

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

February 5, 1985

The twenty-second meeting of the Taxation Committee was called to order by Chairman Thomas E. Towe at 8:07 am in Room 413-415 of the Capitol Building.

ROLL CALL: With Senators Lybeck and Neuman excused; all other members of the committee were present.

CONSIDERATION OF SB 234: Senator Ed Smith, Senate District 10, was recognized as chief sponsor of the bill. He began his testimony by offering a written statement from Ms. Jo Brunner, representing the Montana Cattlemen's Association, the Montana Cattlefeeders Association and the Montana Grange, in support of SB 234 (Exhibit 1).

Senator Smith explained that the bill would correct the process used by the Department of Revenue in valuing real property by disallowing the use of replacement cost in the appraisal of machinery and buildings. Senator Smith presented the committee with photographs of farm buildings that are assessed at a rate much higher than purchase price. He used as one of his examples a shed which cost \$5826 to build, was assessed at a value of \$13,780 for eight years and is now being assessed at \$8780. He noted that he had paid taxes on the higher amount for those eight years.

He used as an example of farm machinery a grain drill 10-feet long. He showed how the taxes on the drill had actually increased with age as a result of using replacement cost methodology in appraisal. The Department is currently taxing the drill at a value of \$7980. Senator Smith said he could buy a brand new one, set up and delivered, for \$5780 in Culbertson.

Summing up his argument for the bill Senator Smith said that replacement value is increasing faster than depreciation is allowed.

PROPOSERS

Mr. John Brenden, Scobey, Montana, submitted written testimony supporting the bill (Exhibit 2).

Representative Tom Asay, House District 27, also appeared supporting the bill. He explained that the large discrepancy in figures around 1984 came as a result of a manual change in the Department. He also used a handout (Exhibit 3) to exemplify the increased taxes on machinery that is decreasing in value. He talked about farmers fighting drought, grasshoppers and taxes. Representative Asay said that he could not stress enough the need for the bill. He urged the committee to investigate the reasons for the change in assessment manuals used by the Department.

Mr. Bill Asher of the Agricultural Preservation Association asked two of his members to speak in support of the bill.

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Mr. Gordon Darlington of Three Forks spoke of paying very high taxes on very old buildings in fair to poor condition. He said these buildings cannot be taxed at replacement value.

Mr. Dan Hurwitz said his testimony would be repetitious and he urged the committee to pass SB 234.

Mr. William Michael, Jr. presented written testimony in support of SB 234 (Exhibit 4).

Mr. Pat Underwood of the Montana Farm Bureau agreed with previous testimony and said that he has had the most calls in support of SB 234 of any made to him this session (Exhibit 5).

Norman Nelson from Westby said, in support of SB 234, that a garage built in 1910 is now being taxed at \$1200 on his farm.

Mr. William Peterson, Roosevelt County, said that taxing at replacement value means that the government is taxing the farmer for his own labor when he builds his own buildings.

Mr. Ross Fitzgerald, Vice President of the Montana Grain Growers Association, said that the calls he has had in support of the bill are many.

Mr. Marlin Vanetta who farms north of Bainville said, "There is no use taking up any more time. We're in a drastic situation."

#### OPPONENTS

Mr. Greg Groepper, Administrator of the Property Assessment Division for the Department of Revenue, rose in opposition to the bill. He cited two issues: 1) the farm machinery assessment manual change and 2) excessive taxation on some farm buildings. He said the fiscal impact of changing current policy would have to be studied carefully because it could involve a loss in revenue with a commensurate rise in Department cost for appraisal.

The three approaches to value that the Department can take are 1) market, 2) an income approach, or 3) replacement cost. He agreed that ideally market value would be used, but practically that is impossible in this situation. This property does not sell except as a part of a farm with a per acre price.

To change the current system would take more staff, he said. If you want income stream, it would take time to look at that and capitalize it, he added. He said it was unreasonable to expect the Department to handle that. He said replacement cost is the only thing that can be used if there is not useful sales information.

He explained the assessment manual difficulty. Until 1984 the Montana Implement Dealers Association Guidebook had been used. He said assessors and his own appraisal staff had difficulty with that because it didn't list many kinds of equipment and that older equipment had been dropped from it. Therefore, required to use a manual by law, the Department went through a hearings process to adopt a new manual,

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the ITT manual. Subsequently the implement dealers updated their manual and the Department, after another hearing process, returned to that book as an appraisal guide.

The issue he said, is a grave one because it affects many areas besides farm machinery and buildings. He said to address the problem and not to create other problems with passage of this bill. "How are we to get to market value?" he asked. He said that the Department is strongly opposed to eliminating consideration of replacement cost.

Questions from the committee were called for.

In response to a question from Senator Severson, Mr. Groepper said that Big Bud and Stiger tractors were not even included in the old manual. Senator Severson asked if the variation in values came from the variation in books. Mr. Groepper said, yes. But he added that the issue runs deeper. He said that first, there are places that have gone six or seven years with no crops and the equipment isn't worth much because it isn't producing much and that secondarily, the implement dealer's book did raise values. He suggested that the committee call Mr. Blake Wordal, lobbyist for the implement dealers to discuss this issue.

Senator McCallum asked how farm buildings are assessed. Mr. Groepper said that the Marsh Evaluation Service Manual is used because it allows for adjustments based on local labor and materials cost. Basically he said it is a square footage, less depreciation method, with those important adjustments allowed. He said it is the tool available that is most suitable for use in Montana.

In response to a question from Senator Brown, Mr. Groepper clarified again that they are required to use a guidebook of some kind to evaluate machinery. He said that the guide book is theoretically based on actual sales.

Senator Severson inquired about the Department's policy on taxation of equipment when it has no use or value. Mr. Groepper said that functional and economic obsolescence beyond the control of the owner will result in a reduced assessment after the first year.

Senator Towe asked Senator Smith what he proposed the Department use in these valuations. Senator Smith said he would disallow the use of replacement cost and replace it with fair market value. Senator Smith said it could be done with common sense.

Senator Towe asked Representative Asay what he proposed the Department use in valuations. Representative Asay suggested that they return to the ITT manual. He recognized that statewide appraisal is a very difficult thing to do. He said the farmers need some established standard that will not be changed.

In response to questioning by Senator Towe, Mr. Groepper said that his Department will do as the Legislature intends and funds. He encouraged the committee to "fix what you want fixed" but added that if the Department's starting point is invalid they need direction

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from the Legislature about where to start the valuation process.

In response to discussion about the qualifications of appraisers, Mr. Groepper admitted freely that turn-over has been a problem. He said that now the Department can spend 20 minutes per property in the appraisal process. "We do the best we can with the resources we have," he said. He said when there is a problem, they send a different appraiser to look at the property, that failing, the county manager goes out and if the problem is still not resolved the bureau chief is sent to do the appraisal.

Senator Smith, when asked if he would be willing to ask to fund additional appraisers, said, "An appropriation won't correct the problems. If they would guarantee us to correct the problems, I would support more FTEs for the Department."

Senator Eck suggested old equipment and buildings be valued like antique cars. Mr. Groepper said addressing the problem is beyond the ability of the bureaucracy and that the committee has been asked to deal with a legitimate problem of the farmers. "Address the problem in a way we can work with," he asked.


Senator Hirsch asked how similar problems were dealt with in the oil industry. Mr. Groepper said that the industry, the assessors and the Department worked together to arrive at a system all were in agreement with. Senator Hirsch asked if that would be advisable here. Mr. Groepper said that different statutes are applicable and that in the case of the oil industry statute did not require the use of a manual. Secondly, the machinery used by the oil industry is limited in variety, while variation in kinds of farm machinery is endless. Senator Hirsch suggested that values could be established at the hundreds of farm equipment sales that will take place in the spring.

Senator Towe asked if farmers are being taxed disproportionately by the existing methods. Mr Williams responded that when he goes to his lender he cannot borrow the amount the equipment is valued at for taxation.

Senator Eck wondered if tax structure could be molded to economic and climatic conditions, dropping the assessment to loan value in depressed times.

Senator Smith closed saying that he is not asking favors for farmers, that they only want something reasonable. He suggested that the problem could lie in the rule-making authority. His last and very convincing argument involved pictures of buildings that are totally abandoned and unused. Each picture noted the amount of taxes being paid on these buildings which have not been used at all for over ten full years.

Chairman Towe adjourned the meeting at 9:55 a.m.



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Chairman, Thomas E. Towe

# ROLL CALL

## SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date February 5, 1985

Location -- Room 413-415

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Name	Present	Absent	Excused
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Senator Brown	✓		
Senator Eck	✓		
Senator Goodover	✓		
Senator Hager	✓		
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck			✓
Senator Mazurek	✓		
Senator McCallum	✓		
Senator Neuman			✓
Senator Severson	✓		
Senator Towe	✓		

COMMITTEE ON


DATE \_\_\_\_\_

February 5, 1985

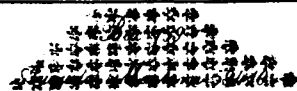
## VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

 Jo Brunner

AGRICULTURE LEGISLATIVE WORK



NAME Jo Brunner COMMITTEE \_\_\_\_\_  
ADDRESS 1496 Kodiak Road Helena DATE February  
REPRESENTING Montana Cattlemen, Montana SUPPORT X  
Cattlefeeders and Montana Grange OPPOSE \_\_\_\_\_  
BILL NO. SB 234 AMEND \_\_\_\_\_

Mr. Chairman, members of the committee for the record, my name is Jo Brunner and I am representing the Montana Cattlemens Association, the Montana Cattlefeeders Association and the Montana Grange, at this hearing.

Mr. Chairman, our organizations wish to support Senator Smith and Senate bill 234.

It is an extremely unfair practice to use a cost of replacement for taxation purposes on a structure simply because it is there. We recognize that some of our outbuildings are beyond repair and often not used, but that does not mean they have an assessment value. Some we rarely use, simply because they are not capable of constant use, and we certainly would not replace them with another structure, but it should be to our discretion to burn them down or destroy the structure. It should not be assumed, for taxation purposes that if we did replace a building that the cost would be consistent with the assessed value consequently we are paying for an assumption by the D o R, not the actual value of our buildings, whether it be a home or an old sheep shed.

We can understand the plight of the Department of Revenue in searching out every possible avenue they can in order to find revenue, but there has to be a limit to what and how they can find and assess that revenue. Perhaps we in agriculture are kind of touchy about taxes right now, more so than we have been in the past and perhaps we should have taken action long ago, before it got to be such an established practice, but despite that, we must now protest this practice, and ask a do pass on Senate Bill 234.

Thank you.

- Exhibit 1 -- SB 234  
February 5, 1985 -

MR. CHAIRMAN, ESTEEMED MEMBERS OF THE SENATE TAXATION COMMITTEE, I AM HERE TODAY TO TESTIFY IN FULL SUPPORT OF SENATE BILL 234. MY NAME IS JOHN BRENDEN AND I AM A FARMER AND A BUSINESSMAN FROM SCOBAY, MONTANA. MY TESTIMONY WILL BE SHORT AND TO THE POINT.

IN NOVEMBER BEFORE I PAID MY 1984 TAX BILL, I WENT TO THE DANIELS COUNTY COURT HOUSE TO FIND OUT WHAT SPECIFIC TAXES WERE LEVIED ON SPECIFIC ITEMS OF WHICH I OWN.

THEY WERE:	1978-7700 JOHN DEERE COMBINE...TAXES	\$784.89
	1979-7720 JOHN DEERE COMBINE...	\$1091.79
	1975-8630 JOHN DEERE TRACTOR...	\$668.66
	1983-8850 JOHN DEERE TRACTOR...	\$2502.30
	1967-BEHLEN QUONSET (7800 SQ.FT.)	\$555.63
	FOR A TOTAL	\$5603.27

IN 1975 MY JOHN DEERE 8630 TRACTOR HAD A LIST PRICE OF \$50,000.00...MIND YOU, A LIST PRICE---NOT THE PRICE I PAID. IN THE PAST 10 YEARS, AT THE PRESENT TAX RATE, THAT TRACTOR WOULD HAVE PAID BETWEEN 15 AND 20% OF ITS LIST PRICE IN PROPERTY TAXES!! THAT IS BETWEEN 7500.00 AND 10,000.00 THAT TRACTOR WOULD HAVE GENERATED IN TAXES!



THE FACT THAT A 1983-8850 JOHN DEERE TRACTOR HAS TAXES OF \$2502.30 IS FREPOSTEROUS!! THAT IS A COUPLE OF HUNDRED DOLLARS MORE THAN THE COAST TO COAST BUILDING ON MAIN STREET IN SCOBEEY, WITH AN AREA OF 6000 SQUARE FEET HAS PAID IN PROPERTY TAXES. AND THAT 8850 JOHN DEERE TRACTOR IS ONLY A PART OF THE WHOLE THAT MAKES A FARMING OPERATION RUN AND WORK...WHERE THE COAST TO COAST STORE IS ITS ENTIRE OWN ENTITY.

MY BEHLEN QUONSET WAS BUILT IN 1967...IT HAS NO RUNNING WATER, IT HAS NOT WINDOWS, IT IS NOT INSULATED OR HEATED, IT HAS ONE BIG DOOR AND A WALK-IN DOOR. YES, IT HAS ABOUT 10 LIGHTS SCATTERED ABOUT ITS 125 FOOT LENGTH. IT IS USED SOLELY FOR GRAIN AND MACHINERY STORAGE. AND YET, THE TAXABLE VALUE OF THAT BUILDING TODAY IS MORE THAN THE TOTAL ORIGINAL PRICE I PAID IN 1967.

MY FATHER PURCHASED TWO 3000 BUSHEL STEEL GRAIN BINS IN 1959 FOR \$300.00 A BIN AND THEN WE HAD TO PUT THESE BINS TOGETHER. A RULE OF THUMB TODAY IN THE FARMING GAME IS THAT A THREE OR FOUR OR 5000 BUSHEL GRAIN BIN WILL COST ABOUT A DOLLAR A BUSHEL. YET, MY TWO 26 YEAR OLD BINS ARE TAXED ON THE SAME REPLACEABLE VALUE AS IF I WERE TO BUILD NEW BINS OF THAT SIZE. FOR SHAME.....

AS A FARMER AND BUSINESSMAN I KNOW WHEN I SELL OR TRADE A PIECE OF MACHINERY IN FOR ANOTHER, I GET PAID FOR THE DEPRECIATED

VALUE OF THAT PIECE OF MACHINERY. I DEFINITELY WOULD LIKE TO GET PAID BACK THE FULL PRICE, BUT I KNOW IN THE WORLD OF REALITY THAT WILL NOT HAPPEN. AND YET, WE ARE TAXED ON ITS REPLACEABLE VALUE. HOW UNFAIR!! LADIES AND GENTLEMEN OF THE SENATE TAXATION COMMITTEE, THIS HAS TO BE CHANGED TO TAXATION BY MARKET VALUE, NOT REPLACEMENT VALUE.

MEMBERS OF THE SENATE TAXATION COMMITTEE THERE IS A TAX REVOLT BREWING OUT IN OUR COUNTRY TODAY. I WILL NOT EVEN GO INTO DETAIL ABOUT DROUGHT, HIGH INTEREST RATES OR OTHER PROBLEMS OF SMALL BUSINESS. I URGE YOU TO DO YOUR DUTY AND PUT A "DO PASS" OUT OF THIS COMMITTEE IN FULL SUPPORT OF SENATE BILL 234. THANK YOU. IF THERE ARE ANY QUESTIONS, I WOULD GLADLY TRY TO ANSWER THEM.

# Examples of Farm Machinery. - TOM ASAY

M	YEAR	MAKE/MODEL	Trade-in	* Official	Trade-in	Feb. 3, 1985
			Guide	Guide	Guide	Bozeman U.C. Cir. 1.
			1984 VALUE	1985 VALUE	1985 VALUE	For sale price
Tractor	1973	J.D. 4630	6245	10,084	5974	
Tractor	1979	J.D. 4240	15,939	19,901	15,192	
Tractor	1982	CASE 2090	29,458	19,181	27,775	
Tractor	1976	Ford 2600	2983	3611	2864	
Tractor	1980	J.D. 8640	47,566	45,598	44,593	35,000
Tractor	1977	J.D. 4430	12,191	14,157	11,739	16,500
Tractor	1980	J.D. 2940	12,235	14,372	11,376	15,000
Combine	1977	A.C.F.-2	11,802	17,332		
Combine	1977	J.D. 6600	17,573	17,496		
Combine	1973	M.F. 300	4863	5838		
Traler	1973	A.C. 443	998	1027		
Traler	1982	J.D. 327	5391	3985		
Tractor	1976	Sperry N.H. 1112	4991	7136		

FROM THE NEWS-PAPER

\* National Farm & Power Equip Dealers Association

# 28, 431. <sup>25</sup> Brown Farmhand 81125 Beet Digger  
# 7, 995. <sup>00</sup> Hutton Model 34 defoliator  
\$22. <sup>00</sup> per row on cultivators

NAME William Michael Jr. BILL NO. SB 234  
ADDRESS 3902 Dover Road Billings Mont. 59105 DATE 2-5-85  
WHOM DO YOU REPRESENT Montana State Sugar Beet Growers of Montana  
SUPPORT ✓ OPPOSE        AMEND       

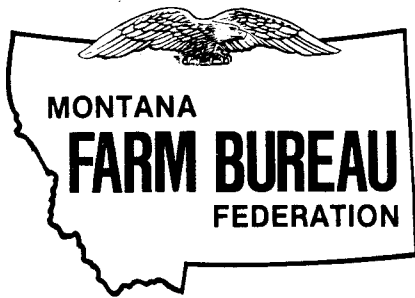
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: The present high values placed on our farm equipment create a big problem for in excess of agriculture's ability to pay. Sugar Beet farmers are hard hit because of the Sugar Plant Closures. I have listed the "Book" values for equipment such as we have on our farm. These values are not realistic even if we were able to use it producing a beet crop. Our sugar beet equipment has zero value to us since we are unable to raise beets since we have no market. We farmers are rich in terms of land and equipment but poor in terms of cash flow. If present situation continues it will certainly hasten the demise of Montana's agriculture. Listed Below are examples of values on Machinery:

1972 John Deere 4630 tractor - 1984 Book #6,245  
1985 New Book #10,084  
1979 John Deere 4240 tractor 1984 Book #15,939  
1985 Book #19,901

A neighbor of ours had the value of his Crownman land leveler raised \$1500. <sup>00</sup> over what he purchased it for when he bought it new in 1982.

This system of valuation is not realistic and needs to be changed. This is our State government's opportunity to give farmers some genuine -



502 South 19th

Bozeman, Montana 59715

Phone (406) 587-3153

TESTIMONY BY: Patrick Underwood

BILL # SB-234 DATE Feb 5, 1985

SUPPORT X OPPOSE                     

The Montana Farm Bureau supports senate bill 234. We have long had policy which supports this type of legislation. It is needed... it is equitable... and for a state government that says it wants to do something to assist agriculture during these hard times... here is a way that you can give that help... now. We recommend a "do Pass" on this bill.

- Exhibit 5 -- SB 234  
February 5, 1985 -

  
SIGNED

NAME BILL ASHER BILL NO. # SB 234  
ADDRESS P.O. BOX 3285 BOZEMAN DATE 2-5-85  
WHOM DO YOU REPRESENT APA, PCLA & MCPA  
SUPPORT X OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

THE AGRICULTURAL PRESERVATION ASSOCIATION,  
PARK COUNTY LEGISLATIVE ASSOCIATION AND  
MEAGHER COUNTY PRESERVATION ASSOCIATION  
WOULD LIKE TO BE SHOWN IN THE RECORD  
AS BEING IN SUPPORT OF SB 234.

# STANDING COMMITTEE REPORT

February 5,

1985

MR. PRESIDENT

We, your committee on Taxation

having had under consideration Senate Bill No. 33

second reading copy (yellow)  
color

**ESTABLISHING AGRICULTURAL LAND VALUES FOR 1986 REVALUATION CYCLE**

Respectfully report as follows: That Senate Bill No. 33

This report was held at the request of Chairman Towe. See Senate Journal of February 6 for next action on the bill.

DO PASS

~~RECEIVED~~

Thomas E. Towe,

Chairman.