

HOUSE TAXATION COMMITTEE
46th Legislature

Rep. Herb Huennekens, Chairman, called the committee to order at 8:30 a.m., February 20, 1979, in room 434, Capitol Building, Helena. Rep. Fagg was fogged in at Billings, all other members were present. Randy McDonald, Staff Attorney, was present.

Bills to be heard today were House Bills 643, 646 and 669.

Rep. Jay Fabrega, District #44, Great Falls, chief sponsor, explained HB 646 was an attempt to promote more investment of insurance company assets in Montana. Most states give a graduated rate on the policy tax on domestic companies that invest their assets within the state.

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646 Mike K. Felt, Kalispell Corporation Management Group Insurance Company, the largest hail writer in Montana, and Casualty Mountain States Insurance Company, opened offices in Great Falls and Kalispell. Mountain States was chartered two years ago and is only one of two insurance companies chartered in Montana. If this becomes law, there will be a larger number of domiciled companies in Montana. A zero tax break for domestic companies allows for more competition between more chartered companies.

States with tax breaks have many more companies. This is an opportunity for chartering companies in Montana. Some pay no premium tax - some who hold property in the state do get to deduct tax from their premiums. Others are penalized for being small. This would equalize the tax on insurance companies and he urges passage of HB 646.

Terry Meagher, State Auditor's office, has no object to passage of this bill. Some of the language makes for problems in administration of the law. The tax break would be open to all insurers - presently there are 1,000 companies admitted to Montana and if HB 646 is passed the way it is written, all would be eligible. The office wants some wording requiring a support schedule itemizing Montana securities so they can be verified. Some securities are rented to others. Page 4, lines 12-13, the scope defined as Montana securities is considerably enlarged. Any type of security issued by a Montana corporation could qualify. Any such items as bonds, stock in subsidiaries, collateral loans, interaction paper companies could be considered a security issued by a Montana corporation. If it is passed and has suggested language changes, so it could be strictly construed in the taxing power, it would make for better administration.

Bill Stenberg, Life of Montana Insurance Company, Bozeman, supports HB 646. If it gives a tax break to Montana insurance companies, it will give encouragement to insurance companies to invest their assets in Montana. There are three Montana based life insurance companies which have about \$20 million in assets and this will encourage them to invest half of that - \$10 million - instead of the 25% of their assets that are invested in Montana now.

Rep. Fabrega said the insurance industry is absolutely pollution free, HB 646 would generate new insurance companies in Montana to service needs of Montanans in the area of agriculture. Passage of two bills will have handled these problems and created a pollution free situation in Montana.

Bill Groff said insurance companies that pay 2 3/4% of their premium tax are exempt from corporate license tax. Rep. Sivertsen asked why they are exempt from corporate license tax. Mr. Groff explained they pay a 2 3/4% tax on a gross basis in lieu of corporate income tax.

Rep. Sivertsen asked if this would be granting a tax break to corporate bonds, stocks and subsidiaries plus line companies. Mr. Meagher explained page 4, lines 8-12, an intercompany loan not substantiated is a paper transaction and can be created to take advantage of such a tax break. A surplus lines company is not licensed directly, called an authorized company, but offers insurance that is not offered through admitted insurers, such as packers and guides, long haul truckers, etc. They can write this if they meet just certain limitations, and are taxed at the same rate as an admitted company. The company does not pay and essentially the insured pays it through the resident insurer.

Rep. Williams asked are most incorporated insurance companies or are they mutuals? Mr. Meagher said most are stock companies. Have one legal reserve mutual. Mr. Williams said to remove exemption to remainder, all interest income would be exempt.

Rep. Reichert said the fiscal impact bothers her. Mr. Meagher said the fees and premiums taxes generated some \$12 million. If the bill is amended to include only domestic companies, it would have relatively no impact. Rep. Reichert asked why you want all this competition. Rep. Fabrega said he is a free enterprise person - feels it is a clean industry.

Rep. Sivertsen if the intent of the bill is limited to domestic companies rather than to real estate companies, that would be fine.

Mr. Felt said a charter company has to have \$800,000 to buy a charter. It will let small companies get into business. The 2 3/4% premium tax makes it almost impossible to be able to get started. More companies would start if they didn't have to pay the 2 3/4% tax.

Rep. Sivertsen said large companies would benefit. Mr. Meagher said large companies pay very little premium tax. Rep. Sivertsen thinks this would benefit them more - they get to deduct their property tax. If small companies derive some benefit, large companies would benefit more.

Rep. Fabrega said you have one or the other - either you can deduct property tax or premium tax.

Rep. Ramirez, District #64, Billings, chief sponsor, explained HB 669 would use tax increment financing for financing urban renewal projects. A municipality may issue bonds, the proceeds of which are to make urban renewal projects principal and interest payments. The taxable value is fixed.

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669

You get the increment that the actual tax is above the base. The bank shares the tax and when that is removed, then the actual taxable value could be reduced. If you have a dramatic reduction reduce the increment between the actual tax value and the base value. Have to maintain the increment so the bonds will not be in jeopardy. You can have a mortgage as additional security. It permits it for urban renewal projects. Tax increment revenue pledges are to be pledged for one project. Tax increment could be used for additional bonds, etc.

There was some question under urban renewal law as to whether a law can be finally approved by ordinance or resolution and it had to be approved by ordinance. People of Great Falls would like to clarify that aspect of the law. We can adopt this by resolution and it can be done at once, but if done by ordinance there has to be one notice that you are going to do this.

Tom Harrison, D.A. Davidson, seconds Rep. Ramirez on HB 669. The purpose of the bill is to put more satisfaction in the purchase of municipal bonds. This will be helpful to municipalities and the people involved.

Raymond E. Clark, assistant on a development project in Billings, thinks HB 669 will go a long way to providing greater security by holding them harmless. Thinks it will be a great improvement.

Larry Gallagher said the salability of bonds is most important to saving our cities in Montana.

Al Johnson, Great Falls Developer of community development project said the proposed amendment portion is certainly not in any way to do anything - it is simply to clarify the issue as to what the intent of the legislature is.

Al Thelen endorses the bill for the City of Helena. Davidson firm advises bonds will be more saleable with these amendments.

There were no opponents.

Rep. Ramirez did not wish to close.

Rep. Reichert asked when one project is paid for how does this work? Mr. Clark said tax increment funds need not be used. They may or may not be used, but they are insuring that funds are there to cover bonded indebtedness which could be used to pay off the bond issue. If you have committed funds you do have the capacity to pay those bonds off.

Rep. Hirsch asked why it was ruled that they had to be by ordinance. The statute was somewhat ambiguous in the particular place they were talking about on an urban renewal plan. It did not use the words "by resolution." Just an ambiguity in the law.

Rep. Dozier, page 8, line 2, new section - by mortgage or on all or part, you can mortgage to the bonding company - who would hold the mortgage? The mortgage would secure the payment of the bonds as well as the tax increment. That is what is intended, Mr. Clark advised.

Rep. Fabrega asked if the bonds will be paid from revenues generated from the project? Mr. Clark said no - tax increment means bonds are paid from tax revenues, not from revenue from the project which, with the amendments, can

be combined, You can use the revenue plus the tax increment, Revenue bonds or general obligation bonds along with tax increments which provides additional security for the holder, provide two sources of funds to insure repayment,

Mr. Clark said municipal sources of revenue would be allowed to be paid for payment of bonds. The principal security for tax increment bonds will be tax increment revenue from the tax district. A housing project would pay taxes into the tax increment fund. When this happens, revenue could now be pledged.

Rep. Fabrega mentioned a housing development might not be self-liquidating - how could that be? Mr. Clark said the land only is financed.

Rep. Lien asked how this would affect the county budgets? Would this further compound the problem if you take some base taxable value away. Mike Stephens, MACo said they would be opposed to any reduction of the tax base. Rep. Lien asked if allowed to adjust, could this affect the tax base of local governments? Mr. Clark said the local taxing entity makes the decision that they are going to allocate so they can keep their bonds viable. Mr. Ramirez said if the municipality affects the district, he wouldn't think it affects the county's revenue.

Rep. Williams asked if these projects would come under the 3-year exemption that was provided as an incentive for building? Mr. Ramirez said anything exempt would adjust the tax base.

Rep. Reichert asked with regard to bank shares tax - the way banks are taxed, that tax is part of the taxable valuation in the overall structure for property tax structures. If you take it away and make it part of something else, you would have reduced the actual taxable value - you reduced the increment or the difference and have put into jeopardy bond obligations. Rep. Fabrega explained if that bank happens to be in that taxing increment, it would affect the tax increment locally.

Rep. Sivertsen asked about the language on page 5, line 12 that had been stricken. Mr. Clark explained this portion relates to the section 5 on page 4 dealing with the option of a municipality to segregate back to local governments if ample to redistribute. Later on if some problem arises, this says that the base value which has been allowed to float upward could be allowed to go down, but could not let it go below what it was at the time adoption of the redevelopment plan.

Rep. Williams asked if this would go back and affect past programs? Rep. Ramirez said it has an immediate effective date. This would apply to any already existing bond issues. There is only one that has been financed in Montana. Rep. Williams asked if there would be any problems with the department of revenue having to go back and seeking what has taken place prior to this? Rep. Ramirez said no adjustments of this kind as yet. Would happen in the future but could affect existing bond issues. It is important to maintain bond issues.

W. Jay Fabrega, District #44, Great Falls, MT., sponsor of HB 643, said we will have to look at a different method of assessing centrally assessed utilities to try to understand what will be happening in the future. HB 643 would require

HOUSE BILL the department of revenue to assess all the operating property
 owned by centrally assessed companies and establish a tax rate
643 of 16% on all property of utilities.

Dennis Burr, DoR, asked how they can go about assessing utilities. Capitalizing incomes, investment, etc? Montana has a complicated method of assessing property. It is the only state that does this in this matter. Have to subtract whatever is assessed locally from the main assessment. The DoR has to go through a rigamarole to get to the correct value. After subtracting all local values there was nothing left for the state to allocated to other counties in the state. If local values get high enough and they continue to get high, it detracts from the unit value. In order to eliminate local assessments, the percentage would have to be reduced to something less so each utility on the average (all of them together) will be paying to local governments what they had been paying.

Taxable value at 13% will come out the same on all companies. Some companies have more locally assessed property than others. Have worked with Mountain Bell to eliminate local assessments and increase central value and that is now part of their central assessment. It puts Montana centrally assessed property closer to what other states are. This saves the DoR and the company a lot of bother.

Can eliminate those construction works in progress that are detracting from the value of every other property in the state. If wait very long will have to correct the problem after the tax goes on. They see allocations from the department decreasing each year even though the total value of the company is increasing because one or two counties have a lot of construction in them and are siphoning a lot of money off.

Ken Morrison, Department of Revenue, supports HB 643, as does Mantz Hutchinson.

Mike Stephens, Montana Association of Counties, support HB 643 because it will allow a more constant tax base for each county.

Opponents -

Les Loble, Montana Dakota Utilities Company, opposes HB 643, saying the market value of \$60 million overall as fixed by the department of revenue, \$27.3 million of which is locally assessed, leaving \$32.7 million centrally assessed. Believe it will cost MDU \$400,000 in taxes.

Gene Phillips, Pacific Power and Light Company, doesn't know where the 13% rate is. They are overallocating to the state of Montana by a substantial amount. Are paying tax on work in progress and can not earn a return on work in progress. Hates to see the bill passed without further study.

Thomas J. O'Neill, Montana Power Co., Helena, opposes HB 643, saying the tax effect of this measure will be approximately \$3.3 million at 16%. Total market value is \$492.5 million, taxable value \$57 million or 11.7%. There will be a drastic affect to Montana Power. The method for allocation is done on a mileage basis - might be drastically affected.

Tom Dowling, Montana Railroad Association, Helena, opposes HB 643 - the Burlington Northern, Union Pacific and Milwaukee are opposed.

Rep. Williams asked what effect this proposal would have if assessed locally.

Mr. Burr said everything is assessed locally in this bill. This would save Mr. Loble \$105,000.

Rep. Sivertsen asked if revenues would be reallocated. Mr. Burr said they would assess everything under the unit method and allocate values to each county. Would allocate that equipment be locally assessed. They would give 10% of the total allocation to that county. If Colstrip were 10%, would now be allocated to those things that are now assessed and they would receive revenue comparable to what they are receiving now.

Rep. Reichert, referring to page 4, lines 18 through 25, said some counties weren't pleased with the apportionment method. Would this come under revenue sharing? Mr. Burr said this maintains a constant value for each taxing jurisdiction instead of allowing construction to siphon off all the money from other jurisdictions. It was not the intent of this legislation to impact - perhaps a floating value might be feasible. They want no siphoning off from one place to another. Could treat locally assessed property in a computation and combine those two. At 13% would save MDU, and 13% would cost Montana Power Company. If similar companies are taxed at 11% and 12%, could not do that.

Rep. Williams said could possibly have a constitutional problems. The problem with railroads involves federal law and this would not involve that. Only the county in which it is actually located. There is a \$2,000 amount allocated on railroads.

Rep. Lien asked how this would affect taxable values of counties? Mr. Burr said valuations in most areas should remain about the same.

Rep. Sivertsen feels there is a big discrepancy in different areas because of the fact that some utilities are apportioned centrally and others locally.

Mr. Morrison said much of the Mountain Bell property is centrally assessed. Most of their utility property was appraised also.

Mr. Dowling said the position of the railroads is that they are not a utility.

Mr. Loble said he would take figures back to the people in Bismark.

Pacific Power and Light is taking no position.

Montana Power's position is that they are basically in agreement with the idea. If they could get 11% this year and maybe raise it to 12% next year...

Rep. Williams asked, assuming something is worked out on this under the new proposal and it doesn't fit into the class of 13% property, could we make another class? Mr. Burr said it could be put into another class at a different rate. Engineering studies, etc., are already considered in the construction process and would be taking away allocations from other counties.

Rep. Daniel Kemmis, District #94, Missoula, chief sponsor said HB 882 revises the Montana Homestead exemption law in a number of ways. It includes mobile homes and kinds of homes it can be claimed on whether or not it is situated on land that is not owned by the trailer owner.

HOUSE BILL If you have a creditor who has a judgment against you, the
669 homestead exemption is that you can protect your home against
 that lien - you can claim \$20,000 value your creditor can't
 get your home, or if you have a \$100,000 home, and he forces
you to sell, you can hold out \$20,000.

It allows single people to claim homestead exemptions. At the present time you have to be head of a family to claim the homestead exemption. The new Montana constitution prohibits discrimination against single persons.

Inside city or town, you can claim one acre - 320 acres outside of town used for agriculture purposes - no provision for them to claim homestead or to give them the one acre exception. \$30,000 is too low - want to make sure that a person can protect a home on a lot and questions if there are any \$30,000 homes left on a lot any more.

It allows homestead exemption to be acquired automatically. When you buy, you then have a homestead exemption, and if you have an automatic exemption, you have to have some way to put a mortgage on an exempt homestead exemption. Can be waived by a provision.

On page 3, line 15, the \$30,000 value should be left at that value, presumptively the assessed value.

Rep. Huennekens mentioned the assessed value is actually the so-called true market value which is really about 60% of true market value.

Gail M. Stoltz, speaking for herself and representing the Montana Human Resources Development Council Directors Association, Helena, supports HB 882. The homestead exemption is made automatic and includes mobile homes who deserve these benefits. Former legislature when changing laws dealing with this, changed the exemption from a male owner to family owner and including all classes of persons who should have benefits and made recommendation that it be dealt with including other persons. She is glad to see this being done in this bill. Thinks it is a human problem. This is helping clear up an oversight. See her testimony which accompanies.

Oliver Dahl, former director of Montana Senior Citizens, supports HB 882. Recommend this bill be given a Do Pass.

There were no opponents, Rep. Kemmis did not feel the need for closing.

Questions from the committee.

Rep. Huennekens mentioned in 3 imposing support element and in 4 are not. Rep. Kemmis said if somebody is unmarried and living alone, the homestead should apply to them as well as someone who is married. Section 3 may not be necessary at all.

Rep. Reichert asked if he recommended the figure of \$30,000 be raised? Rep. Kemmis says he leaves that up to the committee. One acre is protected.

Rep. Fabrega said assessment value should eventually escalate to full value to the sum of \$50,000. Page 1, line 17 defining head of household there is element of dependency. Automatic homestead exemption would apply.

Rep. Lien asked how this would affect the credit of these people, Would this jeopardize their chances of getting credit? Rep. Kemmis said they would have to give a waiver.

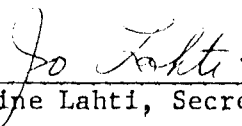
EXECUTIVE SESSION

Rep. Fabrega moved HB 882 be moved to the floor. Recommended on page 3, line 15 to change that paragraph to say such homestead in either case shall not exceed current market value of \$50,000. Motion to Do Pass was adopted unanimously.

Meeting adjourned at 11:30 a.m.



REP. HERB HUENNEKENS, Chairman



Josephine Lahti, Secretary