MINUTES

MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on January 26, 1999 at 8:00 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:
- Sen. Gerry Devlin, Chairman (R)
- Sen. Bob DePratu, Vice Chairman (R)
- Sen. John C. Bohlinger (R)
- Sen. Dorothy Eck (D)
- Sen. E. P. "Pete" Ekegren (R)
- Sen. Jon Ellingson (D)
- Sen. Alvin Ellis Jr.(R)
- Sen. Bill Glaser (R)
- Sen. Barry "Spook" Stang (D)

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

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

Committee Business Summary:
Hearing(s) & Date(s) Posted: SB 200, 1/20/1999; SB 208, 1/20/1999
Executive Action: SB 200

HEARING ON SB 208

Sponsor: **SENATOR GLENN A. ROUSH, SD 43, CUT BANK**

Proponents: **Gordon Morris, Montana Association of Counties**

Opponents: **Mary Bryson, Director, Department of Revenue**

<u>Opening Statement by Sponsor</u>:

SEN. GLENN A. ROUSH, SD 43, Cut Bank, said this bill came from the Montana Association of County Commissioners in the form of a resolution. He said the bill is an act providing that tax revenue collected by a state agency for a county treasurer be transferred to the county on a same-day basis.

SEN. ROUSH went on to say that over the past two years the Department of Revenue has been working on a proposal to streamline revenue collections to provide one-stop shopping for Montana taxpayers. These discussions have indicated that the Department of Revenue plans to eventually take over the county treasurers' functions of collecting taxes. Currently county treasurers collect and invest property taxes. Interest earnings on these investments are distributed to the various tax jurisdictions to help reduce property taxes and provide additional income to assist those entities.

SEN. ROUSH said this is a simple bill which is intended to protect counties, schools and local taxing jurisdictions against a loss of interest earnings if the Department of Revenue does not transfer collections to the counties in a timely manner. If the state takes over the collection of these taxes, this bill would require the state to electronically transfer the revenue to the county on the day the tax is collected or the state will pay an interest on the revenue collected for the time from when it is collected until the revenue is transferred to a county at a rate of 12% a year on the revenue.

<u>Proponents' Testimony</u>:

Gordon Morris, Montana Association of Counties, provided the committee with copies of Resolution 98-18, which **SEN. ROUSH** referred to in his opening **EXHIBIT(tas20a01).** He went on to say that this is really prospective. In other words, assuming that the Department did take it over, they would have to work with local governments to make sure that the interest earned on the local level at the present time was protected. He said this bill is a reflection of the fear and distrust that is out there in terms of motives that drive the Department from time to time.

Mr. Morris also pointed out that one of the technical notes talks about the word "assume," which means "to take upon oneself." If the Department of Revenue takes it upon itself to collect revenues that are currently being collected on a local level, then it would follow that they would have to get that money back to the local government by electronic transfers.

Opponents' Testimony:

Mary Bryson, Director, Department of Revenue, testified that the Department has some concerns about this bill. She said, first of all, the bill has no applicability date. Currently the Department collects revenues that were once collected by the county treasurers, and she wondered if **SB 208** would apply to those revenues as well. She said those are remitted back to local governments on a quarterly basis.

Next, **Ms. Bryson** said that it is not possible, given the restraints of the existing accounting information and banking systems, for the Department to remit on a same-day basis those collections that they would receive. She said that some of those collections do not come in until late in the afternoon, which is too late to process those revenues and remit to the counties. She said there are also the considerations of insufficient funds checks, incorrect or incomplete paperwork, et cetera. **Ms. Bryson** said that because there is no applicability or effective date, there could be a significant impact to state revenues.

She also said that the Department of Revenue does not intend to take over the collections of local government, but that the Department is, for state purposes, building a remittance processing and collection center for state-collected revenues and state-deposited money. **Ms. Bryson** went on to say that the Department does intend in the long term to offer that service to local governments, but that it would be the decision of those local governments to make that determination and that selection. This bill would effectively prohibit local governments from making the choice of having remittance processing done by any external entity other than the Department of Revenue.

Ms. Bryson also pointed out to the committee that presently local governments collect a significant amount of revenue for the state, and that revenue is not subject to the same restrictions as this revenue would be. She wondered if under **SB 208** those revenues would have to be remitted to the state on a same-day basis in the same manner and at the same interest rate.

Questions from Committee Members and Responses:

SEN. DEPRATU said that it seemed to him that in addition to the problems enumerated by **Ms. Bryson**, that there would be the problem that at most banks, the funds deposited would not be available for draw for two or three days, until those funds are collected from the other bank, which could create a negative cash flow. **Ms. Bryson** said that that was correct. She said that the bank does not recognize those deposited funds on the same day that they are deposited, and the Department would be transferring money that had not cleared the bank. **SEN. DEPRATU** then asked about the 12%, which is above current market rate, and **Ms. Bryson** said that that is an interest rate that the Department is pursuing as far as penalty and interest, but that it is higher than the state's current rate of return.

SEN. DEVLIN asked where the idea of the Department of Revenue taking over the duties of the county treasurers originated, and whether it had any basis. **Ms. Bryson** said that the Treasurers Association would probably disagree with her, but that she felt that there was no basis. She said that when the Department identified that they wanted to build a remittance processing center in state government, they indicated that they wanted to offer that service to federal and local government entities as well.

In addition, **Ms. Bryson** said that the Department of Revenue is involved with 16 other state agencies and local governments in an analysis of the county collections process, monies that are collected at the local level and remitted to the state, monies that are collected at the state and then remitted to local governments, and in that analysis, the Department has identified some concerns. Because the Department has identified those concerns, the local governments have focused on the Department of Revenue, which is merely the agent that did the analysis. **CHAIRMAN DEVLIN** then asked if there was anything on the part of the Department of Revenue, either through hostile or benign actions, indicating a takeover of the treasurers' jobs in the various counties, and **Ms. Bryson** said there was not.

<u>Closing by Sponsor</u>:

SEN. ROUSH reiterated that this bill was proposed by the Montana Association of Counties as a resolution, and that what the bill needs to be amended by the Taxation Committee is an effective date. He requested the committee to do that, and make the effective date "upon passage." He admitted that the 12% interest rate is high in comparison to interest rates today, and that that may be a concern. He said that he does not believe that the Department of Revenue is going to actively start taking over some of these duties of the local government, but the fear is there, and that that is part of the reason for this bill. He asked for the Committee's positive consideration on **SB 208**.

<u>HEARING ON SB 200</u>

<u>Sponsor</u>: SENATOR MIKE TAYLOR, SD 37, PROCTOR

<u>Proponents</u>: **Mick Robinson, representing Governor Racicot**
Alec Hansen, Montana Association of Cities and Towns
Jim Peterson, Montana Stockgrowers Association
Ron deYong, Montana Farmers Union
Evan Barrett, Montana Economic Developers Association
Mike Foster, Montana Contractors Association
Betty Sampsel, Montana Woolgrowers Association
Gordon Henricksen, Don Aadsen Ford
Arla Jean Murray, Montana Cattlewomen
Riley Johnson, National Federation of Independent Businesses
Chris Gallus, Montana Chamber of Commerce
Gloria Paladichuk, City of Glendive, Richland Economic Development
Steve Turkiewicz, Montana Automobile Dealers Association
Carl Schweitzer, Bozeman and Kalispell Chambers
Lochiel Edwards, for Himself
Jim Mockler, Montana Coal Council
Burke McCormich, New Holland Service and Supply Inc.
Merlin Boxwell, Cut Bank
Jon Stoner, for Himself
Keith Schott, Montana Grain Growers Association
Jerry Swenson, for Himself
Tony Novak, Montana Grain Growers Association

<u>Opponents</u>: **Don Judge, AFL-CIO**
Brian Cavey, Montana Motor Carriers Association
Roger Koopman, Montana Trustees of Freedom

<u>Opening Statement by Sponsor</u>:

SEN. MIKE TAYLOR, SD 37, Proctor, introduced **SB 200** as a piece of legislation that is a combined effort of many. He said it fills one part of the jobs puzzle and will lead Montana into economic prosperity. **SEN. TAYLOR** said that **SB 200** empowers small businesses to expand existing businesses and to start new businesses that will result in higher paying jobs for Montana families. He said it also fills one of Governor's Racicot's commitments to Montana through jobs and income proposals. He said the Committee on Jobs and Income crafted this bill in a nonpartisan fashion.

SEN. TAYLOR referred the Taxation Committee to the "Goals: Business Retention, New business Creation and Creation of Good-Paying Jobs" handout **EXHIBIT(tas20a02)**. He said the bill starts with a state income tax credit, regardless of income tax liability, for class eight property taxes paid on the first $10,000 of business equipment in 1999; $15,000 for the year 2000; $40,000 for the year 2001; $100,000 for 2002; $500,000 for 2003; $2 million for 2004; and $6 million for 2005. When it concludes, this will exempt 95.6% of businesses in Montana from paying class eight property taxes.

SEN. TAYLOR said that this takes care of Montana's small and mid-sized businesses. He made reference to the 19 identified companies in Montana who are in the $18 million to $19 million range, and he said that at the highest level, this bill would reduce them approximately 25% to 30%. He said this bill sets the future for companies and technology in Montana.

SEN. TAYLOR said the next part of the bill is a one-time income tax credit, up to the amount of class eight property taxes paid, for 1% of the wages paid for a new job created and paying $10 per hour or more per year, or $20,800. He said part of the goal of this bill is to help raise wages in Montana, and that's the purpose of this tax credit. He said this credit will be paid out of the General Fund.

SEN. TAYLOR then talked about the job training tax credit against tax owed. This gives employees who may be downsized an opportunity to go back to school, and gives the employer advantages for training an individual in a new field. Initially, the prevailing wage for the period of training was a 70% benchmark, but **SEN. TAYLOR** handed out an amendment raising the benchmark to 80%, which would raise the wage that would have to be paid to qualify for this job training tax credit **EXHIBIT(tas20a03)**. This includes a 20% figure that a company would have to expand existing jobs before they could get this credit. In other words, a small business with ten jobs would have to create two new jobs and training in two fields to quality.

Finally, **SEN. TAYLOR** said that the bill reduces the class six property tax, which is the livestock and equipment tax, 1% a year for four years until it is gone.

SEN. TAYLOR then referred the committee to the fiscal note and a letter from James E. Standaert, Senior Fiscal Analyst II, Montana Legislative Branch, Legislative Fiscal Division, explaining their position **EXHIBIT(tas20a04)**. He also offered a letter of endorsement from Robert Kormann, West Shore Cabinets **EXHIBIT(tas20a05)**.

Proponents' Testimony:

Mick Robinson, representing Governor Racicot, appeared as a proponent to **SB 200** and commended **SEN. TAYLOR** for his work on this bill. **Mr. Robinson** said that this particular legislation calls for the reduction of the business equipment tax, and the Governor's tax reform proposal calls for the elimination of that tax. He said that they believe that this tax continues to be a disincentive for businesses to expand or to locate within Montana, and that it is critical that we continue to address this tax issue.

Mr. Robinson said the job training credit incorporated into this particular piece of legislation began as an element of the Governor's jobs and income proposal. He said they believe that it is important to focus on those good-paying jobs, to try to provide the training to move individuals into those skilled job areas so that we will have a skilled work force able to meet the labor needs of our new and expanding Montana businesses.

In closing, **Mr. Robinson** said that he thinks it is important to work to identify and coordinate the resources necessary to cover the costs of this legislation. Comprehensive tax reform decisions, appropriation decisions and revenue estimation decisions are critical and are tied together in terms of moving this legislation forward.

Alec Hansen, Montana League of Cities and Towns, said that his organization has been following the work of the Jobs and Income Committee since last year, and especially this bill. He said a couple weeks ago a version of this bill was brought forward that included an exemption for newly acquired personal property, and the handout that accompanied the bill indicated that there was no cost involved to local governments. He said his organization did some research and identified a significant cost. **Mr. Hansen** said he brought this information to **SEN. TAYLOR** and he graciously agreed that there was a cost there but that it wasn't intended. The bill presented today is a redraft and corrects that problem.

Mr. Hansen said that this is an income tax credit that will be claimed by businesses. There is no negative fiscal effect for municipal governments, in fact there may be a positive effect. He said if this bill works, there will be more personal property in the state of Montana, and it's likely that tax revenues for cities and towns and local schools may increase. He thanked **SEN. TAYLOR** for responding to their concerns and urged support for **SB 200**.

Jim Peterson, Montana Stock Growers Association, testified in support of **SB 200.** He said his organization had been very involved in Vision 2005 and the jobs and income discussion. One of the goals of Vision 2005 was the elimination of the business equipment and livestock tax, and this bill moves in that direction.

Ron deYong, Montana Farmers Union, said that Farmers Union has three basic components that they would like to see as part of the final tax reform package, and this bill addresses two of those components, which is the reduction in business equipment taxes and the beginning of the elimination of the livestock taxes. He said the reimbursement mechanism for the county is very important. He reminded the committee that presently there is a per capita tax, a good share of which goes to the Department of Livestock, and when those livestock taxes are eliminated, it is important that the mechanism is still there so there is that flow of money to the Department of Livestock through the reimbursement mechanism.

Mr. deYong said his organization did have one concern, and that is that the first biennium is well within the parameters of the budget, but with the increases in exemptions for future bienniums, there could be some large deficits. He suggested that perhaps language concerning that could be included in the legislation so that future legislatures could be proactive rather than reactive to whether we can maintain exemptions at that level or whether the exemptions could be increased.

Mr. deYong said Farmers Union likes the income tax credit for hiring new, qualified employees, especially that it has to be a qualified employee who receives a wage of $10. This encourages higher scale employees.

Evan Barrett, Montana Economic Developers Association, said they are a statewide group of people who work in economic development, with about 120 members mostly from the private sector. He said his organization is in favor of **SB 200** overall. He said that property tax reductions are not a panacea for Montana's economic problems. He said that taxes are not the first consideration that corporations make when locating in Montana, it may be 4th or 6th. He cited the example of Pasta Montana's desire to locate in Great Falls because of the accessibility to General Mills, and how it took the slide in business property taxes from 9% to 6% to encourage General Mills to build the semolina mill to accommodate Pasta Montana and make the whole thing work.

Mr. Barrett said that his organization feels in order to make this tax reform work, there must be four significant policy considerations: 1) It is important to work from the bottom up, but also across the board on the percentage, as well. 2) Make it competitive. His organization feels that 3% across the board is a competitive taxable valuation rate. 3) Make the revenue loss an acceptable level, and 4) make sure that local government and school board protections are ironclad.

Mike Foster, Montana Contractors Association, said that the employers in his organization pay very high wages for thousands of Montana workers. He said they also pay high taxes, and so they appreciate the efforts of the Jobs and Income Committee and Governor Racicot for bringing economic development to the forefront during this legislative session.

Mr. Foster said, regarding the business equipment tax portion of this bill, that the Contractors support the recognition of the need for tax relief in this area, although they would prefer elimination of this tax. **Mr. Foster** agreed that the job creation tax credit should also be helpful to Montana's economy. The Contractors, though, will need an explanation of how this particular credit will affect the construction industry, considering that their work force levels fluctuate tremendously over time. Also, the job training tax credit is very important to the construction industry because a well-trained, qualified work force means being able to conduct the work in an efficient, high quality manner.

Betty Sampsel, Board of Directors of the Montana Woolgrowers Association, said she was a member of the Vision 2005 Committee, and in all of the meetings of that committee, the tax on business equipment was singled out as a detriment to business, especially when considering the purchase of new business equipment. She said she is also in favor of **SB 200** because it reduces and ultimately removes the taxes on livestock. She submitted written testimony **EXHIBIT(tas20a06).**

Gordon Henricksen, said he is a small business owner in Ronan and Lake County. He said he is excited about this type of tax reform. He said he has seen many small businesses make business decisions based on tax consequences, so he can see economic benefits to the reduction and eventual elimination of some of these taxes.

Arla Jean Murray, Montana Cattle Women, said her organization stands in support of **SB 200.** She told the committee that agriculture is the number one industry in Montana, and it needs to be protected. She said the entire state is suffering economic loss because of the economic loss to the cattle industry and to the agriculture industry. She said that she believes that when you cut taxes for agriculture, it generates more money. It replaces itself, and provides more jobs and more income to communities all across the state.

Riley Johnson, National Federation of Independent Businesses, said **SB 200** is a good bill and he urged support.

Chris Gallus, Montana Chamber of Commerce, said his organization supports **SB 200.** He said that this bill is great for small business, which represents 95% of business in Montana, but that the committee needs to consider what the other 5% contributes to the economy. The Chamber would favor, either in this bill or other legislation, continuing the reduction of the rate of tax and get it down from 6% to at least a competitive rate.

Gloria Paladichuk, Richland Economic Development of Richland County and the City of Glendive, said that this bill will reimburse local government for actual lost revenues. She said that it appears that this bill will replace Section 15-1-111, which actually reduces local governments' share of personal property taxes and effectively weans them off this revenue over time. If the intent of **SB 200** is to help keep local government 100% whole, they wholeheartedly support this bill.

Steve Turkiewicz, Montana Auto Dealers Association and Don Aadsen Dealerships, urged support of **SB 200.**

Bill Mertz, Montana Grain Growers Association, Dotson, testified in support of **SB 200.** He said that this appears to be on the cutting edge of trying to help the farmer/rancher and small businessman in Montana.

Carl Schweitzer, Bozeman and Kalispell Chambers of Commerce and the Montana Wood Products Industry, said that his organizations support **SB 200.** He said they appreciate the reduction in personal property taxes on business equipment. However, he said the wood products industry would like to see a gradual reduction from 6% to 3% in the overall tax rate, because this bill doesn't give a lot of tax relief to those that have a lot of equipment, and they would like to see another approach.

Lochiel Edwards, Big Sandy, said the property tax relief and job expansion credit appear to be a positive and far-sighted initiative for promotion of business in Montana. He urged support for **SB 200.**

Jim Mockler, Executive Director, Montana Coal Council, appeared in favor of **SB 200** because is represents tax reform. He said, however, that he represents a number of businesses that are in the top 19 companies mentioned by **SEN. TAYLOR**, and that those companies can use tax help as well. A tax is a cost of doing business no matter what the size of the company may be.

Burke McCormich, New Holland Implement Dealer, Cut Bank, said his company is in support of **SB 200.** He said the tax implications are a major consideration for farmers and ranchers who are considering a purchase of equipment, and that sometimes they figure that it is more cost effective to hire custom cutters. He said that when they do that, the money that is paid these custom cutters does not stay in the state. This tax incentive could help the economy by encouraging investment in equipment and keeping that money in Montana.

Merlin Boxwell, Cut Bank farmer, said he supports **SB 200.** Although he does not feel that it goes quite far enough, it is at least a step in the right direction.

Jon Stoner, Havre farmer, said he also supports **SB 200,** and encouraged the committee to look at eliminating the property tax.

Keith Schott, Montana Grain Growers Association and farmer, strongly urged support of **SB 200.** He said that the elimination of the business equipment tax not only benefits business but stimulates economic growth in Montana. Every dollar that is saved in taxes eventually goes back into local communities and businesses. **SB 200** is a great start in tax reform, but it does not go as far as he would like to see.

Jerry Swenson, Cut Bank farmer, said that contrary to popular belief, business tax is a big issue when trying to service agriculture. He said that **SB 200** is a good first step in tax reform.

Tony Novak, Helena farmer, said that for several of the reasons already stated, he would recommend a do pass on **SB 200.**

Opponents' Testimony:

Don Judge, Montana State AFL-CIO, said that his organization believes that promoting economic development in Montana is a good idea and that they are not entirely opposed to this legislation. However, they also believe Montana needs to take a conscious approach to economic development, and he feels that the legislation as written does not protect the interests of the state of Montana as a whole. **Mr. Judge** said that labor for many years has taken an active part in promoting economic development, but that they have some serious concerns about **SB 200.**

First, **Mr. Judge** said, labor favors getting the business equipment tax off the backs of small Montana employers, but that this bill still requires a business to file and then get a reimbursement from the state or a reduction in the income tax. Labor feels that if we are going to eliminate or reduce this tax, the paperwork should also be eliminated. He also said this bill ought to be sunsetted, if passed at all. That way, it becomes a proactive decision of the legislature to reinstitute the increases as the years go along, based on the production of those jobs and those businesses.

Mr. Judge said they are also concerned about the infrastructure needs. He said it is easy to shuffle the tax cost to the General Fund, but the fact is, the General Fund is fat one year and lean the next. He also said that in his opinion, Montana will not be able to collect the reduction in tax from a sales tax.

Mr. Judge then moved to the job tax credit section. He said that he agrees with the sponsor that if you are going to offer a tax credit for the creation of a job, it ought to be a good-paying job. However, he said the way the bill is written, it does not say that a qualified job has to pay that income. In fact, **Mr. Judge** said, in the definition of a qualifying job, it simply says that the qualifying job must have been created by the taxpayer in either the tax year previous to the tax year for which the credit is applied and may not have been previously claimed for the job creation tax credit and must be an additional job created by the taxpayer that does not replace an existing job. He said those are both good things, but it does not have the additional "and must pay at least the qualifying annual salary." If it said that, then there would not be a problem with at least the definition of those kinds of jobs that we want to create.

Mr. Judge went on to ask about the duration of these jobs. The bill simply says a job must be created to get the tax credit. He said there ought to be some kind of duration to the kind of jobs that are being created. Also, he indicated that labor has concern about the qualifying wages. He told the committee that the average weekly wage in Montana in December was $370.94. The qualifying weekly wage for a training credit, under this proposed bill, would be 80% of that, or $296.75, or if they actually worked a full year, $15,431. **Mr. Judge** said that if you are a single person, you might be able to get by on that, but if you are a married person with one child or a single person with one child, that is well below the poverty level; and again, he said, there is no job duration attached to that.

Mr. Judge said his organization wants to work with the legislature and employers and farmers and ranchers to do something about the economy. Citing the Workers' Compensation issue a few years back, he said that we have been down the path of tax breaks to employers before, and that has resulted in nothing but lower wages in Montana. He said creating jobs is one thing, but creating jobs that pay a livable wage and keep a family sustained is something quite different.

Mr. Judge said that the AFL-CIO is opposed to **SB 200** and urged careful consideration by this committee.

Brian Cavey, Executive Vice-President of the Montana Motor Carriers Association, said he represents approximately 400 carrier members. In the interest of full disclosure, he informed the committee that he had testified in favor of this bill before the Committee on Jobs and Income. However, that testimony included the recommendation that an amendment be offered to extend the benefits of this bill to Montana's trucking companies. That amendment failed to materialize, so he has altered his approach. On behalf of the MMCA, he opposes this legislation.

Mr. Cavey said while MMCA believes in the goal of the bill, and since trucks carry approximately 87% of the goods carried in the state to Montana, economic development will ultimately benefit the members of MMCA. He said, however, that it is only fair that the ranks of those who benefit directly from this bill be expanded to include truckers.

Mr. Cavey told the committee that prior to 1998, trucks were treated as class eight property for taxation. The property tax reductions begun in 1995 included trucks, too, and in 1997 when taxes on class eight property were reduced again, that truck tax was converted to a fee in lieu of taxes.

To be fair, he said, truck owners did receive a benefit from that action, but he cited an example of what this bill would mean to trucks. He said in 1999, the $10,000 tax credit, if you use the 6% tax rate and 422 mills, that credit would yield savings to a business of about $250, the same amount of the fee paid on one nine-year-old truck. **Mr. Cavey** said most of the carriers in the state would qualify for that. By the third year of this bill, the credit is on $40,000 of equipment, roughly a credit of $1014, or the amount paid on two four-year-old trucks, which is a reasonable approximation of what the average truck looks like. By the year 2004, when this credit is against $2 million in business equipment, the tax credit would yield roughly $50,000, the same as a trucker would pay on 67 one-year-old trucks. **Mr. Cavey** explained that most of the carriers in this state would not qualify at that level. Unless this bill is amended, however, it will not apply to a single truck.

Mr. Cavey said the MMCA also supports the establishment of the job creation and job training tax credits, because approximately one job in eleven in Montana is related to the trucking industry. The jobs pay well and there are openings for drivers currently. He said that with some carriers in Montana, a newly trained driver with no experience can start at $30,000. That wage is 44% greater than the qualifying wage referred to in this bill. With carriers attempting to maintain growth, they are creating the type of job which this legislation hopes to encourage. The job creation tax credit will help these companies.

In regard to job training tax credit, **Mr. Cavey** said that MMCA operates a well-respected drivers training program through one of their companies. That training program currently trains roughly 85 new drivers a year, and they hope to expand that to 100 this year. Roughly 30% of those new drivers are trained for jobs that do not exist. They are being trained to create new jobs. However, **Mr. Cavey** said, this program, which currently employs a full-time staff of five with a payroll exceeding $175,000, does not qualify for the job training tax credit because it is an existing program and because the training program, which is just a month in length, does not qualify under the terms of this program. Even though someone completing this month-long training can start at $30,000 a year immediately, the credit would not be paid.

Mr. Cavey said his organization could support **SB 200** if the qualifications for the job training tax credit were amended, and if this credit for property taxes could extend to trucking companies.

Roger Koopman, President, Montana Trustees of Freedom, said he owns employment agencies in Kalispell and Bozeman and has been involved in the placing of people in gainful employment for 19 years. He said he sees himself as a voice for economic liberty. He said he sees this legislation as two distinctly different concepts. He said he supports the reduction or elimination of the business equipment tax and the livestock tax, but objects to the job creating and job training aspects of **SB 200.**

Mr. Koopman said government cannot create jobs or job training. He said that normally when the term "incentives" is used, we are actually referring to "subsidy." He said that this bill is not a general lowering of the tax burden of the people of Montana or our economy, but is tax shifting. Certain companies that meet certain conditions get a favorable tax treatment. That means that those that don't qualify are put at a competitive disadvantage. He said it is not the role of government to make these kinds of decisions. It is the role of government to allow liberty to prevail, to allow a market system to prevail where a stronger economic base is built through the marketplace, not through any kind of government schemes, inducements, programs or influences. He said the intention of **SB 200** is good, but it is a total abandonment of the market economy.

Mr. Koopman closed by saying that there have been many studies done to show that the states that are driven economically are because of a lower tax burden, because of a generally positive business environment, and reduced government. Two of those studies have been done by Rob Natelson, and he provided a copy of "State Fiscal Policy and Economic Growth in the Rocky Mountain West" **EXHIBIT(tas20a07).** In the words of Patrick Henry, he said, "The great and direct end of government is liberty."

Questions from Committee Members and Responses:

SEN. BOHLINGER asked **Mr. Barrett** about his testimony that taxes are the 4th or 6th consideration that companies make when considering location, and wondered what the first, second and third considerations were. **Mr. Barrett** said that generally they consider the availability and quality of the work force, the cost and availability of infrastructure, the availability and cost of water, and then they get into taxes and quality of life issues. **SEN. BOHLINGER** asked where **Mr. Barrett** found evidence to support these statements, and he answered that just as a practitioner for 12 years, that is what he has found in talking with people. He also said there has been some fairly extensive research done across the whole country on that issue that comes out in magazines related to economic development.

SEN. BOHLINGER referred to **Mr. Barrett's** statement that if the tax were reduced from 6% to 3%, that at 3% businesses would be competitive, because this would equate to a 1% tax on business equipment. He asked **Mr. Barrett** how he computed this as a 1% tax on business equipment if the effective rate is stated at 3%. **Mr. Barrett** said that, in fact, the 6% is the taxable valuation rate. If it is moved to 3%, you multiply the taxable valuation rate by the millage to get the effective rate. He said that the average millage in Montana is about 400, so if you apply 400 mills against the 6%, you come out with a 2.4% effective rate on the value of the equipment. If you reduce it to a 3% taxable valuation, take the 3% times the 400 millage, you get 1.2%.

SEN. BOHLINGER asked **Mr. Barrett**, if this were capped at 3% and the effective rate for investments was 1.2% up to $4 million, how it would compare with states in this region as far as effective tax rate. **Mr. Barrett** answered that by bringing the taxable valuation down to 3% and creating a taxable valuation rate of 1.2% as a maximum, that would be pretty much what Idaho has, which is our best comparison at least in terms of the competition that we have.

CHAIRMAN DEVLIN asked **Mr. Barrett** about his example of the General Mills expansion in Great Falls, and whether they applied for and got the tax reduction on their new and improved properties to the 3% from local government, and **Mr. Barrett** said he didn't know whether they took the incentive and then went along with the 6% or not. He said he did know that going down to the 6% created enough of a benefit that they felt they could make the capital investment long term, but he did not know whether they applied for the 3% on new and expanded business.

SEN. GLASER referred to the long-range impacts on the fiscal note, and asked **SEN. TAYLOR** about the impacts that reduce revenue by $74 million in the 2003 biennium and $130 million in the 2005 biennium. **SEN. TAYLOR** said that the fiscal notes are questionable because they are based on best estimates. He said that also on this fiscal note the projected income tax growth is not projected.

SEN. ELLINGSON then asked **SEN. TAYLOR** if the motivation for this bill was the dire economic straits of our workers and citizens in the state of Montana, namely that Montana is 51st in per capita income in this country. **SEN. TAYLOR** said that that is a big part of that motivation. He said this is not an experiment, it is something that has worked in other states, and that the motivation of the package is to try to stimulate jobs and income and raise the level of Montana families.

SEN. ELLINGSON asked if these tax cuts are instituted, would economic activity be generated that will create new jobs and will stimulate business development, and in the process will create new revenues for the state. **SEN. TAYLOR** said that was correct, given time. Referring to the fiscal note, **SEN. ELLINGSON** asked **SEN. TAYLOR** what evidence he had to support that hypothesis, given that there is a huge fiscal impact. **SEN. TAYLOR** said he only knows what surrounding states have done. The $4 million level puts us at 1.2%, an equal playing ground with Idaho. Wyoming has no tax, South Dakota has none, Idaho has lower tax than this would put us at, Washington would be lower than we are right now, and he said he has the documentation. **CHAIRMAN DEVLIN** asked if **SEN. TAYLOR** would get that information for **SEN. ELLINGSON**, and he said he would.

SEN. ELLINGSON said that Montana has a history of granting tax relief to certain industries, and cited the coal severance tax issue, but asked for **SEN. TAYLOR'S** comments on what the legislature did in 1995 when over a period of three years it was decided that the business equipment tax would be cut from 9% to 6% with the hope that tax revenues would go up. **SEN. ELLINGSON** said that **Mary**

Bryson of the Department of Revenue had related that actually there was a greater increase in business equipment investment at the 9% level than there has been at the lower levels. He wondered how this proposal to reduce it further, seeing that it is going to cost $130 million over the 2005 biennium, is going to stimulate business development when history demonstrates that it hasn't. **SEN. TAYLOR** gave the example of an item that sells for $1000 in Montana and $250 in Idaho, with everything being equal. Montana lowers the tax, making that $500. Montana has cut the tax in half, but in Idaho you can still buy it for $250. He said if you cut it to $250, give it stability, predictability and time, and show Montana businesses that you are serious about keeping it there and not changing it, it will happen. He said it has happened in other states.

SEN. ELLINGSON said that Montana has continued to have business investment, even though the state is at a supposed competitive disadvantage to Idaho, and that our rate of increase of business equipment investment was greater when there was a 9% rate of taxation than a 6% rate. **SEN. TAYLOR** said that this is an abstract to some extent. He said he could not be absolutely sure, but based on the history in other states, this will encourage new capital intensive improvements, new jobs, and will stop the export of our children to other states.

SEN. ELLIS then asked **SEN. TAYLOR** about page 2 of the fiscal note, the assumptions under the job creation tax credit and the job training tax credit. He said that since there's not much difference in the assumptions except for the dollar figures, he wondered how they differ. **SEN. TAYLOR** said the main difference is in the training. It requires that a business train a new person into a new field. It is a retraining program. The other is a job credit based on creating a new job. One is an income tax credit and the other is a property tax credit. **SEN. ELLIS** then asked if the training has to be formal and what qualifies this training for a tax credit, and **SEN. TAYLOR** said that it has to be a new field for the employee.

SEN. ECK questioned why, even though a lot of taxpayers will not have to pay any tax, they will still have to file that return. She wondered what the possibility would be of getting around that. **SEN. TAYLOR** said that the Jobs and Income Committee had decided that might be a good idea, but the counties preferred this method so that they can have better tracking.

SEN. ECK then asked, once this much money is taken out of the General Fund, what other things might contribute to a good economic climate. She wondered about ways that would balance that so there wouldn't be a big hole in the General Fund, and **SEN. TAYLOR** said that this is only one part of the equation. He said the Governor has proposed to put more money into research and development, and that universities are funded adequately. He said a lot of businesses have relied on that funding to grow their income and their jobs around that university system.

SEN. BOHLINGER asked **Mr. deYong** about his testimony that future legislatures should evaluate the success of this program. He asked what sort of standards he would propose for evaluation and how success could be measured. **Mr. deYong** said that the Jobs and Income Committee tried to establish benchmarks and criteria that could be looked at. He said that experts say that it can take up to ten years before you see revenue flow coming back from cutting taxes, so in two years there may not be much visible.

CHAIRMAN DEVLIN then asked **Mr. deYong** if there really is a test group that says, "This would happen if this happens," and **Mr. deYong** agreed that there are a lot of variables and it is not known which variables are causing what, but that there needs to be some way to see if there are gains or not, even with all the variables.

SEN. STANG asked if all three tax credits in the bill applied to income, and **SEN. TAYLOR** said that was correct. **SEN. STANG** then asked if the job creation tax credit and the job training tax credit were direct credits against the income tax, or were credits that can exceed the amount of income tax paid. **SEN. TAYLOR** answered that the job creation tax credit can be against class eight property taxes paid. **SEN. STANG** then asked **Ms. Bryson** of the Department of Revenue to explain the three different tax credits and how they will operate in this bill. **Ms. Bryson** said she believes all of the tax credits have a carry-forward provision. The job creation tax credit, the job training tax credit and the tax credit for class eight property taxes paid carry forward to future years if a business doesn't use all of the tax credit available against the current tax level.

SEN. STANG then asked **Ms. Bryson** if the property tax credit is refundable with no regard to the amount of income tax paid; for example, if a business had a tax credit for property taxes greater than the income tax paid, would that business receive that whole credit. **Ms. Bryson** said that the tax credits could be carried forward. **SEN. STANG** then asked in which order the credits would apply, whether the job creation tax credit would be first, the job training tax credit second, and then the property tax credit, or whether the property tax credit would apply first and then any other credit could be carried forward. **SEN. TAYLOR** said that property tax is the first credit, the next credit would be the creation of new jobs, and the qualifying wage job would be the retraining.

SEN. STANG then asked if there was a problem if the property tax credit was applied first and the property tax credit was going to be greater than the income tax liability, and the business is always going to receive a credit for that, then there is no incentive to create the $10 job and there is no incentive to do the job training because it is always going to be a tax carried forward or a tax credit for which there would be no basis to apply it to. He said if there really is no incentive for those two things in this bill, perhaps they should be a separate thing and stand on their own. **SEN. STANG** also said that if you put the job creation tax credit and the job training tax credit first and apply that against lowering your income tax, and then the property tax credit is on top of that, there would be a bigger incentive for businesses, but it would probably create a bigger hole for the state. **SEN. TAYLOR** said he could not answer that question.

SEN. STANG asked if the Jobs and Income Committee had discussed the bonding capability of local governments and whether it had been run through the Bond Council. **SEN. TAYLOR** said that the Bond Council did not testify. He said it was discussed in the committee, but the cities and counties supported **SB 200**, and they felt it was not a problem.

SEN. STANG then said that the reduction in class six appeared to be for livestock only, but he wondered if the rest of the property in class six is getting the reduction also or if it was being put in a different class. **SEN. TAYLOR** replied that it is the same, and that it is very little money, less than one-half million dollars worth of excess property.

SEN. STANG then asked about the fiscal note, stating that Assumption 35 refers to technical note six and there is none. **Brad Simshaw, Department of Revenue**, said that that was an oversight and that part of the fiscal note is a misprint.

SEN. STANG then asked **SEN. TAYLOR** how many states the property tax was compared to have a sales tax, and whether, if we pass this bill, is that leading down the consumption tax highway in future years, and **SEN. TAYLOR** said he didn't want to speak to where it is leading, but that he believes that if we cut taxes, it will stimulate growth. He said that the worst thing that can happen when taxes are cut, is that it will be necessary to reduce government. **SEN. STANG** asked **SEN. TAYLOR** what programs would be reduced if we have to reduce government, and **SEN. TAYLOR** said he would suggest straight across the board.

SEN. EKEGREN asked if some counties might experience a loss of income, and **SEN. TAYLOR** said that would not happen. **SEN. EKEGREN** then asked why canola and barley were set aside specifically for tax breaks, and **SEN. TAYLOR** answered that they had already had an exemption given them. **SEN. EKEGREN** then asked him to explain how much better off Wyoming is because they do not have this inventory tax at all, and **SEN. TAYLOR** said he did not have the growth factors for Wyoming, but he knows that they do not have this tax. **SEN. EKEGREN** then asked about the $6 million ceiling on the inventory tax, and why there is a cap at all, and **SEN. TAYLOR** answered that there is a certain philosophy and a certain reasonability that has to be dealt with, and this is just a part of the whole. **SEN. EKEGREN** asked if that stems from the mentality Montana has against big business, and **SEN. TAYLOR** said he could not address that issue at this point.

SEN. STANG mentioned the year 2005 going to $6 million, but the bill only goes to $2 million. He asked whether **SEN. TAYLOR** planned to present an amendment that would raise it to $6 million. **SEN. TAYLOR** said he didn't believe that was the wish of the Jobs and Income Committee. He said he is asking this committee to set it at $4 million.

Closing by Sponsor:

SEN. TAYLOR thanked the committee for a good hearing and went on to say that Montana needs to have predictability, stability, and a clear-cut policy in our tax structure. He said that means letting business know that Montana is serious about business and is stable about business. This levels the playing field. **SB 200** says we are serious about helping our children finding good paying jobs and being able to stay in Montana. **SEN. TAYLOR** said that given time, we will see results in higher-paying jobs for Montana families and a raise in the per capita income. Studies show that cutting class eight taxes does not shift tax burdens. In states where this has happened, tax collections have increased because of new home construction and increased tax revenues in income taxes, not from higher mill levies. He said that cutting taxes combined with pro business proposals have worked and will work in Montana. He urged a do pass.

DISCUSSION ON SB 200

CHAIRMAN DEVLIN said he would like to take executive action on **SB 200** at this time. **SEN. STANG** responded by saying that this is a very large bill and that there are some things that need to be looked at before it is considered by this committee. **CHAIRMAN DEVLIN** said that this bill had already gone through another committee, and he wanted to get it taken care of today because there is a push to get these bills onto the floor. He suggested that perhaps some amendments could be put on in the floor action. **SEN. STANG** said that if he did not have an opportunity get some questions answered on **SB 200**, he felt he would have to vote no. **SEN. ELLINGSON** said he also had some amendments he would like to present.

SEN. ELLIS said that he understood **SEN. STANG'S** concerns and suggested that the committee meet at an alternative time to consider this bill. **CHAIRMAN DEVLIN** made the decision that the committee would meet at 7:00 p.m., January 26, 1999, in Room 413/415 to consider this legislation. He said he would have it posted and would announce it on the floor.

The meeting was recessed at 10:55 a.m.

EXECUTIVE ACTION ON SB 200

CHAIRMAN DEVLIN reconvened the executive session on **SB 200** at 7:00 p.m., January 26, 1999, in Room 413/415, with all members present.

Motion: SEN. DEPRATU moved Amendment SB020003.AJM EXHIBIT(tas20a08).

Discussion:

SEN. DEPRATU explained that during the training period, the bill specified that the employer would have to pay 70% of the $20,800 per year. This amendment raises that to 80% of the $20,800 per year in order to qualify for the tax credit. He said the other parts of the amendment just coincide with that. In addition, if the employer pays more than the 80%, they can claim up to 5% additional tax credit. The original bill called for 10%.

SEN. ELLINGSON then asked **SEN. DEPRATU** to explain the public policy rationale behind raising the exemption from $2 million to $4 million, and **SEN. DEPRATU** said that that will bring Montana just about in line with Idaho. He said he estimated that it would cost the state about $1 million. **SEN. ELLINGSON** then asked if the fiscal impact would be raised $1 million a year or a biennium as a result of the amendment, and **SEN. DEPRATU** said that it would be per year at the sixth year when that went into effect.

SEN. STANG then asked **SEN. DEPRATU** if this amendment was brought up when the bill was in the Jobs and Income Committee, and **SEN. DEPRATU** answered that it was not. He said this is an amendment that he brought forward after he had evaluated the rest of the bill.

SEN. STANG said that this bill, when it was introduced, was pretty much a bipartisan bill, but by the time it had come through the Jobs and Income Committee, a couple Democrats had voted no because of the rate increase to $2 million. He said one of the things that was valued with the Jobs and Income Committee was that there was some bipartisanship, and he was concerned that if this amount is moved to $4 million, it then becomes a partisan issue, which we were trying to avoid. He said he had a concern that **SB 200** will lose more support, especially in light of the fact that we have no idea what it really does financially to the state in future years. **SEN. DEPRATU** said that the number he had been given was about $1 million additional. He said he believes that this will bring it more in line with other states.

SEN. ELLINGSON then said he was uncomfortable about voting on this or any aspect of the bill without having some hard numbers from the Department of Revenue. He pointed out that when the exemption was increased from $500,000 to $2 million, it doubled the fiscal impact from $75 million in the 2003 biennium to $129 million in 2005, so when the exemption is doubled again, he is concerned that it would be more than the $1 million. **SEN. DEPRATU** said that he appreciated **SEN. ELLINGSON'S** concerns, but he pointed out that there are very few businesses between that amount and about $16 million, and that starts picking up the bottom end of the big 19 taxpayers in the state. The big 19 go from about $16 million up to about $200 million.

SEN. ELLINGSON then said that he had heard testimony today about the level to which an exemption must be given before we hit most of the businesses in the state, and the sponsor had said that $6 million is the point at which 95% of the taxpayers get relief, but **Ms. Bryson, Department of Revenue**, has said that we can eliminate the property taxes for 95% of all business equipment taxpayers by having the exemption at $100,000. **SEN. DEPRATU** answered by saying that the information he had suggests that businesses that employ 10 to 40 people would be considered small to mid-sized, and that if you have 40 employees, a $4 million investment in equipment is not out of line.

SEN. ELLIS said that in his estimation, the object of this legislation is not to favor one segment of our taxpaying public over another, but to try to create an incentive to push Montana's economy forward. Citing the Stillwater Mine, he said Montana has to provide incentives for a broad base of industries, not just the mom-and-pop industries.

SEN. ELLINGSON said he thought **SEN. ELLIS** made some excellent points, but he said the fact is that the Stillwater Mine is investing in equipment because there is a good deposit there, and because the price of that commodity has held up, unlike the prices of other commodities. He agreed that perhaps these large companies should be getting some tax relief, but that what is suggested with this legislation is merely a pittance to these type companies. He said that he does not think there will be any public policy benefit by raising the tax breaks to include these companies.

Vote: **Motion passed 6-3 with Eck, Ellingson and Stang voting no.** (Roll call vote No. 1)

Motion: **SEN. STANG moved Amendment SB020007.ALH EXHIBIT(tas20a09).**

Discussion:

SEN. STANG explained **SB020007.ALH,** as an amendment which clarifies the use of the credit, making the first credit applied the job training credit or the job creation credit, and then the credit for the property tax reduction is applied after that. He said what this does is give a larger credit to the taxpayer. If businesses are credited in reverse, there is a disincentive to create the job or the job training. He said he had talked to **SEN. TAYLOR**, the bill's sponsor, and he agreed that this would give a little more incentive to the employer to provide the job training or job creation.

Vote: **Motion passed 9-0.**

Motion: **SEN. DEPRATU moved Amendment SB020008.ALH EXHIBIT(tas20a10).**

Discussion:

SEN. DEPRATU said that this amendment changes the percentage for the job credit. It lowers it from 50% to 25% and would be in place, unless after two years less than $2 million in credits have been given. If there had been less than that, then it would be raised back to the 50% for the qualifying wages.

SEN. STANG asked **SEN. DEPRATU** what the rationale was for this amendment, and he said that it was to bring the cost of the program down about $3 million.

Vote: **Motion carried 9-0.**

Motion: **SEN. STANG moved Amendment SB020004.ALH EXHIBIT(tas20a11).**

Discussion:

SEN. STANG said that Don Judge made sense when he said that if this credit is going to be given, it shouldn't be on a percentage of the wage. This amendment says that in order to get this job creation credit, the job must pay at least the qualifying annual salary, which is $20,800.

SEN. DEPRATU said that the way it is currently written is fine and that he would speak against the amendment. He believes that the amendment says that during the training period a business could pay 80% of the qualifying wage, which is $20,800, and then after the training period, they would go to the qualifying wage. **Mr. Heiman** pointed out that this amendment is for the creation of a job, rather than the training.

SEN. BOHLINGER asked **SEN. DEPRATU** how long the training period lasts, and **SEN. DEPRATU** said that under the previous section, it could be up to 18 months.

SEN. STANG further explained that the qualifying wages under the job creation tax credit says that a business has to pay 70% of the average weekly wage in the state, which could be considerably less than the $20,800. What this amendment says is that the job must pay at least the qualifying annual salary in order to quality, not the average weekly wage, which could be considerably less.

SEN. ELLIS said that he felt the amendment made sense. What it requires is that the job for the whole year pay at least the annual salary, and he believes that that is appropriate.

Vote: **Motion carried 9-0.**

Motion: **SEN. STANG moved Amendment SB020005.ALH EXHIBIT(tas20a12).**

Discussion:

SEN. STANG explained that this amendment removes the 70% of the average weekly wage and says "on an annualized basis the qualifying annual salary defined in Section 5," which he believes is the $20,800. In order to get the training credit, on an annualized basis, they have to at least pay the $20,800.

SEN. DEPRATU said that that had been raised to 80% in the previous amendment, but that is to be of $20,800. **SEN. ELLIS** asked if 80% equals $20,800 or 80% of $20,800, and **SEN. DEPRATU** explained that the previous amendment raised that 70% to 80% and that 80% is of $20,800. **SEN. ELLIS** then asked if this actually raises this to 100%, then, and **SEN. STANG** answered yes, on an annualized basis.

SEN. GLASER asked if that was in the training period, and **Mr. Heiman** said that it is in the job training section, and it is the wages paid during the course of training as opposed to after graduation. **SEN. GLASER** said that it is traditional when training people that you have less efficiency because they are involved in training, and businesses are usually given a break to accommodate that inefficiency. He said the 80% for training people is generous. **Mr. Heiman** said that when they are talking about the qualifying period, the payment goes towards the six-month interval following the job training. He said that's the period we're talking about paying, and that's why annualized was used. This is not during the training period but the six months following it.

CHAIRMAN DEVLIN asked again how long the training period was, and **Mr. Heiman** said it depended on the circumstances but that it could go up to 18 months.

SEN. STANG said that the key to this is not as much the percentage as it is that you are using the annualized basis, but the key is the average weekly wage as defined in 39-71-116. What we're saying is that the qualifying wage paid to a job holder during the qualifying period must meet or exceed on an annualized basis the qualifying annual salary of $20,800, and not the average weekly wage, which could be less than that.

SEN. DEPRATU said that he would speak against it. He said that with the 80% brought in here, it is defined and the intent is okay the way it is, that it has been defined as the $20,800.

SEN. STANG said in response that it is 80% of the average weekly wage, which is 80% of the $6 or $7 an hour job. If it was 80% of the qualifying annual salary, which is $20,800, then there would not be a problem. He said we need to give this credit for something better than the average weekly wage.

CHAIRMAN DEVLIN said that raising this to 80% would take a lot of the objections out of this, and he still thinks it does, so he resists the motion.

<u>Vote</u>: Motion failed 6-3 with Devlin, Bohlinger, Ekegren, Ellis, Glaser and Depratu voting no. (Roll call vote No. 2)

<u>Motion</u>: SEN. ECK moved Amendment SB020003.ALH EXHIBIT(tas20a13).

<u>Discussion</u>:

SEN. ECK explained that there are companies that could claim a tax credit in every county, and sometimes several towns, and she wondered if the fiscal note had been figured before this amendment. **Ms. Bryson** told the committee that the fiscal note is based upon the bill as it is currently, prior to any amendments that may have been offered. **SEN. ECK** said that this is an amendment in committee and wasn't part of the original bill. She went on to say that it makes a difference not only in the total amount of tax credit the state gives, but also to the individual businesses.

SEN. EKEGREN asked **SEN. ECK** whether the businesses would take the tax credit in proportion to the property that is in each county, and **SEN. ECK** said that at the time she did the bill, that wasn't the way it was interpreted. At that time, it was felt that they would get a full tax credit for each location.

SEN. DEPRATU said he would resist the amendment. He said that the purpose of this bill is to try to create jobs and create income and to see that that happens across the state. This could provide the opportunity that perhaps a successful business would have a desire to open another location in another area of the state, and if they would be willing to expand, that is in the benefit of the state.

SEN. ECK then asked if we were going to allow the railroads to take their exemption in every county, or the telephone company, Montana Power, and **CHAIRMAN DEVLIN** said he was sure the Department of Revenue would not allow that to happen. Those companies are centrally assessed.

SEN. ELLIS said that he would favor the way the committee left the bill.

<u>Vote</u>: Motion failed 6-3 with Devlin, Bohlinger, Ekegren, Ellis Glaser and DePratu voting no. (Roll call vote No. 3)

<u>Motion</u>: SEN. ECK moved Amendment SB020006.ALH EXHIBIT(tas20a14).

<u>Discussion</u>:

SEN. ECK said that this is coordinating instruction which says that if **HB 2** does not contain an express appropriation for the reimbursement for loss of taxable valuation on class six property as provided in Section 1 for the biennium ending June 30, 2001, then this act is void.

SEN. DEPRATU said that he would resist this amendment. He said he believes that it is most appropriate, since we are trying to develop jobs and income and keep our people afloat, that we really work to help the people in the livestock industry, too, with this Jobs and Income bill and with the tax credit the way it is presently written.

CHAIRMAN DEVLIN said he was going to resist the motion simply because the livestock industry is still going to pay a per capita tax or fee for the support of the Department of Livestock.

SEN. GLASER asked **SEN. ECK** if what she intended to do with this piece of legislation was to make absolutely sure in two years that we continue to make the cities and counties and local governments whole. He said that if the next legislature decides that cities and counties should share in the wealth because of economic development taking place, the legislature wouldn't be able to do that. **SEN. ECK** said that the intent is to make them whole. She said that this situation has arisen before where tax breaks were given and growth was expected and that the local governments wouldn't lose anything because of that growth. She said local governments could end up in a bind, and the expectation is that we will make the cities and counties and local governments whole.

SEN. EKEGREN said that he might agree with **SEN. ECK** in that if the counties are not going to be appropriately reimbursed, this would ensure that they would be. **SEN. ELLIS** said the counties don't enter into this. He said businesses continue to pay the tax. He said this is an income tax credit to replace the property tax revenue, so the counties are not vulnerable. This allows the corporations or businesses to get a credit on their state income tax.

SEN. ECK said that the fiscal note reflects an impact on the counties of $600,000, and **SEN. ELLIS** said that he understood the primary fiscal impact of the property tax portion of this bill is that a business pays their property tax to the county and then they get a credit on their income tax. **Mr. Heiman** said that the bill has three separate parts, one is the property tax, then the job creation and the job training, and then eliminating the class six livestock tax. The bill includes a formula for determining the rate for reimbursement to local governments for the loss of that revenue while it is being phased out. This amendment would require that this reimbursement formula be funded.

CHAIRMAN DEVLIN asked **Mr. Heiman** if the formula for reimbursement is already in the bill, and **Mr. Heiman** answered that that was correct, that the method for determining the amount of the reimbursement is in the bill. The dollars to implement that formula is not. **SEN. ECK** explained that when the House will be responsible for making an appropriation, we write in coordinating instructions.

SEN. EKEGREN asked for a clarification as to what happens if the local governments don't get the funds as promised. **CHAIRMAN DEVLIN** explained that any numbers in this bill, other than the formula, becomes an appropriation, and the Senate cannot do that. **SEN. EKEGREN** then asked if the counties are guaranteed to get the dollar-for-dollar reimbursement, and **CHAIRMAN DEVLIN** said that if they use the formula and plug the dollars in in the House, they will.

SEN. ECK said that this is just a guarantee that they will plug them in. **SEN. ELLINGSON** said that that was his question, that the purpose of this amendment is to guarantee that the House, if it wants to pass this bill, has to plug in the appropriate amount to the counties to make them whole. **SEN. ECK** said that was correct.

SEN. GLASER said that this $600,000 is a small part of the overall dollars that are being replaced in the counties, and he does not want to jeopardize this legislation by adding this amendment.

SEN. DEPRATU commented that the way the counties are being reimbursed on the rest of it would be actual growth that will take place that will make up more than the $600,000 just from the general growth of business. He said that is going to the counties and then coming back as an income tax reduction, and that should more than make up that $600,000.

SEN. STANG said this amendment gives the Senate a little bit of control on this bill. He said if the House doesn't like the amendment, they're going to have to take it off and send it back to the Senate, assuming that they don't make any other amendments to this bill. If they want the bill, it leaves a little bit of control to the Senate in the process. He said he hoped that this bill will bring in enough growth in property taxes, but if it doesn't, it is a safeguard to the counties that they are not going to eat that $600,000. He said most of the counties that are going to eat that are counties that deal with agriculture and can't afford to lose the tax base.

SEN. GLASER said that he was going to vote against this amendment because he felt that a business would see it as being a detriment to establishing in Montana.

SEN. ELLINGSON said that the bill would come out with the appropriation and this contingency addressed, so if this passes out, someone who is looking at investing here will see that the appropriation has been made to make the counties whole. They will be able to make their business decisions knowing that the contingency has been fulfilled.

SEN. GLASER said that the way he understood the amendment is that in two years, if the money isn't there, and the legislature says no, then all of a sudden the promises made here go away. **SEN. DEPRATU** said that was correct. **SEN. GLASER** said that we are not talking about next week or next month, but about two years from now. **SEN. ECK** closed by saying that 2001 sounds a long way off, but that this is this biennium.

Vote: Motion failed 6-3 with Devlin, Bohlinger, Ekegren, Ellis, Glaser and Depratu voting no. (Roll call vote No. 4)

Motion: SEN. ELLINGSON moved Amendment SB020002.ALH EXHIBIT(tas20a15).

Discussion:

SEN. ELLINGSON said that this committee is making some momentous decisions that will have long-range impacts on the fiscal welfare of the state and the economy when we consider **SB 200.** He said he has stated his skepticism to the premise of the bill, namely whether it will generate the jobs and income which is promised by the sponsor. Considering the enormous fiscal impact that will increase over time, he said he feels we need to revisit the assumptions that we've made, if it is passed by the legislature, so that we can evaluate whether the benefits which were promised by the bill have in fact been created in reality.

SEN. ELLINGSON also said the purpose of this amendment is to sunset the bill in two years, it is not the intention to do away with the bill as it is drafted. If after a two-year period of time we look at the economic situation and the fiscal situation and we conclude that the benefits of the bill far exceed the costs, then the legislature could continue with the outline suggested by **SB 200.** However, he felt that it is appropriate for the legislature two years from now to ask those questions and to get feedback from the economic community and to ask the question, "Are we getting the kind of benefit that we hoped to get from this commitment of the fiscal resources of the state or are we not," and if we are not, then we need to change course.

SEN. ELLIS said that the purpose of this legislation in his opinion is to not make Montana more attractive than other states, but as comparably attractive as our neighboring states. We do not live in a vacuum. Things are going on economically and there is absolutely no way to change that. We don't know what the next two years are going to be like. The purpose of this bill is to leave us an attractive way to do business, not to outbid other states. It is simply to provide a competitive environment.

SEN. EKEGREN asked **SEN. ELLINGSON** whether we can determine the health of Montana in two years. He said someone had said that it could take ten years to know whether this can be measured. **SEN. ELLINGSON** agreed that it is not possible to know with any degree of certainty, but we have economic data that can relate business investment in business equipment for the last five or six years to the tax on business equipment, and that gives us information. Right now, we're taking that information and trying to make some decisions. In two years we're going to have more information. By sunsetting this, he is suggesting that we ought to take advantage of every bit of evidence that we can gain, and we'll have more evidence over the next two years, and then decide whether this is the course we want to continue on or do we want to change our course.

SEN. BOHLINGER said he shares some of the concern of **SEN. ELLINGSON**, that there has to be some measure of the success of this, but he feels placing the bar two years out is premature. Part of what we need is a pledge to the business community that we hope to attract to Montana that our tax policy is stable and will be in place. Sunsetting it in two years would make it difficult to attract the kind of business we're looking for, so he does not support his amendment.

SEN. DEPRATU said he strongly resists the amendment. The purposes of the Job and Income was to try to give some predictability and stability so that people who were looking at investing in Montana would have that predictability and stability as far as the tax is concerned. It is designed for existing businesses and they want predictability and stability. They need to know that our tax structure is going remain stable and can see a long-term plan.

SEN. GLASER asked **Mr. Heiman** about sunsetting tax reduction and if the tax would then be higher than it is today, and what part of that do we vote. **Mr. Heiman** said that he does not believe that a sunset provision in itself necessarily creates a tax increase that triggers a vote. **SEN. GLASER** then said that if this goes on for two years and then we sunset it, there will be more revenue. He asked if we cut down the revenue to match the **CI-75** requirement, or do we vote the increase. **Mr. Heiman** said that in this particular bill, the livestock tax may be a possible problem with increased revenues showing up on the counties' property tax revenues, but the rest of the bill doesn't have anything to do with that. He said it just provides for the property tax credit, which is a wash and wouldn't have anything to do with that.

SEN. ECK commented that one thing we will know two years from now is whether this legislature has come up with anything that looks at all like a comprehensive tax reform package. She said it is difficult to make tax decisions a little bit at a time without an overall picture of how everything fits together. She said she is still concerned that if the sales tax or something else failed, then we might have to cut government across the board. As tax policy, we're recommending some things that may or may not really work to provide incentives for new business.

Vote: Motion failed 6-3 with Devlin, Bohlinger, Ekegren, Ellis, Glaser and Depratu, voting no. (Roll call vote No. 5)

Motion: SEN. DEPRATU moved that SB 200 DO PASS AS AMENDED.

Discussion:

SEN. STANG said he appreciated the opportunity to look at some of the issues in the bill, but he said he has some concerns that we're doing some things that we are not too sure of in a rush. He referred to "Area Development Online," which **SEN. TAYLOR** handed out **EXHIBIT(tas20a16)**, which talks about various states. One of the things we haven't done on this bill is set some benchmarks for some measure to show that the policies are benefitting taxpayers in ths state. He said at this time he intends to vote no.

SEN. ECK said Lester Thoreau advises not to try to attract business by cutting taxes, and she intends to vote no.

SEN. ELLINGSON said that when the business tax was at 9% we had more investment than as we've lowered it, and that is his concern. If we do not create the things in this bill, what the consequences will be. He said he intends to vote no.

SEN. DEPRATU said Montana really is not and hasn't been competitive the last several years with our neighboring states, and Idaho said that it took about five years for things to get rolling for them. But also what has happened in the ag community, those prices have been down so that the ag people have not been able to replace their equipment and it has continued to depreciate. They haven't been able to buy new equipment. This could make a difference in the tax revenue, and he said he intended to vote for this bill.

SEN. EKEGREN said that there was no measure of the worth of this situation, but we do have a way of measuring what hasn't worked. We know that what we have done in the past has not worked, and we have to try something. He said he would vote yes.

SEN. ELLIS said Montana has been dominated by a philosophy of government, and Wyoming has looked favorably on industry, has tried to protect their resource base, and as a result is growing. If you want to protect government, you provide for a blooming economy. He said he would vote yes.

SEN. DEPRATU said that he believes this is good legislation, that given the opportunity, we will see positive benefits from it. He said he realizes there is a difference of opinion on some of it, but as **SEN. EKEGREN** said, what we have been doing has not been working, and he said he really believes that it is time for a change and would urge do pass.

<u>Vote</u>: Motion carried 6-3 with Eck, Ellingson and Stang voting no. (Roll call vote No. 6)

ADJOURNMENT

Adjournment: 8:33 P.M.

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SEN. GERRY DEVLIN, Chairman

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SANDY BARNES, Secretary

GD/SB

EXHIBIT(tas20aad)