



Revenue and Transportation Interim Committee

65th Montana Legislature

SENATE MEMBERS

MARK BLASDEL--Vice Chair
DUANE ANKNEY
DICK BARRETT
CYDNIE (CARLIE) BOLAND
JILL COHENOUR
BRIAN HOVEN

HOUSE MEMBERS

TOM JACOBSON--Chair
BECKY BEARD
JIM HAMILTON
GREG HERTZ
ALAN REDFIELD
BRIDGET SMITH

COMMITTEE STAFF

MEGAN MOORE, Lead Staff
JARET COLES, Staff Attorney
LAURA SHERLEY, Secretary

MINUTES LOG

March 13, 2018
Room 137, Capitol Building
Helena, Montana

Please note: This document is a Minutes Log and provides a notation of the time elapsed between the beginning of the meeting and the time at which the item was presented or discussed, a motion was made, or a vote was taken. The narrative presented here is provided only as a guide to the audio or video record of the meeting. The official discussion, motion, or vote is available on the audio or video archive of this meeting. The Legislature does not prepare a transcript of meeting activities. The time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

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Please contact the Legislative Services Division at 406-444-3064 for more information.

COMMITTEE MEMBERS PRESENT

REP. TOM JACOBSON, Chair
SEN. MARK BLASDEL, Vice Chair

SEN. DUANE ANKNEY
SEN. DICK BARRETT
SEN. CYDNIE (CARLIE) BOLAND
SEN. JILL COHENOUR
SEN. BRIAN HOVEN

REP. BECKY BEARD
REP. JIM HAMILTON
REP. ALAN REDFIELD
REP. BRIDGET SMITH

COMMITTEE MEMBERS EXCUSED

REP. GREG HERTZ

STAFF PRESENT

MEGAN MOORE, Lead Staff
JARET COLES, Staff Attorney
LAURA SHERLEY, Secretary

VISITORS' LIST (Attachment 1)

AGENDA (Attachment 2)

CALL TO ORDER AND ROLL CALL

00:00:02 Rep. Jacobson called the meeting to order at 8:04 a.m. The committee secretary took roll ([Attachment 3](#)). Rep. Hertz was excused and left his proxy with Rep. Redfield ([Attachment 4](#)).

AGENCY OVERSIGHT: DEPARTMENT OF TRANSPORTATION -- Mike Tooley, Director

Wrong way driving update

00:01:00 Director Tooley answered Sen. Barrett's question regarding wrong way crashes on interstate highways, and answered Rep. Redfield's question regarding the use of tire chains on steep roads.

00:04:55 Rep. Redfield commented on the fine given to truckers who fail to carry tire chains and the issues that stalled semi-trucks cause on Bozeman hills.

00:06:21 Sen. Ankney commented on semi-trucks jack-knifing on Highway 212 and semi-truck drivers ability to read road signs.

Winter maintenance

00:07:44 Director Tooley updated the committee on the department's winter highway maintenance expenses.

00:11:02 Rep. Beard asked if public service announcements are still published for driver awareness of snow plows.

00:12:18 Rep. Smith asked if a constituent's vehicle insurance covers the state's snow plows if the constituent hits a snow plow.

00:12:55 Sen. Hoven asked if there has been further conversation on installing roundabouts throughout the state.

00:15:20 Rep. Redfield asked if pedestrian sidewalks and walkways are considered when roundabouts are installed.

00:17:26 Sen. Ankney commented on the Lame Deer roundabout.

Biodiesel refund and compliance with special fuel laws reports

00:19:04 Larry Flynn, CFO, Department of Transportation, gave the committee the biodiesel refund and dyed fuel enforcement reports ([Exhibit 1](#)).

HSRA implementation update

00:20:32 Mr. Flynn spoke briefly on HSRA fund implementation updates.

Public comment

00:26:52 Harold Blattie, Montanan Association of Counties

HJ 22: AGRICULTURAL PROPERTY STUDY

History of agricultural classification -- Megan Moore, committee staff

00:27:59 Ms. Moore reviewed the history of agricultural classification as it relates to HJ 22 - *Interim study on agricultural property valuation* ([Exhibit 2](#)).

Committee questions and discussion

- 00:36:36 Sen. Barrett commented on the income assumption for agricultural property and suggested using the per acre gross revenue used to appraise agricultural land.
- 00:40:33 Sen. Hoven asked for clarification on classification wording (see Exhibit 2).
- 00:41:39 Rep. Jacobson asked how the committee should request study and agenda topics for the next committee meeting.

Public comment

- 00:43:11 Jon Youngberg, Montana Farm Bureau
- 00:46:59 Mike Kadas, Director, Department of Revenue
- 00:51:34 Bob Story, Montana Taxpayers Association

Requests for May meeting

- 00:55:30 Rep. Redfield asked when and why the classification that land agriculturally produces the equivalent of 15% or more of the owner's annual gross income was removed.
- 00:57:43 Rep. Hamilton recommended that the committee focus on the income requirements for different agricultural properties and discussed study topic options and recommendations.
- 01:00:42 Sen. Barrett recommended a per acre gross revenue requirement that is generated by the potential productivity of agricultural land.
- 01:04:47 Rep. Jacobson asked Sen. Barrett how he would differentiate the descriptions of a ranch or farm in his recommendation.
- 01:07:26 Sen. Ankney commented on the use of conservation land that was previously agricultural property.
- 01:09:22 Rep. Hamilton commented on the use of a conservation easement or agreement for sizeable tax advantages and deductions.
- 01:10:38 Sen. Cohenour commented on creating a new property class for conservation property, and requested information from the Department of Revenue (DOR) on what the department is already doing for classification issues.
- 01:12:41 Rep. Jacobson recommended a minimum number of acreage to qualify agricultural property for conservation classification.
- 01:13:22 Sen. Barrett commented on the use of easements in conservation property.
- 01:14:43 Sen. Cohenour asked if there is a formalized group that DOR is working with regarding classification issues.
- 01:16:35 Sen. Barrett commented on the lack of statewide appraisal classification.
- 01:18:15 Sen. Ankney commented on the farmsteads around Flathead County.
- 01:19:36 Rep. Redfield commented on the classification and use of hobby farms, and recommended that some of the classification issues be addressed by the Department of Revenue Agricultural Lands Advisory Committee.
- 01:22:33 Sen. Hoven asked Director Kadas if the classification of the one-acre minimum to qualify for agricultural property was a rule or in statute, and asked for clarification of the agriculture property appraisal rate.
- 01:24:22 Sen. Blasdel commented on the vineyard and orchard farms in Polson.
- 01:25:49 Sen. Cohenour commented on the issue of property classification.
- 01:28:25 Rep. Jacobson commented on the bills that were introduced in the 65th Session regarding property classification.
- 01:29:06 Sen. Hoven commented on farms abusing property classification and the solutions brought up in the committee discussion.

01:31:10 Rep. Jacobson recommended that the committee hear from the public on the issue before taking any action.

Public comment on committee discussion

01:31:38 Bob Story, Montana Taxpayers Association
01:34:05 Director Kadas, Department of Revenue
01:35:40 Jon Youngberg, Montana Farm Bureau

Requests for May meeting continued

01:36:30 Rep. Jacobson asked Ms. Moore to review the committee agenda topic requests for the May meeting.
01:37:35 Rep. Jacobson asked if the committee could schedule a presentation from the Department of Revenue Agricultural Lands Advisory Committee.
01:37:53 Director Kadas clarified the department's dealings with the Department of Revenue Agricultural Lands Advisory Committee.

BREAK (Reconvened at 9:58 a.m.)

AGENCY OVERSIGHT: MONTANAN TAX APPEAL BOARD

Update -- Dave McAlpin, Chair

01:54:21 Mr. McAlpin gave the committee an update on the work of the Montana Tax Appeal Board ([Exhibit 3](#)).

Committee questions for Mr. McAlpin

02:00:51 Sen. Cohenour asked what issues are being brought before the board on individual tax appeals.
02:02:49 Sen. Barrett asked if the board is seeing better founded appeals from individual property taxpayers since changing to the 2-year cycle.

Public comment

02:05:00 Duane Mitchell, Richland County Commissioner
02:07:00 Eric Bryson, Montana Association of Counties

MEMBER TOPIC: OIL AND NATURAL GAS PRODUCTION TAX DISTRIBUTION

Overview of tax and distribution of revenue -- Ms. Moore

02:10:38 Ms. Moore reviewed the oil and natural gas production tax distribution ([Exhibit 4](#)) and ([Exhibit 5](#)).

Committee questions for Ms. Moore

02:20:37 Rep. Smith asked if tribal community colleges were included in the distribution.
02:21:15 Sen. Hoven asked why cities were not included in the distribution prior to 2003.

Revenue allocations to school districts -- Pad McCracken, Research Analyst, Legislative Services Division (LSD)

02:23:05 Mr. McCracken reviewed the revenue allocations to school districts ([Exhibit 6](#)).

Panel discussion: How did we get to current revenue distribution and should there be changes to the distribution?

Richard Dunbar, Phillips County Commission and President, Montana Association of Oil and Gas Counties

Larry Crowder, Superintendent, Culbertson School District

Rick Norby, Mayor, Sidney

02:34:45 Mr. Dunbar (see Exhibit 5)

02:42:02 Mr. Crowder

02:45:57 Mr. Norby

Committee questions for the panel

02:56:30 Rep. Hamilton asked the panel if the money from the Oil and Gas Impact Fund was saved and how the money is used. The question was answered by Mr. Dunbar ([Exhibit 7](#)) and Mr. Norby.

03:00:56 Sen. Hoven asked Mr. Norby if the county was able to use taxpayer money for infrastructure due to the high amount of unused money given to the school district (see Exhibit 5).

03:01:49 Sen. Hoven asked Mr. Norby what would be a reasonable split of the 22% between the city and county.

03:03:09 Mr. Dunbar commented on impact bills that were drafted in previous sessions.

Public comment

03:04:13 Tim Burton, Executive Director, Montana League of Cities and Towns

03:12:02 Harold Blattie, Executive Director, Montana Association of Counties

03:15:22 Allen Olsen, Executive Director, Montanan Petroleum Association

03:18:16 EJ Redding, Bainville Public Schools

03:22:45 Jessica Redfield, Sidney City Clerk and Treasurer

03:24:32 Tammy Christensen, Sidney City Council Member

03:26:12 Shebly Demarz, Montana Association of Oil and Gas Counties

03:27:57 Lauren Young, Richardson County Commissioner ([Exhibit 8](#))

03:35:56 Dennis Parman, Montana Rural Education Association

03:37:31 Jacklyn Young, Fairview School Business Manager

Committee follow-up (if applicable)

03:44:01 Ms. Moore asked the committee for information requests.

03:44:29 Rep. Smith recommended that the dialogue continue regarding impact to cities.

03:44:51 Sen. Blasdel asked for more information on the history of Board of Oil and Gas dollars and what relating bills were put in during the 65th Session.

03:45:30 Sen. Hoven asked for more information on how much money was distributed from the Montana Oil and Gas Board to cities from 2005 and how much money went to each incorporated city.

03:47:14 Rep. Beard asked to view SB 389: *Revise allocation of oil and gas revenue for oil and natural gas impact projects.*

03:47:47 Sen. Cohenour reminded the committee of the importance of the sage grouse issue.

PUBLIC COMMENT ON ANY OTHER TOPIC WITHIN THE COMMITTEE'S JURISDICTION

None

LUNCH (Reconvened jointly with LFC at 1:02 p.m. in Capitol Room 317, Helena)

March 13, 2018
Room 317, Capitol Building
Helena, Montana

REVENUE AND TRANSPORTATION INTERIM COMMITTEE MEMBERS PRESENT

REP. TOM JACOBSON, Chair
SEN. MARK BLASDEL, Vice Chair

SEN. DUANE ANKNEY
SEN. DICK BARRETT
SEN. CYDNIE (CARLIE) BOLAND
SEN. JILL COHENOUR
SEN. BRIAN HOVEN

REP. BECKY BEARD
REP. JIM HAMILTON
REP. ALAN REDFIELD
REP. BRIDGET SMITH

REVENUE AND TRANSPORTATION INTERIM COMMITTEE MEMBERS EXCUSED

REP. GREG HERTZ

LEGISLATIVE FINANCE COMMITTEE MEMBERS PRESENT

SEN. LLEW JONES, Chair
SEN. NATE MCCONNELL
SEN. ERIC MOORE
SEN. JON SESSO

REP. NANCY BALLANCE
REP. KIMBERLY DUDIK
REP. KENNETH HOLMLUND
REP. MIKE HOPKINS
REP. KELLY MCCARTHY (by phone)
REP. MARILYN RYAN

LEGISLATIVE FINANCE COMMITTEE MEMBERS EXCUSED

SEN. EDIE MCCLAFFERTY
SEN. RYAN OSMUNDSON

REVENUE AND TRANSPORTATION INTERIM COMMITTEE STAFF PRESENT

MEGAN MOORE, Lead Staff
JARET COLES, Staff Attorney
LAURA SHERLEY, Secretary

LEGISLATIVE FINANCE COMMITTEE STAFF PRESENT

AMY CARLSON, Lead Staff
JULIE JOHNSON, Staff Attorney

VISITORS' LIST (Attachment 1)

AGENDA (Attachment 2)

CALL TO ORDER -- ROLL CALL -- WELCOME BOTH CHAIRS

00:00:01 Sen. Jones and Rep. Jacobson called the meeting to order at 1:02 p.m. The committee secretary took roll ([Attachment 3](#)) and ([Attachment 4](#)). Rep. Hertz was excused and left his proxy with Rep. Redfield ([Attachment 5](#)).

Introduce the plan for the afternoon -- Amy Carlson, Legislative Fiscal Analyst and Director

00:02:11 Ms. Carlson introduced the meeting agenda and reviewed the previous work of the Joint Subcommittee on the Changing Economy and Impacts to the Long-Term Viability of Montana's Tax Structure.

GENERAL FUND TRENDS RELATIVE TO GROSS STATE PROJECT: EXPANDED -- Stephanie Morrison, Lead Fiscal Analyst

00:05:45 Ms. Morrison updated the committee on general fund trends relative to gross state project ([Exhibit 1](#)).

Committee discussion and questions

00:15:50 Sen. Barrett asked if the analysis of erosion included the effect of the corporate income tax erosion.

00:17:43 Sen. Cohenour asked for clarification of the reported 2010 data on the Contribution to GF Revenue Erosion by Type chart (see Exhibit 1).

00:18:59 Rep. Dudik commented on the information that Ms. Morrison gave to the committee regarding long term general revenue trends ([Exhibit 2](#)).

00:19:51 Rep. Dudik commented on the 20% increase to the general fund revenue and increases to property tax.

00:21:52 Sen. Jones asked if any population changes or shifts were considered in the research on individual income tax.

00:26:45 Rep. Dudik asked if the reported general fund numbers could be adjusted by inputting population changes, changes in pass-throughs, and changes to personal income.

00:30:15 Sen. Barrett commented on adjusting the reported general revenue numbers on corporation tax.

00:31:45 Sen. Moore asked if the decrease from 1996 to 2007 in the Remaining Sources data on the FY GF Revenue charts (see Exhibit 2, page 2) is due to the common school adjustment.

00:33:19 Sen. Hoven commented on the increase in personal income likely due to population growth, the low threshold top rate, and the increase in pass-throughs.

00:34:14 Sen. Jones asked if the numbers for personal income tax growth would need to be adjusted due to relative growth environment shifts.

00:35:44 Rep. Dudik asked for clarification to the General Fund Revenue Sources % Share chart (see Exhibit 2).

00:37:03 Sen. Sesso asked for clarification on the general fund revenue sources that stayed consistent year to year (see Exhibit 2).

00:40:16 Sen. Jones asked for general clarification on the charts in Ms. Morrison's handout (see Exhibit 2).

Revenue Trends in all 50 States -- Ms. Morrison

00:41:40 Ms. Morrison presented on revenue trends in all 50 states ([Exhibit 3](#)).

Committee discussion

00:45:42 Sen. Jones commented on Pew Research Center's interest in revenue trends across all 50 states.

Industry Comparison of Taxes collected on \$1 million in Sales Analysis -- Ms. Morrison and Sam Schaefer, Fiscal Analyst

00:46:02 Ms. Morrison updated the committee on the industry comparison of taxes collected on the \$1 million in sales analysis ([Exhibit 4](#)).

Committee questions and discussion

00:51:58 Sen. Hoven asked for clarification of hospital taxing practice (see Exhibit 4).

00:54:05 Rep. Dudik asked for clarification on hospitals receiving tax cuts and if money invested into nonprofits is tracked.

00:57:06 Rep. Dudik asked if the reported tax numbers for hospitals in the state can be broken out between nonprofit and for-profit hospitals.

00:58:07 Rep. Jacobson commented on the hospital taxing studies done in RTIC during the 2015-2016 Interim and commented on the hospital tax rate compared to retail tax rate.

00:59:34 Sen. Barrett reminded the committee to be cautious of comparing rates of taxation based on sales.

01:01:30 Sen. Hoven commented on the significant growth in hospital costs that could be contributing to the decline in general fund revenue.

Economic Sector Trends and Statistics -- Ms. Morrison and Mr. Schaefer

01:02:59 Ms. Morrison reviewed the economic sector trends and statistics ([Exhibit 5](#)).

01:17:02 Sen. Jones asked Ms. Morrison to comment on how the great recession affected the economic sector trends.

01:19:15 Rep. Hamilton asked for clarification on the Government Revenue data in the Tax Revenue share of Total by Type by Fiscal Year chart (see Exhibit 5, page 2).

01:19:55 Rep. Jacobson asked for clarification of the data reported on the Tax Revenue share of Total by Type by Fiscal Year chart (see Exhibit 5, page 2).

01:23:29 Rep. Jacobson asked if the non-services revenue increase or decrease is relative to the recession.

01:25:38 Sen. Barrett asked if the personal income data reported on the FY 2017 Personal Income vs. GDP by Industry chart (see Exhibit 5, page 1) is wage and salary income.

01:28:10 Sen. Barrett asked if non-labor income was not included in the FY 2017 Personal Income vs. GDP by Industry chart (see Exhibit 5, page 1).

01:30:32 Sen. Barrett commented on non-labor income assigned by sector and the reported Personal Income vs. GDP by Industry data for the Natural Resources sector (see Exhibit 5, page 1).

01:31:18 Ms. Morrison continued her presentation.

Committee discussion and questions

01:47:28 Sen. Barrett asked if personal income is considered wage and salary income and can be attributed to a certain sector, and asked if the government sector includes income taxes paid by government employees.

- 01:48:35 Sen. Barrett asked if income tax revenue data is reported in the sectors where the income tax was earned.
- 01:53:30 Sen. Barrett asked about assigning tax revenue to various sectors, and commented on assigning non-labor personal income to separate sectors.
- 01:54:45 Rep. Jacobson asked for clarification on the shares of the totals.

BREAK (Reconvened at 3:04 p.m.)

TAX GAP ANALYSIS -- Department of Revenue

- 02:12:26 Mike Kadas, Director, Department of Revenue (DOR) presented the Tax Gap Analysis ([Exhibit 6](#)) and ([Exhibit 7](#))
- 02:13:50 Aaron McNay, Economist, Department of Revenue, presented on the Montana Underreporting Income Tax Gap (see Exhibit 6)
- 02:26:32 Director Kadas continued his presentation.

Committee questions

- 02:46:56 Sen. Barrett asked Director Kadas if growing industries of relative importance are more likely to be organized through pass-throughs.
- 02:49:49 Rep. Ballance asked Director Kadas what has caused the increased number of pass-throughs.
- 02:50:58 Rep. Ballance asked Director Kadas if it is legal to pursue the highest potential dollars on a priority basis.
- 02:52:18 Rep. Ballance asked for clarification of the auditing collection process and if there are any fees or businesses moderating compliance. The question was referred to Gene Walborn, Deputy Director, DOR.

INCOME TAX RESEARCH OPTIONS -- Ms. Morrison

- 02:57:15 Ms. Morrison reviewed income tax research options ([Exhibit 8](#)).

Committee questions and discussion

- 03:02:20 Sen. Barrett asked if distribution of wage and non-wage income components for revenue growth should be reviewed.
- 03:03:24 Rep. Jacobson recommended that the committee review wage and non-wage income, and asked Ms. Morrison to speak to the changes in the non-wage income data.
- 03:04:18 Rep. Jacobson asked if enacting individual income tax increases is a federal regulation.
- 03:05:05 Rep. Hamilton asked to review the changing job types in the state as it relates to individual income tax research.

CORPORATE INCOME TAX

Apportionment -- Ms. Moore and Mr. Schaefer

- 03:07:57 Ms. Moore reviewed corporate income tax apportionment ([Exhibit 9](#)).

Committee questions for Ms. Moore

- 03:11:14 Sen. Barrett asked how other states that use different apportionment equations avoid double counting.

Corporate Income Tax Minimum, Inflation Adjustment -- Mr. Schaefer

- 03:12:54 Mr. Schaefer presented on the implications of changing the state's corporation apportionment formula (**Exhibit 10**) and (**Exhibit 11**).
- 03:15:24 Rep. Ryan asked if certain methods of apportionment are more vulnerable to economic downfalls.
- 03:16:12 Sen. Jones commented on economic downturns and how they impacts sales.
- 03:16:50 Mr. Schaefer continued his presentation.

Committee questions for Mr. Schaefer

- 03:21:05 Rep. Hamilton asked if investment license fees are reported (see Exhibit 11).
- 03:22:29 Rep. Hamilton asked if there are other flat fees that were not included in the analysis.
- 03:23:34 Sen. Ankney asked for individual income taxes broken down into jobs.

PUBLIC COMMENT

- 03:25:28 Bob Story, Montana Taxpayers Association
- 03:34:02 Heather O'Loughlin, Montana Budget and Policy Center
- 03:37:00 Stuart Doggett, Montana Lodging and Hospitality Association

UPDATE AND WRAP UP

- 03:39:16 Sen. Jones asked the committee how they would like to proceed in the study.
- 03:40:07 Ms. Moore reviewed the meeting dates for RTIC.
- 03:40:42 Committee discussion on meeting dates.
- 03:43:30 Ms. Carlson reviewed the committee topics.
- 03:45:08 Sen. Barrett requested an impact analysis of changing economic revenue streams.
- 03:47:11 Rep. Beard requested a demographic review from the CEIC Database regarding the population growth in the workforce.
- 03:48:02 Sen. Hoven asked how the joint RTIC and LFC meetings are budgeted.
- 03:48:48 Rep. Jacobson reminded the members of committee work deadlines in September and any legislation the RTIC committee wants to pursue needs to be drafted before the deadline.
- 03:49:30 Sen. Jones commented on the staff availability for the research and work being requested by the committee and the work done during the meetings.
- 03:52:32 Rep. Jacobson commented on the joint meetings, committee budget, and time left in the interim for possible committee legislation.
- 03:53:38 Committee discussion on a joint meeting.
- 03:58:17 Rep. Ballance recommended the committee review expenditures as well as the general fund revenue.
- 03:59:36 Ms. Carlson commented on the historical reviews of expenditures and continued her review of committee study topics.
- 04:01:32 Sen. Barrett commented on how the economy growth affects the tax gap.
- 04:03:07 Rep. Ballance commented on the tax gap growth due to new business startup.

LFC ADJOURNMENT AND RTIC RECESS UNTIL MARCH 14

- 04:04:25 Sen. Jones adjourned the LFC at 5:06 p.m.
- 04:04:40 Rep. Jacobson recessed RTIC at 5:06 p.m. until March 14, 2018 at 8:00 a.m. in Capitol Room 317, Helena.

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