MINUTES

MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on January 31, 1995, at 8:00 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. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Kenneth Wennemar (D)

Members Excused:

Rep. John "Sam" Rose (R)
Rep. Jack Wells (R)

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:	SB 35
	HB 251
	HB 265
Executive Action:	SB 35 - Concurred in
	HB 209 - Do Pass as Amended
	HB 227 - Tabled
	HB 251 - Tabled

{Tape: 1; Side: A.}

HEARING ON SB 35

Opening Statement by Sponsor:

SEN. BARRY "SPOOK" STANG, Senate District 36, said SB 35 was a recommendation of the Revenue Oversight Committee as a result of a request from the Department of Revenue. The bill is a paperwork reduction act which eliminates the requirement for a corporation to request an automatic extension of time to file taxes.

Informational Testimony:

Lynn Chenoweth, DOR Corporate Tax Bureau Chief, said this bill would simplify the filing requirements for all corporations. Under current law a corporation can get an automatic six-month extension but they must file a form with the Department requesting the extension. The extension is not subject to approval by the Department -- it is automatically granted. Since the law does say that the extension is automatic, there really isn't a need for the taxpayer to send in the request which the Department must keep track of. The corporation must pay interest on the amount of tax due during the six-month extension.

Proponents' Testimony:

Tom Harrison, C.P.A., representing the Montana Association of Public Accountants, spoke in support of this bill on the basis that it will simplify administration.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. HANSON asked if the corporation would still be responsible for interest on the late filing if they had paid the full amount due. **Mr. Chenoweth** said the interest would be calculated only on any taxes owed.

REP. BOHLINGER asked if it would be more difficult to collect what was due because of the lack of communication with the taxpayer during the six-month period. **Mr. Chenoweth** said some corporations might go out of business during that time, but he did not anticipate any problems.

CHAIRMAN HIBBARD asked if the penalty applied under current law if a corporation failed to file for an extension. **Mr. Chenoweth** said the only reason there would be a penalty under current law was if the taxpayer forgot to send in the request for an extension.

Closing by Sponsor:

SEN. STANG indicated that he thought this would be a good experiment that could be expanded to cover individual taxpayers in the future. He recommended that the Committee concur in the bill. If the bill passes, Rep. Elliott would carry it on the House floor.

HEARING ON 251

Opening Statement by Sponsor:

REP. CAROLYN SQUIRES, House District 68, Missoula, presented HB 251 which would allow for retraining and community reinvestment when large companies abandon a community. **REP. SQUIRES** presentation is attached as EXHIBIT 1.

Proponents' Testimony:

SEN. BARRY "SPOOK" STANG, Senate District 36, said he represents a community that experienced a shut-down of a company which is protesting its taxes. Along with losing 18% of the tax base, they are now faced with the tax protest. This bill would help small communities faced with the loss of large employers.

Opponents' Testimony:

David Owen, Montana Chamber of Commerce, disagreed with the methodology of the bill. Communities do go through stress when they lose a major employer because of economic hard times. However, the focus on community abandonment suggests that someone is making a "cold-hearted" decision to leave. **Mr. Owen** said, in actuality, these decisions are made because things are not going well for the investors and the last thing a corporate board wants to face is closing a business. He suggested that an alternative would be to set aside a portion of the tax base when it is available, perhaps in a community reinvestment fund, as insurance against the loss of tax base. This bill would provide one more disincentive for companies to do business in Montana.

Don Allen, Montana Wood Products Association, said he could appreciate the sponsor's concerns; however, if this law had been on the books it would have stifled and prevented one successful operation that was able to continue at a reduced level. He said he was referring to the Simpson and Plum Creek Lumber Companies. They realized they were responsible for mitigating some of the impact and they did make that happen. The financial penalties in the bill would present a real impediment to the seller of a business and could possibly prevent the sale of some businesses. Although well intended, this bill would not resolve the issue.

Russ Ritter, Washington Corporation, Missoula, rose in opposition to the bill for reasons already presented. He said it is dramatic for a community to lose an employee group of the size described in the bill, however, the bottom line is the ability of a company to make money. Companies do not always have control over such things as the price of copper or other metals, freight rates, the price of materials, or permitting processes, and these things affect the ability of the company to stay in business. **Mr. Ritter** said he could understand the importance of a loss of tax base and the social impact to a community, but he would oppose this legislation.

Questions From Committee Members and Responses:

REP. STORY asked if this bill would affect business that are employee-owned. **REP. SQUIRES** said it would affect any operation that had over 300 employees. She said she thought it was the responsibility of a corporation, no matter who owned it, to plan for the negative impact of closing a business.

REP. RYAN asked if the legislation would apply only to companies that close permanently. **REP. SQUIRES** replied that it would apply to companies that employ 300 or more and do not re-hire 20% of their workforce. **REP. RYAN** then inquired about the 8% tax on the sale price. **REP. SQUIRES** said 6% would go to the community and 2% would pay for re-training of the workers.

{Tape: 1; Side: B.}

REP. NELSON asked for a definition of "appraised value" because there would not be a sale value if the business closed permanently. **REP. SQUIRES** said she could not answer that.

REP. HARPER said that Mr. Owen had offered one option to this legislation and he asked if anyone had a better idea. **Mr. Ritter,** speaking from his experience in local government, said that being made privy to information on closures, mergers, or reductions well in advance of the announcement to the public was helpful. This provides time to come up with ideas on how to train people and bring in counselors so the impact would not come when employees read a headline in the newspaper. Communication early in the process with government entities, especially when there is a serious loss of tax base, is important. **Mr. Ritter** said there was no easy answer to this difficult problem.

CHAIRMAN HIBBARD asked for clarification of what would happen if a business met the minimums in the bill but they "go broke" and there is no sale. **REP. SQUIRES** replied that, in her mind, the company would still have a responsibility because a company usually knows for a length of time that there is an intention to close, and preparations should include easing the impact on the community.

Closing by Sponsor:

REP. SQUIRES said her objective in introducing the bill was to obtain equity for the people being dislocated. She mentioned that the legislature had passed a bill which offered incentives to bring the Micron Corporation to Butte. She emphasized that the Legislature is constantly offering incentives to big business, and her concern was for the workers in a community when the big corporations leave. She encouraged the Committee to look at this bill carefully and give it favorable consideration.

HEARING ON 265

Opening Statement by Sponsor:

REP. EMILY SWANSON, House District 30, Bozeman, stated that HB 265 addressed Class IV property tax, a topic that will be discussed at length during this session. People have become very angry because their property taxes keep going up and, because of this, the Governor appointed a tax advisory council and asked it to look at Class IV property taxes and come up with recommendations. HB 265 is the result of the council's work. The bill addresses the needs of people at the greatest risk of being taxed out of their homes because they are on fixed incomes and cannot afford to pay taxes on increasing values. The three points addressed in the bill are outlined in EXHIBIT 2.

Informational Testimony:

Kristin Juris advised that the Governor's Tax Advisory Council represented a broad spectrum of individuals from both the east and west, including representatives from the legislature, cities, counties and schools. Ms. Juris served as the attorney for the Council. She provided Committee Members with a summary of the Council's recommendations. EXHIBIT 3. One of the first problems identified was that property tax reform would be very expensive. The Montana Constitution requires that all property be assessed equally and equitably. One popular concept was the possibility of freezing increases on valuation but the Council reluctantly concluded that whenever a property is taxed at a particular value, the tax burden is shifted from those properties that are increasing to those that are decreasing. The Council also addressed the CAMAS system and the opinion was that the system is an incredible improvement over the property valuation system that had been in place.

{Tape: 2; Side: A.}

Ms. Juris stated that a concern of the Council was that no one should lose a home because of property tax and, although they heard many complaints from taxpayers, she had never seen a documented case where that had actually happened. Therefore, the focus was on helping those people stay in their homes that might otherwise be put out. Montana had two excellent vehicles in place and the Council decided to expand the low income credit by increasing income levels. They also discovered that people who qualified for the credit were not using it. They strongly encouraged informing people about the program so there would be a higher participation rate. The other measure in place was the income tax credit for elderly homeowners and renters. Rep. Swanson has proposed increasing this credit from $400 to $1,000. **Ms. Juris** also indicated that the phase-in provision was important because no one minds a small increase in taxes but they do object to the 20% and 30% increases which occurred in 1993. Another problem is the explosive growth in the west decreasing property values in the east. It is difficult to fashion a property tax system that addresses all concerns. Rep. Swanson's proposal would do much to address the problems of people who are truly in need of help.

Proponents' Testimony:

Lance Clark, Montana Association of Realtors, spoke in support of the phase-in concept and commended Rep. Swanson for her on-going effort toward property tax reform.

Dennis Burr, Montana Taxpayers Association, spoke in favor of HB 265 because of the changes in the low income and elderly tax credit provisions. He said he had heard from a lot of taxpayers, mostly widows on Social Security, with incomes of less than $9,000. In one instance, because of reappraisal and mill levies, taxes went from $500 to $1,500. These people will pay their taxes and may not lose their homes, but they will certainly have to change their life styles to be able to pay them. **Mr. Burr** indicated that the fiscal note questions the constitutionality of the phase-in provision and he disagreed with that opinion.

Gordon Morris, Montana Association of Counties, said this legislation was supported by his Association. Although MACO has long been a proponent of tax reform, this bill does not ideally constitute what they would like to see, but until something better comes along, this would be the preferred alternative.

Don Allen, Montana Area Agency on Aging Association, said they are working during this session to keep dollars in the pockets of the elderly. Allowing people to remain in their own homes is important not only from an emotional and social standpoint, but also from an economical standpoint. This legislation would help those in a marginal situation remain in their homes for a longer period of time.

David Owen, Montana Chamber of Commerce, commended Rep. Swanson for addressing the equity issue of the low income homeowners because something must be done to help these people remain in their homes. The Chamber appreciates all discussion relative to increases which were brought about through reappraisal.

REP. JOHN BOHLINGER, House District 14, Northeast Billings, said that during his campaign efforts he had become acquainted with some wonderful people who had lived in their homes for 30 or 40 years. They were purchased for $10,000 and now are valued at $80,000 or more and it presents a tremendous burden for them to continue paying taxes on the increased valuation, especially when living on fixed incomes. He indicated that he would also sponsor legislation addressing the same concerns addressed by Rep. Swanson. He said he was fully in support of her effort.

REP. JIM ELLIOTT, House District 72, Trout Creek, informed the Committee that he had been a member of the Governor's Tax Advisory Council and endorsed the bill, which is the result of the Council's recommendations.

<u>Opponents' Testimony</u>:

None.

<u>Questions From Committee Members and Responses</u>:

REP. SOMERVILLE stated that during his campaign he had met ladies in Kalispell who were selling their homes because they could no longer afford the taxes. This legislation would provide tax relief for these individuals. However, he also had concerns about the tax shift to the middle-income individual who might be a young person struggling to raise a family and barely able to cover the grocery bill. He asked for comments on this situation. **Mr. Burr** recognized that there would be a tax shift of about $2.5 million. With total tax collections of $704 million, the shift would be about .5%. Mr. Burr said that he had found that when he had identified such a situation, he called the DOR, gave them the name and had them check to see if the individual might be eligible for the income tax credit and, in a number of cases, the DOR has gone back and provided the credit for several years. This portion of this statute is not used as often as it should be.

REP. ARNOTT asked if she understood correctly that following the 1993 valuation, 36 counties received tax increases and 20 received tax decreases. **Ms. Juris** said that was correct. **REP. ARNOTT** asked if there was information to show how this legislation would affect the counties. **Ms. Juris** said she could obtain a copy of a table indicating how many people in each county used the low income property tax provision in past years but they don't have such a table for those using the income tax credit.

REP. REAM said he had considered speaking as an opponent of this bill because the property tax system is getting too complicated. Theoretically, in a stable community, following a reevaluation cycle where property values increased 20%, the mill levies should come down by the same amount to provide the same services -- but they don't. He said a mechanism must be found to correct for valuation through mills. Reevaluation has been blamed for increases in taxes and it shouldn't be. The problem is the complication of our tax system and, in some cases, local governments and schools are taking advantage of the increase in valuation due to reappraisal.

{Tape: 2; Side: B.}

Mick Robinson, Director, DOR, said some of these issues were discussed in the Governor's tax study group. In 1993 the average increase in valuation was 7% and the average increase in mill levies was 6% for a statewide average increase of 13%. This was a big issue in certain parts of the state; however, in other areas there were decreases. One of the complications is that there are areas in Montana that are growing rapidly and values are increasing rapidly, while in other areas, the values are dropping; therefore, developing a state-wide system is very complicated. Some mill levies are locked into statutes and they cannot be reduced without action of the legislature.

CHAIRMAN HIBBARD said that Rep. Ream's comments had merit. The complexity in property tax is "befuddling." He asked Mr. Burr what his view of a mechanism to adjust millage would be and how could it be accomplished. **Mr. Burr** indicated that this subject had been discussed during the hearing on Rep. Cobb's bill. On the average, when the reappraisal was reduced from 3.86% to something lower, it had the effect statewide of taking the increase out. There was discussion on localizing the average by district so in areas where values went up 20%, the levies would have to go down 20%. It would also be possible to leave room for some growth. **Mr. Burr** indicated that if the goal was to control the tax, perhaps it should be limited to a 2% increase, or the legislature could adjust the mill levies.

CHAIRMAN HIBBARD asked Rep. Swanson the same question. **REP. SWANSON** said that equity is the bottom line. The people who can afford to should pay their share. Her preference would be toward adjusting mills which was the object of I-105. The "escapees" are the schools that have been allowed to vote bonds and mill levies. The local governments are not being allowed to capture that growth and increase their millage. During the special session, when $30 million was taken from state funding for education, the mills were voted at the local level and taxes went up. There should be some sort of control over growth in the schools; however, there is a growing school population. This is what makes property taxes so complex. Because the sales tax was voted down, a burden is being placed on property taxes which is far greater than what can be dealt with. **CHAIRMAN HIBBARD** then asked if the sponsor would prefer adjusting mill levies. **REP. SWANSON** replied that she was concerned about the local governments that are held captive by I-105 and are stressed by growth. Local governments are not able to keep up.

REP. RANEY asked why an effort had not been made to tax non-resident property owners, which are mainly recreational. **Ms. Juris** said the Council had looked into this issue which is popular with Montanans; however, there are two very stringent restrictions -- one is the Montana Constitution and the other is the U. S. Constitution -- which prohibit discrimination based on residency. **REP. RANEY** said he believed there would be a way to get around this if only primary residences were included. Montanans with secondary homes would have to pay the increased taxation. **Ms. Juris** said that would be one possibility; however, this would impose an additional tax burden on Montana residents who own a secondary home and the Council felt that the impact would be harder felt by Montanans than by non-residents so they did not pursue the idea.

REP. SOMERVILLE asked if there was a way, through the CAMAS system, to adjust individual property values so that counties would not receive a windfall. **Judy Paynter, DOR,** said the answer to the technical question was "yes," if the DOR were given enough money, but the answer to the policy question was more difficult. The question that would have to be answered by lawyers would be relative to equal taxation on the same property values. The technical question of doing every county or every taxing jurisdiction would not be easy but it could be done.

REP. REAM said one of the problems with I-105 is that it doesn't allow for local governments to accommodate the new services that are being demanded because of growth. **Mr. Morris** said the I-105 limitations are measured in either mills or dollars. If there is an expanding tax base by way of valuation changes upward, the cap is figured in terms of mills. If ten mills were levied in 1986, ten mills could still be levied in 1994. Growth, in terms of the overall tax base, will generate additional revenue but at the same time, particularly in those areas of rapid growth, service demands far exceed the ability of local governments to keep pace. **Mr. Morris** commented that whatever is done must take into consideration the uniqueness of Montana's various local governments because they have suffered under the effects of the application of a principal that doesn't apply on a state-wide basis.

REP. STORY asked if the complexity in the property tax system was the result of the statewide levy requirement for equity. **Ms. Paynter** stated that the property tax system is very complicated but she didn't think the statewide mills made it more complex. The complications are much deeper than that. The major tax force in the state is property tax, and it is running the major program which is the school foundation program. The only way to do that is through statewide equity, equalizing values in terms of taxes. The complexity is the result of laws providing individual taxes within classes, different tax rates, and limits on mill levies in one area and none in another area. There are many basic fundamental problems which have political overtones. The basic tax system would be good if all the things added to it over the years to clutter it up could be taken away.

Closing by Sponsor:

REP. SWANSON thanked the Committee for the good questions. She said the reason she had not added more to the bill was because of the complexity. It was difficult to address people's concerns about the levels of their property tax in an equitable way. She cautioned the Committee to be as careful and meticulous as possible in addressing this issue.

{Tape: 3; Side: A.}

EXECUTIVE ACTION ON SB 35

Motion/Vote:

REP. RANEY MOVED THAT SB 35 BE CONCURRED IN. The motion passed unanimously.

REP. ELLIOTT will carry SB 35 on the House floor.

EXECUTIVE ACTION ON HB 209

Mr. Heiman explained a series of technical amendments which clarify the title to provide for non-residents and include the upward, as well as downward, adjustments in the equation factor in the bill. EXHIBIT 4.

Motion/Vote:

REP. HANSON MOVED THE AMENDMENTS DO PASS. The motion passed unanimously.

Mr. Heiman said the second amendments were requested by Rep. Cobb and would decrease the fiscal impact of the bill by setting a lower threshold for the minimum deduction. This amendment would lower the cost from $1 million to $525,000. EXHIBIT 5.

Motion:

REP. RANEY MOVED THAT THE AMENDMENT DO PASS.

Discussion:

CHAIRMAN HIBBARD asked if the rate would continue after FY 97. **Ms. Paynter** said it would continue at approximately that same rate.

REP. STORY asked how the bill would fit in with HB 265.

REP. RANEY said this bill would reduce reportable income; therefore, the property tax would also be reduced under HB 265. **Ms. Paynter** said that all income is considered in HB 265 whether it is taxable or non-taxable. There is no relationship between the cost of this bill and HB 265.

CHAIRMAN HIBBARD said that before the amendment was offered, those making $8,200 or less would not have to pay income tax. After the passage of this amendment, the amount would drop to a lower figure that hasn't been determined.

REP. RANEY noted that the fiscal note indicates that 14,341 households would be dropped from the tax roles. He asked what that figure would be with the proposed amendment. **Ms. Paynter** said it would be less but she did not know how many less.

Vote:

On a voice vote, the motion passed unanimously.

Motion:

REP. BOHLINGER MOVED THAT HB 209 DO PASS AS AMENDED.

Discussion:

REP. ORR spoke against the motion. He said he understood the desire to give some low income taxpayers some relief but Rep. Cobb said this would save administrative expense; however, the DOR has testified that it would not. He also said this would be a tax shift because someone would have to pick up the cost of $1 million per biennium.

REP. BOHLINGER said he believed in progressive taxation where those who can best afford the taxes should be paying them. This bill would remove from the tax roles the poorest of the poor who are least able to pay. He also disagreed that there would not be an administrative cost saving. The bill is worthy of consideration and should be passed to the House floor.

REP. RANEY said he agreed with Rep. Bohlinger, and, in addition, he did not believe there would be a tax shift.

REP. REAM said he was in favor of the motion because many of those being dropped from the tax roles would be students holding part-time jobs during the school year and the tax they pay would be very small, yet they would have to go through the process to receive a refund.

REP. ELLIOTT said it should be possible to state on the W-4 form that there would be no taxable income during the year so no deductions would be made. The discussion is not about people who get the money back, it is about the people who pay a minimal amount in taxes, and since there is no minimum standard deduction, the deduction would be 20% of whatever is made. Establishing a standard deduction would help college students and extremely poor people and he would be in favor of the bill.

REP. WENNEMAR pointed out that at $4.35 per hour, 40 hours a week, 50 weeks a year, income would be $8,800. Montana has a minimum wage which is below the poverty level and he suggested that the minimum standard deduction should be set at the minimum wage.

REP. STORY asked if it would be necessary to attach the contingent voidness clause to this bill. **CHAIRMAN HIBBARD** said he thought the options on this bill would be to kill it or pass it. If it is passed on its own merit, there would probably be a motion on the floor to send it to Appropriations since it reduces general fund revenues. If the Committee chooses to pass the bill, the contingent voidness amendment should be on it in which case it would stay in the Committee until all the bills have been heard.

Motion:

REP. SWANSON MOVED TO PLACE THE CONTINGENT VOIDNESS AMENDMENT ON THE BILL.

REP. RANEY asked if that would mean the bill would stay in the Committee. He said Rep. Cobb is interested in getting this legislation moving. **CHAIRMAN HIBBARD** said that was probably correct but it was not the time to debate policy. The House floor is not yet ready to deal with bills containing the contingent voidness clause so he would suggest the bills be held in the Committee.

REP. REAM said another consideration would be the other bills coming through the Committee that have a positive revenue impact. To give the Committee the same power that Appropriations has, those could be entered into the mix, and a bill like this could be tied to a bill with a positive revenue impact.

REP. HANSON suggested that the bill could be sent to the floor without the contingent voidness provision and Appropriations could handle it since Rep. Cobb said he knew where the money was.

CHAIRMAN HIBBARD said, as a point of clarification, that the money Rep. Cobb or anyone else finds would not necessarily be earmarked for a particular bill. He said his understanding was that it would all go into a mix at the end when what gets funded and what doesn't would be determined. If it were not done that way, someone like Rep. Cobb could find a way to fund all his pet projects and that is not the intention.

REP. ELLIOTT said it was not his interpretation of Speaker Mercer's remarks that these would go into a big mix. He thought it was the responsibility of each sponsor to find the funding somewhere in HB 2.

REP. SWANSON said she had some concerns about contingent voidness because it breaks former traditions. If the Committee passes the bill out, it will be re-referred to Appropriations and it will be there until the end of the process and may never be heard of again. She said she thought the idea was to move the process into a larger arena to get more people involved in the decisions. Her skepticism was that there was a real risk in voting yes on everything and they would all end up on the floor and the conference committees would do what they usually do anyway.

REP. ORR agreed with Rep. Swanson that it was a matter of "playing games."

Motion:

AS A SUBSTITUTE MOTION, REP. ORR MOVED THAT HB 209 DO NOT PASS.

Discussion:

REP. ORR spoke to the motion, stating that the poor don't pay income tax and the bill raises the threshold to include some folks that do have an income. A lot of college students don't pay taxes now and, again, this would raise the threshold to include more. Although the average amount would be only $30, it still amounts to a half million dollars a year. These people should be given the opportunity to participate in the great American experience of taxation with representation.

REP. JORE said he would concur with Rep. Orr.

{Tape: 3; Side: B.}

REP. ELLIOTT spoke strongly against the motion.

REP. ARNOTT said she would agree with Rep. Orr as she sees some problems with funding.

REP. REAM addressed the point that the purpose of the contingency voidness clause was to assure that the Committee in its deliberations remains revenue neutral with respect to the Governor's budget. This is one of the bills which seems valid to prioritize. There are bills in the Committee that are revenue positive and this bill could be part of the mix. HB 293 would have a positive impact of $2.9 million and part of that could be used to fund this bill.

CHAIRMAN HIBBARD stated that he would like to see bills with the contingent voidness amendment held in the Committee. He said it was within the power of the Committee to prioritize the bills and take them to the floor, even if they might not be revenue neutral.

REP. RANEY recalled that the two largest tax bills had already left the Committee when they were reassigned to the Select Committee on Health Care.

REP. REAM said they would probably end up in Appropriations, but somewhere along the line the contingent voidness amendment would be added.

REP. STORY said he would agree with Chairman Hibbard because the Committee should have control until all bills were heard, and he hoped the Committee would come to a consensus so that all bills would be handled the same.

Motion/Vote:

REP. SWANSON MOVED TO AMEND HB 209 BY ADDING THE CONTINGENT VOIDNESS CLAUSE. On a voice vote, the motion passed 18-2.

Vote:

On a roll call vote, the do not pass motion failed 3-17.

Motion/Vote:

REP. HANSON MOVED THAT HB 209 DO PASS AS AMENDED. The motion passed 17-3.

CHAIRMAN HIBBARD said that HB 209 would not be passed out of Committee until more information is received on the contingent voidness process. **REP. HARPER** said he would go on record as witness to the fact that the Committee agreed with the Chairman's actions in retaining the bills in the Committee. **REP. RANEY** said he would agree, provided the only bills held were those with the contingent voidness amendment.

EXECUTIVE ACTION ON 227

CHAIRMAN HIBBARD advised the Committee that Rep. Galvin has asked him to share some information on the importance of tourism in Montana and the accommodations tax. EXHIBIT 6.

REP. SWANSON asked if anyone knew what had happened to the bed tax under the Governor's proposal. She understood that the Legislative Finance Committee had voted to pursue the bed tax money for the general fund. The Governor then proposed to cap the amount spent on tourism to $2 million a year and the latest she had heard was that the Appropriations Committee had voted not to pursue that but put it into a special revenue account and have the Department of Commerce come in with a biennial justification for spending the money.

CHAIRMAN HIBBARD said he could not answer the question but referred to testimony at the hearing which indicated there would be a $300,000 a year grant to local communities. He asked if anyone could furnish further information. **Stuart Doggett** replied that Rep. Swanson was talking about SB 83 which had been passed out of the Senate Finance and Claims Committee and would put the revenue into a special revenue account and the legislature would designate the allocation of the funds. The bill will be amended before it goes to the floor.

{Tape: 4; Side: A.}

Mr. Doggett said the Travel Advisory Council had worked to refocus some of the money on new programs -- grants for tourist-related infrastructure programs, a customer service program and more money for rural tourism development. This was referenced in the Governor's budget. Travel Montana will also be presenting their budget before the sub-committee.

REP. BOHLINGER expressed support for the bill, principally because seven million visitors to the state does place a burden on local governments. He said local governments need revenue to provide the services and this bill would provide a good source of funding. Montana's 4% tax is considerably under what a tourist would pay in a neighboring state.

CHAIRMAN HIBBARD said that a suggestion had been made to take a "straw poll" on this bill before hearing further discussion as it was evident that Committee Members had made up their minds on this bill. The poll indicated that the bill would not pass out of the Committee.

REP. ARNOTT suggested that the bill be amended to distribute a portion of the revenue to the cities and towns affected by tourism.

REP. HARPER said the arguments made by Rep. Bohlinger were persuasive. If anyone had amendments they could be prepared but his suggestion would be to table the bill for the present.

<u>**Motion/Vote**</u>:

REP. HANSON MOVED TO TABLE HB 227. The motion passed 13 - 5.

<u>EXECUTIVE ACTION ON 251</u>

<u>**Motion**</u>: **REP. BOHLINGER MOVED THAT HB 251 DO NOT PASS.**

<u>**Discussion**</u>:

REP. BOHLINGER said he was sympathetic to the concerns expressed by Rep. Squires when she introduced HB 251 because it is devastating to a community when a major employer leaves.

However, he did not feel that a provision should be set in statute that would penalize a failing business.

REP. RYAN said the bill would not penalize a failing business. The bill would only affect large businesses that were closing, representing a 20% loss of the work force in the area. This would help to keep the community from "going down the drain." He would support the bill.

REP. MURDOCK said she viewed the bill as a penalty for doing business in Montana. Some of the tax money collected should be set aside to insure against the time the company leaves.

REP. ELLIOTT said he would support the motion because there are some difficulties with the bill, specifically for companies that are going bankrupt. In the case of mines, everyone knows that they are not forever. He proposed that it should be the duty of local governing bodies to set aside funds, as they have done in Lincoln County, in anticipation of the mine closures.

REP. WELLS spoke in opposition to the bill. He said the Legislature is trying to send out a message that Montana wants business and provides incentives for companies to come in. Passing this bill would send the opposite message. Private business should not be faced with a penalty for going out of business or moving to another state where the business climate is better.

REP. REAM said he would support the portion of the bill providing 2% for re-training. Very few companies go totally out of business.

REP. HARPER said the bill would have drawbacks in trying to bring new business to the state but it would also have benefits for a community losing a business. When U.S. West left Helena, this provision would have been a factor in the corporate board decision as to whether they would close the Helena operation. This legislation could have positive aspects as well as negative.

Vote:

On a roll call vote, the do not pass motion was approved 12 - 5.

Motion/Vote:

REP. HARPER MOVED TO TABLE HB 251. The motion passed unanimously.

ADJOURNMENT

Adjournment: 11:45 a.m.

Chase Hibbard

CHASE HIBBARD, Chairman

Donna Grace

Donna Grace, Secretary

CH/dg

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL DATE January 31, 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 OF REPRESENTATIVES

ROLL CALL VOTE

DATE 1/31/95 BILL NO. 209 NUMBER ____

MOTION: Do Not Pass

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		✓

3 17

HOUSE STANDING COMMITTEE REPORT

January 31, 1995

Mr. Speaker: We, the committee on **Taxation** report that **Senate Bill 35** (third reading copy -- blue) **be concurred in.**

Signed: ______________________
Chase Hibbard, Chair

Carried by: Rep. Elliott

2-1

Committee Vote:

HOUSE STANDING COMMITTEE REPORT

March 15, 1995

Mr. Speaker: We, the committee on **Taxation** report that **House Bill 209** (first reading copy -- white) **do pass as amended.**

Signed: ______________________
Chase Hibbard, Chair

And, that such amendments read:

1. Title, lines 4 and 5.
Following: "AN ACT"
Insert: "REVISING THE MONTANA STATE INCOME TAX BY"
Strike: "OF $1,590" on line 4 through "HOUSEHOLD RETURN" on line 5

2. Title, line 6.
Following: "FACTOR"
Insert: ", AND BY INCREASING THE MINIMUM INCOME FILING REQUIREMENT"

3. Title, line 7.
Following: "DATE"
Insert: "AND A CONTINGENT VOIDNESS PROVISION"

4. Page 1, line 14.
Strike: "$860"
Insert: "$665"
Strike: "and the"
Insert: "as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a"

5. Page 1, line 15.
Strike: "is"
Insert: "of"
Strike: ", except that"

Committee Vote:
Yes 17, No 3.

Insert: ". However,"

6. Page 1, line 17.
Strike: "$1,720"
Insert: "$1,330"

7. Page 1, line 18.
Strike: "and the"
Insert: ", as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a"
Strike: "is"
Insert: "of"

8. Page 1, line 24.
Following: "multiply"
Insert: "both the minimum and"

9. Page 1, line 26.
Following: "The"
Insert: "minimum and maximum"

10. Page 1, line 27.
Following: "amount"
Insert: "of the minimum and maximum standard deduction"

11. Page 2, lines 12 and 13.
Strike: ", based" on line 12 thorough "residents" on line 13
Insert: "if the taxpayer's gross income for the taxable year derived from sources within Montana exceeds the amount of the personal exemption that the taxpayer is entitled to claim for the taxpayer and taxpayer's spouse under the provisions of 15-30-112(2) through (4)"

12. Page 3, line 15.
Insert: "NEW SECTION. **Section 2. Contingent voidness.** In order to maintain a balanced budget, because [this act] reduces revenue, it may not be transmitted to the governor unless a corresponding identified reduction in spending is contained in House Bill No. 2. If a corresponding identified reduction in spending is not contained in House Bill No. 2, [this act] is void."
Renumber: subsequent section

13. Page 3, line 16.
Strike: "[This act]"
Insert: "[Section 1]"

-END-

HOUSE OF REPRESENTATIVES

ROLL CALL VOTE

DATE 1/31/95 BILL NO. 251 NUMBER ____

MOTION: Do not pass

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	✓	

12 5

EXHIBIT 1
DATE 1/31/95
HB 251

Mr. Chairman, members of the committee, for the record my name is Carolyn Squires, House District 68 from Missoula. I come before you today to present House Bill 251, a bill to allow for employee retraining and community reinvestment when large companies abandon communities.

The concepts behind this bill are basic and historically well-founded. Since the Anaconda Company closed its Montana facilities in 1980, big companies have been offering employee retraining and community redevelopment funding when they closed up shop.

There often are a variety of names for such programs -- community aid; redevelopment assistance; community stabilization funds; employee buyouts; and so forth.

These programs are traditional. The only question about this bill -- and I'm aware there is such a question -- is about how **MUCH** retraining and how **MUCH** community reinvestment might be available after each closing.

This bill puts that amount into law by specifying that eight percent of the sale value be set aside for retraining and reinvestment in the community.

When the Anaconda Company announced the closure of operations in Anaconda and Great Falls in 1980, the company put up $5 million in community aid. That aid equaled 12.5 percent of its payroll at the time. The aid was to be spent over a three- to five-year period for "attracting industry, planning, finding help for existing businesses to expand and other such projects."

In addition to this aid, workers got an average of $3,500 in one-time severance pay, $100 weekly for a year, and the continuation of various fringe benefits.

Many other companies have come and gone in Montana since the Anaconda Company, and some of them have offered similar aid proposals in a wide variety of packaging -- particularly if NOT providing aid would have left them with a big public relations black eye.

This bill would guarantee that the black eye of abandonment would be worse than the supposed red ink that continued operations would bring.

It would make it clear to companies, to workers and to communities what will happen if sale, transfer or change of ownership would result in closure or downsizing of a major facility on which our communities are dependent.

It would make it clear that corporations have a legal as well as moral responsibility to assist communities they abandon.

~~It would make it clear that corporations have a legal as well as moral responsibility to assist communities they abandon.~~

And it would make it clear that we, as a community, demand this kind of consideration when companies don't voluntarily choose it, or when they make the aid conditions so restrictive that not everyone harmed by the closure benefits from the aid.

We want to make it clear that the cost of community abandonment is a cost of doing business that corporations have to consider. Whether it's US West moving workers to Salt Lake, Burlington Northern shutting down in Havre or Champion folding up in the woods throughout western Montana, it will be clear up front that helping communities readjust is a basic cost of doing business.

1/

EXHIBIT 2
DATE 1/31/95
HB 265

HB 265 Property Tax Reform

Emily Swanson

I. Phase-in increases in value of Class IV property

Current law		Proposed law
'94 home, market value	$100,000	Same home, '97 appraised value $130,000
'97 appraised value	$130,000	Increase phased-in
		'97 $110,000
Full increase effective at beginning of cycle in '97		'98 120,000
		'99 130,000

II. Expand low income program

Current law(see p. PT-33)

Market value $50,000
Owner's total income, $6,580
Calculation:
$50,000 x (3.86% x 40%see table =.544%) =$772 taxable

Proposed law

Market value $50,000
Owner's total income $6,580

Calculation:
$50,000 x (3.86% x 25%see table = .965)= $482.50 taxable

III. Expand elderly homeowner/renter credit(62+ years to qualify)

Current law	Proposed law
Market value $80,000	same as current law example
Tax rate 3.86%	same
Taxable value $3088	same
Mills .365	same
Tax $1,127.12	same

Applied as credit on income tax:	
Income $15,500	same
Exclusion ($4,000)	same
Net $11,500	same
Deduction factor .048 see table	same
Deduction $ 552	same
Credit = tax - deduction	same
= $1,127.12 - $552 = $575.12	
Max under current law = $400	Max under proposed law = $1000
Credit received = $400	Credit received = $575.12

3

EXHIBIT 3
DATE 1/31/95
HB 265

State of Montana

Marc Racicot, Governor

Department of Revenue

Mick Robinson, Director

P.O. Box 202701
Helena, Montana 59620-2701

November 3, 1993

TO: Governor Marc Racicot

FROM: Mick Robinson, Council Facilitator
Tax Advisory Council for Property Ownership

SUBJECT: Committee Report and Recommendations

This Council was appointed in September 1993 to develop a Montana property tax system that allows Montana residents to remain in their homes and to own property without having the costs of ownership become prohibitive due to significantly increasing property tax bills. The Council found it encouraging that Montana's economy is showing signs of growth and some recovery in property values. One of the challenges of this growth is the uneven change in property values which makes individual taxpayer's situations vary considerably. The Council has considered these problems and finds that the current market value appraisal system should be maintained and that the tax year 1993 appraisal values are much more accurate than the previous values which were based on 1982 costs and in some counties given general sales assessment ratio adjustments.

The Council was also challenged by the Montana Constitution provision which requires the appraisal method to be generally and uniformly applied so that all similar properties will be valued in a like manner. Under the Constitution, the state is to appraise, assess and equalize the valuation of all property, and the taxing jurisdictions must use these equalized valuations. State law further strengthens the Constitution provisions by requiring equitable valuations for comparable types of property. In Montana, as decided in the 1990 case Montana Dept. of Revenue v. Barron, taxpayers are protected from having to bear a disproportionate share of Montana's tax burden due to application of nonuniform and inequitable appraisal and assessment.

The Council reached consensus and recommends:

FISCAL 1994 For fiscal 1994 the Council recommends an extension of time for people to apply for the existing low-income program.

FISCAL 1995, 1996, and 1997 For tax year 1994, fiscal 1995 tax bills, the Council recommends rolling the values back to 1992 and phasing in one third of the 1993 market value increase. For tax year 1995, two thirds of the market value increase will be phased in and for tax year 1996 100% of the value increase will be in effect. Market value decreases would continue to be implemented fully in each year. The Council also recommended increasing the income levels under the low-income exemption program so that more people will qualify.

LONG-TERM STRUCTURAL CHANGE For the tax year 1997 reappraisal, the Council recommends: a three year phase-in for reappraisal increases; a constitutional amendment to allow reappraisal increases in values to be capped at 4 percent a year; an acquisition value for property which is sold for the remainder of the reappraisal cycle; and a makeup tax, at the time of sale, for properties which had a cap on their reappraisal value.

This report gives a summary of: (1) the tax impact of reappraisal and mill levy changes for November 1993 and May 1994 tax bills; (2) current property tax relief programs; (3) the tax shift which occurs when market values are capped; (4) the Council's recommendations; (5) legal considerations; (6) administrative costs of the recommendations for the 1995 biennium; and (7) other ideas considered.

Fiscal 1994 Estimated Property Taxes

Class 4, residential and small local business, and class 11, farmsteads, have received a 13.3 percent statewide increase in property taxes. These two classes comprise 50 percent of the state's property tax base. The 13.3 percent statewide average does not reflect the significant variation in the property tax bills by county or by taxpayer.

Table 1 shows the percentage change in class 4 and 11 property value and average mill levy from fiscal 1993 to fiscal 1994, by county. The county average property tax increases range from a 44 percent increase in Granite County to a 16 percent decrease in Chouteau County. There are 24 counties with increases over 10 percent, and 5 counties with decreases in excess of 10 percent.

Table 1 also shows the portion of the estimated property tax increase due to reappraisal, and the portion due to mill levy changes. These impacts vary considerably by county. For example, Mineral County's 40 percent increase is due to a 26 percent increase in reappraisal values and an 11 percent increase in mill levies, while Glacier County's 35 percent increase is due to an 8 percent decrease in reappraisal values and a 57 percent increase in mill levies.

TABLE 1
Estimated Percent Change in Property Taxes for Residential Property
Fiscal 1993 to Fiscal 1994

County	Change in Residential Value Due to Reappraisal	Change in Average Mill Levy	Combined Impact to Residential Taxes
Granite	19%	21%	44%
Mineral	26%	11%	40%
Glacier	-8%	46%	35%
Jefferson	9%	19%	29%
Wibaux	3%	23%	27%
Broadwater	-13%	42%	24%
Lake	27%	-4%	22%
Beaverhead	16%	4%	21%
Sanders	15%	5%	20%
Richland	8%	11%	20%
Fallon	1%	17%	19%
Meagher	7%	8%	16%
Flathead	16%	-1%	15%
Stillwater	8%	6%	14%
Ravalli	9%	4%	14%
Deer Lodge	5%	8%	13%
Lewis And Clark	9%	4%	13%
Hill	2%	11%	13%
Lincoln	7%	6%	13%
Phillips	-1%	14%	13%
Missoula	5%	7%	12%
Powell	11%	1%	12%
Roosevelt	-7%	20%	11%
Custer	13%	-2%	11%
Yellowstone	8%	2%	10%
Gallatin	12%	-2%	9%
Park	2%	6%	8%
Silver Bow	15%	-6%	7%
Carbon	2%	5%	7%
Powder River	-8%	15%	6%
Valley	1%	4%	6%
Cascade	7%	-3%	4%
Madison	5%	-3%	2%
Treasure	-17%	22%	2%
Judith Basin	-14%	16%	0%
Blaine	0%	-1%	-1%
Toole	-10%	9%	-2%
Wheatland	-10%	9%	-2%
Fergus	-4%	2%	-2%
Sheridan	-11%	10%	-2%
Pondera	-14%	12%	-4%
Golden Valley	-10%	6%	-5%
Dawson	-11%	6%	-6%
Prairie	-19%	15%	-6%
Carter	-11%	5%	-7%
Mccone	-12%	5%	-7%
Petroleum	-1%	-7%	-8%
Sweet Grass	-21%	16%	-8%
Daniels	-16%	8%	-9%
Garfield	-7%	-3%	-10%
Teton	-17%	9%	-10%
Big Horn	-3%	-8%	-11%
Musselshell	-16%	5%	-11%
Rosebud	-15%	4%	-12%
Liberty	-25%	15%	-15%
Chouteau	-16%	1%	-16%

Table 2 compares the estimated property taxes levied by government type and the percent of property taxes by each government type for fiscal 1993 and 1994. Property taxes collected in fiscal 1993 are estimated to be $589 million. In fiscal 1994 property taxes are estimated to be $654 million. This is an increase of $65 million or 11 percent between fiscal 1993 and fiscal 1994. Statewide taxable valuation increased 6.1 percent. In general, if the percent change in total taxes from fiscal 1993 to fiscal 1994 is less than 6.1 percent, then mill levies decreased. If the percent change is greater than 6.1 percent, then mill levies increased. On average, county and city mill levies decreased, but are still generating more revenue than fiscal 1993. State mill levies remained the same, generating an increase in property tax revenue proportional to the increase in total statewide taxable valuation. Local school property taxes increased approximately 23.3 percent. The Council recognizes that some school mill levies changed in response to HB 667, legislation equalizing school funding.

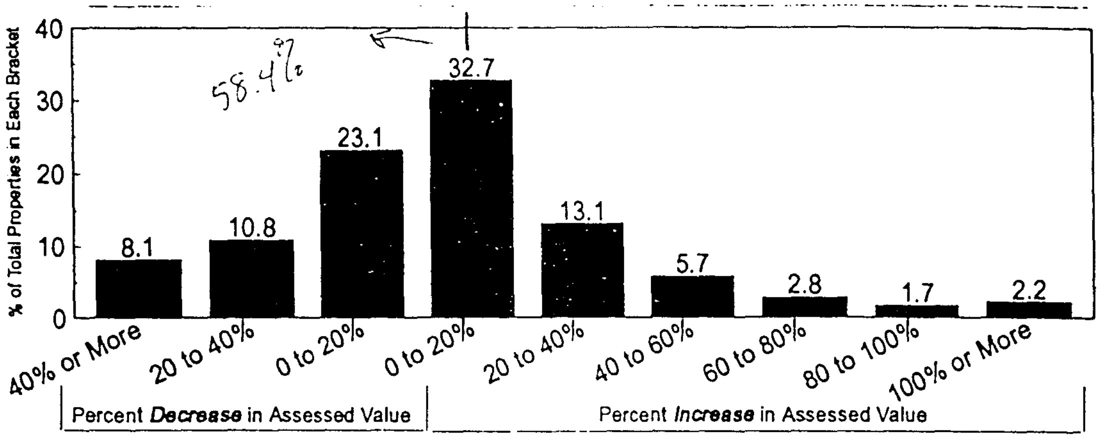
TABLE 2
Comparison of Estimated Property Taxes Levied
Fiscal 1993 to Fiscal 1994

	Fiscal 1993		*Fiscal 1994*		
	Total Taxes	Percent of Total	Total Taxes	Percent of Total	Percent Change From 93 to 94
County Government	116,516,936	19.8%	120,291,202	18.4%	3.2%
Cities/Towns	75,157,150	12.8%	78,677,925	12.0%	4.7%
Miscellaneous Districts	37,878,803	6.4%	40,183,250	6.1%	6.1%
State (101 mills)	165,502,051	28.1%	175,549,124	26.9%	6.1%
Local Schools	193,779,758	32.9%	238,990,948	36.6%	23.3%
Grand Total All Taxes	588,834,698		653,692,449		11.0%
	Fiscal 1993		*Fiscal 1994*		Percent Change
Statewide Taxable Value	1,632,622,989		1,731,947,504		6.1%

The statewide average increase of 11 percent in property tax does not illustrate what is happening to individual residential taxpayers. Graph 1 shows the distribution of residential property by the percent change in their appraisal value. As shown on the graph, 18.9 percent had **decreases** over 20 percent, 25.5 percent had **increases** greater than 20 percent, and twelve percent of residences had increases greater than 40 percent.

Graph 1

Impact of Reappraisal on Residential Property
Distribution of Households by Percent Change in Appraisal Value



Current Residential Property Tax Assistance Programs

The state has three residential property tax assistance programs: Low-income, Elderly Homeowner/Renter Circuit Breaker, and Reverse Annuity Mortgage Loan.

Low-income

If taxpayers have income below $13,361 for single people and $16,034 for married or head of household families, they are eligible for a reduction in their property tax. Table 3 shows the percent of property tax reduction available for each income level. To receive this reduction, taxpayers make an application by March 1 of the tax year. For property taxes due in fiscal 1994 (tax year 1993), the application deadline was March 1, 1993. About 9,500 households use this program each year.

TABLE 3
Percent Reduction of Property Tax Based on Income Level
Current Law Fiscal 1994 Income Schedules

Single Person	Married Couple	Percent Reduction
0 - 1,336	0 - 1,603	100%
1,337 - 2,672	1,605 - 3,207	90%
2,674 - 4,008	3,208 - 4,810	80%
4,010 - 5,345	4,811 - 6,413	70%
5,346 - 6,681	6,415 - 8,017	60%
6,682 - 8,017	8,018 - 9,620	50%
8,018 - 9,353	9,621 - 11,223	40%
9,354 - 10,689	11,225 - 12,827	30%
10,690 - 12,025	12,828 - 14,430	20%
12,026 - 13,361	14,431 - 16,034	10%

Elderly Homeowner/Renter Circuit Breaker

The elderly homeowner/renter circuit breaker provides tax relief to specific homeowners/renters 62 or older based on the relationship between the homeowner's property tax and income. In the case of renters, the property tax equivalent is defined to be 15 percent of the gross rent paid during the tax year.

Due to the inter-relationship between property tax and income levels, certain property owners (renters) will not be eligible to receive any benefit from this program. Generally, these are individuals whose property values or rents are low in relation to their income. To understand this fully, it is necessary to understand how the circuit breaker program works. This section discusses the credit as it applies to a homeowner, but the same principles also apply to renters.

The amount of credit allowed is equal to the amount of property tax paid less a deduction:

Credit = Property Tax Paid - Deduction

The amount of the deduction is equal to a specific percentage of "household income". These percentages are set in statute, and increase as household income increases in accordance with the following schedule:

TABLE 4
Schedule to Calculate the Elderly Homeowner/Renter Deduction

Household Income			Amount of Deduction
$0	-	999	$0
1,000	-	1,999	$0
2,000	-	2,999	the product of .006 times the household income
3,000	-	3,999	the product of .016 times the household income
4,000	-	4,999	the product of .024 times the household income
5,000	-	5,999	the product of .028 times the household income
6,000	-	6,999	the product of .032 times the household income
7,000	-	7,999	the product of .035 times the household income
8,000	-	8,999	the product of .039 times the household income
9,000	-	9,999	the product of .042 times the household income
10,000	-	10,999	the product of .045 times the household income
11,000	-	11,999	the product of .048 times the household income
$12,000	&	Over	the product of .050 times the household income

"Household income" as used in table 4 is equal to "gross household income" less $4,000 or 50% of retirement benefits, whichever is greater. Gross household income is all income of all individuals in the household, and includes federal adjusted gross income plus all nontaxable income as defined in statute. Also, in no case may the amount of the credit exceed $400.

A specific example should help clarify how this program works. Assume the taxpayer lives in a house valued at $60,000 and faces the statewide average mill levy of 365 mills. The taxpayer has $15,500 of total income. Based on these assumptions, this individual is entitled to a credit equal to $293.34, calculated in table 5:

TABLE 5
Example of Determining the Elderly Homeowner/Renter Credit

Step 1: Calulate the Property Tax	
Market value	$60,000
Taxable value rate	0.0386
Taxable Value	$2,316
Mill levy	0.365
Property Tax	**$845**

Step 2: Calculate the Deduction Amount	
Gross income	$15,500
Exclusion	($4,000)
Household income	$11,500
Deduction factor	0.048
Deduction	**$552**

Credit = ($845 - $552) = $293

Reverse Annuity Mortgage Loan

The Montana Board of Housing Reverse Annuity Mortgage Loan allows lower income elderly Montana citizens to convert the equity in their homes into an additional monthly income source. The taxpayer may receive a maximum loan up to 80 percent of the FHA estimated value of their home. The loan amounts may range from a minimum of $15,000 to a maximum of $40,000. The loan payments are made to the homeowner every month for ten years.

This program is for a homeowner who is 68 years or older with an income not exceeding $10,500 for one person and $13,800 for two people. Generally single-wide mobile homes are not considered eligible. The home must be clear of any mortgage or other type of lien.

The homeowner will continue to own the home; however, the Montana Board of Housing will have a lien in the form of a first mortgage. Generally, the loan will be repaid from the proceeds of the sale of the home upon the death of the last surviving borrower residing in the home or upon the permanent vacation of the home by the borrower(s). If the person continues to live in the home after the ten year payment period, the interest continues to accrue until the loan is paid.

At this time there are less than 15 households in the state participating in this program.

Tax Shifts due to Capping Market Values

Proposals that include a mechanism for capping the increases in market value provid direct relief to those owners of properties whose values are rapidly increasing. If governme service and budget requirements do not decrease or increase, the reduction in tax bills of property owners whose values are capped must be shifted elsewhere unless all property values ar changing equally.

Appendix A, Capping Market Values and Tax Shifting, discusses three possible outcom of how taxes may be shifted within a taxing jurisdiction if a proposal to cap market values is implemented.

First, when all properties appreciate at the same exact rate, each property's liability also increases at the same exact rate, and there is no shifting of tax liability betwee homeowners.

Second, in situations where property values are increasing at varying rates above the ca limit, property tax burdens are shifted from property owners whose values are increasin faster to property owners who values are increasing slower.

Third, in situations where property values are both increasing and decreasing implementing caps on market value shifts burdens away from property owners whose values are increasing to property owners whose values are decreasing.

Council Recommendations and Options

The Council found that the current method of reappraisal is sound. The concept of basing each property's taxable value on the value for which property will change hands between willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts, is the best approach. However, there are fo factors which are converging during fiscal 1994 which will make the fiscal 1994 tax bills chan significantly for taxpayers.

FIRST — The base value on each individual piece of property was established as January 1, 1982. This is ten years between the new values under the 1993 reappraisal which had values based on January 1, 1992. The sal assessment ratio helped even out the average change by county, but n necessarily by individual taxpayer.

SECOND — The 1982 values relied heavily on the cost approach to valuation while the 1992 values were generally based on the market approach. This change in methodology will make changes for individual properties which w better reflect the market value in 1993.

THIRD House Bill 667, which changed the school foundation program in order to better equalize funding, changed school mills considerably from the prior year and among school districts. Statewide, local school property tax revenues increased 23 percent.

FOURTH Out of state people are buying property in Montana at prices considerably higher than the normal Montana buyers market. This is causing property values in areas deemed desirable by out-of-state people to increase much more rapidly than the state average.

With all of these events occurring at the same time, the majority of property taxpayers will see increased, some very significantly, tax bills. In fact, the increases are so numerous and large that we recommend: (1) the low-income program application be extended so more taxpayers can be made aware of the program and take advantage of this program for fiscal 1994 taxes; and (2) the reappraisal system be changed to limit valuation changes in the future.

this FY

Fiscal 1994: Extension of Low-Income Program Application Period

We recommend that the low-income application date be extended and an information program be implemented to allow everyone who is eligible to become aware of the program and have the opportunity to apply. If the participation rate increased from the current 24 percent of those eligible to 50 percent of those eligible, the increase in property tax relief would be $1.5 million.

90 days after enactment

next 3 FY

Fiscal 1995-97: Expanded Low-Income; Roll-back and Phase-In of Appraisal Values.

We recommend changing the low-income program: (1) by increasing the income levels to $15,000 for single and $20,000 for head-of-household and married; and (2) by restructuring to four property tax reduction categories rather than the current ten categories. This will give a larger tax break to those who apply and make the tax reduction large enough to be meaningful. This would result in property tax reduction for these properties of $7,500,000 at a 50 percent participation rate. Table 6 shows the recommended income levels and tax reduction brackets for fiscal 1995.

TABLE 6
Percent Reduction of Property Tax Based on Income Level
Proposed Fiscal 1995 Income Schedules

Single Person	Married Couple	Percent Reduction
0 - 3,750	0 - 5,000	100%
3,751 - 7,500	5,001 - 10,000	75%
7,501 - 12,250	10,001 - 15,000	50%
12,251 - 15,000	15,001 - 20,000	25%

We recommend that any **increase** in appraised value from tax year 1992 to tax year 1993 be phased-in for the remainder of this reappraisal cycle. For fiscal 1995 tax bills, the value would be the tax year 1992 value plus one-third of the difference between the tax year 1992 and 1993 appraisal values. For fiscal 1996 tax bills, the value would be the tax year 1992 value plus two-thirds of the difference between the tax year 1992 and 1993 appraisal values. For fiscal 1997 tax bills, the value would be the tax year 1993 appraisal value. Appraisal decreases will not be phased in. The decreases in value are effective for 1993 and will continue until the next reappraisal. This phase in results in tax shifting among properties within class 4 and 11 and among classes of properties. Cities and counties may experience some tax loss due to I-105 restrictions. Schools and other taxing jurisdictions without I-105 limitations should not experience a tax loss.

will won't raise as much

beginning FY 98

Long-Term Structural Change - Effective January 1, 1997

We recommend that there continue to be market reappraisals. The three year cycle in current law should continue.

We recommend that the 1993 appraisal values be used in tax year 1996 and as the beginning base from which to measure change in the next reappraisal cycle.

We recommend that all market value decreases be implemented the first year.

We recommend that market value increases be phased-in over the three year reappraisal cycle.

Const. amend.

We recommend that the market value increases phased-in each year be limited, "capped", at 4 percent.

We recommend that there be a 5 percent makeup tax on the sale of class 4 property which is "capped". The tax would be on the difference over $5,000 between the selling price and the property tax appraisal value in the year sold.

People who live in a home a long time see value increases, but limited. So we don't get huge discrepancies.

We recommend that when a "capped" property is bought during the reappraisal cycle, the sales price become the property tax appraised value for the remainder of the reappraisal cycle.

Sales price becomes part of the system. Answers Mike's claim that appraisal system is static!

Council Statement

We feel the State is putting too much pressure on the property tax system through the state levies. The State should explore other revenue sources.

Legal Considerations

The Council discussed several possible remedies to alleviate the impact of increased market valuations on property taxation. Some of the remedies discussed included capping increases in market valuations by a maximum percentage and using differing combinations of the market value approach and acquisition cost for assessment of each property.

The Montana Constitution, as interpreted by the Montana Supreme Court, requires that the property valuation method for ad valorem taxation be uniform and equalize the valuation of all the property. Under these guidelines, remedies that include capping of increases or mixing valuation methods, would require a constitutional amendment to redefine the standards for uniformity and equalization.

The Council discussed whether the relief from increased market valuations should be retroactively applied. A retroactive application requires using prior appraisal cycle market values as its underpinning. Any remedy that proposes to use the previous appraisal cycle market values should be avoided. Because the previous market values were based upon 1982 values and adjusted by the sales assessment ratio studies, one of which was declared unconstitutional by the Montana Supreme Court, it is legally precarious to use these values as the foundation for any valuation relief, especially a retroactive remedy.

Modifications to the Low Income program could be statutorily effectuated without constitutional implications, provided the income standards for the Low Income program were not increased to levels that would no longer provide a rational basis for differing treatment between taxpayers.

Administrative Costs

Low-Income Reduction Program Extension

Extending the low-income application date and providing an information program to encourage everyone who is eligible to become aware of the program and have the opportunity to apply requires additional funding. Currently the Department processes approximately 10,000 low income applications each year. It is assumed that additional efforts to encourage use of the program in 1993 will double the use of the reduction program.

Annual Administrative Costs .... $ 60,000

Market Value Increase Limitation

Limiting increases in market valuation as a result of reappraisal requires additional funding. Property owners receiving decreases in value would receive the entire decrease the first year. Property owners receiving increases in value would receive the increase limited to a certain percentage each year.

One Time Costs $526,000
Annual Administrative Costs .... $ 77,576

Ideas Considered but not Included in the Consensus Recommendations

The Council considered a wide range of ideas before finding consensus among the members on the final recommendations. The ideas considered, but not receiving consensus include:

- Local Option Taxes - Permitting local governments to impose new taxes in their jurisdiction with voter approval. The revenue would be used to reduce property taxes. A local option tax could be an expansion of the current resort tax.

- Circuit Breaker Expansion - Eliminating the existing age restriction--age 62 and older--for qualifying to receive a state funded rebate of property taxes. The Council considered a modification to the circuit breaker that limited property taxes to a percent of the owner's income.

- Acquisition Cost - Providing a property tax system for Montana based on acquisition cost. In this system, property values are based on the acquisition cost and value increases are limited to a fixed percentage. Also, value decreases are considered if requested by the property owner.

- Property Tax Deferral - Allowing owners to postpone the payment of tax until the property is sold. The unpaid tax would be a lien on the property.

- Reducing 1993 Property Taxes - Providing immediate relief from increased property taxes. A suggestion was to limit 1993 value increases to 15 percent and not let mill levies increase, but give local governments a choice of using their 1993 or 1992 levies. Second half tax payments could be adjusted and the state could reimburse local governments for any tax loss.

- Rollback Property Values To 1992 Levels - Freezing the property values to a level prior to the 1993 reappraisal for all residential and commercial properties. This would eliminate property value increases or decreases from reappraisal.

- Adjust The Statewide 101 Mill Levies - Reducing some or all of the impact of reappraisal by reducing the statewide mill levies.

- Adjust The Taxable Value Rate - Compensate for the 7 percent statewide increase in property values by reducing the current taxable value rate of 3.86 percent. This was done for previous reappraisals.

- Limit Tax Relief To Owner Occupied Residences - Providing property tax relief only to residential properties that are used by the owner as their primary residence.

EXHIBIT 4
DATE 1/31/95
HB 209

Amendments to House Bill No. 209
First Reading Copy

Requested by Department of Revenue
For the Committee on Taxation

Prepared by Lee Heiman
January 31, 1995

1. Title, lines 4 and 5.
Following: "AN ACT"
Insert: "REVISING THE MONTANA STATE INCOME TAX BY"
Strike: "OF $1,590" on line 4 through "HOUSEHOLD RETURN" on line 5

2. Title, line 6.
Following: "FACTOR"
Insert: ", AND BY INCREASING THE MINIMUM INCOME FILING REQUIREMENT"

3. Title, line 7.
Following: "DATE"
Insert: "AND A CONTINGENT VOIDNESS PROVISION"

4. Page 1, line 14.
Strike: "<u>$860</u>"
Insert: "$665"
Strike: "<u>and the</u>"
Insert: "as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a"

5. Page 1, line 15.
Strike: "<u>is</u>"
Insert: "of"
Strike: ", except that"
Insert: ". However,"

6. Page 1, line 17.
Strike: "<u>$1,720</u>"
Insert: "$1,330"

7. Page 1, line 18.
Strike: "<u>and the</u>"
Insert: ", as adjusted under the provisions of subsection (2), or 20% of adjusted gross income, whichever is greater, to a"
Strike: "<u>is</u>"
Insert: "of"

8. Page 1, line 24.
Following: "multiply"
Insert: "both the minimum and"

9. Page 1, line 26.
Following: "The"
Insert: "minimum and maximum"

hb020903.alh

10. Page 1, line 27.
Following: "amount"
Insert: "of the minimum and maximum standard deduction"

11. Page 2, lines 12 and 13.
Strike: "<u>, based</u>" on line 12 thorough "<u>residents</u>" on line 13
Insert: "if the taxpayer's gross income for the taxable year derived from sources within Montana exceeds the amount of the personal exemption that the taxpayer is entitled to claim for the taxpayer and taxpayer's spouse under the provisions of 15-30-112(2) through (4)"

12. Page 3, line 15.
Insert: "<u>NEW SECTION.</u> **Section 2. Contingent voidness.** In order to maintain a balanced budget, because [this act] reduces revenue, it may not be transmitted to the governor unless a corresponding identified reduction in spending is contained in House Bill No. 2. If a corresponding identified reduction in spending is not contained in House Bill No. 2, [this act] is void."
Renumber: subsequent section

13. Page 3, line 16.
Strike: "[This act]"
Insert: "[Section 1]"

EXHIBIT 5
DATE 1/31/95
HB 209

Amendments to House Bill No. 209
First Reading Copy

Requested by Rep. Cobb
For the Committee on Taxation

Prepared by Lee Heiman
January 25, 1995

1. Page 1, line 14.
Strike: "<u>$860</u>"
Insert: "$665"

2. Page 1, line 17.
Strike: "<u>$1,720</u>"
Insert: "$1,330"

EXHIBIT 6
DATE 1-31-95
HB 227

1-30-95

Chase Hibbard, Chairman
House Taxation

Will you please refer to these comments when you take executive action on HB 227

Thanks,

Pete Sabin
HD 43

broader use

THERE ARE TWO proposals for changes in the state bed tax.

One comes from Rep. Patrick Galvin, D-Great Falls, who wants to double the state's bed tax from 4 percent to 8 percent. The additional 4 percent would be used to provide $35 tax relief annually to "average" property tax payers.

Galvin said, "This bill is the result of a taxpayers' revolt against unfair and illegal taxation."

That comment is cause enough to file the bill in the drawer marked "willy nilly," but there are other reasons, too. First, A good share of the bed tax is paid by Montanans. There is no tax relief in a bill that takes with one hand and gives with the other. Also, property taxes are paid by people who own property. Why should travelers be asked to ease the property tax burden?

Gov. Marc Racicot has a better plan. He would cap advertising expenditures from the bed tax at the current level. Any increases in revenue would be returned to tourism-related projects in local communities.

But Racicot's plan stops short of greatness. It is ridiculous for this state to spend $8 million to draw tourists into the state without addressing their needs once they get here.

Less should be spent for advertising. If the advertising funds are to be capped, they should be capped at a lower level. If they are capped at the current level, the bed tax should be increased.

The additional fees could be used for interstate information centers, for the development of state parks and for keeping interstate restrooms clean. Oh, what a relief that would be.

For too long, we have lured visitors into this state only to disgust them with the lack of services here. That's not good business.

BERRY

EXHIBIT 6
1-31-95
HB 227

The Big Sky Country

MONTANA HOUSE OF REPRESENTATIVES

REPRESENTATIVE PATRICK G. 'PAT' GALVIN
HOUSE DISTRICT 48

HELENA ADDRESS:
CAPITOL BUILDING
HELENA, MONTANA 59620-0400
PHONE: (406) 444-4800

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PHONE: (406) 453-8464

COMMITTEES:
STATE ADMINISTRATION
HOUSE HIGHWAYS
(VICE-CHAIR—MINORITY)
STATE-FEDERAL RELATIONS

M E M O R A N D U M

TO: Editor, Billings Gazette

FROM: Representative Patrick Galvin
House District 48

DATE: January 30, 1995

RE: Your Editorial HB 227, 1-30-95

Your reference to me and the bill as "Willy-Nilly" is patent Chamber of Commerce ilk. Do you travel outside Montana or are you ensconced in the editorial room of the Gazette? Do you actually believe that when you pay sales, bed and any other tax in another state that you are not relieving that state's tax burden? Get real Gazette. The Acaconda Company no longer controls this state or does the InnKeepers Association.

Pat Galvin

The Big Sky Country

MONTANA HOUSE OF REPRESENTATIVES

REPRESENTATIVE PATRICK G. 'PAT' GALVIN
HOUSE DISTRICT 48

HELENA ADDRESS:
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COMMITTEES:
STATE ADMINISTRATION
HOUSE HIGHWAYS
(VICE-CHAIR—MINORITY)
STATE-FEDERAL RELATIONS

January 27, 1995

The Editor
Great Falls Tribune
205 River Drive S.
Great Falls, Mt 59405

Dear Sir:

Once again you have succeeded in demeaning a Great Falls legislator in your editorial of 1-27-95 on HB 227 which I sponsored. Your statement "but wrong to harm tourism to relieve property tax rates". Do we not "harm" every industry which is taxed? You compare (favorably) a sales tax on Montanans to HB227 which would tax outsiders for using our facilities and attractions. Where do your loyalties lie?

I am sending you a copy of my statement to House taxation. You will see a comparison of bed taxes from various tourist cities enclosed. A high of 29.25% plus two dollars in New York City to a low of 4% in the <u>state</u> of Montana. The bed tax dollars in the listed cities relieve their property taxes.

In so far as using tourism-related taxes to improve local infrastructure, that is already contained in the 4% now charged. (Sec 15-65-111, 15-65-122, 15-65-131 M.C.A.)

Is it alright for me to visit your home state and pay its taxes with my Montana money but not alright for your friends and relatives to compensate here? Hence, it is ok that I am used in your home state but not ok for me to use you in Montana!

I was sent here by the voters of House District 48 to try to relieve property and other unfair taxation. If my attempts do not appeal to the Tribune, then perhaps you could get your puppet elected to do your bidding.

EXHIBIT 6
1-31-95
HB 227

But, as a closing statement, please be relieved to know that I have been subtly informed that my bill, HB227, whether or not it should reach the House floor will never become law!

Sincerely,

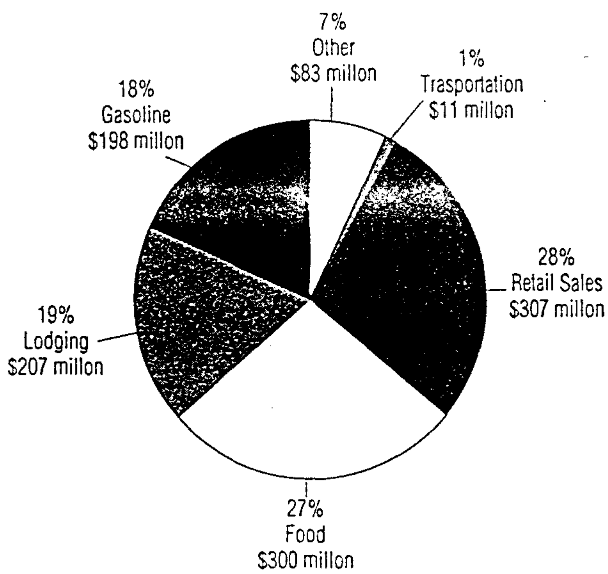
Pat Galvin

Patrick Galvin
House District 48

THE IMPORTANCE OF TOURISM

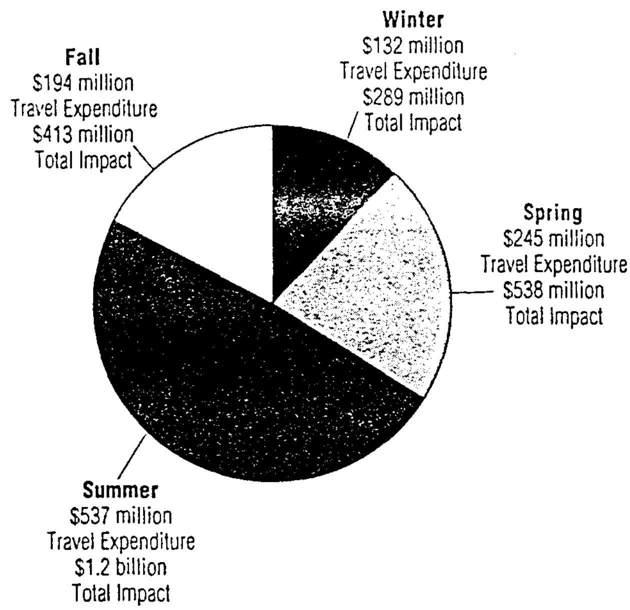
Tourism is one of Montana's most important and promising industries. In fact, travel industry growth over the last decade has outpaced all other natural resource-based basic industries in Montana. It continues to enjoy steady growth. From 1991 to 1993, the number of nonresident visitors to the state increased by 10%, from 6.77 million to 7.45 million visitors. In 1993, those 7.45 million visitors spent an estimated $1.1 billion in Montana.

HOW THE NONRESIDENT TRAVEL DOLLAR IS SPENT



* *TOTAL GROSS EXPENDITURES $1.1 BILLION*
† 1993 Figures

TRAVEL EXPENDITURES AND TOTAL ECONOMIC IMPACT GENERATED BY SEASON



† 1993 Figures

As shown above, visitor expenditures have impacts far broader than the lodging industry, and circulate through a broad cross-section of the Montana economy. *Total economic impact of the travel, tourism and recreation industry to Montana in 1993 (including indirect and induced effects) is estimated at $2.4 billion.*

EXHIBIT 6
1-31-95
HB 227

TOURISM FUNDING

*Our state's dramatic tourism growth since 1988 is directly tied to the Montana Legislature's creation, in 1987, of a dedicated accommodations tax. Montana funds its travel and tourism marketing programs solely from this source, **with no dollars from the general fund.** The existence of this funding, and the valuable promotional efforts it has allowed, are essential to maintaining and increasing tourism growth into the future, with widespread economic benefits to all Montanans.*

Projected Lodging Tax Revenues FY 95	$8,145,975
State Parks Operations/Maintenance - 6.5%	($529,488)
Department of Revenue - 3% (Tax collection & return of tax paid by state employees)	($244,379)
University System - 2.5% (Tourism and Recreation Research)	($203,649)
Historical Society - 1% (Historical Sites and Signage)	($81,460)
Available for Department of Commerce - 87% (Regions/CVBs and Travel Montana)	$7,086,998

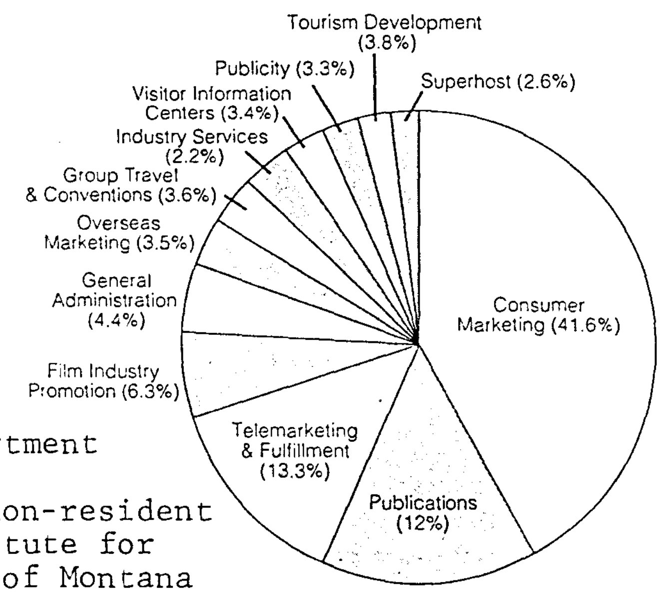
Department of Commerce Projected FY 95 Budget

Regions/CVBs (25%)	$1,771,750
Travel Montana (75%)	$5,315,249

Travel Montana Projected FY 95 Budget

Funds available from Accommodations Tax	$5,315,249
Income from ad sales, co-op projects training, etc	$558,000
Legislatively mandated support for international trade program	($167,248)
Total Funds Available	$5,706,001

How Travel Montana Funds Are Spent



Taken from the FY95 Tourism & Marketing Plan of the Montana Department of Commerce.
Data on impacts & expenditures of non-resident visitors was collected by the Institute for Tourism Research at the University of Montana in Missoula.

While ITRR estimates an increase of only 0.2 percent for nonresident air travel into Montana, deboarding passengers (both resident and nonresident) at Montana airports increased 1.5 percent in 1994. The strongest growth was shown in Kalispell, with a 13.7 percent increase, and Helena, with a 8.2 percent increase.

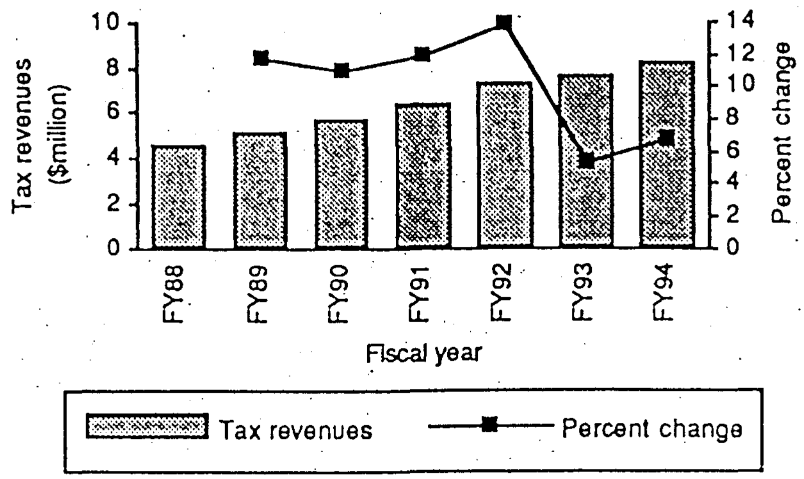
Declines of 1.9 percent in deboarding passengers were reported by two airports. For Bozeman, this decline followed 14.0 percent growth in 1993; for Great Falls airport, the 1994 decline exacerbated a 7.4 percent decline in 1993.

Another measure reflecting industry growth is the accommodations tax, a statewide 4 percent tax on lodging paid by residents and nonresidents alike. In fiscal year 1994, accommodations tax revenues grew by 6.8 percent to $8.1 million (Figure 4).

The tourism regions with the greatest tax revenue growth from FY93 to FY94 were Custer and Yellowstone countries, each showing 11.3% growth. Russell Country, on the other hand, saw a decline in tax revenues of 1.4% in FY94.

Since inception of the accommodations tax in FY88, statewide revenues have increased 78 percent. Among the regions, Yellowstone and

FIGURE 4. ACCOMMODATIONS TAX REVENUES



Glacier countries have experienced the greatest growth in tax revenues, increasing 122 and 85 percent respectively since FY88.

Note that tax revenue growth is not equivalent to real growth in visitation. A substantial portion of the growth in tax revenues was due to room rate increases; through October 1994, average room rates in Montana were up 3.9 percent over 1993. Nationwide, average room rates grew 17.0 percent from 1987 to 1993; during the same time, room rates in Montana grew 36.5 percent. However, Montana room rates still lag $10 behind average room rates throughout the Mountain region (Figure 5).

Hotel occupancy rates (which reflect changes in both room supply and room demand) were down 3.1 percent through October 1994 (Figure 6). This marks the third year in a row that occupancy rates have declined in Montana, while national and Mountain region occupancy rates have been increasing. The clear national leader in occupancy rates continues to be Nevada, with year-to-date occupancy through October 1994 of 81.7 percent.

Canadian visitation to Montana declined again in 1994 as exchange rates continued to rise (Figure 7). Note that the data shown in Figure 7 represent Canada to U.S. border crossings (including Canadian vehicles, Montana vehicles, and others) and thus does not accurately portray changes in Canadian visitation to Montana. We believe Canadian travel to

Rep. Bollinger - I thought you would find this interesting - William Gunn

EXHIBIT 6
1-31-95
HB 227

Montana in 1994 is down more than the 3.9 percent decline in border crossings portrayed here. Based on data from Statistics Canada, we know Canadian travel to Montana decreased 17.2 percent in 1993; however, border crossings reflected in Figure 7 were down just 8.5 percent.

The decline in Canadian visitation to Montana reflects an overall decline in Canadian travel to all United States destinations. In addition to rising exchange rates, the decline in Canadian travel is purported to result from a weak Canadian economy, high health care costs, and a government promotion program encouraging Canadians to stay home. In Montana, the declining Canadian market is felt most strongly by our highline communities.

After the decline in visitation at both Yellowstone and Glacier national parks during the wet summer of 1993, visitation at both parks grew in 1994 (Figure 8). Glacier grew just slightly (up 0.5 percent), while Yellowstone visitation increased 4.7 percent. Through September 1994, national park visits were up only 0.3% nationwide.

Skier visits (resident and nonresident combined) grew by 1.0 percent during the 1993-94 season (Figure 9).

FIGURE 5. AVERAGE ROOM RATES

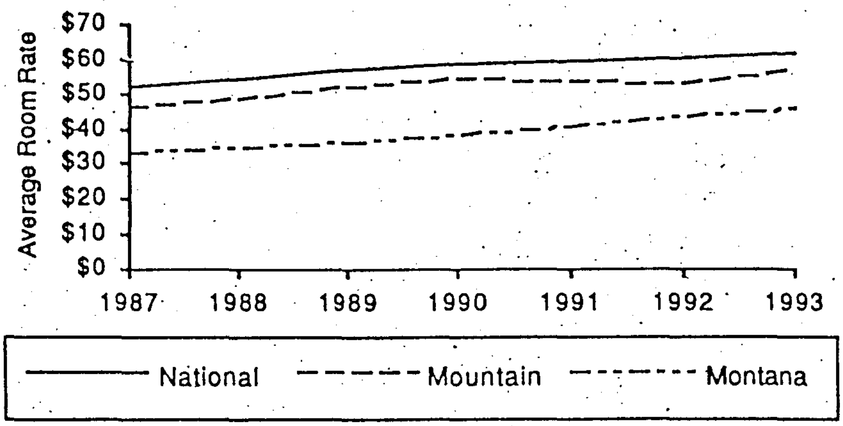


FIGURE 6. OCCUPANCY RATES

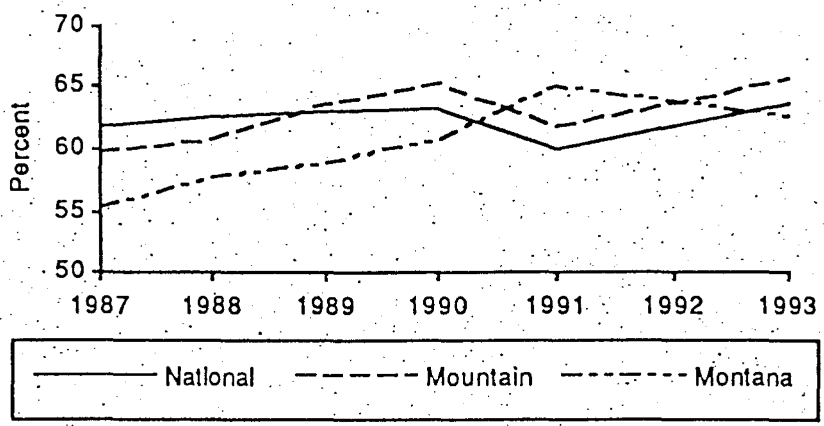
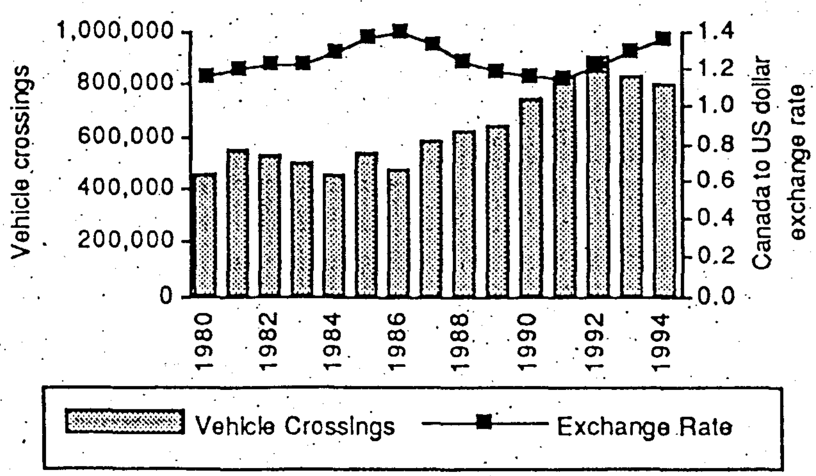


FIGURE 7. CANADIAN TO U.S. BORDER CROSSINGS AND EXCHANGE RATES



November 30, 1993

Representative John Bohlinger
Capitol Station
Helena, MT 59620

Dear John;

As requested during the hearing on House Bill 3 I have assembled the following information regarding the accumulative bed taxes in some of the surrounding states.

* Idaho:
All of the 5% State Sales Tax is applied to room sales and goes to the state general fund. There is a 2% state lodging tax, of which 45% goes back to the 7 regional tourism communities, in proportion to how it is paid, in the form of non-profit grant programs. Another 45% goes to state travel and tourism promotions, and 10% is used for administrative costs. In Boise, Sun Valley and Cour d'Alene, there is an additional 4% tax, totaling 11% in those communities. For stays of 30 days or more the 2% state lodging tax is waived. (Source: AH & MA 1991)

* North Dakota:
There is a 5% state sales tax which goes to the state general fund. In addition, 17 cities reported a 2% lodging tax which is used to fund local CVB's and 5 cities reported an additional 1% restaurant and lodging tax which is used for local development. There are also 1% city general taxes and 1% use taxes allowed and in effect in most cites. (Source: North Dakota Tourism Promotion, 1990)

* Oregon:
There is no state sales or lodging tax, however counties and cities do assess lodging taxes. There are 9 counties assessing lodging taxes at an average rate of 6.33% and 38 cities assessing tax at an average rate of 5.61%. Of the tax assessed at the local levels, 40% of the revenue generated goes to promote travel and tourism in the local areas. (Source: Oregon Lodging Association, 1989)

* South Dakota:
There is a 4% state sales tax which goes to the state general fund, and a maximum allowed 3% lodging tax at the local level, with no mandate as to its use. (Source AH & MA 1991)

* Washington:
There is a 6.5% state sales tax, 2% of which goes back to the cities and counties where the tax is levied for travel and tourism promotion, and the remaining 4.5% goes to the state for stadium development and tourism related promotion. Most cities and towns assess local sales tax at rates ranging from .5% to 1.6%. There is also a convention and trade center tax in King County of 2.4% with the exception of cities of Bellevue at 5.4% and Seattle at 6%. (Source State of WA Dept. of Rev. 1989)

EXHIBIT 6
1-31-95
HB 227

* Wyoming:
There is a 3% state sales tax, of which one-third is sent back at the counties' general funds. There are two 1% taxes allowed on lodging, one being a general purpose county option and the other a capital facilities option; 18 of 21 counties assess the first option and 5 assess the second option. A lodging tax is also allowed, up to a 4% rate, of which two cities assess at 1% and 2% rates and 12 counties assess at a 2 % rate. The result is that the average tax rate on lodging is 6.1% and the average rate on general sales is 4.8%. (Source, State of Wyoming Dept. of Revenue and Taxation, 1989)

John, as you can see there are many different types of tax schemes in the surrounding states that affect the bed tax charged to customers. Of course none of the information compares the types of business taxes paid by our hotel/motel owners to our competitors in surrounding states.

Thank you for requesting this information. I hope that after digesting this material and the other information I have enclosed, that you will vote to oppose House Bill 3.

Sincerely,

Stuart Doggett

A Study of the Relationships of Tourism and Potential Impacts on Montana Counties

Phase One

Prepared by:

Neal Christensen
Institute for Tourism and Recreation Research
The University of Montana
Missoula, MT 59812
(406)243-5686

Please Note: In reviewing this report it is important that the results are interpreted in the correct context. The study represented here made no attempt to test for cause-effect relationships between tourism and factors of quality of life. Relationships were tested and identified, but the underlying causes are still unproven and open to interpretation. In addition, this report is intended to inform committee members of the findings of analysis conducted to meet the specific needs of that committee. It does not attempt to fully inform the reader of all of the background and methodology of the study; some prior knowledge of the process is assumed.

EXHIBIT 6
1-31-95
HB 227

A Study of the Relationships of Tourism and Potential Impacts on Montana Counties
Summary of Findings

Phase I:

Tourism dependent areas are growing at a faster rate than non-tourism areas. The new residents of those areas are less likely to have been born in Montana, less likely to have lived in the same county five years ago and more likely to have moved to Montana in the last five years. Tourism development tends to be concentrated in more urban areas.

The residents of the tourism areas tend to be more educated and younger than in other areas. Residents of tourism areas must pay a greater portion of their income to cover housing rental expenses. The housing units in tourism areas tend to be newer than in other areas. There are indications that tax burdens are not as great in tourism counties as in non-tourism counties, and specifically, property taxes tend to be lower in these areas.

Tourism counties are less like to be agricultural areas, but they are more likely to support jobs in construction, manufacturing, retail and services.

Crime rates are not related to the level of tourism nor are the numbers of emergency service workers. finally, heath care has only a minor correlation with tourism. Tourism areas are able to support more physicians per capita than nontourism areas.

Phase II:

The committee received seven responses out of the 14 communities polled. The representatives of Kalispell provided the most comprehensive and balanced information regarding tourism impacts. While they were supportive of tourism, they provided evidence that their protective services are burdened by tourism, or at least by nonresidents of the community. A large traffic problem was identified in Kalispell. Officials stated that they do not have the financial ability to adequately address solutions to their congestion, but they are taking positive steps in that direction with available funds.

The city of Bozeman submitted similar concerns as those of Kalispell, but they were not as well documented. The city of Billings did not identify any major concerns and indicated that their economy is diverse and their infrastructure is able to handle the present visitors. The airport officials at Billings felt that tourism was very important to them. The community of Wibaux was supportive of tourism, felt that they presently come out ahead on impacts, and felt they had great potential for an expanded role in tourism. The community of Polson submitted several service delivery and infrastructure concerns in their response. However, no effort was made by them to separate local impacts from tourism's contribution to the increased summer problems.

Many of the concerns submitted by the respondents, such as traffic problems and increased summer-time use could be attributable to tourism and other factors. The direct relationship to tourism is hard to document. An official in the Missoula Street Department pointed out that they have been adversely affected by ever increasing traffic. However, that increase is due to growth in the community and growth in the surrounding areas as well as growth in tourism activities.

Community Tourism Impact Study

Background: The Institute for Tourism and Recreation Research along with the Montana Tourism Coalition developed this study to evaluate tourism's relation to local area impacts. Leaders in tourism dominant communities have expressed concerns about their abilities to meet demands placed on infrastructure and supportive services. This study attempted to address those concerns as well as concerns about impacts of tourism to individual residents' quality of life. It is recognized that these issues are complex and that a modest study of this kind cannot adequately answer these questions. It is possible, however, to move toward an understanding of tourism's effect on individuals and communities through this process.

Study Objective: This study was undertaken to assess the relationships between tourism and individual residents and communities in Montana. The study was divided into two separate, concurrent phases. Phase One of the study involved gathering existing indicators of individual quality of life and community livability and correlating those indicators with levels of tourism in each of the 56 Montana counties. Phase Two of the study was designed to assess tourism impacts to communities by collecting opinions and concerns from community leaders in 15 Montana cities and towns having varying degrees of tourism. This report presents the results of phase one of the impact study.

The first phase was conducted at the county level. The analysis included the formulation of an index of per-capita tourism development and the correlation of that index to census-type indicators of county living conditions.

The Index: The variables that were incorporated into the tourism development index reflect various aspects of tourism including: nonresident travel and spending patterns, resident travel patterns, tourism economic indicators, and the supply of recreation facilities, services and infrastructure. The variables included in the index were chosen because they were available for all of the counties, they were measured recently, and they reflected some aspect of travel demand or supply. See Appendix A for a description of the process used to calculate the index.

The Correlations: The correlations table lists the results of the tests that were conducted to determine if relationships exist between the relative level of tourism and various aspects of individual quality of life and community livability. The table reports two numbers for each indicator variable; the correlation coefficient and the significance level. The correlation table includes an asterisk (*) next to each significance level of 0.05 or less. The table also includes a pound sign (#) next to those correlations significant between 0.10 and 0.05 levels. Appendix A contains a section on interpreting the results of the correlation analysis.

It is important to note that correlation analysis does not test for cause-effect in relationships between variables. As an example, there was a significant positive correlation found between levels of tourism and the 5-year change in population. From this analysis it cannot be determined if increases in tourism cause increases in population, or if increases in population cause increases in tourism, or if increases in tourism and increases in population are due to a third factor. Caution

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should be taken when interpreting the results of the correlation analyses not to imply cause and effect.

The Results: The correlations table is divided into sections dealing with various aspects of individuals' quality of life and community livability. Each category contains several indicator variables that were available to address that aspect.

Demographics: Tourism-dependent communities, regardless of their size, are growing at a higher rate than non-tourism communities. Also significant in this section is education attainment. The residents of tourism areas tend to be more educated than in non-tourism communities. Residents of tourism areas are also younger on average than residents of nontourism areas.

Residence: In general, tourism areas have a lower percentage of native Montanans as residents. Conversely, the residents are more likely to have recently moved to the area and to Montana. While people from outside of Montana who move to Montana are more likely to choose tourism areas, Montana residents who relocate are not more likely to choose tourism areas over non-tourism areas.

Family: There is a positive correlation between tourism and marriage rates. However, there is also a slight positive correlation with divorce rates. Despite a younger population, and a higher marriage rate, tourism areas are no more likely to have a higher percentage of children or children in school.

Housing: Tourism areas do not having greater housing shortages than other areas. However, residents of tourism areas do pay a greater proportion of their income to rent than in other areas. Tourism areas also tend to have newer housing structures which may indicate recent growth.

Economy, Jobs: Tourism tends to occur in nonagricultural areas. Proportionately, a greater number of jobs in construction, manufacturing, retail and nonrecreational service are supported in tourism areas. However, there are no indications that income, unemployment or poverty have any relation to the level of tourism.

Taxes: All correlations in this study between tourism and taxes are negative. It appears that areas with higher levels of tourism tend to have lower tax burdens. This is especially apparent when looking at property tax rates which have the most significant negative correlation with tourism.

Crime, Emergency Services: There is no significant relation between these indicators and relative levels of tourism. It is not known from the available data if emergency service responses suffer seasonally during periods of high tourism.

Health: There is only one significant relation to per capita tourism. The relation is found in the number of physicians in the community, with tourism areas supporting more

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physicians per resident.

The following summary interpretation of correlations with the RTD Index are offered as a point of discussion for further refinement of the overall study.

Tourism dependent areas are growing at a faster rate than non-tourism areas. The residents of the tourism areas tend to be more educated and younger than in other areas. They are less likely to have been born in Montana, less likely to have lived in the same county five years ago and more likely to have moved to Montana in the last five years. Viewed another way, long-time residents of Montana who relocated within state in the past five years were no more likely to choose tourism dependent areas than non-tourism areas. But if the resident relocated from out-of-state they were more likely to choose a tourism dependent area. Residents of tourism areas must pay a greater portion of their income to cover housing rental expenses. The housing units in tourism areas tend to be newer than in other areas. Tourism counties are less like to be agricultural areas, but they are more likely to support jobs in construction, manufacturing, retail and services. There are indications that tax burdens are not as great in tourism counties as in non-tourism counties, and specifically, property taxes tend to be lower in these areas. Crime rates are not related to the level of tourism nor are the numbers of emergency service workers. finally, heath care has only a minor correlation with tourism. Tourism areas are able to support more physicians per capita than nontourism areas.

The interpretation of results related to individuals as offered above does not imply actual cause-effect relations with tourism, but rather is offered as a possible interpretation of the correlations that were identified. This study could benefit from further analysis in all of these areas. In particular, there is a lack of data for community-level impacts such as infrastructure, traffic, emergency services and other public services. For example, there is no indication of emergency response times or ability to deliver needed assistance. Tax burden is an interesting, yet complex issue which needs more in-depth study to quantify that burden and assess its relation to tourism. The above analysis was conducted using data measured on a yearly basis. Because of that restriction, seasonal peak demands and impacts in tourism dependant communities may be masked by the lack of activity in the off seasons.

Appendix A

The Tourism Development Index: The following equations show how the tourism index was calculated. All of the variables were first converted to a standardized scale of 1 to 100 for comparability. All variables were divided by county population before being entered into the equation. As the following equations indicate, each variable was given an importance weight to reflect its contribution to the index. The weights were derived for each equation using a principal components factor analysis which quantifies the relative contribution of each variable in explaining the overall variance in the factor (the factor in this case was the level of community-based tourism). The principal components analysis identified three distinct factors from the pool of tourism-related variables. One of the factors appeared to be the strongest measure of tourism - specifically community-based nonresident tourism. Only the variables loading on that factor were subsequently included in the Tourism Development Index. The factor score coefficients were used as the weights in constructing the composite index from each variable. The results of the equations were standardized to a base index score of 100. This was done by assigning the county having the highest level of tourism a score of 100 and all other counties a proportion of that score. To do this, each observation was divided by the highest observation of the score and then multiplied by 100.

> **Relative Tourism Development Index Equation** = (Accommodations Tax * 0.23988) + (Nonresident Overnight Stays * 0.31715) + (Nonresident Expenditures * 0.31856) + (Hotel Rooms * 0.23457)

The Tourism Development Index Rankings table that follows lists the 56 counties in rank order along with their respective index scores.

The Correlation Analysis: The first number in the correlations table is the correlation coefficient which is a number in the range of -1 to +1. The second is the significance level, which is a number between 0 and 1. Correlation coefficients close to 1 or -1 indicate strong relationships between the two variables. Furthermore, the closer the significance level is to 0, the more confident one can be that the relationship detected is not due to random chance. Therefore, two perfectly correlated variables would have a correlation coefficient of 1.0000 and a significance level of 0.000. In practice it is generally acceptable to report relationships that have a significance level of 0.050 or less. However, because of the small sample size in this study, it may be acceptable to relax that criteria and accept relationships as significant if they achieve a level of 0.100 or less.

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Appendix B

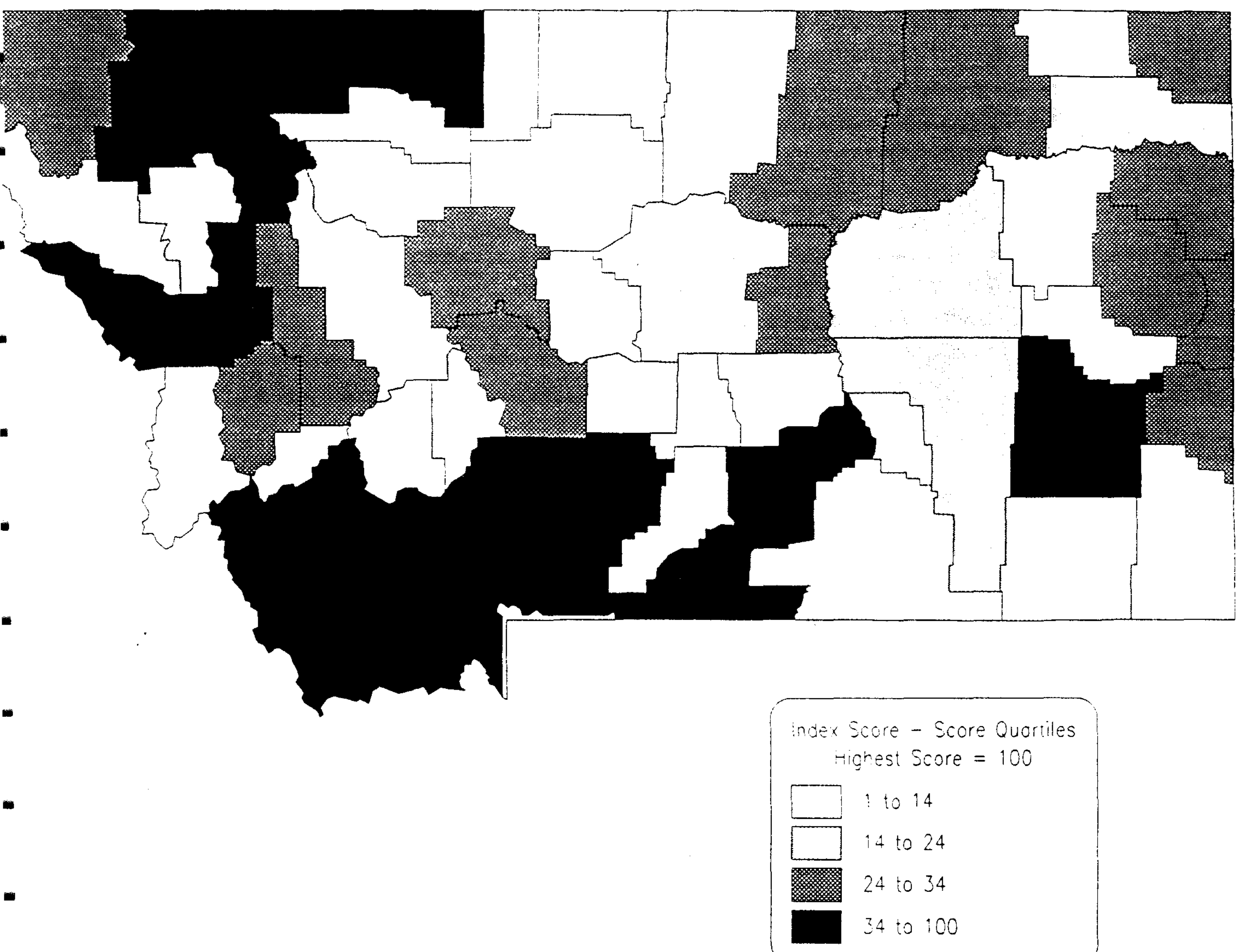
Some Observations from the Results of Phase II:

The committee received seven responses out of the 14 communities polled. The representatives of Kalispell provided the most comprehensive and balanced information regarding tourism impacts. While they were supportive of tourism, they provided evidence that their protective services are burdened by tourism, or at least by nonresidents of the community. A large traffic problem was identified in Kalispell. Officials stated that they do not have the financial ability to adequately address solutions to their congestion, but they are taking positive steps in that direction with available funds.

The city of Bozeman submitted similar concerns as those of Kalispell, but they were not as well documented. The city of Billings did not identify any major concerns and indicated that their economy is diverse and their infrastructure is able to handle the present visitors. The airport officials at Billings felt that tourism was very important to them. The community of Wibaux was supportive of tourism, felt that they presently come out ahead on impacts, and felt they had great potential for an expanded role in tourism. The community of Polson submitted several service delivery and infrastructure concerns in their response. However, no effort was made by them to separate local impacts from tourism's contribution to the increased summer problems.

Many of the concerns submitted by the respondents, such as traffic problems and increased summer-time use could be attributable to tourism and other factors. The direct relationship to tourism is hard to document. An official in the Missoula Street Department pointed out that they have been adversely affected by ever increasing traffic. However, that increase is due to growth in the community and growth in the surrounding areas as well as growth in tourism activities.

Relative Tourism Development Index



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Correlations between Tourism and Indicators of Livability and Quality of Life

	Relative Tourism Development Index		
	Correlation Coefficient	Significance Level	
Demographics			
Population	0.2499	0.063	#
Population Density	0.2157	0.110	
Urban area	0.2953	0.027	*
5 Yr. Change in Population	0.4622	0.000	*
Did not graduate from high school	-0.3115	0.019	*
Graduated from college	0.4203	0.001	*
Adult Age	-0.2872	0.032	*
Residence			
Born in Montana	-0.4096	0.002	*
Lived in same county 5 yr.s ago	-0.4151	0.001	*
Moved in-state to county in last 5 yr.s	0.0089	0.948	
Moved to county in last 5 yr.s	0.4151	0.001	*
Moved to Montana in last 5 yr.s	0.5541	0.000	*
Born in western U.S. - not Montana	0.3556	0.007	*
Family			
Marriage Rate	0.4938	0.000	*
Single Parent Families	0.1919	0.157	
Divorce Rate	0.2223	0.100	#
Children in Population	-0.1105	0.417	
65 and Older in Population	-0.2195	0.104	
Children in Primary School	-0.1704	0.209	
Married Without Children	0.0008	0.996	
Housing			
Vacant Housing for Sale	-0.0547	0.689	
Vacant Housing for Rent	-0.0550	0.687	
Vacant Housing Seasonally	0.1164	0.393	
Percent of Income to Rent	0.2813	0.036	*
Age of Housing Structure	-0.2644	0.049	*
Economy, Jobs:			
Income	0.1898	0.161	
Unemployment Rate	0.1400	0.303	
Poverty	-0.0978	0.473	
Children in Poverty	-0.0609	0.655	
65+ Year Olds in Poverty	-0.0893	0.513	
Workers in Agriculture	-0.4264	0.001	*
Workers in Mining	0.0302	0.825	
Workers in Construction	0.3679	0.005	*
Workers in Manufacturing	0.2628	0.050	*
Workers in Transportation	0.1341	0.325	
Public Utility Workers	-0.0397	0.772	
Workers in Wholesale	-0.0363	0.790	
Workers in Retail	0.5127	0.000	*
Workers in F.I.R.E.	0.1738	0.200	
Workers in Service - not recreation	0.2456	0.068	#
Taxes:			
Tax Effort Index	-0.2484	0.065	#
Taxable Value of Property	-0.2686	0.045	*
Property Taxes	-0.3558	0.007	*
Property Taxes W/O Education	-0.3990	0.002	*
Crime, Emergency Service:			
Violent Crime Rate	0.1117	0.450	
Property Crime Rate	0.2262	0.122	
Sworn Police Officers	-0.1965	0.147	
Emergency Medical Technicians	-0.0810	0.553	
Health			
Physicians	0.2998	0.025	*
Hospital Beds	-0.1398	0.304	
Infant Death Rate	-0.0170	0.901	
Cardiovascular Death Rate	-0.1707	0.209	
Motor Vehicle Deaths	0.0441	0.747	

Significant at the .10 level
* Significant at the .05 level

Community Tourism and Population Characteristics

	Community RTD Index	Census Population	Persons 3 Yr.s & Older Enrolled in School	Percent Born in Montana	Persons 16 Yr.s & Over	Percent in Labor Force	Civilian Labor Force 16 Years & Over	Percent Unemployed	Service except Protective and HH	Private Wage & Salery Workers	Local Gov. Workers
Red Lodge	100	1,958	408	58%	1,546	57%	882	4%	18%	67%	8%
Whitefish	96	4,368	872	49%	3,383	61%	2,063	10%	17%	78%	7%
Ennis	77	773	178	55%	610	62%	379	4%	17%	67%	13%
Kalispell	63	11,917	2,776	52%	9,262	60%	5,508	5%	16%	73%	8%
Bozeman	38	22,660	10,937	49%	18,942	68%	12,068	6%	16%	63%	5%
Missoula	29	42,916	15,084	54%	34,221	65%	22,080	8%	15%	68%	7%
Polson	28	3,283									
Glasgow	27	3,572	698	62%	2,856	59%	1,676	4%	18%	69%	10%
Billings	22	81,151	21,156	57%	62,433	67%	41,829	5%	15%	77%	6%
Wibaux	21	628	104	43%	466	57%	264	8%	23%	52%	26%
Helena	20	24,569	6,114	59%	19,002	68%	12,793	5%	12%	58%	9%
Ronan	17	1,547	364	62%	1,173	55%	641	13%	14%	61%	22%
Great Falls	16	55,097	13,115	60%	42,035	63%	24,926	7%	17%	74%	8%
Havre	14	10,201	3,207	68%	7,780	65%	5,038	6%	16%	68%	8%
Wolf Point	14	2,880	761	76%	2,046	65%	1,337	6%	15%	64%	18%

FY-1993 Video Gambling Receipts

	County RTD Index	1st Qtr. Total	2nd Qtr. Total	3rd Qtr. Total	4th Qtr. Total	1st Qtr. Per Capita	2nd Qtr. Per Capita	3rd Qtr. Per Capita	4th Qtr. Per Capita
Kalispell	63	$215,008	$184,703	$183,988	$255,465	$18	$15	$15	$21
Bozeman	38	$95,573	$99,612	$99,050	$101,620	$4	$4	$4	$4
Missoula	29	$404,266	$404,610	$396,564	$419,466	$9	$9	$9	$10
Glasgow	27	$14,531	$15,187	$14,989	$14,638	$4	$4	$4	$4
Billings	22	$724,361	$754,539	$751,239	$796,494	$9	$9	$9	$10
Helena	20	$227,473	$218,754	$232,843	$255,465	$9	$9	$9	$10
Great Falls	16	$463,078	$464,684	$481,347	$507,948	$8	$8	$9	$9
Havre	14	$80,113	$79,142	$77,657	$79,497	$8	$8	$8	$8

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Community Tourism and Population Characteristics

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	Community RTD Index	State Gov. Workers	Fed. Gov. Workers	Median HH Income	Median Family Income	Per-Capita Income	Mean Wage & Salery Income	Mean Public Assistance Income	Percent of all Persons Below Poverty Level	Per-Capita Property Taxes	Per-Capita Police Protection Payroll	Tax Effort Index - prepared by GAO 05/02/94
Red Lodge	100	5%	3%	$17,376	$23,347	$10,166	$21,156	$3,183	15%			1.53
Whitefish	96	2%	2%	$21,569	$25,112	$11,262	$24,985	$2,348	17%	$178.69	$100.30	1.24
Ennis	77	6%	1%	$27,417	$31,371	$13,178	$27,880	$2,902	13%			0.53
Kalispell	63	3%	2%	$19,950	$27,430	$11,226	$23,016	$3,864	16%	$201.01	$78.13	1.92
Bozeman	38	21%	3%	$19,168	$26,787	$10,172	$21,419	$2,811	25%	$154.85	$39.00	0.95
Missoula	29	12%	4%	$21,033	$29,894	$11,759	$24,955	$3,572	19%	$204.49	$52.10	1.73
Polson	28									$113.18	$52.40	1.19
Glasgow	27	4%	4%	$20,766	$27,667	$10,740	$22,492	$3,059	16%	$138.90	$52.30	1.77
Billings	22	4%	4%	$25,639	$31,906	$12,834	$28,663	$4,127	13%	$126.60	$48.50	1.12
Wibaux	21	4%	3%	$18,214	$23,977	$9,952	$21,131	$3,104	17%			1.27
Helena	20	18%	6%	$25,462	$33,665	$13,256	$27,977	$2,901	12%	$128.70	$20.46	1.23
Ronan	17	2%	4%	$15,868	$20,521	$8,596	$18,219	$3,055	24%			0.86
Great Falls	16	3%	6%	$23,113	$28,731	$12,603	$28,034	$3,649	15%	$111.57	$34.80	0.87
Havre	14	10%	3%	$25,646	$32,493	$12,113	$28,406	$3,946	16%	$111.02	$19.90	0.98
Wolf Point	14	4%	8%	$21,290	$28,173	$9,556	$23,622	$2,713	15%	$63.51	$6.90	0.85

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE BILL NO. SB 35

DATE 1/31/95 SPONSOR(S) ____________

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Tom Harrison	Mt. Soc. of CPA's			✓
Lynn Chenowett	Revenue			✓

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HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE BILL NO. HB251

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Russ Ritter	Wash Corp		✓	
Don Allen	Mt. Wood Products Assn		✓	
David Owen	MT Chamber		✓	
[illegible]				

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HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE BILL NO. HB 265

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Lance Clark	MT Assn. REALTORS®	HB 265		X
JoeAnn Nelson	State Tax Appeal	HB 265		
Gordon Morris	MACo.	265		X
Dennis Burr	MONTAX	265		✓
David Owen	mt Chamber			X
Don Allen	Mt. Area Agencies on Aging	265		✓

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