pays based upon 25% of adjusted income. The FMHA provides interest credit for the amount of assistance. The note is written at 8 3/4% - to reduce the interest to 1% is called interest credit. If tenant pays more than

the basic rent, this reduces the amount of rent the government provides. Basic rent is \$175, the owner collects \$160, but must pay the government \$15 to reduce interest credit. The owners must show the actual income they have received for the year. They must present the FMHA with evidence of necessity and written approval before they can raise rents.

Helen Peterson, Chairman of the State Tax Appeal Board, does not support nor is an opponent to the bill. Appeals were based on the possibility of granting Class 15 to multiple-housing units since under the present law, that can't be done. The question is getting rent relief to older people if the state can afford it.

There were no opponents.

Rep. Fagg asked what percentage of these people are on rent supplement. Mrs. Peterson advised it varies from home to home; more than half have been on rent supplement. Mr. Dixon said out of 700 units less than half have been granted supplements.

Sen. Towe said one-third to one-half pay 25% of their income. We would be supplementing 25% tax reduction break - 25% to the government and 75% to the older person.

Senator Towe said that if 51% of the people qualify, the whole unit would qualify. Rep. Fagg asked how this is done. Most of tenants receiving federal payments have their rent paid by the government. This would put those people in multiple-family homes who are not on supplement in Class 15.

Rep. Harper answered Rep. Sivertsen that this would mean a \$20 increase per unit to cover taxes if HB 252 is not adopted.

Rep. Fabrega asked what the management fee is. Mr. Dixon said there is no set management fee, the average is \$10. Rep. Fabrega wanted to know the rationale for using 51%. Mr. Tonn said the FMHA can permit an apartment to be rented to a non-senior citizen on the basis of 30 days at a time. The department makes homes available to low to moderate income persons. A senior citizen may live there without asking FMHA to allow them to live there. In small towns half the people are in these homes.

Rep. Fabrega asked if it would affect the purpose of the bill seriously if we were to increase that relationship to 75%. Senator Towe said it could be changed to 75%. If income limitation continues as low as it is, senior citizens who would qualify would make up only 30-40%, the government would make up another 30-40%. If you had an 80-90% requirement, then those qualified would lose out altogether.

Rep. Huennekens asked Senator Towe if a percentage would be used on those qualifying over the preceding year. He answered that if the unit got an exemption that dropped taxes down 30-40% for a non-profit organization, it might be based on preceding figure.

Dennis Burr said the Department of Revenue didn't take the position that low income were the percentage of people who are elderly. Low income was taken from previous year figure and exempt that.

Rep. Reichert asked Mr. Tonn if this program required subletting. She was told the owner has his own rules and regulations for subletting. Usually the tenant is not permitted to sublease.

Rep. Dassinger asked the sponsor if he would mind if this were incorporated into another bill.

Rep. Williams mentioned that the bill is portrayed to help low income people who are renting, but it is helping the owner. The owner can build the unit 95% financed at a 1% interest rate. The government subsidizes his program so that he is guaranteed the 8 3/4% which is reduced down to 1% which is credited to his account. Mr. Tonn explained the owner puts up \$10,000 as his 5% down payment, and every year he may take out 8% return on that \$10,000 out of that rent budget. He is not permitted to take that out until the end of the year when the FMHA authorizes the deduction if there is enough money in his account. The next year, because of equity and reduction of the debt, he is still only allowed an 8% return on his \$10,000 for the length of the loan. He gets the 8.5% depending on how he manages his rent.

Senator Towe advised that before you can get permission to go into such a project, have to have projects figured out for 40-year loan. The amount of income is budgeted, expenses are budgeted, and have to show how much management fee is allowed. After taxes are reduced or eliminated, then the figure on the amount of rent would be correspondingly eliminated - could not possibly have a situation where the renters are not the beneficiaries of all the rent subsidy. The property can be sold as long as FMHA is paid off - can be refinanced by FMHA if approved buyer. Capital gains would be quite a bit.

An investor gets some other advantages besides the 8% on his investment. Management fee on larger units is almost \$20 per month per unit. His 8% is tax sheltered and the typical investor would show low income for tax purposes.

Representative Jay Fabrega, presented House Bill 255 of which he is cosponsor, for Rep. Jack Moore who was unable to be present at the moment. This bill attempts to give a \$3600 exemption to recipients of private funds and endowments as is done under present Montana law for other retirement funds.

HOUSE BILL Most large corporations and quite a few of the unions have a retirement pension plan. Such things as IRA, Keogh plans, etc., would not come under this provision. It is strictly created by employers and employee representatives and not by acts. Since the federal government allows \$3600 of their pension to be exempt, the same rationale should apply to recipients of private income funds.

There were no opponents.

Rep. Nordtvedt asked why self-employed who are trying to produce a retirement fund for themselves are not included. Mr. Laurie Lewis, Department of Revenue acting Director, said under an IRA or Keogh plan a certain amount is an exemption if it is paid in. You have an exemption under a Keogh plan up to \$7500 a year.

Rep. Huennekens said he is completely in support of the bill since it provides equity. He thinks people in private plans should have the same equity as those in government or company plans.

The first \$3600 of total retirement income of recipient would be exempt annually. Rep. Fabrega explained that years ago state and teachers salaries were lower than average and one of the incentives was this tax break. Mr. Lewis explained the federal retired employee receives approximately the high of his three highest years and this is not even close in the state retirement program. The portion of salary paid in is 8% of total salary. Tax has to be paid on the interest earned from a retirement fund.

Rep. Hirsch asked if you pay income tax on the monies you pay into the fund as you earn them. Rep. Huennekens explained you pay income tax on state and federal tax returns as you earn the money.

Committee adjourned to executive session.

House Bill 149 was discussed quite extensively.

Rep. Hirsch moved that HB 149 Do Pass. Rep. Dassinger moved a substitute motion to amend the bill: In the Title, line 6, following "ON", Insert: "PRODUCTIVE"; Page 1, line 12, Following: "at", Insert "and owned by".

Questions from the committee: Rep. Williams asked if the prison farm is a profit-making organization. Rep. Fabrega said the point that was made was that by operating the ranch, they are bringing some tax relief because the production is sold at a lower price than market value. Rep. Bertelsen said it is being used dually. Rep. Williams asked if it is being operated as a rehabilitation center.

Rep. Williams moved that a substitute motion for all motions pending be to defer action until a statement of purpose and profits or losses is received.

Rep. Bertelsen doesn't feel that is the feeling of the committee. Rep. Dassinger opposes the motion. Sivertsen thinks the committee has the right and should know as much as they can about this situation before making a decision on this bill: 1. Rehabilitation of prisoners? 2. Production of the ranch is to help sustain other state institutions? Have the right and obligation to know more about these things.

Rep. Dozier mentioned the impact on Powell County is the problem. Rep. Harrington feels Powell County people need some tax relief for that area. Rep. Bertelsen said if the land is leased, this bill would still be needed.

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Rep. Sivertsen said if the committee addresses the bill saying that we do think the prison farm land should be taxed, in the very near future you have to address experiment stations because they are operating a profit while their main purpose is to do research, but their products are sold at a profit. We are going into a very important area.

Rep. Dassinger thinks the intent of sales would have to be considered. Rep. Fabrega mentioned two points; 1, You can make the operation non-profit because we don't have arm's length action on the profits; 2, Rehabilitation question is valid but isn't the issue here.

Rep. Hirsch said there are 10 institutions in the state, and three of them operate farms. If we address this bill, we wouldn't be able to take that into perspective. Need more time to think of the ramifications. Rep. Lien said that part of the land was granted to the prison. If it exceeds 6% of the total county area that is state land, there is some precedent of paying in lieu taxes. He supports the motion,

Roll call vote on the motion was 13-6 for deferral,

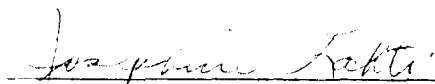
Rep. Williams thinks have to take the broad look. The state owns the experimental farms. Total taxes estimated for the ranch would be \$42,500. Would that make or break Powell County?

Rep. Dassinger moved that House Bill 64 Do Pass As Amended. Rep. Dassinger moved that the proposed amendments to HB 64 be adopted. They were unanimously adopted with all members present. On the motion to Do Pass As Amended, the motion failed by a vote of 3 to 16. Rep. Lien made a substitute motion that House Bill 64 DO NOT PASS AS AMENDED, Motion carried 13-6. All members were present.

Meeting adjourned at 11:15 a.m.



REP, HERB/HUENNEKENS, Chairman



Secretary