

MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

HELENA, MONTANA

Volume 40

Number 7

August/September 2006

85th Annual Meeting of the Montana Taxpayers Association – Tuesday, December 5, Helena

Upcoming Meetings

September 15 – [Legislative Council](#)

September 22 – MBA Tour –

[Belgrade](#), 7:30am – [Bozeman](#), Noon

September 26 – MBA Tour –

[Lewistown](#), 7:30am. – [Malta](#), Noon – [Glasgow](#), 4:00 pm

September 27 – MBA Tour –

[Sidney](#), 7:30am – [Glendive](#), Noon – [Miles City](#), 4:00pm

September 28 – MBA Tour –

[Billings](#), 7:30am

October 12 and 13 – [Legislative Finance](#)

October 31 – Last day to submit agency bill drafts to LSD

November 7 – General Election

November 15 – [Revenue and Transportation](#) (note date change)

November 27 – Senate and House Caucuses (noon)

November 28 and 29 – [State Administration and Veterans' Affairs](#)

November 28 – New Legislator Orientation

November 29 – New Legislator Orientation

December 5 – 85th Meeting of the Montana Taxpayers Association

December 11 – Committee Chair Training

December 26 – last day for pre-introduction of agency bills

January 3 – Start of Session

Details on meetings are available on our calendar [website](#): or at www.montax.org

No on CI-97 and I-151

The Montana Taxpayers Association's Board of Directors have voted to take positions on two of the ballot initiatives that will appear on the November ballot: Constitutional Initiative 97 (CI-97) the state spending limitation and Initiative 151 (I-151) which would raise the minimum wage. The board heard from both the proponents and opponents of the expenditure limitation and reviewed material on the minimum wage initiative. After careful consideration, the board has decided to oppose both initiatives.

CI-97 – State Spending Limitation

The board agrees that government spending has increased significantly and a limitation on that growth would promote prioritization and closer examination of current and new programs. The association is concerned that the recent strength of revenues coming into the state could result in even more unchecked spending without the assurance this revenue growth will continue into the future. We will be encouraging the 2007 Legislature and the administration to seriously consider setting aside a significant portion of the anticipated surplus to address future issues our state will be facing given the changing demographics in Montana.

Although the opponents of the spending limitation have attempted to marry the Montana initiative with the TABOR spending limitation in Colorado, we believe the sponsors of CI-97 addressed many of the issues that surfaced as a result of modifications of the original initiative. Yet, we remain convinced the proposed language needs additional modification prior to changing our Constitution. Recently, Colorado voters approved a five year moratorium on TABOR. We believe it would be beneficial for Montana to watch and learn from Colorado.

We also support Governor Schweitzer's commitment of no new taxes. New taxes fuel new programs – we are encouraged by his pledge to reign in spending.

Finally, we are concerned about the growth factors used in the initiative. In a perfect world, government spending should be in check with growth in population and inflation, yet certain circumstances could alter that balance. We will continue to support our representative government to ensure that balance remains in place.

I-151 – Raise Minimum Wage

Consistent with our position on our opposition to inflation CI-97, we are opposing I-151 which would raise the minimum wage by \$1 and tie future wage increases to inflation. Our main objection to this initiative is the automatic, annual increase in the wage level. Montana's job market is tight and there are few

Montana Taxpayer

Address all communications to:
MONTANA TAXPAYERS ASSOCIATION

P.O. BOX 4909, HELENA, MT 59604

Telephone (406) 442-2130

FAX (406) 442-1230

Web Site – www.montax.org

E-mail – mwhitt@montax.org

phyatt@montax.org

Business Office: 506 North Lamborn



OFFICERS AND STAFF

RICK HAYS, Helena....Chairman, Board of Directors

MARY WHITTINGHILL, Helena....President

PAM HYATT, Helena....Office Manager



DIRECTORS

Automobiles – Tom Rolfe, Helena

Cable – Mark Baker, Helena

Cooperatives – Doug Hardy, Livingston

Director at Large – Walter McNutt, Sidney

Director at Large – Barbara Ranf, Helena

Farm Machinery – Gordon Nelsen, Conrad

Farm & Ranch – Nancy Schlepp, Bozeman

Gas & Electric – John Fitzpatrick, Helena

Healthcare – Mike Foster, Billings

Ind. Power Producers – David Hoffman, Helena

Legal Profession – Louise Galt, Martinsdale

Manufacturing – Susan Knedler, Lewistown

Natural Resource/Energy – Russ Ritter, Helena

Railroads – Alec Vincent, Texas

Real Estate – Rod Bitney, Kalispell

Recreation Industry – George Willett, Neihart

Retail – Bill Simkins, Bozeman

Sheep & Wool – Chase Hibbard, Helena

Technology – Scott Brown, Butte

Telecommunications – Rick Hays, Helena

Wood Products – Henry Ricklefs, Whitefish

Utilities – Tom Ebzery, Billings

jobs that begin at minimum wage. Montana also ranks high in employment by small businesses that will be acutely affected by an annual inflation factor.

Although the CPI has been constant for the past few years, history has shown that this factor can vary dramatically. Over the past 20 years the annual change of the CPI has been 3%. Assuming a conservative 3% change for the next 10 years, (the midyear change for 2006 is 3.8%), wages would increase **over 61 percent over this 10 year period** (\$5.15 to \$8.30). We are concerned about the potential for huge swings in wages since Montana's initiative does not have a cap. Even in Nevada, a similar initiative has a cap of 3% per year.

In the materials provided by opponents of the spending initiative (coincidentally, most of the same proponents of the minimum wage initiative) they voice concerns that tying the growth of government to a population increase and inflation would seriously limit and even shrink government relative to the economy. We believe the same logic should be applied to an inflation factor tied to salaries. Business profits will be constrained and or reduced, forcing some businesses to fail if they cannot compete, further reducing the number of jobs available. This in turn, will reduce tax collections and ultimately will constrain the level of government services that can be provided without raising taxes.

Proponents of increases in the minimum wage tout the benefits to low income families and minority groups. According to U.S. Census Bureau data compiled by the Employment Policies Institute (EPI), fully 85% of employees in the United States whose wages would be

increased by the proposed minimum wage hike either live with their parents or another relative, live alone, or have a working spouse. Just 15% are sole earners in families with children, and each of these sole earners has access to supplemental income through the Earned Income Tax Credit (EITC). The same statistics for Montana show that 94% of employees who would benefit from an increase live with their parents or another relative, live alone or have a working spouse and only 6% are sole earners in families with children.¹

Another study by the EPI found empirical evidence that raising the minimum wage does not help the majority of “working poor” families, in fact most do not benefit at all from an increase since most are already receiving wages higher than the minimum wage. The evidence shows that these families would benefit far more from increases in federal and state EITCs.²

Finally, numerous studies have demonstrated that an increase in the minimum wage destroys jobs for the most vulnerable population: uneducated and unskilled workers. The Journal of Economic Literature has established a rule of thumb that a 10 percent increase in the minimum wage leads to roughly a 2 percent hike in teen unemployment.” Minimum wage is about the most ineffective poverty abatement preprogram ever conceived. Minimum wage jobs are predominantly filled by new entrants to the labor force. The value of these starter jobs goes far beyond the modes salary. They teach people how to work; to show up on time, be courteous to customers and use time productively.”³

Research by David Neumark (Professor of Economics at UC-Irvine) and William Wascher (Economist at the Federal Reserve Board), have research that concurs with these statistics. In their 1995 paper, "Minimum Wage Effects on School and Work Transitions of Teenagers," they examined the opportunity costs teens face with increases in the minimum wage, finding that:

- Each 10% increase in minimum wages associated with a 1-3 % decline in teen employment;
- Translates into 90,000 to 268,000 jobs lost by teens when minimum wage increased from \$4.25 to \$5.15 in 1996.
 - A 10% increase in the minimum wage (for example, from \$5.15 to \$5.67);
 - increases the proportion of teens who are not in school and not employed by 11.6 percent;

¹ Employment Policies Institute, State Statistics, 2006.

² Employment Policies Institute, “Raising the Minimum Wage: Another Empty Promise to the Working Poor, Richard V. Burkhauser – Cornell University; Joseph J. Sabina, University of Georgia.

³ Wall Street Journal, “Job Slayers,” August 29, 2005.

- (many leave school to take a minimum wage job but subsequently become unemployed);
- increases the proportion of teens who are not in school and are employed by 5.7%.

I-151, like CI-97 requires additional input from the citizens in Montana and the legislative body. Montana does not need to be saddled with a mandate that will only add significant distortions to Montana’s job market, just as we are beginning to realize the benefits of the economic growth during the past five years.

The Montana Taxpayers Association urges all Montanans to vote NO on CI-97 and I-151.

Revenue and Transportation Interim Committee

The Revenue and Transportation Interim Committee met on Friday, September 8 to discuss Department of Revenue legislative proposals as well as hear a presentation by Terry Johnson, on the [general fund status](#). Revenues continue to exceed the estimates that were adopted in HJ1 in the December Special Session. Most of the growth is due to increased collections of individual income and corporation taxes. Total current year revenue collections (before prior year adjustments) were \$165.6 million above the amount anticipated.

<u>Revenue Source</u>	<u>Amount</u>	<u>Prelim Explanation</u>
Individual Income Tax	\$91.1	Non-wage income growth
Corporation tax	62.2	Audits, delayed refunds, profit
TCA Interest	5.5	Average daily cash balance
All Other Revenue	4.5	Wildfire reimbursements
US Mineral Leasing	2.6	Commodity price and produc
Video Gaming Tax	2.2	Multi-game video machines
Institutional Reimbursements	(2.4)	Popn, housing alternatives
Insurance Tax	(2.8)	Unknown
Oil and Natural Gas Prod Tax	(6.8)	Commodity price and produc
All Other Categories	9.5	Numerous
Total change	\$165.6	

When the Legislature adjourned, they anticipated an ending fund balance for the end of the 2007 biennium of approximately \$267 million. Taking into account the additional revenue received in 2006 over the estimate, a new estimate for additional revenues in 2007 and other adjustments, the anticipated ending fund balance would be \$524.9 million.

Estimated Ending Fund Balance (December Special Session)	\$267.0
New Information	
Additional Revenue 2006	165.6
Potential Additional Revenue 2007	152.2
Total Additional Revenue	317.8
Potential Emergencies/Supplementals (FY07)	(72.6)
Net cont., Carryforward, Reversions	32.3
Fund Balance adjustments	(3.9)
Retirement Benefits not Expended 2006	(15.7)
Potential Ending Fund Balance 2007	\$524.9

Once again, it is too early to determine how much of the ending fund balance will be one time only or ongoing. Also, there are additional costs that will occur as a result of the continued firefighting efforts.

As additional information becomes available, these figures will be adjusted. The Legislative Fiscal Division will report new revenue estimates to the committee at their November 15 meeting (Note date change).

Proposed Legislation – DOR

The Department’s list of [proposed legislation](#) has been updated as of September 8. The list is similar to the original list we have had posted on our website. The DOR changed the order of the withholding on oil and natural gas royalties and added additional items to their clean up bill. The committee passed the Department’s bills out of the committee solely as a procedural action. This allows the Department to coordinate the drafting with the Legislative Services Division. There was no discussion on the bills, and the committee did not endorse any concepts advanced by the DOR.

The Director indicated he will continue to work with affected stakeholders. Our association met with the Director and Dave Hunter, Deputy Director on August 30th to hear more about their proposed legislation. We are willing to work on legislation that promotes tax compliance if it is clear, understandable and consistent with federal statutes. We believe education should play a large part in this effort. Our [letter](#) to the director can be found on our website.

HJR44 – Study the Property Taxation of Oil and Natural Gas Property

The committee did not suggest any direction to the department or the Legislative Services Division to clarify the property taxation of oil and gas properties. Since the question remains in the court system, they decided to wait for decisions that could be issued prior to the 2007 Session. The Omimex appeal is scheduled for arguments on September 18.

The [final report](#) describes the discussion of the committee and the research of the subject by Jeff Martin, the legislative staffer for the committee.

Tax Increment Finance Districts

The department had denied a request for certification as a TIF for Fallon County. The County formed TIF in order to receive state mills for development purposes. The department ruled that this was no the original intent of a TIF. Evan Barrett indicated there might be legislation that remove the 95 mills out of the TIF calculation.

November 15 meeting

The committee will adopt revenue estimates, hear from the Department on updated audit statistics, and committee legislation (heavy trucks and highway patrol pension program).

Other items

Dan Bucks, Director of Revenue and Doug Lindholm, with the Council on State Taxation were interviewed by Delores Gregory of BNA, Inc and produced in the "Daily Tax Report." The Director states his opposition to BATSA (Business Activity Tax Simplification Act). Mr. Lindholm does an excellent job of dispelling the information Dan used in his interview. We also sent a letter to Senator Max Baucus encouraging him to support this legislation.

Holcim Trident Plant is in the process of obtaining approval to use scrap tires as a fuel supplement in their cement manufacturing operation. We believe this proposal has many merits to the Montana economy. A copy their [letter](#) to our association describing the process and benefits is available on our website. Comments would be welcome.

Property Tax Mill Levies 2005-2006 - And a Little History of the Association

The Montana Taxpayers Association recently published the 2005-2006 mill levies for every county, city and school district in the state. This marks the 85th year the publication has been produced by the association. The first publication in 1921 has mill levies going back to 1916. Over that six year period, mill levies increased in many of the larger populated counties by nearly 70 percent.

<u>County</u>	<u>1916 mills</u>	<u>1921 mills</u>
Missoula County	25.25	44.242
Lewis and Clark	21.05	35.242
Butte/Silver Bow	21.8	37.867
Yellowstone	24.8	36.367

(We probably won't see mills this small in our lifetime without a major change in the classification system in Montana).

During the past six years, mill levy growth has slowed to just under 20%, but we are now seeing a shift to SIDs and fees. These new revenue sources for local governments increased by 46.66% over a five year period (see page 39 in *Montana Taxation 2005*).

<u>County*</u>	<u>2000-01 mills</u>	<u>2005-6 mills</u>
Missoula	609.53	710.82
Lewis and Clark	590.47	743.05
Butte/Silver Bow	496.35	610.39
Yellowstone	471.66	607.32

* using the largest city in the county

Back to 1916 – 1921- Expenditures

During this same time period, the state general fund, began experiencing a "structural deficit" – the state was spending more than it was raising in revenues (see page 19 of *Montana Taxation 2005*). That situation continued until the late 30's (consistent with the rest of the nation).

It was also during that time frame that the Montana Taxpayers Association was established. For 85 years the association continues to monitor public expenditures, tax policies and provide educational opportunities to our members.

You can help us celebrate our 85 year milestone at our annual meeting this December 5 in Helena at the Red Lion Colonial Hotel in Helena.