

**MINUTES**

**MONTANA HOUSE OF REPRESENTATIVES  
53rd LEGISLATURE - SPECIAL SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By CHAIRMAN BOB GILBERT, on December 16, 1993, at  
5:30 p.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. Tom Nelson (R)  
Rep. Scott Orr (R)  
Rep. Bob Raney (D)  
Rep. Bob Ream (D)  
Rep. Rolph Tunby (R)

**Members Excused:** Rep. Bea McCarthy (D)

**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: SB 25, SB 27, SB 42  
Executive Action: SB 27 Be Concurred In, SB 42 Be  
Concurred In, SB 25 Motion to Concur  
Failed

HEARING ON SENATE BILL 25

Opening Statement by Sponsor: SEN. FRED VAN VALKENBURG, SD 30, Missoula, said SB 25 is based largely on recommendations of the Governor's Property Tax Advisory Council. It contains three main components. First, it extends the March 1 deadline for people to apply for the low-income property tax reduction in current law. It is not a widely utilized program in the state; only 9000 out of a potential 46,000 taxpayers have applied for relief through this program. The advisory council saw this recommendation as a means of helping some property taxpayers whose increases were large enough to cause them to have to sell their property and move. The extension is for 90 days and applies to 1994 only.

Secondly, the bill expands the income guidelines and reduces the number of eligibility brackets. Current law guidelines are a maximum \$10,000 for a single persons and \$12,000 for married couples. Current law also has an inflator with a base year of 1986 which allows the maximums to be increased to \$13,361 and \$16,034 for tax year 1994. The council recommended the base maximums be increased to \$15,000 for a single person and \$20,000 for a married couple. The inflator could not be applied to those new maximum levels.

Third, the bill changes the base year from 1986 to 1993 so that the inflator could not be applied for another 2 years.

He said this is the most important piece of property tax legislation to be presented this special session. It addresses the problem of people who are facing the loss of their real property due to large property tax increases. He said he is sensitive to the concerns of all those whose taxes have increased; however, if someone is truly in danger of losing their property because they do not have the financial ability to pay, they must have some assistance. This provision was originally adopted to provide assistance to lower income taxpayers, but the effect of the 1989 statewide mill levy increase of 40 mills and HB 667, passed in 1993, that allows school boards to increase the permissive levy without a vote of the people has necessitated an updating of the low income tax relief provisions.

He said the Legislature can do even better by targeting some tax relief to middle income property tax payers who have experienced the largest increases and are the most angry about them. He said each view regarding the impacts of property taxation is valid and the Legislature must work together to meet the needs of Montanans.

**Proponents' Testimony:** REP. EMILY SWANSON, HD 79, Bozeman, said she supports Sen. Van Valkenburg's testimony in support of the bill. She called attention to the fiscal note regarding the various estimates of increased costs caused by expanding the low income relief provisions. She said the advisory council recommended that any expenses for tax year 1994 caused by the extension of the deadline be paid by the state rather than by local governments. She supported that position rather than having local governments pick up the expenses as the bill now reads. She said the bill extends relief to those who are most needy, extends the application deadline, and has a reasonable fiscal impact. She noted the realtors association has indicated they would be willing to conduct a public education program regarding the program.

Dennis Burr, Montana Taxpayers Association, said the bill includes provisions that should have previously been in law such as extending the application deadline.

Eric Feaver, Montana Education Association (MEA), expressed support for the bill as presented.

Ric Floren, member of the Governor's Advisory Council, said the council recommended that the property tax increase be phased in over a three year period. Although the bill, as presented, would represent a loss to local governments, the increase is still a third higher than in 1992.

Tom Hopgood, Montana Association of Realtors, said he supported the bill as it provides relief to the most needy taxpayers.

**Opponents' Testimony:** There were no opponents.

**Questions From Committee Members and Responses:** There were no questions.

**Closing by Sponsor:** SEN. VAN VALKENBURG said, in response to concerns re the fiscal note, it is difficult to estimate what the participation rate might be particularly in the second year. He doubted there would be too many more applications even after an educational campaign. Even if the applicants were to double, the impact would be less than \$2 million on local governments and schools this year. He said local governments have benefitted enormously by the property tax increases and it seemed only fair that they should bear the expense of implementing the bill's provisions. There was opposition to the bill in Senate on the basis that it would provide property tax relief to people who did

not experience a property tax increase. There is no way to quantify that without specific information that is not available. He said this bill updates property tax law and adjusts for legislation that previously increased mill levies and property taxes.

#### HEARING ON SENATE BILL 27

**Opening Statement by Sponsor:** SEN. FRED VAN VALKENBURG, SD 30, Missoula, said SB 27 represents another recommendation of the Governor's Property Tax Advisory Council. It would have the most long term impact on the Montana property tax system if it passed and was adopted by the voters. It is a proposed constitutional amendment which adds a property tax section to the Constitution that addresses property tax administration. It provides a guarantee to the citizens of Montana that after reappraisal cycles are completed and new values placed on properties for purposes of property taxation that those values will not increase by increase by a rate greater than 4% per year. Montana citizens want assurance that their property values will not increase due to the inflated rate of property purchases around them. People want to be able to continue to live in their homes and be protected from skyrocketing values which might cause them to lose their homes due to inability to pay inflated rates. The advisory council recommended the constitutional amendment due to their concerns about this issue. They were also very concerned about the impact of shifting taxes to taxpayers whose property was not appreciating at a rate greater than 4% or might be even decreasing in value. That is one of the prime benefits of a law that places a cap on values for property tax purposes. The Senate discussed including a reference to acquisition value in the constitutional amendment. SEN. VAN VALKENBURG cautioned the Committee members about the ramifications of putting such a provision in the constitution. He said 4% is a reasonable rate and is roughly equivalent to the inflation rate in Montana. Most everyone wants and expects their real property to increase in value. The citizens want to pay reasonable taxes in order to support their schools and local governments. This bill represents a good way to assure Montanans their Legislature cares about them, both political parties are working together to try to solve the problems, and there is a true alternative to some of the more radical proposals that may be on the ballot next year.

**Proponents' Testimony:** REP. EMILY SWANSON, HD 79, Bozeman, said Montanans need great predictability, stability, and dependability in their tax structure. There is a need to balance the problem of tax shifting with the problem of voters and property owners wanting stability in their tax system.

**Alec Hanson, Montana League of Cities and Towns**, expressed support for the bill. He said this is the most reasonable and fair approach to property taxation and would solve the property tax crisis. Taxpayers would know their taxes were limited to 4% and could make budget allowances for them. It is also reasonable and progressive for local governments.

**Ric Floren, member of the Governor's Property Tax Advisory Council**, expressed support for the bill.

**Dennis Burr, Montana Taxpayers Association and a member of the Tax Advisory Council**, said the advisory council did recommend the inclusion of acquisition value. He said the 4% increase is quite high in a state where there is no increase for seven years and then a bump up due to reappraisal. He was not sure the taxpayers would be willing to trade the seven years of no increases for a 4% a year increase. He felt a 2% increase would be high enough. There is no limitation on mill levies so there is no attempt to limit tax increases.

**David Owen, Montana Chamber of Commerce**, said he supports Mr. Burr's comments. He said the Chamber of Commerce has been trying to devise a method of tying the cost of government to economic growth. Non-farm labor income and personal income have grown at a little more than 4%. If the 4% increase is adopted and mills can still increase, there will be a potential for taxation to surpass the economic growth. The Chamber has not found the ideal solution, but encourages the legislature to adopt something less than the 4% figure but more than 0%.

Opponents' Testimony: There were no opponents.

Questions From Committee Members and Responses:

**REP. HIBBARD** asked how the increase would be phased in as referenced in the fiscal note.

**SEN. VAN VALKENBURG** said it would be left to the Legislature to decide. He said the stricken material in HB 25, the advisory council's recommendation to phase in the increase over three years by thirds, could be used for the phase-in .

**REP. ELLIOTT** asked for a further explanation of the acquisition value reference.

**Mr. Floren** said the original recommendation was 3%. After a great deal of discussion about rates, commercial and residential property, the council decided on a 4% increase per year. However, if there was an acquisition of the property during the

three year cycle, the acquisition value would be used until the

reassessment at the end of the cycle. There would be no increase for three years. At the end of the three year cycle, the maximum increase would be 12% in the assessed value of the property.

REP. ELLIOTT asked if the 4% figure was a compromise and if the council voted unanimously on the 4% figure.

Mr. Floren responded affirmatively to both questions.

REP. REAM asked if the Legislature could set a statutory limit of less than 4%.

SEN. VAN VALKENBURG said he believed it could. The prohibitory language in the Constitution only applies to increases over 4%.

Closing by Sponsor: SEN. VAN VALKENBURG said this bill presents the greatest opportunity for showing the taxpayers we understand the impacts reappraisal has had on them and that we can work together to solve the problem.

#### HEARING ON SENATE BILL 42

Opening Statement by Sponsor: SEN. SUE BARTLETT, SD 23, Helena, said SB 42 is a circuit breaker bill. She presented the information contained in Exhibit #1. She noted the fiscal note anticipates a total cost of \$7.66 million which is based on limiting to a single year and retaining the maximum credit of \$400.

#### Proponents' Testimony:

REP. JIM ELLIOTT, H 51, Trout Creek, said he is a co-sponsor of the bill. The bill extends property tax relief to middle income Montanans up to a maximum of \$400. He said it goes partway toward addressing the property tax problem in the state although it could be better addressed by limiting the amount of property taxes assessed. He said he would prefer to have the maximum be a larger amount; however, \$400 is an affordable figure for the state to pay and still offer some significant relief.

SEN. TOM TOWE, SD 46, Billings, submitted a worksheet detailing household income, tax increases and credits on homes of differing values in different areas of the state (Exhibit #2). He said the largest credits will be paid to the people with the lowest household incomes and will decrease as income increases. Under the provisions of the bill, a certain amount of tax would still have to be paid before the taxpayer could receive a credit.

Eric Feaver, Montana Education Association, said his organization supports the bill as all poor people should get some sort of relief.

Opponents' Testimony: There were no opponents.

Questions From Committee Members and Responses:

REP. HIBBARD asked when taxpayers could first apply for the credit.

SEN. BARTLETT said taxpayers could apply for a 1994 credit when they file their 1994 taxes in the spring of 1995.

Closing by Sponsor: SEN. BARTLETT closed saying everyone would like to offer very large amounts of money to taxpayers that have been hit hard by reappraisal; however, SB 42 offers an affordable credit in a targeted manner that will benefit low and middle income taxpayers hardest hit by the tax increase.

EXECUTIVE ACTION ON HOUSE BILL 27

Motion: REP. REAM MOVED SB 27 BE CONCURRED IN.

Discussion: REP. REAM said the constitutional cap of 4% is a satisfactory figure. The Legislature could, and most likely would, statutorily set a lower limit.

REP. BOHLINGER expressed concern about the possible 4% growth rate in the cost of government. He said it is possible for a taxpayer to face up to a 48% increase in property taxes in a ten year period.

REP. REAM said the taxes are not increasing by 4%, only the valuation could increase up to 4% per year.

Vote: Motion that SB 27 Be Concurred in carried 13-7 on a roll call vote with Representatives Bohlinger, Driscoll, Harper, Hibbard, Keller, Nelson, and Raney voting no.

EXECUTIVE ACTION ON SENATE BILL 42

Motion/Vote: REP. ELLIOTT MOVED SB 42 BE CONCURRED IN. The motion carried unanimously.

EXECUTIVE ACTION ON SENATE BILL 25

Motion/Vote: REP. ELLIOTT MOVED SB 25 BE CONCURRED IN. The motion failed 9-11 on a roll call vote with Reps. Foster, Anderson, Bohlinger, Feland, Hanson, Hibbard, Keller, Nelson, Orr, Tunby, and Gilbert voting no.

ADJOURNMENT

Adjournment: The meeting adjourned at 6:45 p.m.

*Mike Foster for Bob Gilbert*  
\_\_\_\_\_  
REP. BOB GILBERT, Chairman

*Jill Rohyans*  
\_\_\_\_\_  
JILL ROHYANS, Secretary

BG/jdr





## HOUSE STANDING COMMITTEE REPORT

December 16, 1993

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that Senate Bill No. 27 (third reading copy -- blue) be concurred in.

Signed:

A handwritten signature in cursive script that reads "Bob Gilbert".

*Bob Gilbert, Chair*

Carried by: Rep. Swanson

Committee Vote:  
Yes 13, No 7.

161802SC.Hsf

*Handwritten initials and date:*  
S.S. 9  
12-16-93  
6:40



## HOUSE STANDING COMMITTEE REPORT

December 16, 1993

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that Senate Bill No. 42 (third reading copy -- blue) be concurred in.

Signed: \_\_\_\_\_

A handwritten signature in cursive script that reads "Bob Gilbert".

*Bob Gilbert, Chair*

**Carried by: Rep. Elliott**

Committee Vote:

Yes 5, No 2.

161803SC.Hsf

*gd.  
12-16-93  
6:20 p*

HOUSE OF REPRESENTATIVES

TAXATION COMMITTEE

ROLL CALL VOTE

DATE 12/16/93 BILL NO. SB 27 NUMBER 1

MOTION: by Rep Ream that SB27 be  
concurrent in

NAME	AYE	NO
REP. FOSTER	✓	
REP. HARRINGTON	✓	
REP. ANDERSON	✓	
REP. BOHLINGER		✓
REP. DOLEZAL	✓	
REP. DRISCOLL		✓
REP. ELLIOTT	✓	
REP. FELAND	✓	<del>✓</del>
REP. HANSON	✓	
REP. HARPER		✓
REP. HIBBARD		✓
REP. KELLER		✓
REP. McCAFFREE	✓	
REP. MCCARTHY	✓	
REP. NELSON		✓
REP. ORR	✓	
REP. RANEY		✓
REP. REAM	✓	
REP. TUNBY	✓	
REP. GILBERT	✓	

HOUSE OF REPRESENTATIVES

TAXATION COMMITTEE

ROLL CALL VOTE

DATE 12/16/93 BILL NO. SB 25 NUMBER 2

MOTION: by Rep. Elliott that SB 25 be  
concurrent in

NAME	AYE	NO
REP. FOSTER		✓
REP. HARRINGTON	✓	
REP. ANDERSON		✓
REP. BOHLINGER		✓
REP. DOLEZAL	✓	
REP. DRISCOLL	✓	
REP. ELLIOTT	✓	
REP. FELAND		✓
REP. HANSON		✓
REP. HARPER	✓	
REP. HIBBARD		✓
REP. KELLER		✓
REP. McCAFFREE	✓	
REP. McCARTHY	✓	
REP. NELSON		✓
REP. ORR		✓
REP. RANEY	✓	
REP. REAM	✓	
REP. TUNBY		✓
REP. GILBERT		✓

# PROPERTY TAX CIRCUIT BREAKER

Introduced by Senator Bartlett

EXHIBIT

DATE 12/16/93

SB 42

## General Description:

A property tax circuit breaker is based on the concept that property taxes can be excessive in relation to household income. It targets assistance to those who have a property tax liability that exceeds a specified percentage of their household income.

## Features of Current Law Retained in SB 42:

- \* Provides a refundable income tax credit.
- \* Maximum credit is \$400.
- \* Taxpayer must have resided in Montana for at least 9 months and have occupied the residence for at least 6 months of the year.
- \* Applies solely to the taxpayer's primary residence (homestead).
- \* Property taxes must have been paid.
- \* Applies to all ad valorem property taxes, excluding fees and improvement districts.
- \* Includes renters when property tax liability exceeds 15% of the rent paid.
- \* Income is adjusted gross income, without regard to loss, plus all nontaxable income.

## New Provisions in SB 42

- \* Eliminates age requirement; applies to all taxpayers.
- \* Eliminates retirement benefits deduction from household income.
- \* Establishes this schedule of income brackets and percentage of household income to be paid in property taxes:

<u>Income</u>	<u>%</u>
\$ 0-25,000	5%
\$25-50,000	6%
\$50-75,000	7%

- \* Applies to tax year 1994 and the credit may be claimed only for tax year 1994.

## Advantages of SB 42

- \* Provides a response to the immediate problem of increased property taxes.
- \* Targets the response to the real problem: Taxpayers who may be forced out of their homes by the increase in property taxes.
- \* Uses an administrative mechanism that is already in place.

HB 42

12/16/93  
5042

Example: assume a \$50,000 home in Missoula increased by 20% to \$60,000  
Property tax = \$1282.18

If Household income is \$15,000 = \$750 = \$532.18 eligible but limit is \$400  
If Household income is \$20,000 = \$1000 = \$282.18 amount of credit  
If Household income is \$25,000 = \$1250 = \$ 32.18 amount of credit

Assume a house in Missoula increases from \$65,000 to \$75,000 appraisal value -- tax is \$1602.73

If Household income is \$15,000 - amount of credit is \$400  
If Household income is \$20,000 - amount of credit is \$400  
If Household income is \$25,000 - amount of credit is \$102.73  
If Household income is \$30,000 - amount of credit is -0-

Assumer a house in Missoula increases from \$80,000 to \$90,000 appraisal value -- tax is \$1923.28

If Household income is \$15,000 - amount of credit is \$400  
If Household income is \$20,000 - amount of credit is \$400  
If Household income is \$25,000 - amount of credit is \$400  
If Household income is \$30,000 - amount of credit is \$123.28  
If Household income is \$35,000 - amount of credit is -0-

Homeowners Threshold Appraised value of Home

Household Income:	<u>\$15,000</u>	<u>20,000</u>	<u>25,000</u>	<u>30,000</u>	<u>35,000</u>	<u>50,000</u>
Billings -	\$40,905	54,655	68,319	98,380	114,750	191,294
Butte -	\$37,365	49,820	62,275	89,677	104,600	174,375
Missoula -	\$35,135	46,850	58,559	84,325	98,350	163,950

Rentees

Monthly Rent :	\$200	--	\$7,200	threshold	annual income	or above
"	300	--	10,800	"	"	"
"	400	--	14,400	"	"	"
"	500	--	18,000	"	"	"
"	600	--	21,600	"	"	"

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

SB 25  
SB 27  
SB 42

House Taxation COMMITTEE BILL NO. SB 42  
DATE 12/16/93 SPONSOR(S) Van Valkenburg Barrett

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Eric Feaver	MFA	25		☑
Ric Floren	Tax Council	25/ 27/42		✓
Tom Hoagood	M. Assoc. Realtors			25

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