MINUTES OF THE MEETING
GENERAL GOVERNMENT AND HIGHWAYS SUBCOMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

The meeting of the General Government and Highways Subcommittee was called to order by Vice Chairman Stimatz on February 20, 1987 at 8:00 a.m. in Room 312 of the State Capitol.

ROLL CALL: All committee members were present. (Chairman Rehberg arrived late) Also present were Norm Rostocki, Budget Analyst from the Office of Budget & Program Planning (OBPP) and Pam Joehler, Senior Fiscal Analyst from the Office of the Legislative Fiscal Analyst. (LFA)

95A:0.00

DEPARTMENT OF REVENUE

In the absence of Chairman Rehberg, Sen. Stimatz chaired the meeting.

John LaFaver, Director of the Department of Revenue, referred to HB 221 regarding its impact and merits. This bill would move the administration of the Motor Fuel Division from the Department of Revenue to the Department of Highways. He said from the standpoint of the Department of Revenue and from the overall spending in the state as a whole, the department felt, and the fiscal note reflected, a move of that type would end up costing more money than to leave the system as it now exists. One of the major factors leading to the increased cost is the new automated fuel system about to be put on line at Motor Fuel Division. It is a system integrated to the entire Revenue automated system. He said the department advocated HB 221 not be adopted and the Motor Fuel Division stay with the Department of Revenue.

Mr. LaFaver said the notion of a one-stop service center for truckers could be accomplished without moving the entire division. He said the narrow purpose of what Rep. Gilbert wanted to accomplish should be done and there are a number of ways to do this. One way would be to have a joint staff training with the Department of Revenue, the PSC and the GVW in order to educate all staff as to forms and requirements, specifically the staff answering incoming calls from the standpoint of the entire state structure and not just from their area. He said the frustration of someone being bounced from one department to the other could be overcome without involving the complexity of the computer system.

Norris Nichols, Administrator of the Motor Fuels Tax Division, said this could be accomplished and suggested the bill be killed and a directive sent to the three agencies outlining what they are expected to do. He will take the lead on it with the permission of the Director. With the cooperation of the other two agencies, he would guarantee it would be done.

It was the consensus of the committee the staff get together and compile a directive to be mailed to the three agencies.

HOUSE BILL 221

EXECUTIVE ACTION
Sen. Keating moved HB 221 DO NOT PASS.

A voice vote was taken and the motion PASSED unanimously. Chairman Rehberg was absent.

(22.40)

Mr. LaFaver presented an overview of the possibilities for further spending reductions as requested by the committee. (Exhibit No. 1)

The department presented two options, not mutually exclusive. One, or both, could be adopted, but the general thrust of them was to remove the personal property, basically machinery and equipment, from taxation and shift the tax paid on machinery to other assets. It would institute a fee system for some of the heavy vehicles.

Mr. LaFaver reviewed the memorandum. Option No. 1 would result in an estimated savings in FY 88 of $518,500 and in FY 89 of $1,060,400. Option No. 2 deals with assessing commercial personal property. He said approximately $1,200,000 could be raised with the elimination of the tax on personal property. There are bills in to institute a fee system on some of this, but it would be necessary to raise the tax on real estate also to fill the entire gap. A savings of approximately $800,000 would be realized in FY 89. If both options were implemented, the total biennial savings would be $2,762,400. He said this would not quite be the ten percent, but would total ten percent by FY 89. Without shifting costs to the county level, he feels the best the department could do would be a ten percent savings by FY 89. The timing involved would not allow the department to realize a full year's savings in FY 88.

Sen. Gage said he had asked Chairman Rehberg to request a committee bill reflecting the changes in personal property taxation. As time was short, the chairman of the Senate

Taxation committee put in a request in order to have available the opportunity to accomplish this if the decision was made to go in that direction. He said Sen. Keating had a mechanism to do away with personal property completely and to replace that revenue.

Mr. LaFaver said none of the changes could be made without statutory changes. He said the department would define the machinery that is an integral part of the structure as being real estate and rather than taxing it at eleven percent, it would be taxed at the rate for real estate and some would be taxed on a fee system. But, there would still be a revenue loss that would have to be made up if it was going to be revenue neutral with a change in the tax rates on real estate.

Rep. Quilici asked if there might be some soft spots in any other areas of the department's budget.

In answer, Mr. LaFaver said he was being candid when he said there are no soft spots left. He said through automation, twenty percent of the FTE over the past two years have been carved out. He stated beyond the point where the department now stands, they would run the risk of losing more tax revenue than would be gained by lowering expenses.

95B:0.00

Chairman Rehberg assumed the chair at 8:50 a.m. and was briefed on the action and discussion of the committee during his absence.

There was discussion regarding I 105 and the chance of Sen. Gage's bill passing.

Rep. Poulsen said if one agency was asked to take a ten percent cut, it would only be fair for all agencies to do the same. Sen. Stimatz said it would be possible to be selective and still be fair.

Chairman Rehberg said it would probably come to the point where the committee would have to decide what programs and FTE should be cut.

Sen. Gage pointed out a cut in auditors could mean a reduction in revenues eight to ten times the amount of revenue saved through the elimination of that position. Sen. Keating said the auditor's purpose was to make sure people paid their fair share of the taxes. He did not support the theory that more auditors necessarily meant more revenue.

Rep. Quilici was excused.

Mr. LaFaver pointed out the Miscellaneous Tax Division was abolished last year and administrative positions were let go. The responsibility was moved to the Income Tax Division and the administrator was essentially told he had more work without a cost increase there. There were some people doing the day to day work that moved to Income Tax. He said the options presented proposed less money than they had in the last biennium. He stated there were less employees than when he came to the division two years ago and he felt to go substantially further than what the committee has done and what the department has proposed would result in the loss of revenue now and in the long run. Chairman Rehberg said there is no control over welfare now and this is siphoning funds away from other areas. Until there is control over welfare and, as long as there is a limited source of revenue, the Legislature will either have to raise taxes or cut back on spending and raising taxes has to be the last resort.

Sen. Keating pointed out Mr. LaFaver had taken a step recommended by the committee when he laid off administration and moved the job over to someone else and told them they had more work to do.

Mr. LaFaver re-emphasized without changing the tax laws, he did not envision any areas in which there could be further reductions. He said to leave the tax laws alone and to require staff efforts in areas that are not cost effective, would be a shame.

Sen. Keating complimented John on the report and efforts made to comply with the request of the committee. He thanked him for his cooperation and ideas.

Sen. Gage told the committee his bill was through the suggestion and efforts of Greg Groepper.

ADJOURNMENT: The meeting was adjourned at 9:20 a.m.

Dennis R. Rehberg

Dennis R. Rehberg, Chairman

DAILY ROLL CALL

GENERAL GOVERNMENT & HIGHWAYS SUBCOMMITTEE

DATE Feb. 20, 1987

NAME	PRESENT	ABSENT	EXCUSED
REPRESENTATIVE DENNIS REHBERG	✓		
SENATOR LARRY STIMATZ	✓		
SENATOR DEL GAGE	✓		
SENATOR THOMAS KEATING	✓		
REPRESENTATIVE HAROLD POULSEN	✓		
REPRESENTATIVE JOE QUILICI	✓		

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DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

February 16, 1987

MEMO

TO: Representative Dennis Rehberg, Chairman
General Government and Highways Subcommittee

FROM: John D. LaFaver, Director

SUBJECT: Possibilities For Further Spending Reductions While Maintaining Revenues

OVERVIEW

In the Department of Revenue overview to the General Government and Highways Subcommittee we outlined the actions taken to deal with funding shortfalls in FY86 and FY87. The following summarizes these actions:

> Reduced Department staffing by 18% between FY86 and FY89. Over 190 FTE positions were eliminated representing approximately 20% of all staff reductions taken statewide;
>
> Reorganized the Property Assessment, Income Tax and Miscellaneous Tax Divisions;
>
> Implemented the Liquor Recovery Plan; and
>
> Automated the major tax collections functions within the Department.

These actions were carefully implemented with the goal of maintaining state revenues while living with limited resources. We can continue to meet our revenue generating obligations in the next biennium if the funding we have proposed is approved.

ADDITIONAL GENERAL FUND REDUCTIONS

The General Government and Highways Subcommittee has requested the Department to articulate ways to reduce General Fund spending by an additional ten percent. Obviously cuts of this magnitude can be made, but not without adversely affecting state revenue collections. Given our current tax laws, additional funding cuts will result in reduced state revenues which exceed the savings that could be achieved.

During our budget hearings the Committee expressed interest in exploring ways that existing laws could be changed to reduce inefficient tax administration, save money and maintain revenue neutrality.

Clearly, if we retain the expectation of maintaining or improving the states' revenue picture we have but one choice in complying with the Subcommittees' request for reduced spending. We must provide you with the tax change alternatives you requested which would maintain revenue and cut administrative costs by approximately $1.7 million in each year of the biennium.

OPTIONS FOR MAINTAINING REVENUE AND REDUCING SPENDING

The Subcommittee expressed interest in two areas of the Property Assessment statutes: the assessment of Agricultural and Commercial Personal Property. The current laws relating to the administration of these taxes require tasks that are complicated, labor intensive, and not cost effective.

Options exist that would substantially streamline Property Assessment and Appraisal activities and significantly reduce operating costs. It must be noted that eliminating the assessment of personal property inevitably shifts the tax burden to other taxpayers. The shifting burden needs to be weighed against the administrative savings which result.

OPTION 1 - AGRICULTURAL PERSONAL PROPERTY

Saving of $1,579,000 can be achieved in the FY89 Biennium if changes are made to state law allowing simplification of administrative tasks in assessing agricultural personal property.

In order to accomplish this savings, farm machinery, hand tools, livestock, and grain in storage would be exempted from taxation. To maintain revenue neutrality the tax rate on real property would need to be increased to offset the loss of personal property revenues.

To implement this change would require the following actions:

1. Adjusting other property's tax rate to achieve the desired revenue neutrality;

2. Reducing 49 FTE by January 1, 1988.

3. Notifying affected taxpayers of the changes in the value of their holdings;

4. Making the necessary changes for rate adjustments in all county computers; and

5. Implementing the On-Line Data Capture System proposed in the Governors' Budget.

The cost saving will occur as follows:

	FY88	FY89
Reduced Personal Services	$490,100	$980,200
Reduced Operating Costs	80,200	80,200
One Time Implementation Costs	(51,800)	-0-
Total Program Reduction	$518,500	$1,060,400

OPTION 2 - COMMERCIAL PERSONAL PROPERTY

Saving of $1,183,000 can be achieved in the FY89 Biennium if changes are made to state law allowing simplification of administrative tasks in assessing commercial personal property.

In order to accomplish this savings, personal property such as furniture, fixtures, machinery and equipment not affixed to the ground, supplies, tools and other specialized equipment would be exempted from ad valorem taxation. Trucks, airplanes, and boats would be placed on a fee system. Additionally, real property would have to be redefined to include property affixed to the ground. To maintain revenue neutrality the tax rate on real property would be commensurately increased to offset the loss of personal property revenues.

To implement this change would require the following actions:

1. Adjusting the tax rate on real property to achieve the desired revenue neutrality.

2. Reducing an additional 49 FTE by January 1, 1988.

3. Notifying commercial property taxpayers of the changes in the value of their holdings;

4. Making the necessary changes for rate adjustments in all county computers;

5. Reviewing all commercial property to determine what property is affixed to the ground and meets the new definition of real property; and

6. Developing the capability to process commercial property in the present computer assisted appraisal system.

The cost saving will occur as follows:

	FY88	**FY89**
Reduced Personal Services	$490,100	$980,200
Reduced Operating Costs	80,000	80,000
Implementation Costs	(194,100)	(252,700)
Total Program Reduction	$376,000	$ 807,500

The total cost saving of these two options are:

	FY88	**FY89**
Reduced Personal Services	$980,200	$1,960,400
Reduced Operating Costs	160,200	160,200
Implementation Costs	(245,900)	(252,700)
Total Program Reduction	$894,500	$1,867,900

TOTAL BIENNIAL SAVINGS $2,762,400

The potential cost savings identified exceed the requirement in FY89 by $100,000. We do not believe additional savings can be generated in FY88 without shifting costs to the counties.

VISITOR'S REGISTER

GENERAL GOVERNMENT & HIGHWAYS SUBCOMMITTEE

AGENCY(S) DEPTS. OF REVENUE & ADMINISTRATION DATE Feb. 20, 1987

DEPARTMENT

NAME	REPRESENTING	SUP-PORT	OP-POSE
Jack Ellery			
Bill Salisbury			
Norris Nichols			

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.

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