

HOUSE TAXATION COMMITTEE MEETING MINUTES
March 30, 1981

A meeting of the House Taxation Committee was held on Monday, March 30, 1981 at 7:00 a.m. in Room 192 of the State Capitol. All members were present except Reps. Dozier who was absent. HOUSE JOINT RESOLUTIONS 57 and 61 and HOUSE BILL 859 were heard, and EXECUTIVE ACTION was taken on HOUSE BILL 791.

The first bill to be heard was HOUSE JOINT RESOLUTION 57, sponsored by Rep. Jay Fabrega. This is a way of getting away from total dependence on property taxes. The Resolution only requests that the Revenue Oversight Committee look at the possibility of restructuring the corporate license tax. 80% of the corporate license tax is distributed back to local governments and divided among the taxing jurisdictions in relation to their mill levies. So, it does help to offset the mill levies. Possibly the tax on improvements could be replaced partially or totally. However, the tax on land is needed as a final stabilizing base for local governments. The Legislature has streamlined the property tax in the past three Sessions. A good deal of equity has been achieved, but the tax base of local governments has been shrinking. This is not a sales tax because Washington has a sales and business occupation tax both. He suggested that this might be a possible solution.

Dan Mizner, Executive Director of the Montana League of Cities and Towns, then rose in support of the Resolution. If more Legislators took a look at what was happening to local government and if at least a concerted effort could be made to help them, this might be one of the ways to do it.

There were no OPPONENTS to the Resolution. Questions were then asked. Rep. Fabrega said his idea was that everyone would pay a percentage of their income. When it came to allowing for deductions there should only be certain very specific deductions. This would prevent the use of loopholes.

Rep. Williams submitted that he thought this bill was leaning more towards a gross income tax than a net. Rep. Fabrega said it would pretty much be that but in business every business would have to be looked at to make determinations. If a system of taxing the wages could be worked up, that is one way to do it. He submitted that the study would be a complex one.

Rep. Williams commented that four years earlier, the Revenue Oversight Committee brought up the point of completely eliminating all personal property taxes and wanted to know if the tax on income under this Resolution might replace that tax if it was repealed.

Rep. Roth wanted to know if the tax was practiced anywhere else, and Rep. Fabrega said that it was practiced in Washington and Virginia, and possibly some other States.

Rep. Fabrega then closed and the hearing on HJR 57 was closed.

HOUSE JOINT RESOLUTION 61, sponsored by Rep. Steve Waldron, was then

heard. This Resolution requests that an Interim Committee study the fiscal condition of local government, and alternative means of financing local government. One of the things that is needed is a good mix of revenues for local government and he submitted that the Resolution would address this. The Legislature doesn't have a means of knowing the collective impact of all Legislation that is passed on local governments. He submitted that the Legislature should sit down and look at revenue and expenditures of local governments and decide whether or not present methods of raising revenue are appropriate; whether or not multiple mill levies are appropriate or whether one would be more appropriate.

Mike Stephen, Association of Counties, then rose in support of the Resolution, and also agreed to work on any interim study looking at the financial situation of local governments. Sandwiched between all revenue sources are State mandates, plus a decreasing property tax base. They would like the Legislature to look at this problem.

Dan Mizner, Executive Director of the Montana League of Cities and Towns, then rose in support of the Resolution. He submitted that there was no money in reserve in Cities and Towns. Just because local governments have money in the bank at present doesn't mean it will be there in November. This Legislature is passing \$30 million worth of money that will not be replaced at the local level. Their only alternative is to raise mill levies in order to maintain the same amount of revenue. It is important to take a hard look at the sources of revenue, tax bases, alternative sources of revenue, and if a package can be come up with, that is what the local government should follow. In the past there hasn't been a good study and now is the time to do it before the situation becomes any worse.

There were no OPPONENTS to HJR 61; questions were then asked.

Rep. Roth wanted to know what percentage of the severance tax on oil went to the Counties. Mr. Stephen said it was a considerable amount in oil-rich Counties, although the percentage was fairly low. He submitted that if there were no other mechanisms to give front-end money for impacted areas then the State had no right to take way their source of impact money after the initial impact. He said some of the ingredients that went into reduced mill levies needed to be looked into.

Rep. Roth submitted that in some cases there was little negative impact to the Counties with oil and gas production. Mr. Stephen pointed out that there were mill levy limits beyond which a County couldn't spend on certain areas, and flexibility is reduced because of this. The cap works very well for many Counties, but there is no flexibility for the County that it isn't working well for. Rep. Roth pointed out that the Counties got a windfall from State lands.

Rep. Brand told Mr. Mizner that if he wanted to know just what the

Legislature was doing, then maybe the Legislature should be able to know exactly what the local governments were doing. Mr. Mizner said that was exactly what this Resolution was looking at. If a law is passed taking away from the tax base, it applies to a group of Cities and it is difficult for a law to be passed which will apply to everyone across the State. Rep. Brand submitted that some Cities and Towns did a better job with their revenue. Mr. Mizner said that some Cities had more mandates on them than others.

Rep. Brand asked Mr. Stephen what he thought of the idea of reducing the number of Counties in the State to ten, so that there would be less of a problem with unequal revenue sources. Mr. Stephen said that many Counties that would be consolidated didn't want to think about this. He said this would be a wise move in a lot of areas just like consolidation of law enforcement. It might be nice to think about consolidation, but there will be lots of opposition from certain local governments. Rep. Brand submitted that consolidation would lend itself to less government and Mr. Stephen said it was less State government that they wanted.

Rep. Waldron said that the Local Government Commission that came up with HOUSE BILL 122 of several years back did something similar to what this Resolution would provide for, but he didn't think there had been a study that looked at local finances and the possibility of monitoring the fiscal condition of local governments and providing a means of letting the Legislature know what it was doing when it addressed bills concerning local governments.

Rep. Zabrocki submitted that local governments needed to be looked at so that a better tax structure could be worked up. Maybe they have enough money but are spending it in the wrong places, he submitted.

It was brought out that the State couldn't provide additional mandates on local governments without a means of financing them. However, there can be minor impacts that don't have to be financed, but if there are a lot of minor impacts, they will cause a major impact.

Mr. Mizner spoke up. This Resolution addresses that, and also says that if there is a mandated expenditure there will be a method of financing up to two mills; however, if the cost still exceeds the revenue because of reduced taxable value, there is a problem. The law is on one side and it was a band-aid approach and the small mandates put things out of whack.

Rep. Williams suggested that it be specified in the Resolution that the Revenue Oversight Committee do the study. He submitted that HJR's 57 and 61 could be consolidated. Rep. Waldron said he had no problem with specifying the Revenue Oversight Committee.

Rep. Underdal wondered why more flexibility couldn't be given on mill levy limits such as road funding on the County level. Mr. Stephen

said that in the past the Legislature had been reluctant to give this power. He submitted that elected officials on the County level were responsible. 489 bills came before the Legislature whittling away the Counties' property tax base. As far as roads, federal monies are being reduced. The State normally matches these federal monies, He explained the sources of funding for roads. He showed where part of these sources had been reduced. Raising the mills for roads was a band-aid approach and they lost all around.

Rep. Waldron then closed and the hearing on HOUSE JOINT RESOLUTION 61 was closed.

HOUSE BILL 859, sponsored by Rep. Harrison Fagg, was then heard. This bill is the direct result of an effort to buy property in some cities. If contribution laws could be broadened, this would help in this matter.

Dave Goss, Billings area Chamber of Commerce, then rose in support of the bill. The section of the Revenue Codes that applies to this area is put into Montana law with this bill. There has been a growing concern in Billings over using private dollars to accomplish something that maybe ought to be funded by government. Since local government doesn't have much money, these kinds of projects are at the bottom of the list. United Way is becoming concerned about the need for this additional incentive to large corporations because of the proposed cut-backs being talked about on the federal level to some of their programs. They are concerned about getting caught in a squeeze; some of their duties will be increased because of federal cutbacks and they need a means of increasing their capital. They are also in support of the bill.

Dennis Burr, Montana Taxpayers Association, rose in support of the bill. It is the mood to get as many services back into the private sector as possible and this bill seems to do this.

Forrest Boles, Montana Chamber of Commerce, then spoke. 5% is the limit of the contribution that can be made. He pointed out that a recent survey showed the average percentage given was 1.5%; and he felt the limit wouldn't be reached and impact wouldn't be as great as had originally been thought.

There were no OPPONENTS to the bill. Questions were then asked. Rep. Brand wanted to know how many States had this kind of provision. Mr. Boles said that only the States that had a State income tax, which were nine.

Rep. Bertelsen wondered if there was any conflict between this proposal and another bill which limited utilities from contributing. Mr. Goss said that it wasn't thought there would be a conflict because this bill wouldn't come into play until after the contribution was made. Rep. Williams wondered if the bill would cover public utilities. Rep. Fagg said he would assume that it would. He said there might be

a conflict in this, however, and it might be put in the bill that public utilities weren't included.

Rep. Bertelsen asked Ms. Feaver if she saw a need for a Fiscal Note on this bill. She said she did.

Dennis Burr said the tax didn't vary. He pointed out that corporation taxes brought in about \$40 million; therefore, 5% of that figure, \$2 million, would be the maximum fiscal impact of the bill.

Rep. Fagg then closed. As time goes on, fund drives are reduced and federal grants are increased. This bill would revert the custom back to the original way it was done. If federal programs are stopped, a way is needed to develop communities and this is a good step in that direction. The hearing on HOUSE BILL 859 was then closed.

Rep. Neuman wanted to know when HOUSE BILL 791 would be moved out of Committee. Discussion took place regarding when the deadlines were. Rep. Sivertsen said he thought the bill would have to be amended. Rep. Williams submitted that this kind of move would have to be thoroughly studied to avoid a chaotic situation.

Rep. Neuman said there were three alternatives: (1) HB 718, which had some bad problems; (2) Sen. Towe's bill, to put the hard rock mine tax on; and (3) HB 791. He submitted that HB 791 was the best alternative.

Rep. Williams questioned whether something was needed in this area.

Rep. Neuman submitted that there were problems in some areas that needed addressing. He agreed that HB 791 was quite a change.

Rep. Oberg said he was in support of at least hearing the bill on the Floor of the house.

It was pointed out that the State Lands Board gave the permit for hard rock mining and there were reclamation requirements under that. Rep. Neuman agreed but said his concern was with the economic impact. Rep. Sivertsen questioned whether or not it would be a negative impact. Rep. Neuman said that it depended on how one looked at it. He rose in support of front-end impact funding. Rep. Sivertsen brought up Rep. Harrington's bill, which had passed the House. Rep. Neuman said that bill would provide for tail-end impact. Rep. Sivertsen disagreed and said that that bill also provided for impact in general.

Rep. Bertelsen rose in support of the bill, and submitted that there were a diversity of impacts in the State. In the long run, something like this that looks at the State overall is needed.

Rep. Sivertsen pointed out that if there was one Board and one fund, many figures can justify impact in one area. It is possible that coal mining areas might not like to share their revenues on impacts from other industries.

Rep. Asay said that one Board meeting twice a year would not come up with any possible solutions.

Rep. Sivertsen said that the question was, to what extent does the State have to help these areas.

Rep. Williams agreed with Rep. Bertelsen regarding fragmentation. He wondered if the responsibilities would be faced by the Board and if it could handle them. He suggested that maybe this could be studied and addressed in 1983.

Rep. Neuman submitted that the problems were similar no matter what industry, so why not have one Board to look at all the different areas. Instead of creating a new Board, the Coal Board could be expanded to a 9-member Board to include a member from the industry and a member from the banking world. He suggested that the bill could be amended to make it more workable. He submitted that the impact would be there before 1983.

Rep. Sivertsen questioned whether a public hearing shouldn't be held for those who would be affected by the change. He submitted that things would be reorganized and the considerations would be tremendous and he felt attention hadn't been given the results of this.

Rep. Asay pointed out that different industries had different kinds of impacts.

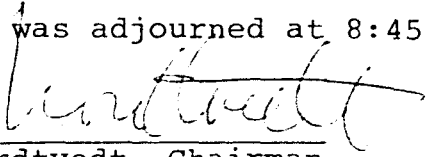
Rep. Williams moved that the bill be moved out of Committee without a recommendation.

Rep. Asay submitted that the bill needed extensive amendments and as a substitute motion he moved that HB 791 be TABLED. Rep. Sivertsen was excused to find out if the bill needed to be put out of Committee immediately in order to be kept alive. Discussion continued regarding the bill.

It was agreed that the bill needed a lot of work done on it. The Committee ruled that the bill was a revenue bill.

The question was called for on the motion to TABLE HB 791; motion carried 11 - 5; see roll call vote.

The meeting was adjourned at 8:45 a.m.


Rep. Ken Nordtvedt, Chairman

STANDING COMMITTEE REPORT

March 31,

19 31

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 859

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FOR THE DEDUCTION OF CHARITABLE CONTRIBUTIONS AND GIFTS MADE BY CORPORATIONS IN COMPUTING NET INCOME AND CORPORATE LICENSE TAX LIABILITY; AMENDING SECTION 15-31-114, MCA."

Respectfully report as follows: That HOUSE Bill No. 859, introduced (white), be amended as follows:

1. Page 6, line 12.
Following: "(7)"
Strike: "Charitable"
Insert: "Except as provided in subsection 7, charitable"
2. Page 6, line 14.
Following: "amended."
Insert: "(8) The public service commission shall not allow in the rate base of a regulated corporation the inclusion of contributions made under subsection 7."

AND AS AMENDED

DO PASS

STANDING COMMITTEE REPORT

April 1

19 82

MR. **SPEAKER**

We, your committee on **TAXATION**

having had under consideration **HJR** Bill No. **57**

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA URGING THE REVENUE OVERSIGHT COMMITTEE TO STUDY THE FEASIBILITY OF REPLACING THE PRESENT PROPERTY TAX SYSTEM WITH A BUSINESS AND OCCUPATIONS LICENSE TAX AND RESTRUCTURING THE CORPORATION LICENSE TAX.

Respectfully report as follows: That **HJR** Bill No. **57**

DO NOT PASS

~~DO PASS~~

STANDING COMMITTEE REPORT

75 April 1,

19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HJR Bill No. 61

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING ASSIGNMENT OF AN INTERIM COMMITTEE TO STUDY THE FISCAL CONDITION OF LOCAL GOVERNMENT, POSSIBLE ALTERNATIVE SOURCES OF REVENUE FOR LOCAL GOVERNMENT, AND POSSIBLE METHODS BY WHICH THE STATE MIGHT ROUTINELY MONITOR THE FISCAL CONDITION OF LOCAL GOVERNMENTS AND ADJUST REVENUE SOURCES AND EXPENDITURE REQUIREMENTS

Respectfully report as follows: That HJR Bill No. 61, introduced (white), be amended as follows:

1. Title.
Following: line 5
Strike: "ASSIGNMENT OF AN INTERIM"
Insert: "THE REVENUE OVERSIGHT"

2. Page 1.
Following: line 15
Strike: "overly"

3. Page 1, line 17.
Following: "that"
Insert: "in many cases"

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COMMITTEE ON TAXATION AMENDMENTS TO HOUSE JOINT RESOLUTION 61:

4. Page 1, line 22.

Following: "in"

Strike: "revenue available"

Insert: "the tax base"

5. Page 2, line 11.

Following: "that"

Strike: "an interim committee be"

Insert: "the Revenue Oversight Committee is"

6. Page 2, line 24.

Following: "the"

Strike: "interim committee"

Insert: "Revenue Oversight Committee"

7. Page 3, line 4.

Following: "that the"

Strike: "interim committee"

Insert: "Revenue Oversight Committee"

AND AS AMENDED

DO PASS