MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 21, 1985

The thirty-first meeting of the Taxation Committee was called to order in room 312-1 of the state capitol building by Chairman Gerry Devlin at 8:06 a.m.

ROLL CALL: All members were present with the exception of Representative Iverson. Also present were Dave Bohyer, Researcher for the Legislative Council, and Alice Omang, secretary.

CONSIDERATION OF SENATE BILL 48: Senator Towe said this bill was an act to generally revise Montana property tax classification law to implement provisions of the Montana Constitution and it was introduced at the request of the Revenue Oversight Committee.

Representative Mel Williams, Chairman of the Revenue Oversight Committee, offered testimony in support of this bill. See Exhibit 1.

Senator Towe distributed Exhibits 1-A, 2, and 3 to the committee and explained how this bill differs from HB 240. He also handed out Exhibit 4 and explained it to the committee. He concluded by saying that he would submit that HB 250 would be a disaster and he felt the choice was between HB 240 and SB 48 and that SB 48 was the best choice.

PROPONENTS: Don Judge, representing the Montana State AFL-CIO, gave a statement in support of this bill. See Exhibit 5.

Bill Campbell, representing the Montana Education Association, said that he felt it was important to have a fair and equitable tax system and they feel that SB 48 does that and they support the concept.

Tom Ryan, representing the Montana Senior Citizens' Association, said that the people he represents no longer have a chance to increase their incomes, but they do have one saving and that is their homes and they do not feel that residential should be in the same classification as commercial.

John LaFaver, Director of the Department of Revenue, indicated that this is probably the most important revenue bill that the committee will look at and the major issue between these two bills is whether residential and commercial should be separate. He stated that HB 240 requires them to annually appraise every parcel in the state and if this could be done, it would cost over $4 million in the biennium over and above what they have in the budget now. He indicated that SB would require about 1/10 the amount of money.

Paul Carpino, representing the Montana Low Income Coalition, said that HB 240 represents injustice for low income people and SB 48 represents more equity.

Stan Kaleczyc, an attorney in Helena, representing the Burlington-Northern, said that he was a proponent of a taxing system in this state that is going to comply with the 4-R act and they feel that SB 48 moves in this direction.

There were no further proponents.

<u>OPPONENTS:</u> Senator Crippen, District 45, Billings, and also a member of the Revenue Oversight Committee, stated that he would like to give the committee the facts concerning the haste in which this bill was drafted and presented to the Revenue Oversight Committee. He indicated that it was not until the latter part of August that the separation of commercial property and residential property really focused its head, then in the latter part of September, there was a motion made to set up a subcommittee to discuss the possibility of other options and the motion was defeated and a request was made that a volunteeer committee be set up. He explained the problems that this subcommittee

had and that they really did not have time to look at this issue and on November 8, it was voted on and it passed by one vote. He indicated that some of the figures Senator Towe used were fallacious and they should take them with a grain of salt. He also stated that it simply was not true that you had to separate commercial and industrial to satisfy the 4-R act. He informed the committee that Bob Gustafson, the consultant to the Revenue Oversight Committee, testified in the November meeting, saying, "The 4-R act does not require a ~~re~~evaluation or reassessment every year, nor does it require that the classes be split up as long as protected citizens, such as railroads and airlines, are treated thoroughly and equally within the same class." Mr. Gustafson also said that there was nothing wrong with having residential property in with commercial property, but it is only the commercial property against which you have to make a comparison. If you want to include your residential, and the residential and commercial are at the same level, then nothing is lost, Senator Crippen said. He indicated that SB 48 will work and it will do the job and HB 250 will also work and do the job, but you do not have to separate them and worry about the reevaluation. He concluded that this bill (SB 48) creates equity for the railroads on the backs of the mainstream businessman and woman.

Dennis Burr, representing the Montana Taxpayers' Association, stated that the main objection they have to this bill is the separation of residential and commercial property. He advised the committee of what he felt were some real problems with the bill.

Marie McAlear, representing the Montana Association of Counties, stated that over 1/3 of the counties under this bill will be losing revenue, and whatever they do with reclassification, they would want to have the revenue for local government be at least at the level they are now.

Gene Phillips, representing the City Power and Light Company of Kalispell, said that there would be a considerable increase in the taxes they will have to pay and this tax will increase the customers in the urban areas but not the rural.

Don Allen, representing the Montana Wood Products Association, indicated that the biggest problem facing the wood products industry is the uncertainty and the last thing they need right now is to have a disturbance of the tax situation.

Andy Lukes, Planning Manager for Champion Internationals Rocky Mountain Timberlands, gave a statement in opposition to this bill. See Exhbit 7.

Mike Zimmerman, representing the Montana Power Company, indicated that this would result in an increase in their tax rate, they are presently under 12%, they will be raised to 12.8% and would result in a rise in taxes of $1,583,000.00.

Mons Teigen, representing the Montana Stockgrowers, the Montana Woolgrowers and the Cowbelles, gave a statement in opposition to this bill. See Exhibit 8.

Patrick Connell, representing the Society of Foresters, stated that the growth of timber, which is a renewable resource, should be considered an agricultural endeavor and gave other reasons for their opposition to this bill.

Ben Havdahl, representing the Montana Motor Carriers' Association, gave testimony in opposition to this bill. See Exhibit 9.

Dave Goss, representing the Billings Chamber of Commerce, outlined the problems of this bill.

Janelle Fallon, representing the Montana Chamber of Commerce, stated that they were concerned about the potential impact on the businesses in Montana and, therefore, oppose it.

There were no further opponents.

QUESTIONS ON SENATE BILL 48: Representative Asay asked Mr. LaFaver about his statement that HB 240 would require appraisal of all property.

Mr. LaFaver replied that it was his understanding that HB 240 combining residential and commercial mandates the re-appraisal of all parcels.

Representative Asay asked the same question of Dennis Burr.

Mr. Burr replied that he thought that that was correct - it would require all of it to be revalued every year and HB 250 does not require any of it to be revalued.

Representative Sands asked Senator Towe if commercial and residential would have to be revalued every year.

Senator Towe responded that on commercial real estate and improvements, it would be revalued on an audit kind of basis - a very cursory manner that would only cost $400,000.00 to do, but in a major reappraisal, which took eight years for the last one, they could not do that.

Representative Sands asked if they will be indexed every year.

Senator Towe replied that the principle idea is to find out how much commercial property has genuinely increased in value over the last year by sampling property all over the state and then using that factor to index that down so that the tax is the same in spite of the fact that the property increased in value.

Representative Sands indicated that he did not see how it was possible, considering the way the bill was written, to give some tax breaks to residential.

Senator Towe answered that it was not his intention to give anybody tax relief, but he would admit that the telephone company ends up with tax relief.

Representative Sands asked about putting commercial and residential property in the same class.

Senator Towe replied that the cost in putting these together is prohibitive and if they do put them together, they are almost certainly going to have numerous amounts of lawsuits.

Representative Harp indicated that Senator Towe was misleading people when they look at the chart he prepared.

Senator Towe replied that he did not prepare the chart; the chart was prepared by Ken Paris (?), but he would defend it. He explained that commercial property has received tax relief and, on page 4, he included the retail and wholesale value. He also explained the oil situation. He contended that by separating the properties, they do not make the commercial property vulnerable and that commercial property is well capable of taking care of itself.

Representative Raney asked about the effect on timberland and Senator Towe gave some background information on this issue.

Representative Sands asked Senator Crippen how indexing fits in with the commercial-residential situation.

Senator Crippen responded that this is one of his major concerns and this is where the real danger in this bill lies as they are trying to create equities, but they are using percentages that are unknown until the reappraisal cycle is completed. He indicated that he thought the legislature is riding the wrong horse - they are pitting residential and commercial against one another; they are both too high and they should look at a different way of handling this property tax inequity.

Representative Patterson asked Senator Towe if this bill was designed to give a tax break to anybody.

Senator Towe answered that they tried to adjust the classification system with a minimal effect on all taxpayers, but there is going to be some minor changes.

There were no further questions.

Senator Towe answered many of the questions that had been brought up in testimony and said that he did not feel they could survive without passing a bill with the formula in it.

ADJOURNMENT: There being no further business, the meeting adjourned at 10:18 a.m.

Gerry Devlin

GERRY DEVLIN, Chairman

Alice Omang

Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date February 21, 1985

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, GERRY, Chrm.	X		
WILLIAMS, MEL, V. Chrm.	X		
ABRAMS, HUGH	X		
ASAY, TOM	X		
COHEN, BEN	X		
ELLISON, ORVAL	X		
GILBERT, BOB	X		
HANSON, MARIAN	X		
HARRINGTON, DAN	X		
HARP, JOHN	X		
IVERSON, DENNIS		X	
KEENAN, NANCY	X		
KOEHNKE, FRANCIS	X		
PATTERSON, JOHN	X		
RANEY, BOB	X		
REAM, BOB	X		
SANDS, JACK	X		
SCHYE, TED	X		
SWITZER, DEAN	X		
ZABROCKI, CARL	X		

CS-30

Exhibit 1
SB48
2/21/85

Rep. W.llioms
2-21-85

Mr. Chairman & Members of the Committee
Rep. Mel Williams HD-85

Mr. Chairman and members of the Committee as chairman of the Revenue Oversight Sub-Committee that did the final work on SB-48, as it was approved for introduction by the Revenue Oversight Committee, Sen Towe has asked me to give you a brief history of it's development.

The ROC studied property tax classification for 18 months in compliance with the obligation required in HJR-31 "To make a comprehensive study of Mont.'s Property Tax Classification system and make a report to the 1985 Legislature." SB-48 is that report and recommendation.

Members of the ROC attended seminars conducted by the Lincoln Institute and worked with a consultant hired by the ROC committee and a tax consultant provided by the B.R. ROC consultant was Mr. Robert H. Gustafson statistics and Assessment consultant recommended by the Lincoln Institute.

→ The information presented to the committee during that time indicates that

(No. 1) the property tax system is in need of revision to achieve some measure of (1)

The Lincoln Institute is a Nation Wide Organization that specializes in Property Tax Appraisals and Evaluations especially Real property and Land Values and works with State governments, they did with us in training of [illegible] in Property Tax Classification Systems. Entire non-government supported Private Entity equity between similar kinds of property. No 2 That railroad and other federally protected property must be treated differently than currently treated to comply with federal law (namely the 4R Act) and No 3 That both legislative and administrative changes are required to achieve some measure of equity and to comply with Federal Law.

Dave Bohyers Words - ROC Report 1983-85

The important factors on which the recommendation is based are

No 1 - Begin with a general consensus on a a basic concept then revise, review and rework the elements until a rational alternative could be developed and agreed to.

No 2 - Revisions to be based on facts, reasonable assumptions and logical conclusions and

No 3 - Recognizing that some necessary changes would enhance Mont. property tax system.

Three very important factors considered in developing SB-45 are

No 1 - That the State's property tax base should not be changed and

No 2 - That the County's tax base should be affected as little as possible as a result of any reclassification and

No 3 With Federal law placeing some types of property in a protected status the options available are that either the State Legislature can take decisive action in setting state policy in regard to the protected property or we can leave the development of policy to the Federal Courts.

Senator Towe will present the Bill and explain its provisions - Sen Towe

Exhibit 1-A
SB 48
2/21/85
Towe

MONTANA PROPERTY CLASSIFICATION - BY TYPE OF PROPERTY

1984 ADJUSTED PER SB 48

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY
I	100%	Net Proceeds of all Mines and Mining Claims Except Coal and Metal Mines.
II	3%	Gross Proceeds of Metal Mines
	33 1/3%	Gross Proceeds of Underground Coal Mines
	45%	Gross Proceeds of Coal Mines Using the Strip-Mining Method
III	30%	All Agriculture Land
IV	8.55%	All noncommercial land, [redacted], except that specifically included in another class;
	8.55%	All noncommercial improvements except those specifically included in another class;
	8.55%	A trailer or mobile home used as a residence except when: (i) held by a distributor or dealer of trailers of or mobile homes as his stock in trade; or (ii) specifically included in another class;
	Varies from 0% to 7.695% Depending on the Adjusted Gross Income	So much of the market value of any improvement on real property, or mobile home and the appurtenant land not exceeding 5 acres, as does not exceed $35,000, when sch dwelling and land are owned under contract for deed, by certain widows, retired, disabled and other persons whose adjusted gross income as reported on their latest federal income tax return, is not more than $8,000 if single or $10,000 if married.
	4.275% 8.55%	All Golf Courses, including land and improvements actually and necessarily used for that purpose, that: (1) Consist of at least 9 holes and not less than 3,000 lineal yards; and (2) were used as Golf Courses January 1, 1979 and owned by a nonprofit Montana Corporation.

1984 ADJUSTED PER SB 48

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY
V	3%	All property used and owned by Cooperative Rural Electrical and Cooperative Rural Telephone Associations organized under the laws of Montana, except property owned by Cooperative organizations, described in subsection (1)(c) of 15-6-137 (Class VII).
	3%	Air and Water Pollution Control Equipment
	3%	Property that meets the requirements for "New Industry"
	3%	Any Personal or Real Property used primarily in the production of gasohol during construction and for the first 3 years of its operation.
VI	4%	Livestock and poultry and the unprocessed products of both;
	4%	All unprocessed agricultural products on the farm or in storage except all perishable fruits and vegetables in farm storage and owned by the producer;
	4%	Items of personal property intended for lease in the ordinary course of business provided each item of personal property satisfies all of the following; (i) the full and true value if the personal property is less than $5,000; (ii) the personal property is owned by a business whose primary business income is from rental or lease of personal property to individuals wherein no one customer of the business accounts for more than 10% of the total rentals or leases during a calendar year; and (iii) the lease of the personal property is generally on an hourly, daily, or weekly basis.
VII	11.1024%	All property used for noncommercial purposes which is not real property or an improvement to real property and which is not in another classor exempt from taxation under Title 15, Chapter 6, Part 2; and
	11.1024%	All agricultural machinery and equipment used in a bona fide farm, ranch, or stock operation.

1984 ADJUSTED PER SB 48

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY
VIII	8.55%	All land except that specifically included in another class; and
	8.55%	All improvements except those specifically included in another class.
IX	11.7189%	Buses and trucks having a rated capacity of more than three-quarters of a ton but less than or equal to 1 1/2 tons;
	11.7189%	Truck toppers weighing more than 300 pounds;
	11.7189%	Furniture, fixtures, and equipment, except that specifically included in another class, used in commercial establishments as defined in this section;
	11.7189%	X-ray and medical and dental equipment;
	11.7189%	Citizens' band radios and mobile telephones
	11.7189%	All mining machinery, fixtures, equipment, tools, and supplies except those included in class five;
	11.7189%	All manufacturing machinery, fixtures, equipment, tools, and supplies except those included in class five;
	11.7189%	All trailers up to and including 18,000 pounds maximum gross loaded weight, except those subject to a fee in lieu of property tax;
	11.7189%	All goods and equipment intended for rent or lease, except goods and equipment specifically included and taxed in another class;
	11.7189%	All other machinery except that specifically included in another class;
	11.7189%	Radio and television broadcasting and transmitting equipment;
	11.7189%	Cable television systems;
	11.7189%	Coal and ore haulers;
	11.7189%	All trailers exceeding 18,000 pounds maximum gross loaded weight, including those prorated under 15-24-102 and except those subject to a fee in lieu of property tax;

1984 ADJUSTED PER SB 48

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY
	11.7189%	Theater projectors and sound equipment;
	11.7189%	Electric transformers and meters; electric light and power substation machinery; natural gas measuring and regulating station equipment, meters, and compresssor station machinery owned by noncentrally assessed public utilities; and tools used in the repair and maintenance of this property;
	11.7189%	Tools, implements, and machinery used to repair and maintain machinery not used for manufacturing and mining purposes; and
	11.7189%	All other property not included in any other class except that property subject to a fee in lieu of a property tax. NOTE: "Commercial establishment" includes any hotel; motel; office; petroleum marketing station; or service wholesale, retail, or food-handling business
X	Tax Rate Derived From Formula	All railroad transportation property; and (11.2063%) 1984
	Tax Rate Derived From Formula	All airline transportation property. (11.2063%)
XI	12.8055%	Centrally assessed electric power companies' allocations;
	12.8055%	Allocations for centrally assessed natural gas companies having a major distribution system in this state; and
	12.8055%	Centrally assessed companies' allocations except: (i) electric power and natural gas companies' property; (ii) property owned by cooperative rural electric and cooperative rural telephone associations and classified in class five; and (iii) property owned by organizations providing telephone communications to rural areas and classifield in class nine; and (iv) Airline and railroad transportation property included in class ten;

<u>1984 ADJUSTED PER SB 48</u>

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY
XI	12.8055%	All property used and owned by persons, firms, corporations, or other organizations that are engaged in the business of furnishing telephone communications exclusively to rural areas or to rural areas and cities and towns of 800 persons or less; and
	12.8055%	All property owned by cooperative rural electrical and cooperative rural telephone associations that serve less than 95% of the electricity consumers or telephone users within the incorporated limits of a city or town where the average circuit miles for each station on the telephone communication system is more than 1 mile.
XII	30%	All commercial timberland.

jn95-2

	1983 Taxable Value	Adjusted Taxable Value Per LC420	Percent Change
Beaverhead	$15,155,776	$15,404,055	+1.64%
Big Horn	$127,755,762	$128,341,485	+.46%
Blaine	$34,312,334	$34,245,921	-.19%
Broadwater	$10,927,608	$11,197,221	+2.47%
Carbon	$28,234,173	$28,009,266	-.80%
Carter	$6,795,445	$6,684,208	-1.64%
Cascade	$89,419,814	$88,625,821	-.89%
Chouteau	$30,209,895	$30,234,461	+.08%
Custer	$18,274,984	$18,301,479	+.14%
Daniels	$8,170,427	$8,263,563	+1.14%
Dawson	$29,365,423	$29,481,180	+.39%
Deer Lodge	$12,460,024	$12,685,380	+1.81%
Fallon	$115,772,404	$115,719,763	-.05%
Fergus	$21,874,930	$21,856,566	-.08%
Flathead	$86,418,103	$86,665,509	+.29%
Gallatin	$59,488,206	$59,063,952	-.73%
Garfield	$6,689,940	$6,664,664	-.38%
Glacier	$45,796,324	$45,928,970	+.29%
Golden Valley	$5,239,576	$5,413,848	+3.33%
Granite	$5,562,353	$5,676,890	+2.06%
Hill	$45,368,815	$45,498,093	+.28%
Jefferson	$15,386,711	$15,592,523	+1.34%
Judith Basin	$9,108,873	$9,307,997	+2.19%
Lake	$26,443,146	$26,569,192	+.48%
Lewis & Clark	$60,101,835	$59,451,993	-1.18%
Liberty	$20,161,061	$20,285,360	+.62%
Lincoln	$33,310,642	$33,862,572	+1.66%
Madison	$16,180,061	$16,168,064	-.08%
McCone	$10,781,673	$10,783,095	+.01%
Meagher	$7,954,134	$8,133,143	+2.25%
Mineral	$4,473,586	$4,575,854	+2.29%
Missoula	$123,133,283	$123,569,233	+.35%
Musselshell	$27,277,779	$27,194,680	-.30%
Park	$18,360,936	$18,486,881	+.69%
Petroleum	$3,183,470	$3,204,827	+.67%
Phillips *	$39,347,917	$38,748,231	-2.54%
Pondera	$25,177,170	$25,165,255	-.05%
Powder River	$67,513,144	$67,505,980	-.01%
Powell	$13,803,337	$14,228,517	+3.08%
Prairie	$6,497,419	$6,650,933	+2.36%
Ravalli	$23,896,228	$23,752,787	-.62%
Richland	$124,659,036	$124,625,868	-.03%
Roosevelt*	$76,933,437	$74,942,709	-2.59%
Rosebud	$244,364,813	$255,479,076	+4.55%
Sanders	$20,933,587	$21,943,211	+4.82%
Sheridan	$87,866,888	$87,822,694	-.05%
Silver Bow	$46,787,562	$47,170,984	+.82%
Stillwater	$14,977,997	$15,260,698	+1.89%
Sweet Grass	$6,708,983	$6,839,570	+1.95%
Teton	$18,634,944	$18,754,975	+.64%
Toole	$48,027,545	$48,291,646	+.55%
Treasure	$4,587,439	$4,876,474	+6.30%
Valley*	$43,777,973	$42,072,711	-3.9%
Wheatland	$7,089,882	$7,506,866	+5.88%
Wibaux	$28,176,939	$28,166,429	-.04%
Yellowstone	$201,971,002	$202,131,318	+.08%

*The counties showing losses in value per LC420 have substantial pipeline property. Pipelines are presently trying to get the same legislation through congress that railroads and airlines have.

Exhibit 2
SB 48
2/21/85
Towe

SENATE BILL 48

Revision of Property Tax Classification System

PURPOSE

Senate Bill 48 attempts to do several things. First, it simplifies the property tax classification system reducing [redacted] the number of classes of property subject to property tax.

Second, it defines commercial property and places all personal property into the same class. This is beneficial for two reasons. First, it enables us to comply with the federal law prohibiting the taxation of railroad and airline property at any higher rate than all other commercial property in the state. Second, it eliminates future lawsuits by persons who may contend that their property is taxed at a higher rate than other property when there is no justification for any distinction between the two kinds of property.

Third, Senate Bill 48 is intended to equalize and make the property tax system more fair, thereby eliminating the potential for costly and time consuming lawsuits in the future.

FISCAL IMPACT

Senate Bill 48 is not intended to have any impact on anyone's taxes--with the possible exception of the Burlington Northern Railroad, who will receive a gigantic tax break if the bill is not passed. Inevitably, however, with this major change in the classification system there will be some adjustments. The subcommittee and interim committee did a marvelous job keeping these adjustments to a minimum. Whenever any major impact was required, the adjustment is downward to reduce taxes for a particular group rather than upward. For example, agricultural equipment will go from 11% to 11.1%; most heavy vehicles will be reduced from 16% to 11.7%; electrical operating property will increase from 12% to 12.8%; and telephone operating property will decrease from 15% to 12.8%. (It is pretty hard to justify taxing Mountain Bell's telephone operating equipment at a higher rate than Montana Power Company's electrical operating equipment.)

The bill will raise $2.5 million additional revenue from the railroads for local governments ($650,000 of which will come to the state in the University levy and Foundation Program). Otherwise, as amended, the bill will have only minimal effect on revenues.

SEPARATION OF COMMERCIAL AND RESIDENTIAL REAL ESTATE

The interim committee supported the bill unanimously, with one exception. The Democrats and Republicans disagreed on the separation of commercial real estate and residential real estate into two separate classes. Republicans argued that keeping the residential property in the same class of commercial property would act as a check or brake on increasing taxes--legislators would be less inclined to increase the tax if it affected residential property as well as commercial property. Democrats argued the reverse--that legislators would be less inclined to increase residential property taxes if commercial property will similarly increase.

Unfortunately, however, we cannot afford the luxury of either argument. Failure to separate the two categories of real property would require either (1) re-appraising all residential property as well as commercial property each year (in order to make it comparable to railroad property which is already re-appraised each year) at a minimum cost of about four million dollars in the next biennium; or (2) allow railroads a 2.3 million dollar break in property taxes. With the tight financial picture this session, we simply cannot afford the luxury of combining the two categories of property for philosophical reasons. Further, by retaining the two categories of real property tax in the same classification we are almost certain to have a repeat of the 34% cases that plagued the courts and tax collections during the last re-appraisal cycle.

HB 240 BY REPRESENTATIVE RAMIREZ

The only difference between Senate Bill 48 and the bill introduced by Representative Ramirez (HB 240) is the separation of these two categories of real property. The re-appraisal adjustment to allow for reduction of the classification numbers to conform to the new values resulting from re-appraisal were included in HB 240 as originally prepared and are being added to Senate Bill 48. These are necessary to prevent a 100% increase in nearly everyone's property tax as a result of the re-appraisal that will take effect January 1, 1986.

AMENDMENTS

Additionally, both bills originally contained (1) a provision for separating farm residences to allow taxation on a market value rather than reproduction value; (2) a provision for use of retail value instead of wholesale value; and (3) a requirement that replacement value depreciated be used instead of original cost. All three of these items have been removed from Senate Bill 48 and probably will be removed from HB 240. While the initial attempt of these provisions to equalize and make the system more fair is laudable, they do constitute substantive changes, which the committees wanted to avoid as much as possible.

CONCLUSION

As anyone familiar with our property tax system can attest, we have been plagued with numerous lawsuits for many years. Some of these lawsuits have tied up millions of dollars, making them unavailable for use by local governments. The result has been that the rest of us are required to make up the difference--largely through assessment on residential homes or agricultural land. With Senate Bill 48 (or HB 240) we should avoid most of these lawsuits in the future. Without either bill, we will embark on at least five more years of constant and expensive litigation.

THOMAS E. TOWE
Senator-District 46

TET/jim

MONTANA PROPERTY CLASSIFICATION - BY TYPE OF PROPERTY

1984 TAX CLASSIFICATION

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY	CHANGES
I	100%	Net Proceeds of all Mines and Mining Claims Except Coal and Metal Mines	No Change
II	3%	Gross Proceeds of Metal Mines	No Change
	33 1/3%	Gross Proceeds of Underground Coal mines	" "
	45%	Gross Proceeds of Coal Mines Using the Strip-Mining Method	" "
III	30%	All Agriculture Land	No Change
	30%	Commercial Timber Land	Moves to Class XII (30%)
IV	8.55%	All Land Except that Specifically Included in Another Class	No Change
	8.55%	All Improvements Except those Specifically Included in Another Class	" "
	8.55%	Commercial Land and Improvments	Moves to Class VIII (8.55%)
	Varies from 0% to 7.695% Depending on the Adjusted Gross Income	So much of the market value of any improvement on real property, as does not exceed $35,000, when such dwelling and land are owned under contract for deed, by certain widows, retired, disabled and other persons whose adjusted gross income as reported on their latest federal income tax return, is not more than $8,000 if single or $10,000 if married.	No Change
	4.275%	All Golf Courses, including land and improvements actually and necessarily used for that purpose, that: (1) Consist of at least 9 holes and not less than 3,000 lineal yards; and (2) were used as Golf Courses January 1, 1979 and owned by a nonprofit Montana Corporation.	" "
V	3%	All property used and owned by Cooperative Rural Electrical and Cooperative Rural Telephone Associations organized under the laws of Montana, except property owned by Cooperative organizations, described in subsection (1)(c) of 15-6-137 (Class VII).	No Change
	3%	Air and Water Pollution Control Equipment	" "

1984 TAX CLASSIFICATION

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY	CHANGES
V	3%	Property that meets the requirements for "New Industry"	No Change
	3%	Any Personal and Real Property used primarily in the production of gasohol during construction and for the first 3 years of its operation.	" "
VI	4%	Livestock and poultry and the unprocessed products of both;	No Change
	4%	All unprocessed agricultural products on the farm or in storage except all perishable fruits and vegetables in farm storage and owned by the producer;	" "
	4%	Items of personal property intended for lease in the ordinary course of business provided each item of personal property satisfies all of the following; (i) the full and true value if the personal property is less than $5,000; (ii) the personal property is owned by a business whose primary business income is from rental or lease of personal property to individuals wherein no one customer of the business accounts for more than 10% of the total rentals or leases during a calendar year; and (iii) the lease of the personal property is generally on an hourly, daily, or weekly basis.	" "
VII	8%	All property used and owned by persons, firms, corporations that are engaged in the business of furnishing telephone communications exclusively to rural areas or to rural areas and cities and towns of 800 persons or less;	Moves to Class XI (12.8%)
	8%	All property owned by cooperative rural electric and cooperative rural telephone associations that serve less than 95% of the electricity consumers or telephone users within the incorporated limits of a city or town;	Moves to Class XI (12.8%)
	8%	Electric transformers and meters; electric light and power substation machinery; natural gas measuring and regulating station equipment, meters, and compressor station machinery owned by noncentrally assessed public utilities; and tools used in the repair and maintenance of this property; and	Moves to Class IX (11.72%)

1984 TAX CLASSIFICATION

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY'	CHANGES
VII	8%	Tools, implements, and machinery used to repair and maintain machinery not used for manufacturing and mining purposes.	Moves to Class IX (11.72%)
VIII	11%	All agricultural implements and equipment;	Moves to class VII (11.1%)
	11%	All mining machinery, fixtures, equipment, tools, and supplies except: (i) those included in class five; and (ii) coal and ore haulers;	If commercial - Class IX (11.72%) or If noncommerical-Class VII (11.1%)
	11%	All manufacturing machinery, fixtures, equipment, tools, and supplies except those included in class five;	" " "
	11%	Motorcycles;	" " "
	11%	Watercraft;	" " "
	11%	All trailers up to and including 18,000 pounds maximum gross loaded weight, except those subject to a fee in lieu of property tax;	" " "
	11%	Aircraft;	" " "
	11%	All-terrain vehicles;	" " "
	11%	Harness, saddlery, and other tack equipment;	" " "
	11%	All goods and equipment intended for rent or lease, except goods and equipment specifically included and taxed in another class; and	" " "
	11%	All other machinery except that specifically included in another class.	" " "
IX	13%	Buses and trucks having a rated capacity of more than three quarters of a ton but less than or equal to 1 1/2 tons;	If commercial - Class IX (11.72%) or If noncommercial-Class VII (11.1%)
	13%	Truck toppers weighing more than 300 pounds;	If used in a Bona Fide Farm/Ranch or Stock Opeation move to Class VII (11.1%)
	13%	Furniture, fixtures, and equipment, except that specifically included in another class, used in commercial establishments as defined in this section;	
	13%	X-ray and medical and dental equipment; and	" " "

1984 TAX CLASSIFICATION

CLASS	TAXABLE PERCENTAGE	TYPE OF PROPERTY	CHANGES
	13%	Citizens' band radios and mobile telephones.	" " "
X	16%	Radio and television broadcasting and transmitting equipment;	If Commercial move to Class IX (11.72%)
	16%	Cable television systems;	If Noncommercial move to Class VII (11.1%)
	16%	Coal and ore haulers;	If used in a Bona Fide Farm/Ranch or Stock
	16%	Trucks having a rated capacity of more than 1 1/2 tons, including those prorated under 15-24-102;	Operation move to Class VII (11.1%)
	16%	All trailers exceeding 18,000 pounds maximum gross loaded weight, including those prorated under 15-24-102 and except those subject to a fee in lieu of property tax;	" " "
	16%	Theater projectors and sound equipment; and	" " "
	16%	All other property not included in the preceding nine classes except that property subject to a fee in lieu of a property tax.	" " "
XI	12%	Centrally assessed electric power companies' allocations;	Move to Class XI (12.8%)
	12%	Allocations for centrally assessed natural gas companies having a major distribution system in this state; and	Move to Class XI (12.8%)
	15%	Centrally assessed railroads, telecommunications, pipelines, and airlines.	Move Centrally Assessed Railraods and Airlines to Class X - Tax Rate Derived from Formula
XII	8.55%	A trailer or mobile home used as a residence giving the same elderly benefits afforded in class IV.	Move to Class IV (8.55%)

jn95-1

Exhibit 3
SB 48
2/21/85
Towe

THOMAS E. TOWE
Senator - District 46
February 1, 1985

SENATE BILL 48

Assume a house at $50,000 -- current appraised value.

```
   x     8.55% -current classification
  -----------
     4,275     -taxable value
   x  200      -mills
  -----------
  $   855      -tax
```

```
     Reclassification - on line 1 Jan. 86:     50,000
                                                 x 219 %
                                               -----------
                                               $109,500

                 current classification:              8.55%
                                               ------------
                                               $  9,362.25

                            At 200 mills:              .200
                                               ------------
                                               $  1,872.45

        But make adjustment under SB 48:       $109,500    -new value
                                                  x    3.897%
                                               -------------
                                                  4,267.21 -taxable
                                                             value
                                                  x  200    -mills
                                               -------------
                                               $    853.44 -tax

     If combined with Commercial Property:     $109,500    -new value
                                                       4.04 %
                                               -------------
                                                  4,423.85 -taxable
                                                             value
        884.76    new tax                           x 200    -mills
        853.44    old tax                      -------------
        ------                                 $    884.76 -tax
      $ 31.23 extra tax if residential
              and commercial property
              is combined
```

Assume a commercial building value now--$100,000 appraised

	$100,000	
	x 8.55%	-current classification
	$ 8,550	-taxable value
	200	-mills
	$ 1,710	-tax
Increase in appraisal on 1 Jan. '86		
	$100,000	
	x 193%	
	$193,000	-new appraised value
	x 4.428%	-new classification number
	$ 8,546.04	-taxable value
	200	-mills
	$ 1,709.21	-tax
But if combined with residential property:	$193,000	-new appraised value
	x 4.04%	
	7,797.20	-taxable value
	x 200	-mills
	$ 1,559.44	-tax

$1,709.21	old tax
$1,559,44	new tax
$ 149.77	<u>less</u> <u>tax</u> if residential and commercial property is combined

Other reasons to separate residential and commercial property:

1) To comply with 4Rs act (Railroads) and TEFRA (airlines) we must reappraise commercial property every year or railroads and airlines reduce their tax accordingly.

   --If inflation is 16% in commercial buildings we must raise $193,000
   x 116%

   $223,880

   --Then we can use the formula to reduce classification from 4.428% to 3.719% so they pay the same tax

   --For commercial property only it will cost $245,000 the first year and $145,000 each year thereafter. $390,000 for the biennium. Administrative cost to administer the bill.

   --If we have to do the same for residential property it will cost $2,450,000 the first year and $1,450,000 thereafter. $3,900,000 for the biennium to administer the bill.

   --If we don't reappraise commercial property every year--
   BN will demand a 16% tax reduction
   $8,000,000 -total tax by BN
   x 16%

   $1,280,000 -deduction
   $6,720,000 -total paid by BN after deduction.

2) After the last appraisal cycle, nearly every commercial property owner sued claiming they were appraised too high compared to residential property.

   --34% cases.
   --6,000 cases -- still over 900 left to resolve.

   --Same thing will happen again unless residential and commercial property is placed in separate classes.

3) Residential property has already taken most of the tax increases caused by reductions of tax on commercial property since 1973.

--Loss of taxable value since 1973.

1979	--Business Investory---------	28.6 million
1983	--Business Inventory --------	37.0 million
1982	--Settlement of 34% cases----	38.0 million
1973	--Household Furniture--------	17.4 "
1979	--Financial Institutions-----	21.8 "
1983	--Railroad Settlement--------	24.8 "
1981	--Oil & Gas Windfall Profit Tax---------	118.0 "
1981	--Livestock Reduction--------	52.0 "
1981	--Retail to Wholesale Value for vehicles-------	16.0 "
	Total	$353.9 "

Total Residential	17.4 million
Total Commercial	336.5 million
Total Business Inventory & 34% cases only	103.6 million

There is no other alternative. HB 250 (no adjustment of classes) is not a viable alternative.

1) It will result in a loss of revenue from railroads and airlines of $4.5 million per year.

Taxable value under SB 48 (11.21%) = $50,765,478
" " " HB 250 (6.24%) = 28,258,392

Net reduction in taxable value = $22,507,086
x 200 mills

Net reduction in tax paid = $ 4,501,400

2) The impact in #1 ($4.5 million loss) can be reduced by only using that part of each classification that is "commercial" property in computing the classification rate for the railroads and airlines. This would

3) The cost to the Department of Revenue to administer the program is

--audit 20% of property annually = $ 953,700
--do sales assessment ratios " = 222,000

Total cost = $1,175,700

These are bare minimums. Full compliance may cost much more.

4) It requires sales assessment ratios on personal property. The experts state no method has ever been devised to do a sales

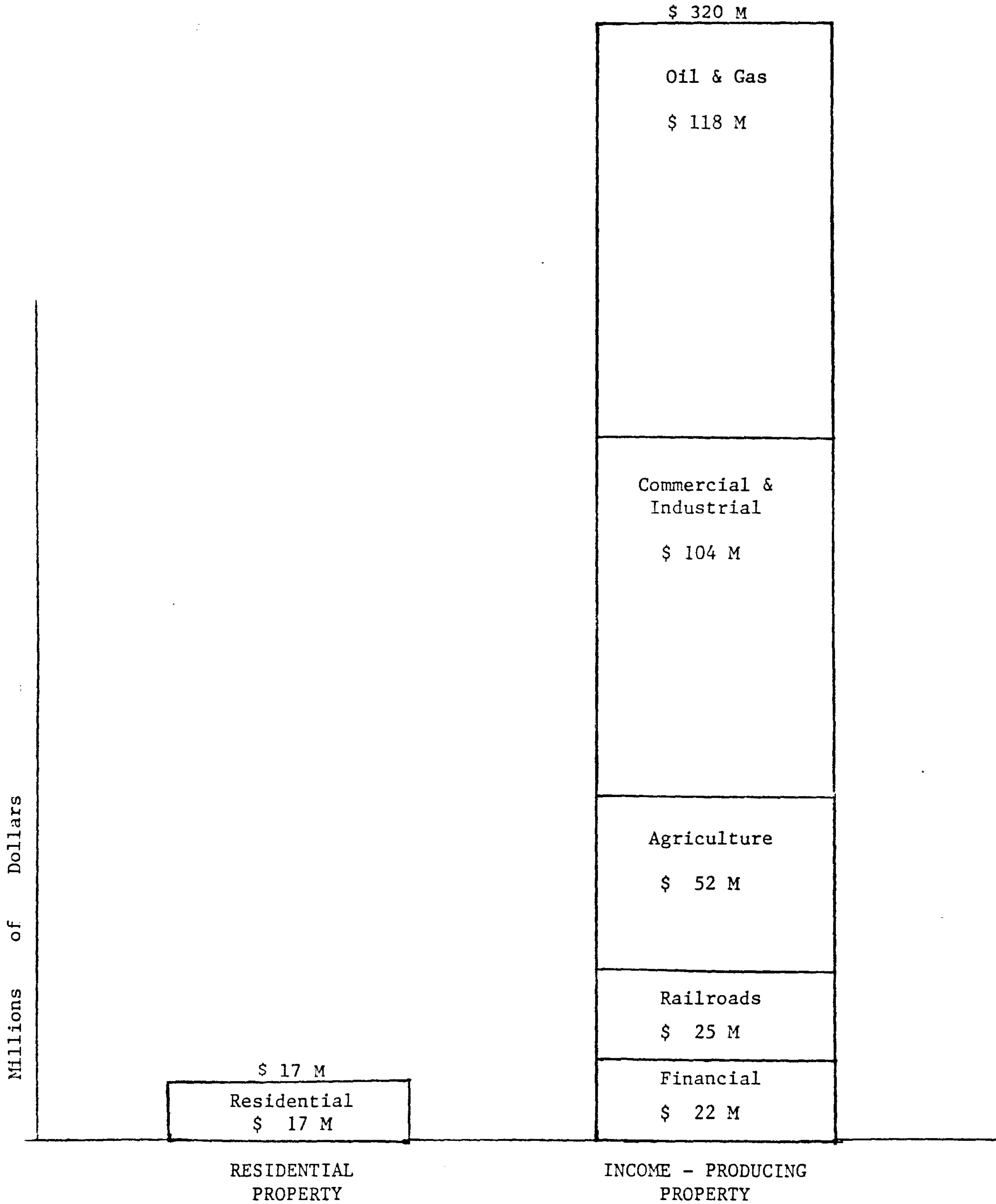
assessment ratio on personal property. This is required for every class of property.

5) It invites thousands of taxpayer suits. The formula requires a market to assessment figure for each class. With a sales assessment ratio, all a taxpayer has to do is find 4 or 5 non-commercial properties that are higher than the department's figures and he will win. As soon as a few win, the floodgates will be open and we will have far more than the 6,000 appeals the 34% cases generated.

Exhibit 4
SB 48
2/21/85
Towe

THE ERODING PROPERTY TAX BASE: WHO BENEFITS?

Annual Value of Major Property Tax Breaks Granted from 1973-1983



(explanation on other s

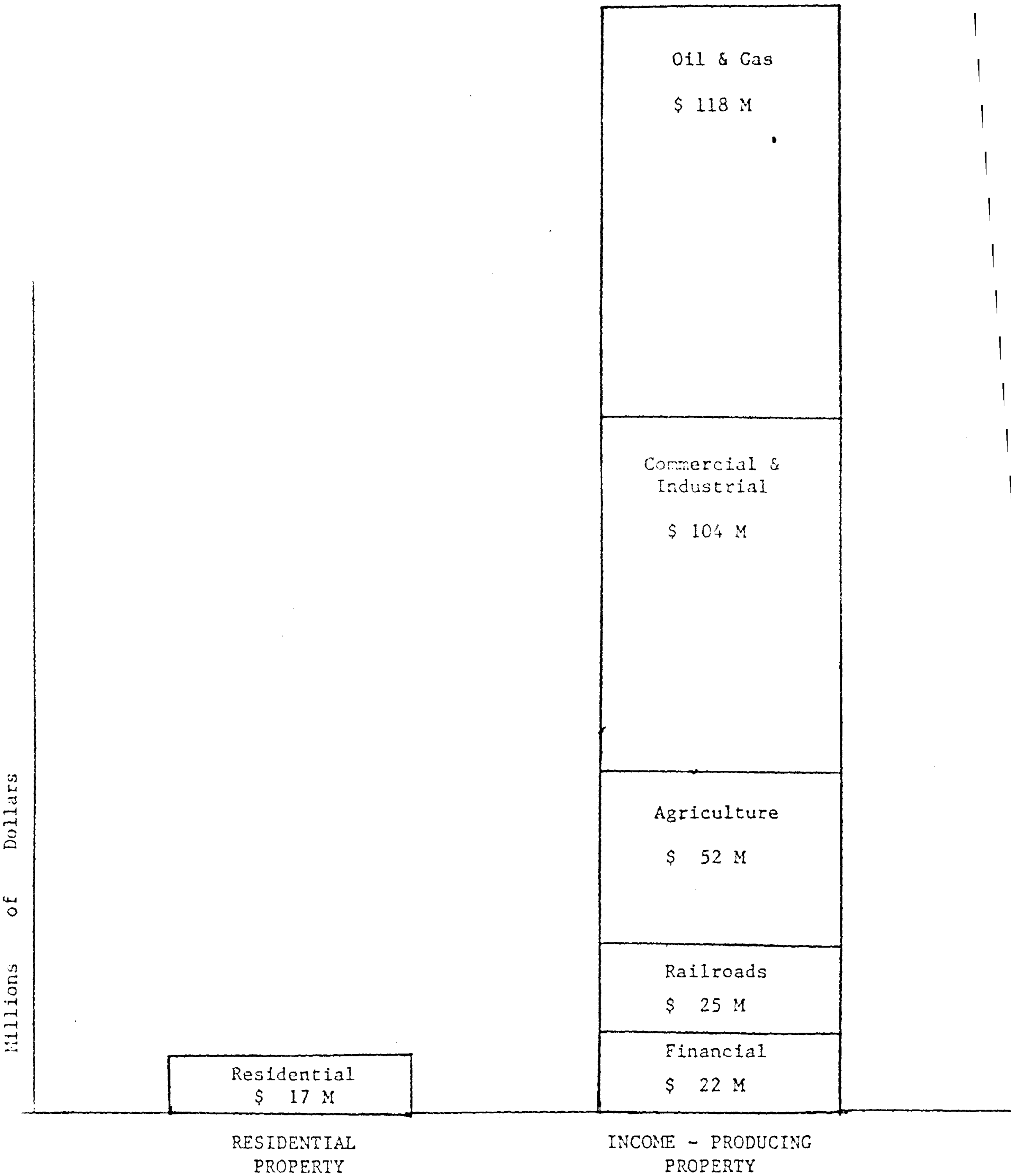
THE EROSION OF THE MONTANA PROPERTY TAX BASE: LOST VALUATION - WHO BENEFITS

	Lost Taxable Valuation
Commercial-Industrial Property	
reduction in inventory rate 1975-1976	$ 27,228,146
exemption of inventory property 1981	38,753,870
manual disparity cases	37,653,186
	$ 103,635,186
because commercial-industrial and residential real property are in the same property class they are supposed to be assessed and taxed similarly; however, the Dept of Revenue utilized valuation manuals from different years for resid and comm-indust. Businesses sued the state and a settlement was reached in order to equalize valuation disparities.	
Financial	
exemption of bank stock 1979	$ 14,340,846
exemption of bank surplus 1979	7,467,607
	$ 21,808,453
in 1979 the state legislature exempted bank shares from property taxation. in order to recover revenues for local governments (not directly for school districts and state mills) the legislature started to return 80% of the financial corporate franchise tax to local governments. According to a 1983 Dept of Revenue Memo the 80% of finan.corp taxes going to local govts has ranged between $500,000 to $1,600,800 below the revenues generated by the bank shares tax	
Railroad	
Burlington Northern Settlement	$ 24,779,340
the federal Staggers Act requires states to tax railroad property no differently than commercial-industrial property. Montana statutes treated RR property differently than commercial property. BN sued. A settlement was reached. The figure to the right was constructed from information detailed in the BN-DoR Agreement for 1980-1983. It is the difference between the taxable value attributable to BN with and then without the agreement and an annual average taken.	
Agriculture	
reduction in rate on livestock 1980	$ 52,052,600
Oil	
windfall profits tax deduction 1981	$ 118,168,868
the 1981 Legislature allowed oil corporations and royalty owners to deduct the federal windfall profits tax from their gross proceeds in order to calculate their net proceeds for property tax purposes. In 1983 the allowable percentage was changed from 100% to 70% as proposed by the industry. The figure to the right is the average annual lost taxable value due to the 70% wpt deduction	
Residential	
exemption of household goods	$ 17,468,238
TOTAL LOST PROPERTY TAX VALUATION 1973-1983	**$ 337,912,701**

Of the total tax base erosion only $17,468,238 went to the residential owner. As the property tax base eroded, increased mill levies resulted to keep government services at the same level. The increased mill levies are very burdensome to those left in the tax base: those least organized and least able to hire lawyers and accountants - the residential owner. Further property tax erosion by special interests should be stopped and equity restored to the property tax base.

THE ERODING PROPERTY TAX BASE: WHO BENEFITS?

Annual Value of Major Property Tax Breaks Granted from 1973-1983



THE EROSION OF THE MONTANA PROPERTY TAX BASE: LOST VALUATION - WHO BENEFITS

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Exhibit 5
SB 48
2/21/85
Don Judge

MONTANA STATE AFL-CIO
AFL CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF DON JUDGE ON SENATE BILL 48, BEFORE THE HOUSE TAXATION COMMITTEE, FEBRUARY 21, 1985

Mr. Chairman and members of the Committee, for the record, I am Don Judge, representing the Montana State AFL-CIO. We are here to urge your support of Senate Bill 48, a measure which would help address the issue of equity in the Montana tax codes.

We represent approximately 43,000 property taxpayers in this state who pass resolutions at almost each Montana State AFL-CIO convention calling for tax justice. Senate Bill 48 deals with one primary issue, of tax justice, separation of residential properties from commercial/industrial (revenue producing) properties.

Senate Bill 48 modifies Montana law to recognize an important basic economic fact. Residential and commercial/industrial properties should be treated differently under our tax laws. While commercial/industrial properties produce income, just the opposite is true of residential property. Homes require constant investment of additional funds. The Montana State AFL-CIO believes that it is not fair to tax these two distinctly different types of property in the same manner, as is currently done under Montana law.

Senate Bill 48 modifies our tax code to reflect that major difference between income-generating and investment-using property. As residential taxpayers in Montana, our members support creating that distinction, and support Senate Bill 48.

Mr. Chairman, members of the committee, attached to the written copy of my statement are figures obtained from the Montana Revenue Department showing the breakdown of the over $320 million in tax relief received by business over the last 10 years in Montana. This information is provided to the committee in response to questions regarding my testimony on House Bills 240 and 250 before this committee on February 1, and is applicable to your deliberations on Senate Bill 48 and other property tax matters which have come, or are yet to come, before you.

Thank you.

Exhibit 7
SB 48
2/21/85
Lukes, Andy

SENATE BILL NO. 48

My name is Andy Lukes. I am planning manager for Champion Internationals Rocky Mountain Timberlands, headquartered in Milltown, Montana.

Champion is the states largest owner of privately owned commercial forest land with over 800 thousand acres presently in this classification. To supply our sawmills, plywood plants and pulpmill in Montana, we use timber cut from our own lands as well as timber purchased from small private landowners and public agencies. Timber purchased from small private landowners has been the critical factor in allowing our mills to continue to operate for the past few years. In addition we are actively seeking to expand the wood supply available from small private forestland owners in the future as we complte the harvest of old, overmature timber on our own lands. To this end we have increased our free technical assistance to private landowners through Champion's landowner assistance program to encourage landowners to actively manage and harvest their timber when mature.

S.B. No 48 will not only adversely effect Champion's efforts to obtain essential raw materials but also the requirements of the entire forest products industry in Montana. Portions of S.B. No 48, if enacted into law, could ultimately destroy a significant portion of the wood products industry by removing large quantities of timber from the marketplace by encouraging landowners to not harvest or manage their timber. This is not good public policy or fair to those of us who are actively investing to build Montana's economic base.

The problems in S.B. No 48 are immediately apparent when we read Sections 10, 11, 12 and 13, starting on page 23.

This bill removes "land used for growing timber" from eligibility of land for valuation as agricultural and places it in a separate classification described as "commercial timberland". In an awkward and administratively burdensome definition, commercial timberland "is land in one ownership" and includes timberland from which is harvested 30,000 or more board feet in any year during the appraisal cycle.

The net result is this - Anybody who harvests 30,000 or more board feet from any part of his entire ownership in any year of a five year period will have all of his land taxed as commercial timberland even though it is used for ranching or farming. On the other hand, a person who owns land upon which a large, rich stand of timber is growing will not pay any tax on the timber values if he does not harvest the 30,000 board feet.

So how does this hurt the timber industry? Obviously, owners of timber stands who are in the ranching or farming business would be reluctant to sell their timber because of the higher timberland tax. And there would be no inducement for them to sell because their timber values are not being taxed at all. Thus , the source of timber supply so vital to the economy of western Montana would be lost.

We specifically request that the 30,000 board foot exclusion be deleted from the definition of commercial forestland.

Secondly, past action by both the legislature and the Department of Revenue requires that the legislature act to correct inequities caused by the 30% assessment rate for class III property which presently includes timberlands. Legislation to accomplish this in some form must be enacted into law by this legisla legislature.

We appreciate this opportunity to comment and hope that this committee can deal with the confusion and uncertainty created by this bill in the area of timberland taxation.

Exhibit 8
SB-48
2/21/85

WITNESS STATEMENT

Name Mons Teigen
House Committee On Taxation
Address Helena (Box 1679) 59624
Date 2/21/85
Representing Mont. Stockgrowers, Woolgrowers, Cowbelles
Support
Bill No. 48
Oppose X
Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. We object to the separation of commercial and residential property. This is not necessary to comply with the 4R Act.

2. We object to the creation of a new Class 12, commercial timber land. Timber is a growing crop and should be treated as agricultural.

3.

4.

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

FORM CS-34
1-83

Exhibit 9
SB-48
2/21/85
Havdahl

WITNESS STATEMENT

Name Ben Havdahl | Committee On House TAXATION

Address Box 1714 Helena MT 59624 | Date 2/21/85

Representing Montana Motor Carriers Assoc | Support

Bill No. SB48 | Oppose X

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Montana Motor Carriers Association opposes SB48, reclassifying certain property and attempting to ~~conform~~ conform to Federal law. The Federal Motor Carrier Act of 1980 requires motor carrier property
2. to be assessed for property or ad valorem taxation in the same manner as other commercial property in the state. There are hundreds of motor carriers in Montana with real property such as terminals warehouses etc. For the most part they are located in commercial
3. locations in communities all over the state. Since motor carrier real property is not ~~unique~~ unique compared to other commercial property, we have no reason to believe that it is not presently
4. being assessed in the same manner as other commercial property.

In an attempt to compare assessment of commercial property with motor carrier property, the bill would require ~~asses~~ reappraisal of commercial property and RR prop, Airline prop and motor carrier property. ~~the~~ The bill splits off commercial and residential. We oppose this aspect of the bill. To determine comparative assessments between commercial and motor carrier property would seem a formidable task by the Dept of Revenue. Unlike RR, motor carriers have rolling stock i.e. trucks + trailers, it is not clear what this bill does here, it places trucks + trailers into Class Three but we are not certain of the [illegible]

~~We oppose~~ The amended provision modifying the definition of market value for trucks and trailers from "wholesale value" to the use of present assessment and a "sales assessment ratio". We're not certain of the impact of such an alternative.
~~[illegible]~~

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

Does annual reappraisal mean to split off motor carrier prop, including all terminals of grain haulers? other carriers in interstate com?

FORM CS-34
1-83

VISITORS' REGISTER

______________________ COMMITTEE

BILL NO. SB 48 DATE ____________

SPONSOR ____________

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Patrick Connell	Livingston		X
Andy Lukes	Missoula		X
T. M. Rollins	Troy		X
Dennis Burr	Clancy		X
Mike Zimmerman MPCo	Butte		X
Dave Goss	Billings		X
Bruce Crippen	SD 45		X
Ben Havdahl	Mont Motor Carriers		X
Marie McAlear	MACO		X
Stan Kaleczyc	Helena		
Mons Teigen	Mt Stockgrowers, Cowbelles, Woolgrowers		X
Don Judge	MT STATE AFL-CIO	X	
[illegible]	MTN. BELL		
Phil Campbell	MEA	X	
[illegible] Carpenter	MLIC Helena	X	
Dale Stroschein	CCC+MLIC Great Falls	X	
Keith Olson	MT. Logging Assn.		X
D. Vandegraaff	Helena		X
Tom Ryan	"	X	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

____________________ COMMITTEE

BILL NO. SB 48 DATE __________

SPONSOR __________

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Jim Mockler	Helena		✓
Tom Beck	Ma Co		✓
GENE PHILLIPS	KALISPELL		✓
Bob Burt MACo	Helena		X
Dennis Shay	Roska		X
Don Allen	Helena		X
Earl O. Lovick	Libby		X

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CS-33