MINUTES

MONTANA SENATE
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Bob Brown, on January 10, 1989, at 8:00 a.m.

ROLL CALL

Members Present: Chairman Brown, Vice Chairman Hager, Senator Bishop, Senator Crippen, Senator Eck, Senator Gage, Senator Halligan, Senator Harp, Senator Mazurek, Senator Norman, Senator Walker.

Members Excused: Senator Severson

Members Absent: None

Staff Present: Jeff Martin, Legislative Council Researcher, Jill Rohyans, Committee Secretary.

Announcements/Discussion: None

HEARING ON SENATE BILL 65

<u>Presentation and Opening Statement by Sponsor:</u> Senator Jenkins, District 7, sponsor of the bill, said this is an attempt to stay in compliance with I-105 and Senate Bill 71 of the last session. The problem arose when many of the mineral rich counties dropped valuation - some up to 50%, and then were frozen at that level, unable to raise any new revenue. The Attorney General's opinion regarding Senate Bill 71 said counties had to have at least a 5% drop in valuation each year. It was assumed if the county had a 5% drop, they could go back to the 1986 valuation. If a county had a 15% drop one year, and a 4% drop the next year, they could not use the bill the second year. Another problem that arises is that many of the mills in rural counties are statutorily capped.

Senator Jenkins presented proposed amendments to the committee (Exhibit 1). The amendments would result in striking section 1 in its entirety, which would, in effect, make the new language on pages 6 and 7 the primary operational section of the bill, specifying the

1986 revenue level as opposed to the "previous" or "preceding year". As a result, the counties will be able to tax up to the 1986 level if they need to raise new revenue, but not beyond.

Other amendments proposed include title, line 5, striking "by", inserting ","; page 2, line 9, strike through "capped" on line 10; line 11, following "year" strike lines 12 through 14. This results in the tax liability of the individual taxpayer being capped at the 1986 level for a given piece of property.

List of Testifying Proponents and What Group they Represent:

Gordon Morris, Montana Association of counties
Tim McGee, Finance Director, City of Great Falls
Alec Hanson, Montana League of Cities and Towns
Eric Feaver, Montana Education Association
Terry Minnow, Montana Federation of teachers and Montana Federation of State Employees
Joan Toole, Office of Public Instruction
Dennis Burr, Montana Taxpayers Association

List of Testifying Opponents and What Group They Represent:

Ken Nordtvedt, Director, Department of Revenue

Testimony:

Gordon Morris, Montana Association of Counties, felt the bill has unique merit as far as the provisions of subsection 11, pages 6 and 7. He had worked with the sponsor and the amendment to strike Section 1 was a result of that process. Mr. Morris had a further recommendation to make regarding House Bill 436 of the 1987 session, which established sales ratio assessment studies to be conducted by the Department of Revenue. If a taxing jurisdiction experienced, as a result of the 20% sales ratio analysis, an increase in taxable value associated with properties within that jurisdiction, the county would be allowed to look at the trigger in Senate Bill 71 by virtue of the 5% decrease. Since there is a lawsuit pending regarding the contradiction in the rules, Mr. Morris suggested on page 3, line 6 following "or", inserting "sales ratio assessment studies conducted by the Department of Revenue." That would give every taxing jurisdiction opportunity to benefit from increased appraisals resulting in the higher value of a mill.

Tim McGee, Finance Director, presented his written testimony in support of the bill to the committee. (Exhibit 2).

Alec Hanson, Montana League of Cities and Towns, expressed support of the bill with the deletion of Section 1. In 1987, people understood property taxes would be limited to 1986 levels according to Senate Bill 71. Obviously this was not the case. The problem has been most severe in Eastern Montana where some of the high mineral counties lost a tremendous amount of value in one year. When they tried to adjust their mill levies the Attorney General ruled if they didn't lose 5% in the second year they had to go back to the 1986 level. In Sheridan county in 1986, a mill was worth $85,000. Today, it is worth $38,000. It becomes impossible to balance a budget with that disparity in mill value. Cities are having a problem. Glasgow has lost almost 9% of its taxable value in the last 2 years. It didn't make the magic 5% in either year. With inflation figured in, Glasgow is about 20% behind where it was two years ago. It makes it very difficult for them to provide necessary services and pay fair salaries. Senate Bill 65 is very important to the continued functioning of the cities and counties in the state.

Eric Feaver, Montana Eduction Association, expressed support for the bill. The Montana Education Association did, and still does, oppose Initiative 105 as a bad idea. He encouraged the committee to provide a reformed tax structure that will provide property tax relief versus alternative revenue and will fund public services adequately and equitably. He said the Montana Education Association feels the plethora of bills introduced in taxation since 1981 to reduce property taxes or other tax liability without replacing it with any other revenue is killing our public services. He urged the committee to oppose any reductions in tax liability in the absence of complete reform of the tax system.

Terry Minnow, Montana Federation of Teachers and Montana Federation of State Employees, supports the concept of mitigating some of the most serious effects of I-105. Public services must be helped and this bill will help some of those who have been hurt the most.

Joan Toole, Office of Public Instruction, supports the bill as a means of clarification and ensuring adequate funding at the local level. She concurred with the statements by Mr. Feaver of the Montana Education Association.

Dennis Burr, Montana Taxpayers Association, said his association supported Senate Bill 71 last session and supports this bill as an alternative to repealing I-105.

There were no further proponents.

Opponents

Ken Nordtvedt, Director, Department of Revenue, spoke to the bill only in an informational and technical assistance aspect. He proposed an amendment to the title, line 5, striking "by", inserting "," because the granting of temporary authority to exceed state mill levy limitations has nothing to do with responding to the tax freeze. It is a response to falling taxable appraised values and, therefore, various taxing jurisdictions can no longer raise the money they used to because of falling valuation. It should be considered a separate function of the bill and not a response to trying to clarify or modify I-105. He felt a close look should be taken at the proposed amendment to strike Section 1. He referred to the end of page 6 and beginning of page 7 as language referring taxes levied by a jurisdiction subject to a statutory maximum mill levy. Not every part of the tax burden is subject to mill levy limitations and, therefore, language such as Section 1, is necessary to guarantee that those parts of local budgets not subject to mill limitations are also limited in their dollars based on 1986. He felt the bill is an attempt to work out difficulties in I-105, which in its original form was unworkable.

Questions From Committee Members: Senator Norman asked Eric Feaver what he has in mind for tax relief.

Mr. Feaver replied, "sales tax."

Senator Eck asked Senator Jenkins how can we keep I-105 and address the educational funding issue.

Senator Jenkins said the bill was not intended to address the Loble decision. It will help education by maintaining mill levy values.

Senator Gage asked where the equity lies in the situation of a taxing jurisdiction with losses of 4% versus one with a 6% loss when one has a few million dollars taxable valuation and another over a hundred million.

Alec Hanson said the bill provides for a cumulative loss and deals with the situation as well as it can.

Senator Mazurek felt the bill was throwing out maximum mill levy limitations for district court funds, road funds, -all the funds which have been in the statutes since 1889, by tying everything to revenue. He asked if there is a philosophical justification for throwing them out.

Gordon Morris, Montana Association of Counties, said there is no rhyme or reason to statutory mill levy caps set by each session of the legislature. MACO would like to eliminate them entirely and let responsible elected officials raise revenue sufficient to meet the needs without regard to the caps.

Mr. McGee agreed with Mr. Morris, stating the local commissioners and responsible elected officials who are most able to deal effectively with the local problems, and have a better view of the local finances and can deal with them better than across the board legislation from a central source.

Senator Halligan asked Jeff Martin to look into how we can repeal the statutory accounts, i.e., roads, streets, etc. by a generic amendment to go beyond that when there is a specific statutory reference to those accounts already in the codes.

<u>Closing by Sponsor:</u> Senator Jenkins closed by saying many cities have serious problems that are tied to 1986 levels. He urged the committee to give the bill serious consideration.

EXECUTIVE ACTION ON SENATE BILL 7

Discussion: Cort Harrington, representing Montana County Treasurers, said he had talked with 12 county treasurers and they felt just the name of the taxpayer would not be enough information. They would like to have the pin or parcel number plus the name from the Department of Revenue. He had talked with Mr. Morrison, who indicated that could be taken care of by changing the form if the effective date could be delayed for a year to allow for the change of form and for the computers to gear up for the procedure.

Some treasurers felt they couldn't get the information by January 1, and February would be better.

Mr. Morrison felt it would be a problem for some of the elderly people who file their returns very early.

Mr. Harrington will work with Jeff Martin on amendments to implement the county treasurers' suggestions.

Senator Eck said the bill does not provide for a first time applicant process.

Senator Gage didn't feel the first time applicant process could be addressed under the provision of this bill.

EXECUTIVE ACTION ON SENATE BILL 50

Discussion: Senator Eck presented a summary sheet on western states provisions for prorating and rebates (Exhibit 3). She said it might be possible to assess quarterly rather than only assessing on the full valuation.

Senator Gage said he talked with his assessor. The assessor asks how long the property will be in the county and then assesses on the basis of that time period. He felt it was not a big problem with migratory property. The real problem is with property that is in place on January 1, and then moves out of state. If we go to a pro-rata system it could be very, very expensive for the taxing jurisdiction. He cited as an example, the trucking industry. The taxing jurisdiction draws up its budget based in part on the taxes that trucking county will pay for the year. The business leaves and the company has no way of increasing its revenue and is faced with refunding a huge amount from its tax base.

Senator Mazurek noted many of the states (Exhibit 3) give no rebate and he was interested in how they would deal with the helicopter situation that gave rise to this bill.

Senator Eck said she would ask the Department of Revenue to check it out.

ADJOURNMENT

Adjournment At: 10:00 a.m.

Bob Brown

SENATOR BOB BROWN, Chairman

BB/jdr

min110jr.sr

ROLL CALL

TAXATION COMMITTEE

51st LEGISLATIVE SESSION -- 1989 Date 1/10/89

NAME	PRESENT	ABSENT	EXCUSED
SENATOR BROWN	X		
SENATOR BISHOP	X		
SENATOR CRIPPEN	X		
SENATOR ECK	X		
SENATOR GAGE	X		
SENATOR HAGER	X		
SENATOR HALLIGAN	X		
SENATOR HARP	X		
SENATOR MAZUREK	X		
SENATOR NORMAN	X		
SENATOR SEVERSON			X
SENATOR WALKER	X		

Each day attach to minutes.

SENATE TAXATION
EXHIBIT NO. 1
DATE 1/10/89
BILL NO. SB 65

Amendments to Senate Bill No. 65
First Reading Copy

Requested by Senator Jenkins
For the Committee on Taxation

Prepared by Jim Lear
January 10, 1989

1. Title, lines 10 and 11.
Following: "AMENDING" on line 10
Strike: "SECTIONS 15-7-122 AND"
Insert: "SECTION"

2. Page 1, lines 16 through 24.
Strike: Section 1 in its entirety
Renumber: subsequent sections

WITNESS STATEMENT

SENATE TAXATION
EXHIBIT NO. 2
DATE 1/20/89
BILL NO. SB 65

NAME: Tim Magee DATE:

ADDRESS: Finance Director, P.O. Box 5021, Great Falls, MT 59403

PHONE: (406)-727-5881 Ext 385

REPRESENTING WHOM? City of Great Falls

APPEARING ON WHICH PROPOSAL: Senate Bill No 65

DO YOU: SUPPORT? ____ AMEND? ✓ OPPOSE? ____

COMMENTS: Attached

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 2
DATE 1/20/89
BILL NO. SB 65

COMMITTEE HEARING NOTES

BILL REFERENCE: REVISING THE PROPERTY TAX FREEZE
HEARING DATE: January 10, 1989
HEARING TIME: 8:00 AM

A tax freeze, without an alternate revenue source, means a decline in services to the people. The primary areas dependent upon the city's tax revenue are Fire, Police, Parks and Recreation. A dollar in 1988 will buy less than half as much as it did in 1978 (according to the Consumer Price Index), and is getting smaller. The City of Great Falls supports tax reform.

1. Reference: Senate Bill No. 65, Page No. 5, Lines No. 4-5 and 6-7

RECOMMENDATION In both locations, change:

from: taxing units taxable valuation decrease

to: taxing units taxable valuation, excluding the adjustments provided in subsections (3) and (4), decreases

Provides for continuity among the various subsections for permitted valuation changes.

2. Reference: Senate Bill No. 65, Page No. 5, Lines No. 5 and 7

RECOMMENDATION On both lines, delete:

by 5% or more

Inflation makes materials and services more expensive. Providing for a revenue loss of 5%, on top of inflation, just compounds local governments problems in providing services to the people.

3. Reference: Senate Bill No. 65, Page No. 5, Line No. 23

RECOMMENDATION For Subsection (8) item (g) delete:

electric company

Some cities, such as Great Falls, handle the street lighting assessments directly, but are not otherwise an "electric company" business.

4. Reference: Senate Bill No. 65, Page No. 7, Line No. 3

RECOMMENDATION Change wording:

from: ...to produce revenue equal to its 1986 revenue.

to: ...to produce revenue, after allowance for adjustments provided in subsections (3) and (4), equal to its 1986 revenue.

Provides for continuity among the various subsections for permitted valuation changes.

REBATES ON PERSONAL PROPERTY
WESTERN STATES

SENATE TAXATION
EXHIBIT NO. 3
CHARLES HOSKINS
DATE 1/10/89
PROPERTY 255-3539
BILL NO. SB50

STATE	LEVEL AT WHICH HANDLED	PROVISIONS FOR REBATE	EXCEPTIONS	STATUTORY	
ARIZONA	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	NONE	YES	
CALIFORNIA	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (STATE ASSESSED DATE JAN. 1) (LOCAL ASSESSED DATE MARCH 1)	DISASTER	YES	VERN WALTON 916-445-4982
COLORADO	COUNTY	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (STATE ASSESSED DATE JAN. 1)	HAVE PROVISION FOR MIGRATORY PROPERTY ASSESSED QUARTERLY IF SO CLASSED (E.G. Drill Rigs)	YES	(303) 866-3724
IDAHO	COUNTY	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	HAVE PROVISION FOR MIGRATORY PROPERTY ASSESSED QUARTERLY IF SO CLASSED (E.G. ROAD EQUIP)	YES	Steve Miller 208-334-4549
NEVADA	STATE	PRO RATED. IF MOVED PRIOR JAN. 1 (ASSESSMENT DATE JULY 1) CLASSED AS MIGRATORY		YES	
NEW MEXICO	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	LIVESTOCK ONLY MIGRATORY CLASS	YES	(505) 827-0700
NORTH DAKOTA	STATE	NO PERSONAL PROPERTY TAX	NONE	N/A	
OKLAHOMA	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	NONE	YES	405-521-3179
OREGON	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JULY. 1)	MOBILE HOMES, MUST PAY IN ADVANCE AND GET REBATE AFTER HAVE LEFT THE STATE	YES	503-378-3131
SOUTH DAKOTA	STATE	NO PERSONAL PROPERTY TAX	NONE	N/A	
TEXAS	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	NONE	YES	512-[illegible]-4901
UTAH	COUNTY	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	NONE	YES	801-530-6137
WASHINGTON	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE JAN. 1)	NONE	YES	(206) 753 5503
WYOMING	STATE	NO REBATE. IF THERE ON ASSESSMENT DATE THEN TAXED FOR YEAR. (ASSESSED DATE Feb. 1)	IF MOVE BEFORE JUNE 1 MAY FILE FOR 1/2 YEAR ASSESSMENT ALSO MOBILE HOMES AND LIVESTOCK GIVEN SOME LEEWAY.	YES	307-777-5239 Robert Williams.

DATE 1/10, 1989

COMMITTEE ON TAXATION

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One Support	Oppose
Tim Magee	City of Great Falls	65	✓	
Hal Million	City of Great Falls	65	✓	
Julie Hacker	Missoula Co. Freeholders	65		
Vera Cahoon	"	65		
Margaret S Davis	LWVMT			
Nancy Keenan / Jean Lynch	OPI	65	✓	
[illegible]	MEA			
Gordon Morris	MACo.	65	✓	
Terry Minow	MT Fed of Teachers	65	✓	
Dennis Burr	MONTAX	65	✓	

(Please leave prepared statement with Secretary)