

PROPOSED 2003-04 INTERIM WORK PLAN OF THE REVENUE AND TRANSPORTATION INTERIM COMMITTEE

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INTRODUCTION

This report summarizes the 2003-04 interim work plan for the Revenue and Transportation Committee Interim (Committee). This is a preliminary plan and is designed to allow for Committee discussion, revision, and adoption. The work plan is divided into five parts:

- statutory duties of the Committee, including revenue estimating duties;
- statutorily required agency reports;
- interim study assignment;
- other areas for review and analysis; and
- meeting schedule and Committee budget.

A proposed meeting schedule and a summary of the proposed work plan are attached to this report.

STATUTORY DUTIES OF THE REVENUE AND TRANSPORTATION INTERIM COMMITTEE

The general statutory duties of interim legislative committees are contained in 5-5-215, MCA:

"5-5-215. Duties of interim committees. (1) Each interim committee shall:

- (a) review administrative rules within its jurisdiction;
- (b) subject to 5-5-217(3), conduct interim studies as assigned;
- (c) monitor the operation of assigned executive branch agencies with specific attention to

the following:

- (i) identification of issues likely to require future legislative attention;
- (ii) opportunities to improve existing law through the analysis of problems experienced with the application of the law by an agency; and
- (iii) experiences of the state's citizens with the operation of an agency that may be amenable to improvement through legislative action;
- (d) review proposed legislation of assigned agencies or entities as provided in the joint legislative rules; and
- (e) accumulate, compile, analyze, and furnish information bearing upon its assignment and relevant to existing or prospective legislation as it determines, on its own initiative, to be pertinent to the adequate completion of its work.

(2) Each interim committee shall prepare bills and resolutions that, in its opinion, the welfare of the state may require for presentation to the next regular session of the legislature.

(3) The legislative services division shall keep accurate records of the activities and proceedings of each interim committee."

The specific duties of the Committee are contained in 5-5-227, MCA. Senate Bill No. 10¹ repealed 5-18-107, MCA, relating to revenue estimating duties of the Committee and put those duties in 5-5-227, MCA:

- "5-5-227. Revenue and transportation interim committee -- powers and duties -- revenue estimating and use of estimates.** (1) The revenue and transportation interim committee has administrative rule review, draft legislation review, program evaluation, and monitoring functions for the department of revenue and the department of transportation and the entities attached to the departments for administrative purposes.
- (2) The committee must have prepared by December 1 for introduction during each regular session of the legislature in which a revenue bill is under consideration an estimate of the amount of revenue projected to be available for legislative appropriation.
- (3) The committee's estimate, as introduced in the legislature, constitutes the legislature's current revenue estimate until amended or until final adoption of the estimate by both houses. It is intended that the legislature's estimates and the assumptions underlying the estimates will be used by all agencies with responsibilities for estimating revenue or costs, including the preparation of fiscal notes.
- (4) The legislative services division shall provide staff assistance to the committee. The committee may request the assistance of the staffs of the office of the legislative fiscal analyst, the legislative auditor, the department of revenue, and any other agency that has information regarding any of the tax or revenue bases of the state."

Revenue Estimating Duties

One of the most important duties of the Committee is the development of revenue estimates for the Legislature. The work plan calls for the Committee to be involved in revenue estimating topics and revenue collection status reports throughout the interim. At the October 2003 meeting, the Legislative Fiscal Division (LFD) will present a summary of general fund revenue collections for fiscal year 2003 and will discuss the ending general fund balance. The LFD will present periodic status reports of general fund collections for fiscal year 2004.

Montana relies on national economic forecasts in the development of revenue estimates. The state is under contract with *Global Insights, Inc.* (formerly known as the DRI-WEFA Group), for those forecasts. The contract includes technical assistance for the state. The Office of Budget and Program Planning will arrange for *Global Insights* to visit Montana in December 2003 and September 2004. The purpose of the visits will be to meet with revenue estimating staff and to address the Committee on national economic trends. In addition, Paul Polzin, Director, Bureau of Business and Economic Research, UM, and Myles Watts, Department Head, Department of Agricultural Economics and Economics, MSU, will discuss state economic trends.

STATUTORILY REQUIRED AGENCY REPORTS

The Legislature often requires an agency to report to the appropriate interim committee on a particular matter. The Departments of Revenue and Transportation are required to submit a variety of reports to the Committee. Those reports are summarized in the table below. The

¹Code Commissioner Bill (Ch.114, L. 2003)

summary table of the Committee's draft work plan at the back of this paper shows a proposed schedule for presentation of the reports.

Reports That are Required to Be Provided to the Revenue and Transportation Interim Committee			
Citation	Reporting Entity	Report	Frequency
15-1-230, MCA	Revenue	Number and type of taxpayers claiming the credit for contributions to a qualified endowment under 15-30-166, the total amount of credit claimed, and the Department's cost associated with administering the credit	At least once each year
15-6-218, MCA	Revenue	Intangible personal property	Annually
15-30-1114, MCA	Revenue	Findings of review of "reporting and taxation of income that is flowing through pass-through entities and the method of reporting and taxation of this income in states other than Montana" and recommendations "concerning the methodology that Montana should use to ensure fair and equitable taxation of income that flows through pass-through entities to other entities"	At least once each year
Ch. 521, L. 2003 (HB 721)	Revenue	Update of countries that may be considered a tax haven under 15-31-322(1)(f)	Biennially
(HB No. 2)	Revenue	Cost of tax compliance staff and the additional revenue generated from providing the associated tax compliance; cost and revenue to be separately shown for staff added during the August 2002 special session (p. A-9, HB 2)	As determined by the Committee
15-70-234, MCA	Transportation	Status of motor fuel tax cooperative agreement negotiations with the state's Indian tribes	As needed, after negotiations are complete and before final agreement is submitted to Attorney General for approval
Ch. 111, L. 2003 61-10-141, MCA (HB 71) repealed termination of authority to inspect)	Transportation	Authority to stop and inspect diesel-powered vehicles to determine compliance with provisions of special fuels use tax; impacts enforcement has had on the state special revenue fund	At least once each year
Ch. 192, L. 2003 (SB 83)	Transportation	Updates on the design-build contracting pilot program	As requested by the Committee

Reports That are Required to Be Provided to the Revenue and Transportation Interim Committee			
Citation	Reporting Entity	Report	Frequency
17-7-140, MCA	Office of Budget and Program Planning	Estimated amount of receipts less than the amount projected to be received in the previous session's revenue estimating resolution	Upon determination of Budget Director that contingency in 17-1-140 has occurred
Ch. 328, L. 2003 (HB 602)	Office of Budget and Program Planning	Leasing preference guideline for state agency use of light vehicles, intended to encourage appropriate and cost-effective use of light vehicles	By July 1, 2004
90-8-311, MCA	Commerce	Montana capital companies and Montana small business investment capital companies	Annually to the appropriate committee

During the 2003 session, the House Transportation Committee formally requested that Department of Transportation inform the Revenue and Transportation Interim Committee about the agency's testing the use of biodiesel fuel in the state's motor vehicle fleet. That request is included in the summary work plan.

Time to Go?

Some of the required reports listed in the table above were established to follow up on the effects of certain legislation. The Committee may want to consider whether some of these reports have outlived their usefulness. Last interim, the Committee requested legislation to eliminate the requirement that the Board of Oil and Gas Conservation report to the Revenue Oversight Committee regarding certain enhanced oil recovery projects. That report was required to monitor the effectiveness of reduced net proceeds taxes and state severance taxes on incremental oil production that were enacted during the November 1993 Special Session (Ch. 9, Sp. L. November 1993).

In 1997, the Montana Legislature restructured electric utilities (SB 390, Ch. 505, L. 1997) and natural gas utilities (SB 396, Ch. 506, L. 1997). Section 69-3-1409, MCA, (from SB 396) requires the Committee to "analyze the amount of state and local tax revenue derived from previously regulated natural gas suppliers that will enter the competitive market and shall report to the legislature on how revenue to the state or local government is changed by restructuring and competition". A similar provision for "previously regulated electricity suppliers" was contained in 69-8-502, MCA. That section was repealed by House Bill No. 509 (Ch. 565, L. 2003).² The Committee may want to evaluate the necessity of retaining 69-3-1409, MCA.

²The then-Revenue Oversight Committee conducted the analyses required by these bills during the 1997-98 interim.

INTERIM STUDY ASSIGNMENT

In May, Legislative Services Division staff presented the Legislative Council with the results of the poll of legislators regarding interim studies and recommendations for the conduct of the study. The poll asked legislators to rank each of 13 study resolutions approved by the 58th Legislature.³

The Legislative Council assigned SJR 29, introduced by Senator Ken Toole, to the Committee. That resolution requests a study of "the taxation of centrally assessed properties, with a focus on utilities and utility properties". In particular, the study requests an examination of the Department of Revenue's method for valuing electrical generation property for property tax purposes and a determination of whether valuation methods differ among regulated utilities, exempt wholesale generators ("merchant" generators), and other centrally assessed properties. The Committee may devote significant time to the study or direct staff to prepare a "white paper" on the subject. Staff will present a study plan at the October meeting detailing the Committee's options.

OTHER AREAS FOR REVIEW AND ANALYSIS

Department of Revenue

Tax Studies

The 58th Legislature assigned three studies to committees attached to the Department of Revenue. House Bill No. 429 (Ch. 160, L. 2003) created a property tax exemption committee to conduct a study of property tax exemptions. The purpose of the study is to "determine whether property tax exemptions contribute to or impede the goal of an equitable property tax system and determine whether existing property tax exemption laws should be modified or repealed in order to achieve the goal of an equitable property tax system". Senate Bill No. 461 (Ch. 606, L. 2003), enacted to mitigate the effects of reappraisal on residential and commercial property, also created two study committees:

- a property tax reappraisal study committee to study the effects of cyclical reappraisal and methods for mitigating the changes in taxable value caused by cyclical reappraisal; and
- a tax reform study committee to study tax reform that may include revising the existing tax structure and considering alternative forms of taxation.

Each of these committees includes legislative members, and each is looking at issues of interest to the Committee. The Committee should keep informed of the activities of these other committees and provide assistance if necessary.

Property Taxes

Senate Bill No. 461 also provided "extended property tax relief" for residential property of qualifying taxpayers. The Committee should review the extent of that property tax relief.

³See the "Back Page" article in the June 2003 issue of *THE INTERIM* newsletter for a full discussion of poll results.

Senate Bill No. 155 (Ch. 505, L 2003) requires that the computations for determining whether the class eight (business equipment) property tax rate is to be reduced are to be made at least 1 year and 2 months prior to the affected tax year to allow for legislative action. The Department of Revenue should report each year the results of those computations. In addition, the Committee may want to review other property tax classifications to clarify inconsistencies of tax treatment of property if the tax rate on class eight property is eliminated. One example is new industrial property under class five.

Computer System

Senate Bill No. 271 (Ch. 597, L. 2003) requires the Department of Revenue to replace the Process Oriented Integrated System (POINTS) computer system with a different system. In addition, the processing of unemployment insurance tax collections is transferred to the Department of Labor and Industry. The Committee should schedule meeting time to monitor implementation of the new computer system.

Department of Transportation

Highway Funding

The Committee should monitor the status of the highway state special revenue account, federal reauthorization of highway funds, and funded projects.

The Committee and staff may identify other issues for review and analysis as the interim proceeds.

MEETING SCHEDULE AND THE METAPHYSICS OF INTERIM COMMITTEE BUDGETING

Attached to this report is a proposed meeting schedule. The Committee will meet six times during the interim (not including this year's organizational meeting) plus an additional meeting for adopting the revenue estimates in November 2004. Two 2-day meetings are scheduled for December 11 and 12, 2003, and September 9 and 10, 2004 (see below). At each of these meetings, *Global Insight, Inc.*, will discuss national and regional economic trends, and University System economists will discuss state trends. Information presented at the September 2004 meeting will be used in the development of the revenue estimate.

Each 12-member interim committee has been allocated \$32,000 for the interim. The budget includes legislative salaries and expenses as well as other minor operational costs, such as postage and printing, of the Committee. According to the financial services manager of the Legislative Services Division, the budget will allow the Committee to have six meetings during the interim, two of which may be 2-day meetings, and to hold an organizational meeting following the 2005 legislative session. The budget assumes 100% participation by all committee members and makes certain assumptions about travel costs and overnight lodging.

Last interim, the Committee budget was \$26,500. The Committee met eight times (five of those meetings were 2-day meetings) and spent \$31,209 (\$34,170, including the organizational meeting

in June 2001). Of that amount, \$25,136 was for legislative salaries and expenses for scheduled meetings. The average cost of a 2-day meeting was about \$3,500, and the average cost of a 1-day meeting was about \$2,500. The Committee also incurred additional costs associated with participation on a joint subcommittee created to monitor the progress of POINTS. In May 2002, the Committee requested an additional \$9,000 from the Legislative Council to ensure that it could cover the costs of the remaining four meetings of the interim.

Based on the average cost for meetings last interim, it may be possible to schedule an additional 2-day meeting. However, the Committee should keep in mind that the average meeting cost from the last interim is based on 10 members, on average, attending each meeting.

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