

MINUTES**MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION****SUBCOMMITTEE ON GENERAL GOVERNMENT & HIGHWAYS**

Call to Order: By Chairman Quilici on February 15, 1991, at 8:09 a.m.

ROLL CALL**Members Present:**

Rep. Joe Quilici, Chairman (D)
Sen. Larry Stimatz, Vice Chairman (D)
Sen. Harry Fritz (D)
Rep. Mary Lou Peterson (R)
Rep. Tom Zook (R)

Staff Present: Clayton Schenck, Senior Fiscal Analyst (LFA)
Lois Steinbeck, Associate Fiscal Analyst (LFA)
Dan Gengler, Budget Analyst (OBPP)
Arlene Carlson, Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

EXECUTIVE ACTION -- GOVERNOR'S OFFICE**Mental Disabilities Board of Visitors**

Person not identified. On February 6 they received word from the Montana Advocacy Program that they were willing to give additional funds to take a secretary they currently have at .20 FTE and increase it to .5 FTE. Additional funds being requested for the budget amendment are \$8,500. **EXHIBIT 1**

Motion/Vote: SEN. STIMATZ moved to accept the additional federal funding for the Board of Visitors for \$8,500. Motion **CARRIED** unanimously.

HEARING ON THE DEPARTMENT OF REVENUE**EXHIBITS 4, 5, 6 AND 7 (2-14-91)**

Ms. Steinbeck continued her review starting with the **Income and Miscellaneous Tax Division**. She also reviewed **Data Processing Division**.

Mr. Ellery reviewed the issues. He explained how the division uses its part-time help. Jeff Miller, Administrator, reviewed the modified requests (DOR Issue No. 13). Mr. Ellery referred to (DOR Issue No. 11) increased data processing costs. Mr. Miller explained the accounts receivable staffing modification (DOR Issue No. 15). Mr. Ellery stated the data processing and accounts reviewable mods are linked together in the executive budget. The \$2.6 million DOR says it can guarantee putting in the bank is not presently in the revenue estimate.

Tape 2, Side 1

REP. RANEY explained he has a bill in House Taxation that is being held, the Senior Citizen Property Tax Deferral Program. The problem is that the actual benefit to senior citizens will only amount to \$40,000 to \$80,000 but it would cost \$100,000 to put the program in so there's no return. After talking to DOR staff, the present programs in place that provide for return on income taxes for seniors who have paid property taxes is basically low-income relief and also applies if they are renters. The problem is Montana citizens are not aware this program is there. Form 2EC is now being distributed but that's not the way it should be done. The DOR needs money for a .2 FTE whatever is necessary to inform senior citizens of this opportunity. So he wants to kill his bill if he's assured Appropriations will put money into DOR to insure the above. Mr. Adams said this would be one of the functions rolled into the Taxpayer Advocate position under the Taxpayer Bill of Rights. Ms. Steinbeck stated that the Grade 19 position referred to by Mr. Adams is one that the LFA current level pulled out of the Director's Office because it was vacant FY90 and remains vacant. During department testimony earlier, it was noted that unless the Bill of Rights passes, the department would give up that position.

Ms. Steinbeck reviewed the Property Assessment Division programs starting with the Elected Assessors and Other Staff; Appraiser and Other staff; and Property Assessment.

Ken Morrison, Administrator, Property Assessment Division, reviewed the budget.

Tape 2, Side 2

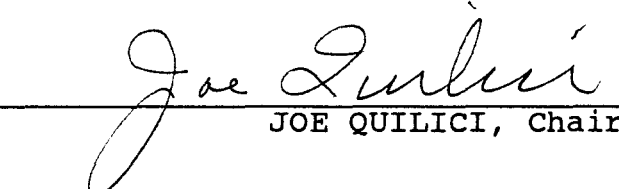
REP. COHEN during the interim the Revenue Oversight Committee (ROC) created a subcommittee to look at the method in which the state appraises forest land. The present classification of forest land sunset on December 31, 1990 which means unless this Legislature addresses the issue, forest land moves into the same category as agricultural land. Ag land takes the productive value multiplied by 30% to determine the taxable value. Presently, for timber land they use the productive, the residual grazing value, plus the standing timber values and then multiply that by 3.84% to get the taxable value. Because of the sunset and using the agricultural formula, they would be using 30% instead of 3.84%. He explained he tried to address through a "cats and dogs" bill last session in HB781. We now have a problem that's been put off for twelve years. The ROC subcommittee studied the problem; the industry recommended a productivity base for taxation; the environmental groups came in with a recommendation, etc., all were in agreement that the

present system wasn't working and the department has never had the ability to keep up with the growth of the timber to continue to reappraise the standing timber. There are tremendous inequities. He distributed copies of HB 340 and the fiscal note. **EXHIBITS 2 AND 3** The recommendation was to try to move to a productivity base to do this which requires an appropriation. Further extension of the temporary timber class without knowing if DOR can switch its productivity base would do a real disservice to local governments and forest landowners. He was present to request that the subcommittee consider into the department's budget the cost for performing the productivity study and switching to the productivity base. A group of professors from UM presented a proposal to do the study of the productivity base. The present system is completely out of whack. The old system was fine when there were no roads and the forest wasn't being managed for the timber. Rep. Ream couldn't be here but is in support of this concept.

Ms. Steinbeck completed her review on Property Assessment modifieds. **Mr. Morrison** completed his comments on the issues.

ADJOURNMENT

Adjournment: 11:17 a.m.


JOE QUILICI, Chair

JQ/ac

Dept of Revenue
Jack Ellery.
8:09

HOUSE OF REPRESENTATIVES

GENERAL GOVERNMENT AND HIGHWAYS SUBCOMMITTEE

ROLL CALL

DATE Feb. 15, 1991

NAME	PRESENT	ABSENT	EXCUSED
REP. JOE QUILICI, CHAIRMAN	✓		
SEN. LARRY STIMATZ, VICE-CHAIRMAN	✓		
REP. TOM ZOOK	✓		
SEN. LARRY TVEIT			
REP. MARY LOU PETERSON	✓		
SEN. HARRY FRITZ	✓		

EXHIBIT 1
 DATE 2-15-91
 BY Gen. Hov 4 Sec

MENTAL DISABILITIES BOARD OF VISITORS

Additional Federal Funds

The Mental Disabilities Board of Visitors receives federal funds from the National Institute of Mental Health to provide advocacy services for patients at Montana State Hospital. The funds flow through a local non-profit organization, Montana Advocacy, Inc., and fund a full-time attorney-advocate housed at Montana State Hospital and a .20 FTE legal secretary.

The governing board of Montana Advocacy, Inc. has just approved an increase for the Board of Visitors which will increase the .20 FTE legal secretary to .50 FTE and allow an increase in operating expenses. The increase in secretarial time is necessary to meet ever-increasing workloads. Operating expenses are principally supplies, postage, communications, and travel to Helena and the law library in Missoula.

MENTAL DISABILITIES BOARD OF VISITORS FEDERAL FUNDS ONLY

	<u>Currently Authorized</u>	<u>Additional Allocation</u>	<u>Total Federal Funds</u>
FTE	1.20	.30	1.50
Personal Services			
Lawyer II	24,789	0	24,789
Legal Secretary II	3,245	4,830	8,075
Benefits	<u>6,462</u>	<u>720</u>	<u>7,182</u>
Total Personal Services	34,496	5,550	40,046
Operating Expenses	<u>5,504</u>	<u>2,950</u>	<u>8,454</u>
TOTAL	\$40,000	\$8,500	\$48,500

1

INTRODUCED BY House BILL NO. 340
Ream Bob Brown

2

BY REQUEST OF THE REVENUE OVERSIGHT COMMITTEE

3

4
 5 A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE THE
 6 TAXATION OF PRIVATE FOREST LANDS; DEFINING FOREST LAND AND
 7 FOREST PRODUCTIVITY VALUE; REQUIRING THE DEPARTMENT OF
 8 REVENUE TO VALUE FOREST LANDS OF 5 ACRES OR MORE ON THE
 9 BASIS OF PRODUCTIVITY BY CAPITALIZING THE NET INCOME OF
 10 FOREST LAND; AUTHORIZING THE DEPARTMENT OF REVENUE TO
 11 ESTABLISH FOREST VALUATION ZONES; PROVIDING FOR A TRANSITION
 12 PERIOD IN THE TAXATION OF FOREST LANDS BY EXTENDING THE
 13 TERMINATION DATE OF CLASS THIRTEEN PROPERTY; PROVIDING THAT
 14 CLASS THIRTEEN WILL APPLY TO THE TAXATION OF FOREST LANDS
 15 BEGINNING JANUARY 1, 1994; PROVIDING THAT LAND MUST BE
 16 CLASSIFIED AS AGRICULTURAL LAND IF ITS GRAZING VALUE IS
 17 GREATER THAN ITS FOREST PRODUCTIVITY VALUE; EXEMPTING TIMBER
 18 FROM AD VALOREM PROPERTY TAXATION; PROVIDING AN
 19 APPROPRIATION; AMENDING SECTIONS 15-1-101, 15-6-143,
 20 15-6-201, AND 15-8-111, MCA, AND SECTION 10, CHAPTER 681,
 21 LAWS OF 1985; AND PROVIDING EFFECTIVE DATES, APPLICABILITY
 22 DATES, AND A TERMINATION DATE."
 23

24 WHEREAS, the Department of Revenue does not have
 25 adequate resources to properly administer the existing

EXHIBIT

2

DATE

2-15-94

1 Ken. Don. Sub

1 standing inventory method of taxing forest lands; and
 2 WHEREAS, the standing inventory method of taxing forest
 3 lands encourages landowners to harvest timber without regard
 4 to good forest management; and

5 WHEREAS, the valuation of forest lands in Montana is
 6 often based on outdated information; and

7 WHEREAS, the Forest Taxation Subcommittee of the Revenue
 8 Oversight Committee found that the forest productivity
 9 method of taxing forest lands encourages good forest
 10 management and is a more equitable method of taxing forest
 11 lands; and

12 WHEREAS, the forest productivity method of taxing forest
 13 lands is in the long run easier and less costly to
 14 administer than the standing inventory method; and

15 WHEREAS, the Forest Taxation Subcommittee of the Revenue
 16 Oversight Committee recommends that forest lands be taxed on
 17 the basis of productivity; and

18 WHEREAS, it is the intent of the Legislature to
 19 implement the recommendation of the Forest Taxation
 20 Subcommittee of the Revenue Oversight Committee.

21 THEREFORE, it is the purpose of this bill to implement
 22 the recommendation to change the method of taxing forest
 23 lands in the state.

1 A statement of intent is required for this bill because
 2 the department of revenue is granted authority to adopt
 3 rules for the administration and enforcement of the forest
 4 productivity method of taxing forest lands.

5 The legislature contemplates that rules adopted by the
 6 department should, at a minimum, address the following:

7 (1) guidelines for information that must be contained
 8 in the statement of intent submitted by the forest landowner
 9 as provided for in [section 2(5)(b)];

10 (2) the form to be used by the forest landowner for the
 11 statement of intent;

12 (3) the procedures for determining appropriate forest
 13 valuation zones and for computing forest land valuation
 14 schedules;

15 (4) the notification of landowners who may be eligible
 16 for forest land classification under this bill;

17 (5) the process by which a landowner may appeal the
 18 valuation of the owner's forest land; and

19 (6) the definition of terms and establishment of
 20 procedures as appropriate for the efficient administration
 21 of the forest productivity method of taxation.

22 In determining forest productivity values and in
 23 computing forest land valuation schedules, the department
 24 shall use the assistance of the university of Montana. The
 25 legislature also intends that, in implementing this bill,

1 the department seek the advice of the department of state
 2 lands, landowners of private forest lands, the timber
 3 industry, and local governments.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

6 NEW SECTION. **Section 1.** Short title. [Sections 1
 7 through 5] may be cited as the "Forest Lands Tax Act".

8 NEW SECTION. **Section 2.** Definitions. For the purposes
 9 of [sections 1 through 5], unless the context requires
 10 otherwise, the following definitions apply:

11 (1) "Culmination of mean annual increment" means the
 12 point of optimum net wood production on an acre of forest
 13 land.

14 (2) "Cultivated Christmas trees" means Christmas trees
 15 that are grown on land prepared by intensive cultivation and
 16 tilling, such as by plowing or turning over the soil, and on
 17 which all unwanted plant growth is controlled for the
 18 exclusive purpose of raising Christmas trees.

19 (3) "Department" means the department of revenue.

20 (4) "Forest" means forest land and the timber on the
 21 land.

22 (5) "Forest land" means contiguous land of 5 acres or
 23 more in one ownership that is capable of producing timber
 24 that can be harvested in commercial quantity and is
 25 producing timber unless the trees have been removed by man

1 through harvest, including clearcuts, or by natural
 2 disaster, including but not limited to fire. Forest land
 3 includes land:

4 (a) that has not been converted to another use; or
 5 (b) that has a dedicated use that is evidenced by a
 6 statement of intent by the owner for the eventual harvest of
 7 timber.

8 (6) "Forest productivity value" means the value of
 9 forest land for assessment purposes, which value is
 10 determined only on the basis of its ability to produce
 11 timber, other forest products, and associated agricultural
 12 products through an income approach provided for in [section
 13 3].

14 (7) "Harvest" means an activity related to the cutting
 15 or removal of timber for use or sale as a forest product.

16 (8) "Landowner" means an individual, corporation,
 17 association, company, firm, joint venture, syndicate, or
 18 trust.

19 (9) "Mean annual net wood production" means the average
 20 net usable volume of wood 1 acre of forest land will grow in
 21 1 year under average current and actual forest conditions
 22 and under current and reasonable management practices for
 23 each forest valuation zone established under [section 3].

24 (10) "Stumpage value" means the amount that timber would
 25 sell for under an arm's-length transaction made in the

1 ordinary course of business, expressed in terms of dollars
 2 per unit of measure.

3 (11) "Timber" means all wood growth on privately owned
 4 land, mature or immature, alive or dead, standing or down,
 5 that is capable of furnishing raw material used in the
 6 manufacture of lumber or other forest products. The term
 7 does not include cultivated Christmas trees.

8 **NEW SECTION. Section 3. Legislative intent -- value of**
 9 **forest lands -- valuation zones.** (1) In order to encourage
 10 landowners of private forest lands to retain and improve
 11 their holdings of forest lands, to promote better forest
 12 practices, and to encourage the investment of capital in
 13 reforestation, forest lands must be classified and assessed
 14 under the provisions of this section.

15 (2) The forest productivity value of forest land must
 16 be determined by:

17 (a) capitalizing the value of the mean annual net wood
 18 production at the culmination of mean annual increment plus
 19 other agriculture-related income, if any; less

20 (b) annualized expenses, including but not limited to
 21 the establishment, protection, maintenance, improvement, and
 22 management of the crop over the rotation period.

23 (3) To determine the forest productivity value of
 24 forest lands, the department shall:

25 (a) divide the state into appropriate forest valuation

1 zones, with each zone designated so as to recognize the
 2 uniqueness of marketing areas, timber types, growth rates,
 3 access, operability, and other pertinent factors of that
 4 zone; and
 5 (b) establish a uniform system of forest land
 6 classification that takes into consideration the productive
 7 capacity of the site to grow forest products and furnish
 8 other associated agricultural uses.

9 (4) In computing the forest land valuation schedules
 10 for each forest valuation zone to take effect on January 1,
 11 1994, the department shall determine the productive capacity
 12 value of all forest lands in each forest valuation zone
 13 using the formula $V = I/R$, where:

14 (a) V is the per-acre forest productivity value of the
 15 forest land;

16 (b) I is the per-acre net income of forest lands in
 17 each valuation zone and is determined by the department
 18 using the formula $I = (M \times SV) + AI - C$, where:

19 (i) I is the per-acre net income;

20 (ii) M is the mean annual net wood production;

21 (iii) SV is the stumpage value;

22 (iv) AI is the per-acre agriculture-related income; and

23 (v) C is the per-unit cost of the forest product and
 24 agricultural product produced, if any; and

25 (c) R is the capitalization rate determined by the

1 department as provided in subsection (6).

2 (5) Net income must:

3 (a) be calculated for each year of a base period, which
 4 is the most recent 5-year period for which data is
 5 available;

6 (b) be based on a rolling average of stumpage value of
 7 timber harvested within the forest valuation zone and on the
 8 associated production cost data for the base period from
 9 sources considered appropriate by the department; and

10 (c) include agriculture-related net income for the same
 11 time period as the period used to determine average stumpage
 12 values.

13 (6) The capitalization rate must be calculated for each
 14 year of the base period and is the annual average interest
 15 rate on agricultural loans as reported by the federal land
 16 bank association of Spokane, Washington, plus the effective
 17 tax rate.

18 (7) The effective tax rate must be calculated for each
 19 year of the base period by dividing the total estimated tax
 20 due on forest lands subject to the provisions of this
 21 section by the total forest value of those lands.

22 (8) For the purposes of this section, if forest service
 23 sales are used in the determination of stumpage values, the
 24 department shall take into account purchaser road credits.

25 (9) In determining the forest productivity value of

Ex. 2
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1 forest lands and in computing the forest land valuation
2 schedules, the department shall use information and data
3 provided by the university of Montana.

4 NEW SECTION. Section 4. Reduction in valuation on
5 forest lands for trees destroyed by natural disaster. (1)
6 Forest lands upon which, at any time after December 31,
7 1993, trees are destroyed by fire, disease, insect
8 infestation, or other natural disaster so that the lands
9 affected will not meet minimum stocking requirements are
10 eligible for a reduction in value for the first 20 tax years
11 following the loss.

12 (2) If a landowner shows to the department's
13 satisfaction that the landowner's forest lands have been
14 destroyed as provided in subsection (1), the department
15 shall reduce the value of the forest land by 50% of the
16 original forest productivity value per year.

17 NEW SECTION. Section 5. Administration -- rules. The
18 department shall:

19 (1) administer and enforce the provisions of [sections
20 1 through 5];

21 (2) arrange for the preparation and distribution of
22 forms and information necessary to administer the provisions
23 of [section 1 through 5]; and

24 (3) promulgate rules necessary to administer and

1 **Section 6.** Section 15-6-143, MCA, is amended to read:

2 "15-6-143. (Temporary) Class thirteen property --
3 description -- taxable percentage. (1) Class thirteen
4 property includes all timberland.

5 (2) Timberland is contiguous land exceeding 15 acres in
6 one ownership that is capable of producing timber that can
7 be harvested in commercial quantity.

8 (3) Class thirteen property is taxed at the percentage
9 rate-up" 3.84% of the combined appraised value of the
10 standing timber and grazing productivity of the property.

11 {4}--For--taxable--years--beginning-January-17-19867--and
12 thereafter7-the-taxable-percentage-rate--up--applicable--to
13 class--thirteen--property-is-30%/B7-where-B-is-the-certified
14 statewide--percentage--increase--to--be--determined--by--the
15 department-of-revenue-as-provided--in--subsection--(5)--The
16 taxable-percentage-rate--up--shall-be-rounded-downward-to-the
17 nearest--0.01%--and--shall--be--calculated--by--the-department
18 before-July-17-19867.

19 (5)--(a) Prior-to-July-17-19867--the--department--shall
20 determine--the--certified--statewide-percentage-increase-for
21 class-thirteen-property-using-the-formula-B--X/Y7-where:

22 (i)--X-is-the-appraised-value7-as-of-January-17-19867-of
23 all-property-in-the-state7-excluding-use--changes--occurring
24 during--the--preceding-year7-classified-under-class-thirteen
25 as-class-thirteen-is-determined-in-this-section7-and

1 (ii) Y is the appraised value, as of January 1, 1985, of
 2 all property in the state that, as of January 1, 1986, would
 3 be classified under class thirteen as class thirteen is
 4 described in this section.
 5 (b) B shall be rounded downward to the nearest 0.0001%
 6 (6) After July 1, 1986, no adjustment may be made by
 7 the department to the taxable percentage rate, up until a
 8 valuation has been made as provided in 15-7-111. (Terminates
 9 January 1, 1991, sec. 10, Ch. 681, b, 1985.)"

Section 7. Section 15-6-143, MCA, is amended to read:

11 "15-6-143. (Temporary) Class thirteen property --
 12 description -- taxable percentage -- alternative
 13 classification. (1) Class thirteen property includes all
 14 timberland:
 15 (2) Timberland is contiguous land exceeding 15 acres in
 16 one ownership that is capable of producing timber that can
 17 be harvested in commercial quantity.
 18 (3) Class thirteen property is taxed at the percentage
 19 rate, up to the combined appraised value of the standing
 20 timber and grazing productivity of the property.
 21 (4) For taxable years beginning January 1, 1986, and
 22 thereafter, the taxable percentage rate, up to applicable to
 23 class thirteen property is 30% B, where B is the certified
 24 statewide percentage increase to be determined by the
 25 department of revenue as provided in subsection (5). The

1 taxable percentage rate, up to shall be rounded downward to the
 2 nearest 0.01% and shall be calculated by the department
 3 before July 1, 1986.
 4 (5) (a) Prior to July 1, 1986, the department shall
 5 determine the certified statewide percentage increase for
 6 class thirteen property using the formula $B = \frac{X}{Y}$, where:
 7 (i) X is the appraised value, as of January 1, 1986, of
 8 all property in the state, excluding use changes occurring
 9 during the preceding year, classified under class thirteen
 10 as class thirteen is described in this section; and
 11 (ii) Y is the appraised value, as of January 1, 1985, of
 12 all property in the state that, as of January 1, 1986, would
 13 be classified under class thirteen as class thirteen is
 14 described in this section.
 15 (b) B shall be rounded downward to the nearest 0.0001%
 16 (6) After July 1, 1986, no adjustment may be made by
 17 the department to the taxable percentage rate, up until a
 18 valuation has been made as provided in 15-7-111. (Terminates
 19 January 1, 1991, sec. 10, Ch. 681, b, 1985.)
 20 (1) Except as provided in subsection (5), class
 21 thirteen property includes all forest lands as defined in
 22 [section 2].
 23 (2) Class thirteen property is taxed at the percentage
 24 rate "p" of its forest productivity value.
 25 (3) For taxable years beginning January 1, 1994, and

1 thereafter, the taxable percentage rate "p" applicable to
 2 class thirteen property is $3.84\frac{1}{2}\%$ /B, where B is the certified
 3 statewide percentage increase to be determined by the
 4 department of revenue as provided in subsection (4). The
 5 taxable percentage rate "p" must be rounded downward to the
 6 nearest 0.01% and must be calculated by the department
 7 before July 1, 1994.

8 (4) (a) Prior to July 1, 1994, the department shall
 9 determine the certified statewide percentage increase for
 10 class thirteen property using the formula $B = X/Y$, where:

11 (i) X is the appraised value, as of January 1, 1994, of
 12 all property in the state, excluding use changes occurring
 13 during the preceding year, classified under class thirteen
 14 as class thirteen is described in this section; and

15 (ii) Y is the appraised value, as of January 1, 1993, of
 16 all property in the state that would be classified under
 17 class thirteen as class thirteen is described in this
 18 section as this section reads in 1993.

19 (b) B must be rounded downward to the nearest 0.0001%.

20 (5) If the department of revenue determines that the
 21 grazing value of a parcel of forest land is greater than the
 22 forest productivity value determined under [section 3], the
 23 land must be classified as agricultural land under
 24 15-6-133."

25 **Section 8.** Section 15-1-101, MCA, is amended to read:

1 **"15-1-101. Definitions.** (1) Except as otherwise
 2 specifically provided, when terms mentioned in this section
 3 are used in connection with taxation, they are defined in
 4 the following manner:

5 (a) The term "agricultural" refers to the raising of
 6 livestock, poultry, bees, and other species of domestic
 7 animals and wildlife in domestication or a captive
 8 environment, and the raising of field crops, fruit, and
 9 other animal and vegetable matter for food or fiber.
 10 (b) The term "assessed value" means the value of
 11 property as defined in 15-8-111.

12 (c) The term "average wholesale value" means the value
 13 to a dealer prior to reconditioning and profit margin shown
 14 in national appraisal guides and manuals or the valuation
 15 schedules of the department of revenue.

16 (d) (i) The term "commercial", when used to describe
 17 property, means any property used or owned by a business, a
 18 trade, or a nonprofit corporation as defined in 35-2-102 or
 19 used for the production of income, except that property
 20 described in subsection (ii).

21 (ii) The following types of property are not commercial:

22 (A) agricultural lands;

23 (B) timberlands and, beginning January 1, 1994, forest
 24 lands;

25 (C) single-family residences and ancillary improvements

1 and improvements necessary to the function of a bona fide
2 farm, ranch, or stock operation;

3 (D) mobile homes used exclusively as a residence except
4 when held by a distributor or dealer of trailers or mobile
5 homes as his stock in trade;

6 (E) all property described in 15-6-135; and

7 (F) all property described in 15-6-136.

8 (e) The term "comparable property" means property that
9 has similar use, function, and utility; that is influenced
10 by the same set of economic trends and physical,
11 governmental, and social factors; and that has the potential
12 of a similar highest and best use.

13 (f) The term "credit" means solvent debts, secured or
14 unsecured, owing to a person.

15 (g) The term "improvements" includes all buildings,
16 structures, fences, and improvements situated upon, erected
17 upon, or affixed to land. When the department of revenue or
18 its agent determines that the permanency of location of a
19 mobile home or house trailer has been established, the mobile
20 home or house trailer is presumed to be an improvement to
21 real property. A mobile home or house trailer may be
22 determined to be permanently located only when it is
23 attached to a foundation which cannot feasibly be relocated
24 and only when the wheels are removed.

25 (h) The term "leasehold improvements" means

1 improvements to mobile homes and mobile homes located on
2 land owned by another person. This property is assessed
3 under the appropriate classification and the taxes are due
4 and payable in two payments as provided in 15-24-202.
5 Delinquent taxes on such leasehold improvements are a lien
6 only on such leasehold improvements.

7 (i) The term "livestock" means cattle, sheep, swine,
8 goats, horses, mules, and asses.

9 (j) The term "mobile home" means forms of housing known
10 as "trailers", "house trailers", or "trailer coaches"
11 exceeding 8 feet in width or 45 feet in length, designed to
12 be moved from one place to another by an independent power
13 connected to them, or any "trailer", "house trailer", or
14 "trailer coach" up to 8 feet in width or 45 feet in length
15 used as a principal residence.

16 (k) The term "personal property" includes everything
17 that is the subject of ownership but that is not included
18 within the meaning of the terms "real estate" and
19 "improvements".

20 (l) The term "poultry" includes all chickens, turkeys,
21 geese, ducks, and other birds raised in domestication to
22 produce food or feathers.

23 (m) The term "property" includes moneys, credits,
24 bonds, stocks, franchises, and all other matters and things,
25 real, personal, and mixed, capable of private ownership.

Ex. 2
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1 This definition must not be construed to authorize the
2 taxation of the stocks of any company or corporation when
3 the property of such company or corporation represented by
4 the stocks is within the state and has been taxed.

5 (n) The term "real estate" includes:

6 (i) the possession of, claim to, ownership of, or right
7 to the possession of land;

8 (ii) all mines, minerals, and quarries in and under the
9 land subject to the provisions of 15-23-501 and Title 15,
10 chapter 23, part 8; all timber belonging to individuals or
11 corporations growing or being on the lands of the United
12 States; and all rights and privileges appertaining thereto.

13 (o) "Research and development firm" means an entity
14 incorporated under the laws of this state or a foreign
15 corporation authorized to do business in this state whose
16 principal purpose is to engage in theoretical analysis,
17 exploration, and experimentation and the extension of
18 investigative findings and theories of a scientific and
19 technical nature into practical application for experimental
20 and demonstration purposes, including the experimental
21 production and testing of models, devices, equipment,
22 materials, and processes.

23 (p) The term "taxable value" means the percentage of
24 market or assessed value as provided for in Title 15,
25 chapter 6, part 1.

1 (q) The term "weighted mean assessment ratio" means the
2 total of the assessed values divided by the total of the
3 selling prices of all area sales in the stratum.

4 (2) The phrase "municipal corporation" or
5 "municipality" or "taxing unit" shall be deemed to include a
6 county, city, incorporated town, township, school district,
7 irrigation district, drainage district, or any person,
8 persons, or organized body authorized by law to establish
9 tax levies for the purpose of raising public revenue.

10 (3) The term "state board" or "board" when used without
11 other qualification shall mean the state tax appeal board."

12 **Section 9.** Section 15-6-201, MCA, is amended to read:

13 "15-6-201. Exempt categories. (1) The following
14 categories of property are exempt from taxation:

15 (a) the property of:

16 (i) the United States, the state, counties, cities,
17 towns, school districts, except, if congress passes
18 legislation that allows the state to tax property owned by
19 an agency created by congress to transmit or distribute
20 electrical energy, the property constructed, owned, or
21 operated by a public agency created by the congress to
22 transmit or distribute electric energy produced at privately
23 owned generating facilities (not including rural electric
24 cooperatives);

25 (ii) irrigation districts organized under the laws of

1 Montana and not operating for profit;

2 (iii) municipal corporations; and

3 (iv) public libraries;

4 (b) buildings, with land they occupy and furnishings
5 therein, owned by a church and used for actual religious
6 worship or for residences of the clergy, together with
7 adjacent land reasonably necessary for convenient use of the
8 buildings;

9 (c) property used exclusively for agricultural and
10 horticultural societies, for educational purposes, and for
11 nonprofit health care facilities, as defined in 50-5-101,
12 licensed by the department of health and environmental
13 sciences and organized under Title 35, chapter 2 or 3. A
14 health care facility that is not licensed by the department
15 of health and environmental sciences and organized under
16 Title 35, chapter 2 or 3, is not exempt.

17 (d) property that meets the following conditions:

18 (i) is owned and held by any association or corporation
19 organized under Title 35, chapter 2, 3, 20, or 21;

20 (ii) is devoted exclusively to use in connection with a
21 cemetery or cemeteries for which a permanent care and
22 improvement fund has been established as provided for in
23 Title 35, chapter 20, part 3; and

24 (iii) is not maintained and operated for private or
25 corporate profit;

1 (e) institutions of purely public charity;

2 (f) evidence of debt secured by mortgages of record
3 upon real or personal property in the state of Montana;

4 (g) public art galleries and public observatories not
5 used or held for private or corporate profit;

6 (h) all household goods and furniture, including but
7 not limited to clocks, musical instruments, sewing machines,
8 and wearing apparel of members of the family, used by the
9 owner for personal and domestic purposes or for furnishing
10 or equipping the family residence;

11 (i) a truck canopy cover or topper weighing less than
12 300 pounds and having no accommodations attached. This
13 property is also exempt from taxation under 61-3-504(2) and
14 61-3-537.

15 (j) a bicycle, as defined in 61-1-123, used by the
16 owner for personal transportation purposes;

17 (k) motor homes, travel trailers, and campers;

18 (l) all watercraft;

19 (m) land, fixtures, buildings, and improvements owned
20 by a cooperative association or nonprofit corporation
21 organized to furnish potable water to its members or
22 customers for uses other than the irrigation of agricultural
23 land;

24 (n) the right of entry that is a property right
25 reserved in land or received by mesne conveyance (exclusive

1 of leasehold interests), devise, or succession to enter land
 2 whose surface title is held by another to explore, prospect,
 3 or dig for oil, gas, coal, or minerals;

4 (o) property owned and used by a corporation or
 5 association organized and operated exclusively for the care
 6 of the developmentally disabled, mentally ill, or
 7 vocationally handicapped as defined in 18-5-101, which is
 8 not operated for gain or profit;

9 (p) all farm buildings with a market value of less than
 10 \$500 and all agricultural implements and machinery with a
 11 market value of less than \$100;

12 (q) property owned by a nonprofit corporation organized
 13 to provide facilities primarily for training and practice
 14 for or competition in international sports and athletic
 15 events and not held or used for private or corporate gain or
 16 profit. For purposes of this subsection (q), "nonprofit
 17 corporation" means an organization exempt from taxation
 18 under section 501(c) of the Internal Revenue Code and
 19 incorporated and admitted under the Montana Nonprofit
 20 Corporation Act.

21 (r) provided the tools are owned by the taxpayer, the
 22 first \$15,000 or less of market value of tools that are
 23 customarily hand-held and that are used to:

24 (i) construct, repair, and maintain improvements to
 25 real property; or

1 (ii) repair and maintain machinery, equipment,
 2 appliances, or other personal property;

3 (s) harness, saddlery, and other tack equipment; and

4 (t) a title plant owned by a title insurer or a title
 5 insurance producer, as those terms are defined in 33-25-105;
 6 and

7 (u) beginning January 1, 1990, timber as defined in
 8 [section 2].

9 (2) (a) The term "institutions of purely public
 10 charity" includes organizations owning and operating
 11 facilities for the care of the retired or aged or
 12 chronically ill, which are not operated for gain or profit.

13 (b) The terms "public art galleries" and "public
 14 observatories" include only those art galleries and
 15 observatories, whether of public or private ownership, that
 16 are open to the public without charge at all reasonable
 17 hours and are used for the purpose of education only.

18 (3) The following portions of the appraised value of a
 19 capital investment made after January 1, 1979, in a
 20 recognized nonfossil form of energy generation, as defined
 21 in 15-32-102, are exempt from taxation for a period of 10
 22 years following installation of the property:

23 (a) \$20,000 in the case of a single-family residential
 24 dwelling;

25 (b) \$100,000 in the case of a multifamily residential

1 dwelling or a nonresidential structure."

2 **Section 10.** Section 15-8-111, MCA, is amended to read:

3 "15-8-111. **Assessment** -- market value standard --
4 exceptions. (1) All taxable property must be assessed at
5 100% of its market value except as otherwise provided.

6 (2) (a) Market value is the value at which property
7 would change hands between a willing buyer and a willing
8 seller, neither being under any compulsion to buy or to sell
9 and both having reasonable knowledge of relevant facts.

10 (b) If the department uses construction cost as one
11 approximation of market value, the department shall fully
12 consider reduction in value caused by depreciation, whether
13 through physical depreciation, functional obsolescence, or
14 economic obsolescence.

15 (c) Except as provided in subsection (3), the market
16 value of all motor trucks; agricultural tools, implements,
17 and machinery; and vehicles of all kinds, including but not
18 limited to boats and all watercraft, is the average
19 wholesale value shown in national appraisal guides and
20 manuals or the value of the vehicle before reconditioning
21 and profit margin. The department of revenue shall prepare
22 valuation schedules showing the average wholesale value when
23 no national appraisal guide exists.

24 (3) The department of revenue or its agents may not
25 adopt a lower or different standard of value from market

1 value in making the official assessment and appraisal of the
2 value of property, except:

3 (a) the wholesale value for agricultural implements and
4 machinery is the loan value as shown in the Official Guide,
5 Tractor and Farm Equipment, published by the national farm
6 and power equipment dealers association, St. Louis,
7 Missouri;

8 (b) for agricultural implements and machinery not
9 listed in the official guide, the department shall prepare a
10 supplemental manual where the values reflect the same
11 depreciation as those found in the official guide; and

12 (c) as otherwise authorized in Title 15 and Title 61.

13 (4) For purposes of taxation, assessed value is the
14 same as appraised value.

15 (5) The taxable value for all property is the
16 percentage of market or assessed value established for each
17 class of property.

18 (6) The assessed value of properties in 15-6-131
19 through 15-6-133 is as follows:

20 (a) Properties in 15-6-131, under class one, are
21 assessed at 100% of the annual net proceeds after deducting
22 the expenses specified and allowed by 15-23-503 or, if
23 applicable, as provided in 15-23-515.

24 (b) Properties in 15-6-132, under class two, are
25 assessed at 100% of the annual gross proceeds.

Ex. 2
2-15-91
Don Hart Sub

LC 0014/01

LC 0014/01

1 (c) Properties in 15-6-133, under class three, are
2 assessed at 100% of the productive capacity of the lands
3 when valued for agricultural purposes. All lands that meet
4 the qualifications of 15-7-202 are valued as agricultural
5 lands for tax purposes.

6 (d) Properties Beginning January 1, 1990, and ending
7 December 31, 1993, properties in 15-6-143, under class
8 thirteen, are assessed at 100% of the combined appraised
9 value of the standing timber and grazing productivity of the
10 land when valued as timberland.

11 (e) Beginning January 1, 1994, properties in 15-6-143,
12 under class thirteen, are assessed at 100% of the forest
13 productivity value of the land when valued as forest land.

14 (7) Land and the improvements thereon are separately
15 assessed when any of the following conditions occur:

16 (a) ownership of the improvements is different from
17 ownership of the land;

18 (b) the taxpayer makes a written request; or

19 (c) the land is outside an incorporated city or town."

20 **Section 11.** Section 10, Chapter 681, Laws of 1985, is
21 amended to read:

22 "Section 10. Effective date -- termination date. This
23 act is effective January 1, 1986, and, except for section--3
24 sections 2 through 4, terminates January 1, 1991."

25 **NEW SECTION. Section 12.** Appropriation. (1) There is

1 appropriated from the general fund to the department of
2 revenue \$614,076 to fund the determination of the forest
3 productivity value of forest lands required by [section 3].

4 (2) There is appropriated from the general fund to the
5 department of revenue \$366,762 to administer the provisions
6 of [sections 1 through 5 and section 7].

7 (3) Notwithstanding the provisions of 17-7-302 through
8 17-7-304, the unexpended appropriation in subsection (1) may
9 be encumbered for payment in fiscal year 1994.

10 (4) Notwithstanding the provisions of 17-7-302 through
11 17-7-304, the unexpended appropriation in subsection (2) is
12 reappropriated for fiscal year 1994.

13 **NEW SECTION. Section 13.** Codification instruction.
14 [Sections 1 through 5] are intended to be codified as an
15 integral part of Title 15, and the provisions of Title 15
16 apply to [sections 1 through 5].

17 **NEW SECTION. Section 14.** Saving clause. [This act]
18 does not affect the rights and duties that matured,
19 penalties that were incurred, or proceedings that were begun
20 before [the effective date of this act].

21 **NEW SECTION. Section 15.** Severability. If a part of
22 [this act] is invalid, all valid parts that are severable
23 from the invalid part remain in effect. If a part of [this
24 act] is invalid in one or more of its applications, the part
25 remains in effect in all valid applications that are

1 severable from the invalid applications.

2 NEW SECTION. Section 16. Applicability -- retroactive
3 applicability. (1) Except as provided in subsection (2),
4 [this act] applies to taxable years beginning after December
5 31, 1993.

6 (2) [Sections 6 and 11] apply retroactively, within the
7 meaning of 1-2-109, to taxable years beginning after
8 December 31, 1990.

9 NEW SECTION. Section 17. Effective dates. (1) Except
10 as provided in subsections (2) and (3), [this act] is
11 effective July 1, 1991.

12 (2) [Sections 6 and 11] and this section are effective
13 on passage and approval.

14 (3) [Section 7] is effective January 1, 1994.

15 NEW SECTION. Section 18. Termination. [Section 6 and
16 section 10(6)(d)] terminate January 1, 1994.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0340, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to generally revise the taxation of private forest lands; defining forest land and forest productivity value; requiring the Department of Revenue to value forest lands of 5 acres or more on the basis of productivity by capitalizing the net income of forest land; authorizing the Department of Revenue to establish forest valuation zones; providing for a transition period in the taxation of forest lands by extending the termination date of class thirteen property; providing that class thirteen will apply to the taxation of forest lands beginning January 1, 1994; providing that land must be classified as agricultural land if its grazing value is greater than its forest productivity value; exempting timber from a valorem property taxation; providing appropriation; and providing effective dates, applicability dates, and a termination date.

ASSUMPTIONS:

1. It is assumed for the purposes of this note that current taxation practices (FY91) of class thirteen (timberland) will continue.
2. The proposal will not impact the taxable value of class 13 in FY92 and FY93.
3. In determining forest productivity values and in computing forest land valuation schedules, the Department of Revenue will use the assistance of the University of Montana.
4. Standing timber will be exempt from taxation beginning January 1, 1994.
5. The impact on University of Montana expenditures include 5.58 FTE in FY92 and FY93, and related operating costs. The University of Montana would be reimbursed for these costs through a contract with the Department of Revenue.
6. The Department of Revenue will incur one-time costs for the transition to the new valuation system as shown below (in addition to the University of Montana contract).

FISCAL IMPACT:

see next page


ROD SUNDSTED, BUDGET DIRECTOR
Office of Budget and Program Planning

DATE



BOB REAM, PRIMARY SPONSOR

DATE

Fiscal Note for HB0340, as introduced

HB 340

Exhibit 3
2/15/91
DATE 2/15/91
Exhibit 3

Expenditures:

University of Montana (by contract with the Department of Revenue):

	FY '92			FY '93		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
FTE	0	5.58	5.58	0	5.58	5.58
Personal Services	0	139,270	139,270	0	145,964	145,964
Equipment Costs	0	100,000	100,000	0	40,000	40,000
Operating Expenses	0	30,000	30,000	0	20,000	20,000
Indirect Costs (20%)	0	53,854	53,854	0	41,193	41,193
Total	0	323,124	323,124	0	247,157	247,157

Department of Revenue:

	FY '92			FY '93		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
FTE	0	0	0	0	3.00	3.00
Personal Services	0	0	0	0	62,359	62,359
Equipment Costs	0	18,500	18,500	0	7,070	7,070
Operating Expenses	0	4,800	4,800	0	25,550	25,550
Total	0	23,300	23,300	0	94,979	94,979

Funding:

General Fund (01)	0	346,424	346,424	0	342,136	342,136
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Revenue Impact:

The proposal includes the methodology (section 7) to compute a tax rate such that the total statewide taxable value of class thirteen will not change due to the change in valuation methods. However, two important points regarding taxable valuation are recognized. First, the proposed valuation method may provide shifting of taxable valuation between local taxing jurisdictions. The extent of this inter-jurisdiction shifting is unknown. Second, the proposal reduces the amount of acreage (from 15 contiguous acres to 5 contiguous acres) necessary to qualify as class thirteen property. This will result in landowners who currently have 5 to 15 contiguous acres of land with timber to seek reclassification of their property from class four to the more advantageous classification of class thirteen. The extent of the loss in taxable value due to this type of reclassification is unknown.

HB 340

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The University of Montana will have expenditures in FY 94 totaling \$43,796. This includes \$25,497 for personal services from 0.63 FTE, \$11,000 for operating expenses and \$7,299 for indirect costs. These cost would be funded by the general fund through a contract with the Department of Revenue.

The Department of Revenue will require nine temporary FTE at a cost of \$198,308, \$47,700 in operating expenses and \$2,475 in equipment expenses for a total general fund cost of \$248,483.

Technical Note:

Section 9(u) exempts standing timber from taxation beginning January 1, 1990. The date should be January 1, 1994.

HB 340

REQUEST

What is the Department of Revenue's estimated additional cost to implement a Forest Productivity Tax System if the University conducts the mapping phase?

COST ESTIMATES

EXHIBIT 3
DATE 2-15-91
J. Gen. Govt. Sec.

TABLE I
FOREST PRODUCTIVITY TAX SYSTEM - DEVELOPMENT COSTS

	Fiscal 1992	Fiscal 1993	Fiscal 1994
<u>Cost Items</u>			
F.T.E.	- 0 -	3.0	9.0
Personal Services	\$ - 0 -	\$ 62,359	\$198,308
Operating Expenses	4,800	25,550	47,700
Equipment	18,500	7,070	2,475
Total Costs	<u>\$ 23,300</u>	<u>\$ 94,979</u>	<u>\$248,483</u>
<u>Fund Sources</u>			
General Fund	<u>\$ 23,300</u>	<u>\$ 94,979</u>	<u>\$248,483</u>
Total Funds	<u>\$ 23,300</u>	<u>\$ 94,979</u>	<u>\$248,483</u>

COST DESCRIPTION

The implementation of the forest productivity system would be an one time cost. It would require 12 temporary FTE's to complete the project. Three FTE's would be hired in fiscal year 1993 and nine FTE's in fiscal year 1994 to perform clerical duties. Their duties would include transferring productivity data to landowner records, data entry and appraisal review.

Forest landowners would receive new forest assessments in April or May, 1994. The new forest assessments would be effective January 1, 1994.

UNIVERSITY OF MONTANA, SCHOOL OF FORESTRY

JDGET:

MONTANA DEPARTMENT OF REVENUE TAX PROPOSAL

ME PERIOD:

July 1, 1991 - June 30, 1994

SALARIES	Effort (mo)	YEAR 1 (7/91-6/92)	Effort (mo)	YEAR 2 (7/92-6/93)	Effort (mo)	YEAR 3 (7/93-6/94)
		Cost		Cost		Cost
J. S. Milner	3	\$10,500	3	\$11,025	0.5	\$1,929
S.W. Running	1	\$5,000	1	\$5,250	0.5	\$2,756
H. Zuuring	3	\$12,000	3	\$12,600	0.5	\$2,205
Tech - GIS	12	\$30,000	12	\$31,500	6	\$13,779
Tech - Field	12	\$24,996	12	\$26,246		
Tech - Remote sensing	12	\$30,000	12	\$31,500		
Subtotal		\$112,496		\$118,121		\$20,670
FRINGE BENEFITS						
P.I.'s (19%)		\$5,225		\$5,486		\$1,309
Technicians (19% + 150/mo.)		\$21,549		\$22,357		\$3,518
Subtotal		\$26,774		\$27,843		\$4,827
CAPITAL EQUIPMENT						
One 486 computer		\$10,000				
TM tapes		\$40,000		\$40,000		
ERDAS system		\$50,000				
Subtotal		\$100,000		\$40,000		
TRAVEL						
Training, public meetings						
field validation		\$20,000		\$10,000		\$10,000
Subtotal		\$20,000		\$10,000		\$10,000
SUPPLIES/SERVICES						
Supplies		\$10,000		\$10,000		\$1,000
Subtotal		\$10,000		\$10,000		\$1,000
TOTAL DIRECT COSTS		\$269,270		\$205,964		\$36,497
INDIRECT COSTS (20% direct)		\$53,854		\$41,193		\$7,299
TOTAL COSTS		\$323,124		\$247,157		\$43,796
GRAND TOTAL		\$614,076				

**HOUSE OF REPRESENTATIVES
VISITOR REGISTER**

Gen Gas 't & Highways COMMITTEE BILL NO. _____

DATE 2/15/91 SPONSOR(S) Dept. of Revenue

PLEASE PRINT

PLEASE PRINT

PLEASE PRINT

[illegible]

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.