

**MINUTES**

**MONTANA HOUSE OF REPRESENTATIVES  
54th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By CHAIRMAN CHASE HIBBARD, on February 8, 1995,  
at 8:00 A.M.

**ROLL CALL**

**Members Present:**

Rep. Chase Hibbard, Chairman (R)  
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)  
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)  
Rep. John C. Bohlinger (R)  
Rep. Jim Elliott (D)  
Rep. Daniel C. Fuchs (R)  
Rep. Hal Harper (D)  
Rep. Rick Jore (R)  
Rep. Judy Murdock (R)  
Rep. Thomas E. Nelson (R)  
Rep. Scott J. Orr (R)  
Rep. Bob Raney (D)  
Rep. John "Sam" Rose (R)  
Rep. William M. "Bill" Ryan (D)  
Rep. Roger Somerville (R)  
Rep. Robert R. Story, Jr. (R)  
Rep. Emily Swanson (D)  
Rep. Jack Wells (R)  
Rep. Kenneth Wennemar (D)

**Members Excused:**

Rep. Peggy Arnott (R)

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Council  
Donna Grace, Committee Secretary

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

**Committee Business Summary:**

Hearing: HJR 9  
HB 383

Executive Action: None.

{Tape: 1; Side: A.}

HEARING ON HJR 9

Opening Statement by Sponsor:

REP. DAN HARRINGTON, House District 38, Butte, opened the hearing on HJR 9, stating that this was probably the largest bill the Committee would see during this session as it sets forth the official revenue estimates for the State of Montana for the 1996-97 biennium for the purpose of achieving a balanced budget as mandated by the Montana Constitution. The resolution is the result of deliberations in the Revenue Oversight Committee and much work by the Legislative Fiscal Analyst. The Committee has estimated that economic growth over the next three years will be approximately 3%.

Informational Testimony:

Terry Johnson, Legislative Fiscal Analyst's Office, brought to the Committee's attention the fact that since the time the Resolution was drafted, the Analyst's Office would recommend a slight correction to the ending fund balance on page 2 of the resolution. The unreserved ending fund balance at the end of FY 94, \$32,771,000 should be reduced by \$179,000 because of an adjustment made by the Department of Administration accounting division. The correct figure would be \$32,592,000. Mr. Johnson explained that the Revenue Oversight Committee had chosen not to include the \$11 million in railcar taxes held up in litigation with the DOR. Because of the uncertainty currently involved with that issue, the Committee chose to remove the estimated amount of revenue for 1995, 1996, and 1997. The executive budget also assumed that another \$6 million would be received in 1996 and 1997, reducing the anticipated total revenue by \$17.1 million. Senate Bill 257, dealing with the railcar tax, would reduce the tax by one-half and revenue from that particular tax would then drop to \$1.5 million per year and the amount held up in litigation would be reduced by one-half. The Revenue Oversight Committee also revised the statewide taxable valuation. The other figures in the resolution are the Fiscal Analyst's recommendations.

Proponents' Testimony:

None.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. REAM said that he and Rep. Hanson had served on the Revenue Oversight Committee and could respond to questions. He said that

all the figures on page 3 through page 8 are economic assumptions that go into the models used for computing the revenues. He said the Oversight Committee had carefully reviewed the assumptions and a number of economic specialists had appeared before the Committee to provide information.

**Mr. Johnson** then responded to questions from Committee Members relative to how the assumptions were developed and where various items could be found in the resolution.

{Tape: 1; Side: B.}

**REP. REAM** said the Committee had a month to move this bill to the Senate and another month to make any final adjustments. He asked if there were any other adjustments that might have to be made in the Resolution. **Mr. Bender, Office of Budget and Program Planning**, replied that the only thing the Governor's Office could see in the resolution that might need adjusting was the railcar revenue. He said he had looked at collections to date and they confirm what is contained in the resolution. **Mr. Johnson** said he would recommend monitoring the inheritance tax revenues which are higher than anticipated, possibly due to the settlement of a large claim, and the gas and oil royalties which are running stronger than they expected. They will continue to watch these figures and make adjustments if necessary. If a settlement is received on the railcar tax issue, a fiscal note would be issued after the session and added to the resolution as an adjustment. He noted that any bill that affects revenue after January 1, 1995, is included as an adjustment after the session is over.

Closing by Sponsor:

**REP. HARRINGTON** said that the information contained in the Resolution are estimates, but very important estimates. Estimating is not a precise science because many things, like interest rates, can change over the course of a year and have been the cause of many special sessions. He said the estimates were conservative and they will affect what happens in the State of Montana. He encouraged the Committee to look at the bill very carefully.

{Tape: 2; Side: A.}

HEARING ON HB 383

Opening Statement by Sponsor:

**REP. JON ELLINGSON, House District 65, Missoula**, brought HB 383, a revenue neutral tax equity bill, before the Committee. He said it would not address all the issues causing discord between the citizens of the state and state government but it would address one significant issue -- the taxation equity on an individual's home. Taxes on a primary residence go up without any improvements or change in the condition of the house, and without

any reference to a person's ability to pay or references to an individual's income. This form of taxation is increasingly unpopular because of its unpredictability and its irrationality. **REP. ELLINGSON** said that the citizens had expected tax cuts following the special session in 1993 and what they actually got was a tax shift as local governments were given the option of putting money back into the educational system if they felt it was necessary and many districts did so. One of the consequences was that the tax rate on primary residences went up rather than down. He said he was convinced that this was the basis for the taxpayers' cynicism toward government. HB 383 addresses these concerns by assessing taxes based on market value of the property after deducting \$20,000 of the market value. This would apply to primary residences and includes trailers and mobile homes. The bill attempts to achieve revenue neutrality by adjusting the deductions on state income tax, specifically by limiting the deduction of federal taxes to \$4,000 for a single return and \$8,000 for a joint return. As the bill is currently written it would be revenue positive to the extent of \$10 million a year. **REP. ELLINGSON** said this was not his intent and revenue neutrality could be achieved by raising the deductions. The bill provides a mechanism for returning all lost revenue to local governments and it provides that the DOR will calculate the amount of revenue lost and reimburse the county treasurer 50% of the lost revenue on or before November 30 and the remaining 50% on or before May 31. The treasurer would then distribute the revenue to each taxing jurisdiction so that each would receive the same amount of money it would have received before this legislation. **REP. ELLINGSON** said he had been advised by the DOR that some technical amendments would have to be made and they will be available for executive action. He said he also had some concern that the bill might be amended to provide the 20% deduction with cuts being made elsewhere in the budget to make up the lost funding. He said he would not support that measure because it was not consistent with the message that he had received from his constituents.

#### Proponents' Testimony:

**Gordon Morris, Montana Association of Counties**, said this bill is a modicum of tax reform in conjunction with tax relief and he would stand in support of the concepts in the bill. **Mr. Morris** commented that there would be a significant number of properties in Montana that would be totally excluded from property taxation and everyone should pay at least a moderate amount of tax. He suggested that the \$20,000 exemption might be changed to a percentage of fixed value, such as 65% of the first \$30,000 of value and everyone would then be paying something. He also had a concern about the reimbursement mechanism for local governments because it looks like there would be a one-time reimbursement for tax year 1995 based on the difference between tax year 1996 and 1995 by way of an adjustment and he suggested language to correct the misconception. He also said it would not be necessary for the DOR to make the calculations and reimburse the counties twice

a year. For ease and simplicity it would be more appropriate for the DOR to determine the calculations adjusted for the 40 mills and 50 mills university levy and submit the portion that would stay with the local governments rather than have the treasurer receive 50% and have to return 20%. He concluded his testimony by remarking that MACO supports any debate on tax reform.

**REP. BOB REAM, House District 69, Missoula County,** commented in favor of the bill. He said that in the seven sessions he had served in the legislature, with Republican leadership in three session, Democrats in three session and a tie in 1985, the legislature had shifted problems back to property taxpayers through unfunded mandates to local governments and to schools through various cuts made in property taxes. These shifts were in the opposite direction from what Rep. Ellingson is trying to do with this bill. **REP. REAM** said the reason he supported this bill was that it is a shift in the right direction. The bill addresses the imbalance and what he perceived as a major concern of taxpayers around the state -- rising property tax costs. **REP. REAM** emphasized that HB 383 is a good approach to good tax policy.

**REP. EMILY SWANSON, House District 30, Bozeman,** stated that she would offer support for the principles Rep. Ellingson is trying to put into place with this bill, such as reducing the burden on real property and keeping the legislation revenue neutral. He is also insuring that local governments and schools are not harmed. She said she also liked the idea of reducing the burden on property taxpayers and placing it back on the people who are most able to pay. She stated that these were all worthwhile goals and could be worked into the mix of bills coming before the Committee.

**REP. JOHN BOHLINGER, House District 14, Billings,** testified in support of the bill because it would provide relief to the homeowners in his district, many of whom are elderly individuals living in homes they bought many years ago. Because of escalating values, they find it difficult to pay taxes on these homes that were purchased for \$10,000 and now have values of close to \$100,000. **REP. BOHLINGER** said he would like to see the bill kept revenue-neutral.

#### Opponents' Testimony:

**Bob White, Bozeman Chamber of Commerce,** spoke in opposition to the bill because Montana has the second highest and the most progressive state income tax in the nation and this bill would make it more progressive. He urged the Committee to move do not pass on this bill.

**Dennis Burr, Montana Taxpayers Association,** testified against the bill because the income tax rate is already high in Montana and it is a deterrent to keeping business in Montana. The ability to deduct federal income tax ameliorates the 11% rate. **Mr. Burr**

said that if this bill is to be considered further, more detailed information should be obtained from the DOR on how it will affect individual taxpayers because it will create a substantial shift.

**Bill Verwolf, Helena City Manager,** said some of the concepts in this bill are supported by local governments but there are concerns about the bill that must be considered before passage. From a local government standpoint, history of the continuity of using state funds to replace local levies has not been positive. Promises to use state funds to replace other revenues have been short-lived and the change usually changes back to the original situation which doesn't always equate to what was originally removed. He also noted that the bill is not indexed to inflation and over a period of years could make a large change in the availability of money for the operation of local governments. He encouraged the Committee to consider these issues before passing the bill.

**Tom Harrison, Montana Society of Certified Public Accountants,** said he had a number of concerns about the bill. He agreed with Mr. Morris about the creation of a new class of people who would be tax exempt from property taxation. Governments do cost money and the philosophy of creating a preferred or exempted class is not a healthy thing and would lead to warfare with other groups suggesting in the next session that they should have the same priorities and exemptions. The exemption is not extended to business property which would result in tax shifting because of the increases that would follow. Historically the CPA society has always opposed capping or eliminating the deductibility of federal taxes. The bill would create a new class of taxpayers which is contrary to legislative intent for the past decade. The legislative intent should be to broaden the tax base, yet the bills being considered decrease the tax base. He suggested that the bill be tabled.

**Mark Watson, Billings City Manager,** echoed the concerned of Mr. Verwolf from Helena. He said that 60% of all residential property in Billings would be affected by the bill. He urged the Committee to vote no on HB 383.

**Questions From Committee Members and Responses:**

**REP. BOHLINGER** advised that he believed in progressive taxation because he thought the tax burden should fall to a great degree on those who could afford to pay. His opinion was that property tax is a regressive form of taxation and tax policy should reflect these views. He asked Mr. Burr to comment on his remarks. **Mr. Burr** said he would consider this bill to be a regressive move. In measurements of productivity of the tax system, Montana ranks about third or fourth in the overall tax system in the U.S. Some consideration should be given to the people who stand to lose their homes because of the tax rates and this bill may do that. Under this type of approach, everyone will receive a \$20,000 exemption.

**REP. HARPER** asked what Mr. Burr had meant when he said that state government has been "taking the hits" and it is time for the local governments to start sharing. He said he understood that this bill would be revenue neutral in theory and no one would be "hit."

{Tape: 2; Side: B.}

**Mr. Burr** referred to the fiscal note which says that individual income tax collections would go up \$68 million, and reimbursements to local governments would total \$42.3 million, and there would be a \$10.6 million surplus which can be fixed; however, as far as local governments were concerned, he did not think it would be revenue neutral and it certainly would not be revenue neutral to certain individuals in the state because they would be paying \$68 million more.

**REP. SWANSON** asked if the sponsor had discussed the reimbursement mechanism referred to in the technical notes with the DOR. **REP. ELLINGSON** said he did not understand the fiscal note. **Mary Whittinghill, DOR**, said that the technical comment was that on the current assessment notices they would not be able to ascertain if the value was for a primary residence or for the land and appreciation. It would also be necessary to make changes at the county level to make sure the market value is shown strictly for the primary residence separate from everything else that is included on the tax bill.

**REP. SWANSON** asked the sponsor if he would respond to the comments made by the opponents inferring that this would create another tax class. **REP. ELLINGSON** agreed that it would create a new classification of property. The public policy question to be dealt with is whether it is appropriate for these property owners to receive special treatment. He suggested that encouraging property ownership is something that is beneficial to the individual and also has positive impacts on the health of the state's social structure.

{Tape: 3; Side: A.}

**REP. REAM** said the intent of this bill is much the same as the intent in Rep. Elliott's bill, which MACO strongly supported. He asked Mr. Burr if he would support a bill if the Committee would agree to lower the nominal rate by eliminating federal deductibility and making the bill revenue neutral. **Mr. Burr** said he would.

Closing by Sponsor:

**REP. ELLINGSON** thanked the Committee for a good hearing. He said that one of the challenges to be faced as legislators was to reestablish confidence in government and a good relationship with the citizens of the state. One of the impediments to that is

real property taxation and this bill would address that important issue. He asked the Committee for its serious consideration of HB 383.



ADJOURNMENT

Adjournment: 10:15 A.M.



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CHASE HIBBARD, Chairman



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DONNA GRACE, Secretary

CH/dg

# HOUSE OF REPRESENTATIVES

## Taxation

ROLL CALL

DATE Nov. 8, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott			<i>late</i>
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr			<i>late</i>
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE BILL NO. HJR 9  
DATE 2/8/95 SPONSOR(S) Rep. Harrington

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT

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HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Resolution COMMITTEE BILL NO. HB 383  
 DATE 2/8/95 SPONSOR(S) Rep. Ellingson

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Bill Verwoilt	City of Helena	383	✓	
Gordon Morris	MA Co.	383		✓
Robert White	Bozeman Chamber	383	✓	
Tom Harrison	Mt. Soc. of CPA'S	383	✓	

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