

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

February 21, 1985

The thirty-sixth meeting of the Senate Taxation Committee was called to order by Vice Chairman Joe Mazurek at 8:05 a.m. in the Old Supreme Court Chambers at the State Capitol.

ROLL CALL: Chairman Towe and Senator Neuman were excused. All other members of the committee were present.

CONSIDERATION OF SB 401: Senator Paul Boylan, Senate District 39, was recognized as chief sponsor of the bill. He said this was a chance to help people in the state by making it easier for corporations to donate services to worthy nonprofit organizations.

PROPONENTS

Ms. Barbara Agocs, Executive Director of the United Way of Gallatin County, gave the committee a written copy of her testimony (Exhibit 1).

OPPONENTS

None were heard.

Questions from the committee were called for.

Vice Chairman Mazurek asked Mr. Dan Bucks of the Department of Revenue if they had any objections to the bill. Mr. Bucks said they had identified none.

Senator Boylan closed, asking the committee to be certain the bill would cover individuals as well as corporations.

MOTION: Senator Eck moved that SB 401 do pass. The motion carried unanimously.

CONSIDERATION OF SB 367: Senator Mike Halligan, Senate District 29, was recognized as chief sponsor of the bill. He explained that the bill would implement a mandatory state-wide selective use tax on hotel, motel and campground use. He said this would save a property tax increase. He said there is a wide range of services demanded of local governments and that the revenue generated by this tax on the local level would be returned to local governments. He said the tax could be administered efficiently, returning the dollars to local governments by formula. He directed the committee's attention to definitions within the bill.

He said the average room rate in Montana is approximately \$26 to \$30, which would be taxed at a rate of \$1.50 to \$2. Failure to report would carry a penalty which the department could waive.

The proceeds of the bill would be distributed to the Department of Revenue for administration, the Tourist Promotion Bureau and about \$14 million to local government.

Mr. Alex Hansen, Montana League of Cities and Towns, said this bill represented the best most equitable method of dealing with local government funding problems. He submitted his testimony in writing (Exhibit 2). He also gave the committee results of University of Montana research (Exhibit 3) which discusses the revenue generated for Montana from out-of-state tourists. He said all surrounding states have this tax. He said the local governments are facing a \$17 million loss in revenue sharing.

Ms. Ardie Aiken, city commissioner from Great Falls, said the city is providing services with a diminished tax base. She said they cannot continue to charge more for less, and they cannot continue to raise the property taxes. She said they have experienced a 120 mill increase since 1980. She said the tax base must be diversified. She said there has been no boycott in states with the tax. She said even though 60 percent of the travelers are Montanans, Montanans favor the motel/hotel tax. She submitted written testimony to support her statements (Exhibit 4).

Mr. Greg Jackson, representing the Urban Coalition, submitted his testimony in writing (Exhibit 5).

Mr. Gordon Morris, Montana Association of Counties, said they are in favor of the bill. He said a letter had been sent to the Legislature on February 19 detailing the financial condition of local governments. SB 367 is an essential solution to the problems, he said.

Mr. Jim VanArsdale, Mayor of Billings, said there is a strong need for additional revenue sources. He presented his testimony in writing (Exhibit 6).

Ms. Kay Foster, President of the League of Cities and Towns, said the property taxpayer cannot be expected to continue to pay. She supported SB 367.

Mr. Vern Erickson of the Montana State Fireman's Association said his members rely on local governments and support the bill.

Mr. Don Peoples, Chief Executive Officer for Butte/Silverbow, said local governments need effective means of raising revenues. He said they would need a 5 mill increase just to stay even with block grant losses. He said if revenue sharing money is removed, that will required an additional 37.5 mills to stay even. He said this bill is a viable alternative to a tough situation.

Ms. Mary Vant Hull, city commissioner from Bozeman, said this bill would contribute to a permanent solution. She said it would even aid tourism by putting added dollars there. She submitted a letter from the Bozeman City Commission supporting the bill (Exhibit 7).

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Ms. Alyce Kuehn, city clerk in Ekalaka, rose to support the bill, saying the services are needed in the smaller places as well.

Mr. Mike Young, finance director for the City of Missoula, said this would be a painless method of raising needed revenue. He made the following points: 1) The tax would be only \$1.50 on an average room. 2) The tax is a straight percentage and gives no one type of establishment a competitive advantage. 3) Industry experts say there is no negative impact on the lodging industry from this type of tax. He said the National Council of State Legislatures, the Economic Research Association (an industry firm), the International Association of Convention and Visitors Bureaus all say there is no negative impact. He said the latter had not a single comment of opposition to this kind of tax in their last survey. He said North Dakota taxes their rooms at 7 percent; Washington at over 10 percent; Wyoming at 3 to 4 percent; Utah at 5 to 9 percent. He said the national average is 7.7 percent.

He compared it to state gas tax which is about \$2.00 on a tank of gas.

Mr. Don Hackmann, city clerk from Laurel, supported the bill.

Mr. Bill Verwolf, representing the Montana Municipal Clerks and Finance Officers, supported the bill.

Mr. Jim Wysocki, city manager of Bozeman, rose in support.

Mr. Al Johnson, city manager for Great Falls, rose in support.

#### OPPONENTS

Mr. Phil Strobe, counsel and lobbyist for the Montana Innkeepers Association, rose to oppose the bill. "Is the lodging industry responsible for the plight of cities?" he asked. "Why is one segment of the business community singled out?" He said that it is narrow and punitive to tax one industry. It is begging the question to say there is no economic impact on the industry, he said. He noted that of the out-of-state travel dollars spent here, only one-sixth goes for lodging.

Mr. Strobe then noted the property taxes paid by the industry already. He said the Sheraton Hotel in Missoula pays \$1000 per room per year, and thus already contributes to the tax base. He said the committee must address the economic impact of what's going on and at least agree to wait until 1987 to impose this tax.

Mr. Buck Tourkinson, owner and manager of the Outlaw Inn at Kalispell, said his Canadian market has already dropped from 30 percent to around 2 or 3 percent. The depressed agricultural economy hurts. He said he closed the books at a 4 percent lower occupancy rate for 1984 and that this year January is down 13 percent; February so far is down 16 percent. He said he

now has a negative cash flow and he is looking at the bottom line. He said they already pay \$807 per room per year in property tax and that they can't handle more. He said this represents a direct sales tax directed at the motel industry.

Mr. Al Donahue, owner of the Heritage Inn in Great Falls, said that he has extreme empathy with the plight of local government. He also noted, however, the property taxes paid on motel rooms. He said for the first time in 11 years he was putting money into the Heritage Inn. He said property taxes already make it impossible to profit and that he is working to pay taxes. He discussed the example of Oregon which just enacted a general sales tax. He said that of the 10 western states, Montana is second highest in property tax and the lowest in income per capita. "It's going to come," he said. "Bite the bullet."

Mr. Herbert Leuprecht, chief executive officer of the Copper King in Butte, said they are already suffering greatly from local losses and from losing ground in the tourist industry. He said people who do stay, stay one night instead of three.

Ms. Lorine Twedt of the Midtown Motel and president of the Montana Innkeepers Association said this is a selective sales tax on one industry. She said the economy has already hit their industry hard. She objects to a selective sales tax on a single product. She said 1984 is the worst tourist season encountered. Agriculture's problems hurt, the discounted Canadian dollar hurts and the volume has dropped considerable. Thus, she said rates are down because of increased competition. She said that 70 percent of her occupancy is Montanans.

Mr. Keith Anderson of the Montana Taxpayers Association said the sales tax is aimed at one segment of the economy. He also objected to earmarking the revenues from the bill. He said it should go into the general fund. He said there should be no piecemeal approach to sales tax.

Mr. Robert Vandever, concerned citizen, said he opposed this bill two sessions ago. He said that game in Montana is damaging the environment and this tax will mean fewer hunters to control the herds.

Mr. Forest Boles, President of the Montana Chamber of Commerce, said any local option tax should be voted on by the people and should be broadly based. The business community is over taxed now he said. He said this is nothing more than a sales tax. "Do it right if it must be done," he concluded. He said if we do it because surrounding states have done it, we should enact right-to-work legislation as well.

Mr. Jerry Frazier of the Ponderosa Inn in Great Falls, said two of three people who use rooms are in-state. He said last year he had a 52 percent occupancy, and that 64 percent is considered break-even in the industry.

Lonnie Funk manager of the Holiday West in Billings and past president of the Montana Innkeepers said that last year Billings occupancy was down 10 percent. He said a 5 percent increase was necessary for inflation and that this would mean a 10 percent increase in rates. He said this industry should not be asked to pick up the bill.

Mr. Roland D. Pratt, executive director of the Montana Restaurant Association, said he feared his association is next on the hit list. If revenue sharing is not cut, this tax should not be initiated, he said.

Mr. Jim Manion of the Montana Automobile Association complained that motorists are already funding pollution controls, district courts, disabled programs, block grants, and local government programs. He said all of these had been described as "painless and easy to administer."

Ms. Hazel Fleck, assistant manager of the Copper King in Butte, said she is daily in one-on-one negotiations with travel coordinators of tour groups. She said they already discount room rates to get these tours to come. She said that motel/hotel owners will have to absorb the tax themselves in order to continue to attract this business.

Senator Goodover said he was testifying as an individual and interested citizen. He said other sources of revenue are needed but selective taxes cannot be put on every type of industry unless the committee is just afraid of a sales tax. He told those who testified he is chagrined that they oppose a sales tax and count on this committee to solve funding problems.

Questions from the committee were called for.

Vice Chairman Mazurek asked for a show of hands of those in favor of a sales tax. Many supported one; five opposed.

Senator Lybeck asked what would be a "good cause" for waiver of the penalties. Senator Halligan said that was language borrowed from other parts of the tax code. Mr. Dan Bucks of the Department of Revenue said there are administrative rules on the subject which he would supply to the committee.

Senator Mazurek asked how Senator Halligan would respond to the piecemeal sales tax charge. Senator Halligan said that had started a long time ago. He added that this is not a tax on the industry, but on the user. He said the industry in other states has not been negatively impacted. He said that given the fiscal status we do not now need a sales tax, just a diversification of the tax base.

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Senator Hirsch asked what the cost would be to state government. Mr. Alex Hansen said the state spends about \$64,000 for state employee lodging annually.

Senator Eck asked about a provision to reimburse motel/hotel owners for their collection costs. Senator Halligan said he would not argue against it but he did think the industry would benefit with increased travel promotion.

Senator Halligan closed saying that the property tax question was important to the industry and that their property taxes would also go up if the bill was not passed. He said they do use the services of local governments. Montanans pay these taxes when we leave the state he said. He said it would amount to the cost of a beer. He said the funds are not earmarked but go into the general funds of cities, towns and counties. He said do not pass it just because other states have it, but do seriously consider the bill.

Vice Chairman Mazurek closed the hearing. Senator Halligan was excused for the remainder of the meeting.

FURTHER CONSIDERATION OF SB 379: Senator Eck said there is a companion type bill in the Local Government Committee.

MOTION: Senator McCallum moved that SB 379 do pass. The motion carried unanimously.

FURTHER CONSIDERATION OF SB 307: Senator Mazurek explained the need for the bill in a dispute between the State Tax Appeals Board and the Department of Revenue about whether the Department can negotiate taxes.

MOTION: Senator Eck moved to amend SB 307 per the standing committee report attached here. The motion carried unanimously.

MOTION: Senator Eck moved that SB 307 do pass as amended. The motion carried unanimously.

FURTHER CONSIDERATION OF SB 284: Senator McCallum considered a motion to amend, and withdrew the motion at a suggestion to wait for Chairman Towe who sponsors the bill.

CONSIDERATION OF SB 432: Mr. Jim Lear, committee researcher, explained the purpose and nature of amendments proposed by the Department of Revenue. Mr. Dan Bucks also spoke to those amendments which would take the Department out of an area considered legislative judgement and also would allow them to use supplements instead of just one report.

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MOTION: Senator Eck moved to amend SB 432 as follows:

1. Page 1, line 22.

Following: "report"

Insert: "or supplements to the report"

2. Page 2, line 19.

Following: "identify"

Strike: "the"

Insert: "any known"

3. Page 2, line 22.

Following: "shall"

Insert: "outline the available data necessary to"

4. Page 2, lines 23 and 24.

Following: "treatment" on line 23

Strike: through "measured" on line 24

5. Page 3, line 1.

Following: "data"

Insert: ", if available,"

6. Page 3, line 16.

Following: "report"

Insert: "or supplements to the report"

7. Page 3, line 20.

Following: "report"

Insert: "or supplements to the report"

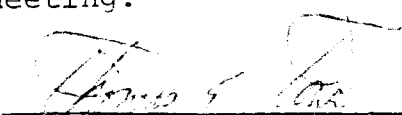
With Senators Goodover; Severson and McCallum voting no and all other members present voting yes; the motion carried.

MOTION Senator Eck moved that SB 432 do pass as amended. Vice Chairman Mazurek called for a roll call vote. Senators Brown, Eck, Lybeck and Mazurek voted yes; Senators Goodover, Hager, Hirsch, McCallum and Severson voted no; Senators Halligan, Neuman and Towe were excused. The motion failed.

Vice Chairman Mazurek asked for a motion to adjourn the meeting.

MOTION: Senator Lybeck moved that the meeting be adjourned. The motion carried.

Vice Chairman Mazurek adjourned the meeting.

  
Chairman

# ROLL CALL

## SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date February 21, 1985

Location -- Room 413-415

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Name	Present	Absent	Excused
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Senator Brown	✓		
Senator Eck	✓		
Senator Goodover	✓		
Senator Hager	✓		
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek	✓		
Senator McCallum	✓		
Senator Neuman			✓
Senator Severson	✓		
Senator Towe			✓



COMMITTEE ON

DATE

Taxation

February 21, 1985

## VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Don Hochmann	city of Lovel	SB 367	✓	
Don Papp	Bull Silver Bow Co. +	SB 367	✓	
Kay Foster	City of Billings	SB 367	✓	
Anna Van Arsdale	City of Billings	SB 367	✓	
Leah Masher	Mt. Stockgrower Ranch	SB 386	✓	
Greg Jackson	Urban Coalition	SB 367	✓	
Verlon Williams	MIKO	SB 367		✓
LORRAIE FUNK	MIKA	SB 367		✓
Mike Yack	CITY OF MISSOULA	SB 367	✓	
Don Smith	MIKO	SB 367		✓
JEFFER FRASER	LEGISLATIVE			✓
Buck Tomstensen				✓
Bill Knecht	Helena	SB 367 SB 386	✓ ✓	
Shirley Kishner	Bozeman	SB 367 SB 386	✓ ✓	
A. Morris	MA Co.	SB 367	✓	
Al Bales	Mont Chamber	SB 367		✓
Don Smith	Councilman Boulder, MA	SB 367	✓	
Jim Hanson	Montana AAA			✓
SB 367	Montana Zoning Law	SB 367		✓
Lorine Tindt	MIKA	SB 367		✓
Shirley Wakar	Bozeman Police Dept	SB 367		✓
Scott Haisan	" " "	SB 367		✓
Kendrick	Pandora I Bldg	367		✓
Jim Tindt	Mid-Town Motel	SB 367		✓
Mary Lou Huel	City of Bozeman Comm	367	✓	
Jim Wysocki	City of Bozeman	SB 367	✓	

(Please leave prepared statement with Secretary)

DATE:

COMMITTEE ON

# VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Roland D Pratt	MT. Optometrists Assoc mt. General Merchants Assoc mt. Restaurant	SB 367		✓
Maurice Dineen	Mont. Architects Assoc Helena	"		✓
Barbara Rogers	United Way non profit	401	✓	
Paul F. Bonle	Senate	401	✓	
Al J. Farnish	City of Great Falls	367	✓	
Gene VanDusen	Mont. Cattlemen's Assoc	"		
Vern Erickson	MT State Fireman's Assoc	SB 367	✓	
Gene Reed	Ma Co		✓	
Mary W. Henicade	Shifty Scar Motel Helena			✓
John P. ...	Perris's Amusement			✓
Joe P. ...	Perris's Amusement			✓
By H. ...	CCTA	# 391		-
Jack ...	Selma ...			✓
Buck Tarslenson				✓
Wesley Kuchin	Laurel	# 391	✓	
Don Hockmeyer	City of ...	# 391	✓	

(Please leave prepared statement with Secretary)

(This sheet to be used by those testifying on a bill.)

NAME: Ray Foster DATE: 2/21/85

ADDRESS: Billings

PHONE: 256-2333

REPRESENTING WHOM? City of Billings

APPEARING ON WHICH PROPOSAL: SB 367

DO YOU: SUPPORT? ☒ AMEND? ☐ OPPOSE? ☐

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

(This sheet to be used by those testifying on a bill.)

NAME: Lorine Tuedt DATE: 2-21-85

ADDRESS: St. Falls

PHONE: 453-4250

REPRESENTING WHOM? MIKIA

APPEARING ON WHICH PROPOSAL: SB 367

DO YOU: SUPPORT? \_\_\_\_\_ AMEND? \_\_\_\_\_ OPPOSE? ☒

COMMENT: \_\_\_\_\_

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

DATE: February 21, 1985

7:45 AM State Capitol Building

TO: Senate Taxation Committee  
Hearing on Bill Number 401

Senator Towe, Chairman  
Senator Mazurek, Temporary Chairman

Those giving testimony:

Barbara S. Agocs, Executive Director, United  
Way of Gallatin County - Bozeman

Joe Billion, Past President, United Way,  
Businessman

Cathe Ward, Executive Director, United  
Way of Lewis and Clark County - Helena

GOOD MORNING!!!!!!!

It is a special occasion for me to address this important committee and I do so as a representative of United Way of America and state United Ways and in turn, the varied social service agencies (over 150 such agencies statewide) funded through private donations.

PURPOSE:

This testimony is expressed as a two-fold purpose in regard to the legislation being reviewed. There is a general purpose and a specific one....

GENERAL PURPOSE: There is an urgent necessity to create a climate to encourage and motivate the giving of the private sector to compensate for extensive cut backs in funding for social service agencies and further... to encourage such giving by individuals as well as corporate entities by providing the same advantages to individuals as those experienced by corporations....tax credits.

SPECIFIC PURPOSE: To provide legislation that specifies that an individual and/or corporate entity can provide "in-kind" equipment, services, supplies, etc. to any established non-profit organization holding proper state and federal credentials (501c tax status, etc.) and receive tax credit for the contribution.

In essence - this is an extension of previously passed legislation (Senate Bill 262) in which a corporation could donate a computer to a school and receive a tax credit (of greater benefit than a tax deduction as itemized)...The previously passed bill is commendable and yet could be viewed as discriminatory as to giver, gift and recipient. What is requested is an expansion of 262 to include provisions stated in the above paragraph - Specific Purpose.

BACKGROUND:

As Executive Director of United Way of Gallatin County and associated with national and state networks, I witness the financial difficulties and the challenge for survival experienced by social service agencies. Most of them are on the ragged edge financially. This perilous state is attributable to vastly diminished resources. Nationally, United Ways fund 15% of the total budget of member agencies. The financial crunch is augmented by an explosive demand for services...to the elderly, youth, families, the disabled, hungry, homeless...those in crisis, chemically addicted, etc. We are talking about people - who are real and many of them are middle class formerly alien to need but currently victims of unemployment and a changing economy.

The "in-kind" gifts program in 1984, resulted in \$74,000,000 in value of products donated by corporations to non-profits and demonstrated an 11% increase in this fashion of giving. It is a growing method of giving and in touch with the current administration's charge regarding private initiatives.

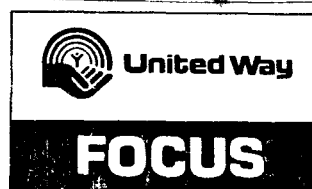


EXHIBIT 1 - SB401

Testimony to Senate Taxation Committee

EXAMPLE: I recently responded to an ad for a second hand computer and software. The asking price of \$4,000 was well over what our cash flow could handle on a \$170,000 budget with 72-76% of the dollar going to fund the agencies.

If the bill before you were in place, I am confident that I could have negotiated to allow me to make some cash payment and have the remaining value donated and taken as a tax credit.

J & H Office equipment in Bozeman has provided a copier and free maintenance for almost two years. This is an exemplary demonstration of support and a generous contribution. More businesses and more individuals would have the incentive to provide such gestures - of vital importance to us - if the climate were established to encourage such contributions.

CLOSING REMARKS: It is difficult to adequately stress the importance of the measures contained in this bill. It would enhance the conditions and climate for giving by individuals and businesses and would provide the same benefits for individuals as well as businesses - those who extend their hands with something in them to help others.

Actually, what I am asking you to do today in support of this legislation, is larger than any specific law - it is an attitude of people and a measure to sustain an American tradition of voluntary giving. There is a keen need to accelerate this attitude of support and caring for others.

My thanks to Senator Paul Boylan for his efforts and to you for your service to Montana and its people.



UNITED WAY OF GALLATIN  
COUNTY

Barbara S. [unclear]  
Executive Director

Box 208  
Bozeman, MT 59715  
(406) 527-2124



# Montana League of Cities and Towns

P.O. BOX 1704

HELENA, MONTANA 59624

PHONE (406) 442-8768

## MEMORANDUM

TO: MEMBERS OF THE SENATE TAXATION COMMITTEE  
FROM: MONTANA LEAGUE OF CITIES AND TOWNS  
RE: SB 367

SENATE BILL 367 WILL IMPOSE A STATEWIDE, FIVE PERCENT TAX ON OCCUPIED HOTEL-MOTEL ROOMS AND OTHER ACCOMODATIONS. UNDER THIS BILL 50 PERCENT OF THE PROCEEDS WILL BE RETURNED TO THE JURISDICTION WHERE THEY ARE COLLECTED, 35 PERCENT WILL GO TO A GENERAL DISTRIBUTION THROUGH THE BLOCK GRANT FORMULA AND 15 PERCENT WILL BE RETAINED BY THE STATE FOR ADMINISTRATION AND TRAVEL PROMOTION. THE FISCAL NOTE ESTIMATES THE COST OF ADMINISTRATION AT \$40,000 ANNUALLY.

THE DISTRIBUTION FORMULA INCLUDED IN THIS BILL IS INTENDED TO DEAL WITH DEFICIENCIES THAT HAVE BEEN IDENTIFIED IN DISCUSSION OF PREVIOUS HOTEL-MOTEL TAX LEGISLATION.

THE 50 PERCENT DISTRIBUTION TO THE POINT OF ORIGIN RECOGNIZES THAT THE TRAVEL INDUSTRY EXERTS PRESSURES ON THOSE CITIES AND COUNTIES WHERE THERE IS A SIGNIFICANT VOLUME OF BUSINESS. IN BOZEMAN, FOR EXAMPLE, AS MANY AS 10,000 TOURISTS VISIT THE CITY DURING ANY WEEK IN THE PEAK TRAVEL MONTHS. THIS TRANSIENT POPULATION PUTS PRESSURE ON THE POLICE AND FIRE DEPARTMENTS, WATER AND SEWER SERVICES AND PARKS, RECREATION FACILITIES AND OTHER PROGRAMS. THE POINT OF ORIGIN DISTRIBUTION IS INTENDED TO HELP THESE CITIES, TOWNS AND COUNTIES MANAGE THESE PRESSURES.

IN THE PAST, THERE HAS NOT BEEN GENERAL SUPPORT FOR HOTEL MOTEL TAXES AMONG THE CITIES AND TOWNS IN MONTANA. MANY COMMUNITIES HAVE VIRTUALLY NO TRAVEL BUSINESS AND THEY WOULD NOT BENEFIT FROM THE PASSAGE OF AN ACCOMODATIONS TAX. THE PURPOSE OF THE 35 PERCENT GENERAL DISTRIBUTION IN THE BILL IS TO PROVIDE THESE CITIES, TOWNS AND COUNTIES WITH SOME OF THE BENEFITS OF A STATEWIDE TAX.

PROMOTION EFFORTS ARE GENERALLY RECOGNIZED AS A DIRECT BENEFIT TO THE TRAVEL INDUSTRY. THIS WORK HAS BEEN SUBSIDIZED IN THE PAST THROUGH THE GENERAL FUND. THIS BILL WOULD CONNECT A PORTION OF THE COST OF FINANCING THESE PROGRAMS DIRECTLY TO THE INDUSTRY, WHICH CAN BE JUSTIFIED STRICTLY ON THE ISSUE OF FAIRNESS.

A STUDY CONDUCTED RECENTLY BY THE BUREAU OF BUSINESS AND ECONOMIC RESEARCH AT THE UNIVERSITY OF MONTANA INDICATES THAT NON-RESIDENTS ACCOUNT FOR 52 PERCENT OF THE TOTAL VOLUME OF TRAVEL BUSINESS IN THIS STATE. IN ADDITION, A SIGNIFICANT PORTION OF THE IN-STATE TRAVEL IS RELATED TO BUSINESS, WHICH IS GENERALLY REIMBURSIBLE.

IN PREVIOUS HEARINGS ON THIS ISSUE, THE HOTEL MOTEL INDUSTRY CONTENDED THAT ONLY 16 PERCENT OF THE TOURIST DOLLAR IS SPENT ON ACCOMODATIONS. IF YOU APPLY THIS PERCENTAGE TO THE \$423 MILLION TOTAL VOLUME OF OUT-OF-STATE TRAVEL EXPENDITURES, IT MEANS THAT THERE WAS \$67.68 MILLION FROM OUTSIDE MONTANA THAT WOULD HAVE BEEN SUBJECT TO THIS TAX IF IT HAD BEEN IN EFFECT IN 1983. THE PROPOSED FIVE PERCENT TAX WOULD HAVE GENERATED \$3.38 MILLION, WHICH WAS MONEY FROM OUT-SIDE MONTANA THAT COULD HAVE HELPED REDUCE SOME OF THE PRESSURES ON PROPERTY TAXES AND OTHER STATE AND LOCAL REVENUES.

IN CONCLUSION, SB 367 IS A METHOD OF GENERATING DESPERATELY NEEDED LOCAL GOVERNMENT REVENUES AND FINANCING TRAVEL PROMOTION BY APPROVING A REASONABLE TAX MOST OF WHICH WILL BE PAID BY NON-RESIDENT AND BUSINESS TRAVELLERS.

Exhibit 2 SB 367

# An Update on Montana's Travel and Tourism Industry

Richard T. Dailey

Montana's non-resident travel industry is alive and reasonably healthy. Among the state's basic industries — those which sell goods or services to nonresidents or otherwise bring money in from out-of-state — only nonresident travel and heavy construction have increased their employment and payrolls in recent years.

Since 1979, most of Montana's basic industries have suffered permanent losses of jobs and income as plants and mines have closed and an interstate railroad ceased operation. Heavy construction was an exception because of the Colstrip project, but as that project nears completion construction too will likely experience a decline.

That portion of the travel industry which serves nonresident visitors also is defined as a basic industry. It brings money in from outside the state. Between 1979 and 1983, labor income generated by the expenditures of nonresident travelers is estimated to have increased 10 percent, from \$96 million to \$106 million, after adjustment for inflation. This was a notable achievement during a period of recession and increasingly unfavorable money exchange rates for Canadian visitors.

Figure 1 illustrates changes in labor income earned by workers in Montana's



basic industries between 1979 and 1983. Labor income includes wages and salaries and certain fringe benefits plus proprietors' income — in other words, all the income earned through participation in the labor force. Labor income is used as a measure of changes in economic activity when data equivalent to Gross National Product are not available, and as a measure of an industry's contribution to the economy. The figures are expressed in constant 1983 dollars.

In 1983, labor income from the nonresident travel industry accounted for 6 percent of total labor income from basic industries in Montana. Four years earlier, in 1979, it had contributed 5 percent of the total.

The increased income from nonresident travel resulted from a growth in number of visitors. Their numbers increased from less than 2.0 million in 1979 to more than 2.2 million in 1983 (figure 2). Total expenditures by nonresident travelers also are estimated to have grown from \$382 million in 1979 to \$423 million in 1983 after taking inflation into account (figure 3). It was not a steady growth; small setbacks occurred in 1980 and 1982. But certainly the industry has been much less cyclical than most other basic industries in the state.

People travel for a variety of reasons. The most recent travel survey in Montana — the Old West Commission Survey completed in 1980 — reported that 30 percent of nonresident travel in the state in 1979 was travel for pleasure. Travel for pleasure is the usual definition for tourism. It should be noted that it is a rather

narrow definition, by virtue of excluding the 23 percent of nonresident visitors in 1979 who said they were visiting friends and relatives.

Applying the 30 percent figure to expenditures and labor income suggests that nonresident tourists spent \$127 million in Montana in 1983, and those expenditures generated \$32 million in labor income. If one chose to include travelers visiting friends and relatives as tourists, those numbers would be \$224 million and \$56 million respectively.

We emphasize expenditures of nonresident travelers because, as noted



***"A few of the larger counties—Yellowstone, Gallatin, Flathead, and Cascade—account for almost half the total travel-related employment."***

**Table 2**  
**Concentration of Travel-Related Employment in Montana Counties, 1983**

<u>County</u>	<u>Percent of State Travel Employment in County</u>
Yellowstone	15.4
Gallatin	11.2
Flathead	10.8
Cascade	9.2
Silver Bow	6.8
Missoula	6.6
Glacier	6.5
Lewis and Clark	5.0
Park	3.3
Dawson	2.9

Source: University of Montana, Bureau of Business and Economic Research.

**Table 3**  
**Montana Counties Most Heavily Dependent on Travel-Related Employment, 1983**

<u>County</u>	<u>Percent of County Employment Which is Travel-Related</u>
Glacier	23.0
Park	12.0
Flathead	10.1
Gallatin	10.0
Beaverhead	9.9
Madison	9.5
Silver Bow	9.2
Dawson	8.4
Roosevelt	5.8
Richland	5.2

Source: University of Montana, Bureau of Business and Economic Research.

*Richard T. Dailey is professor of management, School of Business Administration, University of Montana. He worked with the Bureau of Business and Economic Research in completing the research and analysis for this travel study.*

**Table 1**  
**The Montana Travel Industry 1979 and 1983**

	<u>1979</u>	<u>1983</u>	<u>Percent Change</u>
	(Millions of Constant 1983 Dollars)		
Total travel expenditures	748	814	9
Nonresident	382	423	11
Tourist	114	127	11
Resident	366	391	7
Tourist	92	98	7
Total labor income generated	188	204	9
Travel by nonresidents	96	106	10
Tourist	29	32	10
Travel by residents	92	98	7
Tourist	23	24	7
	(Number of Jobs)		
Number of travel-related jobs	17,600	20,200	15
Nonresident	9,000	10,500	17
Resident	8,600	9,700	13

Source: University of Montana, Bureau of Business and Economic Research.

Note: Percentage changes calculated from unrounded numbers.

***"There were approximately 20,200 travel-related jobs in Montana in 1983, compared to 17,600 in 1979."***

above, they bring money into the state; the portion of the travel industry serving them is part of our economic base.

But Montanans also travel in Montana. The Billings resident vacationing in Flathead County has not added to the state's economic base, but he has contributed to the county economy. And if he chose Flathead over a trip to Puget Sound, he has kept money in state that otherwise would have left. We estimate that Montanans traveling in Montana spent a total of \$391 million in 1983, of which \$98 million was for pleasure (tourist) travel. Those figures compare to \$366 million and \$92 million in 1979. Labor income generated by these expenditures is estimated at \$98 million in 1983 and \$92 million in 1979 (table 1). These figures are very rough estimates.

There were approximately 20,200 travel-related jobs in Montana in 1983, compared to 17,600 in 1979. About one-third of the 1983 total was in the motel-motel sector.

Average earnings per worker are considerably lower than in many other Montana industries because of lower wage rates and the large number of part-time and seasonal jobs. Nevertheless, the industry fills an important function by providing a large number of jobs for unskilled workers as well as those who desire part-time or seasonal work. It also offers entrepreneurial opportunities for people wanting to start their own businesses.

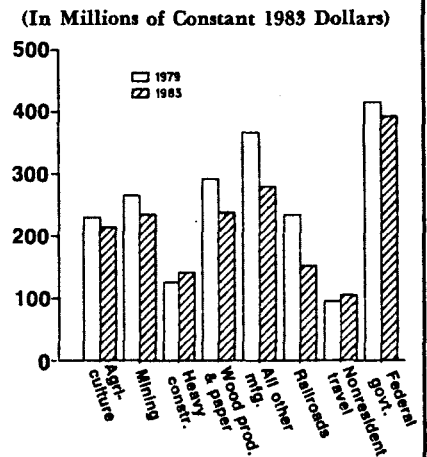
A few of the larger counties — Yellowstone, Gallatin, Flathead, and Cascade — account for almost half total travel-related employment (table 2). Yellowstone and Cascade counties, partly because of their size, are not so dependent upon travel as are Flathead and Gallatin counties. Those two counties are located adjacent to our two national parks, and together with Glacier, Park, and Beaverhead counties (also adjacent to the parks) are the most heavily dependent upon travel (table 3). About 23 percent of Glacier County's total employment is concentrated in travel-related businesses. In each of the other four counties, the proportion is approximately 10 percent or more. □

#### About this article. . .

*The Bureau of Business and Economic Research recently conducted a study of Montana's travel and tourism industry. Sponsored by the Montana Promotion Division of the Montana Department of Commerce, Helena, the project was begun in summer 1984 and completed in November. This article presents some of the report's highlights.*

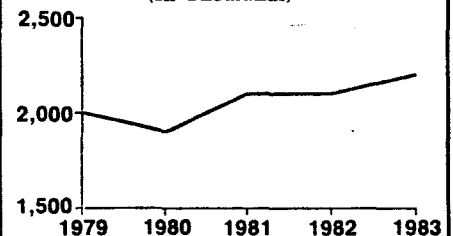
*This study is based on data from secondary sources. We attempted to use the best information available, but data on travel and tourism in Montana are out of date and incomplete. Accordingly, some of the figures may not be entirely accurate, but we believe that the trends revealed are reliable. We tried to be conservative in making the estimates, preferring to err by understatement rather than overstatement.*

**Figure 1**  
**Changes in Labor Income**  
**Basic Industries, Montana**  
**1979-1983**



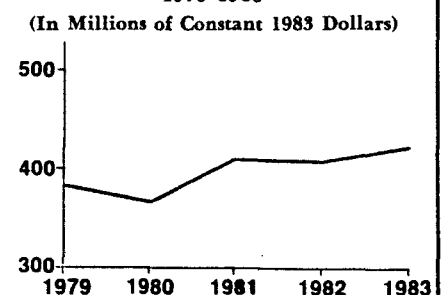
Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, unpublished data (Washington, DC, 1984), and University of Montana, Bureau of Business and Economic Research.

**Figure 2**  
**Number of Nonresident Visitors**  
**Montana**  
**1979 and 1983**  
**(In Thousands)**



Source: University of Montana, Bureau of Business and Economic Research.

**Figure 3**  
**Expenditures by Nonresident**  
**Visitors, Montana**  
**1979-1983**  
**(In Millions of Constant 1983 Dollars)**



Source: University of Montana, Bureau of Business and Economic Research.

# CITY OF GREAT FALLS

## 1980-84 MILL LEVY

### PERCENT OF INCREASE

	<u>1980</u>	<u>1984</u>	<u>% INCREASE</u>	<u>% ANNUAL INCREASE</u>
City	80.16	91.06	13.5	3.3
\$ Mill Value	(58,563)	(58,479)		
County	58.30	60.17	3.2	0.8
\$ Mill Value	(92,928)	(89,426)		
State	80.91	112.96	39.6	9.9
School Dist. 1C	<u>105.29</u>	<u>179.86</u>	70.8	17.7
TOTAL	324.66	444.05		

## MEMORANDUM

TO: Senate Taxation Committee  
House Taxation Committee  
Senate Local Government Committee  
House Local Government Committee

FROM: Urban Coalition

RE: The financial condition of local governments and associated legislation

During the course of the 1985 legislative session, local governments have introduced numerous bills that have proposed methods of raising revenues. The main bills include:

- HB 170- Block Grant funding with 5% of the income tax
- SB 25- State to fund specific District Court costs
- HB 767- Full funding of District Court costs by the state
- HB 804- Local option authority for local governments
- SB 367- Statewide hotel/motel tax @ 5%
- HB 392- Statewide hotel/motel tax @ 10%
- HB 393- Local option hotel/motel tax
- SB 293- Local option income tax
- SB 424- Local option authority for local governments in specific areas
- HB 870- Funding of block grant program and specific costs for District Courts by increasing motor vehicle fees
- SB 142- Funding mechanism for SB 25 by increasing motor vehicle fees

These bills have been introduced for 2 reasons:

1. to provide alternative revenue sources for basic local government services to reduce the increasing reliance on the property taxpayer; and
2. in response to suggestions by legislators, prior to the session, that local governments must provide alternative revenue sources for funding requests.

Subsequently, we have done that. The intent of this written testimony is to explain further the reasons or rationale for the proposed legislation.

### THE PROBLEM

#### Financial Condition of Local Governments

In 1981 a report on the financial condition of local governments was completed by the Consulting Services Bureau of the Department of Administration as staff to the Temporary Committee on Local Government Financing. In summary the report concluded:

1. Many of Montana's local governments are facing an uncertain financial future with climbing expenditure pressures and declining revenues and
2. specifically, despite cost saving efforts, all groups of local governments (except impact counties) have had to increase taxes to maintain services at or near 1979 levels.

The report was updated by the Urban Coalition to include fiscal years 81-82 and 82-83. The purpose was to determine if there was any change in the financial condition of local governments over the past two fiscal years.

The update concluded the following as illustrated by figures 1,3 and 4.  
Figure 1- the change in total operating revenue has continued to decline with the exception of cities in the last fiscal year due primarily to an increase in non-tax revenue, i.e., an increasing shift of funding general fund activities by special revenue sources, e.g., fees, charges and special assessment districts.

Figure 3- the change in total operating expenditures for most local governments has continued to decline over the past two fiscal years.

Figure 4- the change in taxable valuation has continued to decline with the exception of impact counties over the past two fiscal years.

In general, the financial condition of local governments has not improved over the past two fiscal years.

#### Impacts of Federal and State budget proposals.

The block grant program is currently underfunded by \$4 million, a reduction of 12% from the amount necessary for full funding. The fiscal impact of lost grant revenues on Coalition members is illustrated in Table I.

The Federal budget includes elimination of Federal revenue sharing for local governments. Table II illustrates the fiscal impact in lost revenues for Coalition members.

In either case, without alternative revenue sources, the lost funds will be made up by property tax increases.

#### Impacts of proposed tax exemption bills.

To date, approximately 20 bills have been introduced in the 1985 legislature that would directly affect or reduce the property tax base. The fiscal impact is unknown at this time. However, the bills further reduce the ability of local governments to rely on a constant and stable revenue source.

#### PROPOSED SOLUTIONS

The Urban Coalition proposes the following prioritized solutions:

1. Increase motor vehicle fees to provide sufficient revenues for full funding of the block grant program and state assistance for District Courts. (HB 870)
2. Establish a statewide hotel/motel tax to assist in funding local services. (SB 367 or HB392)
3. Provide local option authority for local governments. (HB 804 or SB 434)

In summary, the proposed solutions are a reasonable package in comparison to increasing property taxes to offset any revenue losses or to continue to fund basic local services and programs.

FIGURE 1

CHANGE IN TOTAL OPERATING REVENUES  
1979-1983

MONTANA LOCAL GOVERNMENTS  
ADJUSTED FOR INFLATION

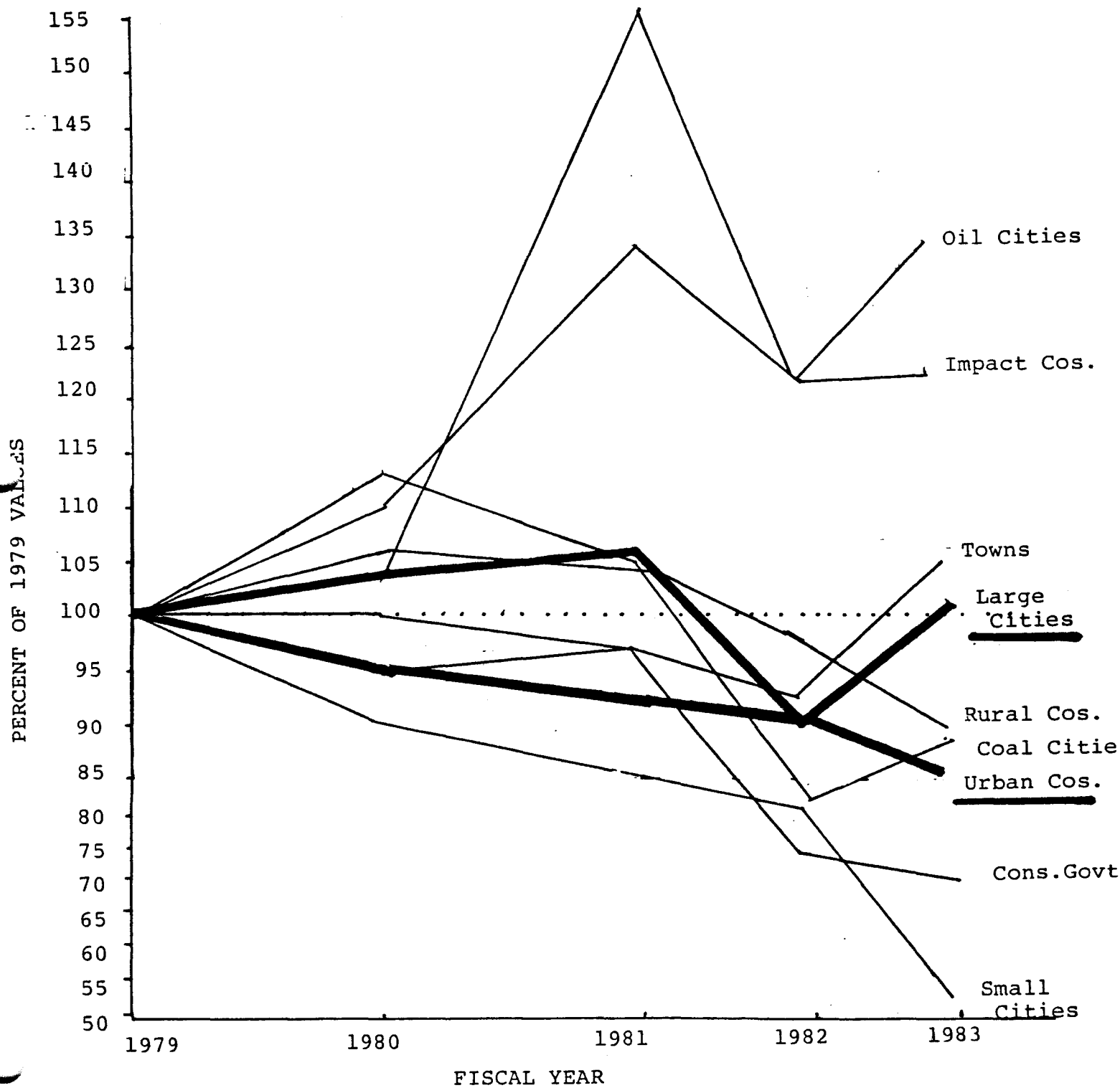


FIGURE 3  
CHANGE IN TAXABLE VALUATION  
1979 - 1983  
MONTANA LOCAL GOVERNMENTS  
ADJUSTED FOR INFLATION

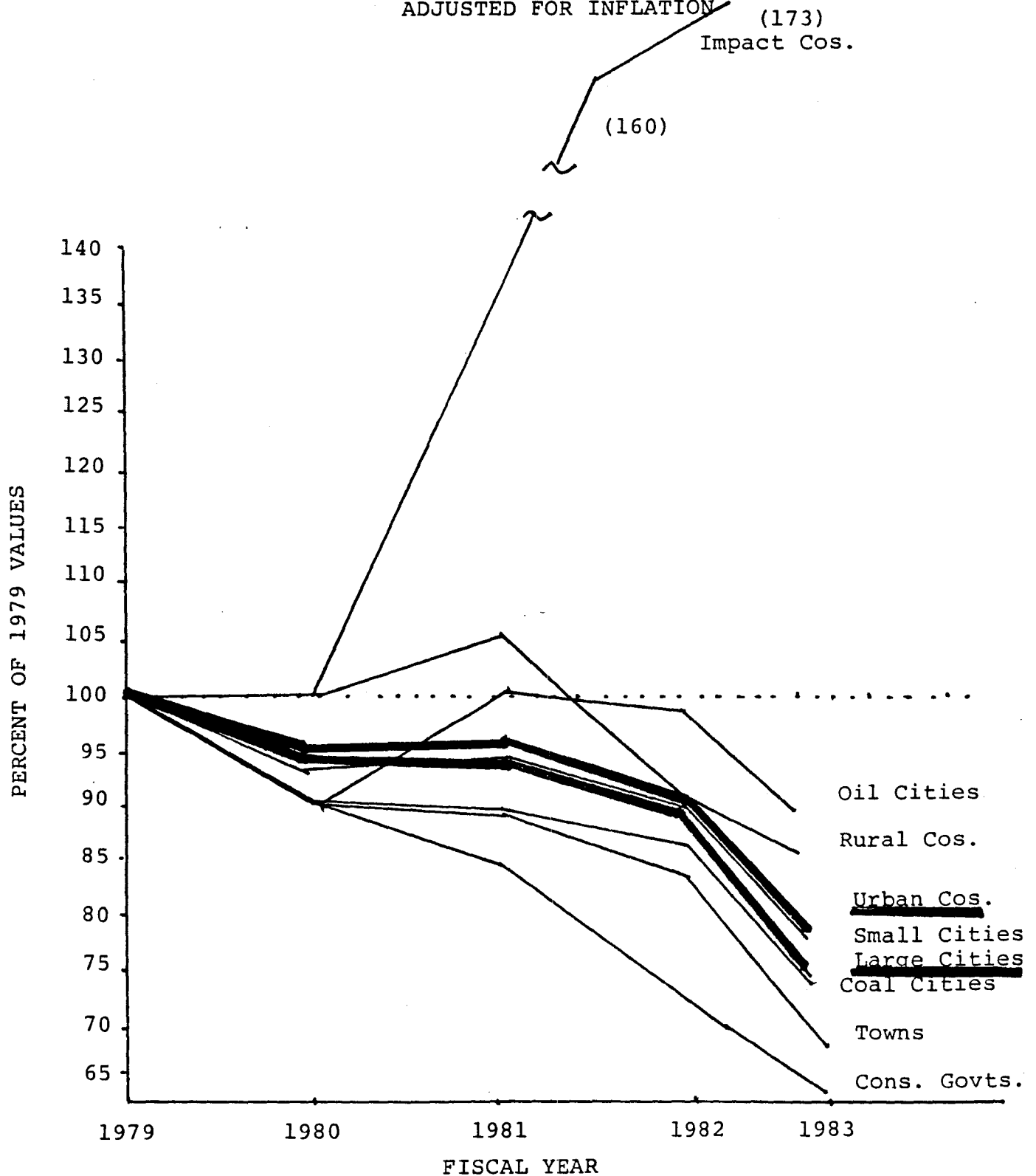


FIGURE 4

CHANGE IN TOTAL OPERATING EXPENDITURES  
1979 - 1983  
MONTANA LOCAL GOVERNMENTS  
ADJUSTED FOR INFLATION

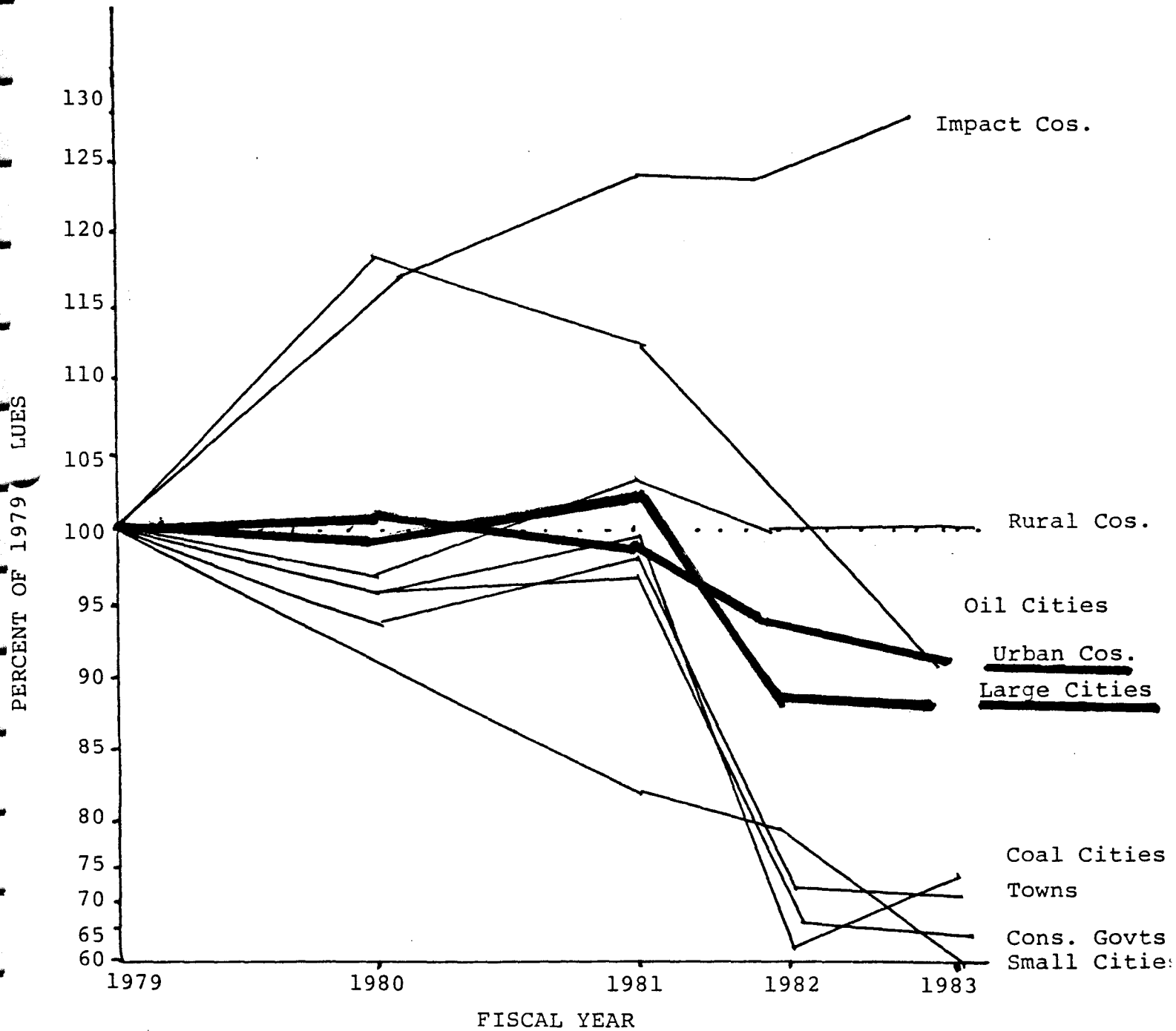




TABLE I

<u>COALITION MEMBER</u>	<u>IMPACT OF BLOCK GRANT SHORTFALL</u>	
	<u>1</u>	<u>2</u> EQUIVALENT NO. OF MILLS
	<u>MOTOR VEHICLE SHORTFALL</u>	
Bozeman	\$15,309	.72
Billings	\$63,238	.58
Great Falls	\$31,764	.54
Missoula	\$33,786	.73
Butte Silver Bow	\$52,586	1.12
Cascade Co.	\$39,939	.45
Gallatin Co.	\$32,166	.54
Lewis and Clark Co.	\$30,000	.50
Missoula Co.	\$12,837	.10
Yellowstone Co.	\$57,728	.29

1. Motor vehilce replacement

2. Based on 1984-85 valuations

TABLE II

IMPACT OF ELIMINATION OF FEDERAL REVENUE SHARING

<u>COALITION MEMBER</u>	<u>REVENUE SHARING ALLOCATION (84-85)</u>	<u>1</u> PRIMARY USE	<u>2</u> EQUIVALENT NO. OF MILLS
Bozeman	\$304,000	Police & Fire salaries & Capital Outlay	14.4
Billings	\$1,200,000	Capital Outlay & improvements	11.0
Great Falls	\$684,000	Cap. Outlay & improvements	11.7
Missoula	\$650,000	Police salaries	14.0
Butte Silver Bow	NA	NA	NA
Cascade Co.	\$821,610	General Govt. & Road and Bridge & Public Safety	9.2
Gallatin Co.	\$270,236	Cap. Outlay & improvements	4.5
Lewis and Clark Co.	\$510,000	Cap. Outlay & improvements	8.5
Missoula Co.	\$1,388,387	Cap. Outlay & improvements-Road	11.3
Yellowstone Co.	\$791,500	Cap. Outlay & improvements	4.0

1. There are other uses of revenue sharing - primary use includes in excess of 90%

2. Based on 1984-85 valuations

NAME Jim Van Arsdale BILL NO. 367  
ADDRESS Bellings Mt. DATE 2-21-85  
WHOM DO YOU REPRESENT City of Bellings  
SUPPORT X OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

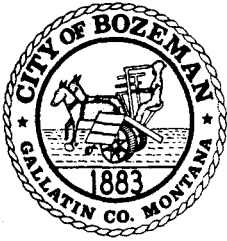
TESTIMONY BY MAYOR JIM VAN ARSDALE IN SUPPORT OF SENATE BILL 367 BEFORE THE SENATE  
TAXATION COMMITTEE  
February 21, 1985

THE CITY OF BILLINGS SUPPORTS SENATE BILL 367. THE CITY SUPPORTS THE TAX THAT IS SUGGESTED IN THIS BILL TO BE CHARGED FOR THOSE PEOPLE USING THE ACCOMODATIONS OF HOTEL-MOTELS AND TOURIST CAMPGROUNDS. CITIES AND COUNTIES HAVE A STRONG NEED FOR ADDITIONAL REVENUE SOURCES. BILLINGS USED A MOTEL-HOTEL TAX FOR APPROXIMATELY NINE MONTHS UNTIL THE SUPREME COURT RULED IT TO BE AN ILLEGAL TAX. OUR PARTICULAR TAX WAS APPROVED BY THE VOTERS AND WAS A LUCRATIVE SOURCE OF REVENUE. THE TAX WAS \$1.00 PER NIGHT FOR EACH PERSON STAYING IN THE MOTEL-HOTEL FACILITY. IT GENERATED APPROXIMATELY \$630,000 IN 8½ MONTHS.

THE MOTEL-HOTEL FEE WILL PROVIDE A WAY FOR PEOPLE WHO VISIT OUR COMMUNITIES ON A TEMPORARY BASIS TO ASSIST IN PAYING FOR SOME OF THE COSTS TO PROVIDE MUNICIPAL SERVICES. IN BILLINGS, WE EARMARKED A PORTION OF OUR TAX TO BE USED FOR THE PROMOTION OF THE TOURISM INDUSTRY AS IS SUGGESTED IN THIS BILL.

IN SUMMARY, CITIES AND COUNTIES OF THIS STATE ARE IN NEED OF ADDITIONAL REVENUE. MOTEL-HOTEL TAXES ARE USED IN CITIES THROUGHOUT THIS COUNTRY. IT IS A TAX THAT THE PUBLIC WILL ACCEPT AND IT IS A TAX THAT WILL GENERATE SIGNIFICANT REVENUES. I URGE YOUR SUPPORT OF SENATE BILL ~~367~~ 367

THANK YOU.



## THE CITY OF BOZEMAN

411 E. MAIN ST. P.O. BOX 640 PHONE (406) 586-3321  
BOZEMAN, MONTANA 59715-0640

February 21, 1985

Mr. Thomas Towe, Chairman  
Senate Taxation Committee  
Capitol Station  
Helena, Montana 59620

We, the undersigned Commissioners of the City of Bozeman, urge your support of SB367, the state-wide hotel/motel 5 percent tax. We strongly believe that the revenues from this tax will contribute to a permanent solution to the demands made upon city services by our vital tourist industry as well as contributing significantly to the promotion of tourism in Montana. In the lean budget years ahead that all communities are facing, particularly as a result of anticipated cutbacks in Federal Revenue Sharing, we view this bill as the most likely and most promising method of maintaining city services in a fashion that will sustain our communities and the tourist industry.

We urge a "Do Pass" recommendation from your committee.

Kenneth L. Weaver  
KENNETH L. WEAVER, Mayor

Judith A. Mathre  
JUDITH A. MATHRE, Commissioner

Anne Fowler Anderson  
ANNE FOWLER ANDERSON, Commissioner

Mary Vant Hull  
MARY VANT HULL, Commissioner

59715-0640

# ROLL CALL VOTE

SENATE TAXATION COMMITTEE  
49 th Legislative Session -- 1985

Time 10:00 Date February 21 Room 413-415

Motion: That SB 432 do pass as amended.

Name	Yes	No	Excused
Senator Brown	✓		
Senator Eck	✓		
Senator Goodover		✓	
Senator Hager		✓	
Senator Halligan			✓
Senator Hirsch		✓	
Senator Lybeck	✓		
Senator Mazurek	✓		
Senator McCallum		✓	
Senator Neuman			✓
Senator Severson		✓	
Senator Towe			✓

# STANDING COMMITTEE REPORT

February 21, 1985

MR. PRESIDENT

Taxation

We, your committee on

Senate Bill 401

having had under consideration

first reading copy ( white color )

TAX DEDUCTION FOR CORPORATION DONATING COMPUTER TO NONPROFIT ORGANIZATIONS.

Senate Bill 401

Respectfully report as follows: That

DO PASS

~~XXXXXXXXXX~~

Senator Thomas E. Towe, Chairman.

# STANDING COMMITTEE REPORT

February 21, 1985

MR. PRESIDENT

Taxation

We, your committee on

Senate Bill

379

having had under consideration No.

first

reading copy ( white )  
color

COAL BOARD GRANTS FOR HIGHWAY PROJECTS IN IMPACTED AREA.

Senate Bill

379

Respectfully report as follows: That No.

DO PASS

~~REQUIRES~~

Senator Thomas E. Towe,

Chairman.

# STANDING COMMITTEE REPORT

February 21,

1985

MR. PRESIDENT

Taxation

We, your committee on

Senate Bill

307

having had under consideration

No.

first reading copy ( white )  
color

CLARIFY JURISDICTION AND AUTHORITY OF COUNTY AND STATE TAX APPEALS BOARDS.

Respectfully report as follows: That Senate Bill

No. 307

be amended as follows:

1. Page 4, line 13.  
Following: "penalty"  
Strike: "by more"  
Insert: "to less"

2. Page 4, lines 14 and 15.  
Following: ", " on line 14  
Strike: "by more"  
Insert: "to less"

3. Page 6, line 16.  
Following: "15-3-601."  
Insert: "An assessment pursuant to parts 5 through 8 of this chapter based on estimated value or imputed value is subject to review under 15-3-601."

AND AS AMENDED

DO PASS

~~XXXXXXXXXX~~

Senator Thomas E. Tove

Chairman.