

## **MINUTES**

### **MONTANA SENATE 52nd LEGISLATURE - REGULAR SESSION**

#### **COMMITTEE ON TAXATION**

**Call to Order:** By Senator Mike Halligan, Chairman, on March 13, 1991, at 8:00 a.m.

#### **ROLL CALL**

**Members Present:**

Mike Halligan, Chairman (D)  
Dorothy Eck, Vice Chairman (D)  
Robert Brown (R)  
Steve Doherty (D)  
Delwyn Gage (R)  
John Harp (R)  
Francis Koehnke (D)  
Gene Thayer (R)  
Thomas Towe (D)  
Van Valkenburg (D)  
Bill Yellowtail (D)

**Members Excused:** None

**Staff Present:** Jeff Martin (Legislative Council).

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Announcements/Discussion:** None

#### **HEARING ON SENATE BILL 429**

#### **Presentation and Opening Statement by Sponsor:**

Senator Jacobson, District 36, sponsor, said the bill allows the issuance of an additional bonds during a tax increment district's extended life as long as the bonds do not extend the life of the district further than the term of any outstanding initial bonds. This bill is incorporated in a bill of Senator Harp's which is doing well in the legislative process. Senator Jacobson suggested the committee table SB 429 as a back up measure should something happen to Senator Harp's bill.

Proponents' Testimony:

James Tutwiler, Montana Chamber of Commerce, said this is a proven vehicle and urged the committee to support the bill.

Opponents' Testimony:

There were no opponents.

Questions From Committee Members:

There were no questions.

Closing by Sponsor:

Senator Jacobson closed.

EXECUTIVE ACTION ON SENATE BILL 429

Recommendation and Vote:

Senator Doherty moved to Table SB 429.

The motion CARRIED unanimously with Senators Towe and Van Valkenburg absent.

HEARING ON SENATE BILL 435

Presentation and Opening Statement by Sponsor:

Senator Brown, District 2, sponsor, said the bill imposes a 5% surtax on income and corporate license and income taxes for the support of the Montana university system and provides for a referendum vote of the people. Senator Brown said he has served on the Education Commission for the 90's and Beyond and this is a recommendation from that commission. He noted Montana is 45th in the nation in its per pupil tax appropriation for higher education at \$3987. The national average is \$5086. Montana is 49th out of 50 states in the level of faculty salaries. In order to reach the national average we must increase expenditures by 27.5% or cut the number of students allowed into the university system by 7500.

The executive budget includes a 3.5% increase of \$8 million for the university system. Montana needs to appropriate \$37 million more just to reach the national average. Senator Brown said it will be impossible to get the money from the ending fund balance and the Governor is publicly committed to vetoing any tax increase legislation.

The alternative, a surtax on personal and corporate income, with a vote of the people, would allow the university system to take their case to the people who have historically supported education and higher education spending. He said Montana cannot afford to fall any further behind or the university system will from this time forward be second rate. He noted the Department of Revenue will submit some technical amendments.

#### Proponents' Testimony:

Jack Noble, Montana University System, said it will be impossible to meet the needs of the university system without additional funding or tax reform. Not only would a referendum have to be passed by the people, the legislature would then have to appropriate the revenue generated by that vote to the university system. Without that commitment by the legislature, the income would possibly only displace other revenues. He urged the committee to support the measure.

#### Opponents' Testimony:

Dennis Burr, Montana Taxpayers Association, said he has also been a member of the Education Commission of the 90's and supports university funding. Montana is the second state in the nation in the number of earmarked funds. Earmarking funds is not the solution. By this referendum, the voters subsidize the general fund. He said there is a real danger that the money would replace general fund dollars and still shortchange the university system and the public.

#### Questions From Committee Members:

Senator Gage asked how much it would cost the university system to support the referendum.

Mr. Noble said they spent private contributions and approximately \$100,000 to finance the six mill levy campaign. He felt they would need to raise another \$100,000 for this campaign.

Senator Thayer wondered if attrition and drop-outs would amount to 7500 students if we continue the philosophy of allowing anyone to attend the units of the university system.

Senator Brown replied if access is limited due to high tuition or on the basis of grade scores, then attendance is denied to colleges which are publicly funded.

Senator Thayer asked how Montana ranks in income tax payments.

Mr. Burr replied Montana is right about in the middle. We are slightly above average per \$100 of income.

Senator Doherty asked if the 6 mill levy could be increased.

Senator Brown replied a mill raises about \$1.5 to \$2 million. The property tax is particularly onerous to the public. The referendum would give them a choice.

Senator Gage said he felt it would not help salaries if we cut students. That would only result in fewer students and they would have to pay more for their education to allow the system to improve its image. The students would be the largest losers.

Mr. Noble provided a "downsizing" study to the committee (Exhibit #1).

Senator Yellowtail asked Mr. Dennison to respond to the student/faculty/tuition dilemma.

Mr. Dennison, President, University of Montana, said cutting the number of students would mean there would be fewer positions resulting in higher salaries for the rest of the faculty. There would be fewer materials and supplies needed as course sections would be reduced. That would increase the dollars available per student. It is possible to do, but it is very difficult and there are disadvantages as noted in the downsizing study.

Senator Van Valkenburg expressed concern about the vagaries of the election process and committing a substantial portion of the budget to supporting an election. He said he wished the legislature could have the courage to do what is right and pass the necessary funding to support the university system.

Senator Brown responded there is certainly a risk in taking the question to a vote of the people. It is preferable to work though the legislature and get around the earmarking situation. However, he felt there is not a chance for that to happen in this session and therefore he submitted this bill as an alternative funding mechanism.

Senator Koehnke asked if there is a chance that appropriations would decrease by the amount the taxpayers voted to support the university system budget.

Senator Brown replied he did not think that would happen in the near term. It may very well be the case in the long term and there are certainly no methods of assuring it would not happen.

Closing by Sponsor:

Senator Brown closed by noting there are advantages and disadvantages to this approach. This is an alternative which will help and will give the voters the chance to express their support. Montana students are scoring in the top 3%-5% in SAT scores and we have the best educated work force in the country in Montana. We have problems competing economically, but we have always had a strong educational system. The Commission for the 90's voted to greatly increase the support for higher education in the state. He said the legislature needs to consider this alternative and let the people of the state vote to support our universities.

HEARING ON SENATE BILL 436

Presentation and Opening Statement by Sponsor:

Senator Brown, District 2, sponsor, said this is a housekeeping bill which would consolidate property tax classes from the current 17 in existing law to 12 and remove classes 1 and 2 from the railroad and airline formula.

Proponents' Testimony:

Judy Rippingale, Deputy Director for Tax Policy, Department of Revenue, presented her testimony in support of the bill (Exhibit #2).

Opponents' Testimony:

Tom Hopgood, Montana Association of Realtors, said he wished to express concern more than opposition. The changes from Class 19, which is taxed at 2%, to Class 4, taxed at 3.86%. The fiscal note said the switch to Class 4 would "decrease in appraised value". He said there is nothing he can find which would guarantee a decrease in the appraised value. He asked the committee to consider that concern as they work on the bill.

Questions From Committee Members:

Senator Eck asked Ms. Rippingale to respond to Mr. Hopgood's concern.

Ms. Rippingale said Class 19 is an extremely small Class with extremely small parcels. The property has no development potential and the value placed on it in Class 4 would lower substantially and there would be no tax increase.

Closing by Sponsor:

Senator Brown closed.

HEARING ON HOUSE BILL 153

Presentation and Opening Statement by Sponsor:

Senator Brown, District 2, presented the bill on behalf of Representative Ream who was delayed in a House committee. The bill has been introduced at the request of the Department of Revenue and would simply conform the filing dates for the workers' compensation payroll tax to the filing dates for the state income withholding tax.

Proponents' Testimony:

Jeff Miller, Income and Miscellaneous Tax Division Director, DOR, said the bill just makes the quarterly due date of the workers' compensation payroll tax consistent with the dates employers must submit their state income withholding tax. It would streamline the reporting and compilation process both for the Department and for the employers.

Opponents' Testimony:

There were no opponents.

Questions From Committee Members:

There were no questions.

Closing by Sponsor:

Senator Brown closed.

EXECUTIVE ACTION ON HOUSE BILL 153Recommendation and Vote:

Senator Brown moved HB 153 Be Concurred In.

The motion CARRIED unanimously.

HEARING ON HOUSE BILL 338Presentation and Opening Statement by Sponsor:

Senator Halligan, District 29, presented the bill for Rep. Ream who was delayed in a House committee. The bill would allow a tax credit for the purchase and installation of low emission wood or biomass combustion devices.

Proponents' Testimony:

Will Selser, Lewis and Clark County Health Department, said he is also supporting the bill on behalf of the Flathead and Ravalli County Health Departments. He said some catalytic stoves do not work in practice as well as they do in laboratory tests. Pellet stoves conform to the guidelines and work very well in terms of low emission standards. The tax credit is a health related inducement.

Robert Raisch, Air Quality Bureau, Montana Department of Health and Environmental Sciences, presented his testimony in support of the bill (Exhibit #3).

Jim Gilman presented a letter of support from Jim Carlson, Director, Missoula City-County Health Department (Exhibit #4).

Opponents' Testimony:

Tom Arvidson, Anderson's Masonry Supply, presented his testimony in opposition to the bill (Exhibit #5). He also presented a letter in opposition to the bill from Greg Schmid, Vice President, Eureka Pellet Mills (Exhibit #6).

John Skees, retailer and distributor from Great Falls, said his store has been in business since 1928 selling wood burning devices. He pointed out pellet stoves depend on electricity which a cordwood stove is not. He noted the latest list of

stoves published by the state of Montana in 1991 did not list one cordwood stove that complies with guidelines for emissions. He said he would be glad to work with the committee to work out compromise legislation that can include other devices than just pellet stoves.

Loren Collins, Collins Manufacturing Co., Bozeman, said his company manufactures pellet stoves. His product fits the guidelines but he feels adjustments need to be made for some of the low-emission wood burners, also. He said there are really only a few who can benefit from the credit presently, and if more people could benefit, the air would be a lot cleaner.

Bill Hollow, Bozeman stove and chimney retailer, said it seemed the state was just wasting money when the EPA already has tough standards. He said most woodstoves run at 3-4 grams per hour. He pointed out most people replace their catalytic devices when they wear out and the EPA now mandates manufacturers of catalytic devices to offer a three year 100% warranty. As a businessman, the incentive has been helpful. As a citizen he is interested in clean air. Subsidizing pellet stove users is catering to a higher income segment of the population. The stove dealers of the state are not in business to get rich, they have a sincere interest in clean air. The old dirty stoves of 10 years ago are being replaced with catalytics and the air quality is steadily improving. He offered his assistance in helping to develop realistic incentives.

#### Questions From Committee Members:

Senator Gage asked if pellet quality is a factor.

Mr. Collins said it has quite a lot to do with the emission level. Water and unburned fuel make smoke and some pellets have a much higher moisture content than others.

Senator Gage expressed a concern about slash burning and air quality.

Mr. Raisch said it is a concern. There is coordination between the foresters and the air quality bureau in order to limit burning to good air quality days that will allow for good dispersion rates.

Leland Smith, owner of Smitty's Fireplace Shop, Helena, said he has been in business for over 20 years in Helena. He works closely with Mr. Selser on air quality issues. He noted they sell pellet stoves 5 to 1 over woodstoves. The tax credit is a good provision. It helps sales if the customer can get a \$300 credit on a \$2000 stove.



Senator Brown suggested representatives of the stove dealers, Mr. Raisch, and Rep. Ream get together and work out some language they can all live with and present some amendments to the committee.

Closing by Sponsor:

Rep. Ream closed saying he felt the credit should be increased so it is workable and there are tangible results for more than a narrow segment of the stove industry. The program has worked well and he hopes it will continue even more successfully. Senator Doherty has indicated he will work with the stove people on amendments.

ADJOURNMENT

Adjournment At: 10:00 a.m.

  
SENATOR MIKE HALLIGAN, Chairman

  
JILL D. ROHYANS, Secretary

MH/jdr

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 13 day of MARCH, 1991.

Name: LOREN COLLINS

Address: BOX 8 BELGRADE MT. 59714

Telephone Number: 388-4452-587-3238

Representing whom?

Collins Marketing Co

Appearing on which proposal?

H.B. 338

Do you: Support?        Amend? ✓ Oppose?       

Comments:

adjust grants per Hove to include  
more pellet appliances

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 13 day of March, 1991.

Name: Jan Gilman

Address: Dept of Health & Env Sciences  
Cogswell Bldg

Telephone Number: 444-3454

Representing whom?

Air Quality Bureau

Appearing on which proposal?

HB 338

Do you: Support? X Amend?      Oppose?     

Comments:

Submitted testimony for  
Missoula County Health Dept

# WITNESS STATEMENT

To be completed by a person testifying or a person who wants  
their testimony entered into the record.

Dated this 13 day of March, 1991.

Name: Bill Mawen

Address: 315 Griffin Dr, #19  
Bozeman MT

Telephone Number: 586-1109

## Representing whom?

Shadow Hearth + Home

Appearing on which proposal?

HB 338

Do you: Support? Amend? ☒ Oppose? ☒

Comments:

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper appears to be a standard notebook page or a sheet of stationery. There is no handwriting or other markings on the page.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

**WITNESS STATEMENT**

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 13 day of March, 1991.

Name: John Skies

Address: 4125 - 2 Ave NO  
Great Falls, MT.

Telephone Number: 452 6094

## Representing whom?

representing whom: Stees Inc

Appearing on which proposal?

H8 338

Do you: Support? \_\_\_\_\_ Amend? ✓ Oppose? ✓

**Comments:**

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 13<sup>th</sup> day of March, 1991.

Name: Thomas A Arvidson

Address: 535 4th Ave W  
Kalispell, MT 59901

Telephone Number: 406 755 5396

Representing whom?

Andersons Masonry Supply

Appearing on which proposal?

HB 338

Do you: Support? ☐

Amend? ☐

Oppose? ☒

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 13 day of MARCH, 1991.

Name: JACK NOBLE

Address: 33 S. LAST CHANCE

HILLEN, MT

Telephone Number: 444-6570

Representing whom?

MONTANA UNIVERSITY SYSTEM

Appearing on which proposal?

IB 435

Do you: Support? X

Amend?       

Oppose?       

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

ROLL CALL

SENATE TAXATION COMMITTEE

DATE 3/13

52<sup>nd</sup> LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SEN. HALLIGAN	X		
SEN. ECK	X		
SEN. BROWN	X		
SEN. DOHERTY	X		
SEN. GAGE	X		
SEN. HARP	X		
SEN. KOEHNKE	X		
SEN. THAYER	X		
SEN. TOWE	X		
SEN. VAN VALKENBURG	X		
SEN. YELLOWTAIL	X		

Each day attach to minutes.





**GENERAL STRATEGIES FOR DOWNSIZING  
THE MONTANA HIGHER EDUCATION SYSTEMS**

EXHIBIT 10

DATE 3/13/91  
BILL NO. SB 435

**John M. Hutchinson  
Commissioner of Higher Education**

The purpose of this document is to summarize strategies that might be used to downsize the Montana Higher Education Systems in the face of a severe budget shortfall. This information has been compiled at the request of the Education Subcommittee of the Fifty-Second Montana Legislature to aid in its deliberations of the several appropriations for post-secondary education. Prepared by the staff of the Commissioner of Higher Education, this information has not been discussed by the Board of Regents nor have the several campuses and centers had an opportunity to provide substantive advice and counsel.

Before enumerating the several scenarios for downsizing, eight principles governing this discussion must be presented:

1. The Regents, the Commissioner of Higher Education, and the chief executive officers of the campuses and vocational-technical centers remain totally committed to the Regents' budget request and urge the Legislature to contemplate acceptable methods of revenue enhancement to assure adequate funds to meet the Regents' request.

2. The State of Montana does not currently have an adequate tax base to continue its cherished policy of wide accessibility to excellent higher education at low cost. Therefore, tax reform will be central to the future availability of low-cost, high-quality post-secondary education.

3. Higher education in Montana can show, by a variety of measures, the presence of demonstrable quality. The real concern is future quality and, if downsizing is necessary to preserve and enhance that quality, it must be achieved with a deliberate, well-conceived plan. Precipitous and inappropriate reactions could easily create a self-fulfilling prophecy of decline. The Regents have endorsed an outcomes assessment program which will allow one important measure of the impact of downsizing on educational quality.

## General Strategies for Downsizing the Montana Higher Education Systems

4. Higher education has evolved to its current fiscal climate over a number of years. A "quick fix" solution is simply not available and any of the downsizing scenarios identified in the paragraphs to follow will require many months to implement fully.

5. There is no incentive to downsize if the current formula funding procedure continues to operate. There must be a decoupling of the formula and permission to downsize in such a fashion that Montana higher education institutions reach the average funding level of established peers.

6. Any downsizing effort should be allowed to proceed with maximum flexibility and a proper mix of local control and central oversight. Specifically, once the basic downsizing strategies are identified, campuses and centers must be permitted to develop local responses in accord with broad prescriptions developed by the Regents and Commissioner. The Regents and Commissioner must exercise final approval for locally originated efforts to assure consistency among campuses and centers as well as to preserve programs that are essential to the well-being of the State. Any downsizing effort will be impeded by strict line-item appropriations that stifle creativity and efficiency.

7. In accord with the thrust of the report, Crossroads, by the Education Commission for the Nineties and Beyond, the scenarios identified here affect primarily the academic dimension of the Montana Systems of Higher Education. However, any serious discussion of downsizing will have to include evaluation of those aspects of campus activity that are less central to the academic mission of the institution.

8. The following scenarios are not presented in hierarchical order. They must not be interpreted as Regental threats of action but are merely a set of possible strategies to be considered.

### Scenario #1 - Institutional Reconfiguration

Two forms of institutional reconfiguration can be identified. In the first, a state junior college system would be created by reducing several of the senior institutions to junior colleges with a primary mission of awarding transfer associate degrees. In the second, several of the campuses would be converted to community colleges and assume the traditional mix of lower division academic and vocational-

technical programs. In this case, a portion of the economic support for the college would be transferred from the State to local communities.

**Advantages:**

1. Over the long term, savings could be significant because the cost of educating lower division students is considerably less than for upper division students.
2. It would be easier to develop higher admission standards for entry into the remaining upper division institutions. This would enhance quality.
3. Access to college courses, at least those offered in the first two years, would be preserved. Access to vocational-technical courses would be enhanced if the community college reconfiguration is adopted.

**Disadvantages:**

1. Both forms of reconfiguration would create a two-tiered educational system, one perceptibly more elite than the other.
2. Access to senior institutions would be reduced.
3. Transfer and articulation problems, though by no means insurmountable, would increase.
4. The pipeline of rural teachers that normally come from smaller, regional campuses would be narrowed.
5. In the community college reconfiguration, local communities and regions would bear a larger burden of institutional support.
6. Faculties and administrations in affected institutions would experience considerable turn over, some by individual choice and some through layoffs occasioned by the process of reconfiguration itself.
7. Divisive political battles will be fought over any reconfiguration effort.

**Scenario #2 - Institutional Closure**

In this case, one or more institutions (campus or center) would be closed and would cease to function as an institution

## General Strategies for Downsizing the Montana Higher Education Systems

widespread, students will simply select programs where openings are available thereby transferring costs from one program to another.

### Advantages:

1. Quality could be enhanced because faculty members have fewer students to serve and can give greater attention to those who remain, presumably, the better students.
2. Access to a relatively full range of programs remains if this scenario is not coupled with program elimination.

### Disadvantages:

1. There would be insufficient cost savings if implemented alone.
2. Access to certain valuable degree programs will be curtailed. This could result in insufficient labor supplies in certain areas because fewer graduates would be available.
3. The burden of access would fall to the public community colleges.
4. This scenario would not produce instant cost savings.

### Scenario #5 - Reduce Graduate Programs

Scenario #5 would call for significant trimming of graduate programs at all campuses currently offering master's and doctoral level instruction. Such programs are often (though not always) high cost programs. Programs selected for elimination would have to be those that are not "borne on the backs" of undergraduate programs. That is, some graduate programs are available because faculty members teach overloads so that graduate seminars and thesis advice can be offered. Elimination of such programs would garner little in the way of savings.

### Advantages:

1. Institutional energy could be focused at the undergraduate level and the quality of baccalaureate instruction would increase.

## General Strategies for Downsizing the Montana Higher Education Systems

2. Cost savings could accrue as the burden of high cost graduate instruction would be shifted to other states.

### Disadvantages:

1. Attraction of high caliber faculty would be even more difficult because most potential faculty members want to teach at the graduate level.
2. Access to higher levels of learning beyond the baccalaureate degree would be reduced.
3. The research mission of the institutions would be severely compromised.
4. As with Scenario #3, Montana would become an educational third world, increasingly dependent upon other states.

### Scenario #6 - Restriction of Freshman Admission

Institutions could simply be assigned a very narrow range of enrollments and would have to manage freshman admissions so as to conform to the enrollment limits. This could be done in one of two ways. First, students could be admitted on a first come, first served basis until the limit is reached. Second, admission standards could be raised so that only the scholastically superior are admitted.

### Advantages:

1. If admission standards are raised, quality could improve because only the brightest students will be admitted. Further, fewer students ease faculty load and this would enhance the quality of instruction.
2. Through a self-selection process, certain programs might be eliminated because student interest is marginal. This could prompt further savings.

### Disadvantages:

1. Access would be severely limited and, if admissions are managed on a first-come, first-served basis, some of the brightest students will be denied access.
2. This will not be popular with the tax-paying public. Hostility would grow as the number of students denied access increases. Broad-based public support for such things as the six-mill levy would decline.

## General Strategies for Downsizing the Montana Higher Education Systems

3. The savings might not be substantive unless the enrollment limitations are sufficiently severe to overcome certain economies of scale currently in effect.
4. The burden of access would increasingly fall to the public community colleges.

### Scenario #7 - Forced Student Attrition

In this case, the institutions would significantly increase the standards for progression and graduation. This would surely become known as the "flunk 'em out" approach. Suspensions would come at much higher grade point averages than is currently the case and readmission after suspension would be more difficult.

#### Advantages:

1. The quality of education could significantly improve. The level of instruction would be geared to the brightest and most motivated students in the class.
2. This could be popular with many faculty who would prefer not to cater to the less well prepared and less motivated students.

#### Disadvantages:

1. The cost savings are difficult to predict.
2. This approach would be very unpopular with students and parents because in order to achieve significant savings, courses would become obdurately difficult.
3. The society needs more and more people with college education. This would restrict access and the overall level of education in the State would drop.
4. This is very difficult to initiate and manage.

### Scenario #8 - Substantial Tuition Increases

This scenario would simply call for substantial tuition increases designed to force student attrition by pricing them out of the Systems. There are variants of this approach which

## General Strategies for Downsizing the Montana Higher Education Systems

are less severe. For example, a voucher system for a prescribed number of credits or differential tuitions could be introduced to discourage long college careers (i.e., the "professional student"). However, the savings achieved from such measures is not likely to be great.

### Advantages:

1. This measure works very rapidly and the savings will be seen in a matter of months.
2. Student motivation might increase because the financial commitment is significant.

### Disadvantages:

1. This burden will fall most heavily on the middle class which has less ability to pay than the wealthy class and less access to student financial aid than the poor.
2. Extremely hostile student and public reaction could be anticipated.
3. Cost savings are difficult to predict.

## Scenario #9 - Restriction on Non-resident Enrollment

In this case, student populations would be reduced by simply restricting or eliminating out-of-state students.

### Advantages:

1. Montana dollars would be spent primarily on Montana students.

### Disadvantages:

1. Graduate programs would be hit very hard since they enroll larger percentages of out-of-state students.
2. Quality would decline because diversity of the student body would be lost. Montana would be isolationist in character.
3. Non-residents bring money to Montana and many who graduate stay as productive members of the society.



General Strategies for Downsizing  
the Montana Higher Education Systems

4. Institutional costs would be shifted to the resident student since non-residents currently pay over 60% of the cost and in-state students pay 25%.

In examining these scenarios, it may be observed that some of them are aimed directly at the institutional level (Institutional Closure and Institutional Reconfiguration); some of them are aimed at the programmatic level (Elimination of Programs, Reduction of Graduate programs, Enrollment Limitations by Program); and some of them are aimed at the student level (Restriction of Freshman Admission, Forced Student Attrition, Substantial Tuition Increases, Restricting Non-resident Enrollment). Any contemplation of downsizing must involve permutations and combinations of all scenarios to find the best solution with the fewest disadvantages.

1265w

	Executive FY93	Peers FY89	89 Peers Inflated 5%/yr
FTE Students (budgeted)	8,282		
Total Expenditures	\$42,536,016		
State Contribution (general fund, millage)	\$30,885,532		
Actual Expenditures/FTE	\$5,136	\$5,854	\$7,116
State Contribution/FTE	\$3,729		
Number of FTE to maintain Peer Level	5,978 (\$42,536,016/\$7,116)		
Number to cut	2,304	28%	
Assume 4-year downsize-FTE/year	576	7%	
Savings/year (576 FTE X \$5,136)	\$2,958,472		
State Appropriation Savings (576 FTE X \$3,729)	\$2,148,156		
Tuition Portion to be made up by state	\$810,316		

Effect on UM (formula decoupling)	Executive FY93	FY94	FY95	FY96	FY97	FY89 Peers Inflated 5% - 4 yr
FTE (budgeted)	8,282	7,706	7,130	6,554	5,978	
Budgeted S/F	18.38	17.96	17.54	17.12	16.70	16.70
Budgeted Faculty	450.60	429.06	406.50	382.82	357.96	
Average Faculty Salary	\$35,086	\$36,847	\$38,893	\$41,298	\$44,167	\$43,151
Total Faculty Salaries	\$15,809,752	\$15,809,698	\$15,809,698	\$15,809,698	\$15,809,698	
Instructional Support/FTE	434	\$466.44	\$504.13	\$548.43	\$601.28	\$653.94
Total Instructional Support	\$3,594,388	\$3,594,388	\$3,594,388	\$3,594,388	\$3,594,388	
Support/FTE	1,452	\$1,560.54	\$1,686.62	\$1,834.85	\$2,011.66	\$2,049.35
Total Support	\$12,025,464	\$12,025,464	\$12,025,464	\$12,025,464	\$12,025,464	

ATTACHMENT C

SENATE TRANSACTION  
EXHIBIT NO. 3/13/91  
DATE 3/13/91  
BILL NO. 584354

SENATE JOURNAL

EXHIBIT NO. 1

DATE

3/13/91

BILL NO.

SB 435

Effect on Other Institutions:	FY93 State Support	Budgeted FTE	Weighted Average	FTE "downsized" from UM	Fiscal Impact
Vocational Technical Centers	\$9,295,491	2,573			
Community Colleges	6,713,430	1,841			
Other Senior Institutions (Executive FY93)	69,983,805	16,781			
	\$85,992,726	21,195	\$4,057	576	\$2,336,957
State Appropriated "Savings" - retained by UM					2,148,156
Tuition to be made up - UM					810,316
Auxiliary Impact - UM					
Revenue Loss on Auxiliary Enterprises					778,474
Bond Obligations Deficiency					309,998
Total Fiscal Impact from "downsizing" 576 students from UM					\$6,383,901

Amendments to Senate Bill 436  
1st Reading Copy

SENATE TAXATION

EXHIBIT NO. 2

DATE 3/13/91

BILL NO. SB 436

Prepared by The Department of Revenue  
February 27, 1991

The department's amendments 1, and 3 through 5 are to correct technical drafting errors. The title indicates § 15-6-144, MCA, is being both amended and repealed. Section 15-6-144, MCA, is actually only being amended so the title and the repealer section are corrected by striking the reference to § 15-6-144, MCA by amendments #1 and #5.

The amendment to § 15-10-402, MCA, in Section 9 of the bill shows § 15-6-144, MCA, as being repealed. Since § 15-6-144, MCA, is not repealed it is restored to the current language in Section 9 by amendment #4.

The bill eliminates the taxable value of class 1 and class 2 property from the formula for computing the tax rate for railroad and airline property. The reference to class 1 and class 2 property is deleted from Section 7(3)(a), but is inadvertently left in Section 7(3)(b). Amendment #3 makes the two subsections consistent by eliminating the obsolete reference to class 1 and class 2 property.

Amendments 2 and 6 change the applicability date of the act from 1992 to 1991. The amendment to formula addresses a problem with the current law. The calculation of the taxable value for railroads requires the inclusion of the taxable value of airlines. The calculation of the taxable value for airlines requires the inclusion of the taxable value of railroads. By combining the two section together as is done in this bill the problem is eliminated. Since the problem exists in the current law, it should be corrected for this year rather than waiting to correct it next year.

1. Title, line 21.  
Following: "15-6-143,"  
Strike: "15-6-144"
2. Page 11,  
Following: line 18  
Strike: "1992"  
Insert: "1991"
3. Page 12, line 5.  
Following: "15-1-101(1)(d)"  
Strike: ", including class 1 and class 2 property"
4. Page 13,  
Following: line 21  
Strike: "and 15-6-136"

Insert: "15-6-136, and 15-6-144"

5. Page 23,  
Following: line 7  
Strike: "15-6-144,"

6. Page 23, line 20.  
Following: "Section 15."  
Strike: "Applicability. [This act] applies to tax years beginning on or after January 1, 1992."  
Insert: "Retroactive applicability. [This act] applies retroactively, within the meaning of 1-2-109, to taxable years beginning on or after January 1, 1991."

# SB 436 - Property Tax Reform

## Proposed and Current Classes

### Proposed

<u>Class</u>	<u>Rate</u>	<u>Description</u>
Class 1	100.000%	Net Proceeds
Class 2	3.000%	Gross Proceeds
Class 3	30.000%	Ag Land
Class 4	3.860%	Real Property
Class 5	3.000%	New Industry and Pollution Control
Class 6	4.000%	Livestock
Class 7	8.000%	Independent Telephone
Class 8	9.000%	Personal Property
Class 9	12.000%	Utilities
Class 10	3.840%	Timber
Class 11	3.088%	Farmsteads
Class 12	7.560%	Railroads and Airlines

### Current

<u>Class</u>	<u>Rate</u>	<u>Description</u>
Class 1	100.000%	Net Proceeds
Class 2	3.000%	Gross Proceeds
Class 3	30.000%	Ag Land
Class 4	3.860%	Residential and Commercial Real
Class 12	3.860%	Mobile Homes
Class 18	30.000%	Nonproductive Mining Claims (Appraisal method changes from productivity to market value basis, no revenue impact to property).
Class 19	2.000%	Nonproductive Real Less Than 20 ac. (Assume appraised values will be decreased to reflect conditions which preclude development of the property, no revenue impact).
Class 20	3.860%	Out of Production Ag and Timber

Class 5	3.000%	New Industry and Pollution Control
Class 6	4.000%	Livestock
Class 7	8.000%	Independent Telephone
Class 8	9.000%	Personal Property
Class 11	12.000%	Utilities
Class 13	3.840%	Timber
Class 14	3.088%	Farmsteads
Class 15	7.490%	Railroads
Class 17	7.490%	Airlines

EXHIBIT NO. 2  
DATE 3/13/91  
BILL NO. SB 436

# SB 436 – Property Tax Reform

## Impact on Current Property Classes

<u>Current Class</u>	<u>Current Tax Revenue</u>	<u>Proposed Tax Revenue</u>	<u>Difference</u>
Class 1 Net Proceeds	\$3,626,521	\$3,626,521	\$0
Class 2 Gross Proceeds	\$3,027,295	\$3,027,295	\$0
Class 3 Agric. Land	\$38,842,780	\$38,842,780	\$0
Class 4 Resid.	\$150,267,820	\$150,267,820	\$0
Class 4 Comm.	\$70,413,533	\$70,413,533	\$0
Class 5 Co-ops	\$6,040,704	\$6,040,704	\$0
Class 6 Livestock	\$6,997,060	\$6,997,060	\$0
Class 7 Ind. Telephone	\$253,979	\$253,979	\$0
Class 8 Pers. Property	\$66,407,995	\$66,407,995	\$0
Class 11 Utilities	\$96,224,237	\$96,224,237	\$0
Class 12 Mobile Homes	\$5,301,014	\$5,301,014	\$0
Class 13 Timber Land	\$2,027,722	\$2,027,722	\$0
Class 14 Farmsteads	\$16,265,710	\$16,265,710	\$0
Class 15 Railroads **	\$15,979,352	\$16,128,692	\$0 *
Class 17 Airlines **	\$1,538,888	\$1,553,270	\$14,382
Class 18 Mining Claims	\$2,922	\$2,922	\$0
Class 19 Non-Prod. Land	\$29,945	\$29,945	\$0
<u>Class 20 Out of Production</u>	<u>\$1,478</u>	<u>\$1,478</u>	<u>\$0</u>
Total	\$483,248,954	\$483,412,676	\$14,382

\* Change is based on negotiated settlement – no direct dollar impact.

\*\* Tax rate increase from 7.49% to 7.56 % is due to removing class 1 and class 2 property from the rate formula.

TESTIMONY  
ON  
HOUSE BILL NO. 338

BEFORE THE TAXATION  
COMMITTEE OF THE MONTANA  
SENATE

:  
:  
:  
:

BY ROBERT RAISCH  
AIR QUALITY BUREAU  
MONTANA DEPARTMENT OF HEALTH  
AND ENVIRONMENTAL SCIENCES

A BILL FOR AN ACT ENTITLED: "AN ACT TO AMEND THE LAWS RELATING TO TAX CREDIT FOR THE PURCHASE AND INSTALLATION OF LOW EMISSION WOOD OR BIOMASS COMBUSTION DEVICES; INCREASING THE TAX CREDIT; REDEFINING A LOW EMISSION WOOD OR BIOMASS COMBUSTION DEVICE; EXTENDING THE DATE FOR WHICH THE ENERGY TAX CREDIT MAY BE TAKEN TO DECEMBER 31, 1995; REDEFINING THE TAX EXEMPT STATUS OF LOW EMISSION WOOD OR BIOMASS COMBUSTION DEVICES; REDEFINING THE AVAILABILITY OF VENTURE CAPITAL AND OTHER INCENTIVES TO BUSINESSES INVOLVED WITH LOW EMISSION WOOD OR BIOMASS COMBUSTION DEVICES; AMENDING 15-32-102 AND 15-32-201, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

INTRODUCTION

Nine communities in Montana are exceeding the state and federal ambient air quality standards for particulate (PM-10) and two communities are exceeding carbon monoxide standards. Smoke from residential wood burning is a significant contributor to the air quality problem in most of these communities. This bill would represent a significant step toward improving air quality, by providing a substantial financial incentive to convince homeowners to convert from older polluting wood stoves to state-of-the-art low emission wood and wood pellet stoves.



## SPECIFIC TESTIMONY

The current Montana law provides for a tax credit for the purchase and installation of any wood stove which has been certified as emitting particulate matter at a rate less than 6.0 grams per hour. This bill would limit the tax credit to only the very cleanest residential wood heating devices: pellet stoves and noncatalytic stoves which have a certified emission rate less than 2.5 grams per hour. An additional benefit is that these stoves also emit substantially less carbon monoxide and toxic air pollutants.

Since the federal new source performance standards prohibit the sale of wood and pellet stoves with emission rates greater than 7.5 grams per hour for noncatalytic devices and 4.1 grams per hour for catalytic devices, it seems unnecessary to provide a tax credit for the only type of stove that the public can legally purchase. Instead, the department supports the concept of limiting the credit to only the very cleanest devices.

Availability is not a problem since over fifteen qualifying models of pellet stoves are currently on the market, including several models which are popular in Montana. Although no noncatalytic stoves qualify at this time, manufacturers are at the brink of developing stoves which will qualify. Furthermore, this bill should stimulate the demand for wood pellets and provide a boost to a developing Montana pellet industry. It should also be noted that pellets are made from sawmill wastes, some of which are still being disposed of throughout Montana by landfilling, open burning or incineration in tepee burners.

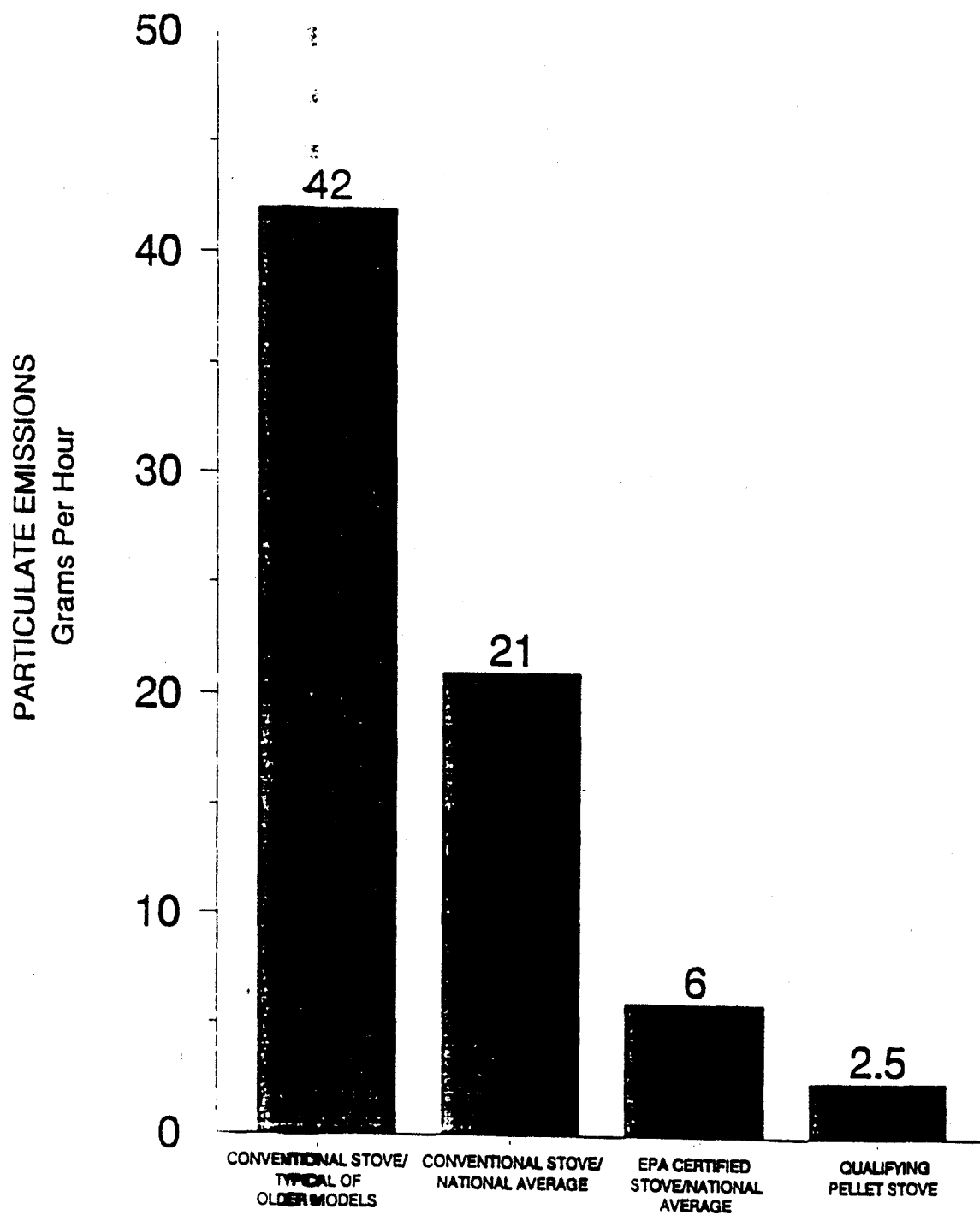
The current Montana law provides a tax credit of ten percent (10%) of the first \$1,000.00 of the cost of purchasing and installing a low emission wood stove and five percent (5%) of the next \$3,000.00. This bill would double the credit to twenty percent (20%) of the first \$1,000.00 and ten percent (10%) of

the next \$3,000.00. The doubling of the amount of credit will be offset by the fact that fewer stoves will qualify for the credit. Although the cost to the state will remain relatively constant, the credit will be large enough to stimulate stove change out, while targeting the purchase of the very cleanest stove available.

This bill would also extend the applicability of the tax credit from December 31, 1992 to December 31, 1995. This extension is important since it would encompass the time period during which the Federal Clean Air Act requires communities to come into compliance with PM-10 and carbon monoxide standards.

In summary, the department believes this bill will be a benefit to air quality and public health while at the same time boosting the Montana economy.

## PARTICULATE EMISSIONS BY TYPE OF WOOD STOVE





SENATE TAXATION

EXHIBIT NO. 4

DATE 3/13/91

BILL NO. HB 338

Testimony  
Before Senate Taxation Committee  
concerning House Bill 338.  
March 11, 1991

Chairman Halligan, Members of the Committee:

My name is Jim Carlson. I am the Director of Environmental Health at the Missoula City-County Health Department.

The Department supports House Bill 338. The Missoula City-County Health Department worked very diligently in encouraging the Legislature to pass the original version of this bill three sessions ago. The existing legislation provides for a tax incentive for low emission woodstoves and was designed to encourage citizens of the State to purchase and install woodstoves which were considerably cleaner than many of the conventional stoves available on the market at that time. Two years ago the Environmental Protection Agency developed regulations and standards for the manufacturer and sale of all woodstoves sold within the United States. Because all wood combustion devices sold in the United States must now meet very tight emission standards, the Montana Tax Credit Bill is no longer an encouragement for people to buy clean burning woodstoves. It is an encouragement for people to buy woodstoves which are more polluting than most other forms of household energy.

Because the Federal Government has allowed only clean burning stoves to be manufactured and sold, it is now appropriate to remove the incentive provided by current state law for stoves burning cordwood. However, and pellet stoves have been shown through emission testing to have emission levels significantly lower than devices which burn cordwood. Pellet stoves utilize waste bark and sawdust from Montana's lumber mills, which would otherwise be burned in teepee burners and hog fuel boilers. Because the pellet stove industry represents a more efficient and lower emission alternative to cordwood stoves, we feel that the tax credit for low emission biomass combustion devices should be switched from woodstoves to pellet stoves as a method of lowering the emissions of pollutants in communities throughout Montana. This bill is also a method of encouraging more development of the pellet manufacturing industry in the State of Montana.

EXHIBIT NO. 5DATE 3/13/91BILL NO. HA 338**Anderson's Masonry Supply**

16 WOODLAND PARK DRIVE KALISPELL, MONTANA 59901

(406) 755-2497  
FAX (406) 756-8706

March 12, 1991

In Reference to House Bill 338

Legislator:

As a long time woodstove, pellet stove, and gas stove dealer in Kalispell, I have some very strong reservations about House Bill 338. The gist of the bill is a 20% tax credit for the first \$1000 spent and a 10% tax credit up to \$2000 on pellet stoves that are certified below 2.5 grams emissions and noncatalytic cordwood burners below 2.5 grams (p.8, lines 16-25).

The intentions of this bill and the actual effect it is going to have are not closely connected. The stated intention (p.2, lines 7-24) is to encourage the purchaser of a wood or pellet stove to purchase only the most efficient devices available. First, efficiency and clean burn are not the same thing. I assume the clean burn is what this bill is really meant to deal with, as there are many things in stove design that lower the efficiency while cleaning up the burn.

Second, as far as pellet stoves go, the bill is tied to certification testing. EPA does not require certification testing of pellet stoves. EPA requires a 35-1 air to fuel ratio and assumes that a pellet stove will burn clean at that setting. A few stove manufacturers have chosen to pay the \$10,000 or so that it costs to take certification tests. The main purpose seems to be marketing. There was an article in one of the trade magazines about 6 months ago on why some companies chose certification. I feel quite safe saying that any pellet stove made in 1991 could easily pass EPA certification requirements.

Thus, what this bill would really do is create a \$250 - \$300 pricing advantage for those manufacturers who had certified their stoves, and those dealers who had those brands. It does not separate clean and dirty stoves, instead it spends the Montana taxpayers money to subsidize a small percentage of the pellet stove manufacturers.

The second part of this is that there is not and never will be enough pellet stoves sold in the State of Montana to entice a manufacturer to spend \$10,000 per model to certify if they were not otherwise disposed.

Thirdly, pellet stoves are still an infant industry, standards for fuel, EPA testing criteria, and designs change yearly. The EPA may very well develop a standard for pellet stove testing in the next few years. I'd rather Montana not again be marching to a different drummer as they have been the last several years with their 6 gram tax credit. I could support this bill if it offered a credit

House Bill 338  
March 12, 1991  
Page Two

for any pellet stove that had an EPA air-fuel ratio exemption. Otherwise, I would rather see it killed, as I do not see any clean air benefit of certified over uncertified stoves, and it would be totally at odds with what is happening on a national level.

On the woodstove side of this bill, it is much of the same. There is only one noncatalytic woodstove that is below 2.5 grams. There is no impetus for stove companies to build stoves to that 2.5 gram specification as Montana does not have the market to encourage stove companies to certify new stoves to these figures. I understand the reason for catalytics not being included. Although they can work very effectively, they are prone to wear out and possibly not be replaced, and can be operated improperly. It is a bit ironic that the only noncatalytic stove model that is below the 2.5 gram standard is more difficult to operate than most noncatalytic stoves in that it has separate controls for its primary and secondary air and thus requires an educated operator unlike most of the newer noncatalytic stoves which have just one control for normal operation. Unlike pellet stoves, with woodstoves the operator can make a great deal of difference in the emission level. I do not see how this tax credit can produce airshed improvement worth its cost to the Montana taxpayer. This is similar to the pellet stove tax credit as it benefits one manufacturer of one model of stove with little promise that there is any actual air cleanup in the real world.

The 6 gram tax credit had a very positive effect when it first came out as there were very dirty burning (50 grams) stoves on the market and very clean (6 grams and under) stoves on the market. It helped make the cleaner burning stove more attractive. However, what really changed things was EPA regulation. There is no such thing as a very dirty burning stove on the market anymore, and on woodstoves, probably chimney draft and operator habits make more difference in how clean a stove burns than the lab test numbers. Every stove dealer has had a stove with great numbers that performs terribly.

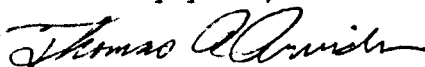
In conclusion, this bill seems to have been written for the benefit of a few manufacturers and dealers. In about a dozen phone calls to dealers around the state, I found only one dealer in favor of this legislation, even though most carried a brand of pellet stoves that would qualify for the credit. We all see having cleaner air as a worthwhile goal. If this were a fair or somewhat equally applied credit the dealers would see it as a marketing aid, but it does not distinguish in any meaningful way between the good and the bad. It simply messes up the marketplace, and does not change the airshed at all. Either make it fair by including all EPA exempt pellet stoves or don't have it at all as there is no reason to believe that there is a big difference in emissions between the certified and noncertified pellet appliances.

House Bill 338  
March 12, 1991  
Page Three

As far as the woodburners are concerned, I see no purpose in this bill, as it would give a rather large credit (\$200) to one stove model that may or may not burn cleaner in the real world. I think EPA regulation has already given the woodstove its major cleanup. The urban areas that have airshed problems can legislate whatever rules they want. Please get the State of Montana and the Montana taxpayers money out of the woodstove market. It only wastes money and makes for a messy market.

Thank you for your consideration.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Thomas A. Arvidson".

Thomas A. Arvidson

SENATE TAXATION

# Eureka Pellet Mills

EXHIBIT NO. 6

Residential & Industrial Wood Pellets

3/13/91  
HB 338

6

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BILL NO. 118  
P.O. Box 667  
Eureka, MT 59917

March 12, 1991

Tom Arvidson  
Anderson's Masonary  
16 Woodland Park Drive  
Kalispell, Montana 59901

Dear Tom:

In regards to our telephone conversation on March 11, 1991. Eureka Pellet Mills would appreciate it if you would convey our position on the currently pending pellet stove bill to the Montana State Legislature.

Eureka Pellet Mills feels that it is in the best interests of the entire pellet stove industry and ultimately, our environment to include E.P.A. exempt stoves, as well as E.P.A. certified stoves, if a tax credit program is enacted.

If only certified stoves are given the tax credit very few of the pellet stoves now manufactured will qualify. Many stove manufacturers have chosen to go E.P.A. exempt with an air to fuel ratio of 35 to 1 or greater. They have done so because the technology of today's stoves is changing on a yearly and, sometimes, a monthly basis. Every time a stove manufacturer makes a change in stove design, no matter how slight, they must submit for recertification. This process takes many months and thousands of dollars.

Many exempt stoves burn extremely clean, usually under 2 grams of solid particulate per hour. It does not seem fair to us as pellet fuel manufacturers to exclude exempt stoves and in effect subsidize 3 or 4 manufacturers to the detriment of 30 other manufacturers when they are all contributing to cleaner air in Montana.

Another point to be made for allowing exempt stoves to qualify for the tax credit is many of them are able to burn a lower grade of pellet fuel. Most certified stoves are unable to burn this grade of fuel. To put this in perspective, there is conservatively a million tons of older sawdust and hog fuel which is currently not being used in Montana. It is, in fact, a liability as it leaches acid into the soil.



If these waste piles were all used to make clean burning pellet fuel they would replace 117,140,000 gallons of #2 heating oil or 177,300,000 gallons of propane. Beyond that, there are vast amounts of logging slash that are now being burned in the dirtiest possible manner - open burning.

The technology now exists to chip this waste in the woods and transport it to a pellet mill. This waste can then be manufactured into clean burning fuel. Again, most of the stoves which burn this type of pellet fuel are currently E.P.A. exempt.

Eureka Pellet Mills is very excited that this legislation is being considered. We admire those appliance manufacturers who have the patience and means to get their stoves certified. At the same time we feel that a bill which only supports a small segment of a fledgling industry would not be in everyone's best interest.

In closing, we would point to the potential for a strong Montana based value added industry. This bill, if passed in an equitable form would go a long way toward that end. At our plant in Eureka we have approximately 30 full time employees. There are several other fine, smaller pellet mills throughout Montana and all would benefit from the growth this bill could help spur. In the end, the environment and people of Montana will be the beneficiaries of cleaner air and, a stronger economy.

Sincerely,



Greg Schmid  
vice President  
Eureka Pellet Mills, Inc.

SENATE STANDING COMMITTEE REPORT

Page 1 of 1  
March 13, 1991

MR. PRESIDENT:

We, your committee on Taxation having had under consideration House Bill No. 153 (third reading copy -- blue), respectfully report that House Bill No. 153 be concurred in.

Signed: \_\_\_\_\_  
Mike Halligan, Chairman

LB 3/13/91  
Amd. Coord.

JP 3/13 11:05  
Sec. of Senate