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MONTANA CONSTITUTIONAL CONVENTION
STATE CAPITOL • HELENA, MONTANA 59601 • TELEPHONE 406/449-3750

REVENUE AND FINANCE COMMITTEE

Place of Meeting: 3rd Floor Meeting Room, Historical Society

Date Meeting Held: 1/25/72
Time Meeting Held: 10:23 a.m.
1:30 p.m.

Committee Chairman: Sterling Rygg

MINUTES OF THE SEVENTH MEETING OF THE REVENUE AND FINANCE COMMITTEE

SUBJECT OF MEETING: General Hearing on Taxation Articles

Roll Call:

Sterling Rygg, Chairman	Present
Maurice Driscoll, Vice Chairman	Present
William Artz	Present
E. M. Berthelson	Present
Dave Drum	Present
Noel Furlong	Present
Russell McDonough	Present
Mike McKeon	Present
Roger Wagner	Present

Time of Adjournment: 4:40 p.m.

DISCUSSION:

Chairman Sterling Rygg opened the seventh meeting of the Revenue and Finance Committee at 10:23 a.m., January 25, in the 3rd floor meeting room of the Historical Society Building. He introduced committee members and staff to the visitors present.

The committee listened to testimony on local government finance from Dan Mizner, Executive Director of the Montana League of Cities and Towns.

The committee recessed at 11:50 a.m. At 1:30 p.m. the committee meeting re-convened to hear testimony from Ed Quinn of the Anaconda Company; Mr. P. L. MacDonald of the Anaconda Company was also called upon for answers to questions.

The committee then heard testimony from Dr. William Diehl, author of the Montana Fiscal Affairs Study, and from Jean Anderson of Billings, state president of the League of Women Voters.

Under other business, the committee agreed to schedule a general hearing for Saturday, January 29, at 10:00 a.m. They instructed Roger Barber to obtain copies of the Serrano vs. Priest case for the committee's use.

Chairman Rygg announced that committee hearings would continue on Wednesday, January 26, at 10:30 a.m. in the Historical Society Building.

The meeting was adjourned.

Time of Adjournment: 4:40 p.m.

Sterling Rygg
Chairman

Karen Halliday
Secretary

Testimony on REVENUE AND FINANCE
Prepared by the League of Women Voters of Montana for the Constitutional Convention of 1972

Financing local government is a nation wide problem and the heavy reliance of Montana's localities on the property tax is not unique. But in Montana local property tax is almost the only source of local revenue allowed by law. The rise in the expenses of local government is not matched by the rise in property tax collections. In most states the widening gap is at least partially bridged by increased intergovernmental aid as well as alternate methods of taxation and higher tax rates. Only three states distribute less, on a per capita basis, to local governments than Montana.

Since the early 60's the League of Women Voters of Montana has supported legislative measures to aid in obtaining adequate revenue for local governments to meet local needs. Additional monies might come from shared revenue from the state level but our 1889 Constitution contains a provision (Article XII Sect 4) which prohibits sharing of state tax money to municipalities and counties. The LWV of Montana believes that this prohibition should be removed.

We realize that no constitutional change will solve the financial problems of local taxpayers or their governments nor will it fill state coffers with revenue to be shared.

January 25, 1972

TESTIMONY:

Dr. Diehl told the committee he thought Montana should consider three changes in the present methods of taxation.

1. To provide taxing power to local governments.
2. State grants-in-aid system for local governments, either bloc grants or grants for specific projects.
3. State funding of schools from other sources of revenue, leaving property taxes to local governments.

Dr. Diehl told the committee that Montana needs to institute a uniform method of accounting and budgeting. He explained that each county has different methods of accounting and budgeting, leading to much confusion at both the county and state level. He thought it would be entirely within the sphere of the Constitutional Convention to specify that the state do so.

He told the members that Montana must find new sources of revenue. The property tax is at a confiscatory level and income taxes are not producing enough new revenue each year; certainly license taxes are not producing any growth in revenue. Dr. Diehl said that when any tax gets to a certain level which the people consider too high, they will do anything to avoid paying it. There is constant pressure to change taxes to make them more equitable, and since no one is able to design a perfect tax, we have to live somewhat with inequities. He said that he didn't believe that there was equality of assessing property in Montana.

Mr. Diehl replied in answer to a question from Mr. Furlong that in his opinion, the only new source of revenue left to Montana was a general sales tax.

Mr. McKeon asked Dr. Diehl if the state is now providing an equal education for all Montana children. Dr. Diehl replied that the same quality of education is available to all children, but the quality of education a particular child receives is governed by how well available education funds are administered in that particular district. Administration of education funds is not equal in every district; some districts have better administration of funds than other districts. The term "adequate education" is one that has to be determined by the legislature, but the legislature has no control, or very little, over local administration of funds. In theoretical terms, quality of educational programs can be measured in two ways: 1) by input, or the number of dollars, facilities, teachers, etc.; or by 2) output, what the educational system produces. The first is easy to measure; the second is not.

Dr. Diehl pointed out that there is an equalizing feature unique to Montana in terms of educational quality. In areas where per capita income is low, property values are generally high; conversely, in areas where per capita income is high, property values are lower. These factors act as an equalizer.

Dr. Diehl told the committee that he did not think the Constitution should say that <u>all</u> property will be taxed, and agreed to submit to the committee a tentative list of exempt property.

Mr. Artz asked Dr. Diehl his opinion of a statewide property tax. Dr. Diehl said that he thought the state had to move in the direction of taking full responsibility for the funding of schools. The property tax is a good local tax and can be effectively administered on the local level with the help of the state. There is a better chance to use property taxes at the local level for financing local government. The state sooner or later has to realize that it cannot force any unit of local government to do the same things as other units of local government. Each community has unique problems and different needs and this cannot be determined by the state.

In the area of welfare, Dr. Diehl said the requirements of the federal government make welfare a different case. He said that the future will probably show the federal government taking over the welfare programs in the states.

Dr. Diehl said that he generally did not approve of the earmarking of revenues, since the purpose for which funds are earmarked is often fulfilled and then the funds are not available for other needs. If a particular source of revenue is to be earmarked, this should be done by statutory law and not in the constitution.

In the area of net proceeds vs. a state severance tax on natural resources, Dr. Diehl reminded the committee that the net proceeds tax is economically neutral over a period of time. It does not force the industry in question to rapidly utilize natural resources. He said he would favor a tax on resources in place. A gross production tax is more a tax on the resources than on the company itself. This tax increases the cost of production and changes the competitive position of a particular company, since the increased production costs are made up for in increased prices. The difference in production costs may mean a difference in the use of a resource.

TESTIMONY:

Relating to the assessed valuation of mining claims, the present Constitution says that claims are to be assessed at the cost of their purchase from the United States government. In the case of most claims, it's $5, but the scale runs from $2.50 to $20 per acre. But you must remember that this is also the taxable valuation since it's in a 100% category; $5 is also the taxable valuation. In comparing it with the most recent Board of Equalization report of other lands in the state, I've converted the figures shown here to taxable valuation so we'll have equivalent comparisons and we find that irrigated land, on the state average, is, in taxable valuation terms, $9.83. Non-irrigated land is $4.40. Grazing and wild hay land in taxable valuation is $1 per acre. Wild hay land is nearly $5. All agriculture land, on the average, carries a taxable valuation of $2.03. The average for patented mining claims is $4.13. The average of all city and town lots is $2.20.

I don't understand how, on a dollar for dollar basis, a person can assert that a mining claim is undervalued. Keep in mind that if the surface is used for additional purposes, such as timber, there may also be an additional assessment.

The tax on net proceeds is not in addition to the tax on surface and improvements; it is merely a device for obtaining as nearly as possible the true value of a mine, or so the Commission report says. I disagree. In no way does the net proceeds tax compute the true value of a mine.

A gross production tax would simply encourage mine operators to take less resources out of the ground; in other words, in order to pay less tax, they would tend to produce less. We are at the present time subject to a gross proceeds tax, the Metal Mines tax. If a gross production tax were determined upon the value of the raw ore, that would be one thing; but I am certain that it would be determined much as the Metal Mines Tax, on the finished metal. The net proceeds tax is determined by the value of the ore once it is removed, minus the costs of getting the ore out.

In Arizona, our tax load last year was approximately $1,250,000, even though our mining interests there are not yet fully developed. We need to constantly strive for equalization of assessment in this state, but the Board of Equalization doesn't have the personnel to properly assess or enforce tax laws. As far as the small mining industry is concerned, we are in no position to pass taxes on in the price of the metal. Our prices are determined by the world market, so we have very little effect if we raise our prices.

We feel it is unfair to ask county boards of equalization to judge their own assessments. A taxpayer should have some means of presenting his case. When we have an appeal, we have to appear before the county board of equalization, then the state board, then on to district court. I would object to a severance tax in that we would prefer our tax dollars be spent in the county where the proceeds are made, so that the revenue would be used in that county.