

HOUSE TAXATION COMMITTEE
46th Legislature

Rep. E.N.Dassinger, Vice-chairman, called the committee to order in Room 434, at 8:30 a.m., March 1, 1979. Representatives Fagg and Sivertsen were absent. All other members were present as was Randy McDonald, staff attorney.

Bills to be heard today were House Bills 402, 411 and 795, and Senate Bill 182.

Rep. Jack Uhde, District #17, Kalispell, chief sponsor of HB 402, explained this bill would eliminate temporarily the tax on gasohol and then work it back in at a later date. The first two years there would be no tax imposed, then 2¢ per gallon would be imposed on April 1, 1981 which would be increased 2¢ every two years until it reached whatever rate gasoline itself is taxed.

HOUSE BILL

402

Jack Gunderson, Department of Agriculture, said this may be a very important bill in a couple of years. SB 520 is increasing the wheat research and marketing assessment for grain products, and has contracts with the Department of Natural Resources for \$100,000 pilot project to get going to produce gasohol. It will maybe be utilizing 10,000,000 bushels of grain a year and the difference in gas taxes would be well worth the time and money. Montana may have gasohol production within the next two years.

There were no opponents.

Rep. Uhde said he would answer any questions.

Rep. Hirsch asked if there was no gas tax on gasohol to day. Yes, it is a motor fuel as defined in current law. It is 90% gasoline so it is taxed in most areas.

Rep. Fabrega asked if it is the intent of the bill to only have the 10%, the gasohol part, exempt? Rep. Uhde said the intent is to have the whole thing exempt.

Rep. Williams asked why it is necessary to exempt gasohol? Rep. Uhde said because it is more expensive to produce. Rep. Williams asked if he didn't think we have a tax incentive already. He thinks there might be a constitutional problem. Rep. Uhde said the dates were put in so there would not be a perpetual tax break.

Rep. Fabrega asked if Rep. Uhde would have any objection in putting in so many gallons no tax and two years following impose a tax. Rep. Uhde said he would prefer it with no tax immediately. After that it could be changed.

Rep. Vinger is for gasohol 100%. By selling 10,000 gallons of gasohol, you only use 9,000 gallons of gasoline. Questions the fiscal note.

Rep. Uhde said revenues would grow because of more use.

Rep. Hirsch asked if the closest state producing gasohol is Nebraska - is freight rate causing the higher cost? Rep. Williams asked where the closest gasohol is being sold. This is a mixture of blended alcohol and gas that is blended in Montana. Is that taxed? No. The combination?

Mr. Gunderson advised this would qualify only for gasohol produced in Montana, Rep. Williams stated that would be based on the gasohol produced in Montana from ethanol.

Rep. Nordtvedt remarked that it costs substantially more to produce gasohol than gas. Rep. Uhde thinks it can be a competitive fuel. Rep. Nordtvedt asked why give a tax break if it is going to become competitive? Rep. Uhde - it automatically qualifies itself and then is on an equal footing.

Rep. Underdal asked how much ethanol does a bushel of grain produce. It makes 2.6 gallons out of a bushel of grain - 188 btu's.

Rep. Art Lund, District #2, Scobey, sponsor of HB 411, said this bill is particularly concerning the problems the hospital in Shelby is having. There are 3,000 people living there and they have 23% of the land in the state that belongs to the State of Montana in that area. The people decided to have a 20-bed hospital complete with their own funds. Later on they added a 20-bed nursing home to the hospital and bonded the county for \$519,000 for additional beds - 55 beds in the nursing home and according federal law, the hospital goes down to 8 beds under federal specifications. There has been no profit from the operation since 1947 - have been losing money at various times. They decided they wanted out. The county commissioners had to raise money to keep the hospital open. The people have decided they want to keep the hospital open and the county will have to take over the operation of it. Start-up costs for April, May, June are uncertain but need money for those months.

They have a public subscription now and asked people to donate at least \$25,000. They are anticipating raising \$100,000 by subscription, After June they will have trouble keeping it operating. They have gone to the Attorney General for learning the best possible means of funding by tax revenue. The county has no authority for paying operating and maintaining expenses for a hospital. So they thought of changing the law to include maintaining and operating a hospital. The county is a county hospital district and can levy 3 mills on county property and if that is not enough, they can go to the vote of the people for another 3 mills. They are afraid that another 3 mills might not be enough and so have inserted 6 mills. They don't think that at the present time they will need the extra 6 mills which makes 9 mills that can be levied for a hospital district.

At this hospital they do a tremendous lot of surgery and have air ambulance to the closest place. They have a mill levy of 7.4 mills for the poor fund that could be used, but they don't want to go that way.

Rep. Vinger rose in support of HB 411 representing Wolf Point. It is 55 miles from Wolf Point and 50 miles to a new development for potash and people want to keep the hospital open.

Chad Smith, Montana Hospital Association, stated there are only 10 hospital districts in Montana. This is a voluntary tax by the people and people think hospitals are very important in their own area. It is not practical to transport people long distances. He sees no reason why they should not have the privilege of paying for their hospital through increased mill levies.

Dean Zinnecker, Director of Montana Association of Counties, Helena, said 1 mill only brings in \$7,920. This is necessary to protect people in that area. He supports HB 411.

Rep. Robbins rose in support of HB 411. They have the same situation in their community which has raised over \$200,000 in voluntary contributions. They will have some problems with the Lutheran Homes to continue operation of their hospital if some county aid is not forthcoming.

Ed Nelson, Montana Taxpayers Association, is in support of HB 411 saying this is general legislation and not specific. You permit the people to vote on it so the desires of the people are clearly established.

There were no opponents.

Rep. Lund closed saying they have two fine surgeons and they do a lot of work and the area will lose them if the hospital closes and they are very badly needed. They have been there a number of years and have made a great contribution to the county and the eastern area. They have 5 students from medical schools throughout the country.

Questions from the committee -

Rep. Bertelsen asked what Rep. Lund's reaction would be to a voted levy? It would be 6 mills. Rep. Lund said there was not going to be any abuse of the taxing authority by the county commissioners. If the county commissioners so choose to do that and the people want that hospital, they will have to pay for it.

Rep. Reichert asked about the timing for an election. Are people outside the county charged more? No. It was a 20-bed hospital, but federal specifications said you can only have one bed in a room; however, if crowded, can put in two beds.

Randy McDonald, staff attorney, said an election is required now. Additional mills have to be voted on at a general or special election.

Rep. Williams asked how hospital districts are established? Rep. Lund didn't know. Rep. Williams asked if a district can cover more than one county or go across county lines. If two or three counties are in a district, do all the county commissioners have to get involved? Yes.

Rep. Huennekens assumed chairmanship of the committee.

Senator Cornie Thiessen, District #27, Lambert, chief sponsor of SB 182, advised this bill pertained to distribution of the coal tax. The impact upon local governments is tremendous because of oil and gas exploration. The gas and oil severance tax goes to the state general fund at the present time. SB 182 is asking on a yearly basis that local governments get the increase increment. For example, a given county has a severance tax for gas and oil of \$100,000 and new production of gas and oil makes the tax revenue go up to \$120,000, local governments would get what was over \$100,000, which would be \$20,000. Next year the local governments would get whatever was over \$120,000.

SENATE BILL

182

There is provision for division on a person to person basis. The cities and towns will not get any more than the rural areas. The county will pick up rural allocation for rural operation of the county. Cities and towns can use it as they see fit. The census of cities will be determined by census count.

Rep. Kvaalen, a cosponsor of SB 182, District #53, Lambert, thought it was unfortunate that back in February when the Senate heard this bill, they didn't have a joint hearing as he would have liked for this committee to have heard the testimony given at the Senate hearing also.

They are having problems in Sidney, especially in the police department where they have eight people - one for every 900, and in the county 1 for every 1,000. They have had several oil related fires. Water and sewage plant needs to be expanded. They need a new treatment plant and also to expand the solid waste disposal area. Need additional money in the road fund because of the impact of heavy trucks. There have been \$5 million worth of new building permits in the City of Sidney. The value of a mill in Sidney was \$4,987; this year it is \$4,983, which is a loss of \$4 in spite of building, so they are having a problem in keeping up with expenses.

There is a self-destruct feature so when the boom is over, they get no more and this is automatic. The major problem is incorporated towns and cities, while counties and school districts benefit, cities don't because of limitation on taxing jurisdiction. Want to allow while the boom is on to take advantage of services that are required for the booming.

Dean Zinnecker, Montana Association of Counties, thinks SB 182 is a solution to a very difficult problem. There isn't anything harder on roads than big trucks.

Rep. Vinger, District #3, Roosevelt County, supports SB 182, since that county will have tremendous drilling for natural gas and oil in the very near future.

There were no opponents.

Senator Thiessen closed saying this thing will have more effect as the oil and fuel prices go up and there will be deeper explorations, especially in several counties in the Havre area. This will take care of impacts as they occur and will self-destruct.

Questions from the committee -

Rep. Reichert asked Rep. Kvaalen if they had any conception of how long this boom will last? He said the Williston Basin is interesting. They found a little oil in the 50s, dropped their leases and now they are back in with new technology. This will last quite awhile he thinks. Montana gets some impact of some work being done in South Dakota. Rep. Reichert asked if something would be put away for after the boom? Rep. Kvaalen said no.

Sen. Thiessen said there is some development in North Dakota. Electric consumption was so high the rural electric cooperative is importing 67% of their electric energy. North Dakota is served by some of their coal fields.

Rep. Dassinger mentioned there is no income from seismic caused problems. Sen. Thiessen said they have to be housed and have to be policed - they cause a great law enforcement problem. Rep. Dassinger asked if that impact is provided for in this bill and can it be? Rep. Kvaalen said that's part of the whole impact - they are part of the people who are causing part of the problem

and they want a portion of the severance tax - the increased increment - to be allocated to the place where the impact really takes place,

Rep. Nordtvedt remarked this would not be taking any money from the state - it would delay and not take it for a year. Mr. Zinnecker said it only takes the incremental increase, so it delays it for one year. Rep. Nordtvedt told Sen. Thiessen he opposes an increase in the severance tax. Would you object to an amendment that if the severance tax rate is changed that this would not go to localities that year? Sen. Thiessen reminded this only takes the increase in revenue over the existing production that will accrue to the local government. Increase in the rate on the existing production wouldn't accrue to local governments. If the state rate increased, it would increase income on the same amount of production.

Rep. Williams asked if the production leveled off after that year, you would get only the increase from the additional production? Rep. Fabrega explained in Section 4, page 4, this will affect all collections received after September 30, 1978, might be taking out for part of 1978? No. No objections to go on the basis of a fiscal year - was made retroactive to September 30. Will not get the first payment until after June 30 of this year. Senator Thiessen advised the payment comes on a quarterly basis. Rep. Fabrega thought there might be a little money that would be changed.

Don Allen, Montana Petroleum Association, advised the intent is to simply pick up the fiscal year and not take monies that have been committed. If they need to pick it up, they could - it is paid on a quarterly basis.

Is there a severance tax on solution mining of uranium? There is a tax, but Mr. Allen is not sure what it is.

Rep. Hirsch would like an opportunity to talk to Powder River County to see if they would like to add that tax of solution mining of uranium. Rep. Thiessen said there might be a problem in the title of the bill then.

Rep. Reichert asked if you had much other help in this legislation from other counties? She was told local governments were the ones who came up with this idea.

Rep. Fabrega remarked the quarter would have ended on September 30, so the second quarter has been collected for by the state and it would mean taking funds out that have been already collected. Would you object to changing that to after December 31? It was suggested that this be talked about with Senator Turnage. The first and second quarters have been paid Rep. Fabrega reminded.

Rep. Underdal is in favor of Senator Thiessen's bill since they have a great many wells in their county.

Rep. Nordtvedt asked Rep. Kvaalen if he knew what the present mill levy is in Sidney. He was told not quite up to the top mill limitation - they run a tight ship.

Rep. Dassinger feels the bill is o.k., but does not go far enough. He likes the setup we have on the coal - to have a coal board and to allow the money to go to where the coal is mined. Some of this money should be put into a fund to take care of problems in other counties. Would you be opposed to amend the

bill to provide for such a fund and take care of these other problems? Senator Thiessen said this is such a pittance, might as well forget it, Take some of the oil severance tax as that might be more advantageous,

Rep. Jay Fabrega, District #44, Great Falls, chief sponsor of HB 795, said this bill was introduced at the request of some people because of funding problems caused by people moving towards where the greater benefits accrue to persons who need help. Older people move into cities from rural areas and end up needing public assistance. He believes it is a fair way to fund such assistance by imposing the 6 mill levy similar to the way the university program is funded. This would be a mandatory 6 mill levy.

HOUSE BILL 795

Several changes have been made - on page 2, lines 13-16, have been deleted. Support was the charge of the county. At 13.5 mills, Cascade is oftentimes hard pressed to come up with enough funds. On page 8, lines 6-17, a new section has been added stating money collected by each county by this 6 mill levy shall be paid to the state to provide a way of equalizing costs of taking care of Montana needy on a statewide basis. It is a question of equity.

Ben Johns, SRS, appeared as a proponent, but does not really support or oppose HB 795. There appear to be some pitfalls. See testimony attached, Exhibit #1.

Gail M. Stoltz, Montana Human Resource Development Council Directors Assoc., Helena, independent agencies but who deal with the state, approves funding of general assistance. HRDCS wholeheartedly agree with this proposal. People from rural counties do move to cities. There are inequities seen when they come from different counties. Would like to see the quality of services the same over the whole state and see families stay where they are. Some are living where they can not receive assistance, but where they should stay because of friends and family.

Rep. Harrington is in favor of this legislation. There has been a move to equalize state education funding. Some of the smaller towns did not provide adequate relief for the needy and were given tickets to the next nearest large town where people knew their care would be better. The mill levy in the larger towns runs 13-14 mills in Silver Bow County and much of the care and assistance is caused by people moving in from other areas.

Opponents -

Ed Nelson, Montana Taxpayers Association, thinks this is a very interesting concept and will well worth the legislature taking time to look at it. He says the numbers in the bill are wrong in terms of the 6 mill proposal in the light of what is being done today. Fifteen counties have levied for this purpose. 6 mills would produce \$9.4 million which would be an increase according to their figures which are taken from budgets at the local levels. Should look at what point you are going to send out grants and aids to the state. At the present time 13.5 mills have to be levied before state aid can be obtained. This committee should investigate what the proper mill levy will be because it will increase in 41 counties.

Rep. Dassinger opposes HB 795. He represents Treasure County which has a total value of \$4 million, and operates its poor fund with two mills - has no gas, no oil - has only agriculture, and to put another couple of mills on this county would be a tremendous impact. What are we doing here? Rosebud also operates with 2 mills and it wouldn't hurt them, but some counties don't have much valuation and it would be a burden to shift to these counties. Something that is done on a contact basis. You have to have a residency for one year in that area and if you do not have a residency, the former county has to pay for that. This is shifting responsibility away from local control and you are changing local control although you would still be able to take care of the poor people. You would be lessening your purposes for being diligent in your operation because you would get the same amount of money regardless. He wants as much local control as possible because he thinks local people know circumstances better and can spend their money more advantageously.

Dean Zinnecker, Montana Association of Counties, says this is a controversial subject among 55 out of the 56 Montana counties. Two counties supported this concept. There are only 3 or 4 counties that would benefit from this - the other counties are using the majority of their poor fund for their hospitals. This will penalize the majority of the population in the state. This is going away from local control. Should reduce SRS budget by 6 mills and allocate to the counties for local control.

Also have a problem with the section mentioned by the SRS department, section 9, page 11, which will reduce the amount of funding available to hospitals. Hospitals are not going to survive on a 6 mill levy. Urges committee to take care of this bill by not passing it.

Rep. Nordtvedt speaking for Mr. Sager for himself and maybe for the county commissioners of Gallatin County, because of bad weather they were unable to make it to the hearing to testify. Gallatin County commissioners take a substantial amount of pride in trying to run their social systems programs very efficiently and feel local control is very necessary. This is in the nature of a revenue sharing bill and they would lose the incentive for running a program efficiently under this setup. They prefer moving in the direction of local options - local programs. This would be in the same position as in education with the state picking up costs. Reflects variation of people in need from county to county and how programs are run in various ways.

Rep. Fabrega closed saying there would be some erosion of local control and SRS is concerned they are going to fund and not control it. The 6 mill levy affects the person the same - it depends on what you own and not on what county valuation is. It is a question of who will pay that person's assistance for one year. The county of first residence would be liable. Are doing a lot of paperwork.

In ten years the legislature will be metropolitan dominated since the move is toward the cities so we should meditate on what the future looks like. Should look at it before it is a case of necessity while we have the time to look at it carefully now. This bill might be ten years too soon.

There is a point at which diligence gets into insensitivity. Kind of think we need to look at it and make some careful decisions now to take care of a big metropolitan thing taking over. People in a small community are also citizens of the state.

Questions from the committee -

Rep. Reichert asked Mr. Zinnecker how he would address the counties? Should the home counties bear the liability of the burden? Mr. Zinnecker said there are three counties at maximum levies and others are financing their hospitals out of their poor fund. If the state is going to pay for something, it should be taken out of the general fund. Rural counties are, in fact, paying for a large portion of the schools in the urban areas. You have a trade-off. What is feared is a policy decision on the part of the legislature.

Rep. Lien told Rep. Fabrega his counties are paying as much as Cascade County. His county pays for the county hospital out of the poor fund. The 6 mill levy would put a heavy burden on them. He does not approve the 6 mill levy.

Rep. Harrington asked if there is any chance of an increase in medicare funds. Could this be used as a match for medicare funds? There are several other bills pertaining to medicaid.

Rep. Dozier feels the people will spend their assistance money in local communities if they can stay there, and this is an advantage.

Rep. Bertelsen was afraid county welfare program rules would be promulgated by SRS.

Rep. Fabrega explained it all goes into one pot - state and local funds - and then is dispersed to local governments. The funds including the appropriation fund and any other source of funds are dispersed in accordance with section 6, page 8 to local governments according to claims from the counties.

Rep. Underdal mentioned there are two ways under state law to fund hospitals - the hospital district law and the poor fund which is less restrictive..

Rep. Williams mentioned the distribution of funds is set out on page 13, line 8, section 11.

Rep. Nordtvedt asked if some county has 18 mills worth of claims, would they be reimbured on that basis? Rep. Fabrega said an equivalent amount of money would go to where the claims are.

EXECUTIVE SESSION

HOUSE BILL 873 - Rep. Williams moved that a roll call vote be taken on the committee sponsored HB 873. After discussion Rep. Burnett made a substitute motion that no action be taken before the hearing. Reps. Williams, Robbins, Hirsch voted No. Reps. Fagg and Sivertsen were absent. Motion carried.

HOUSE BILL 297 - Rep. Lien moved to include "trap and skeet ranges" in appropriate places in HB 297. Reps. Nordtvedt and Dassinger voted No. Reps. Fagg and Sivertsen absent. Rep. Nordtvedt said we are asking to give tax relief to recreational property. He is opposed to the bill. Rep. Dassinger opposes this bill. It was pointed out at the hearing that this problem is now under investigation by the State Appeals Board. Should wait for that section of the government to take its correct procedural course. If taxes are too high, they can make a municipal recreational facility out of it then they won't have to pay any taxes. They made a municipal recreational facility at Forsyth and quite a few of the wealthy people didn't like it and if everybody should not be allowed and they want an exclusive course, they should pay the taxes.

Rep. Fabrega thought the portion of land remaining open like that in golf courses and ski areas could be taxed as open area since they are enjoyed by non-members also. When it comes to equipment, it should be taxed. The land part in golf courses and ski runs merits some consideration for putting it within the Greenbelt part of taxation. He wants to think about it and come up with something to treat land value according to productive value. Would rather not take any action today.

Action was deferred on HB 297.

HOUSE BILL 630 - Rep. Dozier moved that HB 630 DO PASS. Priority of taxes is in the same class. It is just the same as unpaid taxes which come first for collection.

Rep. Nordtvedt proposed a straw vote on an amendment to completely strike section 4. Rep. Huennekens thinks if section 4 is stricken, it would kill the bill. Rep. Fabrega would approve if tax liens become subsequent to the first mortgage. Banks would be protected because mortgages would continue to be paid. Rep. Johnson questioned how people are going to find out how this is available? Rep. Huennekens suggested the Statement of Intent can require that this be listed on the revenue form.

A roll call vote was in favor of the DO PASS AS AMENDED motion - 11-6.

HOUSE BILL 639 - Rep. Lien moved HB 639 DO PASS AS AMENDED. Rep. Williams opposes this bill because of feedlot taxation method. Rep. Huennekens mentioned that most cattle are moved into the feedlot before January 1. Rep. Lien said the present method is not working - are having all kinds of problems with it.

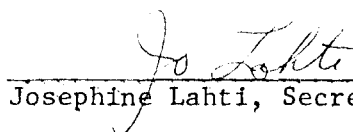
Rep. Burnett supports the bill. He feels someone pays taxes on the cattle whether they are in a feedlot or on the ranch. This would definitely be a benefit to livestock people. Rep. Williams remarked that since we went to annual inventory method, we are now getting about 80% of the cattle - got about 75% before.

Roll call vote was in favor of DO PASS AS AMENDED motion for HB 639 - 13-3.

Meeting adjourned at 11:45 a.m.



REP. HERB HUENNEKENS, Chairman



Josephine Lahti, Secretary