

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 12, 1983

The sixty-sixth meeting of the Taxation Committee was called to order at 8:05 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION AND DISPOSITION OF HOUSE JOINT RESOLUTION 31:

Representative Mel Williams, House District 70, was the chief sponsor of HJR 31. It was introduced at the request of the Revenue Oversight Committee. He said all of the committee was probably aware of the problems that have arisen regarding property tax classification. All centrally assessed properties are having to be reviewed now. An interim study on taxation was made in 1975. Two bills were introduced then--one to identify how to tax and assess property, and the other to establish different classes. In 1977, we found that this had created a nightmare from the Department of Revenue's standpoint. In 1979, we decided we went in the wrong direction, and we reduced the number of classes to eleven, putting like properties in the same class, with minimal fiscal impact. But we didn't foresee what was coming. We should have separated residential property from commercial property. Also in 1979, the business inventory tax went from class seven to class six; the bankshares tax was declared unconstitutional. Then, we started enacting fees in lieu of taxes and we repealed the business inventory tax. In 1981, it was livestock. Now, in HB 704, the telephone company feels the 15% tax on their property should be 12%. In this tax classification study, we will try to make some adjustments.

PROPONENTS

Senator Towe, as chairman of the Revenue Oversight Committee, supported the resolution. He felt we would have more problems and more lawsuits if we didn't get into this. The railroads, airlines and freight companies have all sued because our property tax classification system is outdated. The \$500,000 allocated for lawsuits the last biennium and \$300,000 allocated this biennium will go down the drain. We can't defend an outdated system.

Gregg Groepper, administrator of the Property Assessment Division of the Department of Revenue, supported the resolution. The tax cycle will be over in 1986 and the new property tax rates go into effect then. That should be a legislative concern. This study would give you an idea of what limits you want to set.

Stan Kaleczyc, tax attorney for Burlington Northern Railroad, agreed that the problems Montana is having are a result of an outdated system. He had one reservation, though, with the resolution as it was drafted. He said it speaks in terms of the classification system of the state. But equalization--how you determine the ratio of assessed value to market value--is also a problem. There is no ratio study presently being done. There is no comprehensive audit system to put untaxed property back on the tax rolls. He suggested that the resolution refer to equalization, classification and valuation. He said his client asked him to make two statements to the committee: (1) Burlington Northern thinks this is an important interim study to be undertaken, and (2) Burlington Northern will underwrite the cost of independent experts to value their property so it can be done and done right. The best way to resolve these problems is through a good interim study. Otherwise, the 34% cases and the airline and railroad litigation will continue.

OPPONENTS

There were no opponents to HJR 31.

Questions from the committee were called for.

In response to a question from Senator Crippen, Senator Towe referred the committee to page 2, lines 14-18 (subsection (2)) of the bill which deals with staffing the Revenue Oversight Committee for this project. We would have to devote at least 1/2 of an FTE to this study, separate from what we already have, and \$10,000 for consultation with experts, travel, and so on, so we have asked for \$35,000.

Senator Crippen asked if the figures would still apply if equalization were included in the resolution. Senator Towe said yes, they would.

Representative Williams thought the interim committee would get into that and study the whole personal property tax system in depth, too. He said that regarding Mr. Kaleczyc's comments, they know there are personal properties not being assessed and taxed under our present system. Redoing the personal property tax system will be a big project. He visualized grouping property back into about 4 classes. He did not object to putting the equalization language into the resolution.

Mr. Groepper from the Department of Revenue said his view would depend on what the committee does. If all personal property is treated the same way, we won't have to worry about sales assessment ratios. But the same does not hold true for centrally assessed property.

Senator Turnage wondered about equalization because of the 34% cases.

Senator Turnage proposed the following amendments:

Title, line 10.

Following: "SYSTEM"

Insert: "AND EQUALIZATION WITHIN THE CLASSES OF PROPERTY"

Page 2, line 5.

Following: "system"

Insert: "and equalization within the classes of property"

Page 2, line 10.

Following: "system"

Insert: "and equalization within the classes of property"

Even with 4 classes, he said, there is no way you can equalize across the classes. Equalization should be done within the classes.

Senator Severson agreed with him. Senator Turnage said the basis of our system is to be sure there is unequalization. That is why there are classes in the first place.

Senator Turnage moved the foregoing amendments to HJR 31. The motion was seconded and passed unanimously.

Senator Towe moved that HJR 31 DO PASS AS AMENDED. The motion was seconded and passed unanimously.

Representative Williams said he hoped that when this was heard on the Senate floor, they would get enough money put back into the budget to make this study feasible.

Senator Towe was concerned that the funding might not be sufficient if this was done as a regular study. There is an appropriation in the Department of Revenue budget of \$300,000 for litigation on Burlington Northern and airlines cases. BN settled but the airlines did not. Can we ask for a transfer of \$35,000 from that litigation fund to fund this study?

Senator Eck suggested that we request Terry Cohee's (Office of Budget and Program Planning) time and help on this study, since she has worked on these matters before.

Senator Turnage moved that we accept the offer of Burlington Northern to help underwrite the cost of independent experts in assisting to value property; that we look into obtaining funding for the study from the litigation fund at the Department of Revenue; and that we seek Terry Cohee's help during the study. The motion was seconded.

Mr. Kaleczyc said some employees of Burlington Northern have great knowledge of the property tax system. Experts' rates

run from \$100 to \$200 an hour. My client will make that kind of expertise available.

A vote was taken on Senator Turnage's motion and it passed unanimously. (Note: This motion was not incorporated into the committee report filed for HJR 31.)

Representative Williams said that the Lincoln Institute does considerable work in this area (tax studies). They are presently doing some work for the state of Utah, and we should consider using help of that nature here.

DISPOSITION OF HOUSE BILL 890: Senator Turnage moved the following amendments:

Page 2, line 8.

Following: "tax"

Strike: remainder of line 8 through "for" on line 9

Insert: "on"

Page 2, line 10.

Following: "61-3-316"

Insert: "is 1 1/2% of the f.o.b. factory list price or f.o.b. port-of-entry list price regardless of the month in which the new vehicle is purchased"

The motion was seconded.

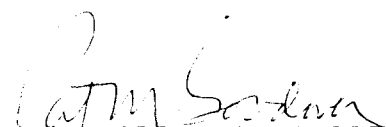
Senator Severson said that the value the Department of Revenue is using today is the adjusted wholesale value (the value after the vehicle is driven off the lot--about 80% of the new vehicle sales price).

Mr. Groepper said they are using f.o.b. prices on which to base the new vehicle sales tax. He said the confusion is on vehicles which are still taxed on an ad valorem basis, like trucks. That tax is based on GVW. Senator Severson said no, he was talking about fee vehicles. Senator Elliott stated that f.o.b. factory list price or f.o.b. port-of-entry list price is the dealer's price, which is about 80% of the new vehicle sales price.

A vote was taken on Senator Turnage's motion to amend, and it passed unanimously.

Senator Turnage then moved that HB 890 BE CONCURRED IN AS AMENDED. The motion was seconded and passed unanimously. Senator Lynch will carry the bill on the floor.

The meeting adjourned at 8:55 a.m.


Chairman

ROLL CALL

SENATE TAXATION

COMMITTEE

48th LEGISLATIVE SESSION -- 1983

Date 4/12/83

NAME	PRESENT	ABSENT	EXCUSED
SENATOR GOODOVER, CHAIRMAN	✓		
SENATOR McCALLUM, VICE CHAIRMAN	✓		
SENATOR BROWN	✓		
SENATOR CRIPPEN	✓		
SENATOR ELLIOTT	✓		
SENATOR GAGE	✓		
SENATOR TURNAGE	✓		
SENATOR SEVERSON	✓		
SENATOR HAGER	✓		
SENATOR ECK	✓		
SENATOR HALLIGAN	✓		
SENATOR LYNCH	✓		
SENATOR NORMAN	✓		
SENATOR TOWE	✓		
SENATOR MAZUREK	✓		

DATE April 12 , 1983

COMMITTEE ON TAXATION

VISITORS' REGISTER

[illegible]

STANDING COMMITTEE REPORT

April 12

19 83

MR. PRESIDENT

We, your committee on taxation

having had under consideration House Joint Resolution ~~XXXX~~ No. 31

Williams (Towe)

Respectfully report as follows: That House Joint Resolution ~~XXXX~~ No. 31

third reading copy, be amended as follows:

1. Title, line 10.

Following: "SYSTEM"

Insert: "AND EQUALIZATION WITHIN THE CLASSES OF PROPERTY"

2. Page 2, line 5.

Following: "system"

Insert: "and equalization within the classes of property"

3. Page 2, line 10.

Following: "system"

Insert: "and equalization within the classes of property"

And, as so amended

BE CONCURRED IN

~~XXXXXX~~

STANDING COMMITTEE REPORT

April 12 19 83

MR. PRESIDENT

We, your committee on taxation

having had under consideration House Bill No. 890

Hand (Lynch)

Respectfully report as follows: That House Bill No. 890

third reading copy, be amended as follows:

1. Page 2, line 8.

Following: "tax"

Strike: remainder of line 8 through "for" on line 9

Insert: "on"

2. Page 2, line 10.

Following: "61-3-316"

Insert: "is 1 1/2% of the f.o.b. factory list price or f.o.b. port-of-entry list price regardless of the month in which the new vehicle is purchased"

And, as so amended

BE CONCURRED IN

~~XXXXXX~~
~~DO PASS~~