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COMPLETE

Time Spent: Over a week
Email: kathyk4montana@gmail.com

Page 1: Introduction

Q1 Please provide your name.

Kathy Kelker

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Q2 Why are you running for State Legislature?

I am running for a third term to represent HD47 in the Montana Legislature because I am deeply concerned by fiscal decisions made in the last two sessions. Montana's economy is shifting from an over-reliance on jobs in construction, manufacturing and natural resources and towards service-related jobs in health care, technology and tourism. Our tax policies, however, are outdated and does not reflect changes in the state economy. For example, over-reliance on taxing natural resource industries was a contributing factor to a \$227 million deficit that forced the Legislature to make some deep cuts to badly needed programs. We need to take a hard look at what we are currently taxing and make adjustments so that we generate revenues from all the areas of the economy that are generating value. My priorities for the next session include: • ensuring that Montana's youth have access to quality public education and career training; • supporting small businesses and creating higher-paying jobs; • funding infrastructure that enhances economic growth; • providing high quality, affordable healthcare options in both rural and urban parts of the state; • preserving Montana's beauty and outdoor opportunities for our citizens and visitors from around the world. As I talk with constituents at their doors, I hear loud and clear that citizens want their legislators to do the hard work of closing tax loopholes for individuals and corporations and making the tax system fairer. According to the American Community Survey from 2010-16, Montana's income inequality has increased during this six-year period by 4.97 percent. Though unemployment is low in Montana, middle and lower income families have experienced stagnant financial gains and higher costs, especially in housing and health insurance premiums. As a legislator, I am committed to seeking a long-term solution that can address tax fairness and adequate revenue.

Legislative Candidate Questionnaire

Q3 What do you believe is the most important issue related to growing business in Billings and what are your suggestions for addressing that issue?

My father, owner of a successful printing business, told me that there are many factors that influence the growth of a business, but the two most important are: cash flow and quality of staff. In Montana, these factors are playing out differently in two segments of the economy. Much of the growth in Montana's startup businesses is currently driven by the tech industry. According to the U of M high-tech survey, Montana's high-tech industry is growing seven times faster than the overall Montana economy. Aiding this growth is the availability of capital. For example, Next Frontier Capital in Bozeman has made more than 10 investments in Montana high-tech companies and those local investments are generating additional investments from out-of-state firms. In addition to capital, start-up tech businesses are successful in attracting highly-skilled staff from across the United states and foreign countries. Economic progress in Montana's manufacturing sector is following a somewhat different trajectory. New and expanded manufacturing establishments are a major contributor to the strong growth in Montana's economy in recent years. According to the Department of Labor, there are 1,479 manufacturing businesses operating in Montana, a growth of 14 percent since 2011. The manufacturing sector is finding start-up money for a steady increase in businesses. However, unlike Montana's tech businesses, manufacturers indicate one of the biggest challenges in growing their businesses is replacing skilled workers who are retiring and recruiting more skilled workers so that businesses can add new product lines, enter new markets or export products. The tech industry and manufacturing examples indicate to me that Montana needs to continue encouraging local venture capital companies and devote more resources to training young people for manufacturing jobs.

Q4 In the 2017 Legislative Session, local option authority was supported by the Billings Chamber, City of Billings, Big Sky Economic Development, Downtown Billings Partnership, and numerous other organizations across the state. Under what conditions would you vote for a local option authority bill?

I have supported local option authority bills in the 64th and 65th Legislative sessions. My rationale has been that updated infrastructure, including streets, roads, bridges, water supply, wastewater treatment, sewer and public facilities of all kinds are vital to growing the local economy. My view is that communities should have the opportunity to present infrastructure projects to their citizens and give them the opportunity to vote up or down on local projects. In the 65th Session, two similar local option bills, HB577 (Rep. Dave Fern D-Whitefish) and SB331 (Sen. Mike Phillips D-Bozeman) were introduced and supported by officials representing the cities of Kalispell, Great Falls, Helena, Missoula, Billings, Glendive, Colstrip and the Montana League of Cities and Towns, Montana Chamber of Commerce and Montana Contractors Association along with representatives of architects and engineers. Despite this strong support, both of the local option bills failed because there was opposition from these sources: • Independent Business of Montana warning that local option taxes could create a patchwork of public policy; • Citizens concerned that a local option tax would open the door to a statewide sales tax; • Retail businesses objecting to Amazon and other online retailers not having to pay any tax. For me to support a local option tax, the bill would have to clearly state the following: • maximum tax rate (3-4 percent) • mandatory sunset with the possibility of renewal • limited range of taxable items (consistent with existing Resort Tax) • specified amount dedicated for property tax relief • clear definition of "infrastructure" In addition, the issues of retailer businesses and utilities need to be addressed. I am not as concerned about a patchwork of public policy. To me, this just means local control. Most important to me is solid bi-partisan support for local option tax authority from community leaders and their local legislators.

Legislative Candidate Questionnaire

Q5 Tax Increment Finance (TIF) districts are an important economic development tool for our community. How will you work to ensure one of local government's most useful funding mechanisms is preserved?

Tax increment financing (TIF) is a state authorized, locally driven funding mechanism that allows cities and counties to direct property tax dollars that accrue from new development, within a specifically designated district, to community and economic development activities within that district. A TIF does not increase property taxes; it only affects the way that the incremental increases in taxes, once collected, are distributed. Any new taxes generated above the established tax base stay inside the district to pay for private projects or infrastructure improvements in the district, like sidewalks or sewers. Obviously, for services provided by schools, city or county 15 years is a long time for property taxes to remain frozen. To make TIFs worthwhile, Scott Rickard, the author of an MSU-B TIF study, concluded that most TIF districts need to outpace regular economic growth by more than 40 percent to be successful. To preserve the effectiveness of TIFs, the City of Billings must provide and enforce clear guidelines for how TIF funds are used and accounted for and what type of return on investment is expected from the district. All TIFs should be treated the same and be under the oversight of the City Council. The Council is currently developing these policies for presentation in April. I would add a strong requirement for the following:

- Include all the affected taxing jurisdictions in the initial TIF planning stages;
- Encourage taxing jurisdictions to participate in every step of the adoption process;
- Make informational presentations to county commissioners, school board, representatives, city council members, planning board members to explain the TIF district and provide updates on progress toward financial goals.

At the state level, I would support providing clarification in statute of the responsibility of the Department of Revenue in certifying TIFs.

Legislative Candidate Questionnaire

Q6 In 2016, Yellowstone County hoteliers remitted \$3.5 million in facility use taxes to the state. That year our regional Convention & Visitors Bureau, which markets and promotes our area as a travel destination, received \$350,000 (just 10%) from the state to market and promote tourism in our area. Will you work with the Billings Chamber and lodging partners to ensure more money is returned to the areas generating lodging tax revenue? (Y/N)

Yes,

You may provide additional context if appropriate.:

Yes, I would be happy to work with the Chamber on this issue. Millions of visitors to Montana in 2017 resulted in a record amount of lodging tax collected. Over 12 million non-residents visited the state last year and that means the Montana lodging facility use tax, which is 4% of the lodging price, is up 5% from last year. Revenue from the 4 percent Montana "facilities use" tax, or bed tax, is distributed widely according to a formula set by the Legislature. The state actually collects 7 percent on each room, but 3 percent -- a lodging facilities sales tax -- goes to the state general fund. The Montana Historical Society gets 1 percent of the total, and the State Historic Preservation Fund gets \$400,000 each year. Another 2.5 percent is funneled to the University System for travel research and 6.5 percent goes to the Department of Fish, Wildlife and Parks for facilities maintenance. The lion's share, 67.5 percent, goes to the Montana Office of Tourism. The remaining 22.5 percent is distributed to the state's six tourism regions such as Southeast Montana, which includes Billings and the rest of southeast Montana. Some of the money distributed to the regions is redistributed to convention and visitor bureaus. In order to provide more money to the tourism regions, the legislative formula would have to be changed. For example, the carve outs could be reduced or removed, less money could go to the central Office of Tourism or funds could be distributed proportionately to the six tourism regions. A case could be made that tourism regions need more money to promote their tourist attractions and their efforts would increase overall revenues for the state.

Legislative Candidate Questionnaire

Q7 MSU Billings is an essential economic driver for our community and surrounding area. Not only does MSU Billings provide educational opportunity for Montanans, it also assists with workforce development, an increasingly important challenge facing our community. How will you help to ensure MSU Billings receives adequate funding for facility updates?

To help ensure MSU-Billing receives adequate funding for facility updates, I have educated myself about the university's current status and its needs. I served on a 24-member Community Task Force charged with making suggestions for re-vitalizing the MSU-Billings campus. Since the unification in 1994 of the Montana University System, the smaller units like MSU-Billings have struggled with maintaining enrollment, recruiting and retaining faculty, and having enough financial resources to update programs, buildings and equipment. The MSUB Task Force spent nine months studying what was needed to help the university reach its full potential. Two key findings of the study were that MSUB should connect its programs and courses to the needs of the businesses in Billings and the surrounding region. A second recommendation was to support stable leadership (e.g., chancellor, provost, deans) who would be able to work with community leaders to form partnerships for job-shadowing, internships and other collaborations with local and regional businesses. As a follow-up to the MSU-B Task Force, members were asked to volunteer to be on one of the advisory committees that will be working with faculty and staff to connect the university more closely to the community. I have volunteered to be on one of these advisory committees, so that I can continue to follow the progress of the university. My first priority for MSUB is the completion of fundraising and breaking ground for the Yellowstone Science and Allied Health Building. Attainment of this objective will improve STEM programming, create new interest in the university, and enhance MSUB's reputation as a dynamic, progressive campus. As a legislator, I worked with my colleagues from Yellowstone County to guard the \$10 million that was set aside for the MSUB science building. So far that money remains available to be matched by \$5 million from the community.

Q8 The Billings Chamber, City of Billings, Big Sky Economic Development, Downtown Billings Partnership, and other community partners, are working with Hammes Co. on the development of One Big Sky Center, comprised of two development districts and anchored by a regional convention center. If a state funding source were identified and developed, under what conditions would you support the inclusion of state monies in the funding mix for a regional convention center in Billings?

One Big Sky Center is a major project with potential to serve as a catalyst for new economic growth in Billings and the region, particularly in the area of recruitment of conventions and conferences. However state funding for such a project is rare, but not impossible. Generally, the Legislature uses a competitive process for determining what infrastructure projects will be funded. Historically, Billings has not been a recipient of state infrastructure dollars in part because other communities had much more serious infrastructure problems. For example, the infrastructure bill in the 2015 session had just one project in Yellowstone County and that was for Laurel. In general, Billings is not seen as needy, so that characterization of Billings would have to be changed. In the last two sessions, no infrastructure bill has been passed, so no state funding has gone to specific projects. Turning that history around would be a heavy lift. In order for Billings to receive funding for the One Big Sky, the following things would need to be in place: • A clear statement and supporting documentation of how the project would benefit the region around Billings and the state as a whole, • Evidence that Billings had already raised significant dollars for the project, • Partnerships with other parts of the state and subsequent support from those partners, • A fully united Yellowstone County legislative delegation that would advocate for the One Big Sky Center as economic development for the state's benefit. If the Yellowstone County legislative delegation was on board, I would work hard with my colleagues to make the case for One Big Sky Center as a benefit for the whole state.

Legislative Candidate Questionnaire

Q9 Sixteen percent of Billings workers are employed in the healthcare arena resulting in a total direct and indirect economic output of \$2.6 billion annually. Do you believe that cutting state reimbursement to hospitals, clinics and other healthcare providers is a way to address state budget shortfalls? (Y, N)

No,

You may provide additional context if appropriate.:

No, I don't think that taxing or imposing fees on nonprofit healthcare providers is the way to address state budget shortfalls. Addressing shortfalls should occur in the budgeting process with realistic revenue projections and a willingness to balance the budget with a mix of cutting costs and raising revenues to cover necessary services. This question no doubt refers to the twists and turns of HB 639, a bill in the 65th Legislature, that included a deal for hospitals that would increase the Medicaid reimbursement of healthcare providers while imposing a "hospital community benefit assessment" (hospital tax) on the 14 largest hospitals in the state. The amount of the assessment was calculated according to how many Medicaid patients the hospital served. In Billings, the amounts assessed were substantial: • Billings Clinic (Billings)-- \$835,300 • St. Vincent Healthcare (Billings)--\$647,180 • Advanced Care Hospital (Billings)--\$122,000 The theory behind this assessment was that hospitals were receiving a windfall because Medicaid Expansion passed in Montana. Charity care costs were going down and now hospitals were receiving Medicaid payments to cover the costs of providing care. There is, however, a flaw in this logic. First of all, most hospitals in Montana are nonprofits and therefore should not be taxed. Second, Medicaid payments do not cover the actual cost of serving the patients. In fact, hospitals were reporting that the new Medicaid patients, not surprisingly, had more health problems than other patients. So serving this new group of patients still resulted in higher costs of care. Nonprofit hospitals are an asset to the community. They are governed by local boards whose members receive no compensation. Even though the hospitals do not pay taxes, their employees do. Most Montana hospitals have small margins at the end of their fiscal years and these margins must be re-invested in their programs.

Legislative Candidate Questionnaire

Q10 Throughout the legislative interim and November 2017 Special Session the re-evaluation of Montana's funding mechanisms was a topic of discussion. What are your thoughts on the need to identify new revenue sources to address a shifting economy and our infrastructure needs?

The current sources of revenue for state government include: Individual Income Tax, Property Tax, Corporation Income Tax, Vehicle Taxes & Fees, Oil & Natural Gas Production, Tax Insurance Tax & License Fees, Video Gambling Tax and other smaller categories. Montana relies more on the property tax than a typical state. The typical state receives 31 percent of its tax revenue from property tax, while the figure is closer to 40 percent in Montana. Montana does not have a general sales tax, but it does levy a variety of excise or selective sales taxes on tobacco, alcohol, gasoline, accommodations and other items. Still, when general and selective sales taxes are added together, Montana gets less than half as much from these sources as a typical state does. Raising property taxes is not an option. Property tax revenues have undergone significant changes in the last 20 years, largely in response to sharply increasing values for residential and commercial property. Total property taxes more than doubled between 1995 and 2015 while the taxable value of all property in the state increased more slowly. The most fundamental reasons are inflation, population growth, and increases in real income per person, all of which contribute to growth in personal income and the demand for government services. Addressing the need for new revenue without raising property taxes is challenging. Sales tax is an option used by most states, but it has always been unpopular in Montana because of its potential to be regressive in nature. So the options for new revenue are limited to some mix of the following: • Increasing fees; • Looking at additional excise or selective sales taxes; • Closing loopholes (e.g., tax credits) in the current tax system; • Addressing potential taxes for online purchases; • Raising income tax rates for the highest earners (over \$500,000 per year).

Q11 Billings, and the greater Yellowstone County area, has the largest legislative delegation in the state and there is great potential to work together toward regional specific initiatives. How do you plan to work with all members of the Yellowstone County area delegation for the betterment of our business community during the 2019 Legislative Session?

Yellowstone County has 17 House Districts and 9 Senate Districts--by far the largest delegation in the state. The county includes the cities of Billings and Laurel and smaller communities like Broadview, Ballantine, Custer, Huntley, Lockwood, Shepherd and Worden. So Yellowstone County in total has a mix of needs related to urban and rural environments. Despite the diversity within the county, if the delegation voted together on any issue, there is a strong possibility that issue would prevail. In the two sessions that I have served in the legislature, I have worked with Jeff Essmann to bring Yellowstone County legislators together around issues of regional importance that we could all support. We were successful in having a united front concerning establishing the crime lab in Billings; we also had strong support for funding the remodeling of the science building on the MSU-Billings campus. On other issues, it has been difficult to get agreement. I am ready and willing to continue the work we have started to bring our delegation together. The following are strategies that could help us become unified on key issues: • Meeting at least twice after the November election and before going to the Legislator to identify regional issues and then select ones to pursue with bit-partisan support; • Notifying the public about what issues have been selected to support; • Meeting one or more times during the session to analyze bills that would be favorable to our region and developing support from the delegation; • Ensuring that legislators from Yellowstone County are on the Appropriation Committees.

Page 3: Finalizing Questionnaire

Q12 If you have not sent the Billings Chamber a high-res image you would like us to use, please upload a photo here.

Kathy Kelker 4x5@300.jpg (1.2MB)