

**MINUTES**

**MONTANA HOUSE OF REPRESENTATIVES  
54th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN CHASE HIBBARD**, on February 13, 1995,  
at 10:00 A.M.

**ROLL CALL**

**Members Present:**

Rep. Chase Hibbard, Chairman (R)  
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)  
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)  
Rep. Peggy Arnott (R)  
Rep. John C. Bohlinger (R)  
Rep. Jim Elliott (D)  
Rep. Daniel C. Fuchs (R)  
Rep. Hal Harper (D)  
Rep. Rick Jore (R)  
Rep. Judy Murdock (R)  
Rep. Thomas E. Nelson (R)  
Rep. Scott J. Orr (R)  
Rep. Bob Raney (D)  
Rep. John "Sam" Rose (R)  
Rep. William M. "Bill" Ryan (D)  
Rep. Roger Somerville (R)  
Rep. Robert R. Story, Jr. (R)  
Rep. Emily Swanson (D)  
Rep. Jack Wells (R)  
Rep. Kenneth Wennemar (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Council  
Donna Grace, Committee Secretary

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

**Committee Business Summary:**

Hearing: None

Executive Action: HB 237 - Tabled  
HB 389 - Do Pass as Amended

{Tape: 1; Side: A.}

EXECUTIVE ACTION ON HB 237

**CHAIRMAN HIBBARD** called on the Department of Revenue (DOR) to provide the information requested by the Committee pertaining to HB 237 which would provide for an investment tax credit similar to the credit currently in place in the State of Idaho.

**Larry Finch, Program Manager, DOR Office of Research and Information**, provided a handout which covered the information requested by the Committee. **Mr. Finch** reviewed the information in depth and responded to questions for clarification from the Committee. EXHIBIT 1. **Mr. Finch** advised that there would not be an administrative impact because there is currently in the law an investment tax carry-over from the federal law which the DOR still administers.

**Mr. Heiman** reminded the Committee that the bill was amended during the first executive action session. The first set of amendments were technical, relating to coordination with the existing investment tax credit, and the second amendment was the contingent voidness provision.

**REP. ELLIOTT** pointed out that during the 1998-99 biennium, there would be a \$22 million loss of revenue to the state.

**REP. SWANSON** said she understood that the driving force behind this bill was to stimulate the economy. She said other states have made attempts to tie the investment credit to wages or benefits but no state has tried to verify whether it works or not.

**REP. MURDOCK** commented that when the sugar factory closed in her community, four other businesses also closed and each one of them had employed 8 or 10 people. An investment credit would have helped to keep the factory in the community.

**REP. HANSON** said the sponsor had indicated that if the investment credit worked as he expected, the loss would be much less. She thought it was important to hold on to the businesses the state already has and possibly attract more business.

**REP. ELLIOTT** asked for comments from Mr. Staendert, Office of Budget and Program Planning, on any evidence that would show that an investment credit would have a positive effect on the economy. Without objection, **Mr. Staendert** replied that he had read many articles and a couple of studies had been done, but this is something that is very difficult to measure. It does entice a business to buy new equipment. The state would lose money in the year of purchase, but would gain it back in the next year when the equipment would become subject to personal property tax. He did agree that it might have a positive long-term effect.

REP. SWANSON asked for an explanation of the current investment credit statute. Mr. Chenovick, DOR, advised that the statute was passed, both at the corporate and personal level, in 1977. Initially the credit was 20% of the federal credit, then went to 30% and finally down to 5% with a maximum of \$500. The Federal Tax Reform Act of 1986 eliminated the investment credit but it can still be claimed as a carry-over earned prior to the change in the law and, therefore, it is still on the income tax form and in the system.

Motion:

REP. ORR MOVED THAT HB 237 DO NOT PASS.

Discussion:

REP. ORR said there were good parts to the bill and he agreed that an investment credit might stimulate business. When considering the purchase of new equipment a person would consider the cost of repairs to old equipment and the added efficiency of new equipment, and an investment credit would be an impetus to purchase the new equipment. However, to be fair, the matter of personal property tax must also be addressed and there are two bills coming before the Committee for consideration. This bill would narrow the benefit to those businesses buying new equipment while lowering the personal property tax would benefit all businesses. The letters he has received all favor the reduction of the personal property tax rate. Both proposals are good ones but the state cannot afford both.

REP. RANEY said the idea behind the investment credit was to provide good, well-paying jobs. He proposed an amendment that would require that the average wage of employees of the business must exceed \$8 per hour and a health benefit package must be provided, and the wages and benefits of the corporate officers would be excluded from the computation.

Motion:

REP. RANEY MOVED THE AMENDMENT.

Discussion:

REP. WENNEMAR said he didn't like setting a fixed dollar amount for wages because it would have to be adjusted from time to time.

REP. ELLIOTT said he noted similar language in the South Dakota statute and commented that the language in Rep. Raney's proposal could be made more flexible.

{Tape: 1; Side: B.}

REP. HANSON said the proposed amendment would exclude most of agriculture from the investment credit.

REP. ROSE said this might be a detriment to high school and college students obtaining part time employment because they are never paid as much as \$8 per hour.

REP. RANEY said that would not happen because the amendment refers to the "average" wage.

Vote:

On a roll call vote, the amendment failed to pass, 15 - 5.

Substitute Motion/Vote:

REP. FUCHS MADE A SUBSTITUTE MOTION TO TABLE THE BILL. The motion passed 16 - 4.

EXECUTIVE ACTION ON HB 389

Motion:

REP. HANSON MOVED THAT HB 389 DO PASS.

Discussion:

REP. ROSE said he would probably vote for the bill but there were some things in the bill that should be considered carefully.

REP. SWANSON reminded the Committee that HB 50 had only been in effect for one year and wasn't enough time to properly test it and work out the "kinks."

REP. MURDOCK said she did not think the bill would change much, but it would provide options. The people she talked with in her district advised that nothing had turned out the way they thought it was going to as a result of HB 50 and they had the impression that "their arms were twisted."

REP. SOMERVILLE advised that the people in the Flathead have said they have the tools and the capability and would like to have the opportunity to make the system work better for the taxpayers, the DOR and the local assessors. However, he agreed that some counties would not have the same capabilities.

REP. SWANSON noted that the ability to deconsolidate exists under the present statutes. She said the main intent of HB 50 was to computerize the system statewide and move into the electronic age and provide the ability to move information back and forth between the state and the counties. This bill would take that away and put everything back with the counties without a unified system.

REP. STORY said he had some questions about recordkeeping. There would still be a dual system no matter who was the

repository of the information because many counties cannot afford to buy a system that is compatible with the state system. There should be a mechanism somewhere that makes it clear that the interfaces will be made. This bill would not speed that process along.

**REP. HANSON** said her county complained that it was costing a lot to get the records from the state because of the difference in the computers. She understood they were having to buy the information from the DOR. If they had the option, they would like to have their assessor back, because they felt they had been "steamrollered."

**REP. RYAN** said he would support the bill because it would bring the accountability of the assessor back to the county. The Cascade County assessor did a good job of locating taxes that weren't being collected. Now that he is a state employee, he does not have the same allegiance.

**REP. ARNOTT** said she understood that county commissioners no longer have the authority to send the assessor out to look at property. They must go through the regional administrator and the "bird dogging" is not done. From the testimony, it appears that there is a problem in transmitting information back to the counties. The intent of HB 50 was to make the information more compatible and efficient yet the testimony indicated there are numerous errors because there is no accountability at the local level. She asked if the bill would allow the county assessors to be elected at the county level, even though they had moved to the state level.

**REP. SWANSON** said it would. The counties have that option now, the only difference is that under HB 50 the state picks up the cost of salaries. If they go back, the counties will have to pay half. That is a disincentive because the counties cannot afford to pay what the state pays. If the counties deconsolidate, the accountability will not change because assessment is a statewide function as it has always been. Only the taxes are collected at the county level.

**REP. ARNOTT** said her question was that currently, when a county commissioner tells the state employee, at the county level, to assess a property, the employee could say "no, the regional director tells me what to do." The old method was the assessor would receive direction from the commissioners. Now they must "jump through one more hoop" to get the direction.

**REP. SWANSON** said she was not competent to answer the question and referred it, without objection, to Mr. Robinson. **Mr. Robinson** said that prior to HB 50 all employees within the appraisal and assessment offices at the county level were state employees with the exception of the elected assessor and deputy assessor. With few exceptions, the elected assessor and deputy assessor were not the people who were going out and finding the

additional property. The process used now is no different from what it was.

*{Tape: 2; Side: A. Comment: There is an incorrect tape identification at the beginning of this tape.}*

**REP. SWANSON** asked Mr. Robinson to respond to Rep. Arnott's question. **Mr. Robinson** replied that, generally, it works the same as it did in the past. The county commissioners could tell the elected assessor what to do, but most elected assessors felt that they were responsible only for the paper flow in the office. If there was a question, it was the other staff in the appraisal office who would try to identify the property for taxation purposes. He said it was necessary to distinguish between the duties of the assessor's office and the appraisal office. **Mr. Robinson** also stated that the DOR is not charging fees for submitting information to local governments. Language in HB 50 addresses the ability of the DOR to sell, in electronic format, the property tax information to real estate salesmen or bankers, and the counties have tried to extend that language to local governments. A bill, passed by the Senate, will be coming to the Taxation Committee which clarifies the language that the DOR cannot charge local governments for information.

**REP. RYAN** asked the sponsor to respond to the same question. Without objection, **REP. LARSON** said he would have to defer to Director Robinson because he was more familiar with the assessment and appraisal functions. However, the impression he received from county commissioners testifying in favor of the bill was that their authority had been diminished and they wanted it clarified in HB 389 that the counties would be the primary residence of tax records, that they be allowed to deconsolidate, that the term "assessor" in HB 50 would be replaced with "agent," and that the state would provide 50% of the assessor's salary. There are no mandates in the bill and it would make the county commissioners and the assessors more comfortable if the bill was passed.

**REP. REAM** said the issue of who has primacy over tax records is an irrelevant issue because it should be available to everyone. However, he had sensed at the hearing that a part of the frustration is the accessibility of the information and, as technology changes so rapidly, the counties are unable to keep up. He asked if, ultimately, all counties would be able to access the information electronically. Without objection, **Mr. Robinson** said the information is available on an on-line basis in every county where the assessment/appraisal offices are located. The counties would like the information entered into their computer systems first, and then transferred to the state system. That can be done but it would be very expensive because there are 56 different computer structures in the counties. What the state has, in terms of entry screens, is consistent, has all the necessary information, and flows directly into the state system. The language in HB 389 requires that all appraisal information be

entered and maintained in the county system and the state should pay for whatever is necessary in terms of hardware and software to make this possible. There is no money to do this and the fiscal note does not take this into account. Every county system now has the information on ownership, legal description and value of the property to apply tax mills in order to determine the tax bills. **Mr. Robinson** said the DOR does not want to dictate standards to the counties. He said additional terminals could be placed in the county commissioners' offices and this might be a less expensive alternative.

**REP. REAM** said he thought there should be a move toward consistency. **Mr. Robinson** said he had learned from discussion with some of the counties that they believe MACO should develop standards; however, that has not been done.

**REP. ELLIOTT** said that several people had indicated that it is now possible for the counties to deconsolidate. He asked where that authority was located in the statutes. **Mr. Robinson** said it is in the Constitution. The assessor is a constitutional position; however, the concern is not so much whether they can deconsolidate but who will pay the assessor's wages if they do. The bill is silent concerning whether the DOR is responsible for decreasing its FTE's in order to finance an assessor who is elected. **Mr. Robinson** said his major concern with the bill was the computer language and not the deconsolidation issue.

**REP. ORR** said the Committee had heard the commissioners state during testimony that there was a lack of trust of the DOR and some of the things they are distrustful about had to do with the two computer systems and the DOR's desire to merge them. There could be a real advantage in working toward that goal, but if the savings translates into a loss of identity and local control in the counties, the fear is well-founded. **REP. ORR** said he was in favor of the bill and would encourage the counties, through MACO, toward talking the same computer language.

**REP. ARNOTT** commented that she also thought MACO should move along toward coordination with the DOR in a system that is statewide. She said the DOR had requested money in the Governor's budget for other purposes such as electronic income tax reporting, and they could just as well request funds for computerizing each county. She said she would support the bill.

**REP. HARPER** said he did not favor the bill in its current form. Shared information and ready access and clarification on deconsolidation should be addressed. However, he said he would not vote for a bill that would encourage further decentralization. He said he was concerned by the tone of hostility coming from the counties and this should be addressed in some manner. He said he would advocate amending the bill to address the more important issues.

**Motion:**

REP. SWANSON MOVED TO AMEND THE BILL BY STRIKING THE UNDERLINED WORDING ON PAGE 26, LINES 15 AND 16.

**Discussion:**

REP. SWANSON said the amendment would provide that the effort to work on a statewide computer system would continue. Many counties need reassurance that they can deconsolidate and this may help rebuild trust. EXHIBIT 2.

REP. ORR spoke against the amendment because the bill is not a step backward. The counties must be assured that they are not losing their identity and MACO can help the counties work toward that goal.

REP. STORY spoke in favor of the amendment because the records necessary for the county to issue tax bills are stored in the county. It appeared to him that the language being struck was redundant.

*{Tape: 2; Side: B.}*

REP. RYAN spoke in favor of the amendment and called for the question.

**Vote:**

On a voice vote, the motion to amend passed, 15 - 5.

**Discussion:**

REP. REAM spoke in opposition to the bill because the situation has been blown out of proportion. HB 50 has only been in place for one year and a lot of the fear which was voiced was, in fact, a fear of changing technology. He said he was amazed that MACO and the assessors have not developed a plan to achieve consistency between counties. As indicated by Director Robinson, the problem can be solved by putting a terminal, at a cost of approximately \$1,200, in the office of the county commissioners and they would then have full access to the information.

REP. ARNOTT said her interpretation was that the fear was of losing local control, not a fear of technology. The counties did not say they did not want the technology, but there is a real concern about the cost. She indicated she would support the bill.

**Vote:**

On a roll call vote, the do pass as amended motion passed, 12 - 8.



\* \* \* \* \*

**CHAIRMAN HIBBARD** referred to a question asked by the Committee during the hearing on HB 156 regarding the method used to set the Class 12 tax rate for railroads and airlines. The DOR has prepared that information.

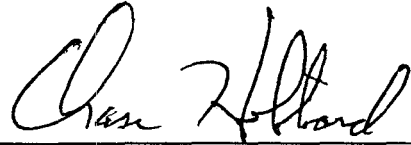
**Larry Finch, DOR**, reviewed the information provided in EXHIBIT 3.

He explained that state law provides that railroads cannot be taxed at a rate greater than the average rate applied to other property statewide. The Department makes the calculation and established the rate for 1994 at 7.147%. Reducing the Class 8 rate to 8% would lower the Class 12 rate to 6.912%.

**CHAIRMAN HIBBARD** asked how much less the railroads would pay if personal property under \$1,000 were exempted. **Mr. Finch** said he did not have that information, but, because the taxable valuation of Class 8 property would drop, it would have an affect on railroads and airlines.

ADJOURNMENT

Adjournment: 11:55 A.M.



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CHASE HIBBARD, Chairman



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DONNA GRACE, Secretary

CH/dg

# HOUSE OF REPRESENTATIVES

## Taxation

ROLL CALL

DATE Feb. 13, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		




## HOUSE STANDING COMMITTEE REPORT

February 13, 1995

Page 1 of 1

Mr. Speaker: We, the committee on **Taxation** report that **House Bill 389** (first reading copy -- white) do pass as amended.

Signed: \_\_\_\_\_

  
Chase Hibbard, Chair

**And, that such amendments read:**

1. Title, lines 7 and 8.

Strike: "PROVIDING" on line 7 through "RECORDS;" on line 8

2. Page 26, lines 15 and 16.

Strike: "The" on line 15 through "records." on line 16

-END-

Committee Vote:  
Yes 12, No 8.

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# HOUSE OF REPRESENTATIVES

## ROLL CALL VOTE

DATE 2/13 BILL NO. \_\_\_\_\_ NUMBER \_\_\_\_\_

MOTION: Raney Amendment 237

NAME	YES	NO
Vice Chairman Marian Hanson		✓
Vice Hairman Bob Ream	✓	
Rep. Peggy Arnott		✓
Rep. John Bohlinger		✓
Rep. Jim Elliott	✓	
Rep. Daniel Fuchs		✓
Rep. Hal Harper	✓	
Rep. Rick Jore		✓
Rep. Judy Rice Murdock		✓
Rep. Tom Nelson		✓
Rep. Scott Orr		✓
Rep. Bob Raney	✓	
Rep. Sam Rose		✓
Rep. Bill Ryan		✓
Rep. Roger Somerville		✓
Rep. Robert Story		✓
Rep. Emily Swanson		✓
Rep. Jack Wells		✓
Rep. Ken Wennemar	✓	
Chairman Chase Hibbard		✓

Failed

5

15

# HOUSE OF REPRESENTATIVES

## ROLL CALL VOTE

DATE 2/13 BILL NO. \_\_\_\_\_ NUMBER \_\_\_\_\_

MOTION: No Pass as Amended # 389

NAME	YES	NO
Vice Chairman Marian Hanson	✓	
Vice Chairman Bob Ream		✓
Rep. Peggy Arnott	✓	
Rep. John Bohlinger		✓
Rep. Jim Elliott		✓
Rep. Daniel Fuchs	✓	
Rep. Hal Harper		✓
Rep. Rick Jore	✓	
Rep. Judy Rice Murdock	✓	
Rep. Tom Nelson	✓	
Rep. Scott Orr	✓	
Rep. Bob Raney		✓
Rep. Sam Rose	✓	
Rep. Bill Ryan	✓	
Rep. Roger Somerville		✓
Rep. Robert Story	✓	
Rep. Emily Swanson	✓	
Rep. Jack Wells		✓
Rep. Ken Wennemar	✓	
Chairman Chase Hibbard		✓

Passed

12

8

**House Tax Committee Information Request - HB237**

The following information pertains to HB237, which would provide for an investment tax credit similar to the credit currently in place in the state of Idaho:

*FY94 Revenue Collections*

	<u>Montana</u>	<u>Idaho</u>
Individual Income Tax	\$345,643,403	\$561,830,011
Corporation Tax	<u>68,871,909</u>	<u>96,406,340</u>
Total Collections	\$414,515,312	\$658,236,351

*Definition of/Problems with "Technically Obsolete Equipment"*

Language in the Idaho legislation is not perfectly clear as regards the treatment of "technically obsolete" equipment. The language in statute reads that a "qualified investment" means certain depreciable property which "...is eligible for the federal investment tax credit...and is not purchased as replacement for existing property for reasons other than technical obsolescence...".

This has been interpreted by the Idaho Tax Commission to mean that the credit will be provided only in those situations where the equipment is being replaced due to technical obsolescence. This is most obvious in the case of computer equipment where technical obsolescence is commonplace.

On the other hand the credit would not be provided in the case where, say, a tractor simply burned out due to wear and tear and a new tractor similar to the old tractor was purchased to replace it. (See the attached Appendix A for the text of the Idaho rules pertaining to the definition of replacement property, and technical or economic obsolescence, for additional detail regarding this issue.)

Not surprisingly, legislation has been introduced in Idaho this year which would eliminate the reference to technical obsolescence from the law. The main problem has been with interpretation of the statute and interpretation of the rules designed to implement the statute. This proposed change to law has been projected to increase the Idaho tax credit given taxpayers \$2.2 million, annually. Offsetting this revenue loss is an accompanying change in statute to limit the credit to not more than 45% of the tax liability of the taxpayer, rather than the current law limitation of 50% of the tax liability. This change is projected to increase revenues by \$1.5 million, resulting in a net revenue loss of \$700,000.

*Monitoring the Impacts of the Credit*

Idaho has not monitored the impact that this legislation has had on jobs, wages of jobs, multiplier effects, etc.

### *Other States' Efforts to Tie Business Tax Incentives to the Creation of New Jobs*

See the attached excerpt from *No More Candy Store* for a description of what several states have done in their efforts to tie business tax incentives to job creation.

### *Sunset Provisions*

No information yet available.

### *Administrative Impacts*

The investment tax credit has been in both the corporate and personal income tax statutes since 1977, in Montana. Therefore, passage of the bill would not result in any material increase in administrative costs. Some forms may need to be reprinted, but no changes to computer systems would have to be made.



# NO MORE

# CANDY STORE



## States and Cities Making Job Subsidies Accountable

By Greg LeRoy

With Richard Healey, Dan Doherty, Roger Kerson and Others

Published Jointly by the  
Federation for Industrial Retention and Renewal (FIRR) Chicago, Illinois  
and the Grassroots Policy Project (GPP) Washington, D.C.



## Appendix A

The following text, pertaining to the issue of technical obsolescence, is from the Idaho rules for the 3% investment tax credit:

06. *Nonqualifying Property.* The property listed below does not qualify for the investment tax credit.

a. *Replacement property, as defined in subsection 07.a. of this rule, unless the replacement is made for reasons of technical obsolescence, as determined under subsection 07.b. of this rule.*

07. *Replacement Property.* For purposes of subsection 06.a. of this rule, replacement property means newly acquired property which performs functions that are the same as or similar to functions performed by other property used in a taxpayer's trade or business. Any property which is purchased to replace property which is nonfunctional due to wear and tear will be deemed to be replacement property and will not qualify for the credit. Any property which is purchased as replacement property will be presumed to have been purchased for reasons other than technical obsolescence. The taxpayer claiming the credit for replacement property shall have the burden of proving that the replacement property was purchased for reasons of technological obsolescence of existing or previously owned property. To meet the burden, the taxpayer must show by clear and convincing evidence, all of the following.

a. *The new property must possess enhanced capabilities which render the property it replaces obsolete. Obsolescence may render property economically useless to the taxpayer regardless of its physical condition. Obsolescence is attributable to many causes, including technological improvements and reasonably foreseeable economic changes. Among these causes are normal progress of the arts and sciences, supersession or inadequacy brought about by developments in the industry, products, methods, markets, sources of supply, and other like changes, and legislative or regulatory action.*

b. *There must be a substantial profit motive for obtaining the enhanced capability. To show a substantial profit motive, the taxpayer must show that the enhanced capability actually makes a measurable contribution to the taxpayer's ability to produce the goods and/or deliver the services which constitute all or part of his business either in greater quantity or with improved efficiency. The contribution measured must be sufficient to show that a reasonable and prudent businessman would make the decision to purchase the property in order to obtain the enhanced capability alone, separate and apart from any other motive for purchasing it.*

## E. Job Quality

Should states and cities subsidize just any job?

In Gary, Indiana and in West Virginia, it was discovered that tax abatements were being granted to fast food restaurants.

In 1986, Iowa awarded \$738,000 to Iowa Beef Processors, Inc. (IBP) for a pork slaughtering plant in Council Bluffs to "increase employment opportunities for Iowans by increasing the level of economic activity and development within the state." But IBP imposed a very low wage scale, and this new plant actually displaced higher-paying and unionized jobs elsewhere in Iowa and the Midwest. IBP established a shark-like reputation in the meat industry, and its ability to attract state subsidies for plants that would drive out competitors became part of its unusually aggressive business plan.

Deals such as these raise the most basic cost-benefit questions about job subsidies. How can government ever break even with the meager tax revenues resulting from low-wage jobs? And if jobs don't offer decent wages and health insurance coverage, won't taxpayers end up subsidizing the company even further through the payment of food stamps and Medicaid to underpaid workers?

### Wages

To ensure that subsidies promote better jobs, a number of states have instituted wage requirements for subsidy recipients. Three methods of promoting good wages have emerged. First, a wage minimum can be tied to the local or industry average. Second, a wage minimum can be tied to some multiple of the federal or state minimum wage. Third, the value of the incentive can be linked to the wage levels paid.

Iowa responded to the criticisms raised by the IBP episode by creating a scoring system that links wages to the prevailing local wages. Wages must be at least 75% of the county average for a business to be considered, and the higher the wages, the greater the likelihood that the subsidy will be granted. This is not as tough a policy as some might hope for, but clearly it is an improvement over the old system.

More recently there was an attempt in Iowa to place much stronger wage requirements on subsidy recipients. A 1992 bill sought to require recipients of grants and forgivable loans to pay their employees at least twice the federal minimum wage. The proposal included an exception for small businesses. Unfortunately, the bill died in committee.

Gary, Indiana enacted tax abatement reform legislation requiring companies to pay prevailing wages, as defined by the U.S. Bureau of Labor Statistics' Area Wage Survey. Compliance extensions are extended for one or two years for start-up companies with fewer than 50 employees.

Kansas adopted legislation in 1993 that encourages manufacturing firms to invest in workforce training. If a company pays better than average wages (for the county) *and* either spends 2% or more of the value of its payroll on training or is certified as participating in one of three state-sponsored training programs, then the company becomes eligible for a sales tax exemption for building, rehabilitation, machinery and equipment. It also becomes eligible for a business facility investment tax credit worth 10% of the value of such investments that exceed \$50,000. Eligible companies also receive a further tax credit of up to \$50,000 per year for the value of training expenses above 2% of payroll. Meeting the training goals will also qualify the company for a 50% state match for private consulting services to improve management, production processes or quality.

Mississippi, Delaware and North Carolina also have policies that encourage high wages through their economic incentive programs. The Mississippi Business Investment Act Program ties the interest rate a business must pay to the wages it pays its workers. The program provides subsidized loans to finance property improvements. In addition to requiring certain job creation levels from a loan recipient, the interest rate is lowered 0.5% for each dollar per hour that the recipient pays its employees above the state's average hourly manufacturing wage. So a company that pays its employees \$3.00 more per hour than the state's average manufacturing wage would, if approved for a loan, pay an interest rate 1.5% less than the standard state rate.

Delaware seeks to subsidize only high-wage jobs by doing a cost-benefit analysis on all incentives it considers. The rule, according to the Delaware Development Office, is that the state must recoup its investment within two years. In determining profits from the investment the office considers *only* direct taxes from the recipient business and its employees. This includes state corporate income taxes, state personal income taxes, and state gross receipt taxes. Thus, if the office determines that the subsidy will not result in a net increase in the state coffers within two years, the incentive will not be granted. This form of cost-benefit analysis is conservative but defensible, because it does not venture into the often-manipulated subject of "ripple effect" jobs.

Colorado's customized training program targets jobs with pay above minimum wage; specifically, it "seeks to work with" companies that pay at least \$5.25 an hour in rural areas and \$7.00 an hour in urban areas. The Colorado program also requires that the subsidized jobs include health care benefits. The guidelines specifically justify these because the state wants to get people off of public assistance programs.

North Carolina is one of a handful of states that places requirements on its IRB recipients, beyond the broad federal eligibility rules. An applicant must agree to pay above the county average manufacturing wage or 10% above the state average manufacturing wage, unless the jobs are located in an area that suffers from "especially severe unemployment."

## Benefits

State governments have an especially strong interest in promoting jobs with good benefits, because benefits provide many services that states otherwise have to pay for. Among the places that have introduced or adopted legislation promoting benefits are Arizona, South Dakota, Washington, Austin, Texas and Gary, Indiana. In each of these cases the legislation also includes provisions on wage levels.

The City of Austin passed a tax abatement ordinance in 1991 that requires abatement recipients to provide their employees with a health insurance plan. The law then allows for a 10% increase in an approved abatement if a company provides a contribution to child care for economically disadvantaged workers or if it provides job training to those same workers. If a company meets both of these requests it can receive a 20% increase in its abatement. The law was renewed in 1993.

An Arizona bill (1994 H.B. 2202) would expand the criteria for awarding subsidies. If enacted as expected, agencies would have to factor in whether or not a business "will provide its employees with benefits such as health care, retirement, child care, educational reimbursements and training."

A South Dakota bill, introduced but defeated in 1992, didn't cover as many benefits but went beyond setting subsidy criteria. The bill would have mandated that recipients of economic development loans provide health insurance to their employees.

The Washington State Compact, likely to be re-introduced in 1995, also mandates health care benefits, and it would apply to recipients of loans, grants, bonds, tax deferrals and tax abatements. (See Washington Case Study in Chapter Three.)

The Gary ordinance requires tax abatement recipients to provide "a complete health care package to all employees working an average of twenty-five (25) or more hours per week." The law includes a two year waiver for employers with less than ten employees.

## Statutes and rules

### Administrative rules of Iowa Community Economic Betterment Program

[The following section is one of three sections that mandates the criteria to be used in ranking applications for funding.]

261-22.7(2)

- (a) The total number of jobs to be created or retained;
- (b) The quality of jobs to be created. In rating the quality of the jobs, the department shall award more points to those jobs that have a higher wage scale, a lower turnover rate, are full-time, career-type positions, or have other related factors. Those applications that have wage scales which are 25 percent or more below that of existing Iowa businesses in their county shall be given an overall score of zero. To calculate the average county wage scales, the department intends to use the most current four quarters of wage and employment information as provided in the Quarterly Covered Wage and Employment Data report as provided by the Iowa department of employment services, audit and analysis section. Agricultural/mining and governmental employment categories will be deleted in compiling the wage information.

### 1992 Iowa House Bill 2331

Section 1. Section 15A.1, Code 1991, is amended by adding the following new subsection:

New Subsection 4. In addition to the requirements of subsection 2 and 3, a state agency shall not provide a grant or forgivable loan to a private person for the purpose of job creation or job retention unless the business for whose benefit the grant or forgivable loan is to be provided pays an hourly wage to employees other than supervisory and management personnel of at least twice the hourly wage established in section 91D.1, subsection 1, paragraph "a". [the federal minimum wage] However, this subsection does not apply to a small business or targeted small business as defined in section 15.102.

\* \* \* \* \*

**Kansas Summary of 1993 Legislation, Sub. for S.B. 73**

**Firm Eligibility.** ...a firm must be a for-profit, manufacturing business establishment, subject to state income, sales or, property taxes. Such firm must employ no more than 500 full-time equivalent employees [and must pay wages above the county average for firms under 500 employees in the same two-digit SIC code, unless the company is the only firm in the county in that two-digit SIC code].

**Tax Incentives and Business Assistance.** If a qualified firm meets certain training requirements, summarized below, it will be entitled to the sales tax exemption for construction, reconstruction, machinery and equipment pursuant to K.S.A. 1992 Supp. 79-3606a (ee) and a business facility investment tax credit, pursuant to K.S.A. Supp. 79-32,160a, in an amount equal to 10 percent of an investment in the facility exceeding \$50,000, without regard to employment requirements otherwise governing those incentives in existing laws. Moreover, such firm will be eligible for matching funds of up to 50 percent for its portion of costs associated with procuring consulting services from the Mid-America Manufacturing Technology Center (MAMTC) or private consulting services, approved by the Kansas Department of Commerce and Housing, for improvement in the firm's management, production processes, or product or service quality. Matching funds for MAMTC will come from the High Performance Incentive Fund, established in this bill. ...such firm will receive priority consideration for other business assistance programs provided by the Kansas Department of Housing, the Kansas Technology Enterprise Corporation (KTEC), and MAMTC.

**Worker Training Commitments and Associated Benefit.** The tax incentives and business assistance services, addressed above, will be triggered by a worker training commitment made by a qualified firm. This commitment could take the form of participation in the training programs administered by the Kansas Department of Commerce and Housing (Kansas Industrial Training program, Kansas Industrial Retraining program, and the State of Kansas Investments in Lifelong Learning or SKILL program). Alternatively, this commitment could manifest itself in a qualified firm's cash investment in the training and education of the firm's employees in excess of 2 percent of total payroll costs. ...if a firm decides to make such an investment, it will be eligible for a tax investment, not to exceed \$50,000 in any given tax year, for that portion of the investment exceeding the amount equal to 2 percent.

\* \* \* \* \*

## Mississippi Business Investment Act Program

For each one dollar (\$1.00) over the State's current average hourly manufacturing wage as determined by the Mississippi Employment Security Commission, the interest rate will be reduced one-half percent (1/2%).

Private Company's Wage Rate	Interest Rate
Average wage + \$.99	State Rate less 0.0%
Average wage + \$1.00 - \$1.99	State Rate less 0.5%
Average wage + \$2.00 - \$2.99	State Rate less 1.0%
Average wage + \$3.00 - \$3.99	State Rate less 1.5%
Average wage + \$4.00 - \$4.99	State Rate less 2.0%
Average wage + \$5.00 - \$5.99	State Rate less 2.5%
Average wage + \$6.00 - \$6.99	State Rate less 3.0%
Average wage + \$7.00 - \$7.99	State Rate less 3.5%
Average wage + \$8.00 - \$8.99	State Rate less 4.0%

The minimum interest rate allowable on loans for Projects on privately owned property is three percent (3%) per annum.

\* \* \* \* \*

## Colorado FIRST Customized Training Program Guidelines [Draft, to be finalized in August, 1994]

2. Training is provided only for jobs that pay above the minimum wage and for which health benefits are provided. Colorado FIRST administrators seek to work with companies paying a minimum of \$5.25 in rural areas of the state, and \$7.00 in large urban areas along the Front Range. Such jobs generate the needed return on tax dollars invested and help to reduce the ranks of Coloradans on public assistance programs. Colorado FIRST grants shall not be used to pay wages or stipends to trainees. [The program covers direct training costs such as instructor wages, instructional materials, and training space and equipment.]

\* \* \* \* \*



**Austin Ordinance No. 91-1121-C**

**"Guidelines and Criteria Governing Tax Abatement Agreements"**

**Section 2(k)**

(1) A company must create and follow an Affirmative Action Plan (AAP) with respect to company employment, and with respect to the company use of local and minority vendor and contractor opportunities. The company must agree to purchase goods and services for the business in the Greater Austin area when accessibility, cost, quality and service are comparable. The AAP will be filed with the City Human Resources Department and be updated on an annual basis.

(2) A Company may receive up to an additional 10% abatement benefit for providing or sponsoring on-site or off-site job training for qualified employees and qualified employee applicants upon approval by the city.

(3) Within the City of Austin and its Extraterritorial Jurisdiction a company shall not violate any federal, state, or local legislation which prohibits or regulates deleterious effects on the environment.

(4) A company must have a health plan for its employees which also has some access to the plan available to the employees dependents.

(5) A company may receive up to an additional 10% abatement benefit for providing for an on-site or off-site contribution for qualified employees' child care. A child care plan must be approved by the City of Austin's Child Care Coordinator prior to receiving the benefit.

\* \* \* \* \*

**South Dakota Senate Bill 118 (1992)**

Section 1. No loan may be made from the revolving economic development and initiative fund unless:

(1) The wage scale for the recipient's employees begins at not less than six dollars and ten cents per hour;

(2) At least eighty percent of the recipient's jobs are full-time; and

(3) The recipient provides a benefit program that includes employee health insurance.

\* \* \* \* \*

**Gary, Indiana Ordinance No. 89-45**

Section 5: Entitled "Prevailing Wage Required For New Employment" shall be amended to read as follows:

Tax abatements shall be granted for the purpose of, and to those applicants, creating full-time and/or part-time jobs at/or above the prevailing wage for those job classifications as determined by the current U.S. Dept. of Labor Bureau Statistics Area Wage Survey. For new business start-ups with fewer than fifty employees, the prevailing wage standard may be waived by the Council for a one year period. After the first year, the prevailing wage provision is required unless financial records documenting the employer's inability to comply are submitted to the Council. After two years, the prevailing wage provision is required. But under no circumstances must the wage go below minimum wage.

Section 6: Entitled "Employee Health-Medical Insurance Availability Required" shall be amended to read as follows:

No tax abatement shall be granted to applicants who do not provide a complete healthcare package to all employees working at an average of twenty-five (25) or more hours per week. The above stated paragraph is waived for an employer with less than 10 employees for a period of two (2) years.

EXHIBIT 2  
DATE 2/13/95  
HB 389

Amendments to House Bill No. 389  
First Reading Copy

For the Committee on Taxation

Prepared by Lee Heiman  
February 13, 1995

1. Title, lines 7 and 8.

Strike: "PROVIDING" on line 7 through "RECORDS;" on line 8

2. Page 26, lines 15 and 16.

Strike: "The" on line 15 through "records." on line 16

SETTING THE RAILROAD/AIRLINE TAX RATE

EXHIBIT 3  
 DATE 2/13/95  
 HB 156

**ACTUAL CLASS 12 TAX RATE COMPUTATION - TAX YEAR 1994**

Property Class	Assessed Value	Before Sales Ratio Adjustment		After Sales Ratio Adjustment (87.73%)	
		Taxable Value	Effective TV Rate	Taxable Value	Effective TV Rate
Class 4	5,670,193,274	217,020,504	3.827%	190,392,088	3.358%
Class 7	12,186,399	974,911	8.000%	974,911	8.000%
Class 8	2,972,454,633	256,893,344	8.642%	256,893,344	8.642%
Class 9	3,508,784,621	421,054,155	12.000%	421,054,155	12.000%
<b>Totals</b>	<b>12,163,618,927</b>	<b>895,942,914</b>	<b>7.366%</b>	<b>869,314,498</b>	<b>7.147%</b>

**CLASS 12 TAX RATE - CLASS 8 PROPERTY AT 8%**

Property Class	Assessed Value	Before Sales Ratio Adjustment		After Sales Ratio Adjustment (87.73%)	
		Taxable Value	Effective TV Rate	Taxable Value	Effective TV Rate
Class 4	5,670,193,274	217,020,504	3.827%	190,392,088	3.358%
Class 7	12,186,399	974,911	8.000%	974,911	8.000%
Class 8	2,972,454,633	228,349,639	7.682%	228,349,639	7.682%
Class 9	3,508,784,621	421,054,155	12.000%	421,054,155	12.000%
<b>Totals</b>	<b>12,163,618,927</b>	<b>867,399,209</b>	<b>7.131%</b>	<b>840,770,793</b>	<b>6.912%</b>

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**ORI/MDOR**  
**12-Feb-95**

**Railroad Tax Liability - All Railroads - Tax Year 1994 Valuations  
Impacts of Specific Changes to the Tax Rate**

Appraised Value Allocated to Montana  
Negotiated Allocation to Montana  
Percent of Negotiated to Appraised Value

Taxable Valuation Rate  
Total Taxable Valuation

Total Taxes Levied  
Change in Taxes

Effective Mill Levy

Actual TY1994 Valuations/Taxes	Impact of 1% Decrease in Rate	Impact of Decreasing Class 8 Rate 1%
931,655,031	931,655,031	931,655,031
774,604,574	774,604,574	774,604,574
83.1%	83.1%	83.1%
7.147%	6.147%	6.912%
55,360,989	47,614,943	53,543,227
18,685,591	16,071,125	18,072,055
N/A	(2,614,466)	(613,536)
337.52	337.52	337.52

**ORI/MDOR  
12-Feb-95**

**Impact of Reducing the Class 8 Taxable Valuation Rate  
On Railroad Tax Liability - Tax Year 1994**

<u>Class 8 Tax Rate</u>	<u>Railroad Tax Rate</u>	<u>Change in Railroad Tax</u>
9%	7.147%	0
8%	6.912%	(613,536)
7%	6.678%	(1,227,073)
6%	6.443%	(1,840,609)
5%	6.208%	(2,454,145)
4%	5.974%	(3,067,681)
3%	5.739%	(3,681,218)
2%	5.504%	(4,294,754)
1%	5.270%	(4,908,290)
0%	6.663%	(1,264,619)

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**ORI/MDOR  
12-Feb-95**

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

taxation COMMITTEE BILL NO. \_\_\_\_\_  
DATE 2/13/95 SPONSOR(S) \_\_\_\_\_

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NAME AND ADDRESS	REPRESENTING	BILL	OPIPOSE	SUPPORT
3106 Stillwater Dr. Blgs 59102 Mark Kennedy	City of Billings			

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