

## **MINUTES**

### **MONTANA SENATE 53rd LEGISLATURE - REGULAR SESSION**

#### **COMMITTEE ON TAXATION**

**Call to Order:** By Chairman Mike Halligan, on March 11, 1993, at 7:00 a.m.

#### **ROLL CALL**

##### **Members Present:**

Sen. Mike Halligan, Chair (D)  
Sen. Dorothy Eck, Vice Chair (D)  
Sen. Bob Brown (R)  
Sen. Steve Doherty (D)  
Sen. Delwyn Gage (R)  
Sen. Lorents Grosfield (R)  
Sen. John Harp (R)  
Sen. Spook Stang (D)  
Sen. Tom Towe (D)  
Sen. Fred Van Valkenburg (D)  
Sen. Bill Yellowtail (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Jeff Martin, Legislative Council  
Bonnie Stark, Committee Secretary

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

##### **Committee Business Summary:**

Hearing: None.  
Executive Action: SB 402  
Discussion: SB 235, SB 283

#### **EXECUTIVE SESSION ON SB 235 and SB 283**

Chairman Halligan opened the executive session by saying the work the committee has done on various amendments may need to be refined or discussed further and perhaps some additional amendments may need to be discussed.

At the request of Senator Van Valkenburg, the Department of Revenue (DOR) prepared and presented Exhibit No. 1 to these minutes, which reflects the actions taken by this committee on various amendments to SB 235. Director Mick Robinson explained this exhibit is an update of the financial schedule that was

prepared and presented previously. The projected gross revenue income from the sales tax is \$308.81 million, which is a downgrade from \$313 million previously reported. Most of the exemption amendments, which added or reduced, as well as some of the clarifying language, has had an impact.

The vendor allowances of \$9.11 million less revenue reflects the 3% first year, \$100 per month cap, amendment. In the second year of the sales tax, that amount would drop down.

The 6% flat rate income tax has seen a decrease of \$44.39 million, due to the reduction of the retirement exemptions from \$15,000 to \$7,500. The low income sales tax credit and the renters credit amounts are unchanged. The amount of credit to be granted to the elderly homeowners/renters results in \$4 million being added back into the revenue of the bill. A person could take one or the other credit, but they cannot take both credits.

Mr. Robinson said the property tax figures are basically unchanged from the original schedule. There is a net tax reform impact of \$117 million.

Senator Halligan asked if the change was from the previous \$90 million figure. Mr. Robinson said that figure was if there had been acceptance of the 95 mills modification. The original figure the DOR was looking at for FY 95 was \$130 million. One change, trying to put the figures on a full-year implementation, is that the Homestead Exemption is a higher figure than was used for FY 95. The way SB 235 is drafted, the Homestead Exemption (and low-income credit and renter's credit) dollar impact, for 1995, would be for only 3/4 of a year, since the sales tax would go into effect April, 1994. In 1996, with a full year's Homestead Exemption, there is a concept of \$49.36 million.

Senator Towe asked why the low-income sales tax credit for FY 95 was listed at \$25 million in the original chart. Director Robinson said that figure was inconsistent, that the low-income credit for a full year is \$25 million; the renter's credit is \$21 million. Fiscal Year 95 figures should be for 3/4 of the year, or \$18.75 million.

Senator Halligan asked if the DOR could provide numbers on the renters credit and how it affects rents at various levels. Mr. Robinson said the only place that income relationship comes in is under the 95 mills. The Senator said the Committee would not need these figures at this time.

Senator Towe asked if the income tax flat rate of \$44 million is a FY 95, FY 96, or FY 97 number. Mr. Robinson said that is a FY 95 figure, and is for the full year. There will be larger decreases in revenue for FY 96 and FY 97 because of indexing the standard deductions.

Senator Van Valkenburg asked if the adjustments for low-income sales tax credit and the renter's credit are figured on a full-year basis, it would add about \$11 million cost in tax relief, and the bottom line to the net revenue, which the DOR calls Impact of Reform Proposal, would be about \$105 million. Mr. Robinson said this is correct.

Director Robinson said the DOR can look at a number of alternatives, such as additional property tax reform, with the 95 mills, or some other scenario. He said one of the areas where the DOR has tried to be consistent is in tax reform relief where they are holding fast to the \$200 million figure. If there is an interest in considering the 95 mills, or another approach in the property tax reform, they can look at some adjustments in the income tax calculation or a downward movement in the homestead exemption. The DOR remains flexible in working with all of those tax reform areas.

Senator Eck recalled that when talking about the utility exemption, there was a suggestion of looking at how the low income exemption was structured. Mr. Robinson said he did not have that information at this point, but as the analysis of the individual impact of the sales tax is put together, they could identify the utility estimate. They may need to look at the low income credit and adjust it downward. They did take the cost of utilities into consideration while trying to structure the progressivity, recognizing that utilities are a large chunk of the sales tax money to be paid by low-income families. If utilities are not taxed, the DOR could take a look at what that credit would have been. A quick calculation on the dollar amount in reduced revenue in connection with the utility exemption was around \$6 million. The DOR would have to adjust the low-income sales tax credit by about 25%, moving from the \$90 amount down to about \$67 per individual.

Senator Eck stated that may not be appropriate because the utility exemption goes to everyone, it doesn't just go to low-income families. She thinks it may be more appropriate to look at the DOR's original calculations and figure that \$10 of that was sales tax on utilities.

Senator Van Valkenburg said his recollection was that utilities were \$17 million, not \$6 million. Director Robinson said the amendment was just for the residential utility portion of \$6 million; the \$17 million figure was the total sales tax revenue flowing in from all utilities, which included commercial and industrial, etc.; \$6 million would be the amount of tax lost by not taxing residential utilities.

Senator Van Valkenburg said he doesn't understand why the vendor allowance has jumped so much in the first full year. Mr. Robinson said there is a cross-over in fiscal years. With the sales tax going into effect April 1, 1994, there is a 1/4 impact in FY 94, and a 3/4 impact in FY 95. In FY 96 and FY 97, the

vendor allowance will come down, and with inflation, the gross revenue will have some increase.

Senator Stang said there was about \$100 million in property tax relief in the original proposal on SB 235. Now, because of a policy switch, there is \$200 million in property tax relief. He asked why there was a policy switch and how does the \$200 million, versus the \$100 million, break down in commercial and business property versus residential property. Director Robinson said he thinks the Senator is referring to their proposal regarding the 95 mills. Also as part of the proposal, there was some replacement revenue in the electric company tax and telephone company tax. The dollar amounts raised by those were \$50 million to \$60 million. The net addition in property tax relief was \$49 million. Mr. Robinson said he is not sure where the break-down change falls in terms of residential versus commercial. He said he would guess the majority falls into commercial, however, there is a downward adjustment in moving the agricultural property tax classifications to 4%.

Senator Doherty asked what the percentage is for the Class 8 personal property. Mr. Robinson said it is based on the present 3.86%. The Senator asked why the homestead exemption of \$37 million in the original presentation is listed in today's figures as costing \$49 million. The Director said the \$49 million is the full-year cost of providing the \$20,000 homestead exemption. What was listed in the \$37 million is the FY 95 impact as the bill is presently drafted.

Senator Van Valkenburg said he thinks the Senate would not accept the 95 mill approach, and he thinks the Administration's interest may be two-fold; one of trying to have some link between the use of sales tax revenues and school funding and equalization, and the elimination of some property tax levies associated with school funding. Possibilities the Senator suggested are replacing the levy for school retirement benefits, which are county-by-county levies supported by guaranteed tax base, having an element of equalization in the retirement levies; transportation levies that have a lesser degree of equalization; and debt service levies that have virtually no equalization associated with them now. The Administration may have some interest in potentially tying SB 235 to the elimination or reduction of voted or permissive levies in the school funding area. Senator Van Valkenburg said there is a possibility of putting some element of school funding into SB 235, with a potential of further equalizing school funding, in an effort to get more support for this bill.

Greg Groepper, Office of Public Instruction (OPI), said they got involved in discussions when the 95 mill suggestion came up and it didn't seem to be doing much for equalization if the 95 state-wide mills, considered to be equalized, were replaced with another source of state-wide revenue. There are some areas of school demands that are not equalized that the Court, in the

first lawsuit, strongly suggested should be equalized. The OPI thinks this Committee may want to focus on those in some sort of priority order. In the litigation, the areas mentioned as needing to be equalized but that the Legislature has been unable to address because of the funding situation, were capital outlay and school transportation. Mr. Groepper said it wouldn't take a lot of money to help equalize capital outlay. The next priority would be school transportation, because now there is a county levy for funding about 1/2 the on-schedule cost. Mr. Groepper suggested the Committee might consider taking the entire amount of the on-scheduled cost of getting kids to school when they live farther than 3 miles from school, and look at replacing that county mill levy and the current state general fund revenue with sales tax. That amount is around \$20 million.

Mr. Groepper said OPI is offering these suggestions to help the Committee put their work together with bills that are currently in process. The Committee could look at either the retirement levy or some additional support through guaranteed tax base in school equalization to be consistent with the bill making its way over from the Select Committee in the House. They are suggesting an equalization proposal that has the state paying a portion and then a chunk of guaranteed tax base. It is easier for OPI to show the impact if they focus on the retirement costs because they know what those costs are for school retirement and the county mill levy and guaranteed tax base that goes with that.

Mr. Groepper asked if the Committee could set some priority items so OPI could examine them individually, such as the on-schedule part of transportation or capital outlay, or a portion or all of the county levy for teachers retirement. The OPI could then get the Committee an analysis of what the mill levy is, county by county; district by district would be a little harder to put together in a short time.

Senator Towe asked if Mr. Groepper could explain the capitalization program. Mr. Groepper said when schools prepare to build a building because of increased enrollment, there is no state support. Originally, SB 32 contemplated guaranteed tax base (GTB) in equalizing not only the levies that get passed from this date forward, but going back to school districts that had already built the building and had debt service in the current year. That bill had a \$6.5 million or \$7 million price tag, and was considered by the Senate Education Committee to be too expensive so they did GTB just prospectively, to cover a capital outlay project from passage of the bill forward as a district would pass a bond election. Depending on how much support this Committee wanted to put into capital outlay through GTB, that could be either a \$6 million price tag, a \$2 million price tag, or the state could increase its contribution of GTB to spend whatever figure this Committee thought was needed to spend for capital outlay projects for schools.

Senator Towe asked if this covered the total capital outlay project. Mr. Groepper said when a school district has a 20 year bond, only 1/20 of that bond is being paid off in the biennium.

Senator Towe asked if the on-schedule \$20 million cost listed in school transportation is an annual figure or a bi-annual figure. Mr. Groepper said this is an annual figure, but at present, the cost of transportation is about \$34 million. The state spends \$20 million, and the districts spend another \$14 million above that. There are two components, one is the on-schedule cost, i.e., what the state's responsibility is to reimburse districts through the state piece and the county piece, which is 85 cents a bus mile and up, depending on the size of the bus. The county portion and the state's portion together are about \$19 million to \$20 million. The remainder is what the district spends to move kids from one elementary school to another elementary school within the same district so they don't have to build another classroom, or it is used for field trips, etc.

Senator Harp asked Mr. Groepper, when looking at the general fund voted levy, which is easiest to implement, transportation or retirement. Mr. Groepper said each of them are just one section of law. The programs could keep going the way they are going today by just eliminating the reliance on a county levy and replacing it with sales tax revenue. This would not interfere with the equalization bills that are coming through the House.

Senator Harp asked if there is a new revenue offered by a referendum passed by the public, would the OPI look to it as a new source of revenue for education in general. Mr. Groepper said the interest seems to be to show some additional property tax relief and some equalization issues could be addressed as well. There is property tax relief when you get rid of the county-wide levy for retirement and the county-wide levy for transportation. These are also areas the Courts said need to be equalized. What would be done in transportation would be to greatly improve equalization; what would be done in retirement is to improve it somewhat. Those would be the easiest to handle by amending SB 235 a little. However, if the Committee starts getting into GTB for the foundation program, then a lot of sections need to be changed, according to Mr. Groepper.

Senator Doherty asked for the dollar figures for retirement. Mr. Groepper said the total teachers' retirement is around \$65 million. About \$15 million of that is State GTB aid; there is \$50 million coming from the counties. There might be some \$60 million spent in sales tax revenue, but there would be \$15 million saved in GTB revenues, so the net cost would be about \$50 million. This is now funded through a county levy, and in the poorer tax-low counties, that levy is buttressed with GTB support.

Senator Doherty said the school equalization bills in the House are looking for a funding source, which could be sales tax dollars or income tax dollars. He asked if the House has inserted coordinating instruction clauses in the equalization bills. Mr. Groepper said the bill that appears to be making its way over to the Senate is the Cobb/Legislative Auditor bill (HB 667). This bill says the Legislature determines how much it wants to pay and there is a net cost. The way the bill is contemplated now, those costs are coming from the state and being supported with GTB revenue. If the sales tax revenue would be used, it could replace the revenues into the State Equalization Aid (SEA) account. HB 667 does not contemplate addressing county retirement or county transportation. Mr. Groepper said it is difficult to translate sales tax revenue into some sort of property tax relief because the funding sources for HB 667 are the same sources that currently fund the SEA account--some income tax and some county-wide levies. If sales tax revenue is tied into that issue, it would replace another equalized funding source. Then there would need to be a complex coordinating clause to take the different revenue pieces and have an amendment in this bill that would modify the revenue going into the SEA account and be able to say there is property tax relief. Mr. Groepper said that approach would not accomplish what he understood this Committee and the Administration were looking at doing. If addressed through county retirement and county transportation, then some property tax relief can be shown and wouldn't have to rely on another bill passing, to be able to be coordinated with the sales tax bill.

Senator Gage asked Mr. Groepper if he had any guess as to how much of the \$34 million of transportation on a percentage basis would be property tax relief and how much would be non-mill revenues. Mr. Groepper said about \$8.8 million is the county spending, which includes some non-levy revenue. Jan Thompson, OPI, said non-levy revenue costs are about 31%.

Senator Eck asked if the Committee should first address those areas where it knows there is trouble, one of them being capital outlay. If SB 32 dies in the House, there is no other way of funding capital outlay. She thinks this Committee should look at what SB 283 does, which picks up all of the permissive levies to cover transportation, capital outlay, and retirement, depending on how much is available. It is her understanding that retirement is already equalized, so it may not be as much of a problem. She said when the Committee looked at the 95 mills, it didn't do anything for equalization. Picking up permissive levies makes a big step towards equalization, but it is the underfunded counties that get the advantage. She understands that the counties that are not underfunded don't like the GTB. If some of the levies funded by GTB are removed, it might give something to everyone. Mr. Groepper said the OPI understood SB 283 approached property tax/income tax relief in a much different fashion than SB 235. Senator Waterman considered putting \$185 million sales tax revenue into getting rid of a number of those

mills to reduce the property tax burden, and SB 283 fundamentally changed the property tax bill. A true comparison cannot be made as to how much equalization effort is available in SB 235 versus how much school tax relief is available under SB 283. Mr. Groepper said there is a misconception that school retirement is equalized. It is somewhat equalized, but because there is so much non-levy revenue going into the teachers retirement fund, it is not fully equalized in terms of taxpayer equity. If a school district has a lot of non-levy revenue, they don't have to levy many mills to pay the cost of the teachers retirement, but in another county that is very similar but doesn't have non-levy revenue, a taxpayer may be asked to spend two or three times the property tax levy to pay for the cost of teachers retirement. The same is true in the transportation levies. This Committee needs to decide how much sales tax revenue is to be earmarked for school equalization property tax relief and what is the easiest way to get this into SB 235 in the length of time available, and then at some later date, should the decision be made to take that revenue to address something more important in a school equalization bill, the opportunity is there and can be done without a lot of complication.

Senator Towe asked if it would be more difficult to go into the permissive levy because of so many sections involved in the amendment and the complications of putting money into that. Mr. Groepper said in the short time available to this Committee, that part would be more difficult because when the support of GTB is changed, then a number of sections have to be modified. That would make SB 235 unnecessarily complicated.

Senator Towe asked if the special education could be added, or is that not an equalization problem. Mr. Groepper said it is not as big a problem in terms of equalization because the state pays about \$33 million in special ed, and districts are able to levy another 35% above that to support special ed. That levy in poorer districts is permissive and is supported by GTB. A large chunk is funded by the state, with the capability of the districts to levy, and have GTB support of the local effort. That process, in current law, is embedded in the whole district budgeting, budget cap, etc. Again, that would be a problem to work out in a short time frame.

Senator Stang commented that, because of the required vote of the people in this bill, capital outlay probably won't work since there is no bonding capacity left after the last legislative session. Mr. Groepper said all of the money needed to fund SB 32, for instance, could be paid for by sales tax money. Senator Stang said that since the sales tax has to go to the people for a vote, this will not solve the state's immediate problem with capital outlay. Mr. Groepper said this is correct.

Senator Van Valkenburg asked if there is a fund that is partially supported with non-levy revenue, such as transportation, and sales tax revenue is substituted as the



source of revenue, doing away with the property tax levy that supports that fund, where does the non-levy revenue end up going. Mr. Groepper said it would get re-distributed on the remaining mills that are in the property tax base; the 95 mills and the 6 mill university levy would get a bigger portion of the non-levy revenue, and cities and counties would get a bigger portion of the non-levy revenue. They would essentially get the portion that would have gone to county retirement and county transportation, and if something is done with capital outlay, some portion would go there as well.

Senator Brown asked if OPI and DOR could work up some amendments in the area of retirement and transportation that the Committee could consider.

Senator Van Valkenburg said he thinks this Committee has two alternatives that would fund the needs of government; one with a sales tax and one without. There may not be sufficient revenue to deal with the future problems state government is going to have. Additional money needs to be put into the school foundation program schedules in the future; money is going to be needed for pay raises for state employees; and the state will have to deal with the issue of increased health care costs. He thinks it is the responsibility of the House to come up with some funding source for SB 32, and to try to take care of that separate and apart from the sales tax, but which might be replaced with sales tax revenue if the people voted for the sales tax. He also thinks this Committee should look at school transportation because that is the next area furthest away from school equalization, and he further thinks this Committee should look at the teachers' retirement issue.

Senator Doherty suggested that if direction is given to the OPI and DOR, he would like to make sure each piece would be looked at separately and not included as a package.

Senator Gage commented he was surprised that the non-mill revenues were so significant, 31%, and he thinks that magnitude of lost revenue, with regard to funding, should be part of the consideration of where the sales tax funding will go. Mr. Groepper said a portion of that non-mill revenue will add to revenues at the state level for the SEA, etc. All that can be done in this period of time is to make sure the non-levy revenue that would flow into the state is taken into account. The Committee can go through a list and prioritize what information they need from OPI and the DOR, and, depending on how much the Committee decides to spend on this effort, they could take increments or pieces of the retirement by increasing the GTB.

Mr. Groepper reviewed what OPI is being asked to do:

1. Get an amendment together and calculate the cost of doing something with capital outlay;

2. Get an amendment together and calculate the cost on transportation;
3. Get an amendment together and calculate the cost, probably at a couple of levels, for retirement. If all of retirement couldn't be done, figure what it would cost to do half of retirement.

If time allows, once the above pieces of work product are in the right places, something could be prepared, perhaps by county, telling what the tax levy implications are. Mr. Groepper doesn't think that can be done with capital outlay because that is solely dependent on which schools decide to pass a building issue, but they could tell the Committee, given current expenditures on transportation, the mills that would be saved, by county, if transportation is replaced, and they could tell, at various levels of funding for retirement, the mills that would be saved, by county, for funding 25%, 50% or 75% of the teachers retirement. He thinks OPI is able to do this in the time frame if it is done by counties and not by districts.

Senator Eck said some additional information would be needed from the DOR because the Committee will want to look at how the new amendments will affect people in the different income classifications. Also needed is the effect of these changes in property tax on the various classes of property. She doesn't think all of these will add up to the equivalent of 95 mills state-wide. Mr. Groepper said he didn't think the three pieces add up to 95 mills, but he thinks the figure is approximately \$50 million. The DOR was talking 95 mills plus some revenue on utilities, and the net effect is approximately \$50 million.

Senator Doherty questioned the figures for FY 95 which show the homestead exemption has dropped \$12 million. Mr. Robinson said there is a full year of sales tax revenue in FY 95. However, because of when the homestead exemption and the sales tax credits will be available, that is tailored to the point in time when the sales tax would be in effect. For instance, the low income credit, the renters credit, and the homestead exemption, are all based on applying for a credit with the income tax return. With the 1994 income tax return, since they have only paid a sales tax for 3/4 of 1994, the wording of the bill only allows a credit for 3/4 of the year that would be paid in FY 95. In calendar year 1995, there would be a full year of homestead exemption, sales tax credit, and renters credit, that would be allowed, but it would not be paid until FY 96. The fiscal year/calendar year problem exists which adds to confusion in the numbers.

Senator Van Valkenburg said his requests for additional information from the OPI were very accurately stated by Mr. Groepper. He asked if Mr. Robinson could state his understanding of what the Committee would like from the DOR. Mr. Robinson said they would work with the OPI on the priority list.

No further action was taken on SB 235 and SB 283 at this time.

### HEARING ON SB 422

#### Opening Statement by Sponsor:

Senator B. F. "Chris" Christiaens, Senate District No. 18, presented SB 422 which would require the Department of Revenue (DOR) to use the cost approach in determining the assessed value of residential improvements under Class 4 and Class 11. All taxable property would be assessed at 100% of its market value, except as provided. This assessment is based on the current cost per square foot, less depreciation. This would result in a fair and equal assessment for all property owners in Montana. Senator Christiaens said he was involved in a number of forums regarding property tax assessments in Great Falls and it was a consensus among those attending these forums that the current basis of assessing property was not working and taxpayers did not feel their property was assessed properly. SB 422 is a different method which was used in assessing property prior to 1989.

#### Proponents' Testimony:

None.

#### Opponents' Testimony:

Ken Morrison, Property Assessment Administrator, DOR, said the Department appreciates Senator Christiaens' concerns and position, but they must oppose the provisions of SB 422. The language in the bill requires that the cost approach be used when valuing residential property. The use of the cost approach exclusively is contrary to sound appraisal methodology. There are three approaches normally accepted in valuing property: (1) Cost approach (used in SB 422); (2) Income approach; and, (3) Sales Comparison (market) approach. The most common approaches for residential property are the cost approach and the sales comparison approach. The DOR is installing a mass appraisal system (CAMA system) into their computers which was used for the re-appraisal values to be released in the next couple of months. Mr. Morrison said the CAMA system is a terrific tool for appraisers who can feed information into it using all three approaches to value, but it is extremely helpful in valuing residential property using the sales comparison approach. The DOR is able to readily determine the worth of a subject property through this system. Mr. Morrison said if the sales approach cannot be used, he thinks it jeopardizes the valuations and makes it more difficult to defend these valuations before the State Tax Appeal Board, county boards, or the courts in Montana. Mr. Morrison said if SB 422 is passed, it would do serious harm to the DOR's ability to find the market value they are required to do under statute. He encouraged the Committee not to pass this

bill, and allow the DOR to continue to use all the approaches to determine the market value of property.

Dolores Cooney, Butte/Silver Bow DOR, said she has been a property appraiser for 11 years with the DOR, and holds a General Certification License with the Montana Board of Real Estate Appraisers. She is testifying against SB 422, and specifically Section 1 (6), which would mandate the DOR to determine the assessed value of residential improvements under Class 4 and Class 11 by the cost approach. As an appraiser, limiting her appraisals strictly to the cost approach would severely impact her ability to produce accurate and uniform market values of real property. The utilization of the cost approach solely in the appraisal of real property can lead to highly disputable estimates of market value, especially when appraising older structures with extreme forms of physical depreciation and functional and economic obsolescence. The reliability and competence level of the values produced by the market approach using the CAMA System has allowed Ms. Cooney and her staff to produce estimates of value for residential property with far more satisfactory results and closer determinations of market value estimates than they would have been able to produce had they solely used the cost approach.

Maurice M. Gogarty, the on-site appraisal consultant assisting the DOR in the current state-wide re-appraisal program, spoke in opposition to SB 422. Mr. Gogarty said any time a tool is taken away from an appraiser, the appraisal results will be harmed. He said Montana is moving forward in its property appraisal system and to remove the market approach in appraising residential property would severely impact the DOR's ability to arrive at fair market value.

Tom Hopgood, representing the Montana Association of Realtors (MAR), said MAR doesn't think it is good public policy to pass SB 422 when the final result of the effects of the bill are unknown. He asked the Committee not to pass SB 422.

**Informational Testimony:**

None.

**Questions From Committee Members and Responses:**

Senator Gage asked Senator Christiaens how he proposes the DOR determine depreciation. Senator Christiaens said this is the same process used prior to 1989, but he did not know how the DOR would determine depreciation on property. Ken Morrison responded that the DOR currently uses the cost approach, relying on market information to determine depreciation rates. Prior to the current system, they used a more arbitrary process and the DOR had gotten into some difficulties because of not having a real basis for determining depreciation. Now, they try to look at sales information for depreciation information. The DOR's goals

in the cost approach, or with any of these approaches, is to find what the market is, what a willing buyer is willing to pay for the exchange of the property.

Senator Grosfield asked Mr. Morrison to explain the technical notes in the fiscal note regarding applicability date. Mr. Morrison said the intent of the bill was to use the cost approach exclusively for the 4th re-appraisal cycle which is beginning now. The values would be put on in the 4th re-appraisal cycle in 1997. The appraisals for the 3rd re-appraisal cycle are completed and those are the appraisals the DOR will be putting out in the next three months. The new cycle values will be put out in 1997.

Senator Grosfield asked Dolores Cooney if one appraisal approach might be used on one house and another approach might be used on a neighboring house. Ms. Cooney said that could happen, and that the best approach possible would be used. In the majority of residential property, the market approach would be used. Either way, market value should be arrived at no matter what approach is used to value. The market approach is most applicable with residential property if there are sufficient sales to compare.

Senator Grosfield asked Ms. Cooney how a determination was made as to which approach to use. Ms. Cooney said when preliminary regression models were run and specific parameters were set for different neighborhoods, statistics were produced that told her the market value was coming in very good when utilizing the market data approach. She was either over or under market indicators with using the cost approach in her particular situation.

Senator Towe asked Senator Christiaens the intent of SB 422, if he wanted to eliminate the annual update, or did he want to change the methodology which has been a three-pronged approach. Senator Christiaens said his understanding is that when most certified appraisers do their work based on the cost approach, the appraisal is made at the time of construction of the building, and after that time, they look at the depreciation schedule and never need to go back out and re-appraise unless there is major remodeling done on the structure. He is presenting the bill because there are three different approaches to appraisals going on now in different areas of the same community and there is a great disparity in values in the taxes from one section of town to another. Most people who appealed, got their taxes lowered.

Senator Eck asked Ms. Cooney how she uses the cost method of appraisals in areas where there have not been enough sales to come up with a market system. Ms. Cooney said relatively few sales could be used to establish the market value in a particular area. They have the ability to look at comparable areas that experience the same set of criteria regarding market conditions.

She said appraisers use a system of checks and balances throughout the process which they constantly check back against the actual market.

Senator Gage asked Mr. Morrison what the DOR would use for the cost approach. Mr. Morrison said they would look at what it would take to construct the property for the base period of their re-appraisal, and then depreciate that amount down. They wouldn't necessarily use the original cost; they would look at the current cost of construction.

**Closing by Sponsor:**

Senator Christiaens said the testimony of Ms. Cooney, speaking on the three different value systems available to come up with an appraised value, leads to some of the inequities that have occurred around the state in the current appraisal process. That is what he alluded to where the values changed from one section of town to another. The fact that there were 3100 appeals in a 30-block area should indicate there is something wrong with the appraisal system. The majority of those people were able to get their taxes lowered when they appeared before the Tax Appeal Board. Senator Christiaens doesn't believe that the current method of assessing results in equalization of taxes state-wide for all properties. He said that during the period of time from 1986 through 1992, \$700,000 was spent on tax appeal hearings. He asked the Committee to support SB 422.

**EXECUTIVE ACTION ON SB 402**

**DISCUSSION:**

Senator Towe said he talked with Mae Nan Ellingson, bond counsel, about the Treasure State Endowment program. She said the Board of Examiners should have the flexibility of making taxable bonds as well as tax-free bonds because they may need that flexibility in dealing with arbitrage. George Bennett had suggested he didn't see why the Board of Examiners would ever approve a bond issue that was taxable, and Ms. Ellingson said that in dealing with the Federal government and making sure they meet the arbitrage requirements, it may be wise to have the flexibility of making a particular issue a taxable issue to avoid the arbitrage problem, and that may be more beneficial than the non-taxable issue.

**MOTION:**

Senator Towe moved SB 402 DO PASS.

**DISCUSSION:**

Senator Van Valkenburg said in a previous discussion on this bill, in Section 5, Page 4, as to whether the language in this

section required an individual bill for each project, Senator Towe had said this was not his intent, nor did he think it was necessary. However, Senator Van Valkenburg said he is not sure that there does not need to be an individual bill for each project when the word, "separately" is used in this section.

**MOTION/VOTE:**

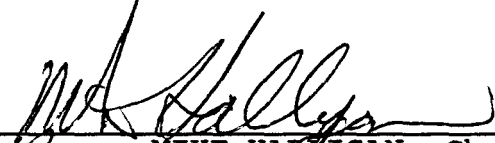
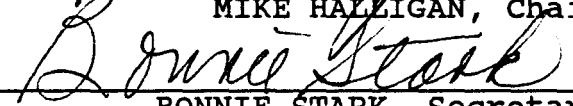
Senator Van Valkenburg moved to AMEND SB 402 by striking the word "separately" on Line 25, Page 4. The motion to amend CARRIED UNANIMOUSLY on oral vote. (sb040201.ajm)

**VOTE:**

The motion to DO PASS SB 402, AS AMENDED, CARRIED UNANIMOUSLY on oral vote. (551157SC.Sma)

**ADJOURNMENT**

**Adjournment:** The meeting adjourned at 10:00 a.m.

  
\_\_\_\_\_  
MIKE HALLIGAN, Chair  
  
\_\_\_\_\_  
BONNIE STARK, Secretary

MH/bjs

# ROLL CALL

SENATE COMMITTEE

TAXATION

DATE

3-11-93

NAME	PRESENT	ABSENT	EXCUSED
Sen. Halligan, Chair	✓		
Sen. Eck, Vice Chair	✓		
Sen. Brown	✓		
Sen. Doherty	✓		
Sen. Gage	✓		
Sen. Grosfield	✓		
Sen. Harp	✓		
Sen. Stang	✓		
Sen. Towe	✓		
Sen. Van Valkenburg	✓		
Sen. Yellowtail	✓		

FC8

Attach to each day's minutes

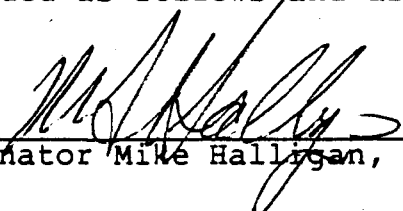


SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
March 11, 1993

MR. PRESIDENT:

We, your committee on Taxation having had under consideration Senate Bill No. 402 (first reading copy -- white), respectfully report that Senate Bill No. 402 be amended as follows and as so amended do pass.

Signed: 

Senator Mike Halligan, Chair

That such amendments read:

1. Page 4, line 25.  
Strike: "separately"

-END-

**SB235 – As Amended**  
**March 11, 1993**

<b>TAX REFORM COMPONENT</b>	<b>First Full Year</b>
Sales Tax – Gross revenue	308.81
– Vendor Allowances	(9.11)
– Administration	(6.27)
Sales Tax – Net Revenue	293.43
Income Tax – 6% Flat Rate	(44.39)
Low-Income Sales Tax Credit	(18.75)
Renter's Credit (\$200)	(14.09)
Property Tax; Class 8 Pers. Prop.	(41.73)
Property Tax; Railroads/Airlines	(2.27)
Homestead Exemption (\$20,000)	(49.36)
Commercial Exemption (\$10,000)	(5.99)
Revenue From CL Homeowner Credit	4.00
<b>IMPACT OF REFORM PROPOSAL</b>	<b>116.85</b>

**BILLS BEING HEARD TODAY:**

DATE 7/1/78  
SENATE COMMITTEE ON Taxation  
BILLS BEING HEARD TODAY: SB 422

Check One

Support Oppose

[illegible]

Amendments to Senate Bill No. 402  
First Reading Copy

For the Committee on Taxation

Prepared by Jeff Martin  
March 11, 1993

1. Page 4, line 25.  
Strike: "separately"