

Montana Economic Developers Association (MEDA)

Report of MEDA Legislative Committee
Initial Agenda for 2005 Legislative Session & Possible Special Session
(PLEASE NOTE THAT THIS AGENDA IS DRAFT, BUT WILL BE PRESENTED TO THE MEDA
MEMBERSHIP AT IT'S SEMI-ANNUAL MEETING OCTOBER 29-30)

DATE: October 24, 2003
TO: Interim Legislative Committee on Economic Development
FROM: MEDA Legislative Committee
SUBJ: Draft MEDA Legislative Agenda

The MEDA Legislative Committee initially recommends the following:

1. Creation of Economic Development Trust (HB 276, 2003 Session)

The economic development trust bill passed the House but was killed in Senate Finance Committee. **This is a top priority.** This bill would create an internal trust within the Coal Tax Trust Fund (similar to the Treasure State Endowment) with the interest therefrom going to economic development purposes. Such purposes could include distributions by the Department of Commerce to Regional Economic Development Organizations and local Treasure State Communities in order to build better local economic development capacity; matching grants to local development organizations for feasibility studies, etc.; and also for funding a serious state economic development marketing effort (see item 8 below).

2. Eliminating the "trigger" on further business equipment tax valuation reductions (keeping it at 3%) (SB 12 and HB 268, 2003 Session)

This is a major item with MEDA. Currently the taxable valuation of business equipment is at 3%. It has gone down from 11%+ in 1989 until it reached the 3% level in 2000. According to the statutes, it can be triggered to go to ZERO by a 2.85% real growth in wages, beginning in 2004. The current rate makes Montana competitive and nothing of real value will be accomplished by taking it to ZERO. Further, there is no reimbursement to local governments and schools for the property tax revenues lost by such a reduction, meaning that mills will have to be raised locally to offset the lost revenues, resulting in a tax shift from very large businesses to regular commercial and residential taxpayers or a reduction in local services and education.

3. Improving State's Current "New Industry" Property Tax Incentive

This law, which formerly was useful as a recruitment tool, is now obsolete. It requires both state and local government approval to be used, so it was generally used for major economic impact projects. When business equipment tax valuation was at 11% or 9%, the incentive in the statute – a reduction to 3% for 3 years – was a good tool to stimulate growth. Now that the taxable valuation is at 3%, the incentive is useless. MEDA likes the 3-year reduction incentive concept and would like it made useful by placing the incentive rate at 1% for 3 years. Also, we will need to amend the law to re-define "new industry", making it apply to more types of "industry", as well as redefining the "after built" section of the current statute. Finally, we would like to have this also apply to significant "expansions", not just new industry. We also believe this bill should be tied together with the "trigger" (#2 above) and introduced as a tandem.

4. Exempting Economic Development Levies from Local Government Spending Cap (HB 596, 2003 Session)

Currently, if a local government wishes to impose a mill levy for local economic development efforts (as allowed by statute) it must fit it under the local government spending cap or it is forced to be placed on the ballot. MEDA believes that economic development is so important to local areas that millage for that purpose should be exempt from the spending cap. We should be making it easier for localities to accomplish economic development, rather than harder.

5. Progressive Gross Receipts Tax on Retail Stores (Big Box Store Tax) (SB 332, 2003 Session)

MEDA did not support this bill in the last session, but sees it as a possibility for the next session. The idea is not to be punitive to any business, but to "level the playing field" between local small retail businesses and large out-of-state owned box stores. In addition, profits are good, but profits from local stores remain in the community, while profits from box stores go out-of-state overnight. Tax proceeds from this bill could be used to help fund economic growth through the serious state economic development marketing effort (see item 8 below). Such growth will help all stores – local and big box.

6. Various Venture Capital Possibilities (SB 378, 385, 465 and HB 710, 2003 Session)

MEDA thinks that a good venture capital law will benefit economic growth efforts in Montana. We are unsure, at this time, which of the above approaches will work best, but urge that this be a priority for the next session. It is essential that work be

done on this concept before the session, rather than beginning in the session – because of the complexity of the issue.

7. Modifying Governor’s Office of Economic Opportunity

The current structure and location of the office makes it difficult, if not impossible, to retain skilled employees in the key positions, particularly as you approach elections. While we believe the head of such an office should be “political” and serve at the pleasure of the Governor, we believe that some of the positions should be classified. The Governor’s Budget Office is a good model, where the employees are professional, but the Director is political. Other structures could be considered, but it is important that the office continue to have high visibility, both inside and outside of Montana.

8. Create a Serious State Economic Development Marketing Effort

Currently the state of Montana does not even get on the playing field with other states when it comes to economic development recruitment. We have done much to improve our appeal to business for economic growth, but we have, to this point, not committed ourselves to telling anyone about it. Keeping our appeal a “secret” is no way to get growth. We must have a serious, well-funded program to market Montana as a business opportunity. It could be funded partially from the economic Development Trust Fund (see #1 above), partially from the Big Box Store tax (see #5 above) or from some other source. MEDA has a special subcommittee working on this concept.