

MINUTES

**MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 5, 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 502, 3/1/1999; SB 509,
3/1/1999; HB 567, 3/1/1999
Executive Action: None

HEARING ON SB 502

Sponsor: SENATOR LORENTS GROSFIELD, SD 13, BIG TIMBER

Proponents: Carol Ferguson, Hard Rock Mining Impact Board
Aidan Myhre, Montana Hard Rock Mining Company

Opponents: None

Opening Statement by Sponsor:

SEN. LORENTS GROSFIELD, SD 13, Big Timber, introduced **SB 502** as a bill that came forward because of **CI-75** and has to do with prepayments of mining impacts from the Hard Rock Mining Impact Act and the concern that **CI-75** may have forced jurisdictions to pay money back to the taxpayers that was prepaid. He said that since **CI-75** is gone, he recommended the deletion of Sections 6 and 7; page 9, lines 16, 17 and 18; and Section 9. Those are the parts that deal with **CI-75**.

SEN. GROSFIELD said the rest of the bill is intended to take care of some other minor issues. He said Section 1 has to do with how the hard rock mining board gets some of its money. The board presently needs a little more money, and the counties are willing to give that up rather than have it come from the General Fund. He said another minor issue is in regard to timing and when counties receive their money, which is in Sections 2 and 5.

SEN. GROSFIELD said the most significant issue of the bill and the one that needs a little attention is on the bottom of page 4. This issue has to do with how school districts get their money. He said he carried a bill last session that dealt with this and it couldn't be done, so he dropped the bill. This is another suggested way to deal with that same issue, and it does not work either because on page 4, line 27, it talks about reducing the taxable valuation, which is not doable. He said there are people trying to figure out a Constitutional way to do this, and he asked for the committee's indulgence for a few days while they work with this. He said if it doesn't come together, Section 3 will have to be eliminated also.

Proponents' Testimony:

Carol Ferguson, Administrative Officer, Hard Rock Mining Impact Board, provided a packet of information to the committee containing a letter from Ms. Ferguson to the Taxation Committee, **EXHIBIT (tas50a01)**; a two-page information sheet from the Legislative Fiscal Analyst on Revenue Estimate System, Metal Mines Tax, **EXHIBIT (tas50a02)**; a letter from Carol Ferguson to the Chairman and Members of Legislative Appropriations Subcommittee, dated February 4, 1999, **EXHIBIT (tas50a03)**; and a graph showing the "Allocation of Metal Mines License Tax Revenues," **EXHIBIT (tas50a04)**.

Ms. Ferguson said the first issue she wanted to address is the section that has to do with the tax credit to schools. She said that in the original act there were provisions for providing tax credits through the reduction of taxable valuation of the mineral

developers. That was found to be cumbersome, so the law was changed so that the required impact plan would specify how the tax credits would be provided. However, when the school funding law changed, there was no way for the school districts to provide tax credits for prepaid taxes they had received. She said they are going to keep working on a solution to that.

Ms. Ferguson said the other issue that she wanted to mention has to do with the transfer of 1% of metal mines license tax revenues from the counties to the Hard Rock Board. She said originally the board was allocated 1.5% of the metal mines license tax revenues and the counties 25%. She said that when the board receives its 1.5% its first priority use is for its administrative and operating expenses. If there is additional revenue beyond what it actually expends, that revenue then goes into a reserve fund. She said once the reserve fund is capped at \$100,000, any additional revenue is then segregated out and goes back to the county where the taxpaying mine is located.

Ms. Ferguson said the reserve serves two statutory purposes: 1) if the actual revenue rate of 1.5% is less than the actual expenditures, money can come from the reserve to make up the deficit, and 2) it provides in itself a source of revenue under a separate appropriation if the board is called upon to adjudicate a dispute. She said that because metals prices and metal tax revenues have been very low in the last several years, the reserve has been diminished and the projections are that there will be a deficit before the end of the biennium.

Aidan Myhre, Montana Association of Hard Rock Mining Counties, said that this is a group of 13 counties where hard rock mining represents a real critical component to the counties' tax base. She said these counties recognize the valuable role of the Hard Rock Mining Impact Board in this whole equation, and although there is a reduction in the money that goes from the Hard Rock Mining Impact to the counties by 1%, the counties do support this legislation. She also submitted a letter from the Stillwater County Commissioners, Harold Blattie, Chair, **EXHIBIT (tas50a05)**.

Opponents' Testimony: None

Questions from Committee Members and Responses:

SEN. GLASER asked about a Fiscal Note, and **SEN. GROSFIELD** said that probably there is no Fiscal Note because the amount that is being discussed, the 1% shift, is something like \$10,000 per year total for all the counties. **CHAIRMAN DEVLIN** asked if it would only be an impact on counties, and **SEN. GROSFIELD** said that was correct.

SEN. ELLIS said he wasn't sure he understood the interplay between the change, which is a significant one, on page 1, line 24 and 25, and the reduction in (f) and (i) on page 2, and how those balance out. **SEN. GROSFIELD** said this is current law and it is very confusing. He said line 8 says 37.5% of 24% of 100%, and then below, it is 33.3% of 62.5% of the 24%. He said it would be easier if everything started with 100 and then referred back to that 100, in which case, on line 8, the correct number would be 9%, and on lines 12, 13 and 15, the correct number would be 5%, and so that would be 9% and 5% of 100%.

SEN. ELLIS then asked how those all relate to the percentages on page 1, and **SEN. GROSFIELD** referred to line 8, which says "not less than 37.5%," but line 10 says the rest of the money not allocated is divided 33.3, so what you've really got on line 8 is 62.5%. **Ms. Ferguson** expanded on **SEN. GROSFIELD'S** answer by using the example of a county which receives \$400,000 in tax, and 25% of that is \$100,000. 40% of that \$100,000, which goes into the trust reserve account, would be \$40,000. The remaining \$60,000 is divided into thirds, a third to the county, a third to the high schools, and a third to the elementary schools, \$20,000 each. Instead, the county will get 24% in the future. 24% of the \$400,000 is \$96,000; 37.5% of that is \$36,000, which leaves \$60,000 to divide into thirds for the county and the school districts. Assuming the same level of revenue, those counties and the school districts that have been using that one-third, one-third, one-third split are not going to be adversely affected. She said also, when the excess revenue goes back into the counties, it goes into the Hard Rock Trust Reserve account. Once the board's funding is made whole again, all of the revenue that the board receives as a result of that 1% will go back to the counties and bring that \$36,000 back up to \$40,000.

SEN. ELLIS asked, then, if the county Hard Rock Mining Trust Reserve eats the loss of money to the Hard Rock Mining Impact Trust, and that is where you get the money for that 1% difference, and **Ms. Ferguson** said that was correct.

SEN. ELLIS asked with regard to the prepaid taxes in Section 3, those taxes that have been paid by the company and are supposed to be credited back to them later, if they now cannot be credited, and **Ms. Ferguson** said it works for the counties and for the towns, but that it is for the school districts that it doesn't work because of current school funding laws.

Closing by Sponsor:

SEN. GROSFIELD closed by saying that he hoped that the school portion of the bill could be worked out.

HEARING ON SB 509

Sponsor: SENATOR LORENTS GROSFIELD, SD 13, BIG TIMBER

Proponents: Paul Stahl, Montana cultural Advocacy
Rep. Bob Raney, HD 26, Livingston
Alec Hansen, Montana League of Cities and Towns
Steve Golnar, City Manager, Livingston
Mike Doyle, County Commissioner, Livingston
Jani McCall, Billings

Opponents: Matthew Cohn, Montana Department of Commerce
Amy Sullivan, Montana Tourism Coalition
Pat Anderson, Montana Bed and Breakfast Association
Kelly Flynn, Townsend
Webb Brown, Montana Chamber of Commerce
Charles Brooks, Billings Chamber of Commerce
Gayle Fisher, Russell Country Tourism
Linda Anderson, Glacier Country Tourism
Jack Clarkson, Campground Owners
Sarah Bannon, Gold West Country
Ernie Nunn, Townsend
Ed Henrich, Montana's Fairmont Hot Springs Resort
Carl Kochman, TAC
Mike Labriola, Great Falls Chamber of Commerce
Carl Schweitzer, Bozeman and Kalispell Chambers
Mike Steele, MOA Hospitality, Gold West Country
Stuart Doggett, Montana Innkeepers
Peter Blouke, Department of Commerce

Opening Statement by Sponsor:

SEN. LORENTS GROSFIELD, SD 13, Big Timber, said that **SB 509** revises what is commonly known as the bed tax. He said he does not oppose the bed tax at 4% or even higher than that, he does not oppose travel promotion by states for their own benefit, and he does not oppose the use of the bed tax for that purpose in Montana. On the other hand, in Montana the bed tax is statutorily earmarked for specific purposes, and it is also statutorily appropriated for those purposes. With respect to the bed tax, both of these aspects are inconsistent with other statutes which set out the circumstances where earmarking or statutorily appropriating money are appropriate.

SEN. GROSFIELD said the primary thing that this bill does is on page 3, line 12, where the General Fund is statutorily appropriated. He said the significance of that is that the budget for all of the bed tax money will have to go through the

appropriations process. Presently it is statutorily appropriated, and does not have to go through that process. He said the bed tax is a general tax, but that there is no legislative scrutiny over that money. He said if the tax were paid by the tourism industry itself, that would be different, but it is not. It is paid by ordinary citizens.

SEN. GROSFIELD said that last session, \$400,000 a year for four years was set up to go to Virginia City and Nevada City. Also, one-half of the Cultural and Arts Trust Fund, which was \$3.9 million, was used for the purchase of Virginia City and Nevada City. He said that when that money is out of the trust fund, the future interest also disappears, which is approximately \$300,000. In the Governor's budget in this session, that \$300,000 of money that is used to fund cultural grants is coming out of the General Fund because of that \$3.9 million that was taken out for Virginia City and Nevada City.

SEN. GROSFIELD said that one of the things this bill does is to repay the Cultural and Arts Trust Fund the \$3.9 million by repaying \$500,000 a year for eight years. The other thing that it does is replenish the loss of interest. It also adds another \$400,000 a year to the Heritage Preservation and Development Account. That account was used for the purchase of Virginia City and Nevada City, but is also used for other types of heritage issues in Montana.

Finally, **SEN. GROSFIELD** said this bill also helps fund the impacts that tourism has on the local governments. He said he feels that it is appropriate to use some of this money to help with those impacts.

SEN. GROSFIELD provided the committee with an amendment to this legislation, **EXHIBIT (tas50a06)**, which clarifies the portion of the bill dealing with tourism research. He said presently these funds are totally directed by the Tourism Advisory Council, and this changes that. The amendment also says that any remaining amount goes to the General Fund, and finally, Section 5 coordinates with eliminating the statutory appropriation.

Referring to a pamphlet on Montana tourism, **EXHIBIT (tas50a07)**, **SEN. GROSFIELD** said that less than half the people visiting Montana are actually tourists. The other half are people who are in Montana for other reasons: 22% are here to visit family and friends, 11% are here on business, and 9% are traveling through Montana from one point to another.

Proponents' Testimony:

Paul Stahl, Chair, Montana Cultural Advocacy, said his organization supports the restoration of the trust. He says this makes sense in two arenas: 1) it makes good political sense because it restores the money that develops the infrastructure of arts and culture in Montana, and that is why people come to Montana, and 2) it makes good financial sense because it takes it out of the General Fund and lets it be self-supporting.

REP. BOB RANEY, HD 26, Livingston, said he has a similar bill that has passed out of the House Taxation Committee. He said this is not the industry's money, it is the money of the citizens of Montana. It is a general tax. He said roughly 40% of the money that goes into this pot comes from Montanans, and roughly 30% is from people coming here anyway or passing through, which only leaves 30% who are true tourists. He said Montana spends twice as much money advertising and promoting Montana as do most of the states in the west. Montana is number three in per capita expenditures on tourism.

Alec Hansen, Montana League of Cities and Towns, said his organization supports **SB 509**. He said Montana has a resort tax, but none of that money goes directly into the General Fund for the cities and towns of the state of Montana. He said 9 million travelers come through and use Montana's public facilities, and he feels this is a fair, practical and balanced alternative to increasingly relying on property tax and mill levies to fund services for travelers.

Steve Golnar, City Manager, City of Livingston, provided the committee with a handout from the City of Livingston, **EXHIBIT (tas50a08)**. He said that the Livingston City Commission and Park County Commissioners support the concept that a balanced use of revenues derived from the lodging tax need to be pursued and that a portion of the proceeds from this tax should be distributed to support local visitor promotions, services and infrastructure which also serve those individuals visiting or passing through our communities.

Mike Doyle, Chairman, Livingston City Commission, said that the commission supports **SB 509**. He listed some statistics which reflected the increase in city services during the tourism season, and said he felt it was fair that some of these monies be directed to the cities and towns to help with these increased costs.

Jani McCall, City of Billings, said that she had appeared in support of **REP. RANEY'S** bill in the House, and that she supports

SB 509. She said that Billings supports and admires the work done by the tourism industry, but the City of Billings believes that they need to have a higher share of the revenues derived from tourism to help support the infrastructure, services and protection for the people of Billings and those who are traveling through Montana. She said it was her hope that some compromise could be reached for a balanced approach that will continue to support tourism but will also help to support the infrastructure needs of Montana.

Opponents' Testimony:

Matthew Cohn, Department of Commerce, provided the committee a copy of the Montana Travel Planner, **EXHIBIT (tas50a09)**, and a handout entitled "The Importance of Tourism," **EXHIBIT (tas50a10)**.

Mr. Cohn said the Department of Commerce opposes this bill. Referring to the Montana Travel Planner, he said this represents the tourism industry in the state. These are the first line of people that our visitors meet. He then referred to the handout prepared by the Institute for Tourism and Recreation Research. He said that shows the breakdown of tax paid by residents and nonresidents, and pointed to the pie chart on the first page.

Mr. Cohn said that the goal of the Department of Commerce has been and continues to be economic diversification and stability in providing opportunities for our citizens and our communities. He referred the committee to the second page of the handout which shows how Montana's travel budget ranks nationally. He said that 18% of the bed tax is going into the infrastructure grants program. **SB 509** would put Montana from number 30 to number 48 in travel budget expenditures, and he believes that there will be an impact to Montana as a whole if the tourism budget is decreased. He said this bill is not in the best interests of our state and encouraged a do not pass.

Amy Sullivan, Montana Tourism Coalition, said that there is a decline in Montana's traditional industries, mining, logging, farming and ranching. She said that due to Montana's location, manufacturing has never had a chance to take off, so we find ourselves at the bottom of the list in terms of income. However, tourism provides a bright spot in Montana's economy. She said tourism does not benefit just the tourism industry. It keeps Montana's economic engine going with more than \$1.7 billion in travel expenditures and provides direct employment for more than 26,000 people in Montana.

Ms. Sullivan said that **SB 509** eliminates the sharing of ideas and goals between all Montanans interested in tourism and throws it into the lap of the legislature. It takes locally driven

initiative and puts it into the hands of government. She provided information on "Tourism Infrastructure Investment Program Grant Recipients," **EXHIBIT(tas50a11)**.

Pat Anderson, Montana Bed and Breakfast Association, said her organization opposes **SB 509** because it diverts a large amount of money from the Travel Montana budget. She provided written testimony, **EXHIBIT(tas50a12)**.

Kelly Flynn, Townsend, said that he rises as one of the last 15,703 full-time ranching families left in Montana in opposition of this bill. He provided written testimony, **EXHIBIT(tas50a13)**.

Webb Brown, Montana Chamber of Commerce, said he felt that this bill kills the goose that laid the golden egg, or at least puts it on a starvation diet. He said tax reform is in order, not splitting the tax that we already have.

Charles Brooks, Billings Area Chamber of Commerce, said that Billings will be substantially impacted by **SB 509**. He said that this bill is gutting a very successful industry.

Gayle Fisher, Executive Director, Russell Country Tourism Region, said her organization is pretty small and pretty rural. She said there is a main street panic because they depend on the regional tourism marketing structure.

Linda Anderson, Executive Director, Glacier Country Regional Tourism Commission, said she represents eight northwest counties. She said tourism in Montana is made up of many little businesses, not large national and international chains as it is in our competing states. By eliminating or scaling down, we eliminate our ability to help these businesses, visitor information centers and tourist attractions. She provided written testimony, **EXHIBIT(tas50a14)**. She also provided a letter from Glacier Park Inc., **EXHIBIT(tas50a15)**, a letter from William G. Myers, Jr., Pointer Scenic Cruises, **EXHIBIT(tas50a16)**, a letter from the Libby Area Chamber of Commerce, **EXHIBIT(tas50a17)**, a letter from Susan G. Calkins, Flathead Expeditions/Hideaway Resorts, **EXHIBIT(tas50a18)**, a letter from the St. Regis Visitor Information Center, **EXHIBIT(tas50a19)**, a letter from Ms. Mac Chapple of St. Regis, **EXHIBIT(tas50a20)**, a letter from Shelley Louterback, SPHR, President, WORKPLACE, INC., **EXHIBIT(tas50a21)**, a letter from Bill Grasser, Lost Trail Ski Area and Camp Creek Inn, **EXHIBIT(tas50a22)**, a handout entitled "Glacier Country - VIC History," **EXHIBIT(tas50a23)**, and a handout entitled "Glacier Country - Co-op Funds History," **EXHIBIT(tas50a24)**.

Jack Clarkson, Campground Owners Association of Montana, said he has been in the campground business for 21 years. He said his community of West Yellowstone depends almost totally on tourism, and this bill would be detrimental. He provided written testimony opposing **SB 509, EXHIBIT (tas50a25).**

Sarah Bannon, Gold West Country, said that they have nine counties in their region. She urged the committee to vote no on **SB 509** and do what is best for all of Montana.

Ernie Nunn, Townsend, said it is sad that we are pitting our communities against each other again. He provided a pamphlet promoting the Townsend area which was published in cooperation with the Montana Department of Commerce Tourism Department, **EXHIBIT (tas50a26).** He said one area that needs to be reviewed is the \$250,000 that goes to ITRR. He said he opposes **SB 509.**

Ed Henrich, General Manager, Fairmont Hot Springs Resort, said that last year he served on the bed tax futures task force. He said that through the meetings of the task force across the state, they heard a lot of good ideas about what should be done with the bed tax, but what they heard most often was that the legislature had created a public/private partnership to promote tourism and that it was working. He urged the committee to let that partnership continue by voting against **SB 509.**

Carl Kochman, Great Falls, said that he currently sits on the tourism advisory council. He said **SB 509** takes apart one of the most successful public/private partnerships that this legislature has formed. He said this bill does not address the big picture. He said tourism is a cooperative effort of all kinds of people and all kinds of businesses from all over the state, and he urged do not pass.

Mike Labriola, Executive Vice President, Great Falls Area Chamber of Commerce, said the Great Falls Area Chamber of Commerce opposes **SB 509** because it severely impacts their efforts to build a viable visitor industry for Great Falls, and it severely impacts the efforts of the entire tourism industry in Montana. He provided written testimony, **EXHIBIT (tas50a27).**

Carl Schweitzer, Bozeman and Kalispell Chambers of Commerce, wondered, if tourism is doing so well, whether this bill would break it. He said the impacts of tourism are far reaching, and he suggested that the system be left as it is.

Mike Steele, Area Manager, MOA Hospitality, said he is also vice-president of Gold West Country. He said it appears to him that six larger communities are going to get the biggest percentage of

the money provided in this bill. He wondered how the smaller communities are going to promote themselves.

Mr. Steele also spoke to the jobs available in tourism. He said that, granted, some of these jobs were low-paying jobs, but that they are a place for people to start, and it can become a career. He said that he agreed that some of our smaller communities do need help, and that perhaps that issue needs to be addressed, but he did not want to derail something that is doing a good job, and he recommended do not pass.

Stuart Doggett, Montana Innkeepers, said his organization wished to go on record in opposition of **SB 509**. In response to comments that this program is not scrutinized, he said every legislature looks at the bed tax, and he believes it is heavily scrutinized. He said this is a program that needs to be supported.

Dr. Peter Blouke, Director, Department of Commerce, said that the committee had heard all the reasons why **SB 509** should not be passed. He said this is a good program that has demonstrated its success. It has been a partnership and they have worked to use the money as wisely as possible, so as director of the Department of Commerce, he is opposed. He said **Governor Racicot** is also opposed to **SB 509**.

SEN. ALVIN ELLIS JR., SD 12, Red Lodge, said he would also like to go on record as being opposed to **SB 509**.

Questions from Committee Members and Responses:

SEN. GLASER asked **Mr. Brooks** and **Mr. Hansen** what could be done to have the opposing sides come together. **Mr. Brooks** said that this bill would move \$4 million to the cities which really have not been involved in tourism and promotion. He said he is sure that money received by the City of Billings would not be used for tourism promotion. He said, however, that the Billings Chamber would be willing to cooperate, and if half of those bed tax dollars could come directly to the convention business bureau, that has proven its success, then the other half could go to local government. However, they stand in strong opposition of the total amount of the money going directly to the cities. He said they are already benefitting from tax dollars derived from the tourism industry.

Mr. Hansen, in response to **SEN. GLASER'S** question, said there is a division between the cities and the travel industry, but the idea that the cities are not interested in tourism is ridiculous. Cities are interested in economic development and community promotion. He agreed that tourism is good for Montana, but that

money does not go directly into city government. He said the cities would like to cooperate with the tourism business to strike a better balance in the allocation of these dollars. Presently none of this money goes for local services, and the cities are simply asking that a fair share goes for local services and the balance could go for travel promotion.

SEN. GLASER said that one portion of this bill refills a statutory trust, and he asked **SEN. GROSFIELD** to repeat his argument for refilling this statutory trust with limited funds.

SEN. GROSFIELD referred to the Cultural Trust Fund from which \$3.9 million was taken to partially purchase Virginia City and Nevada City. He said that certainly Virginia City and Nevada City are cultural heritage for Montana. However, the state said that they would purchase this historical landmark, but that it had to be self-sufficient as far as maintenance and ongoing management, and that means tourism. This bill tries to replace that \$3.9 million that was taken from that trust from the bed tax, which is derived from tourism.

SEN. GLASER asked for a compelling reason today to refill that trust, and **SEN. GROSFIELD** said that the recipients from the Cultural Trust Fund are going to be funded from the General Fund at \$300,000 a year, but the purpose of the trust is to have a long-term source of interest income to fund this.

SEN. BOHLINGER asked if the accommodation tax task force would consider raising the present tax from 4% to somewhere nearer the national average of 12%. **Mr. Cohn** said that the bed tax futures task force did look at an increase of the accommodation tax, but it was felt that given the nature and the makeup of the legislature, it was probably something that would not fly. He said it is a legislative decision as to what that should be.

SEN. BOHLINGER then asked **SEN. GROSFIELD** whether there was room within the title of **SB 509** there might be an opportunity to increase this tax to 6% or 8%, or some level that would accomplish everything in **SB 509** and still provide a sufficient amount of money to satisfy the tourism promotion efforts. **SEN. GROSFIELD** said that, yes, the title is broad enough, and if this committee and the people involved would get behind it and support that, he would consider it.

SEN. ELLIS said that a lot of the impacts in western Montana are due to growth, and he wondered why an impact fee or something that addresses the cause of the problem had not been considered rather than tourism, and **SEN. GROSFIELD** said that there is a bill being drafted which would increase the tax on nonagriculturally used property, whether it is 20 acres or 10,000 acres. He went

on to say, though, that there is definitely an impact on services and infrastructure that are related to tourism, and some of it should be paid for by tourism. **SEN. GROSFIELD** said that there is a connection between tourism promotion and growth.

SEN. STANG said that **Mr. Hansen's** testimony alluded to the fact that property tax has not increased for local governments, and then he had talked about the \$100,000 that the City of Billings had spent from gambling revenue. He wondered how much gambling revenue has increased from cities and towns in the state of Montana, and **Mr. Hansen** said he was talking about that absolute freeze on property tax revenues created by **I-105**. Gambling revenues have increased significantly across the state of Montana from about \$5 million to over \$15 million, and that has helped.

SEN. STANG asked when tourists come to Montana what else they do besides stay in motels and gamble, and **Mr. Hansen** said that they use all kinds of facilities. **SEN. STANG** asked **Mr. Hansen**, then, as a person who represents the cities, if it is fair to only stick the motel/hotel industry with the expense of collecting taxes to provide those services, or whether some of those other entities should also share, and **Mr. Hansen** said that he had appeared in favor of the local option tax, and in his judgment, that bill would go further than this particular measure in solving the financial problems of local government.

SEN. STANG asked **Mr. Kochman** if he was chairman of the bed tax futures committee, and he said he was.

SEN. STANG referred to the proposal to that committee of raising the bed tax and using that for either local options for cities or for their infrastructure, and that it was decided that it was not politically viable at this time. He asked what that committee's outlook was on the idea of a local option tax or spreading the wealth to somebody other than the motel/hotel industry. **Mr. Kochman** said that the feeling of the task force was that because their title was accommodations tax futures task force that that was not within the realm of recommendations that they could make. He said he did not think there was anyone who was not in favor of that, or some form of that, that might address the problems as set out by **Mr. Hansen**, and they were also aware that a portion of the accommodations tax is being used for that, but they also felt that unless care is taken, the ability to market Montana's attractions is so severely hampered that it is a cause-and-effect sort of thing. **SEN. STANG** asked whether the majority of the people on that committee supported the local option sales tax over an increase in the bed tax, and **Mr. Kochman** said that was correct.

SEN. ELLINGSON, referring to the increase of the number of motels in Missoula, asked **Mr. Cohn** if he accepted the proposition that people who use these motels in Missoula are having an impact upon the city and county infrastructure and the services that are provided, and **Mr. Cohn** said that when people come to a community, they use facilities. He said many of those costs are borne by the facilities through property taxes, and while he would agree that there is an impact, he would also say that there are many fees collected also.

SEN. ELLINGSON asked if he agreed that property taxes do not pay for the entire budget of the city, and **Mr. Cohn** said he recognizes that in all communities there are various forms of taxation. **SEN. ELLINGSON** asked then if he agreed that property taxes do not completely fund budgets or the impact on the various communities, and **Mr. Cohn** agreed that property taxes also pay for schools, which tourists do not use.

SEN. ELLINGSON said that the proponents had said that there are services that are not being provided for that are having to be paid for out of city budgets to accommodate the growth in tourism, and he asked whether he agreed with that analysis. **Mr. Cohn** said that he does not totally agree with that analysis. He said there are impacts from tourism, but that he is not an expert in tax structures. He said it is a legislative decision and should be addressed at that level.

SEN. ELLINGSON asked if he would have a problem with leaving the program in place and increasing the tax, and **Mr. Cohn** said that that is a legislative decision. He said the Department feels they are doing good work and they want to continue to do good work, but it is the legislature's option to determine that. He said he had not discussed that matter with the Director or the Administration.

SEN. ELLINGSON referred to **Mr. Cohn's** comment that he could not comment on the level of the Department's budget, but that apparently the Department can take a position on this kind of legislation which directly affects their budget, and **Mr. Cohn** said that in analyzing what is in **SB 509**, the determination of the Department and the Administration is that this would do damage ultimately to the state and some of the economic things trying to be accomplished.

SEN. ELLINGSON then asked him to speak to the hypothetical that the bed tax is raised to deal with some of the local impacts and the program is left in place. **Mr. Cohn** said that in his opinion, the best way to do it would be to do the local option.

SEN. ELLIS said he would direct that same question to **Dr. Blouke**. **Dr. Blouke** said he would rather speak for the Administration than to put **Mr. Cohn** in that position. He said he had heard through the grapevine that this issue might possibly come up, so he had discussed it with the Governor, and his response was that since this is new that the Administration would be willing, and would like all parties to participate in the discussion, to consider potentially raising the bed tax. However, until the details were worked out and everybody could come to the table comfortably, he is not going to say go ahead without seeing what is involved and how the money would be used.

SEN. ECK asked **SEN. GROSFIELD** if he saw a possibility of working this out so that the program could be protected and still being able to help local governments, especially small communities. She said she would like to look at all the issues that have come before the Taxation Committee that affect local governments and get an overall picture of impacts. **SEN. GROSFIELD** said that there might be a possibility of working out a compromise, but that there is a time concern in this legislative session. He said he was willing to work on that, and some of the other people had said they would be willing to explore that.

SEN. DEPRATU asked **Linda Anderson** if she could refresh his memory on some of the things that the bed tax has helped to fund, and **Ms. Anderson** referred to a list she had provided which shows everything that Glacier Country has done in its history. She said they fund presently eight smaller visitor information centers that don't receive the bed tax, and they also do co-op marketing nonprofit associations and that is also on the list.

SEN. DEPRATU asked if the bed tax had also helped through grants things like Virginia City and Nevada City, and **Ms. Anderson** said that was correct, as well as Seeley Lake's grant to build a new information center. **SEN. DEPRATU** asked if Glacier Country foresees continuing to fund projects such as these, and **Ms. Anderson** said those funds are definitely going back into the communities.

SEN. DEPRATU asked how Glacier Country would feel about an increase in the tax rate to maybe accomplish both purposes that have been expressed, and **Ms. Anderson** said that she had worked for 18 years in tourism in Seattle, and the bed tax there was 8.7% and the state tax was 8%, so they had over 16% taxes allocated on the guests of Seattle, and there was not a lot of objection to that. She said it is something that could definitely be considered.

SEN. DEPRATU asked if any of the 5,000 inquiries they had received in February had asked if Montana has a sales tax. **Ms. Anderson** said she did not know, but that she doubted that they did. She said that she has found that the fact that Montana does not have a sales tax is a big attraction.

SEN. DEPRATU said that in his business, when there has been a decline in advertising and marketing, he has also seen a decline in business, and he wondered if that might not be the case for tourism, and if so, whether we would see a decline in tax collections from other taxes, and **SEN. GROSFIELD** said this is not a simple issue. He said there is nothing in this bill that will eliminate advertising, but it does affect the government portion of the promotion budget. The kind of advertising **SEN. DEPRATU** was referring to comes out of the business's own budget for advertising, and there is nothing in this bill that outlaws advertising by government or local governments or by the tourism industry.

SEN. EKEGREN asked whether any bed tax monies had been directed to improve and increase rest stops in Montana, and **Ms. Fisher** said that in the Russell Country Region several of the rest stops are combined with the visitor information centers which are partially funded by the bed tax.

SEN. EKEGREN then asked if some of the businesses in the smaller communities sometimes do not spend anything on advertising and depend on that from the state, and **Ms. Fisher** said that a lot of small businesses do not have a lot of money to spend on advertising and often they do not have the expertise and don't know how or what to advertise.

SEN. EKEGREN asked if it was an overreaction by some of the opponents that they would not be able to afford to answer their phones and answer their mail if this bill should be passed, and **Ms. Fisher** said that in the Russell Country Tourism Region, there in fact would be no one to answer the phones.

SEN. EKEGREN asked how effective any advertising that is done in Canada has been in these years of the difference in the dollar exchange, and **Ms. Fisher** said that the Russell Country Region has chosen to set aside some funds for Canadian marketing, and they are encouraging businesses to breaks to Canadian perhaps through coupons.

SEN. BOHLINGER asked **Mr. Brown** if in his former position with the Billings Chamber of Commerce whether he had had an opportunity to look closely at the amounts of dollars that were collected by the 4% accommodations tax in the City of Billings. **Mr. Brown** said

that was around \$1.2 million collected from properties within Billings. **SEN. BOHLINGER** then asked how much money the City of Billings received from this \$1.2 million they had collected, and **Mr. Brown** said that \$125,000 to \$130,000, roughly 11%, came back directly to the City. **SEN. BOHLINGER** asked whether **Mr. Brown** felt this was a fair exchange, and **Mr. Brown** said that from the perspective of the local governments, probably not, if they are looking for monies to help with their budgets. He suggested that a fairer proposal would be to leave it as it is and look at other forms of tax reform that would provide local governments with revenue for impact of all kinds, not just tourism impacts.

SEN. ELLIS said that it is his impression that no matter how high this tax is raised, it is proposed that it go through the statutory appropriation process, that they are in favor of advertising but not in favor of advertising through a bed tax, and **REP. RANEY** said that he believed Montana should advertise, and he also believes there is a point of diminishing return. He said that most of the Rocky Mountain states are spending \$4 million for promotion, and Montana is spending close to \$9 million. He said if this amount could be put back into Montana's communities, they could promote themselves. He said in his opinion there is too much being spent to promote Montana and not enough being spent promoting our towns.

SEN. GROSFIELD responded to **SEN. ELLIS'S** question by saying that any significant tax that the legislature deals with should go through the normal appropriations process. As far as advertising, it is appropriate for government to help the businesses within the state, including tourism, but it seems that it is appropriate for the Department of Commerce to come forth with its budget just like all other agencies do and run it through the appropriations process for scrutiny by the legislature, no matter how much it is.

Closing by Sponsor:

SEN. GROSFIELD said that nowhere in this bill is tourism outlawed, nowhere is the tourism advisory council eliminated, nor does it say that all tourism dollars will be given up. He said this is taxpayers' money. **SEN. GROSFIELD** said that tourism is a significant contributor to Montana's economy, but there needs to be an infrastructure to accommodate the tourists, and that will in turn promote tourism. He said he is not saying that tourism ought to pay the whole bill, but it comes to 9 million visitors being subsidized by 1 million taxpayers and that doesn't seem fair.

ADJOURNMENT

Adjournment: 11:20 A.M.

SEN. GERRY DEVLIN, Chairman

SANDY BARNES, Secretary

GD/SB