

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 53rd LEGISLATURE - SPECIAL SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB GILBERT**, on December 7, 1993, at 8:30 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: Rep. Harper excused until 9:30 a.m.

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 42, HB 47
Executive Action: HJR 2 No Final Action, HB 36 Do Pass As Amended, HB 45 No Final Action

HEARING ON HOUSE BILL 42

Opening Statement by Sponsor: REP. NORM MILLS, HD 90, Billings, said he made the bill request before Governor Racicot's bill was drafted. The bill provides tax relief for elderly taxpayers on fixed incomes. HB 42 freezes the tax base at the 1992 level with tax increases tied to the CPI adjusted to Montana growth. He said it is designed to help those people who are retired and may lose their homes due to large tax increases. The house would be held at the 1992 level and not reassessed until it sold or was remodeled. He said he has not actively pursued the bill since the Governor's bill was introduced, but he asked the Committee to keep in mind who the bill is for and to keep it alive as a possible back up until final action is taken on the other property tax proposals.

Proponents' Testimony: There were no proponents.

Opponents' Testimony: There were no opponents.

Questions From Committee Members and Responses:

REP. RANEY asked if there are constitutionality questions raised by the bill.

REP. MILLS replied that the Legislative Council researcher who drafted the bill said no constitutionality issues should arise from this approach. He noted the fiscal note has not been finished.

REP. DRISCOLL asked what means would be used to determine a Montana adjusted CPI figure.

REP. MILLS said he had asked the Legislative Fiscal Analyst (LFA) about that and had been assured that the Department of Revenue (DOR) would be able to calculate that figure.

Closing by Sponsor: REP. MILLS asked the Committee to keep the bill in reserve and to remember the people that would be benefitted by the bill's passage.

HEARING ON HOUSE BILL 47

Opening Statement by Sponsor: REP. JIM ELLIOTT, HD 51, Trout Creek, said the bill, the Homeowner's Protection Act, is an effort to cap the rate of increase in the market value on houses to conform to the national CPI rate. It represents a fair approach to limiting the taxable value of a home in Montana. He presented material from Exhibits #1 and #1a in explanation and support of the bill.

Proponents' Testimony:

Tom Hopgood, Montana Association of Realtors, said the bill represents a fair and equitable approach to the problems created by reappraisal.

Opponents' Testimony:

Greg Van Horssen, Income Property Managers Association and the Montana Landlords Association, presented his testimony in opposition to the bill (Exhibit #2).

Questions From Committee Members and Responses:

REP. McCAFFREE asked about fiscal information (fiscal note did not accompany the bill).

REP. ELLIOTT said there is no up front cost to the state or to any taxing jurisdiction; however, there are down the road costs. Those costs are impossible to calculate when a mechanism is used to cap the market value of a home. It will lessen the amount of money that local taxing jurisdictions and the state receive from the 110 statewide mill levy although how much it will lessen is hard to ascertain. It would not be any lower than what those jurisdictions now receive. It will lower the increase that those jurisdictions would receive in future years.

REP. ORR asked if small businesses could be included under the capping mechanism.

REP. ELLIOTT said the main concern is limiting home values. A homeowner should be protected from undue increases in taxes if he owns his home and does not intend to sell it. A business is a personal asset that can be turned over. The value of the business builds up over time. That artificial increase in the assessed value of the business will be a net benefit to the owner when he/she decides to sell or retire. Most people want to retire; however, not that many want to sell their homes.

REP. HIBBARD asked if the home must be the principal residence year round.

REP. ELLIOTT said the homeowner must be a Montana citizen who lives in the house nine months of the year. The mechanics of the bill are the same as the elderly homeowners credit program which includes both a residence and income test.

REP. FOSTER asked if there are constitutional questions raised by tying the bill to an income test.

REP. ELLIOTT said the bill is designed to fit the model of the elderly homeowners credit and there are no constitutional

problems with that program. He noted an affidavit is required as to income and primary residence and the taxpayer must apply for the credit.

REP. FOSTER wondered how the credit would work if income levels change significantly.

REP. ELLIOTT said the taxpayer would have to notify DOR of income changes and then reapply.

REP. FELAND asked if this notification would be on an honor system or is there a monitoring mechanism of some sort.

REP. ELLIOTT said the vast majority of people are honest. DOR would be able to monitor income tax returns and cross reference during regular audit procedures.

REP. NELSON wondered if the sponsor would agree to a seven month residency limit as opposed to nine months.

REP. ELLIOTT said he had no problem with seven months. He said he is simply trying to limit the credit to Montana residents as much as possible.

Closing by Sponsor: **REP. ELLIOTT** closed saying when contemplating capping property values it is important to seriously consider whether caps should be put in the Constitution, especially if they are related to sales price. Once in the Constitution there is no recourse except a constitutional amendment. Under HB 47 the provisions go into effect immediately with no need for a constitutional amendment and the relief is immediately available to the property taxpayer. Sales prices tend to decrease the mobility of the population due to the increased tax burden acquired if a house is sold and a new one purchased. The tax burden will be forever higher than the level on the current house, even if the houses are approximately of the same amenity level. The sales price protects the cash flow to local governments in times of decreasing property values.

EXECUTIVE ACTION ON HOUSE JOINT RESOLUTION 2

Motion: **REP. HARRINGTON** MOVED HJR 2 DO PASS.

Discussion: Terry Johnson, Principal Legislative Fiscal Analyst, reviewed information regarding oil price projections (Exhibit #3), adjustments in individual income tax and corporate income tax collections and projections, revisions in interest rates and coal prices and lottery and telephone tax collections which would possibly impact revenue collections by a negative \$53 million. A discussion of oil price projections prompted the Chairman to withhold further executive action on the resolution until more

information regarding the impact of various oil price levels on years 1993, 1994, and 1995 could be presented to the Committee by Mr. Johnson.

EXECUTIVE ACTION ON HOUSE BILL 36

Motion: REP. HANSON MOVED HB 36 DO PASS.

Motion/Vote: REP. HANSON MOVED TO AMEND THE TITLE, LINE 6 AS PER THE ATTACHED STANDING COMMITTEE REPORT (CLERICAL CORRECTION AMENDMENT). Motion carried unanimously.

Motion/Vote: REP. HANSON MOVED HB 36 DO PASS AS AMENDED. Motion carried unanimously.

EXECUTIVE ACTION ON HOUSE BILL 45

Motion: REP. FOSTER MOVED HB 45 DO PASS.

Motion: REP. FOSTER MOVED TO AMEND HB 45 AS PER THE ATTACHED EXHIBIT #4.

Discussion: REP. FOSTER said the amendments strike the coal severance tax and school reserves as funding bases for the rebates, reflect the HB 29 provisions that the rebates last for two tax years, and specify that any money left over after the rebates reverts to the general fund. Amendment #6 addresses the property tax reimbursement funding source in HB 20 by developing a formula that breaks down the tax increase in the counties by city and county governments and school districts based on increased valuations. These amendments were devised because of concerns voiced by various committee members and representatives of local governments. The amendments basically reflect the provisions of HB 29 which is the funding mechanism for HB 45. The fiscal impact is \$13.9 million for the biennium plus \$4.6 million for costs associated with the rebates. The funding sources are the cultural trust monies and HB 20 funds with the fund balance used for the remainder.

REP. DRISCOLL asked why amendment #6 specified Class 4 property only. He understood it was to be changed to all taxable property.

Judy Paynter, Deputy Director, DOR, confirmed that the amendment should read "all taxable property".

Motion: REP. DRISCOLL MOVED TO AMEND AMENDMENT #6 CHANGING ALL REFERENCES TO CLASS 4 PROPERTY TO "ALL TAXABLE PROPERTY".

Discussion: REP. McCAFFREE asked if the amendments would change the fiscal impact.

REP. FOSTER said there would be no change as the original figures were based on all taxable property.

Vote: Motion to amend #6 carried unanimously.

Discussion: REP. ELLIOTT pointed out technical amendments that needed to be made in numbering subsections i, ii, and iii in amendment #6. CHAIRMAN GILBERT instructed Mr. Heiman to make the technical corrections as needed (see Exhibit #4).

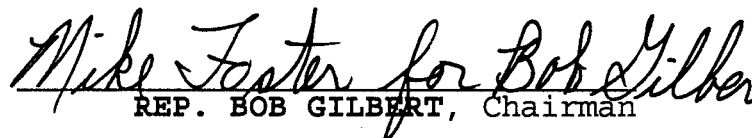
The committee members engaged in a discussion of the impact of the amendments on various counties re increased values, increased mills, and the application of the funding formula for rebates. Different taxing jurisdictions within the counties would also influence the amount of the impact. They used as a reference for the discussion the figures and tables included in Exhibit #5.

At the request of REP. DRISCOLL, Ms. Paynter explained that if a county had more taxes levied in 1993 than in 1992 by a combination of its taxable value and mill levies, the county would receive a reduction in the HB 20 money.

CHAIRMAN GILBERT asked the DOR representatives to present new figures to the Committee based on the amendments as proposed in Exhibit #4. He suspended executive action on the amendments and the bill until the new calculations could be reviewed.

ADJOURNMENT

Adjournment: The meeting adjourned at 10:35 a.m.


REP. BOB GILBERT, Chairman


JILL BOHYANS, Secretary

BG/jdr

HOUSE OF REPRESENTATIVES

TAXATION

COMMITTEE

ROLL CALL

DATE

12/7/93

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			✓ 11:40 X 9130
REP. HIBBARD	✓		
REP. KELLER	✓		
REP. McCAFFREE	✓		
REP. MCCARTHY	✓		
REP. NELSON	✓		
REP. ORR	✓		
REP. PANEY	✓		
REP. REAM	✓		
REP. TUNBY	✓		



HOUSE STANDING COMMITTEE REPORT

December 7, 1993

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that House Bill 36 (first reading copy -- white) do pass as amended.

Signed: Bob Gilbert
Bob Gilbert, Chair

And, that such amendments read:

1. Title, line 6.
Following: line 5
Insert: "TO"
Following: "APPEAR"
Strike: "TO"

- END -

Committee Vote:
Yes __, No __.

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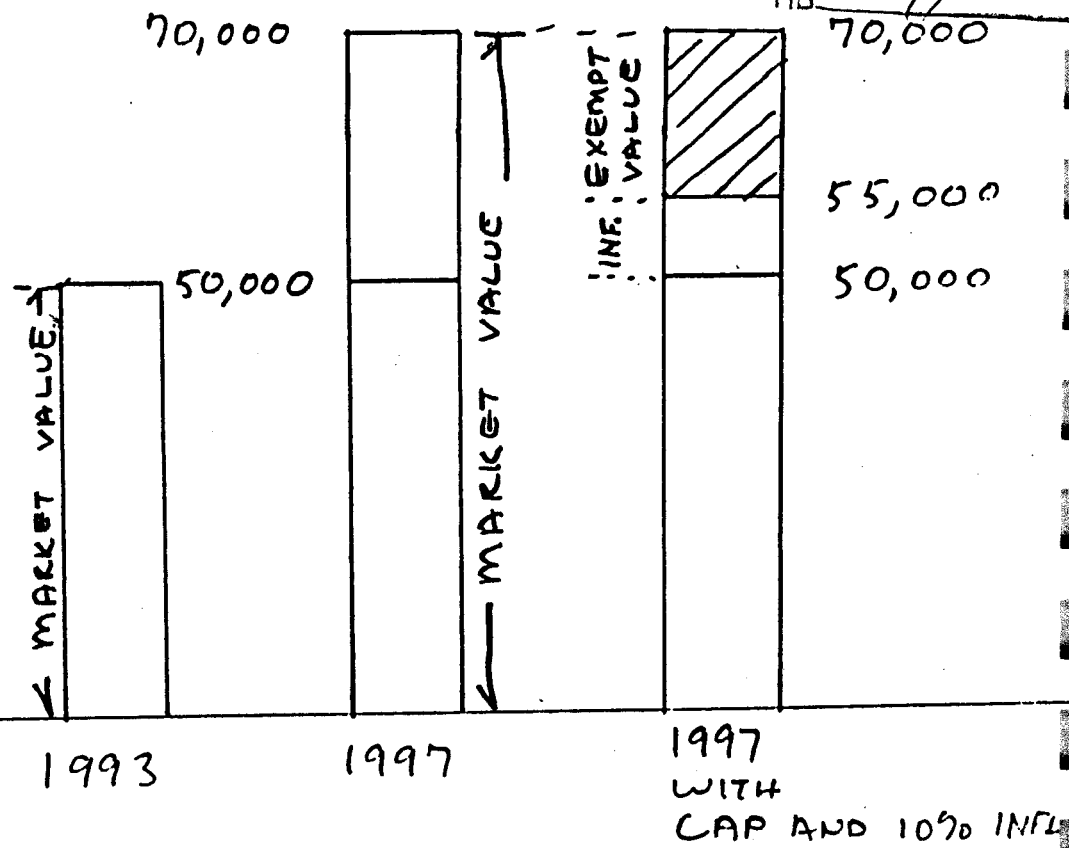
HOMEOWNERS PROTECTION ACT

- ~ Limits the amount of increase of market value to inflation
- ~ Limit in effect for as long as home is owned by applicant
- ~ Limit is transferable on sale of residence to qualifying party
- ~ Applies to Montana residents only, principal residence only
- ~ Income driven - amount of relief dependent on amount of income
 - Incomes of \$40,000 or less = 100% relief
 - Phases out at 5% per \$1000 from \$40,000 to \$60,000
 - Phased out at \$60,000
- ~ Constitutional - does not require any amendments
 - Does not treat the market value of similar properties unequally
- ~ Uses 1993 appraisal as base year

A

B

C

 EXHIBIT 1A
 DATE 12/7/93
 HB 47


Percent of exempt value excused from taxation for various income levels.

40,000 - 100% exempt rate

41,000 - 95%

42,000 - 90%

50,000 - 50%

59,000 - 5%

60,000 - 0%

Taxable market value of homes for homeowners of various income levels

Taxable market value = market value - (exempt market value x exempt rate)

40,000 or less $70,000 - (15,000 \times 1.00) = 55,000$

41,000 $70,000 - (15,000 \times .95) = 55,750$

50,000 $70,000 - (15,000 \times .50) = 62,500$

59,000 $70,000 - (15,000 \times .05) = 69,250$

60,000 and up $70,000 - (15,000 \times .00) = 70,000$

TESTIMONY

TO HOUSE TAXATION COMMITTEE REGARDING HOUSE BILL 47

PRESENTED DECEMBER 7, 1993, ROOM 437, 8:30 a.m.

Mr. Chairman, members of the House Taxation Committee, my name is Greg Van Horssen. I represent the Income Property Managers Association and the Montana Landlords Association and I must rise in opposition to House Bill 47 as the language of that bill currently exists.

The organizations that I represent believe that the exemptions contemplated by House Bill 47 are well intentioned and may, indeed, be very helpful to those individuals receiving relief under the language of the bill. However, there are some inequities in the bill as proposed. In particular, I note that the exemption involves only owner-occupied residences. It is the position of the Income Property Managers Association and the Montana Landlords Association that if any such exemption is to be granted, it should be applicable to the owners of all real property and the owners of commercial property as well. Of particular concern is the fact that House Bill 47 does not provide any type of tax relief to the owners of rental properties. Therefore, while owner occupiers of property will receive the benefit of certain exemptions, those individuals who make residential rental space available receive no similar benefit -- a benefit that could be passed along to renters.

The same analysis holds true for owners of commercial properties who may be subject to large taxation increases which ultimately affect that individual's profitability.

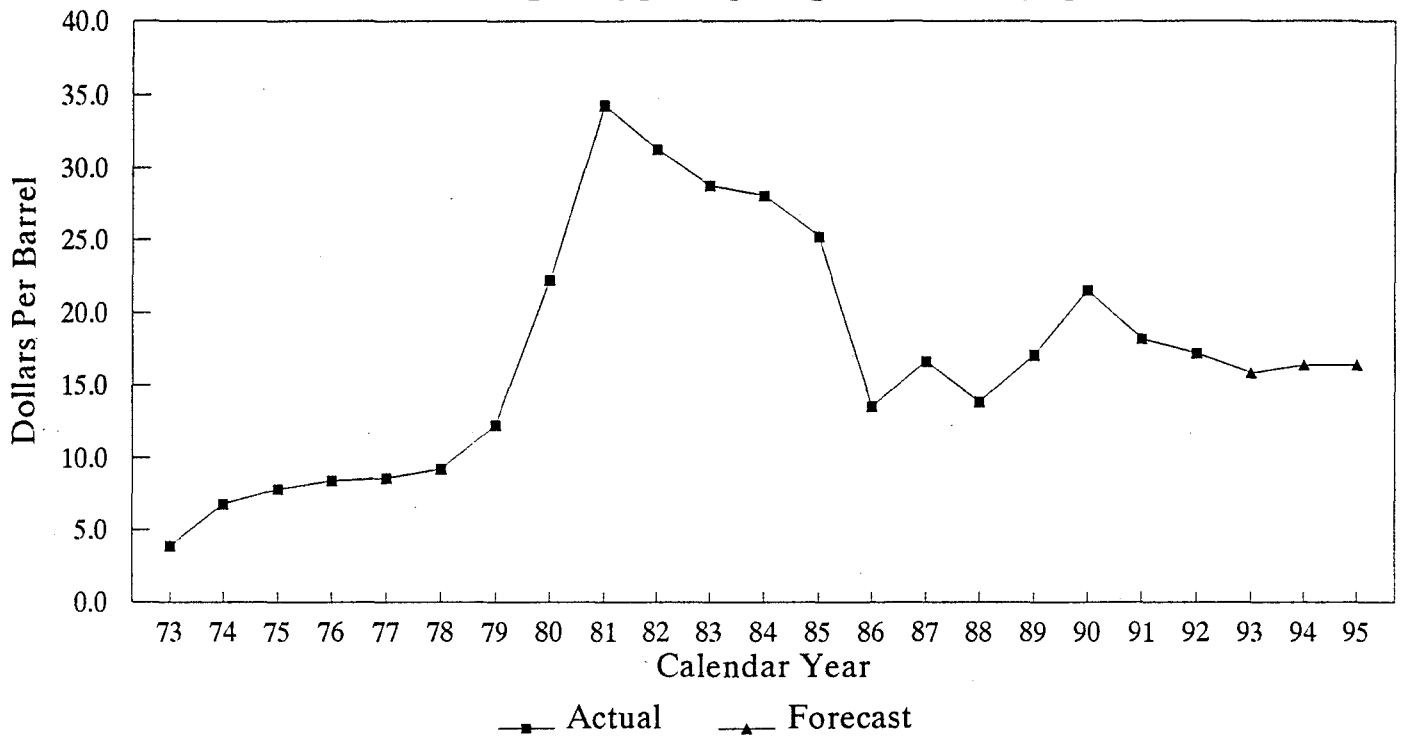
It is understood that with any exemption there is an associated burden which must be shifted to other taxpayers. It is the concern of the organizations that I represent that, absent a similar benefit for rental properties and commercial properties, renters and many small business owners may suffer the majority of that burden.

For the reasons outlined above, the Income Property Managers Association and the Montana Landlords Association reluctantly oppose House Bill 47 as currently drafted. These organizations would urge this committee to consider their recommendations with the hopeful outcome of benefiting all classes of qualified real property owners in Montana.

Thank you for this opportunity to submit testimony.

Gregory A. Van Horssen, Lobbyist
Income Property Managers Association
Montana Landlords Association

Montana Oil Price



		Severance Tax CY Barrels	Percent Change Barrels	Severance Tax Price	Percent Change Price
A	73	34.558	NA	3.843	NA
A	74	34.629	0.21%	6.814	77.31%
A	75	32.460	-6.26%	7.845	15.13%
A	76	31.698	-2.35%	8.411	7.21%
A	77	31.725	0.09%	8.582	2.03%
A	78	28.164	-11.22%	9.253	7.82%
A	79	28.337	0.61%	12.279	32.70%
A	80	28.539	0.71%	22.250	81.20%
A	81	29.639	3.85%	34.317	54.23%
A	82	29.944	1.03%	31.311	-8.76%
A	83	28.695	-4.17%	28.804	-8.01%
A	84	29.602	3.16%	28.066	-2.56%
A	85	29.318	-0.96%	25.243	-10.06%
A	86	26.525	-9.53%	13.518	-46.45%
A	87	23.961	-9.67%	16.631	23.03%
A	88	22.064	-7.92%	13.843	-16.76%
A	89	19.957	-9.55%	17.098	23.51%
A	90	18.613	-6.73%	21.561	26.10%
A	91	18.619	0.03%	18.209	-15.55%
A	92	17.491	-6.06%	17.198	-5.55%
F	93	16.800	-3.95%	15.830	-7.95%
F	94	16.438	-2.15%	16.419	3.72%
F	95	15.948	-2.98%	16.419	0.00%

Amendments to House Bill No. 45
First Reading Copy

Requested by Rep. Foster
For the Committee on Taxation

Prepared by Lee Heiman
December 6, 1993

1. Title, lines 8 and 9.

Strike: "TRANSFERRING" on line 8 through "FUND;" on line 9

2. Title, lines 12 through 14.

Strike: "REVISING" on line 12 through "RESERVES;" on line 14

3. Title, line 16.

Strike: "20-9-104,"

4. Page 3, line 18.

Strike: "tax year 1994 and for each tax year thereafter"

Insert: "fiscal year 1995"

5. Page 3, lines 19 and 20.

Strike: "with a taxable value increase from 1992 to 1993"

6. Page 3, line 21 through page 4, line 1.

Strike: the remainder of subsection (5) in its entirety

Insert: "(a)(i) determine the increase in taxes collected by all counties, schools (except state and county equalization mills), and cities and towns for all ~~class four~~ *taxable property* in the state from 1992 to 1993;

(ii) determine the increase in taxes collected by each county, school district (except state and county equalization mills), and city and town for all ~~class four~~ *taxable* property in the jurisdiction from 1992 to 1993;

technical correction
(iii) for each jurisdiction in subsection (ii), divide the amount determined in subsection (ii) by the amount ~~the~~ *amount* determined in subsection (i) and multiply times \$4.5 million;

(iv) reduce the amount of reimbursement for each jurisdiction in subsection (ii) by the percentage determined in subsection (ii).

tech. amend
(b) No reduction may be more than the reimbursement calculated in subsection (3). Any undistributed amount of the \$4.5 million shall be redistributed by making one recalculation of distribution pursuant to subsections (a) through (a) using the undistributed amount as the base amount." *10*

7. Page 5, lines 20 and 21.

Page 8, lines 5 and 6.

Strike: "The" through "fund."

8. Page 12, line 23 through page 15, line 7.

Comparison of Taxable Values, Taxes Levied, and Average Mill Levies Fiscal Years 1993 and 1994

County	TAXABLE VALUE		TAXES LEVIED *			AVERAGE MILL LEVY	
	FY 93	FY 94	FY 93	FY 94	Change	FY 93	FY 94
Beaverhead	15,922,182	16,824,259	5,738,958	6,480,557	741,599	360.44	385.19
Big Horn	26,681,354	27,564,305	5,924,358	5,713,195	(211,163)	222.04	207.27
Blaine	13,892,940	13,923,422	4,431,406	4,389,954	(41,452)	318.97	315.29
Broadwater	14,226,141	11,002,036	3,501,501	3,858,884	357,383	246.13	350.74
Carbon	17,903,295	18,842,455	6,112,063	6,730,680	618,618	341.39	357.21
Carter	7,357,469	7,061,143	2,170,671	2,126,775	(43,896)	295.03	301.19
Cascade	95,846,935	104,782,782	41,757,849	44,369,494	2,611,645	435.67	423.44
Chouteau	25,358,497	24,726,163	8,447,981	8,886,393	438,412	333.14	359.39
Custer	14,584,111	15,393,437	6,876,834	6,934,731	57,897	471.53	450.50
Daniels	6,294,803	6,159,014	2,363,814	2,525,690	161,876	375.52	410.08
Dawson	18,257,665	17,389,666	7,487,267	7,585,400	98,133	410.09	436.20
Deer Lodge	8,769,899	9,523,950	3,918,590	4,629,479	710,888	446.82	486.09
Fallon	10,278,478	10,284,372	2,513,231	2,902,250	389,019	244.51	282.20
Fergus	21,943,967	22,363,816	8,164,717	8,522,236	357,519	372.07	381.07
Flathead	103,059,904	124,331,036	39,986,036	47,899,950	7,913,914	387.99	385.26
Gallatin	80,995,369	90,899,873	30,425,079	33,290,897	2,865,819	375.64	366.24
Garfield	5,393,469	5,467,114	1,582,817	1,723,632	140,815	293.47	315.27
Glacier	19,630,260	19,536,875	5,267,671	7,531,939	2,264,268	268.34	385.52
Golden Valley	5,153,869	5,089,308	1,391,969	1,469,792	77,824	270.08	288.80
Granite	7,655,867	8,278,493	2,100,274	2,796,128	695,854	274.34	337.76
Hill	29,941,411	30,731,188	9,841,390	11,221,503	1,380,113	328.69	365.15
Jefferson	23,342,749	24,570,652	6,006,212	7,515,392	1,509,180	257.31	305.87
Judith Basin	8,952,652	8,799,568	2,638,146	2,967,392	329,245	294.68	337.22
Lake	31,437,674	40,145,274	12,585,468	15,814,818	3,229,350	400.33	393.94
Lewis And Clark	69,016,382	76,092,840	29,401,768	33,763,655	4,361,887	426.01	443.72
Liberty	9,568,354	9,247,634	2,639,523	3,004,603	365,080	275.86	324.91
Lincoln	27,564,167	28,051,639	8,791,262	9,274,798	483,536	318.94	330.63
Madison	20,791,628	22,824,457	6,565,895	7,212,717	646,822	315.80	316.01
McCone	7,801,726	7,991,637	2,476,976	2,617,120	140,144	317.49	327.48
Meagher	8,154,786	8,539,186	2,292,176	2,579,750	287,574	281.08	302.11
Mineral	8,080,300	8,722,974	2,758,326	3,234,680	476,354	341.36	370.82
Missoula	126,303,291	136,040,464	58,256,659	67,357,740	9,101,081	461.24	495.13
Musselshell	6,878,626	6,876,934	2,200,883	2,280,399	79,516	319.96	331.60
Park	24,316,869	25,640,034	8,745,790	9,874,879	1,129,090	359.66	385.14
Petroleum	1,904,786	2,049,260	646,923	671,340	24,418	339.63	327.60
Phillips	20,295,327	19,865,693	5,323,433	5,917,367	593,934	262.30	297.87
Pondera	14,988,037	14,795,008	4,926,175	5,423,082	496,908	328.67	366.55
Powder River	6,368,160	6,171,957	2,427,230	2,714,826	287,596	381.15	439.86
Powell	12,458,281	12,717,393	3,790,733	4,057,445	266,711	304.27	319.05
Prairie	4,358,142	4,343,655	1,596,918	1,795,765	198,847	366.42	413.42
Ravalli	32,043,712	36,729,910	11,224,219	13,461,262	2,237,043	350.28	366.49
Richland	21,745,758	21,841,600	6,222,832	7,819,527	1,596,695	286.16	358.01
Roosevelt	24,801,194	25,696,726	6,472,621	7,941,923	1,469,302	260.98	309.06
Rosebud	182,854,693	180,478,702	27,313,850	28,523,390	1,209,540	149.37	158.04
Sanders	24,882,163	26,034,477	8,033,999	8,789,145	755,147	322.88	337.60
Sheridan	12,018,054	11,592,301	3,476,114	3,696,880	220,766	289.24	318.91
Silver Bow	50,333,573	55,019,600	27,688,339	28,511,818	823,478	550.10	518.21
Stillwater	19,753,669	20,530,912	5,895,726	6,483,938	588,212	298.46	315.81
Sweet Grass	8,288,052	8,092,898	2,684,095	2,982,957	298,862	323.85	368.59
Teton	15,427,359	14,882,549	6,499,910	6,718,258	218,347	421.32	451.42
Toole	17,683,716	17,944,539	4,942,010	5,286,649	344,639	279.47	294.61
Treasure	4,983,890	4,679,507	1,405,421	1,557,563	152,142	281.99	332.85
Valley	25,737,184	26,539,206	9,119,297	9,851,829	732,532	354.32	371.22
Wheatland	7,780,858	7,797,839	2,268,764	2,440,359	171,595	291.58	312.95
Wibaux	4,073,266	4,124,135	1,127,710	1,355,292	227,582	276.86	328.62
Yellowstone	198,486,026	216,301,637	72,504,946	82,686,354	10,181,408	365.29	382.27
TOTAL	1,632,622,989	1,731,947,504	560,954,821	627,774,469	66,819,648	343.59	362.47

* Excludes taxes levied for Special Improvement Districts.

Compiled by the Office of Research and Information, Montana Department of Revenue

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

State Taxation COMMITTEE BILL NO. HB 42
HB 47
 DATE 12/7/93 SPONSOR(S) Mills, Elliott

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Quin B. Svalstad	QARP	HB 42		✓
Tom Hopgood	Mt. Assoc. Realtors		42	47
Gregory Van Harsen	Income Property Managers Mountain Landlords	HB 47	✓	

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