MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB GILBERT**, on March 4, 1993, at 8:00 a.m.

ROLL CALL

Members Present:
Rep. Bob Gilbert, Chairman (R)
Rep. Mike Foster, Vice Chairman (R)
Rep. Dan Harrington, Minority Vice Chairman (D)
Rep. Shiell Anderson (R)
Rep. John Bohlinger (R)
Rep. Ed Dolezal (D)
Rep. Jerry Driscoll (D)
Rep. Jim Elliott (D)
Rep. Gary Feland (R)
Rep. Marian Hanson (R)
Rep. Hal Harper (D)
Rep. Chase Hibbard (R)
Rep. Vern Keller (R)
Rep. Ed McCaffree (D)
Rep. Bea McCarthy (D)
Rep. Tom Nelson (R)
Rep. Scott Orr (R)
Rep. Bob Raney (D)
Rep. Bob Ream (D)
Rep. Rolph Tunby (R)

Members Excused: None

Members Absent: None

Staff Present: Lee Heiman, Legislative Council
Jill Rohyans, Committee Secretary

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

Committee Business Summary:
Hearing: HB 643
Executive Action: None

HEARING ON HB 643

Opening Statement by Sponsor:

REP. DAVE BROWN, HD 31, Butte, said this bill establishes a recreational property tax which would be imposed on ranch or farm land that is being used primarily as a playground for out of state hunters and fishermen. The bill specifies that land over twenty acres not used predominantly for agricultural purposes will be subject to the full 3.68% assessment. Final determination of land use will be made by the County Assessor.

Proponents' Testimony:

John Youngberg, Montana Farm Bureau and Montana Grain Growers, said there is real merit in tying use of the land to agricultural purposes. He said the language on page 1, lines 22 and 23, "incidental to the predominant use of the land" is vague and needs to be further defined. Tying a dollar value to determination of agricultural production can be inaccurate and misleading. He said the groups he represents support the intent of the bill if some clarification can be made in those two areas.

Henry Oldenburg, private citizen, Flathead County, said he supports the bill with some reservations. He owns 15 acres of land on the west bank of the Flathead River. If this land was subject to the revised tax classification under the terms of this bill, the increased taxes would force him to sell. The three feet of topsoil is best suited for agricultural production of small grains and alfalfa. If offered for sale, he felt sure the land would be bought by developers. The neighbor on his south boundary has a well developed cattle feeding operation. He said if he is forced to sell his property to developers, there would be a real problem for the cattle feeding operation. He strongly supports a "no dollar" definition of agricultural production. He said the bill should also be amended to protect small tenant farmers who are using the land for agricultural purposes and selling their agricultural products in the commercial marketplace. They would then be protected from being forced to sell their property and take it out of agricultural production.

Ted Doney, Montana Dairymen's Association and Secretary of the Agricultural Coalition, Helena, said he supports the intent of the bill. He said the Coalition has invited **REP. BROWN** and the sponsors of the other greenbelt bills to a meeting Thursday to discuss this and other aspects of agricultural uses of land. He asked the Committee to hold action on the bill until after that meeting.

Opponents' Testimony:

Tom Hopgood, Montana Association of Realtors, said he does not disagree with the intent of the bill. He warned the Committee to be very cautious of the potential drastic impact this and the other "greenbelt bills" could have on affordable housing in the state.

Bruce Nelson, long time realtor and home builder, Great Falls, said he is sad that this type of legislation is being introduced in Montana. Because of the economic conditions in the state, many young people are having to leave the state to find employment. They would like to come back and buy land but many will not be able to afford to do so because of the high taxes that would result from legislation of this type. He said this is short sighted legislation that would result in false economic remuneration. The beauty of the state is its best selling point. Retirees represent one of the best growth potentials the state has but they will not come here and buy land if the taxes are too high. Montanans do not deserve a sudden and capricious increase in property taxes. There does need to be an increase in government income but it should be accomplished by a well-reasoned approach to slow growth across the entire tax spectrum.

William R. Butler, private citizen, Lewis and Clark County, said he lives on a 20 acre tract outside of Helena, He pays into a homeowners association for road and weed control. He has minimal fire protection and must drive his children 3 miles a day to the bus stop. He said he chose to live there and is not asking the county or the schools for more services than he receives. He pays over $200 more for insurance than he would if he lived in town for the privilege of living in the country. He said this bill would increase his property taxes considerably and if that should happen, he and his neighbors would be very vocal about demanding extra services from the government.

Questions From Committee and Responses:

REP. HIBBARD asked if the real intent of the bill is to impact the 20 to 160 acre parcel landowners or the large landowners who are selling to movie stars and out-of-state purchasers who are buying the large ranches for non-agricultural purposes.

REP. DAVE BROWN replied he is really after the people who own over 20 acres of land and are using it for other than agricultural purposes.

REP. HIBBARD asked if any tax comparison data had been compiled on a large operating ranch sale in the state. He wanted to compare taxes paid on the operating ranch and taxes paid after the sale when conservation easements had been granted and the ranch had been taken out of active agricultural use. **REP. HIBBARD** said the property tax usually stays the same, but most of the impact is in taxes that are no longer paid on cattle, machinery, and income tax.

REP. BROWN said he does not have that information other than a conversation with the Gallatin County Commissioners who said there has been a sizable effect. He said he would get the hard data for the Committee.

REP. DRISCOLL said that the one acre farmstead is assessed at market value while the rest of the farm/ranch is assessed on productivity value. He asked if the entire farm/ranch would be assessed at market value under provisions of the bill.

Judy Rippingale, Deputy Director, Department of Revenue (DOR), said, after DOR decides how to determine predominant use of the land, land deemed to be agricultural over and beyond the one homestead acre would remain at productivity value. If the land is deemed to be non-agricultural it would be assessed based on the cost approach and the market value of comparable property sales.

REP. DRISCOLL asked **Ms. Rippingale** to explain how the value of the farmstead acre is determined.

Ms. Rippingale said that in the last reappraisal cycle, the determination was based on cost (what the acre would comparably cost in the same area as the farmstead acre) with a 20% discount. In the next reappraisal cycle it will be market based compared to other sales of rural homes. It will only be cost based if there are no other comparable sales on which to base the determination.

REP. REAM said he did not understand **Mr. Oldenburg's** concerns since his acreage is under 20 acres.

Mr. Oldenberg said he is concerned about all agricultural land in Montana. Legislation is being introduced which would impact parcels under 20 acres. He said the taxable base should be determined on a production basis. If the land is producing small grains, alfalfa, or other agricultural products which are entering the commercial market, it should be classified as agricultural land.

REP. HARPER said the fiscal note indicates DOR believes there are 25,000 parcels of land in the 20 - 160 acre category. Of the 25,000, DOR believes only half are used for agricultural purposes. He asked if the problem is that large in Montana.

Ms. Rippingale replied they just do not know for sure. When there is limited information available, the staff base their assumptions on statistical sample bases that they feel may apply to the overall picture. With the limited information available, the staff estimated a 50% agricultural use. She said the greenbelt bills that are pending this session also add to the uncertainty.

REP. HARPER said if the estimates are even close to accurate, there is a great deal of land misclassified in the state because of the way the laws are structured.

Ms. Rippingale said she agreed with **REP. HARPER.**

REP. JIM ELLIOTT said he intends to amend this or any of the other greenbelt bills that seem likely to pass with a grandfather clause. He asked **Mr. Hopgood** if that would address some of his concerns.

Mr. Hopgood said a grandfather clause would be a step in the right direction.

REP. REAM asked **Dennis Burr** if there would be any legal problems with grandfathering the one acre farmstead.

Dennis Burr, Montana Taxpayers Association, said it certainly sounds as if it would be discriminatory. He said there would have to be a very strong governmental reason to do it.

Closing by Sponsor:

REP. BROWN closed saying he is trying to equalize use of Montana land. If agricultural land is being taken out of production and turned into a playground for the wealthy, it should be assessed commensurately. He said if people are able to come to Montana and buy over 20 acres of land and build a house, they should also be able to afford the taxes. If nothing else, this bill raises a lot of questions about our current agricultural tax policies. He said this bill should be used as a vehicle to correct inequities in use and taxation of agricultural land.

HEARING ON HB 649

Opening Statement by Sponsor:

REP. DAVID WANZENRIED, HD 7, Flathead County, said the fiscal note is longer than the bill and contains an error. The error in the second assumption indicates there is no provision to exempt from the provisions of I-105 the 8 mill levy that is established in the bill. He said the reason it is not exempt is because the 8 mill levy would replace the current 12 mill levy. In 1983, the Legislature allowed counties to levy up to 12 mills for the poor fund, but counties with excessive welfare demands could become state assumed counties. Twelve counties, Cascade, Deer Lodge, Flathead, Lake, Lewis and Clark, Lincoln, Mineral, Missoula, Park, Powell, Ravalli, and Silver Bow currently levy 12 mills and are also state assumed counties with the state paying for the balance of the welfare costs over and above the 12 mills. The mill levies in the remaining 44 counties in Montana vary from 0 - 12 mills. HB 649 would require all counties to levy 8 mills to fund public assistance for a general assistance program designed to serve primarily single adults without children. This bill would establish a statewide responsibility for taking care of those individuals rather than leaving it up to the state and the assumed counties alone. State policy should determine responsibility for funding minimum administration and benefit levels for these people. If so, further decisions must be made as to the level of benefits that will be offered. Benefits include such programs as living subsidy, state medical, and project work programs. The 8 mill levy will produce $16 - $17 million per year. The recently introduced **Cobb/Keating** bill, recently introduced, puts all the responsibility back on the individual counties. If that bill becomes law, benefits will be cut drastically, if not altogether eliminated. A possible secondary effect will be migration to non-assumed counties. He said it will also be important to develop a plan to give money back to the counties, whether by block grants or other means, as a means of equalizing those welfare costs across the state.

Proponents' Testimony:

Linda Stoll-Anderson, Chairman, Lewis and Clark County Commission, and also representing Lincoln County, expressed support for the bill. She said 80% of the general assistance caseload in Lincoln County is made up of local residents. In Lewis and Clark County 70% of those on general assistance are not county residents.

Larry Fasbender, Cascade County, said Montana should be humanitarian and compassionate in meeting the needs of its people, but it should not develop a program that attracts people from other states. Yellowstone County, an non-assumed county, runs very efficient programs, but also has the largest welfare program in the state. They can fund the program for their 6000 person general assistance case load because their mill levy is very high and a mill raises $190,000. A mill in Cascade County raises only $90,000. This discrepancy in millage has created a great many problems for the state, an obvious example being school equalization. Counties should not have to bear the welfare costs of people who come seeking jobs where there are none. One county should not be able to deal with their welfare problem by buying a recipient a bus ticket to another county. The only long term solution to the problem is a statewide levy.

Howard Gipe, Flathead County Commissioner, said he agrees with the previous testimony and expressed support for the bill.

Bill Hedstrom, Flathead County Commissioner, expressed support for the bill, but wondered if Flathead County would have to assume the 25 state employees currently administering the welfare program if the bill passes. In addition to the employees, he said it is not clear whether the county would be responsible for purchasing the state-owned equipment and facilities from the state.

Judith Carlson, Montana Association of Social Workers, said general assistance is the ultimate safety net serving people who have hit rock bottom and have nowhere else to turn. This bill is the only way for counties to maintain a general assistance program.

Craig Young, Montana Low Income Coalition, said it would be better to downsize the general assistance program than to completely eliminate it. It is difficult to get on the general assistance rolls. It takes 20 working days to be approved for general assistance which eliminates a number of people who are not seriously in need of services. The benefits that are offered can make a tremendous difference for those people who are really trying to recover from a disaster and get back on their feet.

REP. REAM said he supports the bill, but asked the Committee to consider the following points. More than half the costs in the fiscal note are for medical services. Medical assistance drives a large number of people to the 12 assumed counties. Some of the counties are using tax money to buy tickets to send welfare applicants to other counties. He said this is unethical, unconscionable, and unchristian and should be illegal. The property tax base is a poor way to fund the general assistance program.

<u>Opponents' Testimony</u>:

Gordon Morris, Montana Association of Counties (MACO), said MACO adopted a resolution opposing any de-assumption or statewide assumption regarding welfare. He said he is confused by the discussion which leads one to believe the bill is a statewide assumption of welfare. He said he thinks the bill allows for the assessment of 8 mills above the mills being levied under 53-2-300, MCA, which allows counties to levy up to 13.5 mills for welfare. He said most all the 44 unassumed counties are levying the full amount. The state-assumed counties are levying 12 mills with the state paying for the administration of the program. He said he does not find anything in the bill that would repeal the 12 - 13.5 mills. This bill represents an 8 mill statewide property tax increase for the direct support of Social and

Rehabilitation Services (SRS) with the assumption that it would fund state general assistance in the 12 state-assumed counties. He said it will be difficult to implement this bill due to the tax liability issues that will arise with respect to I-105. He agrees there is a need and a responsibility to adequately fund welfare programs; however, property taxes are not the appropriate source of revenue to fund a state administered welfare program.

Dennis Burr, Montana Taxpayers Association, said he also disagrees with using property taxes to fund a state program. The property tax has historically been a local government and school funding mechanism in Montana. He said he has concerns about dovetailing the bill with the provisions of I-105. He said there are grey areas in the mill levy mechanisms that must be addressed. He said this bill must be considered in light of HR 2 which mandates $99 million in spending cuts and $99 million in tax increases.

Questions From Committee Members and Responses:

REP. McCAFFREE asked if the imposition of an 8 mill levy would result in elimination of any of the current programs funded by 12 mills on the local level.

REP. WANZENRIED said the 8 mills would be principally used to offset the statewide costs of administering the general assistance, state medical and object work programs. The unassumed counties would be entitled to define the 8 mill application for their own counties.

REP. McCAFFREE asked if the bill included AFDC funding.

REP. WANZENRIED said it does not.

REP. McCAFFREE asked if AFDC would then be funded by mills over and above the 8 mills.

REP. WANZENRIED said it would.

REP. HARPER asked **Mr. Burr** if this bill moves even farther away from his position that property taxes should not be used to fund a state welfare program.

Mr. Burr replied that if this is a state mandated program, it should be funded from state revenue sources. If it is a county obligation, and it seems to be unclear in this bill if it is a county obligation if the county sets its own standards, then it is not quite as objectionable to use property taxes as the funding mechanism.

REP. HARPER said the basic funding source will be property taxes if either the **Cobb/Keating** de-assumption bill or this bill passes. This bill moves towards state wide property tax equalization. He asked **Mr. Burr** if that is the way the state should be moving.

Mr. Burr said he does not agree that there should be a statewide property tax levy that is the same for every county regardless of services provided.

REP. HARPER said there are many areas in the state which are basically tax free zones compared to the tax burdens carried by others.

Mr. Burr said, philosophically, in order to equalize taxation the state should move away from property taxes as a means of equalizing rather than moving toward them.

REP. RANEY said it is apparent that there is no other way to fund welfare than by property taxes. He asked how it can be fair that Park County taxpayers pay 12 mills for welfare assistance while people in Richland County pay nothing.

Mr. Burr said the assumption that there is no other way to pay for it than by property taxes is very possibly the flaw in the bill. He said there are 40 counties that levy below 12 mills and two counties that have no welfare levy. He said he has no answer to the fairness issue.

REP. MCCAFFREE asked what the fiscal note would be on AFDC.

Penny Roth, Bureau Chief, Family Assistance Division, SRS, said she could not answer the question.

REP. McCAFFREE said he is concerned that some Committee members think the 8 mills is all that will be paid for all welfare costs. He asked for information detailing total welfare costs over and above the 8 mills.

CHAIRMAN GILBERT asked SRS and DOR to provide complete fiscal information to the Committee on the cost of all welfare programs, not just those three programs covered in the bill. He said no action will be taken on the bill until that information is received by the Committee. He noted that all the welfare money in Richland County comes out of the general fund.

REP. ELLIOTT asked what type of people use state medical assistance. He said he understands 70% of those who use state medical assistance are pregnant women, but 70% of the dollar amount spent on state medical assistance is paid for services to people over 62 years of age.

Ms. Roth said the medical assistance program serves a wide range of individuals, mainly single people or married couples without children. The average age range is between 35 and 55. There are more men than women using the medical services. Pregnant women are not covered by the state medical program as they are served by Medicaid. Individuals between 62 and 65 may receive some state medical services because they are not old enough to draw Medicare assistance.

REP. RANEY asked if the 8 mill levy in this bill would be added to the current 12 mills in the counties.

Ms. Rippingale said she understands the assumed counties would take off the 12 mill levy and replace it with 8 mills. Unassumed counties that are not levying any mills for welfare would add the 8 mills. The additional mills in the unassumed counties caused the I-105 concerns in the fiscal note.

REP. WANZENRIED said counties are currently authorized to levy 12 mills or 13.5 mills if they have a nursing home. The counties currently at 12 mills will remit 8 mills of the 12 to the state under the provisions of this bill. The counties can use the remaining 4 mills as they wish. The counties that are not levying up to 8 mills will be required to levy up to the 8 mills to send to the state. The money is sent to the state and then distributed back to the counties. **SEN. CHRISTIAENS** will present further testimony on technical aspects of the bill. **(NOTE: SEN. CHRISTIAENS** was not able to present the testimony at this meeting nor did he testify during executive session.)

<u>Closing by Sponsor</u>:

REP. WANZENRIED said a great deal of the general assistance money is being spent on state medical services. Many rural counties have no medical services at all. County residents and general assistance recipients alike must travel to nearby counties for medical services. The question is whether the state has the responsibility to fund a minimum level of general assistance in the state. He believes the state must assume that responsibility.

The Human Services Subcommittee is mandated to cut $30 million from the budget. The initial proposal to get the state out of the general assistance business would have saved $14 million. The Subcommittee has determined the state can now spend $10 million on general assistance services. He said he would welcome suggestions for funding other than by property tax increases. The pressure is on to scale back the general assistance program because of the impact on the general fund. In assumed counties there are no limits on expenditures and supplementals must be enacted to take care of that spending. If the state continues to move in the direction it is, with broad cuts in welfare assistance, there will be chaos. This bill is not perfect. He asked the Committee to hold the bill until further information is available. This bill requires a policy decision and he asked the Committee to look at the bill closely and to utilize all the resources it can to adequately support the assistance programs in the state.

ADJOURNMENT

Adjournment: The meeting adjourned at 11:15 a.m.

Bob Gilbert

REP. BOB GILBERT, CHAIRMAN

Jill Rohyans

Jill Rohyans, Secretary

BG/jdr

HOUSE OF REPRESENTATIVES

TAXATION COMMITTEE

ROLL CALL

DATE 3/4/93

NAME	PRESENT	ABSENT	EXCUSED
REP. GILBERT, CHAIRMAN	✓		
REP. FOSTER	✓		
REP. HARRINGTON	✓		
REP. ANDERSON	✓		
REP. BOHLINGER	✓		
REP. DOLEZAL	✓		
REP. DRISCOLL	✓		
REP. ELLIOTT	✓		
REP. FELAND	✓		
REP. HANSON	✓		
REP. HARPER	✓		
REP. HIBBARD	✓		
REP. KELLER	✓		
REP. McCAFFREE	✓		
REP. McCARTHY	✓		
REP. NELSON	✓		
REP. ORR	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. TUNBY	✓		

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

HB 649

House Taxation COMMITTEE BILL NO HB 643

DATE 3/4/93 SPONSOR(S) BROWN, WANZENRIED

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Henry Oldenburg Box 3006 Kalispell 59903	Self	643 ✓	
Tom Hopgood	Mt. Assoc. Realtors		643
William R Butler	SELF		643
Jon Meredith	SRS		✓643
[illegible]	Cascade County	HB-649 ✓	
Gordon Morris	MACo		HB 649
[illegible] Anderson	[illegible] Lincoln County	HB649	
Howard Gipe	Flathead Comm	HB 649	
Bill [illegible]	Flathead County	HB649	
Dave Brown	Sponsor - HD #72	HB643	
[illegible]	MT Farm Bureau	HB 643	
[illegible]	643 MWRA	HB643	
Judith Carlson	MT Ch. NASW	HB649	

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