

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE
Third Special Session

June 26, 1986

The ninth meeting of the Senate Taxation Committee was called to order at 8 am in Room 325 of the Capitol by Chairman Thomas E. Towe.

ROLL CALL: All members of the committee were present.

CONSIDERATION OF SB 21: Senator Ed Smith, Senate District 21, was recognized as chief sponsor of the bill. He said that he was a member of the subcommittee which reviewed the block grant program and found a shortfall of \$9.8 million. He said that the shortage would be even worse in January. He said that the flat fee system was not working and that it needed to be changed. He noted that when the flat fee system was established there was a promise to fully fund the loss to local governments. He said if the block grants could be funded otherwise he would support killing this bill. He said that millions had been spent in re-appraisal in order to achieve equity and then auto owners had been simultaneously told that they needn't contribute.

He said that the bill addresses two things. First, that only bills in the flat fee system are affected and second, that the dollars would be used to fund the block grant program.

PROPONENTS

Alec Hansen, Montana League of Cities and Towns, said that the 1985 session had been asked to consider two measures to balance the block grant program and to fund district courts. He said the bottom had fallen from the oil market so that the necessary level of funding cannot be reached from that source. He said that in October the cities and towns face federal revenue sharing loss. He said that the total loss to local governments had precipitated a severe financial crisis. He said that this was to set up a system to provide that property tax payers do not have to balance the block grants. Now he said they are being forced to cut the essential services. He said that it was never intended to be subsidized by property taxpayers of the state. He said they have worked carefully on this funding alternative. He said there would be a 2 percent tax on the depreciated value of light vehicles using the American Automobile Dealers used car guide. He said that new cars under a new car license tax would pay no fee in the first year. He said the estimates show that the bill could generate \$40.6 million in the first year. Currently the motor vehicle revenue is about \$55.1 million with the registration and district court fee retained. He said accounting for inflation it could increase to \$52.1 million. He noted that this bill would raise \$3 million less, but was confident that the proposal would allow for an increase in that amount. He said it would give the

local governments a reliable, predicatable source of funding. He said the current system is not equitable, not uniform and has had a figure fixed in law since 1981. He said the county levels of reimbursement may need to change. He said that the inflationary adjustment could be made on the consumer's price index and that it was not as great inflation as used motor vehicles. He said that the tax was progressive and responded directly to inflation, requiring no subsidies. He said the state would no longer be obligated for \$35million currently given to block grants. He said that the bill was not perfect as it stood before the committee, but that it did put in place a system that was fair, uniform and progressive. He discussed the Arizona experience with this method as practical, effective and fair.

Mr. Gordon Morris, the Montana Association of Counties, said this bill had been drafted with many considerations. He said that the program is analagous to the ad valorem system. He said that they do not want to worsen the current situation. He said that in 1981 Department of Revenue figures showed taxable value at \$140 million calculating mills against value. He said that was \$35 million of property taxes in 1981. He said that \$28 million out of current flat fee system was available in 1986. He said that the bill is technically correct. He said that on page 2, line 21 the stricken language should be retained as it relates only to county classification. He said there was no bearing in the change over from the flat fee system. He said that several instances throughout the bill retain the concept that all taxing jurisdictions would anticipate revenue to local governments. He said that budget considerations must be made with this in mind. He said that he did not want the committee to assume that the bill would increase the value of a mill by any county. He said that autos are not being resurrected to a property class in Title 15. He said that would result in a loss of ground. He said that the funding was on a jurisdictional basis. He said that they would retain the concept of distribution for a block grant program and that part of the existing system was not changed.

He said that in deleting language for the flat fee and restructuring it with this new system the value was based on average retail market value. He also discussed the effective date of the bill.

He said it was a major concern to project the loss in the block grant program. He said that this approach does generate an increase in net revenue and that more study was needed on the fiscal note. He said they would like a hold harmless between this system and the current one. He concluded saying that on the surface it was a complicated bill, but that the concept was simple. He said that all car owners would pay a progressive tax under this bill.

Mr. Dennis Kincaid, City of Bozeman, said that they supported the bill.

Mr. Eric Feaver, Montana Education Association, said that they support SB 21. He said they are not pleased with block grant program funding and would like a more equitable way for it to be done.

Mr. Bob Mullen, Richland County, said that certain counties have been locked out of participation by a lower mill levy and that should be looked at.

Mr. Jim Van Arsdale, Mayor of the City of Billings, said that they support the bill even though the formula in the block grant program would give more to Billings. He said that other programs have been cut back and that the cities need this revenue.

Mr. Jim Neugents, city attorney for Missoula, said that it was important to school districts and local governments. He said that they have never been provided reimbursement as promised. Since 1981 they have had to turn more and more to real property tax. He said the shortfall in Missoula is over \$1 million. He said SB 21 gave a reliable, predictable fair progressive tax which grew with the rate of inflation.

Senator Larry Tviet, Senate District 11, rose to support SB 21. He said that those who buy the vehicles can maintain the local governments. He said if one buys an expensive car the tax can be paid. He said the cities and counties have had their funding sources dry up and the people in the area should help. This bill would improve that situation.

Mr. Jim Halverson, fiscal officer for MACO and a commissioner from Roosevelt Couty, said that the bill was a step in the right direction.

Ms. Toni Hagner, Hill County Commissioner and President of MACO, said that this would be an effective and dependable method of consistent support for the local governments.

Mr. Al Sampson, City of Missoula, said that in the face of the shortfall in value of the mill and because of reassessment this was necessary. This bill is a more fair method, by far, he said.

Mr. Vern Erickson, Montana State Firemen's Association, said that local governments need this kind of support in order to provide service.

Ms. Ann Mary Dussault, Missoula County Commissioner, said that the county operated with a taxable value of \$135 million in 1981 and that in 1987 it had decreased to \$114 million. She said they lost \$21 million in taxable value due to the legislative action. She said that reappraisal and block grant losses decreased tax revenues by 7.6 percent. She said the revenue sharing loss of 13 percent does not include the trickle down loss from other federal and state programs. She said the bill would not solve all the problems, and that originally she had believed Missoula County

would lose less. She said that Missoula and three other counties would be losers, but that in 52 of 56 counties this was an important stabilization. She said the state can no longer afford to look to short-term solutions. She said that this bill is in the long run better even if there is an initial loss. She said that in the future local government needed a more stable source of revenue, "one that, frankly, we control more and you control less."

Mr. Mike Dahlem, Montana Federation of Teachers, said that they supported the bill.

Mr. Tom Schneider, Montana Public Employees Association, said that they support the bill.

OPPONENTS

Mr. Tom Harrison, Montana Auto Dealers Association and Montana Automobile Association, said that section 25 would have to be changed to exempt heavier vehicles if that was the intention of the committee. He noted that as written the district court fee would apply across the board. He said that the agreements made today were made in reverse before. He said that this bill would require new employees. He said that would be necessary to assess the individual vehicles. He said that it was an inconvenience to the public as it required a trip to the assessor and then another to the treasurer. He said the bill eliminates the expeditious handing of licensing by mail. He said that auto dealers could lose sales because of the increased tax and that this was important in keeping dealerships in business. He said that there were 240 dealers in the state and that now there are only 160, a loss of 80. He said that seven dealerships have closed in this year alone. He said that the number of people who can survive in this business is declining. He said that they cannot change fees and say it doesn't affect the dealerships. He said the auto dealers register 19 percent of all the vehicles in the state. He said that a \$16,000 vehicle the second year the fee would double. He said for businesses with multiple vehicles that would be an increased tax of \$1,000/year. He said this very philosophy was rejected by the legislature previously. He closed commenting on the proponents all being taxspenders as opposed to taxpayers. He said the shortfall is a manifestation of the taxpayer shortfall. He said the Legislature cannot continue to overburden taxpayers when taxspenders cannot cut costs. He said this increase to taxpayers cannot continue.

Mr. George Allen of the Montana Retail Association said the shortfall is with small business people who are on the verge of bankruptcy. He said that gasoline tax is an increase to small businessmen. He said this is the straw that could break the camel's back. He said he didn't hear any of the proponents discuss expenditure reduction. He said that he had recently been in the Lewis and Clark County Courthouse where two people were employed, one to answer the phone for the city and another for the county. He

said it took his suggestion to find other things for these employees to do when they weren't answering the phone. He said that it was right to ask for salary freezes and massive layoffs. He said this philosophy should go to the city and county level. He said that a more businesslike approach was needed at the local government level. He said that when they discuss layoffs they only talk about essential services and suggested that others should be discussed. He said that when business is down, expenses cannot go up.

Questions from the committee were called for.

Senator Severson said that the wholesale rather than the retail value should be used. Senator Smith said that the matter was urgent because otherwise a full year would pass without being able to implement the new system. He thought that January would be a good time to adjust to the wholesale concept.

Senator Goodover noted that the fee system was opposed by the administration in 1981 and asked Mr. John LaFaver, Director of the Department of Revenue, what the position of the administration was on this bill.

Mr. LaFaver said that they had no position on the bill. He said that it was a basic policy choice that the Legislature should make. He said there would be significant administrative cost involved. He said that the Property Assessment Division was at an all time low in number of staff. He said that they had one-half of the number they had during the last reappraisal cycle. He said that it would take about \$500,000 to \$1 million to administer so that if the bill is passed the administrative costs should be accounted for.

Senator Halligan said that the percentage should go up to 2.5 percent and other fees in the bill could be eliminated. Mr. Hansen said that they were content with a \$8.8 million deficit if part of the loss could be covered and a better system developed for the future. He said the district court fee was sunsetted in July of 1987 anyway. He said that they did not want to put another system in place at this time.

Senator Towe asked why the mailing system was removed. Mr. Hansen said that if it could be retained he would be in favor of it. Senator Towe noted that if oil prices went up even \$2.50 a barrel that the other system would be better than the one proposed in the bill. Mr. Hansen said that full funding of the block grant program would take \$26/barrel oil. He said they were willing to chance a temporary revenue shortfall. He said they wanted to get away from constant adjustment and develop a stable source of income. He noted that now the law says that the state "shall" fund the block grants and that it was their position that it was not permissive.

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Mr. Gordon Morris said that the repealer on the mailers had never been discussed by those supporting the bill. He said it was not their intent to create a more burdensome system. He said they were looking to implementation and the mail-in portion had been inadvertantly repealed. He said the system proposed was comparable to the state of Wyoming. He said that the title and registration could stay with the vehicle. He said the next year the registration could be by mail with a reduction on a straight line depreciation. He said it was not the intent of the bill to provide revaluation every year.

Senator Towe asked Mr. Morris if they would not be better off with the existing system. Mr. Morris said it was their assumption that the block grant program would not be fully funded.

Ms. Hagner from Hill county said that from the county level it would be easy to do a one-time assessment at the assessors and then to depreciate it. She said the intent was that the top registration book price would be used once, and then a depreciation would occur.

Senator Goodover asked if inventory was assessed to the dealer. Senator Smith said that this had not changed at all in the bill. Senator Goodover asked how much the 1.5 percent sales tax on new cars factored in state income. Mr. Harrison answered that used car inventory is exempt.

The committee directed some questions on the fiscal note to Terry Johnson.

Senator McCallum said that he had no problem in deletion of retail value and changing it to wholesale.

Senator Smith closed saying that many more people support the bill than could testify at the hearing. He said that additional FTEs would not be necessary. He said there is a shortfall to local governments of \$9.8 million. He said that in North Dakota where there is a 5 percent sales tax the auto dealers had the same problems. He said the bill says that if one owns a vehicle the tax should be based on the value of the vehicle. He said that poorer people and senior citizens are now picking up the tab for those who are driving newer, more expensive cars. He said the bill would be a benefit to many and that all should pay a fair share to local government and to school systems. He said finally that not a single car dealer opposed the gas tax.

Chairman Towe recessed the meeting at 10 am.

The meeting was reconvened at 4:37 pm in Room 410 of the State Capitol. Senators Eck and Neuman joined the committee later. All other members were present at that time.

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CONSIDERATION OF SB 21: The chairman opened the meeting to further questions from the committee.

Senator Halligan wanted to be certain that after the first year the depreciation schedule would plug in and that there were clear directions for a 10 percent depreciation. Senator Towe read the language from the bill. The committee looked at page 55 in the bill as they discussed this.

Mr. Gordon Morris asked if this would be considered part of the mill levy base and said that it needed to be considered clearly outside of that. Mr. Lear, committee staff, said that no changes were necessary and that the language in each and every section applied to all taxable property and that the bill was correctly drafted. Mr. Morris said again that the classification must not be considered part of the mill. Mr. Lear said again that the bill was clear and cited page 2, line 18. Mr. Morris said that he was a bulldog on the point of increasing taxable value. He said local governments needed to anticipate this as property tax but not in the base of the value of a mill. It was noted that a risk of doubling taxes existed if this was not clear.

Senator Goodover said that the advalorem tax did not add to the millage. Senator Towe said this was not the same system. He said this was a fascinating system, a hybrid system a fee system using the NADA value. He said that he felt after 1989 counties would be better off without this bill. He said that at this time there would be an average 25 percent increase on automobile fees.

Senator Severson noted that it would increase the fee at the top end but not at the bottom end. Senator Brown said yes, that Republicans would have to pay more and Democrats would pay less. Senator Severson said that the big would pay more, the small would pay less, the new would pay more, the old would pay less. And added his common refrain that the tax should be based on wholesale value just as the new car tax was based on wholesale value. He said the percent should be increased if necessary to raise the same revenue, but that it should be based on wholesale value.

Senator Towe suggested that they change to add a half a percent and go from retail to wholesale. Senator McCallum noted that they used the loan value on farm equipment.

Senator Towe suggested that on page 5, line 19 they could strike "retail" and insert "average trade in" and further strike "2" and insert "2 1/2" percent.

MOTION: Senator Severson moved to amend SB 21 to strike retail and insert average trade in value.

Senator Eck said the change from 2 to 2 1/2 percent had to be tied to the wholesale value or she could not support the amendment.

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MOTION: Senator Eck moved that SB 21 be amended by changing the percentage from 2 to 2 1/2 and further amended by changing retail value to average trade in value.

Senator McCallum commented that the committee did not know what it was doing. Chairman Towe asked if the committee wanted to vote on these separately or together. Senator Halligan commented that the committee did not know what it was doing. He added that they had no idea of the fiscal impact of the motions.

Question was called on Senator Eck's motion. Senators Eck, Lybeck and Towe voted aye. All other members voted no, except Senator Neuman who was absent. The motion failed.

Question was called on Senator Severson's original motion. Senator Severson voted aye. Senator Neuman was still gone. Everybody else voted no. The motion failed.

The committee then discussed the mailing provision. Mr. Lear suggested that the first year would need assessment anyway so that it would be okay to wait until 1987 to handle the mailing provisions as they could not be implemented sooner anyway. Senator Mazurek said that they could ask the Department to promulgate rules.

Senator Goodover asked about the fiscal impact of changes in the bill. Senator Towe said that the motions had failed and there were no fiscal impacts in the changes.

Senator Hager asked if the bill was revenue neutral. Mr. Dan Bucks Department of Revenue, said that there was a problem with the repeal of the allocation of the severance tax.

Senator McCallum said that the committee should wait to act on the bill tomorrow as he wanted a more clear fiscal note. He said that he didn't want to vote until he knew what it was. Senator Towe said that the two sheets at the end of the current fiscal note contained the information Senator McCallum wanted.

Commissioner Ann Mary Dussault, Missoula County, was recognized and said her original understanding was that there would be a hold harmless clause in the bill for those counties losing money. She said she was not now certain whether the bill accomplished this purpose.

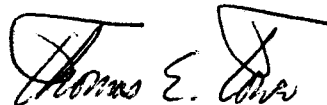
A discussion followed regarding the way the money would be prorated to the counties and whether or not any dollars would revert to the general fund.

Senator Brown asked "What can we do?"

Senator Eck said she wanted the bill even if HB 14 did pass. Senator Severson said he was an antifee person and wanted to wait until 1987 to act on this bill.

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Chairman Towe said the committee could act on the bill later and adjourned the meeting.

A handwritten signature in dark ink, appearing to read "Thomas E. Towe". The signature is stylized with a large, looped initial "T" and a distinct "E".

Chairman

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