

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 8, 1987

The sixtieth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on April 8, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF HB 906: Representative Ramirez, House District 87, presented this bill to the committee. This bill would allocate the proceeds from the sales tax in HB 377. This really doesn't have to be a separate bill, it depends on how you handle HB 377. If you want to put HB 377 on the ballot, then you need a separate appropriation of the money. If you simply pass HB 377, then you can amend HB 906 into HB 377. The essence of HB 906 is dollar-for-dollar distribution for each taxing unit in the state. The bill needs to be cleaned-up slightly and Gordon Morris has some amendments for the committee. This is dollar-for-dollar distribution back to the counties based upon 1986 and 1987 taxable years. The reason 1987 is included, even though 1987 would not have any tax relief, it would prevent people from fooling around with mill levies in 1988 so they would increase their tax. Later on, after a couple of years experience with the sales tax and how much the sales tax collects from each county and each taxing unit, we might want to reallocate the distribution formula. Right now, the only alternative that is acceptable, is to put back, dollar-for-dollar, everything each taxing unit lost.

PROPONENTS: Dennis Burr, representing the Montana Taxpayers Assn., gave testimony in support of this bill. This bill is basically why we have opposed eliminating taxes on personal property, because if you eliminate, you can't tell where it was to distribute the money back to the local government. This bill says local government will establish their tax base as it is now with the current classification system set and mill levies at the level they are now. People will pay taxes on the revenue that is missing on a straight forward procedure.

Gordon Morris, representing the Montana Association of Counties, gave testimony in support of this bill. We

believe this is the only fair and equitable mechanism available to return the dollars to local taxing jurisdictions from property tax relief from a sales tax. In looking out for return of property tax to counties, the county is only a small part, we have the schools, cities and towns and fire districts in each and every county. HB 906 is the only mechanism at this point that he is prepared to support. He furnished the committee with proposed amendments to this bill, attached as Exhibit 1. The bill is based upon the Department of Revenue's current certification of mill values for each and every tax jurisdiction and the amendments would simply clarify the issue in terms of the bill today. He furnished the committee with a handout, attached as Exhibit 2, which illustrates certification of the mill value for Montana counties. This would be the certification process for the value of the mill that the Department of Revenue prepares each and every year. He reviewed the handout with the committee.

Eric Feaver, representing the Montana Education Assn., stood in support of this bill.

George Allen, representing the Montana Retail Assn., gave testimony in support of this bill. If we are going to have a sales tax, we need to have this type of companion bill to make some stability at the local governments.

Marvin Barber, representing the Montana Assessors Assn., supports this bill as explained by Gordon Morris.

OPPONENTS: John LaFaver, Director, Department of Revenue, gave testimony in opposition to this bill. We are not opposed to a vehicle such as HB 906. In first examination it might make sense that those that lose the money would have the money replaced on a dollar-for-dollar basis. If you examine that further you will come to the view that it is not workable. If you examine the counties and schools that would receive money, essentially the tax relief that a number of people in certain counties would be receiving would be paid for by residents of another county. They would be paying an increased sales tax to provide for property tax relief elsewhere. He does not think the people of Montana will stand for that. He furnished the committee with a handout on SB 395 Replacement Revenue, attached as Exhibit 3. He thinks we have to understand that over a period of time, people will not accept a sales tax unless that revenue is primarily used to provide the property tax relief that they receive.

QUESTIONS FROM THE COMMITTEE: Senator Mazurek asked Representative Ramirez if it was his opinion if you

have a statutory appropriation put into HB 377, that a petition could not be utilized to get this on the ballot.

Representative Ramirez said I have only been told that by Legislative Council and have not researched that myself. He certainly does not think the Supreme Court would interpret the constitution to say you can take any bill and put an appropriation in it and preclude the people from putting it on the ballot.

Senator Mazurek said if you don't put this on the ballot doesn't the legislature lose control of this issue. He can't believe that the signatures will not be generated within a matter of weeks.

Representative Ramirez said as a legislature we can go out to the people and say here are two alternatives for you to select from and in doing that we are saying we can live with either choice. He does not believe that is the case as some of those alternatives are not acceptable. If we passed a sales tax, we are saying the alternatives are not acceptable to the legislature.

Senator Eck asked if it was his opinion that a rebate would have to be in the appropriation bill.

Representative Ramirez said it probably would. You would have money collected and perhaps appropriated to a special fund within the Department of Revenue.

John LaFaver said you would be passing a law that would say \$50 per exemption is allowed and he does not believe that is an appropriation.

Senator Halligan asked John LaFaver what is the redistribution scheme with the sales tax in the Governor's proposal.

John LaFaver said it is phased in over 5 years. It would use the measure of population as well as the inverse proportion to the value of a mill in each county. The higher population, low mill value area, would get relatively more and low population, relatively high mill value area, would get relatively less. It would be phased in over time.

Representative Ramirez said we looked at that but the best way to start is from the standpoint of dollar-for-dollar until you see what revenue you have.

Representative Ramirez closed.

FURTHER CONSIDERATION OF HB 377: Robert N. Holding furnished the committee with a letter from the Department of Administration, attached as Exhibit 4, concerning some

policy changes as the result of a recent Montana Supreme Court decision of the First State Bank of Forsyth v. Chunkapura. He said this decision will effect the resale of existing homes services. Anybody selling a home will have to find somebody with 33% more money before they can get in the door. This has the effect of a value added tax. He would ask that the committee take another look at taxing real estate commissions. Most states do not tax them. He does not think this is economic reform.

Senator Neuman said everything you purchase will have an added 4% tax. In this bill is property tax relief for the guy who buys the house.

Senator Mazurek said one of the things that was brought up yesterday was the sales tax applying to utility bills. Government agencies are exempt but other utility bills are subject to the 4% sales tax. He would like to offer an amendment, he does not know where it would fit in, to make sure that utility bills are exempt. He would move that the language to exempt utility bills would include heating fuels, gas, water, oil and electricity.

Senator Hirsch said it would be the understanding of the committee that you would want to include all heating fuels and electricity.

Senator Mazurek said he did not want to exempt wood.

Senator Severson said there are a lot of people in his area that heat entirely with wood.

Senator McCallum said Jim Lear has suggested striking (2) in Section 8, in its entirety, and creating a new exemption.

Senator Mazurek said he would move to exempt all utility bills and have Jim Lear work on the language, which would include everything except wood, as he thinks that would be difficult to deal with. He would move the concept. The motion carried with Senator Hager absent at the time of the vote.

Senator Eck made a motion on page 17, line 1, under the exemption sections, to insert "not retail transactions".

Senator Crippen said you are insuring that the local jeweler will consider a diamond or sapphire that he sells as a retail sale subject to a sales tax.

Senator Eck agreed that was her motion, or the intent of her motion, and she would be in agreement to allowing Jim Lear to fix that up if he needed to.

The motion carried.

Senator Mazurek wants to make sure that the sales tax, as it pertains to attorney fees, is on the amount when it is collected. In his office they have quite a bit of uncollected fees. He does not think it would be appropriate to tax when you sell it but when you receive it.

Senator Neuman said you would have to pay it up front.

John LaFaver said section 52 gives the Department the authority to allow somebody to pay the tax on an accrual bases. That would be done on a taxpayer basis. We would have to write into rules how we would make a determination of who could have a permit to pay on an accrual basis.

Senator Eck asked if that would be on an individual basis or by classes.

John LaFaver said the rule would very likely say a taxpayer who normally receives payment on an installment basis could file for a permit.

Senator Eck said sections 43-57 deal with the administration of the tax. She would move that the committee adopt those sections. She told John LaFaver if he had any problem areas to advise. The one section we may want to talk about is section 51 on common carriers.

Ben Havdahl said our concern with section 51, on page 35, is that it appears as though all motor vehicle common carriers would be liable for the sales tax on all commodities imported into the state and he does not understand why that requirement is in this bill. There are some 8,000 motor carriers that are based out of Montana that prorate miles operated in and through the state. There are 11,000 Montana based carriers that haul personal property into the state of Montana and the carriers do not even own the property. He would request that the committee take this language out of the bill. This provision does not apply to railroads and airlines.

John LaFaver said this is a very straight forward section. It merely says that the transactions that are served by interstate common carriers are transactions in Montana that are charged a 4% tax. It doesn't have anything to do with the value of the property that is being hauled. It has to do with the fee that is being charged for hauling.

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Senator Neuman asked if that would mean you would have to pay a tax on the freight that the carrier charges you for delivering stove fuel, which is exempt, but you would not have to pay a tax on the fuel itself.

Dave Bohyer said that would be his understanding.

Senator Crippen said in all these things that we are doing, he would like to put the committee on record as adopting them in total but not in principle.

Senator Neuman would concur.

The whole committee was in agreement.

Senator Eck's motion carried with Senator Neuman opposed.

DISPOSITION OF HB 666: Senator Crippen said he discussed this with the city of Billings people. He agrees that it will help in issuing new tax increment bonds because of I-105 and underwriting becoming more difficult in these tax increment districts. With this additional revenue pledged to be used, should the tax increment portion not be enough to pay off the bonds, it will help these districts even though it is unlikely they will have to go outside to pay off the bonds with the requirement of 130% of revenue to obtain the bonds in the first place. Tax revenue bonds in Billings have done a great deal for downtown.

Senator Neuman said you talked about grandfathering this bill.

Jim Lear said he had prepared an amendment on page 3, line 18, following "date" insert "not applicable" and then add a sentence at the end of the effective date with language that would read "this act does not apply to bonds issued before the effective date of this act."

Senator Crippen made a motion to adopt the amendment outlined by Jim Lear. The motion carried.

Senator Crippen made a motion that HB 666 BE CONCURRED IN AS AMENDED. The motion carried with Senator Neuman opposed.

FURTHER CONSIDERATION OF HB 743: Senator Eck made a motion that HB 743 BE CONCURRED IN.

Jim Lear said it conflicts with SB 162.

Senator Eck asked if he worked out what we needed on this.

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Jim Lear said this absolutely requires coordination instructions and he would ask the committee to give him time to prepare them. He will have coordination instructions for HB 743 and SB 162 tomorrow.

Senator Crippen can see the problem, but would be more willing to go to a compromise from 3 years to 2 years.

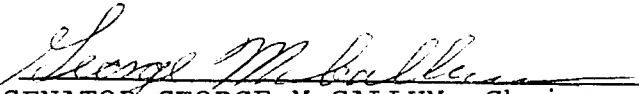
Senator Eck said we might consider going from 1 year to 18 months.

Senator Bishop said this refers to the "payment of an installment". Are we talking one year or two installments. Four installments would be two years.

Senator Mazurek said now you have to be delinquent for 3 years on all installments.

Senator Eck withdrew her motion until Jim Lear can provide the necessary coordination amendment.

ADJOURNMENT: The meeting adjourned at 9:55 a.m.



SENATOR GEORGE McCALLUM, Chairman

ah

ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 4-8-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

DATE April 9 1977

COMMITTEE ON Senate Education

VISITORS' REGISTER

HD 906

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppo
Marvin Barbe	Mt assessors assoc	906	X	
Harold Morris	JN Co	906	X	
Henry Conroy	AIT ASSOC PERMITS	SB 377 SB 395		

HOUSE BILL 906 AMENDMENTS

PAGE 2, line 25 CHANGE to read 1986, AND EACH YEAR THEREAFTER

Page 3, line 24 INSERT new section

V. THE TAXABLE VALUE OF PROPERTY DESCRIBED IN SUB-SECTION (3)(A)

SHALL BE CALCULATED AT THE PRE HB 377 CLASSIFICATION RATE.

PAGE 3, line 25, INSERT following 1987 AND EACH YEAR THEREAFTER

PAGE 5, line 2 INSERT new section

IV. THE TAXABLE VALUE OF PROPERTY DESCRIBED IN SUB-SECTION (3)(B)

SHALL BE CALCULATED AT THE RATE ESTABLISHED IN HB 377.

PAGE 5, line 4, INSERT following 1987 AND EACH YEAR THEREAFTER

PAGE 5, line 5 STRIKE countywide

PAGE 5, line 6 CHANGE to read 1986 AND EACH YEAR THERAFTER

PAGE 5, line 9 INSERT following 1987 CERTIFIED

PAGE 5, line 9 INSERT following levy, AND EACH YEAR THEREAFTER

PAGE 5, line 12, STRIKE add, INSERT DISTRIBUTE

PAGE 5, line 13, STRIKE (A) and (4)(b) and

PAGE 5, line 14, STRIKE distribute the amount

SENATE TAXATION

EXHIBIT NO. 1

DATE 4-8-87

BILL NO. H.B. 906

1987 CERTIFIED MILL LEVY

MONTANA COUNTY

FOUNDATION TAXING JURISDICTION

1. Total Taxable Value (previous year)	\$ <u>2,303,478</u>
2. Mill Levy (previous year)	<u>45</u>
3. Tax Revenue (1 x 2) (previous year)	\$ <u>103,656,510</u>
4. Total Taxable Value (current year).	\$ <u>1,783,142</u>
5. HB 377 Taxable Value of Exemptions -- 1986 AG	\$ <u>29,141</u>
6. HB 377 Taxable Value of Reductions.	\$ <u>491,195</u>
7. Total Taxable Value of Reductions (5 + 6)	\$ <u>520,336</u>
8. Total Taxable Value of New Construction, Improvements and Deletions to Real Property (per 15-10-202, MCA)	\$ <u>-0-</u>
9. Total Taxable Value of Properties Under Protest As of the 1st Monday In August (must be at least 5% of Total Taxing Jurisdiction's Taxable Valuation)	\$ <u>-0-</u>
10. Net Taxable Value (4 + 7 - 8 - 9) x 95%	\$ <u>2,188,304</u>
11. Certified Mill Levy (3+10).	<u>47.36</u>
12. Tax Revenue (4 x 11).	\$ <u>84,463,870</u>
13. Sales Tax Revenue (7 x 11).	\$ <u>24,643,113</u>

SENATE TAXATION

EXHIBIT NO. 2

DATE 4-8-87

BILL NO. H.B 906

CERTIFIED MILL LEVY SHEET

Explanation:

Line 4: Represents total taxable value after passage of HB 377 and reflects reductions for property tax relief, exemptions, and the homestead provision as provided for residential property.

Line 5: Agriculture exemptions frozen at 1986 base year. Would be permanently fixed at 86 taxable value per jurisdiction.

Line 6: Reductions in taxable value results from HB 377 adjusted to include the residential homestead provision at \$20,000 per owner occupied residence.

Line 10: The "Adjusted" net taxable value. This line currently is adjusted by 95% as opposed 100%. For sales tax purposes this could be brought back to 100%

SB 395 REPLACEMENT REVENUE -- \$153,487,000 in Sales Tax Revenue
 (\$158,070,000 sales tax revenue - \$1,583,000 additional DOR costs)

Property Tax
 Loss From
 SB 395

	FY 90	FY 91	FY 92	FY 93
BEAVERHEAD	\$1,562,477	\$1,602,159	\$1,626,101	\$1,650,044
BIG HORN	2,207,443	1,960,192	1,718,212	1,476,231
BLAINE	964,086	932,727	896,336	859,945
BROADWATER	875,340	784,797	691,579	598,361
CARBON	1,519,407	1,449,556	1,355,455	1,261,345
CARTER	498,877	439,715	378,133	316,552
CASCADE	10,795,416	12,897,053	14,833,246	16,769,438
CHOCUTEAU	2,338,007	1,957,778	1,573,191	1,198,503
CLUSTER	2,524,063	2,658,478	2,780,994	2,893,510
DANIELS	1,119,063	952,029	781,794	611,559
DAWSON	3,016,300	2,809,913	2,585,525	2,361,138
DEER LODGE	1,552,898	1,970,934	2,355,918	2,740,901
FALLON	817,252	904,329	591,618	478,907
FERGUS	2,916,711	2,846,212	2,744,850	2,643,488
FLATHEAD	10,469,515	10,447,158	10,306,627	10,170,087
GALLATIN	7,558,159	8,244,185	8,856,324	9,468,454
GARFIELD	387,344	342,779	297,155	251,522
GLACIER	1,722,848	1,657,989	1,589,052	1,520,124
GOLDEN VALLEY	276,601	242,245	207,096	171,946
GRANITE	831,311	751,971	666,057	580,143
HILL	3,361,163	3,254,524	3,126,133	2,997,742
JEFFERSON	2,237,508	2,043,199	1,841,422	1,639,645
JUDITH BASIN	694,590	617,774	538,059	458,343
LAKE	1,995,625	2,483,332	2,921,058	3,378,805
LEWIS & CLARK	8,971,569	9,089,591	9,104,857	9,121,153
LIBERTY	667,055	572,882	477,811	382,739
LINCOLN	3,510,849	3,520,881	3,514,925	3,508,972
MADISON	1,404,323	1,141,570	870,522	593,693
McCONE	1,042,457	1,076,536	1,108,950	1,141,383
MCGHEE	437,413	407,255	372,674	338,082
MERCER	778,776	779,297	773,290	767,282
MISSOULA	15,650,235	15,864,442	15,959,728	16,055,022
MUSSELSHELL	548,334	557,965	562,526	567,227
PARK	2,285,031	2,395,950	2,475,640	2,555,321
PETROLEUM	92,485	88,417	83,584	78,750
PHILLIPS	1,435,078	1,259,750	1,081,892	904,025
PONDERA	1,687,042	1,527,168	1,362,244	1,197,320
POWDER RIVER	459,004	415,184	361,822	308,451
POWELL	1,246,245	1,241,814	1,225,479	1,211,144
PRAIRIE	410,863	377,335	341,900	306,455
RAVALLI	2,653,052	3,466,976	4,225,434	4,985,833
RICHLAND	2,334,045	2,162,860	1,987,880	1,812,899
ROOSEVELT	1,639,135	1,563,891	1,485,332	1,406,773
ROOSELUD	2,695,757	2,351,872	2,014,135	1,676,497
SANDERS	2,742,897	2,395,569	2,048,814	1,703,659
SHERIDAN	1,222,949	1,072,510	918,714	764,318
SILVER BOW	7,064,112	7,669,797	8,167,896	8,677,000
STILLWATER	1,221,291	1,149,345	1,053,428	977,310
SWEET GRASS	696,242	654,148	622,752	583,690
TETON	1,572,829	1,427,575	1,272,991	1,120,208
TOOLE	1,322,410	1,157,175	988,110	818,246
TREASURE	299,768	266,555	212,275	168,095
VALLEY	2,130,357	1,925,722	1,713,451	1,500,133
WHEATLAND	421,548	400,722	376,129	351,255
WYLAUX	372,327	318,791	262,577	208,253
YELLOWSTONE	20,910,886	21,125,039	21,167,003	21,128,967
TOTAL	152,200,000	152,487,000	153,487,002	152,486,999

SENATE TAXATION

EXHIBIT NO. 3

DATE 4-8-87

BILL NO. H.B. 906

John Lafaver

DEPARTMENT OF ADMINISTRATION
BOARD OF INVESTMENTS



TED SCHWINDEN, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

(406) 444-2658

4-3-87

HELENA, MONTANA 59620

Real Estate Officer

March 31, 1987

Mr. John Cadby
Executive Vice President
Montana Bankers Association
1 No. Last Chance Gulch
Helena, Montana 59601

Dear John:

Our March Board meeting was held on March 27, 1987 in Helena.

For the month of February, 1987, we purchased loan offerings totaling \$1,920,041 and issued 18 forward commitments to purchase \$1,630,886 of loan offerings over the next 60 days. The outstanding commitments totaled \$17,731,000 at the end of February. The net yield requirements for residential loan offerings set since February are attached.

Based on recent Montana Supreme Court decision of the First State Bank of Forsyth v. Chunkapura our Board revised the following policies.

Conventional Loan Program

- Maximum loan-to-value ratio changed from 80 percent to 70 percent (Policy #120.0).
- Maximum loan-to-value ratio changed from 90 percent to 80 percent for offerings which include private mortgage insurance (Policy #120.0).

Commercial and Multi-Family Loan Programs

- Maximum loan-to-value ratio changed from 70 percent to 60 percent on offerings without additional guarantees (Policy #220.0 & Policy #270.0).
- Maximum loan-to-value ratio changed from 75 percent to 65 percent on offerings with additional guarantees (Policy #220.0 & Policy #270.0).

Enclosed are copies of these revised policies.

The next Board meeting is scheduled for April 24, 1987 in Helena.

Sincerely,

Robert T. Bugni

Robert T. Bugni
Portfolio Manager

SENATE TAXATION

EXHIBIT NO. 4

DATE 4-8-87

BILL NO. H.B. 377

Robert N. Hellins

NET YIELD REQUIREMENTS

	<u>1-15 Yrs.</u>	<u>16-30 Yrs.</u>
Jan. 29-Feb. 4 Conv/FHA/VA	8.80%	9.10%
Feb. 5-Feb. 11 Conv/FHA/VA	8.80	9.10
Feb. 12-Feb. 18 Conv/FHA/VA	8.80	9.10
Feb. 19-Feb. 25 Conv/FHA/VA	8.75	9.05
Feb. 26-March 4 Conv/FHA/VA	8.70	8.95
March 5-March 11 Conv/FHA/VA	8.85	9.05
March 12-March 18 Conv/FHA/VA	8.75	9.00
March 19-March 25 Conv/FHA/VA	8.70	9.00
March 26-April 1 Conv/FHA/VA	8.70	9.00

SENATE TAXATION

EXHIBIT NO. 4
DATE 4-8-87
BILL NO. H.B. #77

STANDING COMMITTEE REPORT

April 8

1937

MR. PRESIDENT

We, your committee on SENATE TAXATION

having had under consideration HOUSE BILL No. 566

third reading copy (blue)
color

RAMIREZ (CRIPPEN)

**ALLOW MUNICIPALITY TO PLEDGE CERTAIN REVENUE FOR TAX
INCREMENT DEBT PAYMENT**

Respectfully report as follows: That HOUSE BILL No. 566

be amended as follows:

1. Title, line 5.

Following: "MUNICIPALITIES"

Insert: ", AFTER A PUBLIC HEARING,"

2. Title, line 8.

Following: "DATE"

Insert: "AND AN APPLICABILITY PROVISION"

3. Page 1, line 21.

Following: "and"

Insert: ", after a public hearing,"

4. Page 3, lines 15 through 17.

Following: line 14

Strike: all of line 15 through "after" on line 17

Insert: "does not apply to bonds issued before"

AND AS AMENDED
BE CONCURRED IN

DO PASS

UNANIMOUSLY

SENATOR GEORGE McCALLUM,

Chairman.