HOUSE TAXATION COMMITTEE MEETING MINUTES
February 16, 1981

A meeting of the House Taxation Committee was held on Monday, February 16, 1981 at 8:00 a.m. in Room 102 of the State Capitol. All members were present except Rep. Harrington, who was absent. HOUSE BILLS 653, 614 and 561 were heard.

Control of the Meeting was turned over to Vice Chairman Bob Sivertsen.

HOUSE BILL 614, sponsored by Rep. Dan Yardley, was the first bill to be heard. This bill contains the Governor's proposed amendments to Initiative 86. The bill does three major things: (1) The base of the personal exemption is set at $800; (2) The Consumption Expenditure Index is used; it most accurately reflects the actual inflation experience by the consumers; and (3) A surplus base is set which would be subject to indexing. (See Exhibit "A.")

John Clark, Department of Revenue, then rose as a PROPONENT of the bill, on behalf of the Governor's Office. He stated that he felt the Personal Consumption Expenditure Deflator (PCED) indications might be a better measure than the Consumer Price Index (CPI). The CPI is computed under a massive Federal program which makes surveys across the country of a fixed market basket of items. The PCED is used in this bill because the fixed market basket doesn't reflect the changes people make in expenditures because of inflation. Also, housing costs, particularly mortgage interest, make a very large component of the CPI, even though only 7 - 8% of the residents in the U.S. change houses each year. Therefore, inflation is overstated. The PCED is done by the Department of Commerce Office of Business Economics. All economic activity in the U.S. is looked at. The consumer expenditures sector is looked at, which shows a changing market basket. A survey is used to deflate each item so that a weighted average is arrived at. The cost of housing is computed through an imputed rent in this system. PCED changes run a little below the CPI's, although this is hardly a general rule. In large States the CPI is computed for large metropolitan areas, and probably a fairly accurate picture is computed. However, Montana is a rural State, and the CPI isn't as accurate here.

There are differences in the way indexing would be carried out. There is an inflation adjustment factor ratio of 2. In PCED measures; a surplus is allowed to go back to income tax payers if the target surplus is reached. Also, indexing is mitigated in some instances when the surplus falls short of the target. If things got bad enough, indexing could be entirely eliminated. The surplus adjustment factor lid is included because if the surplus is $30 million greater than the target, then we should not filter back all of the excess to the tax payers. According to the Fiscal Note, the larger the surplus is over the target, the worse the computation is.

Rep. Williams stated that he firmly believed this bill was the way to go. In order to accept fiscal responsibility, this Legislature should have a trigger mechanism built in to the legislation. He urged the Committee to give serious consideration to the bill.

Mr. Mark Mackin, representing Citizens Legislative Coalition, then rose in OPPOSITION to the bill. He spoke in defence of the Initiative concept. Initiative 86 deserves the benefit of the doubt. The Legislature has the power and the duty to make sure the Initiative is workable, but if it is not flawed or cannot be improved, it should be left alone. It would be a courtesy to the public on the part of the Legislature to submit any changes back to the electorate for review.

Rep. Nordtvedt then rose in opposition to the bill. (1) Setting the level of the base exemption is an independent issue of indexing. Indexing was designed to adjust the exemption levels the State establishes, for inflation. He displayed a graph showing the history of the personal exemption in real purchasing power. Even it if was set at $1,000, it would still only be $400 in 1967 dollars. At $800, the personal exemption will be the lowest it has ever been in the modern history of the State of Montana. He distributed several xerox copies of newspaper clippings concerning the subject; see Exhibit "B." It has been pointed out that even though the CPI has been rising at a rapid rate, the necessities of life have been rising at a faster rate. He agreed that the CPI is a measure of the cost of a fixed basket of goods and services and the other reflections of the changing buying habits of the people of the nation. That is precisely why he wanted to use the CPI. The whole purpose of indexing is to adjust the tax codes to the real value of money and not what people are buying. Indexing wasn't designed to adjust the tax brackets to see if people were getting richer or poorer; it was to get rid of the false value of money.

Many economists say the CPI is the proper measure of the value of money. It has one flaw and that is it includes mortgage interest rates. When they are rising, it drives up the CPI. On the other hand, when they are falling, it is driven down. The Department of Labor January release was then distributed and Rep. Nordtvedt reviewed it; see Exhibit "C." Over the long pull, fluctuations in interest rates get leveled out in the CPI, even if there is a slight distortion as you go. He submitted that the intent of the author of the Initiative was to adjust the tax system to the value of money. If the State doesn't reach a target surplus, the ability to suppress indexing would be the ability to automatically increase taxes. This is a power the State doesn't even have now and if anything is fiscally irresponsible, it is this.

If this bill is passed, he submitted that revenue estimates would get less conservative. He feels the provision for a trigger mechanism would totally nullify the purpose of indexing.

The selling point in HB 614 is the provision that if the surplus exceeds the target surplus, the money will be sent back to the taxpayer. A separate bill could do this. He suggested a Committee bill would be drafted to accomplish this. We should not use this provision as a "carrott" to suppress indexing.

A report entitled, "Advisory Commission on Intergovernmental Relations" was cited from. State experimentation with indexed income taxes concludes that indexing is keeping the progressivity of the graduated nature of the income tax intact. It is also keeping growth of income tax collections in line with the growth of personal income. Fiscal responsibility is being created in these States. (See Exhibit "D.")

Rep. Nordtvedt stated that the opposition to indexing says that it leads to confusion of State government revenue estimates, and he disagreed. See Exhibit "E." The inflation rate is the most important parameter of how much revenue a State gets. With indexing, the revenue estimates of the State would be more precise. If inflation is higher, the surplus won't be quite as big as had been estimated. If it was lower, the lost revenue would be less. Therefore, indexing is a good fiscal tool in that respect.

Questions were then asked. Rep. Williams said that if the formula by which a tax is levied isn't changed and income is increased because of inflation, he doesn't define that as increasing taxes, he defines it as increasing income. Rep. Nordtvedt replied that if 10% inflation drives up income tax revenue 15%, this would be an illegitimate increase in revenue. Rep. Williams said that if the Legislature didn't have control over what happened to any additional revenue collected due to inflation, it wouldn't automatically be overspent by the State. Rep. Nordtvedt replied that if the Legislature and the Governor knew they were protected from overspending, revenue estimations would become more liberal. Rep. Williams asked if the same thing wouldn't be true if indexing was overfunded. Rep. Nordtvedt replied, that even on the down side, indexing would mean less of a loss, and he referred Rep. Williams to Exhibit "E."

Rep. Williams wanted to know what the built-in factor was which would guarantee that there wouldn't be a deficit. Rep. Nordtvedt replied that the same question has had to be faced with or without indexing. The likelihood of having a deficit is less with indexing. Also, the prospect of having to hold a special session of the Legislature would be a deterrent. He added that Exhibit "E" exemplified conditions with (1) no indexing and (2) with Initiative 86, as passed.

Rep. Brand wanted to stress that it might be better if the Fiscal Analyst and the Budget Director made their budget and revenue analyses in advance rather than the way it is currently done. Rep. Nordtvedt agreed with the budget side of the statement.

Rep. Brand then commented on the statement that a special session of the Legislature would have to be called if there were budget deficits. He hasn't seen a special session, but has seen a lot of supplemental bills before the Appropriations Committee. He requested Rep. Nordtvedt's reaction. He replied that up to a point of reason, supplementals are a better route than the special session.

Rep. Williams said he would rather try to solve the deficit problem in another way so that agencies wouldn't have to depend on supplementals.

He then asked Mr. John Clark to explain the indexing law in the State of Minnesota. Mr. Clark stated that they were indexed on the Minneapolis State poll of the CPI, but (1) the bottom fell out of their economy, and (2) the revenue estimator died and didn't leave anything to let anyone follow up on his work. He added that Minnesota's techniques weren't as advanced as Montana's. Perhaps 20% of the mistake was due to the mistake on indexing. He submitted that revenue estimating is an art rather than a science. He also submitted that if a trigger was thrown in, the estimators would probably be fairly conservative anyway.

Rep. Neuman asked Rep. Nordtvedt where shortfalls in income were made up with indexing. Rep. Nordtvedt said they would be made up in the same way as before the State had indexing. Once indexing became the law of the land, the Governor's Budget Office and the Fiscal Analyst would be required to include indexing in their estimates. Rep. Nordtvedt expressed the belief that revenue estimates would be more accurate.

Rep. Harp said that the only solution to less revenue would be an additional tax somewhere else. Rep. Nordtvedt replied that if the State wanted to increase spending faster than inflation, indexing would increase their tendency to increase a tax. The best form of tax relief would be to stop inflation, but that is the Federal government's responsibility.

Rep. Devlin wanted to know what kind of items were included when computing the CPI. Mr. Clark stated that the lower priced things were also included in the CPI; the problem is with the weighting of the items. Housing costs are weighted rather heavily. Rep. Nordtvedt then commented on the housing aspect. He agreed that the interest rates were slightly distorted, but they work both ways. He disagreed that most people buy only a few houses in their lifetimes. He thinks the average person moves every three - five years.

Rep. Switzer asked Mr. Clark how error could be avoided in figuring the PCED when individual preferences were changing and the inflation rate is based on the change. Mr. Clark said that changes in lifestyle might not be reflected in the PCED. Concerning elective changes in lifestyle vs. changes forced by inflation, he is not sure any government index could pick those kinds of things up.

In response to a question from Rep. Roth, Rep. Nordtvedt stated that right now, the State would be getting more revenue using the PCE, but if the PCE ever started growing faster than the CPI, the taxpayers would be getting a better deal.

Rep. Asay asked Mr. Clark if, even though the CPI may be based on products that Montanans don't buy, it wouldn't still show the value of a dollar. Mr. Clark agreed. In terms of inflation, in society it tends to over-state things, in his opinion, and in particular, for Montana it may do this. He added that Montana will never be able to afford its own survey to figure the index.

Rep. Yardley then closed. He submitted that this bill did not change the basic concept of Initiative 86. He said that the exemption amount is an independent issue; this bill could use any figure. Regarding the CPI discussion, we are looking for what applies to Montana, and the CPI over-states things and if the PCE is used, it would be more accurate. In regards to the trigger mechanism, (1) there is a target surplus. In adjusting the target surplus in the second year of the biennium, more general fund money would be going for schools. He disagreed that allowing a trigger mechanism to apply both to a surplus and a deficit would allow more State expenditures. The State's budget is made conservatively and he doesn't feel this will change. If we don't have a source of more money, we will have to raise the income tax. Indications that the State would spend less if it was in trouble, he feels are not accurate.

The surplus portion of the index would be prorated out the same way as the indexing portion. A lot of things could happen in this biennium such as the coal tax being declared unconstitutional; a medical funding reduction or loss, etc. The State would not automatically go into debt under this bill. The hearing on HB 614 was then closed.

HOUSE BILL 653, sponsored by Rep. Ken Nordtvedt, was then heard. He gave a short history of this legislation. This is the less severe of the previous bills reconstructed, and sets a statutory State spending limitation. He explained that total State expenditures are about twice the General Fund amount. From one biennium to the next, a calculation of the percentage of growth in individual income is done under this bill. State expenditures are not allowed to grow faster in percentage than personal income of Montanans. Over the long pull, State expenditures couldn't grow and take a bigger and bigger fraction of Montana's earnings as has happened in the past. At some point, we have to set a limit on how much of people's output can be spent on government, and this bill addresses that. An override mechanism on the spending limitation is provided for in the bill. Also the Legislature is not obliged to spend the total amount of the limitation. He added that p. 3, line 19 needed to be amended from 6% to 2%. Section 4 creates a mechanism for taking the surplus and returning it to the people after setting aside approximately $20 million in a State reserve. Right now, the surplus is doing nothing for the economy of the people.

S. Keith Anderson, Montana Taxpayers Association, then rose in support of the bill; see prepared statement Exhibit "F." He urged adoption of the bill, to put State expenditures in line with economic growth.

Gary Langley, Director of Governmental Relations, Montana National Federation for Independent Business, then spoke in support of the bill; see written testimony Exhibit "G."

Janel Fallan, Montana Chamber of Commerce, then rose in support of the bill. About 3/4 of those surveyed support limiting State spending.

There were no OPPONENTS to HB 653. There were no questions. Rep. Nordtvedt then closed.

The Committee then took a five minute recess.

HOUSE BILL 561, sponsored by Rep. Bob Sivertsen, was then heard. This bill deals with a problem that the State has had for some time in regards to its last appraisal done in 1975 and the problem that has arisen since then. As a result of the appraisal, the "34%" case came about. At present, we are two years into the second cyclical appraisal, and have only 5% of the properties reappraised. (1) we could hire a number of extra employees and handle the matter the same as the last time; or (2) the time frame could be extended and perhaps a better job could be done, which might eliminate some of the problems faced in the past. This bill will extend the appraisal cycle for two years. There are some benefits by doing this and also some problems. The benefits: (1) ability to spread cost over a longer time period; therefore early draw from the General Fund would be less; (2) the division could utilize a more thorough training program. A reduction in courthouse space allocation would also occur. The consequence of taking more time would be a better product. The detriments of the act would be: (1) continued erosion of local tax bases will occur; market value will not be reflected accurately. An extension of the cycle would accentuate the existing inequities. Continued use would trigger additional litigation. Also, maybe an extension would meet a legal challenge; (2) annually assessed properties will remain current and these cyclically assessed properties would not. Also a longer assessment period would cause difficulties in estimating accrued depreciation.

Additional personnel needed to do the appraisal in the five years would amount to about 407 additional FTE; additional personnel needed for a seven year appraisal would mean about 214 FTE. A five-year appraisal would amount to about $18.5 million and the two year extension would amount to about $10.5 million.

Ellen Feaver, Director of the Department of Revenue, then spoke. The reason for the reappraisal program is to achieve equity among property owners; getting everybody on the tax rolls and the tax base equalized is the goal. A proposal has been presented to the Budget Committee which assumes the deadline extension will be approved. A three-mill levy can fund this, but the Budget Committee wasn't receptive to this and would prefer paying from the General Fund. There are sophisticated approaches to come up with the best estimate of market value, and they propose to use them. The reason the Department of Revenue had trouble with litigation was because they didn't take a proper approach the last cycle. Hopefully, the Committee will end up with legislation that will do away with assessment of vehicles, because that would free up people to devote themselves to other kinds of assessment. She expressed willingness to address the issue of self-assessment if the Committee had any questions.

Jack Gribble, Administrator, Property Tax Division, Department of Revenue, then rose in support of the bill. He submitted that the State's approach to appraisal was ahead of many other States. He gave a history of the background of this problem. After the Constitution was changed assessors became agents for the Department of Revenue, and the Property Tax Assessment Division was created, which looked at what property was in the Counties and in what state of repair the initial appraisals were. The Counties were mandated to update their appraisals.

In 1975 the five-year reappraisal cycle was initiated. Initial plans indicated that 20% of the appraisals would be done each year. The plan was challenged, and the Supreme Court said the process used to adopt the plan was weak, and it was negated. The Department of Revenue then announced that all appraisals would be rolled back. In 1977, funds were appropriated to enable the Division to finish their project by the end of 1978. So the start of the current cycle was January 1, 1979, and it was to be completed December 31, 1983. The last Legislative session was presented with a recommendation from the Budget Office calling for appraisal of 100,000 properties every year and funding was provided. However, there are 2.5 million pieces of property that need appraisal, so not nearly enough money was provided. 3 - 5% of the reappraisal values have thus far been completed. Training of relatively unskilled people takes at least one year. If the Department has to do this in 2 1/2 years, effectively, then they have only 1 1/2 years to make use of the person. If the cycle is extended, they then have 3 1/2 years to use them. He stressed that the people would be doing work while being trained, but it wouldn't be important until they were fully trained. If the cycle is extended the task can be accomplished. But if they are forced to do it in the existing cycle, staff will have to be doubled, and the product will be unequal with the quality that could be had if the cycle were extended.

He stated that he would like to create a pattern which can re-utilize previous information. They propose to create a data bank for the information. If they have to appraise without an extension, however, this wouldn't be possible to institute.

An overhead presentation was then made which exemplified the task they had before them; see Exhibit "H." What they have to do is never going to end as long as the tax laws of Montana stay the same. By the time they are done, they have to start over again.

Mr. Gribble said that personally, he felt that at some point in the future they will have to come up with an annual cycle. There are States where the courts ordered reappraisals to be done in 1 - 2 years. If a data base was made, this might make it possible to cut down the length of the appraisal cycles.

Dennis Burr, Montana Taxpayers' Association, then spoke. When property was reevaluated in 1978, a number of people appealed their taxes. The State Tax Appeals Board decided that because of the use of two separate appraisal manuals, there was a discrepancy, and it was decided that 34% should be the reduction on all commercial properties in the State. A lot of cases were instituted which were unfounded, as a result, since there was such a blanket action on the part of the Board. This problem is not resolved, because the Supreme Court remanded the decision which set off a whole series of "remandments." Personally, he sees a 12% discrepancy. The Department of Revenue now has to do something to correct the problem. The remand has been appealed to the Supreme Court. The Taxpayers' Association feels the Department is obligated to take some type of action to solve the "34%" case. If this is done, the Taxpayers' Association has no reason to object to extending the cycle two years, but they don't think the Legislature should consider extending the cycle until the Department takes some action to solve the "34%" case.

Questions were then asked. It was brought out that most of the appraisers were residents of the County they were hired for. Most of these people are not experienced, because of the low salaries (Grade 9) they are offered.

In response to a question from Rep. Harp, Mr. Gribble stated that the yearly budget for appraisals for the Department of Revenue was about $5 million. $26 million for the biennium would give them enough people to do the job in the first two years of the 4 1/2 year cycle.

Mr. Gribble explained that all appraisals went on the books simultaneously. Rep. Sivertsen added that the problem was that what is reappraised in 1982 is going to be different than the one done in 1985 because of the values of that property. For this cycle, the effective date of the appraisal has been set at January 1, 1979, so every appraisal will reflect values as of that date. Those values will remain on the books until the entire cycle is completed.

Rep. Neuman asked Mr. Gribble what the average percentage increase was from cycle to cycle on property values. He stated that the last cycle reflected values as of about 1960, and in addition there were three different appraisal manuals that the State Board of Equalization put together during that time. Some of the counties ended up having three levels of appraisals. Therefore the question is impossible to answer.

Rep. Switzer asked Ms. Feaver if there was a solution to the "34%" case. She replied that attorneys representing most of the appellants have been met with to try to settle the cases. They could not arrive at any solution, however. They then decided to work with the Legislature to try and address the problem. Legislation is being proposed and will be heard in the Senate. They have ideas on how to resolve the litigation and will be working with the special Legislative Committee to arrive at a solution.

Rep. Williams asked Mr. Gribble if the Special Committee would be opposed to separating commercial property from residential into two different classes. Mr. Gribble replied that that was in concurrence with a bill before the Legislature at present.

Rep. Switzer asked Mr. Gribble when he hoped to be able to go to annual appraisals. Mr. Gribble said once they had the information gathered and stored in the data base, they would be able to retrieve, compare, and analyze complete updates; however, physical reviews will still be needed to confirm the figures.

Rep. Nordtvedt asked Ms. Feaver about missing property not on the tax rolls. She pointed out that not all property was visited; in addition, it is possible that houses were built on some property and weren't discovered. She added that there is a potential for doubling the tax base if all property could actually be on the rolls that exists right now.

Rep. Nordtvedt then asked her to address the problem of variations on appraisals. He asked her if going through the system, variations could be significantly reduced that were found in the last sales ratio study. She replied that most of all the single procedure litigation could be reduced. They believe they could do a better job and therefore the percentage would be reduced. A lot also depends on the economy.

Rep. Nordtvedt asked if Statewide mill levies were eliminated from the tax laws, would there be much need left for having statewide appraisal. Ms. Feaver replied that much of the need for equalization would be eliminated.

Rep. Devlin wanted to know if a different set of books was used depending on the location of the property and Mr. Gribble said the same manual was used, but a local index was also applied. Physical depreciation, functional obsolescense, and economic obsolescence are the three factors taken into consideration. He would like to see a Montana Appraisal Manual set up. He thinks a mechanism can be set up for monitoring to generate their own appraisal manual.

Rep. Sivertsen then closed. This is a very complicated subject; this bill will help solve the "34%" issue. He said he didn't want to see the State stampeded into another cyclical appraisal and run into the same problems it presently faces. The present situation is costing both the taxpayers and the Department of Revenue. An appeals process shouldn't be needed to take care of inequities; maybe this bill will help to deal with the situation in a better way. The hearing on HB 561 was then closed.

Rep. Sivertsen announced that the Fee Bill Subcommittee would meet upon adjournment of Taxation on Thursday, February 19.

The meeting was adjourned at 11:00 a.m.

Rep. Ken Nordtvedt, Chairman

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VISITORS' REGISTER

HOUSE [illegible] COMMITTEE

BILL [illegible] Date [illegible]

SPONSOR [illegible]

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
MARK MACKIN	Helena	CLC		✓
JOHN CLARK	HELENA	GOVERNOR	✓	
S. Keith Anderson	Helena	MonTax		✓

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

Taxation 2/16/81
EXHIBIT "A"

AMENDMENTS TO TAX INDEXING

INITIATIVE (HB614 - YARDLEY)

The proposed amendments will accomplish three things:

1) establish $800 as the personal exemption, subject to indexation.

2) use the Personal Consumption Expenditure (PCE) Implicit Price Deflator rather than the Consumer Price Index (CPI) as the basis for indexation.

3) establish a triggering mechanism based on year-end general fund balance to alter the inflation factor used in indexing.

The first amendment restores the initiative to what the drafters intended and what Montanans voted for.

The second amendment establishes the PCE as the basis for indexing rather than the CPI. The PCE more accurately reflects the actual inflation experienced by consumers for several reasons:

1) <u>it is based on the goods consumers actually purchased</u>. The CPI, on the other hand, is based on a fixed "market basket" of goods that was last changed in 1972. Thus, the CPI does not, for example, reflect the efforts consumers have made to conserve gasoline and electricity.

2) <u>it reflects more realistic housing costs</u>. Most Montana families buy a house only once or twice in their lives and many rent, rather than own, their homes. Yet the CPI annually reflects the increase in mortgage rates and contains no measure of rental costs. The PCE includes an estimate of rent paid and adjusts the mortgage rate portion of the index.

The third amendment provides a formula for adjusting the PCE inflation factor used to index the structure, based on the ending general fund surplus. The formula is designed to decrease the inflation factor if the surplus is below the target surplus set by the legislature and increase it if the surplus exceeds the target. The formula contains minimum and maximum limits:

1) The factor can not go below 1, so the brackets, exemption, and standard deduction are never decreased below the base year.

2) The factor is limited to a maximum 1.25 of the PCE. This means the inflation factor is increased for amounts in excess of the target up to $30 million.

EXAMPLES OF EFFECT OF "TRIGGERING" MECHANISM IN 614

The "triggering" mechanism in HB 614 serves two purposes:

1) it automatically returns funds in excess of the anticipated ending fund balance to taxpayers by increasing income tax personal exemptions, standard deduction, and tax brackets;

2) it protects the state's fiscal integrity and bonding capacity if state revenues decline unexpectedly.

A few examples will illustrate how this "trigger" operates.

Assume that the 1981 legislature established the target balance for FY 83 at $20 million and that the PCE for 1983 was 11%.

Example 1. If the actual general fund surplus on June 30, 1983 is $30 million, the percentage used to index the tax structure for 1983 would be increased to 20.2%, rather than the 11% provided by indexing. Thus, the personal exemption would be increased from $800 to $962, the standard deduction from $1,000 to $1,202, and the brackets multiplied by this factor.

1. Actual balance - targeted balance = $10 million.
2. $1.2 million X N = $10 million (N=8.33).
3. The smaller of 1.25 or (1 +(.01 X 8.33)) is 1.0833.
4. 1983 PCE/1980 PCE X 1.0833 = 1.202.

Example 2. If the actual general fund surplus or June 30, 1983, is $10 million, the percentage used to index the tax structure for tax year 1983 would be 1.75%. The personal exemption would be increased from $800 to $814, the standard deduction to $1,018, and the tax brackets multiplied by this factor.

1. Actual balance - targeted balance = ($10 million).
2. $1.2 million X N + $10 million (N = -8.33).
3. The small of 1.25 or (1 + (.01 X -8.33) is .9167.
4. 1983 PCE/1980 PCE X .9167 = 1.0175.

COMPARISON OF CPI AND GNP-PCE INDEXES

Definition

Both the Consumer Price Index (CPI) and the Gross National Product Personal Consumption Expenditure Implicit Deflator (GNP-PCE) attempt to measure changes in prices for durable goods, nondurable goods, and services purchased by consumers. However, the method used in the indexes vary, as detailed below.

CPI

The CPI has been widely used in state indexing laws for several reasons:

1. broad population coverage. Prices charged to 80% of the urban population are represented in the survey, with 85 individual geographic areas being surveyed.

2. limited revisions. Once released, the CPI is rarely changed. As discussed below, the GNP is sometimes retroactively revised.

The CPI, however, tends to overstate inflation for several reasons:

1. fixed market basket. The CPI is based on price increases in specific commodities in specific amounts and, thus, does not reflect changes in consumption patterns. It does not measure the impact of new products on consumer spending or shifts away from rapidly inflating products to more price-stable commodities. For example, the index does not reflect the decrease in gas consumption resulting from smaller cars and higher prices. Since the CPI market basket is revised only once a decade, changed consumption patterns may make the CPI an inaccurate reflector of true cost of living increases. The current market basket was established in 1972.

2. nonrepresentative expenditures. While the CPI is designed to reflect the expenditures of the "average" household, it does not reflect the consumption habits or inflation experience of most individual families. For example, the CPI annually reflects the increased mortgage even though less than 7% of families purchase a new home each year.

3. imported goods included. Import price increases are reflected only to a limited extent in domestic price increases. A good example is imported oil. Consumer price increases have been less than OPEC price hikes. Thus, the CPI overstates inflation in this case.

GNP-PCE

The Gross National Product implicit price deflator (GNP) is a weighted average of several indexes. One of these indexes is the Personal Consumption Expenditures (PCE) which measures the change in prices of goods and services purchased by individuals.

The PCE is considered to be a more accurate reflector of the inflation faced by individual consumers for several reasons:

1. actual expenditures. The PCE is based on actual purchases in a given period, so it reflects both the type and amount of goods and services purchased.

2. renters included. In calculating housing costs, this index includes an estimate of rents paid and the rental value of homes. These elements are more stable than construction and mortgage costs.

3. imported goods excluded. The price of imported goods, such as oil, have increased much faster than other goods and, thus, would overstate inflation if included in the index.

One disadvantage of the GNP-PCE is that it is sometime retroactively revised for the previous three years. This difficulty can be overcome, however, by pegging the tax structure to the existing GNP-PCE figure on a specified date.

Comparison*

The GNP-PCE has been more stable than the CPI during the past decade:

Year	CPI	GNP-PCE
1968	4.2%	4.1%
1969	5.4	4.6
1970	5.9	4.5
1971	4.3	4.4
1972	3.3	3.5
1973	6.2	5.5
1974	11.0	10.8
1975	9.1	8.1
1976	5.8	5.1
1977	6.5	5.7
1978	7.7	6.8
1979	11.3	8.9
1980	14.3	9.1
Average	7.308	6.238

*Data from Congressional Budget Office, Indexing the Individual Income Tax for Inflation (September, 1980), p. 33.

WITNESS STATEMENT

NAME Mark Mackin BILL No. ______

ADDRESS [illegible] DATE [illegible]

WHOM DO YOU REPRESENT [illegible]

SUPPORT ______ OPPOSE ✓ AMEND ______

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

An Initiative as written deserves the benefit of a doubt when the legislature [illegible] considers amendments.

The passage of an initiative establishes public policy.

In the absence of a compelling arguement establishing that an initiative is [illegible] or requires improvement, it should not be amended.

The Initiative deserves a chance to function as advertised before it is changed in any substantial manner not in accordance with the guideline above.

CLC would consider it a courtesy on the part of the legislature to submit any major changes in an initiative back to the electorate for review.

FORM CS-34
1-81

EXHIBIT "B"

ther editors say:

Clear stand on state spending

Minneapolis Tribune

The conclusion seems so obvious: In-xing of the state income tax will st Minnesota $900 million in the 81-83 biennium. The state is $1 billion short of balancing its projected 1981-83 budget. Therefore, indexing — ljusting tax rates to reflect inflation — must be responsible for the shortfall.

ot necessarily. If Minnesota had not dexed its income tax in 1979, about $250 million more would have been available for the 1979-81 biennium. overnment has a tendency to spend hatever is available, so much of that 50 million probably would have been appropriated. As a consequence, the base budget coming into 1981-83 ould have been higher, and so, most kely, would the projected 1981-83 budget built from that base. There still would have been a revenue gap, ough how large is impossible to say. ithout indexing, all numbers would have changed from 1979 on.

o comprehend indexing's actual im-act, Minnesotans must consider the simultanous effect of high inflation and a recession. The recession in-reased state spending in some areas, articularly welfare, while reducing tate revenues. Corporate taxes have not grown as they should; sales tax revenues are below projections, and nemployed workers pay little income x.

At the same time, inflation has roared long at more than 10 percent. Without indexing, many Minnesotans who receive pay increases would be taxed at a higher rate despite little or no increase in real income. Resulting revenues probably would offset a good portion, though not all, of the increase in state spending and lag in revenues.

But it does not follow that indexing is to blame for the gap. Indexing merely prevents the state from levying a hidden tax increase — made possible by inflation — to finance a projected deficit created by the recession.

By taking away this hidden tax increase, indexing forces the state to confront its financial situation directly, to make difficult but honest choices. As Gov. Al Quie has said, "The objective of indexing was to require elected officials to make direct, open decisions whether to raise taxes or to cut spending."

Making those "direct, open decisions" is what caused the hullabaloo at the state Capitol. Quie presented his budget to legislators, and many disliked what they heard. The battle was joined and will continue many weeks. However acrimonious, the exchange is healthy. It involves redefining, in light of current economic conditions, the state's responsibilities and purposes. What does the state wish to accomplish? How far should it go? Where should the funds come from? Indexing forces these questions. It did not cause the state's distress. It merely prevented application of a hidden and unvoted remedy.

the small society by Brickman

Price of bare necessities outstrips inflation rate

WASHINGTON (AP) — Prices for the necessities — food, housing, energy and health care — rose even faster than the 12.4 percent overall 1980 inflation rate, a group of private economists said Saturday.

They said President Reagan's inflation-fighting plans won't do much to help.

The National Center for Economic Alternatives, a private research organization, said prices in what it called the four "basic necessity-related sectors" rose 13.8 percent last year, compared with the national inflation rate of 12.4 percent as calculated in the government's Consumer Price Index.

Center economists, who based their analysis on the government CPI data, calculated an inflation rate of 9.8 percent for all non-necessity items.

The report said energy prices rose 18.1 percent in 1980, shelter costs rose 15.1 percent, food prices 10.2 percent and medical costs 10 percent.

And the report said the news was worse at year-end, with the inflation rate for the four categories rising at a seasonally adjusted annual rate of 15.2 percent in the final quarter of 1980, compared with 14 percent for all items surveyed by the government.

The center estimated that the four categories make up about 60 percent to 70 percent of an average family's household budget — a major portion that is very difficult to cut.

"There is very little the average family can do to shield itself from price increases in the basic sectors," it said. "When heating oil and food bills go up, they must be paid as they come due."

The group, which had been critical of former President Jimmy Carter's efforts to bring down inflation, showed no confidence in the Reagan administration's plans either.

It said decontrolling crude oil prices will "intensify the impact" of price hikes by oil-exporting countries, noted that the Agriculture Department is predicting food inflation of up to 15 percent this year, and said that interest rates will keep home mortgage rates up.

"Budget-cutting will alter none of this," it said.

In addition, the report said, the administration's recent decontrol of oil prices and its recommended "new tax cuts and military spending increases will intensify inflation in general."

The group offered no specific guidance for government policy-makers but said that "in the absence of carefully targeted strategies to moderate prices in the specific sectors, there is no way to avoid inflation calamity."

The center, which is primarily supported by foundation grants, has been trying for some time to call attention to "sectoral inflation" in basic categories of the economy — wide areas that its economists feel are little affected by general governmental fiscal and monetary policies.

EXHIBIT "C"
Taxation 2/16/81

News

United States Department of Labor

Bureau of Labor Statistics Washington, D.C. 20212

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USDL-81-55
TRANSMISSION OF MATERIAL IN THIS RELEASE
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Friday, January 23, 1981

Advance copies of this release are made available to the press with the explicit understanding that, prior to 9 a.m. Eastern time: (1) Wire services will not move over their wires copy based on information in this release; (2) electronic media will not feed such information to member stations; and (3) representatives of news organizations will not give such information to persons outside those organizations.

THE CONSUMER PRICE INDEX--DECEMBER 1980

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.9 percent before seasonal adjustment in December to 258.4 (1967=100), the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased 0.9 percent before seasonal adjustment in December to 258.7 (1967=100). The CPI-U was 12.4 percent higher and the CPI-W was 12.5 percent higher than in December 1979.

CPI for All Urban Consumers (CPI-U)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers rose 1.1 percent in December, about the same as in each of the preceding 3 months. The housing, transportation, and food and beverage components all registered substantial increases for the second consecutive month. These components accounted for over nine-tenths of the December increase in the CPI. The index for other goods and services rose substantially, but the increases in

Table A. Percent Changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted: Changes from preceding month, 1980							Seasonally adjusted: Compound annual rate 3-mos. ended Dec. '80	Unadjusted: 12-mos. ended Dec. '80
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.		
All items	1.0	0	0.7	1.0	1.0	1.0	1.1	12.8	12.4
Food and beverages	.5	.9	1.7	1.6	.7	1.1	1.0	12.1	10.1
Housing	1.8	-.7	.1	.7	1.3	1.0	1.3	15.5	13.7
Apparel and upkeep	0	.4	.6	1.3	.5	.3	-0.1	2.7	6.8
Transportation	-.2	.4	.9	1.2	.8	1.3	1.0	13.4	14.7
Medical care	.5	.7	.7	.8	.8	.6	.5	8.1	10.0
Entertainment	.6	.8	.8	1.0	.5	.3	.3	4.7	9.6
Other goods and services	.8	.5	.6	1.9	.3	.6	1.0	8.1	10.1

(Data for CPI-U are shown in tables 1 through 3.)

HB 614
EXHIBIT "D"
TAXATION 2/16/81

REDUCTION OF THE TAX WINDFALL--POLITICAL ACCOUNTABILITY TEST

The initial results indicate that the various state indexation plans performed as expected--income tax receipts did not rise as fast as would have been the case under a non-indexed arrangement. The five states that had indexation laws in operation in fiscal year 1979-80 averaged a 15.3% increase due to economic growth (real and nominal). In the absence of indexation, we estimate that the average change in tax receipts due to economic growth would have been 21.7%. The point must be emphasized that indexation

TABLE 2. ESTIMATED EFFECT OF INDEXATION ON THE GROWTH OF STATE INCOME TAX COLLECTIONS, FISCAL 1979-80. (thousands of dollars)

	INCOME TAX[1] COLLECTIONS 1978-79	CHANGE IN 1979-80 TAX RECEIPTS DUE TO ECONOMIC GROWTH[2]				EXHIBIT CHANGE IN PERSONAL[3] INCOME, 1979-80
		WITHOUT INDEXATION		WITH INDEXATION		
		Amount	Percent	Amount	Percent	
ARIZONA	$ 270,265	$ 79,100	29.3%	$ 49,100	18.2%	15.5%
CALIFORNIA	5,452,000*	1,520,000	27.9	1,047,000	19.2	13.3
COLORADO	494,000	99,600	20.2	76,000	15.4	14.7
IOWA	668,501	80,716	12.1	74,716	11.7	8.0
MINNESOTA	1,255,998	240,412	19.1	155,012	12.3	12.2
State Average (Elasticity)			21.7 (1.71)		15.3 (1.20)	12.7

Sources: 1. U.S. Department of Commerce, Bureau of the Census. State Government Finances in 1979. GPO, Washington, D.C. Table 7, and ACIR survey of state revenue departments.
2. ACIR surveys of state revenue departments. "Economic growth" includes both real and nominal changes.
3. Survey of Current Business, October 1980. Based on the increase in personal income from fiscal 1979 to fiscal 1980.
* Adjusted upward to reflect a one-time tax credit of $690 million.

does not prevent state income tax growth--but it does prevent the reaping of a revenue windfall due to inflation.

Because the 1979 and 1980 inflation rates have been higher than predicted, the total revenue reductions resulting from indexation have exceeded what most states anticipated. This type of result is to be expected because higher rates of inflation should tend to be reflected in state tax rates. However, during inflationary periods, personal income should also be increasing at the same rate as the cost-of-living so that even if revenue reductions are larger than anticipated, gross income tax collections should be correspondingly higher. Because the indexation programs have been in effect for such a short time, it has not been possible to determine whether they have produced state income tax structures which are neutral with respect to nominal income changes.

The impact of the indexation laws in each of the states has been to improve the correspondence between tax receipts and personal income. In all cases the percentage change in tax receipts after indexation has exceeded the increase in personal income, but it was much smaller than if the tax laws had remained unchanged. The initial results suggest that although indexation moderates the rate of growth in income tax collections, it still allows collections to rise at least as fast as the increases in resident income.

TAX EQUITY TEST

Indexation of state personal income taxes has provided somewhat greater relief to lower income taxpayers than to those in the higher tax brackets (Table 3). This "pro-poor" tax rate reduction effect can be traced to the fact that inflation is especially destructive to personal exemptions and standard deductions--the shields for protecting subsistence income from the income tax collector's reach. Thus, by shoring up these taxpayer shelters, indexation not only provides somewhat greater benefits to the lower income

TABLE 3. EFFECTIVE TAX RATES OF STATE PERSONAL INCOME TAXES FOR SELECTED ADJUSTED GROSS INCOME LEVELS, MARRIED COUPLE WITH TWO DEPENDENTS, STATES WITH INDEXATION PROVISIONS, 1977, 1979 AND 1980.

STATE		ADJUSTED GROSS INCOME CLASS $10,000	$15,000	$20,000	$25,000	$50,000
* Arizona:	1977	1.6%	1.3%	1.9%	2.5%	3.4%
	1979	0.4	1.0	1.7	2.3	3.4
	1980	-0.1	0.9	1.6	2.1	3.3
California:	1977	-0.4	1.1	1.8	2.5	5.6
	1979	-1.4	0.8	1.6	2.2	5.3
	1980	-1.4	0.6	1.3	1.9	4.5
* Colorado:	1977	1.4	1.1	2.0	2.6	3.6
	1979	0.7	0.9	1.7	2.4	3.4
	1980	1.0§	0.9	1.5	2.0	2.9
* Iowa:	1977	2.8	2.4	3.0	3.4	4.5
	1979	2.4	2.2	3.0	3.5	4.6
	1980	2.4	2.1	3.0	3.5	4.5
* Minnesota:	1977	1.4	4.8	5.9	6.7	7.7
	1979	-2.6	3.1	4.8	5.8	7.5
	1980	-4.3	2.8	4.5	5.5	7.3
Wisconsin	1977	3.3	3.7	4.7	5.6	7.4
	1980	-0.6	3.4	4.7	5.5	7.0

* Allows deduction for federal income taxes

§ Rate increase is due to elimination of the food sales tax credit. Food is now (eff. 1/1/80) exempt from sales tax.

Source: Estimates prepared by Frank Tippett, ACIR Statistician.

taxpayers--it also protects the progressive tax structure from the eroding force of inflation. One caveat--the rates in table (3) reflect all the tax code changes between 1977 and 1979; the indexation adjustment, however, clearly stands out as the dominant factor responsible for the tax rate changes.

The states that have adopted indexation have tax codes that are relatively progressive and this is a major reason why indexation has been attractive to them.5/ Adjusting for inflation not only maintains progressivity, but also reduces the elasticity of tax collections with respect to inflation. Because the response of tax collections to inflation is greater under a more progressive tax system, unlegislated real tax increases will be greatest in those states that have highly progressive tax structures. Thus, indexation for inflation in states with relatively progressive tax laws reduces the tax windfalls where they have tended to be a most persistent problem.

Individual State Analysis

In all indexed states the effective rates of taxation have declined for most income classes between 1977 and 1980. The greatest reductions have occurred at the lower end of the income scale for all states. This is a result of the indexation of the standard deduction and personal exemptions/credits which are a greater percentage of family income at lower income levels. In 1978, Arizona, California and Colorado indexed their personal credits/exemptions and standard

---

5/ ACIR, The Inflation Tax, Op. Cit., p. 12-14.

deduction. In Minnesota, large reductions in the lower income brackets have occurred from changes other than indexation. These types of changes reinforce the benefits of indexation at the lower end of the income scale. By maintaining the real value of nominal tax provisions, indexation has offset the regressive effects which inflation can have on progressive income tax laws. As illustrated by California and Colorado, indexation has tended to retain the progressive nature of their tax codes.

In Iowa, the effective tax rates showed the smallest reductions of any of the states. In fact, for income classes greater than $20,000 the effective rate was equal to or greater than the rate charged in 1977. This unexpected result is due to the short time which the Iowa law has been in effect, and the 1978 federal tax cuts. 1979 was the initial year of inflation indexation in Iowa and the law only adjusted brackets for 25% of the change in the CPI. Thus, the rate brackets were only expanded 2.3% and the rest of the code left unindexed. In addition, federal income tax liabilities declined between 1977 and 1979 and reduced the 1979 deduction for federal taxes. At the higher income levels this decreased deduction was sufficient to more than offset the small expansion of the brackets. In other words, taxable income increased by more than 2.3%, even though adjusted gross income had been held constant for both years. The implication of this is that partial indexation is not sufficient to neutralize the effect of inflation when federal taxes are deductible, and the federal government actively takes steps to mitigate the impact of inflation on its own taxes. In 1980, further expansion of the brackets did not occur because the general fund did not meet the law's minimum balance requirement.

FISCAL DISCIPLINE TEST

Although we have not been able to design a yardstick for measuring accurately the fiscal discipline effect of the various state indexation plans, we can draw one inference with a fairly high degree of confidence---indexation has forced state policymakers to take a somewhat harder look at their expenditure priorities than would have been the case under a non-indexed system. This inference rests in part on the logic of Parkinson's Second Law--"expenditure rises to meet income." The inference also rests on observed state behavior--not one of the indexed states has raised taxes to offset the revenue foregone through indexation. In this Post Proposition 13 era, expenditure slowdown appears to be the better part of budgetary valor.

Individual State Analysis

Although it is expected that revenue reductions will be greater during high inflation periods, in combination with an economic downturn, indexation has caused problems for some states. The three midwestern states that have instituted indexation (Minnesota, Iowa, and Wisconsin) have all been hit hard by the 1980 recession and

Indexing Improves Revenue Estimation

Suppose Fiscal Analyst estimates 11% inflation and $160 million in base year revenue is received from personal income tax.

If the actual inflation is 10% or 12%, the chart below shows the probable change in revenue with and without indexing

Base Year Revenue $160 Target Inflation 11%
(revenue in millions of dollars)

without indexing

Year 1 Target Revenue	$186.4	
Year 1 Revenue with 10% inflation	184.0	revenue change −2.4
Year 1 Revenue with 12% inflation	188.8	revenue change +2.4

with indexing

Year 1 Target Revenue	$177.6	
Year 1 Revenue with 10% inflation	176.0	revenue change −1.6
Year 1 Revenue with 12% inflation	179.2	revenue change +1.6

Indexing reduces revenue prediction uncertainties

VISITORS' REGISTER

HOUSE ______________________________ COMMITTEE

BILL ______________________ Date ______________________

SPONSOR ______________________

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
J. Fallan	Helena	Mt. Chamber	—	
GARY LANGLEY	HELENA	NATIONAL FEDERATION OF INDEPENDENT BUSINESS	✓	
S. Keith Anderson	Helena	MonTax	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

Form CS-34
1-79

TAXATION 2/16/81
EXHIBIT

NAME S. KEITH ANDERSON BILL NO. 653

ADDRESS HELENA DATE FEB. 16/1981

WHOM DO YOU REPRESENT MONTANA TAXPAYERS ASSOCIATION

SUPPORT X OPPOSE AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

GOVERNMENTAL EXPENDITURE LIMITATION IS AN IMPORTANT VOTER ISSUE BOTH AT THE STATE AND NATIONAL LEVEL. IT IS ESPECIALLY IMPORTANT TO OUR MEMBERSHIP BECAUSE THEY ARE THE BUSINESS COMMUNITY PAYING A LARGE SHARE OF THE TAXES LEVIED BY GOVERNMENT AT ALL LEVELS. THEY TO ARE CONCERNED ABOUT THE ECONOMIC HEALTH OF THIS NATION.

GOVERNMENT SPENDING HAS CONTINUED TO OUT STRIP PERSONAL INCOME FROM YEAR TO YEAR IN MONTANA DESPITE RAPID GROWTH IN INCOME DURING THE LAST FIVE YEARS OR SO.

IN MY VIEW THE GROWTH OF PERSONAL INCOME IN MONTANA REFLECTS COAL AND PETROLEUM DEVELOPMENT RATHER THAN THE AGRICULTURAL AND GENERAL BUSINESS CLIMATE. A LARGE PERCENTAGE OF PERSONAL INCOME GROWTH IS EXPORTED WEALTH AND DOES NOT GENERALLY REFLECT THROUGH THE GENERAL ECONOMY OF MONTANA. EVEN CONSIDERING THIS, STATE LEVEL TAXES HAVE INCREASED 246% IN 10 YEARS WHILE PERSONAL INCOME HAS GONE UP 178%. IN THE LAST FIVE YEARS PERSONAL INCOME HAS INCREASED 66% BUT STATE LEVEL TAXES HAVE GONE UP 88%.

PROPERTY TAXES HAVE HAD A LESSOR GROWTH RATE BUT ARE A SIGNIFICANT FACTOR IN REDUCING PERSONAL /income AVAILABLE FOR DISPOSAL BY THE PRIVATE SECTOR.

THE TWO CHARTS ARE A GRAPHIC DISPLAY OF STATE LEVEL APPROPRIATION GROWTH COMPARED TO THE GROWTH OF PERSONAL INCOME IN MONTANA. THE SECOND CHART RELATES STATE LEVIED TAXES AND PROPERTY TAXES TO PERSONAL INCOME AND AGAIN TO POPULATION.

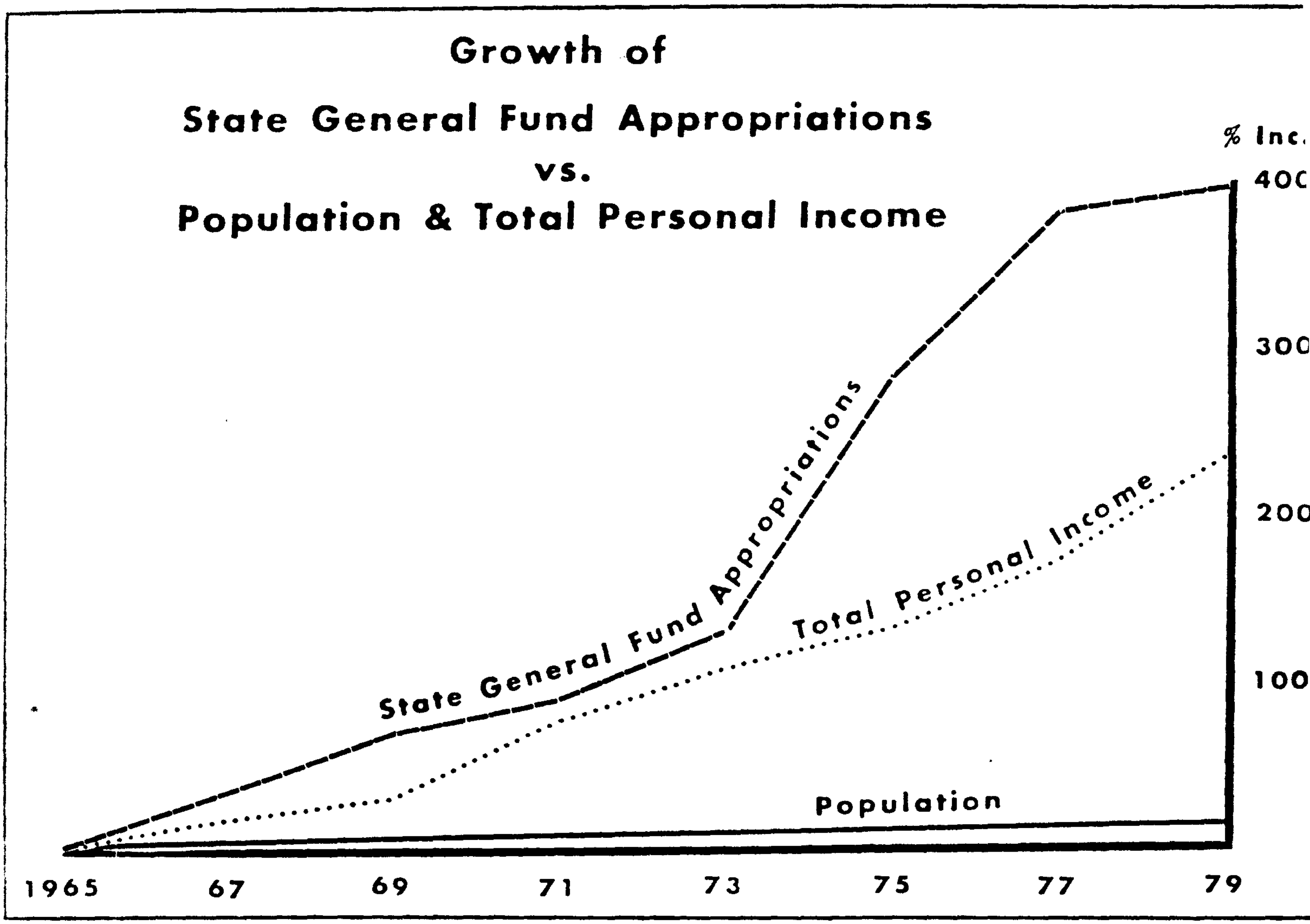
A PRIME QUESTION REMAINS--"EVEN CONSIDERING INFLATION, DOES MONTANA' SMALL INCREASE IN POPULATION GROWTH--SOME 12% IN THE LAST 10 YEARS REQUIF A 198% INCREASE IN STATE LEVEL EXPENDITURES--LARGELY BECAUSE THE MONEY WAS AVAILABLE FOR THE LEGISLATURE TO APPROPRIATE WITH OUT STATE LEVEL TAX INCREASES?"

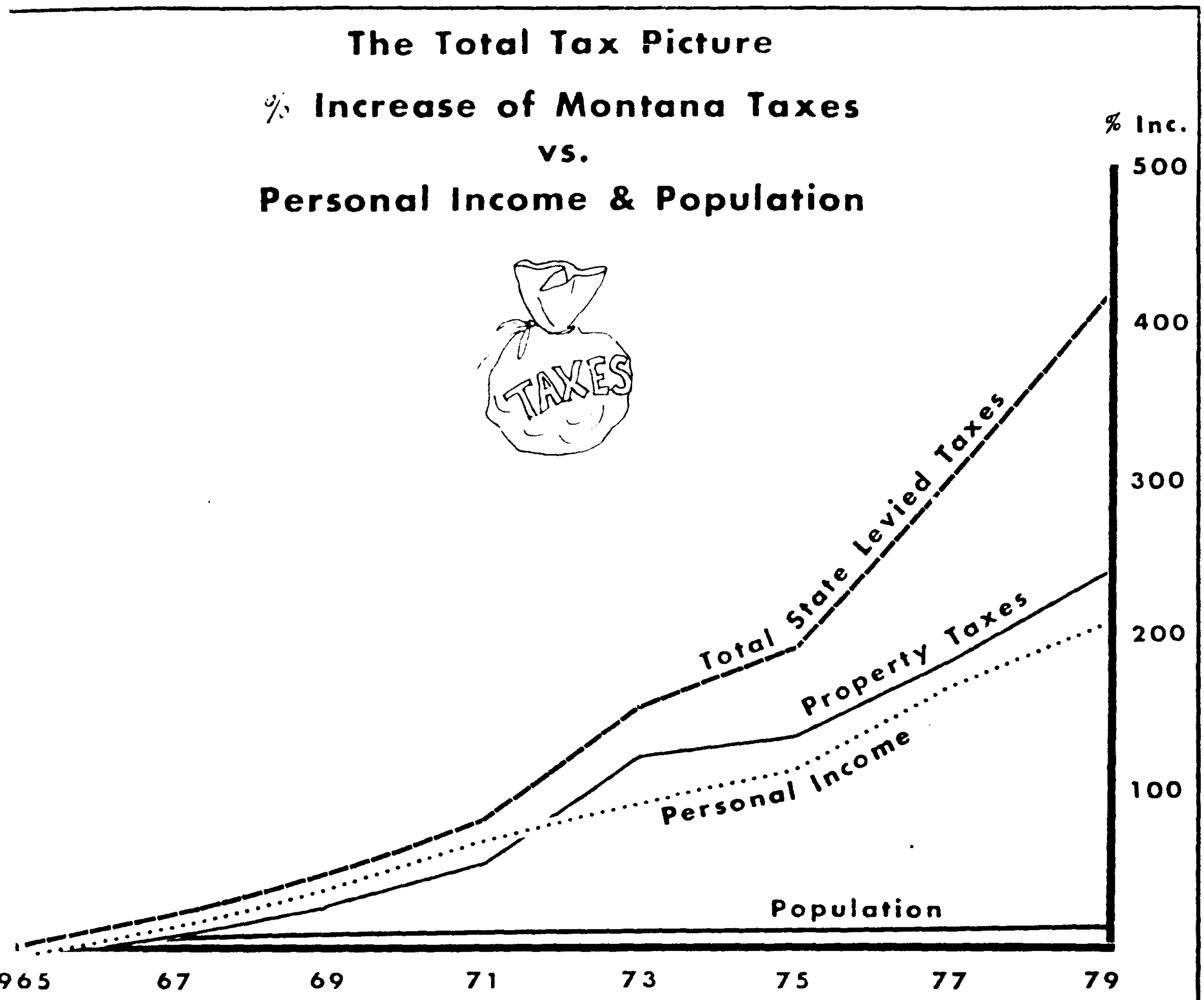
WE FACE TROUBLED TIMES IN OUR ECONOMY--AND STATE AND LOCAL GOVERNMEN ARE A LARGE SHARE OF THAT ECONOMY. IN FACT, FOR FISCAL 1977, 58.1% OF AL GOVERNMENTAL REVENUE WAS COLLECTED AT THE FEDERAL LEVEL WHILE 41.9% WAS COLLECTED AT THE STATE AND LOCAL LEVEL-23.7% FROM THE STATE AND 18.2% FRO LOCAL GOVERNMENTS. IT WILL THEREFORE TAKE MORE THAN FISCAL RESTRAINT AT THE FEDERAL LEVEL TO TURN OUR ECONOMY AROUND. IT WILL TAKE TAX AND EXPENDITURE REDUCTION AT THE STATE LEVEL BROUGHT ABOUT BY A VEHICLE LIKE H. B. 653 TO BRING THIS ABOUT.

IN THE ATTACHED MATERIAL I HAVE LISTED SOME QUOTES REGARDING THE NECESSITY FOR EXPENDITURE LIMITATION LEGISLATION FROM MILTON FRIEDMAN, NOBEL LAUREATE IN ECONOMICS. THESE QUOTES ARE FROM A CONFERENCE HELD ON STATE EXPENDITURE LIMITATION WITH FRIEDMAN AS ONE OF THE TOP SPEAKERS AND CONSULTANTS. HE EXPLAINS WHY EXPENDITURE LIMITATION IS SO IMPORTANT AT THE STATE LEVEL.

I URGE YOUR ADOPTION OF H. B. 653 IN AN EFFORT TO BRING STATE EXPENDITURES IN LINE WITH ECONOMIC GROWTH IN THE STATE. THE BILL ALSO INCLUDES AN INNOVATIVE PROVISION TO PROVIDE PROPERTY TAX RELIEF IF REVENUE EXCEEDS AUTHORIZED EXPENDITURES AND TO PREVENT EXCESSIVE SURPLUS REVENUES FROM ACCUMULATING.

THIS BILL DESERVES YOUR SUPPORT AND PASSAGE BY THE LEGISLATURE.


Growth of
State General Fund Appropriations
vs.
Population & Total Personal Income
% Inc.
400
300
200
100
State General Fund Appropriations
Total Personal Income
Population
1965
67
69
71
73
75
77
79



The Total Tax Picture
% Increase of Montana Taxes
vs.
Personal Income & Population
% Inc.
500
400
300
200
100
TAXES
Total State Levied Taxes
Property Taxes
Personal Income
Population
965
67
69
71
73
75
77
79

Personal Income vs. State Level Taxes -
Property Taxes

	Personal Income (Billions)	State Level Taxes (Millions)	% of Personal Income	Property Taxes (Millions)	% of Personal Income	Total Taxes % Personal Inc
1950	$ 957	$ 26,288	2.75 %	$ 45,193	4.72 %	7.47 %
1955	1,037	37,245	3.60 %	61,751	5.95 %	9.55 %
1960	1318	58621	4.45 %	90011	6.83 %	11.28 %
1965	1587	74185	4.67 %	108488	6.84 %	11.51 %
1970	2172	120733	5.56 %	159,264	7.33 %	12.89 %
1975	3,643	222,108	6.10 %	232,310	6.37 %	12.47 %
1980	6,040	417,622	6.91 %	367245	6.08 %	12.99 %
% Increase						
30 years	531 %	1,489 %		713 %		
20 years	358 %	612 %		308 %		
10 years	178 %	246 %		130 %		
5 years	66 %	88 %		58 %		

Source: U.S. Department of Commerce
Governmental Finance Series - Mont. Dept. of Revenue

2/15/81 Montax

Support Musters For Spending Limitation

"It is very hard to find any movement of major importance which has developed so rapidly over so short a period of time."
— Friedman

"Inflation is the worst kind of tax. It does more harm than other taxes. But the bottom line, the problem, is spending. And that's why our emphasis has to be on spending limitation."
— Friedman

"The total is never added up. The purpose of tax limitation is to remedy that defect. It is to enable us to say to the legislature, "We assign you a budget. Now it is your job to spend that in the most affective way."
— Friedman

"The actual political situation is that Congress or any legislature will spend and on the federal level Congress is going to spend whatever the tax system produces plus some more."
— Friedman

"There no longer is the wide spread belief that the way to solve every problem is to have the government throw money at it."
— Friedman

"In the same light what we are fighting for is to enact the principles that government shall have a budget and that it will have to stay within that budget and that the people, the voters, you and I in our capacities as citizens shall decide what that total budget shall be."
— Friedman

"It was said this morning that expenditure was a proxy for taxes. That's wrong. Taxes are a proxy for taxes. The real tax is expenditures. The total tax imposed upon the American people is what government spends."
— Friedman

"I believe if we are going to be affective in producing tax limitation, we must understand and we must make other people understand, that very far from being undemocratic it is quite the opposite."
— Friedman

"One thing is clear. This country cannot continue on the road it has been going. If we keep on going on that road of ever bigger government not long down the road is going to be an end to our freedom and an end to our prosperity. That's for sure."
— Friedman

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1981 MONTANA STATE BALLOT

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Director, Governmental Relations
Montana
National Federation of Independent Business
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Helena, Montana 59601
Telephone (406) 442-3420

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San Mateo, CA 94403

LABOR

10. QUESTION

Should a $2 million appropriation be made to create a Montana product development corporation?

Favor	Oppose	Undecided	
25%	60%	15%	20
1	2	3	

BACKGROUND

The purpose of the proposed nonprofit public corporation is to help overcome Montana's shortage of venture capital and to stimulate and encourage development of products and inventions within Montana. The corporation will provide financial aid to persons for commercial development in situations where financial aid would not otherwise be available.

11. QUESTION

Should legislation be adopted to require businesses to provide notice of closures?

Favor	Oppose	Undecided	
12%	80%	8%	21
1	2	3	

BACKGROUND

There is a national labor movement backing legislation to require firms with 50 or more employees to provide one year's notice prior to closing, reducing the workforce or relocating to another community or state. This type of legislation also requires certain financial obligations, retraining and relocation rights for workers.

12. QUESTION

Should the growth of state employment be limited by tying it to the percentage of the state's growth in population?

Favor	Oppose	Undecided	
85%	10%	5%	22
1	2	3	

BACKGROUND

Statistics show that among the 11 western states, Montana is ranked fourth in the number of state employees per 10,000 population. According to the most recent government statistics, Montana employed over 19,000 people with a payroll of over $17 million in 1978. This proposal would tie the growth of government employment to the percentage of population growth in Montana.

COMMENTS:

4. QUESTION

Should the state inheritance tax be repealed for children and grandchildren?

Favor	Oppose	Undecided	
84%	9%	7%	14
1	2	3	

BACKGROUND

The 1979 Legislature exempted the surviving spouse from the inheritance tax. Estimates indicate that 60% of the total taxes collected under the inheritance tax laws in 1979 were paid by surviving children and grandchildren. The elimination of this tax would reduce annual state collections by $3.8 million.

CONSTITUTIONAL AMENDMENT

5. QUESTION

Should the Montana Legislature adopt a resolution requesting Congress to propose an amendment to the U.S. Constitution requiring a balanced federal budget, or to call a Constitutional Convention if Congress fails to act?

Favor	Oppose	Undecided	
84%	10%	6%	15
1	2	3	

BACKGROUND

The purpose of the resolution is to force Congress to take one of two actions. If 34 states pass similar resolutions, Congress must call a Constitutional Convention for the singular purpose of adopting a Constitutional Amendment for a balanced federal budget, if Congress has failed to take the initiative to propose such an amendment. The Constitutional Amendment would then have to be ratified by two-thirds of the states. To date, 30 states have passed this resolution.

6. QUESTION

Should Montana's constitution be amended to limit the growth of state government spending to the percentage increase in the growth of state personal income and population?

Favor	Oppose	Undecided	
89%	7%	4%	16
1	2	3	

BACKGROUND

State government expenditures have more than doubled over the last five years. By limiting future increases in state tax revenues to the increase in statewide personal income and population increases, the constitutional spending limitation would be an "insurance policy" against further erosion of earnings through taxes.

GOVERNMENT

7. QUESTION

Should Legislation be adopted to enact a state regulatory flexibility act?

Favor	Oppose	Undecided	
63%	16%	21%	17
1	2	3	

BACKGROUND

Most rules and regulations adopted by state agencies have varying impacts on individual businesses, depending to a large degree on the size of the business. A regulatory flexibility act would require state agencies to vary the regulatory standards as well as the reporting requirements in a flexible manner, whenever possible, taking into account the size and nature of the regulated business.

8. QUESTION

Should legislation be enacted to require the state to pay interest on accounts it does not pay within 30 days after receipt of billing?

Favor	Oppose	Undecided	
87%	10%	3%	18
1	2	3	

BACKGROUND

Small business is quite often penalized by state government because of late payment by government of its bills. If the profit margin is small, late payment can eliminate any profit for the business. This proposal will allow assessment of an interest penalty of 1½% per month on overdue accounts.

9. QUESTION

Should the state create within an existing agency: (Please check only one of the following.)

a. A business license information center;	15%	1	19
b. A business license coordination center;	29%	2	
c. Neither of the above;	41%	3	
d. Undecided.	15%	4	

BACKGROUND

A license information center would provide information about which licenses are required for any business operation and which agencies issue the licenses. In addition, a business coordination center would be responsible for (1) recommending the elimination, consolidation or simplification of unnecessary license requirements; (2) recommending revisions in fee structures and administrative procedures; and (3) developing a permanent master license certificate.

NFIB® National Federation of Independent Business

Research and Education Foundation

MONTANA STATE BALLOT

Dear NFIB Member:

Please take a few minutes and complete the following questions which pertain to small business issues in your state.

We are interested in your answers to the questions in this survey, and any comments you may have.

Please **return the entire** survey for processing.

Thank you.

Wilson S. Johnson, President

TAXES/FISCAL

1. QUESTION

Should the state phase out the inventory tax over a five-year period by providing an income tax credit as an offset against tax paid on business inventories?

Favor	Oppose	Undecided	
87%	5%	8%	11
1	2	3	

BACKGROUND

Montana is one of the few states that still levies a business inventory tax. The most difficult aspect of repealing this tax is the loss of revenue to local units of government. This proposal would phase out the inventory tax over a five-year period by increasing the tax credit increments 20% each year until a full credit could be taken.

2. QUESTION

Should local governments be allowed to levy local option taxes if they are approved by the voters of the city or county involved?

Favor	Oppose	Undecided	
49%	46%	5%	12
1	2	3	

BACKGROUND

The most recent economic recession has made local governments look for new sources of revenue. The state Legislature will consider legislation which allows cities and counties to impose local sales and/or excise taxes. This proposal provides residents with the opportunity to decide whether their local governments should operate within the amount realized from existing sources of revenue or whether cities and counties should be able to expand their tax base, upon approval of the voters.

3. QUESTION

Should capital gains, interest income and depreciation for capital investments be indexed for inflation?

Favor	Oppose	Undecided	
85%	12%	3%	13
1	2	3	

BACKGROUND

Inflation causes taxpayers to pay taxes on gains from the sale of property which are not, in fact, real gains and it causes distortions in interest income. It also causes businesses depreciating capital investments over a number of years to receive allowances in less valuable dollars, which results in an overstatement of earnings and overpayment of income taxes.

TAXATION 2/16/81
EXHIBIT "G"

NFIB MEMO

Testimony of Gary Langley on House Bill 653
Before the House Taxation Committee
February 16, 1981

Mr. chairman, members of the committee, my name is Gary Langley. I reside in Helena, Montana, where I am employed as director of governmental relations for Montana for the National Federation of Independent Business.

The National Federation of Independent Business welcomes this opportunity to support Rep. Nordvedt's House Bill 653 calling for a limitation on state spending.

The National Federation of Independent Business has more than 5,000 members in Montana who are dedicated to promoting and protecting the free enterprise system through a government climate favoring creation and expansion of job producing enterprises.

We support HB 653, and in doing so clearly recognize that the bill has made provisions for emergency situations that could arise where an expenditure limit would not be possible nor would be in the best interests of the state.

However, achieving a limit on state spending is of major concern to members of our organization. Indeed, the results of our Montana State Ballot, and annual survey taken of our members, showed that 89 percent of those responding favor the concept of House Bill 653.

Inflation is well recognized as the greatest problem facing this state and nation today, and government spending has been recognized as a major cause of this inflation. In the meantime, rising government spending has forced higher interest rates and shrunken available capital formation funds leading to sluggish economic growth and an unfavorable business climate.

This habit of heavy spending has become so ingrained in state government that a statutory limit, such as that proposed in House Bill 653, seems to be the most single logical solution.

NFIB MEMO

Small business, which has been and should continue to be vital to the economy of Montana, is being severely squeezed as inflation weakens its capitalization structure. The average small business person is not blessed with an abundance of financial resources and, therefore, is highly dependent upon outside financing to the continuity of his business operation. He finds himself being crowded out of the money market as more and more of these funds are drawn away from the private sector the support increased levels of government spending.

In addition, and as a result of the inflationary spiral, small businesses are caught, for all practical purposes, on a perpetual treadmill as it requires an increasing percentage of profits just to maintain the same level of inventory on their shelves and to cover inflated overhead and related service expenses. This leaves little opportunity to realize any expansion potential and job creation ability. The financial incentive is rapidly disappearing for the independent-minded individual to remain in business or assume the risks now associated with the high cost of new business formation.

Inflation has made it impossible to turn back the clock to the time when a business could be started on shoe string. It is doubtful that anyone would want to return completely to those days. However, neither can this nation afford to see the time come where independent, inventive entrepreneurs are priced out of the marketplace in their endeavors to launch new innovative products which offer potential advancements to our standard of living as well as additional job opportunities within the private sector.

State government has had more than sufficient time to grab the initiative on this issue. However, it has chosen not to do so. Therefore, it is respectfully urged that this committee give favorable consideration to House Bill 653.

VISITORS' REGISTER

HOUSE ______________________ COMMITTEE

BILL ______________________ Date ______________________

SPONSOR ______________________

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
JOHN CLARK	HELENA	DEPT OF REV		
JACK GRIBBLE	CLANCY	" " "	✓	
Dennis Burk	Clancy	MONTAX		✓

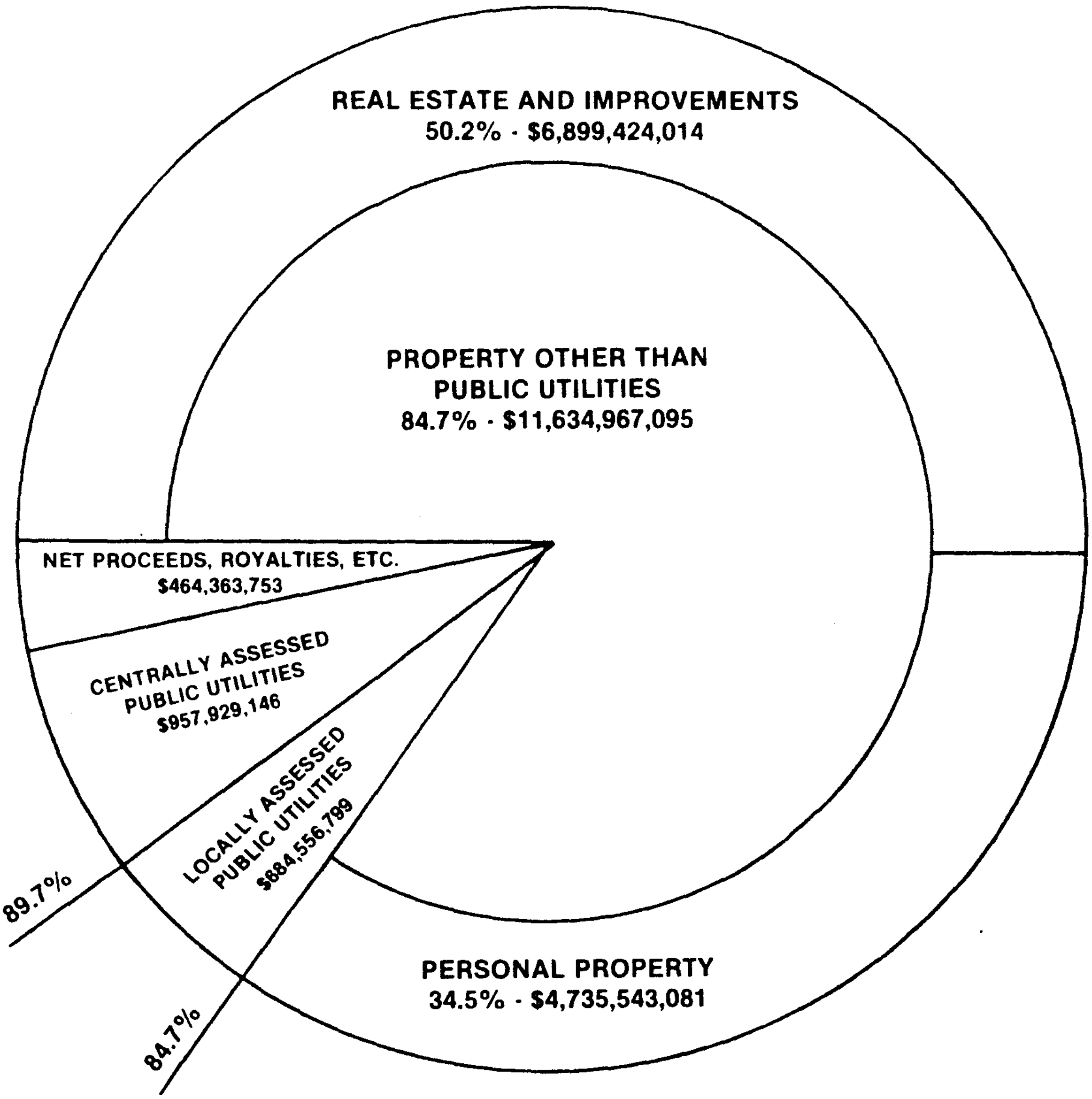
IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

HB 561
EXHIBIT "H"

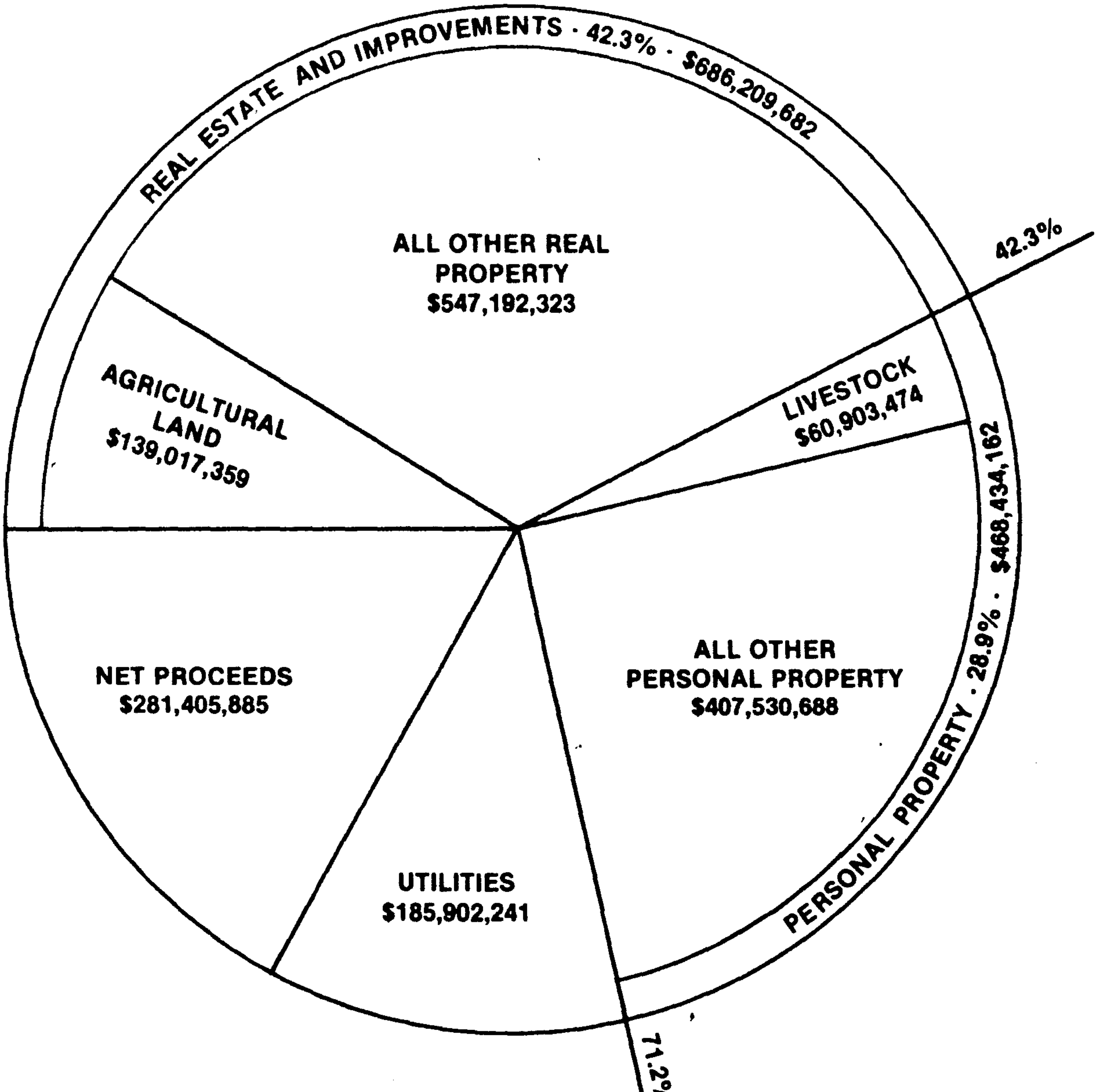
ANALYSIS OF ASSESSMENT VALUATION OF STATE — 1979
TOTAL ASSESSED VALUED — $13,741,816,793



SOURCE: Report of the State Dept. of Revenue

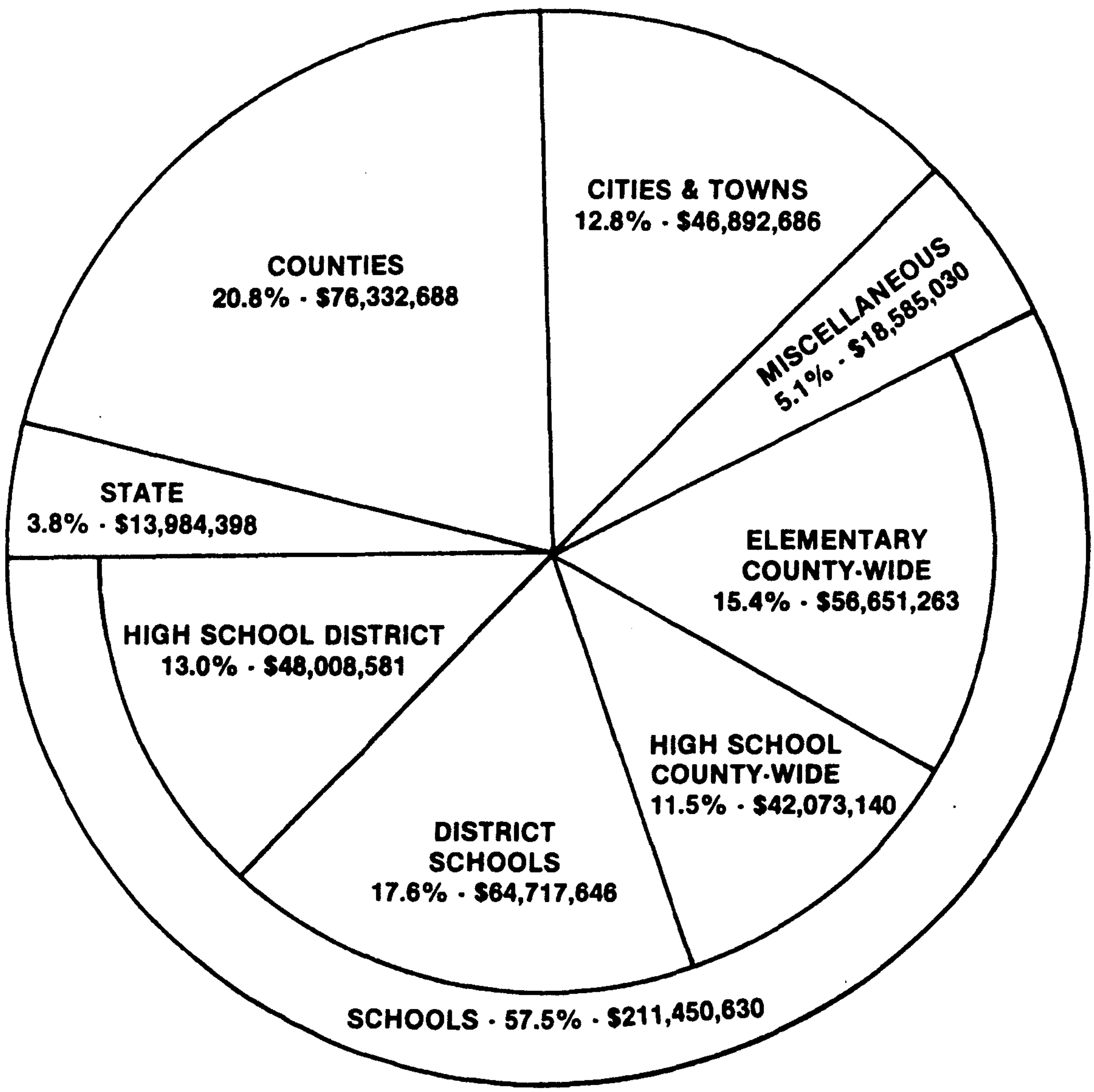
11

ANALYSIS OF TAXABLE VALUATION OF STATE — 1979
TOTAL TAXABLE VALUE — $1,621,951,970



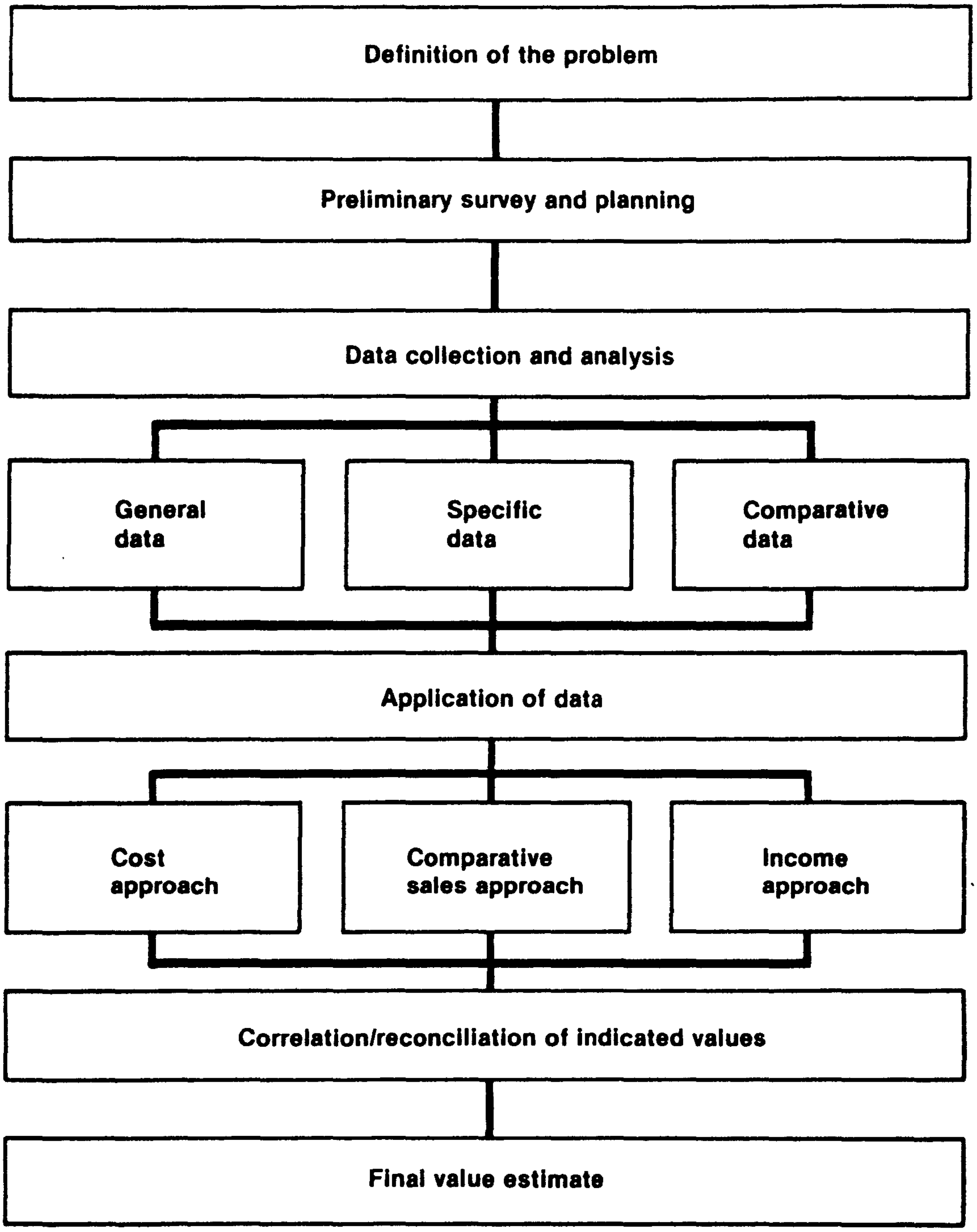
SOURCE: Report of the State Dept. of Revenue

ALLOCATION OF TAXES LEVIED WITHIN STATE — 1979
TOTAL TAXES LEVIED — $367,245,432

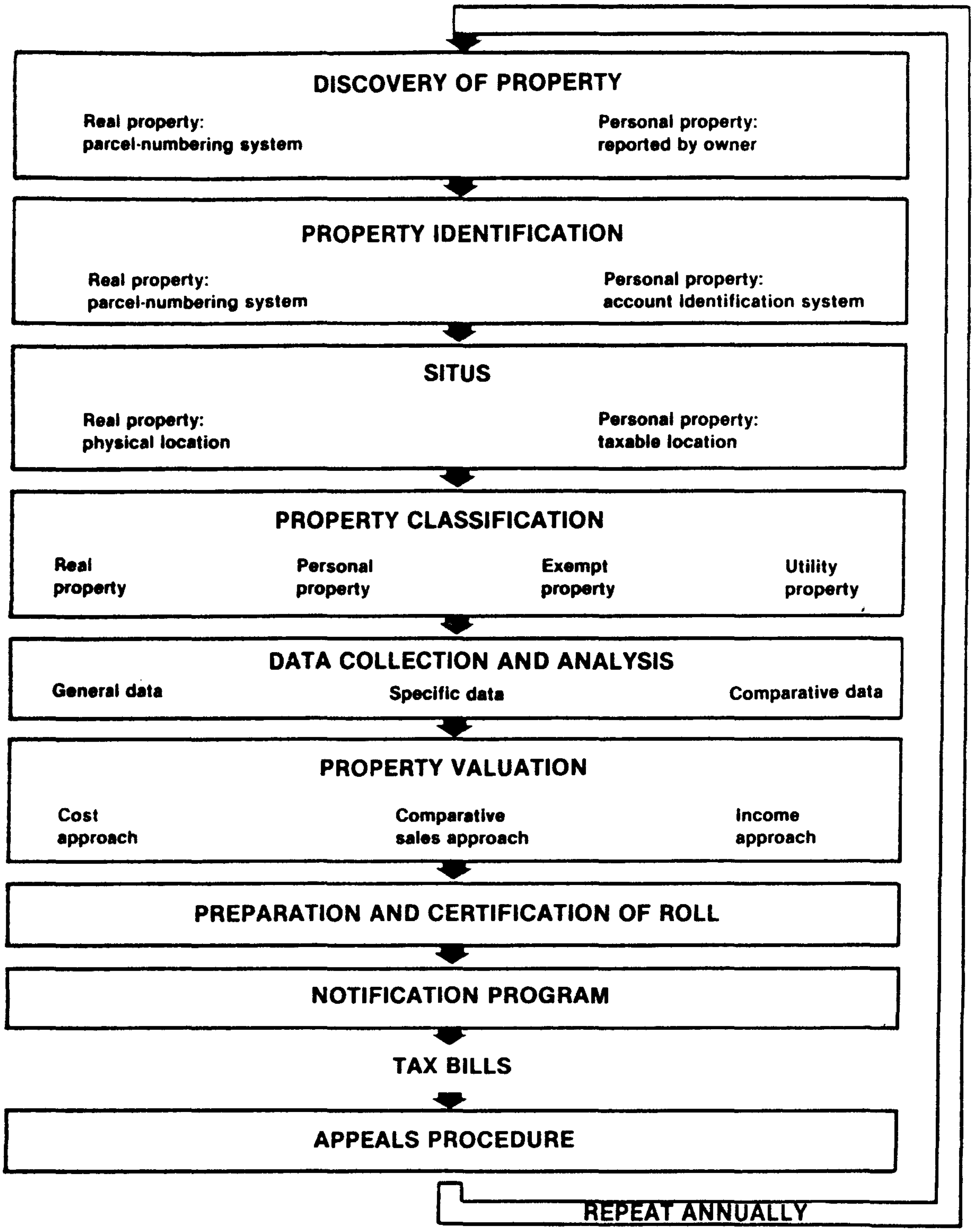


SOURCE: Report of the State Dept. of Revenue

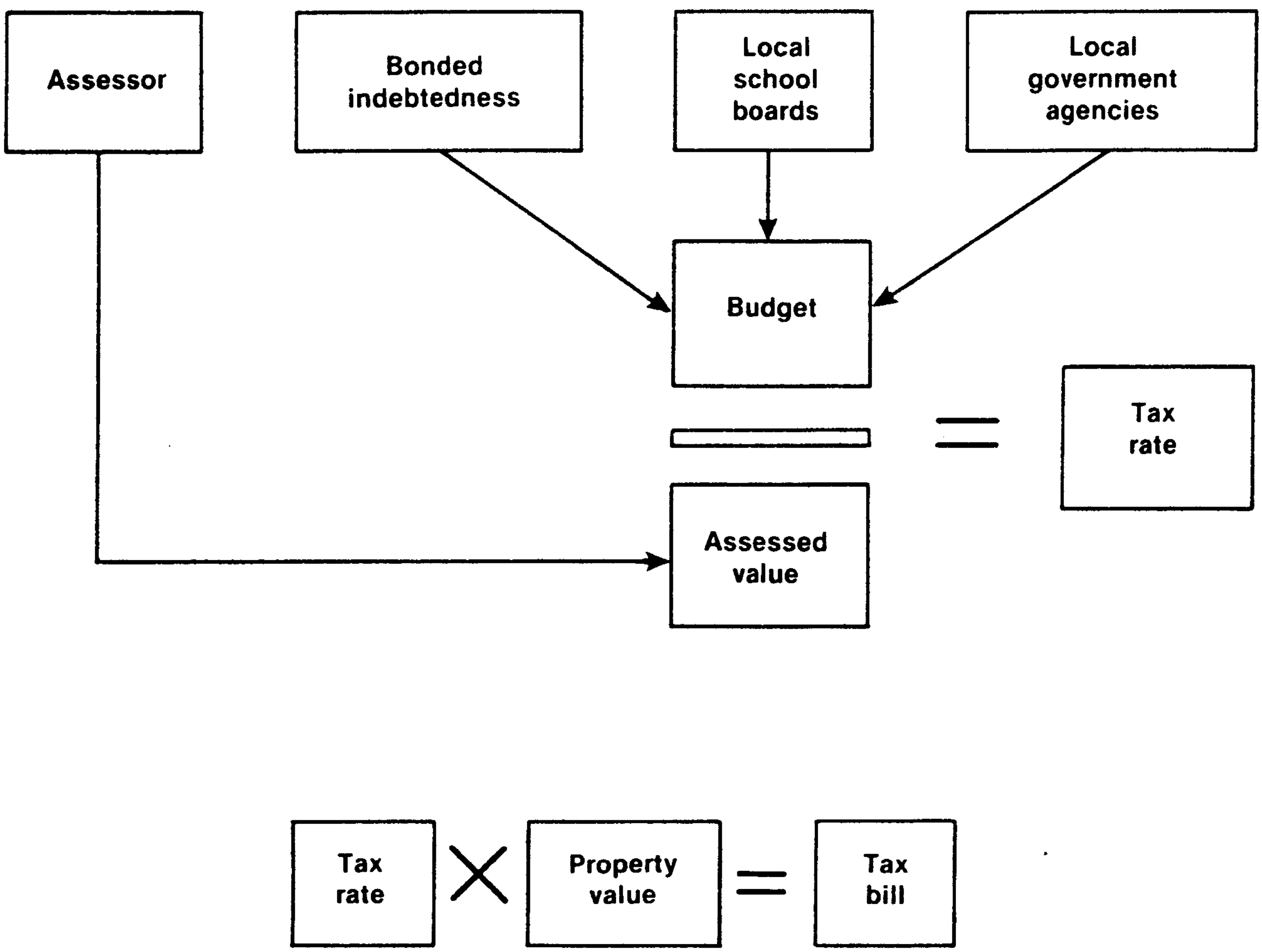
The Appraisal Process



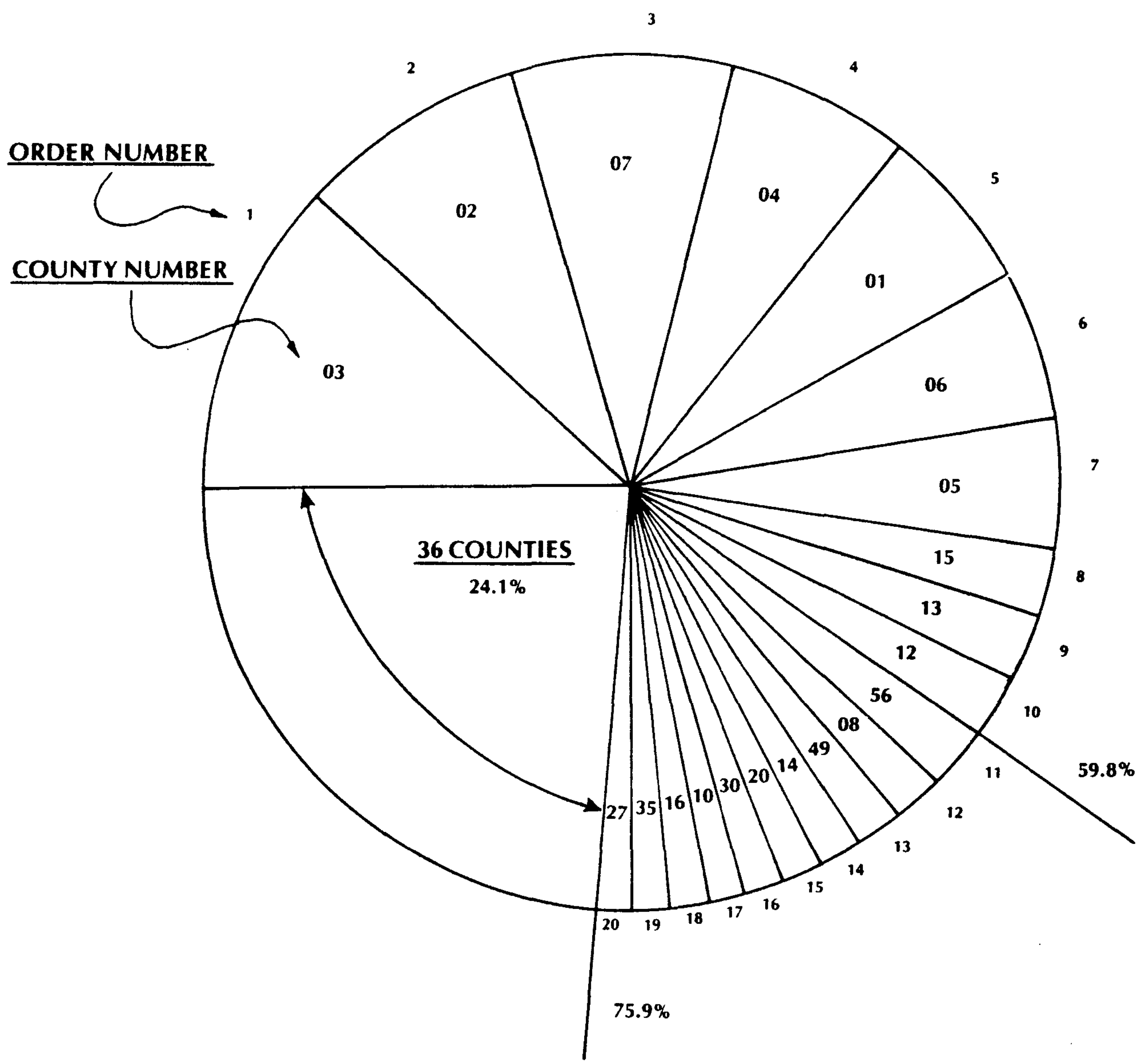
The Assessment Process



The Determination of a Tax Bill

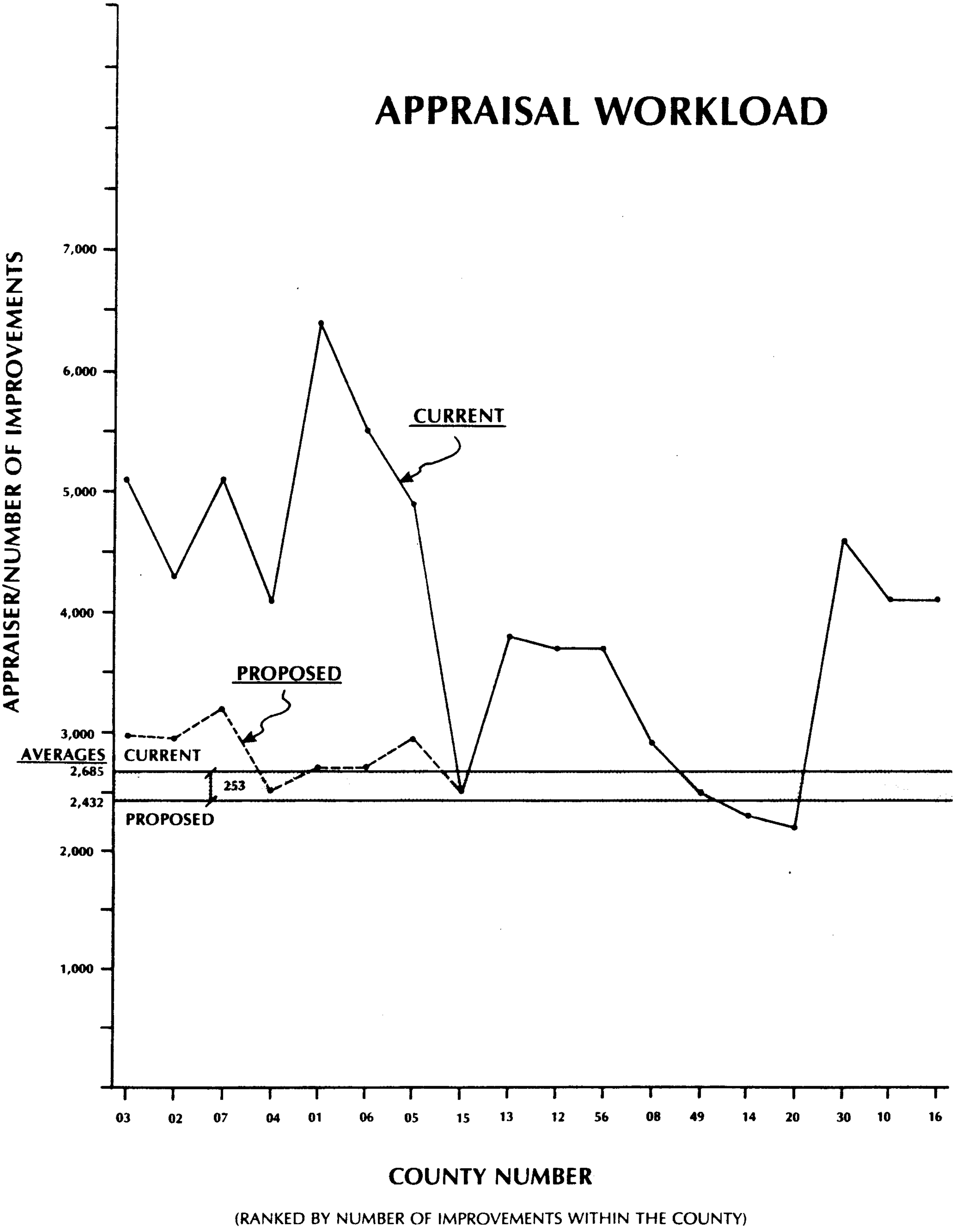


% OF THE IMPROVEMENTS WITHIN A COUNTY OF THE TOTAL IMPROVEMENTS WITHIN THE STATE

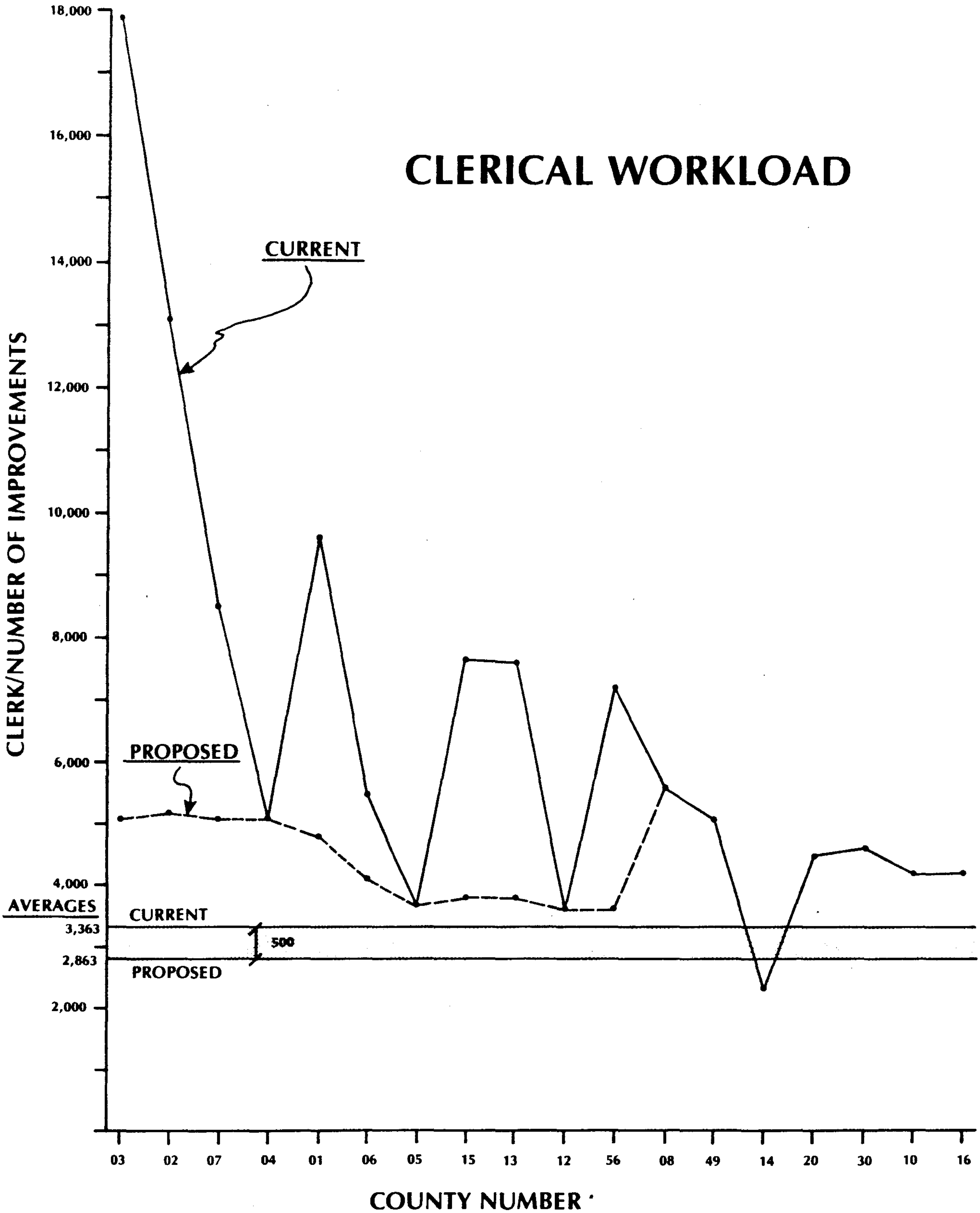


APPRAISER/CLERK WORKLOADS

			CURRENT FUNDING				PROPOSED FUNDING			
		Improvement Parcels	Clerk	Appraiser	Parcels / Clerk	Parcels / Appraiser	Clerk	Appraiser	Parcels / Clerk	Parcels / Appraiser
1.	Beaverhead	3,509	1	1	3,509	3,509	1	1	3,509	3,509
2.	Big Horn	2,753	1	2	2,753	1,377	1	2	2,753	1,377
3.	Blaine	2,020	1	1	2,020	2,020	1	1	2,020	2,020
4.	Broadwater	1,230	1	1	1,230	1,230	1	1	1,230	1,230
5.	Carbon	4,246	1	1	4,246	4,246	1	1	4,246	4,246
6.	Carter	871	0	1		871	1	1	871	871
7.	Cascade	26,346	2	6	13,173	4,391	5	9	5,269	2,927
8.	Chouteau	3,567	1	1	3,567	3,567	1	1	3,567	3,567
9.	Custer	4,778	2	2	2,389	2,389	2	2	2,389	2,389
10.	Daniels	1,828	1	1	1,828	1,828	1	1	1,828	1,828
11.	Dawson	4,215	1	1	4,215	4,215	1	1	4,215	4,215
12.	Deer Lodge	4,684	1	1	4,684	4,684	1	1	4,684	4,684
13.	Fallon	1,998	0	1	---	1,998	1	1	1,998	1,998
14.	Fergus	5,690	1	2	5,690	2,845	1	2	5,690	2,845
15.	Flathead	25,697	3	5	8,566	5,139	5	8	5,139	3,212
16.	Gallatin	16,579	3	3	5,526	5,526	4	6	4,145	2,763
17.	Garfield	995	0	1	---	995	1	1	995	995
18.	Glacier	3,299	1	1	3,299	3,299	1	1	3,299	3,299
19.	Golden Valley	957	0	1	---	957	1	1	957	957
20.	Granite	1,540	0	1	---	1,540	1	1	1,540	1,540
21.	Hill	7,234	2	2	3,617	3,617	2	2	3,617	3,617
22.	Jefferson	2,380	1	1	2,380	2,380	1	1	2,380	2,380
23.	Judith Basin	1,713	1	1	1,713	1,713	1	1	1,713	1,713
24.	Lake	7,711	1	3	7,711	2,570	2	3	3,856	2,570
25.	Lewis and Clark	14,946	4	3	3,737	4,982	4	5	3,737	2,989
26.	Liberty	1,357	1	1	1,357	1,357	1	1	1,357	1,357
27.	Lincoln	7,296	1	2	7,296	3,648	2	2	3,648	3,648
28.	Madison	2,926	1	1	2,926	2,926	1	1	2,926	2,926
29.	McCone	2,379	1	1	2,379	2,379	1	1	2,379	2,379
30.	Meagher	1,142	1	1	1,142	1,142	1	1	1,142	1,142
31.	Mineral	1,178	1	1	1,178	1,178	1	1	1,178	1,178
32.	Missoula	20,719	4	5	5,180	4,144	4	8	5,180	2,590
33.	Musselshell	2,196	1	1	2,196	2,196	1	1	2,196	2,196
34.	Park	5,119	1	2	5,119	2,560	1	2	5,119	2,560
35.	Petroleum	364	0	0	---	---	0	0	---	---
36.	Phillips	2,511	1	1	2,511	2,511	1	1	2,511	2,511
37.	Pondera	2,857	1	1	2,857	2,857	1	1	2,857	2,857
38.	Powder River	1,014	0	1	---	1,014	1	1	1,014	1,014
39.	Powell	2,731	1	1	2,731	2,731	1	1	2,731	2,731
40.	Prairie	963	0	1	---	963	1	1	963	963
41.	Ravalli	7,651	1	2	7,651	3,826	2	2	3,826	3,826
42.	Richland	4,012	1	1	4,012	4,012	1	1	4,012	4,012
43.	Roosevelt	3,575	1	1	3,575	3,575	1	1	3,575	3,575
44.	Rosebud	2,914	0	1	---	2,914	1	1	2,914	2,914
45.	Sanders	4,199	1	1	4,199	4,199	1	1	4,199	4,199
46.	Sheridan	3,307	1	1	3,307	3,307	1	1	3,307	3,307
47.	Silver Bow	19,239	2	3	9,620	6,413	4	7	4,810	2,748
48.	Stillwater	3,099	1	1	3,099	3,099	1	1	3,099	3,099
49.	Sweet Grass	1,342	1	0	1,342	---	1	1	1,342	1,342
50.	Teton	3,427	1	1	3,427	3,427	1	1	3,427	3,427
51.	Toole	2,864	1	1	2,864	2,864	1	1	2,864	2,864
52.	Treasure	342	0	1	---	342	1	1	342	342
53.	Valley	4,529	1	2	4,529	2,265	1	2	4,529	2,265
54.	Wheatland	1,245	0	2	---	623	1	2	1,245	623
55.	Wibaux	902	0	1	---	902	1	1	902	902
56.	Yellowstone	35,991	2	7	17,996	5,142	7	12	5,142	2,999
	TOTAL	304,176	59	90	3,363.21	$\bar{X}$ 2,865.79	86	114	2,863.98	$\bar{X}$ 2,432.80
					3,366.56	S 1,485.25			1,465.43	S 1,116.52
	TOTAL IMPROVEMENTS / CLERKS – APPRAISERS			▶	5,155.53	3,379.73		▶	3,536.93	2,668.21



APPRAISAL WORKLOAD
APPRAISER/NUMBER OF IMPROVEMENTS
7,000
6,000
5,000
4,000
3,000
2,000
1,000
CURRENT
PROPOSED
AVERAGES
CURRENT
2,685
253
2,432
PROPOSED
03
02
07
04
01
06
05
15
13
12
56
08
49
14
20
30
10
16
COUNTY NUMBER
(RANKED BY NUMBER OF IMPROVEMENTS WITHIN THE COUNTY)



(RANKED BY NUMBER OF IMPROVEMENTS WITHIN THE COUNTY)

MAJOR PROBLEMS CONFRONTING THE PROPERTY ASSESSMENT DIVISION

1) **Lack of Adequate Personnel**
   - Maintenance
   - Reappraisal

2) **Poor Organizational Structure**
   - Communication
   - Control

3) **Insufficient Training and Education**
   - Need for Professionalization

4) **Low Salary Levels**

5) **Poor Quality Work Product**
   - Not Current Market Value

6) **Ever Increasing Defense Workload**
   - Lack of Uniformity
   - Lack of Equity

7) **Little Data Processing Support**

CONVERSION OF PARCELS INTO STANDARD UNITS

PROPERTY TYPE	CONVERSION FACTOR	PARCELS	STANDARD UNITS
1) Urban Commercial Land	.95	48,580	46,151
2) Rural Commercial Land	.70	14,396	10,077
3) Urban Residential Land	.15	323,724	48,558
4) Rural Residential Land	.15	180,682	27,102
5) Agricultural Land	.05	1,438,407	71,920
6) State Owned Land	.05	126,674	6,333
7) Urban Commercial Improvements	3.90	24,579	95,858
8) Rural Commercial Improvements	2.65	10,182	26,982
9) Urban Residential Improvements	1.00	151,622	151,622
10) Rural Residential Improvements	1.10	69,514	76,465
11) Agricultural Improvements	1.45	48,285	70,013
12) Industrial Property	74.50	385	28,682
	Total Standard Units		659,763

CONVERSION OF STANDARD UNITS INTO WORK YEARS

$$\frac{\text{Standard Units} \times \text{Work Hours per Standard Unit}}{\text{Annual Effective Work Hours Per Employee}} = \text{Employee Work Years}$$

Work hours per standard unit = 1.965 hours
Annual effective work hours per employee = 1,665 hours

EXAMPLE

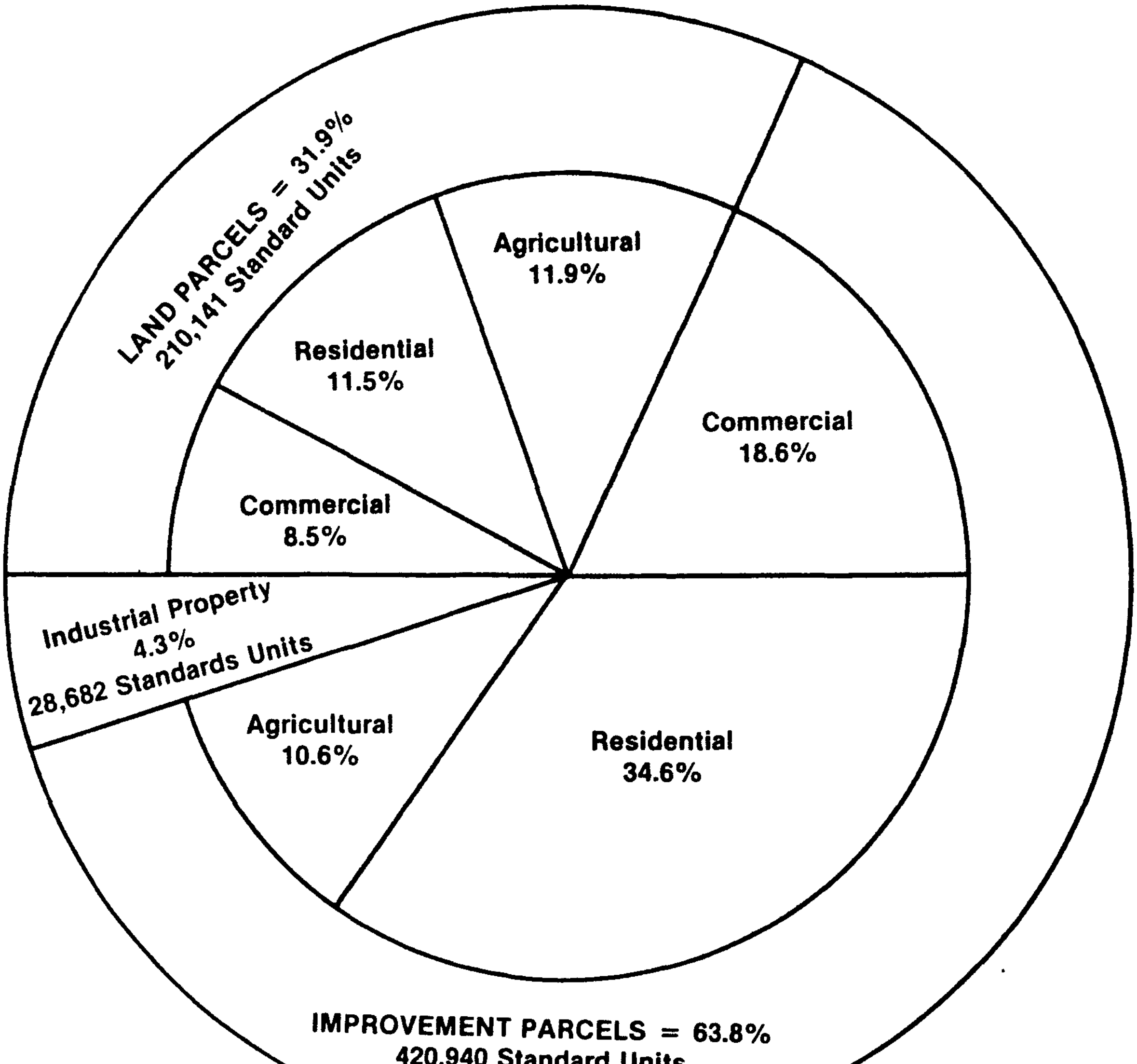
CONVERSION OF TOTAL REAPPRAISAL EFFORT INTO REQUIRED NUMBER OF EMPLOYEES

$$\frac{659{,}763 \times 1.965}{1{,}665 \text{ hours}} = 779 \text{ Total Employee Work Years}$$

779 yrs ÷ 4.5 years (length of extended cycle) = 173 Employees/Year

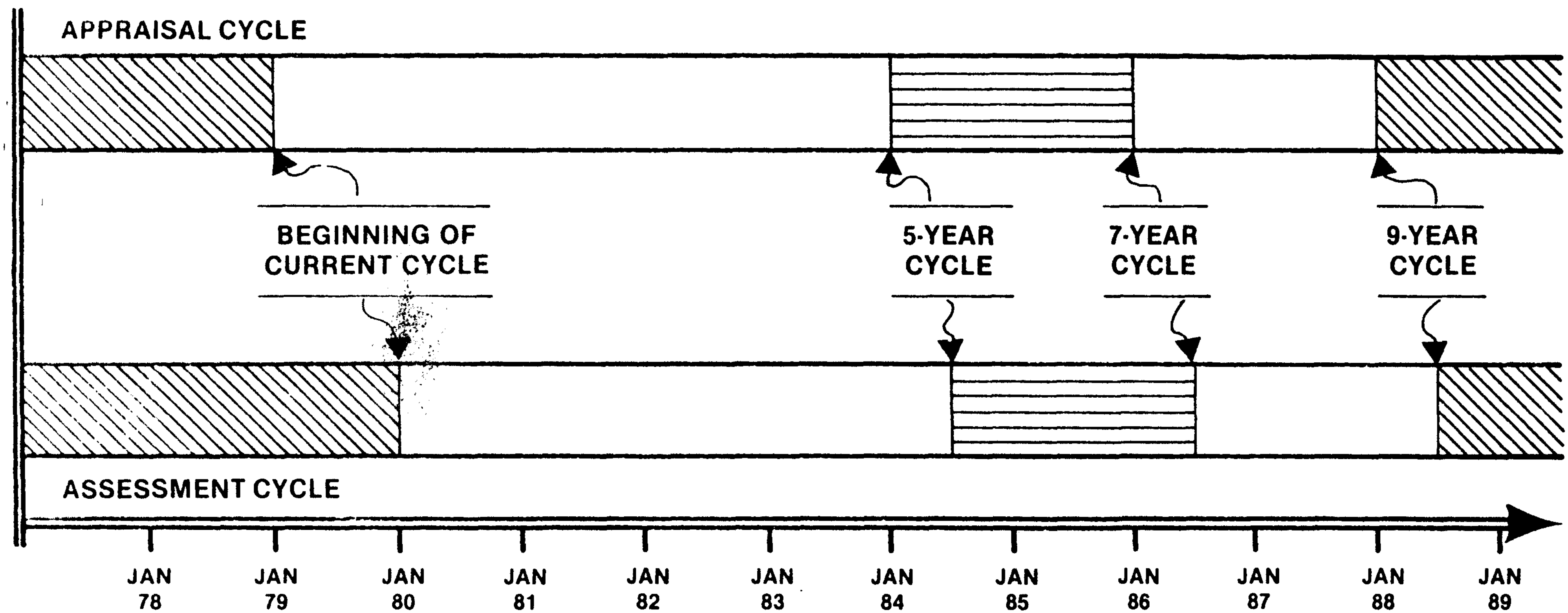
REAPPRAISAL WORK EXPRESSED IN STANDARD UNITS

659,763 TOTAL STANDARD UNITS



1 Standard Unit = 1.965 hrs = Time required to appraise an average residential building

TIME FRAMES OF VARIOUS CYCLES



STANDING COMMITTEE REPORT

March 11 19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 561

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXTEND THE CURRENT 5-YEAR PROPERTY REVALUATION CYCLE FOR AN ADDITIONAL 2 YEARS AND TO PROVIDE FOR THE VALIDITY OF ASSESSMENTS AND TAXES DURING THIS EXTENDED CYCLE."

Respectfully report as follows: That HOUSE Bill No. 561

DO PASS

Chairman.

STATE PUB. CO.
Helena, Mont.

STANDING COMMITTEE REPORT

March 5, 19 81

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 614

A BILL FOR AN ACT ENTITLED: "AN ACT TO AMEND INITIATIVE 86, CONCERNING INCOME TAX INDEXING, TO PROVIDE FOR INDEXING BASED ON INFLATION, USING THE IMPLICIT PRICE DEFLATOR FOR PERSONAL CONSUMPTION EXPENDITURES IN PLACE OF THE CONSUMER PRICE INDEX, AND GENERAL FUND SURPLUS; AMENDING SECTIONS 1, 2, 3, 4, 5, AND 6 OF INITIATIVE 86; AND PROVIDING AN APPLICABILITY DATE."

Respectfully report as follows: That HOUSE Bill No. 614

DO NOT PASS

~~DO PASS~~

Rep. Ken Nordtvedt, Chairman.

STATE PUB. CO.
Helena, Mont.

STANDING COMMITTEE REPORT

March 5, 1981

MR. SPEAKER

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 653

A BILL FOR AN ACT ENTITLED: "AN ACT TO SET A STATUTORY STATE EXPENDITURE LIMITATION; TO PROVIDE FOR SCHOOL LEVY RELIEF WHENEVER EXCESS REVENUES ARE COLLECTED; AND TO PERMIT EMERGENCY APPROPRIATIONS."

Respectfully report as follows: That HOUSE Bill No. 653,

introduced (white), be amended as follows:

1. Title, line 7.
Following: "APPROPRIATIONS"
Insert: "; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE"

2. Page 2, line 22.
Following: "reserve"
Strike: "fund"
Insert: "account"

3. Page 3, line 10.
Following: "reserve"
Strike: "fund"
Insert: "account"

4. Page 3, line 13.
Following: "Any"
Insert: "general fund"

DO PASS

(Page 1 of 2 pages)

Rep. Ken Nordtvedt, Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE ON TAXATION AMENDMENTS TO HOUSE BILL 653:

5. Page 3, lines 18 through 21.
Strike: subsection (4) in its entirety
Insert: "(4) The legislature through its budgeting process shall establish target reserve account balances for the end of the two fiscal years following a regular legislative session. Reserve account money in excess of the target amounts shall be transferred to the tax relief account."

6. Page 4, line 1.
Following: "the"
Strike: "following taxes:"
Insert: "mandatory county mill levy imposed under 20-9-501."

7. Page 4, lines 2 through 12.
Strike: lines 2 through 12 in their entirety
Insert: " (2)(a) Following the close of each fiscal year, the money in the tax relief account shall be allocated to the counties in the proportion that a county's population bears to the total population of the state to reduce the mandatory county mill levy imposed under 20-9-501. However, no allocation to a county shall exceed the total mandatory levy of that county under the provisions of 20-9-501. The balance in the tax relief account when a regular legislative session convenes shall be transferred to the general fund.
(b) The census taken under the direction of congress shall be the basis upon which the respective populations of the counties shall be determined; however, in the interim between censuses, the department shall use as such basis the most recent population estimates for counties published by the bureau of the census, United States department of commerce.

Section 5. Effective date. This act is effective on passage and approval."

AND AS AMENDED
DO PASS

Chairman.

Rep. Ken Nordtvedt.