

MINUTES

MONTANA SENATE
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Bob Brown, on February 3, 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 Severson, Senator Walker

Members Excused: None

Members Absent: None

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

Announcements/Discussion: None

EXECUTIVE ACTION ON SENATE BILL 118

Discussion: Senator Beck, District 24, sponsor of the bill,
presented his proposed amendments to the committee
(Exhibit 1). The amendments have the effect of
striking everything in the bill, except the provisions
for schools, towns and cities to borrow from the tax
fund. This would enable them to sell a bond without a
vote, to pay the amount back if it is necessary, and
set the rate of interest from the pooled investment
fund at 6 per cent a year.

Senator Mazurek moved to adopt the amendments.

Senator Gage asked if the bill still excludes the tax
protest repayment bond from the bonds of indebtedness.

Senator Beck replied that it is excluded. He further said
he expected the bill would seldom be used. He thought
the Deer Lodge School system would borrow approximately
\$50,000 from the fund before the end of the school
year. If they were to borrow all the money they could
from the protested tax fund, they would have to levy 19
mills to pay it back. The 19 mills would equal only 10
percent of the school's bonding authority.

Amendments and Votes: Senator Mazurek's motion CARRIED unanimously.

Recommendation and Vote: Senator Mazurek moved Senate Bill 118 DO PASS AS AMENDED. The motion CARRIED unanimously.

EXECUTIVE ACTION ON SENATE BILL 220

Discussion: Jeff Martin, Legislative Council, presented the proposed amendments to the committee (Exhibit 2). The title is amended to reflect the second half taxes only. The refund is changed from 5% to 3%, and it clarifies the refund applies only to personal property, not SID's delinquencies and penalties.

Amendments and Votes: Senator Crippen moved to adopt the amendments. He said it gives the taxpayer a break and increases the cash flow to the counties which would keep them from borrowing and paying the subsequent interest. He felt there would be a notice printed on the tax statement which indicates the 3% refund on the second half.

Bob Mullen, Montana Association of Counties, Richland County, said it is a matter of fairness. In North Dakota the refund is 3% on the total tax bill.

Senator Eck said it is a fair and clear incentive and it appears the counties lose nothing.

Senator Gage pointed out if we are not going to hurt any counties with this bill, we are assuming the investment rate is going to stay above the effective rate of the bill. If it falls below the effective rate it can hurt them.

Mr. Mullen submitted the attached Exhibit 3 for the committee members' information.

Senator Harp made a substitute motion to table the bill.

Cort Harrington said the county treasurers don't feel this bill will be particularly hard to implement.

Senator Gage felt if the incentive is too high the people will pay early and eliminate delinquencies which will cost the counties income in delinquent penalties. He said counties may well lose more than they gain,

because if they don't get more people paying their tax early, then they lose from people who are now paying them late.

Senator Harp's motion to table the bill FAILED on a roll call vote.

Senator Crippen's motion to amend the bill CARRIED unanimously.

Recommendation and Vote: Senator Crippen moved Senate Bill 220 DO PASS AS AMENDED. The motion CARRIED on a roll call vote (Exhibit 5).

EXECUTIVE ACTION ON HOUSE BILL 58

Discussion: Senator Gage explained his objection to the bill saying in his area there are properties with a considerable amount of net proceeds tax delinquent. The extent of the delinquencies in some cases, is higher than the properties are worth. He felt this bill just addresses commercial properties. There is a question as to whether the net proceeds tax is a tax on personal or real property. He noted Dave Boyer is checking into applying it to net proceeds on some mines, coal and some other things taxed in the same manner.

Senator Crippen asked if the bill should be broadened to specifically include those things.

Senator Gage answered it should be broadened if they are deemed not to be personal or real properties.

Senator Crippen pointed out the language on page 14, sub. 3, line 17. One of the criteria mentioned is that the property is used in a profit oriented employment stimulating business. That is a judgement call he said, but it is covered by the hearing provision in the bill.

Senator Norman said there is a fine line between personal and real property and it would be hard to have a hearing and make a judgement call without a definition.

Senator Crippen felt the intent of the bill is to include personal property according to the language on page 10, lines 5-7 where the exception is made regarding delinquent personal property taxes suspended or cancelled under the provisions of Section 11. He felt it was clear the bill intends to deal with class 4 real

property, but also personal property. He said a substantial amount of the cases involved are personal property taxes and if they are eliminated, the bill just won't work.

Senator Gage felt the bill was too narrowly defined and needs to be broadened to cover some of the other commercial establishments and problems in the state. It is really designed to address only one problem, the Pierce Packing Co., in Billings.

Senator Eck felt it would be irresponsible of the committee to make the decision that net and gross proceeds were either real or personal property taxes. She felt the bill passed the House specifically to address one problem. If the committee tried to expand the bill to cover oil wells, defunct mines, etc. it would be a major revision, which would even require another hearing.

Senator Norman felt if it is passed it needs a termination date.

Amendments and Votes: Senator Crippen moved to amend the bill on page 14 as per amendment #3 on Exhibit 6. The motion CARRIED unanimously.

Senator Crippen moved to add a termination date of December 31, 1993 in a new section 16 and the corresponding title amendments. The motion CARRIED unanimously.

Recommendation and Vote: Senator Crippen moved House Bill 58 BE CONCURRED IN AS AMENDED. The motion CARRIED with Senator Gage voting no.

EXECUTIVE ACTION ON HOUSE BILL 4


Discussion: None

Amendments and Votes: None

Recommendation and Vote: Senator Norman moved House Bill 4 BE CONCURRED IN. The motion CARRIED unanimously.

ADJOURNMENT

Adjournment At: 10:00 a.m.



SENATOR BOB BROWN, Chairman

BB/jdr

min203jr.sr

ROLL CALL

TAXATION

COMMITTEE

51st LEGISLATIVE SESSION -- 1989

Date 2/3/89

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 STANDING COMMITTEE REPORT

February 6, 1989

MR. PRESIDENT:

We, your committee on Taxation, having had under consideration SB 118 (first reading copy -- white), respectfully report that SB 118 be amended and as so amended do pass:

1. Title, line 6 through line 8.

Strike: "ALLOWING" on line 6 through "RESPONSIBILITY;" on line 8

2. Title, line 9.

Following: "ALLOWING"

Strike: "FOR BOND ISSUES"

Insert: "THE GOVERNING BODY OF A COUNTY, CITY, OR SCHOOL DISTRICT
TO ISSUE BONDS"

3. Title, line 11.

Following: "INDEBTEDNESS;"

Insert: "EXCLUDING FROM LIMITATION TO 1986 LEVELS THOSE TAXES
LEVIED TO REPAY TAXES PAID UNDER PROTEST;"

4. Title, line 12.

Strike: "7-6-2321, 7-6-4232,"

5. Title, line 13.

Strike: "15-16-202,"

6. Title, line 14.

Strike: "26-9-142,"

7. Page 1, line 19.

Strike: section 1 in its entirety

8. Page 2, line 18.

Strike: section 2 in its entirety

9. Page 3, line 23.

Strike: section 3 in its entirety

10. Page 4, line 18.

Strike: section 4 in its entirety

Renumber: subsequent sections

11. Page 8, line 23.

Strike: "1"

Following: "and"

Insert: "and"

12. Page 8, line 24 through page 9, line 2.

Strike: "1 and" on line 24 through "fund" on page 9 line 2

13. Page 9, line 23.

Following: "7"

Insert: ", "

14. Page 9, line 24.

Following: "~~then interest owed~~"

Insert: "then interest owed,"

Following: "lastly"

Insert: "lastly"

Strike: "then"

15. Page 10, line 8 through line 11.

Strike: "The" on line 8 through "state," on line 11

16. Page 15, line 4 through line 8.

Strike: "Exclusion" on line 4 through "subsection." on line 8

AND AS AMENDED DO PASS

Signed: _____

Bob Brown
Bob Brown, Chairman

SENATE STANDING COMMITTEE REPORT

February 3, 1989

MR. PRESIDENT:

We, your committee on Taxation, having had under consideration SB 220 (first reading copy -- white), respectfully report that SB 220 be amended and as so amended do pass:

1. Title, line 5.

Following: "OF"

Insert: "SECOND-HALF TAXES WHEN"

Following: "BILL"

Insert: "IS PAID"

2. Page 2, line 24.

Strike: "5%"

Insert: "3%"

Following: "all"

Insert: "real and personal property"

Strike: "penalties, and interest"

Insert: "but not assessments,"

3. Page 2, line 25.

Strike: "for prepayment of"

Insert: "included in"

AND AS AMENDED DO PASS

Signed: _____

Bob Brown
Bob Brown, Chairman

SENATE STANDING COMMITTEE REPORT

February 3, 1989

MR. PRESIDENT:

We, your committee on Taxation, having had under consideration HB 4 (third reading copy -- blue), respectfully report that HB 4 be concurred in.

Sponsor: Hanson, M. (Anderson)

BE CONCURRED IN

Signed: _____

Bob Brown

Bob Brown, Chairman

*4.1.89
10:30*

Amendments to Senate Bill No. 118
First Reading Copy

Requested by Senator Beck
For the Committee on Senate Taxation

Prepared by Connie Erickson
January 28, 1989

1. Title, line 6 through line 8.

Strike: "ALLOWING" on line 6 through "RESPONSIBILITY;" on line 8

2. Title, line 9.

Following: "ALLOWING"

Strike: "FOR BOND ISSUES"

Insert: "THE GOVERNING BODY OF A COUNTY, CITY, OR SCHOOL DISTRICT
TO ISSUE BONDS"

3. Title, line 11.

Following: "INDEBTEDNESS;"

Insert: "EXCLUDING TAXES LEVIED TO REPAY TAXES PAID UNDER PROTEST
FROM LIMITATION TO 1986 LEVELS;"

4. Title, line 12.

Strike: "7-6-2321, 7-6-4232,"

5. Title, line 13.

Strike: "15-10-202,"

6. Title, line 14.

Strike: "20-9-142"

7. Page 1, line 19.

Strike: section 1 in its entirety

8. Page 2, line 18.

Strike: section 2 in its entirety

9. Page 3, line 23.

Strike: section 3 in its entirety

10. Page 4, line 18.

Strike: section 4 in its entirety

Renumber: subsequent sections

11. Page 8, line 23.

Strike: ", "

Following: "and"

Insert: "and"

12. Page 8, line 24 through page 9, line 2.

Strike: ", and" on line 24 through "fund" on page 9 line 2

13. Page 9, line 23.

Following: "r"

Insert: ", "

14. Page 9, line 24.

Following: "~~then interest owed~~"

Insert: "then interest owed,"

Following: "~~lastly~~"

Insert: "lastly"

Strike: "then"

15. Page 10, line 8 through line 11.

Strike: "The" on line 8 through "state." on line 11

16. Page 15, line 4 through line 8.

Strike: "Exclusion" on line 4 through "subsection." on line 8

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SENATE TAXATION

EXAM NO. 2

DATE 2/3/89

BILL NO. SB 220

Amendments to Senate Bill No. 220
First Reading Copy

For the Committee on Taxation

Prepared by Jeff Martin
February 1, 1989

1. Title, line 5.

Following: "OF"

Insert: "SECOND-HALF TAXES WHEN"

Following: "BILL"

Insert: "IS PAID"

2. Page 2, line 24.

Strike: "5%"

Insert: "3%"

Following: "all"

Insert: "real and personal property"

Strike: "penalties, and interest"

Insert: "but not assessments,"

3. Page 2, line 25.

Strike: "for prepayment of"

Insert: "included in"

In compliance with a written request, there is hereby submitted a Fiscal Note for SB220, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act authorizing a discount for payment of an entire property tax bill on or before the due date for the first-half payment.

ASSUMPTIONS:

1. The taxable value of real property (less protested taxable values) will be \$1,603,649,000 in FY90, and \$1,580,684,000 in FY91. (REAC)
2. It is assumed that all taxpayers will pay on or before November 30 of each year and receive the 5% discount as proposed by this bill. Therefore, revenue impact shown is the maximum impact that could occur.
3. The state and local jurisdictions will invest revenue collections at the short term interest rate of 7.3% for FY90 and 6.95% in FY91. (REAC)
4. Mill levies are 6 mills for the University system, 45 mills for the foundation program, and local levies average 197 mills in FY89. (Department of Revenue Assessor's report)
5. This bill is not expected to impact expenditures.

NOT FOR DISTRIBUTION

FISCAL IMPACT:

Revenue Impact:

	FY90			FY91		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
University Levy	\$11,370,564	\$ 10,889,469	(\$ 481,095)	\$11,099,106	\$ 10,624,901	(\$ 474,205)
School Equalization	\$85,279,455	\$ 81,671,245	(\$3,608,210)	\$83,246,295	\$ 79,689,756	(\$3,556,539)

The losses shown will be offset by interest income from investing the tax collections which are received early. If a rate of 7.3% annual compounding is assumed for FY90 and 6.95% for FY91, interest income is estimated to be \$1,343,337 in FY90 and \$1,260,616 in FY91.

EFFECT ON COUNTY OR OTHER LOCAL REVENUE OR EXPENDITURES:

The proposed legislation is estimated to reduce county revenue collections by \$5,011,403 in FY90 and \$4,939,638 in FY91. Revenue collections for local schools are estimated to fall \$8,980,435 in FY90 and \$8,851,831 in FY91. The reduction in revenue for towns and miscellaneous districts is estimated to be \$1,804,105 in FY90 and \$1,778,270 in FY91.

The losses shown will be offset by interest income from investing the tax collections which are received early. If a rate of 7.3% annual compounding is assumed for FY90 and 6.95% for FY91, interest income is estimated to be \$5,188,968 in FY90 and \$4,869,471 in FY91 for county and local jurisdictions.

Kay Shackleford 2/1/89
RAY SHACKLEFORD, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

LARRY J. TVEIT, PRIMARY SPONSOR DATE
Fiscal Note for SB220, as introduced

2/3/89
SB 220

nullen

ASSUMPTION:

For simplicity, let us assume we have a property tax bill that was received on or around November 1st that requests \$2000.00 in property taxes. One-half or \$1000.00 is due November 30th and the other half is due May 30th. Let's also assume that the county treasurer has authority to discount the second half payment (May 30th half) by 5% if the entire payment is made on Nov. 30th.

<u>Due Date</u>	<u>Discount</u>	<u>Amount Due</u>
Nov. 30	-0-	\$1000.00
May 30	\$50.00	\$ 950.00
Totals	\$50.00	\$1950.00

Now, let us assume the county treasurer immediately invests the 2nd half payment. What rate of return will the county need to break-even on the discounted payment.

$$\begin{aligned} \text{interest} &= \text{principal} \times \text{rate} \times \text{time} \\ \$50 &= \$950 \times r \times 180/360 \\ \$50 &= \$950 \times r \times 1/2 \\ \$50 &= \$950/2 \times r \\ \$50 &= \$475 \times r \\ \$50/\$475 &= r \\ 10.53\% &= r \end{aligned}$$

Obviously, this necessary rate of return is too high for the taxing jurisdiction to break-even.

However, if the discount was a more reasonable rate such as 2.5%, the necessary rate of return would be as follows:

$$\begin{aligned} \$25/\$487.50 &= r \\ 5.13\% &= r \end{aligned}$$

Realistically, the taxing jurisdiction could recover this rate of return, and probably exceed it slightly.

ROLL CALL VOTE

SENATE COMMITTEE TAXATION

Date 2/3 SB Bill No. 220 Time 10:38

NAME	YES	NO
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	

Bill Robyans
Secretary

SENATOR BOB BROWN
Chairman

Motion: by Sen. Harp to table. The bill failed.

EXP 5

DATE 2/3/89

BILL NO. SB 220

ROLL CALL VOTE

SENATE COMMITTEE TAXATION

Date 2/3 SB Bill No. 220 Time 10:40

NAME	YES	NO
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	

Jill Robyans
Secretary

SENATOR BOB BROWN
Chairman

Motion: by Senator Crippen SB 220
to Pass As Amended
Carried

SENATE STANDING COMMITTEE REPORT

February 6, 1989

MR. PRESIDENT:

We, your committee on Taxation, having had under consideration HB 58 (third reading copy -- blue), respectfully report that HB 58 be amended and as so amended be concurred in:

Sponsor: Driscoll (Walker)

1. Title, line 11.

Following: "MCA;"

Strike: "AND"

2. Title, line 12.

Following: "APPLICABILITY DATE"

Insert: "; AND PROVIDING A TERMINATION DATE"

3. Page 14, line 16.

Following: "taxes"

Insert: "or if the governing body determines the cancellation is not in the best interest of the county"

4. Page 17.

Following: line 3

Insert: "NEW SECTION. Section 17. Termination date. [This act] terminates December 31, 1993."

AND AS AMENDED BE CONCURRED IN

Signed: _____

Bob Brown

Bob Brown, Chairman

*Y.C.
2/6/89
1:25
P.M.*