

MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE
March 10, 1983

The meeting was called to order at 8:00 a.m. by Chairman Yardley. Roll call was taken and all committee members were present.

Testimony was heard on HJR 31, HB 844, SB 108 and SB 242 during this meeting.

Executive action was taken on HB 31, HB 380, HB 446, HB 582, HB 717, HB 870, SB 108 and SB 242.

SENATE BILL 242

SENATOR DELWYN GAGE, District 7, said SB 242 is an act to generally revise and clarify laws pertaining to income taxation of estates, property held in trust, and beneficiaries of estates or trusts. This bill puts the state laws in line with the federal laws. .

Proponents

KEN MORRISON, representing the Department of Revenue, said SB 242 is not intended to make any drastic changes but it does clear up the law. With this bill, we will be able to have a separate fiduciary return in Montana which is typical to other states.

There were no opponents testifying on SB 242.

SENATOR GAGE closed his presentation of SB 242.

House Bill 844

REPRESENTATIVE JACK SANDS, District 68, said HB 844 is an act authorizing the Department of Revenue to conduct a study of the personal property tax system. The intent of the bill is to centralize property assessment in the state office. The bill would authorize a study of this assessment problem and the Department of Revenue would then report back to the legislature in two years. There would be an appropriation of \$100,000 for this study but Representative Sands said he thought that was way too much. Rather than sending the bill back for a rewrite, he said he thought it would be easier to give the bill to the committee and ask them to change that amount.

REPRESENTATIVE SANDS said it is feasible to do away with the office of the county assessor in each county and centralize those duties in the state office.

The current cost of administering the personal property tax system is \$4.7 million in comparison with \$1.9 million to administer the

income tax system.

There has been questions raised as to whether this centralized system would take away the local control and the ability of citizens to protest their assessments more directly. Representative Sands said there would be a computer printout of each assessment in each county and there would be a clerk in each county to give out that information to the citizens.

REPRESENTATIVE SANDS said this bill does not mandate this system be put into effect. It recognizes there are problems with local control and suggests a study be done.

Proponents

JIM SPRING, Chairman of the Governor's Council on Management, said the Council has spent a lot of time on this problem. He said the Council also agrees the \$100,000 appropriation is too high. However, it would be good for the state to take a look at a new system. The cost of changing to a computerized system would be between \$1.9 million and \$3 million per year for a ten year period.

ELLEN FEAVER, Director of the Department of Revenue, said the Department contracted with two consultants who had experience and could do this study. The consultants said it would cost about \$100,000 to do the study but that would be the upper limits of the amount of money needed. It would be unwise to do the study halfway. Ms. Feaver said she would feel more comfortable to leave the dollar amount where it is but said she had no idea if the study would cost that much.

STAN KALECZYC, representing Burlington Northern, said he thinks the study is significant enough that it should definitely be made. He suggested putting this study in with the study proposed in HJR 31. Mr. Kaleczyc submitted written testimony. (See EXHIBIT 1.)

DENNIS BURR, representing the Montana Taxpayers Association, said he agreed with Mr. Kaleczyc. He thinks the study proposed in HB 844 could be made a part of the study in HJR 31.

Opponents

CREATH TOOLEY, representing the Montana Assessors Association, said he does not want to appear critical of the Governor's Council on Management but said it would be hard to justify computerizing small counties. To be effective, the program should be linked with several offices: county clerk, treasurer, etc. This proposal would take control of records management out of the counties and he feels that is wrong. Changing the procedure will not correct the problem. A centralized computer system might create more problems.

MR. TOOLEY said there are more problems with real property than there are with personal property. He said he knows there are missing personal properties and if he had more staff, they could go out and find where it is - but a computer cannot do that.

ROBERT HOFFMAN, representing the Montana Assessors Association, said the county assessors are not trying to defend their jobs. They are concerned with the revolutionary change in the method of assessment. The functions being done by the assessors are not going to be replaced. Those functions will have to be done by someone else.

CHARLES GRAVELEY, representing the Montana Assessors Association, said the sponsor of the bill had said the purpose of the bill was to determine whether or not it was feasible and practical to implement centralized personal property assessment. Mr. Graveley said he doesn't see how rural counties can be properly served by an office in Helena. The state should not mandate local governments' functions.

The Local Government Commission made a recommendation to eliminate almost all of the local government offices. Thirty-two people spoke at that meeting. Two of those people were in favor of that proposal and everyone else spoke against the proposal. This bill is a step in that direction. You are losing local control on the collection of taxes. There is a big difference between the collection of income taxes versus the collection of personal property taxes. When there is a cut in the Department of Revenue's budget, assessors will be the first ones cut and that is wrong. The Governor's Council on Management did work long hours but there were no meetings with the assessors association and the people doing the study.

REPRESENTATIVE GLENN JACOBSEN, District 1, said the state's share of all property is 46 mills, statewide. The rest of the mills come from local governments. Local control should be left where it is.

REPRESENTATIVE SANDS, in closing, said the estimated cost proposed would be \$1.8 million. The cost now is \$4.7 million. There would be a potential savings of \$2.9 million.

It was suggested this bill should be tied in with HJR 31. He said he would have no problems with that as long as the job gets done. If this committee doesn't think it is appropriate to appropriate money for this study, then this committee, or someone, should direct the Department of Revenue to do a study and report back to this legislature. This matter is important and the potential savings is important enough that a study should be made.

Questions were heard from the committee.

REPRESENTATIVE NORDTVEDT asked if the study was done, would the

sponsor of the bill object to having the study done by the Revenue Oversight Committee. Representative Sands said no.

MS. FEAVER said she did not know that centralization is feasible and should be studied. Mr. Spring said the Council looked at the problem different ways and decided if we should go to a computerized system, it would be best to have that system in Helena. The Council did talk to assessors in other counties as to problems faced every day by assessors.

REPRESENTATIVE REAM asked if the \$2.9 million savings would be in personnel costs. Mr. Spring said that amount would be almost entirely from personnel costs.

The hearing was closed on HB 844.

SENATE BILL 108

SENATOR BOB BROWN, District 10, said SB 108 is similar to SB 72. That bill put resource indemnity trust tax on a quarterly basis. This bill puts the metalliferous mines license tax on a quarterly reporting basis. The taxpayer would still pay the tax on an annual basis but would report on a quarterly. The penalty, as in existing law, would remain at 10% but there would also be a 2% per quarter penalty if the taxpayer does not report quarterly.

Proponents

DON HOFFMAN, representing the Department of Revenue, said the bill was requested to allow the Department to a more indepth review of tax forms when they come in. It would make it easier for the taxpayer to file many of these taxes on one form. Senate Bill 108 make the metalliferous mines tax a self-assessing tax.

There were no opponents testifying on SB 108.

SENATOR BROWN closed his presentation of SB 108.

HOUSE JOINT RESOLUTION 31

REPRESENTATIVE MEL WILLIAMS, District 70, sponsor of HJR 31, said the resolution was presented by recommendation of the Revenue Oversight Committee. House Joint Resolution 31 is a joint resolution of the Senate and the House of Representatives requesting that the Revenue Oversight Committee conduct a comprehensive study of the property tax classification system in the state of Montana.

In the beginning, the property tax was only levied on cattle and land and was the only tax levied. As Montana developed and agriculture developed, Montana picked up more property and brought more things into the personal property system. State government was funded with that tax. Local governments and the state government began running short of money. They needed more money so they went to the severance tax, income tax and property tax. Then they

went to the statewide mill levy for schools. At present, the state is financed with income tax and the local governments are financed with property tax. Before 1975, the state had nine classes of property taxation. After 1975, the state went to eleven classes of property taxation. In 1977, a subcommittee of the Taxation Committee was setup to study the classification system and that subcommittee came up with nineteen classes. That created a lot of confusion and did not solve anything. They decided they made a mistake. Another study was funded to see how the problems from the first study could be fixed. The objectives of the second study were to bring the classes down to as few as possible and put like-properties in the same class without a statewide impact. The recommendation was to have ten classes and the statewide impact would be 1.6%. The 1979 legislative session created one more class which increased the number to eleven classes. Taking a look at what has evolved through the years would be beneficial. The old system needs a detailed study. We need some sort of equity. Centrally assessed property has been the biggest problem.

REPRESENTATIVE WILLIAMS said the state has gone to fee schedules and that has affected income for the local levels.

REPRESENTATIVE WILLIAMS said he has no concern that HB 844 could be put in with HJR 31.

Proponents

STAN KALECZYC, representing Burlington Northern, said Burlington Northern is in favor of a comprehensive review such as that contained in HJR 31. Mr. Kaleczyc said he had some concerns with HJR 31 so he redrafted the resolution. (See EXHIBIT 1.)

MR. KALECZYC said Burlington Northern wants to work with the Revenue Oversight Committee to participate and make available their experience with taxation in other states.

DENNIS BURR, representing the Montana Taxpayers Association, said he prefers HJR 31 over HB 844 because the study will be conducted by a legislative committee rather than the Department of Revenue. Assessors feel more comfortable with HJR 31. He suggested moving the \$100,000 appropriation from HB 844 to HJR 31 to fund that study.

JIM HUGHES, representing Mountain Bell, said he supports HJR 31. Mr. Hughes said Mountain Bell would be most happy to participate in the study.

BILL ASHER, representing the Agricultural Preservation Association, said that association is in support of HJR 31.

CHARLES GRAVELEY, representing the County Assessors Association, said it is clear from previous testimony that it is felt there is an inequity in the taxing structures. If this resolution is

adopted and implemented, the Revenue Oversight Committee should seek input from farmers, manufacturers, assessors, and anyone else to make a proper study of the inequities.

ELLEN FEAVER, Director of the Department of Revenue, said many states have gone away from the classification system for property tax purposes. Lawsuits that have been filed against the Department of Revenue represent the need for a study on the classification system.

There were no opponents testifying on HJR 31.

Questions were heard from the committee.

REPRESENTATIVE ZABROCKI said there is a movement to abandon all of these studies and put them into a legislative management council. How would that affect this resolution? Representative Williams said he is not familiar with that proposal so he could not speak to it.

REPRESENTATIVE WILLIAMS, in closing, said the Revenue Oversight Committee is the committee to direct this study. They, themselves, cannot do all the necessary work but with help from others with expertise, this study can be done and needs to be done. Hopefully by the next legislature, we can come back with a workable tax program.

REPRESENTATIVE WILLIAMS said, in regard to the budget for this study, that Jim Oppedahl, legislative researcher from the Legislative Council, has been trying to put some figures together and has not completed that task yet. That task should be completed within a couple of days and they will present that information to the legislature.

The hearing on HJR 31 was closed.

CHAIRMAN YARDLEY called the meeting into Executive Session at this time.

EXECUTIVE SESSION

Senate Bill 108

REPRESENTATIVE DOZIER moved SB 108 BE CONCURRED IN.

The motion was voted on and PASSED unanimously.

REPRESENTATIVE KEENAN was assigned to carry the bill in the House.

Senate Bill 242

REPRESENTATIVE HARRINGTON moved SB 242 BE CONCURRED IN.

The motion was voted on and PASSED unanimously.

REPRESENTATIVE HARRINGTON was assigned to carry the bill in the House.

House Bill 31, House Bill 380 and House Bill 446

CHAIRMAN YARDLEY said HB 31, HB 380 and HB 446 are not compatible bills and this committee has to decide on one of the bills.

REPRESENTATIVE SWITZER moved HB 380 DO PASS.

REPRESENTATIVE HARRINGTON made a substitute motion that HB 380 DO NOT PASS.

REPRESENTATIVE HARRINGTON said in 1925, the metal mines license tax was initiated by the people. He said he feels that this is an area that is long overdue for a change in the law to add areas rather than take the tax out altogether. This bill is wrong and we would be moving in the wrong direction.

REPRESENTATIVE SWITZER said the mining operation has been marginal until just recently. Two gold mines recently opened. Copper mining is bleak. Everywhere he has gone he has heard unfavorable comments regarding Montana's treatment of the mining industry. There is a lack of incentive on outside mining.

REPRESENTATIVE SWITZER said there have been four options and every one raised the tax of 1.438% to 1.5%. Those options are contrary to everything he has heard to he said he thought we needed a fifth option - to repeal the tax.

REPRESENTATIVE SWITZER said he thinks we have too much government now and less revenue will make less government.

CHAIRMAN YARDLEY asked Jim Oppedahl to give a quick review of the three bills.

JIM OPPEDAHL said HB 380 repeals the current metalliferous mines tax. House Bill 31 takes a portion of that tax and puts it in a fund to be used for immediate impacts. House Bill 446 takes 33% of that money and puts it in a trust fund to be used for impacts after a substantial reduction or ceasing of operations of a mine.

REPRESENTATIVE WILLIAMS said he supports the substitute motion. He said he doesn't think the impact will retard metal mine operations in Montana.

The motion that HB 380 DO NOT PASS was voted on and PASSED. A roll call vote was taken and all committee members voted yes except Representatives Devlin, Harp, Switzer, Underdal and Vinger, who voted no. Representative Abrams was excused at the time of the vote.

REPRESENTATIVE WILLIAMS moved HB 446 DO PASS.

REPRESENTATIVE HARRINGTON passed out copies of EXHIBIT 2, a letter from Carol Ferguson, Administrative Officer of the Hard-Rock Mining Impact Board.

REPRESENTATIVE NORDTVEDT said we should have a formula to redistribute net gross proceeds tax among local governments and not to just the areas where the mines are located. There is no need for additional impact money either upfront or tailend. The net gross proceeds tax is not being distributed to the right taxing jurisdictions.

REPRESENTATIVE HARRINGTON said HB 31 addresses the problem more than HB 446. There is a small percentage of money that goes into this fund. House Bill 31 addresses direct impact aid - ongoing. Butte has an ongoing problem. House Bill 446 does not give aid to a community directly. House Bill 446 addresses tailend impacts. This money should not just sit in a fund. You have to have something to help communities with impacts caused by mining. Butte has problems today but even if the mining opened up again, Butte would still have the same problems. Representative Harrington said if HB 446 could directly address problems in the areas, he would have no problem voting for that bill, but it doesn't and that is why he cannot vote for the bill.

REPRESENTATIVE BROWN, sponsor of HB 446, said HB 446 will provide impact money to an area where a mine reduces employment by 50% over a five-year period. With HB 31, the money will be there every year and the counties will provide for that money in their budgets. When the money stops, the counties will come in for financial help for their budgets.

REPRESENTATIVE HARRINGTON said he doesn't feel the money, provided by HB 31, would become a part of the counties' budgets. Each county would have to go to the Board and come up with reasons why they need the money. This would not be an ongoing budget process because the county would not know if they would be getting the money every year or not.

REPRESENTATIVE SWITZER said if this committee decides to go with the 1.438% contained in HB 446, there would be no increase and he could support that.

REPRESENTATIVE SWITZER moved the 1.5% be amended to 1.438%.

REPRESENTATIVE NEUMAN said the reason for going to 1.5% was just to round up the number. The increase would not be that large.

The motion was voted on and FAILED. All committee members voted no except Representatives Devlin, Harp, Nordtvedt, Switzer, Underdal and Vinger, who voted yes.

REPRESENTATIVE WILLIAMS said he would include the statement of intent in his motion that HB 446 DO PASS.

The motion was voted on and PASSED. A roll call vote was taken and all committee members voted yes except Representatives Neuman, Nordtvedt, Ream and Switzer, who voted no.

REPRESENTATIVE HARRINGTON said he voted for the bill because he wants to see either HB 446 or HB 31 passed, but he prefers HB 31.

CHAIRMAN YARDLEY said he would entertain a motion to TABLE HB 31. Representative Harrington said he would rather have the bill acted on so that he could debate it on the floor.

REPRESENTATIVE HARRINGTON moved HB 31 DO PASS.

REPRESENTATIVE NORDTVEDT made a substitute motion that HB 31 DO NOT PASS.

The motion was voted on and PASSED. All committee members voted yes except Representatives Dozier, Harrington, Keenan, Nilson and Ream, who voted no.

House Bill 582

REPRESENTATIVE SWITZER moved HB 582 DO PASS.

REPRESENTATIVE HARRINGTON said the net proceeds tax is well outlined and the deductions are clarified. He opposes the motion.

REPRESENTATIVE SWITZER said HB 582 delays the allowable business expenses. It does not represent tax relief. Mines in Montana have lost some markets, as close as North Dakota, because of the high price caused by the taxes.

REPRESENTATIVE WILLIAMS said he opposes the motion because he doesn't believe the mining industry is in that much trouble at this time. The fiscal impact of this bill would be \$600,000.

REPRESENTATIVE DOZIER said he doesn't feel we need this bill.

The motion of DO PASS was voted on and FAILED. A roll call vote was taken and all members voted no except Representatives Asay, Bertelsen, Devlin, Harp, Jacobsen, Nordtvedt, Switzer, Underdal and Vinger, who voted yes.

REPRESENTATIVE BERTELSEN moved to reverse the vote and have the bill come out of committee with a DO NOT PASS.

The motion was voted on and PASSED unanimously.

House Bill 717

REPRESENTATIVE HARP moved HB 717 DO PASS.

REPRESENTATIVE HARP told committee members to rip up the fiscal

note because it doesn't come into line with what the bill intended. The total impact will be \$216,982 and of that amount \$160,000 comes from Lincoln County.

REPRESENTATIVE WILLIAMS said he opposes the bill because the impact to the local governments will have to be picked up by the taxpayers. He said he didn't like that method. This proposal should fall into the category of HJR 31 and we should postpone enacting this legislation until after the study has been completed.

REPRESENTATIVE HARP moved the proposed amendments to HB 717.
(See EXHIBIT 3.)

The motion was voted on and PASSED unanimously. Representatives Keenan and Harrington were excused at the time of the vote.

REPRESENTATIVE HARP'S motion of DO PASS, AS AMENDED was voted on and PASSED. A roll call vote was taken and all committee members voted yes except Representatives Abrams, Dozier, Harrington, Keenan, Neuman, Nilson, Ream and Williams, who voted no.

House Bill 870

REPRESENTATIVE BERTELSEN moved HB 870 DO PASS.

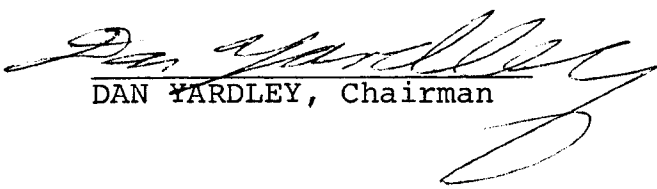
REPRESENTATIVE BERTELSEN said this bill solves several problems concerning putting whole tax increases into a small area instead of taking care of the whole impacted area.

REPRESENTATIVE BERTELSEN moved the proposed amendments to HB 870 DO PASS. (See EXHIBIT 4.)

The motion was voted on and PASSED unanimously.

The motion that HB 870 DO PASS, AS AMENDED, was voted on and PASSED. All committee members voted yes except Representative Asay, who voted no.

The meeting was adjourned at 11:45 a.m.


DAN YARDLEY, Chairman


Vicki Lofthouse, Secretary

Securities Building
Box 162
Helena, Montana 59624
406/449-6220

TESTIMONY OF THE BURLINGTON NORTHERN, INC.
IN SUPPORT OF HB 844 AND HJR 31

Mr. Chairman and Members of the Committee:

My name is Stanley T. Kaleczyc of the firm of Browning, Kaleczyc & Associates of Helena. I am appearing today on behalf of our client, the Tax Department of the Burlington Northern, Inc., in support of a comprehensive interim study of the property tax system in the State of Montana.

No one can seriously dispute that the property tax system in this State is in dire need of review and reform. One need only look at the recent decisions of the courts in this State to conclude that both the property tax statutes and the manner in which the statutes are administered demand close scrutiny by the Legislative Branch of Government. Judicial decisions that various facets of the property tax system are, as a matter of fact or law, illegal have resulted in unanticipated revenue shortfalls to local governments. At the same time, there is a considerable body of opinion that if the property tax system were administered more efficiently, utilizing modern technology, property tax revenues under existing laws would be increased.

We all recognize that the enormity of this task makes it virtually impossible for this Legislature to do the kind of job which must be done with respect to a comprehensive review of the property tax system, and simultaneously to consider nearly 1,500 bills which have been introduced this Session. Hence, it is both appropriate and necessary that an interim committee of the Legislature be assigned the specific responsibility of undertaking a comprehensive review.

As the members of this Committee are aware, there are three basic elements which must be considered in any property taxation system; namely, equalization, classification and valuation.

Equalization is the process employed to insure that property located throughout the State is treated on the same basis, for example, by applying the same ratio of assessed to market value.

There are two principal tools used to accomplish equalization. For real property, a sales-assessment ratio study is used; and, for personalty, an audit study. The purpose of a sales-assessment ratio study, of course, is to compare the market value and assessed value of real property on a statewide basis. By the Department of Revenue's own admissions made to committees of this Legislature in this Session, no sales-assessment ratio study is currently being conducted in this State.

The counterpart of a sales assessment ratio study, for personal property, is an audit study. An audit study places auditors in the field for the purpose of determining whether the taxpayers are reporting all the personal property which is subject to tax and whether that property which is reported is being accurately described. To our knowledge, no regular and systematic audit function of this sort is being carried on at this time.

The second component to a property tax system is the classification system itself. Perhaps no better testimony in favor of the need for a comprehensive review of the classification system contained in the statutes can be found than in the number of bills which have been introduced in this Session, and in prior sessions, requesting adjustments in the classification system in the name of tax equity and fairness.

The third element of a property tax system is the method by which the property itself is valued. There has been considerable discussion during this Legislature concerning valuation methodology, in no small part prompted by HB 62, which is presently before this Committee. We submit that the subject of valuation methodology itself is one which demands in-depth study. Indeed, there has been speculation in the Revenue Oversight Committee itself as to whether some value other than market value be used with respect to a property tax system.

In making these observations, it is not our intent to imply that the Department of Revenue has shirked its responsibility in administering this tax or that this Legislature has created an untenable or unworkable system. Rather, we make these observations because, first, the property tax system in this State is in need of serious review, and, second, because in our opinion neither HB 844 nor HJR 31, as drafted, provide an adequate mandate for the interim study which is so badly needed. HB 844, on its face, only addresses some of the problems of administration. This is not to say that this bill fails to address the correct issues, but rather that it fails to address all the administration issues. Similarly, HJR 31, as drafted, speaks only to the comprehensive review of the classification system. We submit that it is impossible to undertake a proper review of classification issues without at the same time exploring equalization and valuation methodologies. Thus, we suggest that HJR 31, at a minimum, clearly state that equalization, classification and valuation are all to be studied by the interim committee. It is our recommendation then that the final bill or resolution which is passed by this Committee clearly authorizes the study of the administration of the property tax system and the subjects of equalization, classification and valuation. To this end, we have appended to this testimony an attempt at drafting some legislative language which reflects such a broad mandate.

In making this recommendation and urging this Committee to pass such legislation, the Tax Department of the Burlington Northern desires to work with the Legislature in this project. The Tax Department desires to make available, and hereby formally offers, its knowledge and experience on property tax matters of all types without regard as to whether the issues affect Burlington Northern properties themselves.

In summary, we urge this Committee authorize a comprehensive study of all facets of the property tax system, for such a study and review can only benefit all the taxpayers of Montana.

WHEREAS, the property tax system is a vital element in the taxation system in the State of Montana; and

WHEREAS, local government relies upon property taxation for nearly all of the tax revenues that local government generates; and

WHEREAS, not all of the personal property in the State is currently being taxed; and

WHEREAS, the current system for the assessment of taxable personal property is a manual process, and the majority of counties do not have the expertise to develop effective computer systems; and

WHEREAS, it is desirable to develop computer software programs and systems to assess personal property; and

WHEREAS, neither a Sales Assessment Ratio Study of real property nor a comprehensive and ongoing Audit Study of personal property is currently in existence in this State; and

WHEREAS, significant problems exist in the implementation of a program to equalize the value of real and personal property; and

WHEREAS, Montana's property tax system contains 11 separate classes of property that are assessed and taxed at different rates; and

WHEREAS, significant issues have been raised concerning the valuation methodology employed in this State to assess property; and

WHEREAS, several actions by the United States Congress, particularly those relating to railroads and airlines, have

raised legal questions about the operation of the property tax system in Montana; and

WHEREAS, legal challenges to the property tax system have resulted in judicial decisions that elements of the property tax system in Montana are, as a matter of fact and law, illegal, thereby resulting in revenue losses to local governments and uncertainty about future collections; and

WHEREAS, the annual cost of administering the present personal property tax system exceeds \$4.7 million; and

WHEREAS, an independent citizen's group known as The Governor's Council on Management estimated that approximately \$3 million could be saved annually if changes were made in personal property tax administration in Montana; and

WHEREAS, there is an urgent need to study and resolve legal, administrative, and equity issues related to the property tax system used in Montana.

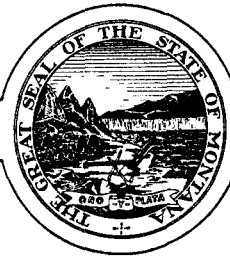
NOW THEREFORE BE IT RESOLVED (ENACTED):

1. That the _____ Committee is requested and authorized to undertake a comprehensive study of the administration of the property tax system in Montana; and

2. That the same Committee is requested and authorized to undertake a comprehensive study of equalization, classification and valuation, as each of these elements relates to the property tax system in Montana, and to include in its study an examination of legal, administrative and equity issues related to Montana's property tax system.

[(3-____) Additional sections concerning funding, staffing, reporting to the 49th Legislature.]

DEPARTMENT OF COMMERCE

EXHIBIT 2
3-10-83

TED SCHWINDEN, GOVERNOR

CAPITOL STATION
1424 9TH AVENUE

STATE OF MONTANA

(406) 449-3494

HELENA, MONTANA 59620-0401

February 9, 1983

MEMORANDUM

TO: Rep. Harrington

FROM: Carol L. Ferguson, Administrative Officer *Carol*
Hard Rock Mining Impact board

RE: HB31

While the Board has chosen not to take any position on the substantive issues in the bills currently pending before the Legislature, they have authorized me to "speak my piece" as I feel appropriate as an individual and professional who has worked with impact assistance programs and local government issues for the past nine years. As you know, I support your amendment to attach your proposed program to the existing Hard Rock Mining Impact Board, as the appropriate administrative agency. Just as importantly, I think you've exactly addressed two key issues that slid past the interim subcommittee despite the tremendous amount of good work they did with "front-end" and "tail-end" impacts. First: neither the current program nor the interim subcommittee's proposals address current impacts, which seems ironic at a time of such great distress in Butte and Anaconda. Second: even a small grant program could "take the edge off" the tensions inherent in the impact plan approach. Developing an impact plan is a good approach which HB472 will improve, especially by providing a method for amending an approved plan. However, not every legitimate impact-expense can be predicted by the plan and the amendment process is limited. Mineral developers don't want their financial commitment under the plan to keep growing, or to be "nickled and dimed" to death. Local governments don't want to have to raise taxes for existing taxpayers to pay for legitimate but unanticipated impacts. Even the county receiving tax revenues from the mineral developer could be caught in a bind by unexpected impacts, because it will have projected for existing tax levies the use of all its tax revenues from the developer. If its projections are correct it will be able to raise additional revenues only by raising the mill levy or, if taxes have been prepaid, by reducing the tax credit the developer would have received. However, jurisdictions not receiving tax revenues from the developer would have recourse only to increasing mill levies, if they were not already at their limits. The small grant-making authority in HB31 would provide for a middle-ground to enable the Board to address those impacts that the plan could not project and that do not arise from circumstances that would warrant a plan amendment.

If you and Representative Brown choose to do so, I should think HB31 and HB446 could be integrated by using (for example) 25% of the metal mines license tax for your approach (which can address current and tail-end impacts) and 5-10% for a trust fund (which will accumulate and can address only future tail-end impacts).

In short, I can see considerable advantages to both developer and local governments in your bill as a complement to exHB718. (And, it's a delightfully concise and lucid bill -- which is worth a lot!)

Thank you for the copy of your amendments. Please let me know if you'd like me to prepare a chart on how the existing and proposed legislation (i.e. ex "718," HB31, HB446 and HB472) could fit together to provide a "complete package" for impact areas: Carol L. Ferguson - 449-3757.

CLF/ke

cc. Rep. Dave Brown
Loehler Stout

AMENDMENT TO HOUSE BILL 717, INTRODUCED BILL:

Page 1, line 23 strike the word "Property" following "(b)" and insert in lieu thereof the following:

"(i) Except as provided in subsection (2)(b)(ii), property"

Further amend line 24 after the figure "~~100%~~" strike the figure "80%" and insert in lieu thereof the following:

"100%"

Further amend following line 25 by inserting the following:

"(ii) Net proceeds of miscellaneous mines other than oil, gas, coal and metal mines are taxed at 80% of their annual net proceeds."

NOTE: It was never the purpose of House Bill 717 to change the classification percentage of any net proceeds for any mines other than the non-metallic miscellaneous mines, as distinguished from coal, metal mines, oil and gas.

1. Page 2, line 11.
Following: "located"
Insert: "in accordance with an impact plan adopted pursuant
to 90-5-307"
2. Page 2, line 14.
Following: "(3)"
Strike: "In-migrating mineral"
Insert: "Mineral"
3. Page 2, line 15.
Following: "who"
Strike: "establishes a temporary or permanent residence"
Insert: "resides"

~~XXXXXX~~

March 10, 1963

4. Page 2, line 19.

Following: "(4)"

Strike: "In-migrating"

Insert: "Mineral development"

5. Page 2, lines 20 and 21.

Following: "guardian" on line 20

Strike: "establishes temporary or permanent residence"

Insert: "resides"

6. Page 3, line 2.

Following: "units"

Insert: "as finally determined by the board in an approved impact plan"

7. Page 3, line 3 through line 16.

Following: "development" on line 3

Strike: line 3 through "82-4-303" on line 16

Insert: "for the purposes of this act is defined in 90-6-302"

8. Page 3, line 17.

Following: "unit"

Insert: "for the purposes of this part"

9. Page 3, line 19.

Following: line 18

Insert: "(3) 'Taxable valuation' of a mineral development means the total of the gross proceeds taxable percentage specified in 15-6-132(2)(a) when added to the taxable percentages of real property, improvements, machinery, equipment, and other property classified under Title 15, chapter 6, part 1."

10. Page 4, line 18.

Following: "distributed"

Strike: "to"

Insert: "pro rata among the"

11. Page 4, line 19.

Following: line 18

Strike: "each"

12. Page 4, line 22.

Strike: "in-migrating"

13. Page 4, line 25.

Strike: "in-migrating"

March 10,

19 83

14. Page 5, line 2.

Following: "distributed"

Strike: "to"

Insert: "pro rata among"

15. Page 5, line 4.

Following: "number of"

Strike: "in-migrating"

Insert: "mineral development"

16. Page 5, line 6.

Following: "of"

Strike: "to"

Insert: "pro rata among"

17. Page 5, line 8.

Following: "number of"

Strike: "in-migrating"

Insert: "mineral development"

18. Page 5, line 15.

Strike: "in-migrating"

19. Page 5, line 17.

Strike: "in-migrating"

20. Page 5, line 19.

Strike: "in-migrating"

Insert: "mineral development"

21. Page 5, line 21.

Strike: "in-migrating"

Insert: "mineral development"

22. Page 5, line 25.

Following: line 24.

Insert: "NEW SECTION. Section 7. Codification.

This act is intended to be codified as Title 90,
chapter 6, part 4, entitled "Hard-Rock Mining Impact
Property Tax Base Sharing."

AND AS AMENDEDDO PASS

INDIVIDUAL RECOMMENDATION REPORT

Report No. and Name 14b Property Assessment Division		Recommendation No. 6	
Team Leader [REDACTED]	Team No. 4	Page 1 of 5	
Team Member [REDACTED]	Date Prepared 6/24/82	Date Revised	
<input checked="" type="checkbox"/> EXECUTIVE ACTION <input type="checkbox"/> LEGISLATIVE ACTION <input checked="" type="checkbox"/> CONSTITUTIONAL ACTION			
<input checked="" type="checkbox"/> Annual <input type="checkbox"/> One Time		ECONOMIC SUMMARY <input checked="" type="checkbox"/> Saving <input type="checkbox"/> Improved Effectiveness <input type="checkbox"/> Added Income <input type="checkbox"/> Added Cost \$ 2,904,000	
<input type="checkbox"/> Annual <input checked="" type="checkbox"/> One Time		<input type="checkbox"/> Saving <input type="checkbox"/> Improved Effectiveness <input type="checkbox"/> Added Income <input checked="" type="checkbox"/> Added Cost \$ 289,000	

Statement of Recommendation

Centralize the Personal & Real Property Assessment function into Helena.

Problem, Solution, Benefit

Problem:

— The current system for the assessment of real and personal property is a manual, labor intensive process. In all counties, the state assumes the total personnel and operating cost of assessing property taxes.

— Only 15 of Montana's 56 counties are in some stage of computerization. Those stages range from counties that have mature automated systems to those counties that are just taking delivery of a computer. In each case, the State has been asked to assume at least a portion of the cost of these computer systems and has \$251,000 budgeted in 1982 for computer operation cost. Unfortunately, there is little standardization of hardware or software among the counties. The State cannot afford to put a computer in all of the 41 remaining counties since most of them are not large enough to justify a computer. In addition, it appears that the local elected assessors have not reduced their staff in accordance with the efficiencies they have accrued from computerization.

The Income Tax Division is a highly computerized, efficient organization. Since the Income Tax Division and the Personal Property Bureau both deal directly with the same taxpayers and are of the same general complexity, a comparison can be made.

INDIVIDUAL RECOMMENDATION REPORT

Report No. and Name	14b Property Assessment Division	Recommendation No.	6
Date Prepared	6/24/82	Date Revised	
		Page	2 of 5

Problem, Solution, Benefit (Continued)

1 While the Personal Property Bureau has a 1982 budget of \$4.7 million, the Income
2 Tax Division has a comparable budget of only \$1.9 million, including systems cost.
3 The difference in cost can be attributed to centralized effort and computerization.

4 To fully understand the magnitude of manual processing in Property Assessment,
5 one must follow the process through step-by-step. The Personal Property process
6 begins when the counties mail blank state supplied forms to individual taxpayers
7 (examples -- Attachment I & II). The taxpayer completes the forms and mails them
8 back to the County Assessor. A clerk in the Assessor's office then assigns a
9 market value to the property listed on the form, based on information from a valuation
10 book. After all forms have been returned and assessed, a summary is prepared
11 (Attachment III). A similar summary is manually prepared for real property from
12 historical records (Attachment IV). Copies of the summaries are then sent to the
13 taxpayer and to another county office for collection. The assessor then manually
14 posts the total taxes by individual in an assessment book, and distributes the
15 taxes to the different taxing authorities (Attachment V).

16 In a county with an advanced computer system such as Cascade, the personal
17 property information that was supplied from the taxpayer the preceding year is
18 printed on the forms by the computer before they are sent to the taxpayer. The
19 taxpayer then makes additions and deletions to the forms. The changes, along with
20 the market values, are then entered into the computer by an assessing clerk.
21 The computer then completes the processing using historical data for real property.
22 The computer generates both summaries (Attachments III & IV) and an Assessment
23 Book (Attachment V) and prints them on computer paper.

24 The State has helped pay for the software in Cascade County and owns title to
25 the software.
26
27

INDIVIDUAL RECOMMENDATION REPORT

Report No. and Name 14b Property Assessment Division		Recommendation No. 6	
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Problem, Solution, Benefit (Continued)

Cascade County and the Department of Revenue recently sold the software used in Cascade County to a county in Wyoming of comparable size to Cascade. The Wyoming county uses a manual system and currently has six times as many people performing the same task as Cascade County.

Solution:

Property Assessment should be centralized into Helena. To accomplish this, the following steps should be implemented:

1. Cascade County's computer system for property assessment should be placed on the Department of Administration Computer.

2. All property forms would be sent out of and returned to Helena.

3. The initial loading of personal and real property data into the computer would require a one-time expenditure. This could be accomplished by contracting the data entry for the base data during the first year. The size of this initial effort could be reduced by transferring the data that has already been entered in the existing county computer systems into the Department of Administration computer.

4. Currently Cascade County enters all of its data with two people. Since there is a direct correlation between the number of people and the amount of personal and real property, it would appear that approximately 20 people would be needed to enter data on a continuing basis.

$$\frac{80,696 \text{ people in Cascade County}}{783,690 \text{ people in State}} = 10.3\% \quad \frac{2 \text{ people in Cascade County}}{10.3\%} = 19.4 \text{ people}$$

5. An Audit and Information Section should be created that would test for taxpayer compliance and answer taxpayer questions. This section would be similar in nature to the Examining Bureau in the Income Tax Division, since it would have an audit staff and aid in the processing of taxpayer information. In addition, the section would have approximately five toll-free telephone numbers that taxpayers

INDIVIDUAL RECOMMENDATION REPORT

Report No. and Name 14b Property Assessment Division		Recommendation No. 6
Date Prepared 6/24/82	Date Revised	Page 4 of 5

Problem, Solution, Benefit (Continued)

could call to obtain information.

6. All counties would receive a computer printout containing all taxable property which would replace Attachment V.

7. The clerks that are presently processing real property could aid in the mass reappraisal process that is currently taking place and is scheduled to be completed by 1986.

8. Since the County Assessors would no longer have a staff to manage, all County Assessors should be eliminated. Until such time that a Constitutional Amendment could be passed which would eliminate their position, the salary for County Assessors should be set at One Dollar per year.

9. After the centralization is completed, the only remaining Revenue employees in the counties would be associated with ongoing appraisal, mass reappraisal, and one clerk or a portion of a clerk to aid the public in filing forms.

Benefit:

The state would receive the following benefits in reduced cost:

1982 Personal Property Section Budget

Operating Expenses \$634,000

Equipment (calculators, etc.) 11,000

Personal Services 4,063,000

TOTAL OPERATING EXPENSES \$4,708,000

Cost of Centralized Office

20 Cathode Ray Tubes (CRT's) @ \$367,000

\$18,000/year operating cost plus
maintenance

20 Clerks to operate CRT's 312,000

Grade 8, Step 7, plus
benefits @ 23.3%

INDIVIDUAL RECOMMENDATION REPORT

Report No. and Name 14b Property Assessment Division		Recommendation No. 6	
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Problem, Solution, Benefit (Continued)

Computer Operation Cost \$100,000

2 Supervisors @ Grade 14,
Step 7, plus benefits 51,000
@ 23.3% to supervise clerks

Present Helena Staff and
Expenses of Personal Property 257,000

Audit and Information Section
Similar to Income Tax Examining
Bureau (Examining Bureau
used to estimate cost) 594,000

5 toll-free Watts numbers
@ \$10,000/year 50,000

Miscellaneous Office Supplies 35,000

Office Rental 20,000

Systems Analyst, Grade 14
Step 7, plus benefits @ 23.3% 25,000

TOTAL COST OF CENTRALIZED OFFICE \$1,804,000

NET SAVINGS \$2,904,000

SUMMARY OF ONE-TIME COST:

Initial Loading of Personal &
Real Property (keypunch cost for
one year charged to Income Tax
used to establish estimate) \$200,000

20 CRT's 89,000

TOTAL ONE-TIME COST \$289,000

Since all Real Property personnel associated with the on-going assessing of property are to be reassigned to the mass reappraisal effort, no cost savings will be claimed for those personnel.



WIFE Women Involved in Farm Economics

NAME JO BRUNNER BILL NO HJR 31
 ADDRESS 563 3rd ST HELENA DATE March 10/83
 REPRESENT WOMEN INVOLVED IN FARM ECONOMICS
 SUPPORT X OPPOSE AMEND

COMMENTS:

Women Involved in Farm Economics wish to go on record as being in support of a comprehensive study of property tax classification system in the state of Montana.
 We request that any study include input by the various segments of our economy including agriculture.
 Thank you,
 Jo Brunner
 W.I.F.E. lobbyist

WITNESS STATEMENT

Name STAN KALCZYK Committee On TAXATION
Address SECURITIES BLDG HELENA Date 3-10-83
Representing BURLINGTON NORTHERN INC Support _____
Bill No. HJR 31 , HB 844 Oppose _____
Amend 2

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name CREATH TOOLEY Committee On TAXATION
Address BILLINGS Date 3/10/83
Representing MONT. ASSESSORS ASSOC Support _____
Bill No. HB-844 Oppose ✓
Amend _____

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name Robert Hoffman Committee On Taxation
Address Virginia City Date 3-10-83
Representing Mont. Assessors Assoc. Support _____
Bill No. 844 Oppose X
Amend _____

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

VISITOR'S REGISTER

HOUSE TAXATION

COMMITTEE

BILL HJR 31

DATE 3-10-83

SPONSOR WILLIAMS

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

STANDING COMMITTEE REPORT

March 23, 1983

MR. **SPEAKER:**

We, your committee on **TAXATION**

having had under consideration **HOUSE JOINT RESOLUTION XX 31** Bill No.

First reading copy (**White**)
color

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING THAT THE REVENUE OVERSIGHT COMMITTEE CONDUCT A COMPREHENSIVE STUDY OF THE PROPERTY TAX CLASSIFICATION SYSTEM IN THE STATE OF MONTANA.

Respectfully report as follows: That **HOUSE JOINT RESOLUTION XX 31** Bill No.

DO PASS

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE JOINT RESOLUTION ~~XXX~~ No. 31

Second reading copy (Yellow)
color

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES
OF THE STATE OF MONTANA REQUESTING THAT THE REVENUE OVERSIGHT
COMMITTEE CONDUCT A COMPREHENSIVE STUDY OF THE PROPERTY TAX
CLASSIFICATION SYSTEM IN THE STATE OF MONTANA.

Respectfully report as follows: That HOUSE JOINT RESOLUTION ~~EX~~ No. 31

be amended as follows:

1. Page 1, line 13 through line 15.
Following: line 12
Strike: lines 13 through 15 in their entirety
2. Page 1, line 16.
Following: "tax"
Insert: "classification"
3. Page 1, line 23 through line 25.
Following: line 22
Strike: Lines 23 through 25 in their entirety
4. Page 2, line 3.
Following: "tax"
Insert: "classification"

AND AS AMENDED

DQ PASS.

STANDING COMMITTEE REPORT

March 10, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration SENATE Bill No. 108

Third reading copy (Blue)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO CHANGE THE METALLIFEROUS MINES LICENSE TAX ANNUAL REPORTING REQUIREMENT TO A QUARTERLY REPORTING REQUIREMENT; REQUIRING PAYMENT OF THE TAX TO ACCOMPANY THE FILING OF THE MARCH 1 RETURN; AMENDING SECTIONS 15-37-102, 15-37-104 THROUGH 15-37-106, AND 15-37-108, MCA; AND PROVIDING AN APPLICABILITY DATE."

Respectfully report as follows: That SENATE Bill No. 108

~~INDEX~~ BE CONCURRED IN

STANDING COMMITTEE REPORT

March 10, 193

MR. **SPEAKER:**

We, your committee on **TAXATION**

having had under consideration **SENATE** Bill No. **242**

Third reading copy (**Blue**)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE AND CLARIFY LAWS PERTAINING TO INCOME TAXATION OF ESTATES, PROPERTY HELD IN TRUST, AND BENEFICIARIES OF ESTATES OR TRUSTS; AMENDING SECTION 15-30-135, MCA; PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

Respectfully report as follows: That **SENATE** Bill No. **242**

~~XXXXXX~~ BE CONCURRED IN