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Revenue and Transportation Interim Committee

61st Montana Legislature

SENATE MEMBERS

KIM GILLAN--Chair
RON ERICKSON
JEFF ESSMANN
CHRISTINE KAUFMANN
JIM PETERSON
BRUCE TUTVEDT

HOUSE MEMBERS

ROY HOLLANDSWORTH--Vice Chair
DICK BARRETT
CYDNIE (CARLIE) BOLAND
BRIAN HOVEN
MIKE JOPEK
BILL NOONEY

COMMITTEE STAFF

JEFF MARTIN, Research Analyst
LEE HEIMAN, Staff Attorney
FONG HOM, Secretary

MINUTES

September 16, 2010

Room 137, Capitol Building
Helena, Montana

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

COMMITTEE MEMBERS PRESENT

SEN. KIM GILLAN, Chair
REP. ROY HOLLANDSWORTH, Vice Chair

SEN. RON ERICKSON
SEN. JEFF ESSMANN
SEN. CHRISTINE KAUFMANN
SEN. JIM PETERSON
SEN. BRUCE TUTVEDT

REP. DICK BARRETT
REP. CYDNIE (CARLIE) BOLAND
REP. MIKE JOPEK
REP. BILL NOONEY

COMMITTEE MEMBERS EXCUSED

REP. BRIAN HOVEN

STAFF PRESENT

JEFF MARTIN, Research Analyst
LEE HEIMAN, Staff Attorney
FONG HOM, Secretary

Visitors

Visitors' list, Attachment #1.

COMMITTEE ACTION

- The committee voted to subscribe to Moody's Economy.com.
- The committee adopted LC 8001 and LC 8002 as amended as committee bills.

CALL TO ORDER AND ROLL CALL

00:00:01 SEN. GILLAN called the meeting to order at 8:05 a.m.

AGENDA

- **NATIONAL AND MONTANA ECONOMIC OVERVIEW**

- ▶ **IHS Global Insight - James Diffley, Chief Regional Economist**

00:05:05 Mr. Diffley gave a presentation on Global Insight's on "The Macroeconomic Landscape for Montana and the U.S. 2011-2013" (**Exhibit 21**).

Questions

00:50:43 The committee members asked about Global Insight's housing forecasts as shown in its alternative scenario charts, if there has been any modeling regarding housing and construction as it relates to tourism and people moving to Montana, and whether there have been any effects on modeling with regard to age demographics.

- ▶ **Moody's Economy.com - Steve Cochrane, Managing Director**

01:03:30 Mr. Cochrane gave a presentation on "The Economic Outlook for Montana and the U.S." (**Exhibit 22**).

01:55:43 The committee members asked about productivity growth generating jobless recovery, if there were any differences that could be attributed to nonlabor income, and how population demographics and trends fit into the economic analysis done by Moody's.

BREAK

02:36:12 The meeting reconvened at 10:41 a.m.

Questions for both presenters

02:37:00 SEN. PETERSON asked both presenters if they had made any adjustments in

their forecasting models to account for the changes in the economy going into the future. **Mr. Diffley** said that the economics profession is just now trying to build new models that incorporate the financial sector in appropriate ways as the economy changes. **Mr. Cochrane** said that they have adjusted their forecast down for the changes and the role that the financial sector has played.

02:48:20 REP. BARRETT asked if Mr. Cochrane has talked to behavioral economists. **Mr. Cochrane** said that they haven't talked to behavioral economists but they might be served well by consulting a behavioral economist because one of the things that they are trying to better structure is a pattern of consumer spending and consumer demand.

02:56:03 SEN. GILLAN asked if it is unusual for the committee to use another economic forecasting firm for its revenue forecasting. **Mr. Cochrane** said that it is not unusual to use two sources. There are a number of states that are actually required by law to use more than one source. It helps generate a very useful conversation. The more we talk, the more you gain.

03:07:45 SEN. TUTVEDT asked where the revenue lag is. **Mr. Cochrane** said for state and local tax revenue, the lag can be significant and can be 1 to 2 years.

03:06:34 REP. JOPEK discussed the different approaches that are used to develop revenue projections: base line approach, optimistic approach, and a pessimistic approach. He asked how the base line is considered and what justifies an optimistic approach or a pessimistic approach for a state like Montana. **Mr. Cochrane** said they start out with a quantitative model to establish some parameters and then run a series of Monte Carlo simulations on the macro model. That gives them an idea of the breadth of the alternatives that they should be looking at.

03:18:11 SEN. ERICKSON asked about slow downs, the education health care index, and the leisure hospitality index. **Mr. Cochrane** said that they look at the data in as detailed a fashion as they can, looking at all the different breakdowns of employment and output by industry and comparing it across regions. It is not fair to compare a state like Montana to an entire region or the U.S. because Montana exhibits unique characteristics but he can at least look at the neighboring states, some of which look more like Montana than others.

SEN. ERICKSON asked how much should we trust that data? **Mr. Cochrane** said that the data tells him that there is some risks in the labor market because the numbers seem to be falling. There is also a risk in lending too much credence

to those numbers because the annual employment data is revised every March. Right now those numbers come from a sample survey of employers and every year they update those numbers based on data that come from all of the state unemployment insurance records. **Mr. Diffley** said that leisure and hospitality data is very important for Montana and he takes that number seriously. It is hard to believe that health service employment has declined but believes that that data will be revised.

03:24:04 SEN. ESSMANN asked if both presenters are getting a sense that the federal estimates are developing a pattern of less accuracies and could that be a source of potential shock to the economic system if that proves to be the case. **Mr. Diffley** said he hasn't gotten that sense. They can identify the source of some of the revisions. **Mr. Cochrane** said that he agrees with Mr. Diffley and that there is a good level of competence in the federal data.

03:34:10 SEN. PETERSON said the committee's role is to put all this into context and develop a revenue estimate. An economist at one of the state's universities conducted an analysis of Montana's demographics that indicates that by 2020 about 25% of the population will be over 65. Sen. Peterson asked about developing a short- and long-term revenue forecast using three major inputs: demographics, economic forecasts, and Montana's tax structure. **Mr. Diffley** said that they would look at how the demographic change would affect the revenue forecast rather than developing a revenue forecast. **Mr. Cochrane** said that when the new census numbers are released, they will assess their demographic forecasts for every state looking at the components of population growth, domestic migration, international migration, births and deaths.

No public comments given

LUNCH

03:56:34 The meeting reconvened at 12:01 p.m.

03:57:00 There was a discussion of whether the committee should subscribe to Moody's.

Motion by Rep. Hollandsworth

03:57:19 REP. HOLLANDSWORTH **moved** that the committee subscribe to Moody's Economy.com.

03:57:52 The members of the committee asked how the Legislative Fiscal Division would handle two sets of economic forecasts. **Mr. Johnson** said that having two

different forecasts of the national and Montana economy would be valuable, but at the same time, he has reservations because when you take action on economic assumptions, you start picking and choosing between various scenarios.

04:10:21 **The motion passed with Rep. Jopek voting no.**

- **LEGISLATIVE FISCAL DIVISION REFERENCE BOOK OPTIONS**

04:13:15 **Llew Jones, Chair, Legislative Finance Committee, and Galen Hollenbaugh,** gave background information on the concept of the Reference Book Options.

04:20:24 **Terry Johnson, Principal Fiscal Analyst, LFD,** distributed the Reference Book Options that were designated to the Revenue and Transportation Committee **(Exhibit 23)**. The staff from the Legislative Fiscal Division discussed those options.

04:22:21 Fund Department of Revenue administration costs with funds collected - Greg DeWitt

04:29:28 Temporary tax amnesty - Stephanie Morrison

04:32:48 Transfer state special revenue fund balances to the general fund - Barbara Smith **(Exhibit 24)**.

04:36:57 Increase select general fund revenue sources by a fixed percentage - Roger Lloyd

04:39:35 Redistribute revenue allocations to the general fund - Terry Johnson

04:48:08 Corporation tax credit elimination, individual income tax credit elimination - Kathy Duncan

04:52:43 Change net operating loss carryback and carryforward for corporate taxpayers - Kathy Duncan

Public Comment

04:59:03 **Tara Veazey, Montana Budget and Policy Center, Helena,** asked that all policy

makers approach the next session with a balanced approach to the revenue challenges that they are seeing.

- 05:02:24 **Terry Kendrick, Montana Women Vote**, provided written testimony (**Exhibit 25**).
- 05:05:30 **Molly Severtson, Interim Director, Policy Institute, Helena**, advocated for increase funding for the Department of Revenue's Tax Compliance Division and repeal the elements of the 2003 Senate Bill 407, and to evaluate the tax expenditure policies in Montana to determine their continued value and effectiveness, and to repeal the various tax policies known as the "Oil and Gas Tax Holiday" in Montana.
- 05:07:28 **Kim Abbott, Montana Human Rights Network**, urged the committee to put in the same energy in looking at options of raising revenue as well as looking at cutting essential services.
- 05:08:21 **Tom Bilodeau, Research Director, MEA/MFT**, hoped that the next Legislature can commit the same scrutiny to revenue enhancement and revenue collected in the same manner as budget cutting proposals.
- 05:10:27 **Stacey Anderson, Director of Public Affairs, Planned Parenthood of Montana**, said that the cuts to social service programs and health programs as proposed in the Reference Book Options goes to the heart of the services they provide and the patients that they see who fall below the federal poverty level.
- 05:11:21 **Claudia Clifford, Advocacy Director, AARP Montana**, commented on the cuts that impact the network of senior services.

- **REVIEW OF OPTIONS FOR CONSIDERING REVENUE ESTIMATING RESOLUTION (Exhibit 26)**

- 05:16:23 The members of the committee discussed ideas for presentations for the November 19 revenue estimating meeting. It was suggested that the committee hear about potential changes in federal tax policy because they could have an influence on Montana revenue collections. The committee members expressed their concerns about getting the Legislative Fiscal Division's forecasts in time for review before the November 19 meeting. Mr. Martin said that he would get an idea from the LFD staff on when their booklet would be available for the committee.

05:27:36 REP. JOPEK said it is important to realize that the revenue estimate that this committee puts forward is a best guess at the time and the revenue estimate for the biennium is set on Day 90 of the session.

- **SJR 16, UNINSURED MOTORIST STUDY and INSURANCE BY THE MILE - Megan Moore**

05:29:12 Ms. Moore discussed her memo "Details on Availability of Mileage-Based Motor Vehicle Insurance Policies (**Exhibit 27**).

No public comment given

05:38:32 There was a discussion on whether or not Ms. Moore's research fulfilled the obligation of SJR 16. It was concluded that there would not be any bill drafts from the committee as a result of the study.

- **Revisions on LC 8001 and LC 8002 - Megan Moore**

05:41:53 Ms. Moore discussed the revisions to LC 8001 (**Exhibit 28**).

Motion by Sen. Essmann

05:42:27 SEN. ESSMANN **moved** that the committee adopt LC 8001 as amended as a committee bill. The motion **passed** with Sen. Tutvedt and Rep. Hollandsworth voting no.

05:43:43 Ms. Moore discussed the revisions to LC 8002 (**Exhibit 29**).

Motion by Rep. Barrett

05:44:14 REP. BARRETT **moved** that the committee adopt LC 8002 as amended as a committee bill. The motion **passed** with Sen. Tutvedt and Rep. Hollandsworth voting no.

Sponsors of LC 8001 and LC 8002

05:45:52 REP. BARRETT will be the sponsor of LC 8001 and SEN. ERICKSON will be the sponsor of LC 8002.

- **DEPARTMENT OF REVENUE REPORTS - Dan Bucks, Director**

05:47:27 Director Bucks gave a presentation on Certified Value to Newly Taxable Value by County (**Exhibit 30**) and Unclaimed Property in Montana (**Exhibit 31**).

05:59:47 Director Bucks discussed the lawsuit filed by Musselshell County against Yellowstone County and the Montana Department of Revenue over the reporting of coal gross proceeds from the Signal Peak Mine.

06:02:29 Director Bucks discussed MAR 42-2-840, remittance of withholding tax by employers. He said three attorneys considered MAR 42-2-840 as a valid exercise of rulemaking authority and that the rule is a reasonable interpretation within the boundaries of the law. Director Bucks said that 15-32-2504, MCA, does not define "notify". In practice, notify has meant a mailing, but "notification" can occur in different forms. The attorneys, based on that language, concluded that the form of notification can be dependent on the conclusions from the lookback period. The Department would like to begin saving money by tailoring the notification to the conclusions of the lookback period, sending a letter prior to November 1 to those employers who have had a change in schedule, and mailing coupon books to all of the employers in December that correspond to their actual reporting.

Questions

SEN. ESSMANN suggested that when the Department sends the coupon books out in December, perhaps there should be a cover letter notifying employers that there is no change in schedule. **Director Bucks** said that is a great suggestion and they can do that for clarification purposes.

REP. BARRETT said he wanted to know whether the net change in certified value include the newly taxable value. **Director Bucks** said that it includes the phased in portion of the newly taxable value.

- **MONTANA DEPARTMENT OF TRANSPORTATION REPORTS - Jim Lynch, Director**

- ▶ **Holding state workers to same specifications as contractors**

06:11:45 Director Lynch responded to Sen. Essmann's concern over whether or not the Department of Transportation's maintenance crew is being held to the same specifications as private sector contractors on the skin patch work being done on Montana Highway 35.

- ▶ **Report on the High and Wide Project**

06:17:02 Director Lynch gave a status report on the high and wide projects. He discussed some major changes that has resulted since he last gave an update regarding Conoco's and Exxon's 32J Permits through Idaho. He also gave a status report

on the permit request from Barry Y&V.

► **Report on the American Recovery & Reinvestment Act**

06:22:52 Director Lynch gave an update on the American Recovery & Reinvestment Act (ARRA) (**Exhibit 32**).

Questions

06:41:01 The members of the committee asked questions regarding the pavement management system, transit programs in rural counties, and roundabouts.

• **FINAL REPORT OUTLINE - Jeff Martin**

06:53:41 Mr. Martin discussed the outline for the final report (**Exhibit 33**).

• **PUBLIC COMMENT**

06:58:26 **Kevin Nelson, Billings**, commented on TIFs affecting school mills and the blighted property issue in the Billings area.

• **OTHER BUSINESS**

Rep. Barrett's motion on annual appraisals

07:04:34 REP. BARRETT **withdrew** his motion regarding a draft bill on annual appraisals.

Motion by Rep. Jopek for a bill draft to freeze half of new property valuation taxes

07:04:59 REP. JOPEK **moved** for a bill draft to freeze half of a new valuation that is placed on the tax rolls for classes three, four, and ten, with an immediate effective date.

07:07:51 There was a discussion on the merits of Rep. Jopek's motion. Rep. Jopek stressed that he is only talking about the next biennium and using the word "abatement" so that you are abating basically half of the valuation that goes onto the rolls for next year. SEN. PETERSON asked if this proposed bill would have any impact on the lawsuit as it relates to the Department of Revenue's interpretation on the rule on VBRs. REP. BARRETT is concerned about maintaining the same schedule of adjustments in the Homestead and Comstead exemptions and in the tax rates which are tied to the 16% phase-in increment.

07:16:08 The committee members discussed whether Rep. Jopek's bill draft request will

be put in the bill drafting process in time to meet the pre-introduction deadline. SEN. TUTVEDT requested that the bill remain revenue neutral.

07:25:29 The motion **failed** with Sen. Erickson, Rep. Jopek, and Sen. Gillan voting yes.

- **ADJOURNMENT**

07:27:03 With no further business before the committee, SEN. GILLAN adjourned the meeting at 3:32 p.m., with the next meeting scheduled for November 19, 2010.

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