

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 2, 1983
Morning session

The thirty-seventh meeting of the Taxation Committee was called to order at 8 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION OF SENATE BILL 417: Senator Thomas Towe, Senate District 34, was the chief sponsor of this bill. The excise tax will be five percent of the gross daily, weekly, or monthly rent charged to transient guests in hotels, motels, on campgrounds, and in private homes. These funds will be remitted to the state and will be a source of funding for tourism and travel promotion. This is consistent with promoting more business in the state of Montana. It is appropriate that those persons who would benefit most are the ones who would pay for the extra travel promotion and costs. In other states where there are sales taxes, there is an occupancy tax as well. Nebraska has a sales tax, excise and local option tax. Utah, Vermont, Alabama, Idaho, Delaware, and the District of Columbia have occupancy taxes. HB 599 was a 10% tax on motels, and the formula for distributing the revenue was complicated. No action was taken on the bill. HB 230 was a 10% local option tax. Cities, towns, and counties could levy up to 10%. West Yellowstone has a local option tax. That tax is being challenged, and the revenue is going into a trust fund. The traditional budget for travel promotion has been \$500,000 a year. This year, in the Build Montana program, there was a proposal to take money out of the economic development fund--\$1,725,000 the first year; \$1,985,000 the second year, for a total of \$3,700,000. That includes \$700,000 in private funds that would be contributed by various persons to match the state in the travel promotion area. This would free up general fund moneys for other things.

PROPOSERS

Senator Reed Marbut, Senate District 49, said he would support the bill with the following amendment, so it would be in line with HB 793:

Page 3, lines 13 through 18

Following: "is" on line 13

Strike: remainder of line 13 through line 18

Insert: "to be allocated as earmarked revenue to the credit of the general funds of the various counties of the state. The sums must be apportioned to the counties according to the level of each county's general fund property tax mill levy."

He felt funds should be earmarked for counties' general funds based on their own assessments in their general fund budgets. He referred to Montana Tax Guide figures. Senator Marbut said that when he signed as a co-sponsor for this bill, he thought it included earmarking for local governments.

OPPONENTS

Phil Strobe, representing the Montana Inn-Keepers Association, said 33 witnesses appeared in the House in opposition to a similar bill heard over there (HB 599). MIKA thinks the bill should not be recommended to the Senate because it is a selective tax and is not in line with the governor's "State of the State" message where he promised no new taxes. Governor Schwinden thought the budget should be raised to \$700,000 to match state funds to use for Build Montana promotion in that agency. John Wilson has been able to do that.

Mr. Strobe said Montana is a unique state. (1) We are historically an agricultural area so we impose more on improvements than on the land itself. (2) We encourage people to come and enjoy the outdoors and not stay in hotel rooms. He said Representative Fagg told the House taxation committee that his taxes are \$800 a day (nearly \$300,000 a year) at the Sheraton in Billings. Betty Babcock told them her taxes for the Colonial Hilton in Helena run about \$100,000 a year. Most people do not spend most of their money in the lodging industry. In Idaho, only 13 cents of the traveler's dollar goes toward lodging; in Montana, 20 cents out of the traveler's dollar is spent in the lodging industry. Where does the rest go? One-third for travel (car, etc.), one-third for food and drink, 15%-20% on lodging, and the rest is spent on entertainment. It is unfair to have so few pay so much for the benefit of so many. When the meeting on the 10% tax was heard in the House, Marie Durkee took minutes, and her notes on the opposition testimony to HB 599 are attached as Exhibit A.

Larry Dodge, owner of Big Sky Magic Enterprises, a tourist business in Helmsville, said it seems clear that taxes have damaged nearly everything they have touched--mining, farming, etc.--except the tourist industry. He thought the legislature should leave the tourist industry alone, even if only as a test case. Private entrepreneurs grow as fast as the market will allow. Let them do the advertising, he said. Why should he have to compete with the state? Mr. Dodge handed out to the committee members some of the advertising materials he sells: Montana "spacemats", postcards, and travel brochures. Two brochures are attached as Exhibit B.

Jim Murry, representing the AFL-CIO, submitted written testimony, attached as Exhibit C.

Thomas Ryan, representing the Montana Senior Citizens Association, said most travel done by senior citizens is done within the

state. It is not always for pleasure; they have visits to doctors and hospitals, and they don't need this tax.

Senator Dorothy Eck mentioned a phone call from Janet Task representing the Good Sams. Their "Sam-boree" is going to be in Montana in a couple of years. Recreational vehicle travelers avoid paying these sales taxes, she said.

Questions from the committee were called for.

Mr. Strobe indicated to the committee that West Yellowstone's tax arose out of an ordinance they adopted saying all ordinances and any state law in conflict with the one they adopted are superseded. Billings put their tax on the ballot and it was granted, 58% in favor and 42% opposed. Both are in court now, both up on summary judgment.

John Wilson, from the Department of Commerce, in response to a question from Senator Eck, said the Canadian province of Alberta had spent little on travel promotion. They then made promotion efforts and they have increased business and tourism by 40%-50% which in turn has created construction and other jobs. Many people do not understand the vacation benefits of the state of Montana.

Senator Towe asked Mr. Strobe if MIKA had voted on this tax on lodging. Mr. Strobe replied that over the last two years the industry asked itself if it was doing enough in the state of Montana or whether it was standing short. The statistics show only 15-20 cents out of a dollar are spent on lodging. The governor is going to put \$700,000 in Build Montana for tourism.

Senator Towe, in closing, said he thinks the language can be made clear that the user pays the bill, not the innkeeper. He was sympathetic with Tom Ryan and the senior citizens, but with that exception, he said, those persons who travel can well afford to pay the tax. He said he likes this better than a general sales tax.

The hearing on SB 417 was closed.

CONSIDERATION OF SENATE BILL 437: Senator Delwyn Gage, Senate District 7, sponsored the bill, and said it would put Montana in the competitive field in the oil and gas business. It creates two classes of oil and gas--old and new. If an operator could go into an existing production lease and open more oil, it would be new oil to the extent it exceeded production in 1982. In addition to laws now existing regarding leases, any well drilled on a well not producing in 1982 would be producing new oil. If an operator goes into an existing field and drills deeper, he would also have new oil. He said they have tried to put this bill on a time frame to allow the operator to recover his costs and accumulate capital to extend the area to other than known fields. The fiscal note is worse than a guesstimate. Any new oil will be taxed. They propose to tax

one third of the new oil for 5 years, then extend for an additional 5 years and tax two thirds of the new oil. This will put strength in the oil and gas exploration business, lure oil and gas funds into the state, and provide an incentive for operators with marginal wells to keep them on production for a longer period of time. See the article attached as Exhibit D, "Good Oil Year for Montana."

PROPOSERS

Don Allen, representing Montana Petroleum Association, said Montana is not, as shown in the graphs they submitted at the hearing on SB 159, attracting its share of investment dollars. The "Build Montana" program is not strong in natural resources. They have 17 seismic crews working this year (as of January) compared to 46 crews working last year (in January). This is a signal that Montana does not want the oil and gas industry to survive in Montana.

Tucker Hill, representing Richland County, said they support the bill; it will increase the tax base and production of oil and gas.

Joe Gottfried, Toole County Commissioner, and representing the Montana Association of Coal, Gas and Oil Production Companies, stated SB 437 will protect the tax base and the industry, and they support it.

Mike Harwood, an independent landman from Shelby, said 36% of well completions have been in the Sweetgrass Arch area. For 3 years prior to 1982, counties attracted a great deal of leasing activity. They have been unable to interest companies in drilling infield wells near currently producing land.

Jerry Sherard, from Border Pipe and Supply in Cut Bank, said he had a drop of 60% in his business in 1982. SB 437 will bring action back into the community.

Leslie Ranck, General Well Service, Inc., Cut Bank, submitted written testimony, attached as Exhibit E.

Scott Gage, a certified public accountant from Cut Bank, supported the bill, saying that any time you have the county commissioners and the industry supporting gas and oil taxation, you have a good bill.

Janelle Fallan, representing the Montana Chamber of Commerce, said they support SB 437.

Lloyd Anderson, representing himself, said that 20 to 25 years ago, he worked for an industrial engine service. Then they took off the oil depletion allowance. They went to Arabia, drilled cheap oil, and sold it to us. He supported SB 437.

OPPONENTS

Jim Murry, representing the Montana AFL-CIO, submitted written testimony, attached as Exhibit F.

Dave Sexton, representing the Montana Education Association, said the fiscal note shows a decrease in revenues for public services without replacement revenue. We are continually deteriorating the situation and SB 437 will perpetuate that problem.

Thomas Ryan, representing the Montana Senior Citizens Association, said they don't want SB 437 to take away from the school foundation program.

TECHNICAL INFORMATION

Dan Bucks from the Department of Revenue said their administrative concerns center around the establishment of a two-tiered system. The rates applied to every particular lease would vary depending on what the base level production was. First they have to notify the taxpayers of the base level of production and ask for responses from taxpayers, providing their 1982 returns are okay and not subject to adjustment. They estimate that 10% to 15% of the reporting is inaccurate. It will be difficult for the taxpayer to keep track of what the different rates are for each one. The problems are not insurmountable, but they are complicated. The fiscal note does not reflect administrative costs. The Department would need one additional person plus the front-end costs of notification and initial entry data processing. They estimate \$10,000 for notification and \$30,000 annually. The fiscal note was prepared in the budget office, and Terry Cohea can come up when the committee takes executive action on this and discuss it with the committee.

Questions from the committee were called for.

Senator Towe, addressing Mr. Allen, said if you are an investor and you are investing \$500,000 in an oil well, (1) you have a reduction of Montana tax from 6% to 4%, and (2) the price would drop from \$30 to \$27 a barrel. The oil minister of Kuwait recently said the price was \$21 a barrel. Which is the bigger drop--2% or this? Mr. Allen responded that theirs is off more than anyone's. You have to look at the rate of return. The key factor is the tax.

Senator Mazurek wondered why this was tied to leases as opposed to wells. Mr. Allen replied that they are talking about producing leases as defined in Board of Oil and Gas rules, not about land leases.

Senator Gage, in closing, said SB 437 will create jobs in Montana and will affect as little as possible the tax base in the state.

The hearing on SB 437 was closed.

CONSIDERATION OF SENATE BILL 461: Senator Chet Blaylock, Senate District 35, sponsored the bill and asked that it be laid on the table rather than killed if it was not passed. Our indexing* is tied formally to the full Consumer Price Index (CPI). He felt it was not reflective of economic life in Montana. He said he was not in a comfortable position in asking for a tax increase and then modifying an initiative, but Montana lost \$28 million in the last biennium. If we don't modify the initiative, we will have to increase tax schedules, institute a sales tax, or make some other modification. He predicted that if we don't change, Montana will be headed for fiscal disaster. The Department of Revenue says this formula will bring in \$30 million per biennium. He noted that John Clark from the Department of Revenue was present to offer technical information. Senator Blaylock did suggest the following amendments to SB 461:

Page 1, line 6.

Following: "ONE-HALF"

Insert: "OF"

Following: "THE"

Insert: "CUMULATIVE"

Following: "OCCURS"

Insert: "FROM THE BASE YEAR TO THE"

Strike: "EACH"

Page 3, line 5.

Following: "formula"

Insert: ". The values of the CPI will be those that are established in June of each appropriate tax year."

Strike: ":",

PROPOSERS

Jim Murry, representing the Montana AFL-CIO, submitted written testimony, attached as Exhibit G.

Dave Sexton, representing the Montana Education Association, said taxes will be raised one way or another. The tax may be indirect, but it is very real nevertheless. He said SB 461 is the only significant revenue producing bill this session that he was aware of.

Nancy Hart, representing the Montana Democratic Party, stated that indexing has caused other states to lose revenue. SB 461 is a reasonable bill and only asks for modification of the present plan.

Thomas Ryan, representing the Montana Senior Citizens Association, said it was a lack of progressive thinking when we adopted the indexing bill under which we are now living. SB 461 will get us out of the difficulties we are facing now.

*Passed two years ago.

OPPONENTS

Representative Ken Nordtvedt, House District 77, said everyone talks about "lost" revenue from the state. With indexing, revenues continue to grow, other things being equal. Everyone, including the universities, general fund, and school foundation, will get more money this year because of indexing. If you want to raise taxes, do it in an open manner and don't go back to the 1970s. The crisis situation is the growth of state spending, not income. The people in the lower brackets are protected the most by indexing. The CPI under-estimates inflation since interest rates are now going down. A letter he received from economist Milton Friedman said the CPI was the best indication of inflation. If you can't control spending, let's raise the taxes in an open way. Representative Nordtvedt furnished the committee with copies of a CPI/GNP Deflator comparison and examples of indexing (assuming 6% inflation). They are attached as Exhibits H (1) and H (2).

Keith Anderson, president of the Montana Taxpayers Association, submitted written testimony attached as Exhibit I.

Mons Teigen, representing the Montana Stockgrowers Association and Cowbells, asked that the committee kill the bill.

Janelle Fallan, representing the Montana Chamber of Commerce, said they favor tax indexing and urged that the bill be killed.

Dave Goss, representing the Billings Area Chamber of Commerce, said they oppose the bill also.

Questions from the committee were called for.

Senator Lynch, addressing Keith Anderson, suggested eliminating all properties tax in Montana. Mr. Anderson responded that people would probably reject that idea if they really thought about the effects of it.

Senator Norman, addressing John Clark from the Department of Revenue, noted there was no fiscal note with the bill. He asked what would happen in a year or a biennium. Senator Blaylock answered, reminding Senator Norman of the bills the state needs to pay. They were asked what they would do and they suggested raising the schedules, but the people won't vote for taxes.

CONSIDERATION OF SENATE BILL 413: Senator Delwyn Gage, Senate District 7, sponsored the bill and said that in order for the Department of Revenue not to have to go back to 1980 and 1981, this adjusts the deductible percentage through the counties, then the producers and then the royalty owners. It puts the operators on a cash basis instead of an accrual basis.

PROPONENTS

Dan Bucks from the Department of Revenue, said they have worked with Senator Gage and others to solve the administrative problem. A mechanism for adjusting the windfall profits tax deduction on net proceeds is necessary. His way of understanding is this: The net proceeds return is filed annually by the operator of a lease on behalf of the operator and the other interests, including royalty owners. They calculate the tax on the basis of what they know has been withheld for windfall profits tax. It is withheld by the first purchaser of oil when the net proceeds is filed. Subsequent to filing, other interests may receive refunds or credits, which may be significant amounts. This is adjusting the windfall profits tax after the fact when the original lessee paid the tax. They then notify the interests in wells telling them they are responsible for filing any changes. The industry asked for another mechanism to do this and hold back from this rule. SB 413 was born of those discussions. We need to properly account for windfall profits tax deductions which are 70% of the total amount unless adjusted by the taxpayer or the Department. The Department of Revenue does not have good data on what the extent of adjustments are. They began audits, and they are ahead of the IRS, but the adjustments in the small number of audits they have done have ranged between 5% and 49%. The average adjustment is 30% to 35%. Mr. Bucks felt the fiscal note was misleading. This is an administrative accounting measure.

Don Allen, representing the Montana Petroleum Association, said the industry is concerned about how to meet the compliance rules without a paper blizzard. He hoped the committee would approve SB 413. He introduced Ira Smith, a tax attorney for Shell Oil, who was available to answer questions, if necessary.

Tucker Hill, representing Richland County, supported the bill, but said the industry was concerned about the fluctuation in income to the counties in one year.

Joe Gottfried, County Commissioner from Toole County, supported SB 413. It won't change the tax base significantly from year to year.

Scott Gage, CPA from Cut Bank, supported the bill. It is impossible to take care of now and SB 413 will enable accountants like himself to deal with it.

OPPONENTS

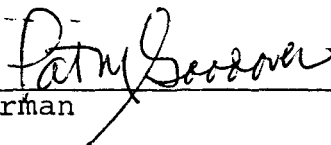
There were no opponents to SB 413.

The hearing on SB 413 was closed.

Questions from the committee were called for, and there were none.

Senator Eck moved that SB 413 DO PASS. The motion was seconded and passed unanimously.

The committee recessed until adjournment of the Senate this afternoon, to take up further business.


Chairman

ROLL CALL

SENATE TAXATION

COMMITTEE

48th LEGISLATIVE SESSION -- 1983

Date 3/2

A.M. MEETING

NAME	PRESENT	ABSENT	EXCUSED
SENATOR GOODOVER, CHAIRMAN	✓		
SENATOR McCALLUM, VICE CHAIRMAN	✓		
SENATOR BROWN	✓		
SENATOR CRIPPEN	✓		
SENATOR ELLIOTT	✓		
SENATOR GAGE	✓		
SENATOR TURNAGE	✓		
SENATOR SEVERSON	✓		
SENATOR HAGER	✓		
SENATOR ECK	✓		
SENATOR HALLIGAN	✓		
SENATOR LYNCH	✓		
SENATOR NORMAN	✓		
SENATOR TOWE	✓		
SENATOR MAZUREK	✓		

(All visitors sign this sheet even if not testifying.)
 DATE March 2, 1983

COMMITTEE ON TAXATION (SENATE)

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One	
			Support	Oppose
Walt Johnson	Yellowstone Newspaper			
Lloyd Anderson		417		X
Tom Ryan	Montana Dr. City Assoc	417 461		X ✓
Phil Stroppe	Mont. Ironworkers Ass	417		X
James E. Durkee	" " "	417		X
E. J. McLaughlin	Self	417 437	X	
Bill McGinnis	W. R. Gauer & Co.			
Carl Rieckmann	Mont. Petro. Assoc.	413 437	X	
Joe Otwell	MSLA Chamber	417 437		
Keith Reed	General W. M. Service Inc	437	X	
Jimmy Sherrard	Border Pipe & Supply	437	X	
Scott O'Hara	Montana Oil & Gas Assoc.	437	X	
Mike Harwood	Ind. Petroleum Landman	437	X	
Don Allen	NAT. Petroleum Assoc	437 413	X	
Marc Toigen	Mt. Stockgrowers & Gunbolter	461		X
Dave Goss	Bellevue Chamber of Commerce	461		X
Keith Anderson	Mont Tax	461		X
James J. Hurts	Mt. Democratic Party	461	X	
James Fallan	Mont Chamber	461		X
"	"	437	X	

417

SENATE TAXATION COMMITTEE

EXHIBIT A

Mar 2, 1983 - morning session

Senate Bill 417 DATE: 3.2.83

NAME: PHIL STROPE

ADDRESS: HELENA

PHONE: 442-6570

REPRESENTING WHOM? Mont INNKEEPERS ASS.

APPEARING ON WHICH PROPOSAL: SB 417

DO YOU: SUPPORT? AMEND? OPPOSE? X

COMMENTS:

- (A) SELECTIVE SALES TAX
- (B) CONTRARY TO GOVERNOR RECOMMENDATION OF NO NEW TAXES
- (C) TAXES ONLY 15% OF TOURIST DOLLAR - OTHER 85% ESCAPES TAX
- (D)

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

Strope - 417



MONTANA INN-KEEPERS ASSOCIATION

SENATE TAXATION COMMITTEE

EXHIBIT A

Mar 2, 1983 - morning session

SENATE INDEX 417

March 1, 1983

7 EDWARDS - P.O. BOX 851
HELENA, MONTANA 59601
PHONE (406) 442-5040

NOTES ON OPPOSITION TESTIMONY TO HB599 BEFORE HOUSE TAXATION COMMITTEE -- Thursday, February 17, 1983

Following the presentation by Philip Strope, attorney and lobbyist for the Montana Innkeepers Association, testimony in opposition to HB599 was heard from:

DON JUDGE, AFL-CIO, Helena:

A selective sales tax. AFL-CIO opposes it because it is regressive and discriminates against the traveling public. Many of these are Montana citizens. The tax will add to the cost of state & federal employees' travel, which is paid for by the Montana taxpayers.

HARRISON FAGG, Representative, Dist. #63; owner, Billings Sheraton

The Billings Sheraton is not a roadside inn; their occupancy figures indicate 10% tourists, 40% conventions, 50% commercial. They pay about \$800/day in property taxes. This would increase to \$1200/day, a 150% tax increase. You can't pass on the tax because the market won't stand it; they have had to reduce their rates in order to get more occupancy, even though the cost of doing business has risen. If you reduce jobs, which he does not want to do, his service to his guests will suffer and that will also have a detrimental economic impact.

JIM MAYES - Operating Engineers Union

Construction workers have to stay in motels while on jobs. The union opposes selective taxes that cause burdens on their members.

BETTY BABCOCK, Co-owner, Colonial Inn, Helena:

Supported statements from opponents; their establishment cannot afford to pay any more taxes.

KEN HICKEL, Owner, Ponderosa Inns, Great Falls & Billings; former president, Best Western hotel chain group.

A room tax will kill the Canadian travel when coupled with the 20-23% money discount. He had to lower rates in Billings to get a convention. State and federal employees can't pay the \$1 room tax now being imposed in Billings so it is costing him \$1300/month to pay it.

DOUG SMITH - General Manager, Great Falls Sheraton:

His occupancy figures show 44.7% are Montanans, with Canadians at 14.4%. The Canadian market comes to me when my motel is not filled. Raising room prices will mean a definite loss of business to his facility.

ELMER FRAME - KOA, Missoula:

Opposed selective sales tax; agreed with previous speakers and MIKA presentation.

CYNTHIA SMITH, KOA, Great Falls:

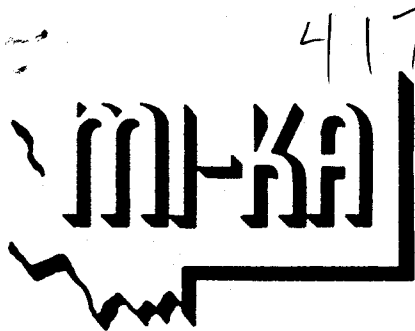
The bad will a tax creates will offset all the TPU advertising to bring people into the state. We pay our fair share in taxes.

ROY NELSON, Sundowner Motel, Dillon:

70% of his guests are commercial travelers which he will lose if they downgrade their lodging to stay at less expensive properties.

The other opponent witnesses offered basically the same testimony or announced they were in full support of MIKA's position:

BOB RUCKER, President, Montana Campgrounds Assn., Gardiner.
DON INGLES, Montana Chamber of Commerce, Helena
DON WEST, Park Plaza, Helena
DOUG MAGERS, O'Haire Manor, Great Falls
ED TERNES, Super 8, Helena
KEN SMITH, Helena KOA
BRUCE DePew, Travelodge, Missoula
TOM JUDY, War Bonnet, Butte
JOHN HARDY, Hardin KOA
HERB LEUPRECHT, General Manager, Copper King, Butte
JERRY FRASER, Gen. Mgr., Ponderosa Inn, Great Falls
BOB DUDLEY, Gen. Mgr., Village Red Lion, Missoula
EILEEN PHILLIPS, Manager, Jorgenson's Holiday Motel, Helena
JAN JAMRUSZKA-WILSON, Coach House Inns, Helena
ED BLAIR, Thrifty Scot, Helena - Gen. Mgr.
LORINE TWEDT, Co-owner, Midtown Motel, Great Falls
HARRY HARKINS, Owner, Bel Aire Motel, Missoula
GORDON TWEDT, Co-owner, Midtown Motel, Great Falls
LOUIE LIEMASTER, Gen. Mgr., Ramada Inn, Bozeman
PEGGY BEGIN, Taylor Hotel Group, Dillon
KIM SMITH & NELSON SEELY, Iron Front, Helena
DIXIE LEE ELLIOTT, Owner, Thrifty Scot, Billings
ROBERT BAKER, Owner, Thunderbird Motel, Missoula
JACK SCHILLA, Montana Outfitters & Guides



SENATE TAXATION COMMITTEE
EXHIBIT <u>A</u>
<u>Mar 2, 1983</u> - <u>morning session</u>
ASSOCIATION <u>417</u>

MONTANA INN-KEEPERS ASSOCIATION

March 1, 1983

7 EDWARDS - P.O. BOX 851
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The Billings Sheraton is not a roadside inn; their occupancy figures indicate 10% tourists, 40% conventions, 50% commercial. They pay about \$800/day in property taxes. This would increase to \$1200/day, a 150% tax increase. You can't pass on the tax because the market won't stand it; they have had to reduce their rates in order to get more occupancy, even though the cost of doing business has risen. If you reduce jobs, which he does not want to do, his service to his guests will suffer and that will also have a detrimental economic impact.

JIM MAYES - Operating Engineers Union

Construction workers have to stay in motels while on jobs. The union opposes selective taxes that cause burdens on their members.

BETTY BABCOCK, Co-owner, Colonial Inn, Helena:

Supported statements from opponents; their establishment cannot afford to pay any more taxes.

KEN HICKEL, Owner, Ponderosa Inns, Great Falls & Billings; former president, Best Western hotel chain group.

A room tax will kill the Canadian travel when coupled with the 20-23% money discount. He had to lower rates in Billings to get a convention. State and federal employees can't pay the \$1 room tax now being imposed in Billings so it is costing him \$1300/month to pay it.

DOUG SMITH - General Manager, Great Falls Sheraton:

His occupancy figures show 44.7% are Montanans, with Canadians at 14.4%. The Canadian market comes to me when my motel is not filled. Raising room prices will mean a definite loss of business to his facility.

ELMER FRAME - KOA, Missoula:

Opposed selective sales tax; agreed with previous speakers and MIKA presentation.

CYNTHIA SMITH, KOA, Great Falls:

The bad will a tax creates will offset all the TPU advertising to bring people into the state. We pay our fair share in taxes.

ROY NELSON, Sundowner Motel, Dillon:

70% of his guests are commercial travelers which he will lose if they downgrade their lodging to stay at less expensive properties.

The other opponent witnesses offered basically the same testimony or announced they were in full support of MIKA's position:

BOB RUCKER, President, Montana Campgrounds Assn., Gardiner.
DON INGLES, Montana Chamber of Commerce, Helena
DON WEST, Park Plaza, Helena
DOUG MAGERS, O'Haire Manor, Great Falls
ED TERNES, Super 8, Helena
KEN SMITH, Helena KOA
BRUCE DePew, Travelodge, Missoula
TOM JUDY, War Bonnet, Butte
JOHN HARDY, Hardin KOA
HERB LEUPRECHT, General Manager, Copper King, Butte
JERRY FRASER, Gen. Mgr., Ponderosa Inn, Great Falls
BOB DUDLEY, Gen. Mgr., Village Red Lion, Missoula
EILEEN PHILLIPS, Manager, Jorgenson's Holiday Motel, Helena
JAN JAMRUSZKA-WILSON, Coach House Inns, Helena
ED BLAIR, Thrifty Scot, Helena - Gen. Mgr.
LORINE TWEDT, Co-owner, Midtown Motel, Great Falls
HARRY HARKINS, Owner, Bel Aire Motel, Missoula
GORDON TWEDT, Co-owner, Midtown Motel, Great Falls
LOUIE LIEMASTER, Gen. Mgr., Ramada Inn, Bozeman
PEGGY BEGIN, Taylor Hotel Group, Dillon
KIM SMITH & NELSON SEELY, Iron Front, Helena
DIXIE LEE ELLIOTT, Owner, Thrifty Scot, Billings
ROBERT BAKER, Owner, Thunderbird Motel, Missoula
JACK SCHILLA, Montana Outfitters & Guides

SENATE TAXATION COMMITTEE

EXHIBIT B

Mar 2, 1983 *morning session*

Sen BILL/RES. 417

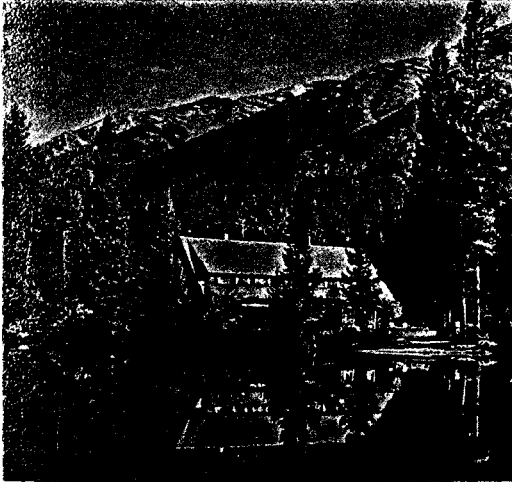
Holland Lake

IN THE HEART OF MONTANA
SCENIC ROCKY MOUNTAINS

CLEAN AIR CLEAR VIEWS
A SPECTACULAR MOUNTAIN
Gateway to the Bob Marshall W

Dodge SB417
**THE ELKHORN
GUEST RANCH**

ON ROCK CREEK
CLINTON, MONTANA 59825



Holland Lake Lodge
Holland Lake Road
Swan Valley S.R. Box
Condon, Montana 59

Phone: (406) 754-22



**A MONTANA
ADVENTURE**

417



JAMES W. MURRY
EXECUTIVE SECRETARY

Box 1176, Helena, Montana

ZIP CODE 59624
406/442-1708

SENATE TAXATION COMMITTEE
EXHIBIT <u>C</u>
<u>Mar 2, 1983</u> <i>morn</i>
<u>Sen</u> BILL/RES. <u>417</u> <i>Alssa</i>

TESTIMONY OF JAMES W. MURRY, ON SENATE BILL 417 BEFORE THE SENATE COMMITTEE ON TAXATION, MARCH 2, 1983

I am Jim Murry, executive secretary of the Montana State AFL-CIO. I am here today in opposition to Senate Bill 417, which would impose an excise tax on the use of hotels, motels and tourist homes and campgrounds.

We oppose this tax because it proposes a form of sales tax, and our position over the years has been that we are against this regressive form of taxation. We support fair taxes that are based on the ability to pay. The annual convention of the Montana State AFL-CIO has reaffirmed time after time our strong opposition to the sales tax, which hurts most those with the least ability to pay.

Though this bill proposes a 5% excise tax on the gross daily, weekly, or monthly rent charged to users of tourist facilities, that is simply a 5% sales tax for the traveling public. Many users of hotels, motels and tourist homes or campgrounds are not out of state tourists, but Montanans traveling for business or pleasure. The extra cost would work a hardship on Montana business travelers and on Montana vacationers. And, there would be additional cost to the state for state employees traveling on state business.

The proceeds of this sales tax would be used to promote travel to and within Montana. The promotion of tourism is surely a worthwhile goal, but a sales tax is not the appropriate way to fund it.

We urge you to vote against Senate Bill 417.

Thank you.

437

SENATE TAXATION COMMITTEE
EXHIBIT D
Mar 2, 1983, a.m.
Sen BILL/RES 437

1-16-83 091F 02
Good oil year for Montana

The Montana Oil Journal reports the number of new oil and gas wells drilled in Montana declined last year, but was still the fourth highest level in the state's history.

There were 913 wells completed in Montana in 1982, an 18 percent drop from the record number of completions in 1981, the publication said.

A total of 243 wildcat tests found 53 new oil and gas fields. Exploration efforts for new wells were successful 21.8 percent last year, compared with a 20.8 success rate in 1981, the journal reported.

More than a third of the wildcats drilled in eastern Montana were successful, the journal added.

The rate of exploration dropped in 1982, with 26.6 percent of the drilling devoted to exploratory testing. In 1981, 37.7 percent of the total drilling was devoted to wildcat ventures, the journal said.

The journal reported that 36 percent of the oil well completions in Montana this year occurred in the Sweetgrass Arch and adjacent Sweetgrass Hills, which recaptured its customary position as the state's busiest oil and gas area. It includes parts of Glacier, Liberty, Pondera, Teton, Toole, Chouteau and Hill counties.

Big Three start

Senate Taxation Committee
SB 437
March 2, 1983

SENATE TAXATION COMMITTEE
EXHIBIT E
Mar 2, 1983, a.m.
Sen Bill # 437

Mr. Chairman, members of the Committee:

My name is Leslie Ranck. I reside in Cut Bank, Montana. I am general manager of General Well Service, Inc. I am here to support SB 437.

General Well Service, Inc., originated in 1962 as a Montana corporation. It was formed by a small group of Cut Bank residents who had faith in the future of the Montana oil industry. General Well Service is basically a drilling and well-servicing contractor. We currently have three drilling rigs and six well-servicing rigs. When operating, the drilling rigs provide direct employment for 49 men (13 men each rig), and the well-servicing rigs provide direct employment for 24 men (4 men each rig). In addition, there are support and service company jobs for suppliers, clerical and office personnel jobs, and management jobs. When all of our equipment is operating, we provide jobs for over 100 people.

In the 21-year history of General Well Service, Inc., 1982 was the worst year ever. In 1982, we drilled only 44 wells with three drilling rigs. This is the second lowest total number of wells drilled in one year. Our lowest number of wells drilled in one year was 33 in 1975. However, in 1975, we only had one drilling rig; in 1981 we had 90 permanent employees and worked 239,100 man hours drilling 118 wells. In 1982, we had 35 to 40 employees, most of whom are on a part time basis, worked 127,700 man hours, drilling only 44 wells. This is a decrease of approximately 46.6% in job capacity in a one-year period.

Historically, Montana is not one of the more favorable oil producing states from a standpoint of attracting exploration capital. The rate of discovery in Montana is lower than the national average; operating costs are unusually high due to extreme weather conditions and remoteness from populated areas; and the tax structure is abnormally high when compared to more favorable states. From the standpoint of oil companies who operate nationwide, Montana does not really have much to offer.

In the past five years, those of us who live and operate exclusively in the state of Montana have found ourselves being taxed directly and indirectly out of business. In some instances, 46% of the price per barrel of oil is taken directly in the form of federal, state, and county taxes. Income taxes, operating costs, and other taxes must be paid on the remaining 54%. This leaves little for profit and additional exploration drilling. Some of the oil producing counties are funding 50% to 79% of their county budgets from direct taxes on energy production.

Since approximately 90% of the exploration money spent in the state of Montana comes from out of state, we feel that if some tax relief incentives are not granted, oil exploration in the state of Montana is practically dead. With a drastic decline in exploration, a drastic drop in the rate of production will follow. With a drop in the rate of production, a drastic drop in state and county taxes will result. The future of Montana's oil industry is tied directly to continuing and orderly progressive exploration, and without some sort of tax relief incentive for exploration drilling, Montana cannot compete for exploration dollars.

With the future of the Montana oil industry and a large portion of the state of Montana tax base at stake, we wholeheartedly endorse SB 437. We feel that although this bill will not solve the present ills in the industry, it is

437

SENATE TAXATION COMMITTEE
EXHIBIT <u>F</u>
<u>Mar. 2, 1983, a.m.</u>
<u>Sen BILL 437</u>



Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF JAMES W. MURRY ON SENATE BILL 437 BEFORE THE SENATE TAXATION COMMITTEE, March 2, 1983

I am Jim Murry, representing the Montana State AFL-CIO. We oppose Senate Bill 437.

The purpose of this bill seems to be exactly the opposite of Senate Bill 413, at least according to the fiscal notes. Whereas Senate Bill 413 had the effect of raising money from the oil and gas industry, Senate Bill 437 would give that industry a break. There are two significant questions that should be raised here. First, is the oil and gas industry one which should receive this large tax break? I think the answer is no. Industries in much worse straits, such as timber or construction, are not being given such a break. The oil industry has done well in recent years. Profits for the 28 largest oil companies totalled \$28 billion in 1981, more than 33% of the total profits of the entire Fortune 500 list of top industrial corporations.

It will probably be argued that this bill will increase oil and gas activity in Montana, but that is not the case. The oil severance tax is only 5%, due to go to 6% on April 1, 1983. Of far greater consequence is what happens to the world oil market and to OPEC. If a crisis were to occur in the Middle East, the price of oil could rise dramatically in a short time. In that event, oil and gas exploration in Montana would skyrocket.

But if the current disarray of OPEC continues, the price of oil could drop even further. Is there anyone who really believes that oil exploration will not drop off in direct proportion to the price of oil, regardless of the minor impact of state taxes? Natural gas will probably follow suit, as will coal. Reducing the severance tax will not and cannot counter the effects of the world market.

Senate Bill 437

page 2

The second question is whether the state can afford such a gigantic tax break at this time. The fiscal note refers to general fund reductions of \$7.4 million over the next three years, a school foundation reduction of \$3.2 million over fiscal years 84 and 85, and a loss to the university system of almost \$475,000 in FY84 and FY 85. Local governments apparently will lose \$6.5 million over the next three years.

There is bipartisan agreement on the terrible state of Montana's finances, particularly in the area of education. This bill will certainly aggravate that situation.

We ask you to vote against Senate Bill 437.

Thank you.

461

SENATE TAXATION COMMITTEE
EXHIBIT <u>A</u>
<u>Mar 2, 1983, a.m.</u>
<u>Sen BILL# 461</u>



Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF JIM MURRY, MONTANA STATE AFL-CIO
SENATE TAXATION COMMITTEE

SB461
March 2, 1983

I am Jim Murry, executive secretary of the Montana State AFL-CIO. We support SB461.

In 1980, the Montana State AFL-CIO convention delegates voted to oppose Initiative 86, on tax indexing. Although the measure proved to be popular with the public, our resolution saw the initiative as an attempt to ride the prevailing political winds of the time (which have since shifted), to hold out the prospect of individual gain at the expense of the society of people in this state.

Part of that resolution stated that tax indexing was part of a "plan to reduce state revenues by cutting taxes, then move toward funding of basic services through more regressive taxation, such as a sales tax." That observation came out of experience of other states and rhetoric at the national level by tax-cutters.

Experience has shown that to be exactly the case. Our resolution used the then current guess that the initiative would cost the state \$41 million over the biennium, a guess that was dismissed by some as ridiculous. But now Terry Johnson, Bureau Chief of the Data Processing Bureau gives a more accurate estimate of the cost of tax indexing as being \$59.9 million over the last biennium. That includes \$15.0 million lost to the school foundation program.

The impact of tax indexing is not great. Most members of the public are not even aware of the amount of money which they may or may not have saved by tax indexing. But the cumulative effect is devastating.

We cannot claim that tax indexing alone is the source of our present fiscal ills. Clearly the prolonged recession has dealt the state a blow, as have the severe cuts in federal government funding of programs in this state. There have been other unwise tax cut measures, which clearly have not improved our economy, but which have all contributed



to the present crisis.

There does appear to be a bipartisan agreement on two issues. The first is that state revenue is approaching a crisis situation. There is a difference in figures used by the governor and by the legislative fiscal analyst, and there is a difference in the numbers used by Republican spokespersons and the governor. But the difference is the difference between bad and worse. Everyone agrees that we face a crisis.

There is a certain irony here, because the Democrats seem to be predicting somewhat better times, more in line with President Reagan's forecasts, while the Republicans apparently see more bad times ahead. The labor movement tends to side with the Republicans on this matter. But no matter who does the guessing, we can all agree that action must be taken.

The second area of agreement is that essential services must continue to be funded, and that certain areas need increases. In particular, there appears to be bipartisan criticism of the governor's budget in which no increases were slated for the school foundation program. From Superintendent of Public Instruction Ed Argenbright to university spokespeople to teachers' unions, there has been an outcry for more funding for education. But that funding must come from somewhere.

We have not yet seen the fiscal note on SB461, if it has even been produced yet. Whatever amounts are involved, they are likely to be large. And that means that this is one way to begin to address the enormous crisis which we are facing. We cannot control the national recession, nor the national budget cuts. But we can begin to reverse the mistakes of over-zealous tax cutters.

We urge you to support SB461.

Nordtvedt
461

SENATE TAXATION COMMITTEE
EXHIBIT H(1)
Mar 2, 1983, a.m.
Sen BILL# 461



The Big Sky Country

MONTANA STATE HOUSE OF REPRESENTATIVES

REPRESENTATIVE KEN NORDTVEDT
HOUSE DISTRICT 77

HELENA ADDRESS:
CAPITOL STATION
HELENA, MONTANA 59620

HOME ADDRESS:
118 SOURDOUGH RIDGE
BOZEMAN, MONTANA 59715
PHONE (406) 586-3263

COMMITTEES:
TAXATION
NATURAL RESOURCES
REVENUE OVERSIGHT

CPI

GNP Deflator

$$\frac{82}{80} = 1.174$$

$$\frac{82}{80} = 1.164$$

$$\frac{83}{80} = 1.247$$

$$\frac{83}{80} = 1.232$$

$$\frac{84}{80} = 1.326$$

$$\frac{84}{80} = 1.311$$

Executive Estimates with Indexing

F1984 to F1985 \$166.4 to \$175.5 m
+5.43%

Tax Increase From Halving Indexing

\$21.5 million

461

SENATE TAXATION COMMITTEE
EXHIBIT H (1)
Mar 2, 1983, a.m.
Sen DISTRICT 461

The Big Sky Country



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461



The Big Sky Country

SENATE TAXATION COMMITTEE
EXHIBIT <u>H (1)</u>
<u>Mar 2, 1983, a.m.</u>
<u>Sen</u> BILLERS <u>461</u>

MONTANA STATE HOUSE OF REPRESENTATIVES

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Tax Increase From Halving Indexing

\$21.5 million



The Big Sky Country Sen

SENATE TAXATION COMMITTEE
EXHIBIT H(2)
Mar 2, 2003, a.m.
BILL 461

MONTANA STATE HOUSE OF REPRESENTATIVES

REPRESENTATIVE KEN NORDTVEDT
HOUSE DISTRICT 77

HELENA ADDRESS:
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BOZEMAN, MONTANA 59715
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COMMITTEES:
TAXATION
NATURAL RESOURCES
REVENUE OVERSIGHT

Example of Indexing (6% Inflation)

	No Indexing	Indexing
10% Wage Increase	15%	12%
6% Wage Increase	9%	<u>6%</u>
4% Wage Increase	6%	3%
	} Tax Increases	

461

SENATE TAXATION COMMITTEE
EXHIBIT <u>H(2)</u>
<u>Mar 2, 1983, a.m.</u>
<u>Sen. DILLON 461</u>



The Big Sky Country

MONTANA STATE HOUSE OF REPRESENTATIVES

REPRESENTATIVE KEN NORDTVEDT
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NATURAL RESOURCES
REVENUE OVERSIGHT

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Tax Increases

Nordtvedt
461



The Big Sky Country

SENATE TAXATION COMMITTEE
EXHIBIT H(2)
Mar 2, 1983, a.m.
Sen. BILLINGS 461

MONTANA STATE HOUSE OF REPRESENTATIVES

REPRESENTATIVE KEN NORDTVEDT
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461

SENATE BILL
EXHIBIT I
Mar 2 3, a.m.
Sen Bill - 461

WILLIAM G. STERNHAGEN
CHAIRMAN, BOARD OF DIRECTORS
S. KEITH ANDERSON
PRESIDENT

MONTANA TAXPAYERS Association



P O BOX 4909

1706 NINTH AVENUE

HELENA, MONTANA 59604

406/442-2130

MARCH 2, 1983

S. KEITH ANDERSON, PRESIDENT
MONTANA TAXPAYERS ASSOCIATION
IN OPPOSITION TO SENATE BILL 461

INITIATIVE 86 WAS PUT ON THE BALLOT BY THE PEOPLE TO REQUIRE CERTAIN ADJUSTMENTS TO THE INCOME TAX STRUCTURE TO PREVENT TAX INCREASES DUE SOLELY TO INFLATION. THE INITIATIVE WAS APPROVED AT THE GENERAL ELECTION HELD NOVEMBER 4, 1980 WITH A VOTE OF 233,497 FOR AND 102,635 AGAINST. THIS VOTE OF OVER 2 TO 1, IN FACT 2.28 TO 1 IS INDICATIVE OF HOW THE PEOPLE OF MONTANA FEEL ABOUT THE PERSONAL INCOME TAX AND THE FACT THAT STATE GOVERNMENT WAS RECEIVING WINDFALL REVENUE AT THE EXPENSE OF THE INCOME TAX PAYER.

IT IS OUR VIEW POINT THAT THE LEGISLATURE SHOULD NOT TINKER WITH WHAT AMOUNTED TO OVER WHELMING REJECTION OF THE PERSONAL INCOME TAX AS IT APPEARED IN THE STATUTES. IN THIS REGARD I AM SURE THAT IT WOULD TAKE VERY LITTLE EFFORT TO PUT A LIKE PROPOSAL BACK ON THE BALLOT. THERE WAS AN ARTICLE IN THE RECENT ISSUE OF THE AMERICAN POLITICAL REPORT REPORTING ON VARIOUS BALLOT ISSUES. THE REPORT STATED "INDEXING IS THE ONE FISCAL ISSUE THAT HAS NEVER FAILED IN A RECENT STATEWIDE VOTE BECAUSE OF ITS OVER WHELMING MIDDLE CLASS APPEAL."

THE MONTANA DEPARTMENT OF COMMERCE RECENTLY PUBLISHED AN ATTRACTIVE BROCHURE TITLED MONTANA-BUSINESS AND INDUSTRIAL LOCATION GUIDE. THE BROCHURE STARTS OUT WITH A LETTER BY GOVERNOR TED SCHWINDEN AND CONTAINS A SECTION ON INDUSTRIAL FINANCING, INDUSTRIAL TAX INCENTIVES AND A DISCUSSION ON GENERAL TAXES. UNDER THE SECTION CONCERNING INDIVIDUAL

INCOME TAX THE FOLLOWING SIGNIFICANT POINT IS MADE. "IN 1981, MONTANA VOTERS ADOPTED AN INITIATIVE TO REQUIRE INDEXING OF THE STATE INDIVIDUAL INCOME TAX. THIS INITIATIVE WILL INCREASE THE STANDARD DEDUCTION IN PERSONAL EXEMPTION TO KEEP PACE WITH INFLATION, AND PREVENT "BRACKET CREEP." WHILE MANY OF US BELIEVE THAT CURRENT RATES ARE TOO HIGH, IT IS SIGNIFICANT THAT THE ADMINISTRATION IS USING INDEXING OF THE INCOME TAX AS ONE OF THE FAVORABLE ASPECTS OF TAXATION IN MONTANA.

WHILE INFLATION IS BEING REDUCED, WE STILL NEED THIS PROVISION IN THE LAW AS A SAFEGUARD FOR THE INCOME TAX PRODUCER. IT ALSO CITES A SIGNIFICANT FACTOR OF STABILIZATION IN OUR TAX SYSTEM TO THOSE WHO VIEW IT FROM BOTH IN AND OUT OF THE STATE. ONE OF THE OBJECTIONS THAT I HAVE HEARD TIME AND TIME AGAIN TO MONTANA AS A PLACE TO DO BUSINESS, IS THAT WE DO NOT HAVE A STABLE TAX SYSTEM SIMPLY BECAUSE WE DON'T KNOW WHAT THE LEGISLATURE IS GOING TO DO FROM ONE SESSION TO THE OTHER.

THIS COMMITTEE CAN ADD TO THIS STABILITY BY KILLING THIS BILL AND KEEPING TAX INDEXING ON THE BOOKS SO THAT ALL CAN SEE THAT IN MONTANA IT IS THE POLICY OF THE LEGISLATURE TO PROTECT INCOME PRODUCERS FROM INFLATION.
I URGE THAT YOU KILL SENATE BILL 461.

461

SENATE TAXATION COMMITTEE

EXHIBIT I

Mar 2, 1983, am.

Sen BILL/RES. 461

WILLIAM G. STERNHAGEN
CHAIRMAN, BOARD OF DIRECTORS
S. KEITH ANDERSON
PRESIDENT

MONTANA TAXPAYERS Association



P. O. BOX 4909

1706 NINTH AVENUE

HELENA, MONTANA 59604

406-442-2130

MARCH 2, 1983

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I URGE THAT YOU KILL SENATE BILL 461.

STANDING COMMITTEE REPORT

March 2 19 83

MR. **PRESIDENT**

We, your committee on **taxation**

having had under consideration **Senate** Bill No. **413**

Respectfully report as follows: That **Senate** Bill No. **413**

DO PASS

J.C.