

HOUSE BILL NO. 125

INTRODUCED BY HARRINGTON, DAILY, LYNCH,
PAVLOVICH, GIACOMETTO, WHALEN

IN THE HOUSE

JANUARY 11, 1989	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
JANUARY 12, 1989	FIRST READING.
MARCH 28, 1989	COMMITTEE RECOMMEND BILL DO PASS AS AMENDED. REPORT ADOPTED.
MARCH 29, 1989	PRINTING REPORT.
	SECOND READING, DO PASS.
MARCH 30, 1989	ENGROSSING REPORT.
	THIRD READING, PASSED. AYES, 77; NOES, 22.
	TRANSMITTED TO SENATE.

IN THE SENATE

MARCH 31, 1989	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
	FIRST READING.
APRIL 5, 1989	COMMITTEE RECOMMEND BILL BE CONCURRED IN. REPORT ADOPTED.
APRIL 6, 1989	SECOND READING, CONCURRED IN.
APRIL 10, 1989	THIRD READING, CONCURRED IN. AYES, 45; NOES, 3.
	RETURNED TO HOUSE.

APRIL 10, 1989

IN THE HOUSE

RECEIVED FROM SENATE.

SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

1 *House* BILL NO. *125*
 2 INTRODUCED BY *Harrington Daily Speech*
 3 *Carlson* *Whalen*
 4 A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING PROVISIONS
 5 RELATING TO THE PROPERTY TAX FREEZE AND ALLOWING AN INCREASE
 6 IN THE NUMBER OF MILLS THAT MAY BE LEVIED BY A TAXING UNIT
 7 IF THE PURCHASING POWER OF THE TAXING UNIT HAS DECREASED BY
 8 AT LEAST 1 PERCENT IN THE PREVIOUS CALENDAR YEAR; PROVIDING
 9 AN EXEMPTION FROM THE FREEZE FOR LEVIES FOR ECONOMIC
 10 DEVELOPMENT AND FOR MANDATED OR UNCONTROLLABLE COSTS OF
 11 LOCAL GOVERNMENT UNITS AND SCHOOLS; ALLOWING LOCAL ELECTORS
 12 TO REMOVE THE 1986-LEVEL LIMITATION ON LEVIES OR TO
 13 INSTITUTE A DIFFERENT LIMITATION; EXTENDING THE TERMINATION
 14 DATE OF THE FREEZE; AMENDING SECTION 15-10-412, MCA, AND
 15 SECTION 6, CHAPTER 654, LAWS OF 1987; AND PROVIDING AN
 16 EFFECTIVE DATE."

17
 18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

19 NEW SECTION. **Section 1.** Adjustment of taxing unit
 20 mill levies -- decrease in purchasing power. (1) If the
 21 purchasing power of a taxing unit has decreased by at least
 22 1% in the preceding calendar year, the governing body of the
 23 taxing unit may increase the limit provided in Title 15,
 24 chapter 10, part 4, on the number of mills that may be
 25 levied by a taxing unit by the same percentage as the

1 purchasing power has decreased. The increase must be
 2 computed on the number of mills the taxing unit was
 3 authorized to levy in the prior year, including all
 4 adjustments to the limitation provided in Title 15, chapter
 5 10, part 4. A mill levy increase made pursuant to this
 6 section may not result in a local government levying a
 7 greater number of mills than the number set as a maximum by
 8 law under a provision other than in Title 15, chapter 10,
 9 part 4.

10 (2) Local government purchasing power is measured by
 11 the change from one calendar year's to the next calendar
 12 year's implicit price deflator for gross national product,
 13 for the state and local government sector, prepared by the
 14 U.S. department of labor, bureau of labor statistics, or
 15 other similar compilation that the bureau of business and
 16 economic research of the university of Montana may in the
 17 future recognize as the successor to that implicit price
 18 deflator.

19 **Section 2.** Section 15-10-412, MCA, is amended to read:
 20 "15-10-412. (Temporary) Property tax limited to 1986
 21 levels -- clarification -- extension to all property
 22 classes. Section 15-10-402 is interpreted and clarified as
 23 follows:

24 (1) The limitation to 1986 levels is extended to apply
 25 to all classes of property described in Title 15, chapter 6,

1 part 1.

2 (2) The limitation on the amount of taxes levied is
3 interpreted to mean that the actual tax liability for an
4 individual property is capped at the dollar amount due in
5 each taxing unit for the 1986 tax year. In tax years
6 thereafter, the property must be taxed in each taxing unit
7 at the 1986 cap or the product of the taxable value and
8 mills levied, whichever is less for each taxing unit.

9 (3) The limitation on the amount of taxes levied does
10 not mean that no further increase may be made in the total
11 taxable valuation of a taxing unit as a result of:

12 (a) annexation of real property and improvements into
13 a taxing unit;

14 (b) construction, expansion, or remodeling of
15 improvements;

16 (c) transfer of property into a taxing unit;

17 (d) subdivision of real property;

18 (e) reclassification of property;

19 (f) increases in the amount of production or the value
20 of production for property described in 15-6-131 or
21 15-6-132;

22 (g) transfer of property from tax-exempt to taxable
23 status; or

24 (h) revaluations caused by:

25 (i) cyclical reappraisal; or

1 (ii) expansion, addition, replacement, or remodeling of
2 improvements.

3 (4) The limitation on the amount of taxes levied does
4 not mean that no further increase may be made in the taxable
5 valuation or in the actual tax liability on individual
6 property in each class as a result of:

7 (a) construction, expansion, replacement, or
8 remodeling of improvements that adds value to the property;

9 (b) transfer of property into a taxing unit;

10 (c) reclassification of property;

11 (d) increases in the amount of production or the value
12 of production for property described in 15-6-131 or
13 15-6-132;

14 (e) annexation of the individual property into a new
15 taxing unit; or

16 (f) conversion of the individual property from
17 tax-exempt to taxable status.

18 (5) Property in classes four, twelve, and fourteen is
19 valued according to the procedures used in 1986, including
20 the designation of 1982 as the base year, until the
21 reappraisal cycle beginning January 1, 1986, is completed
22 and new valuations are placed on the tax rolls and a new
23 base year designated, if the property is:

24 (a) new construction;

25 (b) expanded, deleted, replaced, or remodeled

1 improvements;

2 (c) annexed property; or

3 (d) property converted from tax-exempt to taxable
4 status.

5 (6) Property described in subsections (5)(a) through
6 (5)(d) that is not class four, class twelve, or class
7 fourteen property is valued according to the procedures used
8 in 1986 but is also subject to the dollar cap in each taxing
9 unit based on 1986 mills levied.

10 (7) The limitation on the amount of taxes, as
11 clarified in this section, is intended to leave the property
12 appraisal and valuation methodology of the department of
13 revenue intact. Determinations of county classifications,
14 salaries of local government officers, and all other matters
15 in which total taxable valuation is an integral component
16 are not affected by 15-10-401 and 15-10-402 except for the
17 use of taxable valuation in fixing tax levies. In fixing tax
18 levies, the taxing units of local government may anticipate
19 the deficiency in revenues resulting from the tax
20 limitations in 15-10-401 and 15-10-402, while understanding
21 that regardless of the amount of mills levied, a taxpayer's
22 liability may not exceed the dollar amount due in each
23 taxing unit for the 1986 tax year unless:

24 (a) the taxing unit's taxable valuation decreases by
25 5% or more from the previous tax year. If a taxing unit's

1 taxable valuation decreases by 5% or more from the previous
2 tax year, it may levy additional mills to compensate for the
3 decreased taxable valuation, but in no case may the number
4 of mills levied pursuant to this subsection (a) may not
5 exceed a number calculated to equal the revenue from
6 property taxes for the 1986 tax year in that taxing unit.

7 (b) the purchasing power of the taxing unit has
8 decreased. If a taxing unit's purchasing power has decreased
9 by at least 1%, additional mills may be levied pursuant to
10 [section 1].

11 (8) The limitation on the amount of taxes levied does
12 not apply to the following levy, budget category, or special
13 assessment categories, whether or not they are based on
14 commitments made before or after approval of 15-10-401 and
15 15-10-402:

16 (a) rural improvement districts;

17 (b) special improvement districts;

18 (c) levies pledged for the repayment of bonded
19 indebtedness, including tax increment bonds;

20 (d) city street maintenance districts;

21 (e) tax increment financing districts;

22 (f) satisfaction of judgments against a taxing unit;

23 (g) electric company street lighting assessments; and

24 (h) revolving funds to support any categories
25 specified in this subsection (8);

1 (i) levies for economic development authorized by
2 90-5-112; and

3 (j) levies to pay for items or programs that are
4 mandated by federal or state government or over which the
5 taxing unit has no control.

6 (9) (a) The limitation on the amount of taxes levied
7 does not apply in a taxing unit if the voters in the taxing
8 unit approve an increase in tax liability at a general
9 election. The voters in a taxing unit may approve the
10 removal of the limitation or the establishment of a
11 different limitation, either in the number of mills to be
12 levied for one or more funds or in reference to the amount
13 of a particular levy.

14 (b) The voters in a taxing unit may approve an
15 increase in tax liability at a special election held
16 following a resolution of the governing body of the taxing
17 unit containing:

18 {a}(i) a finding that there are insufficient funds to
19 adequately operate the taxing unit as a result of 15-10-401
20 and 15-10-402;

21 {b}(ii) an explanation of the nature of the financial
22 emergency;

23 {c}(iii) an estimate of the amount of funding shortfall
24 expected by the taxing unit;

25 {d}(iv) a statement that applicable fund balances are

1 or by the end of the fiscal year will be depleted;

2 {e}(v) a finding that there are no alternative sources
3 of revenue;

4 {f}(vi) a summary of the alternatives that the
5 governing body of the taxing unit has considered; and

6 {g}(vii) a statement of the need for the increased
7 revenue and how it will be used.

8 (10) The limitation on the amount of taxes levied does
9 not apply to levies required to address the funding of
10 relief of suffering of inhabitants caused by famine,
11 conflagration, or other public calamity. (Terminates
12 December 31, 1989--sec. 6, Ch. 654, L. 1987.)"

13 **Section 3.** Section 6, Chapter 654, Laws of 1987, is
14 amended to read:

15 "Section 6. **Termination.** This act terminates December
16 31, ~~1989~~ 1991."

17 **NEW SECTION. Section 4. Effective date.** [This act] is
18 effective April 4, 1989. If passage and approval occurs
19 after April 4, 1989, [this act] is effective on passage and
20 approval.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB125, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act amending provisions relating to the property tax freeze and allowing an increase in the number of mills that may be levied by a taxing unit if the purchasing power of the taxing unit has decreased by at least 1 percent in the previous calendar year; providing an exemption from the freeze for levies for economic development and for mandated or uncontrollable costs of local government units and schools; allowing local electors to remove the 1986-level limitation on levies or to institute a different limitation; extending the termination date of the freeze; and providing an effective date.

FISCAL IMPACT:

This bill would allow local governments to increase property taxes: (1) to compensate for lost purchasing power as a result of inflation; (2) by increasing the levy for economic development (MCA 90-5-112), or for state or federally mandated programs over which the local jurisdiction has no control, and (3) with the approval of voters at a general election.

Clearly, an accurate assessment of the aggregate fiscal impact of this proposal is not possible without prior knowledge of which jurisdictions would choose to increase levies in response to the above options.

However, if the assumption is that all jurisdictions would increase mills to fully compensate for lost purchasing power, then revenues to local government would rise significantly over current law levels. Property taxes levied for all purposes in FY89 totaled \$526,706,810. Allowing an increase for lost purchasing power would increase total revenue \$29.4 million in FY90, and \$61.3 million in FY91. (This assumes GNP deflators for state and local governments of 128.8, 136.0, and 143.8 in CY88, CY89, and CY90, respectively.) (Source-Wharton Econometrics).

Historically, if total property taxes had been allowed to increase only in response to changes in the GNP deflator for state and local government, the 1970 level of \$177,287,940 would have increased to \$529,177,639 by 1986. Actual property taxes in 1986 were \$590,939,425.

Ray Shackleford

1/18/89

RAY/SHACKLEFORD, BUDGET DIRECTOR
OFFICE OF BUDGET AND PROGRAM PLANNING

DATE

Dan W. Harrington

1/20/89

DAN W. HARRINGTON

DATE

Fiscal Note for HB 125, as introduced

HB 125

Fiscal Note Request, HB125 as introduced

Form BD-15

Page 2

The bill makes no provision regarding the interaction of increases in taxable valuation, and increases in the GNP deflator for state and local government. If taxable valuations rise more than enough to compensate for lost purchasing power, local governments are assumed to be able to levy additional mills regardless.

The bill as drafted does not adequately define how to measure the decrease in local government purchasing power. (See Section 1, paragraph 2). Nowhere is decrease in purchasing power defined. Also when referring to implicit price deflators, the annual loss in purchasing power would be more appropriately defined as the percentage change in the deflator instead of the absolute change.

HB 125

APPROVED BY COMMITTEE
ON TAXATION

HOUSE BILL NO. 125

INTRODUCED BY HARRINGTON, DAILY, LYNCH,

PAVLOVICH, GIACOMETTO, WHALEN

A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING PROVISIONS RELATING TO THE PROPERTY TAX FREEZE AND ALLOWING AN INCREASE IN THE NUMBER OF MILLS THAT MAY BE LEVIED BY A TAXING UNIT IF THE PURCHASING POWER OF THE TAXING UNIT HAS DECREASED BY AT LEAST 1 PERCENT IN THE PREVIOUS CALENDAR YEAR; PROVIDING AN EXEMPTION FROM THE FREEZE FOR LEVIES FOR ECONOMIC DEVELOPMENT AND FOR MANDATED OR UNCONTROLLABLE COSTS OF LOCAL GOVERNMENT UNITS AND SCHOOLS; ALLOWING LOCAL ELECTIONS TO REMOVE THE 1986 LEVELS LIMITATION ON LEVIES OR TO INSTITUTE A DIFFERENT LIMITATION; EXTENDING THE TERMINATION DATE OF THE FREEZE; AMENDING SECTION 15-10-412, MCA, AND SECTION 6, CHAPTER 654, LAWS OF 1987; AND PROVIDING AN EFFECTIVE DATE."

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

NEW SECTION. Section 1. Adjustment of taxing unit mill levies -- decrease in purchasing power -- (1) If the purchasing power of a taxing unit has decreased by at least 1% in the preceding calendar year, the governing body of the taxing unit may increase the limit provided in Title 15, chapter 10, part 4, on the number of mills that may be

levied by a taxing unit by the same percentage as the purchasing power has decreased. The increase must be computed on the number of mills the taxing unit was authorized to levy in the prior year, including all adjustments to the limitation provided in Title 15, chapter 10, part 4. A mill levy increase made pursuant to this section may not result in a local government levying a greater number of mills than the number set as a maximum by law under a provision other than in Title 15, chapter 10, part 4.

(2) Local government purchasing power is measured by the change from one calendar year's to the next calendar year's implicit price deflator for gross national product, for the state and local government sector, prepared by the U.S. department of labor, bureau of labor statistics, or other similar compilation that the bureau of business and economic research of the university of Montana may in the future recognize as the successor to that implicit price deflator.

Section 1. Section 15-10-412, MCA, is amended to read:

"15-10-412. (Temporary) Property tax limited to 1986 levels -- clarification -- extension to all property classes. Section 15-10-402 is interpreted and clarified as follows:

(1) The limitation to 1986 levels is extended to apply

1 to all classes of property described in Title 15, chapter 6,
2 part 1.

3 (2) The limitation on the amount of taxes levied is
4 interpreted to mean that the actual tax liability for an
5 individual property is capped at the dollar amount due in
6 each taxing unit for the 1986 tax year. In tax years
7 thereafter, the property must be taxed in each taxing unit
8 at the 1986 cap or the product of the taxable value and
9 mills levied, whichever is less for each taxing unit.

10 (3) The limitation on the amount of taxes levied does
11 not mean that no further increase may be made in the total
12 taxable valuation of a taxing unit as a result of:

13 (a) annexation of real property and improvements into
14 a taxing unit;

15 (b) construction, expansion, or remodeling of
16 improvements;

17 (c) transfer of property into a taxing unit;

18 (d) subdivision of real property;

19 (e) reclassification of property;

20 (f) increases in the amount of production or the value
21 of production for property described in 15-6-131 or
22 15-6-132;

23 (g) transfer of property from tax-exempt to taxable
24 status; or

25 (h) revaluations caused by:

1 (i) cyclical reappraisal; or

2 (ii) expansion, addition, replacement, or remodeling of
3 improvements.

4 (4) The limitation on the amount of taxes levied does
5 not mean that no further increase may be made in the taxable
6 valuation or in the actual tax liability on individual
7 property in each class as a result of:

8 (a) construction, expansion, replacement, or
9 remodeling of improvements that adds value to the property;

10 (b) transfer of property into a taxing unit;

11 (c) reclassification of property;

12 (d) increases in the amount of production or the value
13 of production for property described in 15-6-131 or
14 15-6-132;

15 (e) annexation of the individual property into a new
16 taxing unit; or

17 (f) conversion of the individual property from
18 tax-exempt to taxable status.

19 (5) Property in classes four, twelve, and fourteen is
20 valued according to the procedures used in 1986, including
21 the designation of 1982 as the base year, until the
22 reappraisal cycle beginning January 1, 1986, is completed
23 and new valuations are placed on the tax rolls and a new
24 base year designated, if the property is:

25 (a) new construction;

1 (b) expanded, deleted, replaced, or remodeled
 2 improvements;
 3 (c) annexed property; or
 4 (d) property converted from tax-exempt to taxable
 5 status.
 6 (6) Property described in subsections (5)(a) through
 7 (5)(d) that is not class four, class twelve, or class
 8 fourteen property is valued according to the procedures used
 9 in 1986 but is also subject to the dollar cap in each taxing
 10 unit based on 1986 mills levied.
 11 (7) The limitation on the amount of taxes, as
 12 clarified in this section, is intended to leave the property
 13 appraisal and valuation methodology of the department of
 14 revenue intact. Determinations of county classifications,
 15 salaries of local government officers, and all other matters
 16 in which total taxable valuation is an integral component
 17 are not affected by 15-10-401 and 15-10-402 except for the
 18 use of taxable valuation in fixing tax levies. In fixing tax
 19 levies, the taxing units of local government may anticipate
 20 the deficiency in revenues resulting from the tax
 21 limitations in 15-10-401 and 15-10-402, while understanding
 22 that regardless of the amount of mills levied, a taxpayer's
 23 liability may not exceed the dollar amount due in each
 24 taxing unit for the 1986 tax year unless:
 25 ~~(a)~~ the taxing unit's taxable valuation decreases by

1 5% or more from the previous tax year. If a taxing unit's
 2 taxable valuation decreases by 5% or more from the previous
 3 tax year, it may levy additional mills to compensate for the
 4 decreased taxable valuation, but ~~in no case may~~ IN NO CASE
 5 MAY the number-of mills levied pursuant-to--this--subsection
 6 ~~(a)--may-not~~ exceed a number calculated to equal the revenue
 7 from property taxes for the 1986 tax year in that taxing
 8 unit.
 9 ~~(b)--the--purchasing--power--of--the--taxing--unit--has~~
 10 ~~decreased--if-a-taxing-unit's-purchasing-power-has-decreased~~
 11 ~~by-at-least-1%,additional-mills-may-be-levied--pursuant--to~~
 12 ~~(section-1);~~
 13 (8) The limitation on the amount of taxes levied does
 14 not apply to the following levy~~7~~-budget-category, or special
 15 assessment categories, whether or not they are based on
 16 commitments made before or after approval of 15-10-401 and
 17 15-10-402:
 18 (a) rural improvement districts;
 19 (b) special improvement districts;
 20 (c) levies pledged for the repayment of bonded
 21 indebtedness, including tax increment bonds;
 22 (d) city street maintenance districts;
 23 (e) tax increment financing districts;
 24 (f) satisfaction of judgments against a taxing unit;
 25 (g) electric company street lighting assessments; and

1 (h) revolving funds to support any categories
 2 specified in this subsection (8); AND
 3 (i) levies for economic development authorized by
 4 90-5-112, and
 5 (j) levies to pay for items or programs that are
 6 mandated by federal or state government or over which the
 7 taxing unit has no control.
 8 (9) (a) The limitation on the amount of taxes levied
 9 does not apply in a taxing unit if the voters in the taxing
 10 unit approve an increase in tax liability at a general
 11 election. The voters in a taxing unit may approve the
 12 removal of the limitation or the establishment of a
 13 different limitation, either in the number of mills to be
 14 levied for one or more funds or in reference to the amount
 15 of a particular levy.
 16 (b) The voters in a taxing unit may approve an
 17 increase in tax liability at a special election held
 18 following a resolution of the governing body of the taxing
 19 unit containing:
 20 (a)(i)(A) a finding that there are insufficient funds
 21 to adequately operate the taxing unit as a result of
 22 15-10-401 and 15-10-402;
 23 (b)(i)(B) an explanation of the nature of the
 24 financial emergency;
 25 (c)(iii)(C) an estimate of the amount of funding

1 shortfall expected by the taxing unit;
 2 (d)(iv)(D) a statement that applicable fund balances
 3 are or by the end of the fiscal year will be depleted;
 4 (e)(v)(E) a finding that there are no alternative
 5 sources of revenue;
 6 (f)(vi)(F) a summary of the alternatives that the
 7 governing body of the taxing unit has considered; and
 8 (g)(vii)(G) a statement of the need for the increased
 9 revenue and how it will be used.
 10 (10) The limitation on the amount of taxes levied does
 11 not apply to levies required to address the funding of
 12 relief of suffering of inhabitants caused by famine,
 13 conflagration, or other public calamity. (Terminates
 14 December 31, 1989--sec. 6, Ch. 654, L. 1987.)"
 15 **Section 2.** Section 6, Chapter 654, Laws of 1987, is
 16 amended to read:
 17 "Section 6. Termination. This act terminates December
 18 31, 1989 1991."
 19 **NEW SECTION. Section 3.** Effective date. [This act] is
 20 effective April 4, 1989. If passage and approval occurs
 21 after April 4, 1989, [this act] is effective on passage and
 22 approval.

-End-

HOUSE BILL NO. 125

INTRODUCED BY HARRINGTON, DAILY, LYNCH,
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levied by a taxing unit by the same percentage as the purchasing power has decreased. The increase must be computed on the number of mills the taxing unit was authorized to levy in the prior year, including all adjustments to the limitation provided in Title 15, chapter 10, part 4. A mill levy increase made pursuant to this section may not result in a local government levying a greater number of mills than the number set as a maximum by law under a provision other than in Title 15, chapter 10, part 4.

(2) Local government purchasing power is measured by the change from one calendar year's to the next calendar year's implicit price deflator for gross national product for the state and local government sector, prepared by the U.S. department of labor, bureau of labor statistics, or other similar compilation that the bureau of business and economic research of the university of Montana may in the future recognize as the successor to that implicit price deflator.

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4 interpreted to mean that the actual tax liability for an
5 individual property is capped at the dollar amount due in
6 each taxing unit for the 1986 tax year. In tax years
7 thereafter, the property must be taxed in each taxing unit
8 at the 1986 cap or the product of the taxable value and
9 mills levied, whichever is less for each taxing unit.

10 (3) The limitation on the amount of taxes levied does
11 not mean that no further increase may be made in the total
12 taxable valuation of a taxing unit as a result of:

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14 a taxing unit;

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16 improvements;

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22 that regardless of the amount of mills levied, a taxpayer's
23 liability may not exceed the dollar amount due in each
24 taxing unit for the 1986 tax year unless:

25 ~~the~~ the taxing unit's taxable valuation decreases by

1 5% or more from the previous tax year. If a taxing unit's
2 taxable valuation decreases by 5% or more from the previous
3 tax year, it may levy additional mills to compensate for the
4 decreased taxable valuation, but ~~in no case may~~ IN NO CASE
5 MAY the number of mills levied pursuant to this subsection
6 ~~the~~ may not exceed a number calculated to equal the revenue
7 from property taxes for the 1986 tax year in that taxing
8 unit.

9 ~~the purchasing power of the taxing unit has~~
10 ~~decreased. If a taxing unit's purchasing power has decreased~~
11 ~~by at least 1%, additional mills may be levied pursuant to~~
12 ~~section 11.~~

13 (8) The limitation on the amount of taxes levied does
14 not apply to the following ~~levy~~ budget category or special
15 assessment categories, whether or not they are based on
16 commitments made before or after approval of 15-10-401 and
17 15-10-402:

- 18 (a) rural improvement districts;
- 19 (b) special improvement districts;
- 20 (c) levies pledged for the repayment of bonded
- 21 indebtedness, including tax increment bonds;
- 22 (d) city street maintenance districts;
- 23 (e) tax increment financing districts;
- 24 (f) satisfaction of judgments against a taxing unit;
- 25 (g) electric company street lighting assessments; and

(h) revolving funds to support any categories specified in this subsection (8); AND

(i) levies for economic development authorized by 90-5-112; and

~~(j) levies to pay for items or programs that are mandated by federal or state government or over which the taxing unit has no control.~~

(9) ~~(a) The limitation on the amount of taxes levied does not apply in a taxing unit if the voters in the taxing unit approve an increase in tax liability at a general election. The voters in a taxing unit may approve the removal of the limitation or the establishment of a different limitation, either in the number of mills to be levied for one or more funds or in reference to the amount of a particular levy.~~

~~(b) The voters in a taxing unit may approve an increase in tax liability at a special election held following a resolution of the governing body of the taxing unit containing:~~

~~(a)(i)(A) a finding that there are insufficient funds to adequately operate the taxing unit as a result of 15-10-401 and 15-10-402;~~

~~(b)(i)(B) an explanation of the nature of the financial emergency;~~

~~(c)(i)(C) an estimate of the amount of funding~~

shortfall expected by the taxing unit;

~~(d)(iv)(D) a statement that applicable fund balances are or by the end of the fiscal year will be depleted;~~

~~(e)(v)(E) a finding that there are no alternative sources of revenue;~~

~~(f)(vi)(F) a summary of the alternatives that the governing body of the taxing unit has considered; and~~

~~(g)(vii)(G) a statement of the need for the increased revenue and how it will be used.~~

(10) The limitation on the amount of taxes levied does not apply to levies required to address the funding of relief of suffering of inhabitants caused by famine, conflagration, or other public calamity. (Terminates December 31, 1989--sec. 6, Ch. 654, L. 1987.)"

Section 2. Section 6, Chapter 654, Laws of 1987, is amended to read:

"Section 6. Termination. This act terminates December 31, 1989 1991."

NEW SECTION. Section 3. Effective date. [This act] is effective April 4, 1989. If passage and approval occurs after April 4, 1989, [this act] is effective on passage and approval.

-End-

HOUSE BILL NO. 125

INTRODUCED BY HARRINGTON, DAILY, LYNCH,

PAVLOVICH, GIACOMETTO, WHALEN

A BILL FOR AN ACT ENTITLED: "AN ACT AMENDING PROVISIONS RELATING TO THE PROPERTY TAX FREEZE AND ALLOWING AN INCREASE IN THE NUMBER OF MILLS THAT MAY BE LEVIED BY A TAXING UNIT IF THE PURCHASING POWER OF THE TAXING UNIT HAS DECREASED BY AT LEAST 1 PERCENT IN THE PREVIOUS CALENDAR YEAR; PROVIDING AN EXEMPTION FROM THE FREEZE FOR LEVIES FOR ECONOMIC DEVELOPMENT AND FOR MANDATED OR UNCONTROLLABLE COSTS OF LOCAL GOVERNMENT UNITS AND SCHOOLS; ALLOWING LOCAL ELECTIONS TO REMOVE THE 1986 LEVEL LIMITATION ON LEVIES OR TO INSTITUTE A DIFFERENT LIMITATION; EXTENDING THE TERMINATION DATE OF THE FREEZE; AMENDING SECTION 15-10-412, MCA, AND SECTION 6, CHAPTER 654, LAWS OF 1987; AND PROVIDING AN EFFECTIVE DATE."

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

NEW SECTION. **Section 1.** Adjustment of taxing unit mill levies -- decrease in purchasing power -- (1) If the purchasing power of a taxing unit has decreased by at least 1% in the preceding calendar year, the governing body of the taxing unit may increase the limit provided in Title 15, chapter 10, part 4, on the number of mills that may be

levied by a taxing unit by the same percentage as the purchasing power has decreased. The increase must be computed on the number of mills the taxing unit was authorized to levy in the prior year, including all adjustments to the limitation provided in Title 15, chapter 10, part 4. A mill levy increase made pursuant to this section may not result in a local government levying a greater number of mills than the number set as a maximum by law under a provision other than in Title 15, chapter 10, part 4.

(2) Local government purchasing power is measured by the change from one calendar year's to the next calendar year's implicit price deflator for gross national product, for the state and local government sector, prepared by the U.S. department of labor, bureau of labor statistics, or other similar compilation that the bureau of business and economic research of the university of Montana may in the future recognize as the successor to that implicit price deflator.

Section 1. Section 15-10-412, MCA, is amended to read:

"15-10-412. (Temporary) Property tax limited to 1986 levels -- clarification -- extension to all property classes. Section 15-10-402 is interpreted and clarified as follows:

(1) The limitation to 1986 levels is extended to apply

1 to all classes of property described in Title 15, chapter 6,
2 part 1.

3 (2) The limitation on the amount of taxes levied is
4 interpreted to mean that the actual tax liability for an
5 individual property is capped at the dollar amount due in
6 each taxing unit for the 1986 tax year. In tax years
7 thereafter, the property must be taxed in each taxing unit
8 at the 1986 cap or the product of the taxable value and
9 mills levied, whichever is less for each taxing unit.

10 (3) The limitation on the amount of taxes levied does
11 not mean that no further increase may be made in the total
12 taxable valuation of a taxing unit as a result of:

13 (a) annexation of real property and improvements into
14 a taxing unit;

15 (b) construction, expansion, or remodeling of
16 improvements;

17 (c) transfer of property into a taxing unit;

18 (d) subdivision of real property;

19 (e) reclassification of property;

20 (f) increases in the amount of production or the value
21 of production for property described in 15-6-131 or
22 15-6-132;

23 (g) transfer of property from tax-exempt to taxable
24 status; or

25 (h) revaluations caused by:

1 (i) cyclical reappraisal; or

2 (ii) expansion, addition, replacement, or remodeling of
3 improvements.

4 (4) The limitation on the amount of taxes levied does
5 not mean that no further increase may be made in the taxable
6 valuation or in the actual tax liability on individual
7 property in each class as a result of:

8 (a) construction, expansion, replacement, or
9 remodeling of improvements that adds value to the property;

10 (b) transfer of property into a taxing unit;

11 (c) reclassification of property;

12 (d) increases in the amount of production or the value
13 of production for property described in 15-6-131 or
14 15-6-132;

15 (e) annexation of the individual property into a new
16 taxing unit; or

17 (f) conversion of the individual property from
18 tax-exempt to taxable status.

19 (5) Property in classes four, twelve, and fourteen is
20 valued according to the procedures used in 1986, including
21 the designation of 1982 as the base year, until the
22 reappraisal cycle beginning January 1, 1986, is completed
23 and new valuations are placed on the tax rolls and a new
24 base year designated, if the property is:

25 (a) new construction;

1 (b) expanded, deleted, replaced, or remodeled
2 improvements;

3 (c) annexed property; or

4 (d) property converted from tax-exempt to taxable
5 status.

6 (6) Property described in subsections (5)(a) through
7 (5)(d) that is not class four, class twelve, or class
8 fourteen property is valued according to the procedures used
9 in 1986 but is also subject to the dollar cap in each taxing
10 unit based on 1986 mills levied.

11 (7) The limitation on the amount of taxes, as
12 clarified in this section, is intended to leave the property
13 appraisal and valuation methodology of the department of
14 revenue intact. Determinations of county classifications,
15 salaries of local government officers, and all other matters
16 in which total taxable valuation is an integral component
17 are not affected by 15-10-401 and 15-10-402 except for the
18 use of taxable valuation in fixing tax levies. In fixing tax
19 levies, the taxing units of local government may anticipate
20 the deficiency in revenues resulting from the tax
21 limitations in 15-10-401 and 15-10-402, while understanding
22 that regardless of the amount of mills levied, a taxpayer's
23 liability may not exceed the dollar amount due in each
24 taxing unit for the 1986 tax year unless:

25 ~~(a)~~ the taxing unit's taxable valuation decreases by

1 5% or more from the previous tax year. If a taxing unit's
2 taxable valuation decreases by 5% or more from the previous
3 tax year, it may levy additional mills to compensate for the
4 decreased taxable valuation, but ~~in no case may~~ IN NO CASE
5 MAY the number of mills levied pursuant to this subsection
6 ~~(a)~~ may not exceed a number calculated to equal the revenue
7 from property taxes for the 1986 tax year in that taxing
8 unit.

9 ~~(b) the purchasing power of the taxing unit has~~
10 ~~decreased; if a taxing unit's purchasing power has decreased~~
11 ~~by at least 1%, additional mills may be levied pursuant to~~
12 ~~section 17.~~

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14 not apply to the following levy ~~budget category~~, or special
15 assessment categories, whether or not they are based on
16 commitments made before or after approval of 15-10-401 and
17 15-10-402:

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- 24 (f) satisfaction of judgments against a taxing unit;
- 25 (g) electric company street lighting assessments; and

(h) revolving funds to support any categories specified in this subsection (8); AND

(i) levies for economic development authorized by 90-5-112; and

(j) levies to pay for items or programs that are mandated by federal or state government or over which the taxing unit has no control.

(9) (a) The limitation on the amount of taxes levied does not apply in a taxing unit if the voters in the taxing unit approve an increase in tax liability at a general election. The voters in a taxing unit may approve the removal of the limitation or the establishment of a different limitation, either in the number of mills to be levied for one or more funds or in reference to the amount of a particular levy.

(b) The voters in a taxing unit may approve an increase in tax liability at a special election held following a resolution of the governing body of the taxing unit containing:

(a)(i)(A) a finding that there are insufficient funds to adequately operate the taxing unit as a result of 15-10-401 and 15-10-402;

(b)(i)(B) an explanation of the nature of the financial emergency;

(c)(i)(C) an estimate of the amount of funding

shortfall expected by the taxing unit;

(d)(iv)(D) a statement that applicable fund balances are or by the end of the fiscal year will be depleted;

(e)(v)(E) a finding that there are no alternative sources of revenue;

(f)(vi)(F) a summary of the alternatives that the governing body of the taxing unit has considered; and

(g)(vii)(G) a statement of the need for the increased revenue and how it will be used.

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Section 2. Section 6, Chapter 654, Laws of 1987, is amended to read:

"Section 6. **Termination.** This act terminates December 31, 1989 1991."

NEW SECTION. Section 3. Effective date. [This act] is effective April 4, 1989. If passage and approval occurs after April 4, 1989, [this act] is effective on passage and approval.

-End-



State of Montana
Office of the Governor
Helena, Montana 59620
406-444-3111

STAN STEPHENS
GOVERNOR

April 20, 1989

The Honorable John Vincent
Speaker of the House
State Capitol
Helena, MT 59620

The Honorable Jack Galt
President of the Senate
State Capitol
Helena, MT 59620

Dear Representative Vincent and Senator Galt:

In accordance with the power vested in me as Governor by the Constitution and laws of the State of Montana, I hereby veto the adoption of House Bill 125, "AN ACT AMENDING PROVISIONS RELATING TO THE PROPERTY TAX FREEZE; PROVIDING AN EXEMPTION FROM THE FREEZE FOR LEVIES FOR ECONOMIC DEVELOPMENT; EXTENDING THE TERMINATION DATE OF THE FREEZE; AMENDING SECTION 15-10-412, MCA, AND SECTION 6, CHAPTER 654, LAWS OF 1987; AND PROVIDING AN EFFECTIVE DATE." for the following reasons.

Initiative 105 provided direction to the Montana Legislature and this Governor about increased reliance on the property tax increases in our state. House Bill 125 erodes that direction of no further property tax increase above the 1986 tax base year.

The economic development levy would become another exception to the desires expressed by the people of this state.

Certainly, economic development efforts, and especially local economic development efforts, are a key component of my philosophy for restoring growth and vitality of Montana's economy. But is the need for this specific spending authority so compelling that we should weaken I-105 and potentially

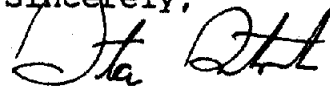
HB 125

The Honorable John Vincent
The Honorable Jack Galt
April 20, 1989
Page Two

increase the tax burden of Montanans? After much thought, I have decided it is not.

I therefore veto House Bill 125.

Sincerely,

A handwritten signature in dark ink, appearing to read "Sta Stephens", written over the word "Sincerely,".

STAN STEPHENS
Governor