



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

August 3, 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.

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COMMITTEE MEMBERS PRESENT

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

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

REP. DICK BARRETT
REP. CARLIE BOLAND
REP. BRIAN HOVEN

COMMITTEE MEMBERS EXCUSED

SEN. CHRISTINE KAUFMANN
REP. MIKE JOPEK
REP. BILL NOONEY

STAFF PRESENT

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

Visitors

Visitors' list, Attachment #1.

COMMITTEE ACTION

- Recommend staff draft a bill for consideration that adjusts the tax rates on class four properties with a loss in market value.
- Recommend a bill draft on disclosure of sales information on residential property and make the Realty Transfer Certificates public documents; and a bill draft on disclosure of sales information on class four commercial properties.
- Accepted for bill drafting purposes, LC 4000, LC 4001, LC 4003, LC 4004, and LC 8890.
- A letter from the committee to the Legislative Council requesting additional funds to purchase analytical forecasts from Moody's.
- Accept for bill drafting purposes the Department of Revenue's proposed legislation with changes as discussed.
- Appointment of Rep. Hollandsworth and Sen. Erickson to the Finance Committee Reference Book subcommittees.
- Decided to not recommend a property tax circuit breaker proposal.
- Decided not to recommend changes to existing property tax assistance programs.

CALL TO ORDER AND ROLL CALL

00:00:02 SEN. GILLAN reconvened the meeting at 8:07 a.m. The secretary called roll. Rep. Jopek, Rep. Nooney, and Sen. Kaufmann were excused.

AGENDA

• **PROPERTY REAPPRAISAL SUBCOMMITTEE REPORTS**

▶ **Agricultural Land and Forest Land Subcommittee - Sen. Peterson, Subcommittee Chair**

00:01:58 SEN. PETERSON gave a summary of the Agricultural Land and Forest Land Subcommittee's meeting.

SEN. PETERSON distributed an example of a reappraisal form (**Exhibit 6**) and referred the committee to the column that showed value before reappraisal. He said that information has become more confusing and a lot of landowners did not receive the intent of the Legislature which is unless there is a true change of use in the land, it should be phased in. He wanted a discussion on the issue after lunch to clarify to the Department of Revenue what the intent of the Legislature was.

00:10:44 SEN. GILLAN said that the committee will discuss Sen. Peterson's request after lunch.

00:13:28 SEN. ERICKSON said that the subcommittee looked more broadly at some issues and there were some concerns about whether we were using, for

example, the right weight for animal unit. It seemed to him that there were enough other kinds of problems that perhaps we ought to think about a study bill for the future. He said that former Rep. Devlin testified that productivity should not be phased in.

00:21:43 **Dan Bucks, Director, Department of Revenue**, said that what was distributed with regard to the Agricultural Land Advisory Committee is not the Department's recommendations on phase in. The Department will provide an explanation of what their recommendations actually are.

▶ **Residential and Commercial Subcommittee - Rep. Barrett, Subcommittee Chair**
00:24:26 REP. BARRETT said that the subcommittee heard: a report from the Department of Revenue on the status of the AB 26 reviews; testimony from an appraiser from Flathead Valley concerning sales values of properties in several counties; Sen. Tutvedt's bill draft request addressing the situations in Flathead Lake area; and an appraiser's concern regarding disclosure on sales information on real estate transfer certificates. The subcommittee voted to present two bill draft requests to the full committee for consideration. The subcommittee also discussed a number of issues concerning commercial appraisals.

Motion by Sen. Tutvedt

00:34:23 Sen. Tutvedt **moved** to recommend that staff draft a bill for consideration that adjusts the tax rates on properties with a loss in market value.

Discussion and Questions

00:37:26 REP. HOVEN asked about the look back provision in the reappraisal bill.

00:38:58 **Director Bucks** said the look back provision in HB 658 charged the Department with conducting a residential sales assessment ratio study. A commercial study was added by the Department.

00:40:34 SEN. GILLAN said if a person sells a home and the value is less than the reappraised value, does the new owner get an adjustment in the assessment to reflect the sales price? **Director Bucks** said no. The Legislature by law has established a cyclical reappraisal system whereas the values are set as of a particular date.

00:41:47 REP. BARRETT said he will reluctantly vote against the draft request because of an article in the Independent Record stating that this is a tax relief bill. He is also concerned about what Director Buck said regarding the lack of uniformity. This is a provision that is going to apply to only certain people and it is going to mean their property is valued for tax purposes differently and arbitrarily with similarly situated taxpayers.

00:47:02 SEN. ERICKSON said that he will vote against the motion for the same concerns as Rep. Barrett's.

00:48:26 SEN. ESSMANN said that the bill draft needs to cover all parts of class four property to comply with the constitutional requirements on uniformity.

00:52:50 The motion **passed** with Rep. Boland, Rep. Barrett, Sen. Erickson voting no and Sen. Kaufmann voting no by proxy. Sen. Gillan, Rep. Hoven, Rep. Hollandsworth voting aye with Rep. Jopek and Rep. Nooney voted aye by proxy.

SEN. GILLAN asked for staff to also be prepared to discuss a fiscal note and the issue of constitutionality because the committee did not amend the motion to include all of class four properties.

Motion by Rep. Barrett

00:55:55 REP. BARRETT **moved** that staff go forward with a bill draft on disclosure of sales information on class four residential property and make the Realty Transfer Certificates public documents. The motion **passed** on voice vote with Rep. Jopek, Rep. Nooney, and Sen. Kaufmann voting aye by proxy.

Motion by Rep. Barrett

00:58:38 REP. BARRETT **moved** that staff go forward with a bill draft on disclosure of sales information on class four commercial properties. The motion **passed** on a voice vote with Rep. Jopek, Rep. Nooney, and Sen. Kaufmann voting aye by proxy.

No Public Comment given

- **MONTANA DEPARTMENT OF TRANSPORTATION REPORTS - Jim Lynch, Director, Montana Department of Transportation**

- ▶ **Update on High and Wide Transportation Projects**

01:02:18 Director Lynch discussed the status of the Imperial Oil (Exxon) Transportation Project and the Conoco Coke Drums Project (**Exhibit 7**).

Questions

01:10:54 REP. ERICKSON asked if the Conoco Coke Drums Project will have the same 10-minute pullouts. **Director Lynch** said yes, that they will have to abide by the same rules.

01:12:27 REP. HOVEN asked what happens if the 10 minutes are violated. **Director Lynch** said that every permit that is issued is an individual permit and if they violate the conditions of their permit, the permit is revoked.

- 01:13:13 SEN. TUTVEDT asked what the timeline might be. **Director Lynch** said that under the Montana Environmental Policy Act, someone with an oversized load coming into Montana has to request from the Department of Transportation a 32J permit which deals with those types of loads.
- 01:16:18 REP. BOLAND asked if there will be a comment period and an environmental assessment on the Conoco project. **Director Lynch** said that with the four moves, there will not be a comment period.
- 01:18:16 SEN. GILLAN asked what the status of Idaho is in terms of its permitting process. **Director Lynch** said that Idaho is on the same track as Montana. Idaho however does not have an environmental policy act like Montana does.
- 01:20:08 SEN. GILLAN asked about the number of loads per day if there is inclement weather and they were unable to move the allocated number of loads. Can they make that up if you miss the one day. **Director Lynch** said that the maximum they can move is two per day so if they miss a day they just back up a day.
- 01:20:43 REP. BOLAND said that the anticipated move for the Conoco Coke Drums is August to October and the other possibly in November. Hopefully they will not overlap each other. Is there something in place for that? **Director Lynch** said that is the value of the 32J permit process versus a corridor process. Under the permit process, the Department controls the movement of those trucks.
- 01:21:52 SEN. ERICKSON asked if there is an analysis on how many encroachment permits are needed when you are off the highway. **Director Lynch** said that an encroachment permit is needed if the companies are going to do something within the right-of-way; i.e., lower a utility line that is not owned by the state, and in order to occupy our right-of-way with that utility line, they need an encroachment permit.
- 01:22:49 SEN. ERICKSON asked about the 53 turnouts after the transport is over. **Director Lynch** said that if there are no benefits of having them there, they will be asked to remove the turnouts.

► **MDT Employees by Classification**

- 01:26:07 Director Lynch discussed the classification of the Department of Transportation's employees and where they work (**Exhibit 8**).

Questions

- 01:30:14 SEN. ESSMANN asked what the pre-construction and construction categories are. **Director Lynch** said the pre-construction category is traffic modeling, highway safety, and pavement performance processes; and construction is work in the field, inspectors on jobs, project managers, and engineering techs. Pre-

construction is an activity that takes place prior to a contract going to bid. Construction would be activities relative to the project.

► **Update on federal reauthorization of transportation funding**

01:31:38 Director Lynch said that the last reauthorization bill expired on October 1, 2009. When a bill expires, the federal government gives states pieces of next year's funding with a continuing resolution (CR). Montana has four CR's, which will expire December 31, 2010. The Department is hopeful for another reauthorization bill but until then, they are encouraging Congress to run another extension for CR's.

Questions

01:40:41 SEN. ESSMANN asked about the project that is south of Macleod and the Seeley Swan road project that is north of Missoula County. Is there a system in place to monitor the construction projects undertaken by Department staff? **Director Lynch** said that there are different levels of inspection, different conditions, and different requirements. The Department deals with things like safety improvements, making changes in lanes on a particular roadway which isn't feasible to go out to contract. The Swan project is a skin patch project.

01:44:26 SEN. ESSMANN requested that Director Lynch explain the quality control process for the skin patch project at the next meeting.

01:45:03 SEN. GILLAN asked for an update on the American Recovery and Reinvestment Act money for the Department for the next meeting. **Director Lynch** said that he can provide an update at the next meeting.

BREAK

02:01:06 The meeting reconvened at 10:09 a.m.

• **BILL DRAFTS TO REVISE PROPERTY TAX ASSISTANCE PROGRAMS**

► **Multiple threshold property tax circuit breaker (LC 4005)**

02:01:47 Mr. Martin gave an overview of LC 4005, to establish a circuit breaker income tax credit for property taxes paid or rent-equivalent property taxes paid (**Exhibit 9**).

02:08:54 Larson Silbaugh, Economist, Department of Revenue, discussed the memorandum regarding the fiscal impact of LC 4005 (**Exhibit 10**).

Questions

02:09:53 REP. BARRETT said that this proposal is intended to eliminate notch effects everywhere, including the notch effect that occurs in the EPTAP at high income levels. It also eliminates a variety of horizontal inequities in which taxpayers

similarly situated are not treated in the same way. It also reduces the regressivity of the property tax as is currently structured. The proposals make sure that nobody's property taxes exceed their ability to pay as measured by their income.

- 02:14:22 REP. HOLLANDSWORTH asked about the cost of current circuit breakers. **Mr. Silbaugh** said that eliminating the four existing programs would save \$10.69 million.
- 02:15:28 SEN. ERICKSON asked about the participation on the senior tax break that is already through the income tax. **Mr. Silbaugh** said that the elderly homeowner/renter credit has experienced high participation in terms of people who are eligible and those do receive credit.
- 02:16:53 SEN. ERICKSON asked if the proposal would save administrative expenses. **Alan Peura, Deputy Director, Department of Revenue**, said the Department did not do an in-depth analysis of administrative costs for this preliminary draft. He indicated that the EPTAP program is burdensome administratively.
- 02:23:05 SEN. TUTVEDT said that to spend \$29 million is not something the state can do right now.
- 02:24:08 REP. HOLLANDSWORTH said that we are looking at a \$30 million shortfall. He said he would vote no.
- 02:24:38 SEN. ESSMANN said that he was interested in exploring this concept from a policy standpoint. The part of the circuit breaker programs that he doesn't care for involves the shifting of tax burden from taxpayer to taxpayer on the local level. The advantage of this type of policy is that if the legislature would make a determination that a certain class of taxpayer needs relief, then the state legislature pays for it. He agrees with Rep. Hollandsworth that at this point we can't afford it.
- 02:26:04 SEN. GILLAN said that she will support this because earlier the committee voted to request bills that had potential fiscal impacts but were important for the process. We should move forward on this and then as we get additional information, we can figure out whether it is good policy.
- Motion by Rep. Barrett**
- 02:27:12 REP. BARRETT **moved** to accept LC 4005 as a committee bill draft.

Public Comment

- 02:27:38 **Joe Roberts, Montana Association of Realtors**, said that the Association has vigorously opposed any circuit breaker bill that shifts the tax burden to local governments. In light of the discussion on LC 4005, they would probably oppose

the bill.

02:29:39 The motion **failed** on a tie vote with Sen Erickson, Sen. Gillan, Rep. Barrett, Rep. Boland voting aye along with Sen. Kaufmann and Rep. Jopek voting aye by proxy; Sen. Essmann, Sen. Peterson, Sen. Tutvedt, Rep. Hollandsworth, and Rep. Hoven voting no along with Rep. Nooney's no vote by proxy.

▶ **Revise property tax assistance program and veterans' property tax exemption (LC 4006)**

02:32:44 Mr. Martin discussed LC 4006, revising the income threshold levels and the percentage multipliers under two property tax assistance programs (**Exhibit 11**).

Motion by Rep. Hoven

02:36:10 Rep. Hoven **moved** to accept LC 4006 as a committee bill.

02:36:41 **Larson Silbaugh, Department of Revenue**, discussed the fiscal impact of LC 4006 (**Exhibit 12**).

Questions

02:37:41 SEN. PETERSON asked about the shifting that the Department of Revenue is talking about. **Mr. Silbaugh** said that the shifting is because there are some properties specifically in the disabled American veterans program that are going to receive a larger benefit. You are reducing the taxable value on those certain properties which according to the budgeting laws of 15-10-420, MCA, the local governments are allowed to increase their mills to make up for that reduction in their tax base.

No Public Comment given

02:40:15 The motion **failed** on a voice vote with Rep. Jopek, Sen. Kaufmann, and Rep. Nooney voting no by proxy.

• **RULE REVIEW - Lee Heiman, Staff Attorney**

02:43:58 Mr. Heiman discussed administrative rules of the Department of Revenue and the Department of Transportation (**Exhibit 13**).

Questions

02:51:52 SEN. TUTVEDT asked about the rulemaking process. **Mr. Heiman** said rulemaking is an Executive Branch function. It is granted by the Legislature to the Executive Branch agencies. If they have rulemaking authority, they publish in the Administrative Register and after a 30-day period, they can hold hearings, have a comment period, then within 6 months, the Department has to adopt the rule or not adopt the rule. When they adopt the rule, they must put in the public's

comments and respond to those comments. Then they publish the adopted rules, making any changes to those rules based upon the comments.

02:56:06 SEN. ESSMANN said that he received an email notice from the Department about a new rule with respect to the appraisal process where the Department must show on the property card both the land value that the Department has arrived at and the improvement value. The proposed rule was going to delete the requirement that those be separately shown. **Mr. Heiman** said the Department often sends out pre-rules before they are even at the point of being proposed to interested persons for comment.

SEN. ESSMANN said that he would like that checked in order to give some feedback to the Department.

02:58:04 SEN. GILLAN asked if there is an existing statute regarding a classification of licenses where you can only have beer or wine with food. **Mr. Heiman** said that that is a cabaret license.

No Public Comment given

- **BILL DRAFTS**

- ▶ **Repeal Inoperative Business Equipment Property Tax Reimbursement to Local Taxing Jurisdictions (LC 4000)**

03:02:07 Mr. Martin discussed LC 4000, repeal an inoperative business equipment property tax reimbursement to local government taxing jurisdiction (**Exhibit 14**).

Motion by Sen. Erickson

03:03:29 SEN. ERICKSON **moved** to accept LC 4000 as a bill draft request.

Mr. Martin said that based on the motion, he will submit a bill draft request on behalf of the committee and it will be pre-introduced.

No Public Comment given

03:04:35 The motion **passed** on a voice vote. SEN. GILLAN said that a sponsor will be decided at a later time.

- ▶ **Correct Property Tax Rate Related to Extended Property Tax Relief (LC 4003)**

03:06:14 Mr. Martin discussed LC 4003, correcting an adjusted tax rate under the extended property tax assistance program (**Exhibit 15**).

Motion by Rep. Hollandsworth

03:06:55 Rep. Hollandsworth **moved** to accept LC 4003 as a bill draft request.

No Public Comment given

03:07:18 The motion **passed** on a voice vote with Rep. Barrett as sponsor.

▶ **Reduce Withholding Tax Rate for Lottery Winnings (LC 4004)**

03:08:33 Mr. Martin discussed LC 4004, reduce withholding tax rate for lottery winnings **(Exhibit 16)**.

Motion by Sen. Erickson

03:10:05 SEN. ERICKSON **moved** to accept LC 4004 as a bill draft request.

Discussion

03:10:19 There was a discussion over the difference between the 10% withholding rate and the 6.9% withholding rate, removing a potential windfall from the state's cash balance during the time the person gets a check and when a tax return is filed.

No Public Comment given

03:13:16 The motion **passed** unanimously on a voice vote with Sen. Erickson as sponsor.

▶ **Clarify Terminology Related to Department of Revenue Agency Liquor Stores (LC 8890)**

03:14:45 Mr. Heiman discussed LC 8890, correcting the terminology describing agency liquor stores relating to sales to holders of alcohol licenses **(Exhibit 17)**

Motion by Sen. Tutvedt

03:16:46 SEN. TUTVEDT **moved** to accept LC 8890 as a bill draft request.

Mr. Martin said that he has received an email from K.C. Hill indicating support of LC 8890.

The motion **passed** on a voice vote with Rep. Hollandsworth as sponsor.

▶ **Repeal Montana Capital Company Act (LC 4001)**

03:18:06 Mr. Martin discussed LC 4001, repeal the Montana Capital Company Act **(Exhibit 18)**.

Motion by Sen. Erickson

03:23:00 SEN. ERICKSON **moved** to accept LC 4001 as a bill draft request. The motion **passed** by voice vote.

• **MEETING DATES -- AGENDA ITEMS**

03:24:22 Members of the committee discussed the next meeting date that is scheduled for September 15-16, 2010. **Mr. Martin** discussed possible agenda items, contacting Global Insight and having a representative appear before the committee at the September meeting. It was discussed whether or not subcommittee meetings will continue, the meeting date in November to discuss revenue estimates. It was decided to schedule November 19 for revenue estimates. SEN. ERICKSON wanted to put on the agenda a discussion asking for funds to get data from Moody's to use in revenue estimating.

LUNCH

04:56:06 The meeting reconvened at 1:04 p.m.

- **LEGISLATIVE FISCAL DIVISION DISCUSSION ON MOODY'S**

04:57:50 Amy Carlson distributed a document showing the costs for Moody's forecast (**Exhibit 19**) and explained the breakdown in costs.

Questions

05:01:44 REP. HOLLANDSWORTH asked if the Chamber of Commerce posts anything to its website on how they feel how the economy is going. **Ms. Carlson** said that they have looked at all types of sources of information in developing revenue estimates.

05:04:12 SEN. GILLAN discussed sending a letter to Legislative Council asking for funds to purchase analytical forecasts from Moody's to supplement this year's revenue estimating process.

05:05:47 **Mr. Martin** asked if the letter would include making a request on behalf of the Budget Office as well. SEN. GILLAN said that she did not include the Budget Office because she did not know whether or not they wanted to participate. **Mr. Martin** said that it might be a good idea to see if they wanted to pay the difference between the one agency and the other two agencies.

Motion by Sen. Gillan

05:06:36 SEN. GILLAN **moved** to send a letter to Legislative Council asking it to explore using funds to purchase analytical forecasts from Moody's to supplement this year's revenue estimating process. The motion **passed** with Rep. Hoven and Sen. Tutvedt voting no.

- **DISCUSSION ON INTENT OF HOUSE BILL 658 - Sen. Peterson**

05:10:05 Sen. Peterson distributed a copy of House Bill 658 (**Exhibit 20**). He discussed what the legislative intent of this bill was. He asked the committee to look at the Higgins Ranch Assessment Notice (Exhibit 6) and discussed a "hybrid" value before reappraisal. His concern is that the legislative intent isn't honored or the Department rule isn't honored.

05:19:25 SEN. GILLAN said that she shares the same concern about fairness. She said that at this point we don't want to have the discussion limited to the subcommittee. It is appropriate that the full committee begin to have a better understanding of the details that Sen. Peterson is talking about. She would put it on the agenda for the next meeting.

► **Response from Department of Revenue - Dan Bucks**

05:24:12 Director Bucks distributed the Department's rules on value before reappraisal (**Exhibit 21**) that were adopted in 1997, and has been the basic established rules under the language for the last three appraisal cycles. He said that the Department has followed its rules faithfully and believes that those rules reflect the legislation. Director Bucks said that the Department has followed the rules with the adjustments that they have made as of the 2010 appraisal notices and they believe those rules reflect the letter of HB 658 and existing law prior to that.

SEN. GILLAN said that the committee should take this issue up in September. She would like at that time to have examples and having some physical depictions would help.

Public Comment

05:38:25 **Ron Devlin, rancher**, discussed his tax appeal process and why he could not see that the phase in appeared to be wrong on his assessment notices. He now has a better understanding of how everything occurred. He said it is much easier to figure things out when you can compare the two processes.

05:47:15 **Michael Green, Crowley Law Firm, representing the Lucas Ranch, Inc., and the Montana Taxpayers Association, and Montana Farm Bureau**, said that he is in litigation with the Department of Revenue involving these very issues. He addressed some issues that Director Bucks raised in his testimony and that the Department in their reappraisal process did not follow 42-20-502, the administrative rule.

05:52:34 SEN. GILLAN asked the committee if they had anything in particular that they would like the Department of Revenue to present at the September meeting.

05:53:33 REP. BARRETT said that we have heard a description of minimal changes triggering the calculations of a new VBR. He would like to know what the process

is for calculating the new VBR when a change has been detected that would lead to a large change in the VBR compared to the 2002 value.

- 05:54:50 SEN. ESSMANN said that he would like to know whether the Agricultural Advisory Committee adopted the Executive Summary as part of its report.
- 05:55:16 REP. HOVEN said that he would like to know what constitutes reclassification.
- 06:00:03 SEN. GILLAN asked if the Department would come and give examples on how other classes of property tax are phased in.
- 06:02:55 SEN. ERICKSON said that he would like the Department to show something about relative costs, the way the Department did it versus the solution that Sen. Peterson is arguing for.

► **PRESENTATION ON FEASIBILITY OF ONE-YEAR REAPPRAISAL CYCLE FOR AG LAND, RESIDENTIAL AND COMMERCIAL PROPERTY - Larry Finch and Alan Peura, Department of Revenue**

06:04:18 **Alan Peura, Deputy Director, Department of Revenue**, said that at the April meeting the committee discussed the sticker shock that taxpayers had experienced as a result of the 2009 reappraisal and the disconnect between the constituents who believed that the 2009 reappraised values by DOR were not an accurate depiction of the market. As a result of those discussions, the committee had asked DOR to provide two reports. One was the report that was provided to the Residential and Commercial Subcommittee on the concept of disclosing real estate prices. The other request was whether the Department present an alternative to the 6-year reappraisal cycle. This report is in response to that request. Mr. Peura presented a property assessment notice form to the committee (**Exhibit 22**).

06:08:12 **Larry Finch, Department of Revenue**, gave a report on "An alternative Approach to Cyclical Reappraisal to Promote Simplicity and Administrative Efficiency, and Enhance Taxpayer Understanding and Equity in Montana Property Taxation" (**Exhibit 23**).

Questions

06:52:44 REP. BARRETT said that to make the transition to annual, we would have to bring all those new values online in one year and we would be going from 2014 values, therefore, we would not be able to phase in the next set. **Mr. Finch** said that what the Department envisions is that by completing this reappraisal cycle, we would allow this cycle to run its 6-year course and the values that we discovered at the end of this cycle would be the values that would go on the books January 1, 2015, for that tax year.

06:54:24 REP. HOVEN asked if at the next meeting you would have an idea of the costs. **Mr. Finch** said that is the plan.

06:54:49 SEN. GILLAN said that the report will be an agenda item for the next meeting and once the committee members have had a chance to review the report, there may be additional questions which may lead to a committee bill.

06:56:29 Director Bucks complimented Mr. Finch on his years of service.

- **LC 8889, GOVERNMENTS AND TAX INCREMENT FINANCE DISTRICTS - Lee Heiman**

06:57:29 Mr. Heiman discussed LC 8889, clarifying the provisions of the entitlement share payment program (**Exhibit 24**). He said this is a housekeeping cleanup of the entitlement share program which was enacted in 2001 and has been amended many times.

Questions

07:03:07 SEN. ESSMANN asked if the HB 124 system takes into account any change in demographics over time, or are we locked in to what was in place in 2001? **Mr. Heiman** said that first of all there are the demographic changes. The bill has a provision for reimbursement levels changing based upon population levels within and without counties. Otherwise it is locked in.

07:05:05 SEN. ESSMANN ask if the formula that is in LC 8889 takes into account a year to year population change by those governments? **Mr. Heiman** said that half of the distribution formula is based upon population.

Public Comment

07:06:22 **Harold Blattie, Montana Association of Counties**, said that Mr. Heiman has covered the topic well and hopes that the committee will propose this bill as a clean up bill.

07:11:30 A copy of Gallatin County's testimony regarding proposed change to the State Entitlement allocation to local governments was submitted as public comment (**Exhibit 25**).

07:13:19 A copy of Stillwater County Commission's comments regarding LC 8889 was submitted as public comment (**Exhibit 26**).

07:13:56 **Gary Matthews, Custer County Commissioner**, said that this is one of the most important things that cities and counties deal with everyday. This was a good program. He said that this entitlement program would be devastating to local governments if for some reason it was changed. He agrees with Mr. Blattie.

07:16:07 **Maureen Connor, Granite County Commission**, said that Granite County agrees with Commissioner Matthews.

Motion by Sen. Erickson

07:16:36 SEN. ERICKSON moved LC 8889 forward with the two modifications as stated by Mr. Heiman. The motion **passed** on a unanimous voice vote with Sen. Erickson as sponsor.

07:18:57 SEN. GILLAN asked for a postponement of SAVA's presentation until September.

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

07:19:33 Director Bucks gave a report on compliance **(Exhibit 27)**.

07:23:11 Director Bucks said that he will give a report on fraud on the part of tax preparers at the next meeting.

07:25:55 Director Bucks gave a presentation on fiscal notes, gathering new data sets, and property tax developments.

07:30:09 Director Bucks discussed the map on PAD Management Areas **(Exhibit 28)**.

07:34:25 Director Bucks discussed the memo regarding New Liquor Licenses to be Published **(Exhibit 29)**.

Questions

07:36:49 REP. HOVEN asked about the costs of the beverage licenses. **Shauna Helfert, Administrator, Liquor Control Division, Department of Revenue**, said the license fee costs \$200, and there is a \$400 renewal fee.

07:38:41 SEN. TUTVEDT asked how do you keep track of audit payments that are prepaid by a construction or mining company. **Director Bucks** said that what Sen. Tutvedt has described is not called an audit collection. If you are responding to a withholding requirement and paying a withholding, that is an advanced collection and not considered an audit collection.

• **DEPARTMENT OF REVENUE LEGISLATIVE PROPOSALS**

Director Bucks discussed the Department of Revenue's proposed legislation:

07:41:48 Equalize the deduction for federal taxes between trusts and individual income taxpayers **(Exhibit 30)**

- 07:46:31 Improve the efficiency of state tax system administration by allowing the electronic copy of tax forms (**Exhibit 31**)
- 07:49:36 Improve, clarify and make property tax administration more effective (**Exhibit 32**)
- 07:55:34 Revise liquor laws (**Exhibit 33**)

Motion by Sen. Erickson

- 08:05:28 SEN. ERICKSON moved to accept the Department of Revenue's proposed legislation for bill drafting purposes.

SEN. ESSMANN said he is concerned with the second paragraph in the Department's proposed legislation "to improve and make more effective the property tax administration". Director Bucks testified that where the cost approach was adopted by the Department and reappraisal of the land and improvements would continue to be listed. He wanted to make sure that that is included in the bill draft prepared by staff. He said that the way the paragraph read did not reflect that intent. **Director Bucks** said that they will amend that paragraph.

- 08:07:06 SEN. GILLAN suggested that if Sen. Erickson's motion goes forward, that the text be changed to reflect Sen. Essmann's comments.

- 08:08:16 SEN. ESSMANN said that he wanted to make a substitution motion to Sen. Erickson's motion and that would be to move all four proposed legislation forward the item that deals with the revision of the liquor laws, he would like to split up into two bill draft requests. One to include items 1 and 2 which deal with the non-profit raffles and the liquor license protest laws, and the second dealing with the under-age liquor law issues. That draft may be more controversial and for the efficiency of the Legislature, should be considered separately.

Discussion on Sen. Essmann's substitute motion

SEN. ERICKSON agrees with Sen. Essmann. SEN. GILLAN said that Sen. Essmann's substitution motion would take it from four bill draft requests to five bill draft requests.

No Public Comment was given

- 08:09:34 Director Bucks said that he does not object to the substitute motion.

Substitute Motion by Sen. Essmann

- 08:10:48 SEN. ESSMANN **moved** for a substitute motion to accept the Department of Revenue's four proposed legislation with amended language to the proposed legislation (#3) regarding improving the efficiency of the property tax

administration as discussed; and to split the liquor license proposed legislation (#4) into two separate proposals: the first proposal to address that Montana law does not currently authorize non-profits to raffle or auction alcoholic beverages and to remedy two problems in the current liquor license protest laws. The second proposed legislation to improve liquor laws dealing with service to under-age persons. The motion **passed** on a unanimous voice vote.

No Public Comment given

08:12:08 SEN. GILLAN said that subcommittees will not have future meetings. Ms. Weiss will be asked to come back and give her presentation. SEN. GILLAN appointed Rep. Hollandsworth and Sen. Erickson to participate in the Finance Committee Subcommittee. REP. BARRETT asked that a report from the Department regarding the possibility of refining the income approach model be presented at the next meeting.

- **ADJOURNMENT**

08:15:27 With no further business before the committee, SEN. GILLAN adjourned the meeting at 4:23 p.m.

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