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MONTANA BUSINESS QUARTERLY

Volume 33, Number 3

Autumn 1995

MIGRATION PATTERNS



Inside:

- * MONTANA POLL - Fast Facts/Computers
- * ETHICS FOR DIRECTORS
- * INCOME DATA FROM THE IRS
- * STATE TAX PRIMER

MONTANA BUSINESS QUARTERLY

Volume 33, Number 3

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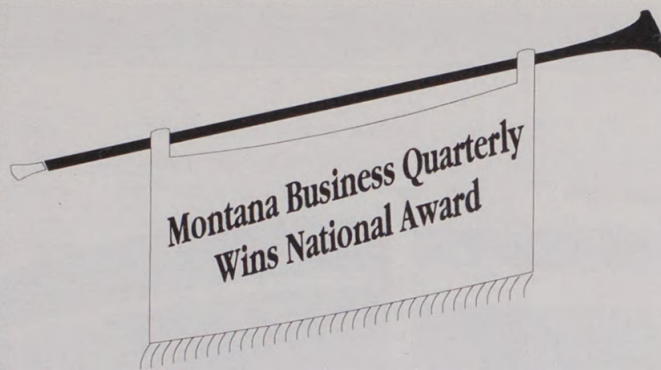
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The Quarterly was the unanimous choice for the 1995 Award for Excellence in Publications at the Association for University Business and Economic Research annual meeting held in Boulder, Colorado in October.

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*Cover photo by Wayne Mumford, cover illustration
by Neal Wiegert, UM Graphics.*



MONTANA OR BUST!

Montana Migration Patterns

*by James T. Sylvester, Paul E. Polzin,
Susan Selig Wallwork, and Marlene Nesary*

The influx of newcomers into Montana has been a hot topic of late, peppering conversations from Libby to Dillion to Sidney. We hear about rich Californians bidding up property values and overwhelming local school districts. But is this the whole story? Probably not.

Unfortunately, hard data about newcomers are difficult to come by. We don't post immigration officers at Montana's borders or keep tabs on people moving between states. We have to rely on other sources, many of which provide only partial or anecdotal information. Nevertheless, migration trends and patterns can have substantial effects on economic and social life. So we present here our current findings.

The Bureau recently completed a major telephone survey. The primary purpose was not migration *per se*. But our surveys routinely ask about recent mobility and this was a particularly large sample set (over 1,200 households throughout the state). Thus we had the baseline data for an up-to-date analysis of in-migration trends and patterns.

Before we discuss the survey and findings in more detail, here are a few highlights of the study. We found that:

- Newcomers down the block may not be refugees from California or Colorado or Texas, but other Montanans. Our survey showed that more than 40 percent of migrants were existing state residents moving from one Montana county to another.

- Nor do we have an especially high percentage of out-of-state migrants. The proportion of people who've moved into Montana from another state during the past five years is just about the national average.

- Both cross-county and cross-state migrants tend to be younger than the population as a whole, not retirees. In addition, cross-state migrant profiles present an apparent contradiction: this group tends to be *better* educated than Montanans overall, but has *lower* incomes.

- California is the largest single "feeder source" of cross-state movers into Montana, accounting for about one in five migrants over the past five years.

- A surprising number of cross-state migrants (from California and elsewhere) had preexisting ties to Montana. More than half had lived here before themselves, or another member of their household had. They were *returning* to Montana.

- Beyond family ties, newcomers said they moved to Montana for quality of life and employment-related reasons. These two reasons were cited about equally by respondents.

- New residents to the state generally chose to live in western Montana or an urban county. Cascade County was also a frequent destination choice, but Malmstrom Air Force Base may account for a fair portion of that immigration.

Most of our report will focus on people coming into Montana, but is anybody leaving? Some research and anecdotal evidence suggests that both sides of the equation are constantly in flux, that people move into the state, and in a few months or years, move out again. That, too, is very hard to measure, since our statewide telephone surveys, by definition, won't catch those who left. However, we did ask several questions about "intent to leave" during the June 1995 Montana Poll. A brief discussion of those results rounds out this report.

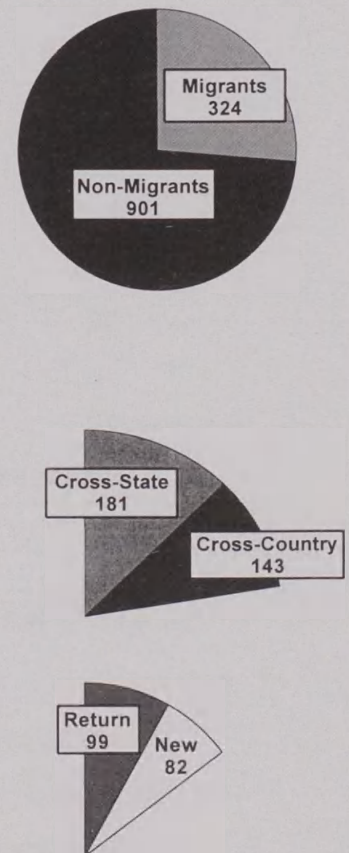
How Many Migrants?

Our study uses the U.S. Census Bureau definition of migrant. That is, migrants are defined as persons who have moved from one county to another during the past five years, or from one state to another. Since our survey was conducted in late 1994, migrants include those moving among Montana counties (cross-county) and those who moved from another state (cross-state) anytime between 1989 and 1994. Those who remained in the same dwelling during that period, or moved within a given Montana county, are classified as non-migrants.

As Figure 1 shows, by far the largest segment of our 1,225-person sample was not "migratory"; 901 survey respondents, or 74 percent, said they'd remained in the same dwelling or within the same county throughout the previous five years. Almost half of the 324 migrants in our sample had moved from one Montana county to another (Figure 2). Thus, the newcomer down your block may very well be just another Montanan. Even cross-state migrants weren't complete strangers. More than half were returnees, who either lived here in the past themselves, or had someone in their household who had lived in Montana (Figure 3). In addition, migrant households defined as entirely new to the state sometimes had more indirect family ties—an uncle, perhaps, had retired to Lewistown, or a grandparent had grown up on the Hi-Line.

Figures 1, 2 & 3

How Many Move?

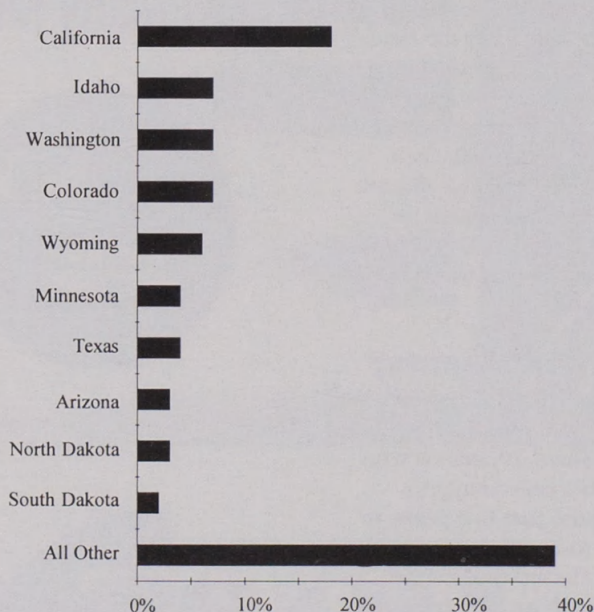


Source: Bureau of Business and Economic Research, The University of Montana.

Figures 4 & 5

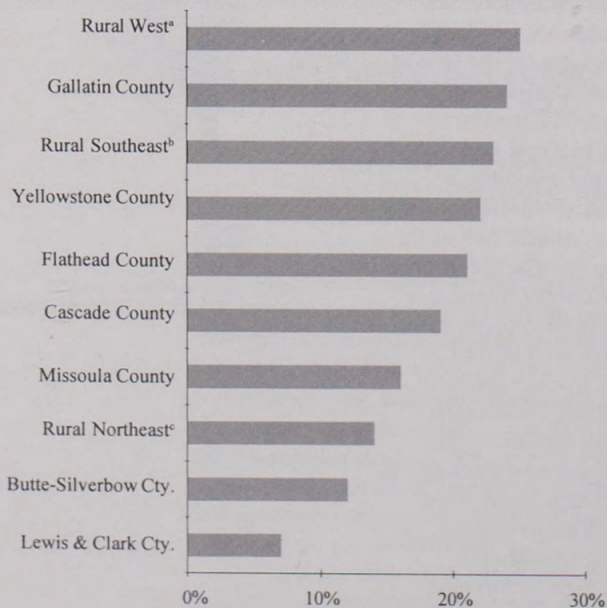
From Where?

State of Origin



To Where?

Destination Choices of Cross-State and Cross-County Migrants



^aAll counties in West region except Missoula, Flathead, and Butte-Silver Bow.

^bAll counties in Southeast except Yellowstone and Gallatin.

^cAll counties in Northeast except Lewis & Clark and Cascade.

Source: Bureau of Business and Economic Research, The University of Montana.

Finally, cross-state migrants (new and returning) comprised only about 15 percent of our total sample. We don't have exactly comparable national data, but available figures suggest that about 14.5 to 16.5 percent of the adult US population engaged in a cross-state move between 1989 and 1994. Our newcomer rate is downright *average*.

Origins and Destinations

Figure 4 shows the primary origin places for cross-state migrants in our survey. California does indeed contribute more newcomers than any other single state. It also has a huge population (35 million) and is relatively nearby—two classic determinants of migration source. The four contiguous states (North and South Dakota, Wyoming, Idaho) together contributed the same percentage of newcomers (about 18 percent) as California alone, although their combined population is many times less. Overall, the pattern of origin states we found among survey respondents is remarkably close to the distribution of surrendered drivers' licenses reported in the last issue of the *Quarterly* (Summer 1995).

Where do newcomers gravitate?

Figure 5 shows the destinations favored by all migrants (cross-state and cross-county) in our survey. We list the state's seven largest counties individually, and divide the remaining rural counties into three regions. Note that the Rural West (Western Montana as a whole, excluding the urban counties) is preferred by more migrants than any other given locale. As a group, however, urban counties took in the lion's share of newcomers.

Within migrant types, somewhat different patterns emerge. Cross-county migrants have a slight tendency to go from rural to urban counties, with Gallatin and Missoula counties the preferred destinations. Cross-state migrants as a whole also tend to choose Montana's more urban locales, favoring Gallatin, Yellowstone, and Flathead counties especially. Together,

the seven largest counties accounted for about 65 percent of cross-state migrants. By comparison, only about 56 percent of the total statewide population lives in urban areas.

Why and Who

Human motivations are usually complex and multi-determined, and while we didn't try to psychoanalyze respondents' migratory urges, we did ask them to describe their ties to the state and their primary reasons for choosing Montana.

The results were striking. About 55 percent of all cross-state movers had lived here before, or someone in their immediate household had. Even in the households without prior direct residence, about 12 percent had some other family tie to Montana that had influenced their decision to migrate. Thus, as Figure 6 shows, prior or family history was the single most often cited reason for coming here.

Second most important—especially for new residents—was a cluster of related reasons we've combined into one, quality of life. Respondents cited such things as "outdoors ... scenery ... less congestion ... hunting and fishing ... pace of life ... less expensive to live ... fewer people."

Employment reasons were a close third overall, and slightly more important for return than for new migrants. Unfortunately, we can't distinguish between those who brought a job with them and those who were transferred or assigned here. Nor can we tell how many people moved to Montana to improve their employment or salary prospects, and those willing to take whatever they could find. Thus, "employment reasons" doesn't necessarily translate into net new jobs in Montana.

About 15 percent of migrants cited some other primary reason for their move, including to attend college or to retire.

Other clues to motivation might be

Montanans New and Old

by William E. Farr

Last July, the national magazine *Newsweek* breathlessly insisted that the West is at war with itself. Maybe elsewhere, but I don't think it is war in Montana—more like a loud and angry family dispute. To be sure, both Montana and the West are big places, thinly populated by comparison with the East, yet filled with a diversity that has confounded visitors and only grown more pronounced. Nor has there been any agreement about where the West begins or ends, or what should be included. In general, it's hard to generalize.

What is clear—and *Newsweek* got this right—is that things are changing. Fast and furious in some places. Consider the scope and scale of population growth over the last quarter century in the Rocky Mountain West. Between 1970 and 1994, the US population as a whole grew by 29 percent. Over the same period, Arizona grew by 130 percent, Colorado and New Mexico by about 65 percent each, Idaho by 59 percent, Wyoming by 43 percent. Alone among the Rocky Mountain states, Montana's growth rate sank below the national average—at a piddling 23 percent. We couldn't even save our two congressional seats in the 1980s.

Known as the "empty quarter" of the West, the "big open," the "great fly-over," Montana is uncommonly spacious. Our population density is 5.6 persons per square mile; only Alaska and Wyoming offer more elbow room. Yet this density figure is deceptive. Some 30 percent of Montana is designated public land, in the form of national parks, wilderness areas, and BLM tracts. Much of the remainder is vertical, and the climate as a whole can be both dry and harsh. So Montana land actually and practically available for private use and growth is, in truth, quite limited.

These factors have contributed to what some call an "oasis" civilization. Others say Montana should be classified as an "urban" state because most people live in cities and towns. These may be apt, but it's well to remember that none of Montana's urban oases exceed 100,000 people, and that 60 percent of the state population clusters in only eight of its counties—seven of which are in Western Montana.

The BBER study on recent statewide migration patterns is reassuring in some ways. According to the study, 40 percent of all movers in the last five years came from elsewhere in the state, and 55 percent of the households moving in from another state had at least one member with prior residence here. This level of familiarity with Montana seems to soften the cultural shock and risk associated with newcomers.

Yet these statewide figures are also statistical abstractions, averages pertinent to nowhere in particular. Averages don't tell us about specific stresses in the Gallatin Valley or the Flathead, in Missoula or Ravalli Counties. In these places, newcomers—even those hemorrhaging out from Eastern Montana—are competing for jobs in a declining employment base, pushing up real estate prices, encouraging builders to crawl up surrounding hillsides and to subdivide before land use planning or laws can take effect.

(continued on next page)

obtained by examining Table 1. It compares migrant and non-migrant groups in our survey according to several characteristics. Note that:

- Compared with non-migrant respondents, cross-county migrants are disproportionately concentrated in the 18-to-34 age category, while cross-state migrants are generally older, concentrated in the 45-to-64 category. State-wide, we aren't seeing a massive influx of elderly, although data for specific counties (such as Ravalli or Fergus) could show otherwise.

- Cross-county and non-migrants have more similar profiles, while cross-state migrants tend to have more education.

- However, contrary to conventional wisdom that equates higher education with higher income levels, well-educated cross-state migrants tended to be *poorer* than Montana's non-migrant population—at least in terms of declared household income. This trend was especially marked for return migrants. High income newcomers, then (to the extent they exist), are not ex-Montanans who made a fortune and brought it back home.

- College students make up a sizable component of cross-county and return migrants—over 6 percent compared with only 2 percent of Montana's non-migrants. Conversely, while about 20 percent of non-migrants declared themselves retired, only about 10 percent of migrants said so. More evidence that, overall, the state hasn't become a retirement destination. New residents as a group had the highest level of unemployment.

- Respondents' declared political preferences reveal an intriguing profile. Independent and Republican affiliation each garnered about a third across all subgroups. Only one sub-group, new residents, actually preferred the Republican Party over an Independent stance,

(continued from page 5)

Here in Missoula, we feel the frustrations of growth and traffic at that famously wretched intersection, Malfunction Junction. What a change! In the late 1960s Missoula was described as a "dirty little town with broken streets," where teepee burners and wood-products jobs prevailed. Where elite dining meant the Frontier Lounge and Club Chateau, and the only seafood was oyster dip. Now we've become a literary capitol and regional service center with more muffin bakeries and espresso bars than mills, more writers than millwrights. And the very qualities that once relegated this place to backwater—isolation, wild cats prowling the side yards—have now become selling points.

Montana has become an escapist vision. Books and movies advertise the image (*A River Runs Through It*, *River Wild*, *Legends of the Fall*, etc.). Starlets glitter against rural skies, Ted Turner raises buffalo on the Flying D, and too many others fish, hunt, ski, and gawk in a wild environment that is not only close by but close to a pervasive nostalgic dream.

Space and spaciousness have given us an enviable scale. And the state's natural resources—once valued only because they could be extracted, mined, milled, and shipped—are now attractive in their own right, valued intact as scenery, habitat.

Given these dramatic changes, can we still think of Montana and the West in Wallace Stegner's words, as a "geography of hope"? I think yes, for two reasons. Settled last and settled least, we've been allowed more time to settle Montana well, according to contemporary sensibilities and needs. We Montanans may not, ourselves, have earned this opportunity. But we can enjoy the benefits of late development, and provide a refuge for a searching population. People yearn for a more pristine environment where they can start over again, perhaps this time with an economy that sustains families *and* a high amenity lifestyle. We'll need to make the most of this unearned gift even as we learn to live with limits. But Montanans have been given more time, and a ratio of people to land—a geography—that offers room to hope.

Paradoxically, this generosity of time and space creates another reason to be hopeful about Montana's future: it makes possible a truly human scale. Our communities are all under 100,000. The scale of our institutions, neighborhoods, towns and cities invites participation, involvement, intimacy. Scale alone offers the opportunity to shape regional politics and issues *at the appropriate stage* in our growth. Individuals still make a difference.

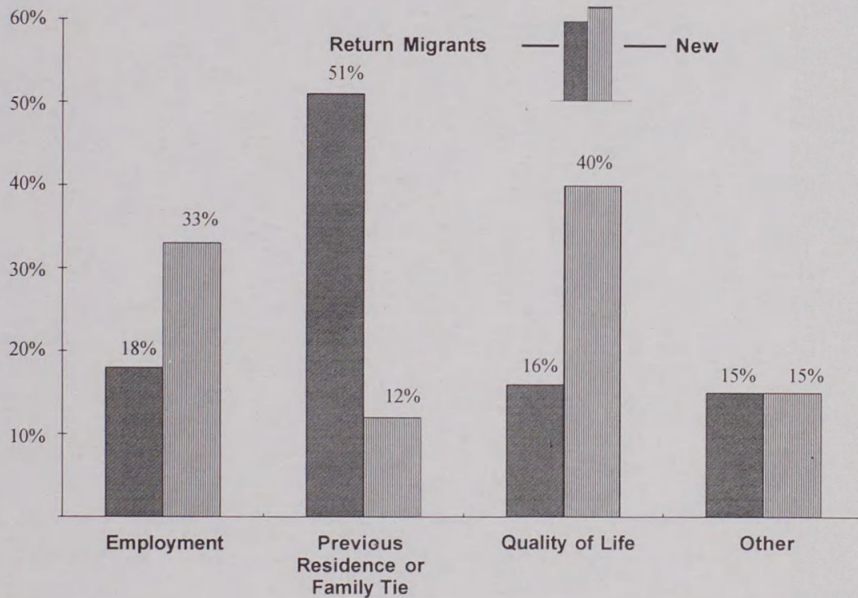
If we cannot face the churn of change, the nagging uncertainties and fears that haunt all forms of alteration and flux, *here*, where population, geography, arrested development, and a sense of community still prevail — where can we?

Montanans new and old have more of a base for a workable future than in most places. That's the bottom line. But only if we integrate our efforts and refuse the war that *Newsweek* points at. Common concern can lead to common ground.

William E. Farr is a professor of history at The University of Montana, Missoula, and directs the Center for the Rocky Mountain West. These remarks were adapted from his opening address at the October 1995 conference on "Montanans New and Old and the Search for a Workable Future."

Figure 6

Why Migrate?



Source: Bureau of Business and Economic Research, The University of Montana.

but the numbers are still well within the margin of error, making it a virtual dead heat all the way. Overall support was lower and group differences were much more marked when it came to Democrats. Nearly a quarter of non-migrants said they preferred the Democratic Party. But in migrant groups—especially return migrants—support for Democrats was well below 20 percent. It's worth remembering that our survey took place just after the 1994 mid-term elections, and we're now approaching another presidential year; affiliation patterns could look quite different in a few months.

Is Anybody Leaving?

Now for the other side of Montana migration—leaving the state. As mentioned earlier, our June 1995 Montana Poll included several questions aimed at understanding the potential for out-migration. Of the 402 adults surveyed, more than a third (137, or 34 percent)

said they'd given some thought to leaving Montana. The rest said they hadn't given any thought to it at all (Figure 7).

Here too, the migratory urge seemed stronger overall among younger respondents. About 45 percent of the 18-34 year olds interviewed for the Montana Poll said they'd considered leaving the state. Another subgroup was even more inclined to consider moving; 55 percent of respondents who'd moved or returned to Montana within the past ten years were considering out-migration. Maybe there is something to the revolving door theory.

Figure 8 shows the primary concerns motivating Montanans' impulse to leave the state. Many respondents cited more than one reason, but economics topped the list, including high cost of living, better incomes outside, bad tax climate, and so on. Employment or career concerns were a close—and in many

ways related—second, including a poor job market and poor career opportunities. Climate figured in another primary reason—quality of life—only this one pointed at harsh winter weather and concerns about crowding and overdevelopment. Finally, a few respondents cited the kind of restlessness and curiosity that have kept Western populations astir for generations.

We also cross-referenced the potential for outmigration by place of residence. Figure 9 suggests that some counties or regions of the state might be more prone to the revolving door syndrome than others. Note the high level of restlessness in Gallatin County and the markedly low incidence in Yellowstone County. Gallatin includes MSU, which probably accounts for some volatility in population, but Missoula, home of UM, looks comparatively stable. Malmstrom AFB probably influences Cascade County's out-migration potential as much as its

Table 1

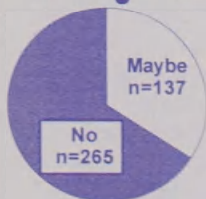
**Migrant and Non-Migrant Profiles
Montana, 1989 - 94**

	Migration Status				
	Non-Migrants n=901	Cross-County Migrants n=143	Cross-State Migrants n=181	Return Migrants n=99	New Residents n=82
Age of respondent					
18 to 24 Years	2%	13%	15%	11%	19%
25 to 34 Years	12%	34%	29%	31%	28%
35 to 44 Years	24%	19%	22%	22%	21%
45 to 64 Years	37%	18%	26%	26%	26%
65 Years and Over	22%	8%	7%	7%	6%
No response	3%	8%	1%	3%	0%
Gender of respondent					
Male	48%	41%	51%	45%	58%
Female	52%	59%	49%	55%	42%
Education of Respondent					
Some HS or less	9%	9%	6%	6%	6%
High school graduate	40%	31%	30%	28%	32%
Some college	23%	29%	28%	30%	27%
College graduate	25%	26%	34%	34%	34%
No response	3%	5%	2%	2%	1%
Household income in 1994					
Under \$15,000	18%	25%	26%	31%	19%
\$15,000 - \$34,999	33%	37%	36%	38%	34%
\$35,000 and over	36%	27%	30%	22%	40%
No response	13%	11%	8%	9%	7%
Employment status					
Employed	66%	69%	75%	75%	75%
Retired	20%	9%	10%	9%	10%
Student	2%	7%	4%	6%	3%
Homemaker	5%	8%	5%	4%	6%
Other	7%	7%	6%	6%	6%
Political preference					
Democrat	24%	18%	14%	13%	16%
Independent	32%	34%	35%	38%	33%
Republican	31%	30%	34%	32%	35%
No response	13%	18%	17%	17%	16%

Source: Bureau of Business and Economic Research, The University of Montana.

Figure 7

Leaving Montana?



cross-state in-migration rate. And state government vicissitudes may account for the apparent volatility in Lewis and Clark County.

Are these data a reflection of relative satisfaction with Montana life? A real predictor of outmigration? We'll have to gather more responses over time and

compare with other sources of data.

Our earlier, larger, survey found that, despite worries and fears, we aren't really being flooded with newcomers. The 15 percent Montana newcomer rate between 1989 and 1994, which includes both cross-county and cross-state migration, is remarkably average for the United States as a whole. Recent Poll data suggest that while a sizable portion of younger, more mobile state

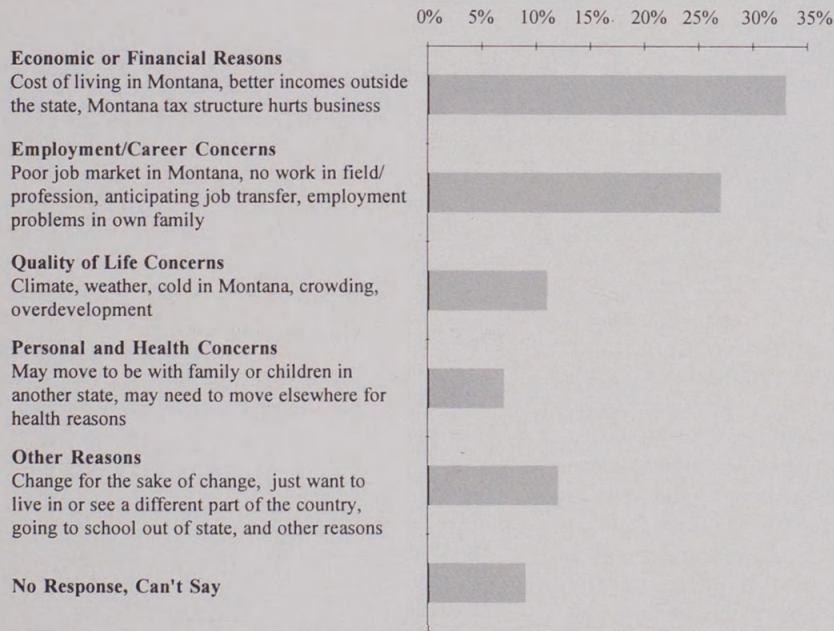
residents think about leaving, Montanans overall are pretty well settled in place. □

James T. Sylvester is an economist with the Bureau; Paul Polzin is the Bureau's director; Susan Selig Wallwork directs survey research; and Marlene Nesary is the MBQ's editorial director.

Figures 8 & 9

Primary Concerns Among Montanans Who Have Thought About Leaving Montana

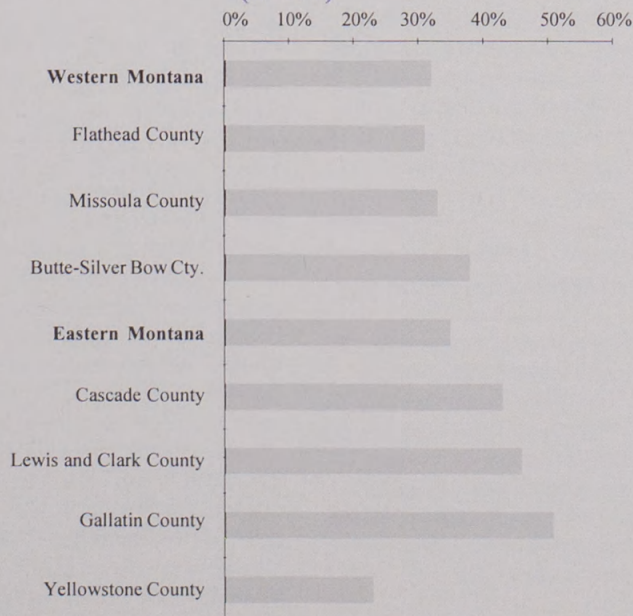
June 1995
(n=137)



Note: Many respondents who mentioned reasons related to the cost of living in Montana or Montana incomes also made some reference to the job market or employment situation in Montana. Likewise, some who mentioned employment-related reasons also cited income concerns. In each case, the response was categorized based on what received the most emphasis in the response.

Montanans Who Have Thought About Leaving

June 1995
(n=137)





The Ethical Responsibility of Directors and Trustees

by Dawn-Marie Driscoll

No wonder independent trustees and outside directors are nervous these days. They're responsible for the financial security of stockholders, citizens, and municipal entities. Individuals depend on board members' ethics and judgement to protect home purchases, college educations, and retirement accounts.

Yet the markets are increasingly complex and deeply interconnected. Currency traders move a trillion dollars around the world on a daily basis; financial innovations make geography and regulatory bodies nearly irrelevant. Meanwhile, we've experienced the worst bond market in decades. Recently, Wisconsin lost \$95 million on peso and currency speculations. A community college fund in Chicago dropped nearly \$40 million on mortgage securities. And that wealthy deadbeat, Orange County, filed for bankruptcy.

In the face of such turmoil, directors may be tempted to crawl under a hole and be overly conservative, forgetting that markets are efficient and there is no return without risk. There is another approach, however. Ethical responsibility can be met straight on with a clear head and a steady hand. The role of directors and trustees is not to prevent losses or to maximize return, but to anticipate next year's financial news.

Several Dilemmas

There are several significant ethical matters now facing directors and trustees.

First and foremost, diligent directors must assess risk. The risks, for instance, of investing internationally and—in an increasingly global economy—of not investing some funds in international stocks and bonds. They must assess interest rate risk, inflation risk, risks of private placements and venture capital investments, and credit risk (which many financial reports don't clearly reveal). Board members needn't understand every nuance of each investment but they do have an ethical responsibility to ask questions about risk.

Financial risks aren't the only ones to consider. Directors must assess operational risk as well, from backup phone lines and computer programs to accounting and pricing. Bankers Trust had to restate earnings by \$80 million because of pricing disputes over foreign currency options. Every day newspapers carry stories about rogue traders who are allowed to price and account for trades. Always ask if operations management understands and can track investment activities, and also whether the two sides of the house are really separate.

Finally, there is legal risk. In 1990 local authorities in the London borough of Hammersmith and Fulham, denied the power to raise taxes, took up interest rate swaps. When traders guessed the wrong way, the borough owed British banks over 150 million pounds. Lawyers asserted that the borough didn't have the legal authority to make such investments in the first place, and the court agreed. International banks lost about 550 million pounds on the decision. The argument was certainly unethical, but it may become more common.

Education is becoming another important ethical issue. It's not enough for directors to sit in board rooms and approve investments. They must go into the living rooms of those who depend on them, and find a way to communicate in plain English. For example, half of all mutual funds are now in stocks and bonds rather than money markets. Yet mutual fund shareholders may not understand what they are buying. Nor do other fund and trust constituencies such as retirees and municipalities necessarily understand that pensions and returns may not always increase. Directors must reach out with clear and honest communication.

Relationship investing affects directors' ethics. Calpers, TIAA/CREF, and others have begun to lead the way in corporate activism. While many directors may choose not to be as active, the days of passive investing might still be over. Directors may spend as much time setting policy on proxy voting as they do on investment parameters

The most comprehensive issue facing directors is general moral standards. Restrictions and disclosures about portfolio manager trading may be an easy issue; the disclosure of soft dollar arrangements a little harder. And the questions get tougher. Should Merrill Lynch have continued to trade with Orange County? Should directors let shareholders purchase a particular fund if they think they are ignoring its inherent risks? How much disclosure is enough? Do directors know if their portfolios match written investment policies? How do directors ethically balance risk and return and disclosure and oversight? Should directors be paternalistic or should they be free-market advocates? Do they have policies on conflicts of interest for board members? Or how about this tough ethical issue: Should directors publicize the fact one of their members never shows up at meetings? How do directors know what other board members are doing, anyway?

What the Law Says

Directors are all fiduciaries, which means they have a duty of due care. They have to act in good faith, with the diligence, care, and skill that a person of ordinary prudence would exercise under similar circumstances in a like position. This harmless-sounding legal standard has a couple of zingers in it. If directors have greater skill, the law requires them to apply it. For many directors, that imposes a higher standard and a greater responsibility. Further, prudence is a context-dependent idea. Directors and trustees have to ask what prudence means in today's changing markets, with today's technology and financial horror stories.

Fiduciaries also have the duty of loyalty. Directors are obliged to protect the fund or trust they oversee, and its beneficiaries. They can have no self-dealing, no conflict of interest, no ethical lapses. The operational definition of loyalty is like the three most valuable features in real estate (location, location, location). When there is a question about loyalty, the answer is disclosure, disclosure, disclosure. Board members are unlikely to be accused of ethical violations or conflict of interest if all relevant matters are disclosed early and clearly to every possible party. However, even with excellent financial performance and proper staff operations, a scandal about the conduct of a single board member can erode trust.

The Real DOPE

How do directors and trustees operate ethically as fiduciaries? For those who are used to IPOs and IOs and need an acronym, I offer DOPE: Diligence, Oversight, Policy, and Education.

The diligent director attends meetings, reads material, sets agendas, devotes time, asks questions and speaks his or her mind clearly, even when that upsets the comfort level of other board members or staff. There is no such thing as too much diligence.

Directors must provide oversight. They must approve the

fundamental operating and financial plans, strategies, and objectives of their funds. They must evaluate the performance of those who work for them, and take action against sub-standard work, even while negotiating the fine line between oversight and micromanagement. Their role is to oversee procedures, test assumptions and ask questions, not to poke in the realm of details. Directors should satisfy themselves about the quality of disclosures, compliance procedures, the adequacy of internal controls and the protection of assets. But they should not attempt to do it themselves.

Directors make policy. How much risk are they willing to take? What standards do they set, what investments do they permit, and what policies structure their own board? Do they conduct a self-assessment once a year? How high is their candor level? How well do directors work together as a board? What policies should govern board operation, structure and evaluation?

Finally, directors must be educated. Everything else directors do follows from how educated they are—not just individually, but as a cohesive board. Directors receive education from staff or advisers, but education shouldn't stop there. On diligent and ethical boards, independent directors exchange articles and material. If allowed by law, they get together outside of

board meetings, talk privately and candidly, to make sure they are all speaking the same language, voicing concerns, understanding the same issues. When one director attends a conference, he or she shares what is learned with the others. They all read, learn, and question outside counsel and outside auditors and board member peers in the financial world, asking, What is the 1995 best practice model for fiduciaries?

The goal of ethical directors is to be the best board operating in the most effective manner, to protect shareholders and beneficiaries. Every time ethical directors sit down at a board meeting, beneficiaries sit with them. With diligence, oversight, policy and education, they are well on the way to fulfilling fiduciary responsibilities. □

"It's not enough for directors to sit in their board rooms and approve investments. They must go into the living rooms of those who depend on them, and find a way to communicate in plain English."

Dawn-Marie Driscoll is a lawyer, ethics consultant, and author living in Cape Coral, Florida. She serves as an independent trustee of several Scudder, Stevens & Clark mutual funds and on the Investment Company Institute's committee of independent directors. These remarks were adapted from a speech before the Montana Board of Investments.

→ Fast Facts →

Computers in Montana Households, 1994

by Susan Selig Wallwork

How Many?

	<u>Percentage of Total Respondents/Households</u>
Computer in household	33%
Computer with modem	13%
Computer used primarily for:	
Business purposes	7%
Personal	15%
Both business and personal	12%
A household member does some telecommuting in a work relationship with an outside employer or others	3%

Who?

Male (<i>n</i> =841)	36%
Female (<i>n</i> =816)	31%
Age:	
18-24 years (<i>n</i> =79)	32%
25-34 years (<i>n</i> =269)	35%
35-44 years (<i>n</i> =409)	44%
45-64 years (<i>n</i> =527)	38%
65 years and over (<i>n</i> =338)	12%
Baby Boomers aged 31-49 years	43%
Some high school education or less (<i>n</i> =147)	15%
High school graduate (<i>n</i> =629)	24%
Some college (<i>n</i> =449)	38%
College graduate (<i>n</i> =390)	53%
Household Income:	
Under \$15,000 (<i>n</i> =322)	15%
\$15,000-\$19,999 (<i>n</i> =174)	25%
\$20,000-\$34,999 (<i>n</i> =394)	33%
\$35,000-\$50,000 (<i>n</i> =312)	40%
\$50,000 or over (<i>n</i> =284)	62%
Household size:	
One person (<i>n</i> =382)	18%
Two persons (<i>n</i> =568)	32%
Three persons (<i>n</i> =298)	37%
Four persons or more (<i>n</i> =394)	48%
Children in household:	
No children (<i>n</i> =1,044)	28%
One child (<i>n</i> =276)	34%
Two children (<i>n</i> =212)	50%
Three children or more (<i>n</i> =125)	46%

Source: The *Montana Poll*, Bureau of Business and Economic Research, The University of Montana, 1994.

→ Fast Facts →

Computers in Montana Households, 1994

Where?

	<u>Percentage of Total Respondents/Households</u>
Western Montana ^a (n=622)	33%
Butte-Silver Bow County (n=109)	30%
Flathead County (n=154)	34%
Missoula County (n=151)	37%
Remaining counties (n=224)	29%
Eastern Montana ^a (n=1,035)	34%
Northeast (n=460)	32%
Cascade County (n=153)	33%
Lewis and Clark County (n=97)	40%
Remaining counties (n=210)	27%
Southeast (n=558)	36%
Gallatin County (n=142)	50%
Yellowstone County (n=195)	38%
Remaining counties (n=221)	25%

Source: Data from the March, June, September, and December 1994 editions of the *Montana Poll* compiled by Susan Selig Wallwork, director of the Poll (Missoula, Montana: Bureau of Business and Economic Research, The University of Montana, 1994).

Note: The total combined sample size of 1,657 is sufficient for a maximum error margin of plus/minus 2.5 percentage points; however, the samples for the subgroups are subject to higher levels of potential error, due to smaller size.

^aWest and east of the Continental Divide.

A Primer on Montana Taxes

by Douglas J. Young

Taxes are the subject of perennial debate in Montana. The charts in this article are intended to provide a factual basis for discussing the state's tax system. How has the economy—and thus the tax base—changed in the last quarter century? What are the principal sources of government revenues and how have they changed over time? How do Montana's taxes compare with other states? Why have taxes on residential property been rising so rapidly? How have declining natural resource markets affected Montana's taxes? These questions and more are answered in the charts below.

The Changing Tax Base

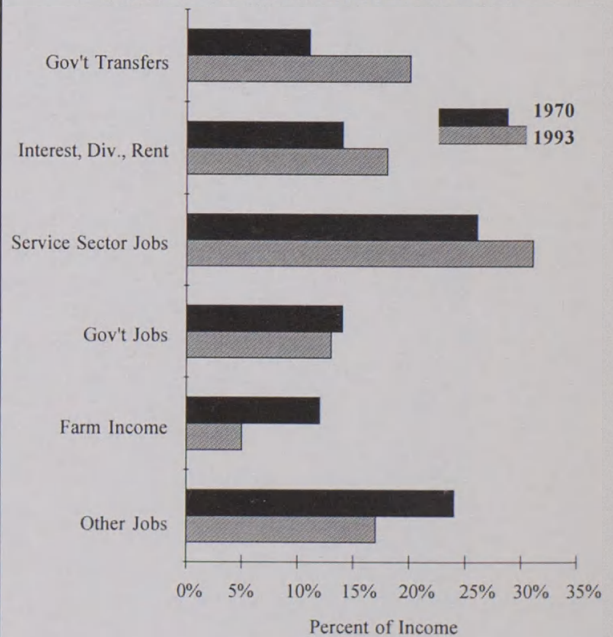
- Montanans today receive more of their income from government transfers (such as Social Security), interest, dividends and rents, and service sector jobs.
- Montanans receive a smaller share of income from farms and other Jobs.
- Since government transfers are lightly taxed, taxable income has shrunk as a percentage of personal income.

Government Revenue Sources in Montana

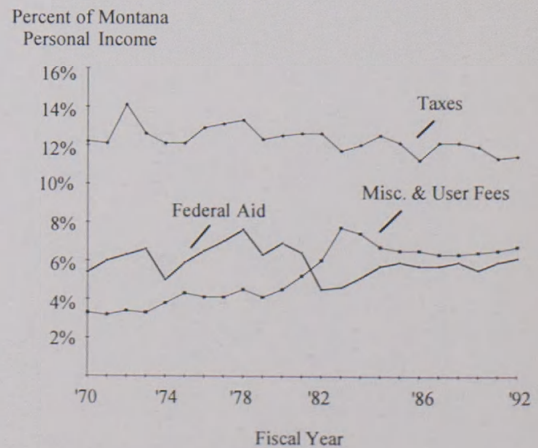
- About half of Montana's government revenues come from taxes.
- About one-fourth come from user fees such as tuition and from miscellaneous revenues such as interest.
- About one-fourth come from federal aid such as highway funds.
- Taxes take a smaller share of income than in 1970, while user fees and miscellaneous revenues have increased.

Figures 1 & 2

The Changing Tax Base
Sources of Personal Income in Montana



Government Revenue Sources in Montana
Changes over Time

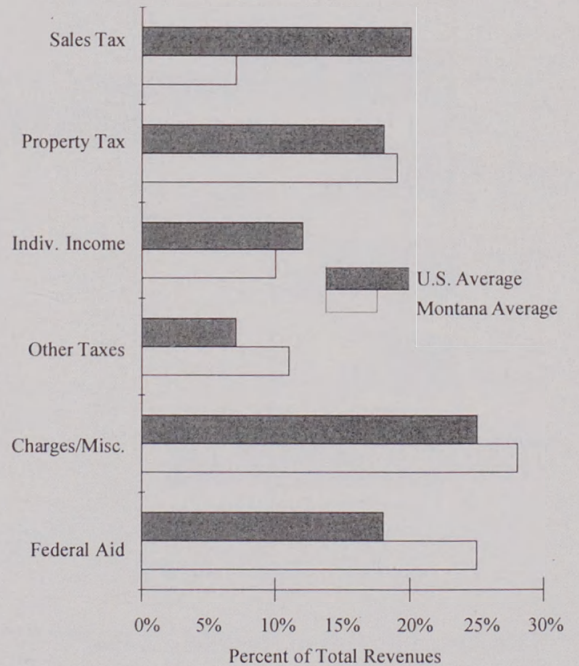


Government Revenue Sources

- Montana governments receive a smaller share of their revenues from sales and excise taxes such as gasoline and tobacco than the national average.
- Montana governments rely more on federal aid such as highway funds and welfare payments than the national average. This dependence makes Montana vulnerable to reductions in payments from Washington DC.

Figures 3 & 4

Government Revenue Sources
Montana vs. U.S. Average



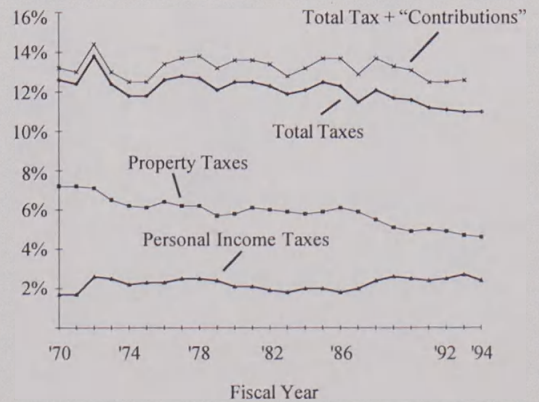
Montana Taxes

As percent of personal income:

- Income taxes have risen slightly.
- Property taxes have declined.
- Total taxes have declined.
- Total taxes including contributions for social insurance (workman's compensation and unemployment insurance) have declined slightly.

Montana Taxes

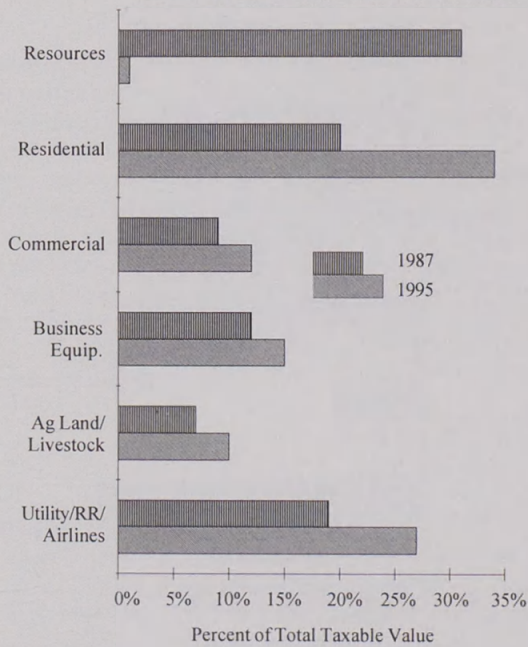
Percent of Montana Personal Income



Note: "Contributions" include Workers' Compensation and Unemployment Insurance Premiums.

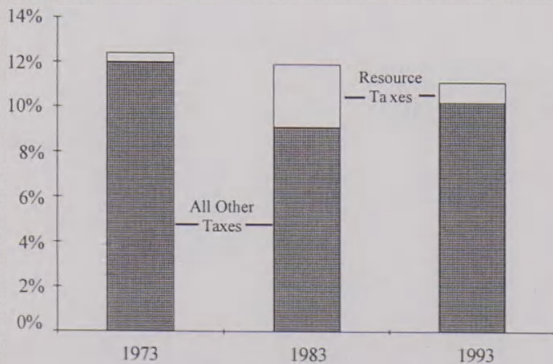
Figures 5 & 6

Changing Property Tax Base



The Rise and Fall of Resource Taxes

Percent of Montana Personal Income

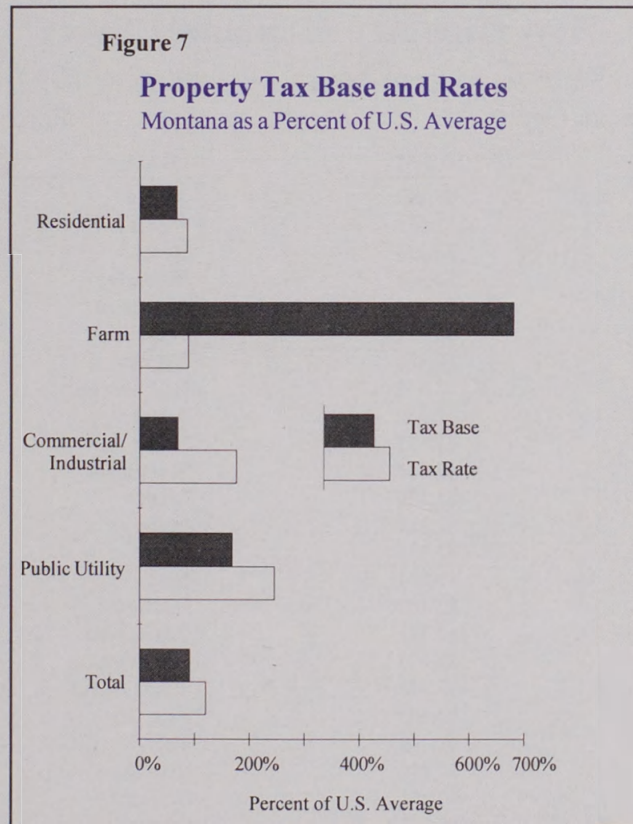


The Changing Property Tax Base

- Natural resources have fallen dramatically as a percent of total taxable value. About half of the decline is attributable to the end of the energy crisis, and about half to changes in law.
- The property tax burden has shifted to other property, especially residential.

The Rise and Fall of Natural Resource Taxes

- In 1973 resources contributed only a small amount to our total taxes.
- By 1983, resource taxes amounted to almost one-fourth of total taxes.
- By 1993, resource taxes had fallen back to a smaller percentage.
- While total taxes have declined relative to income in the last decade, non-resource taxes (which are the taxes most Montanans pay) have actually risen.



Property Tax Base and Rates

- Montana has above average amounts of farm and utility property.
- Tax rates are above average on business equipment and utility property.
- Tax rates are near average on residential and farm properties.

How High Are Montana's Taxes?

- 37th in the nation on a per capita basis.
- Montana's taxes rank 21st as a percentage of income.

Summary

- Montana's overall tax burden is about average among the states. Our revenue mix is, however, quite different because we do not have a general sales tax, and because we rely especially heavily on federal aid.
- While taxes have declined as a percentage of income since 1970, user fees and miscellaneous revenues have increased. The natural resource boom of the 1970's and early 1980's eased the tax burden on ordinary Montanans, but the situation has dramatically reversed since 1985. In particular, taxes have increased on residential property, as natural resources declined and residences rose in value.
- Our property tax structure remains one of the most complicated in the country, with especially high rates on utilities and business equipment. □

Douglas J. Young is a professor in the Department of Agricultural Economics at Montana State University, Bozeman. This article was adapted from his September 1995 presentation at the Wheeler Center's annual conference.

Figure 8

How High Are Montana's Taxes?

State and Local Taxes - Fiscal Year 1992

Dollars per Capita

Percent of Income

Rank	State	Amount	State	Percent	Rank
1	Alaska	\$3,842	Alaska	18.8%	1
2	New York	\$3,532	New York	15.8%	2
3	Connecticut	\$3,059	Hawaii	14.1%	3
4	New Jersey	\$2,938	Wyoming	14.0%	4
5	Hawaii	\$2,924	Minnesota	13.1%	5
6	Massachusetts	\$2,552	Wisconsin	13.1%	6
7	Minnesota	\$2,473	Vermont	12.8%	7
8	Delaware	\$2,348	New Mexico	12.5%	8
9	Maryland	\$2,336	Arizona	12.5%	9
10	California	\$2,335	Maine	12.3%	10
11	Wyoming	\$2,330	Washington	12.2%	11
12	Washington	\$2,326	Oregon	12.1%	12
13	Wisconsin	\$2,319	Idaho	11.9%	13
14	Vermont	\$2,286	Utah	11.9%	14
15	Rhode Island	\$2,234	Iowa	11.8%	15
16	Illinois	\$2,202	Michigan	11.7%	16
17	Pennsylvania	\$2,187	Connecticut	11.7%	17
18	Michigan	\$2,173	West Virginia	11.7%	18
19	Maine	\$2,154	Rhode Island	11.6%	19
20	Hew Hampshire	\$2,105	New Jersey	11.5%	20
21	Oregon	\$2,092	MONTANA	11.5%	21
22	Nevada	\$2,044	Nebraska	11.5%	22
23	Iowa	\$2,025	Delaware	11.4%	23
24	Arizona	\$2,022	California	11.4%	24
25	Colorado	\$2,021	Pennsylvania	11.4%	25
26	Nebraska	\$2,014	Kentucky	11.4%	26
27	Virginia	\$1,989	North Dakota	11.3%	27
28	Kansas	\$1,958	Massachusetts	11.1%	28
29	Ohio	\$1,937	Louisiana	11.1%	29
30	Florida	\$1,922	Texas	11.0%	30
31	Texas	\$1,860	Ohio	11.0%	31
32	Georgia	\$1,832	North Carolina	10.9%	32
33	North Carolina	\$1,812	Kansas	10.8%	33
34	New Mexico	\$1,789	Colorado	10.7%	34
35	Indiana	\$1,785	Georgia	10.7%	35
36	Idaho	\$1,779	Illinois	10.7%	36
37	MONTANA	\$1,766	Nevada	10.7%	37
38	North Dakota	\$1,758	Maryland	10.6%	38
39	Kentucky	\$1,755	Oklahoma	10.6%	39
40	Utah	\$1,699	Indiana	10.5%	40
41	Missouri	\$1,665	Arkansas	10.5%	41
42	West Virginia	\$1,657	South Carolina	10.4%	42
43	Louisiana	\$1,651	Florida	10.3%	43
44	Oklahoma	\$1,632	Virginia	10.0%	44
45	South Carolina	\$1,584	Mississippi	10.0%	45
46	South Dakota	\$1,558	South Dakota	9.8%	46
47	Arkansas	\$1,514	Hew Hampshire	9.7%	47
48	Tennessee	\$1,472	Alabama	9.4%	48
49	Alabama	\$1,435	Missouri	9.4%	49
50	Mississippi	\$1,323	Tennessee	9.1%	50
	U.S. Average	\$2,183	U.S. Average	11.6%	

Source: US Bureau of the Census, Government Finances in 1991-92.

Individual Income and Tax Data for the United States and Montana by Size of Adjusted Gross Income Tax Year 1993

(Money Amounts are in Thousands of Dollars)

United States	All Returns	Size of Adjusted Gross Income							
		Under \$15,000	\$15,000- under \$30,000	\$30,000- under \$50,000	\$50,000- under \$75,000	\$75,000- under \$100,000	\$100,000- under \$200,000	\$200,000 or more	
Number of Returns	115,060,797	44,527,163	28,659,814	21,203,912	12,273,171	4,278,407	3,107,722	1,010,608	
Number of Exemptions	253,489,483	69,838,621	64,374,134	55,939,823	37,045,420	13,326,543	9,760,852	3,204,090	
\$ Adjusted Gross Income	3,720,610,776	261,339,962	622,373,528	828,312,156	741,079,510	365,231,400	407,328,660	494,945,560	
Salaries and Wages	97,606,968	34,713,542	24,696,469	19,285,586	11,373,561	3,946,595	2,747,437	843,778	
Number of returns	2,880,337,902	245,154,068	496,844,426	690,222,075	621,807,883	297,635,967	289,600,901	239,072,582	
\$ Amount	29,509	7,062	20,118	35,788	54,669	75,408	105,424	283,262	
Average \$ Amount per Return									
Taxable pensions and annuities:									
Number of Returns	17,339,457	5,060,442	4,909,660	3,606,093	2,232,164	789,854	577,908	163,336	
\$ Amount	192,215,255	28,589,605	50,468,102	46,660,906	34,074,804	14,200,262	12,780,158	5,441,418	
Average \$ Amount Per Return	11,085	5,650	10,279	12,940	15,267	17,978	22,115	33,314	
Number of sole proprietorship returns	15,841,373	4,707,329	3,394,506	3,606,093	2,243,699	898,898	846,715	313,185	
Number of farm returns (Schedule F)	1,927,995	583,686	478,712	442,076	250,388	78,119	64,669	30,345	
Total Itemized Deductions:									
Number of Returns	33,482,180	2,144,349	5,078,148	9,499,034	9,064,936	3,815,054	2,924,366	956,293	
\$ Amount	514,508,086	33,167,452	52,889,092	102,625,958	120,304,952	66,743,999	73,060,497	65,716,135	
Average \$ Amount Per Return	15,367	15,467	10,415	10,803	13,271	17,495	24,983	68,741	
Total Tax Liability:									
Number of Returns	93,736,009	24,285,400	27,686,925	21,117,802	12,256,610	4,274,496	3,104,924	1,009,852	
\$ Amount	532,213,236	13,849,786	51,982,016	91,214,525	95,970,023	57,352,553	78,779,938	143,064,395	
Average \$ Amount Per Return	5,678	570	1,878	4,320	7,830	13,419	25,373	141,648	
Earned Income Credit:									
Number of Returns	15,300,754	10,172,551	5,128,203	—	—	—	—	—	
\$ Amount	15,675,410	12,398,698	3,276,712	—	—	—	—	—	
Tax Due at Time of Filing									
Number of returns	28,335,385	6,911,585	6,641,963	6,388,774	4,408,215	1,942,295	1,523,331	519,222	
\$ Amount	50,568,936	2,789,145	5,383,214	7,772,103	8,168,939	5,586,691	8,778,978	12,089,866	
Average \$ Amount Per Return	1,785	403	810	1,216	1,853	2,876	5,764	23,284	

Source: IRS, Statistics of Income Bulletin, Spring 1995, Washington D.C.

Montana

(Money Amounts are in Thousands of Dollars)

Size of Adjusted Gross Income

Montana	All Returns	Under \$15,000	Size of Adjusted Gross Income					\$200,000 or more
			\$15,000- under \$30,000	\$30,000- under \$50,000	\$50,000- under \$75,000	\$75,000- under \$100,000	\$100,000- under \$200,000	
Number of Returns	375,861	166,544	68,510	31,199	7,683	5,657	1,786	
Number of Exemptions	846,195	256,497	204,864	100,624	24,675	18,173	5,708	
\$ Adjusted Gross Income	9,593,941	855,265	2,663,270	1,860,338	652,415	747,077	769,076	
Salaries and Wages								
Number of returns	300,072	123,799	59,841	27,294	6,333	4,267	1,353	
\$ Amount	6,603,850	802,535	2,014,300	1,358,233	396,178	339,164	228,523	
Average \$ Amount per Return	22,013	6,482	33,661	49,763	62,577	79,485	168,901	
Taxable pensions and annuities:								
Number of Returns	58,568	18,829	12,663	5,958	1,593	1,125	264	
\$ Amount	597,388	104,788	160,309	90,506	29,541	22,332	6,227	
Average \$ Amount Per Return	10,199	5,565	12,660	15,191	18,544	19,850	23,587	
Number of sole proprietorship returns	68,525	22,536	15,545	7,297	2,195	2,057	686	
Number of farm returns (Schedule F)	21,728	7,495	4,647	2,266	676	562	182	
Total Itemized Deductions:								
Number of Returns	100,035	*	32,746	23,637	6,810	5,318	1,713	
\$ Amount	1,427,942	*	312,894	276,186	103,750	208,421	101,031	
Average \$ Amount Per Return	14,274	*	9,555	12,201	15,235	39,192	58,979	
Total Tax Liability:								
Number of Returns	301,098	94,889	68,313	31,177	7,681	5,655	1,786	
\$ Amount	1,242,721	52,396	288,364	247,789	111,571	156,328	215,755	
Average \$ Amount Per Return	4,127	552	4,221	7,948	14,525	27,644	120,803	
Earned Income Credit:								
Number of Returns	47,362	29,829	—	—	—	—	—	
\$ Amount	45,831	34,987	—	—	—	—	—	
Tax Due at Time of Filing								
Number of returns	117,179	32,900	29,360	15,057	4,356	3,000	855	
\$ Amount	198,236	12,597	45,074	39,746	21,486	27,495	21,677	
Average \$ Amount Per Return	1,692	382	1,535	2,640	4,933	9,165	25,353	

Source: IRS, Statistics of Income Bulletin, Spring 1995, Washington D.C.

*Incomplete Data

- A higher proportion (69%) of returns in Montana report adjusted gross incomes below \$15,000, compared to 64% at the national level.
- The nation has a higher (3.6%) percentage of all returns with adjusted gross incomes of \$100,000 or greater, compared to 1.9% in Montana's.
- Montana's average salaries and wages per return are below the U.S. average in each of the adjusted gross income categories.

- Montana's average tax liability per return is above the U.S. average for each adjusted gross income category.
- Montana has a higher proportion of sole proprietorship returns (18.2%), compared to the nation (13.7%).

Source: Data from the IRS, compiled by Steve Seninger, the Bureau's new Director of Economic Analysis.

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The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting, forest products industry research, and survey research.

The Bureau's Economics Montana forecasting system is an effort to provide public and private decision makers with reliable forecasts and analysis. These state and local area forecasts are the focus of the annual series of Economic Outlook Seminars, cosponsored by the Bureau and respective Chambers of Commerce in Billings, Bozeman, Butte, Great Falls, Helena, Kalispell, and Missoula.

The Bureau also has available county data packages for all Montana counties. These packages provide up-to-date economic and demographic information developed by the Bureau and are not available elsewhere.

The Montana Poll, a quarterly public opinion poll, questions Montanans about their views on a variety of economic and social issues. The Bureau also conducts contract survey research and offers a random digit dialing program for survey organizations in need of random telephone samples.

The Forest Industries Data Collection System, a census of forest industry firms conducted approximately every five years, provides a large amount of information about raw materials sources and uses in Montana, Idaho, and Wyoming. It is funded by the U.S. Forest Service. The Montana Forest Industries Information System collects quarterly information on the employment and earnings of production workers in the Montana industry. It is cosponsored by the Montana Wood Products Association.

The Bureau's Natural Resource Industry Research Program enables the Bureau to continuously monitor Montana's natural resource industries and improve the public's knowledge of them and their roles in the state and local economies. This program provides easily accessible information about all the natural resource industries. Sponsors are the Plum Creek Timber Company, Montana Wood Products Association, and American Forest Resource Alliance.

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